June 30, 2014
(Original Japanese version released on May 30, 2014)

The Outlook for the Japanese Economy

Economic Research Office
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

～Adverse Impact from Consumption Tax Hike Within Expectations as Japan's Economic Recovery Continues～

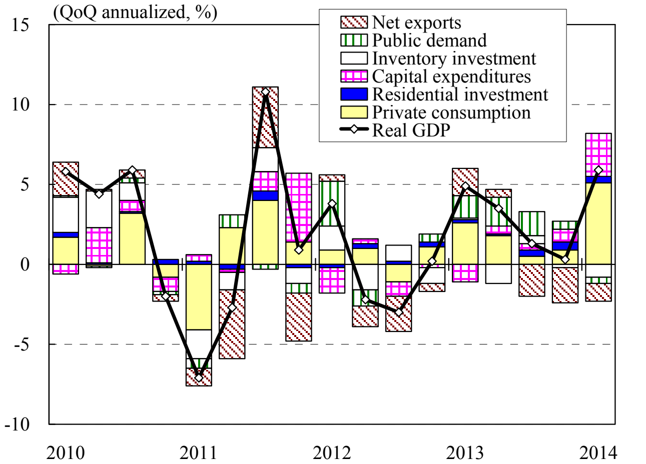
1. Overview of the Japanese Economy

Private consumption, capital expenditures contribute significantly to growth

Japan's economic recovery continues. In the most recent data, Jan-Mar real GDP (first preliminary GDP estimate) grew a robust +5.9% QoQ annualized, the sixth straight quarter of expansion (Figure 1). By demand component, private consumption surged, brought forward ahead of the consumption tax hike in April, bolstering real GDP substantially. Capital expenditures also surged +21.0% QoQ annualized. On the other hand, public demand, which had been supporting Japan's economy, slipped.

Negative effects from the April consumption tax hike have been clear, with automobile and department store sales falling. However, the extent of the decline has been only within forecasts, and corporate worries about private consumption slumping appear to be slowly diminishing. According to the Cabinet Office's Economy Watchers Survey, retailers of big-ticket items like department stores and electronics shops had been growing increasingly concerned about the effects of the upcoming tax hike in the March survey. However, the April survey, conducted after the tax hike, showed that such fears had been largely dispelled (Table 1). Further, pre-hike worries appear to have been limited among services like food and beverage, leisure facility operator, and travel, transportation.

Figure 1: Real GDP and Final Demand



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Table 1: Economy Watchers Survey Household Activity-Related DI For Future Conditions

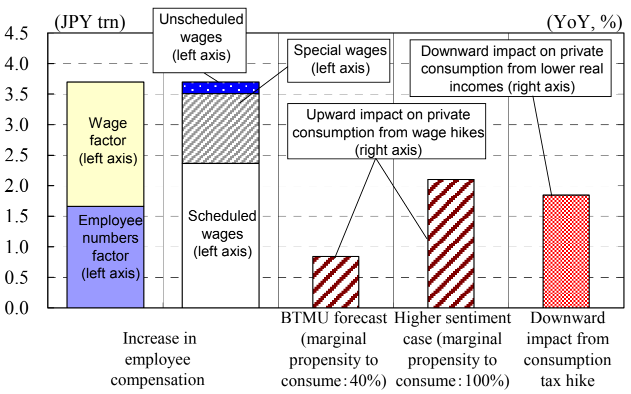
	① Dec 2013	② Mar 2014	③ Apr 2014	Level assessment (③ Apr 2014 −① Dec 2013)		Direction assessment (③ Apr 2014 −② Mar 2014)	
Household activity-related	53.4	31.3	49.8	-3.6		18.5	
Retail	56.5	25.6	50.1	-6.4		24.5	
Shopping area,High street shop	48.1	27.5	42.9	-5.2		15.4	
Department store	66.2	18.5	58.9	-7.3		40.4	○
Supermarket	54.9	26.8	51.6	-3.3		24.8	○
Convenience store	48.1	35.3	55.2	7.1	○	19.9	
Clothing shop	47.8	26.2	43.4	-4.4		17.2	
Electrical appliance retailer	75.6	12.2	48.7	-26.9		36.5	○
Automobile	67.2	22.0	48.3	-18.9		26.3	○
Others	54.8	30.7	52.8	-2.0		22.1	○
Food and beverage	43.3	32.2	46.8	3.5	○	14.6	
Services	50.4	41.2	50.7	0.3		9.5	
Travel, transportation	50.7	41.6	52.8	2.1	○	11.2	
Telecom company	55.3	39.7	50.0	-5.3		10.3	
Leisure facility operator	48.8	44.3	52.3	3.5	○	8.0	
Other services	45.5	38.8	44.8	-0.7	○	6.0	
Housing	48.1	39.5	46.2	-1.9		6.7	

Note: *Level assessment* is comparison of Dec 2013 and Apr 2014, not factoring in reactionary decline following consumption tax hike.
Direction assessment is Apr 2014 change from Mar 2014. ○ marks top five industries with biggest improvements for both.
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Improved employment, income conditions to support consumption

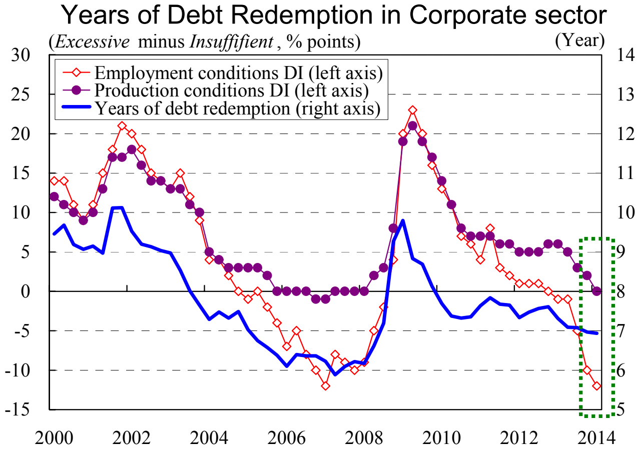
Employment and income conditions are improving more widely, and this is also expected to support consumption going forward. Companies, emboldened by much better profits, offered bigger wage hikes and lump-sum payments at this spring wage negotiations. Employers also now expect to hire more workers, and worker compensation is forecast to rise by JPY3.5 trillion in FY2014 (Figure 2). Further, consumer sentiment may also be improving more than anticipated because of higher base wages and bigger bonuses; this will likely boost private consumption even further. This is expected to at least partially offset the negative impacts of the consumption tax hike. As a result, private consumption is likely to start to improve relatively soon, and a collapse in consumption will be averted.

Figure 2: Upward Impact on FY2014 Employee Compensation and Real Private Consumption by The Spring Wage Negotiations



Note: 1) *Upward impact on private consumption* calculated by multiplying rise in worker compensation by marginal propensity to consume for each case. Change in deflator also factored in.
2) *Worker numbers factor* calculated based on FY14 forecast rise.
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 3: Employment, Production Capacity DIs and Years of Debt Redemption in Corporate sector



Note: *Years of debt redemption* is net interest-bearing debt divided by cash flow (annualized).
Source: Compiled by BTMU Economic Research Office from BoJ, MoF data.

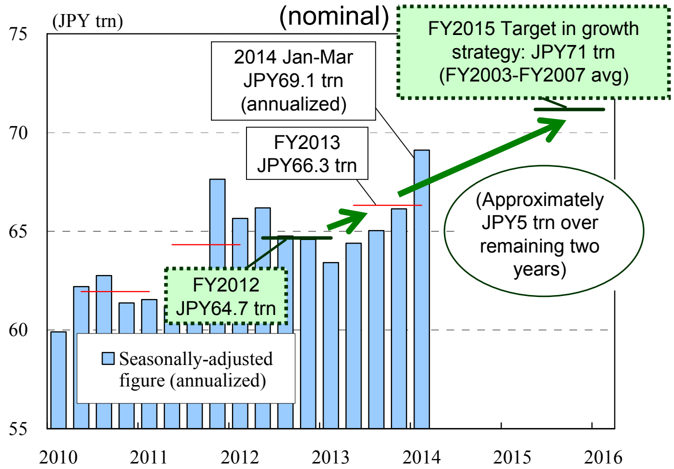
Capital expenditures also on the rise

The three surpluses weighing on Japan's corporate sector around 2006—employment, facilities, and debt—appear to have been easing (Figure 3), based on employment and production capacity DIs and the number of years of debt redemption. Then, wages rose along with worker numbers while capital expenditures also increased as companies focused more on the future. However, these trends were derailed by the collapse of Lehman Brothers in 2008. The three surpluses have recently been erased to approximately the levels of 2006, and conditions appear to be allowing companies to make more forward-looking expenditures. In fact, capital expenditures have already jumped, and such positive corporate activity is likely to persist going forward (Figure 4).

Export quantity expected to rise as prices revised

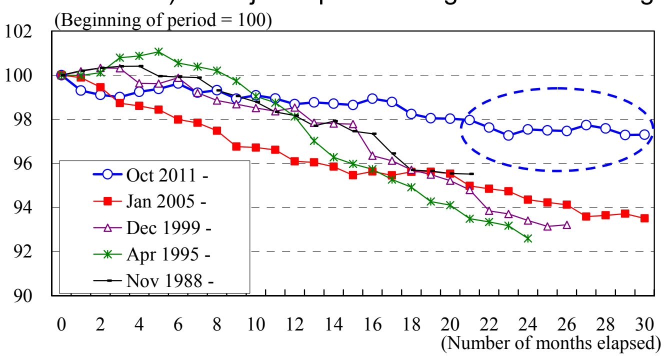
Further, export quantities have been sluggish recently, but this has been due to lags in passing on the effects of the weak JPY to retail prices. Contract currency export prices that reflect foreign currency-denominated retail prices have been declining more slowly as the JPY has weakened since October 2011 (Figure 5). Because of this, as exports shift from final consumption to intermediate and investment goods, exchange rate fluctuations are being reflected in foreign currency-denominated retail prices after longer periods. Going forward, the upward push for export quantities from the weaker JPY is expected to grow as prices of export goods are amended.

Figure 4: Private Corporate Capital Expenditures (nominal)



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 5: Export Prices (Contract Currency-Denominated) of Major Exports during JPY Weakening



Note: Weighted average prices of contract currency-denominated export prices of general purpose, production, and business oriented machinery, electric products, elecronic parts and devices, information and communications equipment, and transport equipment.

Source: Compiled by BTMU Economic Research Office from BoJ data.

Economy to embark on virtuous cycle, solidify revitalization footing

Recovering corporate profits have started to lead to improved employment and income conditions as well as capital expenditures as the economy's virtuous cycle engages more. An adverse impact from the consumption tax hike is anticipated in FY2014, but the virtuous cycle has been supported by the JPY5.5 trillion supplementary budget passed in February and the investment tax credits included in the Government's growth strategy. Japan's real GDP is forecast to expand by more than +1% YoY in FY2014, and at approximately +1.5% YoY in

FY2015.

2. Current Conditions and Outlook by Sector, Component

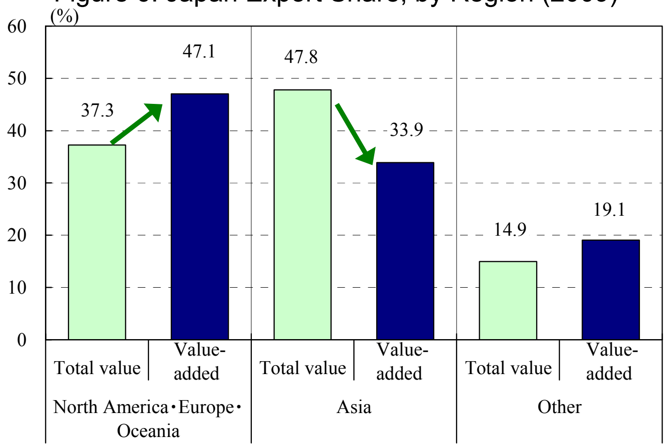
(1) Corporate Sector

Exports to gain ground as JPY weakens and advanced economies recover

Real exports according to GDP figures surged by an annualized +26.3% QoQ in Jan-Mar. However, the increase appears likely to have been exagerrated by revised Balance of Payments, upon which GDP figures are based. In fact, exports appear to continue to struggle.

Both the weaker JPY as well as recovering economies in advanced nations are expected to lift Japan's exports. By destination region, exports to Asia comprise approximately half of Japan's exports. Meanwhile, the ratios of advanced economies like the US and Europe are high in terms of value added counted as final demand destinations. This shows that Japanese exports are sensitive to the business conditions in such countries (Figure 6). With growth rates in advanced countries forecast to gradually rise, Japanese exports are likely to expand further.

Figure 6: Japan Export Share, by Region (2009)

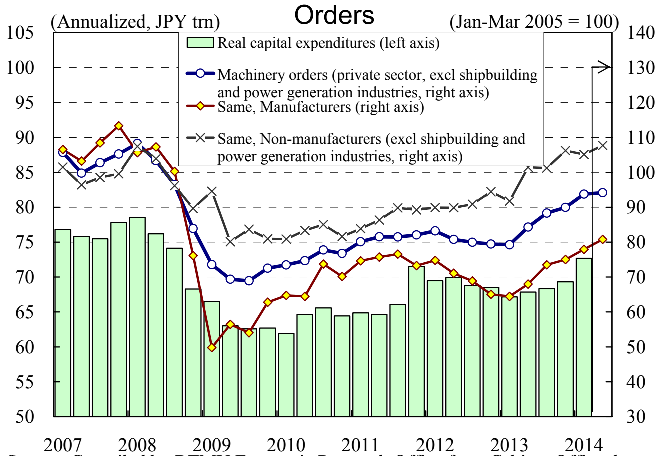


Source: Compiled by BTMU Economic Research Office from OECD data.

Capital expenditures recovery becoming clearer

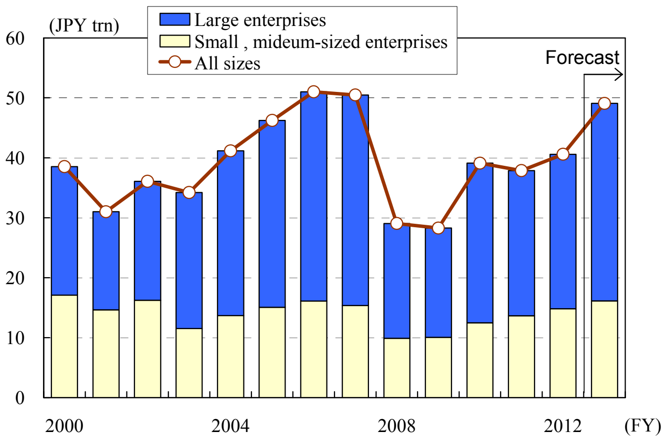
Real capital expenditures surged +21.0% QoQ annualized in Jan-Mar, the fourth straight quarter of expansion. Machinery orders (private sector,excluding the shipbuilding and power generation industries), a leading indicator of capital expenditures, also show that capital expenditures continue to rise among both manufacturers and non-manufacturers, and the recovery trend is becoming clearer (Figure 7). Corporate current profit for FY2013 is forecast to hit JPY48 trillion as of March 2014, nearly recovering to the FY2006 JPY51 trillion peak level prior to the collapse of Lehman Brothers (Figure 8). Increase in corporate cash flow supported by improved demand both domestically and from abroad, strong earnings, as well as policy measures including investment tax credits are expected to propel a recovery of capital expenditures. Renewal investments—deferred or put off until now—are expected to be made, while a rising sense of labor insufficiency and stubbornly-high energy prices are anticipated to encourage companies to invest for rationalizations and saving energy.

Figure 7: Real Capital Expenditures and Machinery Orders



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.
Note:*Machinery orders* for April-June 2014 are forecasted by Cabinet Office.

Figure 8: Current Profit, by Enterprise Scale



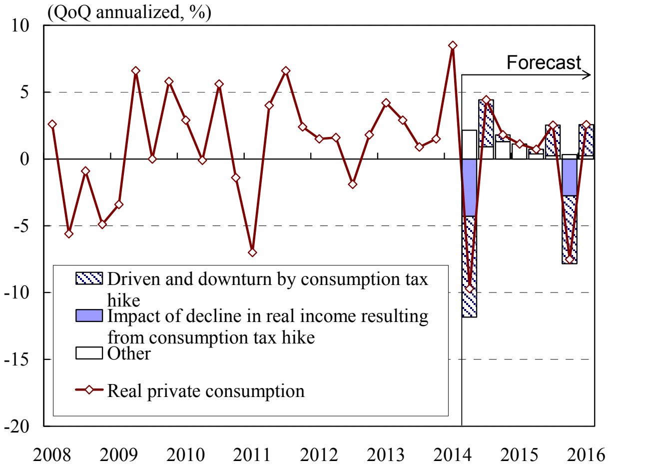
Note: *Forecast* is FY13 forecast as of March 2014 survey.
Source: Compiled by BTMU Economic Research Office by BoJ data.

（2）Household Sector

Rise in full-time workers also lifting private consumption

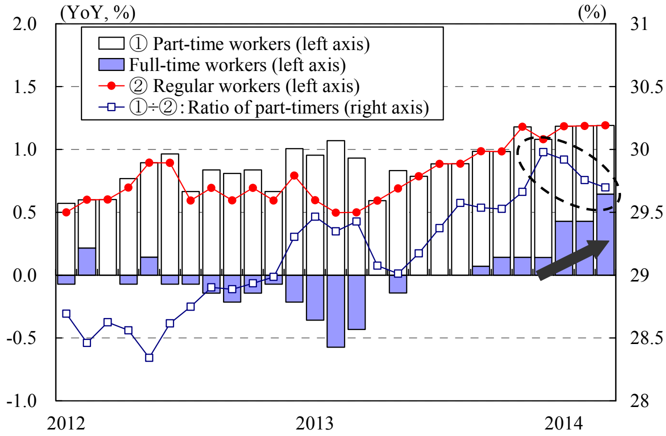
Real private consumption rose +8.5% QoQ annualized in Jan-Mar, propelled significantly by a surge of demand ahead of the consumption tax hike(Figure 9). Demand for durable goods including automobiles and household appliances (+66.9% QoQ annualized) as well as semi-durable goods (+28.1% QoQ annualized) like clothing and footwear surged, lifting demand overall. A reaction from the surge of demand ahead of the tax hike as well as a drop in real incomes are expected to inevitably cause demand to fall in Apr-Jun. However, improved employment and income conditions are expected to support private consumption as corporate activities are revivified. Wages are rising (as noted above) while employee numbers are also increasing. Broken down, the number of full-time workers is rising faster than part-time workers (Figure 10). The sense of insufficient labor is heightening as corporate activity picks up, and some companies are converting non-regular workers to regular staff status. Such developments can be expected to lift both household incomes and consumer confidence.

Figure 9: Real Private Consumption



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 10: Number of Employee by Type of Employment

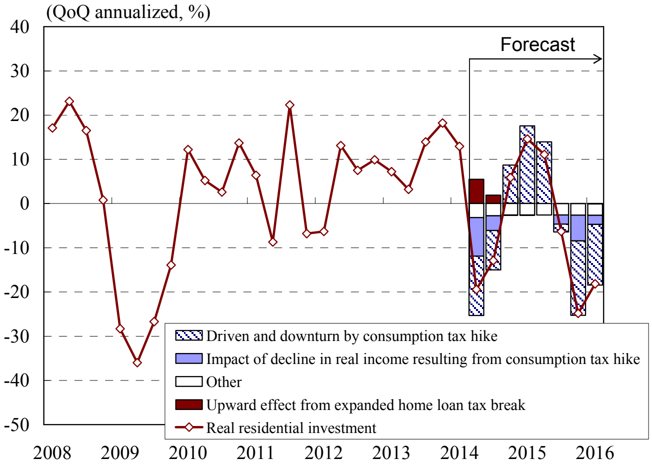


Source: Compiled by BTMU Economic Research Office from MHLW data.

Reaction from residential demand brought forward to be partially offset by mortgage tax breaks

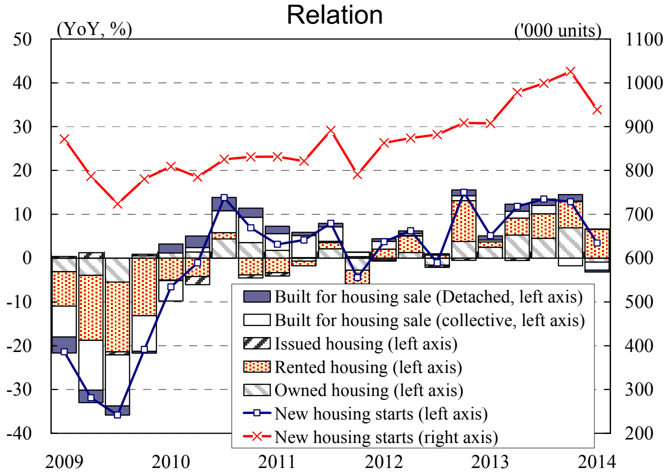
Real residential investment rose for an eighth straight quarter in Jan-Mar, by an annualized +12.9% QoQ (Figure 11). However, new housing starts, a leading indicator of residential investment, have already started to react from the pre-tax hike demand brought forward and have been declining. The reaction to the surge of demand as well as lower real incomes resulting from the tax hike will likely continue to weigh on residential investment. However, improved employment and income conditions, expanded home loan tax breaks, as well as increased starts of rental housing in order to address the inheritance tax revision are expected to help ease the impact from the higher consumption tax (Figure 12).

Figure 11: Real Residential Investment



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 12: New Housing Starts by Owner Occupant Relation



Source: Compiled by BTMU Economic Research Office from MLIT data.

(3) Public Sector

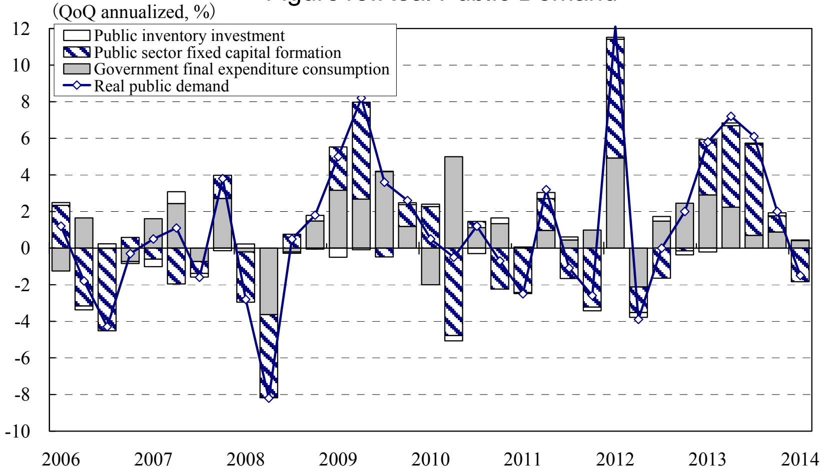
Public demand down after seven quarters, primarily public investment

Real public demand in GDP figures slipped an annualized -1.5% QoQ in Jan-Mar, the first decline in seven quarters (Figure 13). Public investment, which had continued to rise, fell -9.4% QoQ annualized, as the boost from the FY2012 supplementary budget passed in February 2013 (which included JPY3.3 trillion of public investment) shrank. On the other hand, government final expenditure consumptions continue to rise, with medical expenses and care costs as a benefit in kind continue to rise.

Public investment to fall below year-earlier levels despite remaining

Public investment is likely to remain high, but below year-earlier levels. The FY2013 supplementary budget passed in February 2014 (and which included JPY1.7 trillion of public investment) continues to support public investment, but not enough to offset the drop from the FY2012 supplementary budget.

Figure13:Real Public Demand



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

(4) Inflation

Consumption tax increases successfully passed on to

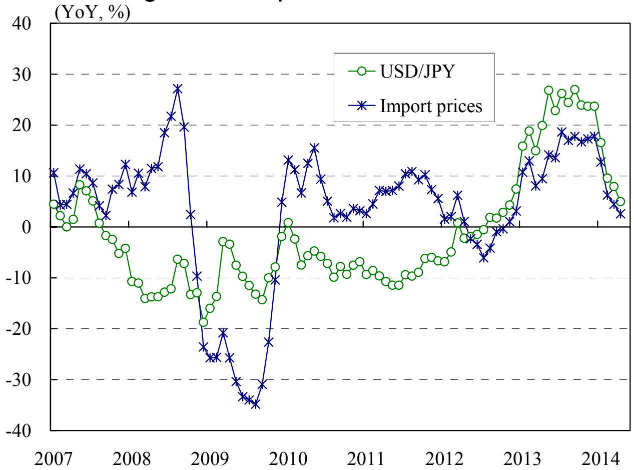
Core CPI(excluding fresh foods) hit +3.2% YoY in April, up 1.9% points from March. The direct upward effect from the consumption tax hike is estimated to have caused 1.7%pt of the rise, given the weights assigned to untaxed items and goods under provisional measures. The higher prices from the consumption tax hike appear to be successfully passed on to consumers.

Consumer prices to continue to rise as supply-demand gap improves

The effect from the weaker JPY has largely been negated, and the rising of import prices on upstream consumer prices is more clearly slowing (Figure 14). This could have the effect of temporarily weighing on the inflation rate going forward. However, on trend, the supply-demand gap continues to improve as the economy recovers, and with inflationary expectations gradually rising, consumer prices is expected to slowly accelerate (Figure 15). Core CPI (excluding the direct effect of the consumption tax hike) are forecast to rise +0.9% YoY in

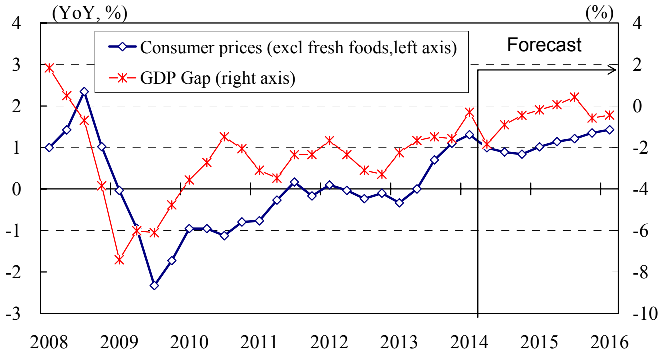
FY2014 and +1.2% YoY in FY2015.

Figure 14: Import Prices and USD/JPY



Source: Compiled by BTMU Economic Research Office from BoJ data.

Figure 15: Consumer Prices and GDP Gap



Note: 1) *Consumer prices* exclude the direct effects of the consumption tax hikes.
2) *GDP gap* expresses the gap between actual GDP and potential GDP divided by potential GDP.

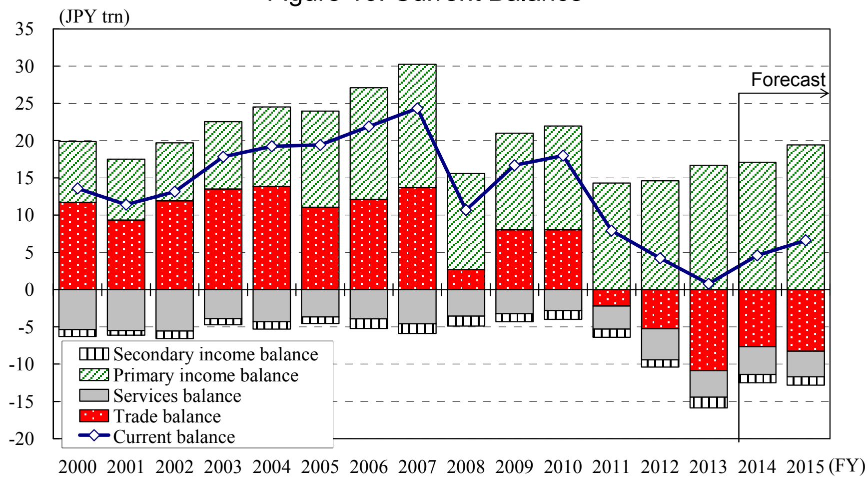
Source: Compiled by BTMU Economic Research Office from MIC, Cabinet Office data.

（5）Current Balance

Primary income surplus offsets trade deficit, current balance to remain positive

Although Japan had a current balance surplus of JPY790.0 billion in FY2013, the size of the surplus has shrunk for three straight years and is now at the lowest level since FY1980 (Figure 16). The trade balance has worsened since late FY2013 as import values expanded due to rising import prices due to the weaker JPY and expanded domestic demand (including the surge of demand ahead of the consumption hike) and as exports slumped widely. Current deficits were marked on a monthly basis a number of times. The primary income surplus continues to grow as income received from assets abroad rises in JPY terms because of the weaker JPY. Imports are expected to be sluggish going forward as the weaker JPY pushes export quantities upward and from a reactionary slump in imports in the wake of the demand brought forward. The trade deficit’s sudden expansion is expected to stop. On the other hand, the primary income suplus is expected to grow even more from net assets abroad because of overseas economic stability. As a result, Japan is expected to maintain a current surplus.

Figure 16: Current Balance



Source: Compiled by BTMU Economic Research Office from MoF data.

3. Current Situation and Outlook for Monetary Policy and Financial Markets

（1）Monetary Policy and Long-Term Interest Rates

Large-scale monetary easing measures having desired effects, BoJ expected to continue current policy

The BoJ continues to maintain the *quantitative and qualitative monetary easing* introduced in April 2013. The policy has been having the desired effects overall, gauging by three parameters which BoJ Governor Kuroda noted as the expected routes of transmission: effect on longer-term interest rates and asset prices, a drastic change in expectations, and portfolio rebalancing effects (Table 2). The 10Yr JGB yield has been stable at 0.6%, the same level as when Governor Kuroda took office, and share prices also remain high. Further, the market's factored-in inflation expectations have been strengthening slowly, and corporate medium- to long-term growth expectations have started to rise, however slightly. As such, financial institutions have been lending more. The BoJ is expected to continue to study the effects while maintaning its current policies for some time to come.

BoJ's large-scale purchases to off set upward pressure from improving fundamentals, and long-term interest rates expected to remain low

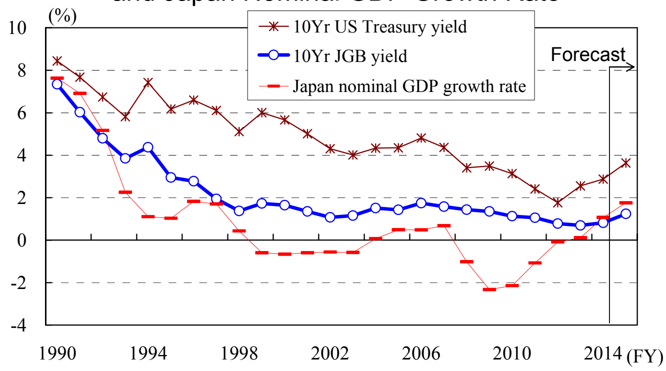
The 10Yr JGB yield has remained at a low 0.6% level, as noted above, due to the effects of the BoJ's large-scale JGB purchases. With domestic real economic momentum and the inflation trend gradually strengthening, the US yield is expected to rise as the FRB implements its exit strategy. Upward pressure is expected to build on the 10Yr JGB yield (Figure 17). However, the BoJ's continuation of its large-scale easing operations will offset such upward pressure considerably, and Japan's 10Yr yield is expected to rise at only a slow pace.

Table 2: Financial and Economic Indicators,
at Inauguration of Governor Kuroda and Current

		Inauguration of Governor Kuroda	Current	Change
Approach to Long-term interest rate and asset prices	10Yr JGB yield (%)	0.60	0.61	+0.01
	Nikkei Average share price (JPY)	12,398	14,304	+1,906
Drastic change in expectations	Breakeven inflation rate (5Yr, %)	1.4	2.4	+1.0
	Real economic growth over next five years (%)	1.2	1.5	+0.3
Portfolio rebalancing effects	Domestically licensed bank holdings of long-term JGB (JPY trn)	166.6	134.1	-32.5
	Domestically licensed bank loans outstanding (JPY trn)	441.5	453.2	+11.7
	Domestically licensed bank holdings of foreign securities (JPY trn)	44.2	45.0	+0.8

Note: 1) Inauguration of Governor Kuroda is March 2013. Current is as of April 2014. Portfolio rebalancing effect-related indicators as of March 2014.
2) Real economic growth over next five years based on Annual Survey of Corporate
Source: Compiled by BTMU Economic Research Office from Cabinet Office,BoJ,Bloomberg data.

Figure 17: 10Yr JGB Yield, 10Yr US Treasury Yield, and Japan Nominal GDP Growth Rate



Note: *Japan nominal GDP growth rate* is three-year backward moving average, excluding the direct impact of the consumption tax hike on the GDP deflator.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, Bloomberg data.

（2）Exchange Rates

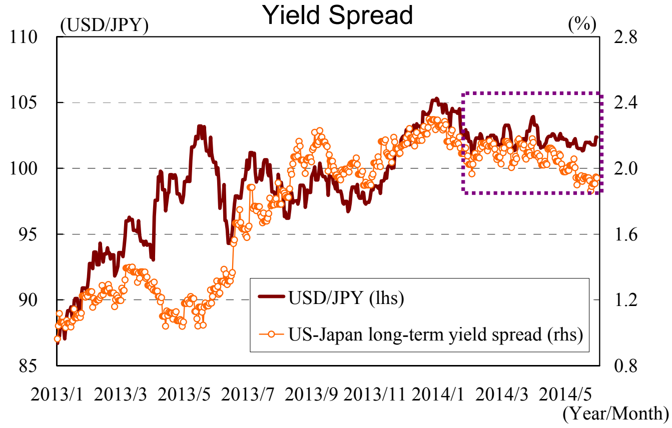
USD/JPY finds footing in lower JPY100 neighborhood

JPY selling pushed USD/JPY up to USD/JPY105 at one point in early January, but the JPY has since remained in a tight range around the lower USD/JPY100 range level from February. Since the JPY started to regain its strength triggered by the FRB Chair's remarks about beginning to taper asset purchases in may 2013, the USD/JPY has become more tightly linked to the US-Japan long-term yield spread (Figure 18). Overseas, a number of risk factors persist, including the direction of the Chinese economy and the political events in Ukraine. As such, investors should be ready for any passive, risk-averse JPY buying re-arising from time to time.

JPY to weaken further as Japan-US yield spread widens on BoJ's continued easing

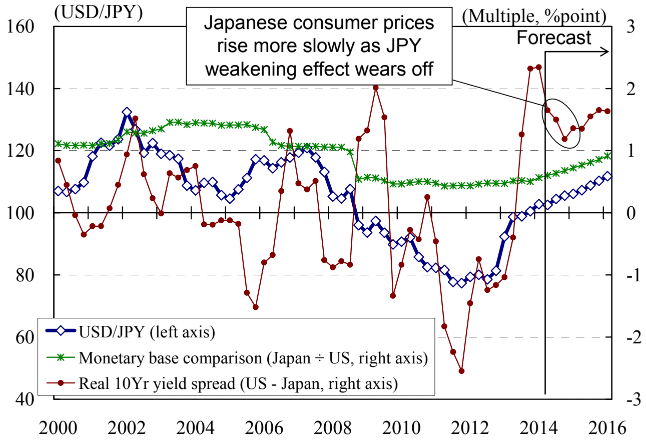
As noted above, USD/JPY and the US-Japan long-term yield spread have become more tightly linked. With the US long-term yield expected to rise and Japan's rate remaining low, that spread will gradually widen. Meanwhile, Japan's monetary base is expected to expand as large-scale monetary easing continues (Figure 19). As a result of these developments, USD/JPY will sooner or later break out of its present rut and the JPY is expected to gradually weaken.

Figure 18: USD/JPY and the US-Japan Long-Term Yield Spread



Note: *US-Japan Long-Term Yield Spread* derived by subtracting 10Yr JGB yield from 10Yr US government bond yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

Figure 19: USD/JPY and US, Japan Monetary Bases, Real 10Yr Yield Spread



Source: Compiled by BTMU Economic Research Office from Bloomberg, BoJ data.

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Outlook for the Japanese Economy

Reflecting Jan-Mar 2014 GDP (second preliminary figures)

Forecast →

(%, billion yen)

	2012				2013				2014				2015	FY2013	FY2014	FY2015
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	4.1	-2.5	-3.0	0.2	5.3	2.9	1.3	0.3	6.7	-5.4	4.0	2.6	2.1	2.3	1.2	1.5
Private Consumption	1.5	1.6	-1.9	1.8	4.2	2.9	0.9	1.5	9.2	-10.1	4.2	1.8	1.1	2.6	0.3	0.5
Housing Investment	-6.3	13.1	7.5	10.0	7.2	3.2	13.9	18.2	13.0	-19.4	-12.9	5.9	14.6	9.5	-1.4	-0.8
Private Business Fixed Investment	-11.2	2.1	-5.9	-0.9	-8.4	3.7	3.8	6.6	34.2	-11.7	4.5	5.6	5.8	2.6	5.2	5.8
Business Inventory (Contribution)	1.8	-1.9	1.0	-1.0	0.5	-1.6	0.4	-0.3	-2.0	1.7	0.4	0.2	0.1	-0.5	0.2	0.0
Government Expenditures	12.3	-3.9	0.0	1.7	6.1	6.4	6.0	1.8	-1.9	-0.5	-0.5	-0.4	-0.1	4.2	-0.1	0.6
Public Investment	45.7	-7.9	-9.4	-1.0	19.8	28.1	30.2	4.7	-10.5	-6.9	-6.6	-5.9	-4.7	15.1	-4.6	-0.8
Net Exports (Contribution)	0.4	-1.3	-2.2	-0.5	1.7	0.5	-2.0	-2.2	-1.1	1.7	1.0	0.5	0.2	-0.5	0.4	0.3
Exports	11.8	-2.1	-15.1	-11.6	18.1	12.1	-2.6	1.8	26.3	5.7	7.8	5.7	3.9	4.7	8.5	4.6
Imports	8.1	5.9	-1.4	-7.3	4.6	7.3	10.1	15.5	27.6	-4.5	2.0	3.2	3.0	7.0	6.9	3.1
Nominal GDP	4.0	-4.3	-3.9	0.6	3.7	2.6	0.9	0.8	5.7	1.6	5.1	2.6	1.4	1.9	2.9	2.4
GDP Deflator (YoY)	-1.2	-1.1	-0.7	-0.7	-1.0	-0.6	-0.4	-0.4	-0.1	1.5	2.0	1.5	2.0	-0.4	1.7	0.8
Industrial Production Index (QoQ)	0.8	-2.2	-3.2	-1.9	0.5	1.6	1.8	1.8	2.9	-2.6	0.2	0.4	0.6	3.2	1.3	2.3
Domestic Corporate Goods Price Index (YoY)	0.3	-1.1	-1.9	-0.9	-0.3	0.7	2.2	2.5	1.9	4.0	4.0	3.9	4.0	1.9	3.9	3.4
Consumer Price Index (excl. fresh food, YoY)	0.1	0.0	-0.2	-0.1	-0.3	0.0	0.7	1.1	1.3	3.0	2.9	2.8	3.0	0.8	2.9	1.9
2. Balance of Payments																
Trade Balance (billion yen)	-677	-947	-1,313	-1,015	-1,947	-1,664	-2,314	-2,805	-3,797	-2,041	-1,776	-1,782	-2,084	-10,864	-7,683	-8,276
Current Balance (billion yen)	1,688	1,150	780	1,389	922	1,845	565	1	-1,402	735	1,210	1,388	1,239	790	4,573	6,606
3. Financial																
Uncollateralized overnight call rate	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Euro-Yen TIBOR (3-mo.)	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Newly Issued 10-Year Government Bonds Yield	1.0	0.9	0.8	0.7	0.7	0.7	0.8	0.6	0.6	0.6	0.7	0.9	1.0	0.7	0.8	1.2
Exchange Rate (USD/JPY)	79	80	79	81	92	99	99	101	103	103	104	106	106	100	105	110

Note: Uncollateralized overnight call rate guidance target (end-quarter) through Jan-Mar 2013; offered rate (mid-quarter average) for Apr-Jun 2013. Euro-Yen TIBOR (3-mo.), newly issued 10-year government bo

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1． Main Economic Indicators

As of Jun. 30, 2014

	Fiscal	Fiscal	2013		2014	2014				
	2012	2013	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from	0.7	2.3	1.3	0.3	6.7	***	***	***	***	***
previous period at SA annual rate>			(2.3)	(2.5)	(3.0)					
Index of All Industries Activity	0.1	1.9	0.5	0.3	1.6	1.7	-1.1	1.5	-4.3	
			(1.8)	(1.9)	(3.1)	(3.5)	(2.2)	(3.6)	(-1.1)	
Industrial Production Index	-2.9	3.2	1.8	1.8	2.9	3.9	-2.3	0.7	-2.8	0.5
Production			(2.3)	(5.8)	(8.2)	(10.6)	(7.0)	(7.4)	(3.8)	(0.8)
Shipments	-1.8	2.9	1.2	2.6	4.6	5.1	-1.0	-0.2	-5.0	-1.2
			(1.5)	(6.5)	(7.4)	(9.3)	(6.5)	(6.5)	(2.4)	(-1.0)
Inventory	-3.0	-1.4	-0.1	-1.9	0.2	-0.4	-0.9	1.4	-0.5	2.9
			(-3.5)	(-4.3)	(-1.4)	(-3.9)	(-3.4)	(-1.4)	(-1.9)	(0.8)
Inventory/Shipments Ratio	114.4	106.2	109.4	104.6	102.6	99.3	103.2	105.4	103.7	107.3
(2010=100)			[116.4]	[117.7]	[113.4]	[113.9]	[113.3]	[112.9]	[108.2]	[106.3]
Domestic Corporate Goods Price Index	-1.1	1.9	0.8	0.2	0.2	0.1	-0.1	0.0	2.9	0.3
			(2.2)	(2.5)	(1.9)	(2.4)	(1.8)	(1.7)	(4.2)	(4.4)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	0.4	0.3	-0.1	0.2	0.1	-0.1	2.1	0.3
			(0.7)	(1.1)	(1.3)	(1.3)	(1.3)	(1.3)	(3.2)	(3.4)
Index of Capacity Utilization	95.4	100.0	97.8	100.2	106.0	107.7	104.9	105.3	103.0	
(2010=100)			[95.1]	[93.1]	[95.1]	[94.7]	[95.2]	[95.4]	[96.0]	[97.0]
Machinery Orders(Private Demand,	-3.0	11.5	4.8	1.9	4.2	8.1	-4.6	19.1	-9.1	
Excl.Electric Power and Ship building)			(9.6)	(13.3)	(16.4)	(23.6)	(10.8)	(16.1)	(17.6)	
Manufacturing	-10.1	10.2	8.1	2.0	3.9	4.9	-4.6	23.7	-9.4	
			(8.2)	(14.8)	(22.1)	(24.0)	(8.0)	(29.5)	(19.3)	
Non-manufacturing	2.8	12.1	-0.2	4.9	-1.0	6.1	-5.1	8.5	0.9	
Excl.Electric Power & Ship building			(10.4)	(12.4)	(11.8)	(23.1)	(12.6)	(6.6)	(16.7)	
Shipments of Capital Goods	-6.0	5.6	1.1	4.8	10.8	14.3	-4.8	2.2	-6.9	-3.2
(Excl.Transport Equipment)			(-0.2)	(10.8)	(16.8)	(22.2)	(14.8)	(14.9)	(9.1)	(3.2)
Construction Orders	2.4	20.1								
			(48.7)	(18.1)	(1.6)	(15.2)	(12.3)	(-8.8)	(104.9)	
Private	2.6	14.2								
			(60.6)	(10.7)	(-18.0)	(6.2)	(-18.4)	(-27.4)	(35.2)	
Public	5.3	31.2								
			(29.9)	(37.1)	(34.7)	(13.7)	(38.6)	(39.8)	(418.4)	
Public Works Contracts	10.3	17.7								
			(22.5)	(5.0)	(16.8)	(28.8)	(3.7)	(18.1)	(10.0)	(21.1)
Housing Starts	89.3	98.7	100.4	102.6	93.9	98.7	91.9	89.5	90.6	
10,000 units at Annual Rate, SA	(6.2)	(10.6)	(13.5)	(12.9)	(3.4)	(12.3)	(1.0)	(-2.9)	(-3.3)	
Total floor	(4.8)	(9.9)	(13.0)	(13.8)	(0.5)	(10.5)	(-2.4)	(-6.2)	(-6.9)	
Sales at Retailers	0.3	2.9								
			(1.2)	(3.0)	(6.6)	(4.4)	(3.6)	(11.0)	(-4.3)	(-0.4)
Real Consumption Expenditures	1.6	0.9	-0.3	-0.2	4.6	1.6	-1.5	10.8	-13.3	-3.1
of Households over 2 persons (SA)			(0.7)	(0.6)	(2.3)	(1.1)	(-2.5)	(7.2)	(-4.6)	(-8.0)
Propensity to Consume	74.8	75.5	74.8	74.6	78.8	75.9	75.9	85.1	74.2	70.3
(SA,%)			[74.1]	[74.5]	[76.2]	[76.1]	[77.3]	[77.1]	[73.6]	[74.0]
Overtime Hours Worked	-0.3	4.4	0.7	1.6	2.1	0.8	0.4	2.3	-0.4	
(All Industries, 5 employees or more)			(4.0)	(6.0)	(7.1)	(7.0)	(5.8)	(8.4)	(6.4)	
Total Cash Earnings (Regular Employees	-0.7	0.1								
Only; All Industries, 5 employees or more)			(-0.4)	(0.4)	(0.1)	(-0.2)	(-0.1)	(0.7)	(0.7)	
Employment Index(Regular Employees Only;'All Industries,	107	45	43	49	54	54	54	55	62	
5 employees or more）(Change over the M/Q/Y)			131	133	24					
Ratio of Job Offers to Applicants	0.82	0.97	0.95	1.01	1.05	1.04	1.05	1.07	1.08	1.09
(SA,Times)			[0.81]	[0.82]	[0.85]	[0.84]	[0.85]	[0.87]	[0.88]	[0.90]
Unemployment Rate	4.3	5.0	4.0	3.9	3.6	3.7	3.6	3.6	3.6	3.5
(SA,%)										
Economy Watcher Survey	46.3	54.0	52.1	53.7	55.2	54.7	53.0	57.9	41.6	45.1
(Judgment of the present condition D.I,%)			[43.0]	[41.6]	[53.3]	[49.5]	[53.2]	[57.3]	[56.5]	[55.7]
Bankruptcies (Number of cases)	11,719	10,536	2,664	2,571	2,460	864	782	814	914	834
	(-7.7)	(-10.0)	(-8.8)	(-11.0)	(-11.4)	(-7.4)	(-14.6)	(-12.3)	(1.6)	(-20.1)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

2. Balance of Payments

As of Jun. 30, 2014

	Fiscal	Fiscal	2013		2014	2014				
	2012	2013	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(12.7)	(17.4)	(6.6)	(9.5)	(9.8)	(1.8)	(5.1)	(-2.7)
Value	4.0	10.2	(12.1)	(12.5)	(6.0)	(9.7)	(4.2)	(4.4)	(3.0)	(0.7)
Volumes	-5.8	0.6	(0.6)	(4.3)	(0.7)	(-0.2)	(5.4)	(-2.5)	(2.0)	(-3.4)
Imports (In Yen terms)	3.4	17.4	(17.5)	(24.1)	(17.6)	(25.1)	(9.0)	(18.2)	(3.4)	(-3.6)
Value	2.5	14.6	(18.2)	(18.4)	(10.3)	(15.9)	(9.6)	(5.9)	(4.8)	(0.5)
Volumes	1.0	2.3	(-0.5)	(4.8)	(6.5)	(8.0)	(-0.5)	(11.6)	(-1.3)	(-4.0)
Current Account (100 mil. yen)	42,233	7,899	13,523	-14,311	-8,600	-15,890	6,127	1,164	1,874	
Goods (100 mil. yen)	-52,474	-108,642	-22,463	-31,002	-40,123	-23,454	-5,334	-11,336	-7,804	
Services (100 mil. yen)	-41,864	-35,779	-9,106	-11,319	-7,451	-4,674	-1,934	-843	-6,597	
Financial Account (100 mil. yen)	20,255	-28,589	30,689	-28,031	-18,353	-14,720	-7,319	3,686	-16,342	
Gold & Foreign Exchange Reserves ($1mil.)	1,254,356	1,279,346	1,273,446	1,266,815	1,279,346	1,277,058	1,288,206	1,279,346	1,282,822	1,283,920
Exchange Rate (\/$)	83.08	100.23	98.94	100.45	102.78	103.94	102.13	102.27	102.56	101.79

3. Financial Market Indicators

	Fiscal	Fiscal	2013		2014	2014				
	2012	2013	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Uncollateralized Overnight Call Rates	0.083	0.073	0.073	0.072	0.074	0.073	0.077	0.072	0.065	0.068
			[0.085]	[0.084]	[0.083]	[0.083]	[0.087]	[0.078]	[0.072]	[0.073]
Euro Yen TIBOR	0.312	0.223	0.228	0.220	0.215	0.220	0.212	0.212	0.212	0.210
(3 Months)			[0.327]	[0.318]	[0.270]	[0.292]	[0.269]	[0.250]	[0.228]	[0.228]
Newly Issued Japanese Government Bonds Yields	0.560	0.640	0.680	0.735	0.640	0.620	0.580	0.640	0.620	0.570
(10 Years)			[0.765]	[0.795]	[0.560]	[0.740]	[0.665]	[0.560]	[0.600]	[0.860]
Average Contracted Interest Rates	1.184	1.077								
on Loans and Discounts(City Banks)			1.125	1.102	1.077	1.096	1.093	1.077	1.078	
(% changes from previous period)			(-0.028)	(-0.023)	(-0.025)	(-0.006)	(-0.003)	(-0.016)	(0.001)	
The Nikkei Stock Average	12,398	14,828	14,456	16,291	14,828	14,915	14,841	14,828	14,304	14,632
(TSE 225 Issues)			[8,870]	[10,395]	[12,398]	[11,139]	[11,559]	[12,398]	[13,861]	[13,775]
M2(Average)	(2.5)	(3.9)	(3.8)	(4.2)	(4.0)	(4.3)	(4.0)	(3.6)	(3.5)	(3.3)
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(3.7)	(4.3)	(3.9)	(4.2)	(3.8)	(3.5)	(3.2)	(2.7)
Principal Figures of Financial Institutions										
Loans and Discount (Average): Banks & Shinkin	(0.9)	(2.0)	(2.0)	(2.2)	(2.2)	(2.3)	(2.2)	(2.1)	(2.1)	(2.3)
Banks	(1.1)	(2.3)	(2.3)	(2.4)	(2.4)	(2.5)	(2.4)	(2.3)	(2.2)	(2.4)
City Banks etc.	(-0.2)	(1.7)	(1.9)	(1.8)	(1.6)	(1.8)	(1.6)	(1.3)	(1.1)	(1.3)
Regional Banks	(2.9)	(3.3)	(3.2)	(3.3)	(3.4)	(3.5)	(3.4)	(3.4)	(3.5)	(3.7)
Regional Banks Ⅱ	(0.8)	(1.4)	(0.7)	(2.0)	(2.4)	(2.3)	(2.4)	(2.4)	(2.5)	(2.6)
Shinkin	(-0.7)	(0.3)	(0.1)	(0.5)	(0.9)	(0.8)	(0.9)	(0.9)	(1.2)	(1.3)
Deposits and CDs (Average): Total(3 Business Condition)	(2.2)	(3.8)	(3.8)	(3.9)	(3.6)	(4.1)	(3.5)	(3.1)	(3.0)	(2.9)
City Banks	(1.8)	(3.7)	(3.7)	(3.7)	(3.2)	(3.8)	(3.2)	(2.5)	(2.3)	(2.4)
Regional Banks	(2.8)	(4.3)	(4.5)	(4.5)	(4.2)	(4.7)	(4.1)	(3.8)	(3.9)	(3.6)
Regional Banks Ⅱ	(1.8)	(2.5)	(2.1)	(3.2)	(3.1)	(3.3)	(2.9)	(3.0)	(3.0)	(3.0)

(Notes)
Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end.
Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.
The figures in ( ) indicate % changes from previous year.
[ ] show the comparable figure of the previous year.

(Sources)
Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.