The Outlook for the Japanese Economy

Consumption Tax Hike Weathered as Virtuous Cycle Picks Up Steam, Japan's Economy Stays on Recovery Course

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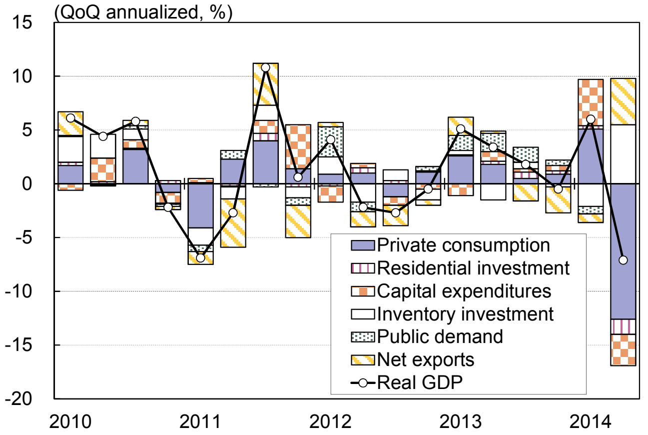
1. Overview of the Japanese Economy

Corporate view of supply-demand balance still bright despite economic bump following consumption tax hike

Japan's economy hit a bump following the consumption tax hike in April. Real GDP slumped an annualized 7.1% YoY in Apr-Jun according to the Cabinet Office's second preliminary report, clearly reflecting a reactionary drop following the surge of demand ahead of the tax hike, particularly in private and residential investment demand (Figure 1). Although net exports boosted GDP because of a big drop in imports due to weakened domestic demand, exports remain soft.

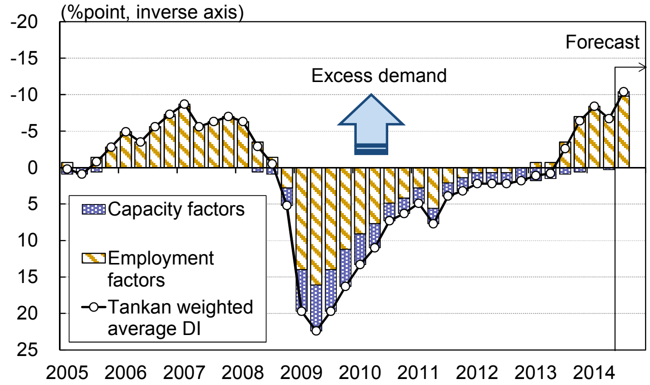
The big GDP contraction stoked concerns about Japan's economic outlook, but companies do not appear to be as deeply concerned about the slowdown as the GDP data suggests. According to the BoJ Tankan Weighted Average DI--the weighted averages of the Production Capacity DI and Employment Conditions DI by capital and labor distribution rates-- companies were clearly aware of a loosening macro-supply and demand balance in Apr-Jun. However, the weakening was not great and companies expect supply and demand to converge once again in Jul-Sept (Figure 2). Not only have companies already been feeling a tightening in the labor supply since H1 2013, more recently capacity also appears to be inadequate and the loosening supply-demand relationship is unlikely to quell companies' expenditure for the future.

Figure 1: Real GDP and Final Demand



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

Figure 2: Tankan Weighted Average DI



Notes: 1) Production capacity DI and Employment conditions DI weighted average using capital and labor distribution rate.
2) *Capacity factors* is change from Production capacity DI; *Employment factors* is change from Employment conditions DI.
Source: Compiled by BTMU Economic Research Office from BoJ data.

Private consumption to recover as household incomes continue to improve on growing company willingness to hire

A continued tightening of supply and demand will be a key factor supporting both rising household incomes via expanded employment and higher wages as well as a recovery in personal consumption. Employment conditions are clearly improving, as compensation has been rising faster following the spring wage negotiations agreement for fairly large wage hikes. The employment rate by gender and age group shows that employment has been rising markedly among women and older workers compared to past economic peaks (Figure 3). This shows that a wide range of workers are more actively entering the labor market as wages rise because of companies' willingness to hire. We think such increased participation will contribute to boosting Japan's economic growth momentum over the medium- to long-term from both the supply and demand sides.

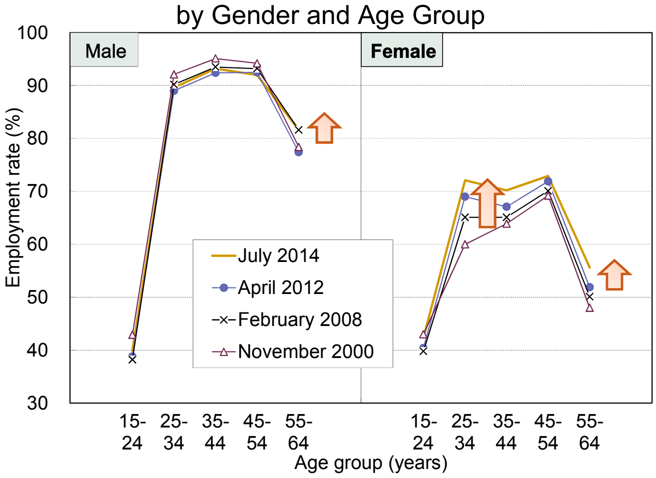
Government growth strategy propelling capital expenditures

Companies are steadily making more capital expenditures. In the June BoJ Tankan, large enterprises revised up their capital expenditure plans for this year by 5.8% from the March survey (Figure 4). The June revision rate was the biggest since 1991, during the bubble economy, and shows that corporate investment sentiment remains firm even in the wake of the consumption tax hike. Capital expenditures are like to keep expanding strongly as the sense of stock overcapacity has been largely dispelled and demand (including private consumption) remains firm. Manufacturers are making capital expenditures largely for upgrades and rationalizations, while non-manufacturers are investing to bolster capacity. The Government's steady implementation of its growth strategy, including cutting the corporate real tax rate, will encourage greater corporate investment activity.

Corporate forward-looking spending and investment activity accelerating virtuous cycle

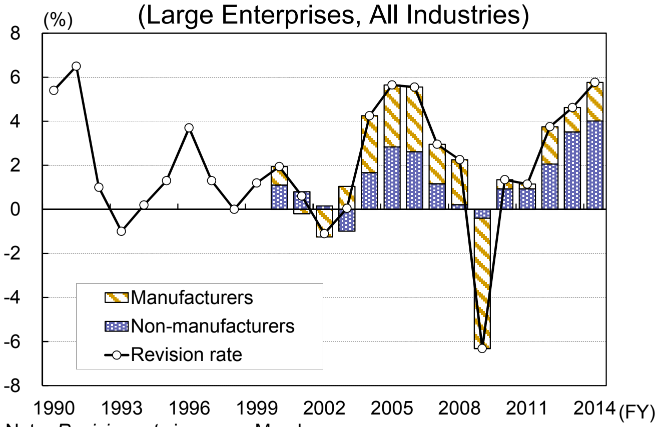
The Japanese economy's virtuous cycle is gaining traction as companies make more forward-looking expenditures and investment activity picks up as supply and demand tighten. We expect the economy to weather the negative impact from the recent consumption tax hike and stay on a recovery course. Relatively strong growth in the wake of the big Apr-Jun slump is likely to persist and real GDP to grow by nearly 1% this fiscal year. We forecast Japan's economy to sustain a mid-1% growth rate in FY2015 as well, despite downward pressures from another consumption tax hike to 10%.

Figure 3: Employment Rate, by Gender and Age Group



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

Figure 4: BoJ Tankan Capital Expenditures June Survey Revision Rate (Large Enterprises, All Industries)



Note: *Revision rate* is versus March survey.
Source: Compiled by BTMU Economic Research Office from BoJ data.

2. Current Conditions and Outlook, by Sector and Area

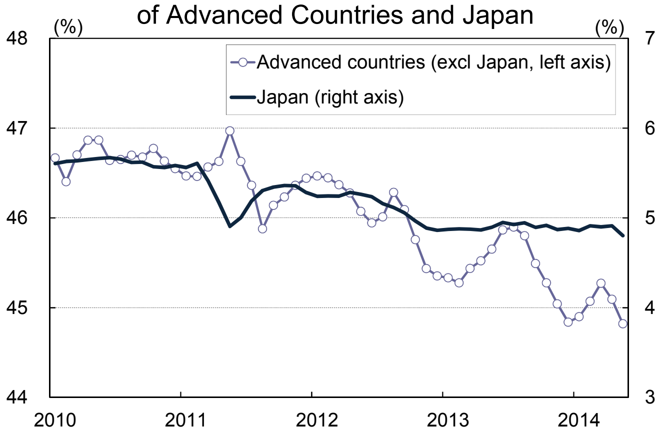
(1) CORPORATE SECTOR

Exports to pick up as advanced economies recover and JPY weakness takes root

Japanese exports continue to be weak, especially shipments to Asia and the US. Real exports (in GDP figures) slipped an annualized -2.0% QoQ in Apr-Jun, the first decline in three quarters, due to weakening import demand around the world because of the struggling global economy. As the share of advanced country exports (the weight of advanced country exports among overall global exports, in real terms) has been shrinking overall, Japan has maintained its share of exports since 2013, when the excessively strong JPY began correcting (Figure 5). This is an indication that Japan's recent export softness is not necessarily due to the country's unique factors of declining competitiveness and production shifts overseas.

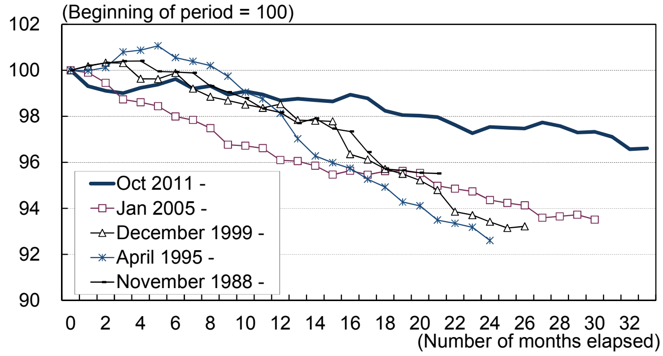
Exports are likely to pick up gradually going forward. First, we expect global import demand to grow more strongly as the world economy slowly recovers, especially in advanced countries. Further, Japanese export goods have shifted from final consumption goods to intermediate goods and investment goods. Thus, although retail prices are reflecting exchange rate fluctuations after longer lags compared to the past, export price in contract currency-denominated terms has been steadily declining (Figure 6). Improved price competitiveness due to the weaker JPY appears to be supporting Japan's export volume somewhat.

Figure 5: Export Share of Advanced Countries and Japan



Note: Real 2005 prices. An average of the past three months.
Source: Compiled by BTMU Economic Research Office from Netherlands Bureau for Economic Policy Analysis data.

Figure 6: Export Prices (Contract Currency-Denominated) of Major Exports during JPY Weakening



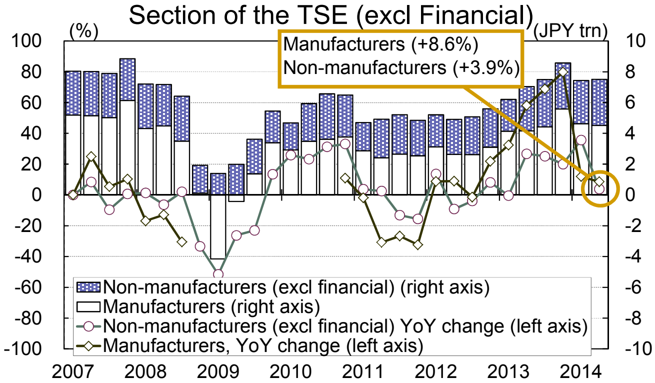
Note: Weighted average prices of contract currency-denominated export prices of general purpose, production, and business oriented machinery, electric products, electronic parts and devices, information communications equipment, and transport equipment.
Source: Compiled by BTMU Economic Research Office from BoJ data.

Capital expenditures still on upward trend even after being hit by consumption tax hike

Real capital expenditures slumped an annualized -18.8% QoQ in Apr-Jun, the first drop in five quarters. Capital expenditures marked a record increase in Jan-Mar due not only to improved corporate profits and investment sentiment, but also because of the surge of demand brought ahead of the consumption tax hike and one-time demand that arose as software support ended. The reactionary slump appeared in Apr-Jun.

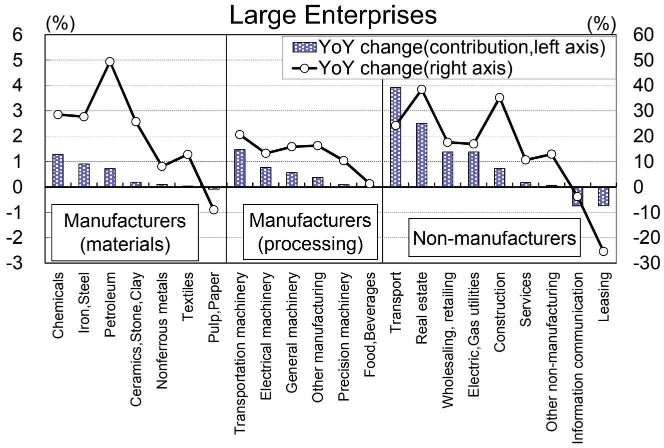
The upward trend in capital expenditures is persisting, and expenditure is likely to start to rise again in Jul-Sept. Companies listed on the first section of the Tokyo Stock Exchange reported higher current profits in Apr-Jun, and the strong results were reported by not only manufacturers but also non-manufacturers, which tend to be more strongly impacted by declining domestic demand. Profits have neared the peak levels of prior to the collapse of Lehman Brothers (Figure 7). A sustained earnings recovery will also likely contribute to maintaining corporate business sentiment and improving investment sentiment. An August Development Bank of Japan survey on corporate capital expenditures plans (among companies with capital of at least JPY1.0bn) showed that a wide range of industries, including manufacturing sector companies in the chemicals, iron and steel, and transportation machinery areas, plan to increase investment (Figure 8). Companies are expected to invest more for maintenance/repairs, rationalizations and labor savings, as well as to strengthen operating capacity in non-manufacturing sector like transport, real estate, wholesaling, and retailing.

Figure 7: Current Profits, Companies Listed on the First Section of the TSE (excl Financial)



Note: Current profit figures of 1,120 companies that had released Apr-Jun earnings as of August 10, and for which continuous data from Apr-Jun 2006 is available.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

Figure 8: FY2014 Capital Expenditures Plans, Large Enterprises



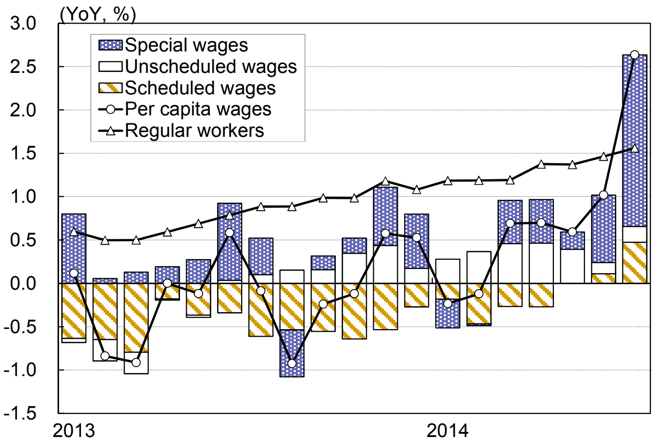
Source: Compiled by BTMU Economic Research Office from Development Bank of Japan materials.

(2) HOUSEHOLD SECTOR

Private consumption slumping due to consumption tax hike; to recover as employment and wages improve

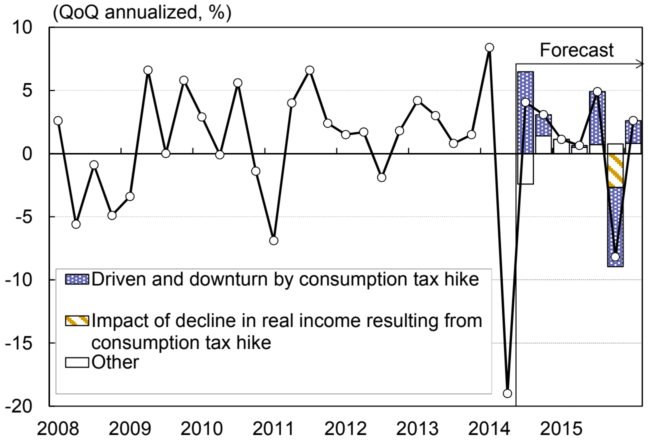
Real private consumption plunged in Apr-Jun, by an annualized -19.0% QoQ. The figure appears to reflect a reactionary drop in the surge of demand ahead of the consumption tax hike as well as weaker real purchasing power because of the tax hike. The private consumption recovery has been weaker recently because of adverse climate conditions over the summer, but is likely to persist because of improving employment and wage conditions. With employee numbers picking up, scheduled wages rose even more in July and bonuses and other special wage also jumped (Figure 9). As a result of the spring wage negotiations, wages (including annual wage hikes and higher basic wage) rose 2.07% this year, a 0.36%pt increase from 2013. As a result, one-time payments totaled approximately JPY1.54 million, a 6% increase from 2013. Macro-level real wages also appear to reflect this. Employment has been expanding and wages rising because of companies' greater willingness to hire, and household incomes are thus expected to keep going up. This is expected to support a private consumption recovery (Figure 10).

Figure 9: Per Capita Wages and Workers



Note: Companies with 5+ employees.
Source: Compiled by BTMU Economic Research Office from MHLQ data.

Figure 10: Real Private Consumption

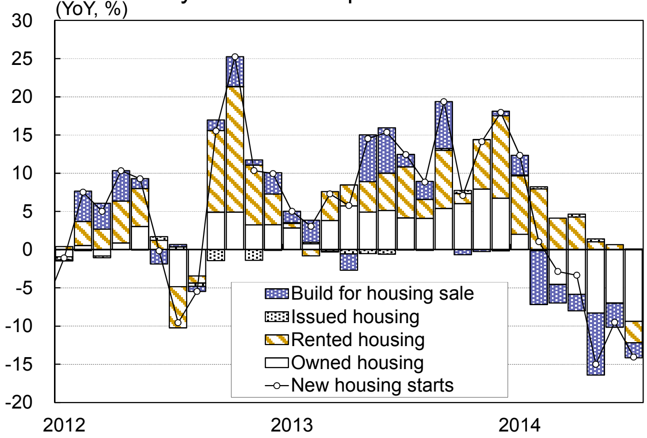


Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Residential investment slump in reaction to the surge of demand ahead of consumption tax hike

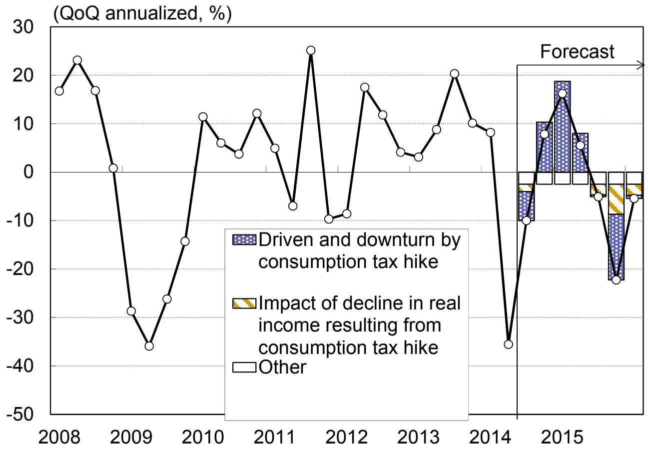
Real residential investment plummeted an annualized -35.6% QoQ in Apr-Jun, the first drop in nine quarters. New housing starts, a leading indicator of residential investment, have been declining after peaking at end-2013, especially for owned housing and build for housing sale, and residential investment, calculated in terms of investments made, also started to fall (Figure 11). Residential investment is expected to continue to drop for some time in reaction to the surge of demand ahead of the consumption tax hike, while a slowing household formation rate is also forecasted to exert downward pressure over the medium to long term. However, we expect the surge of demand ahead of the next consumption tax hike (expected in October 2015) to lift residential investment temporarily (Figure 12).

Figure 11: New Housing Starts by Owner Occupant Relation



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

Figure 12 :Real Residential Investment



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

(3) GOVERNMENT SECTOR

Public investment decline to slow because of supplementary budget outlays

Real public demand was roughly flat in Apr-Jun, at an annualized -0.2% QoQ (Figure 13). The fall in public investment shrank to -2.0% QoQ annualized because of more outlays made related to the FY2013 supplementary budget passed in February besides an increase in government final consumption expenditures primarily for the expansion of medical expenses and care costs as a benefit.

Public investment expected to turn positive, but not to last

Public investment is likely to remain high and to turn positive in Jul-Sept, bolstered by the FY2013 supplementary budget spending. However, the FY2013 supplementary budget is small in scale compared to the FY2012 supplementary budget, which supported expanded public investment. As a result, public investment is not likely to continue rising over an extended period.

(4) INFLATION

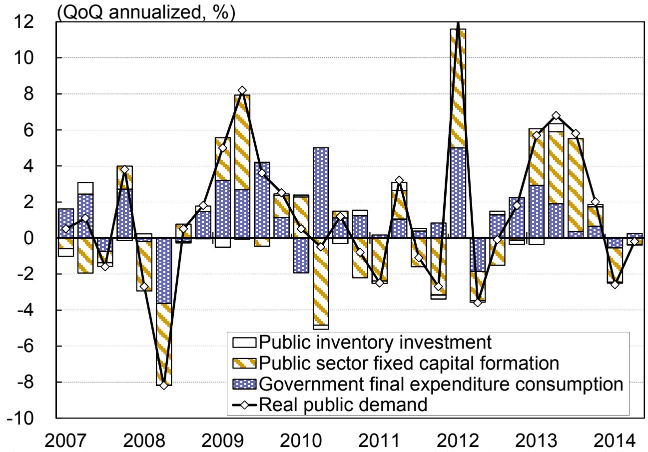
The rate of increase in CPI temporarily peaking as effect of weaker JPY is diminished

Although CPI has remained firm, the rate of increase has slowed recently. The rate of increase in CPI (core CPI, excluding fresh foods as well as the direct impact from the consumption tax hike) stood at +1.3% YoY in Apr-Jun, roughly level with Jan-Mar. This appears to be due to the largely-exhausted upward effect on prices by the weakening JPY. Another factor appears to be slumping private consumption in the wake of the surge of demand brought forward, causing inflation of durable goods price to weaken.

Inflation to remain positive as supply-demand gap tightens

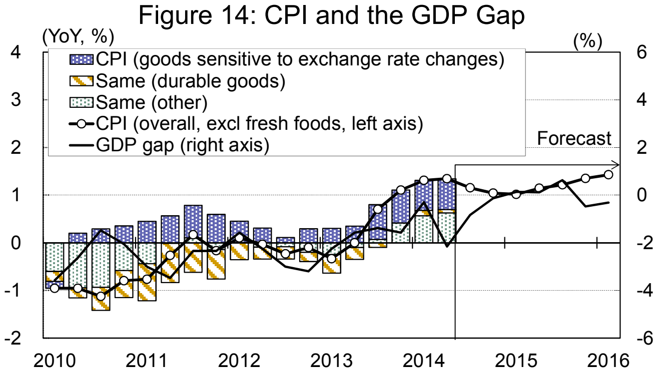
Looking ahead, we think the rate of increase in CPI is likely to keep weakening through year's end as the JPY depreciation effect diminishes. Thereafter, we think inflation will once again start to gradually rise as macro supply-demand conditions continue to tighten as the economy stays on a recovery path (Figure 14). We forecast core CPI (excluding the effect of the consumption tax hike) to stand at +1.1% YoY this fiscal year, then pick up slightly to +1.2% YoY in FY2015.

Figure13:Real Public Demand



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

Figure 14: CPI and the GDP Gap



Notes: 1) *CPI* excluding direct impact of consumption tax hike.
2) *Goods sensitve to exchange rate changes* is energy, airfares, overseas travel packages.
3) *GDP gap* is difference between real GDP and potential real GDP divided by potential real GDP.

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

3. Current Conditions and Outlook, Monetary Policy and Financial Markets

(1) MONETARY POLICY AND LONG-TERM YIELD

Price stability target unlikely to be met in FY2015; BoJ to sustain monetary easing

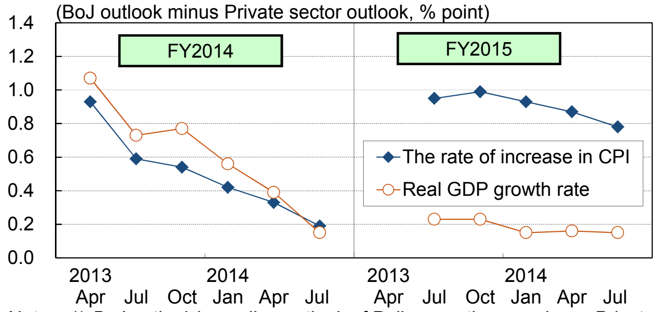
The BoJ continues to carry out the quantitative and qualitative monetary easing introduced in April 2013. At its July Monetary Policy meeting, the BoJ reiterated its outlook that the 2% price stability target rate would be achieved in FY2015. That said, the BoJ outlook is considerably more bullish than private sector economists'. Private sector economists have raised their real GDP growth forecasts for this fiscal year, narrowing the forecast gap with the BoJ, and as a result the CPI outlooks have also been converging (Figure 15). However, since private sector and BoJ growth forecasts for FY2015 differ by a mere 0.2%pt, the two CPI forecasts are unlikely to align because of the supply-demand gap once again improving more than the private sector expects.

The BoJ will likely continue to maintain large-scale monetary easing while keeping a close eye on the effects.

Long-term yield to rise slowly as BoJ large-scale monetary easing absorbs upward pressure from improving fundamentals

The yield on the 10Yr JGB recently fell to around 0.5% level and has remained low. This is due to a tighter supply-demand of JGBs because of the BoJ's huge purchases as well as lower yields in the US and Europe. As the Japanese economy's growth momentum and inflation rate gain steam and US yields rise as expectations of a rate hike build, upward pressure on Japan's long-term yield is also likely to increase (Table 1). However, continued BoJ quantitative and qualitative monetary easing are expected to absorb such upward pressures, and the long-term JGB yield will likely rise only at a slow pace.

Figure 15: Disparity between BoJ's Outlook and Private Sector Outlook



Notes: 1) *BoJ outlook* is median outlook of Policy meeting members; *Private sector outlook* is average outlook of private research institutions (approximately 40) responding to *ESP Forecast Survey*.
2) *The rate of increase in CPI* is overall excluding fresh foods and direct impact of consumption tax hike.
Source: Compiled by BTMU Economic Research Office from BoJ, Japan Center for Economic Research materials.

Table 1:Factors Affecting Long-Term Yields

Factor	Indicator	Outlook for indicator	Direction of impact on (arrow) and importance for long-term yields
Fundamentals	Inflation rate	To rise	↑
	Real economic growth rate	To rise	↑
Fiscal premium	Fiscal balance	To improve	↓
	Average remaining duration for issued JGBs	To gradually lengthening	↑
Monetary policy	Monetary base	Ballooning due to purchases of long-term JGBs	↓
	Average remaining durations of BoJ JGB	To lengthen	↓
	Policy rate・loan rate	To be held low	↓
Overseas interest rates	US interest rates	To gradually rise	↑
Portfolio rebalancing	Stock prices	To rise	↑
	Bank lending	To gradually increase	↑
	Exchange rates	JPY to weaken further	↑
Policy operations・Monetary system	Direction of economic policy	stable government mainly suported by Liberal Democratic Party of Japan	↑
	Financial regulations (Basel III)	Specified holdings of highly-liquid risk free assets	↓

Source: Compiled by BTMU Economic Research Office from various materials.

(2) EXCHANGE RATES

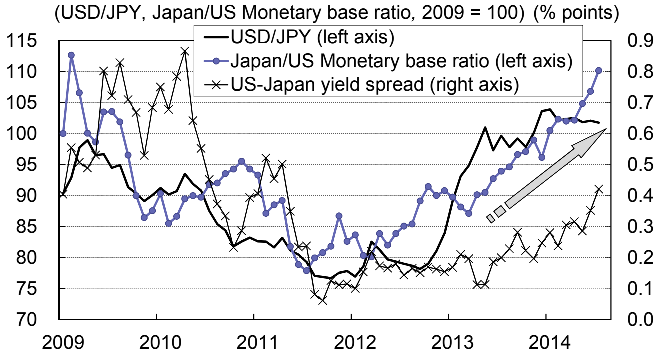
JPY selling pressures coming to prevail in USD/JPY

USD/JPY had been trading in a narrow range around JPY102, but JPY selling has recently picked up. The Japan-US monetary base ratio (Japan's monetary base size divided by the US), tightly correlated to USD/JPY since the collapse of Lehman Brothers, has been rising as the BoJ maintains large-scale monetary easing while the FRB scales down asset purchases (Figure 16). Further, the US-Japan 2Yr yield spread (US minus Japan) has been gradually widening as US yields rise. Although encouraging JPY weakening and USD strengthening behind the deadlock of exchange rate, such trend may have been gradually reflected in the exchange rate.

Widening US-Japan yield spread causing JPY-weakening/ USD-strengthening pressures

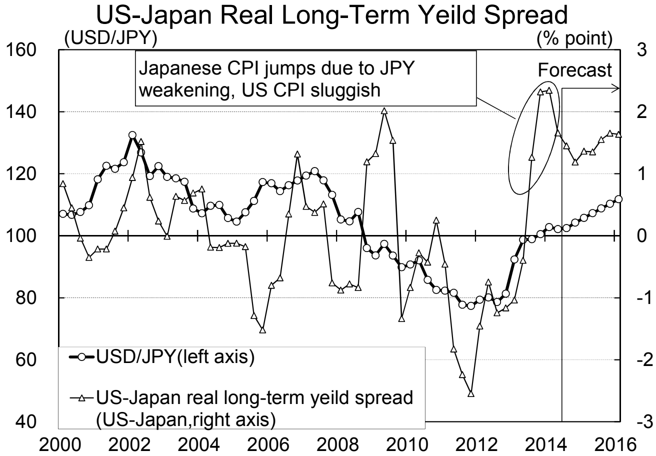
We expect the JPY to weaken and the USD to strengthen going forward gradually. As explained above, Japan's long-term yield will remain low because of the BoJ's continued large-scale monetary easing, while the US long-term yield will come under upward pressure as speculation of a US rate hike builds. The Japan-US real long-term yield spread is expected to widen even more as Japan's inflation rate stays firm (Figure 17). Although the risk of JPY-buying as a last resort safe haven bears watching as global geopolitical risks intensify, we think that conditions will continue to support JPY selling.

Figure 16: USD/JPY and
Japan/US Monetary Base Ratio and Yield Spread



Notes: 1) *Japan/US Monetary base ratio* is Japan's monetary base divided by US monetary base. Indexed using base date January 2009 = 100.
2) *US-Japan yield spread* is US 2Yr Treasury yield minus Japan 2Yr JGB yield.
Source: Compiled by BTMU Economic Research Office from BoJ data.

Figure 17: USD/JPY and
US-Japan Real Long-Term Yeild Spread



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

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Outlook for the Japanese Economy

Reflecting Apr-Jun2014 GDP (second preliminary figures)

Forecast →

(%, billion yen)

	2013				2014				2015				2016	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	5.1	3.4	1.8	-0.5	6.0	-7.1	4.8	3.6	2.3	0.6	2.8	-3.7	2.2	2.3	0.8	1.5
Private Consumption	4.2	3.0	0.8	1.5	8.4	-19.0	4.1	3.1	1.1	0.6	4.9	-8.1	2.6	2.5	-2.3	1.0
Housing Investment	3.1	8.8	20.3	10.1	8.2	-35.6	-10.0	7.8	16.2	5.5	-5.1	-22.3	-5.5	9.5	-7.1	-0.0
Private Business Fixed Investment	-7.6	7.2	2.2	3.9	34.8	-18.8	8.5	5.6	5.8	3.8	7.8	4.2	6.3	2.7	3.4	5.6
Business Inventory (Contribution)	0.4	-1.5	0.6	-0.3	-2.1	5.5	0.7	0.2	0.1	-0.7	-1.1	0.1	0.0	-0.5	1.0	-0.3
Government Expenditures	5.7	6.8	5.8	2.0	-2.6	-0.2	1.8	0.7	-0.2	0.6	1.2	1.0	0.6	4.2	0.3	0.8
Public Investment	20.1	25.2	31.6	5.8	-9.8	-2.0	5.3	0.2	-4.7	-0.8	3.2	2.0	0.0	15.1	0.2	0.1
Net Exports (Contribution)	1.7	0.2	-1.6	-2.4	-0.8	4.3	0.4	0.5	0.4	0.1	-0.1	0.9	-0.2	-0.5	0.7	0.3
Exports	18.1	12.8	-2.8	1.1	28.6	-2.0	3.3	5.7	5.0	4.4	4.3	4.1	3.6	4.8	5.9	4.5
Imports	4.8	9.6	7.3	15.7	28.0	-20.6	0.8	3.2	3.0	4.1	5.7	-1.2	5.3	7.0	1.8	3.3
Nominal GDP	4.4	1.2	1.5	0.9	6.4	-0.7	4.1	4.5	1.9	2.1	2.7	0.2	1.9	1.9	2.6	2.3
GDP Deflator (YoY)	-1.0	-0.6	-0.4	-0.4	-0.1	2.0	2.0	1.5	1.8	0.2	0.5	1.2	1.4	-0.4	1.8	0.9
Industrial Production Index (QoQ)	0.5	1.6	1.8	1.8	2.9	-3.8	-1.3	0.8	0.6	1.0	1.5	-1.0	0.0	3.2	-0.8	2.1
Domestic Corporate Goods Price Index (YoY)	-0.3	0.7	2.2	2.5	1.9	4.4	4.1	3.9	4.0	2.0	2.3	4.4	4.6	1.9	4.1	3.3
Consumer Price Index (excl. fresh food, YoY)	-0.3	0.0	0.7	1.1	1.3	3.3	3.2	3.0	3.0	1.1	1.2	2.6	2.7	0.8	3.1	1.9
2. Balance of Payments																
Trade Balance (billion yen)	-1,947	-1,664	-2,314	-2,805	-3,908	-2,182	-2,023	-1,862	-1,873	-1,850	-2,305	-2,018	-2,222	-10,971	-7,940	-8,395
Current Balance (billion yen)	922	1,845	565	1	-1,378	641	1,106	1,416	1,543	1,687	1,341	1,737	1,684	831	4,707	6,449
3. Financial																
Uncollateralized overnight call rate	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	0.1	0.1	0.1	0.1
Euro-Yen TIBOR (3-mo.)	0.3	0.2	0.2	0.2	0.2	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	0.7	0.7	0.8	0.6	0.6	0.6	0.5	0.7	0.8	1.0	1.2	1.3	1.3	0.7	0.7	1.2
Exchange Rate (USD/JPY)	92	99	99	101	103	102	103	104	106	107	109	110	112	100	104	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 bonds yield, and exchange rate (Yen/U.S.$) are period average.

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1． Main Economic Indicators

As of Sep. 19, 2014

	Fiscal	Fiscal	2013	2014		2014				
	2012	2013	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG
Real GDP Growth Rate <% changes from	0.7	2.3	-0.5	6.0	-7.1	***	***	***	***	***
previous period at SA annual rate>			(2.5)	(3.0)	(-0.1)					
Index of All Industries Activity	0.1	1.9	0.3	1.6	-3.3	-4.4	0.6	-0.4		
			(1.9)	(3.2)	(-0.9)	(-0.9)	(-1.4)	(-0.5)		
Industrial Production Index	-2.9	3.2	1.8	2.9	-3.8	-2.8	0.7	-3.4	0.4	
Production			(5.8)	(8.2)	(2.7)	(3.8)	(1.0)	(3.1)	(-0.7)	
Shipments	-1.8	2.9	2.6	4.6	-6.8	-5.0	-1.0	-1.9	0.7	
			(6.5)	(7.4)	(1.3)	(2.4)	(-0.8)	(2.2)	(-0.1)	
Inventory	-3.0	-1.4	-1.9	0.2	4.6	-0.5	3.0	2.0	0.9	
			(-4.3)	(-1.4)	(2.8)	(-1.9)	(0.8)	(2.8)	(2.9)	
Inventory/Shipments Ratio	114.4	106.2	104.6	102.6	107.7	103.7	107.8	111.5	109.1	
(2010=100)			[117.7]	[113.4]	[108.3]	[108.2]	[106.3]	[110.3]	[109.2]	[110.7]
Domestic Corporate Goods Price Index	-1.1	1.9	0.2	0.2	3.1	2.9	0.3	0.1	0.4	-0.2
			(2.5)	(1.9)	(4.3)	(4.2)	(4.4)	(4.5)	(4.3)	(3.9)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	0.3	-0.1	2.7	2.1	0.3	0.2	0.2	
			(1.1)	(1.3)	(3.3)	(3.2)	(3.4)	(3.3)	(3.3)	
Index of Capacity Utilization	95.4	100.0	100.2	106.0	101.4	103.0	102.3	98.9	98.1	
(2010=100)			[93.1]	[95.1]	[96.3]	[96.0]	[97.0]	[96.0]	[97.8]	[96.7]
Machinery Orders(Private Demand,	-3.0	11.5	1.9	4.2	-10.4	-9.1	-19.5	8.8	3.5	
Excl.Electric Power and Ship building)			(13.3)	(16.4)	(-0.4)	(17.6)	(-14.3)	(-3.0)	(1.1)	
Manufacturing	-10.1	10.2	2.0	3.9	-8.5	-9.4	-18.6	6.7	20.3	
			(14.8)	(22.1)	(4.1)	(19.3)	(-3.8)	(-1.3)	(13.4)	
Non-manufacturing	2.8	12.1	4.9	-1.0	-6.7	0.9	-17.8	4.0	-4.3	
Excl.Electric Power & Ship building			(12.4)	(11.8)	(-3.1)	(16.7)	(-19.9)	(-4.1)	(-7.4)	
Shipments of Capital Goods	-6.0	5.6	4.8	10.8	-8.0	-6.9	-1.5	-0.1	5.2	
(Excl.Transport Equipment)			(10.8)	(16.8)	(8.1)	(9.1)	(5.1)	(10.0)	(11.1)	
Construction Orders	2.4	20.1								
			(18.1)	(1.6)	(35.9)	(104.9)	(13.7)	(9.3)	(24.4)	
Private	2.6	14.2								
			(10.7)	(-18.0)	(9.5)	(35.2)	(-6.0)	(3.6)	(22.8)	
Public	5.3	31.2								
			(37.1)	(34.7)	(143.0)	(418.4)	(55.3)	(62.1)	(52.3)	
Public Works Contracts	10.3	17.7								
			(5.0)	(16.8)	(14.4)	(10.0)	(21.1)	(14.3)	(3.5)	(-8.1)
Housing Starts	89.3	98.7	102.6	93.9	88.8	90.6	87.2	88.3	83.9	
10,000 units at Annual Rate, SA	(6.2)	(10.6)	(12.9)	(3.4)	(-9.3)	(-3.3)	(-15.0)	(-9.5)	(-14.1)	
Total floor	(4.8)	(9.9)	(13.8)	(0.5)	(-13.4)	(-6.9)	(-19.4)	(-13.6)	(-18.2)	
Sales at Retailers	0.3	2.9								
			(3.0)	(6.6)	(-1.8)	(-4.3)	(-0.4)	(-0.6)	(0.6)	
Real Consumption Expenditures	1.6	0.9	-0.2	4.6	-9.0	-13.3	-3.1	1.5	-0.2	
of Households over 2 persons (SA)			(0.6)	(2.3)	(-5.2)	(-4.6)	(-8.0)	(-3.0)	(-5.9)	
Propensity to Consume	74.8	75.5	74.6	78.8	73.8	74.2	70.3	74.8	75.3	
(SA,%)			[74.5]	[76.2]	[74.0]	[73.6]	[74.0]	[73.0]	[73.4]	[74.3]
Overtime Hours Worked	-0.3	4.4	1.6	2.1	0.6	-0.4	-0.5	-1.2	-0.6	
(All Industries, 5 employees or more)			(6.0)	(7.1)	(5.1)	(6.4)	(4.9)	(3.9)	(2.9)	
Total Cash Earnings (Regular Employees	-0.7	0.1								
Only; All Industries, 5 employees or more)			(0.4)	(0.1)	(0.8)	(0.7)	(0.6)	(1.0)	(2.4)	
Employment Index(Regular Employees Only;'All Industries,	107	45	49	54	65	62	65	69	77	
5 employees or more） (Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	0.82	0.97	1.01	1.05	1.09	1.08	1.09	1.10	1.10	
(SA,Times)			[0.82]	[0.85]	[0.90]	[0.88]	[0.90]	[0.92]	[0.94]	[0.95]
Unemployment Rate	4.3	3.9	3.9	3.6	3.6	3.6	3.5	3.7	3.8	
(SA,%)										
Economy Watcher Survey	46.3	54.0	53.7	55.2	44.8	41.6	45.1	47.7	51.3	47.4
(Judgment of the present condition D.I,%)			[41.6]	[53.3]	[55.1]	[56.5]	[55.7]	[53.0]	[52.3]	[51.2]
Bankruptcies (Number of cases)	11,719	10,536	2,571	2,460	2,613	914	834	865	882	727
	(-7.7)	(-10.0)	(-11.0)	(-11.4)	(-8.0)	(1.6)	(-20.1)	(-3.5)	(-13.9)	(-11.2)

(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 Sep. 19, 2014

	Fiscal 2012	Fiscal 2013	2013 4Q	2014 1Q	2014 2Q	2014 APR	MAY	JUN	JUL	AUG
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(17.4)	(6.6)	(0.1)	(5.1)	(-2.7)	(-1.9)	(3.9)	(-1.3)
Value	4.0	10.2	(12.5)	(6.0)	(1.1)	(3.0)	(0.7)	(-0.3)	(2.9)	(1.6)
Volumes	-5.8	0.6	(4.3)	(0.7)	(-1.0)	(2.0)	(-3.4)	(-1.6)	(1.0)	(-2.9)
Imports (In Yen terms)	3.4	17.4	(24.1)	(17.6)	(2.7)	(3.4)	(-3.5)	(8.5)	(2.3)	(-1.5)
Value	2.5	14.6	(18.4)	(10.3)	(2.1)	(4.8)	(0.5)	(1.2)	(2.7)	(3.2)
Volumes	1.0	2.3	(4.8)	(6.5)	(0.5)	(-1.3)	(-4.0)	(7.2)	(-0.3)	(-4.6)
Current Account (100 mil. yen)	42,233	8,312	-14,311	-8,187	3,112	1,874	5,228	-3,991	4,167	
Goods (100 mil. yen)	-52,474	-109,709	-31,002	-41,190	-19,934	-7,804	-6,759	-5,371	-8,281	
Services (100 mil. yen)	-41,864	-34,522	-11,319	-6,194	-9,586	-6,597	-682	-2,306	-4,590	
Financial Account (100 mil. yen)	20,255	-23,521	-28,031	-13,285	3,543	-16,342	9,056	10,829	4,463	
Gold & Foreign Exchange Reserves ($1mil.)	1,254,356	1,279,346	1,266,815	1,279,346	1,283,921	1,282,822	1,283,920	1,283,921	1,276,027	1,278,011
Exchange Rate (\/$)	83.08	100.23	100.45	102.78	102.13	102.56	101.79	102.05	101.72	102.96

３． Financial Market Indicators

	Fiscal 2012	Fiscal 2013	2013 4Q	2014 1Q	2014 2Q	2014 APR	MAY	JUN	JUL	AUG
Uncollateralized Overnight Call Rates	0.083	0.073	0.072	0.074	0.067	0.065	0.068	0.067	0.066	0.069
			[0.084]	[0.083]	[0.073]	[0.072]	[0.073]	[0.074]	[0.073]	[0.073]
Euro Yen TIBOR	0.312	0.223	0.220	0.215	0.211	0.212	0.210	0.210	0.210	0.210
(3 Months)			[0.318]	[0.270]	[0.228]	[0.228]	[0.228]	[0.228]	[0.228]	[0.228]
Newly Issued Japanese Government Bonds Yields	0.560	0.640	0.735	0.640	0.565	0.620	0.570	0.565	0.530	0.490
(10 Years)			[0.795]	[0.560]	[0.855]	[0.600]	[0.860]	[0.855]	[0.795]	[0.720]
Average Contracted Interest Rates	1.184	1.077								
on Loans and Discounts(City Banks)			1.102	1.077	1.067	1.078	1.077	1.067	1.066	
(% changes from previous period)			(-0.023)	(-0.025)	(-0.010)	(0.001)	(-0.001)	(-0.010)	(-0.001)	
The Nikkei Stock Average	12,398	14,828	16,291	14,828	15,162	14,304	14,632	15,162	15,621	15,425
(TSE 225 Issues)			[10,395]	[12,398]	[13,677]	[13,861]	[13,775]	[13,677]	[13,668]	[13,389]
M2(Average)	(2.5)	(3.9)	(4.2)	(4.0)	(3.3)	(3.5)	(3.3)	(3.0)	(3.0)	(3.0)
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(4.3)	(3.9)	(3.1)	(3.3)	(3.0)	(2.9)	(2.9)	(2.9)
Principal Figures of Financial Institutions										
Loans and Discount (Average) — Banks & Shinkin	(0.9)	(2.0)	(2.2)	(2.2)	(2.2)	(2.0)	(2.2)	(2.3)	(2.2)	(2.2)
Banks	(1.1)	(2.3)	(2.4)	(2.4)	(2.3)	(2.2)	(2.4)	(2.5)	(2.3)	(2.3)
City Banks etc.	(-0.2)	(1.7)	(1.8)	(1.6)	(1.3)	(1.1)	(1.3)	(1.4)	(1.0)	(1.0)
Regional Banks	(2.9)	(3.3)	(3.2)	(3.4)	(3.6)	(3.5)	(3.6)	(3.8)	(3.7)	(3.7)
Regional Banks Ⅱ	(0.8)	(1.4)	(2.0)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.8)	(2.9)
Shinkin	(-0.7)	(0.3)	(0.5)	(0.9)	(1.2)	(1.1)	(1.2)	(1.3)	(1.4)	(1.5)
Deposits and CDs (Average) — Total(3 Business Condition)	(2.2)	(3.8)	(3.9)	(3.6)	(2.8)	(3.0)	(2.9)	(2.6)	(2.6)	(2.8)
City Banks	(1.8)	(3.7)	(3.7)	(3.2)	(2.1)	(2.3)	(2.4)	(1.7)	(2.0)	(2.4)
Regional Banks	(2.8)	(4.3)	(4.5)	(4.2)	(3.6)	(3.9)	(3.6)	(3.4)	(3.2)	(3.2)
Regional Banks Ⅱ	(1.8)	(2.5)	(3.2)	(3.1)	(3.0)	(3.0)	(3.0)	(3.1)	(3.3)	(3.2)

(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.