Japan's Economy Stays on Recovery Course, Supported by Rising Corporate and Household Incomes

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1. Overview of the Japanese Economy

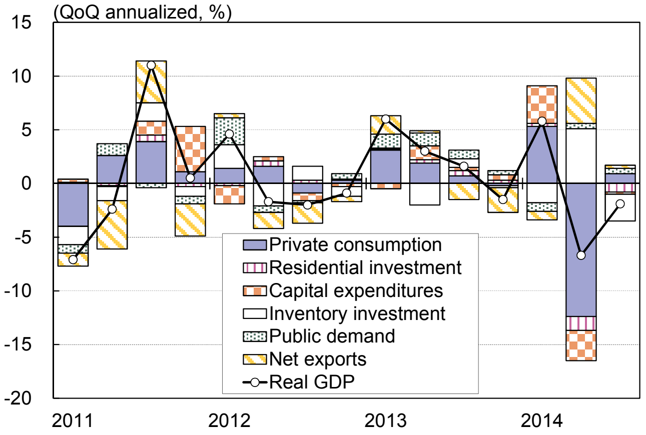
Recovery, especially in personal spending, limps along

Japan's economic recovery appears to be limping along. Real GDP (second preliminary estimates) fell an annualized -1.9% QoQ in Jul-Sept, the second straight quarter of contraction. Private consumption has been the key reason for the sluggish growth. The adverse impact from the April consumption tax hike is still lingering, and hit also by bad weather over the summer, consumption has improved only slightly (Figure 1). Further, capital expenditures have fallen, however slightly, recovering only weakly from the reactionary drop after the consumption tax hike, while inventory investment has weighed heavily on the economy's growth. Overall, the Jul-Sept GDP figures reflected the weakness of demand, especially domestic demand.

Corporate profits, employee compensation strong in Jul-Sept

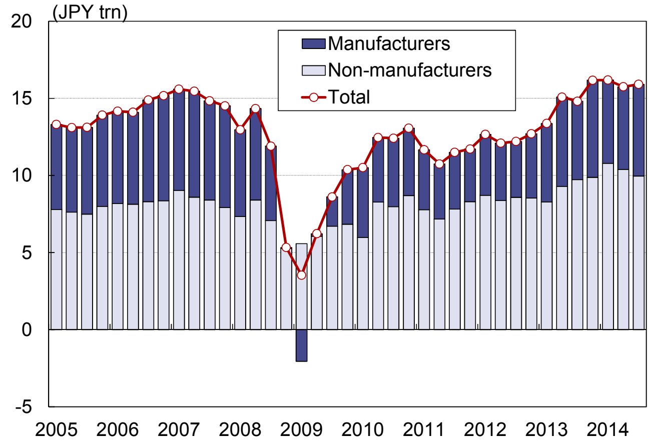
On the other hand, corporate and household income continues to steadily recover. First, Jul-Sept corporate current profit (excluding financial and insurance companies) dipped slightly on-year among non-manufacturers because of sluggish domestic demand, while manufacturers' current profit rose more than 10% on-year. This boosted current profit overall (Figure 2). In terms of scale, current profit hit JPY16 trillion for the quarter, a record high level surpassing even the strong times prior to the collapse of Lehman Brothers. Overseas investment profits and export profits continue to improve because of the weaker JPY, lifting overall profit, with strong corporate profits acting as the starting point of the virtuous cycle.

Figure 1: Real GDP and Final Demand



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

Figure 2: Recurring Profit, by Sector



Note: Excluding financial and insurance companies.
Source: Compiled by BTMU Economic Research Office from MoF data.

Household incomes are also improving. Companies continue to show keen interest in hiring as the labor market tightens, and employee incomes are rising to reflect both employee numbers and per capita wages. Nominal compensation of employees (in GDP figure) has risen on-quarter for four straight quarters, turning positive on-quarter even in real terms in Jul-Sept (Figure 3). Household incomes are rising, catching up with higher prices.

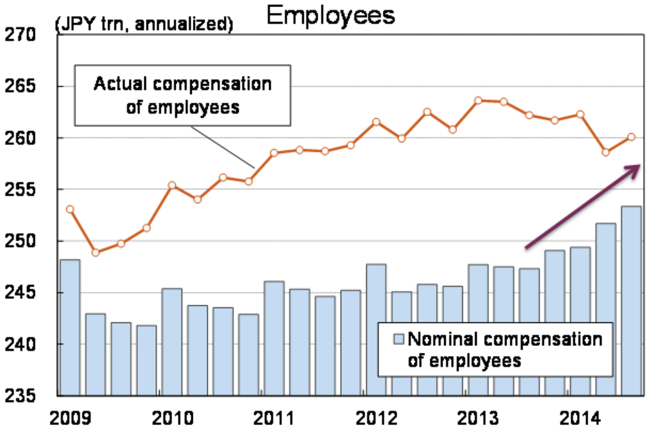
Big reaction to demand brought forward, but household sentiment remains high long-term

Weaker real purchasing power caused by inflation as well as unsettled weather have been hurting personal consumption, but this is largely due to a reactionary drop to the very strong demand brought forward ahead of the consumption tax hike. Nominal private consumption divided by nominal compensation of employees is considered to reflect consumption patterns—propensity to consume—, and there was a 2%-plus negative divergence from the trend in Jul-Sept (Figure 4). The negative gap has exceeded 2% only three times in the past—during the 1998 financial crisis, after the 2008 collapse of Lehman Brothers, and following the 2011 Tohoku disaster. This highlights the recent weakness of consumption expenditure. However, compared to household sentiment at the same times (as reflected by the Consumer Confidence Index), the recent level is high; it is not especially low even compared to past economic recovery phases. The Consumer Confidence Index has been weakening somewhat recently and bears watching, but as the reaction to the demand brought forward is alleviated, we think Japan will be increasingly likely to avert a vicious cycle of weak consumer spending hurting the economy overall and causing corporate and household incomes to fall.

Corporate spending and investments for the future to speed up virtuous cycle

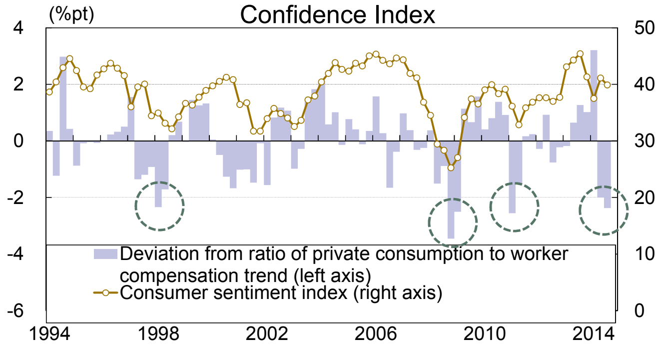
We think real GDP will contract slightly on-year in FY2014, hit by weakness in 1H. However, we expect recoveries in corporate and household incomes to cause demand to improve and the economic recovery to be sustained. In FY2015, the effects of massive monetary easing and the growth policies, including a corporate tax cut, are expected to gradually permeate, and the economy is likely to remain on a recovery path as a virtuous cycle remains in motion. The postponement of the consumption tax hike originally planned for October 2015 will likely have a positive impact on Japan's growth rate over the short term.

Figure 3: Nominal and Actual Compensation of Employees



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

Figure 4: Deviation from Ratio of Private Consumption to Compensation of Employees Trend and Consumer Confidence Index



Note: 1) *Ratio of private consumption to compensation of employees* is nominal private consumption divided by nominal compensation of employees. *Trend* determined from HP filter.
2) *Consumer Confidence Index* difference due to change in survey method revised.
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

2. Current Conditions and Outlook, by Sector and Area

(1) CORPORATE SECTOR

Exports expected to keep improving on advanced economy recoveries and weak JPY

Japanese exports are gradually improving. Real exports in GDP figure rose an annualized +5.2% QoQ in Jul-Sept, the first increase in two quarters. While exports to the US, EU, and China were weak, shipments to ASEAN and NIEs countries—to which approximately 40% of exports are destined—rose. Exports to all key countries and regions were up in the latest data from October (Figure 5).

Exports are likely to continue to improve. The global economy is on a gradual recovery trajectory, and overall import demand around the world is also expected to rise. With the country's price competitiveness rising on the continued weakness of the JPY, Japan is maintaining its share of exports among global exports. Japanese export products tend to benefit from improved import demand everywhere.

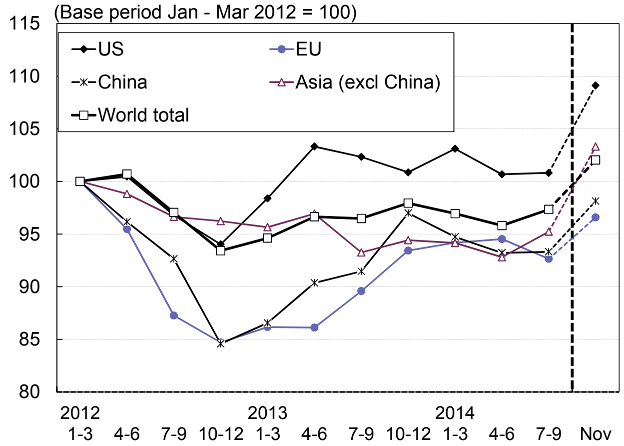
Companies remain keen to invest, with capital expenditures likely to keep rising

Real capital expenditures slipped an annualized -1.5% QoQ in Jul-Sept, the second straight quarter of decline. However, companies remain keen to invest, and we think the upward trend of capital expenditures will remain intact.

Companies of all sizes and across all industries significantly revised up their capital expenditures plans in both the June and September BoJ Tankan surveys. The revision rate for both surveys was 8.9% points, exceeding even the biggest post-Bubble revision in FY1996. Real capital expenditures (in GDP figure) rose approximately 5% YoY in past years with the same degree of revision (Figure 6).

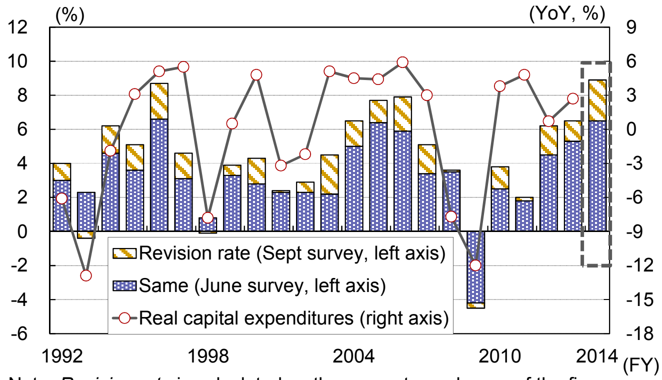
Corporate capital expenditures are likely to keep rising, given strong corporate profits and sound balance sheets, a greater necessity of saving the personnel and labor due to diminishing excess capacity and a growing labor shortage, as well as lower real interest rates due to the BoJ's expanded monetary easing.

Figure 5: Real Export Value, by Region



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

Figure 6: BoJ Tankan Fiscal Year Capital Expenditures Plan Revision Rate and GDP Real Capital Expenditures



Note: *Revision rate* is calculated as the percentage change of the figures between the current and the previous survey.
Source: Compiled by BTMU Economic Research Office from BoJ, Cabinet Office data.

(2) HOUSEHOLD SECTOR

Private consumption recovering, though slowly, as employment and wage conditions improve

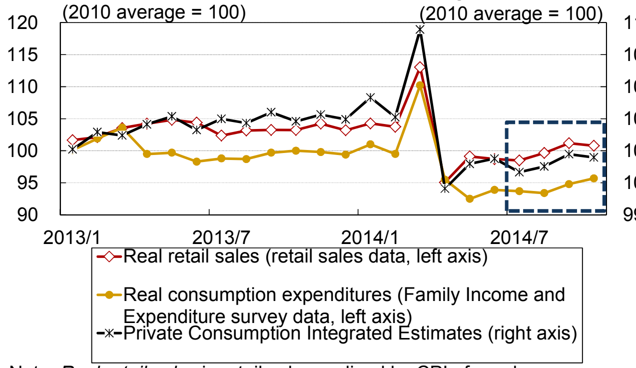
Real private consumption rose an annualized +1.5% QoQ in Jul-Sep, the first increase in two quarters, but the rate of rise was small. However, monthly consumption-related indicators show that the improvement has slowly become clearer since August (Figure 7). A reactionary drop after the consumption tax hike and adverse climate conditions over the summer caused private consumption to weaken in the first half of the FY2014, but these downward pressures appear to be easing.

Private consumption is likely to continue on a slow upward trend. As the adverse impact of the consumption tax hike eases, strong corporate profits and a tighter labor supply-and-demand situation will lead employment and wage conditions to continue to improve. Compensation of employees continues to rise following the relatively large wage hikes of the spring wage negotiations in 2014 and as the number of workers picks up faster. The upward trend is likely to continue (Figure 8), with large enterprise bonuses and one-time payments of the winter of FY2014 (average of labor union members of 76 companies) increasing significantly for a second straight year, by +5.8% YoY, according to a survey by the Keidanren. Further, we expect consumer sentiment to stabilize even more due to the impacts of falling oil prices and rising stock prices. This will likely be a supporting factor for a private consumption recovery.

Residential investment contracts for two quarters, but new housing starts up

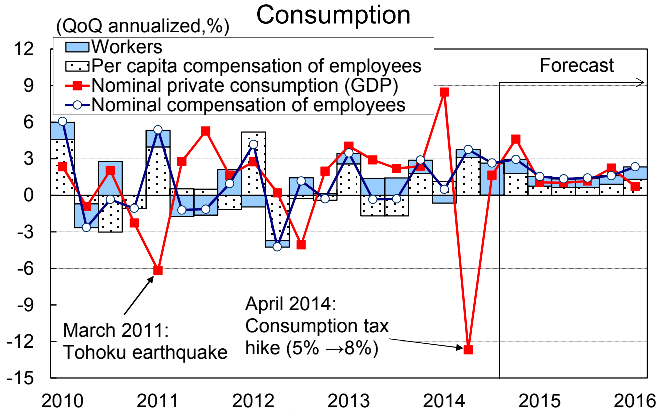
Real residential investment plunged -24.4% QoQ in Jul-Sep, the second straight big contraction. The reactionary drop to the surge of demand ahead of the consumption tax hike has been prolonged, and higher worker wages and materials prices have been causing construction costs to surge. On the other hand, new housing starts, a leading indicator of residential investment, have been rising for three straight months after bottoming in July. Starts of owned housing, rented housing, issued housing, and build for housing sale all rose on-month in September, the first time after the consumption tax hike in April. In October, higher rented housing and build for housing sale lifted new housing starts overall. We expect residential investment to bottom in Oct-Dec.

Figure 7: Real Retail Sales and Real Consumption Expenditures, Private Consumption Integrated Estimates



Note: *Real retail sales* is retail sales realized by CPI of goods (excluding electricity, manufactured and piped gas, and water charges). Adjusted for seasonality by BTMU.
Source: Compiled by BTMU Economic Research Office from MoF, METI, Cabinet Office data.

Figure 8: Worker Income and Nominal Private Consumption



Note: *Per capita compensation of employees* is *Nominal compensation of employees* divided by *Workers*.
Source: Compiled by BTMU Economic Research Office from MIC, MLIT, and Cabinet Office data.

(3) GOVERNMENT SECTOR

Public investment up because of the execution of FY2013 supplementary budget

Real public demand rose for a second straight quarter in Jul-Sep, by an annualized +1.9% QoQ (Figure 9). Government consumption was up, led by an increase in medical expenses and care costs as a benefit. Public investment has surged by an annualized +8.9% QoQ with the execution of the FY2013 supplementary budget approved in February, partially offsetting the weakness of domestic private demand in the wake of April's consumption tax hike.

Public investment to remain high, but to peak out soon

Public investment is expected to remain high, boosted by the FY2013 supplementary budget and the FY2014 initial budget. However, the FY2013 supplementary budget is small compared to the FY2012 supplementary budget (which contributed to an expansion in public investments), and public works project contracts and orders—leading indicators of public investment—have started to decline recently. As such, public investment is likely to peak out soon.

(4) INFLATION

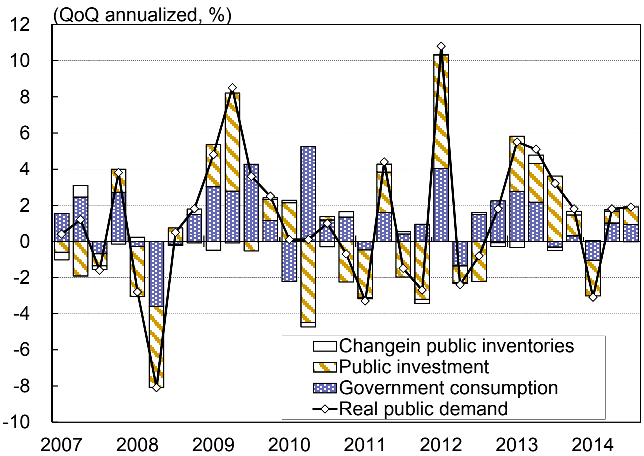
The rate of increase in CPI slow as oil prices fall

Core CPI (excluding fresh foods as well as the direct impact of the consumption tax hike) stood at +1.1% YoY in Jul-Sept, the sixth straight quarter of rise. However, the margin of increase slowed from +1.3% YoY in Apr-Jun. Although inflation expectations appear somewhat firm, the diminishing effect of the weaker JPY as well as sluggish energy prices as oil prices fall are likely to cause inflation to slow.

Though inflation to slow for some time, will pick up again as supply-demand gap improves

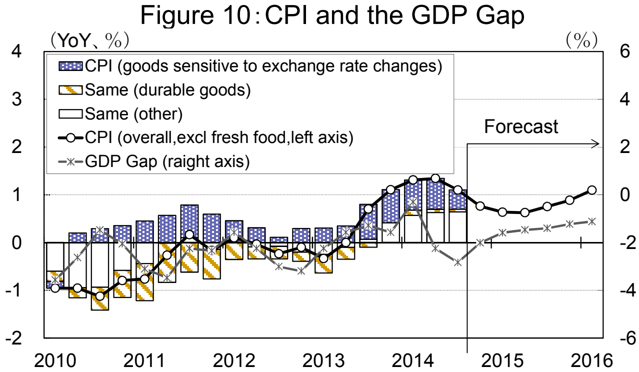
We expect energy prices to continue declining for some time as oil prices plunge, and we think inflation may fall short of 1% YoY. Thereafter, however, we expect inflation to slowly pick up once again as the JPY remains weak and the supply-demand gap improves as the economy gradually recovers (Figure 10). We forecast core CPI (excluding the direct impact of the consumption tax hike) to stand at +1.0% YoY in FY2014 and +0.8% YoY in FY2015.

Figure9:Real Public Demand



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

Figure 10：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

BoJ expands an additional monetary easing, expected to continue massive monetary easing for some time

At its October 31 Monetary Policy Meeting, the Bank of Japan adopted an additional monetary easing. BoJ agreed to increase annual purchases of long-term JGBs by JPY30 trillion, from JPY50 trillion to JPY80 trillion, while also extending the average remaining duration of JGB by three years, from seven years to 7-10 years (Table 1). If the BoJ maintains this pace of purchasing, its holdings of long-term JGBs would reach JPY440 trillion by end-2017, more than 50% of all JGBs in issuance (Figure 11). (The FRB held approximately 21% of all long-term Treasuries issued by the time it ended asset purchases in the end October 2014.) Because achieving the price stability target rate in FY2015 will be unlikely, the BoJ is likely to maintain its massive monetary easing for some time. The market will continue to expect the BoJ's growing share of JGBs as a downward pressure on interest rates.

We think the long-term yield will come under even further downward pressure as the BoJ extends the average remaining duration of JGBs purchased.

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

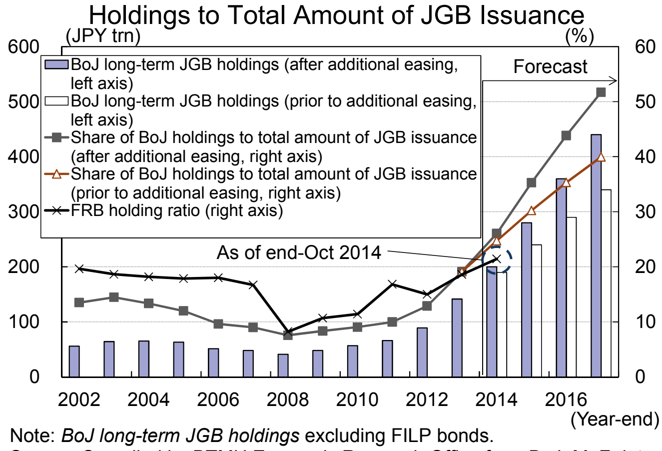
The yield on the 10Yr JGB fell to the 0.4% level recently and has remained low. We think this is due to tighter supply-demand of JGBs because of the BoJ's massive purchases as well as falling yields overseas, especially in the US and Europe. Looking forward, we expect upward pressure on long-term yields to build as Japan's economy growth momentum and inflation rate slowly pick up and as US yields rise ahead of a rate hike. However, the BoJ's large-scale monetary easing will likely act to absorb some of these upward pressures, while concerns about deflation in Europe will also weigh. We think the long-term yield will rise only slowly.

Table 1: Outline of Additional Monetary Easing

	Previous	Most recent Additional Monetary easing
Monetary base (vs end-2013)	Approximately JPY 60-70 trn	Approximately JPY 80 trn
Long-term JGBs (vs end-2013)	Approximately JPY 50 trn	Approximately JPY 80 trn
Average remaining duration	Approximately 7 years	7-10 years
ETFs (vs end-2013)	Approximately JPY 1 trn	Approximately JPY 3 trn
Eligible for purchase	-	Addition of ETFs linked to JPX Nikkei Average 400
J-REITs (vs end-2013)	Approximately JPY 30 bn	Approximately JPY 90 bn

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

Figure 11: BoJ Long-Term JGB Holdings Assuming Current Buying Pace and Share of BoJ Holdings to Total Amount of JGB Issuance



Note: *BoJ long-term JGB holdings* excluding FILP bonds.
Source: Compiled by BTMU Economic Research Office from BoJ, MoF data.

(2) EXCHANGE RATES

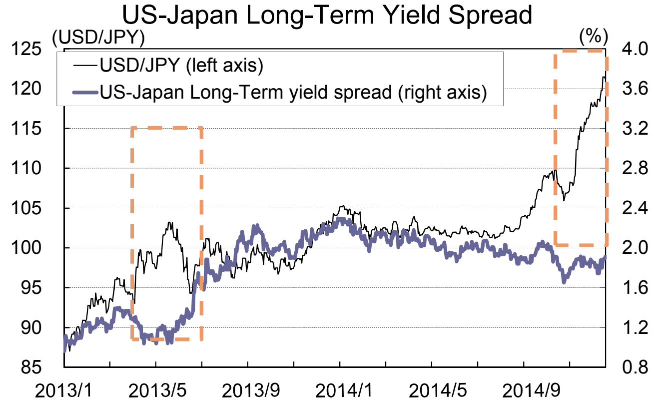
Although the JPY has weakened quickly against the USD, macro-economic conditions that supported the weakening in the JPY may not so strongly correlate with it

The JPY weakened even further following the BoJ's additional monetary easing on October 31, hitting the lowest level since July 2007, at USD/JPY121. Even based on the weighted average of JPY exchange rates against currencies of trading partners and real effective exchange rates adjusted for inflation rate, the JPY hit a historical low in October. Another record was likely set in November, when the JPY continued to fall. However, the spread between US and Japanese long-term yields is now about 2% points, about the same level as through August 2014, when the exchange rate was USD/JPY102 (Figure 12). Although expectations and forecasts impact market directions somewhat as the US-Japan spread is expected to widen due to the different directions of US and Japanese monetary policy, any macro factors that would back a sudden weakening in the JPY may not be so strong. This point bears watching.

Differing degrees of US-Japan monetary easing and long-term yield spread to become clearer as BoJ boosts monetary easing

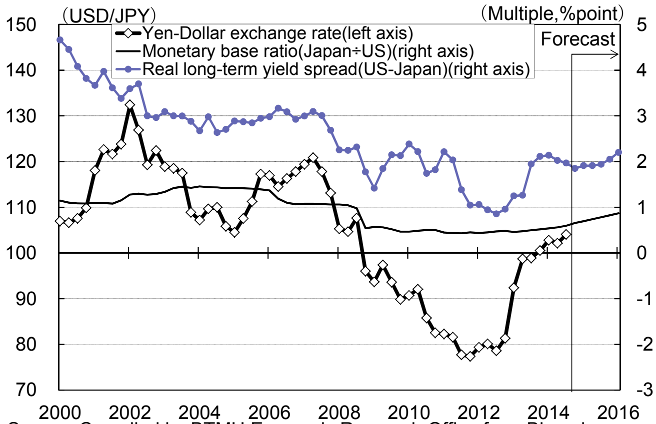
Considering the relation of USD/JPY rate and US-Japan long-term yield spread as aforesaid, we expect a temporary correction and JPY strengthening over the next few months in reaction to overshot due to preceding expectations to the outlook (Figure 13). This also happened following the BoJ's introduction of *quantitative and qualitative monetary easing* in April 2013. However, over a slightly longer timeframe, the gap in US-Japan degrees of monetary easing will emerge even more clearly as the BoJ boosts monetary easing, and we think the Japan-US monetary base ratio (Japan ÷ US, closely linked to USD/JPY ever since the collapse of Lehman Brothers) will continue to rise. Further, with Japan keeping its long-term interest rates low, we feel the US-Japan long-term yield spread will likely widen. We expect the JPY to continue weakening against the USD for some time.

Figure 12: USD/JPY and US-Japan Long-Term Yield Spread



Note: *US-Japan Long-Term yield spread* is the 10Yr US Treasury yield minus the 10Yr Japan JGB yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

Figure 13: Yen-Dollar Exchange Rate, Monetary Base Ratio and Real Long-term Yield Spread



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

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Outlook for the Japanese Economy

Reflecting Jul-Sep2014 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	6.0	3.0	1.6	-1.5	5.8	-6.7	-1.9	4.4	2.8	1.2	1.1	1.3	1.6	2.1	▲ 0.4	1.7
Private Consumption	5.1	3.2	1.1	-0.3	8.9	-18.8	1.5	3.6	1.9	0.5	0.6	0.8	0.7	2.5	-2.7	1.3
Housing Investment	3.9	9.2	18.2	9.0	9.6	-34.3	-24.4	6.6	3.2	2.4	2.4	2.0	1.6	9.3	-10.6	1.1
Private Business Fixed Investment	-3.5	10.2	2.1	4.1	27.2	-17.6	-1.5	5.0	7.2	5.5	5.8	4.8	5.6	4.0	0.8	5.3
Business Inventory (Contribution)	0.1	-2.0	0.8	-0.2	-1.8	5.1	-2.5	0.7	0.3	-0.2	0.0	0.0	0.0	-0.5	0.6	-0.0
Government Expenditures	5.5	5.1	3.2	1.8	-3.1	1.8	1.9	0.4	-0.2	0.0	-1.3	-0.4	0.6	3.2	0.6	-0.1
Public Investment	19.6	13.0	22.2	6.5	-10.4	3.7	5.5	-1.6	-4.7	-3.9	-10.7	-5.9	0.0	10.3	1.1	-4.8
Net Exports (Contribution)	1.7	0.2	-1.5	-2.3	-0.8	4.2	0.3	0.6	0.4	0.3	0.2	0.2	0.2	-0.5	0.7	0.3
Exports	17.9	12.4	-2.4	0.8	28.0	-1.8	5.2	5.8	5.1	4.7	3.9	3.6	3.5	4.7	6.2	4.6
Imports	4.1	9.5	7.1	15.5	27.2	-19.9	3.0	2.2	2.8	3.3	3.0	2.7	2.8	6.7	2.1	2.9
Nominal GDP	4.7	1.6	0.9	0.7	5.5	0.4	-3.1	6.6	2.6	3.4	-1.1	2.4	1.8	1.8	1.6	2.2
GDP Deflator (YoY)	-1.0	-0.6	-0.3	-0.3	0.1	2.1	2.1	1.8	2.1	0.8	0.5	0.0	0.4	-0.3	1.9	0.4
Industrial Production Index (QoQ)	0.5	1.6	1.8	1.8	2.9	-3.8	-1.9	0.9	0.2	0.8	0.6	0.5	0.4	3.2	-1.3	1.6
Domestic Corporate Goods Price Index (YoY)	-0.3	0.7	2.2	2.5	2.0	4.3	4.0	2.5	1.7	-1.0	-1.2	-0.9	0.3	1.9	3.1	-0.8
Consumer Price Index (excl. fresh food, YoY)	-0.3	0.0	0.7	1.1	1.3	3.3	3.2	2.8	2.6	0.6	0.8	0.9	1.1	0.8	3.0	0.8
2. Balance of Payments																
Trade Balance (billion yen)	-1,947	-1,664	-2,314	-2,805	-3,908	-2,211	-2,540	-1,978	-1,976	-1,613	-2,376	-2,340	-2,414	-10,971	-8,706	-8,743
Current Balance (billion yen)	922	1,845	565	1	-1,378	688	645	1,579	1,601	2,036	1,385	1,532	1,571	831	4,512	6,524
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	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.5	0.6

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.

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1． Main Economic Indicators

As of Dec. 30, 2014

	Fiscal 2012	Fiscal 2013	2014 1Q	2014 2Q	2014 3Q	2014 JUL	2014 AUG	2014 SEP	2014 OCT	2014 NOV
Real GDP Growth Rate <% changes from	1.0	2.1	5.8	-6.7	-1.9	***	***	***	***	***
previous period at SA annual rate>			(2.5)	(-0.3)	(-1.3)					
Index of All Industries Activity	0.1	1.9	1.6	-3.4	0.0	-0.4	-0.1	1.4	-0.1	
			(3.2)	(-0.9)	(-1.6)	(-1.7)	(-2.5)	(-0.6)	(-1.0)	
Industrial Production Index	-2.9	3.2	2.9	-3.8	-1.9	0.4	-1.9	2.9	0.4	-0.6
Production			(8.2)	(2.7)	(-1.0)	(-0.7)	(-3.3)	(0.8)	(-0.8)	(-3.8)
Shipments	-1.8	2.9	4.6	-6.8	-0.8	0.7	-2.1	4.4	0.6	-1.4
			(7.4)	(1.3)	(-0.5)	(-0.1)	(-3.7)	(1.7)	(-0.4)	(-4.5)
Inventory	-3.0	-1.4	0.2	4.6	1.1	0.9	0.9	-0.7	-0.4	1.0
			(-1.4)	(2.8)	(4.0)	(2.9)	(4.6)	(4.0)	(3.8)	(6.4)
Inventory/Shipments Ratio	114.4	106.2	102.6	107.7	113.0	109.1	118.5	111.4	112.3	116.8
(2010=100)			[113.4]	[108.3]	[109.4]	[109.2]	[110.7]	[108.2]	[105.5]	[104.3]
Domestic Corporate Goods Price Index	-1.1	1.9	0.3	3.0	0.5	0.4	-0.2	0.0	-0.8	-0.2
			(2.0)	(4.3)	(4.0)	(4.4)	(3.9)	(3.6)	(2.9)	(2.7)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	-0.1	2.7	0.2	0.2	-0.2	-0.1	0.1	0.0
			(1.3)	(3.3)	(3.2)	(3.3)	(3.1)	(3.0)	(2.9)	(2.7)
Index of Capacity Utilization	95.4	100.0	106.0	101.4	98.1	98.1	96.4	99.9	100.6	
(2010=100)			[95.1]	[96.3]	[97.8]	[97.8]	[96.7]	[98.9]	[99.4]	[99.9]
Machinery Orders(Private Demand,	-3.0	11.5	4.2	-10.4	5.6	3.5	4.7	2.9	-6.4	
Excl.Electric Power and Ship building)			(16.4)	(-0.4)	(2.4)	(1.1)	(-3.3)	(7.3)	(-4.9)	
Manufacturing	-10.1	10.2	3.9	-8.5	12.6	20.3	-10.8	12.0	-5.5	
			(22.1)	(4.1)	(10.2)	(13.4)	(2.5)	(13.4)	(2.9)	
Non-manufacturing	2.8	12.1	-1.0	-6.7	-1.2	-4.3	10.7	1.7	-7.5	
Excl.Electric Power & Ship building			(11.8)	(-3.1)	(-2.7)	(-7.4)	(-7.0)	(3.5)	(-10.2)	
Shipments of Capital Goods	-6.0	5.6	10.8	-8.0	0.1	5.2	-7.7	2.7	6.2	-2.9
(Excl.Transport Equipment)			(16.8)	(8.1)	(7.2)	(11.1)	(2.0)	(7.9)	(6.2)	(1.9)
Construction Orders	2.4	20.1								
			(1.6)	(35.9)	(-15.0)	(24.4)	(8.6)	(-40.3)	(15.7)	(16.9)
Private	2.6	14.2								
			(-18.0)	(9.5)	(-26.4)	(22.8)	(-16.1)	(-45.2)	(-2.2)	(32.0)
Public	5.3	31.2								
			(34.7)	(143.0)	(0.6)	(52.3)	(16.7)	(-32.9)	(41.1)	(20.9)
Public Works Contracts	10.3	17.7								
			(16.8)	(14.4)	(-3.9)	(3.5)	(-8.1)	(-8.2)	(-7.4)	(-10.4)
Housing Starts	89.3	98.7	93.9	88.8	86.2	83.9	84.5	88.0	90.4	88.8
10,000 units at Annual Rate, SA	(6.2)	(10.6)	(3.4)	(-9.3)	(-13.6)	(-14.1)	(-12.5)	(-14.3)	(-12.3)	(-14.3)
Total floor	(4.8)	(9.9)	(0.5)	(-13.4)	(-17.9)	(-18.2)	(-16.9)	(-18.6)	(-17.6)	(-20.7)
Sales at Retailers	0.3	2.9								
			(6.6)	(-1.8)	(1.4)	(0.6)	(1.2)	(2.3)	(1.4)	(0.4)
Real Consumption Expenditures	1.6	0.9	4.6	-9.0	-0.5	-0.2	-0.3	1.5	0.9	0.4
of Households over 2 persons (SA)			(2.3)	(-5.2)	(-5.4)	(-5.9)	(-4.7)	(-5.6)	(-4.0)	(-2.5)
Propensity to Consume	74.8	75.5	78.8	73.8	74.7	75.3	73.0	75.5	74.2	75.8
(SA,%)			[76.2]	[74.0]	[74.8]	[73.4]	[74.3]	[75.6]	[75.3]	[74.9]
Overtime Hours Worked	-0.3	4.4	2.1	0.6	-2.0	-0.6	-1.4	1.5	0.0	-1.6
(All Industries, 5 employees or more)			(7.1)	(5.1)	(2.2)	(2.9)	(1.0)	(2.9)	(1.8)	(-0.9)
Total Cash Earnings (Regular Employees	-0.7	0.1								
Only; All Industries, 5 employees or more)			(0.1)	(0.8)	(1.5)	(2.4)	(0.9)	(0.7)	(0.2)	(-1.5)
Employment Index(Regular Employees Only;'All Industries,	107	45	54	65	76	77	77	75	73	62
5 employees or more） (Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	0.82	0.97	1.05	1.09	1.10	1.10	1.10	1.09	1.10	1.12
(SA,Times)			[0.85]	[0.90]	[0.95]	[0.94]	[0.95]	[0.96]	[0.98]	[1.01]
Unemployment Rate	4.3	3.9	3.6	3.6	3.6	3.8	3.5	3.6	3.5	3.5
(SA,%)										
Economy Watcher Survey	46.3	54.0	55.2	44.8	48.7	51.3	47.4	47.4	44.0	41.5
(Judgment of the present condition D.I,%)			[53.3]	[55.1]	[52.1]	[52.3]	[51.2]	[52.8]	[51.8]	[53.5]
Bankruptcies (Number of cases)	11,719	10,536	2,460	2,613	2,436	882	727	827	800	736
	(-7.7)	(-10.0)	(-11.4)	(-8.0)	(-8.5)	(-13.9)	(-11.2)	(0.8)	(-16.5)	(-14.6)

(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 Dec. 30, 2014

	Fiscal	Fiscal	2014			2014				
	2012	2013	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(6.6)	(0.1)	(3.2)	(3.9)	(-1.3)	(6.9)	(9.6)	(4.9)
Value	4.0	10.2	(6.0)	(1.1)	(2.8)	(2.9)	(1.6)	(4.0)	(4.6)	(6.7)
Volumes	-5.8	0.6	(0.7)	(-1.0)	(0.3)	(1.0)	(-2.9)	(2.8)	(4.8)	(-1.7)
Imports (In Yen terms)	3.4	17.4	(17.6)	(2.7)	(2.4)	(2.4)	(-1.4)	(6.3)	(3.1)	(-1.6)
Value	2.5	14.6	(10.3)	(2.1)	(3.1)	(2.7)	(3.3)	(3.2)	(4.9)	(5.7)
Volumes	1.0	2.3	(6.5)	(0.5)	(-0.6)	(-0.3)	(-4.5)	(3.0)	(-1.7)	(-7.0)
Current Account (100 mil. yen)	42,233	8,312	-8,187	3,571	16,668	4,167	2,871	9,630	8,334	
Goods (100 mil. yen)	-52,474	-109,709	-41,190	-20,230	-23,744	-8,281	-8,318	-7,145	-7,666	
Services (100 mil. yen)	-41,864	-34,522	-6,194	-8,970	-9,182	-4,590	-2,508	-2,083	-2,165	
Financial Account (100 mil. yen)	20,255	-23,521	-13,285	18,909	26,427	4,463	6,790	15,174	12,077	
Gold & Foreign Exchange Reserves ($1mil.)	1,254,356	1,279,346	1,279,346	1,283,921	1,264,405	1,276,027	1,278,011	1,264,405	1,265,925	1,269,079
Exchange Rate (\/$)	83.08	100.23	102.78	102.13	103.92	101.72	102.96	107.09	108.06	116.22

３． Financial Market Indicators

	Fiscal	Fiscal	2014			2014				
	2012	2013	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Uncollateralized Overnight Call Rates	0.083	0.073	0.074	0.067	0.067	0.066	0.069	0.066	0.059	0.065
			[0.083]	[0.073]	[0.073]	[0.073]	[0.073]	[0.072]	[0.070]	[0.073]
Euro Yen TIBOR	0.312	0.223	0.215	0.211	0.210	0.210	0.210	0.210	0.192	0.182
(3 Months)			[0.270]	[0.228]	[0.228]	[0.228]	[0.228]	[0.228]	[0.221]	[0.220]
Newly Issued Japanese Government Bonds Yields	0.560	0.640	0.640	0.565	0.525	0.530	0.490	0.525	0.450	0.420
(10 Years)			[0.560]	[0.855]	[0.680]	[0.795]	[0.720]	[0.680]	[0.590]	[0.600]
Average Contracted Interest Rates	1.184	1.077								
on Loans and Discounts(City Banks)			1.077	1.067	1.048	1.066	1.061	1.048	1.041	
(% changes from previous period)			(-0.025)	(-0.010)	(-0.019)	(-0.001)	(-0.005)	(-0.013)	(-0.007)	
The Nikkei Stock Average	12,398	14,828	14,828	15,162	16,174	15,621	15,425	16,174	16,414	17,460
(TSE 225 Issues)			[12,398]	[13,677]	[14,456]	[13,668]	[13,389]	[14,456]	[14,328]	[15,662]
M2(Average)	(2.5)	(3.9)	(4.0)	(3.3)	(3.0)	(3.0)	(3.0)	(3.1)	(3.2)	(3.6)
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(3.9)	(3.1)	(3.1)	(3.0)	(3.0)	(3.3)	(3.3)	(3.3)
Principal Figures of Financial Institutions										
Loans and Discount (Average): Banks & Shinkin	(0.9)	(2.0)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.3)	(2.3)	(2.7)
Banks	(1.1)	(2.3)	(2.4)	(2.3)	(2.3)	(2.3)	(2.3)	(2.4)	(2.4)	(2.8)
City Banks etc.	(-0.2)	(1.7)	(1.6)	(1.3)	(1.1)	(1.0)	(1.0)	(1.2)	(1.3)	(2.0)
Regional Banks	(2.9)	(3.3)	(3.4)	(3.6)	(3.7)	(3.6)	(3.6)	(3.7)	(3.7)	(3.8)
Regional Banks Ⅱ	(0.8)	(1.4)	(2.4)	(2.5)	(2.9)	(2.8)	(2.9)	(3.0)	(3.0)	(3.3)
Shinkin	(-0.7)	(0.3)	(0.9)	(1.2)	(1.4)	(1.4)	(1.4)	(1.4)	(1.5)	(1.6)
Deposits and CDs (Average): Total(3 Business Condition)	(2.2)	(3.8)	(3.6)	(2.8)	(2.8)	(2.6)	(2.8)	(2.9)	(3.3)	(4.0)
City Banks	(1.8)	(3.7)	(3.2)	(2.1)	(2.4)	(2.0)	(2.4)	(2.7)	(3.4)	(4.8)
Regional Banks	(2.8)	(4.3)	(4.2)	(3.6)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Regional Banks Ⅱ	(1.8)	(2.5)	(3.1)	(3.0)	(3.1)	(3.3)	(3.2)	(3.0)	(3.3)	(3.3)

(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.