

## ***Signs of a Full-Scale Capital Expenditures Recovery among large Enterprises***

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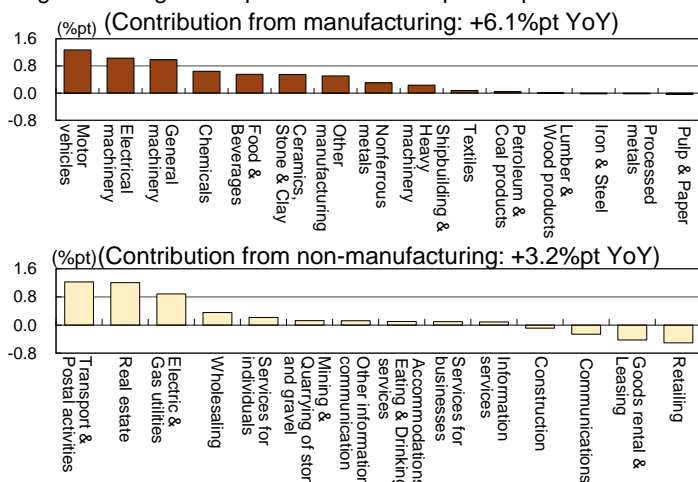
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## 1. The Real Economy

The June 2015 survey of BoJ's Tankan, released July 1, indicated clearly that companies—mainly large ones — increasingly desire for expansion of capital expenditures as business confidence continues to recover. Large enterprises' FY2015 capital expenditure plans in the June survey are +9.3% YoY, recording the growth rate for the first time in nine years since FY2006 in June surveys. Looking into the contents by type of industries, manufacturing highly contributed +6.1% points of the total increase, boosted largely by processing industries that have high ratio of exports, like motor vehicles, electronic machinery, and general machinery (general-purpose, production, and business oriented machinery)(Figure 1). Companies are not only investing for replacement that has been postponed again, they also appear to be investing more to boost capacity. The trend is especially evident among motor vehicle and smartphone parts makers. Non-manufacturing contributed +3.2% points to the +9.3% increase in planned capital expenditures, a smaller contribution than manufacturing. However, transport and postal activities companies, especially railway companies, appear to be investing to bolster their business bases. Also, electric and gas utilities companies appear to increase investments to raise capacity in the face of full liberalization of electricity retail market. The Tankan survey also revealed some negative factors, like slowing investment by retailing and communications companies, but given that non-manufacturing investing had been growing at a strong pace for several years, capital expenditure plans are firm overall.

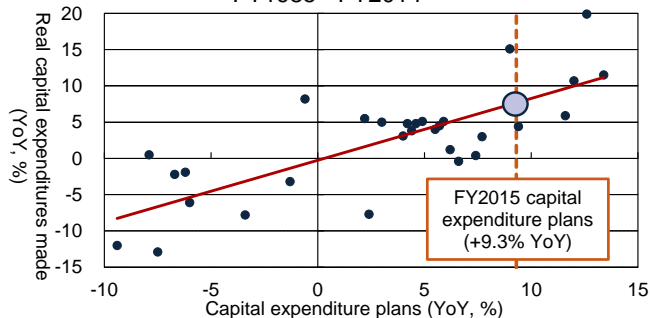
There is a loose positive correlation between large enterprises' capital expenditure plans (in the June Tankan) and real capital expenditures made (according to GDP data) (Figure 2). Extrapolating this correlation to the +9.3% increase in large enterprises' capital expenditure plans in the BoJ's Tankan would yield a +7.7% increase in real capital expenditures this fiscal year. If real capital expenditure stands at about +7% YoY in this fiscal year, it would correspond to the highest level of capital expenditures since FY1990, during the economic bubble. Partly affected by the economy, a cycle of improved corporate profits (because of the weaker JPY trend) encouraging companies to make more forward-looking expenditures has been established. Signs of a full-scale recovery in capital expenditures are appearing.

Figure 1: Large Enterprises' FY2015 Capital Expenditure Plans



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

Figure 2: Large Enterprises' Capital Expenditure Plans and Real Capital Expenditures Made, FY1985 - FY2014



Note: *Capital expenditure plans* based on June surveys of BoJ's Tankan. Includes land purchasing, excludes software investment. For large enterprises across all industries. *Real capital expenditures made* based on GDP data.

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

## 2. Monetary Policy and Financial Markets

### (1) MONETARY POLICY & LONG-TERM YIELDS

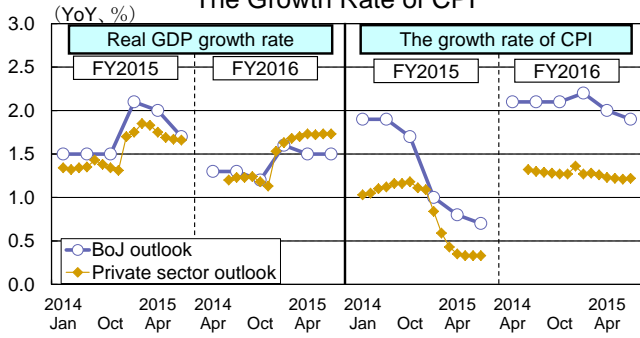
At its July 14-15 Monetary Policy meeting, the Bank of Japan agreed to hold current monetary policy intact. At the same meeting, the BoJ also released its interim review of *the Outlook for Economic Activity and Prices* from April. The BoJ lowered its outlook for FY2015 real GDP growth by 0.3% points and for FY2015 and FY2016 core CPI by 0.1% points. On the other hand, the BoJ maintained the view of achieving the Price Stability Target – its goal of 2% inflation – in H1 FY 2016. BoJ and private sector outlooks for real GDP growth do not differ markedly, but the BoJ's CPI forecast is considerably higher. Inflation expectations among private economic entities must be much higher in order for the BoJ's target to be met (Figure 3). At the post-meeting press conference, BoJ Governor Haruhiko Kuroda noted that he feels that the backward-looking inflation trend – in which inflation expectations mount once inflation actual appears – remains intact. He noted that the inflation rate could rise fairly quickly from H2 FY2015 in reaction to falling energy prices late last year, and that could cause the expected inflation rate to also rise.

The 10Yr JGB yield hit 0.5% at one point in early July, but has been at the mid-0.4% level recently because of uncertainty surrounding the Greek debt issue and plunging share prices in China.

### (2) EXCHANGE RATES

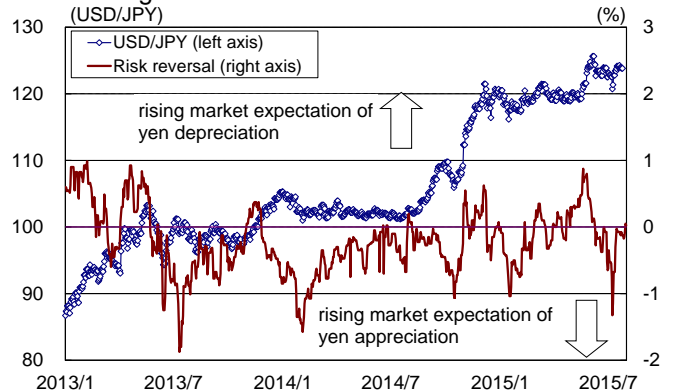
The JPY had been trading against the USD at around USD/JPY123 since mid-June, before risk aversion-driven JPY buying by investors pushed the currency up to the lower USD/JPY120 level at one point in early July. Risk reversal, which reflects risk awareness among market participants, suggests that concerns about a sudden strengthening in the JPY intensified substantially in early July (Figure 4). However, such concerns have abated considerably after the leaders of the Eurozone agreed to meet to offer financial support to Greece, and USD/JPY has returned to the USD/JPY124 level.

Figure 3: Outlook for Real GDP Growth Rate and The Growth Rate of CPI



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 growth rate of 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.

Figure 4: USD/JPY and Risk Reversal



Note: *Risk reversal* is call option implied volatility (25 delta, 1-month contract, annualized conversion value) minus put option implied volatility (same).  
 Source: Compiled by BTMU Economic Research Office from Bloomberg data.

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Sep. 1, 2015

	Fiscal 2013	Fiscal 2014	2014		2015		2015				
			4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL	
Real GDP Growth Rate <% changes from previous period at SA annual rate>	2.1	-0.9	1.4 (-1.0)	4.5 (-0.8)	-1.6 (0.7)	***	***	***	***	***	
Index of All Industries Activity	1.9	-1.4	1.0 (-1.3)	0.3 (-1.8)	-0.9 (0.7)	-1.3 (-2.4)	0.1 (1.4)	-0.5 (-0.4)	0.3 (1.2)		
Industrial Production Index	3.2	-0.4	0.8 (-1.5)	1.5 (-2.1)	-1.4 (-0.5)	-0.8 (-1.7)	1.2 (0.1)	-2.1 (-3.9)	1.1 (2.3)	-0.6 (0.2)	
Production											
Shipments	2.9	-1.1	0.9 (-1.9)	1.7 (-2.4)	-2.4 (-0.3)	-0.6 (-2.3)	0.6 (0.2)	-1.9 (-3.2)	0.6 (1.8)	-0.3 (-0.7)	
Inventory	-1.2	6.2	0.9 (6.2)	1.0 (6.2)	1.1 (4.0)	0.4 (6.2)	0.4 (6.6)	-0.8 (3.9)	1.5 (4.0)	-0.8 (2.7)	
Inventory/Shipments Ratio (2010=100)	106.3	112.0	113.8 [104.6]	112.3 [103.1]	114.0 [108.7]	114.4 [105.3]	113.2 [105.6]	115.4 [108.5]	113.5 [112.0]	112.2 [110.2]	
Domestic Corporate Goods Price Index	1.9	2.8	-1.3 (2.4)	-1.7 (0.4)	0.4 (-2.2)	0.3 (0.7)	0.1 (-2.1)	0.2 (-2.2)	-0.2 (-2.4)	-0.2 (-3.0)	
Consumer Price Index(SA, total, excl.fresh foods)	0.8	2.8	-0.1 (2.7)	-0.7 (2.1)	0.6 (0.1)	0.2 (2.2)	0.1 (0.3)	0.0 (0.1)	0.1 (0.1)	0.0 (0.0)	
Index of Capacity Utilization (2010=100)	100.0	100.6	100.7 [100.2]	101.7 [104.7]	97.6 [101.2]	99.8 [104.1]	99.4 [102.2]	96.4 [101.9]	97.1 [99.4]		
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	11.5	0.8	0.7 (-2.6)	6.3 (3.3)	2.9 (12.4)	2.9 (2.6)	3.8 (3.0)	0.6 (19.3)	-7.9 (16.6)		
Manufacturing	10.2	7.0	2.4 (8.6)	2.3 (5.2)	12.1 (27.5)	0.3 (-0.1)	10.5 (16.3)	9.9 (44.6)	-14.0 (25.0)		
Non-manufacturing Excl.Electric Power & Ship building	12.1	-3.3	-1.1 (-9.6)	8.5 (1.4)	-1.7 (2.3)	4.7 (3.6)	-0.6 (-5.5)	-4.0 (2.5)	0.6 (10.4)		
Shipments of Capital Goods (Excl.Transport Equipment)	5.5	4.3	2.7 (5.0)	1.2 (-1.1)	-2.1 (2.5)	0.0 (-2.3)	2.6 (3.0)	-1.4 (-0.4)	2.0 (4.7)	0.8 (0.4)	
Construction Orders	20.1	8.2									
Private	14.2	4.8									
Public	31.2	22.9									
Public Works Contracts	17.7	-0.3									
Housing Starts 10,000 units at Annual Rate, SA	98.7 (10.6)	88.0 (-10.8)	86.8 (-13.8)	89.8 (-5.4)	95.8 (7.6)	92.0 (0.7)	91.3 (0.4)	91.1 (5.8)	103.3 (16.3)	91.4 (7.4)	
Total floor	(9.9)	(-15.2)	(-19.3)	(-9.0)	(4.2)	(-2.1)	(-2.4)	(3.5)	(11.5)	(4.6)	
Sales at Retailers	2.9	-1.2									
Real Consumption Expenditures of Households over 2 persons (SA)	0.9	-5.1	1.7 (-3.4)	1.4 (-6.5)	-3.2 (0.5)	2.4 (-10.6)	-5.5 (-1.3)	2.4 (4.8)	-3.0 (-2.0)	0.6 (-0.2)	
Propensity to Consume (SA,%)	75.5	74.2	74.5 [75.1]	74.6 [78.3]	73.7 [73.6]	76.5 [84.4]	73.0 [74.6]	74.3 [71.3]	73.7 [74.8]	71.4 [75.0]	
Overtime Hours Worked (All Industries, 5 employees or more)	4.8	2.0	0.1 (0.9)	0.3 (-0.6)	-0.9 (-1.6)	-0.1 (-2.4)	-0.2 (-2.4)	-0.3 (-1.7)	0.6 (-0.8)		
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.2	0.5									
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	45	77	76	90	96	84	96	95	97		
Ratio of Job Offers to Applicants (SA,Times)	0.97	1.11	1.12 [1.01]	1.15 [1.05]	1.18 [1.09]	1.15 [1.07]	1.17 [1.08]	1.19 [1.09]	1.19 [1.10]	1.21 [1.10]	
Unemployment Rate (SA,%)	3.9	3.5	3.5	3.5	3.3	3.4	3.3	3.3	3.4	3.3	
Economy Watcher Survey (Judgment of the present condition D.I.%)	54.0	46.6	43.6 [53.6]	49.3 [55.2]	52.6 [44.8]	52.2 [57.9]	53.6 [41.6]	53.3 [45.1]	51.0 [47.7]	51.6 [51.3]	
Bankruptcies (Number of cases)	10,536 (-10.0)	9,543 (-9.4)	2,222 (-13.5)	2,272 (-7.6)	2,296 (-12.1)	859 (5.5)	748 (-18.1)	724 (-13.1)	824 (-4.7)	787 (-10.7)	

(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. 1, 2015

	Fiscal	Fiscal	2014	2015		2015				
	2013	2014	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Customs Clearance (Exports in Yen Terms)	10.8	5.4	(9.1)	(9.0)	(6.7)	(8.5)	(8.0)	(2.4)	(9.5)	(7.6)
Value	10.2	3.9	(6.6)	(5.0)	(7.3)	(5.1)	(6.0)	(6.4)	(9.5)	(8.4)
Volumes	0.6	1.3	(2.4)	(3.8)	(-0.6)	(3.2)	(1.8)	(-3.8)	(0.0)	(-0.7)
Imports (In Yen terms)	17.4	-0.9	(1.2)	(-9.3)	(-5.1)	(-14.4)	(-4.1)	(-8.6)	(-2.9)	(-3.2)
Value	14.6	1.2	(4.9)	(-5.1)	(-3.1)	(-4.6)	(-4.2)	(-3.5)	(-1.5)	(-0.2)
Volumes	2.3	-2.1	(-3.5)	(-4.6)	(-2.2)	(-10.3)	(0.1)	(-5.3)	(-1.4)	(-2.9)
Current Account (100 mil. yen)	14,715	79,309	15,124	44,177	37,658	28,203	13,264	18,809	5,586	
Goods (100 mil. yen)	-110,187	-65,659	-17,782	-3,311	-909	6,714	-1,462	-473	1,026	
Services (100 mil. yen)	-34,448	-27,482	-6,656	-2,801	-5,922	1,598	-5,245	1,037	-1,714	
Financial Account (100 mil. yen)	-17,549	133,088	22,468	63,894	40,122	47,149	6,486	36,290	-2,654	
Gold & Foreign Exchange Reserves (\$1mil.)	1,279,346	1,245,316	1,260,548	1,245,316	1,242,935	1,245,316	1,250,073	1,245,755	1,242,935	1,242,316
Exchange Rate (¥/\$)	100.23	109.92	114.56	119.07	121.35	120.39	119.55	120.74	123.75	123.23

## 3. Financial Market Indicators

	Fiscal	Fiscal	2014	2015		2015						
	2013	2014	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL		
Uncollateralized Overnight Call Rates	0.073	0.068	0.064	0.073	0.067	0.070	0.061	0.069	0.072	0.074		
			[0.072]	[0.074]	[0.067]	[0.072]	[0.065]	[0.068]	[0.067]	[0.066]		
Euro Yen TIBOR (3 Months)	0.223	0.194	0.184	0.171	0.169	0.170	0.170	0.169	0.169	0.169		
			[0.220]	[0.215]	[0.211]	[0.212]	[0.212]	[0.210]	[0.210]	[0.210]		
Newly Issued Japanese Government Bonds Yields (10 Years)	0.640	0.400	0.330	0.400	0.455	0.400	0.340	0.390	0.455	0.410		
			[0.735]	[0.640]	[0.565]	[0.640]	[0.620]	[0.570]	[0.565]	[0.530]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.077	1.006	1.025	1.006	0.987	1.006	1.007	1.003	0.987	0.982		
			(-0.023)	(-0.019)	(-0.019)	(-0.015)	(0.001)	(-0.004)	(-0.016)	(-0.005)		
The Nikkei Stock Average (TSE 225 Issues)	14,828	19,207	17,451	19,207	20,236	19,207	19,520	20,563	20,236	20,585		
			[16,291]	[14,828]	[15,162]	[14,828]	[14,304]	[14,632]	[15,162]	[15,621]		
M2(Average)	(3.9)	(3.3)	(3.5)	(3.5)	(3.9)	(3.6)	(3.6)	(4.1)	(3.9)	(4.1)		
Broadly-defined Liquidity(Average)	(3.7)	(3.3)	(3.5)	(3.5)	(4.3)	(3.7)	(4.0)	(4.5)	(4.4)	(4.3)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin		(2.0)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.5)	(2.5)	
		Banks		(2.3)	(2.5)	(2.7)	(2.6)	(2.6)	(2.7)	(2.7)	(2.6)	(2.5)
			City Banks etc.	(1.7)	(1.4)	(1.7)	(1.4)	(1.4)	(1.5)	(1.6)	(1.3)	(1.2)
			Regional Banks	(3.3)	(3.8)	(3.8)	(4.0)	(4.0)	(4.1)	(4.0)	(4.1)	(3.9)
			Regional Banks II	(1.4)	(2.9)	(3.1)	(3.1)	(3.1)	(3.0)	(3.0)	(3.0)	(3.2)
	Shinkin	(0.3)	(1.4)	(1.5)	(1.6)	(1.9)	(1.7)	(1.9)	(1.9)	(1.9)		
Deposits and CDs (Average)	Total(3 Business Condition)		(3.8)	(3.3)	(3.8)	(3.9)	(4.3)	(3.9)	(4.0)	(4.6)	(4.3)	
	City Banks		(3.7)	(3.4)	(4.4)	(4.7)	(5.4)	(4.7)	(5.0)	(6.0)	(5.3)	
		Regional Banks	(4.3)	(3.3)	(3.2)	(3.1)	(3.3)	(3.2)	(3.1)	(3.5)	(3.4)	
		Regional Banks II	(2.5)	(3.1)	(3.3)	(3.1)	(2.9)	(3.1)	(2.9)	(2.9)	(2.8)	

(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.

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