# The Outlook for the Japanese Economy

## *Japan's Economy to Firm Even More as Companies' forward-looking Expenditure Picks Up*

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## 1. Overview of the Japanese Economy

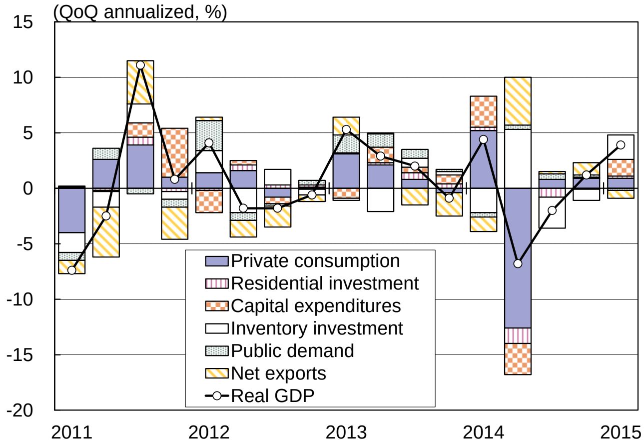
Real GDP growth accelerates, primarily from private demand

Japan's economy continues to gradually recover. Real GDP grew by an annualized +3.9% QoQ in Jan-Mar (according to the Cabinet Office's second preliminary report). This was the second straight quarter of positive growth, primarily for private demand, as the growth pace accelerated (Figure 1). By demand component, private consumption rose on-quarter for the third straight quarter, however slowly, while capital expenditures have been picking up recently. Inventory investment also was an upward factor for GDP for the first time in three quarters as corporate inventory adjustments slowed.

Companies steadily taking on more active stances

Companies' behavior, which is the key of economy, has changed positively. This is a remarkable point in forecasting the outlook for Japan's economy. A survey of corporate attitudes toward profit allocations (the most recent survey was conducted in February among 12,620 companies with at least JPY10 million in capital) revealed that companies are now shifting away from retaining profits internally or using profits to reduce interest-bearing debt. Instead, companies are increasingly using profits to make capital expenditures, expand hiring, and return profits to employees (Table 1). With restoration of financial health and profit levels at record highs, companies are steadily taking on more active stances in maintaining and expanding their domestic business bases.

Figure 1: Real GDP and Final Demand




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

Table 1: Company Stances on Profit Allocations, by FY
(Most important, companies of all sizes, all industries)

(%, %pt)

| | FY2011 (①) | FY2012 | FY2013 | FY2014 (②) | ②-① |
|---|---|---|---|---|---|
| Capital expenditures | 23.7 | 24.2 | 25.2 | 25.7 | ＋2.1 |
| Investment, M&A activity | 1.7 | 1.9 | 2.0 | 1.8 | ＋0.1 |
| Expanding hiring | 1.4 | 2.7 | 3.4 | 3.3 | ＋1.9 |
| Returning profits to employees | 8.8 | 10.1 | 10.1 | 11.7 | ＋2.9 |
| Returning profits to shareholders | 11.7 | 12.6 | 12.9 | 13.0 | ＋1.3 |
| Reducing interest-bearing debt | 14.3 | 14.3 | 14.0 | 12.7 | ▲1.6 |
| Retaining profis internally | 26.5 | 23.2 | 22.7 | 21.9 | ▲4.6 |

Note: 1. Respondents to most recent survey: 12,620 companies with capital of JPY10 million or more.
2. FY2011 survey conducted in November, other years February.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, MoF data.

**Companies increasingly maintaining and expanding domestic business bases**

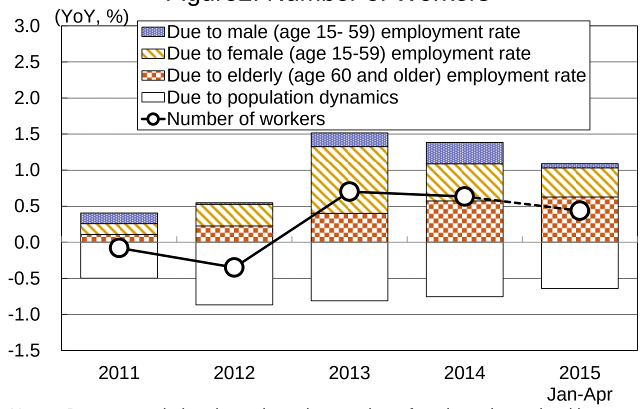
Companies' increased expenditure to maintain and expand their domestic business bases not only supports the economic recovery, but is also integral to Japan's sustained economic growth over the medium to long term. At first, we confirm companies' specific action from an aspect of human resources. Number of workers has risen steadily since 2013 (Figure 2). As the labor shortage worsens, companies have been more actively hiring and promoting women and elder workers, neither of which had been tapped sufficiently before. The rising employment rate among these worker groups is offsetting the decline in number of workers from the declining birthrate and ageing population trends, and number of workers is starting to rise.

Also, companies are increasingly reconsidering domestic investment as business conditions improve overall (including the JPY's excessive strength correcting) and the sense of overcapacity is erased. With regard to domestic and overseas investment trend, share of overseas investment (overseas local affiliate investment divided by the total of overseas local affiliate and domestic investment) peaked around 2013, then started to gradually decline (Figure 3). Although the general trend of shifting to local production—especially in emerging countries, where demand is expected to expand—appears to remain intact, companies are once again slowly bolstering their domestic bases through investment to maintain and update facilities, which had been put off.

**Real GDP growth expected to hit upper 1% pace in both FY 2015 and FY 2016 by more forward-looking expenditure by companies**

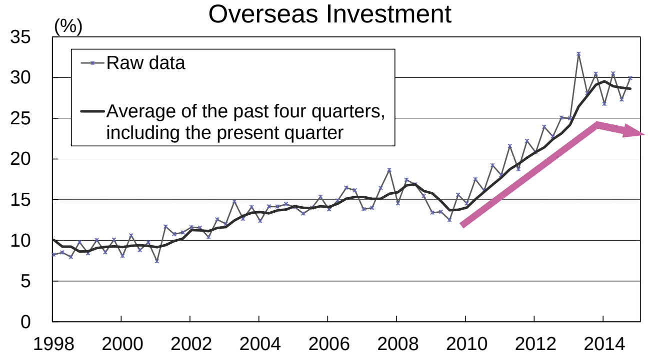
We expect the corporate profit environment to remain healthy overall as the JPY remains weak because of massive monetary easing and as the effects of the growth strategy (primarily the corporate tax cut) start to permeate. Japan's economy will likely firm even more as a virtuous cycle increasingly engages, triggered by more forward-looking expenditure by companies. Although downside risks to overseas economies bear watching, Japan's real GDP growth rate is expected to hit the upper +1% pace in both FY2015 and FY2016, outpacing the potential growth rate. Japan's economy is expected to steadily raise its growth momentum over the medium to long terms, ahead of the next consumption tax hike slated for April 2017.

Figure2: Number of Workers




Notes: *Due to population dynamics* using number of workers determined by multiplying population age 15 and above for each year 2011-2015(Jan-Apr) by 2010-2014(Jan-Apr) employment rate for each age group.
Source: Compiled by BTMU Economic Research Office from MIC data.

Figure 3: Manufacturers' Share of Overseas Investment




Note: 1) *Share of overseas investment* is overseas local affiliate investment divided by the total of overseas local affiliate investment and domestic investment.
2) Survey of manufacturers with JPY100 million+ capital.
Source: Compiled by BTMU Economic Research Office from MoF, METI data.

## 2. Current Conditions and Outlook, by Sector and Area

### (1) CORPORATE SECTOR

Exports likely to keep rising as global economy gradually recovers and JPY remains weak

Japanese exports continue to increase. Real exports rose an annualized +9.9% QoQ in Jan-Mar, the third straight quarter of strong expansion, according to GDP data. Although exports to China slipped, shipments to the US continued to grow strongly and exports to the EU also improved, according to real export value by key destination countries and regions, based on trade statistics. Advanced countries' share of global exports (the weight of advanced country exports among overall global exports) continues to decline overall, but Japan's share has remained level or even improved slightly (Figure 4). The weakening JPY has contributed to Japan's improved price competitiveness, and appears to have contributed to boosting exports.

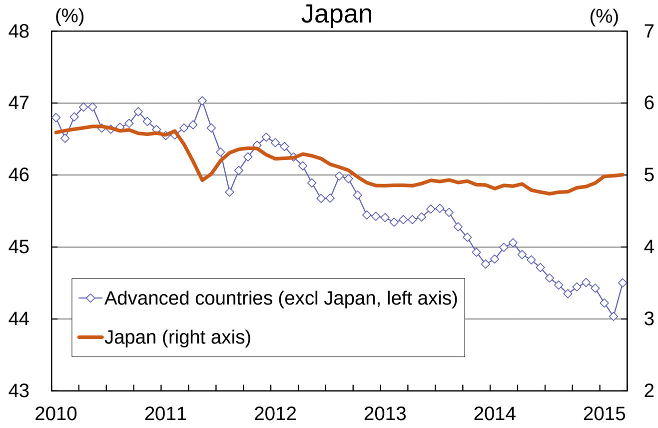
Japanese exports are likely to keep increasing slowly. The economies of the US and Asia—key export destinations—are forecast to recover only gradually and shipments to these destinations are unlikely to accelerate, but the continued weak JPY is expected to support exports.

Capital expenditures expected to accelerate because of solid corporate profits

Real capital expenditures rose an annualized +11.0% QoQ in Jan-Mar, the third straight quarter of increase as the pace of spending accelerated. The sense of capital overstock has been erased, and companies appear to be increasingly using strong corporate profits for capital expenditures. Rate of return on domestic investments (operating profit divided by total assets, excluding financial assets) has been beating foreign direct investment rate of return in many cases of late (Figure 5). Improved returns for domestic businesses appear to be boosting incentive for companies to spend on capital improvements domestically.

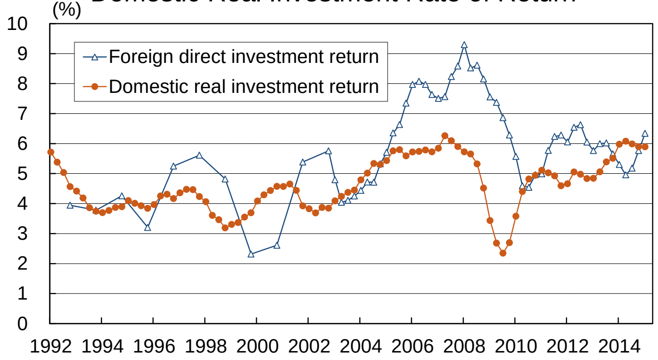
Machinery orders, a leading indicator of capital expenditures, slumped after the consumption tax was hiked, but since then have risen for three straight quarters through Jan-Mar. Not only are corporate profits rising because of the JPY's sustained weakness, company outlooks and sentiment of the capital investment are expected to improve. We expect capital spending to accelerate even further.

Figure4: 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 5: Foreign Direct Investment and Domestic Real Investment Rate of Return




Note: *Domestic real investment return* is operating profit divided by total assets (excluding financial assets). For all industries except financial and insurance industries.
Source: Compiled by BTMU Economic Research Office from BoJ, MoF data.

## (2) HOUSEHOLD SECTOR

Private consumption expected to continue to slowly rise as household incomes improve

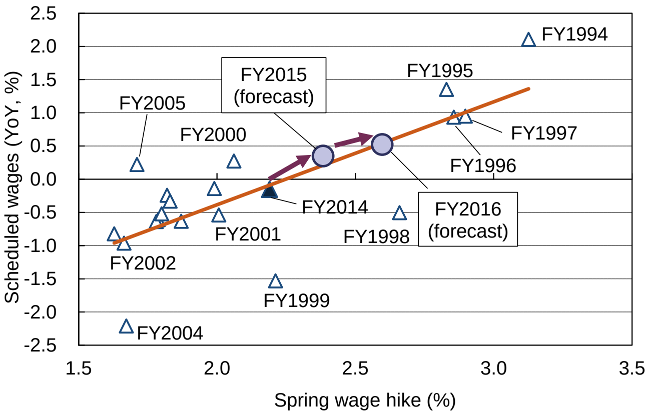
Although real private consumption rose by an annualized +1.5% QoQ in Jan-Mar for a third straight quarter of expansion, the pace has been slow. Real purchasing power has weakened and consumer sentiment has been dull in the wake of the consumption tax hike last April, and this appears to have weighed on consumption. But household sentiment has been slowly improving of late. *Household activity-related* indicator in the *Economy Watchers Survey* and *Consumer Confidence index* in the *Consumer Confidence Survey* have been improving after bottoming at the end of 2014. We also expect consumer sentiment to recover as employment and income conditions pick up overall, and improved household incomes are likely to lead to boosted private consumption.

We expect private consumption to continue to slowly rise as real incomes improve. As a result of this year's spring wage negotiations—which have a big impact on the direction of wages—compensation rose even more than last year not only for large enterprises and regular employees, but also among SMEs and non-regular employees. We think that wage hikes could be even bigger in next spring negotiations, given the increasingly tight labor supply-demand and inflation taking root, as well as improved corporate profits. Scheduled wages are expected to rise even more through next fiscal year (Figure 6). Improved wages coupled with increased worker numbers due to the economic recovery are expected to cause employee compensation to continue to recover, both in nominal and real terms (Figure 7). We also expect a surge of demand ahead of the next consumption tax hike (scheduled for April 2017) to boost private consumption.

Residential investment to rise for fourth straight quarter as reactionary drop in the surge of demand eases

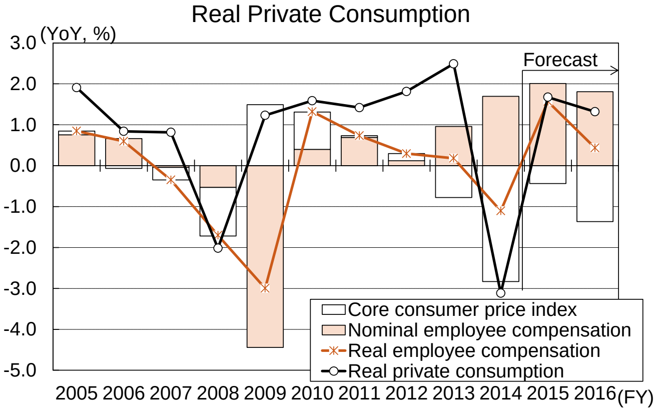
Real residential investment rose an annualized +7% QoQ in Jan-Mar, for the first expansion in four quarters. New housing starts bottomed in mid-2014 as the effect of reactionary drop in the surge of demand ahead of consumption tax hike has moderated. Residential investment, calculated in terms of investments made, has turned positive. We expect residential investment to continue to pick up because of improving household incomes and continued low interest rates. Surge of demand ahead of the next consumption tax hike will likely be a factor boosting investment in FY2016.

Figure 6: Scheduled Wages and Spring Wage Hikes




Notes: Excludes FY2009, after collapse of Lehman Brothers.
Source: Compiled by BTMU Economic Research Office from MHLW data.

Figure 7: Real Employee Compensation and Real Private Consumption




Note: *Real employee compensation* is *Nominal employee compensation* divided by *Core consumer price index*.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, MIC data.

## (3) GOVERNMENT SECTOR

Public investment has peaked as early implementation of budget have taken around

Real public demand slipped by an annualized -0.9% QoQ in Jan-Mar, the first drop in four quarters (Figure 8). Government final consumption expenditures have been rising on increased medical expenses and care costs as a benefit, but public investment has declined as the early implementation of the FY2013 supplementary budget and FY2014 budget have taken around. This has weighed on public demand overall.

Public investment likely to decline, even while remaining high

The FY2014 supplementary budget passed in February is expected to support public investment. However, the budget is focused on stimulating private demand by supporting household and corporate incomes, and the budget for public investment is less than half the size of the FY2013 supplementary budget. Public works project contracts and orders, leading indicators of public investment, have remained below year-earlier levels since February, and public investment, even while remaining at high levels, is likely to continue to decline.

## (4) INFLATION

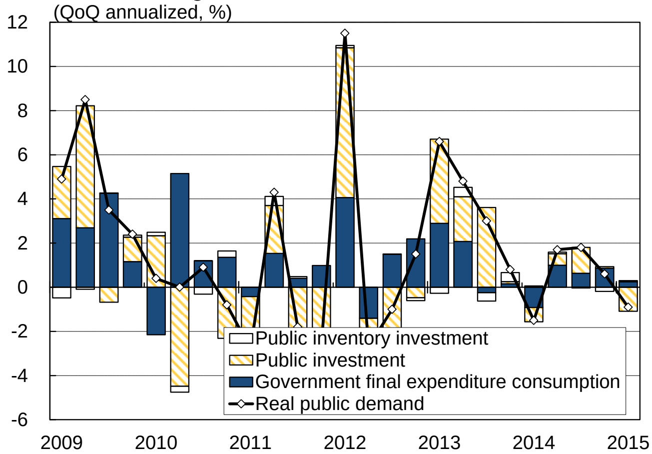
Inflationary trend remains firm, despite slowing to nearly zero because of falling oil prices

The core CPI (excluding fresh foods and the direct impact of the consumption tax hike) stood at +0.1% YoY in Jan-Mar. This was the eighth straight quarter of positive inflation, but the rate of rise slowed to nearly zero because of falling oil prices. However, the inflationary trend appears to remain intact. Consumer prices, excluding items vulnerable to the impact of oil prices, continue to rise for both goods and services when adjusted for seasonality and excluding the direct impact of the consumption tax hike (Figure 9). Services prices had remained flat for a long while, but have been rising at a relatively fast pace recently because of the labor supply and demand tightened and are a major factor supporting inflation.

Inflation to accelerate as macro supply-demand and inflation expectations improve

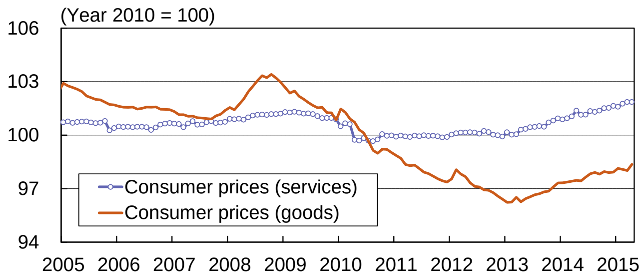
Downward pressure from falling oil prices is weakening, and the impact is expected to turn positive from 1H 2016. As such, we expect inflation to once again accelerate as macro supply-demand conditions and inflation expectations slowly improve.

Figure 8: Real Public Demand




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

Figure 9: Consumer Prices, by Goods and Services (excl items easily impacted by oil prices)




Note: 1) *Items easily impacted by oil prices* are airfares and overseas travel tours for *Consumer prices (Services)* and petroleum products, electricity charges, and city gas charges for *Goods*.
2) *Consumer prices (Services)* does not include imputed rent for owned homes.
3) Excludes direct impact of consumption tax hike.
4) Adjusted for seasonality by BTMU.
Source: Compiled by BTMU Economic Research Unit from MIC data.

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

### (1) MONETARY POLICY AND LONG-TERM YIELD

BoJ pushes back target date for achieving the ‘Price Stability Target’ while dismissing need for additional easing

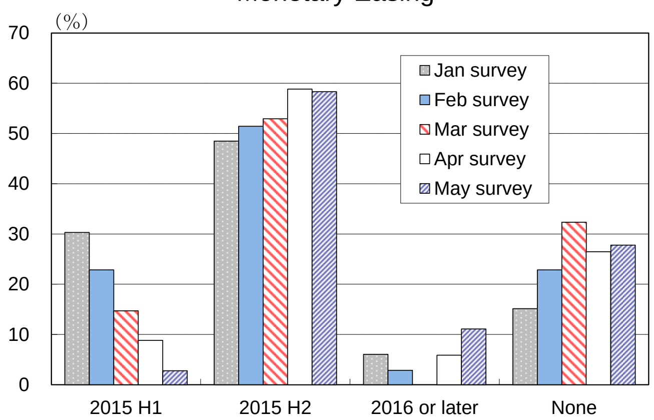
At its April 30 meeting, the Bank of Japan’s Monetary Policy Board both voted to keep monetary policy intact and released its semi-annual *Outlook Report*. In the report, the BoJ cut its FY2015 and FY2016 forecasts for real GDP growth (by 0.1% point each year) and inflation (by 0.2% points each year). Both were downward revisions from the January forecasts, and the BoJ moved back its target date for achieving the ‘Price Stability Target’ of 2% from ‘around FY2015’ to ‘around the first half of fiscal 2016’. At the post-meeting press conference, BoJ Governor Haruhiko Kuroda insisted that the inflation trend—as determined by the macro-level supply and demand gap and the medium- to long-term inflationary expectations—is steadily improving. He also dismissed the need for further monetary easing for the time being. In a survey about additional easing expectations, approximately one in four market participants have been forecasting no additional easing recently. Expectations of further easing appear to be diminishing among the market (Figure 10). The BoJ will likely carefully watch the degree of improvement in inflation while maintaining current policy.

JGB yield rise likely to be very slow as massive BoJ monetary easing absorbs upward pressure from improving economic fundamentals and rising overseas yields

The 10Yr JGB yield hit an historical low in the 0.1% range in mid-January, then started to rise as volatility picked up, hitting the mid-0.4% level at one point in mid-March. The yield started to decline thereafter, then started to rise again on higher yields in Europe (Figure 11). Although bigger in Europe, the European yield surge resembles the trajectory of Japanese long-term yields after April 2014 when the Bank of Japan introduced quantitative and qualitative monetary easing and after January 2015. Yields appear to have fallen too far, and recent movements are a correction.

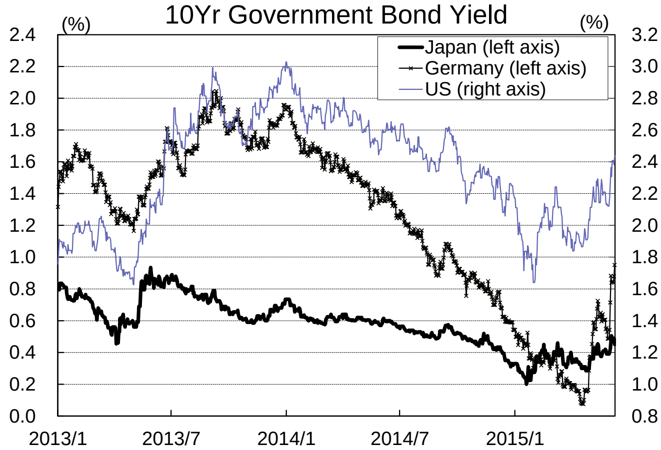
We expect the benchmark JGB yield to rise going forward on improved Japanese economic fundamentals and as US yields rise ahead of an interest rate hike. However, any yield increase will likely happen only very slowly because the BoJ's massive monetary easing will absorb the upward pressure on JGB yields.

Figure 10: Market Forecasts of BoJ's Additional Monetary Easing




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

Figure 11:Japan/US/German 10Yr Government Bond Yield




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

## (2) EXCHANGE RATES

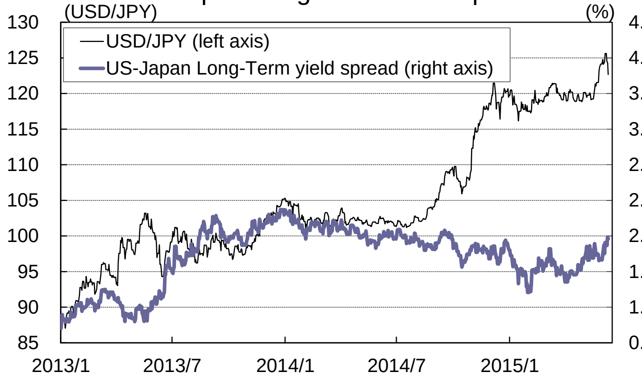
Although the JPY has weakened and USD strengthened more, background macro-economic conditions may not be so strong

The JPY continued to weaken against the USD as USD/JPY touched 125.80 for the first time since June 2002. However, the US-Japan long-term yield gap that has supported JPY weakening has remained almost same level (Figure 12). Expectations of a wider US-Japan yield spread due to the diverging directions of monetary policy in the two countries are partially dictating market movements, but it should also be borne in mind that macro-economic conditions that are manifested in the US-Japan long-term yield spread are not very strong.

JPY to strengthen over the short term, but weakening trend to take root

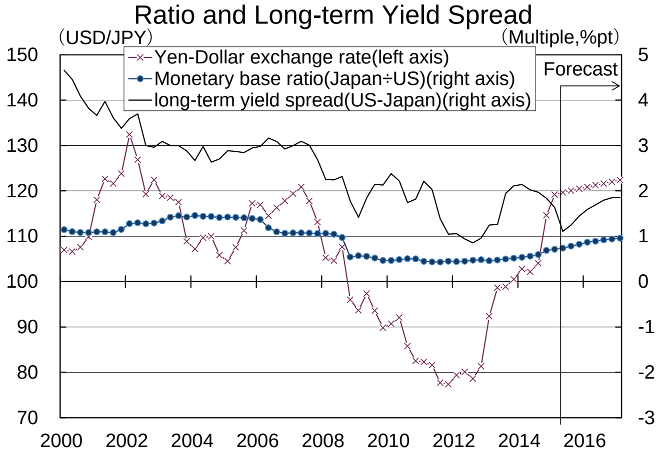
Looking ahead, JPY could fluctuate the next few months based on the timing of a US interest rate hike and speculation about the pace of interest rate hikes thereafter. USD/JPY is also expected to correct and the JPY to rise temporarily, given the linkage between USD/JPY and the US-Japan long-term yield spread. On the other hand, in the long-term viewpoint, we expect the JPY's weakness to slowly take root because of the diverging directions of US and Japanese monetary policy (Figure 13). The US-Japan monetary base ratio (Japan ÷ US)—which reflects the degree of quantitative monetary easing of the two countries—has been strongly linked to USD/JPY since the collapse of Lehman Brothers in 2008, and the ratio is expected to continue to rise. Further, while Japanese long-term yields are likely to remain low because of the BoJ's massive monetary easing, US long-term yields are expected to keep rising due to the medium to long term expectations of inflation and steady growth expectations. As such, we expect the US-Japan long-term yield spread to expand.

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.

Figure13: Yen-Dollar Exchange Rate,Monetary Base Ratio and 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 Jan-Mar2015 GDP (second preliminary figures)

Forecast →

( %, billion yen )

| | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | | | |
| 1. The Real Economy (QoQ annualized change) | | | | | | | | | | | | | | | | |
| Real GDP | 5.3 | 2.9 | 2.0 | -0.9 | 4.4 | -6.8 | -2.0 | 1.2 | 3.9 | 2.0 | 1.3 | 1.8 | 1.6 | -0.9 | 1.8 | 1.7 |
| Private Consumption | 5.1 | 3.5 | 1.4 | -0.6 | 8.7 | -19.0 | 1.4 | 1.5 | 1.5 | 2.3 | 1.8 | 1.4 | 0.8 | -3.1 | 1.7 | 1.3 |
| Housing Investment | 3.4 | 6.3 | 19.8 | 12.3 | 8.3 | -36.6 | -23.3 | -2.5 | 7.0 | 3.2 | 2.4 | 2.0 | 1.6 | -11.7 | 1.0 | 2.9 |
| Private Business Fixed Investment | -6.6 | 10.8 | 3.4 | 6.2 | 21.9 | -17.9 | 0.3 | 1.0 | 11.0 | 2.2 | 4.0 | 5.5 | 5.8 | 0.4 | 4.5 | 5.6 |
| Business Inventory (Contribution) | -0.2 | -2.1 | 0.8 | 0.3 | -2.2 | 5.3 | -2.8 | -1.0 | 2.2 | -0.3 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | -0.1 |
| Government Expenditures | 6.6 | 4.8 | 3.0 | 0.8 | -1.5 | 1.7 | 1.8 | 0.6 | -0.9 | -0.4 | -1.7 | -0.6 | 0.4 | 0.7 | -0.6 | 0.4 |
| Public Investment | 25.0 | 12.3 | 22.1 | 0.6 | -3.5 | 2.9 | 6.6 | 0.4 | -5.9 | -6.2 | -12.9 | -7.0 | -1.2 | 2.0 | -6.1 | -1.0 |
| Net Exports (Contribution) | 1.6 | 0.1 | -1.5 | -2.1 | -1.3 | 4.3 | 0.2 | 1.1 | -0.7 | 0.7 | 0.0 | 0.3 | 0.2 | 0.6 | 0.4 | 0.1 |
| Exports | 17.1 | 12.5 | -1.5 | 0.3 | 26.8 | -0.1 | 6.5 | 13.5 | 9.9 | 0.4 | 1.3 | 3.5 | 3.6 | 8.0 | 4.8 | 3.0 |
| Imports | 4.5 | 10.1 | 7.6 | 13.1 | 29.3 | -19.3 | 4.3 | 5.8 | 12.2 | -3.7 | 1.3 | 1.8 | 2.7 | 3.7 | 2.8 | 2.6 |
| Nominal GDP | 4.8 | 1.3 | 1.9 | -0.3 | 5.5 | 0.2 | -2.7 | 3.1 | 9.4 | 2.9 | -0.3 | 1.8 | 2.1 | 1.6 | 2.9 | 2.1 |
| GDP Deflator (YoY) | -1.0 | -0.6 | -0.3 | -0.3 | 0.1 | 2.2 | 2.1 | 2.4 | 3.4 | 1.9 | 1.7 | 0.9 | 0.0 | 2.5 | 1.1 | 0.4 |
| Industrial Production Index (QoQ) | 0.5 | 1.6 | 1.8 | 1.8 | 2.3 | -3.0 | -1.4 | 0.8 | 1.5 | -0.4 | 0.6 | 0.7 | 0.7 | -0.4 | 1.7 | 3.6 |
| Domestic Corporate Goods Price Index (YoY) | -0.3 | 0.7 | 2.2 | 2.5 | 2.0 | 4.3 | 4.0 | 2.4 | 0.4 | -1.9 | -1.2 | 0.6 | 3.9 | 2.8 | 0.2 | 3.2 |
| Consumer Price Index (excl. fresh food, YoY) | -0.3 | 0.0 | 0.7 | 1.1 | 1.3 | 3.3 | 3.2 | 2.7 | 2.1 | 0.1 | 0.3 | 0.5 | 0.9 | 2.8 | 0.4 | 1.4 |
| 2. Balance of Payments | | | | | | | | | | | | | | | | |
| Trade Balance (billion yen) | -2,047 | -1,506 | -2,327 | -2,918 | -3,954 | -2,093 | -2,659 | -1,846 | 74 | 389 | -311 | -377 | -630 | -6,571 | -929 | -2,740 |
| Current Balance (billion yen) | 918 | 2,388 | 780 | -242 | -1,331 | 800 | 501 | 2,665 | 3,733 | 4,149 | 3,516 | 3,500 | 3,295 | 7,810 | 14,460 | 13,722 |
| 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 | 0.4 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.5 | 0.5 | 0.9 |
| Exchange Rate (USD/JPY) | 92 | 99 | 99 | 101 | 103 | 102 | 104 | 115 | 119 | 120 | 121 | 121 | 121 | 110 | 121 | 122 |

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 Aug. 6, 2015

| | Fiscal | Fiscal | 2014 | 2015 | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 4Q | 1Q | 2Q | FEB | MAR | APR | MAY | JUN |
| Real GDP Growth Rate <% changes from | 2.1 | -0.9 | 1.2 | 3.9 | | *** | *** | *** | *** | *** |
| previous period at SA annual rate> | | | (-1.0) | (-0.9) | | | | | | |
| Index of All Industries Activity | 1.9 | -1.4 | 1.0 | 0.3 | | 0.2 | -1.3 | 0.1 | -0.5 | |
| | | | (-1.3) | (-1.8) | | (-1.2) | (-2.4) | (1.4) | (-0.4) | |
| Industrial Production Index | 3.2 | -0.4 | 0.8 | 1.5 | -1.5 | -3.1 | -0.8 | 1.2 | -2.1 | 0.8 |
| Production | | | (-1.5) | (-2.1) | (-0.6) | (-2.0) | (-1.7) | (0.1) | (-3.9) | (2.0) |
| Shipments | 2.9 | -1.1 | 0.9 | 1.7 | -2.5 | -4.4 | -0.6 | 0.6 | -1.9 | 0.3 |
| | | | (-1.9) | (-2.4) | (-0.4) | (-2.9) | (-2.3) | (0.2) | (-3.2) | (1.5) |
| Inventory | -1.2 | 6.2 | 0.9 | 1.0 | 0.9 | 1.1 | 0.4 | 0.4 | -0.8 | 1.3 |
| | | | (6.2) | (6.2) | (3.9) | (7.0) | (6.2) | (6.6) | (3.9) | (3.9) |
| Inventory/Shipments Ratio | 106.3 | 112.0 | 113.8 | 112.3 | 114.0 | 113.4 | 114.4 | 113.2 | 115.4 | 113.5 |
| (2010=100) | | | [104.6] | [103.1] | [108.7] | [104.2] | [105.3] | [105.6] | [108.5] | [112.0] |
| Domestic Corporate Goods Price Index | 1.9 | 2.8 | -1.3 | -1.7 | 0.4 | -0.1 | 0.3 | 0.1 | 0.2 | -0.2 |
| | | | (2.4) | (0.4) | (-2.2) | (0.4) | (0.7) | (-2.1) | (-2.2) | (-2.4) |
| Consumer Price Index(SA, total, excl.fresh foods) | 0.8 | 2.8 | -0.1 | -0.7 | 0.6 | -0.1 | 0.2 | 0.1 | 0.0 | 0.1 |
| | | | (2.7) | (2.1) | (0.1) | (2.0) | (2.2) | (0.3) | (0.1) | (0.1) |
| Index of Capacity Utilization | 100.0 | 100.6 | 100.7 | 101.7 | | 101.0 | 99.8 | 99.4 | 96.4 | |
| (2010=100) | | | [100.2] | [104.7] | [101.2] | [103.8] | [104.1] | [102.2] | [101.9] | [99.4] |
| Machinery Orders(Private Demand, | 11.5 | 0.8 | 0.7 | 6.3 | | -1.4 | 2.9 | 3.8 | 0.6 | |
| Excl.Electric Power and Ship building) | | | (-2.6) | (3.3) | | (5.9) | (2.6) | (3.0) | (19.3) | |
| Manufacturing | 10.2 | 7.0 | 2.4 | 2.3 | | -0.6 | 0.3 | 10.5 | 9.9 | |
| | | | (8.6) | (5.2) | | (13.8) | (-0.1) | (16.3) | (44.6) | |
| Non-manufacturing | 12.1 | -3.3 | -1.1 | 8.5 | | -5.0 | 4.7 | -0.6 | -4.0 | |
| Excl.Electric Power & Ship building | | | (-9.6) | (1.4) | | (0.5) | (3.6) | (-5.5) | (2.5) | |
| Shipments of Capital Goods | 5.5 | 4.3 | 2.7 | 1.2 | -2.2 | -12.0 | 0.0 | 2.6 | -1.4 | 1.7 |
| (Excl.Transport Equipment) | | | (5.0) | (-1.1) | (2.4) | (-3.2) | (-2.3) | (3.0) | (-0.4) | (4.3) |
| Construction Orders | 20.1 | 8.2 | | | | | | | | |
| | | | (12.9) | (11.6) | (-1.5) | (1.0) | (10.8) | (-12.1) | (-7.4) | (15.4) |
| Private | 14.2 | 4.8 | | | | | | | | |
| | | | (8.9) | (43.2) | (22.6) | (49.6) | (39.3) | (33.6) | (10.2) | (21.4) |
| Public | 31.2 | 22.9 | | | | | | | | |
| | | | (14.1) | (-6.6) | (-39.6) | (-23.0) | (-7.4) | (-62.9) | (-27.5) | (-8.9) |
| Public Works Contracts | 17.7 | -0.3 | | | | | | | | |
| | | | (-6.0) | (-9.3) | (-2.9) | (2.3) | (-12.4) | (4.4) | (-14.0) | (-1.8) |
| Housing Starts | 98.7 | 88.0 | 86.8 | 89.8 | 95.8 | 90.5 | 92.0 | 91.3 | 91.1 | 103.3 |
| 10,000 units at Annual Rate, SA | (10.6) | (-10.8) | (-13.8) | (-5.4) | (7.6) | (-3.1) | (0.7) | (0.4) | (5.8) | (16.3) |
| Total floor | (9.9) | (-15.2) | (-19.3) | (-9.0) | (4.2) | (-6.3) | (-2.1) | (-2.4) | (3.5) | (11.5) |
| Sales at Retailers | 2.9 | -1.2 | | | | | | | | |
| | | | (0.6) | (-4.8) | (2.9) | (-1.7) | (-9.7) | (4.9) | (3.0) | (0.9) |
| Real Consumption Expenditures | 0.9 | -5.1 | 1.7 | 1.4 | | 0.8 | 2.4 | -5.5 | 2.4 | -3.0 |
| of Households over 2 persons (SA) | | | (-3.4) | (-6.5) | | (-2.9) | (-10.6) | (-1.3) | (4.8) | (-2.0) |
| Propensity to Consume | 75.5 | 74.2 | 74.5 | 74.6 | | 72.9 | 76.5 | 73.0 | 74.3 | 73.7 |
| (SA,%) | | | [75.1] | [78.3] | [73.6] | [75.3] | [84.4] | [74.6] | [71.3] | [74.8] |
| Overtime Hours Worked | 4.8 | 2.0 | 0.1 | 0.3 | -1.2 | -1.9 | -0.1 | -0.2 | -0.3 | -0.4 |
| (All Industries, 5 employees or more) | | | (0.9) | (-0.6) | (-1.9) | (-0.7) | (-2.4) | (-2.4) | (-1.7) | (-1.7) |
| Total Cash Earnings (Regular Employees | -0.2 | 0.5 | | | | | | | | |
| Only; All Industries, 5 employees or more) | | | (0.4) | (0.2) | (-0.7) | (0.1) | (0.0) | (0.7) | (0.7) | (-2.4) |
| Employment Index(Regular Employees Only;'All Industries, | 45 | 77 | 76 | 90 | 96 | 95 | 84 | 96 | 95 | 98 |
| 5 employees or more）(Change over the M/Q/Y) | | | | | | | | | | |
| Ratio of Job Offers to Applicants | 0.97 | 1.11 | 1.12 | 1.15 | 1.18 | 1.15 | 1.15 | 1.17 | 1.19 | 1.19 |
| (SA,Times) | | | [1.01] | [1.05] | [1.09] | [1.05] | [1.07] | [1.08] | [1.09] | [1.10] |
| Unemployment Rate | 3.9 | 3.5 | 3.5 | 3.5 | 3.3 | 3.5 | 3.4 | 3.3 | 3.3 | 3.4 |
| (SA,%) | | | | | | | | | | |
| Economy Watcher Survey | 54.0 | 46.6 | 43.6 | 49.3 | 52.6 | 50.1 | 52.2 | 53.6 | 53.3 | 51.0 |
| (Judgment of the present condition D.I,%) | | | [53.6] | [55.2] | [44.8] | [53.0] | [57.9] | [41.6] | [45.1] | [47.7] |
| Bankruptcies (Number of cases) | 10,536 | 9,543 | 2,222 | 2,272 | 2,296 | 692 | 859 | 748 | 724 | 824 |
| | (-10.0) | (-9.4) | (-13.5) | (-7.6) | (-12.1) | (-11.5) | (5.5) | (-18.1) | (-13.1) | (-4.7) |

(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 Aug. 6, 2015

| | Fiscal 2013 | Fiscal 2014 | 2014 4Q | 2015 1Q | 2015 2Q | 2015 FEB | MAR | APR | MAY | JUN |
|---|---|---|---|---|---|---|---|---|---|---|
| Customs Clearance (Exports in Yen Terms) | 10.8 | 5.4 | (9.1) | (9.0) | (6.7) | (2.5) | (8.5) | (8.0) | (2.4) | (9.5) |
| Value | 10.2 | 3.9 | (6.6) | (5.0) | (7.3) | (4.7) | (5.1) | (6.0) | (6.4) | (9.5) |
| Volumes | 0.6 | 1.3 | (2.4) | (3.8) | (-0.6) | (-2.1) | (3.2) | (1.8) | (-3.8) | (0.0) |
| Imports (In Yen terms) | 17.4 | -0.9 | (1.2) | (-9.3) | (-5.2) | (-3.6) | (-14.4) | (-4.1) | (-8.6) | (-2.9) |
| Value | 14.6 | 1.2 | (4.9) | (-5.1) | (-3.1) | (-7.7) | (-4.6) | (-4.2) | (-3.5) | (-1.6) |
| Volumes | 2.3 | -2.1 | (-3.5) | (-4.6) | (-2.2) | (4.5) | (-10.3) | (0.1) | (-5.3) | (-1.4) |
| Current Account (100 mil. yen) | 14,715 | 79,309 | 15,124 | 44,177 | | 14,957 | 28,203 | 13,264 | 18,809 | |
| Goods (100 mil. yen) | -110,187 | -65,659 | -17,782 | -3,311 | | -1,460 | 6,714 | -1,462 | -473 | |
| Services (100 mil. yen) | -34,448 | -27,482 | -6,656 | -2,801 | | -637 | 1,598 | -5,245 | 1,037 | |
| Financial Account (100 mil. yen) | -17,549 | 133,088 | 22,468 | 63,894 | | 21,624 | 47,149 | 6,486 | 36,290 | |
| Gold & Foreign Exchange Reserves ($1mil.) | 1,279,346 | 1,245,316 | 1,260,548 | 1,245,316 | 1,242,935 | 1,251,112 | 1,245,316 | 1,250,073 | 1,245,755 | 1,242,935 |
| Exchange Rate (\/$) | 100.23 | 109.92 | 114.56 | 119.07 | 121.35 | 118.57 | 120.39 | 119.55 | 120.74 | 123.75 |

## ３． Financial Market Indicators

| | Fiscal 2013 | Fiscal 2014 | 2014 4Q | 2015 1Q | 2015 2Q | 2015 FEB | MAR | APR | MAY | JUN |
|---|---|---|---|---|---|---|---|---|---|---|
| Uncollateralized Overnight Call Rates | 0.073 | 0.068 | 0.064 | 0.073 | 0.067 | 0.076 | 0.070 | 0.061 | 0.069 | 0.072 |
| | | | [0.072] | [0.074] | [0.067] | [0.077] | [0.072] | [0.065] | [0.068] | [0.067] |
| Euro Yen TIBOR | 0.223 | 0.194 | 0.184 | 0.171 | 0.169 | 0.171 | 0.170 | 0.170 | 0.169 | 0.169 |
| (3 Months) | | | [0.220] | [0.215] | [0.211] | [0.212] | [0.212] | [0.212] | [0.210] | [0.210] |
| Newly Issued Japanese Government Bonds Yields | 0.640 | 0.400 | 0.330 | 0.400 | 0.455 | 0.330 | 0.400 | 0.340 | 0.390 | 0.455 |
| (10 Years) | | | [0.735] | [0.640] | [0.565] | [0.580] | [0.640] | [0.620] | [0.570] | [0.565] |
| Average Contracted Interest Rates | 1.077 | 1.006 | | | | | | | | |
| on Loans and Discounts(City Banks) | | | 1.025 | 1.006 | 0.987 | 1.021 | 1.006 | 1.007 | 1.003 | 0.987 |
| (% changes from previous period) | | | (-0.023) | (-0.019) | (-0.019) | (-0.003) | (-0.015) | (0.001) | (-0.004) | (-0.016) |
| The Nikkei Stock Average | 14,828 | 19,207 | 17,451 | 19,207 | 20,236 | 18,798 | 19,207 | 19,520 | 20,563 | 20,236 |
| (TSE 225 Issues) | | | [16,291] | [14,828] | [15,162] | [14,841] | [14,828] | [14,304] | [14,632] | [15,162] |
| M2(Average) | (3.9) | (3.3) | (3.5) | (3.5) | (3.8) | (3.5) | (3.6) | (3.6) | (4.1) | (3.8) |
| Broadly-defined Liquidity(Average) | (3.7) | (3.3) | (3.5) | (3.5) | (4.3) | (3.4) | (3.7) | (4.1) | (4.5) | (4.3) |
| Principal Figures of Financial Institutions | | | | | | | | | | |
| Loans and Discount (Average): Banks & Shinkin | (2.0) | (2.4) | (2.5) | (2.5) | (2.6) | (2.5) | (2.6) | (2.6) | (2.6) | (2.5) |
| Banks | (2.3) | (2.5) | (2.7) | (2.6) | (2.7) | (2.6) | (2.7) | (2.7) | (2.7) | (2.6) |
| City Banks etc. | (1.7) | (1.4) | (1.7) | (1.4) | (1.4) | (1.3) | (1.5) | (1.6) | (1.3) | (1.2) |
| Regional Banks | (3.3) | (3.8) | (3.8) | (4.0) | (4.1) | (4.1) | (4.1) | (4.0) | (4.1) | (4.0) |
| Regional Banks Ⅱ | (1.4) | (2.9) | (3.1) | (3.1) | (3.0) | (3.2) | (3.0) | (3.0) | (3.0) | (3.2) |
| Shinkin | (0.3) | (1.4) | (1.5) | (1.6) | (1.9) | (1.6) | (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) | (3.9) | (4.0) | (4.6) | (4.3) |
| City Banks | (3.7) | (3.4) | (4.4) | (4.7) | (5.4) | (4.7) | (4.7) | (5.0) | (6.0) | (5.3) |
| Regional Banks | (4.3) | (3.3) | (3.2) | (3.1) | (3.3) | (3.1) | (3.2) | (3.1) | (3.5) | (3.4) |
| Regional Banks Ⅱ | (2.5) | (3.1) | (3.3) | (3.1) | (2.9) | (3.2) | (3.1) | (2.9) | (2.9) | (2.9) |

(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.