

The Outlook for the Japanese Economy

The Japanese economy moves into a phase of stable growth, driven by improvements in corporate earnings and production

23 JUNE 2017

(ORIGINAL JAPANESE VERSION RELEASED ON 31 MAY 2017)

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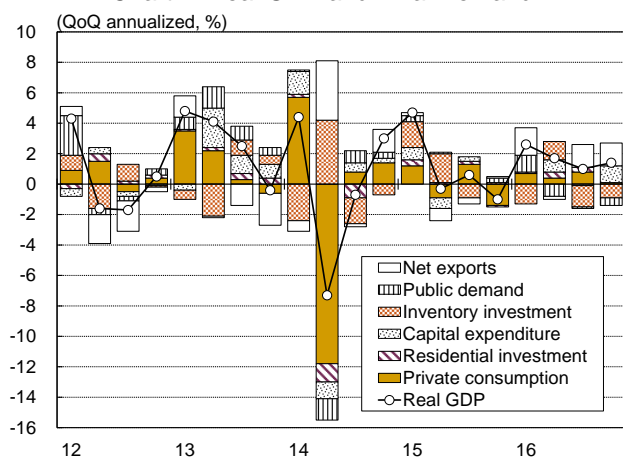
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
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1. Overview of the Japanese Economy

According to the first preliminary estimates, Japan's real GDP growth stood at an annualized +2.2% QoQ in Jan-Mar 2017, sustaining its positive growth for five consecutive quarters (see Chart 1). The positive growth in real GDP in the second half of last year was mainly driven by external demand, spurred by increased exports. In contrast, private domestic demand was a positive contributor to GDP growth in Jan-Mar, as evidenced by accelerated growth of private consumption to +1.4% annualized QoQ and the second consecutive quarter of increases in capital expenditure by 0.9% annualized QoQ. Additionally, public demand returned to positive QoQ growth for the first time in four quarters thanks to a halt in the decline of public investment due to the implementation of government's economic measures. Inventory investment also made a positive QoQ contribution to GDP growth for the first time in three quarters. On a fiscal year basis, real GDP growth was +1.3% YoY in FY 2016, slightly accelerating from +1.2% YoY in FY2015, which indicates that the economy is gaining further momentum.

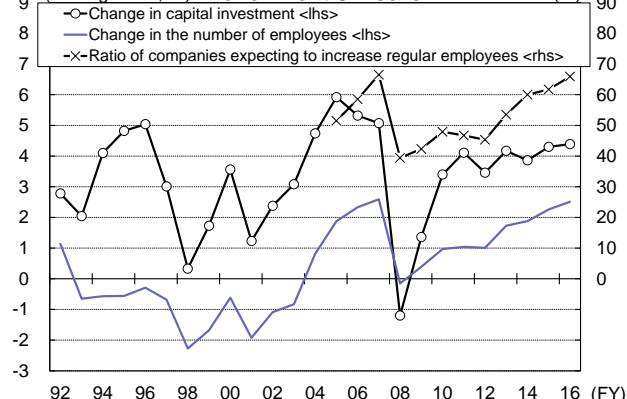
The Japanese economy is now moving into a stable expansionary phase thanks to improving corporate earnings and production. Corporate earnings have increased further as the Japanese yen turned weaker in the latter half of last year. As a result, the current profits of companies listed on the first section of the Tokyo Stock Exchange (excluding financial companies) increased by 24.7% YoY in Jan-Mar, posting two consecutive quarters of positive growth and hitting a record first-quarter high. Although FY 2016's full year current profits were around the same level as a year earlier owing to the impact of a strong yen that persisted in the first half of FY2016, corporate earnings forecasts for FY2017 show an increase of 4% YoY in profits, suggesting that Japanese companies will maintain solid earnings growth. On the production side, amid the significant progress in inventory adjustments during the second half of last year, the animal spirit index (proportion of companies that raised their production forecasts - proportion of those who decreased) in a "Survey of Production Forecast in Manufacturing" published by Ministry of Economy, Trade and Industry has continued to rise for nine straight months until March 2017. This indicates that Japanese companies are taking a more positive stance towards production expansion.

Chart 1: Real GDP and Final Demand



Source: Cabinet Office, BTMU Economic Research

Chart 2: Listed Companies' Forecast for Capital Investment and Number of Employees over Next 3 Years



Source: Cabinet Office, BTMU Economic Research Office

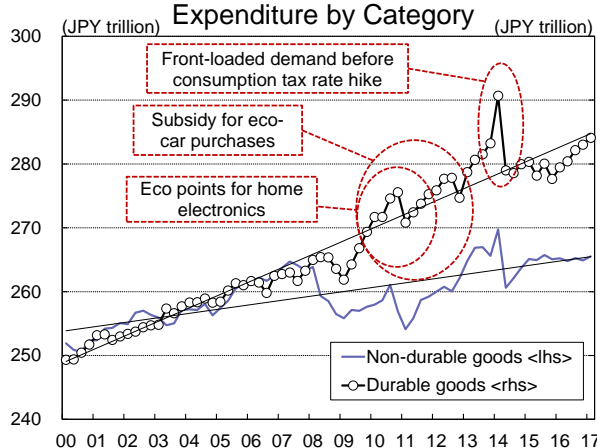
Amid record high corporate earnings, Japanese companies are increasingly willing to use their ample cash flow for forward-looking investments. According to the Annual Survey of Corporate Behavior released by the Cabinet Office, listed companies' forecast for the rate of change in capital investment over the next three years (average of FY2017 – FY2019) is +4.4% (+0.1% pt from the previous year), the second consecutive year of improvements (see Chart 2). Besides, forecast for the rate of change in the number of employees is +2.5% (+0.2% pt from the previous year) and the percentage of companies expecting to increase the number of regular employees is 65.9% (+4.2% pt from the previous year), reaching close to the past highest level in FY2007. These favorable survey results suggest that companies are taking a further proactive stance towards investment in human capital.

Under such circumstances, Japanese companies are expected to raise wages by around 2% in 2017's annual labor negotiations between management and labor unions, even though the conditions surrounding the labor negotiations are harsh compared to last year in terms of consumer prices. This year's annual labor negotiations shows some positive moves which might lead to sustained improvements in household employment and income environment, such as an increase in wage growth in small and medium-sized enterprises (SMEs) and the progress in corporate efforts towards work-style reform including introduction of various working arrangements and improvement of childcare allowance system. Going forward, a moderate rise in prices, especially for energy, might weigh on household consumption. However, private consumption is expected to maintain moderate growth as consumer sentiment continues to improve and the impact of the front-loaded demand for durable goods stemming from the government's past policies is decreasing, which will boost cyclical replacement demand in future (see Chart 3).

Looking abroad, in Europe, immediate concerns over the solidarity of the EU have receded as pro-EU candidates won elections in France and the Netherlands. On the other hand, the US has decided to impose anti-dumping duties on certain steel products from Japan, and there is growing uncertainty over Trump's administration arising from confusion over its relation with Russia. In addition, geopolitical risk surrounding North Korea is increasing. Under such circumstances, close attention should be paid to a disturbance to the domestic economy which might be caused by the volatility in financial markets or a downturn in exports, even amid the global economic recovery. Nevertheless, the current Japanese economy is steadily gaining

stability thanks to the improvements of corporate earnings and household incomes. Moreover, given the increase in public investment due to the implementation of government's economic measures and the acceleration of investments relating to Tokyo Olympics, we expect Japan's economy will continue its moderate expansion with real GDP growth of +1.3% YoY in both FY2017 and FY2018 (see Table 1).

Chart 3: Changes in Real Consumption Expenditure by Category



Source: Cabinet Office, BTMU Economic Research Office

Table 1: GDP Forecast

	FY 2015 Actual	FY 2016 Actual	FY 2017 Forecast	FY 2018 Forecast
Real GDP	1.2	1.3	1.3	1.3
Private consumption	0.5	0.6	0.8	0.9
Residential investment	2.8	6.5	-0.3	-1.7
Capital expenditure	0.6	2.3	2.3	2.4
Inventory investment (contribution)	0.4	-0.3	-0.1	0.1
Public demand	1.2	-0.1	0.7	1.2
Net exports (contribution)	0.1	0.8	0.4	0.0
Exports	0.7	3.1	5.2	2.2
Imports	0.2	-1.4	2.8	2.1
Nominal GDP	2.7	1.2	1.3	1.6
GDP deflator	1.5	-0.2	0.0	0.3

Source: Cabinet Office, BTMU Economic Research Office

2. Key Points in Outlook

(1) Corporate Sentiment Improves Supported by Favorable Earnings and Production Recovery

Japan's real capital expenditure grew at an annualized +0.9% QoQ in Jan-Mar 2017, posting the second consecutive quarter of increases with support from solid corporate earnings and production recovery, albeit the growth slowed down after the significant increase in the previous quarter. This suggests that amid moderate expansion of domestic and foreign economies, corporate sentiment towards the future business environment and capital investment is improving. With regards to the business environment, the Bank of Japan's (BoJ's) Tankan survey for March 2017 showed that corporate sales forecast for the current fiscal year increased by 1.3% YoY, the largest increase in five years (see Table 2). On the other front, current profit forecast continued to show a modest decrease of -1.1% YoY, although the decrease was narrowed compared to the last fiscal year. However, it seems reasonable considering that the forecasts are conservative as they are based on predicted exchange rates of the yen which are stronger than the actual ones. Fixed investment forecast showed an increase of 0.6% YoY. The fixed investment forecast in the BoJ Tankan survey tends to be a negative value as of March due to a statistical technicality, but Japanese companies made strong fixed investment forecasts, despite projecting their profit decreases. This suggests that they are taking a proactive stance towards investment.

Furthermore, research and development (R&D) expenditure is expected to boost the future capital expenditure. Looking at the trends in R&D expenditure by sector, most R&D expenditure is made by manufacturers, especially by top five sectors in terms of investment amount such as "transport equipment", "chemicals", "general-purpose, production and business oriented machinery". These sectors have allocated more than half of investment

amount to R&D activities (see Chart 4). As the historical chart below shows, R&D expenditures of other manufacturing and non-manufacturing sectors have been almost at a constant level, while those top five manufacturing sectors have steadily expanded R&D expenditure to maintain or enhance their global competitiveness. According to the listed companies' forecast of growth rate of industry demand for the next three years in the Annual Survey of Corporate Behavior, the top five manufacturing sectors anticipate higher growth compared to other sectors, which suggests that they, as a driving force of R&D, will continue to support the overall capital investment.

In addition to the increasing trend in R&D expenditure, improving corporate sentiment is also expected to continue to boost capital expenditure.

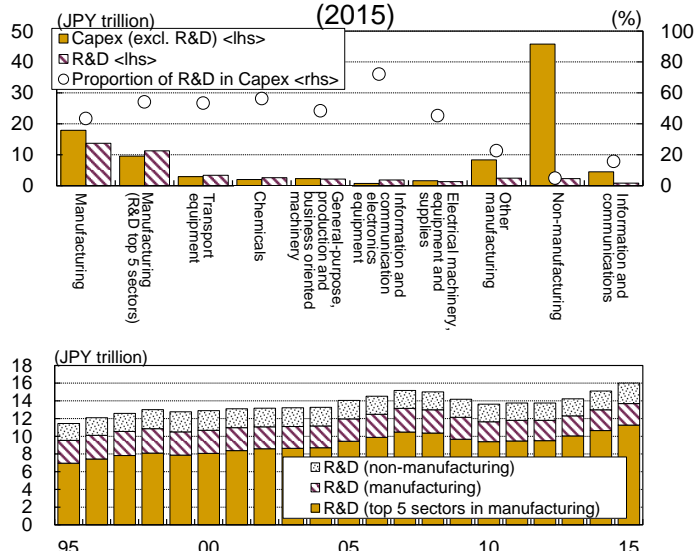
Table 2: BoJ's Tankan Survey on Corporate Forecasts for Sales, Current Profits, Fixed Investment and Predicted Exchange Rates for the Next Fiscal Year (as of March 2017)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sales forecast (YoY,%)	1.4	1.0	0.7	0.6	0.0	1.3
Current profit forecast (YoY,%)	2.1	5.9	▲ 2.2	0.6	▲ 2.2	▲ 1.1
Fixed investment forecast (YoY,%)	0.0	▲ 2.0	0.1	▲ 1.2	▲ 0.9	0.6
Predicted exchange rate (USD/JPY)	78.1	85.2	99.5	111.8	117.5	108.4
Exchange rate as of March (USD/JPY)	82.4	94.7	102.3	120.4	113.1	113.0

Note: 1. "Sales forecast" and "current profit forecast" are based on all enterprises and industries.
 "Fixed investment" is based on large enterprises of all industries, including land purchasing expenses but excluding software.
 "Predicted exchange rate" is based on large enterprises of manufacturing.
 "Exchange rate as of March" refers to the average value of the month.
 2. Highlighted parts indicate the values that improved from the previous fiscal year.

Source: Bank of Japan, BTMU Economic Research Office

Chart 4: Real Capital Expenditure and R&D by Sector (2015)



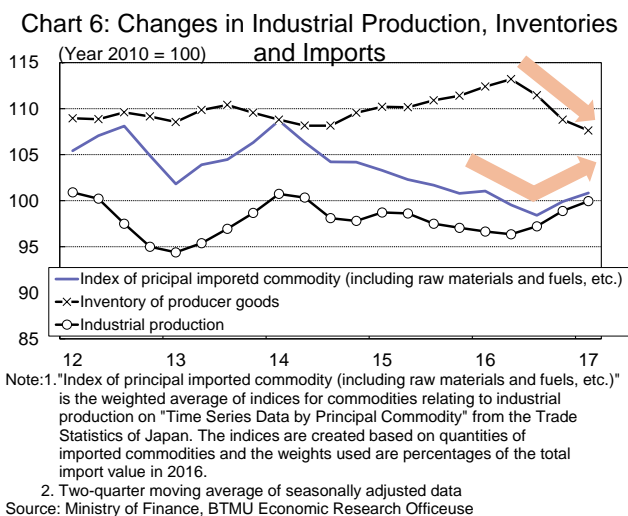
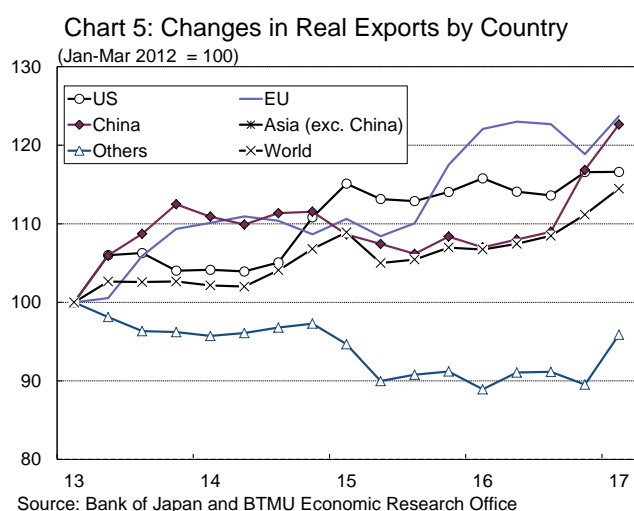
Note: "Manufacturing (R&D top 5 sectors)" is the total of "Transport equipment", "Chemicals", "General-purpose, production and business oriented machinery", "Information and communication electronics equipment", and "Electrical machinery, equipment and supplies".
 Source: Cabinet Office, BTMU Economic Research Office

(2) Net Exports to Make a Modest Contribution to GDP Growth

The contribution of net exports (exports-imports) to real GDP in Jan-Mar 2017 was +0.6% QoQ annualized, which pushed up GDP growth as in the previous quarter. Real exports grew by 8.9% QoQ annualized, recording three consecutive quarters of higher growth. Amid strong exports to the US, exports to other Asian countries, particularly of IT-related goods, increased and a rebound in exports to the EU also underpinned export growth after declining in the previous quarter (see Chart 5). On the other hand, real imports also grew by 5.5% QoQ annualized, which came in higher than in the previous quarter. Looking at growth by commodity, the increase in imports of petroleum spirits and non-ferrous metals is notable. The reason behind this is that the adjustment of accumulated inventory of production goods has progressed due to a recovery in production that was at a standstill and in response to this, companies have increased the procurement of raw materials (see Chart 6). Going forward, although exports are expected to continue recovering supported by solid demand from developed countries such as the US, a continued increase of imports of raw materials due to

the recovery of the domestic economy will reduce the positive contribution of net exports to real GDP.

The trade policy of Trump's administration continues to be a risk factor for future Japanese exports. On May 5, the US International Trade Commission determined that steel products which are produced in eight countries/region, including Japan, are imported to the US at less than fair value. Based on this, the Commission has decided to issue antidumping duty orders on imports of certain steel products from Japan. Since the percentage of targeted steel products in the total amount of exports to the US is less than 0.1%, the direct impact on the entire exports would be minor. However, the US Department of Commerce says that they will continue to expand the coverage of import goods that could be subject to antidumping duty. Under such a situation, close attention is required for the potential impact of changes in the US trade policy on the price competitiveness of Japanese products in the US and the local supply chain.

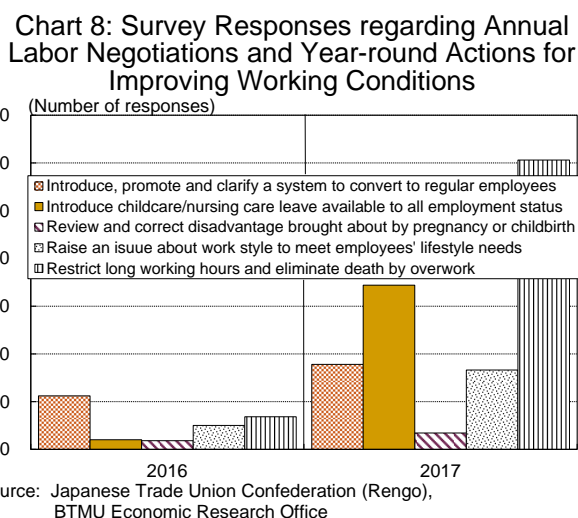
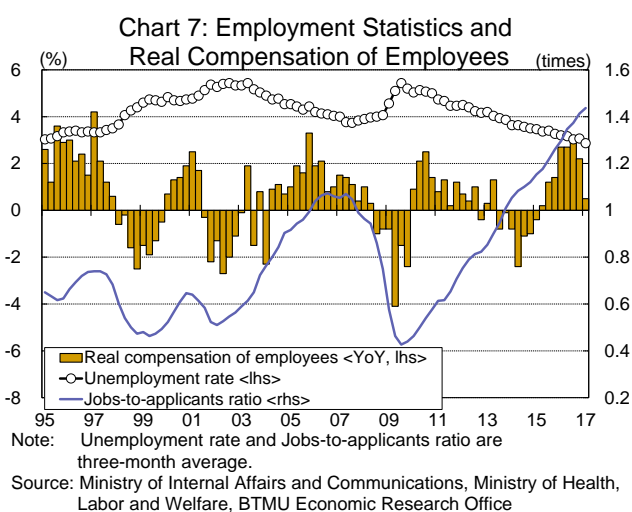


(3) Private Consumption Recovers Underpinned by Robust Income Growth

Private consumption grew at an annualized rate of +1.4% QoQ in Jan-Mar 2017, accelerating from +0.2% in the previous quarter which was impacted by soaring fresh food prices resulting from bad weather. Although real compensation of employees, which underpins private consumption, decreased its growth rate from the previous quarter, it has maintained YoY positive growth for eight straight quarters, which indicates that solid growth in income is maintained on a macro scale (see Chart 7).

Despite the sluggishness in wage growth, the income environment continued to be favorable thanks to the increasing number of employees supported by companies' high demand for hiring. The most recent employment data indicate that the unemployment rate and jobs-to-applicants ratio are at historically favorable levels. While Japanese companies anticipate a continued revenue growth in the current fiscal year, the labor supply and demand balance is likely to remain tight for the time being. The continuing growth in the number of employees, amid labor shortage, is expected to keep underpinning the growth in compensation of employees.

In this year's annual labor negotiations, Japanese companies showed a positive stance on work-style reform. From a long-term perspective, this could be a positive factor that helps improve the employment and income environment. According to the survey on 2017's annual labor negotiations and year-round actions for improving working conditions, published by Rengo, the number of positive responses to the following items relating to work-style reform has exceeded those of last year (see Chart 8): "Actions to make child and nursing care leave available to all employees regardless of employment status", "Actions to reduce long working hours and eliminate death by overwork" and "Raising an issue concerning flexible work style and working conditions that meet employees' lifestyle needs". Although the Japanese labor market continues to face various issues, progress in corporate efforts for work-style reform is expected to improve work environment and diversify working conditions to further encourage the entry of women or elderly citizens into the labor market, which secure the workforce on an ongoing basis even at a time of falling working-age population.

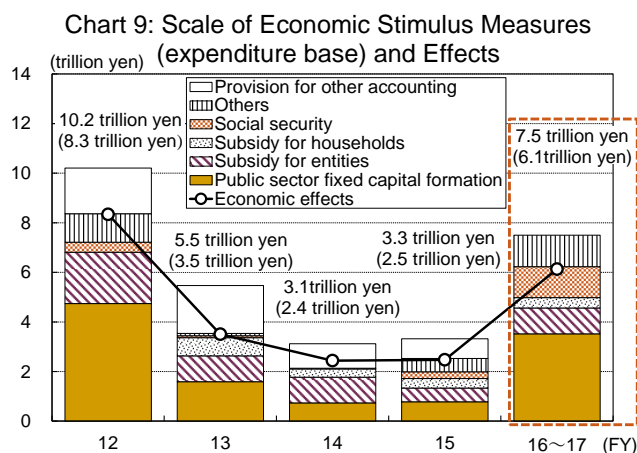


(4) Public Investment Increases Due to Implementation of Economic Measures

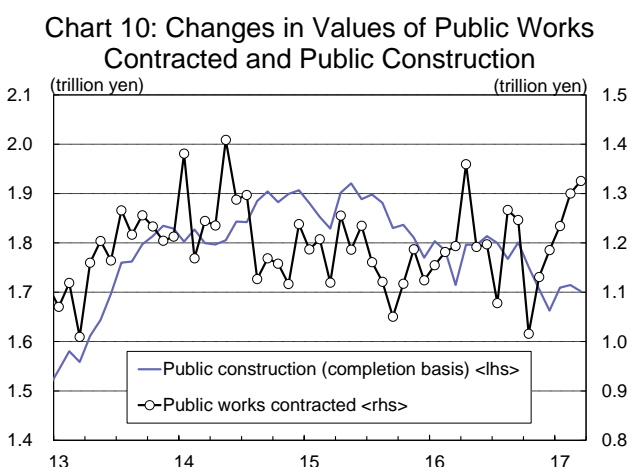
Public demand stood at an annualized +0.4% QoQ in Jan-Mar 2017, the first upturn in four quarters, mainly due to an increase in government consumption such as social security-related expenses. Public investment, which had continued to face significant decreases, came in at -0.3% QoQ annualized, the third consecutive quarter of decreases. However, the decrease was significantly narrowed down from -11.4% QoQ annualized in the previous quarter due to implementation of government's "Economic Measures for Realizing Investment for the Future (expenditures by the central and local governments: 7.5 trillion yen)" approved in a Cabinet meeting last August. Looking at the progress in implementation of the second supplementary budget for FY2016 (enacted last October), which drives the economic measures, about 80% of contracts on the public works projects that are to be implemented by the national and local governments was concluded as of end of March. In response to this, the Value of Public Works Contracted, a leading indicator for public investment, increased steadily with growth at above +10% YoY in February and March, and +1.7% YoY in April. As public works proceed, public investment is expected to further increase towards the middle of the current fiscal year.

The positive effects of the government's economic measures on the growth in public investment are expected to diminish in the latter half of the current fiscal year. However, we

forecast that public investment will continue to maintain a certain level of growth with support from the infrastructure development that will be fully implemented for Tokyo Olympics such as the construction of New National Stadium, development of three ring roads in the Tokyo metropolitan area and the increase of number of departure and arrival slots at Haneda Airport.



Note: Upper figures shows budget, Lower figure shows estimated effects.
Source: Ministry of Finance, BTMU Economic Research Office



Source: Ministry of Land, Infrastructure, Transport and Tourism, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary Policy and Long-Term Interest Rates

Recently, Bank of Japan (BoJ) Governor Haruhiko Kuroda makes in-depth remarks about an exit strategy from its monetary easing policy. At the House of Representatives Committee on Financial Affairs on May 10, Mr. Kuroda told parliament, regarding the estimate of BoJ's profit at the time of an eventual exit from monetary easing, that "We will consider publicizing it" and that "We might offer such information to the public in future" (see Table 3), although he remarked that it could cause confusion if such information is released at this stage. Mr. Kuroda has so far avoided mentioning the BoJ's exit strategy, stressing that it is premature to discuss an exit plan. However, he appears to have somewhat soften his stance. A shift in his stance seems to come against a backdrop of growing market interest in the BoJ's exit strategy amid decreasing purchases of Japanese government bonds (JGBs) by the BoJ. Moreover, Mr. Kuroda seems to intend to dispel market concerns over future monetary policy operations after his official term ends next March, as demonstrated in his statement at the Wall Street Journal CEO Council on May 16, "Whoever the next BoJ Governor will be, I'm sure that an exit strategy from the current stimulus program will be managed quite well". When an exit strategy is taken in a broader sense, "quiet exit strategy" may have already been started as seen in a reduction in purchases of JGBs.

However, there is still a long way to go before the BoJ officially announces its exit strategy since CPI, which is the BoJ's policy target, has just turned upward with core CPI growth of +0.3% YoY in April. The BoJ is expected to maintain its current monetary policy for the time being (as the BoJ does not set a target for JGB purchases currently, a reduction in purchases is not regarded as a change in its monetary policy).

The yield on 10-year JGBs has been at around 0.05% under BoJ's yield curve control policy.

(2) Exchange Rates

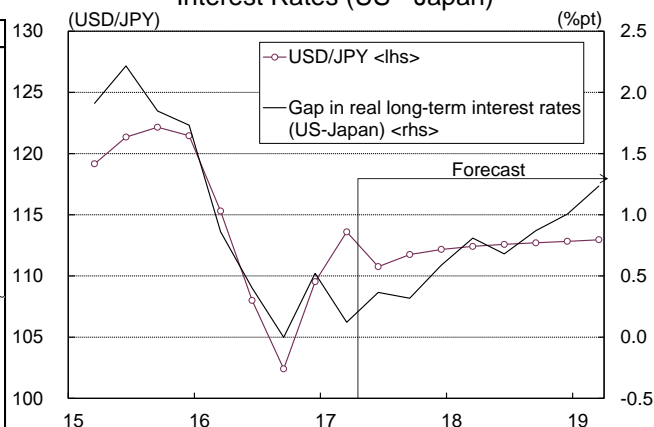
Diminished concerns over geopolitical risks relating to the US action against Syria and North Korea and the results of French presidential election pushed JPY lower against USD, reaching 114 yen level per USD in the middle of May. Thereafter, however, as there was growing suspicion of the potential connections between Trump's administration and Russia (so-called "Russia-gate" scandal), JPY appreciated to the 110 yen level. Towards the end of the month, USD/JPY stays around 112. Going forward, downward pressure on JPY arising from the widening gap in interest rates between the US and Japan will persist, while there are multiple potential factors that might push JPY higher against USD, such as the smoldering "Russia-gate" allegations and developments of geopolitical risks (see Chart 11).

Table 3: BoJ Governor Kuroda's Recent Comments on Exit Strategy

Conference	Comments
The House of Representatives Committee on Financial Affairs (on May 10)	<p>◇ "Releasing calculations of an impact of withdrawal from monetary stimulus on the BoJ's profit might add confusion to an argument on exit strategy. However, as it is important to explain clearly our stance toward monetary policy management, we will consider publicizing such information.</p> <p>◇ "The BoJ has been internally discussing its financial health at the exit and we might be able to offer such information to the public in future".</p>
Wall Street Journal CEO Council (on May 16)	<p>◇ "Whoever the next BoJ governor will be, I'm sure that an exit strategy from the current stimulus program will be managed quite well".</p> <p>◇ "The BoJ has enough tools to smoothly withdraw from its easing policy centering on yield curve control".</p>

Source: The House of Representatives, various press reports, BTMU Economic Research Office

Chart 11: USD/JPY and Gap in Real Long-Term Interest Rates (US - Japan)



Source: Bloomberg, various data, BTMU Economic Research Office

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Outlook for the Japanese Economy

Reflecting Jan-Mar 2017 GDP (the first preliminary estimates)

Forecast →

(% , billion yen)

	2016				2017				2018				2019	FY2016	FY2017	FY2018
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	2.6	1.7	1.0	1.4	2.2	1.0	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.3	1.3	1.3
Private Consumption	1.3	0.7	1.4	0.2	1.4	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0	0.6	0.8	0.9
Housing Investment	4.6	13.1	11.3	1.4	3.0	-0.8	-3.2	-4.3	-3.9	-1.6	-0.4	0.8	3.2	6.5	-0.3	-1.7
Private Business Fixed Investment	0.2	5.2	-0.9	7.6	0.9	1.8	2.0	2.2	2.2	2.4	2.4	2.5	2.5	2.3	2.3	2.4
Business Inventory (Contribution)	-1.3	1.2	-1.4	-0.9	0.4	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.1	-0.3	-0.1	0.1
Government Expenditures	4.6	-3.2	-0.4	-2.1	0.4	1.5	1.6	1.3	0.9	0.9	1.3	1.4	1.5	-0.1	0.7	1.2
Public Investment	-1.3	2.7	-4.9	-11.4	-0.3	3.2	5.3	2.4	-0.2	-0.2	1.6	2.4	2.8	-3.2	0.5	1.3
Net Exports (Contribution)	1.8	-0.2	1.5	1.5	0.6	0.0	0.0	0.1	0.0	0.0	-0.0	0.0	-0.0	0.8	0.4	0.0
Exports	2.1	-5.6	8.0	14.1	8.9	2.1	2.2	2.3	2.3	2.2	2.2	2.2	2.0	3.1	5.2	2.2
Imports	-7.7	-4.4	-0.9	5.3	5.5	1.9	2.0	1.9	2.1	2.0	2.2	2.1	2.2	-1.4	2.8	2.1
Nominal GDP	3.7	1.0	0.3	1.7	-0.1	3.6	0.9	1.0	-1.3	4.0	2.8	2.2	-1.8	1.2	1.3	1.6
GDP Deflator (YoY)	0.9	0.3	-0.1	-0.1	-0.8	-0.1	0.1	-0.0	-0.0	-0.1	0.3	0.6	0.5	-0.2	-0.0	0.3
Industrial Production Index (QoQ)	-0.9	0.3	1.6	1.8	0.2	-1.3	0.2	0.2	0.2	0.3	0.6	0.4	0.2	1.1	0.5	1.3
Domestic Corporate Goods Price Index (YoY)	-3.7	-4.5	-3.8	-2.1	1.0	1.3	0.8	0.5	0.3	1.7	1.8	1.9	1.8	-2.3	0.6	2.0
Consumer Price Index (excl. fresh food, YoY)	-0.1	-0.4	-0.5	-0.3	0.2	0.7	0.8	0.8	0.8	0.5	0.6	0.7	0.8	-0.2	0.8	0.7
2. Balance of Payments																
Trade Balance (billion yen)	944	1,158	1,461	1,710	1,328	1,619	1,361	1,054	380	1,317	1,267	1,114	104	5,765	4,414	3,801
Current Balance (billion yen)	5,170	4,741	4,859	5,146	5,242	5,428	5,230	4,958	4,313	5,274	5,248	5,117	4,130	20,199	19,928	19,769
3. Financial																
Uncollateralized overnight call rate	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1
Euro-Yen TIBOR (3-month rate)	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
Newly Issued 10-Year Government Bonds Yield	0.1	-0.1	-0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.2
Exchange Rate (USD/JPY)	115	108	102	110	114	111	112	112	112	113	113	113	113	108	112	113

Note: *Uncollateralized overnight call rate* is the average rate during the last month of the period. *Euro-Yen TIBOR (3-month rate)*, *Newly Issued 10-Year Government Bonds Yield* and

Exchange Rate (USD/JPY) are averages during the period.

Source: Various statistics, Bloomberg, BTMU Economic Research Office

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of May. 31, 2017

	Fiscal	Fiscal	2016		2017	2016	2017			
	2015	2016	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.2	1.3	1.0 (1.1)	1.4 (1.7)	2.2 (1.6)	***	***	***	***	***
Index of All Industries Activity	0.9	0.7	0.6 (0.7)	0.4 (1.1)	0.0 (0.8)	0.0 (1.2)	-0.4 (1.3)	0.7 (0.0)	-0.6 (1.1)	
Industrial Production Index	-0.9	1.1	1.6 (0.4)	1.8 (2.1)	0.2 (3.8)	0.7 (3.1)	-2.1 (3.2)	3.2 (4.7)	-1.9 (3.5)	4.0 (5.7)
Production										
Shipments	-1.1	0.8	1.0 (-0.5)	2.4 (1.8)	-0.1 (3.7)	0.0 (2.4)	-1.1 (4.2)	1.4 (3.7)	-0.8 (3.5)	2.7 (4.9)
Inventory	1.1	-4.0	-2.2 (-2.7)	-2.4 (-5.3)	2.2 (-4.0)	0.7 (-5.3)	0.1 (-5.0)	0.7 (-3.9)	1.5 (-4.0)	1.5 (-1.1)
Inventory/Shipments Ratio (2010=100)	114.9	112.9	114.3 [114.7]	109.7 [114.9]	111.5 [116.8]	108.9 [116.3]	111.6 [117.5]	111.3 [115.3]	111.5 [117.5]	114.7 [115.9]
Domestic Corporate Goods Price Index	-3.3	-2.3	-0.3 (-3.8)	0.4 (-2.1)	1.6 (1.0)	0.7 (-1.2)	0.6 (0.5)	0.3 (1.1)	0.2 (1.4)	0.2 (2.1)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	-0.2 (-0.5)	0.2 (-0.3)	-0.1 (0.2)	0.1 (-0.2)	0.3 (0.1)	0.0 (0.2)	0.0 (0.2)	0.0 (0.3)
Index of Capacity Utilization (2010=100)	98.0	98.6	98.0 [97.6]	100.1 [97.9]	99.8 [96.1]	101.1 [97.2]	98.3 [96.4]	101.4 [95.4]	99.8 [96.4]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	4.1	0.5	5.5 (6.5)	0.3 (3.6)	-1.4 (-1.0)	2.1 (6.7)	-3.2 (-8.2)	1.5 (5.6)	1.4 (-0.7)	
Manufacturing	6.2	-4.6	1.9 (-0.5)	2.7 (3.5)	-4.2 (-6.8)	0.8 (10.9)	-10.8 (-22.0)	6.0 (9.5)	0.6 (-4.9)	
Non-manufacturing Excl.Electric Power & Ship building	2.5	4.3	6.2 (11.8)	-1.0 (3.3)	0.0 (3.1)	2.1 (3.5)	0.7 (5.7)	1.8 (2.7)	-3.9 (2.2)	
Shipments of Capital Goods (Excl.Transport Equipment)	-2.2	1.5	1.3 (0.7)	2.4 (4.7)	-2.4 (3.1)	-0.7 (4.9)	-2.3 (4.4)	1.7 (4.0)	-4.4 (1.8)	7.1 (4.8)
Construction Orders	-0.9	4.0								
Private	7.9	5.1								
Public	-15.6	8.4								
Public Works Contracts	-3.8	4.1								
Housing Starts 10,000 units at Annual Rate, SA	92.1 (4.6)	97.4 (5.8)	97.9 (7.1)	95.3 (7.9)	97.5 (3.5)	92.3 (3.9)	100.1 (12.8)	94.0 (-2.6)	98.4 (0.2)	
Total floor	(2.1)	(4.1)	(5.1)	(5.3)	(3.3)	(3.9)	(14.5)	(-2.5)	(-2.0)	
Sales at Retailers	0.8	-0.2								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	-1.6	-0.4 (-2.4)	-0.9 (-0.7)	0.8 (-2.0)	-0.8 (-0.3)	0.5 (-1.2)	2.5 (-3.8)	-2.0 (-1.3)	0.5 (-1.4)
Propensity to Consume (SA, %)	73.6	72.1	70.7 [73.6]	71.8 [73.0]	73.1 [72.6]	71.8 [73.2]	71.0 [72.3]	75.4 [74.0]	72.8 [71.6]	73.1 [74.2]
Overtime Hours Worked (All Industries, 5 employees or more)	-1.3	-0.7	-0.2 (-1.5)	0.1 (-1.2)	1.5 (1.2)	-0.7 (-1.8)	2.0 (0.7)	0.1 (1.5)	0.1 (1.5)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.2	0.4								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	98	103	102	105	112	107	109	113	114	
Ratio of Job Offers to Applicants (SA, Times)	1.23	1.39	1.37 [1.22]	1.41 [1.26]	1.44 [1.29]	1.43 [1.28]	1.43 [1.29]	1.43 [1.29]	1.45 [1.31]	1.48 [1.33]
Unemployment Rate (SA, %)	3.3	3.0	3.0	3.1	2.9	3.1	3.0	2.8	2.8	2.8
Economy Watcher Survey (Judgment of the present condition D.I.%)	48.8	46.4	45.2 [49.5]	48.7 [47.7]	49.2 [45.6]	51.2 [48.7]	48.6 [46.6]	48.5 [44.6]	50.6 [45.4]	50.4 [43.5]
Bankruptcies (Number of cases)	8,684 (-9.0)	8,381 (-3.5)	2,087 (-0.2)	2,086 (-3.1)	2,079 (-3.0)	710 (1.6)	605 (-10.4)	688 (-4.8)	786 (5.4)	680 (-2.2)

(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 May. 31, 2017

	Fiscal	Fiscal	2016		2017	2016	2017			
	2015	2016	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR
Customs Clearance (Exports in Yen Terms)	-0.7	-3.5	(-10.2)	(-1.9)	(8.5)	(5.4)	(1.3)	(11.3)	(12.0)	(7.4)
Value	2.0	-5.8	(-11.1)	(-6.3)	(3.1)	(-2.7)	(1.6)	(2.8)	(5.0)	(3.2)
Volumes	-2.7	2.4	(1.0)	(4.7)	(5.1)	(8.4)	(-0.3)	(8.3)	(6.6)	(4.1)
Imports (In Yen terms)	-10.2	-10.2	(-19.3)	(-9.3)	(8.6)	(-2.5)	(8.4)	(1.3)	(15.9)	(15.2)
Value	-8.4	-10.7	(-18.8)	(-10.7)	(6.2)	(-5.9)	(2.0)	(5.8)	(11.3)	(9.7)
Volumes	-1.9	0.5	(-0.7)	(1.6)	(2.2)	(3.6)	(6.3)	(-4.3)	(4.2)	(5.0)
Current Account (100 mil. yen)	178,618	201,990	57,743	40,876	57,869	11,143	655	28,136	29,077	
Goods (100 mil. yen)	3,296	57,654	14,860	17,146	10,889	8,087	-8,534	10,768	8,655	
Services (100 mil. yen)	-13,527	-15,058	-3,470	-5,520	-1,192	-2,886	-2,357	-639	1,804	
Financial Account (100 mil. yen)	238,492	249,526	104,960	22,119	52,650	2,412	-15,351	17,752	50,249	
Gold & Foreign Exchange Reserves (\$1mil.)	1,262,099	1,230,330	1,260,145	1,216,903	1,230,330	1,216,903	1,231,573	1,232,340	1,230,330	1,242,295
Exchange Rate (¥/\$)	120.13	108.37	102.40	109.32	113.60	115.95	114.73	113.06	113.01	110.06

3. Financial Market Indicators

	Fiscal	Fiscal	2016		2017	2016	2017					
	2015	2016	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR		
Uncollateralized Overnight Call Rates	0.063	-0.045	-0.046 [0.074]	-0.043 [0.076]	-0.042 [0.035]	-0.044 [0.075]	-0.045 [0.074]	-0.038 [0.033]	-0.042 [-0.003]	-0.054 -0.037		
Euro Yen TIBOR (3 Months)	0.157	0.057	0.057 [0.169]	0.056 [0.169]	0.056 [0.122]	0.056 [0.169]	0.056 [0.169]	0.056 [0.098]	0.056 [0.098]	0.056 [0.060]		
Newly Issued Japanese Government Bonds Yields (10 Years)	-0.050	0.065	-0.085 [0.350]	0.040 [0.270]	0.065 [-0.050]	0.040 [0.270]	0.085 [0.095]	0.050 [-0.065]	0.065 -0.050	0.015 [-0.085]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.924	0.847	0.865 (-0.021)	0.853 (-0.012)	0.847 (-0.006)	0.853 (-0.011)	0.855 (0.002)	0.852 (-0.003)	0.847 (-0.005)			
The Nikkei Stock Average (TSE 225 Issues)	16,759	18,909	16,450 [17,388]	19,114 [19,034]	18,909 [16,759]	19,114 [19,034]	19,041 [17,518]	19,119 [16,027]	18,909 [16,759]	19,197 [16,666]		
M2(Average)	(3.6)	(3.7)	(3.4)	(3.9)	(4.1)	(4.0)	(4.0)	(4.2)	(4.2)	(4.3)		
Broadly-defined Liquidity(Average)	(3.9)	(2.0)	(1.6)	(1.9)	(2.5)	(2.2)	(2.3)	(2.5)	(2.5)	(2.7)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(2.4)	(2.4)	(2.1)	(2.5)	(2.8)	(2.6)	(2.5)	(2.8)	(3.0)	(3.0)
		Banks	(2.5)	(2.4)	(2.1)	(2.5)	(2.8)	(2.6)	(2.6)	(2.9)	(3.0)	(3.0)
		City Banks etc.	(1.2)	(1.2)	(0.7)	(1.4)	(2.0)	(1.8)	(1.7)	(2.1)	(2.3)	(2.4)
		Regional Banks	(3.7)	(3.5)	(3.5)	(3.6)	(3.6)	(3.5)	(3.5)	(3.6)	(3.8)	(3.7)
		Regional Banks II	(3.2)	(3.1)	(2.9)	(3.1)	(3.2)	(3.1)	(3.1)	(3.2)	(3.2)	(2.9)
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(3.7)	(3.8)	(3.4)	(4.2)	(4.5)	(4.3)	(4.5)	(4.4)	(4.7)	(4.4)
		City Banks	(4.5)	(5.5)	(4.8)	(6.0)	(6.4)	(6.3)	(6.4)	(6.1)	(6.6)	(6.4)
		Regional Banks	(3.0)	(2.3)	(2.2)	(2.3)	(2.7)	(2.3)	(2.6)	(2.7)	(2.7)	(2.5)
		Regional Banks II	(2.5)	(2.1)	(1.9)	(2.2)	(2.4)	(2.2)	(2.3)	(2.4)	(2.5)	(2.2)

(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.