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Japan Economic Monthly

Signs of End to Economic Lull Begin to Appear

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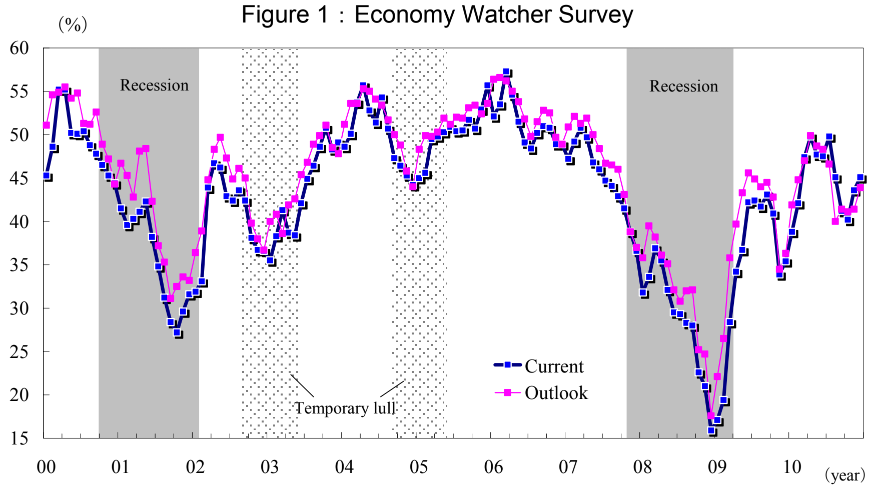
1. The Real Economy

(1) Overview of the Economy

Signs point to end of economic lull

The Japanese economy, which has been in a lull since last fall due to stagnant exports and economic stimulus measure effects wearing off, has recently begun to show signs of emerging from the holding pattern. In addition to exports beginning to stop their decline, industrial production rose month-on-month in November for the first time in six months and future production plans have been revised up. The *Economy Watchers Survey* Current Conditions DI, a sensitive indicator of economic trends, rose for the second straight month in December (Figure 1).

Figure 1 : Economy Watcher Survey



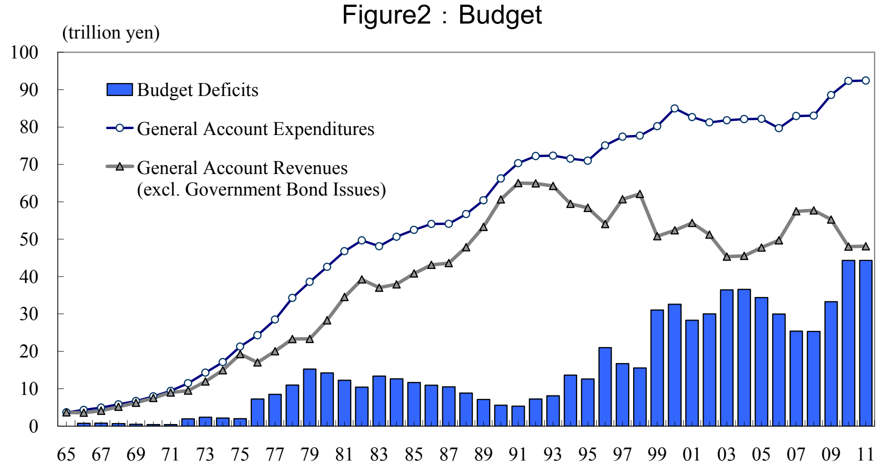
Source: Compiled by BTMU Economic Research Office based on Cabinet Office, "Economy Watchers Survey"

(2) Fiscal Policy

Expenditures continued to expand

General account expenditures in the FY11 budget, approved December 24, were the largest in three consecutive years. Though issuances of JPY44.3 trn of government bonds (an increase of JPY5.0 bn), was included in the mid-term budget plan (Note 1), much of this depended on unsustained funding, such as tapping ‘buried treasure.’

Figure2：Budget



(Note) On initial budget basis.
(Source) Compiled by BTMU Economic Research Office based on MOF "Fiscal Statistics".

(Note 1) The FY13 budget policy was adopted by the Cabinet in June last year. The Cabinet resolved to hold new government bond issuances to under the FY10 amount of JPY44 trn.

Special framework was increased to JPY2.1 trillion

The Revitalizing Japan Special Framework is the centerpiece of the draft budget, which ballooned to JPY2.1 trn from the initial budget amount (which was more than JPY1 trn) (Table 1).

Table 1: Main Items in Revitalizing Japan Special Framework

Safe and secure livelihoods, Human resource development, New Public	JPY1.2 trn
Keeping size of first-grade classes to under 35 students	JPY208.5 bn
Costs of US military stationed in Japan	JPY185.8 bn
Comprehensive learning support and nurturing of 'New Public' leaders	JPY98.0 bn
Initiative to bolster university functions to develop 'strong human resources'	JPY75.3 bn
Credit guarantees for SMEs	JPY52.1 bn
Equipping schools with safe and high-quality facilities	JPY49.4 bn
Disaster management measures in regions prone to natural disasters that threaten residents' security and safety	JPY34.8 bn
New growth strategy・Implementing manifesto	JPY900 mn
Implementing manifesto pledges	
Income subsidy supplementary allotments (part of agricultural household income subsidy system)	JPY102.4 bn
Abolishing highway tolls in principle	JPY45.0 bn
Improvement projects to ensure regional public transportation	JPY30.5 bn
New growth strategy	
Green Innovation/Life Innovation	
Revitalizing Japan! Two big innovations	JPY53.9 bn
Support subsidies for workers promoting rational use of energy	JPY44.6 bn
Subsidies to promote introduction of 'green energy' automobiles (costs to promote introduction of electric vehicles)	JPY9.5 bn
Life Innovation Project to realize a healthy, long-lived society	JPY13.1 bn
Subsidies for projects to support concentration of revolutionary, low-carbon technology in domestic production areas	JPY7.1 bn
R&D for building leading-edge green cloud base	JPY1.4
Developing tourism orientation・regional revitalization among Asian market	
Solving national 'missing link'	JPY107.5 bn
Strategic investment in roads infrastructure in major urban areas	JPY21.5 bn
Projects to improve residential safety for elderly, etc.	JPY30.0 bn
Comprehensive measures to promote revitalization of forest and timber industries	JPY30.6 bn
Boost hub functions of international container strategy ports (public ports)	JPY31.6 bn
Improving Tokyo-region airports	JPY8.3 bn
Improve immigration procedures in order to boost tourism-oriented country	JPY4.6 bn
Support measures for SME overseas expansion	JPY2.5 bn
Science・Technology・IT/Employment・Human Resources/Financing	
Establish global top-class science technology education research base in Okinawa	JPY2.0 bn
Path of Light project	JPY2.4 bn
Globalize Japanese-bred human resources and technology tapping Japan's strengths, characteristics	JPY29.5 bn
Support measures for SMEs to raise minimum wage	JPY5.0 bn
Introduce financing loan projects that do not require third-party guarantors	JPY4.5 bn
Total	JPY2.1 trn

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

About one-third of budget directly for special quotas for growth strategy

The budget was set for the achievement of the growth strategy, but much of the expenditures are unrelated to the strategy and there is clear disappointment with the special budget framework (Note 2). Projects such as limiting classroom size to 35 students (JPY20.9 bn), sharing the costs of U.S. forces stationed in Japan (JPY18.6 bn), and income subsidy grants for upland crops (JPY10.2 bn), account for a large share. Items directly related to the growth strategy account for only about one-third of the total budget.

(Note 2) From *The Three-Step Economic Measures for the Realization of the New Growth Strategy*.

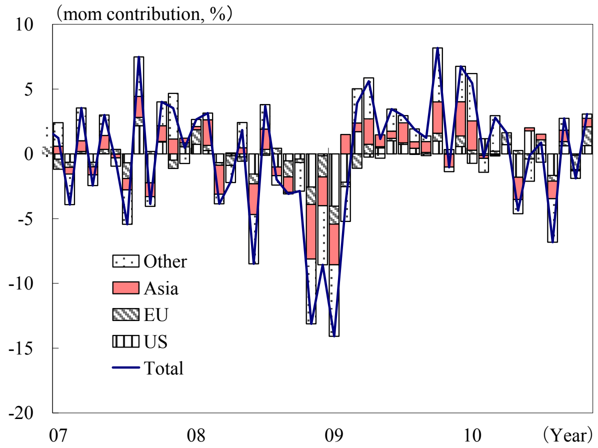
（3）Corporate Sector

①Exports

Exports show signs of bottoming

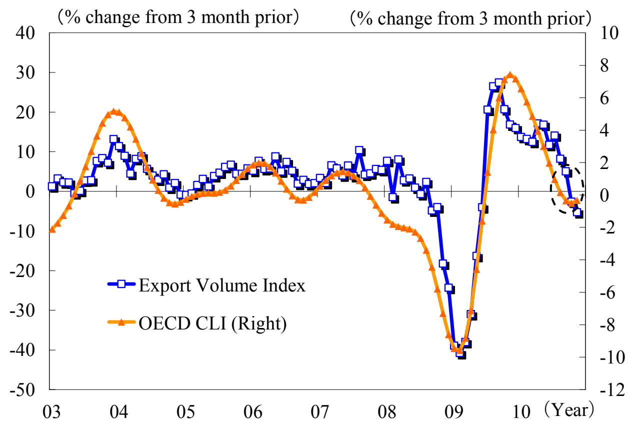
Real exports increased by 3.1% MoM in November, according to the Ministry of Finance's *Trade Statistics*. Figure 3 shows that exports to every region edged up on month; exports to the EU registered sizable gains (+12.8% MoM), those to the US rose by 3.9% MoM, and those to Asia rose by 2.2%. Exports to China climbed 4.0% MoM. Exports, which had remained weak since summer 2010, appear to be showing signs of bottoming out. Figure 4 shows that the OECD's Composite Leading Indicator (CLI) is no longer worsening, and the global economy is showing signs of starting to re-accelerate. We think that exports will improve going forward.

Figure 3: Real Export by Destination Region



Note: Seasonaly-adjusted by BTMU Economic Research Office,
Real Exports: Export value divided by export price
Source: Compiled by BTMU Economic Reserch Office from MoF *Trade Statistice*

Figure4: Export Volume Index and OECD CLI

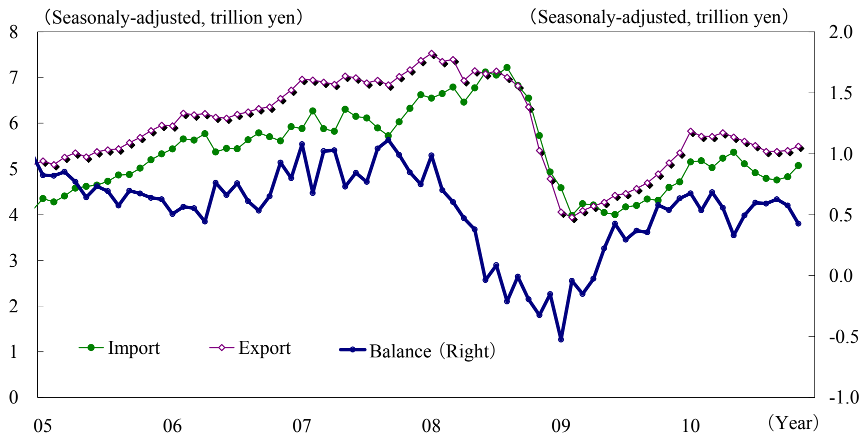


Sorce: Compiled by BTMU Economic Reserch Office from
BOJ *Export Volume Index,*

Shrinking surplus in trade balance a temporary shift

Figure 5 shows that Japan's trade balance surplus dropped to JPY425.7 bn (seasonally adjusted figure, -26.1% MoM) in November. This is because imports rose considerably. By imports, mineral fuels and electronic machinery surged on a value basis. However, this was a temporary response to the recovery in mineral fuel inventories and surging demand for TVs, and the increase in imports is unlikely to be sustained. As exports appear to be bottoming, November's shrinking trade balance surplus was probably a temporary movement.

Figure5：The value of Trade Balance



Sorce: Compiled by BTMU Economic Reserch Office from MoF *Trade Statistics*

②Production

Production is likely to keep increasing

Industrial Production rose 1.0% MoM in November, the first increase in six months, since April 2010. Figure 6 shows that transport equipment and electrical machinery-related production contributed the most; transport equipment output rose 4.4% MoM as production adjustments ended, and electronic parts and devices production rose 3.1% MoM because of stronger demand for liquid crystal panels. The Manufacturing Production Forecast projects that production will continue to rise sharply, at 3.4% MoM in December and 3.7% MoM in January. Recent realization ratios of the production forecast and the forecast revision ratio show that production has topped forecasts (Figure 7). The recent bottoming of exports is also starting to indicate that production will improve.

Figure6: Industrial Production

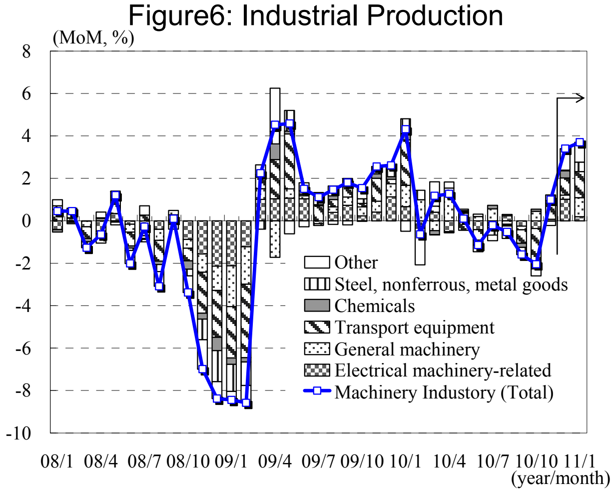
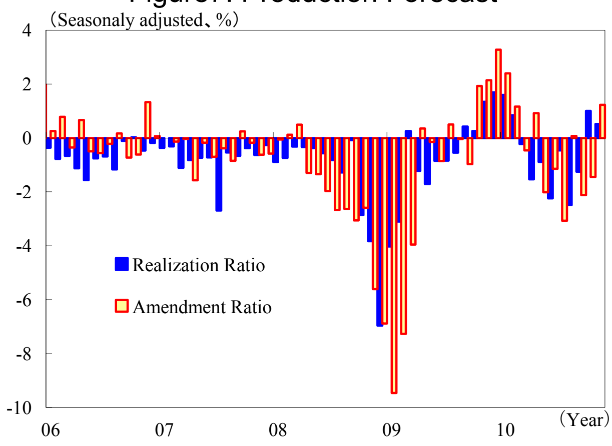


Figure7: Production Forecast

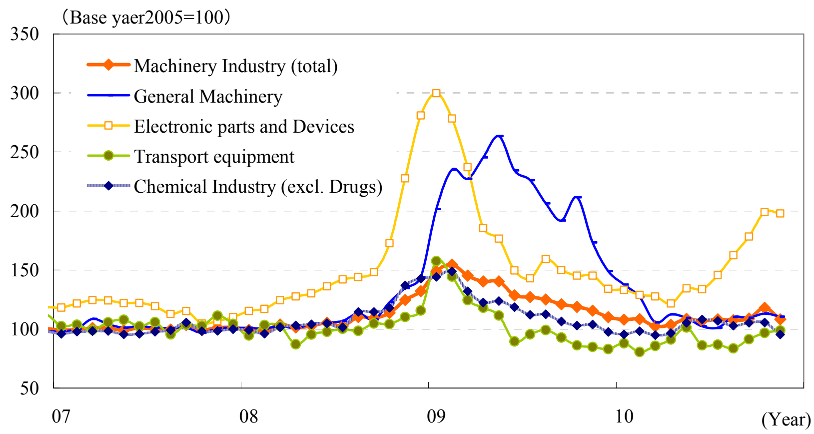


Sorce: Compiled by BTMU Economic Reserch Office from METI Indices of Industrial Production, Shipments, Invntory

Progress of Inventory adjustment

The inventory rate index (inventory volume divided by shipment volume) had been rising since spring 2010, but fell -7.5% MoM in November (Figure 8). By industry, the inventory rate index for electronic parts and devices started to fall, though only slightly. Inventory adjustment pressures starting to ease is also a factor supporting improving production going forward.

Figure8：Inventory Indices by Industries



Source: Compiled by BTMU Economic Research Office from METI Industrial Activity Indices

③Capital Expenditures

Machinery orders remain stagnant

Table 3 shows that machinery orders (private sector, excluding the orders for ships and those from electric power companies), a leading indicator of capital expenditures, have been stagnant, declining on-month for three straight months. By industry, non-manufacturers' orders fell by -10.5% MoM because volatile cell phone orders (part of the telecommunications industry) slipped sharply. Discounting cell phone orders, machinery orders increased 0.8% MoM.

Table3: Orders Received for Machinery

（mom/qoq, figure in parentheses: yoy, %）

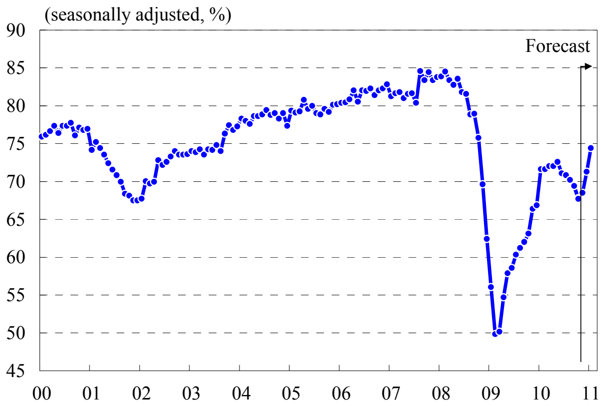
		10/1-3	4-6	7-9	10-12 Forecast	10/8	9	10	11
Private sector (excl.volatile orders 1)		2.9 (▲1.8)	0.3 (3.3)	9.6 (13.0)	▲ 9.8 (7.5)	10.1 (24.1)	▲ 10.3 (4.2)	▲ 1.4 (7.0)	▲ 3.0 (11.6)
	Manufacturing	14.2 (29.2)	▲ 8.6 (13.2)	12.2 (34.3)	▲ 1.8 (17.1)	12.5 (50.8)	▲ 20.7 (19.6)	1.4 (4.2)	10.6 (25.0)
	Non-manufacturing	▲ 3.7 (▲15.0)	5.8 (▲2.4)	9.9 (2.3)	▲ 15.2 (0.4)	8.3 (10.1)	3.0 (▲3.3)	▲ 8.7 (6.2)	▲ 10.5 (3.9)
From Oversea		13.4 (72.2)	2.4 (94.2)	4.9 (54.1)	9.3 (25.8)	▲ 3.7 (68.9)	6.9 (47.5)	16.0 (51.5)	▲ 17.8 (24.4)
Through agencies		7.9 (12.6)	2.2 (32.4)	2.0 (22.1)	4.0 (17.1)	16.8 (35.8)	▲ 16.4 (11.3)	▲ 5.1 (2.8)	18.1 (15.6)

Note: Volatile orders1: Orders for ships and those from electric power companies
Sorce: Compiled by BTMU Economic Reserch Office from Cabinet Office *Orders Received for Machinery*

Production, business sentiment outlooks bright

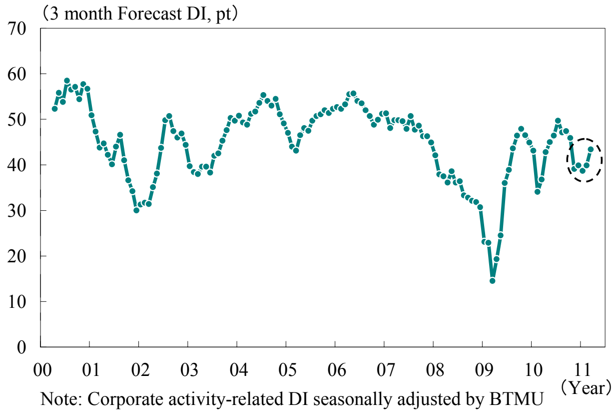
Business fixed investment is likely to recover, mainly due to signs of picking up in the Business Survey Index and in production. Figure 9 shows that the Capacity Utilization Ratio in December and January rose more than its recent peak. Also, Figure 10 shows that the Economy Watchers Index (3 month forecast) has recovered. Those indicate that business fixed investment is likely to gradually head toward recovery.

Figure 9 : Capacity Utilization Ratio



Notes : November capacity utilization ratio is the actual data from "Industrial Production", data for December and January have been estimated by the forecast data.
Based on the assumption that production capacity remains flat.
Source: Compiled by BTMU Economic Research Office based on METI, "Industrial Production"

Figure10: Economy Watchers Index



Note: Corporate activity-related DI seasonally adjusted by BTMU
Sorce: Compiled by BTMU Economic Reserch Office from Cabinet Office *Economy Watchers Servey*

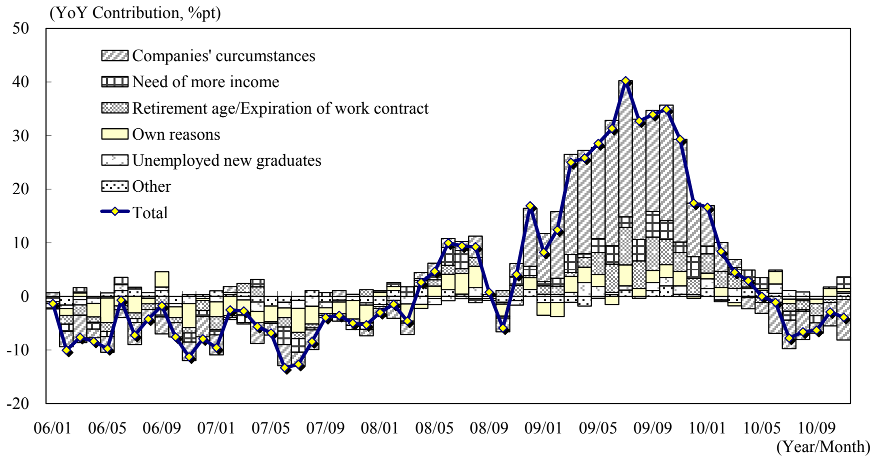
(4) Household Sector

①Labor, Wages

Despite unemployment rate remaining high, labor conditions continue to improve gradually

The employment recovery has appeared to have stagnated recently, with the unemployment rate remaining at a high 5.1% in November (the same level as October) and the number of unemployed workers increasing 20,000 from the previous month. However, by reason for unemployment, the number of those citing involuntary reasons (such as ‘because of workplace downsizing’ and ‘the end of employment contract’), which had surged following the collapse of Lehman Brothers, has declined. On the other hand, the number of voluntarily unemployed has risen, and more workers are quitting in order to change jobs as the economy recovers. This appears to be a reason the unemployment rate has remained high (Figure 11).

Figure 11 : Number of Unemployment by Reasons



Source: Compiled by BTMU Economic Research Office from MIC *Labour Force Survey*

The job openings-to-applications ratio and worker numbers, on the other hand, have been slowly but steadily improving. The November jobs-to-applicants ratio was 0.57x, +0.01pt MoM, improving for the eleventh consecutive month. Worker numbers continue to improve, led by solid recoveries in the medical and health welfare industries (+0.6ppt YoY contribution), transportation and postal services (+0.4ppt YoY contribution), and education (+0.2ppt YoY contribution), although construction (-0.6ppt YoY contribution) and manufacturing (-0.2ppt YoY contribution) still struggle (Table 4).

Table4 : Number of Employees by Industry Sectors

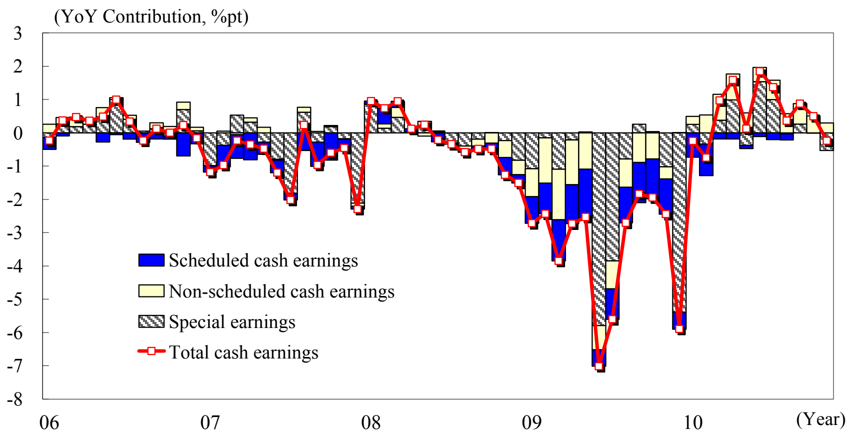
	Non-agricultural industries	Construction	Manufacturing	Information Communications	Transport and Postal activities	Retailers	Finance Insurance	Real Estate	Scientific research	Accomodation Eating and Drinking Services	Living-related services	Education	Medical, Health Care Welfare
YoY (%)	0.0	▲ 7.0	▲ 1.2	▲ 1.6	7.5	3.1	▲ 3.2	2.9	5.7	▲ 0.3	▲ 3.2	4.2	5.5
Contribution (% pt)	0.0	▲ 0.6	▲ 0.2	▲ 0.1	0.4	0.5	▲ 0.1	0.0	0.1	0.0	▲ 0.1	0.2	0.6

Source: Compiled by BTMU Economic Research Office based on Ministry of Internal Affairs and Communications *Labour Force Survey*

Wages fell year-on-year due to a big drop in special earnings

November wages fell -0.2% on an year-on-year basis, the first decline in nine months, mainly because of a big drop of volatile special earnings. However, scheduled earnings, which had been negative year-on-year, have stayed level with the previous year for the third straight month. Non-scheduled earnings, which have led the recovery so far, have also performed better than the same time last year although they are trending downward due to weaker exports and decreasing production (Figure 12).

Figure 12 : Details of Total Cash Earnings

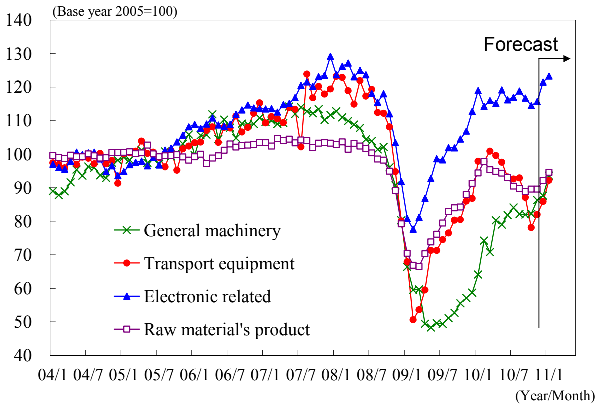


Note: Establishments with 5 or more employees
Source: Compiled by BTMU Economic Research Office from MHLW *Monthly Labour Survey*

Labor and wage conditions to continue improving as exports and production rise

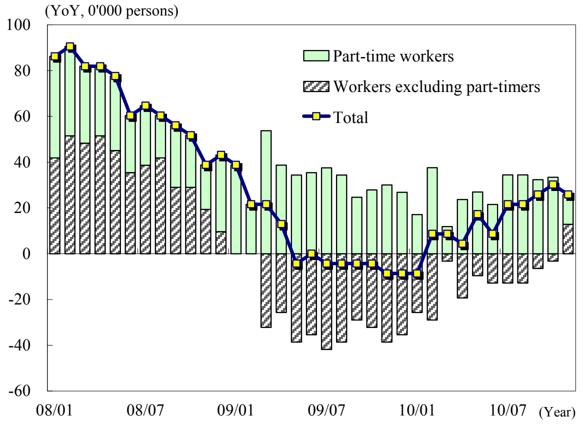
Labor and wage conditions are expected to continue recovering. The recent stagnation in the recovery has likely been a temporary stall, because exports show signs of regaining strength and production forecasts indicate increased production (Figure 13). Non-scheduled working hours will rise again once production starts to increase. Non-scheduled earnings are likely to increase with more working hours, supporting a continued improvement in wages. In addition, worker numbers, excluding part-time workers, have recovered to exceed previous-year levels; this is a positive factor supporting recovering labor and wage environments (Figure 14).

Figure 13 : Production Forecast



Notes: Electrical Related=Electric machinery + Information comunication devices + Electronic goods and devices
Raw Material's Product=Iton and Steel + Non-Ferrous Metals + Chemicals
Source: Economic Research Office based on METI *Industrial Production*

Figure 14: Number of Employees by Employment Status



Note: Establishments with 5 or more employees
Source: Compiled by BTMU Economic Research Office from MHLW *Monthly Labour Survey*

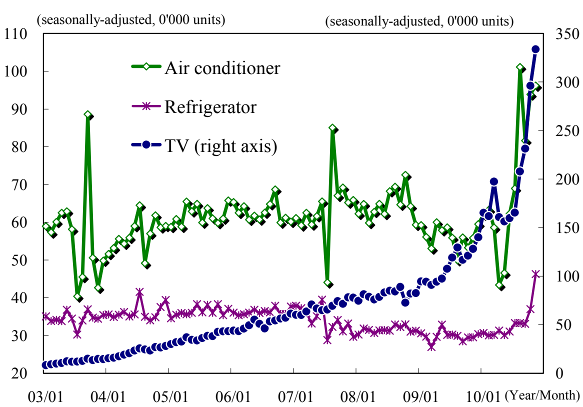
②Private Consumption

November private consumption down YoY for the second straight month due to weak vehicle and cigarette sales, though more home electronics sold

November private consumption fell -0.4% YoY, a second straight month of decline. This was mainly due to weak vehicle sales after the end of the Ecocar subsidy and weak tobacco sales due to price hikes, even though more home electronic appliances were sold right before the Ecopoint program was scaled back in December (Figure 15).

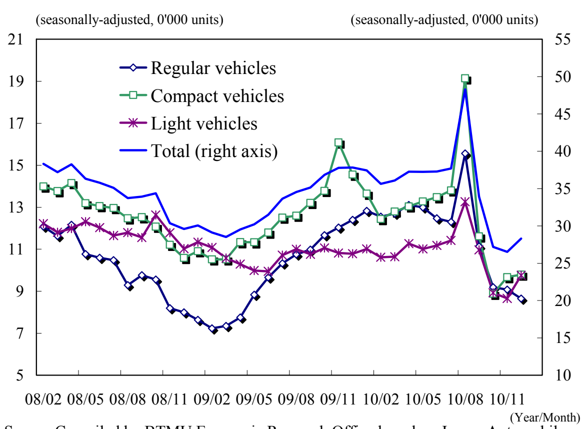
Although the plunge in reaction to last-minute vehicle purchase before the end of the Ecocar subsidy has been rather big, sales, especially of small and light vehicles, have been hitting bottom (Figure 16). Cigarette sales are also recovering to the level before the price hike in October, and are expected to continue to gradually recover.

Figure 15: Ecopoint System Home Appliance Sales



Notes: Seasonally adjusted by BTMU Economic Research Office.
Souces:Compiled by BTMU Economic Research Office Japan Electronics and Information Technology Industries Association *Domestic Shipments of Major Consumer Electronic Equipment* .

Figure 16 : Vehicle Sales



Source:Compiled by BTMU Economic Research Office based on Japan Automobile Manufacturers Association *New Registrations, Mini-Vehicles Sales.*

Weaker consumption expected due to fading policy effects and a surge in buying cutting into demand

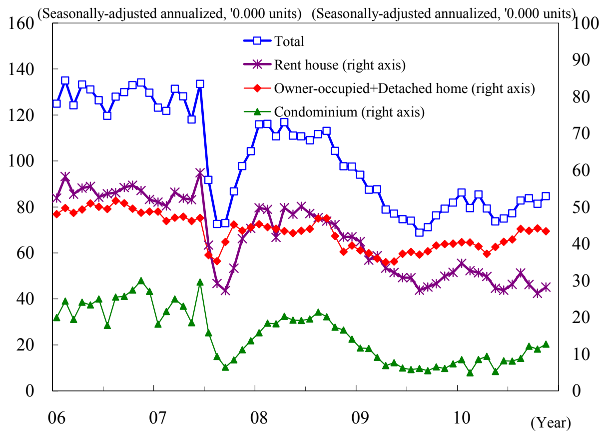
Private consumption is likely to lack strength for a while. After the collapse of Lehman Brothers, consumption has been propelled by durable goods such as vehicles and TVs because of the Ecocar and Ecopoint systems. From now on, there are concerns that the consumption recovery will stall for a time due to fading policy effects and reactionary drops following the surge of buying. However, the chance of an extreme drop in private consumption is limited because labor and wage conditions have been continuously recovering.

③Residential Investment

Residential investment has continued on a recovery path

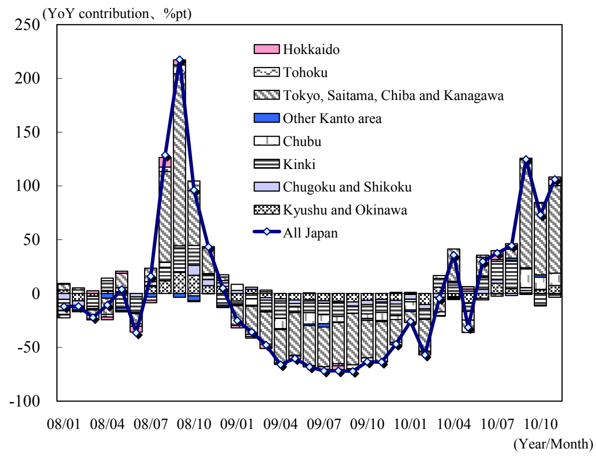
There were 847,000 new housing starts in November (seasonally adjusted, annualized), continuing to recover from October, when starts declined slightly. By owner-occupant relation, owner-occupied and detached homes have shown solid movement. In addition, condominiums are hitting bottom mainly due to progress of inventory adjustment in capital region and Kinki area (Figure 17). Condominium starts overall rose +108.0% YoY (seasonally adjusted) in November, and the recovery is gaining strength because new constructions are increasing in Chubu, Kyushu, and other areas, in addition to the capital region and Kinki area (Figure 18).

Figure 17: New Housing Starts by Owner-Occupant Relation



Note: *Owned homes* + *Subdivided detached homes* and *Condominiums* seasonally adjusted by BTMU
Source: Compiled by BTMU Economic Research Office from MLIT *Housing Starts*

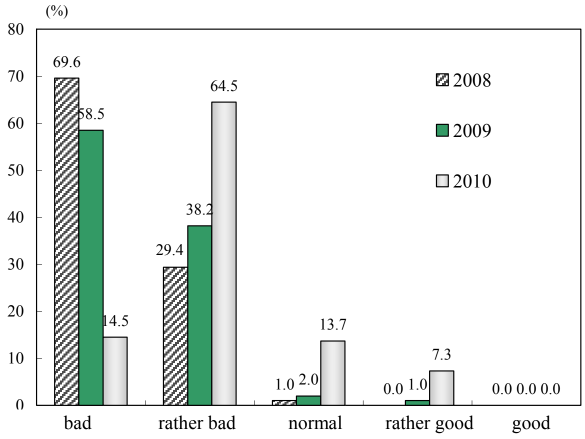
Figure 18 : Condominiums Starts by Regions



Source: Compiled by BTMU Economic Research Office from MLIT *Housing Starts*

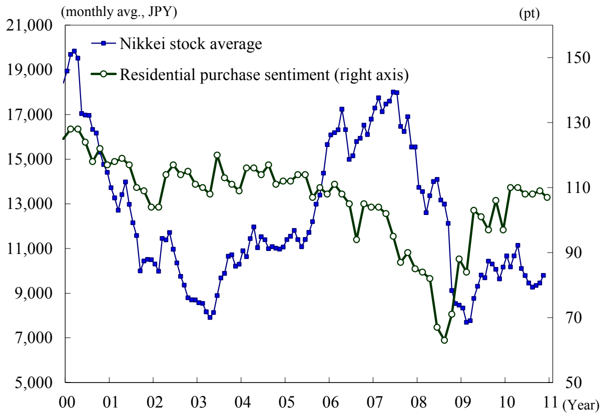
Rental home starts gained 6.4% on an year-on-year basis in November. However, though the worst period is past, it is too early to say that starts have bottomed because real estate investment business confidence is still severe (Figure 19).

Figure 19 : Business Confidence of Real Estate Investment



Source: Compiled by BTMU Economic Research Office from NLI Research Institute *Business Condence Survey of Real Estate Investment* .

Figure 20 : Nikkei Stock Average and Residential Purchase Sentiment



Source: Compiled by BTMU Economic Research Office from Nikkei Inc. *The Nikkei, and* New Nippon Research Institute *Consumer Sentiment Index*

Residential investment to continue to improve

Residential investment will continue recovering, led in particular by more construction of owner-occupied and detached homes and condominiums because of advantageous conditions for home purchases, such as low interest rates and tax benefits. The Nikkei stock average's stronger performance and positive residential purchase sentiment also support the recovery (Figure 20). The housing Ecopoint program, extended through to the end of 2011, is also expected to contribute to some extent. Furthermore, based on the large package of tax revisions for FY11, tax benefits for home purchases will be expanded, and this is hoped to boost younger generations' purchases. However, the gradual reduction of mortgage tax breaks from this year can quell residential investment, a factor that bears watching (Table 5).

Table 5 :Home Purchase Tax Benefits

Mortgage Tax Reduction Amounts

Year	Maximum year-end loan balance	Exemption rate	Maximum	Total Maximum exemption
2009	JPY50 mn	1.0%	JPY500,000	JPY5 mn
2010	JPY50 mn	1.0%	JPY500,000	JPY5 mn
2011	JPY40 mn	1.0%	JPY400,000	JPY4 mn
2012	JPY30 mn	1.0%	JPY300,000	JPY3 mn
2013	JPY20 mn	1.0%	JPY200,000	JPY2 mn

Note: For general homes.

Changes in Inheritance, Gift Taxes

Current	Amendment・Expansion Points
【Tax calculation at time of inheritance】 ・Recipients must be heir apparents only ・Giver must be age 65yrs or older 【Gifts of funds for home acquisition】 ・Gift tax tax exclusions apply only to residences (do not apply to land)	【Tax calculation at time of inheritance】 ・Recipients may include grandchildren age 20 years old or older ・Giver age lowered to 60yrs or older 【Gifts of funds for home acquisition】 ・Gift tax residence tax exclusion to now include funds used to acquire land, etc., prior to construction of new home.

Note: Homes must be constructed by March 15 of following year after gift funds received.
Revision to apply to gift taxes for residences acquired on or after January 1, 2011, from gift funds.

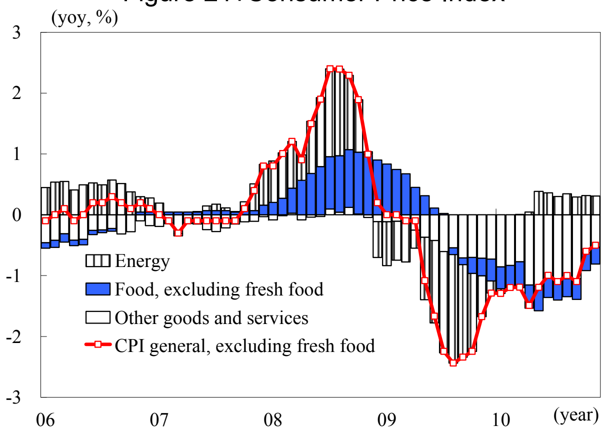
Source: Compiled by BTMU Economic Research Office from MoF *Outline of Home Mortgage Tax Exemptions* and Cabinet Office *FY 2011 Tax Revisions.*

（5）Inflation

No change in trend

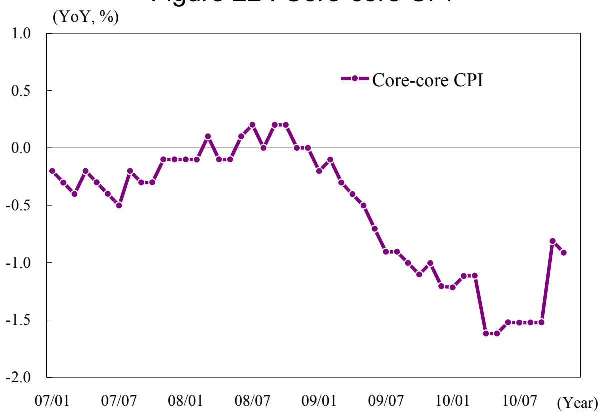
The November consumer price index (overall, excluding fresh food, also known as the core CPI) slowed in its decline for a second straight month, falling -0.5% YoY, compared to -0.6% YoY in October (Figure 21). However, this was mainly because of higher gasoline prices. The core-core CPI (excluding non-alcohol foods and energy) dropped further than last month (-0.8% YoY) to -0.9% YoY. The downward trend of consumer prices does not appear to be changing (Figure 22).

Figure 21 : Consumer Price Index



Note: Energy="Electricity", "Gas, manufactured & piped", "Liquefied propane", "Kerosene", "Gasoline "
Source: Compiled by BTMU Economic Research Office based on MIC *Consumer Price Index* .

Figure 22 : Core-core CPI

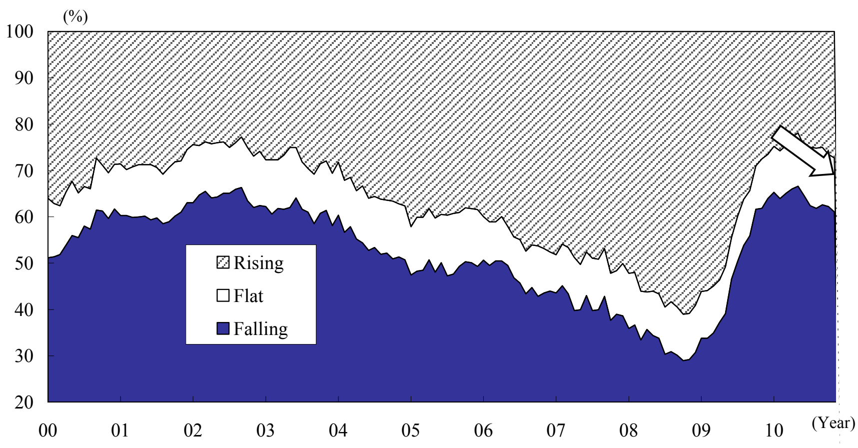


Notes: Core-core CPI = Consumer Price Index excluding Food (excl. alchol) and energy.
A drop in April is an effect by high school tuition waiver, and a hike in Oct. is one by tobacco and accident insurance price hike.
Source: Compiled by BTMU Economic Research Offce from MIC *Consumer Price Index* .

Decline in prices continues to ease, though quite slowly

The ratio of falling and rising prices in the core CPI shows fewer falling prices as deflationary pressure eases (Figure 23). The decline in prices is expected to gradually stop, but some time will be needed before a price uptrend begins.

Figure23 : Core CPI Component Items and Ratio of Falling/Rising Prices



Source: Compiled by BTMU Economic Research Office from MIC *Consumer Price Index* .

2. The Financial Markets

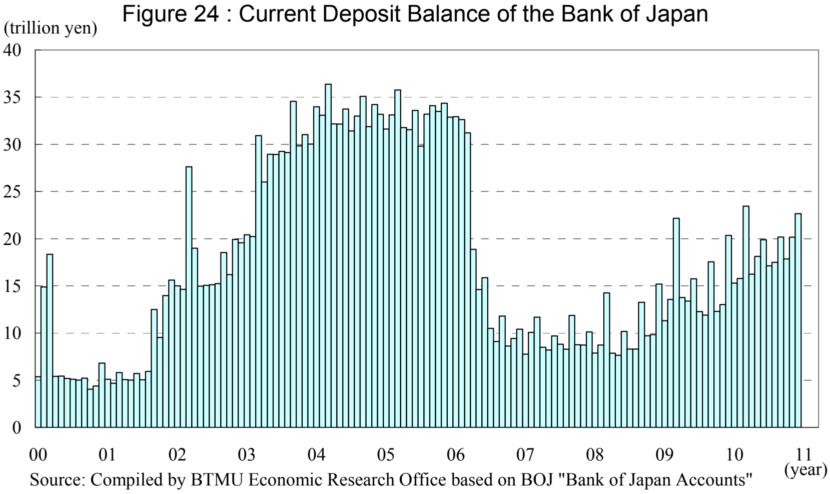
(1) Monetary Policy ,Short-term Interest Rates

BoJ fund supplying boosts current deposit balance

The balance of the BoJ current deposits has increased to around JPY20 trillion, up approximately 10% from the previous year, due to the Bank's aggressive funds supplying operations following its decision to implement Comprehensive Easing last October (Figure 24). This has put downward pressure on short-term interest rates, and the uncollateralized overnight call rate has dropped to an average of 0.08% since late last December, below the average of 0.09% since last spring. The BoJ plans to keep aggressively supplying funds, for example by supplying another approximately JPY9 trillion (Note 3) via the asset purchase fund (Table 6). Downward pressure on short-term interest rates is likely to continue in the foreseeable future.

(Note 3) : (The fund's total amount: JPY35 trillion) － (The balance at Dec. 2010: JPY26 trillion) = JPY9 trillion

Figure 24 : Current Deposit Balance of the Bank of Japan



Source: Compiled by BTMU Economic Research Office based on BOJ "Bank of Japan Accounts"

Table 6: BoJ Asset Purchase Funds

(Bn JPY)

Assets to be purchased	Planned purchases ①	Balance as of December ②	①−②
JGBs	1,500.0	451.8	1,048.2
Treasury discount bills	2,000.0	749.9	1,250.1
CP, etc.	500.0	98.9	401.1
Corporate bonds, etc.	500.0	102.7	397.3
ETF	450.0	14.2	435.8
J-REITs	50.0	2.2	47.8
Pooled collateral operations	30,000.0	24,833.3	5,166.7
Total	35,000.0	26,253.0	8,747.0

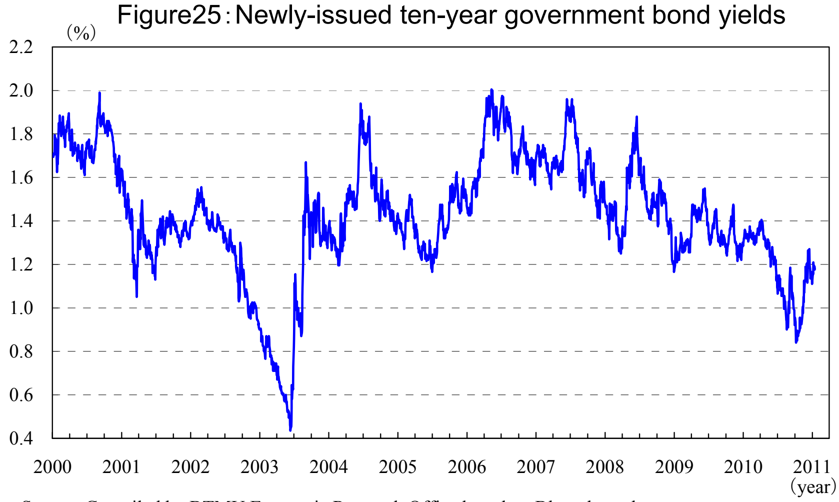
Source: Compiled by BTMU Economic Research Office from BoJ materials.

(2) Long-term Interest Rates

Rise in long-term interest rates has paused

Long-term interest rates had soared since last October but have now stopped rising. After the yield on newly-issued 10-year JGBs rose to near 1.3% in mid-December, the yield fell and now is hovering around 1.2% (Figure 25). Because Japan's economy shows signs of emerging from its lull, long-term interest rates are expected to follow a rising trend in the relatively long run. However, over the short term, a backlash from the earlier surge or caution regarding European sovereign problems may restrain interest rates from rising.

Figure25：Newly-issued ten-year government bond yields



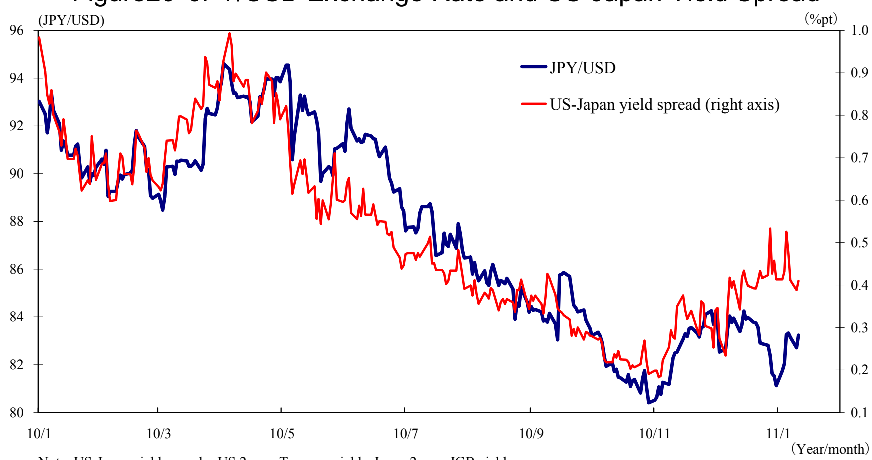
Source: Compiled by BTMU Economic Research Office based on Bloomberg data.

(3) Exchange Rates

JPY hovering in a range of JPY/USD82-83

The JPY's appreciation has paused, and the JPY is hovering in a range centered around JPY/USD82～83. Strong US holiday sales and rising US stock prices have supported the USD. But note that the JPY hasn't dropped as much as the widened gap between the US and the Japan interest rates (Figure 26). This is because the downgradings of European countries like Ireland and Spain in late December have generated JPY-buying pressure. Current exchange rate conditions are keeping the yen from following any trend, either upward or downward, so the JPY is likely to move in a range for a while.

Figure26：JPY/USD Exchange Rate and US-Japan Yield Spread



Note: US-Japan yield spread = US 2-year Treasury yield - Japan 2-year JGB yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg materials.

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MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1． Main Economic Indicators

As of Jan 24, 2011

	Fiscal	Fiscal	2010				2010				
	2008	2009	1Q	2Q	3Q	4Q	AUG	SEP	OCT	NOV	DEC
Real GDP Growth Rate <% changes from	-4.1	-2.4	6.8	3.0	4.5		***	***	***	***	***
previous period at SA annual rate>			(5.9)	(3.5)	(5.3)						
Index of All Industries Activity	-4.5		1.4	0.8	0.7		-0.1	-0.8	-0.3	-0.1	
			(3.7)	(3.4)	(3.1)		(3.8)	(2.7)	(1.3)	(2.4)	
Industrial Production Index	-12.7	-8.9	7.0	1.5	-1.8		-0.5	-1.6	-2.0	1.0	
Production			(27.5)	(21.0)	(13.5)		(15.1)	(11.5)	(4.3)	(5.8)	
Shipments	-12.6	-8.4	7.2	1.6	-1.2		-0.8	-0.5	-3.0	2.6	
			(26.5)	(21.8)	(14.3)		(15.8)	(12.6)	(4.1)	(8.1)	
Inventory	-5.2	-6.0	1.1	3.4	0.4		0.8	0.1	-1.0	-1.8	
			(-6.0)	(1.2)	(3.4)		(2.6)	(3.4)	(3.8)	(1.9)	
Inventory/Shipments Ratio	121.9	120.4	106.2	106.2	108.1		107.4	108.8	117.9	108.1	
(2005=100)			[149.6]	[136.4]	[124.3]	[114.7]	[125.0]	[120.9]	[118.7]	[115.5]	[110.0]
Domestic Corporate Goods Price Index	3.1	-5.2	0.3	0.6	-0.2	0.3	0.0	0.0	0.1	0.1	0.4
			(-1.7)	(0.2)	(-0.1)	(1.0)	(0.0)	(-0.1)	(0.8)	(0.9)	(1.2)
Consumer Price Index(SA, total, excl.fresh foods)	1.2	-1.6	-0.6	0.0	-0.2		-0.1	-0.1	0.4	0.2	
			(-1.2)	(-1.2)	(-1.0)		(-1.0)	(-1.1)	(-0.6)	(-0.5)	
Index of Capacity Utilization	88.7	80.0	90.3	90.4	88.2		88.3	87.3	85.3	86.7	
(2005=100)			[65.4]	[71.8]	[77.0]	[81.8]	[77.0]	[78.0]	[79.4]	[81.9]	[84.1]
Machinery Orders(Private Demand,	-14.1	-20.6	2.9	0.3	9.6		10.1	-10.3	-1.4	-3.0	
Excl.Electric Power and Ship building)			(-1.8)	(3.3)	(13.0)		(24.1)	(4.2)	(7.0)	(11.6)	
Manufacturing	-22.4	-27.8	14.2	-8.6	12.2		12.5	-20.7	1.4	10.6	
			(29.2)	(13.2)	(34.3)		(50.8)	(19.6)	(4.2)	(25.0)	
Non-manufacturing	-6.8	-15.8	-3.7	5.8	9.9		8.3	3.0	-8.7	-10.5	
Excl.Electric Power & Ship building			(-15.0)	(-2.4)	(2.3)		(10.1)	(-3.3)	(6.2)	(3.9)	
Shipments of Capital Goods	-17.6	-24.3	14.3	7.4	1.8		-1.4	0.2	2.8	-1.4	
(Excl.Transport Equipment)			(5.8)	(29.6)	(31.4)		(31.2)	(28.7)	(29.9)	(27.0)	
Construction Orders	-12.3	-14.2									
			(18.7)	(-9.9)	(-8.0)		(-0.0)	(-15.0)	(-5.6)	(-5.3)	
Private	-19.0	-15.3									
			(29.9)	(-8.0)	(-9.4)		(4.7)	(-20.5)	(8.9)	(-2.4)	
Public	23.5	-11.1									
			(-10.5)	(-13.3)	(-6.2)		(9.7)	(2.3)	(-44.1)	(10.4)	
Public Works Contracts	0.1	4.9									
			(-11.8)	(-3.5)	(-12.6)	(-14.8)	(-8.4)	(-18.8)	(-18.1)	(-6.3)	(-18.1)
Housing Starts	103.4	77.8	83.7	76.0	81.2		82.8	83.7	81.3	84.7	
10,000 units at Annual Rate, SA	(0.3)	(-25.4)	(-6.6)	(-1.1)	(13.8)		(20.4)	(17.7)	(6.4)	(6.8)	
Total floor	(-2.3)	(-21.5)	(-3.4)	(3.9)	(15.1)		(19.7)	(20.3)	(10.1)	(10.2)	
Sales at Retailers	-1.1	-0.4									
			(3.8)	(3.7)	(3.2)		(4.3)	(1.4)	(-0.2)	(1.5)	
Real Consumption Expenditures	-2.8	1.0	0.0	-1.6	2.1	0.0	0.7	-0.4	-0.9	1.0	
of Households over 2 persons (SA)			(-3.2)	(-0.2)	(0.6)	(0.0)	(1.7)	(0.0)	(-0.4)	(-0.4)	
Propensity to Consume	73.3	74.7	74.4	71.9	75.8	0.0	75.3	74.9	70.2	75.7	
(SA,%)			[74.0]	[74.8]	[74.7]	[74.5]	[73.7]	[74.0]	[73.2]	[73.9]	[75.6]
Overtime Hours Worked	-7.0	-8.5	5.0	0.9	0.6		0.0	-2.1	0.0	0.5	
(All Industries, 5 employees or more)			(10.0)	(10.8)	(9.6)		(10.1)	(7.6)	(6.2)	(6.1)	
Total Cash Earnings (Regular Employees	-1.1	-3.3									
Only; All Industries, 5 employees or more)			(0.0)	(1.3)	(0.9)	(0.0)	(0.4)	(0.9)	(0.5)	(0.2)	
Employment Index(Regular Employees Only;'All Industries,	29076.0	-77894.3	1682.9	10188.4	21463.6		18928.2	24835.5	28054.1	28971.3	
5 employees or more) (Change over the M/Q/Y)			[-71,698.8]	[-96,970.8]	#########	[-109,742.7]	#########	#########	#########	[-110,971.6]	[-110,435.1]
Ratio of Job Offers to Applicants	0.78	0.45	0.47	0.50	0.54		0.54	0.55	0.56	0.57	
(SA,Times)			[0.59]	[0.46]	[0.43]	[0.43]	[0.42]	[0.43]	[0.43]	[0.43]	[0.43]
Unemployment Rate	4.1	5.2	4.9	5.2	5.1		5.1	5.0	5.1	5.1	
(SA,%)			[4.5]	[5.1]	[5.4]	[5.2]	[5.4]	[5.3]	[5.2]	[5.3]	[5.2]
Economy Watcher Survey	25.6	39.9	42.8	48.3	45.4	43.0	45.1	41.2	40.2	43.6	45.1
(Judgment of the present condition D.I,%)			[21.6]	[37.7]	[42.4]	[36.7]	[41.7]	[43.1]	[40.9]	[33.9]	[35.4]
Bankruptcies (Number of cases)	16,146	14,732	3,467	3,323	3,232	3,299	1,064	1,102	1,136	1,061	1,102
	(12.3)	(-8.7)	(-17.7)	(-15.9)	(-14.5)	(-6.5)	(-14.2)	(-4.5)	(-9.9)	(-6.2)	(-2.9)

(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 Jan 24, 2011

	Fiscal 2008	Fiscal 2008	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2010 AUG	2010 SEP	2010 OCT	2010 NOV	2010 DEC
Customs Clearance(Exports in Yen Terms)	-16.4	-17.1	(43.3)	(33.2)	(17.8)		(15.5)	(14.3)	(7.8)	(9.1)	
Value	-3.3	-7.0	(-0.3)	(0.3)	(-0.7)		(1.1)	(-1.5)	(2.4)	(-0.1)	
Volumes	-14.3	-9.9	(43.8)	(32.8)	(18.6)		(14.2)	(16.1)	(5.3)	(9.2)	
Imports(In Yen terms)	-4.1	-25.2	(18.9)	(27.9)	(14.5)		(17.9)	(10.0)	(8.8)	(14.2)	
Value	0.6	-18.5	(5.0)	(7.3)	(0.1)		(-1.0)	(-0.5)	(2.9)	(-1.1)	
Volumes	-5.7	-7.3	(13.1)	(19.3)	(14.4)		(19.1)	(10.5)	(5.8)	(15.5)	
Current Balance(100 mil. yen)	123,362	157,817	50,316	36,116	48,791		11,429	20,175	14,362	9,262	
Trade Balance(100 mil. yen)	11,589	65,996	20,410	20,358	19,787		1,706	9,110	9,129	2,597	
Services(100 mil. yen)	-20,469	-18,185	-2,184	-5,219	-2,756		-768	-495	-2,745	-993	
Capital and Financial Accounts(100 mil. yen)	-173,053	-123,113	-57,057	-16,465	-36,631		-12,722	-2,513	-4,433	-5,187	
Gold & Foreign Exchange Reserves($1mil.)	1,018,549	1,042,715	1,042,715	1,050,235	1,109,591	1,096,185	1,070,145	1,109,591	1,118,121	1,101,031	1,096,185
Exchange Rate(\/$)	100.46	92.80	90.65	92.01	85.86	82.59	85.47	84.38	81.87	82.48	83.41

3．Financial Market Indicators

	Fiscal 2008	Fiscal 2008	2010 1Q	2010 2Q	2010 3Q	2010 4Q	2010 AUG	2010 SEP	2010 OCT	2010 NOV	2010 DEC
Uncollateralized Overnight Call Rates	0.363	0.102	0.098	0.093	0.093	0.090	0.095	0.091	0.091	0.091	0.087
			[0.110]	[0.103]	[0.103]	[0.104]	[0.106]	[0.102]	[0.106]	[0.105]	[0.101]
Euro Yen TIBOR	0.805	0.516	0.443	0.388	0.364	0.336	0.363	0.355	0.336	0.335	0.335
(3 Months)			[0.693]	[0.579]	[0.543]	[0.498]	[0.542]	[0.537]	[0.525]	[0.508]	[0.462]
Newly Issued Japanese Government Bonds Yields	1.438	1.353	1.337	1.208	0.987	1.072	0.975	0.930	0.920	1.185	1.110
(10 Years)			[1.293]	[1.420]	[1.338]	[1.317]	[1.305]	[1.295]	[1.405]	[1.260]	[1.285]
Average Contracted Interest Rates	1.619	1.449									
on Loans and Discounts(City Banks)			1.449	1.420	1.392		1.412	1.392	1.398	1.401	
(% changes from previous period)			(-0.029)	(-0.029)	(-0.028)		(-0.008)	(-0.020)	(0.006)	(0.003)	
The Nikkei Stock Average	8,110	11,090	11,090	9,383	9,369	10,229	8,824	9,369	9,202	9,937	10,229
(TSE 225 Issues)			[8,110]	[9,958]	[10,133]	[10,546]	[10,493]	[10,133]	[10,035]	[9,346]	[10,546]
M2(Average)	(2.1)	(2.9)	(2.8)	(3.0)	(2.8)	(2.6)	(2.8)	(2.8)	(2.8)	(2.6)	(2.3)
Broadly-defined Liquidity(Average)	(0.1)	(0.8)	(1.2)	(1.5)	(0.5)	(0.2)	(0.5)	(0.3)	(0.2)	(0.2)	(0.1)
Principal Figures of Financial Institutions											
Loans and Discount (Average): Banks & Shinkin	(2.4)	(0.8)	(-1.6)	(-1.9)	(-1.8)	(-2.0)	(-1.9)	(-1.8)	(-2.0)	(-2.0)	(-1.9)
Banks	(2.7)	(0.8)	(-1.8)	(-2.0)	(-1.9)	(-2.1)	(-2.0)	(-1.8)	(-2.1)	(-2.1)	(-2.1)
City Banks etc.	(1.9)	(-0.4)	(-3.5)	(-3.8)	(-3.8)	(-4.6)	(-4.0)	(-3.9)	(-4.4)	(-4.7)	(-4.7)
Regional Banks	(3.9)	(2.4)	(0.1)	(0.0)	(0.4)	(0.9)	(0.4)	(0.6)	(0.7)	(0.9)	(1.1)
Regional Banks Ⅱ	(2.4)	(1.3)	(0.3)	(-0.4)	(-0.7)	(-0.5)	(-0.8)	(-0.6)	(-0.6)	(-0.5)	(-0.5)
Shinkin	(0.9)	(0.8)	(-0.7)	(-1.4)	(-1.4)	(-1.2)	(-1.4)	(-1.4)	(-1.3)	(-1.3)	(-1.1)
Deposits and CDs (Average): Total(3 Business Condition)	(1.7)	(2.9)	(2.7)	(2.8)	(2.7)	(2.7)	(2.7)	(3.1)	(3.1)	(2.7)	(2.1)
City Banks	(1.7)	(3.0)	(2.5)	(2.7)	(2.9)	(3.0)	(2.9)	(3.7)	(3.7)	(3.2)	(2.0)
Regional Banks	(1.9)	(3.1)	(3.3)	(3.3)	(3.1)	(3.0)	(3.1)	(3.1)	(3.2)	(2.9)	(2.9)
Regional Banks Ⅱ	(1.3)	(1.8)	(2.0)	(1.0)	(0.4)	(0.1)	(0.4)	(0.1)	(0.3)	(0.0)	(0.1)

(Notes) Interest rates are averages. The Nikkei Stock Average is as of month-end.

(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.