The Outlook for the Japanese Economy

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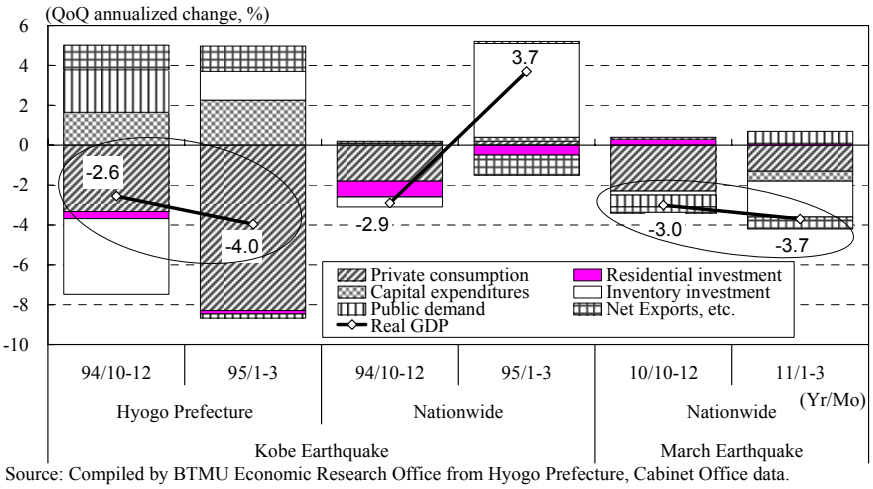
Japan's Economy Weakens Further on Impact of the Great Eastern Japan Earthquake, But Recovery Anticipated from later this year

1. Current Economic Conditions

Second straight quarter of negative growth in Jan-Mar on fallout of earthquake

Japan's economy is in a severe phase following the Great Eastern Japan Earthquake (also known as the March Earthquake). In fact, real GDP growth fell an annualized -3.7% QoQ in Jan-Mar, the second straight quarter of decline after the -3.0% QoQ annualized drop in Oct-Dec (Figure 1). This was the biggest contraction since the Jan-Mar 2009 quarter following the collapse of Lehman Brothers (-18.3% QoQ annualized). When the Great Hanshin-Awaji Earthquake (also known as the Kobe Earthquake) struck in January 1995, although directly-hit Hyogo Prefecture's real GDP dropped -4.0% QoQ annualized in the Jan-Mar quarter, real GDP for the nation as a whole recorded positive growth of +3.7% QoQ annualized. The economic impact was contained in the disaster-struck region. On the other hand, the recent earthquake in Tohoku also triggered a major tsunami and crisis at a nuclear reactor plant, with huge human and social damage, and the adverse economic effects appear to be on a nationwide scale.

Figure 1: Real GDP Before and After March Earthquake

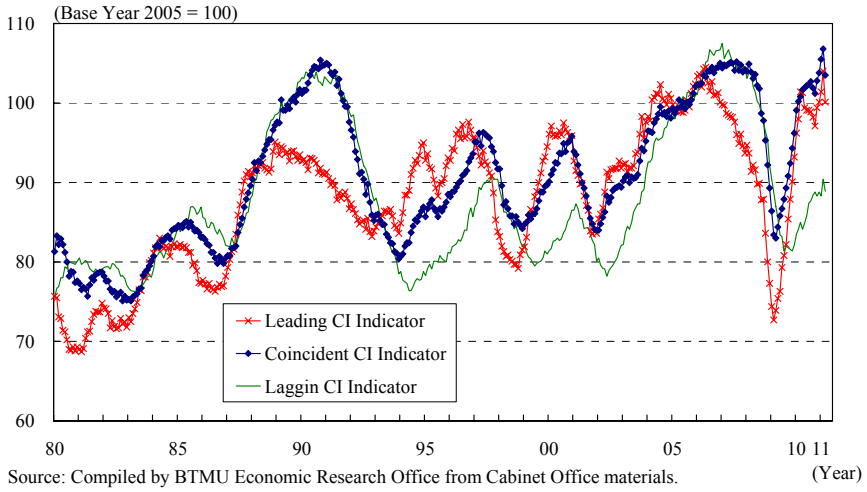


Source: Compiled by BTMU Economic Research Office from Hyogo Prefecture, Cabinet Office data.

Biggest drop ever for economic coincident CI in March

Further, the leading, coincident, and lagging CIs in the Indexes of Business Conditions, comprised of various monthly indicators sensitive to the economy, all plunged in March (Figure 2). The leading CI fell -3.9 points MoM, the biggest drop since October 2008 (-4.3 points MoM) following the collapse of Lehman Brothers. The coincident CI fell -3.3 points MoM, the biggest fall since this data series was first introduced in 1980, and the lagging CI fell -1.5 points MoM, the biggest drop since July 2009 (-1.8 points MoM). Further, among coincident indicators, Large Industrial Power Consumption, the Index of Producer's Shipments, the Index of Industrial Production, and the Index of Non-scheduled Worked Hours (Manufacturing) all contributed to the negative results, as the drag of stalled production activity was clear. Even the demand indicators in the previously-released Jan-Mar real GDP release show that inventory investment was the biggest contributor to the contraction in GDP (Figure 1), and the drop in production is now preceding a decline in demand in what can be called a classic case of 'production shock.'

Figure 2: Indexes of Business Conditions



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

2. Outlook

＜Summary＞

Economic challenges likely to continue for some time as impacts of earthquake persist

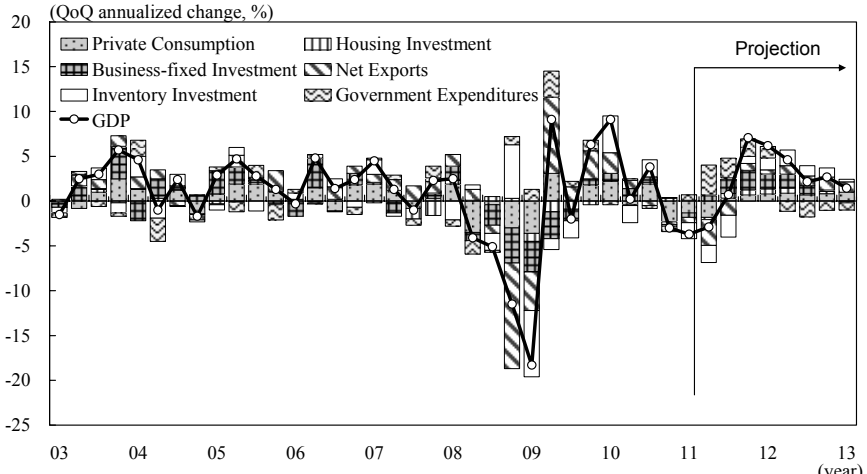
Looking ahead, we predict that the economy's deterioration will be particularly severe in the disaster-struck region. Although reconstruction and recovery demand is expected to gradually be reflected in GDP items like capital expenditures and public investment, this is because inventory investment and exports will be under considerable downward pressure due to sluggish private consumption, reduced production capacity, and restricted supply.

On the other hand, as long as overseas economies continue to expand, Japan's economy can be expected to be supported by external demand. At the same time, because the March Earthquake wrought such huge destruction, we think the potential reconstruction and recovery demand will also be considerable. Assuming the government response is alacritous, we think a basis for expanded demand by the private sector will also be laid and the economy will recover.

Recovery expected to begin in Jul-Sept

On a quarterly basis, although Apr-Jun are also projected to continue the negative growth, we think growth will thereafter turn positive (Figure 3). In fiscal year terms, although FY11 is likely to show slightly negative growth of -0.2% YoY, we think the economy will grow +4.0% YoY in FY12. At the same time, we feel that sufficient caution regarding a halt in the recovery is still warranted if the nuclear reactor crisis is prolonged and persisting concerns about the electric power supply and uncertainty about the future remain.

Figure3：Real GDP Growth Rate



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

Although the margin of price declines is contracting, we think deflation will not end for some time

There could be a number of big fluctuations in prices this year because of changes in energy prices and statistical factors, but we think the downward trend will keep slowing. In terms of the effect of the March earthquake, a widening deflationary gap will continue to put downward pressure on inflation for a while as the economy is expected to slow, but the reverse effect is anticipated as part of a later recovery process. Either way, we think some time will still be needed before consumer prices start rising steadily both on in core terms (excluding fresh foods) as well as on a core-core basis (excluding foods except for alcohol and energy), and deflation clearly ends.

(1)Corporate Sector

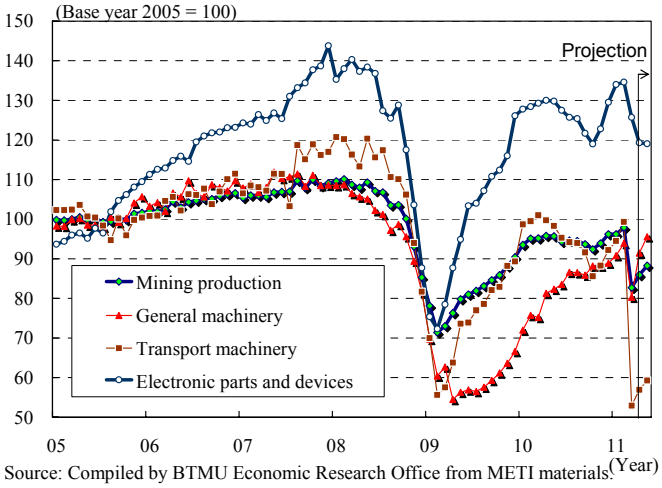
① Production

After the earthquake, March production plunged by a record margin mainly due to transportation machinery falling

Industrial production plunged by a record margin in March following the March Earthquake (Figure 4). The decline exceeded the -8.6% MoM dive that occurred in February 2009 after the collapse of Lehman Brothers and was the biggest since statistics have been kept. The 46.7% MoM output drop in transportation machinery, highly dependent on disaster region production of important parts like microcomputers, was particularly striking. Half the plunge in industrial production in March was due to the drop in transportation machinery output.

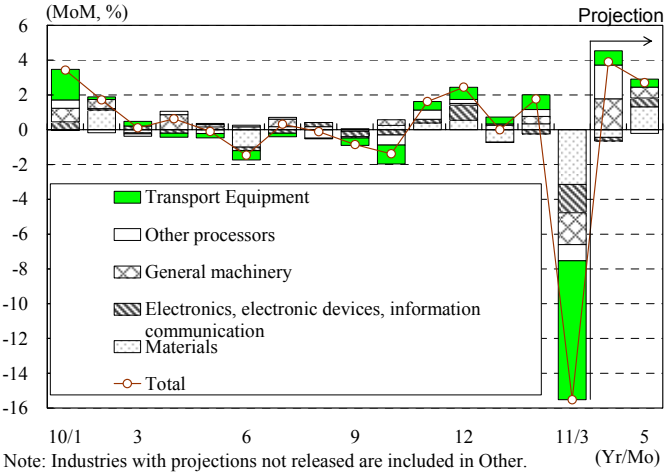
On the other hand, production seems to be improving slightly recently, with operations restarting and substitute parts being procured. According to manufacturer production forecasts, consecutive increases in production are expected from April (April +3.9%, May +2.7%). However, the supply chain and networks for parts and other supplies will probably not be fully restored, as production levels remain at about 90% of pre-quake levels (Figure 5) as of May. Big disparities among production of types of machinery are clear. General machinery, which had been considered relatively little-affected by the March Earthquake, has already returned to pre-quake production levels in May as transportation equipment, which suffered severe disruptions in the supply chain, has only returned to 60% of the pre-quake level.

Figure 4: Mining and Manufacturing Production



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

Figure5: Mining and Manufacturing Production



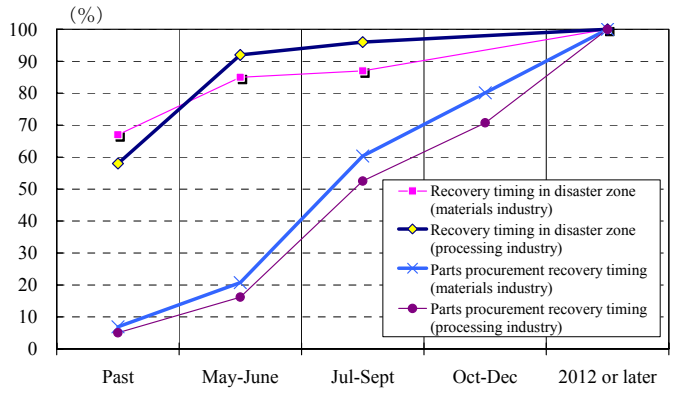
Note: Industries with projections not released are included in Other.
Source: Compiled by BTMU Economic Research Office from METI materials.

After declining, with recovery expected to accelerate from H2 FY12

According to a Ministry of Economy, Trade and Industry survey, factories in the stricken area that halted operations will restart relatively soon. On the other hand, it will still be some time before parts procurement networks and supply chains recover (Figure 6). In addition to the protracted supply chain confusion,

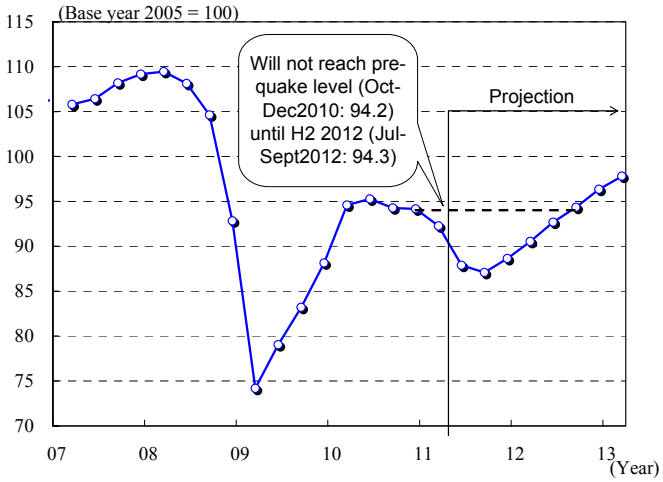
electricity shortages expected to worsen through the summer will become a headwind for production. But as long as such restrictions are minimized, production is expected to return to a level appropriate to demand, pulled by steady foreign demand (Figure 7). As a result, production will inevitably decrease through mid-2011, but it is expected to once again return to an upward trajectory from Q4 2011. It will likely take until Q3 2012 for production to return to pre-quake levels in terms of quarterly average.

Figure 6: Projections of Timing of Recovery and Parts Procurement in Disaster Area



Note: 1. Survey period April 8-15.
2. Projections of Recovery timing in disaster zone (respondents 70 companies) and Parts procurement recovery timing (respondents 30 companies).
3. Some companies offered multiple responses to Parts procurement recovery timing question, as same company had different answers for different type of parts. Therefore, total is not 100%., but 100 was used for denominator and expressed aggregately.
4. Timing uncertain response includes 2011 or later.
Source: Compiled by BTMU Economic Research Office from METI materials.

Figure 7: Mining and Manufacturing Production



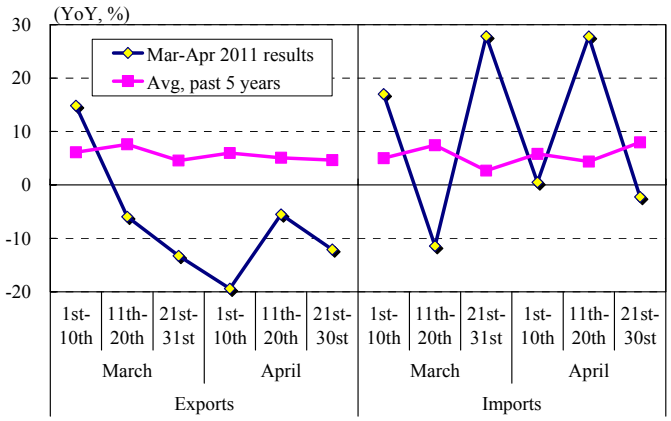
Source: Compiled by BTMU Economic Research Office from METI materials.

②Exports and Trade Balance

Japanese exports plunged suddenly from mid-March on supply restrictions following the March Earthquake

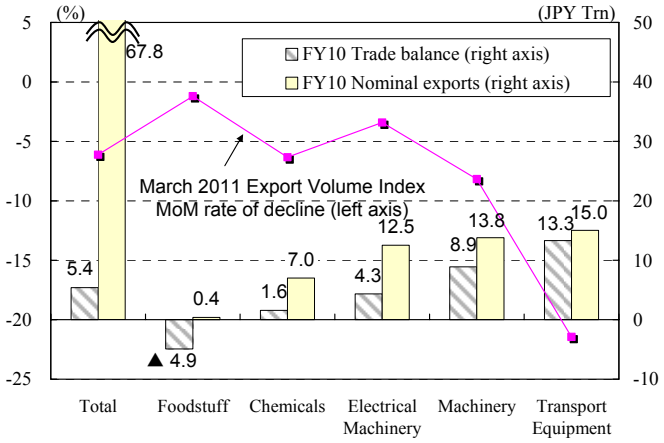
The recovery trend of exports had been building strength through early March as global inventory adjustments wound down and as overseas economies re-accelerated. However, exports plunged from mid-March due to supply capacity dropping because of damage to company facilities from the March Earthquake and disrupted supply chains (Figure 8). Nominal exports rose +14.8% YoY in early March. The drops accelerated in mid- and late-month, by -5.9% YoY and -13.3% YoY. The downward trend continued even in April, with the effects of the March Earthquake steadily appearing. Above all, the drops in exports have been striking in important sectors like transport machinery and electronic parts and devices due to damage to facilities in the disaster zone and resultant halts in the supply of parts (Figure 9).

Figure 8: Nominal Exports, Imports by Time



Note: Average past 5 years is simple average of YoY growth of nominal export value during same period over last 5 years.
Source: Compiled by BTMU Economic Research Office from METI materials.

Figure9: March Export Volume by Industry



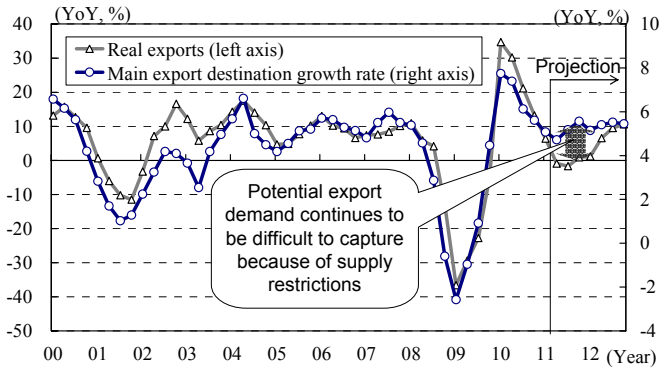
Note: Export Volume Index adjusted for seasonability by BTMU.
Source: Compiled by BTMU Economic Research Office from MoF materials.

With imports rising at the same time, external demand to provide limited support

Further, because these industries contribute a sizeable share to Japan's exports and trade surplus, concerns have arisen regarding adverse effects on exports and the trade surplus. As production and domestic supply restrictions are minimized, exports are expected to then recover more strongly (Figure 10). Real exports (GDP figures) are likely to start to rise in Jul-Sept 2011, and then slowly recover to a growth rate in line with export demand from growing export destination countries and regions.

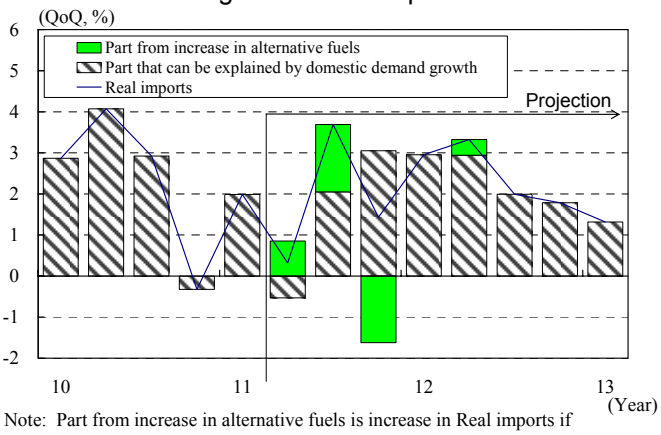
On the other hand, on the import side, procurements of fuel for thermal power generation (crude oil and LNG, etc.) are expected to increase following the stoppages of the Fukushima Dai-ichi and Hamaoka nuclear reactor plants. This is expected to cause imports overall to swell. There are high hurdles to restarting the stopped reactors, including ensuring safety and negotiations with local citizens and governments. If the present situation continues till FY12, imports are calculated to balloon by JPY700-900 billion yearly (Figure 11). Further, imports are projected to increase in Jul-Sept as domestic demand recovers. Based on the above, any improvement in exports will be offset by an increase in imports, and any pull on Japan's economy by external demand will be limited through our projection period.

Figure10: Real Exports and Main Export Destination Growth Rate



Note: Main export destination growth rate is US, Eurozone, UK, China, NIEs, ASEAN4, and India real GDP growth rates weighted average by export weight.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, MoF materials.

Figure11: Real Imports



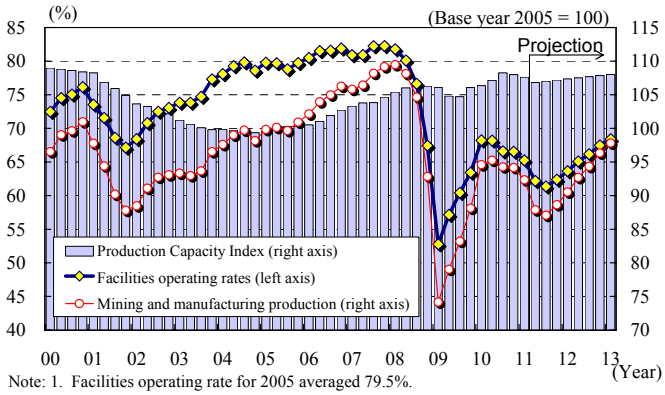
Note: Part from increase in alternative fuels is increase in Real imports if LNG and oil alternative imports continue through FY12.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, Institute of Energy Economic Japan materials.

③Corporate earnings

Declining production and operational rates squeeze corporate profits

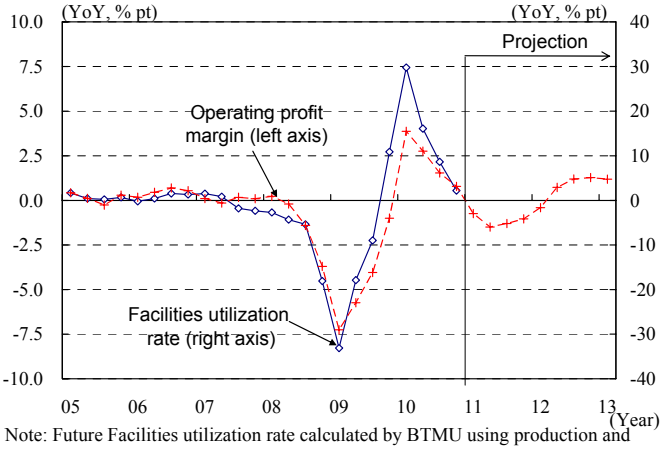
The drop in corporate activity, including declining production, following the March Earthquake appears to have considerably squeezed corporate profits as fixed expenses have risen due to lower operational rates. Even looking ahead, in calculating the recovery paces for production level and production facilities after the March Earthquake based on certain assumptions, the pace of utilization rate improvement is expected to be gradual (Figure 12). Therefore, because there appears to be a strong correlation between past manufacturing facilities utilization rates and operating profit margins, we think that corporate profit conditions will be severe at least through this fiscal year (Figure 13).

Figure12: Manufacturer Facilities Operating Rates



Note: 1. Facilities operating rate for 2005 averaged 79.5%.
2. Future Facilities operating rate calculated by BTMU from Mining and manufacturing production. Operating facilities divided by Production Capacity Index.
3.Future Production Capacity Index assumes that 1.25% of stock damaged by earthquake, and thereafter damaged stock restored through Jan-Mar 2013. 1.25% of stock figure is maximum Cabinet Office calculation of private company facilities damage
Source: Compiled by BTMU Economic Research Office from METI, Cabinet Office materials.

Figure 13: Manufacturer Facilities Utilization Rates and Operating Profit Margins

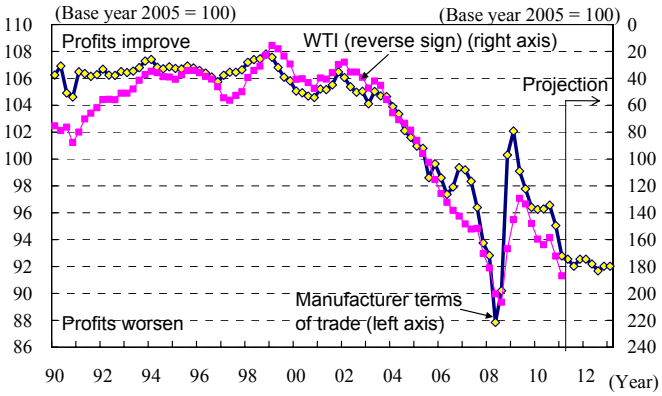


Note: Future Facilities utilization rate calculated by BTMU using production and facilities stock figures.
Source: Compiled by BTMU Economic Research Office from METI, MoF materials.

Worsening terms of trade from higher resource prices also squeezing profits

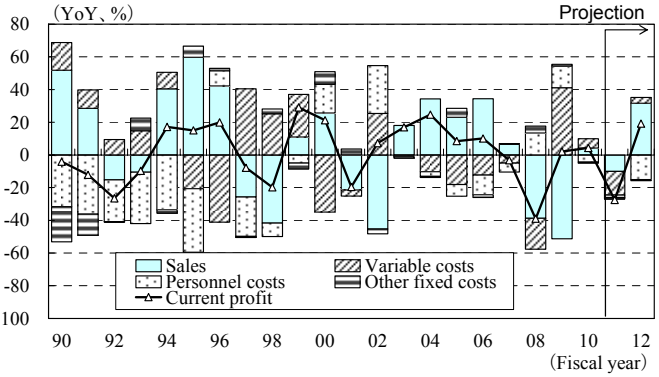
In addition, profits will be squeezed by worsening terms of trade due to surging resource prices, as they were in 2007-2008 (Figure 14). As upstream prices rise due to higher resource prices, domestic demand (especially private consumption) is expected to be weak for some time, and transferring higher costs to retail prices will be difficult for some time. As a result, current profits (non-financial, all sizes) are expected to drop by 30% YoY in FY11 and will start to rise in FY12, once sales are expected to recover (Figure 15).

Figure 14: Manufacturing Sector Terms of Trade and Oil Prices



Note: Terms of trade is Output prices divided by Input prices.
Source: Compiled by BTMU Economic Research Office from BoJ, Bloomberg materials.

Figure15: Breakdown of Current Profits (All induries and enterprise sizes)



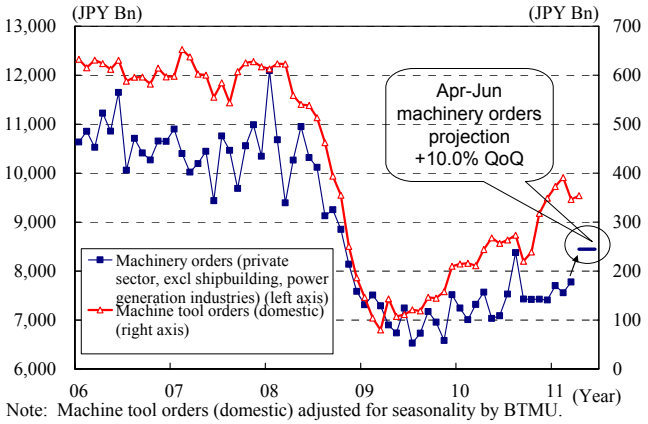
Note: "Variable costs"= cost of sales + sales and general administrative expenses - personnel costs - other fixed costs. "Other fixed costs"= depreciation expense + net interest payments, etc.
Source: Compiled by BTMU Economic Research Office from METI, MoF materials.

④Capital Expenditures

Q2 machinery order projection unexpectedly strong, but possibility of downturn ahead

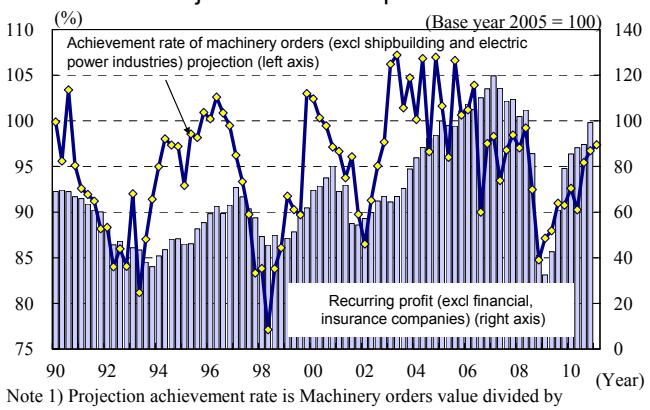
Private-sector machinery orders (excluding for volatile industries like shipbuilding and power generation), a leading indicator of capital spending, rose 2.9% MoM, more than expected, at end-March (Figure 16). Furthermore, Apr-Jun orders are projected to rise a strong +10.0% QoQ. In data terms, corporate investment sentiment does not appear to have chilled considerably at least for now. In other words, with uncertainty about future demand and the business environment because of the March Earthquake, companies may not have yet revised their investment plans. If not, there is a good possibility that many orders than had already been placed will be cancelled. Judging from past experience, when earnings conditions have changed suddenly, realization rates of machinery order forecasts tend to be considerably lower (Figure 17).

Figure16: Machinery Orders and Machine Tools



Note: Machine tool orders (domestic) adjusted for seasonality by BTMU.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, Japan Machine Tool Builders Association materials.

Figure17: Achievement Rates of Machinery Orders Projections and Corporate Profits



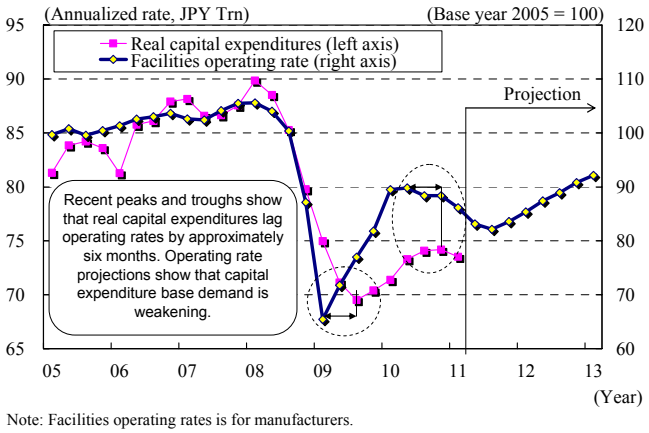
Note 1) Projection achievement rate is Machinery orders value divided by Machinery orders projection.
2) Recurring profit calculated from quarter-on-quarter rate of rise after adjusting for seasonality.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, MoF materials.

Weakening demand suggested by fundamentals to be offset by reconstruction demand

Looking ahead, judging from fundamentals related to capital expenditures, like corporate profits and utilization rates, base demand for capital expenditures appears to be weak (Figure 18).

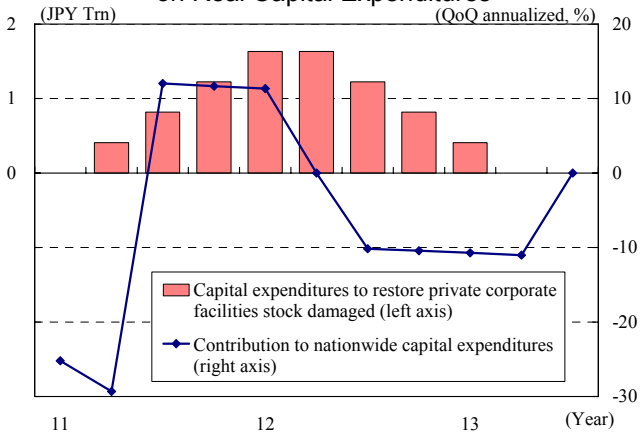
On the other hand, reconstruction demand for company facilities stock damaged by the March Earthquake is expected to be a big upward push for capital expenditures. Companies lost an estimated JPY8.2 trillion of facilities stock in the March Earthquake (in the 13 prefectures affected by the disaster). Also, because facilities investment recovered relatively early compared to residential investment in the 1995 Kobe earthquake, we think that reconstruction demand will start to appear in Apr-Jun and considerably boost capital expenditures (Figure 19). On quarter, capital expenditures are likely to peak in early 2012 and then decrease from FY12. However, because corporate profits are expected to improve more clearly by that time, we think that capital expenditures will continue to increase through our forecast period.

Figure18: Real Capital Expenditures and Facilities Operating Rates



Note: Facilities operating rates is for manufacturers.
Source: Compiled by BTMU Economic Research Office from Cabinet Office, METI materials.

Figure19: Calculating Impact of the March Earthquake on Real Capital Expenditures



Source: Compiled by BTMU Economic Research Office from METI, Cabinet Office materials.

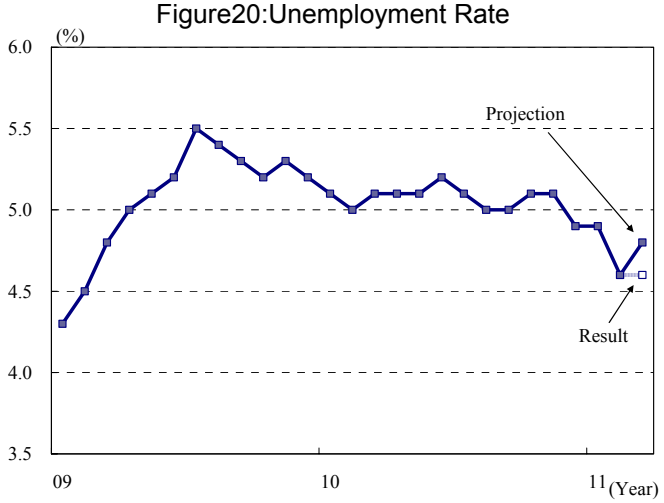
(2)Household Sector

①Labor, Wages

Employment conditions remained flat due to the quake

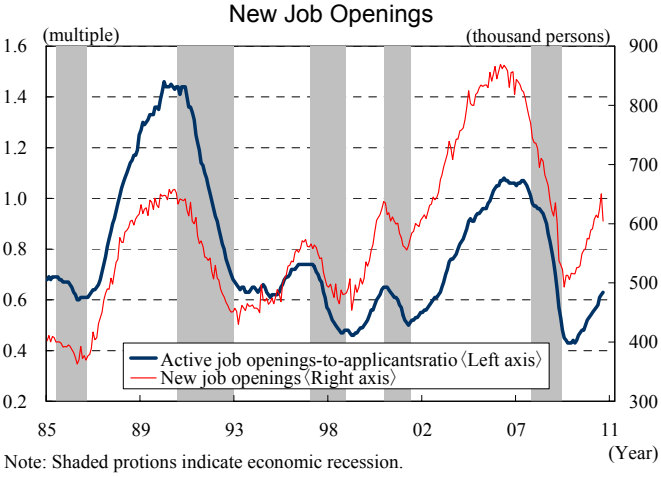
The unemployment rate, which had been trending downward, remained flat in March from Febrary at 4.6% (Figure 20). However, the March figure excludes the March Earthquake zone of Iwate, Miyagi, and Fukushima prefectures. The nationwide figure would be 0.2 ppt higher if the disaster-struck prefectures are included. Moreover, new job openings dropped -7.1% MoM (Figure 21). In short, employment conditions are deteriorating.

Figure20:Unemployment Rate



Source: Compiled by BTMU Economic Rescearch Office from MHLW materials.

Figure21：Active Job Openings-to-Applicants Ratio and New Job Openings

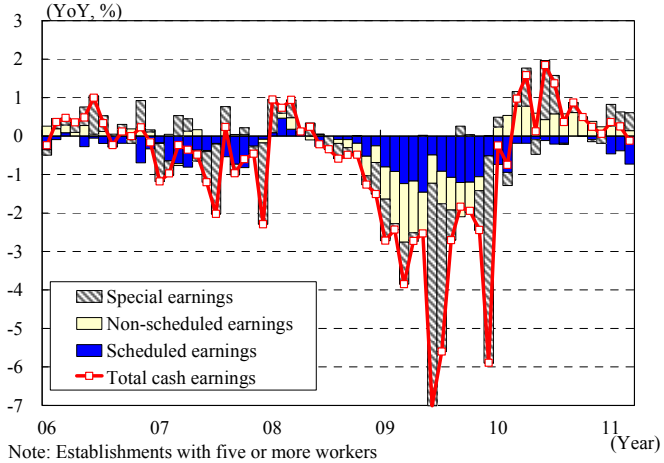


Note: Shaded protions indicate economic recession.
Source: Compiled by BTMU Economic Rescearch Office from MHLW materials.

Shorter working hours cause cash earnings to fall

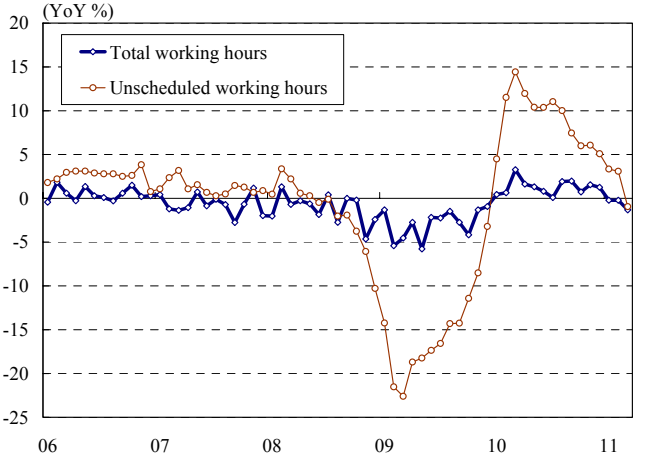
Total cash earnings decreased -0.1% YoY in March, the first drop in 13 months (Figure 22). Broken down, scheduled cash earnings declined further and the rise in non-scheduled cash earnings slowed to +1.7% YoY in March from +4.4% YoY in February (Figure 23). This is because working hours were cut short by the March Earthquake.

Figure22:Total Cash Earnings



Note: Establishments with five or more workers
Source: Compiled by BTMU Economic Research Office from MHLW materials.

Figure 23: Working Hours

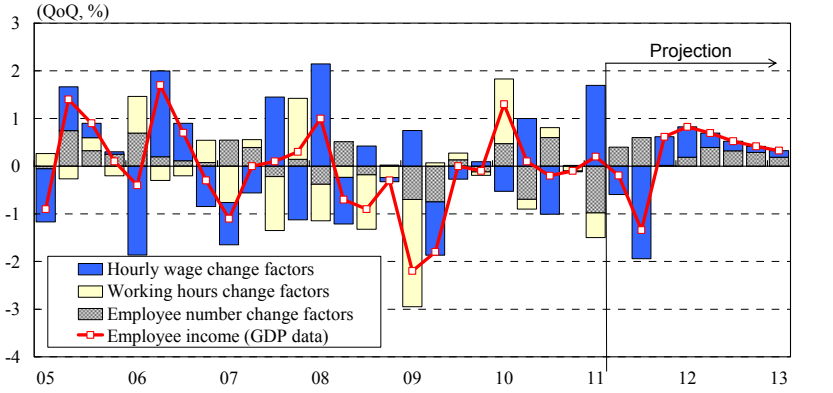


Source: Compiled by BTMU Economic Research Office from MHLW materials.

Employee compensation likely to decrease

Looking ahead, labor conditions are expected to remain unchanged due to employment adjustment subsidies, while wages are likely to decline because of shorter working hours caused by electricity shortages and downturns in business(Figure 24). As a result, employee compensation is likely to decrease in Jul-Sept and then start to recover.

Figure 24: Employee Compensation



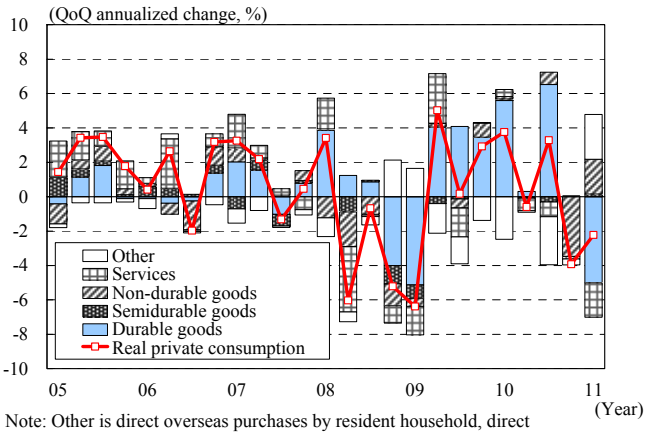
Note: 1. Employee Compensation and Hourly wage change factors are based on nominal figures.
2. After Projection period, Hourly wage change factors includes Working hours change factors.
Source: Compiled by BTMU Economic Research Office from MIC, MHLW, Cabinet Office materials.

②Private Consumption

Eroded consumer confidence due to the quake causes consumption to fall

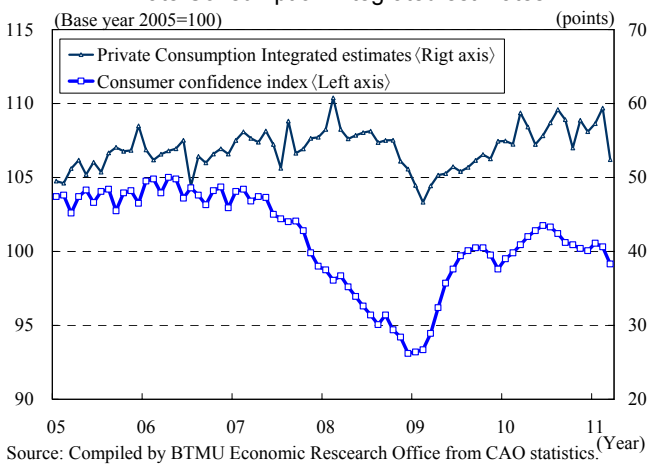
Real private consumption for Jan-Mar decreased by an annualized rate of -2.2%, the second straight quarter of decline. This is mainly because consumption of durable goods, such as automobiles (Figure 25), dropped. Further, services spending fell because of consumers voluntarily holding back on participating in events and going out. In addition, the Consumption Composite Index stood at +0.5% MoM in January and +1.0% MoM in February, then slipped to -3.2% MoM in March (Figure 26). The sudden chill in consumer sentiment appears to have caused private consumption to weaken, as shown in the Consumer Confidence Index considerable deterioration.

Figure 25: Real Private Consumption by Goods



Note: Other is direct overseas purchases by resident household, direct purchases within Japan by non-resident household (exemption), and statistical error.
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure26：Private Consumption Integrated Estimates and Private Consumption Integrated estimates

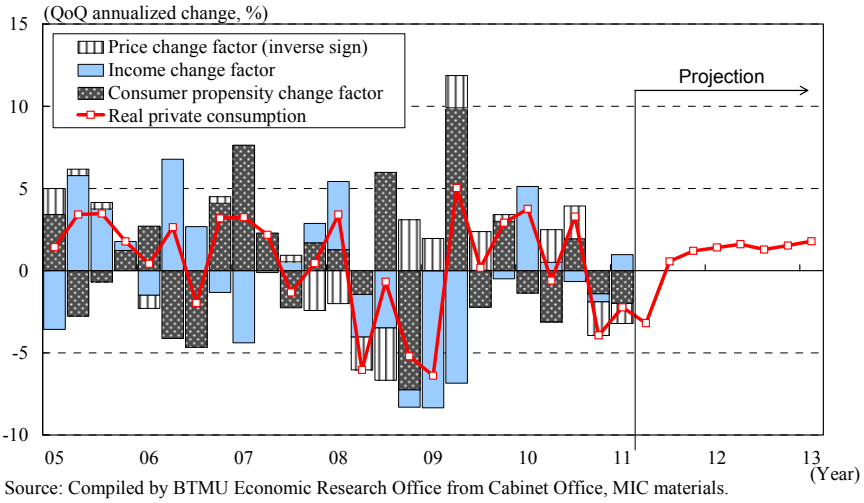


Source: Compiled by BTMU Economic Rescearch Office from CAO statistics.

Consumption recovers slowly, after slowdown

We predict that private consumption decreased more in Apr -Jun than Jan-Mar because of lower employee wages and weaker consumption confidence (Figure 27). Private consumption is likely to recover slightly in Jul-Sep, and production and labor conditions to return to pre-quake states. Then, with the increase in the employee compensation, private consumption will start to grow gradually.

Figure 27: Real Private Consumption



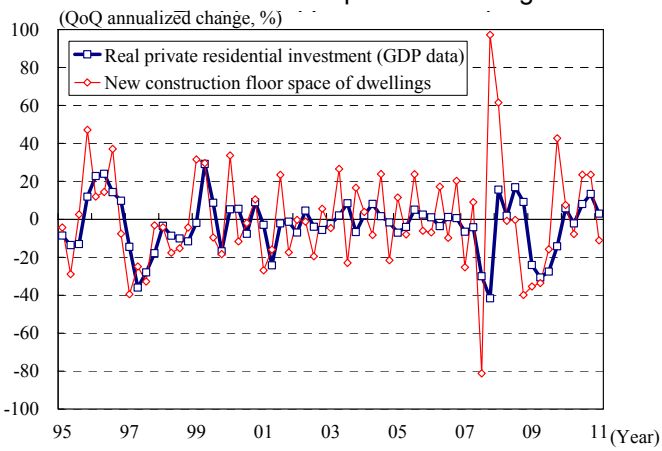
Source: Compiled by BTMU Economic Research Office from Cabinet Office, MIC materials.

③Residential Investment

Earthquake derails the pickup

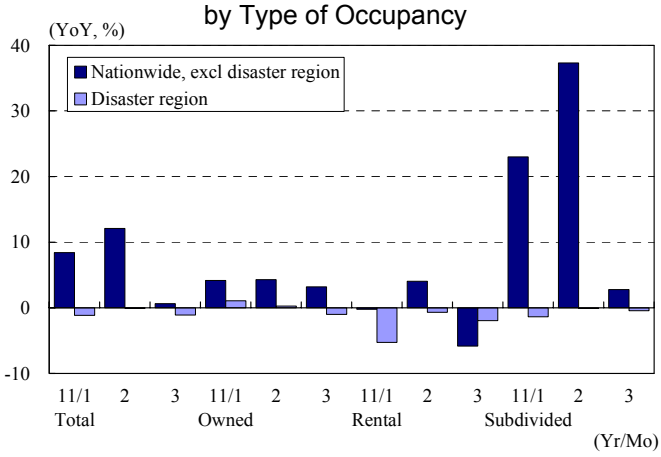
Residential investment had been surported by continued low interst rates, the housing Ecopoint program, and housing loan tax credits. However, real private residential investment weakened by an annualized rate of +2.9% QoQ from the Oct-Dec rate of +13.3% QoQ (Figure 28). New dwelling construction floor space, which is highly correlated with private residential investment, slipped to -7.7% MoM in March, particularly among rented dwellings which decreased in all prefectures. (Figure29)

Figure28：Residential Investment and New Construction floor space of dwellings



Source: Compiled by BTMU Economic Rescearch Office from CAO and MLIT materials.

Figure 29: New Housing Starts Floor Area by Type of Occupancy

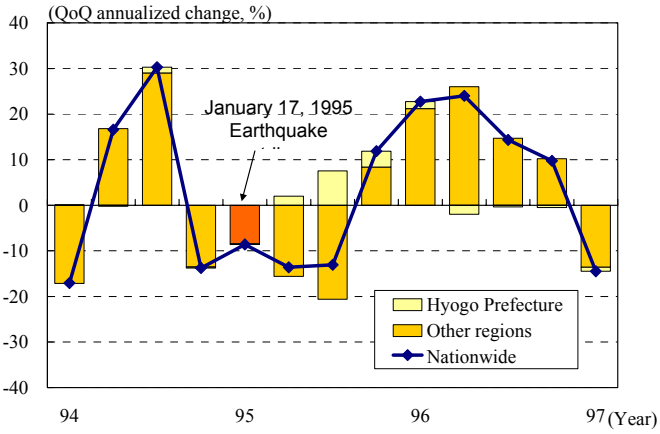


Note: Disaster region is Iwate, Miyagi, Fukushima, Chiba, Ibaragi, and Tochigi.
Source: Compiled by BTMU Economic Research Office from MLIT materials.

Residential investment to remain weak until rebuilding activity starts

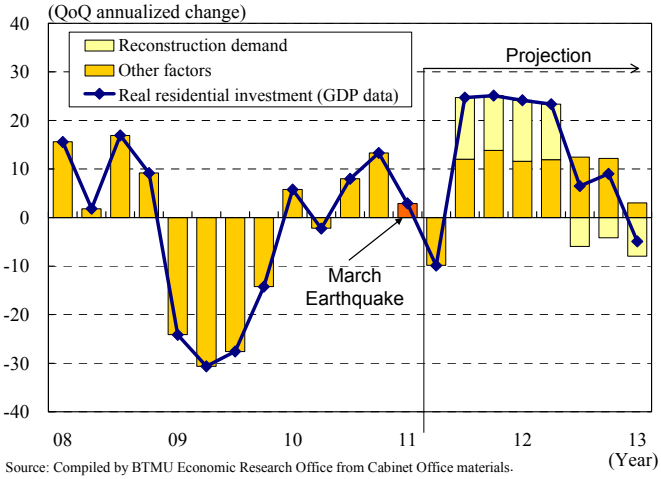
Residential investment is likely to decline mainly due to the shortage of building materials. Signs of a recovery will start to appear in Jul-Sept. Following the Kobe Earthquake, residential investment dropped by an annualized rate of -3.3% QoQ in Jan-Mar 1995. But after that residential investment rose for four straight quarters by double digits (Figure 30). The March earthquake damaged more homes than the Kobe earthquake, so rebuilding activity is likely to be greater and residential investiment growth stronger, especially in the disaster region (Figure31).

Figure 30: Real Residential Investment Before and After Hanshin-Awaji Earthquake



Source: Compiled by BTMU Economic Research Office from Cabinet Office, Hyogo Prefecture materials.

Figure 31: Real Residential Investment



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

(3) Public Sector

FY11 first supplemental budget passes May 2

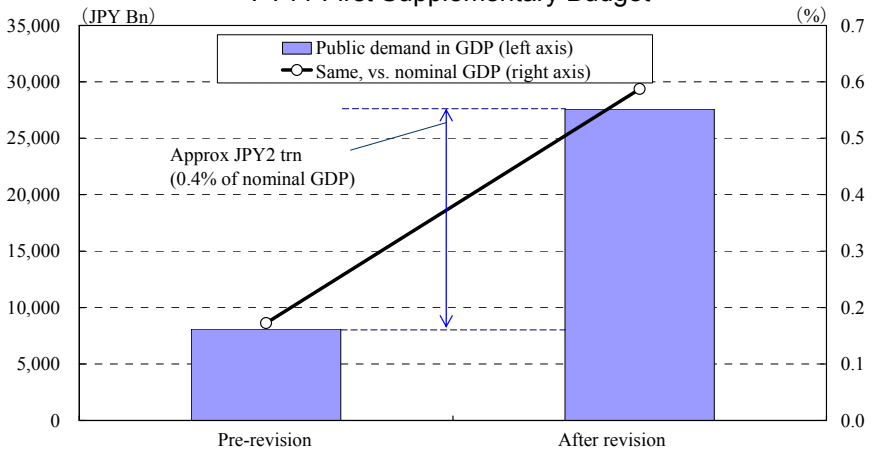
The Japanese government, working on rebuilding and recovery from the March earthquake, passed the first supplemental budget for FY11, which includes JPY4.0153 trillion in earthquake-related expenditures (Table 1). Because the supplemental budget is funded largely by the suspension of existing expenditures in the initial FY11 budget, total FY11 expenditures have increased by only JPY305.1 billion. But some of this will change from not being part of GDP figures (like conversions to pension special accounts) to being included in GDP figures (public investment), and there will be some upward impact on GDP public demand (Figure 32). Before the budget revision, GDP would have increased by up to JPY810 billion in reserves through expenditure items, while following the revision, GDP will rise approximately JPY2.8 trillion. However, it should be borne in mind that reductions in childcare allowances and the suspension of highway toll waivers and reductions as a result of the budget revision could suppress private consumption.

Table 1: March 11 Earthquake-Related Costs and Resources in FY11 First Supplementary Budget

Expense		Source	
Disaster management public project-related costs (infrastructure reconstruction, etc.)	JPY1.2019 Trn	Shifted from pension funds	JPY2.4897 Trn
Reconstruction costs of damaged facilities, etc. (Schools, hospitals, etc.)	JPY416.0 Bn		
Disaster area recovery-related costs (temporary shelters, etc.)	JPY482.9 Bn	Reserves	JPY810.0 Trn
Debris removal	JPY351.9 Bn		
Disaster-related financing-related expenses	JPY640.7 Bn	Cancellation of Sat, Sun highway toll discounts	JPY250.0 Trn
		Freezing of highway toll waivers	JPY100.0 Trn
Local tax allocations	JPY120.0 Bn	Reduction of childcare allowances	JPY208.3 Trn
Other	JPY801.8 Bn	Reduction of government development assistance, etc.	JPY50.1 Trn
		Reduction of provisions for energy special account	JPY50.0 Trn
		Reduction of assembly member salaries, etc.	JPY2.2 Trn
		Shifting of cost burden for public works projects to local governments	JPY55.1 Bn
Total	JPY4.153 Trn	Total	JPY4.153 Trn

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

Figure 32: Public Demand (GDP data) and the FY11 First Supplementary Budget

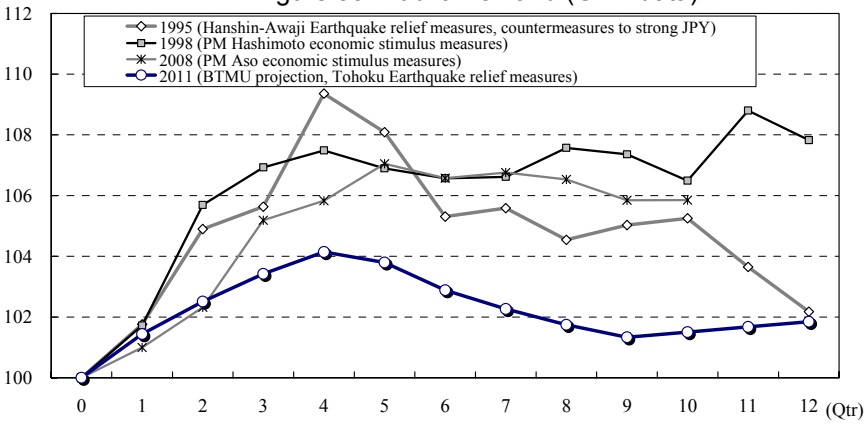


Source: Compiled by BTMU Economic Research Office from MoF, Cabinet Office materials.

Next budget widely expected to be near JPY20 trillion

The government and the ruling party are planning to increase earthquake-related spending with another FY11 supplemental budget or with the FY12 budget. According to news reports, it is widely expected that the budget will total nearly JPY20 trillion. Assuming that the budget is JPY18 trillion and 75% of this contributes to boosting GDP, public demand in GDP would increase by JPY13.5 trillion, equivalent to 2.9% of Japan's nominal GDP. After the Kobe Earthquake and other large-scale economic measures in the past, the boost to GDP persisted over four to five quarters (Figure 33). This time, public demand is expected to increase through the first half of 2012.

Figure 33: Public Demand (GDP data)



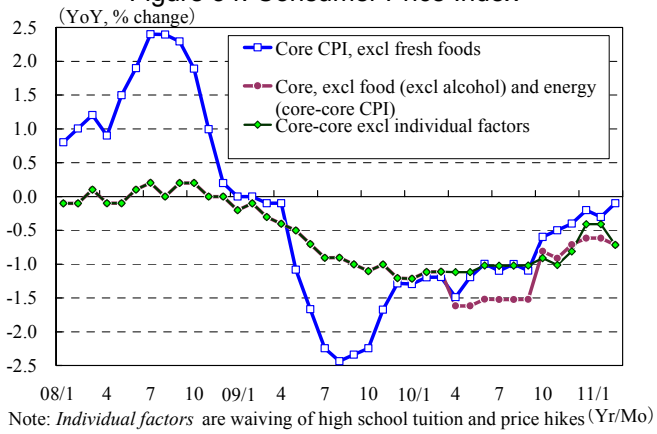
Note: 1. *1995* is Jan-Mar 1995; *1998* is Apr-Jun 1998; *2008* is Jul-Sept 2008; *2011* is Jan-Mar =base 100, 0 quarter.
2. *1998* is high for extended period because of PM Obuchi economic stimulus measures.
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

(3) Inflation

CPI remains on downward trend

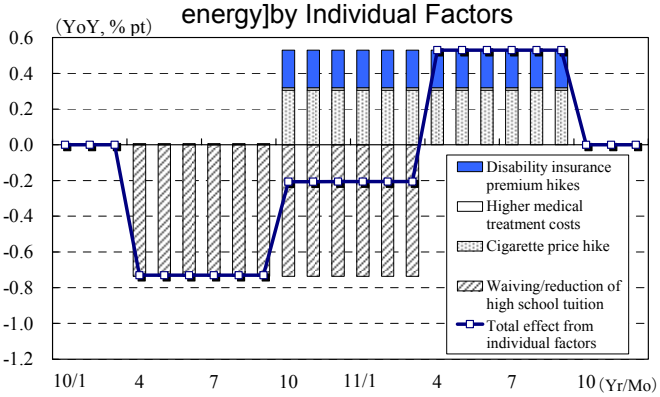
The April consumer price index (core CPI, excluding fresh food) stood at +0.6% YoY, the first positive figure in 26 months. Meanwhile, the core-core CPI [excluding food (excluding alcohol) and energy] stood at -0.1%, a considerable slowing in decline (Figure 34). However, these results are largely attributed to the fading effect of the waiver of high school tuitions in April 2010 (Figure 35). Also, the current CPI is being pushed up by higher prices for tobacco and accident insurance that took effect in October 2010, and the effects are to wear off this October. Additionally, the base revision scheduled for August is expected to result in the CPI dropping by 0.5% points. The core-core CPI is therefore unlikely to turn positive in the near future.

Figure 34: Consumer Price Index



Note: *Individual factors* are waiving of high school tuition and price hikes of cigarettes,medical treatment individual-borne costs, and casualty insurance premiums.
Source: Compiled by BTMU Economic Research Office from MIC data.

Figure 35: Impact on Core-Core Consumer Prices [excluding food (excluding alcohol) and energy]by Individual Factors

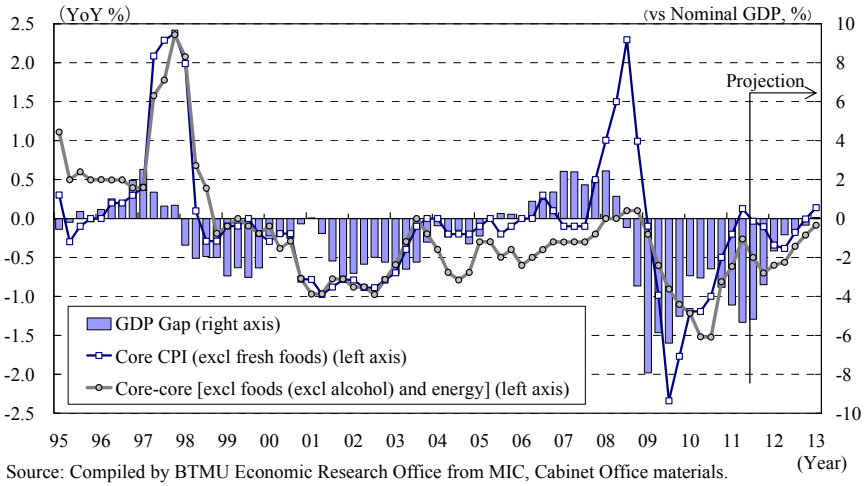


Note: *Core* excludes food prices (excl alcohol), and *Core-core* excludes food and energy prices.
Source: Compiled by BTMU Economic Research Office from MIC materials.

CPI expected to keep declining more slowly

In the macro supply-demand balance, we think the deflationary gap will widen in the near term due to demand decreasing in the wake of the March Earthquake. However, thereafter, the gap will narrow as reconstruction progresses (Figure 36). We therefore project the core-core CPI to remain negative, but to slow the pace of decline through the end of FY12. The halt in decline due to the higher energy prices for the core CPI is likely to be clearer. Moreover, electric utility fees may increase because of higher generating costs as the primary energy source changes from nuclear to fossil fuel, fuel prices rise, and to cover compensation payments for those affected by the nuclear reactor accident. Assuming electricity utility charges are raised 10%, we estimate the core CPI will be pushed up 0.31% (Table 2).

Figure 36: Consumer Prices and GDP Gap



Source: Compiled by BTMU Economic Research Office from MIC, Cabinet Office materials.

Table 2: Calculating the Impact of Electricity Rate Hikes on Consumer Prices

(%)

Electricity rate hike amount (versus Mar 2011 rate)	5	10	15	20
Upward push on consumer prices (core, excluding fresh foods)	0.15	0.31	0.46	0.62

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

3. Financial

(1)Monetary Policy, Short-Term Interest Rates

BoJ to focus efforts on preventing decline in financial functioning

The Bank of Japan has focused on limiting any adverse effects on the economy from diminished financial functions following the March Earthquake and resultant effects on the real economy. The central bank's main measures have been: 1) bolstering financial supply to the short-term financial markets; 2) increasing funds for asset purchases; and 3) implementing capital supply operations directed toward financial institutions in the earthquake-struck zone (Table 3).

Table 3: BoJ Monetary Policy in the Wake of the March 11 Earthquake

March 14 -	① Boosts supply of funds into short-term financing markets	
		Implements large-scale efforts, including immediate liquidity supply operations BoJ current accounts surge to JPY17-18 trillion prior to earthquake to JPY40 trillion at one point Uncollateralized overnight call rate drops to 0.06% level （BoJ current account balance recently around JPY29 trillion, and uncollateralized overnight call rate around 0.07%）
March 14 Monetary Policy Meeting	② Increases Asset Purchase Fund from JPY35 trillion to JPY40 trillion	
		Purchase details: Long-term JGBs（JPY1.5 trillion → JPY2 trillion）, short-term JGBs（JPY2 trillion→ JPY3 trillion）, CP, etc（JPY500 billion→JPY2 trillion）, corporate bonds（JPY500 billion→JPY2 trillion）, ETFs（JPY450 billion →JPY900 billion）, J-REITs（JPY50 billion→JPY100 billion） Fixed-interest rate pooled collateral operations unchanged at JPY30 trillion
April 6-7 Monetary Policy Meeting	③ Drafts plan outline of funds-supplying operations to support financial institutions in disaster region	
		Funds supplying method: Pooled collateral operations, 1-year lending period, 0.1% interest rate, JPY1 trillion total loan amount Eligible institutions: Financial institutions with operations in disaster region, that wish to apply for pooled collateral operations Loan maximum, loan period for each eligible institution determined on lending conditions in institutions' disaster area Officially approved for introduction April 28. First offer made May 17.

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

Possibility of added monetary easing remains

The BoJ's strategy is to support the economy through continued monetary policy, and the central bank may even further ease monetary conditions depending on conditions. The BoJ has embarked on monetary easing a number of times in the past when the JPY has strengthened or in conjunction with government economic measures (Table 4). Further monetary easing may be more possible as revisions for the FY3/12 second supplementary budget proposal—expected to be submitted to the Diet this summer—get underway or if the JPY surges. In terms of specific details, we think that increasing funds to purchase assets would be a likely option.

Table 4: Financial Market and Government Moves Under BoJ Monetary Easing

	Financial Markets	Government	Monetary Policy
2008/10/1	JPY strengthens to JPY/USD92 level Nikkei Average falls below 8,000	Cabinet approves economic measures	Policy rate lowered to 0.50% from 0.30%
2008/12/1	JPY strengthens to JPY/USD 87 level Nikkei Average once again falls below 8,000	Cabinet approves economic measures	Policy rate lowered to 0.10% from 0.30% Special corporate financing support operations
2009/12/1	JPY strengthens to JPY/USD84,82 at end-November Nikkei Average falls to lowest level in two and a half months	Cabinet approves economic measures	Fixed-interest rate funding against pooled collateral introduced
2010/3/1	JPY strengthens to JPY/USD88 level for first time in three Nikkei Average falls below 10,000 for first time in two months in February	—	Amount of fixed-interest funding against pooled colllateral increased
2010/8/1	JPY strengthens to JPY/USD84.73 Nikkei Average hits year-to-date low	Commits to drafting economic measures	Increase in fixed interest rate pooled collateral operations
2010/10/1	JPY hits JPY/USD82 in September, highest level in appro Nikkei Average falls below 9,000 for first time since Lehman Brothers collapse in August	Commits to economic stimulus measures Intervenes in forex market on September 15	'Comprehensive easing' introduced
2011/3/1	Nikkei Average drops more than 1,600 points over two days, Mar 14-15 JPY hits JPY/USD76.25 on March 17, record high	Launches budget revisions to fund earthquake relief measures	Increase in fund to purchase assets

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

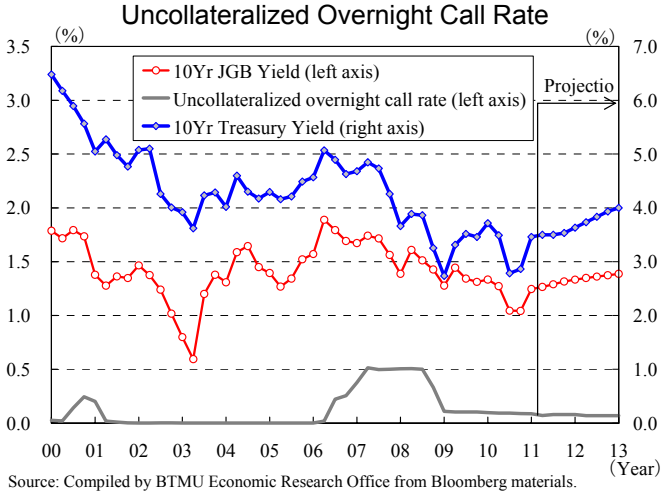
(2) Long-Term Interest Rates

Gradual upward trajectory projected for benchmark JGB yield

The yield on newly-issued 10Yr JGBs has been hovering at a low level of around 1.1%-1.2% on stock price weakness and diminished expectations of a near-term rate hike in the US. The 10Yr JGB yields is largely affected by two factors: 1) BoJ monetary policy and 2) the direction of long-term Treasury yields. Regarding the first factor, we think that a yield rise will be capped by clarification of a time horizon for comprehensive easing monetary policy (maintaining the zero interest rate until an inflation rate of 1% nears). On the other hand, US Treasury yields, the second factor, are expected to gradually rise and this is expected to lead JGB yields higher. Although JGB long-term yields may oscillate over the short term, we think there is a good probability that long-term yields will gradually trend upward (Figure 37).

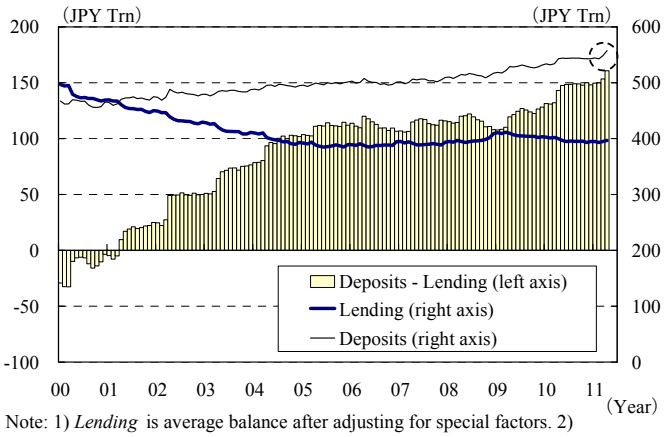
Note that although fiscal jitters are once again being felt following the downgrade of JGBs, there is a strong sense of surplus funds in the private sector, as shown by the recent increase in deposits (Figure 38). At least over the short term, private surplus funds are expected to continue to flow into the JGB market and conditions will continue to support smooth consumption of JGBs.

Figure 37: US-Japan Long-Term Yields and Uncollateralized Overnight Call Rate



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

Figure 38: Bank Lending and Deposits



Note: 1) *Lending* is average balance after adjusting for special factors. 2) *Deposits* is Real deposits + CD average balance.
Source: Compiled by BTMU Economic Research Office from BoJ data.

(3) Foreign Exchange

JPY/USD exchange rate to remain within range for now

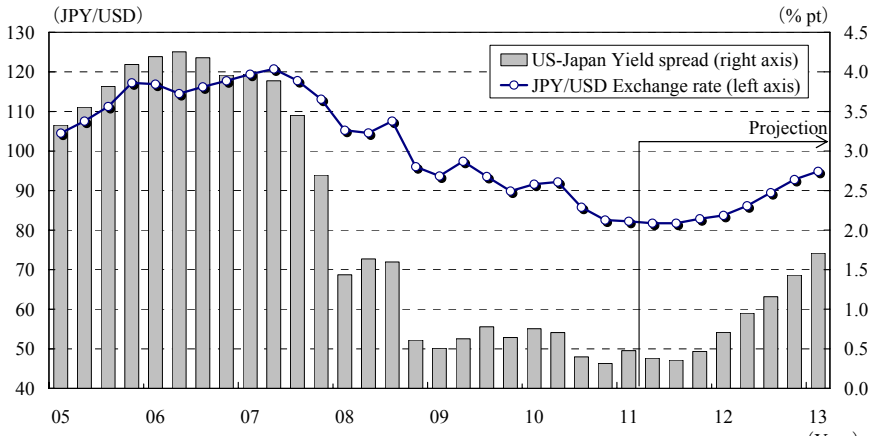
The JPY has traded in a relatively narrow range of around JPY/US80-82 since the end of April. With diminishing expectations of a near-term rate hike in the US encouraging JPY buying, the reversal of across-the-board USD weakness through early May and deteriorating Japanese macroeconomic indicators following the March Earthquake encouraged JPY selling. JPY/USD trading has been unable to establish a firm direction.

JPY-boosting factors likely to persist for some time

Looking ahead, while a shrinking Japanese current account surplus and speculation about added BoJ easing may cause the JPY to weaken, risk-averse movements due to the sovereign debt problems in Europe and the crisis in the Middle East and Northern Africa may have a bigger impact. We therefore predict that conditions encouraging JPY strengthening could persist for a while.

We think the USD will trade within range in FY11, especially around JPY/USD80-JPY/USD84, with temporary drops below the JPY/USD80 level as the JPY strengthens. In FY12, while the BoJ maintains its monetary easing policy, more focus will be on an FRB strategy. This will encourage expectations that the US-Japan yield spread will widen and the JPY will weaken (Figure 39).

Figure 39: JPY/USD Exchange Rate and US-Japan Yield Spread



Note: *US-Japan yield spread* is US 2Yr Treasury yield minus 2Yr JGB yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg materials.

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Outlook for the Japanese Economy

Economic Research Office
Bank of Tokyo-Mitsubishi UFJ
(%, billion yen)

Forecast →

	2009				2010				2011				2012	FY2010	FY2011	FY2012
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
(percentage change from the previous period at seasonally-adjusted annual rates)																
Nominal GDP	▲17.8	2.9	▲3.4	2.9	9.2	▲3.8	2.4	▲4.1	▲5.2	▲3.7	▲1.1	6.3	5.2	0.4	▲1.3	2.8
Real GDP	▲18.3	9.1	▲2.0	6.3	9.1	0.2	3.8	▲3.0	▲3.7	▲2.9	0.7	7.1	6.2	2.3	▲0.2	4.0
GDP Deflator														▲1.9	▲1.1	▲1.2
Private consumption	▲6.4	5.0	0.2	2.9	3.8	▲0.6	3.3	▲3.9	▲2.2	▲3.2	0.6	1.2	1.4	0.8	▲1.2	1.4
Housing investment	▲24.1	▲30.6	▲27.6	▲14.2	5.8	▲2.2	8.0	13.3	2.9	▲9.9	24.7	25.1	24.2	▲0.2	8.8	16.5
Private business fixed investment	▲22.0	▲18.9	▲8.8	5.2	5.7	11.2	4.4	0.5	▲3.5	4.8	12.9	15.8	11.7	4.5	6.1	8.4
Business inventories (billion yen)	▲ 2,475	▲ 3,810	▲ 6,017	▲ 6,011	▲ 899	▲ 3,250	▲ 726	▲ 941	▲ 3,270	▲ 5,850	▲ 9,120	▲ 8,090	▲ 6,305	▲ 2,028	▲ 7,322	▲ 1,895
Government expenditures	5.2	11.9	2.4	4.6	▲1.8	0.8	▲1.1	▲2.5	2.5	15.4	9.5	8.2	5.3	0.1	7.2	▲1.1
Public investment	15.8	55.5	▲6.2	7.9	▲2.7	▲16.7	▲9.6	▲21.9	▲5.2	36.8	21.7	17.4	11.8	▲10.0	11.5	▲7.7
Exports	▲68.4	45.4	40.6	27.4	29.5	22.4	6.6	▲3.3	2.8	▲16.2	0.5	9.7	12.4	17.0	▲1.9	12.8
Imports	▲49.8	▲19.4	24.6	4.0	12.0	17.3	12.2	▲1.3	8.2	1.3	15.6	5.8	12.3	10.9	6.8	10.2
(<> contribution of overseas demand)	▲7.2	6.9	2.3	3.0	2.7	1.4	▲0.2	▲0.4	▲0.4	▲2.9	▲1.6	0.8	0.5	<0.9>	<▲1.0>	<0.8>
Final Demand (Private Demand)	▲8.3	0.6	▲4.1	2.9	3.7	0.5	3.3	▲2.7	▲2.9	▲1.9	3.6	4.7	4.2	0.8	0.2	3.4
Industrial Production Index (MOM,%)	▲20.1	6.6	5.3	5.9	7.3	0.7	▲1.0	▲0.1	▲2.0	▲4.7	▲0.9	1.8	2.1	8.5	▲5.3	7.6
Domestic Corporate Goods Price Index (YOY,%)	(▲1.9)	(▲5.5)	(▲8.2)	(▲5.2)	(▲1.6)	(0.2)	(▲0.2)	(1.0)	(1.7)	(0.8)	(0.9)	(0.9)	(1.0)	(0.7)	(0.9)	(1.1)
Consumer Price Index (excl. fresh food YOY, %)	(▲0.1)	(▲1.0)	(▲2.3)	(▲1.8)	(▲1.2)	(▲1.2)	(▲1.0)	(▲0.5)	(▲0.2)	(0.1)	(▲0.1)	(▲0.1)	(▲0.3)	(▲0.8)	(▲0.1)	(▲0.1)
Trade Balance (billion yen)	▲ 275	1,046	1,289	1,964	2,380	1,811	1,967	1,778	811	947	915	174	▲ 531	6,367	1,506	4,358
Current Balance (billion yen)	2,090	3,607	3,614	4,005	4,531	3,904	4,405	4,321	3,417	3,618	3,649	2,973	2,332	16,046	12,572	16,453
Uncollateralized overnight call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1
Euro-Yen TIBOR (3-mo.)	0.72	0.60	0.55	0.51	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
Newly Issued 10-Year Government Bonds Yield	1.3	1.4	1.3	1.3	1.3	1.3	1.0	1.0	1.2	1.3	1.3	1.3	1.3	1.2	1.3	1.4
Exchange Rate (Yen / U.S.$)	93.7	97.4	93.5	89.9	92	92	86	83	82	82	82	83	84	86	83	91

Note: Uncollateralized overnight call rate is end-of-period rate. Euro-Yen TIBOR (3-mo.), newly issued 10-year government bonds yield, and exchange rate (Yen/U.S.$) are period average.Domestic Corporate Goods Price and Consumer prices reflect 2005 base revision.

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Jun 8, 2011

	Fiscal	Fiscal	2010		2011	2011				
	2009	2010	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-2.4	2.3	3.8	-3.0	-3.7	***	***	***	***	***
			(5.0)	(2.2)	(-1.0)					
Index of All Industries Activity			0.7	-0.2	-2.0	-0.5	0.7	-6.3		
			(3.2)	(2.1)	(-0.6)	(1.4)	(1.8)	(-4.5)		
Industrial Production Index	-8.8	8.9	-1.0	-0.1	-2.0	0.0	1.8	-15.5	1.0	
Production			(14.0)	(5.9)	(-2.5)	(4.6)	(2.9)	(-13.1)	(-14.0)	
Shipments	-8.3	9.3	-0.8	-0.3	-1.9	-0.8	3.3	-14.6	-2.7	
			(14.4)	(6.4)	(-2.6)	(3.2)	(3.6)	(-12.1)	(-16.2)	
Inventory	-6.1	3.5	0.4	-0.6	1.0	3.9	1.5	-4.2	0.5	
			(3.5)	(3.8)	(3.5)	(7.0)	(6.9)	(3.5)	(3.3)	
Inventory/Shipments Ratio	120.4	108.2	108.7	111.0	106.9	107.9	104.3	108.6	124.4	
(2005=100)			[124.3]	[114.7]	[106.3]	[108.0]	[107.4]	[103.4]	[105.0]	[107.5]
Domestic Corporate Goods Price Index	-5.2	0.7	-0.3	0.4	1.1	0.5	0.2	0.6	0.9	
			(-0.2)	(1.0)	(1.7)	(1.5)	(1.7)	(2.0)	(2.5)	
Consumer Price Index(SA, total, excl.fresh foods)	-1.6	-0.8	-0.2	0.3	-0.3	0.0	0.0	0.2	0.2	
			(-1.0)	(-0.5)	(-0.2)	(-0.2)	(-0.3)	(-0.1)	(0.6)	
Index of Capacity Utilization	80.0	88.0	88.4	88.4	86.1	91.1	93.7	73.6		
(2005=100)			[77.0]	[81.8]	[89.5]	[88.7]	[89.7]	[90.1]	[90.0]	[90.5]
Machinery Orders(Private Demand,	-20.6	7.0	7.6	-4.6	3.5	3.9	-1.9	2.9		
Excl.Electric Power and Ship building)			(13.0)	(4.9)	(6.8)	(5.9)	(7.6)	(6.8)		
Manufacturing	-27.8		11.9	-3.8	16.0	7.9	8.3	-0.4		
			(34.3)	(11.6)	(16.3)	(11.0)	(18.0)	(18.5)		
Non-manufacturing	-15.8		4.9	-4.9	-3.1	-1.5	-3.6	7.1		
Excl.Electric Power & Ship building			(2.3)	(-0.3)	(0.7)	(2.1)	(0.9)	(-0.1)		
Shipments of Capital Goods	-24.2	21.3	4.1	1.2	-2.4	-3.0	8.2	-13.9	9.7	
(Excl.Transport Equipment)			(30.8)	(23.9)	(6.6)	(16.4)	(12.9)	(-3.1)	(3.4)	
Construction Orders	-14.2	-5.2								
			(-8.0)	(2.0)	(-4.9)	(-10.7)	(19.5)	(-11.0)	(31.4)	
Private	-15.3	-2.6								
			(-9.4)	(4.8)	(1.5)	(-10.2)	(21.8)	(-1.4)	(33.5)	
Public	-11.1	-12.1								
			(-6.2)	(-3.6)	(-20.1)	(-12.5)	(-4.7)	(-28.2)	(31.0)	
Public Works Contracts	4.9	-8.8								
			(-12.6)	(-14.8)	(-3.2)	(-9.9)	(4.2)	(-3.5)	(-11.2)	
Housing Starts	77.6	81.9	81.5	84.3	84.2	84.7	87.2	80.7	79.8	
10,000 units at Annual Rate, SA	(-25.4)	(5.6)	(13.8)	(6.9)	(3.2)	(2.7)	(10.1)	(-2.4)	(0.3)	
Total floor	(-21.5)	(9.0)	(15.1)	(11.0)	(6.0)	(7.3)	(12.0)	(-0.5)	(1.1)	
Sales at Retailers	-0.4	0.8								
			(3.2)	(-0.4)	(-3.0)	(0.1)	(0.1)	(-8.3)	(-4.8)	
Real Consumption Expenditures	1.0	-1.0	1.2	-1.5	-2.4	1.0	-0.2	-2.3	0.2	
of Households over 2 persons (SA)			(0.6)	(2.0)	(2.0)	(-1.0)	(-0.2)	(-8.5)	(-3.0)	
Propensity to Consume	74.7	0.0	75.2	74.5	71.8	74.1	71.5	72.3	72.9	
(SA,%)			[74.2]	[74.8]	[74.1]	[72.6]	[72.9]	[78.0]	[72.7]	[72.9]
Overtime Hours Worked	-8.5	6.8	0.2	-0.6	1.2	1.3	0.6	-3.4	-3.7	
(All Industries, 5 employees or more)			(9.6)	(5.7)	(1.7)	(3.2)	(3.0)	(-1.0)	(-5.7)	
Total Cash Earnings (Regular Employees	-3.3	0.6								
Only; All Industries, 5 employees or more)			(0.9)	(0.2)	(0.1)	(0.4)	(0.3)	(-0.1)	(-1.4)	
Employment Index(Regular Employees Only;'All Industries,	-77894.3	23384.5	21463.6	28037.5	33848.2	32797.3	32772.3	35975.0	26380.2	
5 employees or more) (Change over the M/Q/Y)			[-106,546.5]	[-109,742.7]	[1,682.9]	[-6,870.6]	[5,834.7]	[6,084.6]	[3,912.2]	[15,832.6]
Ratio of Job Offers to Applicants	0.45	0.56	0.54	0.57	0.62	0.61	0.62	0.63	0.61	
(SA,Times)			[0.43]	[0.44]	[0.47]	[0.46]	[0.47]	[0.48]	[0.48]	[0.50]
Unemployment Rate	5.2	5.0	5.0	5.0	4.7	4.9	4.6	4.6	4.8	
(SA,%)			[5.4]	[5.3]	[5.0]	[5.1]	[5.0]	[5.1]	[5.1]	[5.1]
Economy Watcher Survey	39.9	44.2	45.4	43.0	40.1	44.3	48.4	27.7	28.3	
(Judgment of the present condition D.I,%)			[42.4]	[36.7]	[42.8]	[38.8]	[42.1]	[47.4]	[49.8]	[47.7]
Bankruptcies (Number of cases)	14,732	13,065	3,232	3,299	3,211	1,041	987	1,183	1,076	
	(-8.7)	(-11.3)	(-14.5)	(-6.5)	(-7.3)	(-2.0)	(-9.4)	(-9.9)	(-6.7)	

(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 Jun 8, 2011

	Fiscal 2009	Fiscal 2010	2010 3Q	2010 4Q	2011 1Q	2011 JAN	2011 FEB	2011 MAR	2011 APR	2011 MAY
Customs Clearance(Exports in Yen Terms)	-17.1	14.9	(17.8)	(10.0)	(2.5)	(1.4)	(9.0)	(-2.3)	(-12.4)	
Value	-7.0	0.2	(-0.7)	(1.2)	(-0.0)	(-0.9)	(-0.2)	(1.0)	(-0.9)	
Volumes	-9.9	14.6	(18.6)	(8.6)	(2.4)	(2.3)	(9.2)	(-3.3)	(-11.6)	
Imports(In Yen terms)	-25.2	16.0	(14.9)	(11.3)	(11.4)	(12.2)	(10.0)	(12.0)	(8.9)	
Value	-18.4	3.3	(0.4)	(1.6)	(4.0)	(0.9)	(4.9)	(6.2)	(7.5)	
Volumes	-7.3	12.4	(14.5)	(9.6)	(7.2)	(11.2)	(4.9)	(5.5)	(1.3)	
Current Balance(100 mil. yen)	157,817	159,209	48,791	36,482	37,820	4,619	16,410	16,791		
Trade Balance(100 mil. yen)	65,996	65,069	19,787	19,233	5,691	-3,945	7,233	2,403		
Services(100 mil. yen)	-18,185	-12,678	-2,756	-3,984	-719	-893	-369	543		
Capital and Financial Accounts(100 mil. yen)	-123,113	-100,277	-36,631	-10,192	-37,357	-16,930	-10,113	-10,314		
Gold & Foreign Exchange Reserves($1mil.)	1,042,715	1,116,025	1,109,591	1,096,185	1,116,025	1,092,980	1,091,485	1,116,025	1,135,549	
Exchange Rate(\/$)	92.80	85.69	85.86	82.59	82.32	82.63	82.53	81.79	83.35	81.23

3．Financial Market Indicators

	Fiscal 2009	Fiscal 2010	2010 3Q	2010 4Q	2011 1Q	2011 JAN	2011 FEB	2011 MAR	2011 APR	2011 MAY
Uncollateralized Overnight Call Rates	0.102	0.091	0.093	0.090	0.088	0.085	0.093	0.085	0.062	0.069
			[0.103]	[0.104]	[0.098]	[0.096]	[0.101]	[0.097]	[0.093]	[0.091]
Euro Yen TIBOR	0.516	0.356	0.364	0.336	0.336	0.335	0.335	0.336	0.333	0.332
(3 Months)			[0.543]	[0.498]	[0.443]	[0.452]	[0.442]	[0.434]	[0.396]	[0.388]
Newly Issued Japanese Government Bonds Yields	1.353	1.127	0.987	1.072	1.242	1.215	1.255	1.255	1.200	1.150
(10 Years)			[1.338]	[1.317]	[1.337]	[1.315]	[1.300]	[1.395]	[1.280]	[1.260]
Average Contracted Interest Rates	1.449	1.357								
on Loans and Discounts(City Banks)			1.392	1.382	1.357	1.377	1.371	1.357	1.359	
(% changes from previous period)			(-0.028)	(-0.010)	(-0.025)	(-0.005)	(-0.006)	(-0.014)	(0.002)	
The Nikkei Stock Average	11,090	9,755	9,369	10,229	9,755	10,238	10,624	9,755	9,850	9,694
(TSE 225 Issues)			[10,133]	[10,546]	[11,090]	[10,198]	[10,126]	[11,090]	[11,057]	[9,769]
M2(Average)	(2.9)	(2.7)	(2.8)	(2.6)	(2.4)	(2.3)	(2.4)	(2.6)	(2.7)	
Broadly-defined Liquidity(Average)	(0.8)	(0.5)	(0.5)	(0.1)	(-0.1)	(-0.2)	(-0.1)	(-0.1)	(-0.3)	
Principal Figures of Financial Institutions										
Loans and Discount (Average) — Banks & Shinkin	(0.8)	(-1.9)	(-1.8)	(-2.0)	(-1.8)	(-1.8)	(-1.9)	(-1.7)	(-0.9)	
Loans and Discount (Average) — Banks	(0.8)	(-2.0)	(-1.9)	(-2.1)	(-1.9)	(-1.9)	(-2.0)	(-1.8)	(-1.0)	
Loans and Discount (Average) — City Banks etc.	(-0.4)	(-4.2)	(-3.8)	(-4.6)	(-4.6)	(-4.5)	(-4.6)	(-4.6)	(-3.1)	
Loans and Discount (Average) — Regional Banks	(2.4)	(0.6)	(0.4)	(0.9)	(1.2)	(1.1)	(1.2)	(1.2)	(1.4)	
Loans and Discount (Average) — Regional Banks Ⅱ	(1.3)	(-0.4)	(-0.7)	(-0.5)	(-0.0)	(-0.4)	(-0.5)	(0.8)	(0.8)	
Loans and Discount (Average) — Shinkin	(0.8)	(-1.3)	(-1.4)	(-1.3)	(-1.0)	(-1.1)	(-1.1)	(-0.8)	(-0.6)	
Deposits and CDs (Average) — Total(3 Business Condition)	(2.9)	(2.6)	(2.7)	(2.7)	(2.2)	(2.0)	(2.0)	(2.6)	(2.7)	
Deposits and CDs (Average) — City Banks	(3.0)	(2.6)	(2.9)	(3.0)	(1.8)	(1.5)	(1.4)	(2.6)	(2.5)	
Deposits and CDs (Average) — Regional Banks	(3.1)	(3.1)	(3.1)	(3.0)	(3.1)	(3.1)	(3.3)	(2.9)	(3.0)	
Deposits and CDs (Average) — Regional Banks Ⅱ	(1.8)	(0.6)	(0.4)	(0.1)	(0.9)	(0.2)	(0.5)	(1.9)	(1.9)	

(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.