

# Japan Economic Monthly

## Japan's Economy Needs a Boost Soon

Economic Research Office

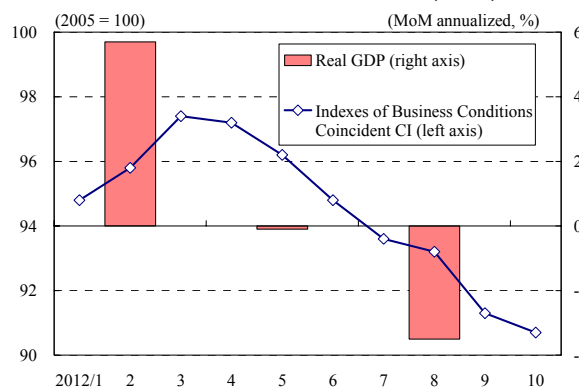
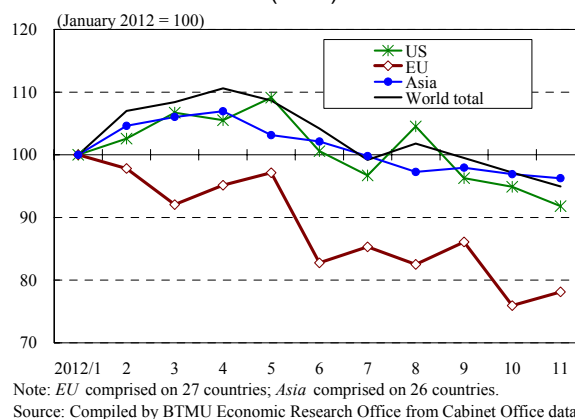
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

### 1. The Real Economy

Economic indicators released this month showed that Japan's economic downturn is deepening. The coincident CI in the Indexes of Business Conditions, a composite of monthly indicators sensitive to the economy, has declined for seven straight months (Figure 1). The October index dropped -0.7% points MoM to 90.7 (base year 2005 = 100). The aggregate decline since April has been -6.9% points, returning to the level of around May 2011. The Cabinet Office lowered its assessment of the economy to '*signaling a possible turning point*' in its revision of September results in November, then in December cut its evaluation even further to '*worsening*,' signaling a strong possibility that the economy has entered a downturn.

On the other hand, although second preliminary GDP figures were unchanged, showing that Japan's economy contracted -3.5% QoQ annualized in Jul-Sept, Apr-Jun GDP growth was cut from +0.3% QoQ annualized to -0.1% QoQ annualized. As a result, the economy shrank for two straight quarters in H1 FY12. Looking back, successive declines in real GDP have often coincided with economic downturns. Although it will be some time before it will ultimately be known whether Japan's economy has entered a downturn or not, the economy has clearly worsened and is nearing a downturn. Note that if the Cabinet Office determines that the economy has entered a downturn, this would be the first in three years, since February 2008 – March 2009.

Japan's economy is expected to continue to struggle going forward. As exports have been sluggish as overseas economies have slowed, the addition of worsening Japan-China relations has caused the export decline to widen and deepen (Figure 2). Domestic production rose in October, but only by a small margin (+1.6% MoM after dropping a total of -6.6% in Jul-Sept), and the Manufacturing Production Forecast Survey points to another fall in November. The new administration that emerged from the December 16 elections also appears to view quick support for the economy as an urgent issue.

Figure 1: Indexes of Business Conditions  
Coincident CI and Real GDP (2012)Figure 2: Export Volume by PartnerCountry/Region  
(2012)

## 2. Financial Markets

### (1) Monetary Policy & Long-Term Yields

The Bank of Japan increased its asset purchase fund by JPY10 trillion at its December 19-20 Monetary Policy Board meeting. The BoJ also released details of its lending support scheme for financial institutions and agreed to address setting the price stability goal in the medium to long term at its next meeting in January. A number of Policy Board members hold the view that the economy has struggled even more recently and may already be in a downturn. Although the BoJ has little further room for policy maneuvers, BoJ is likely to continue to bolster its monetary easing going forward. On the other hand, the LDP, which won in a landslide in the recent general elections, wishes to strengthen ties between the government and the BoJ and feels that monetary easing on a greater scale is needed. The BoJ will likely consider various policy options while maintaining its autonomy (Table 1). A proposal was made to eliminate the interest rate on excess reserves at the December meeting, but the suggestion was roundly defeated.

The 10Yr JGB yield hovered around the mid-0.7% mark in mid-November, before dipping into the 0.6% range following aggressive statements about monetary policy by LDP leader Shinzo Abe. The yield has recovered to the upper 0.7% level following the general election as share prices have risen and the JPY weakened.

### (2) Exchange Rates

The JPY has weakened against the USD since mid-November on speculation that the BoJ would boost monetary easing and rising US interest rates, falling to the JPY84 range. In the US, the FRB agreed to bolster monetary easing on December 12, and the JPY was expected to accelerate its appreciation in reaction of sudden weakening. However, conditions favoring JPY weakening and USD strengthening could continue as the US economy proves to be firm.

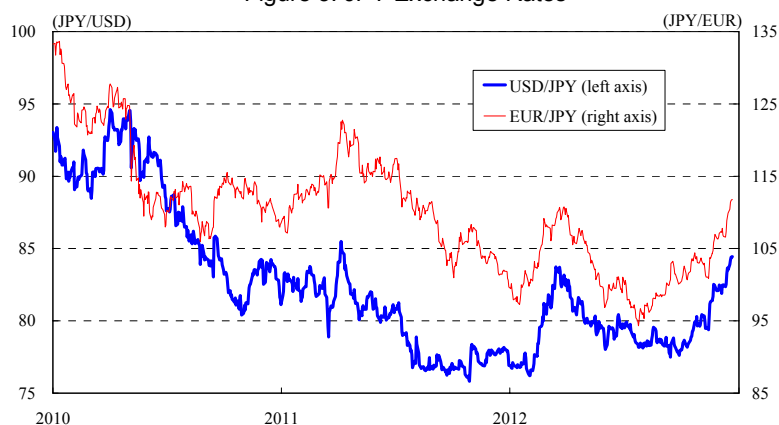
The JPY is also weakening against the EUR. The European debt crisis appears to have hit a lull after a number of twists and turns, and diminishing excessive risk aversion rooted in unease about Europe appears to be behind the EUR strengthening. The JPY hit a post-Lehman Brothers collapse high against the EUR of JPY/EUR94, and is now around the JPY111 level (Figure 3).

Table 1: Further Easing Options for the BoJ

Means		Planned size of fund (as of end-Dec 2013)	End-November status
Increase funds for asset purchases	Increase purchases of long- and short-dated JGBs	JPY68.5 trn	JPY31.1 trn
	Increase purchases of CP, corporate bonds	JPY5.4 trn	JPY4.9 trn
	Increase purchases of ETFs, J-REITs	JPY2.2 trn	JPY1.6 trn
	Increase supply of fixed-interest rate pooled collateral funds	JPY25.0 trn	JPY27.0 trn
	Extend durations of long-term JGBs eligible for purchase	—	1-3 years
	Eliminate minimum yield for long-term JGBs purchased	—	0~0.1% approximately
Lower interest rate for excess reserve deposits		—	0.1%
Raising target level for medium- to long-term price stability		—	1% YoY rise in consumer prices
Purchases of foreign bonds		—	—

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

Figure 3: JPY Exchange Rates



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

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## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

## 1. Main Economic Indicators

As of Dec. 28, 2012

	Fiscal 2010	Fiscal 2011	2012			2012				
			1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Real GDP Growth Rate <% changes from previous period at SA annual rate>	3.4	0.3	5.7 (3.4)	-0.1 (3.9)	-3.5 (0.5)	***	***	***	***	***
Index of All Industries Activity	2.0	0.2	-0.1 (2.4)	-0.1 (2.6)	-0.5 (-0.2)	-0.5 (0.6)	0.0 (-0.1)	-0.4 (-1.2)	0.2 (0.1)	
Industrial Production Index	9.3	-1.0	1.3 (4.8)	-2.0 (5.3)	-4.2 (-4.6)	-1.0 (-0.8)	-1.6 (-4.6)	-4.1 (-8.1)	1.6 (-4.5)	-1.7 (-5.8)
Shipments	9.4	-2.0	0.8 (4.1)	-0.2 (8.0)	-5.4 (-4.5)	-3.1 (-1.8)	0.2 (-3.3)	-4.3 (-8.4)	-0.1 (-4.9)	-1.1 (-5.9)
Inventory	3.9	9.6	5.9 (9.6)	0.0 (6.3)	0.3 (4.8)	2.9 (9.4)	-1.6 (5.9)	-0.9 (4.8)	-0.1 (3.8)	-1.2 (3.1)
Inventory/Shipments Ratio (2005=100)	108.4	116.4	113.1 [107.7]	121.8 [121.1]	127.9 [116.5]	128.2 [116.6]	125.2 [115.2]	130.4 [117.6]	127.6 [116.6]	127.2 [115.6]
Domestic Corporate Goods Price Index	0.7	1.4	0.2 (0.3)	-0.2 (-1.0)	-0.8 (-1.9)	-0.4 (-2.2)	0.2 (-1.9)	0.2 (-1.5)	-0.3 (-1.0)	0.0 (-0.9)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.1 (0.1)	0.3 (0.0)	-0.3 (-0.2)	0.0 (-0.3)	0.0 (-0.3)	0.2 (-0.1)	-0.1 (0.0)	-0.1 (-0.1)
Index of Capacity Utilization (2005=100)	88.0	87.4	92.1 [85.9]	89.8 [79.8]	85.0 [87.5]	88.1 [86.8]	85.8 [88.8]	81.1 [87.0]	82.4 [89.9]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	9.1	6.2	0.9 (3.3)	-4.1 (-1.7)	-1.1 (-4.6)	-1.1 (1.7)	4.6 (-6.1)	-3.3 (-7.8)	-4.3 (1.2)	2.6 (1.2)
Manufacturing	18.3	5.9	0.1 (-0.5)	-5.8 (-7.6)	-3.2 (-9.5)	12.0 (4.0)	-15.1 (-18.4)	2.8 (-12.7)	-3.6 (-13.3)	
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	0.5 (6.4)	0.0 (3.1)	0.1 (-1.3)	-2.1 (-1.0)	3.6 (3.9)	1.3 (-4.7)	2.8 (13.3)	
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	-2.5 (7.0)	0.7 (0.9)	-4.8 (-5.3)	-1.8 (-4.5)	-3.0 (-7.1)	-1.5 (-4.4)	-6.7 (-11.2)	0.1 (-12.8)
Construction Orders	-5.2	7.1	(3.6)	(6.1)	(6.3)	(8.0)	(8.7)	(3.6)	(-13.8)	(-2.1)
Private	-2.6	3.7	(-3.6)	(6.6)	(0.9)	(-0.4)	(2.4)	(0.7)	(-2.0)	(7.9)
Public	-12.1	22.7	(28.7)	(29.7)	(11.7)	(60.9)	(40.3)	(-17.8)	(-39.7)	(-2.0)
Public Works Contracts	-8.8	-0.5	(10.3)	(15.5)	(13.3)	(26.6)	(19.2)	(-1.9)	(28.2)	(6.2)
Housing Starts 10,000 units at Annual Rate, SA	81.9 (5.6)	84.1 (2.7)	86.2 (3.7)	87.8 (6.2)	87.4 (-1.1)	87.0 (-9.6)	88.8 (-5.5)	86.6 (15.5)	97.8 (25.2)	90.7 (10.3)
Total floor	(9.0)	(2.5)	(2.3)	(5.1)	(-2.7)	(-9.6)	(-7.7)	(12.6)	(20.1)	(8.5)
Sales at Retailers	0.8	0.8	(5.2)	(3.1)	(0.5)	(-0.7)	(1.7)	(0.4)	(-1.2)	(1.3)
Real Consumption Expenditures of Households over 2 persons (SA)	-0.9	-1.2	0.2 (1.1)	1.7 (2.7)	-1.4 (0.9)	-1.3 (1.7)	2.2 (1.8)	-1.9 (-0.9)	0.6 (-0.1)	-0.1 (0.2)
Propensity to Consume (SA,%)	73.4	73.3	71.8 [72.4]	74.1 [74.0]	74.4 [73.1]	75.4 [71.9]	73.2 [74.0]	74.7 [74.1]	74.0 [72.7]	75.0 [74.1]
Overtime Hours Worked (All Industries, 5 employees or more)	7.9	0.8	1.0 (1.8)	0.0 (4.0)	-3.3 (-0.9)	-2.2 (-0.8)	0.3 (0.1)	-0.8 (-2.0)	-1.0 (-3.1)	1.0 (-2.2)
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	-0.3	(0.0)	(-0.5)	(-0.7)	(-1.6)	(0.0)	(-0.5)	(-0.4)	(-2.7)
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	23,384	52,083	127,239 33,848	138,382 28,033	131,051 27,711	130,161 28,860	133,260 29,735	129,732 24,538	136,910 21,493	128,314 28,986
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.75 [0.61]	0.81 [0.62]	0.82 [0.66]	0.83 [0.65]	0.83 [0.66]	0.81 [0.67]	0.80 [0.68]	0.80 [0.69]
Unemployment Rate (SA,%)	5.0	5.0	4.6	4.7		4.3	4.2	4.2	4.2	4.1
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.2	44.9	47.3 [40.1]	47.3 [38.0]	43.0 [48.4]	44.2 [52.6]	43.6 [47.3]	41.2 [45.3]	39.0 [45.9]	40.0 [45.0]
Bankruptcies (Number of cases)	13,065 (-11.3)	12,707 (-2.7)	3,184 (-0.8)	3,127 (-5.5)	2,924 (-5.9)	1,026 (-5.0)	967 (-5.7)	931 (-6.9)	1,035 (6.0)	964 (-11.9)

(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 Dec. 28, 2012

	Fiscal	Fiscal	2012			2012				
	2010	2011	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(-1.6)	(4.8)	(-8.2)	(-8.1)	(-5.8)	(-10.3)	(-6.5)	(-4.1)
Value	0.1	0.6	(1.4)	(1.2)	(0.6)	(2.4)	(-1.6)	(0.9)	(1.7)	(3.6)
Volumes	14.7	-4.3	(-3.1)	(3.5)	(-8.7)	(-10.2)	(-4.2)	(-11.1)	(-8.1)	(-7.5)
Imports(In Yen terms)	16.0	11.6	(9.9)	(5.1)	(0.2)	(2.2)	(-5.3)	(4.2)	(-1.5)	(0.9)
Value	3.4	9.1	(6.5)	(1.8)	(-2.6)	(-4.5)	(-3.3)	(-0.1)	(-0.5)	(1.8)
Volumes	12.4	2.2	(3.1)	(3.2)	(2.9)	(7.0)	(-2.1)	(4.2)	(-1.1)	(-0.9)
Current Balance(100 mil. yen)	166,595	76,180	20,544	11,377	15,837	6,254	4,547	5,036	3,769	
Trade Balance(100 mil. yen)	64,955	-34,698	-12,956	-11,298	-14,894	-3,736	-6,445	-4,713	-4,503	
Services(100 mil. yen)	-12,730	-18,265	-1,421	-8,303	-8,488	-3,462	-2,225	-2,801	-3,568	
Capital and Financial Accounts(100 mil. yen)	-155,633	29,618	-30,956	-30,182	-26,433	-7,329	-11,472	-7,632	-5,920	
Gold & Foreign Exchange Reserves(\$1mil.)	1,116,025	1,288,703	1,288,703	1,270,547	1,277,000	1,272,777	1,273,242	1,277,000	1,274,160	1,270,848
Exchange Rate(US\$)	85.69	79.05	79.28	80.17	78.62	79.02	78.66	78.17	78.97	80.87

## 3. Financial Market Indicators

	Fiscal	Fiscal	2012			2012					
	2010	2011	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV	
Uncollateralized Overnight Call Rates	0.091	0.077	0.083 [0.088]	0.078 [0.067]	0.085 [0.078]	0.084 [0.073]	0.086 [0.081]	0.085 [0.080]	0.085 [0.081]	0.086 [0.077]	
Euro Yen TIBOR (3 Months)	0.356	0.331	0.331 [0.336]	0.333 [0.332]	0.327 [0.330]	0.327 [0.332]	0.327 [0.329]	0.327 [0.329]	0.326 [0.329]	0.318 [0.329]	
Newly Issued Japanese Government Bonds Yields (10 Years)	1.127	1.050	0.968 [1.242]	0.848 [1.160]	0.780 [1.043]	0.780 [1.080]	0.795 [1.030]	0.765 [1.020]	0.775 [1.045]	0.700 [1.065]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.357	1.269	1.269 (-0.023)	1.255 (-0.014)	1.245 (-0.010)	1.252 (-0.003)	1.257 (0.005)	1.245 (-0.012)	1.242 (-0.003)		
The Nikkei Stock Average (TSE 225 Issues)	9,755	10,084	10,084 [9,755]	9,007 [9,816]	8,870 [8,700]	8,695 [9,833]	8,840 [8,955]	8,870 [8,700]	8,928 [8,988]	9,446 [8,435]	
M2(Average)	(2.7)	(2.9)	(3.0)	(2.4)	(2.4)	(2.3)	(2.4)	(2.4)	(2.3)	(2.1)	
Broadly-defined Liquidity(Average)	(0.6)	(0.1)	(0.3)	(0.2)	(0.3)	(0.0)	(0.3)	(0.5)	(0.5)	(0.3)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(-1.9)	(-0.1)	(0.6)	(0.3)	(0.8)	(0.7)	(0.8)	(0.9)	(0.8)	(1.0)
	Banks	(-2.0)	(-0.1)	(0.8)	(0.5)	(1.1)	(0.9)	(1.1)	(1.2)	(1.1)	(1.3)
	City Banks etc.	(-4.2)	(-1.8)	(-0.4)	(-1.1)	(-0.4)	(-0.5)	(-0.4)	(-0.4)	(-0.4)	(-0.1)
	Regional Banks	(0.6)	(1.9)	(2.3)	(2.4)	(2.9)	(2.6)	(2.8)	(3.2)	(3.2)	(3.2)
	Regional Banks II	(-0.4)	(1.1)	(1.2)	(1.3)	(1.4)	(1.3)	(1.5)	(1.2)	(0.3)	(0.5)
Deposits and CDs (Average)	Shinkin	(-1.3)	(-0.5)	(-0.5)	(-0.7)	(-0.8)	(-0.9)	(-0.8)	(-0.7)	(-0.8)	(-0.5)
	Total(3 Business Condition)	(2.6)	(2.7)	(2.9)	(1.8)	(2.2)	(2.0)	(2.3)	(2.3)	(2.1)	(1.7)
	City Banks	(2.6)	(1.9)	(2.2)	(0.7)	(2.1)	(1.7)	(2.1)	(2.5)	(1.9)	(1.1)
	Regional Banks	(3.1)	(3.7)	(3.7)	(3.0)	(2.3)	(2.3)	(2.4)	(2.1)	(2.5)	(2.5)
	Regional Banks II	(0.6)	(2.8)	(3.2)	(2.8)	(2.2)	(2.3)	(2.4)	(1.9)	(1.1)	(1.0)

(Notes)

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

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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