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The Outlook for the Japanese Economy

Economic Research Office
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

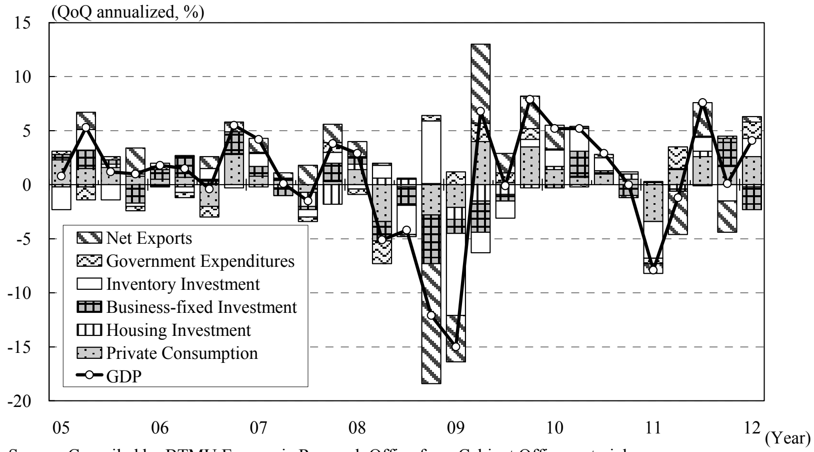
~ Japanese Economic Recovery to Gain Momentum as Upward Pulls of Full-on Reconstruction and Restoration Activities Surpass Downward Pressures from Abroad ~

1. Current Economic Conditions

Steady domestic and external demand accelerate real GDP growth again in Jan-Mar

The Japanese economy is re-gaining momentum, pulling out of its lull since last autumn. Real GDP for the Jan-Mar quarter grew an annualized +4.1% QoQ (Figure 1), a marked acceleration from nearly 0% (actually an annualized rate of +0.1% QoQ) in the 2011 Oct-Dec quarter.

Figure 1: Real GDP and Final Demands



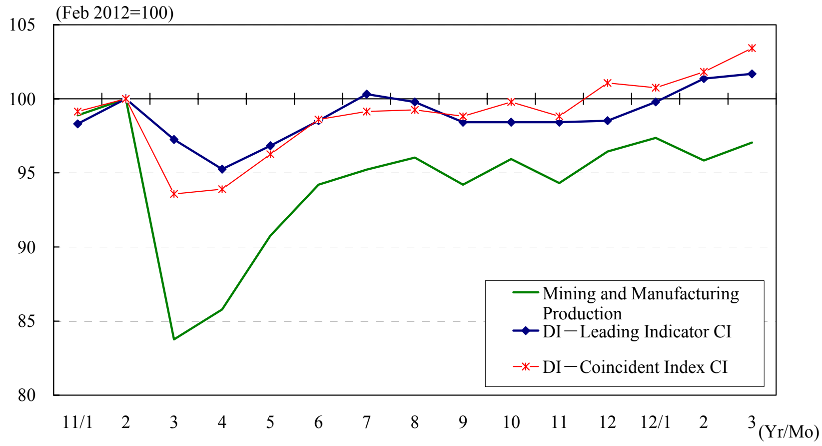
Source: Compiled by BTMU Economic Research Office from Cabinet Office materials.

This was a clear sign that the economy continues to recover. By final demand component, private consumption increased by an annualized rate of +4.4% QoQ, a fourth consecutive quarter of increase, and public demand rose by an annualized rate of as much as +6.2% QoQ as well. These increases countered decreases of private fixed investment (an annualized rate of -14.8% QoQ) and residential investment (an annualized rate of -6.1% QoQ), which are thought to have dropped temporarily. Exports (+12.3% QoQ annualized) increased more than imports (+8.0% QoQ annualized), and the contribution of net exports to real GDP growth turned positive (+0.5% QoQ annualized) for the first time in two quarters. Further, private inventory investment made a big contribution, an annualized rate of 1.7% QoQ. As a result, the real GDP growth rate for FY11, which began just after the March 2011 earthquake, stood at -0.01% YoY, slightly negative.

Strong leading, monthly economic indicators point to continuing recovery

Industrial production, which decreased by 1.6% MoM in February, rose by 0.9% MoM in January and 1.3% MoM in March, for an annualized rate of 5.1% QoQ in Jan-Mar (Figure 2). According to the manufacturers' forecast survey, April production is expected to increase again by 1.0% MoM. In addition, among the Indexes of Business Conditions, leading indicators have been especially strong and have risen on-month for a fourth straight month since last December. Both the leading and the coincident indicators have recovered to the levels prior to the 2011 March earthquake. The post-earthquake recovery appears to be shifting into a second phase, marked by sustainability and traction for the overall economy, from the first phase, a temporary rebound mainly from reconstruction activities. In the first phase, the real GDP growth rate jumped to an annualized rate of 7.6% QoQ in Jul-Sep but fell back to an annualized rate of 0.1% QoQ in Oct-Dec.

Figure 2: Mining and Manufacturing Production and DI



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

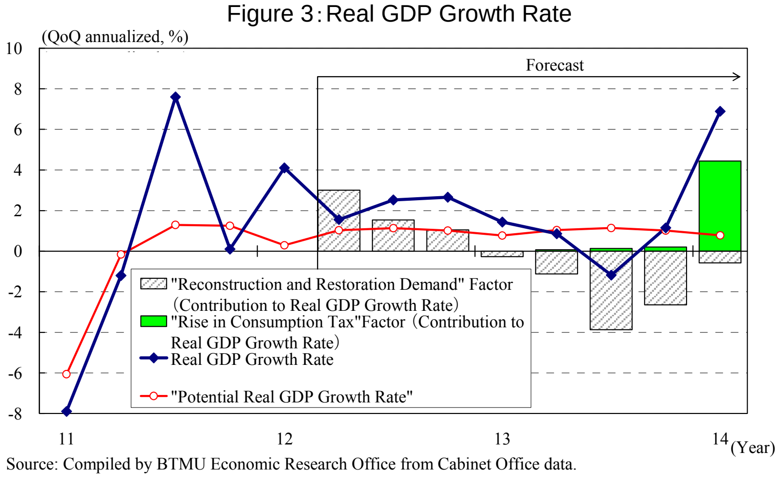
2. Outlook

＜Summary＞

Japanese economy to growth at relatively high pace in FY12, then seesaw in FY13

Looking ahead, the Japanese economy is likely to remain in the second recovery phase for some time. Downward pressures from sluggish overseas economies, the JPY's appreciation and high crude oil prices will persist. But unless the pressures increase as much as described below, the upward pulls of full-on reconstruction and restoration activities since the 2011 March earthquake will prevail. In the future, the Japanese economy, ignited by emerging reconstruction and restoration activities and related demand, will steadily gain more momentum, expanding the scope of recovery to overall domestic demand, production and exports. The real GDP growth rate, which jumped in Jan-Mar, is expected to stay high through the end of this fiscal year, and the growth rate for all of FY12 is expected to be around the mid-2% level (Figure 3). In H1 FY13, the growth rate is expected to slow temporarily as reconstruction and restoration activities settle, and then accelerate again in H2 because of rush demand before the consumption tax rate hike expected at the beginning of FY14. The growth rate for FY13 as a whole is expected to be in the lower 1% range.

Figure 3：Real GDP Growth Rate



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

Among many risk factors, tight electric power supply this summer warrants the most caution

On the other hand, we think that downside risks to our main scenario persist. Stubborn risk factors include the global economy's further deterioration (including a global recession and financial crisis), additional JPY appreciation, and higher crude oil prices. Escalating electricity shortages are a particular concern right now. According to a government committee's demand and supply outlook survey for this summer, the situation in the Kansai Electric Power Company service area is more severe than last summer in the Tokyo area. Last summer, the government ordered a 15% cut to electric power usage based on the 2011 May outlook, which reflected a -10.3% drop in the supply reserve rate (Table 1). This point, including the possibility of price fluctuations, warrants the most attention over the short term, as rates of decline are expected to slow gradually as the deflationary gap narrows.

Table 1: August 2012 Electricity Demand Projection
(Government's Validating Committee's Report)

('0,000 kW)

	(1) Maximum Demand (Under assumption of high temperatures as like 2010, economic situation and effect of saving electricity in 2012)	(2) Supply Capacity (Under assumption of no atomic energy and other additional supply management)	Supply Demand Balance (= (2) - (1))			
				Supply Reserve Rate (%)	Supply Demand Gap to Secure 3% of "Supply Reserve Rate"	Supply Reserve Rate (%)
Total 9 Companies	**17,006**	**17,032**	**25**	**0.1**	**▲ 493**	**▲ 2.9**
Hokkaido EPCO	494	485	▲ 10	▲ 1.9	▲ 24	▲ 4.9
Tohoku EPCO	1,422	1,475	53	3.8	11	0.8
Tokyo EPCO	5,520	5,771	251	4.5	83	1.5
Hokuriku EPCO	558	578	20	3.6	3	0.6
Chubu EPCO	2,648	2,785	137	5.2	58	2.2
Kansai EPCO	2,987	2,542	▲ 445	▲ 14.9	▲ 535	▲ 17.9
Chugoku EPCO	1,182	1,235	53	4.5	18	1.5
Shikoku EPCO	585	587	2	0.3	▲ 16	▲ 2.7
Kyushu EPCO	1,610	1,574	▲ 36	▲ 2.2	▲ 84	▲ 5.2

Source: Compiled by BTMU Economic Research Office from Government's Validating Committee's Report.

＜Details＞

(1) Corporate Sector

①Exports・Production

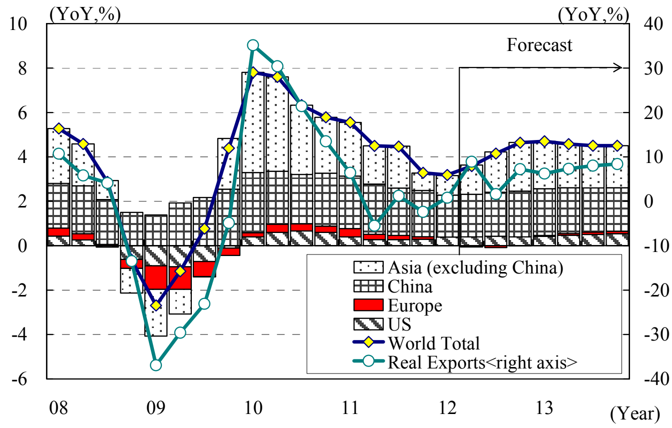
Exports recovering mainly to US and Asia excluding China

In Jan-Mar, GDP real export figures increased by an annualized rate of 12.3% QoQ, the first rise in two quarters. While exports to Europe and China remained sluggish, shipments to the US and ex-China Asia have recovered. Real GDP growth rates in Japan's main export counterparts deteriorated through Jan-Mar quarter but are expected to rise gradually, so Japan's exports are projected to follow an upward trend (Figure 4). Also, Japan posted a large trade deficit in FY12. Despite a continued increase in mineral fuel imports, an export recovery is likely to erase the trade deficit in late FY13.

Production to increase as exports recover and as reconstruction and restoration demand emerges

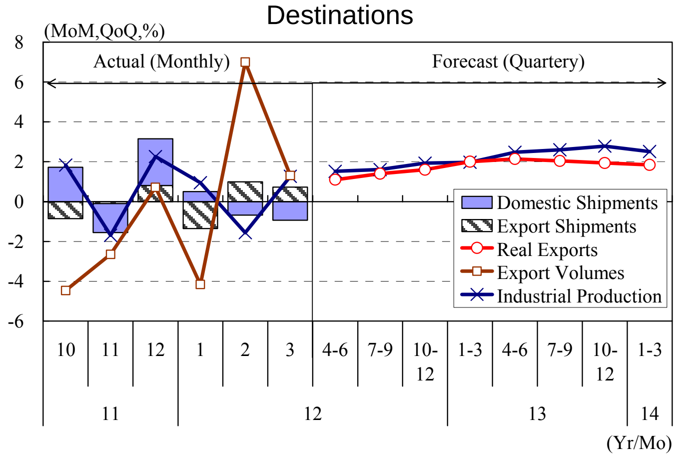
Production is picking up mainly in export-related sectors (Figure 5). In the future, exports will keep increasing as overseas economies gradually accelerate; meanwhile, domestically, reconstruction and restoration demand is expected to push production up. As a result, domestic production in the future is likely to follow an upward trend.

Figure 4: Real Exports and Growth Rate of Main Export Destinations



Notes: 1. *Europe* includes Eurozone and UK. *Asia (excl.China)* includes NIEs, ASEAN4 and India.
2. *World total* is weighted averageby export weigtht of main export destinations' Real GDP growth rate.
Source: Complied by BTMU Economic Research Office from MOF, Bloomberg, countries' data.

Figure 5: Industrial Production and Shipments by Destinations



Source: Complied by BTMU Economic Research Office from MOF, METI, Cabinet office' data.

②Corporate Profits, Capital Expenditures

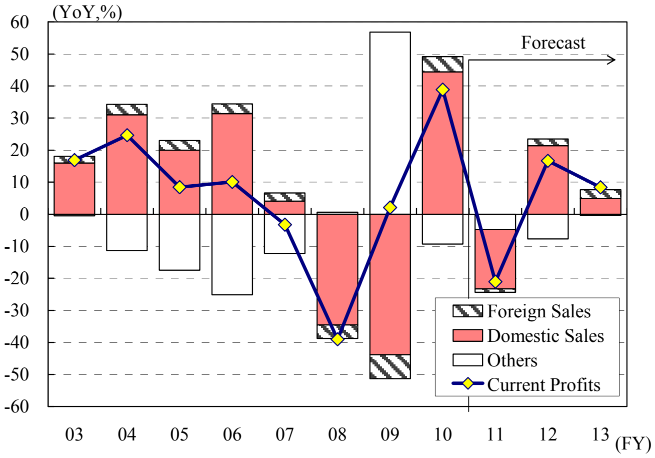
Corporate profits likely to rise in FY13 and FY14 for two straight years

According to the March BOJ Tankan Survey, corporate profits are projected to decline -9.4% YoY in FY11. Manufacturer profits are expected to decline considerably. On the other hand, non-manufacturers (excluding production, transmission and distribution of electricity), especially the construction and retail sales industries, are expected to improve due to the positive effects from reconstruction demand. Looking ahead, non-financial company profits are expected to recover due to the positive impacts of export recovery and reconstruction demand appearing (Figure 6). Furthermore, corporate profits are projected to rise from FY13 for two straight years because of rush demand prior to the consumption tax rate hike. In addition, direct investment income from overseas subsidiaries is likely to boost corporate profits.

Capital expenditures projected to rise due to reconstruction demand

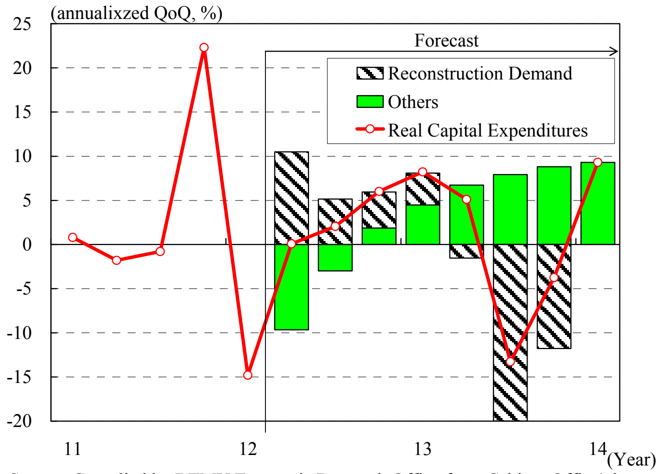
Real capital expenditures declined by annualized rate of -14.8% QoQ in Jan-Mar quarter for the first time in two quarters (Figure 7). However, this decline is largly a result of a rebound from the upswing the previous quarter. Machinery orders (private demand, excluding shipbuilding and power generating companies), a leading indicator of capital expenditures, rose +0.9% QoQ in Jan-Mar and are expected to rise +2.5% QoQ in Apr-Jun. The decline in Jan-Mar seems to be temporary, and capital expenditures are likely to gain momentum again on increasing reconstruction and restoration demand. Although reconstruction demand is expected to peak around the end of FY12, base demand from corporate profit recovery will be increasing slowly. Therefore, capital expenditures are projected to continue rising steadily even as reconstruction demand fades.

Figure 6: Current Profits (Non-financial Corporations)



Source: Complied by BTMU Economic Research Office from MOF' data.

Figure 7: Real Capital Expenditures



Source: Complied by BTMU Economic Research Office from Cabinet Office' data.

(2) Household Sector

①Private Consumption

Private consumption has been firm, increasing for a fourth straight quarter

Real private consumption rose an annualized +4.4% QoQ in Jan-Mar. This was the fourth straight quarter of real private consumption growth, and the rate of rise was the highest during the period (Table 2). By type of goods, consumption of durable goods (+7.4% QoQ annualized) accelerated. Automobile sales in particular have been strong, boosted by the resumption of the Ecocar subsidy program from the end of 2011. Moreover, semi-durable goods, non-durable goods, and services increased. Private consumption appeared to be broadly supported by further consumer sentiment improvement and gradual recovery of worker incomes.

Private consumption expected to remain firm in terms of both income and sentiment

Private consumption is expected to improve after a slump in automobiles sales in Apr-Jun (Figure 8). Worker incomes and compensation are expected to increase gradually as production and worker hours expand, and this is expected to support both consumer sentiment as well as private consumption. Moreover, private consumption is expected to fluctuate after the consumption tax rate is raised in FY13. Prior to the tax hike, rush demand will cause private consumption to surge temporarily.

Table 2: Consumer-Related Statistics

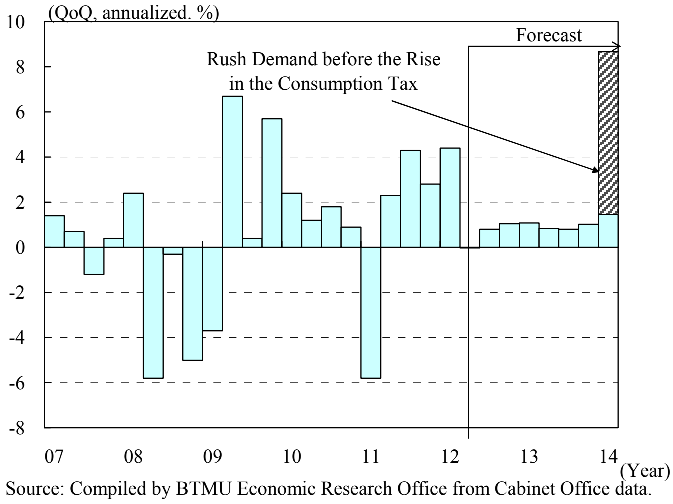
(%)

	2011				2012
	Jan-Mar	Apr-Jun	Jul-Sept	Oct-Nov	Jan-Mar
Real Private Consumption (QoQ annualized)	▲ 5.8	2.3	4.3	2.8	4.4
Durable	▲ 22.7	19.4	26.4	1.6	7.4
Semi-durable	▲ 4.2	16.9	8.0	▲ 0.5	6.6
Non-durable	5.6	▲ 6.8	0.8	4.1	5.2
Services	▲ 7.8	2.1	2.2	3.6	3.6
Consumer Sentiment (QoQ)	▲ 5.8	▲ 8.7	7.3	1.8	3.9
Compensation of Employment (QoQ)	1.1	▲ 0.5	▲ 0.3	0.3	0.3
Regular Employees	0.3	▲ 0.1	0.2	0.2	0.2
Warling Hours	▲ 0.5	▲ 0.1	0.5	0.3	0.9
Wage per Working Hour	1.9	▲ 0.5	▲ 0.5	▲ 1.2	0.5

Note: Regular Employees, Warling Hours and Wage per Working Hour cover companies surveved with five and more workers.

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

Figure 8: Real Private Consumption



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

②Housing Investment

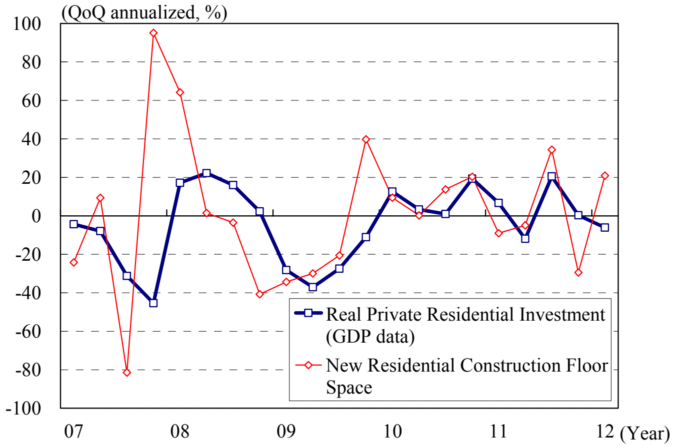
Despite declining housing investment, new residential construction has risen

Real residential investment fell an annualized -3.1% QoQ in Jan-Mar. This is the first increase in three quarters. (Figure 9). Although the Flat 35S and Residential Ecopoint programs that pushed up housing investment last Jul-Sep ended last summer, the impact appears to have persisted. However, New Residential Construction Floor Space, a leading economic indicator, is in positive territory. It thus appears that the impact has fallen off completely.

Policy effects, building reconstruction and rebuilding demand expected to expand residential

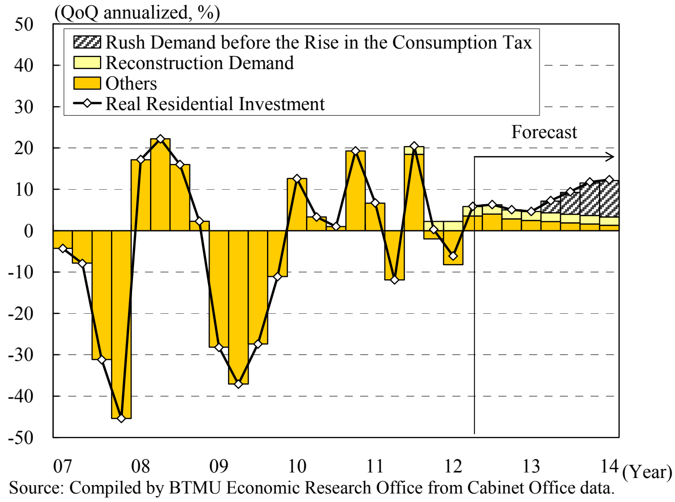
Residential rebuilding activity is projected to continue for some time in the disaster region (Figure 10). Furthermore, not only support measures like Reconstruction Supports and Residential Ecopoint programs and Flat 35S Eco (expanded cuts in applied interest rates), but also continued low interest rates and rising worker incomes are likely to support home purchases. In addition, a higher consumption tax will have an impact on residential investment. As the past has already shown, residential investment is expected to surge after the beginning of FY13, prior to the consumption tax hike in early FY14.

Figure 9: Residential Investment and New Residential Construction Floor Space



Source: Compiled by BTMU Economic Research Office from CAO and MLIT data.

Figure 10: Real Residential Investment



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

(3) Public Sector

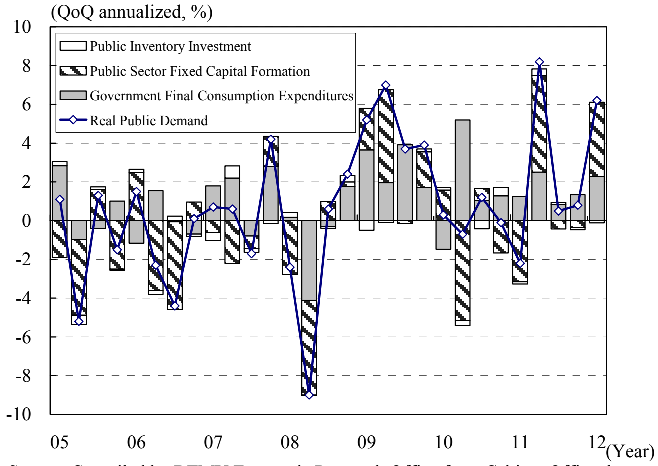
Public demand increased for a fourth straight quarter.

In Jan-Mar, real public demand increased by an annualized rate of 6.2% QoQ and for a fourth straight quarter (Figure 11). In addition to the continued increase in government consumption, public fixed investment starting to increase pushed up the rate of increase for public demand as a whole. This appears to be due to the FY11 supplementary budget being fully implemented, as well as an increase in disaster management-related public works projects in areas other than the stricken Tohoku region.

FY12 public demand to increase further

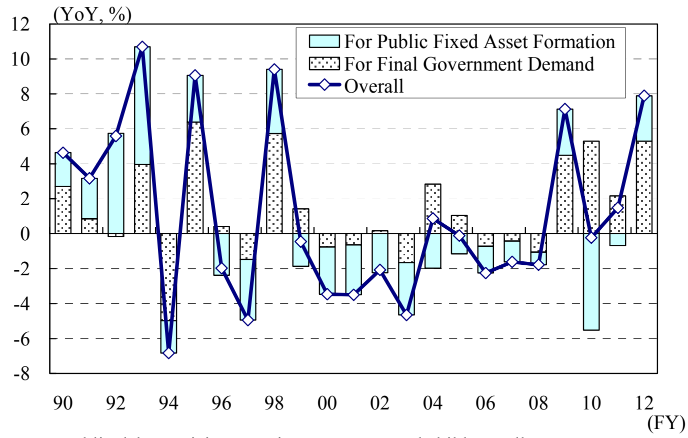
In FY12, reconstruction and restoration activities are expected to boost public demand strongly. In the FY12 central and local government budgets, expenditures corresponding to GDP public demand increase significantly, by 7.9% YoY (Figure 12). On the other hand, public demand is likely to decrease in FY13 from FY12 due to reconstruction-related government expenditures peaking out.

Figure 11: Real Public Demand



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

Figure 12: National, Regional Public Demand Spending



Note: Public debt servicing, pension payments, and childcare allowances not included in GDP public demand figures. Calculated without components.
Source: Compiled by BTMU Economic Research Office from MoF, MIC materials.

(4) Inflation

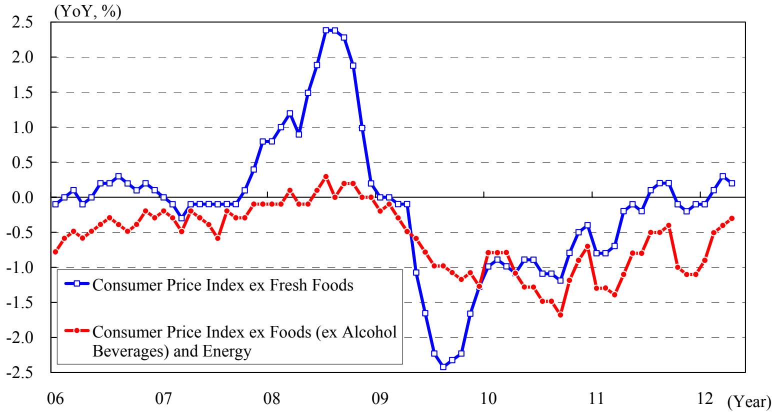
Core CPI in positive territory due to technical factors

The Consumer Price Index (excluding fresh foods, or core CPI) has remained positive for three consecutive months (Figure 13). In addition to the rise in energy prices, higher TVs prices have also had an impact after component item was replaced in February. (The replacement effect was 0.3% YoY compared to last year.) The drop in core-core CPI (excluding foods except alcoholic beverages and energy) has slowed considerably (Apr: -0.3% YoY vs Jan: -0.9% YoY). This is also due to the technical factor of replaced basket goods. It is thus premature to conclude that deflationary pressure has retreated suddenly.

Core CPI decline to slow

The core CPI is expected to stay in negative territory, but as the deflationary gap has shrunk, the margin of decline has contracted gradually. In addition, higher electrical utility rates (by an average of 10.28% in the Tokyo Electric Power Company service area) scheduled for July are estimated to boost the core CPI + 0.1% for the country as a whole. If electric companies pass on all costs related to higher fuel costs at thermal power plants following the shutdown of nuclear power plants, it is estimated that the domestic corporate goods price index and core CPI will be boosted by 1.11% and 0.66%, respectively (Table 3).

Figure 13: Consumer Price Index



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

Table 3: Higher Thermal Power Generation Fuel Costs and Imputed Effect on All Costs

Corporate Sector	Electricity Cost Rate of Rise	30.2%
	Upward Impact on Domestic Corporate Prices	1.11% points
Household Sector	Electricity Cost Rate of Rise	19.9%
	Upward Impact on Core Consumer Prices	0.66% points

Source: Compiled by BTMU Economic Research Office from BoJ, MIC data.

3. Monetary Policy, Financial Markets

(1) Monetary Policy

BoJ strengthen easy money policy

At the April 27 Monetary Policy Meeting, the Bank of Japan voted to increase the scale of long-term government bond purchases through its asset purchasing fund by JPY10 trillion, extend remaining durations of government bonds eligible for purchase, and raise the limit on risk assets purchased. Also, in the *Outlook Report* released April 27, the BoJ forecast that the inflation rate will rise to 0.7% YoY through FY13 (Table 4) and “it will likely be not too long before the rate reaches the Bank's ‘price stability goal in the medium to long term’ of 1 percent for the time being” (*Outlook Report*).

Virtually zero interest policy unlikely to be lifted before FY13

Breaking down the *Outlook Report* inflation forecast into monthly changes and extending the inflation rate through FY14, the core CPI rate of change is expected to reach 0.9% YoY at the end of FY13 and surpass 1% YoY in late FY14 (Figure 14). That is, expectations of price stability that are a condition for lifting the BoJ’s virtually zero interest policy may start to appear as early as H2 FY13. However, because deflationary pressure is expected to persist, it is uncertain that the inflation rate will climb as the *Outlook Report* projects. In addition, it will be difficult for the BoJ to tighten monetary policy around April 2014 when the consumption tax rate is scheduled to be raised. The virtually zero interest rate policy is unlikely to be lifted by FY13.

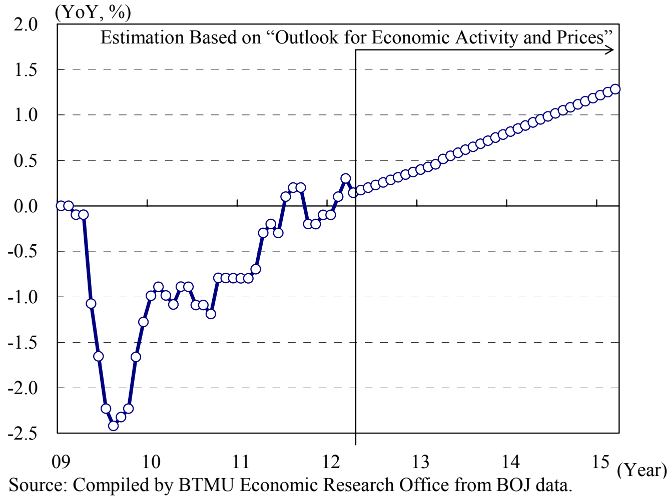
Table 4: Outlook on Economy and Prices
by the BOJ Policy Board Members (Apr)

(YoY, %)

		Real GDP	Domestic Corporate Goods Price Index	Consumer Price Index (excl. Fresh Food)
FY2011		-0.2～-0.2 〈−0.2〉	+1.7	0.0
	Outlook as of Jan	-0.4～-0.3 〈−0.4〉	+1.8～+1.9 〈+1.8〉	-0.1～0.0 〈−0.1〉
FY2012		+2.1～+2.4 〈+2.3〉	+0.4～+0.7 〈+0.6〉	+0.1～+0.4 〈+0.3〉
	Outlook as of Jan	+1.8～+2.1 〈+2.0〉	-0.1～+0.2 〈+0.1〉	0.0～+0.2 〈+0.1〉
FY2013		+1.6～+1.8 〈+1.7〉	+0.7～+0.9 〈+0.8〉	+0.5～+0.7 〈+0.7〉
	Outlook as of Jan	+1.4～+1.7 〈+1.6〉	+0.6～+1.0 〈+0.8〉	+0.4～+0.5 〈+0.5〉

Note: Figures in < > are the median figures of the outlook
Source: Compiled by BTMU Economic Research Office from BoJ materials.

Figure 14: Consumer Price Index ex Fresh Foods



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

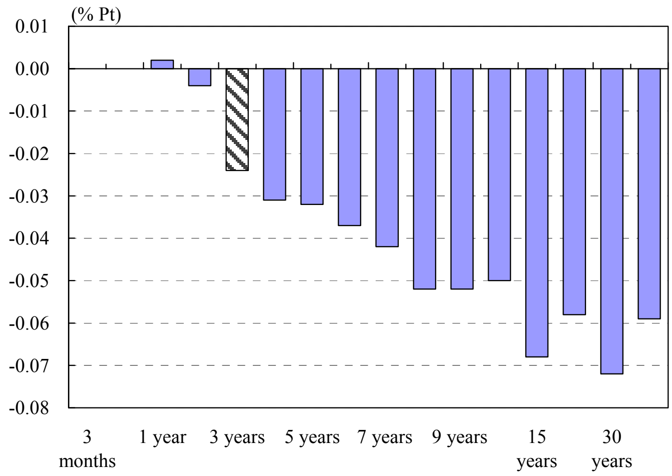
(2) 10Yr JGB Yield

Long-term yield to range from 0.9% to 1.0%

Long-term yields declined dramatically through mid-May amidst risk-averse conditions reflecting Greece’s political uncertainty. On May 18, the yield on newly-issued 10Yr JGBs hit 0.815%, the lowest level since July 2003. Further, the BoJ’s additional monetary easing on April 27 appears to have lowered long-term interest rates. In fact, just after the BoJ extended the remaining terms for bonds eligible for purchase through its asset purchase fund to three years, yields for bonds with more than three years remaining declined strikingly (Figure 15).

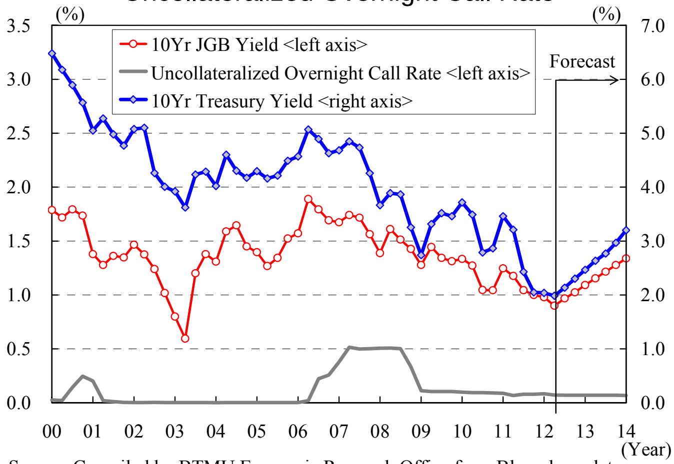
Against concerns about the future of the domestic and overseas economies, European debt problems and the BoJ’s continuing virtually zero interest rate policy, long-term yields are likely to remain low for a while, centering around 0.9% to 1.1% (Figure 16). In late FY12, as the US economy steadies and US long-term rise , Japanese long-term yields are expected to begin rising as well.

Figure 15: Change of JGB Yield (26.Apr-29.May.2012)



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

Figure 16: US-Japan Long-Term Yields and Uncollateralized Overnight Call Rate



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

(3) Exchange Rates

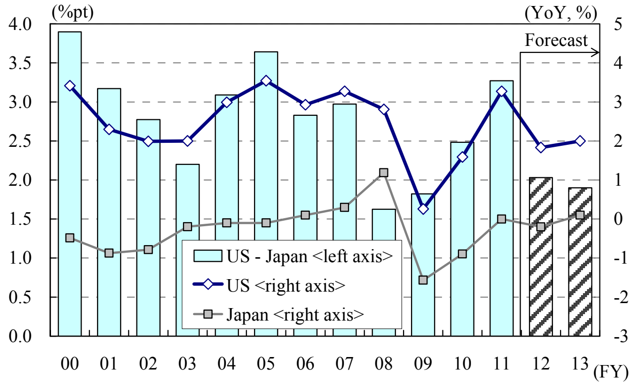
JPY appreciation pressure has eased somewhat

The JPY has started to appreciate against the USD again, but its current level is around 80, not as strong as the USD/JPY76-78 central range of last summer through February 2012. This is because of a)the recovering US economy; b)Japan's trade deficit; c)the BoJ's greater-than-expected monetary easing. Now, although the Greek crisis has promoted risk-adverse behavior, we think it is less likely that the JPY will once again strengthen to the lower JPY70 range in terms of overall market trend.

USD/JPY to hover around 79~80 in FY12

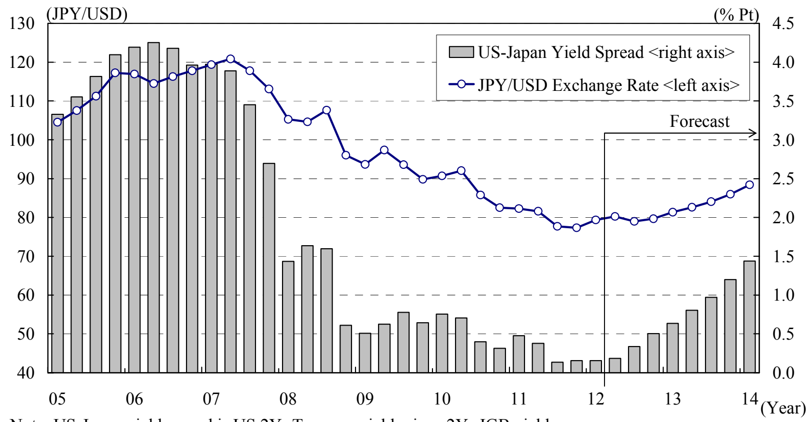
The spread between US and Japan inflation rates will persist but is expected to narrow through FY13 (Figure 17). Thus, in terms of purchasing power parity, JPY appreciation pressures are likely to ease. Further, partly because interest rate spreads between Japan and the US are expected to widen, the JPY will be slow to strengthen against the USD (Figure 18). However, persisting European debt problems and speculation of additional monetary easing by the FRB will prevent the JPY appreciation against the USD from becoming a trend. In FY12, the JPY is likely to remain high with a central range of USD/JPY 79~80. In FY13, a wider interest rate spread between Japan and the US will encourage JPY selling.

Figure 17: Consumer Prices in the US and Japan



Note: US is consumer prices (overall), and Japan is consumer prices (core, excluding fresh foods).
Source: Compiled by BTMU Economic Research Office from MIC, US Bureau of Labor data.

Figure 18: 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 data.

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Outlook for the Japanese Economy

30-May-2012

Forecast → (from 2012 2Q)

Bank of Tokyo-Mitsubishi UFJ Economic Research Office

(%, billion yen)

	2010				2011				2012				2013	FY2010	FY2011	FY2012
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	5.2	5.2	2.9	-0.0	-7.9	-1.2	7.6	0.1	4.1	1.6	2.5	2.7	1.4	-0.0	2.5	1.3
Private Consumption	2.4	1.2	1.8	0.9	-5.8	2.3	4.3	2.8	4.4	-0.0	0.8	1.0	1.1	1.1	1.8	1.4
Housing Investment	12.6	3.3	1.0	19.3	6.7	-11.9	20.5	0.3	-6.1	5.9	6.3	5.1	4.7	3.6	3.5	7.7
Private Business Fixed Investment	-2.4	20.2	2.6	-7.7	0.8	-1.8	-0.8	22.3	-14.8	0.1	2.1	6.0	8.2	0.2	1.2	0.9
Business Inventory (Contribution)	1.5	2.1	1.2	0.2	-3.4	0.1	1.3	-1.5	1.7	0.0	0.0	0.0	0.2	-0.4	0.2	0.2
Government Expenditures	0.3	-0.7	1.2	-0.1	-2.2	8.2	0.5	0.8	6.2	6.5	6.3	3.5	-5.5	2.4	4.0	-3.6
Public Investment	8.7	-24.9	3.5	-9.1	-17.0	32.6	-2.4	-2.1	23.6	12.6	14.8	8.2	-15.1	3.9	9.4	-11.4
Net Exports (Contribution)	2.2	0.2	-0.0	-0.2	-0.9	-4.0	3.1	-2.9	0.5	-0.1	0.1	0.3	0.8	-1.0	0.1	0.8
Exports	27.2	23.8	6.0	-0.7	-1.8	-22.9	39.5	-14.1	12.3	4.5	5.7	6.6	8.2	-1.4	5.9	8.0
Imports	10.2	26.0	7.4	0.7	4.8	0.8	14.6	3.8	8.0	6.0	5.7	5.3	3.8	5.3	6.3	3.7
Nominal GDP	3.8	4.1	0.2	-2.2	-9.8	-4.0	6.1	-1.1	4.1	2.0	2.7	1.4	0.7	-1.9	2.2	1.0
GDP Deflator (YoY)	-2.4	-2.1	-2.0	-1.9	-1.9	-2.4	-2.2	-1.9	-1.2	-0.4	-0.4	-0.1	-0.3	-1.9	-0.3	-0.3
Industrial Production Index (QoQ)	7.4	0.7	-1.0	-0.1	-1.5	-4.2	5.4	0.4	1.3	1.5	1.6	1.9	2.0	-1.0	6.8	9.7
Domestic Corporate Goods Price Index (YoY)	-1.6	0.2	-0.1	1.0	1.8	2.5	2.6	1.5	0.5	0.5	0.7	0.8	0.9	1.7	0.8	1.1
Consumer Price Index (excl. fresh food, YoY)	-0.9	-1.0	-1.1	-0.8	-0.8	-0.2	0.2	-0.1	0.1	0.1	0.0	-0.1	-0.2	0.0	0.0	0.1
2. Balance of Payments																
Trade Balance (billion yen)	2,378	1,958	1,868	1,722	908	-1,093	-241	-1,185	-1,112	-1,352	-1,084	-1,060	-990	-3,450	-4,487	112
Current Balance (billion yen)	4,857	4,142	4,428	4,500	3,487	1,887	2,546	1,682	1,781	1,596	1,925	2,011	2,142	7,893	7,675	13,257
3. Financial																
Uncollateralized overnight call rate	0.1	0.1	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	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1
Euro-Yen TIBOR (3-mo.)	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Newly Issued 10-Year Government Bonds Yield	1.3	1.3	1.0	1.0	1.2	1.2	1.0	1.0	1.0	0.9	1.0	1.0	1.1	1.0	1.0	1.2
Exchange Rate (USD/JPY)	91	92	86	83	82	82	78	77	79	80	79	80	81	79	80	85

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. 7, 2012

	Fiscal 2010	Fiscal 2011	2011 2Q	2011 3Q	2011 4Q	2011 DEC	2012 JAN	2012 FEB	2012 MAR	2012 APR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	3.2	0.0	7.6	0.1	4.1	***	***	***	***	***
			(-0.4)	(-0.5)	(2.7)					
Index of All Industries Activity	2.0	0.2	2.1	0.5	-0.1	1.7	-0.7	-0.1	-0.3	
			(-0.1)	(0.0)	(2.4)	(0.2)	(-0.1)	(1.6)	(5.5)	
Industrial Production Index Production	9.3	-1.0	5.4	0.4	1.3	2.3	0.9	-1.6	1.3	0.2
			(-0.9)	(-1.6)	(4.8)	(-3.0)	(-1.6)	(1.5)	(14.2)	(13.4)
Shipments	9.4	-2.0	7.0	0.3	0.8	3.3	-1.1	0.3	0.5	0.9
			(-1.6)	(-2.2)	(4.1)	(-2.4)	(-1.5)	(1.5)	(11.9)	(16.3)
Inventory	3.9	9.6	1.8	-1.4	5.9	-1.7	2.1	-0.5	4.3	2.0
			(6.0)	(3.8)	(9.6)	(3.8)	(2.5)	(1.0)	(9.6)	(10.8)
Inventory/Shipments Ratio (2005=100)	108.4	116.4	116.5	115.0	113.1	112.7	113.5	110.4	115.3	122.9
			[108.7]	[111.0]	[107.7]	[108.0]	[108.4]	[105.9]	[108.8]	[126.6]
Domestic Corporate Goods Price Index	0.7	1.7	-0.1	-0.9	0.2	-0.1	0.0	0.2	0.5	0.3
			(2.6)	(1.5)	(0.5)	(1.1)	(0.5)	(0.6)	(0.5)	(-0.2)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.1	-0.2	-0.1	0.0	0.1	0.2	0.1	0.1
			(-0.3)	(-0.1)	(0.1)	(-0.1)	(-0.1)	(0.1)	(0.2)	(0.2)
Index of Capacity Utilization (2005=100)	88.0	87.4	87.5	89.3	92.1	89.9	92.8	91.2	92.4	
			[88.4]	[88.4]	[85.9]	[90.2]	[91.4]	[93.3]	[73.1]	[72.1]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	9.1	6.2	1.6	-0.7	0.9	-2.5	0.7	2.8	-2.8	
			(5.8)	(6.7)	(3.3)	(6.3)	(5.7)	(8.9)	(-1.1)	
Manufacturing	18.3	5.9	0.0	-0.7	0.1	-4.0	-1.3	9.5	-8.4	
			(4.4)	(4.1)	(-0.5)	(3.0)	(-0.6)	(6.7)	(-4.8)	
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	3.6	-0.5	0.5	-4.0	1.4	2.1	-3.9	
			(7.2)	(8.6)	(6.4)	(9.0)	(11.7)	(10.8)	(1.7)	
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	1.4	1.2	-2.5	1.9	-3.5	-0.8	0.2	-1.2
			(4.0)	(2.1)	(7.0)	(2.4)	(2.2)	(6.4)	(10.8)	(4.0)
Construction Orders	-5.2	7.1								
			(-0.6)	(13.1)	(3.6)	(1.5)	(24.6)	(-1.8)	(-0.3)	(16.2)
Private	-2.6	3.7								
			(-2.1)	(9.7)	(-3.6)	(5.8)	(22.6)	(-7.1)	(-9.6)	(22.6)
Public	-12.1	22.7								
			(21.7)	(19.6)	(28.7)	(-0.6)	(39.0)	(18.6)	(30.7)	(22.1)
Public Works Contracts	-8.8	-0.5								
			(-3.4)	(3.6)	(10.3)	(0.6)	(8.5)	(16.8)	(8.0)	(5.4)
Housing Starts	81.8	84.1	88.3	79.6	86.2	78.3	82.2	91.7	84.8	89.6
10,000 units at Annual Rate, SA	(5.6)	(2.7)	(7.9)	(-4.5)	(3.7)	(-7.3)	(-1.1)	(7.5)	(5.0)	(10.3)
Total floor	(9.0)	(2.5)	(8.6)	(-4.4)	(2.3)	(-7.3)	(-2.7)	(6.8)	(3.1)	(7.2)
Sales at Retailers	0.8	0.8								
			(-1.0)	(0.8)	(5.2)	(2.5)	(1.8)	(3.4)	(10.3)	(5.8)
Real Consumption Expenditures of Households over 2 persons (SA)	-0.9	-1.2	0.4	0.4	0.2	0.0	-0.2	1.8	-0.1	-0.8
			(-2.8)	(-1.0)	(1.1)	(0.5)	(-2.3)	(2.3)	(3.4)	(2.6)
Propensity to Consume (SA,%)	73.4	73.3	73.1	74.2	71.8	74.5	73.7	72.2	72.9	73.0
			[75.2]	[74.0]	[72.4]	[74.3]	[75.9]	[72.3]	[72.4]	[72.1]
Overtime Hours Worked (All Industries, 5 employees or more)	7.9	0.8	1.6	1.4	1.0	1.8	-1.2	1.0	1.0	-2.3
			(0.3)	(1.9)	(1.8)	(2.8)	(0.6)	(0.6)	(4.3)	(4.3)
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	-0.3								
			(-0.4)	(-0.1)	(0.0)	(0.0)	(-1.2)	(0.1)	(0.9)	(0.8)
Employment Index(Regular Employees Only;'All Industries,	23,384	52,083	27,711	25,350	127,239	25,572	128,676	126,431	126,610	131,426
5 employees or more) (Change over the M/Q/Y)			21,464	28,038	33,848	27,087	32,797	32,772	35,975	28,654
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.66	0.69	0.75	0.71	0.73	0.75	0.76	0.79
			[0.54]	[0.57]	[0.61]	[0.58]	[0.60]	[0.61]	[0.62]	[0.62]
Unemployment Rate (SA,%)	5.0	5.0	4.4	4.5	4.6	4.5	4.6	4.5	4.5	4.6
			[5.0]	[5.0]	[4.7]	[4.8]	[4.9]	[4.7]	[4.7]	[4.7]
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.2	44.9	48.4	46.0	47.3	47.0	44.1	45.9	51.8	50.9
			[45.4]	[43.0]	[40.1]	[45.1]	[44.3]	[48.4]	[27.7]	[28.30]
Bankruptcies (Number of cases)	13,065	12,707	3,108	3,103	3,184	1,032	985	1,038	1,161	1,004
	(-11.3)	(-2.7)	(-3.8)	(-5.9)	(-0.8)	(-6.3)	(-5.3)	(5.1)	(-1.8)	(-6.6)

(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.

Unemployment Rate excludes Iwate, Miyagi, and Fukushima prefectures from March to August 2011.

２．Balance of Payments

As of Jun. 7, 2012

	Fiscal 2010	Fiscal 2011	2011 2Q	2011 3Q	2011 4Q	2011 DEC	2012 JAN	2012 FEB	2012 MAR	2012 APR
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(0.5)	(-5.5)	(-1.6)	(-8.0)	(-9.2)	(-2.7)	(5.9)	(7.9)
Value	0.1	0.6	(1.6)	(-0.5)	(1.4)	(-1.5)	(1.0)	(1.2)	(2.1)	(3.1)
Volumes	14.7	-4.3	(-1.1)	(-5.0)	(-3.1)	(-6.6)	(-10.1)	(-3.8)	(3.7)	(4.7)
Imports(In Yen terms)	16.0	11.6	(13.8)	(12.4)	(9.8)	(8.2)	(9.6)	(9.3)	(10.6)	(8.1)
Value	3.4	9.1	(12.1)	(10.9)	(6.5)	(8.9)	(6.3)	(5.9)	(7.3)	(6.0)
Volumes	12.4	2.2	(1.5)	(1.3)	(3.2)	(-0.7)	(3.1)	(3.2)	(3.1)	(1.9)
Current Balance(100 mil. yen)	166,595	78,935	31,007	9,257	23,299	2,657	▲ 4,373	11,778	15,894	
Trade Balance(100 mil. yen)	64,955	-34,495	-1,762	-9,446	▲ 12,753	-1,468	-13,816	1,021	42	
Services(100 mil. yen)	-12,730	-18,524	-5,146	-6,658	-1,680	-1,981	-930	-1,304	554	
Capital and Financial Accounts(100 mil. yen)	-97,221	78,287	4,590	83,422	-18,672	10,171	901	-6,806	-12,767	
Gold & Foreign Exchange Reserves($1mil.)	1,116,025	1,288,703	1,200,593	1,295,841	1,288,703	1,295,841	1,306,668	1,302,877	1,288,703	1,289,542
Exchange Rate(\/$)	85.69	79.05	77.84	77.39	79.28	77.85	76.97	78.45	82.43	81.49

３．Financial Market Indicators

		Fiscal 2010	Fiscal 2011	2011 2Q	2011 3Q	2011 4Q	2011 DEC	2012 JAN	2012 FEB	2012 MAR	2012 APR
Uncollateralized Overnight Call Rates		0.091	0.077	0.078	0.079	0.083	0.078	0.080	0.085	0.084	0.075
				[0.093]	[0.090]	[0.088]	[0.087]	[0.085]	[0.093]	[0.085]	[0.062]
Euro Yen TIBOR		0.356	0.331	0.330	0.329	0.331	0.329	0.331	0.332	0.332	0.332
(3 Months)				[0.364]	[0.336]	[0.336]	[0.335]	[0.335]	[0.335]	[0.336]	[0.333]
Newly Issued Japanese Government Bonds Yields		1.127	1.050	1.043	1.030	0.968	0.980	0.965	0.955	0.985	0.885
(10 Years)				[0.987]	[1.072]	[1.242]	[1.110]	[1.215]	[1.255]	[1.255]	[1.200]
Average Contracted Interest Rates		1.357	1.269								
on Loans and Discounts(City Banks)				1.315	1.292	1.269	1.292	1.294	1.280	1.269	1.268
(% changes from previous period)				(-0.034)	(-0.023)	(-0.023)	(-0.021)	(0.002)	(-0.014)	(-0.011)	(-0.001)
The Nikkei Stock Average		9,755	10,084	8,700	8,455	10,084	8,455	8,803	9,723	10,084	9,521
(TSE 225 Issues)				[9,369]	[10,229]	[9,755]	[10,229]	[10,238]	[10,624]	[9,755]	[9,850]
M2(Average)		(2.7)	(2.9)	(2.8)	(3.0)	(3.0)	(3.2)	(3.1)	(2.9)	(3.0)	(2.6)
Broadly-defined Liquidity(Average)		(0.6)	(0.3)	(0.5)	(0.3)	(0.5)	(0.4)	(0.4)	(0.5)	(0.7)	(0.6)
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(-1.9)	(-0.1)	(-0.5)	(0.2)	(0.6)	(0.4)	(0.6)	(0.6)	(0.8)	(0.3)
	Banks	(-2.0)	(-0.1)	(-0.5)	(0.3)	(0.8)	(0.5)	(0.7)	(0.8)	(0.9)	(0.4)
	City Banks etc.	(-4.2)	(-1.8)	(-2.6)	(-1.3)	(-0.4)	(-1.0)	(-0.6)	(-0.5)	(-0.2)	(-1.3)
	Regional Banks	(0.6)	(1.9)	(1.9)	(2.1)	(2.3)	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)
	Regional Banks Ⅱ	(-0.4)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.1)	(1.3)	(1.3)
	Shinkin	(-1.3)	(-0.5)	(-0.5)	(-0.4)	(-0.4)	(-0.4)	(-0.5)	(-0.5)	(-0.3)	(-0.4)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.6)	(2.7)	(2.3)	(3.0)	(2.9)	(3.3)	(3.3)	(2.9)	(2.5)	(2.0)
	City Banks	(2.6)	(1.9)	(1.0)	(2.1)	(2.2)	(3.0)	(2.9)	(2.3)	(1.4)	(0.6)
	Regional Banks	(3.1)	(3.7)	(3.9)	(4.0)	(3.7)	(3.8)	(3.8)	(3.6)	(3.7)	(3.5)
	Regional Banks Ⅱ	(0.6)	(2.8)	(2.8)	(3.1)	(3.2)	(3.1)	(3.3)	(3.1)	(3.3)	(3.2)

(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.