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The Outlook for the Japanese Economy

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

~ Japan's Economy Continues Recovery While Post-Reconstruction and Restoration Activity Slowdown Might Lead to Sluggishness Later~

1. Overview of the Japanese Economy

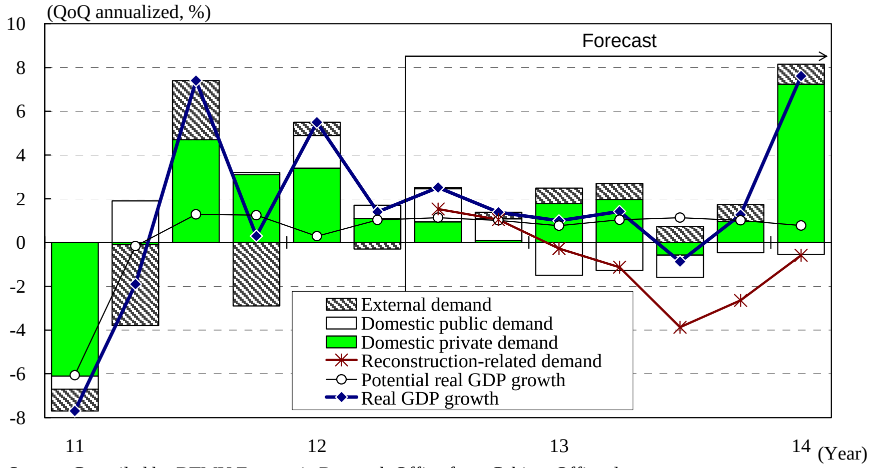
Apr-Jun slower growth within forecasts as recovery trend remains intact

Japan's economy is on a recovery trend. Real GDP for the Apr-Jun quarter rose by an annualized rate of +1.4% QoQ, marking a fourth straight quarter of positive growth and exceeding the potential growth rate for the second consecutive quarter (Figure 1). By final demand component, residential investment and private fixed investment turned positive and public investment maintained relatively high growth, indicating a steady emergence of reconstruction and restoration demand in the wake of the March 2011 earthquake. Also, though private consumption growth slowed to an annualized rate of +0.6% QoQ, growth was sufficiently robust combined with an annualized rate of +5.0% QoQ in Jan-Mar.

Economy expected to expand relatively in FY12 and slow in mid-FY13

Looking forward, an upward push from internal demand, primarily reconstruction and restoration demand, will persist in FY12, and the Japanese economy is expected to keep recovering. On the other hand, in the following year, FY13, reconstruction and restoration activity is likely to slow. As a result, growth is expected to ease and may contract for one or more quarters. However, private fixed investment has room for expansion in areas with little relation to reconstruction and restoration demand. Furthermore, a rush of demand before the consumption tax hike takes effect is expected through the end of the fiscal year. FY12 full-year growth is expected to be in the mid-+2% YoY level and FY13 growth in the lower +1% YoY range. Risk factors include stalling overseas economies and an economic recovery derailed by further appreciation of the JPY.

Figure 1: Real GDP Growth



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

2. Current Situation and Outlook by Sectors and Components

(1) Corporate Sector

Pace of exports and production recovery likely to slow

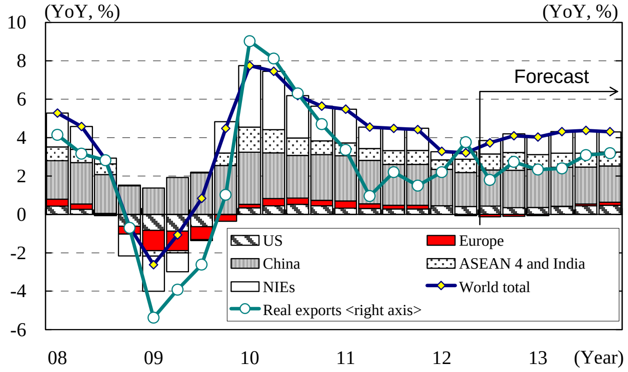
Exports to the EU declined sharply, while the US and Asia have been sluggish recently. The production recovery appears to be stalling, slowing in Apr-Jun for the first decline in four quarters. Looking ahead, overseas economies are expected to grow, but only at a slow pace. Thus, Japanese exports are expected to recover only weakly, and as a result, the domestic production recovery pace is projected to be slow (Figure 2).

Reconstruction and restoration demand likely to boost capital expenditures for some time, keep increasing in FY13

On the other hand, capital expenditures are on an upward trend due to reconstruction and restoration demand. In Apr-Jun, GDP real capital expenditures rose by an annualized rate of +6.3% QoQ. Reconstruction and restoration demand is likely to boost capital expenditures for some time, while there are concerns about tepid corporate investment sentiment due to uncertainty about overseas economies, as well as downside pressures on production and household spending after the end of the Ecocar subsidy program (Figure 3). Indeed, such demand is likely to fade through the end of this fiscal year. Base demand is therefore the key to growth of capital expenditures in the next fiscal year.

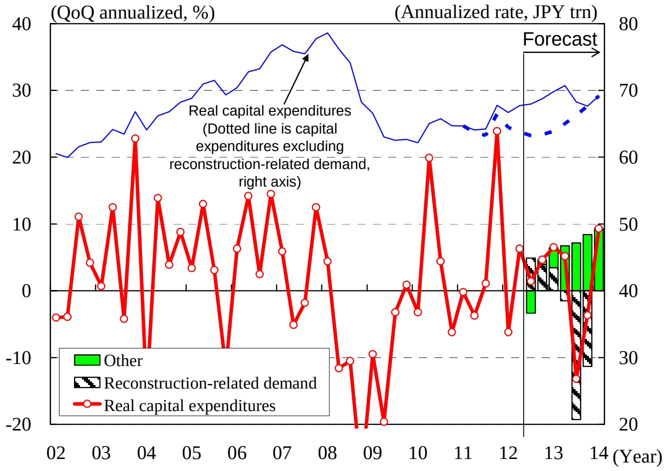
Capital expenditures plunged by over 20% after the collapse of Lehman Brothers in 2008, and the pace of recovery has been slow because of the 2011 March earthquake. Capital expenditures still have room for further recovery, having reversed only one-third of the post-Lehman drop in Apr-Jun. In addition, some signs of a recovery are already apparent, such as the ratio of capital expenditures to cashflow standing at a low 60%. By type of asset, investment in computer software remained robust following the Lehman collapse, as spending on information and communication electronics equipment recovered quickly. These three types of assets comprise over 30% of all capital expenditures and are expected to slow on-year in rebounding from an upswing in FY13. As a result, capital expenditures will continue to recover and keep increasing slightly through FY13.

Figure 2：Real Exports and Growth Rates of Main Export Destinations



Notes:1. Europe includes Eurozone and UK.
2. World total is weighted average by export weight of main export destination' s real GDP growth rate.
Source: Complied by BTMU Economic Research Office from MOF, country data.

Figure 3: Real Capital Expenditures



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

(2) Household Sector

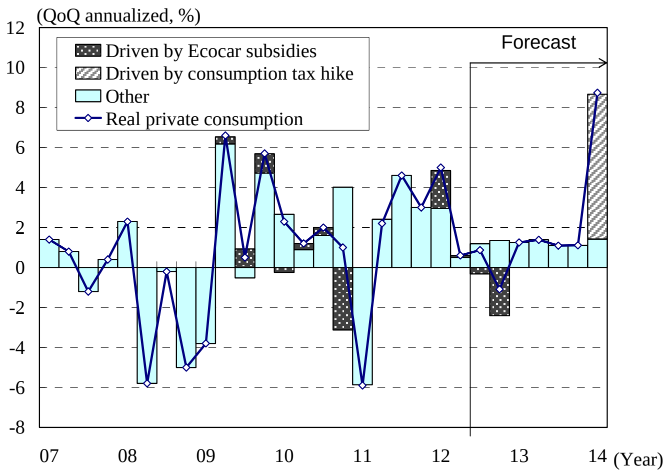
As a whole, private consumption continues to be steady

In the Apr-Jun quarter, real private consumption increased by an annualized rate of +0.6% QoQ, the fifth consecutive quarter of positive growth (Figure 4). While this was much lower than the Jan-Mar quarter annualized rate of +5.0% QoQ, the swing was likely due to the impact of the leap year. We have determined that there is no need to change the assessment that private consumption is “robust,” as mentioned above. By type of goods, durable goods consumption increased substantially by an annualized rate of +12.8% QoQ, following the Jan-Mar quarter’s annualized rate of +9.3% QoQ, due to automobile sales boosted by the Ecocar subsidy. Also, services consumption, among which travel and dining out were strong, increased continuously by an annualized rate of +0.8% QoQ. On the other hand, because sales of clothing and food slumped due to bad weather during Golden Week and low temperatures, semi-durable goods consumption (which decreased by an annualized rate of -5.9% QoQ) and non-durable goods consumption (which decreased by an annualized rate of -3.0% QoQ) turned sluggish. Looking forward, in late FY12, Oct-Dec private consumption is likely to decrease on-quarter temporarily due to a reactionary decline in automobile sales after the Ecocar subsidy ends. However, supporting factors for private consumption, including gradually rising worker incomes and improved consumer confidence, will persist strongly. Private consumption is expected to remain steady. In addition, private consumption, mainly durable goods, is expected to jump in late FY13 due to a rush of demand before the consumption tax rate hike.

Residential investment expected to keep rising, supported by low interest rates and reconstruction and restoration demand

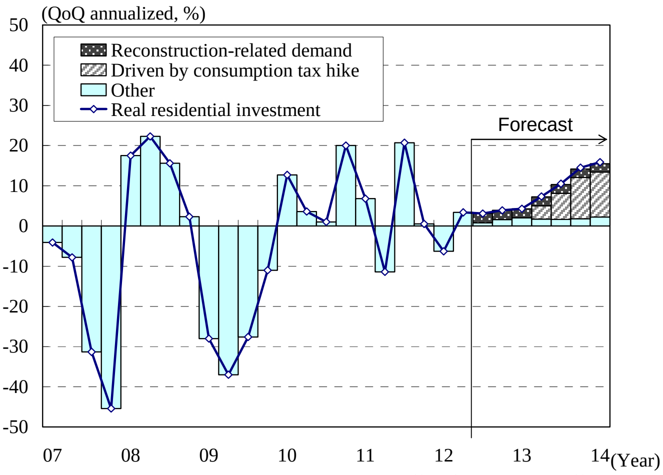
In Apr-Jun, residential investment rose at an annualized rate of +3.4% QoQ (Figure 5). This appears to be because of an increase in residential purchases before the application deadline of the residential Ecopoint system for reconstruction support and low interest rates. Additionally, in Iwate, Miyagi and Fukushima prefectures—hardest-hit by the 2011 March earthquake—housing starts keep rising, particularly among owner-occupied houses. The residential Ecopoint system for reconstruction support is estimated to expire this October. On the other hand, low interest rates and residential reconstruction in the disaster area are expected to persist for a while. Generally speaking, residential investment appears likely to keep increasing continuously. In addition, a rush of demand before the consumption tax rate hike is expected to emerge gradually from the beginning of FY13.

Figure 4: Real Private Consumption



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

Figure 5: Real Residential Investment



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

(3) Public Sector

GDP public demand up for a fifth straight quarter

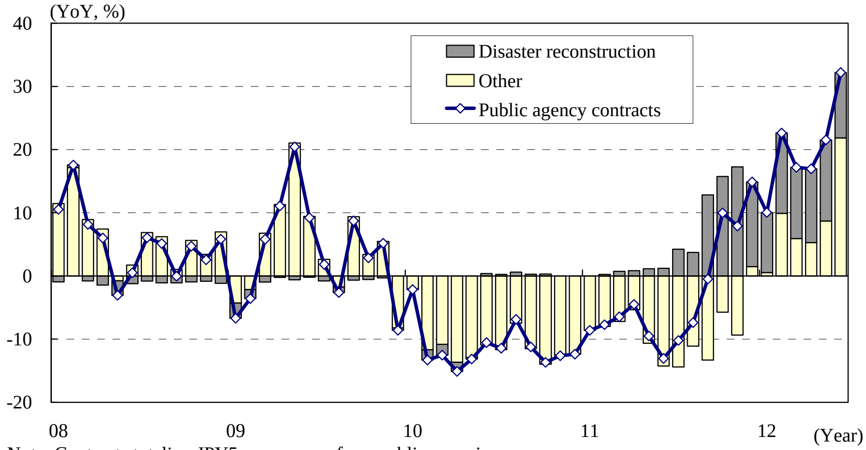
In the Apr-Jun quarter, real public demand increased by an annualized rate of 2.4% QoQ and for a fifth straight quarter. Government consumption, including mounting in-kind benefits of medical and nursing care costs, continued to increase, and public investment rose for a second straight quarter mainly for reconstruction- and restoration-related projects following the full-fledged implementation of the FY11 supplementary budgets.

Public agency contracts, a leading indicator of public investment, are increasing substantially both for damage and non-damage reconstruction

Public demand expected to follow an upward trend through end-2012, especially for reconstruction and restoration work

(Figure 6). Contracts for soil and water conservation funded by the FY11 supplementary budgets, especially disaster-related works, are expected to keep increasing. Moreover, the FY12 budget includes other reconstruction-and-restoration-related expenditures, so public demand is expected to keep increasing through the end of this year. On the other hand, fiscal spending related to reconstruction and restoration is likely to peak out and start to decrease in FY13.

Figure 6: Public Agency Contracts



Note: Contracts totaling JPY5 mn or more from public agencies.
Source: Compiled by BTMU Economic Research Office from MLIT data.

(4) Inflation

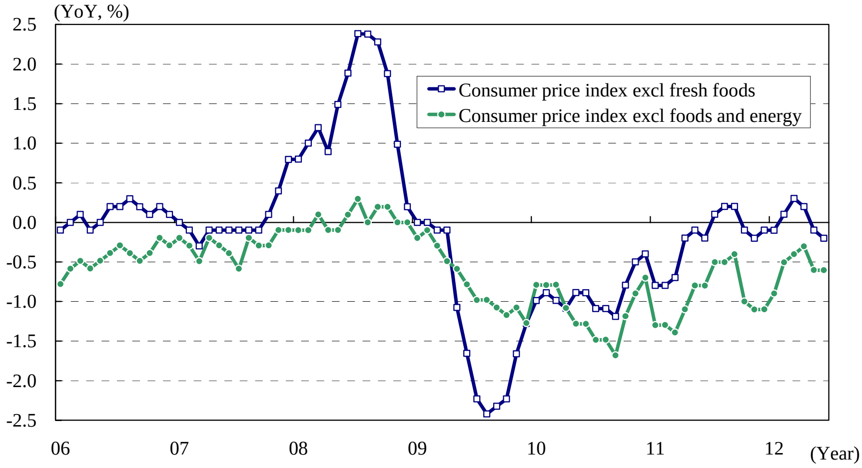
Core CPI negative on-year again

Japan’s Consumer Price Index (excluding fresh foods, or the core CPI), is once again in negative territory due to lower crude oil prices after turning positive on-year from February to April (Figure 7). By item, the price of TVs, which rose once due to the substitution of surveyed objects in February, has already started to decline significantly now.

Prices to continue declining for a while, but downward pace likely to slow

In the future, the CPI is expected to remain negative, but to slow its pace of decline as the deflationary gap narrows. As a technical factor in statistics, the effect from the aforementioned replacement of surveyed goods will drop off next February (one year after the replacements were made), and the CPI will be dragged down. On the other hand, the consumption tax rate hike scheduled for April 2014 is expected to push the core CPI up by about 2.1%.

Figure 7: Consumer Price Index



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

3. Current Situation and Outlook of Monetary Policy and Financial Markets

(1) Monetary Policy and Long-tern Interest Rates

Potential for further monetary easing continues to persist

The Bank of Japan is expanding monetary easing in stages, for example by increasing the scale of its asset purchasing fund. Because downside risks for the economy are increasing especially in regard to factors from abroad, it is highly likely that the BoJ will implement additional monetary easing in response to events. As a concrete measure, expanding the asset purchase fund, particularly raising limits on short-term and long-term JGB purchases, is expected to be the main means of easing (Table 1).

Long-term yields likely to remain low for a while

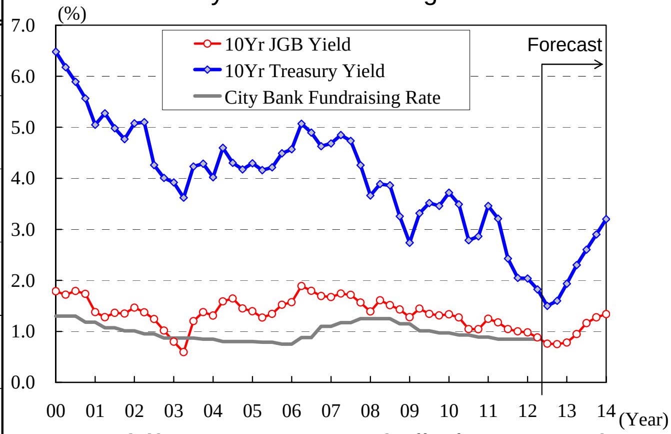
Long-term yields dropped significantly through late July, and the 10Yr JGB yield declined to 0.72%, the lowest level since June 2003, at one point on July 25. Currently, the 10Yr JGB yield has rebounded to the 0.8% level and is likely to remain low for some time amidst still-strong uncertainty about the European debt problems and the outlook for the US economy. However, given trends since 2000s, the 10Yr JGB yield is unlikely to remain below the city bank fundraising rate, which now stands at 0.85% (Figure 8). The 10Yr yield is thus expected to move to the upper range of the rate at some point. This is likely to be after mid-FY13, when the US economy begins to regain steadiness.

Table 1: Possible Further Monetary Easing by the BoJ

Method		Probability	Reasoning
Boosting funds for asset purchases	Increasing purchases of short- and long-term JGBs	High	Has been increasingly employed as the primary method of bolstering monetary easing thus far. Very likely to be used again.
	Increasing purchases of CP, corporate bonds	Low	A credit crunch has not occurred, so there is little need to ease credit conditions.
	Increasing purchases of ETFs and J-REITs	Medium	A slight increase is possible in order to reduce risk premiums.
	Increasing size of fixed-rate funds supplying operations against pooled collateral	Low	The scale of operations has been reduced as sell order shortfalls have increased.
	Extending maturities of bonds eligible for purchase	Medium	Could be used to lower interest rates for a longer period.
	Eliminating minimum yield for purchases of long-term JGBs	Medium	Despite being rejected at August 9 BoJ press conference, increasingly likely to be used if sell orders shortfalls continue.
Cutting interest rates on excess deposit reserves		Low	Rejected at May 23 BoJ press conference due to fears of backfiring if market functions weaken.
Raising the current target rate (+1% YoY) for medium- to long-term price stability		Low	The BoJ believes that 1% YoY is an appropriate level to reflect the public's inflation expectations. The target rate is unlikely to be raised toward 2%, the level favored by some economists and politicians.
Purchases of foreign bonds		Low	The BoJ is reluctant to be involved in this area, as this would venture into foreign exchange policy, the realm of the MoF.

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

Figure 8: US-Japan Long-Term Yield and City Bank Fundraising Rate



Source: Compiled by BTMU Economic Research Office from Japanese Bankers Association and Bloomberg data.

(2) Exchange Rates

JPY appreciation phase likely to continue for a while

In USD/JPY exchange markets, the JPY depreciation trend through March has turned around, and the JPY has appreciated significantly through mid-August. Among four factors behind the JPY depreciation trend thorough March, three—a robust US economy, fewer worries about the European debt problems, and speculation about aggressive BoJ monetary easing (and not including Japan’s trade deficit)—have waned (Table 2). Currently, though the JPY has weakened slightly, conditions that support JPY appreciation, including the European debt issues, haven’t changed. The JPY is likely to hover at a high level for some time. From FY13, when higher US long-term yields widen the Japan-US yield spread, JPY appreciation pressure is expected to ease.

Table 2: JPY Exchange Rate Developments

	JPY weakening through March	Recent JPY strengthening	Outlook
The US economy	Expectations of QE3 recede as employment improves significantly. (JPY weakening factor (1))	Expectations of QE3 re-emerge as employment slows and corporate sentiment worsens.	Weak growth expected to gain strength through 2013. Large-scale QE3 unlikely.
The European debt crisis	Unease lifts somewhat on debt restructuring negotiations with Greek private debtholders (February 21). (JPY weakening factor (2))	Concerns over Spain heighten, as long-term sovereign bond yields top the critical 7% line.	Very likely to continue to simmer for a while as a risk-aversion factor.
BoJ monetary policy	The BoJ approves greater-than-expected monetary easing in February, and expectations that BoJ will expand aggressive monetary easing prevail. (JPY weakening factor (3))	Despite step-by-step monetary easing by the BoJ, moves are within market expectations and probability of aggressive easing falls.	Despite expectations that the BoJ will ease monetary policy in stages, no surprises that could alter market trends are anticipated.
Japan's trade balance	Japan posts JPY2.5trn trade deficit in 2011 (announced January 25), the first calendar-year deficit in 31 years. (JPY weakening factor (4))	JPY2.9trn trade deficit in H1 2012, the biggest half-yearly deficit ever.	Trade deficit expected to persist through at least H1 2013.
Purchasing power parity	Signs of continued JPY strengthening, reflecting US-Japan inflation rates differential.	Signs of continued JPY strengthening, reflecting US-Japan inflation rates differential.	Signs of continued JPY strengthening, reflecting US-Japan inflation rates differential.

Source: Compiled by BTMU Economic Research Office based on various materials.

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30-Aug-2012

Bank of Tokyo-Mitsubishi UFJ Economic Research Office

(%, billion yen)

Forecast →

	2011				2012				2013				2014	FY2011	FY2012	FY2013
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	-7.7	-1.9	7.4	0.3	5.5	1.4	2.5	1.4	1.0	1.4	-0.9	1.3	7.6	-0.0	2.5	1.3
Private Consumption	-5.9	2.2	4.6	3.0	5.0	0.6	0.9	-1.1	1.3	1.4	1.1	1.1	8.7	1.2	1.8	1.4
Housing Investment	6.8	-11.4	20.7	0.5	-6.3	3.4	3.1	3.9	4.3	7.4	10.5	14.5	15.9	3.8	2.1	8.1
Private Business Fixed Investment	-0.2	-3.7	1.1	23.9	-6.2	6.3	1.4	4.7	6.5	5.2	-13.2	-3.7	9.3	1.1	4.4	0.5
Business Inventory (Contribution)	-2.8	-0.6	1.2	-1.5	1.4	-0.2	0.2	0.1	0.1	0.3	0.4	0.4	0.5	-0.5	0.1	0.3
Government Expenditures	-2.4	8.0	0.1	0.5	5.9	2.4	6.5	4.2	-6.1	-5.3	-4.3	-2.0	-2.3	2.2	3.1	-2.9
Public Investment	-16.5	32.9	-4.3	-3.9	15.2	7.2	17.0	10.4	-15.1	-19.2	-14.7	-7.8	-13.3	2.9	7.3	-11.1
Net Exports (Contribution)	-1.0	-3.7	2.7	-2.9	0.6	-0.3	0.1	0.3	0.7	0.7	0.7	0.8	0.9	-1.0	0.1	0.7
Exports	-1.4	-21.3	35.3	-13.8	14.3	4.8	-7.0	3.8	5.7	6.0	6.3	5.7	5.6	-1.4	3.2	4.8
Imports	6.0	0.2	14.3	4.0	9.1	6.4	-8.5	2.2	1.4	1.6	2.2	1.2	0.2	5.6	3.3	0.9
Nominal GDP	-9.1	-5.4	6.6	-1.0	5.7	-0.2	2.4	-0.1	0.1	1.3	-1.0	1.4	8.0	-2.0	1.7	0.9
GDP Deflator (YoY)	-2.0	-2.4	-2.1	-1.8	-1.3	-0.9	-0.8	-0.8	-0.8	-0.6	-0.5	-0.4	-0.0	-1.9	-0.8	-0.4
Industrial Production Index (QoQ)	-1.5	-4.2	5.4	0.4	1.3	-2.0	0.6	0.8	1.1	1.2	0.1	1.5	1.7	-1.0	1.6	3.8
Domestic Corporate Goods Price Index (YoY)	0.9	1.8	2.2	1.1	0.3	-0.9	-0.6	-0.7	-0.8	-0.3	0.1	0.2	0.2	1.4	-0.8	0.1
Consumer Price Index (excl. fresh food, YoY)	-0.8	-0.2	0.2	-0.1	0.1	-0.1	-0.1	-0.1	-0.4	-0.4	-0.1	0.2	0.3	0.0	-0.2	0.0
2. Balance of Payments																
Trade Balance (billion yen)	908	-1,093	-241	-1,185	-1,133	-1,172	-479	-1,117	-1,476	-770	192	222	436	-3,470	-4,244	80
Current Balance (billion yen)	3,487	1,887	2,546	1,682	1,485	1,344	2,426	1,849	1,551	2,318	3,342	3,434	3,709	7,893	7,171	12,804
3. Financial																
Uncollateralized overnight call rate	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	0-0.1	0-0.1	0-0.1
Euro-Yen TIBOR (3-mo.)	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	0.3	0.3	0.3
Newly Issued 10-Year Government Bonds Yield	1.2	1.2	1.0	1.0	1.0	0.9	0.8	0.8	0.8	0.9	1.2	1.3	1.3	1.0	0.8	1.2
Exchange Rate (USD/JPY)	82	82	78	77	79	80	78	79	81	83	84	86	89	79	80	86

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 Sep. 7, 2012

	Fiscal	Fiscal	2011	2012		2012				
	2010	2011	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Real GDP Growth Rate <% changes from	3.2	-0.0	0.3	5.5	1.4	***	***	***	***	***
previous period at SA annual rate>			(-0.7)	(2.9)	(3.5)					
Index of All Industries Activity	2.0	0.2	0.5	-0.1	-0.2	-0.3	0.1	-0.2	0.2	
			(0.0)	(2.4)	(2.6)	(5.5)	(4.1)	(3.3)	(0.5)	
Industrial Production Index	9.3	-1.0	0.4	1.3	-2.0	1.3	-0.2	-3.4	0.4	-1.2
Production			(-1.6)	(4.8)	(5.3)	(14.2)	(12.9)	(6.0)	(-1.5)	(-1.0)
Shipments	9.4	-2.0	0.3	0.8	-0.2	0.5	0.6	-1.3	-0.9	-3.6
			(-2.2)	(4.1)	(8.0)	(11.9)	(16.0)	(11.7)	(-1.1)	(-2.3)
Inventory	3.9	9.6	-1.4	5.9	0.0	4.3	2.0	-0.7	-1.2	2.8
			(3.8)	(9.6)	(6.3)	(9.6)	(10.8)	(4.7)	(6.3)	(9.3)
Inventory/Shipments Ratio	108.4	116.4	115.0	113.1	121.8	115.3	123.2	118.6	123.6	128.3
(2005=100)			[111.0]	[107.7]	[121.1]	[108.8]	[126.6]	[121.5]	[115.2]	[116.6]
Domestic Corporate Goods Price Index	0.7	1.4	-1.1	0.2	-0.1	0.5	0.1	-0.5	-0.7	-0.4
			(1.1)	(0.3)	(-0.9)	(0.3)	(-0.4)	(-0.7)	(-1.4)	(-2.1)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.2	-0.1	0.3	0.1	0.1	-0.3	-0.3	0.0
			(-0.2)	(0.1)	(0.0)	(0.2)	(0.2)	(-0.1)	(-0.2)	(-0.3)
Index of Capacity Utilization	88.0	87.4	89.3	92.1	89.8	92.4	91.8	89.8	87.7	
(2005=100)			[88.4]	[85.9]	[79.8]	[73.1]	[72.1]	[81.6]	[85.7]	[86.8]
Machinery Orders(Private Demand,	9.1	6.2	-0.7	0.9	-4.1	-2.8	5.7	-14.8	5.6	
Excl.Electric Power and Ship building)			(6.7)	(3.3)	(-1.7)	(-1.1)	(6.6)	(1.0)	(-9.9)	
Manufacturing	18.3	5.9	-0.7	0.1	-5.8	-8.4	3.4	-8.0	-2.9	
			(4.1)	(-0.5)	(-7.6)	(-4.8)	(3.5)	(-6.3)	(-16.2)	
Non-manufacturing	2.7	6.6	-0.5	0.5	0.0	-3.9	5.7	-6.4	2.6	
Excl.Electric Power & Ship building			(8.6)	(6.4)	(3.1)	(1.7)	(9.0)	(7.6)	(-4.6)	
Shipments of Capital Goods	21.4	5.4	1.2	-2.5	0.7	0.2	-1.6	5.6	-3.5	-2.0
(Excl.Transport Equipment)			(2.1)	(7.0)	(0.9)	(10.8)	(3.4)	(5.1)	(-4.5)	(-4.7)
Construction Orders	-5.2	7.1								
			(13.1)	(3.6)	(6.1)	(-0.3)	(16.2)	(-0.9)	(4.6)	(8.0)
Private	-2.6	3.7								
			(9.7)	(-3.6)	(6.6)	(-9.6)	(22.6)	(3.7)	(-1.4)	(-0.4)
Public	-12.1	22.7								
			(19.6)	(28.7)	(29.7)	(30.7)	(22.1)	(22.6)	(39.6)	(60.9)
Public Works Contracts	-8.8	-0.5								
			(3.6)	(10.3)	(15.5)	(8.0)	(5.4)	(36.7)	(14.1)	(26.6)
Housing Starts	81.8	84.1	79.6	86.2	87.8	84.8	89.6	90.3	83.7	87.0
10,000 units at Annual Rate, SA	(5.6)	(2.7)	(-4.5)	(3.7)	(6.2)	(5.0)	(10.3)	(9.3)	(-0.2)	(-9.6)
Total floor	(9.0)	(2.5)	(-4.4)	(2.3)	(5.1)	(3.1)	(7.2)	(9.0)	(-0.4)	(-9.6)
Sales at Retailers	0.8	0.8								
			(0.8)	(5.2)	(3.1)	(10.3)	(5.7)	(3.6)	(0.2)	(-0.8)
Real Consumption Expenditures	-0.9	-1.2	0.4	0.2	1.7	-0.1	-0.8	1.5	-1.3	-1.3
of Households over 2 persons (SA)			(-1.0)	(1.1)	(2.7)	(3.4)	(2.6)	(4.0)	(1.6)	(1.7)
Propensity to Consume	73.4	73.3	74.2	71.8	74.1	72.9	73.0	74.6	72.0	75.4
(SA,%)			[74.0]	[72.4]	[74.0]	[72.4]	[72.1]	[73.4]	[72.6]	[71.9]
Overtime Hours Worked	7.9	0.8	1.4	1.0	0.0	1.0	-1.3	1.9	-2.6	-2.2
(All Industries, 5 employees or more)			(1.9)	(1.8)	(4.0)	(4.3)	(5.3)	(5.6)	(1.2)	(-0.8)
Total Cash Earnings (Regular Employees	0.5	-0.3								
Only; All Industries, 5 employees or more)			(-0.1)	(0.0)	(-0.5)	(0.9)	(0.2)	(-1.1)	(-0.4)	(-1.2)
Employment Index(Regular Employees Only;'All Industries,	23,384	52,083	25,350	127,239	138,382	126,610	131,038	142,285	141,824	129,988
5 employees or more) (Change over the M/Q/Y)			28,038	33,848	28,033	35,975	28,654	24,914	30,531	28,860
Ratio of Job Offers to Applicants	0.56	0.68	0.69	0.75	0.81	0.76	0.79	0.81	0.82	0.83
(SA,Times)			[0.57]	[0.61]	[0.62]	[0.62]	[0.62]	[0.62]	[0.63]	[0.65]
Unemployment Rate	5.0	5.0	4.5	4.6	4.7	4.5	4.6	4.4	4.3	4.3
(SA,%)										
Economy Watcher Survey	44.2	44.9	46.0	47.3	47.3	51.8	50.9	47.2	43.8	44.2
(Judgment of the present condition D.I,%)			[43.0]	[40.1]	[38.0]	[27.7]	[28.3]	[36.0]	[49.6]	[52.6]
Bankruptcies (Number of cases)	13,065	12,707	3,103	3,184	3,127	1,161	1,004	1,148	975	1,026
	(-11.3)	(-2.7)	(-5.9)	(-0.8)	(-5.5)	(-1.8)	(-6.6)	(7.1)	(-16.3)	(-5.0)

(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 Sep. 7, 2012

	Fiscal 2010	Fiscal 2011	2011 4Q	2012 1Q	2012 2Q	2012 MAR	APR	MAY	JUN	JUL
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(-5.5)	(-1.6)	(4.8)	(5.9)	(7.9)	(10.0)	(-2.3)	(-8.1)
Value	0.1	0.6	(-0.5)	(1.4)	(1.2)	(2.1)	(3.1)	(0.6)	(0.1)	(2.4)
Volumes	14.7	-4.3	(-5.0)	(-3.1)	(3.5)	(3.7)	(4.7)	(9.3)	(-2.3)	(-10.2)
Imports(In Yen terms)	16.0	11.6	(12.4)	(9.9)	(5.0)	(10.6)	(8.1)	(9.4)	(-2.2)	(2.1)
Value	3.4	9.1	(10.9)	(6.5)	(1.8)	(7.3)	(6.1)	(0.9)	(-1.6)	(-4.6)
Volumes	12.4	2.2	(1.3)	(3.1)	(3.2)	(3.1)	(1.9)	(8.5)	(-0.7)	(7.0)
Current Balance(100 mil. yen)	166,595	76,180	9,257	20,544	9,822	13,074	3,338	2,151	4,333	
Trade Balance(100 mil. yen)	64,955	-34,698	-9,446	-12,956	-12,001	-12	-4,639	-8,482	1,120	
Services(100 mil. yen)	-12,730	-18,265	-6,658	-1,421	-7,849	783	-4,986	-928	-1,935	
Capital and Financial Accounts(100 mil. yen)	-97,221	68,806	83,422	-28,153	-27,980	-14,926	-304	-7,446	-20,230	
Gold & Foreign Exchange Reserves($1mil.)	1,116,025	1,288,703	1,295,841	1,288,703	1,270,547	1,288,703	1,289,542	1,277,716	1,270,547	1,272,777
Exchange Rate(\/$)	85.69	79.05	77.39	79.28	80.17	82.43	81.49	79.70	79.32	79.02

3. Financial Market Indicators

	Fiscal 2010	Fiscal 2011	2011 4Q	2012 1Q	2012 2Q	2012 MAR	APR	MAY	JUN	JUL
Uncollateralized Overnight Call Rates	0.091	0.077	0.079	0.083	0.078	0.084	0.075	0.084	0.076	0.084
			[0.090]	[0.088]	[0.067]	[0.085]	[0.062]	[0.069]	[0.069]	[0.073]
Euro Yen TIBOR	0.356	0.331	0.329	0.331	0.333	0.332	0.332	0.332	0.335	0.327
(3 Months)			[0.336]	[0.336]	[0.332]	[0.336]	[0.333]	[0.332]	[0.332]	[0.332]
Newly Issued Japanese Government Bonds Yields	1.127	1.050	1.030	0.968	0.848	0.985	0.885	0.830	0.830	0.780
(10 Years)			[1.072]	[1.242]	[1.160]	[1.255]	[1.200]	[1.150]	[1.130]	[1.080]
Average Contracted Interest Rates	1.357	1.269								
on Loans and Discounts(City Banks)			1.292	1.269	1.255	1.269	1.268	1.268	1.255	1.252
(% changes from previous period)			(-0.023)	(-0.023)	(-0.014)	(-0.011)	(-0.001)	(0.000)	(-0.013)	(-0.003)
The Nikkei Stock Average	9,755	10,084	8,455	10,084	9,007	10,084	9,521	8,543	9,007	8,695
(TSE 225 Issues)			[10,229]	[9,755]	[9,816]	[9,755]	[9,850]	[9,694]	[9,816]	[9,833]
M2(Average)	(2.7)	(2.9)	(3.0)	(3.0)	(2.3)	(3.0)	(2.6)	(2.2)	(2.2)	(2.2)
Broadly-defined Liquidity(Average)	(0.6)	(0.2)	(0.1)	(0.3)	(0.2)	(0.4)	(0.4)	(0.1)	(0.1)	(0.1)
Principal Figures of Financial Institutions										
Loans and Discount (Average): Banks & Shinkin	(-1.9)	(-0.1)	(0.2)	(0.6)	(0.3)	(0.7)	(0.2)	(0.2)	(0.6)	(0.7)
Banks	(-2.0)	(-0.1)	(0.2)	(0.8)	(0.5)	(0.9)	(0.3)	(0.4)	(0.8)	(1.0)
City Banks etc.	(-4.2)	(-1.8)	(-1.3)	(-0.4)	(-1.1)	(-0.2)	(-1.3)	(-1.3)	(-0.7)	(-0.5)
Regional Banks	(0.6)	(1.9)	(2.0)	(2.3)	(2.4)	(2.3)	(2.3)	(2.3)	(2.6)	(2.7)
Regional Banks II	(-0.4)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	(1.2)	(1.4)	(1.3)
Shinkin	(-1.3)	(-0.5)	(-0.4)	(-0.5)	(-0.7)	(-0.5)	(-0.6)	(-0.7)	(-0.7)	(-0.7)
Deposits and CDs (Average): Total(3 Business Condition)	(2.6)	(2.7)	(3.0)	(2.9)	(1.8)	(2.5)	(2.0)	(1.5)	(1.9)	(2.0)
City Banks	(2.6)	(1.9)	(2.1)	(2.2)	(0.7)	(1.4)	(0.6)	(0.1)	(1.4)	(1.7)
Regional Banks	(3.1)	(3.7)	(4.0)	(3.7)	(3.0)	(3.7)	(3.5)	(3.0)	(2.4)	(2.3)
Regional Banks II	(0.6)	(2.8)	(3.1)	(3.2)	(2.8)	(3.3)	(3.2)	(2.8)	(2.5)	(2.3)

(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.