

# Japan Economic Monthly

## New Administration's Policy Effects Steadily Penetrating

Economic Research Office

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

### 1. The Real Economy

Japan's new government has put forth a series of new policies since taking office, including introducing emergency economic measures and a supplementary budget, bolstering monetary easing, and announcing Japan's participation in the negotiations Trans-Pacific Partnership. The primary effects have been appearing in the form of a weaker JPY, higher share prices, and improved household and corporate sentiment. Over the past few months, the JPY has weakened to nearly the USD/JPY100 mark and past EUR/JPY130, while the JPY's real effective exchange rate has fallen by nearly 18% since last November, in just five months (Table 1). Share prices have kept pace, with Tokyo stock market capitalization rising more than JPY100 trillion since end-October 2012 (total capitalization of TSE I, TSE II, and Mother's markets as of end-March). Amidst these developments, the DI for future economic conditions in the Economy Watchers Survey (+38% in March from last October) and the Consumer Confidence Index (three straight months of improvement since the start of 2013 to the highest point since May 2007) have reflected a sudden brightening in corporate and household economic sentiment.

Signs of movement have begun to be seen among some indicators of the real economy. Industrial production figures have risen for three straight months from last December, and the Survey of Production Forecast projects increases in March and April as well. Housing starts and machinery orders (private sector, excluding shipbuilding and power industries)—which are leading indicators of the Private Consumption Integrated Estimates, residential investment, and capital expenditures—as well as exports have bottomed and are starting to rise. On the other hand, new auto sales and contracted public works orders have been accelerating their on-year declines. Rising import costs are also a concern. Further, according to the BoJ's first Tankan survey of 2013 in March, companies are still cautious about capital expenditures in FY13 (companies of all sizes and across all industries project a 0.7% YoY drop) and have revised their exchange rate assumptions to just USD/JPY86. This indicates that concerns about the strong JPY still persist.

Of course, not only will the supplementary budget and monetary easing measures have to be steadily implemented, the Government must draft and implement a growth strategy in order

for Japan’s economic recovery and expansion trajectory to become clearer.

Table 1: Japanese Key Monthly Economic Indicators

		Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013			Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013
Exchange rate	USD/JPY (monthly average)	79	81	84	89	93	95	Real Economy	Industrial production (MoM)	+1.6%	-1.4%	+2.4%	+0.3%	+0.6%	
	EUR/JPY (monthly average)	102	104	110	119	124	123		Private Consumption Integrated Estimates (MoM)	+0.4%	+0.1%	-0.1%	+0.6%	+0.4%	
	Real effective exchange rate (MoM)	-1.7%	-2.7%	-3.9%	-6.7%	-4.8%	-0.7%		New (passenger) auto sales (YoY)	-6.7%	+0.2%	-2.0%	-7.4%	-8.1%	-11.0%
Share prices	Nikkei Stock Price Avg (JPY)	8,827	9,060	9,814	10,751	11,336	12,244	Real Economy	New home starts (MoM)	+10.7%	-6.4%	-2.9%	-1.9%	+9.4%	
	TOPIX (points)	736	753	812	90	96	1,029		Machinery orders (private demand, excl shipbuilding and power industries) (MoM)	+2.6%	+3.9%	+2.8%	-13.1%	+7.5%	
	Total market cap, Tokyo Stock Exchange (month-end comparison, JPY trn)	+2	+13	+26	+29	+13	+23		Exports (customs-cleared basis, YoY)	-6.5%	-4.1%	-5.8%	+6.3%	-2.9%	+1.1%
Business Sentiment	Economy Watchers Survey DI of future economic conditions (MoM)	-4.1%	+0.5%	+21.7%	+10.8%	+2.1%	-0.3%	Real Economy	Imports (customs-cleared basis, YoY)	-1.5%	+0.9%	+1.9%	+7.1%	+11.9%	+5.5%
	Consumer Confidence Index (MoM)	-0.5%	+0.2%	-0.5%	+8.3%	+2.3%	+1.4%		contracted public works orders (YoY)	+28.2%	+6.2%	+15.6%	+6.7%	-4.8%	-11.7%

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

## 2. Financial Markets

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

New BoJ Governor Haruhiko Kuroda introduced ‘qualitative and quantitative monetary easing’, at his first Monetary Policy Board meeting April 3-4 since taking office. Specifically, the BoJ has changed its operational target for guiding the financial markets from the uncollateralized overnight call rate to the monetary base (adoption of the monetary base control). The central bank decided to expand Japan’s monetary base by approximately JPY60-70 trillion annually, doubling the size over two years (Table 2). The scale of JGB purchases is expanded to more than JPY7 trillion monthly (increasing the BoJ’s holdings by approximately JPY50 trillion annually) and the average duration of JGBs purchased extended from less than three years to approximately seven. Risk asset holdings like ETFs and J-REITs will be boosted at a faster pace. The BoJ’s moves surpassed all expectations, both qualitatively and quantitatively, leaving the impression that the BoJ has undergone a ‘regime change.’

The 10Yr JGB yield plunged to the 0.3% level following the decisions. Thereafter, the yield was unstable for a period, fluctuating up and down considerably, but the JGB market is now settling down as the BoJ reviews its JGB purchasing methods.

### (2) Exchange Rates

The JPY stalled in its decline in mid-March, see-sawed around the USD/JPY95 mark, then dropped further following the BoJ’s bolstered easing measures. Against the USD, the JPY is now nearing the USD/JPY100 threshold, and had fallen from nearly EUR/JPY120 to more than EUR/JPY130 by early April.

In terms of ratio to monetary base (Japan vs. US), the FRB’s degree of monetary easing has

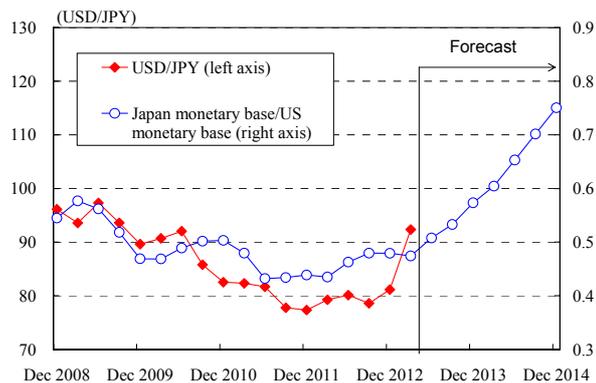
surpassed Japan's since the collapse of Lehman Brothers (the ratio of monetary base has declined). The strengthening in the JPY has kept pace with this (Figure 1), but the BoJ's recent bolstered easing is expected to change the trend considerably. Japan avoided any clear criticism of JPY weakening at the G20 Summit of financial ministers and central bank governors held April 18-19. Further JPY weakening is still a possibility.

Table 2: Overview of BoJ's 'Quantitative and Qualitative Monetary Easing'

The main operating target for money market operations	Increase monetary base by JPY60-70 trn annually
Expand purchases of long-dated JGBs	Increase holdings by approximately JPY50 trn annually; Extend average durations of purchases to 7 years
Expand purchases of ETFs·J-REITs	ETFs: Increase holdings by approx JPY1 trn annually J-REITs: Increase holdings by approx JPY30.0 bn annually
Method of long-dated JGB purchase	Combine asset purchase funds and rinban operations (At the same time temporarily suspend BoJ Banknote Rule)
Timeline for achieving 2% price stability target	As soon as possible, with a goal of within 2 years
Condition to maintain monetary easing	Continue as long as necessary to maintain stable price stability target

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

Figure 1: USD/JPY and Ratio of monetary base (Japan vs. US)



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

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## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

## 1. Main Economic Indicators

As of May. 1, 2013

	Fiscal 2011	Fiscal 2012	2012		2013	2012		2013		
			3Q	4Q	1Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.3		-3.7 (0.4)	0.2 (0.5)		***	***	***	***	***
Index of All Industries Activity	0.2		-0.5 (-0.2)	0.3 (-0.2)		-0.4 (0.1)	1.7 (-0.9)	-1.6 (-0.7)	0.6 (-2.5)	
Industrial Production Index Production	-1.0	-3.4	-4.2 (-4.6)	-1.9 (-5.9)	1.9 (-7.9)	-1.4 (-5.5)	2.4 (-7.9)	0.3 (-5.8)	0.6 (-10.5)	0.2 (-7.3)
Shipments	-2.0	-2.6	-5.4 (-4.5)	-2.1 (-6.0)	3.2 (-6.2)	-0.8 (-5.6)	4.0 (-7.5)	-0.3 (-3.9)	1.4 (-8.8)	0.3 (-5.8)
Inventory	9.6	-4.7	0.3 (4.8)	-2.5 (3.5)	-2.6 (-4.7)	-1.2 (3.1)	-1.2 (3.5)	-0.4 (1.0)	-2.0 (-0.5)	-0.2 (-4.7)
Inventory/Shipments Ratio (2005=100)	116.4	124.4	127.9 [116.5]	127.1 [115.0]	121.1 [113.1]	127.2 [115.6]	126.5 [112.7]	122.5 [113.5]	121.1 [110.4]	119.7 [115.3]
Domestic Corporate Goods Price Index	1.4	-1.1	-0.8 (-2.0)	0.0 (-0.9)	0.8 (-0.3)	-0.1 (-1.1)	0.4 (-0.7)	0.2 (-0.4)	0.5 (-0.1)	0.1 (-0.5)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	-0.3 (-0.2)	-0.1 (-0.1)	-0.3 (-0.3)	-0.1 (-0.1)	0.0 (-0.2)	0.0 (-0.2)	0.0 (-0.3)	0.0 (-0.5)
Index of Capacity Utilization (2005=100)	87.4		85.0 [87.5]	83.1 [89.3]		82.2 [88.1]	84.6 [89.9]	86.0 [92.8]	86.6 [91.2]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	6.2		-1.1 (-4.6)	2.0 (-0.8)		3.9 (0.3)	2.8 (-3.4)	-13.1 (-9.7)	7.5 (-11.3)	
Manufacturing	5.9		-3.2 (-9.5)	-3.9 (-11.1)		3.9 (-10.5)	3.0 (-9.8)	-13.2 (-19.0)	8.6 (-18.2)	
Non-manufacturing Excl.Electric Power & Ship building	6.6		0.1 (-1.3)	6.3 (7.4)		6.2 (9.1)	-8.0 (1.6)	-6.3 (-1.5)	0.6 (-5.5)	
Shipments of Capital Goods (Excl.Transport Equipment)	5.4	-6.7	-4.8 (-5.3)	-6.0 (-11.4)	2.3 (-10.2)	0.0 (-12.9)	8.4 (-9.9)	-5.8 (-9.5)	4.0 (-14.9)	0.9 (-7.2)
Construction Orders	7.1	2.4								
Private	3.7	2.6								
Public	22.7	5.3								
Public Works Contracts	-0.5	10.3								
Housing Starts 10,000 units at Annual Rate, SA	84.1 (2.7)	89.3 (6.2)	87.6 (-1.1)	91.8 (15.0)	90.4 (5.1)	90.6 (10.3)	88.0 (10.0)	86.3 (5.0)	94.4 (3.0)	90.4 (7.3)
Total floor	(2.5)	(4.8)	(-2.7)	(12.2)	(5.7)	(8.5)	(8.4)	(7.2)	(3.5)	(6.4)
Sales at Retailers	0.8	0.3								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	1.6	-1.4 (0.9)	-0.6 (-0.2)		0.1 (0.2)	-0.1 (-0.7)	1.9 (2.4)	2.2 (0.8)	2.0 (5.2)
Propensity to Consume (SA,%)	73.4	73.3	74.2 [72.9]	74.4 [73.8]		74.7 [73.8]	75.0 [74.1]	76.7 [73.7]	77.8 [72.7]	77.3 [73.0]
Overtime Hours Worked (All Industries, 5 employees or more)	0.8	-0.4	-2.8 (-0.9)	-0.3 (-2.5)	1.2 (-1.9)	0.5 (-2.2)	1.1 (-2.2)	-0.6 (-1.9)	2.0 (-1.0)	-1.3 (-2.8)
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.3									
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	52	106	131	133	21	128	137	26	23	16
Ratio of Job Offers to Applicants (SA,Times)	0.68	0.82	0.81 [0.65]	0.82 [0.71]	0.85 [0.75]	0.82 [0.71]	0.83 [0.72]	0.85 [0.74]	0.85 [0.75]	0.86 [0.76]
Unemployment Rate (SA,%)	4.5	5.0	4.3	4.2	4.2	4.2	4.3	4.2	4.3	4.1
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.9	46.3	43.0 [48.4]	41.6 [46.0]	53.3 [47.3]	40.0 [45.0]	45.8 [47.0]	49.5 [44.1]	53.2 [45.9]	57.3 [51.8]
Bankruptcies (Number of cases)	12,707 (-2.7)	11,719 (-7.7)	2,924 (-5.9)	2,889 (-6.8)	2,779 (-12.7)	964 (-11.9)	890 (-13.7)	934 (-5.1)	916 (-11.7)	929 (-19.9)

(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 May 1, 2013									
	Fiscal	Fiscal	2012		2013	2012		2013		
	2011	2012	3Q	4Q	1Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance(Exports in Yen Terms)	-3.7	-2.1	(-8.2)	(-5.5)	(1.2)	(-4.1)	(-5.8)	(6.3)	(-2.9)	(1.1)
Value	0.7	4.9	(0.6)	(4.2)	(13.5)	(3.6)	(7.3)	(13.0)	(15.3)	(12.1)
Volumes	-4.3	-6.4	(-8.7)	(-9.3)	(-10.8)	(-7.5)	(-12.2)	(-5.9)	(-15.8)	(-9.8)
Imports(In Yen terms)	11.6	3.4	(0.3)	(0.4)	(8.1)	(0.9)	(1.9)	(7.1)	(12.0)	(5.5)
Value	9.2	2.7	(-2.6)	(1.1)	(10.7)	(1.8)	(1.9)	(8.3)	(12.1)	(11.7)
Volumes	2.2	0.8	(2.9)	(-0.6)	(-2.3)	(-0.9)	(0.0)	(-1.1)	(-0.1)	(-5.5)
Current Balance(100 mil. yen)	76,180		16,210	105		-1,796	▲ 2,307	-3,648	6,374	
Trade Balance(100 mil. yen)	-34,698		-15,144	-18,744		-8,508	-5,723	-14,793	-6,770	
Services(100 mil. yen)	-18,265		-8,092	-7,083		-1,445	-2,483	-1,802	-536	
Capital and Financial Accounts(100 mil. yen)	29,618		-23,904	3,165		-2,341	10,198	6,075	-1,317	
Gold & Foreign Exchange Reserves(\$1mil.)	1,288,703	1,254,356	1,277,000	1,268,125	1,254,356	1,270,848	1,268,125	1,267,299	1,258,809	1,254,356
Exchange Rate(US\$)	79.05	83.08	78.62	81.16	92.38	80.87	83.64	89.18	93.21	94.75

## 3. Financial Market Indicators

	Fiscal	Fiscal	2012		2013	2012		2013			
	2011	2012	3Q	4Q	1Q	NOV	DEC	JAN	FEB	MAR	
Uncollateralized Overnight Call Rates	0.077	0.083	0.085 [0.078]	0.084 [0.079]	0.083 [0.083]	0.086 [0.077]	0.082 [0.078]	0.083 [0.085]	0.087 [0.085]	0.078 [0.084]	
Euro Yen TIBOR (3 Months)	0.331	0.312	0.327 [0.330]	0.318 [0.329]	0.270 [0.331]	0.318 [0.329]	0.308 [0.329]	0.292 [0.331]	0.269 [0.332]	0.250 [0.332]	
Newly Issued Japanese Government Bonds Yields (10 Years)	1.050	0.760	0.780 [1.043]	0.757 [1.030]	0.655 [0.968]	0.700 [1.065]	0.795 [0.980]	0.740 [0.965]	0.665 [0.955]	0.560 [0.985]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.269		1.245 (-0.010)	1.226 (-0.019)		1.239 (-0.003)	1.226 (-0.013)	1.220 (-0.006)	1.203 (-0.017)		
The Nikkei Stock Average (TSE 225 Issues)	10,084	12,398	8,870 [8,700]	10,395 [8,455]	12,398 [10,084]	9,446 [8,435]	10,395 [8,455]	11,139 [8,803]	11,559 [9,723]	12,398 [10,084]	
M2(Average)	(2.9)	(2.5)	(2.4)	(2.3)	(2.9)	(2.1)	(2.6)	(2.7)	(2.9)	(3.0)	
Broadly-defined Liquidity(Average)	(0.2)	(0.6)	(0.3)	(0.6)	(1.4)	(0.4)	(1.0)	(1.2)	(1.4)	(1.5)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin		(-0.1)	(0.9)	(0.8)	(1.0)	(1.5)	(1.0)	(1.1)	(1.3)	(1.5)
	Banks		(-0.1)	(1.1)	(1.1)	(1.2)	(1.8)	(1.2)	(1.4)	(1.6)	(1.8)
	City Banks etc.		(-1.8)	(-0.2)	(-0.4)	(-0.1)	(1.0)	(-0.2)	(0.2)	(0.6)	(1.1)
	Regional Banks		(1.9)	(2.9)	(2.9)	(3.1)	(3.1)	(3.2)	(3.1)	(3.2)	(3.2)
	Regional Banks II		(1.1)	(0.9)	(1.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)	(0.4)
Shinkin		(-0.5)	(-0.7)	(-0.8)	(-0.7)	(-0.5)	(-0.7)	(-0.6)	(-0.5)	(-0.6)	
Deposits and CDs (Average)	Total(3 Business Condition)		(2.7)	(2.2)	(2.2)	(2.0)	(2.9)	(1.7)	(2.3)	(2.3)	(2.9)
	City Banks		(1.9)	(1.8)	(2.1)	(1.7)	(2.8)	(1.1)	(2.1)	(2.1)	(2.7)
	Regional Banks		(3.7)	(2.8)	(2.3)	(2.6)	(3.4)	(2.5)	(3.0)	(3.0)	(3.4)
	Regional Banks II		(2.8)	(1.8)	(2.2)	(1.1)	(1.2)	(1.0)	(1.2)	(0.9)	(1.4)

(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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