

Japan Economic Monthly

Growth Strategy Spurring Private Investment to Begin, Following on Heels of Monetary, Fiscal Policy

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1. The Real Economy

A half-year has passed since the inauguration of Prime Minister Shinzo Abe's second administration on December 26, 2012. In this time, the administration has hammered out a series of economic stimulus policies in quick succession, including the 'First Prong' of Abenomics a big boost in monetary easing by the BoJ—and the 'Second Prong'—emergency economic measures totaling JPY10 trillion. The Administration unveiled its 'Third Prong'—an economic growth strategy—in June.

The Abe Administration's *Japan Revitalization Strategy* was approved by the Cabinet on June 14, 2013. The plan has three pillars, 'Plan for the Revitalization of Japanese Industry' to strengthen industry base; 'Strategic Market Creation Plan' to turn challenges into new markets; and 'Strategy of Global Outreach' to tap into expanding global market. The strategies aim to establish a virtuous cycle for the economy by raising industrial competitiveness, creating new demand and expanding exports. Overall, the growth strategy features a number of policies that have the potential of boosting Japan's economic growth further if strategy targets are met, while also setting realistic concrete numerical goals and action plans (Table 1). Moreover, although a number of the timeframes for meeting targets are medium to long-term, the strategy also features measures to be fulfilled over the first three years. At this stage, the content of the growth strategy appears to be positive.

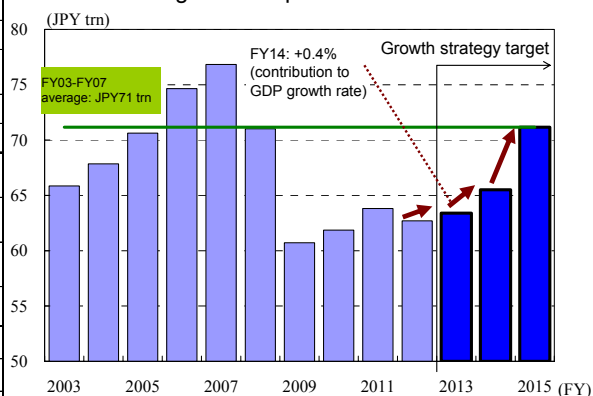
By item, first, private investment is expected to recover and expand due to 'accelerating structural reform program'. The goal of increasing capital investment by 10% over the next three years, to the level of pre-Global Financial Crisis levels, is considered fairly likely to be achieved due not only to tax support under the emergency economic measures, but also because capital spending had dropped by that degree since Lehman Brothers' failure while the weaker JPY has resulted in improved macroeconomic conditions and corporate profits and reconsideration of foreign investment (Figure 1). On the other hand, a number of issues are still being considered, including lowering the corporate tax rate. The Abe Administration is expected to continue its persevering efforts.

Table 1: Key Quantitative Targets in Japan Revitalization Strategy

Plan for the Revitalization of Japanese Industry	◆ 10% increase in capital investment over the next three years and a return of private investment from FY12 level (JPY63 trn) to pre-Global Financial Crisis levels
	◆ Boost the employment rate of women aged 25 – 44 to 73% by 2020 (vs 68% in 2012)
	◆ Number one global innovator on the Global Competitiveness Report within the next five years (from number five)
	◆ Over next 10 years, triple PPP/PFI programs from scale of past 10 years (JPY12 trn)
	◆ Over next five years, promote expansion abroad by 10,000 new companies
Strategic Market Creation Plan	◆ Expand the market scale of the pharmaceutical, medical device and regenerative medicine-related industries to 16 trillion yen (from JPY12 trn)
	◆ Capture domestic and international energy technology sales of approximately JPY26 trn by 2020 (vs current JPY8 trn)
	◆ By 2030, expand safe driving equipment, systems to cover all vehicles domestically; capture 30% share of world market
	◆ By 2020, expand market size of the sextiary sector to JPY10 trn (vs JPY1 trn in 2010, 2015 goal JPY3 trn)
Strategy of Global Outreach	◆ Trading FTA ratio of 70% by 2018 (from 19% in 2012)
	◆ Infrastructure exports of approximately JPY30 trn/year by 2020 (from JPY10 trn)
	◆ By 2020, double inward Foreign Direct Investment to JPY35 trn (from JPY17.8 trn as of end-2012)

Source: Compiled by BTMU Economic Research Office from Headquarters for Japan's Economic Revitalization materials.

Figure 1: Capital investment



Source: Compiled by BTMU Economic Research Office from Headquarters for Japan's Economic Revitalization materials, Cabinet Office data.

2. Financial Markets

(1) Monetary Policy & Long-Term Yields

At its June 10-11 Monetary Policy Board meeting, the BoJ voted to uphold its current policy to *conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen*. Prior to the meeting, speculation had grown that the BoJ would extend the maximum length of Funds-Supplying Operations against Pooled Collateral from the current one year to two years in an effort to stabilize interest rates. The BoJ put off any changes, given Governor Haruhiko Kuroda's determination to control interest rate spikes and in particular higher volatility by conducting operations flexibly as conditions warrant.

The 10Yr JGB yield has been at approximately the 0.8% level recently (Figure 2). Japan's long-term yield rose temporarily in mid-May in line with the US Treasury yield amidst growing speculation that the FRB would shrink its asset purchase program. Thereafter, however, Japan's 10Yr yield has been capped even as the US 10Yr yield has continued to rise, a result of the BoJ's success with increasing the flexibility of bond purchasing. (As of May 30, the BoJ allowed the frequency and scale of its monthly purchases of JGBs to be changed.)

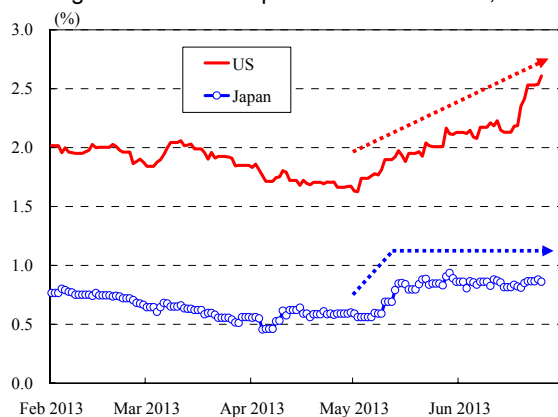
(2) Exchange Rates

The JPY has weakened more rapidly since April 4, when the BoJ introduced its quantitative and qualitative monetary easing, falling past the USD/JPY100 and EUR/JPY130 marks. Thereafter, although the JPY shifted again to temporarily re-strengthen, conditions since then have supported JPY selling as speculation grows that the FRB will taper its asset purchase program.

Once again reviewing financial market developments under the second Abe Cabinet, the JPY has shifted to weakening while share prices have rebounded considerably (Figure 3).

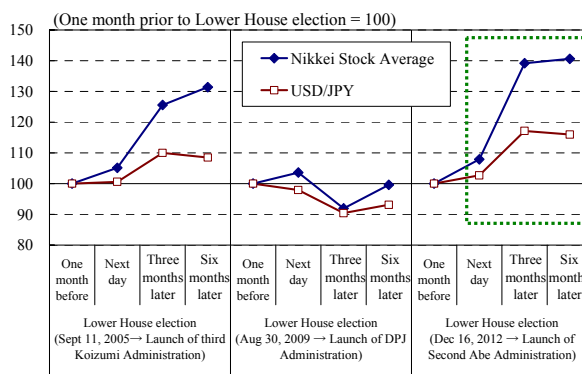
Even compared to the periods following the launch of the highly popular LDP/third Koizumi administrations (September 2005) and the DPJ government (September 2009), the recent jump in share prices has been remarkable. In order for Prime Minister Abe to continue to maintain the confidence of the markets, the Administration will have to show strong commitment to lifting Japan’s economy by steadily implementing its growth strategy and through further results.

Figure 2: US and Japan 10Yr Bond Yields, 2013



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

Figure 3: Key Share Price and Exchange Rate Levels Following Launch of New Cabinets, Administrations



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

(Yasuhiro Ishimaru, Rei Tsuruta)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Jul. 8, 2013

	Fiscal 2011	Fiscal 2012	2012		2013	2013				
			3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.2	1.2	-3.6 (0.2)	1.2 (0.4)	4.1 (0.4)	***	***	***	***	***
Index of All Industries Activity	0.3	0.1	-0.4 (-0.2)	-0.1 (-0.3)	-0.1 (-1.3)	0.4 (-2.4)	0.2 (-0.9)	0.4 (0.5)		
Industrial Production Index Production	-0.7	-2.9	-3.2 (-3.9)	-1.9 (-5.9)	0.6 (-7.9)	0.9 (-10.1)	0.1 (-7.2)	0.9 (-3.4)	2.0 (-1.0)	
Shipments	-1.5	-1.8	-4.3 (-3.6)	-1.3 (-6.4)	4.1 (-6.3)	1.8 (-8.6)	-0.8 (-5.9)	-1.4 (-3.0)	0.8 (-2.3)	
Inventory	12.1	-2.7	1.8 (5.3)	-1.6 (5.2)	-3.4 (-2.7)	-1.2 (0.4)	-0.7 (-2.7)	0.8 (-4.0)	-0.3 (-2.7)	
Inventory/Shipments Ratio (2010=100)	109.0	114.4	116.4 [107.1]	117.7 [107.2]	112.1 [107.6]	110.3 [103.9]	112.8 [110.9]	107.1 [112.2]	104.9 [110.5]	[111.7]
Domestic Corporate Goods Price Index	1.4	-1.1	-0.8 (-2.0)	0.0 (-0.9)	0.8 (-0.3)	0.5 (-0.1)	0.1 (-0.5)	0.4 (0.1)	0.1 (0.6)	
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	-0.3 (-0.2)	-0.1 (-0.1)	-0.3 (-0.3)	0.0 (-0.3)	0.0 (-0.5)	0.1 (-0.4)	0.1 (0.0)	
Index of Capacity Utilization (2010=100)	97.9	95.4	95.1 [99.0]	93.1 [100.3]	94.4 [102.6]	94.4 [102.5]	94.4 [102.5]	95.9 [101.3]		[97.7]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	6.2	-3.0	-1.3 (-4.6)	-0.8 (-11.1)	0.0 (-4.6)	4.2 (-11.3)	14.2 (2.4)	-8.8 (-1.1)		
Manufacturing	5.9	-10.1	-3.0 (-9.5)	-5.3 (-11.1)	-1.7 (-12.1)	4.9 (-18.2)	13.3 (-3.9)	-7.3 (-9.8)		
Non-manufacturing Excl.Electric Power & Ship building	6.6	2.8	-0.3 (-1.3)	5.6 (7.4)	-3.1 (2.8)	0.3 (-5.5)	14.3 (9.8)	-6.0 (4.8)		
Shipments of Capital Goods (Excl.Transport Equipment)	6.7	-6.0	-5.3 (-4.2)	-4.3 (-11.5)	4.7 (-9.1)	1.3 (-14.4)	2.1 (-5.7)	-1.8 (-3.0)	1.7 (-6.4)	
Construction Orders	7.1	2.4	(6.3)	(-2.7)	(1.2)	(16.3)	(-3.4)	(2.0)	(26.0)	
Private	3.7	2.6	(0.9)	(3.1)	(1.2)	(18.7)	(-5.1)	(3.2)	(26.6)	
Public	22.7	5.3	(11.7)	(-7.3)	(0.2)	(11.6)	(-4.8)	(11.5)	(32.7)	
Public Works Contracts	-0.5	10.3	(13.3)	(17.7)	(-6.0)	(-4.8)	(-11.7)	(28.6)	(24.8)	
Housing Starts 10,000 units at Annual Rate, SA	84.1 (2.7)	89.3 (6.2)	88.5 (-1.1)	90.9 (15.0)	89.9 (5.1)	94.4 (3.0)	90.4 (7.3)	93.9 (5.8)	102.7 (14.5)	
Total floor	(2.5)	(4.8)	(-2.7)	(12.2)	(5.7)	(3.5)	(6.4)	(6.4)	(13.0)	
Sales at Retailers	0.8	0.3	(0.1)	(-0.0)	(-1.2)	(-2.2)	(-0.3)	(-0.2)	(0.8)	
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	1.6	-1.4 (0.9)	-0.6 (-0.2)	3.8 (2.8)	2.2 (0.8)	2.0 (5.2)	-4.6 (1.5)	0.1 (-1.6)	
Propensity to Consume (SA,%)	73.4	73.3	74.2 [72.9]	74.4 [73.8]	76.3 [72.3]	77.8 [72.7]	77.3 [73.0]	73.2 [73.2]	74.0 [74.2]	[73.2]
Overtime Hours Worked (All Industries, 5 employees or more)	0.8	-0.3	-2.8 (-0.9)	-0.3 (-2.5)	1.5 (-1.6)	2.0 (-1.0)	-0.3 (-1.9)	1.9 (0.9)	0.5 (0.0)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.2	-0.7	(-0.7)	(-1.1)	(-0.5)	(-0.8)	(-0.9)	(0.0)	(0.0)	
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	52	107	131	133	24	23	23	29	27	
Ratio of Job Offers to Applicants (SA,Times)	0.68	0.82	0.81 [0.65]	0.82 [0.71]	0.85 [0.75]	0.85 [0.75]	0.86 [0.76]	0.89 [0.79]	0.90 [0.80]	[0.81]
Unemployment Rate (SA,%)	4.5	5.0	4.3	4.2	4.2	4.3	4.1	4.1	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]	53.2 [45.9]	57.3 [51.8]	56.5 [50.9]	55.7 [47.2]	[43.8]
Bankruptcies (Number of cases)	12,707 (-2.7)	11,719 (-7.7)	2,924 (-5.9)	2,889 (-6.8)	2,779 (-12.7)	916 (-11.7)	929 (-19.9)	899 (-10.4)	1,045 (-8.9)	

(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 Jul. 8, 2013

	Fiscal	Fiscal	2012		2013	2013				
	2011	2012	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Customs Clearance(Exports in Yen Terms)	-3.7	-2.1	(-8.2)	(-5.5)	(1.2)	(-2.9)	(1.1)	(3.8)	(10.1)	
Value	0.7	4.9	(0.6)	(4.2)	(13.5)	(15.3)	(12.1)	(9.6)	(15.7)	
Volumes	-4.3	-6.4	(-8.7)	(-9.3)	(-10.8)	(-15.8)	(-9.8)	(-5.3)	(-4.8)	
Imports(In Yen terms)	11.6	3.5	(0.3)	(0.4)	(8.1)	(12.0)	(5.6)	(9.5)	(10.1)	
Value	9.2	2.7	(-2.6)	(1.1)	(10.7)	(12.1)	(11.7)	(7.4)	(12.8)	
Volumes	2.2	0.8	(2.9)	(-0.6)	(-2.3)	(-0.1)	(-5.5)	(2.0)	(-2.4)	
Current Balance(100 mil. yen)	76,180	42,930	16,210	105	15,238	6,374	12,512	7,500		
Trade Balance(100 mil. yen)	-34,698	-68,948	-15,144	-18,744	-23,762	-6,770	-2,199	-8,188		
Services(100 mil. yen)	-18,265	-25,811	-8,092	-7,083	-2,333	-536	5	-4,405		
Capital and Financial Accounts(100 mil. yen)	29,618	-54,786	-23,904	3,165	-3,865	-1,317	-8,623	-1,124		
Gold & Foreign Exchange Reserves(\$1mil.)	1,288,703	1,254,356	1,277,000	1,268,125	1,254,356	1,258,809	1,254,356	1,257,964	1,250,243	
Exchange Rate(US\$)	79.05	83.08	78.62	81.16	92.38	93.21	94.75	97.71	101.08	97.43

3. Financial Market Indicators

	Fiscal	Fiscal	2012		2013	2013				
	2011	2012	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Uncollateralized Overnight Call Rates	0.077	0.083	0.085 [0.078]	0.084 [0.079]	0.083 [0.083]	0.087 [0.085]	0.078 [0.084]	0.072 [0.075]	0.073 [0.084]	0.074 [0.076]
Euro Yen TIBOR (3 Months)	0.331	0.312	0.327 [0.330]	0.318 [0.329]	0.270 [0.331]	0.269 [0.332]	0.250 [0.332]	0.228 [0.332]	0.228 [0.332]	0.228 [0.335]
Newly Issued Japanese Government Bonds Yields (10 Years)	1.050	0.760	0.780 [1.043]	0.757 [1.030]	0.655 [0.968]	0.665 [0.955]	0.560 [0.985]	0.600 [0.885]	0.860 [0.830]	0.855 [0.830]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.269	1.184	1.245 (-0.010)	1.226 (-0.019)	1.184 (-0.042)	1.203 (-0.017)	1.184 (-0.019)	1.183 (-0.001)	1.179 (-0.004)	
The Nikkei Stock Average (TSE 225 Issues)	10,084	12,398	8,870 [8,700]	10,395 [8,455]	12,398 [10,084]	11,559 [9,723]	12,398 [10,084]	13,861 [9,521]	13,775 [8,543]	13,677 [9,007]
M2(Average)	(2.9)	(2.5)	(2.4)	(2.3)	(2.9)	(2.9)	(3.1)	(3.2)	(3.4)	
Broadly-defined Liquidity(Average)	(0.1)	(0.5)	(0.2)	(0.5)	(1.3)	(1.2)	(1.6)	(2.2)	(2.8)	
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin		(-0.1)	(0.9)	(0.8)	(1.0)	(1.4)	(1.5)	(1.7)	(1.8)
	Banks		(-0.1)	(1.1)	(1.1)	(1.2)	(1.8)	(1.9)	(2.1)	(2.1)
	City Banks etc.		(-1.8)	(-0.2)	(-0.4)	(-0.1)	(1.0)	(1.2)	(1.5)	(1.6)
	Regional Banks		(1.9)	(2.9)	(2.9)	(3.1)	(3.1)	(3.1)	(3.2)	(3.2)
	Regional Banks II		(1.1)	(0.9)	(1.4)	(0.4)	(0.4)	(0.4)	(0.6)	(0.7)
Deposits and CDs (Average)	Shinkin		(-0.5)	(-0.7)	(-0.8)	(-0.7)	(-0.5)	(-0.5)	(-0.3)	(-0.2)
	Total(3 Business Condition)		(2.7)	(2.2)	(2.2)	(2.0)	(2.9)	(2.9)	(3.4)	(3.7)
	City Banks		(1.9)	(1.8)	(2.1)	(1.7)	(2.8)	(2.7)	(3.5)	(3.9)
	Regional Banks		(3.7)	(2.8)	(2.3)	(2.6)	(3.4)	(3.4)	(3.7)	(3.8)
	Regional Banks II		(2.8)	(1.8)	(2.2)	(1.1)	(1.2)	(1.4)	(1.4)	(1.5)

(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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