

# Japan Economic Monthly

## Lagging Private Sector Capital Expenditures Finally Picking Up

Economic Research Office

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

### 1. The Real Economy

Private sector capital expenditures are starting to show signs of recovering, on the heels of household residential investment and government public works spending. Total floor area of new housing construction started, contracted public works orders, and machinery orders—all leading indicators of the aforementioned data—have respectively risen +13.0% YoY (May), +21.7% YoY (June), and +16.5% YoY (May, excluding private demand for ship building & electric power plants, see Figure 1). Total floor area of new housing construction started has increased for nine straight months, while contracted public works orders have risen continuously for three months. Machinery orders (excluding private demand for ship building & electric power plants) rose on-year again in May after two months and by the biggest jump since June 2011. Real capital spending in GDP data has fallen on-quarter for five straight quarters through Jan-Mar, but is likely to start rising before long.

The improvements appear to be due to investment demand that had been put off (pent-up demand) starting to appear following progress with economic stimulus measures under the Abe Administration, as well as more favorable macro economic conditions facing companies and improved corporate sentiment and profits. Private non-financial companies' net capital stock had shrunk for three straight years since the collapse of Lehman Brothers, by JPY29 trillion from end-2008 as of end-2011 (Figure 2). Merely restoring that loss would be a substantial rise. Further, according to a METI survey on holding periods of production equipment conducted February 25 – March 13, the share of manufacturers' production equipment owned for 15 years or longer has surged. In this regard as well, demand in order to replace aged equipment appears to be rising steadily. Companies have also abundant internal reserves.

Under the government's *Japan Revitalization Strategy* approved last month, investment will be encouraged for the next three years through various all-out measures to promote domestic investment. The plan's quantitative goal of increasing capital expenditures by 10%, to the level of prior to the Lehman Brothers collapse, within three years appears to be fully achievable.

Figure 1: Machinery Orders, Total floor area of new housing construction started, and Contracted public works orders

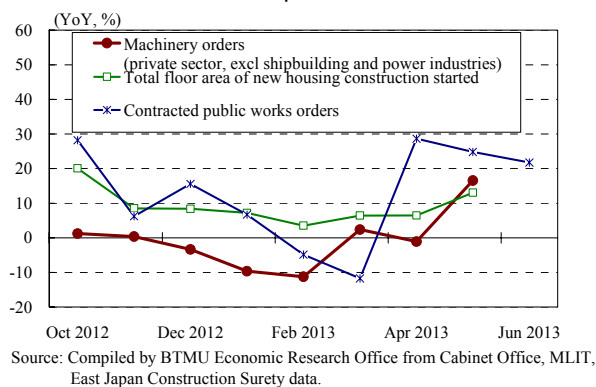
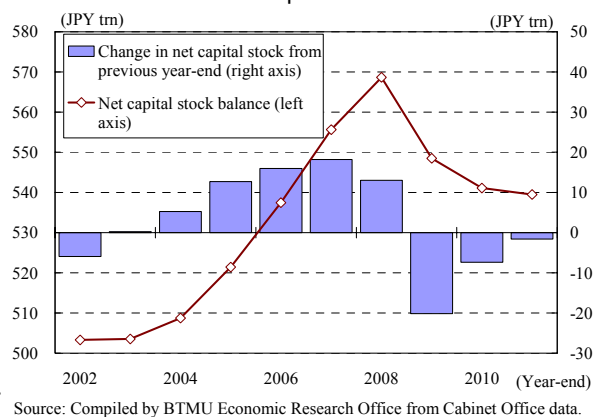


Figure 2: Private Non-Financial Corporation Net Capital Stock



## 2. Financial Markets

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

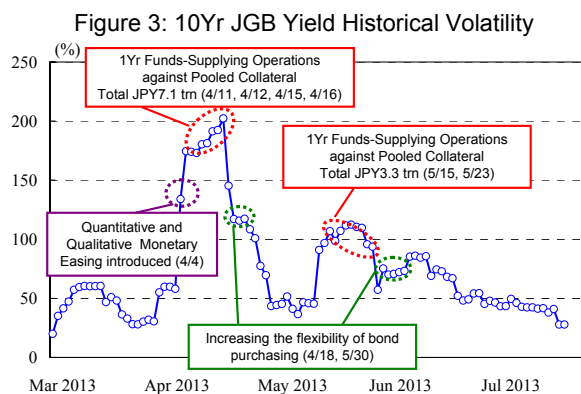
At the July 10-11 Monetary Policy meeting, the BoJ agreed to maintain current monetary easing measures (*‘The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.’*). The BoJ changed its assessment of the economy to *‘starting to recover moderately’* (from *‘has been picking up’* in June), and noted that current policy has been supporting the financial markets and the real economy in line with expectations. The BoJ also offered an interim assessment of the *Outlook for Economic Activity and Prices* released in April, upholding the consensus view among Policy Board members that the 2% price stability target through FY15 would be met.

The yield on the 10Yr JGB has held steady at the 0.8% level since June. Yield volatility appears to have declined since the BoJ introduced increasing the flexibility of bond purchasing and 1Yr Funds-Supplying Operations against Pooled Collateral (Figure 3). If the BoJ can continue to limit volatility, large-scale purchase of JGBs could even more clearly hold market interest rates low.

### (2) Exchange Rates

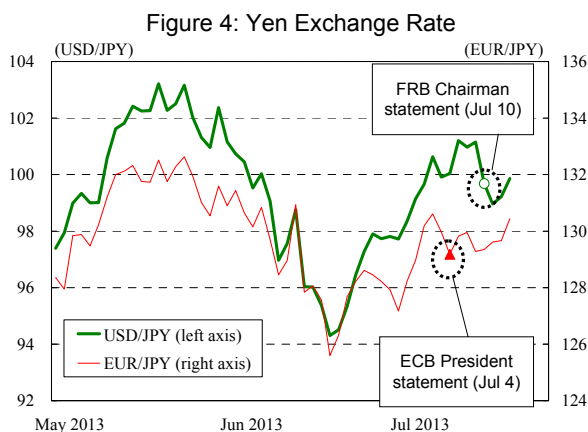
Selling pressure on the JPY since mid-June has eased recently (Figure 4) following comments by central bank leaders in Europe and the US. ECB President Mario Draghi noted following the July 4 meeting that The Governing Council “expects the key ECB interest rates to remain at present or lower levels for an extended period of time,” while FRB Chairman Ben Bernanke commented in a speech on July 10, “There will not be an automatic increase in interest rate when unemployment hits 6.5%.” The markets appear to have been reminded of the possibility that monetary easing could be extended in Europe and the US.

On the other hand, the BoJ is likely to maintain its powerful monetary easing measures for some time to come. The BoJ has set an in the price stability target of 2% and committed to maintaining the quantitative and qualitative monetary easing introduced in April for as long as needed. However, that time is still not at hand. In light of the relative degree of monetary easing, JPY selling pressures could intensify more.



Note: Standard deviation, annualized conversion figure of daily rate of change over last 10 days.

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



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## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

## 1. Main Economic Indicators

As of Jul. 25, 2013

	Fiscal 2011	Fiscal 2012	2012			2013			2013		
			4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.2	1.2	1.2 (0.4)	4.1 (0.4)		***	***	***	***	***	
Index of All Industries Activity	0.3	0.1	-0.1 (-0.3)	0.0 (-1.2)		0.4 (-2.4)	0.4 (-0.7)	0.1 (0.4)	1.1 (1.2)		
Industrial Production Index Production	-0.7	-2.9	-1.9 (-5.9)	0.6 (-7.9)		0.9 (-10.1)	0.1 (-7.2)	0.9 (-3.4)	1.9 (-1.1)		
Shipments	-1.5	-1.8	-1.3 (-6.4)	4.1 (-6.3)		1.8 (-8.6)	-0.8 (-5.9)	-1.4 (-3.0)	1.0 (-2.1)		
Inventory	12.1	-2.7	-1.6 (5.2)	-3.4 (-2.7)		-1.2 (0.4)	-0.7 (-2.7)	0.8 (-4.0)	-0.4 (-2.7)		
Inventory/Shipments Ratio (2010=100)	109.0	114.4	117.7 [107.2]	112.1 [107.6]	[111.5]	110.3 [103.9]	112.8 [110.9]	107.1 [112.2]	104.8 [110.5]	[111.7]	
Domestic Corporate Goods Price Index	1.4	-1.1	0.0 (-0.9)	0.8 (-0.3)	0.6 (0.6)	0.5 (-0.1)	0.1 (-0.5)	0.4 (0.1)	0.0 (0.5)	0.1 (1.2)	
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-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	93.1 [100.3]	94.4 [102.6]	[99.6]	94.4 [102.5]	94.4 [102.5]	95.9 [101.3]	98.1 [99.8]	[97.7]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	6.2	-3.0	-0.8 (-0.8)	0.0 (-4.6)		4.2 (-11.3)	14.2 (2.4)	-8.8 (-1.1)	10.5 (16.5)		
Manufacturing	5.9	-10.1	-5.3 (-11.1)	-1.7 (-12.1)		4.9 (-18.2)	13.3 (-3.9)	-7.3 (-9.8)	3.8 (-6.2)		
Non-manufacturing Excl.Electric Power & Ship building	6.6	2.8	5.6 (7.4)	-3.1 (2.8)		0.3 (-5.5)	14.3 (9.8)	-6.0 (4.8)	25.4 (34.3)		
Shipments of Capital Goods (Excl.Transport Equipment)	6.7	-6.0	-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									
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)	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)	(12.2)	(5.7)		(3.5)	(6.4)	(6.4)	(13.0)		
Sales at Retailers	0.8	0.3									
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	1.6	-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	74.4 [73.8]	76.3 [72.3]	[74.2]	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	-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									
Employment Index(Regular Employees Only; All Industries, 5 employees or more) (Change over the M/Q/Y)	52	107	133	24		23	23	29	32		
Ratio of Job Offers to Applicants (SA,Times)	0.68	0.82	0.82 [0.71]	0.85 [0.75]	[0.80]	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	4.2	4.2		4.3	4.1	4.1	4.1		
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.9	46.3	41.6 [46.0]	53.3 [47.3]	55.1 [47.3]	53.2 [45.9]	57.3 [51.8]	56.5 [50.9]	55.7 [47.2]	53.0 [43.8]	
Bankruptcies (Number of cases)	12,707 (-2.7)	11,719 (-7.7)	2,889 (-6.8)	2,779 (-12.7)	2,841 (-9.1)	916 (-11.7)	929 (-19.9)	899 (-10.4)	1,045 (-8.9)	897 (-8.0)	

(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 Jul. 25, 2013

	Fiscal	Fiscal	2012	2013		2013				
	2011	2012	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN
Customs Clearance(Exports in Yen Terms)	-3.7	-2.1	(-5.5)	(1.2)	(7.1)	(-2.9)	(1.1)	(3.8)	(10.1)	(7.4)
Value	0.7	4.9	(4.2)	(13.5)	(13.7)	(15.3)	(12.1)	(9.6)	(15.7)	(15.9)
Volumes	-4.3	-6.4	(-9.3)	(-10.8)	(-5.8)	(-15.8)	(-9.8)	(-5.3)	(-4.8)	(-7.3)
Imports(In Yen terms)	11.6	3.5	(0.4)	(8.1)	(10.4)	(12.0)	(5.6)	(9.5)	(10.1)	(11.8)
Value	9.2	2.7	(1.1)	(10.7)	(12.6)	(12.1)	(11.7)	(7.4)	(12.8)	(18.0)
Volumes	2.2	0.8	(-0.6)	(-2.3)	(-1.9)	(-0.1)	(-5.5)	(2.0)	(-2.4)	(-5.3)
Current Balance(100 mil. yen)	76,180	43,536	105	15,844		6,497	12,831	7,500	5,407	
Trade Balance(100 mil. yen)	-34,698	-68,921	-18,744	-23,735		-6,713	-2,224	-8,188	-9,067	
Services(100 mil. yen)	-18,265	-25,417	-7,083	-1,939		-486	208	-4,405	441	
Capital and Financial Accounts(100 mil. yen)	29,618	-49,201	3,165	1,720		4,215	-7,828	-1,124	6,390	
Gold & Foreign Exchange Reserves(\$1mil.)	1,288,703	1,254,356	1,268,125	1,254,356	1,238,713	1,258,809	1,254,356	1,257,964	1,250,243	1,238,713
Exchange Rate(US\$)	79.05	83.08	81.16	92.38	98.74	93.21	94.75	97.71	101.08	97.43

## 3. Financial Market Indicators

	Fiscal	Fiscal	2012	2013		2013					
	2011	2012	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	0.077	0.083	0.084 [0.079]	0.083 [0.078]	0.073 [0.078]	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	0.318 [0.329]	0.270 [0.331]	0.228 [0.333]	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	0.757 [1.030]	0.655 [0.968]	0.772 [0.848]	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	1.226 (-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	10,395 [8,455]	12,398 [10,084]	13,677 [9,007]	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)	(2.3)	(2.9)	(3.5)	(2.9)	(3.1)	(3.2)	(3.5)	(3.8)	
Broadly-defined Liquidity(Average)	(0.1)	(0.5)	(0.5)	(1.2)	(2.7)	(1.2)	(1.5)	(2.0)	(2.7)	(3.2)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin		(-0.1)	(0.9)	(1.0)	(1.4)	(1.8)	(1.5)	(1.7)	(1.8)	(1.9)
	Banks		(-0.1)	(1.1)	(1.2)	(1.8)	(2.1)	(1.8)	(1.9)	(2.1)	(2.2)
	City Banks etc.		(-1.8)	(-0.2)	(-0.1)	(1.0)	(1.6)	(1.1)	(1.2)	(1.5)	(1.6)
	Regional Banks		(1.9)	(2.9)	(3.1)	(3.1)	(3.2)	(3.1)	(3.2)	(3.2)	(3.4)
	Regional Banks II		(1.1)	(0.9)	(0.4)	(0.4)	(0.6)	(0.4)	(0.4)	(0.6)	(0.7)
	Shinkin		(-0.5)	(-0.7)	(-0.7)	(-0.5)	(-0.2)	(-0.6)	(-0.5)	(-0.4)	(-0.2)
Deposits and CDs (Average)	Total(3 Business Condition)		(2.7)	(2.2)	(2.0)	(2.9)	(3.8)	(2.9)	(3.4)	(3.6)	(3.7)
	City Banks		(1.9)	(1.8)	(1.7)	(2.8)	(4.1)	(2.7)	(3.5)	(3.9)	(4.0)
	Regional Banks		(3.7)	(2.8)	(2.6)	(3.4)	(4.0)	(3.4)	(3.7)	(3.8)	(4.0)
	Regional Banks II		(2.8)	(1.8)	(1.1)	(1.2)	(1.5)	(1.4)	(1.4)	(1.5)	(1.7)

(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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