

Japan Economic Monthly

Households Begin to Enjoy Fruits of Abenomics Prior to Consumption Tax Hike

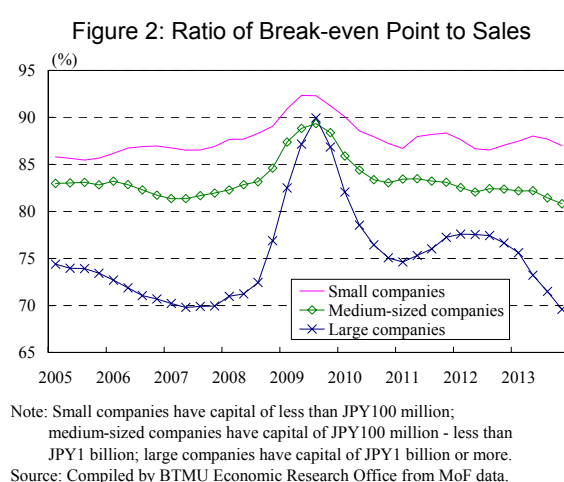
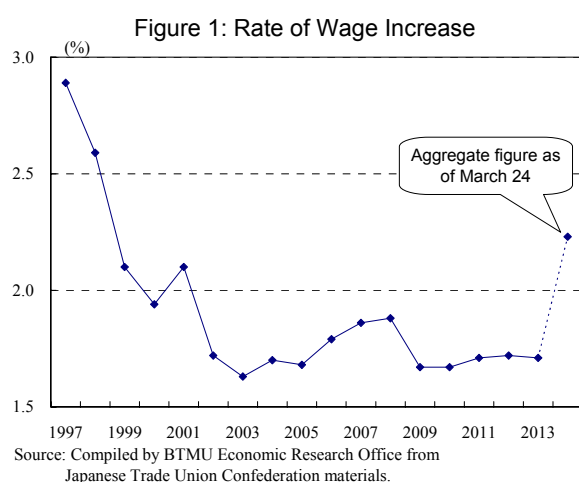
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1. The Real Economy

The fruits of Abenomics are showing signs of spreading. In the real economy, corporate profits continue to improve, with current profits jumping by +26.6% YoY in Oct-Dec 2013. The improvement in corporate profits is now spreading to the household sector via wage increases. During this year's spring wage negotiations, many companies announced larger wage increases than in prior years. On an aggregate basis, rate of wage increases was 2.2% as of March 24, 0.5% points higher than in 2013 (Figure 1). If the trend is upheld, this year's rate of wage increases would be the biggest in 16 years, since 1998.

Companies appear to be basing their decisions to okay wage increases on their stronger financial conditions. By company sizes, large companies showed striking improvements in the ratio of break-even point to sales, while medium-sized companies also marked a gradual improvement (Figure 2). However, although the ratio of break-even point to sales fell widely even when Lehman Brothers collapsed, wage increases were not as big as this year's. On the other hand, inflation expectations are rising among both labor and management sides, and a number of activities under Abenomics—including conferences among government, labor and management and the early repeal of the special corporate tax for reconstruction—are encouraging a virtuous cycle of higher corporate profits and wage increases.

Demand has ballooned ahead of the consumption tax hike in April. A Teikoku Databank survey showed that, as of February, 28.6% of respondent companies were already feeling the last-minute demand. A further 21.5% of respondents expected to see such demand, although the demand had not yet occurred. Negative impacts to come are a concern, as a slump is likely to follow the surge of demand and real purchasing power will fall after the consumption tax is hiked. However, some of these negative impacts are expected to be offset by higher compensation of employees resulting from the spring wage negotiations. Further, many companies have started to raise base wages, and consumer sentiment may improve as the expectation that lifetime wages increase rise.



2. Financial Markets

(1) Monetary Policy & Long-Term Yields

As BoJ Governor Haruhiko Kuroda marks one year since taking office, the effects of the *quantitative and qualitative monetary easing* policy he introduced are being reviewed as follows. When the policy was introduced, Governor Kuroda noted the expected routes of transmission. The expected routes that he explained are *Approach to Long-term yield and asset prices*, and *Dramatic change in expectations*, and *Portfolio rebalancing effect*. First, *Approach to Long-term yield and asset prices* would achieve enough effects (Table 1). The 10Yr JGB yield has remained at a low 0.6% even as Japanese economic fundamentals have improved, and share prices have surged by as much as 20%. *Dramatic change in expectations* also turned around. Companies' growth expectations over the medium to long terms have started to rise, however gradually, and markets appear to be factoring in inflation expectations more. On the other hand, the *portfolio rebalancing effect* appears to still be limited. Banks and insurance companies have sold a total of approximately JPY19 trillion of long-term JGBs but have largely not expanded their purchases of foreign securities.

(2) Exchange Rates

USD/JPY continues to trade in a narrow band around the USD/JPY102 mark (Figure 3). This appears to be because uncertainty about the outlook for the US economy had been building since the start of the year amidst weaker-than-expected data of current employment statistics, while growing concerns about emerging markets—especially China—appear to have encouraged risk-averse JPY buying. However, compared to early July to end-October 2013, when USD/JPY similarly moved in a relatively narrow range, the JPY has weakened, by approximately JPY4. Despite deep-rooted concerns about a JPY strengthening amidst concerns including the Ukraine situation, the gap in degrees of monetary easing in the US and

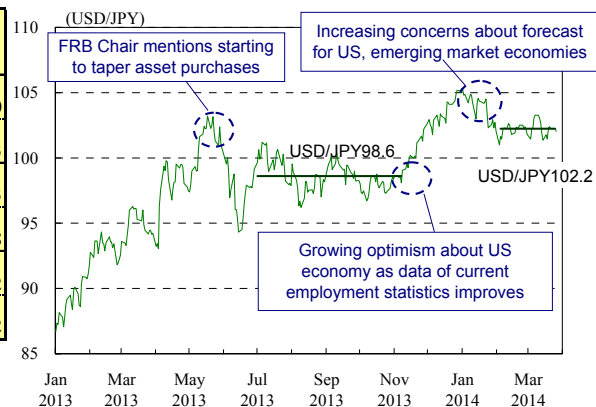
Japan has been widening. The gradual JPY weakening/USD strengthening trend itself is considered unlikely to change.

Table 1: Financial and Economic Indicators, at Inauguration of Governor Kuroda and Current

		Inauguration of Governor Kuroda	Current	Change
Approach to Long-term yield and asset prices	10Yr JGB yield (%)	0.60	0.60	0.00
	Nikkei Average share price (JPY)	12,398	14,841	+2,443
Dramatic change in expectations	Real economic growth over next five years (%)	1.2	1.5	+0.3
	Breakeven inflation rate (5Yr, %)	1.4	2.2	+0.8
Portfolio rebalancing effect	Bank, insurance company long-term JGB holdings (JPY trn)	496.4	477.2	-19.2
	Bank, insurance company holdings of foreign securities (JPY trn)	151.1	150.9	-0.2

Note: 1) Inauguration of Governor Kuroda is March 2013. Current is as of February 2014. Portfolio rebalancing effect-related indicators as of December 2013.
 2) Real economic growth over next five years based on Annual Survey of Corporate Behavior on Cabinet Office.
 3) Long-term JGB and foreign securities investment at time of Inauguration of Governor Kuroda excludes impact of market value changes.
 Source: Compiled by BTMU Economic Research Office from Cabinet Office, BoJ, Bloomberg data.

Figure 3: USD/JPY Exchange Rate



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 Apr. 23, 2014

	Fiscal 2011	Fiscal 2012	2013			2013		2014		
			2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.3	0.6	4.1 (1.2)	0.9 (2.3)	0.7 (2.6)	***	***	***	***	***
Index of All Industries Activity	0.3	0.1	1.0 (0.5)	0.6 (1.6)	0.2 (1.8)	0.5 (1.9)	-0.3 (2.1)	1.0 (3.3)		
Industrial Production Index Production	-0.7	-2.9	1.6 (-3.0)	1.8 (2.3)	1.8 (5.8)	0.3 (4.8)	0.5 (7.2)	3.9 (10.6)	-2.3 (7.0)	
Shipments	-1.5	-1.8	-1.0 (-3.5)	1.2 (1.5)	2.6 (6.5)	0.1 (6.3)	0.2 (6.4)	5.1 (9.3)	-1.0 (6.5)	
Inventory	12.1	-3.0	0.4 (-2.9)	-0.1 (-3.5)	-1.9 (-4.3)	-1.4 (-5.1)	-0.2 (-4.3)	-0.4 (-3.9)	-0.9 (-3.4)	
Inventory/Shipments Ratio (2010=100)	109.0	114.4	108.3 [111.5]	109.4 [116.4]	104.6 [117.7]	104.3 [117.7]	104.1 [117.7]	99.3 [113.9]	103.2 [113.3]	[112.9]
Domestic Corporate Goods Price Index	1.4	-1.1	0.7 (0.7)	0.8 (2.2)	0.2 (2.5)	0.0 (2.6)	0.3 (2.5)	0.1 (2.4)	-0.1 (1.8)	0.0 (1.7)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	0.7 (0.0)	0.4 (0.7)	0.3 (1.1)	0.2 (1.2)	-0.1 (1.3)	0.2 (1.3)	0.1 (1.3)	
Index of Capacity Utilization (2010=100)	97.9	95.4	96.3 [99.6]	97.8 [95.1]	100.2 [93.1]	99.9 [92.3]	101.4 [94.0]	107.7 [94.7]	104.9 [95.2]	[95.4]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	6.2	-3.0	6.8 (6.4)	4.3 (9.6)	1.5 (13.3)	9.3 (16.6)	-15.7 (6.7)	13.4 (23.6)	-8.8 (10.8)	
Manufacturing	5.9	-10.1	5.6 (-4.2)	9.8 (8.2)	0.6 (14.8)	6.0 (18.9)	-17.3 (5.5)	13.4 (24.0)	-11.9 (8.0)	
Non-manufacturing Excl.Electric Power & Ship building	6.6	2.8	12.5 (14.1)	-4.1 (10.4)	7.5 (12.4)	8.1 (15.1)	-17.2 (7.6)	12.1 (23.1)	-8.4 (12.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	6.7	-6.0	-0.1 (-5.8)	1.1 (-0.2)	4.8 (10.8)	-1.6 (10.9)	-0.1 (7.6)	14.3 (22.2)	-4.8 (14.8)	
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)	98.3 (11.8)	100.4 (13.5)	102.6 (12.9)	103.7 (14.1)	105.5 (18.0)	98.7 (12.3)	91.9 (1.0)	
Total floor	(2.5)	(4.8)	(11.6)	(13.0)	(13.8)	(15.2)	(17.1)	(10.5)	(-2.4)	
Sales at Retailers	0.8	0.3								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	1.6	-1.9 (-0.2)	-0.3 (0.7)	-0.2 (0.6)	-0.2 (0.2)	-0.4 (0.7)	1.6 (1.1)	-1.5 (-2.5)	
Propensity to Consume (SA,%)	73.3	74.8	74.0 [74.4]	74.8 [74.1]	74.6 [74.5]	74.9 [74.9]	75.0 [75.1]	75.9 [76.1]	75.9 [77.3]	[77.1]
Overtime Hours Worked (All Industries, 5 employees or more)	0.8	-0.3	2.5 (1.0)	0.7 (4.0)	1.6 (6.0)	1.0 (6.7)	-0.2 (5.6)	0.8 (7.0)	0.4 (5.8)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.3	-0.7								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	52	107	33 138	43 131	49 133	53	48	55	54	
Ratio of Job Offers to Applicants (SA,Times)	0.68	0.82	0.90 [0.80]	0.95 [0.81]	1.01 [0.82]	1.01 [0.82]	1.03 [0.83]	1.04 [0.84]	1.05 [0.85]	[0.87]
Unemployment Rate (SA,%)	4.5	5.0	4.0	4.0	3.9	3.9	3.7	3.7	3.6	
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.9	46.3	55.1 [47.3]	52.1 [43.0]	53.7 [41.6]	53.5 [40.0]	55.7 [45.8]	54.7 [49.5]	53.0 [53.2]	57.9 [57.3]
Bankruptcies (Number of cases)	12,707 (-2.7)	11,719 (-7.7)	2,841 (-9.1)	2,664 (-8.8)	2,571 (-11.0)	862 (-10.5)	750 (-15.7)	864 (-7.4)	782 (-14.6)	814 (-12.3)

(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 Apr. 23, 2014									
	Fiscal	Fiscal	2013			2013		2014		
	2011	2012	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	-3.7	-2.1	(7.0)	(12.7)	(17.4)	(18.4)	(15.3)	(9.5)	(9.8)	(1.8)
Value	1.7	4.0	(10.5)	(12.1)	(12.5)	(11.5)	(12.4)	(9.7)	(4.2)	(4.4)
Volumes	-5.3	-5.8	(-3.1)	(0.6)	(4.3)	(6.2)	(2.5)	(-0.2)	(5.4)	(-2.5)
Imports (In Yen terms)	11.6	3.4	(10.3)	(17.5)	(24.1)	(21.2)	(24.8)	(25.1)	(9.0)	(18.1)
Value	9.2	2.5	(12.1)	(18.2)	(18.4)	(17.2)	(19.1)	(15.9)	(9.6)	(5.8)
Volumes	2.2	1.0	(-1.5)	(-0.5)	(4.8)	(3.4)	(4.7)	(8.0)	(-0.5)	(11.6)
Current Account (100 mil. yen)	79,194	42,233	17,287	13,523	-14,311	-5,969	-6,799	-15,890	6,127	
Goods (100 mil. yen)	-22,097	-52,474	-15,055	-22,463	-31,002	-11,048	-10,733	-23,454	-5,334	
Services (100 mil. yen)	-30,867	-41,864	-7,904	-9,106	-11,319	-2,481	-3,746	-4,674	-1,934	
Financial Account (100 mil. yen)	90,897	20,255	-12,894	30,689	-28,031	-4,703	-19,224	-14,720	-7,319	
Gold & Foreign Exchange Reserves (\$1mil.)	1,288,703	1,254,356	1,238,713	1,273,446	1,266,815	1,275,352	1,266,815	1,277,058	1,288,206	1,279,346
Exchange Rate (¥/\$)	79.05	83.08	98.74	98.94	100.45	100.03	103.46	103.94	102.13	102.27

3. Financial Market Indicators

	Fiscal	Fiscal	2013			2013		2014		
	2011	2012	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Uncollateralized Overnight Call Rates	0.077	0.083	0.073 [0.078]	0.073 [0.085]	0.072 [0.084]	0.073 [0.086]	0.074 [0.082]	0.073 [0.087]	0.077 [0.087]	0.072 [0.078]
Euro Yen TIBOR (3 Months)	0.331	0.312	0.228 [0.333]	0.228 [0.327]	0.220 [0.318]	0.220 [0.318]	0.220 [0.308]	0.220 [0.292]	0.212 [0.269]	0.212 [0.250]
Newly Issued Japanese Government Bonds Yields (10 Years)	0.985	0.560	0.855 [0.830]	0.680 [0.765]	0.735 [0.795]	0.600 [0.700]	0.735 [0.795]	0.620 [0.740]	0.580 [0.665]	0.640 [0.560]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.269	1.184	1.153 (-0.031)	1.125 (-0.028)	1.102 (-0.023)	1.114 (-0.010)	1.102 (-0.012)	1.096 (-0.006)	1.093 (-0.003)	
The Nikkei Stock Average (TSE 225 Issues)	10,084	12,398	13,677 [9,007]	14,456 [8,870]	16,291 [10,395]	15,662 [9,446]	16,291 [10,395]	14,915 [11,139]	14,841 [11,559]	14,828 [12,398]
M2(Average)	(2.9)	(2.5)	(3.5)	(3.8)	(4.2)	(4.4)	(4.2)	(4.3)	(4.0)	(3.5)
Broadly-defined Liquidity(Average)	(0.2)	(0.5)	(2.6)	(3.5)	(4.4)	(4.5)	(4.5)	(4.5)	(4.2)	(3.7)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	(-0.1)	(0.9)	(1.8)	(2.0)	(2.2)	(2.2)	(2.3)	(2.2)	(2.1)
	Banks	(-0.1)	(1.1)	(2.1)	(2.3)	(2.4)	(2.4)	(2.6)	(2.5)	(2.3)
	City Banks etc.	(-1.8)	(-0.2)	(1.6)	(1.9)	(1.8)	(1.8)	(2.0)	(1.8)	(1.6)
	Regional Banks	(1.9)	(2.9)	(3.2)	(3.2)	(3.3)	(3.3)	(3.4)	(3.5)	(3.4)
	Regional Banks II	(1.1)	(0.8)	(0.6)	(0.7)	(2.0)	(2.0)	(2.1)	(2.3)	(2.4)
Deposits and CDs (Average)	Shinkin	(-0.5)	(-0.7)	(-0.2)	(0.1)	(0.5)	(0.5)	(0.6)	(0.8)	(0.9)
	Total(3 Business Condition)	(2.7)	(2.2)	(3.8)	(3.8)	(3.9)	(4.0)	(3.8)	(4.1)	(3.5)
	City Banks	(1.9)	(1.8)	(4.1)	(3.7)	(3.7)	(3.7)	(3.5)	(3.8)	(3.2)
	Regional Banks	(3.7)	(2.8)	(4.0)	(4.5)	(4.5)	(4.6)	(4.4)	(4.7)	(4.1)
	Regional Banks II	(2.8)	(1.8)	(1.5)	(2.1)	(3.2)	(3.3)	(3.3)	(2.9)	(3.0)

(Notes)

Newly Issued Japanese Government Bonds Yields and 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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