

Employment Picture Improves Both Quantitatively and Qualitatively, Supporting Private Consumption

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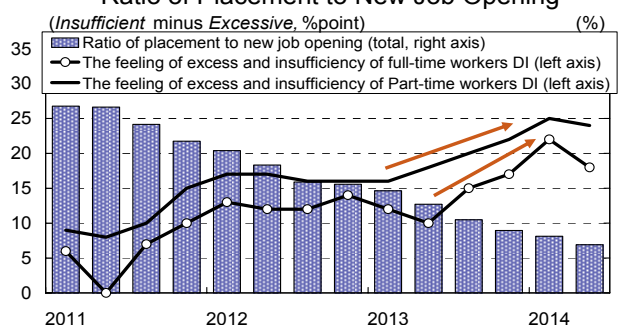
1. The Real Economy

Japan's employment picture is improving substantially. The unemployment rate has been trending downward since peaking in August 2013 and in May hit 3.5%, the lowest level since December 1997, prior to the collapse of Lehman Brothers. The active job openings-to-applicants ratio has also climbed to 1.09x, the highest level since June 1992.

Corporate demand for labor is increasing as a virtuous economic cycles realize, triggered by the Bank of Japan's quantitative and qualitative monetary easing and huge economic measures. The feeling of excess and insufficiency of workers DI, determined by the ratio of branches reporting an insufficiency of workers minus the ratio of branches reporting an excess of workers, shows that the number of branches feeling short-handed has been rising since bottoming in February 2013 for part-time workers and in May 2013 for full-time workers (Figure 1). Although the DIs for both full-time and part-time workers fell in the most recent survey figures in May, the share of branches reporting an insufficiency of workers is still much higher than the share of branches reporting an excess of workers. Further, the sufficiency ratio—the ratio of the number of getting employed to the number of new jobs available—has been declining. Given that they may not be able to secure enough workers, companies appear to be very interested in hiring at present.

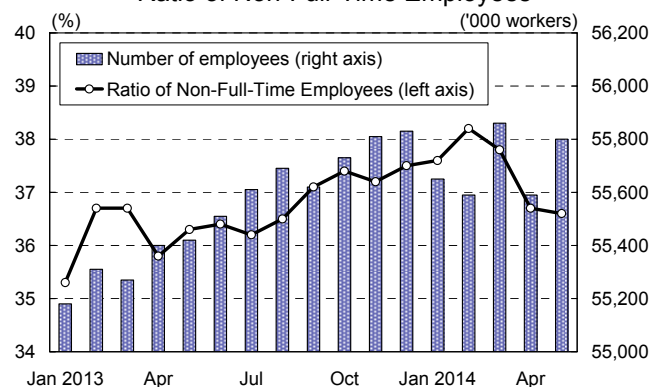
Not only has the number of employees been rising overall as corporate demand for labor grows, but the ratio of non-full-time workers to all employees has also been slowly declining since marking a recent peak in February 2014 (Figure 2). The number of unemployed persons for longer than one year has also declined to an average of 900,000 in Jan-Mar 2014, down 190,000 from Jan-Mar 2013. The working environment has thus been improving both quantitatively and qualitatively. This is expected to have a positive impact on private consumption going forward, from an upward push on incomes from a macro level as well as improved consumer sentiment. Private consumption has been adversely impacted recently by the consumption tax hike, but the brightening employment picture is expected to be a supporting factor as private consumption slowly picks up.

Figure 1: Excess and Insufficient of Workers and Ratio of Placement to New Job Opening



Note: 1) The feeling of excess and insufficiency of workers DI February, May, August, November figures.
 2) Ratio of placement to new job opening adjusted for seasonality. Up to May 2014 figures.
 Source: Compiled by BTMU Economic Research Office from MHLW data.

Figure 2: Number of Employees and Ratio of Non-Full-Time Employees



Notes: 1) Number of employees adjusted for seasonality.
 2) Ratio of Non-Full-Time Employees excludes executives.
 Source: Compiled by BTMU Economic Research Office from MIC data.

2. Monetary Policy and Financial Markets

(1) MONETARY POLICY & LONG-TERM YIELDS

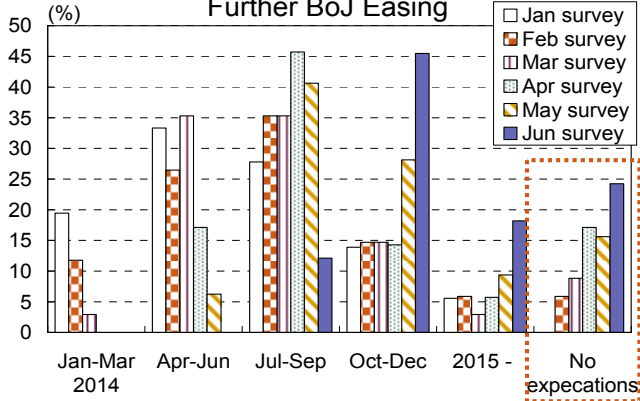
At the June 12-13 meeting, the Bank of Japan Monetary Policy meeting voted to maintain its quantitative and qualitative monetary easing operations. Governor Haruhiko Kuroda at the post-meeting news conference remarked that the probability of achieving the price stability target at 2% during the mid-point of the FY2015 forecast period is high. He also stressed that the easing policy is an 'open-ended' measure to be maintained until the price stability target level can be sustained. According to a June Bloomberg survey on timeframe expectations of further BoJ easing, although more than half of respondents expect such easing within the year, approximately one-quarter of respondents expect no additional easing at all. In the same survey conducted in January, none of the respondents expected no further easing (Figure 3). Despite many doubts in the market about the achievability of the BoJ's price stability target by FY2015, views appear to be spreading that the BoJ could elect not to implement further easing if the inflation target is achieved later than initially planned.

The 10Yr JGB yield is expected to remain low near 0.6% as the BoJ continues to purchase massive amounts of JGBs.

(2) EXCHANGE RATES

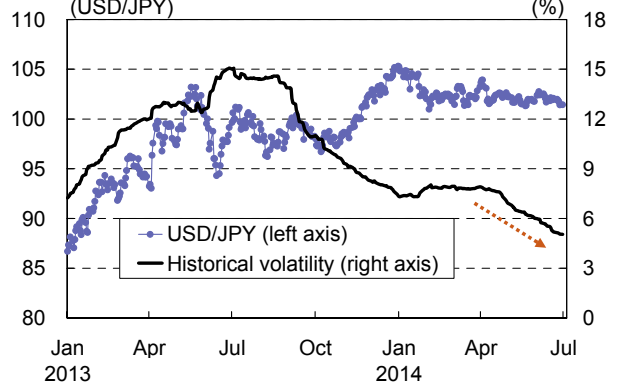
USD/JPY has traded in a narrow range around USD/JPY102 since February. Historical volatility, which shows the scale of past price movements, has been declining since H2 2013, but at a faster pace recently. This reflects the small size of recent USD/JPY fluctuations (Figure 4). While expectations of further monetary easing by the BoJ diminish as noted above, the timeframe for an interest rate hike by the US FRB is still not clear. The variance in degrees of monetary easing in the US and Japan has not firmed; this appears to be behind the recent USD/JPY stickiness. The JPY is likely to weaken and the USD to rise going forward. As a strengthening US economic recovery boosts speculation that the degrees of US and Japan monetary easing will widen, the JPY will be more likely to weaken.

Figure 3: Market Timeframe Expectations of Further BoJ Easing



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

Figure 4: USD/JPY and Historical Volatility



Note: *Historical volatility* is standard deviation of the rate of daily change over previous three months, annualized.

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

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Jul. 28, 2014

	Fiscal 2012	Fiscal 2013	2013		2014		2014				
			4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.7	2.3	0.3 (2.5)	6.7 (3.0)		***	***	***	***	***	
Index of All Industries Activity	0.1	1.9	0.3 (1.9)	1.6 (3.2)		-1.1 (2.2)	1.7 (3.8)	-4.6 (-1.2)	0.6 (-1.6)		
Industrial Production Index	-2.9	3.2	1.8	2.9		-2.3	0.7	-2.8	0.7		
Production			(5.8)	(8.2)		(7.0)	(7.4)	(3.8)	(1.0)		
Shipments	-1.8	2.9	2.6 (6.5)	4.6 (7.4)		-1.0 (6.5)	-0.2 (6.5)	-5.0 (2.4)	-1.0 (-0.8)		
Inventory	-3.0	-1.4	-1.9 (-4.3)	0.2 (-1.4)		-0.9 (-3.4)	1.4 (-1.4)	-0.5 (-1.9)	3.0 (0.8)		
Inventory/Shipments Ratio (2010=100)	114.4	106.2	104.6 [117.7]	102.6 [113.4]	[108.3]	103.2 [113.3]	105.4 [112.9]	103.7 [108.2]	107.8 [106.3]	[110.3]	
Domestic Corporate Goods Price Index	-1.1	1.9	0.2 (2.5)	0.2 (1.9)	3.2 (4.4)	-0.1 (1.8)	0.0 (1.7)	2.9 (4.2)	0.3 (4.4)	0.2 (4.6)	
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	0.3 (1.1)	-0.1 (1.3)	2.7 (3.3)	0.1 (1.3)	-0.1 (1.3)	2.1 (3.2)	0.3 (3.4)	0.2 (3.3)	
Index of Capacity Utilization (2010=100)	95.4	100.0	100.2 [93.1]	106.0 [95.1]	[96.3]	104.9 [95.2]	105.3 [95.4]	103.0 [96.0]	102.3 [97.0]	[96.0]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-3.0	11.5	1.9 (13.3)	4.2 (16.4)		-4.6 (10.8)	19.1 (16.1)	-9.1 (17.6)	-19.5 (-14.3)		
Manufacturing	-10.1	10.2	2.0 (14.8)	3.9 (22.1)		-4.6 (8.0)	23.7 (29.5)	-9.4 (19.3)	-18.6 (-3.8)		
Non-manufacturing Excl.Electric Power & Ship building	2.8	12.1	4.9 (12.4)	-1.0 (11.8)		-5.1 (12.6)	8.5 (6.6)	0.9 (16.7)	-17.8 (-19.9)		
Shipments of Capital Goods (Excl.Transport Equipment)	-6.0	5.6	4.8 (10.8)	10.8 (16.8)		-4.8 (14.8)	2.2 (14.9)	-6.9 (9.1)	-1.5 (5.1)		
Construction Orders	2.4	20.1									
Private	2.6	14.2									
Public	5.3	31.2									
Public Works Contracts	10.3	17.7									
Housing Starts 10,000 units at Annual Rate, SA	89.3 (6.2)	98.7 (10.6)	102.6 (12.9)	93.9 (3.4)		91.9 (1.0)	89.5 (-2.9)	90.6 (-3.3)	87.2 (-15.0)		
Total floor	(4.8)	(9.9)	(13.8)	(0.5)		(-2.4)	(-6.2)	(-6.9)	(-19.4)		
Sales at Retailers	0.3	2.9									
Real Consumption Expenditures of Households over 2 persons (SA)	1.6	0.9	-0.2 (0.6)	4.6 (2.3)		-1.5 (-2.5)	10.8 (7.2)	-13.3 (-4.6)	-3.1 (-8.0)		
Propensity to Consume (SA,%)	74.8	75.5	74.6 [74.5]	78.8 [76.2]		75.9 [77.3]	85.1 [77.1]	74.2 [73.6]	70.3 [74.0]	[73.0]	
Overtime Hours Worked (All Industries, 5 employees or more)	-0.3	4.4	1.6 (6.0)	2.1 (7.1)		0.4 (5.8)	2.3 (8.4)	-0.4 (6.4)	-0.5 (4.9)		
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.7	0.1	(0.4)	(0.1)		(-0.1)	(0.7)	(0.7)	(0.6)		
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	107	45	49	54		54	55	62	65		
Ratio of Job Offers to Applicants (SA,Times)	0.82	0.97	1.01 [0.82]	1.05 [0.85]	[0.90]	1.05 [0.85]	1.07 [0.87]	1.08 [0.88]	1.09 [0.90]	[0.92]	
Unemployment Rate (SA,%)	4.3	5.0	3.9	3.6		3.6	3.6	3.6	3.5		
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.3	54.0	53.7 [41.6]	55.2 [53.3]	44.8 [55.1]	53.0 [53.2]	57.9 [57.3]	41.6 [56.5]	45.1 [55.7]	47.7 [53.0]	
Bankruptcies (Number of cases)	11,719 (-7.7)	10,536 (-10.0)	2,571 (-11.0)	2,460 (-11.4)	2,613 (-8.0)	782 (-14.6)	814 (-12.3)	914 (1.6)	834 (-20.1)	865 (-3.5)	

(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. 28, 2014

	Fiscal	Fiscal	2013	2014		2014				
	2012	2013	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(17.4)	(6.6)	(0.1)	(9.8)	(1.8)	(5.1)	(-2.7)	(-2.0)
Value	4.0	10.2	(12.5)	(6.0)	(1.1)	(4.2)	(4.4)	(3.0)	(0.7)	(-0.3)
Volumes	-5.8	0.6	(4.3)	(0.7)	(-1.0)	(5.4)	(-2.5)	(2.0)	(-3.4)	(-1.7)
Imports (In Yen terms)	3.4	17.4	(24.1)	(17.6)	(2.6)	(9.0)	(18.2)	(3.4)	(-3.5)	(8.4)
Value	2.5	14.6	(18.4)	(10.3)	(2.1)	(9.6)	(5.9)	(4.8)	(0.5)	(1.1)
Volumes	1.0	2.3	(4.8)	(6.5)	(0.5)	(-0.5)	(11.6)	(-1.3)	(-4.0)	(7.2)
Current Account (100 mil. yen)	42,233	8,312	-14,311	-8,187		6,077	1,597	1,874	5,228	
Goods (100 mil. yen)	-52,474	-109,709	-31,002	-41,190		-5,590	-11,554	-7,804	-6,759	
Services (100 mil. yen)	-41,864	-34,522	-11,319	-6,194		-1,723	-554	-6,597	-682	
Financial Account (100 mil. yen)	20,255	-23,521	-28,031	-13,285		-2,708	1,180	-16,342	9,056	
Gold & Foreign Exchange Reserves (\$1mil.)	1,254,356	1,279,346	1,266,815	1,279,346	1,283,921	1,288,206	1,279,346	1,282,822	1,283,920	1,283,921
Exchange Rate (¥/\$)	83.08	100.23	100.45	102.78	102.13	102.13	102.27	102.56	101.79	102.05

3. Financial Market Indicators

	Fiscal	Fiscal	2013	2014		2014					
	2012	2013	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	0.083	0.073	0.072 [0.084]	0.074 [0.083]	0.067 [0.073]	0.077 [0.087]	0.072 [0.078]	0.065 [0.072]	0.068 [0.073]	0.067 [0.074]	
Euro Yen TIBOR (3 Months)	0.312	0.223	0.220 [0.318]	0.215 [0.270]	0.211 [0.228]	0.212 [0.269]	0.212 [0.250]	0.212 [0.228]	0.210 [0.228]	0.210 [0.228]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.560	0.640	0.735 [0.795]	0.640 [0.560]	0.565 [0.855]	0.580 [0.665]	0.640 [0.560]	0.620 [0.600]	0.570 [0.860]	0.565 [0.855]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.184	1.077	1.102 (-0.023)	1.077 (-0.025)		1.093 (-0.003)	1.077 (-0.016)	1.078 (0.001)	1.077 (-0.001)		
The Nikkei Stock Average (TSE 225 Issues)	12,398	14,828	16,291 [10,395]	14,828 [12,398]	15,162 [13,677]	14,841 [11,559]	14,828 [12,398]	14,304 [13,861]	14,632 [13,775]	15,162 [13,677]	
M2(Average)	(2.5)	(3.9)	(4.2)	(4.0)	(3.2)	(4.0)	(3.6)	(3.5)	(3.3)	(3.0)	
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(4.3)	(3.9)	(3.0)	(3.9)	(3.5)	(3.3)	(2.9)	(2.8)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin		(0.9)	(2.0)	(2.2)	(2.2)	(2.2)	(2.1)	(2.0)	(2.2)	(2.3)
	Banks		(1.1)	(2.3)	(2.4)	(2.4)	(2.4)	(2.3)	(2.2)	(2.4)	(2.5)
	City Banks etc.		(-0.2)	(1.7)	(1.8)	(1.6)	(1.3)	(1.6)	(1.3)	(1.1)	(1.3)
	Regional Banks		(2.9)	(3.3)	(3.3)	(3.4)	(3.7)	(3.4)	(3.4)	(3.5)	(3.6)
	Regional Banks II		(0.8)	(1.4)	(2.0)	(2.4)	(2.5)	(2.4)	(2.4)	(2.5)	(2.5)
	Shinkin		(-0.7)	(0.3)	(0.5)	(0.9)	(1.2)	(0.9)	(0.9)	(1.1)	(1.2)
Deposits and CDs (Average)	Total(3 Business Condition)		(2.2)	(3.8)	(3.9)	(3.6)	(2.8)	(3.5)	(3.1)	(3.0)	(2.9)
	City Banks		(1.8)	(3.7)	(3.7)	(3.2)	(2.1)	(3.2)	(2.5)	(2.3)	(2.4)
	Regional Banks		(2.8)	(4.3)	(4.5)	(4.2)	(3.6)	(4.1)	(3.8)	(3.9)	(3.6)
	Regional Banks II		(1.8)	(2.5)	(3.2)	(3.1)	(3.0)	(2.9)	(3.0)	(3.0)	(3.1)

(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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