

## **Key Domestic Private Demand Indicators Private Consumption and Capital Expenditures Show Some Firmness**

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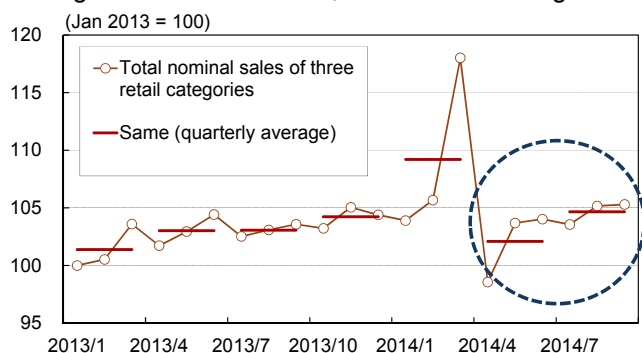
### 1. The Real Economy

The Cabinet Office's *Monthly Economic Report*, released October 21, stuck with the tone of the previous month — The report described '*private consumption appears to be pausing recently, while it remains in picking up*' and '*business investment shows some weak movements recently, while it is on the increase.*' —and retained its cautious assessment of Japan's economy. Private consumption and capital expenditures—key components of domestic private demand—are main points in projecting the post-consumption tax hike direction of the economy. Recent data appear to show some firmness, even amidst spending weakness. If a virtuous economic cycle can maintain traction on such firm domestic private demand, then Japan's economy, which has been slowing, is likely well be able to sustain a recovery.

Private consumption appeared to be largely solid in September based on department store, convenience store, and chain store sales data released October 20 and 21. Average Jul-Sep sales rose more than 2% QoQ (Figure 1). Although optimism about private consumption is still not warranted, with spending on services (like dining out) bearing watch, at least the impacts of the consumption tax hike and unseasonable weather appear to be easing on goods spending because of improving employment and income conditions.

Capital investments are firm. The Bank of Japan's September Tankan survey, released October 1, reported that even after enterprises of all sizes and across all industries revised their capital expenditures plans sharply in June from the March survey, they made further upward revisions in September (Figure 2). The combined revision rates in the June and September surveys was 8.9%pt, even more than the post-bubble high set in FY1996. Real capital expenditures (in GDP figures) in fiscal years with the same degree of upward revision have risen a strong +5% YoY. Carrying out current capital expenditures plans would be a strong boost for Japan's economy.

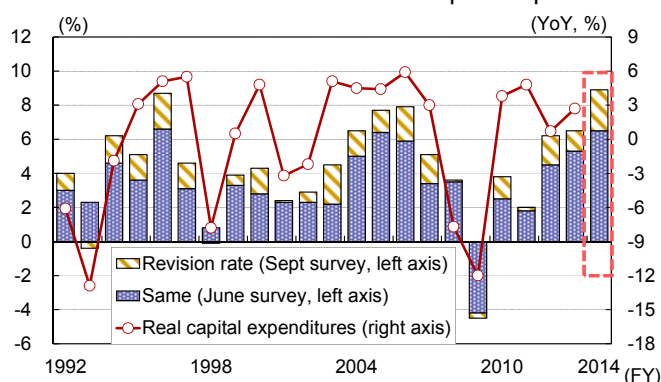
Figure 1: Nominal Sales, Three Retail Categories



Note: *Nominal sales, three retail categories* is total department store, convenience store, and chain store sales (excluding consumption tax). Adjusted for seasonality by BTMU.

Source: Compiled by BTMU Economic Research Office from Japan Department Stores Association, Japan Franchise Association, and Japan Chain Stores Association materials.

Figure 2: BoJ Tankan Fiscal Year Capital Expenditures Plan Revision Rate and GDP Real Capital Expenditures



Note: *Revision rate* is calculated as the percentage change of the figures between the current and the previous survey.

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

## 2. Monetary Policy and Financial Markets

### (1) MONETARY POLICY & LONG-TERM YIELDS

At its October 6-7 Monetary Policy Meeting, the Bank of Japan agreed to hold current monetary policy intact. At the press conference following the meeting, Governor Haruhiko Kuroda responded to a question about concerns regarding a further weakening in the JPY if the bank of Japan introduces additional monetary easing. Governor Kuroda explained that monetary policy does not address exchange rates, but rather is coordinated in accordance with the price stability target (Table 1). At the press conference following the G-20 Finance Ministers and Central Bank Governors Meeting on October 10, Governor Kuroda noted that a weak JPY tends to have varying impacts on different economic entities, and opined that the weak JPY has had a positive impact on the economy overall. Further, in a speech in New York on October 8, Governor Kuroda noted that he understands that overcoming deflation is an important prerequisite for raising growth potential and it is desirable to increase prices when the potential growth rate is low. The Governor Kuroda's statement shows that achieving the price stability target is still his highest priority, even amidst growing concerns about adverse effects of the weakening JPY, and he plans to strongly push through with monetary easing in order to achieve the target. Under the situation, the 10Yr JGB yield has fallen to the 0.4% level amidst overseas yields declining and risk-averse movements as geopolitical risks rise.

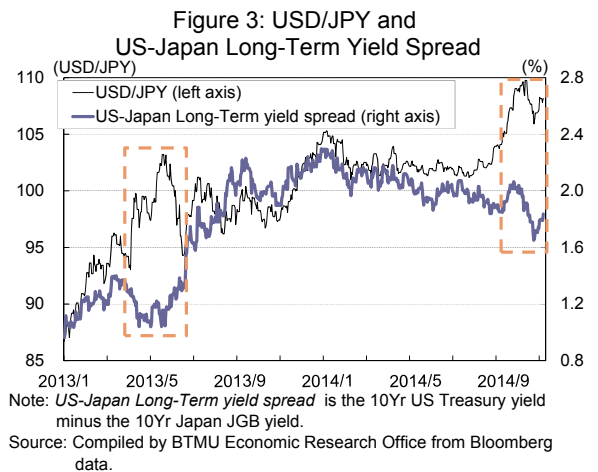
## (2) EXCHANGE RATES

USD/JPY hit the USD/JPY110 level temporarily on October 1, and then the JPY was sometimes bought back. The same pattern that the JPY started to strengthen once again occurred in May 2013 as well. At that time, the JPY weakened considerably on expectations for the BoJ's large-scale monetary easing introduced in April. But at that time the US-Japan long-term yield spread widened to just over 1%pt, and USD/JPY retreated from USD/JPY103 to USD/JPY95 (Figure 3). This time, strong market expectations that the FRB will raise interest rates on strong US economic indicators have propelled JPY selling and USD buying. The US-Japan long-term yield spread widened to the 2%pt range temporarily in September, approximately the same level as in August 2014 when USD/JPY traded at JPY102. More recently, the spread has once again started to narrow. The US-Japan long-term yield spread may not so strongly correlate with macro-economic conditions that have supported the sudden weakening in the JPY.

Table 1: BoJ Governor Kuroda's Recent Comments

Date	Venue	Comments
Oct 7	Press conference following Monetary Policy meeting	◆ <u>Monetary policy does not address exchange rates, but rather is coordinated upward or downward in accordance with the price stability target</u> as necessary.
Oct 8	Speech at the Economic Club of New York	◆ <u>Overcoming deflation and raising growth potential is not an issue of which comes first. Overcoming deflation is an important prerequisite for raising growth potential.</u>
Oct 10	Joint press conference following G-20 Finance Ministers and Central Bank Governors Meeting	◆ <u>As long as a weak JPY reflected fundamentals of economy and finance, I think it has had a positive impact on the economy overall.</u>

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



## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Nov. 13, 2014

	Fiscal 2012	Fiscal 2013	2014			2014				
			1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.7	2.3	6.0 (3.0)	-7.1 (-0.1)		***	***	***	***	***
Index of All Industries Activity	0.1	1.9	1.6 (3.2)	-3.4 (-0.9)		-0.3 (-0.5)	-0.4 (-1.7)	-0.1 (-2.5)		
Industrial Production Index	-2.9	3.2	2.9 (8.2)	-3.8 (2.7)	-1.9 (-1.1)	-3.4 (3.1)	0.4 (-0.7)	-1.9 (-3.3)	2.7 (0.6)	
Production										
Shipments	-1.8	2.9	4.6 (7.4)	-6.8 (1.3)	-0.8 (-0.6)	-1.9 (2.2)	0.7 (-0.1)	-2.1 (-3.7)	4.3 (1.7)	
Inventory	-3.0	-1.4	0.2 (-1.4)	4.6 (2.8)	1.0 (3.9)	2.0 (2.8)	0.9 (2.9)	0.9 (4.6)	-0.8 (3.9)	
Inventory/Shipments Ratio (2010=100)	114.4	106.2	102.6 [113.4]	107.7 [108.3]	113.1 [109.4]	111.5 [110.3]	109.1 [109.2]	118.5 [110.7]	111.7 [108.2]	[105.5]
Domestic Corporate Goods Price Index	-1.1	1.9	0.3 (2.0)	3.0 (4.3)	0.5 (4.0)	0.2 (4.5)	0.4 (4.4)	-0.2 (3.9)	0.0 (3.6)	-0.8 (2.9)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	-0.1 (1.3)	2.7 (3.3)	0.2 (3.2)	0.2 (3.3)	0.2 (3.3)	-0.2 (3.1)	-0.1 (3.0)	
Index of Capacity Utilization (2010=100)	95.4	100.0	106.0 [95.1]	101.4 [96.3]		98.9 [96.0]	98.1 [97.8]	96.4 [96.7]		[99.4]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-3.0	11.5	4.2 (16.4)	-10.4 (-0.4)	5.6 (2.4)	8.8 (-3.0)	3.5 (1.1)	4.7 (-3.3)	2.9 (7.3)	
Manufacturing	-10.1	10.2	3.9 (22.1)	-8.5 (4.1)	12.6 (-1.2)	6.7 (-1.3)	20.3 (13.4)	-10.8 (2.5)	12.0 (13.4)	
Non-manufacturing Excl.Electric Power & Ship building	2.8	12.1	-1.0 (11.8)	-6.7 (-3.1)	-1.2 (-2.7)	4.0 (-4.1)	-4.3 (-7.4)	10.7 (-7.0)	1.7 (3.5)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.0	5.6	10.8 (16.8)	-8.0 (8.1)	0.0 (7.1)	-0.1 (10.0)	5.2 (11.1)	-7.7 (2.0)	2.4 (7.7)	
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 Total floor	89.3 (6.2) (4.8)	98.7 (10.6) (9.9)	93.9 (3.4) (0.5)	88.8 (-9.3) (-13.4)	86.2 (-13.6) (-17.9)	88.3 (-9.5) (-13.6)	83.9 (-14.1) (-18.2)	84.5 (-12.5) (-16.9)	88.0 (-14.3) (-18.6)	
Sales at Retailers	0.3	2.9								
Real Consumption Expenditures of Households over 2 persons (SA)	1.6	0.9	4.6 (2.3)	-9.0 (-5.2)		1.5 (-3.0)	-0.2 (-5.9)	-0.3 (-4.7)	1.5 (-5.6)	
Propensity to Consume (SA,%)	74.8	75.5	78.8 [76.2]	73.8 [74.0]		74.8 [73.0]	75.3 [73.4]	73.0 [74.3]	75.5 [75.6]	[75.3]
Overtime Hours Worked (All Industries, 5 employees or more)	-0.3	4.4	2.1 (7.1)	0.6 (5.1)	-2.0 (2.2)	-1.2 (3.9)	-0.6 (2.9)	-1.4 (1.0)	1.5 (2.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.7	0.1								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	107	45	54	65	76	69	77	77	74	
Ratio of Job Offers to Applicants (SA,Times)	0.82	0.97	1.05 [0.85]	1.09 [0.90]	1.10 [0.95]	1.10 [0.92]	1.10 [0.94]	1.10 [0.95]	1.09 [0.96]	[0.98]
Unemployment Rate (SA,%)	4.3	3.9	3.6	3.6	3.6	3.7	3.8	3.5	3.6	
Economy Watcher Survey (Judgment of the present condition D.I,%)	46.3	54.0	55.2 [53.3]	44.8 [55.1]	48.7 [52.1]	47.7 [53.0]	51.3 [52.3]	47.4 [51.2]	47.4 [52.8]	44.0 [51.8]
Bankruptcies (Number of cases)	11,719 (-7.7)	10,536 (-10.0)	2,460 (-11.4)	2,613 (-8.0)	2,436 (-8.5)	865 (-3.5)	882 (-13.9)	727 (-11.2)	827 (0.8)	800 (-16.5)

(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 Nov. 13, 2014

	Fiscal	Fiscal	2014			2014				
	2012	2013	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(6.6)	(0.1)	(3.2)	(-1.9)	(3.9)	(-1.3)	(6.9)	
Value	4.0	10.2	(6.0)	(1.1)	(2.8)	(-0.3)	(2.9)	(1.6)	(4.0)	
Volumes	-5.8	0.6	(0.7)	(-1.0)	(0.3)	(-1.6)	(1.0)	(-2.9)	(2.8)	
Imports (In Yen terms)	3.4	17.4	(17.6)	(2.7)	(2.4)	(8.5)	(2.4)	(-1.4)	(6.2)	
Value	2.5	14.6	(10.3)	(2.1)	(3.1)	(1.2)	(2.7)	(3.3)	(3.2)	
Volumes	1.0	2.3	(6.5)	(0.5)	(-0.6)	(7.2)	(-0.3)	(-4.5)	(2.9)	
Current Account (100 mil. yen)	42,233	8,312	-8,187	3,571	16,668	-3,679	4,167	2,871	9,630	
Goods (100 mil. yen)	-52,474	-109,709	-41,190	-20,230	-23,744	-5,453	-8,281	-8,318	-7,145	
Services (100 mil. yen)	-41,864	-34,522	-6,194	-8,970	-9,182	-2,186	-4,590	-2,508	-2,083	
Financial Account (100 mil. yen)	20,255	-23,521	-13,285	18,909	26,427	9,646	4,463	6,790	15,174	
Gold & Foreign Exchange Reserves (\$1mil.)	1,254,356	1,279,346	1,279,346	1,283,921	1,264,405	1,283,921	1,276,027	1,278,011	1,264,405	1,265,925
Exchange Rate (¥/\$)	83.08	100.23	102.78	102.13	103.92	102.05	101.72	102.96	107.09	108.06

## 3. Financial Market Indicators

	Fiscal	Fiscal	2014			2014					
	2012	2013	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT	
Uncollateralized Overnight Call Rates	0.083	0.073	0.074 [0.083]	0.067 [0.073]	0.067 [0.073]	0.067 [0.074]	0.066 [0.073]	0.069 [0.073]	0.066 [0.072]	0.059 [0.070]	
Euro Yen TIBOR (3 Months)	0.312	0.223	0.215 [0.270]	0.211 [0.228]	0.210 [0.228]	0.210 [0.228]	0.210 [0.228]	0.210 [0.228]	0.210 [0.228]	0.192 [0.221]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.560	0.640	0.640 [0.560]	0.565 [0.855]	0.525 [0.680]	0.565 [0.855]	0.530 [0.795]	0.490 [0.720]	0.525 [0.680]	0.450 [0.590]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.184	1.077	1.077 (-0.025)	1.067 (-0.010)		1.067 (-0.010)	1.066 (-0.001)	1.061 (-0.005)			
The Nikkei Stock Average (TSE 225 Issues)	12,398	14,828	14,828 [12,398]	15,162 [13,677]	16,174 [14,456]	15,162 [13,677]	15,621 [13,668]	15,425 [13,389]	16,174 [14,456]	16,414 [14,328]	
M2(Average)	(2.5)	(3.9)	(4.0)	(3.3)	(3.0)	(3.0)	(3.0)	(3.0)	(3.1)	(3.2)	
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(3.9)	(3.1)	(3.1)	(2.9)	(3.0)	(3.0)	(3.2)	(3.2)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(0.9)	(2.0)	(2.2)	(2.2)	(2.2)	(2.3)	(2.2)	(2.2)	(2.3)	(2.4)
	Banks	(1.1)	(2.3)	(2.4)	(2.3)	(2.3)	(2.5)	(2.3)	(2.3)	(2.4)	(2.5)
	City Banks etc.	(-0.2)	(1.7)	(1.6)	(1.3)	(1.1)	(1.4)	(1.0)	(1.0)	(1.2)	(1.3)
	Regional Banks	(2.9)	(3.3)	(3.4)	(3.6)	(3.7)	(3.8)	(3.7)	(3.7)	(3.7)	(3.8)
	Regional Banks II	(0.8)	(1.4)	(2.4)	(2.5)	(2.9)	(2.6)	(2.8)	(2.9)	(3.0)	(3.0)
	Shinkin	(-0.7)	(0.3)	(0.9)	(1.2)	(1.4)	(1.3)	(1.4)	(1.4)	(1.4)	(1.6)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.2)	(3.8)	(3.6)	(2.8)	(2.8)	(2.6)	(2.6)	(2.8)	(2.9)	(3.3)
	City Banks	(1.8)	(3.7)	(3.2)	(2.1)	(2.4)	(1.7)	(2.0)	(2.4)	(2.7)	(3.4)
	Regional Banks	(2.8)	(4.3)	(4.2)	(3.6)	(3.2)	(3.4)	(3.2)	(3.2)	(3.2)	(3.2)
	Regional Banks II	(1.8)	(2.5)	(3.1)	(3.0)	(3.1)	(3.1)	(3.3)	(3.2)	(3.0)	(3.3)

(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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