

## ***Encouraging Wider Labor Market Participation Increasingly Important to Better Employment Picture***

REI TSURUTA  
TOORU KANAHORI  
ECONOMIC RESEARCH OFFICE

28 APRIL 2015  
(ORIGINAL JAPANESE VERSION RELEASED ON 30 MARCH 2015)

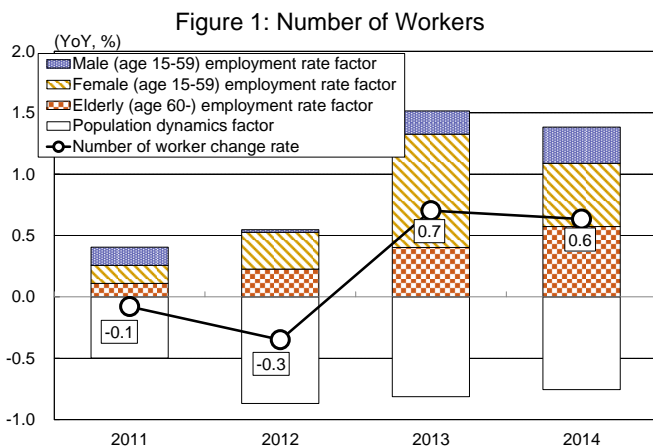
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## 1. The Real Economy

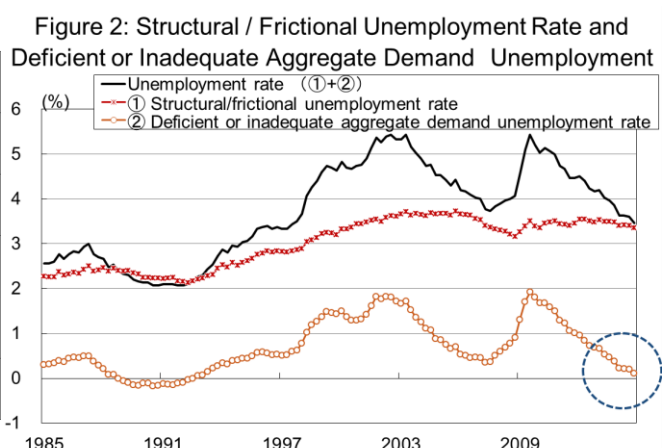
The improvement in Japan's employment environment has been one of the most striking results of Abenomics. Number of workers has increased over the two years since the launch of Abenomics, by +0.7% YoY in 2013 and +0.6% YoY in 2014 (Figure 1). Higher employment rates among female and elderly workers, one of the goals of the Japan Revitalization Strategy, have outpaced the downward pressure on number of workers from population dynamics (the declining birthrate and ageing population trends) that cuts number of workers by -0.8%pt annually. As a result, number of workers has started to rise. The improvement appears to be a result of the combination of the Bank of Japan's massive monetary easing and expansionary fiscal policy lifting the economy and improving labor supply and demand.

That said, it should be noted that number of workers may not continue to rise gradually. The unemployment rate is comprised of the deficient or inadequate aggregate demand unemployment rate, the degree of unemployment that occurs from weak economic conditions, and the structural/frictional unemployment rate, the degree of unemployment that occurs from a mismatch in conditions sought by the hiring and job seeking sides. The deficient or inadequate aggregate demand unemployment rate has fallen to nearly zero (Figure 2), and stimulating the economy is unlikely to expanding employment any further. The structural/frictional unemployment rate must be lowered in order to increase employment further; that is, employment mismatches must be reduced.

Expanding employment encourages increased personal consumption on the demand side, while at the same time boosting Japan's growth potential on the supply side. Conversely, if employment does not expand, Japan's economy will lose momentum as the childbirth rate falls and the population ages. The Government side must implement systematic reforms to encourage more female and elderly workers to enter the labor market. At the same time, the corporate side must also more actively utilize different types of personnel, review wage structures, ensure proper working conditions, and train human resources.



Notes: Population dynamics factor calculated by number of workers determined by multiplying population age 15 and above for each year 2011-2014 by 2010-2013 employment rate, for each division and age group.  
Source: Compiled by BTMU Economic Research Office from MIC data.



Note: 1) Structural / frictional unemployment rate is BTMU estimate.  
2) Deficient or inadequate aggregate demand unemployment rate is Unemployment rate minus Structural / frictional unemployment rate.  
Source: Compiled by BTMU Economic Research Office from MHLW, MIC data.

## 2. Monetary Policy and Financial Markets

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

The Bank of Japan agreed to maintain current monetary policy operations at the Monetary Policy Board meeting March 16-17. At the post-meeting press conference, Governor Haruhiko Kuroda noted that even if falling oil prices result in negative inflation, this would not immediately affect the underlying trend in inflation. He feels that the inflation trend is determined by the supply-demand gap and the medium- to long-term expected inflation rate and is steadily improving. Amidst these developments, a Bloomberg survey has revealed that now approximates one-third of respondents do not expect any further additional monetary easing by the BoJ. Expectations for further easing appear to be diminishing (Figure 3).

The 10Yr JGB yield dipped to an historical low in the 0.1% range in mid-January, then started to rise as volatility suddenly picked up. The 10Yr JGB yield stood at the 0.4% level in mid-March. Many JGB buyers appeared to stand on the sidelines as long-term yields remained at exceptionally low levels, setting new records. Since then, Japan's 10Yr yield has declined to the mid-0.3% level as Treasuries yields have fallen following diminishing speculation of a near-term FRB rate hike.

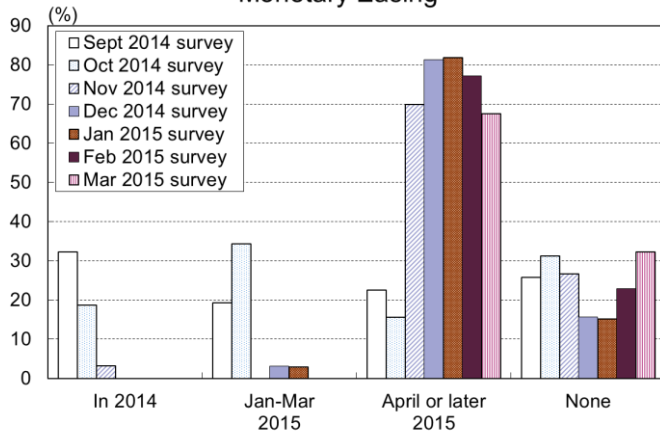
### (2) EXCHANGE RATES

The JPY slumped to the upper USD/JPY121 level in early December before rebounding, pushing the currency to the USD/JPY116 level in mid-January. The JPY has been somewhat unstable. However, since mid-January the JPY has gradually weakened again to roughly the USD/JPY120 level. The JPY has been on a weakening trend because the narrowing US-Japan long-term yield spread finally showed signs of starting to widen in late January (Figure 4). In part, the expectation made the JPY weakened after BoJ's additional monetary easing, in spite of the narrowing of the US-Japan long-term yield spread. We considered the passing rise in the exchange rate of JPY as the adjustment.

Going forward, any rise by Japan's 10Yr yield is likely to be limited as the BoJ continues its massive monetary easing, as the US long-term yield continues to rise on expectations of

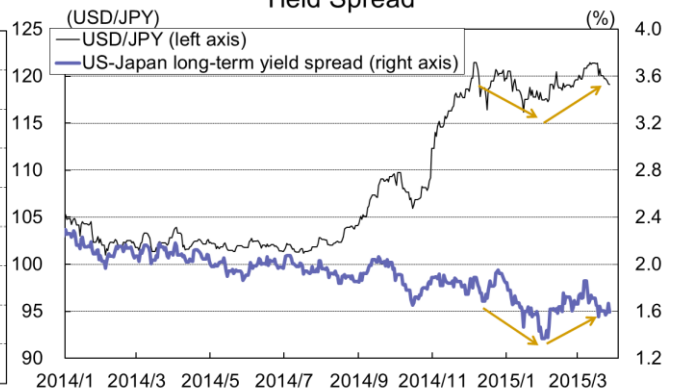
medium- to long-term inflation and stable growth. This will likely support a steady weakening by the JPY.

Figure 3: Market Forecasts of BoJ's Additional Monetary Easing



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

Figure 4: USD/JPY and the US-Japan Long-Term Yield Spread



Note: US-Japan Long-Term Yield Spread derived by subtracting 10Yr JGB yield from 10Yr US Treasury yield.

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

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Apr. 28, 2015

	Fiscal 2012	Fiscal 2013	2014			2014		2015		
			2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.0	2.1	-6.4 (-0.3)	-2.6 (-1.4)	1.5 (-0.8)	***	***	***	***	***
Index of All Industries Activity	0.1	1.9	-3.6 (-1.0)	0.4 (-1.7)	1.0 (-1.3)	0.2 (-2.3)	0.2 (-0.9)	0.5 (-1.7)	0.1 (-1.2)	
Industrial Production Index	-2.9	3.2	-3.0 (2.7)	-1.4 (-0.8)	0.8 (-1.5)	-0.6 (-3.7)	0.2 (-0.1)	4.1 (-2.6)	-3.1 (-2.0)	
Production										
Shipments	-1.8	2.9	-4.5 (0.9)	-0.5 (-0.8)	0.9 (-1.9)	-0.7 (-4.8)	-0.2 (-0.1)	5.5 (-2.1)	-4.4 (-2.9)	
Inventory	-3.0	-1.2	3.1 (3.1)	1.1 (4.1)	0.9 (6.2)	1.1 (6.6)	-0.1 (6.2)	-0.4 (5.6)	1.1 (7.0)	
Inventory/Shipments Ratio (2010=100)	114.4	106.3	108.7 [108.3]	113.2 [109.4]	113.8 [104.6]	116.1 [104.3]	112.7 [104.1]	109.0 [99.9]	113.4 [104.2]	[105.3]
Domestic Corporate Goods Price Index	-1.1	1.9	3.0 (4.3)	0.5 (4.0)	-1.3 (2.4)	-0.3 (2.6)	-0.5 (1.8)	-1.3 (0.3)	-0.1 (0.4)	0.3 (0.7)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	2.7 (3.3)	0.2 (3.2)	-0.1 (2.7)	0.0 (2.7)	0.0 (2.5)	-0.3 (2.2)	-0.1 (2.0)	
Index of Capacity Utilization (2010=100)	95.4	100.0	101.2 [96.3]	99.1 [97.8]	100.7 [100.2]	100.2 [99.9]	101.2 [101.4]	104.3 [106.3]	101.0 [103.8]	[104.1]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-3.0	11.5	-10.4 (-0.4)	5.6 (2.4)	0.4 (-2.6)	1.3 (-14.6)	8.3 (11.4)	-1.7 (1.9)	-0.4 (5.9)	
Manufacturing	-10.1	10.2	-8.5 (4.1)	12.6 (10.2)	0.8 (8.6)	-7.0 (-4.8)	24.1 (27.1)	-11.3 (7.3)	0.9 (13.8)	
Non-manufacturing Excl.Electric Power & Ship building	2.8	12.1	-6.7 (-3.1)	-1.2 (-2.7)	-0.7 (-9.6)	0.5 (-21.2)	7.2 (2.0)	3.7 (-1.9)	-3.6 (0.5)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.0	5.5	-5.8 (8.0)	1.0 (7.2)	2.7 (5.0)	-0.9 (1.8)	-0.4 (6.7)	10.7 (3.0)	-12.0 (-3.2)	
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)	89.1 (-9.3) (-13.4)	86.8 (-13.6) (-17.9)	86.8 (-13.8) (-19.3)	87.3 (-14.3) (-20.7)	88.3 (-14.7) (-19.5)	86.4 (-13.0) (-17.3)	90.5 (-3.1) (-6.3)	
Sales at Retailers	0.3	2.9								
Real Consumption Expenditures of Households over 2 persons (SA)	1.6	0.9	-8.1 (-5.2)	0.0 (-5.4)	1.4 (-3.4)	0.4 (-2.5)	0.2 (-3.4)	-0.3 (-5.1)	0.8 (-2.9)	
Propensity to Consume (SA,%)	74.8	75.5	74.0 [74.2]	74.7 [74.9]	74.0 [74.6]	75.5 [74.6]	73.8 [75.2]	74.6 [75.3]	72.9 [75.3]	[84.4]
Overtime Hours Worked (All Industries, 5 employees or more)	-0.1	4.8	0.2 (5.4)	-1.1 (2.6)	0.1 (0.9)	-0.6 (0.4)	-0.3 (0.3)	1.9 (1.3)	-1.9 (-0.7)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-1.0	-0.2								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	107	45	65	76	76	74	80	90	95	
Ratio of Job Offers to Applicants (SA,Times)	0.82	0.97	1.09 [0.90]	1.10 [0.95]	1.12 [1.01]	1.12 [1.01]	1.14 [1.03]	1.14 [1.04]	1.15 [1.05]	[1.07]
Unemployment Rate (SA,%)	4.3	3.9	3.6	3.6	3.5	3.5	3.4	3.6	3.5	
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.3	54.0	44.8 [55.1]	48.7 [52.1]	43.6 [53.7]	41.5 [53.5]	45.2 [55.7]	45.6 [54.7]	50.1 [53.0]	52.2 [57.9]
Bankruptcies (Number of cases)	11,719 (-7.7)	10,536 (-10.0)	2,613 (-8.0)	2,436 (-8.5)	2,222 (-13.5)	736 (-14.6)	686 (-8.5)	721 (-16.5)	692 (-11.5)	859 (5.5)

(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 Apr. 28, 2015

	Fiscal	Fiscal	2014			2014		2015		
	2012	2013	2Q	3Q	4Q	NOV	DEC	JAN	FRB	MAR
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(0.1)	(3.2)	(9.1)	(4.9)	(12.8)	(17.0)	(2.5)	(8.5)
Value	4.0	10.2	(1.1)	(2.9)	(6.6)	(6.7)	(8.6)	(5.3)	(4.7)	(5.1)
Volumes	-5.8	0.6	(-1.0)	(0.3)	(2.4)	(-1.7)	(3.9)	(11.1)	(-2.1)	(3.3)
Imports (In Yen terms)	3.4	17.4	(2.8)	(2.4)	(1.2)	(-1.6)	(1.9)	(-9.1)	(-3.6)	(-14.5)
Value	2.5	14.6	(2.2)	(3.1)	(4.9)	(5.8)	(3.8)	(-3.0)	(-7.7)	(-4.6)
Volumes	1.0	2.3	(0.4)	(-0.7)	(-3.5)	(-6.9)	(-1.8)	(-6.3)	(4.5)	(-10.3)
Current Account (100 mil. yen)	42,233	8,312	3,698	16,310	15,124	4,402	2,259	614	14,401	
Goods (100 mil. yen)	-52,474	-109,709	-20,346	-24,221	-17,782	-6,312	-3,821	-8,642	-1,431	
Services (100 mil. yen)	-41,864	-34,522	-8,804	-9,221	-6,656	-978	-3,583	-4,013	-1,087	
Financial Account (100 mil. yen)	14,716	-17,550	18,652	28,075	22,468	5,129	6,270	-3,584	23,402	
Gold & Foreign Exchange Reserves (\$1mil.)	1,254,356	1,279,346	1,283,921	1,264,405	1,260,548	1,269,079	1,260,548	1,261,103	1,251,112	1,245,316
Exchange Rate (¥/\$)	83.08	100.23	102.13	103.92	114.56	116.22	119.40	118.24	118.57	120.39

## 3. Financial Market Indicators

	Fiscal	Fiscal	2014			2014		2015		
	2012	2013	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Uncollateralized Overnight Call Rates	0.083	0.073	0.067 [0.073]	0.067 [0.073]	0.064 [0.072]	0.065 [0.073]	0.068 [0.074]	0.074 [0.073]	0.076 [0.077]	0.070 [0.072]
Euro Yen TIBOR (3 Months)	0.312	0.223	0.211 [0.228]	0.210 [0.228]	0.184 [0.220]	0.182 [0.220]	0.179 [0.220]	0.173 [0.220]	0.171 [0.212]	0.170 [0.212]
Newly Issued Japanese Government Bonds Yields (10 Years)	0.560	0.640	0.565 [0.855]	0.525 [0.680]	0.330 [0.735]	0.420 [0.600]	0.330 [0.735]	0.275 [0.620]	0.330 [0.580]	0.400 [0.640]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.184	1.077	1.067 (-0.010)	1.048 (-0.019)	1.025 (-0.023)	1.037 (-0.004)	1.025 (-0.012)	1.024 (-0.001)	1.021 (-0.003)	
The Nikkei Stock Average (TSE 225 Issues)	12,398	14,828	15,162 [13,677]	16,174 [14,456]	17,451 [16,291]	17,460 [15,662]	17,451 [16,291]	17,674 [14,915]	18,798 [14,841]	19,207 [14,828]
M2(Average)	(2.5)	(3.9)	(3.2)	(3.0)	(3.5)	(3.6)	(3.6)	(3.4)	(3.5)	(3.6)
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(3.1)	(3.1)	(3.4)	(3.4)	(3.5)	(3.3)	(3.4)	(3.3)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	(0.9)	(2.0)	(2.2)	(2.2)	(2.5)	(2.7)	(2.6)	(2.5)	(2.6)
	Banks	(1.1)	(2.3)	(2.3)	(2.3)	(2.7)	(2.8)	(2.8)	(2.6)	(2.7)
	City Banks etc.	(-0.2)	(1.7)	(1.3)	(1.1)	(1.7)	(2.0)	(1.7)	(1.4)	(1.5)
	Regional Banks	(2.9)	(3.3)	(3.6)	(3.7)	(3.8)	(3.8)	(3.9)	(3.9)	(4.1)
	Regional Banks II	(0.8)	(1.4)	(2.5)	(2.9)	(3.1)	(3.2)	(3.2)	(3.2)	(3.0)
Deposits and CDs (Average)	Shinkin	(-0.7)	(0.3)	(1.2)	(1.4)	(1.5)	(1.5)	(1.5)	(1.5)	(1.7)
	Total(3 Business Condition)	(2.2)	(3.8)	(2.8)	(2.8)	(3.8)	(4.0)	(4.2)	(3.8)	(3.9)
	City Banks	(1.8)	(3.7)	(2.1)	(2.4)	(4.4)	(4.8)	(5.1)	(4.7)	(4.7)
	Regional Banks	(2.8)	(4.3)	(3.6)	(3.2)	(3.2)	(3.2)	(3.3)	(2.9)	(3.1)
	Regional Banks II	(1.8)	(2.5)	(3.0)	(3.1)	(3.3)	(3.3)	(3.2)	(3.1)	(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.

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager Ishimaru Tel: 03-3240-3204

Written by Rei Tsuruta <rei\_tsuruta@mufg.jp>

Tooru Kanahori <tooru\_kanahori@mufg.jp>

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