

Improvement of National Income and Reduction of Fiscal Deficit Go Steadily

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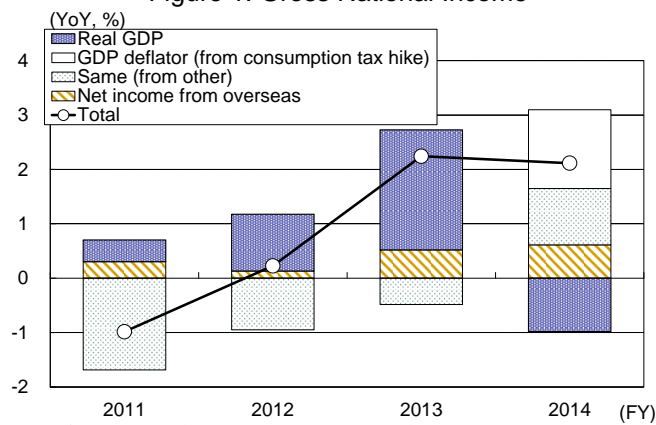
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1. The Real Economy

Confirming Japan's economic trend from an aspect of income, incomes have continued to steadily rise, even with the consumption tax hike hitting the economy hard. The tax hike greatly limited domestic production and weighed on gross national income in FY2014 (Figure 1). But overall, GNI has continued to rise, expanding by 2% YoY in FY2014, as income from overseas increases due to weaker JPY trend and domestic prices (shown by the GDP deflator) have started to rise. The GDP deflator's rise reflects the impact from the consumption tax hike (estimated to be around 1.5%), but was positive for the first time in 17 years even discounting the tax hike effect. The GDP deflator is the value of each unit of domestic added value, and is an indicator of the 'ease of earning' for the country overall. Incomes are rising more readily as Japan's economy emerges from deflation.

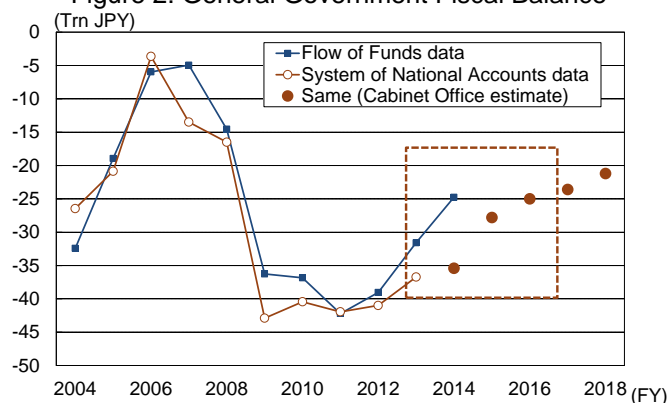
Rising incomes across the overall Japanese economy have contributed significantly to an improved government fiscal balance. Flow of funds data show that the general government (national, local, and social security funds) fiscal deficit stood at JPY25 trillion in FY2014, shrinking by JPY7 trillion from FY2013 (Figure 2). In addition to added revenue following the consumption tax hike, higher private sector incomes have contributed to an improved balance via increased income and corporate tax revenues. The Government announced that the general government deficit is expected to stand at approximately JPY28 trillion in FY2015 and JPY25 trillion in FY2016, according to *Economic and Fiscal Projections for Medium to Long Term Analysis* released in February. The FY2014 deficit improved to the same level as FY2016. Fiscal balance data is expressed in two ways—in terms of Flow of Funds data and in System of National Accounts data basing Government estimates—and as such estimates can differ somewhat. But even so, the fiscal balance is clearly improving faster than the Government had estimated as the nation's incomes rise.

Figure 1: Gross National Income



Note: GDP deflator (from consumption tax hike) based on assumption that FY2014 GDP deflator rose 1.5% due to consumption tax hike.
 Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 2: General Government Fiscal Balance (Trn JPY)



Note: Cabinet Office estimate is estimated fiscal balance in Economic Revitalization Case (Economic and Fiscal Projections for Medium to Long Term Analysis, released in February).
 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 June 18-19 Monetary Policy Meeting, the Bank of Japan agreed to keep current monetary policy intact. In the meeting, BoJ also reviewed its operations schedule and approach from January 2016, deciding to cut the number of meetings from 14 a year to eight. The BoJ will also increase the number of issuing *Outlook for Economic Activity and Prices* from two per year to four. Furthermore, the *Summary of Opinions* voiced at each meeting will be reported by about one week after the meeting. Although there will be fewer meetings from next year, meeting discussions and dissemination of information after the meetings are expected to be more thorough.

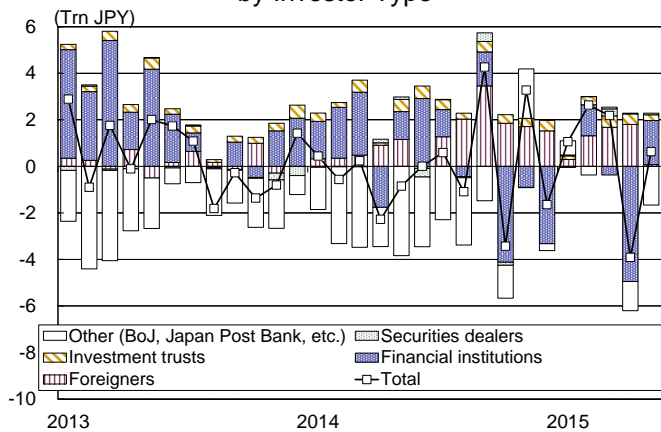
Although the 10Yr JGB yield has been somewhat volatile recently as it hit the 0.5% level in early June temporarily, it has risen from a bottom of around 0.3% marked in late April. One of the reasons for the rise of yield has been fewer JGB purchases by foreigners. Net buying of medium- to long-term JGBs data by investor type shows that although net-buying by foreigners had surged since mid-2014, buying plunged dramatically in May (Figure 3). Foreigners had been shifting money into JGBs as European yields fell, but these moves slowed as European yields started to rise from late April.

(2) EXCHANGE RATES

The JPY continued to weaken against the USD as USD/JPY touched 125.80 in early June for the first time since June 2002. The JPY recovered somewhat thereafter and is now trading at around USD/JPY123.

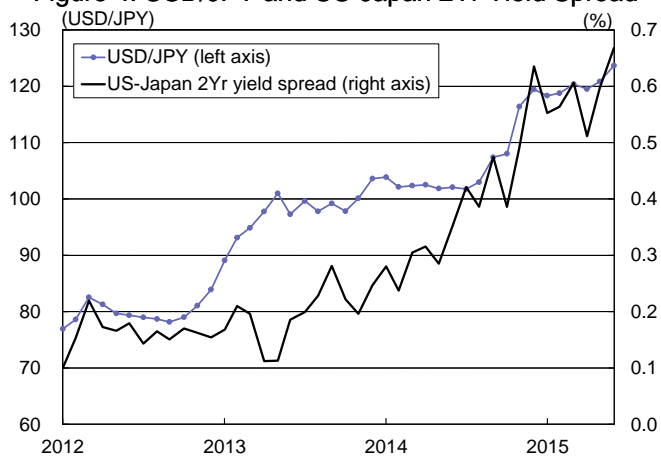
A comparison of USD/JPY and the US-Japan 2Yr yield spread shows that the JPY weakened considerably ahead of a widening in the US-Japan yield spread from 2013 through mid-2014. But since mid-2014, the JPY has weakened largely in step with the widening the US-Japan yield spread, as the spread expands in anticipation of an upcoming FRB rate hike (Figure 4). USD/JPY appears to be stabilizing at a level that reflects the different degrees of monetary easing in the US and Japan.

Figure 3: Net Buying of Medium- to Long-Term JGBs, by Investor Type



Source: Compiled by BTMU Economic Research Office from Japan Securities Dealers Association data.

Figure 4: USD/JPY and US-Japan 2Yr Yield Spread



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

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Aug. 6, 2015

	Fiscal 2013	Fiscal 2014	2014		2015		2015				
			4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Real GDP Growth Rate <% changes from previous period at SA annual rate>	2.1	-0.9	1.2 (-1.0)	3.9 (-0.9)		***	***	***	***	***	
Index of All Industries Activity	1.9	-1.4	1.0 (-1.3)	0.3 (-1.8)		0.2 (-1.2)	-1.3 (-2.4)	0.1 (1.4)	-0.5 (-0.4)		
Industrial Production Index	3.2	-0.4	0.8 (-1.5)	1.5 (-2.1)	-1.5 (-0.6)	-3.1 (-2.0)	-0.8 (-1.7)	1.2 (0.1)	-2.1 (-3.9)	0.8 (2.0)	
Production											
Shipments	2.9	-1.1	0.9 (-1.9)	1.7 (-2.4)	-2.5 (-0.4)	-4.4 (-2.9)	-0.6 (-2.3)	0.6 (0.2)	-1.9 (-3.2)	0.3 (1.5)	
Inventory	-1.2	6.2	0.9 (6.2)	1.0 (6.2)	0.9 (3.9)	1.1 (7.0)	0.4 (6.2)	0.4 (6.6)	-0.8 (3.9)	1.3 (3.9)	
Inventory/Shipments Ratio (2010=100)	106.3	112.0	113.8 [104.6]	112.3 [103.1]	114.0 [108.7]	113.4 [104.2]	114.4 [105.3]	113.2 [105.6]	115.4 [108.5]	113.5 [112.0]	
Domestic Corporate Goods Price Index	1.9	2.8	-1.3 (2.4)	-1.7 (0.4)	0.4 (-2.2)	-0.1 (0.4)	0.3 (0.7)	0.1 (-2.1)	0.2 (-2.2)	-0.2 (-2.4)	
Consumer Price Index(SA, total, excl.fresh foods)	0.8	2.8	-0.1 (2.7)	-0.7 (2.1)	0.6 (0.1)	-0.1 (2.0)	0.2 (2.2)	0.1 (0.3)	0.0 (0.1)	0.1 (0.1)	
Index of Capacity Utilization (2010=100)	100.0	100.6	100.7 [100.2]	101.7 [104.7]		101.0 [103.8]	99.8 [104.1]	99.4 [102.2]	96.4 [101.9]		
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	11.5	0.8	0.7 (-2.6)	6.3 (3.3)		-1.4 (5.9)	2.9 (2.6)	3.8 (3.0)	0.6 (19.3)		
Manufacturing	10.2	7.0	2.4 (8.6)	2.3 (5.2)		-0.6 (13.8)	0.3 (-0.1)	10.5 (16.3)	9.9 (44.6)		
Non-manufacturing Excl.Electric Power & Ship building	12.1	-3.3	-1.1 (-9.6)	8.5 (1.4)		-5.0 (0.5)	4.7 (3.6)	-0.6 (-5.5)	-4.0 (2.5)		
Shipments of Capital Goods (Excl.Transport Equipment)	5.5	4.3	2.7 (5.0)	1.2 (-1.1)	-2.2 (2.4)	-12.0 (-3.2)	0.0 (-2.3)	2.6 (3.0)	-1.4 (-0.4)	1.7 (4.3)	
Construction Orders	20.1	8.2									
Private	14.2	4.8									
Public	31.2	22.9									
Public Works Contracts	17.7	-0.3									
Housing Starts 10,000 units at Annual Rate, SA	98.7 (10.6)	88.0 (-10.8)	86.8 (-13.8)	89.8 (-5.4)	95.8 (7.6)	90.5 (-3.1)	92.0 (0.7)	91.3 (0.4)	91.1 (5.8)	103.3 (16.3)	
Total floor	(9.9)	(-15.2)	(-19.3)	(-9.0)	(4.2)	(-6.3)	(-2.1)	(-2.4)	(3.5)	(11.5)	
Sales at Retailers	2.9	-1.2									
Real Consumption Expenditures of Households over 2 persons (SA)	0.9	-5.1	1.7 (-3.4)	1.4 (-6.5)		0.8 (-2.9)	2.4 (-10.6)	-5.5 (-1.3)	2.4 (4.8)	-3.0 (-2.0)	
Propensity to Consume (SA,%)	75.5	74.2	74.5 [75.1]	74.6 [78.3]		72.9 [75.3]	76.5 [84.4]	73.0 [74.6]	74.3 [71.3]	73.7 [74.8]	
Overtime Hours Worked (All Industries, 5 employees or more)	4.8	2.0	0.1 (0.9)	0.3 (-0.6)	-1.2 (-1.9)	-1.9 (-0.7)	-0.1 (-2.4)	-0.2 (-2.4)	-0.3 (-1.7)	-0.4 (-1.7)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.2	0.5									
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	45	77	76	90	96	95	84	96	95	98	
Ratio of Job Offers to Applicants (SA,Times)	0.97	1.11	1.12 [1.01]	1.15 [1.05]	1.18 [1.09]	1.15 [1.05]	1.15 [1.07]	1.17 [1.08]	1.19 [1.09]	1.19 [1.10]	
Unemployment Rate (SA,%)	3.9	3.5	3.5	3.5	3.3	3.5	3.4	3.3	3.3	3.4	
Economy Watcher Survey (Judgment of the present condition D.I.%)	54.0	46.6	43.6 [53.6]	49.3 [55.2]	52.6 [44.8]	50.1 [53.0]	52.2 [57.9]	53.6 [41.6]	53.3 [45.1]	51.0 [47.7]	
Bankruptcies (Number of cases)	10,536 (-10.0)	9,543 (-9.4)	2,222 (-13.5)	2,272 (-7.6)	2,296 (-12.1)	692 (-11.5)	859 (5.5)	748 (-18.1)	724 (-13.1)	824 (-4.7)	

(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 Aug. 6, 2015

	Fiscal	Fiscal	2014	2015		2015					
	2013	2014	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Customs Clearance (Exports in Yen Terms)	10.8	5.4	(9.1)	(9.0)	(6.7)	(2.5)	(8.5)	(8.0)	(2.4)	(9.5)	
Value	10.2	3.9	(6.6)	(5.0)	(7.3)	(4.7)	(5.1)	(6.0)	(6.4)	(9.5)	
Volumes	0.6	1.3	(2.4)	(3.8)	(-0.6)	(-2.1)	(3.2)	(1.8)	(-3.8)	(0.0)	
Imports (In Yen terms)	17.4	-0.9	(1.2)	(-9.3)	(-5.2)	(-3.6)	(-14.4)	(-4.1)	(-8.6)	(-2.9)	
Value	14.6	1.2	(4.9)	(-5.1)	(-3.1)	(-7.7)	(-4.6)	(-4.2)	(-3.5)	(-1.6)	
Volumes	2.3	-2.1	(-3.5)	(-4.6)	(-2.2)	(4.5)	(-10.3)	(0.1)	(-5.3)	(-1.4)	
Current Account (100 mil. yen)	14,715	79,309	15,124	44,177		14,957	28,203	13,264	18,809		
Goods (100 mil. yen)	-110,187	-65,659	-17,782	-3,311		-1,460	6,714	-1,462	-473		
Services (100 mil. yen)	-34,448	-27,482	-6,656	-2,801		-637	1,598	-5,245	1,037		
Financial Account (100 mil. yen)	-17,549	133,088	22,468	63,894		21,624	47,149	6,486	36,290		
Gold & Foreign Exchange Reserves (\$1mil.)	1,279,346	1,245,316	1,260,548	1,245,316	1,242,935	1,251,112	1,245,316	1,250,073	1,245,755	1,242,935	
Exchange Rate (¥/\$)	100.23	109.92	114.56	119.07	121.35	118.57	120.39	119.55	120.74	123.75	

3. Financial Market Indicators

	Fiscal	Fiscal	2014	2015		2015					
	2013	2014	4Q	1Q	2Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	0.073	0.068	0.064	0.073	0.067	0.076	0.070	0.061	0.069	0.072	
			[0.072]	[0.074]	[0.067]	[0.077]	[0.072]	[0.065]	[0.068]	[0.067]	
Euro Yen TIBOR (3 Months)	0.223	0.194	0.184	0.171	0.169	0.171	0.170	0.170	0.169	0.169	
			[0.220]	[0.215]	[0.211]	[0.212]	[0.212]	[0.212]	[0.210]	[0.210]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.640	0.400	0.330	0.400	0.455	0.330	0.400	0.340	0.390	0.455	
			[0.735]	[0.640]	[0.565]	[0.580]	[0.640]	[0.620]	[0.570]	[0.565]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.077	1.006	1.025	1.006	0.987	1.021	1.006	1.007	1.003	0.987	
			(-0.023)	(-0.019)	(-0.019)	(-0.003)	(-0.015)	(0.001)	(-0.004)	(-0.016)	
The Nikkei Stock Average (TSE 225 Issues)	14,828	19,207	17,451	19,207	20,236	18,798	19,207	19,520	20,563	20,236	
			[16,291]	[14,828]	[15,162]	[14,841]	[14,828]	[14,304]	[14,632]	[15,162]	
M2(Average)	(3.9)	(3.3)	(3.5)	(3.5)	(3.8)	(3.5)	(3.6)	(3.6)	(4.1)	(3.8)	
Broadly-defined Liquidity(Average)	(3.7)	(3.3)	(3.5)	(3.5)	(4.3)	(3.4)	(3.7)	(4.1)	(4.5)	(4.3)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.0)	(2.4)	(2.5)	(2.5)	(2.6)	(2.5)	(2.6)	(2.6)	(2.6)	(2.5)
	Banks	(2.3)	(2.5)	(2.7)	(2.6)	(2.7)	(2.6)	(2.7)	(2.7)	(2.7)	(2.6)
	City Banks etc.	(1.7)	(1.4)	(1.7)	(1.4)	(1.4)	(1.3)	(1.5)	(1.6)	(1.3)	(1.2)
	Regional Banks	(3.3)	(3.8)	(3.8)	(4.0)	(4.1)	(4.1)	(4.1)	(4.0)	(4.1)	(4.0)
	Regional Banks II	(1.4)	(2.9)	(3.1)	(3.1)	(3.0)	(3.2)	(3.0)	(3.0)	(3.0)	(3.2)
	Shinkin	(0.3)	(1.4)	(1.5)	(1.6)	(1.9)	(1.6)	(1.7)	(1.9)	(1.9)	(1.9)
Deposits and CDs (Average)	Total(3 Business Condition)	(3.8)	(3.3)	(3.8)	(3.9)	(4.3)	(3.9)	(3.9)	(4.0)	(4.6)	(4.3)
	City Banks	(3.7)	(3.4)	(4.4)	(4.7)	(5.4)	(4.7)	(4.7)	(5.0)	(6.0)	(5.3)
	Regional Banks	(4.3)	(3.3)	(3.2)	(3.1)	(3.3)	(3.1)	(3.2)	(3.1)	(3.5)	(3.4)
	Regional Banks II	(2.5)	(3.1)	(3.3)	(3.1)	(2.9)	(3.2)	(3.1)	(2.9)	(2.9)	(2.9)

(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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