

## ***Firm Domestic Demand Supports Economy But Export Weakness Still Bears Watching***

REI TSURUTA  
TOORU KANAHORI  
ECONOMIC RESEARCH OFFICE

17 NOVEMBER 2015

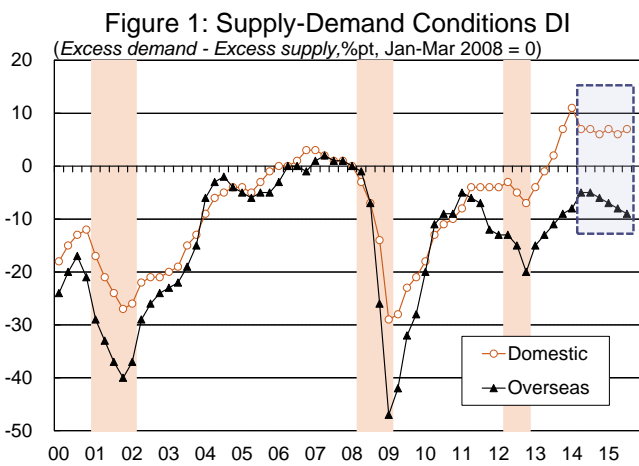
(ORIGINAL JAPANESE VERSION RELEASED ON 23 OCTOBER 2015)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
A member of MUFG, a global financial group

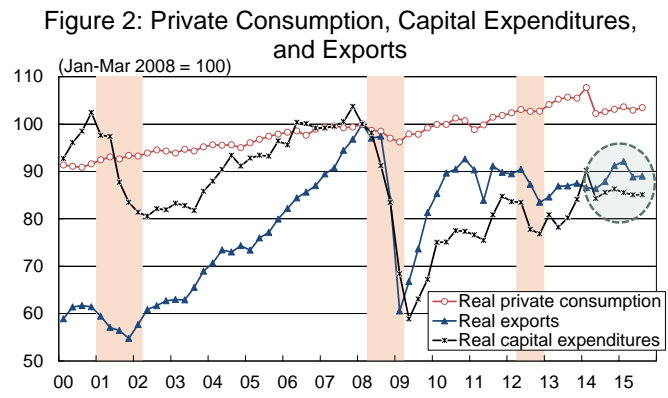
## 1. The Real Economy

The adverse effects to Japan's economy of economic slowdowns in China and other emerging countries are causing concern. Confirming supply–demand conditions in domestic and overseas economies from company side in the BoJ's September Tankan survey, the *Overseas Supply and Demand Conditions for Products DI (Excess demand – Excess supply, percentage share of the number of respondents)* worsened for a fourth straight quarter because of slowing overseas economies (Figure 1). On the other hand, the *Domestic Supply and Demand Conditions for Products and Services DI* remains firm. Although not yet recovering to the level of March 2014 survey, when demand jumped ahead of the April 2014 consumption tax hike, the DI is well above the strong level of before the Lehman Brothers collapse. We think that supply and demand in domestic market remain tight. Although weak overseas markets weighed on operation rates of capital stock and employment overall and worsened domestic supply–demand for the past recession periods, the negative cycle has not yet engaged.

The demand side also appears to warrant attention. The level of real private consumption once dropped when the consumption tax was hiked but has risen slowly thereafter. We think this is contributing to tightening domestic supply and demand in line with the labor shortage (Figure 2). On the other hand, exports have been weak of late. After real exports slumped in Apr-Jun because of falling global demand, they merely stayed flat in the Jul-Sept quarter. The drop in exports not only weighs on capital stock operation rates, it also hurts corporate sentiment and could cause capital expenditure to fall. Manufacturers in particular have fairly big capital expenditure plans for FY2015, according to the BoJ's September Tankan survey. Capital expenditures are not expected to crash just yet, but prolonged export weakness could cause companies to cut their capital expenditures, which could hurt domestic supply and demand from the demand side. The risk of an economic downturn will bear watching.



Notes: 1) For enterprises of all sizes and across all industries.  
2) Shaded portions indicate economic downturns.  
Source: Compiled by BTMU Economic Research Office from BoJ data.



Notes: 1) *Real private consumption* is Private Consumption Integrated estimates, *Real capital expenditures* is Capital Goods Domestic Shipments and Imports Index, *Real exports* is BoJ Real Export Index.  
2) Latest *Real private consumption* and *Real capital expenditures* figures are Jul-Aug 2015 average.  
Source: Compiled by BTMU Economic Research Office from Cabinet Office METI, and BoJ 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. Looking back, it was one year ago that the BoJ adopted a massive additional monetary easing at its second October meeting. We have taken a look back at the BoJ's views of the economic activity and prices, comparing the bank's views of earlier this month to its views from early last October. First, the BoJ's views on Japan's economic activity are stronger overall compared to last October (Table 1). In this regard, although the BoJ appears to feel there is less need to implement additional monetary easing, a comparison of actual statistical indicators does not support this. For example, the BoJ's views on exports are stronger this year, but actual data show that average export growth in Jul-Aug 2015 was -0.3% short of the Apr-Jun average and below last year's pace of +1.3%. The BoJ is also more bullish on industrial production this October, but indicators from both October 2015 and October 2014 show about the same rate of decline. The BoJ also characterized inflation expectations as *rising on the whole* last year, but added *from a somewhat longer-term perspective* to its view this year to express a softer view amidst weaker data. How stronger views on the economic activity vis-a-vis actual data and weak views on prices in line with the data will affect the BoJ's policy decision later this month will be widely watched.

The yield on the 10Yr JGB remains low in the 0.3% range on concerns about slowing emerging economies.

### (2) EXCHANGE RATES

Looking back exchange rate for an year from the BoJ's additional monetary easing, only USD, CHF and GBP among advanced country currencies rose against the JPY. A number of currencies have slipped against JPY, primarily currencies of countries deeply related to resources (Figure 3). Thus, JPY has been depreciated against currencies linked to monetary policies expected to normalize, while mostly rising against other currencies. The BoJ's massive additional monetary easing last October thus did not result in an across-the-board JPY weakening. JPY has been trading at around 120 versus the USD recently, but with



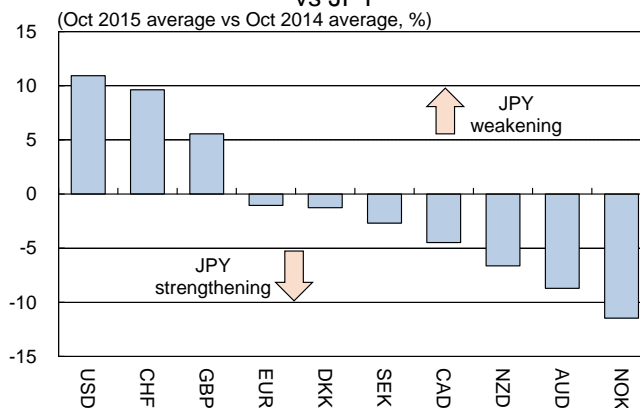
expectations building that FRB interest rate hike in the US will be pushed back, JPY could have more room to strengthen even against USD. This possibility bears watching.

Table 1: BoJ Economic Views and Economic Indicators in Oct 7 2015 and Oct 7 2014, Ahead of Additional Monetary Easing, Monetary Policy Meetings

		Earlier Oct 2015 meeting	Earlier Oct 2014 meeting
Exports	BoJ view	<i>recently more or less flat</i>	<i>has shown some weakness</i>
	Real exports	-0.3%	1.3%
Industrial production	BoJ view	<i>recently more or less flat</i>	<i>has shown some weakness</i>
	Industrial production	-1.4%	-1.7%
Business fixed investment	BoJ view	<i>moderate increasing trend</i>	<i>has increased moderately</i>
	Capital goods Shipments	0.3%	2.2%
Private consumption	BoJ view	<i>has been resilient</i>	<i>remain resilient as a trend</i>
	Real consumption expenditure	0.6%	0.1%
Inflation expectations	BoJ view	<i>rising on the whole from a somewhat longer-term perspective</i>	<i>rising on the whole</i>
	Outlook for prices	-1.6%	2.1%pt

Notes: 1) Shaded portions indicate stronger view of the two meetings.  
 2) *Inflation expectations* is Jul-Sept QoQ change; others are Jul-Aug average versus Apr-Jun average.  
 3) Indicators as of Oct 6, prior to meeting.  
 4) Household *outlook for prices* is share of *Rising* responses.  
 Source: Compiled by BTMU Economic Research Office from BoJ data.

Figure 3: Exchange Rate Changes of G10 Currencies vs JPY



Note: October 2015 average is through October 16.  
 Source: Compiled by BTMU Economic Research Office from Bloomberg data.

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Nov. 17, 2015

	Fiscal 2013	Fiscal 2014	2015			2015				
			1Q	2Q	3Q	MAY	JUN	JUL	AUG	SEP
Real GDP Growth Rate <% changes from previous period at SA annual rate>	2.1	-0.9	4.6 (-0.8)	-0.7 (1.0)	-0.8 (1.0)	***	***	***	***	***
Index of All Industries Activity	2.2	-1.1	1.1 (-1.2)	-0.3 (1.4)		-0.9 (-0.2)	0.6 (2.4)	-0.1 (1.5)	-0.2 (1.3)	
Industrial Production Index	3.2	-0.4	1.5 (-2.1)	-1.4 (-0.5)	-1.2 (-0.4)	-2.1 (-3.9)	1.1 (2.3)	-0.8 (0.0)	-1.2 (-0.4)	1.1 (-0.8)
Production										
Shipments	2.9	-1.1	1.7 (-2.4)	-2.4 (-0.3)	-0.6 (-0.6)	-1.9 (-3.2)	0.6 (1.8)	-0.4 (-0.8)	-0.7 (0.6)	1.4 (-1.5)
Inventory	-1.2	6.2	1.0 (6.2)	1.1 (4.0)	-0.9 (2.1)	-0.8 (3.9)	1.5 (4.0)	-0.8 (2.7)	0.3 (2.1)	-0.4 (2.1)
Inventory/Shipments Ratio (2010=100)	106.3	112.0	112.3 [103.1]	114.0 [108.7]	115.6 [113.2]	115.4 [108.5]	113.5 [112.0]	112.2 [110.2]	119.2 [117.9]	115.5 [111.5]
Domestic Corporate Goods Price Index	1.9	2.8	-1.6 (0.5)	0.3 (-2.2)	-1.0 (-3.6)	0.2 (-2.2)	-0.2 (-2.4)	-0.3 (-3.1)	-0.6 (-3.6)	-0.6 (-4.0)
Consumer Price Index(SA, total, excl.fresh foods)	0.8	2.8	-0.7 (2.1)	0.6 (0.1)	0.0 (-0.1)	0.0 (0.1)	0.1 (0.1)	0.0 (0.0)	0.0 (-0.1)	-0.1 (-0.1)
Index of Capacity Utilization (2010=100)	100.0	100.6	101.7 [104.7]	97.6 [101.2]	96.8 [99.1]	96.4 [101.9]	97.1 [99.4]	96.9 [98.8]	96.0 [98.3]	97.4 [100.3]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	11.5	0.8	6.3 (3.3)	2.9 (12.4)	-10.0 (-0.9)	0.6 (19.3)	-7.9 (16.6)	-3.6 (2.8)	-5.7 (-3.5)	7.5 (-1.7)
Manufacturing	10.2	7.0	2.3 (5.2)	12.1 (27.5)	-15.3 (-1.1)	9.9 (44.6)	-14.0 (25.0)	-5.3 (3.8)	-3.2 (4.5)	-5.5 (-8.7)
Non-manufacturing Excl.Electric Power & Ship building	12.1	-3.3	8.5 (1.4)	-1.7 (2.3)	-6.5 (-0.8)	-4.0 (2.5)	0.6 (10.4)	-6.0 (1.8)	-6.1 (-9.5)	14.3 (3.0)
Shipments of Capital Goods (Excl. Transport Equipment)	5.5	4.3	1.2 (-1.1)	-2.1 (2.5)	-1.9 (-0.8)	-1.4 (-0.4)	2.0 (4.7)	0.7 (0.4)	-5.6 (0.6)	0.8 (-2.8)
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)	89.8 (-5.4)	95.8 (7.6)	92.3 (6.2)	91.1 (5.8)	103.3 (16.3)	91.4 (7.4)	93.1 (8.8)	90.0 (2.6)
Total floor	(9.9)	(-15.2)	(-9.0)	(4.2)	(2.8)	(3.5)	(11.5)	(4.6)	(3.4)	(0.6)
Sales at Retailers	2.9	-1.2								
Real Consumption Expenditures of Households over 2 persons (SA)	0.9	-5.1	1.4 (-6.5)	-3.2 (0.5)	0.5 (0.7)	2.4 (4.8)	-3.0 (-2.0)	0.6 (-0.2)	2.5 (2.9)	-1.3 (-0.4)
Propensity to Consume (SA,%)	75.5	74.2	74.6 [78.3]	73.7 [73.6]	73.4 [74.6]	74.3 [71.3]	73.7 [74.8]	71.4 [75.0]	74.3 [73.6]	74.6 [75.1]
Overtime Hours Worked (All Industries, 5 employees or more)	4.8	2.0	0.3 (-0.6)	-0.9 (-1.6)	-0.5 (-1.1)	-0.3 (-1.7)	0.6 (-0.8)	-0.2 (-0.7)	-1.0 (-0.8)	0.3 (-1.8)
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	90	96	95	95	97	96	94	96
Ratio of Job Offers to Applicants (SA,Times)	0.97	1.11	1.15 [1.05]	1.18 [1.09]	1.23 [1.10]	1.19 [1.09]	1.19 [1.10]	1.21 [1.10]	1.23 [1.10]	1.24 [1.10]
Unemployment Rate (SA,%)	3.9	3.5	3.5	3.3	3.4	3.3	3.4	3.3	3.4	3.4
Economy Watcher Survey (Judgment of the present condition D.I.%)	54.0	46.6	49.3 [55.2]	52.6 [44.8]	49.5 [48.7]	53.3 [45.1]	51.0 [47.7]	51.6 [51.3]	49.3 [47.4]	47.5 [47.4]
Bankruptcies (Number of cases)	10,536 (-10.0)	9,543 (-9.4)	2,272 (-7.6)	2,296 (-12.1)	2,092 (-14.1)	724 (-13.1)	824 (-4.7)	787 (-10.7)	632 (-13.0)	673 (-18.6)

(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. 17, 2015

	Fiscal	Fiscal	2015			2015				
	2013	2014	1Q	2Q	3Q	MAY	JUN	JUL	AUG	SEP
Customs Clearance (Exports in Yen Terms)	10.8	5.4	(9.0)	(6.7)	(3.7)	(2.4)	(9.5)	(7.6)	(3.1)	(0.5)
Value	10.2	3.9	(5.0)	(7.3)	(6.8)	(6.4)	(9.5)	(8.4)	(7.5)	(4.6)
Volumes	0.6	1.3	(3.8)	(-0.6)	(-2.8)	(-3.8)	(0.0)	(-0.7)	(-4.1)	(-3.9)
Imports (In Yen terms)	17.4	-0.9	(-9.3)	(-5.1)	(-5.9)	(-8.6)	(-2.9)	(-3.1)	(-3.1)	(-11.0)
Value	14.6	1.2	(-5.1)	(-3.1)	(-4.0)	(-3.5)	(-1.5)	(-0.2)	(-2.4)	(-9.3)
Volumes	2.3	-2.1	(-4.6)	(-2.2)	(-1.9)	(-5.3)	(-1.4)	(-2.9)	(-0.7)	(-2.0)
Current Account (100 mil. yen)	14,715	79,309	44,177	37,637	49,301	18,660	5,615	18,086	16,531	14,684
Goods (100 mil. yen)	-110,187	-65,659	-3,311	-678	-3,519	-480	1,156	-1,080	-3,261	823
Services (100 mil. yen)	-34,448	-27,482	-2,801	-6,266	-1,710	881	-1,878	-1,836	578	-452
Financial Account (100 mil. yen)	-17,549	133,088	63,894	46,954	58,588	33,759	4,156	9,170	19,384	30,034
Gold & Foreign Exchange Reserves (\$1mil.)	1,279,346	1,245,316	1,245,316	1,242,935	1,248,936	1,245,755	1,242,935	1,242,316	1,244,150	1,248,936
Exchange Rate (¥/\$)	100.23	109.92	119.07	121.35	122.23	120.74	123.75	123.23	123.23	120.22

## 3. Financial Market Indicators

	Fiscal	Fiscal	2015			2015							
	2013	2014	1Q	2Q	3Q	MAY	JUN	JUL	AUG	SEP			
Uncollateralized Overnight Call Rates	0.073	0.068	0.073 [0.074]	0.067 [0.067]	0.074 [0.067]	0.069 [0.068]	0.072 [0.067]	0.074 [0.066]	0.076 [0.069]	0.073 [0.066]			
Euro Yen TIBOR (3 Months)	0.223	0.194	0.171 [0.215]	0.169 [0.211]	0.169 [0.210]	0.169 [0.210]	0.169 [0.210]	0.169 [0.210]	0.169 [0.210]	0.169 [0.210]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.640	0.400	0.400 [0.640]	0.455 [0.565]	0.350 [0.525]	0.390 [0.570]	0.455 [0.565]	0.410 [0.530]	0.380 [0.490]	0.350 [0.525]			
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.077	1.006	1.006 (-0.019)	0.987 (-0.019)		1.003 (-0.004)	0.987 (-0.016)	0.982 (-0.005)	0.980 (-0.002)				
The Nikkei Stock Average (TSE 225 Issues)	14,828	19,207	19,207 [14,828]	20,236 [15,162]	17,388 [16,174]	20,563 [14,632]	20,236 [15,162]	20,585 [15,621]	18,890 [15,425]	17,388 [16,174]			
M2(Average)	(3.9)	(3.3)	(3.5)	(3.9)	(4.0)	(4.1)	(3.9)	(4.0)	(4.2)	(3.8)			
Broadly-defined Liquidity(Average)	(3.7)	(3.3)	(3.5)	(4.3)	(4.5)	(4.5)	(4.5)	(4.6)	(4.7)	(4.2)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin		(2.0)	(2.3)	(2.5)	(2.5)	(2.6)	(2.5)	(2.4)	(2.6)	(2.7)	(2.6)	
		Banks		(2.3)	(2.5)	(2.6)	(2.6)	(2.7)	(2.6)	(2.5)	(2.6)	(2.8)	(2.7)
			City Banks etc.	(1.7)	(1.4)	(1.4)	(1.4)	(1.6)	(1.3)	(1.2)	(1.4)	(1.7)	(1.5)
			Regional Banks	(3.2)	(3.7)	(4.0)	(4.0)	(3.9)	(4.1)	(3.9)	(3.9)	(3.8)	(3.8)
			Regional Banks II	(1.4)	(2.9)	(3.1)	(3.1)	(3.4)	(3.0)	(3.2)	(3.4)	(3.4)	(3.3)
	Shinkin	(0.3)	(1.4)	(1.6)	(1.9)	(2.1)	(1.9)	(1.9)	(2.0)	(2.1)	(2.3)		
Deposits and CDs (Average)	Total(3 Business Condition)		(3.8)	(3.3)	(3.9)	(4.3)	(4.3)	(4.6)	(4.3)	(4.3)	(4.5)	(4.0)	
	City Banks		(3.7)	(3.4)	(4.7)	(5.4)	(5.4)	(6.0)	(5.3)	(5.5)	(5.8)	(4.8)	
	Regional Banks		(4.3)	(3.3)	(3.1)	(3.3)	(3.3)	(3.5)	(3.4)	(3.4)	(3.3)	(3.3)	
	Regional Banks II		(2.5)	(3.1)	(3.1)	(2.9)	(2.7)	(2.9)	(2.9)	(2.8)	(2.6)	(2.6)	

(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>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.