

## ***Household Sentiment Improving Even as Warm Winter Lowers Private Consumption***

TOORU KANAHORI  
YUUSUKE YOKOTA  
ECONOMIC RESEARCH OFFICE

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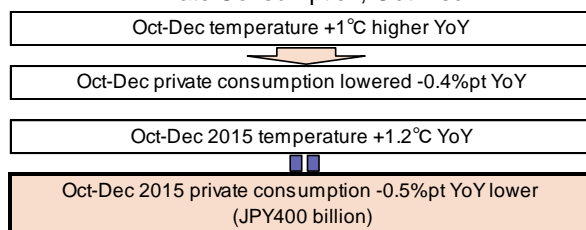
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## 1. The Real Economy

Private consumption has shown signs of weakness of late. The Private Consumption Integrated Estimates, an indicator of the direction of private consumption, dipped -1.2% MoM in November, with the October-November average also slipping on quarter by -0.6% QoQ. But we think the one-off factor of a warm winter has been lowering consumption. The link between Oct-Dec private consumption and temperature shows that a 1°C on-year increase in average temperature cuts an estimated -0.4%pt from real consumption of households (Figure 1). The average temperature in Oct-Dec 2015 was 1.2°C higher than the same period in 2014 (the biggest increase since 2006); extrapolating the past linkage suggests that the warm temperature lowered private consumption by -0.5%pt, or approximately JPY400 billion. The warm winter had a relatively big negative impact on private consumption.

On the other hand, household sentiment appears to be improving slowly. Household forecasts for price levels, income, and spending one year in the future in the Bank of Japan's *Opinion Survey on the General Public's Views and Behavior* show that *the Price levels DI (Will go up significantly or Will go up slightly responses minus Will go down significantly or Will go down slightly responses)* remained high but falls recently, while *the Income DI (Will increase responses minus Will decrease responses)* and *Spending DI (Will increase responses minus Will decrease responses)* have been on an upward trend in 2015 (Figure 2). Expectations that incomes will rise follow expectations of inflation, and we think that households are gradually starting to loosen their purse strings. The outlook for household conditions shows that employment and income are expected to continue to improve as labor supply and demand keep tightening, and the recent further fall in oil prices has been further weighing on inflation. This is causing sentiment to continue to improve, and household consumption behavior is picking up. Private consumption is thus expected to gradually start to rise again.

Figure 1: Impact of Change in Temperature on Private Consumption, Oct-Dec

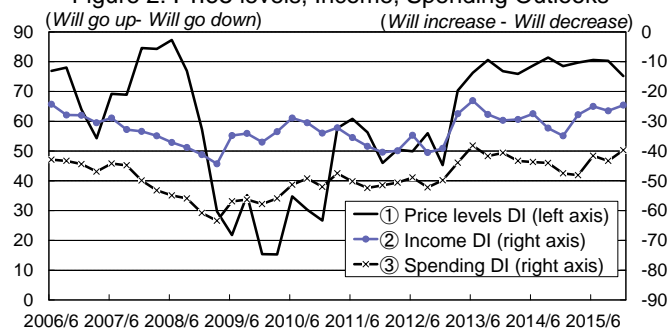


Note: The following method was used in calculation. Temperature is average temperature in Northern Japan, Eastern Japan, and Western Japan weighted by population in each region.

$$\begin{aligned} & \text{Real consumption of households (YoY)} \\ &= 0.7 + 0.3 * \text{Real employee compensation (YoY)} \\ &\quad - 0.4 * \text{temperature (YoY)} + (\text{dummy variable for impact of} \\ &\quad \text{consumption tax hike, Lehman Brothers collapse}) \end{aligned}$$

Source: Compiled by BTMU Economic Research Office from Cabinet Office, Japan Meteorological Agency data.

Figure 2: Price levels, Income, Spending Outlooks



Note: Price levels DI is total share of Will go up significantly or Will go up slightly responses minus Will go down significantly or Will go down slightly responses in answer to question about price levels one year in future. Income DI is total share of Will increase responses minus Will decrease responses in answer to question about income one year in future. Spending DI is total Will increase responses minus Will decrease responses in answer to question about spending one year in future. Source: Compiled by BTMU Economic Research Office from BoJ data.

## 2. Monetary Policy and Financial Markets

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

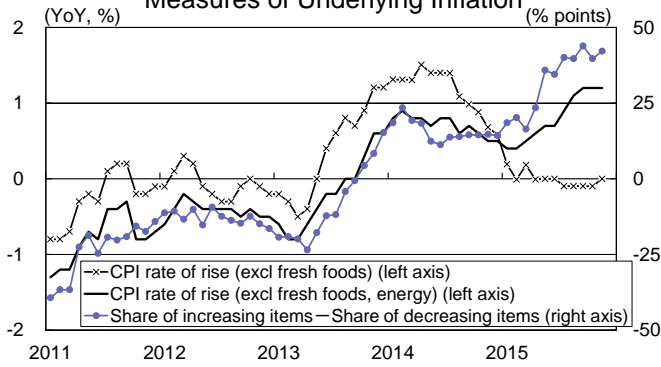
The BoJ will conduct an interim assessment of its *Outlook Report* at the Monetary Policy Board meeting January 28-29. The October *Outlook Report* was based on the assumption that oil prices—which have weighed considerably on inflation—would rise gradually, with Dubai crude bottoming at USD50/barrel. However, oil prices have now fallen to below USD30/barrel; the BoJ will have to lower its assumptions for oil prices in the interim review. On the other hand, turning instead to “*Measures of Underlying Inflation*”, which the BoJ has been focusing on more recently, the CPI (excluding energy and fresh foods) has been relatively high, although it has stopped rising recently. Also, the share of CPI component items with increasing price indices minus the share of items with decreasing price indices has stopped rising, but remains at a high level (Figure 3). Based on this, we expect the BoJ to stick to its recent assessment that the inflation trajectory has not broken down, even as prices have fallen. We also expect the BoJ to move back its date for achieving the inflation target from *around 2H FY2016*.

The benchmark JGB yield fell to 0.190% on January 14, touching the record low set on January 20, 2015, as investors grew more risk-averse as share prices fell globally. The BoJ introduced new supplementary quantitative and qualitative monetary easing measures in December, and the yield fell thereafter by about the same margin as after a new round of monetary easing was unleashed in October 2014 (Figure 4). The BoJ explained that this latest round did not constitute additional monetary easing, but the measures did in fact weigh on JGB yields.

### (2) EXCHANGE RATES

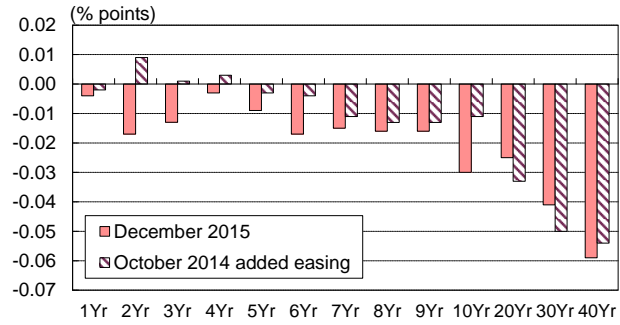
JPY has strengthened against USD to around USD/JPY117 lately. We think the trend has been due to growing risk aversion by investors because of uncertainty about the outlook for China’s economy and falling oil prices. Looking ahead, USD/JPY is expected to remain firm as the US-Japan yield spread widens as the FRB proceeds with rate hikes, but we will be watching whether such risk aversion-driven JPY buying stemming from slowing emerging economies (including China), falling oil prices, and heightening geopolitical risks proves to be more than a temporary phenomenon.

Figure 3: Core Inflation and Measures of Underlying Inflation



Notes: 1) Excluding impact of consumption tax hike.  
 2) *Share of increasing items* minus *Share of decreasing items* is share of items increasing on-year minus share of items decreasing, of items comprising core CPI excluding fresh foods.  
 Source: Compiled by BTMU Economic Research Office from MIC, BoJ data.

Figure 4: Yield Change Immediately After December 2015 Qualitative, Quantitative Easing Supplementary Measures and October 2014 Bolstered Monetary Easing



Note: *December 2015* is yield as of December 18, 2015, when BoJ introduced supplementary easing measures minus yield on December 17, 2015.  
*October 2014 added easing* is yield on October 31, 2014, when BoJ bolstered monetary easing minus yield on October 30, 2014.  
 Source: Compiled by BTMU Economic Research Office from Bloomberg data.

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Feb. 12, 2016

	Fiscal 2013	Fiscal 2014	2015			2015				
			1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC
Real GDP Growth Rate <% changes from previous period at SA annual rate>	2.0	-1.0	4.4 (-1.1)	-0.5 (0.7)	1.0 (1.6)	***	***	***	***	***
Index of All Industries Activity	2.2	-1.1	1.1 (-1.2)	-0.3 (1.4)	0.0 (1.3)	0.0 (1.6)	-0.1 (0.6)	0.9 (0.9)	-1.0 (1.3)	
Industrial Production Index	3.2	-0.4	1.5 (-2.1)	-1.4 (-0.5)	-1.2 (-0.4)	-1.2 (-0.4)	1.1 (-0.8)	1.4 (-1.4)	-0.9 (1.7)	-1.4 (-1.6)
Production										
Shipments	2.9	-1.1	1.7 (-2.4)	-2.4 (-0.3)	-0.6 (-0.6)	-0.7 (0.6)	1.4 (-1.5)	2.1 (-0.8)	-2.4 (0.7)	-1.7 (-2.4)
Inventory	-1.2	6.2	1.0 (6.2)	1.1 (4.0)	-0.9 (2.1)	0.3 (2.1)	-0.4 (2.1)	-1.9 (0.2)	0.4 (-0.4)	0.4 (0.0)
Inventory/Shipments Ratio (2010=100)	106.3	112.0	112.3 [103.1]	114.0 [108.7]	115.6 [113.2]	119.2 [117.9]	115.5 [111.5]	112.0 [112.6]	115.5 [116.1]	116.0 [112.7]
Domestic Corporate Goods Price Index	1.9	2.8	-1.6 (0.5)	0.3 (-2.2)	-1.0 (-3.6)	-0.6 (-3.6)	-0.6 (-4.0)	-0.6 (-3.8)	-0.1 (-3.6)	-0.4 (-3.5)
Consumer Price Index(SA, total, excl.fresh foods)	0.8	2.8	-0.7 (2.1)	0.6 (0.1)	0.0 (-0.1)	-0.1 (-0.1)	0.0 (-0.1)	0.0 (-0.1)	0.1 (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]	96.0 [98.3]	97.4 [100.3]	98.7 [100.6]	98.6 [100.2]	
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)	-5.7 (-3.5)	7.5 (-1.7)	10.7 (10.3)	-14.4 (1.2)	
Manufacturing	10.2	7.0	2.3 (5.2)	12.1 (27.5)	-15.3 (-1.1)	-3.2 (4.5)	-5.5 (-8.7)	14.5 (5.8)	-10.2 (1.3)	
Non-manufacturing Excl.Electric Power & Ship building	12.1	-3.3	8.5 (1.4)	-1.7 (2.3)	-6.5 (-0.8)	-6.1 (-9.5)	14.3 (3.0)	10.7 (14.4)	-18.0 (1.5)	
Shipments of Capital Goods (Excl. Transport Equipment)	5.5	4.3	1.2 (-1.1)	-2.1 (2.5)	-1.9 (-0.8)	-5.6 (0.6)	0.8 (-2.8)	2.2 (-4.2)	-0.6 (-1.1)	-3.7 (-5.7)
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)	89.6 (-5.4)	95.6 (7.6)	91.7 (6.2)	93.2 (8.8)	89.6 (2.6)	86.5 (-2.5)	87.9 (1.7)	86.0 (-1.3)
Total floor										
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)	2.5 (2.9)	-1.3 (-0.4)	-0.7 (-2.4)	-2.2 (-2.9)	1.0 (-4.4)
Propensity to Consume (SA,%)	75.5	74.2	74.6 [78.3]	73.7 [73.6]	73.4 [74.6]	74.3 [73.6]	74.6 [75.1]	73.3 [74.2]	73.2 [75.5]	72.9 [73.8]
Overtime Hours Worked (All Industries, 5 employees or more)	4.8	2.0	0.3 (-0.6)	-0.9 (-1.6)	-0.2 (-0.9)	-1.0 (-0.8)	1.2 (-0.8)	0.1 (-0.8)	-0.6 (-0.9)	-1.2 (-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	94	96	104	101	104
Ratio of Job Offers to Applicants (SA,Times)	0.97	1.11	1.15 [1.05]	1.18 [1.09]	1.22 [1.10]	1.23 [1.10]	1.24 [1.10]	1.24 [1.10]	1.25 [1.12]	1.27 [1.14]
Unemployment Rate (SA,%)	3.9	3.5	3.5	3.3	3.4	3.4	3.4	3.1	3.3	3.3
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]	49.3 [47.4]	47.5 [47.4]	48.2 [44.0]	46.1 [41.5]	48.7 [45.2]
Bankruptcies (Number of cases)	10,536 (-10.0)	9,543 (-9.4)	2,272 (-7.6)	2,296 (-12.1)	2,092 (-14.1)	632 (-13.0)	673 (-18.6)	742 (-7.2)	711 (-3.3)	699 (1.8)

(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 Feb. 12, 2016

	Fiscal	Fiscal	2015			2015				
	2013	2014	1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC
Customs Clearance (Exports in Yen Terms)	10.8	5.4	(9.0)	(6.7)	(3.7)	(3.1)	(0.5)	(-2.2)	(-3.3)	(-8.0)
Value	10.2	3.9	(5.0)	(7.3)	(6.8)	(7.5)	(4.6)	(2.5)	(-0.3)	(-3.8)
Volumes	0.6	1.3	(3.8)	(-0.6)	(-2.8)	(-4.1)	(-3.9)	(-4.6)	(-3.1)	(-4.4)
Imports (In Yen terms)	17.4	-0.9	(-9.3)	(-5.1)	(-5.8)	(-3.1)	(-11.0)	(-13.3)	(-10.2)	(-18.0)
Value	14.6	1.2	(-5.1)	(-3.1)	(-4.0)	(-2.4)	(-9.2)	(-9.9)	(-11.6)	(-13.7)
Volumes	2.3	-2.1	(-4.6)	(-2.2)	(-1.9)	(-0.7)	(-1.9)	(-3.8)	(1.6)	(-5.0)
Current Account (100 mil. yen)	14,715	79,309	44,177	37,637	48,974	16,357	14,601	14,584	11,435	9,607
Goods (100 mil. yen)	-110,187	-65,659	-3,311	-678	-3,619	-3,326	679	2,002	-2,715	1,887
Services (100 mil. yen)	-34,448	-27,482	-2,801	-6,266	-2,089	459	-548	-3,373	615	-1,713
Financial Account (100 mil. yen)	-17,549	133,088	63,894	46,954	55,166	18,538	29,341	3,966	27,474	13,921
Gold & Foreign Exchange Reserves (\$1mil.)	1,279,346	1,245,316	1,245,316	1,242,935	1,248,936	1,244,150	1,248,936	1,244,211	1,233,008	1,233,214
Exchange Rate (¥/\$)	100.23	109.92	119.07	121.35	122.23	123.23	120.22	120.06	122.54	121.84

## 3. Financial Market Indicators

	Fiscal	Fiscal	2015			2015							
	2013	2014	1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC			
Uncollateralized Overnight Call Rates	0.073	0.068	0.073 [0.074]	0.067 [0.067]	0.074 [0.067]	0.076 [0.069]	0.073 [0.066]	0.076 [0.059]	0.078 [0.065]	0.075 [0.068]			
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 [0.192]	0.169 [0.182]	0.169 [0.179]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.640	0.400	0.400 [0.640]	0.455 [0.565]	0.350 [0.525]	0.380 [0.490]	0.350 [0.525]	0.300 [0.450]	0.300 [0.420]	0.270 [0.330]			
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)	0.969 (-0.018)	0.980 (-0.002)	0.969 (-0.011)	0.969 (0.000)	0.965 (-0.004)	0.956 (-0.009)			
The Nikkei Stock Average (TSE 225 Issues)	14,828	19,207	19,207 [14,828]	20,236 [15,162]	17,388 [16,174]	18,890 [15,425]	17,388 [16,174]	19,083 [16,414]	19,747 [17,460]	19,034 [17,451]			
M2(Average)	(3.9)	(3.3)	(3.5)	(3.9)	(4.0)	(4.2)	(3.8)	(3.7)	(3.3)	(3.1)			
Broadly-defined Liquidity(Average)	(3.7)	(3.3)	(3.5)	(4.3)	(4.5)	(4.7)	(4.3)	(4.2)	(4.0)	(3.6)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin		(2.0)	(2.3)	(2.5)	(2.5)	(2.6)	(2.7)	(2.6)	(2.5)	(2.3)	(2.2)	
		Banks		(2.3)	(2.5)	(2.6)	(2.6)	(2.7)	(2.8)	(2.7)	(2.5)	(2.3)	(2.2)
			City Banks etc.	(1.7)	(1.4)	(1.4)	(1.4)	(1.6)	(1.7)	(1.5)	(1.4)	(0.9)	(0.8)
			Regional Banks	(3.2)	(3.7)	(4.0)	(4.0)	(3.9)	(3.8)	(3.8)	(3.7)	(3.7)	(3.7)
			Regional Banks II	(1.4)	(2.9)	(3.1)	(3.1)	(3.4)	(3.4)	(3.3)	(3.2)	(3.2)	(3.1)
	Shinkin	(0.3)	(1.4)	(1.6)	(1.9)	(2.1)	(2.1)	(2.3)	(2.3)	(2.2)	(2.3)		
Deposits and CDs (Average)	Total(3 Business Condition)		(3.8)	(3.3)	(3.9)	(4.3)	(4.3)	(4.5)	(4.0)	(3.6)	(3.2)	(2.9)	
	City Banks		(3.7)	(3.4)	(4.7)	(5.4)	(5.4)	(5.8)	(4.8)	(4.2)	(3.6)	(3.0)	
		Regional Banks	(4.3)	(3.3)	(3.1)	(3.3)	(3.3)	(3.3)	(3.3)	(3.1)	(3.0)	(2.8)	
		Regional Banks II	(2.5)	(3.1)	(3.1)	(2.9)	(2.7)	(2.6)	(2.6)	(2.3)	(2.2)	(2.3)	

(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.

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

Chief Manager Ishimaru Tel: 03-3240-3204

Written by Tooru Kanahori <tooru\_kanahori@mufg.jp>

Yuusuke Yokota <yuusuke\_yokota@mufg.jp>

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