

## ***Solid Corporate Hiring as Capital Expenditures Start to Expand***

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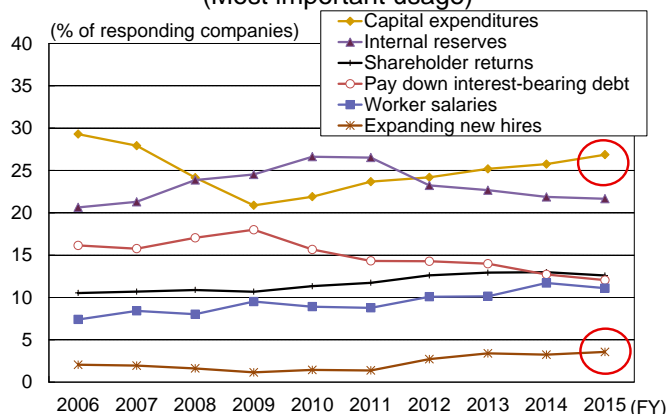
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
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## 1. The Real Economy

Despite Japan's economy showing signs of limping along, especially with private consumption, corporate forward-looking sentiment for increasing hiring and capital expenditures has been appearing solid. The Business Outlook Survey, which gauges companies' stances toward profit allocation, was released March 11 by the Ministry of Finance and Cabinet Office. Companies appear to be increasingly using profits for more forward-looking purposes (for '*capital expenditures*' or '*expanding new hires*'), a shift from more defensive usages (for '*internal reserves*' or to '*pay down interest-bearing debt*') (Figure 1). It is consistent real capital expenditures (GDP data) have been slowly rising since FY2010 and worker numbers have also been rising on-year by about 1% since FY2012 amidst the dissolution of surplus capacity and the strong sense of insufficient labor. Further, the data show that such forward-looking corporate behavior is likely to persist in FY2016 and beyond. The Annual Survey of Corporate Behavior, released by the Cabinet Office February 26, showed that companies project capital expenditures and number of employees over the next three years to rise at the fastest rate since the collapse of Lehman Brothers in 2008 (Figure 2). The sustained expansion in hiring and capital spending not only supports the economy but is also critical for boosting growth momentum over the medium to long term. This is a positive for the outlook for Japan's economy.

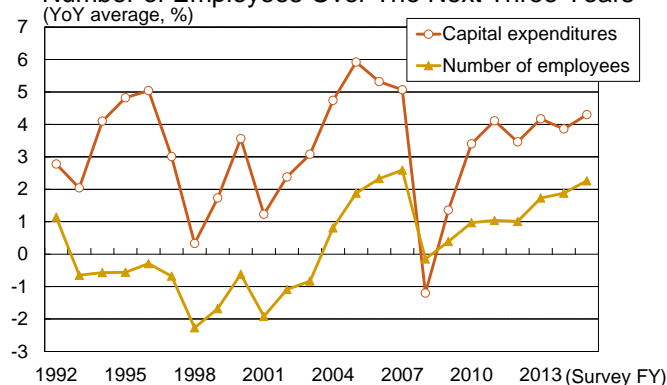
Financial markets appear to have been in a volatile phase since the beginning of the year, roiled by a further drop in oil prices and uncertainty about the direction of the global economy. Such financial market movements should be watched carefully due to the risk of hurting corporate spending sentiment, but there have been signs of stabilization of late. If external conditions—a slowing Chinese economy and US economic downturn—do not worsen markedly, forward-looking developments related to strong corporate profits will likely keep supporting or even expanding business bases, such as employment and capacity.

Figure 1: Profit Allocation Stances, by FY  
(Most important usage)



Note: For companies of all sizes and in all industries.  
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 2: Projected Change in Capital Expenditures, Number of Employees Over The Next Three Years  
(YoY average, %)



Note: Average of on-year rate of change over three years from following fiscal year. For all companies.  
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

## 2. Monetary Policy and Financial Markets

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

At its March 14-15 Monetary Policy Meeting, the Bank of Japan agreed to hold current monetary policy intact. At the same time, the bank decided on operational details to implement “Quantitative and Qualitative Monetary Easing with a Negative Interest Rates” smoothly. The BoJ announced it would review the “Macro Add-On Balance” from current accounts held by financial institutions at the BoJ, to which a zero interest rate is applied, every three months in principle and add to the “Macro Add-On Balance” the amount outstanding of MRFs entrusted to a trust bank (up to the amount outstanding of the previous year) as well as twice the amount of the increase in the Loan Support Program.

Bloomberg conducted a survey on views of whether the BoJ would implement an additional monetary easing. The results showed that the number of forecast responses for no additional monetary easing plunged in March (Figure 3). The effect of negative interest policy must be studied carefully, but for now market concerns about the limits of monetary easing appear to have been assuaged.

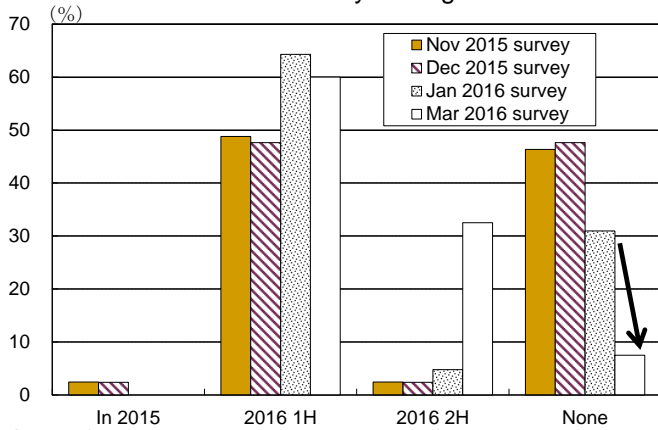
The entire yield curve has been lowered after introduction of negative interest rates policy, but longer-dated yields have come under greater downward pressure. The yield on 1Yr JGBs has fallen by -0.1%pt since immediately before the introduction of negative interest rates policy, while the 20Yr JGB yield has fallen the most, by 0.9%pt (Figure 4). With the JGB 10Yr yield now normalizing in negative territory, funds have been flowing into super-long JGBs, which still have positive yields. The yield curve is flattening even further.

### (2) EXCHANGE RATES

The JPY fell to the 121 level against the USD immediately after the BoJ introduced negative interest rates policy before rallying to the 112 level. The JPY has risen against the USD not only because heightened uncertainty about overseas economies has caused risk aversion to drive more JPY buying, but also because of USD selling on concerns about the outlook for the US economy. We forecast that if investors’ risk aversion alleviates as the US economy remains

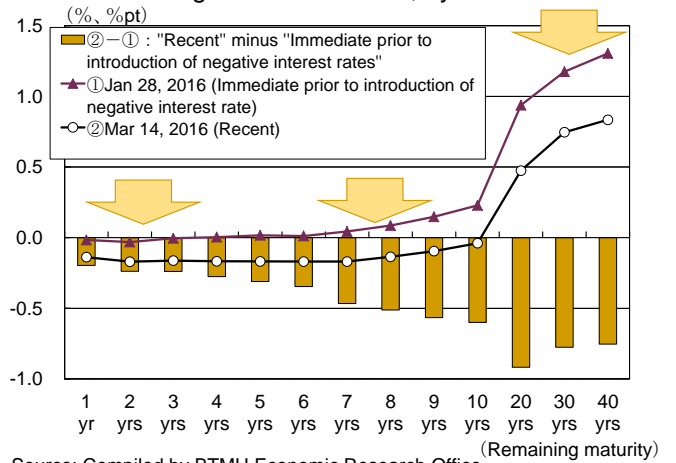
firm, the US-Japan spread will widen again and JPY-strengthening and USD-weakening pressures will diminish.

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



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

Figure 4: JGB Yields, by Tenor



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

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of May. 9, 2016

	Fiscal 2013	Fiscal 2014	2015			2015		2016		
			2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	2.0	-1.0	-1.4 (0.7)	1.4 (1.7)	-1.1 (0.7)	***	***	***	***	***
Index of All Industries Activity	2.2	-1.1	-0.1 (1.3)	0.0 (1.2)	-0.2 (0.6)	-0.8 (1.3)	-0.6 (-0.6)	1.2 (-0.6)	-1.2 (1.4)	
Industrial Production Index	3.2	-0.5	-1.3 (-0.8)	-1.0 (-0.9)	0.1 (-0.8)	-1.1 (1.4)	-1.2 (-2.1)	2.5 (-4.2)	-5.2 (-1.2)	3.6 (0.1)
Production										
Shipments	2.9	-1.2	-1.3 (-0.5)	-0.7 (-0.8)	0.4 (-0.8)	-2.4 (0.7)	-1.4 (-2.5)	2.0 (-5.4)	-4.1 (-1.6)	1.4 (-1.2)
Inventory	-1.2	6.1	0.5 (3.9)	-0.5 (2.0)	-0.5 (0.0)	0.4 (-0.4)	0.4 (0.0)	-0.3 (0.2)	-0.2 (-0.9)	2.8 (1.7)
Inventory/Shipments Ratio (2010=100)	106.3	112.0	113.8 [108.7]	114.7 [113.2]	114.9 [113.8]	115.5 [116.1]	116.3 [112.7]	116.2 [111.6]	114.5 [113.5]	118.5 [114.0]
Domestic Corporate Goods Price Index	1.9	2.7	0.4 (-2.2)	-1.1 (-3.7)	-1.4 (-3.7)	-0.1 (-3.7)	-0.3 (-3.5)	-1.0 (-3.2)	-0.3 (-3.4)	-0.1 (-3.8)
Consumer Price Index(SA, total, excl.fresh foods)	0.8	2.8	0.6 (0.1)	0.0 (-0.1)	0.0 (0.0)	0.1 (0.1)	0.1 (0.1)	-0.3 (0.0)	-0.1 (0.0)	-0.1 (-0.3)
Index of Capacity Utilization (2010=100)	100.0	100.6	98.0 [101.2]	97.6 [99.1]	97.9 [100.7]	98.2 [100.2]	97.2 [101.2]	99.9 [103.9]	94.5 [100.5]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	11.5	0.8	3.0 (12.4)	-6.5 (-0.9)	2.6 (2.1)	-9.7 (1.2)	1.0 (-3.6)	15.0 (8.4)	-9.2 (-0.7)	
Manufacturing	10.2	7.0	5.8 (27.5)	-9.6 (-1.1)	-3.0 (-3.1)	-6.6 (1.3)	-3.0 (-13.1)	41.2 (25.4)	-30.6 (-12.3)	
Non-manufacturing Excl.Electric Power & Ship building	12.1	-3.3	-0.5 (2.3)	-4.9 (-0.8)	5.6 (6.3)	-12.7 (1.5)	4.5 (3.3)	1.0 (-4.6)	10.2 (8.7)	
Shipments of Capital Goods (Excl.Transport Equipment)	5.5	4.4	-1.6 (2.7)	-1.8 (-1.3)	-1.7 (-4.2)	-0.4 (-1.5)	-2.4 (-6.0)	4.2 (-10.7)	-8.1 (-1.5)	1.7 (-5.6)
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)	95.6 (7.6)	91.7 (6.2)	86.8 (-0.7)	87.9 (1.7)	86.0 (-1.3)	87.3 (0.2)	97.4 (7.8)	99.3 (8.4)
Total floor	(9.9)	(-15.2)	(4.2)	(2.8)	(-1.5)	(2.7)	(-3.4)	(-2.2)	(5.2)	(6.2)
Sales at Retailers	2.9	-1.2								
Real Consumption Expenditures of Households over 2 persons (SA)	0.9	-5.1	-2.7 (0.5)	0.5 (0.7)	-2.1 (-3.3)	-2.2 (-2.9)	1.0 (-4.4)	-0.6 (-3.1)	1.7 (1.2)	0.5 (-5.3)
Propensity to Consume (SA,%)	75.5	74.2	74.2 [74.0]	73.4 [74.6]	73.1 [74.4]	73.0 [75.3]	72.9 [73.7]	72.3 [74.5]	74.6 [72.9]	71.5 [75.4]
Overtime Hours Worked (All Industries, 5 employees or more)	4.8	2.0	-0.9 (-1.6)	0.1 (-0.9)	-0.2 (-0.9)	-0.6 (-0.9)	-0.2 (-0.9)	-0.2 (-2.8)	-1.0 (-1.9)	-0.2 (-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	96	95	104	101	106	98	94	104
Ratio of Job Offers to Applicants (SA,Times)	0.97	1.11	1.18 [1.09]	1.22 [1.10]	1.26 [1.12]	1.26 [1.12]	1.27 [1.14]	1.28 [1.14]	1.28 [1.15]	1.30 [1.16]
Unemployment Rate (SA,%)	3.9	3.5	3.3	3.4	3.3	3.3	3.3	3.2	3.3	3.2
Economy Watcher Survey (Judgment of the present condition D.I.%)	54.0	46.6	52.6 [44.8]	49.5 [48.7]	47.7 [43.6]	46.1 [41.5]	48.7 [45.2]	46.6 [45.6]	44.6 [50.1]	45.4 [52.2]
Bankruptcies (Number of cases)	10,536 (-10.0)	9,543 (-9.4)	2,296 (-12.1)	2,092 (-14.1)	2,152 (-3.1)	711 (-3.3)	699 (1.8)	675 (-6.3)	723 (4.4)	746 (-13.1)

(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 May. 9, 2016

	Fiscal	Fiscal	2015			2015		2016		
	2013	2014	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	10.8	5.4	(6.7)	(3.7)	(-4.6)	(-3.4)	(-8.0)	(-12.9)	(-4.0)	(-6.8)
Value	10.2	3.9	(7.4)	(6.8)	(-0.6)	(-0.3)	(-3.8)	(-4.1)	(-4.2)	(-5.8)
Volumes	0.6	1.3	(-0.6)	(-2.9)	(-4.1)	(-3.1)	(-4.4)	(-9.1)	(0.2)	(-1.0)
Imports (In Yen terms)	17.4	-1.0	(-5.3)	(-5.9)	(-13.9)	(-10.2)	(-18.0)	(-17.8)	(-14.2)	(-14.9)
Value	14.6	1.2	(-3.2)	(-4.1)	(-11.8)	(-11.6)	(-13.7)	(-13.5)	(-12.0)	(-19.1)
Volumes	2.3	-2.1	(-2.2)	(-1.9)	(-2.5)	(1.7)	(-5.0)	(-5.0)	(-2.5)	(5.2)
Current Account (100 mil. yen)	23,930	87,245	37,205	48,709	34,479	11,059	9,401	5,208	24,349	
Goods (100 mil. yen)	-110,445	-65,890	-581	-3,488	954	-3,041	1,943	-4,110	4,252	
Services (100 mil. yen)	-34,330	-27,252	-6,415	-2,238	-5,212	603	-1,983	-2,267	1,595	
Financial Account (100 mil. yen)	-9,829	137,595	44,248	54,646	49,065	25,006	14,161	12,154	31,667	
Gold & Foreign Exchange Reserves (\$1mil.)	1,279,346	1,245,316	1,242,935	1,248,936	1,233,214	1,233,008	1,233,214	1,248,107	1,254,149	1,262,099
Exchange Rate (¥/\$)	100.23	109.92	121.35	122.23	121.48	122.54	121.84	118.25	115.02	113.07

## 3. Financial Market Indicators

	Fiscal	Fiscal	2015			2015		2016					
	2013	2014	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR			
Uncollateralized Overnight Call Rates	0.073	0.068	0.067 [0.067]	0.074 [0.067]	0.076 [0.064]	0.078 [0.065]	0.075 [0.068]	0.074 [0.074]	0.033 [0.076]	-0.003 [0.070]			
Euro Yen TIBOR (3 Months)	0.223	0.194	0.169 [0.211]	0.169 [0.210]	0.169 [0.184]	0.169 [0.182]	0.169 [0.179]	0.169 [0.173]	0.098 [0.171]	0.098 [0.170]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.640	0.400	0.455 [0.565]	0.350 [0.525]	0.270 [0.330]	0.300 [0.420]	0.270 [0.330]	0.095 [0.275]	-0.065 [0.330]	-0.050 [0.400]			
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.077	1.006	0.987 (-0.019)	0.969 (-0.018)	0.956 (-0.013)	0.965 (-0.004)	0.956 (-0.009)	0.954 (-0.002)	0.943 (-0.011)				
The Nikkei Stock Average (TSE 225 Issues)	14,828	19,207	20,236 [15,162]	17,388 [16,174]	19,034 [17,451]	19,747 [17,460]	19,034 [17,451]	17,518 [17,674]	16,027 [18,798]	16,759 [19,207]			
M2(Average)	(3.9)	(3.3)	(3.9)	(4.0)	(3.4)	(3.3)	(3.1)	(3.2)	(3.2)	(3.2)			
Broadly-defined Liquidity(Average)	(3.7)	(3.4)	(4.3)	(4.5)	(3.9)	(3.9)	(3.7)	(3.8)	(3.6)	(3.2)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin		(2.0)	(2.3)	(2.5)	(2.6)	(2.3)	(2.3)	(2.2)	(2.4)	(2.2)	(2.0)	
		Banks		(2.3)	(2.5)	(2.6)	(2.7)	(2.3)	(2.3)	(2.2)	(2.3)	(2.2)	(2.0)
			City Banks etc.	(1.7)	(1.4)	(1.4)	(1.6)	(1.0)	(0.9)	(0.8)	(1.1)	(1.0)	(0.7)
			Regional Banks	(3.2)	(3.7)	(4.0)	(3.9)	(3.7)	(3.7)	(3.7)	(3.6)	(3.5)	(3.3)
			Regional Banks II	(1.4)	(2.9)	(3.1)	(3.4)	(3.2)	(3.2)	(3.1)	(3.2)	(3.2)	(3.3)
	Shinkin	(0.3)	(1.4)	(1.9)	(2.1)	(2.3)	(2.2)	(2.3)	(2.4)	(2.3)	(2.3)		
Deposits and CDs (Average)	Total(3 Business Condition)		(3.8)	(3.3)	(4.3)	(4.3)	(3.2)	(3.2)	(2.9)	(2.9)	(3.1)	(3.0)	
	City Banks		(3.7)	(3.4)	(5.4)	(5.4)	(3.6)	(3.6)	(3.0)	(3.1)	(4.0)	(3.8)	
	Regional Banks		(4.3)	(3.3)	(3.3)	(3.3)	(3.0)	(3.0)	(2.8)	(2.6)	(2.3)	(2.1)	
	Regional Banks II		(2.5)	(3.1)	(2.9)	(2.7)	(2.3)	(2.2)	(2.3)	(2.4)	(2.1)	(1.9)	

(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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