

Households Bear Burden of BoJ's Extraordinary Monetary Easing

REI TSURUTA
TOORU KANAHORI
ECONOMIC RESEARCH OFFICE

2 JUNE 2016
(ORIGINAL JAPANESE VERSION RELEASED ON 20 APRIL 2016)

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

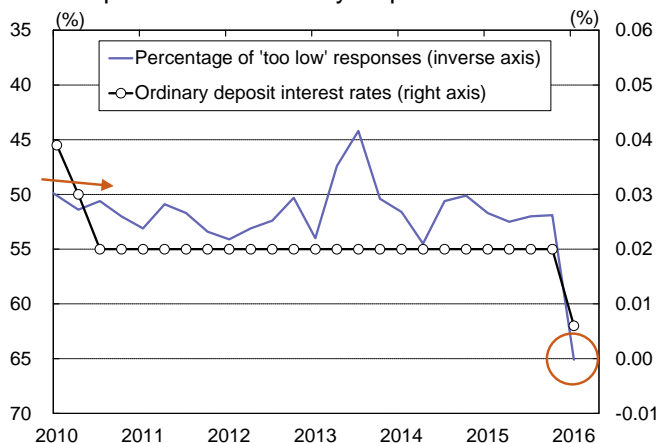
1. The Real Economy

The Opinion Survey on the General Public's Views and Behavior in March 2016, released on 11 April, was conducted by the Bank of Japan for the first time since its February introduction of negative interest rates. The results revealed how households view the BOJ's current Monetary Policy. First, with respect to their "*perception of the interest rate level*", directly related to the negative interest rate policy, the number of respondents who chose "*too low*" surged. It was the largest increase since the current survey system was introduced in 2006 (Figure 1). In light of ordinary deposit interest rates declined from February through March, it may seem natural. But in fact, the number did not change much when ordinary deposit interest rates declined by approximately the same margin in the past. Speculation on adoption of negative deposit rates and accelerated suspension of solicitation as well as redemption of popular financial instruments including MMF (money management fund) can be accounted for the negative perceptions of the BoJ's negative interest rate policy.

Another question was "*Why do you think your household circumstances have become worse off?*" The number of response "*Because my interest income and dividend payments have diminished*" jumped this time, another indication that the negative interest rate policy might be leading to worsened sentiment (Figure 2). We also note that, with the rate of increase of consumer price falling to nearly zero, the percentage of response "*Because prices have risen*" has decreased in the recent surveys. Higher price is clearly not considered desirable by households.

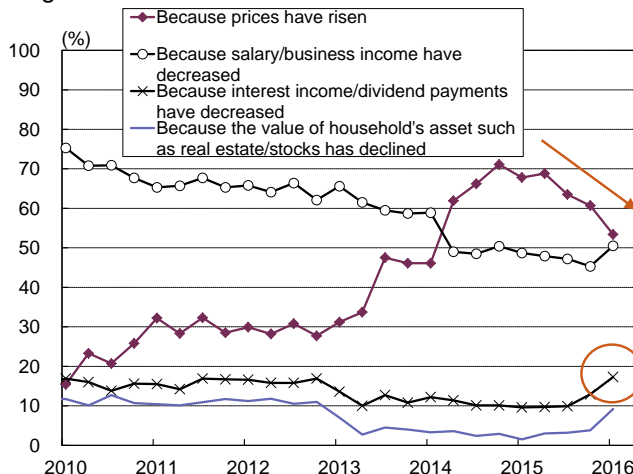
The BoJ aims to achieve the price stability target of 2 percent by applying an extraordinary monetary easing policy, but the policy has not been compatible with improving sentiment or expanding consumption expenditure, at least among households. As long as wage increases do not clearly keep up with or outpace inflation, the price stability target is instead likely to cause weak sentiment to be prolonged.

Figure 1: Percentage of *Interest Rates are Too Low* Responses and Ordinary Deposit Interest Rates



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

Figure 2: Reasons Cited for Worse-Off Circumstances



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

2. Monetary Policy and Financial Markets

(1) MONETARY POLICY & LONG-TERM YIELDS

The introduction of negative interest rates also appears to have impacted business sentiment among financial institutions. The BoJ's March Tankan survey showed that the Business Conditions DI among banks and shinkin banks (credit unions) plunged due to concerns about smaller loan-deposit interest margins due to lower interest rates and worsening asset management conditions (Figure 3). On the other hand, the Financial Institutions Lending Attitudes DI rose from the December Tankan, indicating that companies feel that financial institutions' lending attitudes have eased. With asset management returns declining all-around, financial institutions may be more actively pursuing lending, which promises relatively high returns. However, improvement in corporate growth expectations and growing demand in financing may surely contribute to the growth of lending by financial institutions. Whether the Government can incorporate growth measures—which appear to be increasingly delayed—in its revised growth strategy due in June will be closely watched.

The yield on the 10Yr JGB turned negative for the first time ever in early February following the introduction of the negative interest rate policy. The yield now stands at around -0.1%.

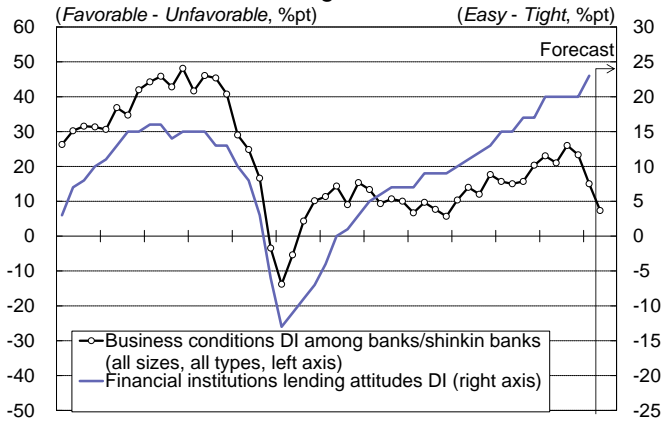
(2) EXCHANGE RATES

JPY buying and USD selling has picked up since February, with USD/JPY falling to the 107 level of late (Figure 4). The nominal real exchange rates of the USD and JPY show that the JPY has strengthened to the highest level since November 2013, while the USD has weakened. This shows that the rallying JPY and weakening USD have thus been caused by both JPY and USD factors. The JPY strengthening factors include risk aversion causing JPY buying to pick up, as well as inflation expectations in Japan slumping and real interest rates rising. USD weakening factors include receded expectations for a Fed rate hike causing US interest rates to decline.

Looking ahead, the possibility of Japanese real interest rates remaining high due to weak inflation expectations bears watching. But if the US economy remains firm, we forecast USD

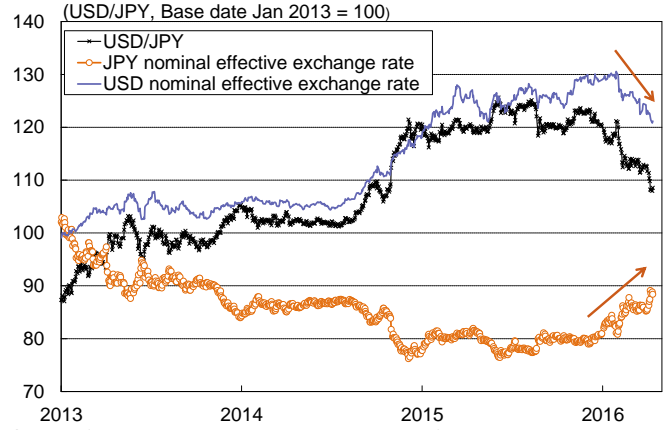
selling pressure could weaken as conditions are laid for a rate hike. At the same time, investor risk aversion could diminish, and this could cause JPY buying pressure to also weaken.

Figure 3: Bank, Shinkin Bank Business Conditions DI and Lending Attitudes DI



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

Figure 4: USD/JPY and Nominal Effective Exchange Rates



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

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of June. 2, 2016

	Fiscal	Fiscal	2015		2016	2015	2016			
	2014	2015	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.9	0.8	1.6 (1.8)	-1.7 (0.7)	1.7 (-0.0)	***	***	***	***	***
Index of All Industries Activity	-1.1	0.8	0.0 (1.2)	-0.2 (0.6)	-0.1 (0.3)	-0.6 (-0.6)	1.2 (-0.6)	-0.9 (1.6)	0.1 (-0.1)	
Industrial Production Index	-0.5	-1.0	-1.0 (-0.9)	0.1 (-0.8)	-1.0 (-1.6)	-1.2 (-2.1)	2.5 (-4.2)	-5.2 (-1.2)	3.8 (0.2)	0.3 (-3.5)
Production										
Shipments	-1.2	-1.2	-0.7 (-0.8)	0.4 (-0.8)	-2.0 (-2.4)	-1.4 (-2.5)	2.0 (-5.4)	-4.1 (-1.6)	1.8 (-0.7)	1.5 (-3.6)
Inventory	6.1	1.8	-0.5 (2.0)	-0.5 (0.0)	2.4 (1.8)	0.4 (0.0)	-0.3 (0.2)	-0.2 (-0.9)	2.9 (1.8)	-1.7 (0.1)
Inventory/Shipments Ratio (2010=100)	112.0	115.0	114.7 [113.2]	114.9 [113.8]	116.3 [113.0]	116.3 [112.7]	116.2 [111.6]	114.5 [113.5]	118.3 [114.0]	115.7 [113.7]
Domestic Corporate Goods Price Index	2.7	-3.2	-1.1 (-3.7)	-1.4 (-3.7)	-1.4 (-3.4)	-0.3 (-3.5)	-1.0 (-3.2)	-0.3 (-3.4)	-0.1 (-3.8)	-0.3 (-4.2)
Consumer Price Index(SA, total, excl.fresh foods)	2.8	0.0	0.0 (-0.1)	0.0 (0.0)	-0.8 (-0.1)	0.1 (0.1)	-0.3 (0.0)	-0.1 (0.0)	-0.1 (-0.3)	-0.1 (-0.3)
Index of Capacity Utilization (2010=100)	100.6	98.0	97.6 [99.1]	97.9 [100.7]	97.3 [101.4]	97.2 [101.2]	99.9 [103.9]	94.5 [100.5]	97.5 [99.9]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	0.8	4.1	-6.5 (-0.9)	2.6 (2.1)	6.7 (3.4)	1.0 (-3.6)	15.0 (8.4)	-9.2 (-0.7)	5.5 (3.2)	
Manufacturing	7.0	6.2	-9.6 (-1.1)	-3.0 (-3.1)	13.7 (4.3)	-3.0 (-13.1)	41.2 (25.4)	-30.6 (-12.3)	19.7 (2.7)	
Non-manufacturing Excl.Electric Power & Ship building	-3.3	2.5	-4.9 (-0.8)	5.6 (6.3)	3.5 (2.6)	4.5 (3.3)	1.0 (-4.6)	10.2 (8.7)	-6.9 (2.7)	
Shipments of Capital Goods (Excl.Transport Equipment)	4.4	-2.3	-1.8 (-1.3)	-1.7 (-4.2)	-2.4 (-5.5)	-2.4 (-6.0)	4.2 (-10.7)	-8.1 (-1.5)	2.6 (-4.8)	6.0 (-2.9)
Construction Orders	8.2	-0.9								
Private	4.8	7.9								
Public	22.9	-15.6								
Public Works Contracts	-0.3	-3.8								
Housing Starts 10,000 units at Annual Rate, SA	88.0 (-10.8)	92.1 (4.6)	91.7 (6.2)	86.8 (-0.7)	94.7 (5.5)	86.0 (-1.3)	87.3 (0.2)	97.4 (7.8)	99.3 (8.4)	99.5 (9.0)
Total floor										
Sales at Retailers	-1.2	0.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-5.1	-1.2	0.5 (0.7)	-2.1 (-3.3)	0.5 (-2.6)	1.0 (-4.4)	-0.6 (-3.1)	1.7 (1.2)	0.5 (-5.3)	0.2 (-0.4)
Propensity to Consume (SA,%)	74.2	73.6	73.4 [74.6]	73.1 [74.4]	72.8 [74.3]	72.9 [73.7]	72.3 [74.5]	74.6 [72.9]	71.5 [75.4]	74.2 [73.6]
Overtime Hours Worked (All Industries, 5 employees or more)	2.0	-1.3	0.1 (-0.9)	-0.2 (-0.9)	-1.2 (-2.1)	-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)	0.5	0.2								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	77	98	95	104	98	106	98	94	102	
Ratio of Job Offers to Applicants (SA,Times)	1.11	1.23	1.22 [1.10]	1.22 [1.12]	1.26 [1.15]	1.27 [1.14]	1.28 [1.14]	1.28 [1.15]	1.30 [1.16]	1.34 [1.17]
Unemployment Rate (SA,%)	3.5	3.3	3.4	3.3	3.2	3.3	3.2	3.3	3.2	3.2
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.6	48.8	49.5 [48.7]	47.7 [43.6]	45.6 [49.3]	48.7 [45.2]	46.6 [45.6]	44.6 [50.1]	45.4 [52.2]	43.5 [53.6]
Bankruptcies (Number of cases)	9,543 (-9.4)	8,684 (-9.0)	2,092 (-14.1)	2,152 (-3.1)	2,144 (-5.6)	699 (1.8)	675 (-6.3)	723 (4.4)	746 (-13.1)	695 (-7.0)

(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 June 2, 2016

	Fiscal	Fiscal	2015		2016	2015	2016			
	2014	2015	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR
Customs Clearance (Exports in Yen Terms)	5.4	-0.7	(3.7)	(-4.6)	(-7.9)	(-8.0)	(-12.9)	(-4.0)	(-6.8)	(-10.1)
Value	3.9	2.1	(6.8)	(-0.6)	(-4.7)	(-3.8)	(-4.1)	(-4.2)	(-5.8)	(-5.7)
Volumes	1.3	-2.7	(-2.9)	(-4.1)	(-3.2)	(-4.4)	(-9.1)	(0.2)	(-1.0)	(-4.6)
Imports (In Yen terms)	-1.0	-10.3	(-5.9)	(-13.9)	(-15.7)	(-18.0)	(-17.8)	(-14.2)	(-14.9)	(-23.3)
Value	1.2	-8.5	(-4.1)	(-11.8)	(-14.9)	(-13.7)	(-13.5)	(-12.0)	(-19.0)	(-17.1)
Volumes	-2.1	-1.8	(-1.9)	(-2.5)	(-0.8)	(-5.0)	(-5.0)	(-2.5)	(5.2)	(-7.5)
Current Account (100 mil. yen)	87,245	179,752	48,709	34,479	59,360	9,401	5,208	24,349	29,804	
Goods (100 mil. yen)	-65,890	6,299	-3,488	954	9,414	1,943	-4,110	4,252	9,272	
Services (100 mil. yen)	-27,252	-12,109	-2,238	-5,212	1,757	-1,983	-2,267	1,595	2,429	
Financial Account (100 mil. yen)	137,595	245,338	54,646	49,065	97,379	14,161	12,154	31,667	53,558	
Gold & Foreign Exchange Reserves (\$1mil.)	1,245,316	1,262,099	1,248,936	1,233,214	1,262,099	1,233,214	1,248,107	1,254,149	1,262,099	1,262,509
Exchange Rate (¥/\$)	109.92	120.13	122.23	121.48	115.45	121.84	118.25	115.02	113.07	109.88

3. Financial Market Indicators

	Fiscal	Fiscal	2015		2016	2015	2016						
	2014	2015	3Q	4Q	1Q	DEC	JAN	FEB	MAR	APR			
Uncollateralized Overnight Call Rates	0.068	0.063	0.074 [0.067]	0.076 [0.064]	0.035 [0.073]	0.075 [0.068]	0.074 [0.074]	0.033 [0.076]	-0.003 [0.070]	-0.037 [0.061]			
Euro Yen TIBOR (3 Months)	0.194	0.157	0.169 [0.210]	0.169 [0.184]	0.122 [0.171]	0.169 [0.179]	0.169 [0.173]	0.098 [0.171]	0.098 [0.170]	0.060 [0.170]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.400	-0.050	0.350 [0.525]	0.270 [0.330]	-0.050 [0.400]	0.270 [0.330]	0.095 [0.275]	-0.065 [0.330]	-0.050 [0.400]	-0.085 [0.340]			
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.006	0.924	0.969 (-0.018)	0.956 (-0.013)	0.924 (-0.032)	0.956 (-0.009)	0.954 (-0.002)	0.943 (-0.011)	0.924 (-0.019)				
The Nikkei Stock Average (TSE 225 Issues)	19,207	16,759	17,388 [16,174]	19,034 [17,451]	16,759 [19,207]	19,034 [17,451]	17,518 [17,674]	16,027 [18,798]	16,759 [19,207]	16,666 [19,520]			
M2(Average)	(3.3)	(3.6)	(4.0)	(3.4)	(3.2)	(3.1)	(3.2)	(3.2)	(3.2)	(3.3)			
Broadly-defined Liquidity(Average)	(3.4)	(4.1)	(4.5)	(3.9)	(3.5)	(3.7)	(3.8)	(3.6)	(3.2)	(2.7)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(2.3)	(2.4)	(2.6)	(2.3)	(2.2)	(2.2)	(2.4)	(2.2)	(2.0)	(2.2)	
		Banks	Banks	(2.5)	(2.5)	(2.7)	(2.3)	(2.2)	(2.2)	(2.3)	(2.2)	(2.0)	(2.2)
			City Banks etc.	(1.4)	(1.2)	(1.6)	(1.0)	(0.9)	(0.8)	(1.1)	(1.0)	(0.7)	(1.0)
			Regional Banks	(3.8)	(3.7)	(3.9)	(3.7)	(3.4)	(3.7)	(3.6)	(3.5)	(3.3)	(3.4)
			Regional Banks II	(2.9)	(3.2)	(3.4)	(3.2)	(3.2)	(3.1)	(3.2)	(3.2)	(3.3)	(3.4)
	Shinkin	(1.4)	(2.2)	(2.1)	(2.3)	(2.3)	(2.3)	(2.4)	(2.3)	(2.3)	(2.2)		
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(3.3)	(3.7)	(4.3)	(3.2)	(3.0)	(2.9)	(2.9)	(3.1)	(3.0)	(3.2)	
		City Banks	(3.4)	(4.5)	(5.4)	(3.6)	(3.6)	(3.0)	(3.1)	(4.0)	(3.8)	(4.6)	
		Regional Banks	(3.3)	(3.0)	(3.3)	(3.0)	(2.4)	(2.8)	(2.6)	(2.3)	(2.1)	(1.8)	
		Regional Banks II	(3.1)	(2.5)	(2.7)	(2.3)	(2.1)	(2.3)	(2.4)	(2.1)	(1.9)	(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.

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.