

The Outlook for the Japanese Economy

Japanese economy remains on a recovery track amid declining corporate earnings

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1. Overview of the Japanese Economy

Real GDP growth of Japan stood at annualized +0.2% QoQ in Apr-Jun (the first preliminary figures), which recorded positive growth for two consecutive quarters (Figure 1). Japanese economy has showed its resilience as securing annualized +1% QoQ for the two consecutive quarters, if averaging the expansionary effects of leap year with extra days in Jan-Mar.

Even so, the degree of growth varied between household and corporate sector. Private consumption in household sector secured the positive growth for 2 consecutive quarters on the back of solid wage increase and fall in consumer prices although impacted by the recoil decrease in demand due to leap year effects. Residential investment overall recovered, marked the high growth of annualized +21.3% QoQ, supplemented by the last-minute surge in demand, increased construction of houses for lent for inheritance tax strategy purpose, as well as lower mortgage rates. In corporate sector, capital expenditure decreased for 2 consecutive quarters, stood at -1.5% as the corporate earnings peaked out due to stronger JPY incurred by the increasing uncertainty over the global economy and sluggish exports.

Figure 1: Real GDP and Final Demand

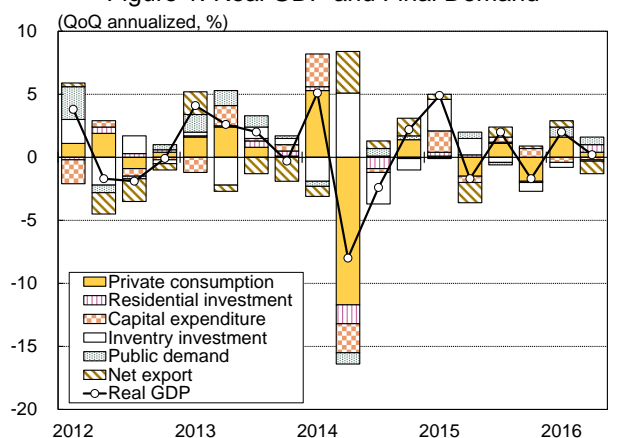
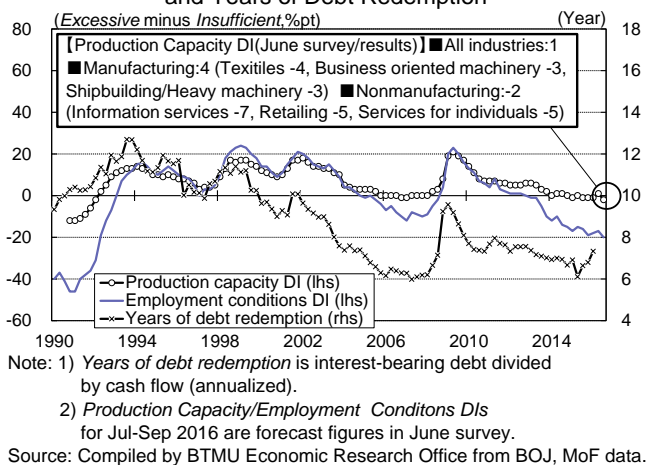


Figure 2: Production Capacity, Employment Conditions DIs and Years of Debt Redemption

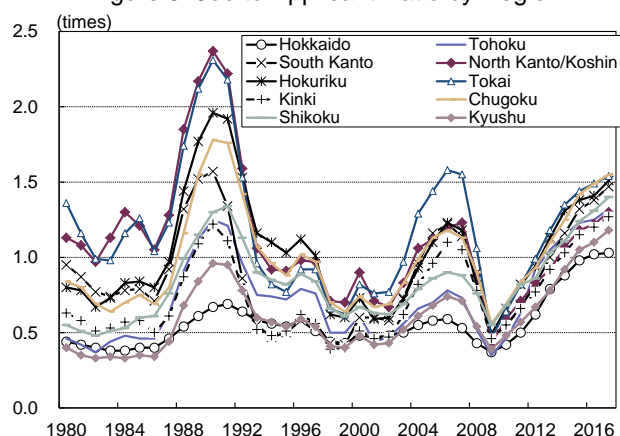


Japanese economy currently faces a test of proving its growth sustainability as corporate earnings, which has been a driver of economic recovery, turn to decline. Future economic sustainability will depend whether capital expenditure, employment, wage will be able to maintain the growth even in the phase where corporate earnings is on a downward trend. First, looking at the conditions surrounding the capital expenditure, “3 excess” that may hamper corporate investment activities namely “*excessive equipment, employment, debts*” actually disappeared, fund raising cost is at the historical low, which indicates that the environment should allow the additional capital expenditure (Figure 2). With respect to employment and wage conditions, labor market has been tightening on a nation-wide basis, as job to applicant ratio in June exceeded 1.0 in all prefectures for the first time since the statistics started in 1963, therefore, Japanese corporations are holding back from cutting personnel costs (Figure 3). Even so, the tight labor market can boost capital expenditure to improve efficiency, which ultimately will result in reduction in headcount. In this respect, we forecast that the tight labor market will support consumption in both capital expenditure and employment/wage terms.

Next, looking at demand going forward, a key to future corporate activities, the aforementioned stable employment/income environment, relatively low consumer prices due to appreciating JPY and lower crude oil prices will continue to supplement the recovery of private consumption. Moreover, the “*Economic Measures for Realizing Investment for the Future*” with a scale of 28.1 trillion yen, announced in August by the government will also boost the demand for the short term with the public sector investment of 3 trillion yen in provided in the supplementary budget. As for external demand, should bear watching for downward pressures exerted by the Structural Reform in China and Brexit, however, it will gradually stabilize on the back of recovery of advanced economies, including US.

Considering such favorable conditions surrounding Japanese corporations, solid demand and relatively high corporate earnings although showing a sign of peak-out, Japanese economy will avoid stalling in the midst of stable corporate sentiments, gradually increasing capital expenditure, employment and wage. It is predicted that real GDP growth in 2016 will be +0.6% YoY, +0.8% in 2017, Japanese economy will be on a modest recovery path although it may lack strength (Table 1). Nonetheless, we should carefully monitor the downside risk stemming from the global and financial market, it should bear watching for turbulence in financial and exchange market possibly caused by the decision of BOJ on its monetary policy at the Monetary Policy Meeting in September, in which “*Comprehensive assessment*” is scheduled to be discussed.

Figure 3: Job to Applicant Ratio by Region



Source: Compiled by BTMU Economic Research Office from Ministry of Health, Labour and Welfare data.

Table 1: GDP Forecast

	FY 2015 Actual	FY 2016 Forecast	FY 2017 Forecast
Real GDP	0.8	0.6	0.8
Private consumption	-0.2	0.6	0.7
Residential investment	2.4	6.2	0.7
Capital expenditure	2.1	0.4	1.8
Inventory investment (contribution)	0.3	-0.2	0.0
Public demand	0.7	1.7	1.2
Net export (contribution)	0.1	-0.1	-0.1
Export	0.4	-0.7	2.2
Import	0.0	0.2	2.9
Nominal GDP	2.2	0.8	0.6
GDP deflator	1.4	0.2	-0.3

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

2. Key Points in Outlook

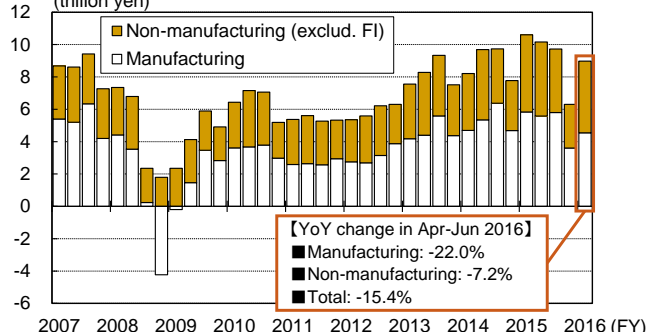
(1) CORPORATE EARNINGS PEAKED OUT AND CAPITAL EXPENDITURE GOING FORWARD

It has become more evident that Japan's corporate earnings peaked out due to appreciating JPY triggered by the rising uncertainty over global economy. Totalling the quarterly results of corporations listed at the 1st section of TSE (Tokyo Stock Exchange), excluding financial institutions, current profits in Apr-Jun drastically decreased to -15.4% YoY (Figure 4). We estimate that one JPY appreciation against USD should push down current profits by approximately -0.7% especially in manufacturing industries. In fact, JPY is recently appreciated to USD/JPY 100, stronger than USD/JPY 108, the average rate during Apr-Jun period, it is highly likely that corporate earnings have virtually decreased to -20% YoY.

On the other front, a series of surveys indicate that Japanese enterprises are taking solid stance on capital expenditures. According to the *Survey on Planned Capital Spending* released by Development Bank of Japan in August, both manufacturing and non-manufacturing sectors plan on rather aggressive investment, motivated not only by renewal of equipments, rationalization, labor saving, but also expansion of production capacity and product development (Figure 5). As capital expenditure have high linkage with sales amount which reflect the business demand than current profit, enterprises are not so pessimistic about domestic demand going forward. In fact, BOJ Tankan Survey on enterprises' Sales/Current Profits Forecast, their earnings forecast in 2016 will be -7.2% YoY, which is severe, while sales forecast is -0.1% at unchanged level.

Moreover, focusing on corporate earnings level, current profits in Apr-Jun drastically fell, however, profit figures exceed the one in Apr-Jun, 2007, a peak period prior to the collapse of Lehman Brothers, still considered being at the historically high level even taking into the account the appreciation of JPY continued since then. For all of these reasons, the momentum of expansive capital expenditure will be maintained, it is likely to be on a gradual increasing trend supported by both firm external and domestic demands.

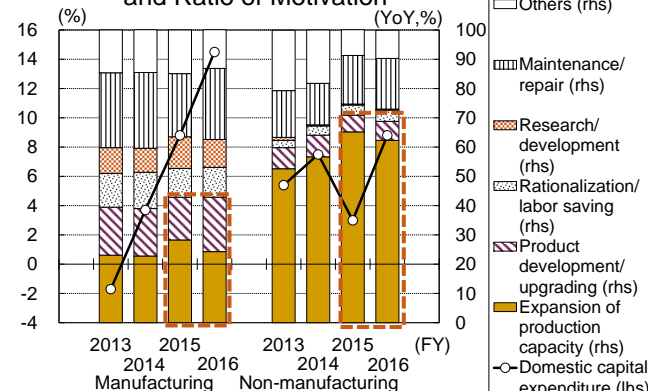
Figure 4: Current Profit of Corporations Listed at 1st Sec. of TSE (excluding Financial Institutions) (trillion yen)



Note: The sum of current profits of 1,332 corporations from which Apr-Jun, 2006 quarterly results can be continuously obtained among the ones who released the results of Apr-Jun 2016 as of August 26.

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

Figure 5: Domestic Capital Expenditure and Ratio of Motivation



Note: Forecasted figures for FY2016.

Source: Compiled by BTMU Economic Research Office from Development Bank of Japan data.

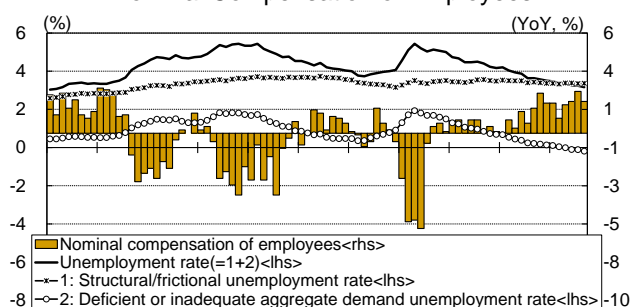
(2) GRADUALLY RECOVERING PRIVATE CONSUMPTION

Nominal compensation of employees, a basis of private consumption, continues growing at a solid pace, stood at +1.9% YoY in Apr-Jun (Figure 6). Payrolls continue increasing due to the tight labor supply and demand on a nation-wide basis, and wage is also modestly increasing. Looking at the final management reply to the annual spring wage negotiation released in July, laborer side secured 2% level wage increase for 3 consecutive years, and also the increase in base pay excluding annual increase was slightly up +0.3% from the previous year, which should be assessed not so bad amid the nearly zero increase in Consumer Price during the negotiation period.

Under such circumstance, private consumption has gradually recovered, however, its future recovery is not foreseeable due to the unstable movement of stock prices and exchange rates associating with Brexit as a number of surveys on consumer sentiment (Table 2). Even so, Consumer Confidence Survey, conducted in June, which is the period from the government's decision to delay a consumption tax hike made on June 1 through Brexit, shows that the indicators of "Overall livelihood" and "Willingness to buy durable goods" have clearly improved. It evidences that the delayed tax hike improved consumers' sentiment to a certain extent. Additionally, the result of July "Economy Watchers Survey" has dramatically improved from June Survey, the one conducted immediately after Brexit. We forecast that the improved consumer sentiment brought by the delayed consumption tax hike will gradually appears, as the event-driven deterioration of consumers' sentiment gradually ease.

Going forward, it is expected that consumer prices will remain low for the time-being backed by the stronger JPY and low oil prices, which will also contribute to the improvement of consumer sentiment through the increase in real income. Moreover, recoil decrease in demand caused by the pre-consumption over demand for durable goods as a result of the past policy measures will gradually calm down. Private consumption will moderately recover although it will lack strength.

Figure 6: Unemployment Rate and Nominal Compensation of Employees



1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015
 Note: 1. Structural/frictional unemployment rate are estimated by our office.
 2. Deficient or inadequate aggregate demand unemployment rate is total unemployment rate minus structural/frictional unemployment rate.
 Source: Compiled by BTMU Economic Research Office from Ministry of Internal affairs and Communications, Ministry of Health, Labour and Welfare, Cabinet Office data.

Table 2: Changes in Consumer Sentiments

Indicators		Dec 2015	Jan	Feb	Mar	Apr	May	Jun	Jul
Consumer Sentiment Index	Insecurity over life	134.0		133.0		136.0		128.0	
	Life satisfaction	113.0		113.0		114.0		112.0	
	Economic forecast	58.0		44.0		44.0		54.0	
	Purchase of real-estate	93.0		109.0		107.0		113.0	
	Purchase of automobile	93.0		103.0		101.0		111.0	
	Purchase of durable goods	104.0		107.0		106.0		117.0	
Consumer Confidence Survey	Overall livelihood	41.1	40.9	38.5	40.5	39.6	39.7	40.4	40.5
	Income growth	41.7	41.0	39.8	40.6	40.8	40.8	41.1	40.4
	Employment	45.8	45.3	42.2	43.9	42.8	42.9	43.7	43.0
	Willingness to buy durable goods	41.6	41.9	40.0	41.7	39.8	40.2	42.1	41.3
Economy Watchers Survey	Retail	45.1	45.1	42.8	42.4	40.7	40.5	38.8	43.5
	Food and Beverage	52.9	45.0	41.3	42.8	40.3	41.1	40.5	43.9
	Services	51.1	46.9	44.3	47.6	44.0	44.1	42.2	46.8
	Housing	49.7	45.6	43.8	48.1	50.0	45.9	44.7	44.6

Note: The yellow shaded areas are with indicators deteriorated from the previous survey.
 The area circled by red-dotted line showed the survey period from the beginning-mid June, namely, from the decision on a delayed tax hike through Brexit.
 Source: Compiled by BTMU Economic Research Office from Cabinet Office, Nippon Research Institute data.

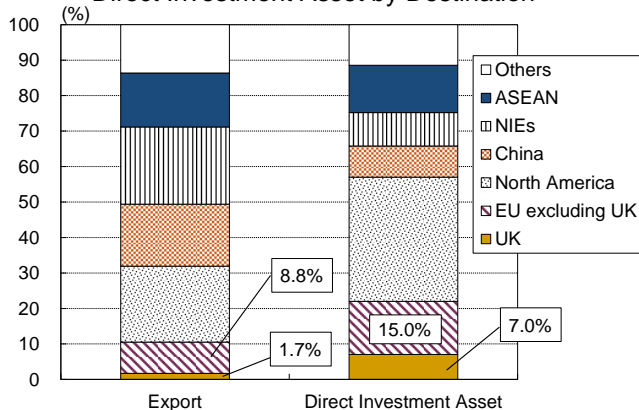
(3) IMPACT OF BREXIT ON JAPANESE ECONOMY

UK has chosen Exit EU on the June 23 Referendum. As the immediate impact on Japanese economy, possibly decelerating UK and EU economies and downward pressure on Japan's export exerted by JPY appreciation as a result of risk-aversion movement can be cited, however, its degree should be limited. Japan's export to UK only account for 1.7% of total export as of 2015, and the export to EU is also only 10.6%, the direct impact of changing demand in such regions on Japan's export is not so significant (Figure 7). Moreover, the export companies are more inclined to stabilize the local selling prices, the correlation between exchange rate and real export has lowered, Japan's export will not suffer severe damage from appreciating JPY.

Looking at the current real export, the one to China and Asia, which had been sluggish, also show the sign of bottoming out, while the export to US and EU remains almost firm. Going forward, Japan's export will be on a gradual recovery path although it is not a full scale, underpinned by cyclic economic recovery of advanced countries including US although the slowdown of Chinese economy will exert downward pressure.

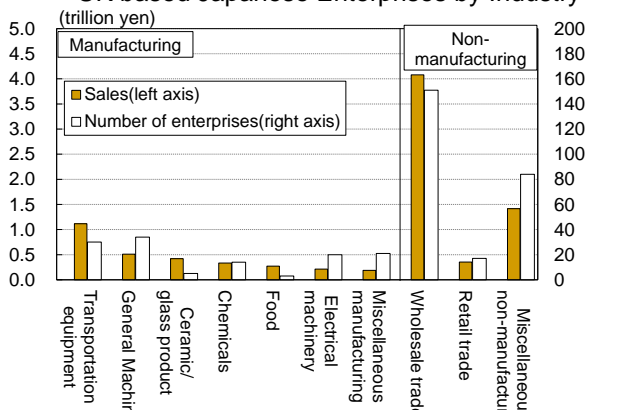
Nonetheless, mid-long term impact of Brexit on Japanese enterprises that conduct businesses in UK should bear cautious watching than the said short-term impact on export. According to the survey of Teikoku Data Bank, as of June 2016, total of 1,380 Japanese enterprises have affiliates in UK, 558 of them are in manufacturing sector (40.4%). The breakdown by sector in *Basic Survey of Overseas Business Activities* released by Ministry of Economy, Trade and Industry (METI), shows that considerable number of manufacturers of transportation equipment, general machinery, electrical machinery operate businesses in UK, as positioning UK as an export hub of EU region (Figure 8). The specific impact will depend on the relationship between UK and EU to be re-established going forward, nevertheless, there will be possibility that UK based Japanese enterprises will be forced to review their business strategies in Europe including the establishment of new production points or withdrawal from UK.

Figure 7: Japanese Export and Direct Investment Asset by Destination



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

Figure 8: Sales and Number of UK based Japanese Enterprises by Industry



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

(4) Economic Stimulus Package will underpin Japanese economy

“Economic Measures for Realizing Investment for the Future” in approximately 28.1 trillion yen in total size, approved by the Cabinet office on August 2 places much value on public sector investment including “21st Century Infrastructure Development” and “Restoration from Kumamoto Earthquake and the Great East Japan Earthquake and enhancement of security, safety, disaster prevention” while focusing on “Promoting Dynamic Engagement of All Citizens” through the upgrade of childcare, nursing, and loan programs (Table3). The scale of this Stimulus Economic Package exceeds 20.2 trillion of “Emergency Economic Stimulus for Rebirth of Japanese Economy” announced in January 2013 by the newly established Abe Administration, the 3rd largest in the history.

Fiscal measures taken for the Economic Stimulus comes to total of 13.5 trillion yen (7.5 trillion yen of fiscal action, and 6.0 trillion yen of fiscal investment and loan), we estimate that its effects of boosting GDP growth in real terms will be approximately 6 trillion yen (approximately 1.2% of GDP) (Figure 9). However, the amount to be provided under the framework of supplementary budget for FY 2016 approved by the Cabinet on August 24 will be 4.5 trillion yen, and its economic effects will be approximately 3.8 trillion yen (approximately 0.7% of GDP).

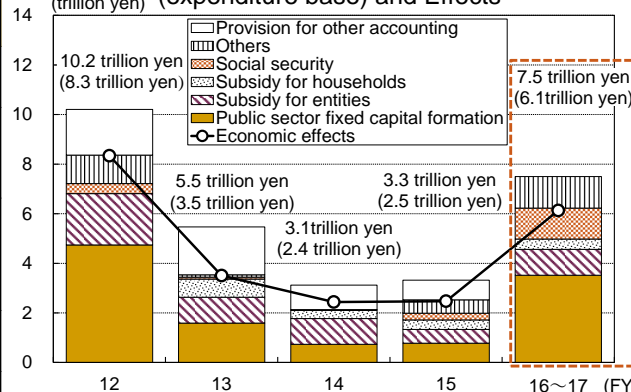
In June, the government decided to delay a consumption tax hike (initially scheduled in April 2017) until October 2019. Furthermore, the Stimulus Economic Package involving fiscal actions exceeding the scale of previous fiscal year will further supplement the Japanese economy for the time being. However, the issuance of large amount of JGB during this fiscal year (construction bonds, 2.7 trillion yen) to be incorporated into the FY 2016 supplementary budget for the first time in 4 years may increase the uncertainty over the future fiscal consolidation efforts. The government will be required to balance economic growth and fiscal consolidation by further streamlining and prioritizing social security benefits payments under the Reform Plan.

Table 3: Comprehensive Stimulus Economic Package to Invest in Future

Expenditure	Key policy	(trillion yen)			
		Business scale	Fiscal measures	Fiscal action	Fiscal investment/loan
1. Promoting dynamic engagement of all citizens	Child care, nursing, improvement in salary or benefits, benefit plan or loan program, simple benefit plan	3.5	3.4	2.5	0.9
2. 21st Century infrastructure development	Harbor improvement/aircraft parking improvement, relax required floor area ratio, accelerate linear infrastructure development (fiscal investment plan)	10.7	6.2	1.7	4.4
3. Countermeasures against risks stemming from Brexit, and support for MSEs/micro enterprises, local regions	Lower interest rate of Finance Corporation, Shokou Chukin Support improvement of productivity of SMEs Extend Law of Strengthening Financial Institutions	10.9	1.3	0.6	0.7
4. Restoration from Kumamoto and the Great East Japan Earthquakes, enhancement of security, safety, disaster prevention	Restoration from disaster, disaster-proof infrastructure, measures taken for decrepit infrastructure	3.0	2.7	2.7	0.0
5. Promote structural reform to enhance smooth circulation of growth and distribution	Promote "Equal pay for equal job" Raise minimum wage	-	-	-	-
Total		28.1	13.5	7.5	6.0

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

Figure 9: Scale of Economic Stimulus Measures (trillion yen) (expenditure base) and Effects



Note: Upper figures shows budget, Lower figure shows estimated effects.
Source: Compiled by BTMU Economic Research Office from Ministry of Finance data.

3. Monetary Policy and Financial Markets

(1) Monetary policy

At the Monetary Policy Meeting (hereafter, MPM) held on July 28-29, Bank of Japan (hereafter, BOJ) decided on enhancement of monetary easing which includes the doubling the purchase of ETF and ensuring smooth funding in foreign currencies by firms and financial institutions. (Table 4). BOJ also announced that it will perform “*Comprehensive Assessment*” at the next MPM scheduled on September 20-21, on the development of economic activity/prices and the effectiveness of the policy measures implemented under the framework of monetary easing, aiming to achieve the price stability target of 2% at the earliest possible. At the August 2 meeting with Mr. Aso, Finance Minister, Mr. Kuroda, BOJ governor, commented that the monetary easing will never be scaled down regardless of the results of “*Comprehensive Assessment*”. Mr. Iwata, Deputy Governor, also indicated that BOJ has no intention to downgrade the monetary easing.

Considering their comments, and falling consumer prices, we forecast that BOJ will stick to the previously made evaluation, which is “*on-going monetary policy is effectively working*”, but, still highly likely to enhance monetary easing in some form to achieve 2% target at the earliest possible as assuming the market will greatly respond to such BOJ’ stance (no additional monetary easing), which may lead to the turbulence in the market. In the questionnaire conducted by Bloomberg over the private sector economists, a little less than 70% of them also referred to the possibility of additional easing at September MPM to be increased by the announcement of “*Comprehensive assessment*”.

The additional easing will be conducted by accelerating the pace of increase in monetary base and application of negative interest rate in Loan Support Program, however, BOJ might be reluctant to expand negative interest rate as fearing its side effect.

Table 4: Items decided on MPM on July 29-29

Easing measures		Current	Decided on Jul 28-29 MPM
Interest rate	Introduction of negative interest rate	Apply -0.1% negative interest rate to BOJ current account balance held by financial institutions	Unchanged
		Loan support program with negative interest rate	Unchanged
Quantity	Adjusting monetary market	Increase monetary base by 80 trillion yen on an annual pace	Unchanged
Quality	Asset purchase	Increase the amount outstanding of long-term JGB by approximately 80 billion yen on an annual pace (average remaining maturity is 7-12 years)	Unchanged
		Increase the amount outstanding of ETF by approximately 3.3 trillion yen on an annual pace	Expand to approx. 6 trillion yen on an annual pace
		Increase the amount outstanding of J-REIT by approximately 90 billion yen on an annual pace	Unchanged
		Maintain the amount outstanding of CP at approximately 2.2 trillion yen.	Unchanged
		Maintain the amount outstanding of corporate bonds at approximately 3.2 trillion yen.	Unchanged
Others	Smooth funding in foreign currencies by firms and financial institutions	The size of the BOJ's Funds-Supplying Operations to support growth in USD is set at 12 billion USD	Expand to the size of 24 billion USD
		—	Establish a new facility for lending JGB to be pledged as collateral required for USD Funds-Supplying Operations against current account balances with BOJ

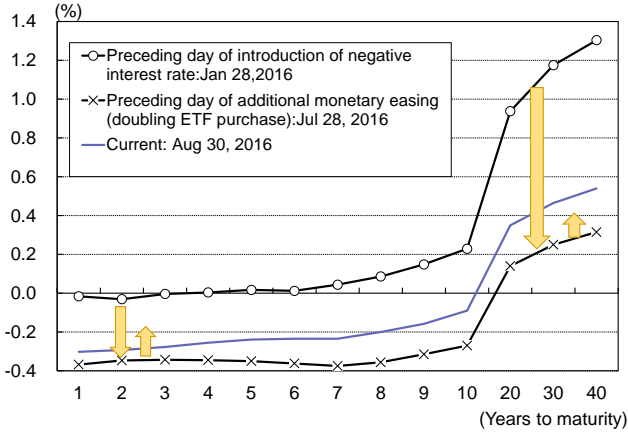
Source: Compiled by BTMU Economic Research Office from BoJ data.

(2) Long term rate and exchange market

Due to the rising expectation for BOJ's decision on additional monetary easing such as extensive application of negative interest rates and the increase in purchase of long-term JGB at July 28-29 MPM, the yield of 10 years JGB has dropped to -0.3%, the historical low, in the beginning of July, JPY once depreciated to JPY/USD 107 in mid-July. Later on, the increase in ETF purchase amount turned out not so large, and the expectation ebbed, which pushed up interest rate again, JPY had been appreciated against USD (Table 10). Currently, the yield of 10 years JGB is around -0.1%, JPY/USD stays around 100.

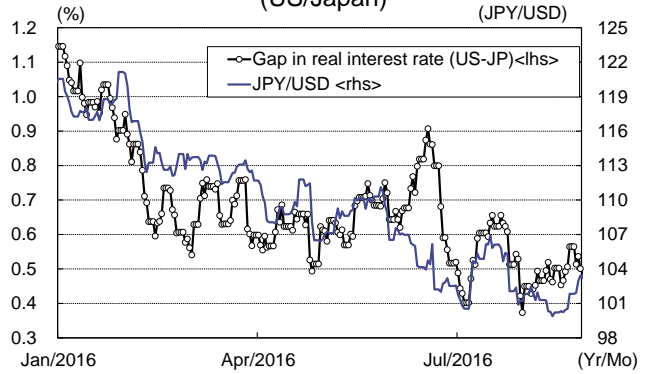
USD/JPY trend had been in line with the gap in real interest rate between US and Japan (yield of 10 years government bonds-break even inflation rate) expect in the phase where excessive risk aversion movement emerge as in the case of Brexit (Table 11). Going forward, in the midst of gradual recovery of global economy, interest rate of Japan will remain flat, while the one of US will pick up as a result of gradual interest rate hikes by FRB. As the gap in interest rates between US and Japan widens, JPY will not be significantly appreciated beyond the current level.

Figure 10: Changes in Yields of JGB by Maturity



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

Figure 11: JPY/USD and Gap in Real Interest rate (US/Japan)



Note: Real interest rate refers to the yield of 10 years government bonds - Break even inflation rate

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

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Outlook for the Japanese Economy

Reflecting Jan-Mar 2016 GDP (first preliminary figures)

	Forecast →												(% , billion yen)			
	2014				2015				2016				2017	FY2015	FY2016	FY2017
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	5.5	-8.1	-2.7	2.1	5.4	-1.7	1.6	-1.7	1.7	0.0	1.2	1.4	1.2	0.8	0.7	0.9
Private Consumption	9.4	-18.2	0.2	2.3	0.8	-3.2	2.0	-3.3	1.9	-1.0	0.6	0.7	0.8	-0.3	0.1	0.8
Housing Investment	9.2	-36.4	-25.5	-1.0	8.7	9.0	6.8	-4.1	-3.0	3.6	2.0	1.6	1.6	2.4	0.9	1.1
Private Business Fixed Investment	23.1	-17.0	-2.1	-0.7	16.3	-6.2	2.7	4.7	-5.3	1.6	2.4	2.5	2.6	1.6	1.1	2.2
Business Inventory (Contribution)	-2.0	5.1	-2.5	-0.9	2.3	1.3	-0.3	-0.5	0.0	-0.1	0.0	0.0	0.0	0.4	-0.1	-0.0
Government Expenditures	-1.9	-2.8	2.3	1.0	-1.0	3.6	-1.1	-0.3	2.6	2.4	2.0	2.4	1.3	0.8	1.9	0.5
Public Investment	-8.5	-10.4	4.7	3.9	-10.7	12.6	-8.5	-13.1	1.3	4.9	5.7	8.2	1.6	-2.2	2.0	-1.1
Net Exports (Contribution)	-0.8	3.5	0.2	1.5	0.4	-1.4	0.5	0.3	0.8	-0.2	-0.1	0.0	0.0	0.1	0.1	0.0
Exports	25.9	0.0	6.1	14.2	8.9	-17.8	10.8	-3.1	2.4	0.6	2.6	3.0	3.1	0.4	1.9	2.9
Imports	25.6	-16.1	4.0	4.6	6.0	-9.8	6.8	-4.3	-1.8	2.0	3.4	3.4	3.3	-0.1	1.3	3.2
Nominal GDP	5.2	-0.4	-2.7	4.1	8.2	-0.6	2.9	-0.7	2.0	1.5	1.7	1.9	1.2	2.2	1.5	1.2
GDP Deflator (YoY)	0.1	2.2	2.0	2.3	3.2	1.4	1.8	1.5	0.9	1.3	0.8	0.7	0.8	1.4	0.9	0.2
Industrial Production Index (QoQ)	2.3	-3.0	-1.4	0.8	1.1	-1.3	-1.0	0.1	-1.0	-0.2	0.3	0.3	0.3	-1.0	-0.7	1.1
Domestic Corporate Goods Price Index (YoY)	2.0	4.3	4.0	2.4	0.4	-2.2	-3.7	-3.7	-3.4	-4.0	-1.9	-0.3	1.5	-3.2	-1.2	1.7
Consumer Price Index (excl. fresh food, YoY)	1.3	3.3	3.2	2.7	2.1	0.1	-0.1	0.0	-0.1	-0.2	0.1	0.4	0.7	-0.0	0.2	0.8
2. Balance of Payments																
Trade Balance (billion yen)	-4,114	-2,344	-2,451	-1,550	-176	-407	-376	356	980	1,282	1,230	1,138	932	630	4,582	1,979
Current Balance (billion yen)	-1,104	1,098	1,137	2,936	3,550	3,992	3,983	4,801	4,938	4,982	4,963	4,901	4,726	17,975	19,572	17,611
3. Financial																
Uncollateralized overnight call rate	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1
Euro-Yen TIBOR (3-mo.)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.6	0.6	0.5	0.4	0.3	0.4	0.4	0.3	0.1	-0.1	0.0	0.0	0.0	0.3	0.0	0.2
Exchange Rate (USD/JPY)	103	102	104	115	119	121	122	121	115	109	109	110	110	120	109	112

Note: Uncollateralized overnight call rate guidance target (end-quarter) through Jan-Mar 2013; offered rate (mid-quarter average) for Apr-Jun 2013. Euro-Yen TIBOR (3-mo.), newly issued 10-year government bonds yield.

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Aug. 31, 2016

	Fiscal	Fiscal	2015	2016		2016				
	2014	2015	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.9	0.8	-1.7 (0.7)	2.0 (0.2)	0.2 (0.6)	***	***	***	***	***
Index of All Industries Activity	-1.1	0.9	-0.2 (0.6)	0.0 (0.4)	0.2 (0.1)	0.4 (0.3)	0.9 (-0.2)	-1.3 (0.3)	1.0 (0.1)	
Industrial Production Index	-0.5	-1.0	0.1 (-0.8)	-1.0 (-1.6)	0.2 (-1.8)	3.8 (0.2)	0.5 (-3.3)	-2.6 (-0.4)	2.3 (-1.5)	0.0 (-3.8)
Production										
Shipments	-1.2	-1.2	0.4 (-0.8)	-2.0 (-2.4)	0.2 (-2.0)	1.8 (-0.7)	1.6 (-3.4)	-2.6 (-1.0)	1.7 (-1.7)	0.9 (-3.8)
Inventory	6.1	1.8	-0.5 (0.0)	2.4 (1.8)	-1.3 (0.0)	2.9 (1.8)	-1.7 (0.1)	0.4 (0.8)	0.0 (0.0)	-2.4 (-1.8)
Inventory/Shipments Ratio (2010=100)	112.0	115.0	114.9 [113.8]	116.3 [113.0]	116.5 [113.8]	118.3 [114.0]	115.7 [113.7]	117.8 [114.8]	116.0 [112.8]	117.1 [112.7]
Domestic Corporate Goods Price Index	2.7	-3.2	-1.4 (-3.7)	-1.4 (-3.4)	-0.6 (-4.3)	-0.1 (-3.8)	-0.4 (-4.2)	0.1 (-4.3)	-0.1 (-4.2)	0.0 (-3.9)
Consumer Price Index(SA, total, excl.fresh foods)	2.8	0.0	0.0 (0.0)	-0.7 (-0.1)	0.4 (-0.4)	-0.1 (-0.3)	0.0 (-0.4)	-0.1 (-0.4)	0.1 (-0.4)	-0.2 (-0.5)
Index of Capacity Utilization (2010=100)	100.6	98.0	97.9 [100.7]	97.3 [101.4]	95.4 [98.0]	97.5 [99.9]	96.5 [99.3]	94.2 [96.8]	95.6 [98.0]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	0.8	4.1	2.6 (2.1)	6.7 (3.4)	-9.2 (-6.5)	5.5 (3.2)	-11.0 (-8.2)	-1.4 (-11.7)	8.3 (-0.9)	
Manufacturing	7.0	6.2	-3.0 (-3.1)	13.7 (4.3)	-13.4 (-12.9)	19.7 (2.7)	-13.3 (-14.8)	-6.4 (-21.5)	17.7 (-3.8)	
Non-manufacturing Excl.Electric Power & Ship building	-3.3	2.5	5.6 (6.3)	3.5 (2.6)	-5.0 (-1.0)	-6.9 (2.7)	-3.9 (-3.0)	-0.3 (-2.5)	2.1 (1.8)	
Shipments of Capital Goods (Excl.Transport Equipment)	4.4	-2.3	-1.7 (-4.2)	-2.4 (-5.5)	3.4 (-2.7)	2.6 (-4.8)	5.2 (-3.7)	-1.4 (-1.1)	1.0 (-2.9)	0.8 (-4.7)
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)	86.8 (-0.7)	94.7 (5.5)	100.5 (4.9)	99.3 (8.4)	99.5 (9.0)	101.7 (9.8)	100.4 (-2.5)	2.5 (-0.5)
Total floor										
Sales at Retailers	-1.2	0.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-5.1	-1.2	-2.2 (-3.3)	0.5 (-2.6)	-0.2 (-1.2)	0.4 (-5.3)	0.3 (-0.4)	-1.4 (-1.1)	-1.3 (-2.3)	2.5 (-0.5)
Propensity to Consume (SA, %)	74.2	73.6	73.1 [74.4]	72.8 [74.3]	72.9 [74.2]	71.5 [75.4]	74.2 [73.6]	75.2 [74.8]	69.4 [74.3]	69.3 [71.9]
Overtime Hours Worked (All Industries, 5 employees or more)	2.0	-1.3	-0.2 (-0.9)	-1.2 (-2.1)	0.0 (-1.2)	-0.2 (-1.8)	0.7 (-0.9)	-0.9 (-1.8)	1.4 (-1.0)	
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	104	98	93	102	94	91	95	
Ratio of Job Offers to Applicants (SA, Times)	1.11	1.23	1.26 [1.12]	1.29 [1.15]	1.36 [1.18]	1.30 [1.16]	1.34 [1.17]	1.36 [1.18]	1.37 [1.19]	1.37 [1.21]
Unemployment Rate (SA, %)	3.5	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.1	3.0
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.6	48.8	47.7 [43.6]	45.6 [49.3]	42.6 [52.6]	45.4 [52.2]	43.5 [53.6]	43.0 [53.3]	41.2 [51.0]	45.1 [51.6]
Bankruptcies (Number of cases)	9,543 (-9.4)	8,684 (-9.0)	2,152 (-3.1)	2,144 (-5.6)	2,129 (-7.2)	746 (-13.2)	695 (-7.0)	671 (-7.3)	763 (-7.4)	712 (-9.5)

(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. 31, 2016

	Fiscal	Fiscal	2015	2016		2016				
	2014	2015	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Customs Clearance (Exports in Yen Terms)	5.4	-0.7	(-4.6)	(-7.9)	(-9.5)	(-6.8)	(-10.1)	(-11.3)	(-7.4)	(-14.0)
Value	3.9	2.1	(-0.6)	(-4.7)	(-8.3)	(-5.8)	(-5.7)	(-9.1)	(-10.1)	(-11.9)
Volumes	1.3	-2.7	(-4.1)	(-3.2)	(-1.3)	(-1.0)	(-4.6)	(-2.4)	(3.1)	(-2.4)
Imports (In Yen terms)	-1.0	-10.3	(-13.9)	(-15.7)	(-18.8)	(-14.9)	(-23.3)	(-13.7)	(-18.7)	(-24.7)
Value	1.2	-8.5	(-11.8)	(-14.9)	(-17.6)	(-19.0)	(-17.0)	(-16.7)	(-19.1)	(-21.5)
Volumes	-2.1	-1.8	(-2.5)	(-0.8)	(-1.3)	(5.2)	(-7.5)	(3.6)	(0.4)	(-4.0)
Current Account (100 mil. yen)	87,245	180,028	34,479	59,636	46,620	29,862	18,785	18,091	9,744	
Goods (100 mil. yen)	-65,890	5,419	954	8,534	15,006	8,828	6,971	399	7,636	
Services (100 mil. yen)	-27,252	-11,451	-5,212	2,414	-4,514	2,623	-4,012	1,174	-1,676	
Financial Account (100 mil. yen)	137,595	238,095	49,065	90,136	70,264	52,380	14,793	40,994	14,478	
Gold & Foreign Exchange Reserves (\$1mil.)	1,245,316	1,262,099	1,233,214	1,262,099	1,265,402	1,262,099	1,262,509	1,253,967	1,265,402	1,264,750
Exchange Rate (¥/\$)	109.92	120.13	121.48	115.45	108.17	113.07	109.88	109.15	105.49	103.90

3. Financial Market Indicators

	Fiscal	Fiscal	2015	2016		2016							
	2014	2015	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL			
Uncollateralized Overnight Call Rates	0.068	0.063	0.076 [0.064]	0.035 [0.073]	-0.050 [0.067]	-0.003 [0.070]	-0.037 [0.061]	-0.059 [0.069]	-0.055 [0.072]	-0.043 [0.074]			
Euro Yen TIBOR (3 Months)	0.194	0.157	0.169 [0.184]	0.122 [0.171]	0.060 [0.169]	0.098 [0.170]	0.060 [0.170]	0.060 [0.169]	0.059 [0.169]	0.058 [0.169]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.400	-0.050	0.270 [0.330]	-0.050 [0.400]	-0.230 [0.455]	-0.050 [0.400]	-0.085 [0.340]	-0.120 [0.390]	-0.230 [0.455]	-0.195 [0.410]			
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.006	0.924	0.956 (-0.013)	0.924 (-0.032)	0.886 (-0.038)	0.924 (-0.019)	0.914 (-0.010)	0.904 (-0.010)	0.886 (-0.018)	0.885 (-0.001)			
The Nikkei Stock Average (TSE 225 Issues)	19,207	16,759	19,034 [17,451]	16,759 [19,207]	15,576 [20,236]	16,759 [19,207]	16,666 [19,520]	17,235 [20,563]	15,576 [20,236]	16,569 [20,585]			
M2(Average)	(3.3)	(3.6)	(3.4)	(3.2)	(3.4)	(3.2)	(3.4)	(3.4)	(3.5)	(3.3)			
Broadly-defined Liquidity(Average)	(3.3)	(4.0)	(3.8)	(3.5)	(2.4)	(3.2)	(2.8)	(2.3)	(2.0)	(1.7)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(2.3)	(2.4)	(2.3)	(2.2)	(2.1)	(2.0)	(2.2)	(2.2)	(2.0)	(2.1)	
		Banks	Banks	(2.5)	(2.5)	(2.3)	(2.2)	(2.1)	(2.0)	(2.2)	(2.2)	(2.0)	(2.1)
			City Banks etc.	(1.4)	(1.2)	(1.0)	(0.9)	(0.8)	(0.7)	(1.0)	(0.9)	(0.6)	(0.7)
			Regional Banks	(3.8)	(3.7)	(3.7)	(3.4)	(3.4)	(3.2)	(3.4)	(3.4)	(3.4)	(3.4)
			Regional Banks II	(2.9)	(3.2)	(3.2)	(3.2)	(3.2)	(3.3)	(3.4)	(3.2)	(3.1)	(2.9)
Shinkin	(1.4)	(2.2)	(2.3)	(2.3)	(2.2)	(2.3)	(2.2)	(2.2)	(2.3)	(2.3)			
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(3.3)	(3.7)	(3.2)	(3.0)	(3.3)	(3.0)	(3.2)	(3.3)	(3.3)	(3.5)	
		City Banks	(3.4)	(4.5)	(3.6)	(3.6)	(4.7)	(3.8)	(4.6)	(4.7)	(4.6)	(4.9)	
		Regional Banks	(3.3)	(3.0)	(3.0)	(2.4)	(1.9)	(2.1)	(1.8)	(1.7)	(2.1)	(2.1)	
		Regional Banks II	(3.1)	(2.5)	(2.3)	(2.1)	(1.9)	(1.9)	(2.0)	(1.8)	(1.8)	(1.8)	

(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.