The Outlook for the Japanese Economy

Japanese economy maintains a moderate recovery trend, backed by stable household income and corporate earnings

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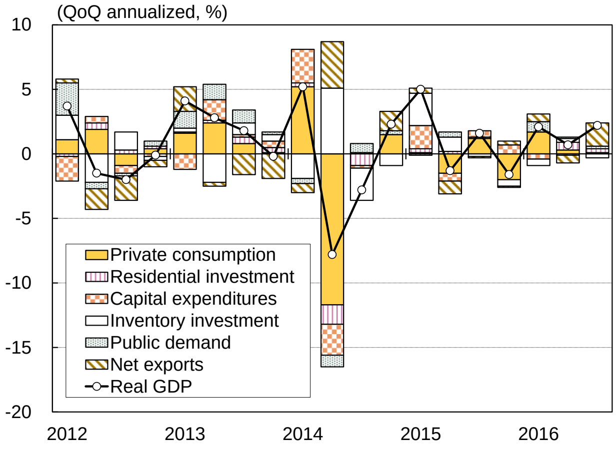
1. Overview of the Japanese Economy

Japan's real GDP (first preliminary estimate) showed higher growth at an annualized +2.2% QoQ in Jul-Sep, sustaining positive growth for three quarters in a row (see chart 1). However, looking at a detailed breakdown of components of GDP, net exports mainly contributed to GDP growth by an annualized rate of +1.8% QoQ due to the recovery of exports that declined in the previous quarter, while domestic demand's contribution was merely +0.4% annualized QoQ. This indicates that the higher growth in GDP was mainly driven by external demand amid sluggish private consumption and capital expenditure. Furthermore, in light of the positive contribution of net exports as a result of stagnant import growth that stemmed from weak domestic demand, a self-sustaining recovery of the Japanese economy still lacks strength.

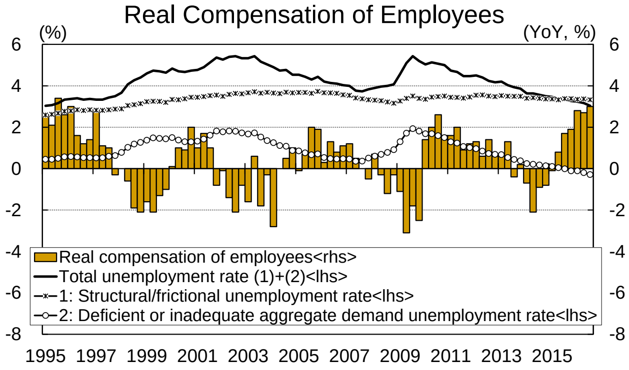
On the other hand, it should be noteworthy that private consumption and capital expenditure did not show a sudden decline amid the following difficult conditions experienced by the corporate and private sectors: a significant lowering of current profit forecasts by Japanese companies mainly due to the strengthening of the yen since the beginning of the year, growing uncertainty over future business environment as a result of the decision of Brexit, as well as the impact of bad weather on the household sector such as a series of typhoons, with this year having the second greatest number of typhoon landfalls on record. Employment and income environment remains strong on the back of a tight labor market. Excessive employment and debts in Japanese companies have disappeared in their effort to increase business efficiency. Despite a reduction in their current profit forecasts, Japanese companies maintain the same peak earnings levels as before the bankruptcy of Lehman Brothers. These indicate that household and corporate activities have a strong foundation for growth. Although the current Japanese economy lacks strength of a recovery due to the wariness over investment and consumption, it is resistant to external downward pressure on the growth thanks to the above-mentioned sound growth foundation, as evidenced by the stable growth of real GDP in Jul-Sep.

Chart 1: Real GDP and Final Demand



Source: Cabinet Office, BTMU Economic Research Office

Chart 2: Unemployment Rate and Real Compensation of Employees

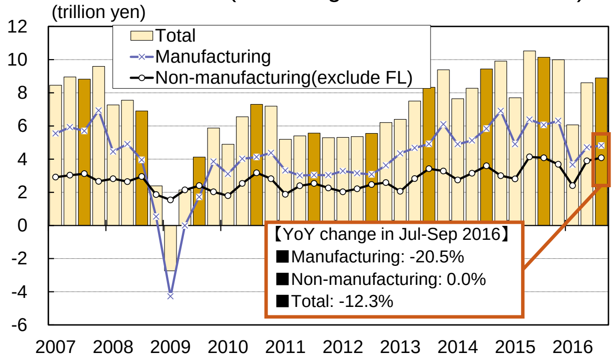


Note:1) *Structural/frictional unemployment rate* are estimated by our office.
2) *Deficient or inadequate aggregate demand unemployment rate* is total *unemployment rate* minus *structural/frictional unemployment rate*.
Source:Ministry of Internal affairs and Communications, Ministry of Health, Labour and Welfare, Cabinet Office, BTMU Economic Research Office

The economic stability, as mentioned above, is a favorable factor for Japan's economic revival, especially under the situation that causes a difficulty in foreseeing the direction of the global economy due to several global political events including a launch of Trump's new government next year and national elections in major European countries such as Germany and France. The sustainability of Japan's economic stability will depend greatly on the direction of household income and corporate earnings. Looking at the household income, real compensation of employees grew at a strong rate of +3.0% YoY in Jul-Sep, marking the sixth consecutive quarters of increases (see chart 2). The high growth of compensation of employees mainly comes from the increased number of employees. The jobs-to-applicants ratio came in at 1.4 in October, the highest level since the bubble years, while unemployment rate was 3.0% in the same month, which is the lowest level in about 20 years. This shows no sign of change in a structural labor shortage. As weak consumer prices are anticipated to put a damper on wage increases in the next spring wage offensive, it will not be avoided to see a certain stagnation in growth of wages. However, we believe that real household income will continue the rising trend for the time being driven by the increasing number of employees.

On the corporate earnings side, the Japanese yen has turned lower after the US presidential election and going forward, corporate earnings are expected to bottom out, sustaining a high level of earnings as the impact of the strong yen which weighed on the corporate earnings abates. Earnings for the Jul-Sep quarter released by listed companies in the first section of the Tokyo Stock Exchange (excluding the financial sector) indicate that they had double-digit declines of -12.3% YoY in current profits and especially the manufacturing sector, which is highly vulnerable to the strong yen, faced a decline of -20.5% YoY. On the other hand, the current profits of the non-manufacturing sector was +0.0% YoY, indicating that a decline in their current profits bottomed out (see chart 3). In light of a sustainable recovery in private consumption and the effect of the government's economic stimulus measures to boost public demand after the new year, an environment for corporate earnings growth will improve in the future. We anticipate that both household income and corporate earnings will remain stable and that the Japanese economy will continue on the moderate recovery trajectory mainly driven by domestic demand (see table 1).

Chart 3: Current Profit of Corporations Listed at 1st Sec. of TSE (exclusing Financial Institutions)



Note: 1) The sum of current profits of 1,359 corporations from which Apr-Jun, 2006 quarterly results can be continously obtained among the ones who released the results of Jul-Sep 2016 as of November 28.
Source: Bloomberg, BTMU Economic Research Office

Table 1: GDP Forecast

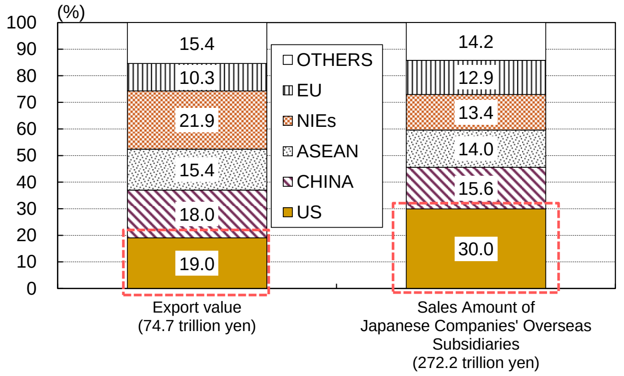
(YoY %)

	FY 2015 Actual	FY 2016 Forecast	FY 2017 Forecast
Real GDP	0.9	1.0	1.0
Private consumption	-0.1	0.5	0.7
Residential investment	2.4	7.1	-0.3
Capital expenditures	2.1	0.3	1.4
Inventory investment (contribution)	0.3	-0.1	0.0
Public demand	0.7	1.0	1.2
Net export (contribution)	0.1	0.3	0.1
Export	0.4	0.4	2.4
Import	0.0	-1.4	1.8
Nominal GDP	2.3	1.1	0.6
GDP deflator	1.4	0.0	-0.4

Source: Cabinet Office, BTMU Economic Research Office

With regard to the impact of the new US government on the Japanese economy, we cannot deny the possibility that corporate investment sentiment might be dragged down by the lower predictability of the policy direction of the new government. However, the policies proposed by President-elect Trump, such as large tax reductions, increased infrastructure investment as well as easing of energy-related regulations, are intended to help boost the US economy. Going forward, Trump will struggle to get his proposed policies through Congress, but as policies of the Republican party do not differ from the concept of his policies, some policies have a real probability of being implemented. Besides, in view of trends in the current foreign exchange markets, there is no need to envisage at present that the policies of the new government will exert downward pressure on the Japanese economy. However, if the new government adopts an inward-looking trade policy and executes drastic measures such as increasing tariffs on goods from other countries, exports from Japan to the US as well as the procurement activity of Japanese companies’ subsidiaries in the US that purchase nearly half of raw materials, goods or services, etc. from outside the US, will be greatly impacted. Therefore, the direction of the new government’s policies should be closely watched (see chart 4 and table 2).

Chart 4: Japan's Total Export Value and Sales Amount of Japanese Companies' Overseas Subsidiaries



Source: Ministry of Finance, Ministry of Economy, Trade and Industry, BTMU Economic Research Office

Table 2: Sales Amount and Procurement of Japanese Companies' Subsidiaries in the US (FY2014)

	Sales amount (trillion yen)	Purchase amount (trillion yen)	Proportion of procurement (%)		
			Purchase inside the US	Purchase from Japan	Purchase from third countries
Manufacturing	30.2	18.3	62.3	27.2	10.5
Transportation equipment	15.4	11.1	69.5	20.6	9.9
Chemicals	3.7	1.7	56.0	35.0	9.0
Production machine	1.3	0.8	59.0	29.0	11.9
Electric machine	1.1	0.6	28.1	66.4	5.5
Foods	1.0	0.5	81.0	9.8	9.2
General machine	0.6	0.4	34.6	52.6	12.8
Iron and steel	0.5	0.2	86.2	12.2	1.6
Other	6.6	3.0	45.7	39.2	11.3
Non-Manufacturing	51.3	38.1	50.8	37.5	11.7
Wholesale	35.0	29.2	47.0	44.0	9.0
Retail	5.3	2.9	52.6	36.3	11.1
Other	11.0	6.0	0.7	0.1	10.5
Total	81.5	56.4	54.5	34.2	11.3

Source: Ministry of Economy, Trade and Industry, BTMU Economic Research Office

2. Key Points in Outlook

(1) PRIVATE CONSUMPTION GAINING MOMENTUM

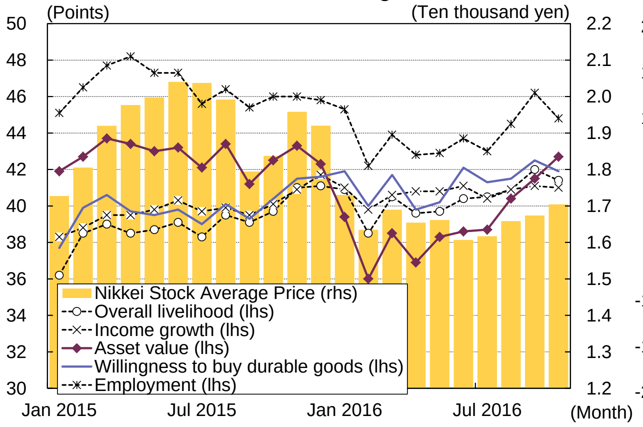
Private consumption grew at an annualized rate of +0.2% QoQ in Jul-Sep, sustaining positive growth for three quarters in a row. Despite a lack of growth momentum in Apr-Jun, private consumption remained solid given the downward pressure of bad weather such as six typhoon landfalls, the second greatest number of typhoon landfalls on record, and the hot weather in September.

The results from the recent Consumer Confidence Survey show that the consumer's perception of "Asset Value" has fallen significantly due to the sharp appreciation of the yen and falling stock prices in the beginning of the year. Furthermore, the consumer's perception in other categories such as "Overall Livelihood" and "Income Growth" has worsened in line with the drop in the consumer perception of "Asset Value". However, the consumer's perception in those categories is improving as the strength in the yen abates and stock prices rally (see chart 5).

There is a sign of reduction in the impact of falling demand of durable goods which occurred subsequent to the front-loaded demand ahead of a consumption rate hike in April 2014 and the end of government's consumption stimulus measures. This is also a favorable factor for future growth in private consumption. Consumer's perception of "Willingness to Buy Durable Goods" in the above-mentioned survey shows a moderate improvement and household final consumption expenditure on durable goods rose in Jul-Sep, albeit only slightly, marking the third quarter in a row of increases (see chart 6).

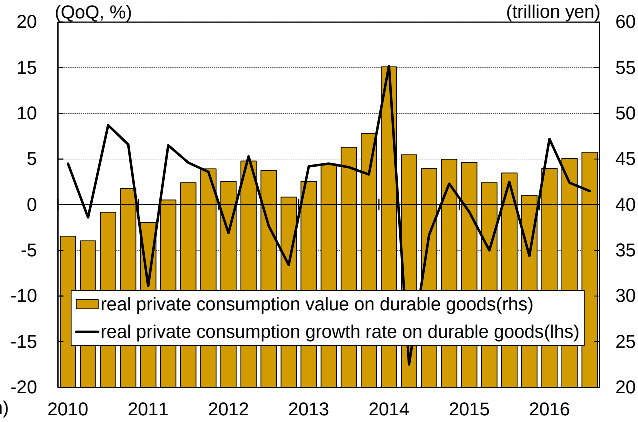
Going forward, although there is a possibility that private consumption might be hampered in the short term by soaring food prices as a result of bad weather, we assume that private consumption will become more robust, buoyed by ongoing improvement in household income, a pickup in consumer sentiment as well as the abating impact of the front-loaded demand of durable goods.

Chart 5: Consumer Sentiment Index and Nikkei Stock Average Price



Source: Cabinet Office, Bloomberg, BTMU Economic Research Office

Chart 6: Changes in Final Consumption Expenditure on Durable Goods



Source: Cabinet Office, BTMU Economic Research Office

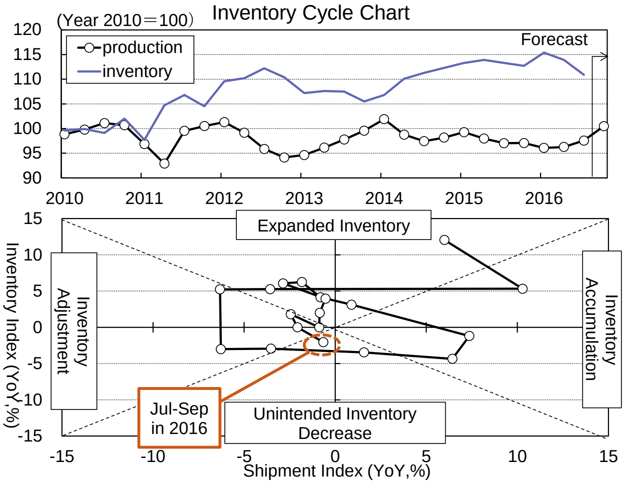
(2) A SIGN OF RECOVERY IN STAGNANT PRODUCTION ACTIVITIES AND FUTURE CAPITAL EXPENDITURE

Japan's real capital expenditure marginally increased by an annualized +0.1% QoQ in Jul-Sep, showing a recovery to positive growth for the first time in three quarters. The Bank of Japan (BoJ) Tankan Survey on enterprises' current profit and capital expenditure forecasts for the current fiscal year, which was conducted in September, shows that their forecast for current profits will be - 8.1% YoY, while capital expenditure forecast is +1.7% YoY. This indicates that corporate investment sentiment remains firm.

Moreover, there is a sign of recovery in stagnant production activities, which is favorable to the future capital expenditure. Industrial production rose 1.3% QoQ in Jul-Sep, partly pushed by the restoration of production activity hit by Kumamoto Earthquake, achieving sustained growth for two consecutive quarters. Looking at an inventory cycle, Japanese companies are in the shift from an *inventory adjustment stage*, which continued for three quarters, to an *unintended inventory decrease stage*. This movement of inventory confirms that the inventory adjustment that has placed downward pressure on production is progressing (see chart 7). Going forward, a rally in production is expected to lead to an improvement in capacity utilization amid signs that corporate earnings will bottom out. Based on this, capital expenditure is anticipated to see moderate recovery.

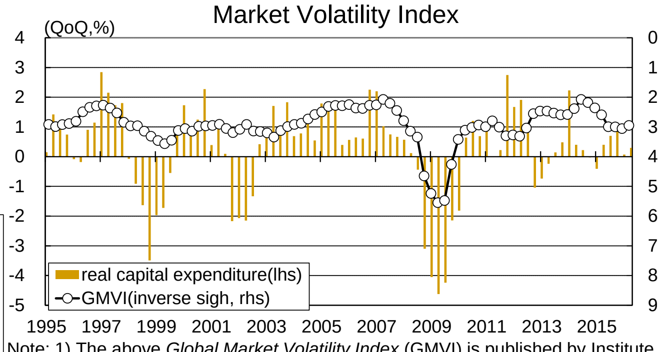
However, attention should be paid to the risk of a decline in corporate investment sentiment due to a growing uncertainty as to the direction of the new US government. When looking at the relationship between the movements of capital expenditure and the Global Market Volatility Index (developed by Institute for International Monetary Affairs) reflecting the uncertainty of financial markets, capital expenditure has been easily pushed down in a phase when the financial markets saw increased turmoil due to unexpected political and economic events (see chart 8). In next year, there will be some political events that might increase the uncertainty of business environment surrounding Japanese companies, such as the start of the new US government and national elections in Germany and France. These events should be borne in mind as potential risk factors to drag down the corporate investment sentiment.

Chart 7: Changes in Industrial Production and Inventory Index and Inventory Cycle Chart



Note: Most recent data of industrial production is based on the average of forecasts for industrial production growth for October and November.
Source: Ministry of Economy, Trade and Industry, BTMU Economic Research office

Chart 8: Changes in Capital Expenditure and Global Market Volatility Index



Note: 1) The above *Global Market Volatility Index* (GMVI) is published by Institute for International Monetary Affairs (IIMA). A rise in the index means high market volatility and an increase of investors' risk aversion, while a decline in the index means higher confidence in the markets and the increase of risk appetite.
2) Based on four quarter moving average data
Source: The Cabinet Office, Institute for International Monetary Affairs, BTMU Economic Research Office

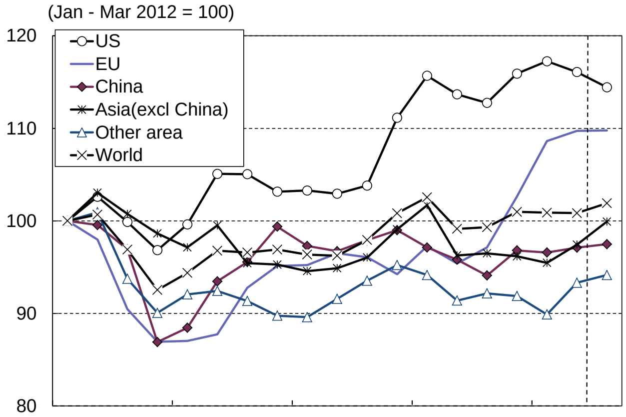
(3) NET EXPORTS TO MAKE A MODEST CONTRIBUTION TO GDP GROWTH

The contribution of net exports (the difference between the amount of products that are exported from the country and the amount imported to the country) to real GDP in Jul-Sep was +1.8% QoQ annualized, which significantly pushed up GDP growth. The positive growth of net exports was mainly driven by a significant increase of exports at an annualized +8.1% QoQ, albeit with a decline at an annualized -6.0% QoQ in Apr-Jun, on the back of the recovery of exports to ASEAN countries and NIEs (see chart 9). However, real export value in Jul-Sep is at the same level as that of Jan-Mar, and in light of the fact that the restoration of production activity hit by Kumamoto Earthquake pushed up automobile exports, real growth of exports should be considered to remain flat. Going forward, exports are expected to trend upward with support from the robust demand of developed countries, particularly the US, but export growth pace will be modest amid the continuing global slow trade.

To project the future contribution of net exports to GDP growth, it is also important to forecast the direction of imports that have been on a decline for four consecutive quarters until the Jul-Sep quarter. When looking at the quantity of imports by goods shown in the Trade Statistics of Japan published by the Ministry of Finance, declines in imports of raw materials and fuels are prominent. This is considered to be due to inventory adjustments by Japanese companies to reduce the accumulated inventory of production goods as a result of the sluggish domestic production activity. For this reason, the quantity of imported raw materials decreased (see chart 10). In response to a rally in production in the future, imports are likely to rebound. Meanwhile, net exports are not expected to continue to strongly boost real GDP given a modest pace of export growth.

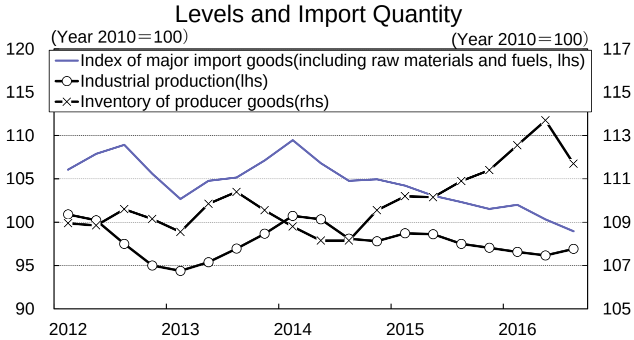
Chart 9: Real Export Value, by Country and Region

(Jan - Mar 2012 = 100)



Source: MoF, BoJ, BTMU Economic Research Office

Chart 10: Changes in Industrial Production, Inventory Levels and Import Quantity



Note:1. The above *index of major import goods (including raw materials and fuels)* is created by BTMU from quantity indexes of goods related to industrial production, that are included in the "Time Series Table of Major Goods" shown in the Trade Statistics of Japan. The index is also weight-averaged by ratio of value of each major import goods in the total import value in Year 2015.
2. Two quarter moving average of seasonally adjusted data.

Source: The Ministry of Finance, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary policy

At the monetary policy meeting held on October 31 to November 1, the BoJ announced its decision to maintain the current monetary policy as well as released its quarterly Outlook for Economic Activity and Prices report. In the quarterly report, the BoJ revised down the outlook for prices in both FY2017 and FY2018 by 0.2% point respectively from the previous forecast and estimated that consumer prices will grow at +1.5% YoY in FY 2017 and +1.7% YoY in FY2018. Besides, the BoJ has pushed back the timing for hitting its price stability target of 2%

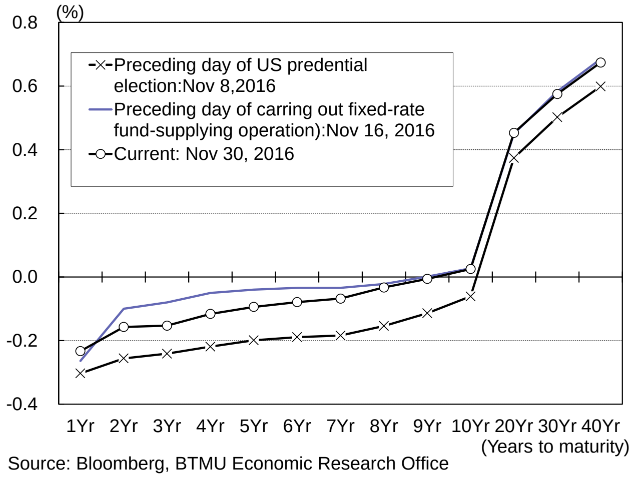
from “within FY2017” to “around FY2018”. However, these downward revisions to the outlook for prices as well as a delay in setting a price stability target would not trigger additional monetary easing, as the BoJ stated in the Summary of Opinions at the Monetary Policy Meeting that the decisions on additional monetary easing need to be made based on several factors including the needs for further easing measures to maintain the momentum towards achieving the inflation target of 2%, not based on a delay in the timing for achieving the price stability target. Consumer prices are anticipated to rise modestly in the future in response to a rally in oil prices. Based on this, we predict that the BoJ will consider the momentum towards price target to be maintained and that they will continue to hold off on additional monetary easing, unless the Japanese yen appreciates sharply due to the significant changes in external environment in economic factors.

(2) Long term rate and exchange market

The yield curve of Japanese government bonds (JGBs), particularly short-and medium-term JGBs, has shifted upward due to a rise in US interest rates following the presidential election on hopes of the new government’s policies (see chart 11). In response to the rise in the JGB yields, the BoJ implemented a “fixed-rate funds-supplying operations” policy to hold the yields down, which was added to the policy framework in October, on November 17 for the first time. The BoJ offered to buy an unlimited amount of JGBs with between two and five years to maturity. JGB yields designated by the BoJ were set at -0.09% for the two-year JGBs and -0.04% for the five-year JGBs. The offer attracted no bids at those levels, as investors can sell JGBs at lower yields in the market. However, the BoJ’s announcement to purchase JGBs appeared to have achieved its aim of pushing down yields of shorter maturities. In fact, following the BoJ’s announcement, the yields on JGBs with less than ten years to maturity declined. When the 10 year JGB yield dropped to -0.09% in September, the BoJ reduced an amount of purchases of long-term JGBs and as a result, it was widely believed in the market that the lower limit of the 10 year JGB yield would be -0.1%. It will gradually be clearer how the BoJ intends to control the yield curve in the future by closely watching its actions to manage it amid fluctuating interest rates.

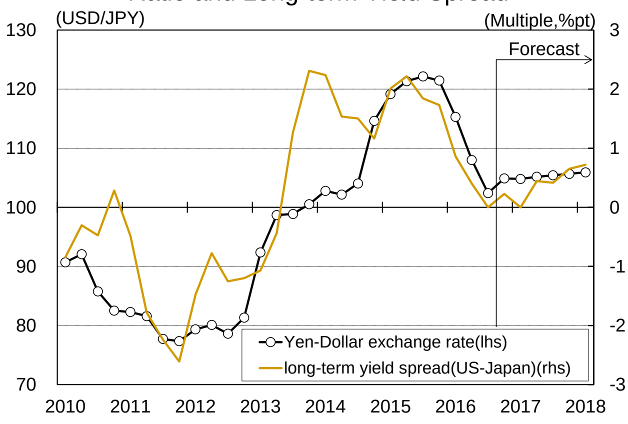
After the US presidential election, the JPY strengthened against the USD in the short term. Thereafter, however, the JPY continued to depreciate against the USD mainly due to the widening gap in interest rates between the US and Japan as a result of the rise in US interest rates, with USD/JPY hitting 113, the largest drop since March. The hike in US interest rates is considered to be mainly due to expectations of a fiscal expansion policy of Trump’s new government. Meanwhile, there are still many Congressional Republicans who wish to maintain fiscal austerity and therefore, the scale and methods of the proposed fiscal expansion are uncertain. If expectations of the new fiscal expansion policy fade away in consequence of growing speculation that the scale of the fiscal expansion will be smaller than market expectations, or if any event occurs on January 20, 2017, the day of Trump’s inauguration, that may fuel concerns over trade protectionism-as he has already announced his plan to withdraw from the TPP, the JPY is expected to appreciate against the USD in the short term. At this moment, investors appear to have excessive expectations of the new government’s policy and going forward, the JPY looks more likely to be stronger than the USD once again. The Japanese interest rates will be kept at low levels, while the FRB is anticipated to increase the interest rate at a moderate speed. On this basis, after the short-lived appreciation of the JPY, the widening gap in interest rates between the US and Japan will push the JPY moderately lower against the USD (see chart 12).

Chart 11：Changes in Yields of JGB by Maturity



Source: Bloomberg, BTMU Economic Research Office

Chart 12: Yen-Dollar Exchange Rate,Monetary Base Ratio and Long-term Yield Spread



Source: Bloomberg, various data, BTMU Economic Research Office

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Outlook for the Japanese Economy

Reflecting Jul-Sep 2016 GDP (first preliminary figures)

Forecast

(%, billion yen)

	2015				2016				2017				2018	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	5.0	-1.3	1.6	-1.6	2.1	0.7	2.2	0.8	0.8	0.9	0.9	0.9	1.0	0.9	1.0	1.0
Private Consumption	0.2	-2.5	2.1	-3.3	2.9	0.5	0.2	0.6	0.7	0.7	0.8	0.9	1.0	-0.1	0.5	0.7
Housing Investment	10.4	6.9	4.7	-1.6	-1.1	21.7	9.6	1.6	0.0	-1.2	-2.0	-2.2	-1.2	2.4	7.1	-0.3
Private Business Fixed Investment	13.2	-4.1	3.4	5.0	-2.7	-0.5	0.1	0.8	1.2	1.5	1.6	1.8	1.8	2.1	0.3	1.4
Business Inventory (Contribution)	2.5	1.1	-0.2	-0.5	-0.5	0.3	-0.3	-0.2	-0.1	-0.0	0.0	0.0	0.1	0.3	-0.1	-0.0
Government Expenditures	-0.4	1.8	-0.1	-0.4	3.1	0.5	0.8	1.4	1.3	1.5	0.9	0.6	0.4	0.7	1.0	1.2
Public Investment	-5.9	2.3	-4.6	-12.9	0.2	9.3	-2.7	1.2	4.9	4.9	1.6	-0.6	-0.8	-2.7	0.6	2.2
Net Exports (Contribution)	0.4	-1.0	-0.1	0.3	0.6	-0.6	1.8	0.2	0.1	0.0	0.0	-0.0	0.0	0.1	0.3	0.1
Exports	7.0	-15.8	10.9	-3.9	0.5	-6.0	8.1	1.9	1.8	2.1	2.2	2.3	2.3	0.4	0.4	2.4
Imports	4.0	-9.6	9.9	-4.9	-2.5	-2.5	-2.4	1.0	1.6	2.2	2.5	2.7	2.7	0.0	-1.4	1.8
Nominal GDP	8.3	-0.5	3.2	-1.2	3.0	0.6	0.8	0.9	1.0	0.0	0.0	1.0	1.3	2.3	1.1	0.6
GDP Deflator (YoY)	3.3	1.4	1.8	1.5	1.0	0.7	-0.1	-0.1	-0.3	-0.4	-0.4	-0.4	-0.3	1.4	0.0	-0.4
Industrial Production Index (QoQ)	1.1	-1.3	-1.0	0.1	-1.0	0.2	1.1	0.7	0.2	0.2	0.2	0.2	0.3	-1.0	0.4	1.2
Domestic Corporate Goods Price Index (YoY)	0.4	-2.2	-3.7	-3.7	-3.5	-4.4	-3.6	-2.5	0.0	1.3	0.8	0.5	0.3	-3.2	-2.7	0.7
Consumer Price Index (excl. fresh food, YoY)	2.1	0.1	-0.1	0.0	-0.1	-0.4	-0.5	-0.1	0.2	0.4	0.4	0.5	0.5	-0.0	-0.2	0.4
2. Balance of Payments																
Trade Balance (billion yen)	-176	-407	-376	356	896	1,199	1,527	1,032	1,073	793	681	569	533	542	4,831	2,577
Current Balance (billion yen)	3,550	3,992	3,983	4,801	4,973	4,637	4,901	4,525	4,637	4,416	4,356	4,298	4,315	18,003	18,699	17,385
3. Financial																
Uncollateralized overnight call rate	0.1	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-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	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.3	0.4	0.4	0.3	0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.3	-0.1	-0.1
Exchange Rate (USD/JPY)	119	121	122	121	115	108	102	106	105	105	105	106	106	120	105	106

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 Dec. 1, 2016

	Fiscal	Fiscal	2016			2016				
	2014	2015	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Real GDP Growth Rate <% changes from	-0.9	0.9	2.1	0.7	2.2	***	***	***	***	***
previous period at SA annual rate>			(0.2)	(0.6)	(0.9)					
Index of All Industries Activity	-1.1	0.9	0.0	0.4	0.6	1.0	0.2	0.2	0.2	
			(0.4)	(0.1)	(0.8)	(0.1)	(-0.7)	(1.7)	(1.3)	
Industrial Production Index	-0.5	-1.0	-1.0	0.2	1.3	2.3	-0.4	1.3	0.6	0.1
Production			(-1.6)	(-1.8)	(0.4)	(-1.5)	(-4.2)	(4.5)	(1.5)	(-1.3)
Shipments	-1.2	-1.2	-2.0	0.2	0.7	1.7	0.7	-1.1	1.8	2.2
			(-2.4)	(-2.0)	(-0.6)	(-1.7)	(-4.0)	(1.6)	(0.7)	(-1.8)
Inventory	6.1	1.8	2.4	-1.3	-2.6	0.0	-2.4	0.3	-0.5	-2.1
			(1.8)	(0.0)	(-2.0)	(0.0)	(-1.8)	(-1.6)	(-2.0)	(-3.0)
Inventory/Shipments Ratio	112.0	115.0	116.3	116.5	115.3	116.0	117.3	113.6	114.9	113.9
(2010=100)			[113.0]	[113.8]	[114.7]	[112.8]	[112.7]	[116.3]	[115.1]	[113.0]
Domestic Corporate Goods Price Index	2.7	-3.2	-1.5	-0.6	-0.2	-0.1	0.0	-0.3	0.0	-0.1
			(-3.5)	(-4.4)	(-3.6)	(-4.3)	(-4.0)	(-3.6)	(-3.2)	(-2.7)
Consumer Price Index(SA, total, excl.fresh foods)	2.8	0.0	-0.7	0.4	-0.2	0.1	-0.2	0.0	0.0	0.1
			(-0.1)	(-0.4)	(-0.5)	(-0.4)	(-0.5)	(-0.5)	(-0.5)	(-0.4)
Index of Capacity Utilization	100.6	98.0	97.3	95.4	97.2	95.6	96.2	98.7	96.7	
(2010=100)			[101.4]	[98.0]	[97.6]	[98.0]	[97.7]	[97.4]	[97.7]	[98.4]
Machinery Orders(Private Demand,	0.8	4.1	6.7	-9.2	7.3	8.3	4.9	-2.2	-3.3	
Excl.Electric Power and Ship building)			(3.4)	(-6.5)	(6.5)	(-0.9)	(5.2)	(11.6)	(4.3)	
Manufacturing	7.0	6.2	13.7	-13.4	4.5	17.7	0.3	-4.0	-5.0	
			(4.3)	(-12.9)	(-0.5)	(-3.8)	(-1.4)	(2.0)	(-1.5)	
Non-manufacturing	-3.3	2.5	3.5	-5.0	8.2	2.1	8.6	-1.9	-0.9	
Excl.Electric Power & Ship building			(2.6)	(-1.0)	(11.8)	(1.8)	(11.3)	(19.6)	(7.8)	
Shipments of Capital Goods	4.4	-2.3	-2.4	3.4	1.0	1.0	0.6	0.2	0.3	2.2
(Excl.Transport Equipment)			(-5.5)	(-2.7)	(0.4)	(-2.9)	(-4.9)	(2.5)	(3.3)	(1.8)
Construction Orders	8.2	-0.9								
			(2.4)	(1.5)	(7.4)	(-2.4)	(-10.9)	(13.8)	(16.3)	(15.2)
Private	4.8	7.9								
			(-0.4)	(3.9)	(-3.5)	(1.9)	(-5.8)	(9.7)	(-9.2)	(24.4)
Public	22.9	-15.6								
			(0.4)	(-0.4)	(51.8)	(3.2)	(-23.6)	(27.7)	(136.7)	(-7.1)
Public Works Contracts	-0.3	-3.8								
			(1.2)	(4.0)	(6.8)	(-1.8)	(-6.9)	(12.0)	(18.1)	(-10.0)
Housing Starts	88.0	92.1	94.7	100.5	98.2	100.4	100.5	95.6	98.4	98.3
10,000 units at Annual Rate, SA	(-10.8)	(4.6)	(5.5)	(5.4)	(7.1)	(-2.5)	(8.9)	(2.5)	(10.0)	(13.7)
Total floor	(-15.2)	(2.1)	(3.1)	(3.6)	(5.1)	(-3.0)	(6.2)	(2.3)	(6.7)	(9.7)
Sales at Retailers	-1.2	0.8								
			(-0.3)	(-1.4)	(-1.3)	(-1.3)	(-0.2)	(-2.2)	(-1.7)	(-0.1)
Real Consumption Expenditures	-5.1	-1.2	0.5	-0.2	-0.5	-1.3	2.5	-3.7	2.8	-1.0
of Households over 2 persons (SA)			(-2.6)	(-1.2)	(-2.4)	(-2.3)	(-0.5)	(-4.6)	(-2.1)	(-0.4)
Propensity to Consume	74.2	73.6	72.8	72.9	70.6	69.4	69.3	70.4	72.0	70.9
(SA,%)			[74.3]	[74.2]	[73.4]	[74.3]	[71.9]	[74.1]	[74.3]	[73.2]
Overtime Hours Worked	2.0	-1.3	-1.2	0.0	-0.2	1.4	-0.9	-0.8	1.9	
(All Industries, 5 employees or more)			(-2.1)	(-1.2)	(-1.5)	(-1.0)	(-1.9)	(-2.0)	(-0.9)	
Total Cash Earnings (Regular Employees	0.5	0.2								
Only; All Industries, 5 employees or more)			(0.7)	(0.6)	(0.5)	(1.4)	(1.2)	(0.0)	(0.0)	
Employment Index(Regular Employees Only;'All Industries,	77	98	98	93	102	95	97	106	105	
5 employees or more）(Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	1.11	1.23	1.29	1.36	1.37	1.37	1.37	1.37	1.38	1.40
(SA,Times)			[1.15]	[1.18]	[1.22]	[1.19]	[1.21]	[1.22]	[1.23]	[1.24]
Unemployment Rate	3.5	3.3	3.2	3.2	3.0	3.1	3.0	3.1	3.0	3.0
(SA,%)										
Economy Watcher Survey	46.6	48.8	45.6	42.6	45.2	41.2	45.1	45.6	44.8	46.2
(Judgment of the present condition D.I,%)			[49.3]	[52.6]	[49.5]	[51.0]	[51.6]	[49.3]	[47.5]	[48.2]
Bankruptcies (Number of cases)	9,543	8,684	2,144	2,129	2,088	763	712	726	649	683
	(-9.4)	(-9.0)	(-5.6)	(-7.3)	(-0.2)	(-7.4)	(-9.5)	(14.9)	(-3.6)	(-8.0)

(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 Dec. 1, 2016

	Fiscal	Fiscal	2016			2016				
	2014	2015	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Customs Clearance (Exports in Yen Terms)	5.4	-0.7	(-7.9)	(-9.5)	(-10.2)	(-7.4)	(-14.0)	(-9.6)	(-6.9)	(-10.3)
Value	3.9	2.1	(-4.7)	(-8.3)	(-11.1)	(-10.1)	(-11.9)	(-10.3)	(-11.1)	(-9.0)
Volumes	1.3	-2.7	(-3.2)	(-1.3)	(1.0)	(3.1)	(-2.4)	(0.8)	(4.7)	(-1.4)
Imports (In Yen terms)	-1.0	-10.3	(-15.7)	(-18.8)	(-19.5)	(-18.7)	(-24.6)	(-17.2)	(-16.2)	(-16.5)
Value	1.2	-8.5	(-14.9)	(-17.6)	(-18.9)	(-19.1)	(-21.5)	(-20.2)	(-14.9)	(-14.4)
Volumes	-2.1	-1.8	(-0.8)	(-1.3)	(-0.7)	(0.4)	(-4.0)	(3.8)	(-1.5)	(-2.4)
Current Account (100 mil. yen)	87,245	180,028	59,636	45,955	57,599	9,815	19,382	20,008	18,210	
Goods (100 mil. yen)	-65,890	5,419	8,534	14,959	14,995	7,615	6,139	2,432	6,424	
Services (100 mil. yen)	-27,252	-11,451	2,414	-4,951	-3,865	-1,632	-2,223	-525	-1,118	
Financial Account (100 mil. yen)	137,595	238,095	90,136	71,315	97,490	14,005	36,737	29,220	31,533	
Gold & Foreign Exchange Reserves ($1mil.)	1,245,316	1,262,099	1,262,099	1,265,402	1,260,145	1,265,402	1,264,750	1,256,053	1,260,145	1,242,792
Exchange Rate (\/$)	109.92	120.13	115.45	108.17	102.40	105.49	103.90	101.27	102.04	103.82

3． Financial Market Indicators

				Fiscal	Fiscal	2016			2016				
				2014	2015	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Uncollateralized Overnight Call Rates				0.068	0.063	0.035	-0.050	-0.046	-0.055	-0.043	-0.043	-0.052	-0.037
						[0.073]	[0.067]	[0.074]	[0.072]	[0.074]	[0.076]	[0.073]	[0.076]
Euro Yen TIBOR				0.194	0.157	0.122	0.060	0.057	0.059	0.058	0.058	0.056	0.056
(3 Months)						[0.171]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]
Newly Issued Japanese Government Bonds Yields				0.400	-0.050	-0.050	-0.230	-0.085	-0.230	-0.195	-0.070	-0.085	-0.050
(10 Years)						[0.400]	[0.455]	[0.350]	[0.455]	[0.410]	[0.380]	[0.350]	[0.300]
Average Contracted Interest Rates				1.006	0.924								
on Loans and Discounts(City Banks)						0.924	0.886	0.865	0.886	0.885	0.880	0.865	0.866
(% changes from previous period)						(-0.032)	(-0.038)	(-0.021)	(-0.018)	(-0.001)	(-0.005)	(-0.015)	(0.001)
The Nikkei Stock Average				19,207	16,759	16,759	15,576	16,450	15,576	16,569	16,887	16,450	17,425
(TSE 225 Issues)						[19,207]	[20,236]	[17,388]	[20,236]	[20,585]	[18,890]	[17,388]	[19,083]
M2(Average)				(3.3)	(3.6)	(3.2)	(3.4)	(3.4)	(3.5)	(3.4)	(3.3)	(3.5)	(3.7)
Broadly-defined Liquidity(Average)				(3.3)	(3.9)	(3.4)	(2.2)	(1.7)	(1.9)	(1.7)	(1.5)	(1.8)	(1.9)
Principal Figures of Financial Institutions													
	Banks & Shinkin			(2.3)	(2.4)	(2.2)	(2.1)	(2.1)	(2.0)	(2.1)	(2.0)	(2.2)	(2.4)
Loans and		Banks		(2.5)	(2.5)	(2.2)	(2.1)	(2.1)	(2.0)	(2.1)	(2.0)	(2.2)	(2.4)
Discount			City Banks etc.	(1.4)	(1.2)	(0.9)	(0.8)	(0.7)	(0.6)	(0.7)	(0.5)	(0.8)	(1.1)
(Average)			Regional Banks	(3.8)	(3.7)	(3.4)	(3.4)	(3.5)	(3.4)	(3.5)	(3.4)	(3.5)	(3.6)
			Regional Banks Ⅱ	(2.9)	(3.2)	(3.2)	(3.2)	(2.9)	(3.1)	(2.9)	(2.8)	(2.9)	(3.0)
		Shinkin		(1.4)	(2.2)	(2.3)	(2.2)	(2.3)	(2.3)	(2.3)	(2.2)	(2.3)	(2.4)
	Total(3 Business Condition)			(3.3)	(3.7)	(3.0)	(3.3)	(3.4)	(3.3)	(3.5)	(3.3)	(3.6)	(3.9)
Deposits			City Banks	(3.4)	(4.5)	(3.6)	(4.7)	(4.8)	(4.6)	(4.9)	(4.4)	(5.1)	(5.6)
and CDs			Regional Banks	(3.3)	(3.0)	(2.4)	(1.9)	(2.2)	(2.1)	(2.1)	(2.2)	(2.1)	(2.2)
(Average)			Regional Banks Ⅱ	(3.1)	(2.5)	(2.1)	(1.9)	(1.9)	(1.8)	(1.8)	(1.9)	(2.1)	(2.2)

(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.