

## ***The current economic expansion appears to be the second longest in the post-war period***

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## 1. The Real Economy

In September's Monthly Economic Report published by the Cabinet Office, the overall assessment that the Japanese economy "is on a moderate recovery" remained unchanged. While it has not yet been officially confirmed, the growth of the economy which started in December 2012 has continued to September; the current period of economic expansion has reached 58 months, becoming the second longest in the post-war period and surpassing the "Izanagi Boom", a previous period of high growth (57 months).

The pace of growth in the current period of economic expansion is gradual, even compared with the "Izanami Boom" (73 months), which was the longest post-war economic expansion and is referred to as the "unfelt economic recovery" (Chart 1). Contributing factors for this were the consumption tax rate hike in April 2014 and the slowdown of overseas economies from 2015 to the start of 2016, which temporarily put downward pressure on the economy. However, the fundamental issues are there is a need to sweep away the prolonged deflationary mindset and a virtuous cycle which improves income, such as corporate earnings, leading to a significant increase in spending is still not fully established. This can be seen in the fact that the propensity to invest and consume is still not rising. As a result of this situation, there are numerous indications that the current phase of economic expansion is also intangible.

That being said, while the pace of the economic expansion is moderate, on the flip side, it can be said that the negative impacts caused by an overheated economy will be small. On 13th October, the Nikkei Stock Average exceeded JPY21,000 on an end-of-day basis for the first time in 21 years; however, the price-earnings ratio was 19.1 on the same day, lower than in December 2012 (20.8), which marked the start of the economic expansion. This shows that stock prices are not heating up. Furthermore, looking at the inventory situation, the inventories index for industrial production rose to 114.2 in March 2016, but as a result of subsequent progress in inventory adjustments, it was 107.3 in August this year, returning to a level even lower than before the start of the economic expansionary period (111.8 in November 2012). Looking at business and household sentiment, it has been recovering since mid-2016 (Chart 2), and there does not seem to be any decline in the positive view towards the future of the economy. Therefore, it appears that the economy will maintain a trend of gradual expansion in

the future and will possibly exceed the “Izanami Boom”, becoming the longest post-war period of expansion.

Chart 1: Periods of Economic Expansion in the 1960s and in the 1980s and Onwards

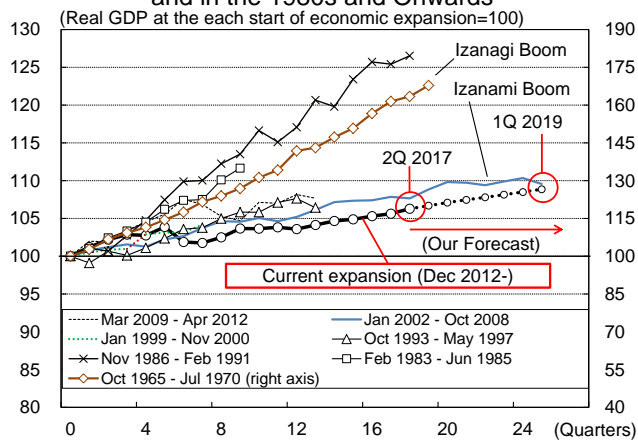
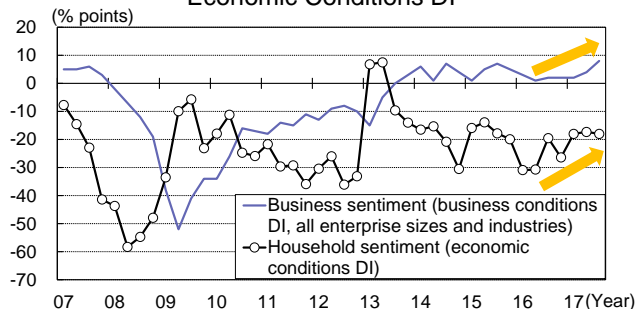


Chart 2: Business Conditions DI and Economic Conditions DI



## 2. Financial Markets

### (1) Monetary Policy

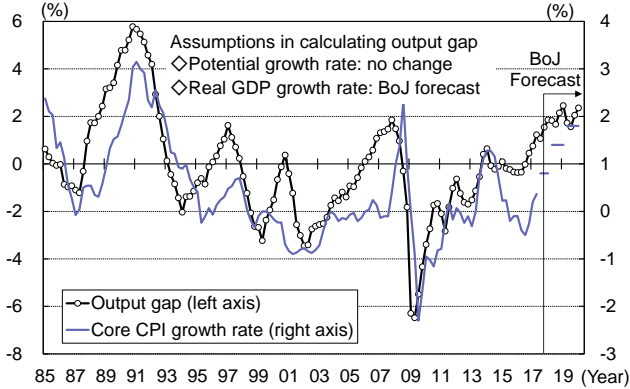
The Bank of Japan (BoJ) will announce the Forecast of the Majority of the Policy Board Members for the real GDP growth rate and the core CPI growth rate at the opening of its Monetary Policy Meeting on 30<sup>th</sup> – 31<sup>st</sup> October. In July’s Outlook for Economic Activity and Prices, the median forecast for core CPI growth in FY 2017 was 1.1% YoY, but it is expected to be lowered as attaining this level of growth would mean an increase of 1.5% YoY from September until the end of the fiscal year. Meanwhile, the timing of the Price Stability Target reaching 2% was deferred in July from “around fiscal 2018” to “around fiscal 2019”, but has not been changed this time.

To answer the question of what kind of assumptions the BoJ has made in order to reach their Price Stability Target of 2% in “around fiscal 2019”, the output gap predicted by the BoJ can be calculated and applied to the historical relationship of the inflation rate and the output gap. First, assuming that the future potential growth rate will not change from the BoJ’s estimate of 0.8% for the first half of FY2017, if the real GDP growth rate forecast by Policy Board Members is realised, then the output gap will increase up to around 2.5% in FY2019 (Chart 3). At that time, it can be surmised that the BoJ believes that in order to attain inflation of 2% it will be necessary for the relationship between the output gap and the core CPI growth rate to shift upwards from the Bubble Economy period, or that a non-linear movement is required (Chart 4). Therefore, in order to bring about the BoJ’s expectation above, it is likely that a rise in wages owing to the labour shortage is needed. Nevertheless, the current tightness in the labour market is increasing to historically high levels, but there has not been a significant rise in wages. Under the tight supply and demand of labour, wages are forecast to continue to rise gradually. However, for wages to rise in line with a 2% rise in inflation over the next two years is thought to be a difficult hurdle to overcome.

## (2) Long-Term Yields and Exchange Rate

The Nikkei Stock Average rose just above JPY21,000 for the first time in 21 years. The 10-year Japanese Government Bond yield increased to 0.07% and the USD depreciated to JPY112, owing to a decline in a risk-adverse stance by investors. Looking forwards, provided there is no surprise outcome in the general election for the House of Representatives which will take place on 22<sup>nd</sup> October, it appears that external factors – such as geopolitical risks and changes in US monetary policy – will continue to shape future trends.

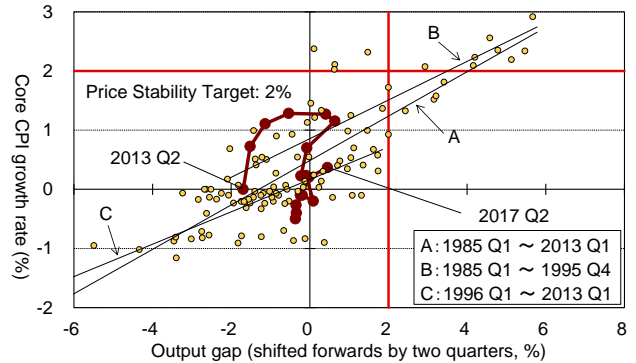
Chart 3: Core CPI Growth Rate and Output Gap



Note: "Core CPI growth rate" excludes the direct impact from the rise in the consumption tax rate.

Source: Bank of Japan, Ministry of Internal Affairs and Communications, BTMU Economic Research Office

Chart 4: Output Gap and Core CPI Growth Rate



Note: 1. "Output gap" = (real GDP - potential real GDP)/potential real GDP  
 2. "Core CPI growth rate" excludes the direct effect from the rise in the consumption tax rate.

Source: Cabinet Office, Ministry of Internal Affairs and Communications, BTMU Economic Research Office

(Translated by Elizabeth Foster)

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Oct. 20, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	MAY	JUN	JUL	AUG	SEP
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.3	1.3	1.6 (1.7)	1.2 (1.5)	2.5 (1.4)	***	***	***	***	***
Index of All Industries Activity	0.9	0.6	0.4 (1.1)	-0.1 (0.8)	1.6 (2.5)	-0.7 (3.2)	0.2 (2.2)	-0.1 (2.0)	0.1 (1.7)	
Industrial Production Index	-0.9	1.1	1.8 (2.1)	0.2 (3.8)	2.1 (5.8)	-3.6 (6.5)	2.2 (5.5)	-0.8 (4.7)	2.0 (5.3)	
Production										
Shipments	-1.1	0.8	2.4 (1.8)	-0.1 (3.7)	1.5 (5.2)	-2.9 (5.4)	2.5 (5.3)	-0.7 (4.1)	1.8 (5.8)	
Inventory	1.1	-4.0	-2.4 (-5.3)	2.2 (-4.0)	-0.5 (-2.9)	0.0 (-1.3)	-2.0 (-2.9)	-1.1 (-2.3)	-0.6 (-2.9)	
Inventory/Shipments Ratio (2010=100)	114.9	112.9	109.7 [114.9]	111.5 [116.8]	112.5 [116.0]	112.5 [116.7]	110.4 [115.4]	113.3 [116.1]	108.6 [113.2]	[113.5]
Domestic Corporate Goods Price Index	-3.3	-2.3	0.4 (-2.1)	1.6 (1.0)	0.4 (2.1)	0.0 (2.1)	0.1 (2.2)	0.3 (2.6)	0.0 (2.9)	0.2 (3.0)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	0.2 (-0.3)	-0.1 (0.2)	0.6 (0.4)	0.0 (0.4)	0.0 (0.4)	0.0 (0.5)	0.1 (0.7)	
Index of Capacity Utilization (2010=100)	98.0	98.6	100.1 [97.9]	99.8 [96.1]	101.9 [96.3]	99.8 [95.9]	101.9 [96.6]	100.1 [97.2]	103.4 [99.2]	[97.6]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	4.1	0.5	0.3 (3.6)	-1.4 (-1.0)	-4.7 (-1.0)	-3.6 (0.6)	-1.9 (-5.2)	8.0 (-7.5)	3.4 (4.4)	
Manufacturing	6.2	-4.6	2.7 (3.5)	-4.2 (-6.8)	3.7 (3.5)	1.0 (6.3)	-5.4 (-3.2)	2.9 (-1.8)	16.1 (14.7)	
Non-manufacturing Excl.Electric Power & Ship building	2.5	4.3	-1.0 (3.3)	0.0 (3.1)	-9.9 (-4.5)	-5.1 (-4.0)	0.8 (-6.9)	4.8 (-12.3)	3.1 (-2.8)	
Shipments of Capital Goods (Excl.Transport Equipment)	-2.2	1.5	2.4 (4.7)	-2.4 (3.1)	5.0 (6.6)	2.1 (9.5)	-0.9 (6.1)	-4.3 (1.5)	9.8 (10.1)	
Construction Orders	-0.9	4.0								
Private	7.9	5.1								
Public	-15.6	8.4								
Public Works Contracts	-3.8	4.1								
Housing Starts 10,000 units at Annual Rate, SA	92.1 (4.6)	97.4 (5.8)	95.3 (7.9)	97.5 (3.5)	100.2 (1.1)	99.8 (-0.3)	100.3 (1.7)	97.4 (-2.3)	94.2 (-2.0)	
Total floor	(2.1)	(4.1)	(5.3)	(3.3)	(1.0)	(-1.6)	(1.5)	(-3.2)	(-3.9)	
Sales at Retailers	0.8	-0.2								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	-1.6	-0.9 (-0.7)	0.8 (-2.0)	1.0 (0.2)	0.7 (-0.1)	1.5 (2.3)	-1.9 (-0.2)	0.2 (0.6)	
Propensity to Consume (SA, %)	73.6	72.1	71.8 [73.0]	73.1 [72.6]	75.3 [72.8]	78.8 [74.7]	74.1 [69.6]	69.2 [70.0]	69.8 [70.7]	[71.6]
Overtime Hours Worked (All Industries, 5 employees or more)	-1.3	-0.7	0.1 (-1.2)	1.5 (1.2)	-0.4 (0.9)	0.6 (1.6)	-0.1 (0.7)	-0.8 (0.6)	-0.2 (0.6)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.2	0.4								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	98	103	105	112	131	137	130	134	123	
Ratio of Job Offers to Applicants (SA, Times)	1.23	1.39	1.41 [1.26]	1.44 [1.29]	1.49 [1.35]	1.49 [1.35]	1.51 [1.36]	1.52 [1.37]	1.52 [1.37]	[1.38]
Unemployment Rate (SA, %)	3.3	3.0	3.1	2.9	2.9	3.1	2.8	2.8	2.8	
Economy Watcher Survey (Judgment of the present condition D.I.%)	48.8	46.4	48.7 [47.7]	49.2 [45.6]	50.1 [42.6]	50.1 [43.0]	49.9 [41.2]	51.0 [45.1]	49.6 [45.6]	49.6 [44.8]
Bankruptcies (Number of cases)	8,684 (-9.0)	8,381 (-3.5)	2,086 (-3.1)	2,079 (-3.0)	2,188 (2.8)	802 (19.5)	706 (-7.5)	714 (0.3)	639 (-12.0)	679 (4.6)

(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 Oct. 20, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	MAY	JUN	JUL	AUG	SEP
Customs Clearance (Exports in Yen Terms)	-0.7	-3.5	(-1.9)	(8.5)	(10.5)	(14.9)	(9.7)	(13.4)	(18.1)	(14.1)
Value	2.0	-5.8	(-6.3)	(3.1)	(5.2)	(6.9)	(5.5)	(10.5)	(7.0)	(8.9)
Volumes	-2.7	2.4	(4.7)	(5.1)	(5.1)	(7.5)	(4.0)	(2.6)	(10.4)	(4.8)
Imports (In Yen terms)	-10.2	-10.2	(-9.3)	(8.6)	(16.2)	(17.9)	(15.5)	(16.3)	(15.2)	(12.0)
Value	-8.4	-10.7	(-10.7)	(6.2)	(10.8)	(11.8)	(10.8)	(12.6)	(12.6)	(12.3)
Volumes	-1.9	0.5	(1.6)	(2.2)	(4.9)	(5.4)	(4.2)	(3.2)	(2.4)	(-0.3)
Current Account (100 mil. yen)	178,618	203,818	40,876	59,697	45,622	16,776	9,288	23,200	23,804	
Goods (100 mil. yen)	3,296	57,726	17,146	10,961	9,493	-1,161	5,169	5,666	3,187	
Services (100 mil. yen)	-13,527	-13,816	-5,520	50	-2,834	615	-561	-2,373	202	
Financial Account (100 mil. yen)	238,492	249,299	22,119	52,424	44,237	20,917	12,390	8,542	19,230	
Gold & Foreign Exchange Reserves (\$1mil.)	1,262,099	1,230,330	1,216,903	1,230,330	1,249,847	1,251,868	1,249,847	1,260,040	1,268,006	1,266,310
Exchange Rate (¥/\$)	120.13	108.37	109.32	113.60	111.06	112.21	110.91	112.44	109.91	110.68

## 3. Financial Market Indicators

	Fiscal	Fiscal	2016		2017	2017					
	2015	2016	3Q	4Q	1Q	MAY	JUN	JUL	AUG	SEP	
Uncollateralized Overnight Call Rates	0.063	-0.045	-0.043 [0.076]	-0.042 [0.035]	-0.054 [-0.050]	-0.053 [-0.059]	-0.056 [-0.055]	-0.054 [-0.043]	-0.049 [-0.043]	-0.058 -0.052	
Euro Yen TIBOR (3 Months)	0.157	0.057	0.056 [0.169]	0.056 [0.122]	0.056 [0.060]	0.056 [0.060]	0.056 [0.059]	0.075 [0.058]	0.056 [0.058]	0.056 [0.056]	
Newly Issued Japanese Government Bonds Yields (10 Years)	-0.050	0.065	0.040 [0.270]	0.065 [-0.050]	0.075 [-0.230]	0.040 [-0.120]	0.075 [-0.230]	0.075 [-0.195]	0.010 -0.070	0.060 [-0.085]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.924	0.847	0.853 (-0.012)	0.847 (-0.006)	0.842 (-0.005)	0.849 (-0.001)	0.842 (-0.007)	0.841 (-0.001)	0.839 (-0.002)		
The Nikkei Stock Average (TSE 225 Issues)	16,759	18,909	19,114 [19,034]	18,909 [16,759]	20,033 [15,576]	19,651 [17,235]	20,033 [15,576]	19,925 [16,569]	19,646 [16,887]	20,356 [16,450]	
M2(Average)	(3.5)	(3.6)	(3.7)	(4.1)	(3.9)	(3.8)	(3.9)	(4.0)	(4.0)	(4.1)	
Broadly-defined Liquidity(Average)	(3.7)	(1.8)	(1.6)	(2.2)	(2.8)	(2.8)	(3.0)	(3.5)	(3.7)	(3.8)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.4)	(2.4)	(2.5)	(2.8)	(3.1)	(3.2)	(3.3)	(3.3)	(3.2)	(3.0)
	Banks	(2.5)	(2.4)	(2.5)	(2.8)	(3.2)	(3.3)	(3.3)	(3.4)	(3.2)	(3.0)
	City Banks etc.	(1.2)	(1.2)	(1.4)	(2.0)	(2.8)	(2.9)	(3.1)	(3.2)	(2.8)	(2.3)
	Regional Banks	(3.7)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)	(3.7)	(3.7)	(3.8)	(3.7)
	Regional Banks II	(3.2)	(3.1)	(3.1)	(3.2)	(3.0)	(3.0)	(3.0)	(3.1)	(3.1)	(3.0)
	Shinkin	(2.2)	(2.3)	(2.3)	(2.5)	(2.8)	(2.9)	(2.8)	(2.7)	(2.7)	(2.8)
Deposits and CDs (Average)	Total(3 Business Condition)	(3.7)	(3.8)	(4.2)	(4.5)	(4.5)	(4.5)	(4.7)	(4.5)	(4.4)	(4.5)
	City Banks	(4.5)	(5.5)	(6.0)	(6.4)	(6.5)	(6.3)	(6.7)	(6.4)	(6.3)	(6.5)
	Regional Banks	(3.0)	(2.3)	(2.3)	(2.7)	(2.6)	(2.6)	(2.7)	(2.7)	(2.6)	(2.5)
	Regional Banks II	(2.5)	(2.1)	(2.2)	(2.4)	(2.3)	(2.5)	(2.4)	(2.3)	(2.3)	(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.

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