The Outlook for the Japanese Economy

The Japanese economy appears poised for a cyclical recovery, driven by an upturn in corporate earnings and production

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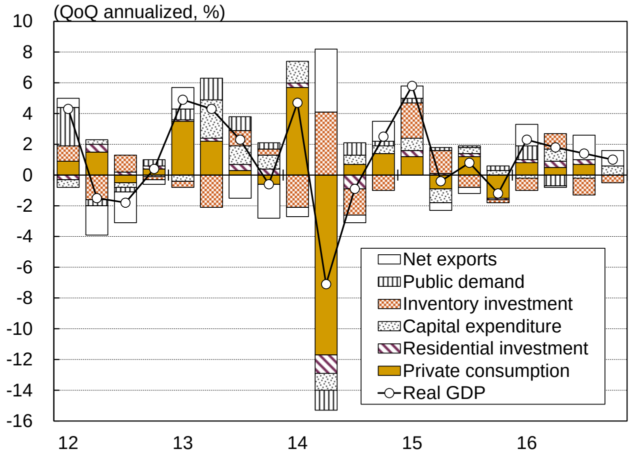
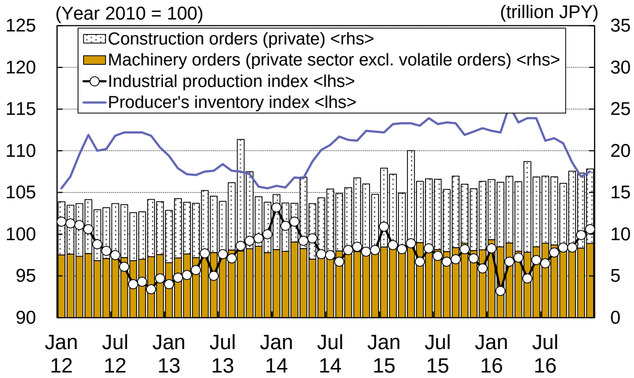
1. Overview of the Japanese Economy

According to the first preliminary estimates, Japan's real GDP growth stood at an annualized +1.0% QoQ in Oct-Dec 2016, sustaining its positive growth for four consecutive quarters (see Chart 1). The household sector saw a slowdown in its recovery that has started since the beginning of last year, as evidenced by flat private consumption and losing momentum of residential investment, while the recovery in the corporate sector has become more visible in capital expenditure with higher growth of +3.8% annualized QoQ and in exports with the second consecutive quarter of increases by +11.0% annualized QoQ. Although positive growth of GDP was driven mainly by external demand as in the previous quarter, the GDP figures indicate that the economy remains solid given the fact that the negative inventory investment (-0.5% annualized contribution to real GDP growth), which dragged down domestic demand, was attributed to progress in inventory adjustments.

The Japanese economy is now entering a cyclical expansionary phase since decreasing corporate earnings and stagnant production, which had pushed down the economy since the beginning of last year, have taken an upturn. The recovery of corporate earnings has become more apparent thanks to a weakening yen that started at the end of last year, and the current profits of companies listed on the first section of the Tokyo Stock Exchange (excluding financial companies) were +9.4% YoY in Oct-Dec, returning to positive growth for the first time in four quarters and hitting a record high. On the production side, the current inventory level has been reduced to a level close to that observed before the consumption tax rate hike in April 2014 thanks to the rapid progress in inventory adjustments resulting from increased exports. This suggests that production is gaining momentum steadily (see Chart 2). The value of Machinery Orders (private sector excluding volatile orders) and Orders Received for Construction (private), which are leading indicators for capital expenditure, indicates that Japanese companies start to adopt a more proactive stance on investment spurred by improving earnings and production. In addition, a modest recovery of global economy led mainly by developed countries and a weaker yen would remain the drivers of export growth. In light of the above, corporate capital expenditure and investment in human capital are expected to be solid going forward.



Source: Cabinet Office, BTMU Economic Research



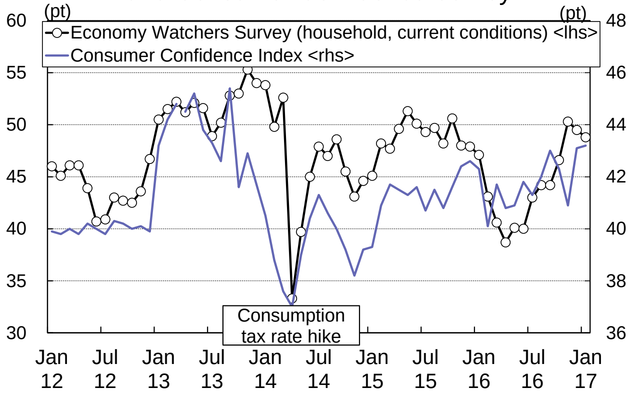
Note: Machinery Orders and Construction Orders are seasonally adjusted.
Source: Ministry of Economy, Trade and Industry, Ministry of Land, Tnfrastructure,Transport and Tourism, BTMU Economic Research Office

Looking at the household sector, a slowdown in the pace of wage increases and a modest rise in consumer prices due to a rise in oil prices would place downward pressure on private consumption in the future. However, it is highly likely that companies' strong hiring demand will foster an increase in employment, and the current consumer sentiment has been improving. Given this, a moderate recovery in private consumption looks likely to be maintained. According to the results of the Consumer Confidence Survey and the Economy Watchers Survey by the Cabinet Office, consumer sentiment, which dropped due to the global stock downturn at the beginning of last year, now shows a steady improvement on the back of increasing household income, rallying stock prices and a decreasing impact of the front-loaded demand of durable goods, although there were fluctuations impacted by soaring fresh food prices stemming from bad summer weather and the US presidential election results (see Chart 3).

Moreover, the government will fully implement the second supplementary budget for FY2016 that advances its "Economic Measures for Realizing Investment for the Future" approved in a Cabinet meeting last August. This is expected to boost public demand, especially public investment that has currently slowed down, supporting the future economic growth.

Needless to say, looking abroad, there are many risk factors that could drag down the Japanese economy through the performance of exports and financial markets, such as the direction of US policies under Trump's new administration that started on January 20, uncertainty surrounding the UK's Brexit negotiations, and elections in various European countries including the Netherlands, France and Germany. In particular, the trade policy of Trump's administration will have a large impact on Japanese manufacturers whose largest overseas export market is the US and who have established supply chains across multiple countries such as Mexico. Therefore, attention should be paid to renegotiations of NAFTA and the direction of Japan-US Economic Dialogue that is to be set up based on an agreement reached at the February 2017 Japan-US summit. However, since the current Japanese economy is in a cyclical expansionary phase and has a certain resistance to external shocks, we forecast real GDP growth of +1.2% YoY in FY2016 underpinned by external demand and +1.2% YoY also in FY2017 driven by domestic demand (see Table 1).

Chart 3: Economy Watchers Survey and Consumer Confidence Survey



Note: Threre is a data discontinuity between March and April 2013 in the Consumer Confidence Index due to changes in survey method.
Source: Cabinet Office, BTMU Economic Research Office

Table 2: Environment Surrounding Spring Wage Negotiations

	Year 2016 (Last year)	Year 2017 (This year)	Impact on wage increase
Labor share (actual ratio of previous year, %)	60.6	61.1	↓
Employment conditions DI ("Excessive employment" - "Insufficient employment,") (as of December of previous year, %pt)	▲ 19	▲ 21	↑
Increase rate of current profits (actual rate of previous year, %)	7.5	▲ 3.6	↓
Increase rate of core CPI (2015 is the base year, actual rate of previous year, %)	0.5	▲ 0.3	↓
Desired wage increase rate from employees' standpoint	2.99	2.85	↓
Desired wage increase rate from companies' standpoint	2.40	2.35	↓
Wage increase rate (annual wage increase + increase in basic wage) (actual rate of current year, %)	2.14	Approx. 2.0	–

Note: 1. The labor share and current profit of 2017 are averages from the Jan-Mar quarter to the Jul-Sep quarter in 2016.
2. The wage increase rate of 2017 is the average of responses on "Wage Increase Projections" in the Survey on Wage Increase.
Source: Various statistics and materials, BTMU Economic Research Office

2. Key Points in Outlook

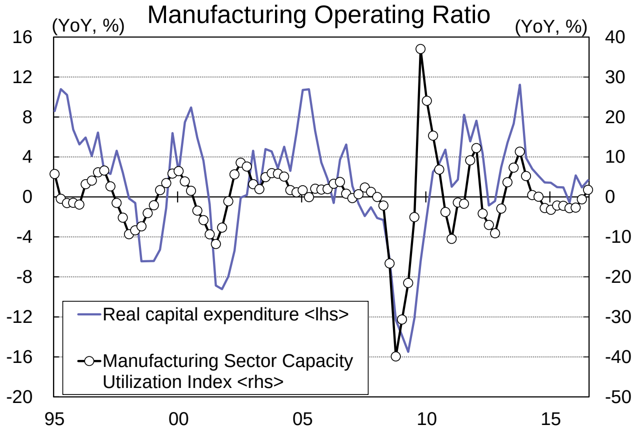
(1) Capital Expenditure Gathers Momentum Driven by Improving Corporate Earnings and Production

Japan's real capital expenditure grew at an annualized +3.8% QoQ in Oct-Dec 2016, showing the first increase in two quarters, amid improving corporate earnings and production. Its amount for the Oct-Dec quarter was 81.2 trillion yen (seasonally adjusted), recovering close to the peak level (81.4 trillion yen) of the Jan-Mar 2007 quarter. Going forward, moderate economic expansion inside and outside Japan as well as a weakening yen is likely to continue to support an improvement in earnings. Moreover, looking at the capacity utilization of Japanese manufacturers, the manufacturing operating ratio came in at +1.8% YoY in Oct-Dec, the first improvement in eight quarters, on the back of production recovery. Considering these factors, Japanese companies' fundamentals driving capital expenditure are highly likely to remain solid (see Chart 4).

In addition, since Japan has made the changes in national accounting methods (GDP calculation) on December 8, 2016 and now research and development (R&D) expenditure is recorded as capital expenditure, this also boosts the future capital expenditure. Looking at the changes in real investment by Japanese companies, real investment has been on a downward trend in the long term, albeit with fluctuations due to economic conditions, whereas R&D expenditure clearly shows an upward trend (see Chart 5). This suggests that, amid significant progress in accumulating facility assets, Japanese companies have made their efforts to innovate technologies by strengthening R&D, such as product designing, rather than making additional investments in facilities which involves the risk of excess capacity. Another reason for the increase in R&D investment is that production sites are located inside and outside of Japan to establish global supply chains in expanding overseas businesses, whereas R&D sites tend to be located inside Japan including those for overseas markets. The results of the Opinion Poll published by Development Bank of Japan show that Japanese companies have high interest in R&D activity and it is likely that R&D investment will continue to expand.

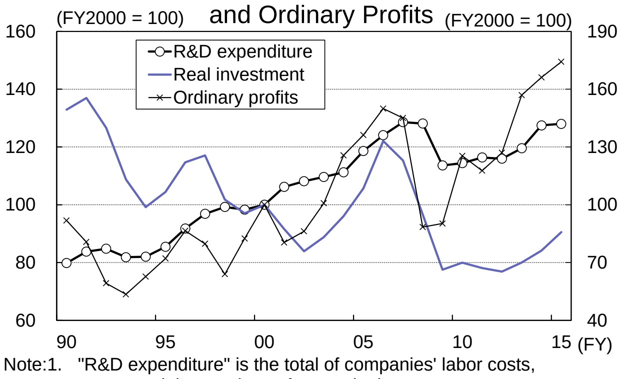
Future capital investment is expected to increase on the back of improving fundamentals for real investment and the upward trend of R&D investment.

Chart 4: Real Capital Expenditure and Manufacturing Operating Ratio



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

Chart 5: Changes in Real Investment, R&D Expenditure and Ordinary Profits



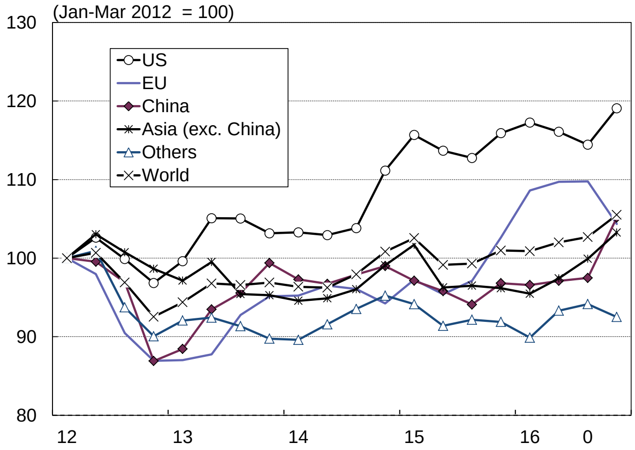
Note:1. "R&D expenditure" is the total of companies' labor costs, raw material costs, lease fees and other expenses.
2. "Real investment" is the total amount of new investments in other tangible fixed assets and new construction in progress.
Source: Ministry of Finance, Ministry of Internal Affairs, BTMU Economic Research Office

(2) Recovery in Imports will Reduce Positive Contribution of Net Exports to GDP

The contribution of net exports (exports-imports) to real GDP in the Oct-Dec 2016 quarter was +1.0% QoQ annualized, which significantly pushed up GDP growth as in the previous quarter. The increase in exports to the US and China, particularly of automobiles, and the continued recovery of exports to other Asian countries boosted real export growth to +11.0% annualized QoQ, which is the second consecutive quarter of significant increase (see Chart 6). On the other hand, real imports also grew by an annualized +5.4% QoQ, showing the first uptick in five quarters, due to the increased imports of fuels and materials as a result of improving domestic production. As for the future net exports, although exports are expected to continue their recovery supported by solid demand from developed countries such as the US, the continued downward pressure of increasing imports due to the recovery of the Japanese economy would reduce the positive contribution of net exports to real GDP.

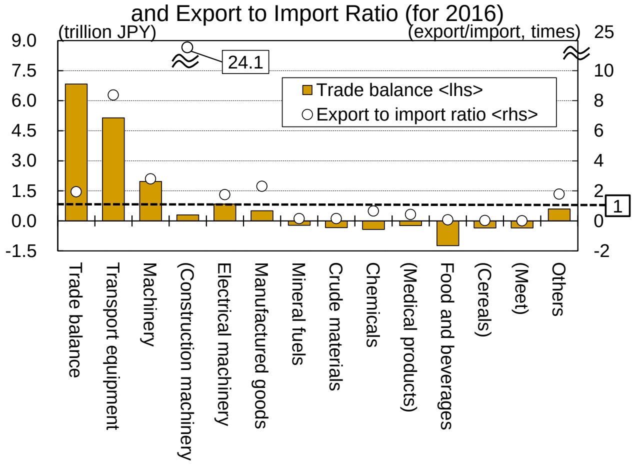
The trade policy of Trump's administration needs to be taken into account as a risk factor for future Japanese exports. President Trump sees the US trade deficits with its major trading partners as a matter of concern and at a meeting with US business leaders held on January 23, he criticized auto trade with Japan as unfair. Looking at Japan's trade balance with the US by commodity, transport equipment accounts for the largest trade surplus and its ratio of exports to imports is also high (see Chart 7). Furthermore, regarding other commodities, Japan has also recorded a large trade surplus in machinery and particularly, the export value of construction machines has reached as much as 24 times the import value. Although both leaders do not seem to have made any direct reference to the automotive trade between Japan and the US during the summit meeting held on February 10, the trade imbalance between the two nations is highly likely to be addressed through a bilateral Economic Dialogue that was agreed to be set up at the summit meeting. Close attention should be paid to the direction of the discussion regarding this trade issue.

Chart 6: Changes in Real Exports by Country



Source: Bank of Japan and BTMU Economic Research Office

Chart 7: Japan's Trade Balance with the US by Commodity and Export to Import Ratio (for 2016)



Source: Ministry of Finance, BTMU Economic Research Office

(3) Private Consumption will see a Moderate Recovery Underpinned by Robust Income Growth

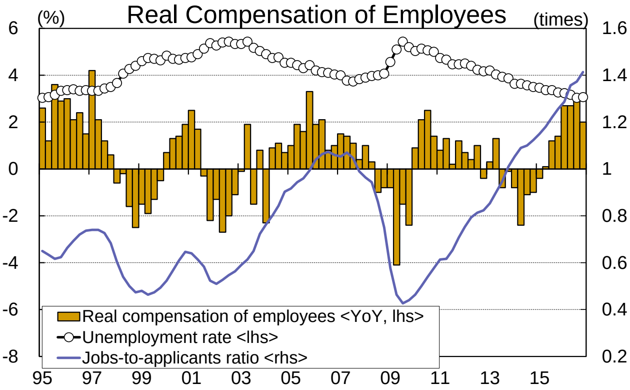
Private consumption grew at an annualized rate of -0.0% QoQ in the Oct-Dec 2016 quarter, slipping into negative growth, albeit slightly, for the first time in four quarters. Although the income, which underpins private consumption, continued to grow strongly as real compensation of employees rose at +2.0% YoY in Oct-Dec, sustaining the seventh consecutive quarter of positive growth, soaring fresh food prices stemming from bad weather seem to have put a damper on consumption (see Chart 8).

Although the surge in fresh food prices has slowed down, CPI is expected to increase moderately in response to rising oil prices. To maintain the recovery momentum of private consumption under such circumstances, it is necessary to sustain the strong growth in income.

When it comes to wage increases, it should be noted that the conditions surrounding annual spring wage negotiations between companies and labor unions are harsh compared to last year in terms of labor share, corporate earnings growth and consumer prices (see Table 2). According to the Survey on Wage Increase conducted by the Institute of Labor Administration, both the desired wage increase rate from the employees' standpoint and that from the companies' standpoint are lower than those of last year. While this year is the fourth consecutive year of the government-led labor offensive, companies are expected to implement wage increases, although increased rates are likely to be lower than last year. Meanwhile, the current employment market is tight with the jobs-to-applicants ratio remaining at a high level of 1.43 in December and the unemployment rate at a historical low level of 3.1%. This suggests that the number of employees will continue to increase. On the whole, household income is anticipated to continue to improve moderately thanks to the increasing number of employees supported by companies' strong hiring interest, even amid a slowdown in wage increases.

Since the consumer sentiment is improving as described above, private consumption is expected to remain strong supported by robust income growth, even in a phase where CPI gradually increases.

Chart 8: Employment Statistics and Real Compensation of Employees



Note: Unemployment rate and Jobs-to-applicants ratio are three-month average.

Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labor and Welfare, BTMU Economic Research Office

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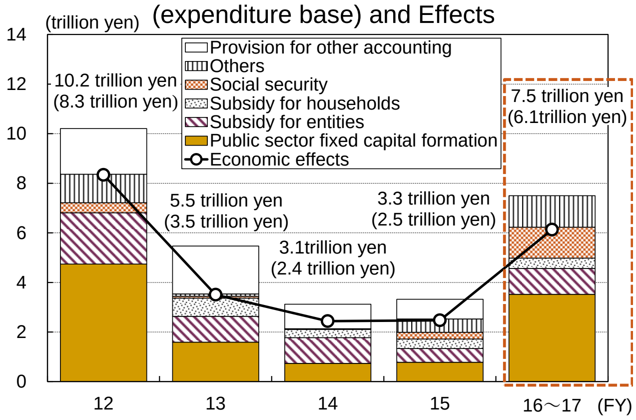
Source: Various statistics and materials, BTMU Economic Research Office

(4) Fiscal Consolidation will be Put on Hold amid Full-Scale Implementation of Economic Measures

Public demand stood at an annualized -0.2% QoQ in Oct-Dec 2016, posting negative growth for the first time in two quarters, mainly due to a decrease in public investment. Meanwhile, since the second supplementary budget for FY2016, which supports the "Economic Measures for Realizing Investment for the Future (size: 28.1 trillion yen, expenditures by the central and local governments: 7.5 trillion yen)" approved in a Cabinet meeting last August, was enacted on October 11, the second supplementary budget will be implemented on a full scale towards the middle of this year (see Chart 9). The Contracted Public Works Orders, a leading indicator for public investment, has already been on the rise with growth at +5.3% YoY in December 2016 and +7.1% YoY in January 2017. Based on this, we will see public investment turning upward in the future.

On the fiscal side, it is highly likely that the deficit, which has been reduced after bottoming out in FY2009, will start to increase again since it is indicated in the Economic and Fiscal Projections for Medium to Long Term Analysis revised by the Cabinet Office in January that the central and local governments' primary balance deficit for FY 2016 is assumed to increase further (see Chart 10). Furthermore, while the government plans to achieve a primary balance surplus for FY 2020, the projected primary balance for FY2020 has been revised from -5.5 trillion yen estimated last July to -8.3 trillion yen on the "economic revitalization" case premised on the nominal GDP growth rate above 3%. The primary balance surplus in FY 2020 is a high goal because it can only be achieved under the conditions where Japan has a high economic growth rate and the government adheres to the expenditure target for FY2018 stipulated in "The Plan to Advance Economic and Fiscal Revitalization" upon extending it until FY2020. However, when the economy is on a path of cyclical recovery, it should be easier for the government to push forward expenditure reforms. To achieve economic growth and fiscal consolidation, the government is required to steadily advance "The Plan to Advance Economic and Fiscal Revitalization" such as the reform of the social security system.

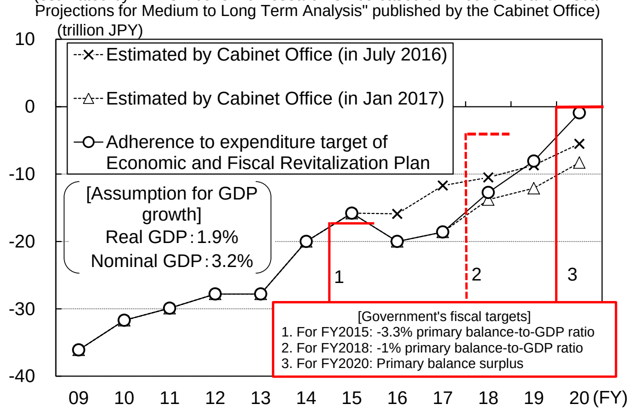
Chart 9: Scale of Economic Stimulus Measures (expenditure base) and Effects



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

Chart 10: Forecast for Central and Local Governments' Primary Balance

(estimated by BTMU Economic Research Office based on "Economic and Fiscal Projections for Medium to Long Term Analysis" published by the Cabinet Office)



Source: Cabinet Office, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary Policy

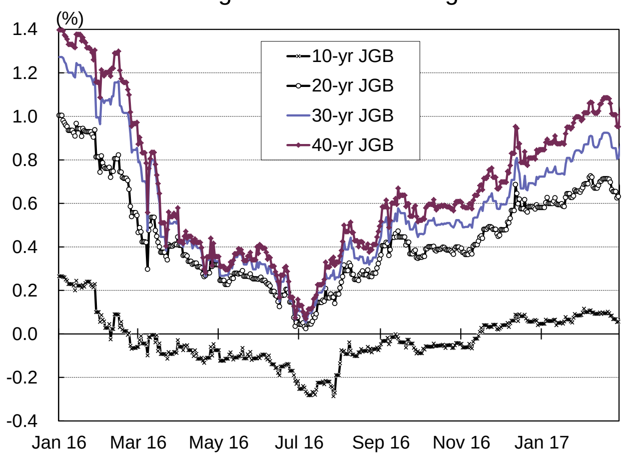
At the monetary policy meeting held on January 30 to 31, the Bank of Japan (BoJ) announced its decision to maintain the current monetary policy as well as released its quarterly Outlook for Economic Activity and Prices report. In the quarterly report, the BoJ revised up Policy Board members' forecast for growth rate due to the revision to GDP calculation, while it kept the outlook for prices, a policy target, unchanged from the previous one, at +1.5% YoY in FY2017 and +1.7% YoY in FY 2018. Inflation expectations need to be raised further in order to achieve the BoJ's outlook for prices, which seems to be too high to reach. However, although CPI (general, excluding fresh food) continued to fall by 0.2% YoY in December 2016, we anticipate that it will rise to around +1% YoY by the middle of this year spurred by a weaker yen that started at the end of last year and a pickup in oil prices. We also maintain the same view as the BoJ that consumer prices will turn upward and have a higher growth rate. As long as the price increase momentum is maintained, the BoJ is expected to continue its current monetary policy.

(2) Long Term Yields and Exchange Rates

To curb the rise in interest rates in Japan due to soaring US interest rates, the BoJ has taken proactive actions to hold down rising yields on Japanese government bonds (JGBs) since the end of last year by increasing purchases of JGBs and by conducting fixed-rate operations. On February 3, the BoJ offered a fixed-rate operation to purchase JGBs with more than 5 to 10 years to maturity, including 10-year JGBs for the first time which is the BoJ's operation target. The yield on 10-year JGBs soared temporarily to 0.15%, the highest since January last year, but after the fixed-rate operation was conducted, the yield declined to less than 0.1% and remains roughly at around zero percent, which is the BoJ's target for 10-year JGB yield (see Chart 11). On the other hand, yields on JGBs with more than 10 year maturity have been rising moderately though the BoJ has tried to curb soaring yields by changing the purchase amount when yields of those JGBs fluctuated rapidly. This seems to indicate that the BoJ accepts the rise in JGB yields if it is moderate. Amid continuously rising interest rates in the US, if the BoJ continues to take such a stance, the yield curve will gradually steepen.

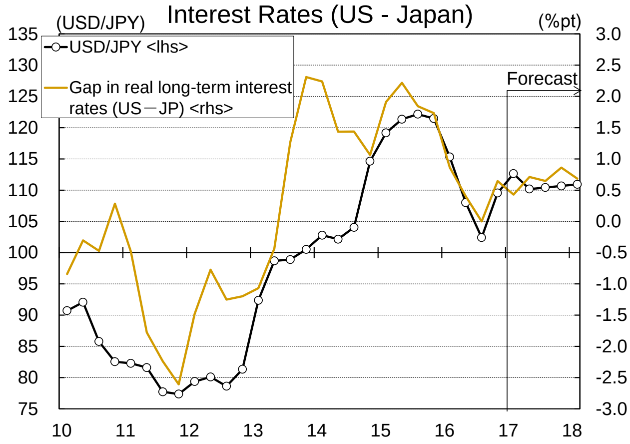
USD/JPY continues to move in line with the gap in real interest rates between the US and Japan (yield of 10-year government bonds – break-even inflation rate). When the yield on 10-year US Treasury bonds rose to 2.6% in the middle of last December, JPY depreciated further against USD, reaching 118 yen level per USD. Thereafter, however, as the US interest rate declined to around 2.4%, USD/JPY stays around 113. Going forward, JPY could strengthen once again impacted by the fiscal and trade policies of Trump's administration and the direction of elections in various European countries; nevertheless, amid ongoing rate hikes in the US, the widening gap in interest rates between the US and Japan would push JPY moderately lower against USD (see Chart 12).

Chart 11: Changes in Yields on Long-Term JGBs



Source: Bloomberg, BTMU Economic Research Office

Chart 12: USD/JPY and Gap in Real Long-Trem Interest Rates (US - Japan)



Source: Bloomberg, BTMU Economic Research Office

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Outlook for the Japanese Economy

Reflecting Oct-Dec 2016 GDP (the first preliminary estimates)

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	5.8	-0.4	0.8	-1.2	2.3	1.8	1.4	1.0	1.1	1.2	1.2	1.3	1.3	1.3	1.2	1.2
Private Consumption	2.0	-1.5	2.1	-2.5	1.4	0.8	1.3	-0.0	0.7	0.8	0.9	0.9	1.0	0.5	0.6	0.7
Housing Investment	13.4	4.4	6.3	-3.9	5.9	13.8	9.9	0.7	0.0	-3.2	-4.3	-4.7	-2.8	2.7	6.3	-1.8
Private Business Fixed Investment	5.2	-5.5	2.5	1.8	-1.1	5.1	-1.3	3.8	1.4	1.8	2.2	2.4	2.4	0.6	1.8	2.0
Business Inventory (Contribution)	2.3	1.5	-0.8	-0.2	-0.8	1.0	-1.1	-0.5	0.0	0.1	0.1	0.3	0.3	0.3	-0.2	-0.0
Government Expenditures	1.1	0.7	0.5	1.0	3.8	-2.7	0.2	-0.2	1.8	2.1	1.5	0.9	0.9	1.2	0.2	1.3
Public Investment	-8.5	2.6	-4.2	-6.0	-4.3	4.5	-2.9	-6.9	3.2	6.0	2.8	-0.6	-0.4	-2.0	-1.9	1.6
Net Exports (Contribution)	0.8	-0.5	-0.4	0.0	1.4	-0.1	1.6	1.0	-0.0	0.0	0.0	0.1	0.0	0.2	0.6	0.2
Exports	6.5	-13.5	8.6	-3.0	3.5	-4.6	8.5	11.0	1.9	2.1	2.2	2.3	2.3	0.8	2.6	3.5
Imports	1.8	-10.0	9.7	-3.0	-4.3	-3.9	-1.0	5.4	1.8	1.9	2.0	1.9	2.1	-0.2	-1.1	2.2
Nominal GDP	9.1	1.0	2.1	-1.0	3.1	1.2	0.7	1.3	1.1	1.3	1.2	1.2	1.3	2.8	1.2	1.2
GDP Deflator (YoY)	3.3	1.6	1.7	1.6	0.9	0.4	-0.1	-0.1	-0.2	-0.0	0.1	-0.0	0.0	1.4	0.0	0.0
Industrial Production Index (QoQ)	1.1	-1.3	-1.0	0.1	-1.0	0.2	1.3	2.0	0.9	0.2	0.2	0.2	0.2	-1.0	1.3	2.5
Domestic Corporate Goods Price Index (YoY)	0.4	-2.2	-3.7	-3.7	-3.5	-4.4	-3.6	-2.0	0.0	1.3	0.8	0.5	0.3	-3.2	-2.6	0.7
Consumer Price Index (excl. fresh food, YoY)	2.1	0.1	-0.1	0.0	-0.1	-0.4	-0.5	-0.4	0.4	0.7	0.8	0.8	0.8	-0.0	-0.2	0.8
2. Balance of Payments																
Trade Balance (billion yen)	-176	-407	-376	356	896	1,199	1,547	1,706	1,306	1,117	894	726	702	542	5,759	3,439
Current Balance (billion yen)	3,550	3,992	3,983	4,801	4,973	4,637	4,977	5,398	5,174	4,929	4,758	4,642	4,671	18,003	20,185	19,000
3. Financial																
Uncollateralized overnight call rate	0.1	0.1	0.1	0.1	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1
Euro-Yen TIBOR (3-month rate)	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	0.0	0.0	0.0	0.0	0.0	0.3	-0.1	0.0
Exchange Rate (USD/JPY)	119	121	122	121	115	108	102	110	113	110	110	111	111	120	108	111

Note: *Uncollateralized overnight call rate* is the average rate during the last month of the period. *Euro-Yen TIBOR (3-month rate)*, *Newly Issued 10-Year Government Bonds Yield* and *Exchange Rate (USD/JPY)* are averages during the period.

Source: Various statistics, Bloomberg, BTMU Economic Research Office

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1． Main Economic Indicators

As of Feb. 28, 2017

	Fiscal	Fiscal	2016			2016				2017
	2014	2015	2Q	3Q	4Q	SEP	OCT	NOV	DEC	JAN
Real GDP Growth Rate <% changes from	-0.4	1.3	1.8	1.4	1.0	***	***	***	***	***
previous period at SA annual rate>			(0.9)	(1.1)	(1.7)					
Index of All Industries Activity	-1.1	0.9	0.4	0.5	0.3	0.0	0.0	0.4	-0.3	
			(0.1)	(0.7)	(1.0)	(1.2)	(-0.4)	(2.2)	(1.2)	
Industrial Production Index	-0.5	-1.0	0.2	1.3	2.0	0.6	0.0	1.5	0.7	-0.8
Production			(-1.8)	(0.4)	(2.1)	(1.5)	(-1.4)	(4.6)	(3.2)	(3.2)
Shipments	-1.2	-1.2	0.2	0.7	3.3	1.8	2.0	1.0	-0.4	-0.4
			(-2.0)	(-0.6)	(1.7)	(0.7)	(-2.0)	(5.1)	(2.3)	(3.5)
Inventory	6.1	1.8	-1.3	-2.6	-3.1	-0.5	-2.1	-1.6	0.6	0.0
			(0.0)	(-2.0)	(-4.6)	(-2.0)	(-3.0)	(-4.8)	(-4.6)	(-4.3)
Inventory/Shipments Ratio	112.0	115.0	116.5	115.3	110.5	114.9	114.2	107.8	109.5	111.4
(2010=100)			[113.8]	[114.7]	[114.9]	[115.1]	[113.0]	[115.5]	[116.3]	[116.2]
Domestic Corporate Goods Price Index	2.8	-3.3	-0.6	-0.3	0.4	0.1	-0.1	0.4	0.7	0.6
			(-4.5)	(-3.8)	(-2.1)	(-3.3)	(-2.7)	(-2.3)	(-1.2)	(0.5)
Consumer Price Index(SA, total, excl.fresh foods)	2.8	0.0	0.4	-0.2	0.2	0.0	0.1	0.1	0.1	
			(-0.4)	(-0.5)	(-0.3)	(-0.5)	(-0.4)	(-0.4)	(-0.2)	
Index of Capacity Utilization	100.6	98.0	95.4	97.2	100.2	96.7	98.1	101.0	101.6	
(2010=100)			[98.0]	[97.6]	[97.9]	[97.7]	[98.4]	[98.2]	[97.2]	[99.9]
Machinery Orders(Private Demand,	0.8	4.1	-9.2	7.3	-0.2	-3.3	4.1	-5.1	6.7	
Excl.Electric Power and Ship building)			(-6.5)	(6.5)	(3.6)	(4.3)	(-5.6)	(10.4)	(6.7)	
Manufacturing	7.0	6.2	-13.4	4.5	0.5	-5.0	-1.4	9.8	1.0	
			(-12.9)	(-0.5)	(3.5)	(-1.5)	(-9.0)	(8.3)	(10.9)	
Non-manufacturing	-3.3	2.5	-5.0	8.2	-2.1	-0.9	4.6	-9.4	3.5	
Excl.Electric Power & Ship building			(-1.0)	(11.8)	(3.3)	(7.8)	(-3.9)	(11.6)	(3.5)	
Shipments of Capital Goods	4.4	-2.3	3.4	1.0	3.3	0.3	2.1	2.1	-1.5	0.7
(Excl.Transport Equipment)			(-2.7)	(0.4)	(4.7)	(3.3)	(1.7)	(7.6)	(4.9)	(4.9)
Construction Orders	8.2	-0.9								
			(1.5)	(7.4)	(5.3)	(16.3)	(15.2)	(-6.0)	(7.1)	
Private	4.8	7.9								
			(3.9)	(-3.5)	(16.7)	(-9.2)	(24.4)	(21.6)	(8.9)	
Public	22.9	-15.6								
			(-0.4)	(51.8)	(-9.5)	(136.7)	(-7.1)	(-38.1)	(12.4)	
Public Works Contracts	-0.3	-3.8								
			(4.0)	(6.8)	(-4.5)	(18.1)	(-10.0)	(-5.7)	(5.3)	(7.1)
Housing Starts	88.0	92.1	99.1	97.9	95.3	98.1	98.1	95.4	92.3	
10,000 units at Annual Rate, SA	(-10.8)	(4.6)	(5.4)	(7.1)	(7.9)	(10.0)	(13.1)	(6.7)	(3.9)	
Total floor	(-15.2)	(2.1)	(3.6)	(5.1)	(5.2)	(6.7)	(8.9)	(2.9)	(3.9)	
Sales at Retailers	-1.2	0.8								
			(-1.4)	(-1.3)	(0.8)	(-1.7)	(-0.2)	(1.7)	(0.7)	(1.0)
Real Consumption Expenditures	-5.1	-1.2	-0.2	-0.5	-1.0	2.8	-1.0	-0.6	-0.6	
of Households over 2 persons (SA)			(-1.2)	(-2.4)	(-0.7)	(-2.1)	(-0.4)	(-1.5)	(-0.3)	
Propensity to Consume	74.2	73.6	72.9	70.6	71.8	72.0	70.9	72.9	71.8	
(SA,%)			[74.2]	[73.4]	[73.1]	[74.3]	[73.2]	[73.0]	[72.9]	[72.3]
Overtime Hours Worked	2.0	-1.3	0.0	-0.2	0.3	1.9	-0.1	-0.6	-0.9	
(All Industries, 5 employees or more)			(-1.2)	(-1.5)	(-1.2)	(-0.9)	(-0.9)	(-0.9)	(-1.8)	
Total Cash Earnings (Regular Employees	0.5	0.2								
Only; All Industries, 5 employees or more)			(0.6)	(0.5)	(0.4)	(0.0)	(0.1)	(0.5)	(0.5)	
Employment Index(Regular Employees Only;'All Industries,	77	98	93	102	105	105	101	106	107	
5 employees or more）(Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	1.11	1.23	1.36	1.37	1.41	1.38	1.40	1.41	1.43	
(SA,Times)			[1.18]	[1.22]	[1.26]	[1.23]	[1.24]	[1.26]	[1.27]	[1.28]
Unemployment Rate	3.5	3.3	3.2	3.0	3.1	3.0	3.0	3.1	3.1	
(SA,%)										
Economy Watcher Survey	46.6	48.8	42.6	45.2	48.7	44.8	46.2	48.6	51.2	48.6
(Judgment of the present condition D.I,%)			[52.6]	[49.5]	[47.7]	[47.5]	[48.2]	[46.1]	[48.7]	[46.6]
Bankruptcies (Number of cases)	9,543	8,684	2,129	2,087	2,086	649	683	693	710	605
	(-9.4)	(-9.0)	(-7.3)	(-0.2)	(-3.1)	(-3.6)	(-8.0)	(-2.5)	(1.6)	(-10.4)

(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 Feb. 28, 2017

	Fiscal 2014	Fiscal 2015	2016 2Q	2016 3Q	2016 4Q	2016 SEP	2016 OCT	2016 NOV	2016 DEC	2017 JAN
Customs Clearance (Exports in Yen Terms)	5.4	-0.7	(-9.5)	(-10.2)	(-1.9)	(-6.9)	(-10.3)	(-0.4)	(5.4)	(1.3)
Value	3.9	2.1	(-8.3)	(-11.1)	(-6.3)	(-11.1)	(-9.0)	(-7.3)	(-2.7)	(1.6)
Volumes	1.3	-2.7	(-1.3)	(1.0)	(4.7)	(4.7)	(-1.4)	(7.4)	(8.4)	(-0.3)
Imports (In Yen terms)	-1.0	-10.3	(-18.8)	(-19.5)	(-9.3)	(-16.2)	(-16.4)	(-8.8)	(-2.6)	(8.5)
Value	1.2	-8.5	(-17.6)	(-18.9)	(-10.8)	(-14.9)	(-14.3)	(-11.9)	(-6.0)	(2.2)
Volumes	-2.1	-1.8	(-1.3)	(-0.7)	(1.6)	(-1.5)	(-2.5)	(3.6)	(3.6)	(6.2)
Current Account (100 mil. yen)	87,245	180,028	45,955	58,430	42,476	18,780	17,199	14,155	11,122	
Goods (100 mil. yen)	-65,890	5,419	14,959	15,221	17,079	6,762	5,876	3,134	8,068	
Services (100 mil. yen)	-27,252	-11,451	-4,951	-3,365	-3,847	-882	-1,719	738	-2,866	
Financial Account (100 mil. yen)	137,595	238,095	71,315	105,334	22,206	33,483	7,446	10,963	3,796	
Gold & Foreign Exchange Reserves ($1mil.)	1,245,316	1,262,099	1,265,402	1,260,145	1,216,903	1,260,145	1,242,792	1,219,291	1,216,903	1,231,573
Exchange Rate (\/$)	109.92	120.13	108.17	102.40	109.32	102.04	103.82	108.18	115.95	114.73

３． Financial Market Indicators

			Fiscal 2014	Fiscal 2015	2016 2Q	2016 3Q	2016 4Q	2016 SEP	2016 OCT	2016 NOV	2016 DEC	2017 JAN
Uncollateralized Overnight Call Rates			0.068	0.063	-0.050	-0.046	-0.043	-0.052	-0.037	-0.049	-0.044	-0.045
					[0.067]	[0.074]	[0.076]	[0.073]	[0.076]	[0.078]	[0.075]	[0.074]
Euro Yen TIBOR			0.194	0.157	0.060	0.057	0.056	0.056	0.056	0.056	0.056	0.056
(3 Months)					[0.169]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]	[0.169]
Newly Issued Japanese Government Bonds Yields			0.400	-0.050	-0.230	-0.085	0.040	-0.085	-0.050	0.020	0.040	0.085
(10 Years)					[0.455]	[0.350]	[0.270]	[0.350]	[0.300]	[0.300]	[0.270]	[0.095]
Average Contracted Interest Rates			1.006	0.924								
on Loans and Discounts(City Banks)					0.886	0.865	0.853	0.865	0.866	0.864	0.853	
(% changes from previous period)					(-0.038)	(-0.021)	(-0.012)	(-0.015)	(0.001)	(-0.002)	(-0.011)	
The Nikkei Stock Average			19,207	16,759	15,576	16,450	19,114	16,450	17,425	18,308	19,114	19,041
(TSE 225 Issues)					[20,236]	[17,388]	[19,034]	[17,388]	[19,083]	[19,747]	[19,034]	[17,518]
M2(Average)			(3.3)	(3.6)	(3.4)	(3.4)	(3.9)	(3.5)	(3.7)	(3.9)	(4.0)	(4.1)
Broadly-defined Liquidity(Average)			(3.3)	(3.9)	(2.2)	(1.6)	(1.8)	(1.6)	(1.5)	(1.9)	(2.1)	(2.2)
Principal Figures of Financial Institutions												
	Banks & Shinkin		(2.3)	(2.4)	(2.1)	(2.1)	(2.5)	(2.2)	(2.4)	(2.4)	(2.6)	(2.5)
Loans and	Banks		(2.5)	(2.5)	(2.1)	(2.1)	(2.5)	(2.2)	(2.4)	(2.4)	(2.6)	(2.6)
Discount		City Banks etc.	(1.4)	(1.2)	(0.8)	(0.7)	(1.4)	(0.8)	(1.1)	(1.2)	(1.8)	(1.7)
(Average)		Regional Banks	(3.8)	(3.7)	(3.4)	(3.5)	(3.6)	(3.5)	(3.6)	(3.6)	(3.5)	(3.5)
		Regional Banks Ⅱ	(2.9)	(3.2)	(3.2)	(2.9)	(3.1)	(2.9)	(3.1)	(3.1)	(3.1)	(3.1)
	Shinkin		(1.4)	(2.2)	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.4)
	Total(3 Business Condition)		(3.3)	(3.7)	(3.3)	(3.4)	(4.2)	(3.6)	(3.9)	(4.2)	(4.3)	(4.5)
Deposits		City Banks	(3.4)	(4.5)	(4.7)	(4.8)	(6.0)	(5.1)	(5.6)	(6.1)	(6.3)	(6.4)
and CDs		Regional Banks	(3.3)	(3.0)	(1.9)	(2.2)	(2.3)	(2.1)	(2.2)	(2.5)	(2.3)	(2.6)
(Average)		Regional Banks Ⅱ	(3.1)	(2.5)	(1.9)	(1.9)	(2.2)	(2.1)	(2.2)	(2.2)	(2.2)	(2.3)

(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.