The Outlook for the Japanese Economy

The Japanese economy is entering a phase of stable expansion led by domestic private demand

TAKAYUKI MIYADOU
TOORU KANAHORI
YUMIKO HISHIKI
YUUSUKE YOKOTA
KEI SHIMOZATO
ECONOMIC RESEARCH OFFICE

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

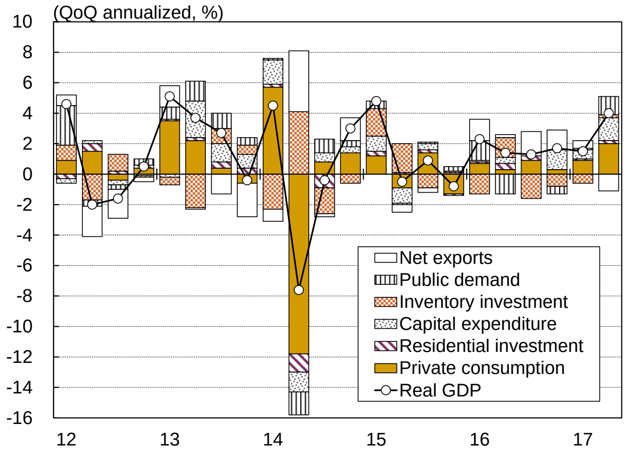
21 SEPTEMBER 2017
(ORIGINAL JAPANESE VERSION RELEASED ON 30 AUGUST 2017)

1. Overview of the Japanese Economy

Japan's real GDP growth accelerated to an annualized 4.0% QoQ in April-June 2017 (first preliminary estimate), sustaining its positive growth for six consecutive quarters (Chart 1). Looking at the breakdown of this figure, domestic demand is noticeably robust; a high level of growth in private domestic demand such as private consumption (3.7% QoQ annualized), private residential investment (6.0% QoQ annualized), and capital expenditure (9.9% QoQ annualized). In addition, public investment increased sharply to 21.9% QoQ annualized owing to the full-scale implementation of the government's economic measures and inventory investment also made a positive contribution to growth due to the completion of an inventory adjustment. Meanwhile, there was a dip in the upward trend of exports, while imports maintained strong growth on the back of a recovery in domestic production. As such, the contribution to real GDP by foreign demand fell into negative territory for the first time in six quarters. These results show that the economy is steadily firming, while the key driver of economic growth is shifting from foreign demand to domestic demand.

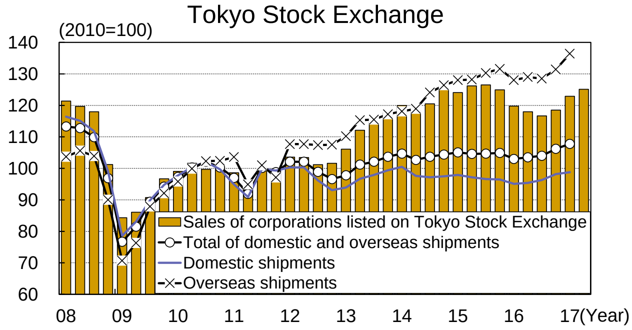
Currently, the Japanese economy has reached a phase of stable expansion supported by an improvement in corporate profits and production. Firstly, the ordinary profits of corporations (excluding the financial sector) listed on the First Section of the Tokyo Stock Exchange increased by 18.4% YoY for the third consecutive quarter, reaching a new record high and maintaining their strong growth. This was mainly led by significant increase in profits in the manufacturing sector. It is important to take note that this rising trend of corporate profits is associated with an increase in domestic and overseas production and sales, rather than restructuring. Looking at changes in the "Global Shipment Index" (compiled by the Ministry of Economy, Trade and Industry), which covers domestic and overseas shipments by the Japanese manufacturing sector, there is a steady recovery of shipments which had slowed in the first half of 2016 (Chart 2). Within this, shipments by domestic production have gradually increased as inventory adjustments progressed, whereas shipments by local production of overseas subsidiaries have made a swift recovery amid an acceleration of overseas economies and are currently at a record-high level. Various surveys also confirm that investment sentiment is becoming steadily more positive, encouraged by strong corporate profits and an expansion of production and shipments both in Japan and overseas. It is likely that corporations' capital and human investment will continue to increase in the future.

Chart 1: Real GDP and Final Demand



Source: Cabinet Office, BTMU Economic Research Office

Chart 2: Manufacturing Sector - Domestic and Overseas Shipments, Sales of Companies Listed on Tokyo Stock Exchange



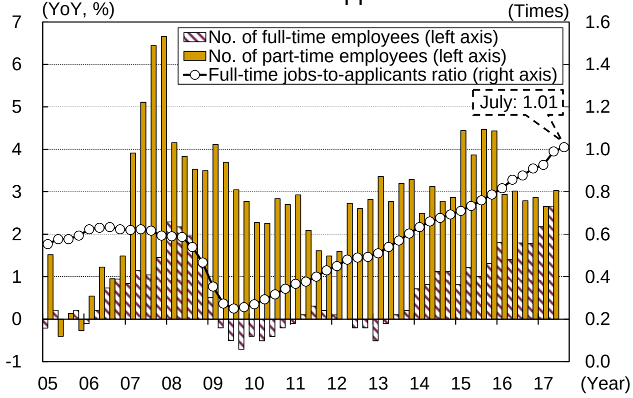
Note: 1. Total of "sales" of 1419 companies (manufacturing sector) who are listed on the First Section of the Tokyo Stock Exchange and provide continuous data from Apr-Jun 2006 and announced their 2017 Apr-Jun data by 22 Aug.
2. Seasonal adjustment was calculated by BTMU Economic Research Office

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

Turning to the labour market, the improvement in business sentiment appears as a progressive shift in hiring more full-time employees. Currently, the number of full-time employees in the labour market is increasing at an accelerated pace; the jobs-to-applicants ratio for full-time employees exceeded 1.0 in June for the first time since records began and the latest data shows it reached 1.01 in July (Chart 3). At present, growth of wages is sluggish, despite an historically tight labour market. A possible cause is that the disparity of wage levels and the gap in the degree of tightness of labour supply and demand between full-time and part-time employees and between industries have inhibited the wage growth due to a change in percentage distribution of employees. The increase in full-time employees is expected to contribute to the improvement in consumer sentiment by driving up overall wages in the coming years and by increasing a sense of security regarding future income. Looking forwards, the virtuous cycle in Japan's economy will become more clear where historically strong corporate profits lead to an expansion of capital expenditure and private consumption against a background of a stable increase in corporate profits, a recovery in production supported by strong domestic and foreign demand, and an increase in the need to employ full-time workers triggered by the tight demand and supply of labour.

Meanwhile, public investment – which increased sharply in April-June after the implementation of economic measures – is forecast to fall within the year. Exports are likely to gradually increase again, supported by a recovery in overseas economies, while imports continue to be pushed up by a recovery in domestic consumption and production. This means the contribution to GDP from foreign demand is expected to remain limited for the time being. Turning our attention overseas, the protectionist stance taken by the US is brought to the fore as it imposes punitive tariffs and renegotiates NAFTA, and the level of political disarray is also increased by the actions of the Trump Administration. In addition, international tension surrounding the situation in North Korea has been rising to a level which has not been seen in recent years. Therefore, it will be necessary to monitor any destabilizing risk to the domestic economy from a jolt to financial markets or a decrease in exports, even if the global economy is following a trend of recovery overall. Looking forwards, it appears that real GDP growth will slow on a quarterly basis due to a possible rebound from the strong growth in April-June, especially private consumption and capital expenditure. However, gradual economic expansion is expected to continue with GDP growth of 1.7% YoY in 2017 and 1.3% YoY in 2018, led by a steadily strengthening of domestic private demand (Table 1).

Chart 3: The Number of Regular Employees and the Full-Time Jobs-to-Applicants Ratio



Note: All data is a 3-month moving average. The most recent data for "the number of full-time employees" is July (single month figure).
Source: Ministry of Health, Labour and Welfare , BTMU Economic Research Office

Table 1: GDP Forecast

(YoY, %)

	FY 2015 (Actual)	FY 2016 (Actual)	FY 2017 (Forecast)	FY 2018 (Forecast)
Real GDP	1.3	1.3	1.7	1.3
Private Consumption	0.6	0.7	1.6	1.0
Private Residential Investment	2.8	6.5	1.8	-1.3
Private Non-Residential Investment	0.6	2.5	4.7	2.5
Inventory Investment (contribution)	0.4	-0.4	-0.2	0.2
Public Demand	1.2	-0.3	1.4	0.7
Net Exports (contribution)	0.1	0.8	-0.1	0.0
Exports	0.7	3.2	3.8	2.2
Imports	0.2	-1.4	4.3	2.3
Nominal GDP	2.7	1.1	1.7	1.6
GDP Deflator	1.5	-0.2	0.0	0.4

Source: Cabinet Office, BTMU Economic Rescearch Office

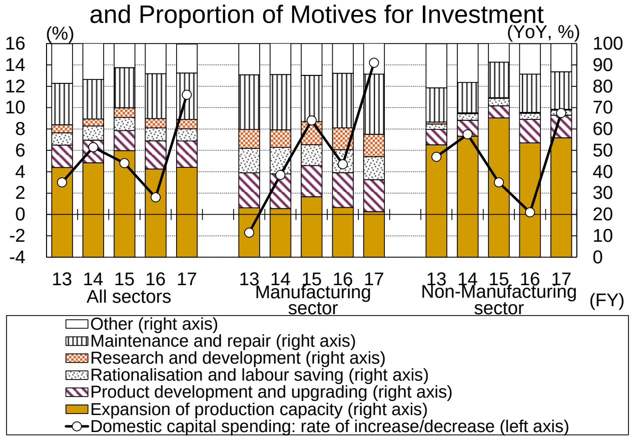
2. Key Points in Outlook

(1) Positive business sentiment is supported by robust earnings

Real capital expenditure accelerated by 9.9% QoQ annualized in April-June, reaching its highest growth since January-March 2014. This positive attitude of corporations towards investment can be seen in various surveys on planned capital spending. According to the “Survey on Planned Capital Spending” released in August by the Development Bank of Japan, the amount of planned capital expenditure by both the manufacturing sector and non-manufacturing sector is high: 14.2% YoY and 9.5% YoY respectively (Table 4). Looking at corporations’ investment motives, the proportion of forward-looking investment, such as an expansion of production capacity and product development and upgrading, is at the same level as the last financial year, maintaining the positive sentiment. Likewise, the result of an opinion poll, “Attitude Toward ‘Investment in a Broader Sense’”, comprising corporations’ stances towards “investment in a broader sense”, shows a notable increase in the proportion of companies who answered that they are “increasing” capital spending on software investment compared with last year’s poll. Capital spending on human resource development and training is a new item in the survey and therefore cannot be compared with previous polls; however, the proportion of companies who answered that they are “increasing” spending in this area exceeded 50% in both the manufacturing and non-manufacturing sectors (Chart 5). These results suggest that companies are trying to manage Japan’s structural issues, namely its labour shortage, by increasing investment in improving productivity and securing a long-term workforce.

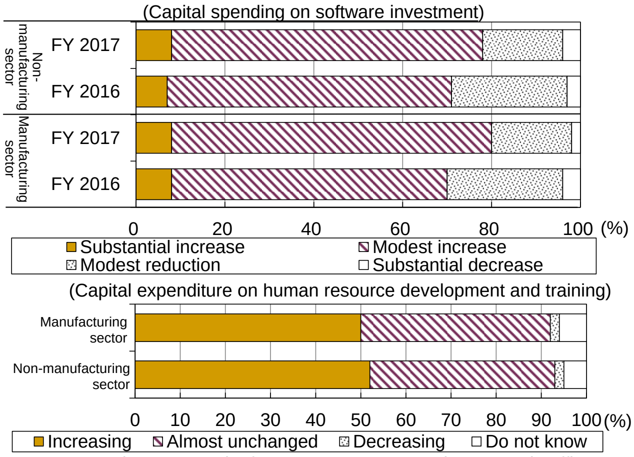
For the time being, corporate earnings are forecast to remain robust on the back of an expansion of foreign and domestic demand, and it appears businesses will continue their positive investment behaviour. An increase in investment, triggered by improved earnings, will underpin the current, gradual economic expansion and holds significant importance as a source of growth potential for corporations in the medium- to long-term.

Chart 4: Rate of Change in Domestic Capital Spending and Proportion of Motives for Investment



Note: Figures of FY2017 are based on planned values.
Source: Development Bank of Japan, BTMU Economic Research Office

Chart 5: Opinion Poll on Investment in a Broader Sense



Source: Development Bank of Japan, BTMU Economic Research Office

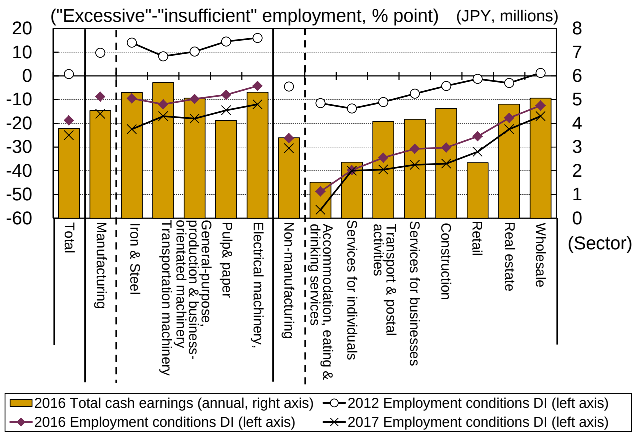
(2) Private consumption is increasing stability, supported by a strong labour market

In April-June, real private consumption increased by 3.7% QoQ annualized; recording the highest growth after January-March 2014 when there was a rush of demand before the consumption tax hike. This increase in private consumption is partly due to a significant increase in the consumption of durable goods to 9.8% QoQ annualized, which was boosted by an easing of the effects of the front-loaded demand brought about by past policies, such as the Eco-Points System for Green Home Appliances and the “Green” Vehicle Purchasing Promotion Measures, as well as the rush before the consumption tax hike. In addition, the overall consumption of non-durables also rose for the first time in five quarters. This is due to an increase of food purchases owing to a decline in fresh food prices after a sharp rise, and utilities spending, which had fallen significantly in January-March due to the weather, recovered in April-June.

Looking at household income, it appears to remain solid; real employee compensation grew 1.4% YoY in April-June, maintaining positive growth for nine quarters. However, as stated previously, growth of wages remains insufficient compared with the degree of tightness in the supply and demand of labour. This could be due to a change in the percentage distribution of employees between full-time and part-time employment and between industries. Comparing the degree of tightness with the level of wages by industry, there is a comparatively high degree of labour shortage in the non-manufacturing sector, such as “accommodation, eating and drinking services”, “services for individuals”, and “transport and postal activities”. On the other hand, the wage levels of these industries are lower than that of the entire manufacturing sector since the proportion of part-time employees is high in these industries (Chart 6). In fact, the overall number of employees has increased by 3,380,000 from 2013 to July this year, yet within this rise, 1,600,000 employees – around half of the total – are working in the “accommodation, eating and drinking services” and the “services for individuals” industries. There is a possibility that the rise in overall average wages largely reflects such a difference in labour trends between industries.

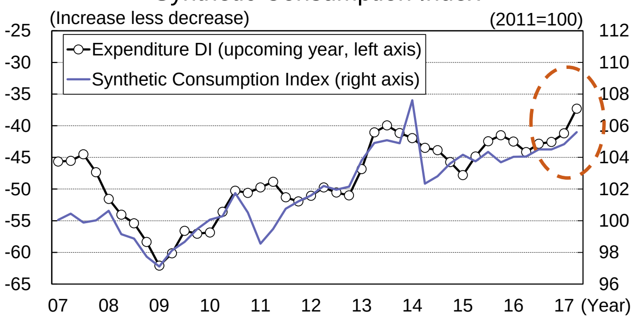
That being said, there appears to be positive changes in the labour market which will lead to a rise in wages in the future, such as an increase in recruitment of full-time employees. Furthermore, consumer sentiment is following a steady upward trend, supported by solid income (Chart 7). Looking forwards, private consumption may come under downward pressure from a gradual rise in prices, and it could decelerate in the short term due to a rebound from the strong growth in April-June and the impact from a wetter summer this year. However, it is forecast to maintain a trend of gradual recovery, supported by an improvement in household income.

Chart 6:Labour Shortage and Cash Earnings by Industry



Note:"Employment conditions DI" for 2017 is the Mar-June average. Data is a quarterly average.
Source: Bank of Japan, Ministry of Health, Labour and Welfare, BTMU Economic Researh Office

Chart 7: Expenditure Diffusion Index and the Synthetic Consumption Index



Note: 1. "Expenditure DI" is the ratio of individuals and households that said their spending would increase in the upcoming year, less those who said it would decrease. Uses an average of data from the current and previous quarter.
2. "Synthetic Consumption Index" is the quarterly average.
Source: Bank of Japan, Cabinet Office, BTMU Economic Research Office

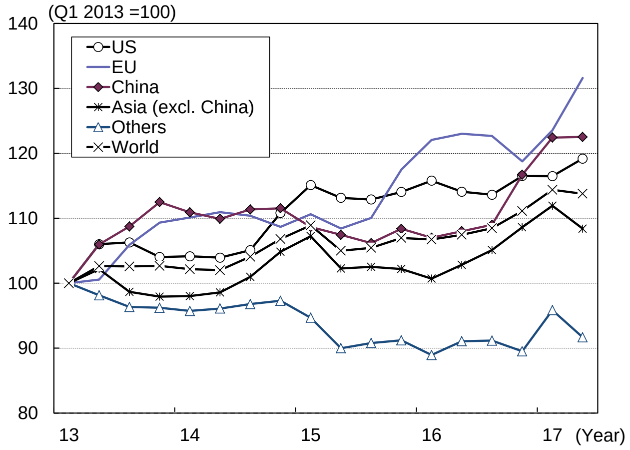
(3) Japan-EU Economic Partnership Agreement reached to counteract the rise of protectionism

The contribution to real GDP by net exports (exports less imports) was -1.1% QoQ annualized in April-June, falling into negative territory for the first time in six quarters. Real exports decelerated by -1.9% QoQ annualized for the first time in four quarters. According to the “Developments in Real Exports and Real Imports”, published by the Bank of Japan, the upward pressure from exports of motor vehicles to Europe and the US was robust; however, it appears that slowdown of exports to Asia, particularly IT-related goods, exerted downward pressure on overall exports (Chart 8). On the other hand, imports grew by 5.6% QoQ annualized, accelerating from the previous quarter due to an increase in domestic production and private consumption, resulting in downward pressure on net exports. Looking forwards, net exports are forecast to continue to make a negative contribution to real GDP owing to strong imports for the time being.

There is a possible risk to future exports posed by the US’ Trump Administration’s trade policies. Firstly, the depth of the rift between the US, who insisted on reducing its trade deficit, and Canada and Mexico were brought into sharp relief at the first round of NAFTA renegotiations, which started on 20th August. It is unlikely that negotiations on strengthening the “rules of origin”, which stipulates the local content ratio within the region, and the introduction of a “currency provision”, which deters currency manipulation in other countries, will go smoothly. Therefore, the outcome of these negotiations is still unpredictable. Moreover, the subject of automobiles and agricultural products will be raised at the second round of the “US-Japan Economic Dialogue” scheduled to take place in October, and it is possible that the US will demand that Japan opens its market. If these inconsistent, protectionist changes to trade policy continue, businesses could be forced to review their plans for expansion overseas and global supply chains, and it may provoke a cautious business sentiment, which has been improving up until now. However, such a protectionist stance taken by the US has been encouraging unification in other regions which are focused on free trade; it was a driving force behind Japan and the EU reaching an agreement in principle on their Economic Partnership Agreement on 6th July. If this agreement is put into effect, the tariff on Japanese exports of motor vehicles to the EU will be abolished after seven years and the tariff on Japanese auto parts will be removed from 90% of products immediately; therefore, it is thought that Japanese companies will increase their competitiveness in the EU market.

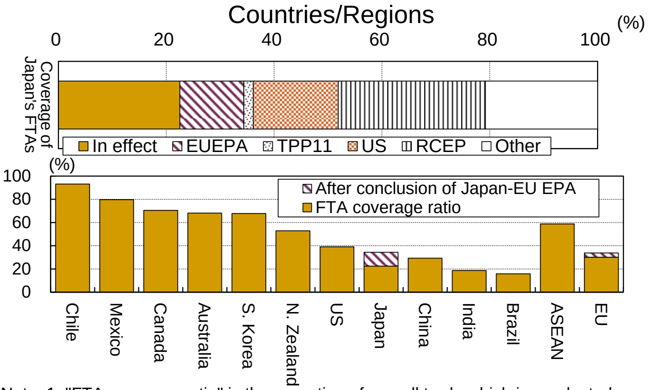
Japan set reaching agreements on its FTAs and EPAs as one of the pillars of its growth strategy and it is advancing in its negotiations with each country in order to attain its KPI of "70% of trade covered by FTAs by 2018". However, in reality, not only the Japan-EU Economic Partnership Agreement, but also the TPP including the US and the RCEP would need to be in effect (Chart 9). Therefore, it is very unlikely that Japan will achieve its KPI within the deadline. Yet amid concerns about the TPP, which has come adrift, the fact that Japan has reached an agreement in principle on another mega FTA means that this is an important step as part of its growth strategy and the government is expected to be persistent in negotiations of the final agreement and putting it into effect.

Chart 8: Real Exports by Region



Source: Bank of Japan, BTMU Economic Research Office

Chart 9: FTA Covereage Ratio of Japan and Other Countries/Regions



Note: 1. "FTA coverage ratio" is the propotion of overall trade which is conducted with countries/regions where an FTA in effect (as of June 2017). Amount is based on 2016 data.
2. "EU" does not include trade within the region
Source: Each countrys' government data and trade statistics, BTMU Economic Research Office

(4) Basic Policies for Economic and Fiscal Management and Reform and Fiscal Policy

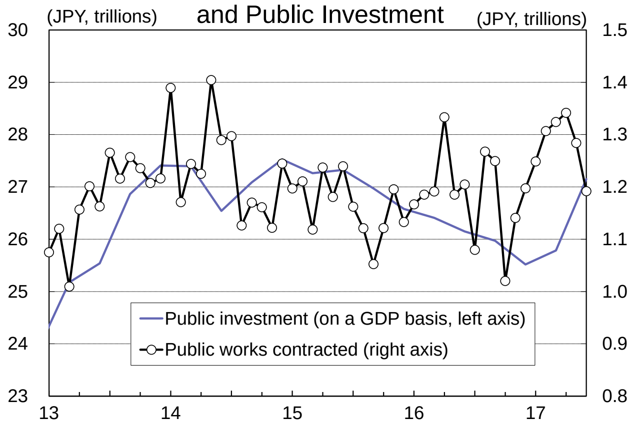
Real public demand grew 5.1% QoQ annualized in April-June mainly due to the significant growth of public investment (21.9% QoQ annualized), brought about by full implementation of the government's "Economic Stimulus Package for Realizing Investment for the Future". However, as the value of contracted works – a leading indicator – has started to decline, the upward pressure on the economy from public investment is forecast to fall within the year (Chart 10).

The government approved the "Basic Policies for Economic and Fiscal Management and Reform" at a cabinet meeting on 9th June. The policies include the subheading, "increasing productivity through investment in human resources", and centre on human resource investment and work style reforms, such as realizing free preschool education and ensuring equal pay for equal work. Through these measures, the government aims to raise economic growth by productivity improvement (Table 2). Compared with last year's Basic Policies for

Economic and Fiscal Management and Reform, the target to achieve an improvement in productivity of the Japanese economy is the same. However, while last year's policies centred on realising the "fourth industrial revolution" with the key words like the "Internet of Things", "big data" and "AI", this year's policies focus on improving labour productivity through supporting human resources. That being said, it is necessary to treat the effects of investing in human resources as something which will appear in the medium- to long-term, rather than something which will have an immediate result on the economy in general. Furthermore, it is important to bear in mind that there will be difficult hurdles to overcome in securing financial resources for the measures included in "investment in human resources", such as realising free preschool education and nurseries.

Another key point in the basic policies is a change added to the fiscal consolidation target. Originally, the government would aim to "steadily reduce the public debt to GDP ratio" after it "achieves a primary surplus by FY2020". However, it revised the targets so that it will aim to achieve both targets at the same time by FY2020. Considering the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis", it will be difficult to achieve a primary surplus by FY2020. On the other hand, the public debt to GDP target is more feasible since the increase in interest rates (interest payments on JGBs) is moderate, even under economic growth, due to the Bank of Japan's monetary policies, which curbs the rise in public debt. It can be said that the government changed the target to adopt a realistic stance, but achieving a primary surplus should be of continued importance as a flow-based target, which directly requires an improvement in the balance between government expenditures and revenues. To address Japan's fiscal consolidation, it is essential to aim to reach both targets.

Chart 10: Value of Contracted Public Works and Public Investment



Source: Cabinet Office, three construction surety companies, BTMU Economic Research Office

Table 2: Basic Policy on Economic and Fiscal Management and Reform 2017 - Key Points

Policy	Key Points
Work Style Reform	・Equal pay for equal work ・Clarify the limits on overtime ・Prepare arrangements for child care and nursing care ・Support employment of women, young people, the elderly and disabled people
Human Resource Investment and Education	・Realize free preschool education/nurseries and eliminate childcare waiting lists ・Improve the quality of university education ・Support of reinstatement and re-employment of female workers and re-education of working adults
Acceleration of Growth Strategies	・Promotion of investment in R&D to realise Society 5.0 → Invest policy resources in five strategic areas 1.extending healthy lifetimes, 2. realising mobility evolution, 3. developing the next-generation supply chain, 4. making comfortable infrastructures and towns, 5. FinTech ・Create a regulatory "Sand Box" system
Revitalisation of Consumption	・Raise the minimum wage at an annual rate of approximately 3%. → The Ministry of Health, Labour and Welfare's Central Minimum Wages Council decided to raise the minimum wage by JPY25 per hour using the national average as a rough guide (25th July).
Social Security	・Increase the frequency of the revision of drug prices (from once every two years to annually)
Social Capital Development	・Facilitate proper utilisation and management of lands without a readily-identifiable owner, strongly promote the utilisation of various PPP/PFI
Guiding principles in compiling the budget for FY2018	・Achieve a primary surplus by FY2020 and reduce the public debt-to-GDP ratio

Source: Cabinet Office, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary policy

The Japanese economy continues its robust expansion, but the overall trend of prices is still not strengthening. Core CPI (excluding fresh food) has experienced positive year-on-year growth since the start of 2017 and stood at 0.5% YoY in July, yet the breakdown of this figure shows that there is a large impact from the rise in energy prices and the contribution from other goods and services is limited (Chart 11). In light of this current weak growth, it appears that it will take quite some time to achieve a stable rise in prices through tightening the demand and supply gap. If the Bank of Japan sticks rigidly to its Price Stability Target of 2%, it will have to maintain its monetary easing for a long period of time, particularly its current yield curve control (short-term policy interest rate: -0.1%, 10-year JGB yield target: 0%).

That being said, if monetary easing continues in its current state, there are several points to consider: fluctuations in exchange rates owing to the trend of monetary policy and interest rates in the US, as well as the impact on the Bank of Japan's finances from continuation of its quantitative monetary easing under negative interest rates, amongst others (Table 3). Since discussions related to an exit from monetary easing are being held with increasing frequency and scale at present on the back of a continued decrease in the amount of JGB purchasing by the Bank of Japan, the following paragraph will examine some of these points concerning the effect on exchange rates and its impact on monetary policy management in the future.

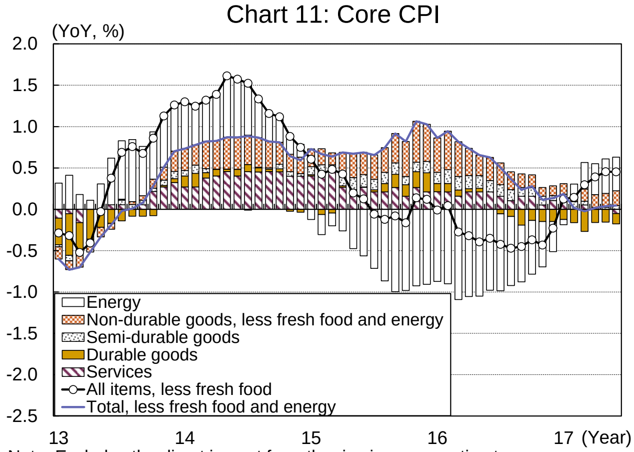
If Japan maintains its current monetary policy until the US has finished raising interest rates, the widening of the gap between US and Japanese monetary policy will put downward pressure on the JPY against the USD. In the case that Japan takes steps to normalise its monetary policy after the US has finished its interest rate hikes, there is a risk that the JPY will swing back to appreciation. If the JPY follows a trend of appreciation, there is a fear that it will damage the trend of rising prices and inflationary expectations which will have grown up until that point. Therefore, it will be necessary to minimise fluctuations in the exchange rate as much as possible, and as such, it is considered preferable for the Bank of Japan to take steps to normalise its monetary policy before the US finishes raising interest rates. Furthermore, taking into account economic events, there is a consumption tax hike scheduled to take place in October 2019. After the hike, a situation could arise where the economy decelerates, making it difficult to normalise monetary policy. Taking this into account, it is estimated that the Bank of Japan could embark on the next step of normalising monetary policy before the end of 2018. It is thought that one of the Bank of Japan's methods will be to set a range for the long-term interest rate target (for example, 0% to 0.5%) because it will make it easier than at present to decrease the volume of JGB purchasing by allowing fluctuations in long-term interest rates, and it can be done without carrying out several policy changes. It will be necessary for the Bank of Japan to plan the timing and the measures to scale back monetary easing while keeping an eye on the effects as well as the side effects and adverse effects of monetary easing.

(2) Long-term interest rates and exchange rates

On 29th August, 10-year JGB yields fell to 0%, which they had not done since April, owing to the rise of geopolitical risks brought about by North Korea launching a missile which passed through Japanese airspace. While there will be some movement of 10-year JGB yields due to the rise of US interest rates and increased geopolitical risk, they are forecast to continue to remain in the vicinity of 0% for the time being under the Bank of Japan's yield curve control. It appears that after measures are taken, such as setting a range for the long-term interest rate target in the latter half of 2018, yields will increase very gradually.

The JPY strengthened to just over JPY108 against the USD temporarily on 29th August, reflecting a rise in geopolitical risks surrounding North Korea. In such a situation where investors become increasingly risk-adverse, the JPY will follow a trend of appreciation against the USD. On the other hand, when it appears that the US is starting to normalise its monetary policy, the JPY is expected to follow a trend of depreciation due to the widening gap between Japanese and US interest rates brought about by a rise in US interest rates. Looking forward, therefore, the JPY is expected to continue to see-saw against the USD.

Chart 11: Core CPI



Note: Excludes the direct impact from the rise in consumption tax
Source: Ministry of Internal Affairs and Communications, Bank of Japan, BTMU Economic Research Office

Table 3: Points Used to Forecast Future Monetary Policy

Point	Details
Exchange Rate (US interest rates)	◇If Japan's interest rates are fixed while US long-term interest rates rise, there is a large risk of yen depreciation ◇The risk would be reduced if the monetary policy is normalized before the US completes its rate hikes
Continuation of Quantitative Monetary Easing	◇QE can be continued if JGB purchasing is limited
Bank of Japan's Finances	◇If the BoJ continues with its negative interest rate policy, it will fall into deficit in the medium- to long-term
Appointment of a new Bank of Japan Governor	◇In March 2018, Governor Haruhiko Kuroda's term will come to an end
Stability of the Financial System	◇Creation of a real estate bubble and deterioration of regional banks' profits

(Translated by Elizabeth Foster)

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Takayuki Miyadou <takayuki_miyadou@mufg.jp>
Tooru Kanahori <tooru_kanahori@mufg.jp>
Yumiko Hishiki <yumiko_4_hishiki@mufg.jp>
Yuusuke Yokota <yuusuke_yokota@mufg.jp>
Kei Shimozato <kei_shimozato@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is

Outlook for the Japanese Economy

Reflecting Apr-Jun 2017 GDP (the first preliminary estimates)

Forecast →

(%, billion yen)

	2016				2017				2018				2019	FY2016	FY2017	FY2018
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	2.3	1.4	1.3	1.7	1.5	4.0	0.2	0.8	1.0	1.4	1.5	1.6	1.7	1.3	1.7	1.3
Private Consumption	1.2	0.5	1.6	0.6	1.5	3.7	0.4	0.8	0.9	1.0	1.1	1.1	1.2	0.7	1.6	1.0
Housing Investment	4.3	13.3	11.5	1.0	3.5	6.0	-2.4	-3.6	-2.8	-1.6	-0.4	0.8	3.2	6.5	1.8	-1.3
Private Business Fixed Investment	0.9	2.7	0.0	8.9	3.6	9.9	0.6	2.0	2.4	2.7	2.7	2.8	2.8	2.5	4.7	2.5
Business Inventory (Contribution)	-1.3	1.3	-1.6	-0.8	-0.6	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	-0.4	-0.2	0.2
Government Expenditures	5.1	-4.9	0.0	-1.8	0.2	5.1	0.9	0.6	0.1	0.6	0.8	1.2	1.4	-0.3	1.4	0.7
Public Investment	0.7	-3.2	-3.0	-9.5	2.3	21.9	3.2	0.0	-4.5	-2.4	-0.2	2.0	2.8	-3.2	4.6	-0.8
Net Exports (Contribution)	1.4	0.2	1.6	1.3	0.5	-1.1	-0.4	-0.2	-0.0	0.0	0.0	0.0	-0.0	0.8	-0.1	-0.0
Exports	-0.2	-3.4	8.8	13.2	8.0	-1.9	2.0	2.2	2.0	2.2	2.2	2.3	2.0	3.2	3.8	2.2
Imports	-7.7	-4.6	-0.9	5.5	5.4	5.6	4.1	3.2	2.2	2.0	2.0	2.1	2.2	-1.4	4.3	2.3
Nominal GDP	3.9	0.1	0.4	2.1	-0.2	4.6	1.3	0.9	-0.1	1.9	3.4	2.2	0.9	1.1	1.7	1.6
GDP Deflator (YoY)	0.9	0.3	-0.1	-0.1	-0.8	-0.4	0.1	0.1	0.3	0.2	0.3	0.4	0.6	-0.2	-0.0	0.4
Industrial Production Index (QoQ)	-0.9	0.3	1.6	1.8	0.2	1.9	0.0	0.2	0.3	0.4	0.4	0.4	0.3	1.1	3.6	1.3
Domestic Corporate Goods Price Index (YoY)	-3.7	-4.5	-3.8	-2.1	1.0	2.1	0.8	0.5	0.3	1.8	1.8	1.9	1.8	-2.3	0.8	1.9
Consumer Price Index (excl. fresh food, YoY)	-0.1	-0.4	-0.5	-0.3	0.2	0.4	0.5	0.6	0.8	0.5	0.6	0.7	0.8	-0.2	0.6	0.7
2. Balance of Payments																
Trade Balance (billion yen)	944	1,158	1,461	1,710	1,335	691	1,092	757	302	710	916	800	41	5,773	2,842	2,468
Current Balance (billion yen)	5,170	4,741	4,859	5,146	5,419	4,731	5,187	4,859	4,421	4,844	5,062	4,959	4,213	20,382	19,198	19,078
3. Financial																
Uncollateralized overnight call rate	0.0	-0.1	-0.1	0.0	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-month rate)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.1	-0.1	-0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.2
Exchange Rate (USD/JPY)	115	108	102	110	114	111	112	112	112	113	113	113	113	108	112	113

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 Aug. 30, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	MAR	APR	MAY	JUN	JUL
Real GDP Growth Rate <% changes from	1.3	1.3	1.7	1.5	4.0	***	***	***	***	***
previous period at SA annual rate>			(1.7)	(1.5)	(2.0)					
Index of All Industries Activity	0.9	0.6	0.4	-0.1	1.6	-0.7	2.3	-0.8	0.4	
			(1.1)	(0.8)	(2.5)	(0.9)	(2.1)	(3.2)	(2.2)	
Industrial Production Index	-0.9	1.1	1.8	0.2	2.1	-1.9	4.0	-3.6	2.2	
Production			(2.1)	(3.8)	(5.8)	(3.5)	(5.7)	(6.5)	(5.5)	
Shipments	-1.1	0.8	2.4	-0.1	1.5	-0.8	2.7	-2.9	2.5	
			(1.8)	(3.7)	(5.2)	(3.5)	(4.9)	(5.4)	(5.3)	
Inventory	1.1	-4.0	-2.4	2.2	-0.5	1.5	1.5	0.0	-2.0	
			(-5.3)	(-4.0)	(-2.9)	(-4.0)	(-1.1)	(-1.3)	(-2.9)	
Inventory/Shipments Ratio	114.9	112.9	109.7	111.5	112.5	111.5	114.7	112.5	110.4	
(2010=100)			[114.9]	[116.8]	[116.0]	[117.5]	[115.9]	[116.7]	[115.4]	[116.1]
Domestic Corporate Goods Price Index	-3.3	-2.3	0.4	1.6	0.4	0.2	0.2	0.0	0.1	0.3
			(-2.1)	(1.0)	(2.1)	(1.4)	(2.1)	(2.1)	(2.2)	(2.6)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	0.2	-0.1	0.6	0.0	0.0	0.0	0.0	0.0
			(-0.3)	(0.2)	(0.4)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Index of Capacity Utilization	98.0	98.6	100.1	99.8	101.9	99.8	104.1	99.8	101.9	
(2010=100)			[97.9]	[96.1]	[96.3]	[96.4]	[96.4]	[95.9]	[96.6]	[97.2]
Machinery Orders(Private Demand,	4.1	0.5	0.3	-1.4	-4.7	1.4	-3.1	-3.6	-1.9	
Excl.Electric Power and Ship building)			(3.6)	(-1.0)	(-1.0)	(-0.7)	(2.7)	(0.6)	(-5.2)	
Manufacturing	6.2	-4.6	2.7	-4.2	3.7	0.6	2.5	1.0	-5.4	
			(3.5)	(-6.8)	(3.5)	(-4.9)	(9.8)	(6.3)	(-3.2)	
Non-manufacturing	2.5	4.3	-1.0	0.0	-9.9	-3.9	-5.0	-5.1	0.8	
Excl.Electric Power & Ship building			(3.3)	(3.1)	(-4.5)	(2.2)	(-2.1)	(-4.0)	(-6.9)	
Shipments of Capital Goods	-2.2	1.5	2.4	-2.4	5.0	-4.4	6.5	2.1	-0.9	
(Excl.Transport Equipment)			(4.7)	(3.1)	(6.6)	(1.6)	(4.2)	(9.5)	(6.1)	
Construction Orders	-0.9	4.0								
			(5.3)	(2.2)	(0.7)	(1.1)	(-0.2)	(-0.5)	(2.3)	
Private	7.9	5.1								
			(16.7)	(4.8)	(-7.0)	(2.4)	(-2.2)	(-17.9)	(-0.1)	
Public	-15.6	8.4								
			(-9.5)	(-1.8)	(19.9)	(-5.5)	(-5.6)	(91.1)	(6.3)	
Public Works Contracts	-3.8	4.1								
			(-4.5)	(9.9)	(2.6)	(10.9)	(1.7)	(8.5)	(-0.6)	(-5.4)
Housing Starts	92.1	97.4	95.3	97.5	100.2	98.4	100.4	99.8	100.3	
10,000 units at Annual Rate, SA	(4.6)	(5.8)	(7.9)	(3.5)	(1.1)	(0.2)	(1.9)	(-0.3)	(1.7)	
Total floor	(2.1)	(4.1)	(5.3)	(3.3)	(1.0)	(-2.0)	(3.0)	(-1.6)	(1.5)	
Sales at Retailers	0.8	-0.2								
			(0.8)	(1.2)	(2.5)	(2.1)	(3.2)	(2.1)	(2.2)	(1.9)
Real Consumption Expenditures	-1.2	-1.6	-0.9	0.8	1.0	-2.0	0.5	0.7	1.5	-1.9
of Households over 2 persons (SA)			(-0.7)	(-2.0)	(0.2)	(-1.3)	(-1.4)	(-0.1)	(2.3)	(-0.2)
Propensity to Consume	73.6	72.1	71.8	73.1	75.3	72.8	73.1	78.8	74.1	69.2
(SA,%)			[73.0]	[72.6]	[72.8]	[71.6]	[74.2]	[74.7]	[69.6]	[70.0]
Overtime Hours Worked	-1.3	-0.7	0.1	1.5	-0.4	0.1	-0.9	0.6	-0.1	
(All Industries, 5 employees or more)			(-1.2)	(1.2)	(0.9)	(1.5)	(0.6)	(1.6)	(0.7)	
Total Cash Earnings (Regular Employees	0.2	0.4								
Only; All Industries, 5 employees or more)			(0.4)	(0.2)	(0.5)	(0.0)	(0.5)	(0.6)	(0.4)	
Employment Index(Regular Employees Only;'All Industries,	98	103	105	112	131	114	127	137	130	
5 employees or more）(Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	1.23	1.39	1.41	1.44	1.49	1.45	1.48	1.49	1.51	1.52
(SA,Times)			[1.26]	[1.29]	[1.35]	[1.31]	[1.33]	[1.35]	[1.36]	[1.37]
Unemployment Rate	3.3	3.0	3.1	2.9	2.9	2.8	2.8	3.1	2.8	2.8
(SA,%)										
Economy Watcher Survey	48.8	46.4	48.7	49.2	50.1	50.6	50.4	50.1	49.9	51.0
(Judgment of the present condition D.I,%)			[47.7]	[45.6]	[42.6]	[45.4]	[43.5]	[43.0]	[41.2]	[45.1]
Bankruptcies (Number of cases)	8,684	8,381	2,086	2,079	2,188	786	680	802	706	714
	(-9.0)	(-3.5)	(-3.1)	(-3.0)	(2.8)	(5.4)	(-2.2)	(19.5)	(-7.5)	(0.3)

(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. 30, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	MAR	APR	MAY	JUN	JUL
Customs Clearance (Exports in Yen Terms)	-0.7	-3.5	(-1.9)	(8.5)	(10.4)	(12.0)	(7.4)	(14.9)	(9.6)	(13.4)
Value	2.0	-5.8	(-6.3)	(3.1)	(5.2)	(5.0)	(3.2)	(6.9)	(5.5)	(10.5)
Volumes	-2.7	2.4	(4.7)	(5.1)	(5.1)	(6.6)	(4.1)	(7.5)	(4.0)	(2.6)
Imports (In Yen terms)	-10.2	-10.2	(-9.3)	(8.6)	(16.2)	(15.9)	(15.2)	(17.9)	(15.5)	(16.3)
Value	-8.4	-10.7	(-10.7)	(6.2)	(10.8)	(11.3)	(9.8)	(11.8)	(10.9)	(12.7)
Volumes	-1.9	0.5	(1.6)	(2.2)	(4.8)	(4.2)	(4.9)	(5.4)	(4.2)	(3.2)
Current Account (100 mil. yen)	178,618	203,818	40,876	59,697	45,405	29,805	19,519	16,539	9,346	
Goods (100 mil. yen)	3,296	57,726	17,146	10,961	9,570	8,718	5,536	-1,151	5,185	
Services (100 mil. yen)	-13,527	-13,816	-5,520	50	-3,024	2,160	-2,947	421	-499	
Financial Account (100 mil. yen)	238,492	249,299	22,119	52,424	45,989	49,396	10,705	21,847	13,437	
Gold & Foreign Exchange Reserves ($1mil.)	1,262,099	1,230,330	1,216,903	1,230,330	1,249,847	1,230,330	1,242,295	1,251,868	1,249,847	1,260,040
Exchange Rate (\/$)	120.13	108.37	109.32	113.60	111.06	113.01	110.06	112.21	110.91	112.44

3. Financial Market Indicators

				Fiscal	Fiscal	2016		2017	2017				
				2015	2016	3Q	4Q	1Q	MAR	APR	MAY	JUN	JUL
Uncollateralized Overnight Call Rates				0.063	-0.045	-0.043	-0.042	-0.054	-0.042	-0.054	-0.053	-0.056	-0.054
						[0.076]	[0.035]	[-0.050]	[-0.003]	[-0.037]	[-0.059]	[-0.055]	-0.043
Euro Yen TIBOR				0.157	0.057	0.056	0.056	0.056	0.056	0.056	0.056	0.056	0.075
(3 Months)						[0.169]	[0.122]	[0.060]	[0.098]	[0.060]	[0.060]	[0.059]	[0.058]
Newly Issued Japanese Government Bonds Yields				-0.050	0.065	0.040	0.065	0.075	0.065	0.015	0.040	0.075	0.075
(10 Years)						[0.270]	[-0.050]	[-0.230]	[-0.050]	[-0.085]	[-0.120]	-0.230	[-0.195]
Average Contracted Interest Rates				0.924	0.847								
on Loans and Discounts(City Banks)						0.853	0.847	0.842	0.847	0.850	0.849	0.842	0.841
(% changes from previous period)						(-0.012)	(-0.006)	(-0.005)	(-0.005)	(0.003)	(-0.001)	(-0.007)	(-0.001)
The Nikkei Stock Average				16,759	18,909	19,114	18,909	20,033	18,909	19,197	19,651	20,033	19,925
(TSE 225 Issues)						[19,034]	[16,759]	[15,576]	[16,759]	[16,666]	[17,235]	[15,576]	[16,569]
M2(Average)				(3.5)	(3.6)	(3.8)	(4.1)	(3.9)	(4.2)	(4.0)	(3.8)	(3.9)	(4.0)
Broadly-defined Liquidity(Average)				(3.7)	(1.8)	(1.6)	(2.2)	(2.8)	(2.4)	(2.6)	(2.8)	(3.1)	(3.4)
Principal Figures of Financial Institutions													
	Banks & Shinkin			(2.4)	(2.4)	(2.5)	(2.8)	(3.1)	(3.0)	(3.0)	(3.2)	(3.3)	(3.3)
Loans and		Banks		(2.5)	(2.4)	(2.5)	(2.8)	(3.2)	(3.0)	(3.0)	(3.3)	(3.3)	(3.4)
Discount			City Banks etc.	(1.2)	(1.2)	(1.4)	(2.0)	(2.8)	(2.3)	(2.4)	(2.9)	(3.1)	(3.2)
(Average)			Regional Banks	(3.7)	(3.5)	(3.6)	(3.6)	(3.7)	(3.8)	(3.6)	(3.7)	(3.7)	(3.8)
			Regional Banks Ⅱ	(3.2)	(3.1)	(3.1)	(3.2)	(3.0)	(3.2)	(2.9)	(3.0)	(3.0)	(3.0)
		Shinkin		(2.2)	(2.3)	(2.3)	(2.5)	(2.8)	(2.6)	(2.8)	(2.9)	(2.8)	(2.7)
	Total(3 Business Condition)			(3.7)	(3.8)	(4.2)	(4.5)	(4.5)	(4.7)	(4.4)	(4.5)	(4.7)	(4.5)
Deposits			City Banks	(4.5)	(5.5)	(6.0)	(6.4)	(6.5)	(6.6)	(6.4)	(6.3)	(6.7)	(6.4)
and CDs			Regional Banks	(3.0)	(2.3)	(2.3)	(2.7)	(2.6)	(2.7)	(2.5)	(2.6)	(2.7)	(2.7)
(Average)			Regional Banks Ⅱ	(2.5)	(2.1)	(2.2)	(2.4)	(2.3)	(2.5)	(2.2)	(2.5)	(2.4)	(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.