The Outlook for the Japanese Economy

The current economic expansion is Japan's second longest in the post-war era, with a possible outlook for further growth in the future

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

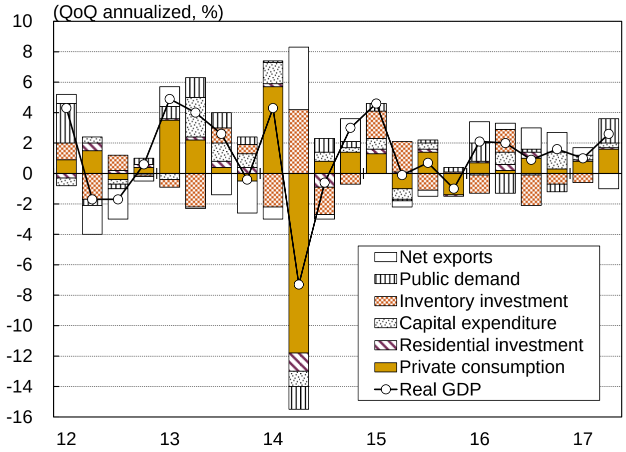
10 JANUARY 2018
(ORIGINAL JAPANESE VERSION RELEASED ON 01 DECEMBER 2017)

1. Overview of the Japanese Economy

Japan's real GDP growth stood at 1.4% QoQ annualized in July-September 2017 (first preliminary estimate), maintaining its positive growth for the seventh consecutive quarter (Chart 1). Looking at the breakdown of this figure for the household sector, private consumption fell to -1.8% QoQ annualized due to a negative rebound from the strong growth recorded in the previous quarter and residential investment dropped to -3.5% QoQ annualized due to a decline in the construction of houses for rent, both turning negative for the first time in seven quarters. In addition, public demand fell to -2.4% QoQ annualized, entering negative growth for the first time in three quarters because of a decrease in public investment brought about by implementation of the Supplementary Budget for FY2016. Meanwhile, the corporate sector showed continued improvement supported by strong corporate earnings and an expansion of production. Capital expenditure came in at 1.0% QoQ annualized, maintaining positive growth for the fourth consecutive quarter, and the contribution of inventory investment to the real GDP growth rate reached 1.0% QoQ annualized owing to completion of an inventory adjustment. Furthermore, exports rose on the back of a recovery in overseas economies while imports fell, particularly those of raw materials. As a result, the contribution ratio of net exports (exports less imports) to the real GDP growth rate was 2.0% QoQ annualized, providing a boost to overall growth.

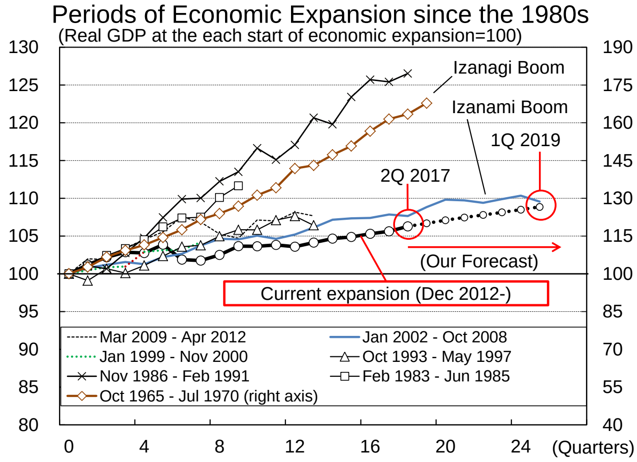
Results did show a slowdown of domestic demand, yet it appears that the economy is maintaining its gradual, upward trend as the decline in the household sector was probably due to the negative rebound from the high growth of the previous quarter along with irregular weather, and the corporate sector continued its robust growth. In fact, the Cabinet Office did not change its assessment that the economy was "improving", based on September's "Indexes of Business Conditions". As a result, it is highly likely that the current period of economic expansion, which started in December 2012, reached 58 months in September this year, marking the second-longest post-war period of economic expansion, surpassing both the "Bubble Economy" (51 months) and the "Izanagi Boom" (57 months) (Chart 2). If this economic expansion continues to the end of 2018, it will be on par with the "Izanami Boom" (73 months), which is the longest post-war period of economic expansion.

Chart 1: Real GDP and Final Demand



Source: Cabinet Office, BTMU Economic Research Office

Chart 2: The "Izanagi Boom" and Periods of Economic Expansion since the 1980s



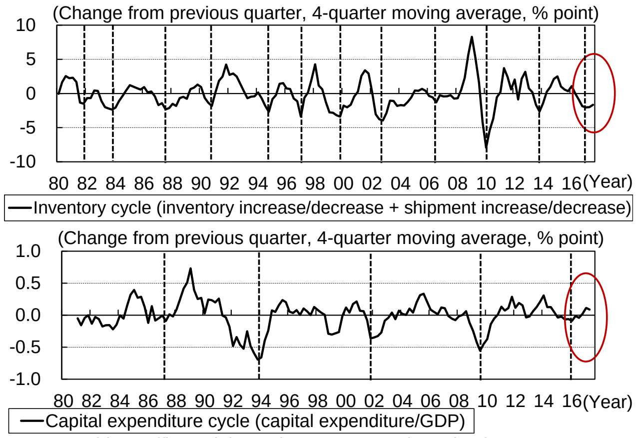
Source: Cabinet Office, BTMU Economic Research Office

What becomes important is the sustainability of the current gradual economic expansion. From the perspective of the pace of economic expansion and the cycles of inventory and capital expenditure up until now, it is considered possible that the current economic expansion will be the longest in the post-war era. First, looking at the pace of economic expansion, if the real GDP at its starting point of the current economic expansion is represented as 100, the real GDP reached 106.6 after 57 months. This does not surpass the “Izanagi Boom” (167.8), which is the longest economic expansion experienced in the period of rapid economic growth, and is at an even lower level than the “Izanami Boom” (108.8), which is referred to as the “unfelt economic recovery”. It is thought that this is due to a downward pressure on the economy brought about by the consumption tax hike in April 2014, and the fact that it is taking time to establish a virtuous cycle (where an improvement in corporate earnings leads to a strong growth of investment and consumption) owing to the prolonged deflationary mindset. The fact that the current economic recovery cannot really be felt is associated with the pace of the current economic expansion. Nevertheless, while the pace of the economic expansion is moderate, on the flip side, it can be said that the accumulated distortion caused by an overheated economy is small, and that it is possible to see this moderate growth pace in a positive light considering there is room for further economic expansion.

Second, looking at the trend of inventory and capital expenditure from the perspective of economic cycles, it appears that both have experienced an adjustment phase during the current period of economic expansion and that they are currently on track to put upward pressure on the economy in the future (Chart 3). Examination of the inventory cycle, which creates short-term fluctuations in the economy, reveals there was an accumulation of inventory owing to a slowdown in overseas economies from 2015 to mid-2016, which has subsequently been adjusted. At present, inventory adjustment has generally been completed due to a recovery of domestic and foreign demand and is entering another phase of accumulation. As for the capital expenditure cycle, which causes medium-term economic fluctuations, it is highly possible that its cyclical adjustment phase corresponded to the period where corporate earnings were sluggish due to the above-mentioned slowdown in overseas economies as well as a shift back to higher JPY. As corporate earnings have now regained momentum, the capital expenditure cycle is thought to have entered another expansionary phase.

Turning to the situation overseas, it is important to remain cautious regarding the risk of disruption to the domestic economy through fluctuations in financial markets owing to uncertainty regarding the US administration and its policy management and the rise of international tension surrounding North Korea. However, considering corporations' and households' solid income associated with an improvement in investment and consumer sentiment, in addition to cyclical factors, it appears that there is little concern about the collapse of the gradual economic expansion led mainly by domestic demand for the time being. Additionally, the ruling coalition held their position of power in October's snap election, which means the likelihood of an inconsistent change to policy management causing fluctuations in the economy is now slim, and the real GDP growth rate is expected to be 1.6% YoY in FY2017 and 1.3% YoY in 2018 (Table 1).

Chart 3: Inventory and Capital Expenditure Cycles



Source: Cabinet Office, Ministry of Economy, Trade and Industry, 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	1.6	1.3
Private Consumption	0.6	0.7	1.0	0.9
Private Residential Investment	2.8	6.6	1.2	-1.8
Private Non-Residential Investment	0.6	2.5	2.3	2.4
Inventory Investment (contribution)	0.4	-0.4	-0.1	0.3
Public Demand	1.2	-0.4	1.0	0.5
Net Exports (contribution)	0.1	0.8	0.4	0.1
Exports	0.7	3.2	4.8	2.3
Imports	0.2	-1.3	2.3	1.8
Nominal GDP	2.7	1.1	1.7	1.8
GDP Deflator	1.5	-0.2	0.2	0.5

Source: Cabinet Office, BTMU Economic Rescearch Office

2. Key Points in Outlook

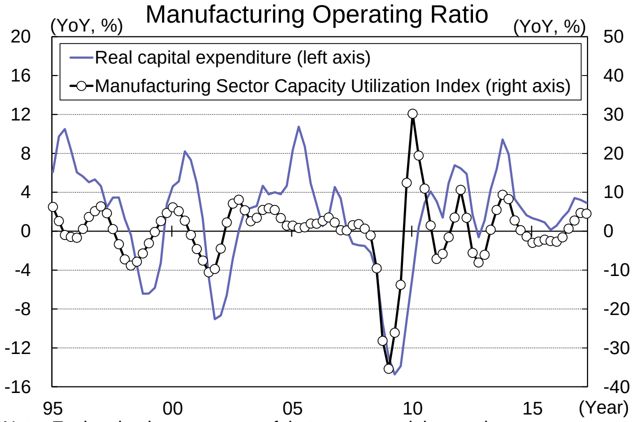
(1) An improvement in fundamentals and sentiment will put upward pressure on capital expenditure

Real capital expenditure rose 1.0% QoQ annualized in July-September, accelerating for the fourth consecutive quarter. Currently, the fundamentals which support corporations' capital expenditure are clearly improving. Firstly, calculating the corporate earnings of various companies announced in their financial accounts reveals the ordinary profits for companies listed on the first section of the Tokyo Stock Exchange (excluding the financial sector) in July-September increased by 21.2% YoY (calculated by the Economic Research Office using data from 1,356 companies as of 22 November), accelerating for the fourth consecutive quarter and recording a new historical high. Following the upward revision to their financial plans, companies show signs that their view of future earnings is improving. Moreover, looking at the capacity utilisation rate of the domestic manufacturing sector, the indices of operating ratio rose 3.3% YoY in July-September, exceeding last year's growth for four consecutive quarters owing to increased production activities (Chart 4). It is thought that such an improvement in the capital utilisation rate will encourage businesses to divert strong corporate earnings into capital expenditure in a positive way for the future.

In fact, business sentiment regarding capital expenditure is improving. In the Bank of Japan's Tankan survey for September, the Fixed Investment of Large Enterprises rose by 7.7% YoY. While this is slightly lower than the previous survey carried out in June, the growth rate of fixed investment remains at a high level on the whole. Looking at the breakdown by industry, the manufacturing industry aims to strengthen production of its basic materials for motor vehicles and investment into research and development through "chemicals" and "non-ferrous metals" amongst others (Chart 5). Meanwhile, in the non-manufacturing sector, industries with high numerical values were "transport and postal activities", which is making progress in improving logistics facilities; "real estate", which is carrying out inner-city, large-scale redevelopment projects; and "retailing", which is investing in labour saving to enhance existing stores.

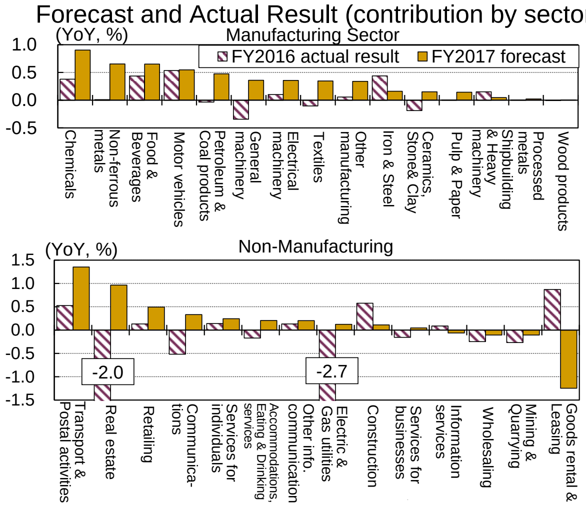
Capital expenditure growth is forecast to follow a continuous, gradual, upward trend in the future, boosted by improvements in both fundamentals and sentiment.

Chart 4: Real Capital Expenditure and Manufacturing Operating Ratio



Note: Each value is an average of that quarter and the previous one.
Source: Cabinet Office, Ministry of Economy, Trade and Industry, BTMU Economic Research Office

Chart 5: Large Enterprises' Fixed Investment Forecast and Actual Result (contribution by sector)



Source: Bank of Japan, BTMU Economic Research Office

(2) The move towards attracting full-time employees will underpin wages

In July-September, real private consumption fell by 1.8% QoQ annualized, entering negative territory for the first time in seven quarters due in part to an adjustment from the high growth recorded in April-June (2.8% QoQ annualized). It appears that increased levels of precipitation in August, particularly in Eastern Japan, along with the absence of summer weather this year, were sources of downward pressure on private consumption, especially consumption of services.

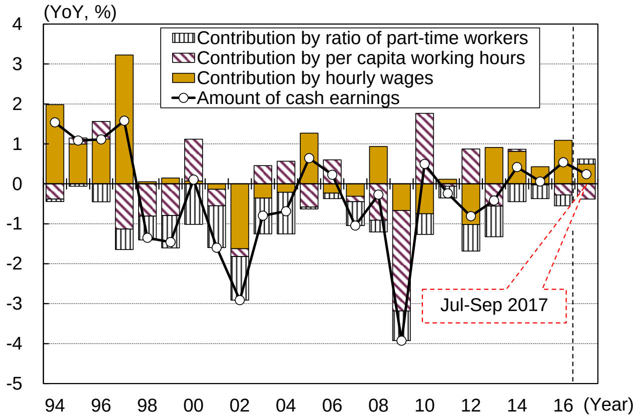
On the other hand, real employee compensation rose 1.6% YoY in July-September, exceeding last year's growth for the tenth consecutive quarter, and household income also remained solid. While there is a continued tightening of the gap between the supply and demand of labour, the robust increase in the number of employees has not made a change to the structure which supports household incomes.

Despite the robust increase in the number of employees, it is apparent that the growth of wages per capita is sluggish. However, when wages per capita is broken down into its contributing factors, it appears that hourly wages have clearly been on an upward trend since

2013, and it can be confirmed that the main downward pressure on wages is the increase in the ratio of part-time workers and the decrease in working hours per capita (Chart 6). This trend reflects the structural change in the labour market – elderly people and women are choosing a way to work which is possible for them and entering the workforce, against the backdrop of a labour shortage. At present, the jobs-to-applicants ratio of full-time workers was 1.03 in October, reaching a new record high. On top of this, the gap between the supply and demand of labour is tightening further, there is a rising trend amongst businesses to try to secure full-time workers and the workforce participation by elderly people and women is progressing. Amid these circumstances, the ratio of part-time workers recorded a positive contribution to wages per person in July-September, and has been a positive factor since October-December 2005. Looking forwards, the growth of wages per capita is expected to strengthen as the demand from businesses for full-time workers rises further.

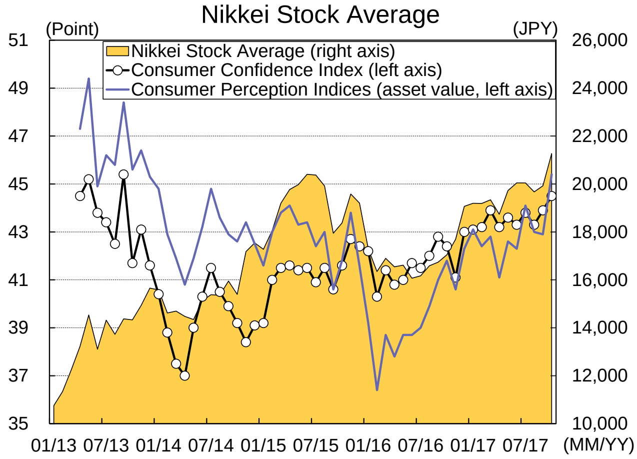
Household income remains solid, which is likely to contribute to an improvement in sentiment and stock prices, the latter of which are maintaining a high value (Chart 7). Private consumption is forecast to follow a trend of continuous recovery on the whole, despite assumptions that the moderate growth of prices will act as a weight.

Chart 6: Wages Per Capita



Note: The most recent data is the July-September quarter
Source: Ministry of Health, Labour and Welfare, BTMU Economic Research Office

Chart 7: Consumer Sentiment and the Nikkei Stock Average



Source: Cabinet Office, Bloomberg, BTMU Economic Research Office

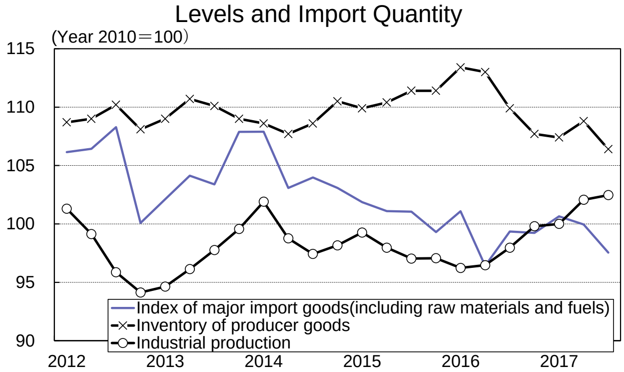
(3) An agreement reached on the core elements of TPP11

Net exports (exports less imports) made a positive contribution to real GDP growth for the first time in two quarters: 2.0% QoQ annualized in July-September. Real exports rose 6.0% QoQ annualized, entering positive territory for the first time in two quarters. This was due to a strong growth in exports to the US, which was led by motor vehicles, and to Asia, particularly semi-conductors. On the other hand, real imports fell into negative territory for the first time in five quarters, falling by 6.2% QoQ annualized. There was a noticeable decrease in raw materials, such as liquefied natural gas and coal, but this is thought to be due to stock adjustment carried out by businesses owing to an accumulation of producer goods (materials used as raw materials during production activities) (Chart 8). That being said, stocks of producer goods are already starting to decrease as domestic demand increases, and it appears that imports will return to an upward trend in the future. Exports will continue to grow, partly because of the robust economies of developed countries. However, this will be counteracted by a rise in imports, resulting in net exports making a negative contribution to real GDP growth, albeit a small one.

The agreement reached on the core elements of the "Comprehensive and Progressive Agreement for the Trans-Pacific Partnership" (TPP11) on 11th November by member nations deserves special note as part of the overall trend of policy surrounding trade. The scale of TPP11 as an economic zone has shrunk by 60% in terms of population and 30% in terms of GDP compared with its early days before the US withdrew. Its share of Japan's total amount of trade has also halved from 30.2% to 14.4% (Table 2). Of the ten nations excluding Japan, eight have already signed the FTA, except Canada and New Zealand. Based on the Japanese government's KPI for the FTA coverage ratio, the ratio will only rise by 1.8% points more than it is currently. Be that as it may, it cannot be denied that the US' withdrawal has meant that the quantitative impact of TPP11 has shrunk significantly. On the other hand, around 50 to 60 clauses were expected to be raised by the 11 nations at the start of negotiations after the departure of the US and now there are only approximately 20 which remain frozen, particularly those related to intellectual property, which means that TPP11 maintains its qualitative impact, namely the high level of liberalisation in a wide range of fields.

It can be said that the largest result of this agreement is the prevention of a breakup of TPP after the US withdrew, led by Japan. Depending on the US Administration which will succeed President Trump's, it may be possible to resurrect a situation where a Japan-US TPP can stand alongside China's "Belt and Road Initiative", and Japan will continue to retain its influence on the global economic order. In addition, of the world's major mega FTAs (EPAs), concrete progress is shown by EPAs involving Japan, such as TPP11 and the Japan-EU Economic Partnership Agreement, and it is likely that this progress will be deemed as having more than a simple economic effect, it will have great political significance; Japan will reinforce a liberal position on the world in a climate where free-trade principles are opposed by protectionism. Additionally, once the final TPP11 agreement is reached and comes into effect, uncertainties are likely to remain, such as the cautious approach by Canada and Mexico with regards to renegotiating NAFTA. As such, it is hoped that the Japanese government will continue patient negotiations.

Chart 8: Changes in Industrial Production, Inventory Levels and Import Quantity



Note: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 2016.
Source: The Ministry of Finance, BTMU Economic Research Office

Table 2: Scale of "TPP11"

	Population	GDP	Share of Japan's total trade amount	Bilateral EPA with Japan	Year concluded
	millions	USD bn	%		
US	321.1	18,121	15.8		
Japan	127.0	4,380	–		
Canada	35.8	1,553	1.4		
Australia	24.0	1,230	3.6	Yes	Jan 2015
New Zealand	4.6	173	0.4		
Chile	18.0	243	0.6	Yes	Sep 2007
Mexico	121.0	1,152	1.3	Yes	Apr 2005
Peru	31.1	192	0.2	Yes	Mar 2012
Brunei	0.4	13	0.1	Yes	Jul 2008
Malaysia	31.2	296	2.3	Yes	Jul 2006
Singapore	5.5	297	2.2	Yes	Nov 2002
Vietnam	91.7	191	2.3	Yes	Oct 2009
TPP11 Total	490.5	9,721	14.4		
TPP Total	811.6	27,841	30.2		

Source: IMF, Ministry of Finance, BTMU Economic Research Office

(4) The general election of the House of Representatives and Fiscal Policy

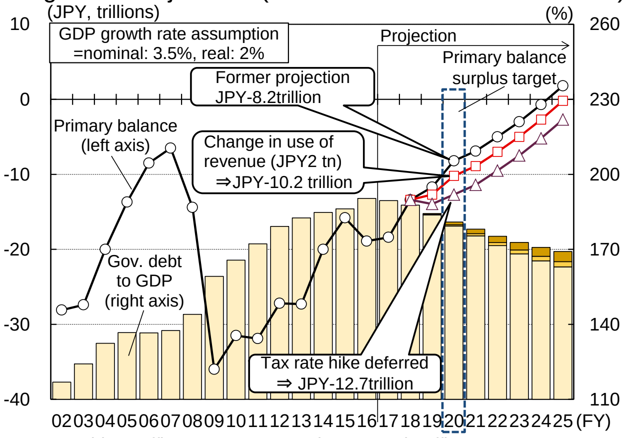
In the period July-September, government financial consumption expenditure decreased, and public investment dropped significantly to -9.7% QoQ annualized because of a decline in the effects of implementation of the Supplementary Budget for FY2016. As a result, real public demand fell to -2.4% QoQ annualized, entering negative territory for the first time in three quarters. The government is setting out a plan to compile a Supplementary Budget for FY2017 within the year, but it is likely that the scale of the budget for public works will be smaller than in FY2016 against a backdrop of favourable economic conditions at present, which means public investment is forecast to decrease for the time being.

At the general election of the House of Representatives which took place on 22nd October, the governing coalition of the Liberal Democratic Party of Japan (LDP) and Komeito won 313 seats, two thirds of the total, achieving a resounding victory. Prime Minister Shinzo Abe's economic policies received a public mandate, and an economic policy package is expected to be drawn up within the year in order to continue to move ahead with Abenomics, which centres on a growth strategy consisting of two large pillars: a "productivity revolution" and a "human resources development revolution".

The LDP proposed a shift towards "social security for all generations" in its manifesto, and made a campaign promise that once the consumption tax rate has been raised to 10% (scheduled for October 2019), a part of the increase in tax revenue will be used to fund the "human resources development revolution" (at a scale of JPY2 trillion), such as making early childhood education effectively free of charge. On the other hand, as roughly half of the portion earmarked for spending on restoring fiscal health will be diverted to making education effectively free, this will mean a delay in restoring fiscal health. In the "Economic and Fiscal Projections for Medium to Long Term Analysis" published in July by the Cabinet Office, the outlook of the primary balance in FY2020 is a deficit of JPY8.2 trillion, even in the "Economic Revitalization Case", which is based on the assumption of a strong nominal GDP growth rate of more than 3%. However, the primary deficit is projected to worsen to JPY10.2 trillion owing to this change in the way the additional revenue from the consumption tax hike will be spent (Chart 9).

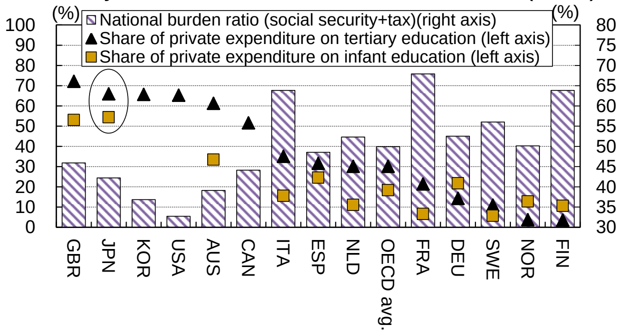
Looking at an international comparison of spending on educational institutions, Japan's ratio of public expenditure on infant and tertiary education is low and that of private expenditure is high (Chart 10). It can be argued that allocating social security, which has been orientated towards the elderly, to educational expenses for young people is significant as it will close the gap between Japan's ratio of private expenditure on education and the international level, while at the same time, it will mitigate the impact of a declining birthrate and aging population through improvement of child-rearing conditions and development of human resources to a high level. On the other hand, in countries where the ratio of private expenditure on education is low, there is a strong tendency for the tax and social security burden ratio to be high. If Japan pursues free education without additional burden on the public or cutting down government expenditure in other areas, it is inevitable to further worsen its fiscal situation. So that it does not reduce its fiscal sustainability, the government is required to draw up specific measures to improve the balance between government expenditure and revenue in order to define a path to improving its fiscal health.

Chart 9: Impacts on the Cabinet Office's Medium to Long Term Projections ("Economic Revitalization" Case)



Source: Cabinet Office, BMTU Economic Research Office

Chart 10: The Share of Private Expenditure on Educational Institutions and the Ratio of Social Security and Tax Burden to National Income (2014)



Note: 1. All countries' rate of private expenditure on primary and secondary education is within 0% to 20%. OECD average: 8.7%, Japan: 7.6%
2. Japan's "national burden rate" is based on FY2014 results
Source, Cabinet Office, OECD, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary policy

The US Fed has set out to raise interest rates and reduce its balance sheet, and the European Central Bank has announced it will reduce the size of its Asset Purchase Programme, resulting in focus being drawn to the Bank of Japan (BoJ), which is sticking to its framework of “Quantitative and Qualitative Monetary Easing with Yield Curve Control”, introduced in September 2016. The Bank of Japan has already brought the annual pace of its monetary base increases in line with market conditions, reducing it to JPY50 trillion per year from its target of JPY80 trillion per year. However, there does not appear to be any change to the market operation guidelines for its Yield Curve Control (short-term policy interest rate: -0.1%, 10-year JGB yield target: 0%), which forms the base of its monetary easing policy.

When forecasting the BoJ’s monetary policies in 2018, the point that is becoming increasing important – even more than the appointment of a successor to Governor Haruhiko Kuroda, who’s term is scheduled to expire in April 2018 – is how to judge the trend of prices, for which the BoJ has a policy target. On this point, the BoJ maintains its prior evaluation: in a speech he gave in Switzerland on 13th November, Governor Kuroda said, “we judge that the economy is no longer in deflation, which is generally defined as a sustained decline in prices.” Meanwhile, there are many signs that the cabinet is reconsidering this view. During the discussion on monetary policy and commodity prices at the Council on Economic and Fiscal Policy on 16th November, the cabinet pointed out that the economy appears to be in a phase where it is moving towards overcoming deflation, as the output gap entered positive territory and corporate earnings reached a record high level.

To answer the question, in what kind of situation can Japan can state that it has “overcome deflation”?, the Cabinet Office published a report in March 2006 where it defined “overcoming inflation” as reaching the point where there is “no risk of returning to deflation, or continuous price declines, focusing on indicators which show the background and trend of prices, such as consumer prices, the GDP deflator, the output gap and unit labour costs” (average cost of labour per unit of output). Looking at the current trends of these indicators, all four are in positive territory as YoY growth of the GDP deflator was positive in the July-September period

(Chart 11). The Cabinet Office and the BoJ have already described the current situation as "Japan's economy is no longer in deflation", which is commonly defined as a "sustained decline in prices". If this statement about prices can be taken and added to "no risk of returning to deflation", then it will be possible to state that Japan has "overcome deflation".

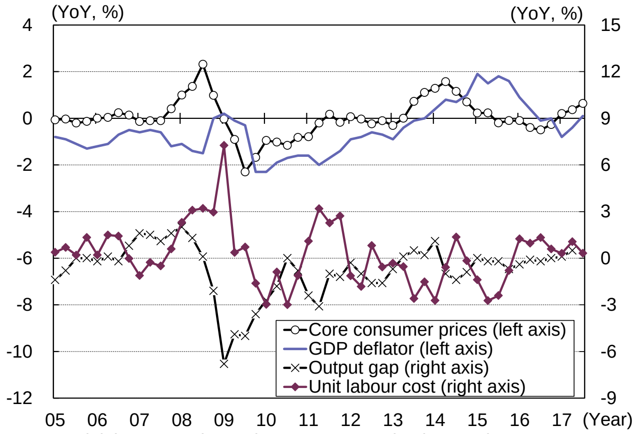
In order to declare "no risk of returning to deflation", it appears that the important points to consider will be forecasting what will drive prices in the future, taking into account the large, temporary effects on prices from a rise in oil prices and JPY depreciation, as well as determining the factors that will push up prices after these effects have passed. It is certain that "medium- to long-term inflation expectations are projected to rise as firms' stance gradually shifts toward raising wages and prices with an improvement in the output gap continuing". The rise of prices is expected to slow temporarily owing to a decline of positive factors, such as the rise in oil prices. Nevertheless, a virtuous cycle of strong growth in wages and prices is forecast to take root to some extent from the latter half of 2018 owing to external circumstances such as Abe's demand for a 3% growth in wages at 2018's annual labour negotiations; current prices, where core CPI growth rose to 0.8% YoY in October; and corporate earnings reaching an all-time high. If this occurs, it is thought that the government will declare there is "no risk of returning to deflation" and that Japan's economy has "overcome deflation", which will lead to the start of small revisions to the BoJ's stance towards its current monetary easing policy framework. The first step will probably be allowing changes to long-term interest rates compared with the current situation; in other words, it will set a range for the long-term interest rate target (for example, 0% to 0.5%). This is to allow for easier reduction of the amount of JGBs it purchases and to prevent carrying out many policy changes.

(2) Long-term interest rates and exchange rates

The 10-year Japanese Government Bond (JGB) yield rose to 0.07% at the end of October which increased investors' risk-appetite, but currently it is around 0.03%. Looking forwards, JGB yields are expected to continue to remain between roughly 0% and 0.1% for the time being under the BoJ's Yield Curve Control, but it is possible that the BoJ will set a range for the long-term interest rate target in the latter half of 2018, which will subsequently lead to a gradual rise in yields.

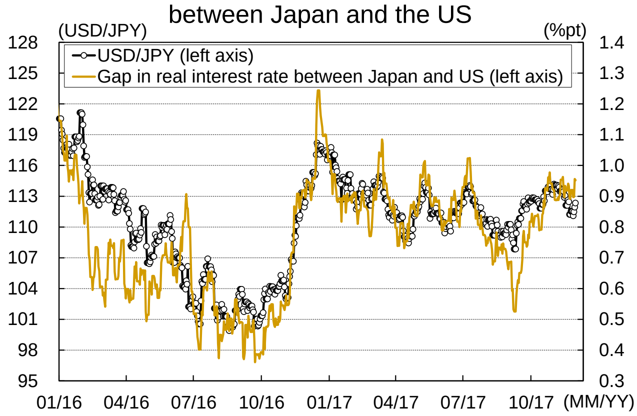
Looking at the difference between US and Japanese real interest rates, the dollar strengthened to JPY114 at the start of November, but it has currently slipped back to just above JPY111 (Chart 12). From now, the JPY will progress on a trend of appreciation during a phase of increased risk aversion from investors, yet 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. As a result, the JPY is expected to continue to see-saw against the USD.

Chart 11: Price-Related Indicators



Note: "Unit labour cost" is employee compensation less real GDP.
Source: Bank of Japan, BTMU Economic Research Office

Chart 12: USD/JPY and the Gap in Real Interest Rates between Japan and the US



Note: "*Real interest rate*" refers to the 10-year government bond yield less break-even inflation rate.
Source: Bloomberg data, BTMU Economic Research Office

(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>

Outlook for the Japanese Economy

Reflecting Jul-Sep 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	2.1	2.0	0.9	1.6	1.0	2.6	1.4	1.2	1.3	1.3	1.3	1.3	1.4	1.3	1.6	1.3
Private Consumption	1.2	0.4	1.7	0.5	1.4	2.8	-1.8	1.0	1.0	1.1	1.1	1.1	1.1	0.7	1.0	0.9
Housing Investment	3.7	13.3	12.3	1.1	3.5	4.6	-3.5	-4.7	-3.2	-1.6	-0.8	0.0	3.2	6.6	1.2	-1.8
Private Business Fixed Investment	-0.6	5.6	-0.4	7.6	2.0	1.9	1.0	2.0	2.3	2.5	2.7	2.8	2.8	2.5	2.3	2.4
Business Inventory (Contribution)	-1.2	1.5	-2.0	-0.7	-0.6	0.0	1.0	0.5	0.3	0.2	0.1	0.1	0.1	-0.4	-0.1	0.3
Government Expenditures	5.0	-5.2	0.6	-2.0	0.0	6.5	-2.4	0.2	0.5	0.8	0.6	0.7	0.9	-0.4	1.0	0.5
Public Investment	-0.4	-2.8	-1.4	-10.3	0.5	25.3	-9.7	-4.7	-2.4	-1.2	-0.4	0.4	1.2	-3.2	1.8	-1.7
Net Exports (Contribution)	1.4	0.4	1.4	1.3	0.5	-1.0	2.0	-0.1	-0.0	-0.1	-0.0	-0.1	-0.1	0.8	0.4	0.1
Exports	-0.2	-3.0	8.7	12.6	8.0	-0.8	6.0	2.1	2.2	2.0	2.2	2.0	2.0	3.2	4.8	2.3
Imports	-7.8	-4.9	0.3	5.0	5.6	5.7	-6.2	2.6	2.2	2.4	2.4	2.3	2.3	-1.3	2.3	1.8
Nominal GDP	3.9	0.5	0.1	1.9	-0.1	2.5	2.5	2.2	2.3	-0.6	3.9	1.6	2.5	1.1	1.7	1.8
GDP Deflator (YoY)	0.9	0.3	-0.1	-0.1	-0.8	-0.4	0.1	0.2	0.8	0.4	0.7	0.5	0.6	-0.2	0.2	0.5
Industrial Production Index (QoQ)	-0.9	0.3	1.6	1.8	0.2	2.1	0.4	-0.3	0.3	0.4	0.4	0.4	0.4	1.1	3.7	1.1
Domestic Corporate Goods Price Index (YoY)	-3.7	-4.5	-3.8	-2.1	1.0	2.1	2.9	2.3	1.7	1.8	1.8	1.8	1.9	-2.3	2.2	1.9
Consumer Price Index (excl. fresh food, YoY)	-0.1	-0.4	-0.5	-0.3	0.2	0.4	0.6	0.8	0.6	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	683	1,631	2,130	2,268	1,422	1,905	1,584	1,643	5,773	6,712	6,554
Current Balance (billion yen)	5,170	4,741	4,859	5,146	5,419	4,768	6,135	6,855	7,015	6,206	6,730	6,451	6,551	20,382	24,772	25,937
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	0.0	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	111	113	113	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 Dec. 1, 2017

	Fiscal	Fiscal	2017			2017				
	2015	2016	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Real GDP Growth Rate <% changes from	1.3	1.3	1.0	2.6	1.4	***	***	***	***	***
previous period at SA annual rate>			(1.5)	(1.4)	(1.7)					
Index of All Industries Activity	0.9	0.6	-0.1	1.6	-0.2	0.2	-0.1	0.2	-0.5	
			(0.8)	(2.5)	(1.5)	(2.2)	(2.0)	(1.7)	(1.0)	
Industrial Production Index	-0.9	1.1	0.2	2.1	0.4	2.2	-0.8	2.0	-1.0	0.5
Production			(3.8)	(5.8)	(4.2)	(5.5)	(4.7)	(5.3)	(2.6)	(5.9)
Shipments	-1.1	0.8	-0.1	1.5	0.4	2.5	-0.7	1.8	-2.5	-0.5
			(3.7)	(5.2)	(3.7)	(5.3)	(4.1)	(5.8)	(1.5)	(2.6)
Inventory	1.1	-4.0	2.2	-0.5	-1.6	-2.0	-1.1	-0.6	0.0	3.1
			(-4.0)	(-2.9)	(-2.4)	(-2.9)	(-2.3)	(-2.9)	(-2.4)	(1.9)
Inventory/Shipments Ratio	114.9	112.9	111.5	112.5	110.7	110.4	113.3	108.6	110.3	114.2
(2010=100)			[116.8]	[116.0]	[114.3]	[115.4]	[116.1]	[113.2]	[113.5]	[112.2]
Domestic Corporate Goods Price Index	-3.3	-2.3	1.6	0.4	0.5	0.1	0.3	0.0	0.3	0.3
			(1.0)	(2.1)	(2.9)	(2.2)	(2.6)	(2.9)	(3.1)	(3.4)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	-0.1	0.6	0.0	0.0	0.0	0.1	0.0	0.2
			(0.2)	(0.4)	(0.6)	(0.4)	(0.5)	(0.7)	(0.7)	(0.8)
Index of Capacity Utilization	98.0	98.6	99.8	101.9	101.8	101.9	100.1	103.4	101.8	
(2010=100)			[96.1]	[96.3]	[98.0]	[96.6]	[97.2]	[99.2]	[97.6]	[98.7]
Machinery Orders(Private Demand,	4.1	0.5	-1.4	-4.7	4.7	-1.9	8.0	3.4	-8.1	
Excl.Electric Power and Ship building)			(-1.0)	(-1.0)	(-2.5)	(-5.2)	(-7.5)	(4.4)	(-3.5)	
Manufacturing	6.2	-4.6	-4.2	3.7	8.2	-5.4	2.9	16.1	-5.1	
			(-6.8)	(3.5)	(9.2)	(-3.2)	(-1.8)	(14.7)	(14.8)	
Non-manufacturing	2.5	4.3	0.0	-9.9	1.6	0.8	4.8	3.1	-11.1	
Excl.Electric Power & Ship building			(3.1)	(-4.5)	(-10.1)	(-6.9)	(-12.3)	(-2.8)	(-13.3)	
Shipments of Capital Goods	-2.2	1.5	-2.4	5.0	-0.2	-0.9	-4.3	9.8	-6.1	1.6
(Excl.Transport Equipment)			(3.1)	(6.6)	(4.3)	(6.1)	(1.5)	(10.1)	(2.1)	(5.4)
Construction Orders	-0.9	4.0								
			(2.2)	(0.7)	(-4.7)	(2.3)	(14.9)	(-10.6)	(-11.6)	(6.7)
Private	7.9	5.1								
			(4.8)	(-7.0)	(5.0)	(-0.1)	(8.4)	(-3.2)	(8.0)	(-1.8)
Public	-15.6	8.4								
			(-1.8)	(19.9)	(-34.3)	(6.3)	(31.9)	(-18.9)	(-59.6)	(20.0)
Public Works Contracts	-3.8	4.1								
			(9.9)	(2.6)	(-7.9)	(-0.6)	(-5.4)	(-7.9)	(-10.4)	(3.9)
Housing Starts	92.1	97.4	97.5	100.2	95.6	100.3	97.4	94.2	95.2	93.3
10,000 units at Annual Rate, SA	(4.6)	(5.8)	(3.5)	(1.1)	(-2.4)	(1.7)	(-2.3)	(-2.0)	(-2.9)	(-4.8)
Total floor	(2.1)	(4.1)	(3.3)	(1.0)	(-3.7)	(1.5)	(-3.2)	(-3.9)	(-3.9)	(-5.4)
Sales at Retailers	0.8	-0.2								
			(1.2)	(2.5)	(2.0)	(2.2)	(1.8)	(1.8)	(2.3)	(-0.2)
Real Consumption Expenditures	-1.2	-1.6	0.8	1.0	-0.4	1.5	-1.9	0.2	0.4	-2.0
of Households over 2 persons (SA)			(-2.0)	(0.2)	(0.0)	(2.3)	(-0.2)	(0.6)	(-0.3)	(0.0)
Propensity to Consume	73.6	72.1	73.1	75.3	69.6	74.1	69.2	69.8	69.8	71.0
(SA,%)			[72.6]	[72.8]	[70.7]	[69.6]	[70.0]	[70.7]	[71.6]	[71.1]
Overtime Hours Worked	-1.3	-0.7	1.5	-0.4	-0.2	-0.1	-0.8	-0.2	1.8	
(All Industries, 5 employees or more)			(1.2)	(0.9)	(0.9)	(0.7)	(0.6)	(0.6)	(1.5)	
Total Cash Earnings (Regular Employees	0.2	0.4								
Only; All Industries, 5 employees or more)			(0.2)	(0.5)	(0.2)	(0.4)	(-0.6)	(0.7)	(0.9)	
Employment Index(Regular Employees Only;'All Industries,	98	103	112	131	130	130	134	123	133	
5 employees or more）(Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	1.23	1.39	1.44	1.49	1.52	1.51	1.52	1.52	1.52	1.55
(SA,Times)			[1.29]	[1.35]	[1.37]	[1.36]	[1.37]	[1.37]	[1.38]	[1.40]
Unemployment Rate	3.3	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8
(SA,%)										
Economy Watcher Survey	48.8	46.4	49.2	50.1	50.1	49.9	51.0	49.6	49.6	49.9
(Judgment of the present condition D.I,%)			[45.6]	[42.6]	[45.2]	[41.2]	[45.1]	[45.6]	[44.8]	[46.2]
Bankruptcies (Number of cases)	8,684	8,381	2,079	2,188	2,032	706	714	639	679	733
	(-9.0)	(-3.5)	(-3.0)	(2.8)	(-2.6)	(-7.5)	(0.3)	(-12.0)	(4.6)	(7.3)

(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 Dec. 1, 2017

	Fiscal	Fiscal	2017			2017				
	2015	2016	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Customs Clearance (Exports in Yen Terms)	-0.7	-3.5	(8.5)	(10.5)	(15.1)	(9.7)	(13.4)	(18.1)	(14.1)	(14.0)
Value	2.0	-5.8	(3.1)	(5.2)	(8.8)	(5.5)	(10.5)	(7.0)	(8.9)	(9.8)
Volumes	-2.7	2.4	(5.1)	(5.1)	(5.8)	(4.0)	(2.6)	(10.4)	(4.8)	(3.8)
Imports (In Yen terms)	-10.2	-10.2	(8.6)	(16.2)	(14.5)	(15.5)	(16.3)	(15.3)	(12.1)	(18.9)
Value	-8.4	-10.7	(6.2)	(10.8)	(12.5)	(10.8)	(12.6)	(12.6)	(12.4)	(15.2)
Volumes	-1.9	0.5	(2.2)	(4.9)	(1.8)	(4.2)	(3.2)	(2.4)	(-0.2)	(3.2)
Current Account (100 mil. yen)	178,618	203,818	59,697	45,622	69,717	9,288	23,200	23,804	22,712	
Goods (100 mil. yen)	3,296	57,726	10,961	9,493	17,375	5,169	5,666	3,187	8,522	
Services (100 mil. yen)	-13,527	-13,816	50	-2,834	-2,930	-561	-2,373	202	-758	
Financial Account (100 mil. yen)	238,492	249,299	52,424	44,237	48,142	12,390	8,542	19,230	20,371	
Gold & Foreign Exchange Reserves ($1mil.)	1,262,099	1,230,330	1,230,330	1,249,847	1,266,310	1,249,847	1,260,040	1,268,006	1,266,310	1,260,925
Exchange Rate (\/$)	120.13	108.37	113.60	111.06	111.01	110.91	112.44	109.91	110.68	112.96

３． Financial Market Indicators

		Fiscal	Fiscal	2017			2017				
		2015	2016	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Uncollateralized Overnight Call Rates		0.063	-0.045	-0.042	-0.054	-0.054	-0.056	-0.054	-0.049	-0.058	-0.037
				[0.035]	[-0.050]	[-0.046]	[-0.055]	[-0.043]	[-0.043]	[-0.052]	-0.037
Euro Yen TIBOR		0.157	0.057	0.056	0.056	0.062	0.056	0.075	0.056	0.056	0.063
(3 Months)				[0.122]	[0.060]	[0.057]	[0.059]	[0.058]	[0.058]	[0.056]	[0.056]
Newly Issued Japanese Government Bonds Yields		-0.050	0.065	0.065	0.075	0.060	0.075	0.075	0.010	0.060	0.065
(10 Years)				[-0.050]	[-0.230]	[-0.085]	[-0.230]	[-0.195]	[-0.070]	-0.085	[-0.050]
Average Contracted Interest Rates		0.924	0.847								
on Loans and Discounts(City Banks)				0.847	0.842	0.831	0.842	0.841	0.839	0.831	0.834
(% changes from previous period)				(-0.006)	(-0.005)	(-0.011)	(-0.007)	(-0.001)	(-0.002)	(-0.008)	(0.003)
The Nikkei Stock Average		16,759	18,909	18,909	20,033	20,356	20,033	19,925	19,646	20,356	22,012
(TSE 225 Issues)				[16,759]	[15,576]	[16,450]	[15,576]	[16,569]	[16,887]	[16,450]	[17,425]
M2(Average)		(3.5)	(3.6)	(4.1)	(3.9)	(4.0)	(3.9)	(4.0)	(4.0)	(4.0)	(4.1)
Broadly-defined Liquidity(Average)		(3.7)	(1.8)	(2.2)	(2.8)	(3.7)	(3.0)	(3.5)	(3.7)	(3.8)	(4.0)
Principal Figures of Financial Institutions											
	Banks & Shinkin	(2.4)	(2.4)	(2.8)	(3.1)	(3.1)	(3.3)	(3.3)	(3.2)	(2.9)	(2.8)
Loans and	Banks	(2.5)	(2.4)	(2.8)	(3.2)	(3.2)	(3.3)	(3.4)	(3.2)	(3.0)	(2.8)
Discount	City Banks etc.	(1.2)	(1.2)	(2.0)	(2.8)	(2.8)	(3.1)	(3.2)	(2.8)	(2.3)	(2.0)
(Average)	Regional Banks	(3.7)	(3.5)	(3.6)	(3.7)	(3.7)	(3.7)	(3.7)	(3.8)	(3.7)	(3.7)
	Regional Banks Ⅱ	(3.2)	(3.1)	(3.2)	(3.0)	(3.1)	(3.0)	(3.1)	(3.1)	(3.0)	(2.9)
	Shinkin	(2.2)	(2.3)	(2.5)	(2.8)	(2.7)	(2.8)	(2.7)	(2.7)	(2.8)	(2.6)
	Total(3 Business Condition)	(3.7)	(3.8)	(4.5)	(4.5)	(4.5)	(4.7)	(4.5)	(4.4)	(4.5)	(4.4)
Deposits	City Banks	(4.5)	(5.5)	(6.4)	(6.5)	(6.4)	(6.7)	(6.4)	(6.3)	(6.5)	(6.3)
and CDs	Regional Banks	(3.0)	(2.3)	(2.7)	(2.6)	(2.6)	(2.7)	(2.7)	(2.6)	(2.5)	(2.6)
(Average)	Regional Banks Ⅱ	(2.5)	(2.1)	(2.4)	(2.3)	(2.3)	(2.4)	(2.3)	(2.3)	(2.2)	(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.