

The Outlook for the Japanese Economy

A virtuous growth cycle born from high corporate earnings will not crumble in the future

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1. Overview of the Japanese Economy

Japan's real GDP growth stood at 0.5% QoQ annualized in October-December 2017 (first preliminary estimate), maintaining positive growth for the eighth consecutive quarter for the first time in approximately 29 years since the Bubble Economy (Chart 1). According to the breakdown of this figure, growth of private consumption was 1.9% QoQ annualized and capital expenditure was 2.8% QoQ annualized, revealing strong growth on the back of a positive climate for households and corporations in terms of income and profit. On the other hand, as the implementation of the Supplementary Budget for FY2016 was completed, the contribution to growth by public demand was -0.9% QoQ annualized, falling into negative territory along with net exports (exports less imports) and inventory investment. However, the primary factor in the net exports result (a contribution of -0.1% QoQ annualized to real GDP growth) was a recovery in imports, reflecting robust domestic demand, and the fall in inventory investment (-0.3% QoQ annualized) also has a flip side: progress in inventory adjustments. Therefore, it could be said that these results illustrate the economy's resilience.

Chart 1: Real GDP and Final Demand

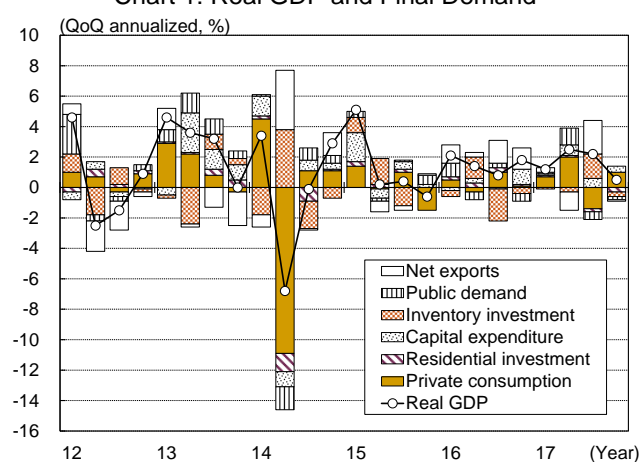
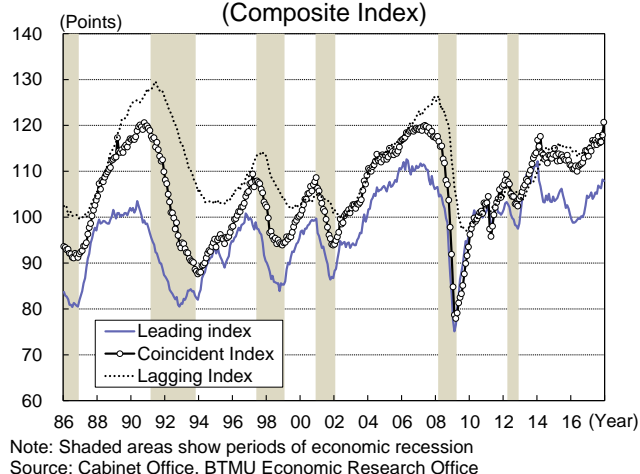


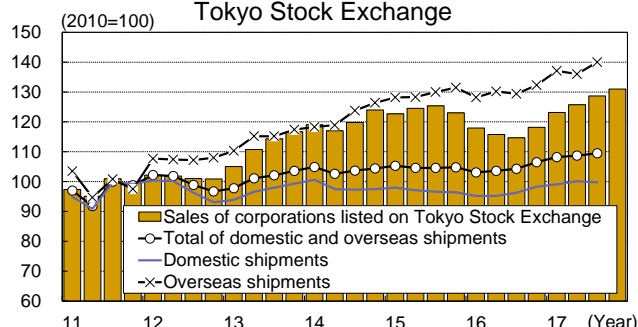
Chart 2: Indexes of Business Conditions (Composite Index)



Recently, while there appears to be adverse factors, particularly in the financial market, such as increased JPY appreciation and a fall in stock prices, the Japanese and overseas real economies are in a cyclical phase of recovery and are showing resilience. Looking at the

Indexes of Business Conditions (Composite Index) published by the Cabinet Office, the Coincident Index, which reflects the current state of the economy, reached an historical high in December (Chart 2). The Leading Index is mainly composed of corporate-related indicators and illustrates the future of the economy, and its clear trend of improvement confirms the strength of upward momentum in the economy. Meanwhile, the sluggishness of the Lagging Index, which mainly focuses on household indicators, attests the weakness of the feeling of economic recovery, while also showing scope for the virtuous growth in the economy to spread from corporations to households. Ordinary profits of corporations listed on the First Section of the Tokyo Stock Exchange in October-December 2017 increased by 15.2% YoY for the fifth consecutive quarter, and both the manufacturing and non-manufacturing sectors recorded historically high earnings. However, the main driver of growth is from increased earnings, which are supported by a rise in domestic and overseas shipments (Chart 3). While it will be important to keep an eye on future FX trends, the negative effect on corporate profits will be limited as it appears that one-sided JPY appreciation can be avoided, taking into account the gap in US and Japanese interest rates, and the Japanese economy's tolerance of JPY appreciation is stronger than before in terms of corporate profits and exports. The economy is forecast to maintain a gradual upward trend with a high wage hike expected at this year's annual labour negotiations which will provide support for households' consumer sentiment (Table 1).

Chart 3: Manufacturing Sector - Domestic and Overseas Shipments, Sales of Companies Listed on Tokyo Stock Exchange



Note: 1. Total of "sales" of 716 companies (manufacturing sector) who are listed on the First Section of the Tokyo Stock Exchange and provide continuous data from Jan-Mar 2007 and announced their 2017 Oct-Dec data by 21 Feb.
2. Seasonal adjustment was calculated by BTMU Economic Research Office
Source: Ministry of Economy, Trade and Industry, Bloomberg, BTMU Economic Research Office

Table 1: GDP Forecast

| | FY 2015 (Actual) | FY 2016 (Actual) | FY 2017 (Forecast) | FY 2018 (Forecast) |
|-------------------------------------|---------------------|---------------------|-----------------------|-----------------------|
| Real GDP | 1.4 | 1.2 | 1.6 | 1.3 |
| Private Consumption | 0.8 | 0.3 | 1.1 | 1.0 |
| Private Residential Investment | 3.7 | 6.2 | 0.1 | -3.2 |
| Private Non-Residential Investment | 2.3 | 1.2 | 3.3 | 2.6 |
| Inventory Investment (contribution) | 0.2 | -0.3 | 0.0 | 0.2 |
| Public Demand | 1.1 | 0.5 | 0.6 | 0.1 |
| Net Exports (contribution) | 0.1 | 0.8 | 0.3 | 0.1 |
| Exports | 0.7 | 3.4 | 6.4 | 3.6 |
| Imports | 0.3 | -1.0 | 4.3 | 2.9 |
| Nominal GDP | 3.0 | 1.0 | 1.6 | 1.8 |
| GDP Deflator | 1.5 | -0.2 | 0.0 | 0.6 |

Source: Cabinet Office, BTMU Economic Research Office

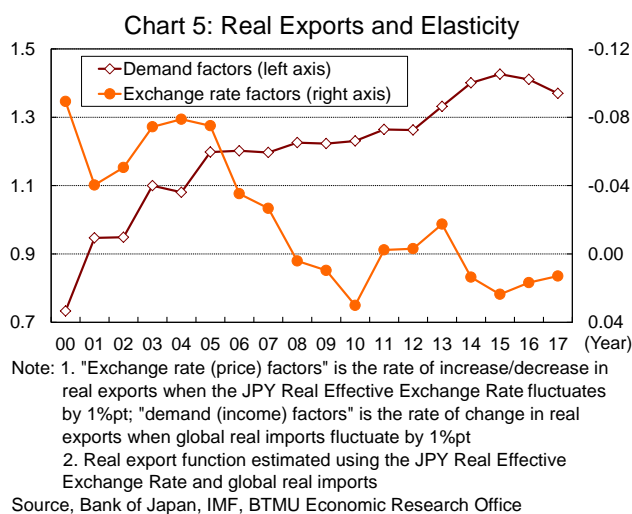
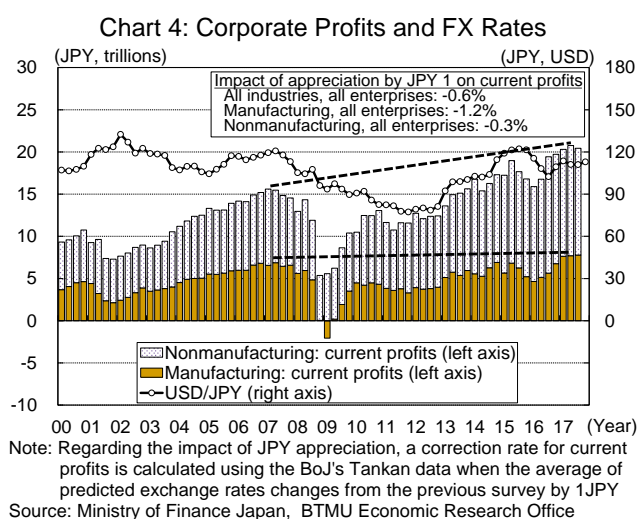
2. Key Points in Outlook

(1) Adverse effects on corporate profits and exports will be limited despite the strong JPY

Current JPY appreciation could act as a weight to some extent on the continued strong growth of corporate profits and exports, but it is likely that adverse effects will be limited. Looking at corporate profits first, the average of predicted exchange rates based on the Bank of Japan's Tankan Survey is at the conservative level of JPY 109.7 to the USD during this latter half of FY2017, and considering the depreciation of the JPY up until January, the current JPY appreciation will not give cause to revise business results down during this period, provided the average USD/JPY in February-March does not appreciate to below 104. Furthermore, even looking at the composition of Japanese corporations' profits, the weight has recently been

shifting towards the non-manufacturing sector, which is less easily affected by exchange rates. Therefore, it is thought that Japanese corporations' resistance to JPY appreciation is stronger than before (Chart 4). That being said, a yearly average rise of JPY 1 will put downward pressure of approximately -0.6% on corporations' current profits for the year. However, taking into consideration solid domestic and external demand and the current high level of profits, the risk that corporate profits will immediately stall due to JPY appreciation and that investment sentiment will weaken appears to be low.

Turning to exports, the effect of fluctuations in exchange rates on real exports has been lessening significantly in recent years due to the spread of hedging techniques against FX risks and the progress in increasing the added value of exports (Chart 5). Meanwhile, the effect of external demand on exports has been increasing, and exports are forecast to continue to rise gradually as overseas economies recover.



(2) The large wage hike agreed at this year's annual labour negotiations will support household income

Looking at the situation surrounding this year's annual labour negotiations, there are many factors present which may provide a boost for a large rise in wages (Table 2). Firstly, according to the Employment Conditions DI (diffusion index), as corporations' labour shortage is worsening, the jobs-to-applicants ratio for full-time employees is steadily rising, which means labour market supply and demand is tightening further. In addition, the wage share is falling despite record-high profits, which means greater scope for a potential wage increase. On top of this, labour productivity is improving, which all results in high expectations of a wage hike by corporations. In addition, consumer prices are turning into positive growth territory, which is another factor that could easily boost the likelihood of a wage hike.

Looking at management's stance towards a wage hike according to the Institute of Labour Administration's 2018 Wage Hike Forecast, both the desired wage rise (2.51%) – which takes into account current social conditions – and the forecast of the actual wage rise (2.04%) have increased on a year-on-year basis and show management is taking a proactive attitude. Previously, the settlement wage rate (based on the Ministry of Health Labour and Welfare figures) is generally determined at a value which falls between the two indicators above.

However, this year, the settlement is expected to be closer to the level of the desired wage rise, bearing in mind the improved situation which will form a basis for negotiations, and the positive reaction from business groups to the government's call for a 3% wage hike. It is likely that the rise in wages will be around the same level as the 2015 rise (2.38%), which was the highest since the start of the Abe administration.

As well as the large wage hike expected this year, there has been a shift in the labour market from non-regular employment to regular employment. As a result, households' real income will maintain resilient growth and is expected to underpin consumption in the future, despite the forecast of a gradual rise in prices.

(3) The FY2017 Supplementary Budget for government expenditure is halved YoY

On 1st February, the FY2017 Supplementary Budget was passed. It focuses on the Productivity Revolution, the Human Resources Development Revolution and Disaster Prevention and Reduction Projects. This budget of approximately JPY 2.7 trillion is more restrictive compared with that of FY2016, which included a large amount of government expenditure for public investment as part of the "Economic Measures for Realizing Investment for the Future" (Chart 6). It is not necessary as of yet to compile a budget on a larger-scale than this considering the current resilience of domestic private demand and Japan's severe fiscal situation; however, it is thought that public investment will weaken in the future and support for the economy from public demand will be limited for the time being.

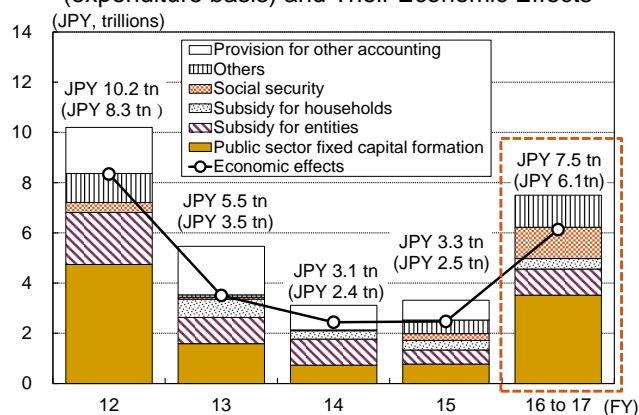
Table 2: Conditions Surrounding the Annual Labour Negotiations

| | 2017 | 2018 | Impact of the wage hike |
|---|------|------|-------------------------|
| Employment conditions DI (Dec '17 survey, % points) | -21 | -31 | ↑ |
| Jobs-to-applicants ratio for full-time employees (at Dec '17, times) | 0.92 | 1.07 | ↑ |
| Ordinary profits growth rate (Total of 3 quarters until Jul-Sep '17, %) | -3.6 | 18.2 | ↑ |
| Wage share (average of 3 quarters until Jul-Sep '17, %) | 61.1 | 59.0 | ↑ |
| Real labour productivity growth rate (average of 3 quarters until Jul-Sep '17, %) | -0.2 | 0.6 | ↑ |
| Core CPI growth rate (average of previous year, %) | -0.3 | 0.5 | ↑ |

| Management's wage hike forecast and the settlement | | | |
|--|---|------|------------|
| | | | ↑ |
| | Rate of increase in wages (annual fixed wage increase+base wage increase) (Current year's actual result, %) | 2.11 | 2.3 to 2.4 |

Source: The Institute of Labour Administration, Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications, BTMU Economic Research Office

Chart 6: Scale of Economic Stimulus Measures (expenditure basis) and Their Economic Effects



Note: Upper figures show budget, lower figures show estimated effects
Source: Ministry of Finance Japan, BTMU Economic Research Office

3. Monetary Policy and Financial Markets

Consumer prices, excluding fresh food, rose to 0.9% YoY in January. External factors such as a rise in energy prices and JPY depreciation in mid-2017 played a large part in the rise, but it is thought that the trend of prices will gradually become increasingly resilient owing to the strong possibility of a large wage hike at this year's annual labour negotiations amongst other factors.

With prices moving towards improvement, the market's attention has been easily drawn towards what the Bank of Japan (BoJ)'s next move will be. On 9th January, the BoJ announced that it had reduced the amount of its super-long-term JGB purchases, which led to increased expectations from the market that the BoJ is paving the way for an exit strategy from monetary

easing, and the 10-year JGB yield rose to 0.09% on 17th January, the same level as July 2017. Nevertheless, Governor Kuroda made a statement clearly contradicting this at the press conference after the Monetary Policy Meeting: “this occasional (purchasing) amount and its timing do not indicate the future of monetary policy”. In reality, the median forecast for CPI in FY2018 according to January’s Outlook for Economic Activity and Prices was 1.4%, unchanged from the previous outlook, and it is unlikely that the BoJ will change its monetary policy framework as it is still some distance from its Price Stability Target of 2%. However, there is a possibility the BoJ will adjust their operations owing to a steady improvement in inflation expectations and it is already slowing the increase of its JGB holdings (Chart 7). It appears that setting a range for the long-term interest rate target as part of Yield Curve Control is the first step in adjusting its operations.

The 10-year JGB yield rose temporarily to 0.095% on 2nd February, but it fell later the same day as the BoJ launched fixed-rate purchase operations and is currently around 0.05%. Even though the growth in stock of its JGB purchases is slowing and US interest rates are rising, the BoJ once again showed its potential to maintain its Yield Curve Control with agile bond-buying operations.

Up until now, the USD and the gap between US and Japanese real interest rates have generally been close and have moved in unison; however, there has been an obvious divergence since the start of the year and the JPY has appreciated to around JPY107 to the USD at present (Chart 8). The backdrop for this is thought to be speculation about the BoJ’s exit strategy, the US treasury secretary’s statement where he welcomed a weaker dollar and an increase in risk aversion due to a sharp fall in the stock market. That being said, it is unlikely that interest rates will diverge further from their previous relationship and that one-way JPY appreciation will progress. Looking ahead, it appears that the JPY will return to a trend of gradual depreciation, even if there are some swings.

Chart 7 : BoJ's JGB Holdings and Japanese and US Long-Term Interest Rates

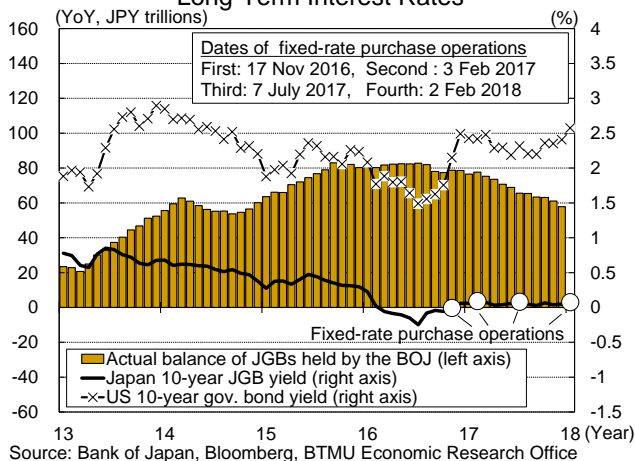
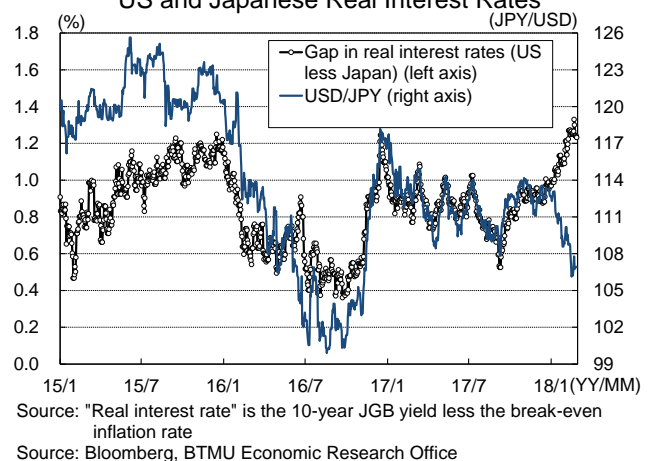


Chart 8: USD/JPY and the Gap Between US and Japanese Real Interest Rates (JPY/USD)



(Translated by Elizabeth Foster)

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Outlook for the Japanese Economy

Reflecting Oct-Dec 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 | 1.4 | 0.8 | 1.8 | 1.2 | 2.5 | 2.2 | 0.5 | 1.1 | 1.3 | 1.4 | 1.4 | 1.5 | 1.2 | 1.6 | 1.3 | |
| Private Consumption | 0.8 | -0.6 | 1.8 | 0.2 | 1.3 | 3.7 | -2.5 | 1.9 | 1.0 | 1.0 | 1.1 | 1.1 | 1.2 | 0.3 | 1.1 | 1.0 | |
| Housing Investment | 6.0 | 8.7 | 10.4 | 3.2 | 4.9 | 3.6 | -5.9 | -10.2 | -4.7 | -2.4 | -0.8 | 0.0 | 2.4 | 6.2 | 0.1 | -3.2 | |
| Private Business Fixed Investment | -1.5 | 1.7 | -0.9 | 6.6 | 0.5 | 4.8 | 3.9 | 2.8 | 2.0 | 2.5 | 2.6 | 2.7 | 2.7 | 1.2 | 3.3 | 2.6 | |
| Business Inventory (Contribution) | -0.4 | 1.4 | -2.1 | -0.4 | -0.1 | -0.3 | 1.6 | -0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | -0.3 | 0.0 | 0.2 | |
| Government Expenditures | 3.7 | -1.9 | 1.4 | -2.0 | 0.4 | 4.7 | -2.1 | -0.9 | 0.3 | 0.3 | 0.5 | 0.6 | 0.7 | 0.5 | 0.6 | 0.1 | |
| Public Investment | -0.7 | 9.9 | 0.7 | -6.9 | -0.9 | 20.2 | -10.0 | -2.1 | -1.6 | -1.2 | -0.4 | 0.4 | 1.2 | 0.9 | 1.3 | -1.3 | |
| Net Exports (Contribution) | 1.2 | 0.3 | 1.5 | 1.4 | 0.3 | -1.2 | 2.2 | -0.1 | 0.0 | 0.0 | 0.0 | -0.0 | 0.0 | 0.8 | 0.3 | 0.1 | |
| Exports | 0.0 | -1.9 | 9.4 | 11.1 | 8.1 | 0.1 | 8.7 | 10.0 | 2.4 | 2.3 | 2.4 | 2.2 | 2.3 | 3.4 | 6.4 | 3.6 | |
| Imports | -6.6 | -3.5 | 0.6 | 2.4 | 7.1 | 7.9 | -4.8 | 12.0 | 2.1 | 2.2 | 2.3 | 2.2 | 2.2 | -1.0 | 4.3 | 2.9 | |
| Nominal GDP | 3.7 | 0.8 | -0.6 | 1.6 | 0.3 | 3.8 | 2.6 | -0.1 | 0.0 | 3.8 | 2.5 | 1.4 | 1.0 | 1.0 | 1.6 | 1.8 | |
| GDP Deflator (YoY) | 0.9 | 0.4 | -0.2 | -0.1 | -0.9 | -0.3 | 0.2 | 0.0 | 0.0 | 0.3 | 0.5 | 0.6 | 0.8 | -0.2 | 0.0 | 0.6 | |
| Industrial Production Index (QoQ) | -0.9 | 0.3 | 1.6 | 1.8 | 0.2 | 2.1 | 0.4 | 1.8 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 1.1 | 8.5 | 0.1 | |
| Domestic Corporate Goods Price Index (YoY) | -3.7 | -4.5 | -3.8 | -2.1 | 1.0 | 2.1 | 2.9 | 3.4 | 2.3 | 2.1 | 2.0 | 2.0 | 2.1 | -2.3 | 2.7 | 2.0 | |
| Consumer Price Index (excl. fresh food, YoY) | -0.1 | -0.4 | -0.5 | -0.3 | 0.2 | 0.4 | 0.6 | 0.9 | 0.9 | 0.7 | 0.8 | 0.9 | 1.0 | -0.2 | 0.7 | 0.9 | |
| 2. Balance of Payments | | | | | | | | | | | | | | | | | |
| Trade Balance (billion yen) | 944 | 1,158 | 1,461 | 1,710 | 1,335 | 683 | 1,630 | 1,318 | 1,309 | 634 | 1,056 | 430 | 693 | 5,773 | 4,940 | 2,813 | |
| Current Balance (billion yen) | 5,170 | 4,741 | 4,859 | 5,146 | 5,419 | 4,768 | 6,183 | 5,622 | 5,932 | 5,689 | 6,500 | 6,263 | 6,915 | 20,382 | 22,505 | 25,367 | |
| 3. Financial | | | | | | | | | | | | | | | | | |
| Uncollateralized overnight call rate | 0.0 | -0.1 | -0.1 | 0.0 | 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) | 0.1 | 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 | 0.0 | 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 | 109 | 110 | 111 | 112 | 113 | 108 | 111 | 112 | |

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, 2018

| | Fiscal | Fiscal | 2017 | | | 2017 | | | | 2018 |
|---|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2015 | 2016 | 2Q | 3Q | 4Q | SEP | OCT | NOV | DEC | JAN |
| Real GDP Growth Rate <% changes from previous period at SA annual rate> | 1.4 | 1.2 | 2.5 (1.5) | 2.2 (1.9) | 0.5 (1.5) | *** | *** | *** | *** | *** |
| Index of All Industries Activity | 0.9 | 0.6 | 1.6 (2.5) | -0.3 (1.5) | 0.7 (1.9) | -0.6 (0.9) | 0.2 (1.8) | 1.0 (2.0) | 0.5 (1.8) | |
| Industrial Production Index | -0.9 | 1.1 | 2.1 (5.8) | 0.4 (4.2) | 1.8 (4.6) | -1.0 (2.6) | 0.5 (5.9) | 0.5 (3.6) | 2.9 (4.4) | -6.6 (2.7) |
| Production | | | | | | | | | | |
| Shipments | -1.1 | 0.8 | 1.5 (5.2) | 0.4 (3.7) | 1.0 (3.0) | -2.5 (1.5) | -0.4 (2.7) | 2.3 (2.3) | 2.9 (4.2) | -5.6 (2.1) |
| Inventory | 1.1 | -4.0 | -0.5 (-2.9) | -1.6 (-2.4) | 2.1 (2.1) | 0.0 (-2.4) | 3.2 (2.0) | -0.8 (3.0) | -0.3 (2.1) | -0.6 (1.4) |
| Inventory/Shipments Ratio (2010=100) | 114.9 | 112.9 | 112.5 [116.0] | 110.7 [114.3] | 111.9 [109.7] | 110.3 [113.5] | 114.2 [112.2] | 111.1 [108.0] | 110.5 [108.9] | 113.8 [111.6] |
| Domestic Corporate Goods Price Index | -3.3 | -2.3 | 0.4 (2.1) | 0.5 (2.9) | 0.9 (3.4) | 0.3 (3.1) | 0.3 (3.4) | 0.5 (3.6) | 0.1 (3.0) | 0.3 (2.7) |
| Consumer Price Index(SA, total, excl.fresh foods) | 0.0 | -0.2 | 0.6 (0.4) | 0.0 (0.6) | 0.4 (0.9) | 0.1 (0.7) | 0.1 (0.8) | 0.1 (0.9) | 0.0 (0.9) | 0.2 (0.9) |
| Index of Capacity Utilization (2010=100) | 98.0 | 98.6 | 101.9 [96.3] | 101.8 [98.0] | 103.0 [100.1] | 101.8 [97.6] | 102.0 [98.7] | 102.0 [100.5] | 104.9 [101.1] | |
| Machinery Orders(Private Demand, Excl.Electric Power and Ship building) | 4.1 | 0.5 | -4.7 (-1.0) | 4.7 (-2.5) | -0.1 (0.0) | -8.1 (-3.5) | 5.0 (2.3) | 5.7 (4.1) | -11.9 (-5.0) | |
| Manufacturing | 6.2 | -4.6 | 3.7 (3.5) | 8.2 (9.2) | 4.0 (13.3) | -5.1 (14.8) | 7.4 (26.0) | -0.2 (14.2) | -13.3 (3.0) | |
| Non-manufacturing Excl.Electric Power & Ship building | 2.5 | 4.3 | -9.9 (-4.5) | 1.6 (-10.1) | -2.0 (-9.7) | -11.1 (-13.3) | 1.1 (-13.9) | 9.8 (-3.9) | -7.3 (-10.9) | |
| Shipments of Capital Goods (Excl.Transport Equipment) | -2.2 | 1.5 | 5.0 (6.6) | -0.2 (4.3) | 4.3 (7.1) | -6.1 (2.1) | 1.6 (5.4) | 3.7 (5.6) | 3.8 (9.9) | -5.3 (8.5) |
| Construction Orders | -0.9 | 4.0 | | | | | | | | |
| Private | 7.9 | 5.1 | | | | | | | | |
| Public | -15.6 | 8.4 | | | | | | | | |
| Public Works Contracts | -3.8 | 4.1 | | | | | | | | |
| Housing Starts 10,000 units at Annual Rate, SA | 92.1 (4.6) | 97.4 (5.8) | 98.7 (1.1) | 95.4 (-2.4) | 94.8 (-2.4) | 95.6 (-2.9) | 94.5 (-4.8) | 96.2 (-0.4) | 93.6 (-2.1) | |
| Total floor | (2.1) | (4.1) | (1.0) | (-3.7) | (-3.2) | (-3.9) | (-5.4) | (-1.2) | (-2.9) | |
| Sales at Retailers | 0.8 | -0.2 | | | | | | | | |
| Real Consumption Expenditures of Households over 2 persons (SA) | -1.2 | -1.6 | 1.0 (0.2) | -0.4 (0.0) | -1.2 (0.5) | 0.4 (-0.3) | -2.0 (0.0) | 2.1 (1.7) | -2.5 (-0.1) | |
| Propensity to Consume (SA, %) | 73.6 | 72.1 | 75.3 [72.8] | 69.6 [70.7] | 71.3 [71.8] | 69.8 [71.6] | 71.0 [71.1] | 72.0 [72.4] | 70.8 [71.8] | [71.0] |
| Overtime Hours Worked (All Industries, 5 employees or more) | -1.3 | -0.7 | -0.4 (0.9) | -0.2 (0.9) | 0.2 (1.2) | 1.8 (1.5) | -1.0 (0.7) | 0.6 (1.5) | -0.8 (1.5) | |
| Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more) | 0.2 | 0.4 | | | | | | | | |
| Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y) | 98 | 103 | 131 | 130 | 133 | 133 | 136 | 135 | 129 | |
| Ratio of Job Offers to Applicants (SA, Times) | 1.23 | 1.39 | 1.49 [1.35] | 1.52 [1.37] | 1.56 [1.41] | 1.52 [1.38] | 1.55 [1.40] | 1.56 [1.41] | 1.59 [1.43] | [1.43] |
| Unemployment Rate (SA, %) | 3.3 | 3.0 | 2.9 | 2.8 | 2.8 | 2.8 | 2.8 | 2.7 | 2.8 | |
| Economy Watcher Survey (Judgment of the present condition D.I.%) | 48.8 | 46.4 | 49.2 [41.4] | 50.3 [45.5] | 53.3 [49.8] | 51.1 [46.3] | 52.0 [48.3] | 54.1 [50.5] | 53.9 [50.7] | 49.9 [49.4] |
| Bankruptcies (Number of cases) | 8,684 (-9.0) | 8,381 (-3.5) | 2,188 (2.8) | 2,032 (-2.6) | 2,106 (1.0) | 679 (4.6) | 733 (7.3) | 677 (-2.3) | 696 (-2.0) | 635 (5.0) |

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of Feb. 28, 2018

| | Fiscal | Fiscal | 2017 | | | 2017 | | | | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2015 | 2016 | 2Q | 3Q | 4Q | SEP | OCT | NOV | DEC | JAN |
| Customs Clearance (Exports in Yen Terms) | -0.7 | -3.5 | (10.5) | (15.1) | (13.0) | (14.1) | (14.0) | (16.2) | (9.3) | (12.3) |
| Value | 2.0 | -5.8 | (5.2) | (8.8) | (8.1) | (8.9) | (9.8) | (10.1) | (4.6) | (2.8) |
| Volumes | -2.7 | 2.4 | (5.1) | (5.8) | (4.6) | (4.8) | (3.8) | (5.5) | (4.5) | (9.2) |
| Imports (In Yen terms) | -10.2 | -10.2 | (16.2) | (14.5) | (17.0) | (12.1) | (19.0) | (17.3) | (14.9) | (7.9) |
| Value | -8.4 | -10.7 | (10.8) | (12.5) | (12.6) | (12.4) | (15.3) | (14.3) | (8.5) | (5.2) |
| Volumes | -1.9 | 0.5 | (4.9) | (1.8) | (3.9) | (-0.2) | (3.2) | (2.6) | (5.9) | (2.6) |
| Current Account (100 mil. yen) | 178,618 | 203,818 | 45,622 | 70,214 | 43,209 | 22,593 | 21,764 | 13,473 | 7,972 | |
| Goods (100 mil. yen) | 3,296 | 57,726 | 9,493 | 17,353 | 11,500 | 8,457 | 4,302 | 1,810 | 5,389 | |
| Services (100 mil. yen) | -13,527 | -13,816 | -2,834 | -2,315 | -1,962 | -461 | -334 | 417 | -2,045 | |
| Financial Account (100 mil. yen) | 238,492 | 249,299 | 44,237 | 50,052 | 24,365 | 20,738 | -8,532 | 14,046 | 18,851 | |
| Gold & Foreign Exchange Reserves (\$1mil.) | 1,262,099 | 1,230,330 | 1,249,847 | 1,266,310 | 1,264,283 | 1,266,310 | 1,260,925 | 1,261,242 | 1,264,283 | 1,268,535 |
| Exchange Rate (¥/\$) | 120.13 | 108.37 | 111.06 | 111.01 | 112.95 | 110.68 | 112.96 | 112.92 | 112.97 | 110.77 |

3. Financial Market Indicators

| | Fiscal | Fiscal | 2017 | | | 2017 | | | | 2018 | |
|---|-----------------------------|--------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------|
| | 2015 | 2016 | 2Q | 3Q | 4Q | SEP | OCT | NOV | DEC | JAN | |
| Uncollateralized Overnight Call Rates | 0.063 | -0.045 | -0.054 [-0.050] | -0.054 [-0.046] | -0.042 [-0.043] | -0.058 [-0.052] | -0.037 [-0.037] | -0.048 [-0.049] | -0.042 [-0.044] | -0.040 -0.045 | |
| Euro Yen TIBOR (3 Months) | 0.157 | 0.057 | 0.056 [0.060] | 0.062 [0.057] | 0.063 [0.056] | 0.056 [0.056] | 0.063 [0.056] | 0.063 [0.056] | 0.063 [0.058] | 0.068 [0.056] | |
| Newly Issued Japanese Government Bonds Yields (10 Years) | -0.050 | 0.065 | 0.075 [-0.230] | 0.060 [-0.085] | 0.045 [0.040] | 0.060 [-0.085] | 0.065 [-0.050] | 0.035 [0.020] | 0.045 0.040 | 0.080 [0.085] | |
| Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period) | 0.924 | 0.847 | 0.842 (-0.005) | 0.831 (-0.011) | 0.828 (-0.003) | 0.831 (-0.008) | 0.834 (0.003) | 0.835 (0.001) | 0.828 (-0.007) | | |
| The Nikkei Stock Average (TSE 225 Issues) | 16,759 | 18,909 | 20,033 [15,576] | 20,356 [16,450] | 22,765 [19,114] | 20,356 [16,450] | 22,012 [17,425] | 22,725 [18,308] | 22,765 [19,114] | 23,098 [19,041] | |
| M2(Average) | (3.5) | (3.6) | (3.9) | (4.0) | (3.9) | (4.0) | (4.1) | (4.0) | (3.6) | (3.4) | |
| Broadly-defined Liquidity(Average) | (3.7) | (1.8) | (2.8) | (3.7) | (3.8) | (3.9) | (4.1) | (3.9) | (3.4) | (3.2) | |
| Principal Figures of Financial Institutions | | | | | | | | | | | |
| Loans and Discount (Average) | Banks & Shinkin | (2.4) | (2.4) | (3.1) | (3.1) | (2.6) | (2.9) | (2.8) | (2.7) | (2.5) | (2.4) |
| | Banks | (2.5) | (2.4) | (3.2) | (3.2) | (2.6) | (3.0) | (2.8) | (2.7) | (2.4) | (2.3) |
| | City Banks etc. | (1.2) | (1.2) | (2.8) | (2.8) | (1.7) | (2.3) | (2.0) | (1.8) | (1.2) | (1.1) |
| | Regional Banks | (3.7) | (3.5) | (3.7) | (3.7) | (3.7) | (3.7) | (3.6) | (3.7) | (3.6) | (3.6) |
| | Regional Banks II | (3.2) | (3.1) | (3.0) | (3.1) | (3.0) | (3.0) | (2.9) | (3.0) | (3.0) | (2.8) |
| | Shinkin | (2.2) | (2.3) | (2.8) | (2.7) | (2.6) | (2.8) | (2.6) | (2.6) | (2.6) | (2.5) |
| Deposits and CDs (Average) | Total(3 Business Condition) | (3.7) | (3.8) | (4.5) | (4.5) | (4.3) | (4.5) | (4.4) | (4.4) | (4.0) | (3.8) |
| | City Banks | (4.5) | (5.5) | (6.5) | (6.4) | (6.1) | (6.5) | (6.3) | (6.3) | (5.7) | (5.3) |
| | Regional Banks | (3.0) | (2.3) | (2.6) | (2.6) | (2.5) | (2.5) | (2.6) | (2.5) | (2.5) | (2.4) |
| | Regional Banks II | (2.5) | (2.1) | (2.3) | (2.3) | (2.0) | (2.2) | (2.2) | (2.2) | (1.8) | (1.6) |

(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.