

# The Outlook for the Japanese Economy

## The economy is in a phase of steady, domestic demand-led growth amid concerns of external risks

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### 1. Overview of the Japanese Economy

Japan's real GDP growth increased by 1.9% QoQ annualized in the April-June 2018 quarter (first preliminary estimate), entering positive territory for the first time in two quarters (Chart 1). As corporate earnings and household income continued to improve, the headwinds facing the economy eased, such as the sudden rise in fresh food prices, which had put downward pressure on the economy last quarter, along with JPY appreciation and decreasing stock prices. This resulted in the strong growth of both private consumption and capital expenditure, and a positive contribution to growth from inventory investment. On the other hand, the contribution to real GDP from net exports turned negative, but this was mainly due to an increase in imports owing to a recovery in domestic demand. On the whole, this result shows a continuation of gradual economic growth, led by domestic demand.

Chart 1: Real GDP and Final Demand

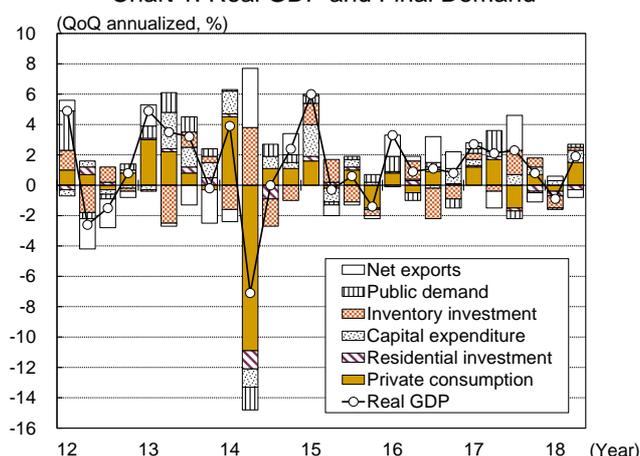
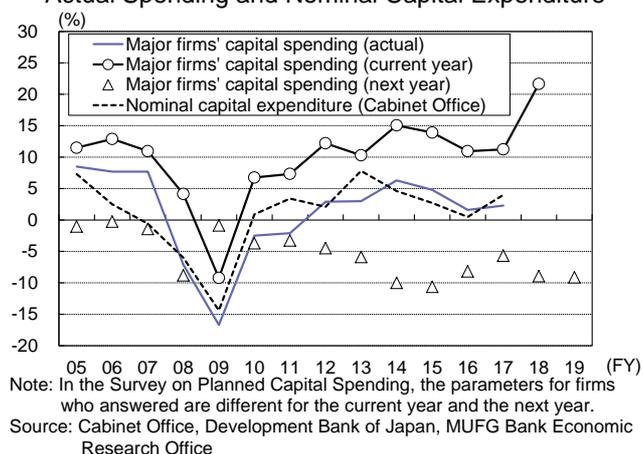


Chart 2: Major Firms' Planned Capital Spending, Actual Spending and Nominal Capital Expenditure (%)

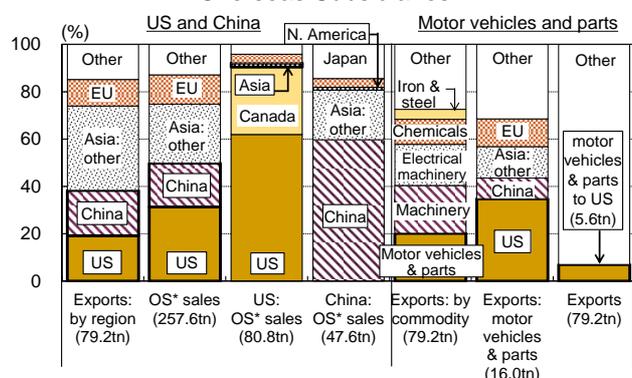


Despite the uncertainty caused by the US' trade policies, the Japanese economy is currently following a path of growth, supported by a virtuous cycle originating from a high level of corporate earnings. Ordinary profits of corporations listed on the First Section of the Tokyo Stock Exchange increased by 14.9% YoY in the April-June quarter, a new record high, and various surveys related to planned capital spending in FY2018 show the most positive result for investment in recent years (Chart 2). On the employment front, strong hiring appetite

among corporations meant the number of employees rose to 66.85 million in the April-June quarter, the highest number since records began in 1953. It seems this, together with a rise in wages, resulted in the strong growth of nominal employee compensation: 4.3% YoY. Looking ahead, it is very likely that this foundation for economic growth will remain firm.

That being said, it is impossible to brush aside the uncertainty about the future of Japan's economy due to the potentially large impact from external risks, such as the trade conflict between the US and China and the US' tariff hike on motor vehicles. The Survey on Planned Capital Spending by the Development Bank of Japan reveals that while planned spending in FY2018 is high, plans for FY2019 remain cautious. Corporations are steadily progressing with the necessary investment for strengthening their business foundations, yet concerns about the future are evidently increasing. Since the US and China receive 40% of Japan's exports and constitute 50% of sales of Japanese overseas subsidiaries, it is clear that a change in either of these economies would have a huge impact on Japan (Chart 3). Furthermore, Japan exports JPY 5.6 trillion' worth of motor vehicles and motor vehicle parts to the US and if additional tariffs are imposed, there are concerns it will lead to a decline in production and investment sentiment across a wide range of sectors, starting with a decrease in exports of motor vehicles and domestic production. The main scenario at present is that the Japanese economy will continue to grow gradually (Table 1), based on the Japanese economy's robust growth and factoring out any serious deterioration of the US and Chinese economies arising from trade policies and the impact of the US' increased tariffs on motor vehicles. However, the situation remains unpredictable.

Chart 3: Japan's Exports and Japanese Corporations' Overseas Subsidiaries



Note: \*OS = overseas subsidiaries  
Exports data from FY2017, overseas subsidiaries' sales data from FY2016  
Source: Ministry of Finance, Ministry of Economy, Trade and Industry, MUFG Bank Economic Research Office

Table 1: GDP Forecast

	FY 2016 (Actual)	FY 2017 (Actual)	FY 2018 (Forecast)	FY 2019 (Forecast)
Real GDP	1.2	1.6	1.2	0.9
Private Consumption	0.3	0.8	0.9	0.5
Private Residential Investment	6.2	-0.3	-5.5	0.2
Private Non-Residential Investment	1.2	3.1	3.4	2.0
Inventory Investment (contribution)	-0.3	0.1	0.1	0.1
Public Demand	0.6	0.9	0.4	1.1
Net Exports (contribution)	0.8	0.4	-0.0	-0.0
Exports	3.6	6.3	3.1	2.3
Imports	-0.8	4.1	3.2	2.5
Nominal GDP	1.0	1.7	1.6	2.1
GDP Deflator	-0.2	0.1	0.5	1.2

Source: Cabinet Office, MUFG Bank Economic Research Office

## 2. Key Points in Outlook

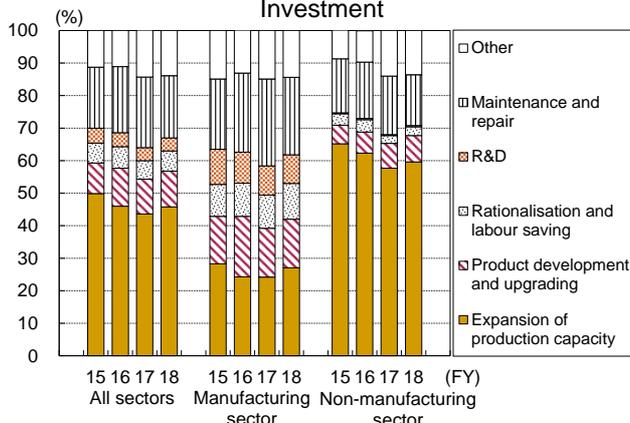
### (1) Corporations' labour-saving measures will underpin investment, and the faster progress in forming economic partnership agreements is also a positive factor

Corporations' planned capital spending for FY2018 (major firms, all industries), in both the Bank of Japan's Tankan (June's survey: 13.6% YoY) and the Survey on Planned Capital Spending (21.6% YoY), showed the highest growth since records began, and the content of these surveys also show forward-thinking changes. Looking at the motives for investment included in the latter survey, the ratio of investment in "maintenance and repair" decreased for

the first time in four years, whereas investment in expanding businesses and improving efficiency, such as “expansion of production capacity”, “product upgrading” and “rationalisation and labour saving”, is increasing (Chart 4). This is not only due to the solid domestic and overseas demand at present, but also the labour shortage, which is growing more serious. Many corporations are treating the labour shortage as one of the most important management issues, and investment in labour saving is gaining prominence as the leading solution in terms of production, logistics and sales. This kind of investment is expected to support the robust growth of capital expenditure as it is likely to be steadily carried out in order to maintain business in the medium and long term, even if demand weakens owing to a rise in external risks.

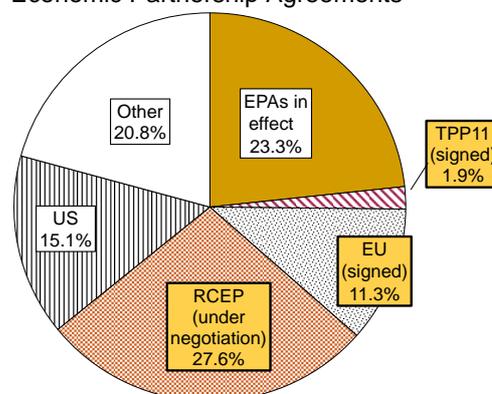
Furthermore, the increased pace at which economic partnership agreements are being formed is a significant change in corporations’ investment climate. The EU-Japan EPA, which the government signed in July, and the TPP11, for which the domestic procedures were finished in June, are forecast to take effect by early 2019. In addition, negotiations for the RCEP (the Regional Comprehensive Economic Partnership) are on their way to being concluded within the year (Chart 5). Regarding the trade policies surrounding corporations, increased awareness about the risks associated with US protectionism will continue to spread for the time being. On the other hand, economic partnership agreements are driving a focus on positive factors which encourage investment in corporations through expectations about future business opportunities.

Chart 4: Weighting of Large Corporations' Motives for Investment



Note: Data for FY2018 is based on planned investments  
Source: Development Bank of Japan, MUFG Bank Economic Research Office

Chart 5: Breakdown of Japan's Economic Partnership Agreements



Note: Ratios based on trade volume in 2017  
Source: Ministry of Finance, Japan, MUFG Bank Economic Research Office

## (2) Further growth of household income will underpin consumer sentiment

Amid sluggish prices, real employee compensation increased for the 13<sup>th</sup> consecutive quarter, along with a rise in the number of both employees and wages in the April-June quarter (Chart 6). The number of employees increased by 2.2% YoY during the same period, the highest growth since 1992; meanwhile, the jobs-to-applicants ratio reached 1.62 in June and the labour market continues to tighten. According to data collected by Keidanren, bonuses this summer were an average of JPY 950,000, a record high, and conditions are improving at a faster pace, such as a pay scale increase of 0.54% at this year’s annual labour negotiations, which exceeds last year’s 0.48%. However, when it comes to consumer sentiment, the Consumer Confidence Index fell significantly at the start of the year owing to a sharp rise in

fresh food prices and a fall in stock prices. It was also affected by the subsequent irregularities in the climate, such as heavy rain in western Japan, and has still not recovered (Chart 7). However, the Bank of Japan's Opinion Survey on the General Public's Views and Behavior suggests that the improvements in income are slowly appearing in people's living circumstances; the ratio of people who "plan to increase spending within the next twelve months" is steadily rising, and people who said they had "become better off" regarding their present household circumstances increased in number.

Looking at just the July-September quarter, while there is a possibility that private consumption will slow temporarily due to the effects of a heatwave and other irregularities in the climate, its gradual upward trend will continue as further growth of household incomes encourages an appetite for spending. The consumption tax hike may curb spending next year, but if policies such as reduced tax rates and free preschool education and nurseries are taken into account, it is possible that a sharp downturn in consumption can be avoided.

Chart 6: Real Employee Compensation

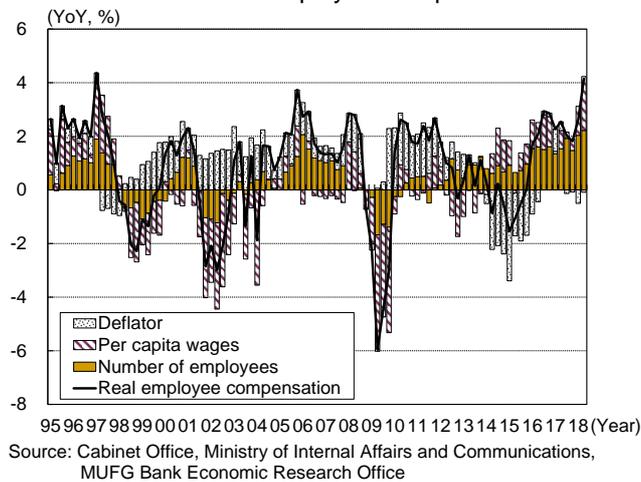
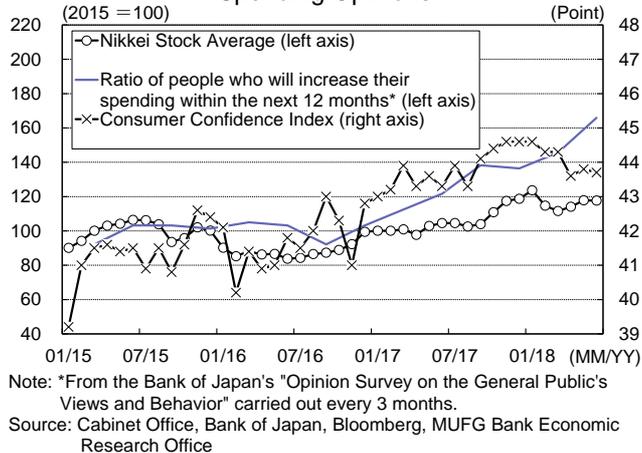


Chart 7: Consumer Behaviour Survey and Spending Opinions



### 3. Monetary Policy and Financial Markets

At the Monetary Policy Meeting on 30-31 July, the Bank of Japan (BoJ) announced its "Strengthening the Framework for Continuous Powerful Monetary Easing" (Table 2). With a forecast that "it is likely to take more time than expected to achieve the price stability target of 2 percent", the BoJ gave forward guidance that it "intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time". In addition, the BoJ suggested it would conduct purchases in a more flexible manner from now with regards to the amount of Japanese government bonds (JGBs), ETFs and J-REITs to be purchased. Furthermore, adjustments were included to reduce the side-effects of easing, such as decreasing the size of the Policy-Rate Balance, to which a negative interest rate is applied, and a change in the amount of each ETF to be purchased.

Before the Monetary Policy Meeting, there was increased speculation that the BoJ would raise its target level for long-term yields, but the actual response was limited to a slightly more flexible target (increase the range of "around" zero percent from  $\pm 0.1\%$  to  $\pm 0.2\%$ ). The introduction of the forward guidance for policy rates means it is highly likely that the low interest rate environment will continue until at least a time when the economic effects of the

consumption tax hike in October 2019 can be assessed. Meanwhile, the BoJ's main response to side effects has been to address the market liquidity of JGBs; Governor Kuroda said that the BoJ "allowed a change (in long-term yields) in order to improve the function of the government bond market". On the other hand, although the BoJ states there are no problems with the function of financial intermediaries at present, the reality is that the operating environment of financial institutions is deteriorating – the FY2017 financial results of 105 regional banks showed the core business of 50 banks had fallen into the red – and there is still speculation within markets that the BoJ will tighten its monetary policy in 2019 (Chart 8). Depending on the BoJ's evaluation of financial intermediary functions, it may be necessary to allow for the possibility that the Bank will carry out additional small revisions to its monetary policy in future.

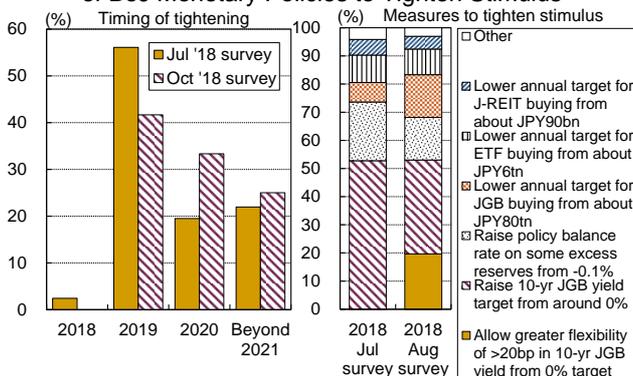
The yield curve has become slightly steeper owing to the BoJ's adjustments to its monetary policy. The 10-year JGB yield rose to 0.145 for a while on 2<sup>nd</sup> August, yet it fell due to a temporary long-term JGB purchasing operation by the BOJ, subsequently hovering around the 0.1% mark. As the US continues to steadily raise interest rates, it appears the gap between US and Japanese interest rates will remain as the low interest rate environment continues in Japan for the time being. Looking ahead, even though the JPY may fluctuate against the USD due to changes in the situation overseas, such as trade friction between the US and China, the JPY is expected to remain around its current low level for the most part owing to the gap in US and Japanese interest rates.

Table 2: Outline of "Strengthening the Framework for Continuous Powerful Monetary Easing"

Monetary Easing Measures	Details
Forward guidance for policy rates	Maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices, including the effects of the consumption tax hike scheduled to take place in Oct 2019.
Yield curve control	Short-term interest rate Interest rate applied to Policy-Rate Balances -0.1% (Reduce the size of the Policy-Rate Balance to which a negative interest rate is applied)
	Long-term interest rate Target yield for 10-year JGBs Around zero percent (Yields may move upward and downward) *Amount of long-term JGB *Conduct purchases in a flexible manner so that amount outstanding will increase at annual pace of JPY 80 trillion
Guidelines for asset purchases	Increased amount of J-REIT purchases JPY 90 billion (The amount of purchases may increase or decrease)
	Increased amount of ETF purchases JPY 6 trillion (The amount of purchases may increase or decrease. ETFs that track the TOPIX: JPY 4.2 trillion ETFs that track any of TOPIX, Nikkei, JPX-Nikkei 400: JPY 1.5 tn "ETFs to Support Firms Proactively Investing in Physical and Human Capital": JPY 300 billion)
	Corporate bonds Maintain amount outstanding at JPY 3.2 trillion
	CP Maintain amount outstanding at JPY 2.2 trillion
Inflation-overshooting commitment	Continue expanding the monetary base until the YoY rate of increase in the observed core CPI exceeds 2 percent and stays above target in a stable manner

Note: Underlined parts show changes from the previous framework  
Source: Bank of Japan, MUFG Bank Economic Research Office

Chart 8: Market Expectations for the Measures and Timing of BoJ Monetary Policies to Tighten Stimulus



Note: 1. Questions asking the timing and measures of stimulus to economists who expect the BoJ to tighten stimulus as its next policy change  
2. Multiple answers allowed for measures to tighten stimulus, ratio of total  
Source: Bloomberg, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

## Outlook for the Japanese Economy

Reflecting Apr-Jun 2018 GDP (the first preliminary estimates)

Forecast →

(% , billion yen)

	2017				2018				2019				2020	FY2017	FY2018	FY2019
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	Q1			
<b>1. The Real Economy (QoQ annualized change)</b>																
Real GDP	2.7	2.1	2.3	0.8	-0.9	1.9	1.8	1.5	1.5	1.5	2.0	-3.2	0.8	1.6	1.2	0.9
Private Consumption	2.1	3.1	-2.8	1.4	-0.8	2.8	0.8	1.1	1.2	1.3	3.2	-7.2	1.3	0.8	0.9	0.5
Housing Investment	3.3	5.4	-5.2	-11.6	-8.7	-10.3	0.4	2.4	4.1	4.1	2.4	-13.3	-7.8	-0.3	-5.5	0.2
Private Business Fixed Investment	2.3	2.2	4.8	3.1	2.0	5.2	2.7	2.7	2.7	2.8	3.4	-3.4	2.5	3.1	3.4	2.0
Business Inventory (Contribution)	0.4	-0.4	1.6	0.6	-0.8	0.2	0.3	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Government Expenditures	1.1	5.7	-2.1	-0.3	-0.4	0.7	1.6	1.0	0.7	0.8	1.3	1.6	1.3	0.9	0.4	1.1
Public Investment	-0.7	23.3	-11.0	-2.5	-1.7	-0.5	4.0	1.4	0.4	0.8	1.6	3.2	1.6	1.4	-0.2	1.5
Net Exports (Contribution)	0.4	-1.1	2.3	-0.6	0.3	-0.5	0.1	0.0	0.0	-0.2	-0.9	1.5	-0.5	0.4	-0.0	-0.0
Exports	7.6	0.7	8.6	8.8	2.6	0.8	2.4	2.3	2.3	2.4	2.3	2.3	2.2	6.3	3.1	2.3
Imports	5.5	7.8	-5.7	14.0	0.7	3.9	1.9	2.2	2.3	3.3	7.2	-5.7	5.0	4.1	3.2	2.5
Nominal GDP	0.8	3.2	3.2	1.1	-1.5	1.7	2.4	4.4	2.0	1.0	2.2	2.4	1.2	1.7	1.6	2.1
GDP Deflator (YoY)	-0.9	-0.3	0.1	0.1	0.5	0.1	0.1	0.6	1.0	0.9	0.8	1.5	1.5	0.1	0.5	1.2
Industrial Production Index (QoQ)	0.2	1.8	0.5	1.6	-1.3	1.2	-1.0	1.1	0.9	0.7	1.1	-1.8	0.5	4.1	1.1	1.7
Domestic Corporate Goods Price Index (YoY)	0.9	2.1	2.8	3.3	2.5	2.6	2.3	2.1	2.0	2.0	2.0	3.9	3.9	2.7	2.3	3.0
Consumer Price Index (excl. fresh food, YoY)	0.2	0.4	0.6	0.9	0.9	0.8	1.0	1.1	1.2	1.1	1.0	2.0	1.9	0.7	1.0	1.5
<b>2. Balance of Payments</b>																
Trade Balance (billion yen)	1,294	819	1,578	1,291	730	993	730	1,088	1,033	759	203	995	824	4,594	3,843	2,782
Current Balance (billion yen)	5,360	4,994	5,806	5,895	4,684	5,498	5,232	5,551	5,458	5,191	4,620	5,397	5,211	21,813	21,738	20,420
<b>3. Financial</b>																
Uncollateralized overnight call rate	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-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	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.0	0.1	0.2
Exchange Rate (USD/JPY)	114	111	111	113	108	109	112	112	113	113	113	113	113	111	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, MUFG Bank Economic Research Office

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Aug. 31, 2018

	Fiscal	Fiscal	2017	2018		2018				
	2016	2017	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.2	1.6	0.8 (2.0)	-0.9 (1.0)	1.9 (1.0)	***	***	***	***	***
Index of All Industries Activity	0.6	1.8	0.7 (1.8)	-0.5 (1.3)	0.9 (1.0)	-0.1 (1.1)	1.0 (1.4)	0.1 (1.6)	-0.8 (0.2)	
Industrial Production Index	1.0	4.1	1.6 (4.6)	-1.3 (2.4)	1.3 (1.9)	1.4 (2.4)	0.5 (2.6)	-0.2 (4.2)	-1.8 (-0.9)	-0.1 (2.3)
Production										
Shipments	0.8	3.3	0.8 (3.1)	-1.1 (1.5)	1.9 (2.2)	1.2 (1.4)	1.6 (3.6)	-1.6 (3.3)	0.3 (-0.2)	-1.9 (1.3)
Inventory	-4.0	3.9	2.2 (1.9)	3.4 (3.9)	-1.9 (2.4)	3.3 (3.9)	-0.6 (1.7)	0.6 (2.5)	-1.9 (2.4)	-0.2 (2.8)
Inventory/Shipments Ratio (2010=100)	112.9	112.4	112.1 [109.7]	114.9 [111.1]	114.7 [111.8]	117.1 [111.0]	113.8 [113.1]	113.9 [111.7]	116.5 [110.7]	117.0 [112.4]
Domestic Corporate Goods Price Index	-2.4	2.7	0.9 (3.3)	0.6 (2.5)	0.7 (2.6)	-0.1 (2.1)	0.2 (2.1)	0.6 (2.7)	0.2 (2.8)	0.5 (3.1)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.7	0.4 (0.9)	-0.1 (0.9)	0.4 (0.7)	-0.1 (0.9)	-0.1 (0.7)	0.0 (0.7)	0.1 (0.8)	0.1 (0.8)
Index of Capacity Utilization (2010=100)	98.6	101.7	102.7 [100.1]	101.0 [100.1]	102.0 [101.8]	102.4 [100.2]	104.2 [103.5]	102.0 [100.3]	99.8 [101.7]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	0.5	-0.8	0.3 (0.0)	3.3 (0.2)	2.2 (8.0)	-3.9 (-2.4)	10.1 (9.6)	-3.7 (16.5)	-8.8 (0.3)	
Manufacturing	-4.6	9.2	3.5 (13.3)	2.5 (10.6)	5.5 (17.8)	-17.5 (1.5)	22.7 (23.5)	1.3 (26.2)	-15.9 (6.6)	
Non-manufacturing Excl.Electric Power & Ship building	4.3	-7.8	-2.1 (-9.7)	3.4 (-6.9)	-0.4 (0.3)	2.2 (-4.9)	0.4 (-1.1)	0.2 (8.4)	-7.0 (-4.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	1.4	6.2	3.1 (7.2)	-0.5 (7.0)	0.5 (4.2)	3.0 (8.3)	2.5 (9.5)	-4.6 (3.8)	-1.1 (0.0)	-0.7 (5.4)
Construction Orders	4.0	0.7								
Private	5.1	0.6								
Public	8.4	-5.4								
Public Works Contracts	4.1	-4.3								
Housing Starts 10,000 units at Annual Rate, SA Total floor	97.4 (5.8) (4.1)	94.6 (-2.8) (-3.7)	94.8 (-2.4) (-3.2)	89.2 (-8.0) (-9.2)	96.8 (-1.8) (-3.6)	89.5 (-8.3) (-7.2)	99.2 (0.3) (-2.1)	99.6 (1.3) (0.1)	91.5 (-7.1) (-8.9)	
Sales at Retailers	-0.2	1.9								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.6	0.4	-0.6 (0.5)	1.1 (0.6)	-1.4 (-1.3)	-0.1 (-0.2)	-1.6 (-1.3)	-0.2 (-1.4)	2.9 (-1.2)	
Propensity to Consume (SA, %)	72.1	71.7	71.3 [71.8]	71.4 [73.0]	69.4 [74.6]	70.6 [72.4]	70.2 [73.1]	72.3 [77.0]	66.1 [73.8]	
Overtime Hours Worked (All Industries, 5 employees or more)	-0.7	0.4	0.3 (1.2)	-1.1 (-1.2)	1.6 (0.6)	-0.1 (-0.9)	0.4 (0.0)	1.3 (0.9)	-0.3 (0.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.4	0.7								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	103	105	133	25	6	21	13	7	0	
Ratio of Job Offers to Applicants (SA, Times)	1.39	1.54	1.57 [1.41]	1.59 [1.44]	1.60 [1.49]	1.59 [1.45]	1.59 [1.47]	1.60 [1.49]	1.62 [1.50]	1.63 [1.51]
Unemployment Rate (SA, %)	3.0	2.7	2.7	2.5	2.4	2.5	2.5	2.2	2.4	2.5
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.4	50.5	53.3 [49.8]	49.1 [48.7]	48.1 [49.2]	48.9 [47.9]	49.0 [48.5]	47.1 [49.1]	48.1 [50.0]	46.6 [49.9]
Bankruptcies (Number of cases)	8,381 (-3.5)	8,367 (-0.2)	2,106 (1.0)	2,041 (-1.8)	2,107 (-3.7)	789 (0.4)	650 (-4.4)	767 (-4.4)	690 (-2.3)	702 (-1.7)

(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. 31, 2018

	Fiscal	Fiscal	2017	2018		2018				
	2016	2017	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL
Customs Clearance (Exports in Yen Terms)	-3.5	10.8	(13.0)	(4.9)	(7.5)	(2.1)	(7.8)	(8.1)	(6.7)	(3.9)
Value	-6.0	5.5	(7.9)	(0.8)	(1.8)	(-1.4)	(0.5)	(1.5)	(3.4)	(3.0)
Volumes	2.7	5.0	(4.8)	(4.1)	(5.6)	(3.6)	(7.2)	(6.4)	(3.2)	(0.9)
Imports (In Yen terms)	-10.2	13.7	(17.0)	(7.5)	(7.5)	(-0.5)	(6.0)	(14.1)	(2.6)	(14.6)
Value	-10.0	8.8	(10.9)	(3.6)	(6.1)	(3.9)	(3.8)	(7.0)	(7.5)	(10.2)
Volumes	-0.2	4.4	(5.5)	(3.7)	(1.4)	(-4.2)	(2.1)	(6.6)	(-4.5)	(4.1)
Current Account (100 mil. yen)	210,188	218,127	43,257	58,821	49,589	31,816	18,451	19,383	11,756	
Goods (100 mil. yen)	57,851	45,936	11,527	7,246	10,904	11,876	5,738	-3,038	8,205	
Services (100 mil. yen)	-13,813	-5,378	-1,975	2,127	-6,343	2,282	-5,015	423	-1,751	
Financial Account (100 mil. yen)	247,407	196,174	30,753	75,622	43,667	46,057	4,254	33,208	6,206	
Gold & Foreign Exchange Reserves (\$1mil.)	1,230,330	1,268,287	1,264,283	1,268,287	1,258,748	1,268,287	1,256,018	1,254,477	1,258,748	1,256,276
Exchange Rate (¥/\$)	108.37	110.80	112.95	108.20	109.05	106.00	107.43	109.69	110.03	111.37

## 3. Financial Market Indicators

	Fiscal	Fiscal	2017	2018		2018						
	2016	2017	4Q	1Q	2Q	MAR	APR	MAY	JUN	JUL		
Uncollateralized Overnight Call Rates	-0.045	-0.050	-0.042	-0.048	-0.065	-0.062	-0.063	-0.061	-0.071	-0.070		
			[-0.043]	[-0.042]	[-0.054]	[-0.042]	[-0.054]	[-0.053]	[-0.056]	-0.054		
Euro Yen TIBOR (3 Months)	0.057	0.065	0.063	0.078	0.084	0.097	0.097	0.078	0.078	0.091		
			[0.056]	[0.056]	[0.056]	[0.056]	[0.056]	[0.056]	[0.056]	[0.075]		
Newly Issued Japanese Government Bonds Yields (10 Years)	0.065	0.045	0.045	0.045	0.030	0.045	0.050	0.030	0.030	0.060		
			[0.040]	[0.065]	[0.075]	[0.065]	[0.015]	[0.040]	0.075	[0.075]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.847	0.817	0.828	0.817	0.789	0.817	0.793	0.794	0.789	0.788		
			(-0.003)	(-0.011)	(-0.028)	(-0.010)	(-0.024)	(0.001)	(-0.005)	(-0.001)		
The Nikkei Stock Average (TSE 225 Issues)	18,909	21,454	22,765	21,454	22,305	21,454	22,468	22,202	22,305	22,554		
			[19,114]	[18,909]	[20,033]	[18,909]	[19,197]	[19,651]	[20,033]	[19,925]		
M2(Average)	(3.6)	(3.7)	(3.9)	(3.2)	(3.1)	(3.1)	(3.2)	(3.2)	(3.1)	(3.0)		
Broadly-defined Liquidity(Average)	(1.9)	(3.1)	(3.3)	(2.6)	(2.5)	(2.4)	(2.5)	(2.5)	(2.5)	(2.3)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(2.4)	(2.8)	(2.6)	(2.1)	(2.1)	(2.0)	(2.1)	(2.0)	(2.2)	
		Banks	Banks	(2.4)	(2.8)	(2.6)	(2.1)	(2.0)	(1.9)	(2.0)	(1.9)	(2.1)
			City Banks etc.	(1.2)	(2.0)	(1.7)	(0.7)	(0.5)	(0.3)	(0.5)	(0.3)	(0.6)
			Regional Banks	(3.5)	(3.7)	(3.7)	(3.5)	(4.2)	(3.5)	(3.6)	(4.4)	(4.6)
			Regional Banks II	(3.1)	(3.0)	(3.0)	(2.8)	(0.6)	(2.8)	(2.7)	(-0.5)	(-0.4)
Shinkin	(2.3)	(2.7)	(2.6)	(2.5)	(2.3)	(2.5)	(2.3)	(2.3)	(2.3)	(2.2)		
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(3.8)	(4.2)	(4.3)	(3.5)	(3.8)	(3.3)	(3.8)	(3.8)	(3.8)	
		City Banks	(5.5)	(5.9)	(6.1)	(4.9)	(5.2)	(4.5)	(5.3)	(5.1)	(5.3)	
		Regional Banks	(2.3)	(2.5)	(2.5)	(2.2)	(2.8)	(2.0)	(2.3)	(3.2)	(3.0)	
		Regional Banks II	(2.1)	(2.1)	(2.0)	(1.6)	(-0.2)	(1.5)	(1.7)	(-1.1)	(-1.1)	

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in ( ) indicate % changes from previous year. [ ] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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