The Outlook for the Japanese Economy

Economy supported by corporate and household incomes yet situation overseas requires caution

TAKAYUKI MIYADOU, YUMIKO HISHIKI
YUUSUKE YOKOTA, KAZUFUMI KESHI
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

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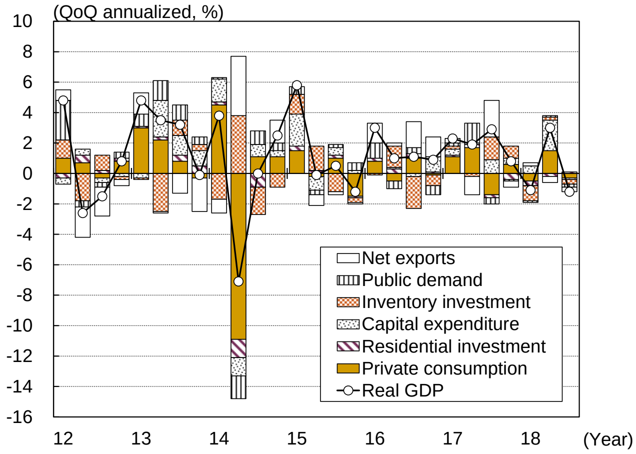
1. Overview of the Japanese Economy

Japan's real GDP growth rate (first preliminary estimate) was -1.2% QoQ annualised in the July-September quarter, falling for the first time in two quarters (Chart 1). Growth of both private consumption and capital expenditure turned negative and domestic demand was generally weak, with inventory investment making a negative contribution to the real GDP growth rate. Foreign demand also made a negative contribution to growth for the second consecutive quarter, mainly due to a fall in exports. That being said, there was a series of natural disasters during the July-September quarter – heavy rain, typhoons and an earthquake – which led to a sharp rise in fresh food prices, the closure of Kansai International Airport and a decline in inbound tourism, putting downward pressure on growth. If the reaction from the strong growth the previous quarter is also taken into consideration, it appears that the negative growth this time was largely the result of transitory factors.

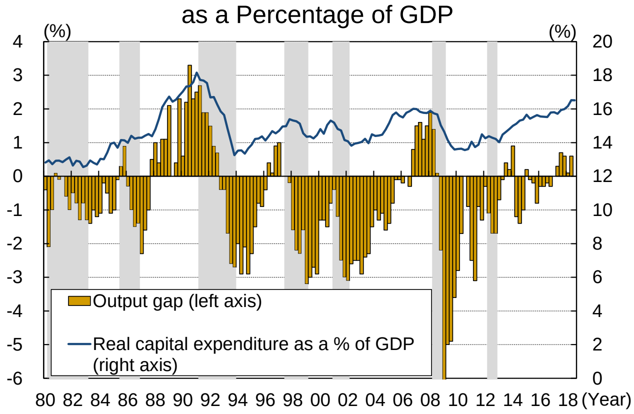
Turning to the current state of the economy, corporate and household incomes remain stable, providing a basis for the economic expansion. Despite headwinds from natural disasters, ordinary profits of corporations listed on the First Section of the Tokyo Stock Exchange grew by 7.8% YoY in the July-September quarter and recorded another all-time high. Profits of both the manufacturing and non-manufacturing sectors rose by 4.3% YoY and 11.7% YoY respectively. Both the number of employees and wages continue to rise on the back of corporations' strong appetite for hiring and real employee compensation rose by 1.5% YoY in the July-September quarter, maintaining growth for the fourteenth consecutive quarter. However, in terms of the business cycle, the economy is still in a prolonged expansionary phase, yet it is thought the momentum of positive factors is gradually fading. The output gap based on the Cabinet Office's calculations still remains positive by a small margin and is not at a level which suggests the economy is overheating, but it has been positive for a sustained period of time (Chart 2). In addition, capital expenditure increased for eight consecutive quarters up until the April-June quarter and "real capital expenditure as a percentage of GDP", which is used to ascertain the capital expenditure cycle, was 16.5% in the July-September quarter, exceeding the peak of the economic expansion before the global financial crisis (16.0%). Currently, it appears the inventory cycle is shifting from an active "accumulation" stage, to an “expanding inventory” phase, and it is highly likely that the upward pressures on production have peaked.

Chart 1: Real GDP and Final Demand



Source: Cabinet Office, MUFG Bank Economic Research Office

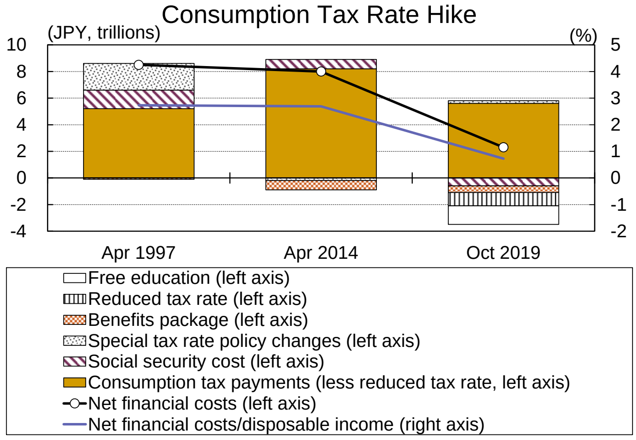
Chart 2: The Output Gap and Real Capital Expenditure as a Percentage of GDP



Note: Shaded areas denote periods of economic recession
Source: Cabinet Office, Ministry of Finance, MUFG Bank Economic Research Office

It seems that maintaining a strong real GDP growth rate higher than 1%, which has been the case for several years, is becoming increasingly difficult (the average for the past five years is 1.3%). Looking ahead, corporate earnings are expected to remain at high levels against a background of solid domestic and external demand, and the net financial burden on households from the consumption tax rate hike next October will be roughly only a quarter that of previous hikes owing to measures such as the reduced tax rate and the provision of free early childhood education (Chart 3). As a result, the overall trend of gradual economic growth is expected to remain intact (Table 1). However, the situation remains unpredictable owing to a rise in uncertainty sparked by the situation overseas, such as signs that the trade friction between the US and China will become a drawn-out conflict and a step up in the negotiations for the Japan-US Trade Agreement on Goods early next year.

Chart 3: Financial Pressure on Households from the Consumption Tax Rate Hike



Source: Bank of Japan, Cabinet Office, MUFG Bank Economic Research Office

Table 1: GDP Forecast

(YoY, %)

	FY 2016 (Actual)	FY 2017 (Actual)	FY 2018 (Forecast)	FY 2019 (Forecast)
Real GDP	1.2	1.6	1.0	0.9
Private Consumption	0.3	0.8	0.6	0.4
Private Residential Investment	6.2	-0.3	-4.4	0.5
Private Non-Residential Investment	1.2	3.1	4.8	1.9
Inventory Investment (contribution)	-0.3	0.1	0.0	0.1
Public Demand	0.6	0.9	-0.1	1.2
Net Exports (contribution)	0.8	0.4	-0.0	-0.1
Exports	3.6	6.3	1.5	1.4
Imports	-0.8	4.1	1.7	1.7
Nominal GDP	1.0	1.7	0.9	2.0
GDP Deflator	-0.2	0.1	-0.0	1.1

Source: Cabinet Office, MUFG Bank Economic Research Office

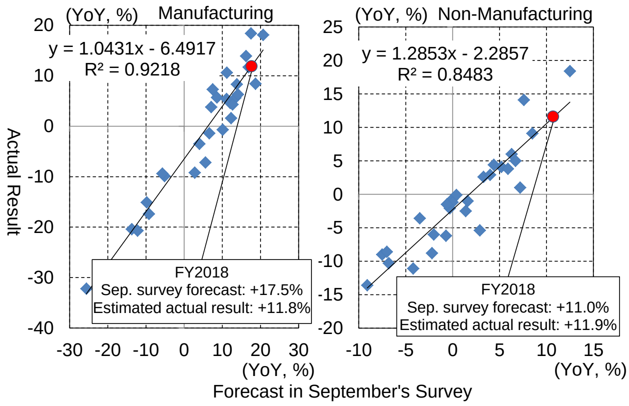
2. Key Points in the Outlook

(1) Although capital expenditure will remain robust in future, it is important to keep an eye on exports

Growth of real capital expenditure fell to -0.9% QoQ annualised in the July-September quarter, turning negative for the first time in eight quarters. However, bearing in mind the strong growth of the previous quarter (13.0% QoQ annualised) and the impacts of supply constraints caused by natural disasters, it appears there is no need to be excessively gloomy. In fact, according to the Bank of Japan's Tankan survey for September, the planned fixed investment for FY2018 (large enterprises, all industries) rose to 13.4% YoY. This is the highest level for a survey in September since 1990, revealing unusually strong fixed investment sentiment amongst enterprises (though there have been revisions of the sample enterprises). Based on the relationship between the plan as of September and the actual result for the fiscal year, large enterprises' fixed investment for this fiscal year is forecast to exceed 10% YoY in both the manufacturing and non-manufacturing sectors (Chart 4). Fixed investment will maintain a gradual upward trend on the back of robust corporate profits as well as acceleration of investment in rationalisation and labour saving as a response to the labour shortage.

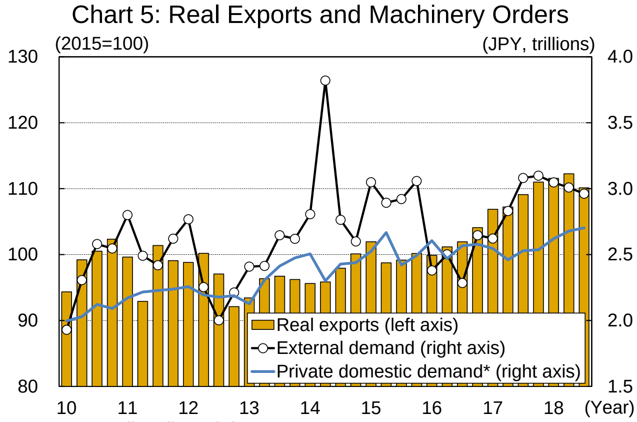
On the other hand, it is necessary to view future exports somewhat cautiously. The decrease in exports in the July-September quarter was surely due to temporary downward pressure arising from natural disasters and is forecast to bounce back as production and distribution recovers. Nevertheless, even when the impact from natural disasters is omitted, the growth of exports is slowing as seen in machinery orders from overseas which, despite remaining at a high level, have turned downward this year (Chart 5). Looking ahead, the gradual growth of overseas economies will continue to support exports, but if the trade conflict between the US and China leads to a deterioration of both countries' economies and the Japan-US Trade Agreement on Goods ends up restricting exports, with the proportion of Japanese exports to the US and China totalling around 40%, there is a possibility that overall exports will slump. It is necessary to maintain a close watch on how these issues develop.

Chart 4: Large Enterprises' Planned Fixed Investment and the Actual Result



Note: Based on results from FY1990 to FY2017
Source: Bank of Japan, MUFG Bank Economic Research Office

Chart 5: Real Exports and Machinery Orders



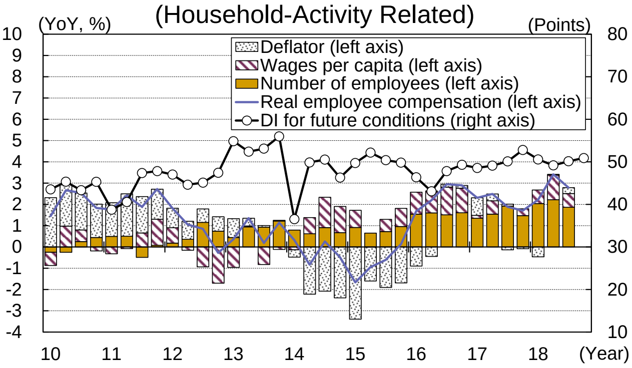
Note: Seasonally-adjusted data.
*Private domestic demand excludes orders from ships and electric power companies
Source: Cabinet Office, MUFG Bank Economic Research Office

(2) Robust household income will support spending and a downturn resulting from the consumption tax rate hike will be avoided

In the July-September quarter, real private consumption decreased to -0.5% QoQ annualised for the first time in two quarters due in part to the effects of the natural disasters, but household incomes remain robust. Looking at the breakdown of real employee compensation, the jobs-to-applicant ratio reached 1.64 in September: the highest level since 1974. The jobs-to-applicants ratio for full-time employees also hit its highest level since 2004 when records began. As the labour market continues to tighten, there has been robust growth in the number of employees and a stable rise in wages (Chart 6). Turning to consumer sentiment, the Economy Watchers Survey for October reveals the DI for future conditions (household-activity related) was 50.9 points (0.1% points higher than the previous month), remaining above 50 – the level which marks the boundary between positive and negative sentiment – despite the negative effect of an adjustment in stock prices amongst other factors. The improvement in income continues to support consumer sentiment.

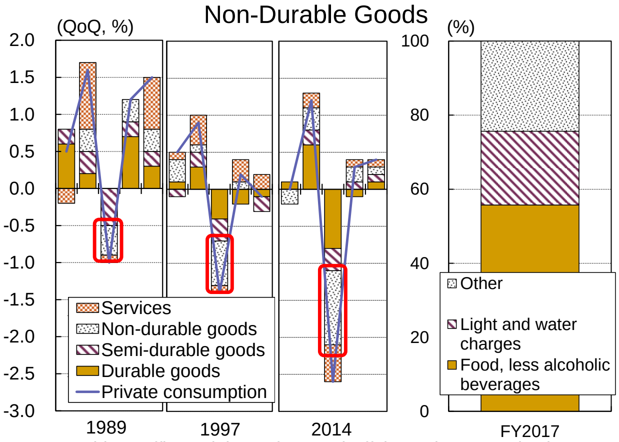
Taking into account the above, it is highly likely that a downturn in consumption caused by next year's consumption tax rate hike will be avoided. As mentioned earlier, this is because it appears the net financial burden on households will be limited and disruption to the economy due to fall in spending following the rush of demand ahead of the tax hike will be controlled. A breakdown of the private consumption of goods at the time of previous increases in the consumption tax rate shows a remarkable fall in non-durable goods, more so than durable goods like automobiles and home appliances (Chart 7). With the introduction of the reduced tax rate on goods such as food (excluding alcoholic beverages) this time around, it is probable that a fall in consumption will be curbed as food totals nearly 80% of the private consumption of non-durable goods together with light and water charges, which cannot be purchased in advance. In the future, private consumption is forecast to continue to rise gradually.

Chart 6: Real Employee Compensation,
Economy Watchers Survey - DI for Future Conditions
(Household-Activity Related)



Note: "DI for future conditions" is a three-month moving average.
The Oct-Dec quarter only includes Oct 2018 data
Source: Cabinet Office, Ministry of Internal Affairs and Communications,
MUFG Bank Economic Research Office

Chart 7: Private Consumption and the Breakdown of
Non-Durable Goods



Source: Cabinet Office, Ministry of Internal Affairs and Communications,
MUFG Bank Economic Research Office

3. Monetary Policy and Financial Markets

(1) Monetary policy

The Bank of Japan (BoJ) decided to maintain its current monetary policy at its Monetary Policy Meeting on 30-31 October. In the Outlook for Economic Activity and Prices published after the Meeting, the median forecast for core CPI growth was revised downwards by 0.2% points for FY2018 and by 0.1% point for FY2019 and FY2020, and is “somewhat lower, mainly for fiscal 2018”, compared with July’s Outlook. In addition, as far as the risks considered most relevant to the conduct of monetary policy are concerned, the report notes that the risks to financial intermediation and the financial system are not “significant at this point”, yet it will be “necessary to pay close attention to future developments”.

There were fewer opinions about prices given in the Summary of Opinions at October’s Monetary Policy Meeting, despite the fact the forecast had been revised downwards, whereas the number of opinions about the functioning of financial intermediation and the financial system increased and it appears that the discussion between policy board members is growing deeper (Table 2). In addition, during a speech he gave on 5th November, Governor Kuroda said, “Japan's economic activity and prices are no longer in a situation where decisively implementing a large-scale policy to overcome deflation was judged as the most appropriate policy conduct, as was the case before”, and then went on to say the BoJ will “persistently continue with powerful monetary easing while considering both the positive effects and side effects of monetary policy in a balanced manner”. A Financial System Report published in October also pointed out that financial institutions’ capital adequacy ratios are falling in this low interest rate environment and it appears that the BoJ is becoming more cautious of “side effects”. It can be assumed that the low interest rate environment will continue for an extended period of time based on the forward guidance for policy rates, yet it is necessary to pay sufficient attention to the possibility that the BoJ may carry out further adjustments to its monetary policy if it notices a rise in risks to financial intermediation.

(2) Exchange Rate

The JPY weakened to JPY114 against the USD on 8th November owing to the result of the mid-term elections in the US, but then appreciated due to the fall in US interest rates which occurred because of dovish comments made by Federal Reserve officials. The JPY is currently hovering at around JPY113 per USD. Despite fluctuations owing to changes in the situation overseas, such as the friction over trade between the US and China, the JPY/USD exchange rate will fundamentally follow the gap between Japanese and US real long-term interest rates and is forecast to generally remain in the region of JPY114 per USD (Chart 8).

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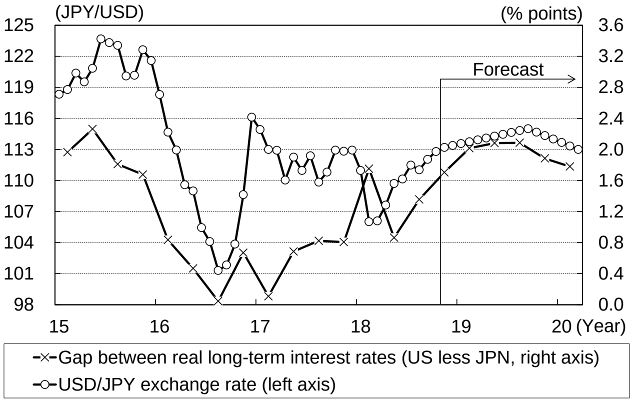
Table 2: Summary of Opinions at the October 2018 Monetary Policy Meeting

Prices	○ The basic mechanism for a rise in inflation has been operating firmly.
	○ Although the main scenario is that actual prices will rise with the output gap widening within positive territory and that inflation expectations also will rise through the adaptive formation mechanism, downside risks have been heightening in overseas economies that are at the basis of this scenario.
	○ A rise in inflation has been delayed with a positive output gap. This is attributable to the inflation mechanism becoming complex…as well as to heightening uncertainties going forward.
Financial Intermediary Function, Financial System	○ It is important to patiently wait for a rise in inflation by continuing with the current monetary easing policy that aims at maintaining the positive output gap, while carefully examining possible side effects on the financial system.
	○ Since regional financial institutions have increased relatively high-risk loans such as those to middle-risk firms amid the decreasing trend of lending rates, there is a risk that their profits would worsen at an accelerated pace if the economy moves into a downturn and their credit costs materialize.
	○ With regard to the examination of risks concerning the financial system, it is necessary to pay attention to various factors such as structural changes that cannot necessarily be described by economic models.
	○ As a policy tool for addressing the problem of a decline in the functioning of financial intermediation, the importance of prudential policy should not be overlooked, although some hold a view that focuses on such monetary policy factors as changing the target levels of interest rates.

Source: Bank of Japan, MUFG Bank Economic Research Office

Chart 8: USD/JPY Exchange Rate and the Gap Between Japanese and US Real Long-Term Interest Rates



Source: Bloomberg, Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

Outlook for the Japanese Economy

Reflecting Jul-Sep 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			
1. The Real Economy (QoQ annualized change)																
Real GDP	2.3	1.9	2.9	0.8	-1.1	3.0	-1.2	2.2	1.6	1.5	2.1	-3.3	0.8	1.6	1.0	0.9
Private Consumption	2.0	3.2	-2.5	1.1	-0.9	2.6	-0.5	1.4	1.3	1.3	3.2	-7.2	1.3	0.8	0.6	0.4
Housing Investment	4.4	6.7	-7.1	-12.3	-8.0	-7.5	2.6	3.2	4.1	4.1	2.4	-13.3	-7.8	-0.3	-4.4	0.5
Private Business Fixed Investment	2.5	0.9	6.1	2.7	3.0	13.0	-0.9	2.8	2.8	2.8	3.4	-3.4	2.5	3.1	4.8	1.9
Business Inventory (Contribution)	0.2	-0.2	1.5	0.8	-1.0	0.2	-0.3	0.3	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.1
Government Expenditures	0.9	5.4	-1.5	-0.5	-0.4	0.4	-0.9	1.4	1.0	1.0	1.4	1.6	1.3	0.9	-0.1	1.2
Public Investment	-1.4	21.5	-8.4	-3.1	-1.9	-1.3	-7.5	1.6	1.8	2.0	2.4	3.2	1.6	1.5	-2.5	1.6
Net Exports (Contribution)	0.3	-1.2	2.4	-0.4	0.2	-0.4	-0.3	0.2	-0.0	-0.2	-0.8	1.4	-0.5	0.4	-0.0	-0.1
Exports	7.0	-1.0	11.4	8.8	1.9	1.4	-7.1	2.8	2.0	1.8	1.8	1.9	1.9	6.3	1.5	1.4
Imports	5.6	6.9	-3.8	12.9	0.6	4.2	-5.6	1.9	2.2	2.9	6.3	-5.7	5.0	4.1	1.7	1.7
Nominal GDP	0.5	2.7	4.3	0.9	-1.8	2.2	-1.1	3.5	1.9	3.2	1.8	0.6	0.9	1.7	0.9	2.0
GDP Deflator (YoY)	-0.9	-0.3	0.1	0.1	0.5	-0.0	-0.3	-0.1	0.2	1.0	0.8	1.4	1.4	0.1	-0.0	1.1
Industrial Production Index (QoQ)	0.2	1.8	0.5	1.6	-1.3	1.3	-1.6	1.3	0.6	0.8	0.9	-1.8	0.5	4.1	0.9	1.2
Domestic Corporate Goods Price Index (YoY)	0.9	2.2	2.8	3.3	2.5	2.4	3.0	2.5	2.0	2.1	2.0	3.9	3.9	2.7	2.5	2.9
Consumer Price Index (excl. fresh food, YoY)	0.2	0.4	0.6	0.9	0.9	0.8	0.9	1.1	1.1	1.0	1.0	1.9	1.8	0.7	1.0	1.4
2. Balance of Payments																
Trade Balance (billion yen)	1,294	819	1,578	1,291	730	967	32	885	771	392	-271	766	529	4,594	2,656	1,416
Current Balance (billion yen)	5,360	4,994	5,806	5,895	4,684	5,515	4,248	5,281	5,291	4,914	4,239	5,264	5,014	21,813	20,335	19,432
3. Financial																
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	0.1	0.1	0.2	0.2	0.2	0.0	0.1	0.2
Exchange Rate (USD/JPY)	114	111	111	113	108	109	112	113	114	114	115	114	113	111	112	114

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 Nov. 30, 2018

	Fiscal	Fiscal	2018			2018				
	2016	2017	1Q	2Q	3Q	JUN	JUL	AUG	SEP	OCT
Real GDP Growth Rate <% changes from	1.2	1.6	-1.1	3.0	-1.2	***	***	***	***	***
previous period at SA annual rate>			(1.1)	(1.4)	(0.3)					
Index of All Industries Activity	0.6	1.8	-0.5	0.9	-0.8	-0.9	-0.1	0.4	-0.9	
			(1.3)	(1.1)	(0.2)	(0.2)	(0.9)	(0.8)	(-1.1)	
Industrial Production Index	0.8	2.9	-1.1	1.2	-1.3	-1.3	-0.4	0.3	-0.4	2.9
Production			(1.8)	(1.2)	(-0.1)	(-1.6)	(2.1)	(0.2)	(-2.5)	(4.2)
Shipments	0.6	2.2	-1.3	2.1	-1.9	0.6	-2.1	1.8	-2.0	5.4
			(0.8)	(1.6)	(-0.5)	(-0.9)	(0.9)	(0.6)	(-2.9)	(7.7)
Inventory	-1.4	5.2	3.0	-2.6	1.2	-1.7	0.2	-0.2	1.2	-1.4
			(5.2)	(2.4)	(3.5)	(2.4)	(3.2)	(2.8)	(3.5)	(-0.8)
Inventory/Shipments Ratio	100.7	102.2	106.6	104.1	104.6	104.1	105.8	102.7	105.2	97.4
(2015=100)			[100.2]	[100.3]	[99.6]	[99.8]	[100.1]	[98.1]	[100.6]	[105.0]
Domestic Corporate Goods Price Index	-2.4	2.7	0.6	0.6	0.9	0.3	0.4	0.0	0.3	0.3
			(2.5)	(2.4)	(3.0)	(2.8)	(3.0)	(3.0)	(3.0)	(2.9)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.7	-0.1	0.4	0.2	0.1	0.1	0.3	0.1	0.2
			(0.9)	(0.7)	(0.9)	(0.8)	(0.8)	(0.9)	(1.0)	(1.0)
Index of Capacity Utilization	99.2	102.7	101.9	103.2	101.4	100.7	100.3	102.7	101.2	
(2015=100)			[100.7]	[102.8]	[102.5]	[102.6]	[101.6]	[103.1]	[102.8]	[102.8]
Machinery Orders(Private Demand,	0.5	-0.8	3.3	2.2	0.9	-8.8	11.0	6.8	-18.3	
Excl.Electric Power and Ship building)			(0.2)	(8.0)	(4.8)	(0.3)	(13.9)	(12.6)	(-7.0)	
Manufacturing	-4.6	9.2	2.5	5.5	-2.0	-15.9	11.8	6.6	-17.3	
			(10.6)	(17.8)	(8.5)	(6.6)	(21.2)	(13.9)	(-5.5)	
Non-manufacturing	4.3	-7.8	3.4	-0.4	3.5	-7.0	10.9	6.0	-17.1	
Excl.Electric Power & Ship building			(-6.9)	(0.3)	(2.0)	(-4.6)	(7.7)	(11.6)	(-8.0)	
Shipments of Capital Goods	0.3	7.0	-0.7	0.7	-1.5	-1.4	-0.2	3.6	-2.0	5.3
(Excl.Transport Equipment)			(8.0)	(4.0)	(1.6)	(-1.0)	(5.0)	(1.8)	(-1.3)	(7.1)
Construction Orders	4.0	0.7								
			(2.6)	(-7.4)	(-2.2)	(-6.5)	(-9.3)	(0.5)	(1.0)	
Private	5.1	0.6								
			(1.0)	(1.3)	(1.1)	(3.6)	(-9.7)	(-0.1)	(9.4)	
Public	8.4	-5.4								
			(-0.4)	(-29.9)	(-17.7)	(-44.4)	(-41.5)	(0.8)	(-13.5)	
Public Works Contracts	4.1	-4.3								
			(-15.6)	(1.5)	(-4.3)	(-5.6)	(-2.9)	(-2.2)	(-7.6)	(9.5)
Housing Starts	97.4	94.6	89.2	96.8	95.3	91.5	95.8	95.7	94.3	
10,000 units at Annual Rate, SA	(5.8)	(-2.8)	(-8.0)	(-1.8)	(-0.2)	(-7.1)	(-0.7)	(1.6)	(-1.5)	
Total floor	(4.1)	(-3.7)	(-9.2)	(-3.6)	(-0.9)	(-8.9)	(-1.6)	(0.5)	(-1.6)	
Sales at Retailers	-0.2	1.9								
			(1.4)	(1.3)	(2.2)	(1.7)	(1.5)	(2.7)	(2.2)	(3.5)
Real Consumption Expenditures	-1.6	0.2	1.1	-1.4	1.4	2.9	-1.1	3.5	-4.5	
of Households over 2 persons (SA)			(0.6)	(-1.3)	(1.0)	(-1.2)	(0.4)	(2.8)	(-0.5)	
Propensity to Consume	72.1	71.7	71.4	69.4	70.2	66.1	69.9	70.7	69.9	
(SA,%)			[73.0]	[74.6]	[70.3]	[73.8]	[70.3]	[70.3]	[70.3]	[71.2]
Overtime Hours Worked	-0.7	0.4	-1.1	1.6	-3.2	-0.3	-3.1	-0.1	-0.6	
(All Industries, 5 employees or more)			(-1.2)	(0.6)	(-2.5)	(0.9)	(-1.8)	(-1.9)	(-3.6)	
Total Cash Earnings (Regular Employees	0.4	0.7								
Only; All Industries, 5 employees or more)			(1.4)	(2.2)	(1.1)	(3.3)	(1.6)	(0.8)	(0.8)	
Employment Index(Regular Employees Only;'All Industries,	103	105	25	6	-11	0	-11	-5	-16	
5 employees or more）(Change over the M/Q/Y)										
Ratio of Job Offers to Applicants	1.39	1.54	1.59	1.60	1.63	1.62	1.63	1.63	1.64	1.62
(SA,Times)			[1.44]	[1.49]	[1.52]	[1.50]	[1.51]	[1.52]	[1.53]	[1.55]
Unemployment Rate	3.0	2.7	2.5	2.4	2.4	2.4	2.5	2.4	2.3	2.4
(SA,%)										
Economy Watcher Survey	46.4	50.5	49.1	48.1	48.0	48.1	46.6	48.7	48.6	49.5
(Judgment of the present condition D.I,%)			[48.7]	[49.2]	[50.3]	[50.0]	[49.9]	[50.0]	[51.1]	[52.0]
Bankruptcies (Number of cases)	8,381	8,367	2,041	2,107	2,017	690	702	694	621	730
	(-3.5)	(-0.2)	(-1.8)	(-3.7)	(-0.7)	(-2.3)	(-1.7)	(8.6)	(-8.5)	(-0.4)

(Notes)

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

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

[ ] show the comparable figure of the previous year.

2. Balance of Payments

As of Nov. 30, 2018

	Fiscal 2016	Fiscal 2017	2018 1Q	2018 2Q	2018 3Q	2018 JUN	2018 JUL	2018 AUG	2018 SEP	2018 OCT
Customs Clearance (Exports in Yen Terms)	-3.5	10.8	(4.9)	(7.5)	(2.9)	(6.7)	(3.9)	(6.6)	(-1.3)	(8.2)
Value	-6.0	5.5	(0.8)	(1.8)	(4.0)	(3.4)	(3.0)	(5.4)	(3.7)	(4.3)
Volumes	2.7	5.0	(4.1)	(5.6)	(-1.1)	(3.2)	(0.9)	(1.1)	(-4.9)	(3.8)
Imports (In Yen terms)	-10.2	13.7	(7.5)	(7.5)	(12.4)	(2.6)	(14.7)	(15.5)	(7.1)	(19.9)
Value	-10.0	8.8	(3.6)	(6.1)	(10.3)	(7.5)	(10.2)	(10.5)	(10.1)	(8.7)
Volumes	-0.2	4.4	(3.7)	(1.4)	(2.0)	(-4.5)	(4.0)	(4.5)	(-2.7)	(10.3)
Current Account (100 mil. yen)	210,188	218,127	58,821	49,775	56,698	11,989	20,097	18,384	18,216	
Goods (100 mil. yen)	57,851	45,936	7,246	10,661	1,030	8,227	-10	-2,193	3,233	
Services (100 mil. yen)	-13,813	-5,378	2,127	-6,118	-2,220	-1,729	-1,744	-61	-415	
Financial Account (100 mil. yen)	247,407	196,174	75,622	53,095	42,652	6,698	-8,319	19,128	31,843	
Gold & Foreign Exchange Reserves ($1mil.)	1,230,330	1,268,287	1,268,287	1,258,748	1,259,673	1,258,748	1,256,276	1,259,305	1,259,673	1,252,873
Exchange Rate (\/$)	108.37	110.80	108.20	109.05	111.44	110.03	111.37	111.06	111.89	112.78

3. Financial Market Indicators

	Fiscal 2016	Fiscal 2017	2018 1Q	2018 2Q	2018 3Q	2018 JUN	2018 JUL	2018 AUG	2018 SEP	2018 OCT
Uncollateralized Overnight Call Rates	-0.045	-0.050	-0.048	-0.065	-0.063	-0.071	-0.070	-0.059	-0.059	-0.060
			[-0.042]	[-0.054]	[-0.054]	[-0.056]	[-0.054]	[-0.049]	[-0.058]	-0.037
Euro Yen TIBOR	0.057	0.065	0.078	0.084	0.077	0.078	0.091	0.091	0.050	0.050
(3 Months)			[0.056]	[0.056]	[0.062]	[0.056]	[0.075]	[0.056]	[0.056]	[0.063]
Newly Issued Japanese Government Bonds Yields	0.065	0.045	0.045	0.030	0.125	0.030	0.060	0.110	0.125	0.130
(10 Years)			[0.065]	[0.075]	[0.060]	[0.075]	[0.075]	[0.010]	0.060	[0.065]
Average Contracted Interest Rates	0.847	0.817								
on Loans and Discounts(City Banks)			0.817	0.789	0.775	0.789	0.788	0.786	0.775	0.777
(% changes from previous period)			(-0.011)	(-0.028)	(-0.014)	(-0.005)	(-0.001)	(-0.002)	(-0.011)	(0.002)
The Nikkei Stock Average	18,909	21,454	21,454	22,305	24,120	22,305	22,554	22,865	24,120	21,920
(TSE 225 Issues)			[18,909]	[20,033]	[20,356]	[20,033]	[19,925]	[19,646]	[20,356]	[22,012]
M2(Average)	(3.6)	(3.7)	(3.2)	(3.1)	(2.9)	(3.1)	(2.9)	(2.9)	(2.8)	(2.7)
Broadly-defined Liquidity(Average)	(1.9)	(3.1)	(2.6)	(2.5)	(2.2)	(2.4)	(2.3)	(2.2)	(2.3)	(2.2)
Principal Figures of Financial Institutions										
Loans and Discount (Average): Banks & Shinkin	(2.4)	(2.8)	(2.1)	(2.0)	(2.2)	(2.1)	(2.0)	(2.2)	(2.3)	(2.2)
Loans and Discount (Average): Banks	(2.4)	(2.8)	(2.1)	(2.0)	(2.2)	(2.1)	(2.0)	(2.2)	(2.3)	(2.2)
Loans and Discount (Average): City Banks etc.	(1.2)	(2.0)	(0.7)	(0.5)	(0.7)	(0.6)	(0.3)	(0.7)	(1.1)	(1.1)
Loans and Discount (Average): Regional Banks	(3.5)	(3.6)	(3.5)	(4.1)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.3)
Loans and Discount (Average): Regional Banks Ⅱ	(3.1)	(3.0)	(2.8)	(0.6)	(-0.5)	(-0.4)	(-0.5)	(-0.5)	(-0.6)	(-0.8)
Loans and Discount (Average): Shinkin	(2.3)	(2.7)	(2.5)	(2.3)	(2.2)	(2.3)	(2.2)	(2.2)	(2.2)	(2.1)
Deposits and CDs (Average): Total(3 Business Condition)	(3.8)	(4.2)	(3.5)	(3.8)	(3.7)	(3.8)	(3.8)	(3.7)	(3.6)	(3.4)
Deposits and CDs (Average): City Banks	(5.5)	(5.9)	(4.9)	(5.2)	(5.3)	(5.3)	(5.4)	(5.2)	(5.2)	(4.8)
Deposits and CDs (Average): Regional Banks	(2.3)	(2.5)	(2.2)	(2.8)	(3.0)	(3.0)	(3.0)	(3.0)	(2.9)	(2.8)
Deposits and CDs (Average): Regional Banks Ⅱ	(2.1)	(2.1)	(1.6)	(-0.2)	(-1.3)	(-1.1)	(-1.2)	(-1.3)	(-1.4)	(-1.7)

(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.

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Takayuki Miyadou <takayuki_miyadou@mufg.jp>

Yumiko Hishiki <yumiko_4_hishiki@mufg.jp>

Yuusuke Yokota <yuusuke_yokota@mufg.jp>

Kazufumi Keshi <kazufumi_keshi@mufg.jp>