

Solid profit forecasts and labour shortage countermeasures underpin appetite for capital

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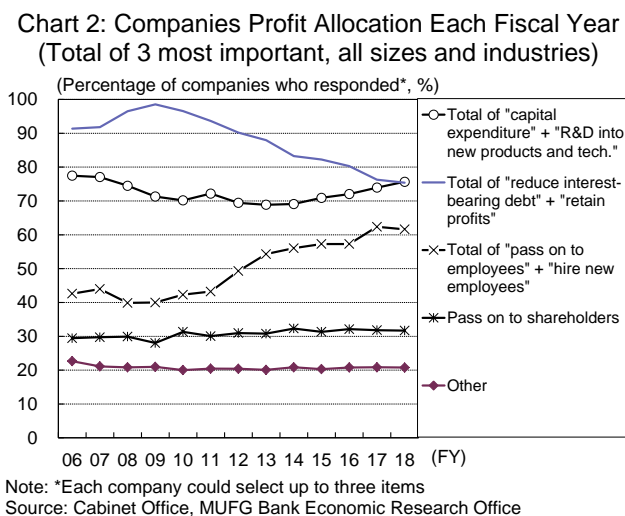
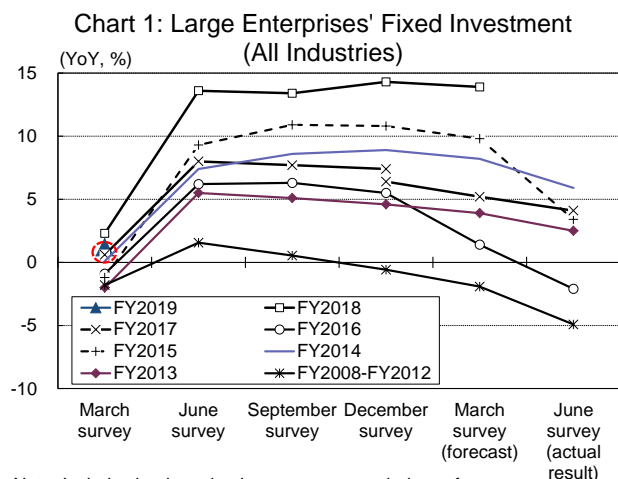
1. The Real Economy

In the Bank of Japan's March Tankan survey published this month, the business conditions DI (diffusion index) for large corporations worsened: 12% in the manufacturing sector (7% points lower than December's survey) and 21% in the non-manufacturing sector (3% points lower). On the other hand, fixed investment for this fiscal year was 1.2% YoY for all corporations and industries, maintaining a higher level than a typical year (Chart 1). Current profits have a close relationship with fixed investment and this year's reflected the current weakening of exports and production, falling to -0.7% across all corporations and all industries, and forecasting a small decrease in current profits. However, growth of profits is expected to turn positive in the latter half of the year on a 6-month basis. It appears corporations' views about the future earnings environment have not changed significantly, which will underpin their investment appetite.

The results of March's Business Outlook Survey revealed a fall from last year in the number of corporations who selected "pass onto employees" or "hire new employees" as one of their top three most important in terms of allocating profit. Meanwhile, those who selected "capital expenditure" or "R&D into new products and technology" rose (Chart 2). This is consistent with the growing number of companies in Japan that are attempting to overcome the growing labour shortage with capital investment in ICT and AI. This can be seen with the introduction of self-service check-outs and tablets by which customers can be guided and make enquiries in stores. In addition, the percentage of companies who gave "capital expenditure" as one of their most important areas for profit allocation was 30.2% of all companies who responded – the highest level since the start of the survey. It seems that many companies will not be swayed just by changes in business conditions and will continue to divert profits into areas where investment is necessary.

As uncertainty about external demand remains, there is a possibility that an increase in companies adopting a wait-and-see attitude will suppress moves to carry out investment as planned. Despite this, concerns that external demand will fall across the board are limited due to revisions to the path to monetary policy normalisation in Europe and the US and expectations that China will avoid an economic slowdown through its economic policies. In addition, there is a strong possibility that corporations' capital expenditure will remain solid on

the whole since the fundamental need for investment in response to the labour shortage is likely to increase further in the future.



2. Prices and Financial Markets

(1) Monetary Policy

The central banks of major countries are swiftly becoming more dovish. After the US Federal Reserve Board (FRB) suggested it would shift to a wait-and-see stance at its Federal Open Market Committee (FOMC) in January, it decided to leave interest rates unchanged and to halt its balance sheet reduction programme earlier in March (Table 1). The European Central Bank also extended the period where it will maintain interest rates at present levels from “at least through the summer of 2019” to “at least through the end of 2019” at its meeting in March. Meanwhile, it is widely speculated the Bank of Japan (BoJ) is starting to move towards additional easing as its next monetary policy change due to uncertainty about the future of the economy.

Nevertheless, a situation where the BoJ implements bold, additional monetary easing, such as moving further into negative interest rates, has not yet been reached. That being said, the fact that the BoJ continues to uphold its “Continuous Powerful Monetary Easing” means it cannot be grouped with the FRB and ECB’s more dovish stances as the decisions by the FRB and ECB are a shift back after clear moves towards exiting from monetary easing. Turning to the economic situation, although uncertainty remains over external demand, US and Chinese economic indicators show signs of bottoming out at present and concerns are fading somewhat. The output gap for the October-December quarter published by the BoJ was 2.23%, recording the highest level in 26-and-a-half years, despite core CPI of 0.8% YoY in March and the fact that prices are still not rising. There was upward pressure from a rebound in the capacity utilization rate after it dropped the previous quarter due to natural disasters, yet data suggests tightening of the labour market owing to the labour shortage is contributing to an improvement in the output gap and there is still momentum for a rise in prices. In addition, when it comes to the function of financial intermediaries, a matter on which the BoJ should focus as part of its monetary policy management, the BoJ is becoming more cautious; its

Financial System Report for April calculated that around 60% of regional financial institutions will fall into the red in ten years' time. Based on this, it appears the BoJ will maintain its current monetary policy for the time being as it would be difficult to implement further easing without a trigger, such as sudden JPY appreciation.

(2) Exchange Rates

Although the JPY briefly appreciated to around JPY 109 against the USD as the FRB strengthened its dovish stance at its FOMC in March, it is now hovering around the JPY 112-per-USD mark (Chart 3). Looking ahead, even if there are fluctuations due to changes in the situation overseas, such as US-China trade friction or Japan-US bilateral trade negotiations, the JPY is likely to remain at current levels on the whole due to the continued existence of a certain gap between Japanese and US interest rates.

Table 1: Monetary Policy Stance of Major Central Banks and Government Bond Yields

	Recent action and statements	2-year bonds	5-year bonds	10-year bonds	
US	Suggested it will leave interest rates unchanged for the time being. Decided to halt their balance sheet reduction programme earlier.	2.39	2.37	2.56	
EU	Expects interest rates to remain at their present levels "at least through the end of 2019". Considering measures to mitigate the side effects of negative interest rates.	DEU	-0.58	-0.40	0.02
		FRA	-0.52	-0.23	0.37
		ITA	0.25	1.50	2.45
Australia	Signalled it will move away from rate hikes to a neutral policy.	1.51	1.56	1.95	
New Zealand	Will change direction from maintaining its monetary policy to cutting rates.	1.46	1.65	1.97	
Japan	Expects to keep interest rates very low for an "extended period".	-0.15	-0.16	-0.03	
UK	Expressed it will maintain a ongoing limited and gradual tightening of monetary policy.	0.76	0.86	1.20	
Canada	Maintaining its policy of raising interest rates.	1.61	1.61	1.76	

Note: 1. Shaded areas denote central banks which have become more dovish

2. Interest rates as of 4PM on 19th March

Source: Each central bank, Bloomberg, MUFG Bank Economic Research Office

Chart 3: JPY/USD Exchange Rate and Japanese and US 10-Year Bond Yields



Source: Bloomberg, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Apr. 22, 2019

	Fiscal	Fiscal	2018			2018		2019		
	2016	2017	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.9	1.9	1.9 (1.5)	-2.4 (0.1)	1.9 (0.3)	***	***	***	***	***
Index of All Industries Activity	0.6	1.8	0.9 (1.1)	-0.8 (0.2)	1.0 (1.1)	-0.4 (1.1)	-0.6 (-0.3)	-0.2 (0.6)		
Industrial Production Index	0.8	2.9	0.8 (1.3)	-0.7 (0.1)	1.4 (1.3)	-0.9 (1.9)	0.1 (-2.0)	-2.5 (0.7)	0.7 (-1.1)	
Production										
Shipments	0.6	2.2	1.4 (1.6)	-1.2 (-0.3)	1.0 (1.1)	-1.5 (1.1)	0.3 (-3.1)	-2.4 (-0.1)	1.6 (-0.3)	
Inventory	-1.4	5.1	-1.9 (2.5)	0.4 (3.5)	0.9 (1.7)	0.1 (0.4)	1.3 (1.7)	-0.9 (1.2)	0.4 (1.4)	
Inventory/Shipments Ratio (2015=100)	100.7	101.9	104.0 [100.3]	105.0 [99.6]	105.6 [102.6]	104.5 [101.5]	107.2 [101.3]	105.0 [104.7]	105.5 [103.4]	104.9 [104.9]
Domestic Corporate Goods Price Index	-2.4	2.7	0.7 (2.6)	0.9 (3.1)	0.1 (2.3)	-0.3 (2.3)	-0.6 (1.5)	-0.6 (0.6)	0.3 (0.9)	0.3 (1.3)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.7	0.4 (0.7)	0.2 (0.9)	0.4 (0.9)	0.0 (0.9)	-0.1 (0.7)	0.2 (0.8)	0.1 (0.7)	0.0 (0.8)
Index of Capacity Utilization (2015=100)	99.2	102.7	103.3 [102.8]	101.9 [102.5]	104.7 [103.8]	105.0 [103.4]	104.2 [105.1]	100.0 [100.2]	101.0 [102.8]	103.7 [103.7]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	0.5	-0.8	1.6 (8.0)	1.5 (4.8)	-3.2 (2.0)	-0.1 (0.8)	-0.3 (0.9)	-5.4 (-2.9)	1.8 (-5.5)	
Manufacturing	-4.6	9.2	4.7 (17.8)	-1.0 (8.5)	-4.1 (-0.6)	-4.4 (-0.0)	-4.4 (-5.3)	-1.9 (-7.5)	3.5 (-9.1)	
Non-manufacturing Excl.Electric Power & Ship building	4.3	-7.8	0.4 (0.3)	3.4 (2.0)	-1.9 (4.5)	1.8 (1.4)	5.6 (6.5)	-8.0 (1.0)	-0.8 (-2.0)	
Shipments of Capital Goods (Excl.Transport Equipment)	0.3	7.0	1.0 (4.3)	-1.4 (1.6)	1.6 (1.3)	-3.3 (2.2)	-0.6 (-4.8)	-7.9 (-8.2)	3.8 (-3.6)	
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)	96.6 (-1.8) (-3.6)	95.0 (-0.2) (-0.9)	95.5 (0.6) (2.3)	95.5 (-0.6) (0.8)	96.1 (2.1) (3.9)	87.2 (1.1) (3.0)	96.7 (4.2) (7.0)	
Sales at Retailers	-0.2	1.9								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.6	0.3	-0.9 (-1.3)	1.5 (1.0)	0.2 (1.1)	0.2 (0.3)	-0.1 (1.9)	0.7 (2.1)	-2.0 (1.9)	
Propensity to Consume (SA, %)	72.1	71.7	68.8 [74.0]	70.6 [70.6]	68.6 [71.6]	70.1 [71.7]	65.5 [71.6]	70.4 [73.3]	69.8 [69.3]	70.6 [70.6]
Overtime Hours Worked (All Industries, 5 employees or more)	-0.7	0.5	1.4 (0.3)	-2.6 (-2.5)	-0.1 (-2.3)	-1.5 (-2.6)	-2.6 (-4.3)	0.7 (-1.9)	1.6 (-1.8)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	0.7								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	102	99	-17	-36	-40	-43	-37	99	90	
Ratio of Job Offers to Applicants (SA, Times)	1.39	1.54	1.61 [1.49]	1.62 [1.52]	1.62 [1.56]	1.63 [1.56]	1.63 [1.58]	1.63 [1.59]	1.63 [1.59]	1.59 [1.59]
Unemployment Rate (SA, %)	3.0	2.7	2.4	2.4	2.4	2.5	2.4	2.5	2.3	
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.4	50.5	48.7 [49.7]	48.0 [50.4]	48.3 [52.3]	49.5 [52.9]	46.8 [52.9]	45.6 [49.9]	47.5 [49.0]	44.8 [49.6]
Bankruptcies (Number of cases)	8,381 (-3.5)	8,367 (-0.2)	2,107 (-3.7)	2,017 (-0.7)	2,070 (-1.7)	718 (6.1)	622 (-10.6)	666 (4.9)	589 (-4.5)	662 (-16.1)

(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 Apr. 22, 2019

	Fiscal	Fiscal	2018			2018		2019		
	2016	2017	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	-3.5	10.8	(7.5)	(2.9)	(1.3)	(0.1)	(-3.9)	(-8.4)	(-1.2)	(-2.4)
Value	-6.0	5.5	(1.8)	(4.0)	(2.8)	(2.1)	(2.0)	(0.7)	(-0.6)	(3.4)
Volumes	2.7	5.0	(5.6)	(-1.1)	(-1.4)	(-1.9)	(-5.8)	(-9.0)	(-0.6)	(-5.6)
Imports (In Yen terms)	-10.2	13.7	(7.5)	(12.4)	(11.2)	(12.5)	(1.9)	(-0.8)	(-6.6)	(1.1)
Value	-10.0	8.9	(6.0)	(10.2)	(6.9)	(7.9)	(4.1)	(-1.4)	(-0.1)	(0.7)
Volumes	-0.2	4.4	(1.3)	(2.0)	(4.0)	(4.2)	(-2.2)	(0.5)	(-6.5)	(0.4)
Current Account (100 mil. yen)	216,686	221,749	49,931	56,944	26,018	8,211	4,644	6,004	26,768	
Goods (100 mil. yen)	57,863	45,396	10,700	545	-6,423	-5,396	2,180	-9,648	4,892	
Services (100 mil. yen)	-13,779	-4,567	-5,961	-1,658	-3,066	401	-1,081	-1,512	2,366	
Financial Account (100 mil. yen)	249,879	206,805	52,261	44,864	27,016	11,316	604	27,087	25,527	
Gold & Foreign Exchange Reserves (\$1mil.)	1,230,330	1,268,287	1,258,748	1,259,673	1,270,975	1,258,264	1,270,975	1,279,297	1,281,846	1,291,813
Exchange Rate (¥/\$)	108.37	110.80	109.05	111.44	112.87	113.37	112.45	108.95	110.36	111.21

3. Financial Market Indicators

	Fiscal	Fiscal	2018			2018		2019			
	2016	2017	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR	
Uncollateralized Overnight Call Rates	-0.045	-0.050	-0.065 [-0.054]	-0.063 [-0.054]	-0.066 [-0.042]	-0.070 [-0.048]	-0.068 [-0.042]	-0.064 [-0.040]	-0.055 [-0.042]	-0.044 -0.062	
Euro Yen TIBOR (3 Months)	0.057	0.065	0.084 [0.056]	0.077 [0.062]	0.050 [0.063]	0.050 [0.063]	0.050 [0.063]	0.030 [0.068]	0.030 [0.068]	0.050 [0.097]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.065	0.045	0.030 [0.075]	0.125 [0.060]	-0.010 [0.045]	0.085 [0.035]	-0.010 [0.045]	0.000 [0.080]	-0.015 0.045	-0.095 [0.045]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.847	0.817	0.789 (-0.028)	0.775 (-0.014)	0.759 (-0.016)	0.772 (-0.005)	0.759 (-0.013)	0.759 (0.000)	0.758 (-0.001)		
The Nikkei Stock Average (TSE 225 Issues)	18,909	21,454	22,305 [20,033]	24,120 [20,356]	20,015 [22,765]	22,351 [22,725]	20,015 [22,765]	20,773 [23,098]	21,385 [22,068]	21,206 [21,454]	
M2(Average)	(3.6)	(3.7)	(3.1)	(2.9)	(2.5)	(2.3)	(2.4)	(2.3)	(2.4)	(2.4)	
Broadly-defined Liquidity(Average)	(1.9)	(3.1)	(2.5)	(2.2)	(2.0)	(1.9)	(1.9)	(1.9)	(2.1)	(2.4)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.4)	(2.8)	(2.0)	(2.2)	(2.2)	(2.1)	(2.4)	(2.4)	(2.3)	(2.4)
	Banks	(2.4)	(2.8)	(2.0)	(2.2)	(2.3)	(2.2)	(2.5)	(2.4)	(2.4)	(2.5)
	City Banks etc.	(1.2)	(2.0)	(0.5)	(0.7)	(1.2)	(0.9)	(1.6)	(1.6)	(1.5)	(1.8)
	Regional Banks	(3.5)	(3.6)	(4.1)	(4.5)	(4.3)	(4.4)	(4.3)	(4.2)	(4.1)	(4.1)
	Regional Banks II	(3.1)	(3.0)	(0.6)	(-0.5)	(-0.8)	(-0.8)	(-0.9)	(-0.8)	(-0.8)	(-0.8)
Deposits and CDs (Average)	Shinkin	(2.3)	(2.7)	(2.3)	(2.2)	(2.0)	(2.0)	(2.0)	(1.9)	(1.7)	(1.6)
	Total(3 Business Condition)	(3.8)	(4.2)	(3.8)	(3.7)	(3.2)	(3.0)	(3.1)	(3.1)	(3.1)	(3.1)
	City Banks	(5.5)	(5.9)	(5.2)	(5.3)	(4.6)	(4.3)	(4.5)	(4.7)	(4.7)	(4.6)
	Regional Banks	(2.3)	(2.5)	(2.8)	(3.0)	(2.6)	(2.5)	(2.4)	(2.2)	(2.3)	(2.4)
	Regional Banks II	(2.1)	(2.1)	(-0.2)	(-1.3)	(-1.8)	(-1.8)	(-1.8)	(-1.9)	(-2.0)	(-1.9)

(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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