

## Economics

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# Japan Economic Daily

## February Housing Starts: Continued moderate recovery

- New housing starts in February rose by 10.1% YoY after rising 2.7% YoY in January. This result was stronger than the market median projection of a 6.1%YoY gain. Seasonally adjusted housing starts increased by 3.0% MoM, after falling 1.6% MoM in January.
- **A Look at the day ahead – April 1, 2011 (Fri)** —BoJ Quarterly Tankan Survey, March Car Sales

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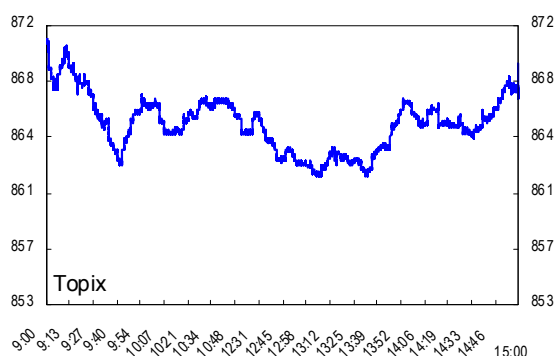
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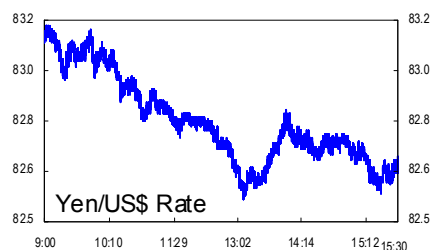
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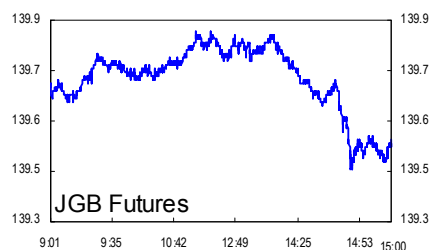
Source: Reuters.

### Yen/US\$ Rate



Source: Reuters.

### JGB Futures



Source: Reuters.

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Forex/Bonds/Equities

TSE-I daily advances by sector (%)

	Prev 5:00 p.m.	9 a.m.	3:30 p.m.	Sector	Pct	Sector	Pct
¥/\$	83.01	83.15	82.67	Pulp&Paper	2.38	Pharm.	0.35
¥/euro	116.88	117.46	117.08	Metal Prod.	1.85	Chemicals	0.31
\$/euro	1.4080	1.4127	1.4165	Insurance	1.51	Marine Trans	0.30
			Change	Other Prod.	1.50	Oil&Coal P.	0.19
JGB#313 Simple		1.255	+0.015	Banks	1.35	Whsle Trade	0.06
JGB#313 Compound		1.257	+0.014	Oth.Fin.Bus.	0.93	Fish/Ag.&For	0.05
JGB Future Mar (¥)		139.54	-0.01	Prec. Inst.	0.65	Land Trans.	-0.01
Overnight Call Rate		0.085	-0.005	Machinery	0.65	Mining	-0.02
3 Month CD		0.500	Indication	Sec.&Com.Fut	0.62	Services	-0.24
Yen Tibor 3-Mo. Dec Future		0.345	No Chg.	Retail Trade	0.61	Gl.&Cer.Prod	-0.29
		Close	Change	Air Trans.	0.51	Construction	-0.33
TOPIX		869.38	+3.29	Trans.Equip.	0.49	Real Estate	-0.38
Volume (million Shares)		2673.18	-430.64	Inf.&Com.	0.49	Foods	-0.51
Advance/Decline		1017/538	-378/+328	Text&Apparel	0.49	Iron & Steel	-0.81
TOPIX Near Future		866.0	-1.0	Whsng&H.Tr.S	0.44	Elec.Pwr&Gas	-1.12
Nikkei 225		9755.10	+46.31	Elec. App.	0.43	Rubber Prod.	-1.28
Nikkei 300		175.94	+0.53	Nonfer.Mtls	0.39		
Nikkei OTC		1229.92	+9.58				
Nikkei 225 Near Future		9710	+0				

Source: Nikkei Quick.

Source: Nikkei Quick.

## During Tokyo hours

Jin Kenzaki

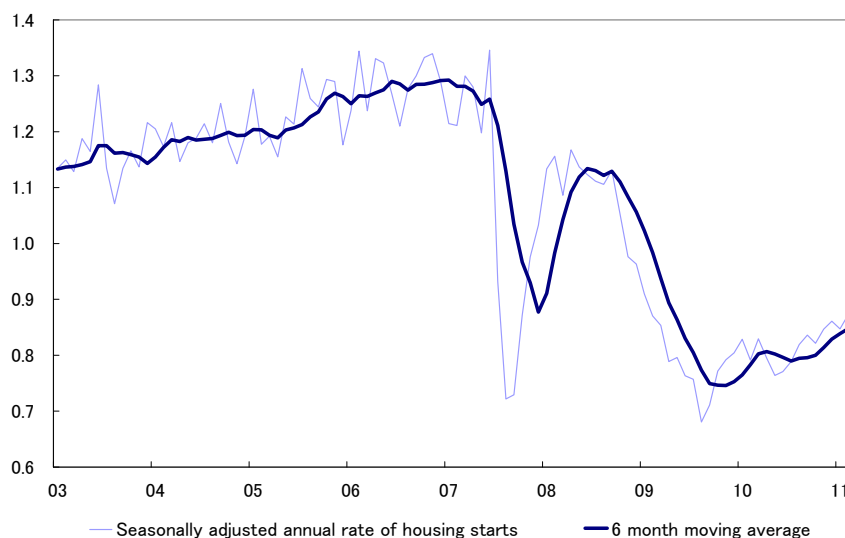
### February Housing Starts: Continued moderate recovery

	Actual	CIRA Forecast	Market Forecast	Previous
Feb, Housing Starts				
Overall	10.1%YY	8.3%YY	6.1%YY (1.5~9.0 %)	2.7%YY
Seasonally adjusted year unit	0.872 million units	0.86 million units		0.847 million units

Source: Ministry of Land, Infrastructure and Transport, Kyodo news, Citi Investment Research and Analysis.

New housing starts in February rose by 10.1% YoY after rising 2.7% YoY in January. This result was stronger than the market median projection of a 6.1%YoY gain. Seasonally adjusted housing starts increased by 3.0% MoM, after falling 1.6% MoM in January (see Figure 1). The average level of January and February housing starts was 2.0% higher than the fourth-quarter average, after +4.9% QoQ and +3.5% QoQ in Q3 and Q4 of 2010. Housing starts have continued to rise moderately by government policies, including tax reduction and eco-point program for housing; the rise of housing demand amid the recovery of employment and income conditions; and the improvement of demand-and-supply balance in condominiums. In addition, reconstruction demand amid the eastern Japan earthquake will be actualized for real in 2012.

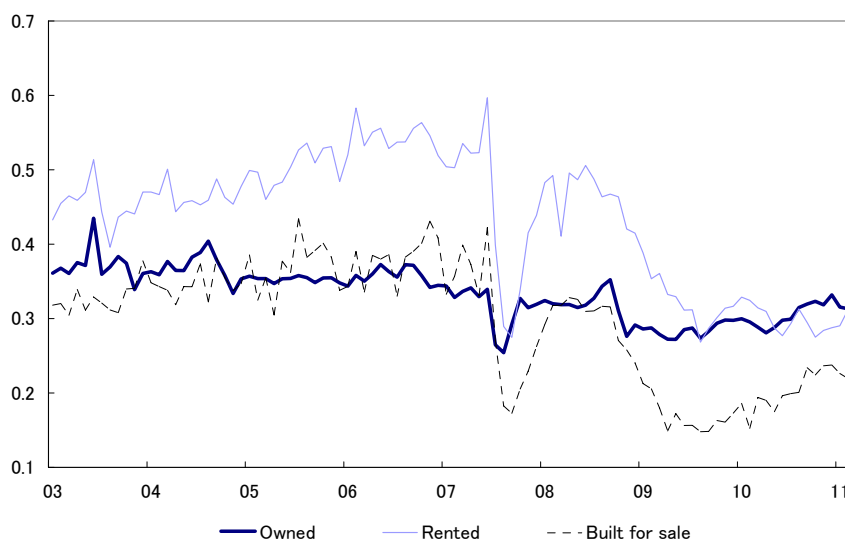
**Figure 1. New Housing Starts, Jan. 2003 – Feb. 2011 (Seasonally adjusted annual rate, million units)**



Sources: Ministry of Land, Infrastructure and Transport, Citi Investment Research and Analysis.

By owner occupant relation, housing starts of units for sales in February declined by 3.1% MoM after -4.7% MoM in January. Housing starts of owner occupied houses declined by 0.7% MoM following -4.9% MoM in January. On the other hand, houses for rent increased by 7.5% MoM, rising for the fourth consecutive month.

**Figure 2. Breakdown of Housing Starts by the Usage of Houses, Jan. 2003 – Feb. 2011 (Seasonally adjusted annual rate, million units)**

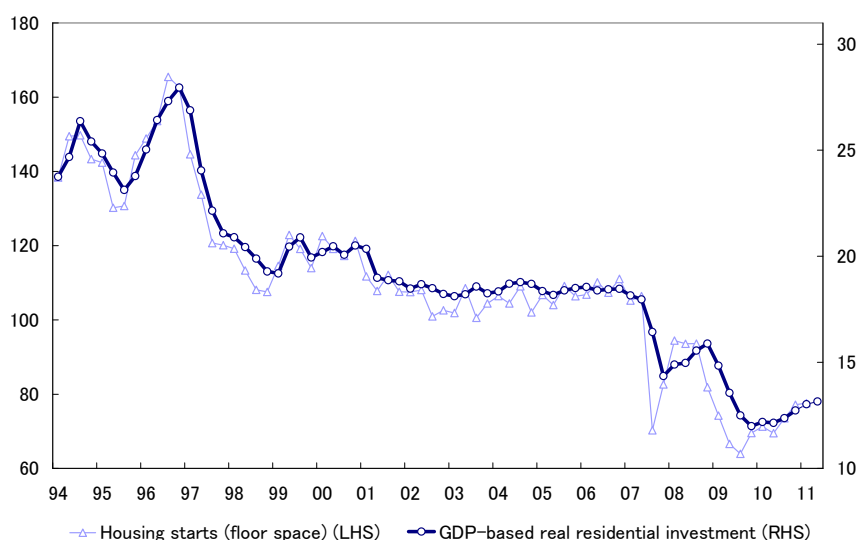


Sources: Ministry of Land, Infrastructure and Transport, Citi Investment Research and Analysis.

The floor space of new housing starts in February declined by 0.3% MoM, after +2.1% MoM in January. But the average level of January and February was 0.6% higher than the fourth-quarter average (+5.8% QoQ in 3Q10 and +5.0%

QoQ in 4Q10). Historically, housing investment on a GDP-basis is highly correlated with the floor space of new housing starts with one quarter lag (see Figure 3). We estimate that the GDP-based housing investment will rise by 2.3% QoQ and 1.0% QoQ in 1Q11 and 2Q11, respectively. Today's result is consistent with our projection. In addition, reconstruction demand amid the eastern Japan earthquake will be actualized for real in 2012. We expect that housing investment will rise by 13.9% YoY in 2012 after +8.3% YoY in 2011.

**Figure 3. Floor Space of New Housing Starts and GDP-based Real Housing Investment, 1Q 1994 – 2Q 2011E (Seasonally adjusted, LHS: million square meter, RHS: trillion yen)**



Note 1: Housing starts in the first quarter of 2011 is the average level of January and February numbers.

Note 2: Real residential investments in the first and second quarters of 2011 are our estimation.

Sources: Cabinet Office, Ministry of Land, Infrastructure and Transport, Citi Investment Research and Analysis.

### Housing Starts for February 2011

YY%	Nov	Dec	Jan	Feb
Housing Unit Starts	6.8	7.5	2.7	10.1
Owner-Occupied	7.1	11.8	5.5	6.0
Rental	-9.5	-8.4	-11.3	-3.8
Built-for-Sale	46.3	37.6	22.3	44.2

Source: Ministry of Land, Infrastructure and Transport, Citi Investment Research and Analysis

## A Look at the day ahead – April 1, 2011 (Fri)

Kiichi Murashima

### BoJ Quarterly Tankan Survey

The Bank of Japan's March Tankan is likely to have little information value to the extent that it will not correctly reflect economic activities before the eastern Japan earthquake or developments following the quake. This is because of the survey period. The survey period for last year's March Tankan was from February 23rd to March 31st and we assume a similar period for this year. In that case, most of the responses will have been collected by around March 20th, which will inevitably have those with the earthquake's impact factored in and those without. Please see figures below for our forecast.

## March Car Sales

Passenger car unit sales (our own seasonally adjusted figure) increased 2.2% MoM in February after a 9.2% MoM gain in January and a 6.4% increase in December. However, we expect a large drop in March due to the disaster. Mr. Shiga, chairman of Japan Automobile Manufacturers Association (JAMA) said "An order intake in the long weekend in March suggests about a 40% plunge in the eastern Japan while only about a 20% drop in the western Japan" (Bloomberg). Either way, the March 11 earthquake is likely to have an enormous impact. In addition, after April we expect a negative impact on sales due to restricted supply stemming from suspended production.

**Figure 4. Business confidence DI: Actual results and Citi forecast (% point)**

	FY2009		FY2010				FY2011	
	Sep	Dec	Mar	Jun	Sep	Dec	Corporate projection for Mar (forecast)	Corporate projection for Jun (forecast)
Large firms								
Manufacturers	-33	-25	-14	1	8	5	3	2
Nonmanufacturers	-24	-21	-14	-5	2	1	1	0
Small firms								
Manufacturers	-52	-41	-30	-18	-14	-12	-16	-19
Nonmanufacturers	-39	-34	-31	-26	-21	-22	-22	-26

Source: Bank of Japan, Citi Investment Research and Analysis

**Figure 5. Business investment plan revisions and our forecast (YoY, %)**

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Large firms							
March in the previous fiscal year	1.0	2.7	2.9	-1.6	-6.6	-0.4	3.0
June	9.4	11.6	7.7	2.4	-9.4	4.4	
September	9.3	11.5	8.7	1.7	-10.8	2.4	
December	10.4	12.4	10.5	-0.2	-13.8	2.9	
March (estimated actual)	10.3	11.9	6.8	-3.3	-14.2	1.8	
June in the next fiscal year (actual)	7.2	10.0	4.9	-6.6	-17.0		
Small firms							
March in the previous fiscal year	-16.5	-16.1	-17.7	-24.2	-35.6	-19.4	-18.0
June	-8.0	-11.0	-16.3	-20.2	-36.6	-15.5	
September	-2.3	-3.1	-10.5	-12.9	-33.3	-15.0	
December	3.6	5.1	-4.6	-11.6	-30.7	-8.3	
March (estimated actual)	8.6	3.6	-1.1	-12.0	-23.5	-5.9	
June in the next fiscal year (actual)	10.7	8.8	2.1	-9.8	-21.7		

**Figure 6. Economic Indicators**

	CIRA (Forecast)	Street (Forecast)	Previous (Actual)
Bank of Japan Mar Tankan (8:50am)			
Financing Bills Auction Results (12:35pm)			
Mar, Revised Sources of Changes in Current Deposits Balances at the BoJ and Market Operations (1:00pm)			4.8%YY
Mar, New Motor-vehicles Registrations (excluding minivehicles)(2:00pm)			
Mar, Mini-vehicles Registrations (2:00pm)			
Mar, Receipts and Payments of Treasury Funds with the Private Sector(Projected, 3:00pm)			

Source: BoJ, Citi Investment Research and Analysis

## Today's data results

**Figure 7. Preliminary Establishment Employment and Wage Data for Feb 2011  
(Establishments with 5 or More Employees)**

	Nov	Dec	Jan	Feb (p)
Cash Earnings, YY%	0.2	0.1	0.4	0.3
excluding Special Payments, YY%	-0.1	0.1	-0.5	-0.3
Real Cash Earnings, YY%	0.0	-0.1	0.2	0.1
Total Hrs. Worked, YY%	1.5	1.2	-0.2	0.0
Overtime Hrs. Worked, YY%	6.1	5.1	3.2	1.0
Mfg. Overtime Hrs, SAMM%	1.5	3.4	4.2	2.5
Regular Employment, YY%	0.7	0.6	0.8	0.7
" 30 or More Employees	0.0	-0.1	0.2	0.0

p: preliminary. r: revised. Source: Ministry of Health, Labor and Welfare

**Figure 8. Construction Orders (Major 50 Firms) February 2011**

YY%	Nov	Dec	Jan	Feb
Overall	-5.3	13.1	-10.7	19.5
Private	-2.4	7.7	-10.2	21.8
Public	10.4	26.0	-12.5	-4.7

Source: Ministry of Land, Infrastructure and Transport, Citi Investment Research and Analysis

## Appendix A-1

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