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Economic outlook for 2013: PM Abe to benefit from the cyclical recovery?

- **Revising our growth forecasts for 2013** — We revise up Japan's growth forecast for 2013, reflecting a new economic stimulus package by the new administration – mostly increased public works spending -- and the yen's depreciation since our last round of forecasts in November. We now expect real GDP to grow 2.2% in fiscal 2013 and 1.3% in calendar 2013, compared with our previous forecasts of +1.6% and +0.7%, respectively.

- **Signs of a cyclical recovery are emerging** — Over the past few months, investor interest has been mostly centered on economic policies, particularly monetary policy, under the new administration. However, a cyclical pickup in economic activity, albeit moderate, will likely come back into the spotlight in coming months. Indeed, we are seeing more signs of a cyclical pickup in the economy.

- **We remain cautious on an inflation front** — Deflation will likely worsen over the near-term, reflecting technical factors, and this would raise the bar for the Abe administration and the Bank of Japan to achieve meaningfully positive inflation goals in 2013. Moreover, the sensitivity of inflation to improvement in the output gap has lessened over the past decade while moderate yen depreciation is unlikely to push up inflation in a meaningful manner. We expect low underlying inflation – probably lower than many observers now expect -- to persist for years to come.

- **2014 will be a challenging year for the Abe administration** —2014 will likely be the real test for an Abe administration. Reactionary declines in public works spending, along with the negative impact from the consumption tax hike, are expected to exert strong downward pressure on the economy.

Developed Markets Economics & Rates Strategy

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Economic outlook for 2013: PM Abe to benefit from the cyclical recovery?[1]

Over the past two months, investor interest in Japan has been mostly centered on economic policies, particularly monetary policy, under the new administration. In our view, however, a cyclical pickup in economic activity, albeit moderate, will likely come back into the spotlight in coming months. Indeed, we are seeing increasing signs of a cyclical pickup in the economy, such as a rebound in the projection indexes for industrial production in December and January and a modest increase in the seasonally-adjusted auto sales units. For our part, we are revising up Japan's growth forecast for 2013, reflecting a new economic stimulus package by the new administration – mostly increased public works spending -- and the yen's depreciation since our last round of forecasts in November. We now expect real GDP to grow 2.2% in fiscal 2013 and 1.3% in calendar 2013, compared with our previous forecasts of +1.6% and +0.7%, respectively. Meanwhile, we figure that year-on-year declines in the core CPI (excluding just fresh food but including energy) will widen in months to come and this will raise the bar for the Abe administration and the Bank of Japan (BoJ) to achieve meaningfully positive inflation goals in the near future. In our view, 2014 will likely be the real test for an Abe administration as reactionary declines in public works spending, along with negative impacts from the consumption tax hike, are expected to exert strong downward pressure on the economy.

Revising up near-term growth forecasts

The new administration announced a new economic stimulus package amounting to roughly ¥20trn, including items that will not directly create demand. The size of the upcoming supplementary budget that endorses this package is reported to reach ¥10.3trn excluding the state's contribution to the basic national pension program (¥2.6trn). Spending on public works, the core of the budget, is ¥5.2trn, including measures for disaster prevention/reduction (repairing aging infrastructure), reconstruction-related projects (seismic retrofit works for schools and hospitals) and so forth. While it seems uncertain whether the money will be spent smoothly (and fully), we tentatively estimate the budget would generate some ¥4trn worth of demand assuming that 80% is disbursed. This would likely help bolster economic activities mainly in the second and third quarters of this year, adding about 0.8% to GDP growth in fiscal 2013 which starts in April.

Some observers argue that public works spending is unlikely to be implemented smoothly because of supply constraints stemming from labor and material shortage. We also believe that this was exactly the case with reconstruction projects after the earthquake in March 2011. However, this time we expect public works spending to be implemented much more smoothly. First, most of the projects included in the economic package appear to be old types of projects, such as repairing aging infrastructure (road, bridge and tunnel), that are relatively easy to implement. This stands in sharp contrast with complicated natures of reconstruction projects for which disposable of debris and planning/architecture were needed. Second, reconstruction projects were centered on Japan's northeastern regions. But this time, projects are to be implemented all over the Japan and as such, constraints from labor shortage can be much smaller.

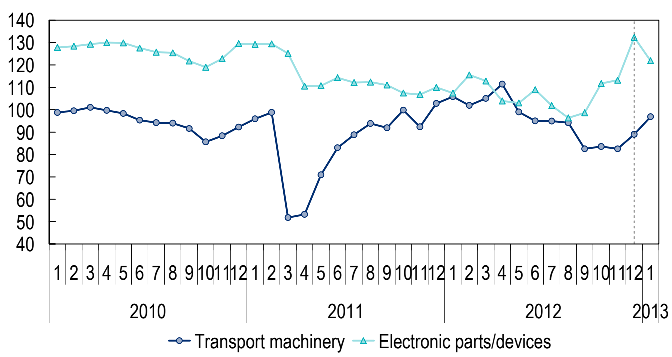
[1] In this report, we focus largely on the economic outlook. Please see our January 9 2013 report Post-election Reactions and Opportunities - A Multi-Asset Investment Perspective, for more comprehensive discussions about the economy, policies, FX, rates and equity in 2013.

Meanwhile, yen depreciation against the US dollar since November is expected to provide an additional boost to economic growth. A macroeconomic model suggests that a 10% yen slide against the US dollar would raise GDP growth in the following year by 0.2-0.3% points. In our latest forecast as of last November, we expected the JPY/USD rate to average ¥79/USD in both calendar 2013 and fiscal 2013 and , but should the yen depreciate to ¥88/USD , it would likely add 0.2-0.3 percentage points to the growth rate in calendar/fiscal 2013.

The combined effects from the two factors above would push up GDP roughly by a full one percentage point in calendar/fiscal 2013. We had expected GDP to increase 1.6% in fiscal 2013 and 0.7% in calendar 2013, assuming that public works in the extra budget would be about ¥2trn. Given the above, however, the economy appears more likely to grow at a slightly-higher-than 2% pace in fiscal 2013 and at a mid-1% pace in calendar 2013 (see Figure 5 for details of our revised forecasts).

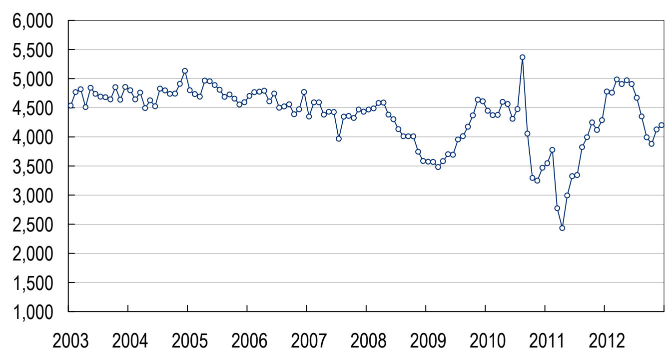
However, what's more important to us than an artificial boost from public works spending is that signs of a bottoming/rebound in the economy are increasing in cyclical data. Most importantly, the projection indexes for industrial production, based upon manufacturers' plans, pointed to a 6.7% MoM rebound in December and another 2.4% gain in January. By sector, production of electronic parts/devices appears to have already started to rebound while production of transport machinery including auto is expected to pick up in December and January (see Figure 1). Domestic passenger car sales units (seasonally adjusted) increased, albeit modestly, in November and December after having fallen sharply as the positive impact from the government's subsidy for eco-car purchases tapered off (see Figure 2).

Figure 1. Production of Transport Machinery and Electronic Parts/Devices: Actual Until November 2012 and Corporate Plans for December and January 2013 (CY2005=100)



Note: The data for December and January are based upon the projection indexes.
Source: Ministry of Economy, Trade and Industry, Citi Research

Figure 2. Seasonally-adjusted Auto Sales Units (Annualized, Thousand Units)



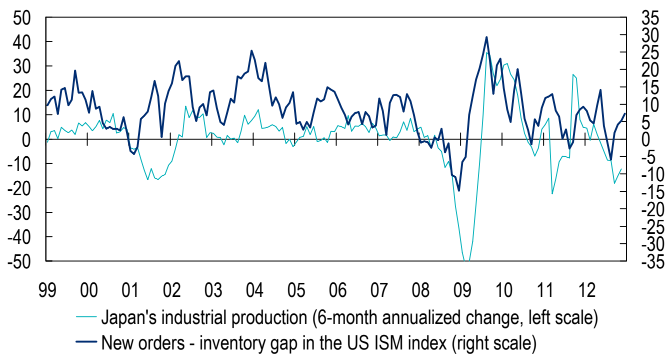
Source: Japan Automobile Dealers Association, Japan Mini Vehicles Association, Citi Research

Recent external developments also appear consistent with a cyclical pickup in Japan's manufacturing sector. In the past, Japan's industrial production has closely correlated with the new order/inventory gap in the U.S. manufacturing activity index with the latter leading the former (see Figure 3). This gap rose to +7.3 in December from +5.3 in November, maintaining an uptrend from the latest bottom hit in August 2012. This is consistent with the aforementioned rebound in the projection indexes for production. In addition, the recent pickup in the Chinese economy seems to be providing some, although modest, tailwind for Japan's manufacturers. Japan's industrial production report indicates that inventory at all industries excluding high-

tech and transport equipment makers (i.e. mostly industrial supply industries) has passed a peak with a 1.8% MoM fall in November after a 0.5% MoM decline in October (see Figure 4). This probably in part reflects a moderately improving demand and supply balance of raw materials driven by the recent pickup in the Chinese economy.

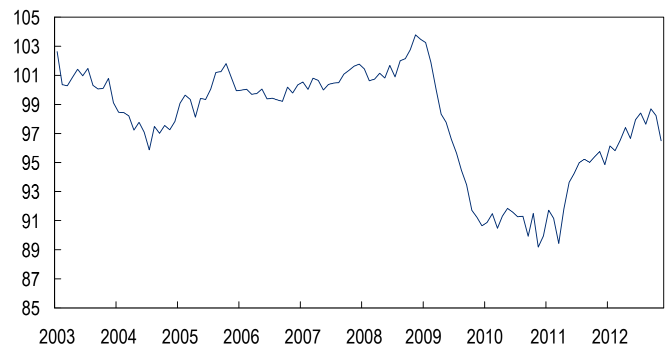
These developments above suggest that the domestic economy is now bottoming. We now figure that the bottom of the latest economic downturn that started last spring was in November 2012. Both industrial production and GDP likely will resume positive QoQ growth in the first quarter of 2013. Moreover, as 2013 unfolds, frontloaded demand ahead of the consumption tax hike in April 2014 is likely to materialize and this will artificially push up GDP growth in coming quarters. However, frontloaded demand for housing may be smaller than we assumed before as the government now plans to expand tax incentives and subsidies for housing in order to smooth out demand.

Figure 3. New Orders-Inventory Gap in the U.S. ISM Manufacturing Index and Japan's Industrial Production (Left:: 6-month Annualized Change %, Right: % Points)



Source: Ministry of Economy, Trade and Industry, Institute for Supply Management, Citi Research

Figure 4. Inventory Index at all industries Excluding High-tech and Transport Machinery (CY2005=100)



Source: Ministry of Economy, Trade and Industry, Citi Research

Based upon our macroeconomic projections, we expect recurring profits of listed companies (excluding financials) to increase by around 25% in fiscal 2013 (ended March 2014). This, along with the new government measures, is likely to start to push up business investment in 2013.

Declines in the core CPI to widen in coming months

Deflation likely will worsen over the near-term reflecting technical factors shown below and this would raise the bar for the Abe administration and the Bank of Japan (BoJ) to achieve meaningfully positive inflation goals in 2013. Moreover, the sensitivity of inflation to improvement in the output gap has lessened over the past decade according to our analysis while moderate yen depreciation is unlikely to push up inflation in a meaningful manner. We expect low underlying inflation – probably lower than many observers now expect -- to persist for years to come.

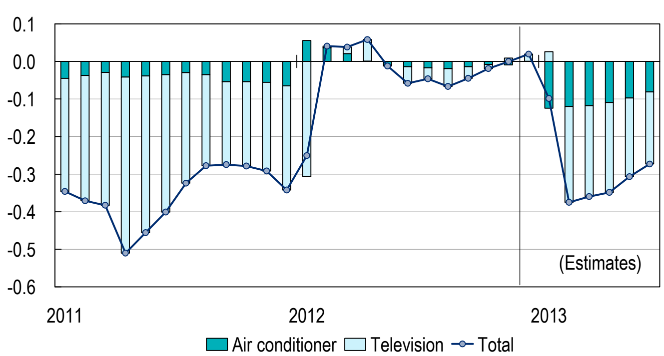
In 2012, strong MoM price increases in televisions (in January) and air-conditioners (in February) technically propped up year-on-year changes in the core CPI, but one year later, such effects will inevitably drop off (see Figure 5 for details). In February 2013 and beyond, yearly changes in the core CPI are estimated to be depressed by 0.3ppt - 0.4ppt relative to the latest month (November 2012). Furthermore, positive impact from petroleum products will also drop off in March 2013.

As a result, we expect the nationwide core CPI to decline at a faster pace from now: we now estimate the core CPI to be down 0.4%YoY in Q1 following a 0.1%YoY decline in Q4 2012. In addition, the inclusion of smartphones into the index starting in January 2013 may have additional downward pressure.

The impact of a weaker yen against the U.S. dollar will be one key factor in the inflation forecast going forward. However, our estimation shows that a 10% yen drop against the US dollar pushes up *the CPI excluding food and energy* by 0.09% in the first year and 0.13% in the second year. The Cabinet Office's short-term macroeconomic quantitative model also indicates only a limited impact of a 10% yen slide on the *consumer spending deflator including food and energy*: 0.12% in the first year and 0.18% in the second year (the estimated impact is moderately larger partly because the model covers the consumer spending deflator which includes food and energy). As these figures suggest, the yen has to fall substantially versus the US dollar just to achieve say, 1% inflation in the near term.

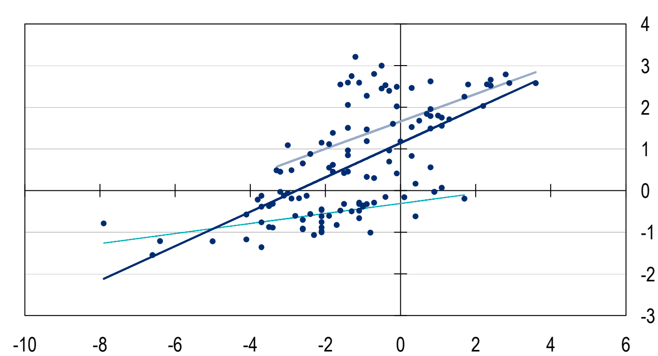
Moreover, we find that the CPI's sensitivity to the output gap has decreased notably in recent years. Figure 6 shows the relationship between the output gap estimate (horizontal axis) and the YoY change in the CPI *excluding* food and energy (vertical axis) from 1983 to 2012. This chart indicates that a 1ppt narrowing of the output gap raises the core CPI by an average 0.41ppt *on average* (the navy line in the chart). If we analyze the relationship in two stages, however, sensitivity of the core CPI stood at 0.33ppt in the period from 1983 to 1999 (the grey line in Figure 6) but weakened notably to 0.12ppt (the green line) in the period after 2000.

Figure 5. Contributions from Air-conditioner and Television on Year-on-year Changes in the Core CPI: Actual until November 2012 and Our Estimates for December 2012 through June 2013



Source: Ministry of Internal Affairs and Communications, Citi Research

Figure 6. Relationship between the output gap and the CPI (excluding food and energy) 1Q 1983- 3Q 2012 (horizontal axis: output gap %, vertical axis: the CPI, YoY %)



Note: Data are adjusted for the influences of a consumption tax introduction/hike. Taking account of the estimated time lag between the two variables, the output gap in the chart is pushed off by four quarters. The grey and green lines are derived by applying a regression formula to 1983-1999 and 2000-2012, respectively.
Source: Ministry of Internal Affairs and Communications, Cabinet Office, Citi Research

In addition, the important question that we should consider in the current context is whether narrowing in the output gap mostly driven by one-time boost from public works spending can really lead to generalized and sustained upward pressure on prices. We are skeptical about this point. We should separate between the narrowing output gap driven by domestic demand (export, investment and consumption) and that driven by public works spending, in our view,

On balance, inflation is likely to remain quite low in the years to come, apart from the direct impact from the consumption tax hike in 2014, and this would continue to push the BoJ to ease more, especially under the new leadership starting next April.

Current balance to almost evaporate in 2013

The recent depreciation of the yen against USD is likely to deteriorate Japan's external balance further over the near-term. As good import value is larger than export value and 80% of import is denominated in USD (only 50% for export), yen depreciation against USD should push down Japan's trade balance in yen terms. Meanwhile, weaker yen will have positive impacts on yen value of income surplus.

On balance, we expect the current account surplus as a percentage of GDP to fall to just 0.2% in Q2 2013. But after that, external balance will improve gradually as economic activity in the major trading partners picks up.

2014 is the real test for the Abe administration

2014 will likely be the real test for an Abe administration, in our view. If a new administration does not compile yet another supplementary budget following the upcoming one, public works would likely decrease sharply in the second half of FY2013 (October 2013 – March 2014) and beyond. We figure that if the LDP wins the upcoming Upper House Election in July (probably the 21st), PM Abe should have less incentive to stimulate near-term economic activity. In this case, together with a planned consumption tax hike in April 2014, declines in public works spending would probably depress economic activity significantly. Simply put, government spending would take on a pro-cyclical nature. If so, we could not dismiss the possibility that deflationary pressure might increase again, making the second consumption tax hike slated in October 2015 politically difficult to implement.

Alternatively, the splurge in fiscal spending could result in sovereign downgrades by the ratings agencies. Specifically, another substantial supplementary budget to prop up public-works spending late in 2013 or early in 2014 might lead to downgrades. While not our base-case scenario, significantly higher JGB yields and/or sovereign downgrades may start to keep Mr. Abe's hands away from the fiscal pump sometime in 2013.

Figure 7. Economic summary, 2012– 2014F

	CY			FY			2012		2013F				2014F	
	2012F	2013F	2014F	2012F	2013F	2014F	3Q	4QF	1Q	2Q	3Q	4Q	1Q	2Q
Real GDP (QoQ%)	2.0%	1.3%	1.2%	1.0%	2.2%	0.3%	-0.9%	-0.1%	0.4%	1.0%	1.0%	0.8%	0.4%	-1.2%
Domestic Demand	2.8	1.4	0.3	1.8	2.0	-0.5	-0.2	0.0	0.2	1.0	0.8	0.7	0.1	-1.6
Note: Private Domestic Final Sales	2.3	0.9	1.0	1.1	1.8	0.0	-0.8	0.0	0.3	0.6	0.8	0.7	0.9	-1.7
Private Consumption	2.4	0.9	0.6	1.4	1.5	-0.3	-0.4	0.4	0.1	0.4	0.5	0.5	0.9	-1.9
Business Investment	2.0	-0.2	3.7	-0.7	2.4	2.4	-3.0	-1.9	0.5	1.1	1.9	1.5	1.4	-0.6
Residential Investment	2.1	7.2	-3.2	3.7	6.3	-4.9	0.9	1.3	2.4	2.0	2.4	0.5	-2.1	-3.3
Government Consumption	2.6	1.4	0.8	2.4	1.3	0.7	0.6	0.3	0.2	0.4	0.3	0.2	0.2	0.1
Public Investment	12.1	8.2	-12.2	12.6	5.6	-12.4	1.5	3.2	-2.6	7.9	0.1	1.7	-11.7	-5.5
Inventories (Contribution)	0.0	0.0	0.0	-0.1	0.1	0.0	0.2	-0.2	0.0	0.1	0.1	0.0	0.0	-0.1
Net Exports (Contribution)	-0.7	-0.1	0.8	-0.7	0.2	0.8	-0.8	-0.1	0.2	0.0	0.2	0.1	0.3	0.4
Exports of Goods & Services	0.3	0.0	4.5	-1.1	2.6	4.0	-5.1	-2.1	1.9	1.0	2.1	1.3	1.0	1.0
Imports of Goods & Services	5.6	1.1	-0.9	3.9	1.5	-1.4	-0.4	-1.6	0.5	1.2	0.9	0.7	-0.9	-2.0
Nominal GDP	1.1	0.6	2.1	0.2	1.7	1.7	-0.9	-0.4	0.4	0.6	1.1	0.7	0.5	0.0
Consumer Prices ex. Fresh Food (YoY)	-0.1	-0.1	1.9	-0.2	0.0	2.4	-0.2	0.0	-0.4	-0.2	-0.1	0.1	0.2	2.5
GDP Deflator (Yr.-Yr.)	-0.9	-0.6	1.0	-0.8	-0.5	1.3	-0.8	-0.7	-0.7	-0.7	-0.6	-0.4	-0.2	1.3
Current Balance (¥trn, SAAR)	4.6	2.1	7.6	3.6	2.9	8.8	3.7	2.7	2.0	1.0	2.3	3.2	5.1	7.8
Note: Pct. Of GDP	1.0	0.4	1.6	0.8	0.6	1.8	0.8	0.6	0.4	0.2	0.5	0.7	1.0	1.6
Trade Balance (¥trn, SAAR)	-5.8	-8.3	-2.8	-6.8	-7.5	-1.7	-6.8	-7.7	-8.4	-9.4	-8.1	-7.2	-5.4	-2.7
Yen/US$ (Average)	79.8	91.4	92.5	82.0	92.5	92.5	78.6	81.2	88.0	92.5	92.5	92.5	92.5	92.5
Landed Crude Oil Price (US$/Barrel)	95.1	94.2	93.6	92.9	94.8	92.9	92.9	89.8	91.8	94.4	95.2	95.1	94.6	93.9
Industrial Production (QoQ)	-0.9	0.9	1.7	-2.6	3.0	0.7	-4.2	-1.5	3.5	1.0	0.5	1.3	1.0	-1.5
Unemployment rate	4.4	4.1	4.0	4.3	4.0	4.0	4.2	4.2	4.2	4.1	4.0	4.0	4.0	4.0

Note: F denotes our forecasts.
Sources: Cabinet Office, MoF, MIC, Citi Research.

Economic Indicators

Economic Indicators

Jan. 16 (Wed) 8:50 a.m.	***Machinery Orders, Private Excl. Ships and Elec. Power (Nov)***	**Forecast: -1.9% MoM; -9.3% YoY.** **Previous: 2.6% MoM; 1.2% YoY**
	Private machinery orders excluding ships and power plants (private core orders) likely decreased 1.9% MoM (-9.3% YoY) in November after a 2.6% MoM gain in October and a 4.3% MoM fall in September. If we are on the mark, the October-November average would stand 2.6% below the third quarter average. While the Cabinet Office foresees a 5.0% QoQ increase in the fourth quarter, the result seems likely to undershoot the projection. We expect machinery orders to remain sluggish for a while as companies, especially manufacturing firms, are increasingly holding off on capital spending. At the same time, however, orders are unlikely to drop much further because a global manufacturing cycle is showing signs of a turnaround (the ISM index in the U.S. and the PMI in China are improving). The ongoing yen weakness since last November is also providing support. We thus expect the Cabinet Office to maintain its assessment that the underlying orders have been seesawing with some pockets of weakness.	
Jan. 16 (Wed) 8:50 a.m.	***Preliminary Corporate Goods Price Index, Domestic (Dec)***	**Forecast: 0.3% MoM; -0.6% YoY** **Previous: 0.0% MoM; -0.9% YoY**
	We expect the domestic corporate goods price index to rise 0.3% MoM (-0.6% YoY) in December after no change in November. Partly reflecting the recent yen depreciation against the US dollar, prices for commodity products (including chemicals, petroleum and coal products, and nonferrous metals) probably rose in the month, although we believe steel prices continued to drop. We expect domestic demand-driven goods will see lower prices amid a stagnant economy while nonferrous metals and petroleum products will rise in line with global commodity markets. In the backdrop of polarization, the overall domestic corporate goods prices will likely increase moderately.	
Jan. 17 (Thu) 8:50 a.m.	***Tertiary Industry Activity Index (Nov)***	**Forecast: -0.2% MoM; 1.0% YoY** **Previous: -0.1% MoM; 1.1% YoY**
	The tertiary industry activity index likely dropped 0.2% MoM in November after a 0.1% MoM slide in October. In line with lower industrial production in the month (-1.7% MoM), electricity, gas, heat supply and water, transport and communications, which are closely linked with industrial production, will likely see weaker activity. In contrast, we expect wholesale and retail trade to contribute positively to the index. Our projection suggests that the tertiary industry activity index in the October/November period will remain unchanged (0.0%) from the third quarter average.	

Source: Cabinet Office, BoJ, METI, Citi Research.

Main Forecasts

Currency and interest rate forecasts

	Current	Q1 13 Forecast	Q2 13 Forecast	Q3 13 Forecast	Q4 13 Forecast	Q1 14 Forecast
Japan: Yen/US$	81	84	85	85	84	84
Call money	0.10	0.10	0.10	0.10	0.10	0.10
Long-term benchmark JGB	0.74	0.85	1.00	0.90	1.10	1.10

Source: Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2013 and Beyond, Citi Research. (November 26, 2012).

Macroeconomic and GDP data for FY2012E-2014E (YoY %)

	2012 E	2013 E	2014 E
Real Gross Domestic Product	1.0 %	2.2 %	0.3 %
Domestic Demand	1.8 %	2.0 %	-0.5 %
•Private Domestic Final Sales	1.1	1.8	0.0
••Private Consumption	1.4	1.5	-0.3
••Business Investment	-0.7	2.4	2.4
••Residential Investment	3.7	6.3	-4.9
•Government Consumption	2.4	1.3	0.7
•Public Investment	12.6	5.6	-12.4
•Inventories (Contribution) [a]	-0.1	0.1	0.0
Net Exports (Contribution) [a]	-0.7 %	0.2 %	0.8 %
•Exports of Goods & Services	-1.1	2.6	4.0
•Imports of Goods & Services	3.9	1.5	-1.4
Nominal GDP	0.2	1.7	1.7
Consumer Prices ex. Fresh Food	-0.2 %	0.0 %	2.4 %
GDP Deflator	-0.8	-0.5	1.3
Current Balance (Yen in Trillions)	3.6	2.9	8.8
•Pct. of GDP	0.8 %	0.6 %	1.8 %
Trade Balance (Yen in Trillions)	-6.8	-7.5	-1.7
Corporate Profits (Fiscal Year)	3.0	15.0	-9.0
General Govt. Balance (Fiscal Year)	-10.7 %	-8.1 %	-6.6 %

[a] Contribution to GDP growth in percentage points. GDP: Gross Domestic Product.
E: Citi Research forecasts as of January 11, 2013.
Source: Economic and Social Research Institute; Ministry of Finance; Ministry of Public Management, Home Affairs, Posts and Telecommunications; Bank of Japan; *Nihon Keizai Shimbun*; Citi Research.

Major economy GDP growth forecasts, CY2012E-2014E (YoY %)

	2012 E	2013 E	2014 E
United States	2.2 %	1.6 %	3.0 %
Japan	2.0	1.3	1.2
Euro Area	-0.4 %	-0.7 %	-0.4 %
United Kingdom	-0.1	0.8	1.0
Asia	6.1 %	6.6 %	6.6 %
•People's Republic of China	7.7	7.8	7.3

E: Citi Research estimates.
Source: 'Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2013 and Beyond, Citi Research (November 26, 2012). Japan forecasts as of January 11, 2013.

Recent economic indicators (YoY % or units as indicated, ¥bn)

	Aug	Sep	Oct	Nov
PRODUCTION				
Industrial Production	-4.6 %	-8.1 %	-4.5 %	-5.8 %
Shipments	-3.3	-8.4	-4.9	-5.9
Inventories	5.9	4.8	3.8	3.1
Private Machinery Orders, Excl. Ships and Power	-6.1	-7.8	1.2	
Contracted Public Works Orders	19.2	-1.9	28.2	
CONSUMPTION				
Retail Sales (METI)	1.7 %	0.4 %	-1.2 %	1.3 %
All Household Consumption, Nominal	1.4	-1.2	-0.5	0.1
New Motor Vehicle Registrations	12.4	-3.4	-5.7	-0.4
New Housing Starts	-5.5	15.5	25.2	10.3
LABOR MARKET				
Employment	-0.0 %	-0.2 %	0.2 %	-0.1 %
Unemployment Rate (Level)	4.2	4.2	4.2	4.1
Job Offers/Seekers Ratio (Level)	0.83	0.81	0.80	0.80
New Job Offers	10.5	5.3	13.8	8.4
Cash Earnings (5 Workers or More)	0.0	-0.5	-0.4	-1.1
PRICES				
Nationwide Consumer Prices	-0.4 %	-0.3 %	-0.4 %	-0.2 %
•Excl. Fresh Food	-0.3	-0.1	0.0	-0.1
Domestic Corporate Goods Prices	-1.9	-1.5	-1.0	-0.9
MONEY AND CREDIT				
Monetary Base	6.5 %	9.0 %	10.8 %	5.0 %
M2	2.4	2.4	2.3	2.1
M3	2.1	2.1	2.0	1.9
L (Broadly-defined Liquidity)	0.3	0.5	0.5	0.3
Bank Lending	0.8	0.9	0.8	1.0
TRADE, CAPITAL FLOWS, AND CURRENCIES				
Trade Balance, Customs Clearance Basis, SA	¥-461.9	¥-959.1	¥-619.4	¥-868.5
Export Value Growth (Yen Basis)	-5.8	-10.3	-6.5	-4.1
•Volume	-4.2	-11.1	-8.2	-7.5
Import Value Growth (Yen Basis)	-5.4	4.1	-1.6	0.8
•Volume	-2.1	4.2	-1.1	-0.9
Current Account, (SA, Billion yen)	722.3	-142.0	414.1	225.9
Yen/US Dollar Spot Rate	¥78.28	¥77.57	¥79.72	¥82.63

Source: Bank of Japan, government and industry association statistics, Citi Research.

Net buying/selling of Japanese stocks on three main exchanges by all 58 incorporated securities firms (¥bn)

	Individual			Corporate		Investment		Securities
	Cash	Margin	Total	Financial	Nonfinancial	Trusts	Foreign	Firms
September	-249.5	-15.3	-264.8	-69.2	-9.2	13.9	-14.9	347.4
October	-281.8	-20.6	-302.5	23.7	97.8	18.9	158.6	12.5
November	-408.8	-5.8	-414.7	-114.6	66.4	-48.2	492.5	39.6
December	-668.9	131.2	-537.7	-875.0	5.7	-15.3	1544.8	-92.2
12/03~12/07	-116.4	10.9	-105.5	-59.5	8.5	15.0	113.4	30.5
12/10~12/14	-151.8	-6.2	-158.0	-136.8	30.9	2.3	462.9	-193.6
12/17~12/21	-257.4	50.7	-206.8	-390.9	-48.4	-16.8	701.9	-21.1
12/25~12/28	-143.3	75.9	-67.4	-287.8	14.7	-15.7	266.7	91.9

Note: Data based on net buying by 58 major securities firms with seats on the exchanges.
Source: Tokyo Stock Exchange, Citi Research.

Appendix A-1

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