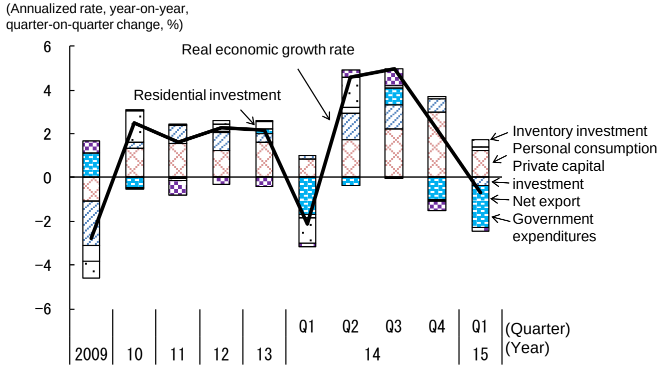
Chapter 2, Section 1. U.S. Economy Moving toward Monetary Policy Normalization

- The economy is continuing to recover as a virtuous cycle of improvements in the employment and income environments leading to growth in personal consumption has been created (Fig. 1).
- The FRB is moving toward monetary policy normalization (Tab. 2).
- Although hourly wages have remained generally flat, there have recently been wage hikes among retailers, etc. The employment cost index, comprised of wages/salaries and various benefits, has been on an uptrend since 2014, when the short-term unemployment rate fell below 4.5% (Fig. 3).
- While the economic recovery is expected to continue, there are risk factors such as the strong dollar (Fig. 4) and the impact of lower crude oil prices.
- Middle-class income is on a downtrend. A breakdown of workers by skill level shows that the share of lower-middle class workers in the overall workforce (e.g. machine operators) is on a downtrend (Fig. 5). As for wages, wages for workers with higher skills are tending to grow more (Fig. 6). Education and vocational training intended to enhance skills is becoming increasingly important.

Fig. 1 Real economic growth rate



Tab. 2 Statements issued by FOMC

<Recent>

Date	Statement
Oct. 2014	Appropriate to maintain the current policy interest rate for a considerable time
Dec. 2014	Can be patient at first to normalize the stance of monetary policy
Jan. 2015	Same as above
Mar. 2015	- An interest rate hike is unlikely at the April FOMC meeting - An interest rate hike will be appropriate when the FOMC has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.
Apr. 2015	- Same as above (Excluding a statement regarding policy interest rate at the next FOMC meeting)

<Before the previous interest rate hike>

Date	Statement
Dec. 2003	Believes that policy accommodation can be maintained for a considerable period.
Jan. 2004	Believes that the FOMC can be patient in removing its policy accommodation.
Mar. 2004	Same as above
May 2004	Policy accommodation can be removed at a measured pace
Jun. 2004	The first interest rate hike (from 1.00% to 1.25%)

Fig. 3 Trend in wages – Short-term unemployment rate and the employment cost index

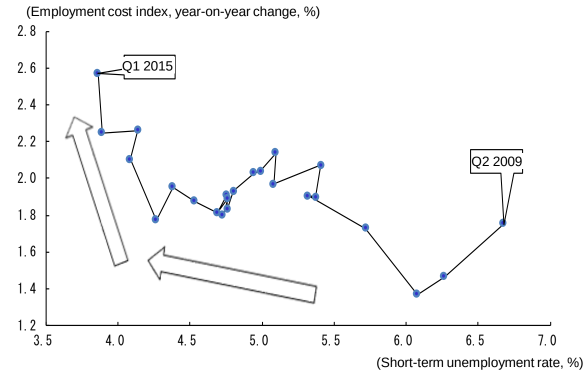


Fig. 4 Capital goods exports and real effective exchange rate

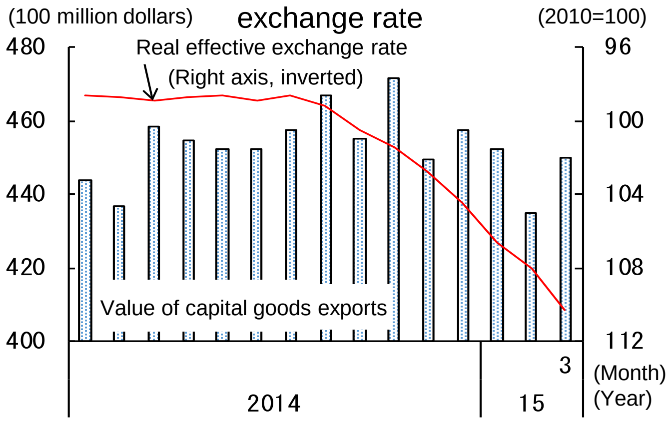


Fig. 5 Shares of workers categorized by skill level

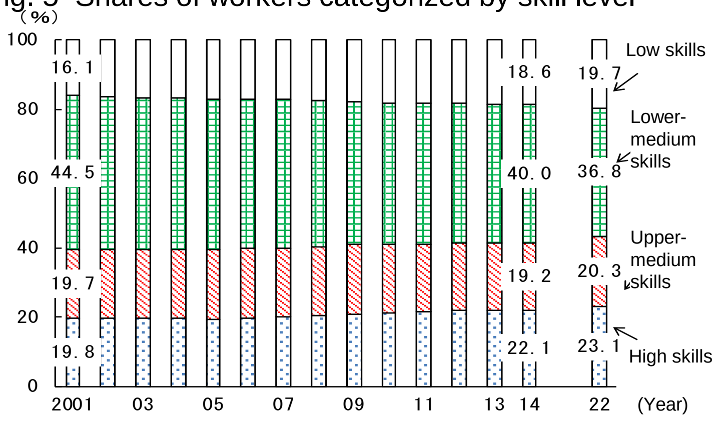
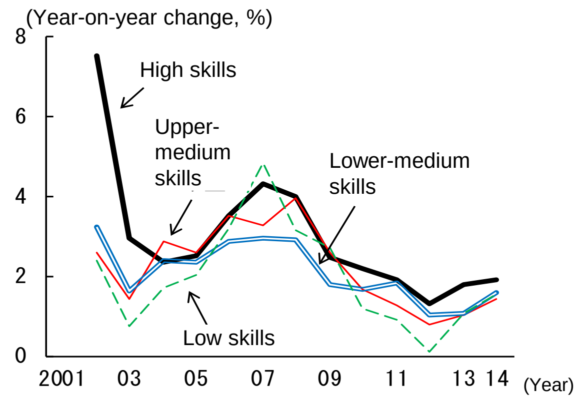


Fig. 6 Trends in wages by skill level



Chapter 2, Section 2. European Economy: Personal Consumption Leading Recovery in the Euro Area

- The euro area economy is recovering, led by personal consumption, as lower inflation is increasing real wages (Fig. 1). Although exports are also growing due to the weak euro (Fig. 2), a decline in exports to Russia continues to put downward pressure on them.
- Investments still remain much lower than the level before the global financial crisis (Fig. 3). In response to this situation, the European Commission has formulated an investment plan worth a total of 315 billion euros (approx. 3% as a percentage of euro area GDP) over three years in order to achieve medium- to long-term economic growth.
- Thanks to the effects of the measures so far implemented, the euro area youth unemployment rate declined to 22.7% in March 2015 from 24.2% one year earlier (Fig. 4).
- In response to growing concerns over deflation, the ECB has implemented quantitative easing measures, including purchase of government bonds, since March 2015. Combined with the effects of past monetary easing measures, this has led to an increase in bank loans to companies (Fig. 5).
- So far, concerns over the risk of a Greek default have had little impact on other southern European countries, etc. (Fig. 6).

Fig. 1 Real economic growth rate of the euro area

(Annualized, year-on-year, quarter-on-quarter change, contribution, %)

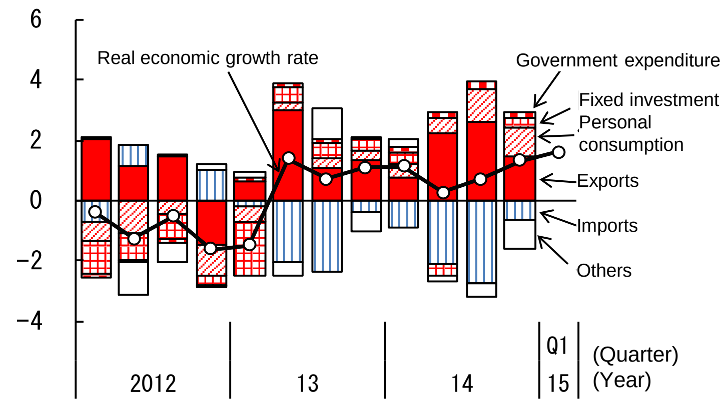


Fig. 2 Euro area's extra-region goods exports and exchange rate

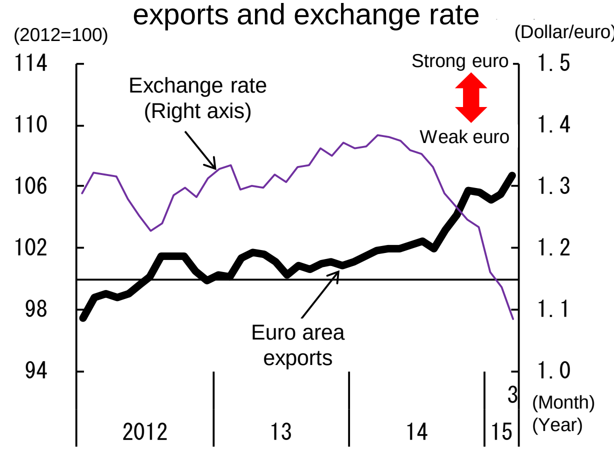


Fig. 3 Fixed investments in the euro area

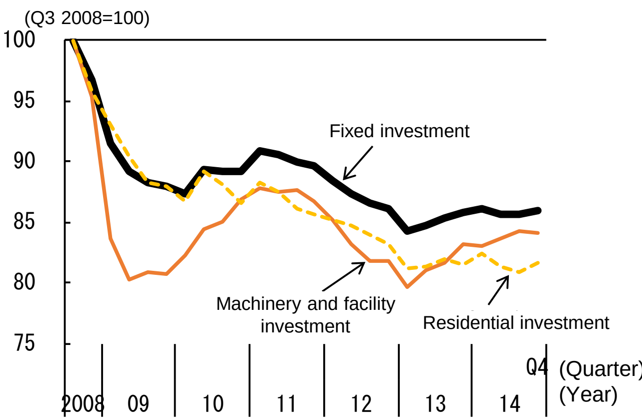


Fig. 4 Youth unemployment rate in major euro area countries (difference from the previous year)

(Difference from the previous year, percentage points)

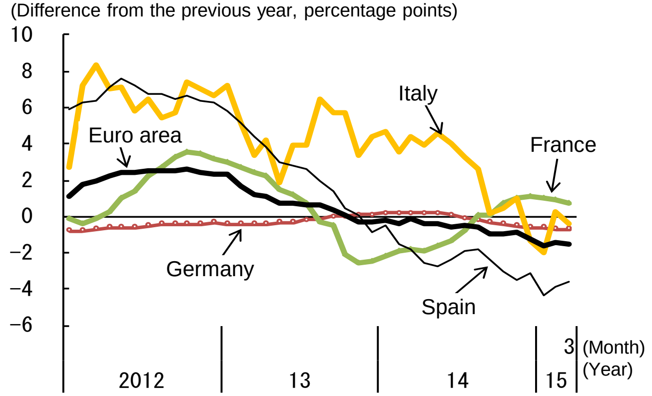


Fig. 5 Outstanding loans to companies in major euro area countries

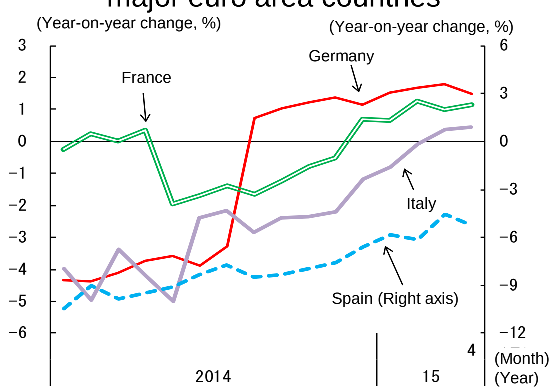
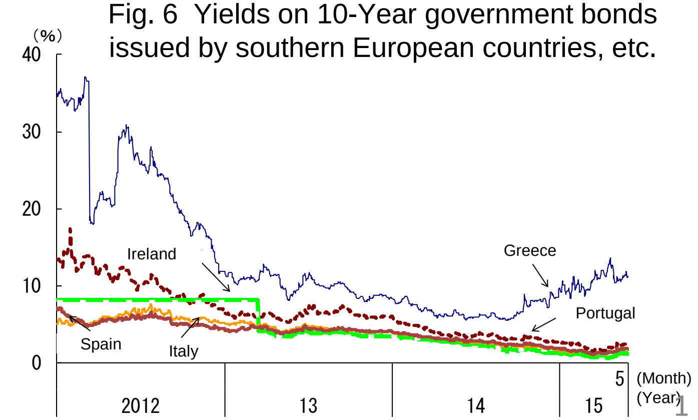


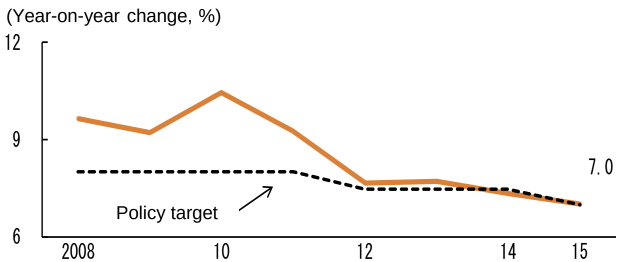
Fig. 6 Yields on 10-Year government bonds issued by southern European countries, etc.



Chapter 2, Section 3. Asian Economies: Growing Downward Pressure on the Chinese Economy

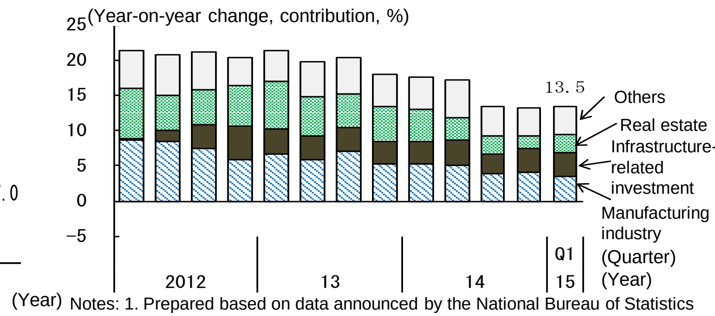
- China is carrying out structural reforms (solving problems such as overproduction/overcapacity and excessive provision of credit) and implementing policy management with a focus on the quality of growth. This situation, called “new normal,” is a factor behind the slowdown in China’s growth rate (Fig. 1).
- As structural reforms involve pain, stable economic growth is necessary if the reforms are to be carried out steadily. However, investments and exports have slowed down, putting growing downward pressure on the economy (Figs 1-3). Data regarding employment, which is a major benchmark of the stable growth that the government aims for, also shows weakness (Fig. 4).
- To achieve the growth target of 7% for 2015, the government is striving to achieve economic stability through fiscal and monetary policy measures (Fig. 5). However, it is highly uncertain how effective the government’s economy-supporting measures will be.
- As the stable growth of the Chinese economy is extremely important not only for China but also for the global economy, there are expectations for China to implement appropriate policy management.

Fig. 1 Real economic growth rate



Notes: 1. Prepared based on data published by the National Bureau of Statistics of China.
2. The figure for 2015 covers only the January-March quarter.

Fig. 2 Fixed asset investments



Notes: 1. Prepared based on data announced by the National Bureau of Statistics of China. Growth rates and values are all nominal figures.
2. Infrastructure-related investment represents the total of investments in dams, railways, roads, etc.

Fig. 3 Exports

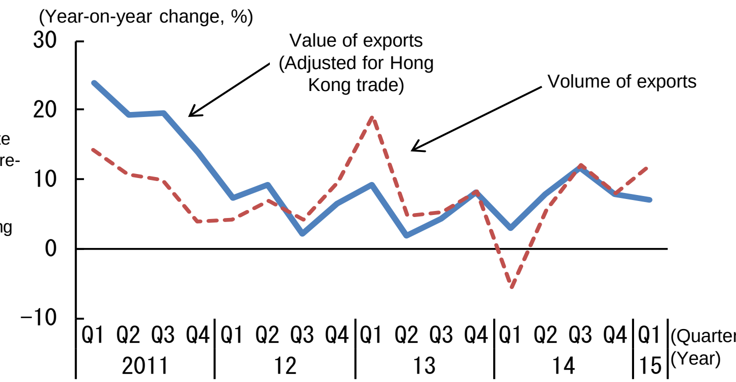
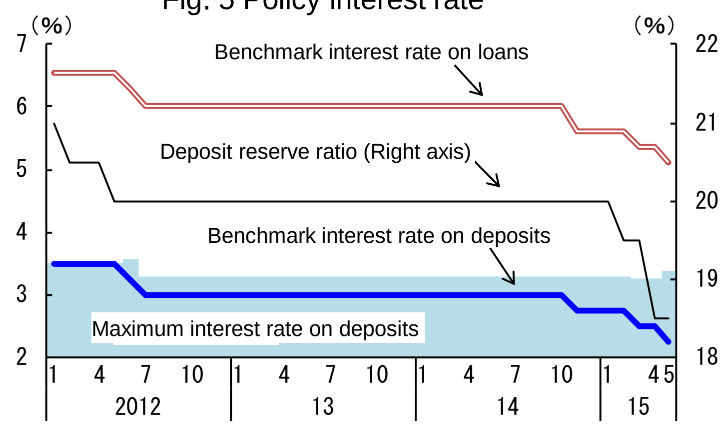


Fig. 4 Number of new employees in urban areas

Notes: 1. Prepared based on data published by Ministry of Human Resources and Social Security of China
2. Published annual figures were converted into quarterly figures.

Fig. 5 Policy interest rate



- Global economy: Continuing to recover moderately.
  - ➢ Main scenario for the future

    The global economy will keep on recovering moderately due to the continuing U.S. recovery and euro area improvement.

    (Real GDP of the global economy will record growth of between 3% and 3.5% in 2015, according to estimates by international organizations.)
  - ➢ Risks：

    (1) Normalization of the U.S. monetary policy

    The normalization process may cause wild swings in the international financial market and trigger fund outflows from emerging economies, thereby negatively affecting the real economy. If interest rates rise more than expected, capital and residential investments in the United States may be affected.

    (2) The future course of the Chinese economy

    If growth slows down more than expected, exports from countries dependent on external demand from China may be negatively affected.

    If structural reforms do not proceed smoothly, overcapacity will not be resolved, so overproduction may hurt corporate earnings.

    (3) Political risks in Europe

    The new Greek government, adopting an anti-austerity stance, is facing difficult negotiations over debt repayment and relief. There are concerns about the risk of Greece defaulting on its sovereign debts. In September or later, anti-austerity parties may gain support in general elections in southern European countries.

    (4) Geopolitical risks

    ー Regarding the situation in Ukraine, a ceasefire agreement was reached in February 2015. The removal of the U.S. and European sanctions against Russia is conditioned on the full implementation of the agreement, but the prospect for full implementation is dim. In Ukraine, the economic condition has worsened markedly.

    ー Radical Islamic factions are gaining strength in some parts of the Middle East and Africa. Depending on how the situation will evolve, that could put upward pressure on crude oil prices.