2. Current status and problems of US economy

The United States economy in 2010 moderately recovered backed by the global economic recovery and supported by the government's fiscal stimulus package and the monetary easing policy by the Federal Reserve Board (hereinafter referred to FRB). However, there was a delay in recovery of employment market and the housing market, and problem remained in the sustainable growth of the future. The current status and problem of the United States economy are reviewed from viewpoints of (1) actual economy and (2) monetary policy in the following section.

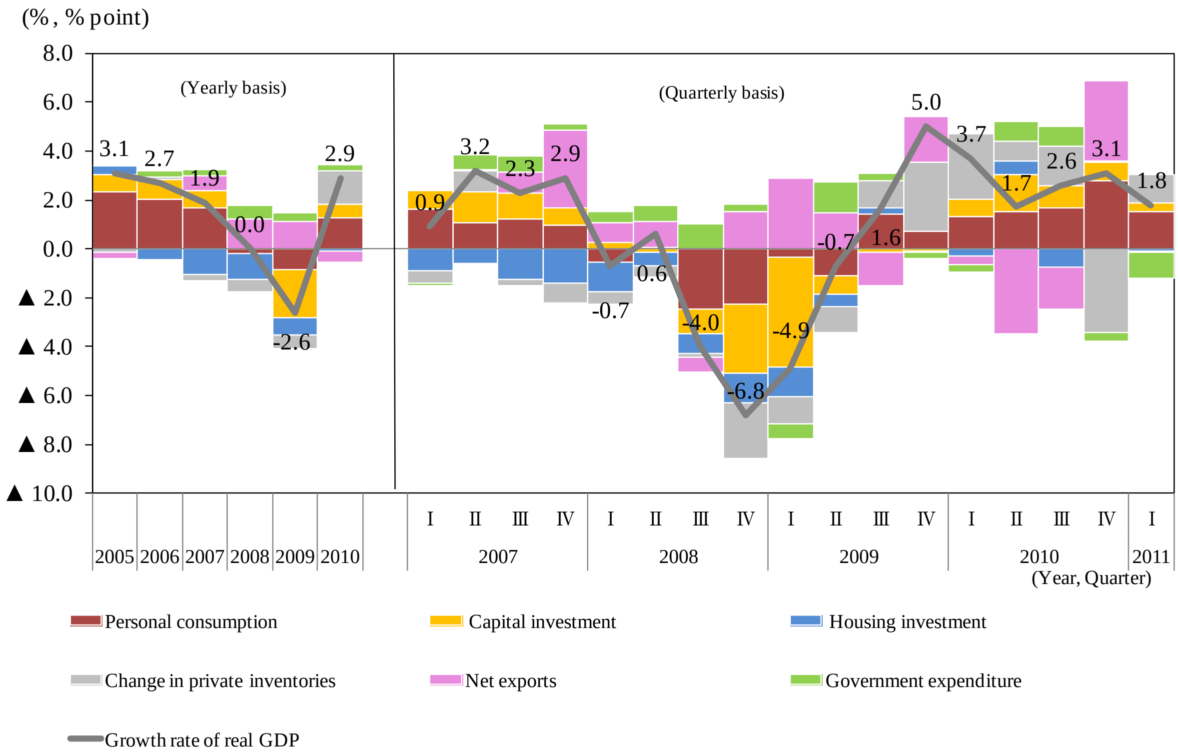
(1) The United States economy, breaking through the double-dip concern

(A) The economy hovered at a low level in the first half and recovered in the second half

The real GDP growth rate in early 2010 achieved a plus growth of 3.7% at an annual rate increase from the previous quarter in the first quarter, and gained a 1.7% increase in the second quarter supported by recovery of personal consumption which account for approximately 70% of the real GDP, but the growth rate slowed down (Figure 1-1-2-1). In this situation, the double-dip concern was pointed out about economy of the United States, which was recovering from the bottom[29] after the world economic crisis in 2008, might retrogress again due to delay of the recovery of the employment, the high unemployment rate and slumped housing/ real estate markets. However, the United States economy slowly recovered in the last half of 2010 with 2.6% increase in the third quarter and 3.1% increase in the last quarter.

[29] In September 20, 2010, National Bureau of Economic Research (NBER) which judges economic cycle of the United States economy, made a judgment by stating "The Unite States economy has transcended from the recession in June 2009". The recession started in December 2007 continued for 18 months, the longest recession after the World War 2.

Figure 1-1-2-1 Transition of growth rate of the real GDP and contribution degrees by demand items in the United States of America



Notes: Seasonally adjusted value; Annual rate compared with the previous year; Value of the first quarter of 2011 is revised value.
Sources: US Department of Commerce

Also in annual basis, it achieved record high of 2.9% increase over the previous year since 2005 (3.1%). It can be said that the United States economy in 2010 has broken through the double-dip concern[30].

The growth rate in first-quarter of 2011 (second-estimate) showed an annual rate of 1.8% plus from the previous quarter and achieved consecutive 7 quarters positive growth, but the recovery pace became slower[31] and uncertainty of the future still remained.

Examining rate of contribution according to demand items comprising GDP (Figure 1-1-2-1,

---

[30] IMF pointed out in "The World Economy Outlook" published on April 11, 2011 that " In advanced economies, the hand-off from public to private demand is advancing, reducing concerns that diminishing fiscal policy support might cause a "double-dip" recession.".

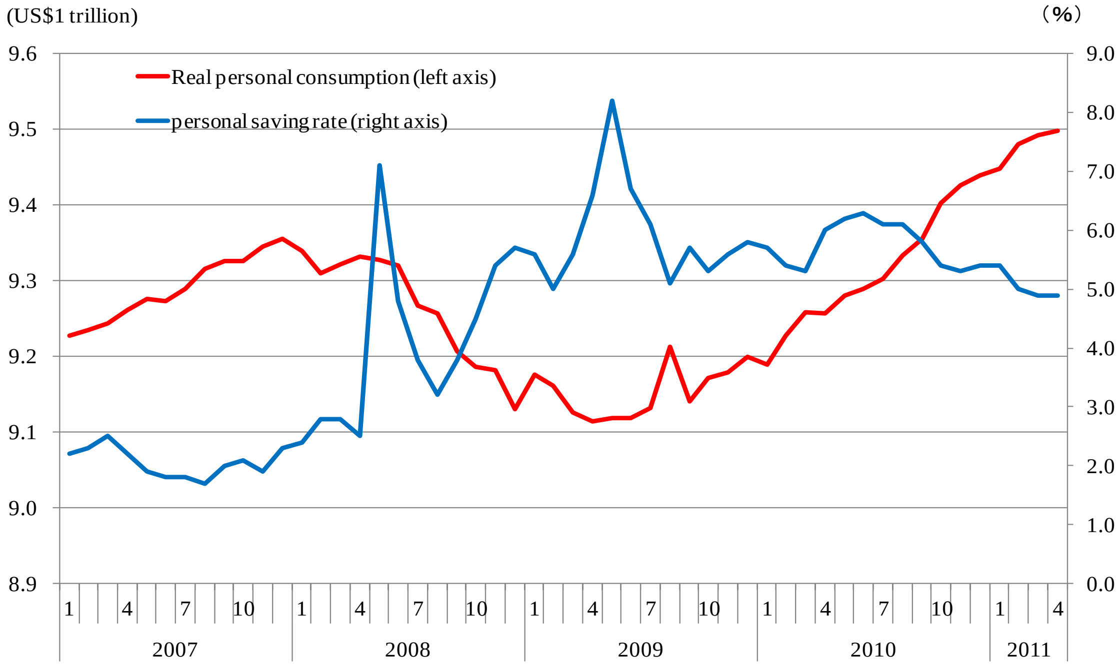
[31] IMF made a downward revision on estimate of the United States economic growth rate in 2011 from 3.0% at the time of January to 2.8% in "The World Economy Outlook" (previously shown) published on April. And FRB also made a downward revision on estimated economic growth rate in 2011 from 3.4%~3.9% at the time of January to 3.1% ~ 3.3% at FOMC meeting held on April 26 and 27, 2011.

previously shown), in 2010, personal consumption increased its rate of contribution quarterly. On the other hand, rates of contribution of the housing investment were plus in the second and the fourth-quarter but minus in the first and the third-quarter. From the first to the third-quarter, the rates of contribution of the net export continued to be minus, and it greatly switched to plus in the fourth-quarter. In this way, while economy of the United States was restored moderately in 2010, some items were not growing uniformly. Each item is discussed in the following section.

(a) Personal consumption, having supported the growth through the year

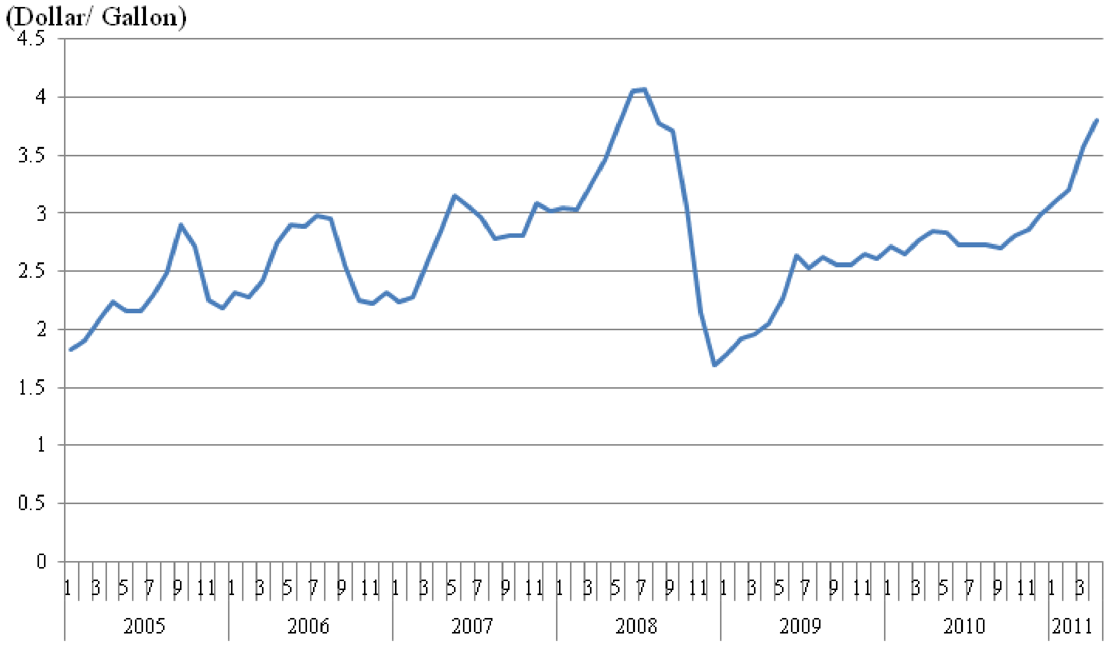
The personal consumption recovered through 2010 and contributed to improve the growth rate backed by the rises in stock prices. The real personal consumption exceeded the level before the world economy crisis of 2008 since the latter half of 2010 (Figure 1-1-2-2). In the first-quarter of 2011, growth slowed from the previous year due to rise in the gas price (Figure 1-1-2-3) and bad weather conditions, and it became a factor to make the growth rate slow down, but moderate growth continued (Figure 1-1-2-4). In addition, the sales amount of the retail continued to increase compared with the previous month since July 2010, which represents steady consumption activities in the last half of 2010 and afterward (Figure 1-1-2-5).

Figure 1-1-2-2 Transition of real individual consumption and saving ratio in the United States of America



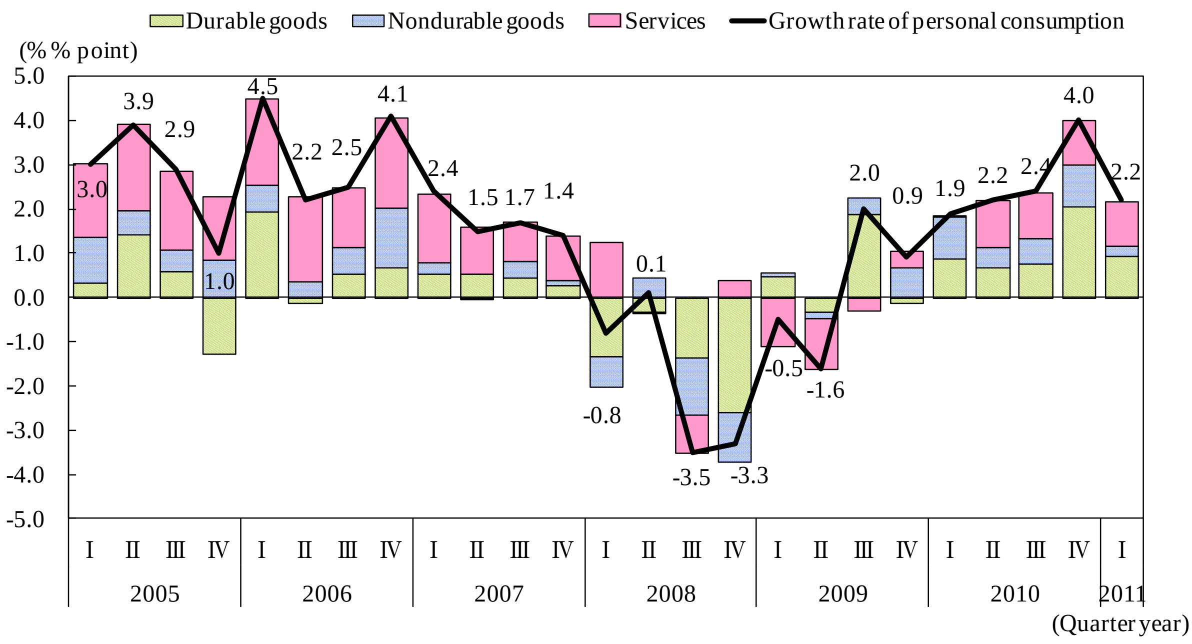
Sources: US Department of Commerce; CEIC Database

Figure 1-1-2-3 Transition of retail prices of regular gasoline in United States of America



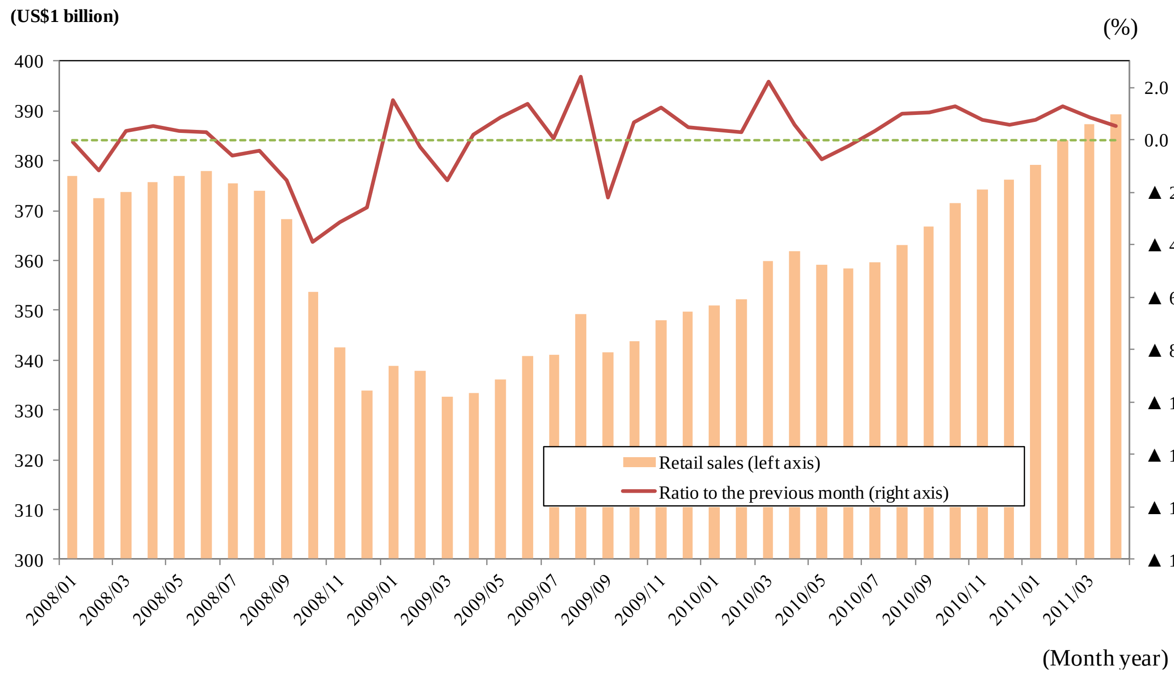
Sources: US Department of Energy

Figure 1-1-2-4 Transition of real personal consumption and contribution degree by expenditure items in United States of America



Notes: Seasonally adjusted value; Annual rate compared with the previous year; Value of the first quarter of 2011 is revised value.
Sources: US Department of Commerce; CEIC Database

Figure 1-1-2-5 Transition of retail sales in United States of America



Notes: Seasonally adjusted value
Sources: US Department of Commerce; CEIC Database

The disposable income to support consumption increased gently through the year. Examining the details, it shows that the transfer income such as tax reduction or unemployment benefits propped it up (Figure 1-1-2-6). Under a situation which the growth of the employees pay was not improved greatly[32], it was thought that there was an aspect that large size tax reduction (Bush tax reduction) such as income tax reduction introduced under the Bush administration, and unemployment benefits from the unemployment insurance extension payment program implemented from July 2008 supported the personal consumption. Such prop up support by policy continued until 2011 by large-scale additional economic measure[33] (refer to (f) the government expenditure which pushed up the growth rate of early 2010) established at the end of 2010[34].

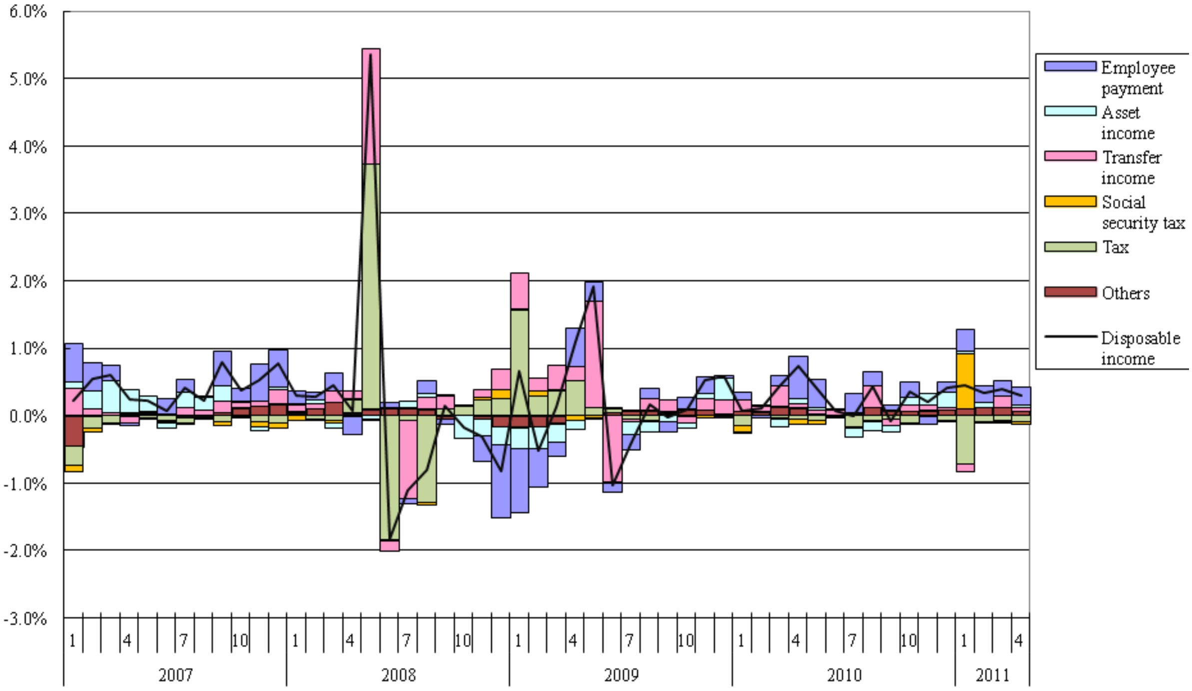
---

[32] The employees payments changed more or less by a 5% increases over the previous years from 2004 through 2007, but it was 2.6% in 2008, -3.2% in 2009 and 2.3% in 2010.

[33] Above mentioned Bush tax reduction and the unemployment insurance extension payment program were also expanded as the additional economic measures.

[34] In January 2011, the reduction of the social security tax (society premium) became the factor of the income up-thrust.

Figure 1-1-2-6 Disposable income and contribution degree by factors in United States of America



Notes:

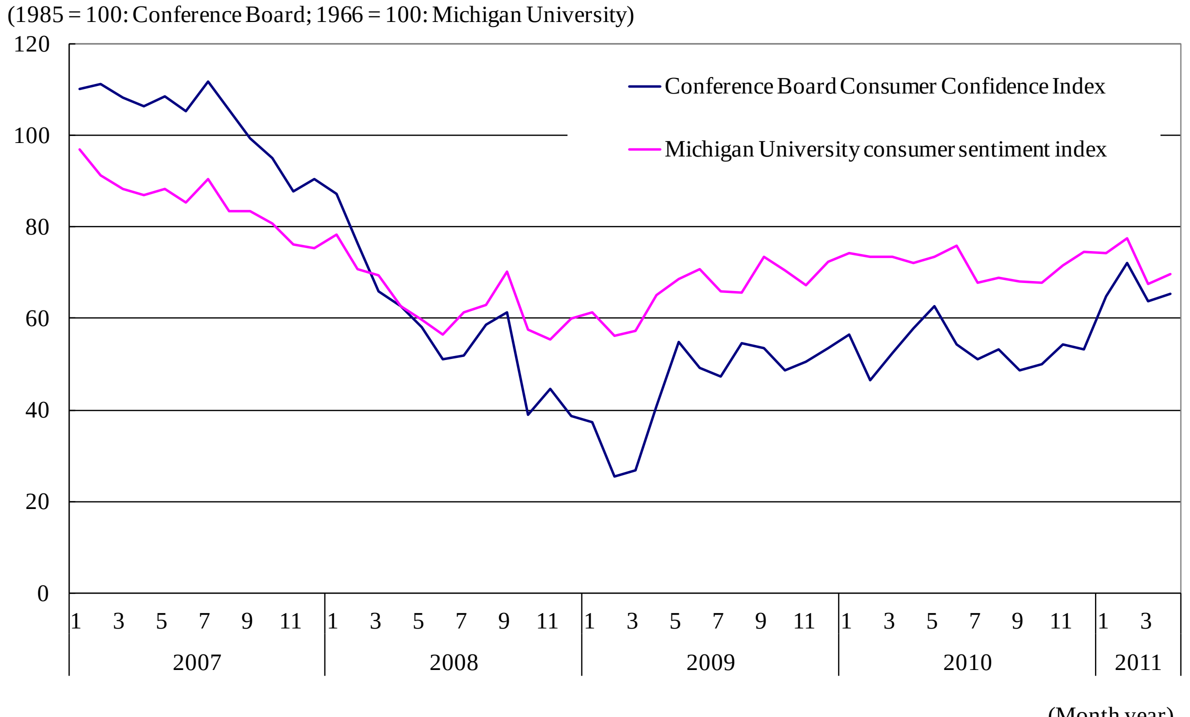
1. Seasonally adjusted value; ratio to the previous month
2. Sign of social security tax (social insurance premium) is reversed and the plus shows reduction in household budget.
3. "Others" are "independent business income" and "rental income".

The consumers' mind of 2010 did not get out of slump situation after the economic recession aspect, but it showed recovery after October 2010 (Figure 1-1-2-7). However, employment environment was still in hard situation. While the growth of employees pay remained at low level, unemployment rate in 2010 changed at high levels around 10%, and it still remains high at present (refer to (2). (B) Employment)[35].

---

[35] The employment rate recorded 9.8% in November 2010, the highest level since April 2010. Then, it had tendency to be improved and lowered to 8.8% in March 2011, but rose again to 9.0% in April 2011.

Figure 1-1-2-7 Transition of US Conference Board consumer confidence index and Michigan University consumer sentiment index



Sources: Conference Board; Michigan University; CEIC Database

It may be necessary to wait for further improvement of the employment environment by the activation of enterprises activities together with the rise of the employees pay for full-scale recovery of the personal consumption of the future.

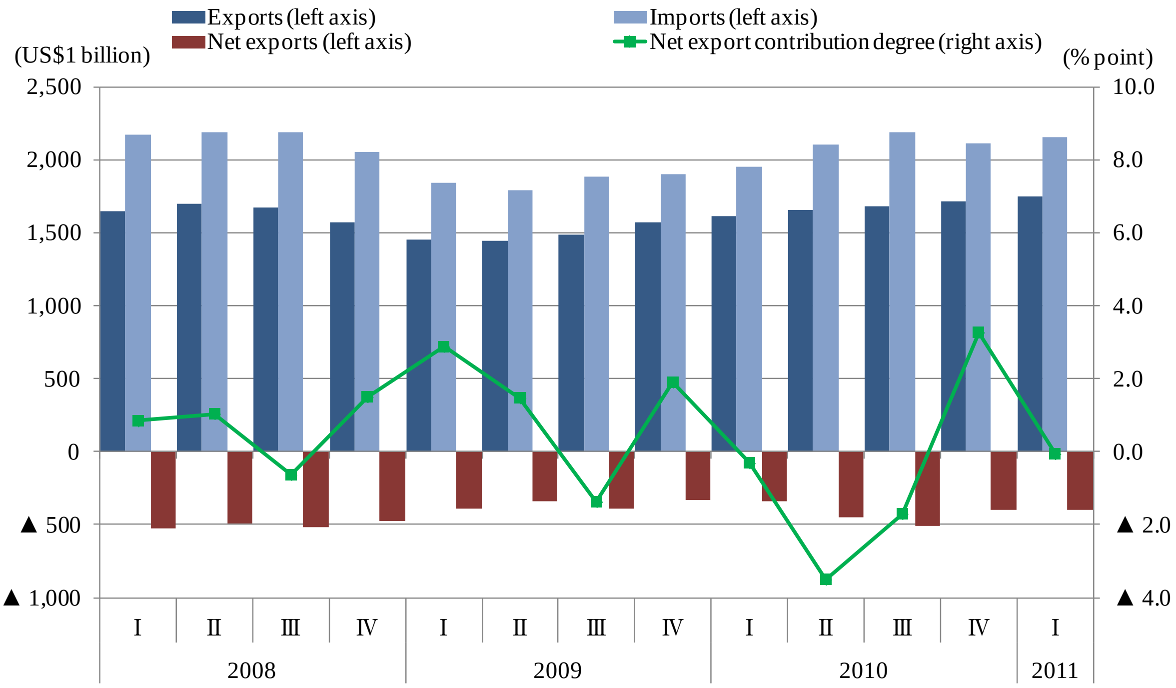
(b) Foreign demand that pushed the economy lower in early 2010

Since the world economic crisis of 2008, the quantity of world trade had been dropped, but it increased again with recovery of the world economy in 2010 (refer to 1. (2) Economic movement in the advanced and emerging economies, Section 1, Chapter 1) and both the annual value of exports and imports of the United States increased[36]. In the real amount basis, growth of the import exceeded the growth of the export from the first-quarter to the third-quarter in 2010. Eventually, the minus amount of the net export (foreign demand) expanded and became a factor to push down the growth rate (Figure 1-1-2-8). While amount of the export in fourth quarter of 2010 continued to increase, the amount of import decreased. As a result, the minus amount of net export was reduced and it contributed to raise the growth rate. Because the

[36] The amount of nominal export in 2010 was US$1.8376 trillion (16.7% increases over the previous year), the amount of nominal import was US$2.3376 trillion (19.5% increases). The real amount of export was US$1.6655 trillion (11.7% increases over the previous year) and the real amount of import was US$2.088 trillion (12.6% increases).

amount of import increased again for the first quarter of 2011, the net export contributed to the negative growth rate.

Figure 1-1-2-8 Transition of US real export and import amount and contribution degree of net export to real GDP growth rate



Notes: Seasonally adjusted value; Annual rate; Value of the first quarter of 2011 is revised value.
Sources: US Department of Commerce

(c) Extremely sluggish housing market

The housing market investment increased by 25.7% at an annual rate over the prior quarter in the second-quarter of 2010, which turned into plus after an interval of 3 quarters. But it was a weak move with -27.3% in the third-quarter and 3.3% in fourth-quarter of 2010. First quarter of 2011 was -3.3% (second estimate). This indicated that the United States housing market was still in severe situation[37].

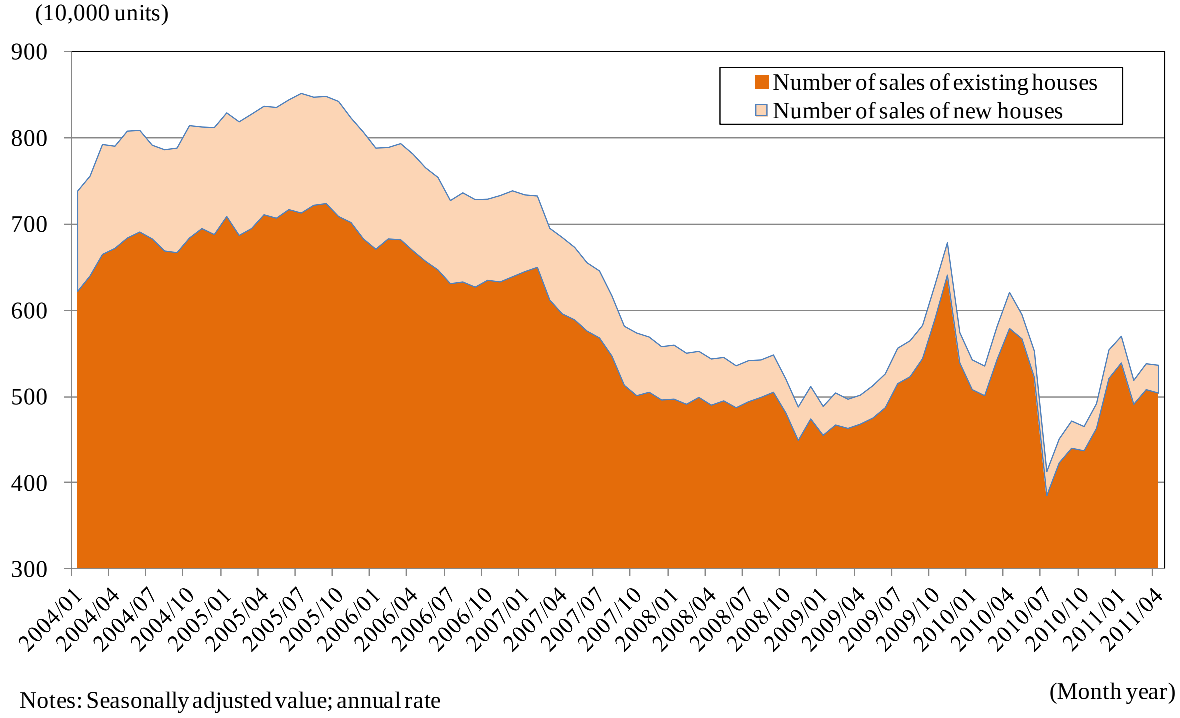
The number of housing sales in 2010 was at a historic low level (Figure 1-1-2-9). As for the sales of the existing-home, which accounted for approximately 90% of the number of sales, a reactionary decrease phenomenon occurred in July after rush demand by the housing tax reduction system[38] from 2009 to 2010[39]. From late 2010 through January 2011, a tendency to

[37] FRB pointed out on the housing and real estate market that " real estate markets for single family homes for the most part either were little changed from low levels or continued to weaken across all Districts." in the Summary of commentary on current economic conditions by Federal Reserve District (Beige Book) published on April 13, 2011.

[38] This is a system being applied to new homebuyer, which exempts them from tax of maximum

recovery was seen, but currently, the movement becomes weak again. The new housing sales also remained on the same level since May 2010 due to the competition intensification by existing-home and a large quantity of seized housing[40]. Reflecting the slump, the number of housing starts was a poor movement too (Figure 1-1-2-10). In December, the building permits number largely increased by a rush of application caused by the Building Standard Act Revision in 3 states including California, but the reaction decreased afterward.

Figure 1-1-2-9 Transition of sales of housing (new housing and resale housing) in United States of America



Notes: Seasonally adjusted value; annual rate
Sources: US Department of Commerce; National Association of Realtors (NAR); CEIC Database

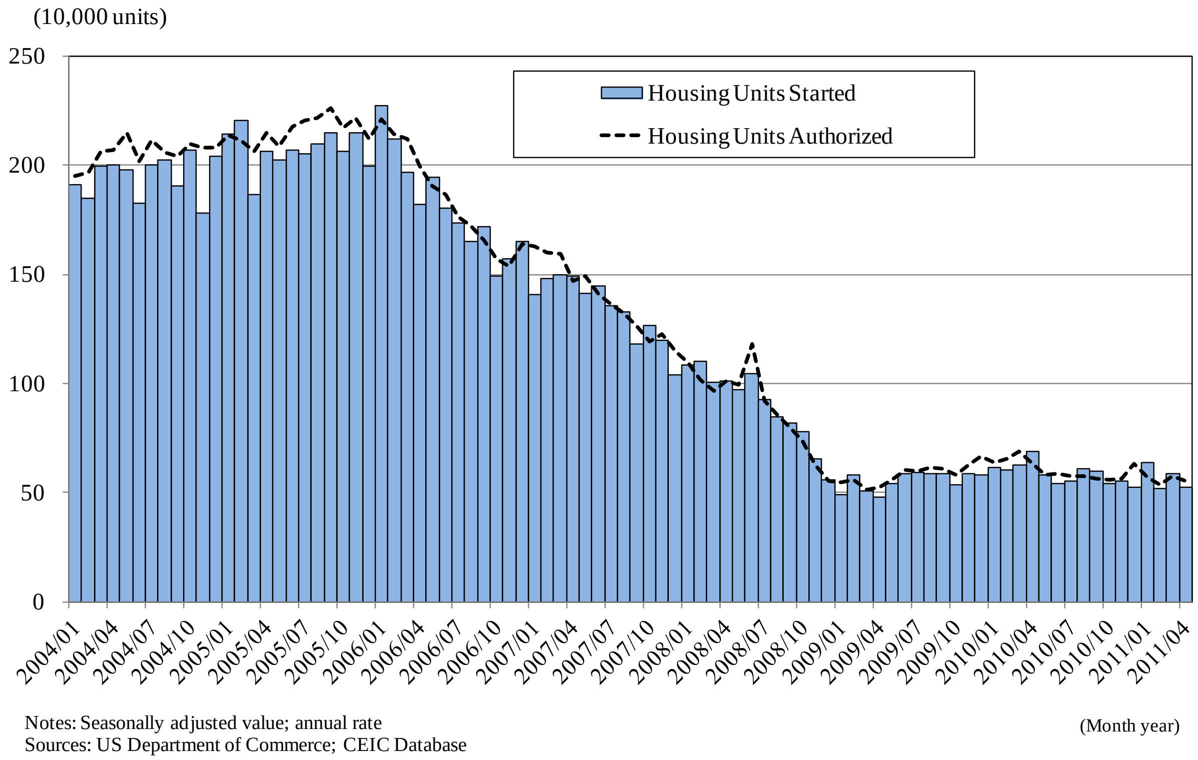
---

US$8,000. Initially, application period was until June 2009, but in February, the application expiration was extended until November. The expiration was further extended in early November that "the system is applied to cases that are contracted before April 2010, and the housing has been delivered before the end of June (extended to the end of September, later)", and also the tax deduction of maximum US$6,500 was permitted to apply to homebuyer other than new homebuyer (residing over 5 years).

[39] The number of existing-home sales of July 2010 was 3,860,000 at the annual rate. This was a record-high decrease of 26.2% compared with the month before. The number of existing-home sales of the whole year was 4,907,000 in 2010, and this is a minus figure for the first time in 2 years with the decrease of 4.8% compared with the previous year.

[40] As for the number of new housing sales of the whole year of 2010, it was 3,230,000, which was the lowest of this statistics since 1963. The stock of the number of new construction housing of April announced in May 2011 was 1,750,000, the lowest number in the past and it showed decreases in the housing construction.

Figure 1-1-2-10 Transition of number of house building and number of authorization to build house in United States of America

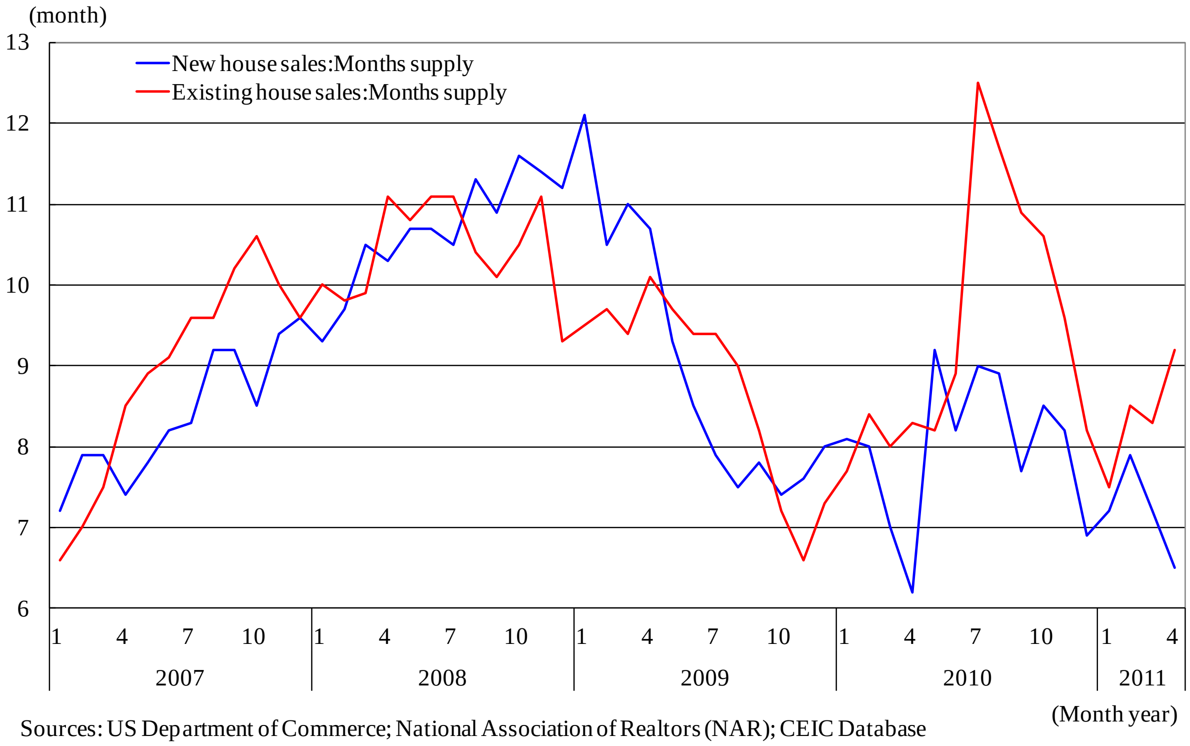


Notes: Seasonally adjusted value; annual rate
Sources: US Department of Commerce; CEIC Database

Ratio of houses for sale to houses sold [41] (hereinafter referred to as stock rate) was also still at high level (Figure 1-1-2-11). The stock rate of the existing-home decreased towards the end of 2010, but it increased again in 2011 and currently at a level of 8 to 9 months[42]. After having changed from 7 to 9 months in late 2010, the stock rate of the new construction housing is presently in a tendency to decline now[43].

[41] It is an index to show whether housing stock for how many months exists against the current housing sales at that point when there is no additional supply of the housing.
[42] The existing-home stock rate of the past 10 years (from January 2001 to December 2010) is an average of 6.7 months.
[43] The stock of the new construction housing decreases gently from 2007, but the stock rates may rise due to falls of the sales.

Figure 1-1-2-11 Transition of housing sales to stock ratio (new houses/Existing houses) in United States of America



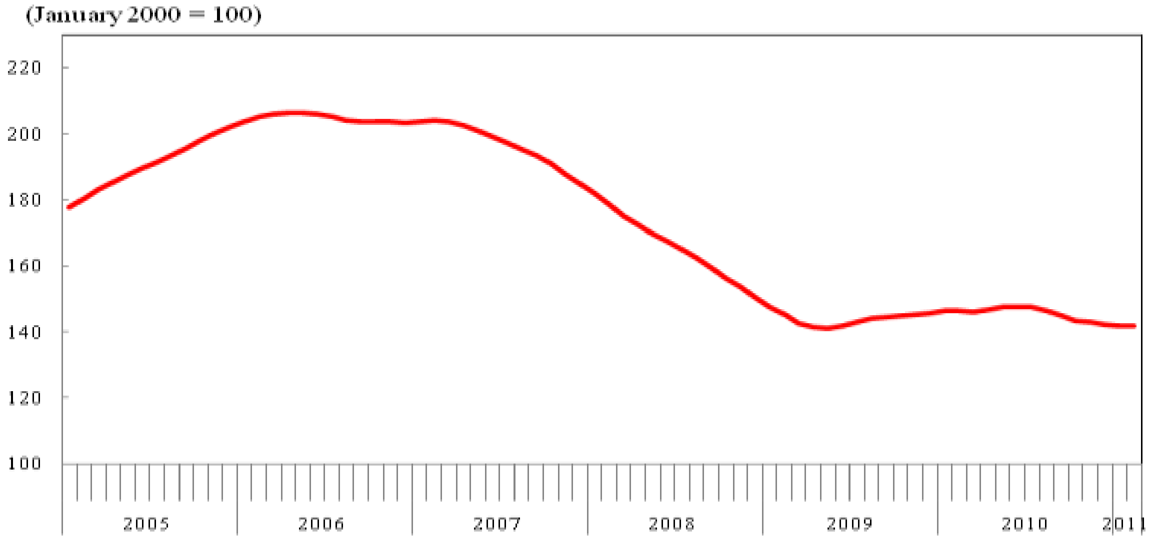
Sources: US Department of Commerce; National Association of Realtors (NAR); CEIC Database

Reflecting such situation, the house price fails to rise too. S&P/ Case-Shiller home price indices on 20 cities slightly increased over June, 2010, but decreased again afterwards (Figure 1-1-2-12). The median of the existing-home sales price was US$156,000 in February 2011, became at the lowest level since February, 2002[44]. In addition, it is considered that the newly built housing is also in the severe situation, because it faces the competition with existing-home, particularly with seized housing, which must be offered at lower prices. Such severe situation as the housing market had an influence on the balance sheet adjustment of the family budget. In other words, the household sector was carrying on the debt reduction while it was propped up by the transfer income such as the tax reduction or the unemployment benefits, but overburden debt feeling of the family budget was increased by the decline of the property value caused by the slump of the housing market, delay in the recovery of the flow income, and the hovering high unemployment rate, etc. The delinquency rate of the home loan and the charge off rate are still at a high level (Figure 1-1-2-13). Therefore, it is thought that balance sheet adjustment in the household sector continues for the time being (Table 1-1-2-14).

---

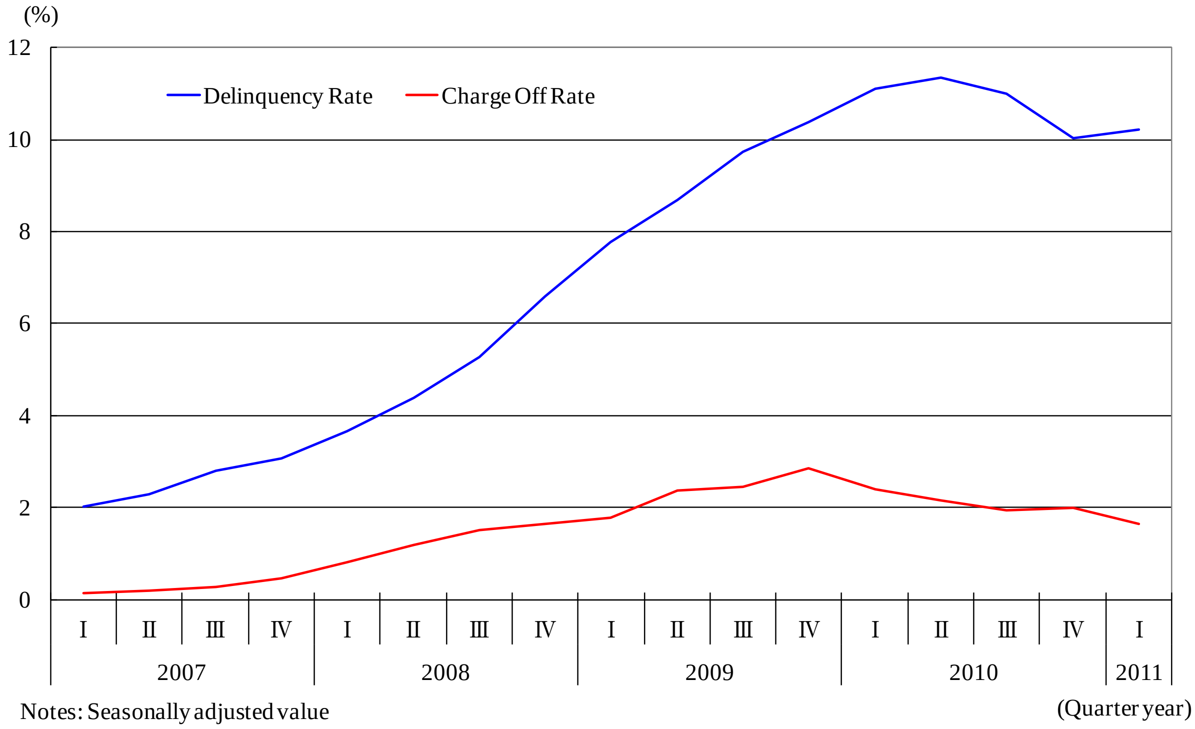
[44] Increasing rate of purchase (37% in April announced by National Association of Realtor (NAR)) of low price seized housing real property and houses, which were sold voluntarily after negotiation between debtors and creditors before seizure stage might cause the low level as the background.

Figure 1-1-2-12 Transition of Case-Shiller U.S. National Home Price Index: 20-City Composite



Notes: Seasonally adjusted value
Sources: Standard & Poor's

Figure 1-1-2-13 Transition of rate of housing loan in arrear and percentage of credit losses in United States of America



Notes: Seasonally adjusted value
Sources: FRB; CEIC Database

Table 1-1-2-14 Transition of balance sheet (major items) of household sector in United States of America

(Unit: US$1 billion)

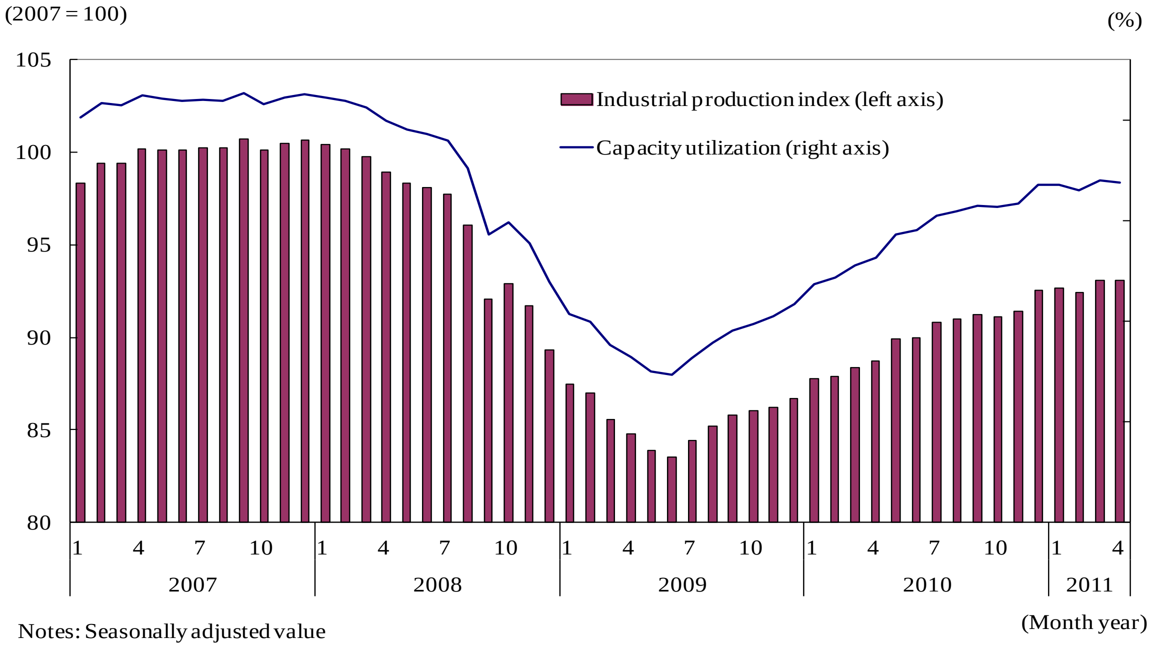
			End of 2006	End of 2007	End of 2008	End of 2009	End of the first quarter of 2010	End of the second	End of the third quarter	End of the fourth quarter	End of the first quarter of 2011
Total assets			77,605.1	78,538.9	65,635.7	68,161.5	69,253.8	67,954.3	68,645.9	71,062.7	71,932.4
	Nonfinancial assets		29,523.2	27,972.4	24,397.3	23,678.6	23,850.7	23,973.8	23,381.1	23,379.8	23,085.3
		Real estate	25,031.0	23,297.4	19,601.3	18,844.0	19,004.7	19,105.6	18,495.4	18,465.8	18,117.0
	Financial assets		48,081.9	50,566.5	41,238.3	44,482.9	45,403.1	43,980.5	45,264.8	47,682.9	48,847.1
		Corporate eq	9,643.7	9,627.0	5,738.8	7,429.3	7,676.2	6,955.9	7,500.8	8,239.9	8,791.9
Total liabilities			13,458.1	14,369.6	14,265.8	14,077.4	13,963.3	13,930.8	13,916.0	13,948.4	13,874.7
	home mortgages		9,866.5	10,540.2	10,495.7	10,342.1	10,221.9	10,173.7	10,106.1	10,055.4	9,987.9
	Percentage accounting for the total debts (%)		73.3%	73.4%	73.6%	73.5%	73.2%	73.0%	72.6%	72.1%	72.0%
	consumer credit		2,416.0	2,555.3	2,594.1	2,478.9	2,406.1	2,387.5	2,407.8	2,434.7	2,404.0
Net assets			64,147.1	64,169.3	51,369.8	54,084.1	55,290.4	54,023.5	54,729.8	57,114.3	58,057.7
	Disposable income rati		6.5	6.2	4.7	4.9	4.9	4.8	4.8	5.0	5.0

Sources: FRB

(d) Production activities of the enterprises to maintain the recovery tendency

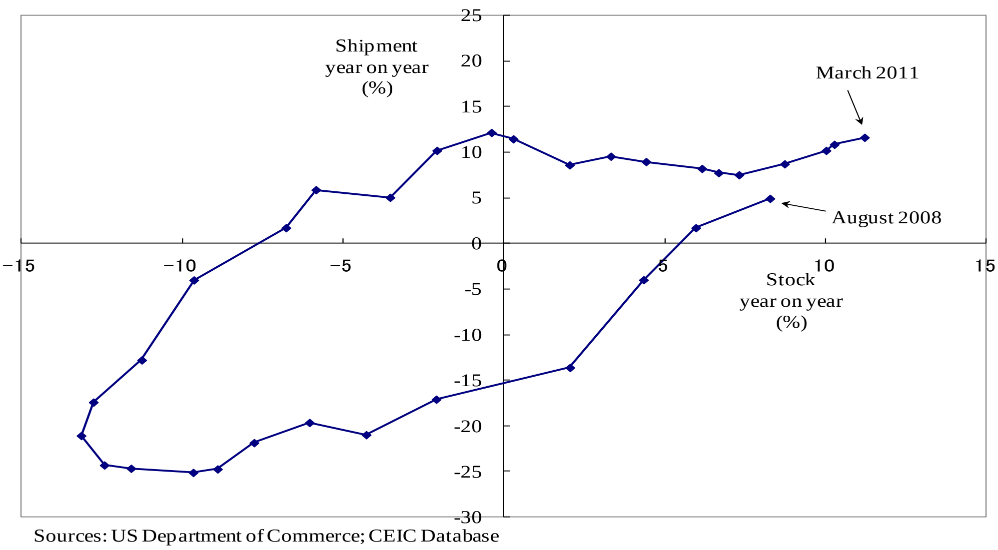
Reflecting on improvement of personal consumption and growth of foreign demand led by the emerging economies, the production activities of enterprises were showing a tendency to recover. From late 2009, a stock surplus decreased and industrial production and capacity utilization were maintaining a tendency to recover (Figure 1-1-2-15). However, the stock of the manufacturing industry continued to increase basically and as entering the destocking situation, it should be necessary to watch out for the pace to increase the production, which would have the possibility to slow down (Figure 1-1-2-16).

Figure 1-1-2-15 Transition of industrial production index and Capacity utilization in United States of America



Notes: Seasonally adjusted value
Sources: FRB; CEIC Database

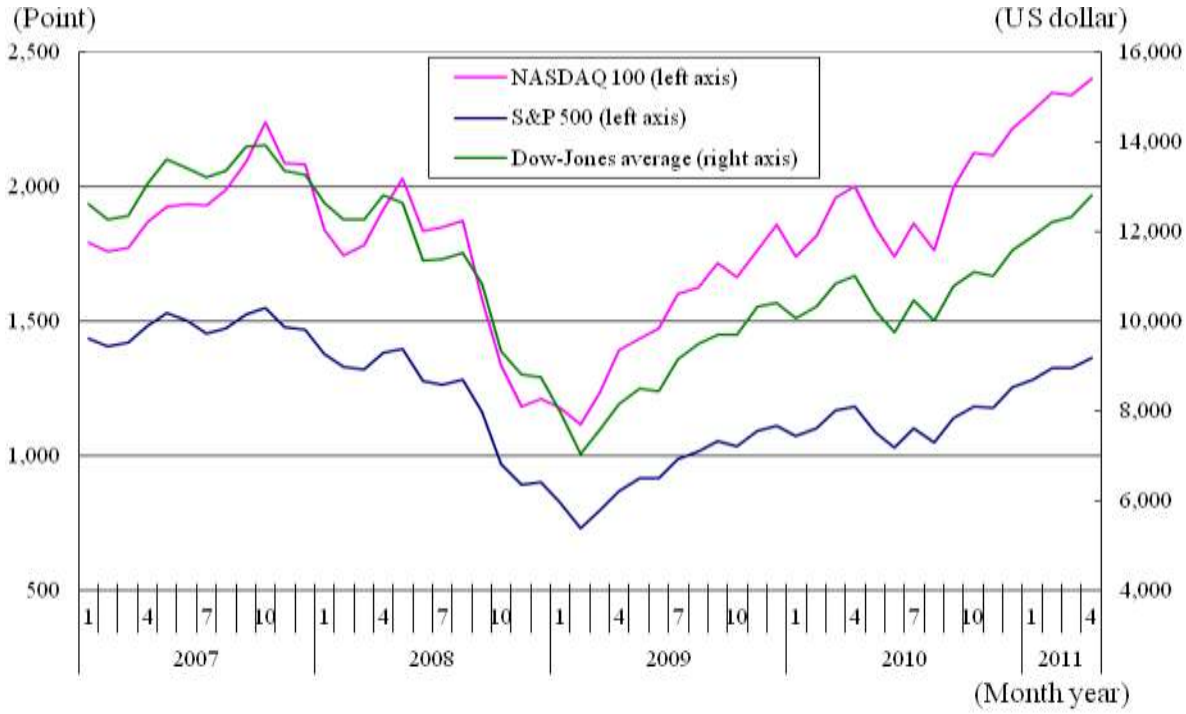
Figure 1-1-2-16 Stock circulation chart of United States of America



Sources: US Department of Commerce; CEIC Database

The maintained good production activities were reflected in the market. After having fallen under the influence of Greece financial crisis, the stock prices turned over and maintained an upward trend after August. Backed by economic expansion and improvement in business performance, the Dow Jones Average was restored to the 12,000 dollars level at the beginning of 2011, which was a level since June 2008 before the world economic crisis (Figure 1-1-2-17).

Figure 1-1-2-17 Transition of share prices in United States of America



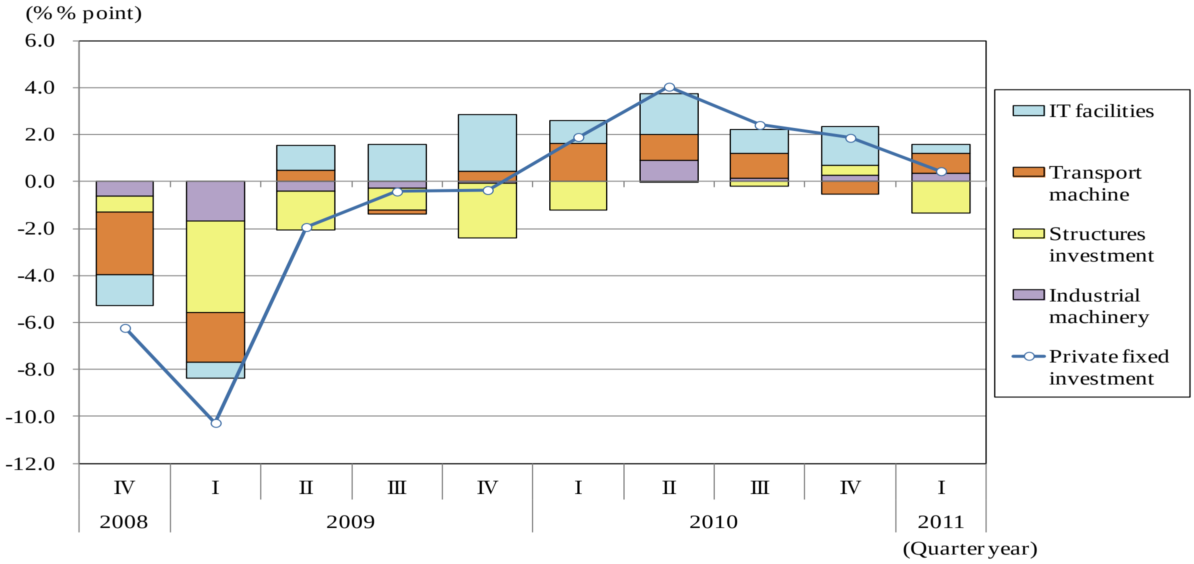
Sources: The NASDAQ Stock Market; Standard & Poor's; Dow Jones; CEIC

(e) Private capital investment, a decreasing pace of recovery

The private fixed investment increased gently in early 2010. However, the recovery pace continued to decrease in the last half of the same year. Examining the details, IT investment steadily increased, and recovery expanded in other sectors, but slump of the structures investment continued (Figure 1-1-2-18)[45]. As for the capital goods shipment that is leading indicator of the equipment investment, movement of the recovery was interrupted shortly at the beginning of 2011 and afterward. If the cost rising continues by remarkable rises in resources and energy prices, it may become cause of the concern that fixed investment fluctuates downward (Figure 1-1-2-19).

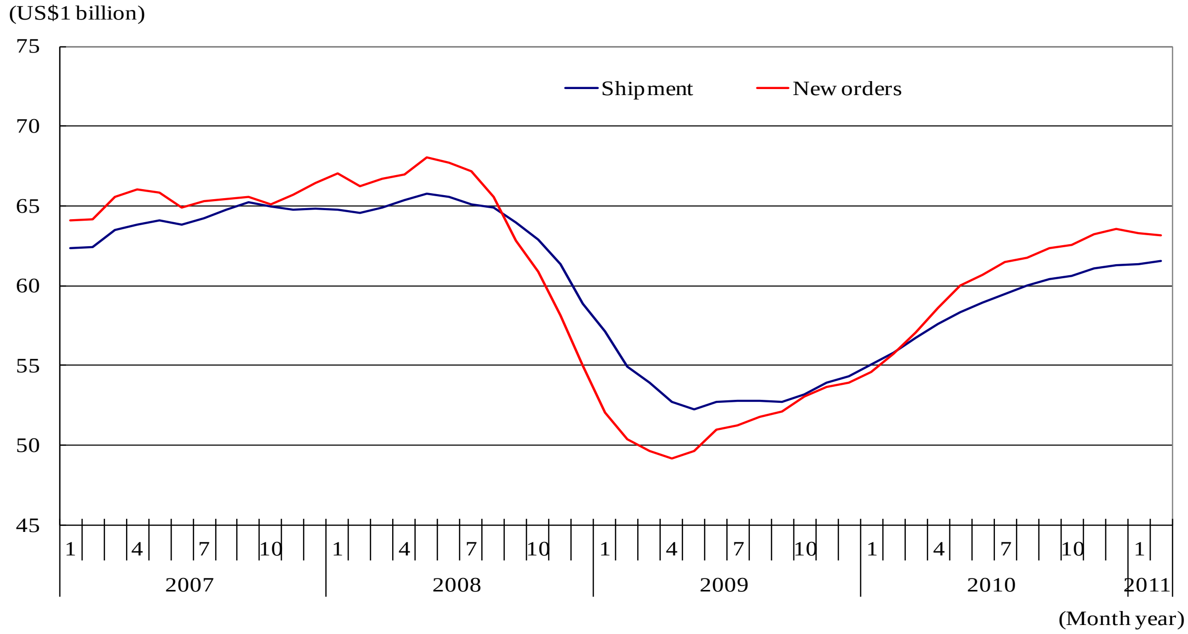
[45] The structures investment (a preliminary report level) of January - March period 2011 was 21.7% lower from the prior quarter at annual rate. That was a considerable decline from the previous quarter, which turned in a plus after an interval of 10 quarters. It is considered that the weather factors such as heavy snows influenced this.

Figure 1-1-2-18 Real private fixed investment and contribution degree by major items in United States of America



Notes: Seasonally adjusted value; Ratio to the previous quarter; Value of the first quarter of 2011 is the first estimation.
Sources: US Department of Commerce; CEIC Database

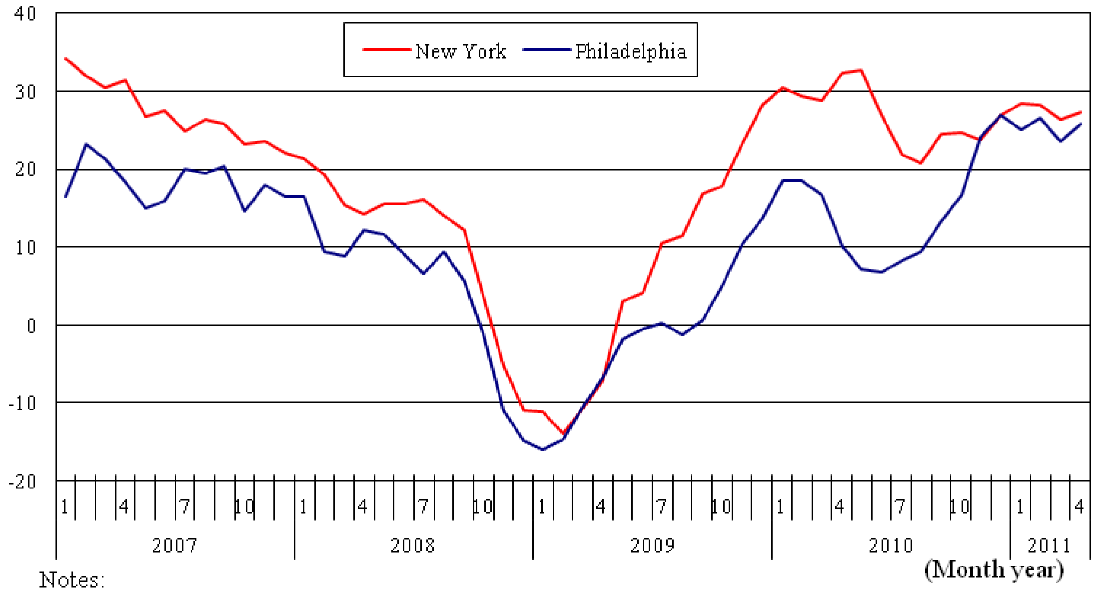
Figure 1-1-2-19 Transition of shipment and new orders received of non-defense capital goods (excluding aircraft) in United States of America (three months moving average)



Sources: US Department of Commerce; CEIC Database

However, the business sentiment for the capital investment of the future maintained a high level. Having examined indices about the investment attitude of companies after 6 months shown by Federal Reserve Bank of New York and Federal Reserve Bank of Philadelphia, slight decrease was found at the end of 2010, but it still maintained the high level and suggested possible underlying strength of the capital investment (Figure 1-1-2-20). The capital investment tax reduction (refer to (f) the government expenditure which pushed up a growth rate of early 2010), one of the additional economic measures implemented at the end of 2010, is considered to have positive effect on sentiment of the capital investment.

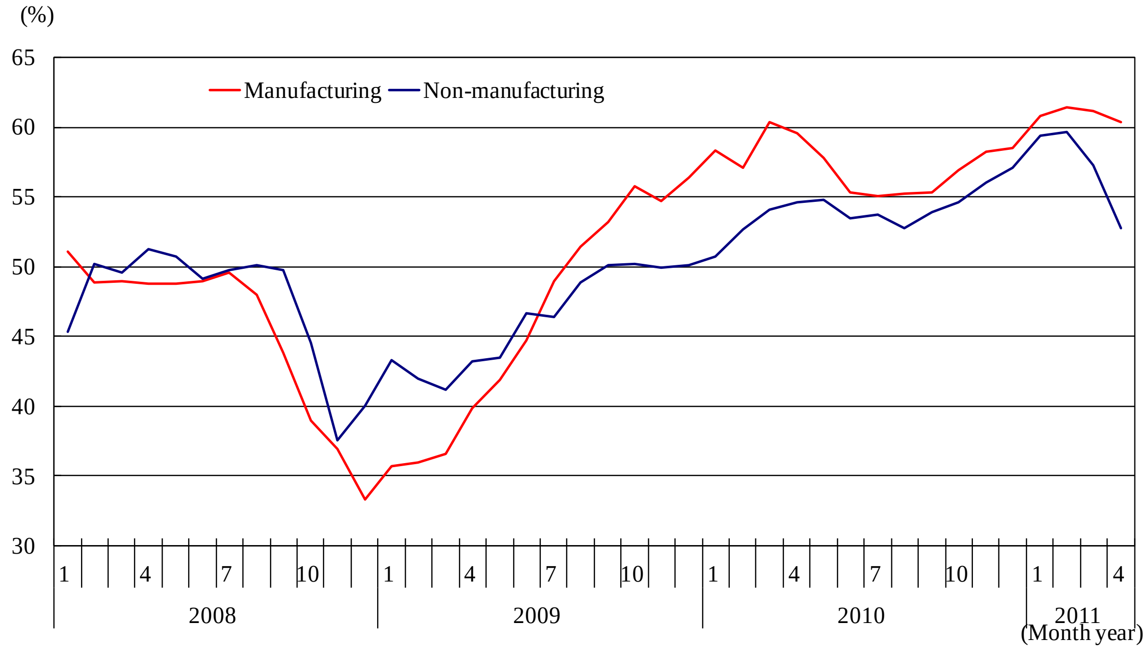
Figure 1-1-2-20 Transition of Federal Reserve Bank of New York's diffusion index and Federal Reserve Bank of Philadelphia's diffusion index in United States of America (future capital expenditures, three months moving average)



Notes:
1. State of New York is subject to the Federal Reserve Bank of New York's index; States of Pennsylvania, New Jersey and Delaware are subject to the Federal Reserve Bank of Philadelphia's index.
2. Survey sending questionnaire to companies on prospects of facilities investment after 6 months; Zero is the increase and decrease breakeven point.

However, according to the indices shown by Institute for Supply Management (ISM) that compared the situation in one month before with the current situation on items such as production, new orders received, inventory level and employment, it was improved towards the end of 2010, but presently the manufacturing industry remains at a level same as before in spite of being a high level, and the non-manufacturing industry is decreasing. It should be noted that the future situation of the business activities cannot be optimistic (Figure 1-1-2-21).

Figure 1-1-2-21 Transition of ISM purchasing managers index in United States of America (manufacturing and non- manufacturing)



Notes: Survey sending questionnaire to business persons in charge of purchase on comparison of items such as production, new orders and employment with those of one month before
2. Fifty is the increase and decrease breakeven point.
Sources: Institute for Supply Management (ISM); CEIC Database

(f) The government expenditure, which pushed up the growth rate of early 2010

The government Expenditure increased by the economic stimulus package based on the American Recovery and Reinvestment Act (ARRA)[46] enacted in February 2009 that contributed to the growth rate. The expenditure became largest in early 2010 due to the economic stimulus package with a total of US$787.2 billion, and it is thought that it pushed up the real GDP of 2010 (Figure 1-1-2-22). In fact, according to the estimation by Congressional Budget Office (CBO), it was said that the economic stimulus package by ARRA was effective in pushing up the real GDP of early 2010 up to 4.6% (Table 1-1-2-23). However, as the peak of the government spending has been already passed, the up-thrust effect is estimated to slow down in 2011.

[46] Refer to "Ministry of Economy, Trade and Industry, (2010), "White Paper on International Economy and Trade 2010, Chapter 1, Section 2, (2) The United State Economy"

Table 1-1-2-22 Transition of fiscal stimulus by function category of the American Recovery and Reinvestment Act (ARRA)

(Unit: US$ 1 billion)

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Individual tax cuts	2.3	28.6	42.8	58.5	101.4	123.9	133.7	142.4
Alternative Minimum Tax (AMT) rerief	0.0	7.8	13.8	17.3	28.7	76.2	83.4	83.4
Business tax incentives	0.1	10.4	19.0	26.6	32.5	36.6	34.4	33.4
State fiscal relief	8.5	28.2	43.8	59.3	75.5	92.1	107.1	121.7
Aid to directly impacted indisivuals	0.0	9.6	31.8	55.2	71.4	76.6	81.3	86.0
Public investment outlays	0.0	7.4	25.1	41.6	59.3	86.3	119.2	141.6
Total	11.0	92.1	176.3	258.6	368.7	491.6	559.1	608.5
Change in total (from end of previous quarter)	11.0	81.1	84.2	82.3	110.1	122.9	67.4	49.5

Sources: Council of Economic Advisers (2011), "The Economic Impact of the American Recovery and Reinvestment Act of 2009 Sixth Quarterly Report"

Figure 1-1-2-23 Estimated effect for real GDP by the American Recovery and Reinvestment Act (ARRA)

(Unit: %)

	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High estimate	0.1	1.4	2.5	3.4	4.3	4.6	4.2	3.5	3.3	2.5	2.0	1.2
Low estimate	0.1	0.8	1.2	1.5	1.8	1.6	1.4	1.1	1.2	0.8	0.6	0.3

Sources: Congressional Budget Office (2011), "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2010 Through December 2010"

The Obama government pledged to achieve equalization of primary balance and set up a nonpartisan committee to examine specific measures. As the economic recovery slowed down after 2010, the additional economic measure focusing on infrastructure investment and corporate tax reduction was proposed in September 2010. Furthermore, "Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act[47]" was enacted in December 2010, and it became a large-scale additional economic measure with a total of US$857.8 billion (Table 1-1-2-24).

[47] The Act includes the 2 years extension of the 2001 and 2003 Bush tax reduction plan which were to expire at the end of 2010, the 13 months extension of the unemployment insurance extension program expiring at the end of November 2010, the social security tax relief and the immediate depreciation measure on capital investment, etc.

Table 1-1-2-24 Outline of additional economic stimulus measures

(Unit: US$100 million)

Content		Amount
Extension of Bush tax reduction		5,443
	Deferment of income tax rate	2,075
	Continuing mitigation measures	1,561
	Matters related to Obama tax reduction	441
	Others	1,367
Tax reduction of inheritance duty		681
Easing social security tax (social insurance premium)		1,117
Implementation of immediate depreciation of facilities investment		218
Extension of special measure to issue unemployment insurance		565
Others		554
Total		8,578

Notes:

1. Obama tax reduction is a tax reduction measure included in measures in 2009.

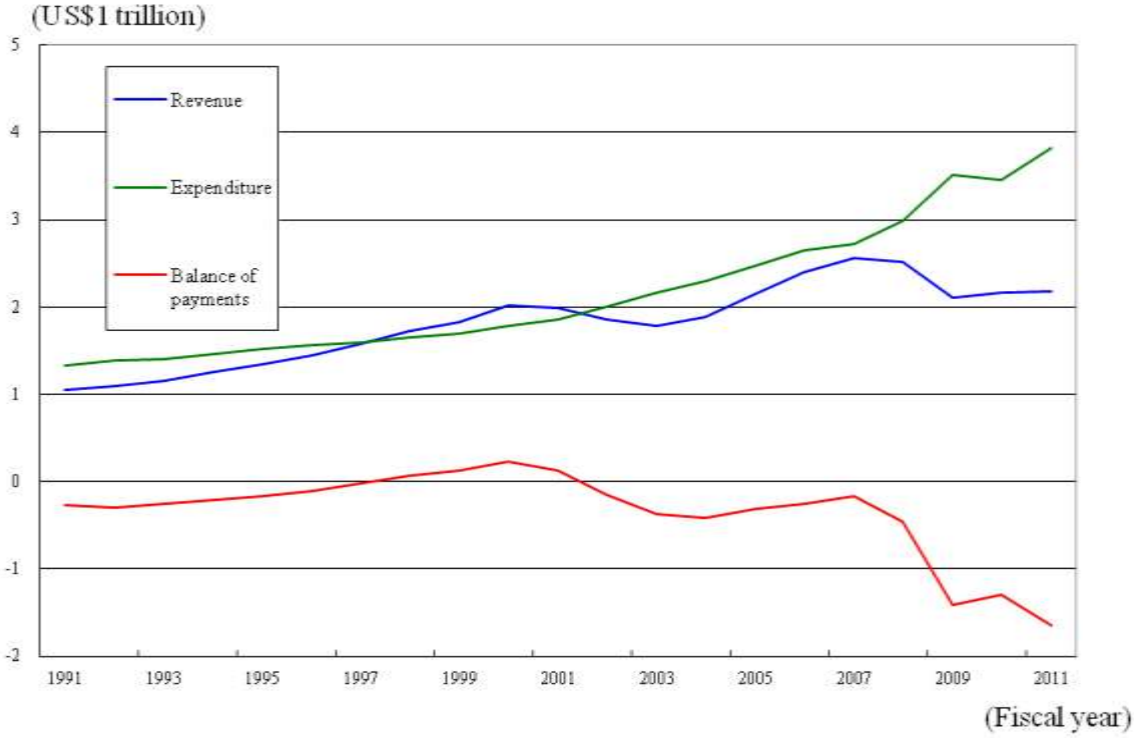
2. The amount is an accumulated total from 2011 to 2020.

Sources: Data from Joint Committee of both Houses

While such economic measures advanced, the budget deficit increased. The federal budget deficit of 2010 was US$1,239 billion and the amount of deficit was less than the record-high deficit in 2009, but over US$1,000 billion deficit continued to be recorded (Figure 1-1-2-25). President Obama proposed an austere fiscal policy in the Budget Message of 2012 submitted on February 14, 2011 for restraint and reduction of the budget deficit. In this Message, the worst-ever budget deficit of US$1,645 billion was estimated for fiscal 2011(started from October, 2010). Obama government aims to control the accumulated budget deficit from fiscal 2012 to 2021 within US$7,200 billion by measures such as, changes in the revenue structure, reduction of obligatory expenditure and freezing discretionary spending for 5 years[48].

[48] The 2011 budget approved in April 2011 reduced approximately US$78.5 billion from the original annual expenditure budget.

Figure 1-1-2-25 Transition of US federal fiscal revenue and expenditure



Notes: Amount in 2011 is a predicted value (Budget Message 2012).
Sources: US Office of Management and Budget; CEIC Database

The financial difficulties continue to exist not only in the federal government but also in the local governments[49]. The government Expenditure (second estimate) of the first-quarter in 2011 accounts at an annual rate of -5.1% reduction from the prior quarter and record-low size of decrease since the fourth-quarter in 1983, and this becomes a factor to push down the growth rate.

(B) Progress in export doubling plan and current account deficit to increase again

(a) Progress in the export-doubling plan

President Obama announced "the national export initiative" in his State of the Union Address on January 27, 2010 (Table 1-1-2-26). This initiative aims to increase export double in the next 5 years and to create the new employment of 2,000,000 people. In September, 2010, Export Promotion Cabinet announced action and progress in 6 months since the start of the nation

[49] According to the estimation provided by Center on Budget and Policy Priorities (CBPP), a think tank of the United States, 44 of 50 states in the United States anticipate revenue shortfall in 2012. The revenue deficiency of the state government is expected to gradually reduce after a peak in 2010, but the revenue deficiencies of the states which the state governments must cover will increase because the financial assistance based on the ARRA, provided from the federal government to the state governments is to be terminated in 2011. As a result, as of February 2011, resident services have been already reduced in 46 states, and a tax increase has been conducted in more than 30 states.

export initiative, and showed performance such as dispatch of the trade mission, support for trade expansion to the medium and small-sized business, the expansion of the export credit through the export and import bank.

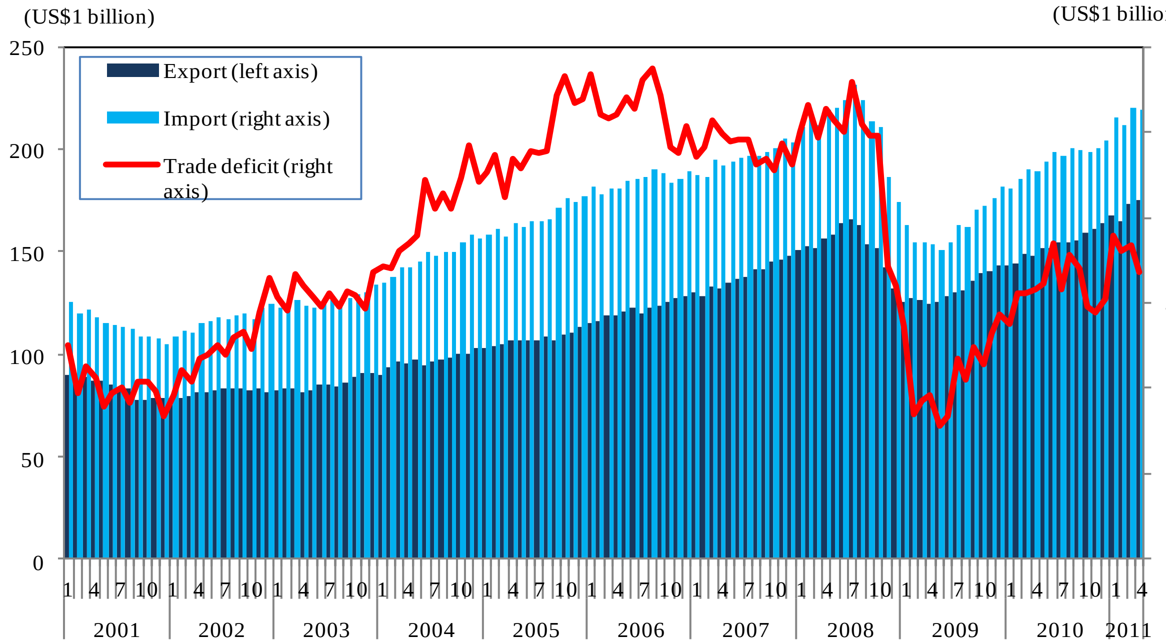
Table 1-1-2-26 Outline of United States of America's national export strategy

Target	Doubling the export and creating two million domestic new jobs within 5 years
Concrete measures	1. Coordination of high level export promotion policy • Creation of Export Promotion Cabinet • Resuming the President's Export Council (PEC)
	2. Financial support for export business • Doubling the fund frame of Export Import Bank within 5 years (currently US$21 billion) • New establishment of trade financial support system for small and medium sized enterprises (US$2 billion per year)
	3. Export support across the government: Participation of high level government officials to promote export • Dispatching trade mission • Export strategy for new markets (Department of Commerce in charge) • International business partnership program (USTDA in charge) • Strengthening commercial diplomacy by the diplomatic mission abroad
	4. Providing resources for candidates of future export companies • ･Providing one stop services for the export promotion
	5. Ensuring access to the free and fair markets • Strict enforcement of the Trade Act • Opening new markets • Forming foundation for strong, sustainable and balanced growth
	6. Reformation of the export management system: National security and strengthening the competitiveness of principal industry • Accelerating the examination on export for encrypted export products • Coordination of restriction with export partner countries

Sources: The White House, "President Obama Details Administration Efforts to Support Two Million New Jobs by Promoting New Exports" (March 11, 2010)

The United States annual export is approximately US$1,600 billion as of 2009. To increase this double in 5 years, the exports of 2014 will be over US$3,000 billion and high growth rate of over 15% at an annual rate must be maintained. Report from said Cabinet Council showed that export in January- April 2010 period was 17% increase over the same period in the previous year and stated that the accomplishment of the goal should be possible with the growth rate. In addition, the annual export of 2010 was US$1,800 billion, and it was 17% increase over the previous year. It can be said that the United States export performance in 2010 grow at the rate that can almost achieve the target. Currently, the export has tendency to increase, and in April, 2011, it reached record-high of US$175.6 billion on monthly basis (Figure 1-1-2-27).

Figure 1-1-2-27 Transition of US trade balance



Notes: International balance basis; seasonally adjusted value
Sources: US Department of Commerce; OEIC Database

Addition to the steady demand from the emerging economies, and backed by the export doubling plan based on "the nation export initiative" that government promotes, it is expected that recovery of the export continues and support the business activities.

In 2010, a recovery basic tone continued also in the import. With recovery of the domestic demand supported by improvement of personal consumption and the business sector, the amount of import also increased, and the trade deficit of June, 2010 became US$46.9 billion, the highest level since October 2008. Afterward, the trade deficit had a tendency to reduce, but increased again[50] from December through January 2011 (Figure 1-1-2-27).

(b) The current-account deficit to increase again, the main reason is the goods trade deficit

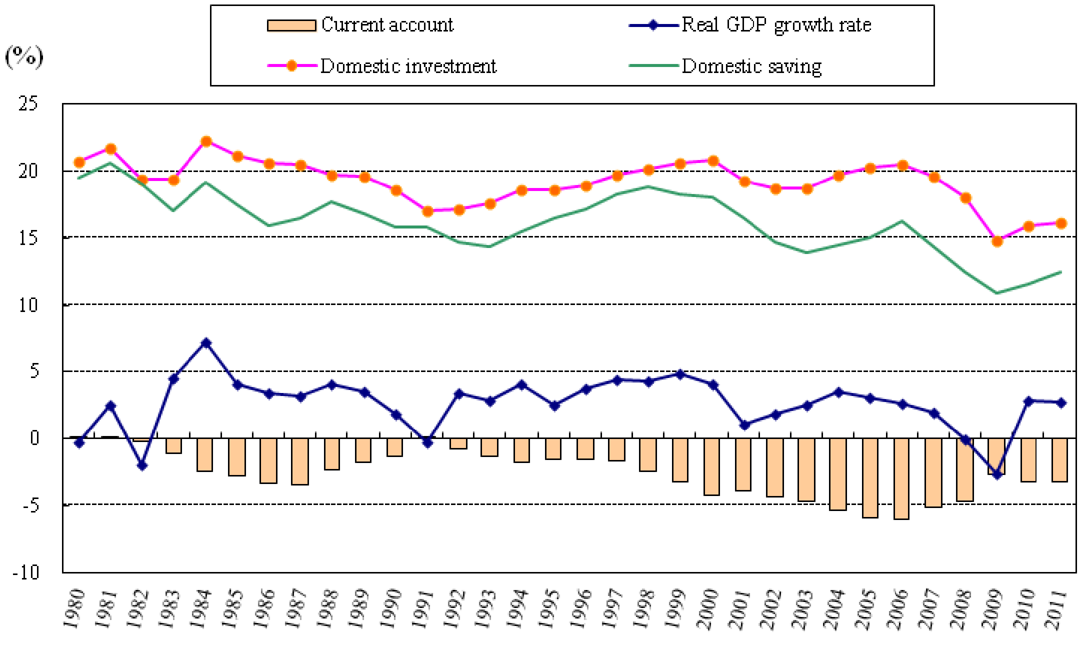
As mentioned above, President Obama stated the policy to double export in the next 5 years in the State of the Union Address of January 2010. However, remarkable improvement of the trade

[50] The trade deficit of April 2011 reduced to US$43.7 billion. It was a 6.7% decrease from the previous month.

balance is not found at present, and this becomes the main reason of the current-account deficit increase after the third quarter of 2009.

Watching the transition of the current balance of the United States, after the current-account deficit increased temporarily at the mid-1980s, it turned to decrease and moved into the surplus in 1991. However, the balance worsened again, afterward and the current-account deficit increased mostly throughout until the mid-2000s. In 2006, it recorded -6.0% in ratio to the GDP (Figure 1-1-2-28).

Figure 1-1-2-28 Transition of US real GDP growth rate and ratios of saving, investment and current account to GDP

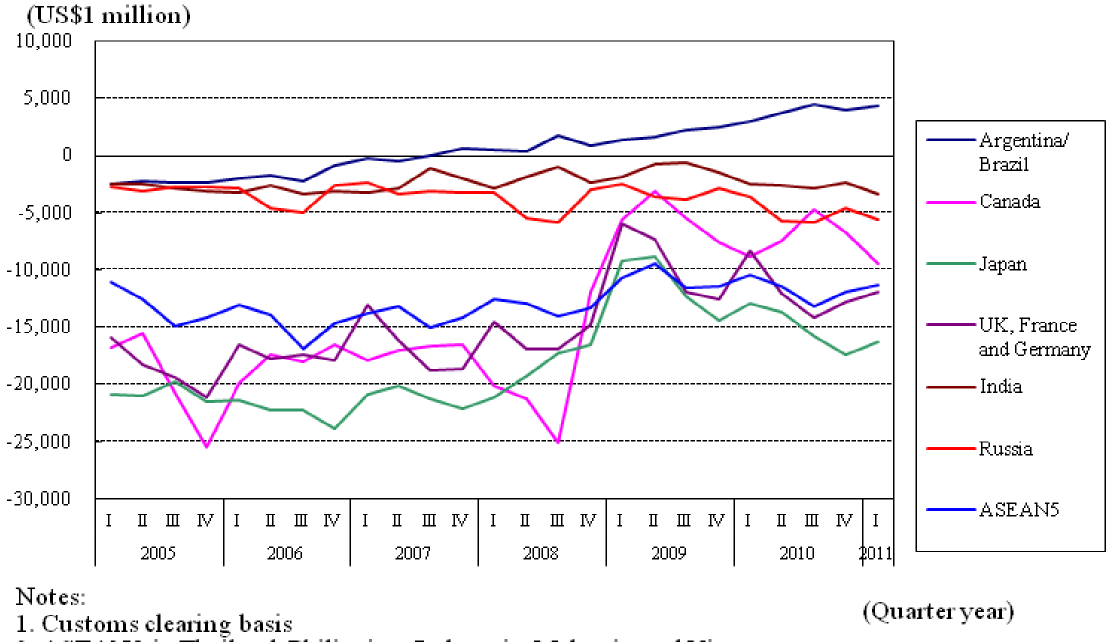


Notes: Value in 2011 is predicted.
Sources: IMF "World Economic Outlook April 2011"

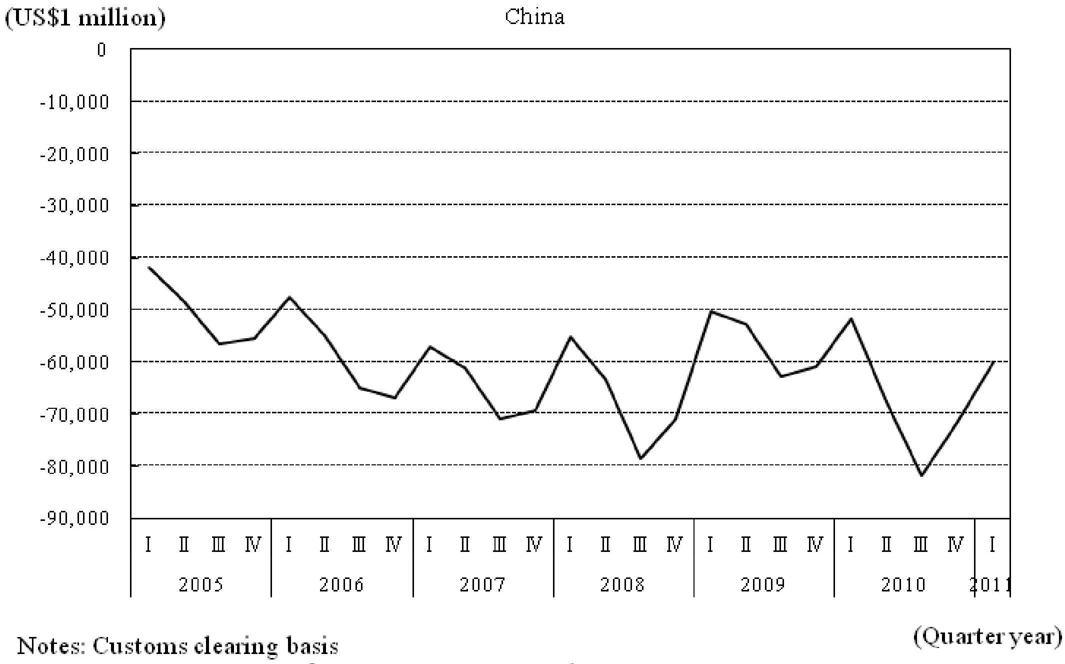
In recent years, the current-account deficit ratio to GDP decreased, but deficits in quarterly basis increased again from the third quarter of 2009, and deficits in annual basis became -3.2% in 2010. During this period, the balance on services and the balance on income were consistently the surplus, but the balance on goods and the net unilateral current transfers had deficits. Because there are little changes in the deficit of the balance of transfer account, the increase of the current-account deficit after the third-quarter of 2009 was caused by the aggravation of the balance on goods.

Examining the movements in the trade balance according to major countries/ regions, while trade with Argentina and Brazil registered the surplus, the trade with China, Japan, sum of UK, France and German, ASEAN5, India and Russia fell into the red. Especially, deficits in the trade with China have been at higher level (Figure 1-1-2-29).

Figure 1-1-2-29 Transition of United States trade balance (quarterly basis, by countries/ regions)[51]



Notes:
1. Customs clearing basis
2. ASEAN5 is Thailand, Philippine, Indonesia, Malaysia and Vietnam.
Sources: US Department of Commerce; CEIC Database



Notes: Customs clearing basis
Sources: US Department of Commerce; CEIC Database

[51] Figure 1-1-1-46 is shown again on China.

(2) The employment and Commodity prices to control FRB monetary policy

(A) FRB monetary easing policy

While inflation rate continued at the historic low level, FRB reduced the target rate of the federal funds to 0 to 0.25% in December, 2008, and left it unchanged to continue the ultra-low interest policy (Table 1-1-2-30).

Table 1-1-2-30 Transition of US official discount rate and federal funds target rate

	Official discount rate	Federal funds target rate
2007 8/17	5.75	4.75
9/18	5.25	4.75
10/31	5.00	4.50
12/11	4.75	4.25
2008 1/22	4.00	3.50
1/30	3.50	3.00
3/16	3.25	3.00
3/18	2.50	2.25
4/30	2.25	2.00
10/8	1.75	1.50
10/29	1.25	1.00
12/16	0.50	0.00 - 0.25
2010 2/19	0.75	0.00 - 0.25

Sources: FRB

In addition, FRB performed various nontraditional monetary policies including the purchase of bonds and securities such as agency bonds of 2009, residential mortgage-backed securities (MBS), the long-term national bond, but adopted the exit strategy to terminate them once by June, 2010 (Table 1-1-2-31).

Table 1-1-2-31 Transition of non-traditional monetary policy by US FRB

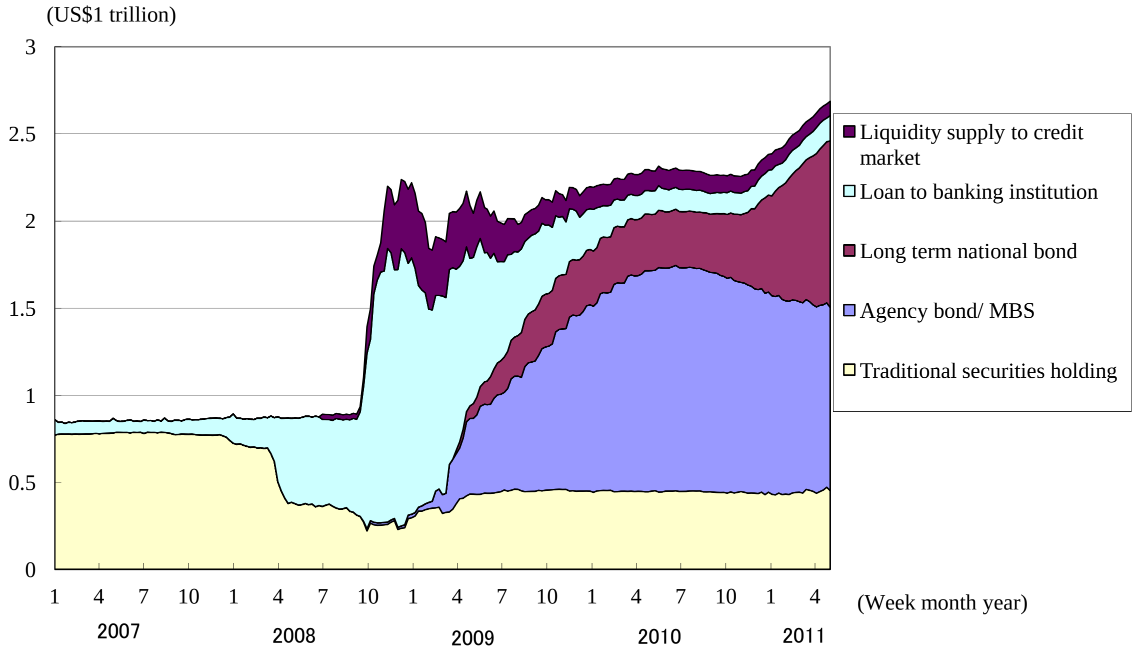
- Term Auction Facility (TAF)
  : From December 2007 to March 2010
- Term Securities Lending Facility (TSLF)
  : March 2008 to February 2010
- Primary Dealer Credit Facility (PDCF)
  : From March 2008 to February 2010
- Asset-Backed Commercial Paper Monetary Market Fund Liquidity Facility (AMLF)
  : From September 2008 to February 2010
- Commercial Paper Funding Facility (CPFF)
  : From September 2008 to February 2010
- Money Market Investor Funding Facility (MMIFF)
  : From October 2008 to October 2009
- Term Asset-Backed Security Loan Facility (TALF)
  : From March 2009 to June 2010
- Purchase of agency bond and Mortgage-Backed Security (MBS)
  : From January 2009 to March 2010
- Purchase of long term national bond
  : From March 2009 to October 2009
- Resuming purchase of long term national bond
  : From August 2010 Purchase of refund of principal of Mortgage-Backed Security (MBS) and others
  : From November 2010 to June 2011 Purchase of US$600 billion (QE2)

Sources: FRB; Data from various news reports

However, the reduction of the size of increase in the number of private sector employees, continued declining tendency of the core consumer prices index and decline in expected inflation rate were seen after May 2010 due to slowdown of the economic recovery by the exfoliation of the policy effect after spring of 2010, and decline of the market sentiment beginning with Greek financial crisis. As having dual mandate of "the maximum employment and prices stability", FRB decided on the second monetary easing policy. In November 2010, Federal Open Market Committee (hereinafter referred to FOMC) decided additional purchase[52] of the long term national bonds totaling US$600 billion before the end of June 2011 (approximately US$7.5 billion per month) for the additional monetary easing (Figure 1-1-2-32 and Table 1-1-2-33).

[52] Also generally known as QE2 (Quantitative Easing 2).

Figure 1-1-2-32 Transition of balance sheet of US FRB (asset side)



Sources: FRB

Table 1-1-2-33 FMOC Statements, FRB high officials' remarks and market viewpoints before the invocation of US additional monetary easing measures

August 10, 2010 **Federal Open Market Committee (FOMC)** • FRB showed its deliverance on US economy that "the pace of recovery in production and employment was decelerated over the past several months". This was rather cautious comment compared with previous one in June that "the economic recovery was in progress and the labor market was improved gradually". And it made a downward revision on the forecast that the pace of economic recovery could be rather moderate than expected before". It decided that the holding of securities was maintained at current level by reinvesting redemption funds of agency bond and MBS to the long term national bonds". • The decision suspends the exit strategy to return the monetary policy to normal conditions through asset shrinkage by natural reductions and it is called as "a virtual additional monetary easing measure". **August 27, 2010** **Lecture given by Bernanke, Chairman of FRB (Symposium held by Kansas City Federal Reserve Bank)** • The chairman pointed out that "speed of recovery in the production and employment were slightly slower than expected one over the past several months and its background was stagnation in the consumption and delay in improvement of the labor market. He made remarks that "FOMC was ready to implement additional monetary easing measures to maintain the stability in prices and economic recovery if needed. • The comment triggered the markets' strong expectation for additional monetary easing measures. **September 21, 2010 FOMC** • FRB showed concerns about prices of commodities and low inflation rate first time in its statement that index showing underlying inflation was slightly lower than a level of which FOMC deemed as the most suitable for the FOMC responsibility to promote expansion of job opportunities and stability in prices". And it expressed possibility of the future additional monetary easing measures that "watching the economic prospects and movement of monetary markets, we were ready to implement the additional monetary easing measures if needed to support the economic recovery and to gradually return the inflation rate to the level suitable to our responsibility". • The market increasingly expected decision of implementation of the additional monetary easing measures at FOMC meeting in November due to number of employees in the employment statistics in September, which was fewer than previously expected one (*1) announced by Department of Labor later on October 8 and FRB officials including Chairman Bernanke repeatedly made positive remarks (*2) on the additional monetary easing in lectures. *1: Number of employees in non-agricultural sectors in September decreased 95,000 compared with the previous month and the unemployment rate was 9.6%. The number of employees decreased for consecutive four months and it largely decreased from the number expected by the markets (decrease of 5,000) (Later the number was revised and reduced to 29,000 decrease compared with the previous month). *2: For examples, "We are ready to implement the additional monetary easing if needed" said Chairman Bernanke (on October 15); "From the viewpoint of two responsibilities of the maximizing employment and stability in prices which are borne by FRB, the current status is entirely unsatisfactory" said Dudley, President of New York Federal Reserve Bank (on October 19). **November 2 and 3, 2010, FOMC** • FRB made judgments that "currently unemployment rate was at high level and index showing the underlying inflation was at slightly lower level compared with the level of which FOMC deemed suitable to achieve two responsibilities for a long term. We forecast that utilization of resources gradually would reach the higher level relating to the stability in prices, but progress toward the target was disappointingly late". We decided the additional monetary easing measures (purchase of the long term national bond of total US$600 billion until the end of June 2011 (approximately US$ 75 billion per month)) to promote economic recovery in a faster pace and to ensure the inflation rate reaching at the level consistent to the responsibilities of FOMC as time goes on. • As the contents of this monetary easing measure are within the market expectation, the exchange rate and share prices fluctuated modestly.

Sources: FRB; Data from various news reports

The pace of purchase and the total sum were reviewed at each FOMC meeting and discussion was held on reduction of the amount of purchase after December and, as a result, the additional monetary easing was continued. FOMC meeting held in April 2011 decided complete the purchase of the long-term national bond at the end of June as schedule[53] while the growth rate from October, 2010 to December improved, and the tendency of economic recovery increased.

(B) Employment

The employment market was in severe situation in 2010. The non-agriculture sector employees increased by 940,000 through the year, but the size of recovery was smaller compared to the number of decrease from 2008 through 2009 (totaled 8,660,000). After having rapidly increased in May, on a monthly basis[54], due to government's just-in-time employment for the census, the number of employees decreased in a consecutive 4-month period (Figure 1-1-2-34). Reflecting on the economic recovery, the number of employees was increasing over the previous months following October, and a sign of improvement was now seen entering the market in 2011. Examining according to types of business, it was seen that while employment decrease in the private goods production sectors (mainly construction industry) and government sector inhibited the overall growth[55], the number of employers was increasing moderately as supported by job increases in the private service sector.

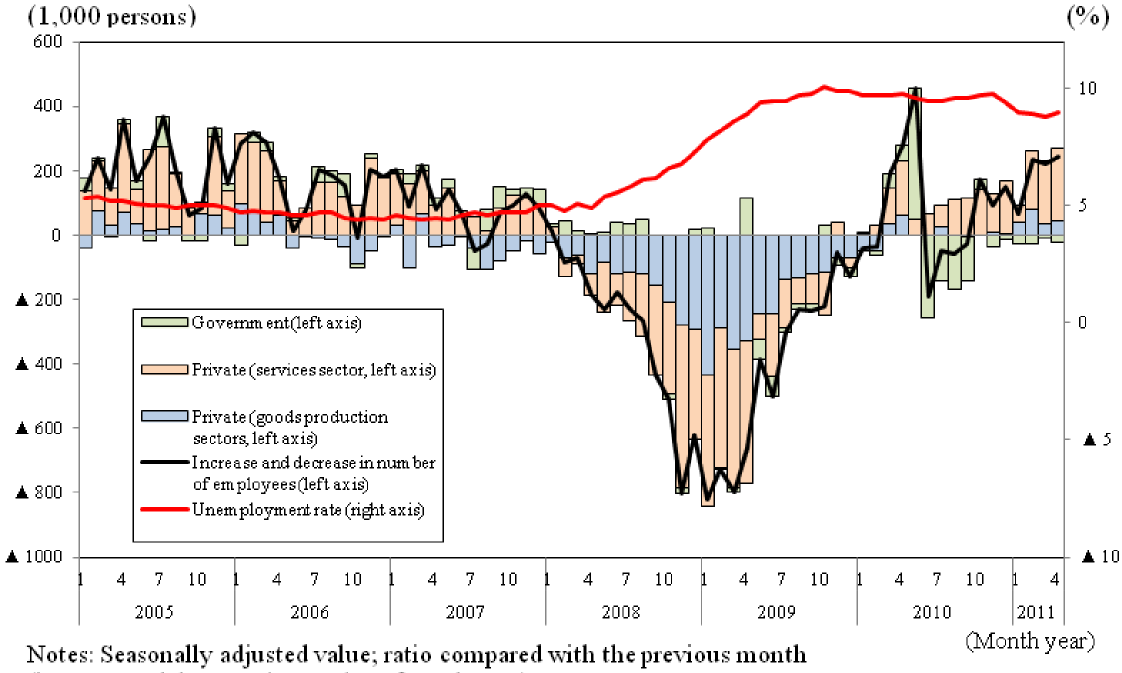
---

[53] As the policy to reinvest the capital redemption funds of the holding bonds as determined in August 2010 was continued as it is, the balance sheet of FRB would not be reduced.

[54] The employment statistics are one of the indexes that the money market looks most at, and the dissociation between a predicted value by market and a value announced by the Department of Labor may move the market for some months.

[55] The type of business in which the number of employees decreased in 2010 through the year was construction industry (decrease of 149,000 persons) and related government offices (decrease of 233,000 persons).

Figure 1-1-2-34 Increase and decrease in number of non-agricultural sectors employees and transition of unemployment rate in United States of America



Notes: Seasonally adjusted value; ratio compared with the previous month (increase and decrease in number of employees)
Sources: US Department of Labor; CEIC Database

The unemployment rates fluctuated at around 10%. While the labor participation rate was decreasing[56], the unemployment rate also had a tendency to decrease[57] from the end of 2010, but the unemployment rate in April 2011 increased by 9.0% (Figure 1-1-2-35). If there is no remarkable improvement in the employment environment, the unemployment rate may hover high in the future[58]. The number of new unemployment insurance application, considered to be the leading indicator of employment statistics had a tendency to decrease from August, 2010. It was less than 400,000[59] after an interval of approximately 2 and a half years in February, 2011 (Figure 1-1-2-36). However, this exceeded 400,000 people again in succession from the beginning of April 2011, which suggested that the employment recovery market was still taking time.

---

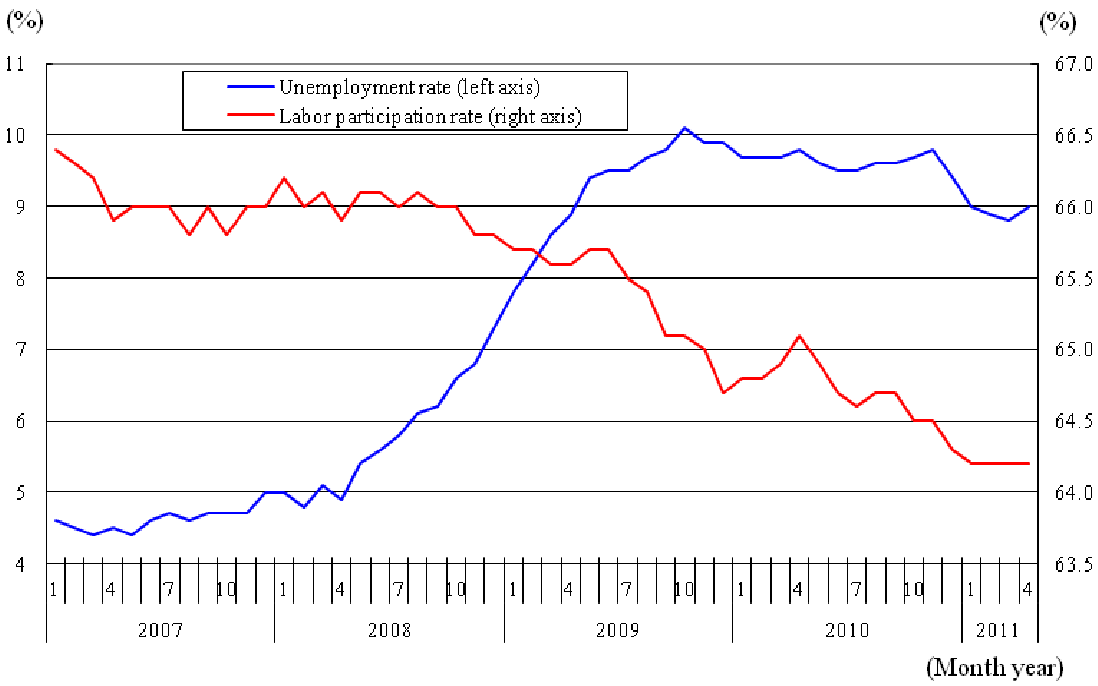
[56] Labor participation rate = labor force population (employed and unemployed) / productive age population (ordinary citizen over age of 16 except persons institutionalized or militarized). Unemployed workers decreased at a pace to largely exceed the increase in the number of employees from December 2010 to January 2011 while the labor participation rate decreased. Large part of the unemployed workers gave up the job search and left the labor markets, and this was considered to be the main factor for the decline in the unemployment rate.

[57] The unemployment rate in March 2011 was 8.8%, the lowest rate since March 2009.

[58] Ben S. Bernanke, chairman of Federal Reserve Board (FRB) stated at the press conference after FOMC on April 27, 2011 that “the improvement pace of employment is still moderate and further job creation efforts should be continued”.

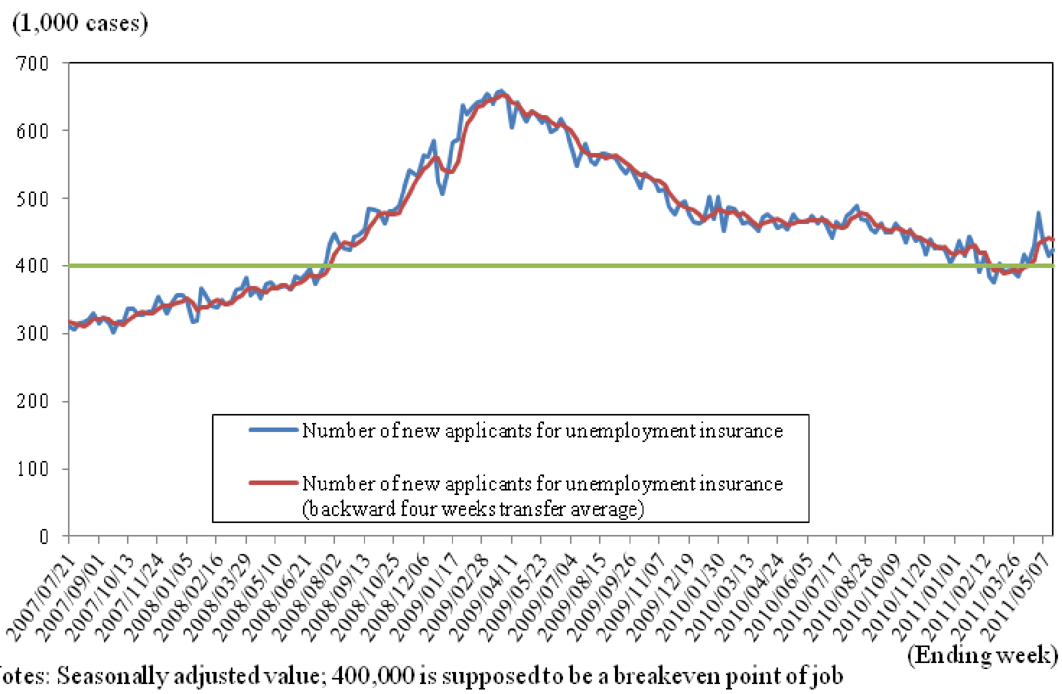
[59] It is the number of people used as a target for the turning point of job creation and the decrease.

Figure 1-1-2-35 Transition of unemployment rate and labor participation rate in United States of America



Sources: US Department of Labor; CEIC Database

Figure 1-1-2-36 Transition of number of new applicants for unemployment insurance in United States of America



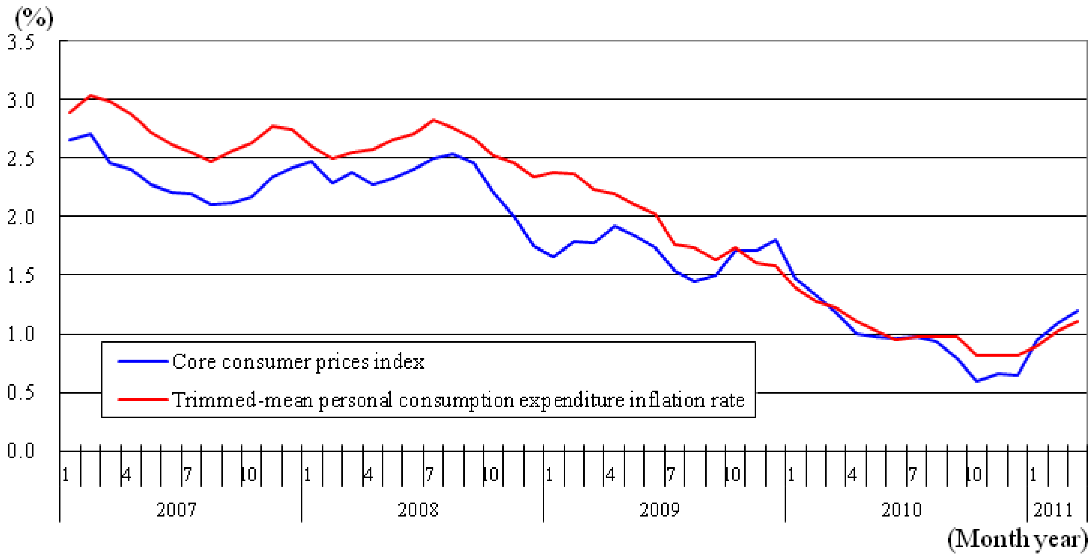
Notes: Seasonally adjusted value; 400,000 is supposed to be a breakeven point of job creation and decrease.
Sources: US Department of Labor; CEIC Database

(C) Prices

The inflation rate of 2010 was at a low level. The core consumer prices except food and energy were low in inflationary tendency and the trimmed average index from which the abnormal changes in part of constituted commodities were removed, also continued to be at a low level, and in the meanwhile, the basic tone of disinflation[60] continued since the middle of 2008 (Figure 1-1-2-37).

On the other hand, the current rate of consumer price general index was accelerated to rise affected by the worldwide rises in prices of food and resources since summer of 2010 (refer to "Chapter 1, Section 2, 1. The factors and influence of the remarkable rises in prices of food and resources") (Figure 1-1-2-38).

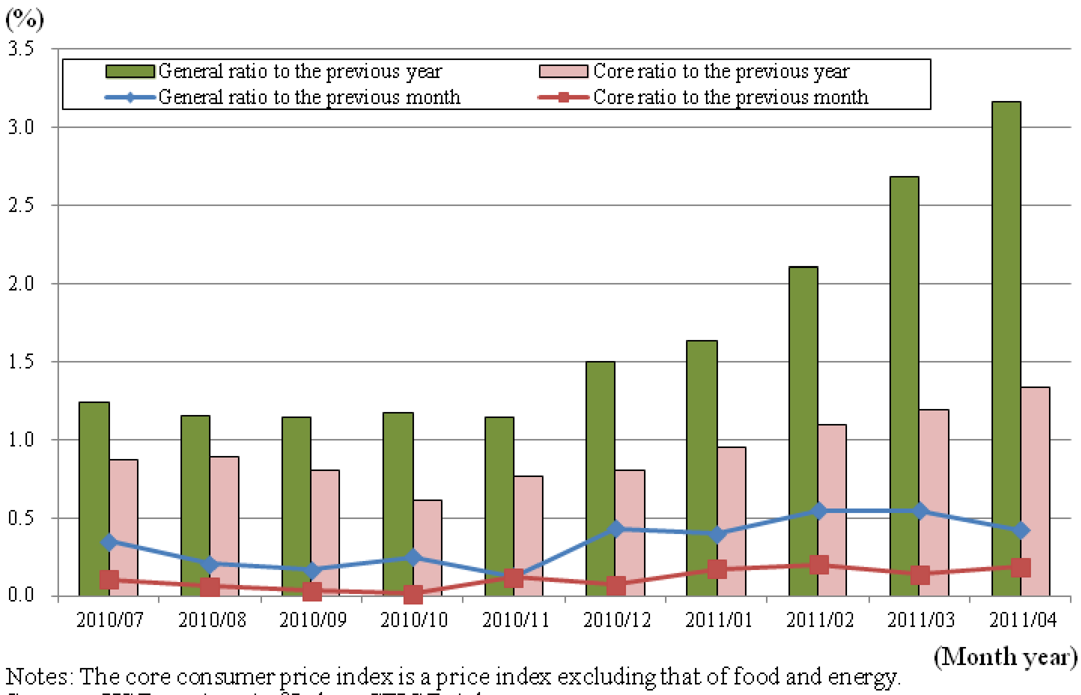
Figure 1-1-2-37 Transition of US inflation index



Notes:
1. Ratio to the same month of the previous year
2. Core consumer prices index is calculated by using increase rate of the remained expenditure items and relative weight. The remained expenditure items are remained ones after expenditure items with large monthly fluctuation of increase rate are omitted in a certain rate from the prices indices of goods and services which consist of the individual

60 This refers to a situation in which inflation rates are declining and the situation is different from the deflation where prices are continuously declining.

Figure 1-1-2-38 Transition of US consumer price index



Notes: The core consumer price index is a price index excluding that of food and energy.
Sources: US Department of Labor; CEIC Database

The core consumer prices index also continued to be picked up despite its low level, and the deflation risk, which was previously anticipated, seemed to have retrogressed[61].

[61] Ben S. Bernanke, chairman of Federal Reserve Board (FRB) testified that " most forecasters see the economic outlook as having improved since our actions in August; downside risks to the recovery have receded, and the risk of deflation has become negligible" at the United States Senate Committee on Banking, Housing and Urban Affairs on March 1 2011.