

Term Structure of Credit Spreads and the Predictability of
Macroeconomy in Japan
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Summary

The purpose of this study is to extract the common factor from individual credit spreads of major Japanese corporate bonds using state-space modeling and examine the predictive content of the credit spread for the real economy. The results indicate estimated common factors are important drivers of individual credit spreads. My results indicate that credit spreads common factors have a substantial predictive power for future Japanese economic activity. This study makes a contribution to forecasting the future macro variables.

Keywords: Term Structure Model; Credit Spreads; State-Space Model; Forecasting Macro Variables