

(English translation prepared by the Bank's staff based on the Japanese original)

December 22, 2011

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

December 2011

Summary

The pick-up in Japan's economic activity has paused, mainly due to the effects of a slowdown in overseas economies and of the appreciation of the yen.

As for domestic demand, business fixed investment has been on a moderate increasing trend, aided partly by the restoration of disaster-stricken facilities. Private consumption has remained firm. Housing investment has generally been picking up and public investment has stopped declining. On the other hand, exports and production have remained more or less flat, due in part to the effects of the slowdown in overseas economies and of the yen's appreciation as well as of the flooding in Thailand. Improvement in business sentiment has slowed on the whole despite steady improvement in domestic demand-oriented sectors.

With regard to the outlook, Japan's economic activity will remain more or less flat for the time being. After that, the economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually materializes.

Exports and production are expected to remain more or less flat for the time being and increase moderately thereafter, mainly reflecting a pick-up in the pace of recovery in overseas economies. Business fixed investment is projected to continue a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities, although it will be affected by the slowdown in overseas economies for the time being. Housing investment and public investment are

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 20 and 21, 2011.

expected to increase gradually, mainly due to the materialization of reconstruction-related demand. Private consumption is expected to remain firm.

On the price front, the three-month rate of change in domestic corporate goods prices shows that they have been somewhat weak, mainly due to the earlier decline in international commodity prices. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to remain somewhat weak for the time being. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

The weighted average of the overnight call rate has been below the 0.1 percent level, and interest rates on term instruments have been more or less unchanged. Meanwhile, the value of the yen against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same levels as last month.

Financial conditions have continued to ease.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. Stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. As for credit demand, firms have shown signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of change in bank lending has been slightly positive. The amounts outstanding of both corporate bonds and CP have exceeded their previous year's levels. In these circumstances, firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of change in the money stock has been at around 3 percent.