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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
August 2012**

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Summary

Japan's economic activity has started picking up moderately as domestic demand remains firm mainly supported by reconstruction-related demand.

Overseas economies have shown moderate improvement, though limited in scope; on the whole, they still have not emerged from a deceleration phase. The pick-up in exports has moderated, and the recent reading on production has been relatively weak. On the other hand, as for domestic demand, public investment has continued to increase. Business fixed investment has been on a moderate increasing trend with improvement in corporate profits. Against the background of improvement in consumer sentiment, private consumption has continued to increase moderately due to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up.

With regard to the outlook, Japan's economy is expected to return to a moderate recovery path as domestic demand remains firm and overseas economies emerge from the deceleration phase.

Exports are expected to increase moderately as overseas economies emerge from the deceleration phase. As for domestic demand, public investment is expected to be on the rise and housing investment to continue to generally pick up, mainly supported by reconstruction-related demand. Business fixed investment is projected to continue a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities, as corporate profits keep improving. Private consumption is expected to remain firm as the employment situation is on an improving trend. Reflecting these developments in demand at home and abroad, production is expected to increase moderately.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on August 8 and 9, 2012.

Meanwhile, there remains a high degree of uncertainty about the global economy. Specifically, particular attention should be given to global financial market developments associated with the European debt problem.

On the price front, the three-month rate of change in domestic corporate goods prices has turned negative, mainly reflecting 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, for the time being, are expected to continue declining moderately mainly since the effects of the decline in international commodity prices are likely to remain. 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 are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. 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 the amount outstanding of bank lending has been positive. That of CP has also been positive. In contrast, the year-on-year rate of change in the amount outstanding of corporate bonds has been negative as the amount of electric company bonds redeemed has continued to exceed the amount issued. 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 positive at around 2 percent.

1. Economic Developments

Public investment has continued to increase, primarily in that related to reconstruction after the earthquake disaster. The amount of public construction completed—which reflects the progress of public works—continued to rise in April-May relative to the first quarter, after having registered a quarter-on-quarter increase in the first quarter (Chart 5). The value of public works contracted—a measure that reflects public orders—increased significantly in the second quarter on a quarter-on-quarter basis, after having risen in the first quarter.

Public investment is expected to be on the rise.

The pick-up in real exports has moderated (Charts 6[1] and 7). Although real exports rose in the second quarter for the first time in three quarters on a quarter-on-quarter basis, monthly figures show that they declined for two straight months in May and June after having risen in April. Looking at exports in the second quarter on a quarter-on-quarter basis by region (Chart 7[1]), those to the United States continued to move upward as a whole, mostly in capital goods and parts, although growth in motor vehicles and their related goods was muted mainly since the restocking of these goods ceased. Exports to ASEAN were on the rise, partly since those to Thailand continued to increase significantly even though the effects of the flooding had almost dissipated. Exports to both China and NIEs increased, albeit marginally, in the second quarter—notably in intermediate goods—after having declined for two consecutive quarters. It is still difficult, however, to figure out whether they have started to trend noticeably upward. Exports to the EU continued to decrease in the second quarter, after having declined sharply for two consecutive quarters. Meanwhile, exports to Others have remained firm. Looking at exports in the second quarter on a quarter-on-quarter basis by goods (Chart 7[2]), those of capital goods and parts continued to move upward, assisted by the increase in those to the United States, together with an upswing in ships exported to Others and NIEs. Exports of intermediate goods—which had been somewhat weak primarily in those to China—grew at an accelerated pace in the second quarter, notably to East Asia (China, NIEs, and ASEAN). On the other hand, exports of consumer goods (digital cameras) were almost flat in the second quarter, since the effects of upward pressure caused by the removal of supply constraints as a

result of the flooding in Thailand had waned. Exports of IT-related goods remained almost flat in the second quarter, primarily since final demand had not shown clear signs of improvement, despite a temporary rise in the first quarter as a reflection of the progress in inventory adjustments on a global scale. Exports of motor vehicles and their related goods fell, albeit very marginally, in the second quarter for the first time in four quarters, since the restocking of these goods in the United States ceased with those to the EU having remained somewhat weak.

Real imports have trended upward (Charts 6[1] and 9). They rose again in the second quarter, after having exhibited a marginal quarter-on-quarter decline in the first quarter for the first time in four quarters. Looking at imports in the second quarter on a quarter-on-quarter basis by goods (Chart 9[2]), those of raw materials rose for four straight quarters from the third quarter last year, primarily in mineral fuels used for thermal power generation. Imports of IT-related goods trended upward, particularly in smartphones. Those of capital goods and parts have also been on the rise in light of developments in domestic business fixed investment by exhibiting relatively high growth in the second quarter. Those of intermediate goods were almost level in the second quarter, after having plunged in the first quarter, primarily in chemicals. In contrast, imports of foodstuffs were down in the second quarter, after having risen, albeit marginally, for two consecutive quarters through the first quarter. Those of consumer goods—which had remained somewhat sluggish, mainly due to the decline in flat panel televisions—climbed in the second quarter.

Net exports—in terms of the real trade balance—stayed more or less flat as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus narrowed very slightly in the second quarter as a whole, since the nominal goods and services balance expanded its deficit relative to the first quarter, although the income balance surplus rose slightly (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies have shown moderate improvement, though limited in scope; on the whole, they still have not emerged from the deceleration phase (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery trend as business

fixed investment and private consumption have remained firm, although the pace of improvement in the employment situation has somewhat slowed, and the real GDP growth rate was down slightly in the second quarter. As for emerging and commodity-exporting economies, signs of improvement have started to appear in some economies, supported mainly by the decline in inflation rates and the effects of monetary easing. The Chinese economy has continued to decelerate on the whole, although it has shown signs of improvement in some areas, such as an increase in infrastructure investment as well as a pick-up in sales of real estate. The European economy has also remained sluggish as the deterioration in both business and household sentiment in periphery countries seems to have begun to spill over to core countries, including Germany. Meanwhile, some nervousness continues to be seen in global financial markets, stemming mainly from concern over the situation in Spain. As for the exchange rate, the yen has recently appreciated slightly against the euro in particular, and the real effective exchange rate shows that the yen has been close to levels of the second half of last year, when the yen kept appreciating (Chart 8[1]).

Overseas economies are basically expected to gradually emerge from the deceleration phase. However, there remains a high degree of uncertainty about the global economy. Specifically, particular attention should be given to global financial market developments associated with the European debt problem as well as their impacts on the real economy. In the IT-related sector, inventory adjustments have been in progress on a global scale, and global semiconductor shipments have gradually been picking up. This is projected to underpin Japan's exports for some time ahead, but final demand in this sector has not shown clear signs of a pick-up at this current stage. In these circumstances, attention should be paid to the risk of a delay in the recovery of Japan's exports as a result of a prolonged deceleration of overseas economies.

As for the outlook, exports are expected to increase moderately as overseas economies emerge from the deceleration phase. With a noticeable upturn in the environment surrounding exports yet to be confirmed, however, it is considered to take more time for exports to improve markedly. Imports are projected to trend gradually upward, assisted heavily by firm domestic demand and an increase in

thermal power generation. As a reflection of these developments in exports and imports, net exports are projected to remain more or less flat for the time being and then increase at a moderate pace.

Business fixed investment has been on a moderate increasing trend with improvement in corporate profits. The aggregate supply of capital goods—a coincident indicator of machinery investment—declined in the first quarter for the first time in four quarters on a quarter-on-quarter basis, but bounced back again in the second quarter (Chart 10[1]). As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—fell in the second quarter on a quarter-on-quarter basis, after having inched upward in the first quarter (Chart 11[1]). By industry, manufacturing saw a decline in the second quarter, after having been almost level in the first quarter. Machinery orders of nonmanufacturing (excluding orders for ships and those from electric power companies) were flat in the second quarter, after having increased marginally in the first quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued to increase, albeit marginally, in the second quarter on a quarter-on-quarter basis, following the rise in the first quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing fell back in the second quarter, partly from the upsurge for two consecutive quarters. Those of nonmanufacturing rose markedly, aided partly by large projects in sectors related to distribution (wholesale and retail trade, transportation).

Regarding the environment surrounding business fixed investment, corporate profits have been improving, notably in domestic demand-oriented sectors. Business sentiment has been on a moderate improving trend on the whole, albeit with fluctuations. Corporate profits are projected to keep improving, following an increase in demand at home and abroad and in production.

Business fixed investment is projected to continue a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities as well as to strengthen earthquake resistance and business continuity systems, as corporate profits keep improving.

Against the background of improvement in consumer sentiment, private consumption has continued to increase moderately due to the effects of measures to stimulate demand for automobiles (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—was almost level in the second quarter, after having increased for four quarters in a row through the first quarter. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations remained high, primarily in new models of small cars and mini-vehicles. However, since this was supported in part by subsidies for purchasing energy-efficient cars that had been reintroduced at the end of last year, attention should be given to developments in automobile sales after the effects of these subsidies dissipate.² Sales of household electrical appliances in real terms have been more or less flat as a whole, albeit with fluctuations, since sales of tablet devices and of white goods installed with energy-saving devices were firm, whereas those of televisions and PCs were sluggish. Sales at department stores and supermarkets had been almost level, but in the second quarter on a quarter-on-quarter basis, those at department stores moved upward, while supermarkets saw somewhat sluggish sales (Chart 14[1]). They both saw their sales decline in June, however, affected mostly by unseasonable weather and a postponement in summer sales at some stores. Meanwhile, sales at convenience stores have continued to trend upward. As for consumption of services (Chart 14[2]), outlays for travel have trended upward, albeit with fluctuations. Sales in the food service industry are considered to be solid as a trend, although they have recently shown some weakness.

As for statistics on the demand side, consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) shows that the index on an "excluding housing, automobiles, money gifts, and remittance" basis—which is compiled so as to make it similar to items used for estimating GDP—registered somewhat high growth in the second quarter, after having inched upward on a quarter-on-quarter basis for three quarters in a row

² For business vehicles, applications for subsidies for purchasing energy-efficient cars closed on July 5. It is said that for private vehicles, applications may possibly come to an end sooner or later, since sales of automobiles have been remarkably strong so far. Attention should be paid to how far automobile sales and furthermore production will fall back with the ending of the subsidies.

through the first quarter (Chart 13[1]).³ The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) continued to rise in the second quarter, following quarter-on-quarter increases for three straight quarters through the first quarter.

Indicators related to consumer confidence have been on an improving trend as a whole, mainly as a reflection of improvements in the employment situation (Chart 15).

Private consumption is expected to remain firm as the employment situation is on an improving trend.

Housing investment has generally been picking up, supported in part by reconstruction of disaster-stricken homes. The number of housing starts—a leading indicator of housing investment—has tended to pick up, supported partly by construction starts in disaster-stricken areas; it increased in the first quarter on a quarter-on-quarter basis and continued to do so in the second quarter (Chart 16[1]).

Housing investment is expected to continue to generally pick up.⁴

The recent reading on industrial production has been relatively weak, since overseas economies as a whole have not yet emerged from the deceleration phase (Chart 17). Production declined in the second quarter on a quarter-on-quarter basis in both the released-base index and the adjusted-base index.⁵ On a monthly basis, production remained flat in June, after a sizeable decline in May, affected partly by

³ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

⁴ With the enactment of the third supplementary budget for fiscal 2011, the eco-point system for housing as well as the preferential interest rate measures for the Flat 35S were introduced once again with preferential treatment for disaster-stricken areas. Applications for the housing eco-points outside disaster-stricken areas have closed as of those received on July 4. Attention should be paid to the magnitude of its impact on future housing starts.

⁵ The adjusted-base index of industrial production is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

factors such as fewer operating days of factories than usual years as a result of the long holiday.

Looking at production in the second quarter on a quarter-on-quarter basis by industry, that of transport equipment (such as passenger cars) fell marginally as a whole, mainly since growth in that for exports came to a halt, although the level of production remained high with the reintroduction of subsidies for purchasing energy-efficient cars and the release of popular models of new cars to the market. Production of electronic parts and devices has yet to resume a noticeable uptrend; it moved down again in the second quarter, although it temporarily turned upward in the first quarter in light of the gradual progress in inventory adjustments. Production of general machinery continued to decline marginally, amid somewhat sluggish overseas demand. In contrast, production of ceramics, stone and clay products and of nonferrous metals inched upward, due in part to reconstruction-related demand.

Shipments have more or less leveled off (Chart 19[1]). Looking at the trend in shipments by goods (Chart 18), those of durable consumer goods—which had continued picking up supported by the increase in motor vehicles—have recently shown somewhat weak movements, especially among those for exports. On the other hand, shipments of non-durable consumer goods have continued to increase moderately. Shipments of capital goods have been on a mild uptrend, albeit with fluctuations. Shipments of producer goods—which had continued to trend moderately upward, chiefly for motor vehicles (such as iron and steel as well as motor vehicle parts)—have inched downward lately. Meanwhile, those of electronic parts and devices, like production of these goods, have yet to show clear signs of an upturn. Shipments of construction goods have remained more or less level as a whole, but goods such as photovoltaic modules have recently shown signs of an increase.

Inventories have recently been at somewhat high levels. They have remained somewhat high, assisted by the sizeable increase in March and April on a month-on-month basis, even though they fell in May and June for two consecutive months (Chart 19[1]). Looking at movements in June by industry, transport equipment saw its inventories come down, mainly since inventories waiting to be

shipped overseas thinned out. Inventories of information and communication electronics equipment fell, mainly since the possible overhang in stocks of new PC models prior to their market release, which had pushed inventories upward last month, came to a halt. Inventories of electronic parts and devices have continued to show mixed movements; they were level in June after having declined in May, with the pile-up in some inventories as the pick-up in demand—particularly those for exports—lagged behind. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in shipments was almost in line with that in inventories overall on year-on-year basis as a whole, partly because shipments plunged last year due to the effects of the earthquake disaster (Chart 19[3]).⁶ The shipment-inventory balance of electronic parts and devices has maintained its moderate improving trend as a whole, but attention should be paid to the pile-up of some inventories mentioned above.

Production is expected to increase moderately, as domestic demand remains firm and as exports pick up gradually. Based on anecdotes by firms and other information, however, with the pick-up in overseas demand having lagged somewhat behind and a high degree of uncertainty about the future having remained, firms seem to keep their production schedules cautious for the outlook, and it is considered that production will increase only marginally in the coming months.

The employment and income situation has generally been improving, although it remains severe.

As for supply and demand conditions in the labor market, the ratio of job offers to applicants has continued to improve (Chart 20). The unemployment rate has been trending downward, albeit with monthly fluctuations. Meanwhile, non-scheduled hours worked have been on a mild uptrend, albeit with fluctuations.

⁶ As of last month, growth in shipments was well above that in inventories, chiefly in producer goods and durable consumer goods. This was partly because the year-on-year increase in shipments was particularly large, following the sharp decline in shipments in April-May last year due to the effects of the earthquake disaster. Although this factor became less visible in the period leading up to June, it is still observed in the second quarter to a considerable extent.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* was almost 0 percent in June, after having declined marginally (Chart 21[1]). In contrast, the number of regular employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis. Meanwhile, with regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that the number of applicants for this subsidy has been trending downward, albeit with fluctuations; it has recently been well below the pre-earthquake level.

The year-on-year rate of decline in total cash earnings per employee has tended to narrow as non-scheduled cash earnings continued to increase, while scheduled cash earnings have been moving in the vicinity of 0 percent (Chart 21[2]). The recent year-on-year rate, however, shows that total cash earnings per employee have declined slightly, as a reflection of the weakness in special cash earnings.

The year-on-year rate of change in employee income has been almost 0 percent with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages (Chart 21[3]).

Employee income is highly expected to be more or less flat, mainly since the lackluster business performance of fiscal 2011 will weigh on income with a time lag for the time being, although improvements in supply and demand conditions in the labor market will support income gradually.

2. Prices

International commodity prices have picked up slightly, after having fallen back through June (Chart 23[1] and [3]). In July, international commodity prices ceased to decline since the market welcomed the EU-Eurozone Summit agreement reached at the end of June, which in turn has led investors to become somewhat less risk-averse. Under these circumstances, prices of grains rose strongly, due to increased anxiety over supply as a result of the unseasonable weather in the United States; those of crude oil picked up slightly, mainly due to mounting tensions regarding the situation in the Middle East. Prices of nonferrous metals, however,

have remained virtually level as strong uncertainty attends the global economy, such as the somewhat prolonged deceleration in the Chinese economy.

The three-month rate of change in import prices (on a yen basis) has decreased, largely reflecting the earlier decline in international commodity prices (Chart 23[2]).

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) has turned negative, mainly reflecting the earlier decline in international commodity prices (Chart 24[2]).⁷ In June, the three-month rate of change turned negative. Looking in detail at domestic corporate goods price movements in June, prices of "electric power, gas & water" rose at an accelerated pace, due mainly to increases in electricity prices for firms by one electric power company, but prices of "goods sensitive to exchange rates and overseas commodity prices" turned negative and those of "other materials" and of "iron & steel and construction goods" fell at an increased pace, largely reflecting the earlier decline in international commodity prices. Moreover, prices of "machinery" continued to decline mildly.

Corporate services prices (excluding international transportation; year-on-year basis, same hereafter) have continued to reduce their pace of decline and the year-on-year rate of change has recently been around 0 percent (Chart 25). As for developments on a year-on-year basis, they stood at negative 0.1 percent in June, after having risen marginally in April and May for two months in a row. Looking in detail at corporate services price movements in June, prices of advertising services—in the category of selling, general and administrative expenses—continued to register a year-on-year increase, although the pace is reduced. Even though the upward pressure on prices due to the rebound from the plunge caused by the earthquake disaster last year almost waned, the increase was maintained by steady advertisement placements, notably in television commercials. Prices of hotels also

⁷ Figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when electric power consumption increases substantially.

continued to increase on year-on-year basis, assisted heavily by the recovery in the number of foreign visitors to Japan. Prices related to domestic transportation and fixed investment have been increasing marginally. In contrast, IT-related prices have continued to decrease, due to price declines in leasing and rentals. Meanwhile, prices related to real estate have continued their year-on-year decline, but the pace of decline has tended to slow, albeit moderately.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is currently around 0 percent (Chart 26[1]). In June, consumer prices stood at negative 0.2 percent on a year-on-year basis following a decline of 0.1 percent in May. Looking at developments on a basis that excludes food and energy, prices in June registered negative 0.6 percent, which was on par with those in May. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has recently been around 0 percent, albeit with fluctuations (Chart 27[2]).⁸ The year-on-year rate of change in the Laspeyres chain index has moved up in tandem with that in the 2010-base index (Chart 27[1]).⁹

Looking in detail at consumer price movements in June, prices for goods (excluding agricultural, aquatic and livestock products) on a year-on-year basis fell at an accelerated pace overall. This was mainly because prices of petroleum products turned negative as a reflection of the decline in gasoline prices, while prices of food products reduced their pace of decline as the downward pressure caused by the rebound from price increases last year due to short supply after the earthquake disaster waned.¹⁰ Prices of general services and fees for public services roughly showed the same movements as last month.

⁸ The trimmed mean is obtained by systematically discarding a certain percentage of the highest and lowest marks of the price fluctuation distribution by item to eliminate large relative price fluctuations.

⁹ The Laspeyres chain index is compiled as follows: (i) aggregates are produced after updating the weights of items of the base year and resetting the index level of individual items to 100 every year; then (ii) multiplying the previous year's chain index by the aggregated year-on-year figures obtained from the above calculation. Disregarding such factors as adopting and terminating items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

¹⁰ Meanwhile, the year-on-year rate of decline in durable goods was on par with that of last month, since the faster pace of decline in prices of TV sets was offset by the upswing in prices of cellular phones (a rebound from the decline in June last year).

Domestic corporate goods prices, for the time being, are expected to continue declining moderately mainly since the effects of the decline in international commodity prices are likely to remain. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have been stable at low levels—including those for longer term rates—as market participants share perceptions of an excess of liquidity, amid the Bank of Japan's ongoing provision of ample funds. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been at around 0.1 percent. The Euroyen interest rate (3-month) has been more or less flat, at a somewhat high level relative to the OIS rates—the OIS rates mainly reflect expectations about future policy interest rates. Interest rates on Euroyen futures have fallen slightly, primarily in those with distant contracts (Chart 28). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 29).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved in line with U.S. long-term interest rates; they declined temporarily, but have rebounded thereafter. They are currently moving in the range of 0.75-0.80 percent (Chart 30).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 31).

Stock prices fell mainly in response to growing concern over the situation in Europe, but picked up thereafter assisted by an increase in U.S. and European stock prices mainly due to market expectations toward policies taken by European authorities. The Nikkei 225 Stock Average is currently moving at around 9,000 yen (Chart 32).

In the foreign exchange market, the yen's exchange rate has appreciated somewhat against the U.S. dollar, partly since U.S. interest rates moved slightly downward; it is currently moving in the range of 78-79 yen against the U.S. dollar (Chart 33). Meanwhile, the yen appreciated against the euro due to mounting concern about the situation in Europe and temporarily rose to the 94-95 yen level, but it has fallen back since, due mainly to market expectations toward policies taken by European authorities; the yen is currently moving at around 97 yen against the euro.

(2) Corporate Finance and Monetary Aggregates

Firms' funding costs have declined moderately, against the background that the overnight call rate has remained at an extremely low level. Issuance rates on CP and those on corporate bonds, meanwhile, have been at low levels. The average contracted interest rates on new loans and discounts have declined moderately (Chart 35).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 34). Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. In these circumstances, as for funding of the private sector, the year-on-year rate of change in the amount outstanding of bank lending has been positive, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 36). That of CP has also been positive. In contrast, the year-on-year rate of change in the amount outstanding of corporate bonds has been negative as the amount of electric company bonds redeemed has continued to exceed the amount issued (Chart 37).

In these circumstances, firms have retained their recovered financial positions on the whole (Chart 34). The number of corporate bankruptcies has been at a low level (Chart 39).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been positive at around 2 percent. Its July reading was 2.2 percent on a year-on-year basis, following 2.2 percent in June (Chart 38).¹¹

¹¹ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of change has been positive at around 2 percent; its July reading was 1.9 percent, following 1.9 percent in June. The year-on-year rate of change in broadly-defined liquidity (L) has been at around 0 percent; it increased by 0.1 percent in July, following an increase of 0.1 percent in June.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2011/Q4	2012/Q1	Q2	2012/Apr.	May	Jun.	Jul.
Index of consumption expenditure level (two-or-more-person households)	0.5	-0.3	2.3	1.6	1.9	-3.0	n.a.
Sales at department stores	0.4	-0.9	p 1.0	3.2	-1.0	p -2.9	n.a.
Sales at supermarkets	-0.7	0.5	p -1.6	-0.9	2.1	p -3.5	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 267>	< 349>	< 316>	< 313>	< 309>	< 327>	< 325>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-5.2	0.9	p -5.8	-2.2	2.7	p -4.0	n.a.
Outlays for travel	4.3	0.4	3.2	4.7	-1.8	-2.3	n.a.
Housing starts <s.a., ann. 10,000 units>	< 80>	< 86>	< 88>	< 90>	< 90>	< 84>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-0.7	0.9	-4.1	5.7	-14.8	5.6	n.a.
Manufacturing	-0.7	0.1	-5.8	3.4	-8.0	-2.9	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	-0.5	0.5	0.0	5.7	-6.4	2.6	n.a.
Construction starts (private, nondwelling use)	-1.0	1.9	0.3	0.8	15.5	-9.1	n.a.
Mining & manufacturing	20.9	24.9	-20.4	-9.5	-5.1	4.1	n.a.
Nonmanufacturing ⁵	-3.2	-3.1	4.7	6.1	15.2	-9.3	n.a.
Value of public works contracted	1.8	3.5	9.2	2.8	10.9	-2.4	n.a.
Real exports	-2.8	-0.1	4.1	6.4	-2.8	-0.9	n.a.
Real imports	1.3	-0.4	3.2	2.1	3.0	-3.1	n.a.
Industrial production	0.4	1.3	p -2.2	-0.2	-3.4	p -0.1	n.a.
Shipments	0.3	0.8	p -0.3	0.6	-1.3	p -1.5	n.a.
Inventories	-1.4	5.9	p -0.2	2.0	-0.7	p -1.4	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 112.7>	< 115.3>	<p 123.4>	< 123.2>	< 118.6>	<p 123.4>	<n.a.>
Real GDP	0.0	1.2	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.5	-0.1	n.a.	0.1	-0.3	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.¹

	2011/Q4	2012/Q1	Q2	2012/Apr.	May	Jun.	Jul.
Ratio of job offers to applicants <s.a., times>	< 0.69>	< 0.75>	< 0.81>	< 0.79>	< 0.81>	< 0.82>	<n.a.>
Unemployment rate <s.a., %>	< 4.5>	< 4.6>	< 4.4>	< 4.6>	< 4.4>	< 4.3>	<n.a.>
Overtime working hours ⁶	2.0	1.8	p 4.0	5.3	5.6	p 1.2	n.a.
Number of employees	0.1	-0.5	-0.3	-0.3	-0.7	0.1	n.a.
Number of regular employees ⁶	0.6	0.6	p 0.8	0.7	0.9	p 0.8	n.a.
Nominal wages per person ⁶	-0.1	0.0	p -0.5	0.2	-1.1	p -0.6	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	1.1 <-0.9>	0.3 < 0.2>	p -0.8 <p 0.0>	-0.4 < 0.8>	-0.7 < 0.1>	p -1.3 <p -1.0>	n.a. <n.a.>
Consumer price index ⁸	-0.2	0.1	0.0	0.2	-0.1	-0.2	n.a.
Corporate services price index ⁹	-0.3	-0.5	p 0.1	0.4	0.2	p -0.1	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	3.0	3.0	2.3	2.6	2.2	2.2	p 2.2
Number of corporate bankruptcies <cases per month>	<1,034>	<1,061>	<1,042>	<1,004>	<1,148>	<975>	<1,026>

Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally adjusted data.

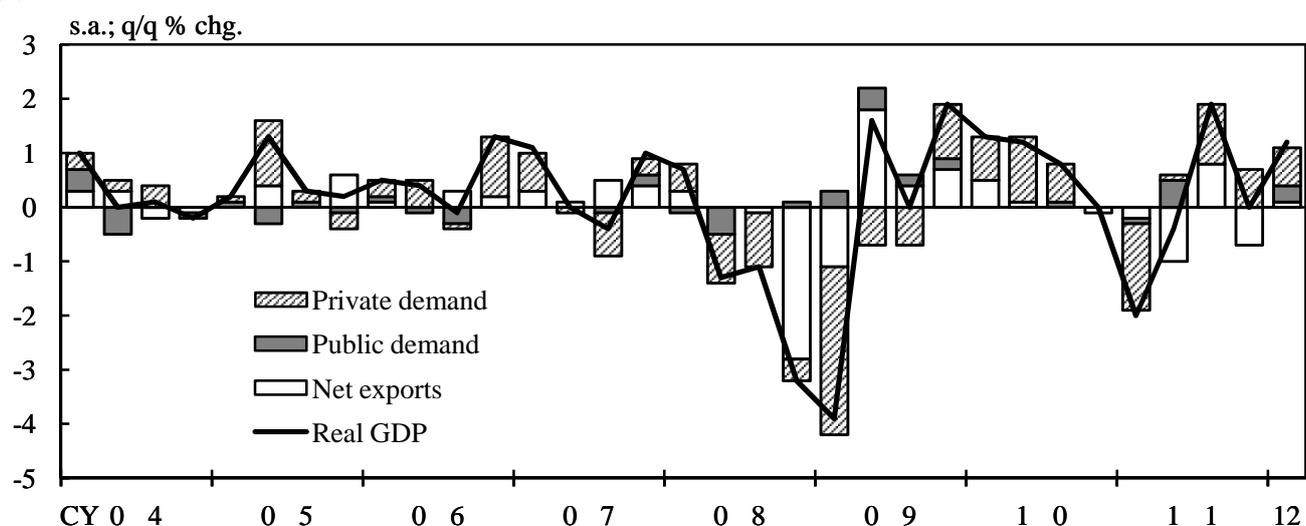
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders: Orders for ships and those from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusted to exclude a hike in electric power charges during the summer season.
8. All items, less fresh food.
9. Excludes international transportation.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey,"
 "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index";
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"
 "Indices of All Industry Activity";
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
 Japan Tourism Agency, "Major Travel Agents' Revenue";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts";
 Ministry of Finance, "Trade Statistics";
 Cabinet Office, "Orders Received for Machinery," "National Accounts";
 East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
 Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";
 Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index," "Money Stock";
 Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Real GDP and Indexes of Business Conditions

(1) Real GDP



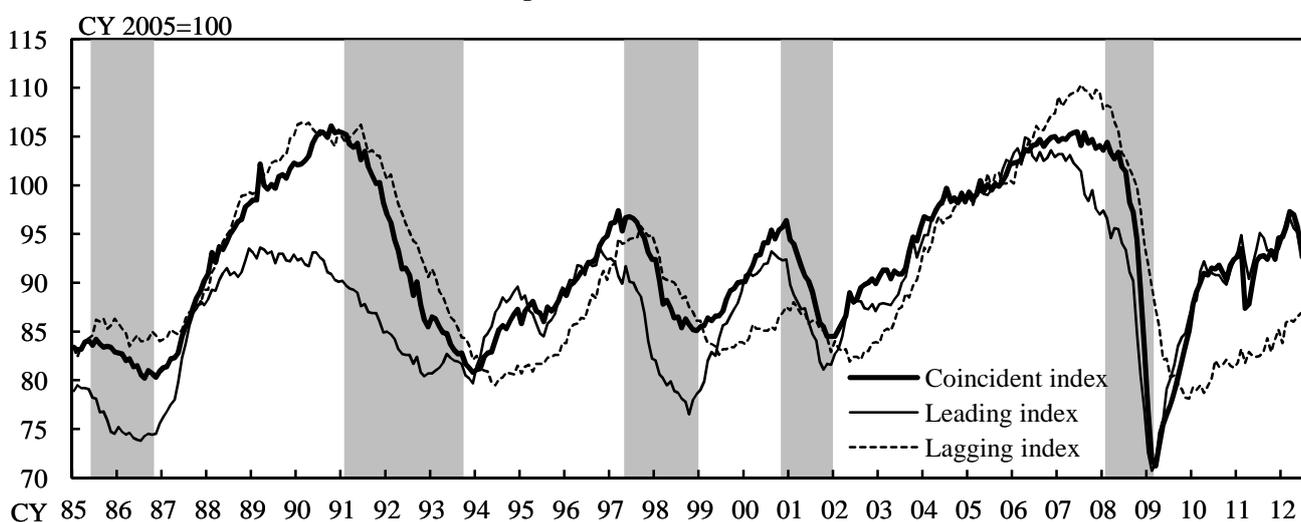
(2) Components

s.a.; q/q % chg.

	2011				2012
	Q1	Q2	Q3	Q4	Q1
Real GDP	-2.0	-0.4	1.9	0.0	1.2
[Annual rate]	[-7.7]	[-1.7]	[7.8]	[0.1]	[4.7]
Domestic demand	-1.8	0.6	1.1	0.7	1.0
Private demand	-1.6	0.1	1.1	0.7	0.7
Private consumption	-0.9	0.4	0.6	0.4	0.7
Non-Resi. investment	-0.0	-0.0	0.0	0.7	-0.3
Residential investment	0.0	-0.1	0.1	0.0	-0.0
Private inventory	-0.7	-0.1	0.3	-0.4	0.3
Public demand	-0.1	0.5	0.0	0.0	0.3
Public investment	-0.2	0.3	-0.0	-0.0	0.2
Net exports of goods and services	-0.2	-1.0	0.8	-0.7	0.1
Exports	-0.1	-1.0	1.3	-0.6	0.4
Imports	-0.2	-0.0	-0.5	-0.1	-0.3
Nominal GDP	-2.4	-1.3	1.6	-0.3	1.2

Note: Figures of components in real GDP indicate contributions to changes in GDP.

(3) Indexes of Business Conditions (Composite Indexes)

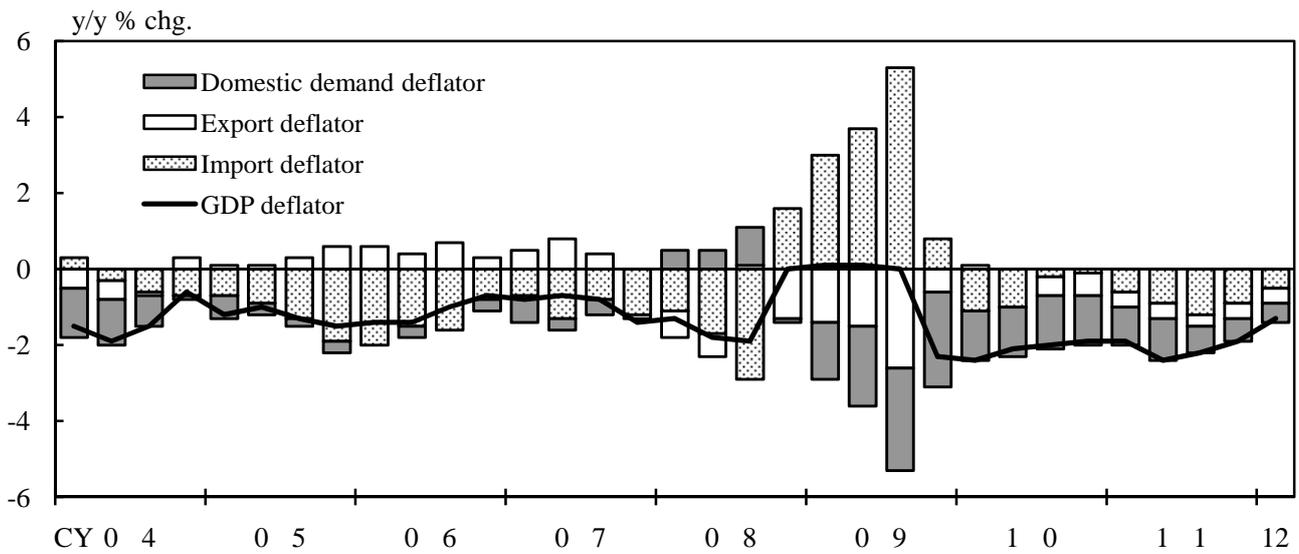


Note: Shaded areas indicate recession periods.

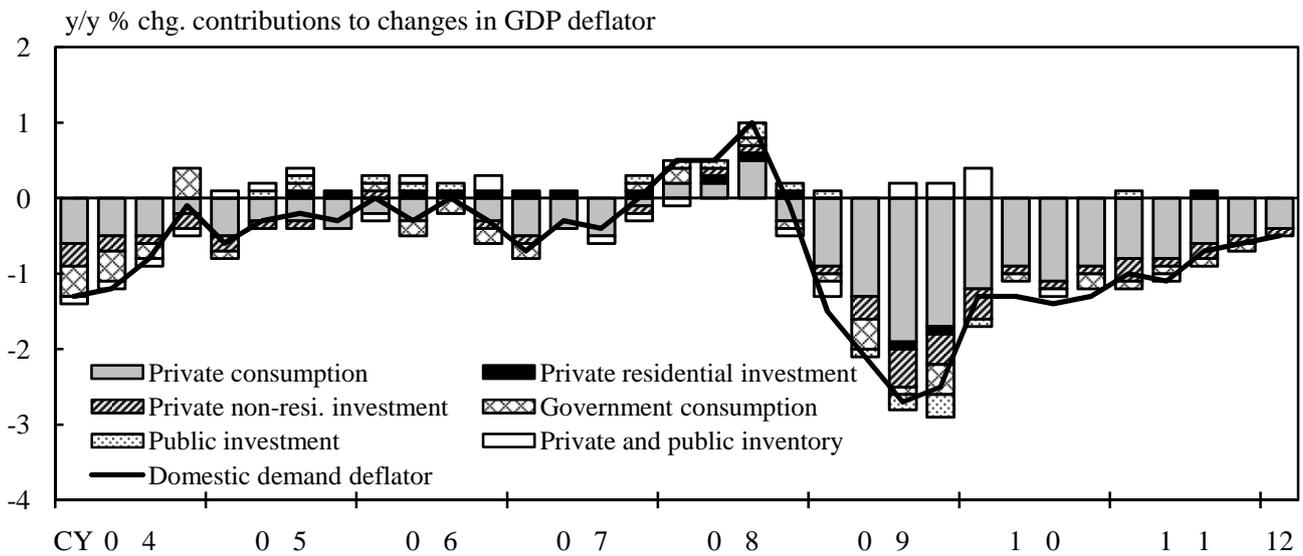
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

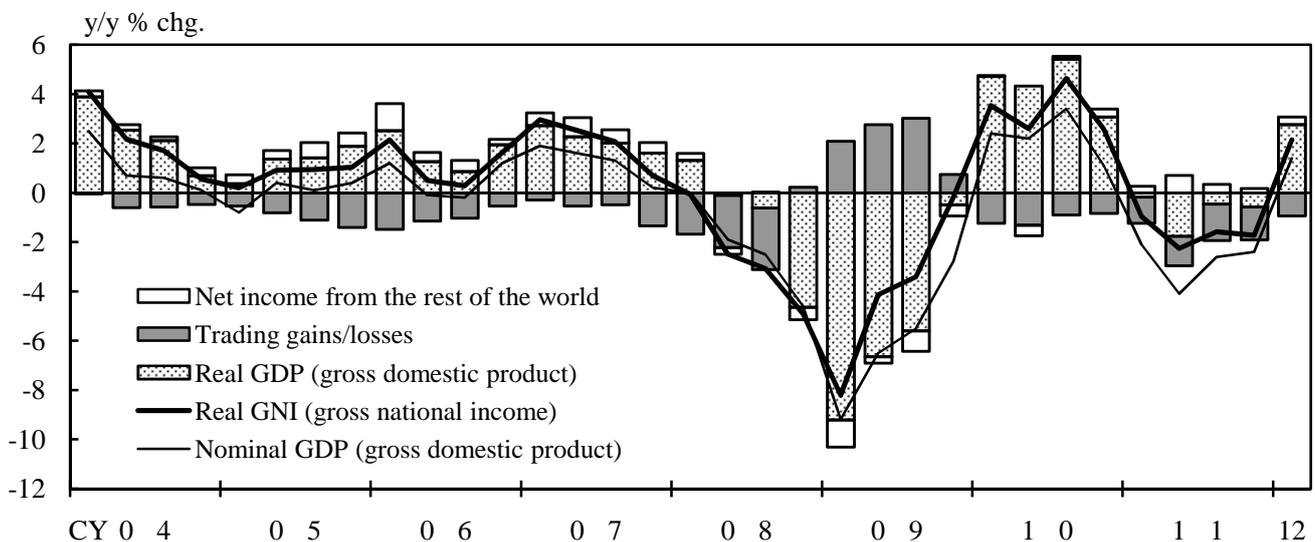
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



Notes: 1. Figures of components indicate contributions to changes in real GNI.

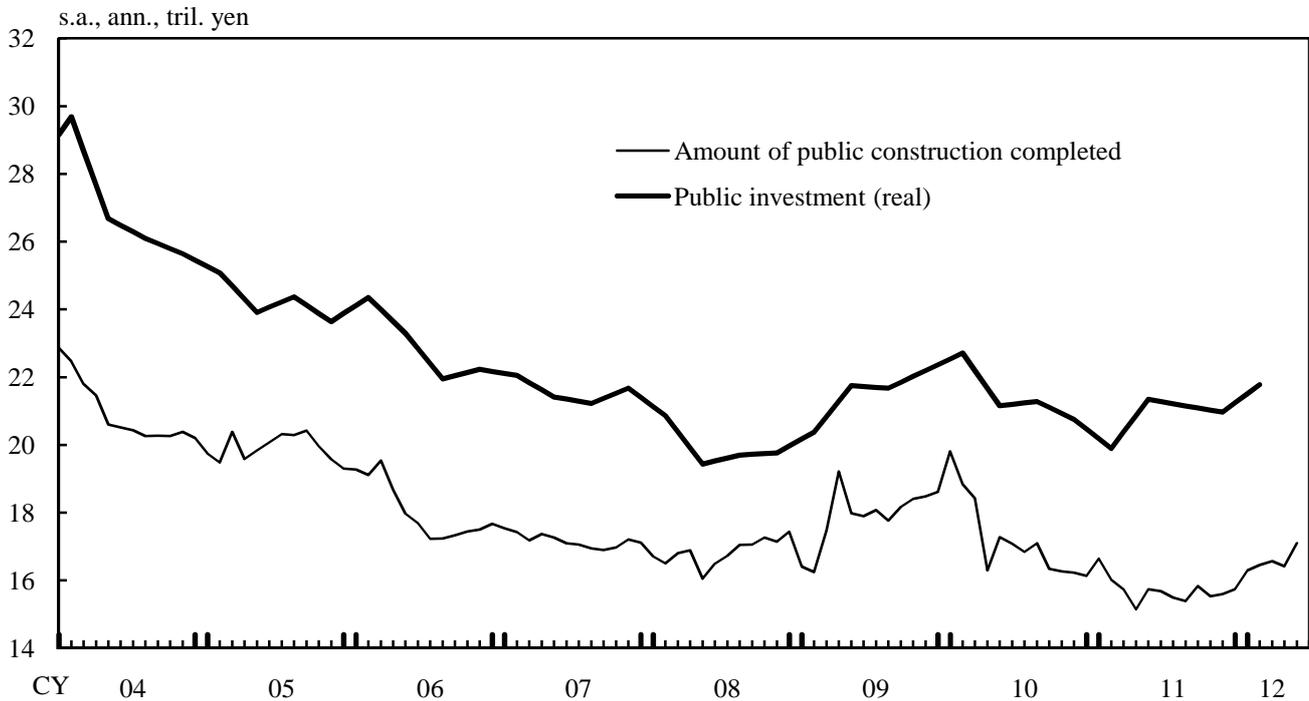
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

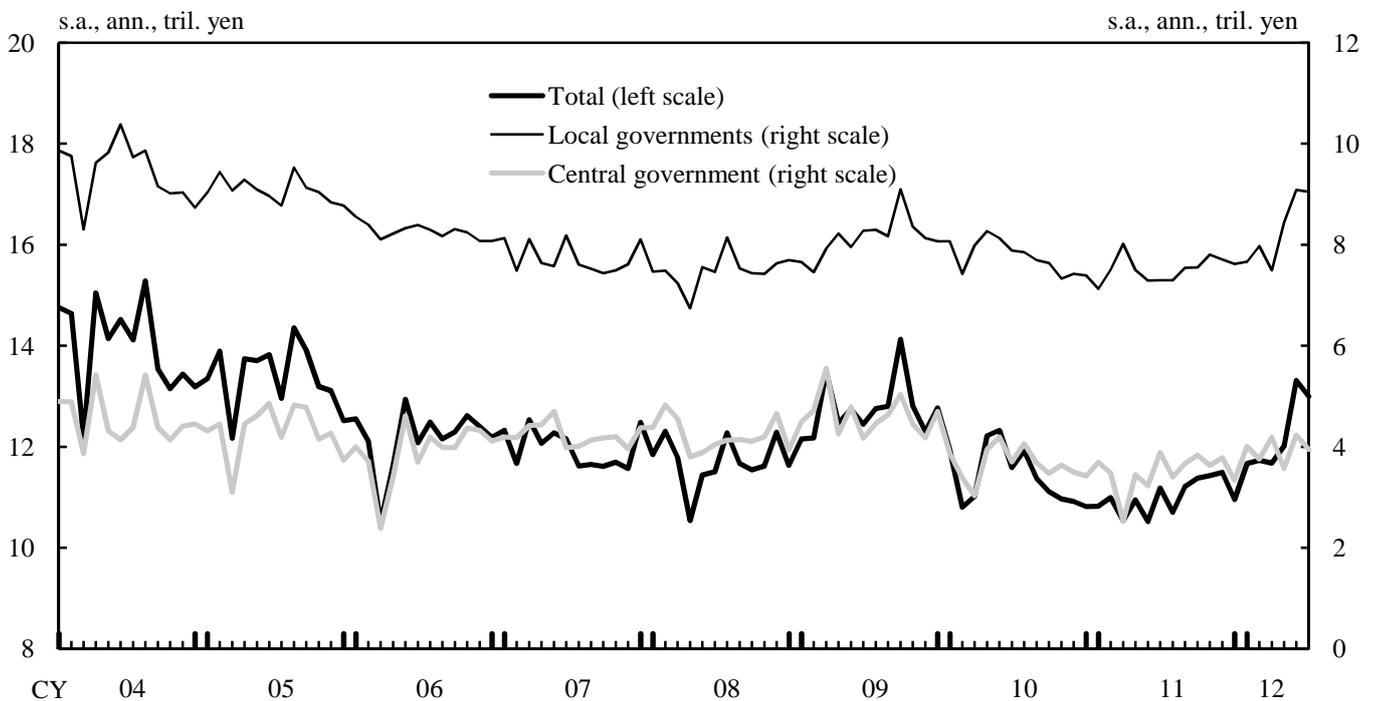
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

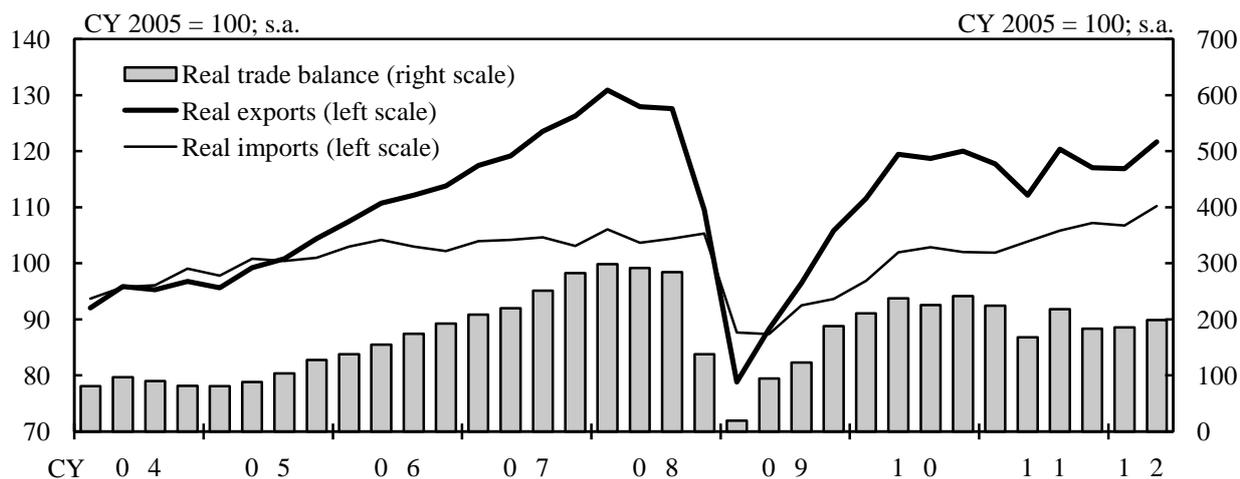
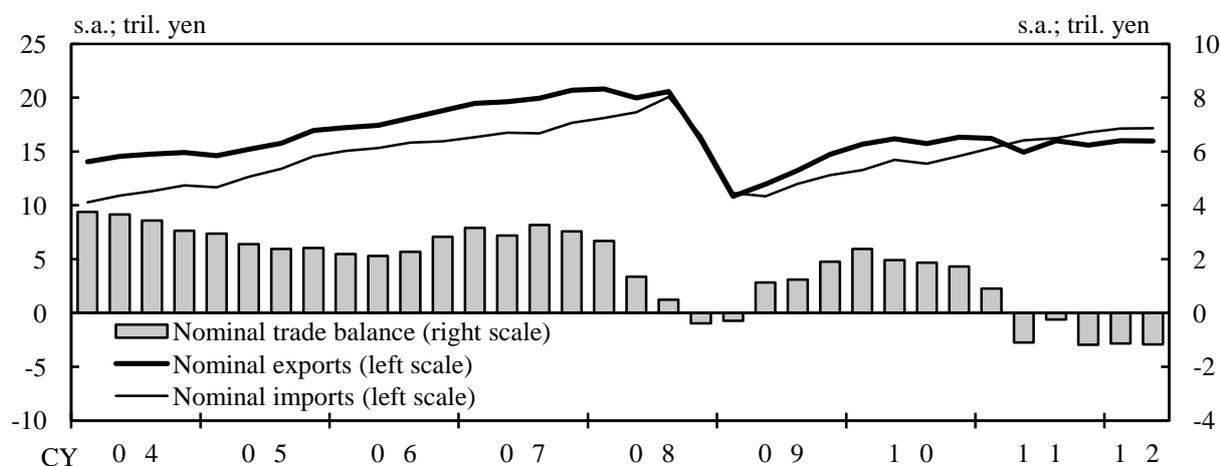
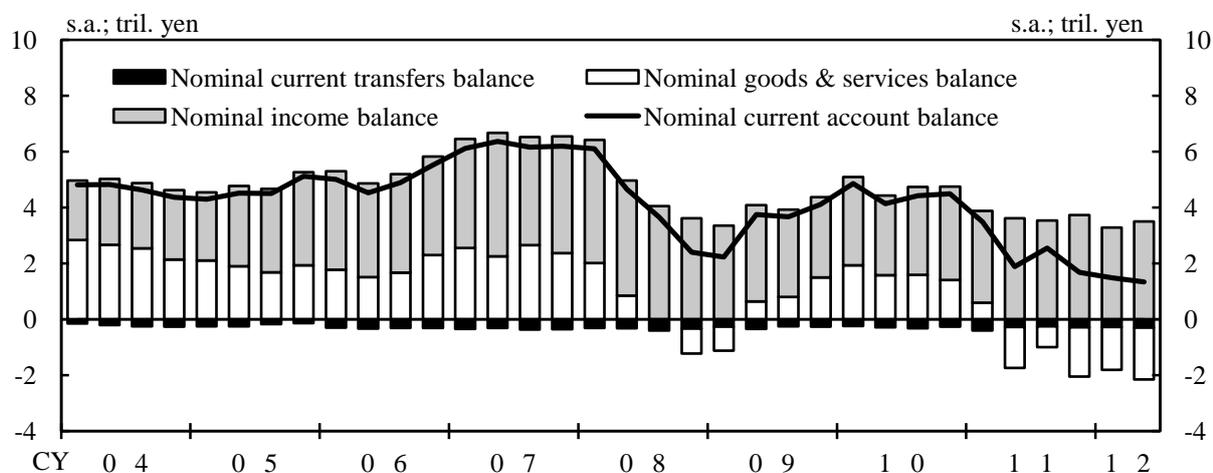
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

3. Figures of the value of public works contracted and the amount of public construction completed are seasonally adjusted by X-12-ARIMA. As figures of the amount of public construction completed are seasonally adjusted on a monthly basis, the data are retroactively revised every month.

Sources: Cabinet Office, "National Accounts";

East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";

Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance¹(1) Real Exports, Real Imports, and Real Trade Balance²(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance³(3) Nominal Current Account Balance and Nominal Goods & Services Balance³

Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." From May 2012 and onward, deflators are calculated by extending the 2005 base deflators using monthly changes of the 2010 base price indices. All the deflators regarding real exports/imports are similarly calculated in the following charts. "Real trade balance" is defined as real exports minus real imports.

3. Figures are based on the "Balance of Payments."

Sources: Ministry of Finance, "Trade Statistics"; Ministry of Finance and Bank of Japan, "Balance of Payments"; Bank of Japan, "Corporate Goods Price Index."

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q2	Q3	Q4	2012 Q1	Q2	2012 Apr.	May	Jun.
United States	<15.3>	24.7	-0.3	-11.2	19.8	4.9	2.5	4.7	6.8	-2.3	-2.7
EU	<11.6>	17.4	2.9	-4.9	9.8	-8.3	-4.0	-2.3	8.4	-2.3	-10.9
East Asia	<52.8>	31.8	-1.2	-5.7	4.8	-4.5	0.9	2.5	2.3	-1.3	2.7
China	<19.7>	31.3	1.9	-9.9	7.5	-4.8	-1.9	1.8	1.8	-0.6	3.8
NIEs	<22.8>	28.0	-4.6	-2.9	0.7	-4.1	-1.5	2.2	3.0	-2.1	3.2
Korea	<8.0>	23.6	-3.0	1.0	-4.1	-0.8	0.3	-2.4	1.5	-2.0	-3.3
Taiwan	<6.2>	36.8	-9.3	-6.0	-3.4	-3.6	-4.9	5.9	4.0	2.5	4.7
Hong Kong	<5.2>	29.2	-4.0	-6.0	7.7	-4.3	2.0	-1.3	5.3	-5.8	6.5
Singapore	<3.3>	20.2	0.3	-0.6	10.0	-13.2	-3.1	10.7	-1.9	4.4	8.1
ASEAN4 ³	<10.4>	42.7	0.8	-3.5	9.4	-4.9	11.4	4.2	1.9	-0.9	0.2
Thailand	<4.6>	46.1	1.3	-0.9	8.9	-20.8	27.1	10.3	4.8	-0.6	0.3
Others	<20.3>	29.2	1.6	-6.3	13.7	-0.5	3.2	0.3	0.5	-0.7	-0.5
Real exports		27.5	-0.5	-4.7	7.3	-2.8	-0.1	4.1	6.4	-2.8	-0.9

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q2	Q3	Q4	2012 Q1	Q2	2012 Apr.	May	Jun.
Intermediate goods	<20.9>	18.3	-4.6	-4.2	-2.1	-1.4	-2.9	6.5	3.4	3.6	-1.0
Motor vehicles and their related goods	<20.6>	41.8	-3.8	-24.8	44.5	4.1	0.3	-0.6	4.1	1.3	-10.4
Consumer goods ⁴	<3.2>	13.7	-2.9	-10.2	23.7	-20.2	28.6	-0.7	-8.5	-6.4	18.3
IT-related goods ⁵	<10.0>	27.6	0.9	-1.4	4.9	-3.5	1.6	-0.3	1.7	-5.6	4.3
Capital goods and parts ⁶	<30.3>	36.3	5.0	1.0	-0.1	-2.6	1.0	2.8	5.9	-6.4	5.5
Real exports		27.5	-0.5	-4.7	7.3	-2.8	-0.1	4.1	6.4	-2.8	-0.9

Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Shares of each region and goods in 2011 are shown in angle brackets.

3. Data of four members: Thailand, Malaysia, Indonesia, and Philippines.

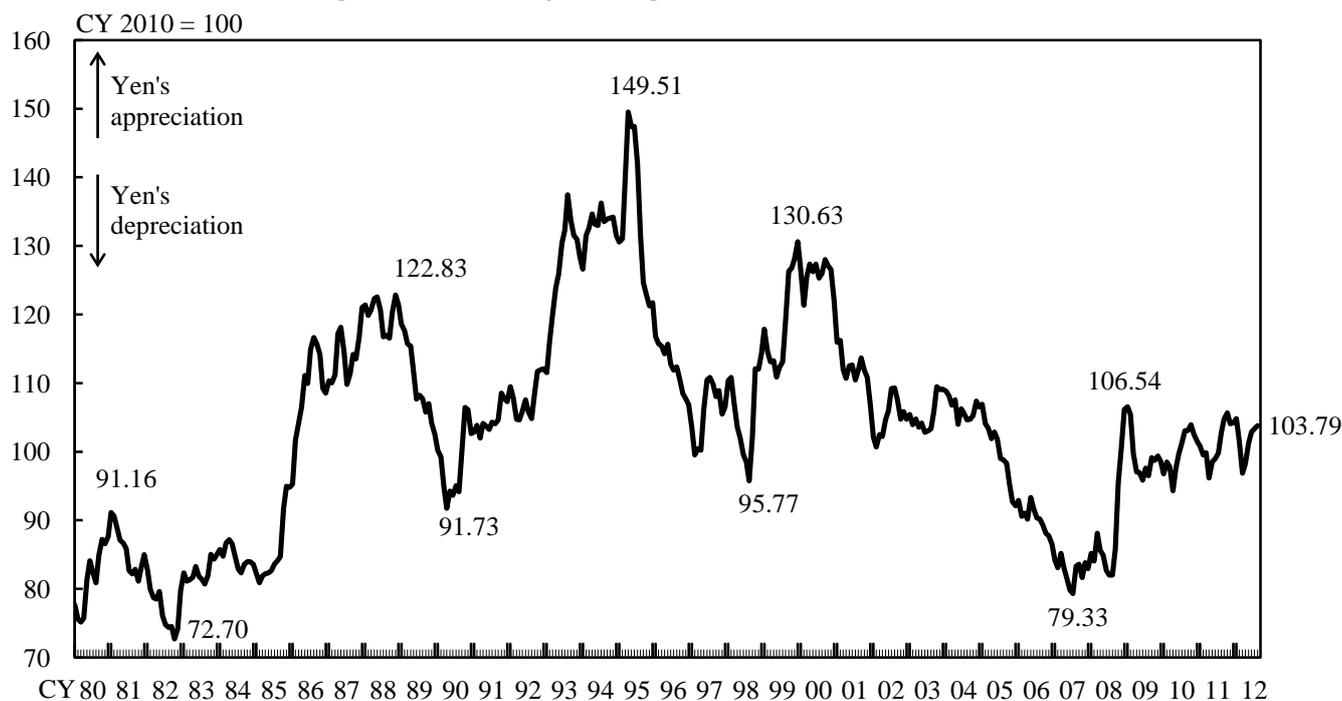
4. Excludes motor vehicles.

5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

6. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate (Monthly Average)



Notes: 1. Figures are based on the broad index of the BIS effective exchange rate, and those prior to 1994 are calculated using the narrow index.

2. Figures for July and August (up to August 7) 2012 have been calculated using the monthly average of the BOJ's nominal effective exchange rate (the Yen Index).

(2) Real GDP Growth Rates of Overseas Economies

s.a., ann., q/q % chg.

	CY2009	2010	2011	2011 Q3	Q4	2012 Q1	Q2
United States ¹	-3.1	2.4	1.8	1.3	4.1	2.0	1.5
European Union ²	-4.3	2.0	1.5	0.9	-1.2	-0.0	n.a.
Germany ¹	-5.1	3.7	3.0	2.3	-0.7	2.1	n.a.
France ¹	-3.1	1.6	1.7	1.0	0.2	0.1	n.a.
United Kingdom ¹	-4.0	1.8	0.8	2.4	-1.4	-1.3	-2.8
East Asia ³	2.5	9.2	5.8	4.7	0.6	9.0	n.a.
China ¹	9.2	10.4	9.2	9.5	7.8	6.6	7.4
NIEs ^{1,3}	-1.1	9.0	4.2	1.0	-0.1	3.3	n.a.
ASEAN4 ^{1,3,4}	-0.3	7.3	3.0	4.2	-11.6	26.2	n.a.
Main economies ³	0.0	6.7	4.4	3.5	1.0	6.4	n.a.

Notes: 1. Figures for each country are based on those released by the government or central bank. Quarterly figures for China are annualized based on quarter-on-quarter changes released by the National Bureau of Statistics of China.

2. Figures are based on those released by the European Commission.

3. Figures are averages of members' real GDP growth rates, weighted by the value of exports from Japan to each country or region.

The members are described below.

Main economies: United States, European Union, and East Asia

East Asia: China, NIEs, and ASEAN4

NIEs: Korea, Taiwan, Hong Kong, and Singapore

ASEAN4: Thailand, Malaysia, Indonesia, and Philippines

4. To calculate the quarterly figures, real GDP growth rates of some member countries are seasonally adjusted by the Bank of Japan using X-11.

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q2	Q3	Q4	2012 Q1	Q2	2012 Apr.	May	Jun.
United States	<8.7>	8.2	-1.0	4.7	-1.0	2.9	1.6	0.2	7.8	-3.1	-6.9
EU	<9.4>	6.4	7.9	6.4	0.7	0.6	-1.3	0.3	-0.7	2.6	-1.2
East Asia	<41.5>	22.0	9.1	1.1	2.5	1.5	-1.8	2.3	-0.8	4.0	-1.3
China	<21.5>	23.9	12.2	1.4	4.3	2.6	-3.5	3.2	0.3	2.1	-2.9
NIEs	<8.6>	21.6	5.9	0.7	-0.7	2.8	-0.3	0.8	-0.5	2.0	4.0
Korea	<4.7>	20.9	19.9	3.9	-2.5	3.8	1.6	-4.7	-7.4	-2.4	14.7
Taiwan	<2.7>	21.2	-5.6	-3.8	-0.1	4.1	-3.4	7.6	1.5	12.1	-3.7
Hong Kong	<0.2>	32.8	-5.4	-7.6	5.8	-0.1	23.3	-16.7	55.7	-5.2	-2.4
Singapore	<1.0>	22.9	-2.8	2.3	-0.5	2.6	-2.1	4.5	12.6	-9.7	-8.2
ASEAN4 ³	<11.5>	18.2	4.8	0.6	1.0	-2.3	1.1	1.6	-3.6	10.6	-1.9
Thailand	<2.9>	25.7	4.0	1.7	0.7	-14.9	4.7	10.0	1.9	8.3	0.4
Others	<40.4>	6.8	-0.3	0.3	1.8	1.2	0.8	5.2	5.8	0.0	-2.9
Real imports		12.0	3.7	2.0	1.9	1.3	-0.4	3.2	2.1	3.0	-3.1

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q2	Q3	Q4	2012 Q1	Q2	2012 Apr.	May	Jun.
Raw materials ⁴	<39.8>	5.5	-0.2	-0.8	3.5	0.6	2.6	3.1	1.5	2.9	-2.2
Intermediate goods	<15.0>	18.5	8.7	5.3	-2.1	0.7	-6.9	0.5	1.4	-0.9	-1.9
Foodstuffs	<8.6>	2.2	1.6	6.2	-2.0	0.6	0.8	-3.8	0.8	-1.0	-3.9
Consumer goods ⁵	<8.1>	22.7	6.1	-2.6	1.8	-3.3	-0.1	2.5	-2.8	7.7	-2.2
IT-related goods ⁶	<9.8>	26.7	8.1	-1.7	2.5	5.5	0.1	1.0	3.5	-2.9	-3.0
Capital goods and parts ⁷	<10.4>	19.0	9.5	2.4	4.6	2.5	1.5	4.4	1.4	5.2	-8.4
Excluding aircraft	<10.0>	21.8	10.6	3.0	4.5	1.0	-1.1	4.6	1.5	3.6	-4.6
Real imports		12.0	3.7	2.0	1.9	1.3	-0.4	3.2	2.1	3.0	-3.1

Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Shares of each region and goods in 2011 are shown in angle brackets.

3. Data of four members: Thailand, Malaysia, Indonesia, and Philippines.

4. Raw materials are mainly composed of woods, ores, and mineral fuels.

5. Excludes foodstuffs.

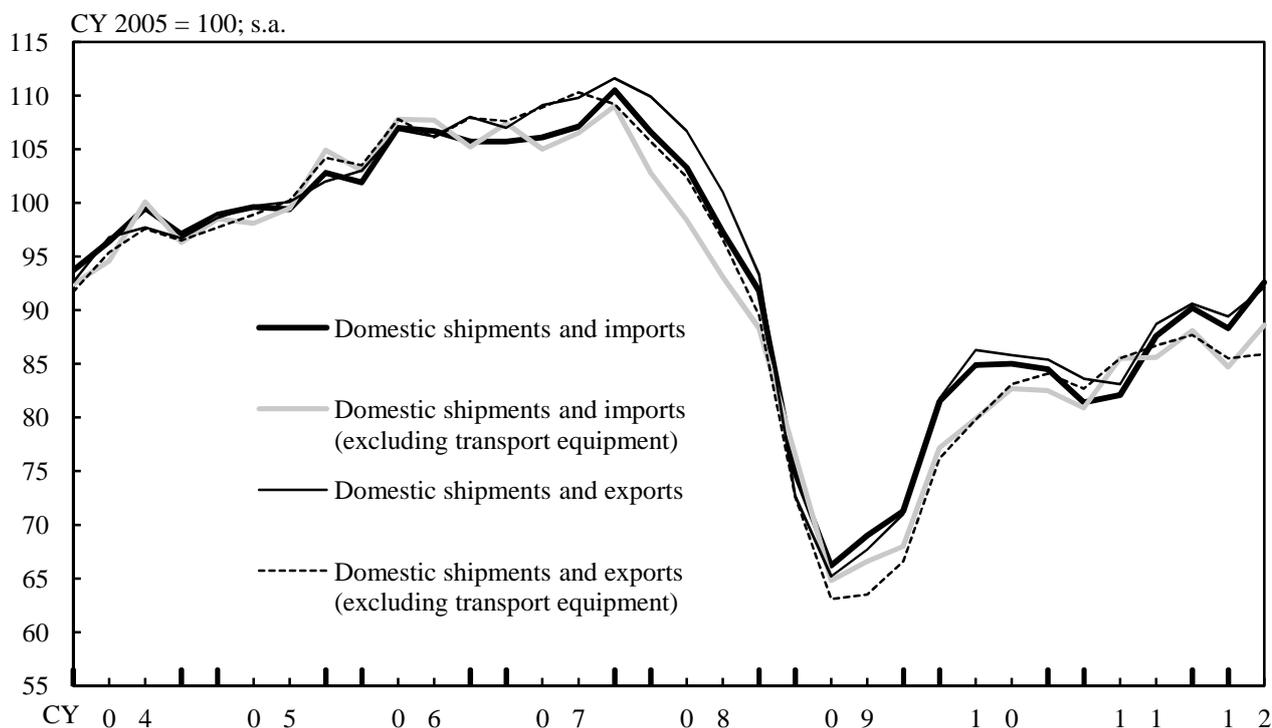
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

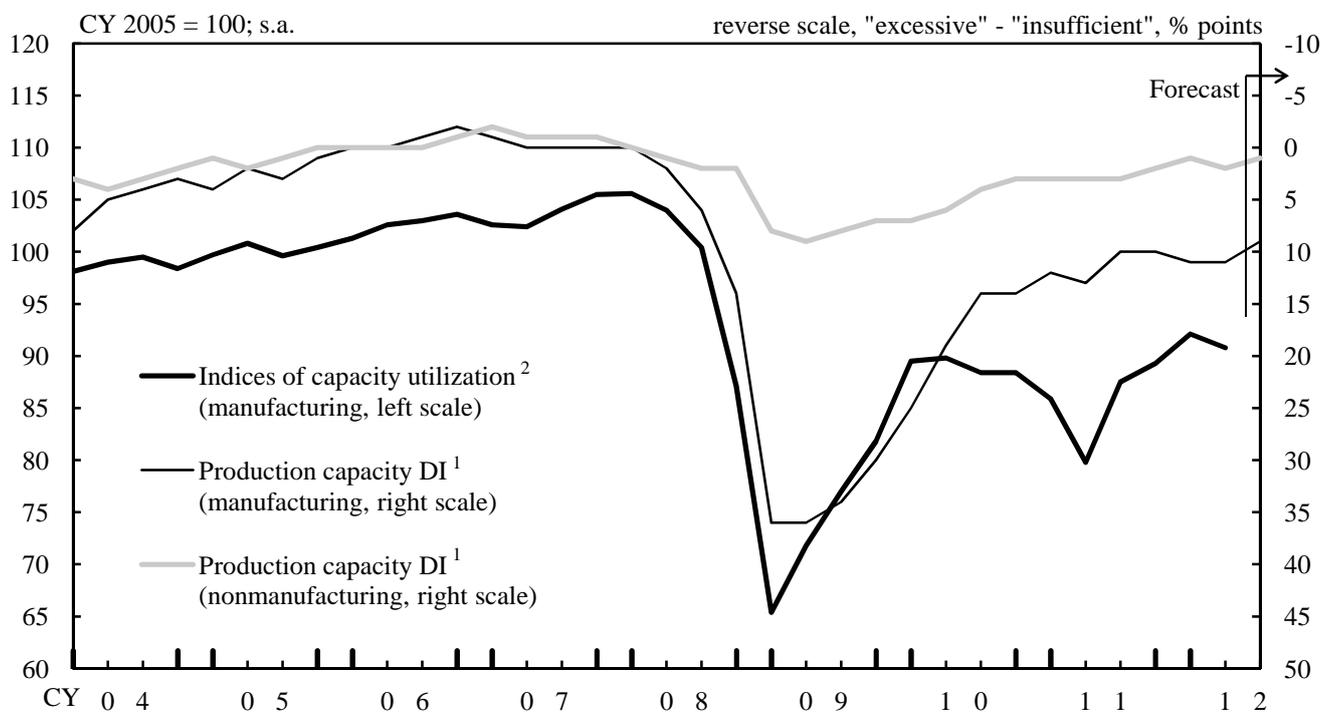
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



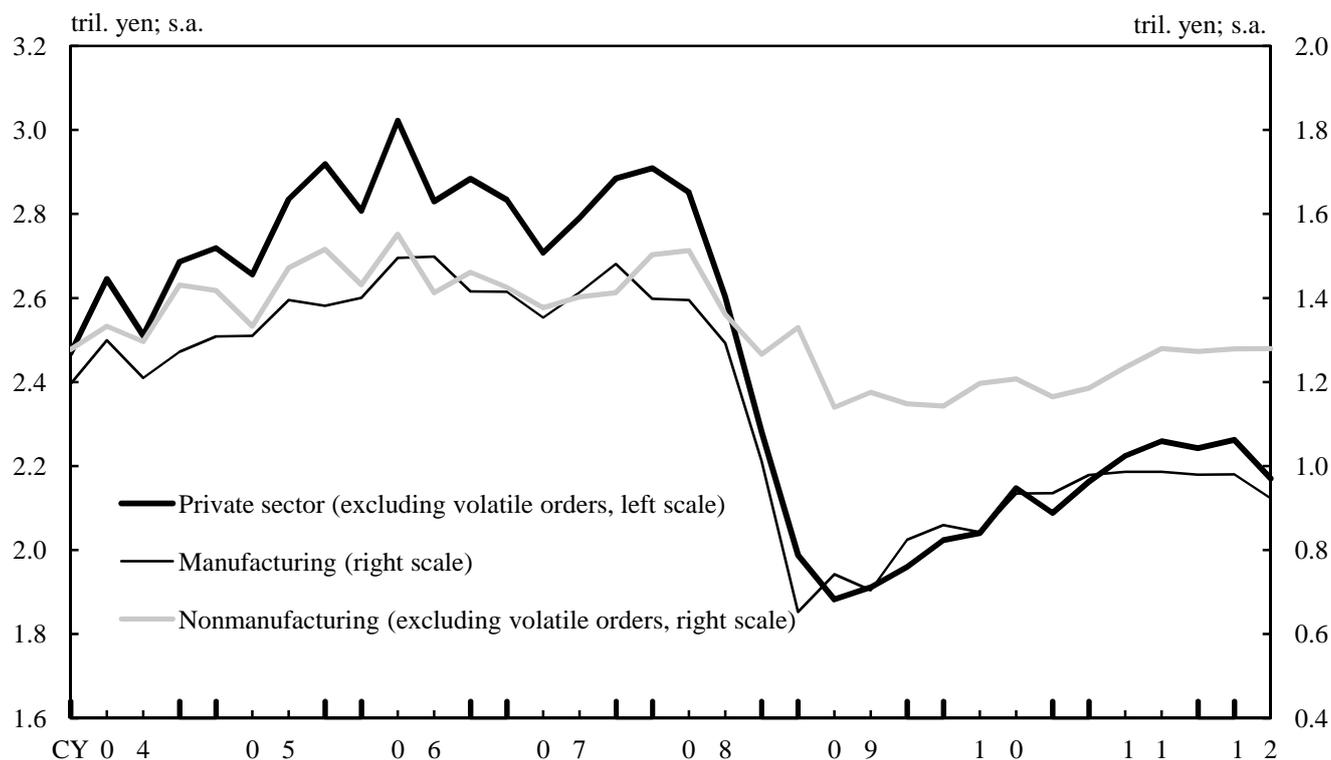
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2012/Q2 is the average of April-May.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports";
Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

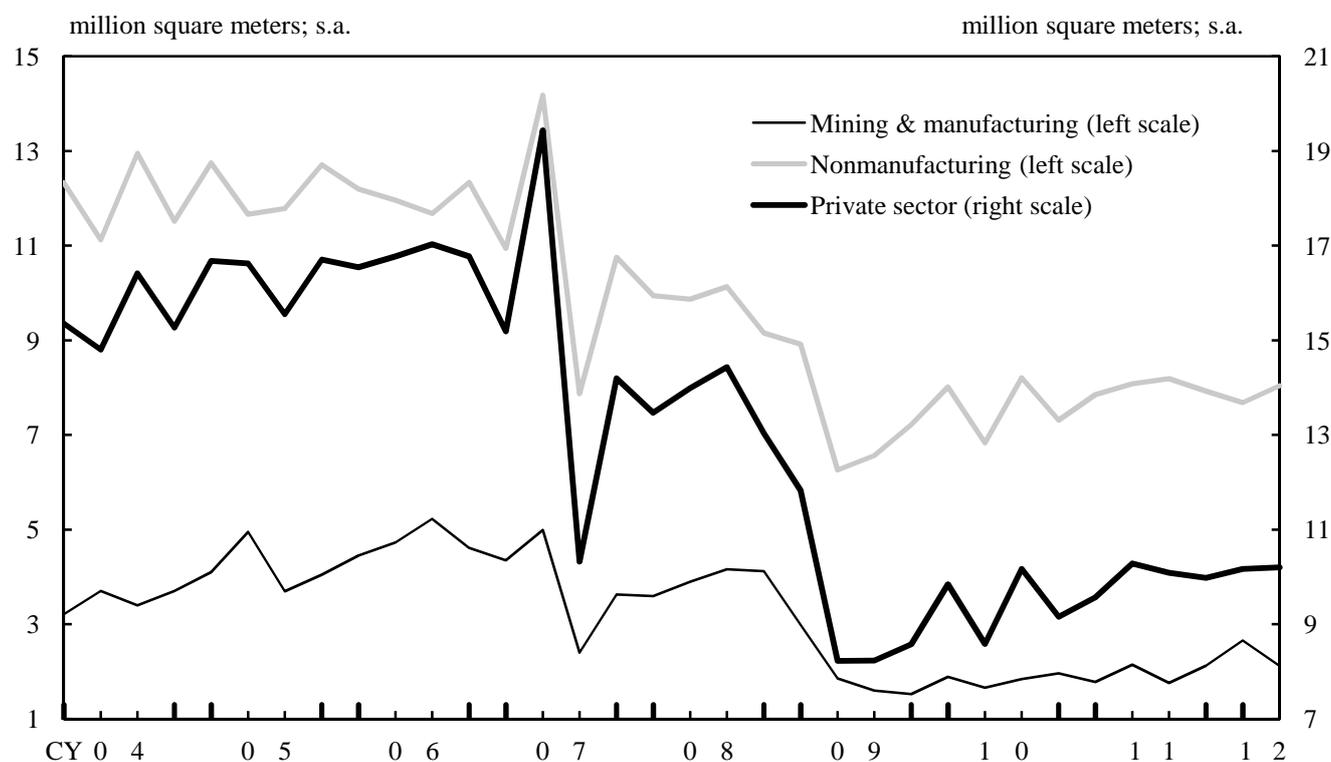
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Figures up to FY 2004 are estimated by the Cabinet Office.
 2. Volatile orders: Orders for ships and those from electric power companies.

(2) Construction Starts (Floor Area, Private, Nondwelling Use)

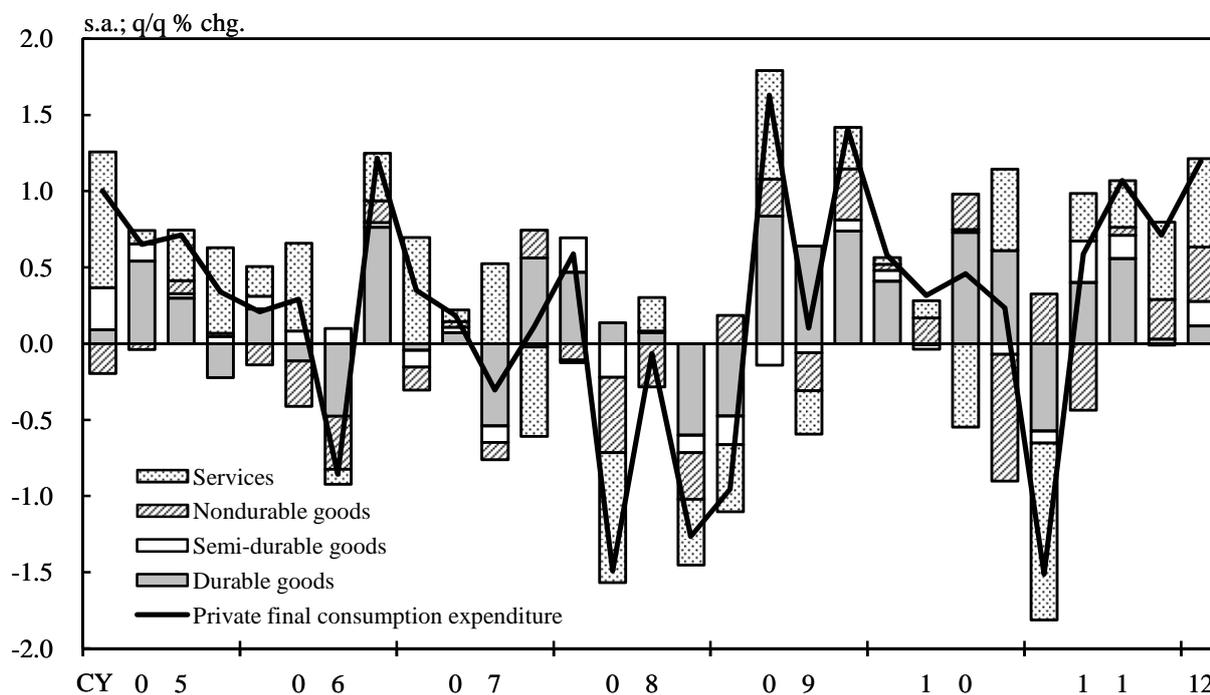


Note: Seasonally adjusted by X-12-ARIMA.

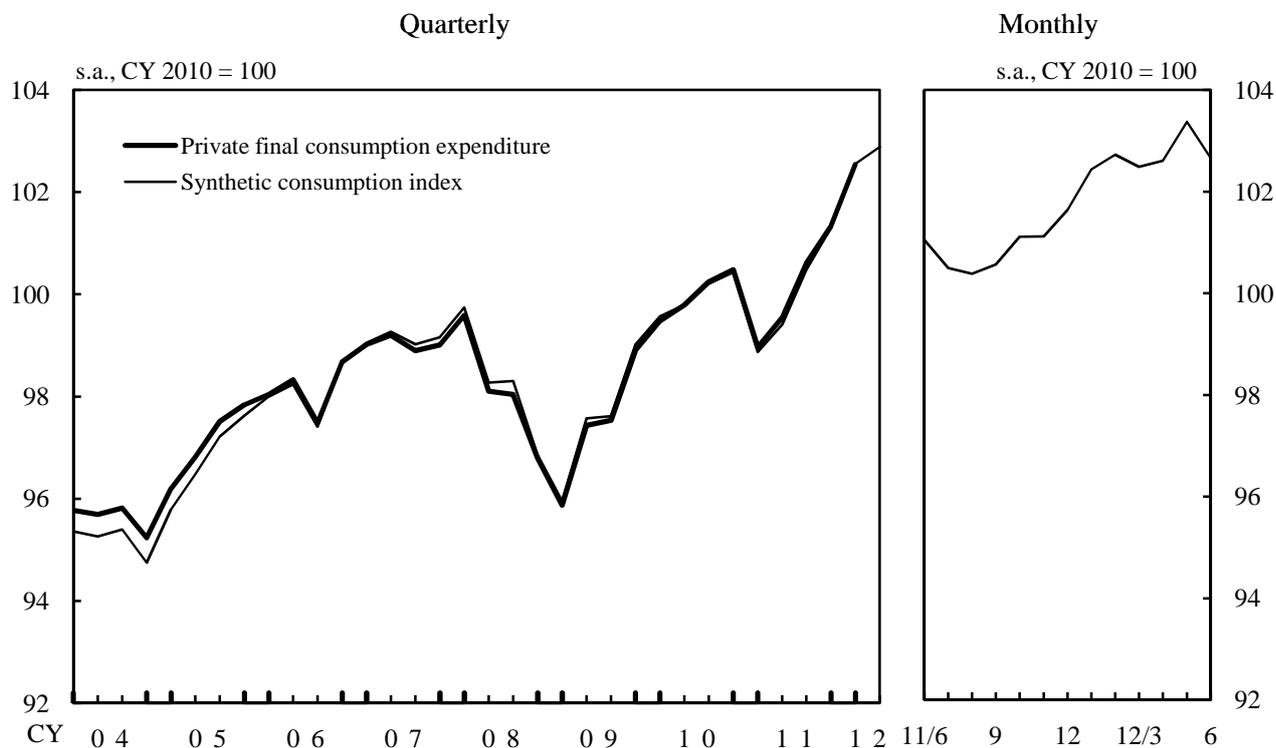
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

(1) Breakdown of Private Final Consumption Expenditure (Real)



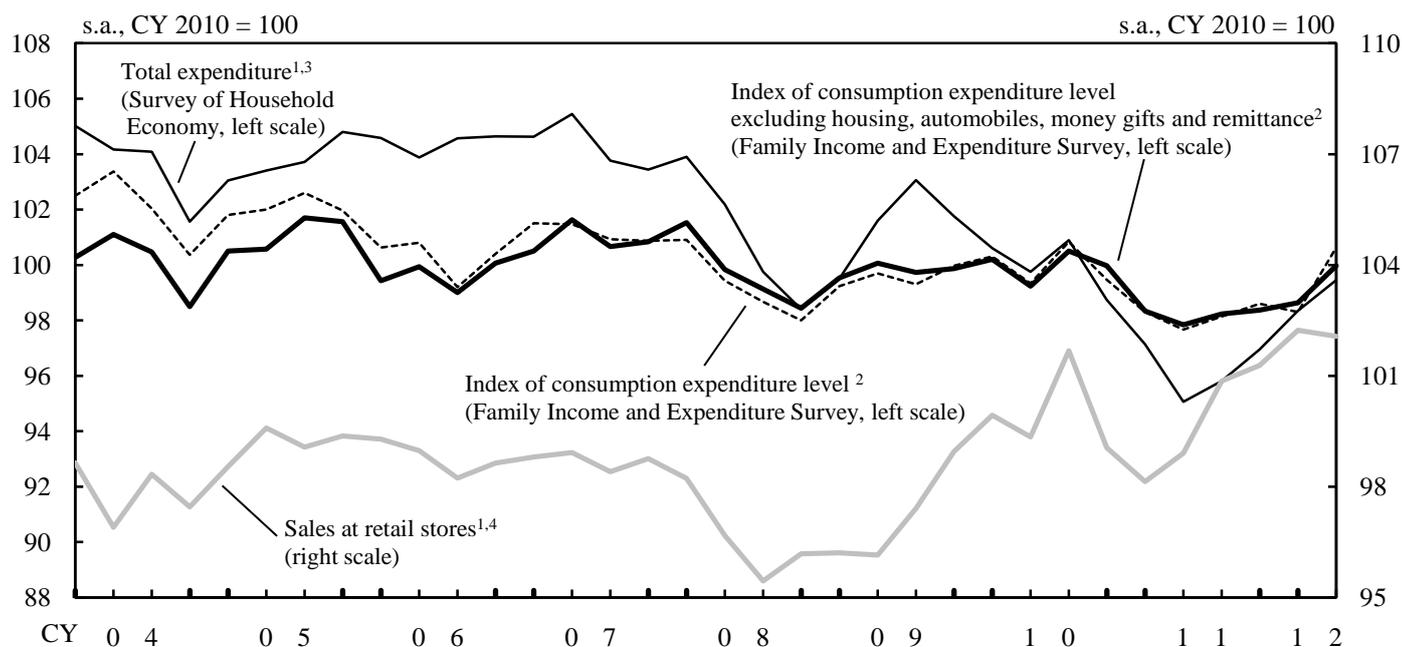
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



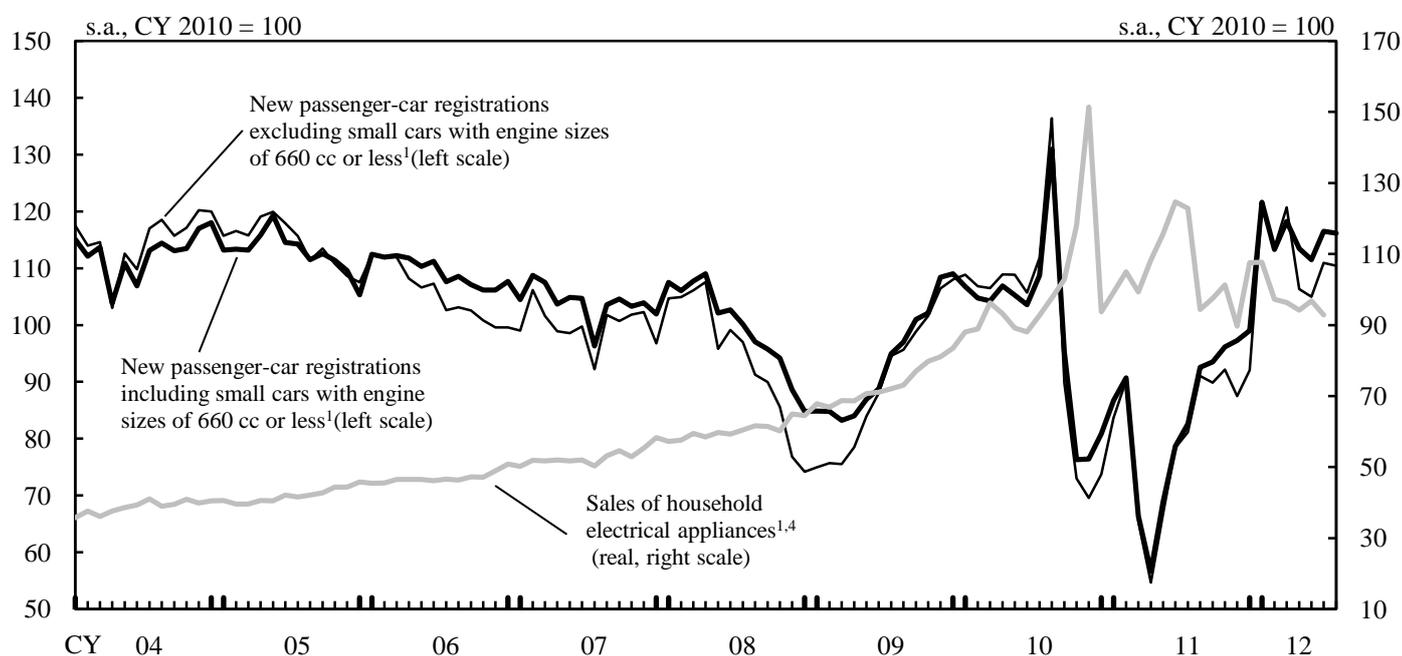
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

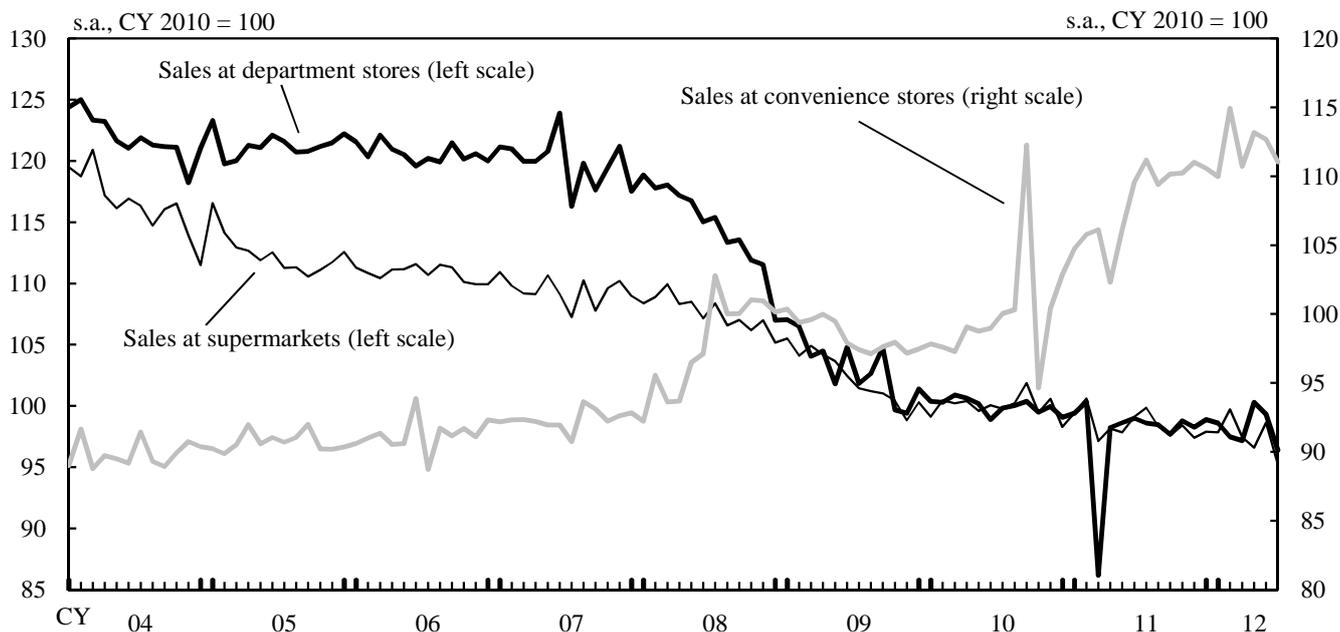


(2) Sales of Durable Goods

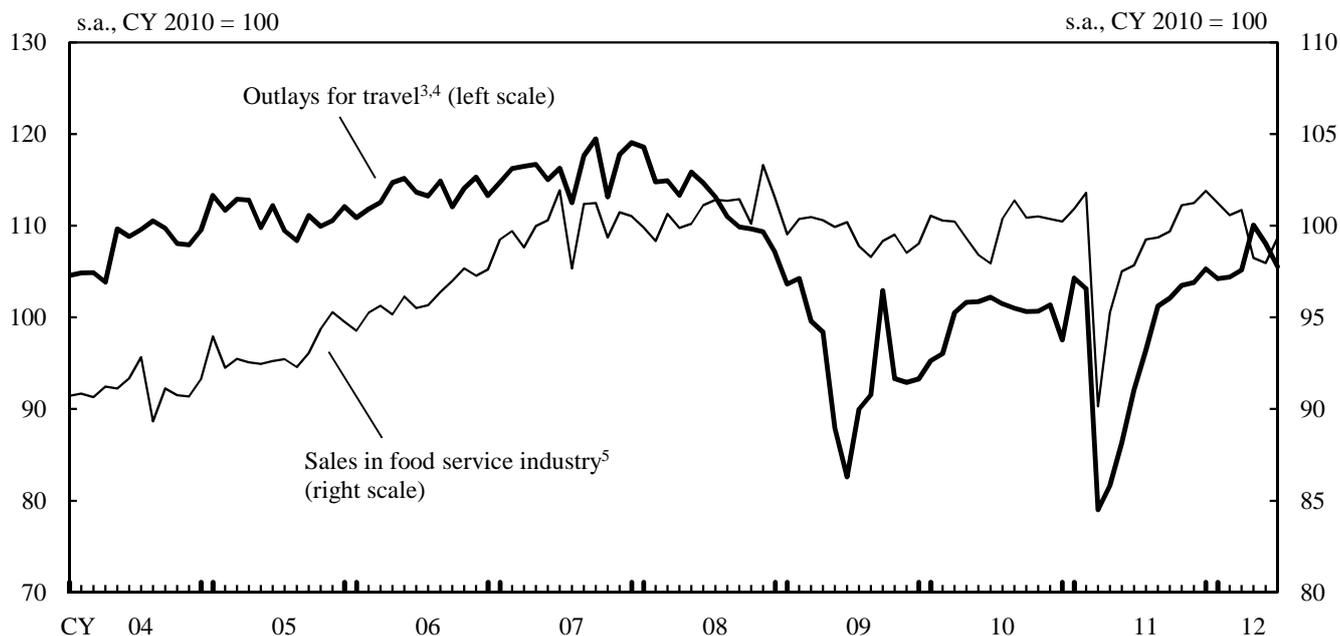


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household by number of household members and age group of household head.
3. "Total expenditure" is based on two-or-more-person households, and is deflated by the "consumer price index (CPI)" excluding imputed rent.
4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges).
"Sales of household electrical appliances" is calculated as follows: indices of retail sales, of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index,"
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators of Private Consumption¹ (3)(1) Sales at Retail Stores (Nominal)²

(2) Consumption of Services (Nominal)



Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).

3. Excluding those by foreign travelers.

4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.

5. "Sales in food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

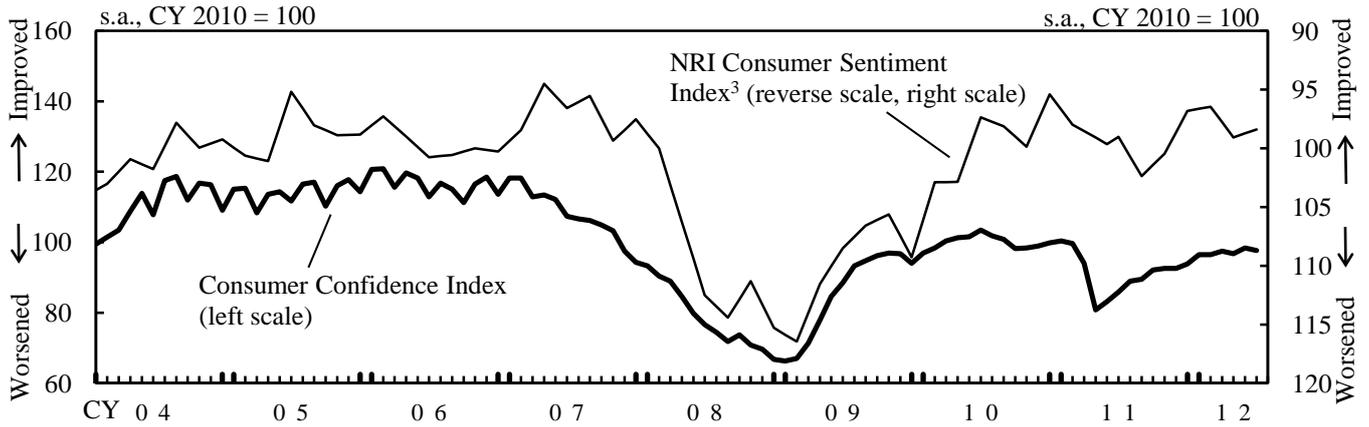
Japan Tourism Agency, "Major Travel Agents' Revenue";

Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly survey of food service sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa

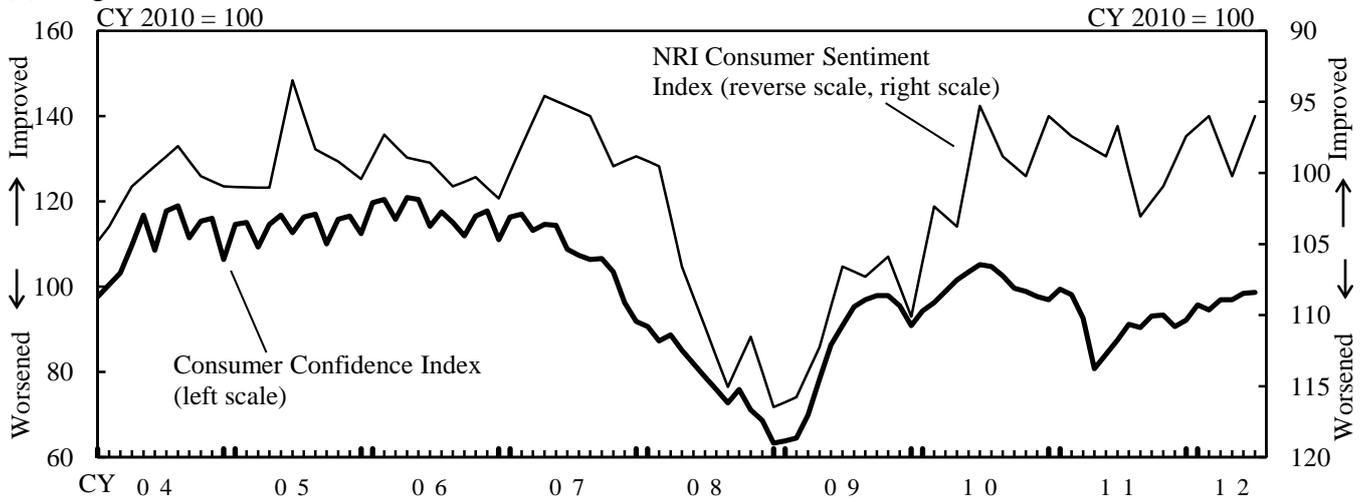
(Research on the food service industry)."

Consumer Confidence^{1,2}

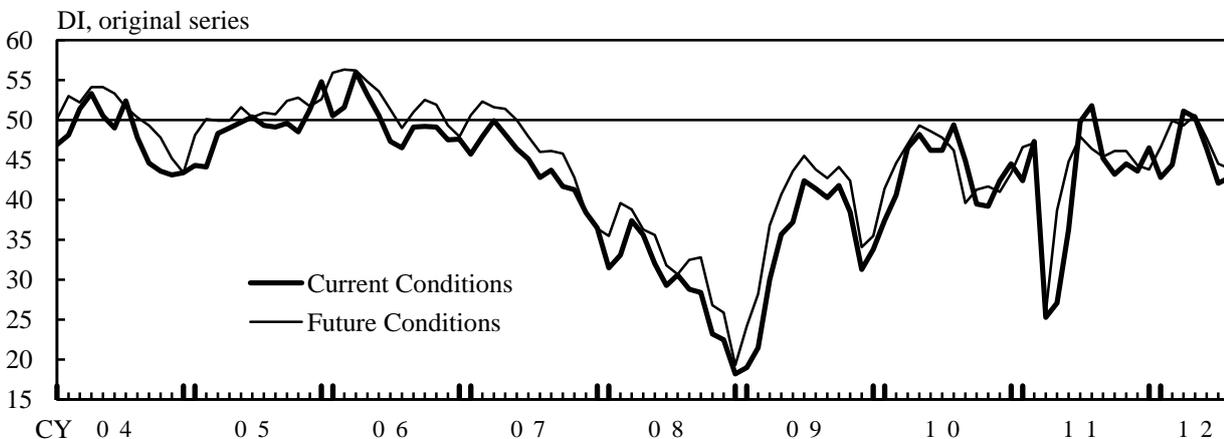
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

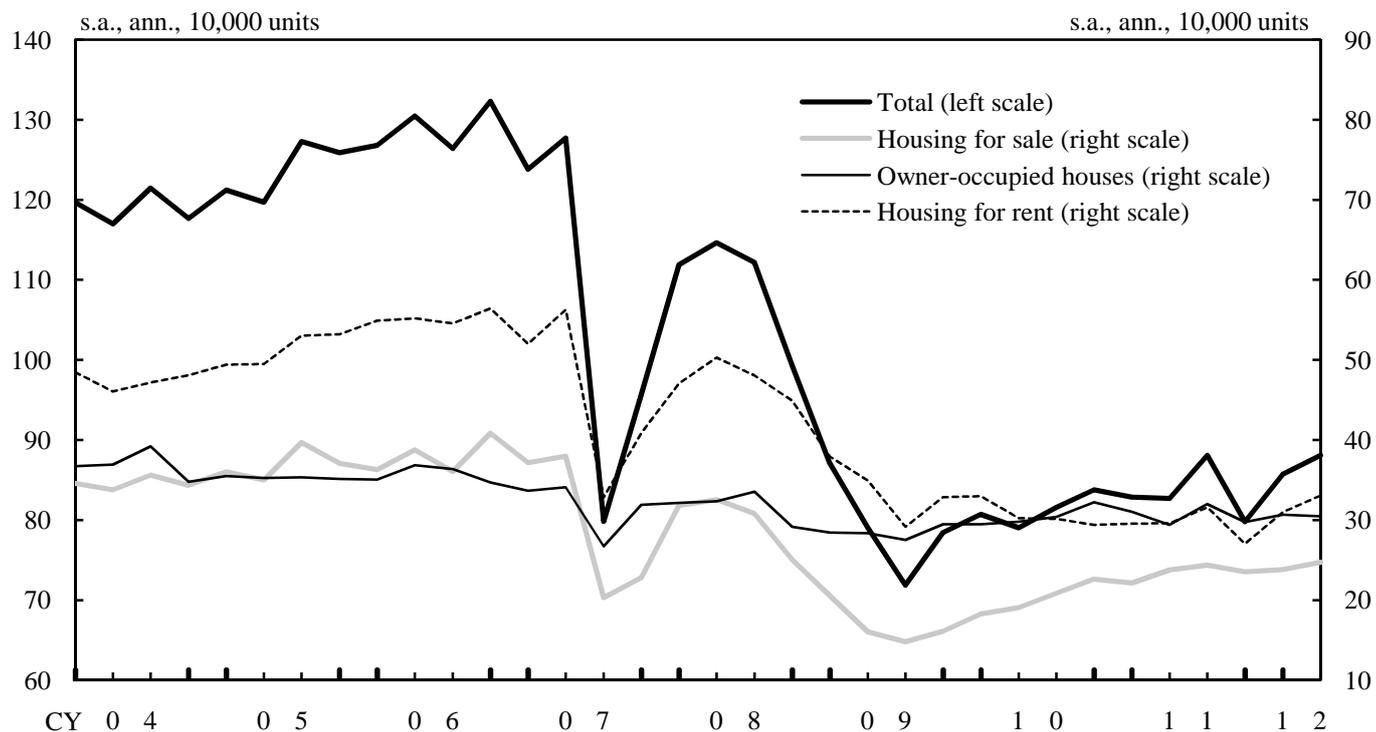


- Notes: 1. The Consumer Confidence Index (covering about 4,700 samples on a nationwide basis) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
 2. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.
 3. Figures are seasonally adjusted by X-12-ARIMA.

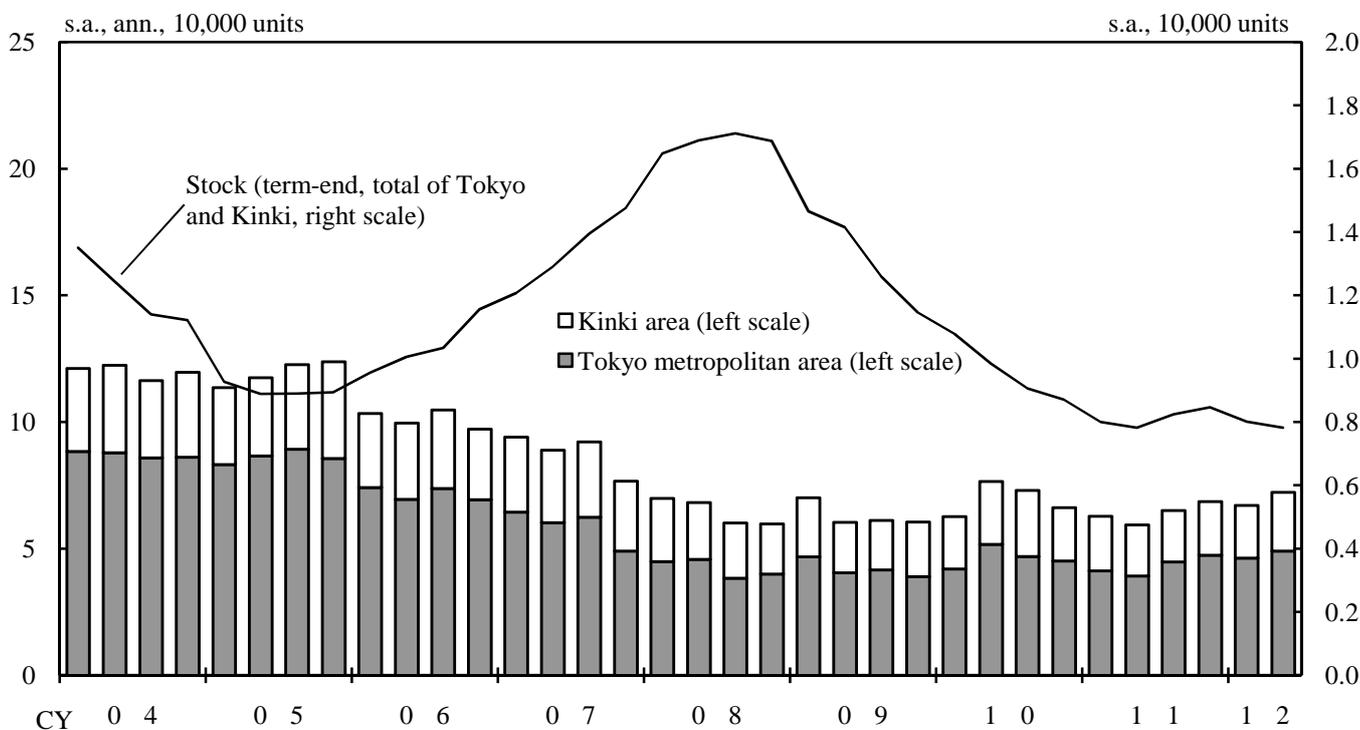
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey";
 Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

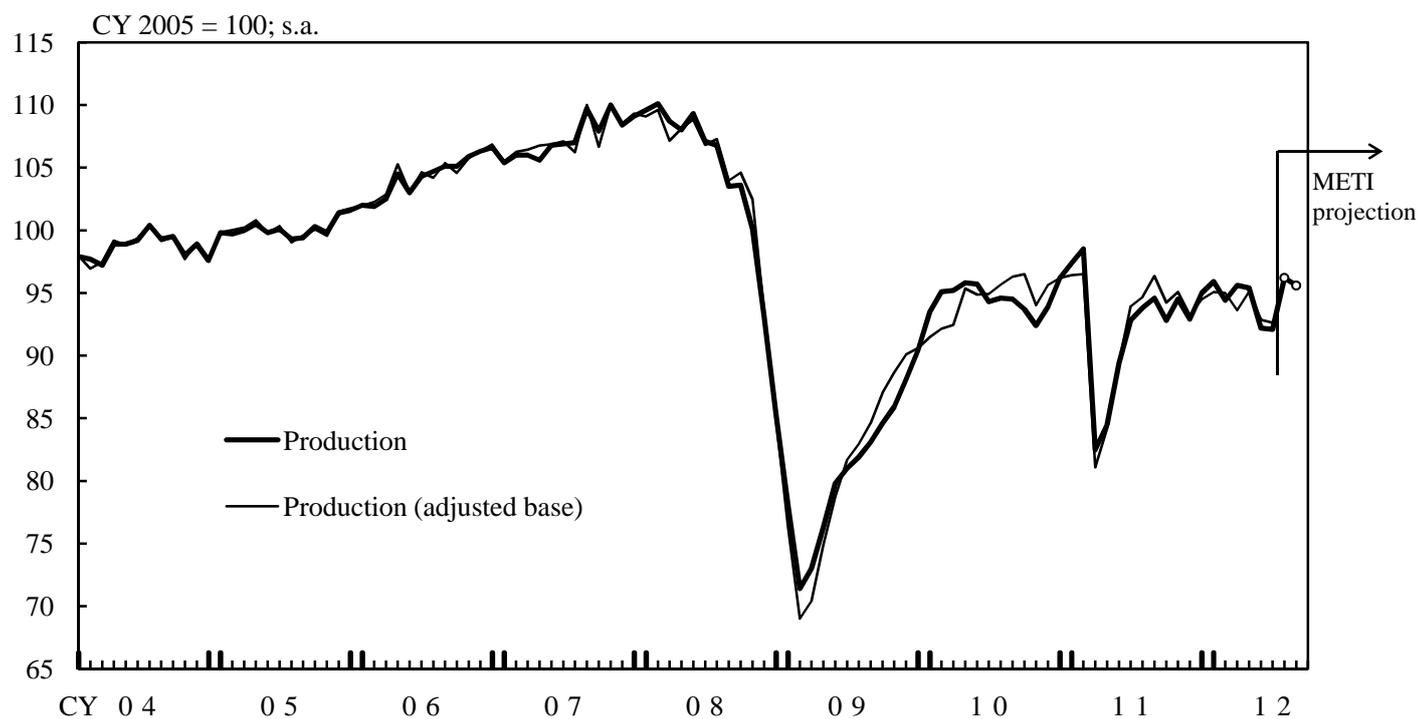


Note: Seasonally adjusted by X-12-ARIMA.

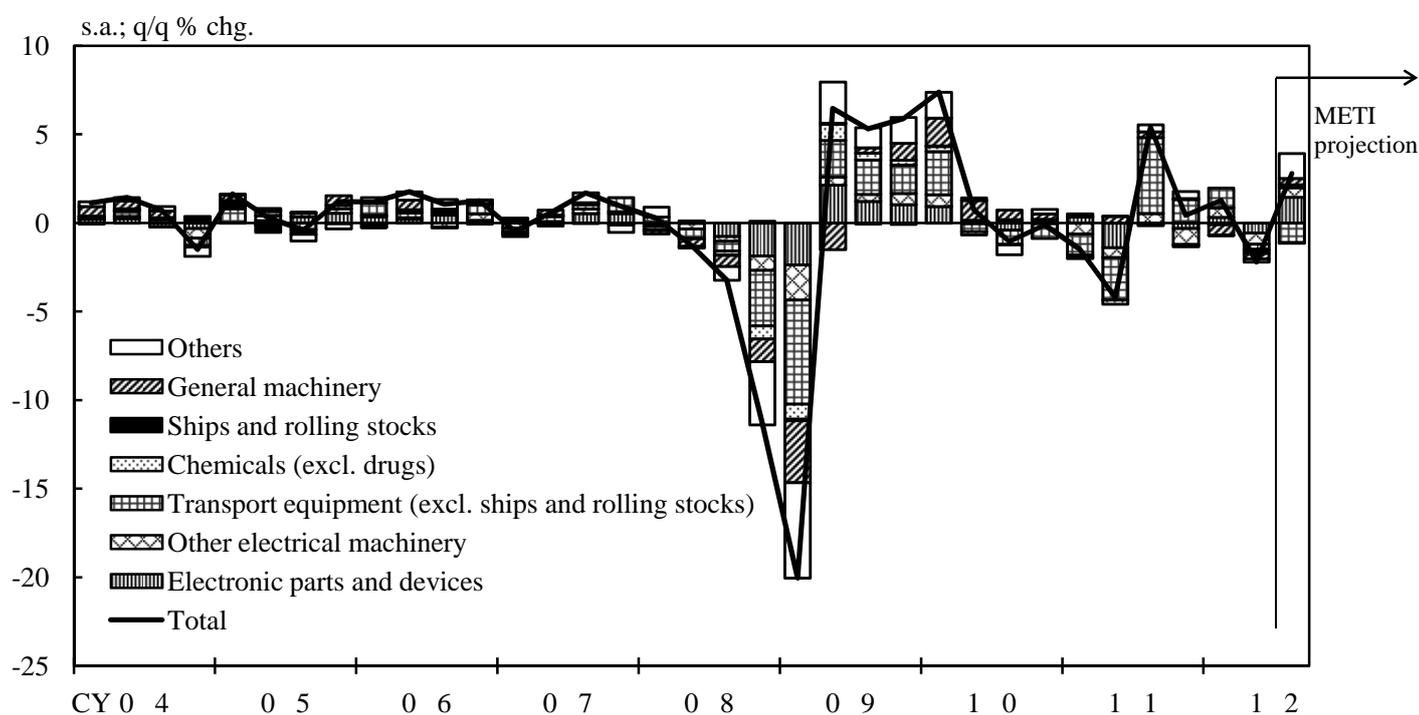
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production

(1) Production



(2) Production by Industry

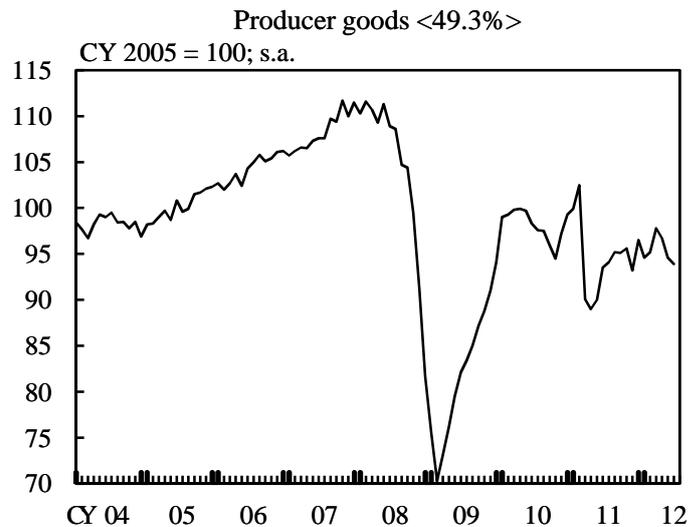
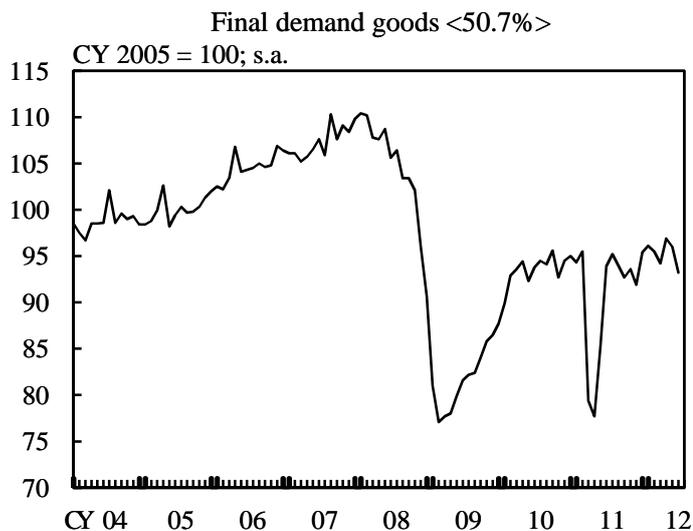


- Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
3. 2012/Q3 figures are based on the assumption that the production levels in September are the same as those of August.

Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

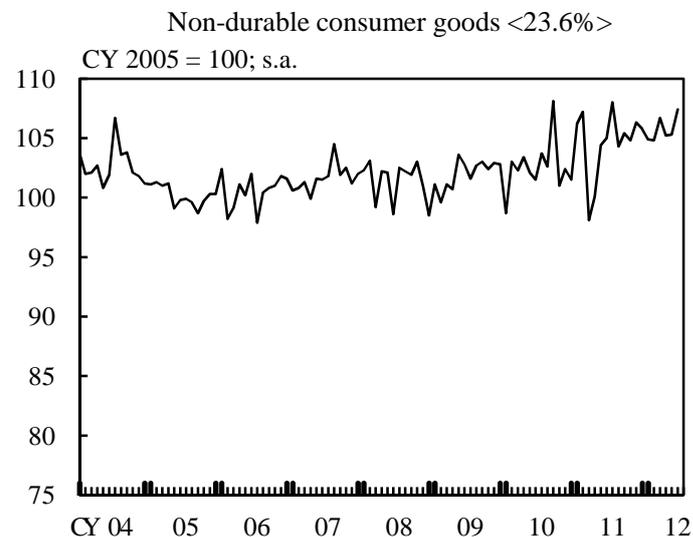
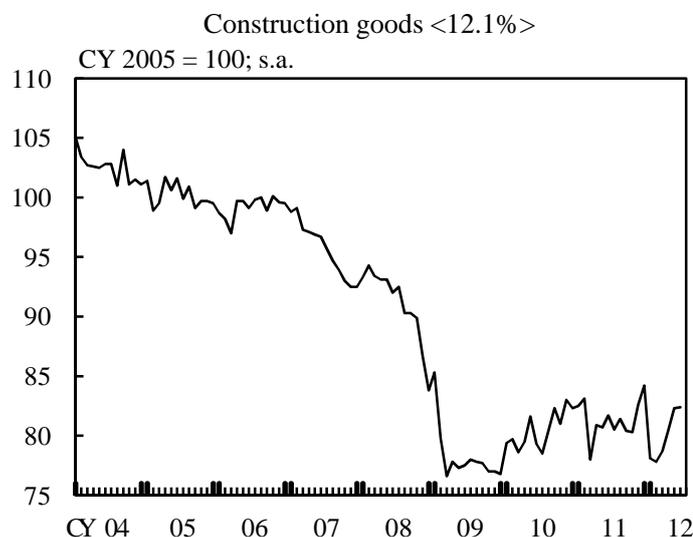
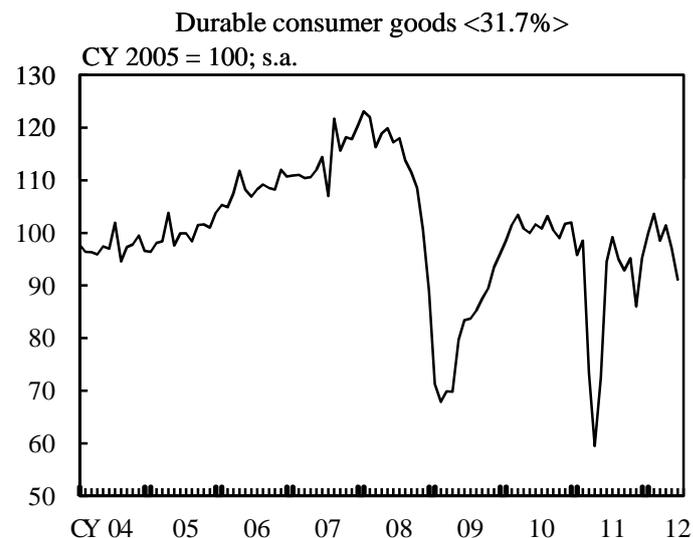
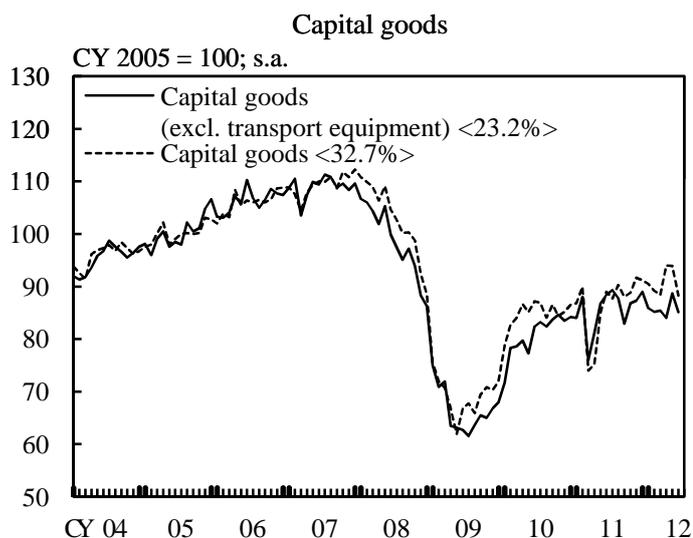
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods



Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

(2) Breakdown of Final Demand Goods

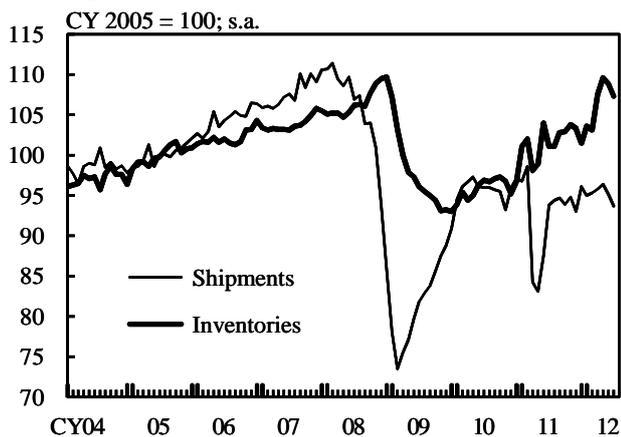


Note: Figures in angle brackets show the shares among shipments of final demand goods.

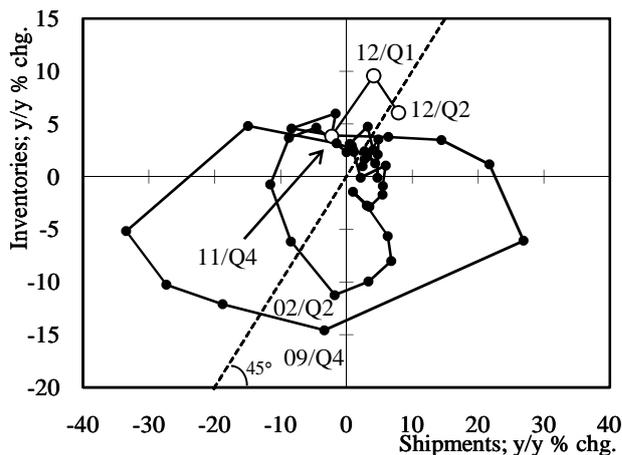
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments and Inventories

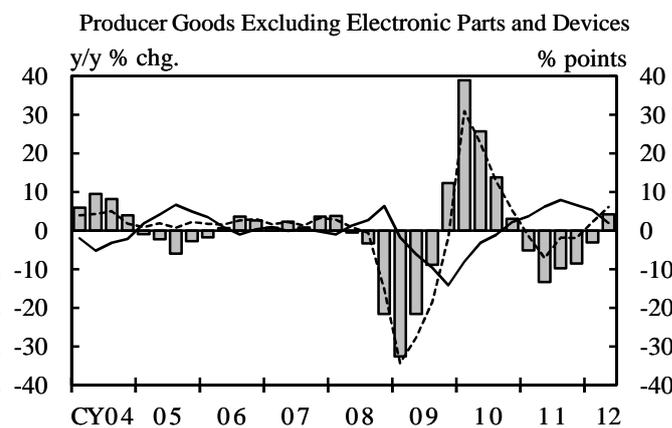
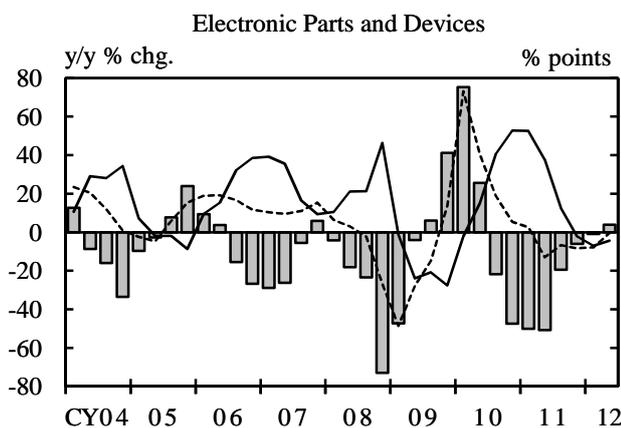
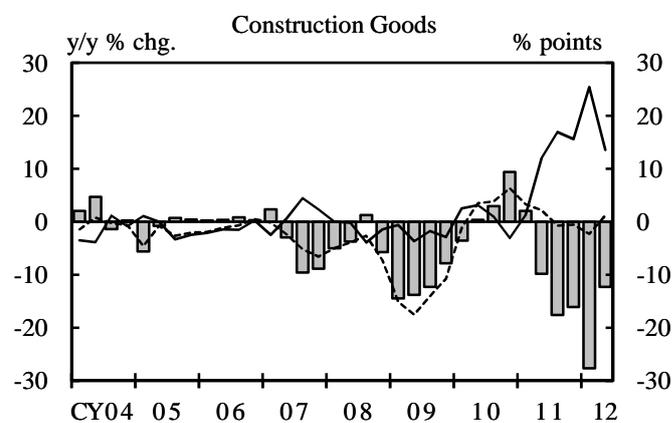
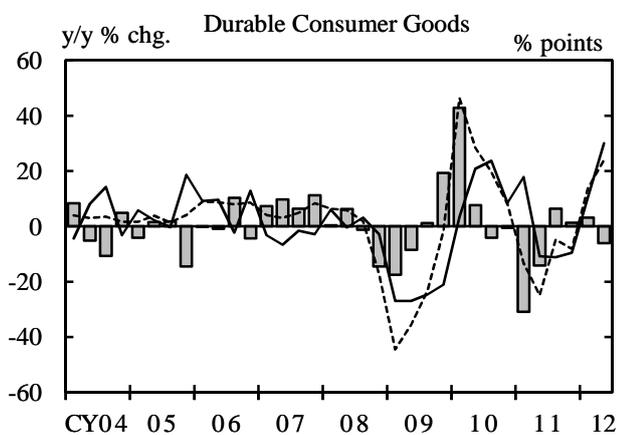
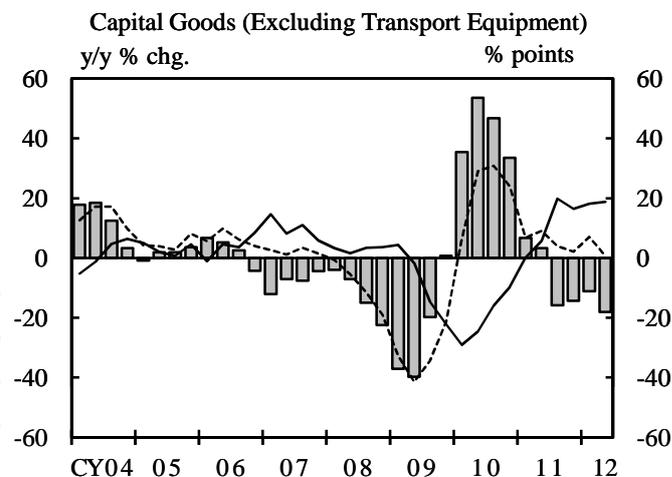
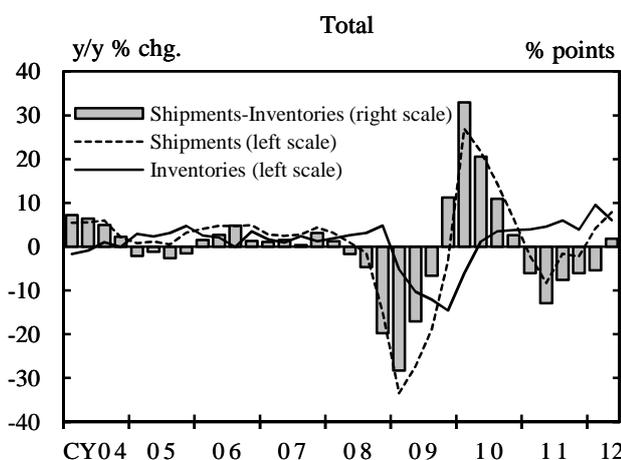
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



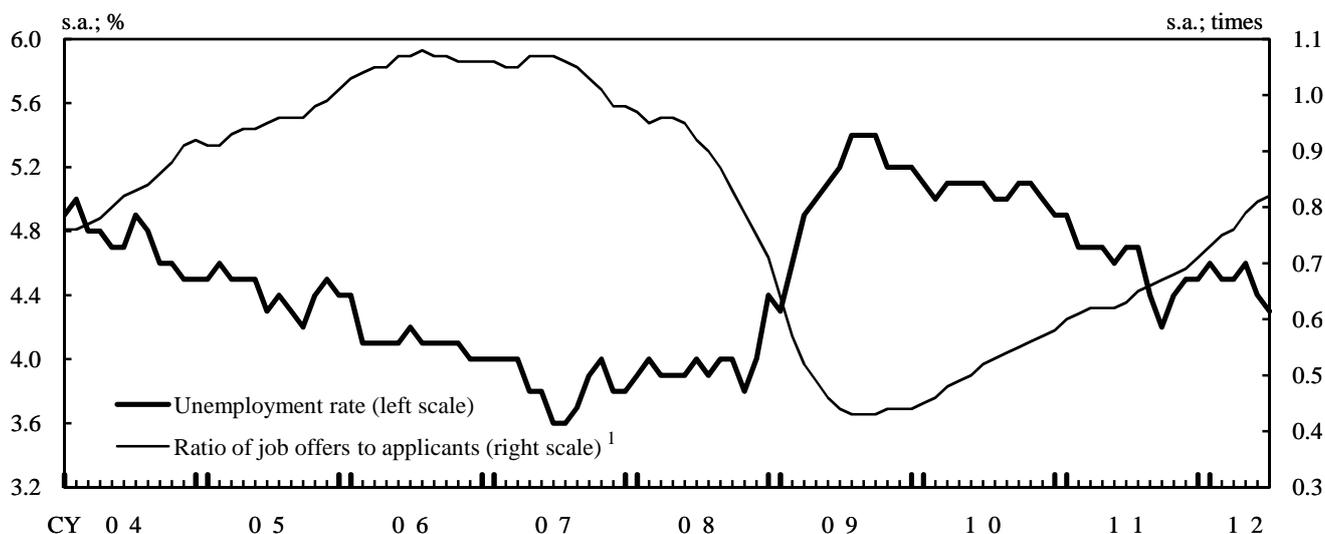
(3) Shipment-Inventory Balance



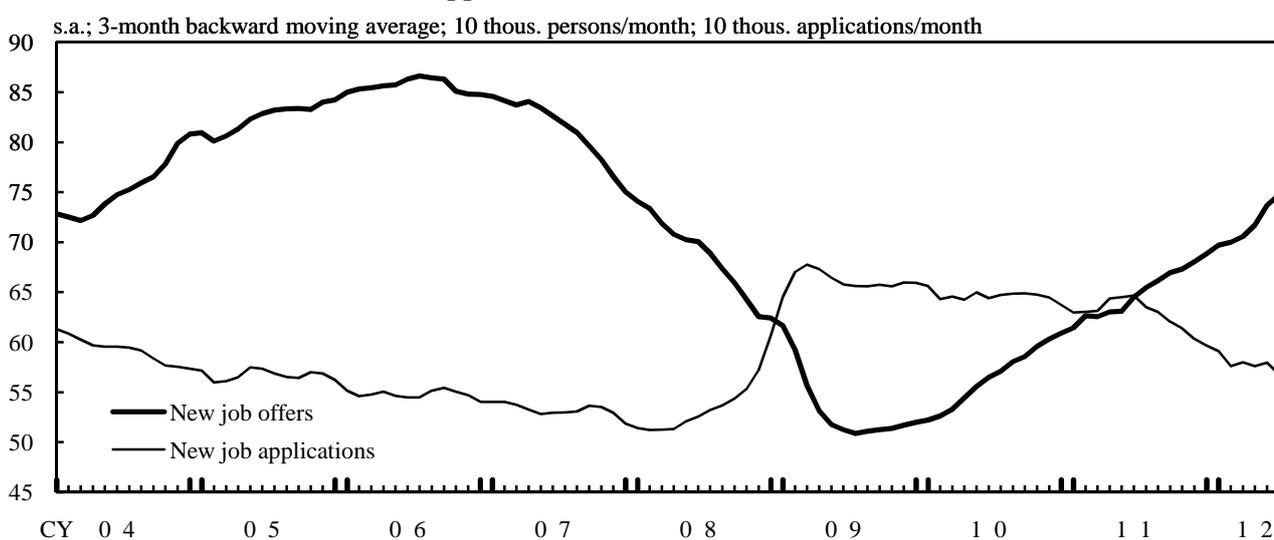
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

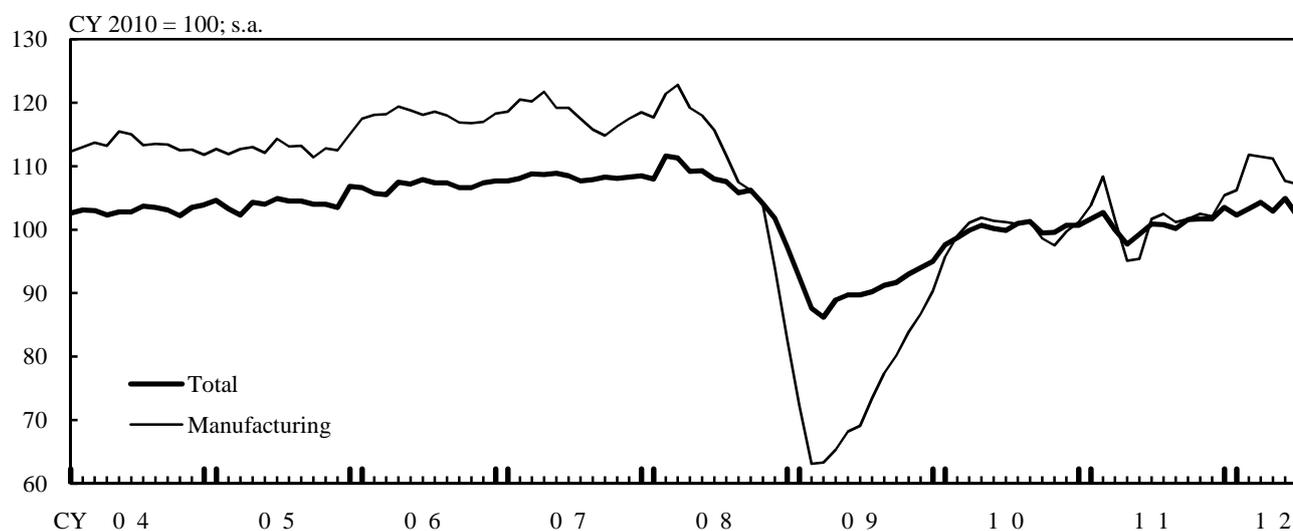
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



(3) Non-Scheduled Hours Worked²



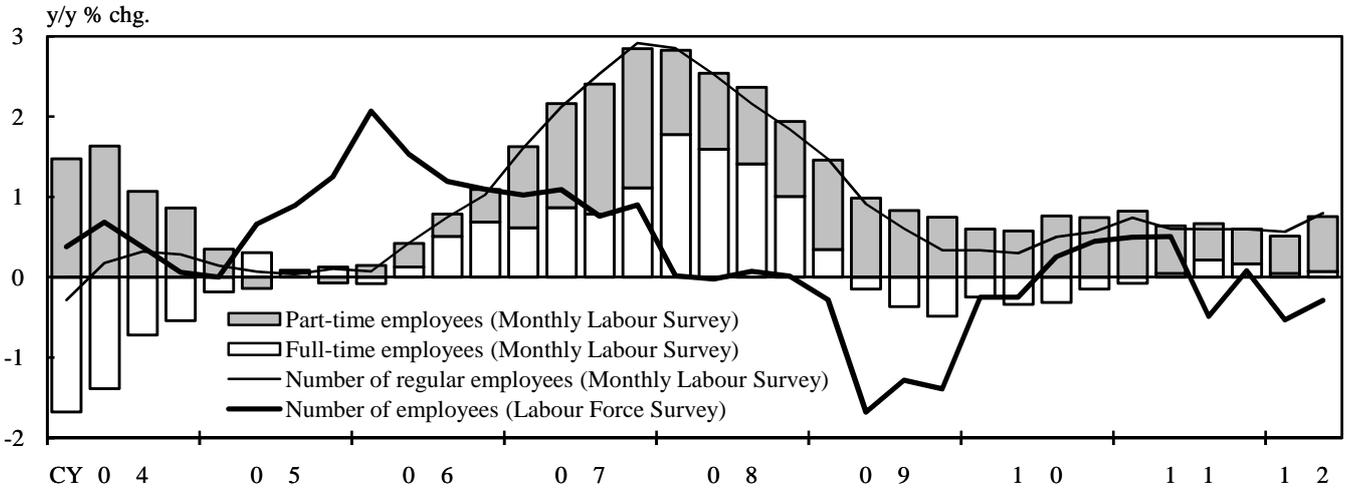
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

2. Data are for establishments with at least five employees.

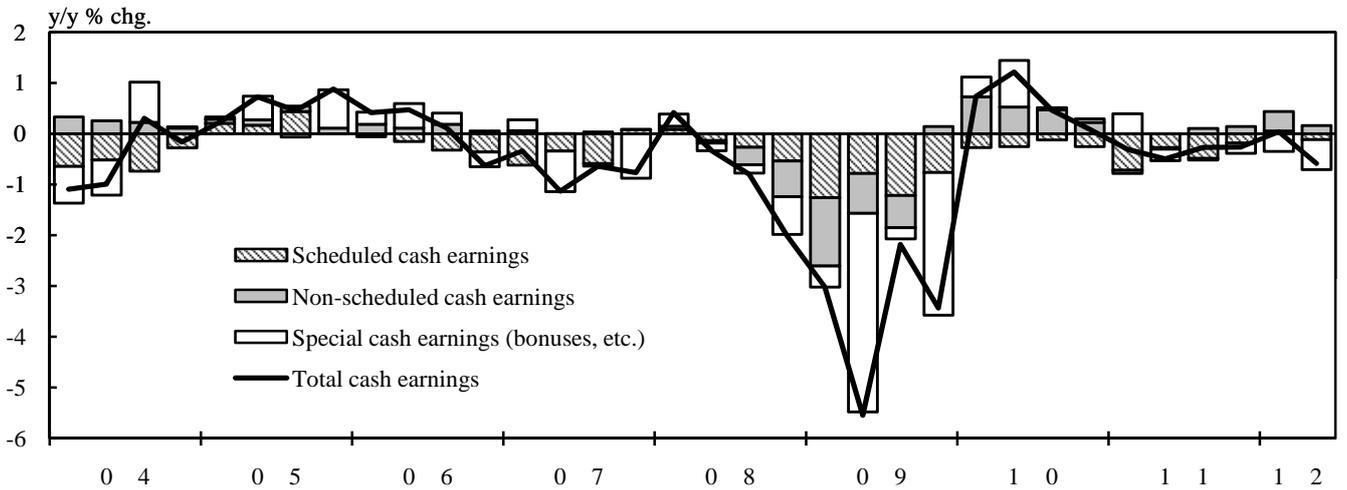
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

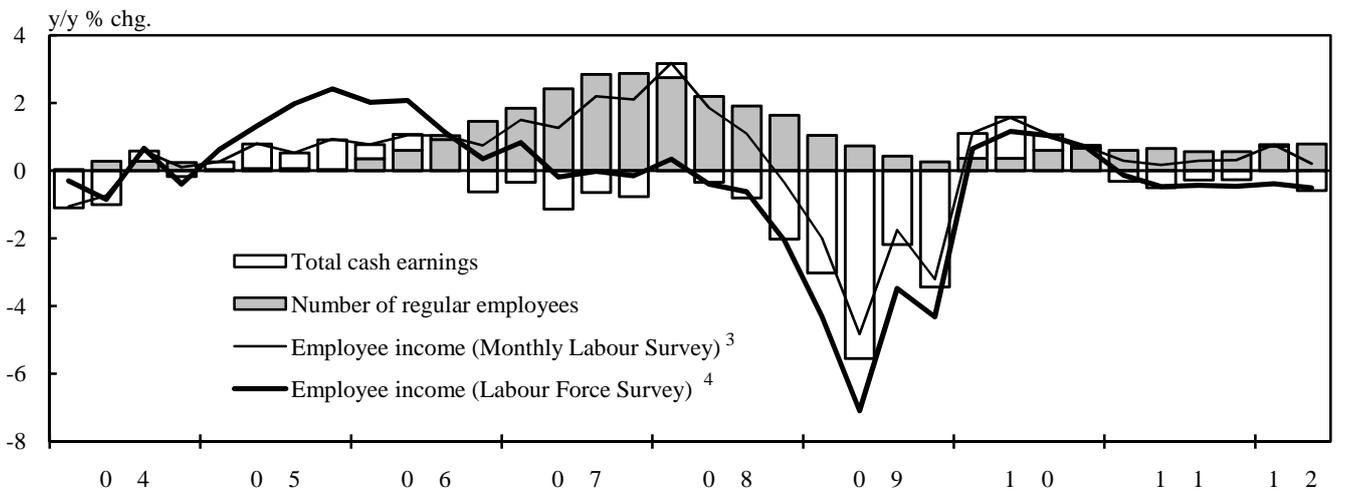
(1) Number of Employees¹



(2) Breakdown of Total Cash Earnings^{1,2}



(3) Breakdown of Employee Income^{1,2}

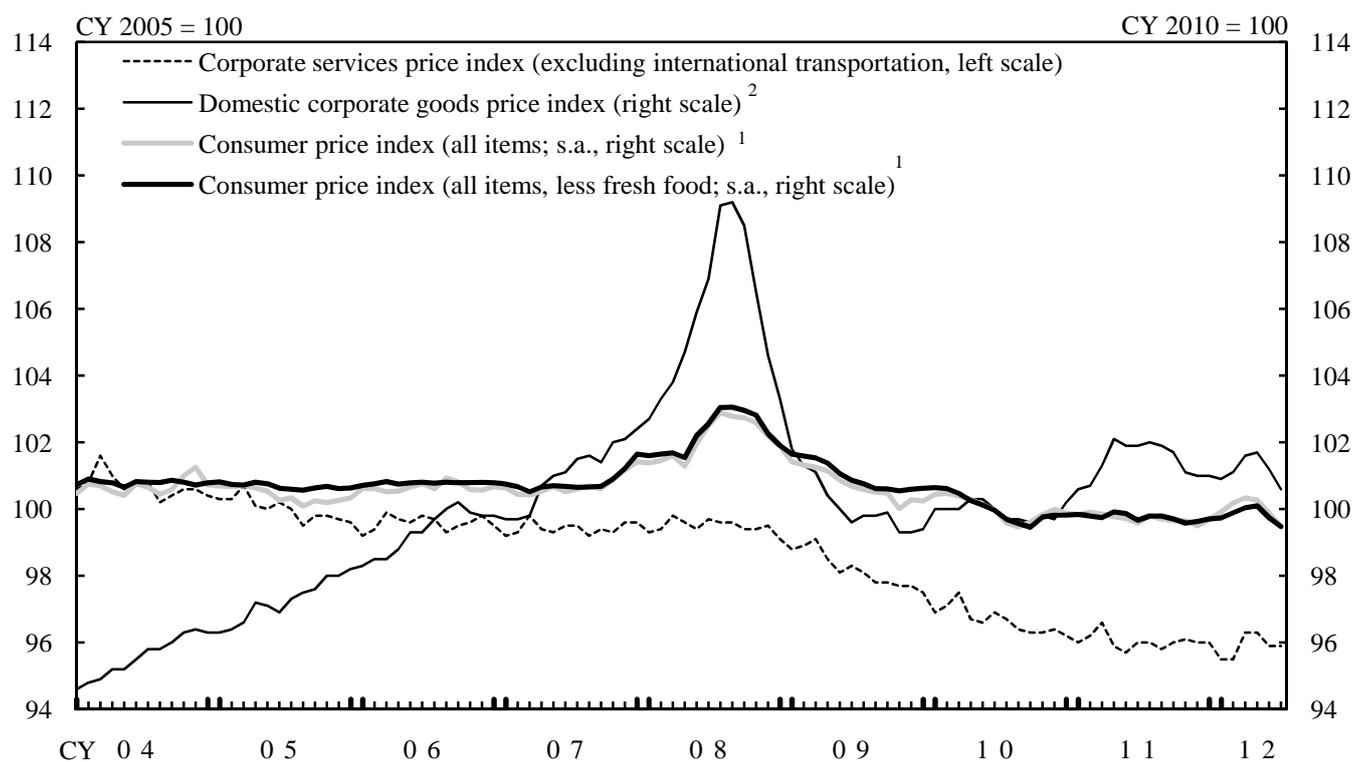


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2012/Q2 are those of June.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
 4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

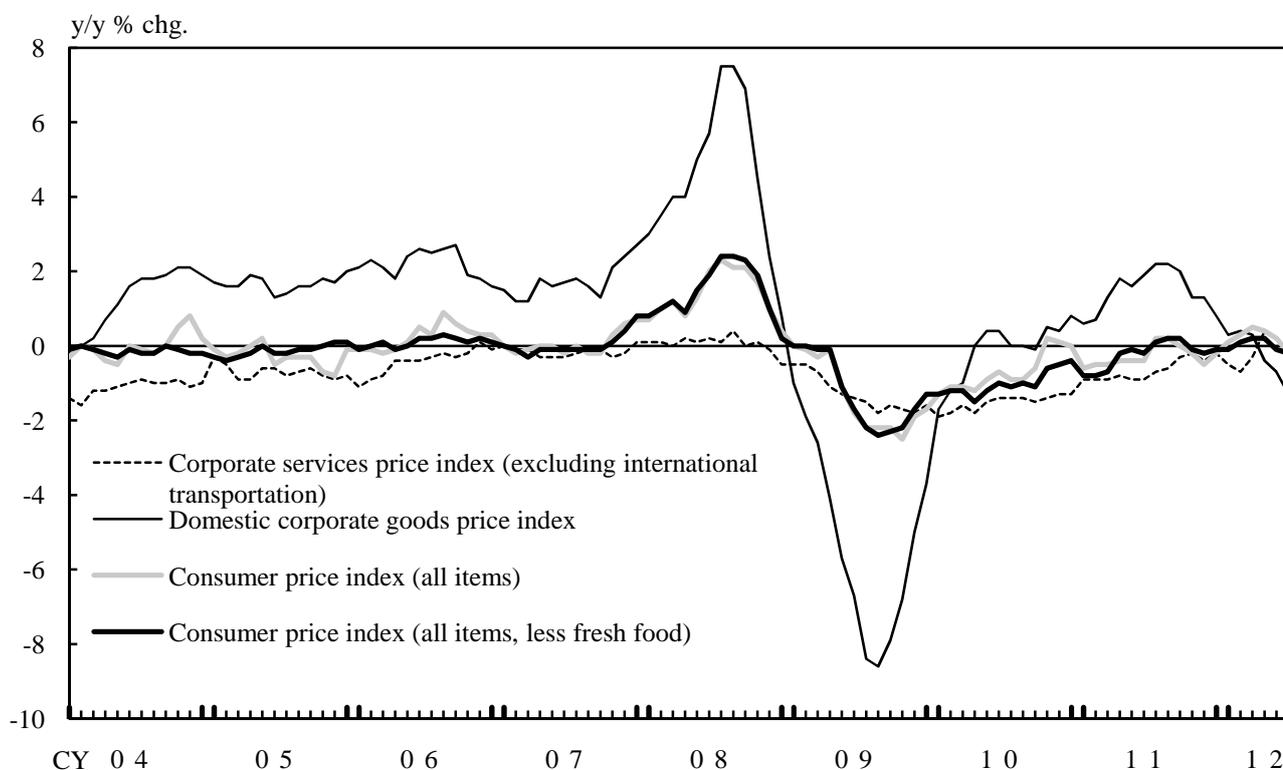
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

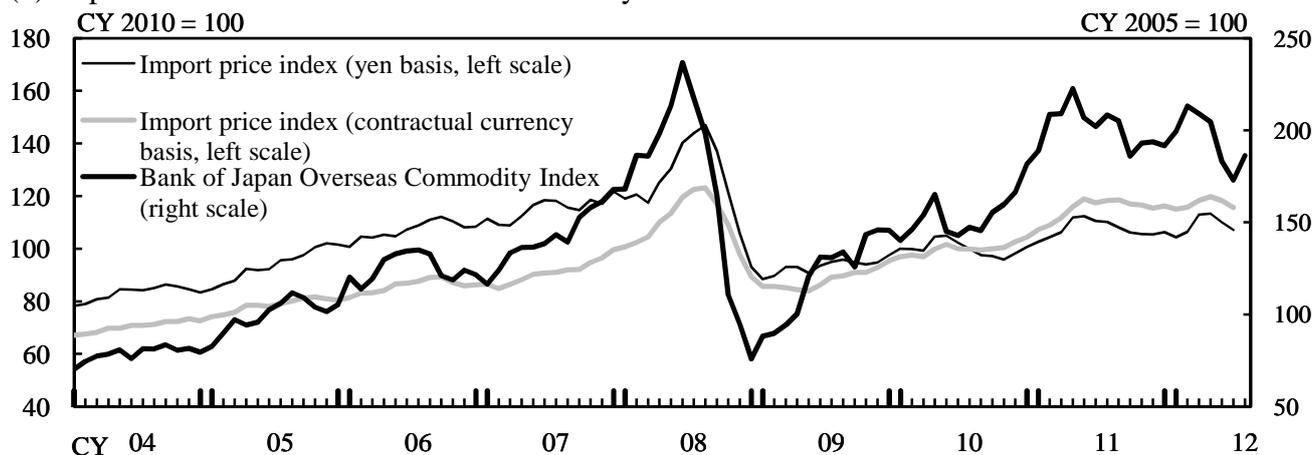
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

4. Figures of "Corporate Services Price Index" up to 2004 and "Corporate Goods Price Index" up to 2009 are based on the linked indices.

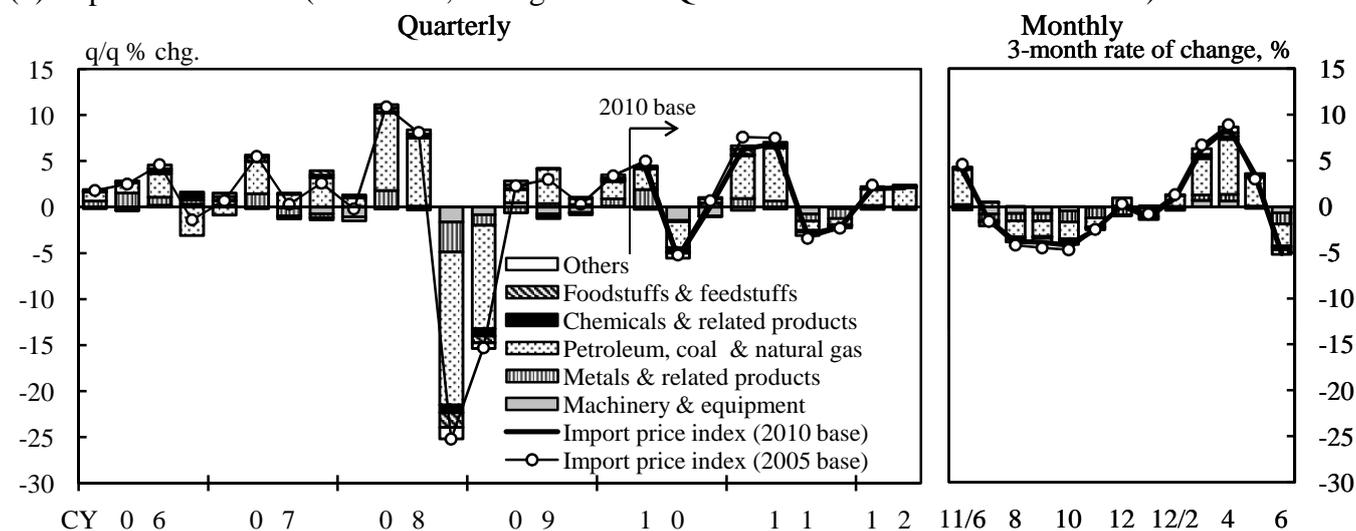
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

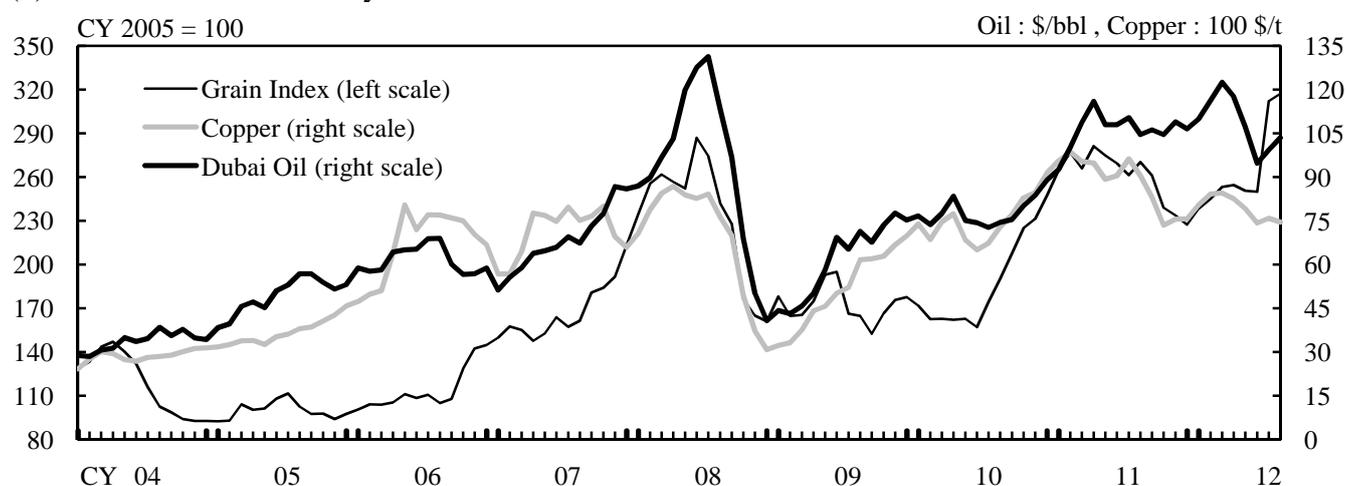


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Note: Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.

(3) International Commodity Prices



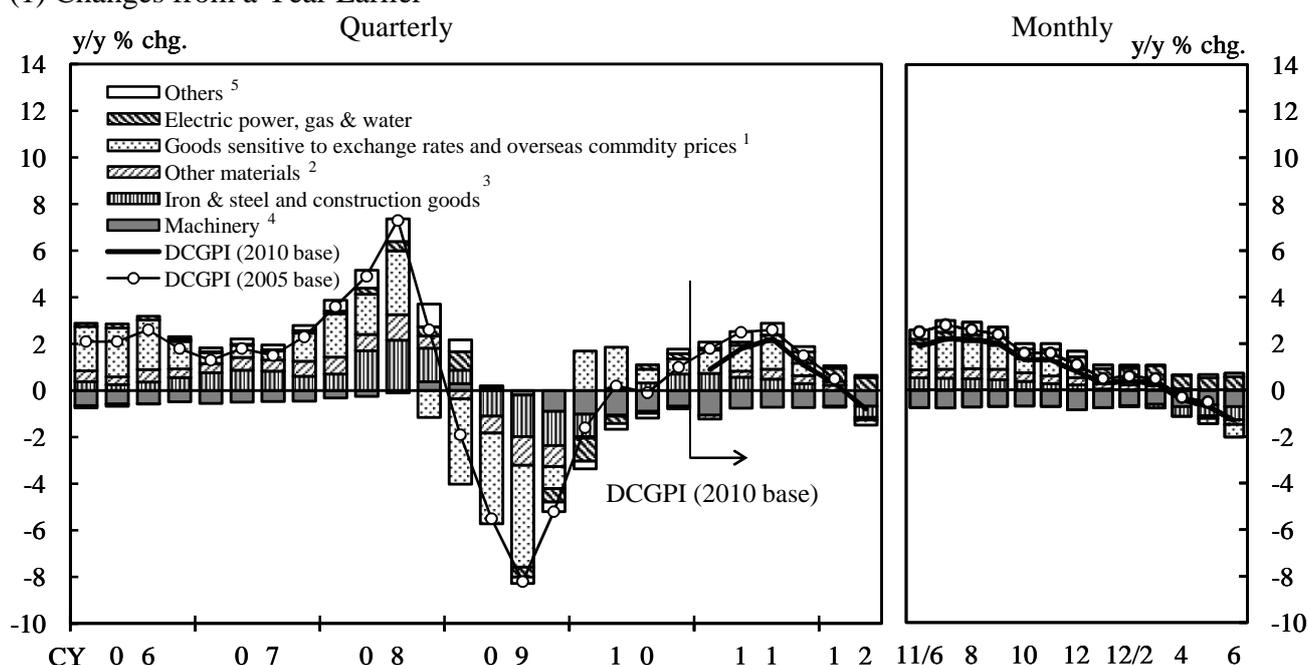
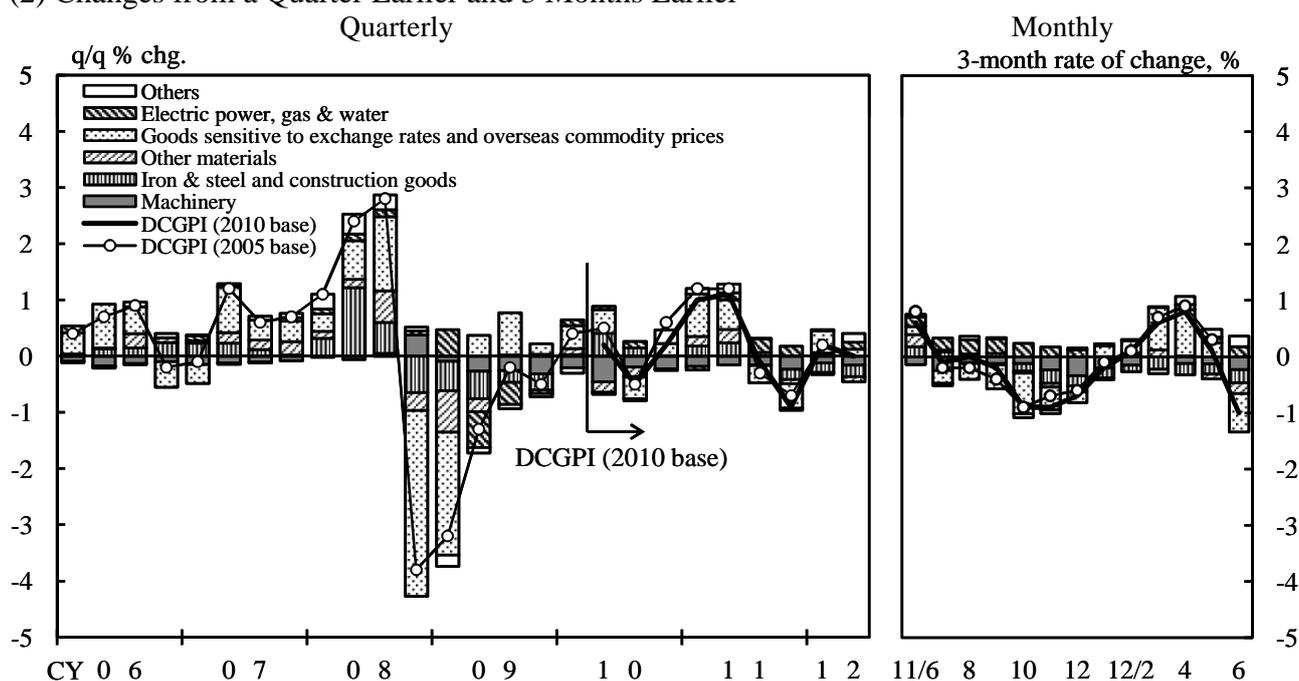
Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."

2. Monthly averages. Figures for August 2012 are averages up to August 8.

Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.

2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.

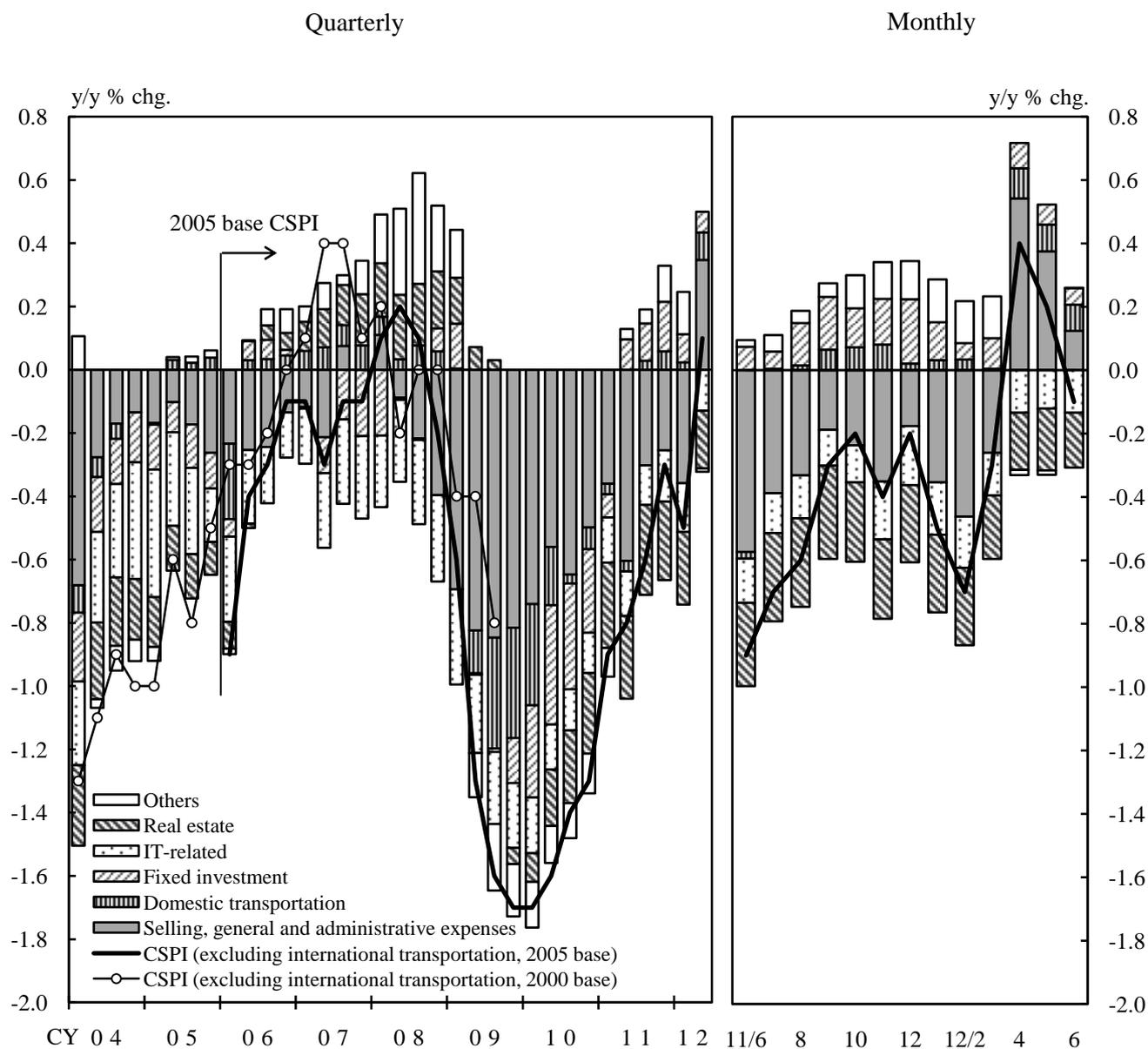
3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.

4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.

5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Domestic Corporate Goods Price Index" fall by about 0.2%.

Corporate Services Price Index

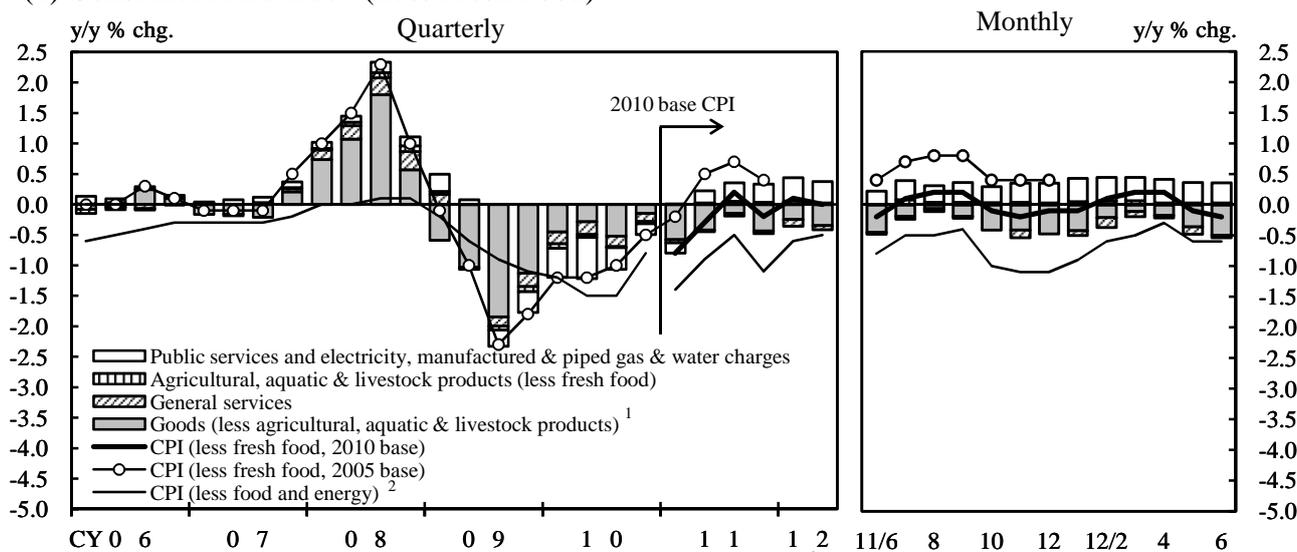


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, and domestic air passenger transportation).
 3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment and computer rental), and civil engineering and architectural services.
 4. IT-related: leasing of computer and related equipment, and computer rental.
 5. Real estate: real estate services.
 6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, and plant engineering.
 7. Figures for 2009/Q3 on the 2000 base are July-August averages.

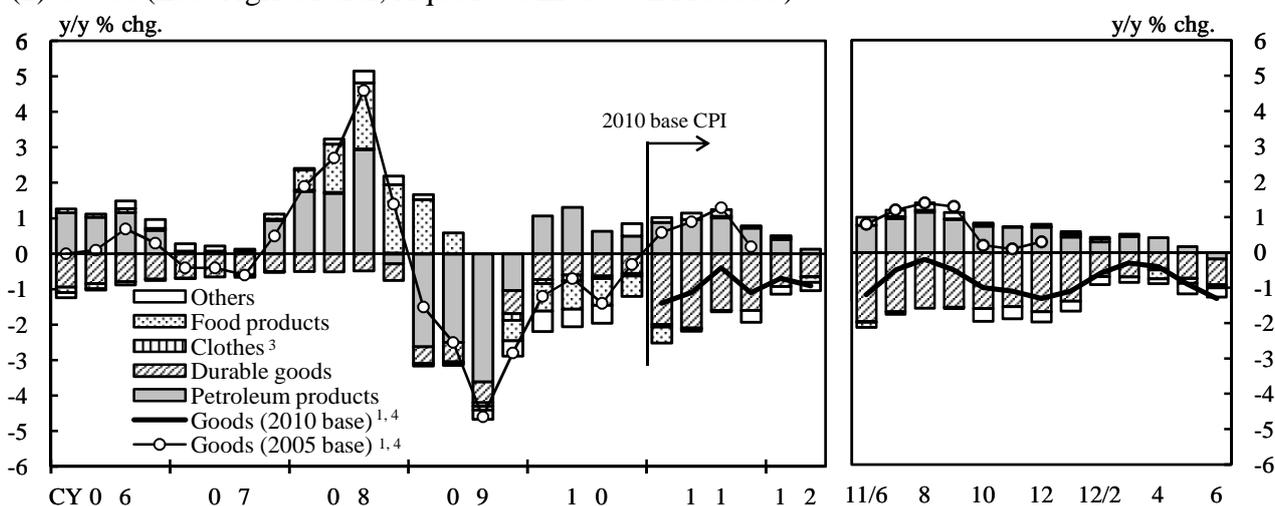
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

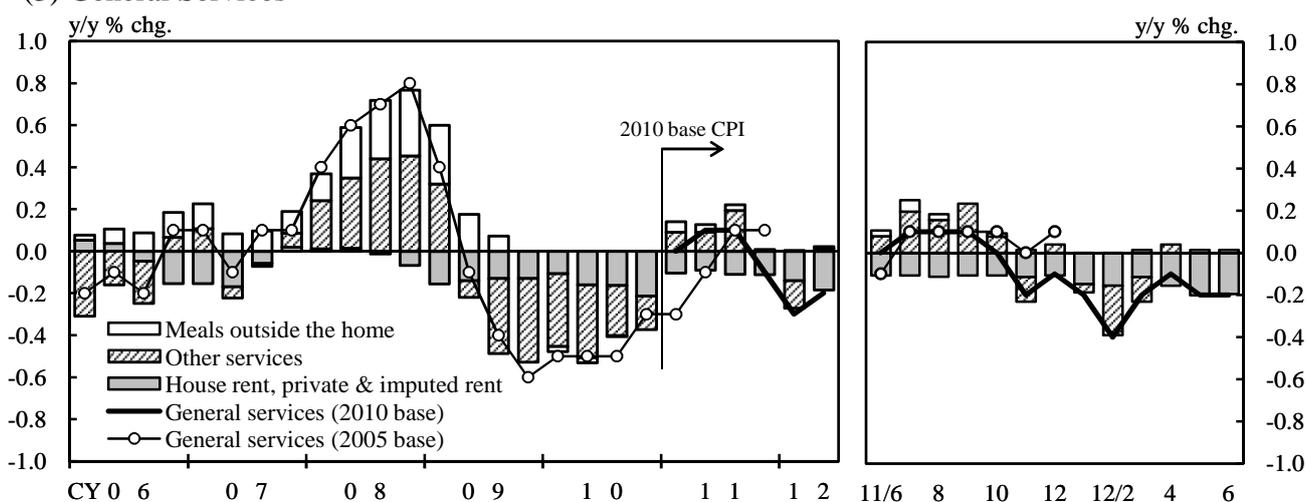
(1) Consumer Price Index (Less Fresh Food)



(2) Goods (Less Agricultural, Aquatic & Livestock Products)¹



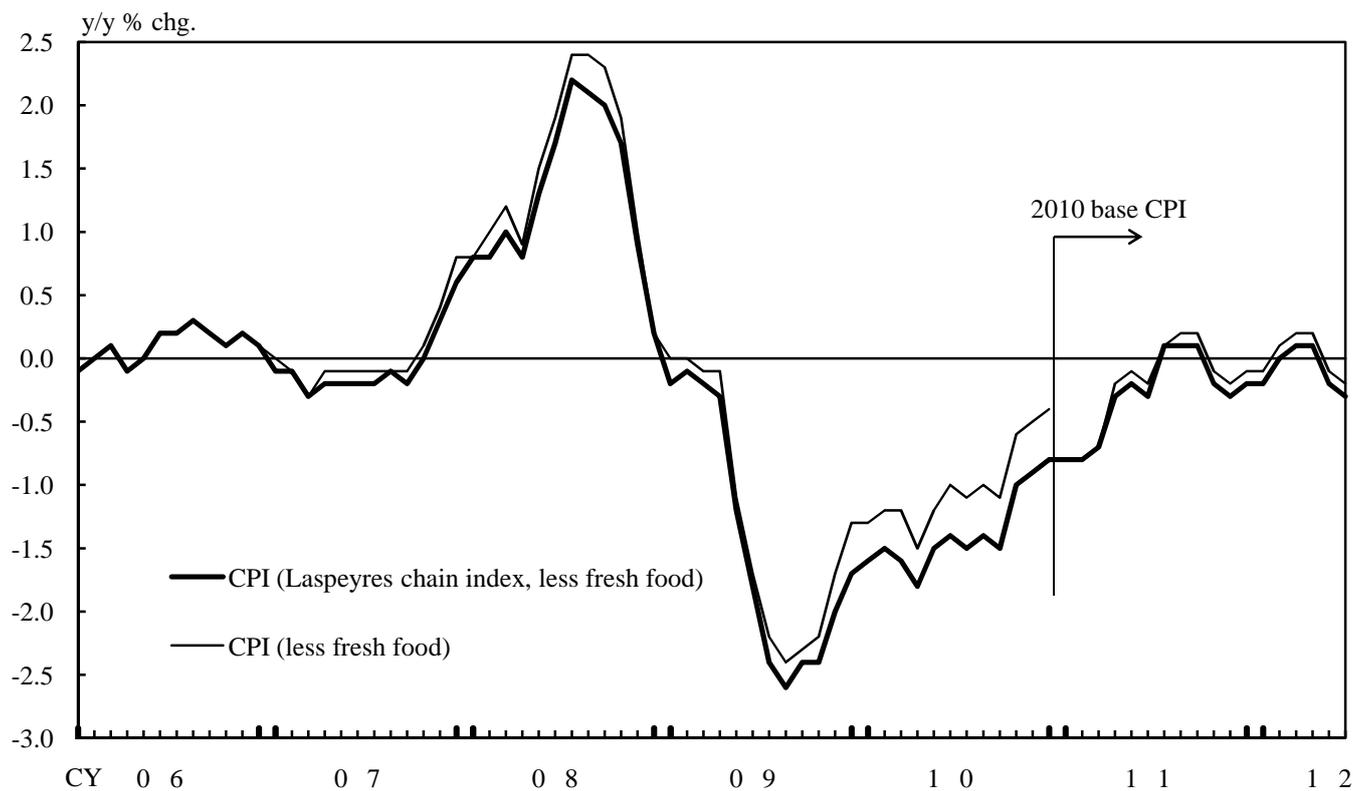
(3) General Services



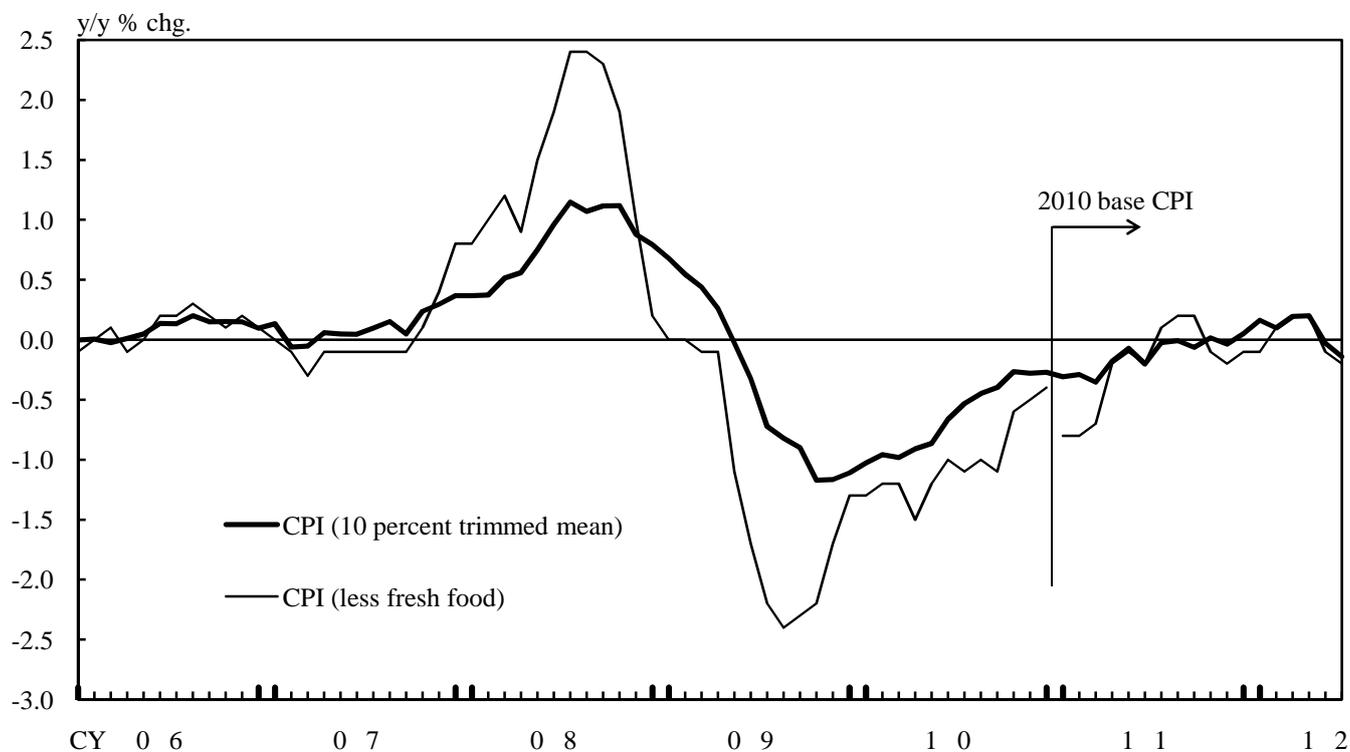
- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied propane, kerosene, and gasoline.
3. Including shirts, sweaters & underwear.
4. Less agricultural, aquatic & livestock products.
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



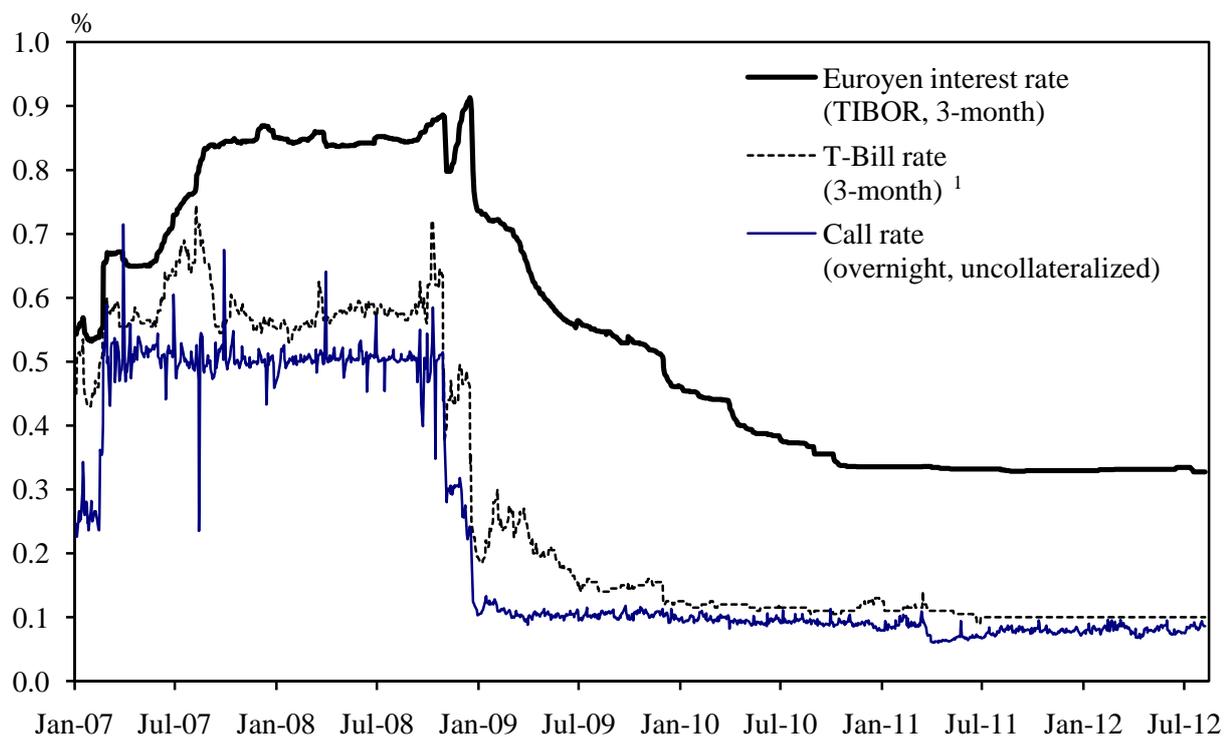
Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

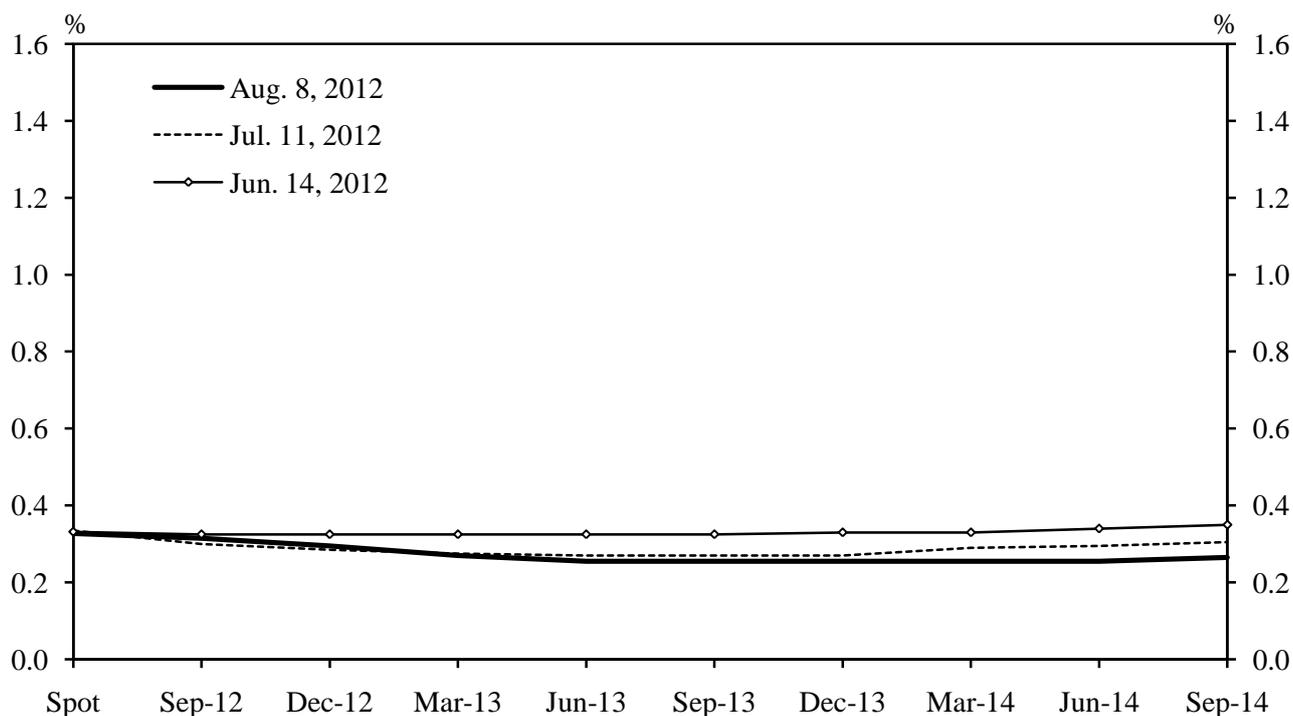
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



(2) Euroyen Interest Rate Futures (3-Month)



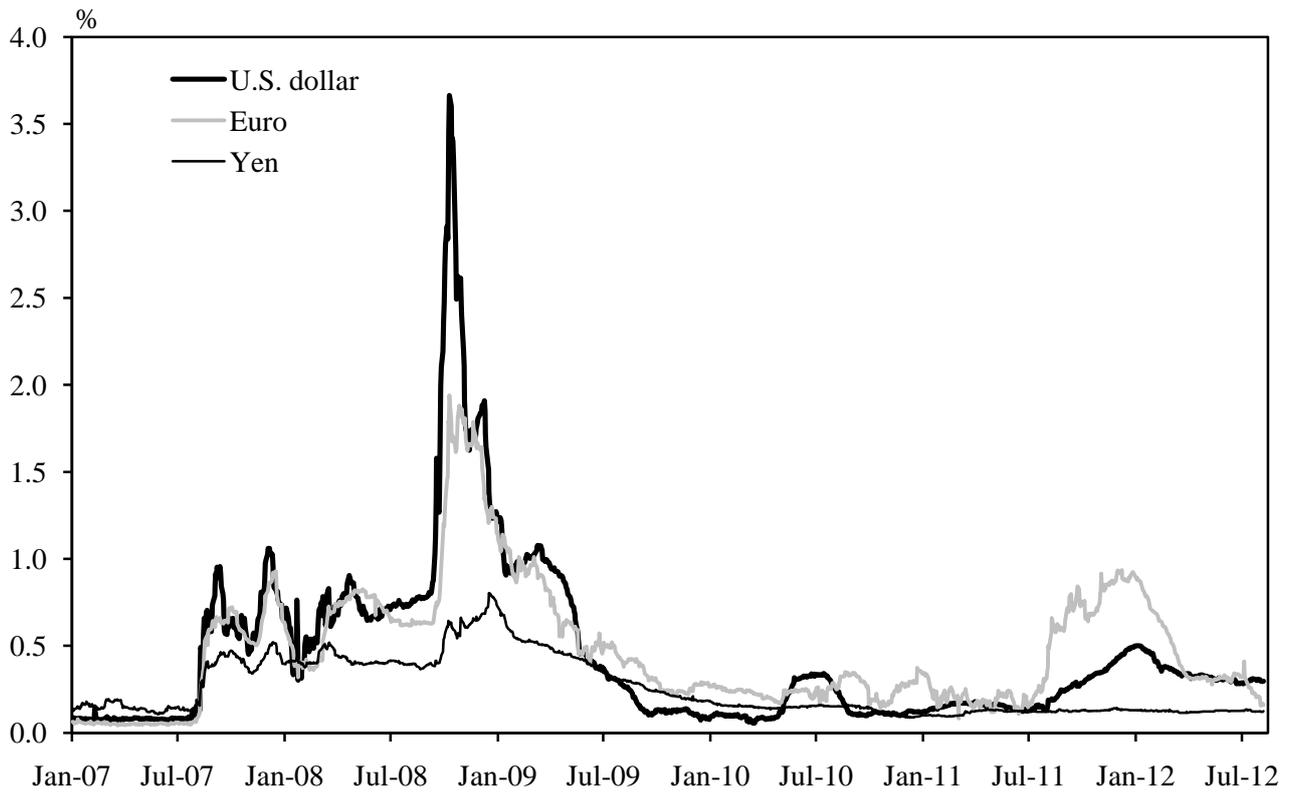
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;

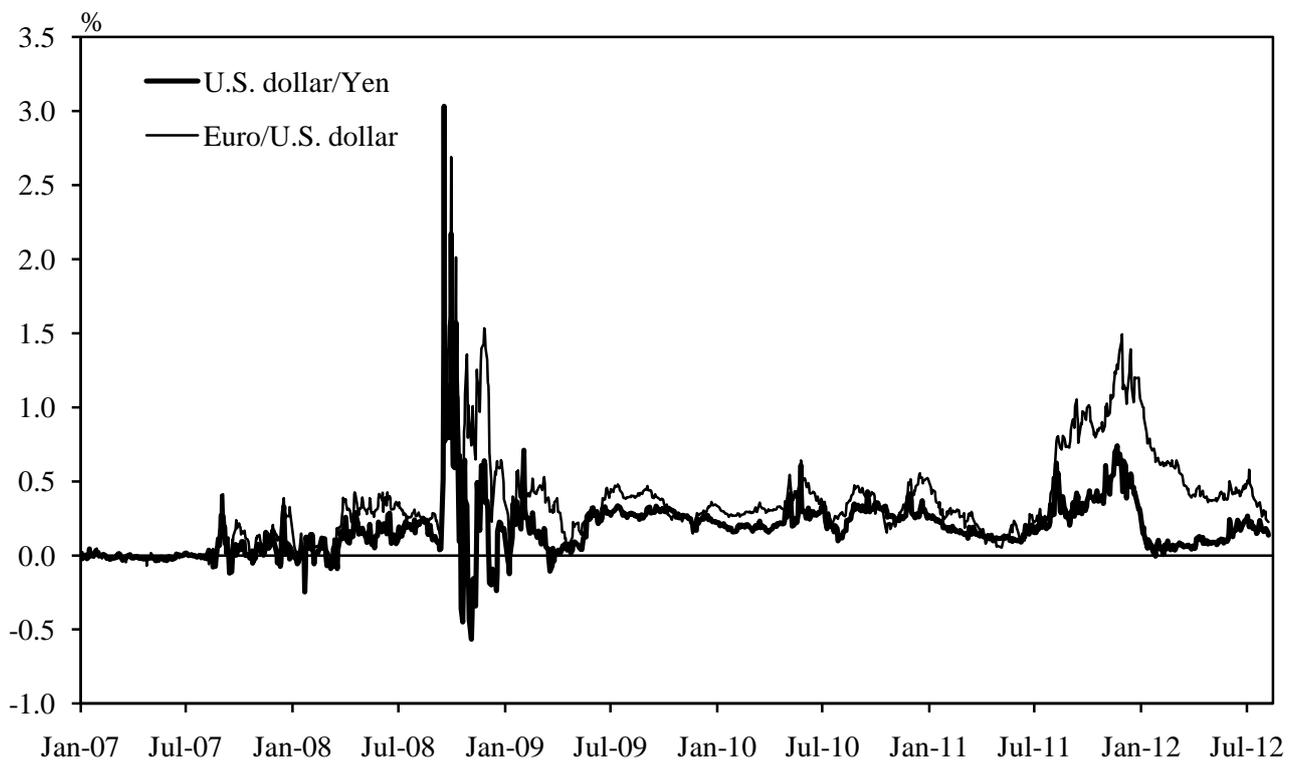
Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

(1) LIBOR-OIS spreads (3-Month)



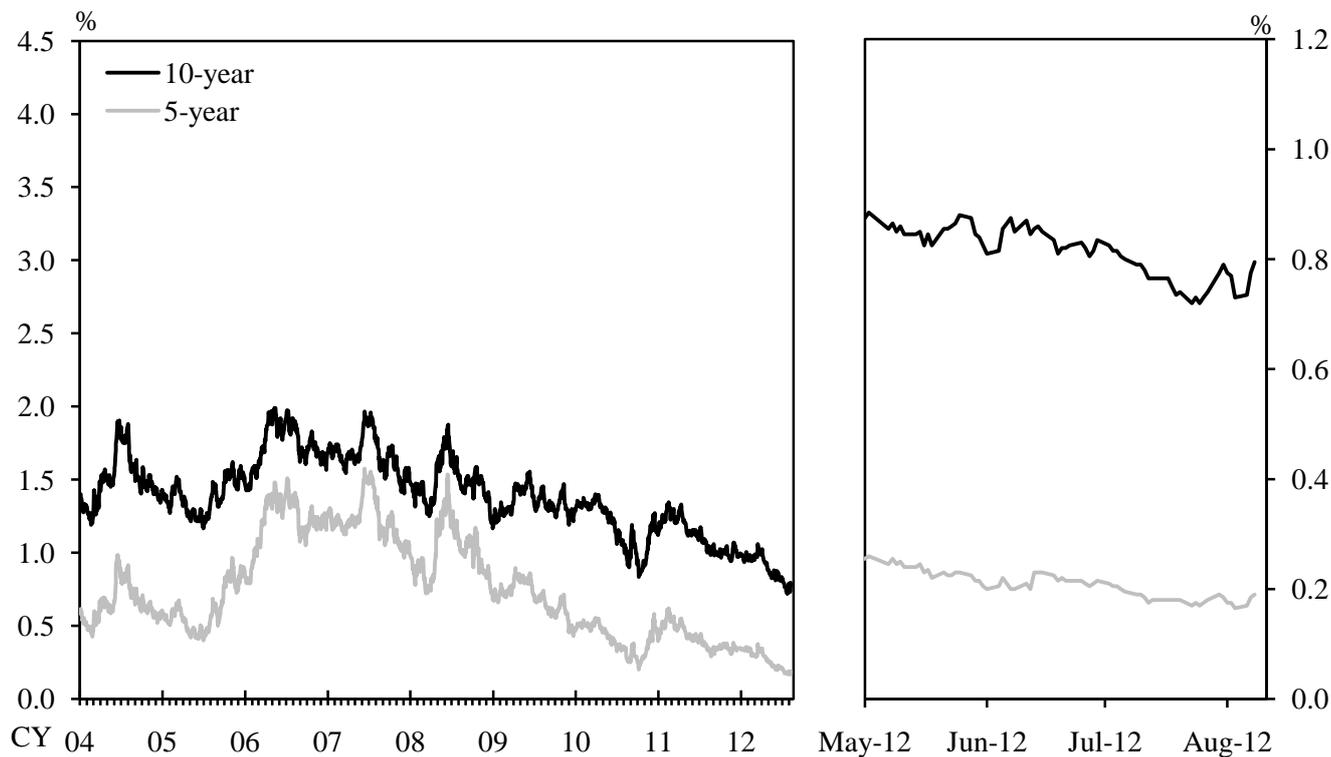
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



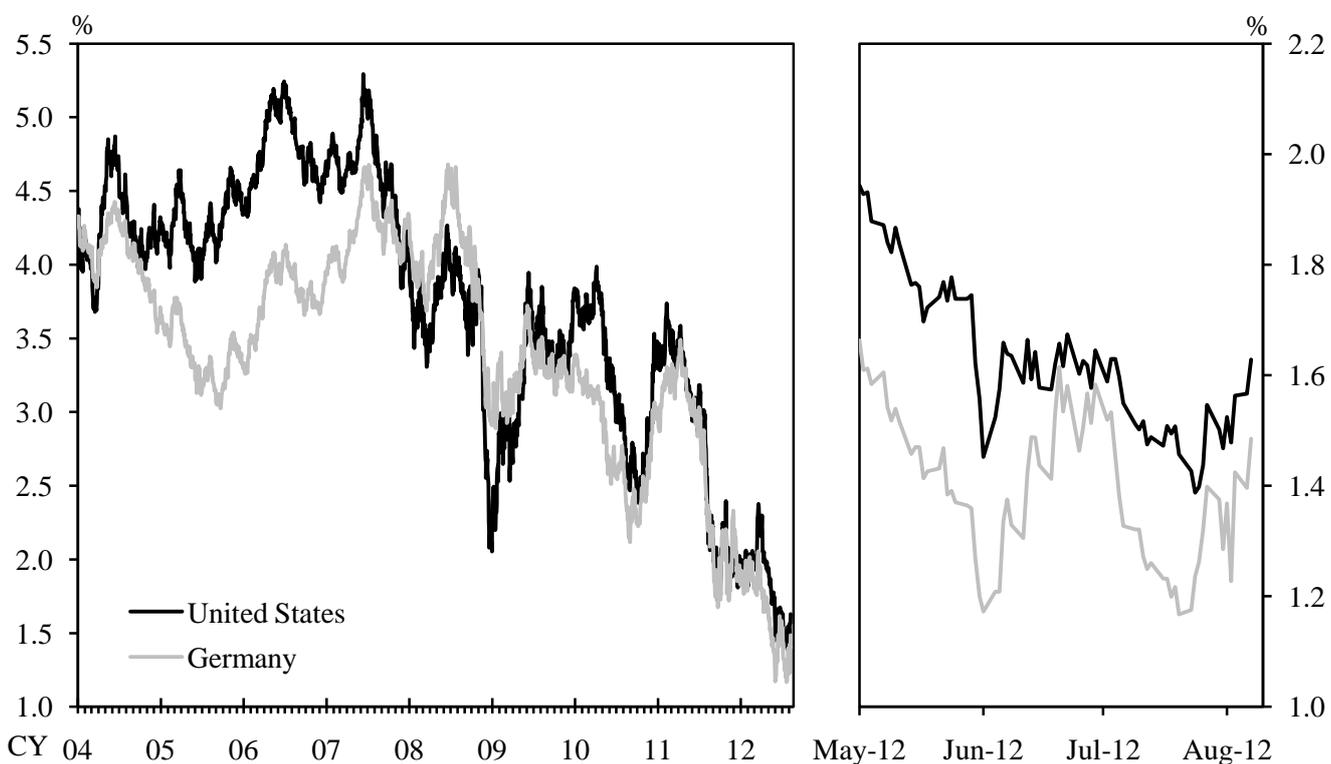
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



(2) Overseas Government Bond Yields (10-Year)

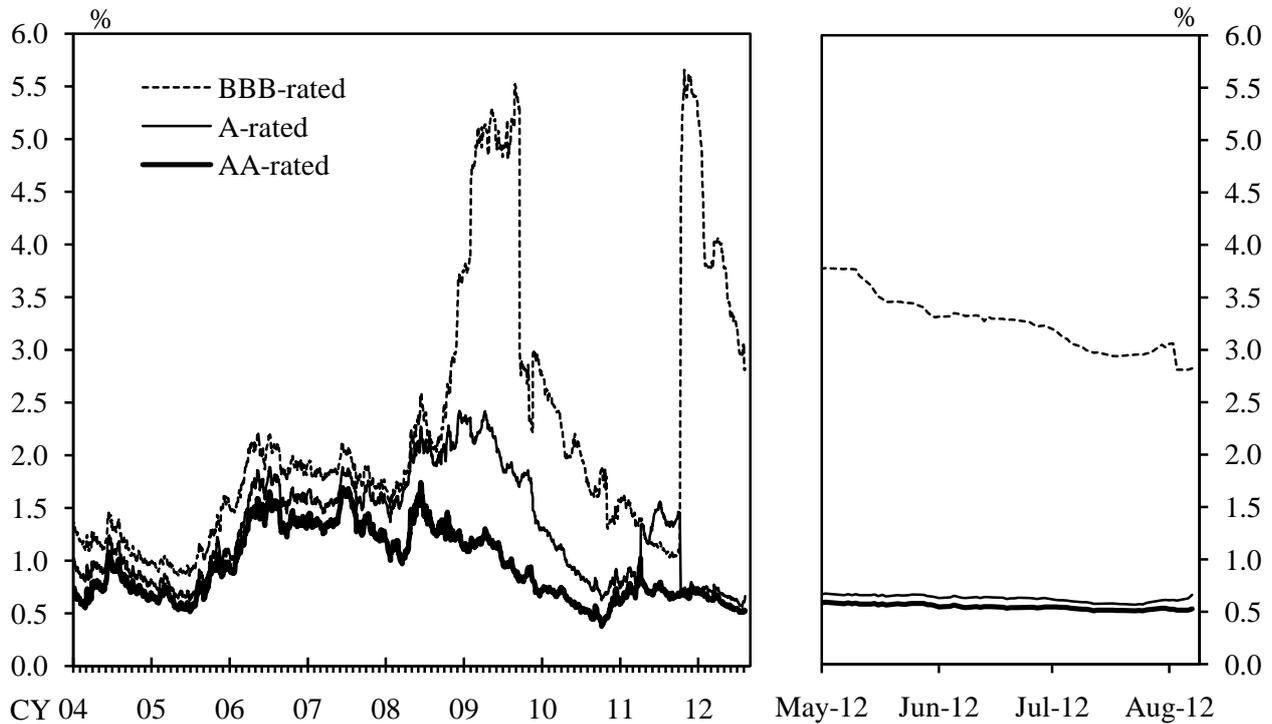


Note: 1. Yields on newly issued bonds.

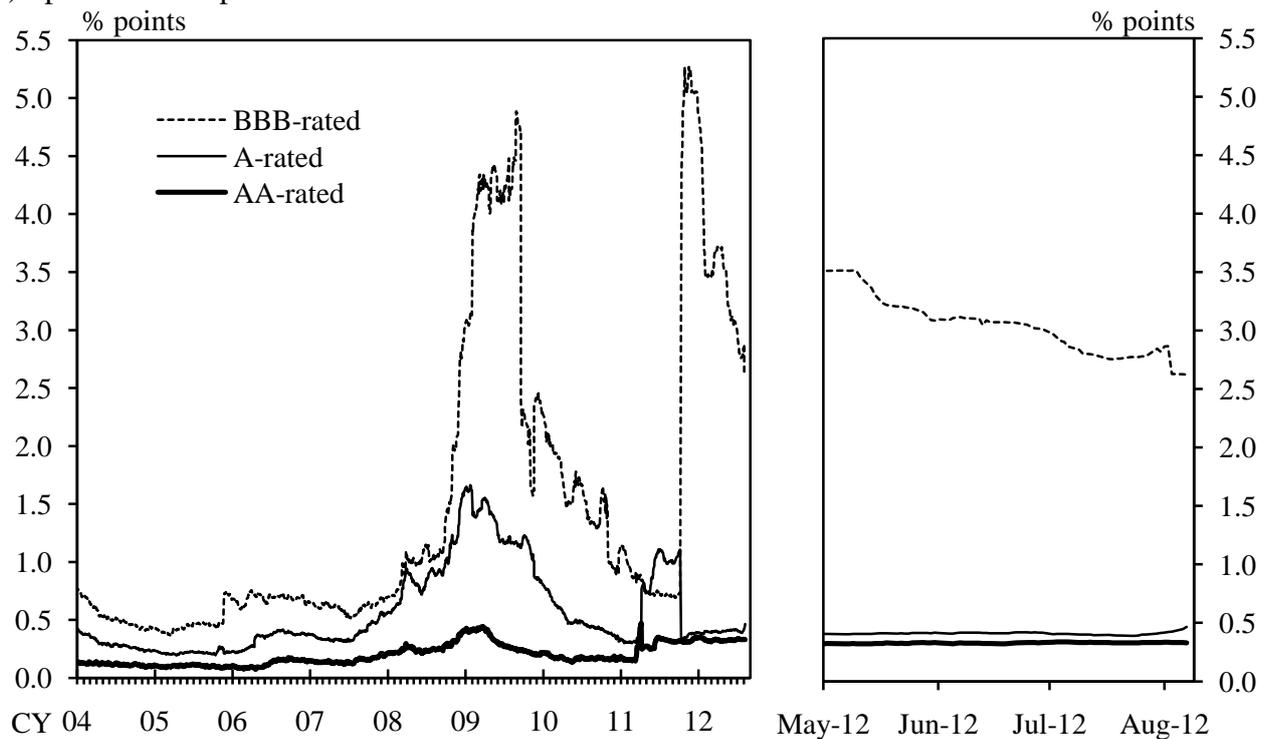
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields^{1,2}



(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



Notes: 1. Yields on bonds with 5-year maturity.

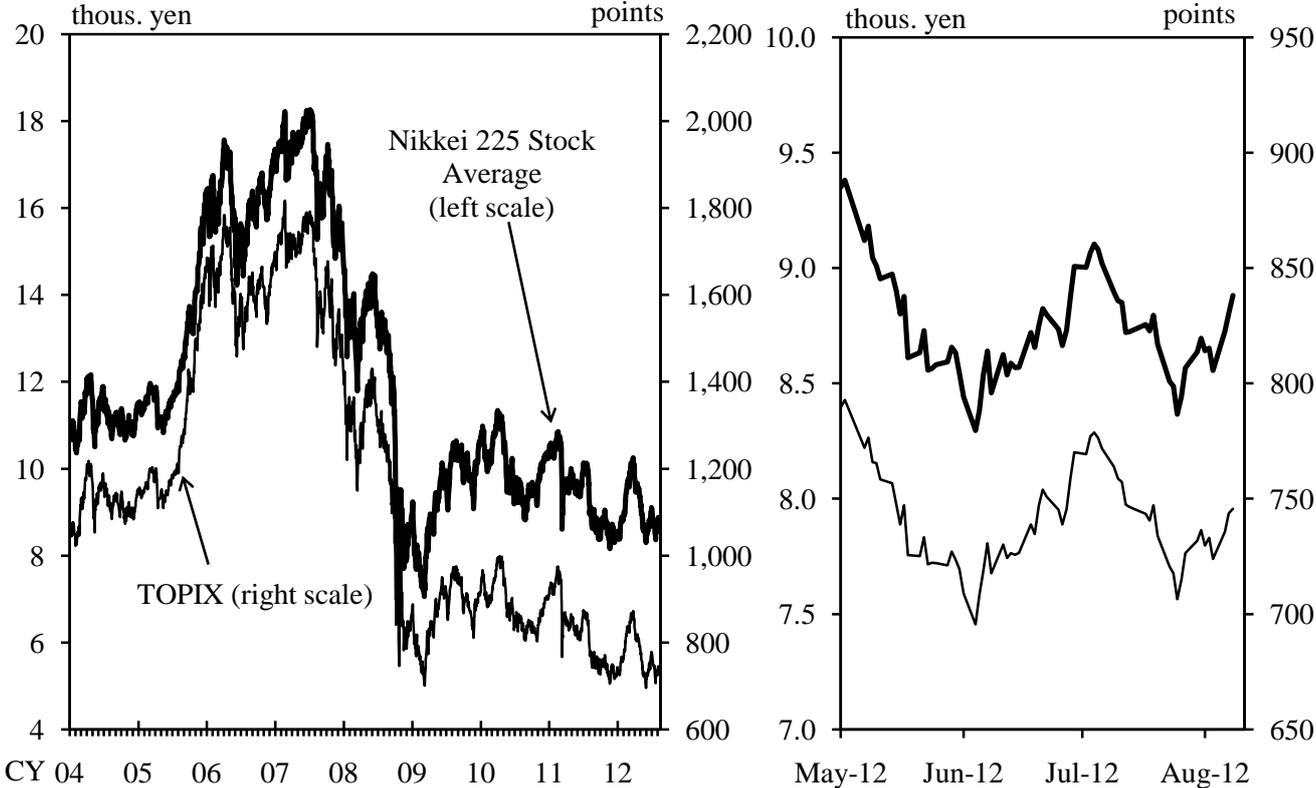
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

2. The indicated ratings are of Rating and Investment Information, Inc.

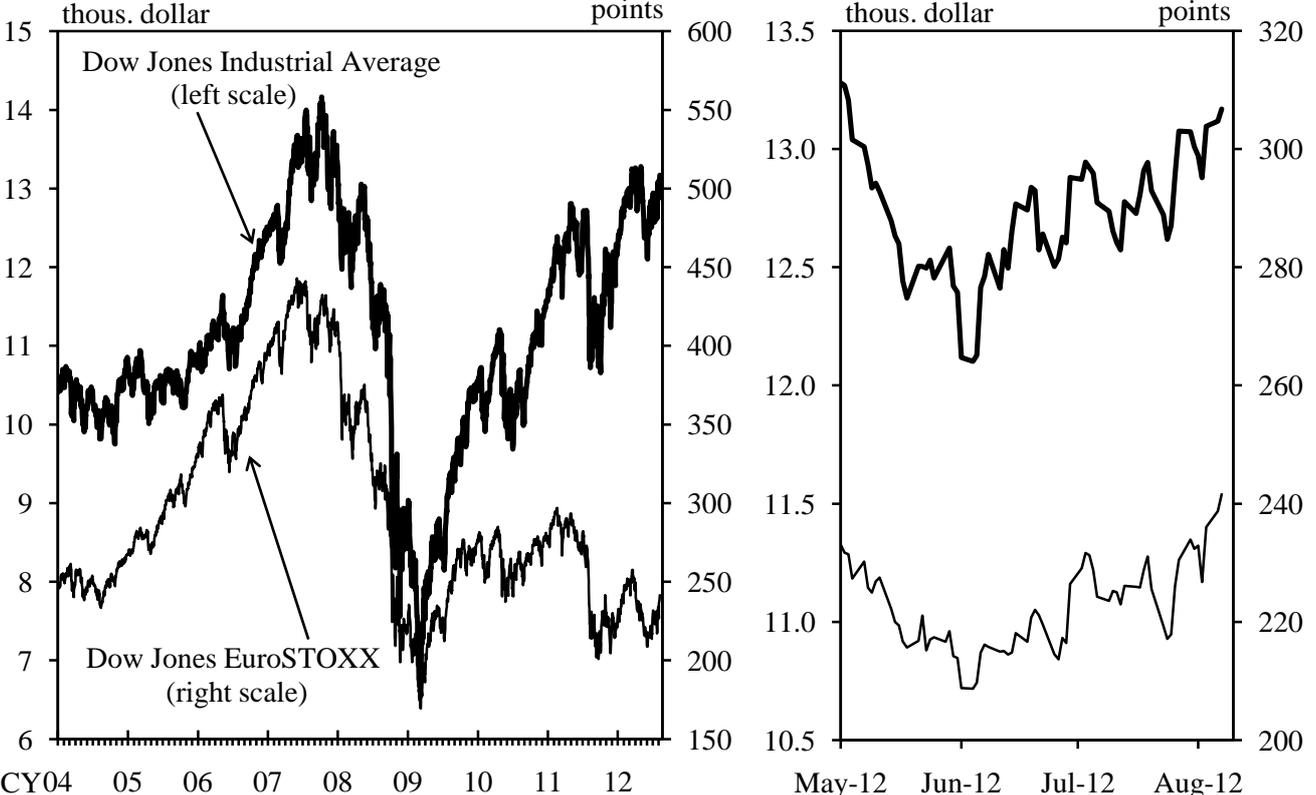
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



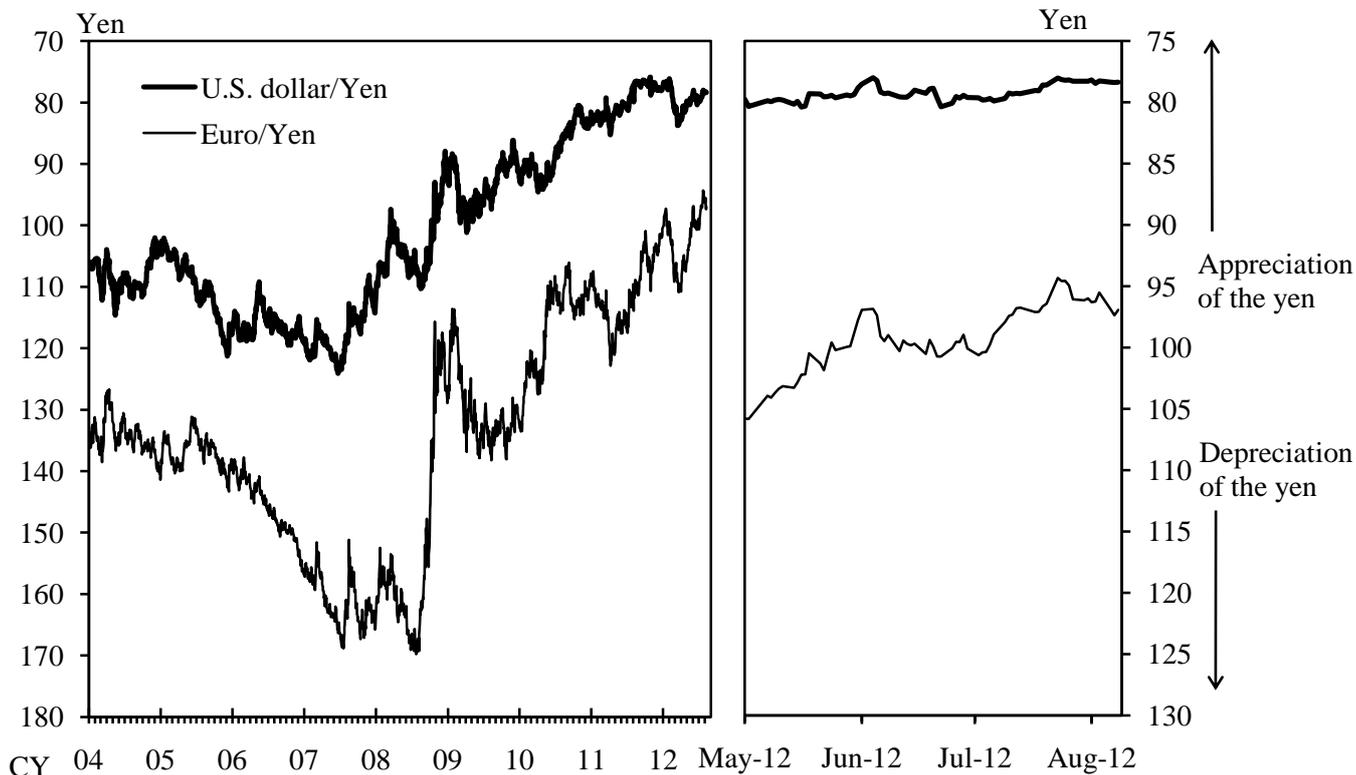
(2) Overseas Stock Prices



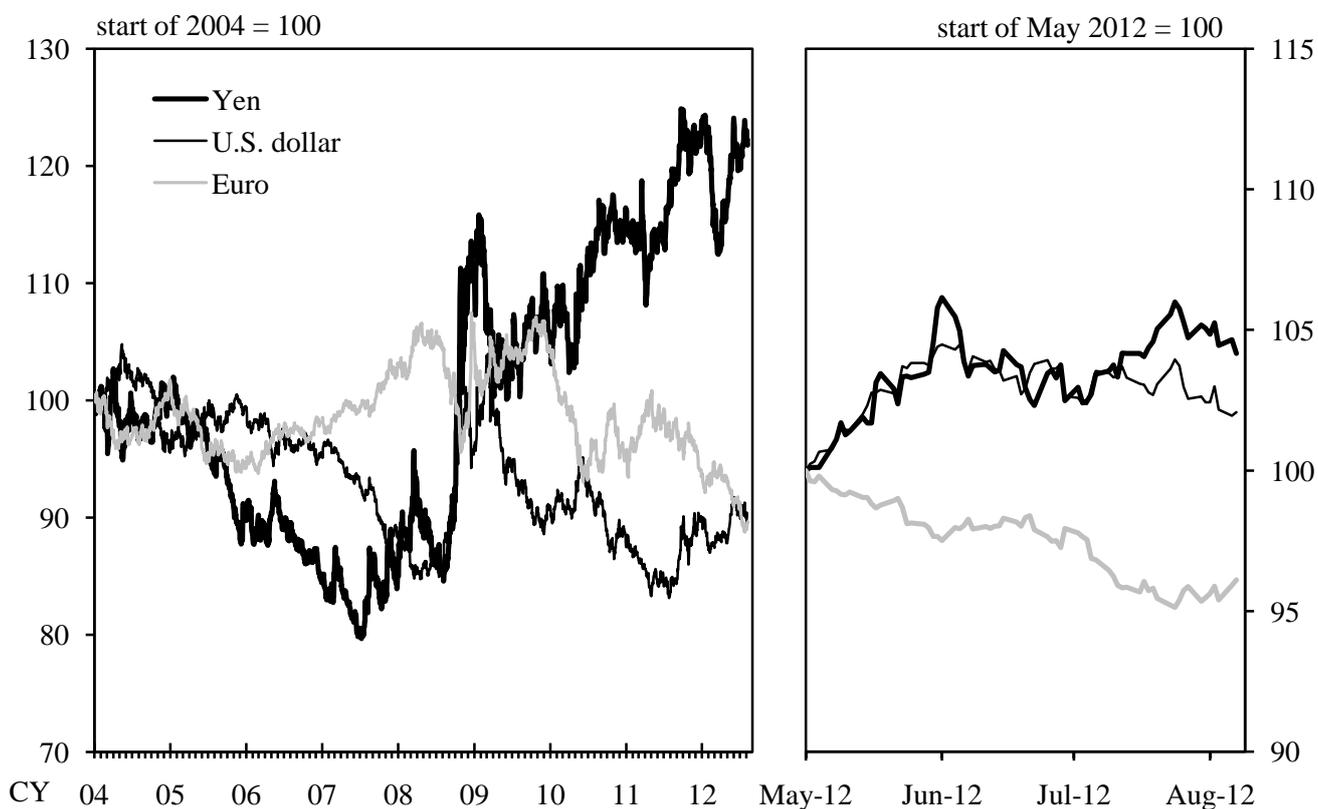
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates

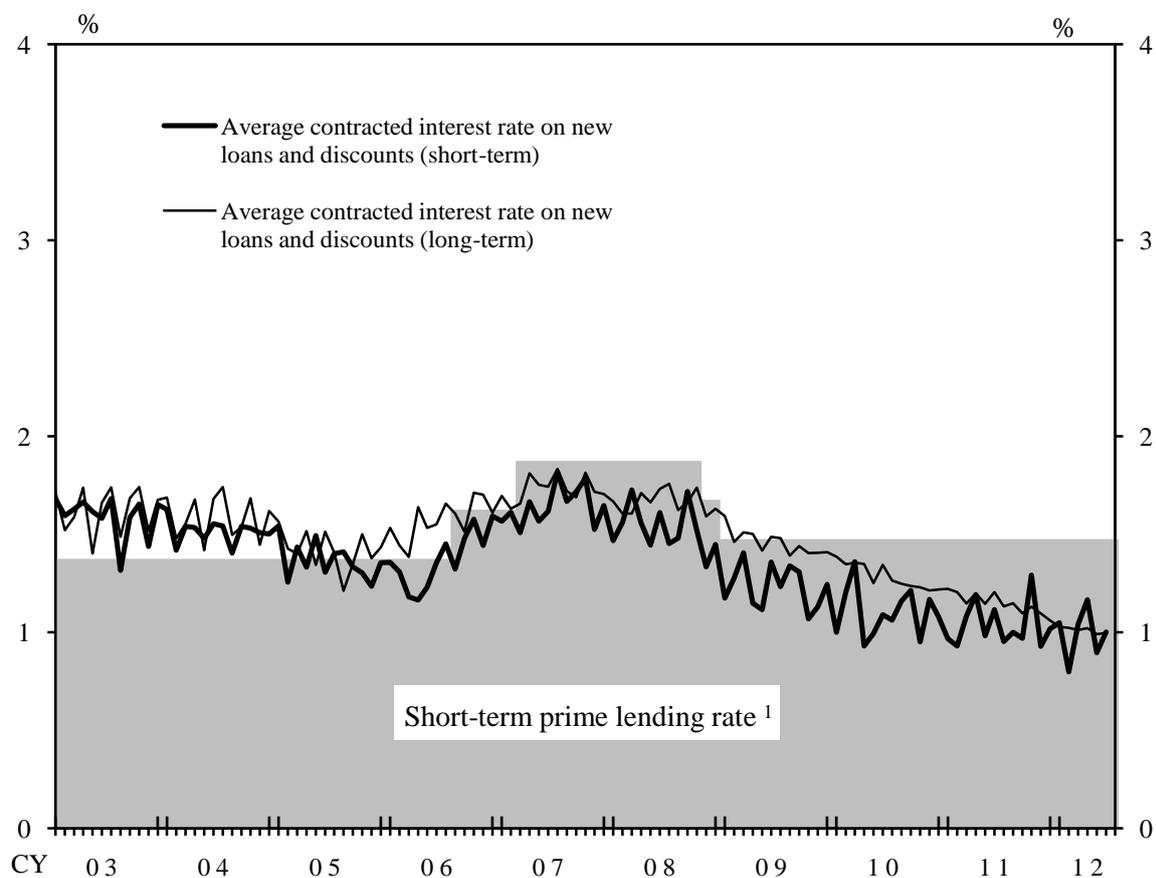


(2) Nominal Effective Exchange Rates



Sources: Bank of Japan; European Central Bank; Bloomberg.

Lending Rates

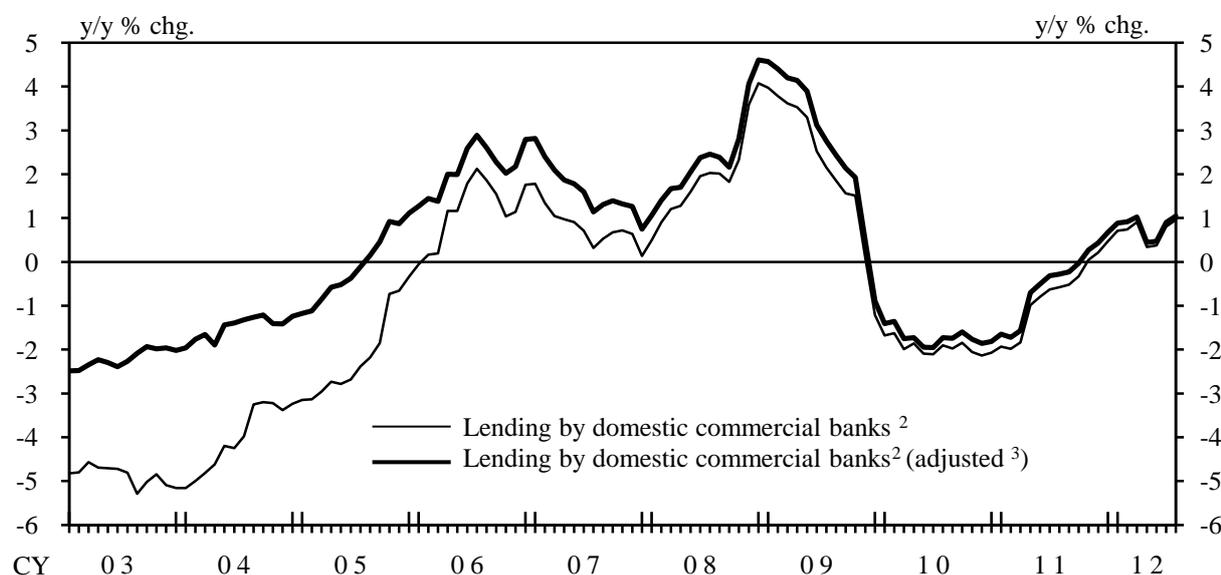


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



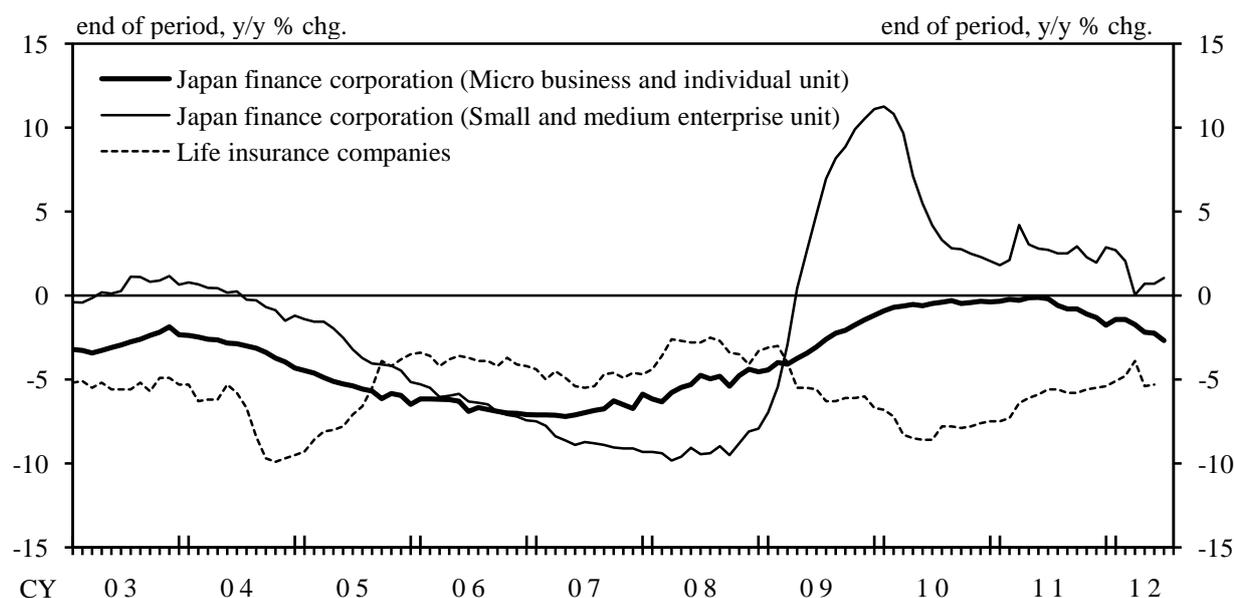
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to city banks, regional banks, and regional banks II.

3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

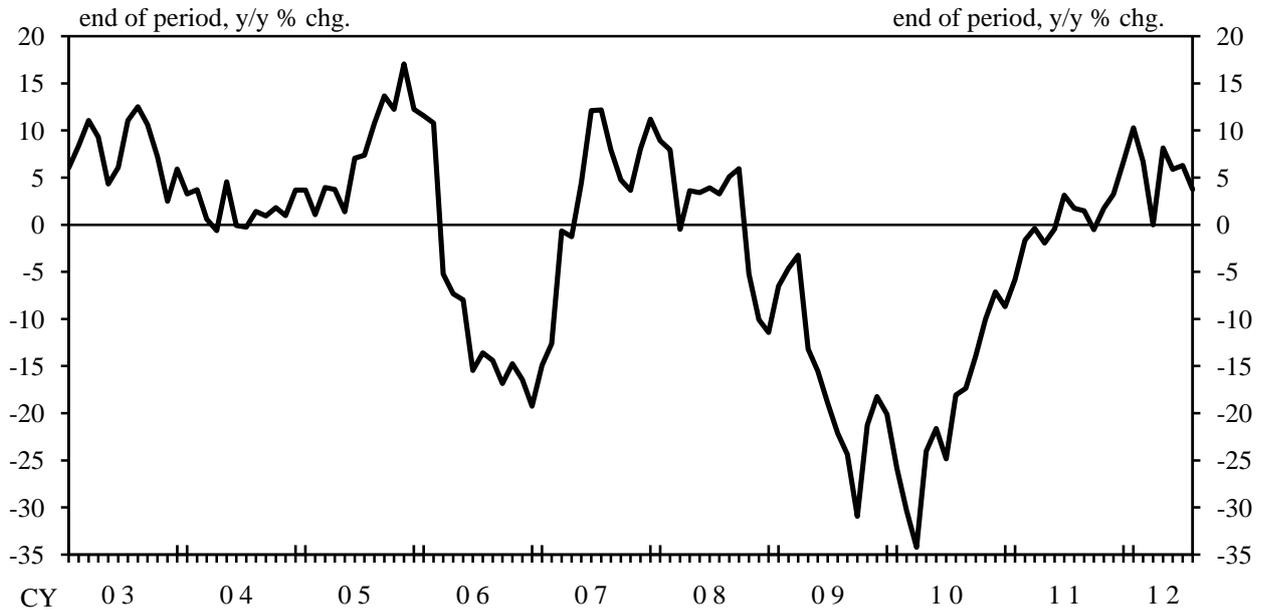
(2) Lending by Other Financial Institutions



Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

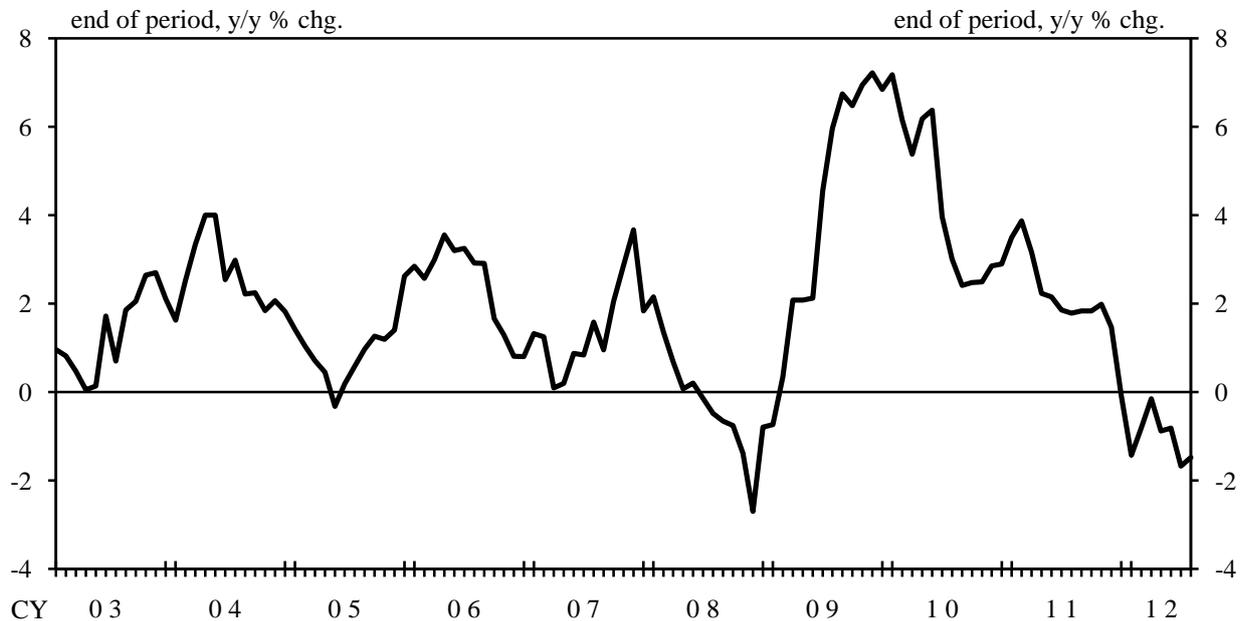
 Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures up to March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



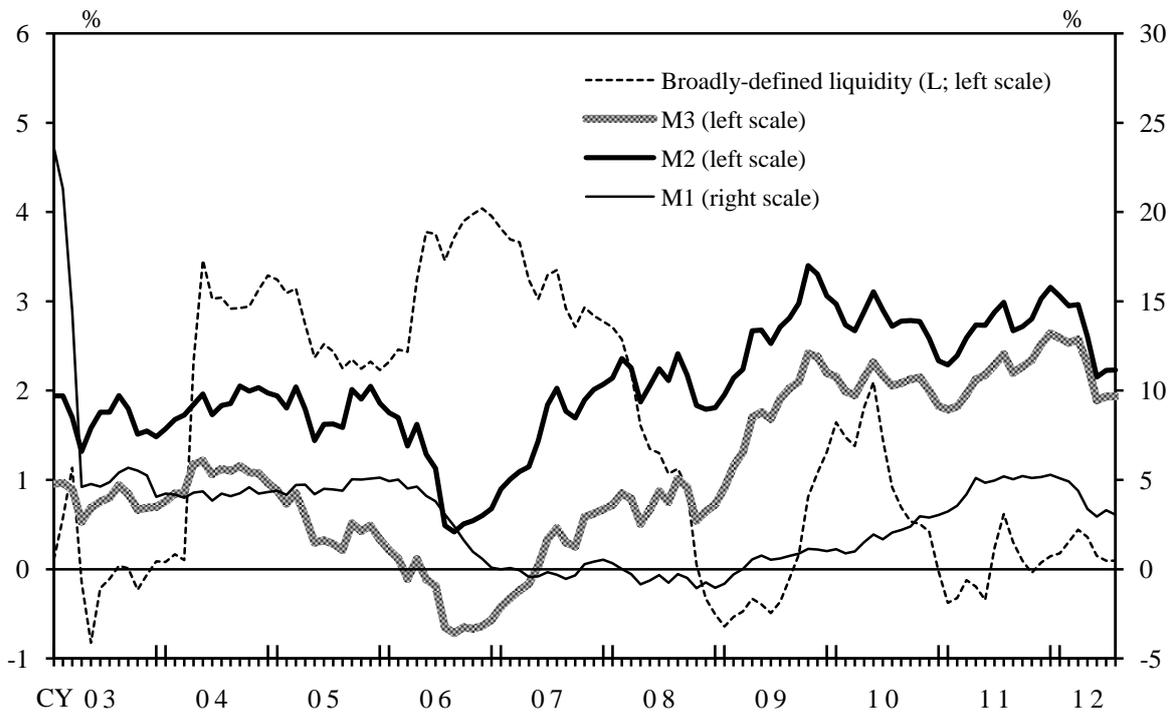
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

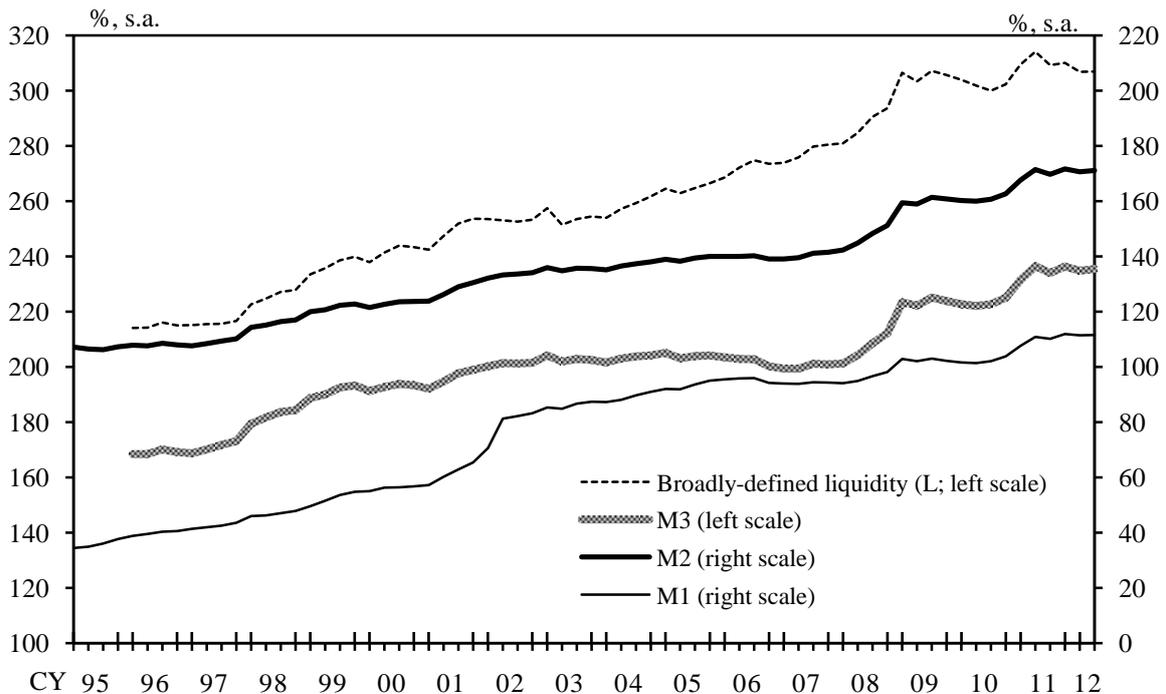
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds";
 I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

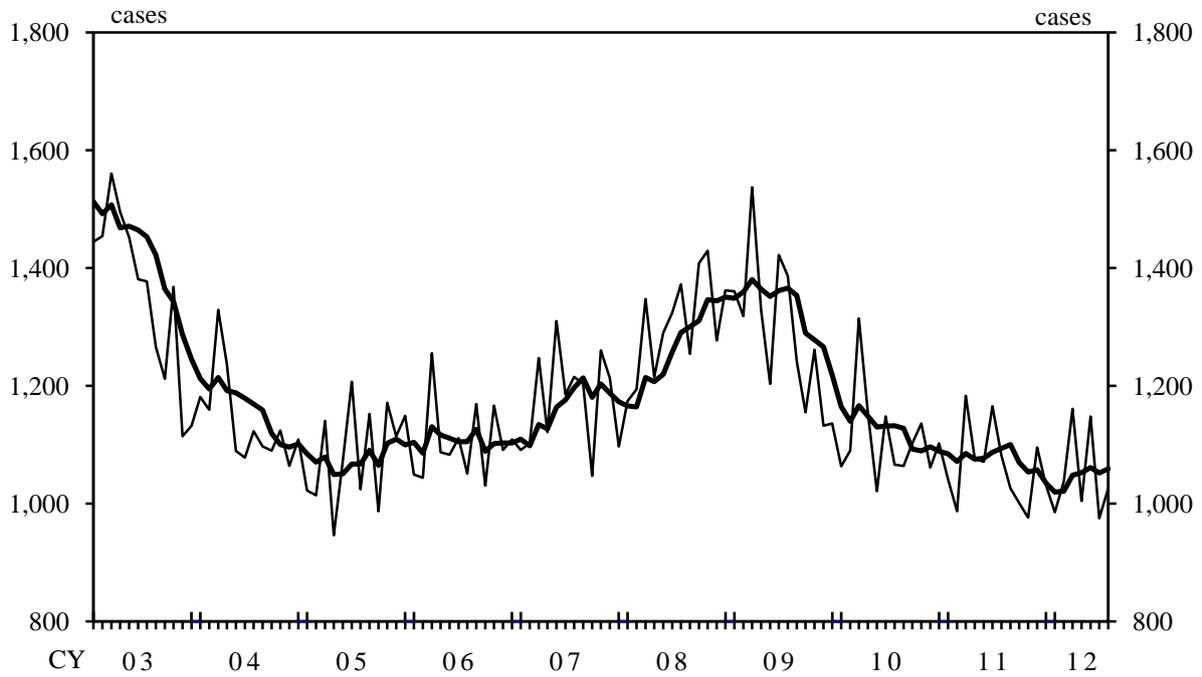


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
- 4. The figure for nominal GDP in 2012/2Q is assumed to be unchanged from the previous quarter.

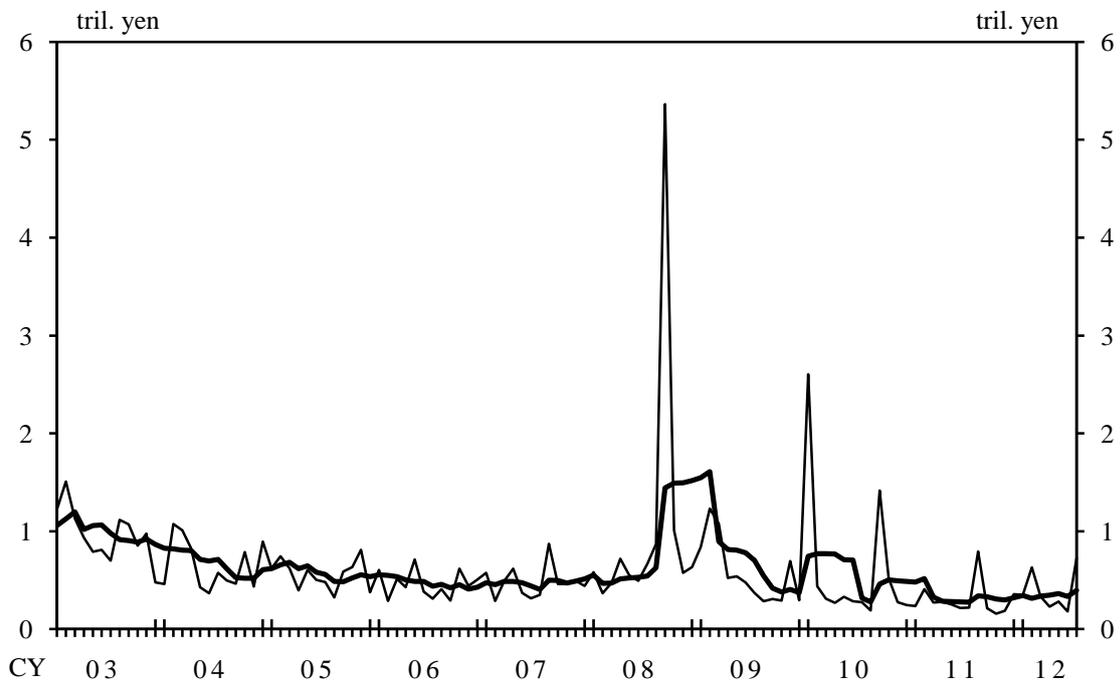
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



Note: Bold lines are the six-month moving average.

Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."