

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

November 21, 2012

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

November 2012

Summary

Japan's economy has been weakening somewhat.

Exports and industrial production have decreased mainly due to the fact that overseas economies remain in a deceleration phase. Business fixed investment has shown some weakness in manufacturing mainly due to the effects of the deceleration in overseas economies, while it has been on a moderate increasing trend. In private consumption, car sales have recently fallen back due to the ending of some measures to stimulate demand for automobiles, while it has remained resilient. Meanwhile, public investment has continued to increase, and housing investment has generally been picking up.

With regard to the outlook, Japan's economy is expected to remain relatively weak for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient on the whole and overseas economies gradually emerge from the deceleration phase.

Exports and industrial production are expected to continue decreasing for the time being and start picking up thereafter as overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to continue increasing for the time being, albeit at a slower pace, 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, albeit impacted for the time being mainly by the deceleration in overseas economies, partly due to investment related to disaster

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on November 19 and 20, 2012.

prevention and energy, as corporate profits maintain their improving trend on the whole. Private consumption is expected to remain resilient as a trend, while it will show some weakness for the time being mainly since car sales have fallen back.

Meanwhile, there remains a high degree of uncertainty about the global economy; furthermore, attention should be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

On the price front, the three-month rate of change in domestic corporate goods prices has stopped declining, reflecting earlier movements 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 be more or less flat 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. In the meantime, compared with last month, the value of the yen against the U.S. dollar has fallen, while long-term interest rates and stock prices have remained at more or less the same levels.

Financial conditions are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have 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, especially

electric company bonds, has been negative. 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 within the range of 2-3 percent.