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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
March 2013**

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economy has stopped weakening.

While overseas economies remain in a deceleration phase, they have shown some signs of picking up. In this situation, exports appear to stop decreasing. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing.

With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path mainly against the background that domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase.

Exports are expected to start picking up mainly against the background that overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to continue trending upward supported by the effects of various economic measures, and housing investment to continue to generally pick up. Business fixed investment is projected to remain somewhat weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy. Private consumption is expected to remain resilient, assisted mainly by an improvement in consumer sentiment. Under these circumstances, industrial production is projected to pick up.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on March 6 and 7, 2013.

Meanwhile, there remains a high degree of uncertainty about the global economy.

On the price front, the three-month rate of change in domestic corporate goods prices is rising moderately, reflecting movements in foreign exchange rates. 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 continue rising for the meantime. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

The weighted average of the overnight call rate has been below the 0.1 percent level. Interest rates on term instruments have declined somewhat. In the meantime, compared with last month, stock prices have risen, while long-term interest rates have declined. The value of the yen against the U.S. dollar has remained at more or less the same level as last month.

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 increase in the amount outstanding of bank lending has risen somewhat. The amount outstanding of CP and corporate bonds has been more or less around the year-ago level. 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 2.5-3.0 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 move up in the fourth quarter, after having risen for three quarters in a row until the third quarter (Chart 5). The value of public works contracted—a measure that reflects public orders—has been more or less flat on average, albeit with large monthly fluctuations, after having surged in the second quarter.

Public investment is expected to continue trending upward supported by the effects of various economic measures.²

Real exports appear to stop decreasing (Charts 6[1] and 7). Real exports were up in January relative to the fourth quarter, after having continued to decline in the fourth quarter on a quarter-on-quarter basis, following a large decrease in the third quarter. On a monthly basis, they rose—albeit very slightly—in November for the first time in seven months, and posted only a tiny decline in December, but rose again in January. Looking at exports in January compared with the fourth quarter by region (Chart 7[1]), those to the United States have generally been bottoming out, albeit with monthly fluctuations, mainly due to steady automobile sales in the United States with the economy having firmed up. Exports to the EU seem to have continued to trend downward on average, despite having increased most recently, affected profoundly by fluctuations in ships. Exports to East Asia, including China, have been reducing their rate of decline as a whole, aided mainly by the pick-up in motor vehicles and their related goods; attention, however, should be paid to the fact that January may have turned out to be somewhat stronger than its actual picture due to increased exports prior to the Lunar New Year holidays as well as to somewhat

² In the future, the effects of the economic measures—which are based on the reserve funds of fiscal 2012 and are already underway—will likely surface gradually. Moreover, should the supplementary budget for fiscal 2012, which was enacted on February 26, be executed gradually, it is projected to push public investment upward to a considerable degree. In the budget for fiscal 2013, which was approved at the Cabinet meeting on January 29, a fairly large portion is allocated to public investment; the budget related to reconstruction—whose scope was originally requested for 19 trillion yen at the least for five years—was expanded to 25 trillion yen.

weak IT-related exports (electronic parts such as semiconductors, etc.).³ Meanwhile, exports to Others—which had continued to be relatively weak—have moved upward lately, due in part to fluctuations in ships, as motor vehicles and their related goods gradually resumed their uptrend. By goods (Chart 7[2]), exports of motor vehicles and their related goods turned upward for the first time in four terms as a whole, since those to China—which had dropped significantly—have started to pick up, and those to Others—which had shown somewhat weak movements some time ago—have been trending upward again, with those to the United States having been steady. Exports of intermediate goods—which had been declining, mainly to East Asia—have risen most recently, chiefly in chemicals. On the other hand, exports of capital goods and parts have inched upward lately; they may be heading toward a bottom, although the effects of the fluctuations in ships need to be disregarded to a certain degree. Meanwhile, exports of consumer goods have continued to decline, notably in digital cameras. As for IT-related goods, exports have recently dropped sharply, due to the downshift in demand of parts for new smartphone products made in East Asia, as final demand in this sector has yet to show noticeable improvement.

Real imports appear to be heading toward an increase again (Charts 6[1] and 9). Real imports—which had fallen sharply in the fourth quarter last year on a quarter-on-quarter basis, after having trended upward through the third quarter, albeit with fluctuations—rose in January compared with the fourth quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials temporarily fell back sharply in the fourth quarter on a quarter-on-quarter basis, mainly from the upsurge in September caused by a rush in demand prior to the introduction of the Carbon Tax, but they have recently bounced back up again. Imports of IT-related goods continued to move upward, chiefly in smartphones. Meanwhile, imports of intermediate goods and those of capital goods and parts remained somewhat weak as a whole, in response to developments in inventory adjustments and business fixed investment at home.

The pace of decline in net exports—in terms of the real trade balance—has been moderating as a reflection of the aforementioned developments in exports and

³ The Chinese Lunar New Year holidays fell in the February 9-15 period this year. The holidays were from January 22 through 28 last year.

imports (Chart 6[1]). The nominal current account surplus in the fourth quarter somewhat reduced its level as a whole compared with the third quarter, since the nominal goods and services balance deficit somewhat increased, while the income balance surplus was almost flat (Chart 6[2] and [3]).

Regarding the environment surrounding exports, while overseas economies remain in a deceleration phase, they have shown some signs of picking up (Chart 8[2]). Looking at movements by major region, the European economy has continued to recede slowly, amid its persistent debt problem. Meanwhile, the Chinese economy has seen an increase in infrastructure investment and exports have been heading toward a bottom, albeit with fluctuations. In this situation, the manufacturing sector—which had long been under adjustment—is bottoming out, as seen in a pick-up in production and materials prices. Affected by these movements, the NIEs and ASEAN economies have also shown signs of bottoming out in their exports and production. Meanwhile, the U.S. economy has been firming up and has continued to recover moderately. With the employment situation on an improving trend and the downward pressure from balance sheet problems being lifted gradually, household-related spending has continued to increase mildly as a trend, and business fixed investment—which had been restrained—has also shown signs of picking up. As for the exchange rate, the yen has depreciated from a while ago against both the U.S. dollar and euro; in terms of the real effective exchange rate, the yen has fallen to levels last observed in the summer of 2008 just before the Lehman shock (Chart 8[1]).

Overseas economies are expected to gradually emerge from the deceleration phase and start a moderate recovery. The aforementioned movements in foreign exchange rates are also projected to underpin exports in the future. However, a high degree of uncertainty remains about overseas economies. As for the European economy, heightened uncertainty over its debt problem remains; the sluggishness in the European economy will provide grounds for the global economy to decelerate for an extended period through channels of trade, foreign investment, and worsening business sentiment. As for the Chinese economy, the loose supply and demand conditions may also prevail mainly because the supply of raw materials and other goods seems to have exceeded demand as a result of increased business fixed investment, while it is expected to emerge from its deceleration phase for the period

ahead. The U.S. economy has been on a moderate recovery trend, but uncertainty regarding the outlook for fiscal policies remains. In relation to this, as for the IT-related sector, parts for new products of smartphones—which had pushed domestic production and exports of IT-related goods upward to a certain degree since early fall last year—have fallen back and this, in turn, has exerted restraints on exports and production. Final demand of this sector as a whole has yet to show noticeable improvement, and thus future developments in overall final demand, including developments in demand for conventional products such as PCs, continue to require close monitoring. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy has become less visible, with automobile-related exports to China having started to pick up, and the effects of the decline in the number of Chinese visitors to Japan having been on the wane.

Taking the above into consideration, exports are expected to start picking up mainly against the background that overseas economies gradually emerge from the deceleration phase. Imports are projected to resume their moderate uptrend along with the pick-up in industrial production, against the backdrop of resilient domestic demand, even though developments in foreign exchange rates will bear down on some areas. As a reflection of these developments in exports and imports, net exports are projected to be more or less flat for the time being and then gradually resume their moderate uptrend.

Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. Meanwhile, in manufacturing, fixed investment has declined affected by the previous decrease in exports and industrial production. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms (Chart 10[1])—which had continued to decline from the first quarter last year through the third quarter, after having surged in the fourth quarter of 2011, chiefly in small nonmanufacturing firms—saw a rebound in the fourth quarter for the first time in four quarters. By industry and company size (Chart 11), in manufacturing, large firms as well as medium-sized and small firms kept declining, following that in the third quarter. On the other hand, in nonmanufacturing, large firms moved slightly upward in the fourth quarter, after having been almost flat in the third quarter.

Medium-sized and small firms also registered an increase in the fourth quarter, after having been on the decline since the first quarter following their extremely strong growth in the fourth quarter of 2011. The aggregate supply of capital goods—a coincident indicator of machinery investment—rose marginally in January compared with the fourth quarter, after having decreased in the fourth quarter on a quarter-on-quarter basis, following a sharp decline in the third quarter (Chart 12[1]). On a monthly basis, it fell back again in January from the upsurge in December, assisted mainly by a jump in shipments of large machinery. As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—rose in the fourth quarter, after having declined for two consecutive quarters since the second quarter (Chart 13[1]). By industry, machinery orders of manufacturing continued to fall in the fourth quarter on a quarter-on-quarter basis, following the decline in the second and third quarters. Monthly figures, however, show that they increased for two straight months on a month-on-month basis in November and December. In contrast, those of nonmanufacturing (excluding orders for ships and those from electric power companies) registered a relatively large increase in the fourth quarter on a quarter-on-quarter basis, after having been more or less level in the second and third quarters. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—fell back in January compared with the fourth quarter, after having continued to move upward for four consecutive quarters through the fourth quarter (Chart 13[2]). By industry, construction starts of mining and manufacturing—which had been somewhat weak, after having surged in the first quarter last year—climbed significantly in January relative to the fourth quarter. On the other hand, those of nonmanufacturing continued to be steady on average, although they were down in January compared with the fourth quarter, after having exhibited somewhat high growth for three straight quarters until the fourth quarter.

Regarding the environment surrounding business fixed investment, developments in corporate profits show that they have remained steady on the whole, notably in domestic demand-oriented sectors, although the deceleration in overseas economies has continued to affect manufacturing. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales improved somewhat further in the fourth quarter last year, after

having remained flat at a high level until the third quarter, following the rise in the first quarter (Chart 10 [2]). By industry and company size, in manufacturing, the ratio for large firms—which had been somewhat sluggish—improved, whereas that for medium-sized and small firms inched downward. As for nonmanufacturing, the ratio for large firms—excluding production, transmission and distribution of electricity—has been more or less at its historical peak, although having declined slightly from the previous term. The ratio for medium-sized and small firms also maintained its high level, albeit with fluctuations. Corporate profits are projected to continue a mild improving trend, supported by the pick-up in exports as well as movements in foreign exchange rates on top of resilient domestic demand.

Taking the above into consideration, business fixed investment is projected to remain somewhat weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy.

Private consumption has remained resilient (Chart 14). Consumption of goods—as seen through sales at retail stores in real terms (Chart 15[1])—continued to be flat in January relative to the fourth quarter, after having been more or less level through the fourth quarter last year, albeit with some fluctuations. Looking at consumption of durable goods (Chart 15[2]), the number of new passenger-car registrations has continued to pick up, after having fallen significantly following the ending of subsidies for purchasing energy-efficient cars; the effects of the decline have fallen off, with its level recovering to that just before the ending of subsidies for purchasing energy-efficient cars, aided partly by the introduction of new models in January-February. Sales of household electrical appliances in real terms have been more or less flat as a whole, albeit with fluctuations, since sales of smartphones, tablet devices, and white goods installed with energy-saving devices were firm, whereas those of televisions and PCs were sluggish. Sales at department stores have been resilient on the whole, as they rebounded in January from the decline in December after having risen in October and November, notably in apparel, affected by lower temperatures (Chart 16[1]). Sales at supermarkets fell back in January after having registered month-on-month increases for three months in a row since October; added to this, they were also affected by the slump in the number of customers due to

snowfalls in the Tokyo metropolitan areas. Meanwhile, sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 16[2]), outlays for travel dipped in early fall, chiefly in overseas travel (bound for China and South Korea), but they have been picking up slightly since November. Sales in the food service industry have been steady as a whole.

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—advanced in January relative to the fourth quarter, after having been virtually flat in the fourth quarter last year, following a decline in the third quarter (Chart 15[1]).⁴ The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) was almost level in the fourth quarter, following a decline in the third quarter, after having increased for four straight quarters through the second quarter.

Indicators related to consumer confidence have recently headed toward improvement again (Chart 17).

Private consumption is expected to remain resilient, assisted mainly by an improvement in consumer sentiment. For the meantime, however, downward pressure stemming from the weakness in income may remain.

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 on average, although it declined in January relative to the fourth quarter (Chart 18[1]).

Housing investment is expected to continue to generally pick up.

⁴ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

Industrial production has stopped decreasing (Chart 19). In both the released-base index and the adjusted-base index,⁵ production, on a quarterly basis, increased in January compared with the fourth quarter, after having declined since the second quarter last year for three quarters in a row until the fourth quarter. Looking at recent movements on a month-on-month basis, production rose for two straight months in December and January. Looking at production in January relative to the fourth quarter by industry, that of transport equipment (such as passenger cars) started to pick up, as the effects of the decline due to the ending of subsidies for purchasing energy-efficient cars have fallen off and also as the slump in exports to China—which had been affected by the bilateral relationship between Japan and China—has eased. Affected by these factors, production of iron and steel and of chemicals also moved upward. On the other hand, production of electronic parts and devices has recently fallen back due to the downshift in demand for these products, after having risen significantly mainly in preparation for new products. As for general machinery, production has remained somewhat weak as a reflection of developments in business fixed investment at home and abroad.

Shipments have also stopped decreasing (Chart 21[1]). Looking at the trend in shipments by goods (Chart 20), those of durable consumer goods have picked up, notably in motor vehicles. Shipments of non-durable consumer goods have continued to increase moderately; those of construction goods have also advanced recently, primarily in photovoltaic modules, despite large monthly fluctuations. Shipments of producer goods have almost stopped declining overall, since those for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals) have headed for improvement, even though those of some electronic parts and devices for new products have shown somewhat sluggish movements due to the downshift in demand. Meanwhile, shipments of capital goods, reflecting movements in business fixed investment at home and abroad, have remained somewhat weak.

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). Since industrial production fell sharply for about six months since fall 2008 as a result of the Lehman shock, quarterly changes of the released-base seasonally adjusted figures—which regard this fall as a seasonal factor—tend to be somewhat stronger in the fourth and first quarters than the adjusted-base seasonally adjusted figures, which treat this factor as an outlier.

Inventories are still at a relatively high level in some industries, although they have moved downward as a whole (Chart 21[1]). Inventories have declined lately, after having been more or less flat on average following the upsurge toward last spring. By industry, those of transport equipment, iron and steel, and chemicals have been on a downtrend amid a pick-up in shipments. In contrast, inventories of electronic parts and devices have recently risen slightly, affected by the downshift in demand for new products. Inventories of general machinery, including engineering and construction machinery, have remained at relatively high levels against the backdrop of somewhat weak business fixed investment at home and abroad. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), it has been improving gradually as the growth in inventories and shipments is becoming broadly balanced (Chart 21[3]). As for producer goods, growth in inventories of electronic parts and devices and of other producer goods (for motor vehicles) has been almost aligned with that in shipments. Looking at construction goods, the shipment-inventory balance has recently improved, assisted by the increase in shipments. Meanwhile, as for capital goods, the shipment-inventory balance has continued to deteriorate, affected by sluggish demand in response to developments in business fixed investment at home and abroad.

Industrial production is expected to pick up reflecting developments in demand at home and abroad, as overseas economies gradually emerge from the deceleration phase. Based on anecdotes by firms and other information, regarding the first quarter, electronic parts and devices are expected to fall back from the substantial increase in the fourth quarter, chiefly for new products. In contrast, transport equipment is projected to turn upward, since the effects of the decline following the ending of subsidies for purchasing energy-efficient cars and cutbacks in products bound for China will wane amid steady exports to the United States. As for iron and steel as well as chemicals, it is expected that products for domestic motor vehicles will recover and those for exports will also increase as a reflection of recent movements in foreign exchange rates. Meanwhile, general machinery is projected to generally stop declining. As a result, industrial production as a whole is expected to become almost flat in the first quarter, after having declined toward the fourth quarter. In terms of the second quarter, although there is still a high level of uncertainty, it is projected that transport equipment will be more or less level and that iron and steel as

well as chemicals will continue moving upward. Added to this, general machinery as well as electronic parts and devices are expected to turn upward, as a reflection of a moderate recovery in overseas economies. It looks as though industrial production will pick up as a whole.

The employment and income situation has continued to be severe, but supply and demand conditions in the labor market seem to have started to head for improvement again.

As for supply and demand conditions in the labor market, the unemployment rate has trended downward from a somewhat long-term perspective, but it has been almost level since last summer, albeit with monthly fluctuations (Chart 22). New job openings—which had been sluggish as a whole amid somewhat weak movements in manufacturing as a reflection of movements in exports and industrial production—have recently moved upward again. In response to these movements, the active job openings-to-applicant ratio—which had ceased to improve since the middle of last year—has recently resumed its move for improvement. Non-scheduled hours worked has started to bottom out lately, after having been on a moderate downtrend since around last summer as a reflection of developments in manufacturing, while nonmanufacturing has been resilient on the whole.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* has registered a slight positive on average, despite extremely large monthly fluctuations (Chart 23[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis; by industry, however, manufacturing has posted negative. 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 remained well below the pre-earthquake level.

The year-on-year rate of change in total cash earnings per employee has declined marginally as a trend, albeit with large monthly fluctuations (Chart 23[2]). Looking in detail, scheduled cash earnings have posted a slight negative, since the ratio of part-time employees has trended upward and also since the number of hours

worked of part-time employees remained somewhat weak. On the other hand, non-scheduled cash earnings have continued to register a year-on-year negative, in response to movements in the number of hours worked. Meanwhile, winter bonuses were somewhat sluggish similar to those of last summer and marked a decrease on a year-on-year basis, as a reflection of the previous lackluster business performance.⁶

The year-on-year rate of change in employee income has stayed at almost 0 percent as a trend, with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages. Recent movements, however, show that employee income has been slightly negative, weighed down by special cash earnings (Chart 23[3]).

As for the outlook regarding employee income, the previous lackluster business performance will exert downward pressure for the time being, but after that, improvement is expected to become gradually evident as the pick-up in economic activity and business performance becomes noticeable.

2. Prices

International commodity prices have been at relatively high levels compared to a while ago (Chart 25[1] and [3]). Prices of crude oil and of nonferrous metals have been at relatively high levels compared to a while ago, with investors having become less risk-averse mainly in anticipation of a recovery in the global economy. On the other hand, prices of grains have recently been almost flat, after having lowered their levels as anxiety over supply due to the unseasonable weather was reduced.

The three-month rate of change in import prices (on a yen basis) has increased, reflecting movements in foreign exchange rates (Chart 25[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) is rising

⁶ Winter bonuses correspond to the November-January aggregates of special cash earnings in the *Monthly Labour Survey*.

moderately, reflecting movements in foreign exchange rates (Chart 26[2]).⁷ The three-month rate of change was positive 0.6 percent in January, after having marked an increase of 0.1 percent in November and December. Looking in detail at domestic corporate goods price movements in January, prices of "goods sensitive to exchange rates and overseas commodity prices" including petroleum & coal products, as well as those of "other materials" including chemicals & related products, accelerated their rate of increase, primarily due to recent movements in foreign exchange rates. Prices of "iron & steel and construction goods"—which had continued to be negative—became level as a reflection of the recent rise in those of scrap & waste. Meanwhile, prices of "electric power, gas & water" remained negative from the lingering effects of the decline in crude oil prices toward the middle of last year.

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has recently marked a slight negative (Chart 27). As for developments on a year-on-year basis, corporate services prices registered negative 0.4 percent in both December and January, following a decline of 0.5 percent in November. Looking in detail at corporate services price movements in January, the rate of decline in prices related to "selling, general and administrative expenses" was similar to that of last month as a whole, affected partly by fluctuations of some items, although it expanded somewhat in advertising services. Prices related to "real estate," notwithstanding some fluctuations, are considered to be reducing their year-on-year pace of decline as a trend, albeit very mildly. Meanwhile, prices related to "fixed investment" have continued to increase marginally, particularly in civil engineering and architectural services, whereas "IT-related" prices have continued to decrease, due to price declines in leasing and rentals of equipment.

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 28[1]). In

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.

January, consumer prices, in terms of all items less fresh food, remained unchanged from December at negative 0.2 percent. Those on a basis that excludes food and energy accelerated their rate of decline by 0.1 percentage point from December by posting negative 0.7 percent. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has continued to stop improving since the middle of last year, but from a somewhat long-term perspective, it has been on a moderate improving trend (Chart 29[2]).⁸ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 29[1]).⁹

Looking in detail at consumer price movements over the past few months, fees for public services have been on the rise, albeit at a somewhat reduced pace, mainly as a reflection of movements in prices of electricity and of gas (manufactured & piped). On the other hand, prices for goods have been on the decline, partly since prices of food products have been relatively sluggish while negative contributions from durable goods continue, even though prices of petroleum products have added positive impetus. Prices of general services have also declined marginally, mainly in rent. Taking a closer look at price movements in January, prices of goods (excluding agricultural, aquatic and livestock products) expanded their rate of decline slightly. This was because the rate of decline in durable goods expanded, reflecting the upturn in prices of room air conditioners due to changes in items in the previous year, although prices of petroleum products rose at an accelerated pace as a reflection of movements in foreign exchange rates and international commodity prices and also prices of clothes turned upward, albeit marginally. Fees for public services continued to reduce their rate of increase, since prices of electricity and of gas (manufactured & piped) kept reducing their rate of increase due to the decline in crude oil prices toward the middle of last year and also since airplane fares fell at an

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.

accelerated pace. In contrast, the rate of decline in prices of general services narrowed, albeit slightly, mainly since prices of hotel charges turned positive due to calendar factors.

Domestic corporate goods prices are expected to continue rising for the meantime. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

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 declined marginally. The Euroyen interest rate (3-month) has trended downward at a mild pace. Interest rates on Euroyen futures have been virtually level (Chart 30). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 31).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved downward, partly due to the decline in U.S. long-term interest rates as a reflection of heightened uncertainty about the situation in Europe, amid increased demand from investors; they are currently moving in the range of 0.65-0.70 percent (Chart 32).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 33).

Stock prices have risen, even though the depreciation of the yen has come to a pause. The Nikkei 225 Stock Average is currently moving at around 12,000 yen (Chart 34).

In the foreign exchange market, the depreciation of the yen against the U.S. dollar since last November has come to a pause; the yen's exchange rate against the U.S. dollar has basically been more or less unchanged, albeit with some fluctuations, and is currently moving at around 94 yen (Chart 35). Meanwhile, the euro has depreciated against the yen partly due to heightened uncertainty about the situation in Europe; the yen is currently moving at around 122 yen against the euro.

(2) Corporate Finance and Monetary Aggregates

Firms' funding costs have been hovering at low levels, 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 also been low (Chart 37).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 36). Issuing conditions for CP and corporate bonds have remained favorable on the whole. In these circumstances, as for funding of the private sector, the year-on-year rate of increase in the amount outstanding of bank lending has risen somewhat, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 38). The amount outstanding of CP and corporate bonds has been more or less around the year-ago level (Chart 39).

In these circumstances, firms have retained their recovered financial positions on the whole (Chart 36). The number of corporate bankruptcies has remained at a low level (Chart 41).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been positive within the range of 2.5-3.0 percent. Its January reading was 2.7 percent on a year-on-year basis, following 2.6 percent in December (Chart 40).¹⁰

¹⁰ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of change has been positive within the range of 2.0-2.5 percent; its January reading was 2.3 percent, following 2.2 percent in December. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been within the range of 1.0-1.5 percent; it increased by 1.4 percent in January, following an increase of 1.1 percent in December.

Charts

Chart 1	Main Economic Indicators (1)	Chart 24	Prices
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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2012/Q2	Q3	Q4	2012/Nov.	Dec.	2013/Jan.	Feb.
Index of consumption expenditure level (two-or-more-person households)	1.8	-1.4	-0.7	-0.9	0.4	1.9	n.a.
Sales at department stores	1.0	-1.7	1.8	3.1	-3.6	p 2.4	n.a.
Sales at supermarkets	-1.6	-0.8	1.7	2.0	0.9	p -6.5	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 310>	< 282>	< 263>	< 266>	< 276>	< 313>	< 313>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-5.8	4.1	3.8	-5.4	11.8	p 3.1	n.a.
Outlays for travel	3.2	-4.5	-0.0	4.9	0.6	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 88>	< 88>	< 91>	< 91>	< 88>	< 86>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-4.1	-1.1	2.0	3.9	2.8	n.a.	n.a.
Manufacturing	-5.8	-3.2	-3.9	3.9	3.0	n.a.	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	0.0	0.1	6.3	6.2	-8.0	n.a.	n.a.
Construction starts (private, nondwelling use)	0.3	8.1	4.2	2.6	10.3	-11.7	n.a.
Mining & manufacturing	-20.4	0.1	-10.0	3.3	14.3	38.2	n.a.
Nonmanufacturing ⁵	4.7	9.0	10.3	1.2	8.3	-20.2	n.a.
Value of public works contracted	9.2	-0.1	1.2	-12.6	11.1	-9.6	n.a.
Real exports	4.1	-6.0	-5.4	0.2	-0.5	2.2	n.a.
Real imports	3.3	0.9	-5.9	2.3	-1.4	2.6	n.a.
Industrial production	-2.0	-4.2	-1.9	-1.4	2.4	p 1.0	n.a.
Shipments	-0.2	-5.4	-2.1	-0.8	4.0	p 0.1	n.a.
Inventories	0.0	0.3	-2.5	-1.2	-1.2	p -0.5	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 123.6>	< 130.4>	< 126.5>	< 127.2>	< 126.5>	<p 121.8>	<n.a.>
Real GDP	-0.2	-1.0	-0.1	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	-0.5	0.3	-0.4	1.8	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2012/Q2	Q3	Q4	2012/Oct.	Nov.	Dec.	2013/Jan.
Active job openings-to-applicants ratio <s.a., times>	< 0.80>	< 0.81>	< 0.82>	< 0.81>	< 0.82>	< 0.83>	< 0.85>
Unemployment rate <s.a., %>	< 4.4>	< 4.3>	< 4.2>	< 4.2>	< 4.2>	< 4.3>	< 4.2>
Non-scheduled hours worked ⁶	4.0	-0.9	-2.5	-3.1	-2.2	-2.2	p -1.9
Number of employees	-0.3	0.5	0.1	0.6	0.3	-0.7	0.2
Number of regular employees ⁶	0.9	0.6	0.7	0.7	0.6	0.8	p 0.5
Nominal wages per person ⁶	-0.5	-0.7	-1.1	-0.4	-0.8	-1.7	p 0.7
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-1.0 <-0.2>	-1.9 <-1.0>	-0.8 < 0.2>	-1.0 < 0.3>	-0.9 < 0.1>	-0.7 < 0.1>	p -0.2 <p 0.6>
Consumer price index ⁸	0.0	-0.2	-0.1	0.0	-0.1	-0.2	-0.2
Corporate services price index ⁹	0.1	-0.1	-0.5	-0.6	-0.5	-0.4	p -0.4
Money stock (M2) <average outstanding, y/y % chg.>	2.4	2.4	2.3	2.3	2.1	2.6	p 2.7
Number of corporate bankruptcies <cases per month>	<1,042>	<975>	<963>	<1,035>	<964>	<890>	<934>

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

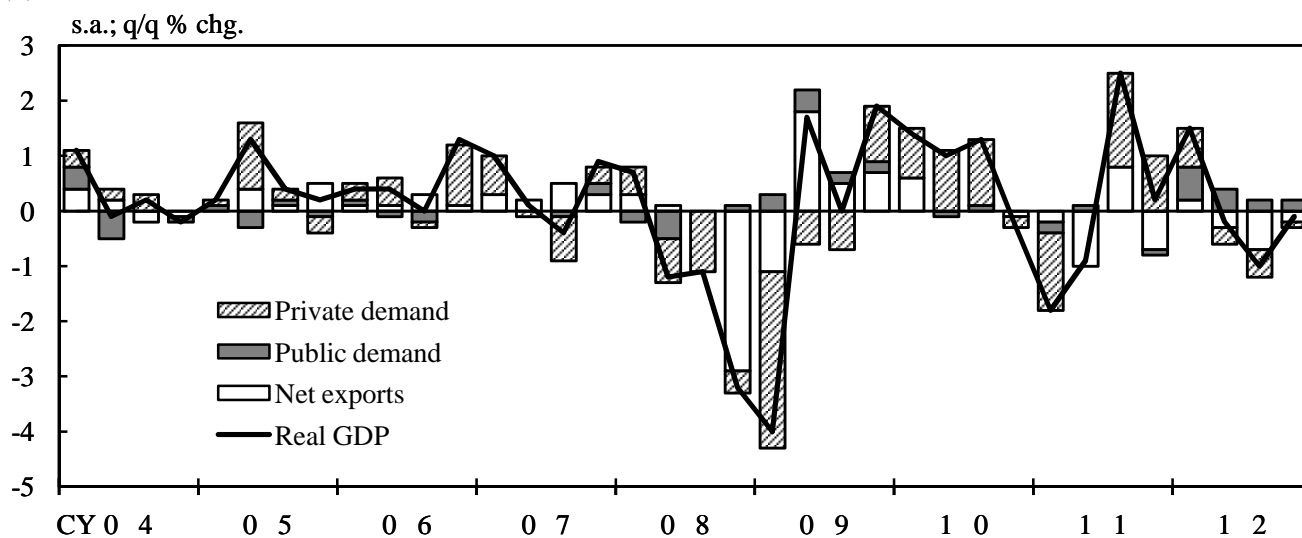
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



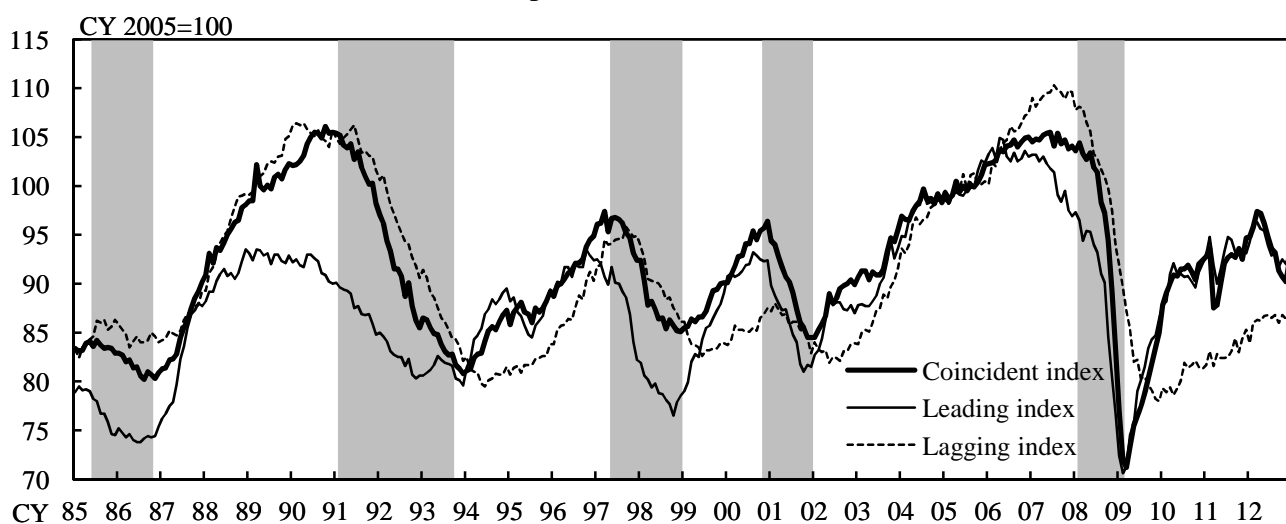
(2) Components

s.a.; q/q % chg.

	2011	2012			
	Q4	Q1	Q2	Q3	Q4
Real GDP	0.2	1.5	-0.2	-1.0	-0.1
[Annual rate]	[0.6]	[6.0]	[-1.0]	[-3.8]	[-0.4]
Domestic demand	0.9	1.3	0.0	-0.3	0.1
Private demand	1.0	0.7	-0.3	-0.5	-0.1
Private consumption	0.3	0.7	0.0	-0.3	0.3
Non-Resi. investment	1.1	-0.4	-0.0	-0.5	-0.3
Residential investment	-0.0	-0.0	0.1	0.0	0.1
Private inventory	-0.4	0.4	-0.4	0.3	-0.2
Public demand	-0.1	0.6	0.4	0.2	0.2
Public investment	-0.1	0.4	0.3	0.1	0.1
Net exports of goods and services	-0.7	0.2	-0.3	-0.7	-0.2
Exports	-0.5	0.5	0.0	-0.8	-0.5
Imports	-0.3	-0.3	-0.3	0.1	0.4
Nominal GDP	-0.1	1.4	-0.5	-1.1	-0.4

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

(3) Indexes of Business Conditions (Composite Indexes)

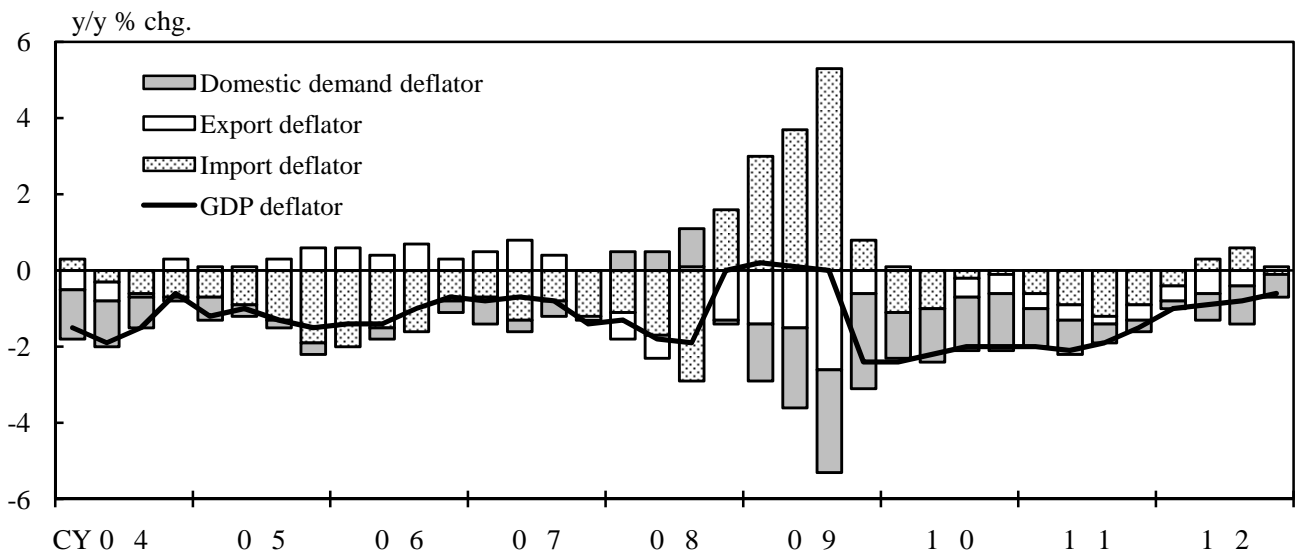


Note: Shaded areas indicate recession periods.

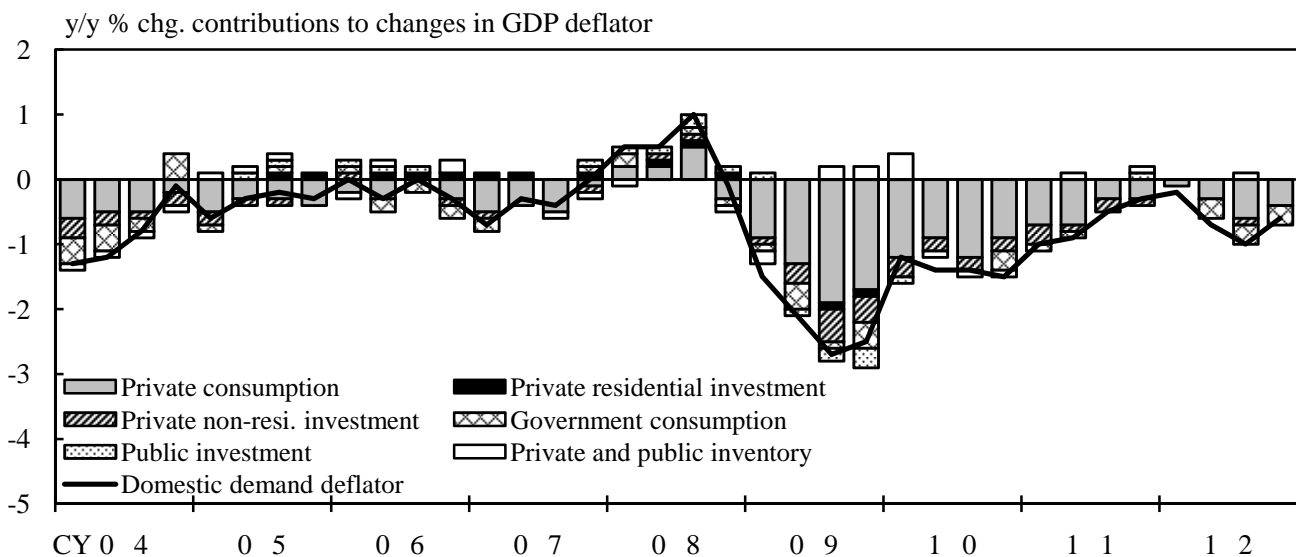
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

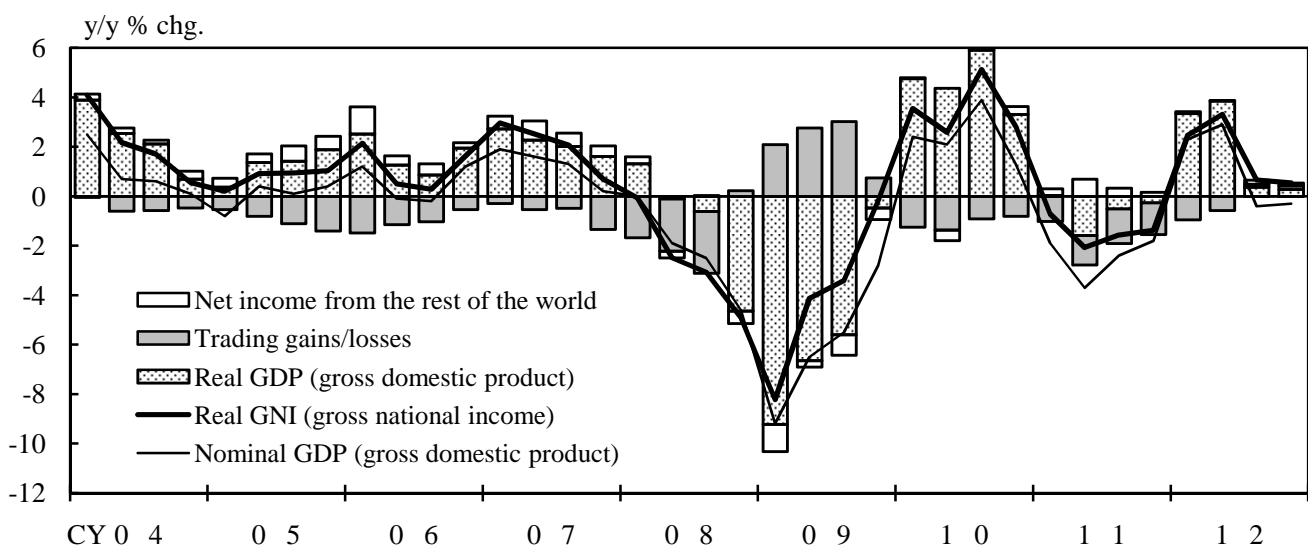
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

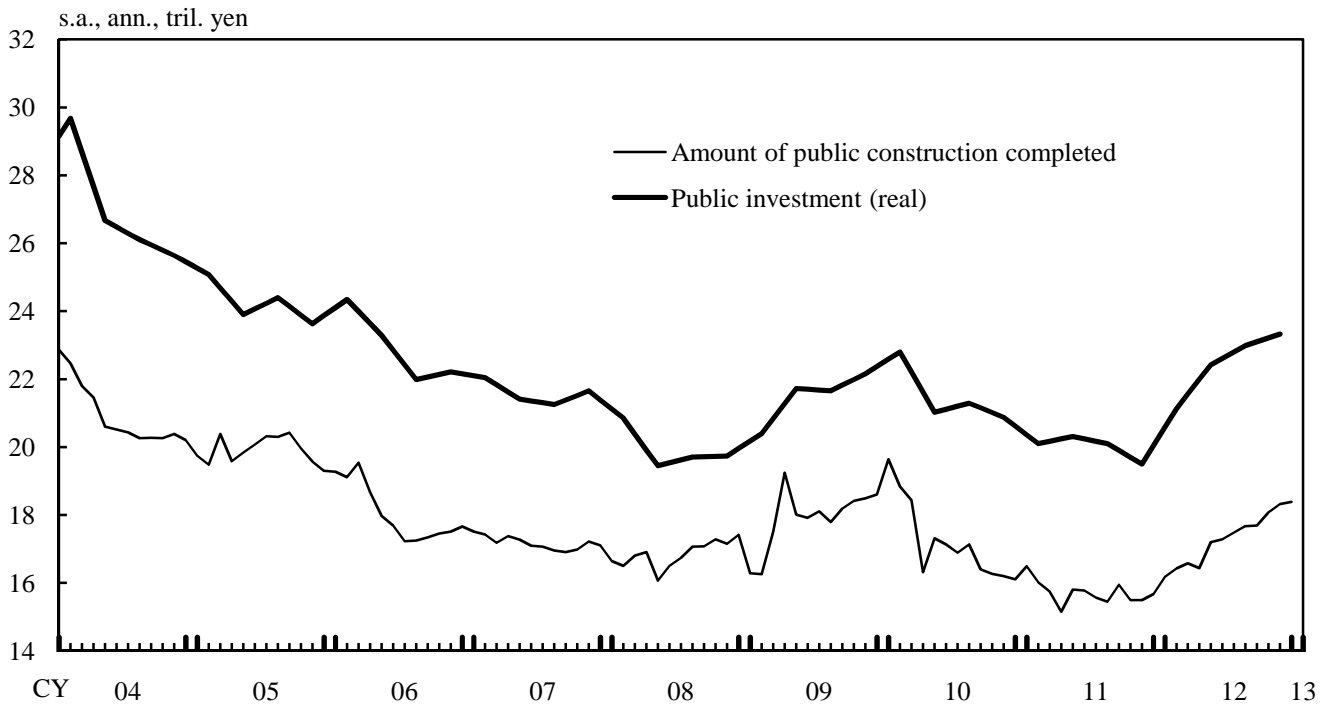
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

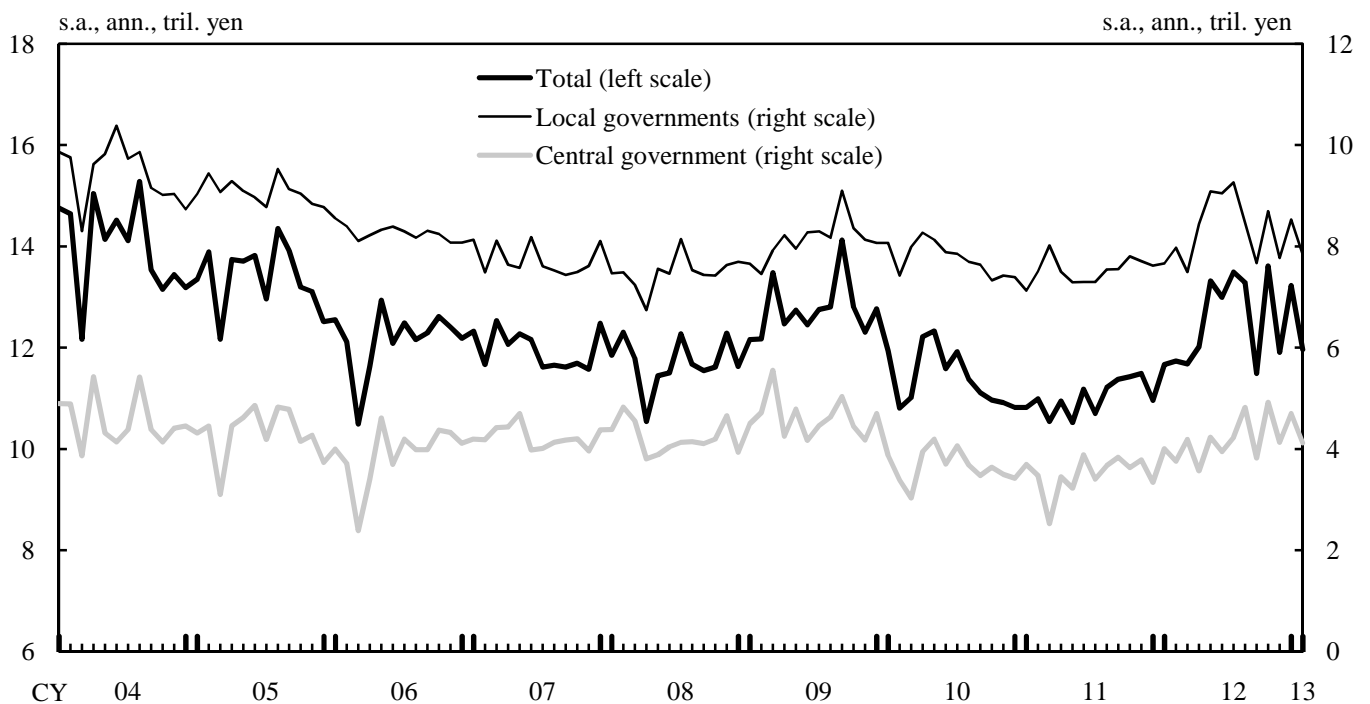
Source: Cabinet Office, "National Accounts."

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.

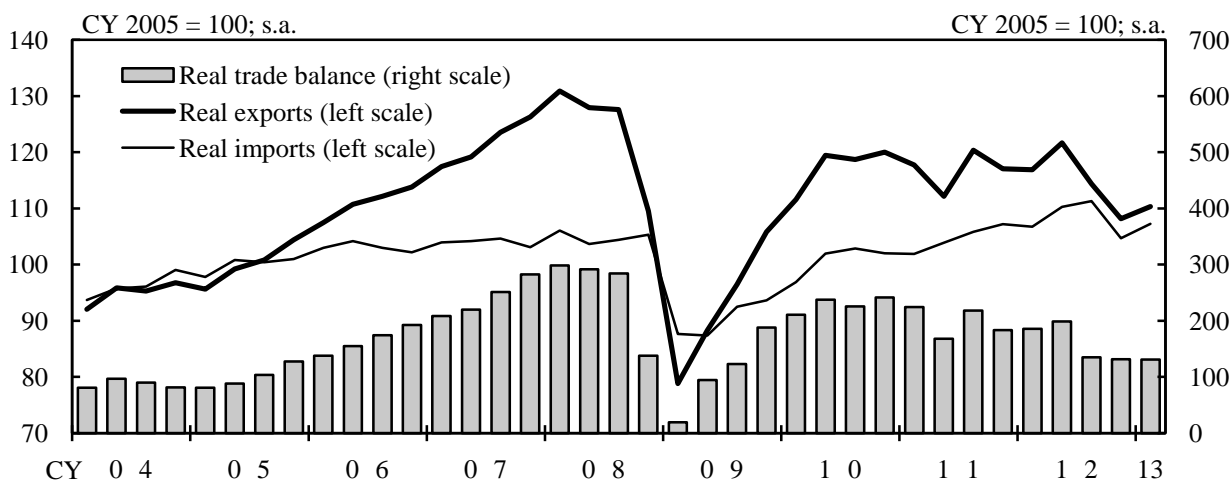
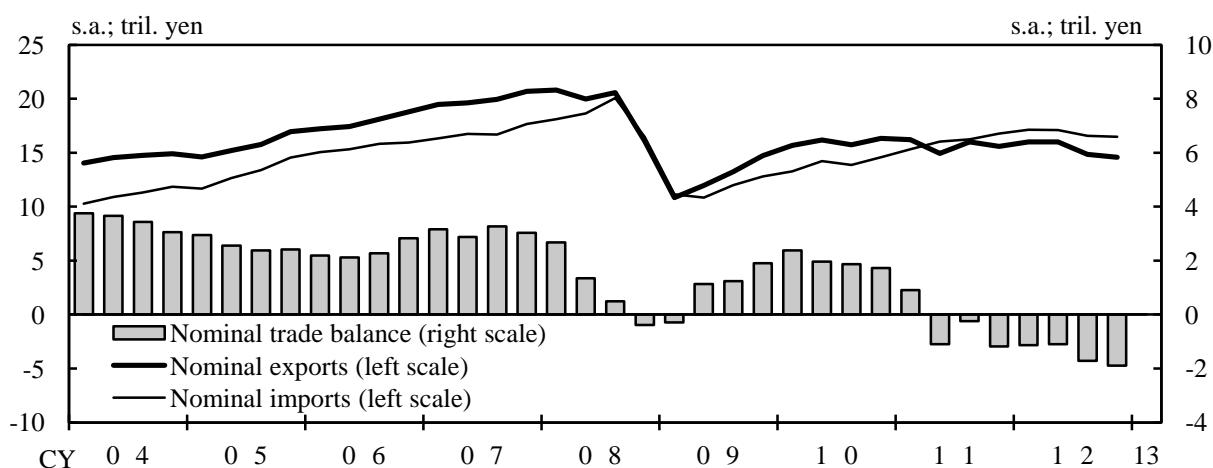
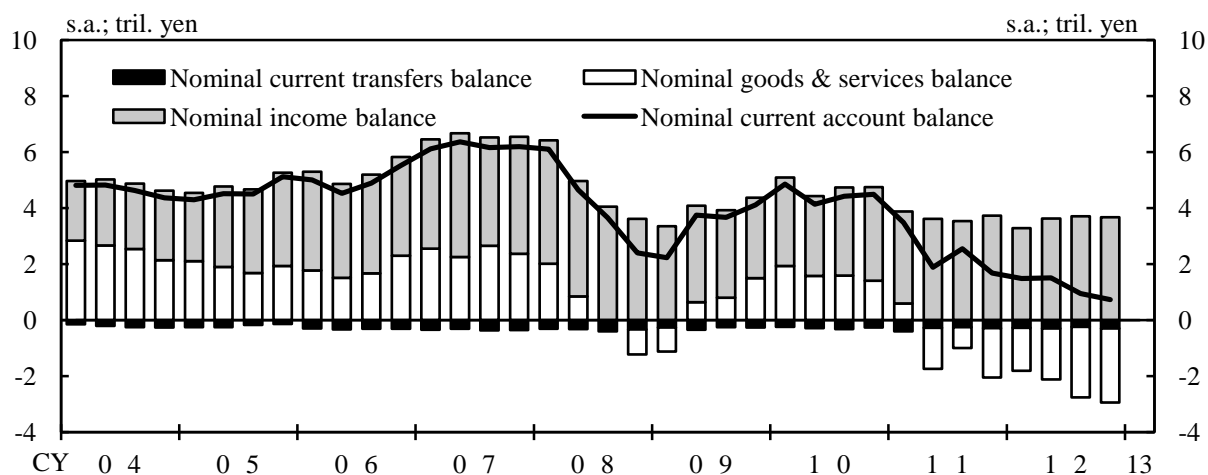
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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. 2013/Q1 figures are January figures converted into quarterly amount.

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 2011	2012	2012 Q1	Q2	Q3	2013 Q4	Q1	2012 Nov.	2013 Dec.	2013 Jan.
United States	<17.5>	-0.3	12.3	2.5	4.8	-4.7	-3.9	-0.5	1.0	4.8	-3.8
EU	<10.2>	2.9	-12.7	-4.0	-2.3	-6.0	-5.7	3.9	-0.7	5.4	0.6
East Asia	<51.3>	-1.2	-2.4	0.9	2.5	-3.0	-4.8	-0.7	-0.5	-1.4	0.4
China	<18.1>	1.9	-7.2	-1.9	1.8	-2.8	-11.0	-0.5	-2.6	-3.1	2.5
NIEs	<21.5>	-4.6	-4.5	-1.5	2.3	-2.6	-0.8	1.6	0.5	0.5	1.0
Korea	<7.7>	-3.0	-3.3	0.3	-2.3	-0.1	0.6	1.2	-0.7	7.9	-3.5
Taiwan	<5.8>	-9.3	-6.6	-4.9	5.9	1.1	-3.6	4.8	-2.7	3.6	3.3
Hong Kong	<5.1>	-4.0	-0.3	2.0	-1.2	-0.3	-0.1	0.6	9.3	-14.8	8.9
Singapore	<2.9>	0.3	-10.3	-3.1	10.8	-15.3	-4.8	11.4	2.1	-1.1	11.5
ASEAN4 ³	<11.7>	0.8	11.6	11.4	4.2	-4.2	-1.9	-5.4	0.7	-2.7	-3.9
Thailand	<5.5>	1.3	18.2	27.1	10.3	-2.2	0.7	-5.2	-2.9	-3.3	-2.0
Others	<21.0>	1.6	1.4	3.2	0.3	-9.6	-5.0	4.4	0.7	-1.3	5.1
Real exports		-0.5	-1.2	-0.1	4.1	-6.0	-5.4	2.0	0.2	-0.5	2.2

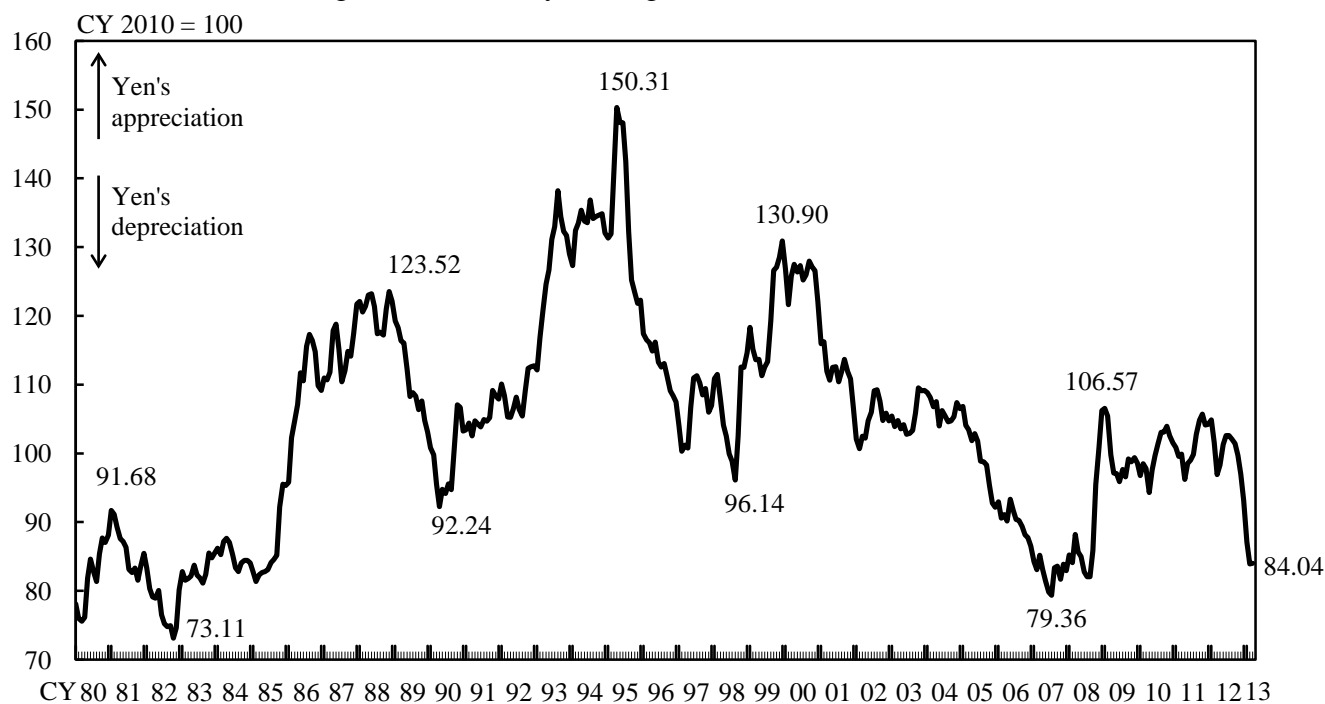
(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2011	2012	2012 Q1	Q2	Q3	2013 Q4	Q1	2012 Nov.	2013 Dec.	2013 Jan.
Intermediate goods	<20.4>	-4.6	-2.3	-2.9	6.5	0.2	-5.7	2.1	0.2	1.8	0.9
Motor vehicles and their related goods	<23.0>	-3.8	6.8	0.3	-0.7	-9.3	-4.9	3.2	0.1	2.5	1.5
Consumer goods ⁴	<3.3>	-2.9	12.3	28.6	-0.9	3.8	-22.4	-3.7	-8.3	-0.7	-0.3
IT-related goods ⁵	<9.8>	0.9	0.6	1.6	-0.3	-0.8	1.0	-7.9	0.7	-3.6	-5.8
Capital goods and parts ⁶	<29.3>	5.0	-3.5	1.0	2.9	-6.6	-6.8	1.0	-0.6	0.4	0.9
Real exports		-0.5	-1.2	-0.1	4.1	-6.0	-5.4	2.0	0.2	-0.5	2.2

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q1 figures are January figures converted into quarterly amount.
2. Shares of each region and goods in 2012 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, 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 February and March (up to March 5) 2013 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.

	CY2010	2011	2012	2012 Q1	Q2	Q3	Q4
United States ¹	2.4	1.8	2.2	2.0	1.3	3.1	0.1
European Union ²	2.1	1.5	-0.3	-0.2	-0.7	0.4	-1.9
Germany ¹	4.2	3.0	0.7	2.0	1.1	0.9	-2.3
France ¹	1.6	1.7	-0.0	-0.4	-0.4	0.6	-1.1
United Kingdom ¹	1.8	0.9	0.2	-0.3	-1.4	3.9	-1.0
East Asia ³	9.2	5.9	4.8	9.0	4.9	4.9	7.0
China ¹	10.4	9.3	7.8	6.1	8.2	8.7	8.2
NIEs ^{1,3}	8.9	4.3	1.6	4.1	0.3	1.2	4.1
ASEAN4 ^{1,3,4}	7.3	3.0	6.2	25.3	8.8	5.5	10.9
Main economies ³	6.7	4.5	3.6	6.3	3.4	3.9	4.4

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, Indonesia, Malaysia, 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 2011	2012	2012 Q1	Q2	Q3	Q4	2013 Q1	2012 Nov.	Dec.	2013 Jan.
United States	<8.6>	-1.0	3.4	1.6	0.3	1.8	-9.8	5.1	-0.9	3.2	3.3
EU	<9.4>	7.9	3.3	-1.3	0.4	4.2	-1.6	-6.5	7.1	-11.8	-0.5
East Asia	<40.8>	9.1	2.6	-1.8	2.4	-0.4	-1.5	0.3	4.1	-1.9	0.3
China	<21.3>	12.2	3.7	-3.5	3.3	-0.5	0.4	0.3	5.5	-4.9	1.9
NIEs	<8.5>	5.9	3.3	-0.3	0.9	1.7	-2.5	3.6	6.2	-0.5	1.9
Korea	<4.6>	19.9	2.2	1.6	-4.6	3.0	-3.1	5.6	4.6	-2.7	5.9
Taiwan	<2.7>	-5.6	5.9	-3.4	7.7	1.3	0.9	-1.3	2.2	3.8	-4.4
Hong Kong	<0.2>	-5.4	-3.1	23.3	-16.7	-7.1	-1.8	21.5	-28.0	99.6	-11.0
Singapore	<1.0>	-2.8	1.1	-2.1	4.6	-3.0	-3.4	6.5	30.1	-4.0	0.9
ASEAN4 ³	<11.1>	4.8	-0.4	1.1	1.7	-1.9	-5.4	-2.6	-1.8	5.4	-5.4
Thailand	<2.7>	4.0	-1.5	4.7	10.1	-3.2	-4.1	-0.9	-3.4	-0.8	0.9
Others	<41.2>	-0.3	4.5	0.8	5.3	0.6	-10.9	5.2	4.4	6.4	-0.4
Real imports		3.7	4.0	-0.4	3.3	0.9	-5.9	2.5	2.3	-1.4	2.6

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2011	2012	2012 Q1	Q2	Q3	Q4	2013 Q1	2012 Nov.	Dec.	2013 Jan.
Raw materials ⁴	<40.8>	-0.2	4.5	2.6	3.2	0.6	-12.8	6.1	8.0	6.9	-0.9
Intermediate goods	<13.5>	8.7	-4.1	-6.9	0.5	4.8	-4.8	-3.1	3.7	-0.3	-4.0
Foodstuffs	<8.3>	1.6	-1.3	0.8	-3.7	1.2	-4.9	0.7	-4.6	4.4	-0.6
Consumer goods ⁵	<7.7>	6.1	-4.1	-0.1	2.5	-5.2	-5.6	1.7	-1.8	3.7	-0.1
IT-related goods ⁶	<10.4>	8.1	9.5	0.1	1.1	3.1	4.5	5.9	10.5	-12.1	11.8
Capital goods and parts ⁷	<10.9>	9.5	8.6	1.5	4.5	-1.4	-5.0	4.1	3.3	-0.9	3.7
Excluding aircraft	<10.1>	10.6	5.2	-1.1	4.6	-1.0	-3.4	0.1	1.8	0.1	-0.6
Real imports		3.7	4.0	-0.4	3.3	0.9	-5.9	2.5	2.3	-1.4	2.6

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q1 figures are January figures converted into quarterly amount.

2. Shares of each region and goods in 2012 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

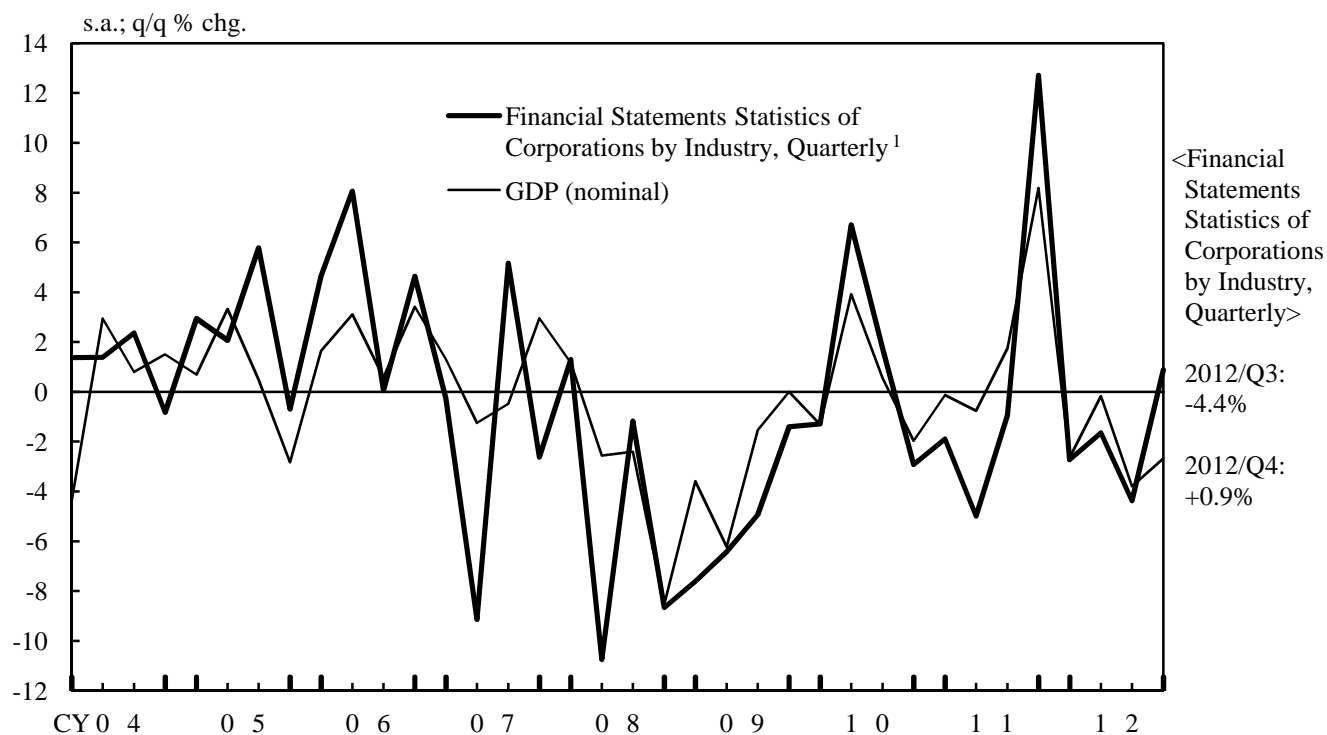
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

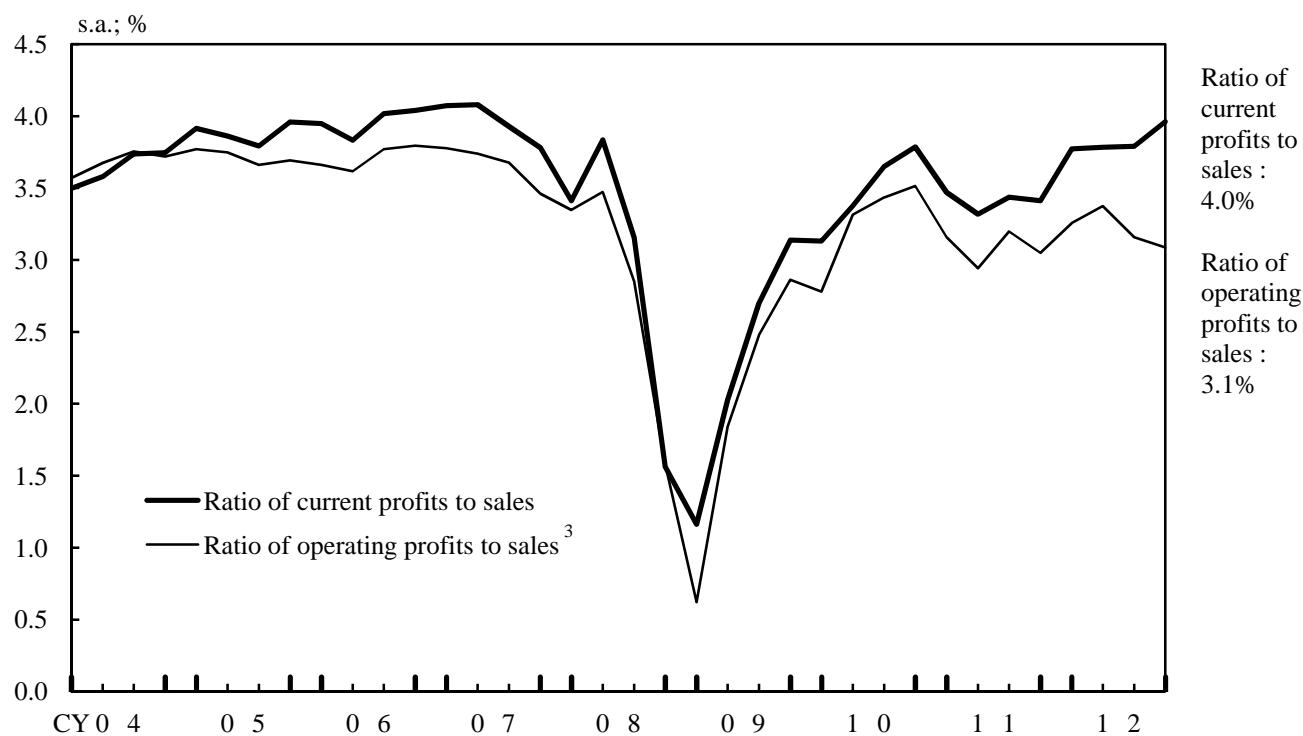
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales)^{1,2}



Notes: 1. All enterprises excluding "Finance and Insurance."

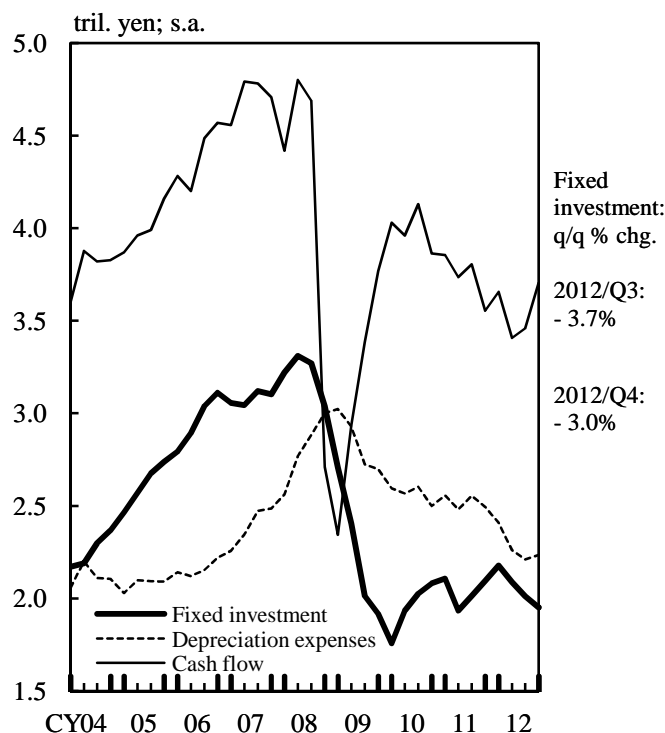
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

3. Figures are seasonally adjusted by X-12-ARIMA.

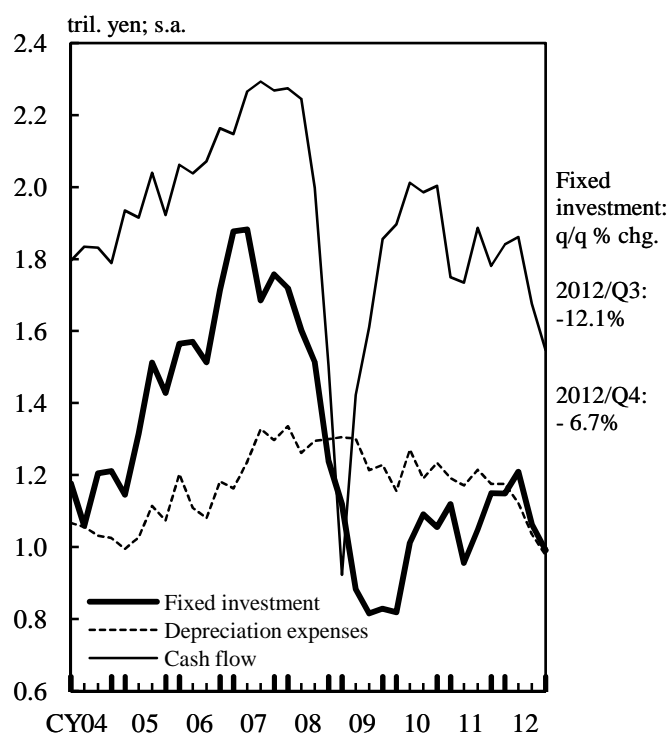
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

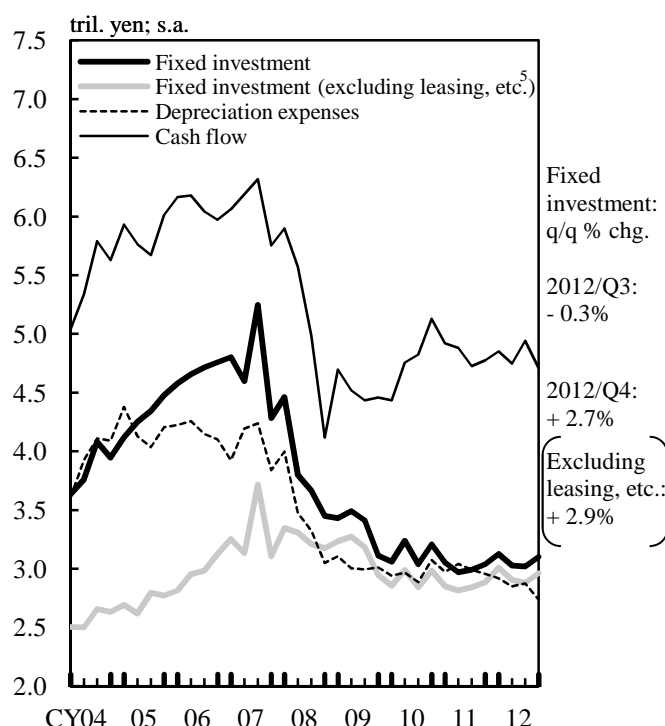
(1) Large Manufacturing Firms



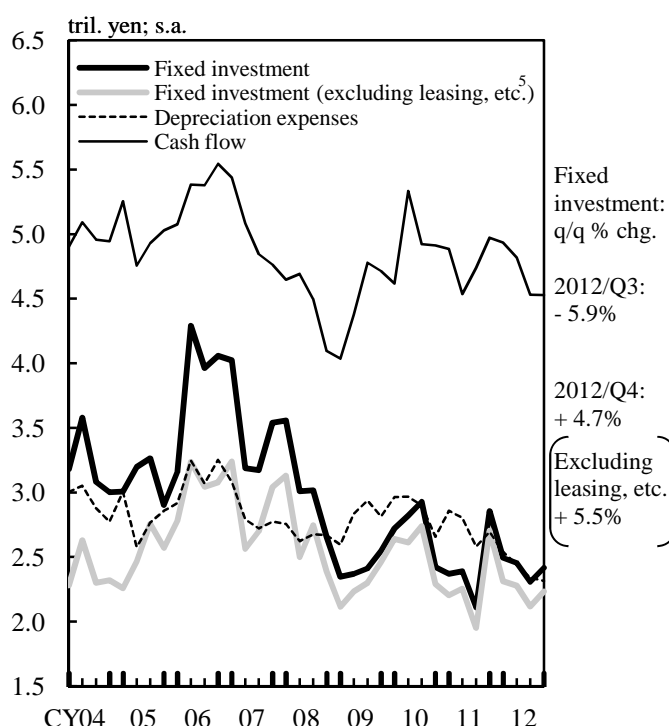
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

2. Cash flow = current profits / 2 + depreciation expenses.

3. Seasonally adjusted by X-12-ARIMA.

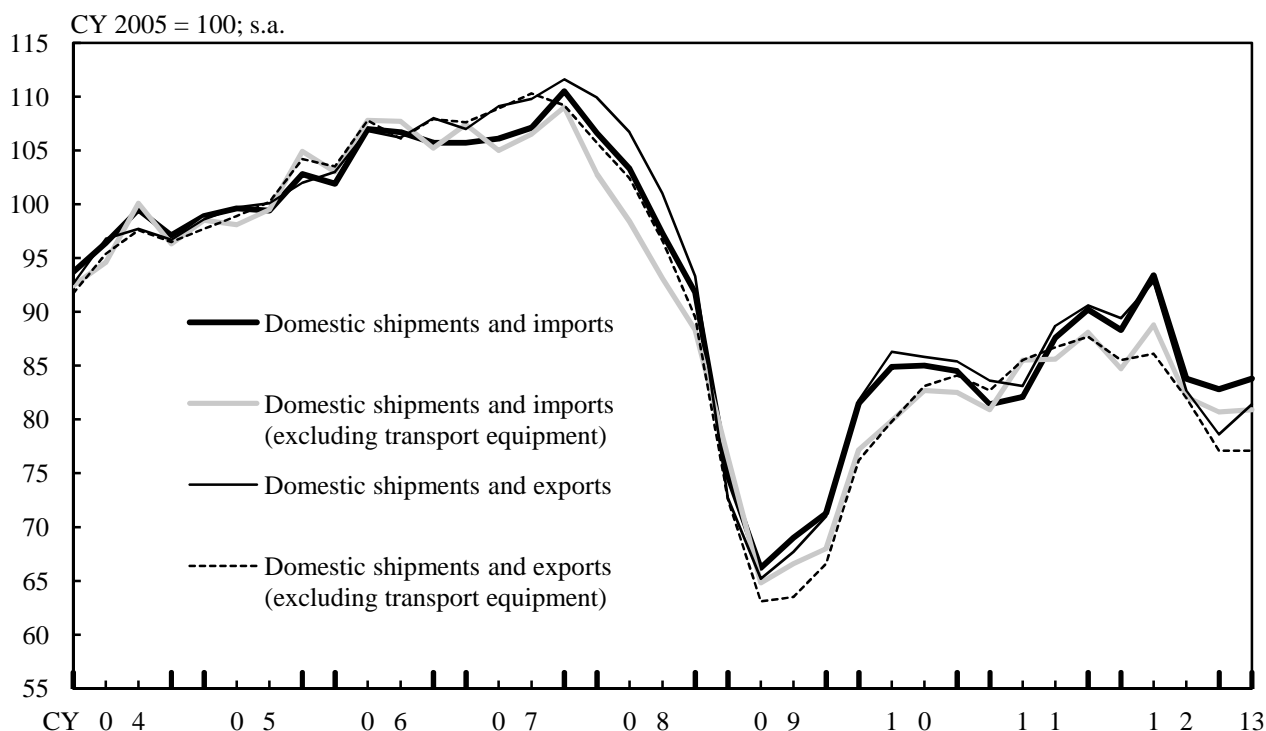
4. Excluding "Finance and Insurance."

5. Up to 2004/Q1, excluding "Business Services." From 2004/Q2, excluding "Goods rental and Leasing."

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

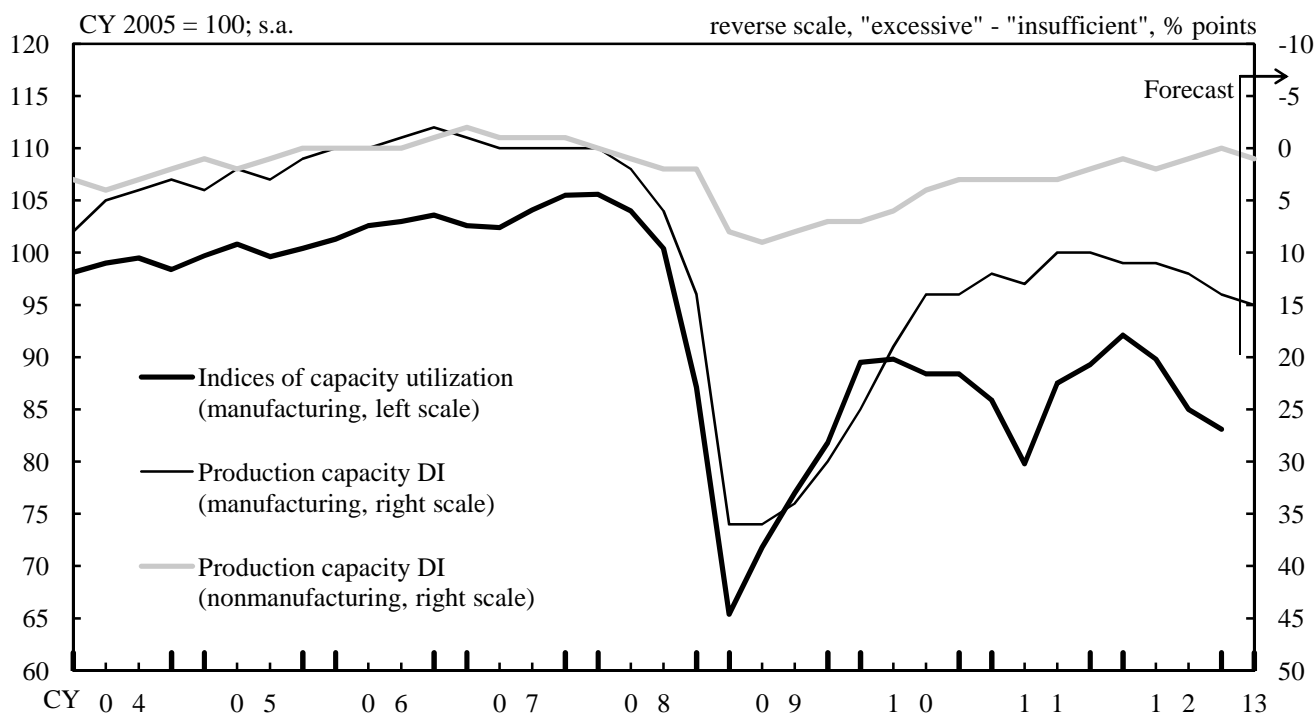
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2013/Q1 are those of January.

(2) Indices of Capacity Utilization and Production Capacity DI

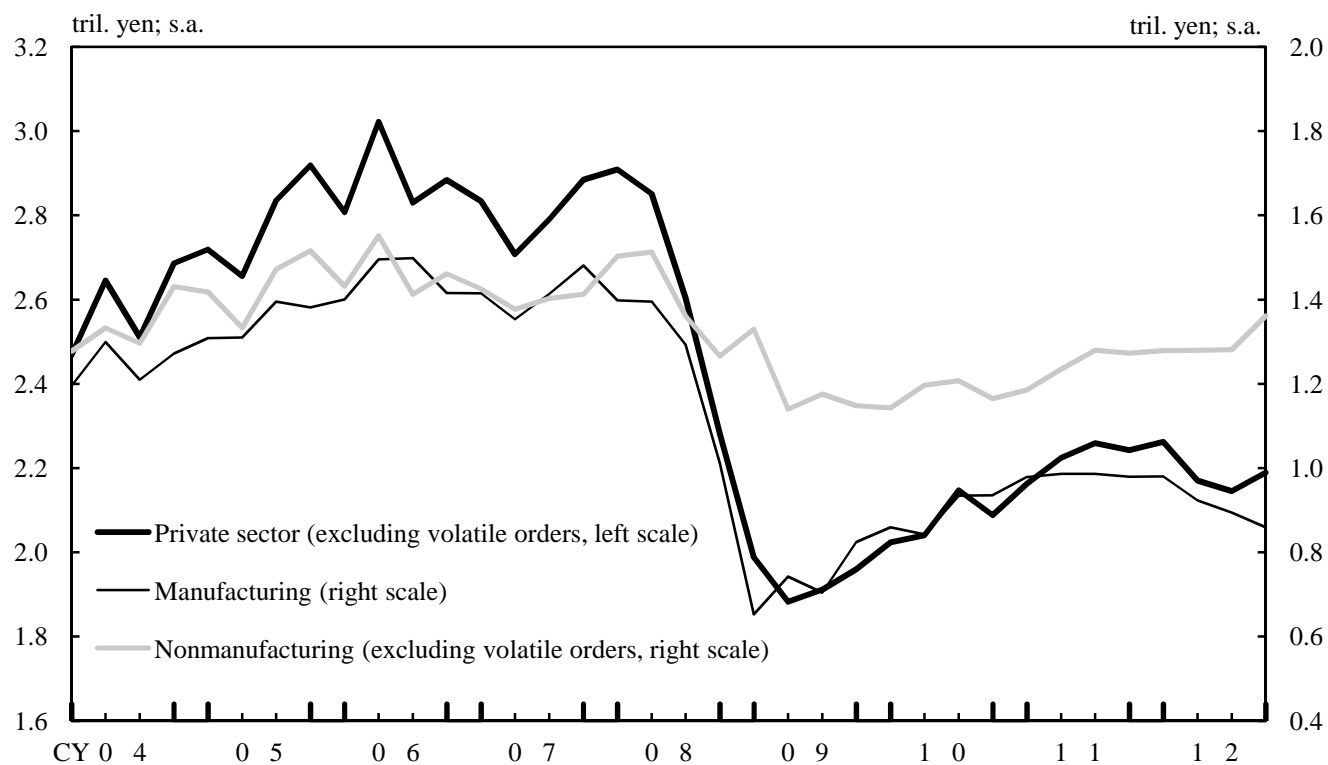


Note: Production capacity DIs are those of all enterprises.

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

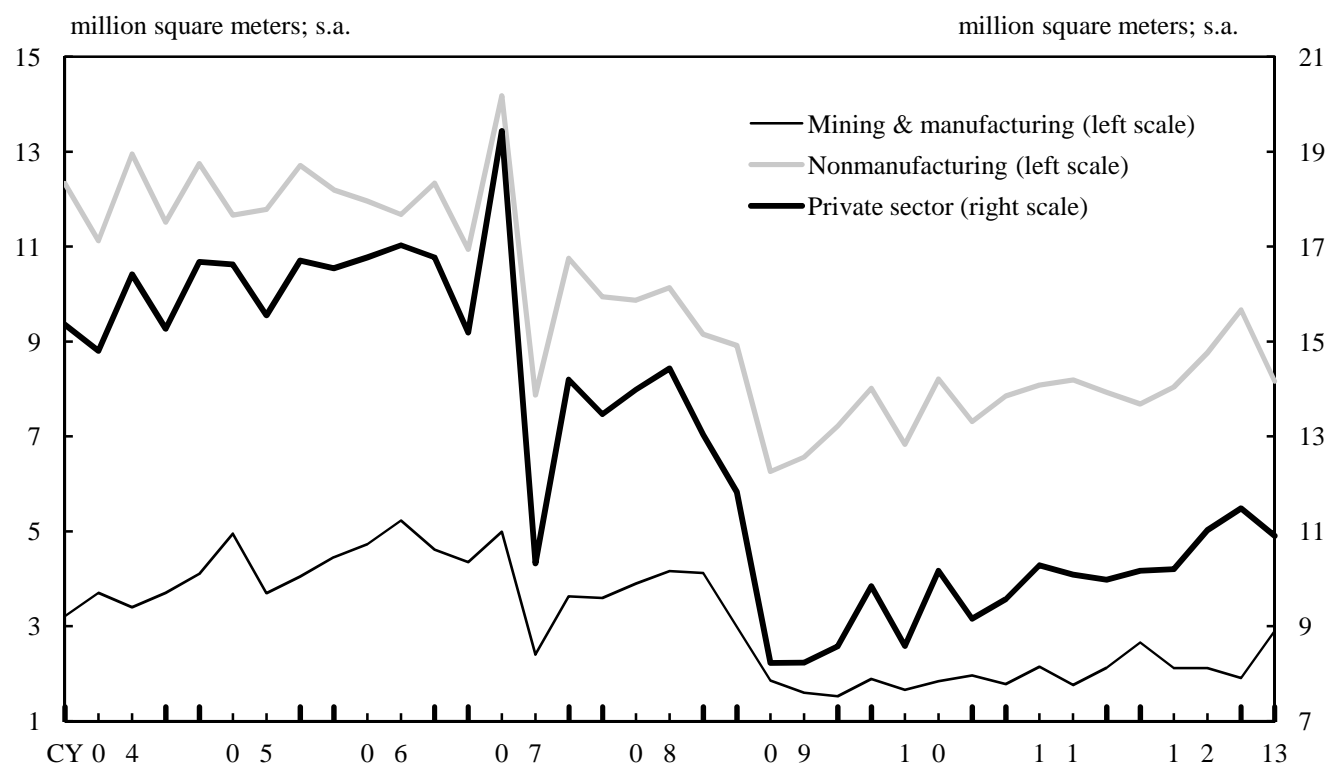
(1) Machinery Orders



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)



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

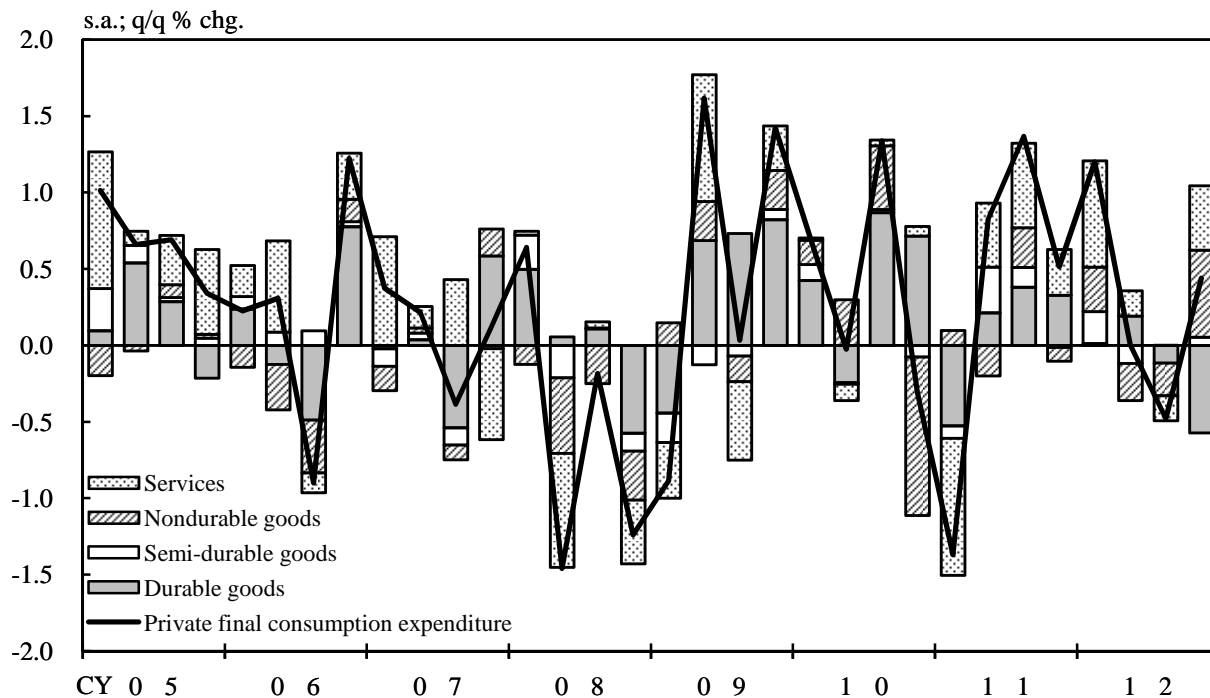
2. Figures for 2013/Q1 are those of January in quarterly amount.

Sources: Cabinet Office, "Orders Received for Machinery";

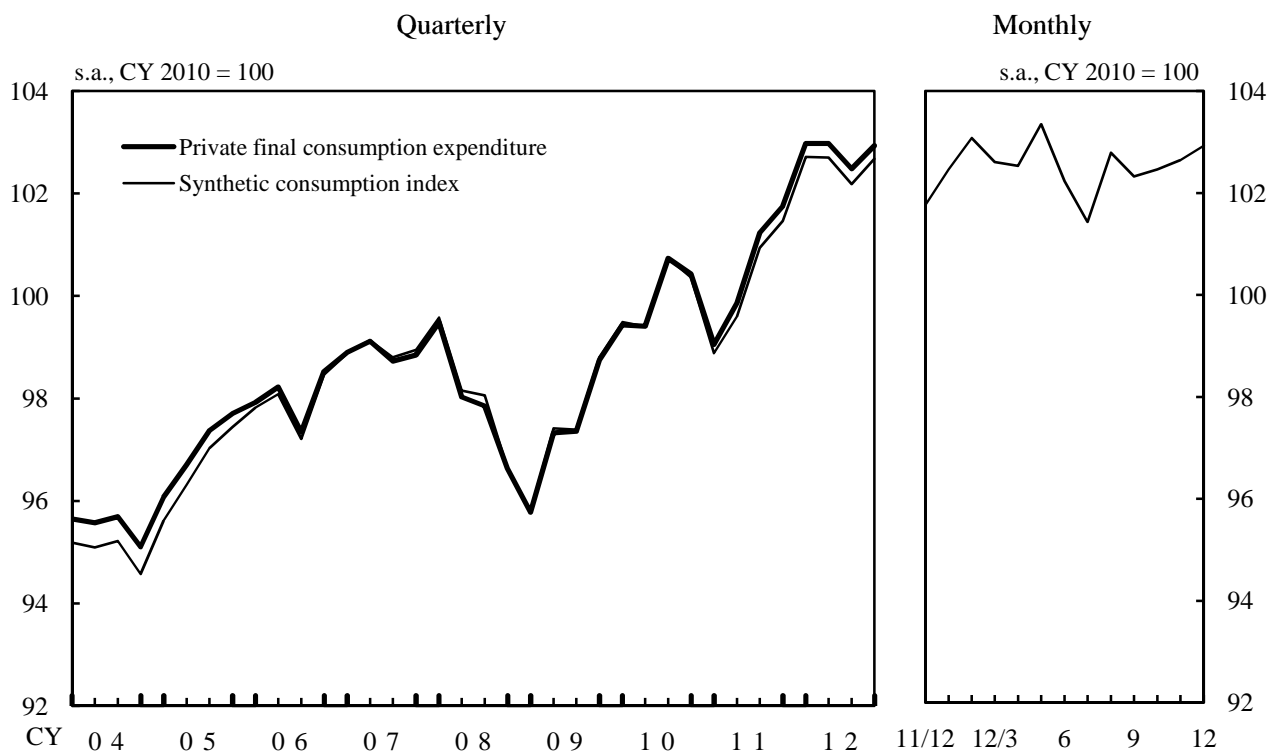
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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

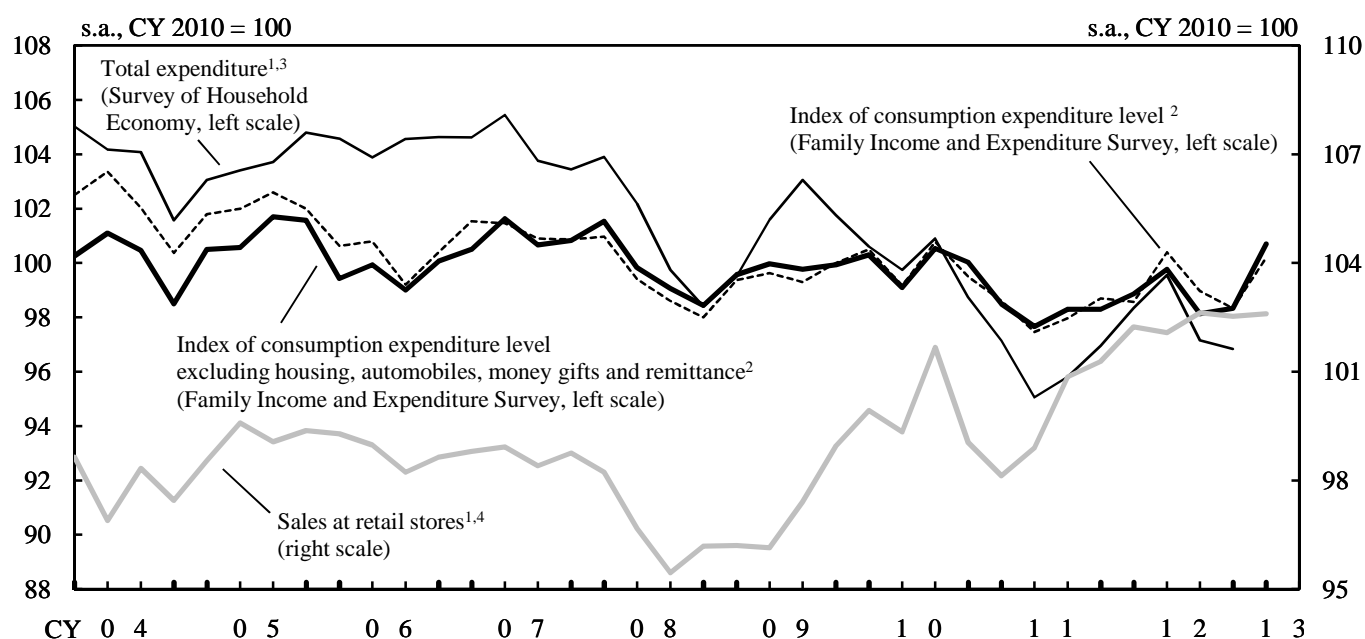


(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)

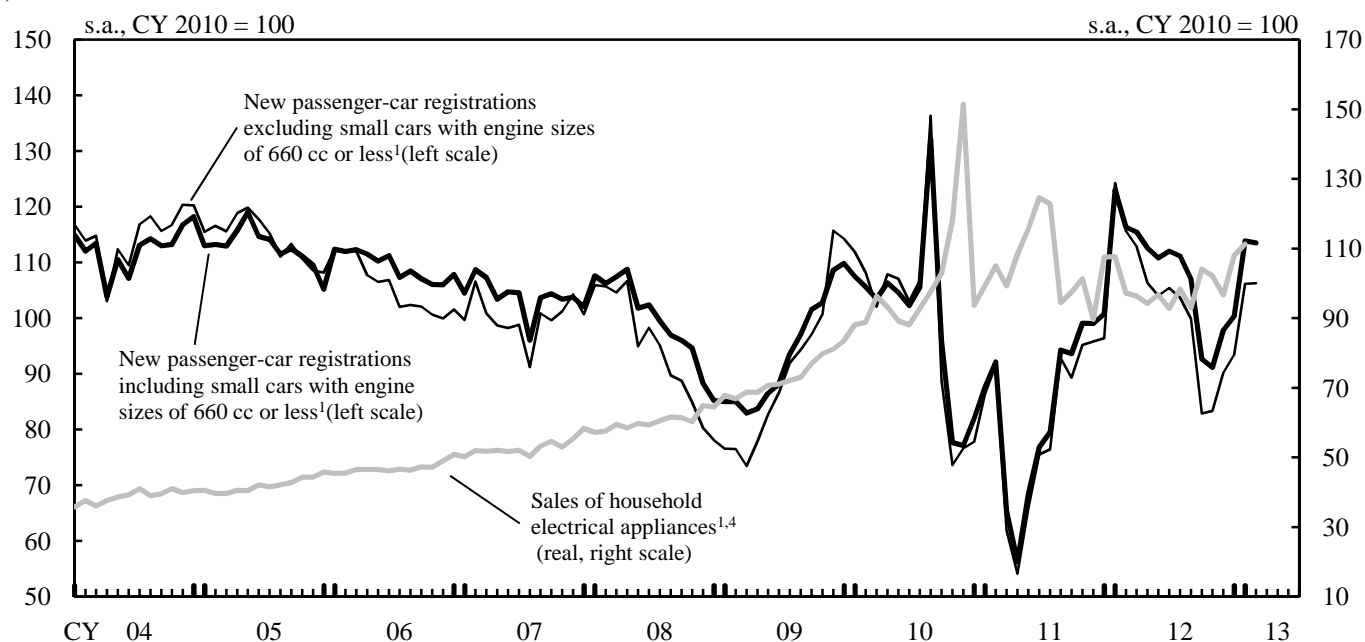


Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

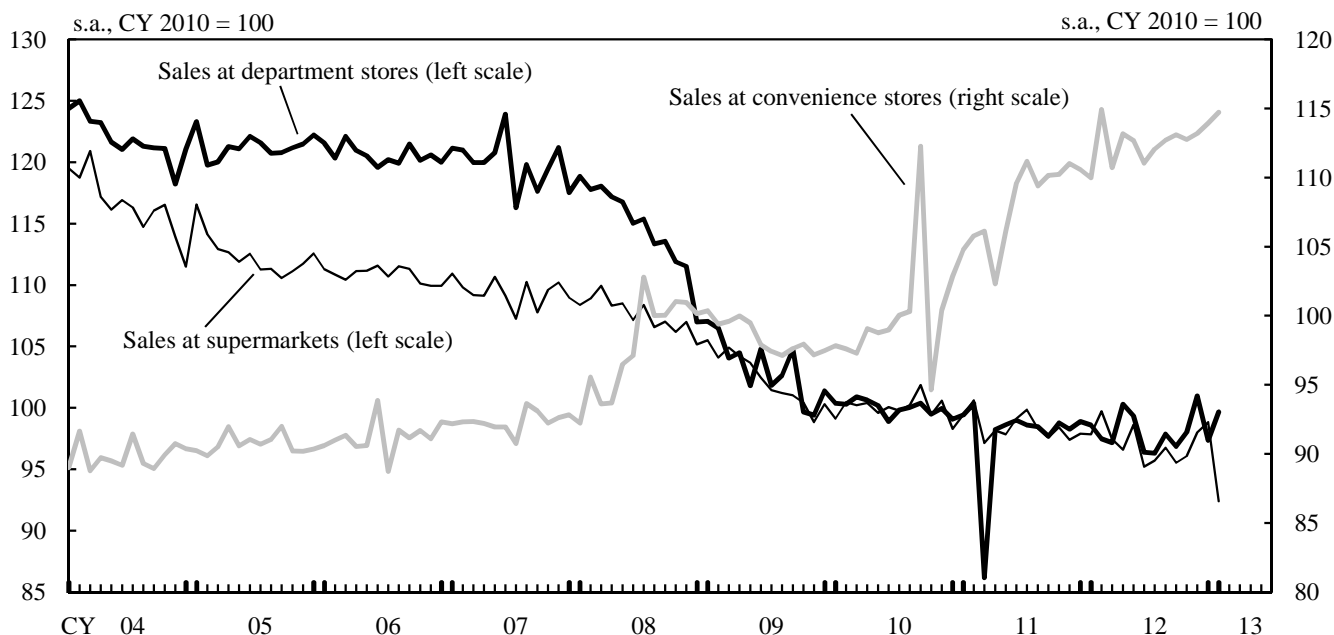
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

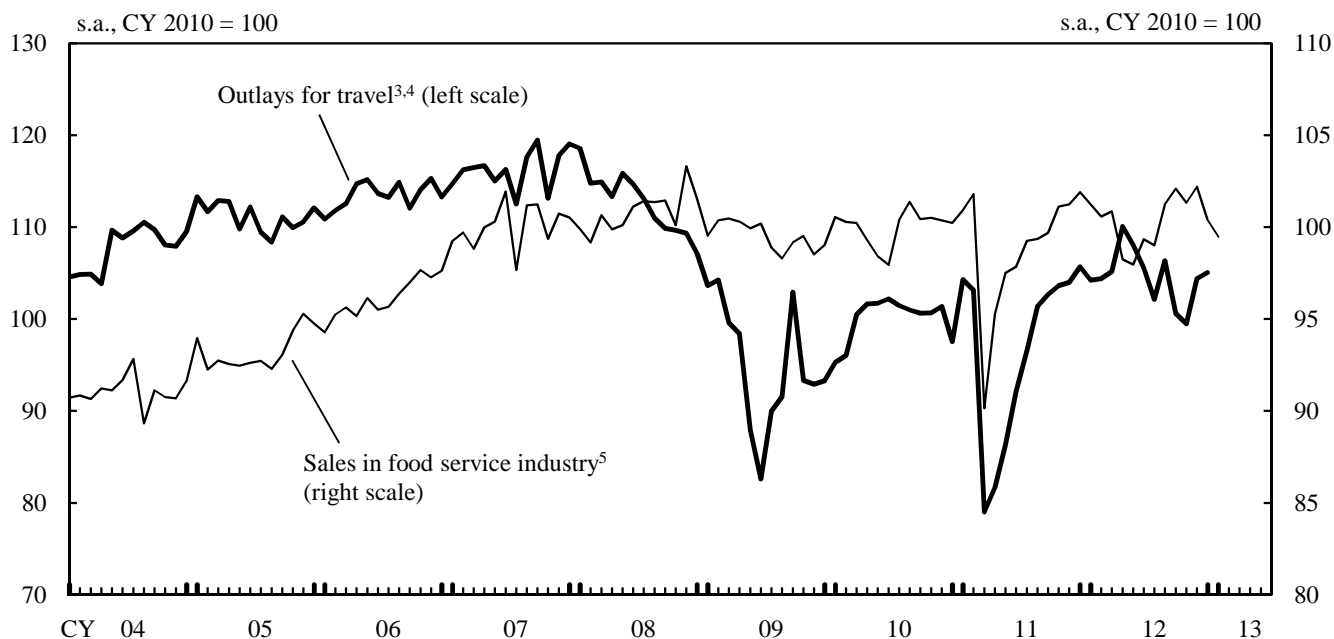


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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.
5. Figures of Index of Consumption Expenditure Level and Sales at retail stores for 2013/Q1 are those of January in quarterly amount.

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";

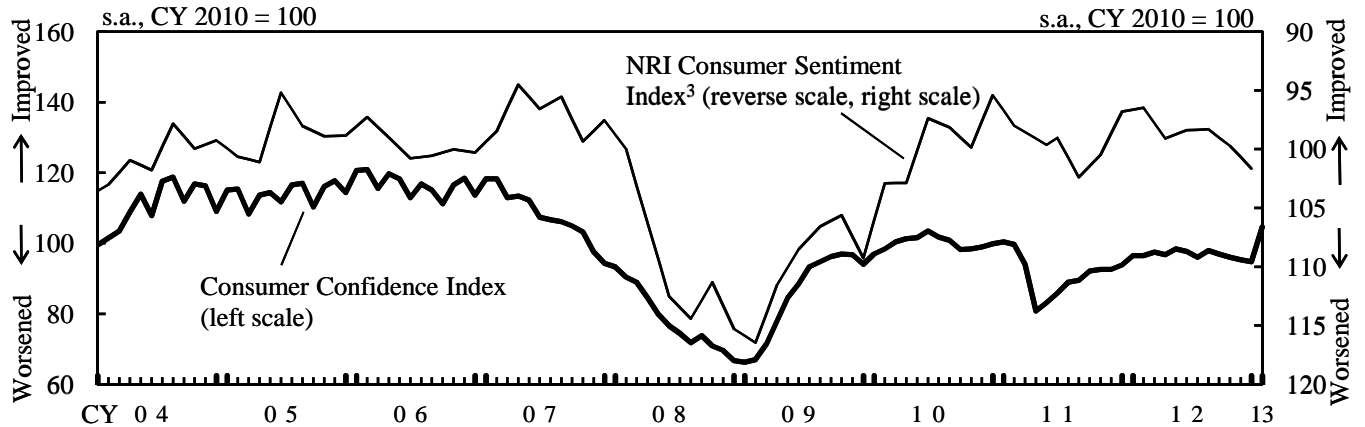
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

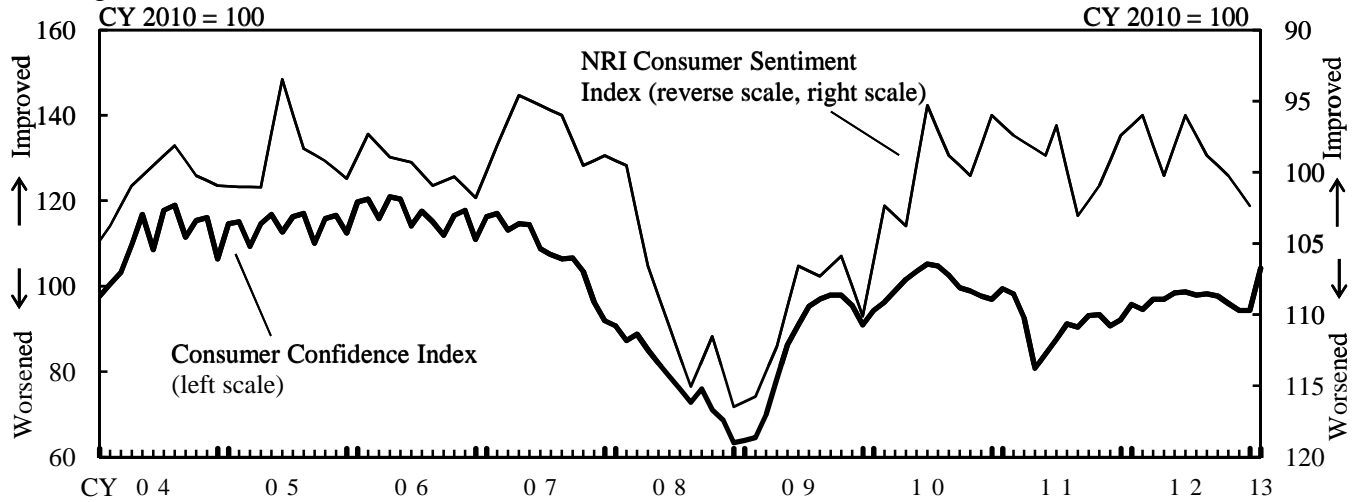
(Research on the food service industry)."

Consumer Confidence ^{1,2}

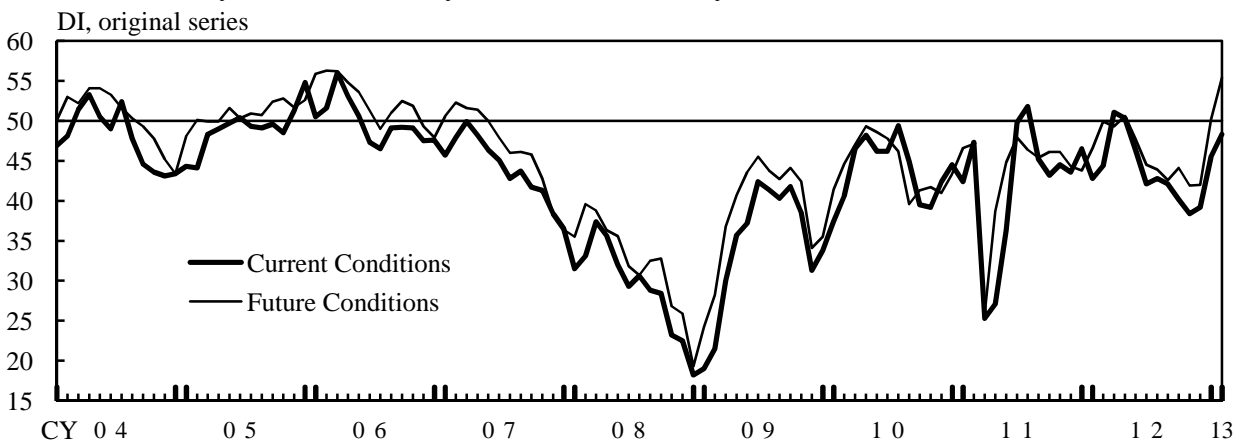
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

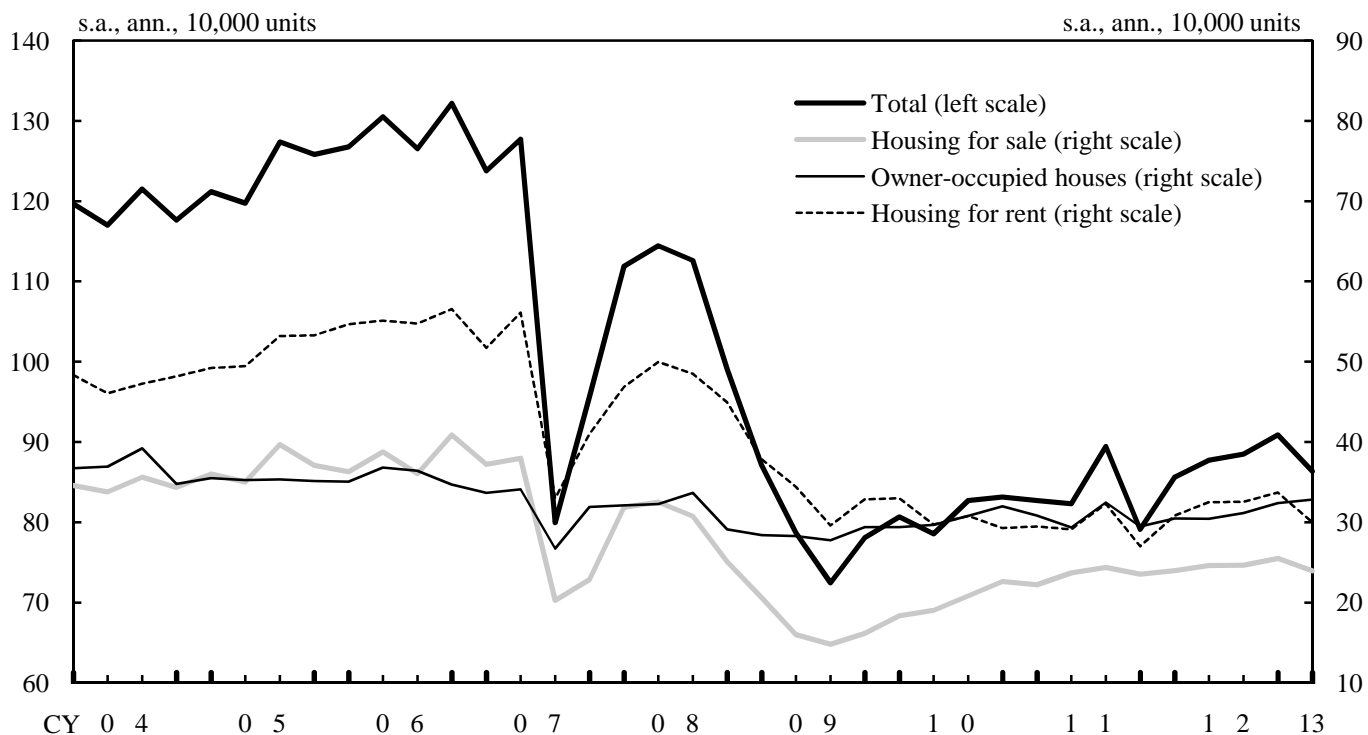


- Notes: 1. The Consumer Confidence Index (covering about 4,700 samples on a nationwide basis) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
 2. Figures are plotted for each surveyed month and the data for the intervening months are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

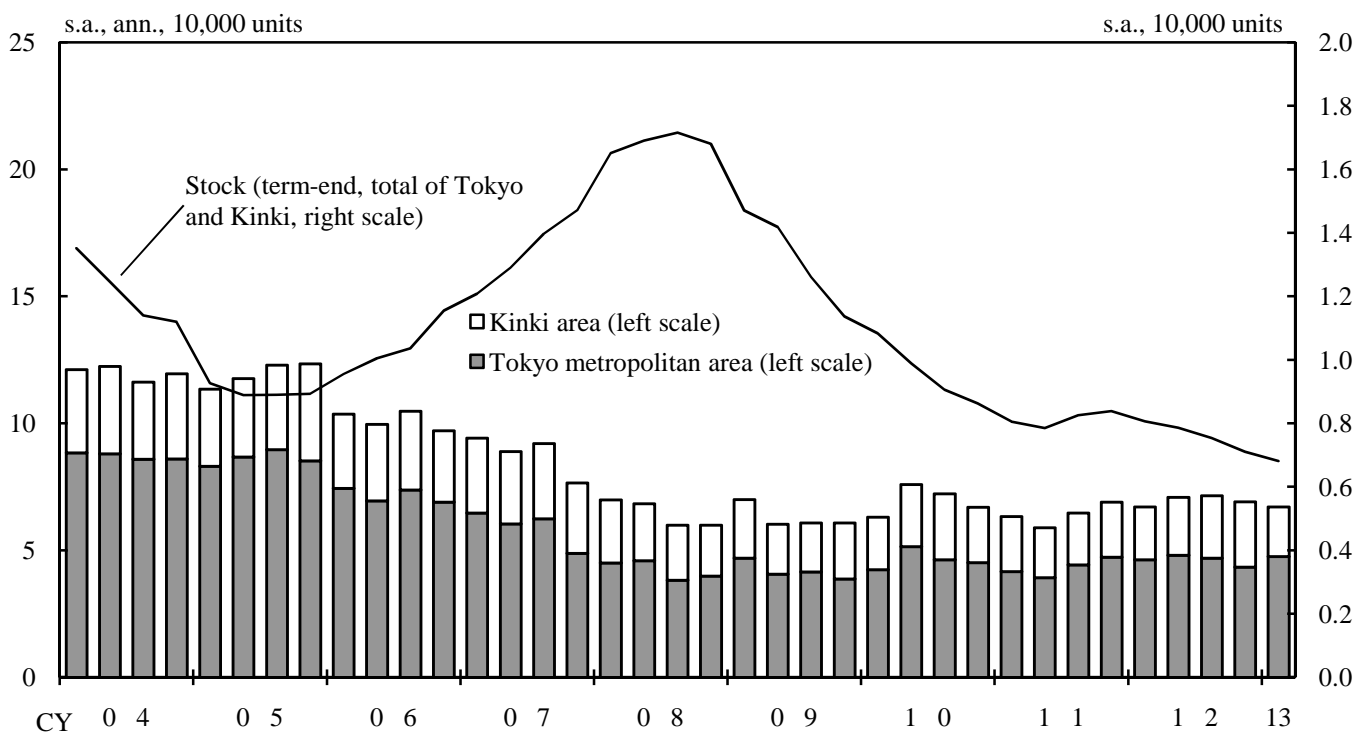
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2013/Q1 are those of January.

(2) Sales of Apartments

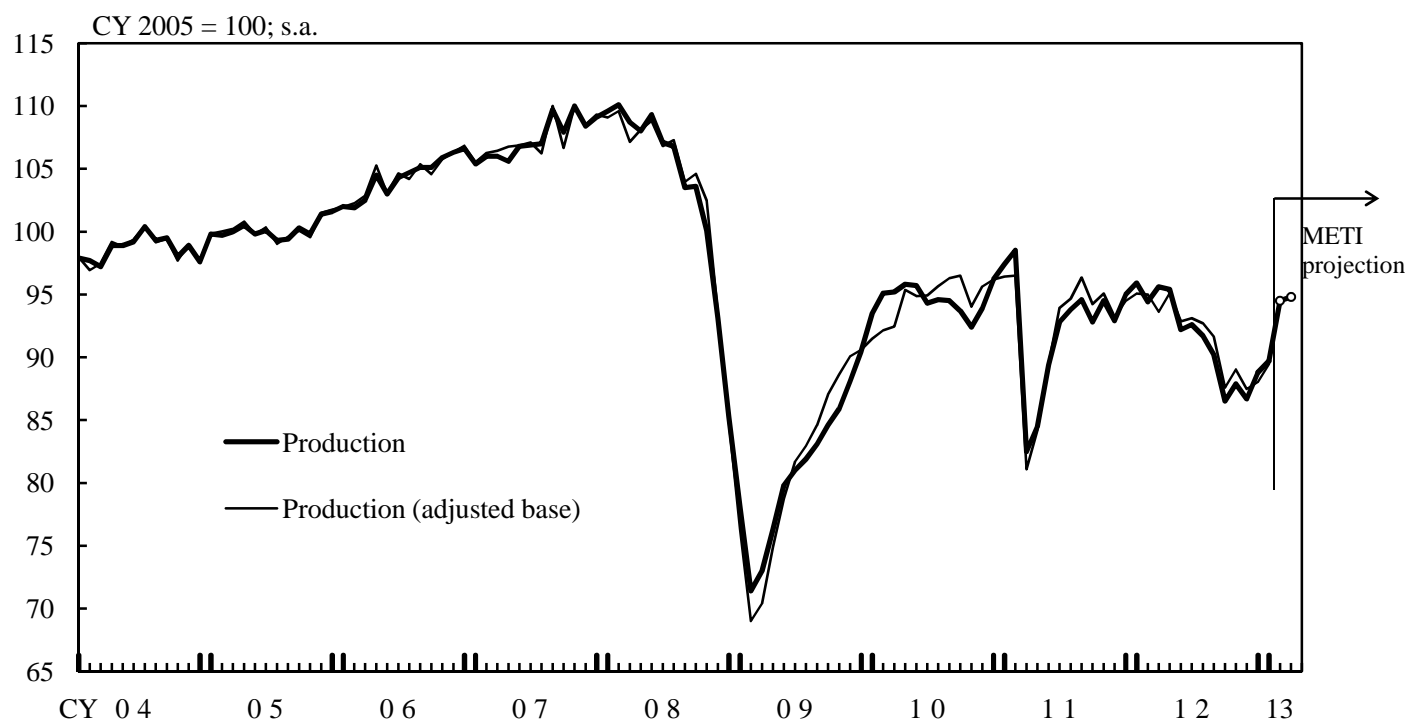


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2013/Q1 are those of January.

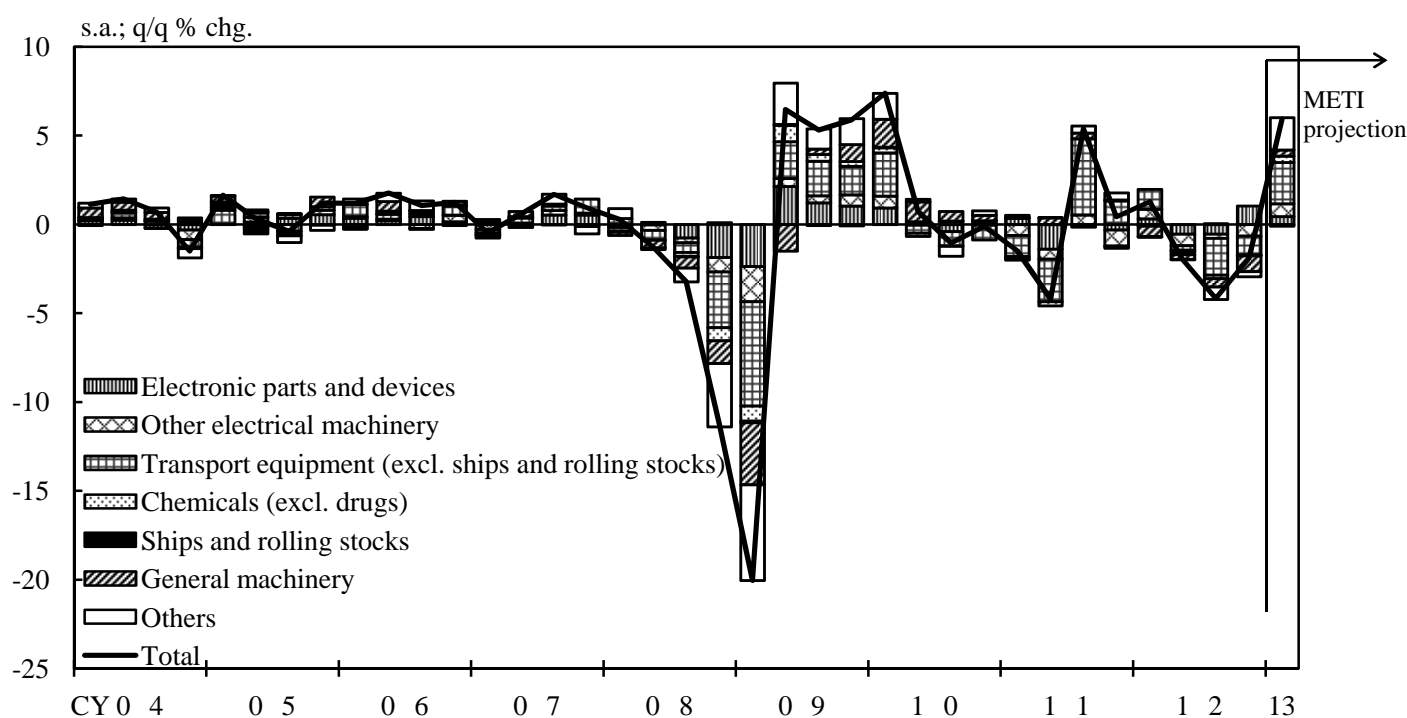
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production

(1) Production



(2) Production by Industry

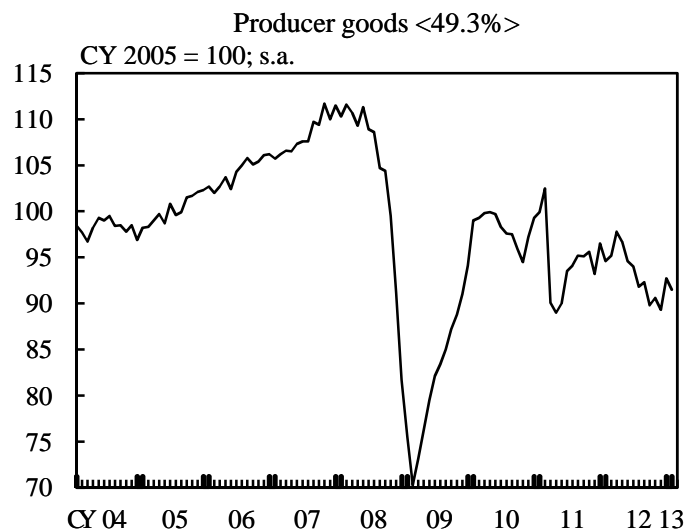
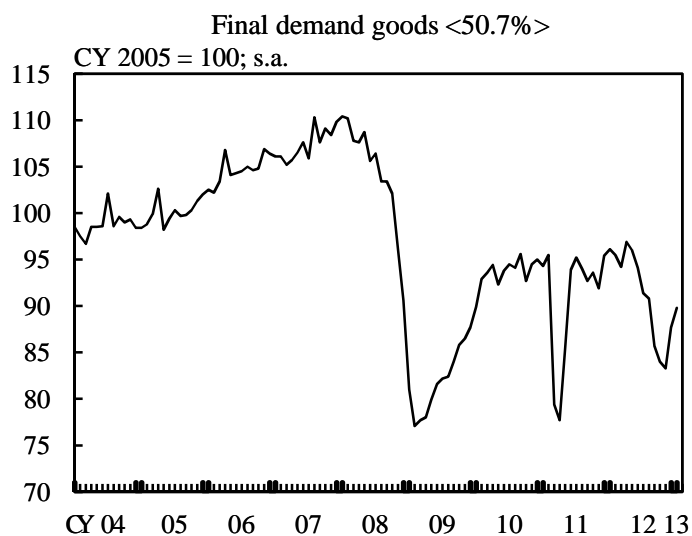


- Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
3. 2013/Q1 figures are based on the actual production levels in January, and the METI projection of February and March.

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

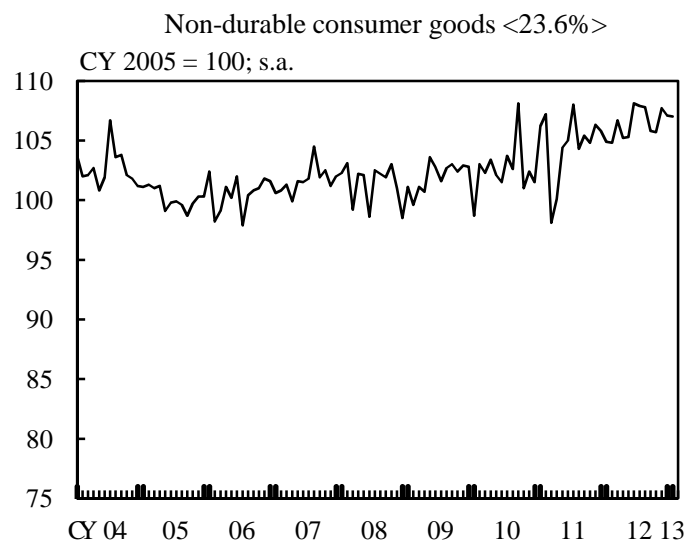
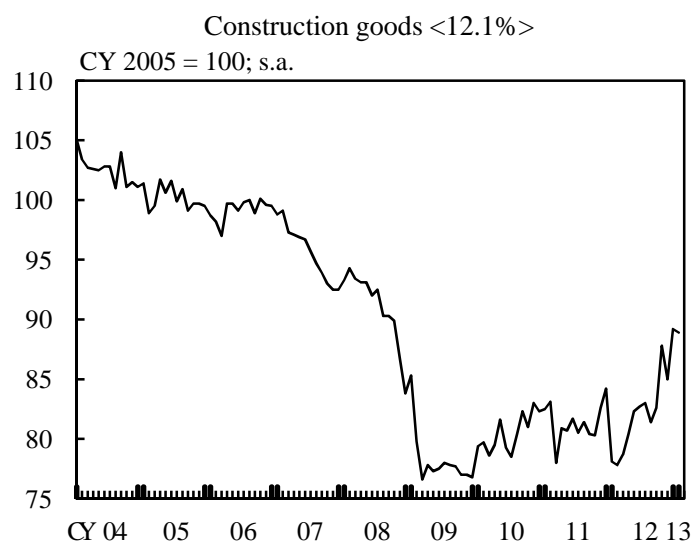
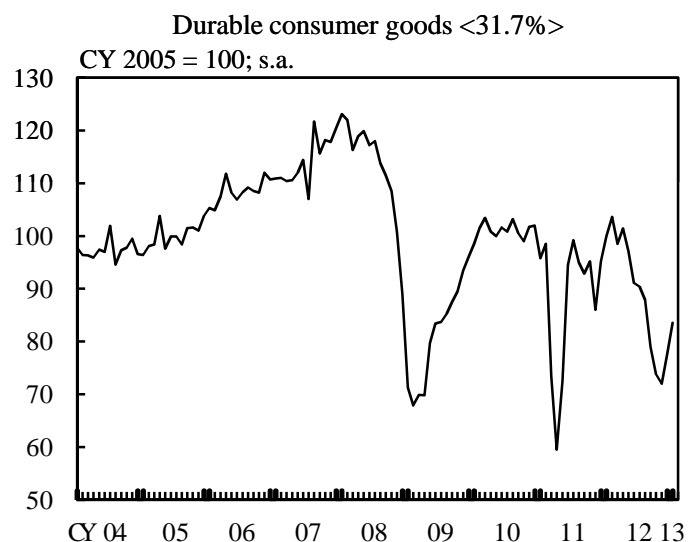
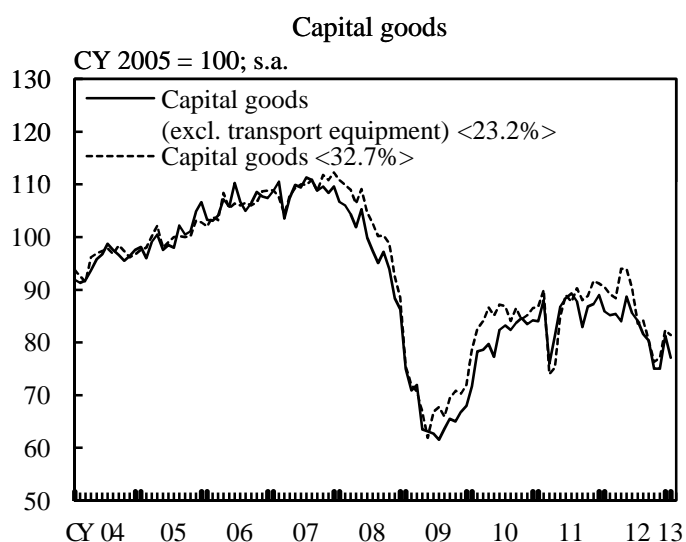
Shipments by Type of Goods

(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

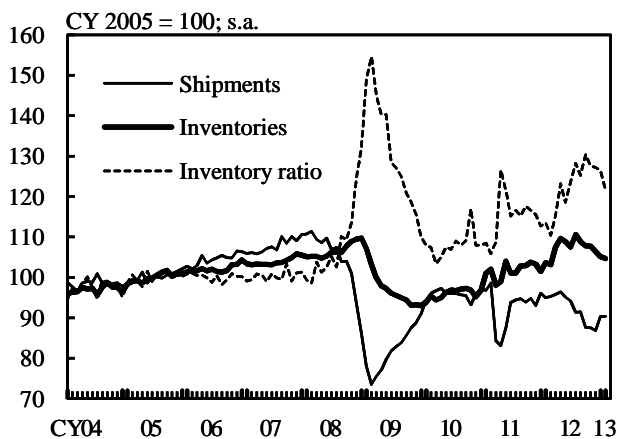


Note: Figures in angle brackets show the shares among shipments of final demand goods.

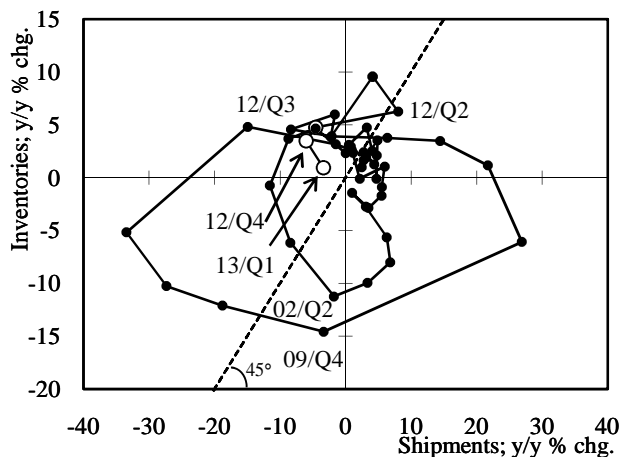
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments and Inventories

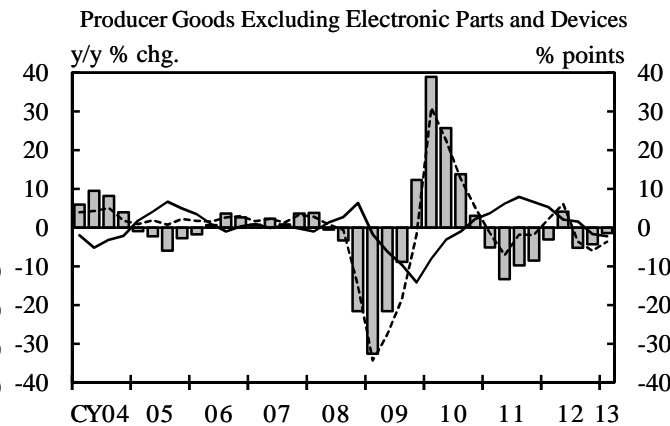
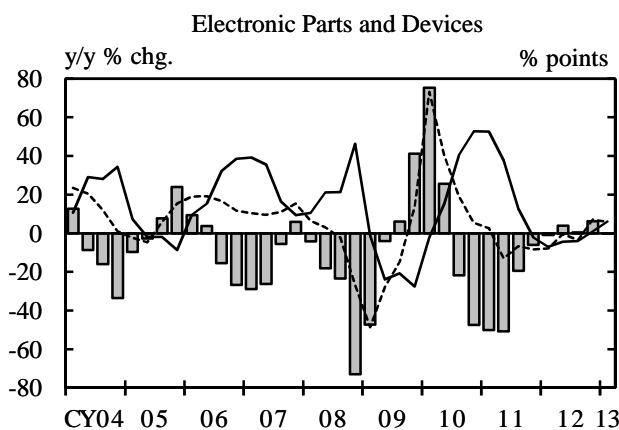
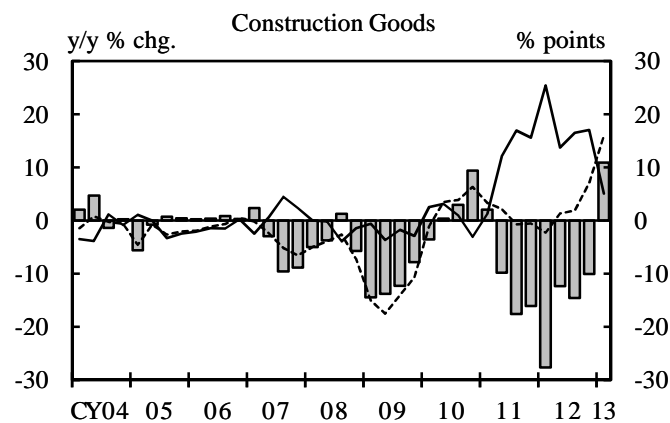
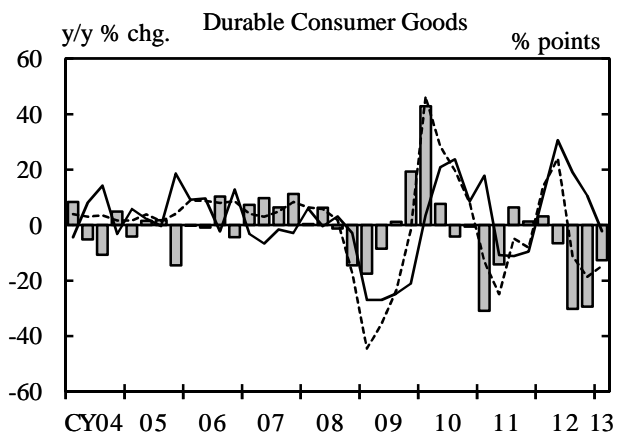
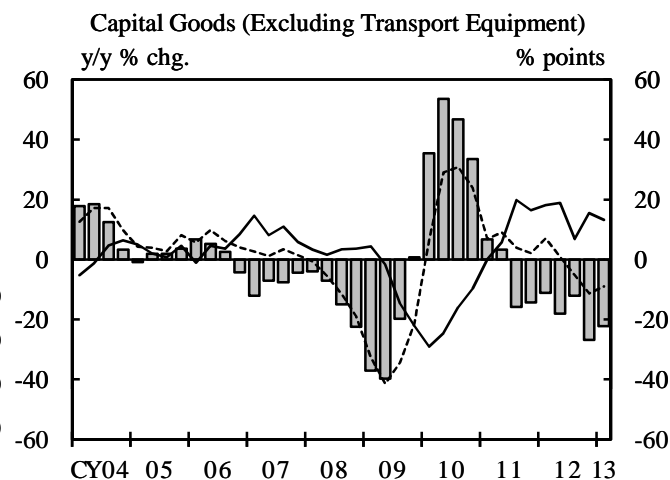
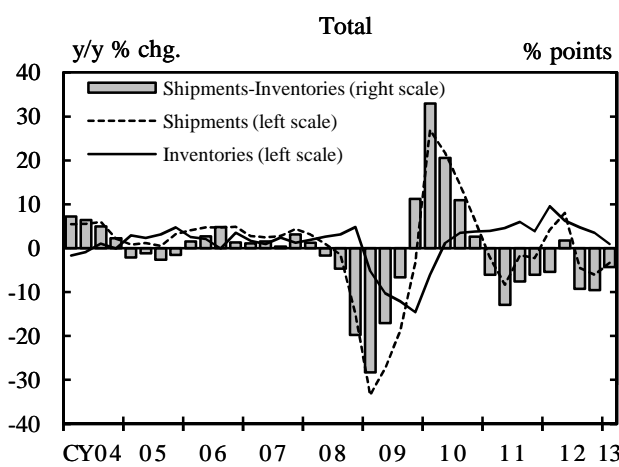
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



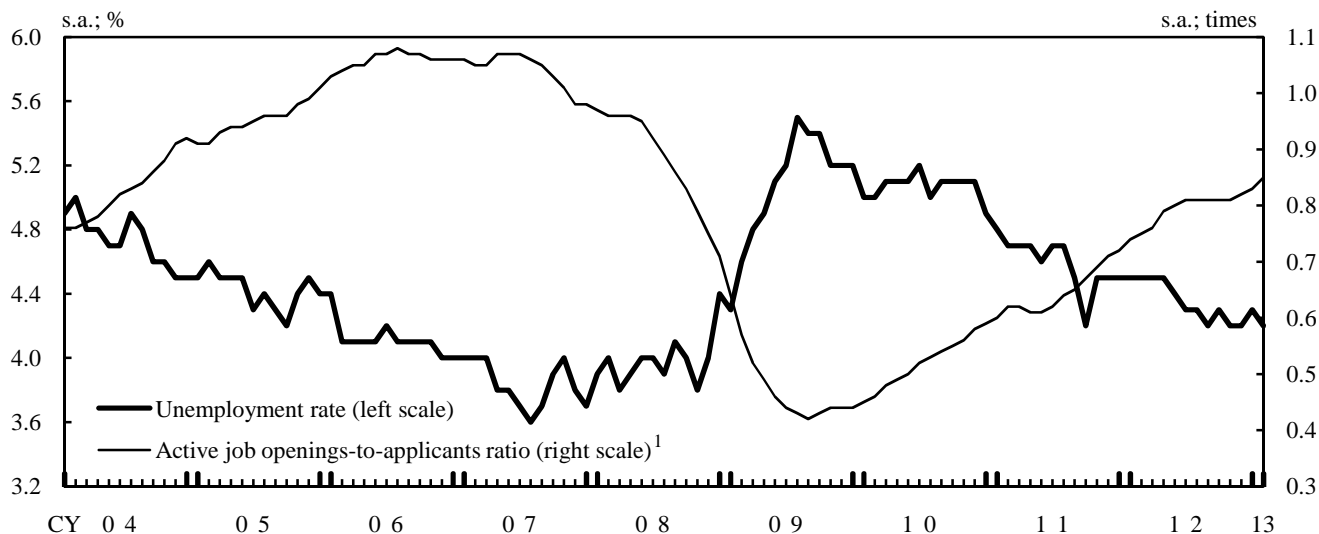
(3) Shipment-Inventory Balance



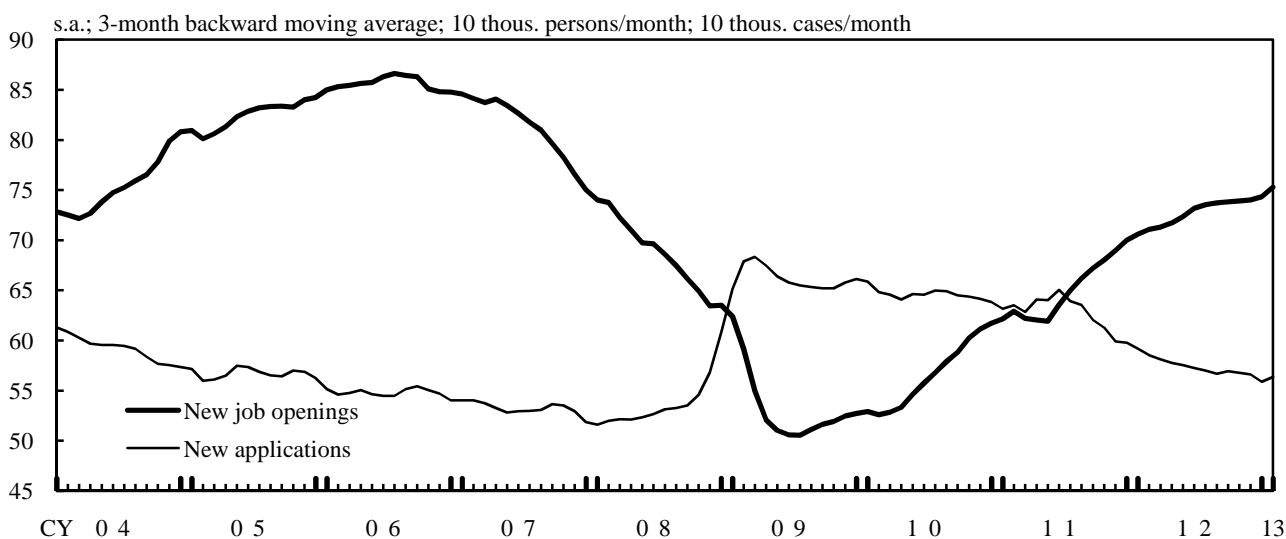
Note: Figures for 2013/Q1 are those of January.
 Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

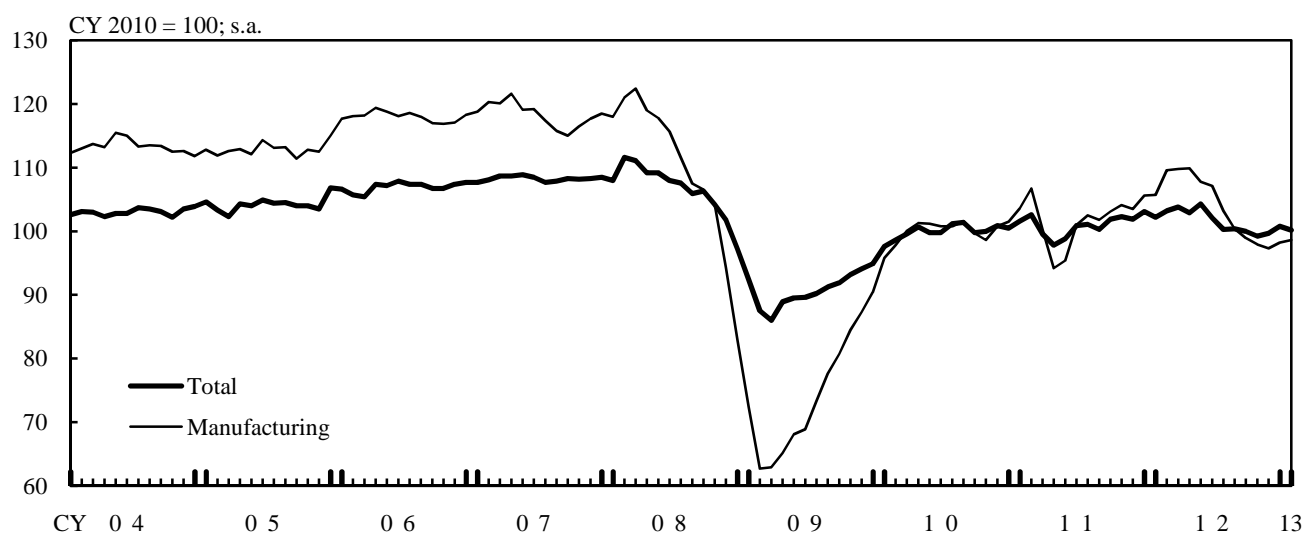
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²



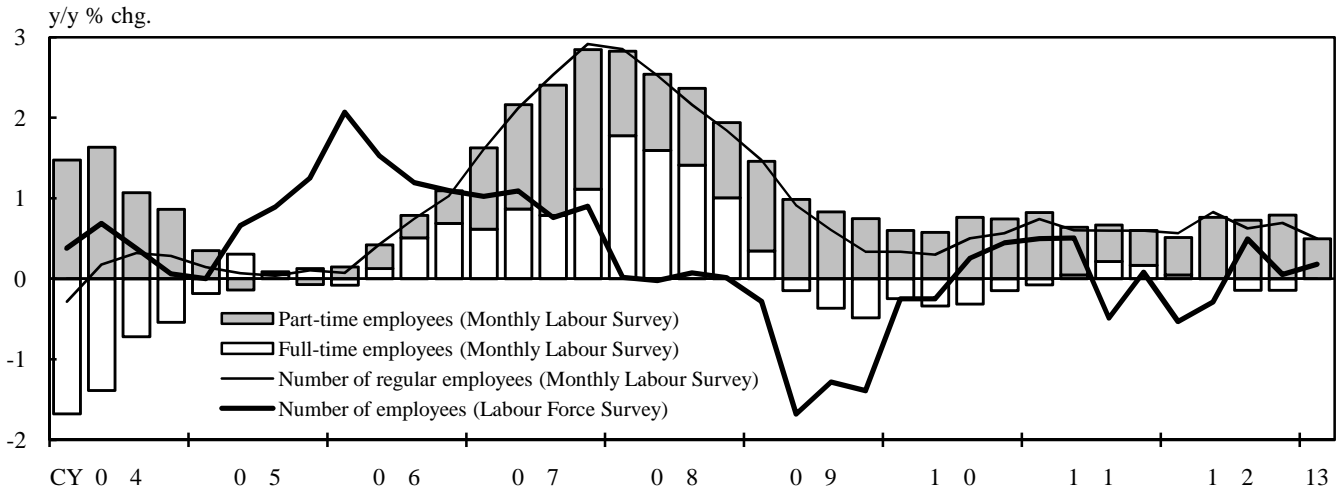
Notes: 1. Excluding new school graduates and including part-timers.

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

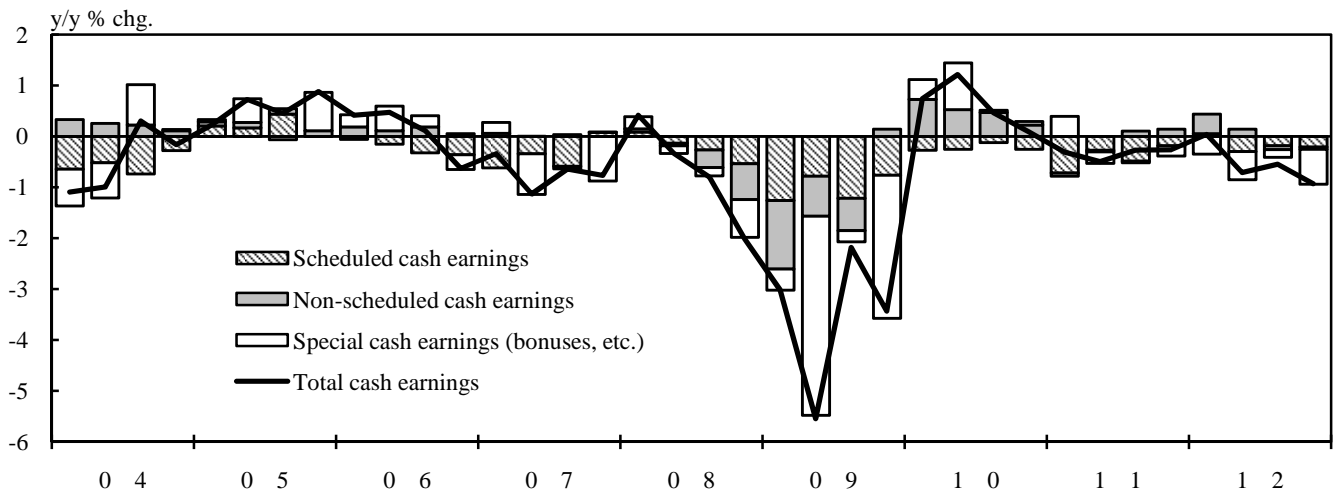
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

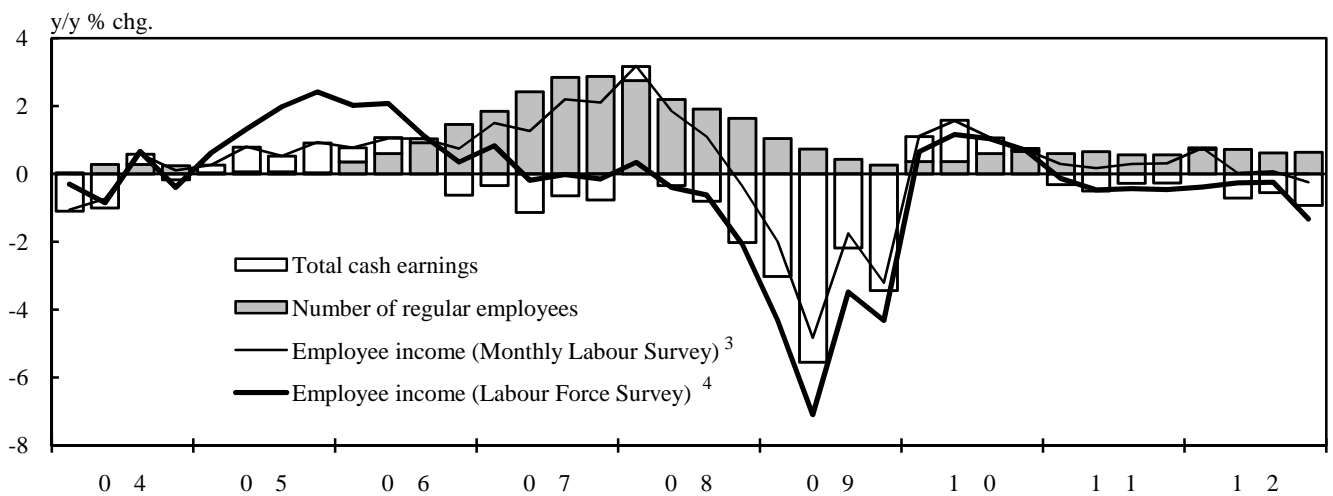
(1) Number of Employees^{1,5}



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



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

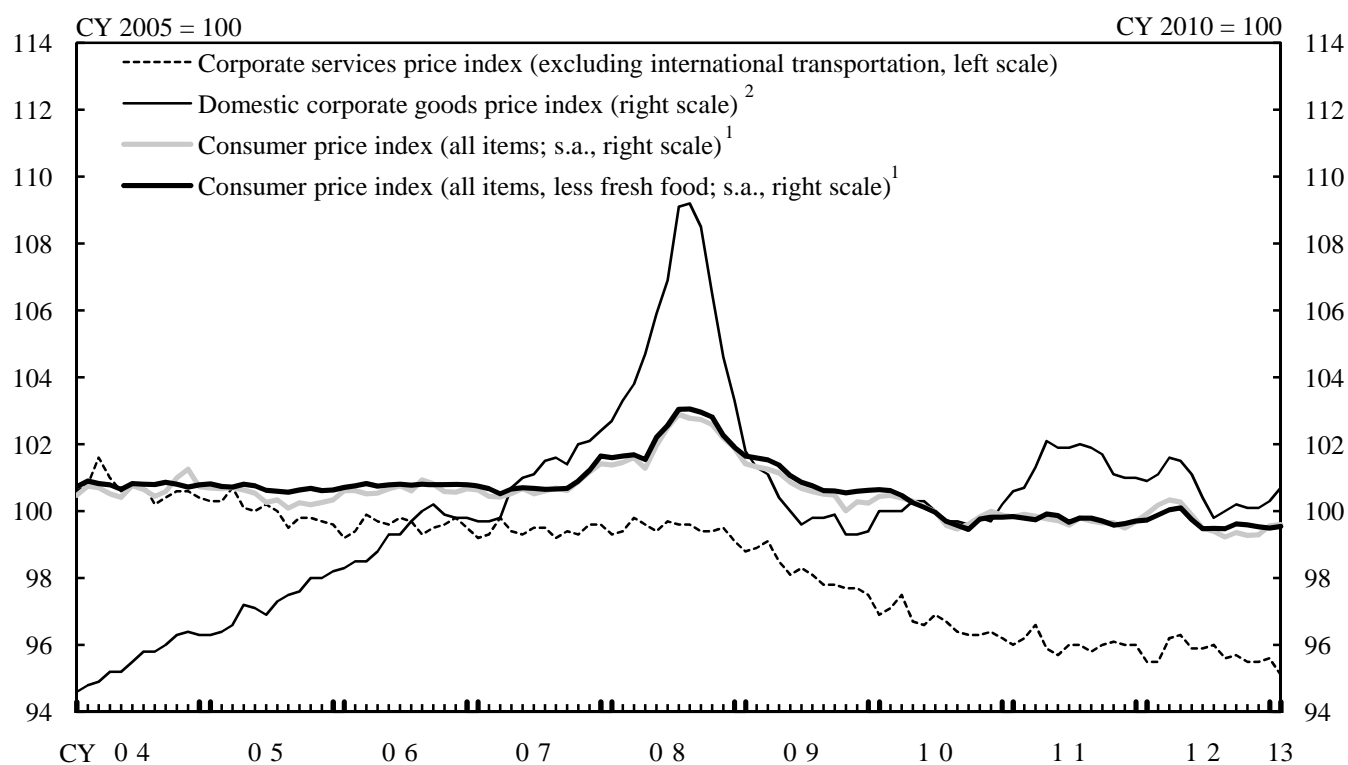


- Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2012/Q4 are December 2012 - January 2013 averages.
 3. Calculated as the "number of regular employees" (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).
 5. Figures for 2013/Q1 are those of January.

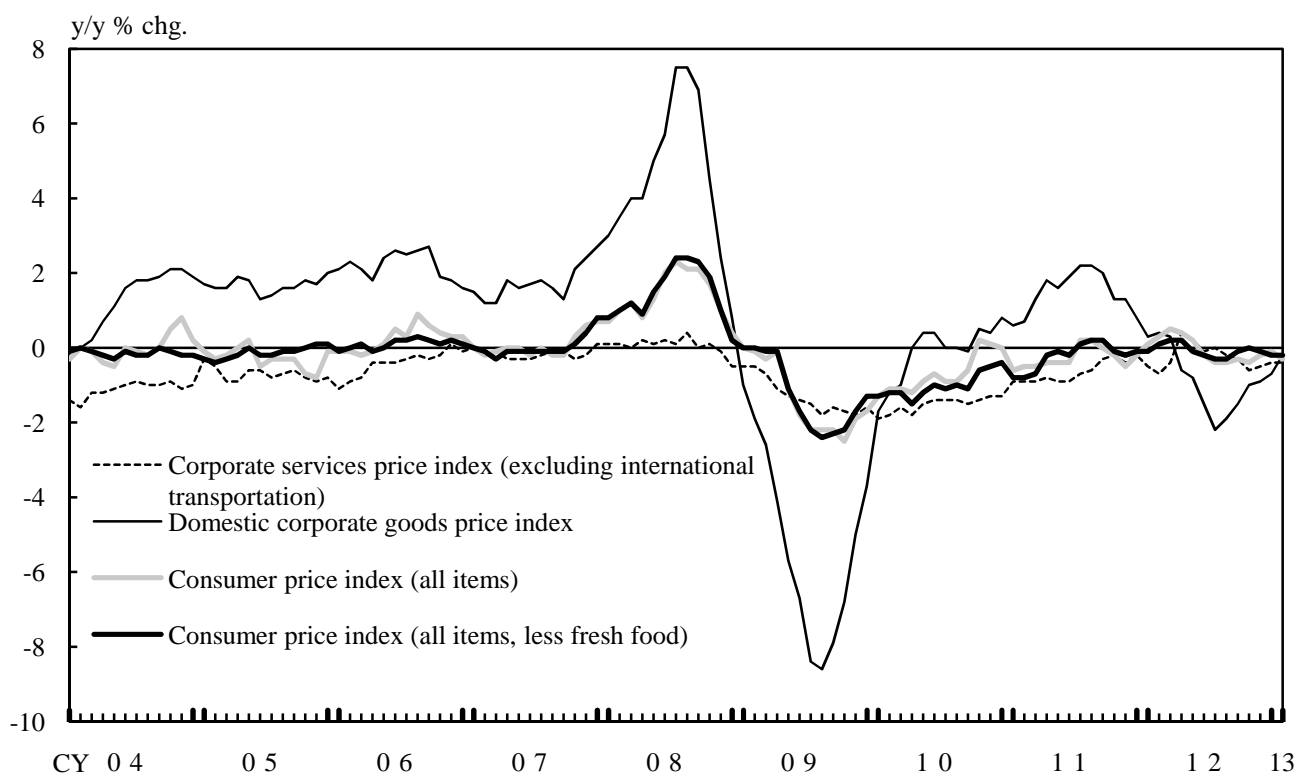
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

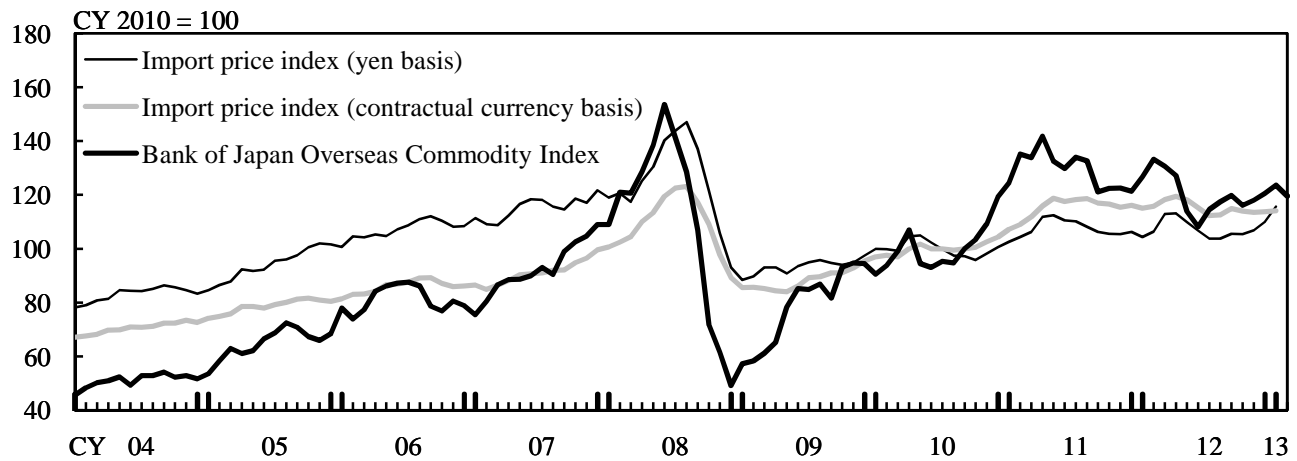
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

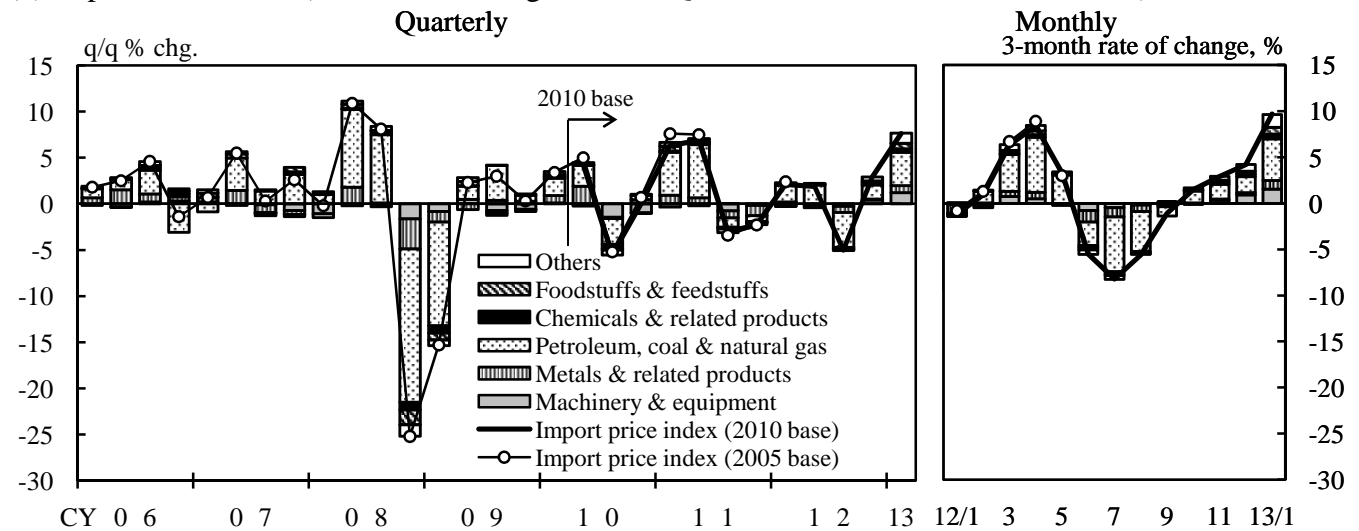
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

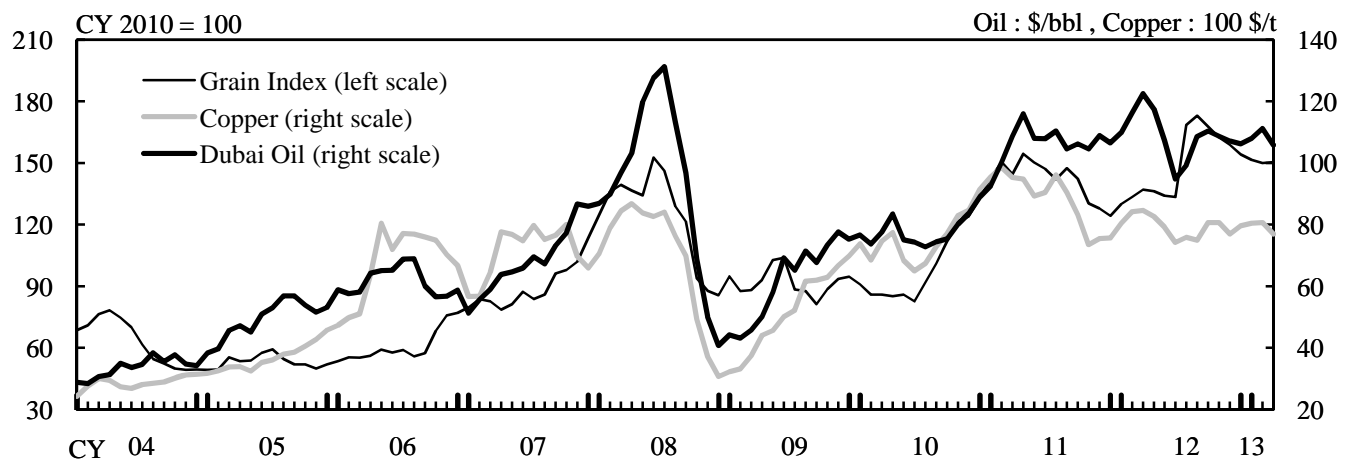


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
 2. Figures for 2013/Q1 are those of January.

(3) International Commodity Prices

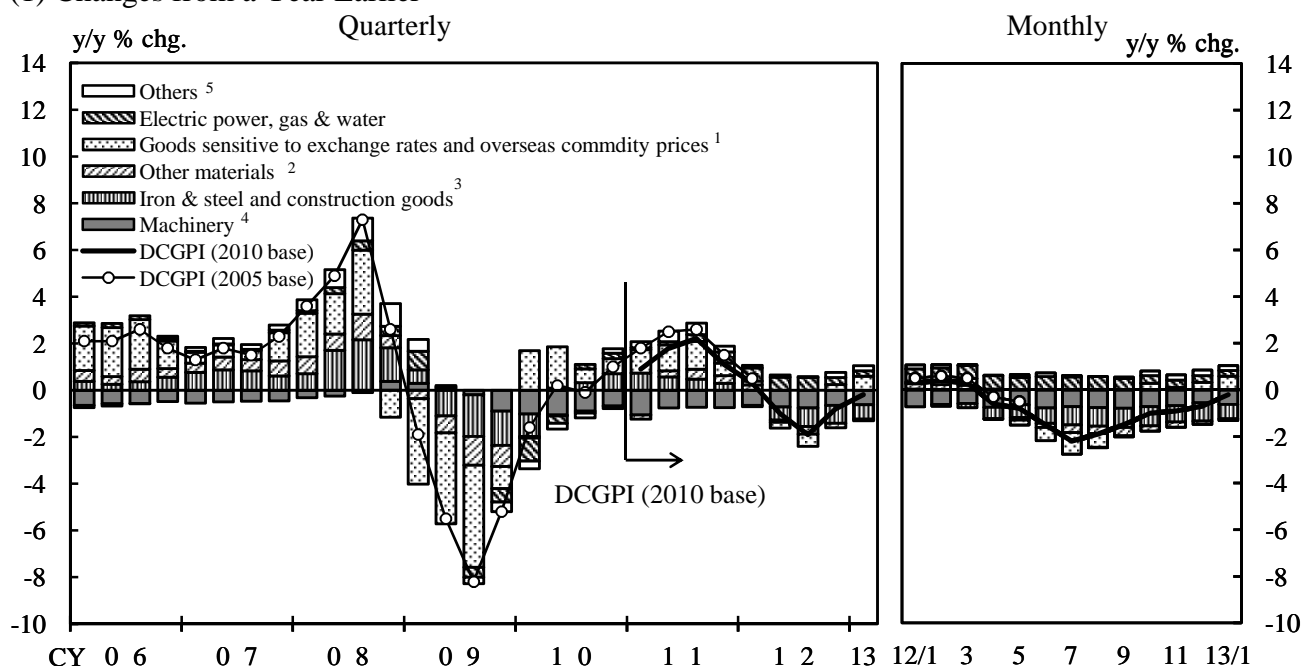
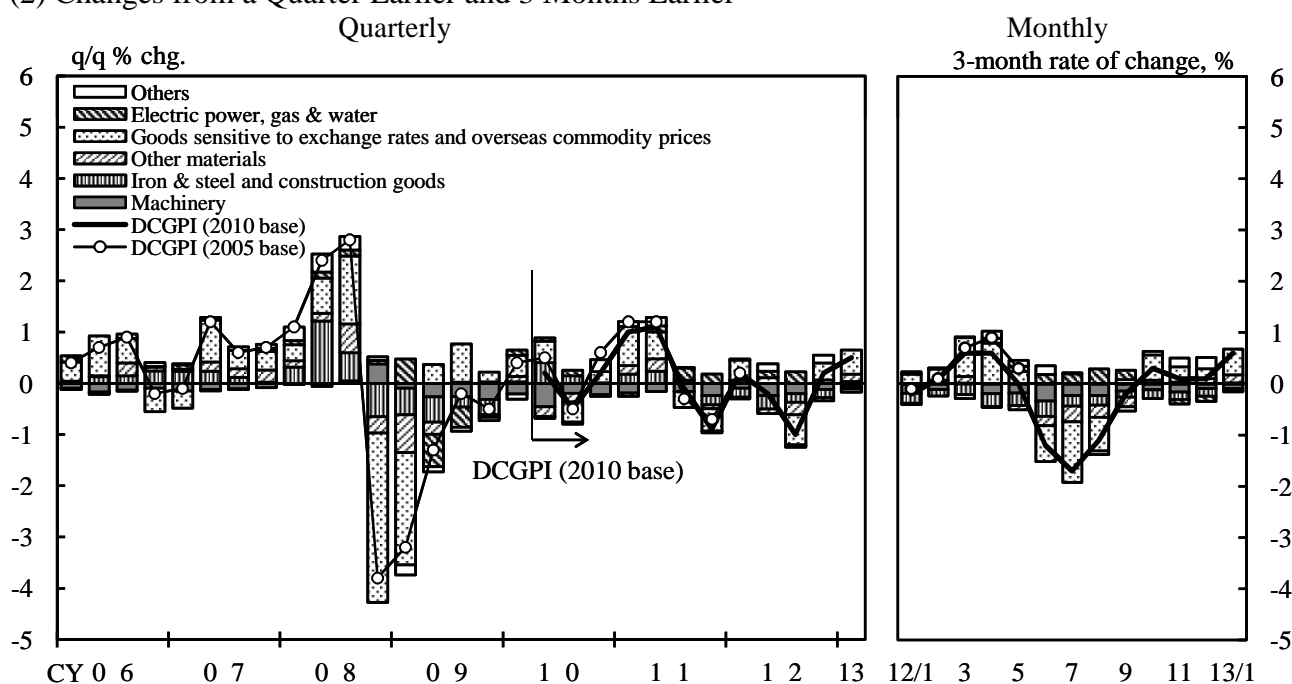


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics." The index has been switched from the 2005 base to the 2010 base.
 2. Monthly averages. Figures for March 2013 are averages up to March 6.

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.

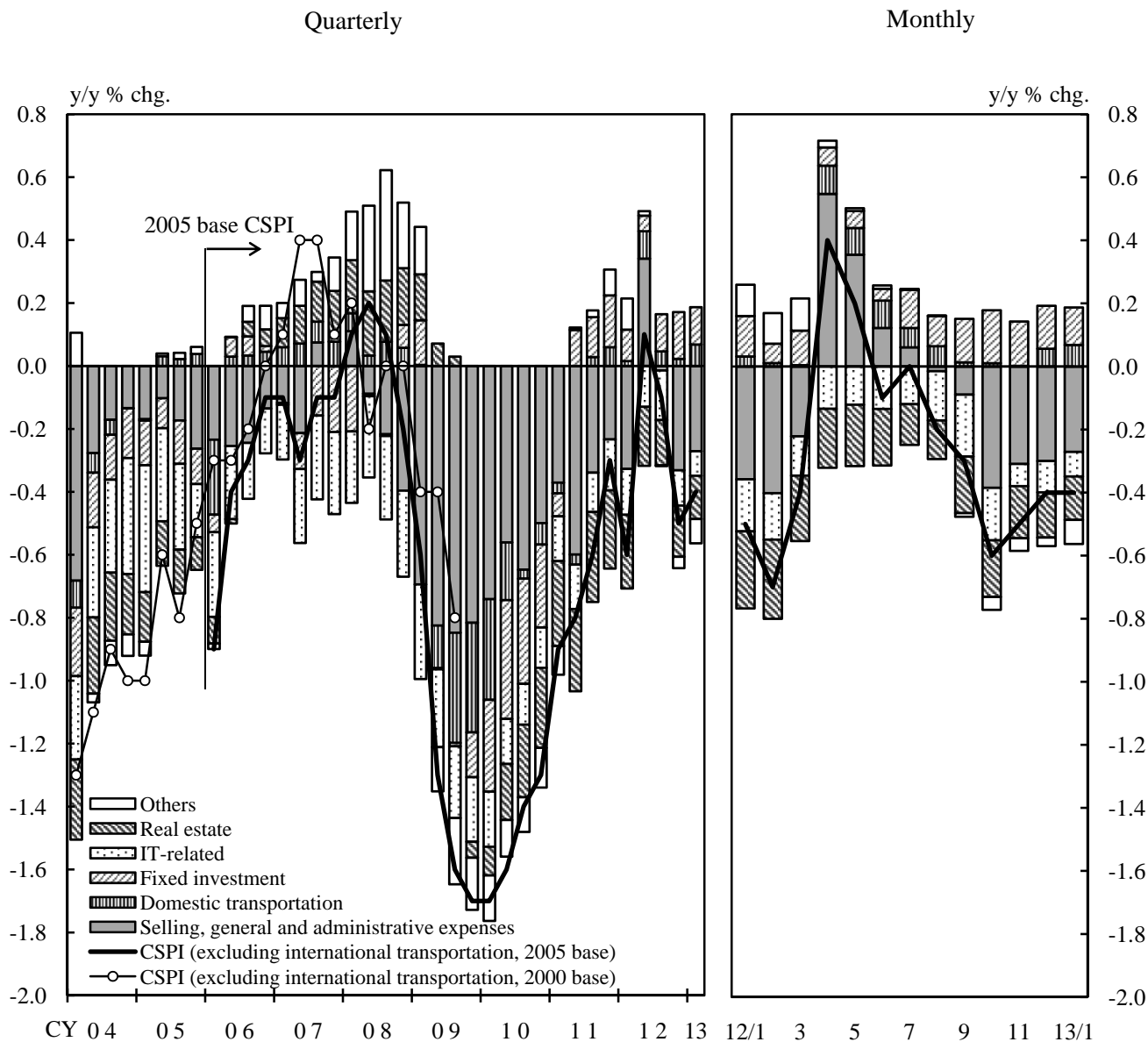
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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%.

7. Figures for 2013/Q1 are those of January.

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

Corporate Services Price Index

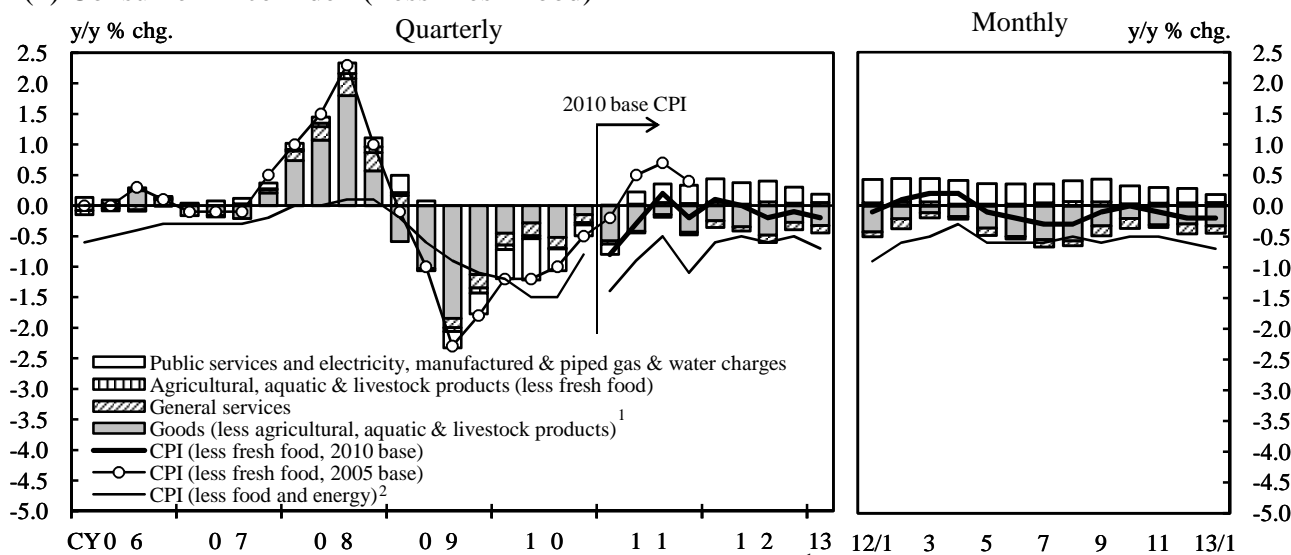


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding 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 2013/Q1 are those of January. Figures for 2009/Q3 on the 2000 base are July-August averages.

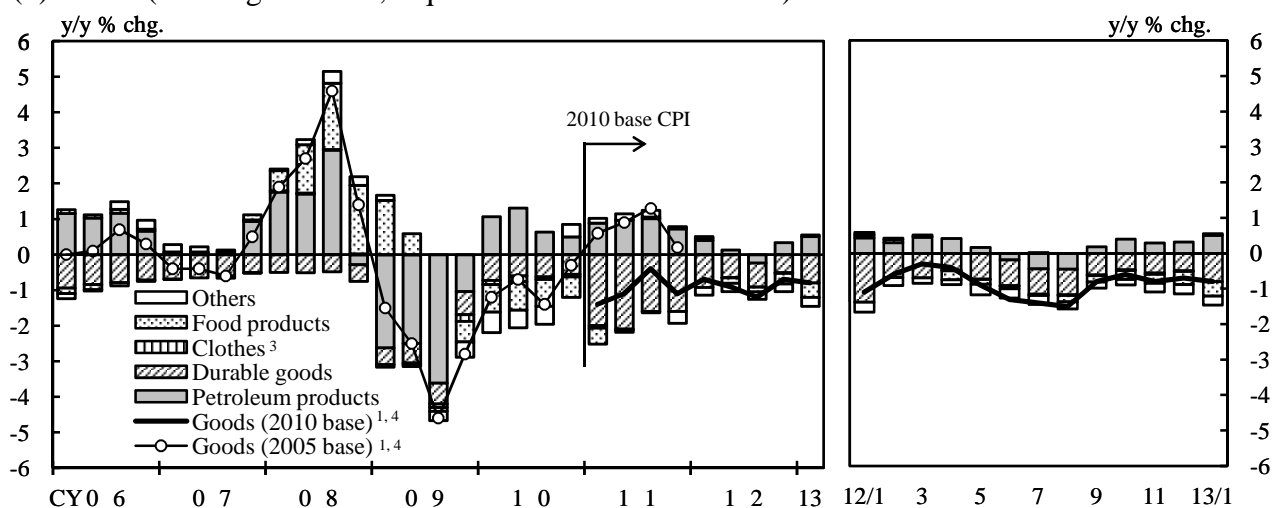
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

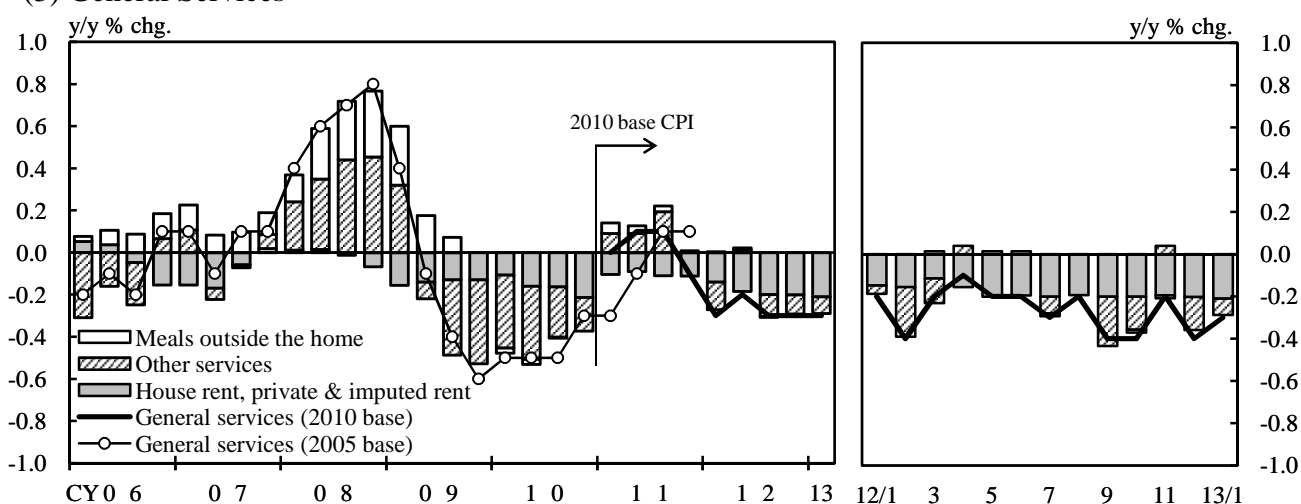
(1) Consumer Price Index (Less Fresh Food)



(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.

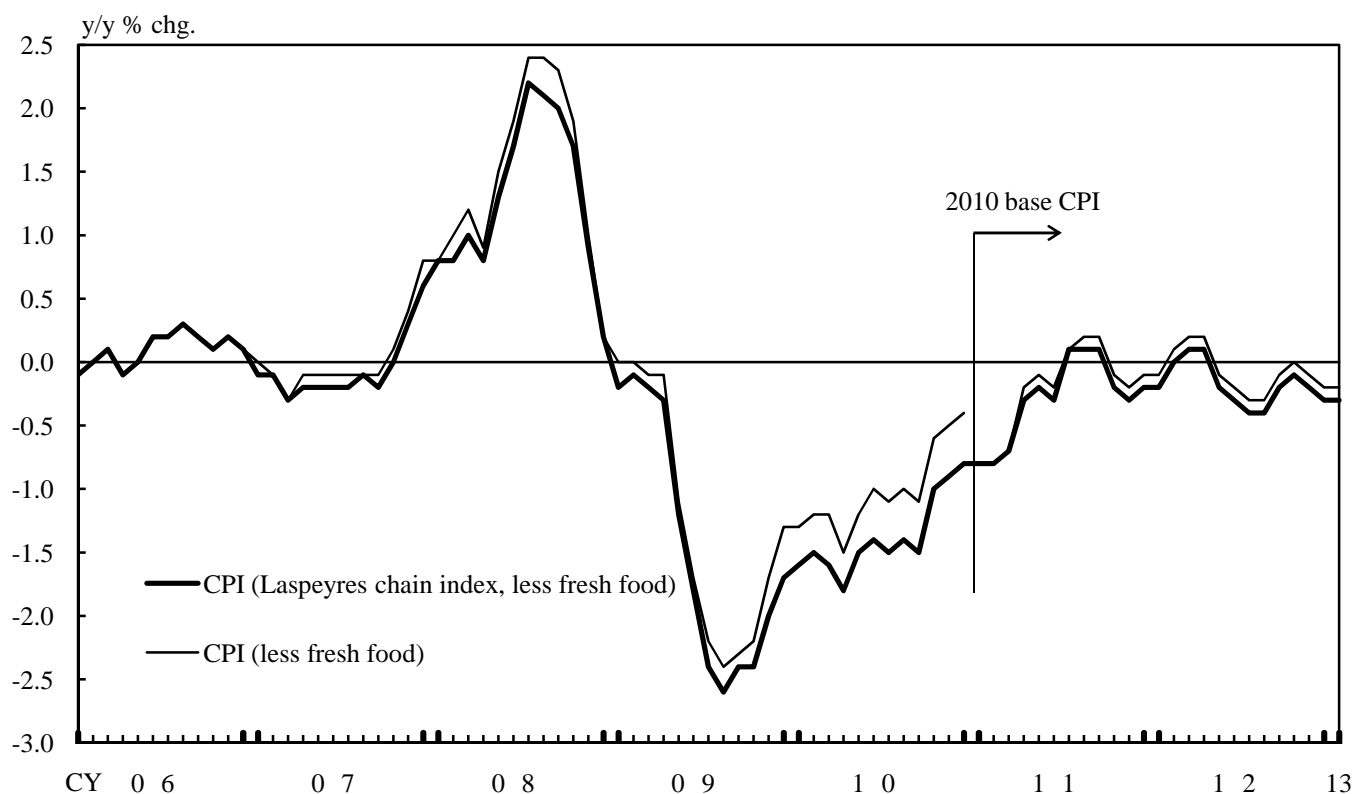
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

6. Figures for 2013/Q1 are those of January.

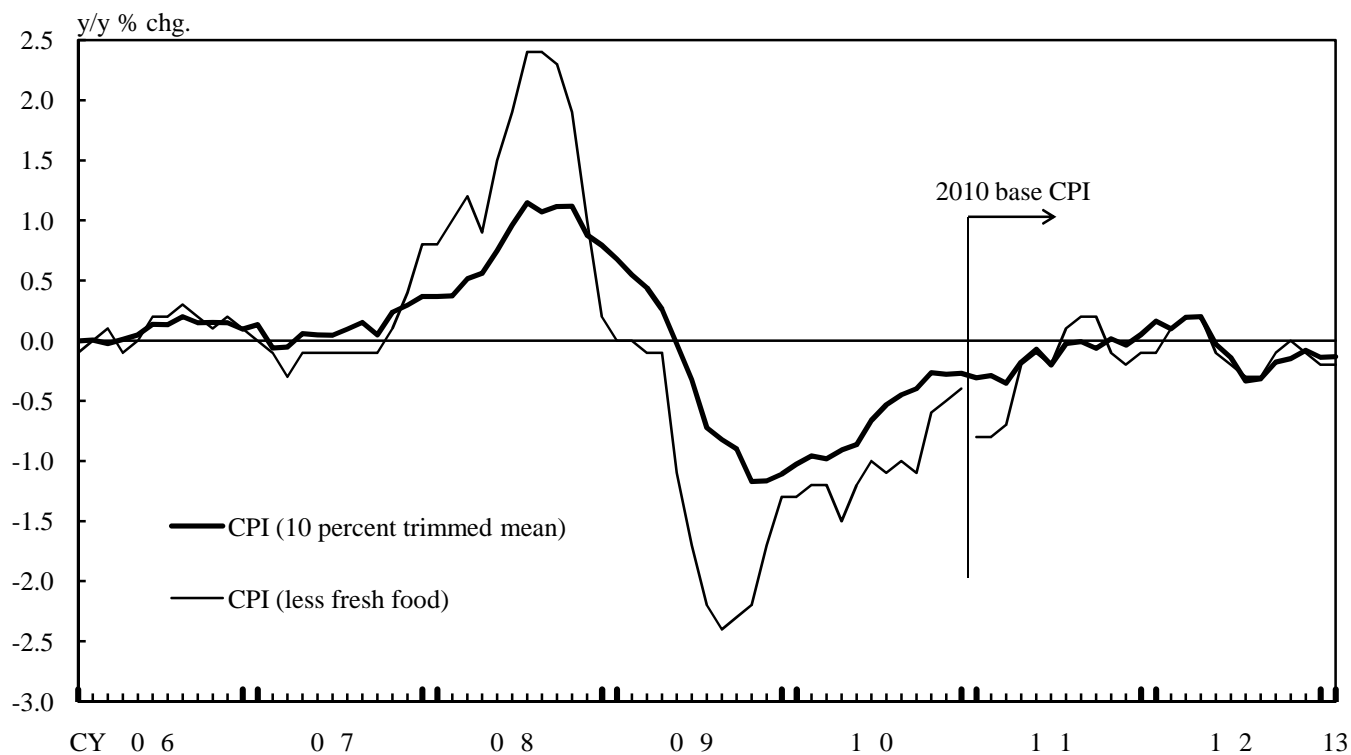
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



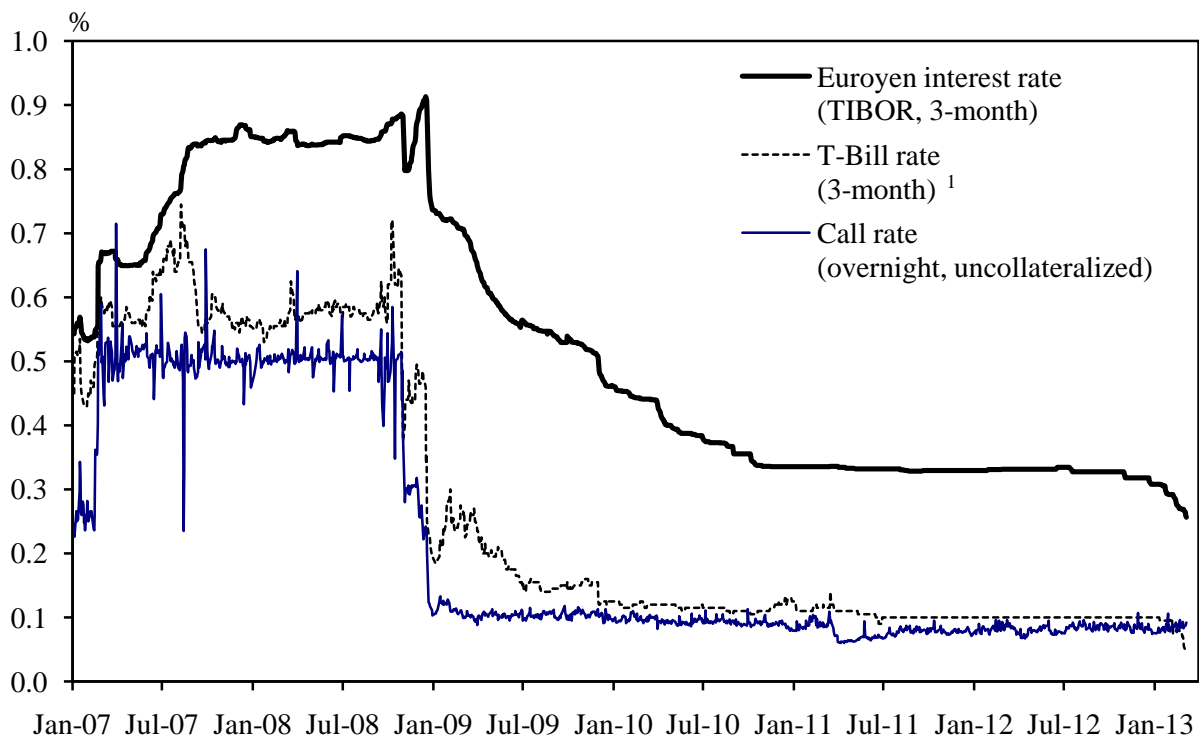
Notes:1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

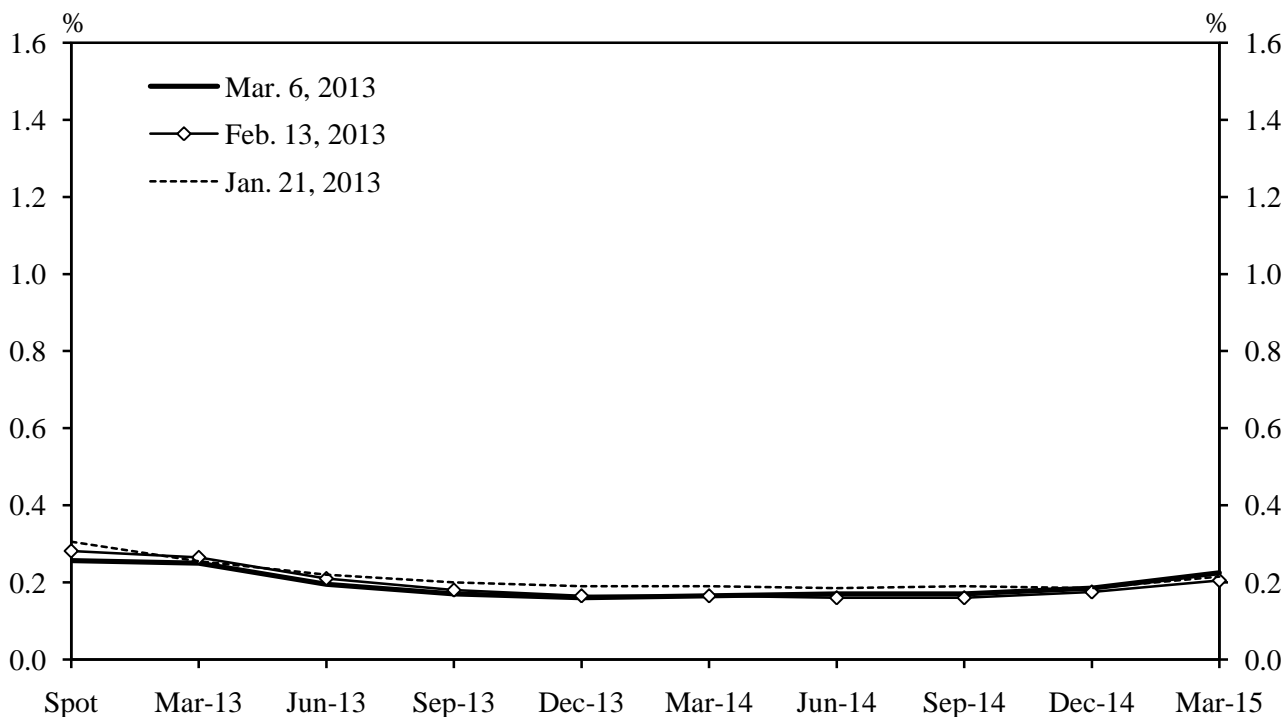
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



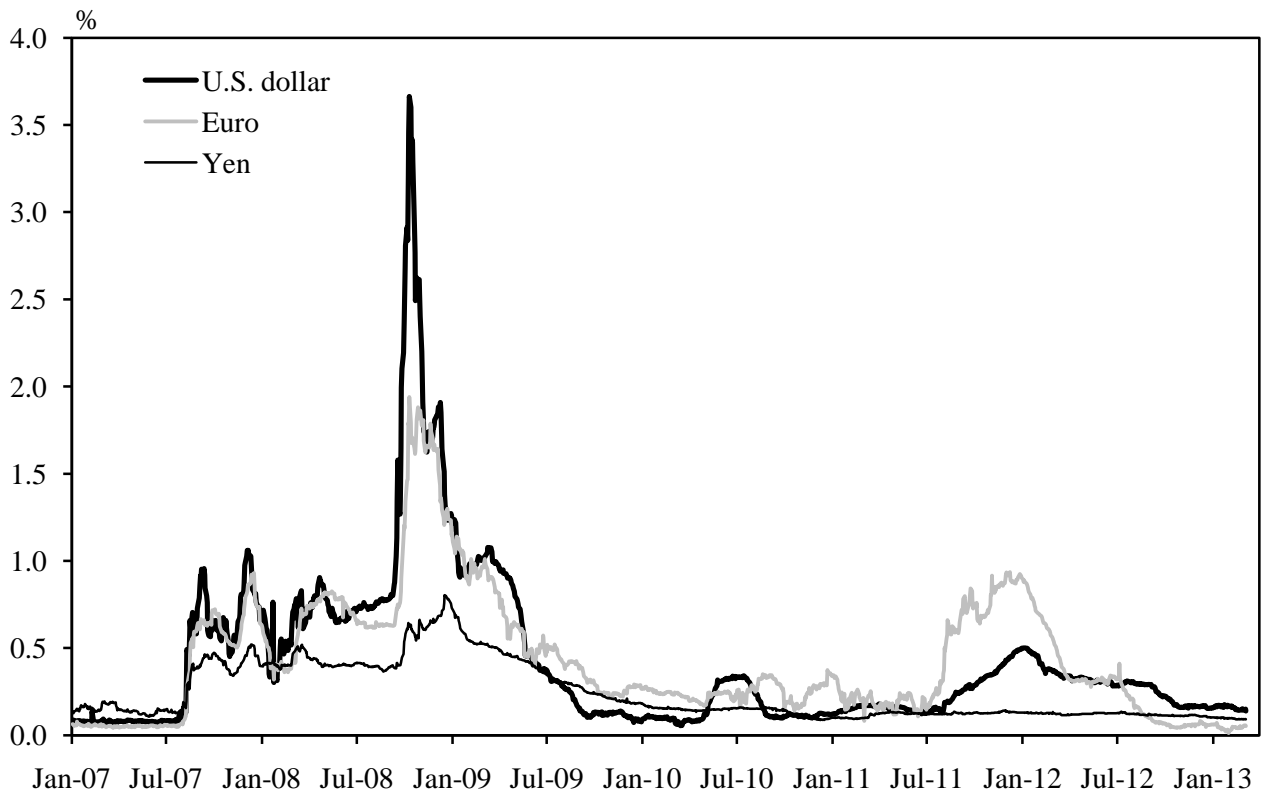
(2) Euroyen Interest Rate Futures (3-Month)



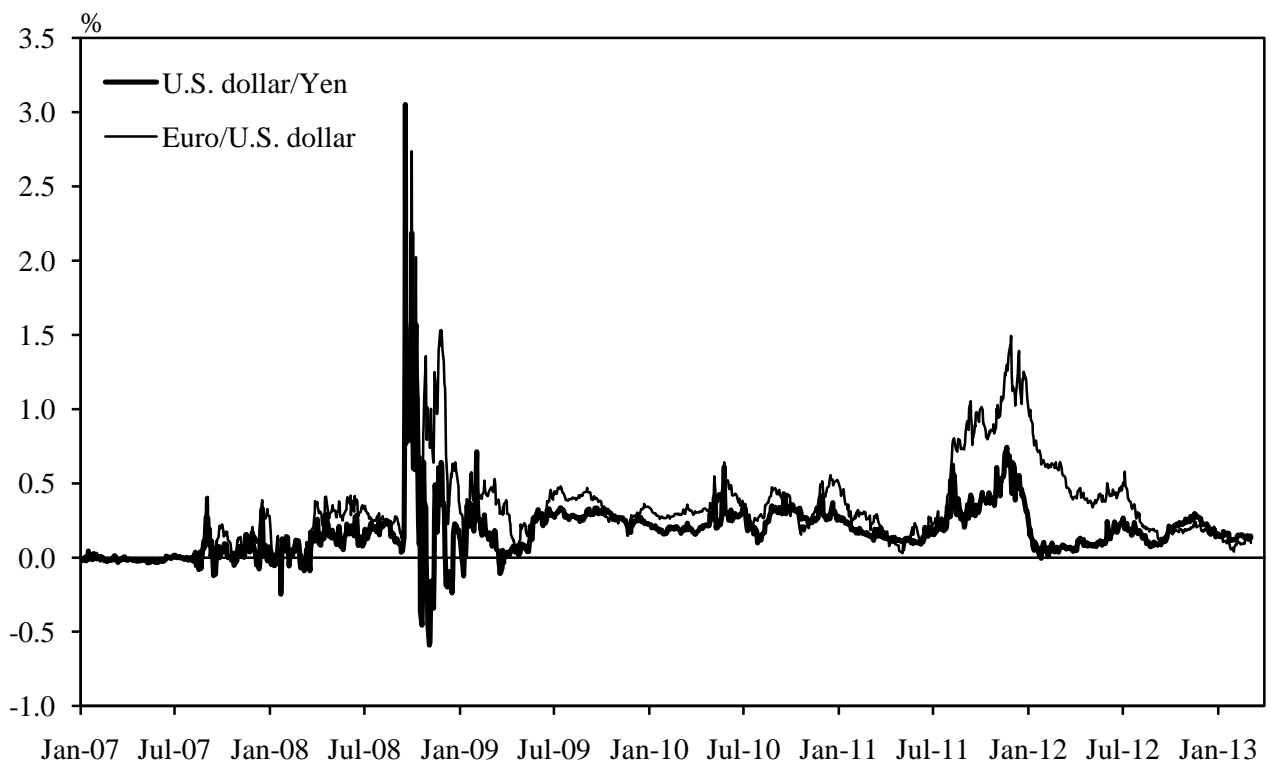
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



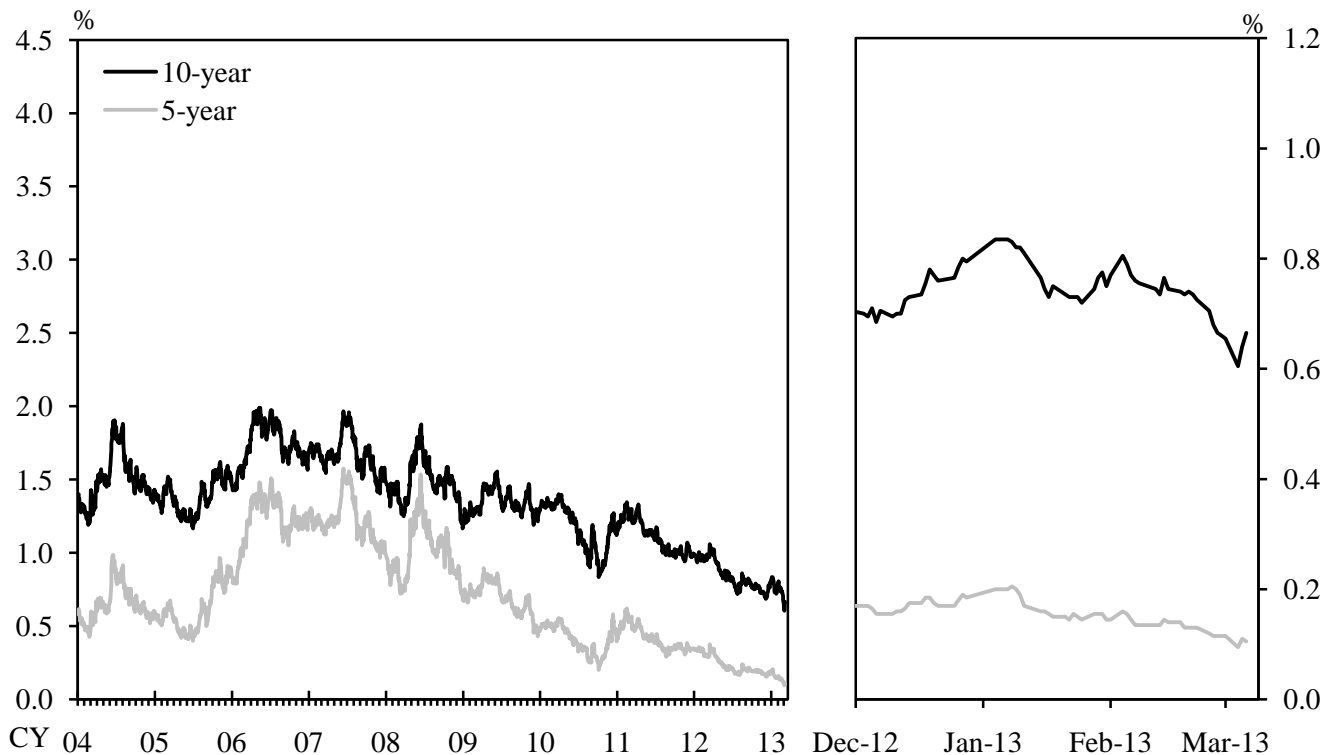
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



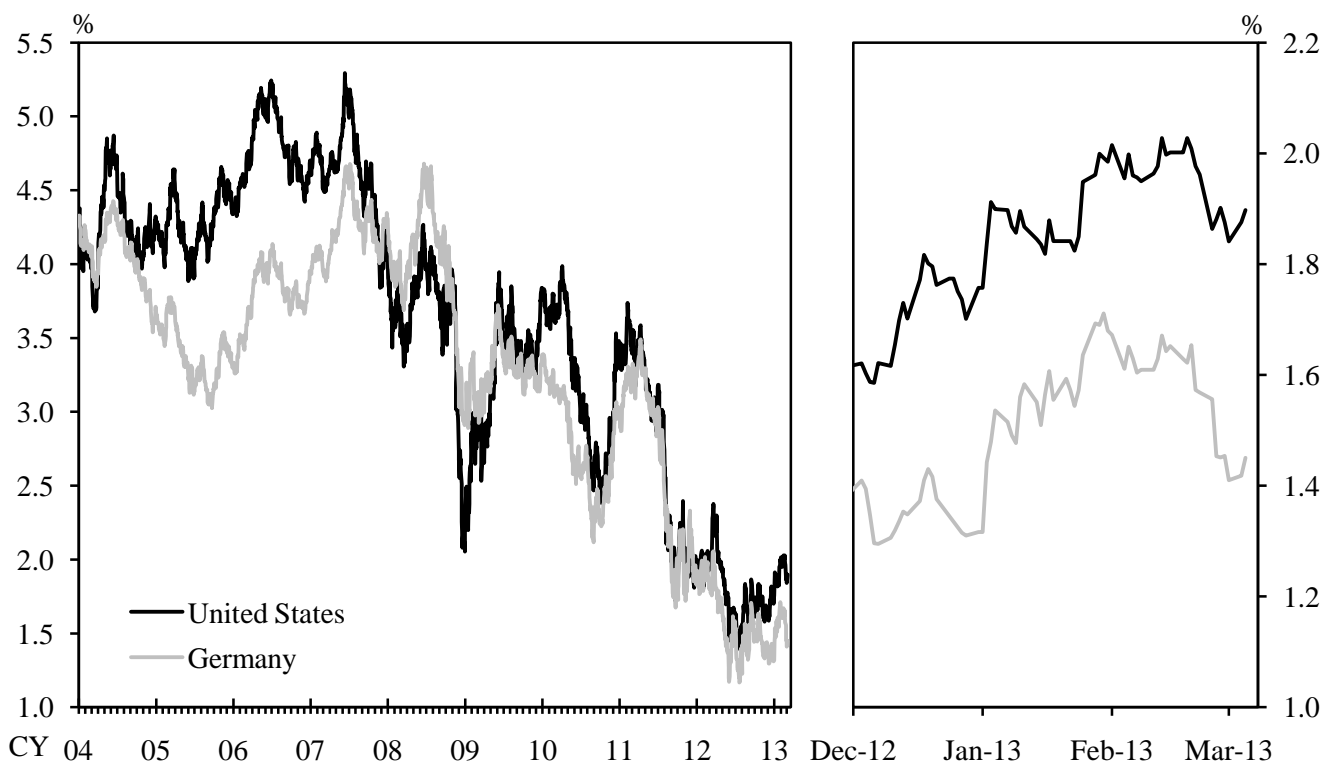
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



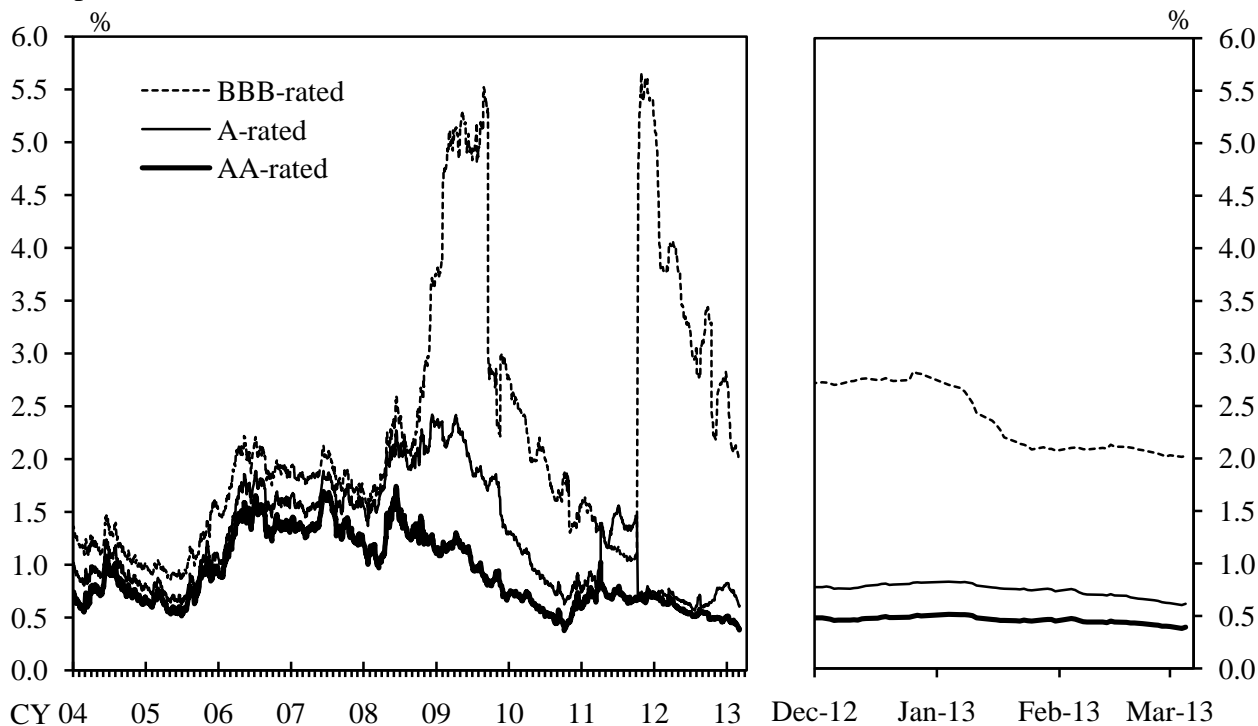
(2) Overseas Government Bond Yields (10-Year)



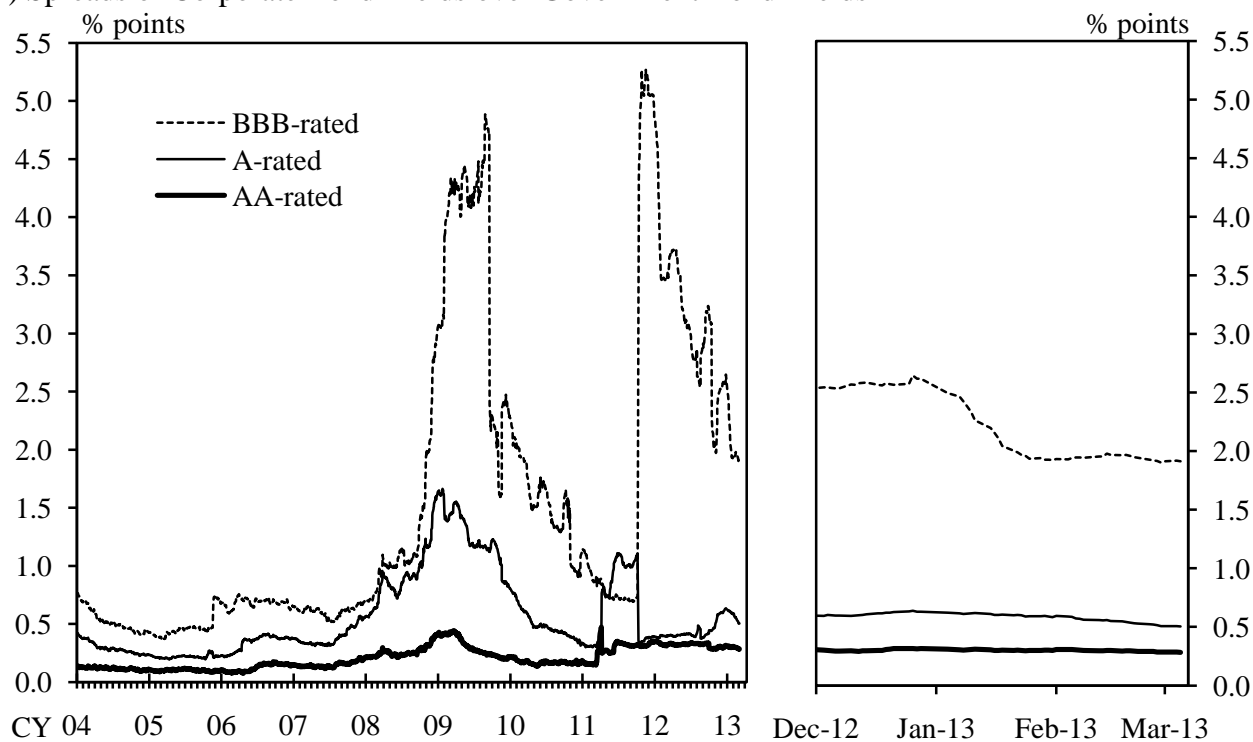
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

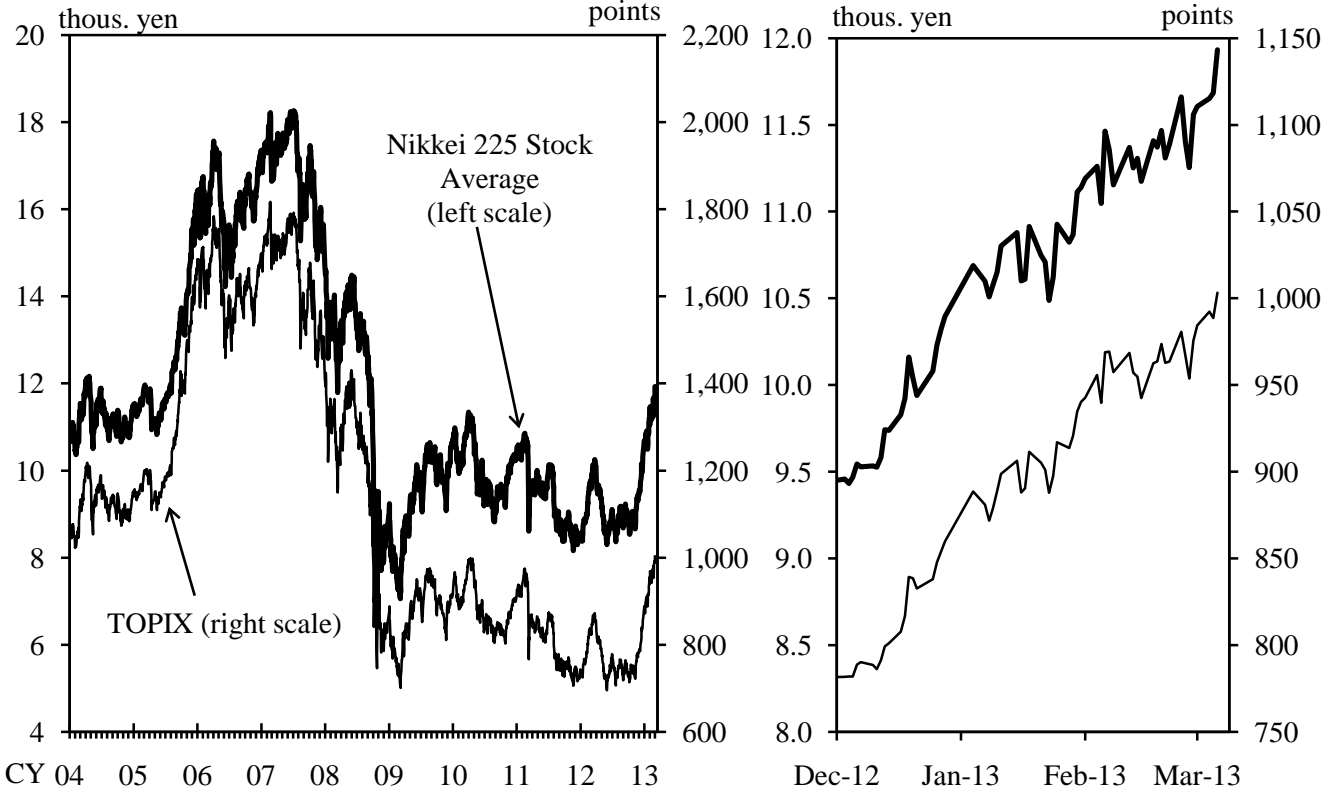
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

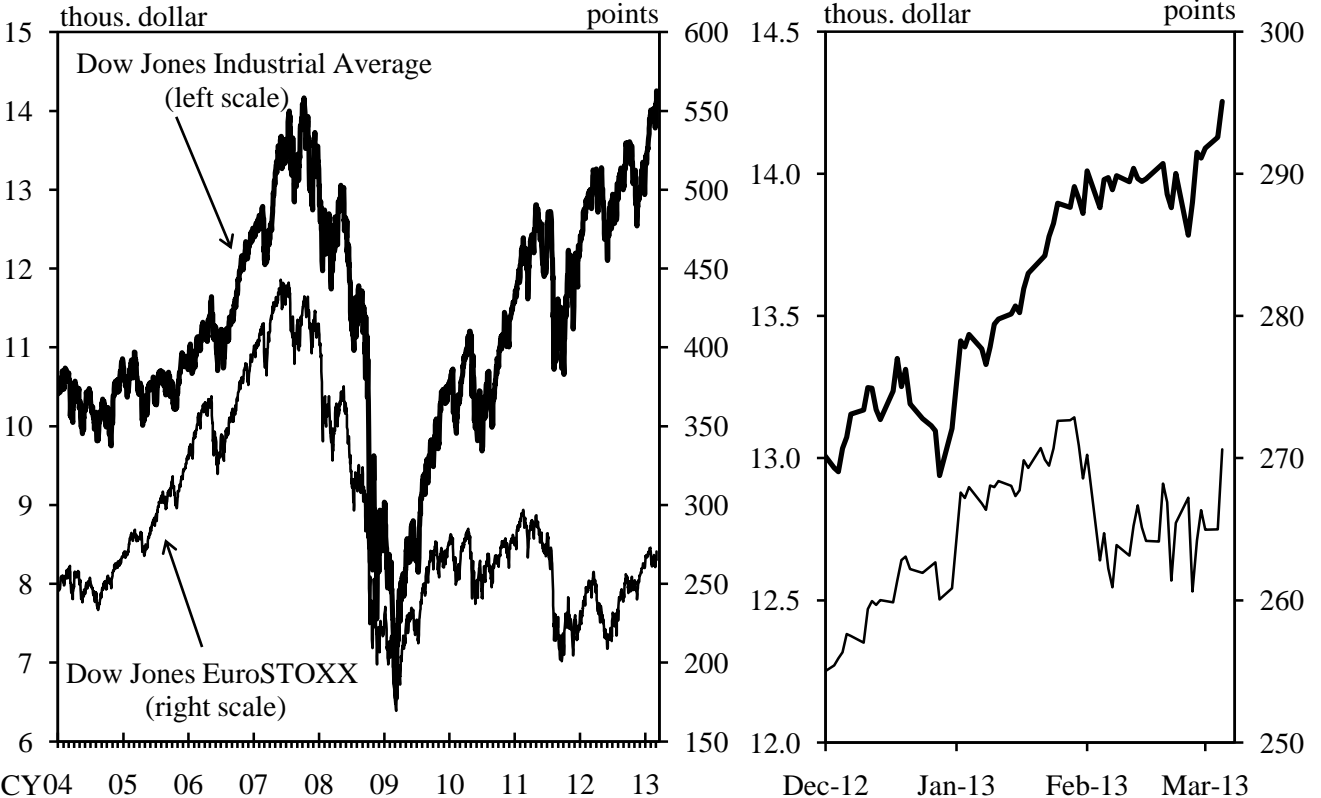
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



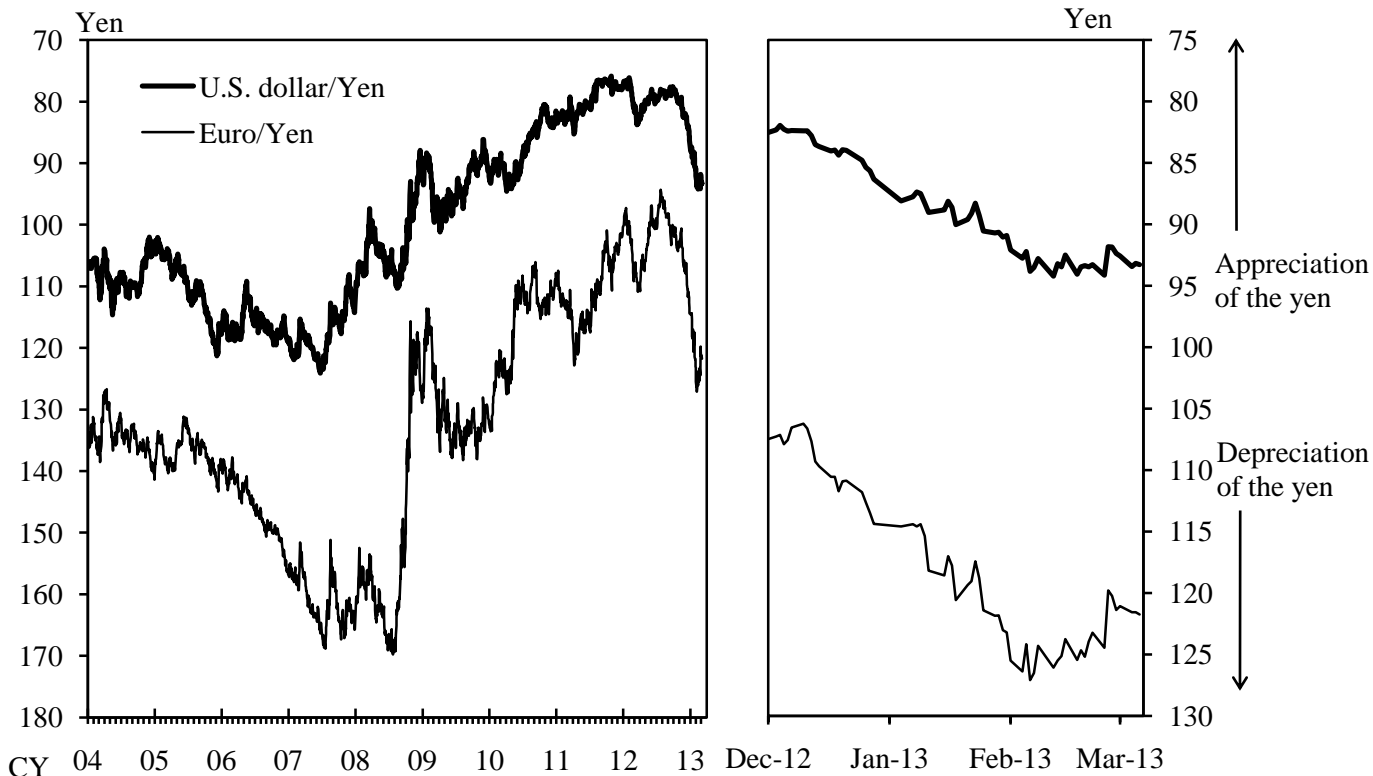
(2) Overseas Stock Prices



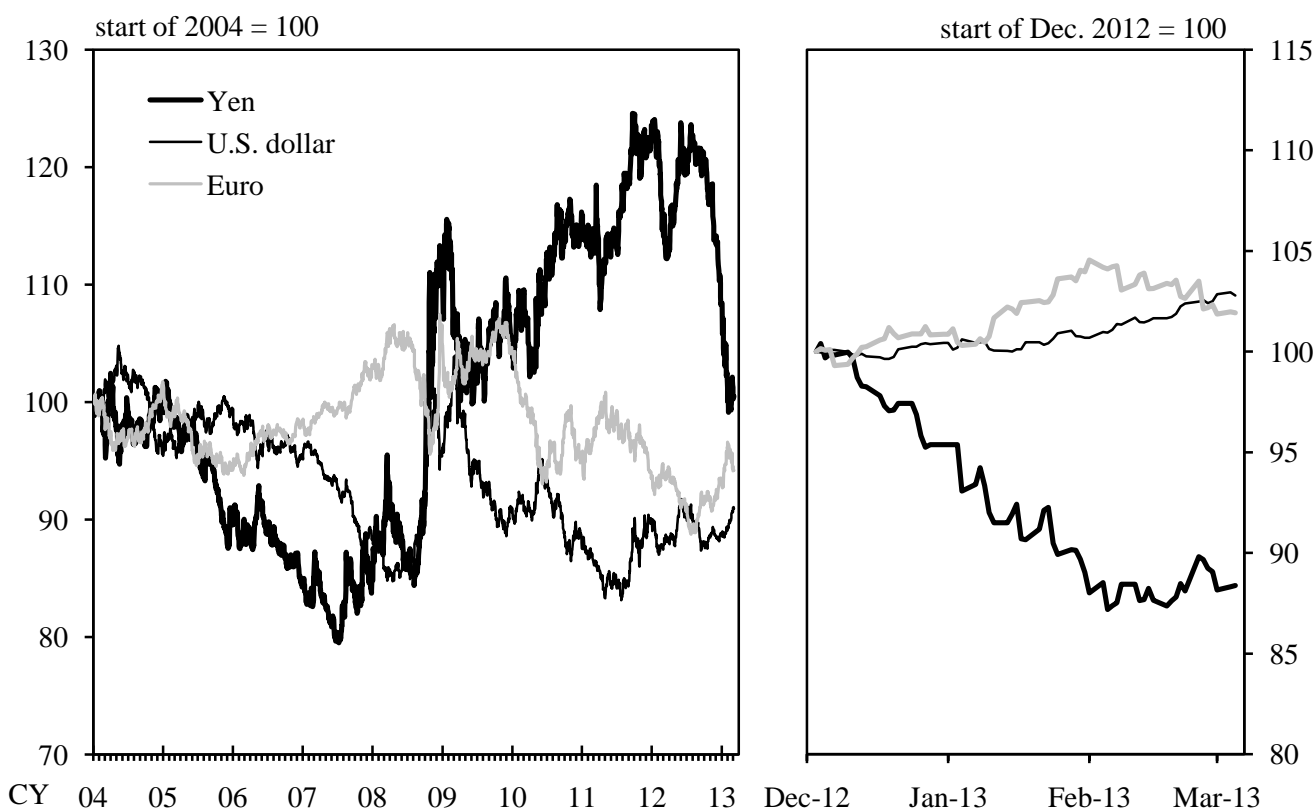
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



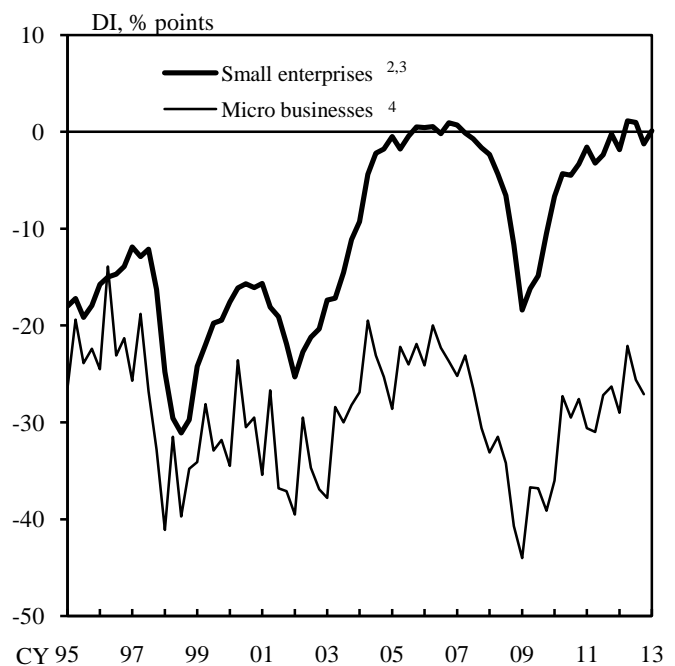
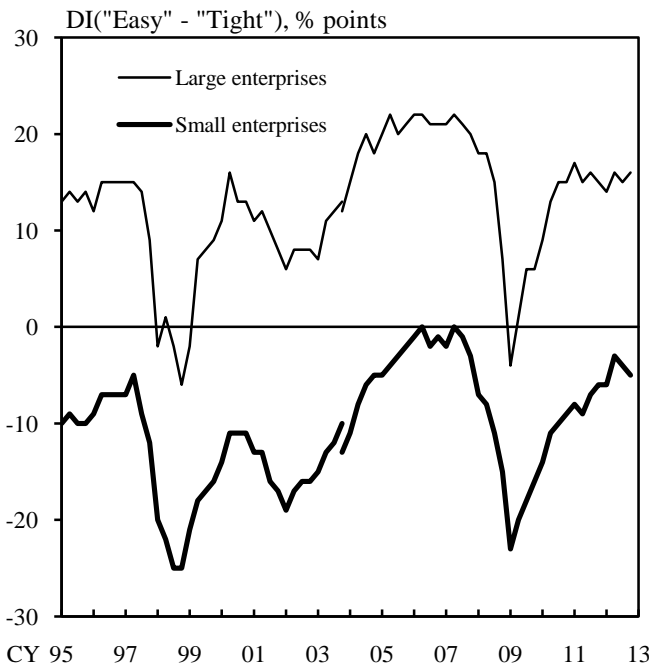
Sources: Bank of Japan; European Central Bank; Thomson Reuters Datastream.

Corporate Finance-Related Indicators

(1) Financial Position

<Tankan¹>

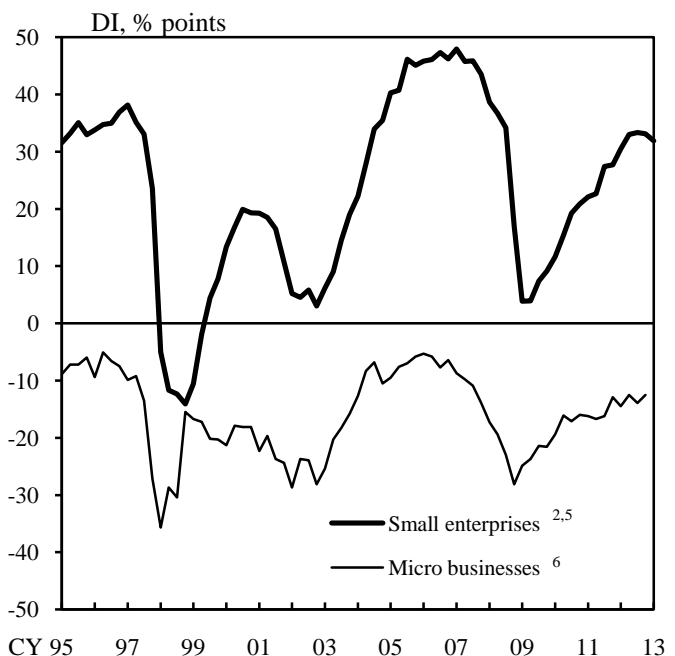
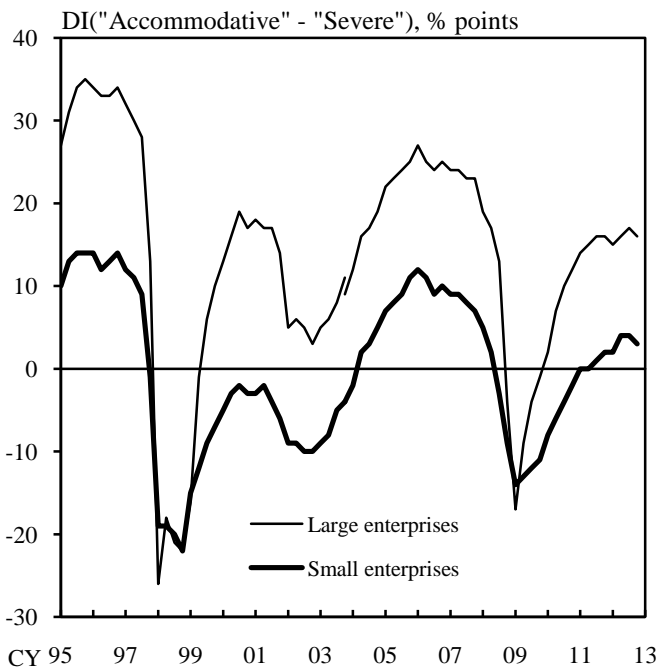
<Japan Finance Corporation Survey>



(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan¹>

<Japan Finance Corporation Survey>



Notes: 1. Data of the *Tankan* are based on all industries. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

2. Figures are quarterly averages of monthly data. Figures for 2013/Q1 are those of Jan.-Feb. averages.

3. DI of "Easy" - "Tight."

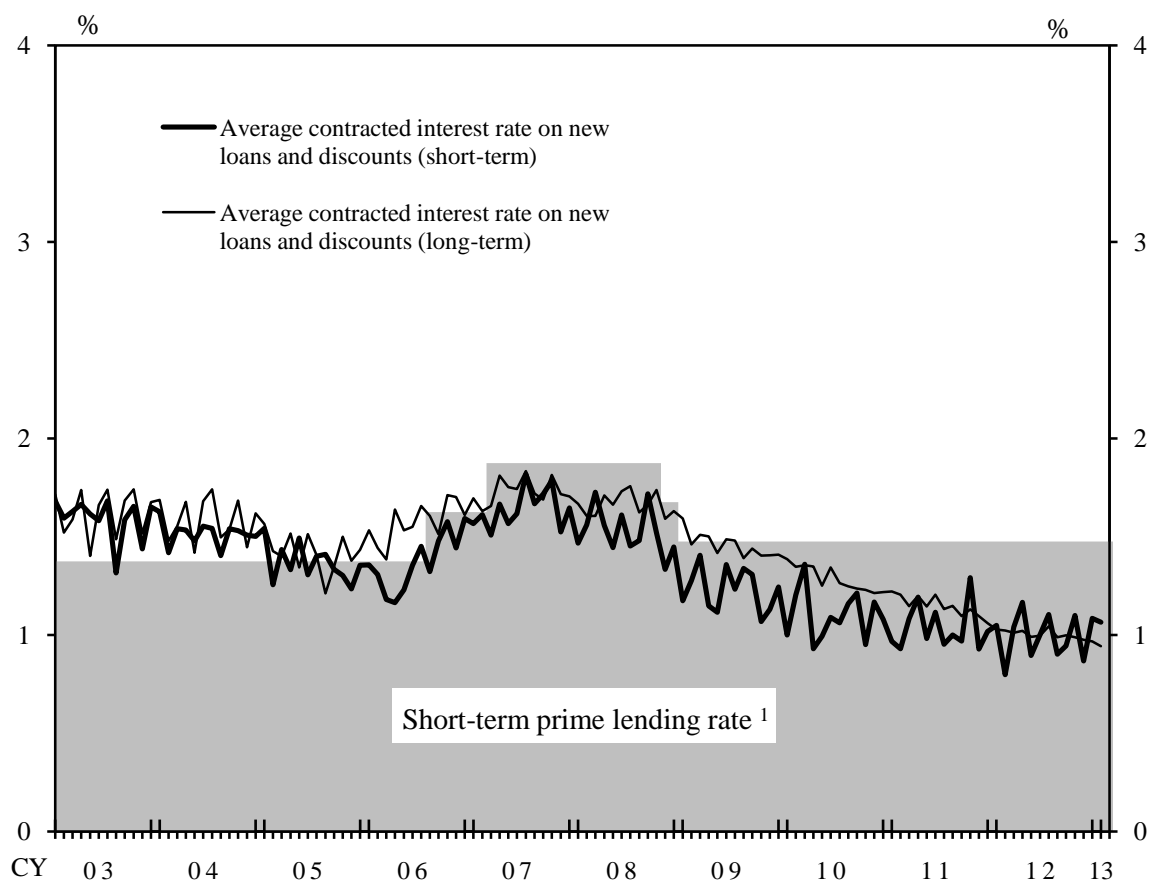
4. DI of "Easier" - "Tighter."

5. DI of "Accommodative" - "Severe."

6. DI of "More accommodative" - "More severe."

Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation, "Monthly Survey of Small Businesses in Japan," "Quarterly Survey of Small Businesses in Japan (for micro businesses)."

Lending Rates

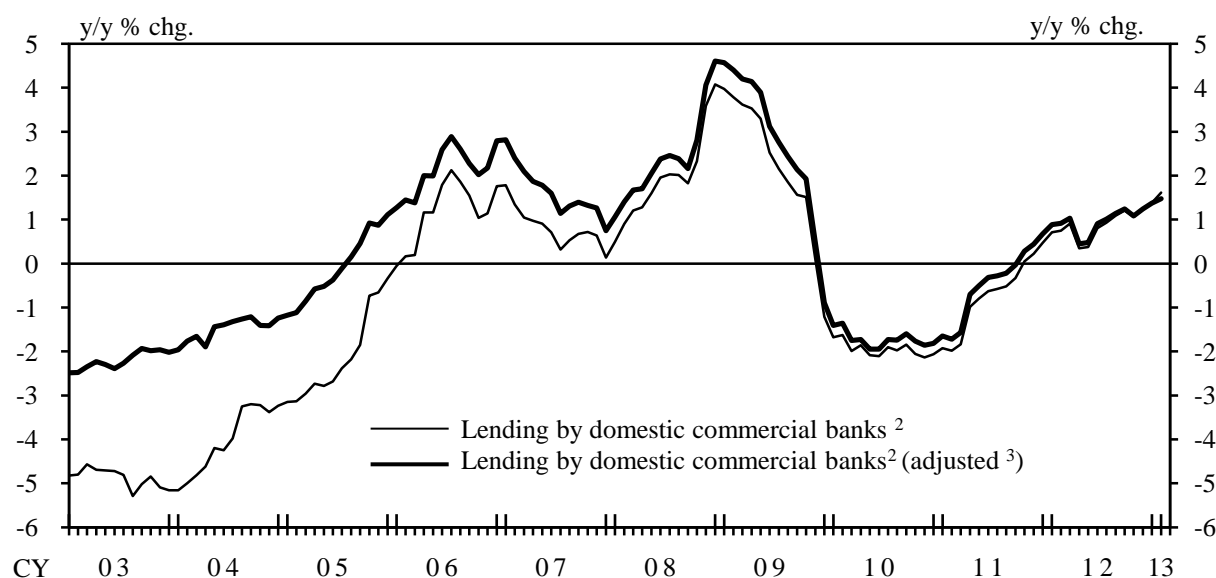


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



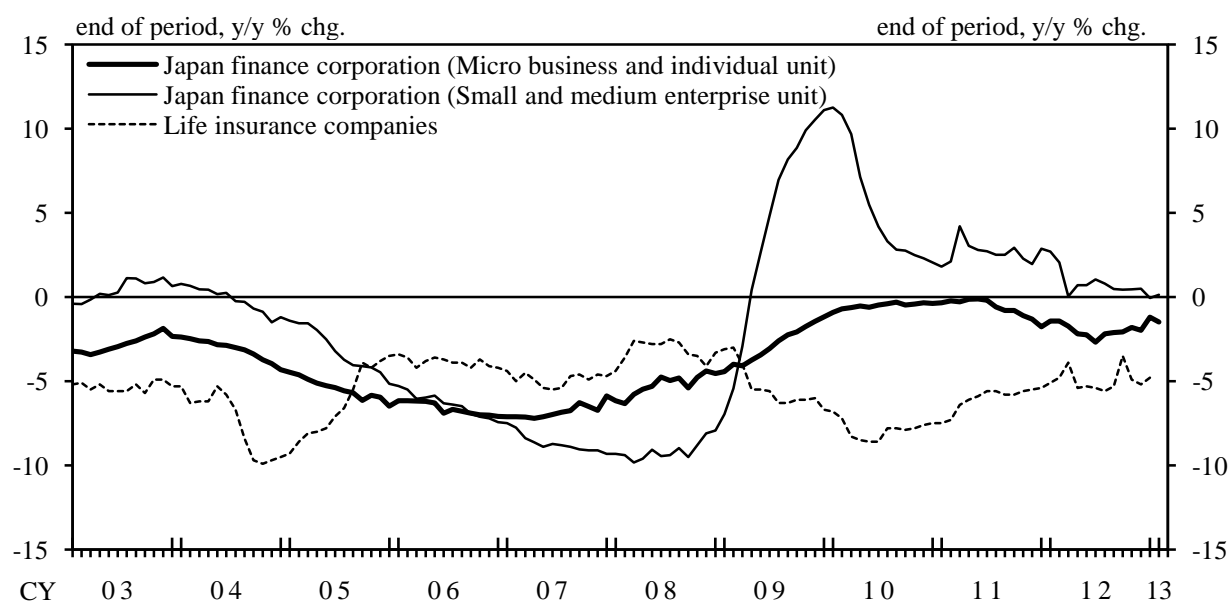
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

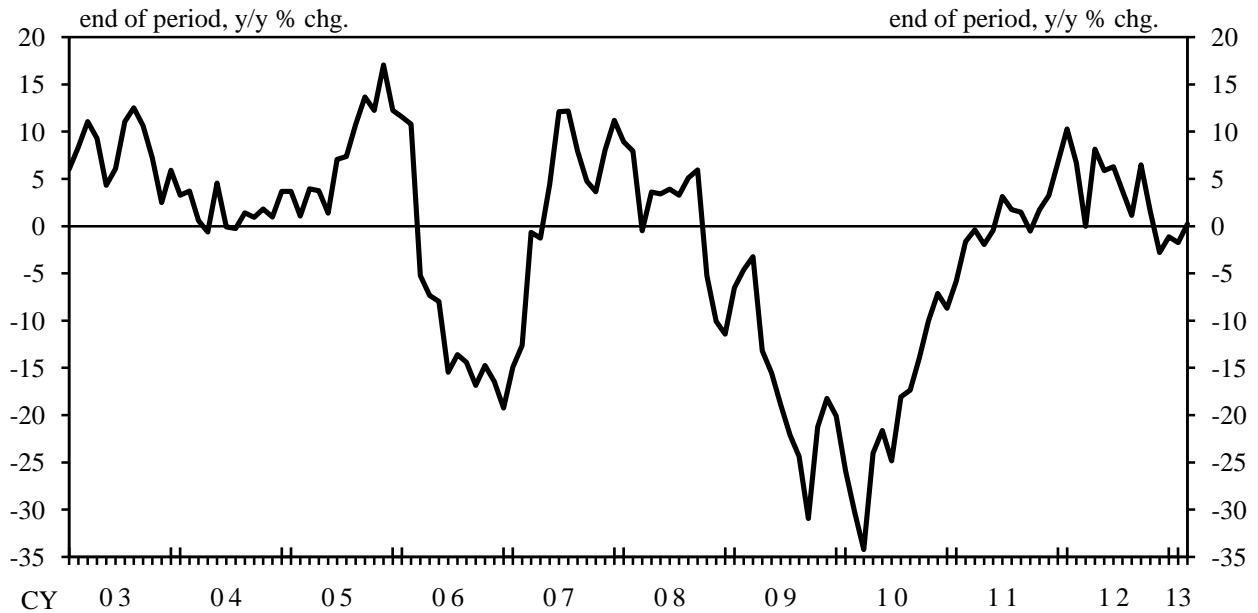
(2) Lending by Other Financial Institutions



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

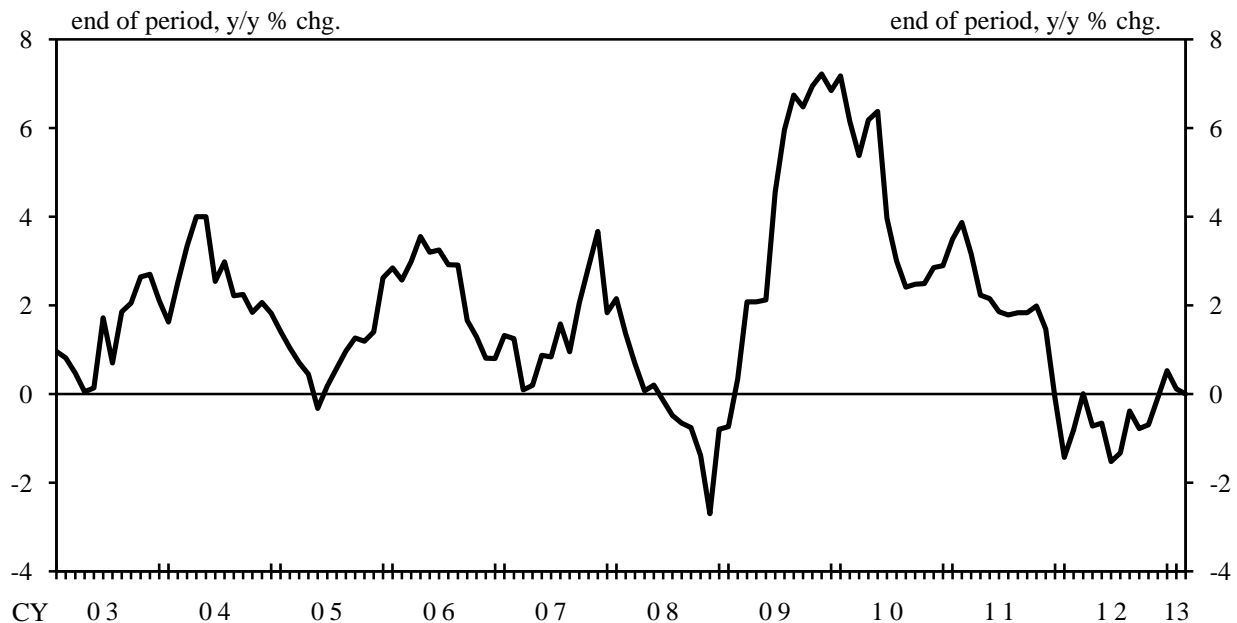
 Private-Sector Fund-Raising in the Capital Markets

(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



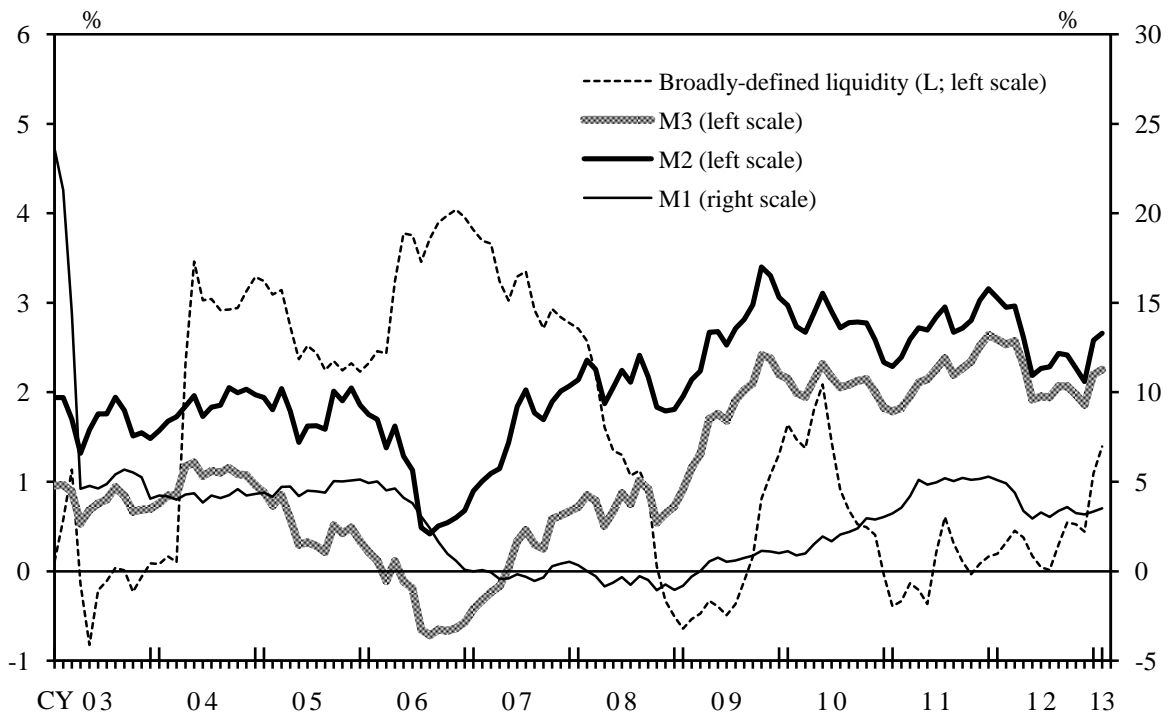
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

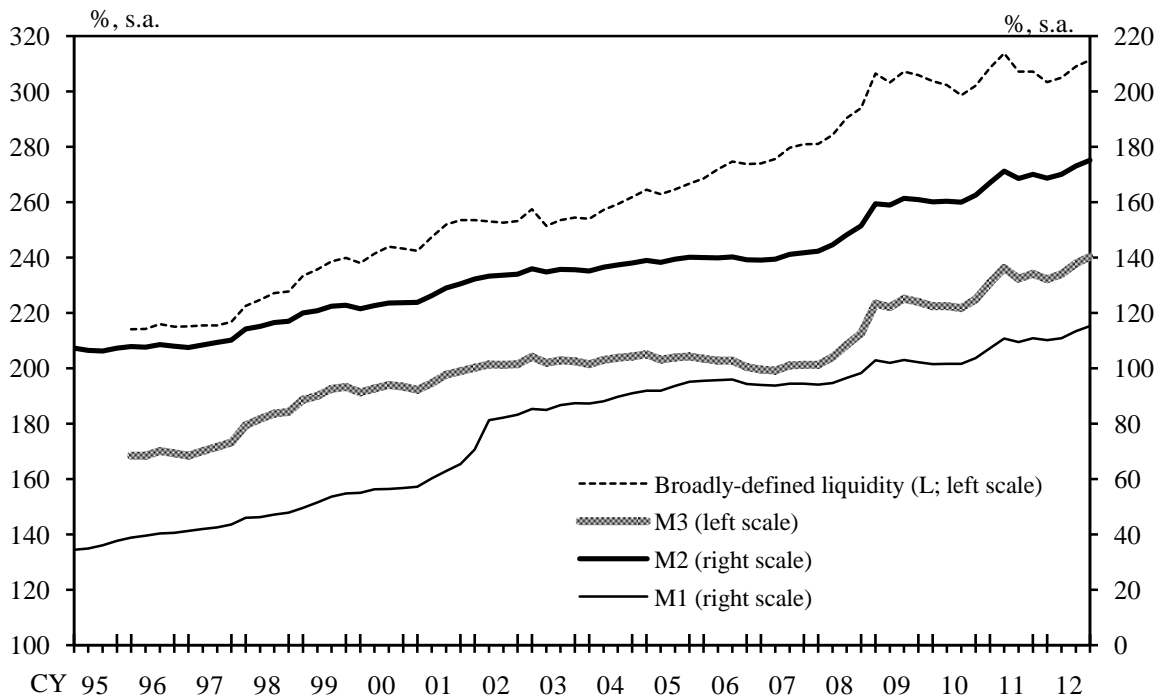
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



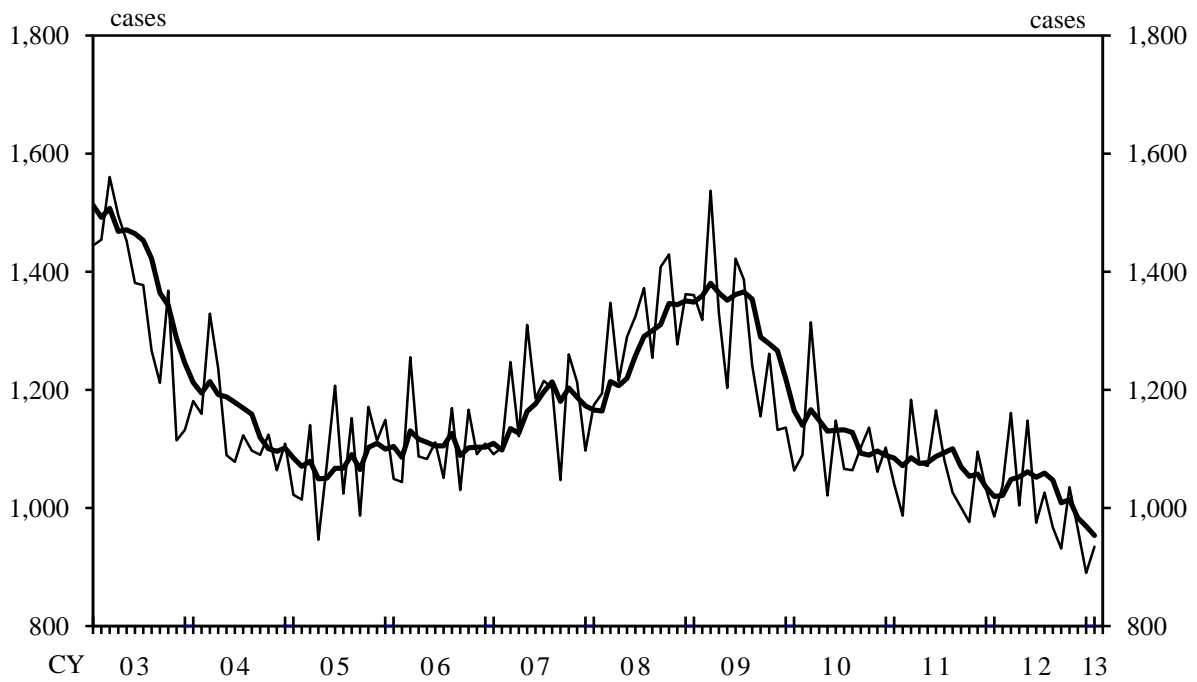
(2) Ratio of Money Stock to Nominal GDP



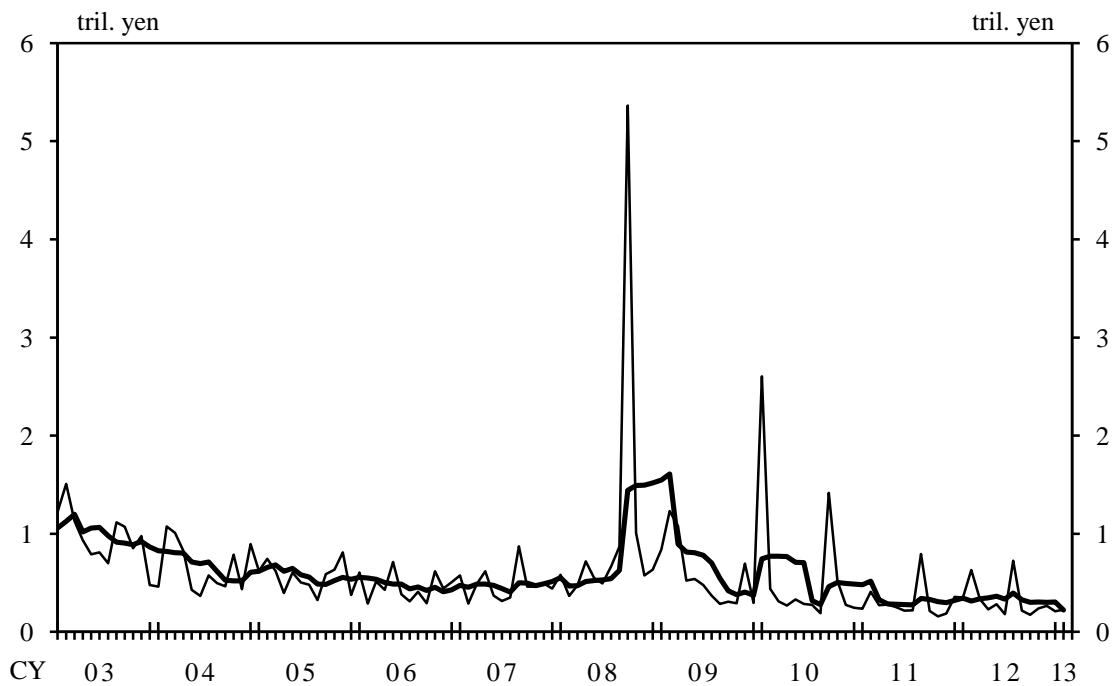
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.

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)."