

August 12, 2013  
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original  
released on August 9, 2013)

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# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

## August 2013

### Summary

Japan's economy is starting to recover moderately.

Overseas economies as a whole are gradually heading toward a pick-up, although a lackluster performance is partly seen. In this situation, exports have been picking up. Business fixed investment has stopped weakening and shown some signs of picking up as corporate profits have improved. Public investment has continued to increase, and the pick-up in housing investment has become evident. Private consumption has remained resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production is increasing moderately.

With regard to the outlook, Japan's economy is expected to recover moderately on the back of the resilience in domestic demand and the pick-up in overseas economies.

Exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. As for domestic demand, public investment is expected to continue trending upward supported by the effects of various economic measures, and housing investment to increase. Business fixed investment is projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits continue to improve. Private consumption is expected to remain resilient, supported by improvement in the employment and income situation. Under these circumstances, industrial production is expected to continue increasing moderately.

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

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on August 7 and 8, 2013.

On the price front, the three-month rate of increase in domestic corporate goods prices is narrowing against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) has turned positive. Inflation expectations appear to be rising on the whole.

Domestic corporate goods prices are expected to rise moderately for the time being. The year-on-year rate of increase in consumer prices is likely to rise gradually.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 35-40 percent.

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 have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. Firms' credit demand has been increasing moderately, 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 been in the range of 2.0-2.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive. Firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 3.5-4.0 percent.

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. Compared with last month, the value of the yen against the U.S. dollar has risen, while stock prices have fallen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.

## 1. Economic Developments

Public investment has continued to increase. The amount of public construction completed—which reflects the progress of public works—increased in April-May relative to the first quarter, after having risen for five quarters in a row until the first quarter this year (Chart 5). The value of public works contracted—a measure that reflects public orders—dipped marginally in the first quarter, after having continued to be more or less flat on average since the second quarter last year, but it increased significantly at the start of the new fiscal year in the second quarter.

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

Real exports have been picking up (Charts 6[1] and 7). Real exports turned upward in the first quarter on a quarter-on-quarter basis and grew at an accelerated rate in the second quarter, after having continued to decline in the third and fourth quarters last year. On a monthly basis, exports fell back marginally in May, after having increased in both March and April, but they moved up again in June. Looking at movements in exports by region (Chart 7[1]), exports to the United States in the second quarter exhibited relatively high growth on the whole, particularly in motor vehicles and their related goods. With the moderate recovery in the U.S. economy, exports bound for the United States have resumed their uptrend, assisted partly by movements in foreign exchange rates since the end of last year. Exports to Others seem to have turned moderately upward, mainly in motor vehicles and their related goods as well as in capital goods and parts (excluding ships), disregarding the fluctuations in ships. Exports to East Asia have recently started to pick up, particularly among those to China and NIEs. Exports to the EU—which had been on the decline—have recently headed toward a bottom. By goods (Chart 7[2]), exports of motor vehicles and their related goods—due in part to the effects of developments in foreign exchange rates—have resumed an uptrend, assisted by the pick-up in those to China—which had seen a significant drop—amid steady exports to the United States and Others. Exports of capital goods and parts have been moving toward a pick-up lately, with increases in exports to East Asia and the United States, disregarding the fluctuations in ships, after having plunged in the second half of last year. Exports of IT-related goods (including visual and audio apparatus) have

bottomed out as a whole, primarily in parts for smartphones. Meanwhile, intermediate goods have been increasing their exports lately, although this may turn out to be a temporary movement since the supply and demand balance in the Asian region has yet to show a discernable improvement.

Real imports, despite having remained more or less flat, seem to be heading for an increase again (Charts 6[1] and 9). Real imports—which rose in the first quarter on a quarter-on-quarter basis after having fallen sharply in the fourth quarter last year—stayed flat in the second quarter as a result of the previous increase and also due in part to movements in foreign exchange rates. Monthly figures, however, show that imports seem to be heading for an increase again, with both May and June having posted month-on-month increases. Looking at movements in imports by goods (Chart 9[2]), those of raw materials have become more or less flat on average, although the underlying trend is difficult to read with the large fluctuations. Imports of IT-related goods appear to be on an increasing trend, chiefly in smartphones; those of electronic parts such as semiconductors from East Asia have also turned upward lately. Imports of capital goods and parts have begun to pick up after having bottomed, as a reflection of the progress in inventory adjustments at home as well as of developments in business fixed investment. Meanwhile, imports of intermediate goods (such as chemicals as well as iron and steel) have been relatively weak, albeit with fluctuations; this is likely to be affected by movements in foreign exchange rates.

Net exports—in terms of the real trade balance—have picked up moderately as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus—which had been narrowing its rate of surplus until the first quarter—increased its level in the second quarter, since the nominal goods and services balance saw its deficit narrow and since the income surplus increased (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies as a whole are gradually heading toward a pick-up, although a lackluster performance is partly seen (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery trend against the background of steady private demand. On the other hand, the European economy has still continued to recede

slowly, although signs of a pick-up have been observed in areas such as corporate and household sentiment. As for the Chinese economy, the pace of growth has yet to show signs of accelerating, since the authorities have placed more weight on the "quality" rather than "speed" in terms of their economic growth as the manufacturing sector continues to show some weakness. Affected by these movements, the pick-up in the NIEs and ASEAN economies has been modest as a whole, with the corporate sector having shown somewhat sluggish movements. As for the exchange rate, the yen has depreciated from a while ago against both the U.S. dollar and euro, albeit with fluctuations; in terms of the real effective exchange rate, the yen has fallen to a level similar to that last observed around 2007 (Chart 8[1]).

Overseas economies, including the United States, are expected to gradually pick up. The aforementioned movements in foreign exchange rates are also projected to push exports upward more markedly. A high degree of uncertainty remains about overseas economies, however, and the pace of pick-up is expected to remain very modest for the time being. The sluggishness in the European economy is projected to remain for the time being, and thus attention should continue to be paid to its impact on the global economy. As for the Chinese economy, the manufacturing sector—which has a large influence on Japan's economy—may face a situation in which the loose supply and demand conditions may prevail even further, mainly because there seems to be an overhang in the supply of raw materials and other goods. As for the U.S. economy, although downward pressure from the fiscal side is expected to wane gradually, it is likely to remain as a restraining factor on the economy for the time being. In relation to this, as for the IT-related sector, the effects of the downshift in demand for parts for products of smartphones—which had pushed exports and domestic production of IT-related goods downward since the end of last year—have been easing. In this situation, IT-related capital goods such as electronic parts and semiconductor products machinery—mainly those related to smartphones, including new products, which are enjoying a boost in demand—have shown upward movements. Final demand of this sector as a whole, however, including conventional products such as PCs, has yet to show noticeable improvement, and thus future developments in overall final demand continue to require close monitoring. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy has continued to become less visible,

with the pick-up in automobile-related exports to China. Ongoing attention, however, should be paid to whether or not this trend of improvement will continue on into the future.

Taking the above into consideration, exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. Imports are projected to resume their moderate uptrend along with movements in industrial production, against the backdrop of increased resilience in domestic demand, even though movements 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 trend moderately upward.

Business fixed investment has stopped weakening and shown some signs of picking up as corporate profits have improved. The aggregate supply of capital goods—a coincident indicator of machinery investment—kept rising in the second quarter on a quarter-on-quarter basis following the increase in the first quarter, after having decreased for two quarters in a row until the fourth quarter last year (Chart 10[1]). As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—turned upward in April-May compared with the first quarter, after having been almost flat in the first quarter, following a decline for three straight quarters until the fourth quarter last year (Chart 11[1]). By industry, machinery orders of manufacturing turned upward in April-May relative to the first quarter, after having declined for six quarters in a row until the first quarter. Those of nonmanufacturing (excluding orders for ships and those from electric power companies) fell back in the first quarter from the increase in the fourth quarter last year, but rose significantly in April-May compared with the first quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have continued to trend upward on average, despite having fallen back in the second quarter from the increase for three consecutive quarters through the first quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing have continued to be more or less flat, albeit with fluctuations, after having surged in the first quarter last year. Those of nonmanufacturing kept



increasing in the second quarter, after having moved upward for four straight quarters until the first quarter.

Regarding the environment surrounding business fixed investment, corporate profits have improved. They are projected to keep improving, supported by increased resilience in domestic demand as well as by the moderate rise in exports and movements in foreign exchange rates.

Taking the above into consideration, business fixed investment is projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits continue to improve.

Private consumption has remained resilient, assisted by the improvement in consumer sentiment (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—rose in both the first and second quarters, after having been more or less level through the fourth quarter last year, albeit with some fluctuations. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations—although having fallen back recently from the upsurge, aided partly by the introduction of new models since the start of this year—is considered to be holding steady as a trend. Sales of household electrical appliances in real terms have been steady as a whole, albeit with fluctuations, aided by sales of smartphones, tablet devices, and white goods installed with energy-saving devices, although those of televisions and PCs continued to be sluggish. Sales at department stores have been firm, notably in imports and high-end products, as they were up for three quarters in a row since the fourth quarter last year; June, in particular, saw an upsurge in sales, affected partly by temperature rises as well as by front-loading of summer sales (Chart 14[1]). Sales at supermarkets showed somewhat sluggish movements with those in the second quarter having remained more or less flat, following the drop in the first quarter. Meanwhile, sales at convenience stores have continued to trend moderately upward; they have recently shown somewhat accelerated growth. As for consumption of services (Chart 14[2]), outlays for travel have held steady. Sales in the food service industry have also stayed steady as a whole; they have recently shown somewhat strong movements.

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 (Chart 13[1])—which is compiled so as to make it similar to items used for estimating GDP—fell back marginally in the second quarter, after having advanced significantly in the first quarter, mainly due to strong automobiles and services (reading & recreation).<sup>2</sup> The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) inched downward in the second quarter on a quarter-on-quarter basis, after having been level in both the fourth and first quarters.

Indicators related to consumer confidence have improved as a reflection of the rise in stock prices since the end of last year and of recent movements in the employment situation (Chart 15).

Private consumption is expected to remain resilient, supported by improvement in the employment and income situation.

The pick-up in housing investment has become evident. The number of housing starts—a leading indicator of housing investment—rose noticeably in the second quarter on a quarter-on-quarter basis with a reading of 983 thousand units (on a seasonally adjusted, annual basis), which was the highest level since the fourth quarter of 2008, after having fallen slightly in the first quarter following the moderate increase toward the fourth quarter last year (Chart 16[1]).

Housing investment is expected to increase.

Industrial production is increasing moderately (Chart 17). Industrial production, on a quarterly basis, turned upward, albeit marginally, in the first quarter and somewhat accelerated its pace of increase in the second quarter, after having declined for three quarters in a row since the second quarter last year. Looking at movements in the second quarter by industry, production of transport equipment (such

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<sup>2</sup> Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

as passenger cars) continued to move marginally upward, after having registered somewhat high growth in the first quarter, despite large monthly fluctuations. While domestic sales have been steady, supported in part by the introduction of new models, production for exports to China—which dipped temporarily affected by the bilateral relationship between Japan and China—continued its improving trend and exports to the United States and Others held steady. Production of iron and steel and of chemicals also kept moving upward, aided by the effects of the pick-up in production of motor vehicles and also by the increase in exports as well as the decline in imports in some sectors as a reflection of movements in foreign exchange rates since the end of last year. Production of electronic parts and devices has tended to pick up lately, aided partly by the upward pressure exerted by parts for new products of smartphones and tablet devices, as the effects of the downshift in demand for parts for smartphones—which had pushed production downward—have eased. Production of general-purpose, production and business oriented machinery—which had fallen toward the end of last year as a reflection of developments in business fixed investment at home and abroad—is considered to gradually head for a pick-up, as the production in the second quarter was up, after having mostly hit bottom in the first quarter.

Shipments have also been on a mild uptrend, with the fluctuations smoothed out (Chart 17[1]). Looking at the trend in shipments by goods (Chart 18), in terms of producer goods, (i) those of motor vehicles (such as motor vehicle parts, iron and steel, and chemicals) have been on an improving trend; (ii) some of those related to materials have seen an increase in exports as well as a decline in imports affected by movements in foreign exchange rates since the end of last year; and (iii) electronic parts and devices—which had remained sluggish—have recently headed for an increase. In sum, shipments of producer goods are considered to be on a mild uptrend overall. Shipments of construction goods have recently moved slightly upward in response to movements in public and housing investment. Shipments of durable consumer goods appear to have tended to pick up on average, notably in motor vehicles. On the other hand, shipments of non-durable consumer goods have continued to be more or less flat. Meanwhile, shipments of capital goods have bottomed out and have started to pick up, albeit with fluctuations.

Inventories have continued to trend downward (Chart 17[1]). Movements in inventories suggest that they have been on a declining trend since the end of last year, although they recently seem to have shown signs of bottoming out with June posting a marginal increase relative to the end of March. By industry, those of transport equipment have been declining amid a pick-up in shipments. Inventories of general-purpose, production and business oriented machinery—which were at relatively high levels a while ago—have trended downward on average. Inventories of electronic parts and devices have been on a downtrend since the start of this year, after having remained elevated toward the end of last year. Meanwhile, inventories of such industries as iron and steel have risen slightly of late, which may be attributable to movements to front-load production in view of increases in electricity prices. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in shipments has been moving in line with that in inventories overall (Chart 19[2]). As for durable consumer goods, construction goods, and electronic parts and devices, shipments have recently grown at a faster pace than inventories. Growth in inventories and in shipments has become broadly balanced for capital goods (excluding transport equipment); the shipment-inventory balance for producer goods excluding electronic parts and devices has ceased to worsen.

Industrial production is expected to continue increasing moderately, mainly reflecting developments in demand at home and abroad. Based on anecdotes by firms and other information, regarding the third quarter, transport equipment is projected to continue increasing moderately, mainly as a reflection of steady demand at home and abroad; added to this, general-purpose, production and business oriented machinery is expected to be on the rise in response to the pick-up in business fixed investment at home and abroad. Electronic parts and devices are likely to increase, chiefly in parts for new products of smartphones and for tablet devices, with the progress in inventory adjustments. Moreover, ceramics, stone and clay products as well as fabricated metals are expected to keep moving upward against the backdrop of steady construction demand. As a result, industrial production as a whole is projected to advance markedly.

Despite some lingering severity in the employment and income situation, employee income has shown signs of moving toward a pick-up, as supply and demand conditions in the labor market have continued to improve moderately.

As for supply and demand conditions in the labor market, the unemployment rate—which had been almost level since last summer—has recently headed toward a moderate decline again; it recorded 3.9 percent in June, falling to the 3-percent level for the first time in four years and eight months (Chart 20). New job openings—which had been sluggish as a whole until around the end of last year amid the weakness mainly in manufacturing as a reflection of movements in exports and industrial production—have recently trended upward again. In response to these movements, the active job openings-to-applicants ratio also continued its moderate improving trend. Non-scheduled hours worked has increased at a mild pace, together with the pick-up in manufacturing, while nonmanufacturing has been resilient.

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has recently risen somewhat on average, as a reflection of movements in nonmanufacturing (Chart 21[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing as a whole on a year-on-year basis supported by the rise in nonmanufacturing, although manufacturing has continued to decline.

Total cash earnings per employee have begun to bottom out as a whole (Chart 21[2]). Looking in detail, the year-on-year rate of decline in scheduled cash earnings has recently narrowed since scheduled cash earnings per regular employee has almost stopped declining and scheduled cash earnings per hour of part-time employees has accelerated at a very mild pace, although the uptrend in the ratio of part-time employees has exerted downward pressure. Non-scheduled cash earnings have also started to turn positive in response to movements in the number of hours worked. Meanwhile, special cash earnings (preliminary figures)—which comprise about 60 percent of summer bonuses—were up, albeit marginally, for the first time in three years by posting positive 0.4 percent on a year-on-year basis.

Employee income has shown signs of moving toward a pick-up with marginal year-on-year increases of late, as a reflection of the aforementioned developments in employment and wages (Chart 21[3]).

As for the outlook regarding employee income, a pick-up is expected to become gradually evident as the recovery in economic activity and business performance becomes noticeable.

## **2. Prices**

International commodity prices—which had continued to show sluggish movements since around the spring—have almost bottomed out lately as a whole (Chart 23[1] and [3]). Prices of crude oil have rebounded slightly, mainly as a reflection of heightened geopolitical risks. On the other hand, prices of nonferrous metals have continued to be somewhat weak, with persistent uncertainty over the outlook for the global economy as the Chinese economy seems to show lackluster performance. Prices of grains have fallen recently in response to a bountiful harvest forecast.

The three-month rate of change in import prices (on a yen basis) has recently been more or less flat after having risen consistently, reflecting movements in international commodity prices and foreign exchange rates (Chart 23[2]).

The three-month rate of increase in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) is narrowing against the backdrop of movements in international commodity prices and foreign exchange rates (Chart 24[2]).<sup>3</sup> The three-month rate of increase narrowed in May and June, having posted positive 0.5 percent, following an increase of 1.0 percent in April. Looking in detail at domestic corporate goods price movements, prices of "goods sensitive to exchange rates and overseas commodity prices" turned

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<sup>3</sup> 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.

slightly negative, as a reflection of movements in international commodity prices, including crude oil, as well as foreign exchange rates of late. Prices of "iron & steel and construction goods" reduced their pace of increase in response to price declines in scrap & waste. Meanwhile, prices of "electric power, gas & water" rose at an accelerated pace, mainly because movements in foreign exchange rates since the end of last year have pushed prices upward through the fuel cost adjustment system.<sup>4</sup>

The year-on-year rate of decline in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has been narrowing very mildly on average, albeit with fluctuations (Chart 25). As for developments on a year-on-year basis, the rate of decline has narrowed very moderately from negative 0.5 percent in the fourth quarter last year to readings of negative 0.4 percent in the first quarter and negative 0.3 percent in the second quarter. Even on a monthly basis, the rate of decline narrowed by marking negative 0.2 percent in May and negative 0.1 percent in June, after having displayed negative 0.7 percent in April. Looking in detail at corporate services price movements in June, the rate of decline in prices related to "selling, general and administrative expenses" was on par with last month as a whole, among which advertising services fell at a slightly reduced pace due to increased advertisement placements in television commercials. The rate of decline in prices related to "real estate" has tended to narrow moderately, with the monthly fluctuations smoothed out. Prices related to "fixed investment" continued to increase marginally, primarily in civil engineering and architectural services. Meanwhile, "IT-related" prices (such as leasing of computer and related equipment) have continued to decrease, but the rate of decline has recently narrowed slightly as a reflection of movements in their prices.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) has turned positive (Chart 26[1]). In June, consumer prices stood at positive 0.4 percent—increasing for the first time since the positive 0.2 percent rise in April 2012—after having registered 0 percent in May; this rate of increase was the highest since November 2008 (an increase of 1.0 percent). Those on a basis that excludes food and energy stood at negative 0.2 percent in June,

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<sup>4</sup> Under the fuel cost adjustment system, electricity prices reflect fuel costs of three to five months earlier.

improving by 0.2 percentage points from May. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean—which had ceased to improve since the middle of last year—has recently improved again (Chart 27[2]).<sup>5</sup> The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 27[1]).<sup>6</sup>

Looking in detail at consumer price movements over the past few months, fees for public services have expanded their rate of increase as a whole, since the automotive insurance premium was raised and also since electricity prices have risen at an accelerated pace in response to increases in fuel costs as a reflection of movements in foreign exchange rates as well as the rise in electricity prices by some electric power companies. Prices for goods have reduced their pace of decline markedly overall since (i) the negative contribution from durable goods—which had temporarily expanded in response to the previous year’s movement—diminished again, (ii) petroleum products resumed their positive contributions, and (iii) cost increases seemed to have been passed on in the form of higher prices in some categories such as food products as a reflection of movements in foreign exchange rates. Meanwhile, prices of general services have continued to decline marginally, mainly in rent, but prices of eating out have turned marginally upward and those of other services, albeit with fluctuations, have also reduced their rate of decline slightly compared to a while ago. Taking a closer look at price movements in June relative to May, prices of goods (excluding agricultural, aquatic and livestock products) narrowed their rate of decline noticeably. This was largely attributed to the fact that the year-on-year change in prices of petroleum products turned markedly positive, as a reflection of the decline at the same time last year. Furthermore, prices of durable goods continued to narrow their rate of decline, chiefly in TV sets; those of food products also somewhat reduced their rate of decline, mainly due to movements to

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<sup>5</sup> 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.

<sup>6</sup> 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.



pass on cost increases. The rate of increase in fees for public services expanded even more as a whole, due to the further rise in electricity prices as cost increases were passed on via the fuel cost adjustment system. The rate of decline in prices of general services narrowed slightly, mainly due to movements in hotel charges.

Domestic corporate goods prices are expected to rise moderately for the time being. The year-on-year rate of increase in consumer prices is likely to rise gradually.

Meanwhile, inflation expectations appear to be rising on the whole (Chart 28).

### **3. Financial Developments**

#### **(1) Corporate Finance and Monetary Aggregates**

The monetary base (average amounts outstanding) has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 35-40 percent (Chart 29).

Firms' funding costs have been hovering at low levels. Issuance rates on CP and those on corporate bonds have been at low levels. The average contract interest rates on new loans and discounts have also been low (Chart 31).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 30). Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. In these circumstances, as for funding of the private sector, the year-on-year rate of increase in the amount outstanding of bank lending has been in the range of 2.0-2.5 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 32). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive (Chart 33).

Firms have retained their recovered financial positions on the whole (Chart 30). The number of corporate bankruptcies has remained at a low level (Chart 35).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been in the range of 3.5-4.0 percent. Its June reading was 3.8 percent on a year-on-year basis, following 3.5 percent in May (Chart 34).<sup>7</sup>

## **(2) Financial Markets**

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been slightly below the 0.1 percent level. The Euroyen interest rate (3-month) has been more or less flat. Interest rates on Euroyen futures have been virtually level (Chart 36). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 37).

Yields on 10-year government bonds (newly issued 10-year JGB) were basically more or less flat, but have temporarily shown slight declines thereafter in view of the drop in Japanese stock prices; they are currently moving at around 0.75-0.80 percent (Chart 38).

Yield spreads between corporate bonds and government bonds have been narrowing very moderately on the whole (Chart 39).

Stock prices inched upward mainly as a reflection of the rise in U.S. stock prices, but have since declined with some fluctuations mainly in response to corporate earnings reports of Japanese firms. The Nikkei 225 Stock Average is currently moving at around 14,000 yen (Chart 40).

In the foreign exchange market, the yen has appreciated against the U.S. dollar with some fluctuations reflecting speculation about U.S. monetary policies and developments in Japanese stock prices; the yen is currently moving in the range of 96-97 yen against the U.S. dollar. In these circumstances, the yen's exchange rate

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<sup>7</sup> On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3 percent; its June reading was 3.0 percent, following 2.8 percent in May. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 3 percent; it increased by 3.2 percent in June, following an increase of 2.7 percent in May.

against the euro has been more or less unchanged; the yen is currently moving at around 129 yen against the euro (Chart 41).

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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2012/Q4	2013/Q1	Q2	2013/Apr.	May	Jun.	Jul.
Index of consumption expenditure level (two-or-more-person households)	-0.7	4.4	-2.2	-2.2	-1.8	-1.6	n.a.
Sales at department stores	1.1	1.5	p 1.1	-2.1	1.9	p 3.8	n.a.
Sales at supermarkets	0.8	-1.9	p 0.3	-3.2	0.8	p 1.2	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 263>	< 304>	< 283>	< 310>	< 278>	< 261>	< 252>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-1.0	6.1	p -2.8	-2.3	-1.9	p 4.3	n.a.
Outlays for travel	-0.1	0.8	n.a.	-0.7	0.5	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 91>	< 90>	< 98>	< 94>	< 103>	< 98>	<n.a.>
Machinery orders <sup>4</sup> (Private sector, exc. volatile orders)	-0.8	-0.0	n.a.	-8.8	10.5	n.a.	n.a.
Manufacturing	-5.3	-1.7	n.a.	-7.3	3.8	n.a.	n.a.
Nonmanufacturing <sup>4</sup> (exc. volatile orders)	5.6	-3.1	n.a.	-6.0	25.4	n.a.	n.a.
Construction starts (private, nondwelling use)	8.2	5.2	-3.2	-5.8	0.7	-8.7	n.a.
Mining & manufacturing	-13.2	20.0	-9.9	4.3	8.3	-7.5	n.a.
Nonmanufacturing <sup>5</sup>	9.3	0.7	1.5	0.9	-5.3	-7.8	n.a.
Value of public works contracted	1.1	-3.6	28.6	28.7	5.1	1.0	n.a.
Real exports	-4.2	1.5	3.6	2.0	-0.2	2.0	n.a.
Real imports	-5.5	3.1	-0.0	-2.3	1.1	3.1	n.a.
Industrial production	-1.9	0.6	p 1.4	0.9	1.9	p -3.3	n.a.
Shipments	-1.3	4.1	p -1.9	-1.4	1.0	p -3.4	n.a.
Inventories	-1.6	-3.4	p 0.4	0.8	-0.4	p 0.0	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 117.7>	< 112.8>	<p 110.9>	< 107.1>	< 104.8>	<p 110.9>	<n.a.>
Real GDP	0.3	1.0	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.0	n.a.	0.1	1.1	n.a.	n.a.

## Main Economic Indicators (2)

y/y % chg.<sup>1</sup>

	2012/Q4	2013/Q1	Q2	2013/Mar.	Apr.	May	Jun.
Active job openings-to-applicants ratio <s.a., times>	< 0.82>	< 0.85>	< 0.90>	< 0.86>	< 0.89>	< 0.90>	< 0.92>
Unemployment rate <s.a., %>	< 4.2>	< 4.2>	< 4.0>	< 4.1>	< 4.1>	< 4.1>	< 3.9>
Non-scheduled hours worked <sup>6</sup>	-2.5	-1.6	p 0.7	-1.9	0.9	0.0	p 1.0
Number of employees	0.1	0.4	0.9	0.7	1.0	1.1	0.8
Number of regular employees <sup>6</sup>	0.7	0.5	p 0.6	0.5	0.6	0.7	p 0.7
Nominal wages per person <sup>6</sup>	-1.1	-0.6	p 0.0	-0.9	0.0	-0.1	p 0.1
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	-0.9 < 0.2>	-0.3 < 0.8>	p 0.6 <p 0.6>	-0.5 < 0.8>	0.1 < 1.0>	0.5 < 0.5>	p 1.2 <p 0.5>
Consumer price index <sup>8</sup>	-0.1	-0.3	0.0	-0.5	-0.4	0.0	0.4
Corporate services price index <sup>9</sup>	-0.5	-0.4	p -0.3	-0.4	-0.7	-0.2	p -0.1
Money stock (M2) <average outstanding, y/y % chg.>	2.3	2.9	p 3.5	3.1	3.2	3.5	p 3.8
Number of corporate bankruptcies <cases per month>	<963>	<926>	<947>	<929>	<899>	<1,045>	<897>

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

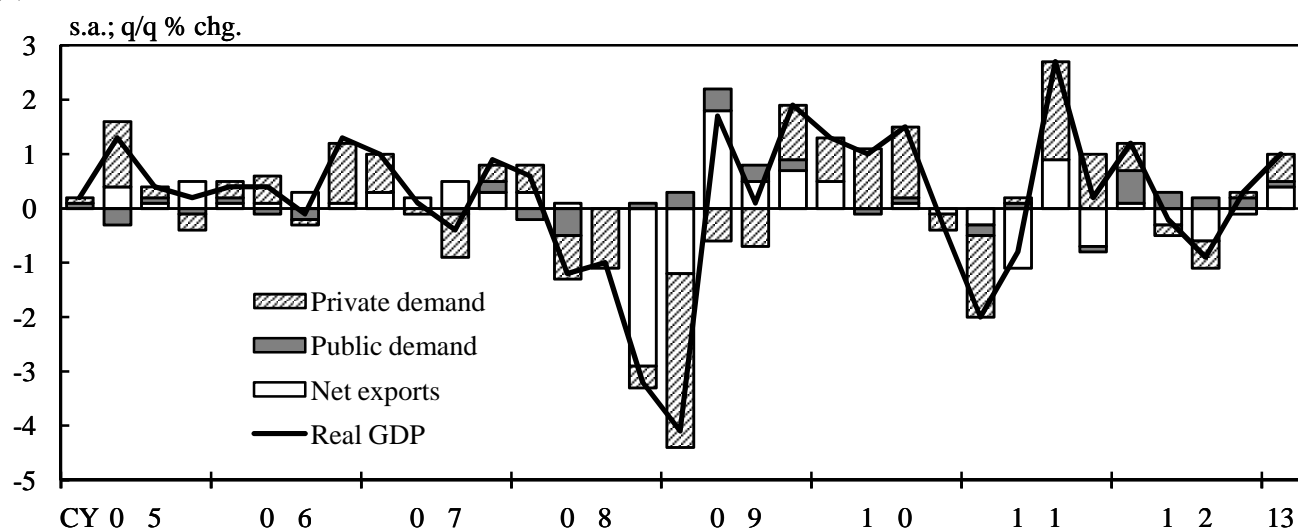
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



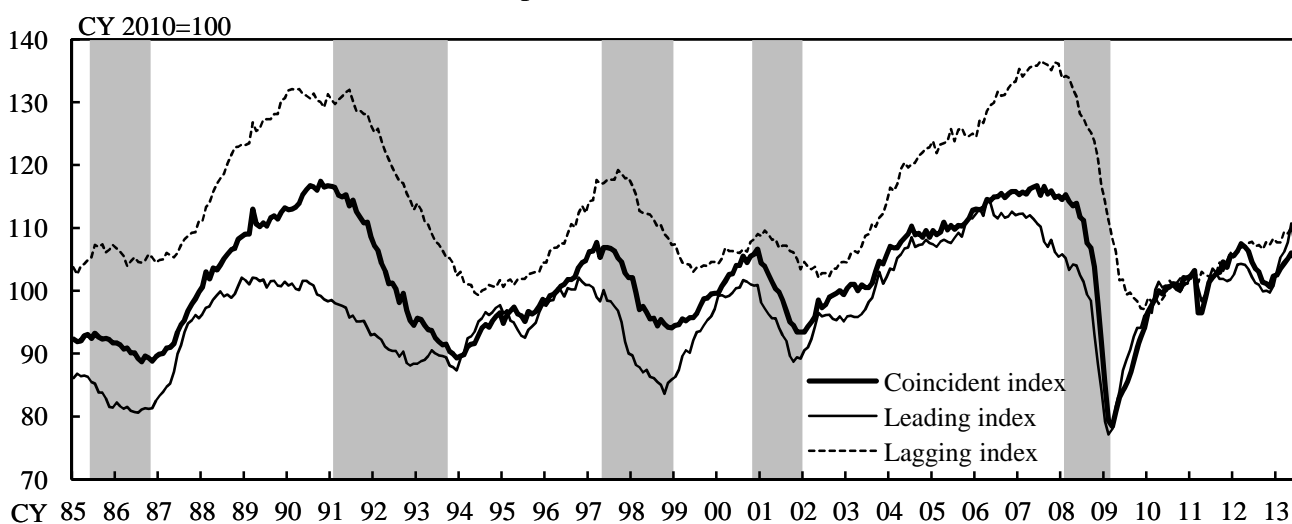
## (2) Components

s.a.; q/q % chg.

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Real GDP	1.2	-0.2	-0.9	0.3	1.0
[Annual rate]	[4.8]	[-0.6]	[-3.6]	[1.2]	[4.1]
Domestic demand	1.1	0.1	-0.3	0.4	0.6
Private demand	0.5	-0.2	-0.5	0.1	0.5
Private consumption	0.5	0.1	-0.2	0.3	0.5
Non-Resi. investment	-0.4	-0.0	-0.4	-0.2	-0.0
Residential investment	-0.0	0.1	0.0	0.1	0.1
Private inventory	0.4	-0.3	0.1	-0.1	-0.0
Public demand	0.6	0.3	0.2	0.2	0.1
Public investment	0.3	0.3	0.2	0.1	0.0
Net exports of goods and services	0.1	-0.3	-0.6	-0.1	0.4
Exports	0.4	-0.0	-0.7	-0.4	0.5
Imports	-0.3	-0.3	0.1	0.4	-0.2
Nominal GDP	1.1	-0.5	-1.1	0.2	0.6

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

## (3) Indexes of Business Conditions (Composite Indexes)

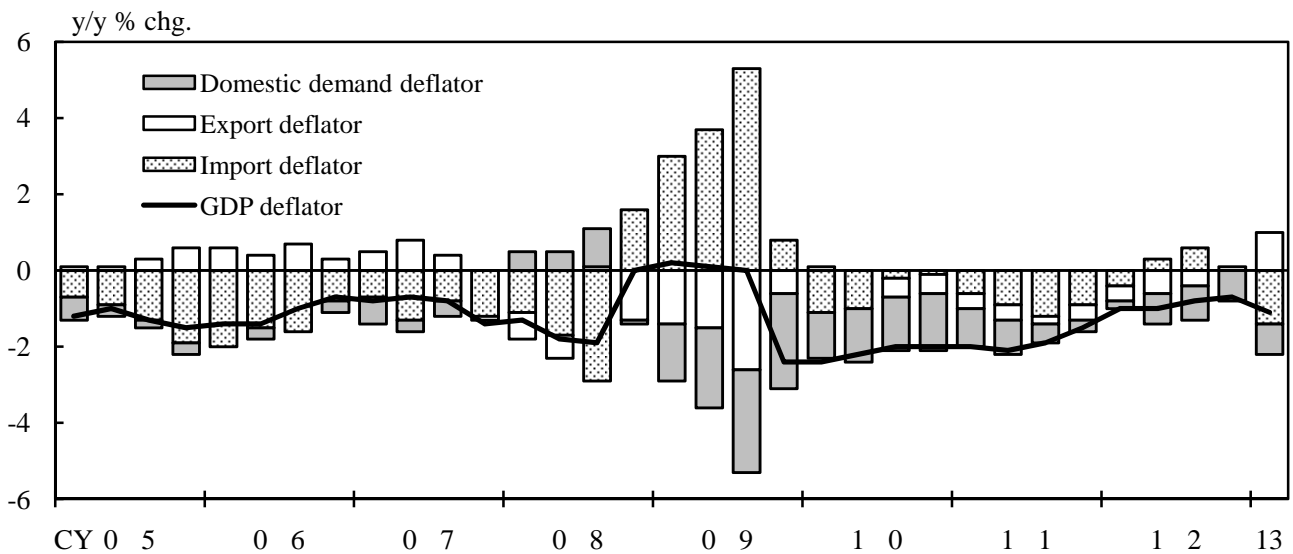


Note: Shaded areas indicate recession periods.

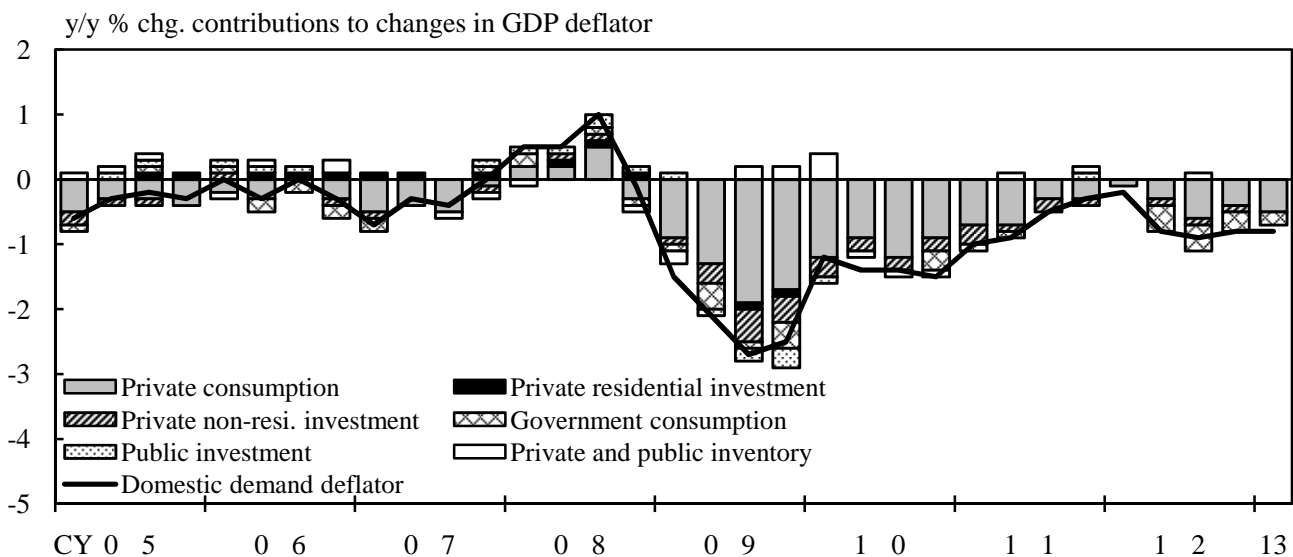
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

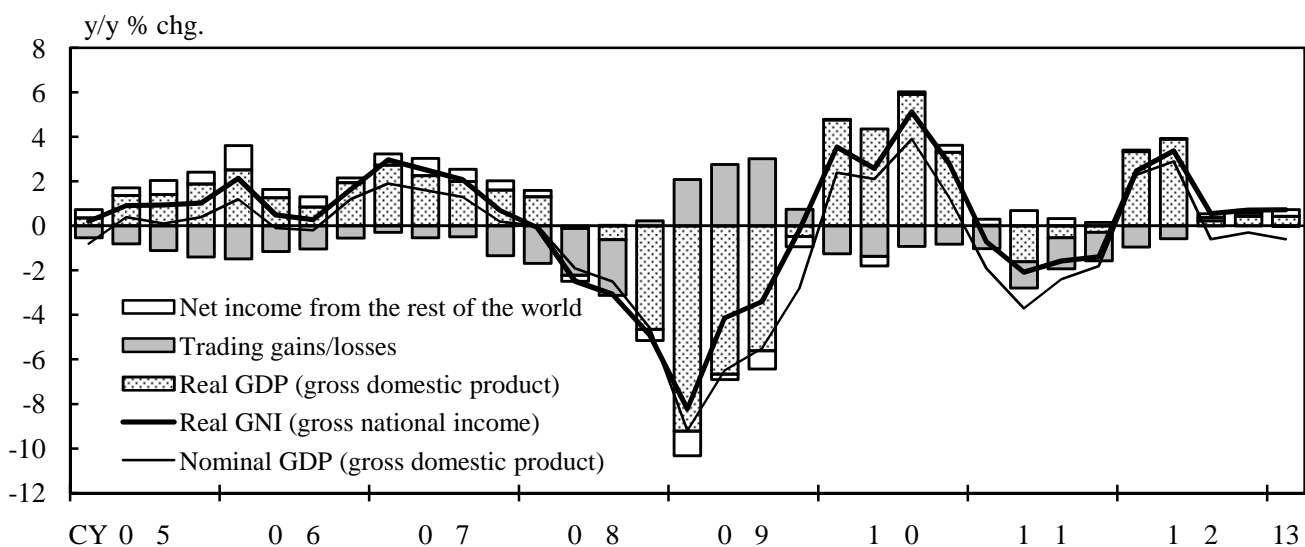
(1) GDP Deflator



(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

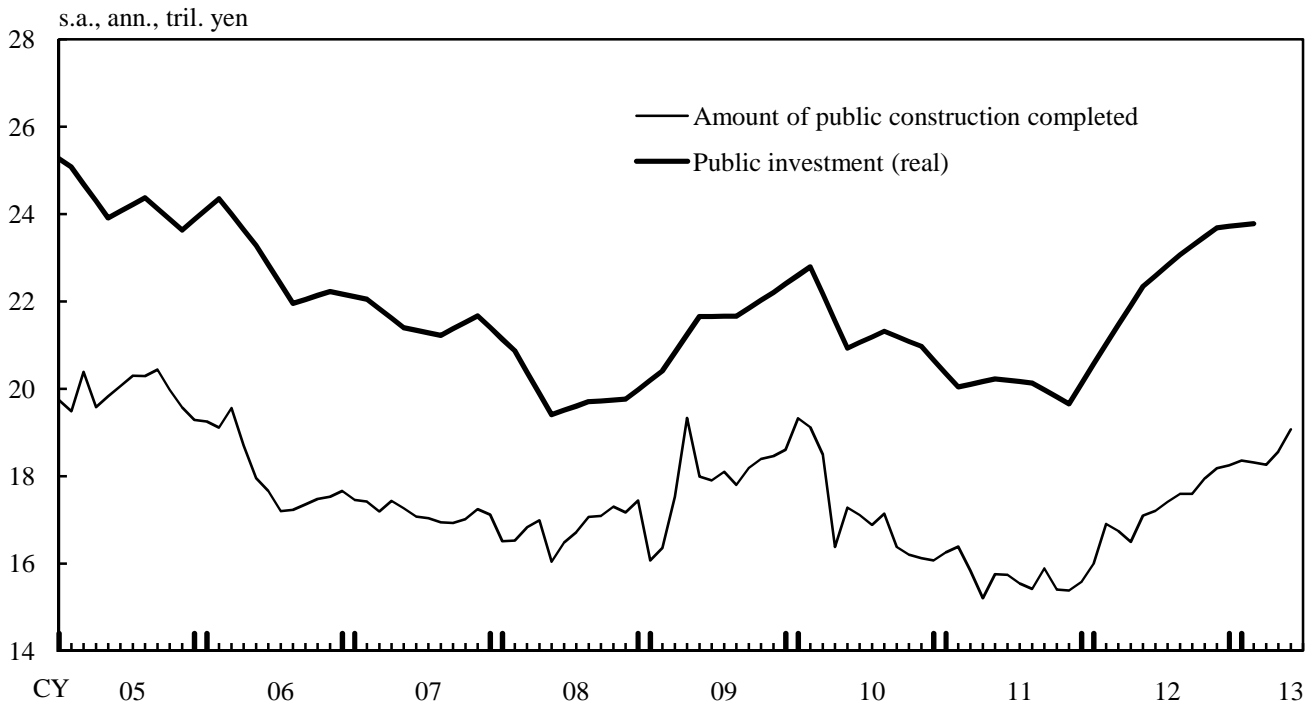
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

Source: Cabinet Office, "National Accounts."

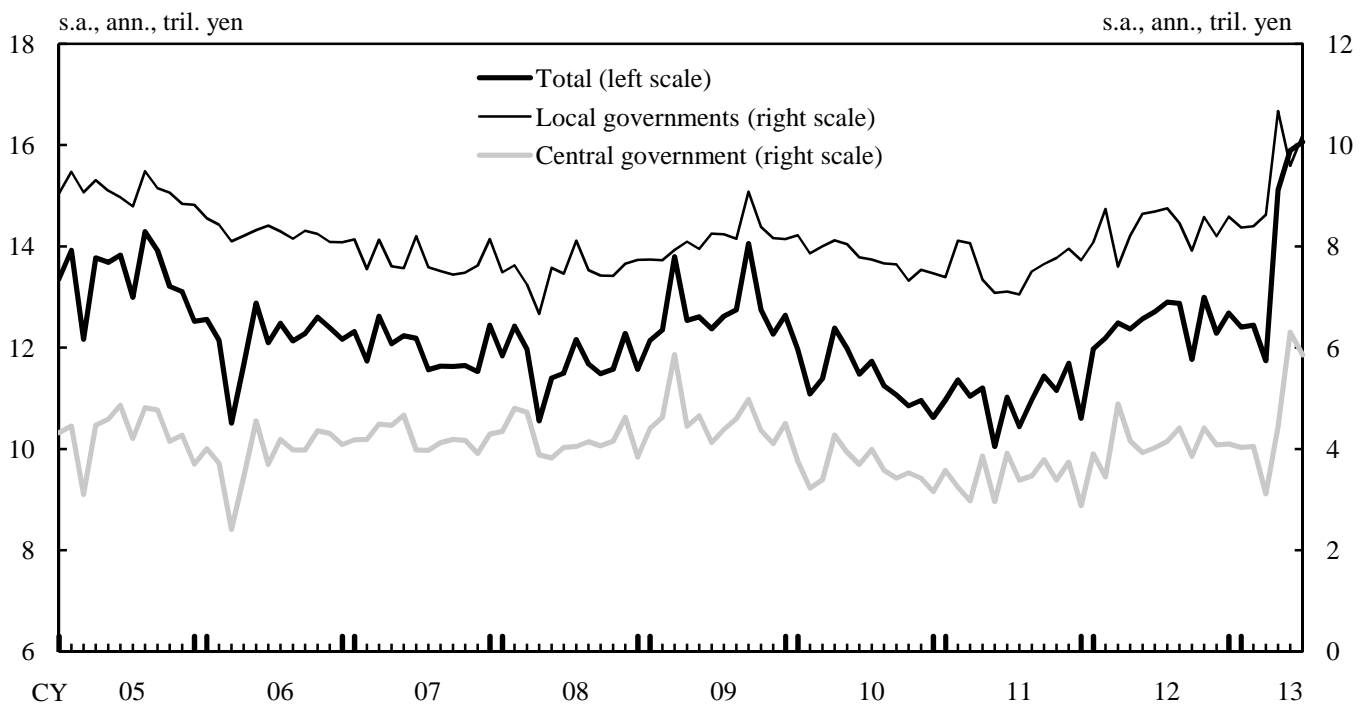


## Public Investment

### (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.

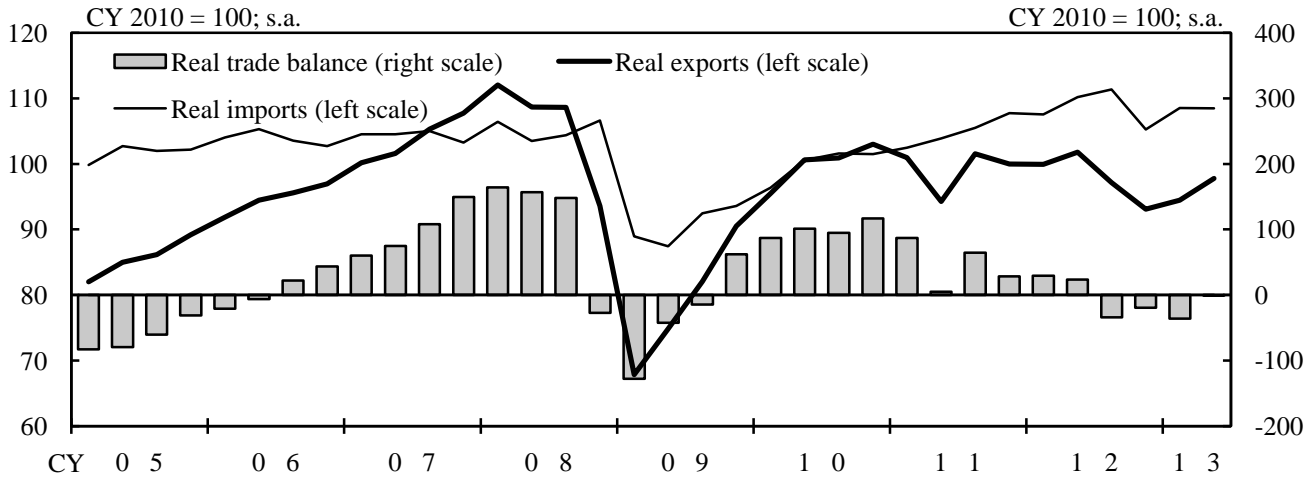
Sources: Cabinet Office, "National Accounts";

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

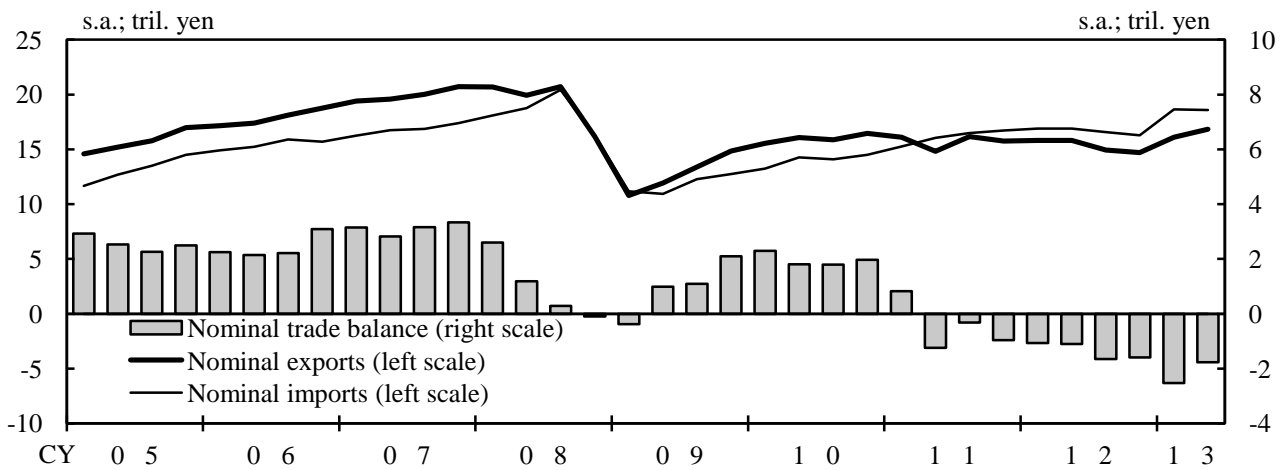
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance <sup>1</sup>

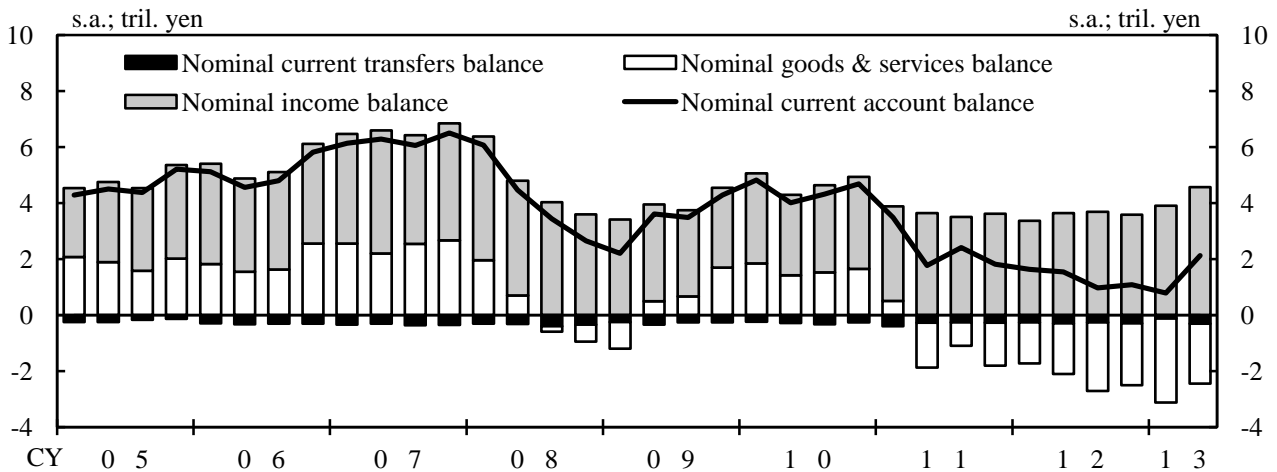
(1) Real Exports, Real Imports, and Real Trade Balance <sup>2</sup>



(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance <sup>3</sup>



(3) Nominal Current Account Balance and Nominal Goods & Services Balance <sup>3</sup>



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." "Real trade balance" is defined as real exports minus real imports.

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

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

Real Exports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	Q4	2013 Q1	Q2	2013 Apr.	May	Jun.
United States	<17.6>	-0.3	13.0	4.6	-3.8	-3.0	2.1	7.5	6.9	-3.9	4.6
EU	<10.2>	3.4	-12.9	-2.5	-6.3	-4.4	-0.4	0.4	4.0	-6.2	11.0
East Asia	<51.3>	-1.4	-2.6	1.8	-2.6	-3.9	-1.1	3.9	-0.4	2.3	2.3
China	<18.1>	1.3	-8.1	0.7	-2.6	-9.2	-0.7	7.0	-2.3	5.0	2.6
NIEs	<21.5>	-4.5	-4.7	1.6	-2.5	-0.5	-0.3	4.2	2.6	2.6	-0.8
Korea	<7.7>	-2.6	-3.5	-2.6	-0.1	1.1	1.0	2.0	4.3	-8.4	4.8
Taiwan	<5.8>	-9.4	-6.0	5.4	0.6	-2.8	2.4	-1.1	-6.3	9.2	8.2
Hong Kong	<5.1>	-4.2	-0.7	-1.7	-0.4	-0.9	-5.1	9.8	5.4	15.2	-10.1
Singapore	<2.9>	0.6	-11.6	13.1	-15.9	-2.6	0.5	13.8	18.3	-1.5	-7.8
ASEAN4 <sup>3</sup>	<11.7>	0.6	12.5	4.0	-2.7	-1.9	-3.1	-1.6	-3.1	-2.7	8.5
Thailand	<5.5>	1.4	19.3	9.1	-0.8	0.1	-6.0	0.7	0.1	-1.5	6.7
Others	<21.0>	0.9	1.7	1.4	-7.5	-5.1	3.6	1.0	-5.6	8.7	-2.1
Real exports		-0.9	-1.0	1.8	-4.5	-4.2	1.5	3.6	2.0	-0.2	2.0

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	Q4	2013 Q1	Q2	2013 Apr.	May	Jun.
Intermediate goods	<20.4>	-3.2	-0.7	5.0	0.4	-3.4	1.9	1.7	-0.9	-3.0	9.7
Motor vehicles and their related goods	<23.4>	-4.9	7.7	1.5	-6.2	-5.8	0.6	6.0	8.1	-3.9	5.6
IT-related goods <sup>4</sup>	<11.2>	2.3	3.6	-1.3	-0.3	-1.9	-6.5	0.8	-4.7	2.5	2.6
Capital goods and parts <sup>5</sup>	<29.3>	5.8	-4.0	0.8	-5.7	-6.5	1.1	0.4	-5.3	5.8	0.5
Real exports		-0.9	-1.0	1.8	-4.5	-4.2	1.5	3.6	2.0	-0.2	2.0

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

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

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

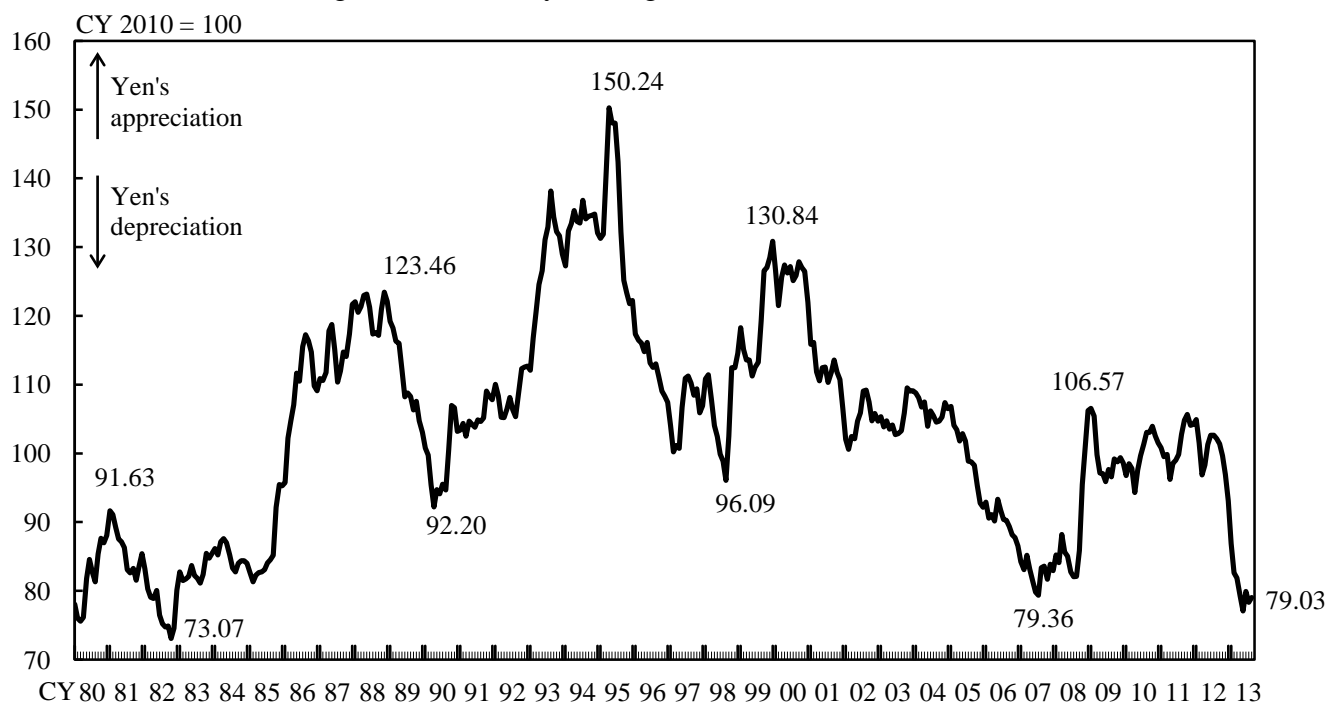
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.

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

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

## Real Effective Exchange Rate and Overseas Economies

## (1) Real Effective Exchange Rate (Monthly Average)



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

2. Figures for July and August (up to August 6) 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 Q3	Q4	2013 Q1	Q2
United States <sup>1</sup>	2.5	1.8	2.8	2.8	0.1	1.1	1.7
European Union <sup>2</sup>	2.1	1.6	-0.4	0.2	-1.9	-0.5	n.a.
Germany <sup>1</sup>	4.2	3.0	0.7	0.9	-2.7	0.3	n.a.
France <sup>1</sup>	1.6	2.0	0.0	0.3	-0.6	-0.6	n.a.
United Kingdom <sup>1</sup>	1.7	1.1	0.2	3.0	-0.9	1.1	2.4
East Asia <sup>3</sup>	9.2	5.9	4.8	4.8	6.6	2.2	n.a.
China <sup>1</sup>	10.4	9.3	7.8	8.2	7.8	6.6	7.0
NIEs <sup>1,3</sup>	8.9	4.3	1.6	1.2	4.1	1.0	n.a.
ASEAN4 <sup>1,3,4</sup>	7.4	3.0	6.3	6.3	9.6	-2.1	n.a.
Main economies <sup>3</sup>	6.7	4.5	3.7	3.8	4.1	1.6	n.a.

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

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

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

The members are described below.

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

East Asia: China, NIEs, and ASEAN4

NIEs: Korea, Taiwan, Hong Kong, and Singapore

ASEAN4: Thailand, 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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	Q4	2013 Q1	Q2	2013 Apr.	May	Jun.
United States	<8.6>	0.5	3.8	0.5	1.7	-8.1	-0.1	2.5	0.1	6.2	5.8
EU	<9.4>	10.3	4.0	1.7	3.0	-1.2	-1.8	-0.7	-3.7	-2.5	8.4
East Asia	<40.8>	11.1	3.8	1.2	0.6	-2.0	2.8	-1.9	-3.5	1.2	4.0
China	<21.3>	14.5	4.9	2.0	0.9	-0.9	3.6	-1.6	-1.4	0.9	4.7
NIEs	<8.5>	10.0	4.9	0.1	2.0	-1.6	1.1	-5.8	-8.2	3.4	3.9
Korea	<4.6>	24.3	4.2	-4.7	2.7	-3.8	2.8	-9.8	-10.6	5.7	1.4
Taiwan	<2.7>	-3.1	7.2	7.4	2.3	1.5	-1.1	5.1	-1.7	-1.1	15.1
Hong Kong	<0.2>	-5.6	-2.5	-18.6	-5.2	-1.3	8.2	-10.1	-17.2	-6.7	12.2
Singapore	<1.0>	-0.1	2.9	5.9	-1.2	-0.4	-1.1	-16.3	-16.8	7.4	-4.8
ASEAN4 <sup>3</sup>	<11.1>	5.6	0.5	0.3	-0.9	-4.7	2.7	1.0	-4.1	0.2	2.7
Thailand	<2.7>	7.3	-1.0	9.0	-2.4	-2.9	3.5	0.9	-3.2	-1.6	1.0
Others	<41.2>	-0.4	4.6	4.5	0.5	-10.5	7.7	1.0	-0.9	-1.2	1.6
Real imports		4.8	4.1	2.5	1.0	-5.5	3.1	-0.0	-2.3	1.1	3.1

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	Q4	2013 Q1	Q2	2013 Apr.	May	Jun.
Raw materials <sup>4</sup>	<40.8>	-0.2	4.5	2.9	0.3	-12.3	9.8	-1.6	-4.4	1.2	1.2
Intermediate goods	<13.5>	11.7	-2.7	0.7	3.0	-3.1	-1.5	-2.6	-1.5	-5.0	3.9
Foodstuffs	<8.3>	1.3	-0.7	-2.7	0.6	-3.9	3.4	-6.1	-7.9	1.6	0.2
Consumer goods <sup>5</sup>	<7.5>	9.9	4.5	3.6	0.8	-2.9	1.9	3.0	2.2	1.5	8.1
IT-related goods <sup>6</sup>	<12.0>	11.2	8.8	2.3	2.1	3.5	2.9	1.4	-3.9	8.0	2.6
Capital goods and parts <sup>7</sup>	<10.9>	11.3	10.3	3.8	-0.7	-3.7	0.5	4.6	2.9	1.9	5.6
Excluding aircraft	<10.1>	12.6	6.9	3.8	0.2	-2.3	-0.3	4.8	3.6	-1.8	4.9
Real imports		4.8	4.1	2.5	1.0	-5.5	3.1	-0.0	-2.3	1.1	3.1

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

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.

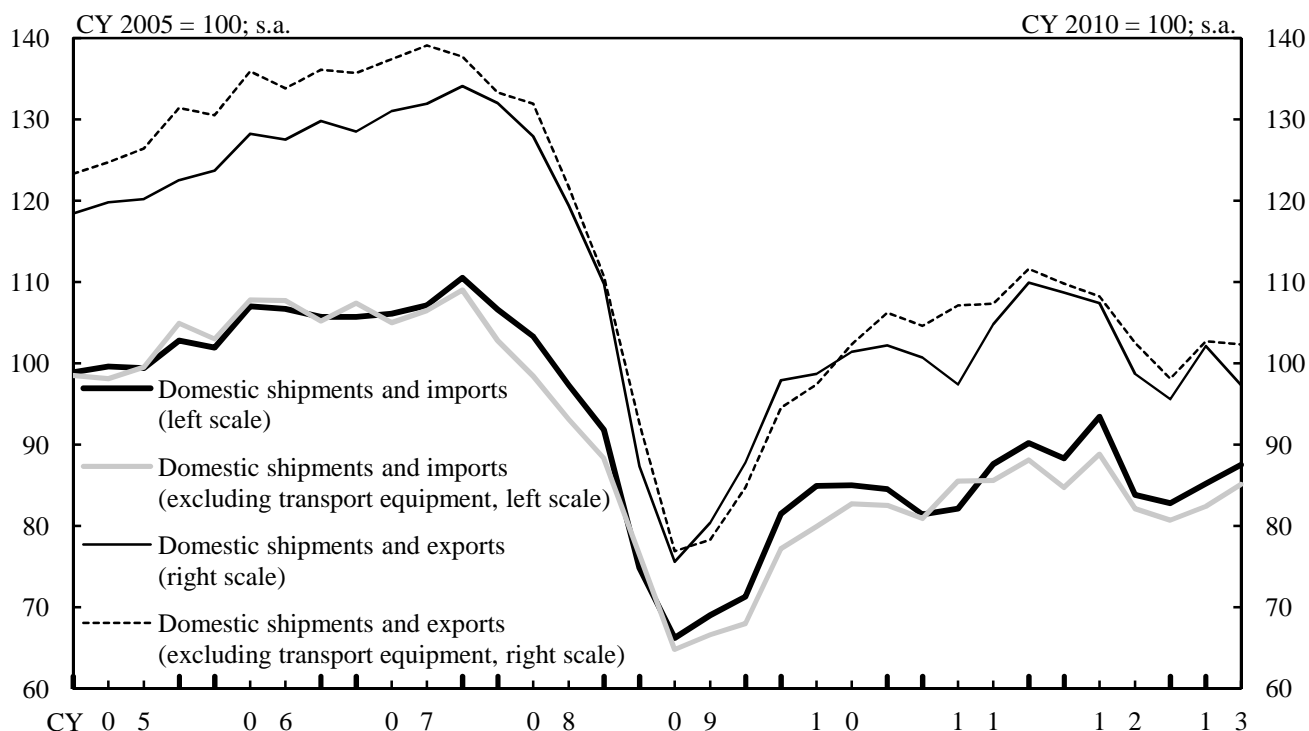
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.

7. Excludes IT-related goods.

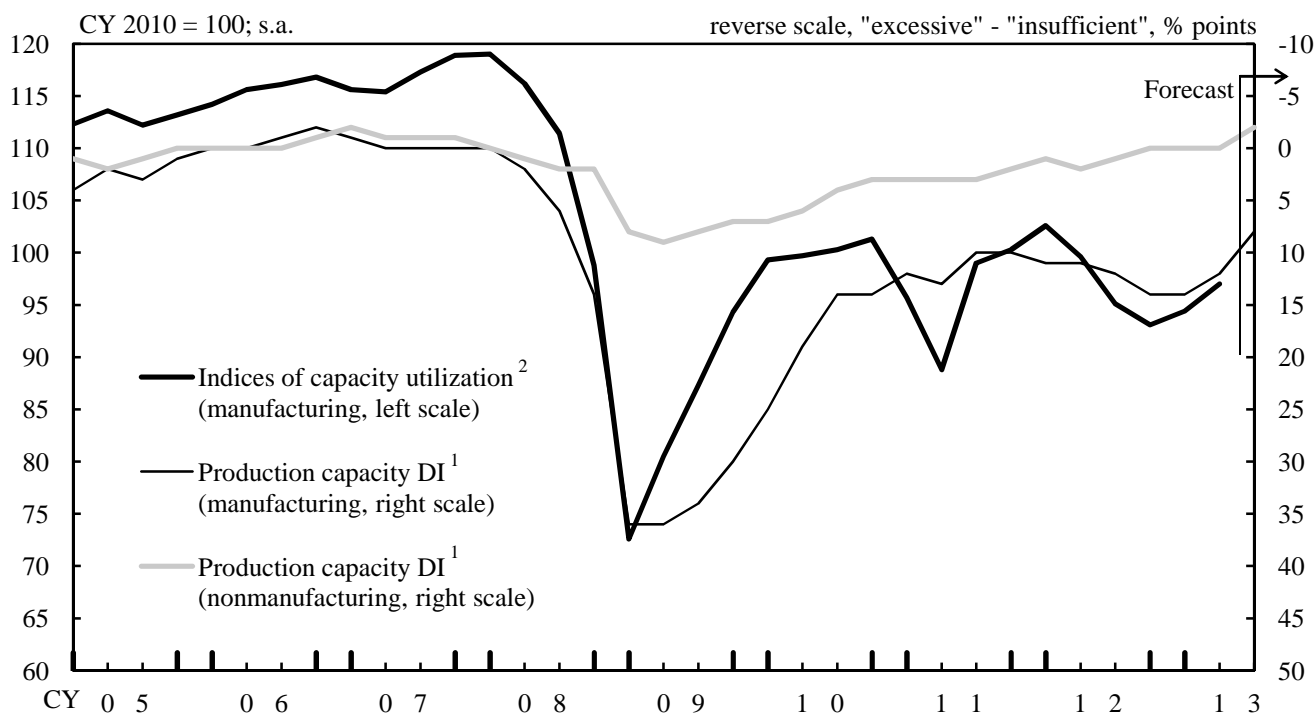
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

## Coincident Indicators of Business Fixed Investment

## (1) Aggregate Supply and Shipments of Capital Goods



## (2) Indices of Capacity Utilization and Production Capacity DI



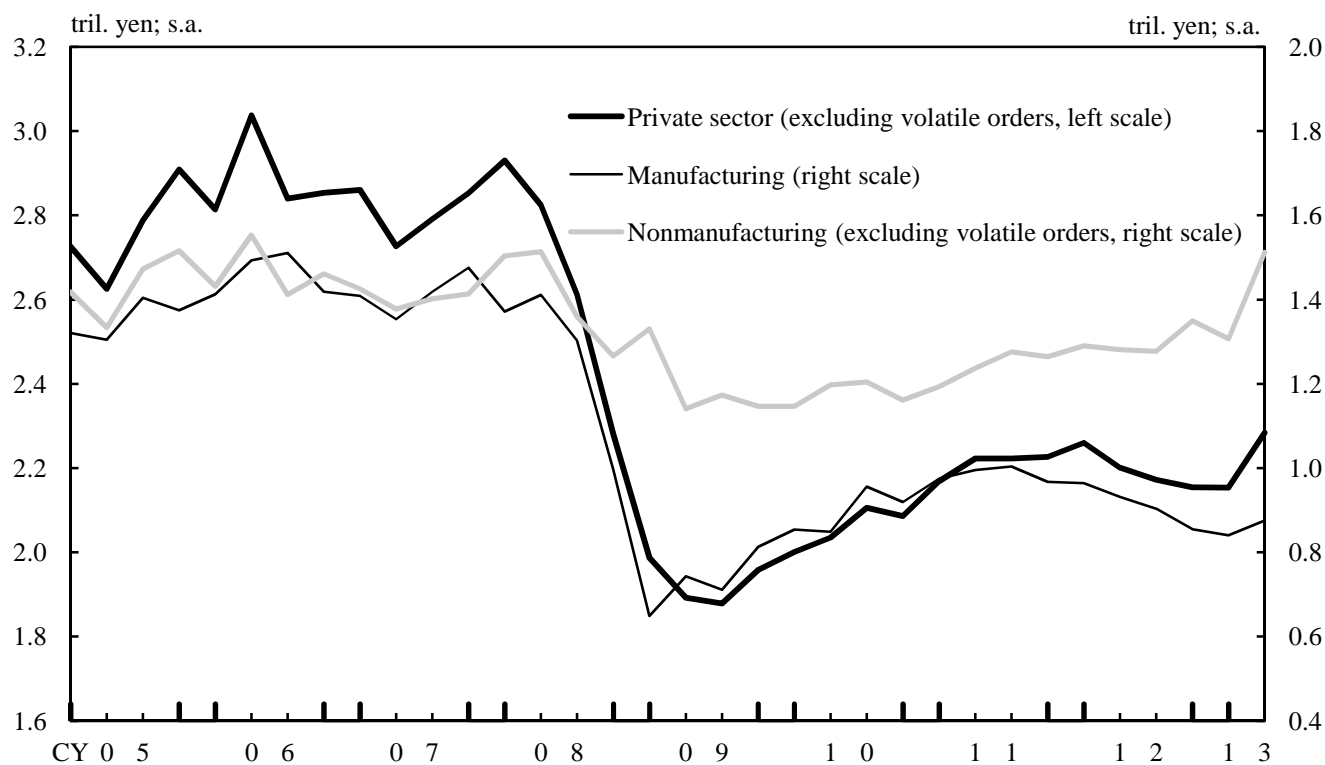
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2013/Q2 is the average of April-May.

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

## Leading Indicators of Business Fixed Investment

### (1) Machinery Orders



Notes: 1. Figures for 2005/Q1 are estimated by the Cabinet Office.

2. Volatile orders: Orders for ships and those from electric power companies.

3. Figures for 2013/Q2 are April-May averages in quarterly amount.

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



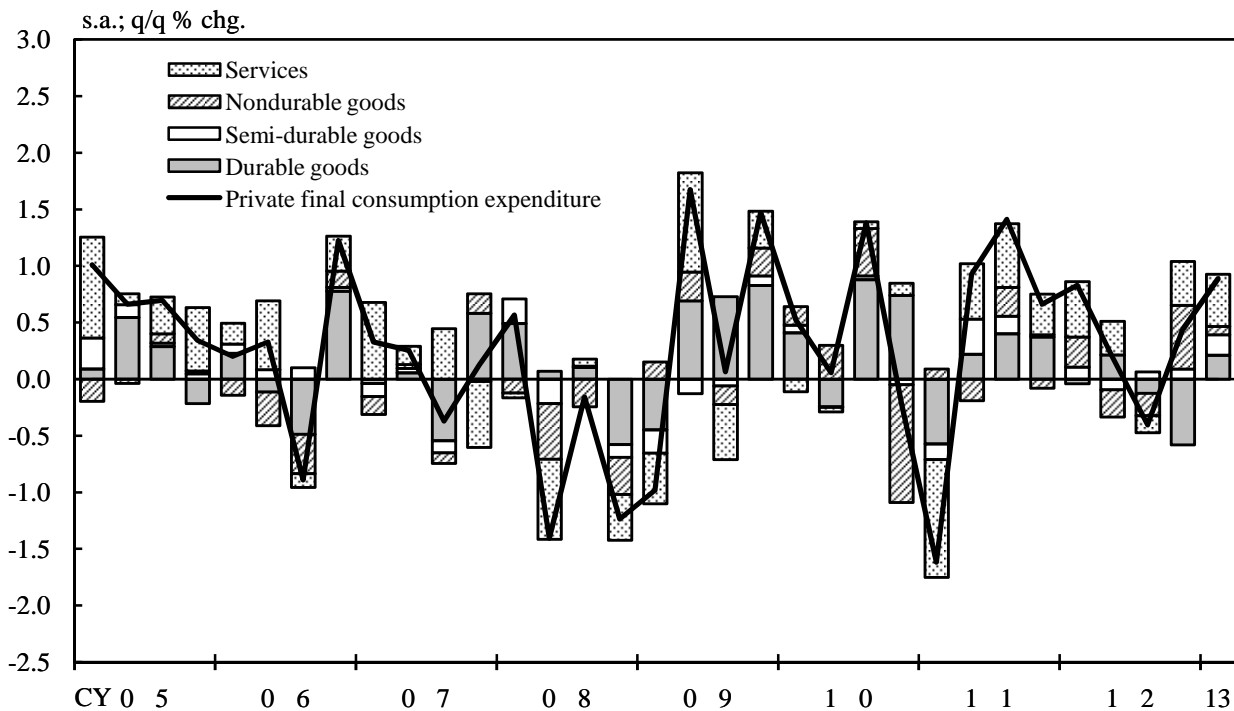
Note: Seasonally adjusted by X-12-ARIMA.

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

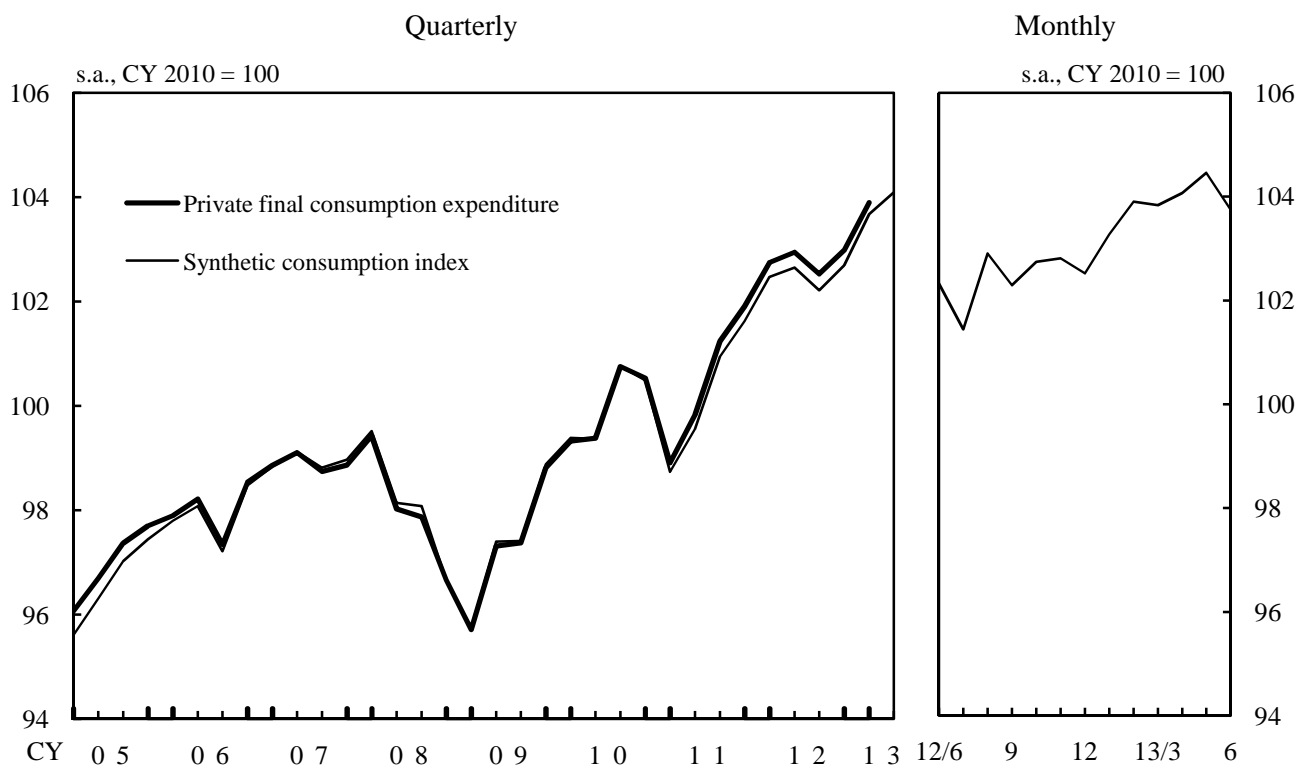
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



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

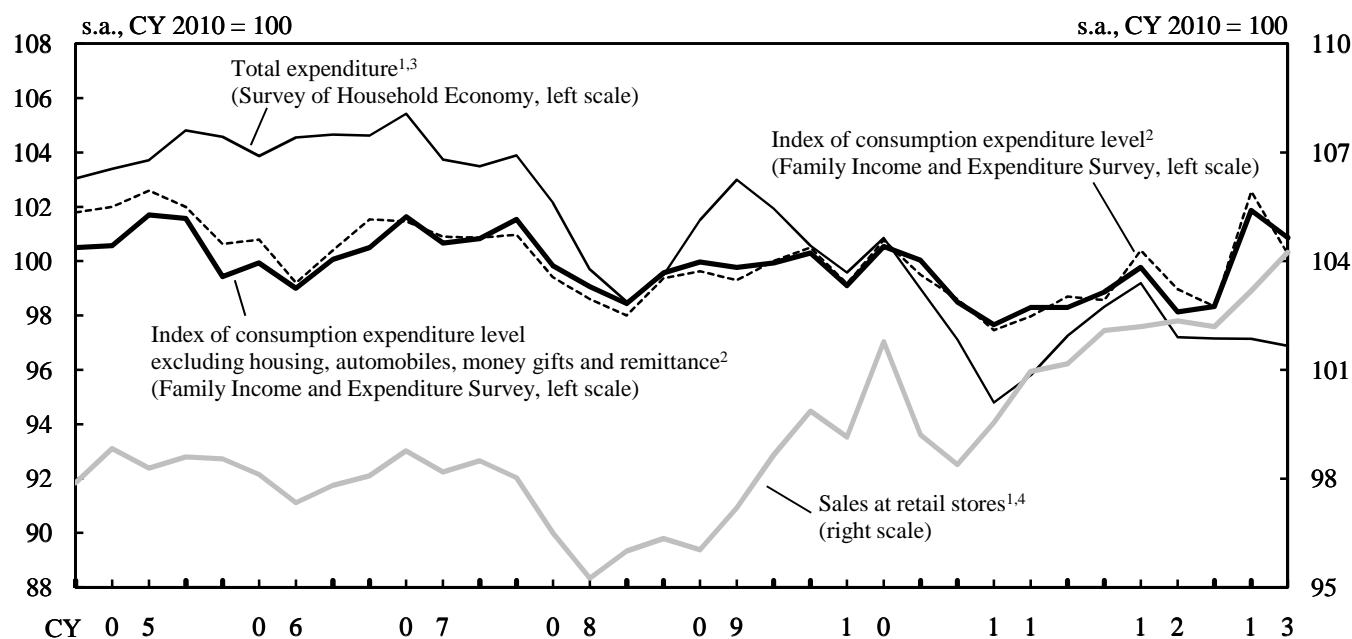


Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

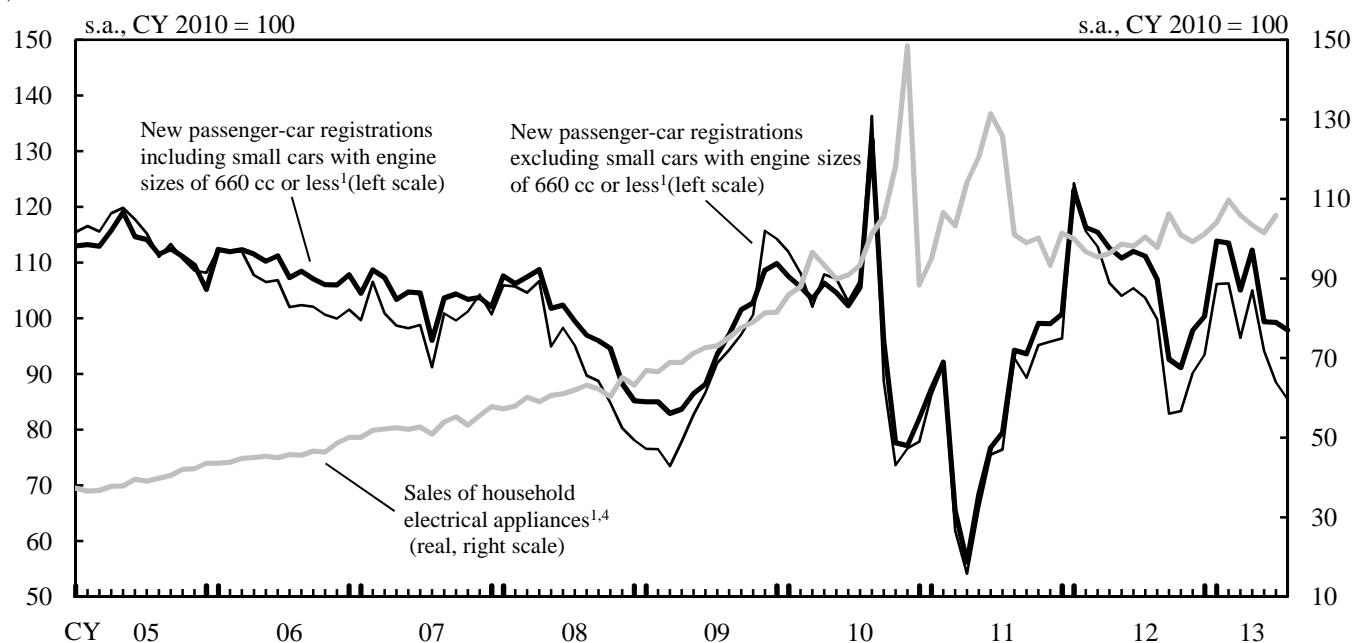


## Indicators of Private Consumption (2)

## (1) Household Spending (Real)

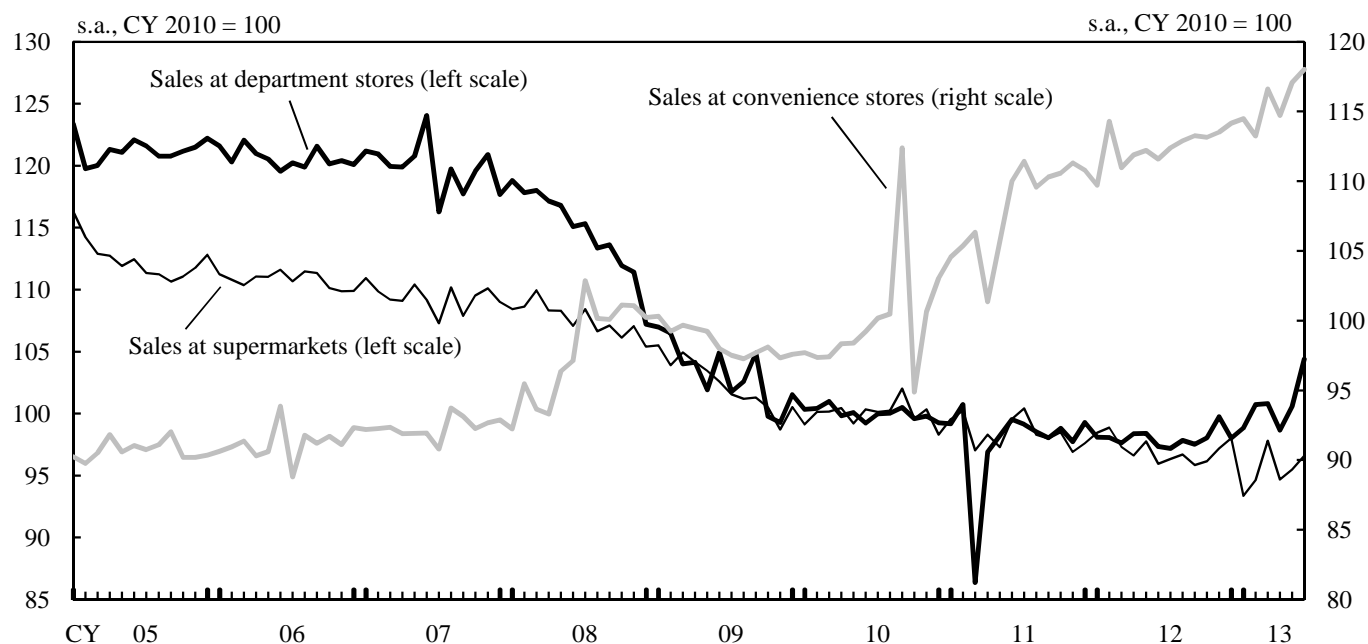


## (2) Sales of Durable Goods

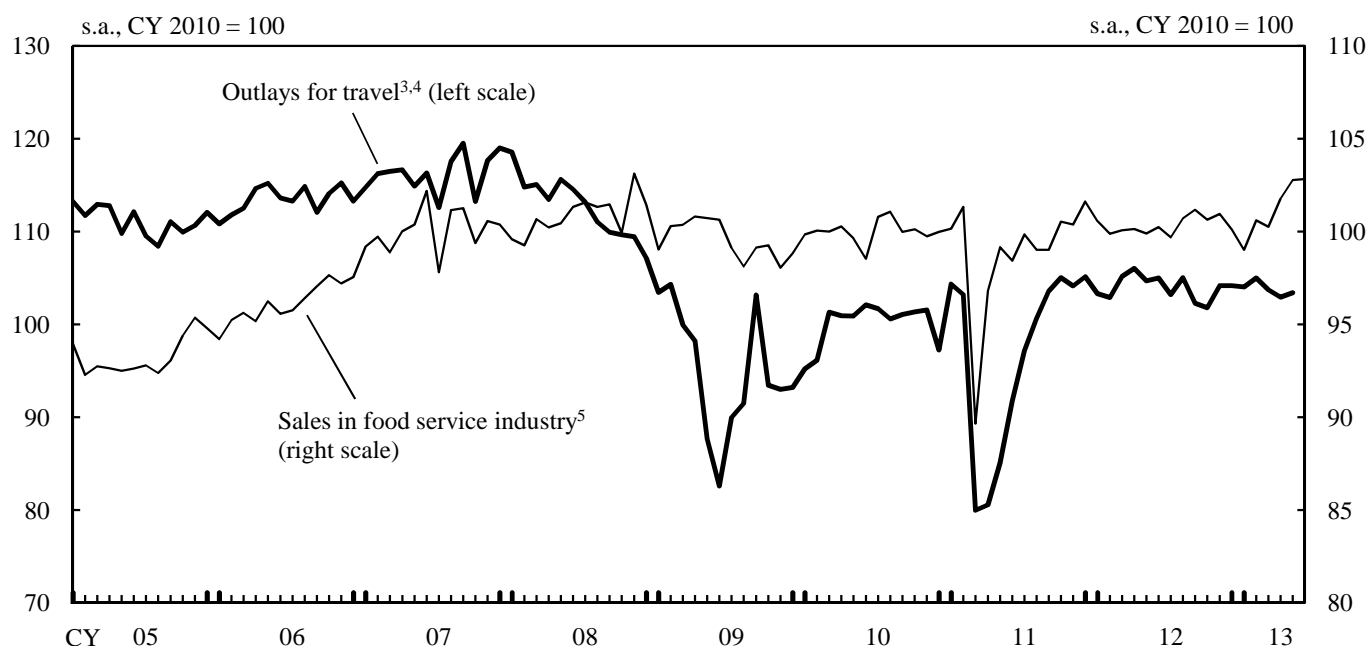


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household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

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

Indicators of Private Consumption<sup>1</sup> (3)(1) Sales at Retail Stores (Nominal)<sup>2</sup>

## (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";

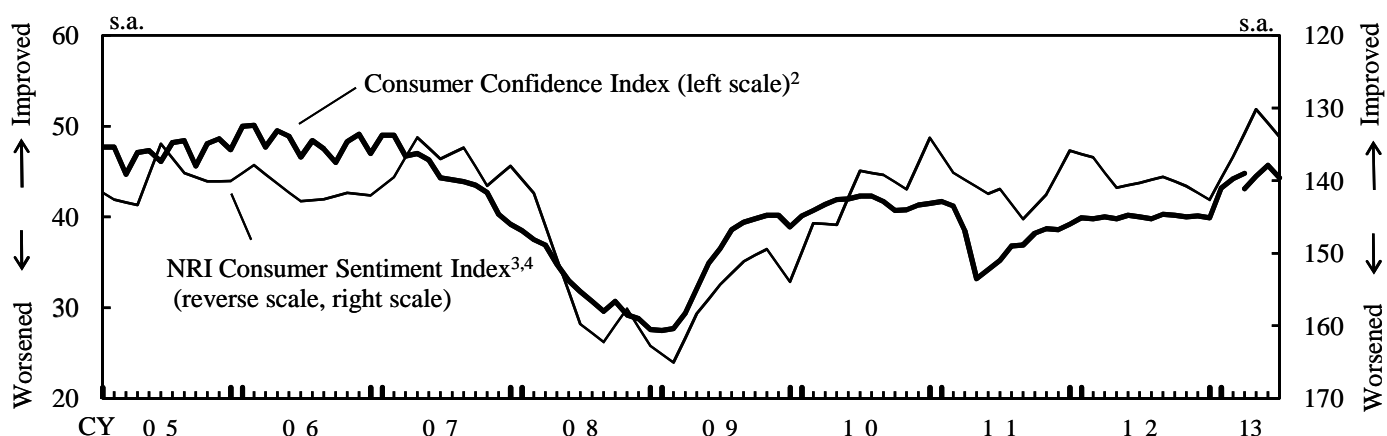
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

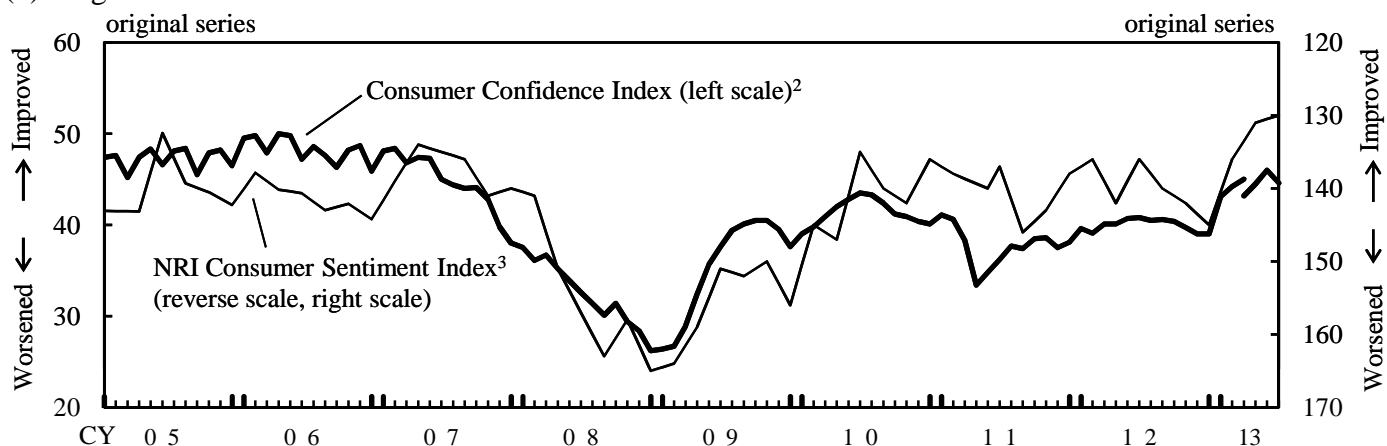
(Research on the food service industry)."

# Consumer Confidence<sup>1</sup>

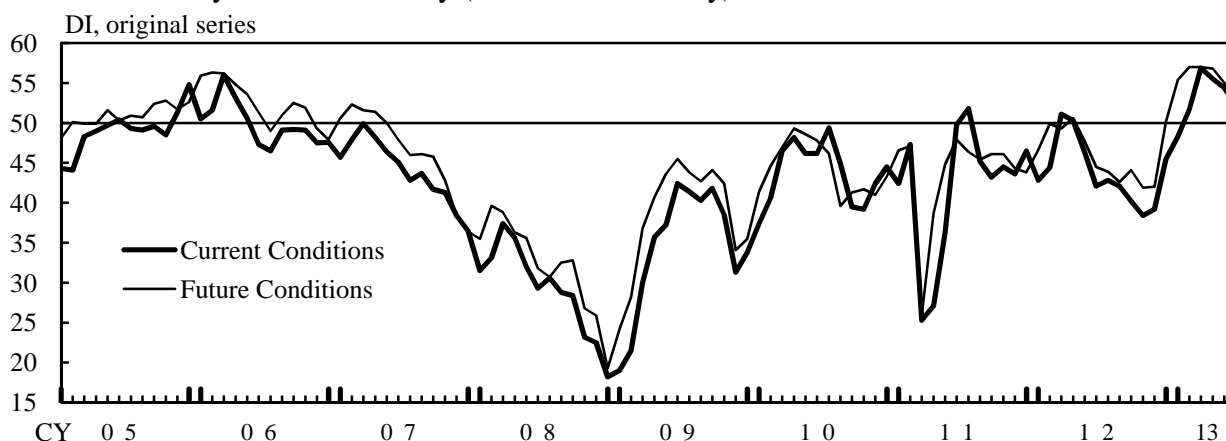
## (1) Seasonally Adjusted Series



## (2) Original Series



## Reference: Economy Watchers Survey (Household Activity)

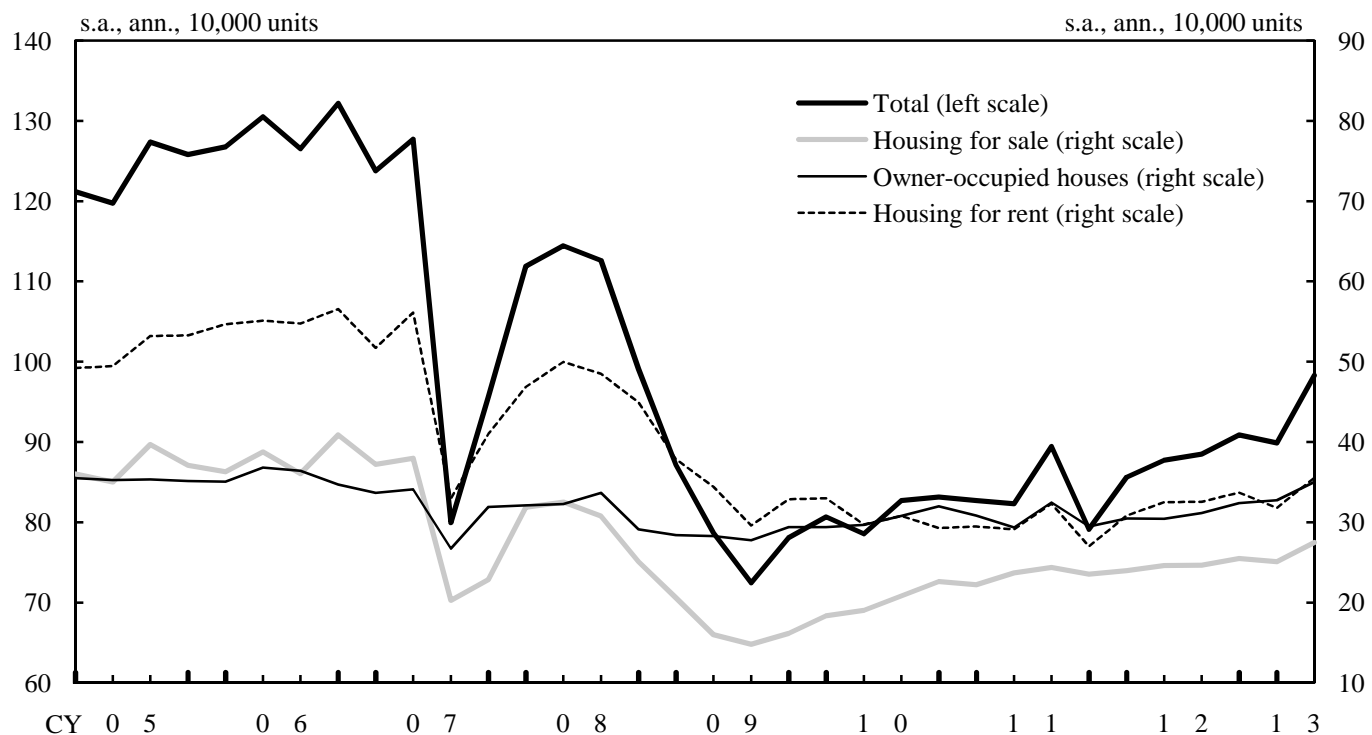


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting the Consumer Confidence Survey to a postal method, along with some other changes. For this reason, there is a discontinuity between data up to March 2013, which were obtained from the survey on a visit-and-leave method, and those thereafter. The figure for March 2013 on a postal-method basis is obtained from an examination survey.
3. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.
4. Figures are seasonally adjusted by X-12-ARIMA.

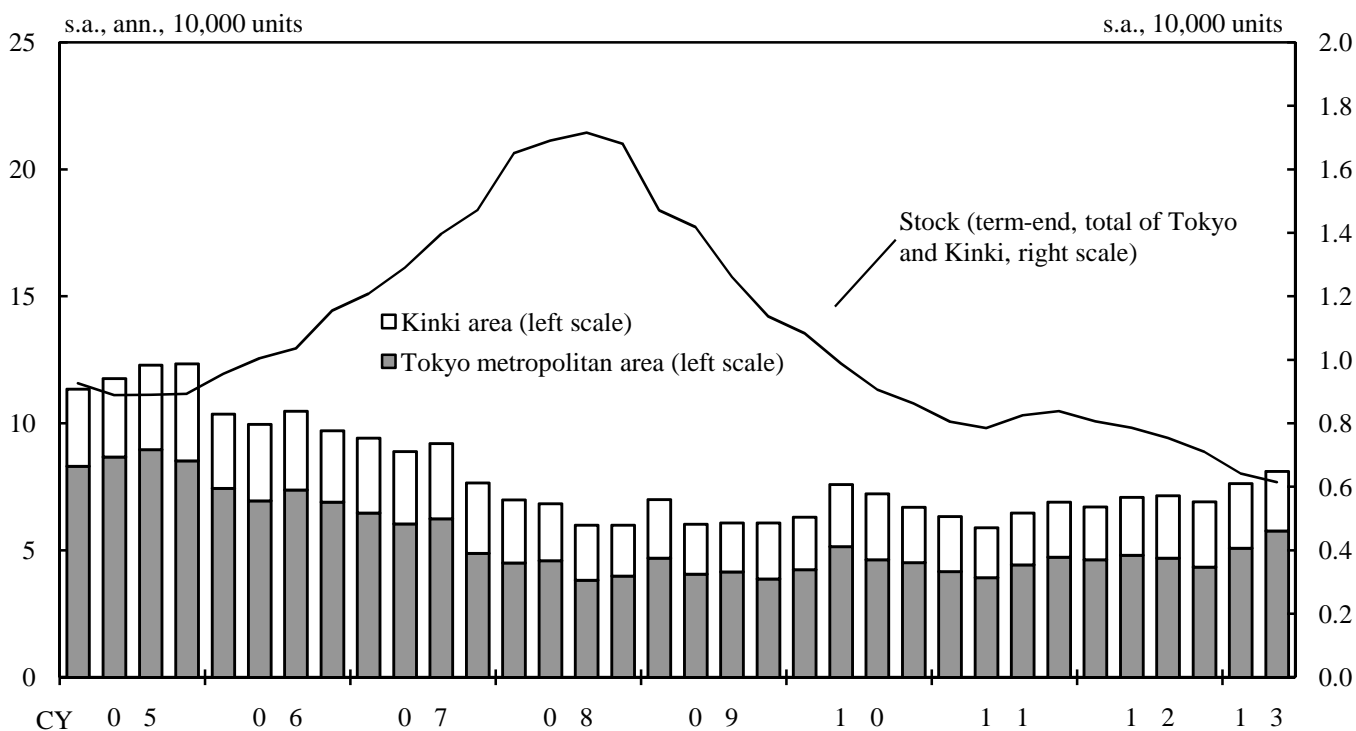
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

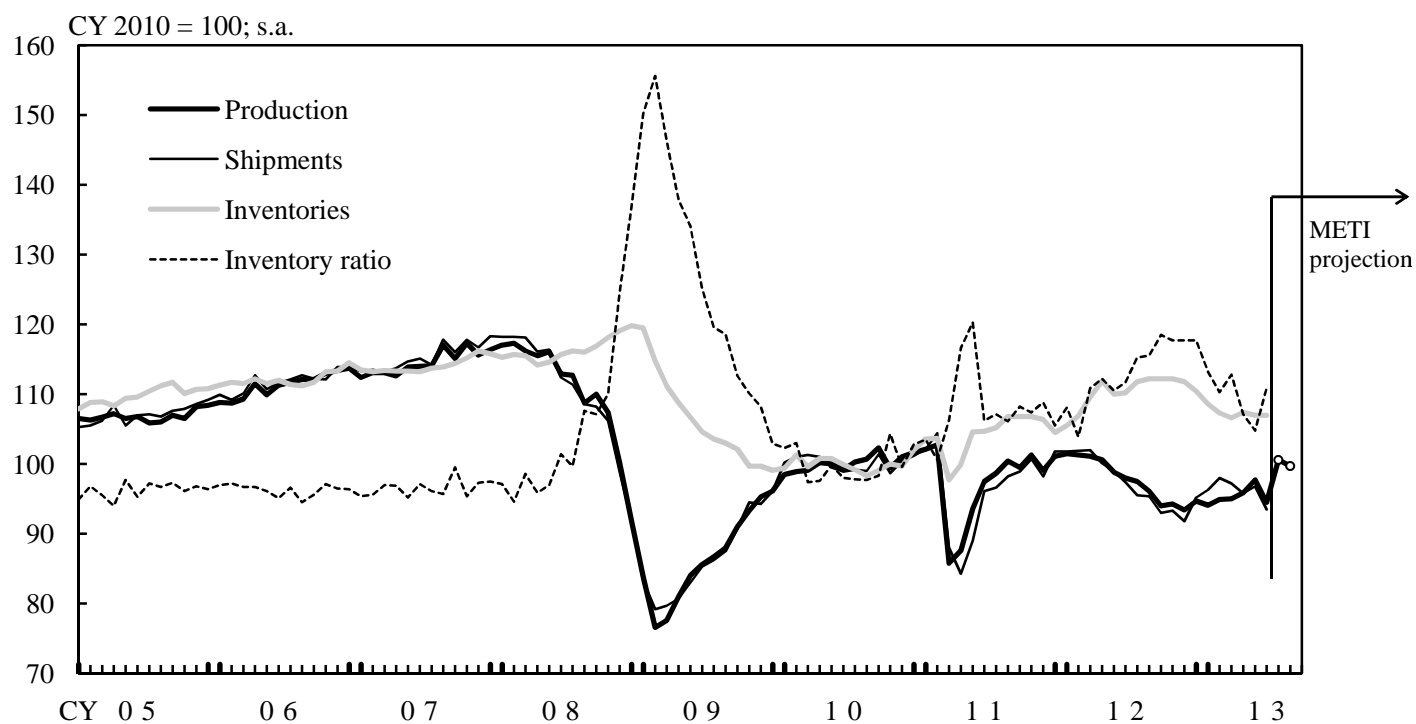


Note: Seasonally adjusted by X-12-ARIMA.

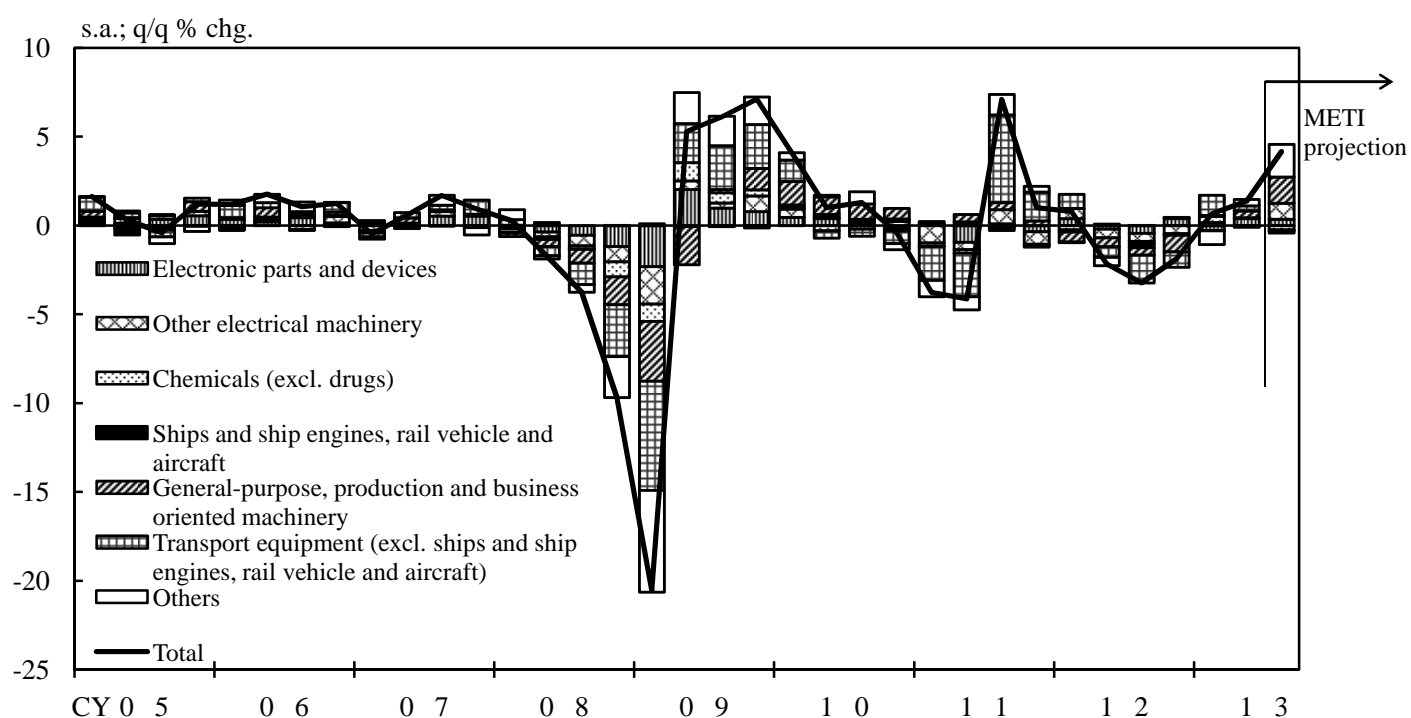
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

## Production, Shipments, and Inventories

### (1) Production, Shipments, and Inventories



### (2) Production by Industry<sup>1,2,3</sup>



Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

2. Figures up to 2008/Q1 are on the 2005 base.

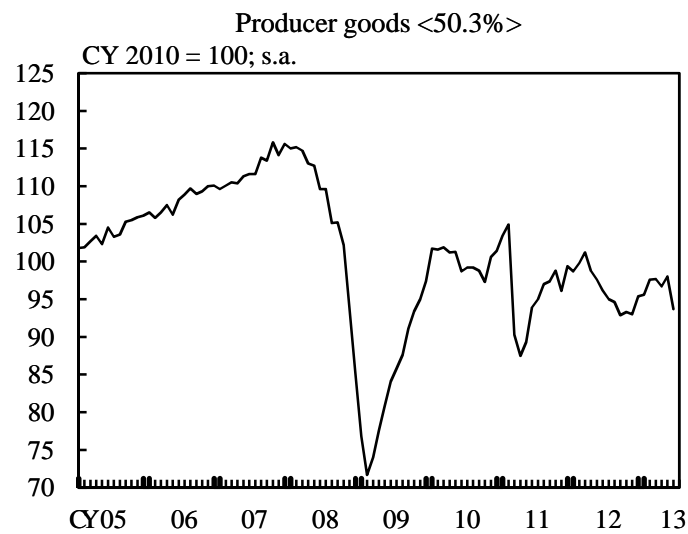
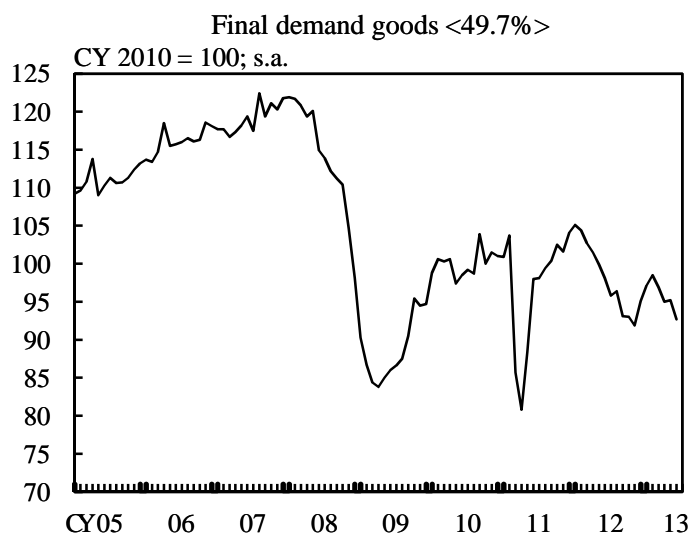
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2013/Q3 figures are based on the assumption that the production levels in September are the same as those of August.

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

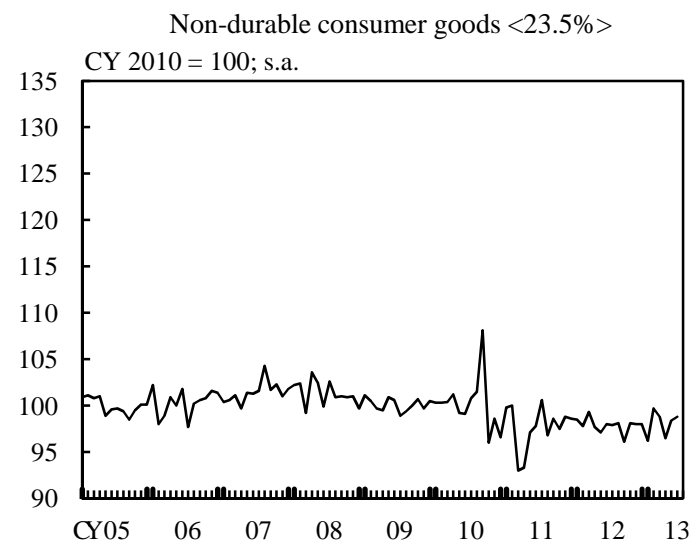
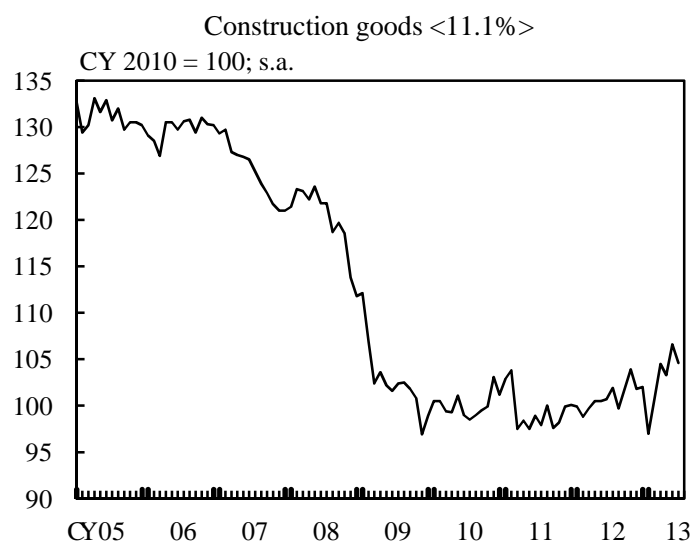
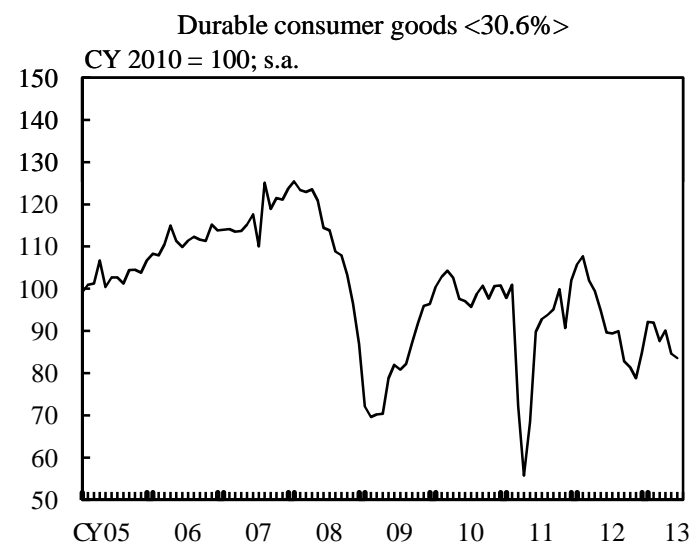
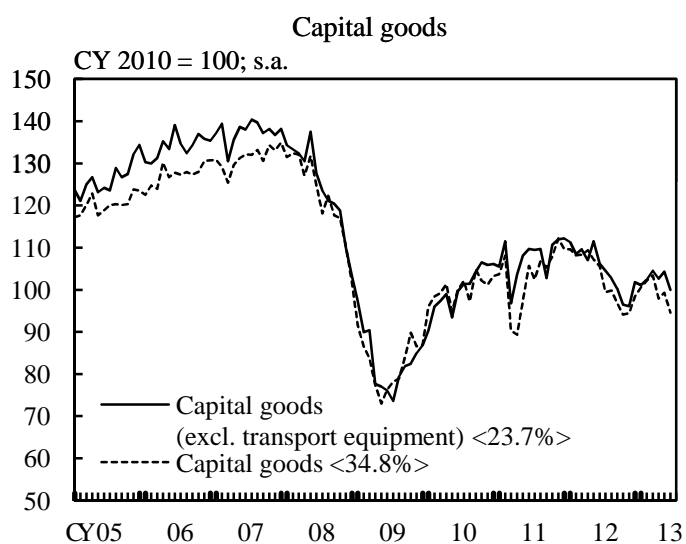
## Shipments by Type of Goods

### (1) Final Demand Goods and Producer Goods



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

### (2) Breakdown of Final Demand Goods

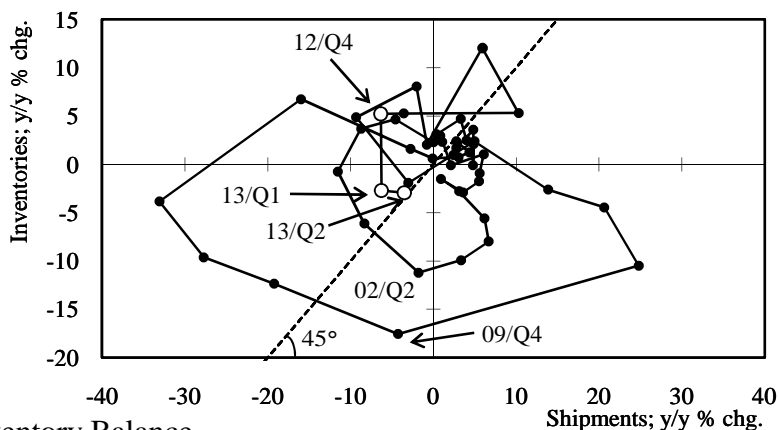


Note: Figures in angle brackets show the shares among shipments of final demand goods.

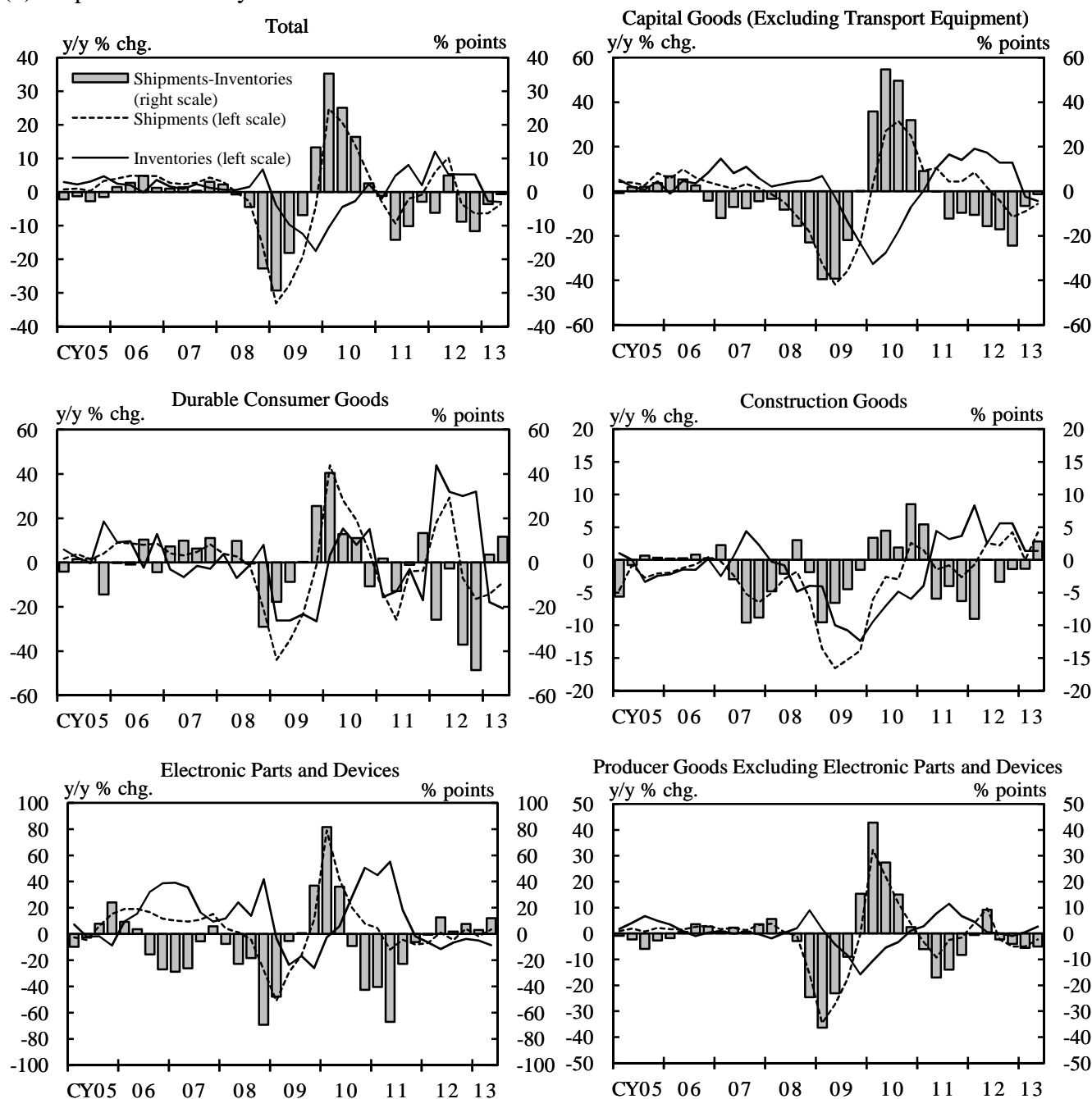
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

# Inventory Cycle

(1) Inventory Cycle (Total)



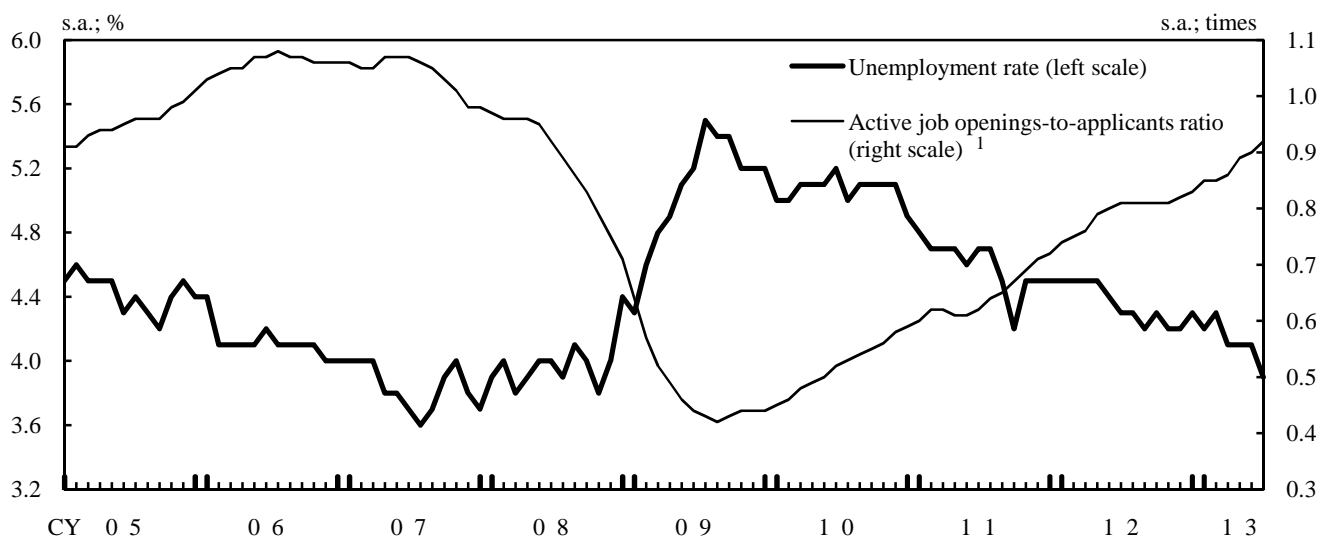
(2) Shipment-Inventory Balance



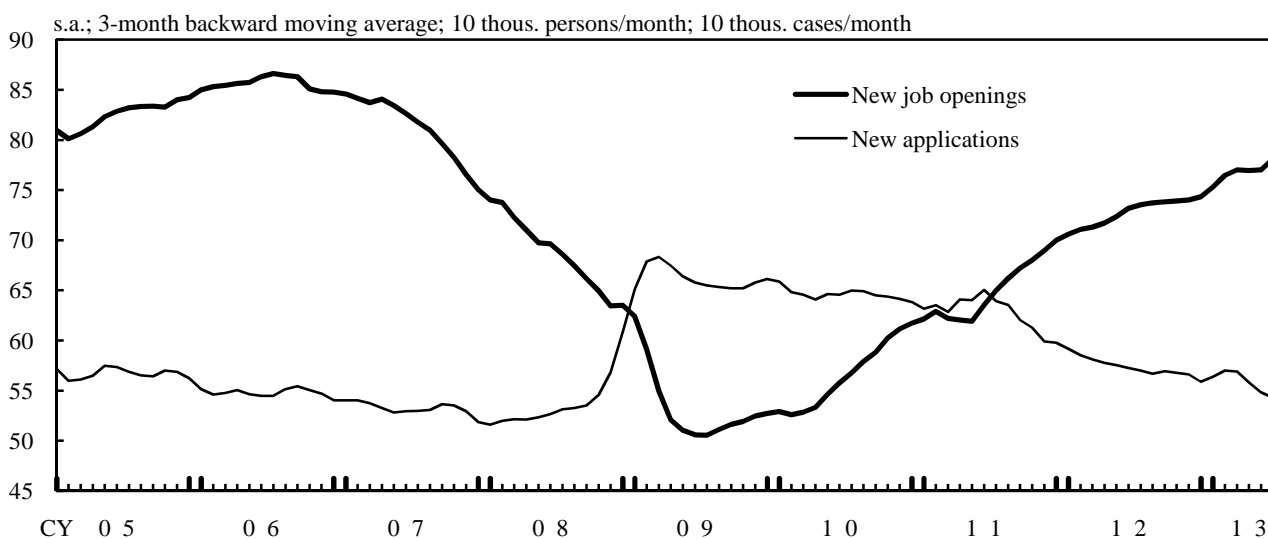
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

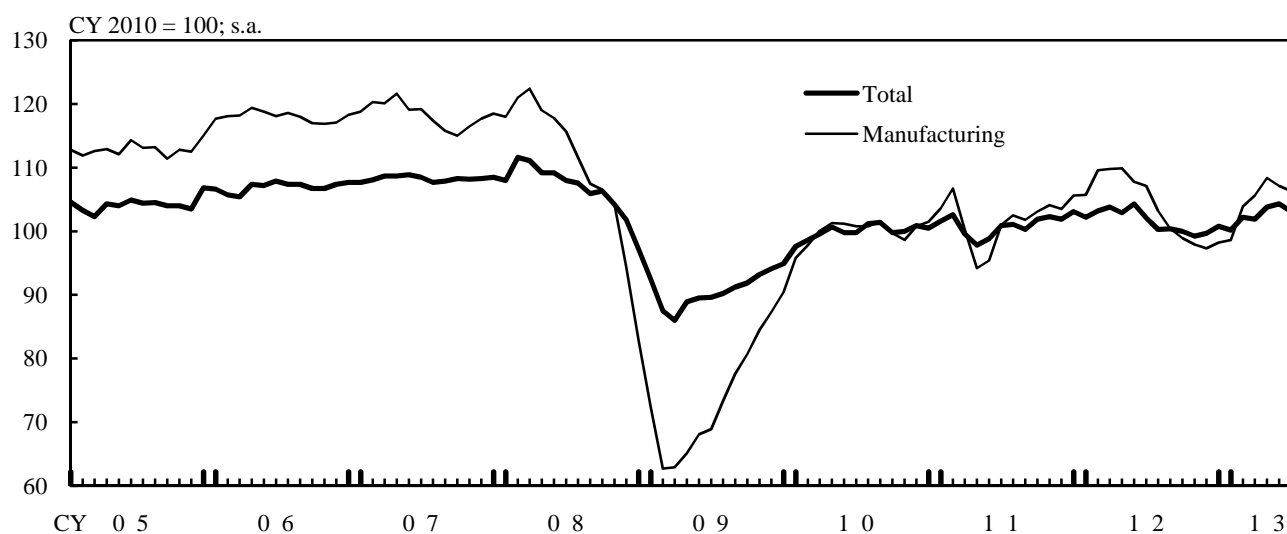
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications<sup>1</sup>



(3) Non-Scheduled Hours Worked<sup>2</sup>



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

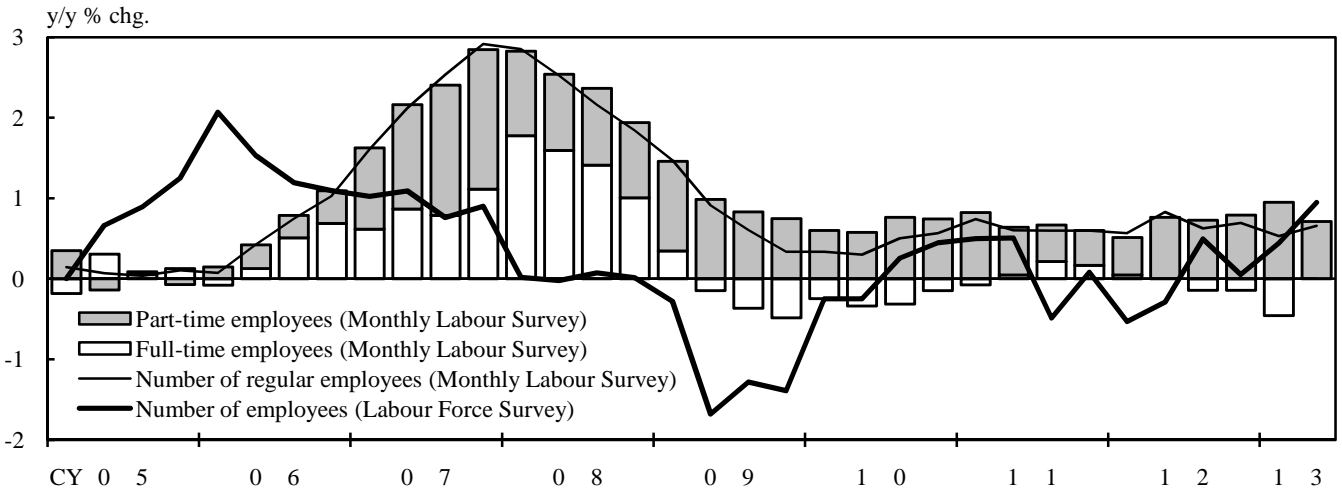
2. Data are for establishments with at least five employees.

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

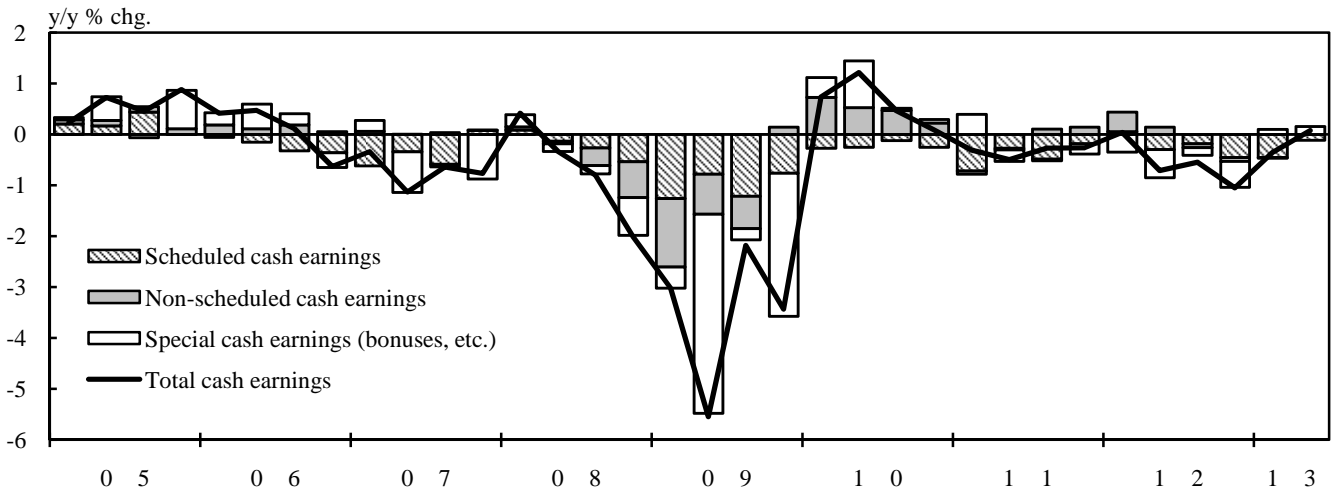


Employee Income

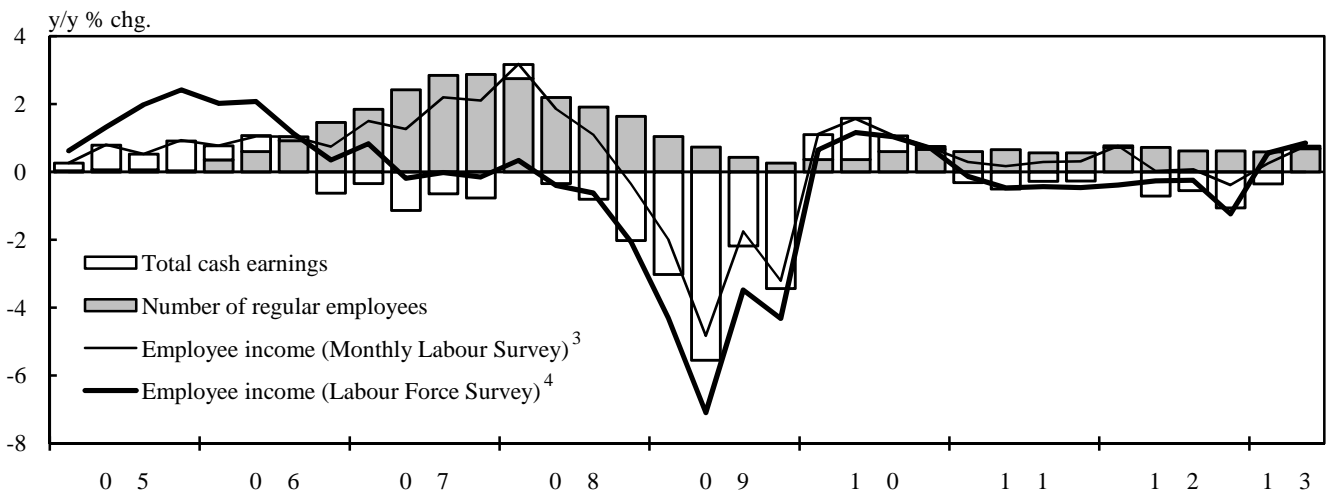
(1) Number of Employees<sup>1</sup>



(2) Breakdown of Total Cash Earnings<sup>1,2</sup>



(3) Breakdown of Employee Income<sup>1,2</sup>

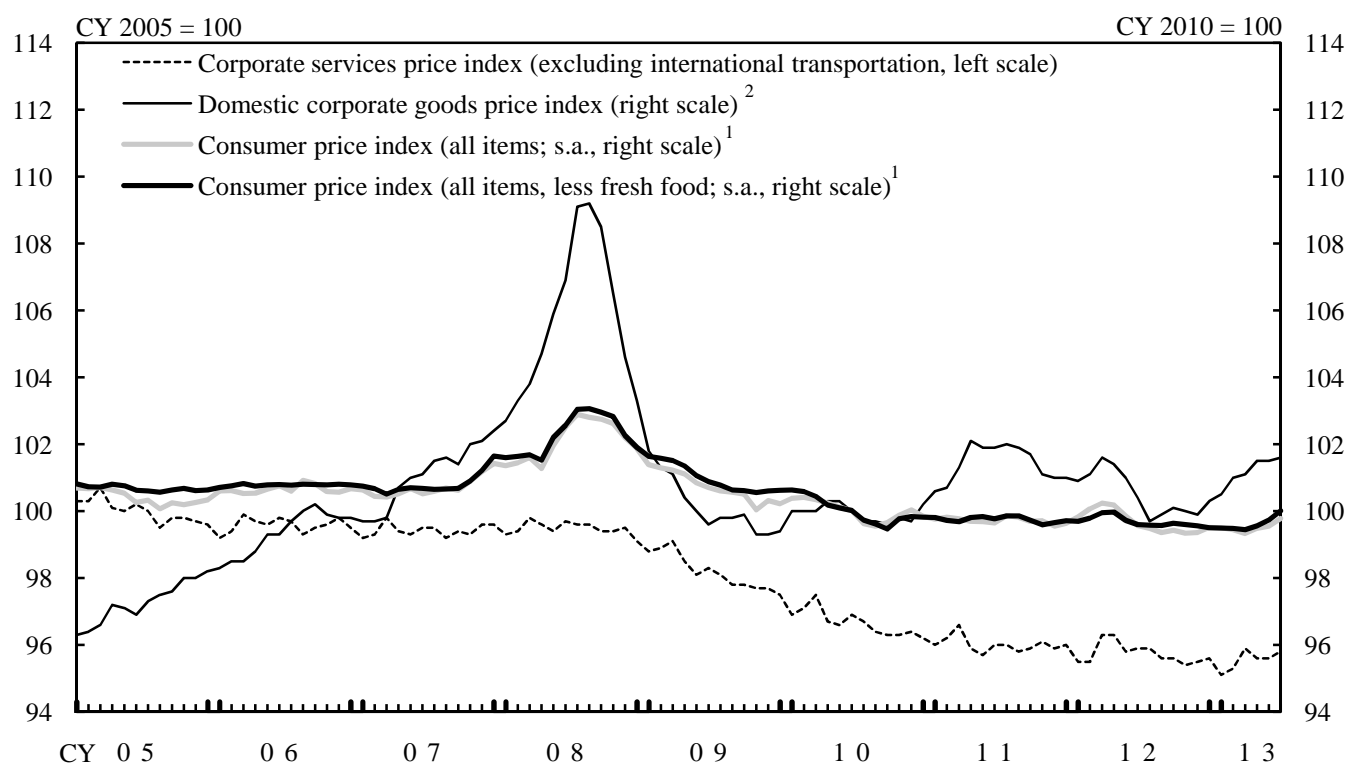


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 Figures for 2013/Q2 are those of June.  
 3. Calculated as the "number of regular employees" (Monthly Labour Survey)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

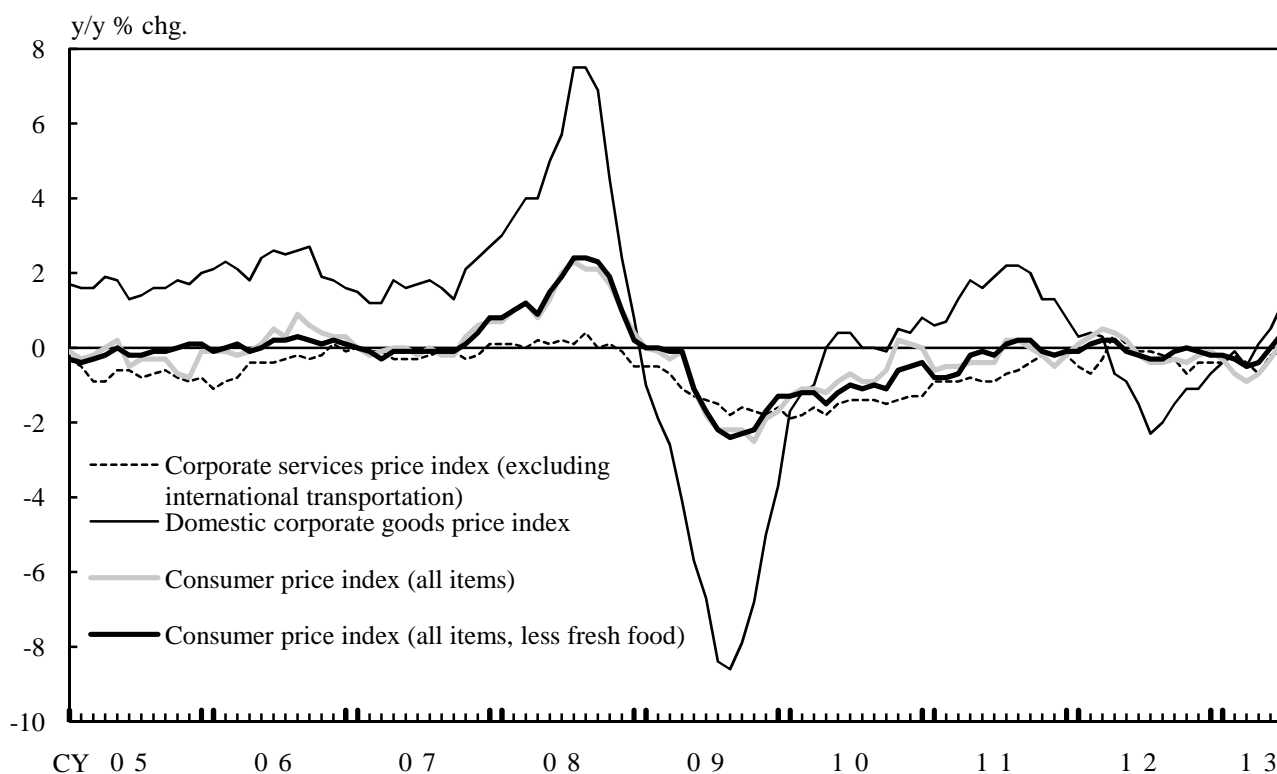
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

## Prices

## (1) Level



## (2) Changes from a Year Earlier



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

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

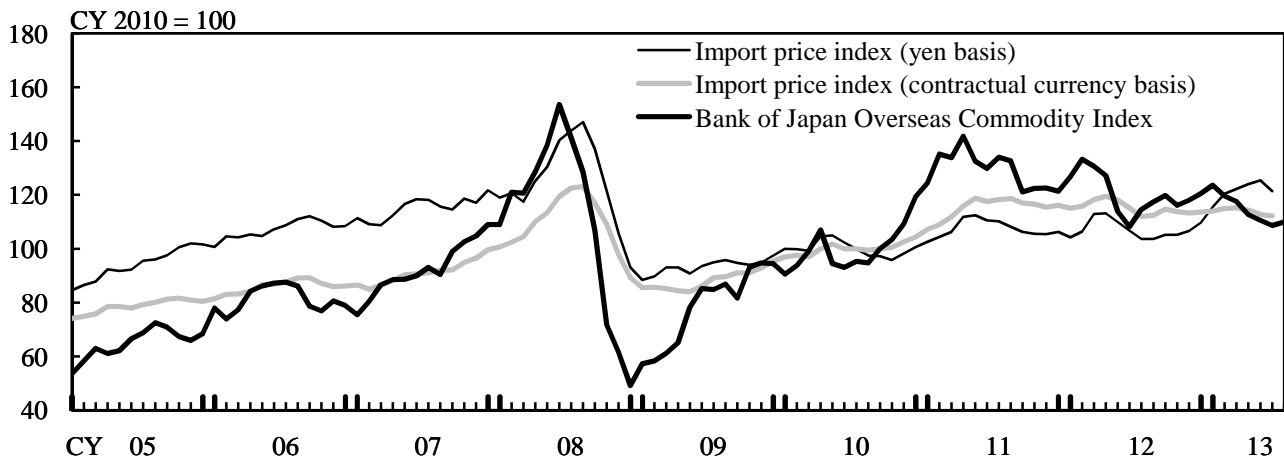
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

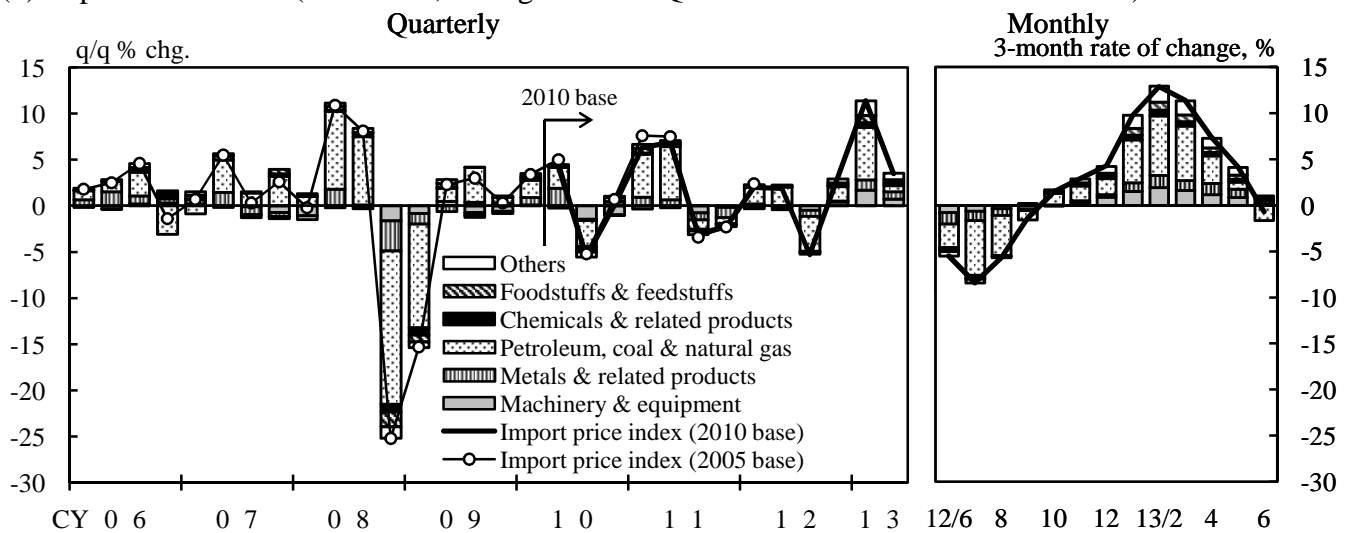
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

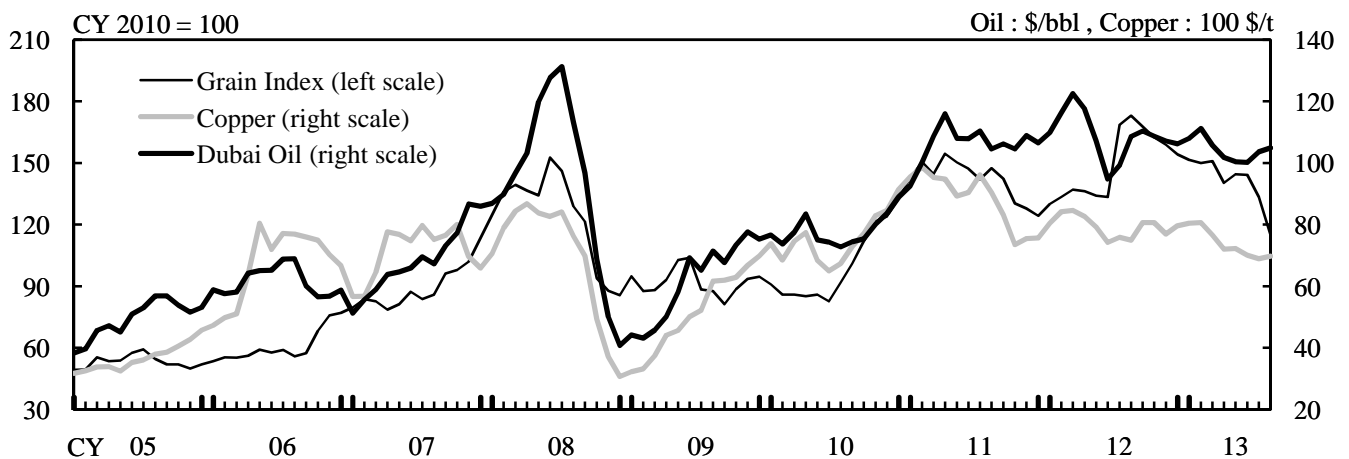


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

(3) International Commodity Prices

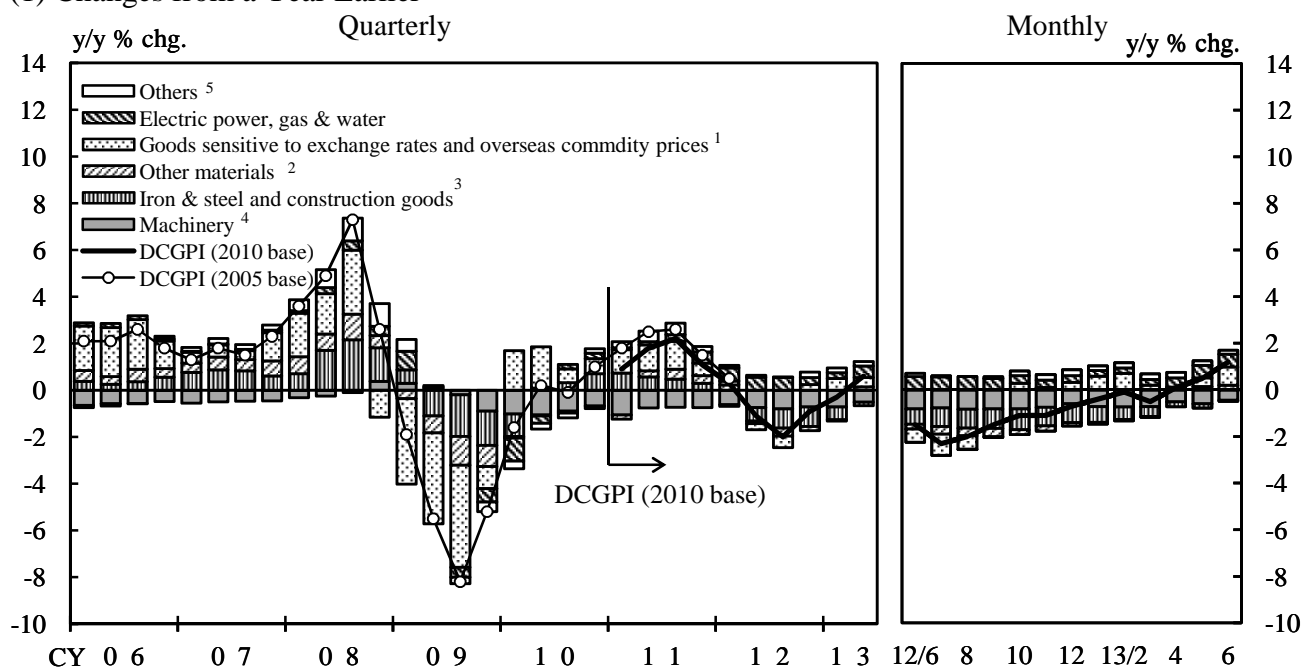
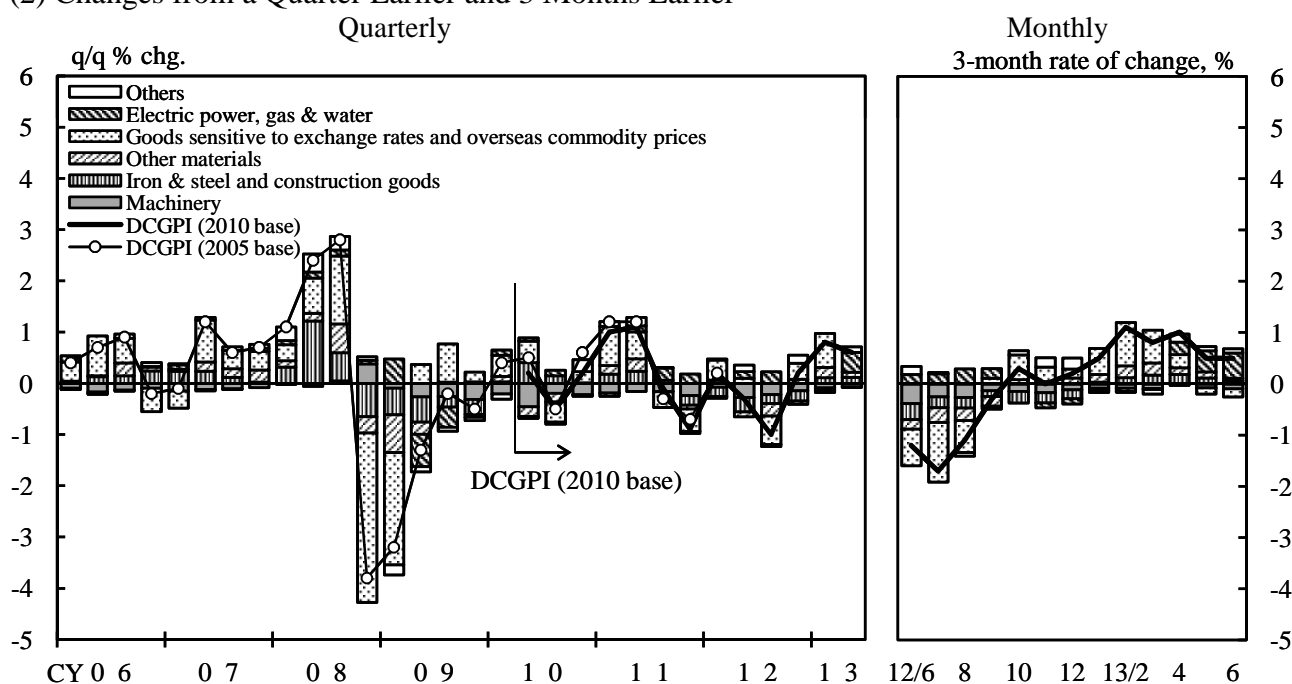


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."  
 2. Monthly averages. Figures for August 2013 are averages up to August 7.

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 Earlier<sup>6</sup>

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

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

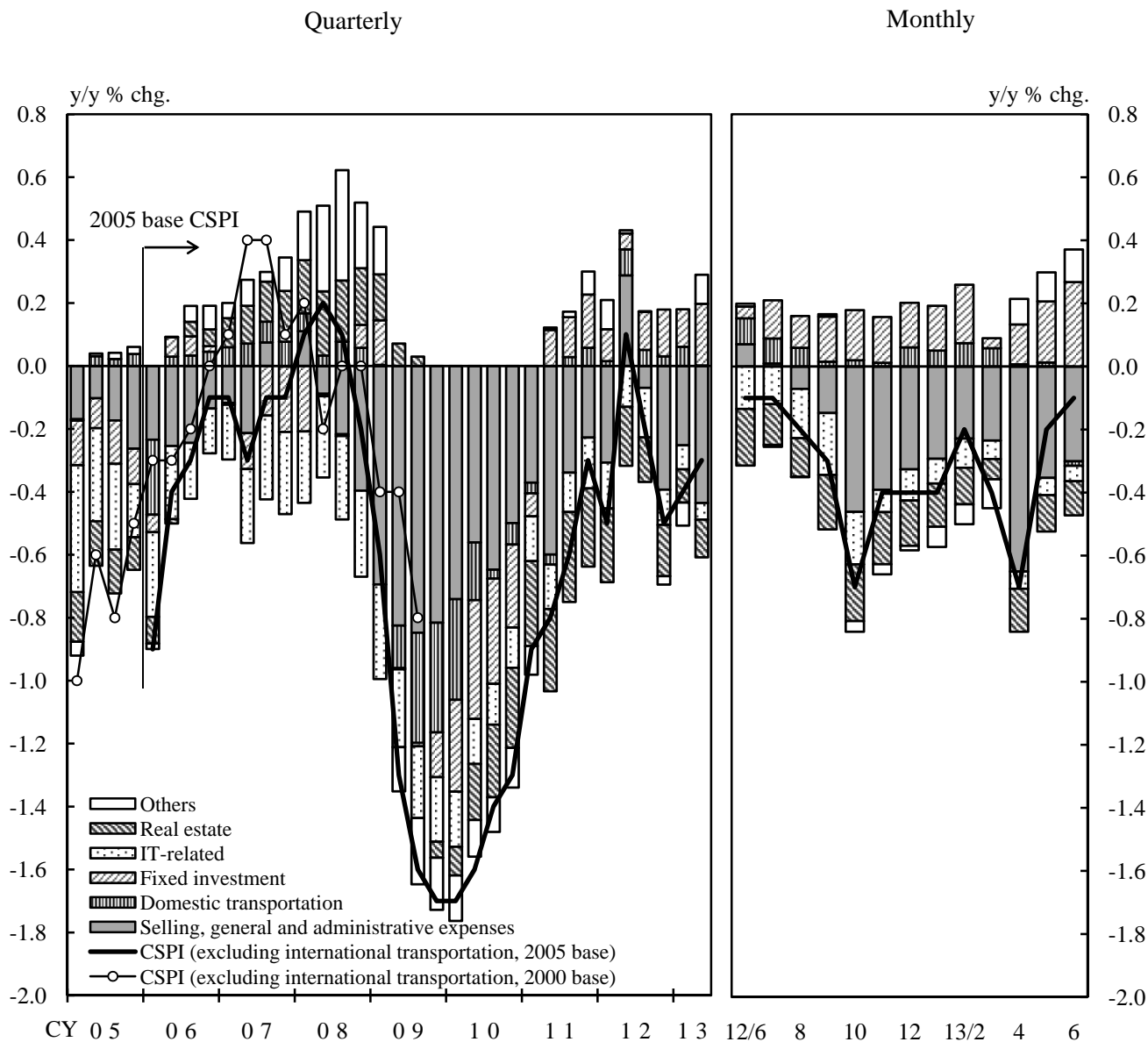
3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.

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

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

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

Corporate Services Price Index

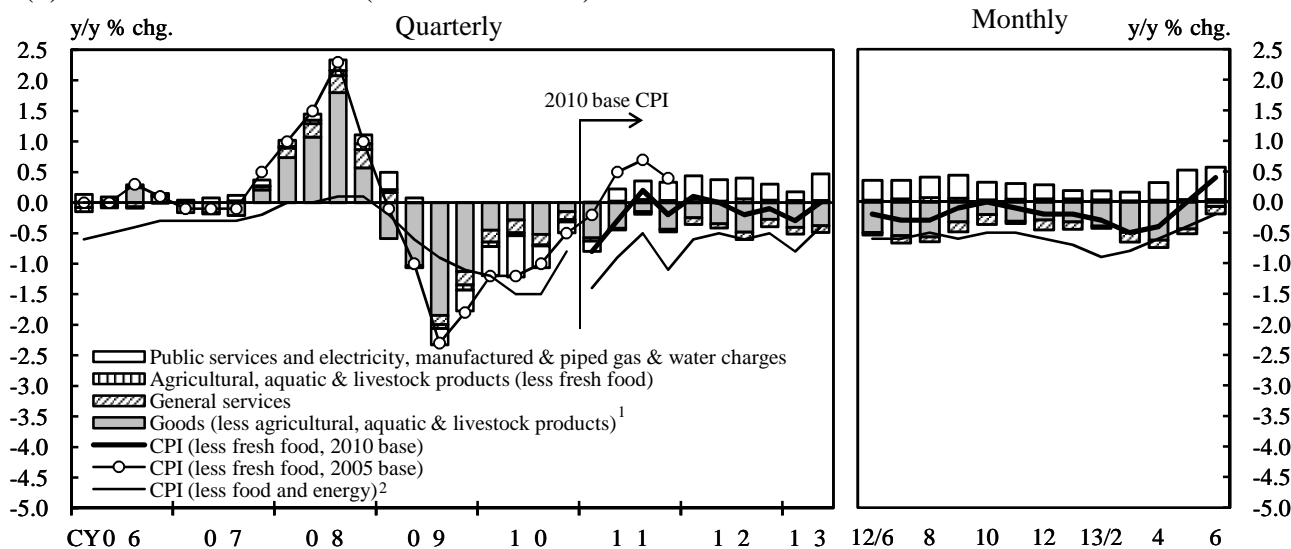


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).  
 2. Domestic transportation: transportation (excluding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

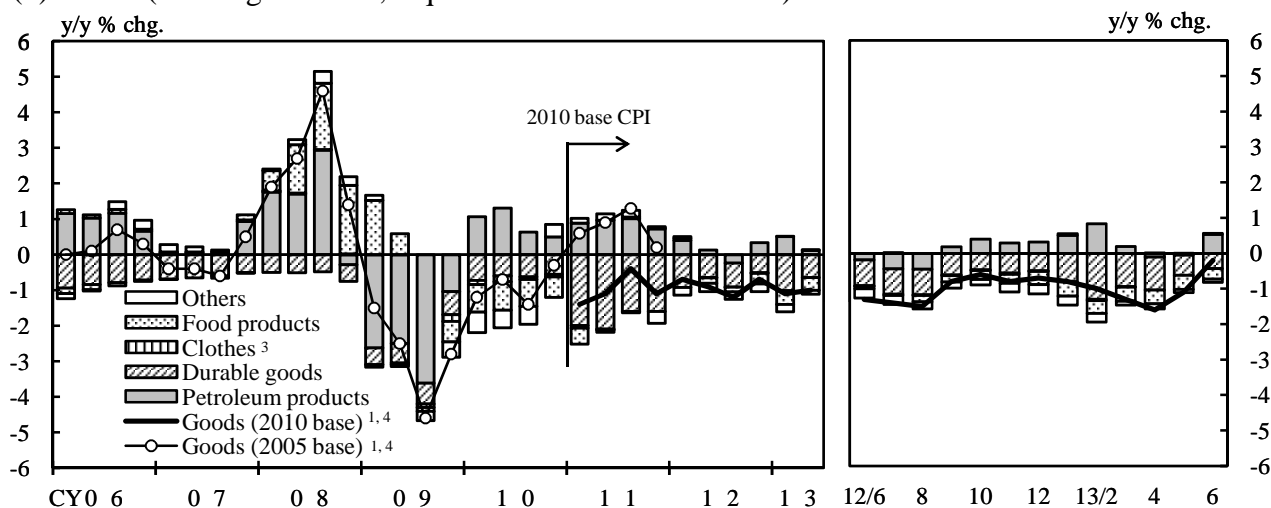
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

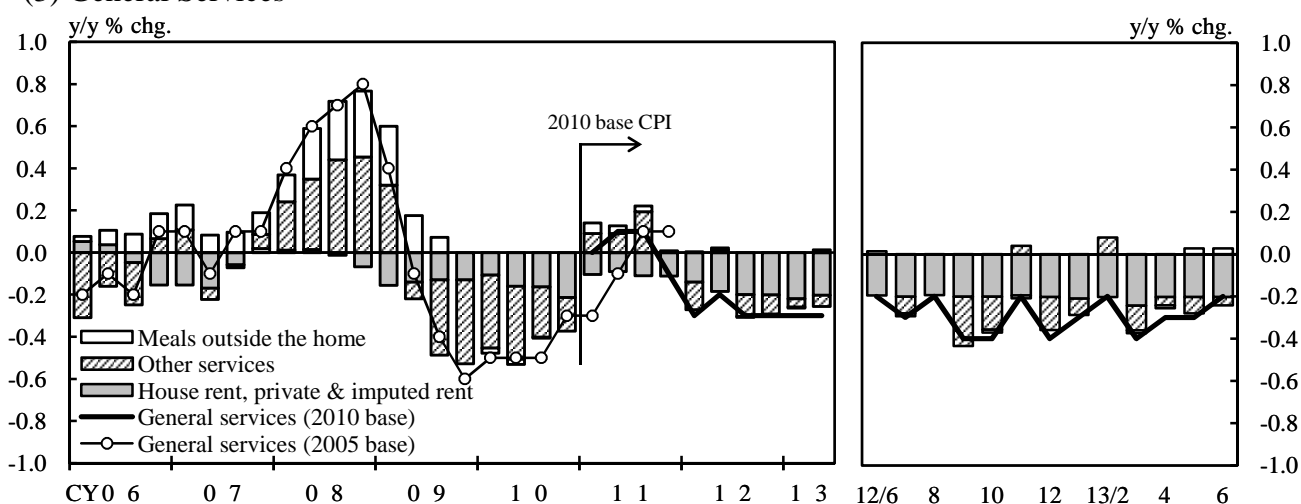
(1) Consumer Price Index (Less Fresh Food)



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



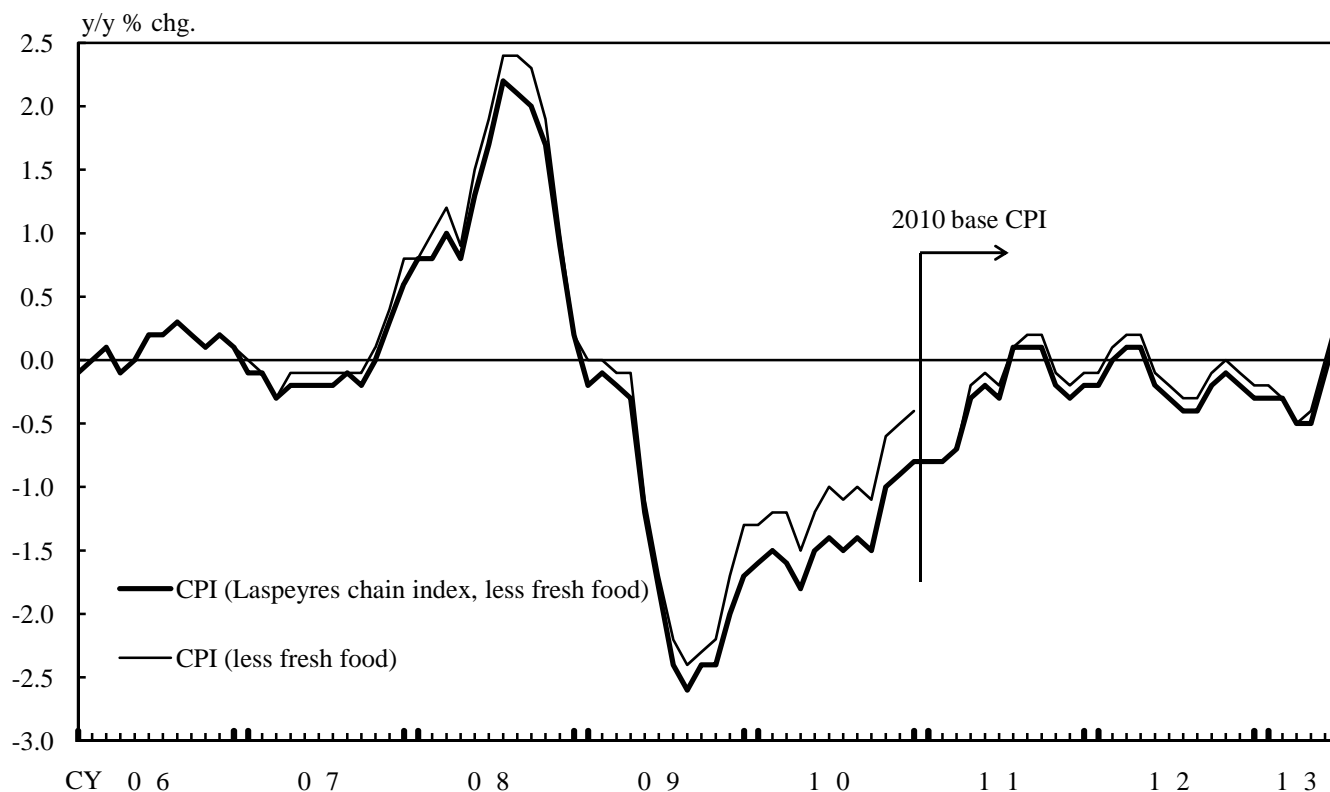
(3) General Services



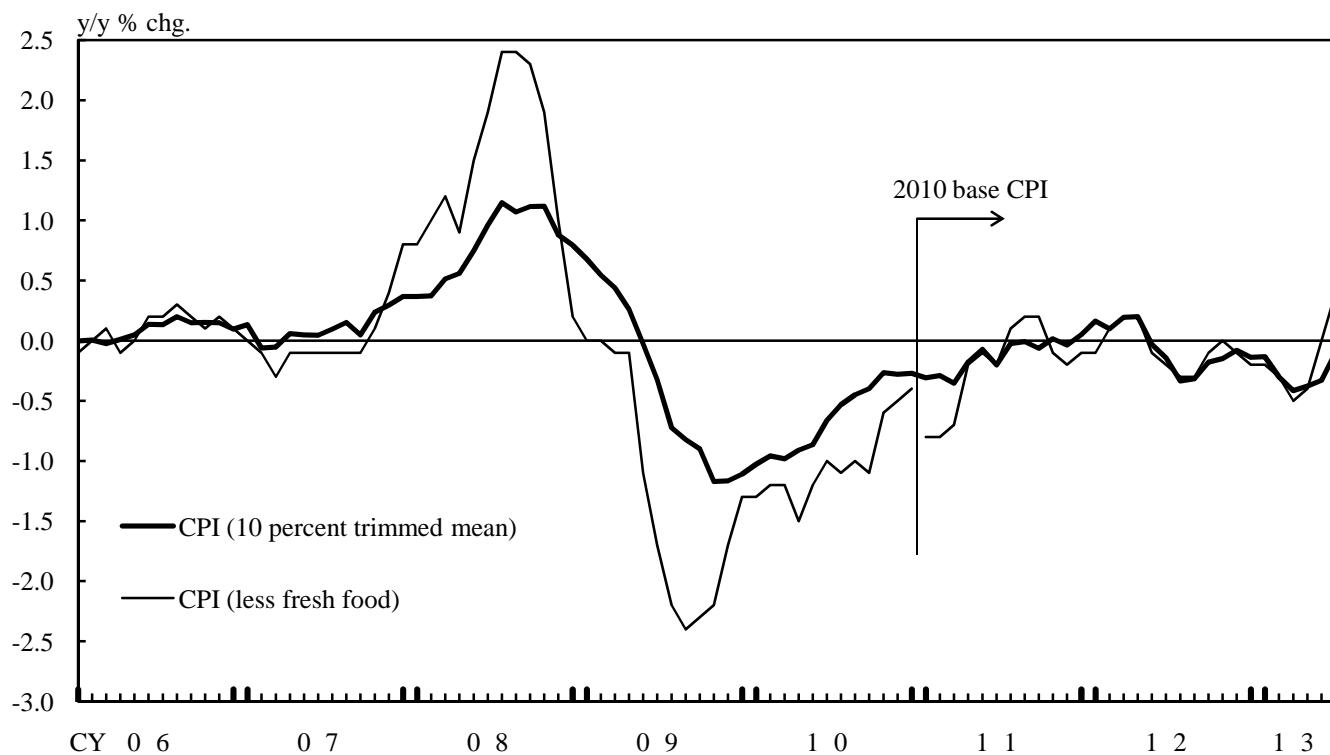
- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.  
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped,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

## Trend Changes in Consumer Prices

## (1) Laspeyres Chain Index



## (2) Trimmed Mean



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

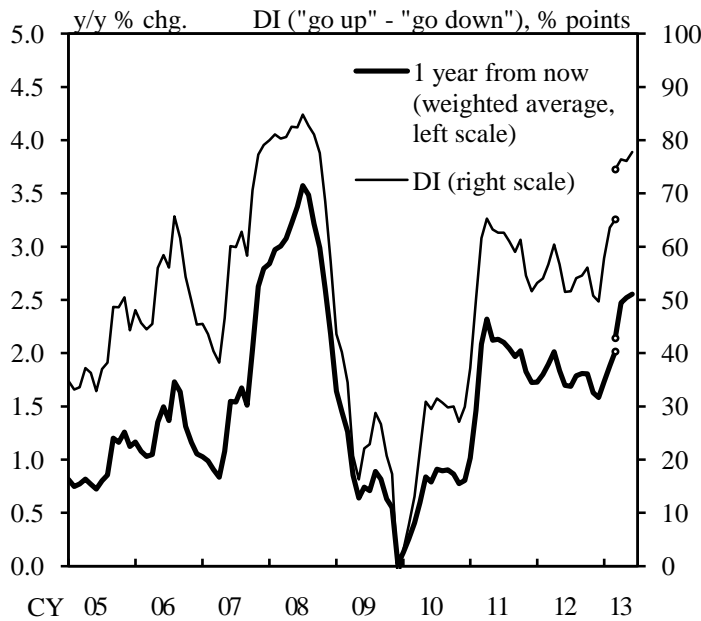
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

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

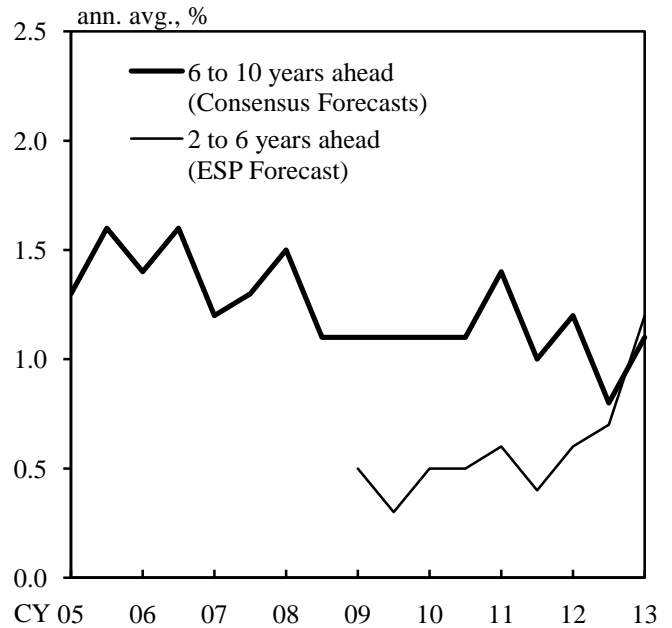
Inflation Expectations

(1) Households

<Consumer Confidence Survey><sup>1,2,3</sup>

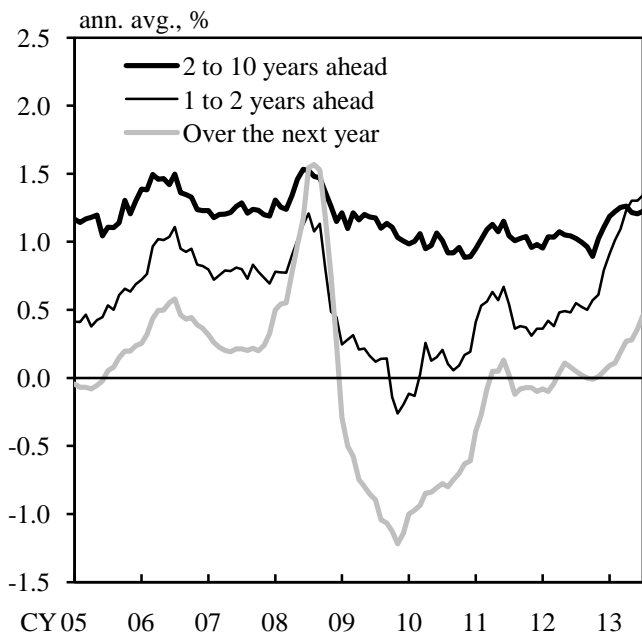


(2) Economists

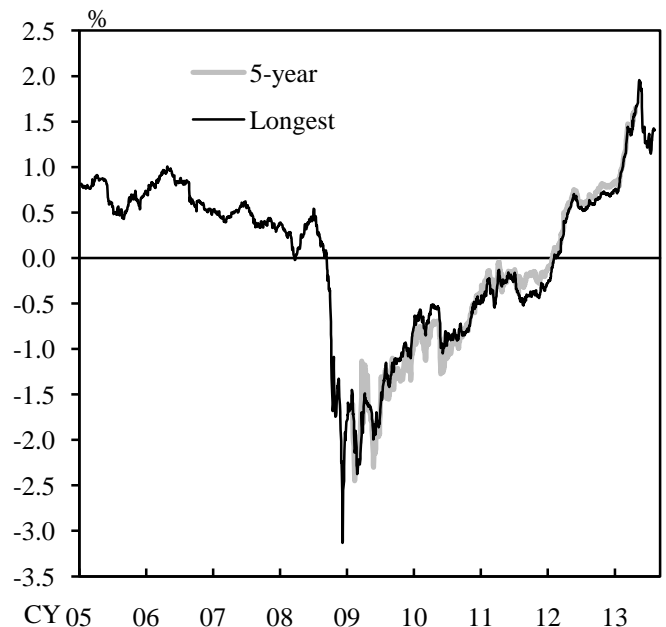


(3) Market Participants

<Quick Bond Monthly Survey>



<BEI for Inflation-Indexed JGBs><sup>4</sup>



Notes: 1. Figures are for all households.

2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.

3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.

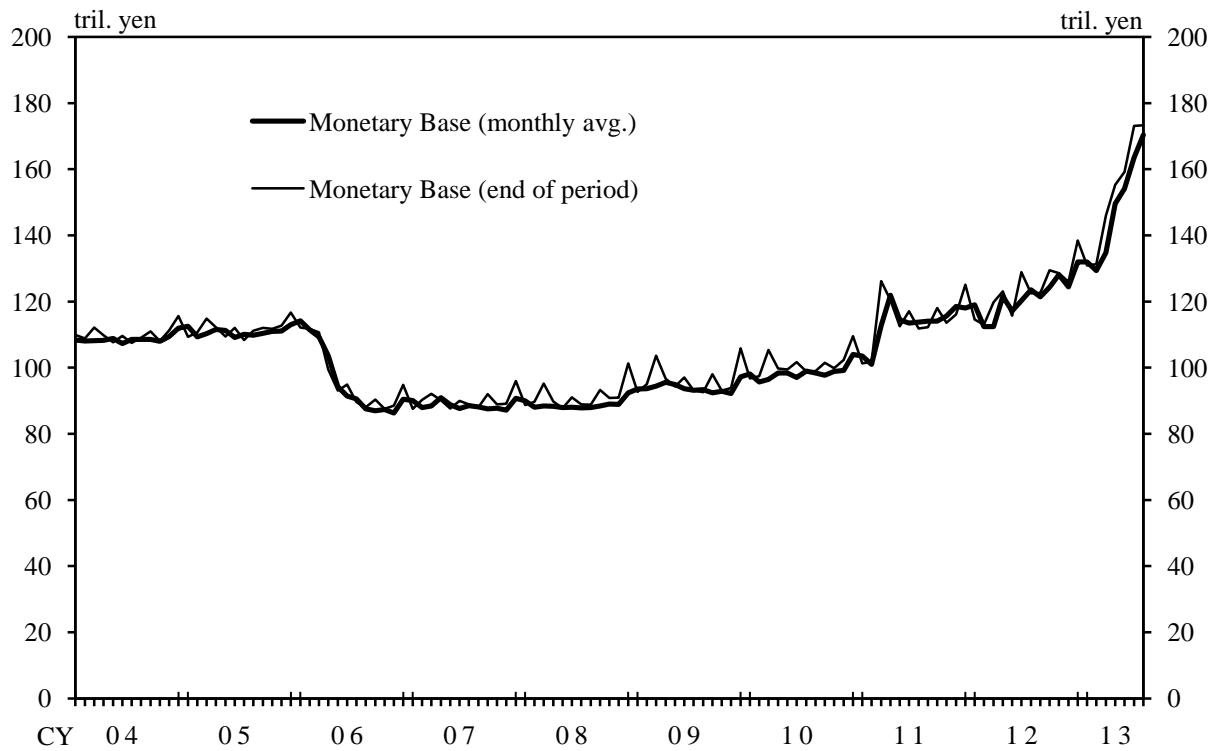
4. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures for "Longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period, which currently correspond to those maturing in June 2018.

Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

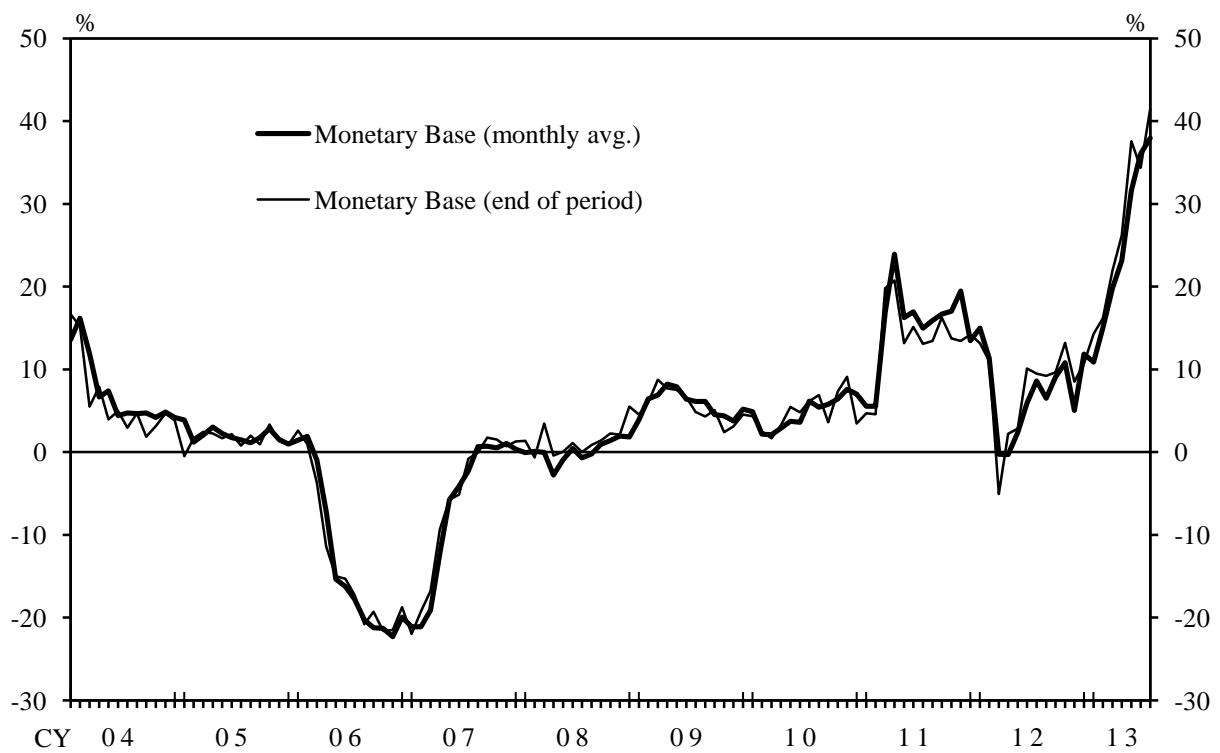


## Monetary Base

## (1) Level

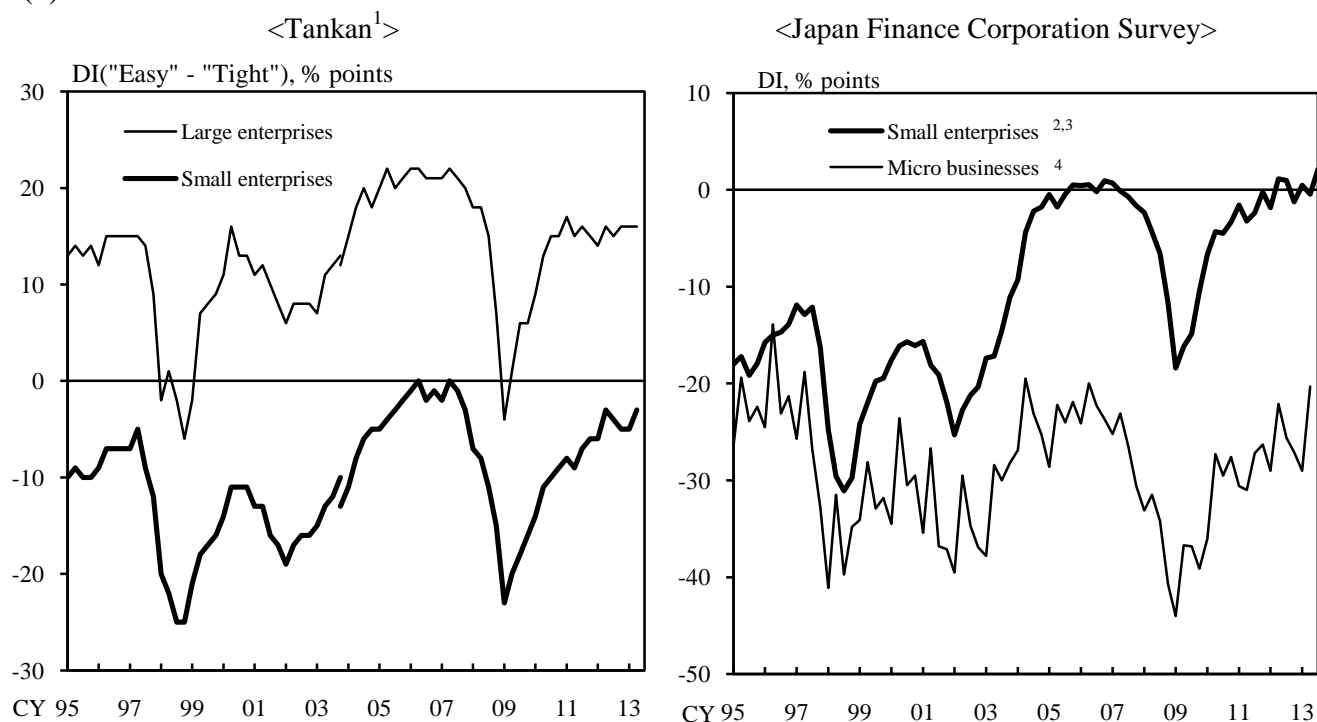


## (2) Changes from a Year Earlier

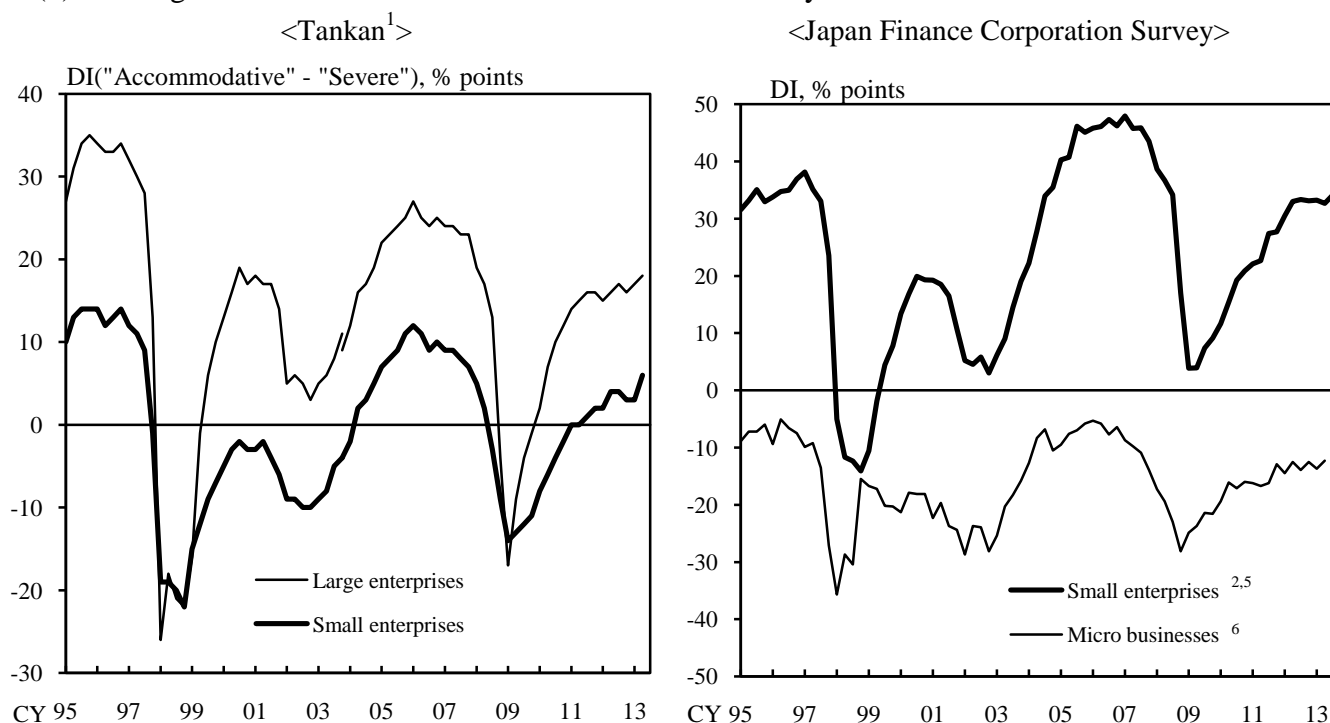


## Corporate Finance-Related Indicators

## (1) Financial Position



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



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/Q3 are those of July.

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

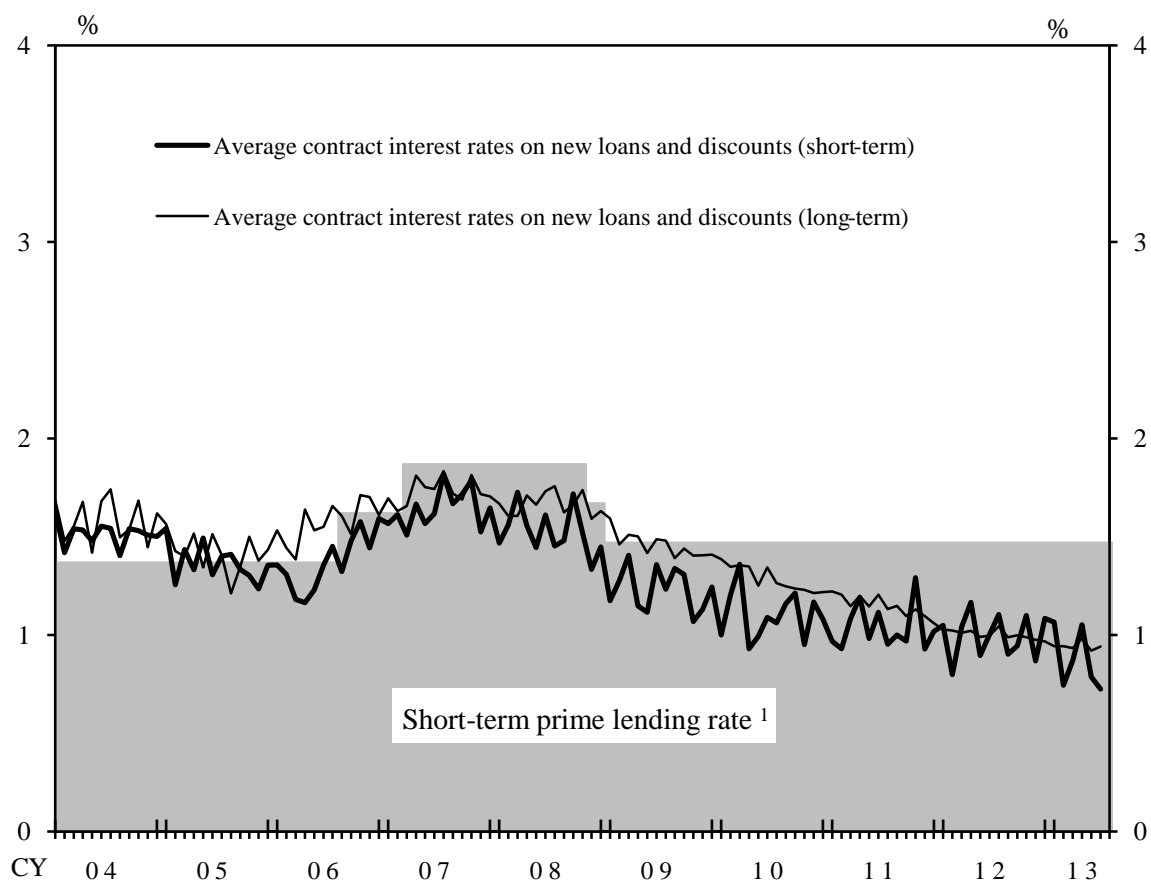
4. DI of "Easier" - "Tighter."

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

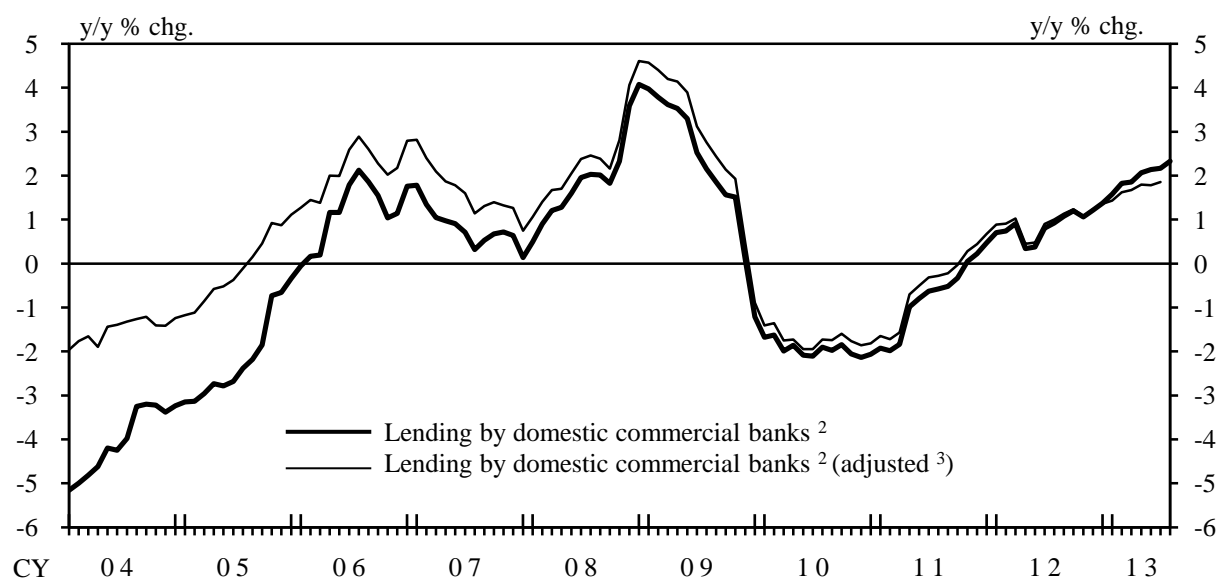


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

### (1) Lending by Domestic Commercial Banks<sup>1</sup>



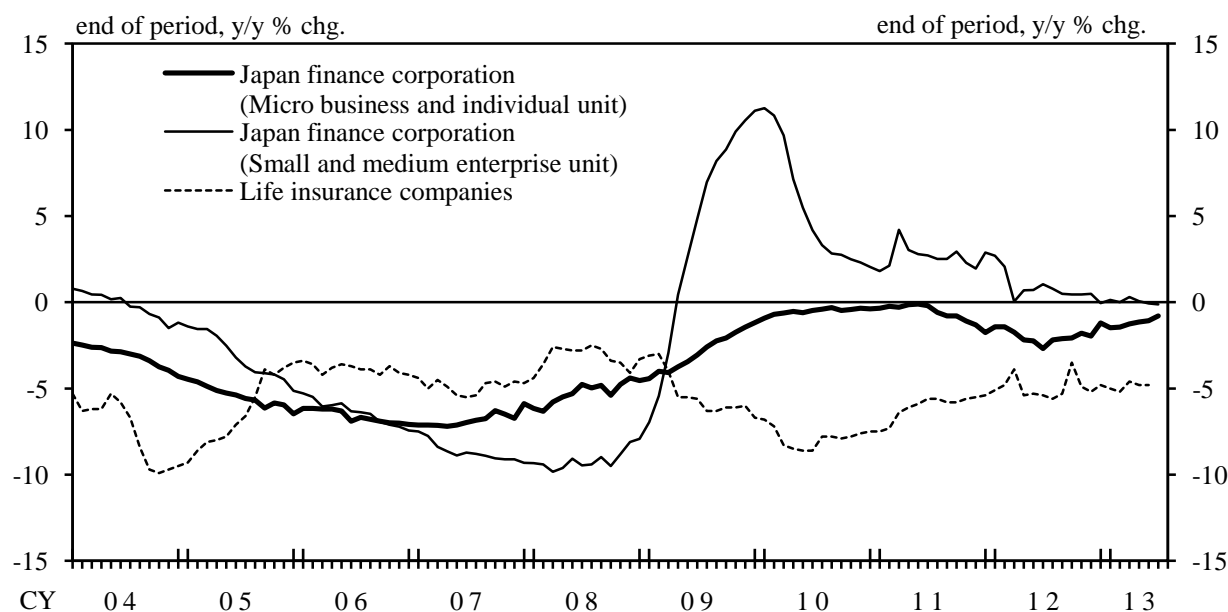
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to major banks, regional banks I, 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



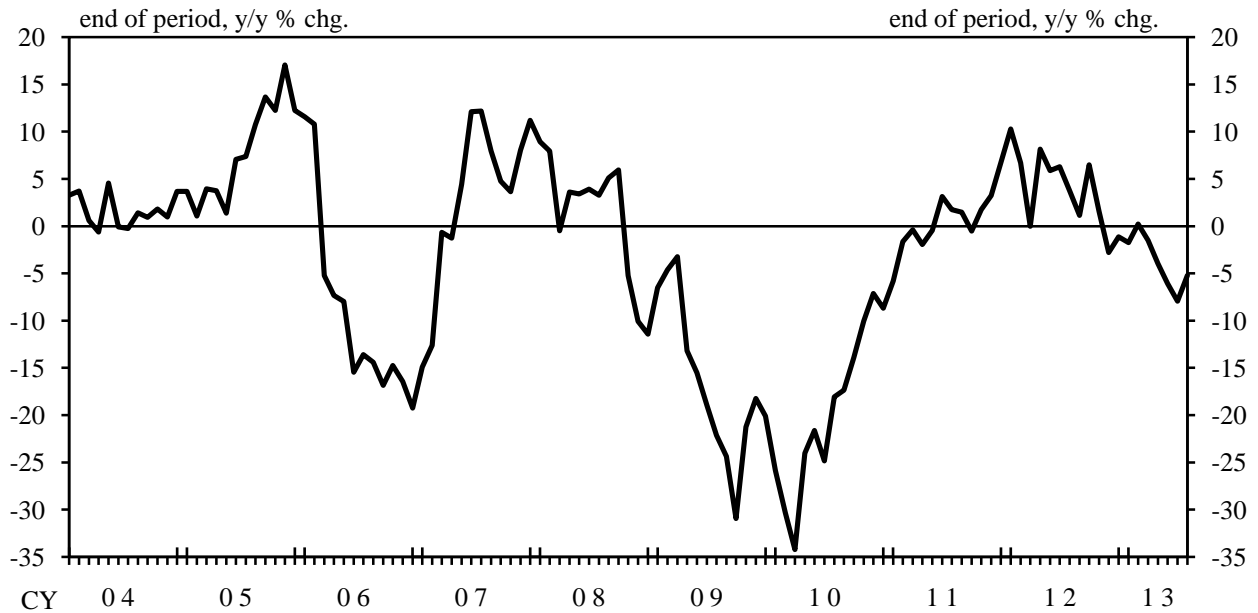
Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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 Private-Sector Fund-Raising in the Capital Markets
 

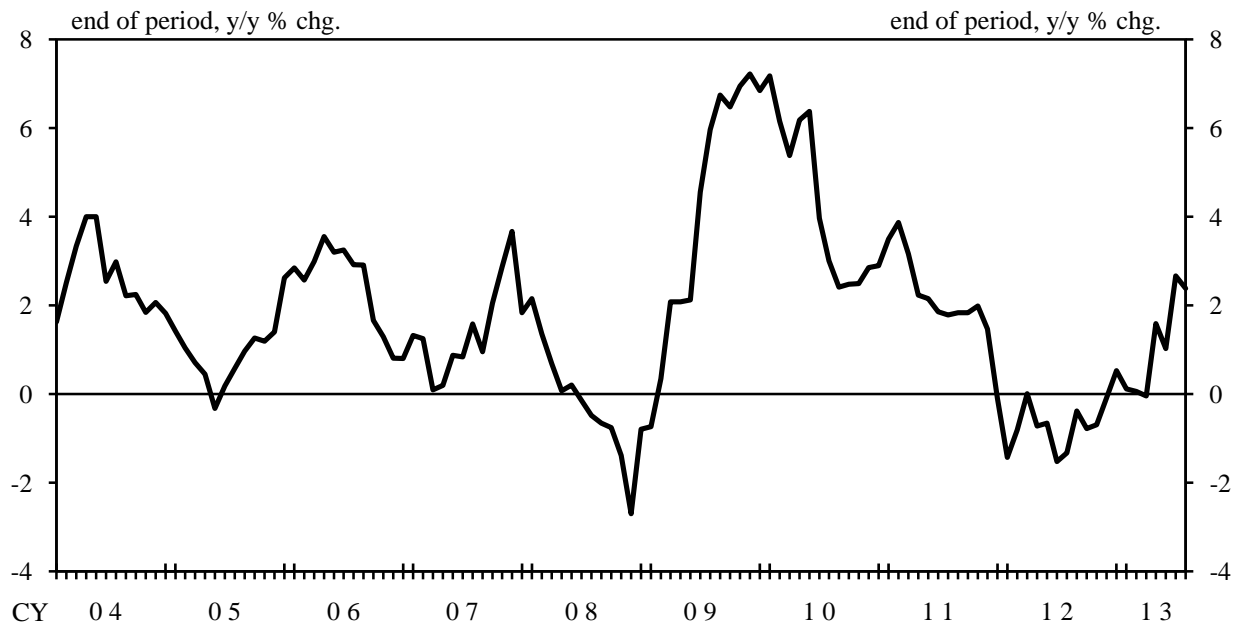
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## (1) Amount Outstanding of Commercial Paper



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

## (2) Amount Outstanding of Corporate Bonds



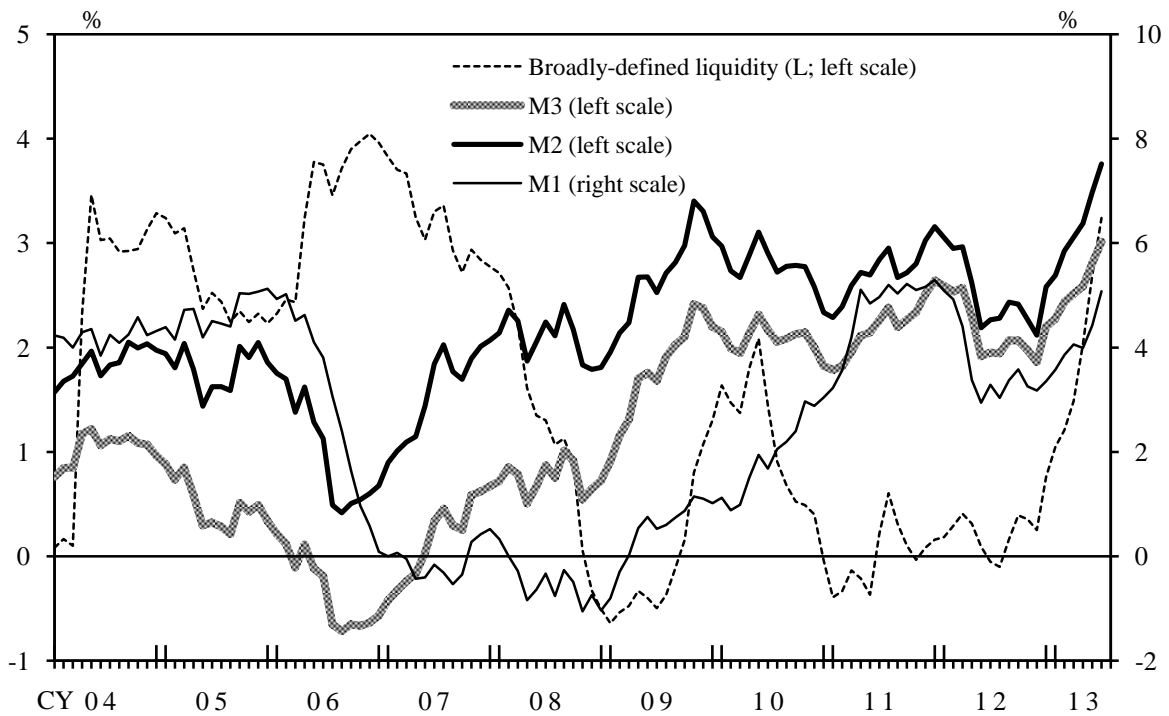
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

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

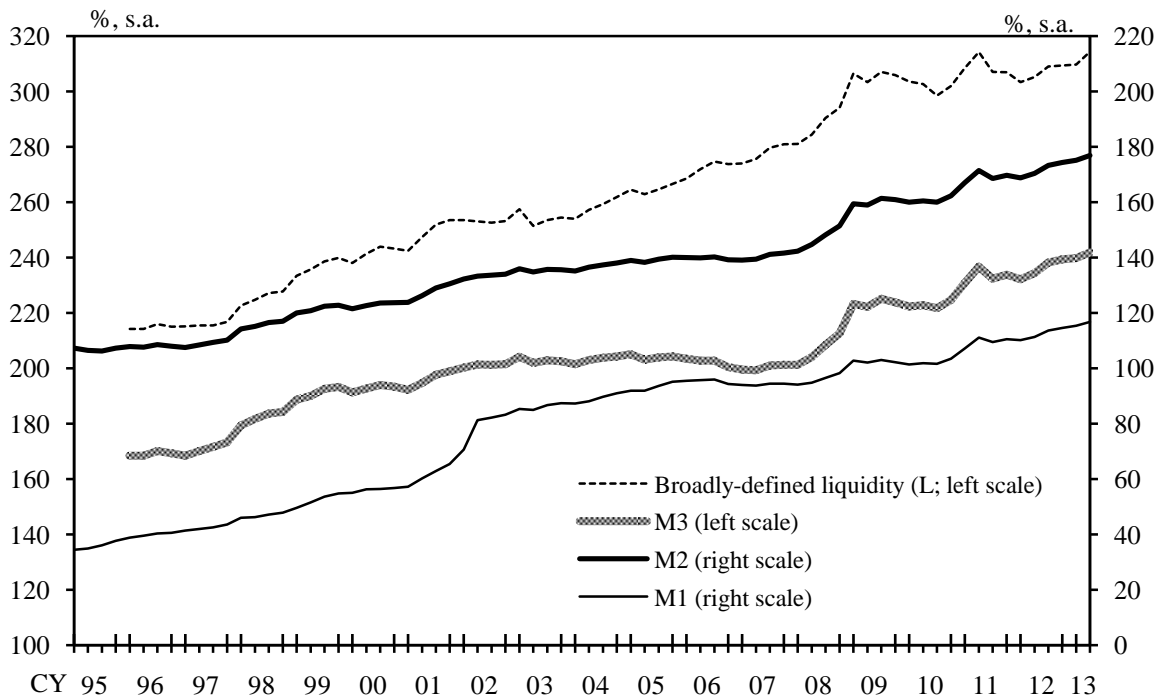
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";  
 Bank of Japan, "Principal Figures of Financial Institutions";  
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

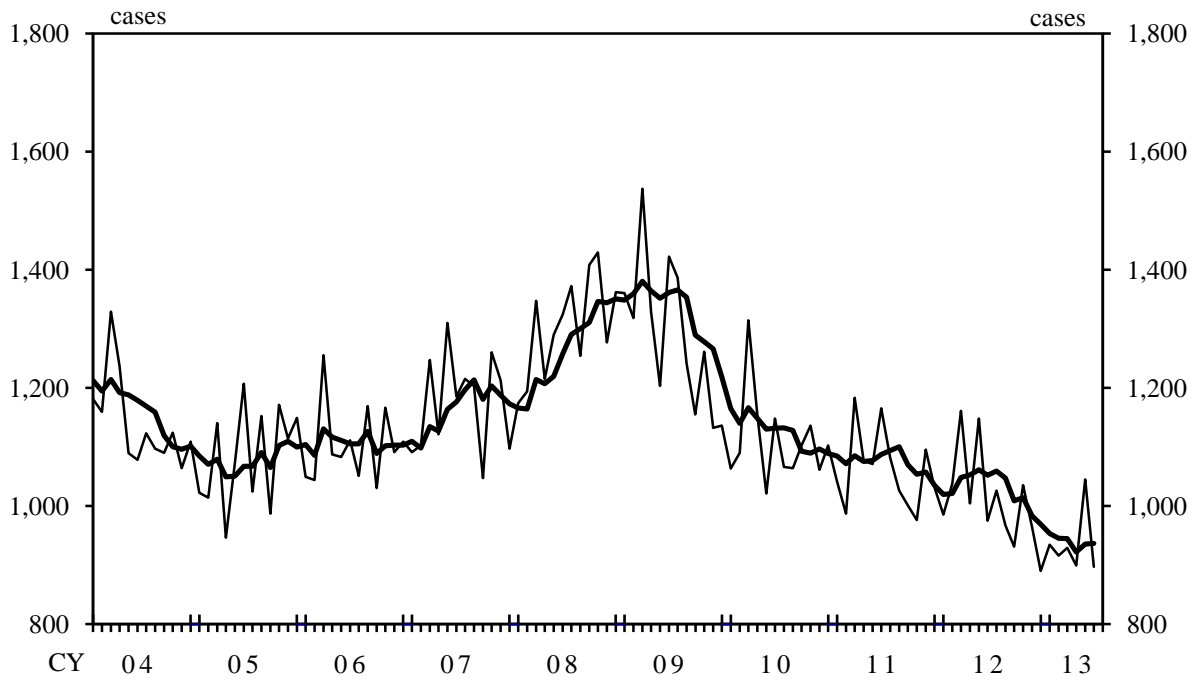


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
- 4. The figure for nominal GDP in 2013/Q2 is assumed to be unchanged from the previous quarter.

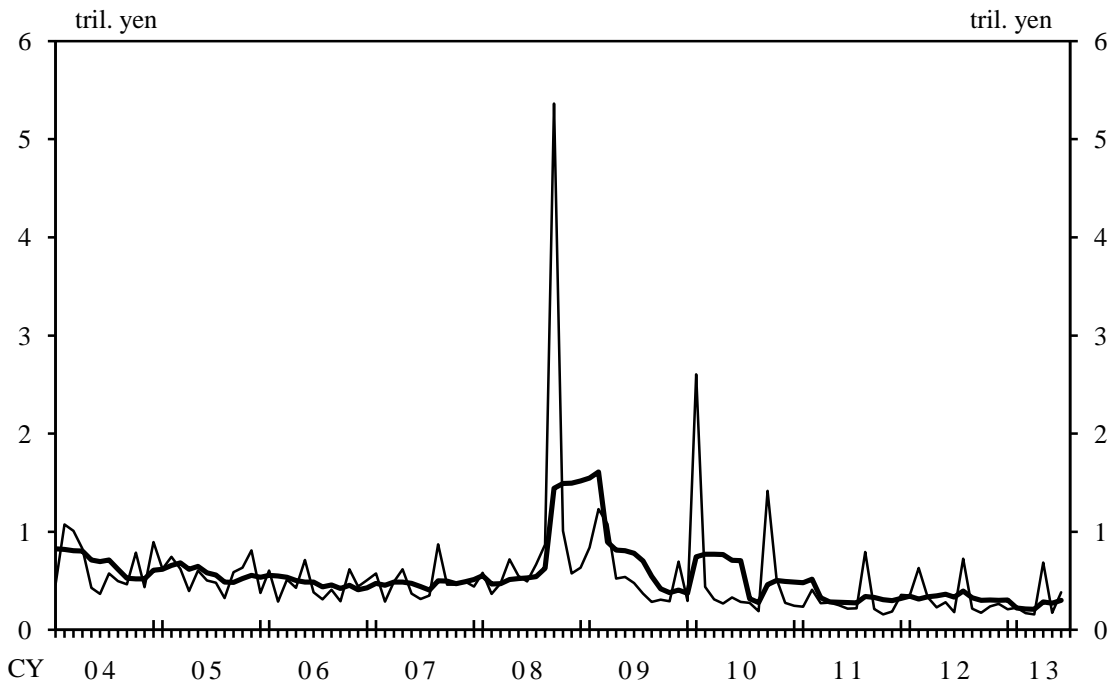
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

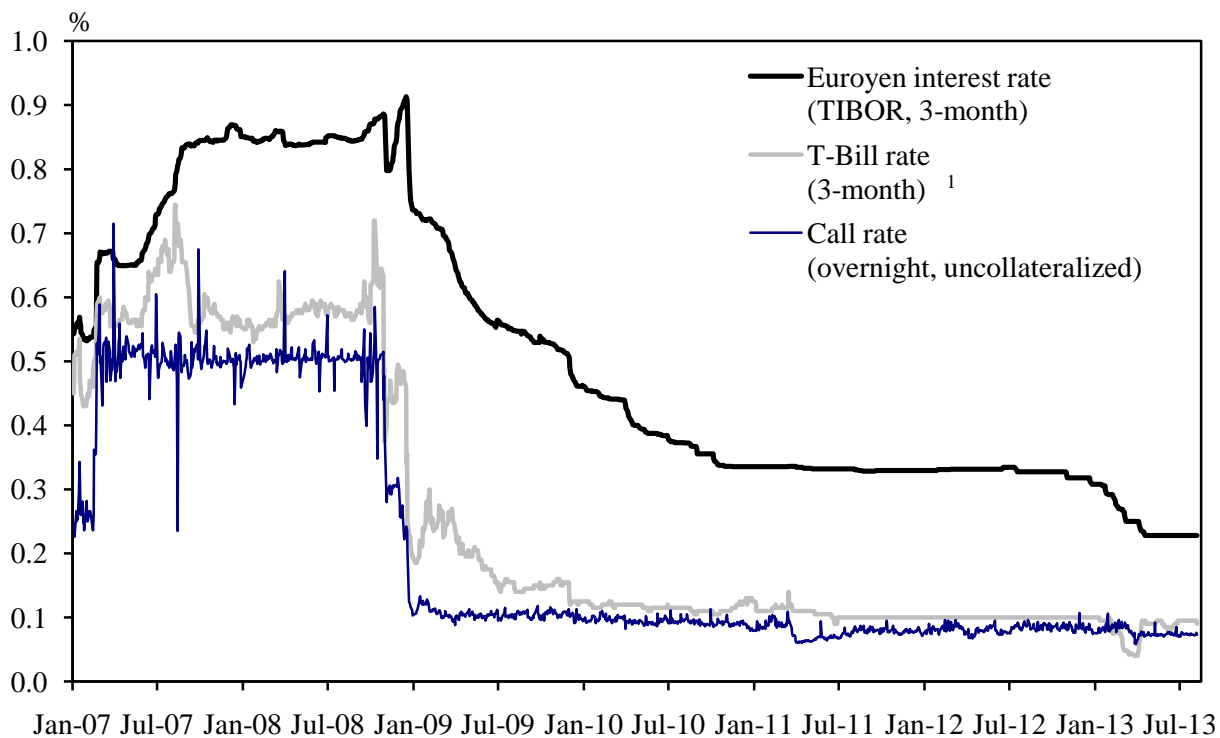


Note: Bold lines are the six-month moving average.

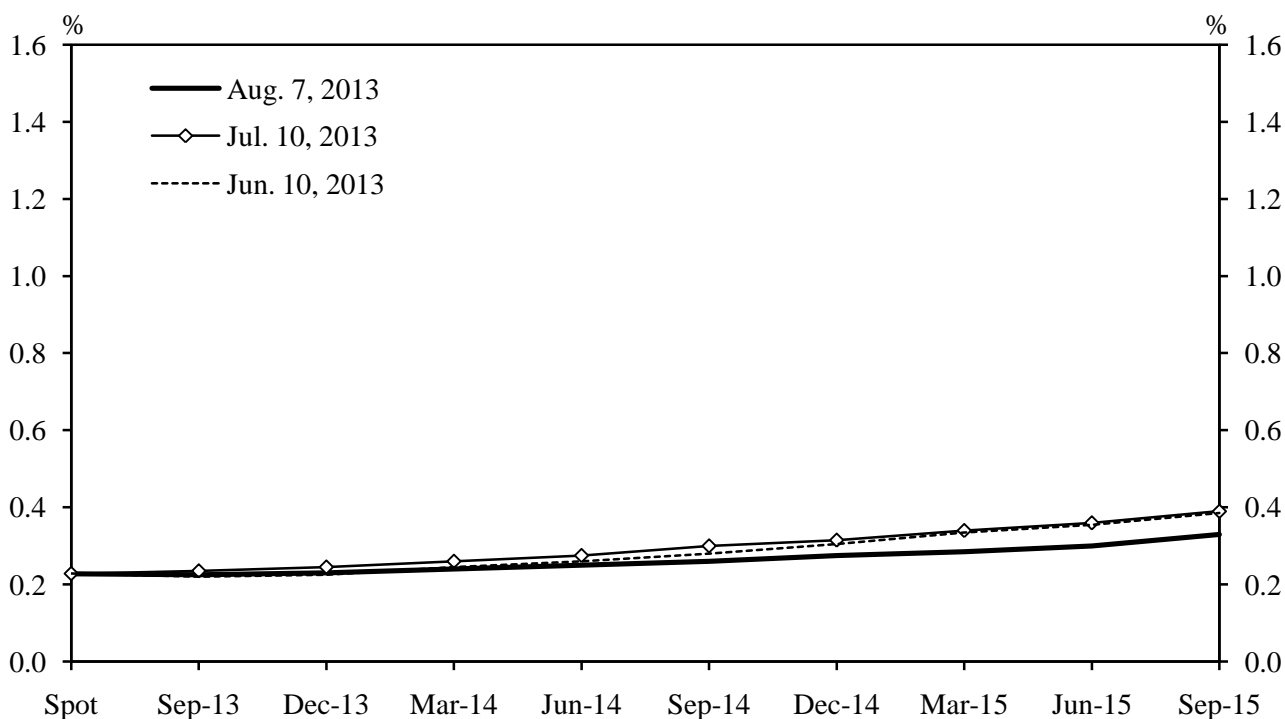
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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

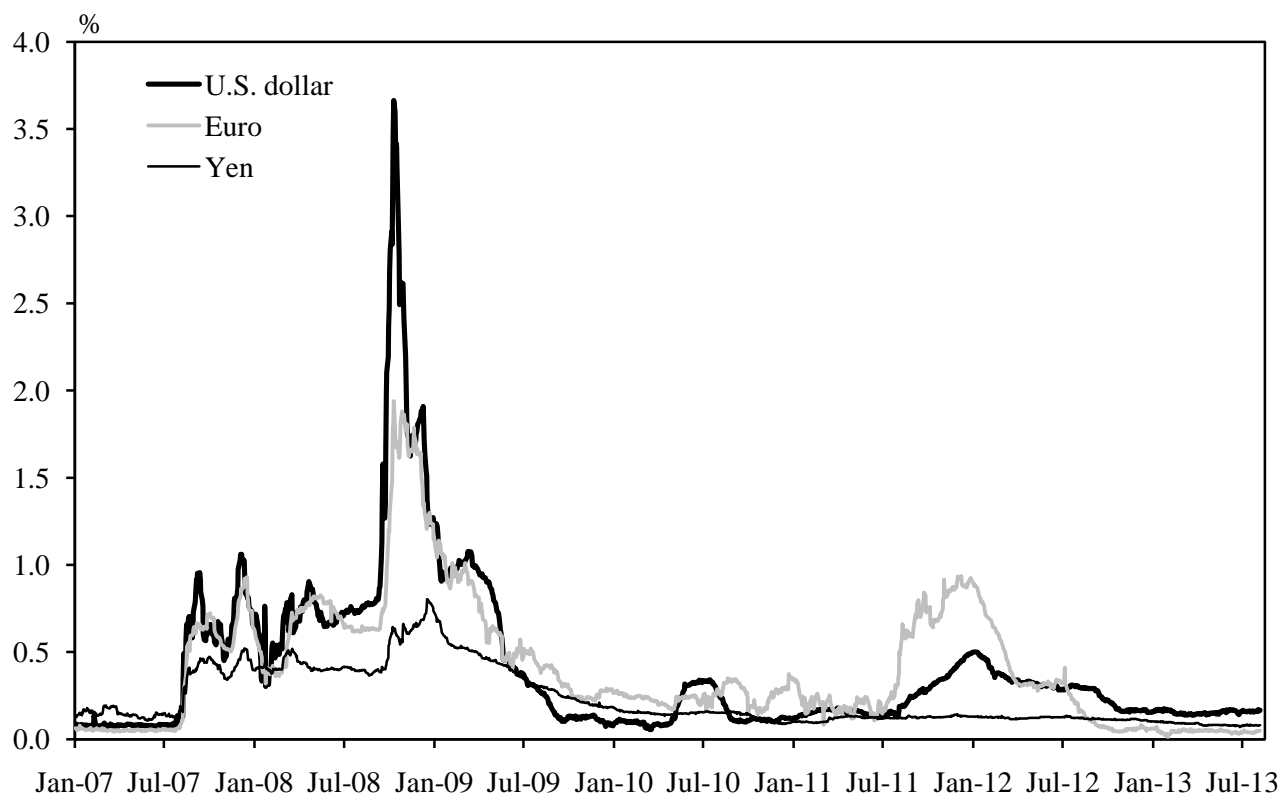


Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.  
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;  
 Tokyo Financial Exchange; Bank of Japan.

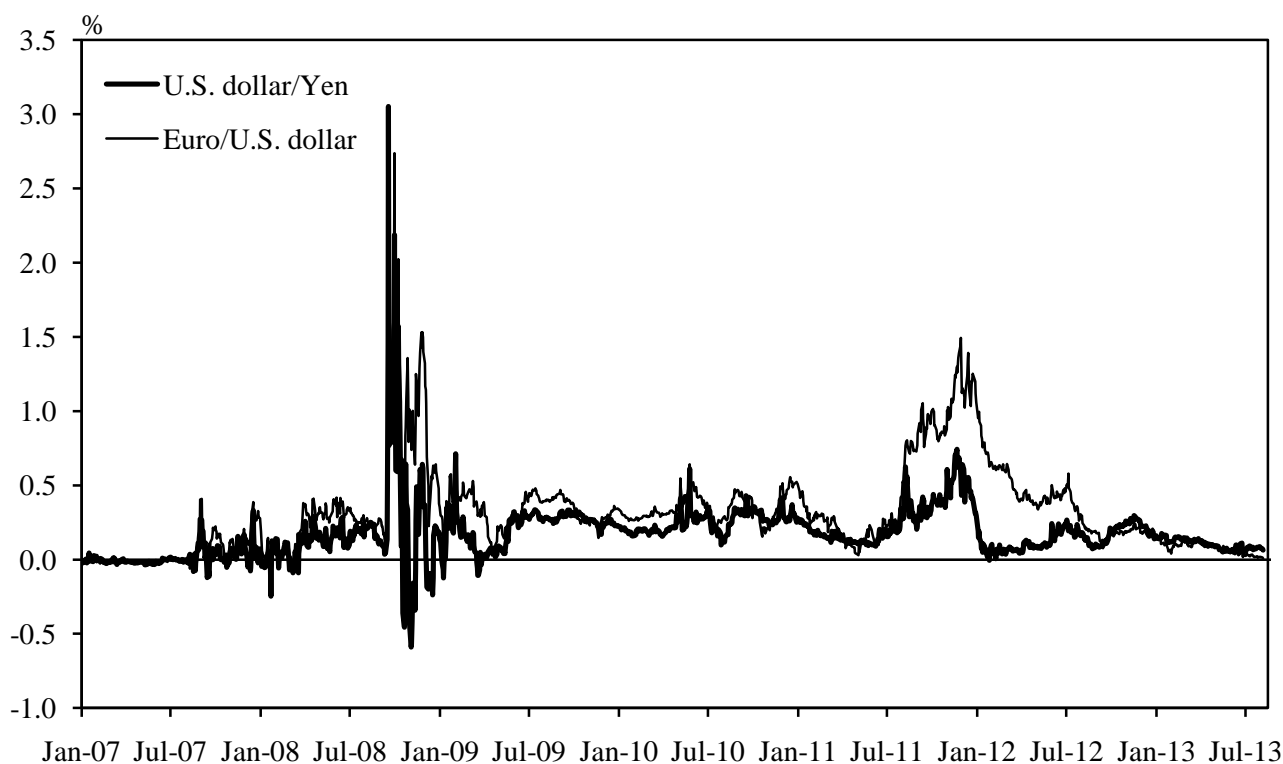


Global Money Markets

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



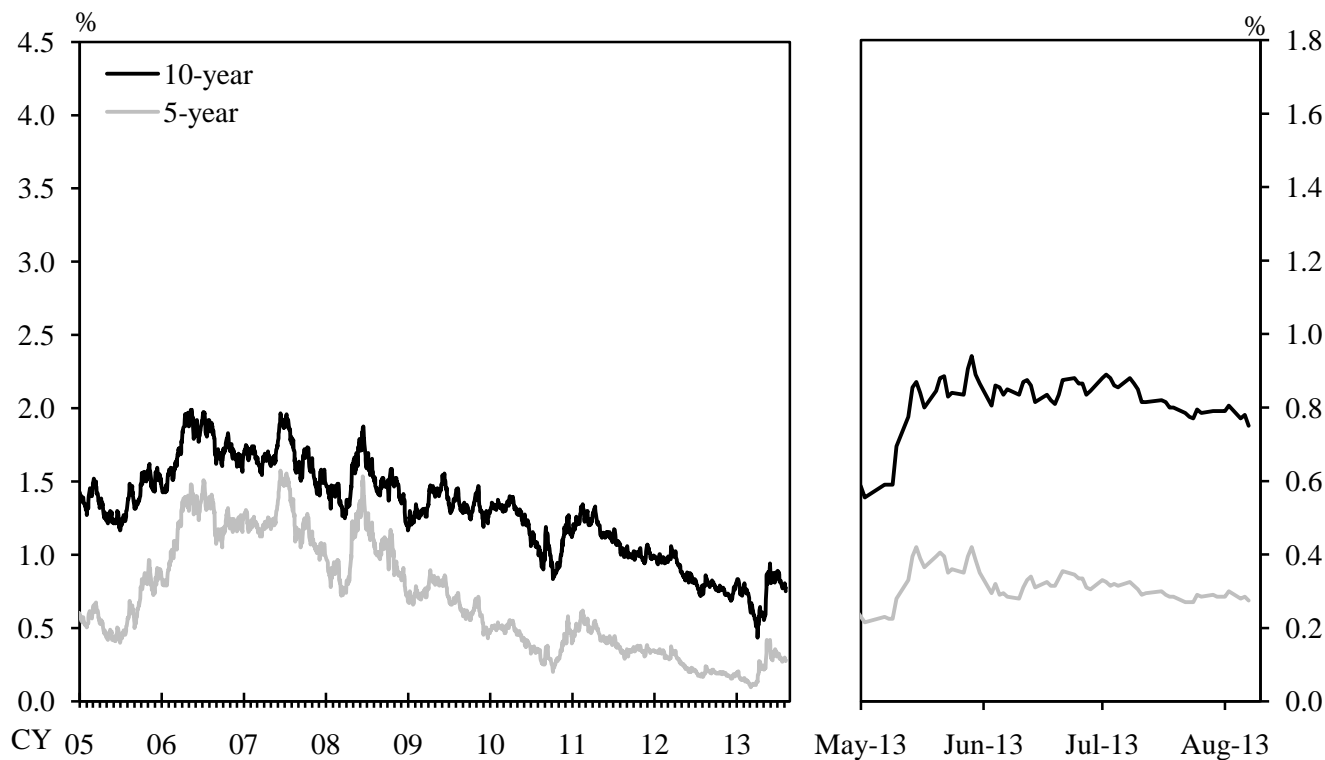
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



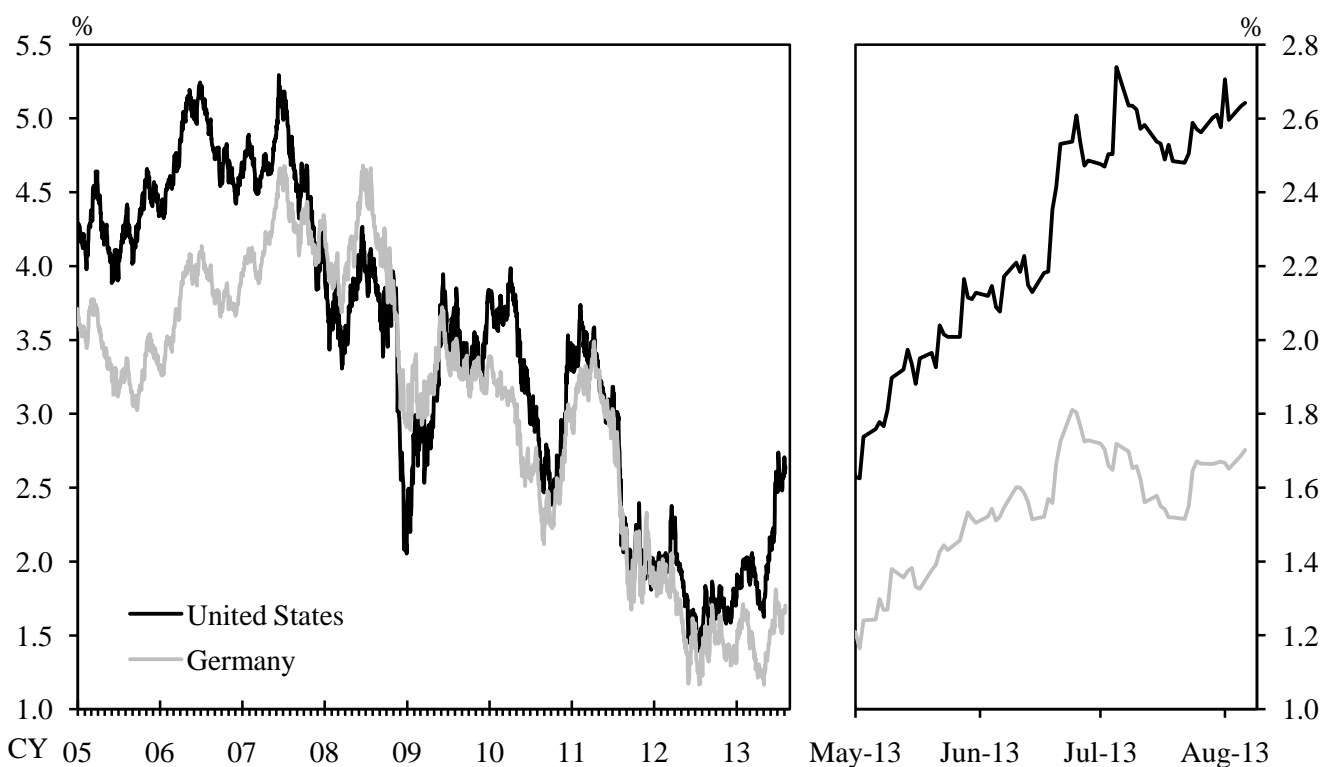
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields<sup>1</sup>



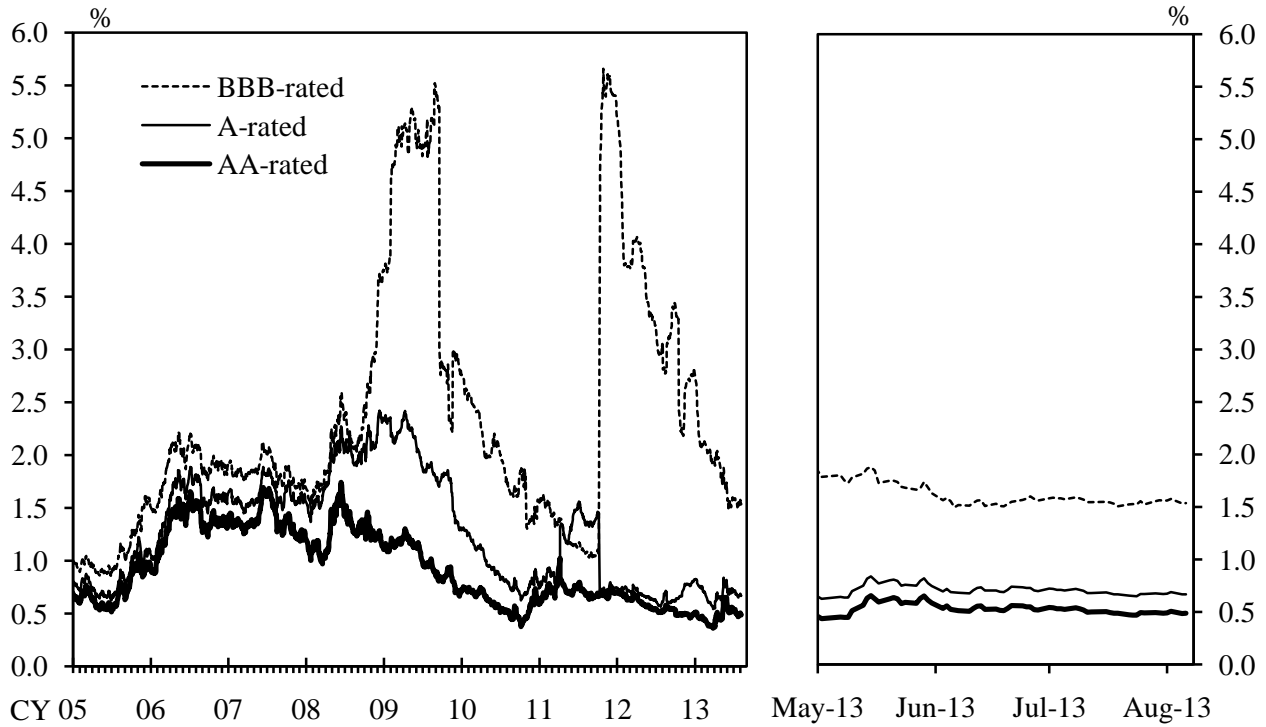
(2) Overseas Government Bond Yields (10-Year)



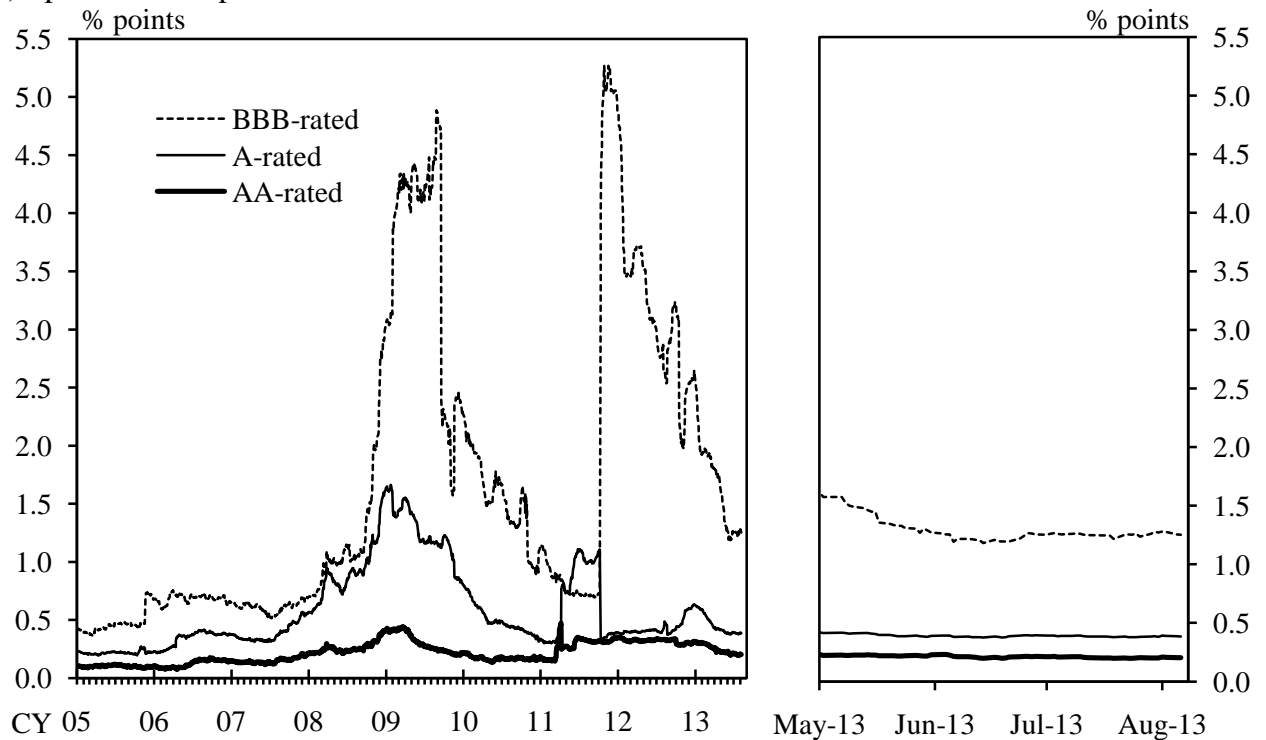
Note: 1. Yields on newly issued bonds.  
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields<sup>1,2</sup>



(2) Spreads of Corporate Bond Yields over Government Bond Yields<sup>1,2</sup>



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

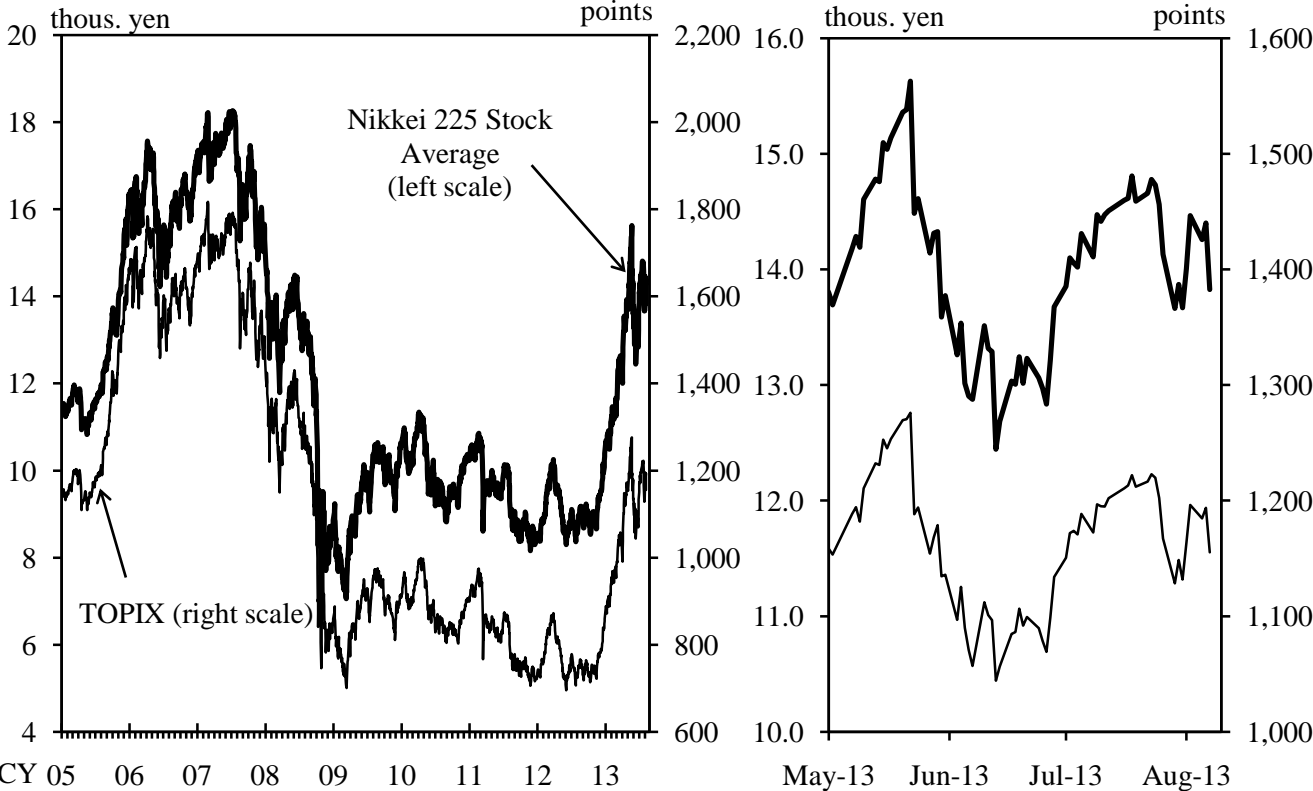
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

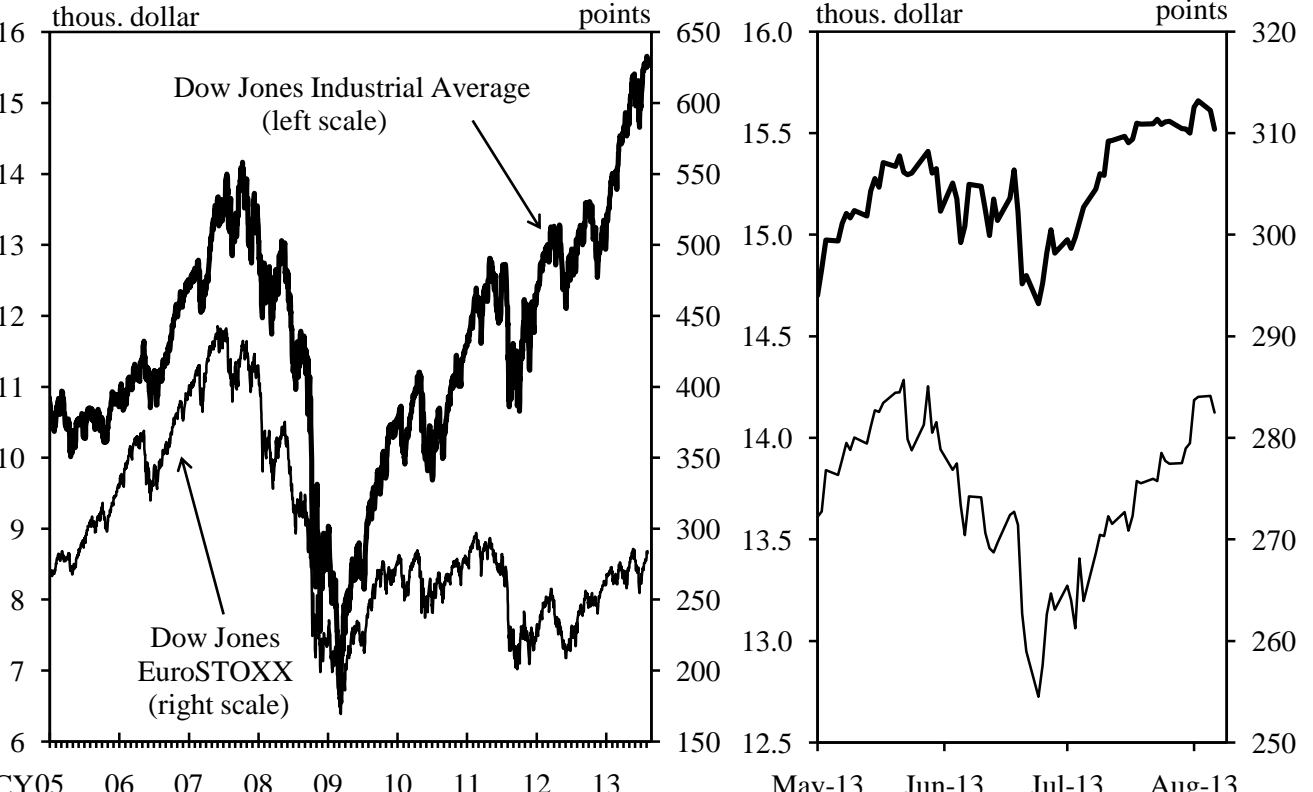
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



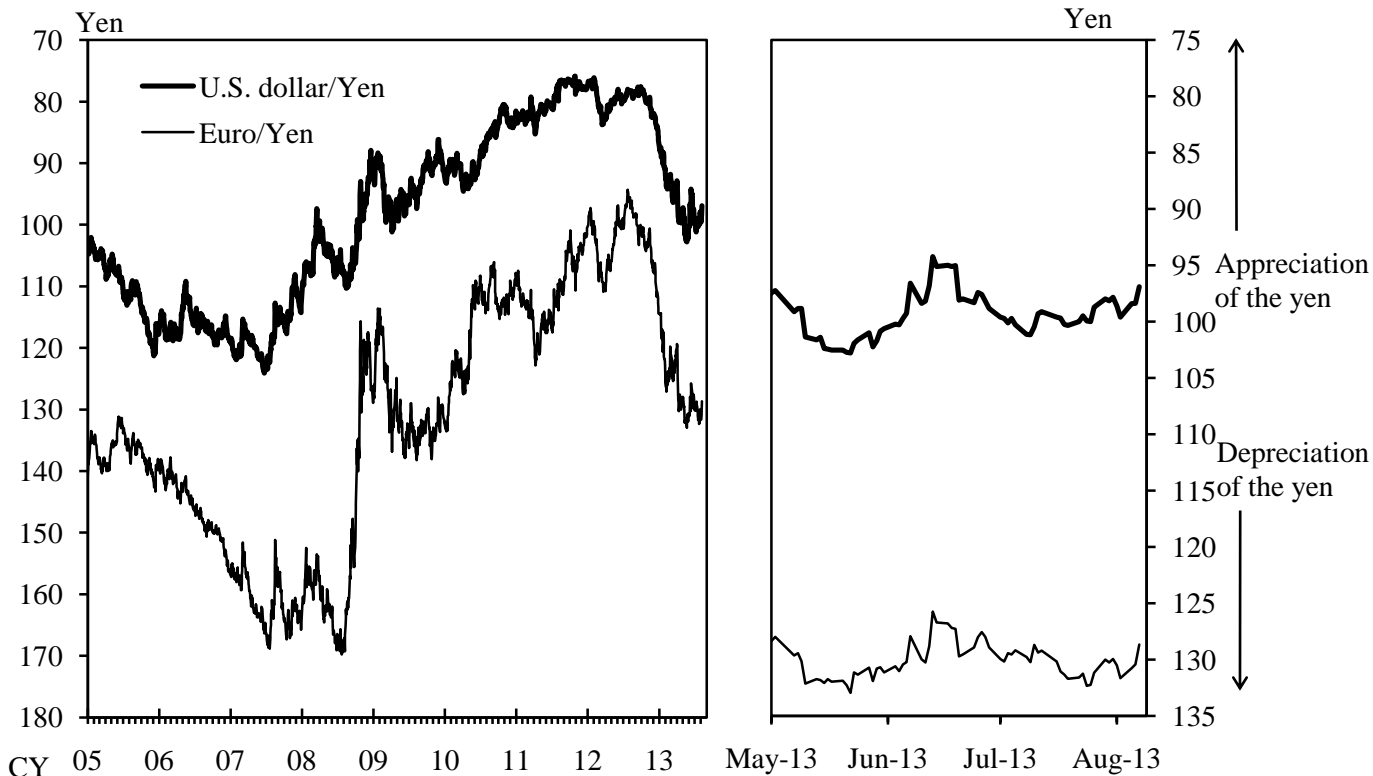
(2) Overseas Stock Prices



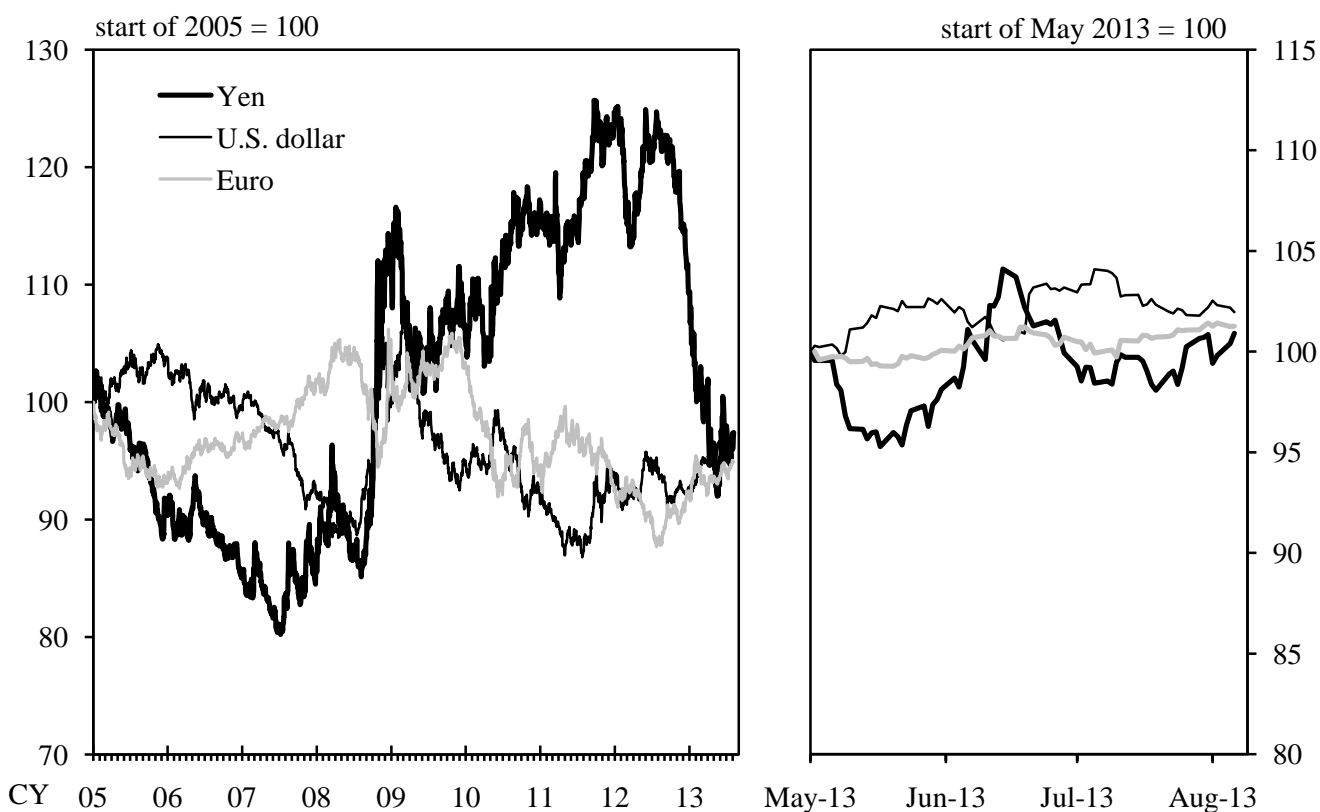
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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