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Bank of Japan

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

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released on September 6, 2013)

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Monthly Report of Recent Economic and Financial Developments¹

September 2013

Summary

Japan's economy is recovering 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 generally been picking up. Business fixed investment is starting to pick 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, with some improvement observed in the employment and income situation. 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 continue a moderate recovery.

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 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.

On the price front, domestic corporate goods prices are rising moderately relative to three months earlier against the backdrop of movements in international

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 4 and 5, 2013.

commodity prices and foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations appear to be rising on the whole.

Domestic corporate goods prices are expected to continue rising 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 40-45 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 fallen. Meanwhile, long-term interest rates and stock prices have remained at more or less the same levels 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—exhibited relatively high growth in the second 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—inched upward in July relative to the second quarter, following the upsurge in the second quarter.

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

Real exports have generally been picking up (Charts 6[1] and 7). Real exports posted negative in July compared with the second quarter, after having turned positive in the first quarter on a quarter-on-quarter basis for the first time in three quarters and having grown at an accelerated rate in the second quarter. Recent movements in real exports also seem to include short-term fluctuations such as technical factors which have emanated from compiling the statistics.² Looking at movements in exports by region (Chart 7[1]), exports to the United States fell back in July from the second quarter, when they exhibited relatively high growth on the whole, particularly in motor vehicles and their related goods, after having turned upward in the first quarter. On average, however, with the moderate recovery in the U.S. economy, exports bound for the United States are considered to have trended upward, 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

² In calculating real exports, different exchange rates are used for yen conversion. The numerator of real exports—the nominal export value—uses the “Foreign Exchange Rate Provided by Regulation of Ministry of Finance,” whereas the denominator—the export price index—uses the market rate, that is to say the telegraphic transfer middle rate of banks. The “Foreign Exchange Rate Provided by Regulation of Ministry of Finance” lags behind the market rate by about two weeks. Therefore, when the yen depreciates (appreciates) during a month, real exports are calculated in somewhat weaker (stronger) terms since the yen-converted value of export prices are evaluated relatively strongly (weakly) compared with the nominal export value. This year, June and July saw their exchange rates of the yen appreciate and depreciate, respectively, toward the middle of the month. As a result, real exports in June seem to have shown a relatively strong figure, whereas those in July were somewhat weak. For details, see *Bank of Japan Review Series*, August 2008, “Statistical points of attention regarding movements in real exports and imports (2008-J-10; available in Japanese only).”

ships), albeit with fluctuations. Exports to the EU have recently started to bottom, mainly in motor vehicles and their related goods, as well as capital goods and parts. On the other hand, exports to East Asia have yet to show a distinct improvement mainly since those to China and NIEs—which had shown a pick-up—have recently declined somewhat significantly again. By goods (Chart 7[2]), exports of motor vehicles and their related goods—due in part to the effects of movements 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 of semiconductor products machinery bound for East Asia, disregarding the fluctuations in ships, after having plunged in the second half of last year. In contrast, as for exports of IT-related goods (including visual and audio apparatus), although goods such as parts for smartphones seem to have picked up, exports overall have yet to show a clear improvement with sizeable declines of late. Exports of intermediate goods have still been relatively weak as a trend, 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 stayed flat in the second quarter as a result of the previous increase and also due in part to movements in foreign exchange rates after having risen in the first quarter—rose marginally in July relative to the second quarter. 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, despite large monthly fluctuations. Imports of capital goods and parts have begun to pick up after having bottomed, as a reflection of the progress in inventory adjustments and of developments in business fixed investment at home. 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 tended to pick 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 as a whole, 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. The European economy—which had continued to recede slowly—has recently begun to bottom. On the other hand, as for the Chinese economy, although further deceleration has not been observed, the pace of growth has yet to show signs of accelerating, since the authorities have placed more weight on "quality" rather than "speed" in terms of their economic growth as the manufacturing sector continues to show some weakness. In this situation, some emerging economies apart from China and commodity-exporting economies have 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 continue exerting upward pressure on exports. 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, including the outcome of its fiscal problem. 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. In contrast, the U.S.

economy is expected to continue a moderate recovery, with downward pressure from the fiscal side on the wane. In relation to this, as for the IT-related sector, inventory adjustments in Japan's parts industry—which had been observed since the end of last year in line with the downshift in final demand for some products related to smartphones—have almost finished. In this situation, electronic parts and capital goods such as semiconductor products machinery—mainly those for new products of smartphones—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, despite lingering severity, has continued to become less visible with the pick-up in automobile-related exports to China.

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 ongoing 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 is starting to pick up as corporate profits have improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms—which had increased, albeit slightly, in the fourth and first quarters, after having continued to decline since the first quarter last year—rose at an accelerated pace in the second quarter (Chart 10 [1]). Looking at investment by industry and company size in the second quarter on a quarter-on-quarter basis (Chart 11), investment of manufacturing as a whole continued to decline slightly following the previous term, with that of large firms having declined for the fifth straight quarter, while medium-sized and small firms saw an increase. On the other hand, investment of both large as well as medium-sized and small nonmanufacturing firms were about level in the first quarter, after having inched upward in the fourth quarter last year, but rose steadily again in

the second quarter. The aggregate supply of capital goods—a coincident indicator of machinery investment—kept rising in the second quarter on a quarter-on-quarter basis, after having turned upward in the first quarter (Chart 12[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 the second quarter for the first time in five quarters, after having been almost flat in the first quarter (Chart 13[1]). By industry, machinery orders of manufacturing turned upward in the second quarter, after having declined for six quarters in a row until the first quarter; it seems that they have begun to move toward a pick-up after having bottomed out. On the other hand, those of nonmanufacturing (excluding orders for ships and those from electric power companies) rose significantly in the second quarter; they have been firm, albeit with fluctuations. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have fluctuated but continued to trend upward (Chart 13[2]). By industry, construction starts of mining and manufacturing have continued to be more or less flat, albeit with fluctuations. Meanwhile, those of nonmanufacturing kept trending upward.

Regarding the environment surrounding business fixed investment, corporate profits have improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales rose markedly in both the first and second quarters, due partly to the effects of foreign exchange rates,³ following the mild improvement until the fourth quarter last year. By industry and company size, in both manufacturing and nonmanufacturing, the ratio of large firms improved significantly; that of medium-sized and small firms also maintained its high level, despite having declined slightly from the previous term. Corporate profits are projected to keep improving, supported by ongoing 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, as corporate profits continue to improve.

³ The effects of foreign exchange rates, mainly on large firms, seem to include the rise in export prices on a yen basis as well as in interest received and dividends from overseas on a yen basis.

Private consumption has remained resilient, with some improvement observed in the employment and income situation (Chart 14). Consumption of goods—as seen through sales at retail stores in real terms (Chart 15[1])—fell in July relative to the second quarter, after having risen in both the first and second quarters on a quarter-on-quarter basis. Looking at consumption of durable goods (Chart 15[2]), the number of new passenger-car registrations—although having fallen back from the upsurge, aided partly by the introduction of new models since the start of this year—was up lately, thereby 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 dropped in July relative to the second quarter, after having exhibited quarter-on-quarter increases for three consecutive quarters since the fourth quarter last year (Chart 16[1]). July sales fell back, mainly in clothes, supposedly from the increase in June as a result of temperature rises as well as of the front-loading of summer sales; as a trend, sales at department stores are considered to remain firm, notably in imports and high-end products. On the other hand, sales at supermarkets had continued to show somewhat sluggish movements; however, they were up slightly in both the second quarter on a quarter-on-quarter basis and July compared with the second quarter. Meanwhile, sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 16[2]), outlays for travel and sales in the food service industry have held 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 (Chart 15[1])—which is compiled so as to make it similar to items used for estimating GDP—fell back marginally in the second quarter and continued to do so in July relative to the second quarter, after having advanced significantly in the first quarter, mainly due to strong automobiles and services (reading & recreation).⁴ The total expenditure in the *Survey of Household Economy* (in real terms;

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

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 recently fallen back slightly, but from a somewhat long-term perspective, they have improved as a reflection of the rise in stock prices since the end of last year and of recent movements in the employment and income situation (Chart 17).

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—has been increasing its level lately by registering 983 thousand units (on a seasonally adjusted, annual basis) in the second quarter followed by 975 thousand units in July, after having recorded 899 thousand units in the first quarter (Chart 18[1]).

Housing investment is expected to increase.

Industrial production is increasing moderately (Chart 19). Industrial production, on a quarterly basis, turned upward, albeit marginally, in the first quarter for the first time in four quarters and continued to exhibit firm growth in the second quarter and in July compared with the second quarter. On a monthly basis, production fell back in June partly from the increase for four straight months since February this year, but it moved up markedly again in July. By industry, production of transport equipment (such as passenger cars) is considered to continue trending upward on average, 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—has continued its improving trend, and exports to the United States and Others have held steady. Production of iron and steel and of chemicals has also trended 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 picked 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 some parts for smartphones—which had pushed production downward—have almost worn off. Production of general-purpose, production and business oriented machinery has also started to pick up as a reflection of developments in business fixed investment at home and abroad.

Shipments have also been on a mild uptrend, with the fluctuations smoothed out (Chart 19[1]). Looking at the trend in shipments by goods (Chart 20), producer goods are considered to be on a mild uptrend overall, since electronic parts and devices—which had remained sluggish—have recently headed for an increase, as shipments for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals) have been steady. 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, despite large fluctuations. 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 begun to bottom out (Chart 19[1]). Inventories posted marginal increases at the end of June relative to the end of March and in July on a month-on-month basis, after having been on a declining trend since the end of last year. Although the recent rise in inventories is partly attributable to a temporary fluctuation in transport equipment, inventories are considered to have started to bottom out, as a trend, as production and inventories enter a recovery phase. By industry, those of transport equipment—which had been declining amid a pick-up in shipments—have recently jumped due to a pileup in inventories waiting to be shipped overseas. The underlying trend disregarding these factors suggests that inventories of this industry have recently hit bottom. Inventories of general-purpose, production and business oriented machinery—which had continued to trend downward after having been at relatively high levels a while ago—have also ceased to decline lately. Meanwhile, inventories of electronic parts and devices have faced a situation in which

inventory adjustments since the end of last year have come to a pause; they have recently moved downward due to increases in shipments for new products. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in shipments has started to somewhat outpace that in inventories as a whole (Chart 21[2]). As for durable consumer goods, construction goods, and electronic parts and devices, shipments have recently continued to grow at a faster pace than inventories. Shipments of capital goods (excluding transport equipment) have also grown at a slightly faster pace than inventories; those of producer goods excluding electronic parts and devices have improved to a situation in which growth in shipments and in inventories are broadly balanced.

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 become more or less flat, after having continued to increase for two consecutive quarters, as a reflection of developments in demand at home and abroad. 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; added to this, electronic parts and devices are likely to increase, chiefly in parts for new products of smartphones and for tablet devices, with inventory adjustments having come to a pause. 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. For the fourth quarter, although there is a high degree of uncertainty, production is considered to increase in a wide range of industries including transport equipment, general-purpose, production and business oriented machinery, and electronic parts and devices. It looks as though industrial production will continue to increase as a whole.

As for the employment and income situation, supply and demand conditions in the labor market have continued to improve moderately and employee income has also shown a pick-up.

As for supply and demand conditions in the labor market, the unemployment rate—which had been almost level since last summer—has recently trended moderately downward again; it recorded 3.9 percent in June, falling to the 3-percent level for the first time in four years and eight months, and continued to improve in July as well by registering 3.8 percent (Chart 22). New job openings have trended upward again since the beginning of this year. In response to these movements, the active job openings-to-applicants ratio also continued its moderate improving trend; they stood at 0.94 in July, recovering to the May 2008 level. Non-scheduled hours worked have 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 23[1]). The rate of increase in the number of regular employees in the *Monthly Labour Survey* has expanded mildly 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 23[2]). Looking in detail, the year-on-year rate of decline in scheduled cash earnings has still narrowed marginally, with the uptrend in the ratio of part-time employees having exerted downward pressure. Nevertheless, scheduled cash earnings per regular employee have almost stopped declining and scheduled cash earnings per hour of part-time employees have accelerated at a very mild pace. Non-scheduled cash earnings have turned positive in response to movements in the number of hours worked. Meanwhile, special cash earnings in June-July—which comprise over 90 percent of summer bonuses—stood at positive 2.1 percent on a year-on-year basis, increasing for the first time in three years.

Employee income has shown year-on-year increases of late, as a reflection of the aforementioned developments in employment and wages (Chart 23[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 have been more or less flat as a whole (Chart 25[1] and [3]). Prices of crude oil have increased their levels slightly in view of geopolitical risks, mainly in response to the situation in the Middle East. Prices of nonferrous metals—which had been somewhat weak amid persistent uncertainty over the outlook for the global economy—have recently bounced back slightly. On the other hand, prices of grains have fallen 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 (Chart 25[2]).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) are rising moderately relative to three months earlier against the backdrop of movements in international commodity prices and foreign exchange rates (Chart 26[2]).⁵ Prices have risen moderately relative to three months earlier by registering positive 0.5 percent in May and June alike and positive 0.4 percent in July. Looking in detail at domestic corporate goods price movements in July, prices of "goods sensitive to exchange rates and overseas commodity prices" were flat in July mainly due to the rebound in crude oil prices, after having turned negative temporarily in May and June. Prices of "electric power, gas & water" continued to rise markedly, with movements in foreign exchange rates since the end of last year having pushed prices upward through the fuel cost adjustment system.⁶ Prices of "iron & steel and construction goods" and "Other materials" kept moving marginally upward, mainly due to the effects of increases in

⁵ 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.

⁶ Under the fuel cost adjustment system, electricity prices reflect fuel costs of three to five months earlier.

costs of raw materials imports and in prices of import-competing products as a reflection of movements in foreign exchange rates. Meanwhile, prices of "machinery" have trended moderately downward.

The year-on-year rate of decline in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has tended to narrow on average (Chart 27). As for developments on a year-on-year basis, the rate of decline has narrowed 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 followed by negative 0.1 percent in July. Looking in detail at corporate services price movements in July compared with the second quarter, the rate of decline in prices related to "selling, general and administrative expenses" diminished, chiefly in advertising services and information services. The rate of decline in prices related to "real estate" kept narrowing moderately. 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) continued to decrease, but the rate of decline has narrowed compared to a while ago 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) is in the range of 0.5-1.0 percent (Chart 28[1]). In July, consumer prices rose at a somewhat accelerated pace to positive 0.7 percent, after having turned upward to positive 0.4 percent in June following 0.0 percent in May. This year-on-year 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 0.1 percent in July, improving by 0.1 percentage point from June. 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 and turned marginally positive in July (Chart 29[2]).⁷ The

⁷ 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.

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]).⁸

As for the backdrop of the rise in the year-on-year rate of increase in consumer prices, fees for public services were heavily affected by the significant rate of increase in electricity prices in response to the rise in fuel costs as a reflection of movements in foreign exchange rates. As for prices for goods, the effects of the pronounced increase in the positive contribution from petroleum products were largely at play, partly in response to the previous year's movement; added to this, the fact that (i) the negative contribution of durable goods—which had temporarily expanded in response to the previous year's movement—diminished again and (ii) cost increases seemed to have continued to be passed on in the form of higher prices in some categories such as food products as a reflection of movements in foreign exchange rates has exerted upward pressure on overall goods prices. Meanwhile, prices of general services have not shown a discernable improvement as a whole, since prices of rent—which comprise a large weight—have continued to be somewhat sluggish, but prices of eating out have turned marginally upward, and those of other services have also slightly reduced their rate of decline, albeit with fluctuations, compared to a while ago.

Domestic corporate goods prices are expected to continue rising 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 30).

⁸ 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.

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 40-45 percent (Chart 31).

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 33).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 32). 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 34). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive (Chart 35).

Firms have retained their recovered financial positions on the whole (Chart 32). The number of corporate bankruptcies has remained at a low level (Chart 37).

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 July reading was 3.7 percent on a year-on-year basis, following 3.8 percent in June (Chart 36).⁹

(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

⁹ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3 percent; its July reading was 3.0 percent, following 3.1 percent in June. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been in the range of 3.0-3.5 percent; it increased by 3.4 percent in July, following an increase of 3.2 percent in June.

interest rate (3-month) and interest rates on Euroyen futures have been virtually level (Chart 38). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 39).

Yields on 10-year government bonds (newly issued 10-year JGB) have basically been more or less flat in light of increases in U.S. and European long-term interest rates; they are currently moving at around 0.75-0.80 percent (Chart 40).

Yield spreads between corporate bonds and government bonds have been narrowing very moderately on the whole, despite a widening in some corporate bond spreads (Chart 41).

Stock prices inched downward temporarily, mainly in view of the decline in U.S. stock prices, but have since bounced back partly in response to the yen's depreciation. The Nikkei 225 Stock Average is currently moving at around 14,000 yen (Chart 42).

In the foreign exchange market, the yen has depreciated against the U.S. dollar mainly due to firm U.S. economic indicators; the yen is currently moving in the range of 99-100 yen against the U.S. dollar. The yen has depreciated against the euro, mainly because European economic indicators were stronger than market forecasts; the yen is currently moving in the range of 131-132 yen against the euro (Chart 43).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2012/Q4	2013/Q1	Q2	2013/May	Jun.	Jul.	Aug.
Index of consumption expenditure level (two-or-more-person households)	-0.7	4.4	-2.2	-1.8	-1.6	1.1	n.a.
Sales at department stores	1.1	1.5	1.1	1.9	3.8	p -8.1	n.a.
Sales at supermarkets	0.8	-1.9	0.3	0.8	1.1	p -0.4	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 263>	< 304>	< 283>	< 278>	< 261>	< 252>	< 275>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-1.0	6.1	-2.7	-1.9	4.4	p -8.8	n.a.
Outlays for travel	-0.1	0.8	-0.1	0.5	2.6	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 91>	< 90>	< 98>	< 103>	< 98>	< 97>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-0.8	-0.0	6.8	10.5	-2.7	n.a.	n.a.
Manufacturing	-5.3	-1.7	5.6	3.8	2.4	n.a.	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	5.6	-3.1	12.5	25.4	-17.5	n.a.	n.a.
Construction starts (private, nondwelling use)	8.2	5.2	-3.2	0.7	-8.7	5.9	n.a.
Mining & manufacturing	-13.2	20.0	-9.9	8.3	-7.5	9.9	n.a.
Nonmanufacturing ⁵	9.3	0.7	1.5	-5.3	-7.8	5.0	n.a.
Value of public works contracted	1.1	-3.6	28.6	5.1	1.0	-1.6	n.a.
Real exports	-4.2	1.5	3.6	-0.2	2.0	-4.9	n.a.
Real imports	-5.5	3.1	-0.0	1.1	3.1	-1.5	n.a.
Industrial production	-1.9	0.6	1.5	1.9	-3.1	p 3.2	n.a.
Shipments	-1.3	4.1	-1.9	1.0	-3.2	p 1.3	n.a.
Inventories	-1.6	-3.4	0.4	-0.4	0.0	p 1.5	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 117.7>	< 112.8>	< 111.0>	< 104.8>	< 111.0>	<p 110.5>	<n.a.>
Real GDP	0.3	0.9	0.6	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.0	1.1	1.2	-0.6	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2012/Q4	2013/Q1	Q2	2013/Apr.	May	Jun.	Jul.
Active job openings-to-applicants ratio <s.a., times>	< 0.82>	< 0.85>	< 0.90>	< 0.89>	< 0.90>	< 0.92>	< 0.94>
Unemployment rate <s.a., %>	< 4.2>	< 4.2>	< 4.0>	< 4.1>	< 4.1>	< 3.9>	< 3.8>
Non-scheduled hours worked ⁶	-2.5	-1.6	1.0	0.9	0.0	2.0	p 2.9
Number of employees	0.1	0.4	0.9	1.0	1.1	0.8	0.9
Number of regular employees ⁶	0.7	0.5	0.7	0.6	0.7	0.8	p 0.9
Nominal wages per person ⁶	-1.1	-0.6	0.3	0.0	-0.1	0.6	p 0.4
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-0.9 < 0.2>	-0.3 < 0.8>	0.6 < 0.6>	0.1 < 1.0>	0.5 < 0.5>	1.2 < 0.5>	p 2.2 <p 0.4>
Consumer price index ⁸	-0.1	-0.3	0.0	-0.4	0.0	0.4	0.7
Corporate services price index ⁹	-0.5	-0.4	-0.3	-0.7	-0.2	-0.1	p -0.1
Money stock (M2) <average outstanding, y/y % chg.>	2.3	2.9	3.5	3.2	3.5	3.8	p 3.7
Number of corporate bankruptcies <cases per month>	<963>	<926>	<947>	<899>	<1,045>	<897>	<1,025>

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

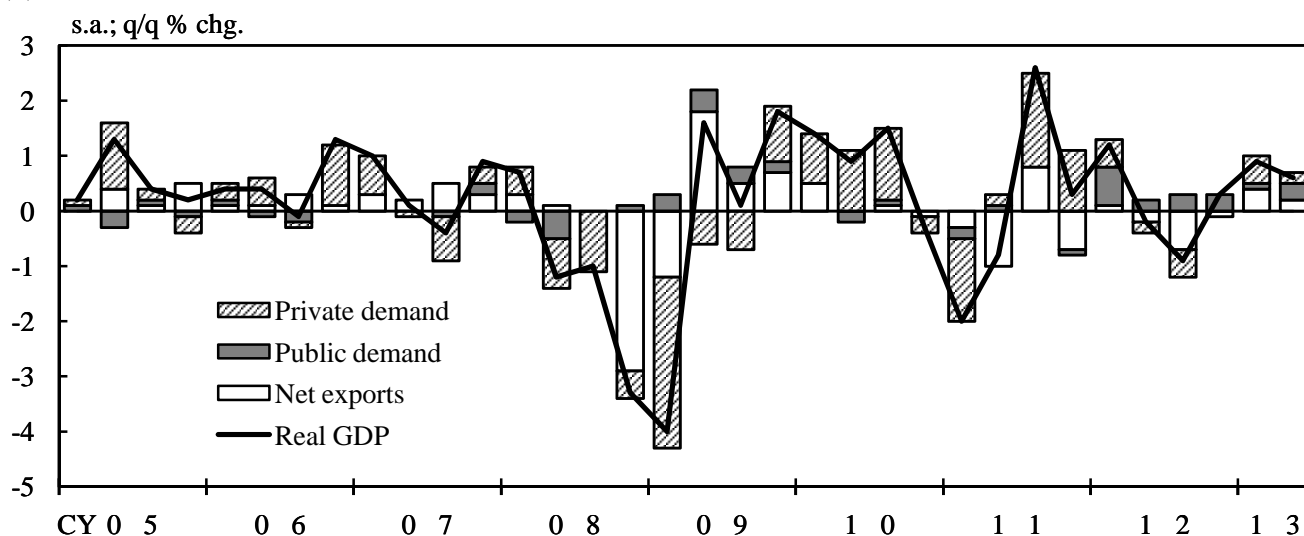
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



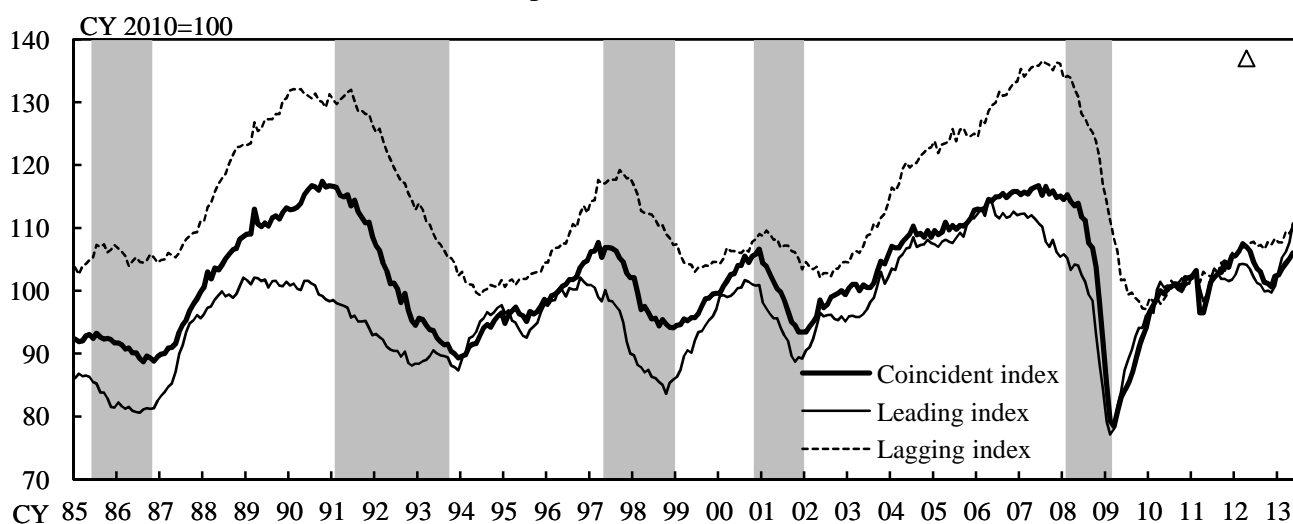
(2) Components

s.a.; q/q % chg.

	2012			2013	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.2	-0.9	0.3	0.9	0.6
[Annual rate]	[-0.9]	[-3.6]	[1.0]	[3.8]	[2.6]
Domestic demand	0.0	-0.2	0.3	0.5	0.5
Private demand	-0.2	-0.5	0.0	0.5	0.2
Private consumption	0.0	-0.2	0.3	0.5	0.5
Non-Resi. investment	-0.0	-0.4	-0.2	-0.0	-0.0
Residential investment	0.1	0.0	0.1	0.1	-0.0
Private inventory	-0.2	0.1	-0.2	-0.1	-0.3
Public demand	0.2	0.3	0.3	0.1	0.3
Public investment	0.2	0.2	0.2	0.1	0.1
Net exports of goods and services	-0.2	-0.7	-0.1	0.4	0.2
Exports	-0.0	-0.7	-0.4	0.6	0.4
Imports	-0.2	0.0	0.3	-0.2	-0.3
Nominal GDP	-0.8	-0.9	0.1	0.6	0.7

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

(3) Indexes of Business Conditions (Composite Indexes)

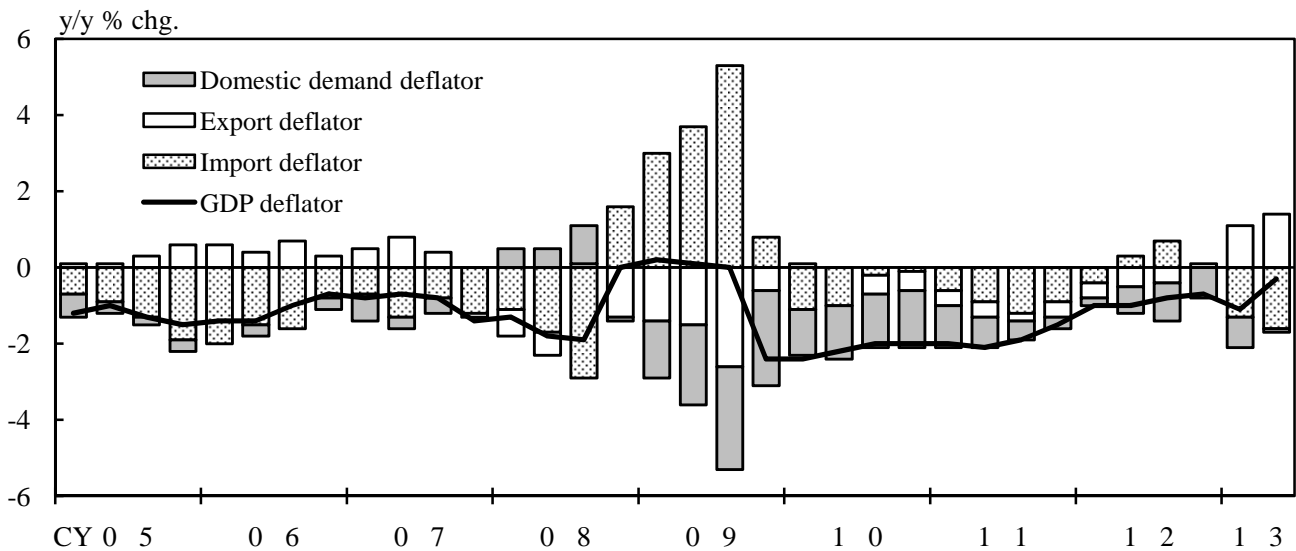


Note: Shaded areas indicate recession periods. Triangle shows the last peak.

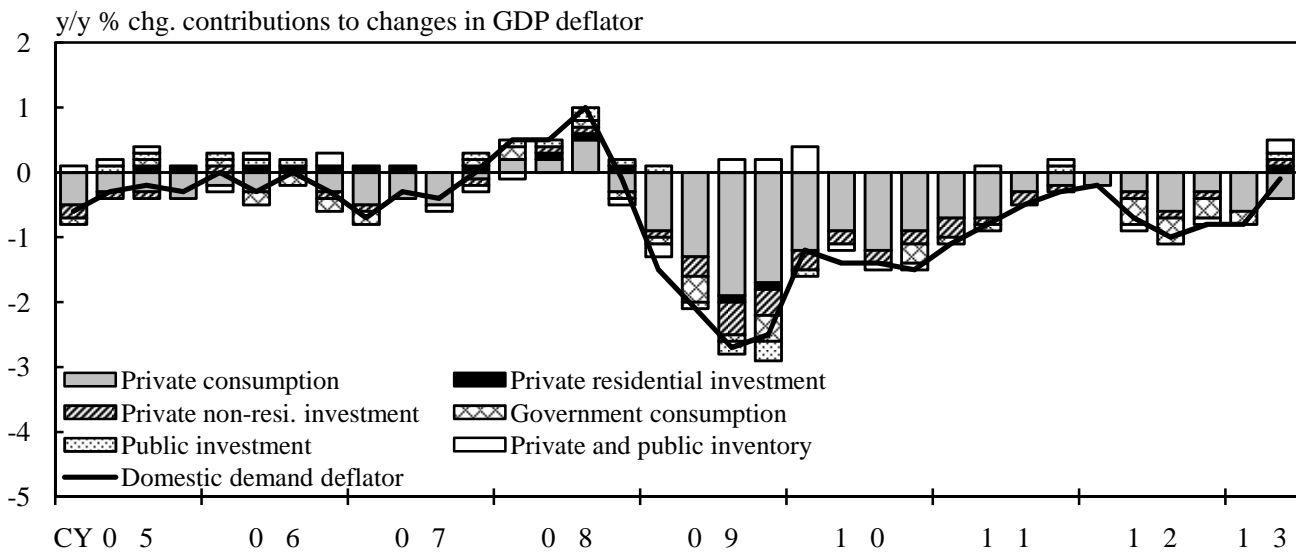
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

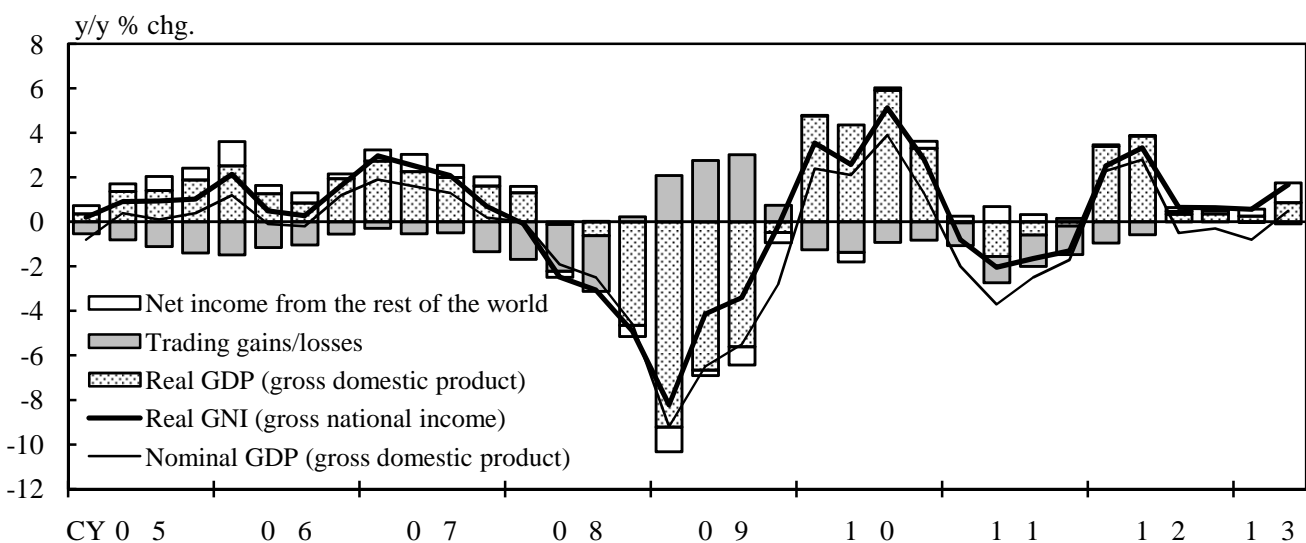
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

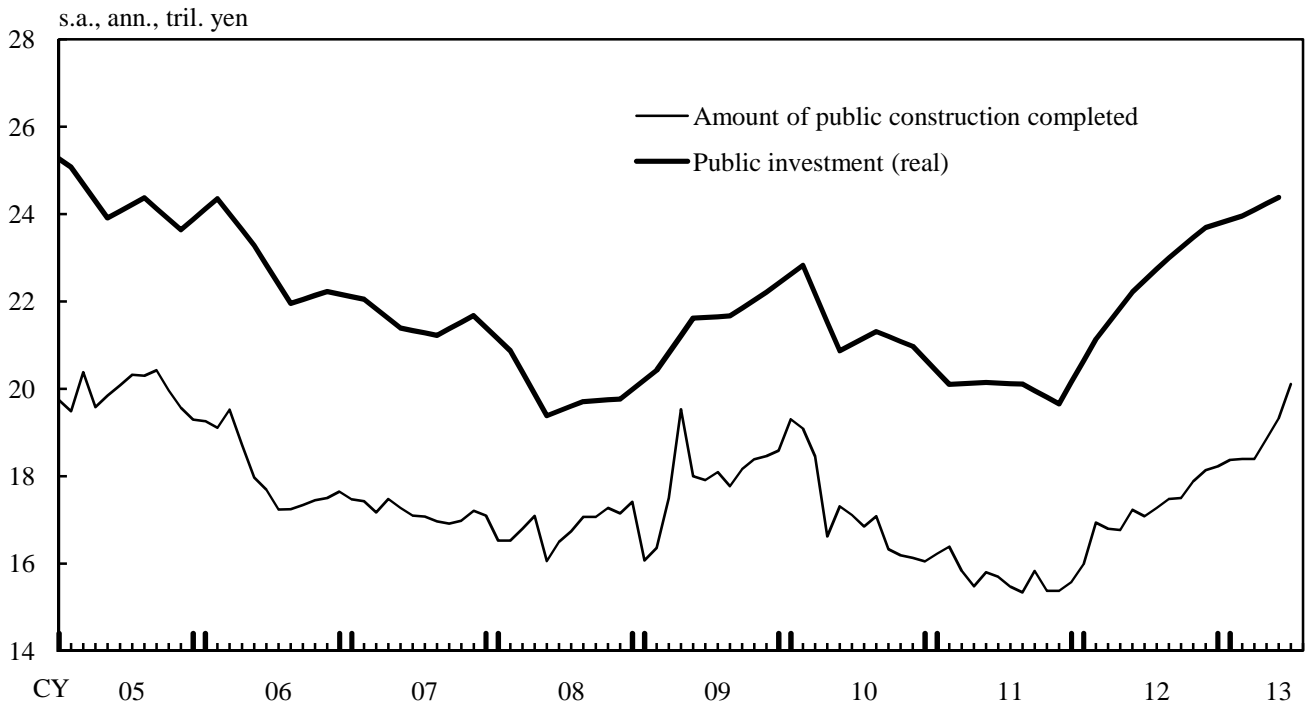
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

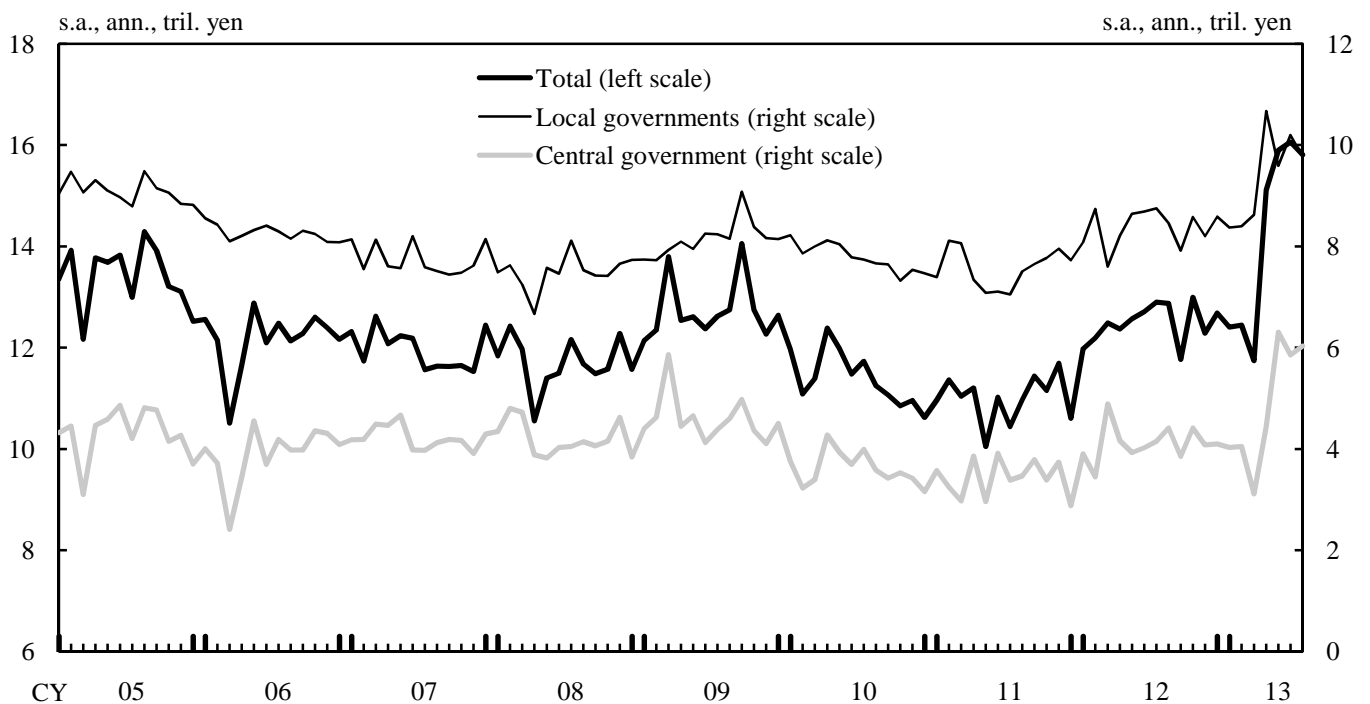
Source: Cabinet Office, "National Accounts."

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.

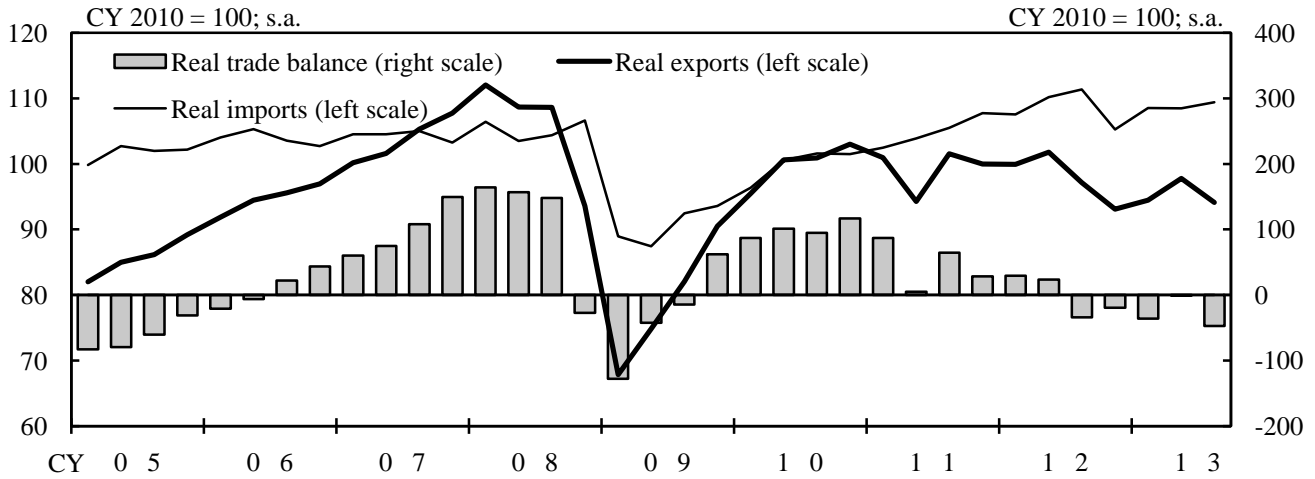
Sources: Cabinet Office, "National Accounts";

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

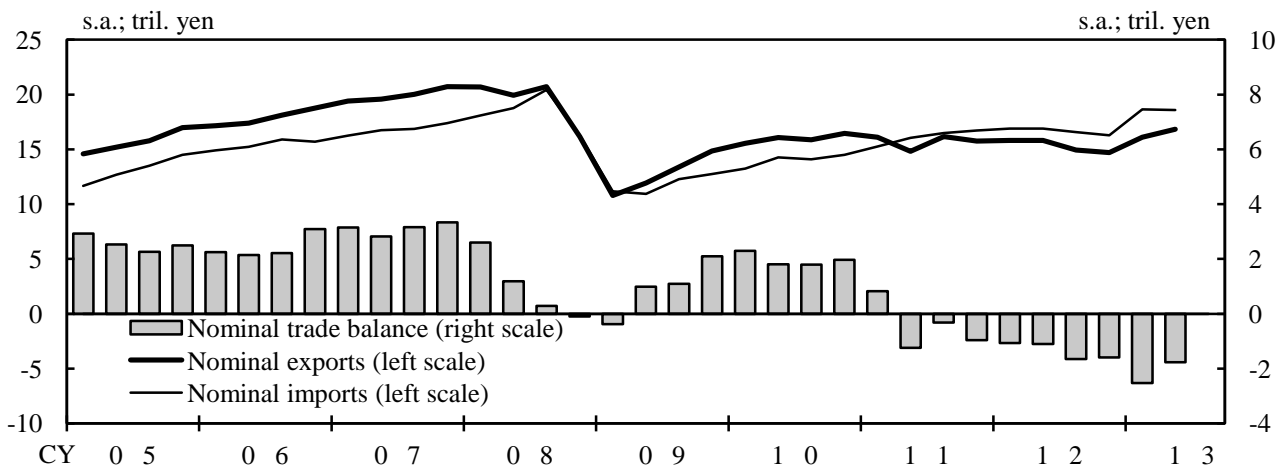
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance ¹

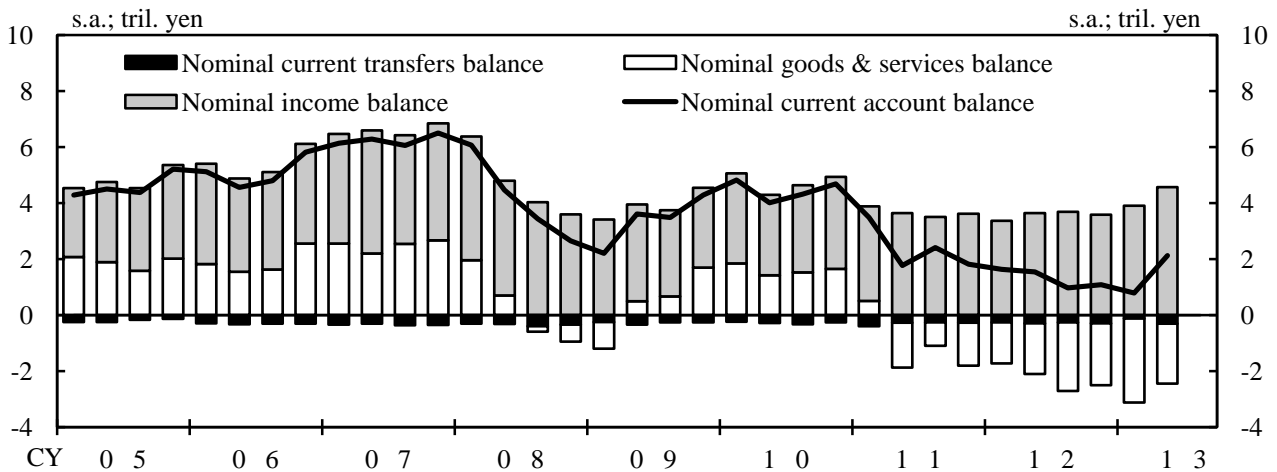
(1) Real Exports, Real Imports, and Real Trade Balance ²



(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance ³



(3) Nominal Current Account Balance and Nominal Goods & Services Balance ³



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. 2013/Q3 figures are July 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 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 May	2013 Jun.	2013 Jul.
United States	<17.6>	-0.3	13.0	-3.8	-3.0	2.1	7.5	-5.5	-3.9	4.6	-7.1
EU	<10.2>	3.4	-12.9	-6.3	-4.4	-0.4	0.4	6.3	-6.2	11.0	1.3
East Asia	<51.3>	-1.4	-2.6	-2.6	-3.9	-1.1	3.9	-5.4	2.3	2.4	-7.6
China	<18.1>	1.3	-8.1	-2.6	-9.2	-0.7	7.0	-2.4	5.0	2.6	-5.5
NIEs	<21.5>	-4.5	-4.7	-2.5	-0.5	-0.3	4.2	-6.9	2.6	-0.7	-7.3
Korea	<7.7>	-2.6	-3.5	-0.1	1.1	1.0	2.0	0.4	-8.4	4.9	0.2
Taiwan	<5.8>	-9.4	-6.0	0.6	-2.8	2.4	-1.1	-7.9	9.2	8.2	-14.9
Hong Kong	<5.1>	-4.2	-0.7	-0.4	-0.9	-5.1	9.8	-6.8	15.2	-10.0	-4.5
Singapore	<2.9>	0.6	-11.6	-15.9	-2.6	0.5	13.8	-17.5	-1.5	-7.7	-12.4
ASEAN4 ³	<11.7>	0.6	12.5	-2.7	-1.9	-3.1	-1.6	-7.5	-2.7	8.5	-11.5
Thailand	<5.5>	1.4	19.3	-0.8	0.1	-6.0	0.7	-4.4	-1.5	6.7	-8.0
Others	<21.0>	0.9	1.7	-7.5	-5.1	3.6	1.0	-0.1	8.7	-2.1	-1.4
Real exports		-0.9	-1.0	-4.5	-4.2	1.5	3.6	-3.7	-0.2	2.0	-4.9

(2) Breakdown by Goods

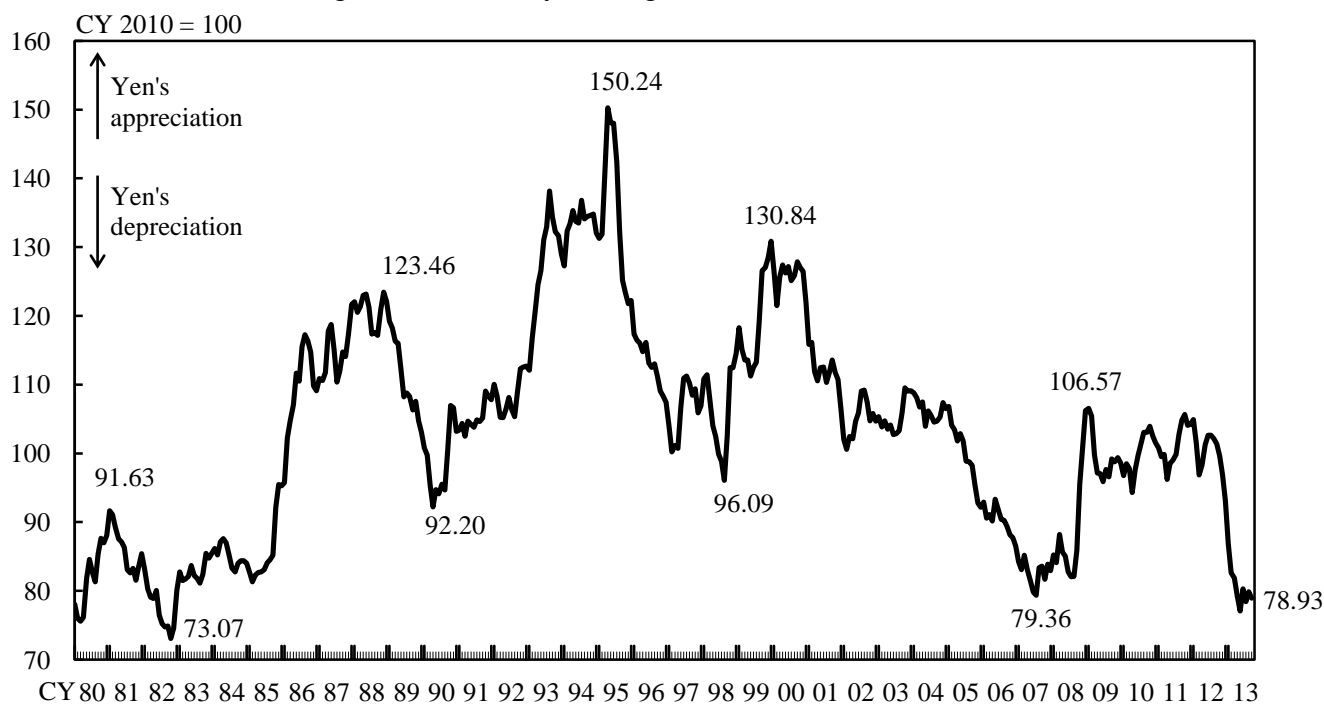
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 May	2013 Jun.	2013 Jul.
Intermediate goods	<20.4>	-3.2	-0.7	0.4	-3.4	1.9	1.8	-3.0	-3.0	9.8	-7.9
Motor vehicles and their related goods	<23.4>	-4.9	7.7	-6.2	-5.8	0.6	6.0	-0.6	-3.9	5.5	-2.8
IT-related goods ⁴	<11.2>	2.3	3.6	-0.3	-1.9	-6.5	0.9	-3.6	2.5	2.7	-6.1
Capital goods and parts ⁵	<29.3>	5.8	-4.0	-5.7	-6.5	1.1	0.4	0.2	5.8	0.3	-1.9
Real exports		-0.9	-1.0	-4.5	-4.2	1.5	3.6	-3.7	-0.2	2.0	-4.9

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q3 figures are July 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. 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 August and September (up to September 3) 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 ¹	2.5	1.8	2.8	2.8	0.1	1.1	2.5
European Union ²	2.0	1.7	-0.4	0.2	-1.6	-0.2	1.4
Germany ¹	4.0	3.3	0.7	0.8	-1.8	0.0	2.9
France ¹	1.6	2.0	0.0	0.6	-0.7	-0.6	1.9
United Kingdom ¹	1.7	1.1	0.2	3.0	-0.9	1.1	2.9
East Asia ³	9.2	5.9	4.8	4.9	6.5	2.5	5.1
China ¹	10.4	9.3	7.7	8.2	7.8	6.6	7.0
NIEs ^{1,3}	8.9	4.3	1.6	1.2	4.1	1.0	5.1
ASEAN4 ^{1,3,4}	7.4	3.0	6.3	6.7	9.5	-1.1	2.3
Main economies ³	6.7	4.5	3.7	3.8	4.1	1.8	4.1

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 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 May	2013 Jun.	2013 Jul.
United States	<8.6>	0.5	3.8	1.7	-8.1	-0.1	2.5	4.6	6.2	5.8	-1.1
EU	<9.4>	10.3	4.0	3.0	-1.2	-1.8	-0.7	2.4	-2.5	8.3	-2.0
East Asia	<40.8>	11.1	3.8	0.6	-2.0	2.8	-1.9	-0.3	1.2	3.9	-3.1
China	<21.3>	14.5	4.9	0.9	-0.9	3.6	-1.7	-2.4	0.9	4.6	-5.6
NIEs	<8.5>	10.0	4.9	2.0	-1.6	1.1	-5.9	4.8	3.4	3.5	1.3
Korea	<4.6>	24.3	4.2	2.7	-3.8	2.8	-10.0	6.3	5.7	0.9	3.8
Taiwan	<2.7>	-3.1	7.2	2.3	1.5	-1.1	5.0	2.2	-1.1	14.9	-6.4
Hong Kong	<0.2>	-5.6	-2.5	-5.2	-1.3	8.2	-10.2	4.5	-6.7	12.0	-0.8
Singapore	<1.0>	-0.1	2.9	-1.2	-0.4	-1.1	-16.4	7.8	7.4	-4.9	8.8
ASEAN4 ³	<11.1>	5.6	0.5	-0.9	-4.7	2.7	1.0	0.5	0.2	2.7	-1.3
Thailand	<2.7>	7.3	-1.0	-2.4	-2.9	3.5	0.9	0.3	-1.6	0.9	0.3
Others	<41.2>	-0.4	4.6	0.5	-10.5	7.7	1.0	-1.2	-1.2	1.7	-1.9
Real imports		4.8	4.1	1.0	-5.5	3.1	-0.0	0.8	1.1	3.1	-1.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 May	2013 Jun.	2013 Jul.
Raw materials ⁴	<40.8>	-0.2	4.5	0.3	-12.3	9.8	-1.6	-1.3	1.2	1.4	-2.5
Intermediate goods	<13.5>	11.7	-2.7	3.0	-3.1	-1.5	-2.6	4.1	-5.0	3.7	3.3
Foodstuffs	<8.3>	1.3	-0.7	0.6	-3.9	3.4	-6.1	3.9	1.6	0.2	3.1
Consumer goods ⁵	<7.5>	9.9	4.5	0.8	-2.9	1.9	3.0	4.1	1.5	8.1	-1.6
IT-related goods ⁶	<12.0>	11.2	8.8	2.1	3.5	2.9	1.3	-5.3	8.0	2.3	-9.0
Capital goods and parts ⁷	<10.9>	11.3	10.3	-0.7	-3.7	0.5	4.6	2.1	1.9	5.6	-2.1
Excluding aircraft	<10.1>	12.6	6.9	0.2	-2.3	-0.3	4.8	0.6	-1.8	4.9	-2.0
Real imports		4.8	4.1	1.0	-5.5	3.1	-0.0	0.8	1.1	3.1	-1.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q3 figures are July 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.

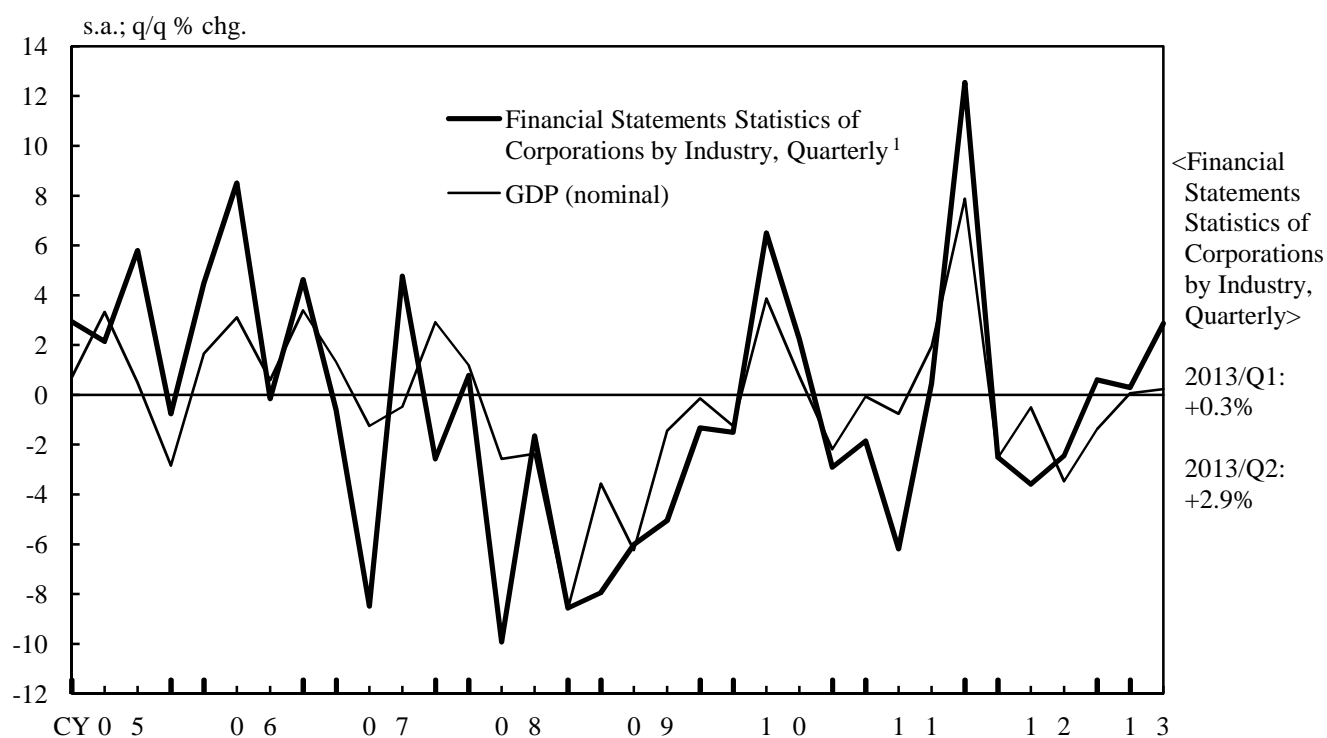
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.

7. Excludes IT-related goods.

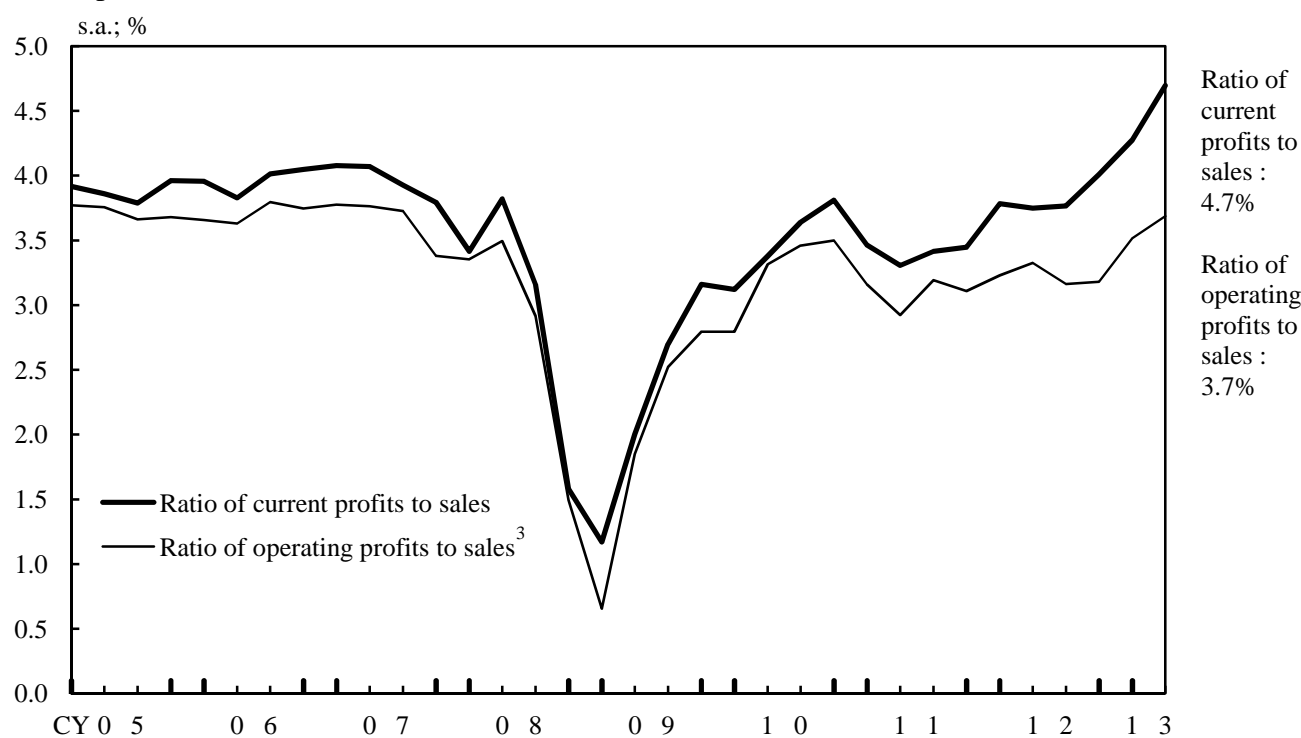
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

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."

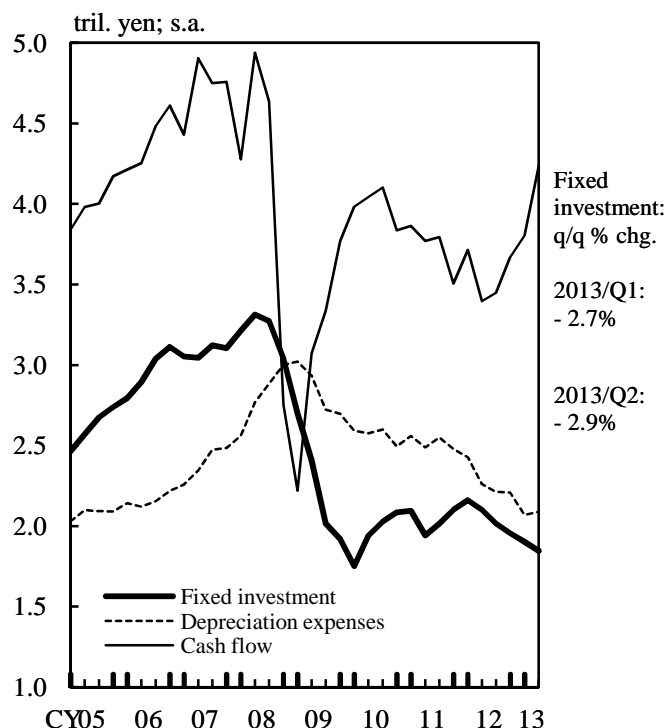
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

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

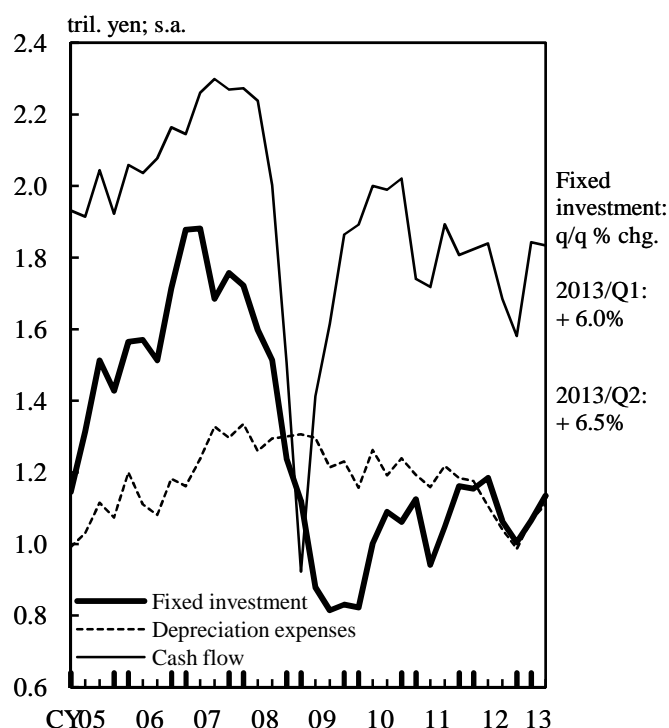
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

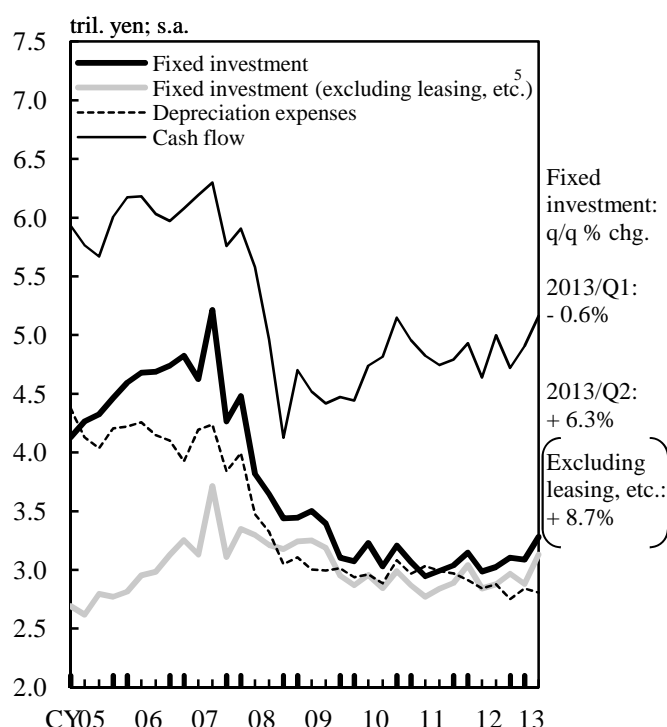
(1) Large Manufacturing Firms



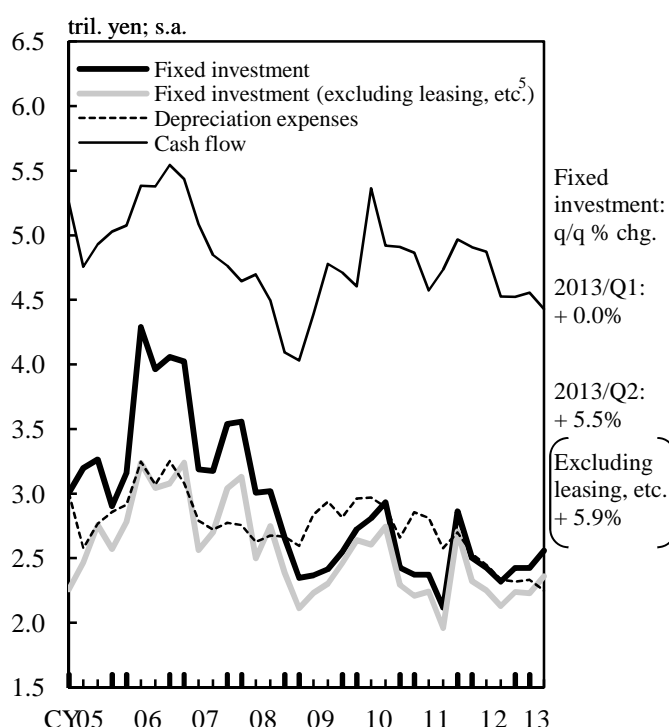
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

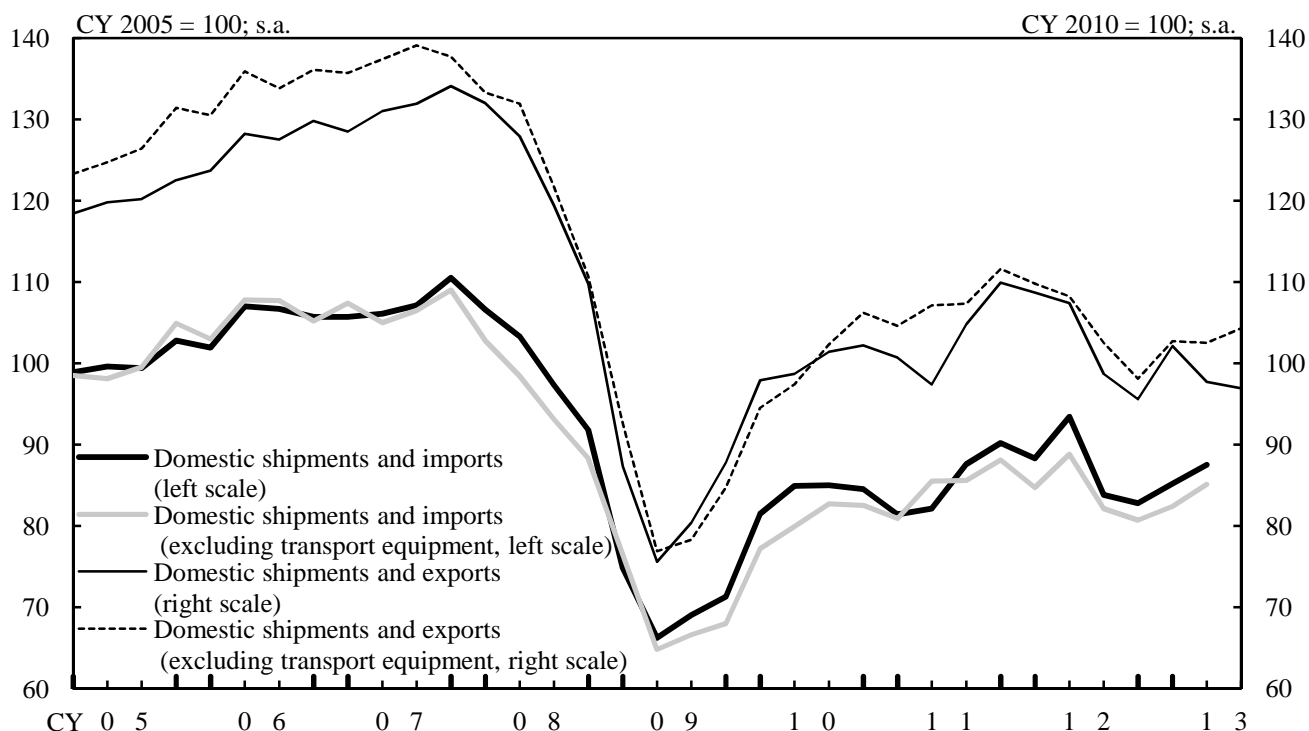


- Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.
 2. Cash flow = current profits / 2 + depreciation expenses.
 3. Seasonally adjusted by X-12-ARIMA.
 4. Excluding "Finance and Insurance."
 5. Excluding "Goods rental and Leasing."

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

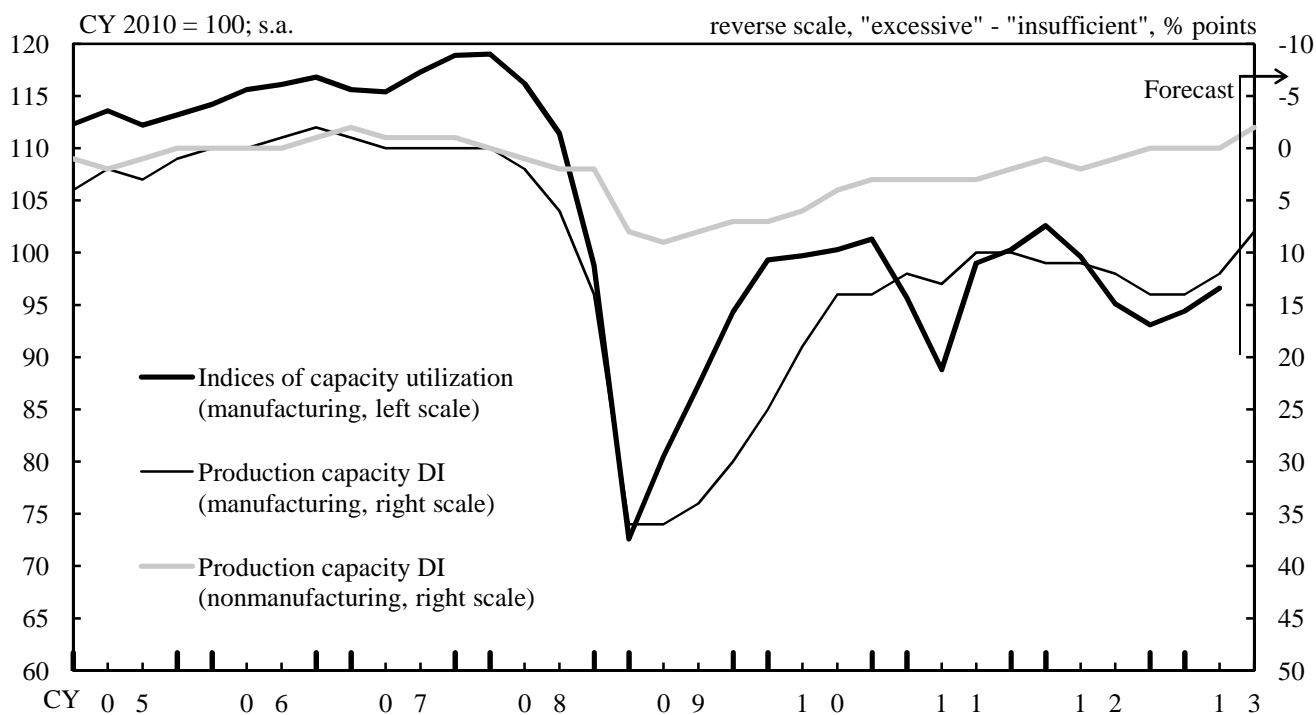
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2013/Q3 are those of July.

(2) Indices of Capacity Utilization and Production Capacity DI

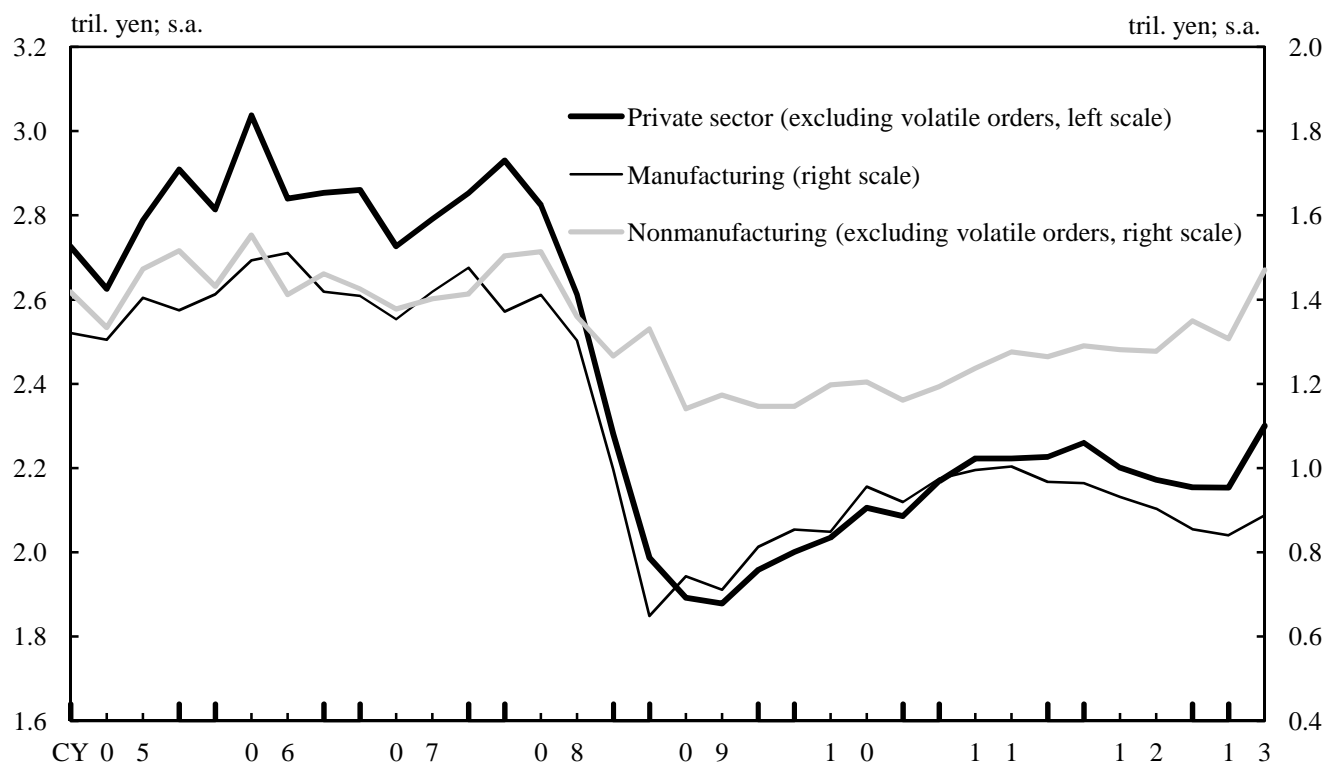


Note: Production capacity DIs are those of all enterprises.

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

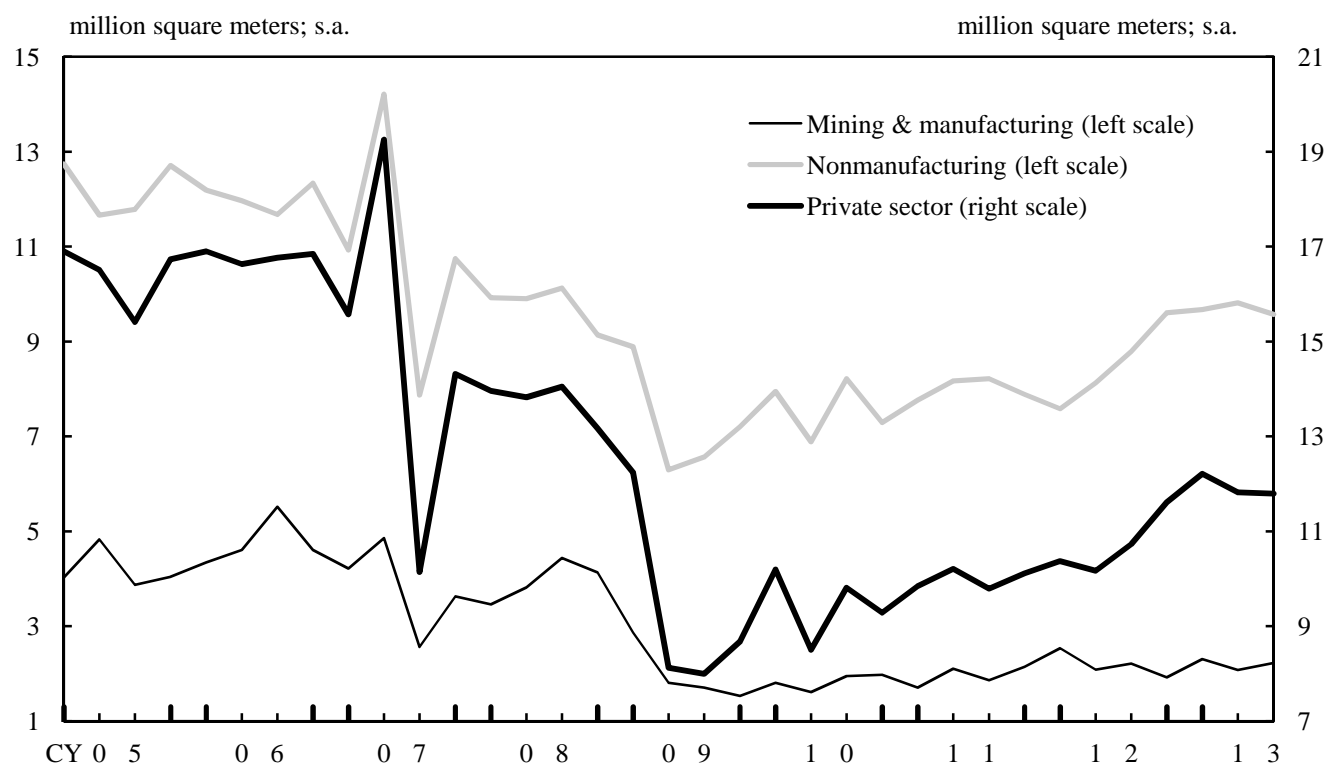
(1) Machinery Orders



Notes: 1. Figures for 2005/Q1 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.

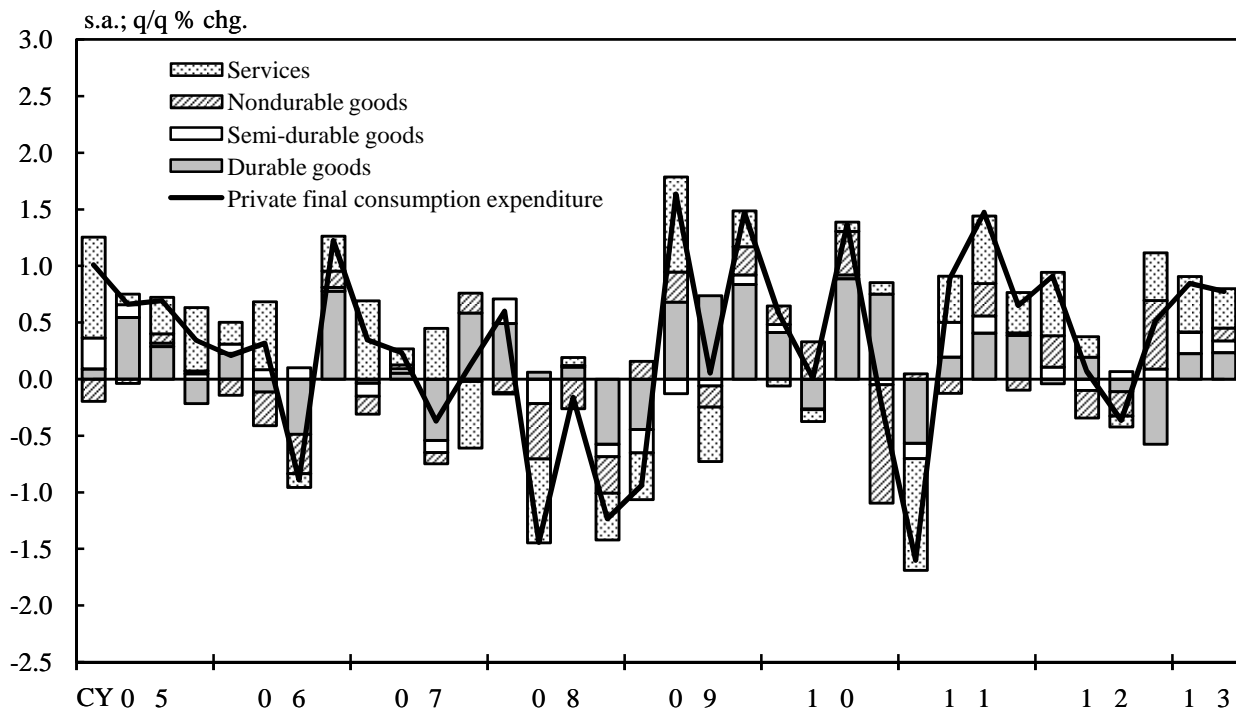
2. Figures for 2013/Q3 are those of July in quarterly amount.

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

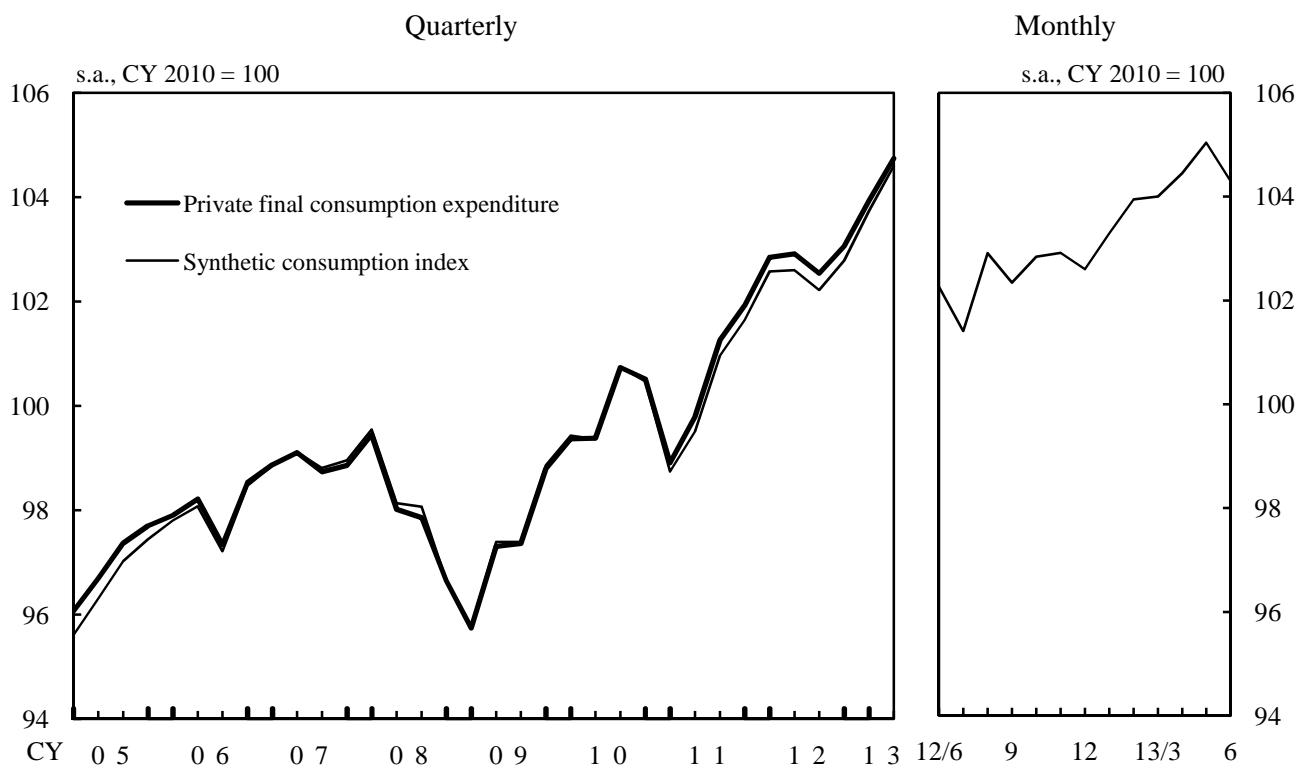
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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

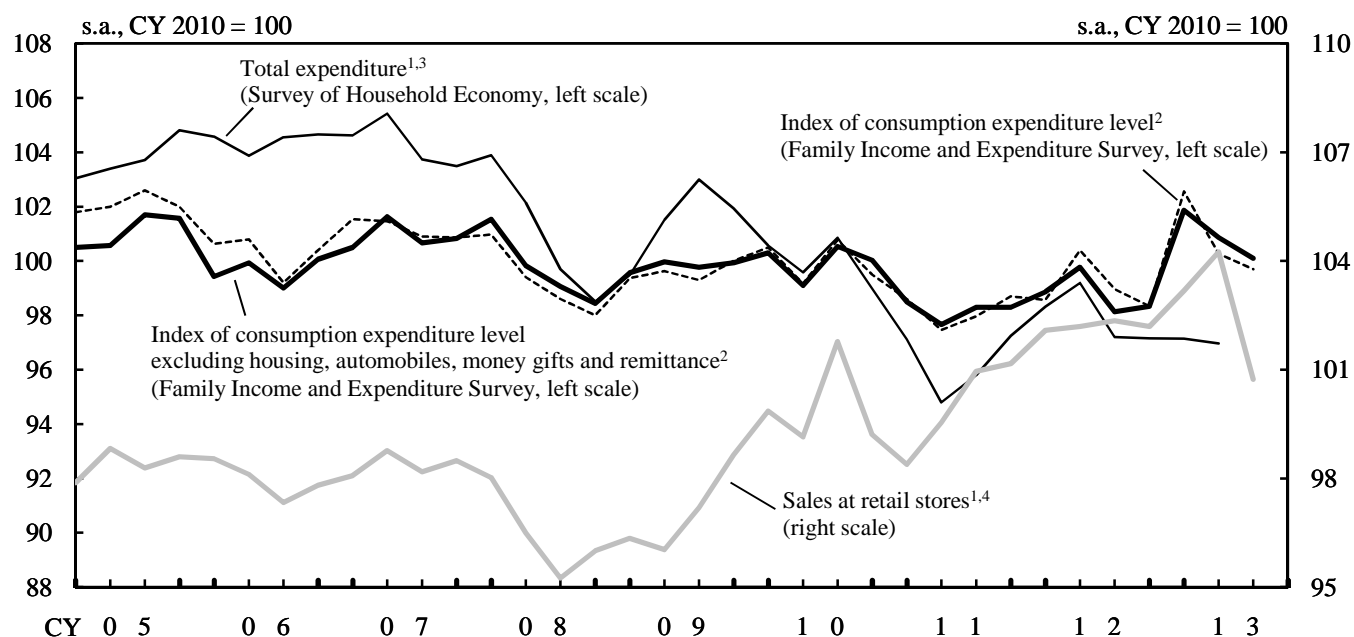


(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)

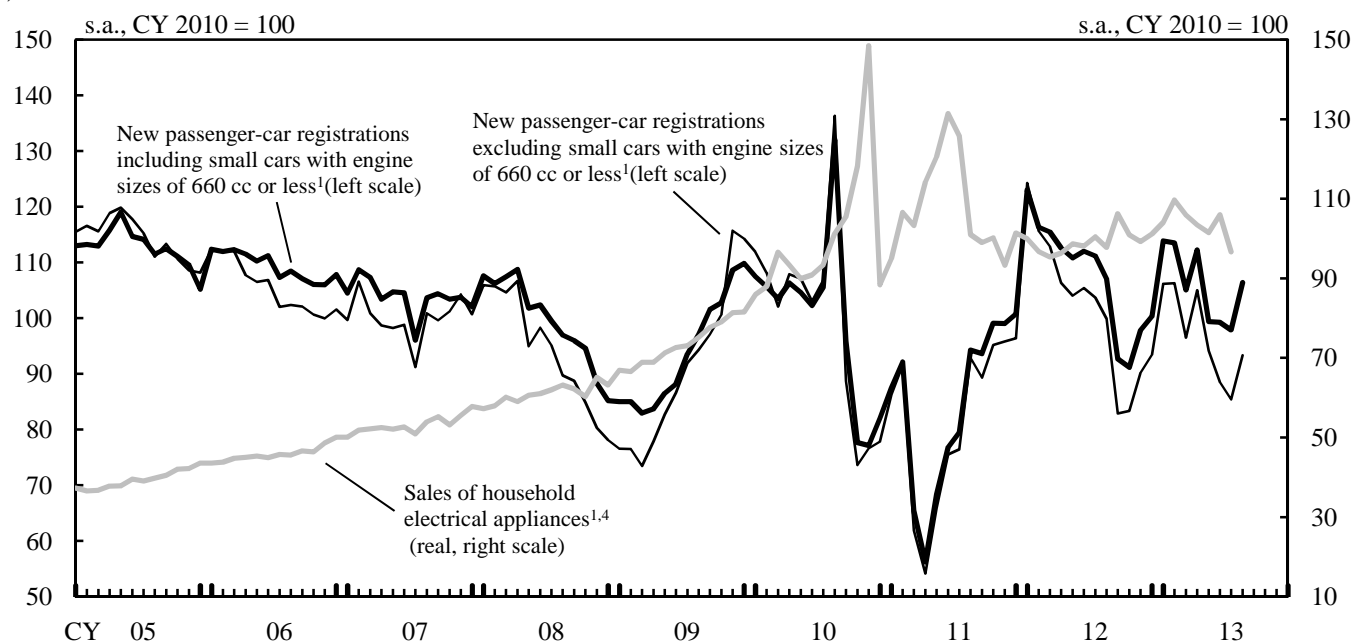


Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

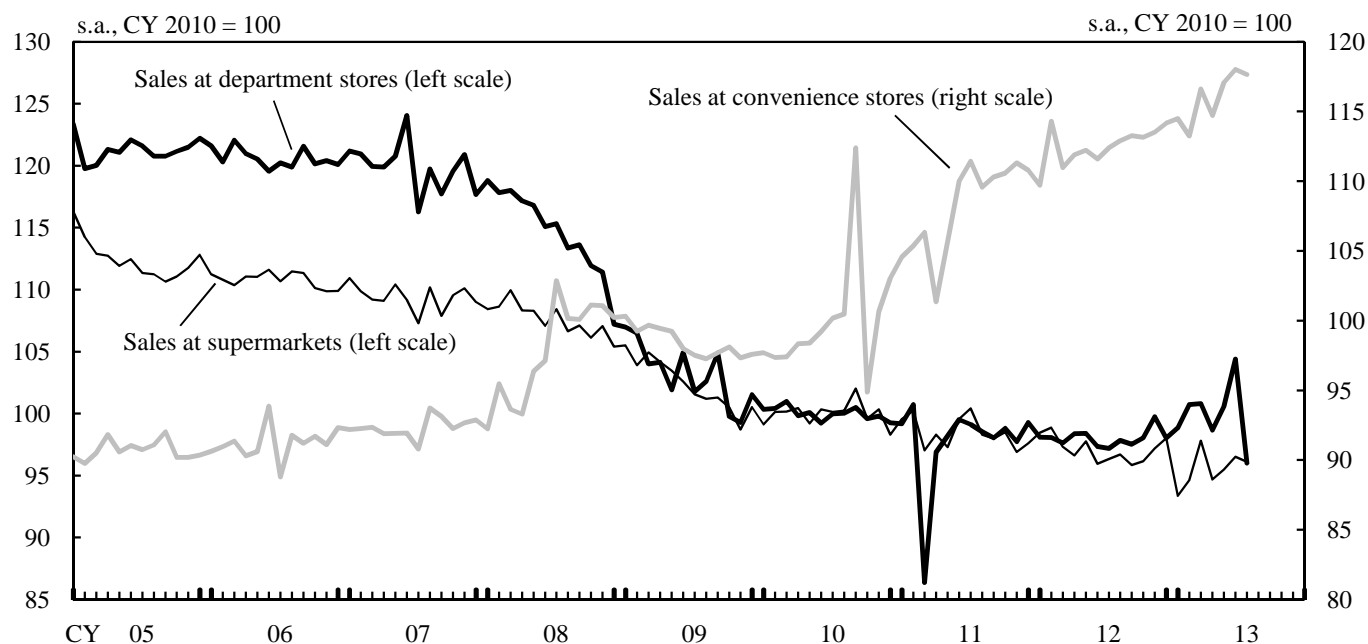
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

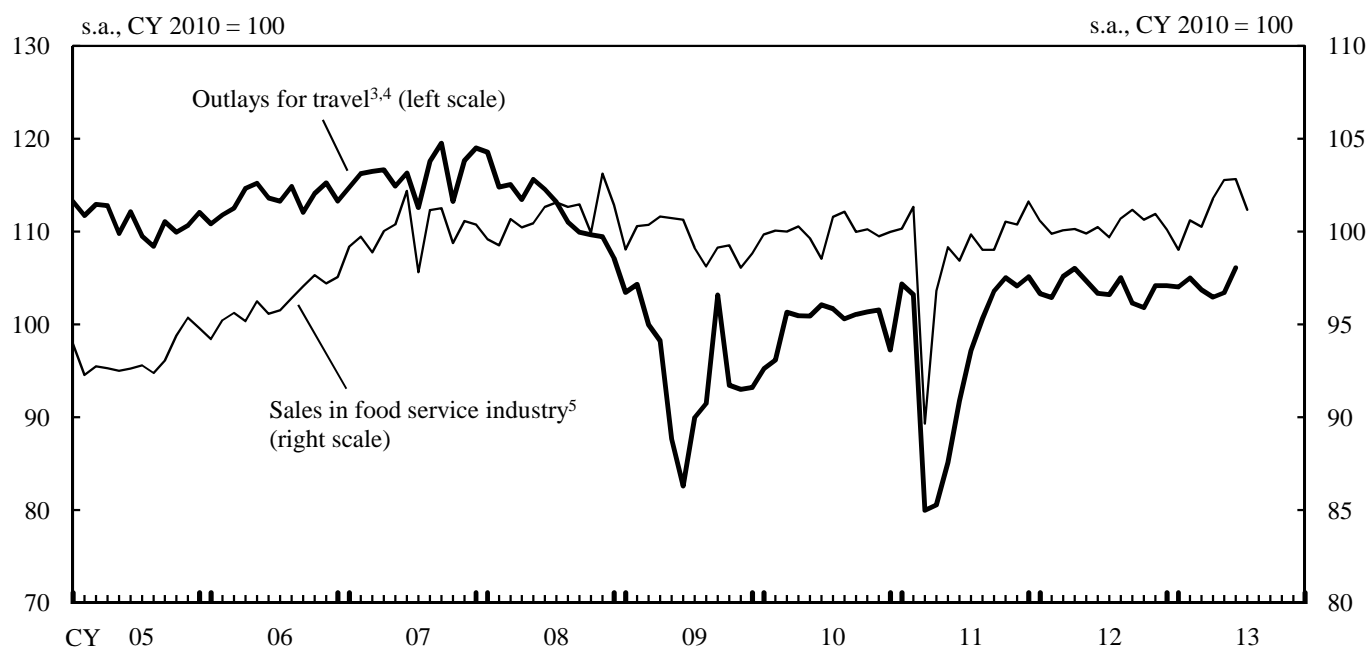


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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/Q3 are those of July 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";

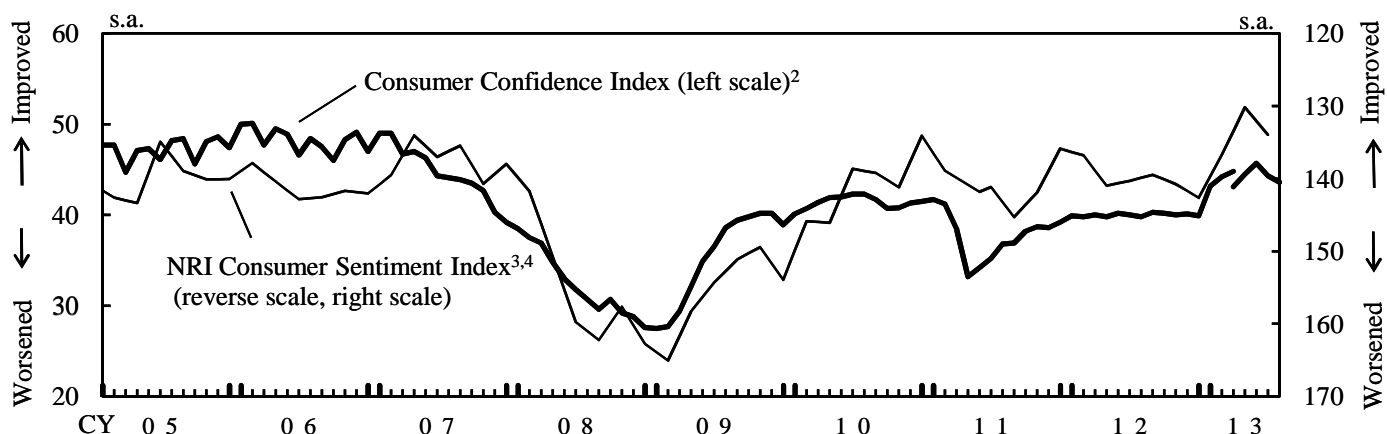
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

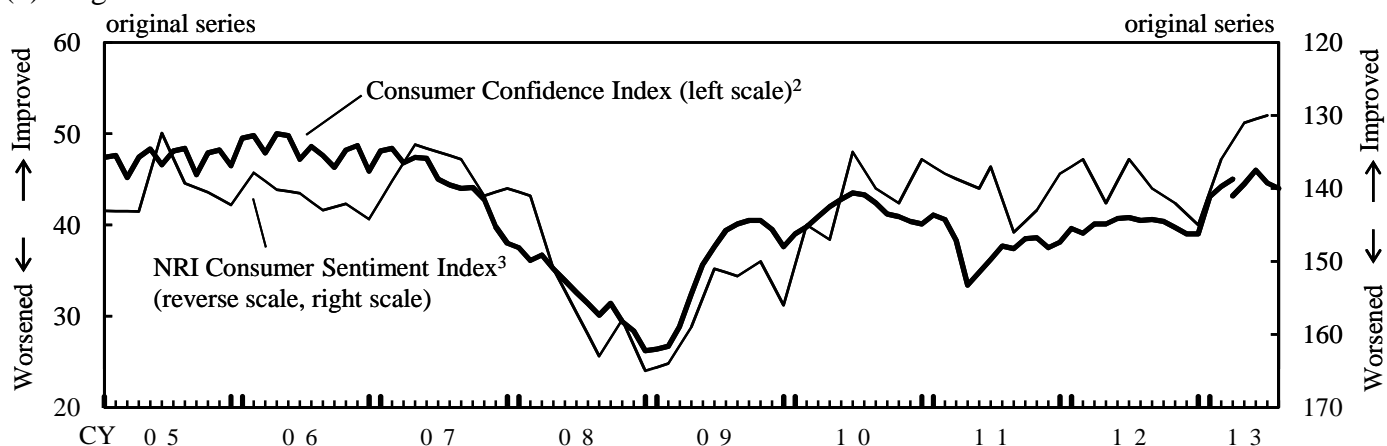
(Research on the food service industry)."

Consumer Confidence¹

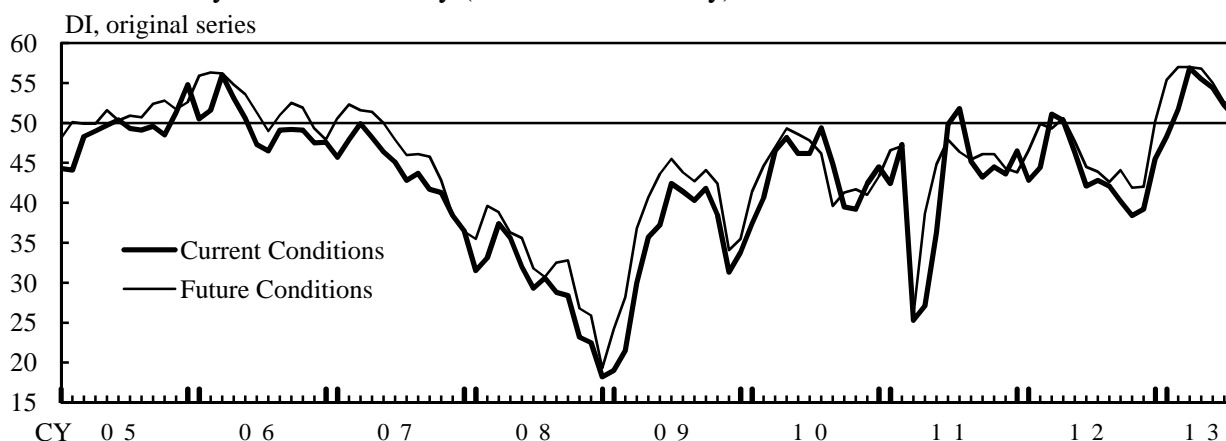
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

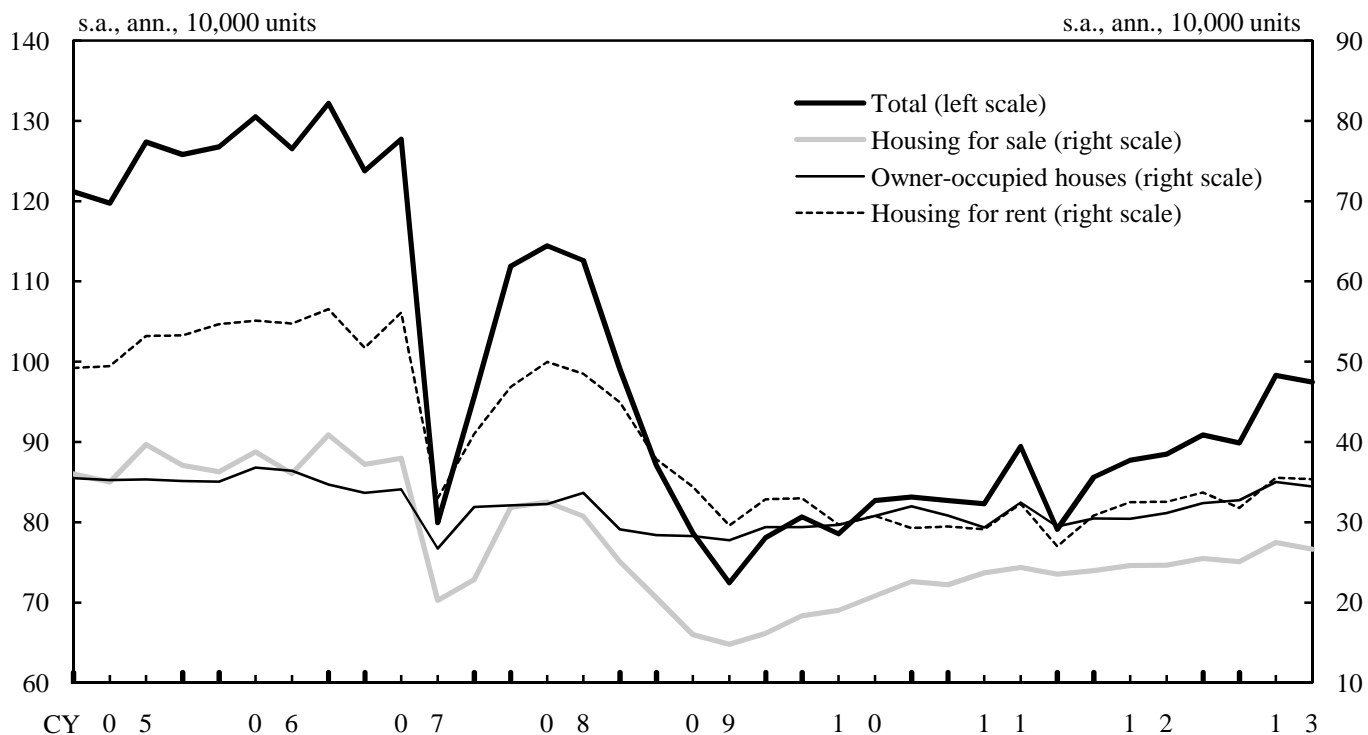


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting 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."

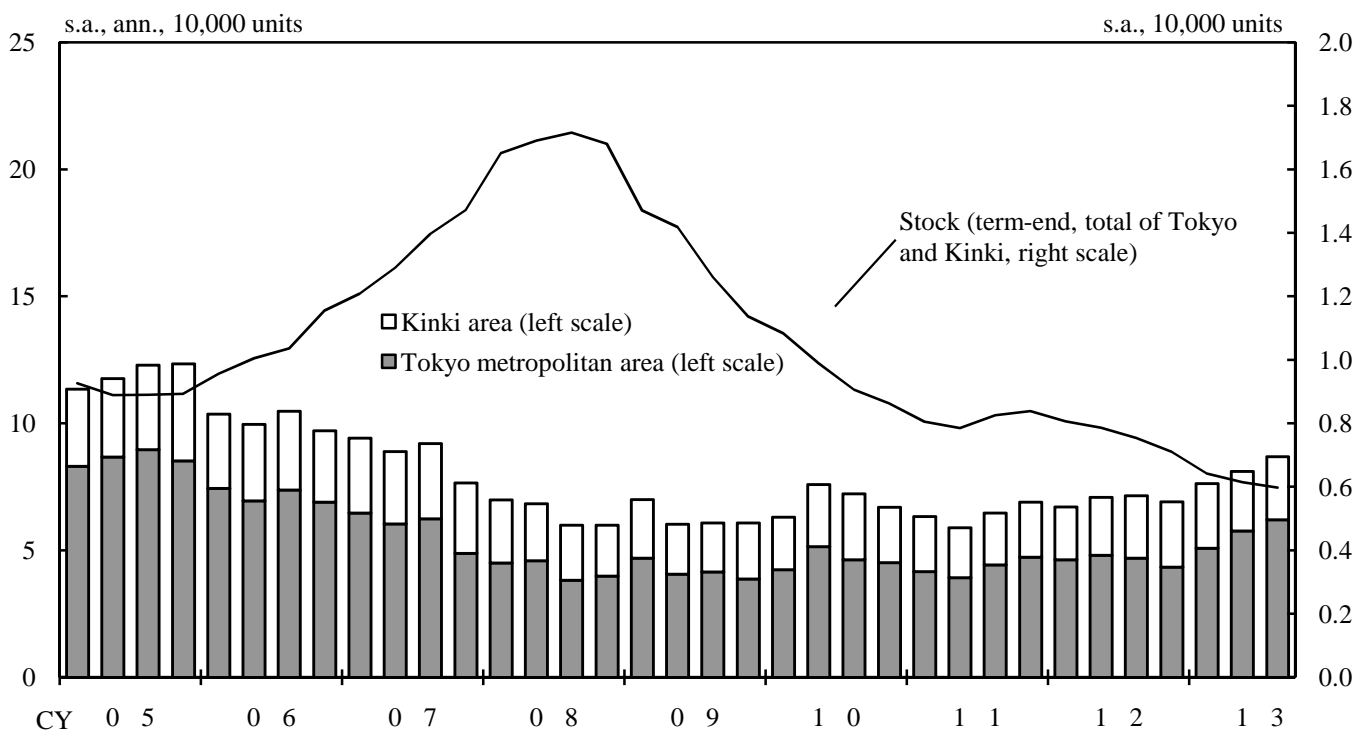
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2013/Q3 are those of July.

(2) Sales of Apartments



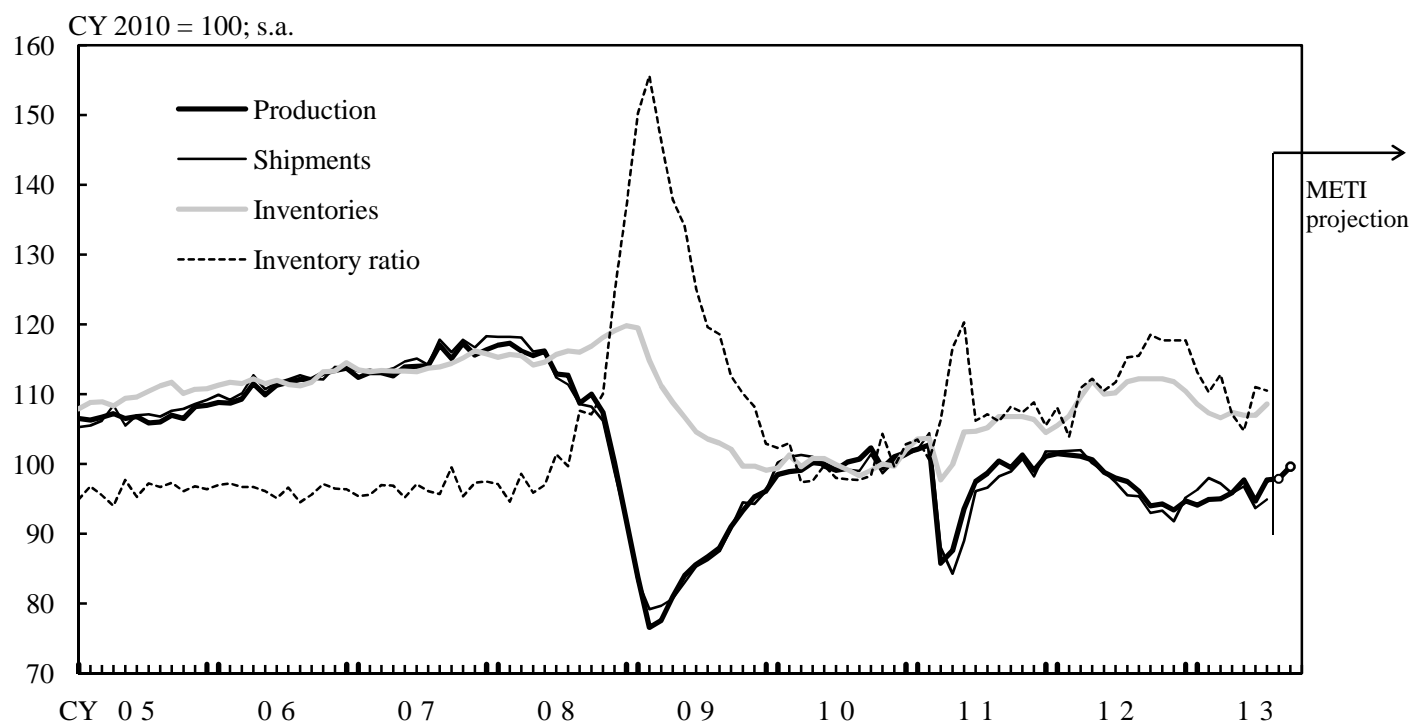
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Figures for 2013/Q3 are those of July.

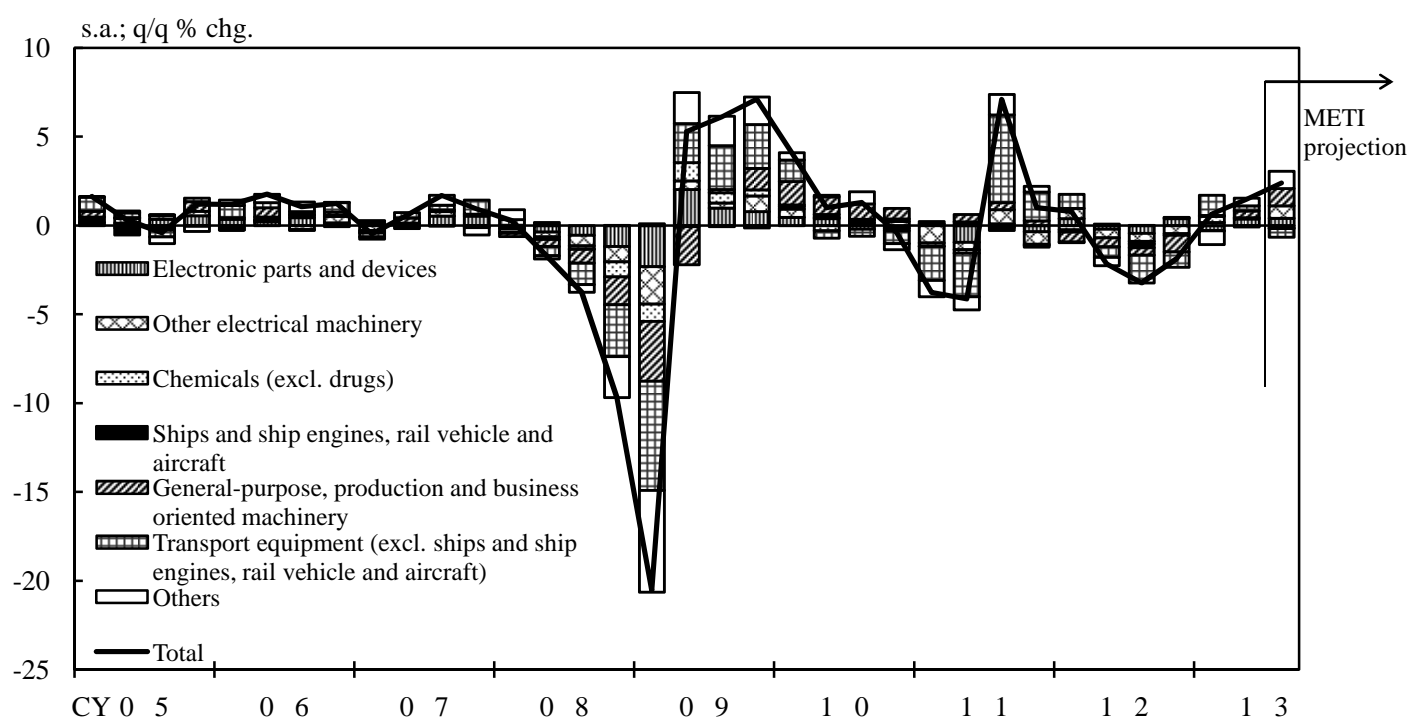
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industry^{1,2,3}



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.

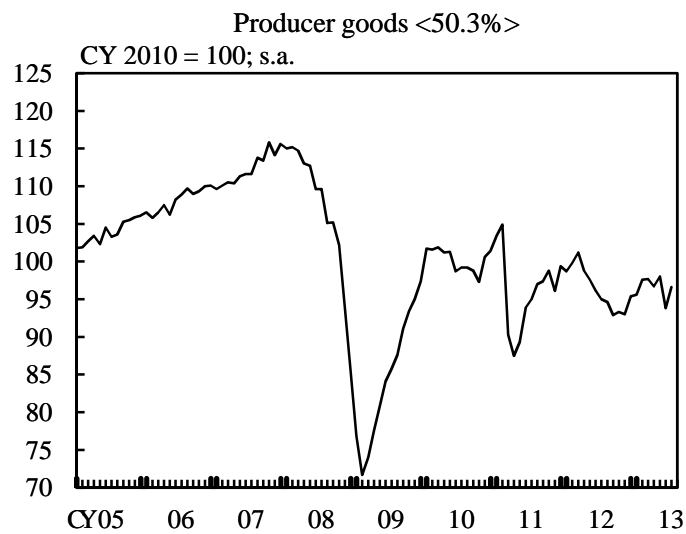
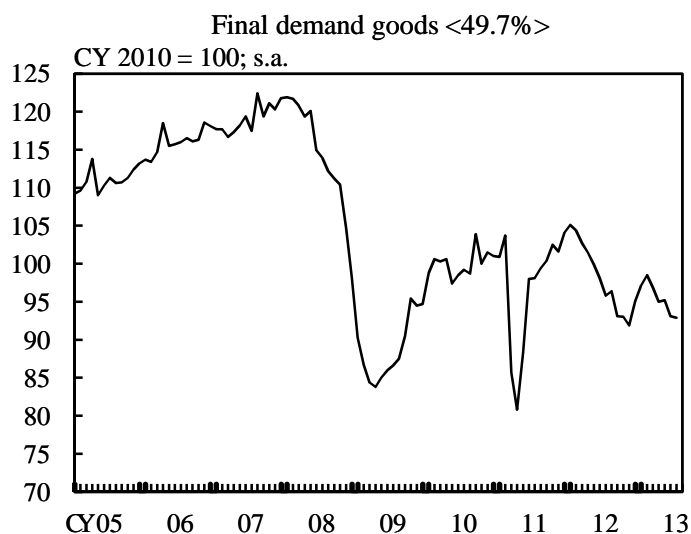
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2013/Q3 figures are based on the actual production levels in July, and the METI projection of August and September.

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

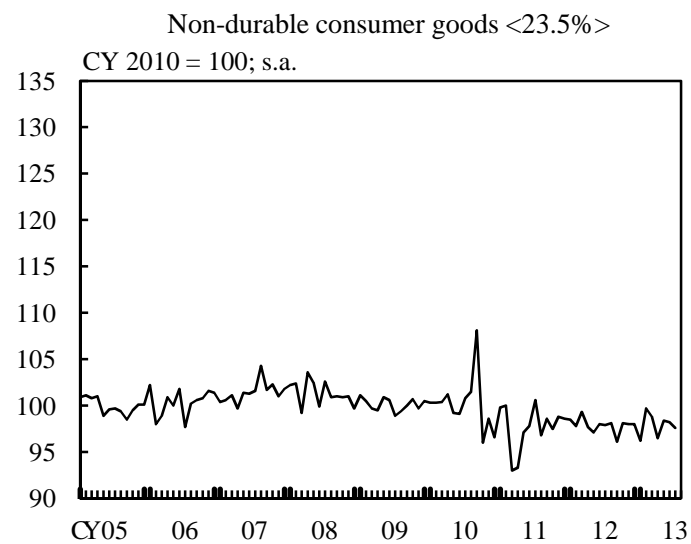
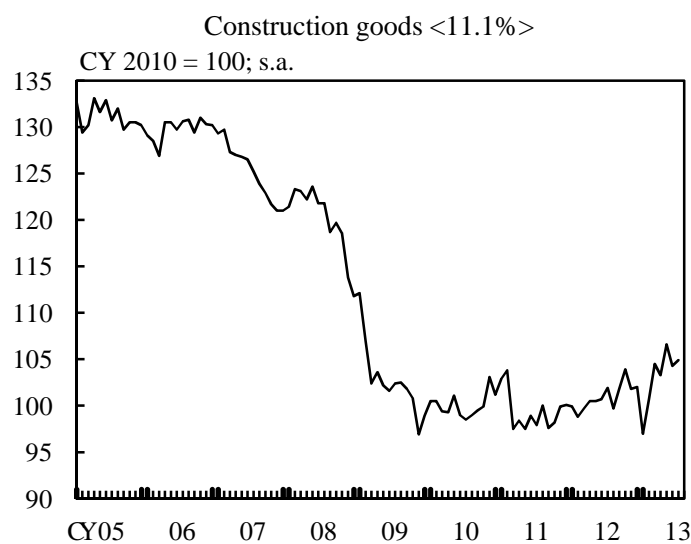
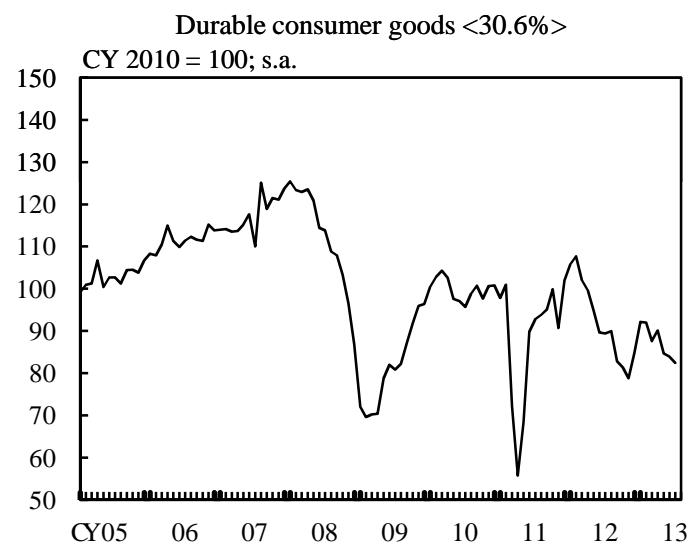
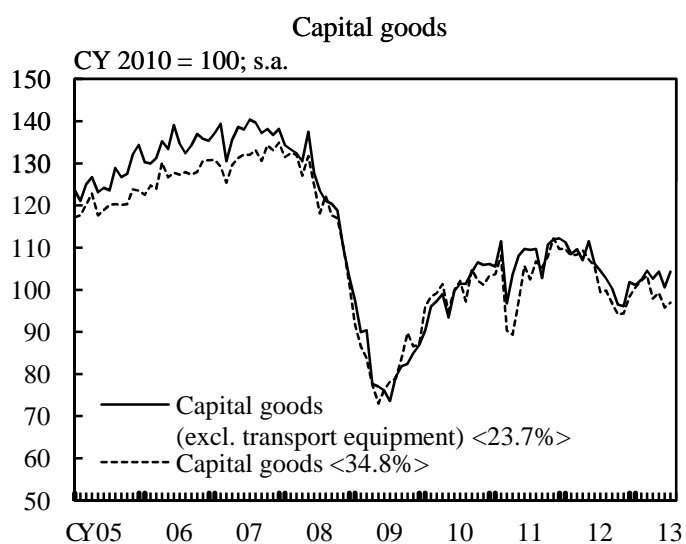
Shipments by Type of Goods

(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

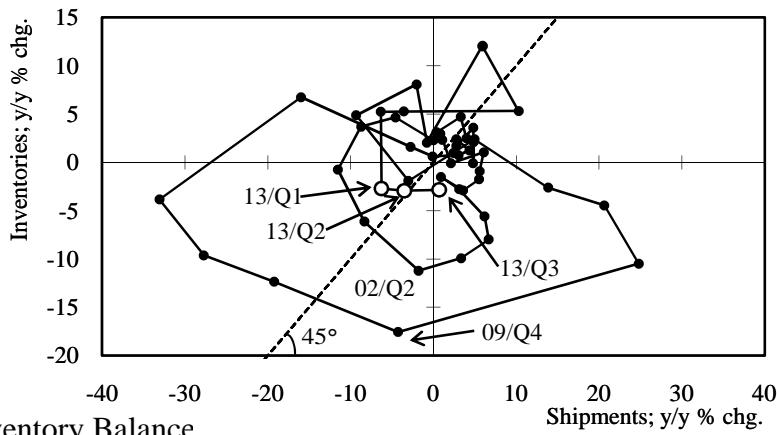


Note: Figures in angle brackets show the shares among shipments of final demand goods.

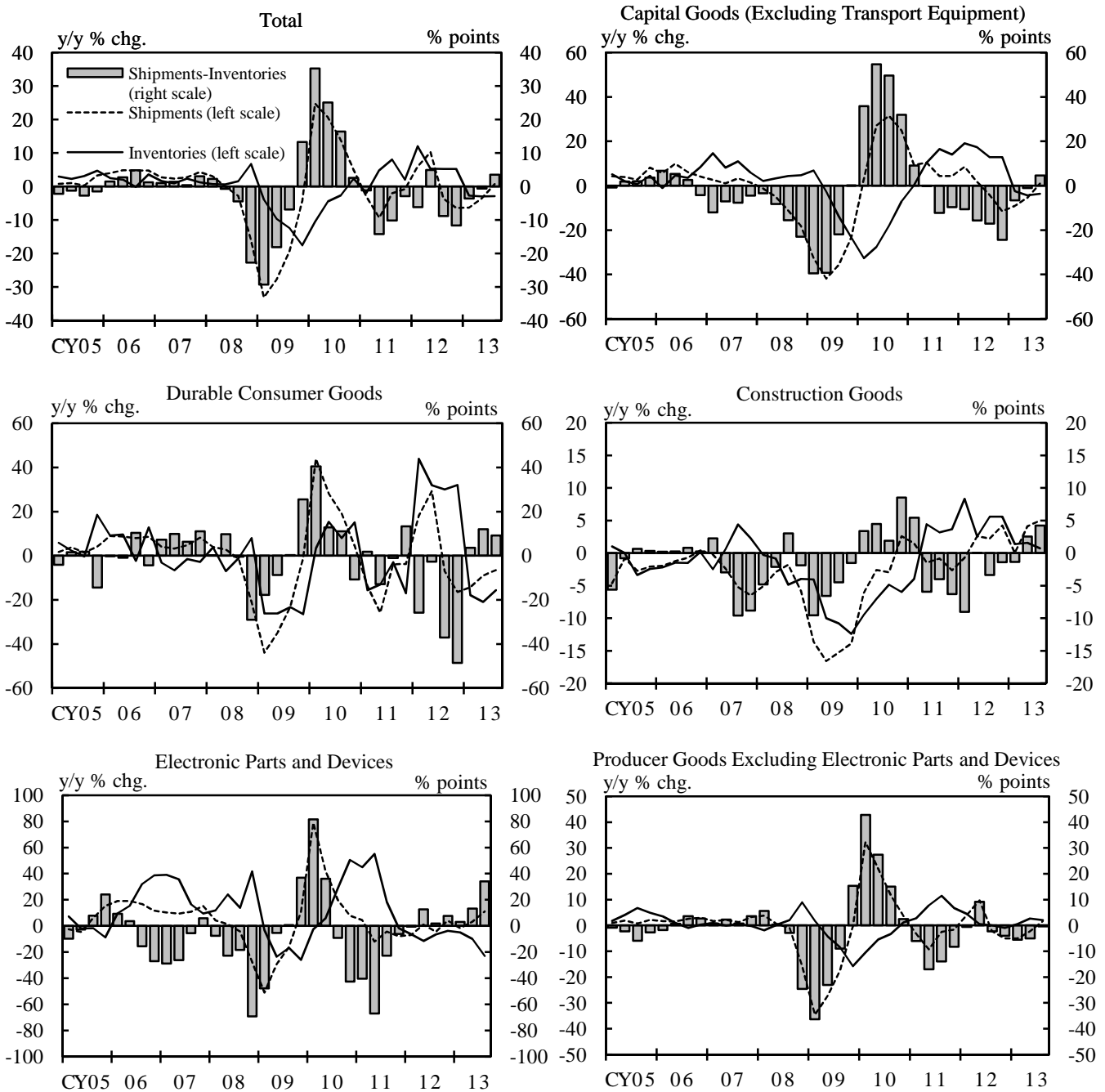
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



(2) Shipment-Inventory Balance

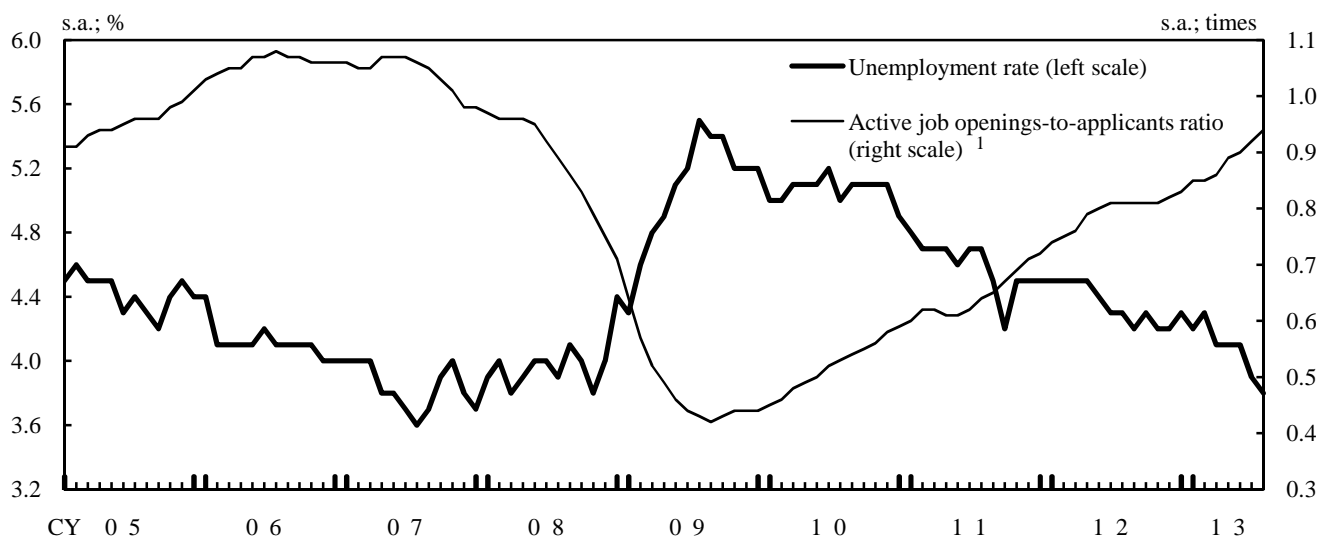


Note: Figures for 2013/Q3 are those of July.

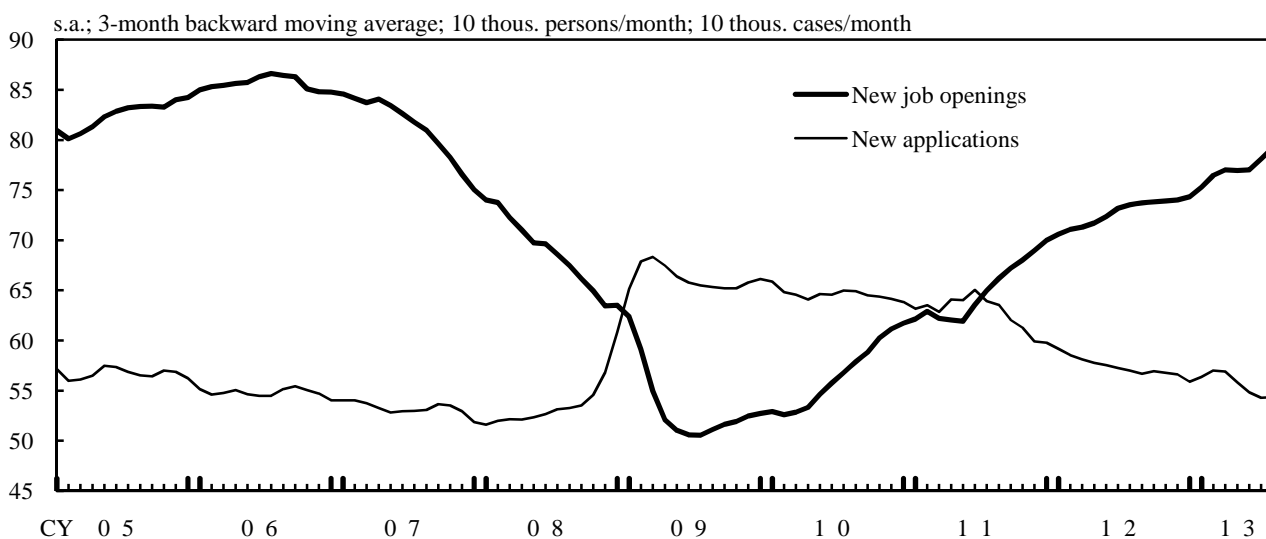
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

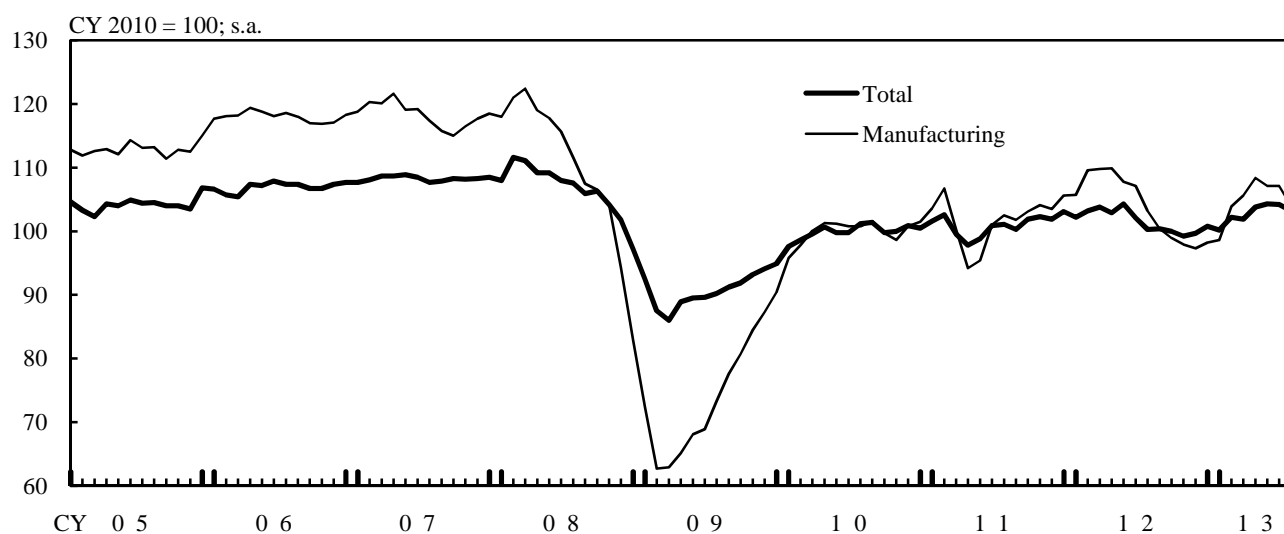
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²



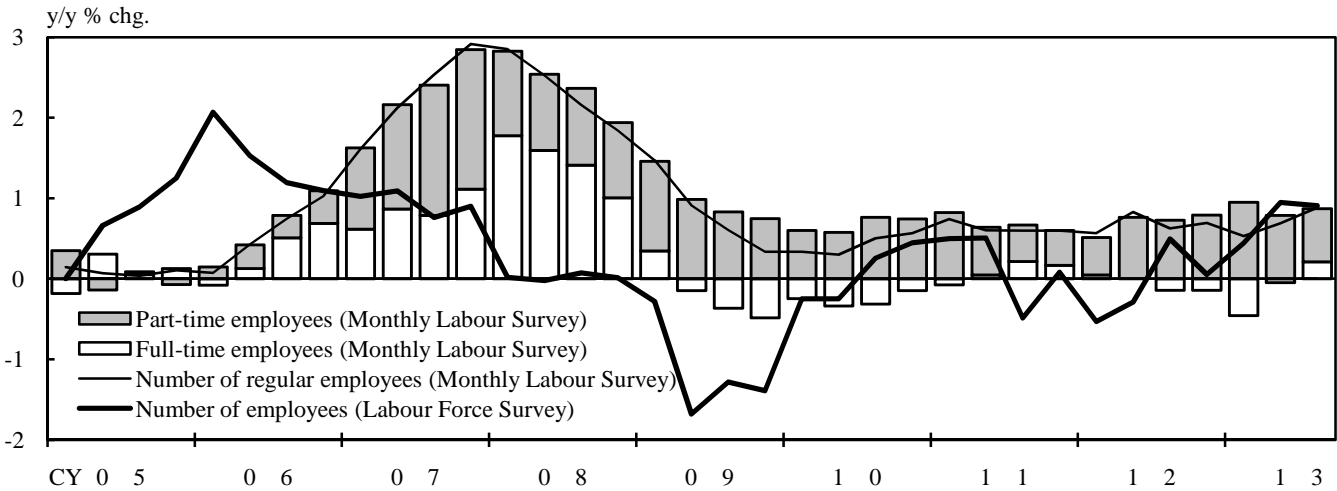
Notes: 1. Excluding new school graduates and including part-timers.

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

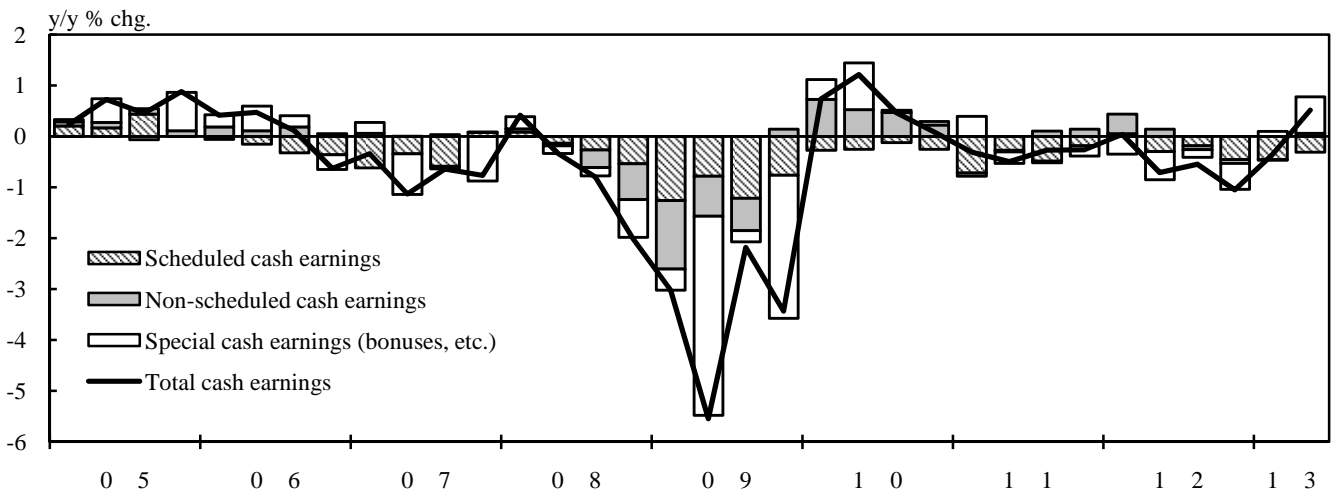
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

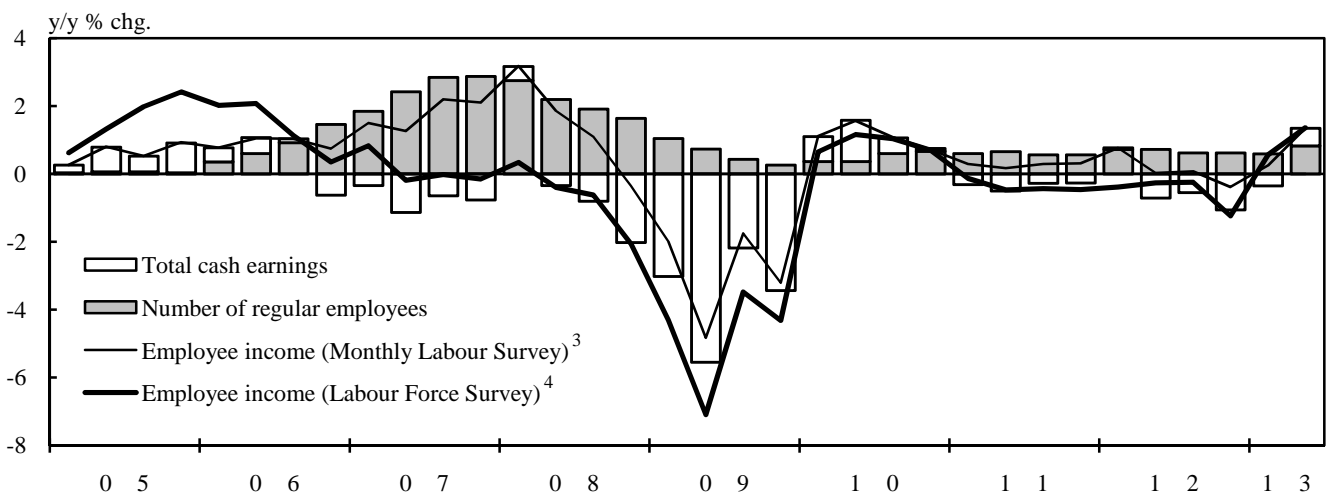
(1) Number of Employees^{1,5}



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



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

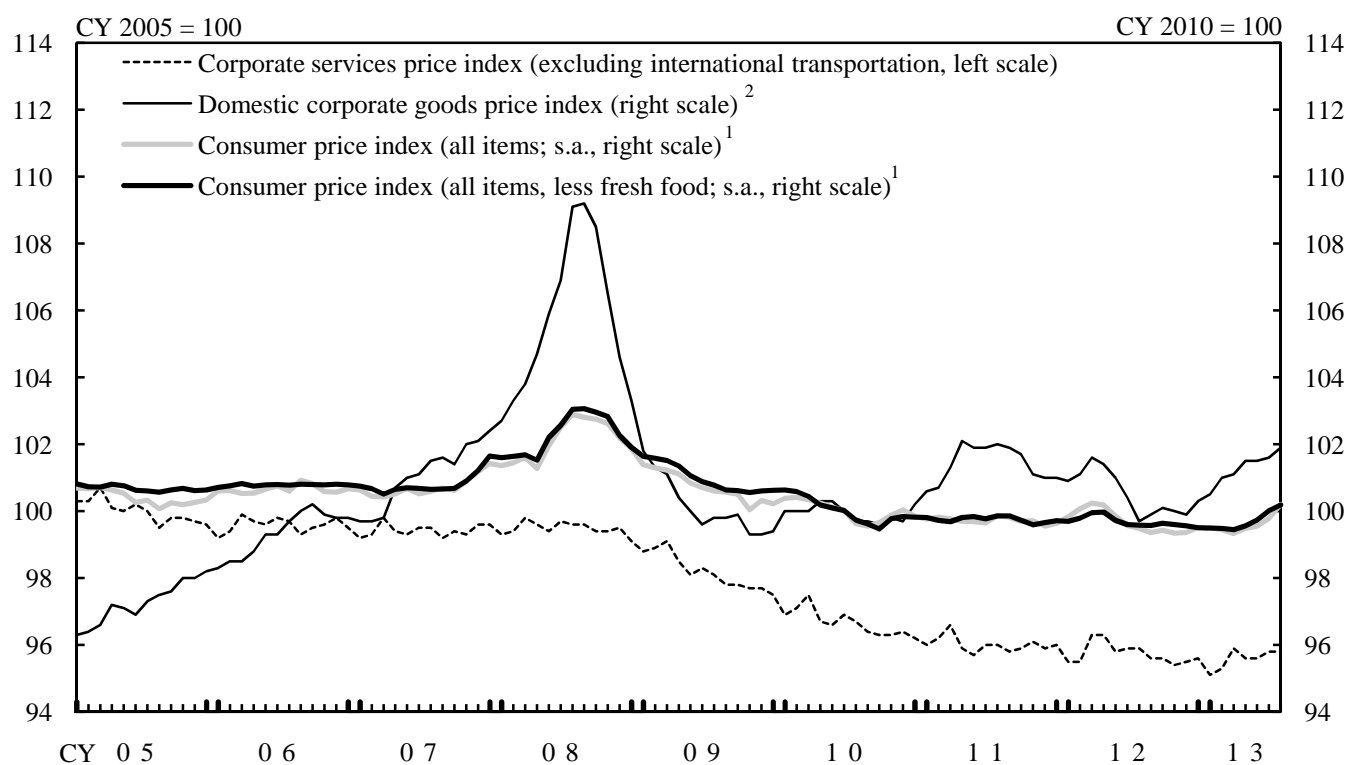


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2013/Q2 are June-July averages.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey)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

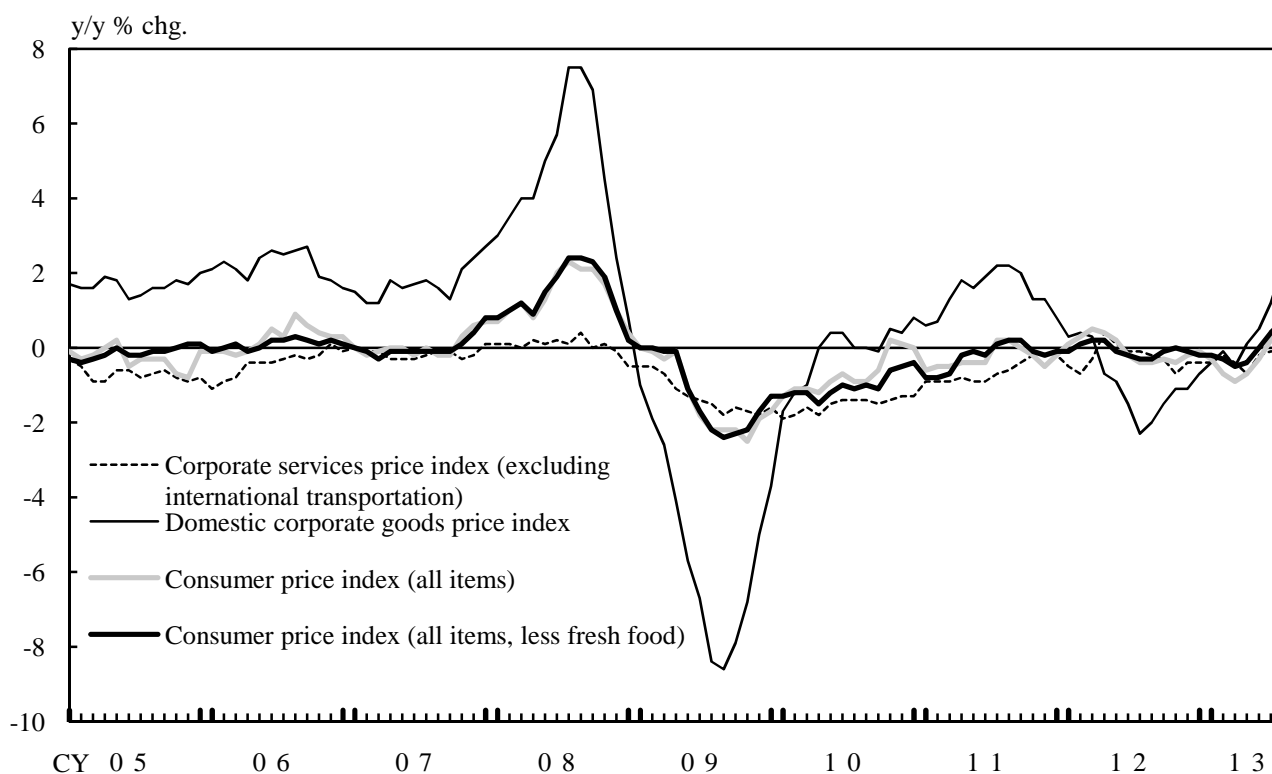
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

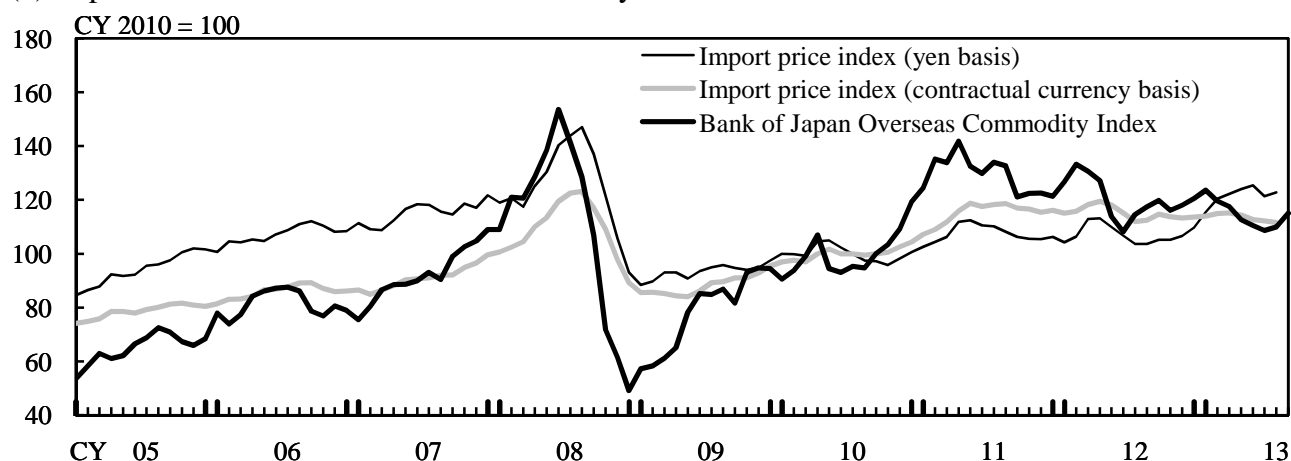
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

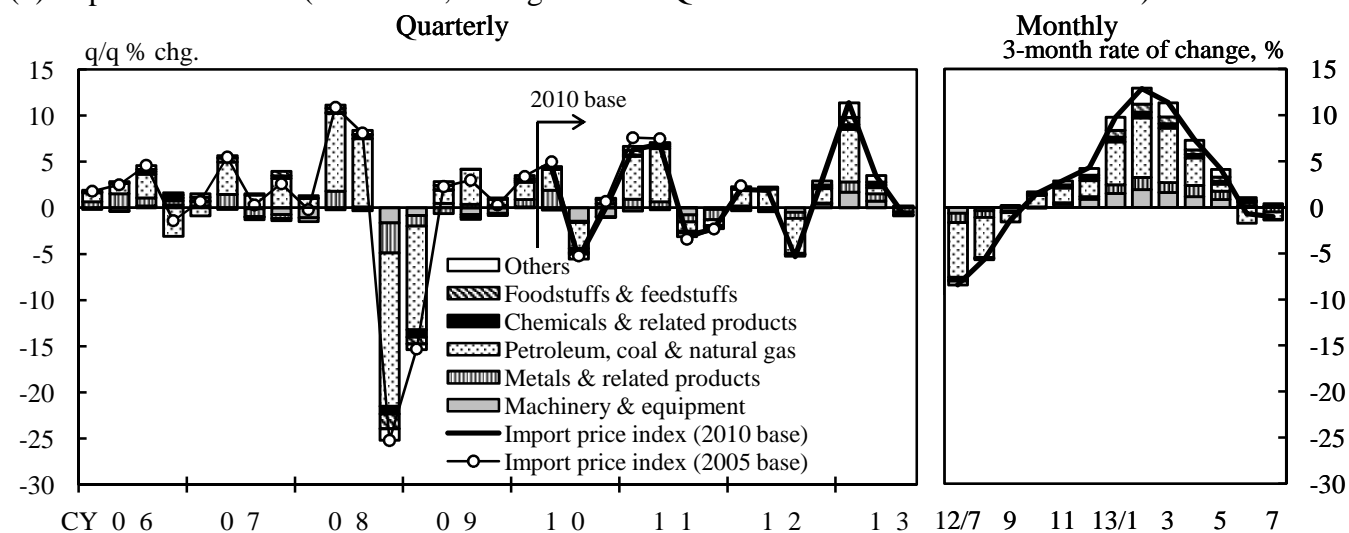
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

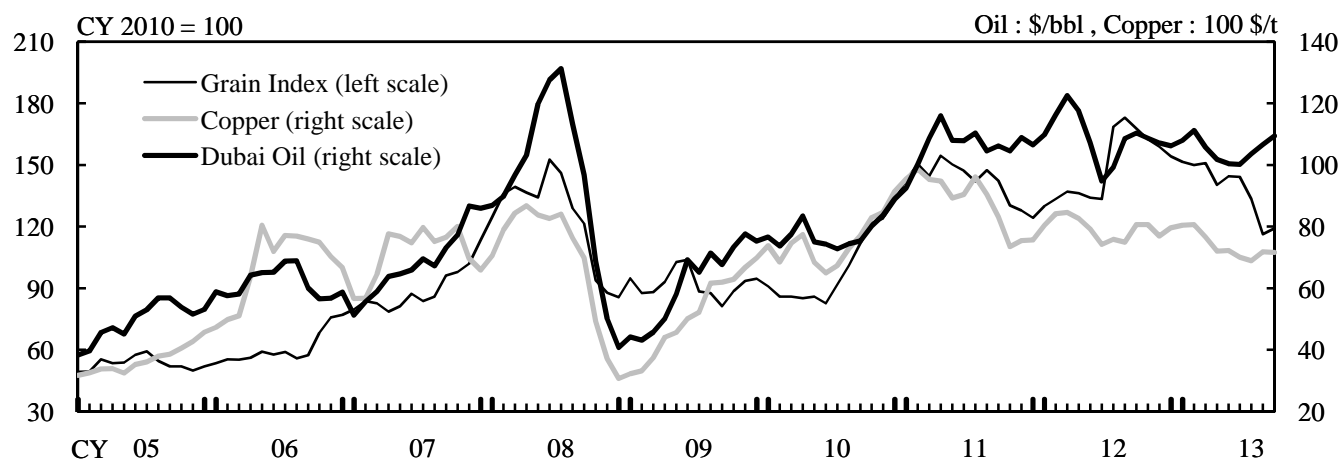


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
 2. Figures for 2013/Q3 are those of July.

(3) International Commodity Prices

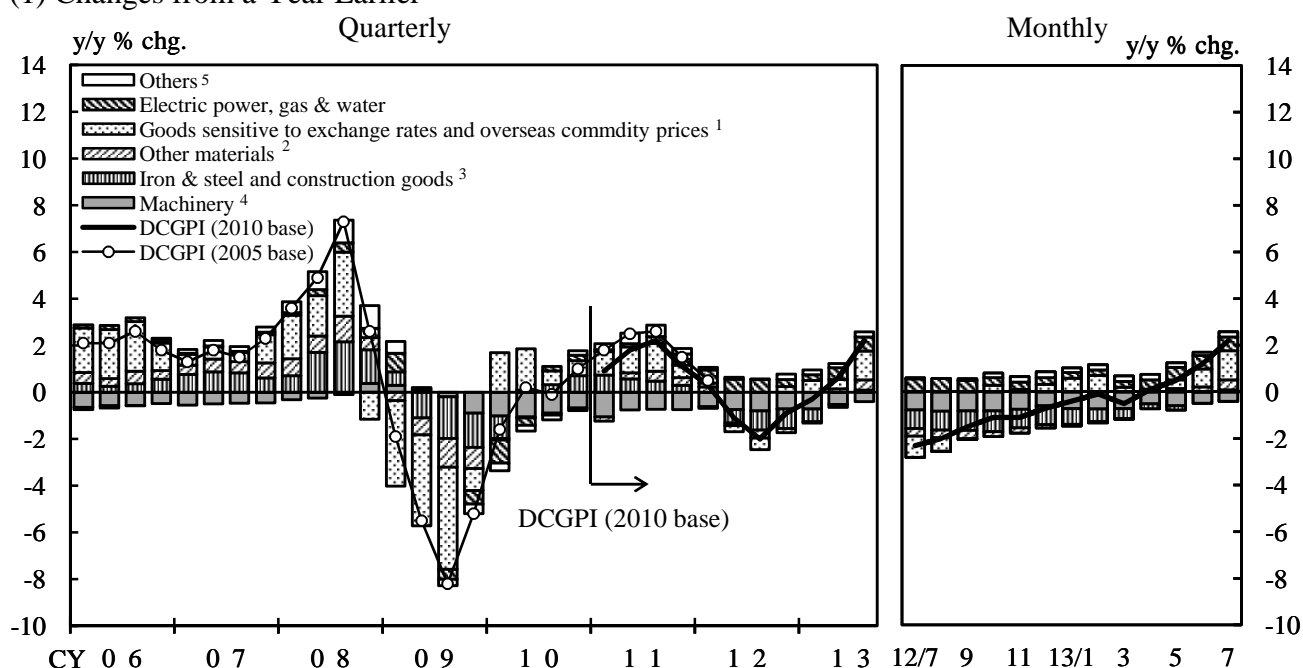
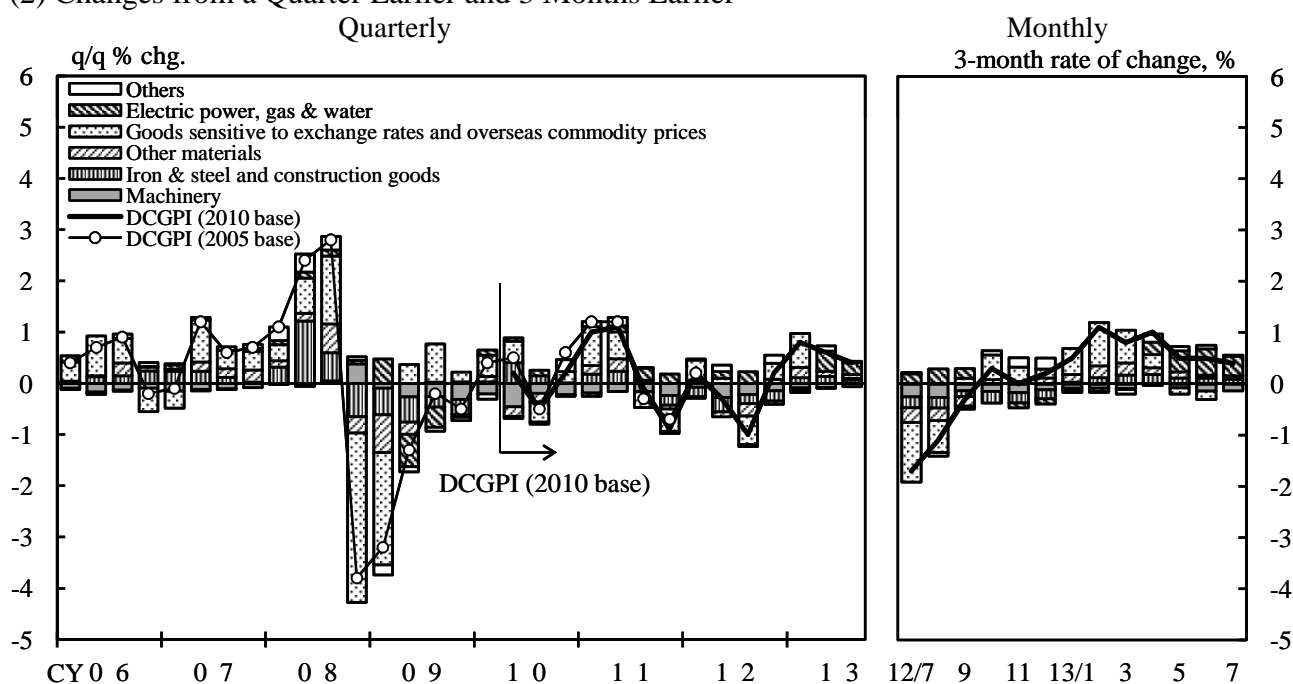


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
 2. Monthly averages. Figures for September 2013 are averages up to September 4.

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.

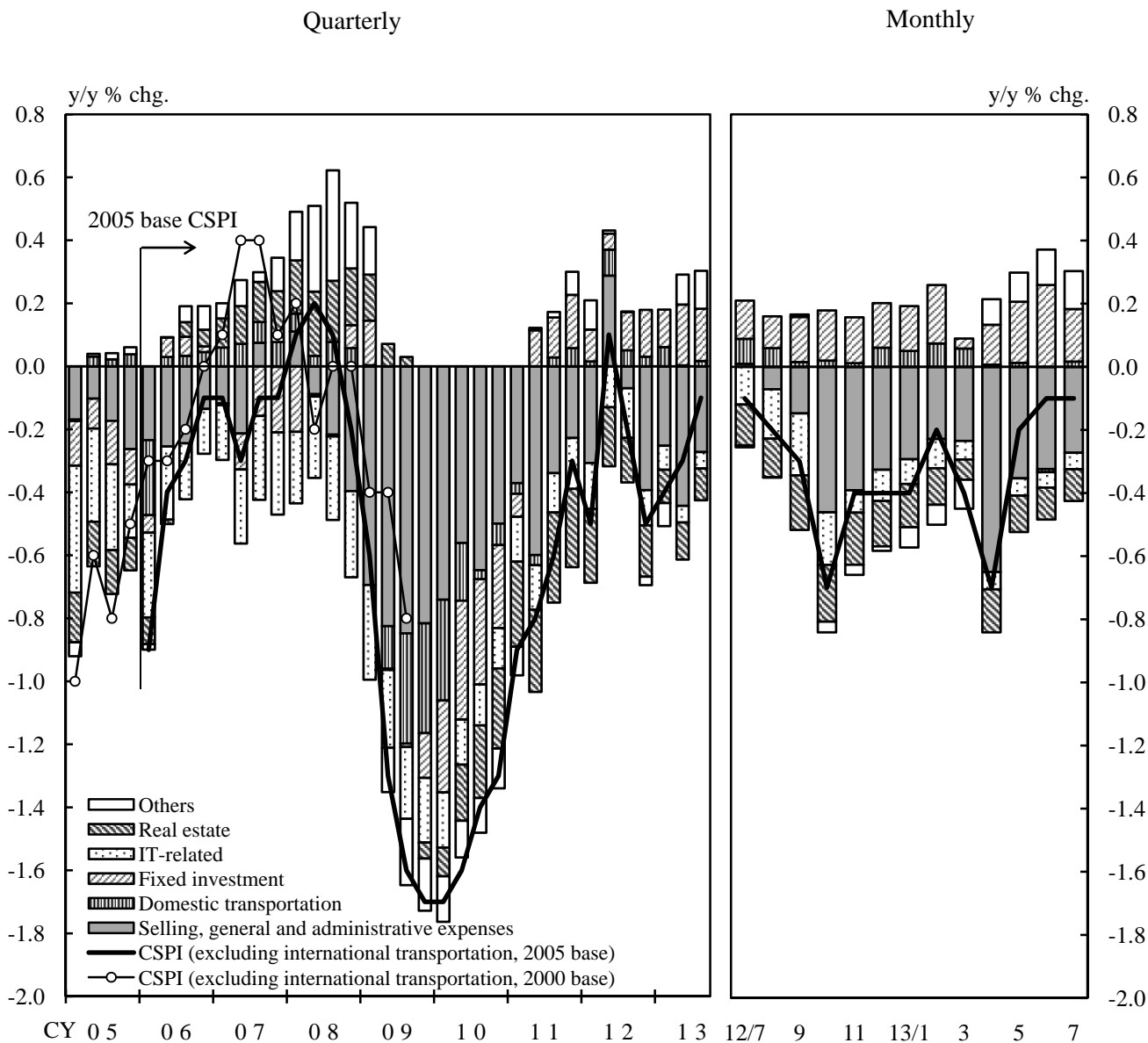
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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/Q3 are those of July.

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

Corporate Services Price Index

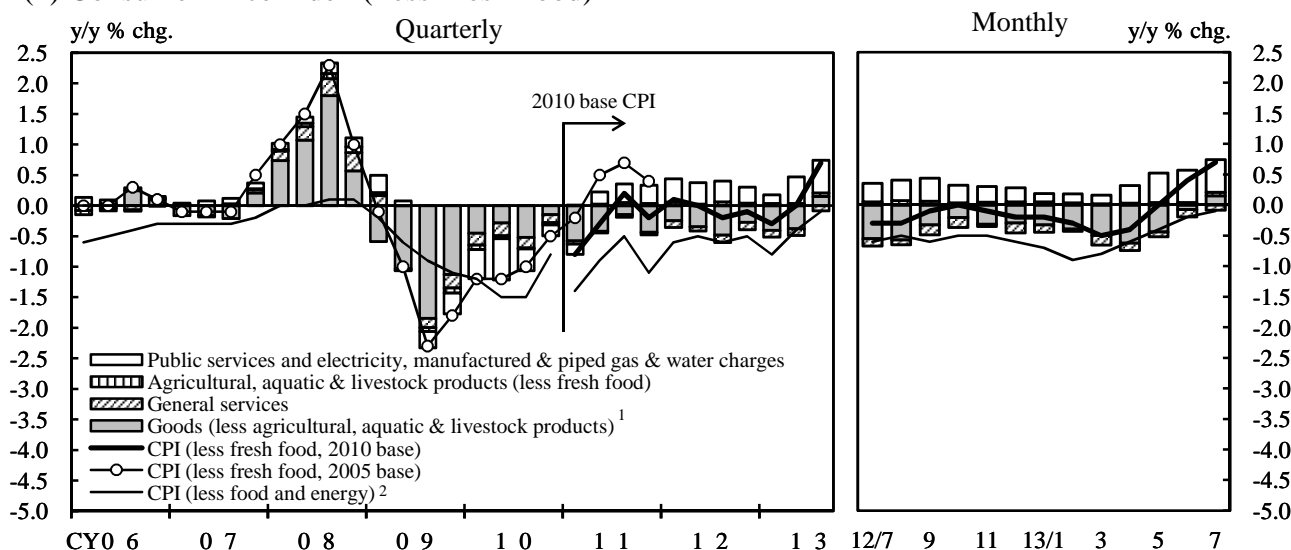


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding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

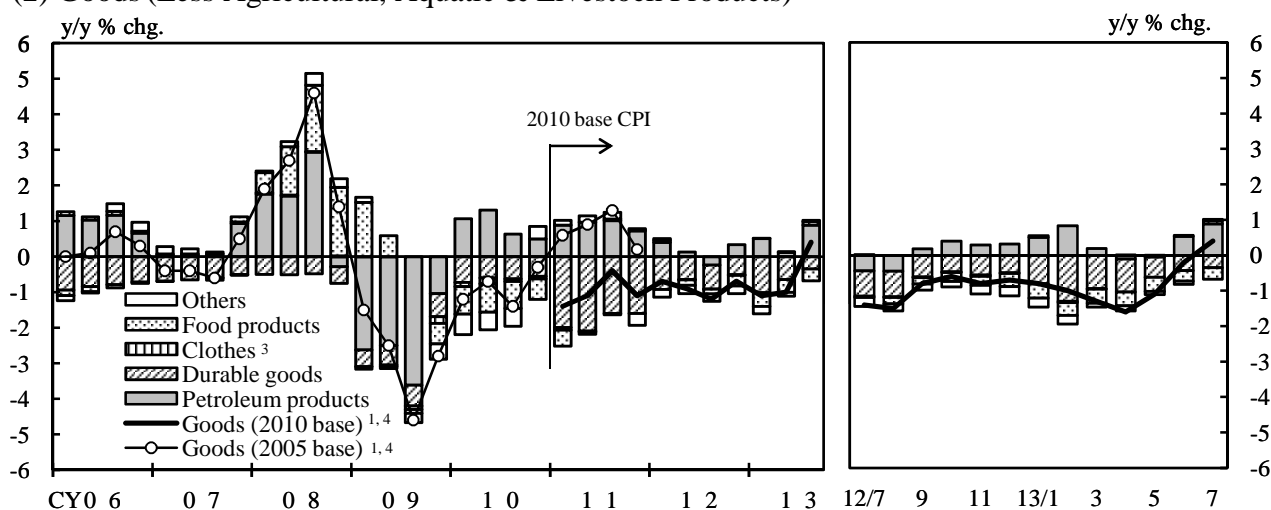
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

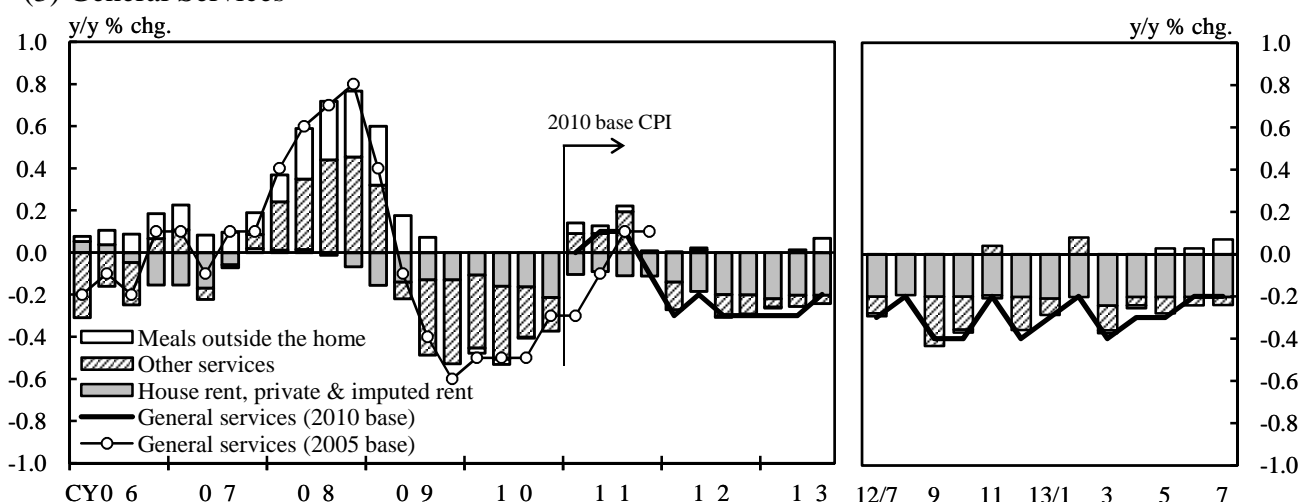
(1) Consumer Price Index (Less Fresh Food)



(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.

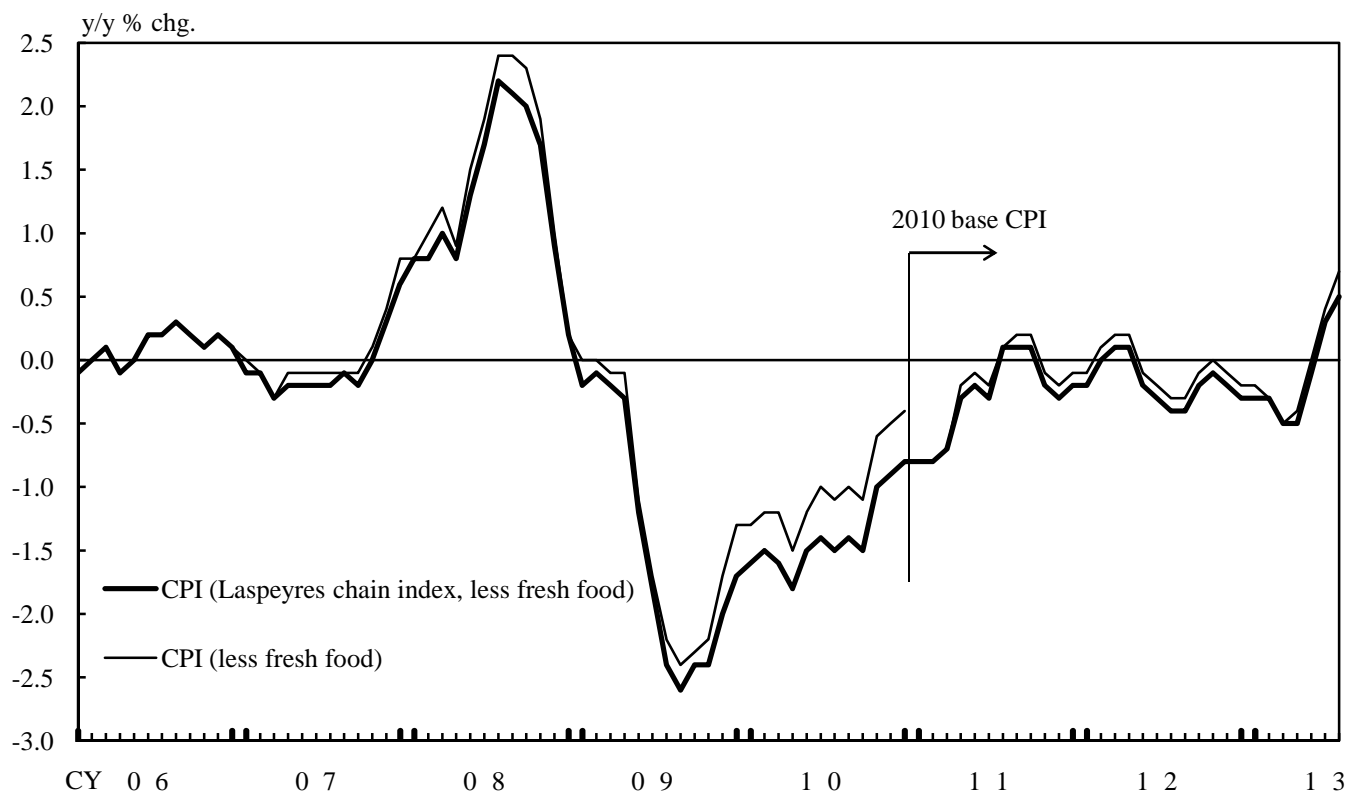
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

6. Figures for 2013/Q3 are those of July.

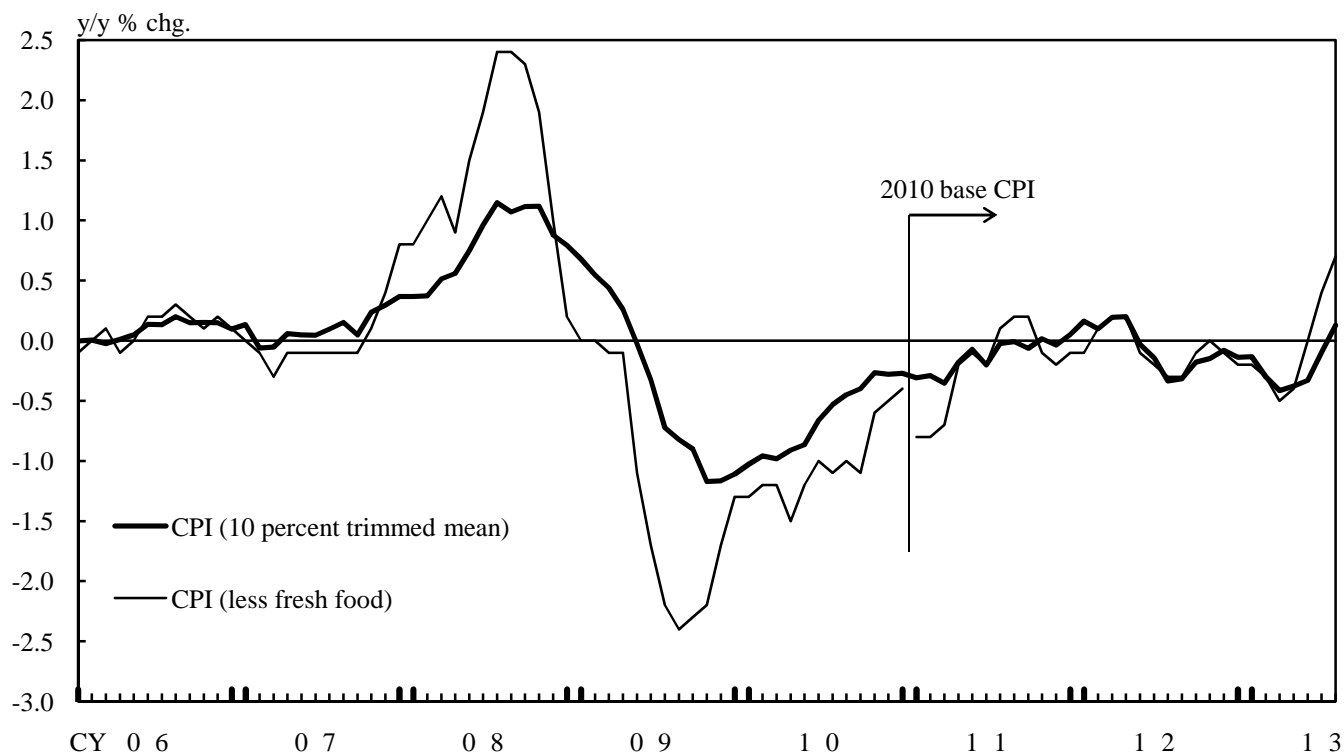
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



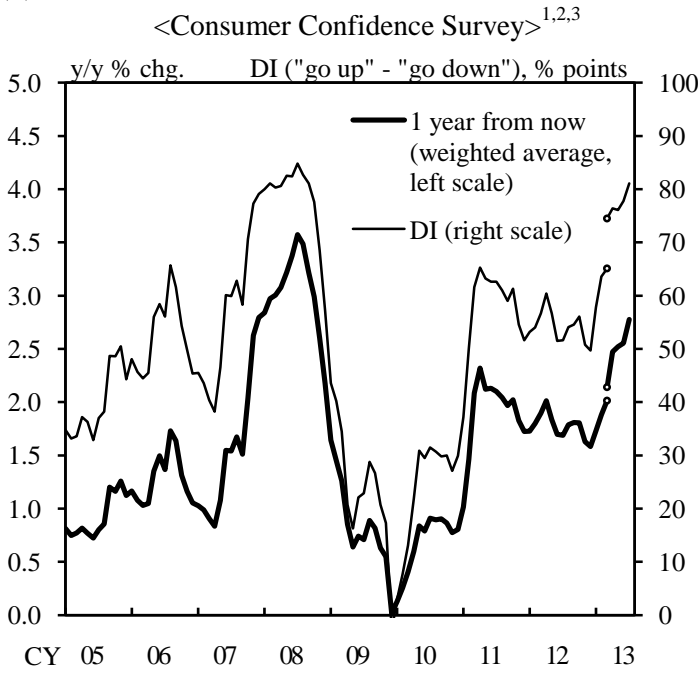
Notes:1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

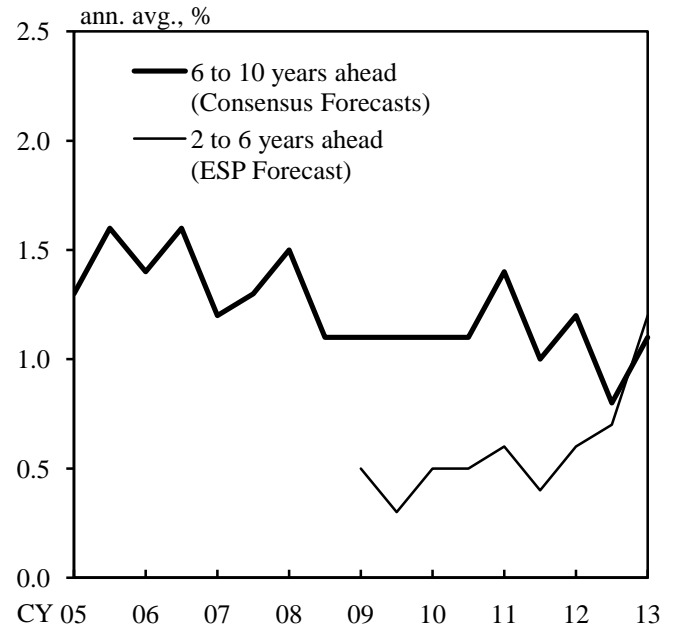
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Inflation Expectations

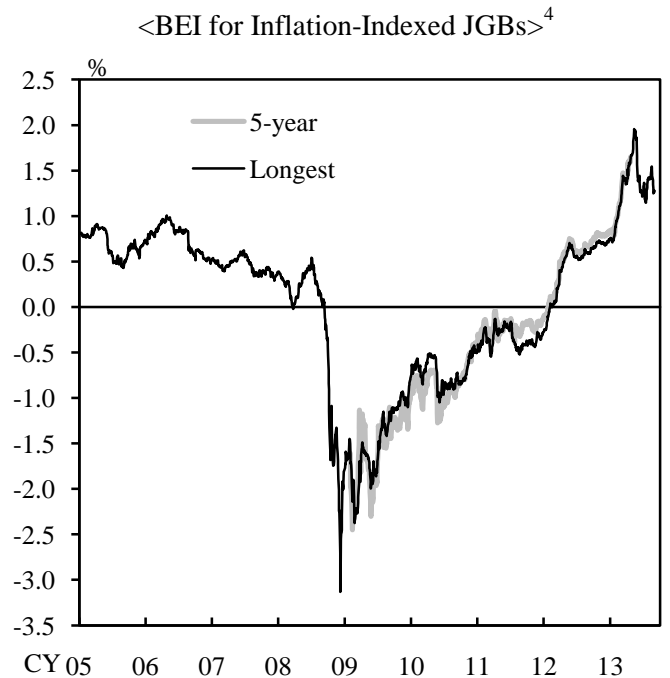
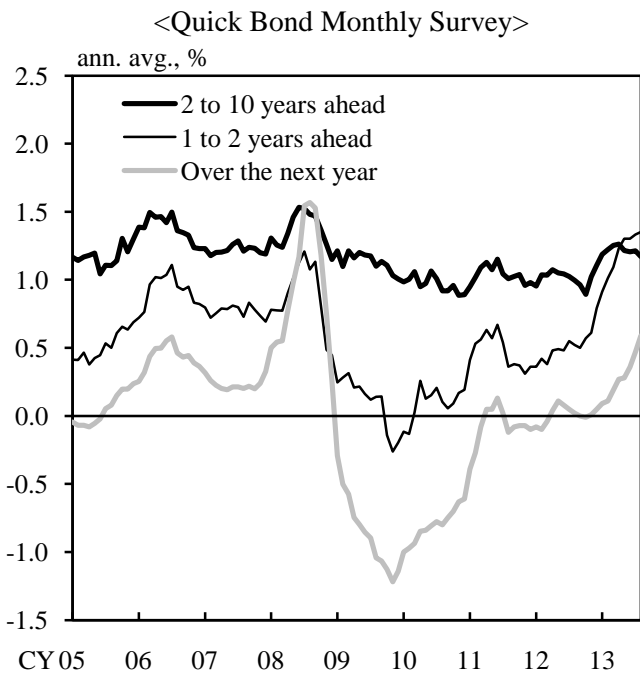
(1) Households



(2) Economists



(3) Market Participants



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.

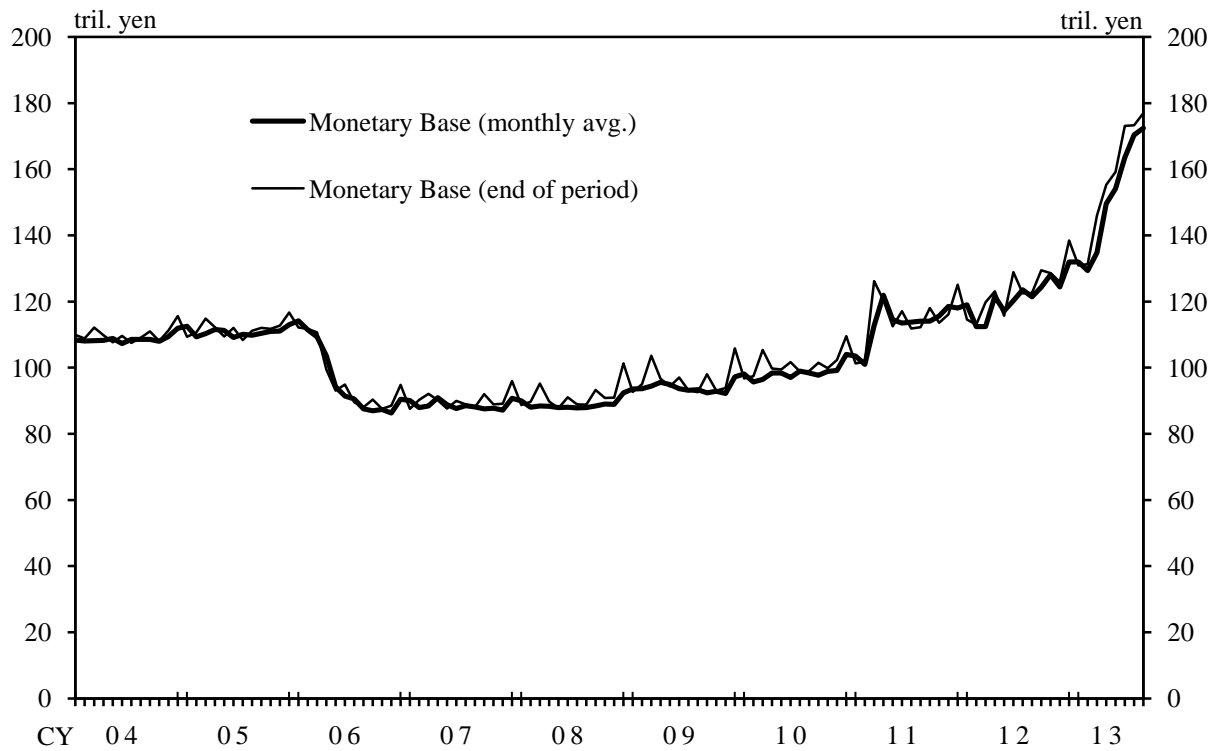
3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.

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.

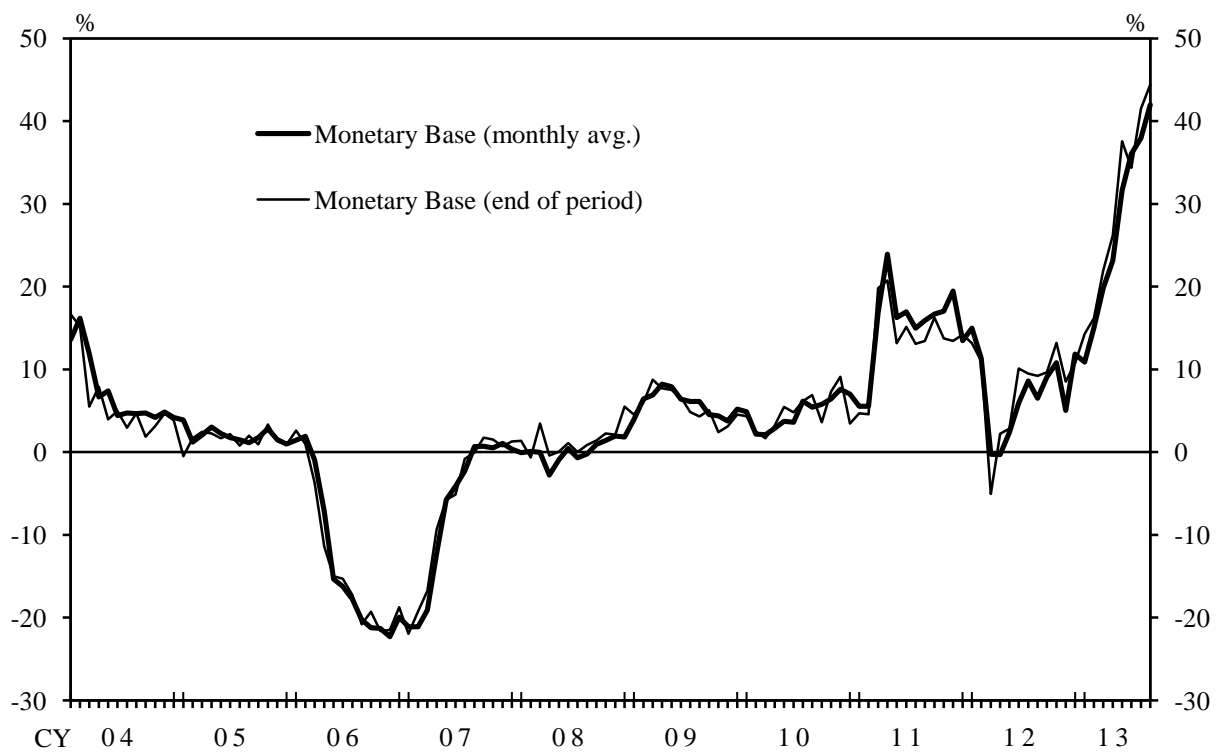
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Monetary Base

(1) Level

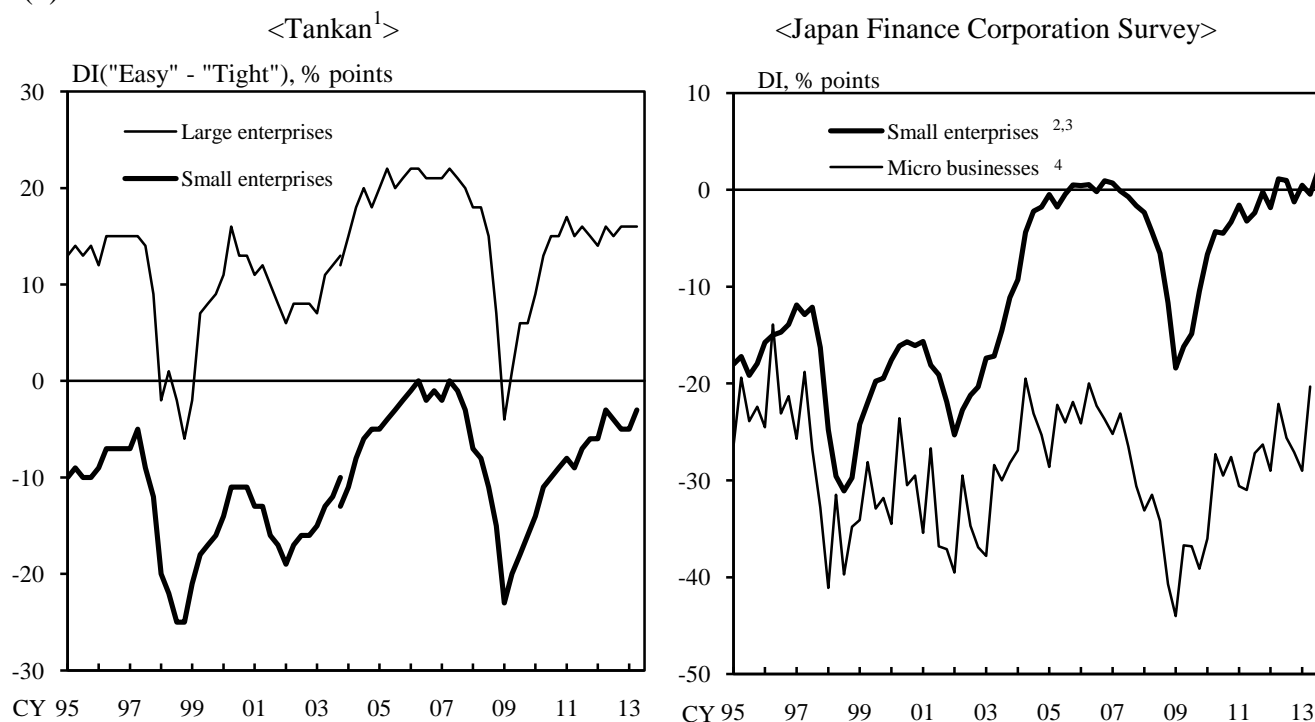


(2) Changes from a Year Earlier

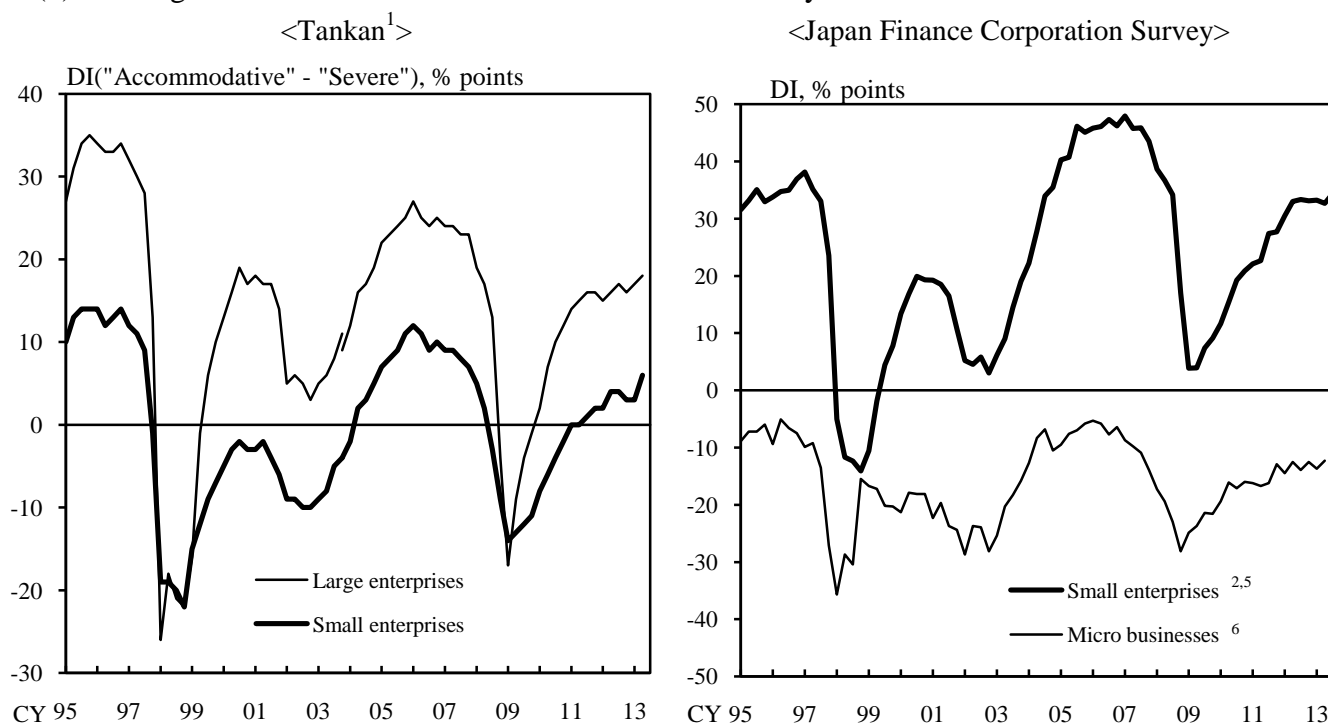


Corporate Finance-Related Indicators

(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 Jul.-Aug. averages.

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

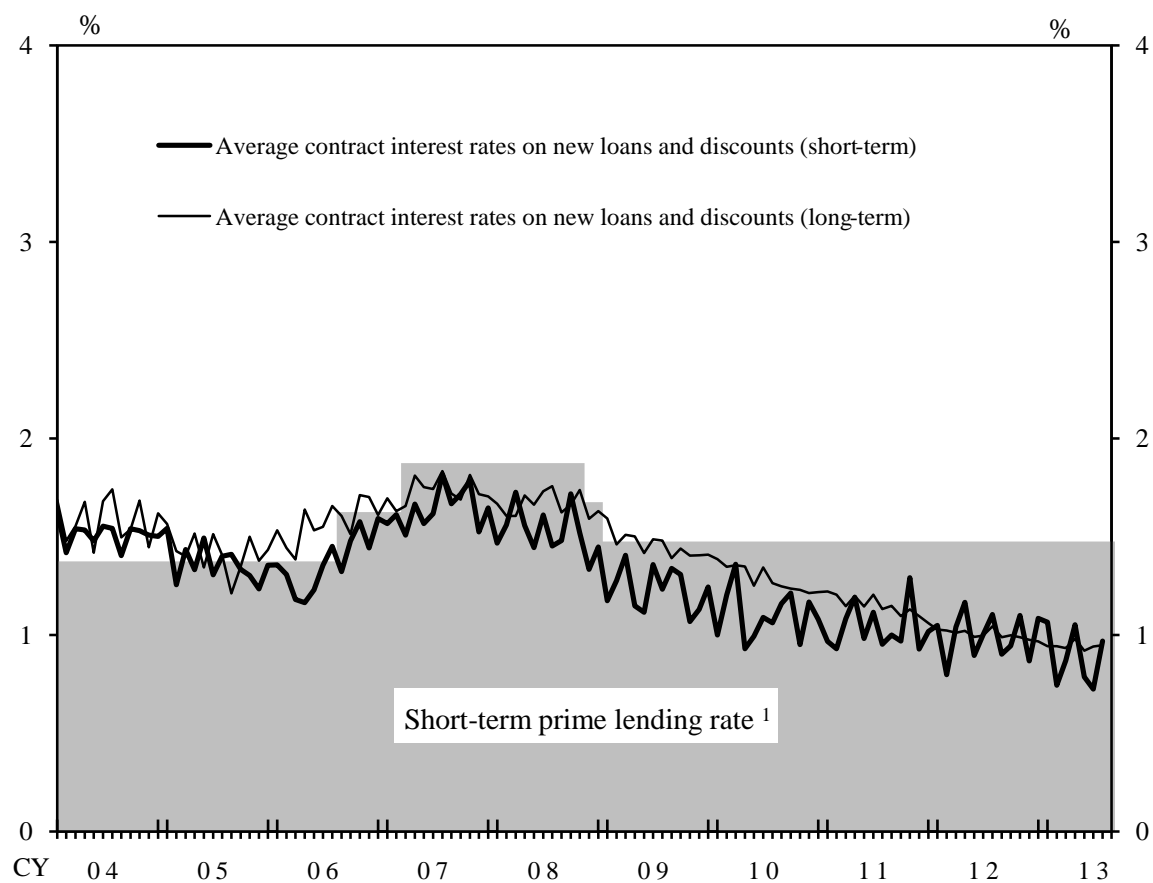
4. DI of "Easier" - "Tighter."

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

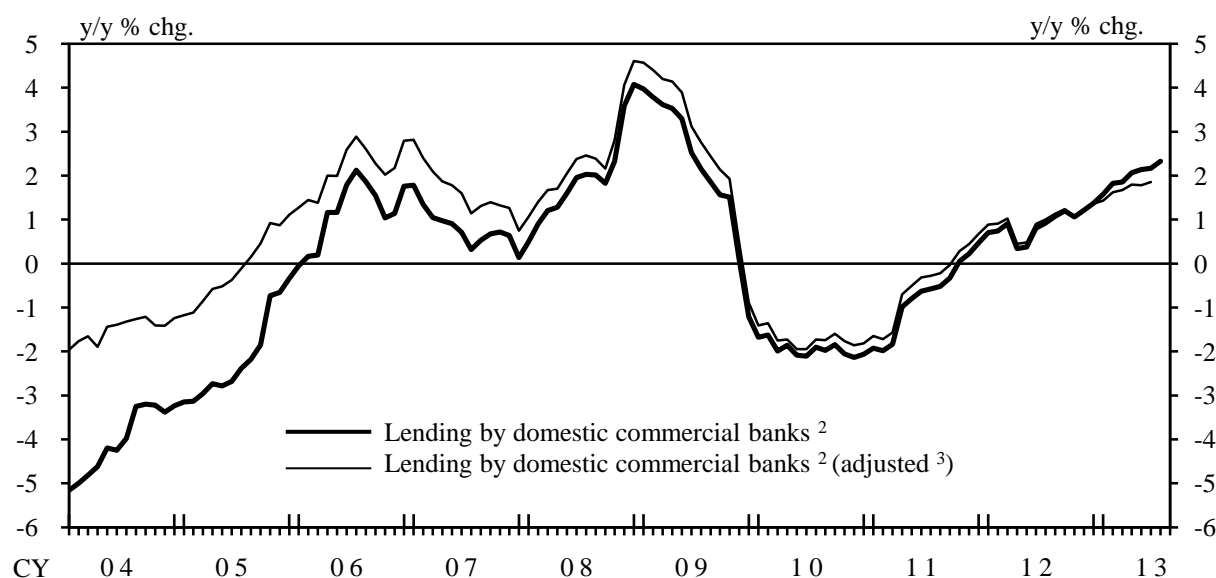


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



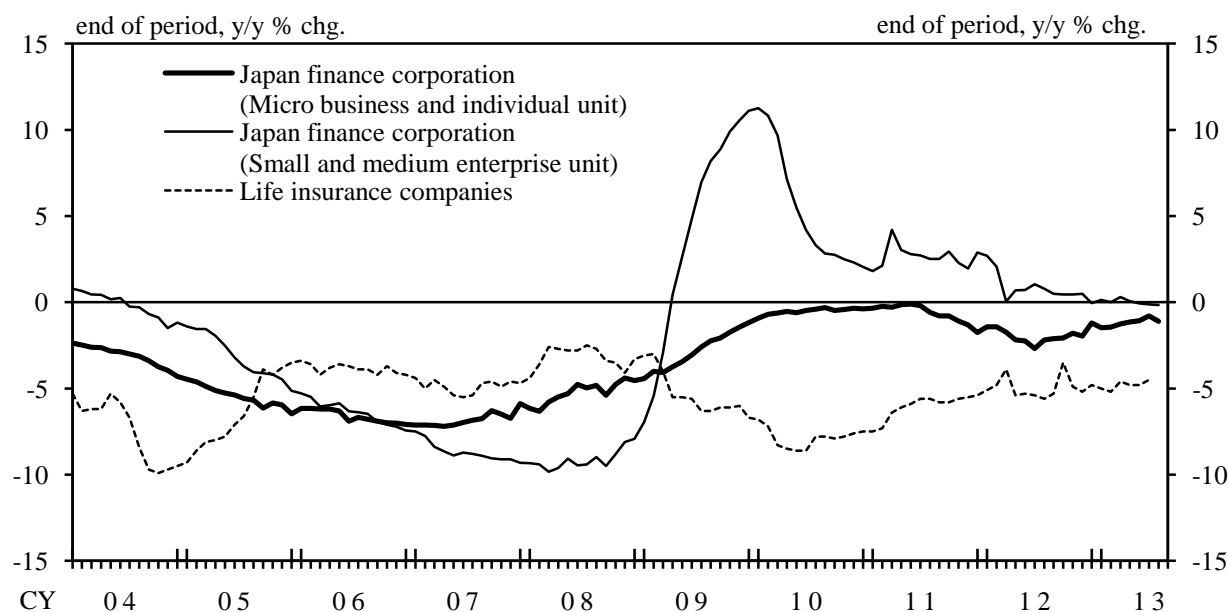
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to 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.

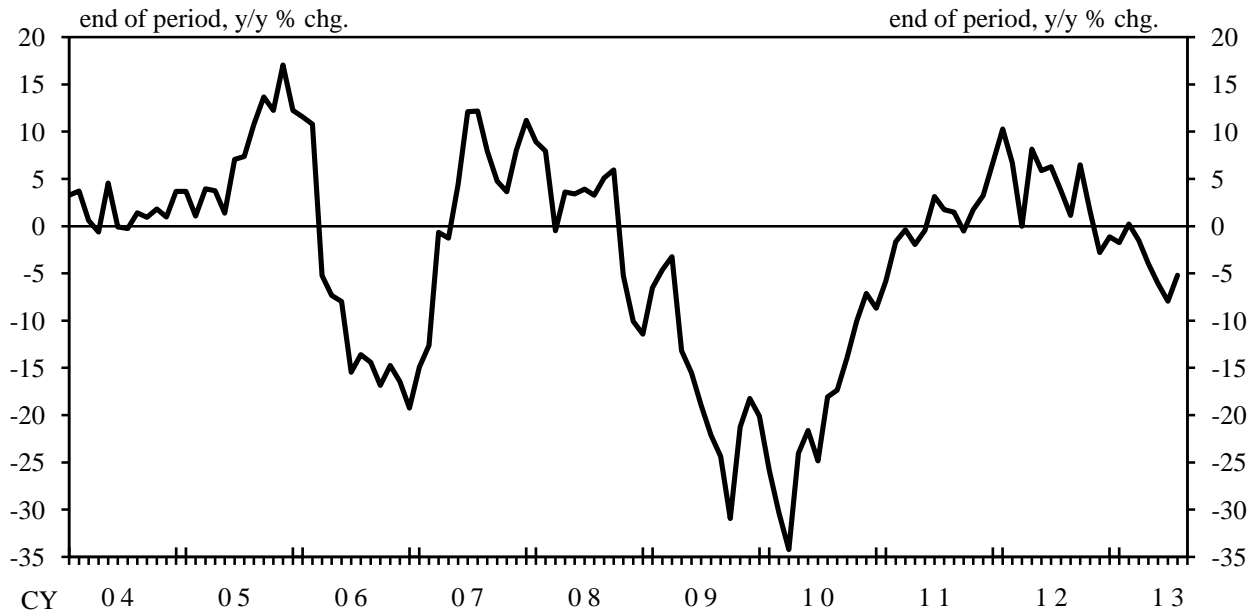
(2) Lending by Other Financial Institutions



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

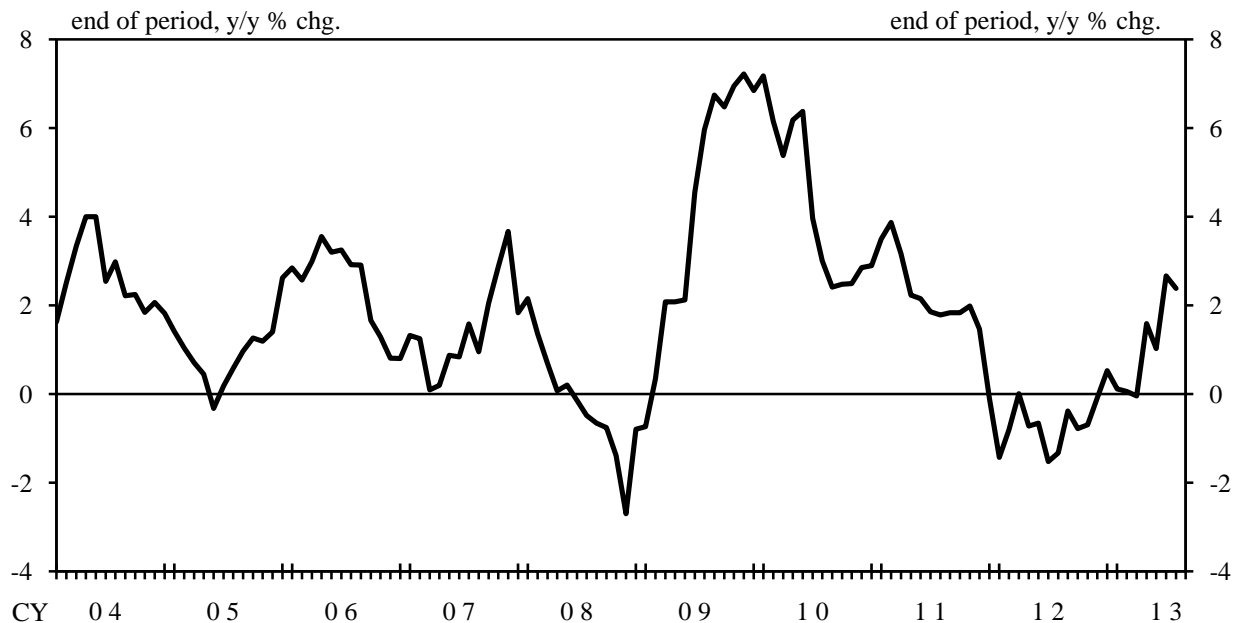
 Private-Sector Fund-Raising in the Capital Markets

(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



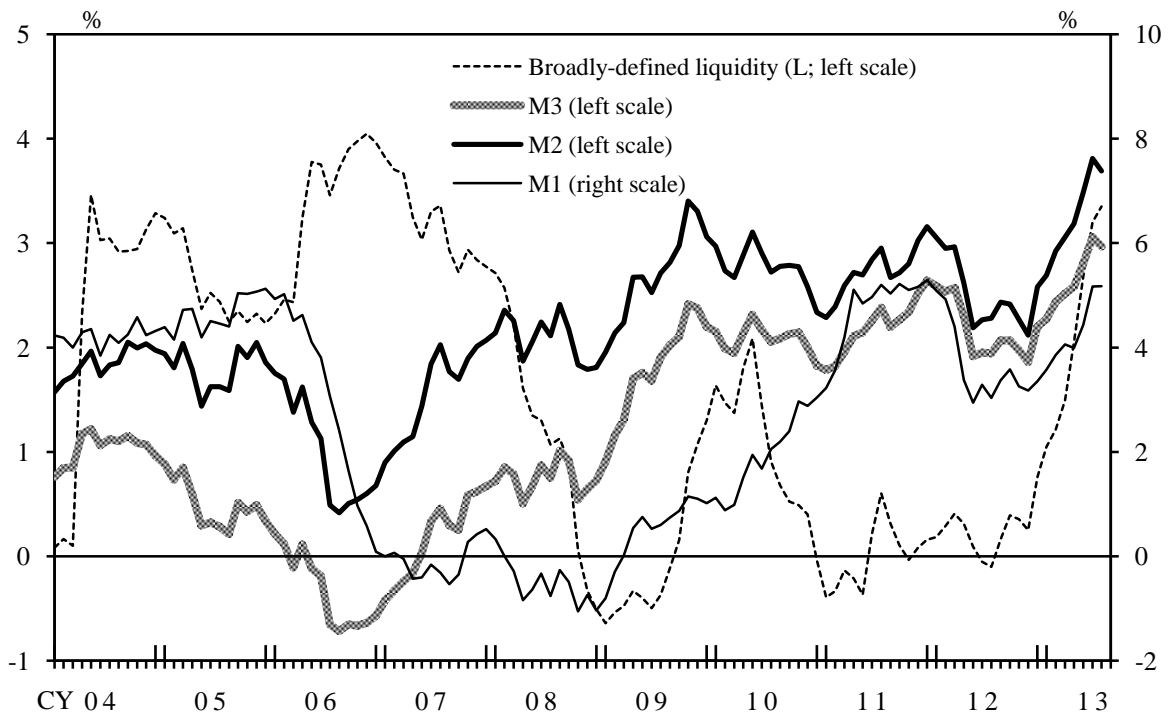
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

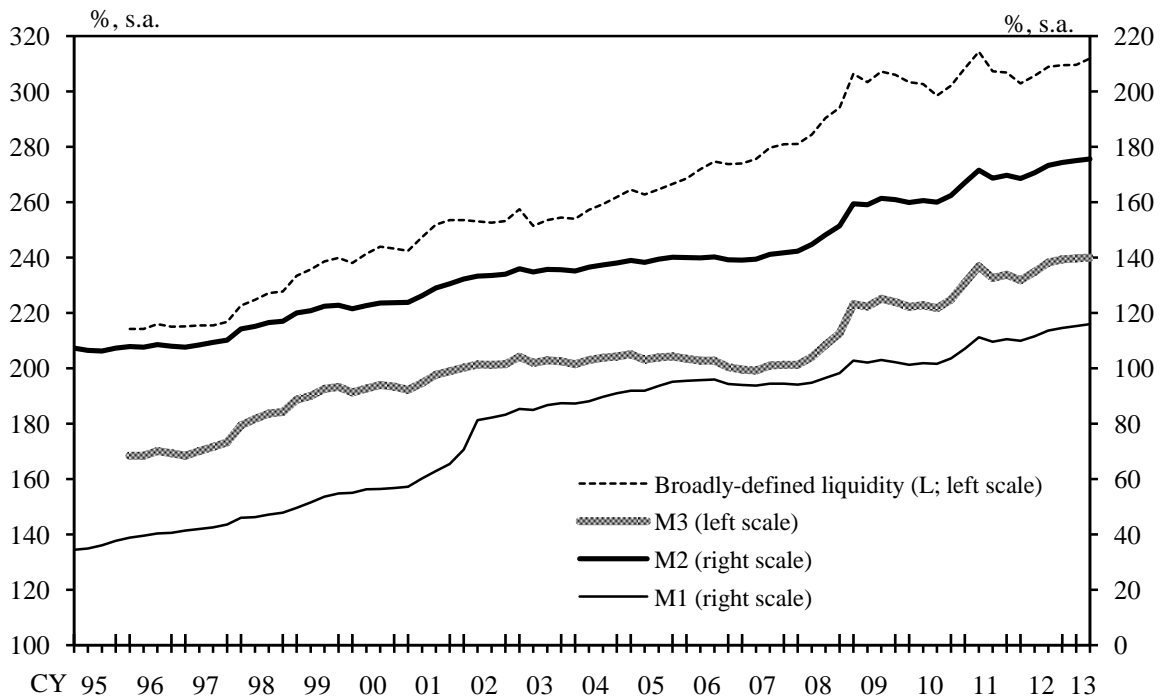
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



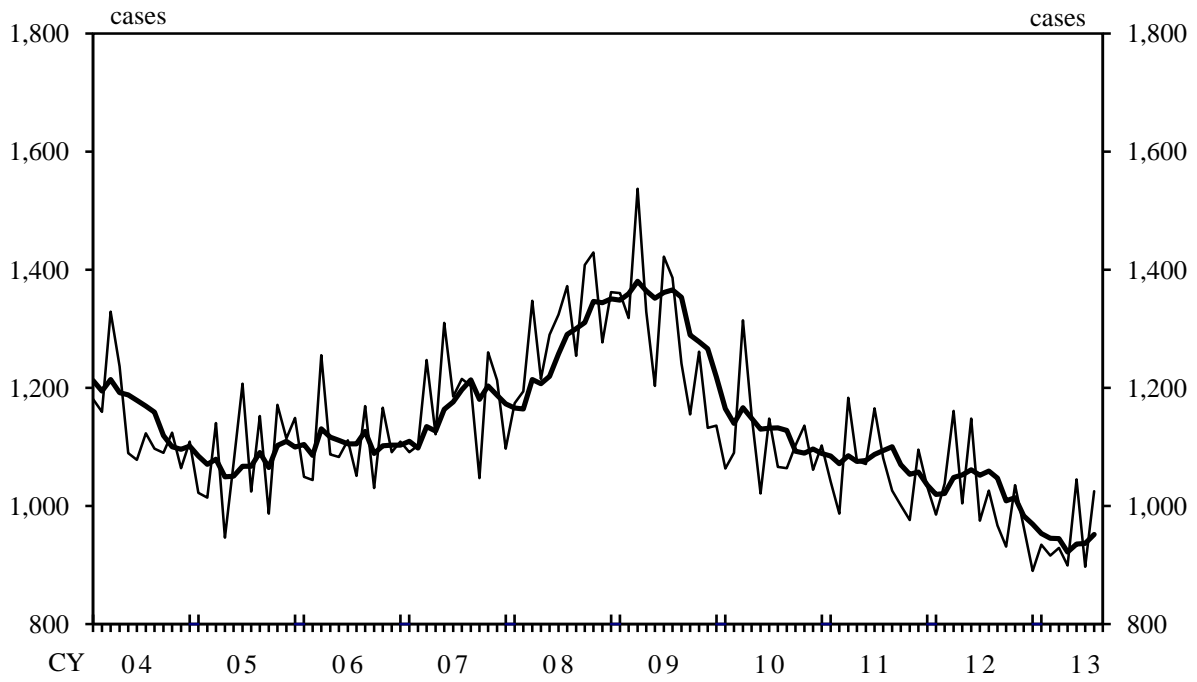
(2) Ratio of Money Stock to Nominal GDP



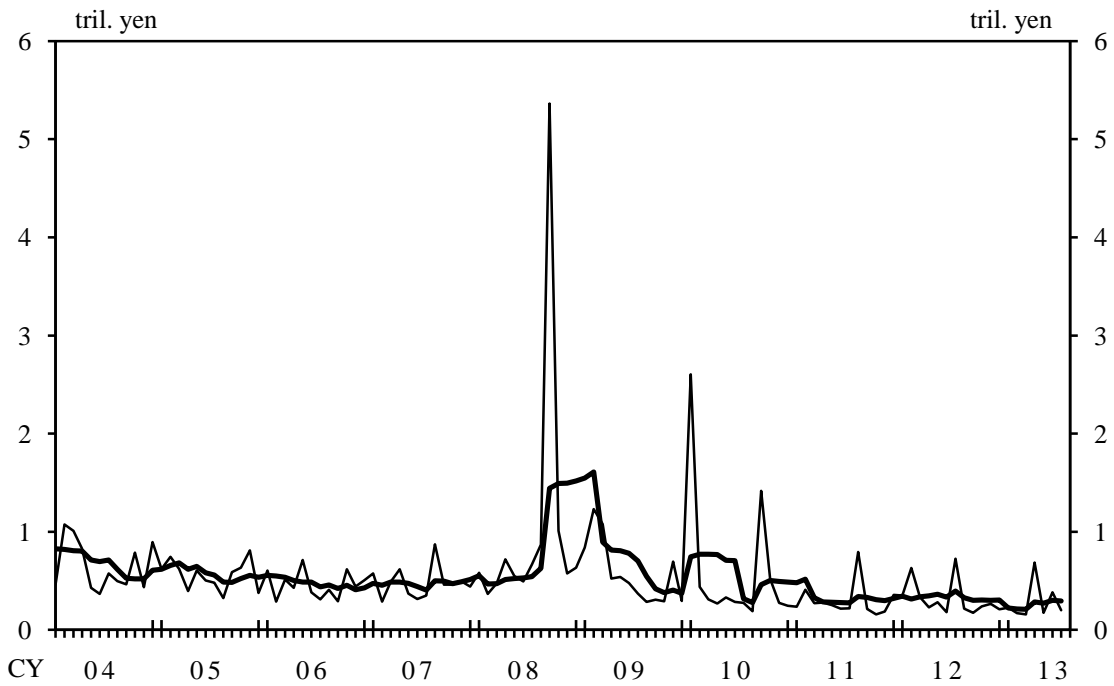
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures 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

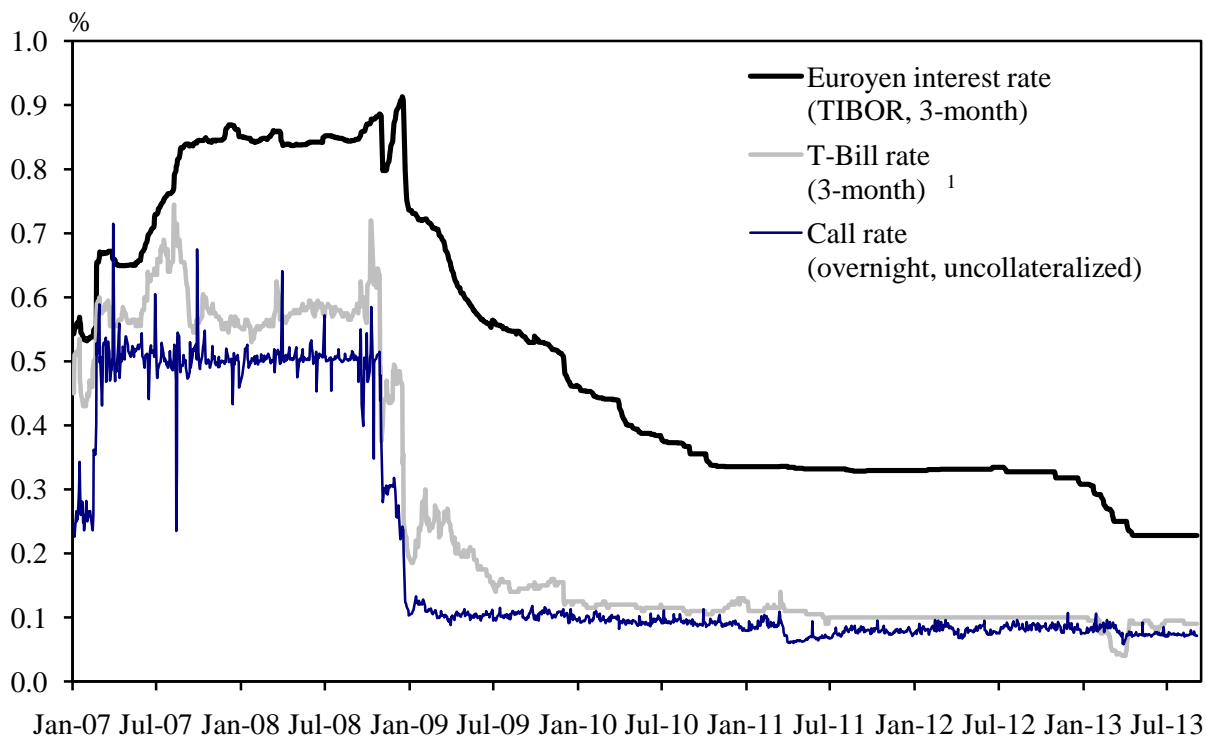


Note: Bold lines are the six-month moving average.

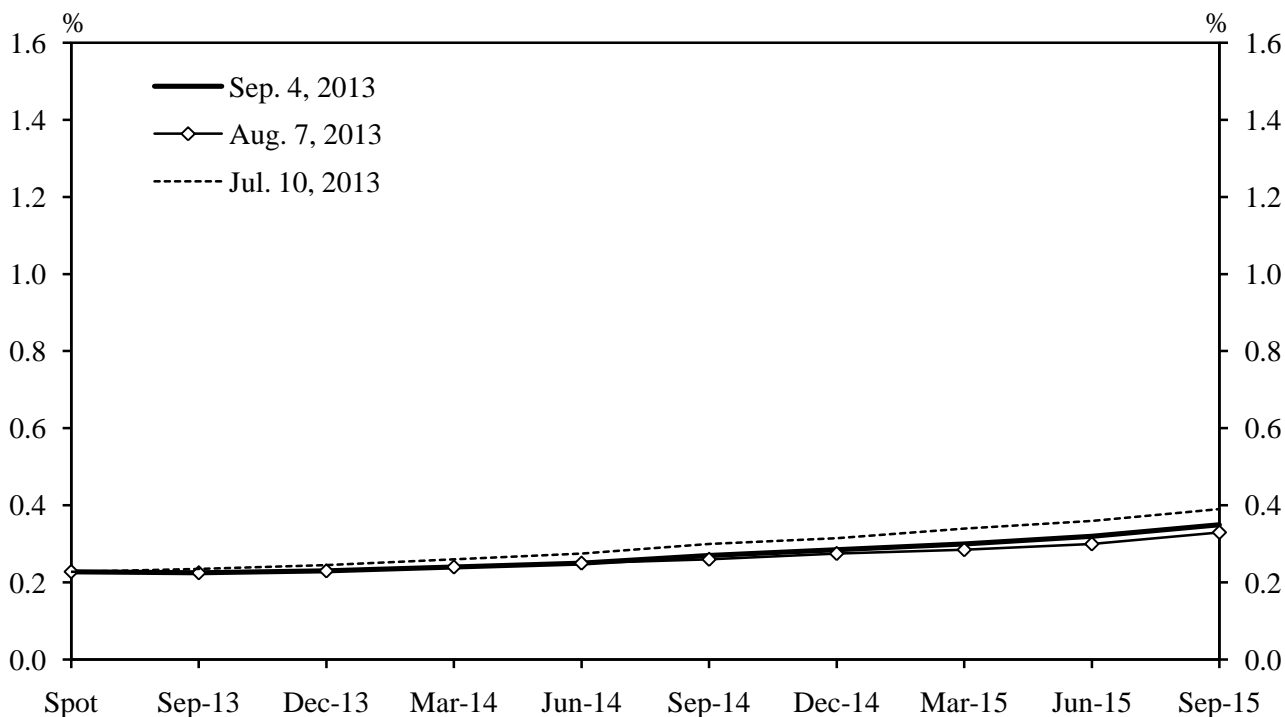
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



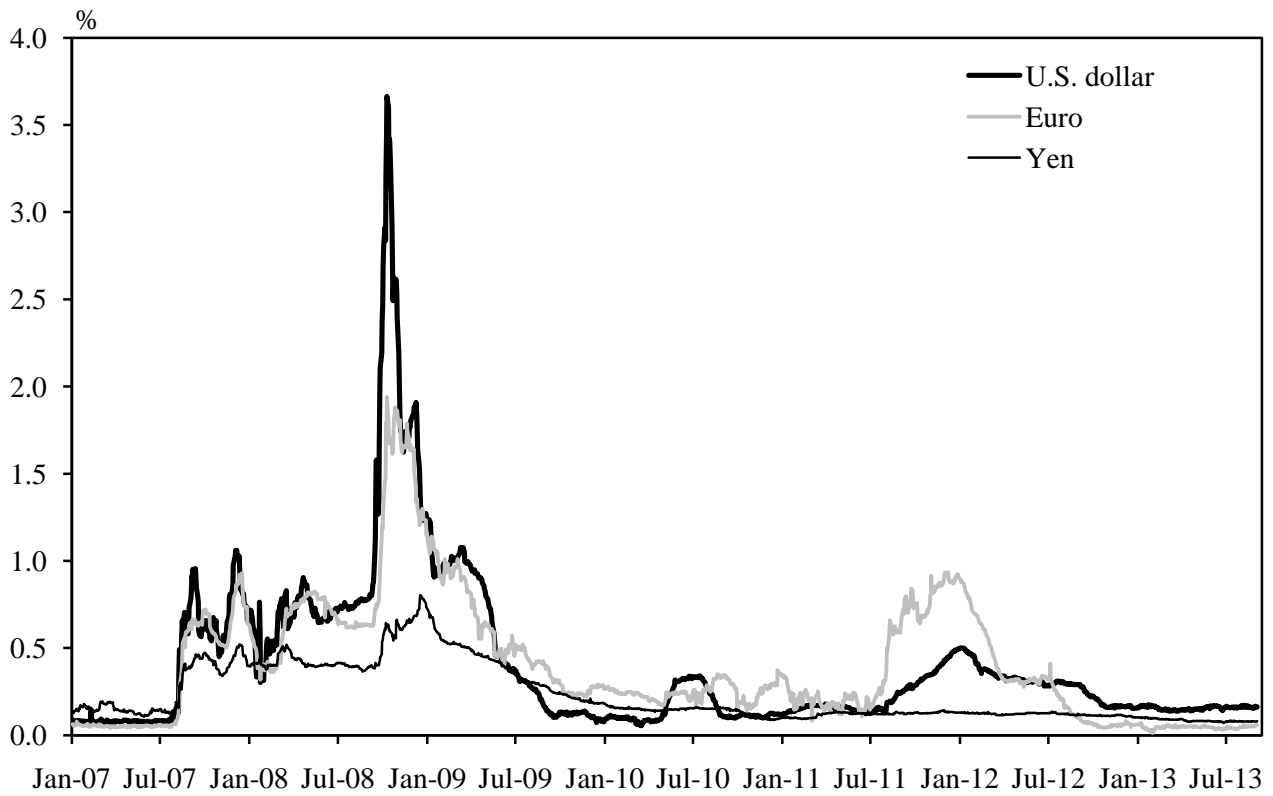
(2) Euroyen Interest Rate Futures (3-Month)



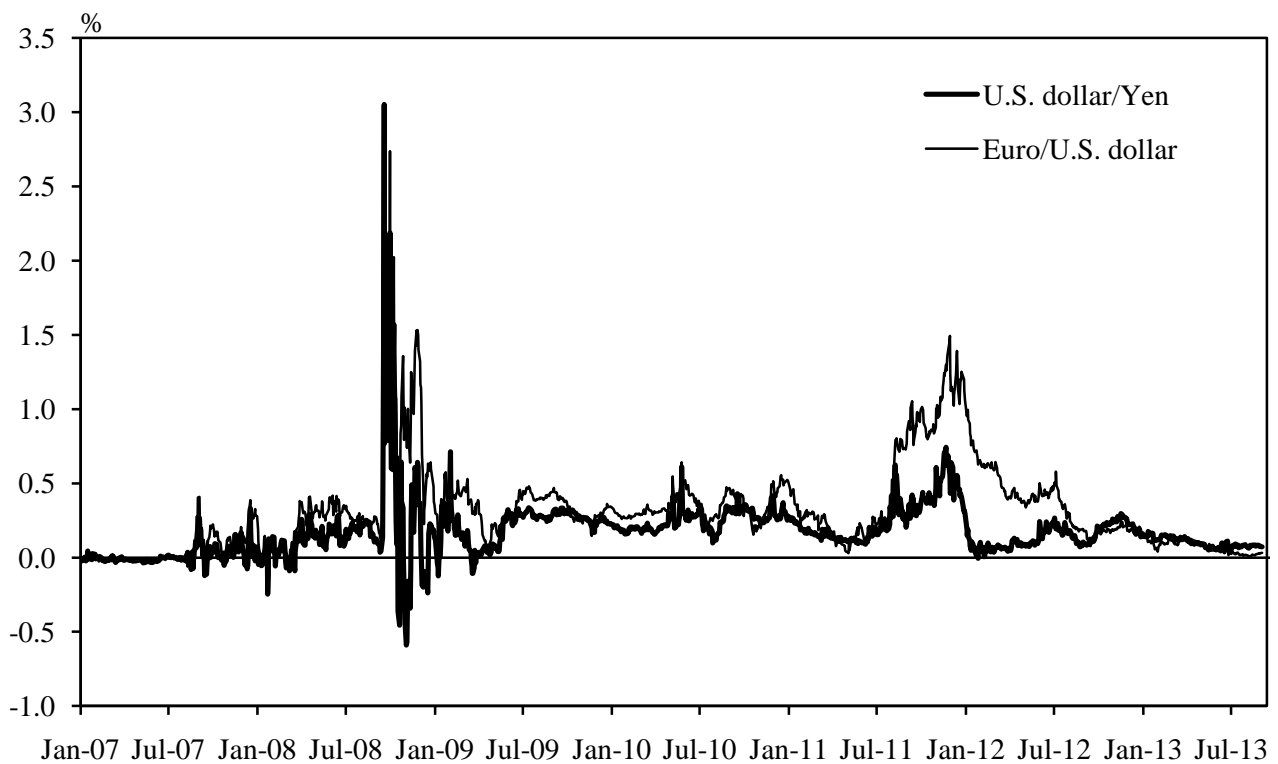
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



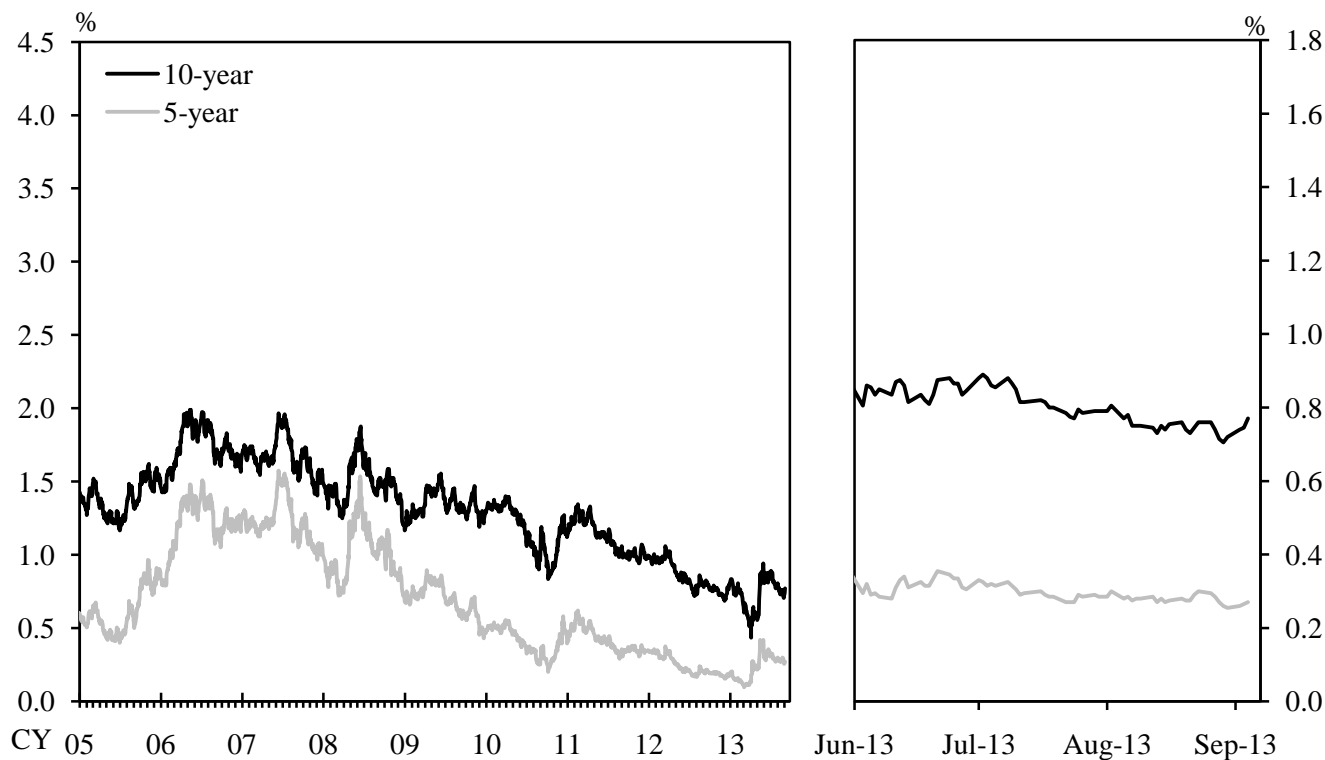
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



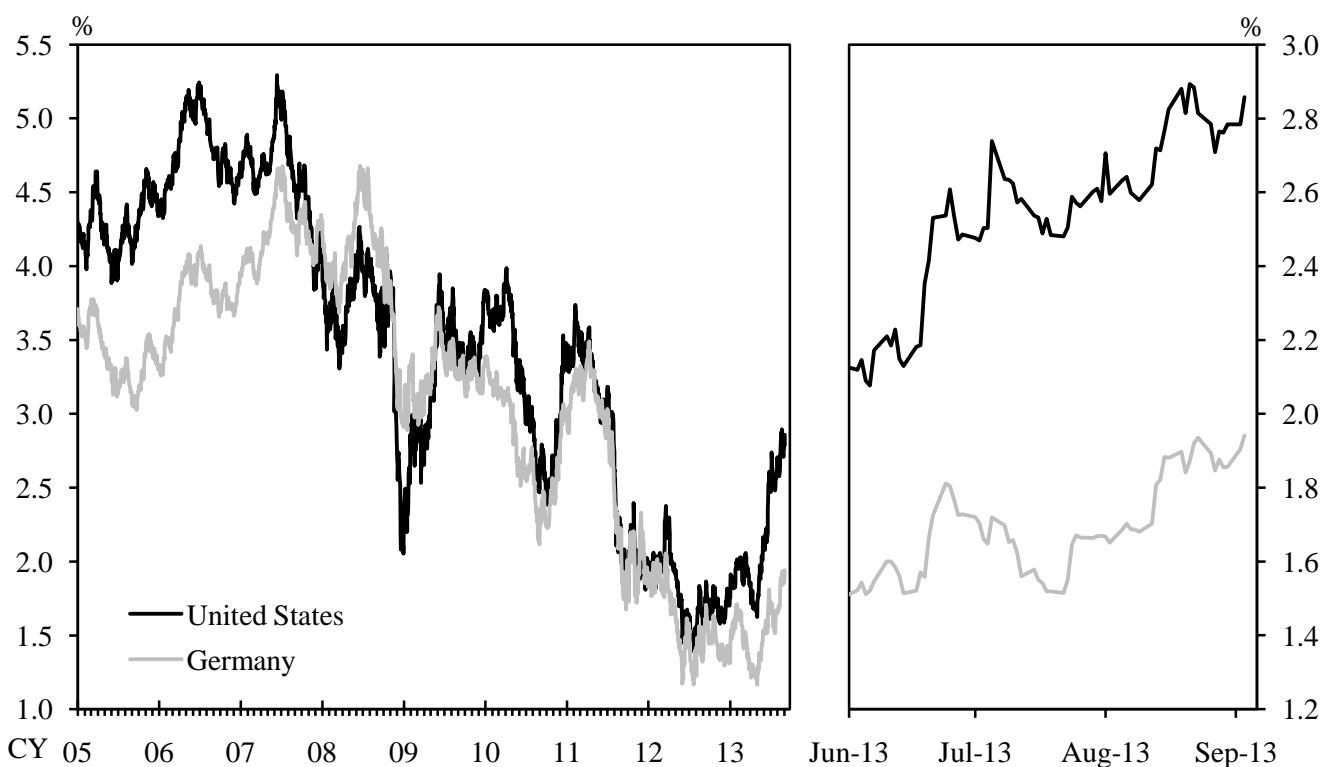
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



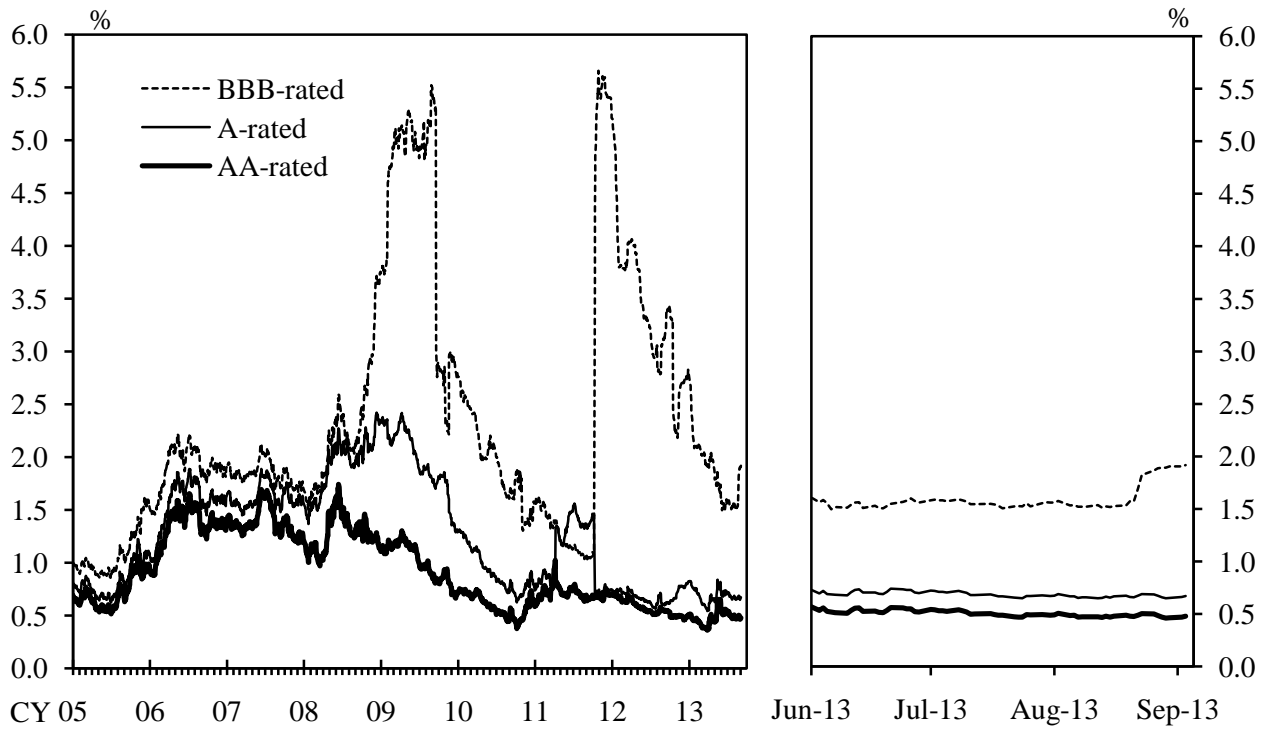
(2) Overseas Government Bond Yields (10-Year)



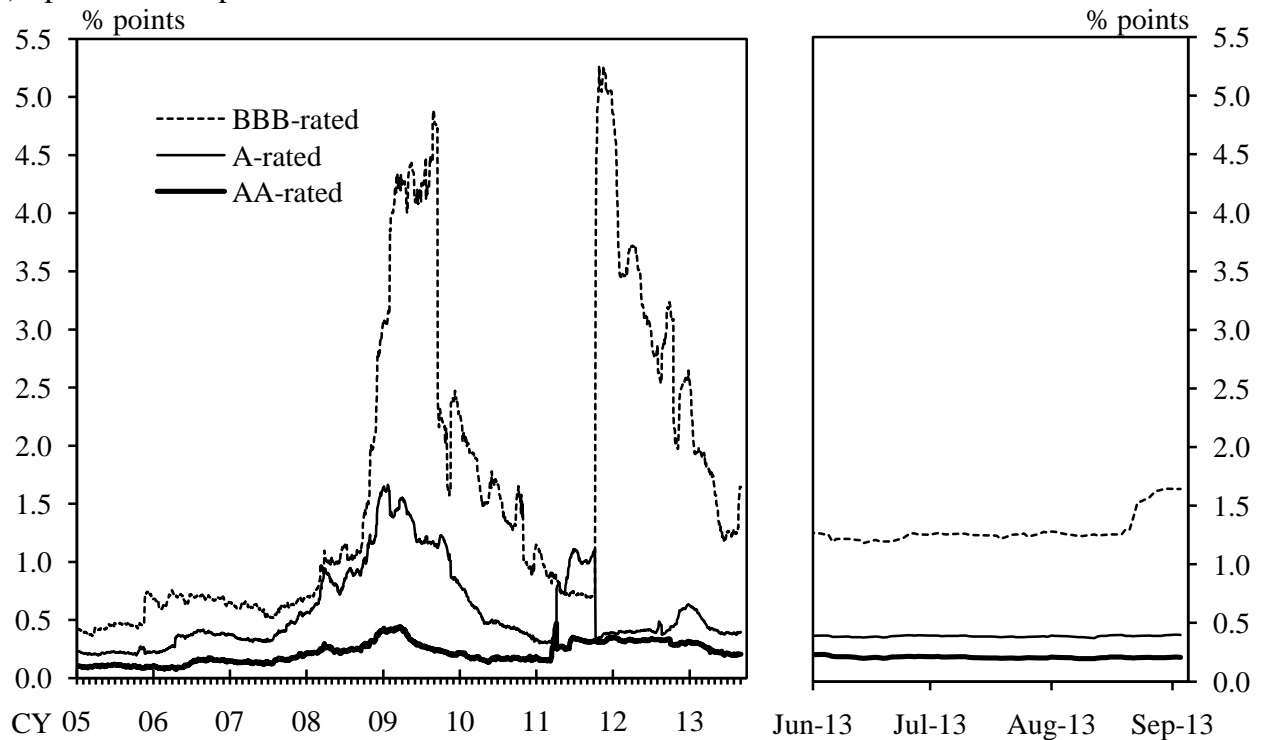
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

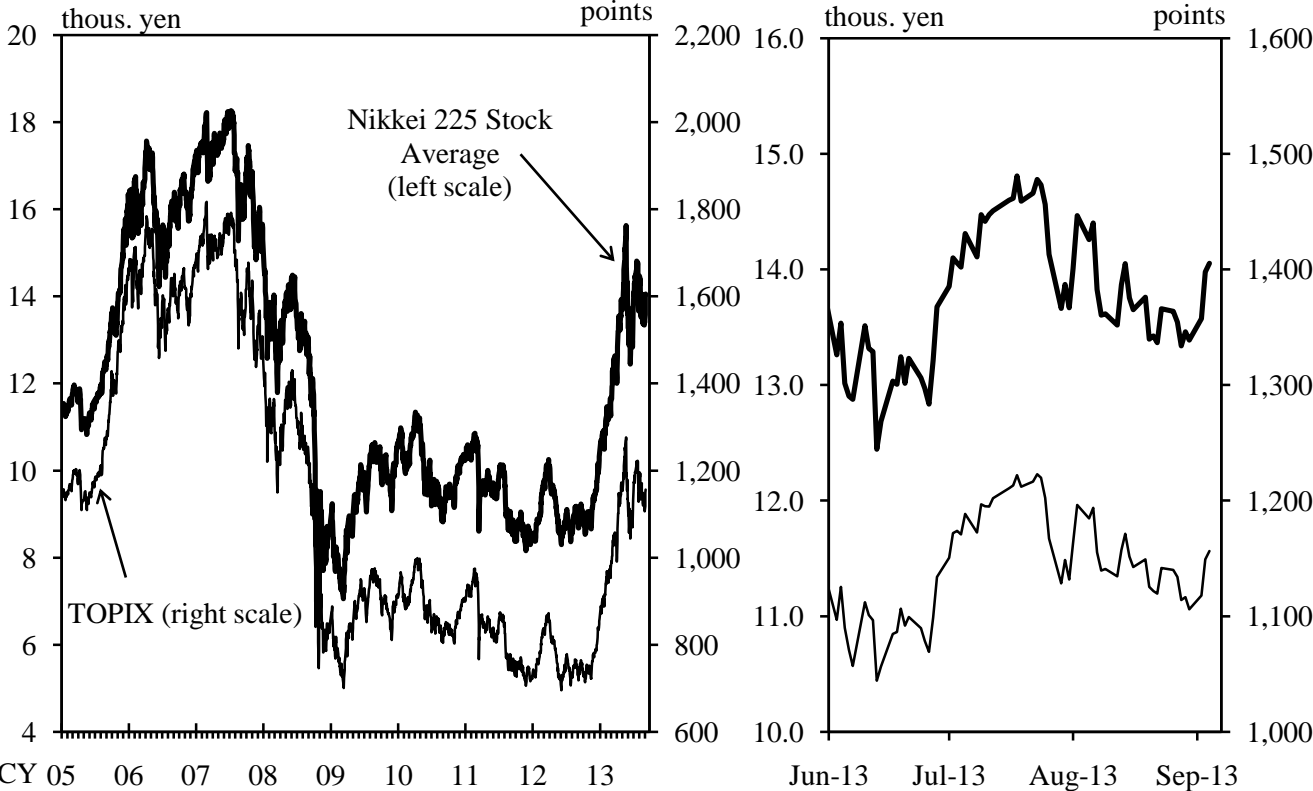
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

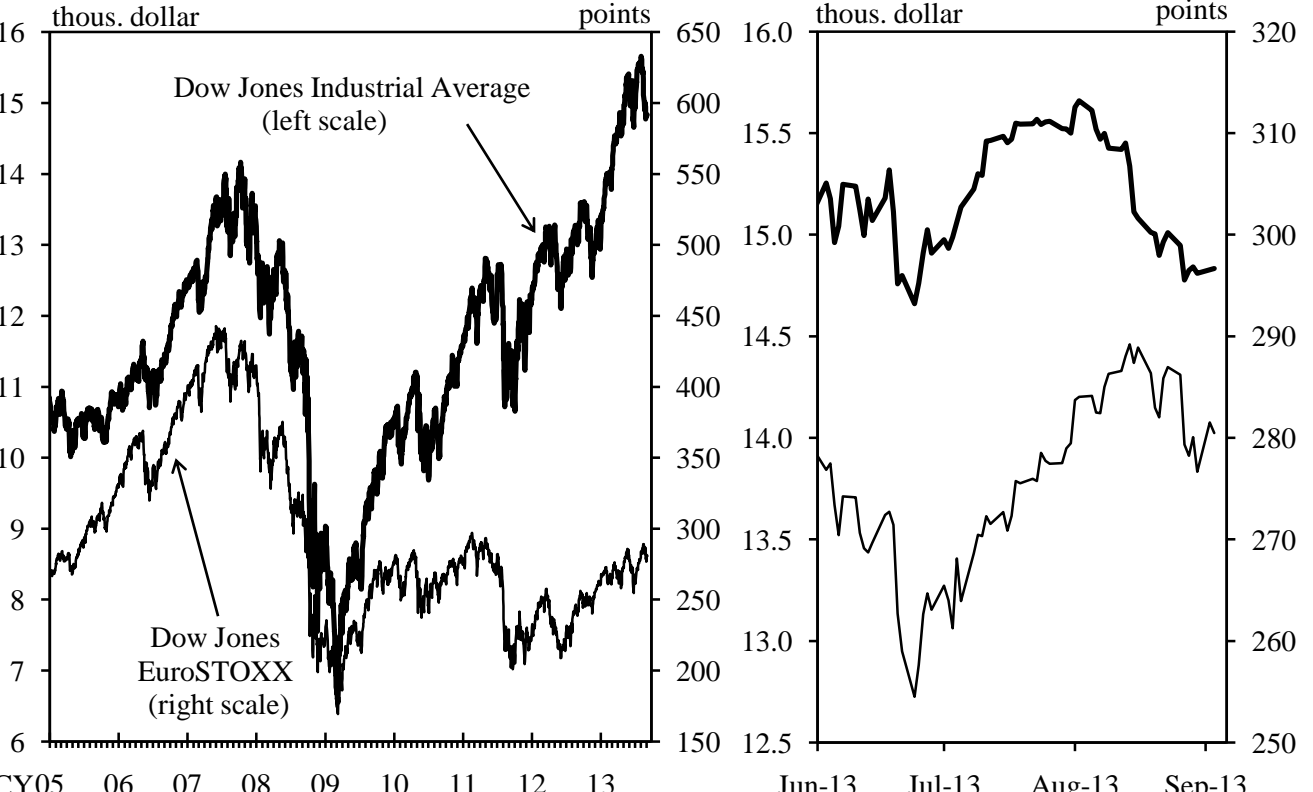
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



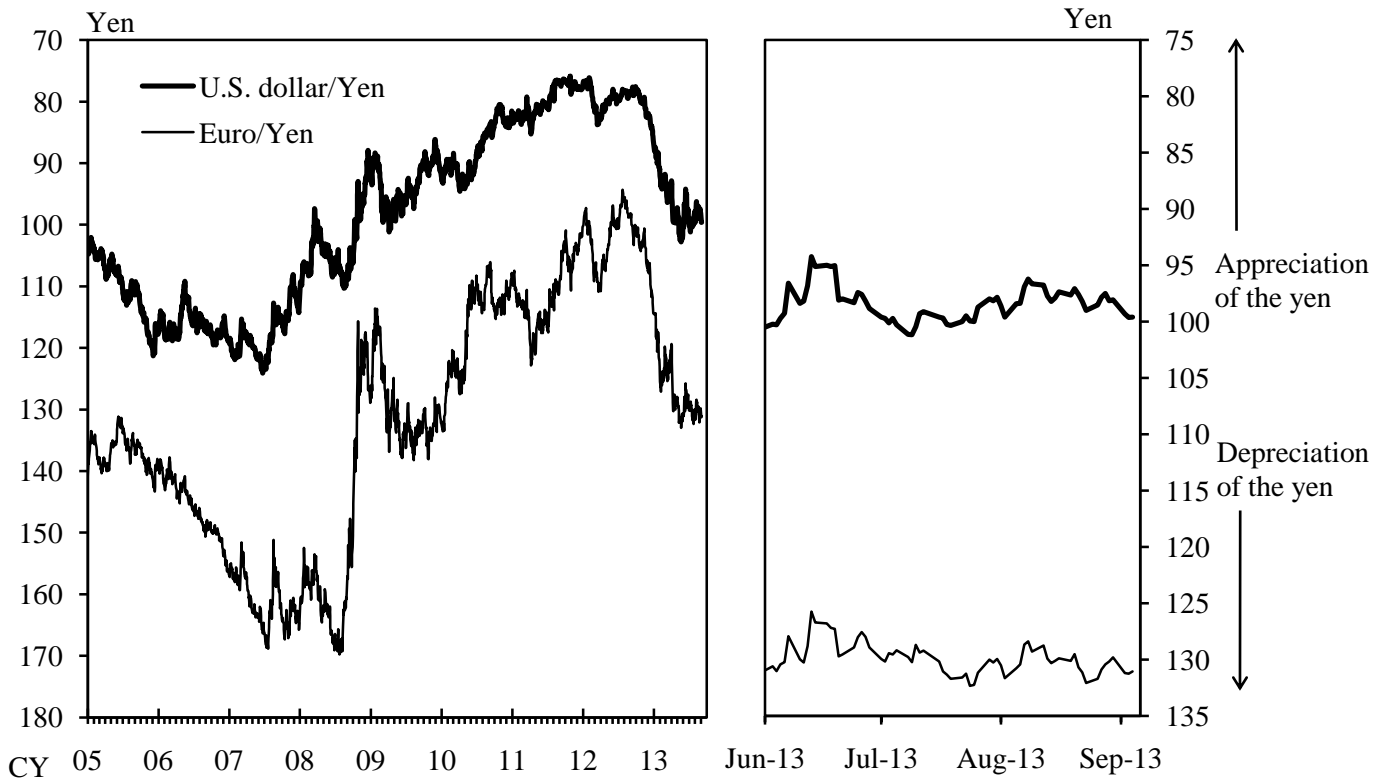
(2) Overseas Stock Prices



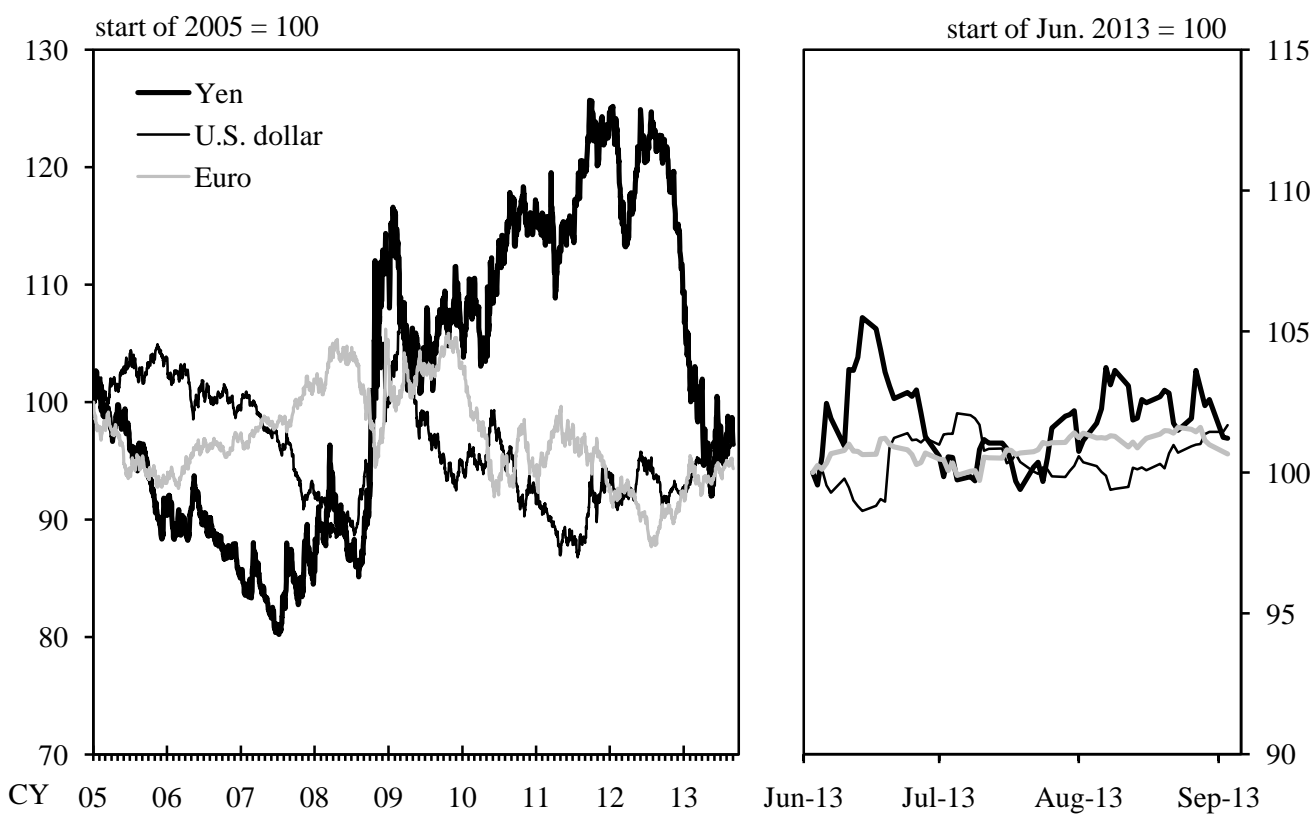
Sources: The Nihon Keizai Shimbun ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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