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Bank of Japan

Monthly Report of Recent Economic and Financial Developments

January 2015

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Summary

Japan's economy has continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike have been waning on the whole.

Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have shown signs of picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole. Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has bottomed out, due in part to the progress in inventory adjustments.

With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike are expected to dissipate.

Exports are expected to increase moderately mainly against the background of the recovery in overseas economies. As for domestic demand, public investment is expected to continue leveling off more or less at a high level for the time being and thereafter enter a moderate declining trend. Business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving trend. Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in

[1] This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on January 20 and 21, 2015.

demand following the front-loaded increase are expected to dissipate gradually. Housing investment is projected to regain its resilience gradually. Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the risk of low inflation rates being protracted in Europe, and the pace of recovery in the U.S. economy.

On the price front, excluding the direct effects of the consumption tax hike, producer prices are declining relative to three months earlier, reflecting the significant fall in international commodity prices, and the year-on-year rate of increase 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 from a somewhat longer-term perspective.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices is likely to slow for the time being, reflecting the decline in energy prices.

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 and corporate bonds have continued to be favorable. 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 2.5-3.0 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative. Firms' financial positions have been favorable. Meanwhile, the year-on-year rate of growth in the money stock has been at around 3.5 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, long-term interest rates have fallen. Meanwhile, the value of the yen against the U.S. dollar and stock prices have remained at more or less the same levels as last month.

1. Economic Developments

Public investment has more or less leveled off at a high level. The amount of public construction completed—which reflects the progress of public works—was flat in October-November last year compared with the third quarter, after it continued to increase in the third quarter on a quarter-on-quarter basis, following the rise in the second quarter mainly due to the effects of the supplementary budget for fiscal 2013 (Chart 5). The value of public works contracted—a measure that reflects public orders—registered a sharp quarter-on-quarter increase in the second quarter last year, assisted partly by the effects of the early implementation of the initial budget for fiscal 2014. It then fell back significantly in the third quarter and declined slightly in the fourth quarter.

Public investment is expected to continue leveling off more or less at a high level for the time being and thereafter enter a moderate declining trend.[2]

Real exports have shown signs of picking up (Charts 6[1] and 7). They marked a slight increase in the third quarter last year on a quarter-on-quarter basis, after declining slightly in both the first and second quarters, and rose noticeably in October-November relative to the third quarter. On a monthly basis, exports dropped slightly in November, after increasing for two months in a row in September and October. Looking at movements in exports by region (Chart 7[1]), exports to the United States—which had decreased in the second quarter and leveled off in the third quarter—registered a sizeable increase in October-November compared with the third quarter. With motor vehicles and their related goods starting to bottom out, exports to the United States have started to pick up overall since capital goods and parts have recently increased, reflecting the recovery in business fixed investment in the United States. Exports to the EU—which were roughly flat in the third quarter, after increasing for five consecutive quarters until the second quarter—dropped markedly in October-November relative to the third quarter. Exports to China—which had declined for two quarters in a row in the first and second quarters—increased slightly in the third quarter and rose in October-November as

[2] Public construction, included in the "Emergency Economic Measures" based on the supplementary budget for fiscal 2014, is expected to underpin public investment in the future to a certain degree.

well compared with the third quarter, mainly in IT-related goods. Exports to NIEs have started to pick up, supported by IT-related goods and by capital goods and parts: they turned upward in the third quarter after declining in the second quarter, and continued to increase somewhat significantly in October-November relative to the third quarter. Exports to ASEAN have been more or less flat since the second quarter after decreasing for seven consecutive quarters, and remained somewhat sluggish. Meanwhile, exports to Others—which had been relatively weak until around the first quarter—increased for two consecutive quarters in the second and third quarters, mainly in motor vehicles and their related goods and in capital goods and parts, due in part to movements in foreign exchange rates. They also continued to move upward, albeit slightly, in October-November compared with the third quarter. By goods (Chart 7[2]), exports of motor vehicles and their related goods fell somewhat in October-November relative to the third quarter, notably in those bound for the EU, after increasing in the third quarter, mainly in those bound for Others, including the Middle East. Exports of capital goods and parts have been picking up as a trend, reflecting developments in business fixed investment in the United States and other countries. Exports of IT-related goods have also continued to pick up, mainly due to movements in parts for new smartphone products. Meanwhile, exports of intermediate goods, including iron and steel as well as chemicals, had been somewhat weak, mainly in those to East Asia, but they went up in October-November compared with the third quarter.

As for real imports, the effects of the decline in demand following the front-loaded increase in line with the consumption tax hike have been waning, while they have continued to trend moderately upward against the backdrop of firm domestic demand (Charts 6[1] and 9). Real imports fell back sharply in the second quarter last year in response to various declines in demand following the front-loaded increase, but they rose, albeit slightly, in the third quarter and continued to move slightly upward in October-November relative to the third quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials turned upward in the third quarter, after falling back substantially in the second quarter, due to the decline in demand following the front-loaded increase prior to the rise in the environment tax rate, but they declined again in October-November compared with the third quarter. In contrast, imports of consumer goods have been picking up since the third quarter, after declining noticeably in the second quarter due mainly to the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike. Imports of IT-related goods continued to decline through the summer due to the following reasons: (i) the effects of the decline in demand following the front-loaded increase—mainly in line with the ending of support for some software (operating system)—remained, and (ii) inventories of smartphones were drawn down prior to the sales of new models. Recently, however, they have surged partly due to the increase in imports of new smartphone products. Imports of capital goods and parts have continued to pick up as a trend, albeit with fluctuations, mainly as a reflection of developments in business fixed investment at home. Meanwhile, imports of intermediate goods declined, mainly as a reflection of movements in domestic production, for two consecutive quarters in the second and third quarters and continued to decrease in October-November compared with the third quarter.

Net exports—in terms of the real trade balance—have improved, after bottoming in the first quarter last year, reflecting the aforementioned developments in exports and imports (Chart 6[1]). Looking at movements in the nominal current account balance on a quarterly basis (Chart 6[2] and [3]), the current account balance showed a surplus again, albeit slightly, in the second quarter last year, mainly because of a subsequent decline in imports, although the current account balance tentatively turned to a deficit in the first quarter, because of an increase in imports as a reflection of the front-loaded increase in demand. From the third quarter onward, the surplus of the current account balance has tended to expand moderately, mainly as a result of the expansion in the surplus of the primary income balance and the improvement in the travel balance, supported primarily by movements in foreign exchange rates.

Regarding the environment surrounding exports, overseas economies—mainly advanced economies—have been recovering, albeit with a lackluster performance still seen in part (Chart 8[2]). Looking at movements by major region, the U.S. economy has continued to recover steadily, since the firmness in the household sector has been feeding through to the corporate sector. The recovery in the European economy has been losing momentum recently. As for the Chinese economy, stable growth has continued as a trend; recently, however, growth momentum has slowed with downward pressure from an overhang in supply in the manufacturing sector and adjustments in the real estate market. Emerging economies apart from China and the commodity-exporting economies have continued to lose pace as a whole. As for the exchange rate, the yen has remained significantly depreciated against both the U.S. dollar and the euro compared to a while ago; in terms of the real effective exchange rate, the yen has depreciated to the level last recorded in 1973, below that of around 2007 (Chart 8[1]).

Overseas economies, mainly advanced economies, are expected to continue recovering moderately. The aforementioned movements in foreign exchange rates are also projected to underpin exports, including those of services such as travel. By major region, the U.S. economy is expected to continue a firm recovery centered on private demand. As for the European economy, growth is projected to be sluggish in the near future; attention should continue to be paid to such issues as the outcome of its debt problem and the effects of the slowdown in the Russian economy. As for the Chinese economy, stable growth is projected to continue, albeit with lower growth rates; the aforementioned downward pressure continues to require close monitoring. Growth in emerging economies apart from China and the commodity-exporting economies might lose pace for a protracted period, although the recovery in advanced economies is basically expected to exert positive effects gradually.

Taking the above into consideration, exports are expected to increase moderately mainly against the background of the recovery in overseas economies. Imports are projected to continue trending moderately upward, largely as a reflection of movements in domestic demand, although movements in foreign exchange rates are expected to exert downward pressure on imports. Considering these developments in exports and imports, net exports are projected to be on a moderate improving trend, albeit with fluctuations.

Business fixed investment has been on a moderate increasing trend as corporate profits have improved. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment was temporarily more or less flat in the third quarter last year, after falling back in the second quarter from the upsurge in the previous quarter, but rose again in

October-November relative to the third quarter (Chart 10[1]). As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—fell back somewhat significantly in the second quarter last year from the increase in the previous quarter; they rose again in the third quarter, notably in manufacturing, but moved downward in October-November compared with the third quarter for both manufacturing and nonmanufacturing (Chart 11[1]). On a monthly basis, machinery orders dropped in October, after exhibiting month-on-month increases for four consecutive months since June, but went slightly up again in November. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—had shown some weakness since the start of last year, mainly in nonmanufacturing, but they increased significantly in October-November relative to the third quarter, due in part to an upsurge in orders for large-scale projects mainly in industries such as wholesale and retail as well as transportation (Chart 11[2]).

Regarding the environment surrounding business fixed investment, corporate profits have continued to improve. As for the outlook, corporate profits are projected to continue an improving trend, supported by the increase in domestic and foreign demand as well as by the decline in crude oil prices and movements in foreign exchange rates.

Taking the above into consideration, business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving trend.

<u>Private consumption</u> has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole (Chart 12). Looking at consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—it registered a quarter-on-quarter increase in the third quarter last year, after falling substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase, and continued to move moderately upward in October-November relative to the third quarter. Meanwhile, looking at

consumption of durable consumer goods (Chart 13[2]), the number of new passenger-car registrations almost bottomed in the third quarter, despite falling substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase; it has recently shown some early signs of picking up, mainly in small cars.[3] Sales of household electrical appliances in real terms decreased significantly in the second quarter, due to the decline following (i) the front-loaded demand in line with the consumption tax hike and (ii) the renewal demand for PCs in line with the ending of support for some software, but sales have continued to pick up at a moderate pace since the third quarter, partly due to the sales of new smartphone products. These developments indicate that the effects of the decline in demand for durable consumer goods—which were noticeable in scale and somewhat lingered on—have continued to wane. Sales at department stores have picked up since May, after declining substantially in April in response to the front-loaded increase in demand, and the improvement has been evident since August, supported in part by increased sales to foreign visitors to Japan (Chart 14[1]). Sales at supermarkets decreased largely in April, but they have continued to pick up moderately since May, mainly in food and beverages. As for sales at convenience stores, fluctuations caused by the front-loaded increase in demand have been relatively small; sales have continued to show their moderate increasing trend. Meanwhile, as for consumption of services (Chart 14[2]), outlays for travel have been steady on the whole, aided by the firmness in domestic travel, despite sluggish overseas travel affected partly by movements in foreign exchange rates. Sales in the food service industry have remained steady as a trend, disregarding the effects of issues related to tainted chicken products from China as well as the irregular weather.

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, purchase of vehicles, money gifts and remittance" basis (Chart 13[1])—which is compiled so as to make it similar to items used for estimating GDP—almost bottomed out in the third quarter last year, after falling back sharply in the second quarter from the front-loaded increase in demand, and moved slightly upward in October-November compared with the third quarter.

[3] The recent high growth in sales of small cars with engine sizes of 660cc or less seems to be mainly attributable to the front-loaded increase in demand prior to the light vehicle tax hike in April this year as well as to sales promotions by the automobile industry.

However, the pace of recovery from the decline in demand has remained sluggish relative to sales statistics, due in part to short-term fluctuations. The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) has continued to be more or less flat since the summer, after decreasing significantly in the second quarter in response to the front-loaded increase in demand, notably in durable consumer goods.

Looking at indicators related to consumer confidence, the consumer confidence index—which continued to become cautious since the summer last year—has slightly improved recently (Chart 15).

Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase are expected to dissipate gradually.

Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. The number of housing starts—a leading indicator of housing investment—continued to fall since the first quarter last year due to the decline in demand following the front-loaded increase, mainly in owner-occupied houses, but it has almost bottomed out recently (Chart 16[1]).

Housing investment is projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, also supported by the accommodative financial conditions.

Industrial production has bottomed out, due in part to the progress in inventory adjustments (Chart 17). Industrial production—which had continued to decrease in the third quarter last year after falling back noticeably in the second quarter from the front-loaded increase in demand—turned upward in October-November relative to the third quarter. On a monthly basis, production decreased in November—albeit only slightly—due to the decline in capital goods (such as semiconductor manufacturing equipment) in response to prior increases, after rising slightly in October following somewhat strong month-on-month growth in September. Inventories piled up, notably in durable consumer goods (automobiles and household electrical appliances) and construction goods (with ties to housing), due mainly to the effects of the decline in demand following the front-loaded increase, but inventory adjustments have recently progressed gradually in light of the pick-up in final demand. Looking at quarterly movements by industry, production of transport equipment inched down in October-November compared with the third quarter following noticeable decreases for two quarters in a row in the second and third quarters, since inventory adjustments have continued to take place in line with the decline in demand following the front-loaded increase. Recently, however, inventories have declined, mainly in large passenger cars, and inventory adjustment pressures seem to have begun to ease gradually, while shipments have bottomed out and have shown some early signs of picking up. Production of electrical machinery and of information and communication electronics equipment—which continued to register a sizeable decline since early spring, mainly due to the effects of the decline in household electrical appliances (air conditioners and PCs) in response to prior increases—have recently started to bottom out. On the other hand, production of general-purpose, production and business oriented machinery has been on a moderate increasing trend, albeit with fluctuations, in light of developments in business fixed investment at home and abroad. Production of electronic parts and devices has also continued a noticeable increase, primarily in parts for smartphone products produced in Asia.

Shipments, like production, declined slightly in the third quarter last year, after falling back somewhat sharply in the second quarter from the prior increase in demand, but they increased in October-November relative to the third quarter (Chart 17[1]). By goods, shipments of capital goods and producer goods (mainly electronic parts and devices) have picked up, while those of durable consumer goods and construction goods have almost stopped declining.

Inventories have recently started to decline, although they are still at a somewhat high level (Chart 17[1]). Recent movements show that inventories went up slightly as of the end of September last year compared with the end of June, after increasing noticeably as of the end of June relative to the end of March, but they rose only marginally in November compared with the end of September. On a monthly basis, inventories moved somewhat upward in November, mainly in materials industries including iron and steel, after falling for two months in a row in September and October. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has marginally outpaced that in shipments on the whole (Chart 18[2]).[4] By goods, growth in inventories of durable consumer goods and construction goods has still outpaced that in shipments, whereas growth in inventories of capital goods, nondurable consumer goods, and producer goods has been generally balanced with that in shipments.

Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase. Based on anecdotes by firms and on other information, industrial production as a whole is projected to turn moderately upward in the fourth quarter. By industry, production of electronic parts and devices is expected to continue moving markedly upward, mainly in parts for smartphone products; production of general-purpose, production and business oriented machinery is also expected to increase on the back of the ongoing improving trend in business fixed investment both at home and abroad. On the other hand, production of transport equipment is expected to stay more or less flat: inventory adjustments have progressed, but their effects have still remained. As for the first quarter, it seems that production as a whole is expected to continue increasing moderately, although large uncertainty still remains. By industry, production of transport equipment is expected to turn upward with inventory adjustments having come to a halt. Production of general-purpose, production and business oriented machinery is also projected to keep moving firmly upward as a reflection of developments in business fixed investment at home and abroad. Meanwhile, production of electronic parts and devices is projected to remain at a high level, mainly on the back of firm final demand, although the increase as a reflection of the production of new smartphones is expected to pause.

As for the employment and income situation, supply and demand conditions in the labor market have continued to improve steadily, and employee income has increased moderately.

[4] As for the shipment-inventory balance, attention should be paid to the fact that growth in shipments on a year-on-year basis tends to be somewhat low and that in inventories to be somewhat high in the second half of fiscal 2014, due to the front-loaded increase in demand prior to the consumption tax hike in the second half of fiscal 2013.

As for supply and demand conditions in the labor market, the unemployment rate has recently been at around 3.5 percent—posting the same level prevailing around the end of 1997—after being on a moderate improving trend, albeit with fluctuations (Chart 19). The improvement in new job openings has paused as a reflection of economic activity during the first half of this fiscal year, but the ratio of new job openings in October-November last year recorded 1.67—rising to a relatively high level on par with that in the first half of 1992—owing partly to the decline in new applications. The active job openings-to-applicants ratio has also been on an improving trend, albeit at a sluggish pace; it recorded 1.12 in November, a level last seen in May 1992. Non-scheduled hours worked have maintained their moderate uptrend, but have recently become more or less flat.

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has been moving at around 0.5 percent on average, despite large monthly fluctuations (Chart 21[1]). The year-on-year rate of increase in the number of regular employees in the *Monthly Labour Survey* has been moving at around 1.5 percent.

Total cash earnings per employee have risen moderately, albeit with fluctuations (Chart 21[2]). Hourly cash earnings of overall employees have also been on a moderate improving trend as a whole (Chart 20[1]). Taking a closer look, both monthly cash earnings of full-time employees per employee and hourly cash earnings of part-time employees have accelerated their year-on-year rates of increase at a moderate pace, albeit with fluctuations (Chart 20[2]). Scheduled cash earnings have been picking up as a whole on a year-on-year basis with the year-on-year growth rate of scheduled cash earnings of full-time employees expanding at a moderate pace, mainly due to the effects of the rise in base wages, while downward pressure from the increase in the ratio of part-time workers has diminished moderately (Chart 20[3]). The year-on-year rate of increase of non-scheduled cash earnings has recently diminished, as a reflection of movements in the number of hours worked.

<u>Employee income</u> has risen moderately, as a reflection of the aforementioned developments in employment and wages (Chart 21[3]).

As for the outlook, employee income is expected to continue increasing moderately, in line with the recovery in economic activity and business performance.

2. Prices

International commodity prices have continued to decline significantly (Chart 23[1] and [3]). Prices of crude oil have continued to fall sharply, due mainly to the decline in demand in line with the slowdown in the Chinese and European economies, and the decision by oil-producing countries not to reduce oil production, and a shift of investors' money in response to these developments. Prices of nonferrous metals have declined moderately, mainly as a reflection of the slowdown in the Chinese economy. Meanwhile, prices of grains—which had been rising, due in part to the effects of the irregular weather in Europe and other countries—have recently fallen back slightly.

The three-month rate of change in import prices (on a yen basis) has been more or less flat, albeit with some fluctuations, as a reflection of movements in foreign exchange rates and international commodity prices (Chart 23[2]).

Producer prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter), on a basis excluding the direct effects of the consumption tax hike, are declining relative to three months earlier, reflecting the significant fall in international commodity prices (Chart 24[2]).[5] Excluding the direct effects of the consumption tax hike, the three-month rate of change in producer prices continued to decline in December last year by registering negative 1.3 percent, mainly due to the fall in international commodity prices including crude oil and iron ores. Looking in detail at producer price movements in December relative to three months earlier, prices of "goods sensitive to exchange rates and overseas commodity prices" declined somewhat sharply as a whole mainly due to price declines in petroleum products such as gasoline and kerosene, which is a reflection of the decline

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

in crude oil prices, although prices of nonferrous metals rose slightly in response to movements in foreign exchange rates. Prices of "electric power, gas & water" also kept moving downward in response to the fuel and gas resource cost adjustment system, which reflects the decline in crude oil prices. The rate of decline in prices of "other materials" and "iron & steel and construction goods" expanded, chiefly in chemicals & related products, iron & steel, and scrap & waste, due to the effects of either the fall in international commodity prices or the deterioration of supply and demand conditions in Asia. Prices of "others" continued to decline moderately, mainly in agriculture, forestry & fishery products and in food. Meanwhile, prices of machinery have been more or less flat.

The year-on-year rate of increase in services producer prices (excluding international transportation; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, has recently been moving in the range of 0.5-1.0 percent (Chart 25). Looking in detail at recent services producer price movements, the year-on-year rate of change in prices related to "selling, general and administrative expenses" has been rising slightly as a whole, since (i) advertising services have been on a positive trend, albeit with fluctuations, (ii) temporary employment agency services have continued to be positive on the back of tightening supply and demand conditions in the labor market, and (iii) hotel services have registered a relatively large increase in light of firm demand from business and sightseeing. The rate of increase in prices related to "fixed investment" has tended to expand, mainly in civil engineering and architectural services. The rate of change in prices related to "domestic transportation" has been somewhat elevated, mainly in overland freight transportation and in warehousing and other transportation services. Prices of "others" have registered somewhat high growth since August last year, together with the price increase in domestic air passenger transportation, as finance and insurance (mainly motor vehicle insurance) has continued to show relatively strong movements. Meanwhile, the rate of change in prices of "real estate services" including office space rental—which had continued to decline since October 2009—has been slightly positive since July.

The year-on-year rate of increase in consumer prices (all items less fresh food; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, is in the range of 0.5-1.0 percent (Chart 26[1]).[6] Consumer prices for November last year, on a basis excluding the direct effects of the consumption tax hike, somewhat narrowed their rate of increase to positive 0.7 percent from positive 0.9 percent in October on a less fresh food basis. On a basis excluding food and energy, the rate of increase also diminished marginally to positive 0.4 percent from positive 0.5 percent in October. Regarded as a method for capturing trend changes, the year-on-year rate of increase in the trimmed mean has diminished recently (Chart 27[2]).[7]

Looking at recent year-on-year growth in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have reduced their rate of increase markedly. Looking in detail, prices of petroleum products have continued to reduce their year-on-year rate of increase since the summer as a reflection of the decline in crude oil prices and turned negative in November. Prices of food products—which continued to be somewhat strong on the back of past cost increases in the form of higher prices—have tended to narrow their rate of increase affected by movements in private consumption after the consumption tax hike with some time lag. Prices of durable goods and clothes have recently been somewhat weak, as the effects of movements in private consumption after the consumption tax hike have remained. Meanwhile, prices of agricultural, aquatic & livestock products (less fresh food) have reduced their rate of increase marginally overall, as a reflection of the decline in prices of rice, despite upward pressure from prices of meats. Prices of general services had more or less leveled off since June on a year-on-year basis, but turned marginally negative in November. These movements are attributable to prices of hotel charges and of package tours to overseas, which have a tendency to fluctuate, having recently reduced their rates of increase, while (i) the introduction of new price plans for mobile telephone charges since June and (ii) the decline in some prices of eating out following the previous year's increase have pushed year-on-year prices downward. The year-on-year rate of decline in prices of rent—which accounts for a

[6] For details on the direct effects of the consumption tax hike (estimates), see BOX in the *Monthly Report of Recent Economic and Financial Developments*, March 2014.

[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.

large share—has tended to narrow, albeit very modestly, from a somewhat longer-term perspective, but the improvement has recently come to a pause. Fees for public services have continued to narrow their rate of increase as a trend, as a reflection of energy-related movements against the backdrop of the decline in crude oil prices. Recently, however, the year-on-year rate of increase has moved upward due to the effects of the decline in electricity prices in response to the previous year's increase and to another round of price increases by one electric power company. As a result, the year-on-year rate of increase of fees for public services as a whole has accelerated marginally.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices is likely to slow for the time being, reflecting the decline in energy prices.

Meanwhile, inflation expectations appear to be rising on the whole from a somewhat longer-term perspective (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 and corporate bonds have continued to be favorable. 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 2.5-3.0 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 negative (Chart 33).

Firms' financial positions have been favorable (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 at around 3.5 percent. Its December reading was 3.6 percent on a year-on-year basis, following 3.6 percent in November (Chart 34).[8]

(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 roughly been more or less flat in negative territory. The Euroyen interest rate (3-month) and interest rates on Euroyen futures have both been virtually level (Chart 36). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 37).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved downward, mainly against the backdrop of the decline in U.S. and European long-term interest rates and of the expansion of monetary easing by the Bank of Japan last fall; they are recently moving in the range of 0.2-0.25 percent (Chart 38).

Yield spreads between corporate bonds and government bonds have been more or less flat at low levels (Chart 39).

[8] On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3 percent; its December reading was 2.9 percent, following 2.9 percent in November. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 3.5 percent; it increased by 3.5 percent in December, following an increase of 3.4 percent in November.

Stock prices rose temporarily as a reflection of the increase in U.S. stock prices, but have fallen back thereafter due to the heightening of investors' risk aversion mainly on the back of the decline in crude oil prices and uncertainty about the situation in Greece. The Nikkei 225 Stock Average is recently moving in the range of 17,000-17,500 yen (Chart 40).

In the foreign exchange market, the yen's exchange rate has appreciated somewhat against the U.S. dollar due to the heightening of investors' risk aversion; the yen is currently moving in the range of 118-119 yen against the U.S. dollar. The yen's exchange rate has appreciated against the euro, primarily due to speculation about monetary policies in the euro area and to uncertainty about the situation in Greece; the yen is recently moving at around 137 yen against the euro (Chart 41).

Charts

Chart 1

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.[1]

	2014/Q2	Q3	Q4	2014/Sep.	Oct.	Nov.	Dec.
Index of consumption expenditure level (two-or-more-person households)	-8.5	-0.3	n.a.	1.8	0.1	1.3	n.a.
Sales at department stores	-13.2	5.8	n.a.	2.3	-3.5	1.4	n.a.
Sales at supermarkets	-5.4	2.5	n.a.	1.4	-1.7	-0.3	n.a.
New passenger-car registrations[3] <s.a., ann. 10,000 units>	< 264>	< 275>	< 270>	< 270>	< 265>	< 267>	< 278>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-25.5	4.3	n.a.	3.5	-0.3	6.2	n.a.
Outlays for travel	-2.4	1.9	n.a.	2.0	-1.6	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 89>	< 86>	<n.a.>	< 88>	< 90>	< 89>	<n.a.>
Machinery orders[4] (Private sector, exc. volatile orders)	-10.4	5.6	n.a.	2.9	-6.4	1.3	n.a.
Manufacturing	-8.5	12.6	n.a.	12.0	-5.5	-7.0	n.a.
Nonmanufacturing[4] (exc. volatile orders)	-6.7	-1.2	n.a.	1.7	-7.5	0.5	n.a.
Construction starts (private, nondwelling use)	-3.8	-2.7	n.a.	-7.7	33.8	-21.5	n.a.
Mining & manufacturing	-8.6	5.8	n.a.	-11.1	30.5	-30.2	n.a.
Nonmanufacturing[5]	-3.4	-3.8	n.a.	-6.3	34.0	-19.9	n.a.
Value of public works contracted	11.3	-16.8	-1.4	-7.0	1.5	6.3	3.2
Real exports	-1.2	1.6	n.a.	1.8	3.8	-1.8	n.a.
Real imports	-6.9	0.8	n.a.	4.2	-1.7	0.3	n.a.
Industrial production	-3.8	-1.9	n.a.	2.9	0.4	-0.5	n.a.
Shipments	-6.8	-0.8	n.a.	4.4	0.6	-1.4	n.a.
Inventories	4.6	1.1	n.a.	-0.7	-0.4	1.1	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 111.5>	< 111.4>	<n.a.>	< 111.4>	< 112.3>	< 117.0>	<n.a.>
Real GDP	-1.7	-0.5	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-3.4	0.0	n.a.	1.4	-0.1	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.[1]

	2014/Q2	Q3	Q4	2014/Sep.	Oct.	Nov.	Dec.
Active job openings-to-applicants ratio <s.a., times>	< 1.09>	< 1.10>	<n.a.>	< 1.09>	< 1.10>	< 1.12>	<n.a.>
Unemployment rate <s.a., %>	< 3.6>	< 3.6>	<n.a.>	< 3.6>	< 3.5>	< 3.5>	<n.a.>
Non-scheduled hours worked[6]	5.1	2.2	n.a.	2.9	1.8	0.0	n.a.
Number of employees	0.6	0.9	n.a.	1.1	0.6	0.3	n.a.
Number of regular employees[6]	1.4	1.7	n.a.	1.7	1.6	1.6	n.a.
Nominal wages per person[6]	0.8	1.5	n.a.	0.7	0.2	0.1	n.a.
Producer price index	4.3	4.0	p 2.5	3.6	2.9	2.6	p 1.9
<excluding consumption tax, y/y % chg.>	< 1.5>	< 1.1>	<p -0.3>	< 0.7>	< 0.1>	<-0.2>	<p -0.9>
<excluding consumption tax, q/q % chg., 3-month rate of change>[7]	< 0.2>	< 0.2>	<p -1.0>	< 0.0>	<-0.8>	<-0.9>	<p -1.3>
Consumer price index[8]	3.3	3.2	n.a.	3.0	2.9	2.7	n.a.
<consumption tax adjusted, y/y % chg.>	< 1.4>	< 1.2>	<n.a.>	< 1.0>	< 0.9>	< 0.7>	<n.a.>
Services producer price index[9]	3.5	3.5	n.a.	3.5	3.6	p 3.6	n.a.
<excluding consumption tax, y/y % chg.>	< 0.8>	< 0.8>	<n.a.>	< 0.8>	< 0.9>	<p 0.9>	<n.a.>
Money stock (M2) <average outstanding, y/y % chg.>	3.3	3.0	p 3.4	3.1	3.2	3.6	p 3.6
Number of corporate bankruptcies <cases per month>	<871>	<812>	<741>	<827>	<800>	<736>	<686>

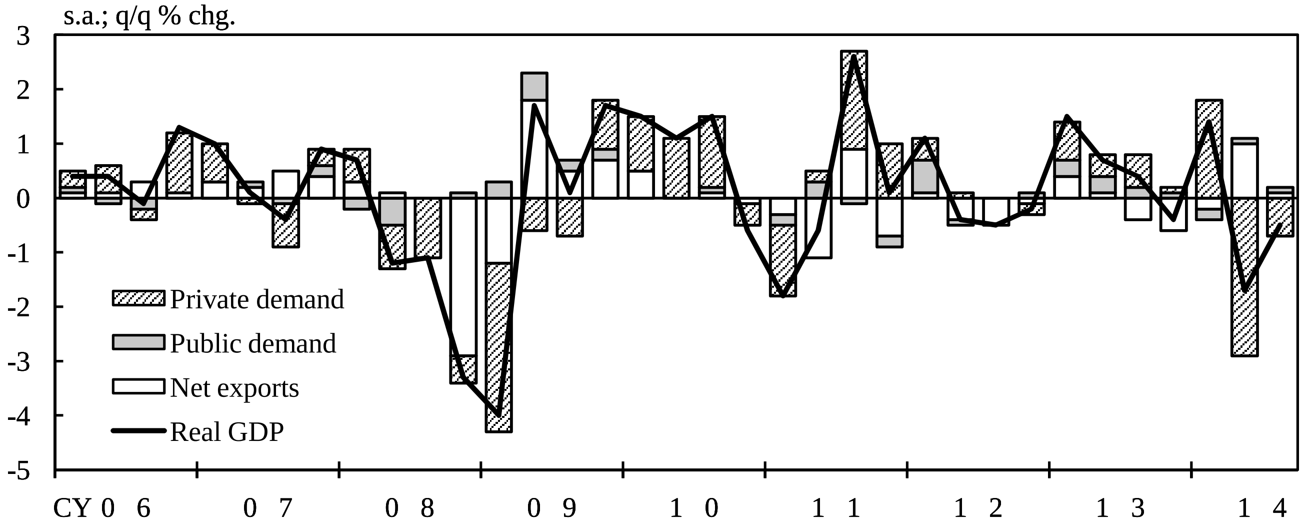
Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally adjusted data. All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted 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," "Services Producer Price Index," "Money Stock";
Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Chart 3

Real GDP and Indexes of Business Conditions

(1) Real GDP



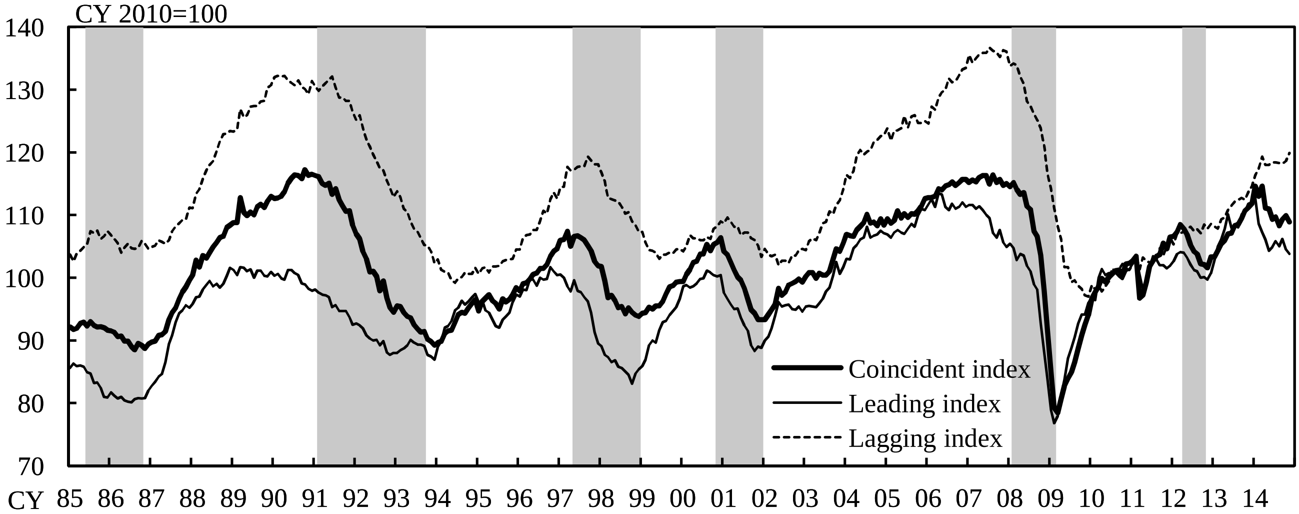
(2) Components

s.a.; q/q % chg.

	2013		2014		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.4	-0.4	1.4	-1.7	-0.5
[Annual rate]	[1.6]	[-1.5]	[5.8]	[-6.7]	[-1.9]
Domestic demand	0.8	0.2	1.6	-2.8	-0.5
Private demand	0.6	0.1	1.8	-2.9	-0.7
Private consumption	0.2	-0.0	1.3	-3.1	0.2
Non-Resi. investment	0.1	0.1	0.9	-0.7	-0.1
Residential investment	0.1	0.1	0.1	-0.3	-0.2
Private inventory	0.2	-0.1	-0.4	1.3	-0.6
Public demand	0.2	0.1	-0.2	0.1	0.1
Public investment	0.2	0.1	-0.1	0.0	0.1
Net exports of goods and services	-0.4	-0.6	-0.2	1.0	0.1
Exports	-0.1	0.0	1.0	-0.1	0.2
Imports	-0.3	-0.6	-1.2	1.1	-0.1
Nominal GDP	0.2	0.2	1.3	0.1	-0.9

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

(3) Indexes of Business Conditions (Composite Indexes)

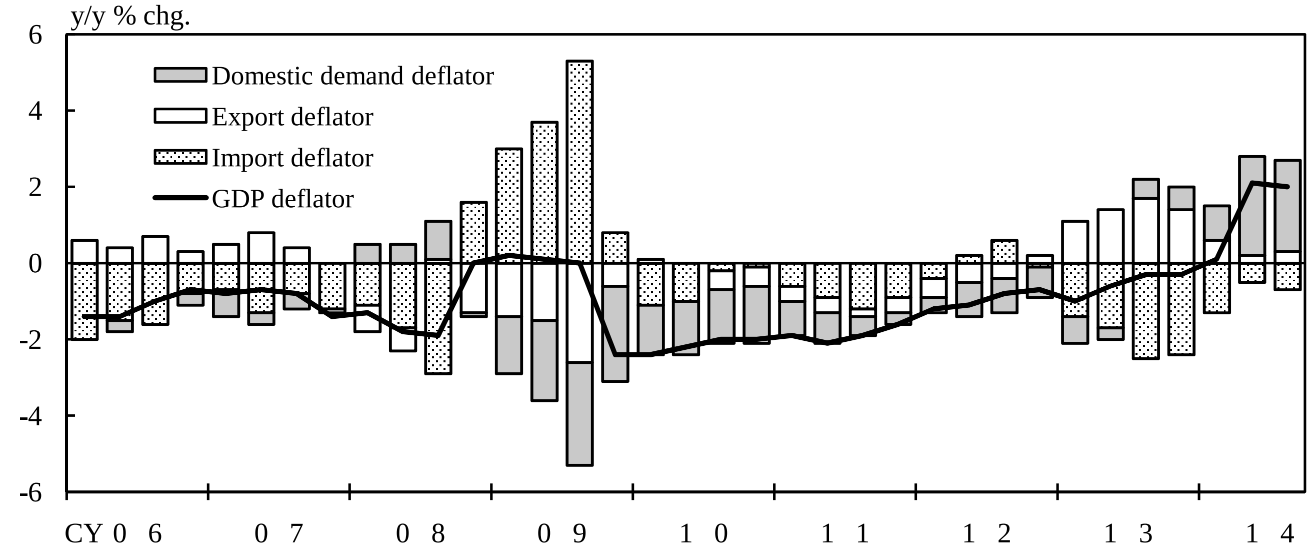


Note: Shaded areas indicate recession periods.

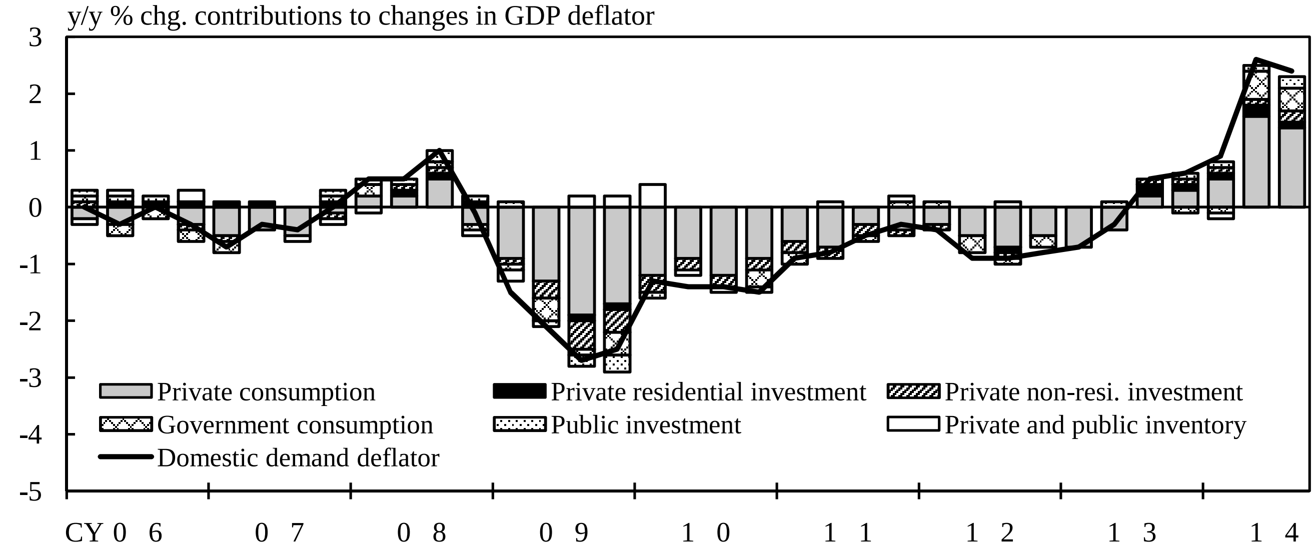
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

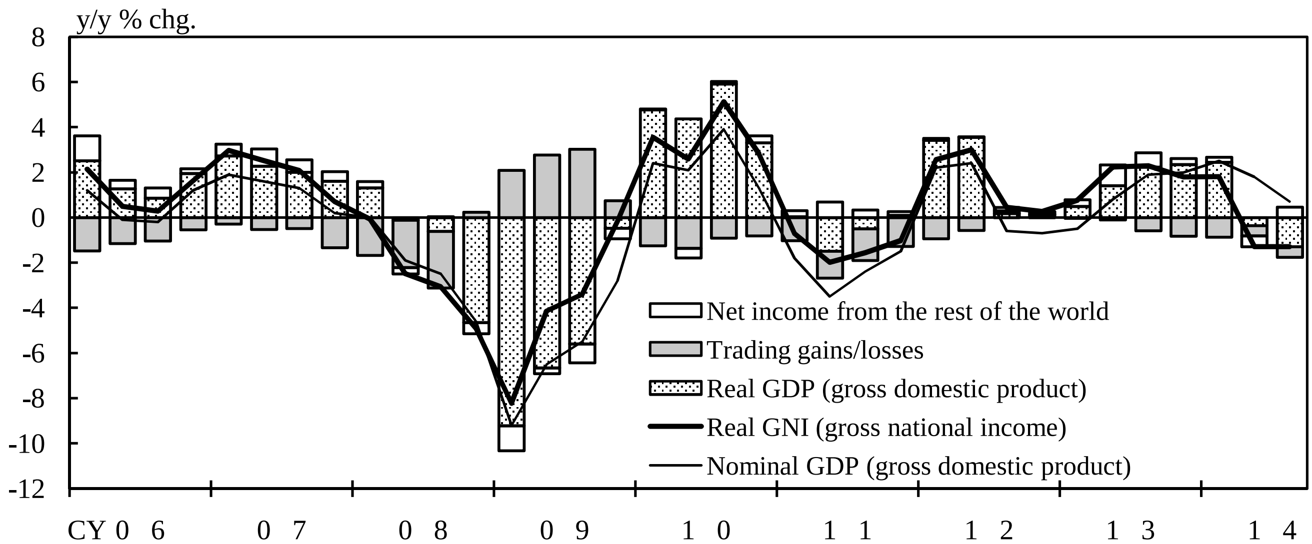
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation

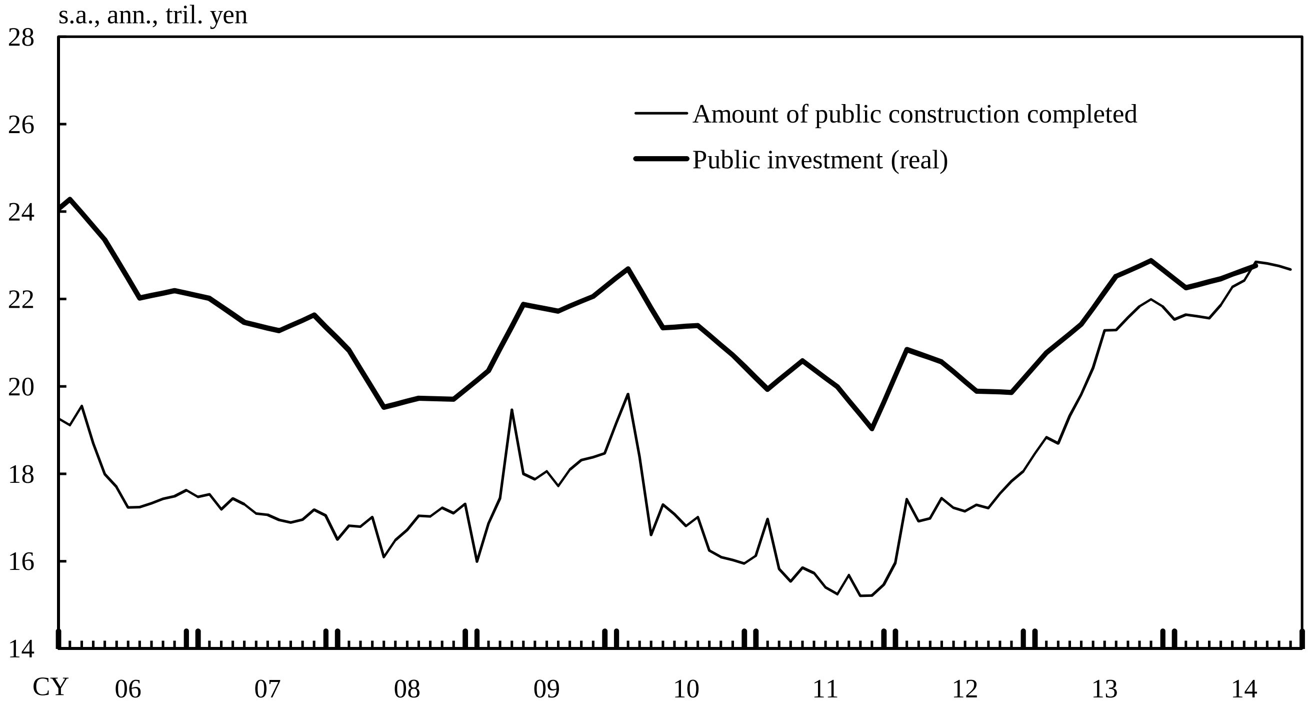


Notes: 1. Figures of components indicate contributions to changes in real GNI.
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

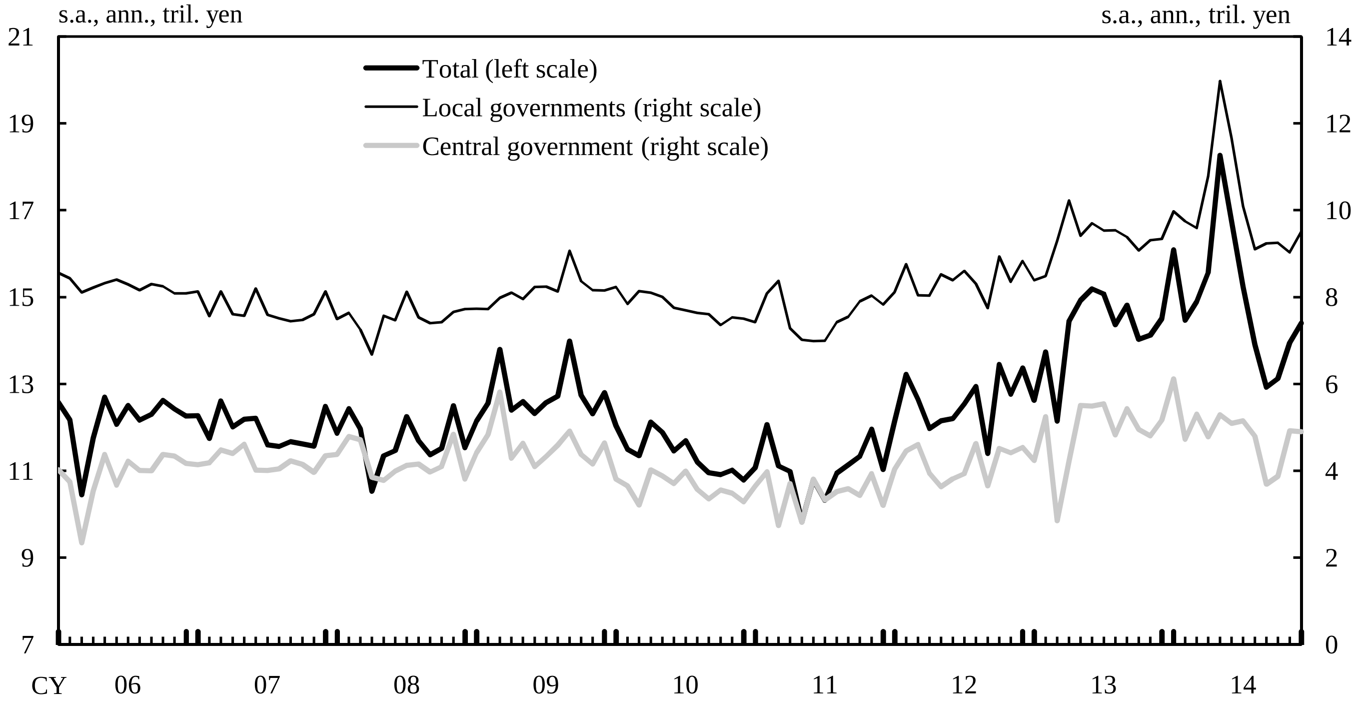
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

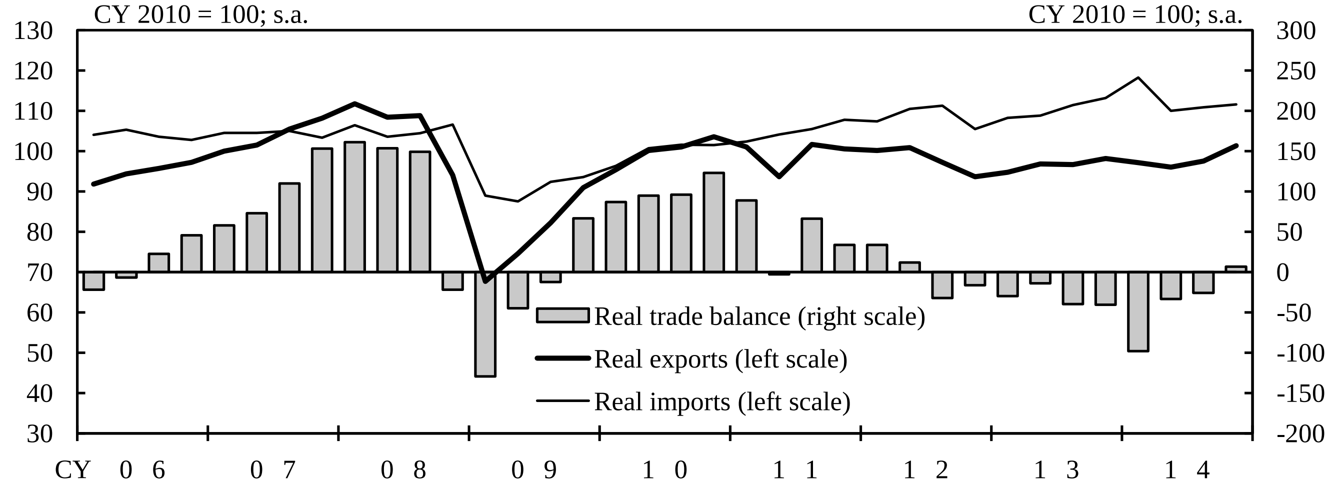


Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."
3. Figures of the value of public works contracted and the amount of public 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.

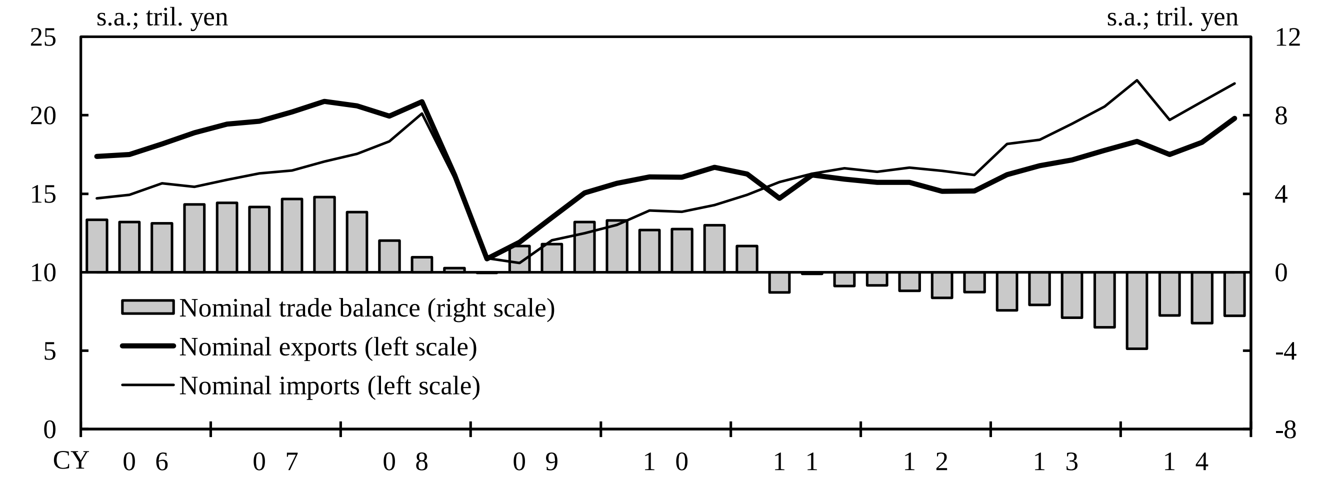
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance[1]

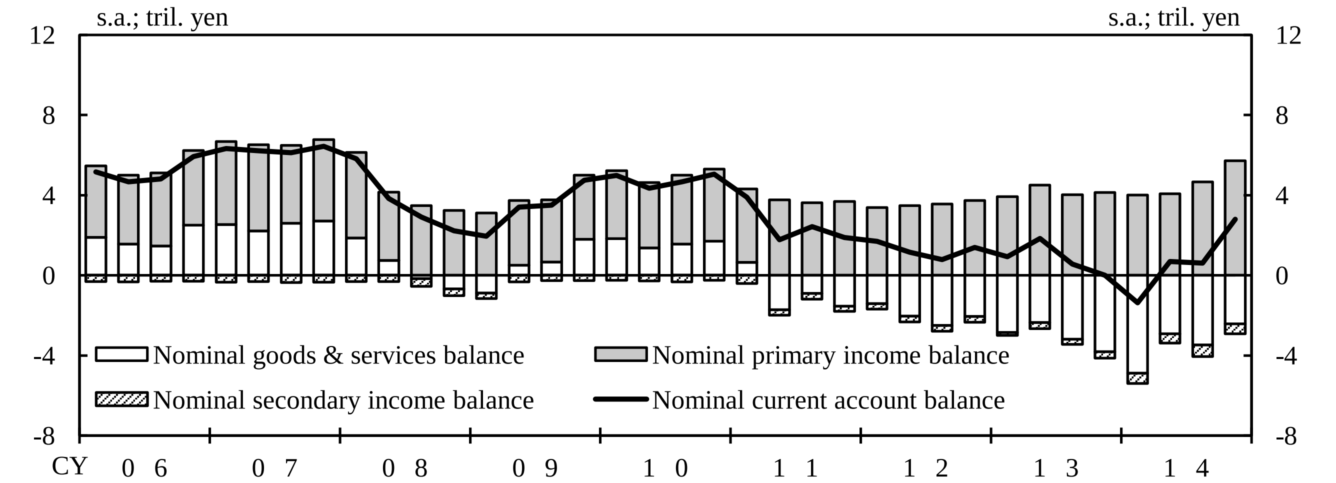
(1) Real Exports, Real Imports, and Real Trade Balance[2]



(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. 2014/Q4 figures are October-November averages converted into quarterly amount.
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 [1]

(1) Breakdown by Region

		y/y % chg. CY 2012	2013	s.a.; q/q % chg. 2013 Q4	2014 Q1	Q2	Q3	Q4	s.a.; m/m % chg. 2014 Sep.	Oct.	Nov.
United States	<18.5>	13.0	2.8	-0.4	0.9	-2.3	-0.0	5.9	0.3	4.7	0.1
EU	<10.0>	-13.0	-3.6	2.2	0.6	0.5	-0.1	-4.2	-5.7	3.8	-7.4
East Asia	<50.9>	-2.6	-3.0	2.5	-1.5	-1.5	1.9	4.2	1.2	2.7	-0.1
China	<18.1>	-8.1	-1.7	5.7	-3.9	-0.7	1.2	3.2	-0.2	1.1	1.0
NIEs	<21.9>	-4.7	-1.0	1.1	1.0	-3.1	3.8	6.9	3.3	5.8	-1.4
Korea	<7.9>	-3.5	0.4	-3.1	0.4	-6.3	3.7	7.4	3.6	-1.7	11.2
Taiwan	<5.8>	-6.0	-1.5	4.8	0.5	-0.7	1.6	3.0	-4.9	10.8	-6.4
Hong Kong	<5.2>	-0.7	-1.4	-2.3	2.2	4.6	4.0	3.3	10.0	-2.7	5.1
Singapore	<2.9>	-11.6	-2.8	10.6	4.0	-11.3	6.5	17.1	3.0	27.8	-20.1
ASEAN4 [3]	<10.9>	12.5	-8.5	-0.0	-2.1	0.3	-0.9	0.4	-0.5	-0.9	0.9
Thailand	<5.0>	19.3	-9.3	-4.2	-1.9	0.5	0.9	0.4	-0.8	-3.2	4.9
Others	<20.6>	1.7	-5.0	-2.0	0.2	1.4	2.4	1.2	6.5	4.3	-9.1
Real exports		-1.0	-1.9	1.5	-1.0	-1.2	1.6	4.0	1.8	3.8	-1.8

(2) Breakdown by Goods

		y/y % chg. CY 2012	2013	s.a.; q/q % chg. 2013 Q4	2014 Q1	Q2	Q3	Q4	s.a.; m/m % chg. 2014 Sep.	Oct.	Nov.
Intermediate goods	<21.1>	-0.7	1.2	-0.2	1.1	-1.9	-0.9	3.2	-0.6	3.1	-0.4
Motor vehicles and their related goods	<23.9>	7.7	-1.4	-0.2	-4.6	-0.8	3.0	-1.9	3.5	-0.0	-4.4
IT-related goods [4]	<10.6>	3.6	-7.5	1.9	-0.6	0.8	2.1	3.6	-1.1	1.5	3.2
Capital goods and parts [5]	<27.5>	-4.0	-5.8	2.4	-1.8	0.0	2.4	5.0	2.7	6.0	-6.2
Real exports		-1.0	-1.9	1.5	-1.0	-1.2	1.6	4.0	1.8	3.8	-1.8

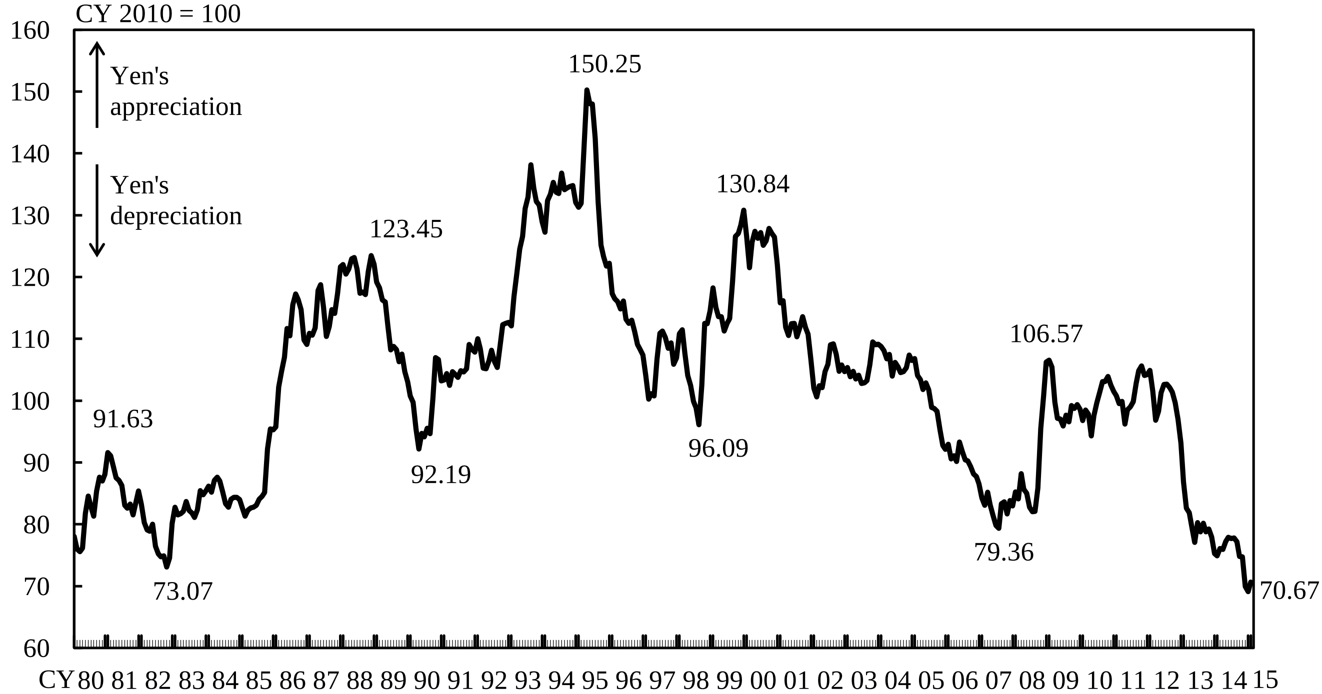
Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q4 figures are October-November averages converted into quarterly amount.
2. Shares of each region and goods in 2013 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.
4. IT-related goods are composed 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."

Chart 8

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. The figure for January (up to January 19) 2015 has 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.

	CY2012	2013	2014	2014 Q1	Q2	Q3	Q4
United States[1]	2.3	2.2	n.a.	-2.1	4.6	5.0	n.a.
European Union[2]	-0.4	0.0	n.a.	1.6	0.9	1.2	n.a.
Germany[1]	0.4	0.1	1.5	3.1	-0.3	0.3	n.a.
France[1]	0.4	0.4	n.a.	0.0	-0.4	1.0	n.a.
United Kingdom[1]	0.7	1.7	n.a.	2.5	3.3	3.0	n.a.
East Asia[3]	5.0	4.9	n.a.	2.9	4.6	5.4	n.a.
China[1]	7.7	7.7	7.4	6.6	7.8	7.8	6.1
NIEs[1,3]	2.1	2.9	n.a.	2.2	1.5	4.1	n.a.
ASEAN4[1,3,4]	6.3	4.4	n.a.	-1.7	5.6	4.0	n.a.
Main economies[3]	3.7	3.7	n.a.	1.6	4.1	4.8	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 a member country are seasonally adjusted by the Bank of Japan using X-11.

Chart 9

Real Imports [1]

(1) Breakdown by Region

y/y % chg. s.a.; q/q % chg. s.a.; m/m % chg.

		CY 2012	CY 2013	2013 Q4	2014 Q1	Q2	Q3	Q4	2014 Sep.	Oct.	Nov.
United States	<8.4>	3.8	-2.1	-0.2	5.7	-7.1	6.8	-1.6	-8.8	3.9	-1.2
EU	<9.4>	4.0	0.8	-0.2	5.4	-5.0	-1.2	-0.5	7.6	-1.3	-6.2
East Asia	<40.8>	3.9	2.5	3.1	5.3	-8.7	-0.8	5.2	6.9	-2.0	3.4
China	<21.7>	5.0	5.4	3.0	5.8	-9.2	-0.7	7.2	13.0	-2.7	-0.1
NIEs	<8.2>	5.0	-0.4	0.9	5.6	-8.2	1.5	-1.6	-0.3	-2.7	1.3
Korea	<4.3>	4.3	-4.8	1.3	2.0	-6.8	-1.2	-1.0	-1.6	-3.1	6.7
Taiwan	<2.8>	7.2	8.0	-0.1	8.4	-8.8	3.0	-0.6	2.3	-3.1	0.2
Hong Kong	<0.2>	-2.5	9.2	1.9	0.5	9.3	1.6	-22.9	2.5	-19.9	-24.8
Singapore	<0.9>	3.0	-7.0	0.3	13.8	-10.6	0.6	-3.0	-7.4	12.7	-13.5
ASEAN4 [3]	<10.8>	0.5	-1.2	5.4	3.9	-7.7	-3.0	6.4	-1.1	0.5	14.2
Thailand	<2.6>	-0.9	1.5	3.3	7.1	-8.4	-0.3	-1.7	-1.6	-7.5	10.1
Others	<41.4>	4.7	0.2	-0.5	4.6	-6.0	1.7	-4.1	0.1	-2.5	-0.9
Real imports		4.2	0.9	1.6	4.5	-6.9	0.8	0.7	4.2	-1.7	0.3

(2) Breakdown by Goods

y/y % chg. s.a.; q/q % chg. s.a.; m/m % chg.

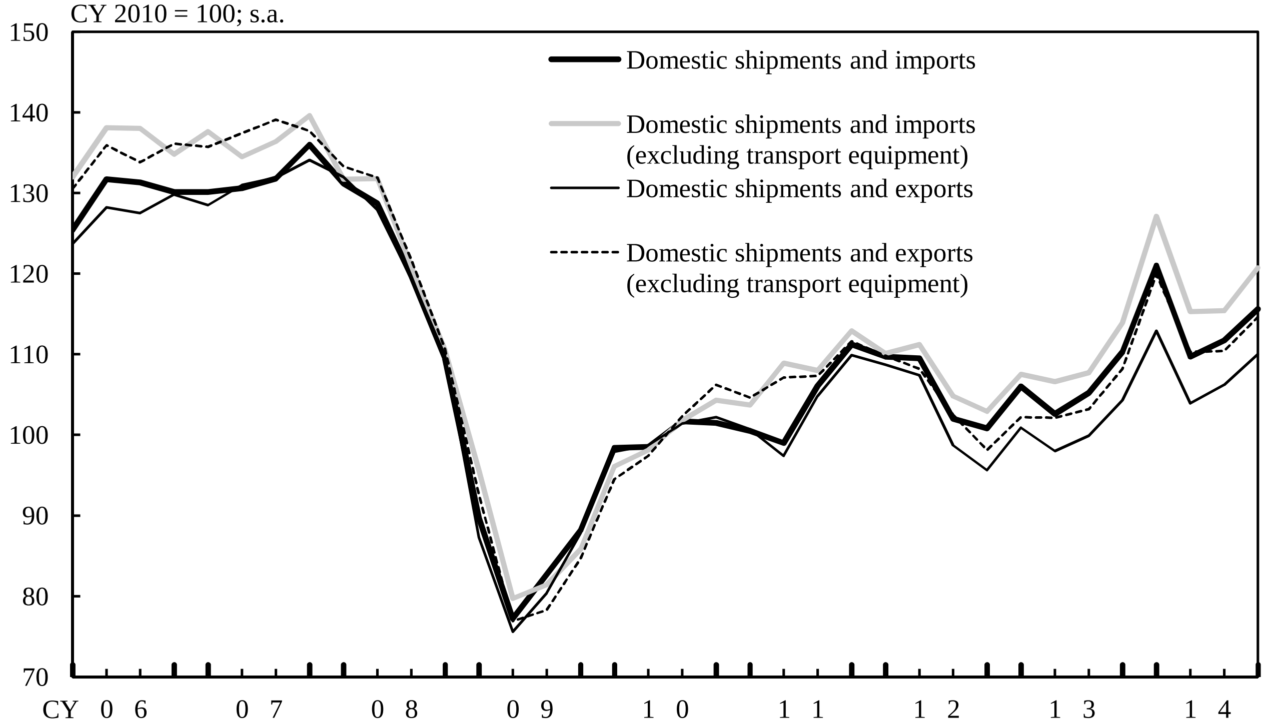
		CY 2012	CY 2013	2013 Q4	2014 Q1	Q2	Q3	Q4	2014 Sep.	Oct.	Nov.
Raw materials [4]	<40.4>	4.5	-2.1	-0.7	5.0	-7.0	1.4	-3.6	-1.7	-2.2	1.6
Intermediate goods	<12.9>	-2.7	-2.7	0.9	5.2	-2.6	-1.2	-1.5	-2.0	0.6	-1.6
Foodstuffs	<8.0>	-0.7	-3.3	0.7	-1.3	-2.2	3.6	-3.1	-0.6	-0.1	-5.2
Consumer goods [5]	<7.9>	4.5	4.1	1.1	2.2	-8.8	2.7	2.6	-1.5	3.3	-2.0
IT-related goods [6]	<12.6>	9.0	12.8	4.6	7.0	-12.6	-1.2	15.6	20.0	0.0	1.7
Capital goods and parts [7]	<11.4>	10.4	4.7	2.5	7.1	-8.2	3.8	-1.2	3.6	-3.8	3.0
Excluding aircraft	<10.5>	7.0	5.3	2.6	8.4	-6.6	1.3	-1.3	2.8	-2.8	0.4
Real imports		4.2	0.9	1.6	4.5	-6.9	0.8	0.7	4.2	-1.7	0.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q4 figures are October-November averages converted into quarterly amount.
2. Shares of each region and goods in 2013 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."

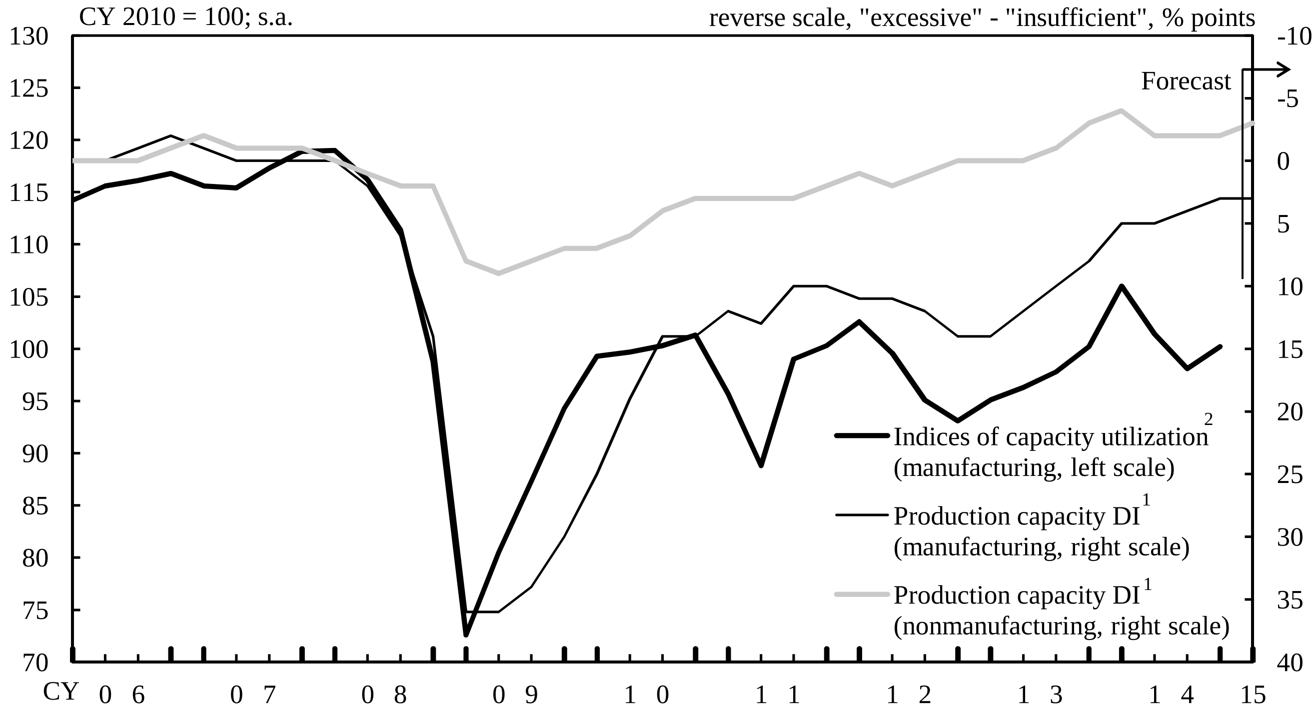
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2014/Q4 are October-November averages.

(2) Indices of Capacity Utilization and Production Capacity DI

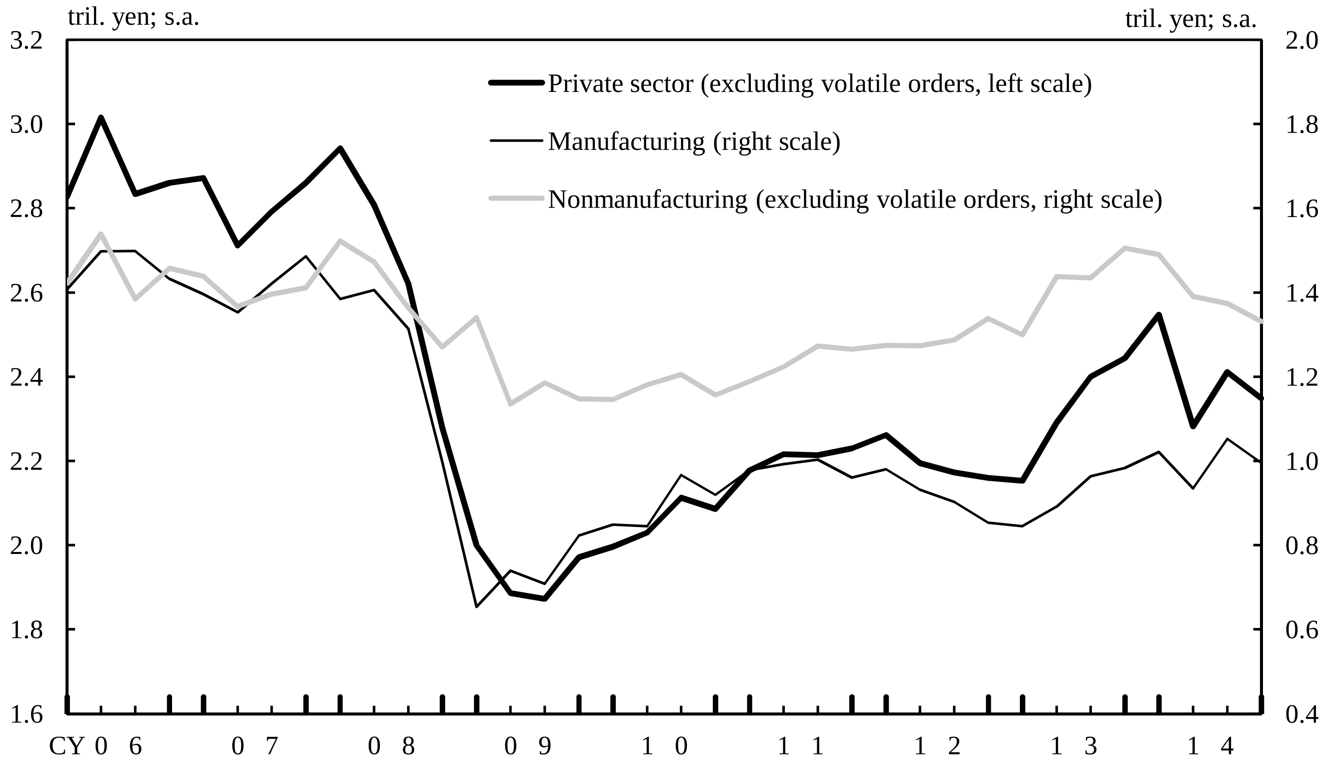


Notes: 1. Production capacity DIs are those of all enterprises.
2. The figure for 2014/Q4 is the average of October-November.

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."

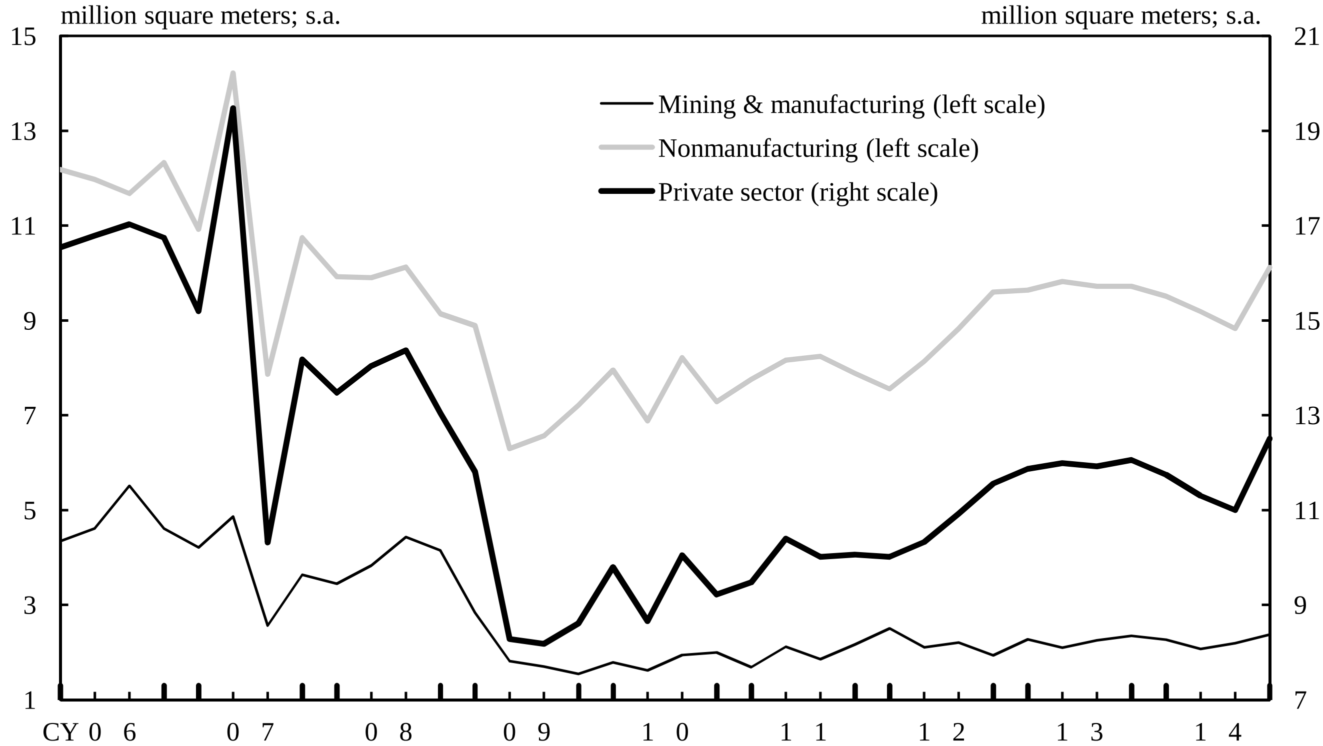
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Volatile orders: Orders for ships and those from electric power companies.
2. Figures for 2014/Q4 are October-November averages in the quarterly amount.

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

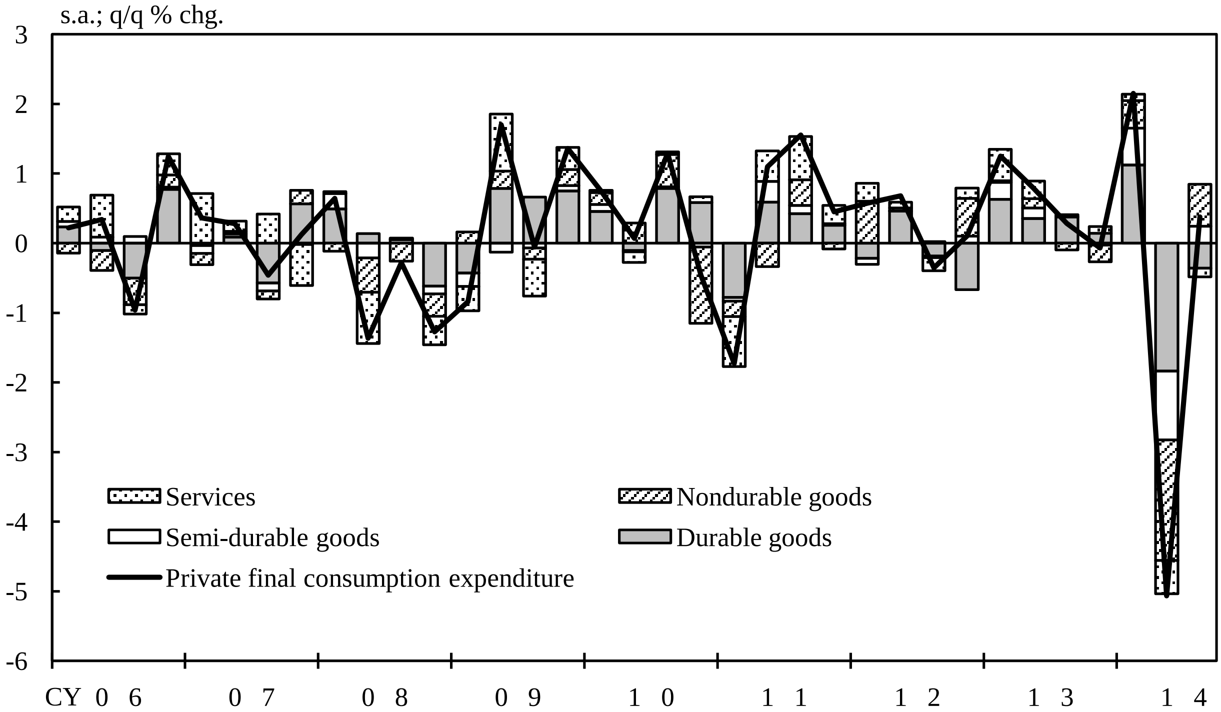


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2014/Q4 are October-November averages in the quarterly amount.

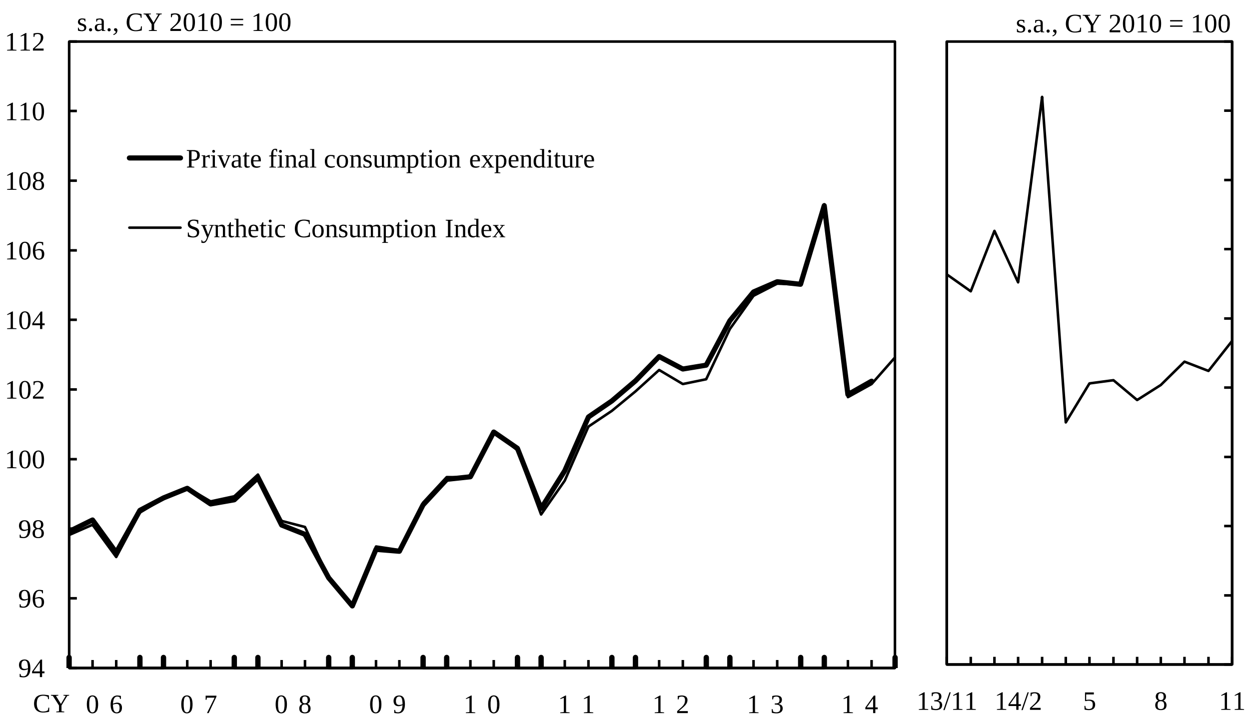
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



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

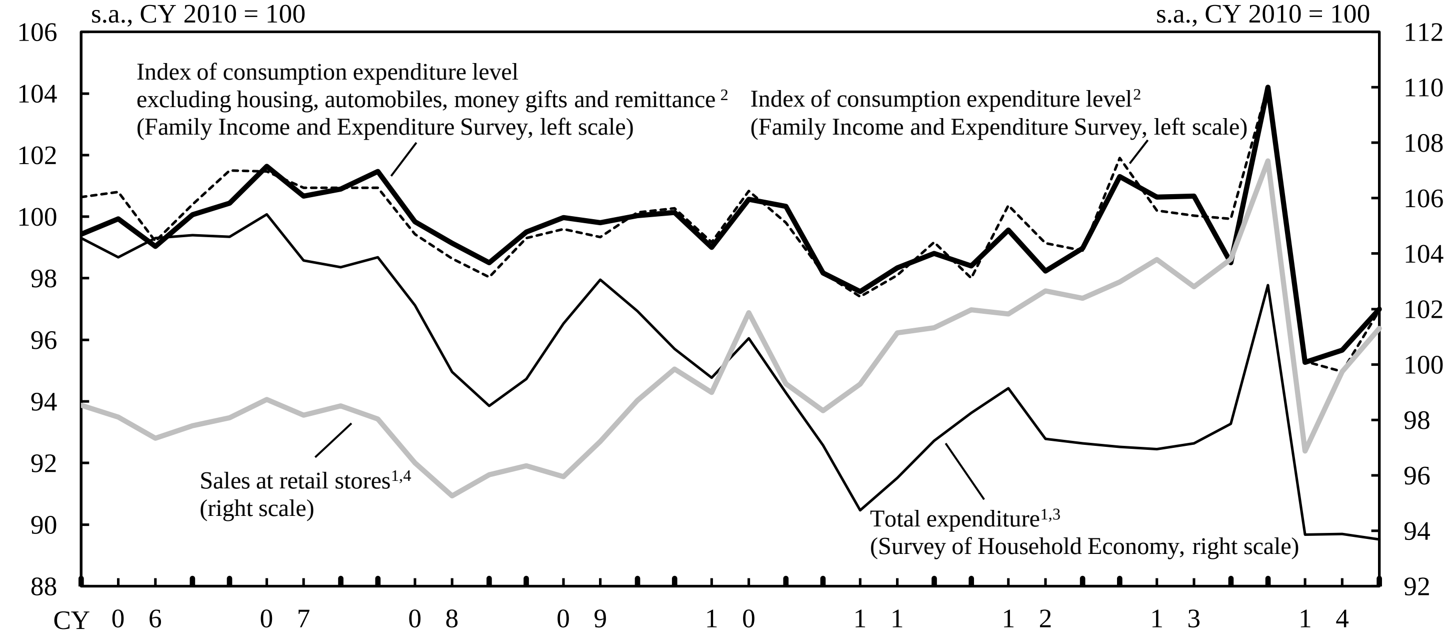


Note: The figure for 2014/Q4 is the average of October-November in quarterly amount.

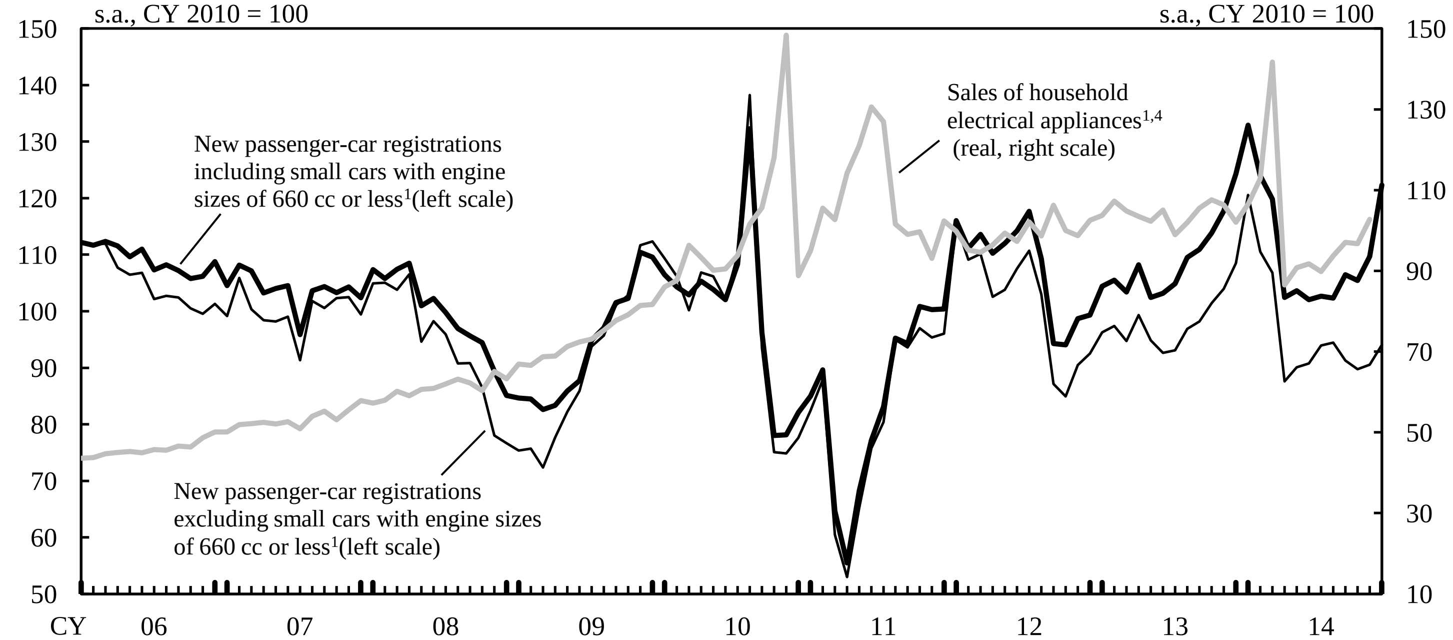
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)[5]



(2) Sales of Durable Goods

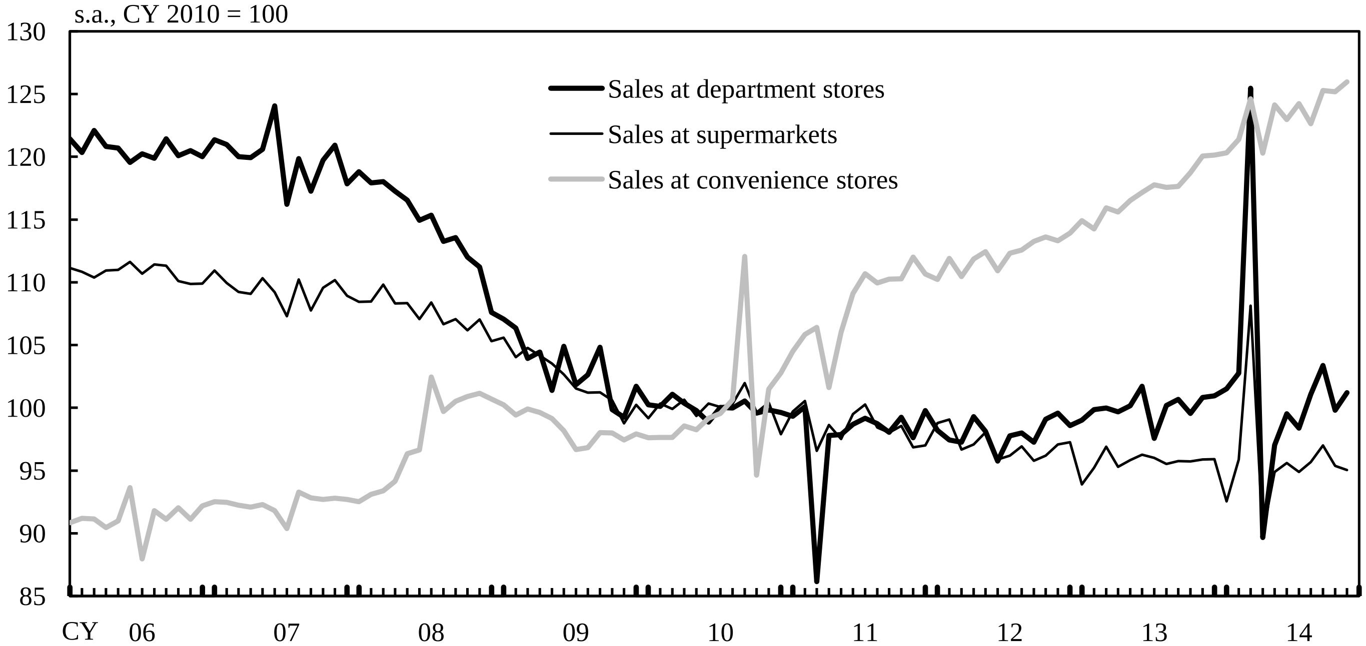


Notes: 1. Figures for total expenditure, sales at retail stores, sales of household electrical appliances, and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Figures for index of consumption expenditure level are based on two-or-more-person households, and are adjusted using the distribution of household by number of household members and age group of household head.
3. Figures for total expenditure are based on two-or-more-person households, and are deflated by the "Consumer Price Index (CPI)" excluding imputed rent.
4. Figures for sales at retail stores are deflated by the CPI for goods (excluding electricity, gas & water charges). Figures for sales of household electrical appliances are 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 for 2014/Q4 are those of October-November averages in quarterly amount.

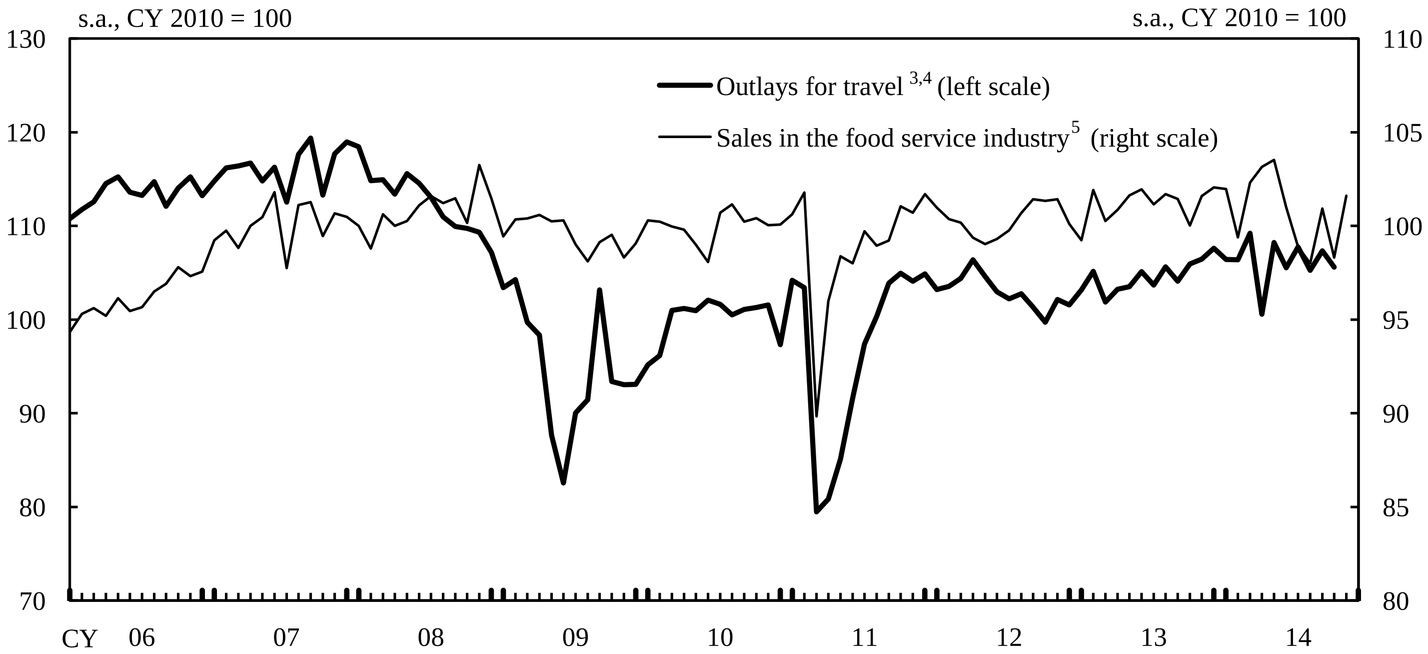
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index,"
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of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

Indicators of Private Consumption[1] (3)

(1) Sales at Retail Stores (Nominal)[2]



(2) Consumption of Services (Nominal)



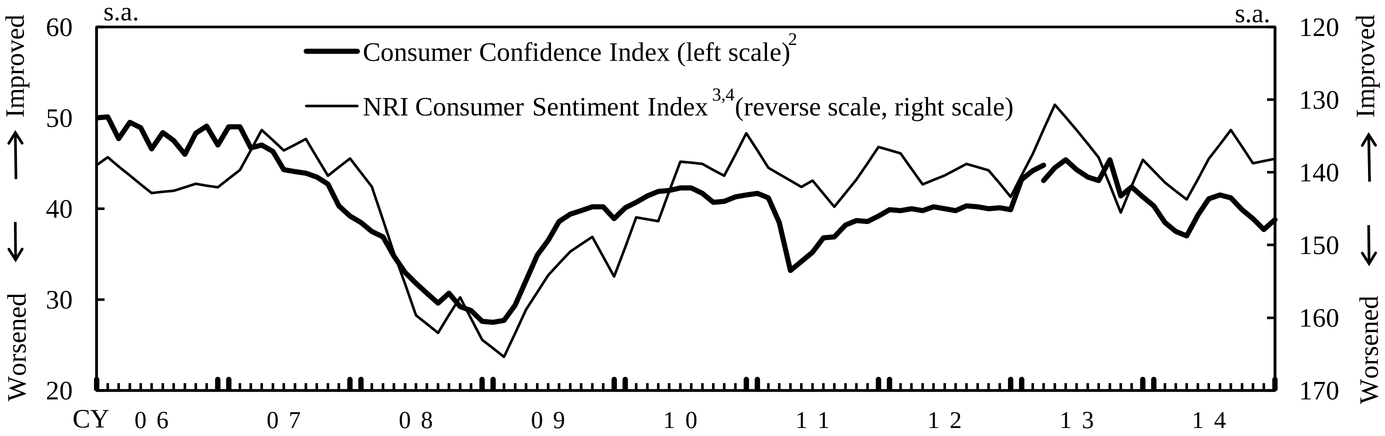
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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, April 2010, and April 2014 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.
5. Figures for sales in the food service industry are 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.

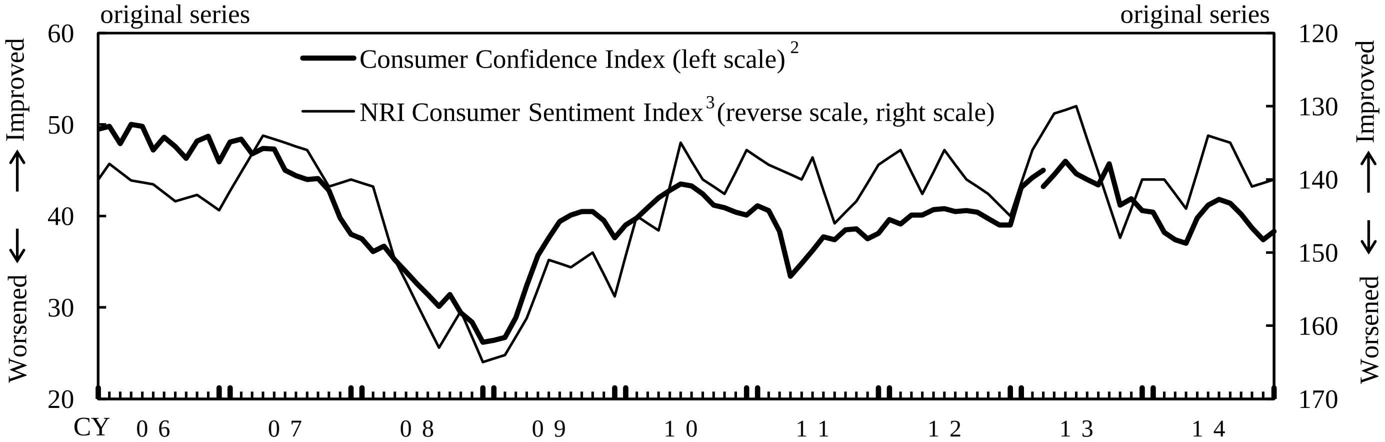
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Tourism Agency, "Major Travel Agents' Revenue";
Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey on food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou Shijou Doukou Chousa* (Research on the food service industry)."

Consumer Confidence[1]

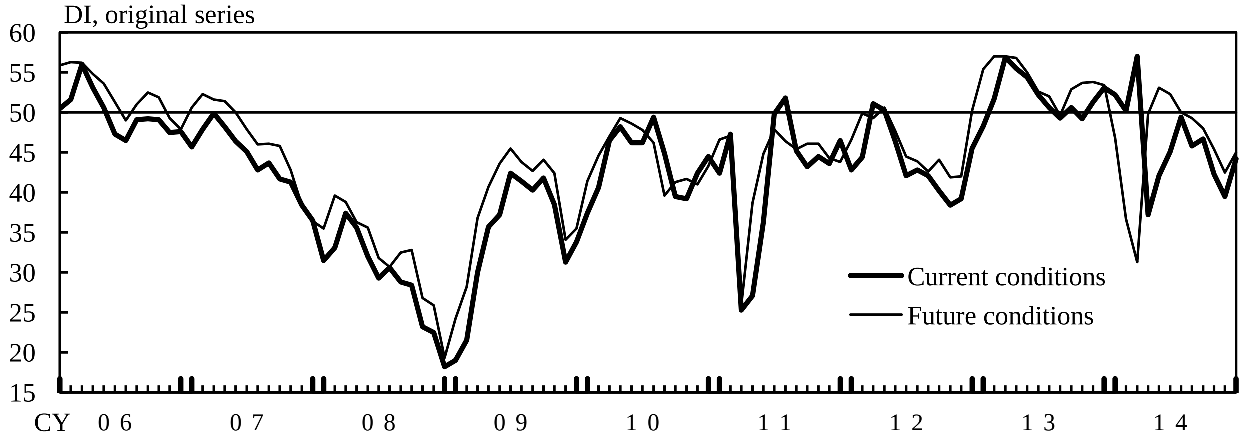
(1) Seasonally Adjusted Series



(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.

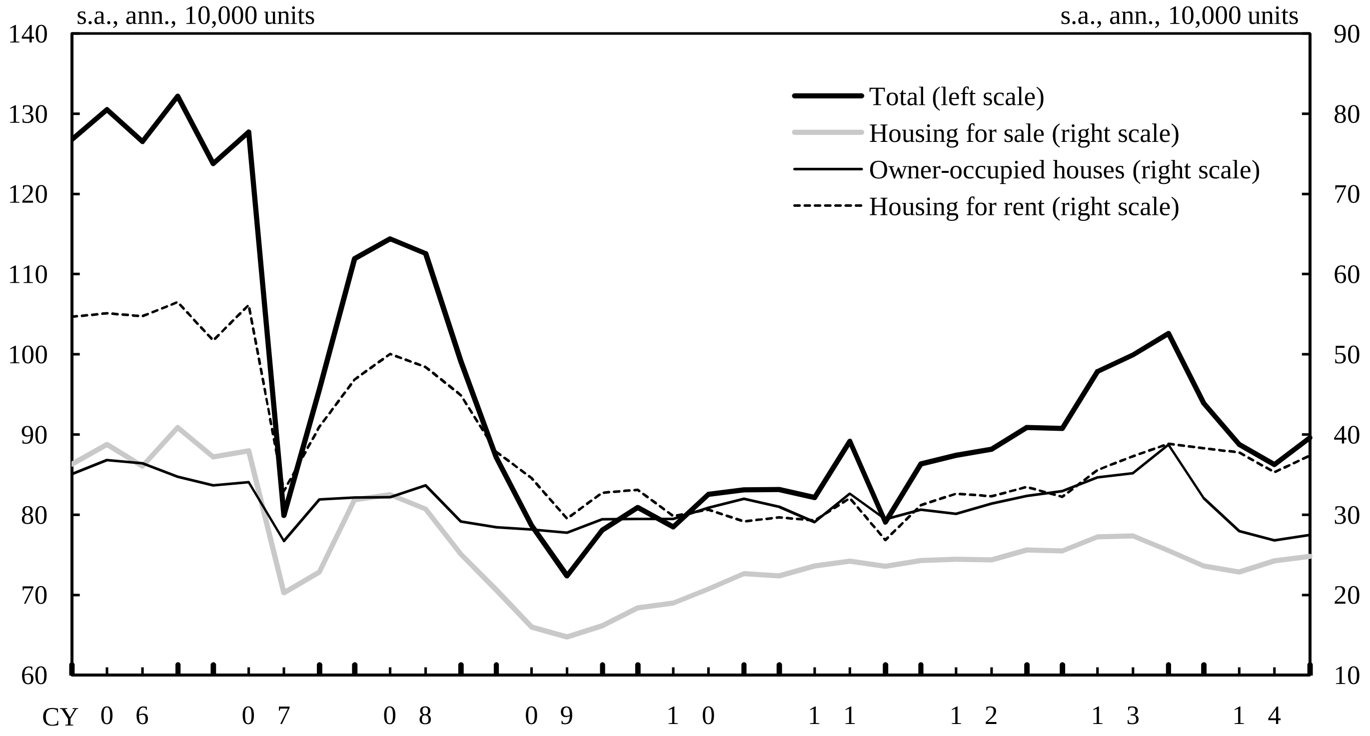
3. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.

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."

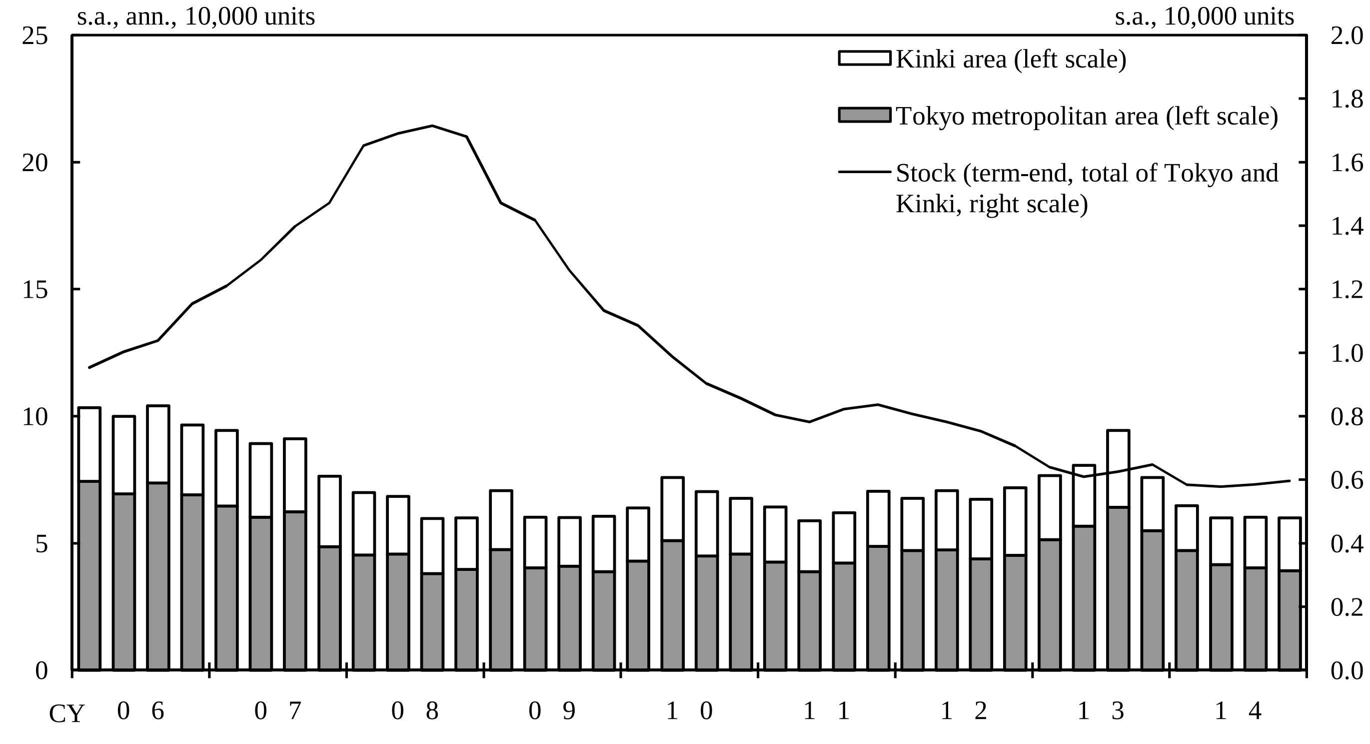
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2014/Q4 are October-November averages.

(2) Sales of Apartments

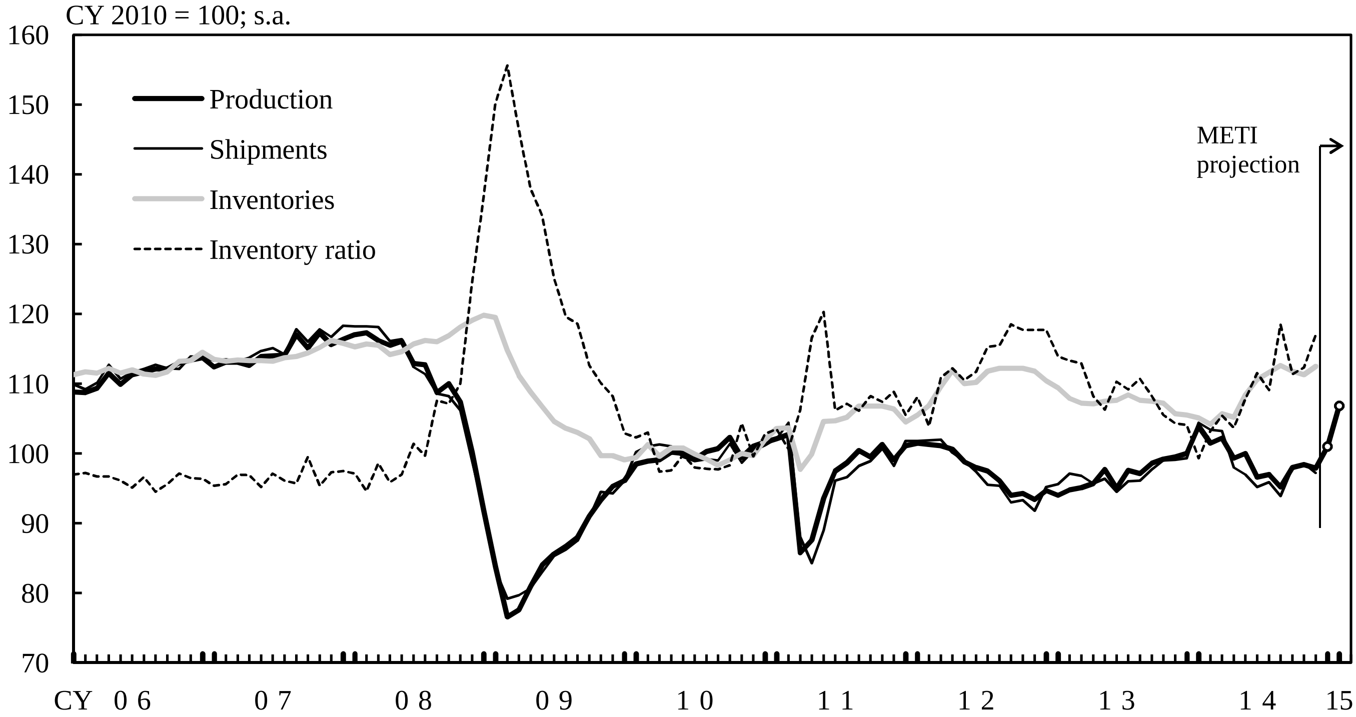


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. The figure of total apartment sales for 2014/Q4 is the October-November average.
The term-end stock for 2014/Q4 is that of November.

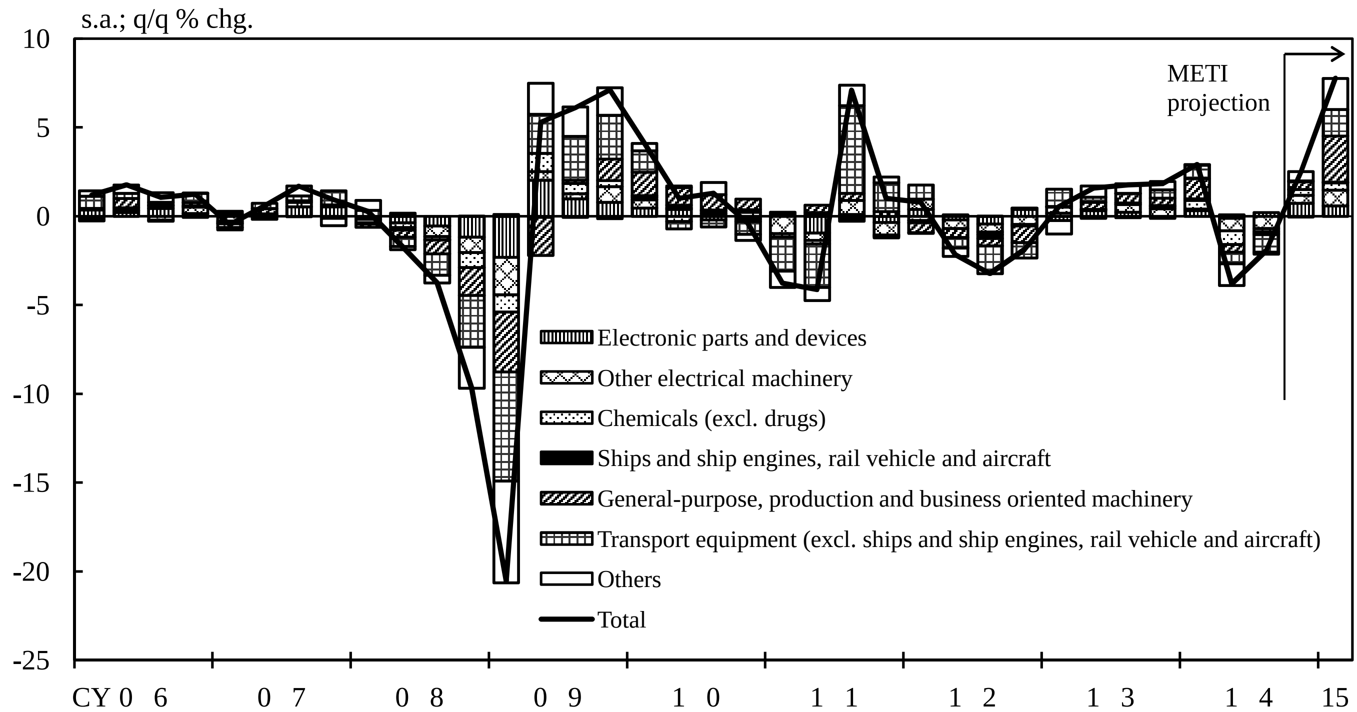
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industry[1,2,3]

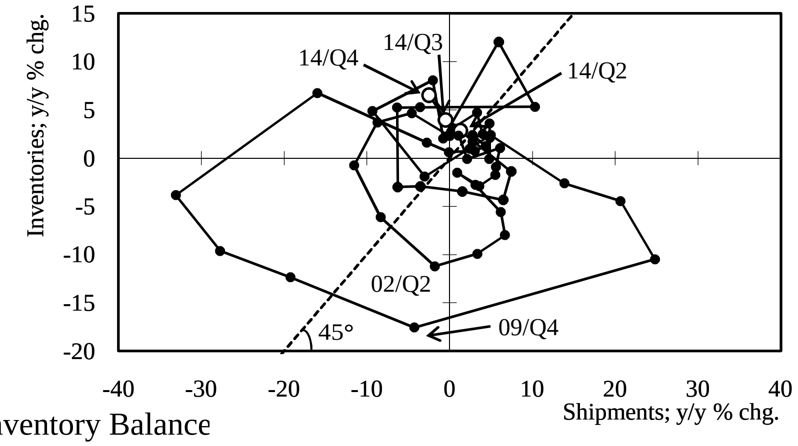


Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
2. Figures up to 2008/Q1 are on the 2005 base.
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."
3. 2014/Q4 figures are based on the actual production levels in October and November, and the METI projection of December. 2015/Q1 figures are based on the assumption that the production levels in February and March are the same as those of January.

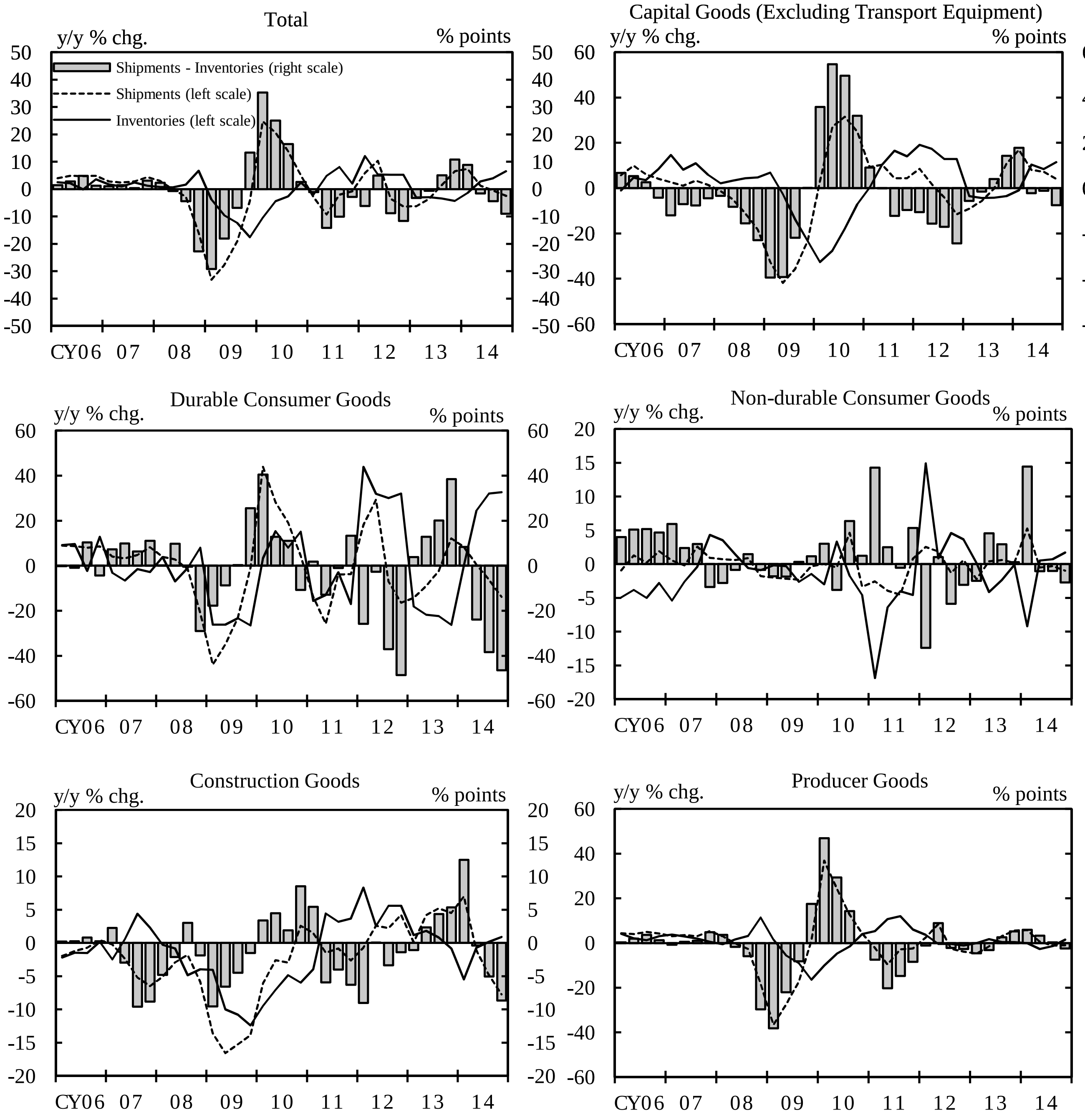
Source: Ministry of Economy, Trade and Industry (METI), "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



(2) Shipment-Inventory Balance

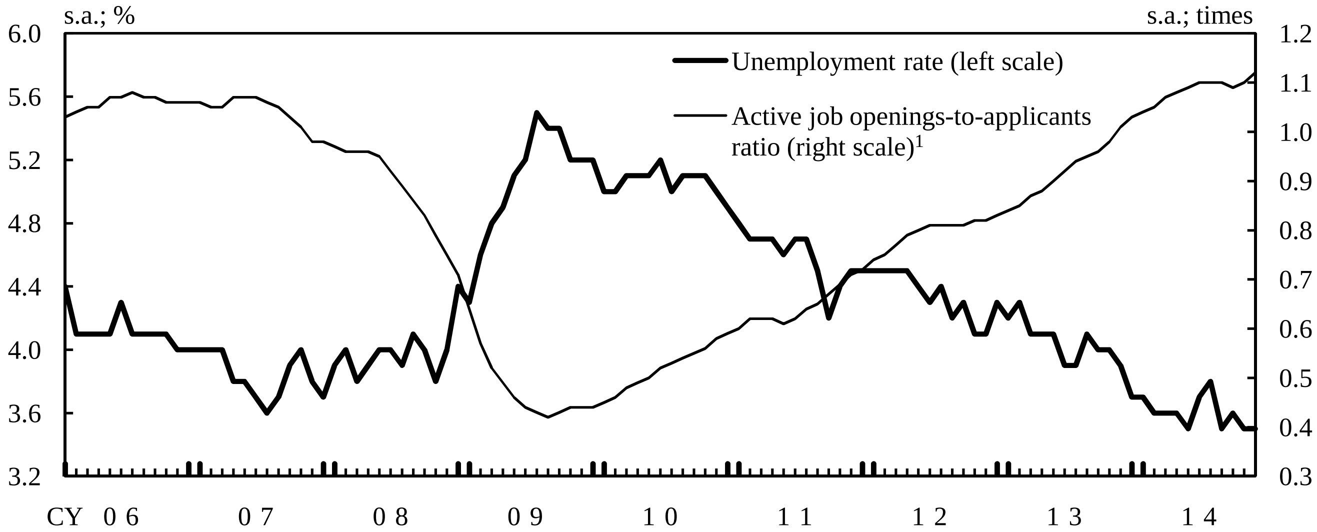


Note: Figures of shipments for 2014/Q4 are October-November averages.
Inventories for 2014/Q4 are those of November.

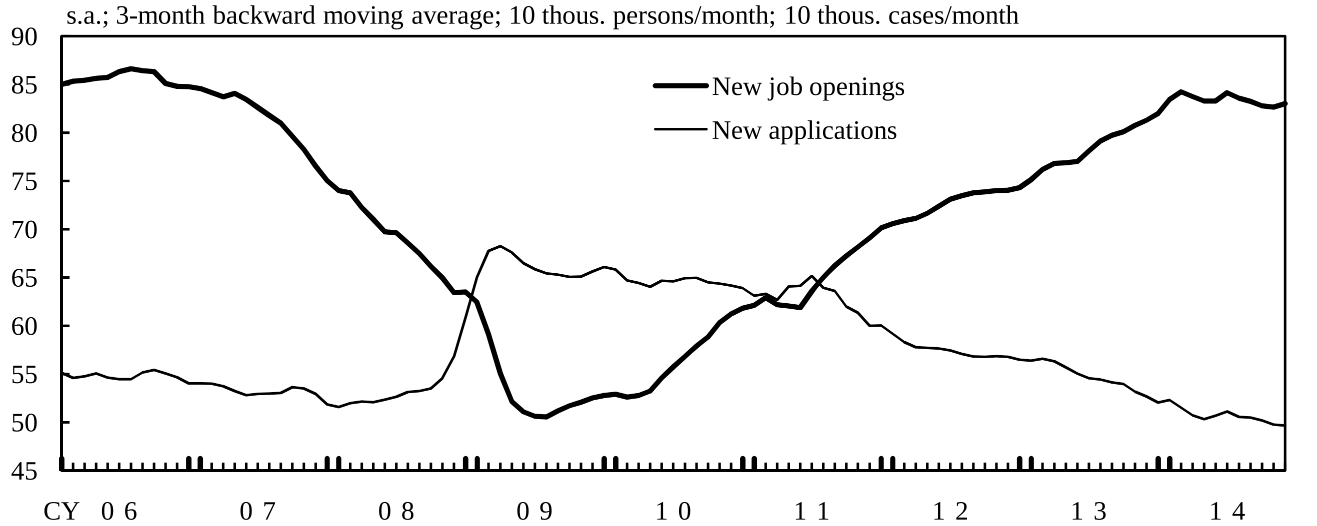
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

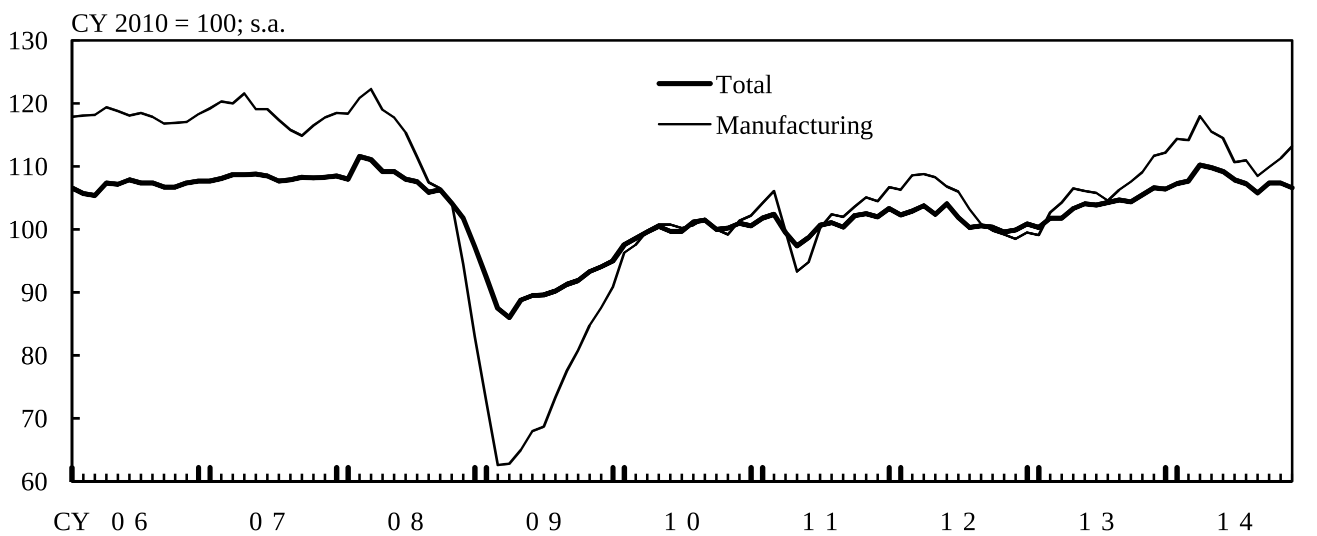
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications[1]



(3) Non-Scheduled Hours Worked[2]



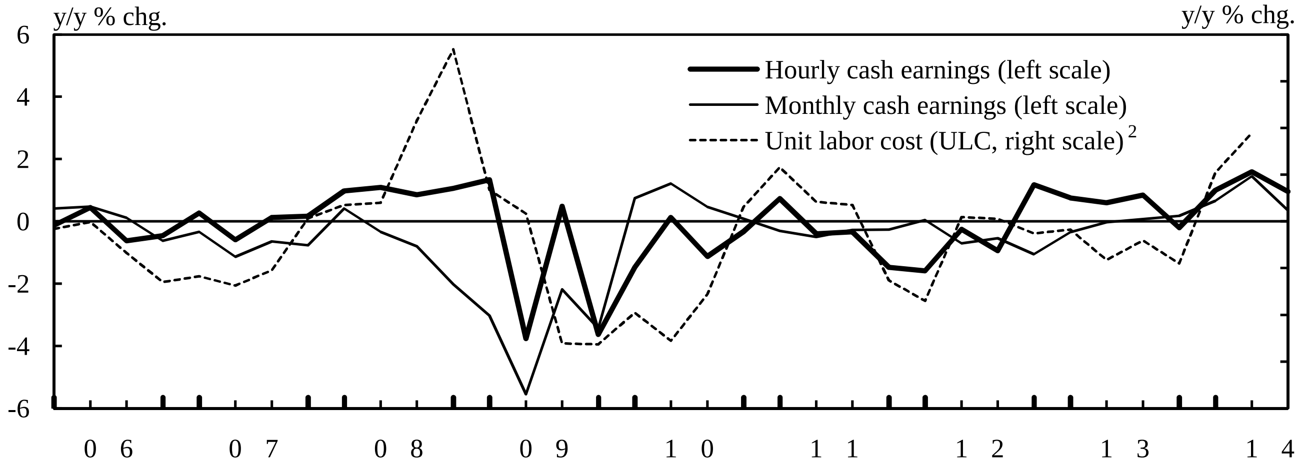
Notes: 1. Excluding new school graduates and including part-timers.
2. Data are for establishments with at least five employees.

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

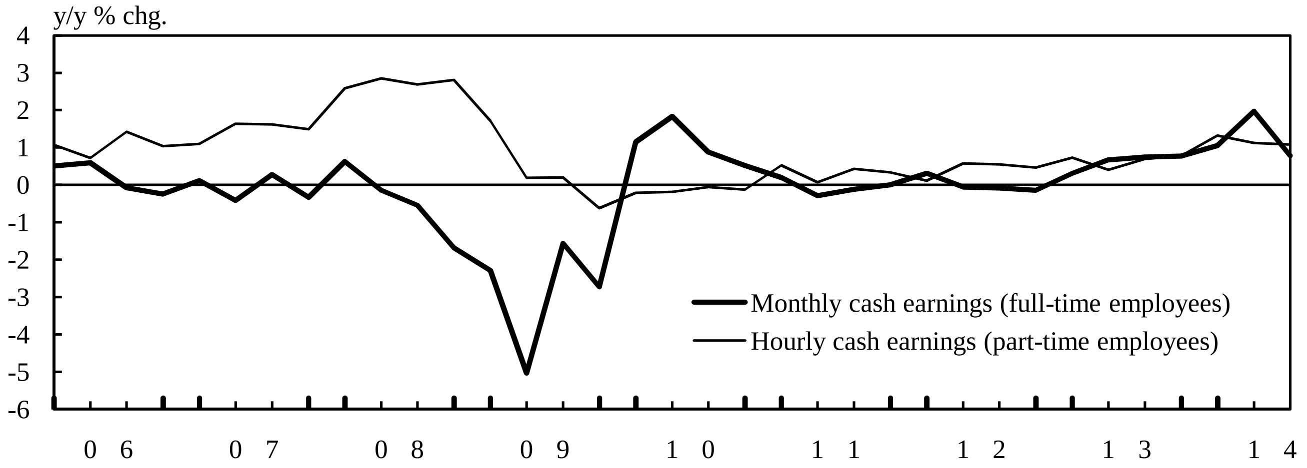
Chart 20

Wages

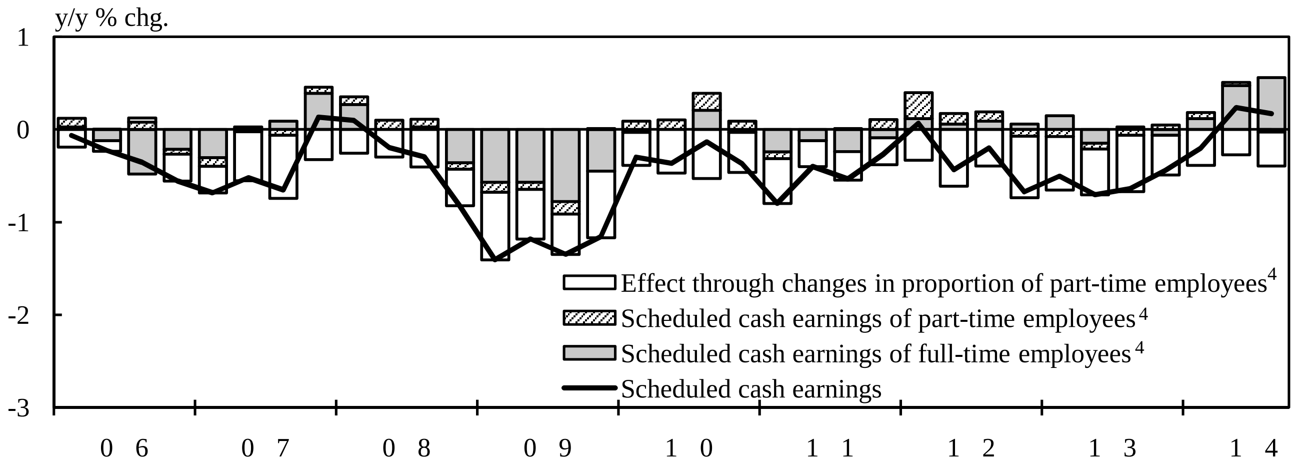
(1) Total[1,3]



(2) Cash Earnings by Type of Worker[1,3]



(3) Breakdown of Scheduled Cash Earnings[1,3]

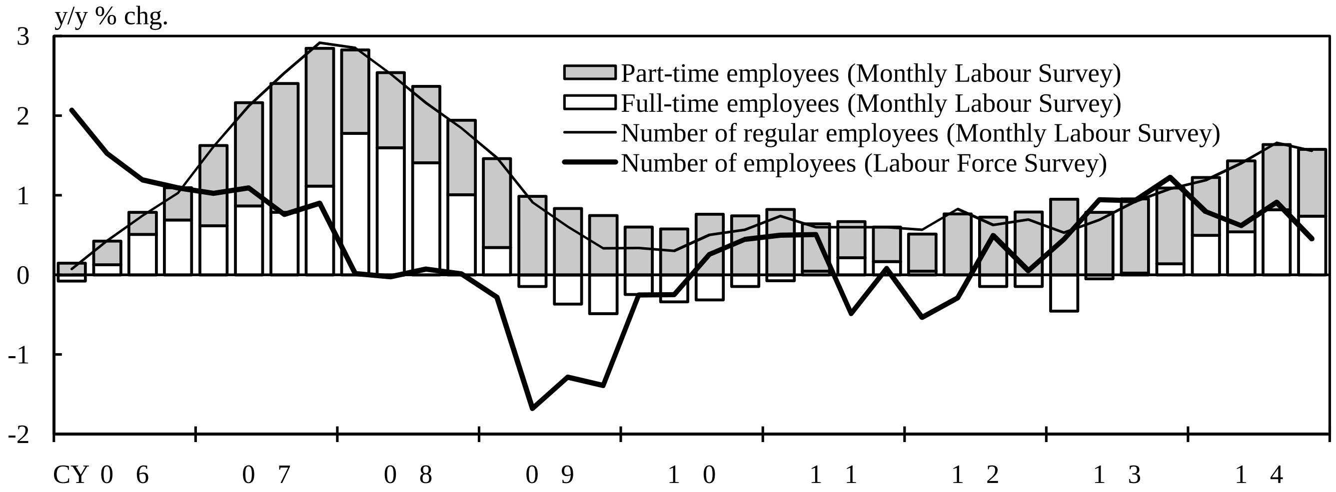


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. ULC = nominal compensation of employees (SNA) / real GDP
3. Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
ULC : Q1 = April-June, Q2 = July-September, Q3 = October-December, Q4 = January-March.
4. Contributions from scheduled cash earnings of full-time employees and those of part-time employees are calculated as: "scheduled cash earnings of each type of employee (y/y chg.)" times "proportion of the corresponding type's scheduled cash earnings to the previous year's total." Contributions from the effect through changes in proportion of part-time employees are the residuals.

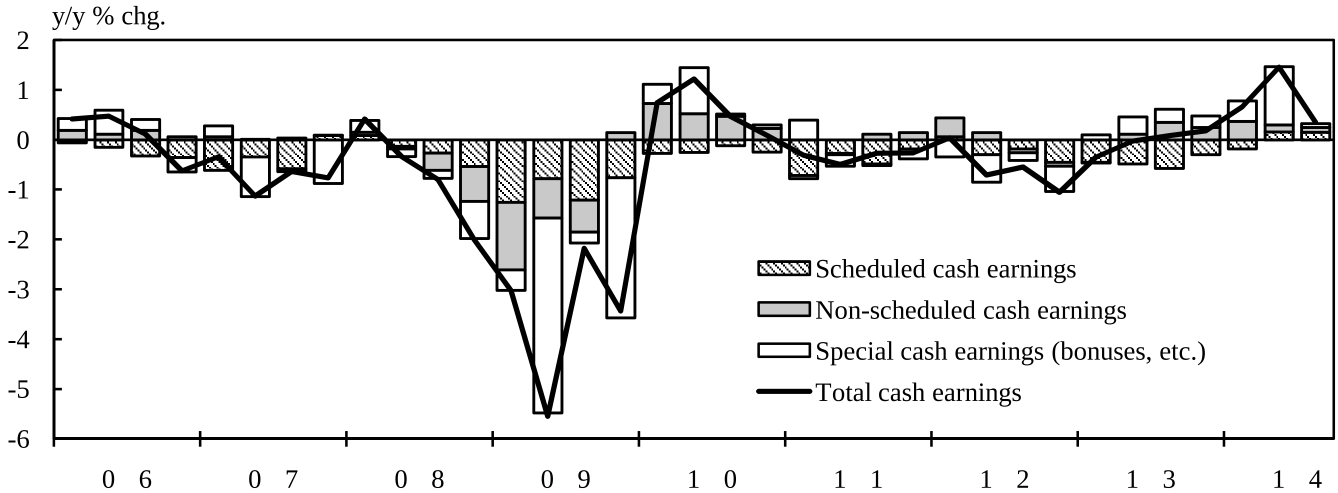
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

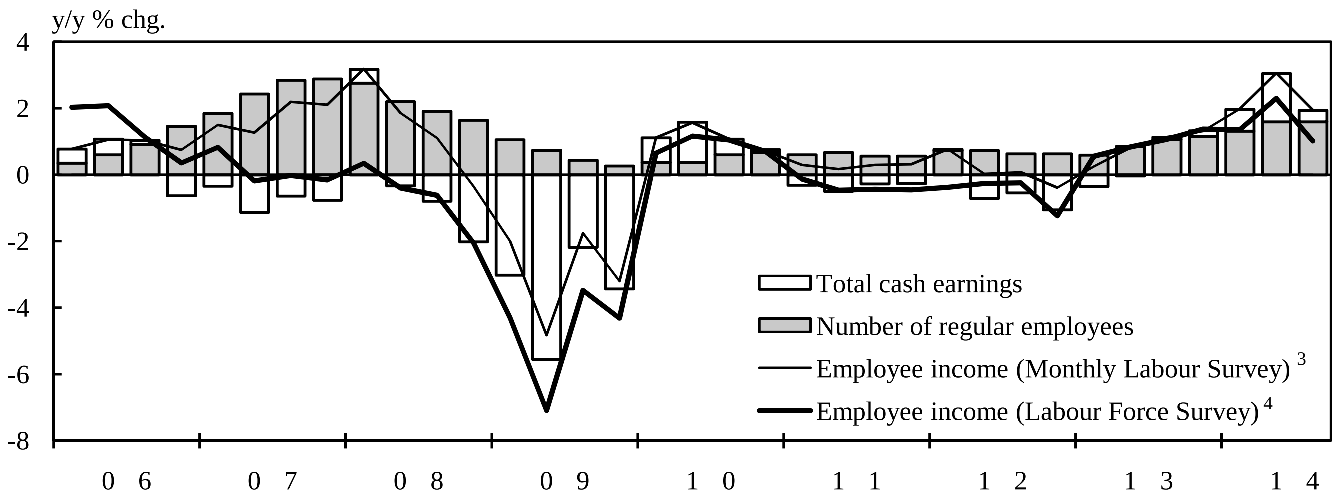
(1) Number of Employees[1,5]



(2) Breakdown of Total Cash Earnings[1,2]



(3) Breakdown of Employee Income[1,2]

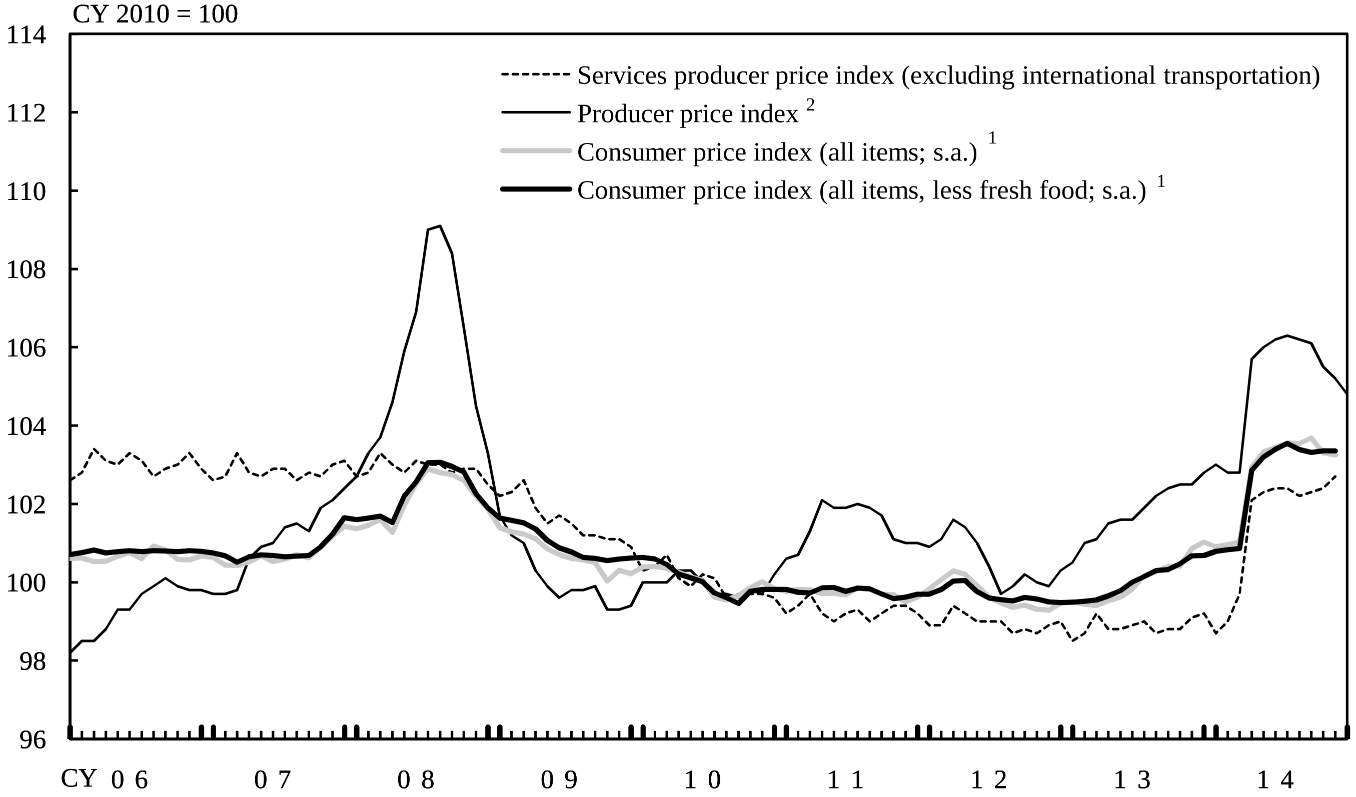


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).
5. Figures for 2014/Q4 are October-November averages.

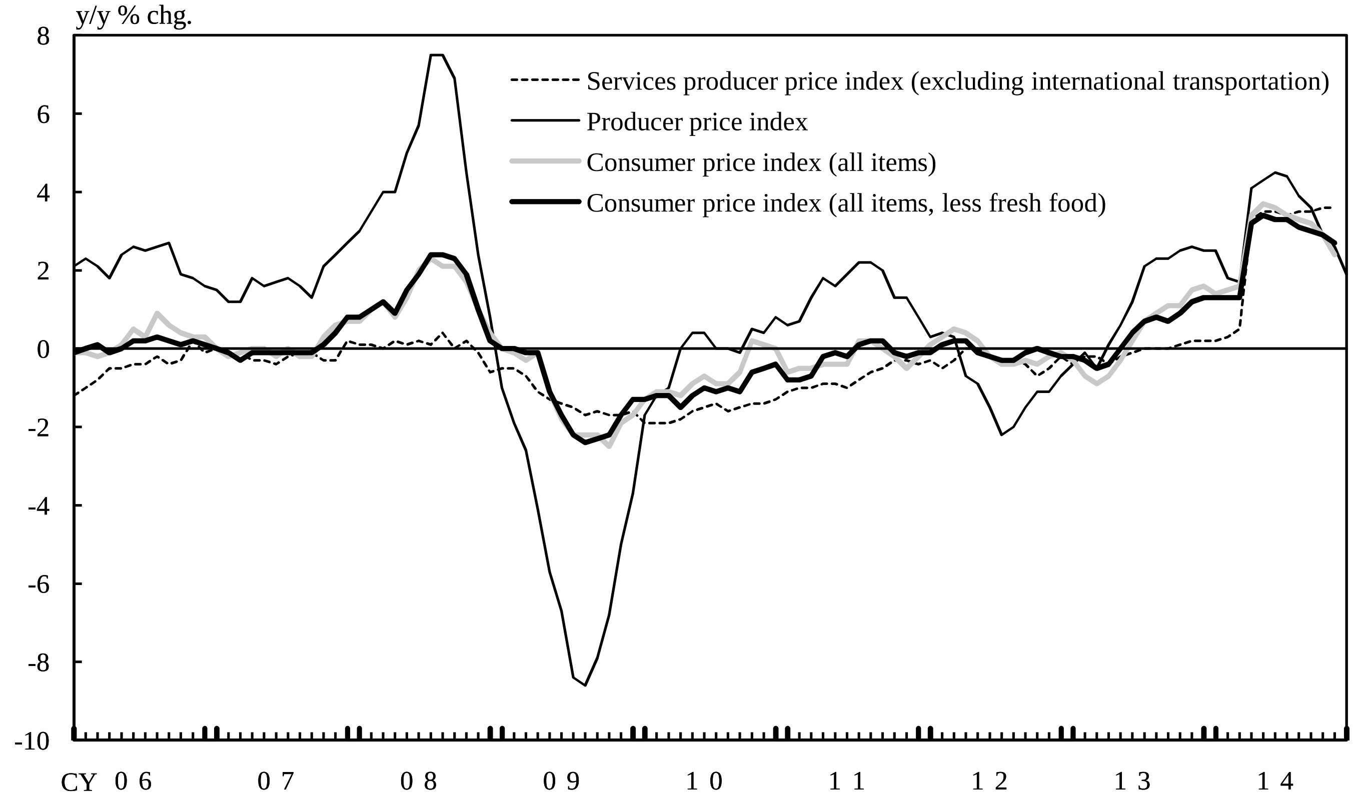
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier

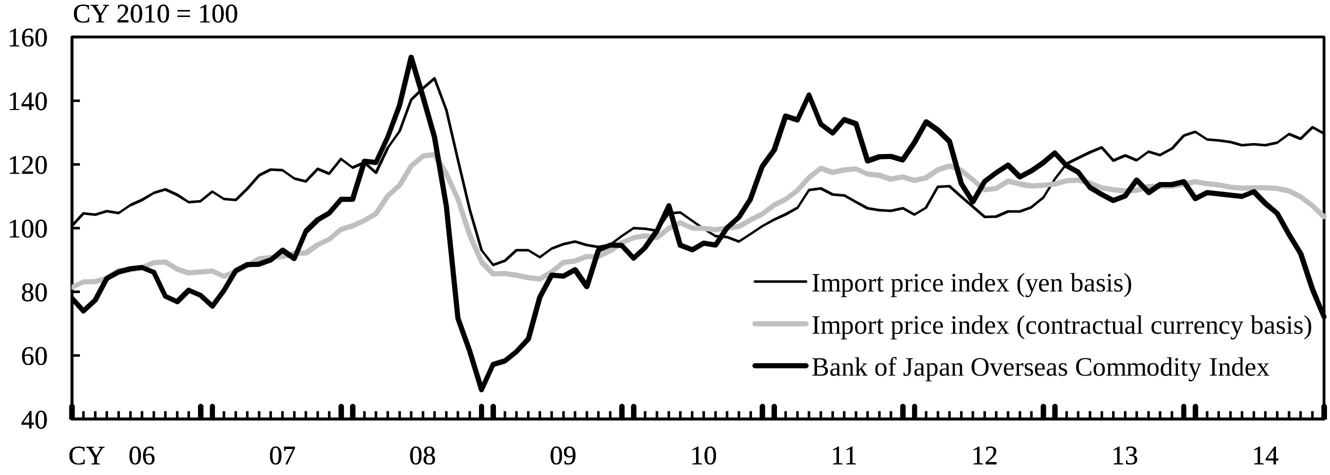


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.
4. Figures of "Services Producer Price Index" and "Producer Price Index" up to 2009 are based on the linked indices.
5. Figures include the consumption tax.

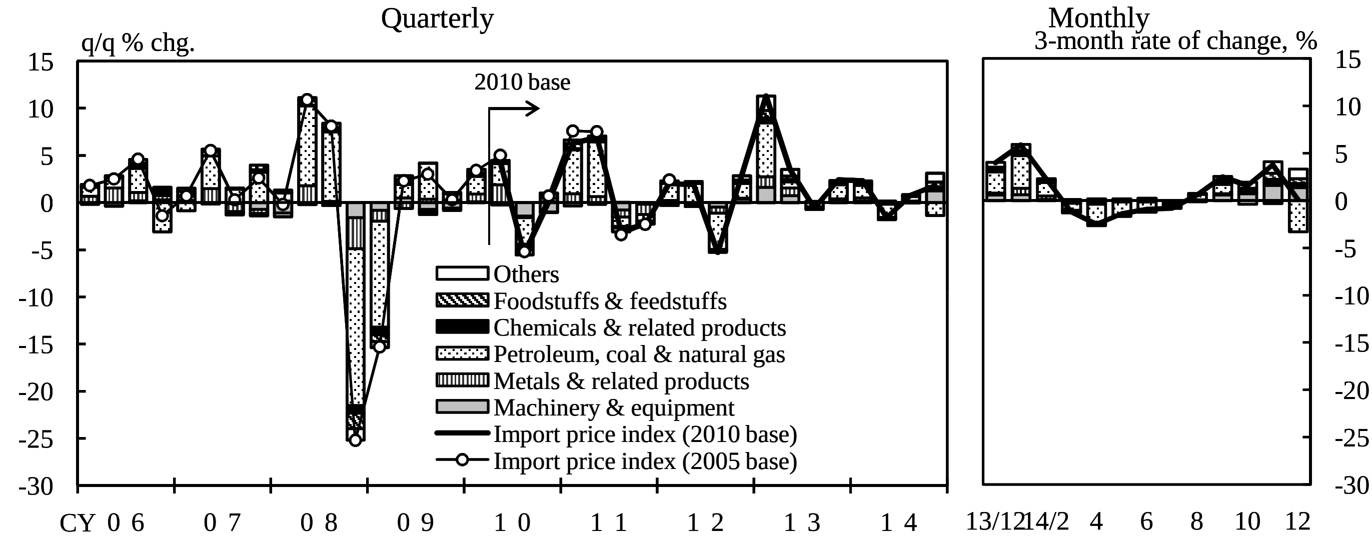
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

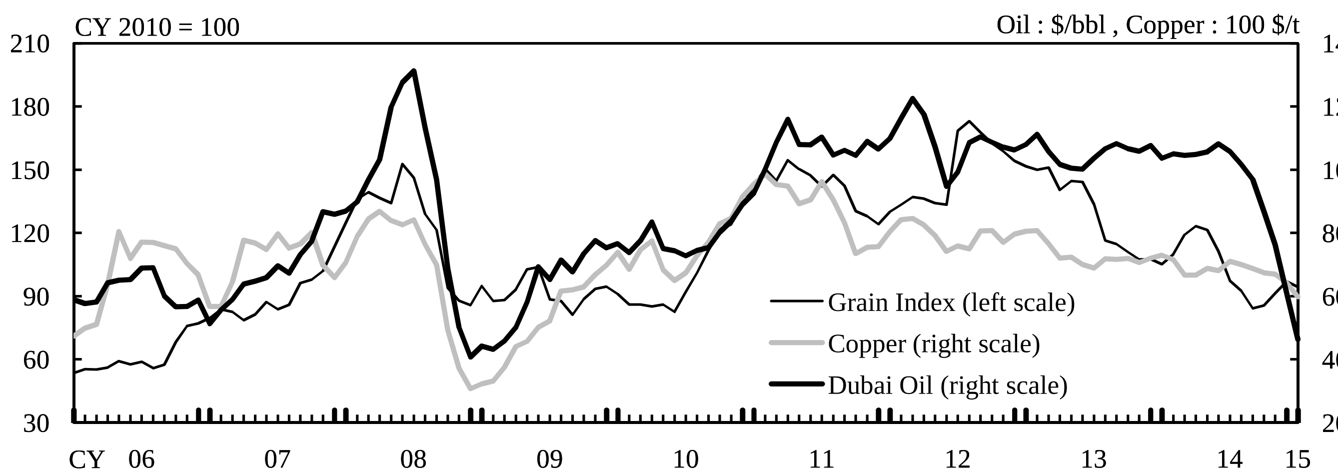


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

(3) International Commodity Prices

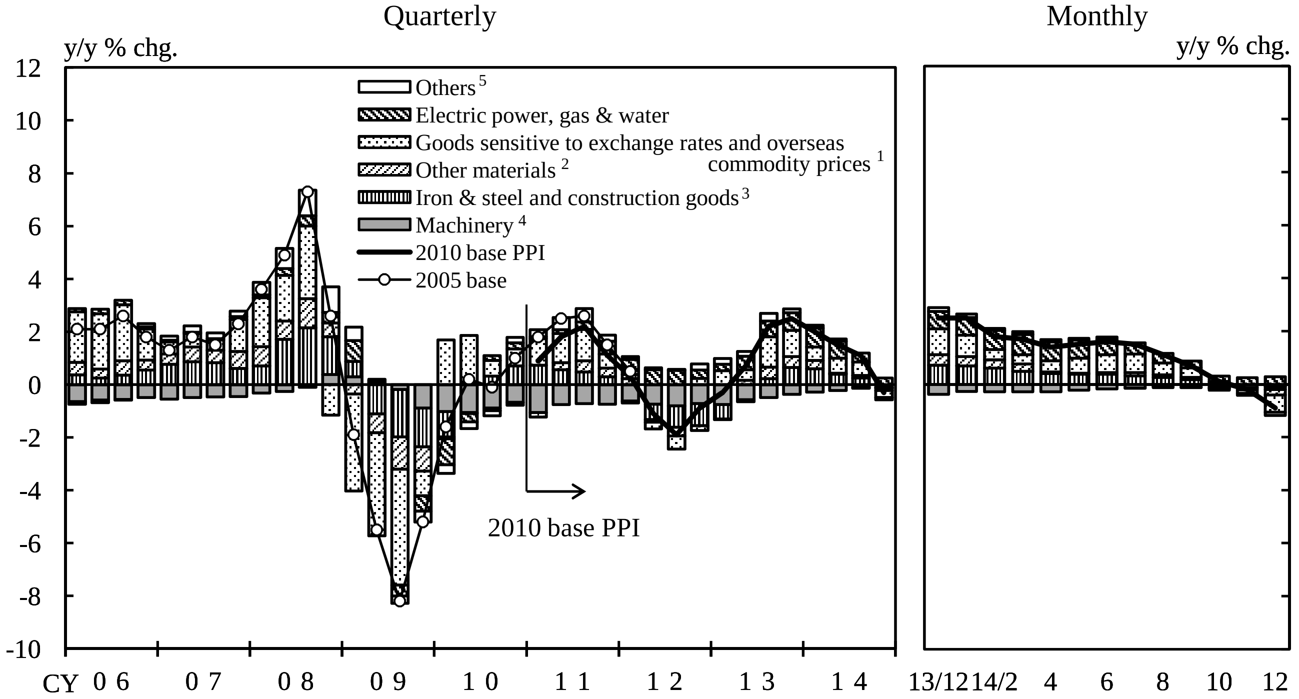


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for January 2015 are averages up to January 20.

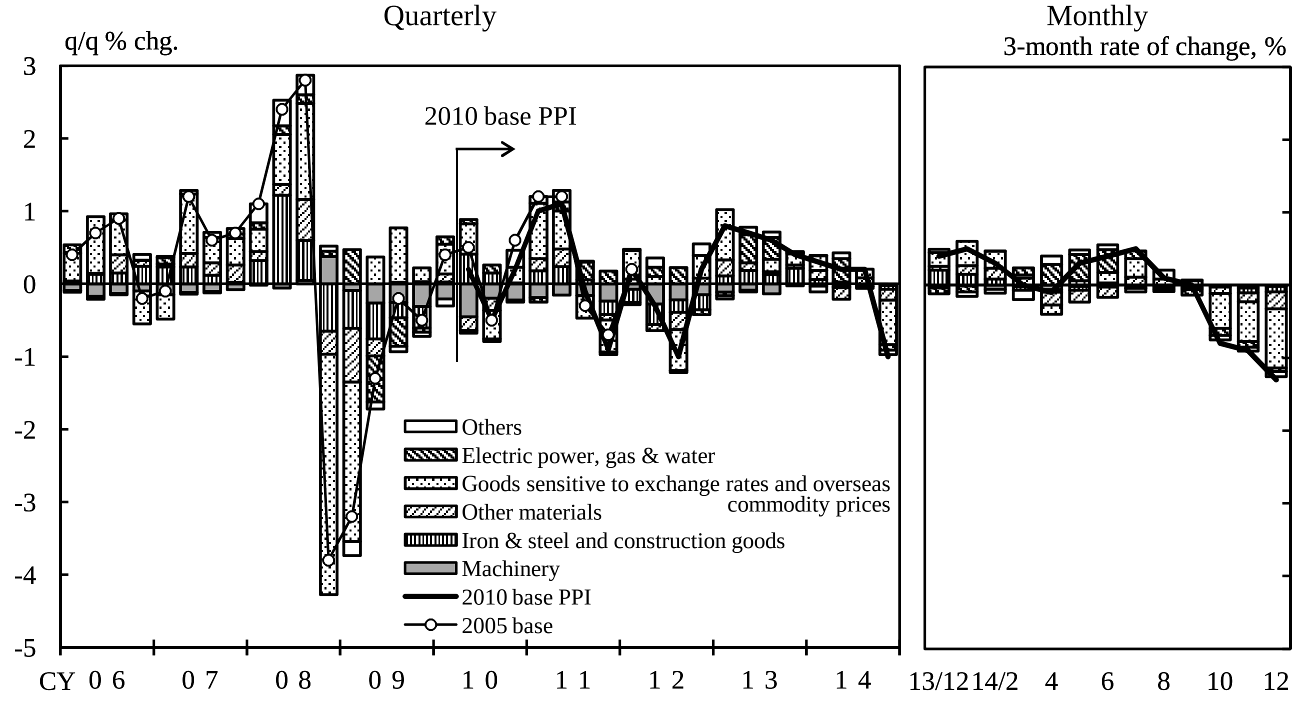
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



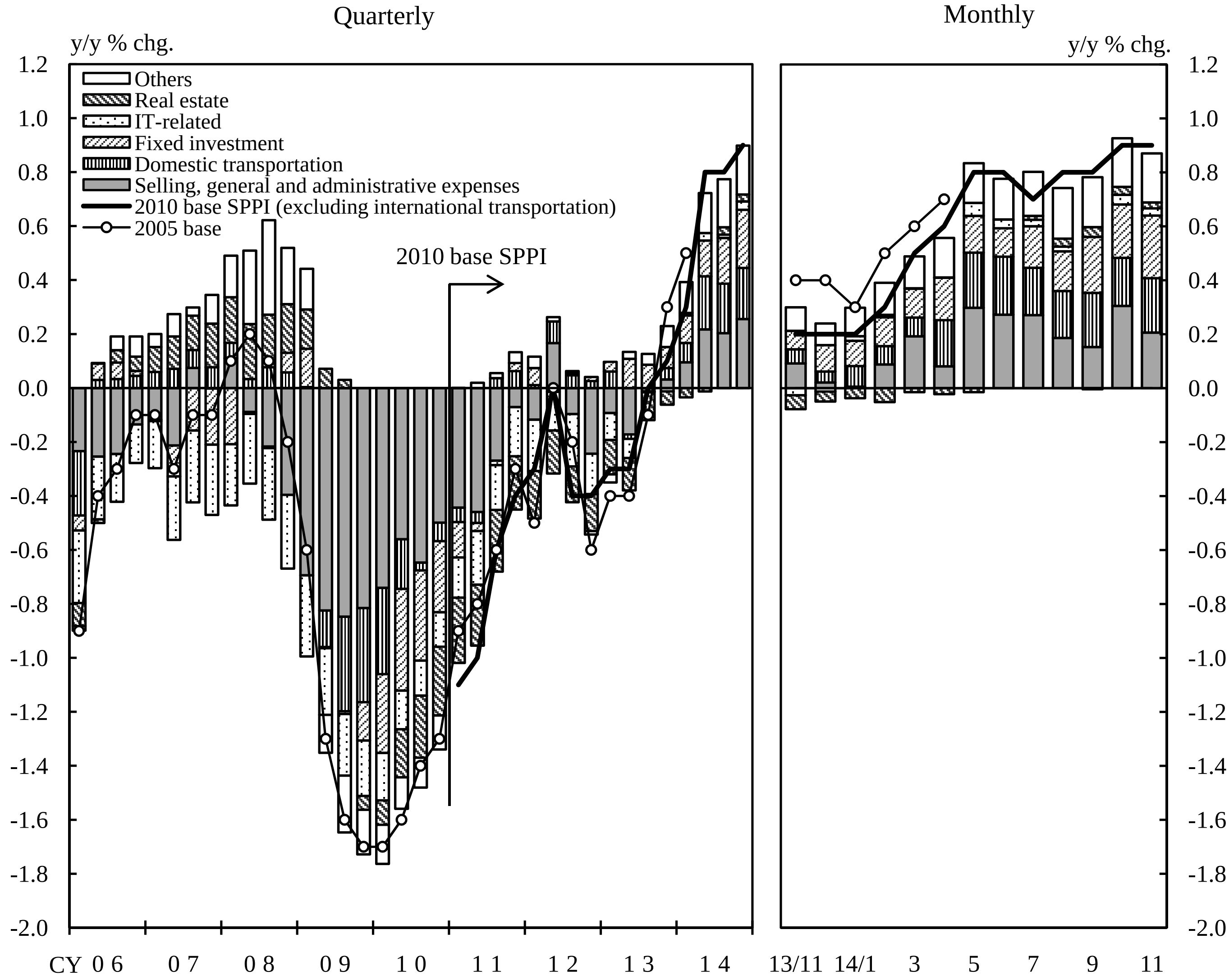
(2) Changes from a Quarter Earlier and 3 Months Earlier [6]



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 "Producer Price Index" fall by about 0.2%.
7. Figures from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.

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

Services Producer 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 and postal services (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.

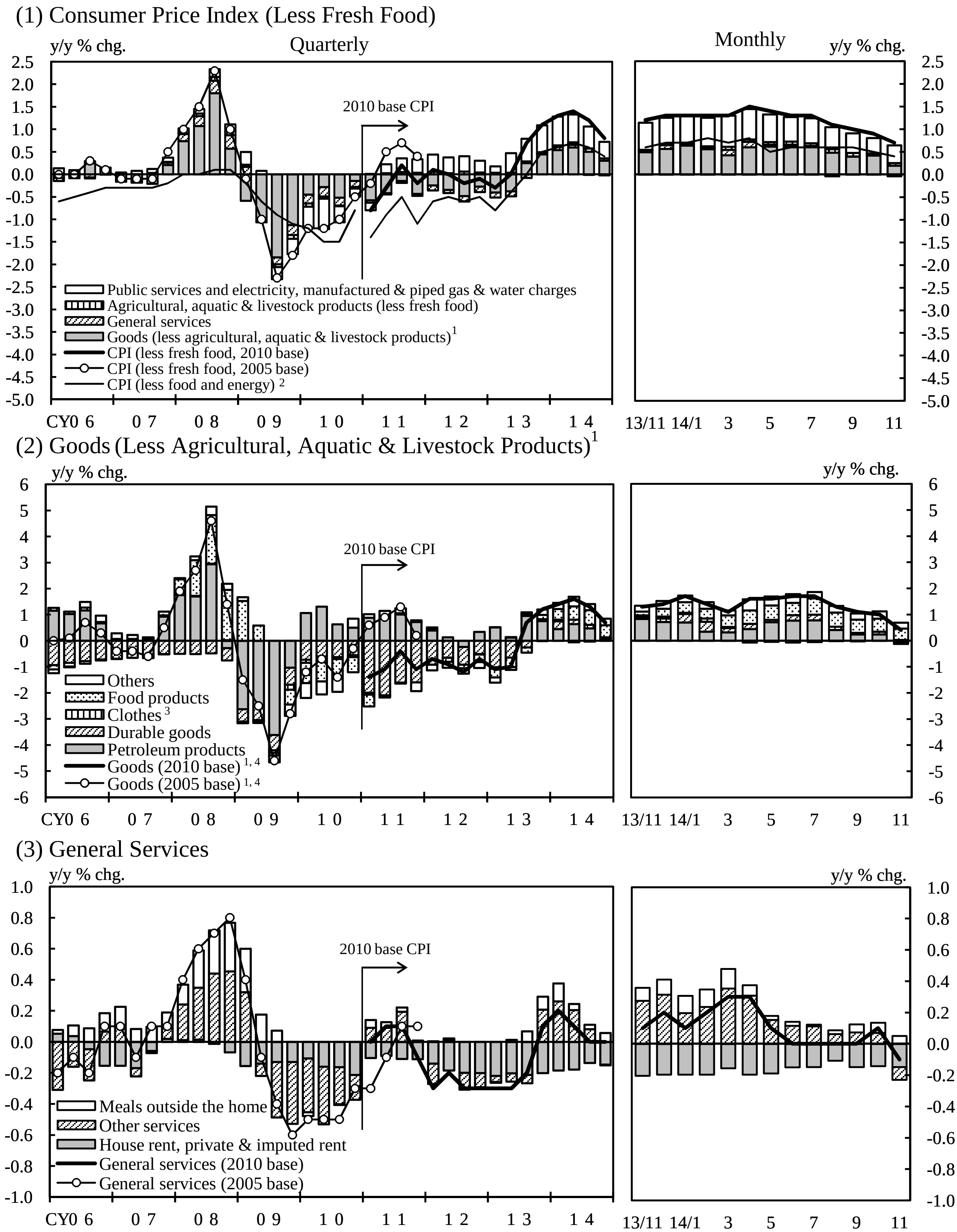
6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, and plant engineering.

7. Figures from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.

8. Figures for 2014/Q4 are October-November averages.

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

Consumer Price Index (Less Fresh Food)

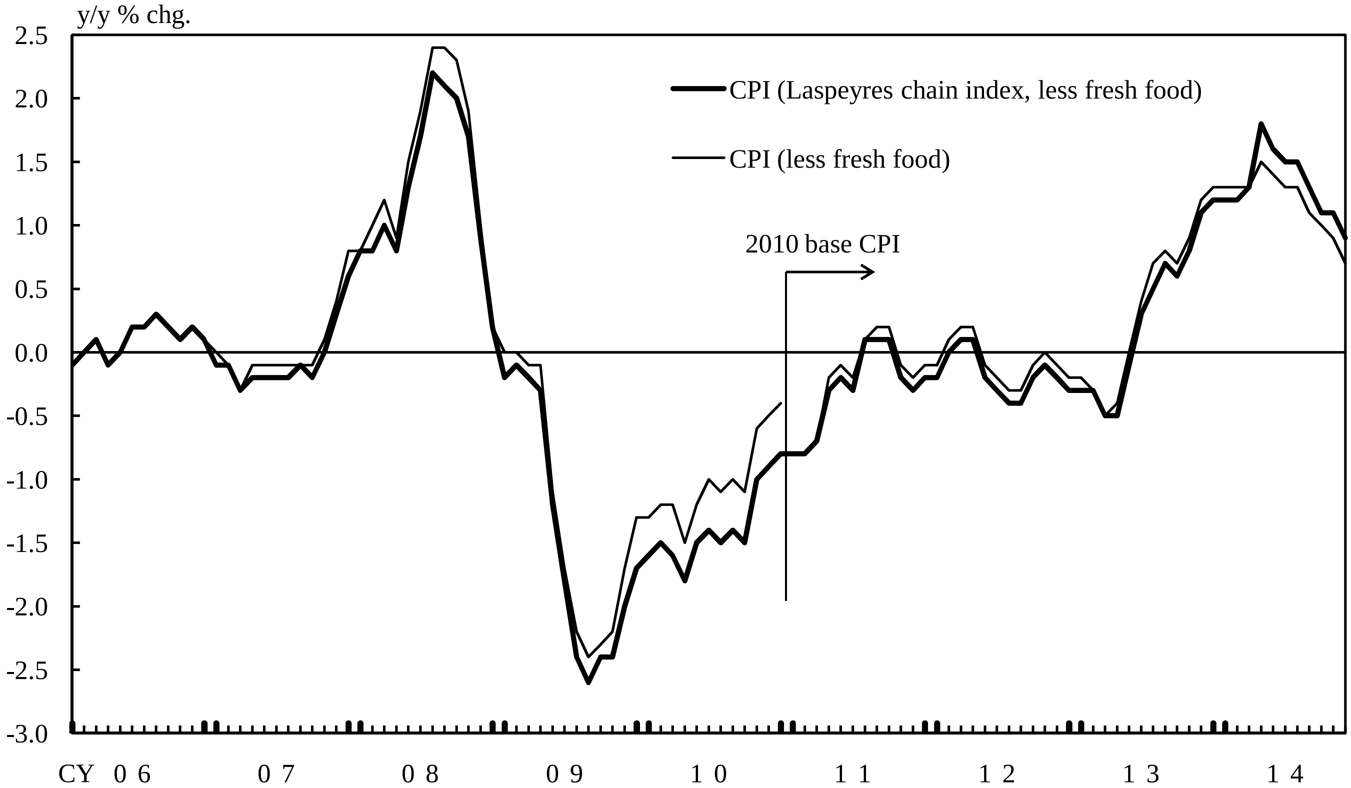


Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied 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 from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike. Figures for 2014/Q4 are October-November averages.

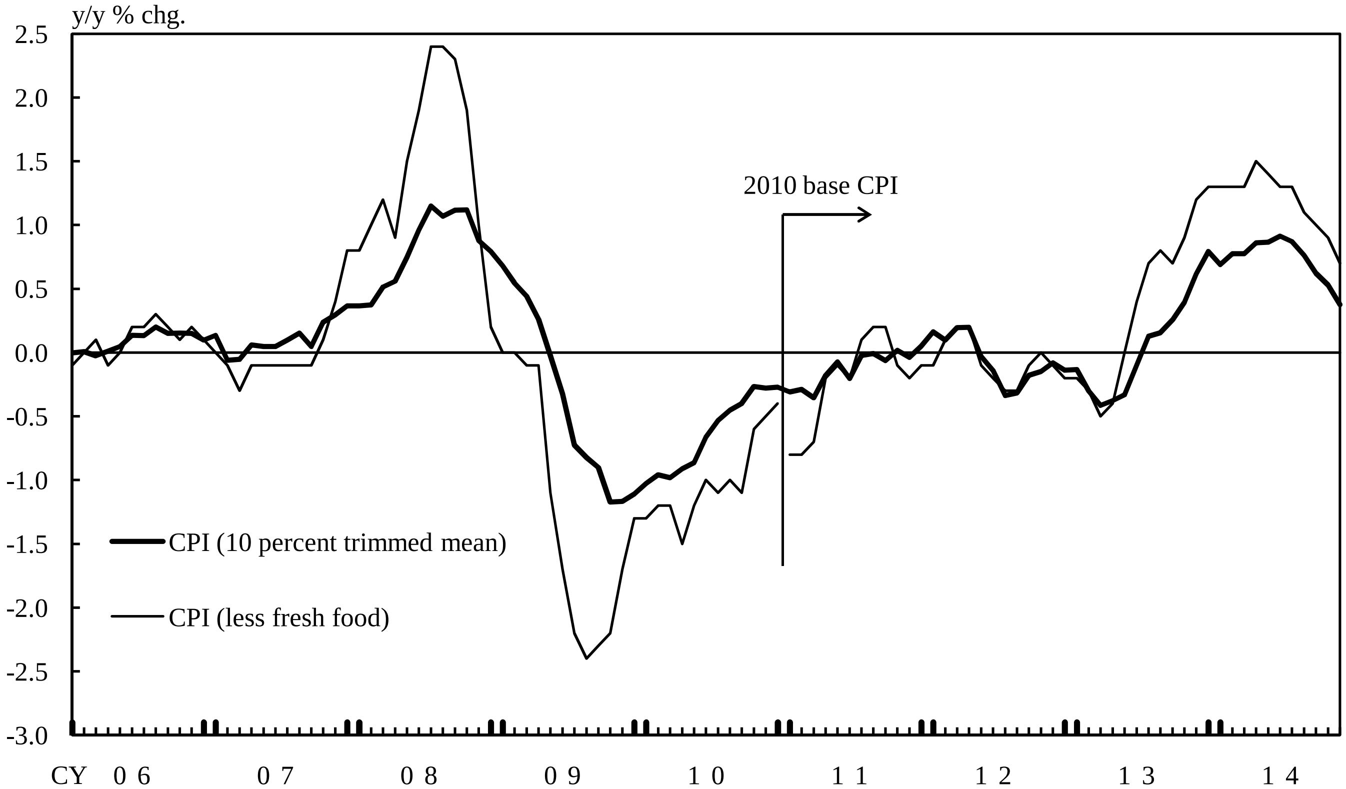
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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.

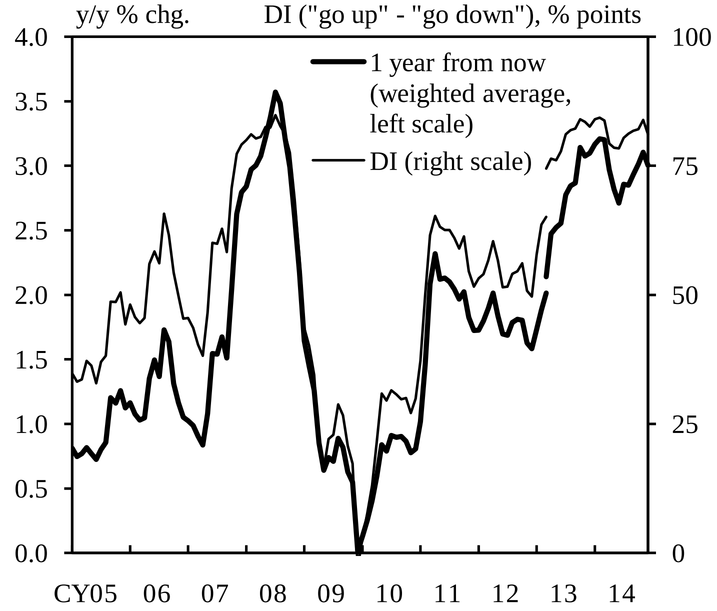
3. Figures from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike.

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

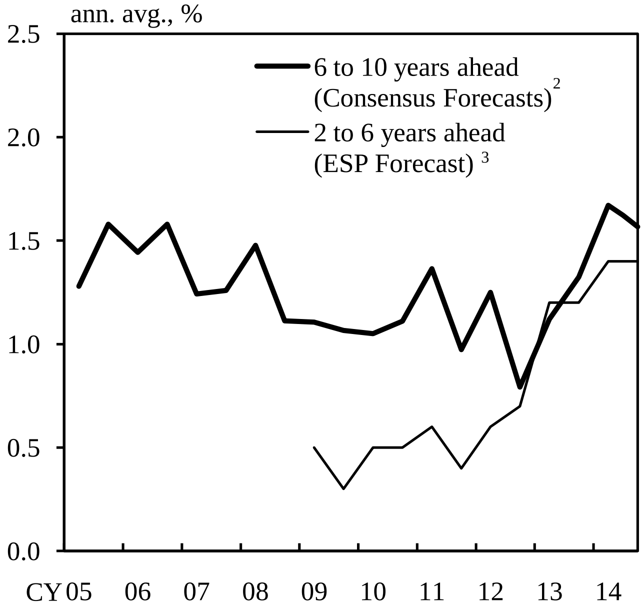
Inflation Expectations

(1) Households

<Consumer Confidence Survey>[1]

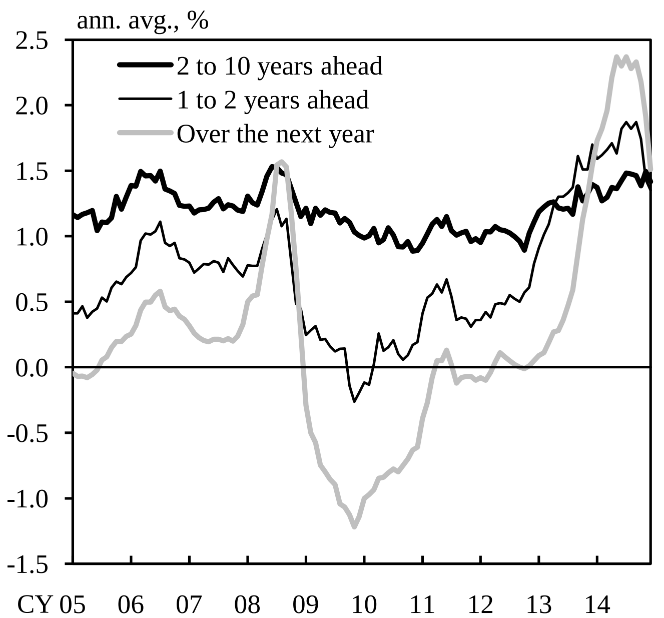


(2) Economists

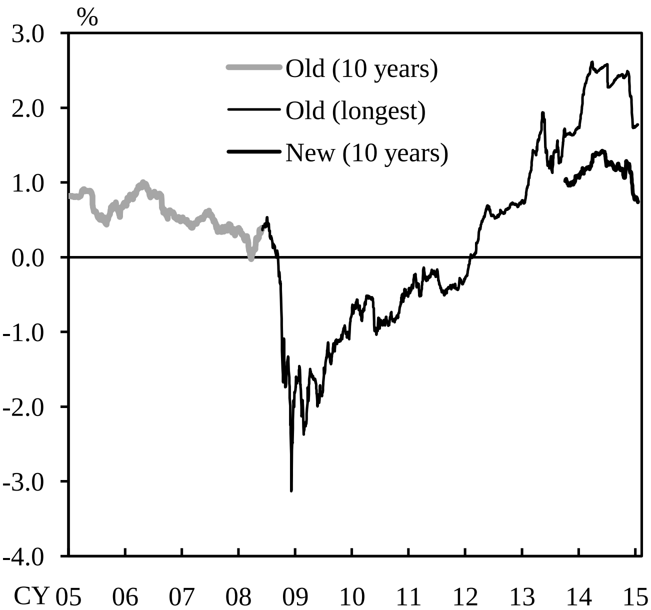


(3) Market Participants

<QUICK Survey>[4]



<BEI for Inflation-Indexed JGBs>[5]



Notes: 1. The Consumer Confidence Survey asks households to provide their price expectations one year from now. Figures are for all households. 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. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013.

2. Figures are forecasts made every January, April, July, and October. Those up through April 2014 are forecasts made every April and October.

3. Figures are forecasts made every June and December. The effects of the consumption tax hikes are excluded.

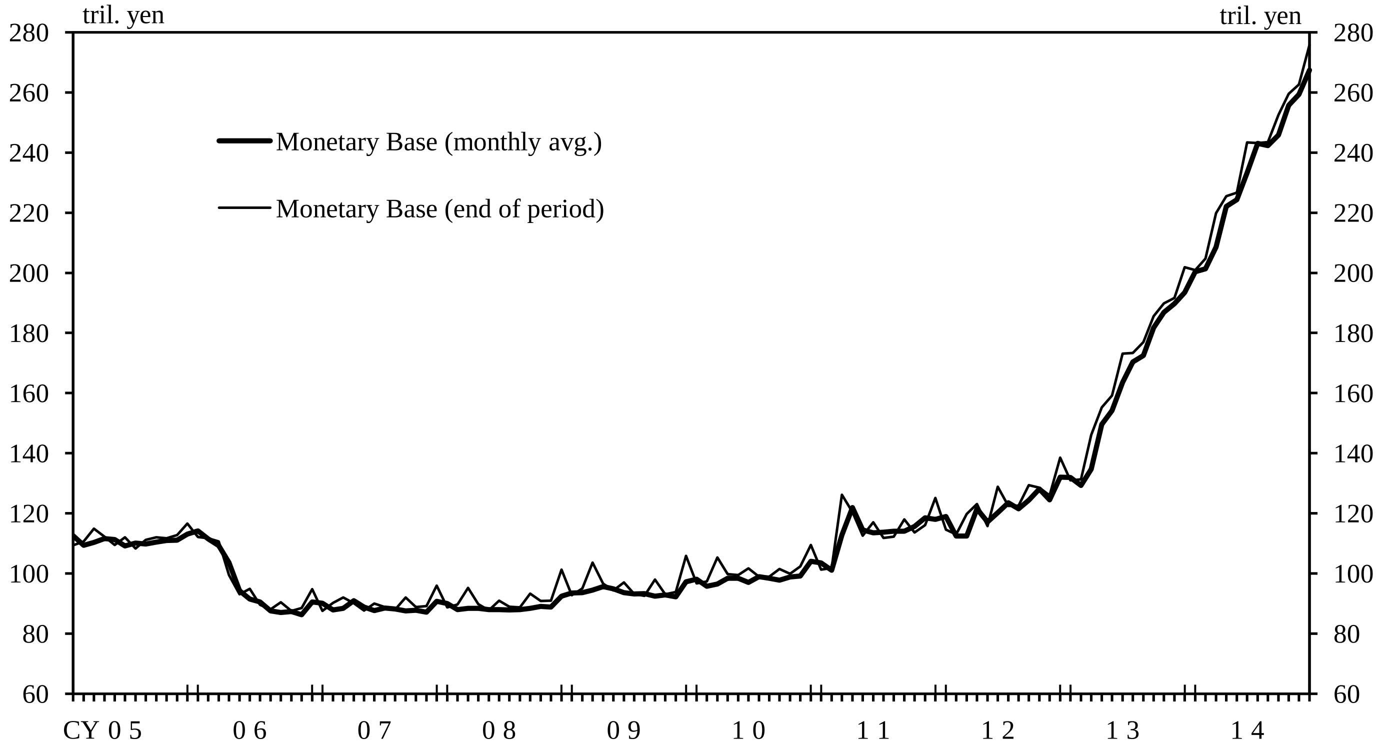
4. From the September 2013 survey, the QUICK Monthly Market Survey (Bonds) has asked respondents to include the effects of the consumption tax hikes.

5. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of the inflation-indexed JGBs, which matures in June 2018.

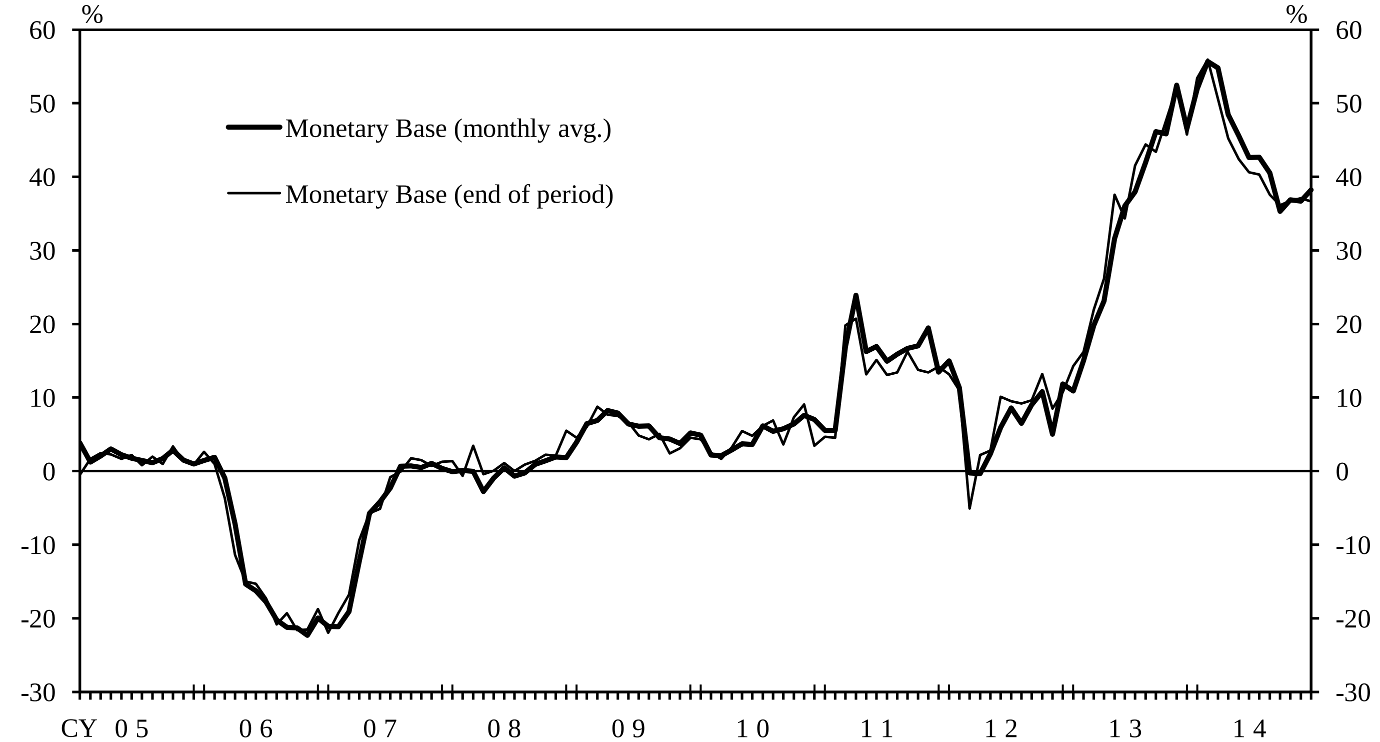
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

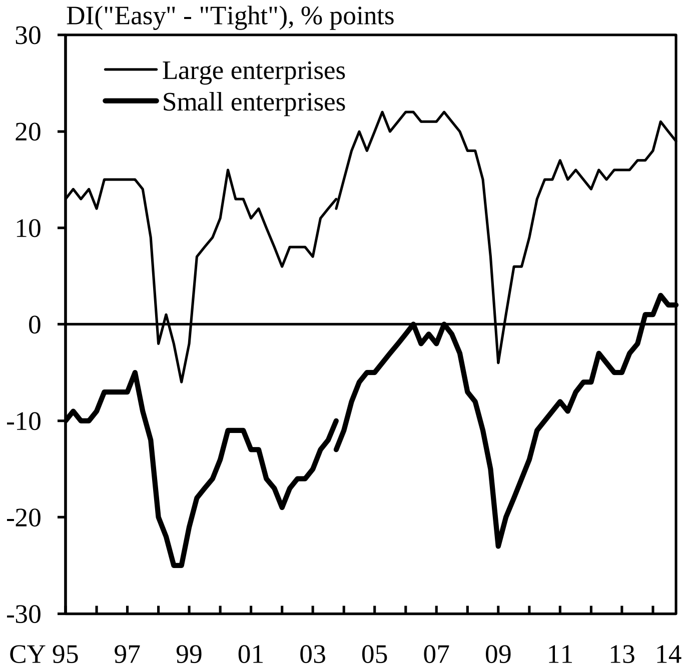


Source: Bank of Japan.

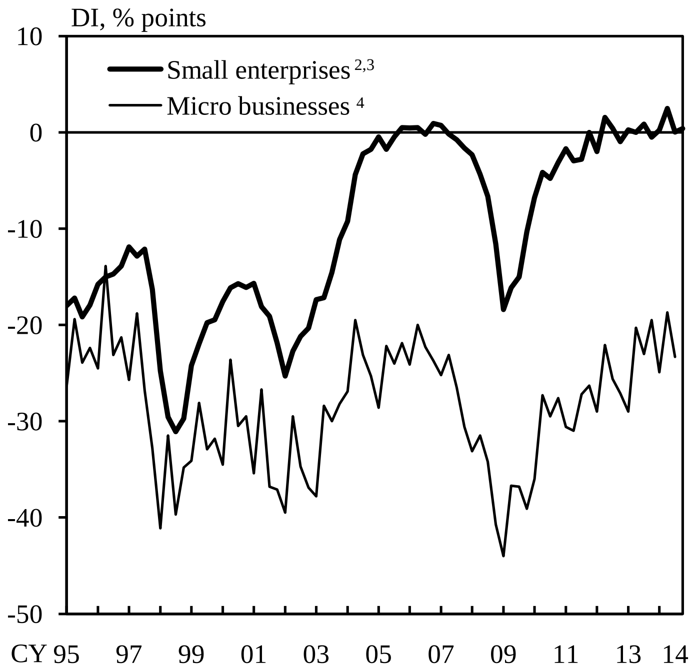
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan[1]>

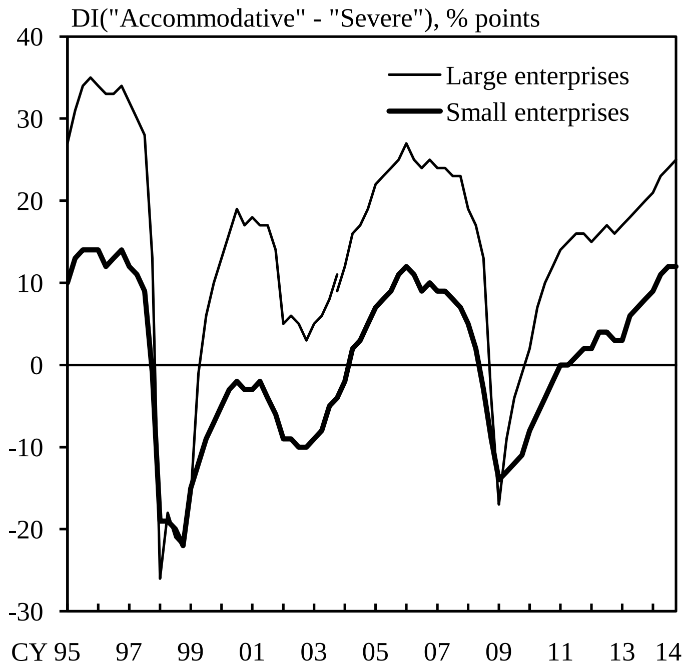


<Japan Finance Corporation Survey>

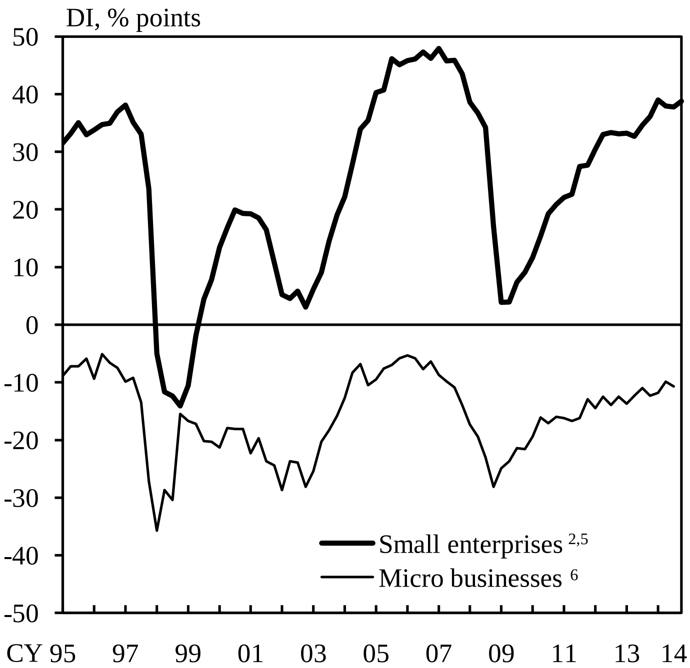


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan[1]>



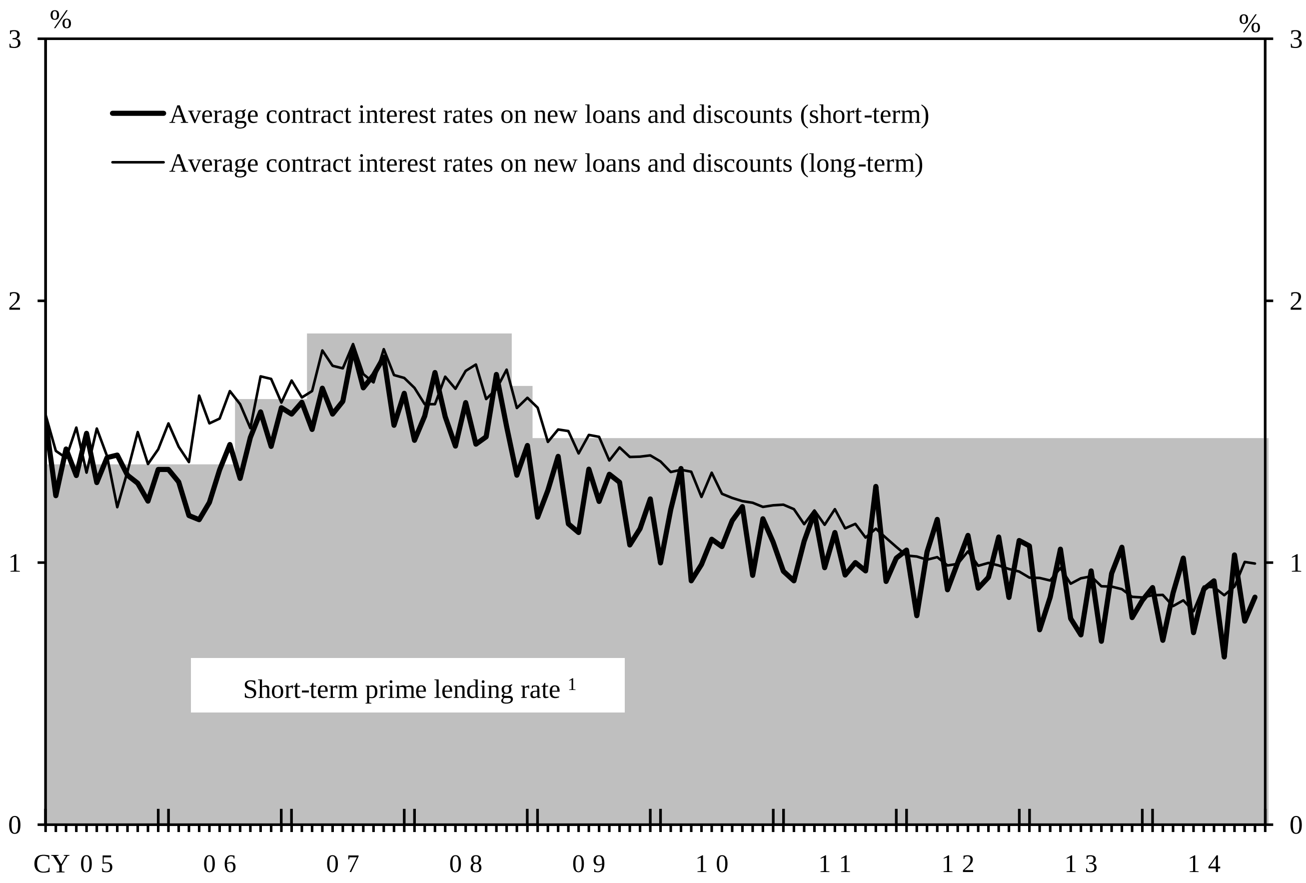
<Japan Finance Corporation Survey>



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

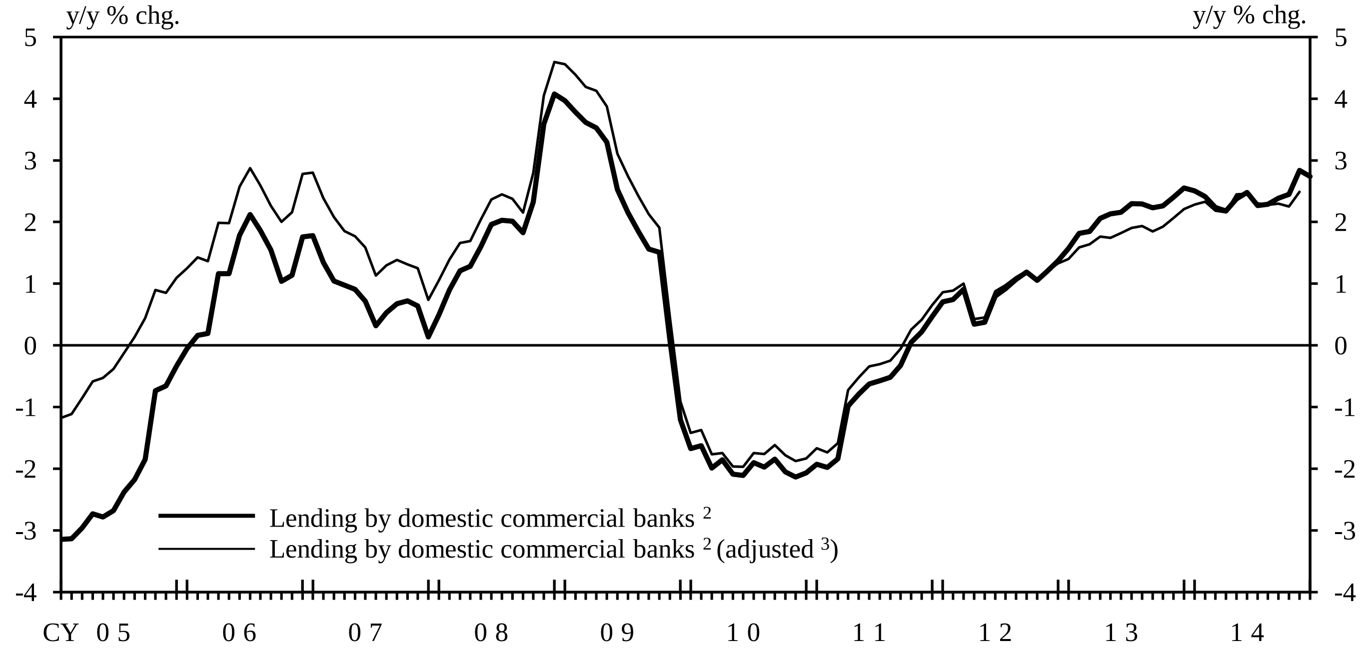


Note: 1. Data are at end of period.
Source: Bank of Japan.

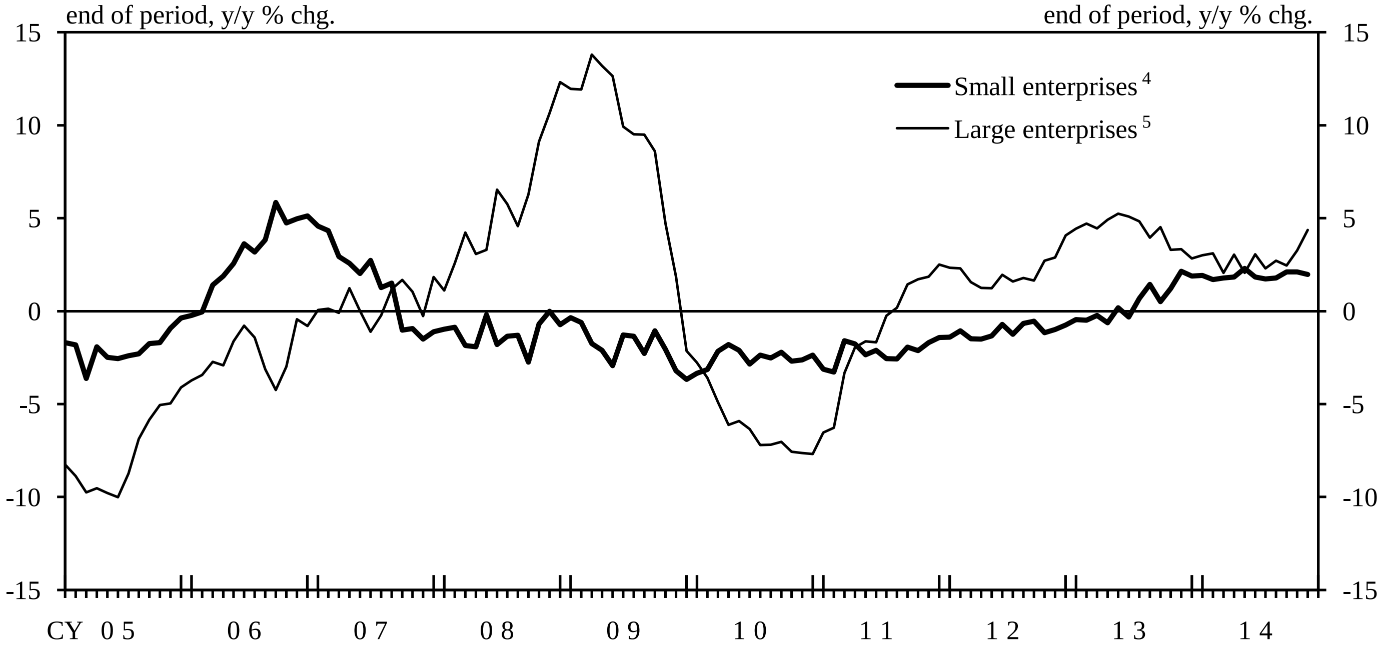
Chart 32

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks[1]



(2) Lending by Domestically Licensed Banks (by Firm Size)



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.

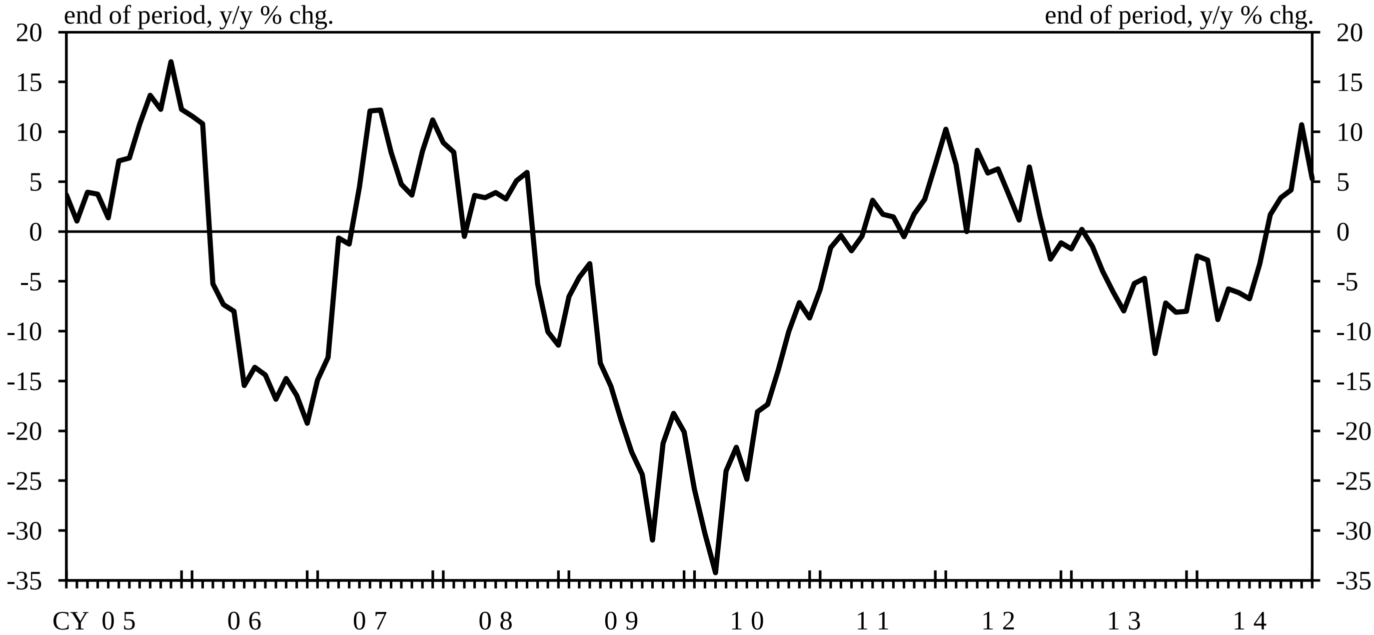
4. Small enterprises are those capitalized at 300 million yen or less or with regular employees of 300 persons or less ("wholesale trade" capitalized at 100 million yen or less or with regular employees of 100 persons or less, "retail trade" and "eating and drinking services" capitalized at 50 million yen or less or with regular employees of 50 persons or less, and "goods rental and leasing," etc. capitalized at 50 million yen or less or with regular employees of 100 persons or less).

5. Other than small enterprises.

Source: Bank of Japan.

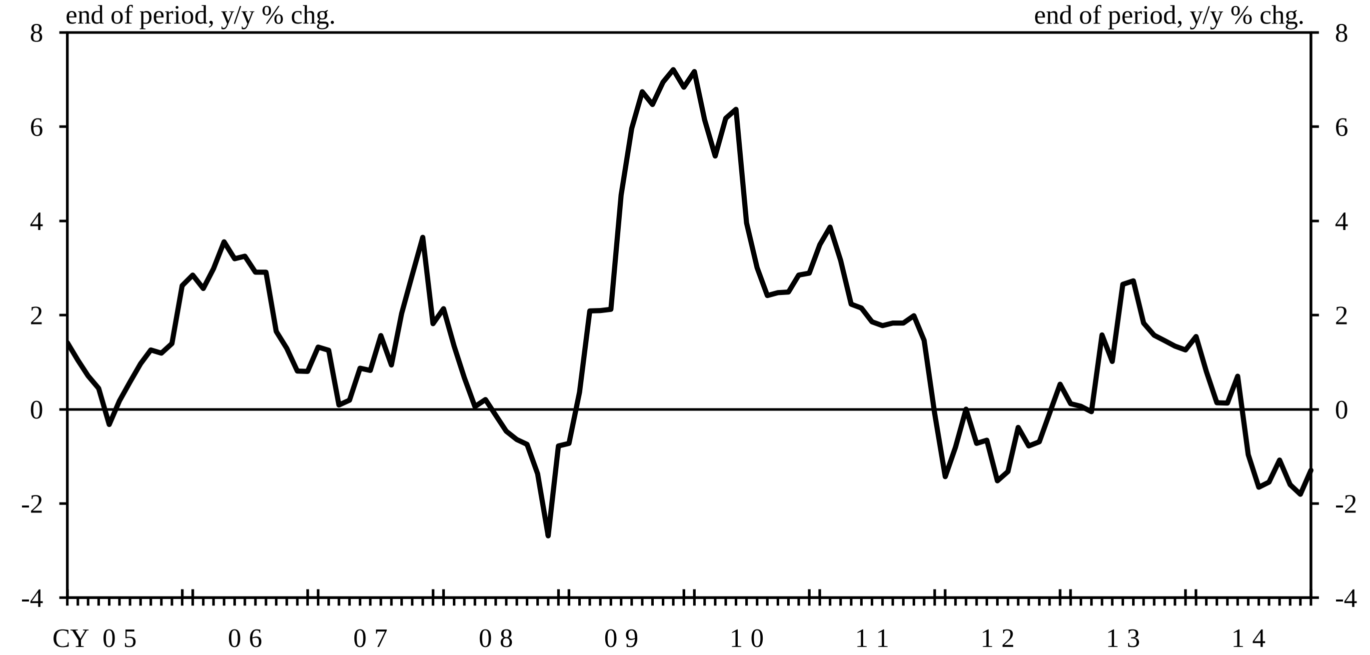
Private-Sector Fund-Raising in the Capital Markets

(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

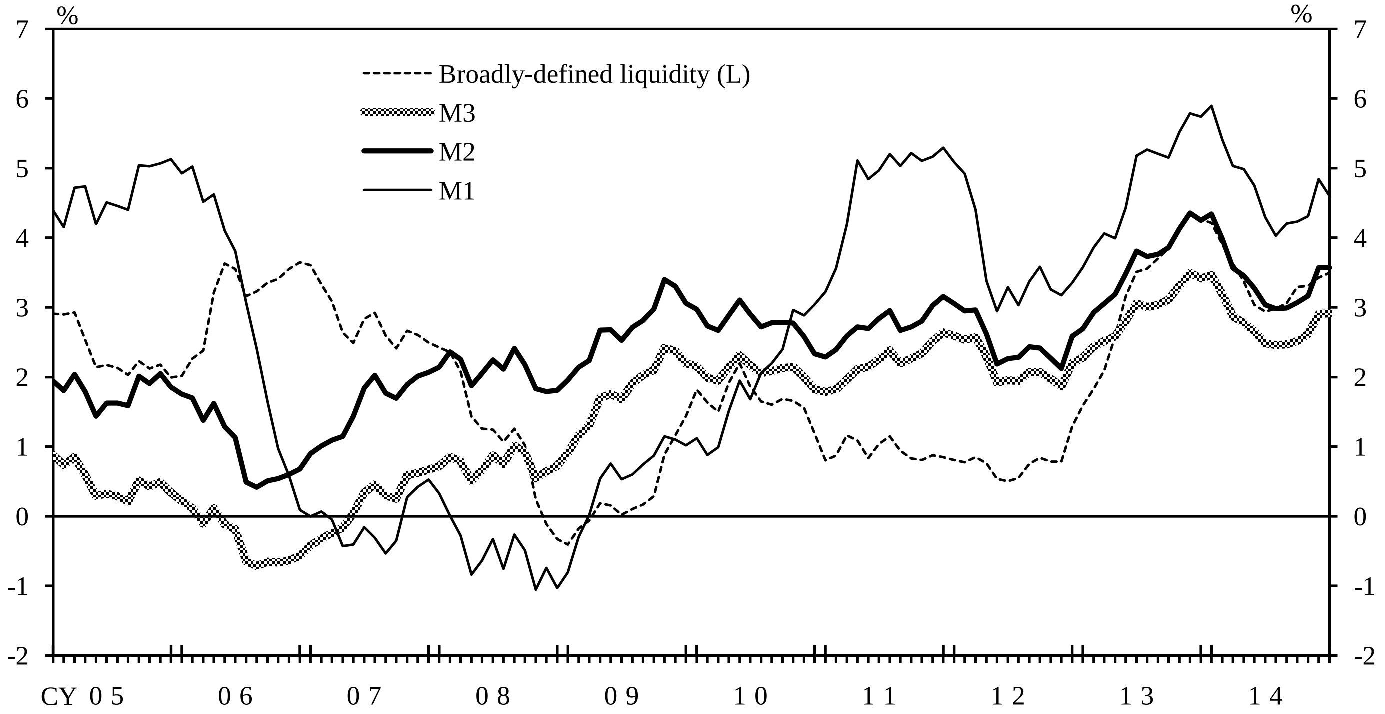


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
(1) The sum of straight bonds issued in both domestic and overseas markets is used.
(2) Bonds issued by banks are included.
(3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

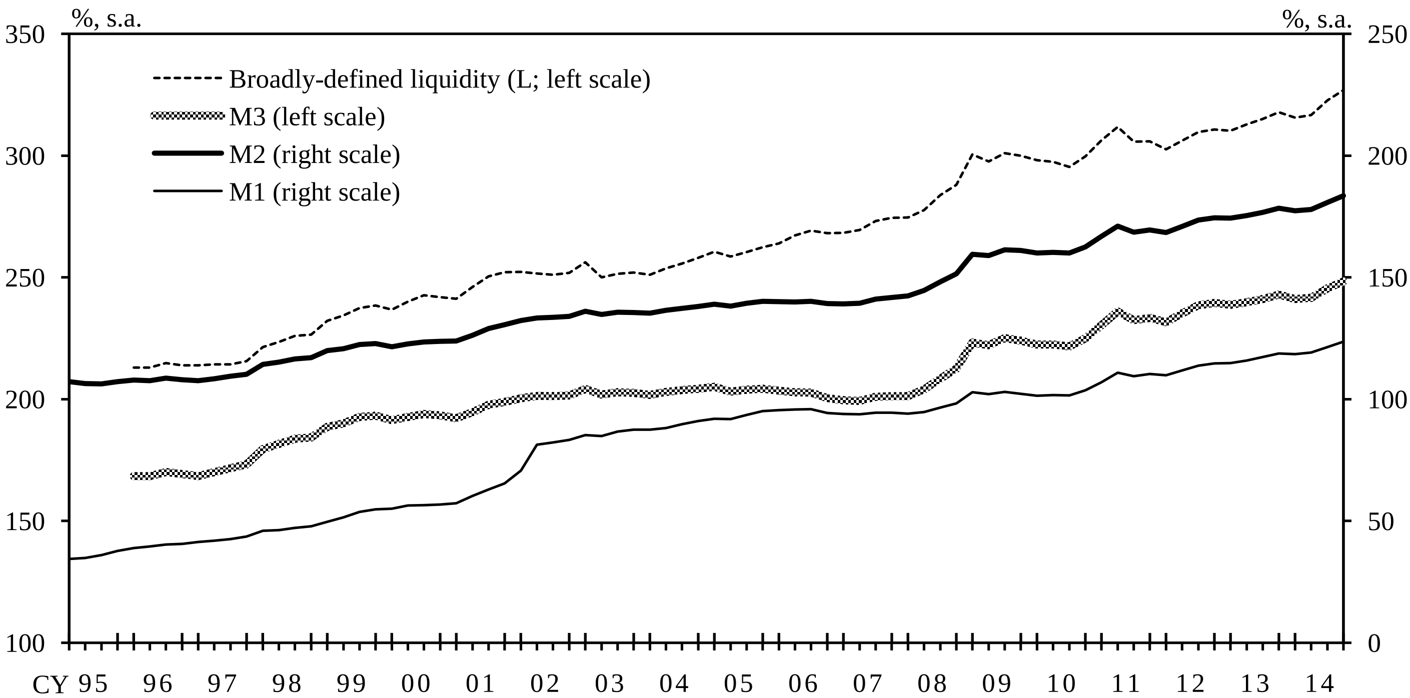
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

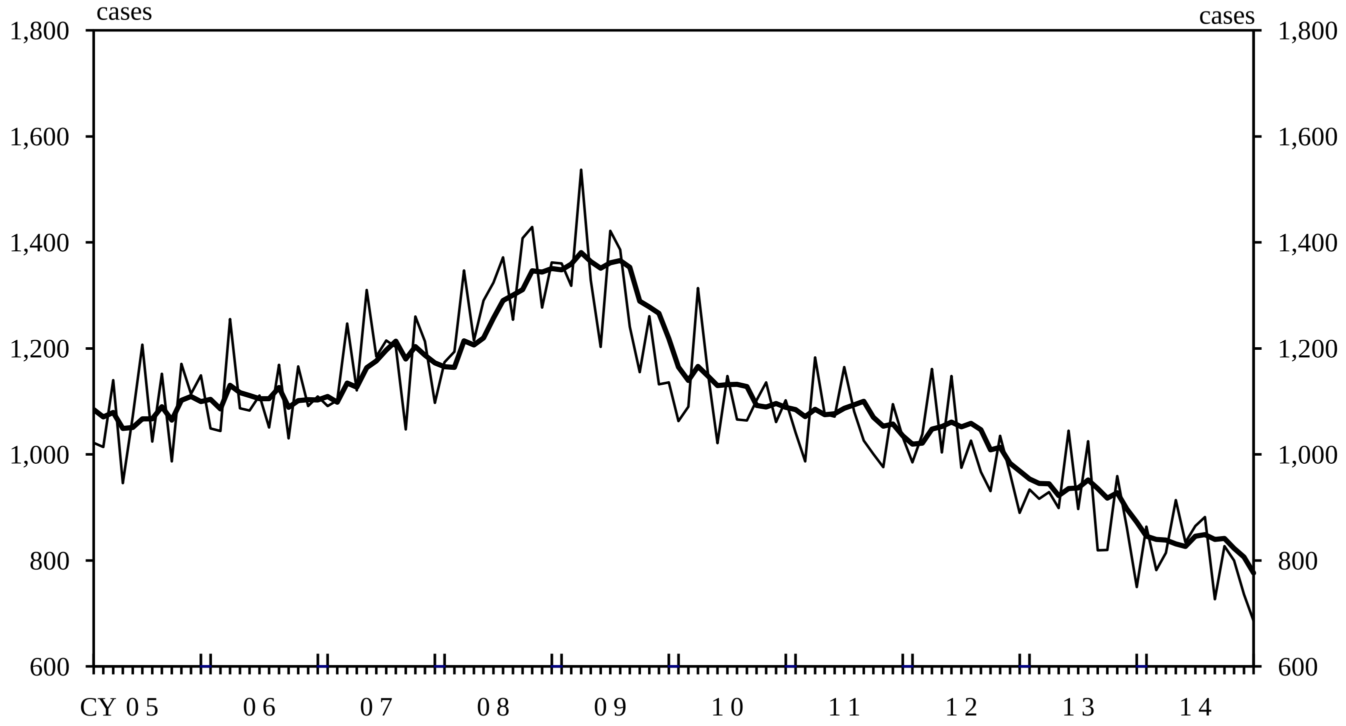


Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2003 are based on the former series.
4. The figure for nominal GDP in 2014/Q4 is assumed to be unchanged from the previous quarter.

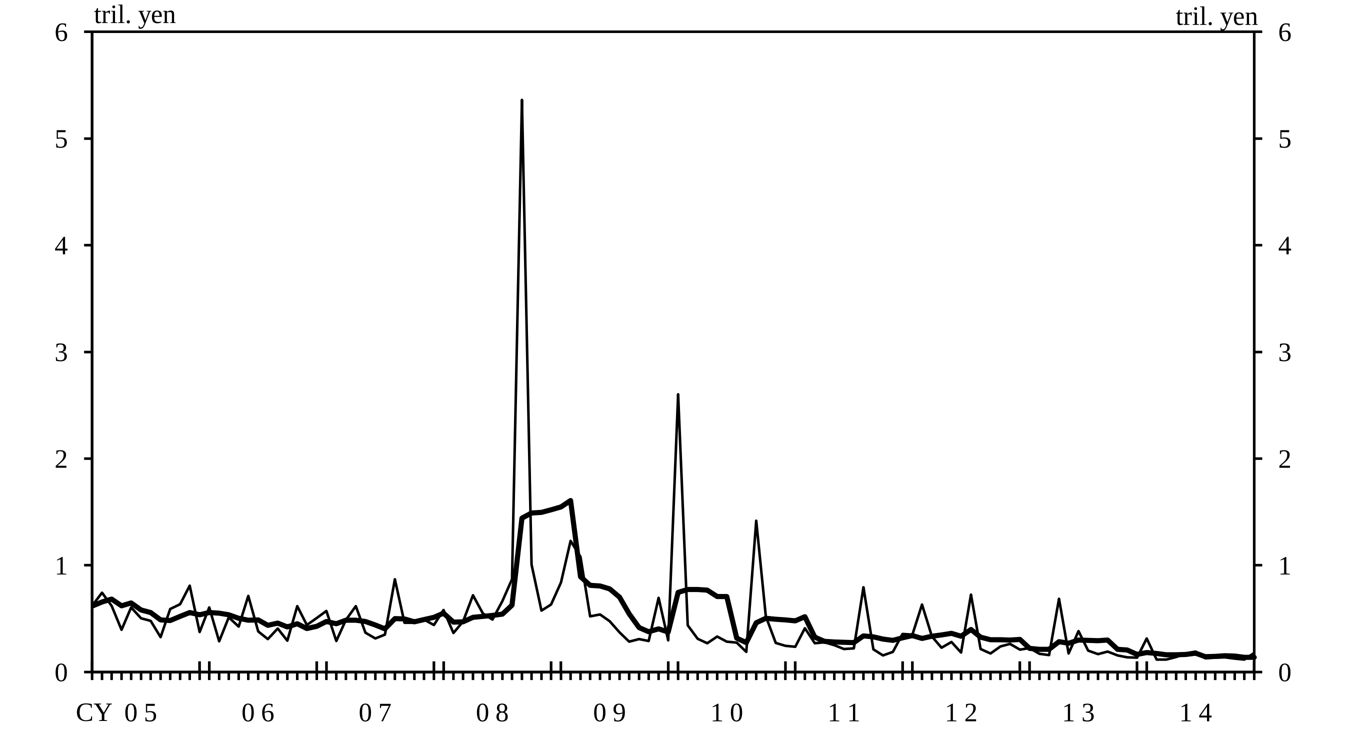
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



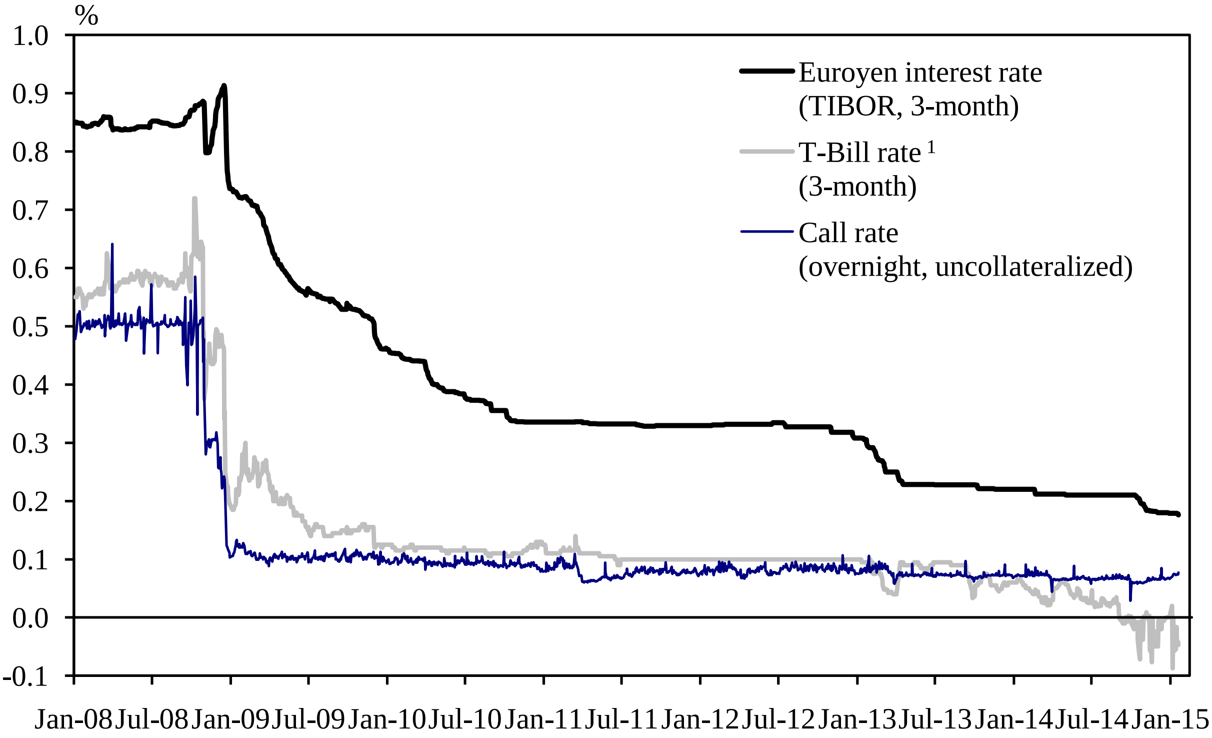
(2) Amount of Liabilities



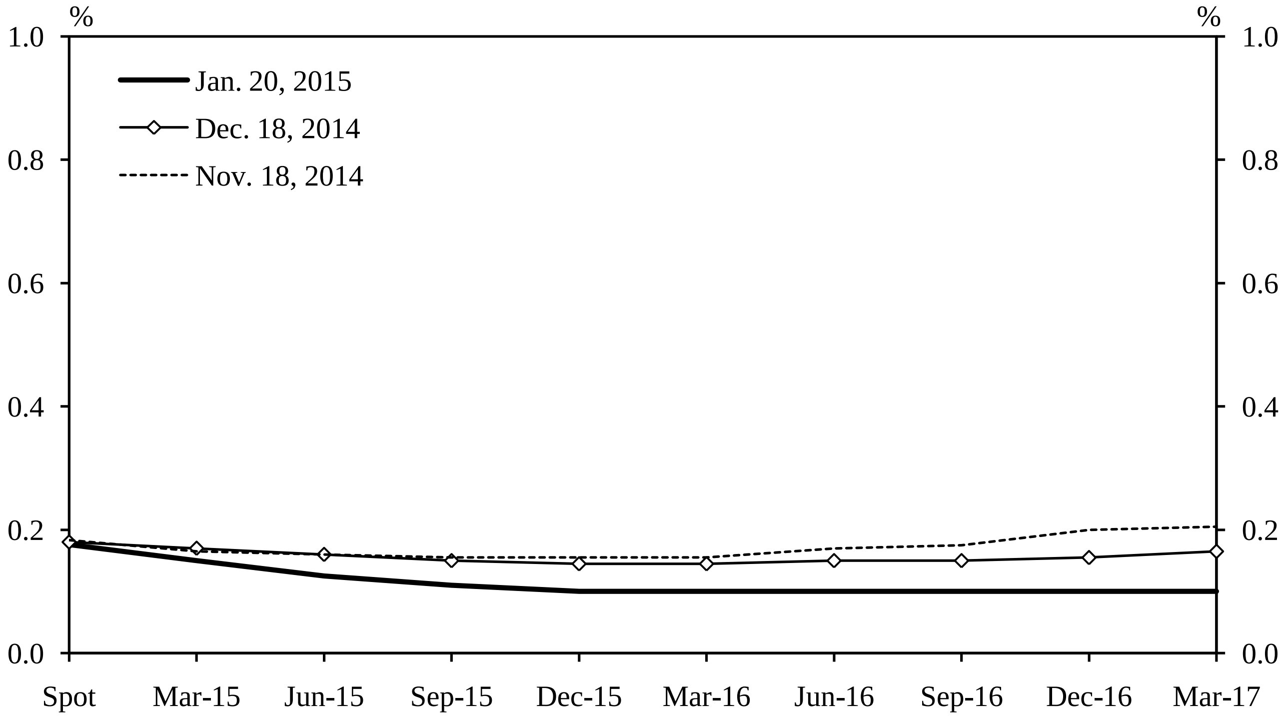
Note: Bold lines are the six-month moving average.
Source: Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



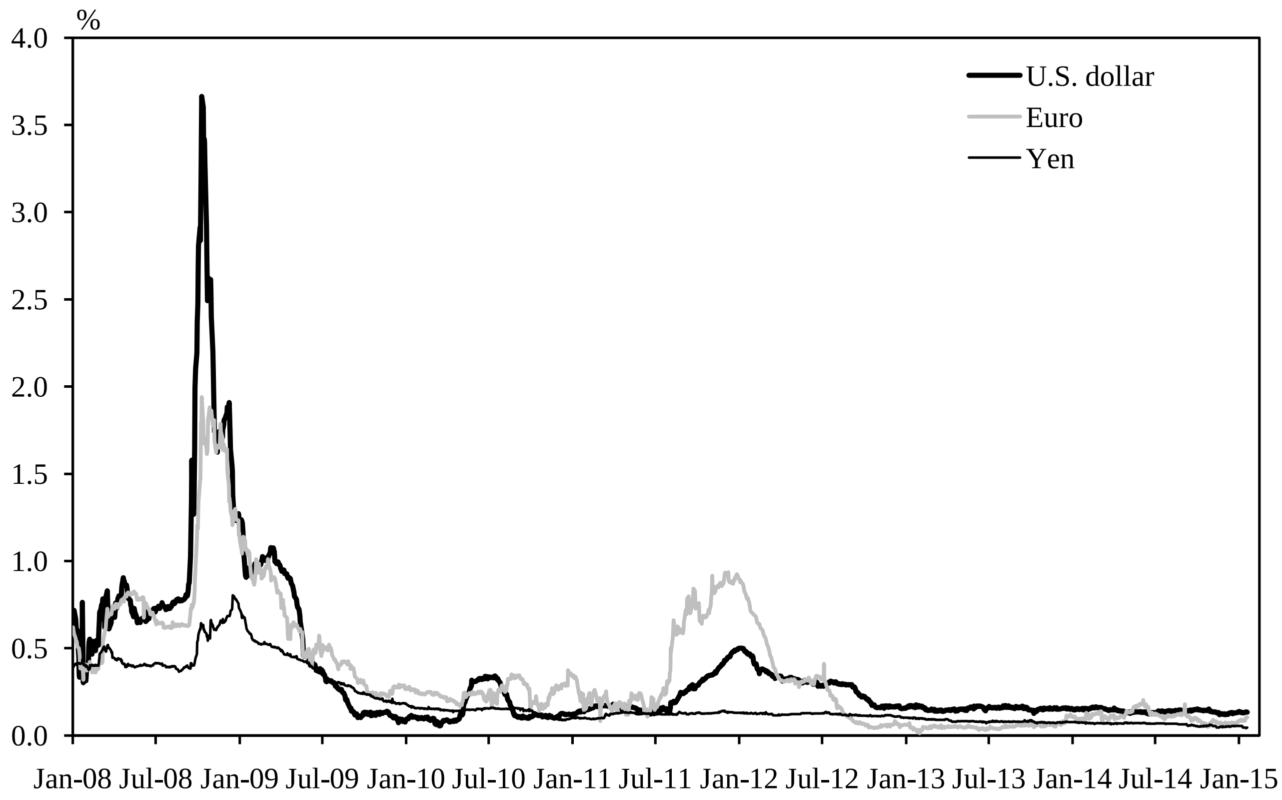
(2) Euroyen Interest Rate Futures (3-Month)



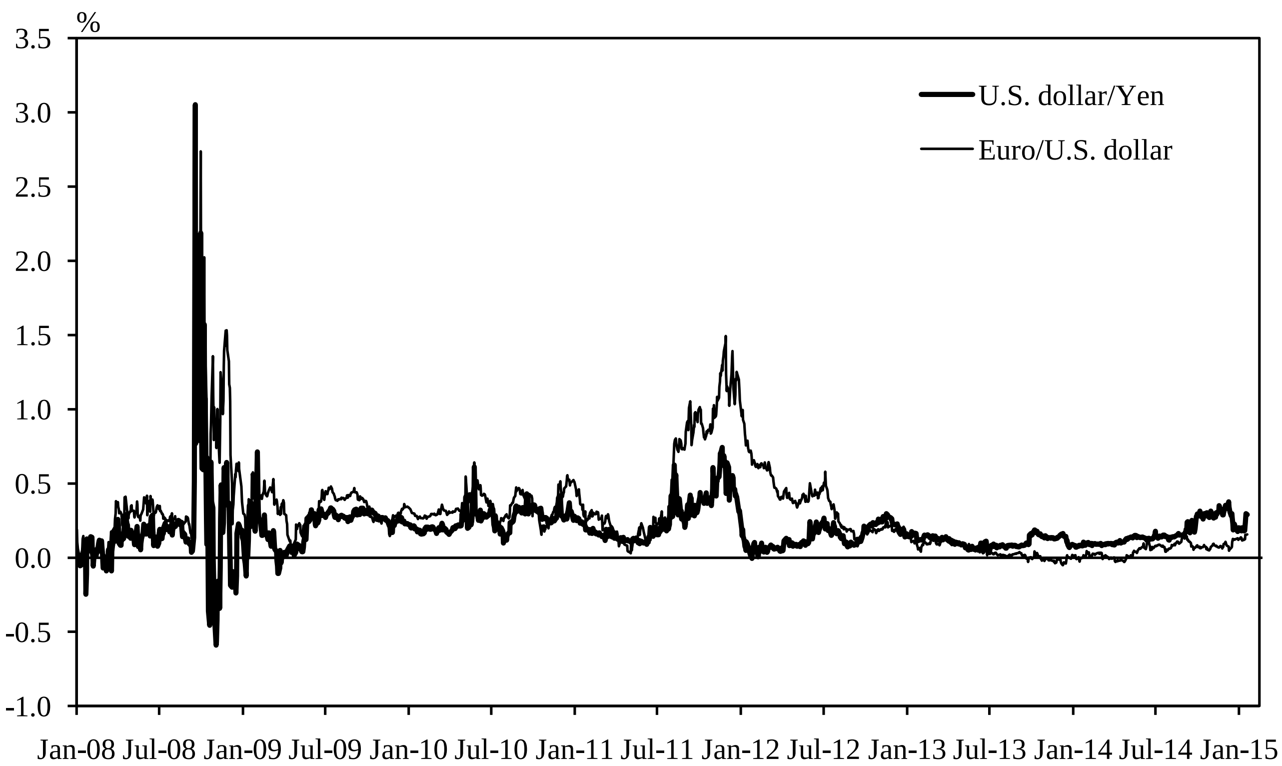
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
Sources: Japanese Bankers Association; JBA TIBOR Administration; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



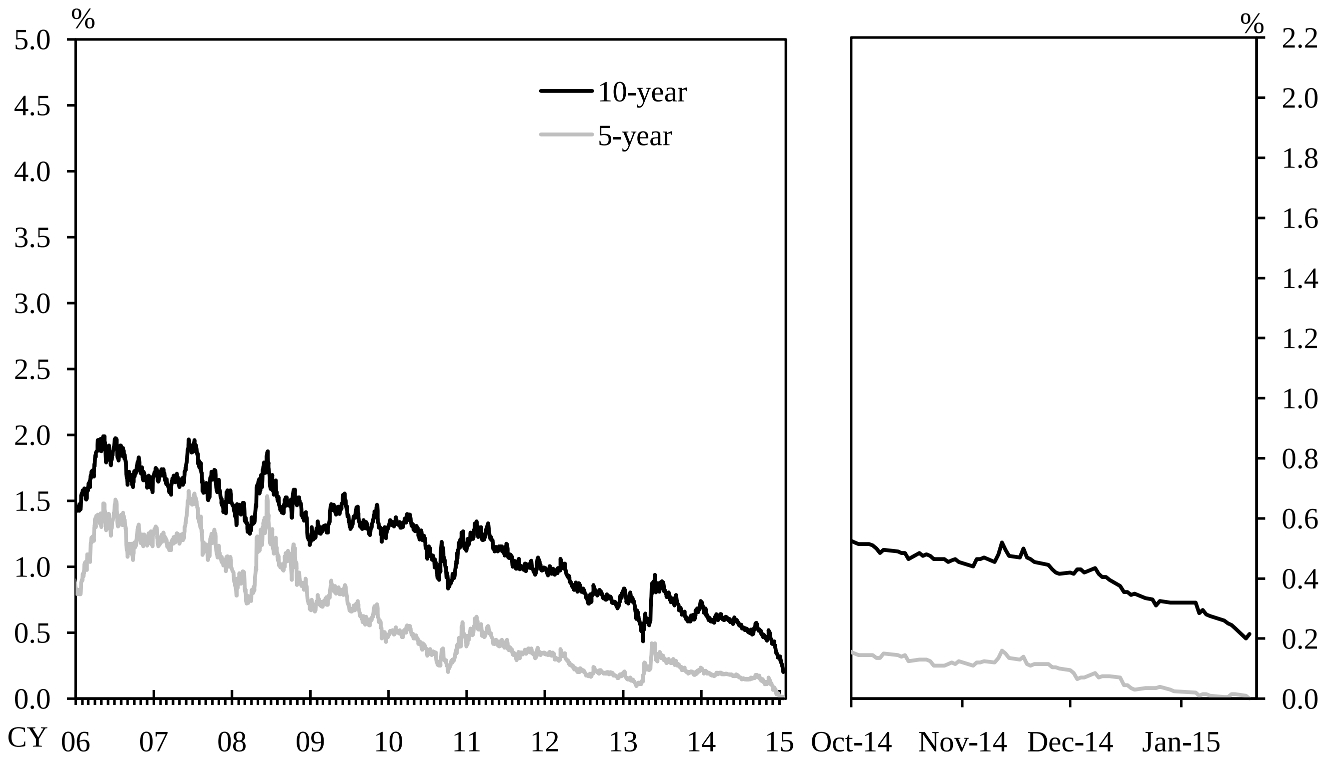
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



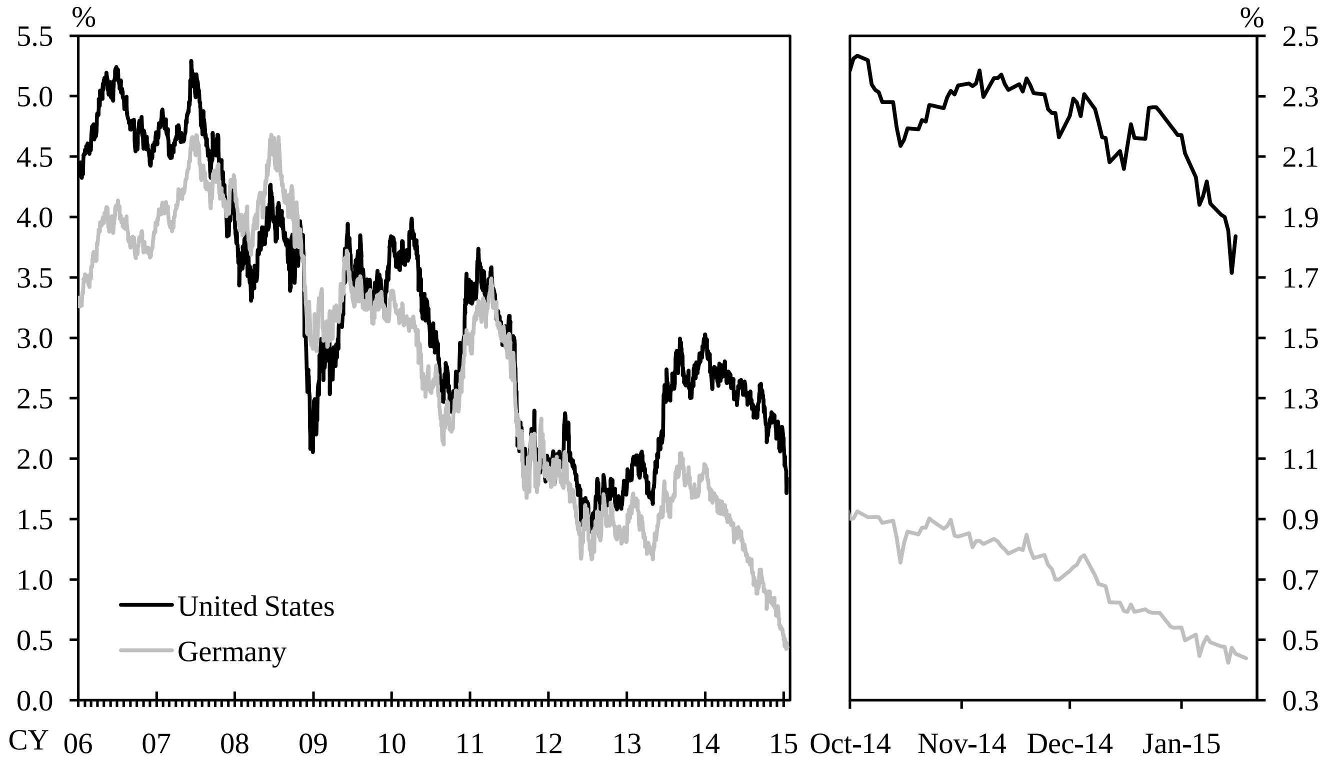
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields[1]



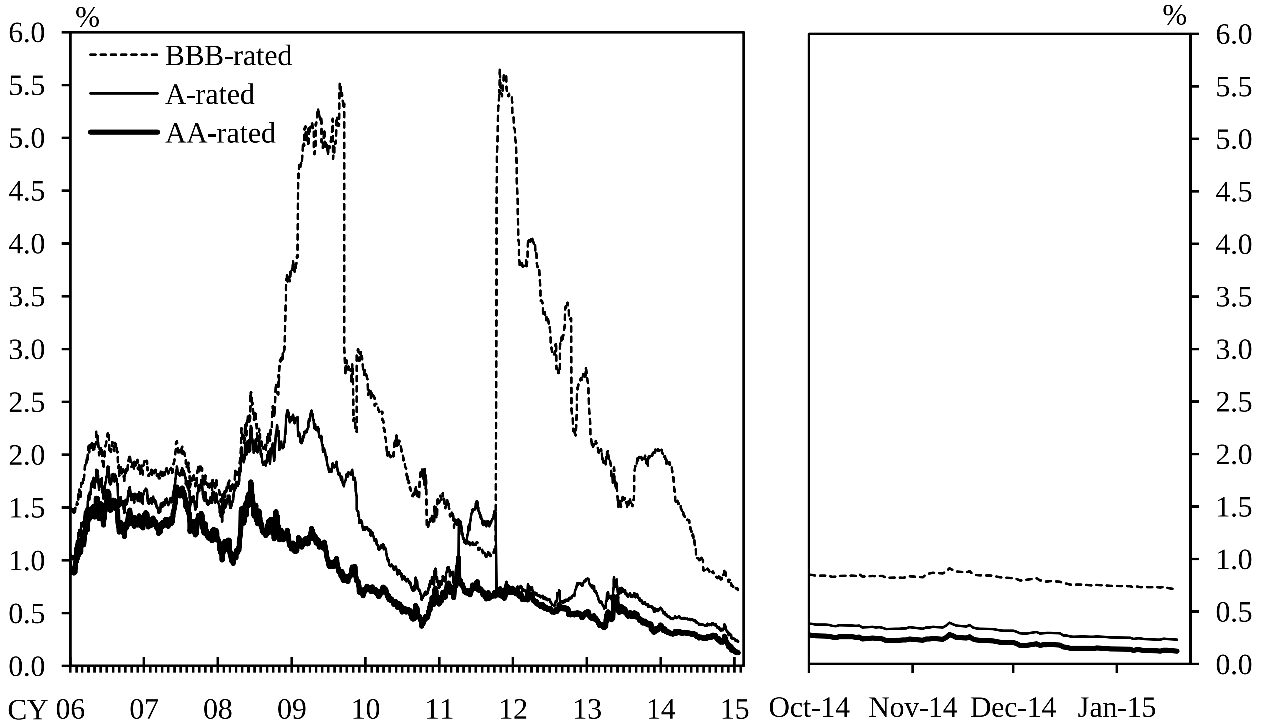
(2) Overseas Government Bond Yields (10-Year)



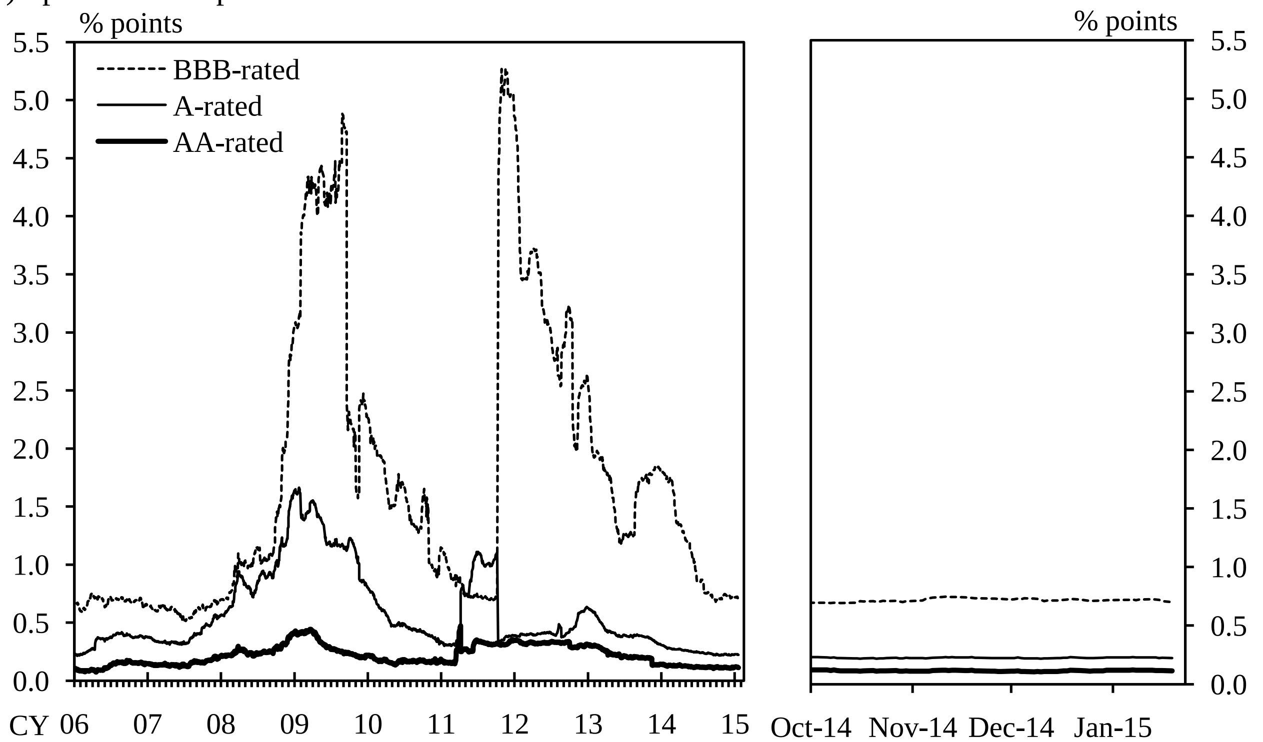
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields[1,2]



(2) Spreads of Corporate Bond Yields over Government Bond Yields[1,2]

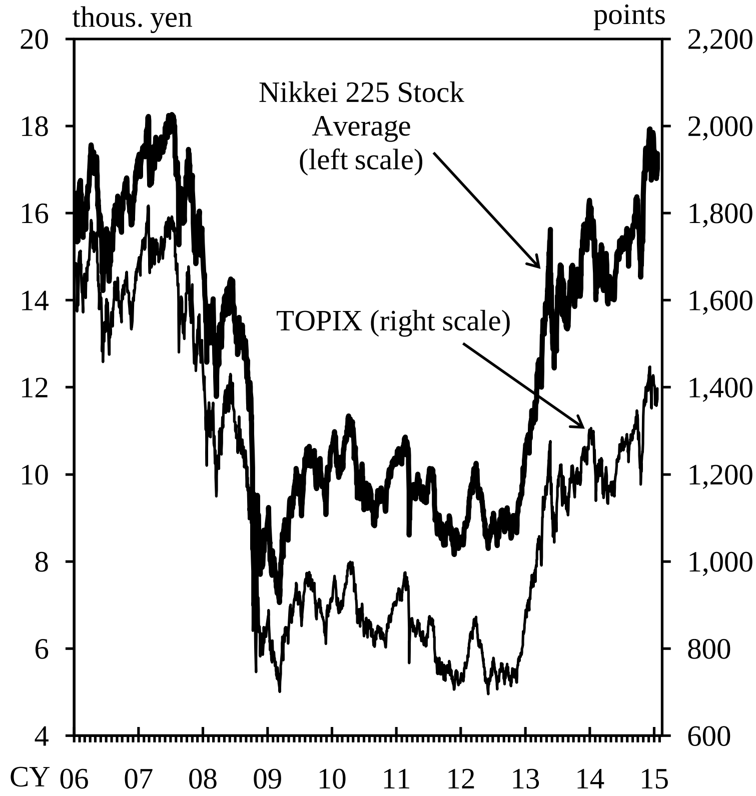


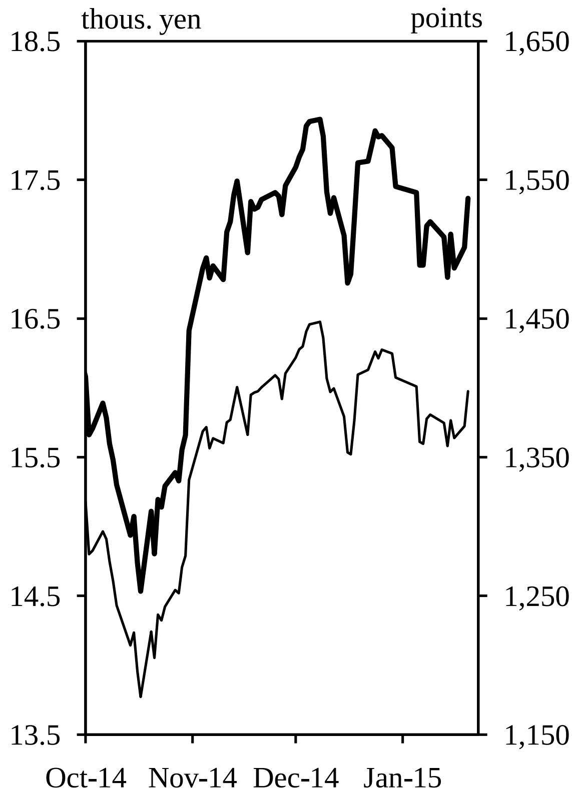
Notes: 1. Yields on bonds with 5-year maturity.
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
2. The indicated ratings are of Rating and Investment Information, Inc.

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

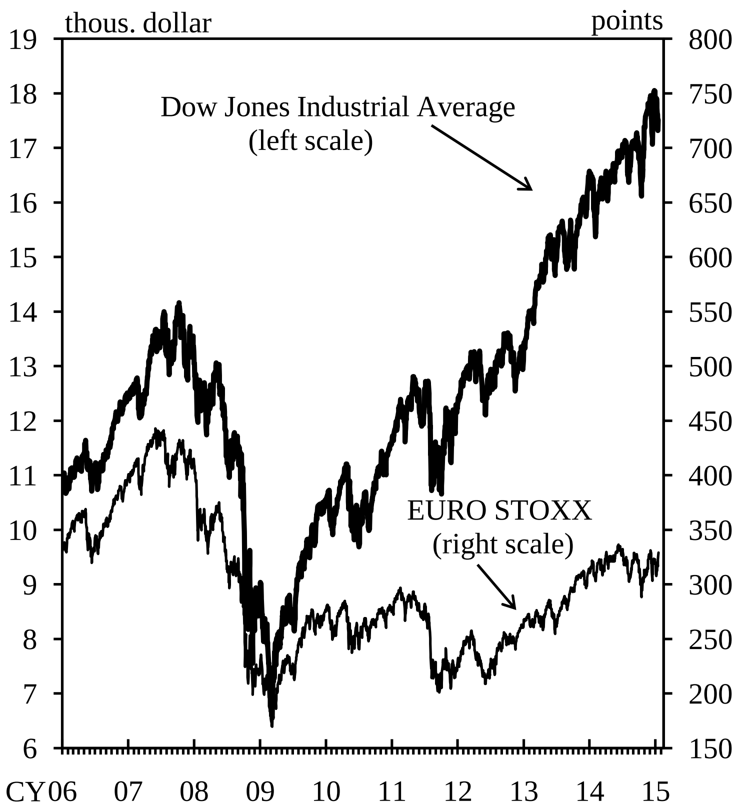
Stock Prices

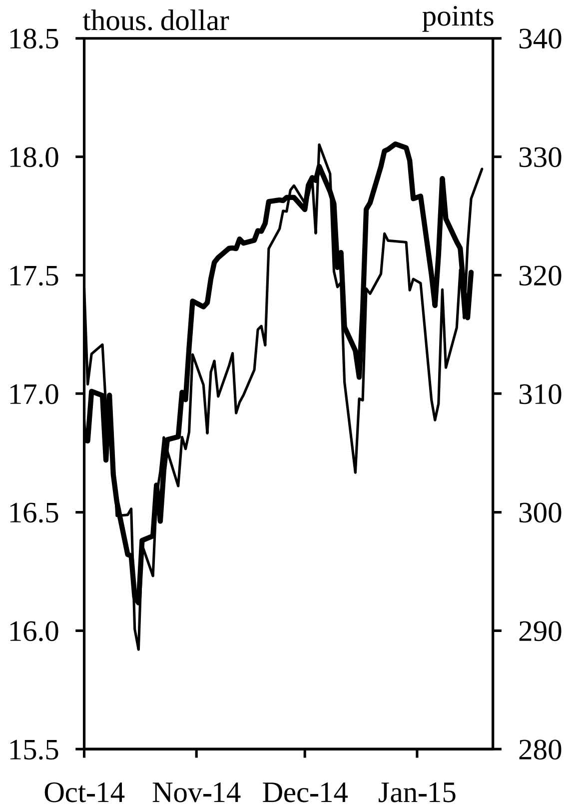
(1) Japanese Stock Prices





(2) Overseas Stock Prices



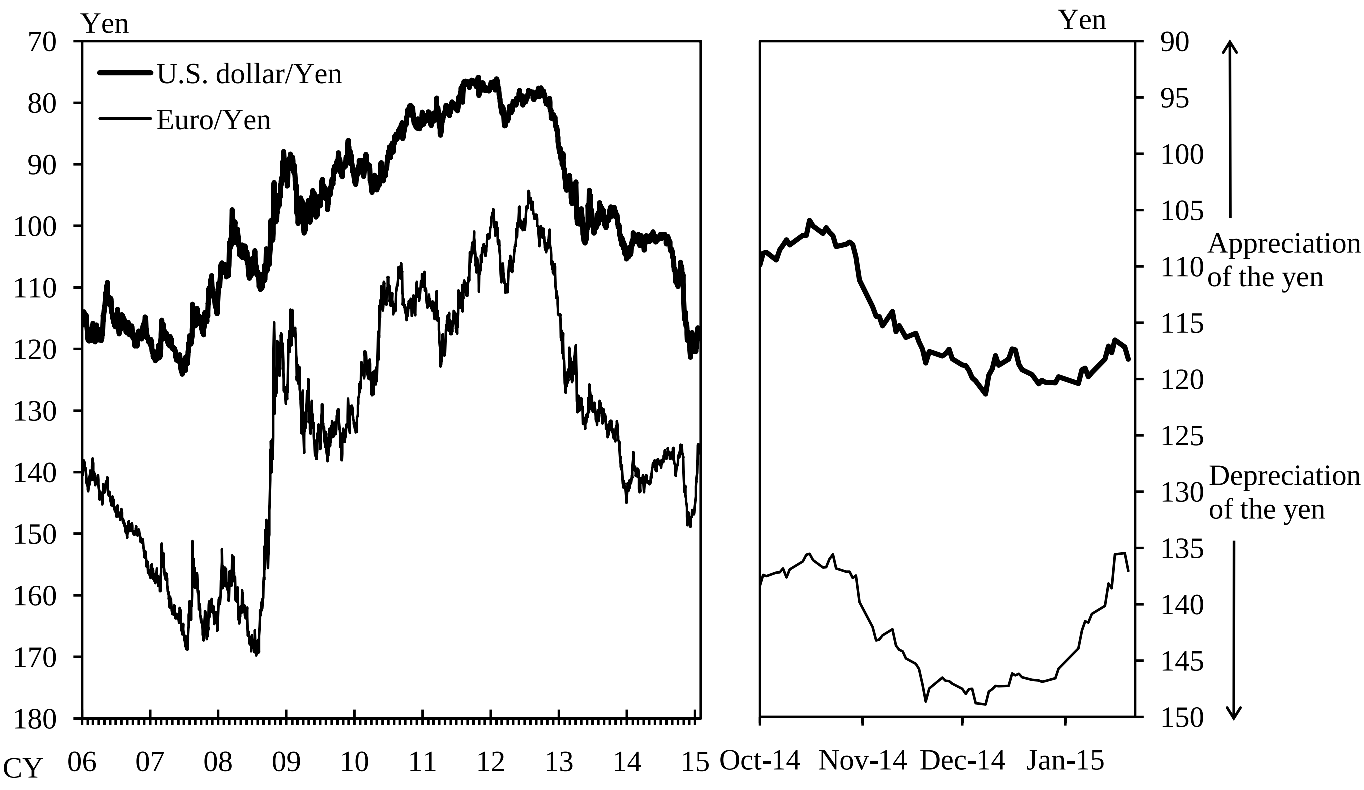


Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

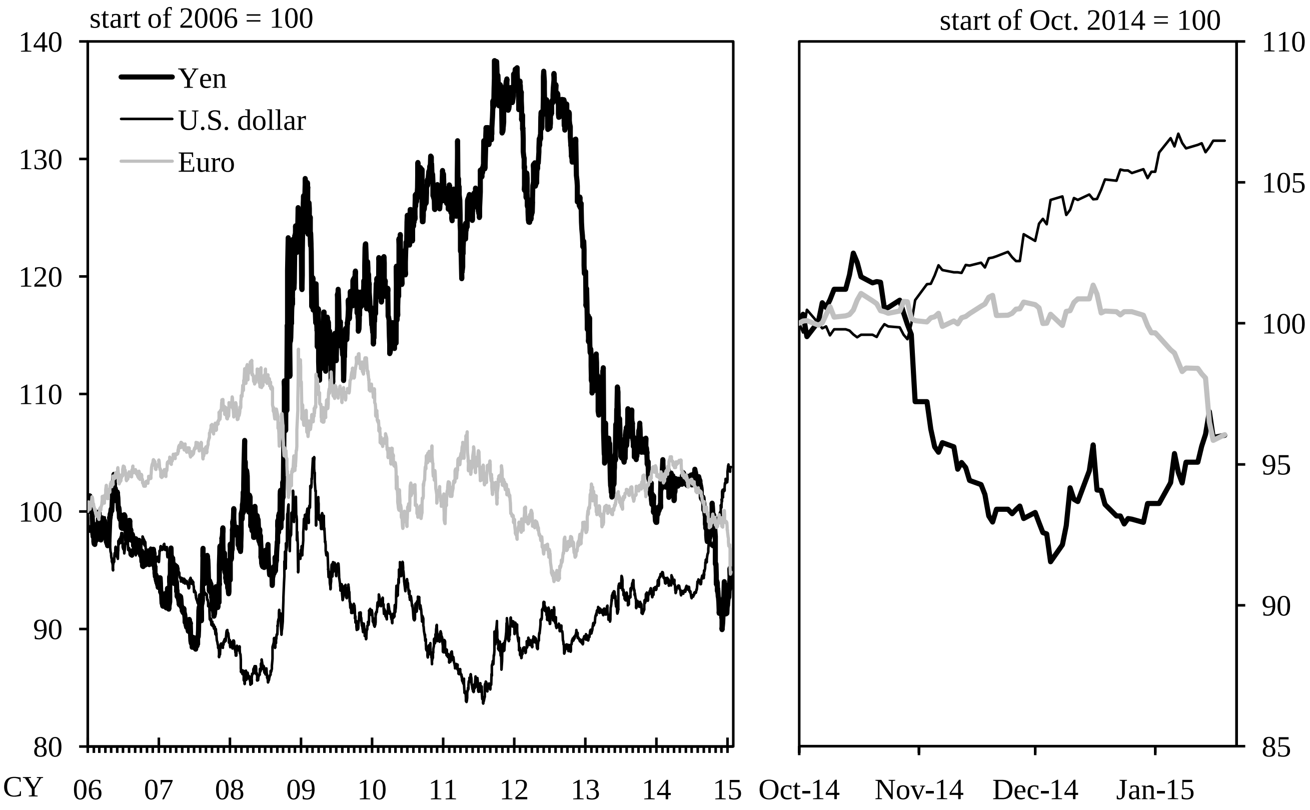
Chart 41

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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