November 24, 2015
Bank of Japan

Monthly Report of
Recent Economic and Financial Developments

November 2015

(English translation prepared by the Bank's staff based on the Japanese original released on November 20, 2015)

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Summary

Japan's economy has continued to recover moderately, although exports and production have been affected by the slowdown in emerging economies.

Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. Exports and industrial production have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has been picking up. Public investment has entered a moderate declining trend, although it remains at a high level.

With regard to the outlook, Japan's economy is expected to continue recovering moderately.

Exports are expected to remain more or less flat for the time being, but after that, they are likely to increase moderately, as emerging economies move out of their deceleration phase. As for domestic demand, public investment is expected to continue its moderate declining trend, albeit maintaining a somewhat high level. Business fixed investment is projected to continue increasing moderately as corporate profits follow their marked improving trend. Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily. Housing investment is projected to continue picking up. Reflecting these developments in demand both at home and abroad, industrial production is expected to remain more or less flat for the time being, but after that, it is likely to increase moderately.

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[1] This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on November 18 and 19, 2015.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.

On the price front, producer prices are declining relative to three months earlier, mainly due to the fall in international commodity prices, and the year-on-year rate of change in consumer prices (all items less fresh food) is about 0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, although some indicators have recently shown relatively weak developments.

With regard to the outlook, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of change in consumer prices is likely to be about 0 percent for the time being, due to the effects of 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 30-35 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 at around 2.5 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, stock prices have risen, while the value of the yen against the U.S. dollar has fallen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.

1. Economic Developments

Public investment has entered a moderate declining trend, although it remains at a high level. The amount of public construction completed—which reflects the progress of public works—has peaked (Chart 5). The value of public works contracted—a measure that reflects public orders—rose slightly in October compared with the third quarter, after having dropped markedly in the third quarter.

Public investment is expected to continue its moderate declining trend, albeit maintaining a somewhat high level.[2]

Real exports have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies (Charts 6[1] and 7). With the slowdown—mainly in the manufacturing sector—in emerging economies, including China, and the commodity-exporting economies, exports including those of capital goods have continued to show sluggish movements. Recently, however, exports of IT-related goods, which had been relatively weak thus far, have shown some signs of picking up.

Looking at movements in exports by region (Chart 7[1]), exports to the United States registered a quarter-on-quarter decline in the second quarter and more or less leveled off in the third quarter, but their moderate uptrend has been maintained, as these movements took place after the solid growth for three consecutive quarters until the first quarter. Taking a closer look, capital goods and parts have gone down recently, due mainly to the weakness in energy-related investment, while motor vehicles and their related goods have trended moderately upward, albeit with some fluctuations. Exports to the EU fell in the second quarter on a quarter-on-quarter basis, but moved up in the third quarter, chiefly in motor vehicles and their related goods. Exports to China have registered quarter-on-quarter decreases for three quarters in a row since the first quarter, as a reflection of the slowdown in the Chinese economy. On a month-on-month basis, however, the introduction of new smartphone products pushed September exports somewhat significantly upward,

[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.

chiefly of IT-related goods, including those for smartphone parts. Exports to NIEs have recently shown somewhat sluggish movements, primarily in intermediate goods and in capital goods and parts, but on a monthly basis, they rose for two straight months in August and September, mainly in IT-related parts. Exports to ASEAN increased in the third quarter on a quarter-on-quarter basis, although this rebound was relatively weak compared with the plunge in the previous quarter. The recent weakness in exports to NIEs and ASEAN is highly attributable to the slack in domestic demand in these regions as well as to the spillover of the economic slowdown in China through the trade channel. Meanwhile, exports to Others—which had continued to move moderately upward until the end of last year, supported in part by movements in foreign exchange rates—have recently shown somewhat weak movements, chiefly in motor vehicles and their related goods and in capital goods and parts, disregarding the fluctuations mainly of ships.

By goods (Chart 7[2]), exports of motor vehicles and their related goods increased firmly in the third quarter as a whole on a quarter-on-quarter basis, driven by the uptrend in those to the United States and Europe, whereas those to emerging economies were somewhat sluggish. Exports of IT-related goods—which had continued to decrease since the start of the year—exhibited a sizeable month-on-month increase in September, due to the effects of the introduction of new smartphone products. Exports of capital goods and parts—which had trended moderately upward until the end of last year—have continued to show relatively weak movements since the start of the year, mainly in construction machinery associated with natural resources and machine-tools for working metals. Exports of intermediate goods, including chemicals as well as iron and steel products, were more or less flat in the third quarter, after having moved downward in the second quarter, chiefly in those bound for Asia.

<u>Real imports</u> have continued their moderate increasing trend mainly as a reflection of movements in domestic demand (Charts 6[1] and 9).

Looking at movements in imports by goods (Chart 9[2]), those of IT-related goods—which had continued to fall since the first quarter—rose somewhat sharply in the third quarter on a quarter-on-quarter basis, as a reflection of the increase in imports associated with new smartphone products. Imports of consumer goods declined somewhat sharply in the second quarter, notably in textile products from China, but bounced back again in the third quarter. Imports of intermediate goods have trended moderately upward since the turn of the year, primarily in chemicals. Imports of capital goods and parts have continued to pick up as a trend, albeit with some fluctuations, mainly as a reflection of developments in business fixed investment at home. Meanwhile, imports of raw materials and foodstuff have stayed more or less flat, with the fluctuations smoothed out.

Net exports—in terms of the real trade balance—continued an improving trend, after bottoming in the first quarter last year, but they have recently moved down as a reflection of 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 surplus of the current account balance had continued its clear expanding trend since the fourth quarter of last year onward, due to (i) the ongoing surplus in primary income balance, (ii) the improvement in trade balance as a result of the pick-up in exports and the decline in crude oil prices, and (iii) the improvement in travel balance. Recently, however, the surplus has narrowed slightly, as a reflection of the aforementioned developments in exports and imports.

Regarding the environment surrounding exports, overseas economies—mainly advanced economies—have continued to grow at a moderate pace, despite the slowdown in emerging economies (Chart 8[2]). Looking at movements by major region, the U.S. economy has continued to recover firmly, assisted by the firmness in household spending, although production activity of the industrial production sector has lacked vigor, mainly on the back of the appreciation of the U.S. dollar and the slowdown in emerging economies. The European economy has continued to recover moderately. The Chinese economy—with downward pressure from an overhang of production capacities and inventory adjustments in the manufacturing sector—has continued to be in a state of deceleration. Emerging economies apart from China and the commodity-exporting economies have continued their subdued pace of growth in light of the slowdown in the Chinese economy, mainly in countries vulnerable to the decline in commodity prices and geopolitical risks, although the recovery in advanced economies has provided positive impetus. Meanwhile, the real effective exchange rate of the yen has been more or less flat at a depreciated level last recorded in 1973, and it is projected to continue underpinning exports, including those of services such as travel (Chart 8[1]).

Overseas economies, mainly advanced economies, are expected to continue their moderate growth as a trend, although the effects of the slowdown in emerging economies in Asia are likely to remain for the time being. By major region, the U.S. economy is expected to continue its recovery centered on the private sector. The European economy is projected to continue its moderate recovery, but attention should continue to be paid to such issues as the outcome of its debt problem, including the developments in Greece, and the effects of the slowdown in the Russian economy. The Chinese economy is expected to follow a stable growth path on the whole, as the authorities keep themselves engaged in supporting economic activity. However, there are concerns that the slowdown of the economy may remain acute for the time being, mainly in the manufacturing sector. As for the emerging economies apart from China and the commodity-exporting economies, their growth rates are expected to climb on the back of the positive effects from the recovery in advanced economies, despite the risk that they will remain sluggish, due partly to the effects of the slowdown in the Chinese economy.

Taking the above into consideration, exports are expected to remain more or less flat for the time being, but after that, they are likely to increase moderately, as emerging economies move out of their deceleration phase. Imports are projected to continue their moderate increasing trend, largely as a reflection of movements in domestic demand, although movements in foreign exchange rates are expected to exert downward pressure on imports. As a reflection of these developments in exports and imports, net exports are projected to continue a declining trend for the time being and then gradually resume their moderate improving trend.

<u>Business fixed investment</u> has been on a moderate increasing trend as corporate profits have continued to improve markedly. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment has been more or less flat for three quarters in a row since the first 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—exhibited a somewhat sharp decline in the third quarter, partly in reaction to orders for large projects in the previous quarter, after having increased on a quarter-on-quarter basis for four quarters in a row since the third quarter last year (Chart 11[1]). By industry, machinery orders of manufacturing declined somewhat significantly in the third quarter, after having increased firmly for four straight quarters until the second quarter. Machinery orders of nonmanufacturing have declined for two consecutive quarters. 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 have picked up again, albeit with fluctuations, since the turn of the year (Chart 11[2]). Planned construction expenses have recently been on a firm uptrend, assisted in part by elevated construction costs as well as by the rise in the unit cost of construction as a result of the increase in high value-added constructions.

Regarding the environment surrounding business fixed investment, corporate profits have continued to improve markedly. As for the outlook, corporate profits are expected to continue their marked improving trend, supported by the increase in domestic 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 increasing moderately as corporate profits follow their marked improving trend.

<u>Private consumption</u> has been resilient against the background of steady improvement in the employment and income situation (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—had dropped for two consecutive quarters in the first and second quarters due to lackluster sales of small cars and to the effects of irregular weather, but it increased noticeably in the third quarter on a quarter-on-quarter basis, partly in response to the plunge in the previous quarter. Meanwhile, looking at consumption of durable consumer goods (Chart 13[2]), the number of new passenger-car registrations—which had been

somewhat sluggish until around spring as a reflection of movements in small cars—has recently turned upward, supported in part by the introduction of new models. On a basis excluding small cars, it has been more or less flat with the fluctuations smoothed out. Sales of household electrical appliances in real terms have declined for two quarters in a row since the second quarter, affected mainly by lackluster sales of air conditioners as a result of irregular weather, after increasing for three consecutive quarters until the first quarter. Sales at department stores—although having dipped in the second quarter affected by irregular weather and by the shift in the timing of summer clearance sales—bounced back again in the third quarter on a quarter-on-quarter basis (Chart 14[1]). Sales at supermarkets increased, albeit slightly, in the third quarter as well, following quarter-on-quarter increases for two quarters in a row until the second quarter. Sales at convenience stores have continued to show their moderate increasing trend. Meanwhile, as for consumption of services (Chart 14[2]), outlays for travel have remained firm in domestic travel, although those in overseas travel have trended downward, affected by movements in foreign exchange rates as well as in part by concern over the situation overseas including terrorism and infectious diseases. Sales in the food service industry have recently increased moderately.

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—registered a quarter-on-quarter increase in the third quarter, after declining in the second quarter on a quarter-on-quarter basis.

Looking at indicators related to consumer confidence, the consumer confidence index—which had continued to improve as a trend since last winter—has more or less leveled off recently (Chart 15).

Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment has been picking up. The number of housing starts—a leading indicator of housing investment—has been picking up since the start of the year onward, mainly in housing for rent, albeit with fluctuations (Chart 16[1]).

Housing investment is projected to continue picking up with the employment and income situation continuing to improve steadily, also supported by accommodative financial conditions.

Industrial production has recently been more or less flat, due mainly to the effects of the slowdown in emerging economies and due partly to inventory adjustments (Chart 17). Firms' production activity has recently been more or less flat, due to the effects of the slowdown in emerging economies, and also due in part to the prolonged inventory adjustments of small cars at home. Lately, however, IT-related production—which had been exerting downward pressure thus far—has started to show some signs of picking up, on the back of the introduction of new smartphone products. Looking at quarterly movements by industry, production of transport equipment increased in the first quarter on a quarter-on-quarter basis, but has declined for two consecutive quarters since the second quarter, mainly due to inventory adjustments of small cars and to the sluggishness in exports bound for Asia. Production of iron and steel has continued to decline markedly, against the background of the spillover of the production cutbacks in small cars and the deterioration of supply and demand conditions in Asia as well as of inventory adjustments in line with these movements. Production of electronic parts and devices—which had declined for four straight months since May—turned noticeably upward in September, chiefly in parts for new smartphone products. Production of general-purpose, production and business oriented machinery has shown relatively weak movements as a whole, due to the effects of the slowdown in emerging economies, including China, although it has held steady for business fixed investment at home. Meanwhile, production of chemicals has been on a moderate increasing trend, as domestic shipments of cosmetics and other daily necessities, including those for foreign visitors to Japan, have held steady.

Shipments declined in the second quarter on a quarter-on-quarter basis, after increasing for two quarters in a row until the first quarter; they declined slightly in the third quarter as well (Chart 17[1]). By goods, shipments of non-durable consumer goods have been increasing moderately, mainly in food and beverage and in those for household use, on the back of resilient private consumption and increased sales to foreign visitors to Japan. In contrast, shipments of durable consumer goods have been more or less flat as a whole, affected strongly by the decline in shipments of passenger cars to emerging economies and of small cars to the domestic market, whereas those of passenger cars to Europe and the United States have trended upward. Shipments of capital goods—which had continued to trend moderately upward, as a reflection of movements in business fixed investment at home—have recently shown somewhat sluggish movements, affected partly by the slowdown in emerging economies. Shipments of construction goods have been more or less flat, with the fluctuations smoothed out, as movements were mixed with the pick-up in housing investment on the one hand, and the decline in public investment on the other. Meanwhile, shipments of producer goods—which had been relatively weak since the second quarter—have recently turned upward, mainly in parts for new smartphone products.

Inventories have stayed at a somewhat high level (Chart 17[1]). Movements show that inventories have remained at a relatively high level, chiefly in capital goods and small cars, although they fell in September compared with June, after exhibiting quarter-on-quarter increases for six straight quarters until June. By goods, inventories of capital goods have recently increased noticeably, mainly in engineering and construction machinery. In contrast, inventories of consumer goods have been on a moderate downtrend as a whole, although those of small cars and other goods appear to have remained high; inventories of construction goods have also trended downward, with the fluctuations smoothed out. Meanwhile, inventories of production goods have increased very moderately. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), although it has been on a moderate improving trend on the whole, growth in inventories has still marginally outpaced that in shipments (Chart 18[2]). By goods, growth in inventories of capital goods has significantly outpaced that in shipments; growth in inventories of producer goods has also marginally outpaced that in shipments. On the other hand, the shipment-inventory balance of consumer goods and that of construction goods have recently improved; their growth in inventories has been below that in shipments.

Industrial production is expected to remain more or less flat for the time being, but after that, it is likely to increase moderately, as emerging economies move out of their deceleration phase and as inventory adjustments progress. Based on anecdotes by firms and on other information, industrial production in the fourth quarter is expected to turn moderately upward on a quarter-on-quarter basis. By industry, production of transport equipment is expected to increase for the first time in three quarters, assisted in part by moves among firms to shift production bases back home and by the effects of the introduction of new models to the domestic market. Production of electronic parts and devices is expected to turn upward, primarily in parts for new smartphone products. On the other hand, production of general-purpose, production and business oriented machinery is expected to decline for the third straight quarter, albeit at a slower pace, due to the decline in metal cutting machinery and other machinery bound for China and also partly to the reactionary decline from the front-loaded increase in engineering and construction machinery driven by the tightening of motor vehicle emission control.

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.

As for supply and demand conditions in the labor market, the unemployment rate has continued a moderate improving trend, with the fluctuations smoothed out; it has recently been moving in the range of 3.0-3.5 percent, a level last seen in 1997 (Chart 19). New job openings have continued to trend upward, albeit with fluctuations, since the fourth quarter last year. Amid these developments, the ratio of new job openings has also continued its clear uptrend, and September registered a high level last seen in November 1991. As for the active job openings-to-applicants ratio, the improving trend has recently become evident; it recorded a high level in September, last seen in January 1992. Meanwhile, non-scheduled hours worked have been 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 in the range of 0.5 percent to around 1.0 percent, with the fluctuations smoothed out (Chart 21[1]). The number of regular employees in the *Monthly Labour Survey* has continued to register somewhat high growth at about 2 percent.

Total cash earnings per employee have risen moderately, disregarding special cash earnings (Chart 21[2]).[3] Taking a somewhat closer look, the year-on-year rate of increase in scheduled cash earnings has expanded at a moderate pace as a whole since the rate of increase in scheduled cash earnings of full-time employees has accelerated at a moderate pace, mainly due to the effects of the rise in base wages, with the effects of downward pressure on earnings stemming from the increase in the ratio of part-time workers tending to wane moderately (Chart 20[3]). Non-scheduled cash earnings have also been increasing markedly since July onward on a year-on-year basis. Meanwhile, special cash earnings have continued to show large fluctuations as those paid in June-August—which covers summer bonuses—registered a somewhat large year-on-year decline, while September saw a sizeable increase.[4]

<u>Employee income</u> has risen moderately, albeit with fluctuations, 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.

[3] In the *Monthly Labour Survey*, samples for establishments with 30 or more employees—subject to replacement every few years—were replaced from the January 2015 final report. Replacements are carried out in terms of wages and hours worked by revising the current gap between the old and new survey results retroactively to the time of the previous replacement. As a result, the year-on-year growth of total cash earnings from February 2012 onward was revised downward by about 0.3 percentage points on average.

[4] The year-on-year rate of decline in special cash earnings paid in June-August was significant for establishments with 30 or more employees whose samples were replaced in January this year.

2. Prices

International commodity prices have recently been somewhat weak, after having declined sharply since July, mainly in view of decreased demand in line with the slowdown in emerging economies (Chart 23[1] and [3]). Prices of crude oil have been more or less flat temporarily, after having fallen significantly due to the effects of the slowdown in emerging economies, notably in China, as well as to the outlook over a possible expansion in crude oil exports from Iran in line with the lifting of economic sanctions, and partly in view of the firmness in the number of oil drilling rigs in operation in the United States. Recently, however, crude oil prices have become somewhat weak again, on the back of the appreciation of the U.S. dollar and of a pile-up in inventories of crude oil in the United States. Prices of nonferrous metals and grains—which had continued to fall as a result of decreased demand in line with the slowdown in the Chinese economy—have more or less leveled off recently. Meanwhile, prices of iron ore and of thermal coal have continued to show somewhat sluggish movements.

Import prices (on a yen basis) have been declining relative to three months earlier, as a reflection of movements in international commodity prices and foreign exchange rates (Chart 23[2]).

Producer prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) are declining relative to three months earlier, mainly due to the fall in international commodity prices (Chart 24[2]).[5] Looking in detail at producer price movements, prices of "goods sensitive to exchange rates and overseas commodity prices" have continued to be negative, as a reflection of the decline in petroleum & coal products and in nonferrous metals. Prices of "other materials" have recently declined at an accelerated pace as well, in response to the weakness in chemicals & related products on the back of the deterioration in supply and demand conditions in Asia. Prices of "iron & steel and construction goods" have also declined at a faster pace, due mainly to the decline in scrap & waste and in iron &

[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.

steel as a result of the deterioration in supply and demand conditions in Asia. Prices of "electric power, gas & water" have continued to fall, albeit at a somewhat subdued pace, due to adjustments in prices of fuel surcharges for electric power and gas in response to the decline in crude oil prices. On the other hand, prices of "others" have somewhat expanded their rate of increase lately, as a reflection of a rise in agriculture, forestry & fishery products. Meanwhile, prices of "machinery" have continued to be more or less flat, albeit with some fluctuations.

The year-on-year rate of increase in services producer prices (excluding international transportation; year-on-year basis, same hereafter) has been moving at around 0.5 percent (Chart 25). Looking in detail at recent services producer price movements on a year-on-year basis, the rate of increase in prices related to "selling, general and administrative expenses" has continued an expanding trend as a whole since (i) temporary employment agency services has risen on the back of tightening supply and demand conditions in the labor market and (ii) hotel services has risen markedly due to the firmness in demand from sightseeing and businesses, although advertising services has continued to be virtually flat with the fluctuations smoothed out. Prices related to "fixed investment" have continued to exhibit somewhat high growth, mainly due to the rise in civil engineering and architectural services. Prices of "domestic transportation" have reduced their pace of increase as a whole compared to a while ago, due to price declines in coastal and inland water freight transportation on the back of movements in fuel prices. Prices of "others" have tended to narrow their rate of increase as a whole, with the slowdown in the pace of increase in finance and insurance (financial services, etc.) since April. Meanwhile, prices of "real estate services," including office space rental, have continued to be more or less flat, albeit with fluctuations.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is about 0 percent (Chart 26[1]). Consumer prices for September, on an all items less fresh food basis, registered negative 0.1 percent, on par with that of the previous month. In contrast, on an all items less fresh food and energy basis (Chart 27[2]), the year-on-year rate of increase has been expanding again after bottoming in January-February, and it stood at positive 1.2 percent in September, noticeably surpassing the recent peak in February last year (an increase of 0.9 percent). Regarded as a method for capturing trend changes, the year-on-year rate of increase in the trimmed mean has recently been around 0.5 percent, albeit with some fluctuations (Chart 27[1]).[6] Meanwhile, the indicator—showing the difference between the share of items in the consumer price index for which prices have risen compared to the previous year and that for which prices have declined—has risen markedly since April (Chart 27[3]), and it has moved markedly above the recent peak (October 2008) in September.

Looking at the recent year-on-year rate of change in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have recently continued to improve steadily, with the exception of petroleum products. Looking in detail, the rate of increase in prices of food products has continued to be on an expanding trend since April in the face of the pick-up in private consumption, since movements of price increases were seen across a broad range of items on the back of cost increases as a result of movements in foreign exchange rates. Prices of durable goods have risen at a faster pace after bottoming in February; the pace of increase has expanded noticeably since June, supported in part by price increases of TV sets and white goods. Prices of other goods have also continued to increase at an accelerated pace since May, mainly in items related to daily necessities. On the other hand, prices of petroleum products have continued to decline markedly at an accelerated pace since November last year, as a reflection of movements in crude oil prices. Meanwhile, prices of clothes have increased marginally, with the fluctuations smoothed out.

Prices of general services have recently risen at a faster pace. Looking in detail, prices of meals outside the home have expanded their rate of increase markedly from April onward, due to price increases on the back of elevated materials prices and wage increases. Prices of other services have also recently expanded their increase at a moderate pace. Taking a closer look, downward pressure on prices of mobile telephone charges stemming from the introduction of new price plans at the same time last year had been on the wane since June and this effect completely wore off in August. Prices of hotel charges have continued to rise steadily, albeit with some

[6] 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.

fluctuations, on the back of firm demand from foreign visitors to Japan. Moreover, movements to raise some prices of services related to domestic duties have been seen as a reflection of increased personnel expenses. These price increases, however, were not observed in services related to medical care & welfare and services related to education; prices of package tours to overseas have recently stayed somewhat weak. Meanwhile, prices of rent—which account for a large share of general services—have continued to decline slightly, although the rate of decline narrowed marginally in September.

As for fees for public services, the year-on-year rate of change has continued to decline markedly from April onward and prices have declined at a faster pace since July. This is because the negative contribution from electricity prices and gas prices as a result of the Fuel Cost Adjustment System has expanded noticeably, on top of downward pressure stemming from factors such as the decline in nursery school fees due to institutional changes since April.

With regard to the outlook, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of change in consumer prices is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

Meanwhile, inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, although some indicators have recently shown relatively weak developments (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 30-35 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 at around 2.5 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 32). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been 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 October reading was 3.6 percent on a year-on-year basis, following 3.8 percent in September (Chart 34).[7]

(2) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been slightly negative. Both the Euroyen interest rate (3-month) and interest rates on Euroyen futures have been virtually level (Chart 36). Meanwhile, Japanese banks' foreign currency funding conditions have remained stable on the whole, although premiums for the U.S. dollar funding through the dollar/yen foreign exchange swap market have risen due to the tightening in the supply-demand balance (Chart 37).

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[7] On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3 percent; its October reading was 2.9 percent, following 3.1 percent in September. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 4 percent; it increased by 3.9 percent in October, following an increase of 4.2 percent in September.

Yields on 10-year government bonds (newly issued 10-year JGB) have been more or less flat; they are recently hovering around 0.3 percent (Chart 38).

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

Stock prices have risen, mainly in response to the increase in U.S. and European stock prices. The Nikkei 225 Stock Average is recently moving in the range of 19,500-20,000 yen (Chart 40).

In the foreign exchange market, the yen's exchange rate has depreciated against the U.S. dollar, mainly due to speculations about U.S. monetary policies; the yen is currently moving in the range of 123-124 yen against the U.S. dollar. The yen's exchange rate has appreciated against the euro, primarily due to speculations about monetary policies in the euro area; the yen is recently moving at around 132 yen against the euro (Chart 41).

Charts

Main Economic Indicators (1)

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

	2015/Q1	Q2	Q3	2015/Jul.	Aug.	Sep.	Oct.
Index of consumption expenditure level (two-or-more-person households)	0.5	-1.3	0.8	0.4	2.9	-2.1	n.a.
Sales at department stores	2.1	-2.3	1.6	2.9	1.4	0.1	n.a.
Sales at supermarkets	0.6	0.5	0.2	0.1	1.4	-1.1	n.a.
New passenger-car registrations[3] <s.a., ann. 10,000 units>	< 268>	< 277>	< 270>	< 266>	< 277>	< 267>	< 272>
Sales of household electrical appliances (real, "Current Survey of Commerce")	3.6	-5.7	-4.1	5.4	3.1	-8.6	n.a.
Outlays for travel	0.0	-1.8	2.1	-0.3	0.3	9.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 90>	< 96>	< 92>	< 91>	< 93>	< 90>	<n.a.>
Machinery orders[4] (Private sector, exc. volatile orders)	6.3	2.9	-10.0	-3.6	-5.7	7.5	n.a.
Manufacturing	2.3	12.1	-15.3	-5.3	-3.2	-5.5	n.a.
Nonmanufacturing[4] (exc. volatile orders)	8.5	-1.7	-6.5	-6.0	-6.1	14.3	n.a.
Construction starts (private, nondwelling use)	-4.4	6.3	-4.4	15.1	-13.6	-2.1	n.a.
Mining & manufacturing	4.8	4.4	15.3	10.7	42.5	-19.6	n.a.
Nonmanufacturing[5]	-6.8	5.0	-8.2	17.1	-26.2	5.9	n.a.
Value of public works contracted	-1.2	10.2	-12.0	-6.5	6.5	-11.6	7.6
Real exports	1.0	-3.6	0.2	0.8	-0.3	1.9	n.a.
Real imports	0.8	-1.8	2.6	2.2	0.1	3.7	n.a.
Industrial production	1.5	-1.4	-1.2	-0.8	-1.2	1.1	n.a.
Shipments	1.7	-2.4	-0.6	-0.4	-0.7	1.4	n.a.
Inventories	1.0	1.1	-0.9	-0.8	0.3	-0.4	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 114.4>	< 113.5>	< 115.5>	< 112.2>	< 119.2>	< 115.5>	<n.a.>
Real GDP	1.1	-0.2	-0.2	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.1	-0.3	n.a.	-0.1	-0.2	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.[1]

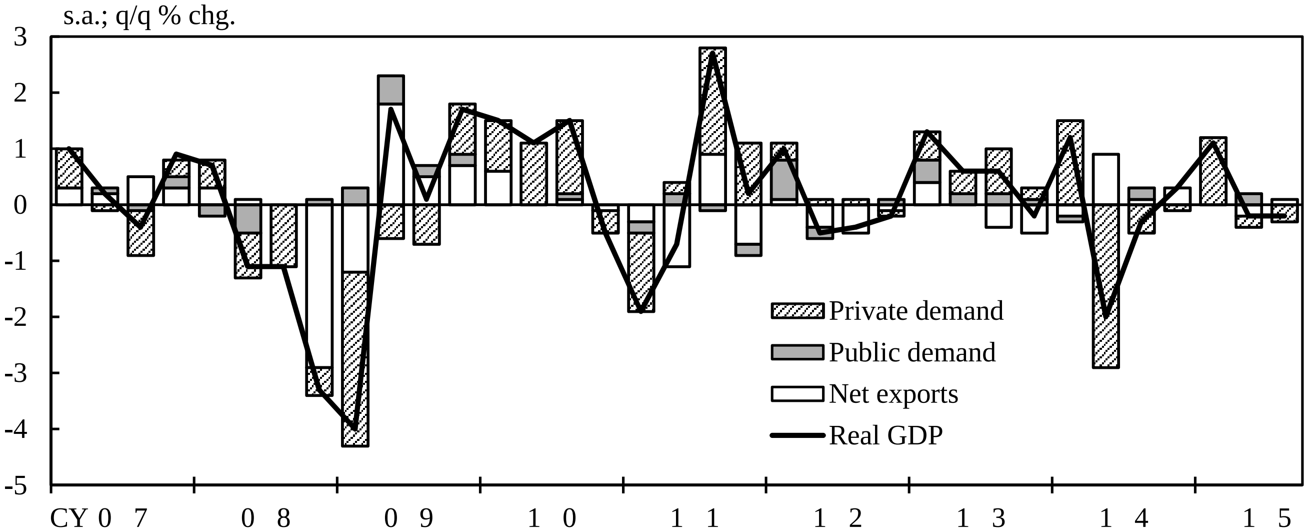
	2015/Q1	Q2	Q3	2015/Jul.	Aug.	Sep.	Oct.
Active job openings-to-applicants ratio <s.a., times>	< 1.15>	< 1.18>	< 1.22>	< 1.21>	< 1.23>	< 1.24>	<n.a.>
Unemployment rate <s.a., %>	< 3.5>	< 3.3>	< 3.4>	< 3.3>	< 3.4>	< 3.4>	<n.a.>
Non-scheduled hours worked[6]	-0.6	-1.6	p -1.1	-0.7	-0.8	p -1.8	n.a.
Number of employees	0.9	0.7	0.7	0.6	0.7	0.9	n.a.
Number of regular employees[6]	2.0	2.0	p 2.0	2.0	2.0	p 2.0	n.a.
Nominal wages per person[6]	0.2	-0.7	p 0.6	0.9	0.4	p 0.6	n.a.
Producer price index	0.5	-2.2	-3.6	-3.1	-3.6	-4.0	p -3.8
<excluding consumption tax, y/y % chg.>	<-2.3>	<-2.2>	<-3.5>	<-3.0>	<-3.5>	<-4.1>	<p -3.7>
<q/q % chg., 3-month rate of change>[7]	<-1.7>	< 0.3>	<-1.2>	<-0.5>	<-1.3>	<-1.7>	<p -1.6>
Consumer price index[8]	2.1	0.1	-0.1	0.0	-0.1	-0.1	n.a.
<consumption tax adjusted, y/y % chg.>	< 0.1>	< 0.0>					
Services producer price index[9]	3.2	0.6	p 0.7	0.6	0.8	p 0.6	n.a.
<excluding consumption tax, y/y % chg.>	< 0.5>	< 0.6>	<p 0.7>	< 0.6>	< 0.8>	<p 0.7>	<n.a.>
Money stock (M2) <average outstanding, y/y % chg.>	3.5	3.9	4.0	4.0	4.2	3.8	p 3.6
Number of corporate bankruptcies <cases per month>	<757>	<765>	<697>	<787>	<632>	<673>	<742>

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 orders 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)."

Real GDP and Indexes of Business Conditions

(1) Real GDP



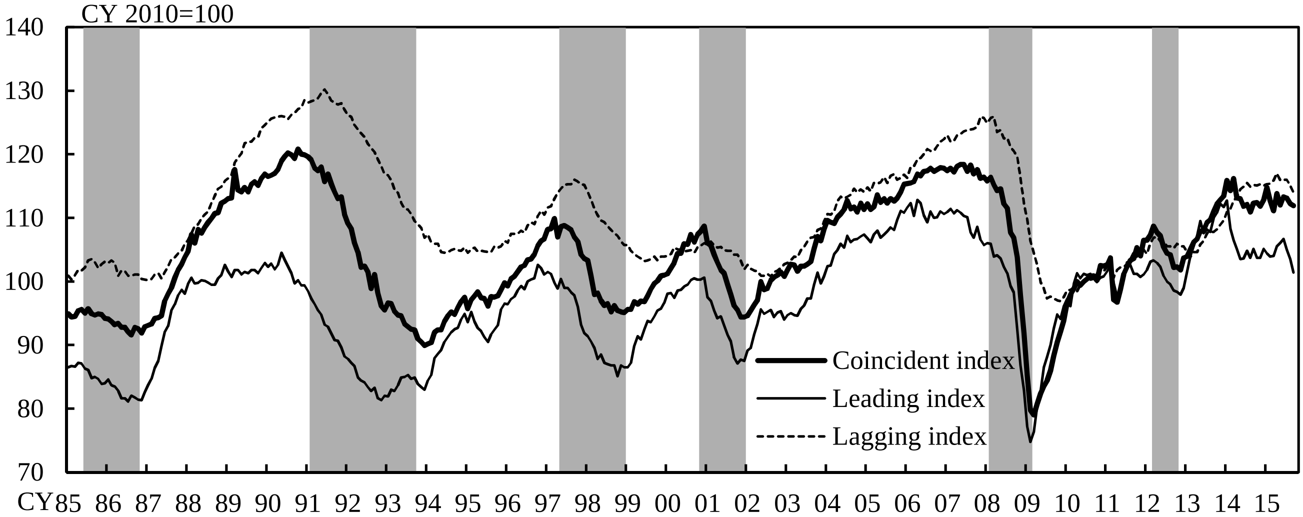
(2) Components

s.a.; q/q % chg.

	2014		2015		
	Q3	Q4	Q1	Q2	Q3
Real GDP	-0.3	0.3	1.1	-0.2	-0.2
[Annual rate]	[-1.1]	[1.2]	[4.6]	[-0.7]	[-0.8]
Domestic demand	-0.3	-0.0	1.2	0.0	-0.3
Private demand	-0.5	-0.1	1.2	-0.2	-0.3
Private consumption	0.1	0.2	0.3	-0.3	0.3
Non-Resi. investment	0.0	0.0	0.3	-0.2	-0.2
Residential investment	-0.2	-0.0	0.1	0.1	0.1
Private inventory	-0.5	-0.3	0.5	0.3	-0.5
Public demand	0.2	0.0	-0.0	0.2	0.0
Public investment	0.1	0.0	-0.1	0.1	-0.0
Net exports of goods and services	0.1	0.3	-0.0	-0.2	0.1
Exports	0.3	0.5	0.4	-0.8	0.5
Imports	-0.2	-0.2	-0.4	0.6	-0.4
Nominal GDP	-0.5	0.7	2.2	0.2	0.0

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

(3) Indexes of Business Conditions (Composite Indexes)

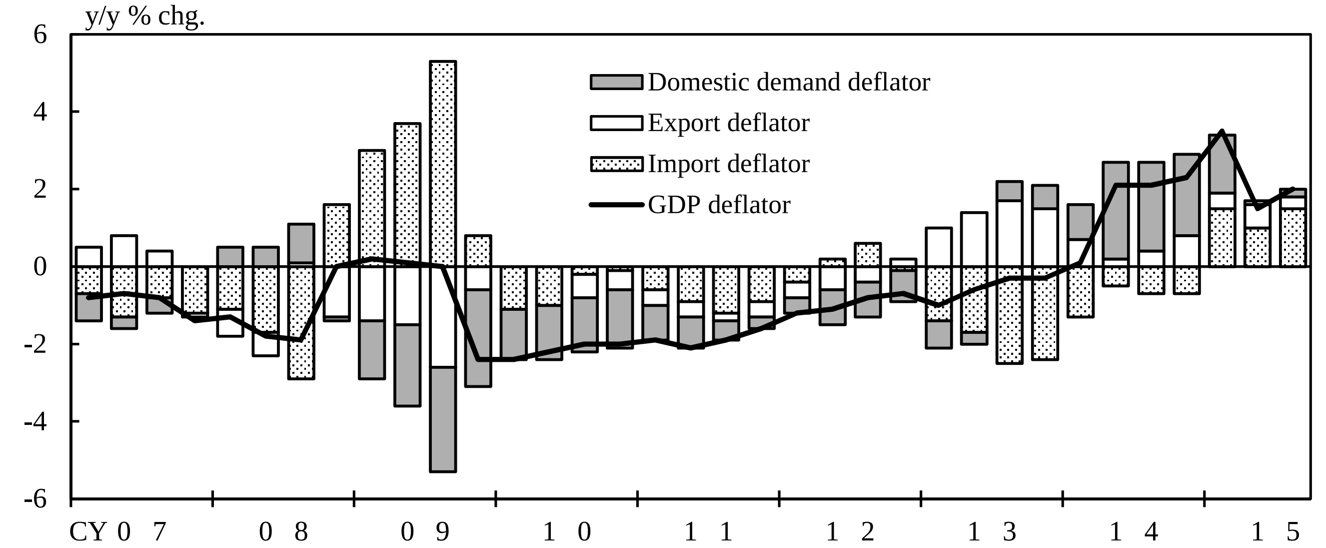


Note: Shaded areas indicate recession periods.

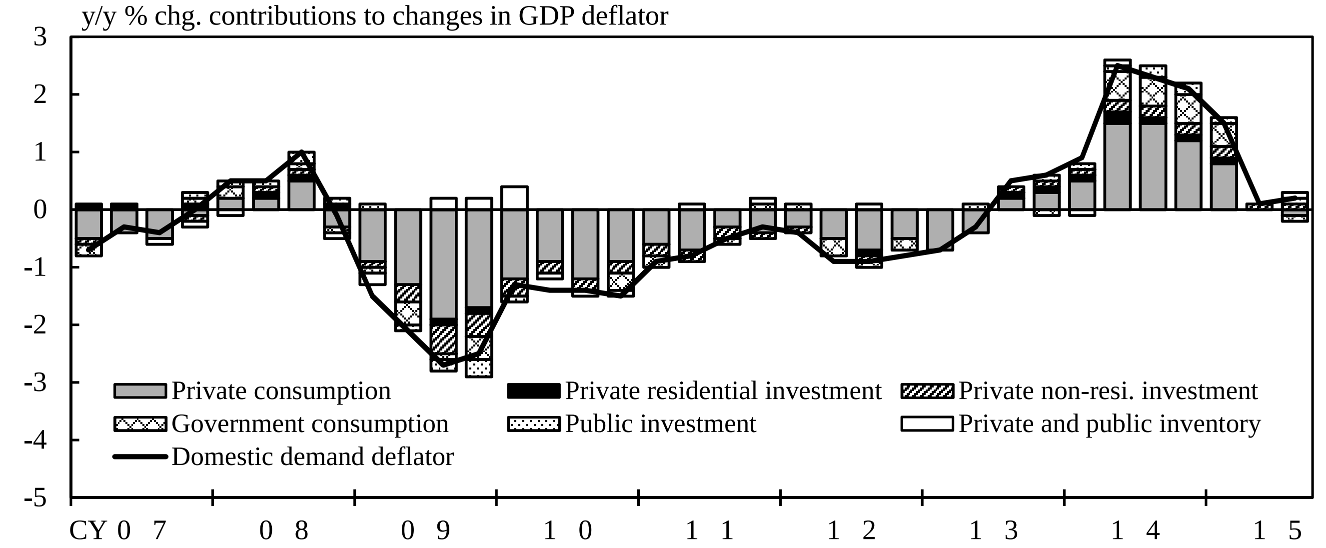
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

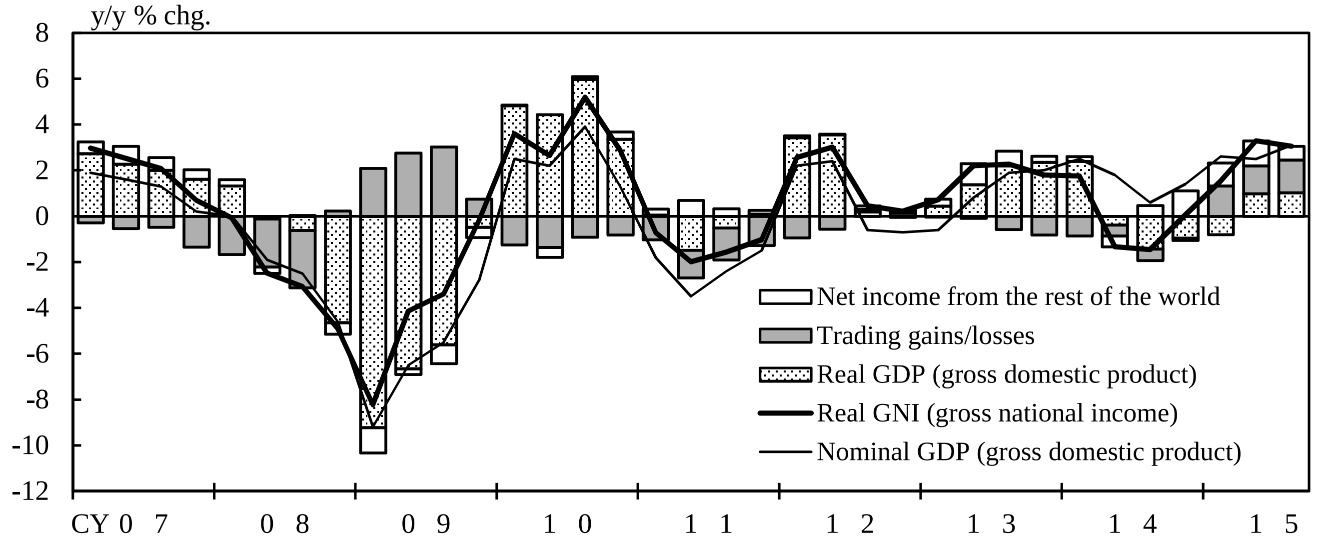
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

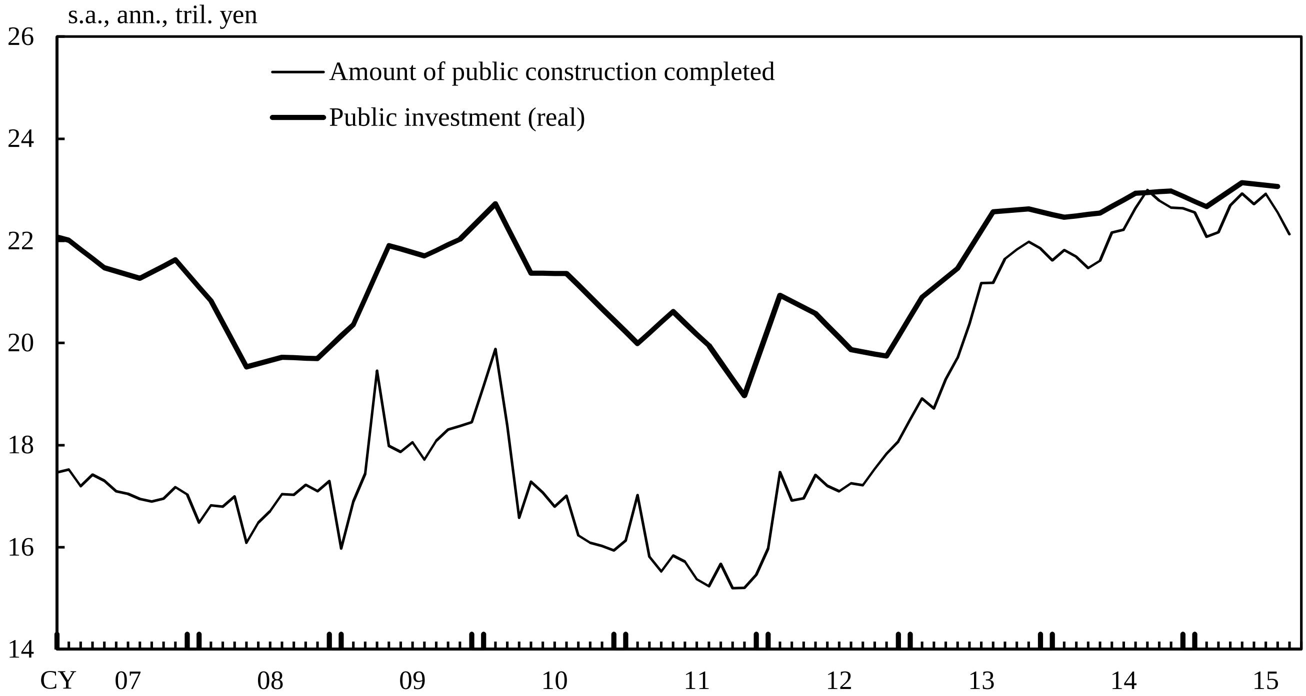
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

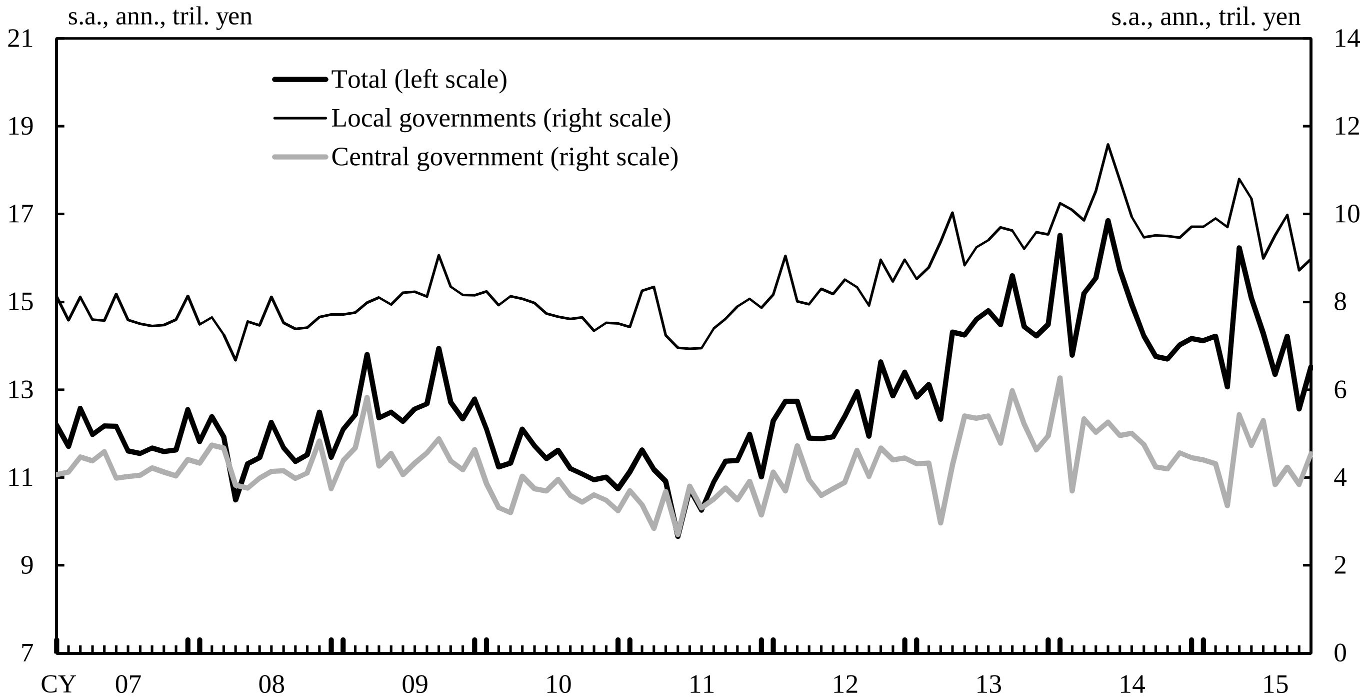
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

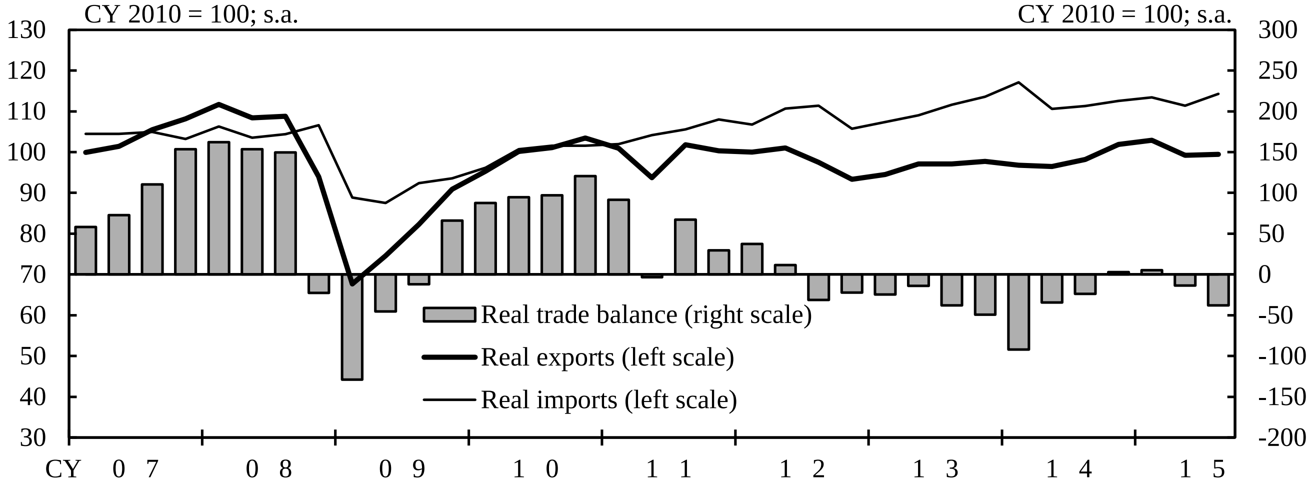


Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."
3. Figures of the value of public works contracted and the amount of public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

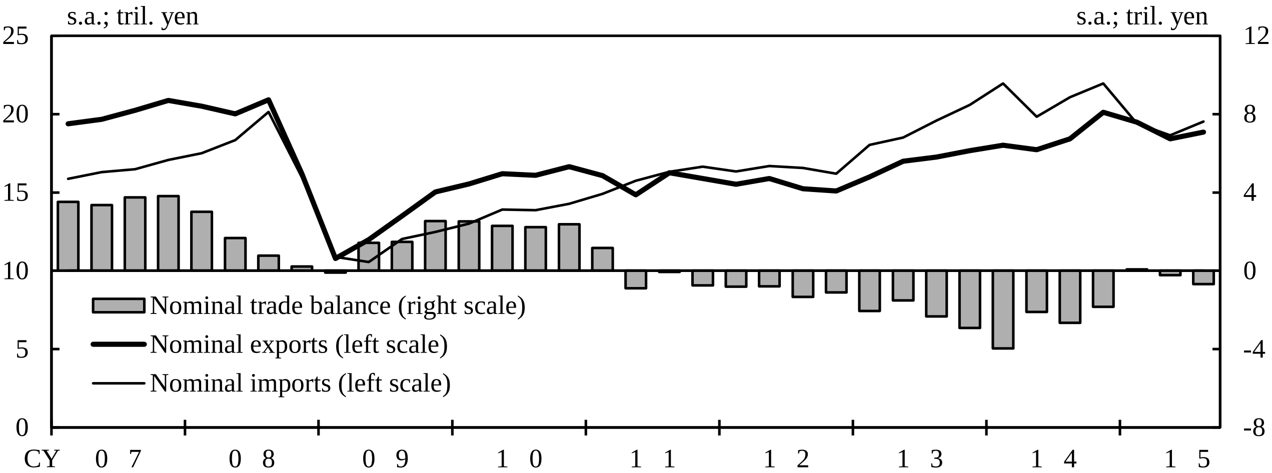
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance [1]

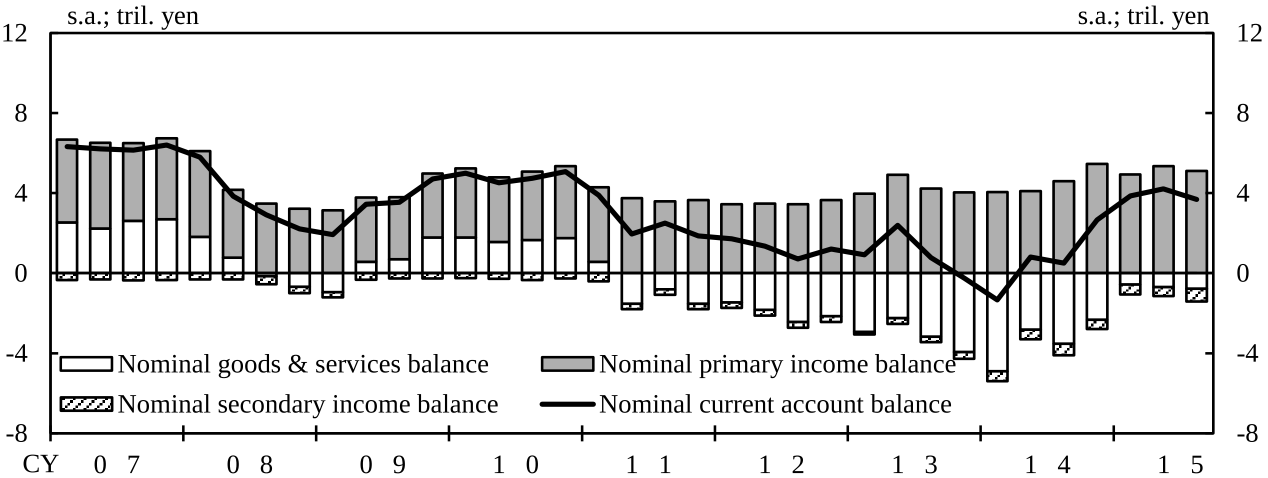
(1) Real Exports, Real Imports, and Real Trade Balance[2]



(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.
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

		CY 2013	CY 2014	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Jul.	2015 Aug.	2015 Sep.
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
United States	<18.7>	2.8	1.8	1.0	6.9	5.7	-3.6	-0.3	0.7	-0.7	2.8
EU	<10.4>	-3.6	5.2	0.0	-1.5	3.0	-2.6	2.3	1.0	-4.3	0.1
East Asia	<50.3>	-3.0	1.1	1.5	3.1	0.8	-4.0	-0.5	-0.8	-0.3	3.2
China	<18.3>	-1.7	3.5	0.5	1.5	-2.1	-0.7	-2.6	-0.0	-3.4	4.4
NIEs	<21.8>	-1.0	2.0	3.1	5.4	1.2	-3.0	-0.7	-5.5	3.3	4.0
Korea	<7.5>	0.4	-3.9	2.8	5.1	-1.1	-4.4	-2.2	-5.1	3.8	1.3
Taiwan	<5.8>	-1.5	1.7	1.3	1.7	3.0	-1.3	3.9	4.7	-0.6	-3.6
Hong Kong	<5.5>	-1.4	8.7	3.9	4.3	3.0	-2.0	-1.8	-9.7	0.8	10.6
Singapore	<3.0>	-2.8	6.5	7.3	12.7	4.2	-6.7	-4.1	-16.6	13.3	11.3
ASEAN4 [3]	<10.2>	-8.5	-4.7	-0.2	1.1	5.3	-11.9	3.8	9.4	-2.6	-0.7
Thailand	<4.5>	-9.3	-7.8	1.6	0.8	5.8	-11.4	6.2	8.1	-4.4	2.5
Others	<20.7>	-5.0	1.2	2.2	1.7	-0.9	-3.1	1.1	6.3	-1.2	-2.4
Real exports		-1.9	1.7	1.8	3.8	1.0	-3.6	0.2	0.8	-0.3	1.9

(2) Breakdown by Goods

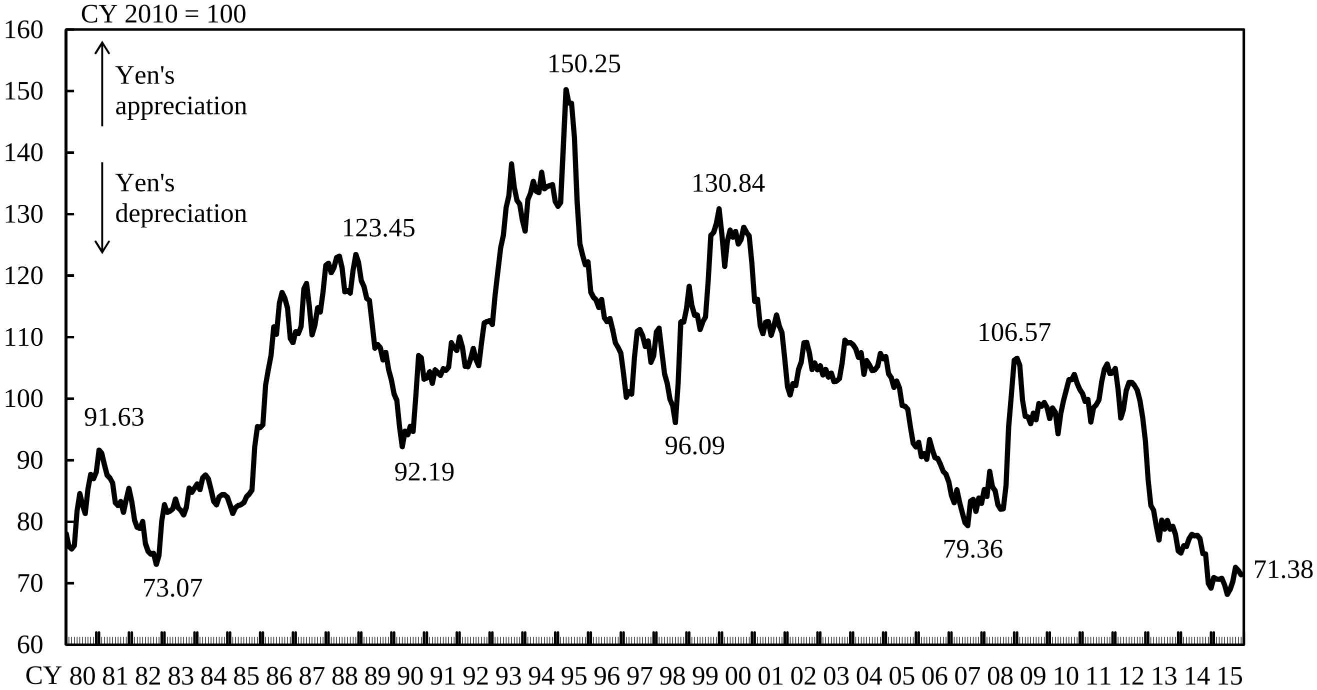
		CY 2013	CY 2014	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Jul.	2015 Aug.	2015 Sep.
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
Intermediate goods	<20.9>	1.2	0.1	-0.5	2.3	1.2	-4.5	-0.2	1.9	1.7	-0.1
Motor vehicles and their related goods	<23.6>	-1.4	-1.4	2.5	-0.9	-1.1	-1.5	2.6	-0.5	-2.9	3.5
IT-related goods [4]	<10.6>	-7.5	3.6	1.7	3.3	-0.3	-4.5	-1.4	-0.6	-2.8	7.7
Capital goods and parts [5]	<27.8>	-5.8	3.1	2.3	3.7	-1.8	-4.6	-0.0	2.8	-1.1	-1.9
Real exports		-1.9	1.7	1.8	3.8	1.0	-3.6	0.2	0.8	-0.3	1.9

Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Shares of each region and goods in 2014 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.
5. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate (Monthly Average)



Notes: 1. Figures are based on the broad index of the BIS effective exchange rate, and those prior to 1994 are calculated using the narrow index.
2. Figures for October and November (up to November 17) 2015 have been calculated using the monthly average of the BOJ's nominal effective exchange rate (the Yen Index).

(2) Real GDP Growth Rates of Overseas Economies

s.a., ann., q/q % chg.

	CY2012	2013	2014	2014 Q4	2015 Q1	Q2	Q3
United States[1]	2.2	1.5	2.4	2.1	0.6	3.9	1.5
European Union[2]	-0.5	0.2	1.4	2.0	2.2	1.8	1.5
Germany[1]	0.4	0.3	1.6	2.5	1.4	1.8	1.3
France[1]	0.2	0.7	0.2	0.5	2.9	0.2	1.4
United Kingdom[1]	1.2	2.2	2.9	3.0	1.5	2.6	2.0
East Asia[3]	5.1	4.9	4.7	4.6	3.7	2.9	n.a.
China[1]	7.7	7.7	7.3	7.0	5.3	7.4	7.4
NIEs[1,3]	2.3	3.0	3.2	1.8	3.0	-1.2	2.7
ASEAN4[1,3,4]	6.6	4.3	3.4	6.1	2.4	3.8	n.a.
Main economies[3]	3.7	3.6	3.7	3.7	2.8	3.0	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-12-ARIMA.

Real Imports [1]

(1) Breakdown by Region

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

		CY		2014		2015			2015		
		2013	2014	Q3	Q4	Q1	Q2	Q3	Jul.	Aug.	Sep.
United States	<8.8>	-2.1	5.5	5.5	-0.7	3.2	2.0	-4.2	-0.5	0.9	-3.8
EU	<9.5>	0.8	2.6	-1.8	-0.8	-1.9	2.1	6.2	9.6	4.1	-10.6
East Asia	<41.3>	2.5	2.8	-0.4	3.3	1.0	-5.8	4.0	2.7	1.6	5.8
China	<22.3>	5.4	3.9	-0.1	3.5	-2.0	-6.3	6.9	4.4	2.7	6.3
NIEs	<8.3>	-0.4	1.5	1.4	-1.7	3.4	1.2	-0.2	-3.9	3.7	6.2
Korea	<4.1>	-4.8	-3.0	-2.4	-0.5	0.3	3.1	-7.4	-5.5	8.4	3.7
Taiwan	<3.0>	8.0	5.2	3.0	-0.6	5.3	-0.7	2.0	-1.9	-2.2	0.4
Hong Kong	<0.2>	9.2	6.0	3.4	-1.3	14.2	-1.7	11.8	33.7	-47.0	58.6
Singapore	<1.0>	-7.0	8.5	0.9	-0.3	11.4	-2.5	8.6	-12.1	6.1	20.4
ASEAN4 [3]	<10.7>	-1.2	1.1	-2.7	7.2	6.0	-10.1	1.1	4.9	-2.4	4.2
Thailand	<2.7>	1.5	2.7	-0.5	2.0	6.1	-4.2	-0.6	-6.3	5.3	0.7
Others	<40.4>	0.2	0.1	1.4	-1.9	3.6	-1.5	2.8	3.5	-1.9	4.6
Real imports		0.9	2.1	0.7	1.1	0.8	-1.8	2.6	2.2	0.1	3.7

(2) Breakdown by Goods

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

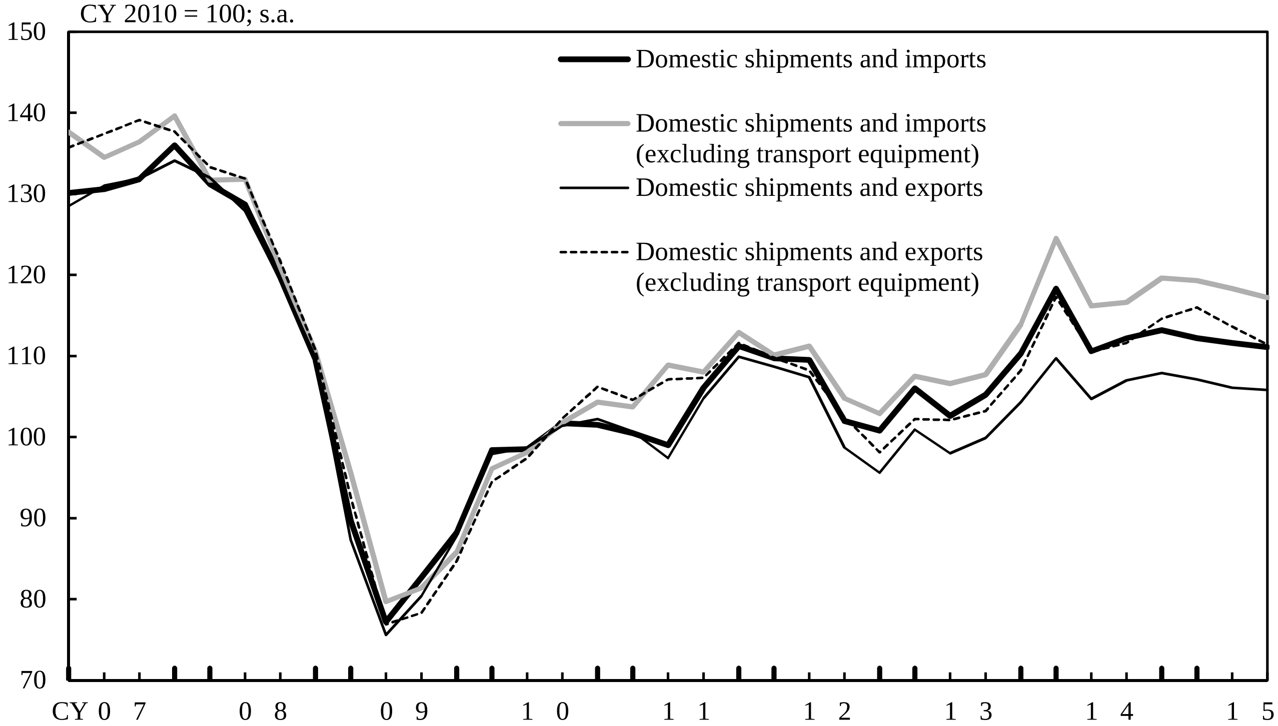
		CY		2014		2015			2015		
		2013	2014	Q3	Q4	Q1	Q2	Q3	Jul.	Aug.	Sep.
Raw materials [4]	<38.7>	-2.1	-1.1	1.2	-1.5	4.8	-3.8	5.0	7.3	-1.8	4.8
Intermediate goods	<13.3>	-2.7	4.2	-0.7	-0.0	4.0	-0.2	1.0	1.4	2.5	-4.8
Foodstuffs	<7.8>	-3.3	-1.6	2.4	-2.7	0.1	3.0	-2.4	-3.5	2.9	5.9
Consumer goods [5]	<7.7>	4.1	-0.3	1.8	1.5	2.3	-7.5	3.6	0.0	3.9	1.8
IT-related goods [6]	<13.0>	12.8	5.8	0.5	10.0	-8.3	-4.6	9.2	6.5	-0.3	14.8
Capital goods and parts [7]	<12.3>	4.7	8.2	2.5	0.8	1.4	-2.7	-1.2	-1.4	0.7	3.7
Excluding aircraft	<11.5>	5.3	9.0	1.0	0.3	2.9	-4.0	1.3	0.9	3.1	1.9
Real imports		0.9	2.1	0.7	1.1	0.8	-1.8	2.6	2.2	0.1	3.7

Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Shares of each region and goods in 2014 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.
4. Raw materials are mainly composed of woods, ores, and mineral fuels.
5. Excludes foodstuffs.
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.
7. Excludes IT-related goods.

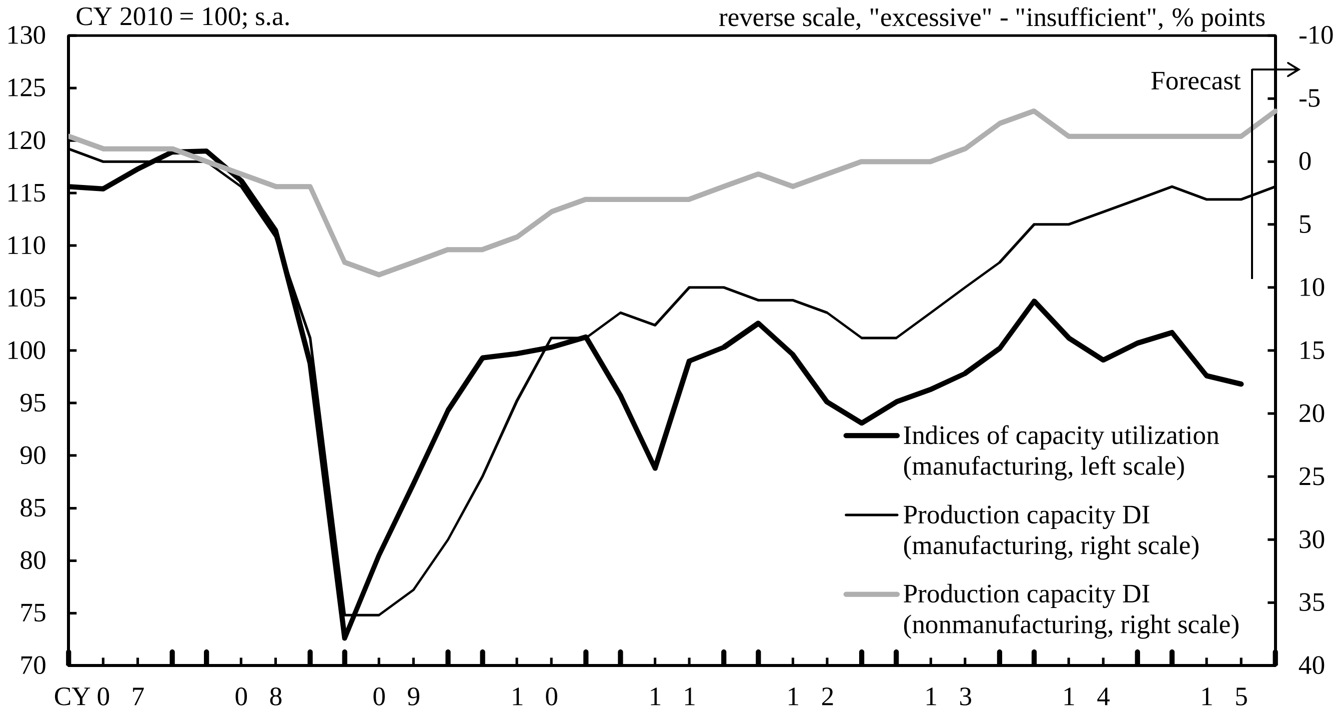
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI

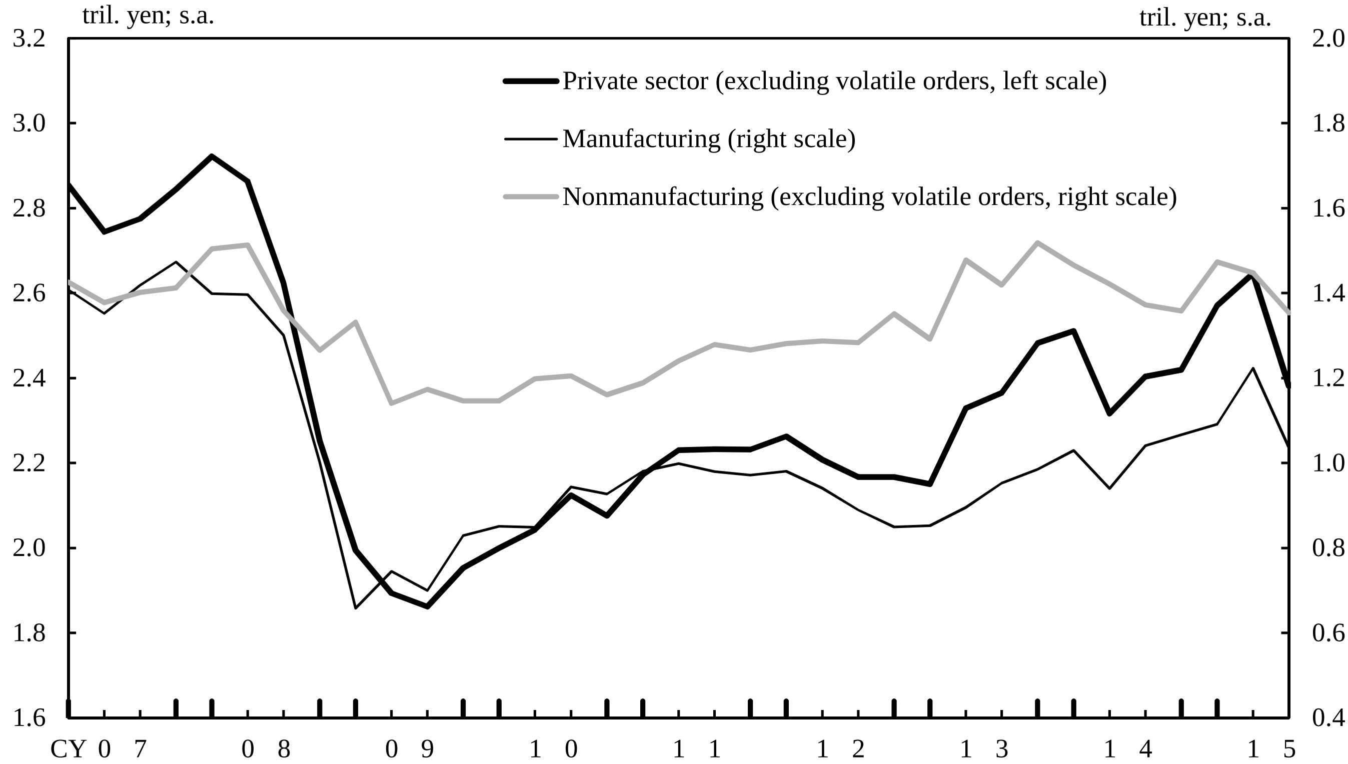


Note: Production capacity DIs are those of all enterprises.

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

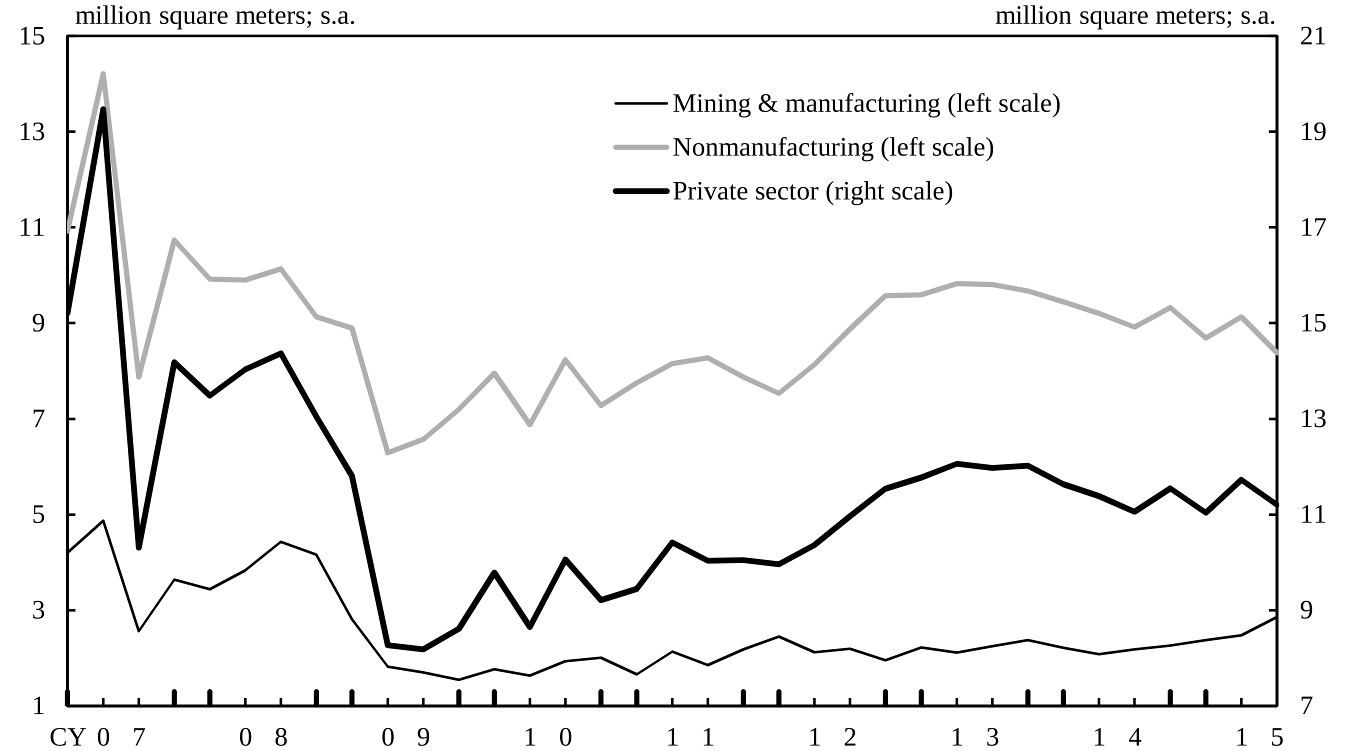
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Note: Volatile orders: orders for ships and orders from electric power companies.

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

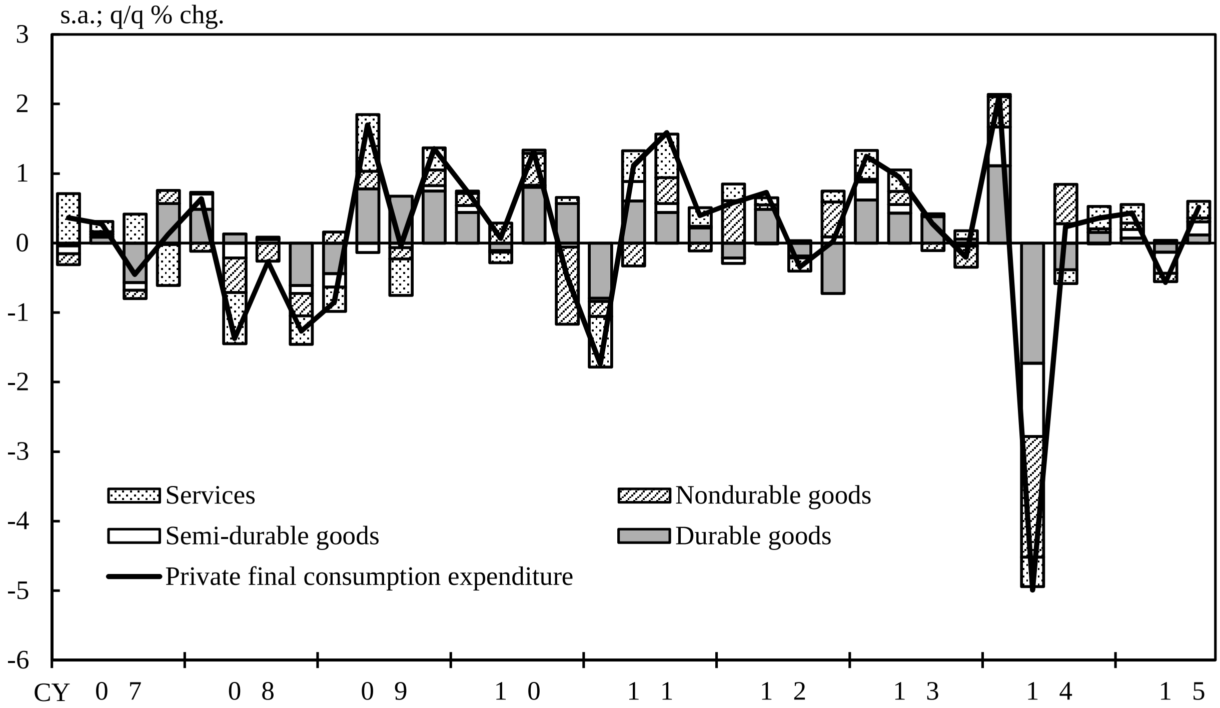


Note: Seasonally adjusted by X-12-ARIMA.

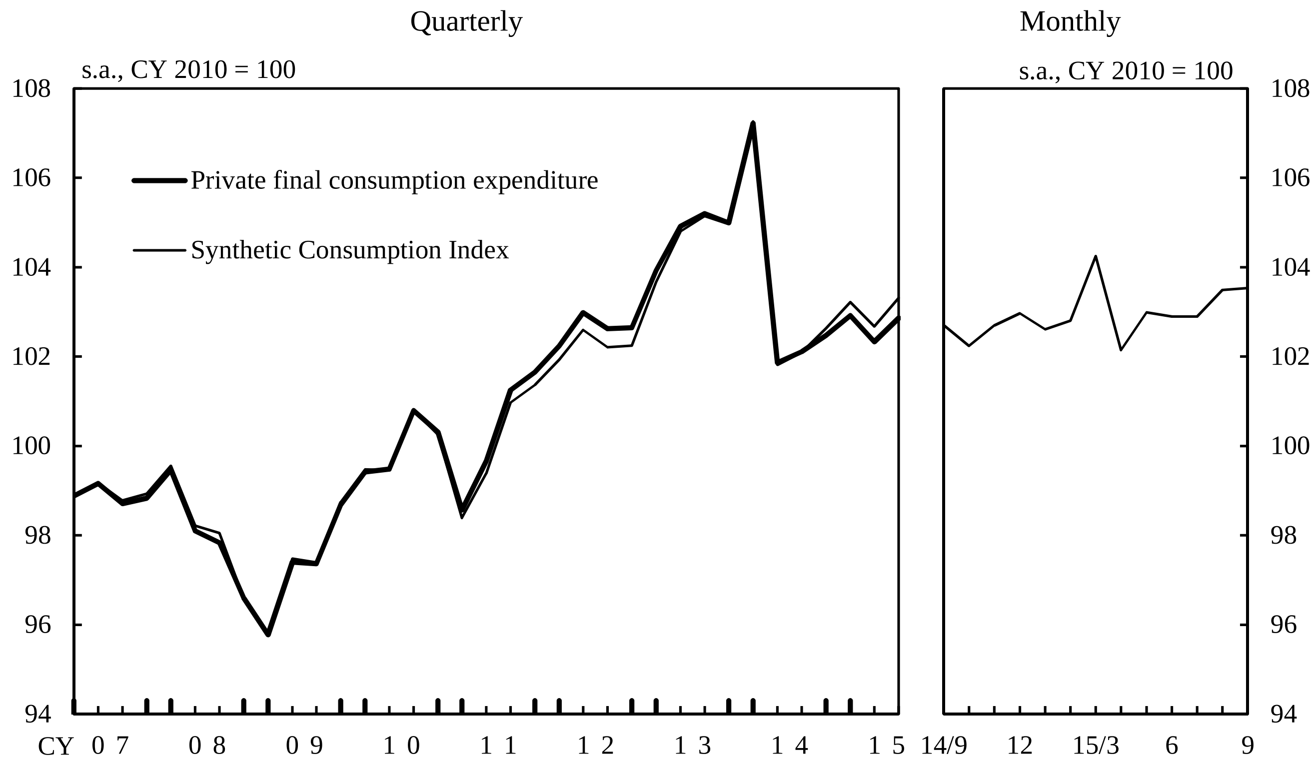
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



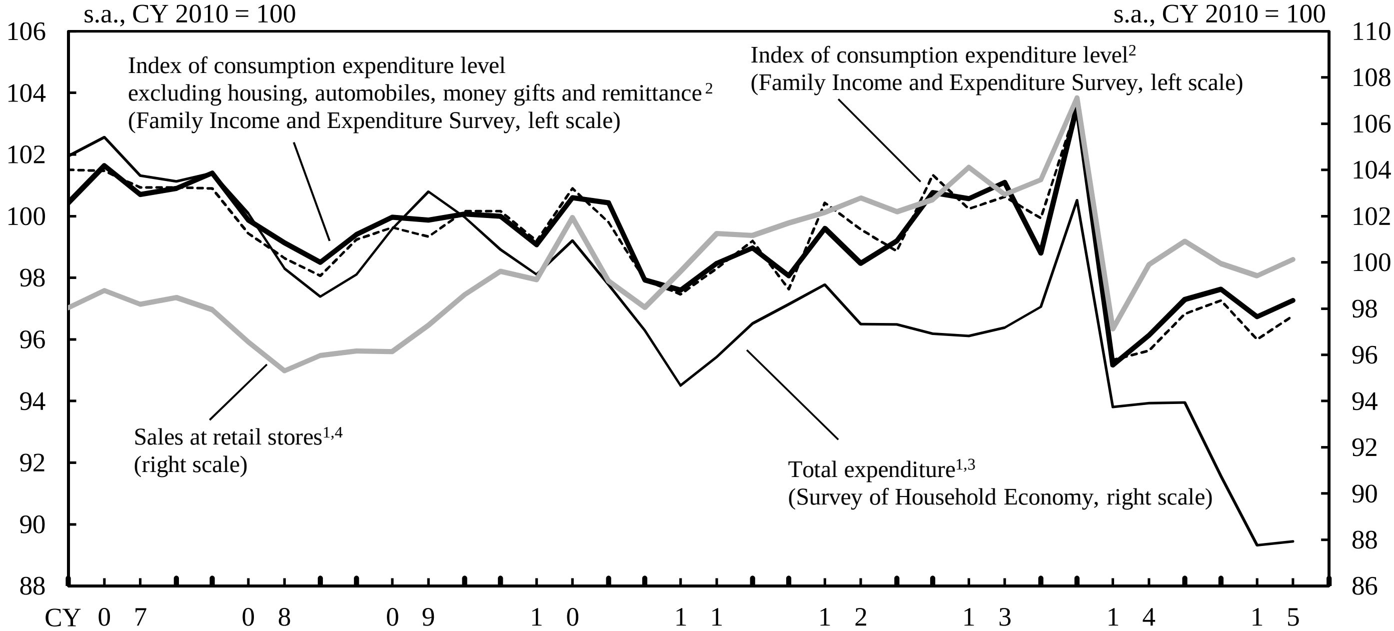
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



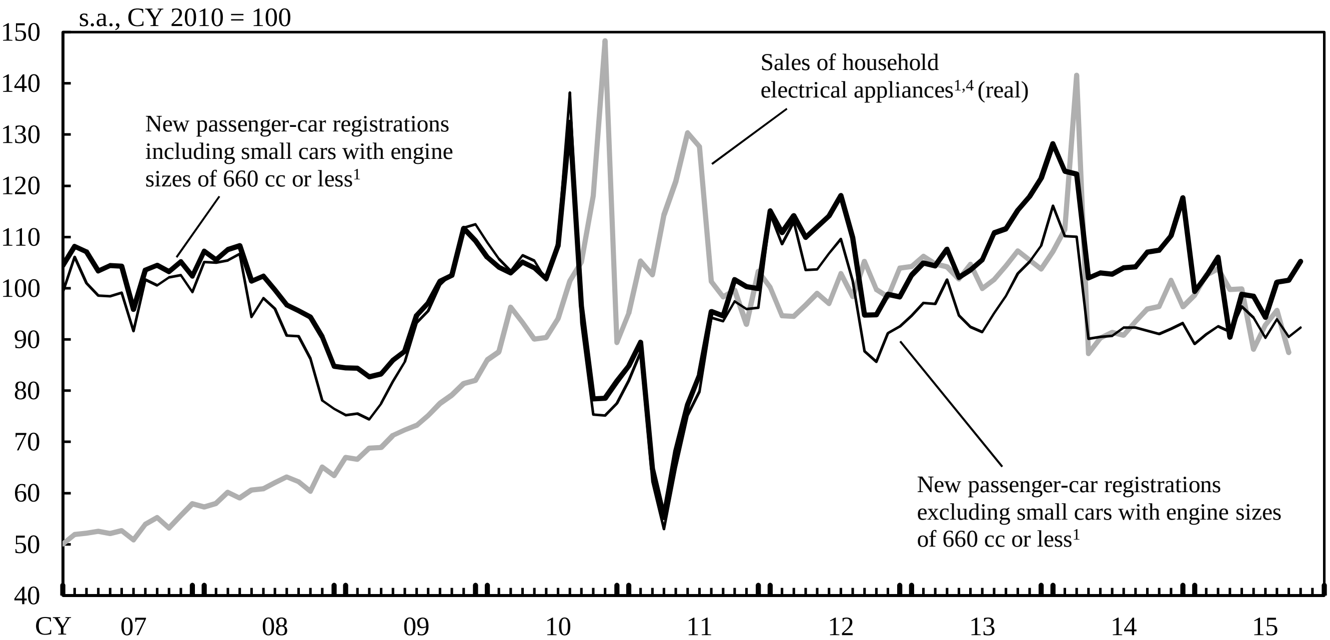
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)



(2) Sales of Durable Goods



Notes: 1. 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.

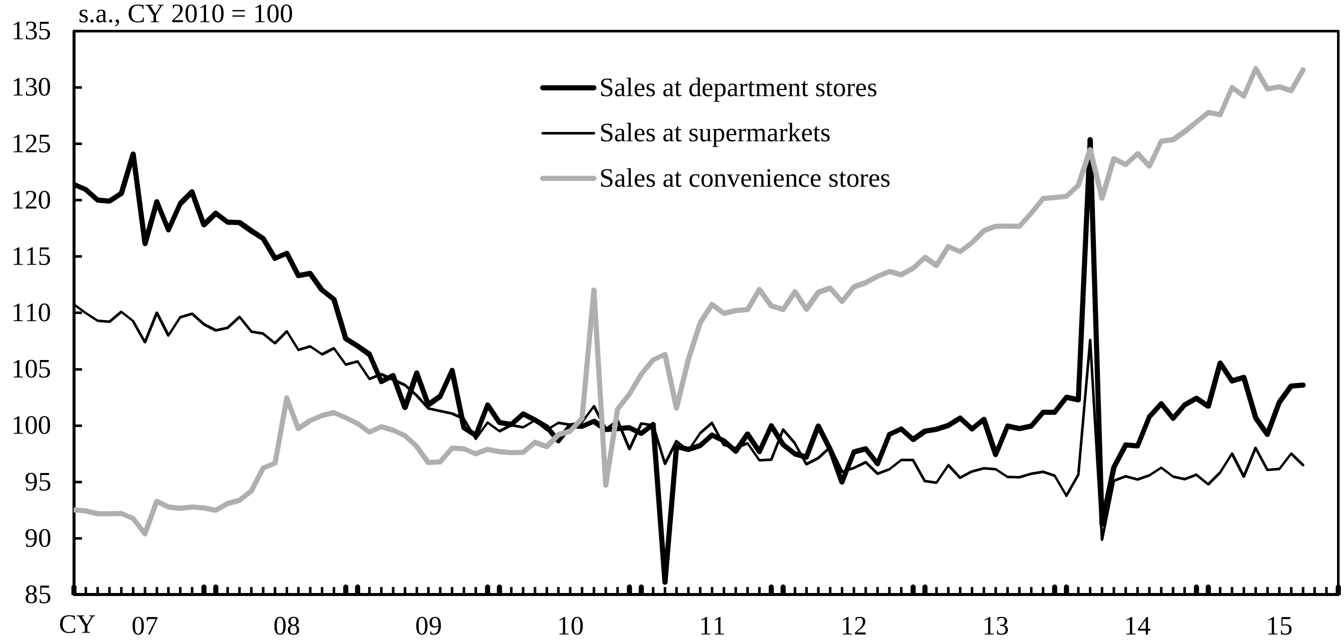
3. Figures for total expenditure are based on two-or-more-person households, and are deflated by the "Consumer Price Index (CPI)" excluding imputed rent.

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.

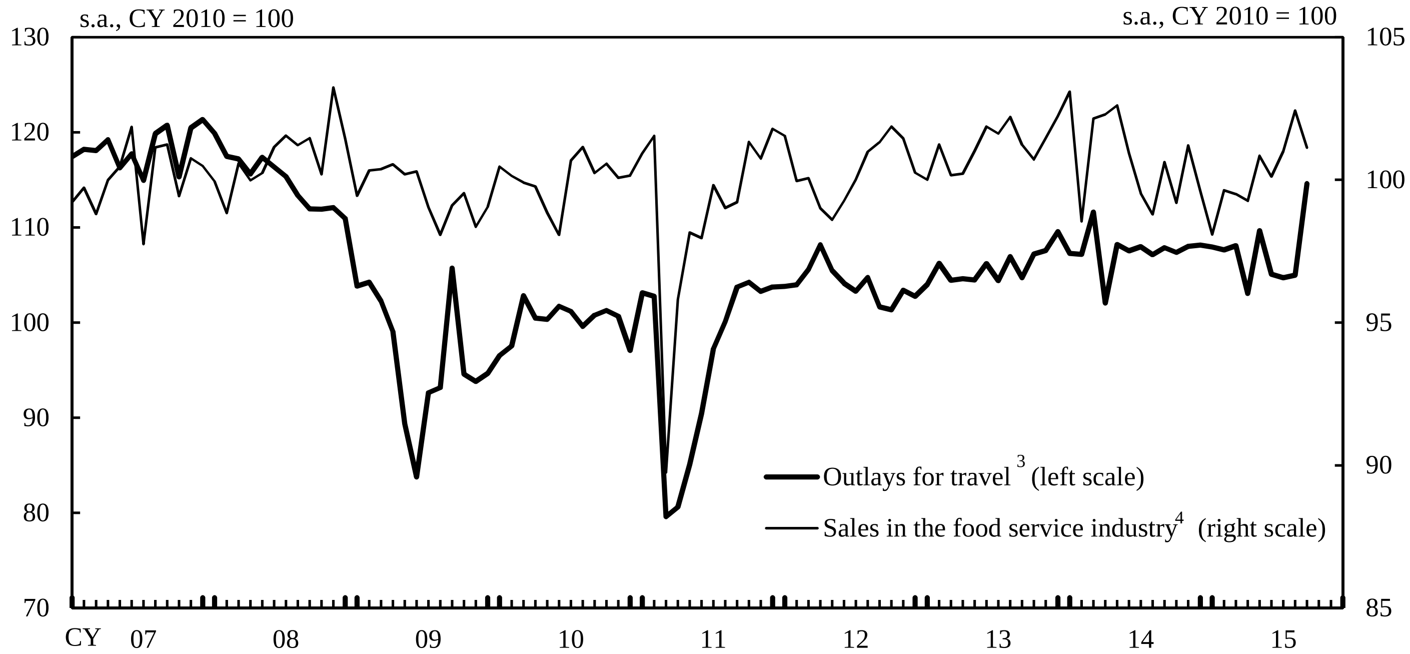
Sources: Ministry of Internal Affairs and Communications, "Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of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

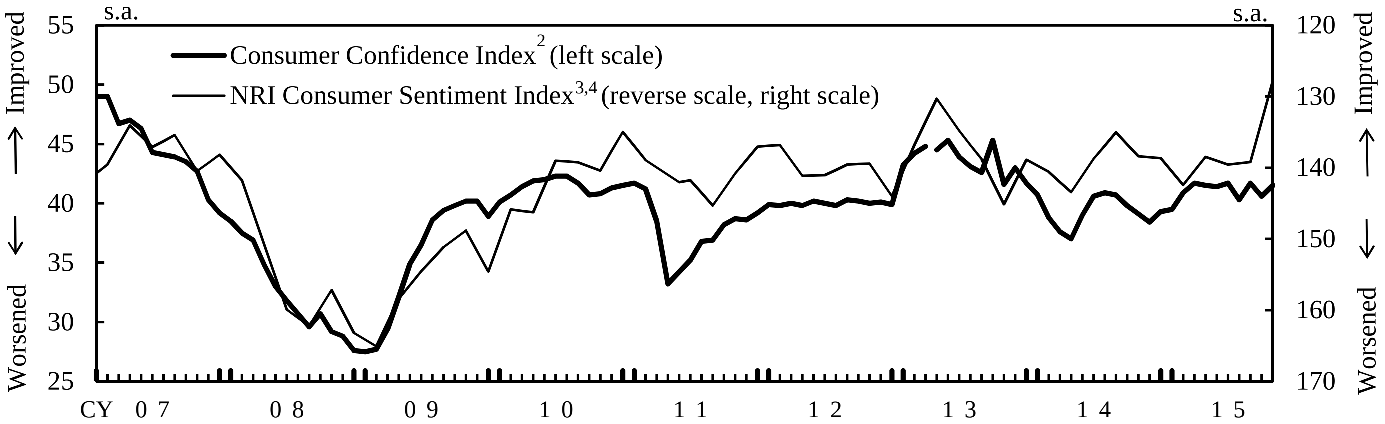


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).
3. Excluding those by foreign travelers. Figures are calculated using the year-on-year rates of change of every month based on the monthly outlay amounts in FY2006.
4. 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 CY1993 released by the Food Service Industry Survey & Research Center.

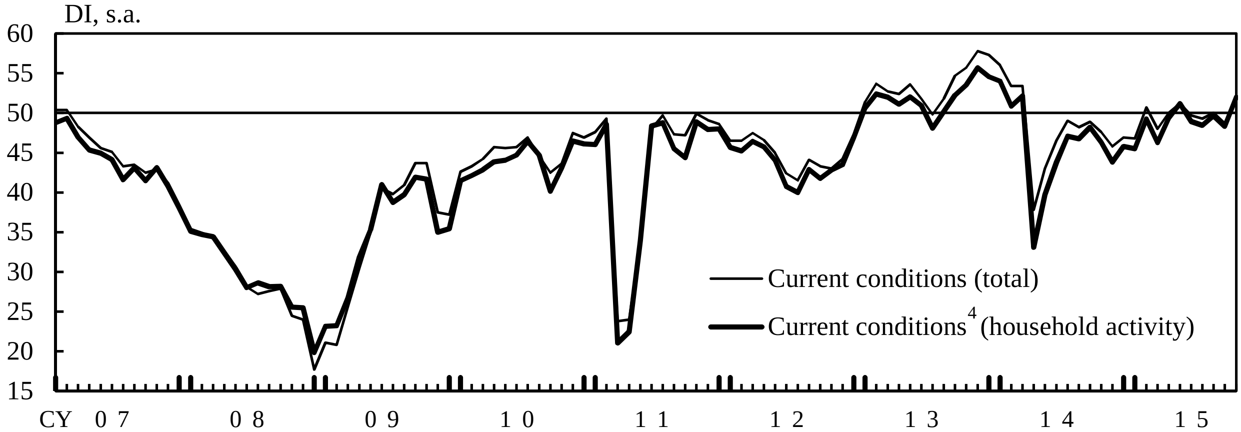
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey on food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou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

Confidence Indicators Related to Private Consumption

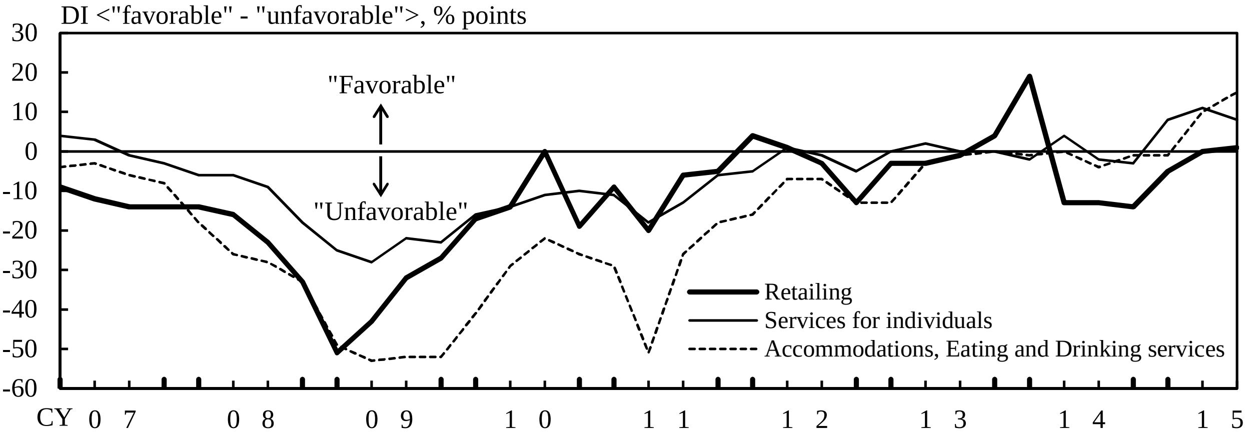
(1) Consumer Confidence Index and NRI Consumer Sentiment Index[1]



(2) Economy Watchers Survey



(3) Business Conditions of Industries Related to Private Consumption (*Tankan*, Enterprises of All Sizes)

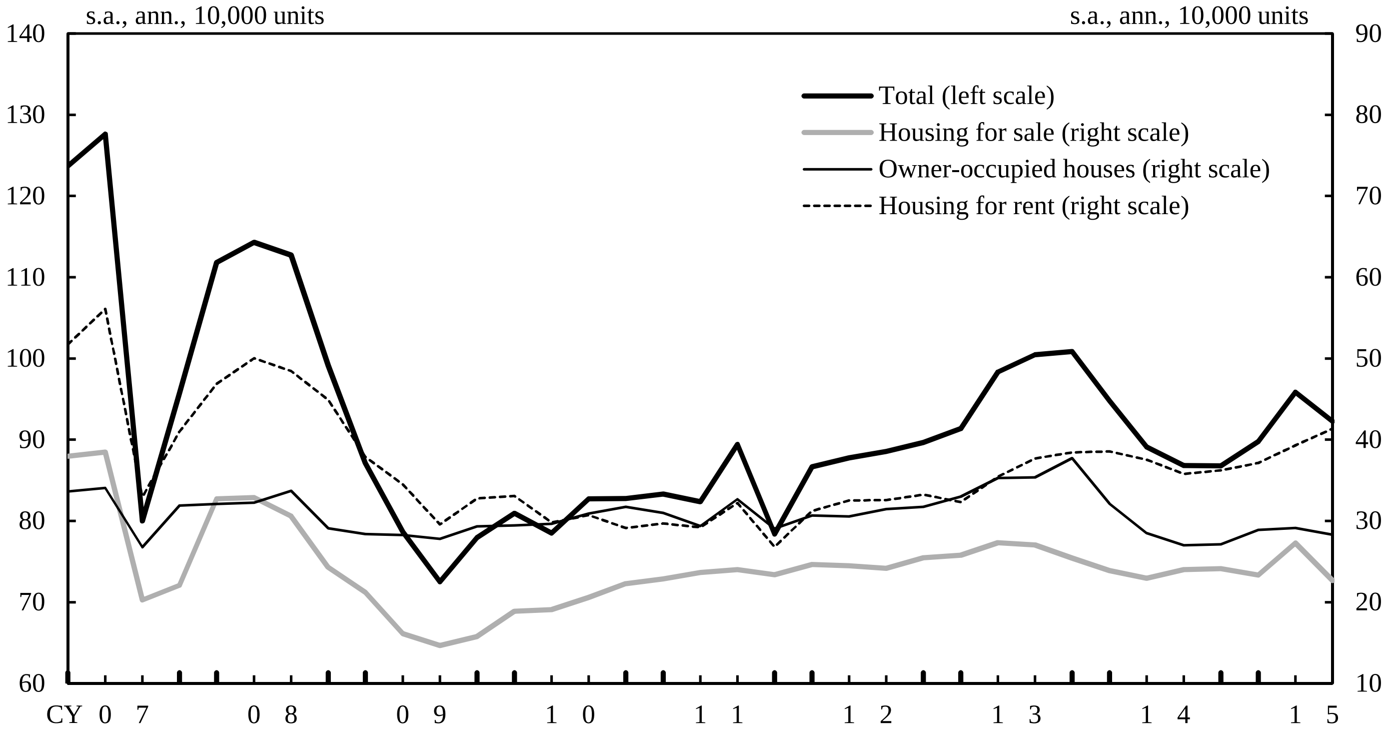


Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting the Consumer Confidence Survey to a mail survey method. For this reason, there is a discontinuity between data up to March 2013—which were obtained on a direct-visit and self-completion questionnaires method—and those on the new method.
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.

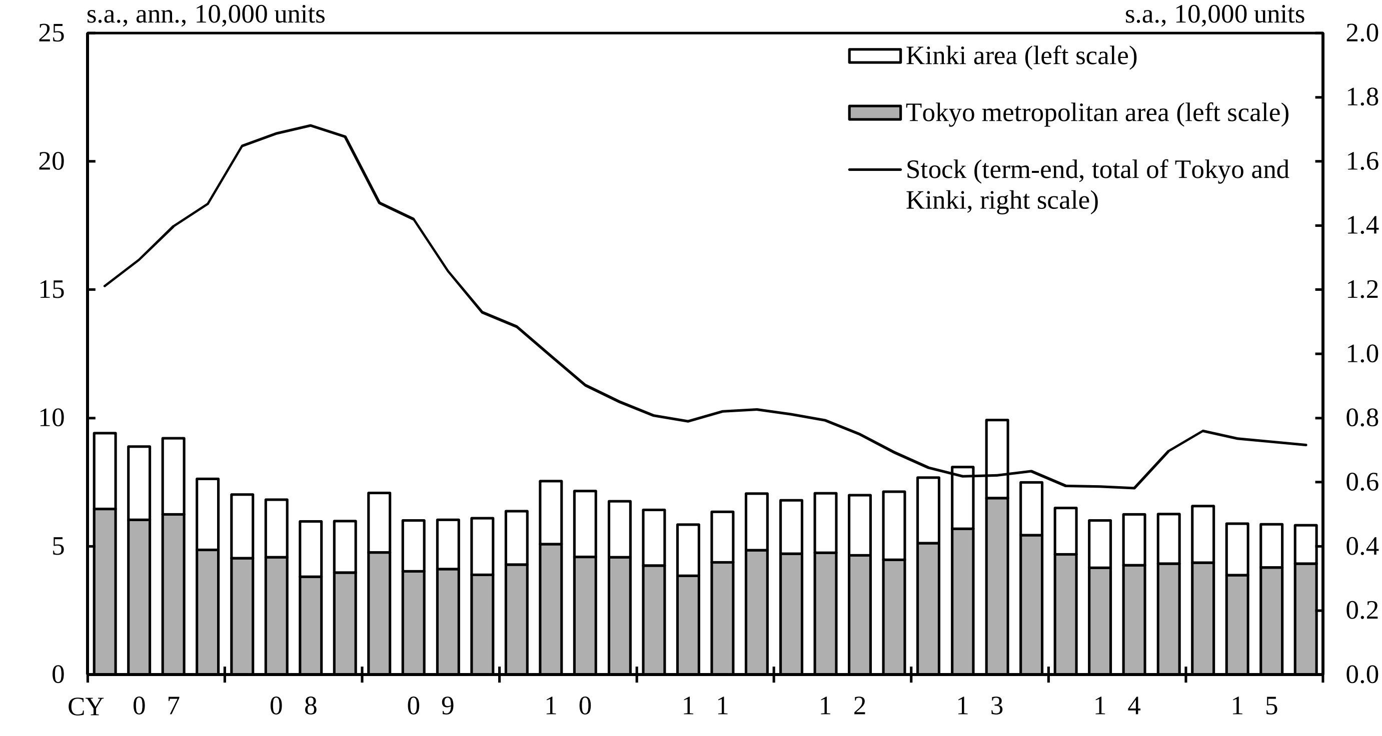
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey";
Nippon Research Institute (NRI), "Consumer Sentiment Survey";
Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

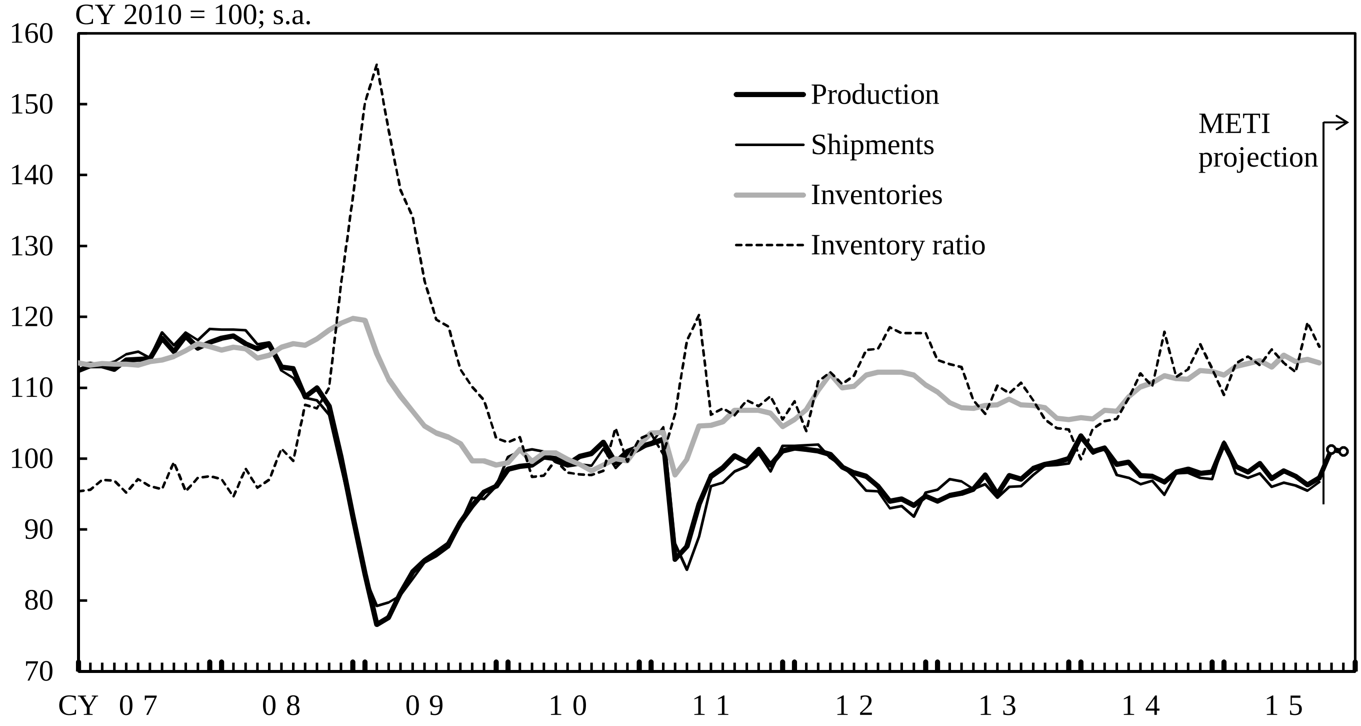


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2015/Q4 are those of October.

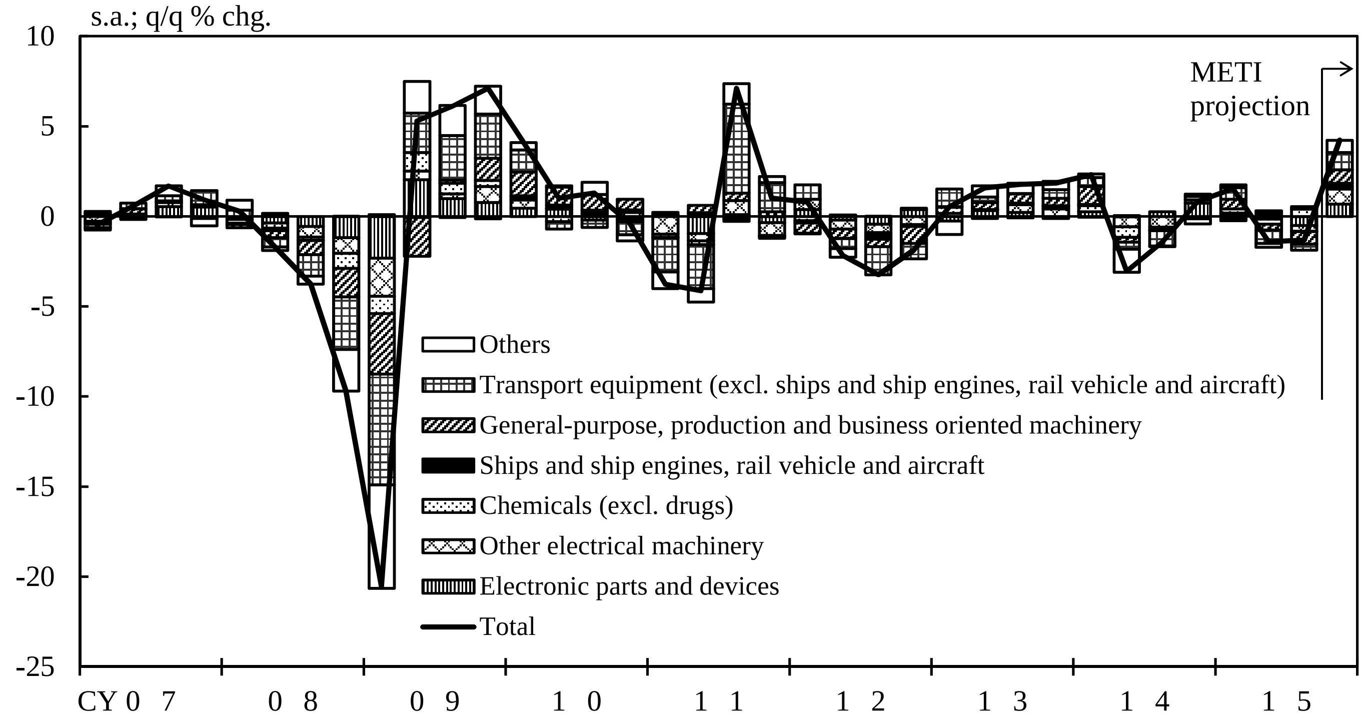
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



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

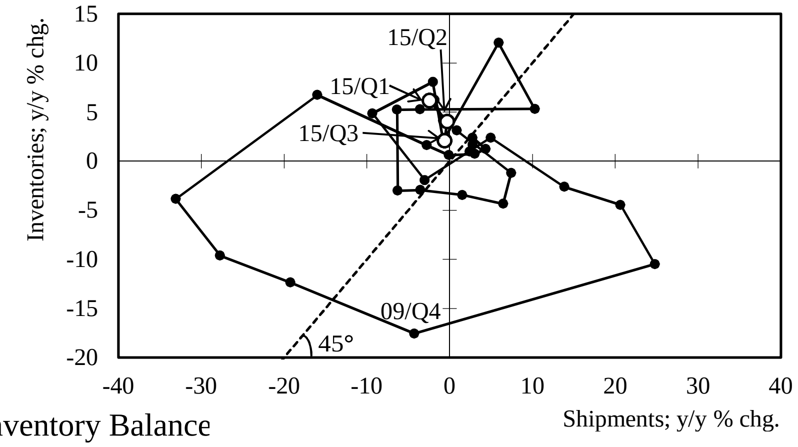


Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
2. Figures up to 2008/Q1 are on the 2005 base.
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general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

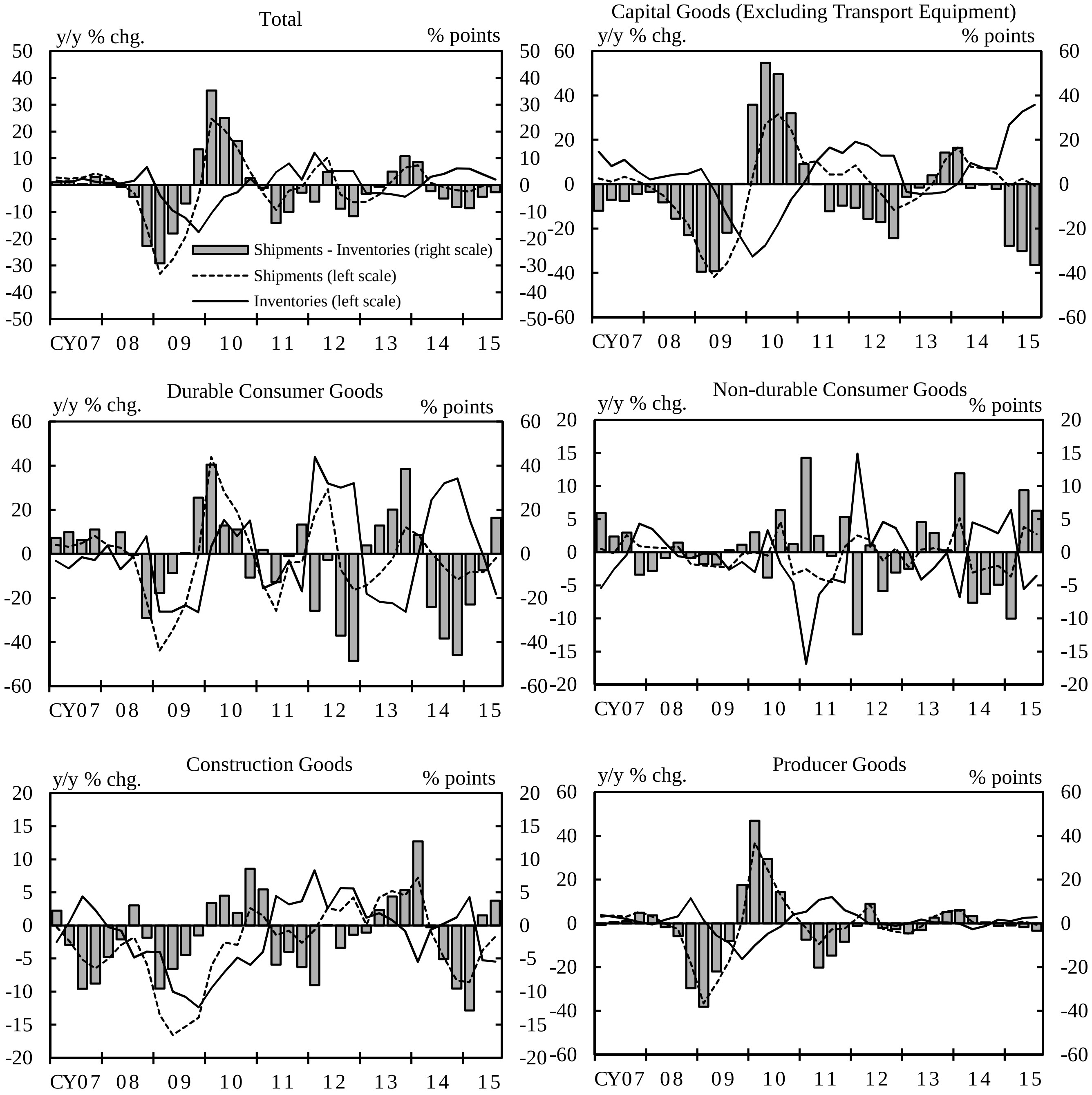
Source: Ministry of Economy, Trade and Industry (METI), "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



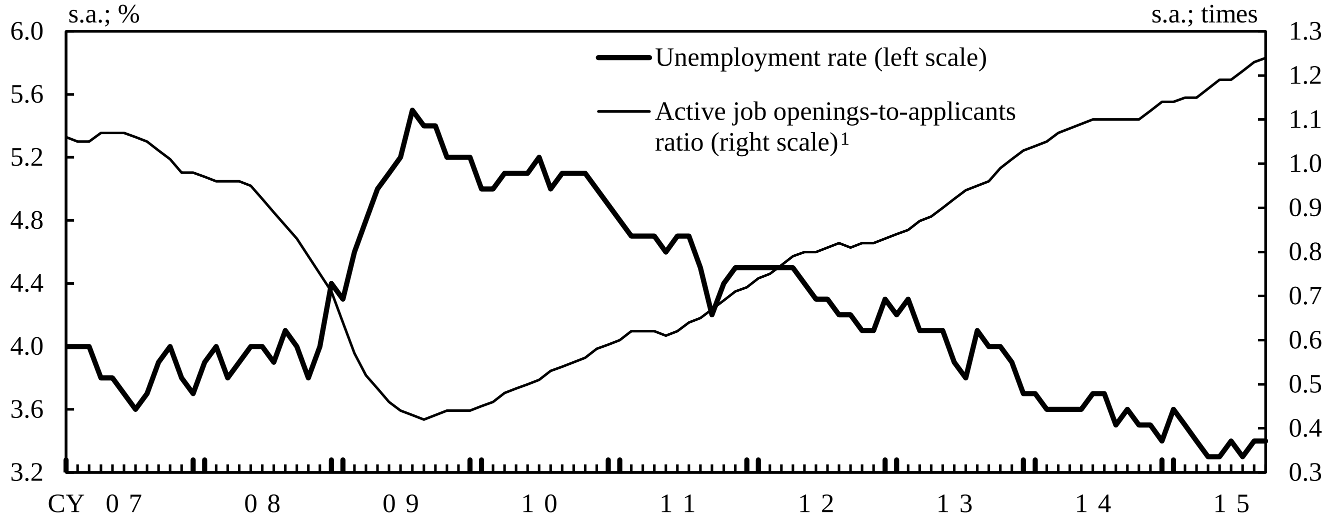
(2) Shipment-Inventory Balance



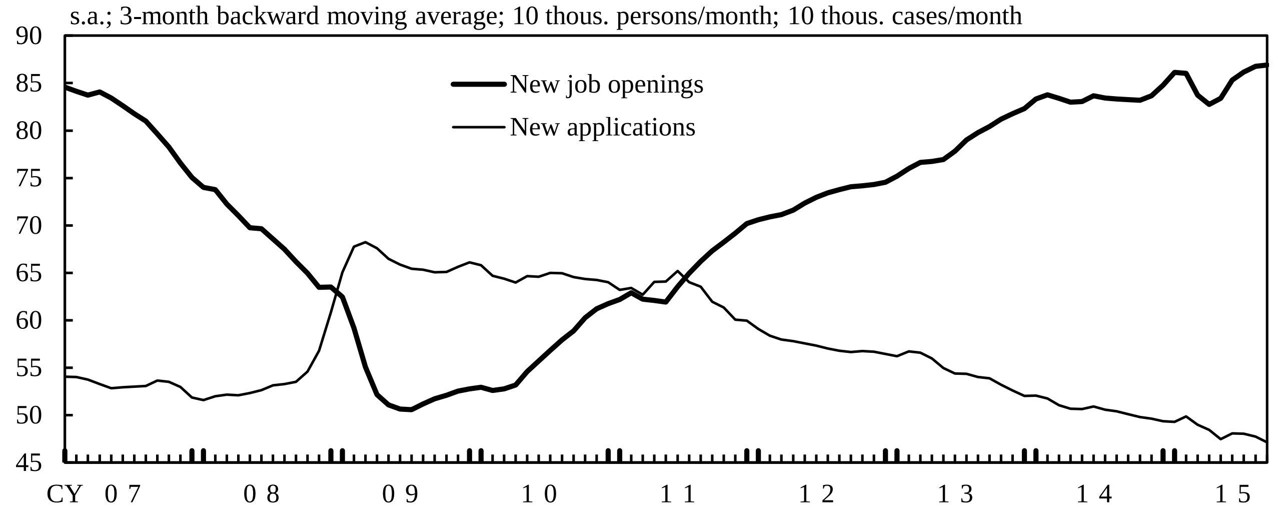
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

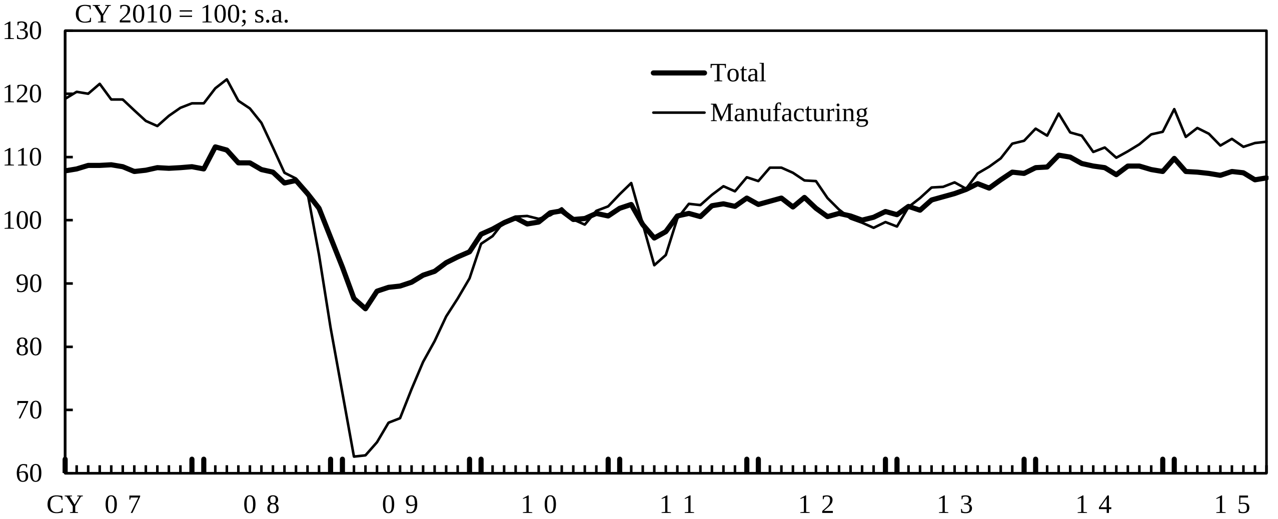
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



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



(3) Non-Scheduled Hours Worked[2]

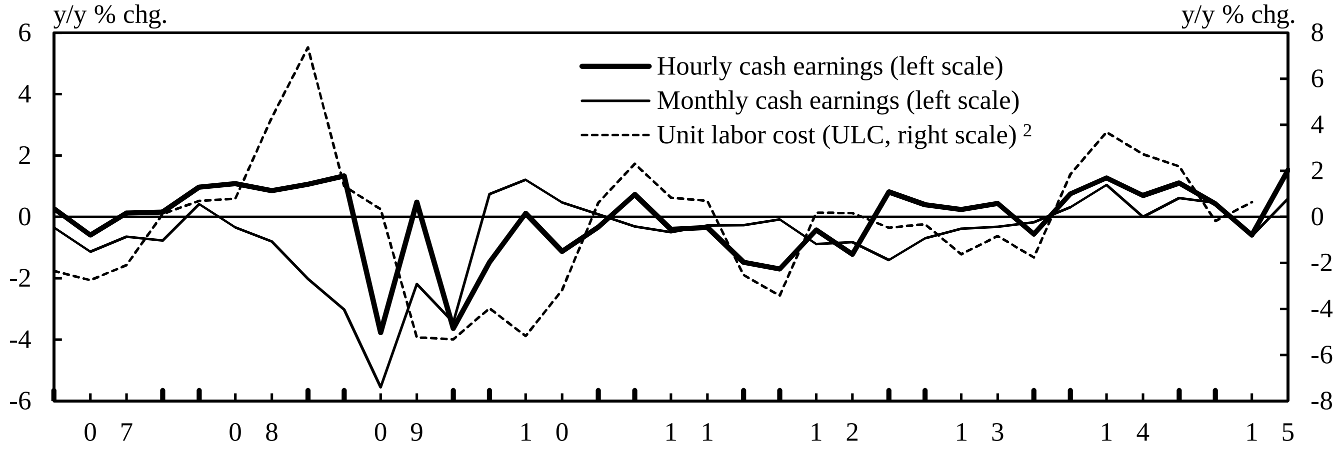


Notes: 1. Excluding new school graduates and including part-timers.
2. Data are for establishments with at least five employees.

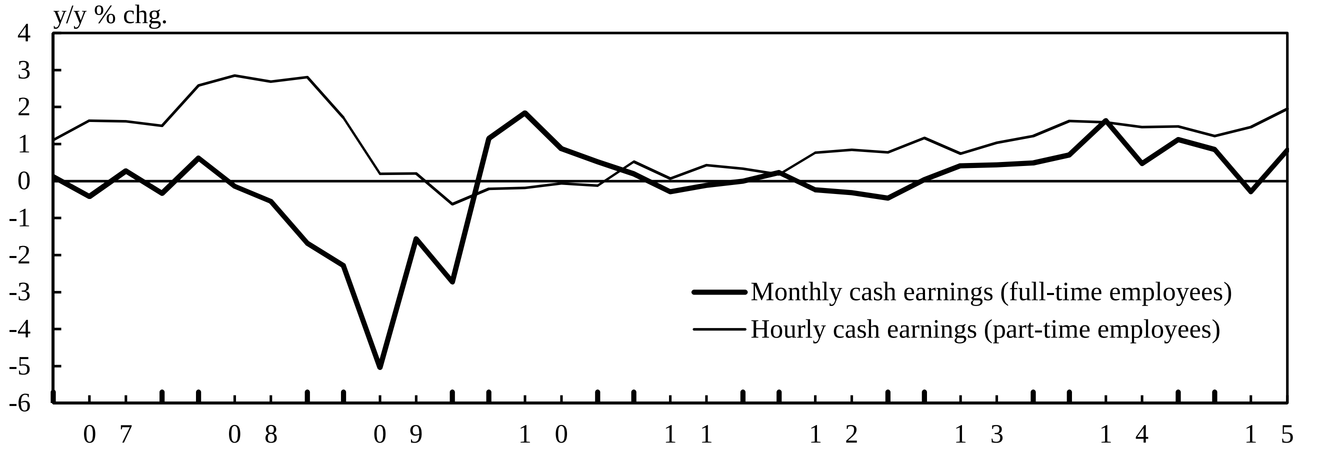
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Wages

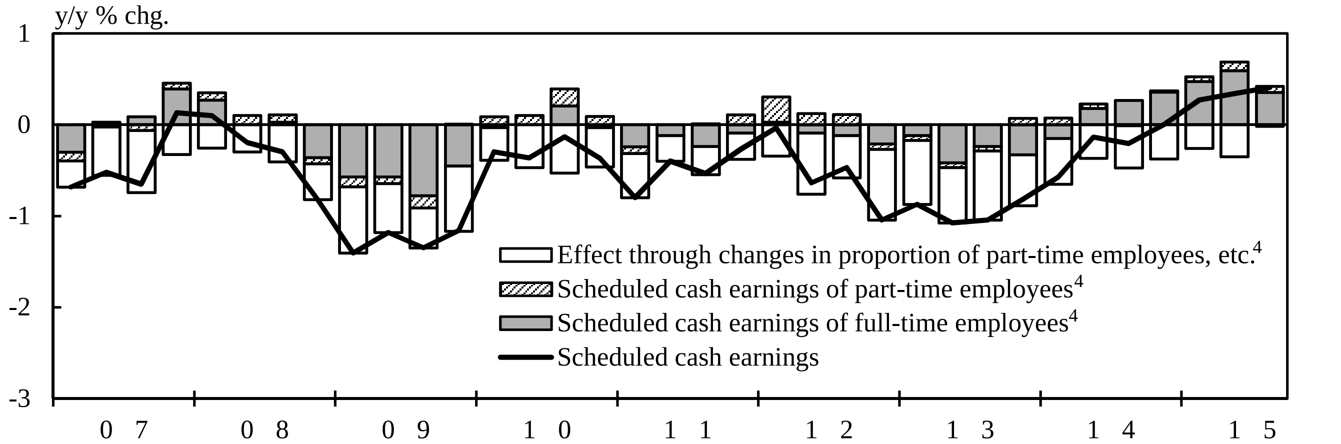
(1) Total[1,3]



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



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

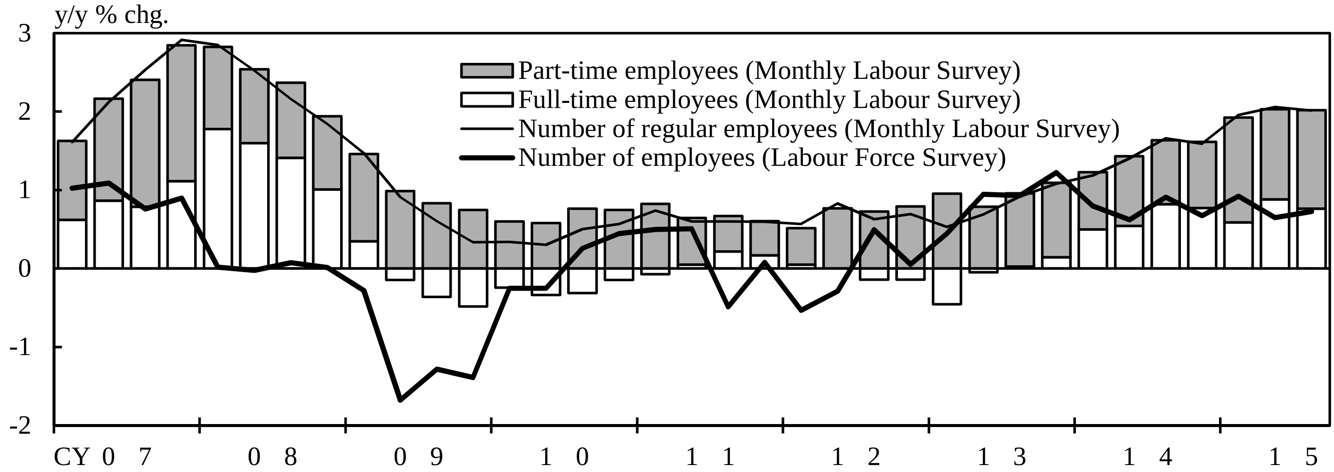


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. ULC = nominal compensation of employees (SNA) / real GDP
3. Figures for 2015/Q3 are those of September (except ULC).
Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
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, etc. are the residuals.

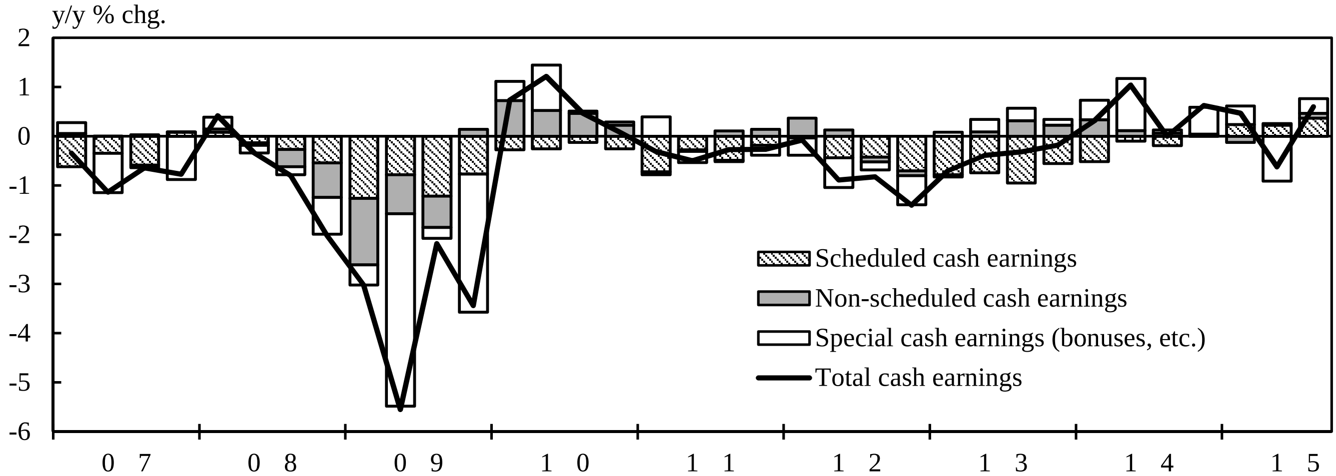
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

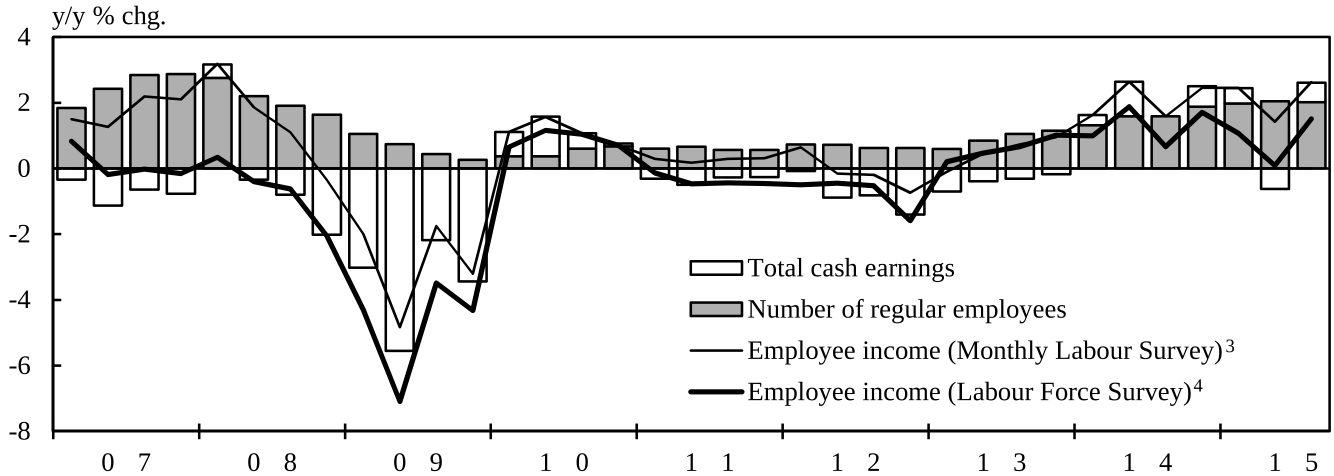
(1) Number of Employees[1]



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



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

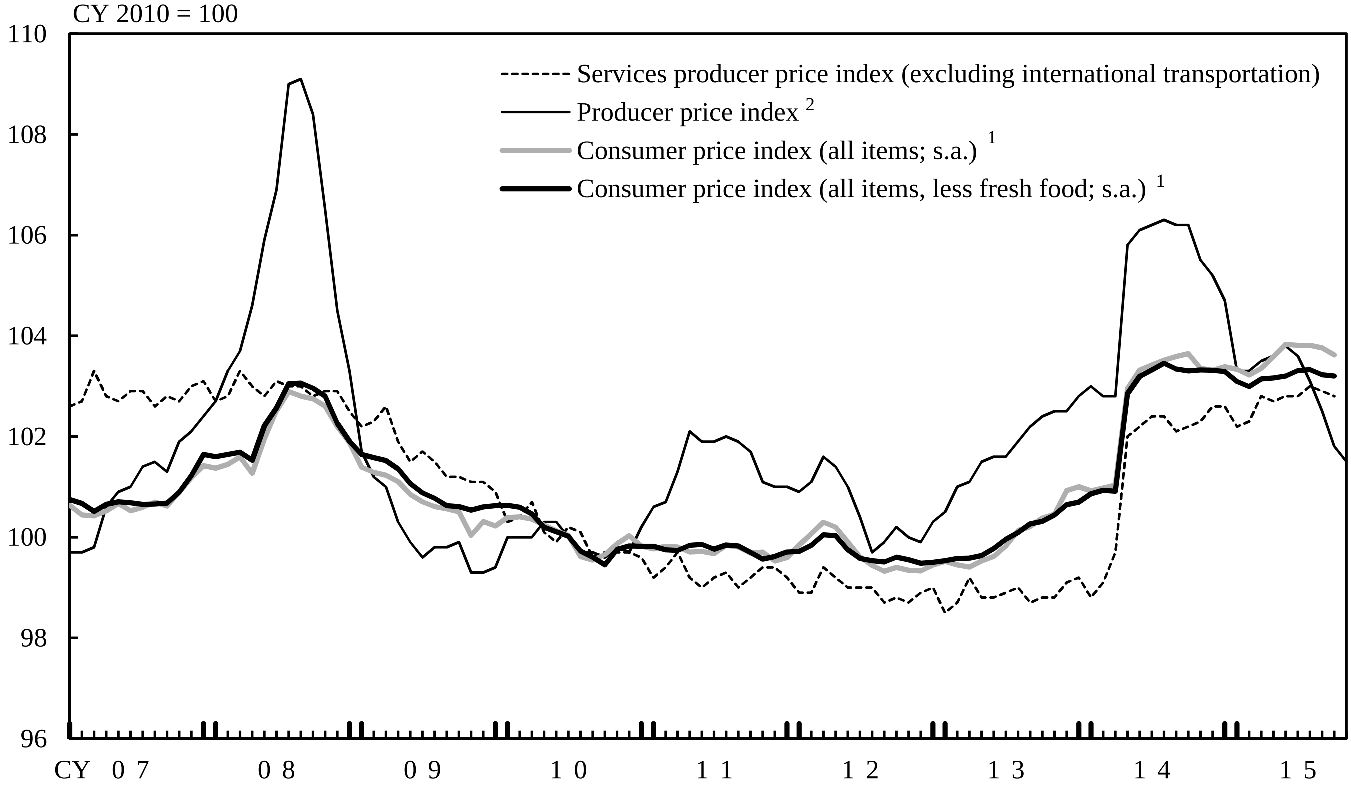


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2015/Q3 are those of September.
3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

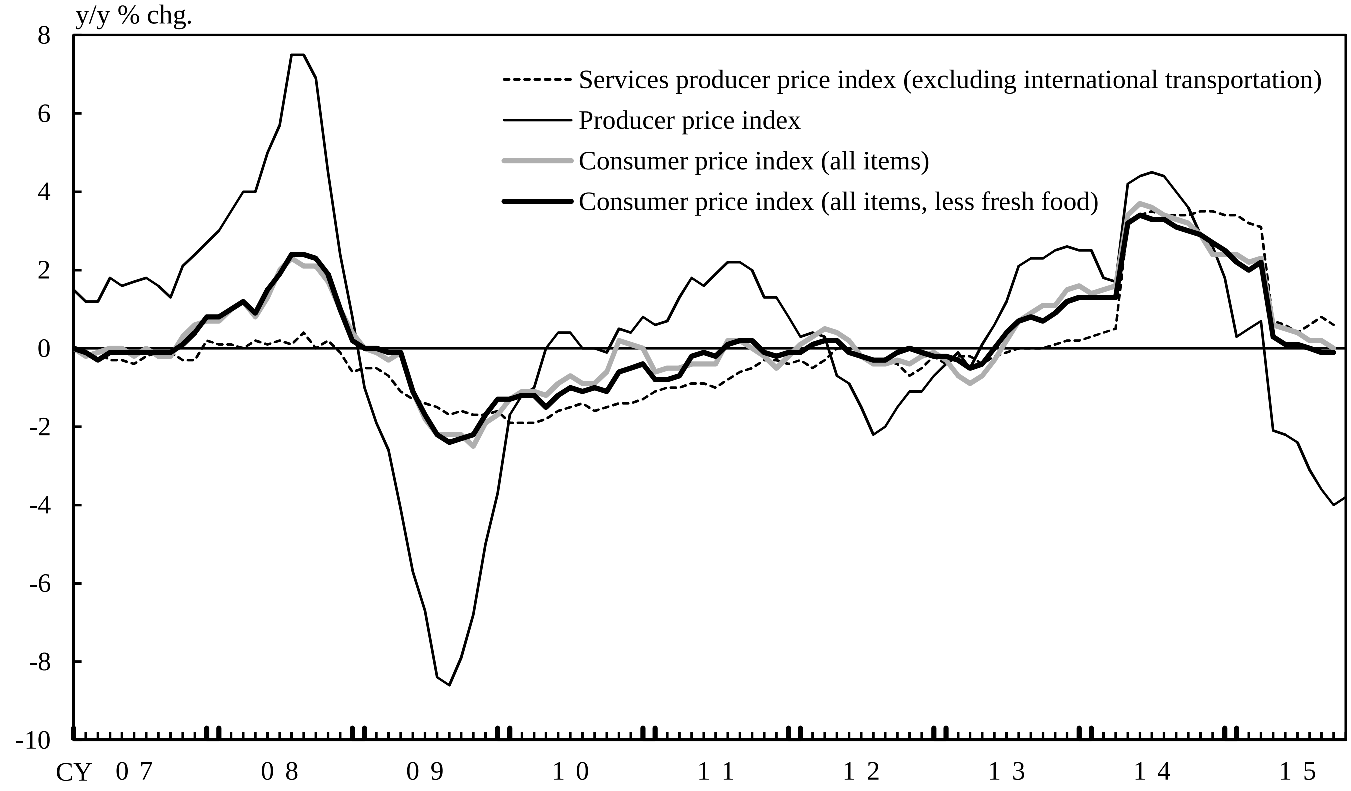
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier

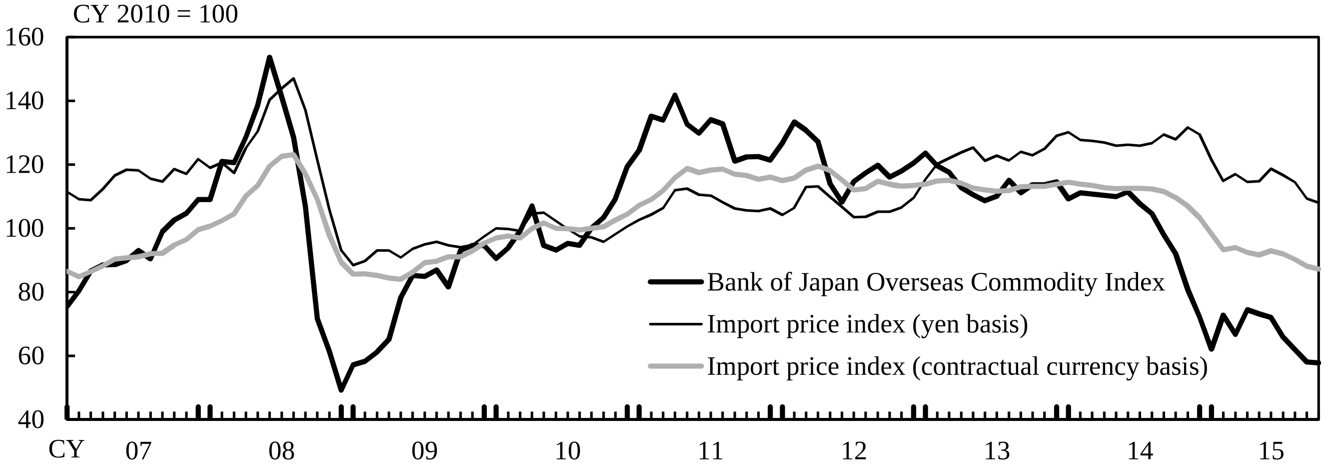


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.
4. Figures of "Services Producer Price Index" and "Producer Price Index"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

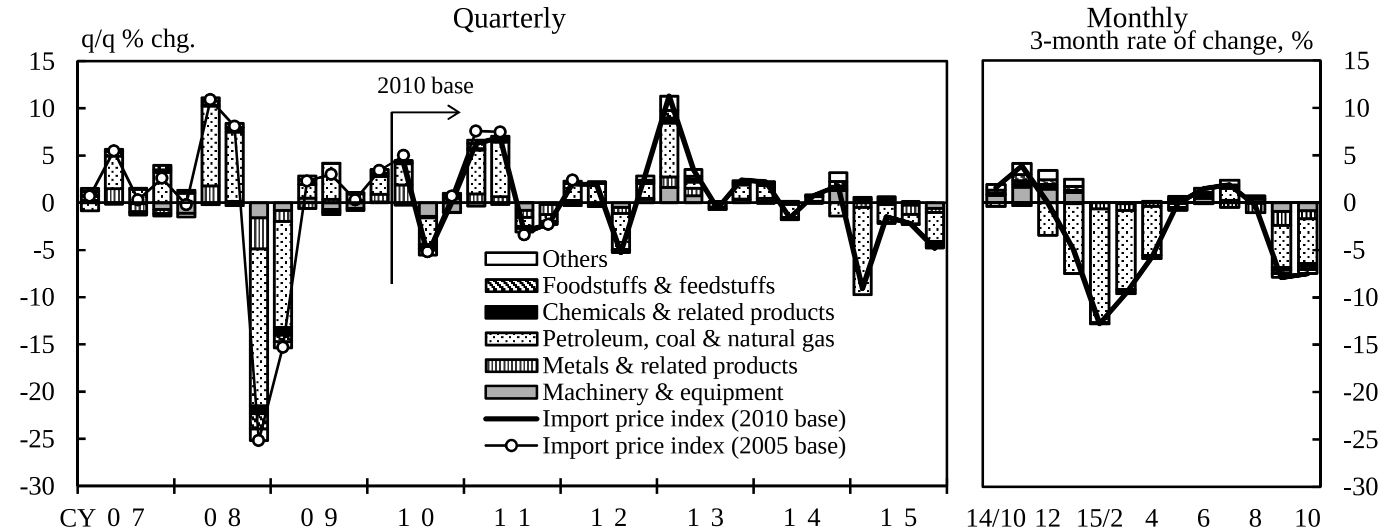
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

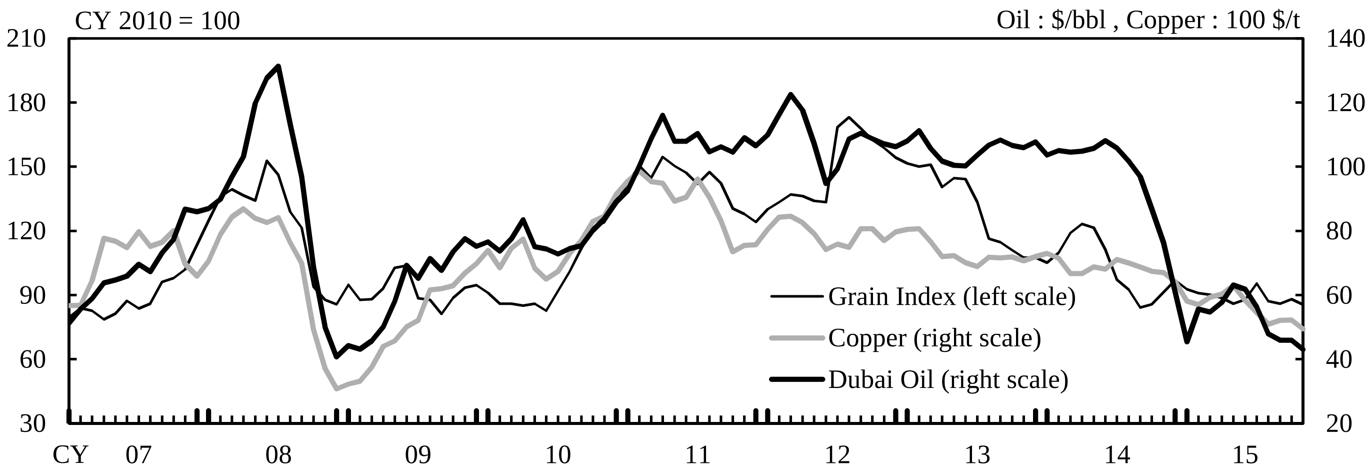


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
2. Figures for 2015/Q4 are those of October.

(3) International Commodity Prices

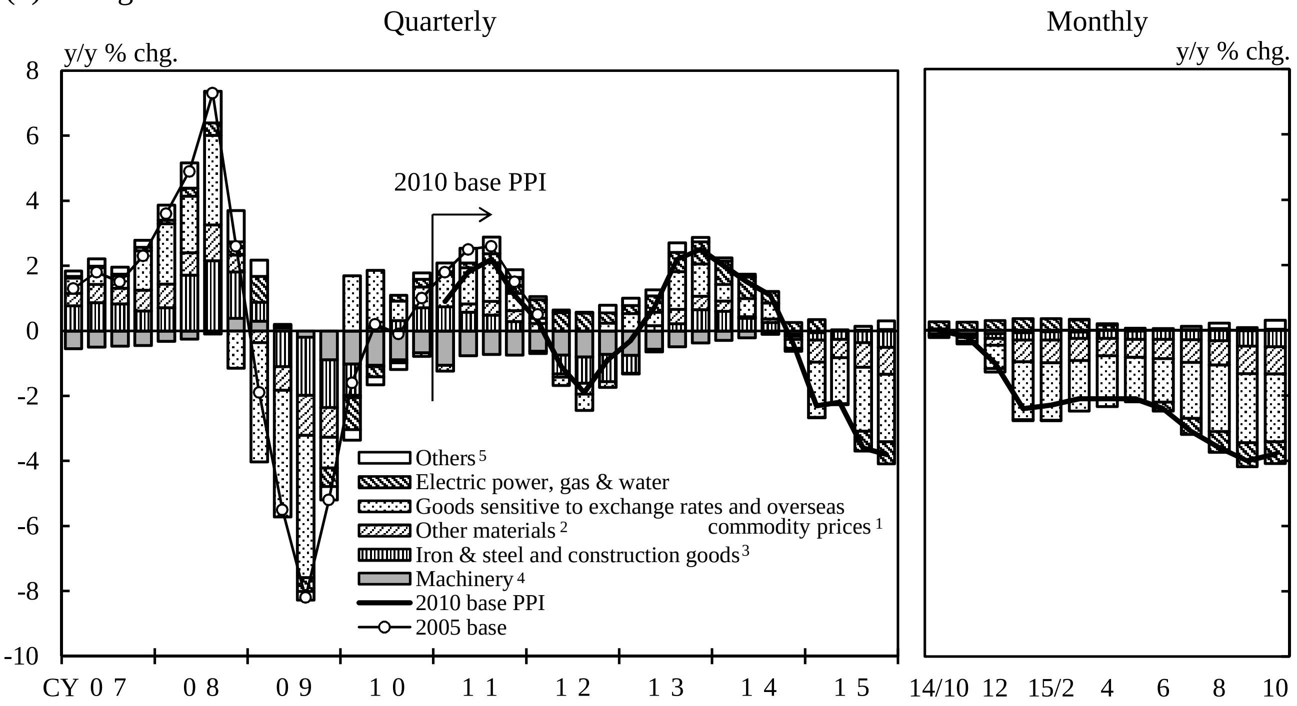


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for November 2015 are averages up to November 18.

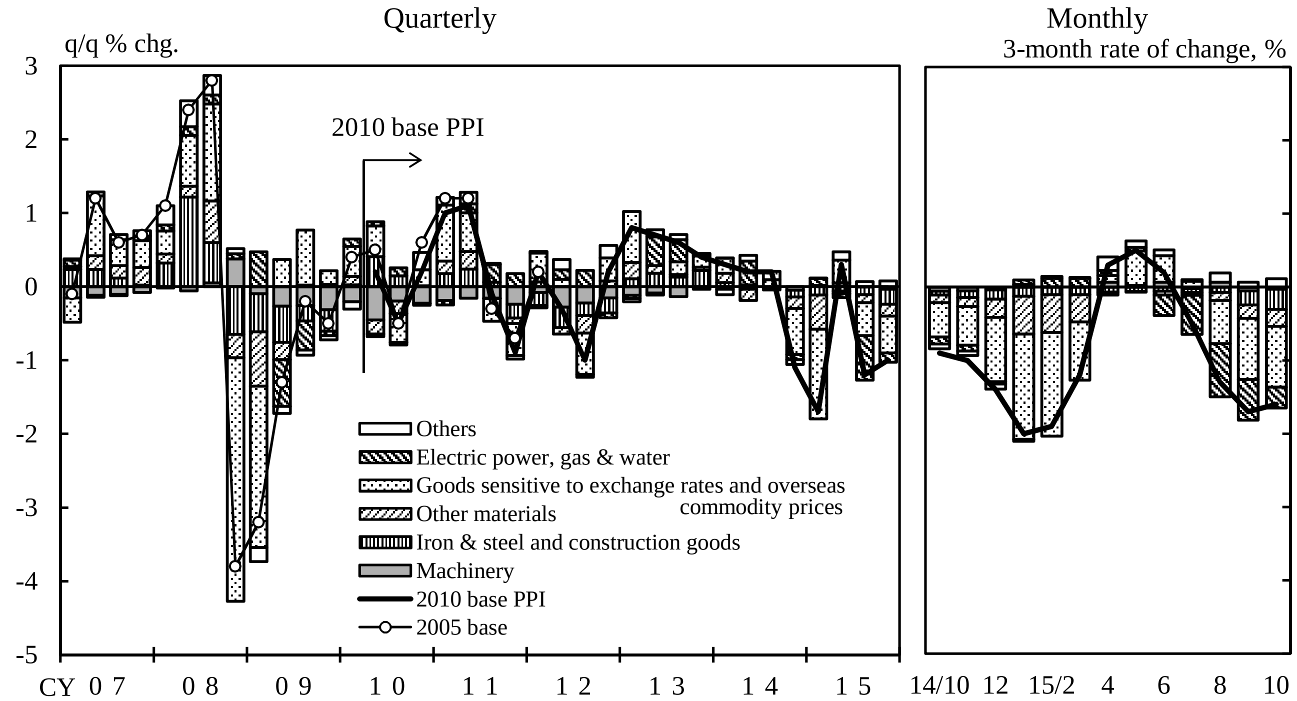
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



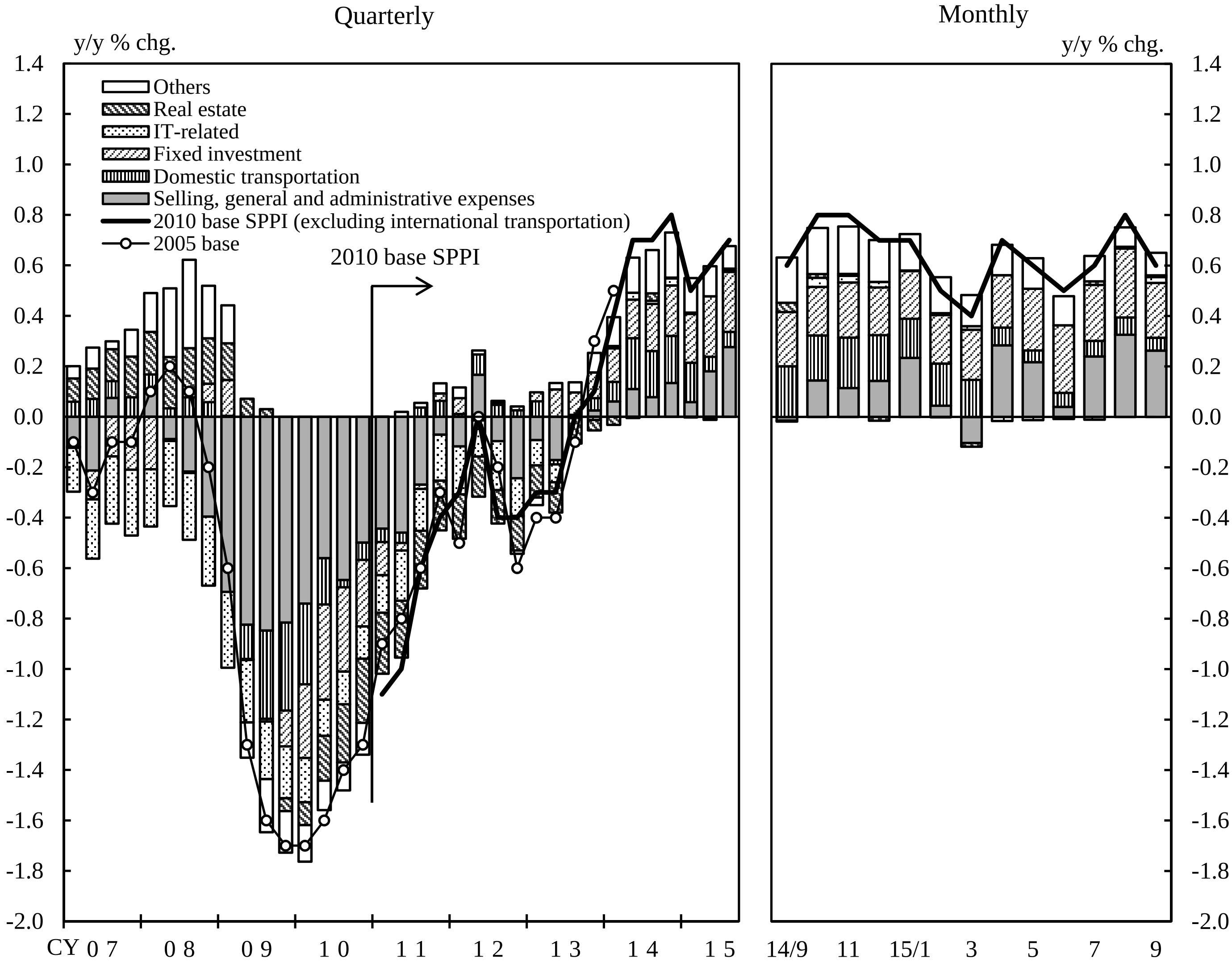
(2) Changes from a Quarter Earlier and 3 Months Earlier 6



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 are adjusted to exclude the direct effects of the consumption tax hike in April 2014 , using indices excluding the consumption tax.
8. Figures for 2015/Q4 are those of October.

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

Services Producer Price Index

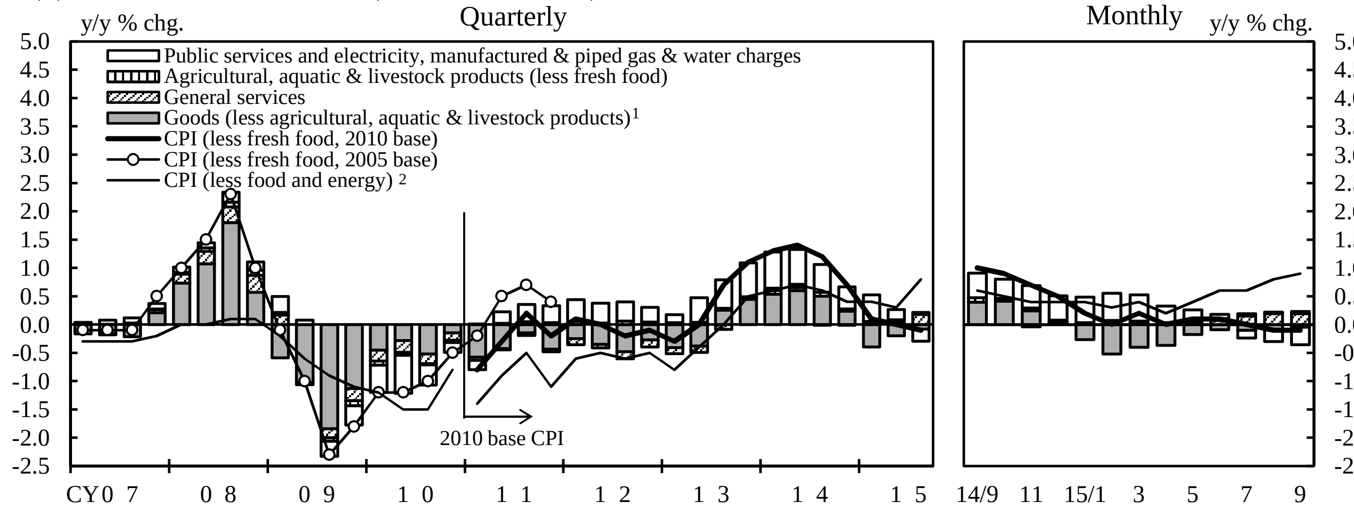


Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
2. Domestic transportation: transportation and postal services (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 are adjusted to exclude the direct effects of the consumption tax hike in April 2014 , using indices excluding the consumption tax.

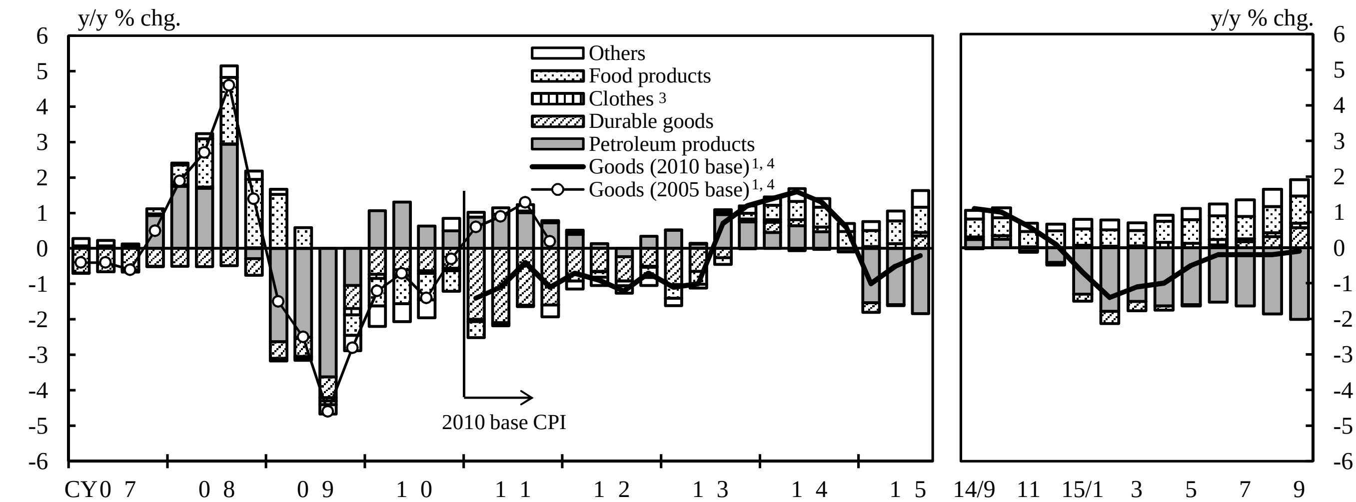
Source: Bank of Japan, "Services Producer Price Index."

Consumer Price Index (Less Fresh Food)

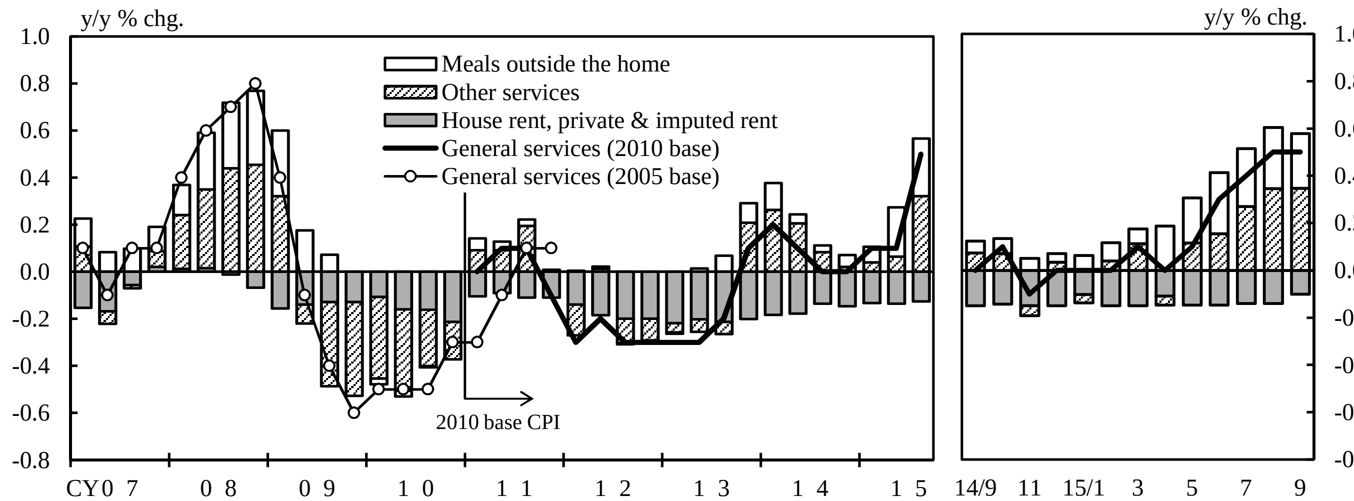
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

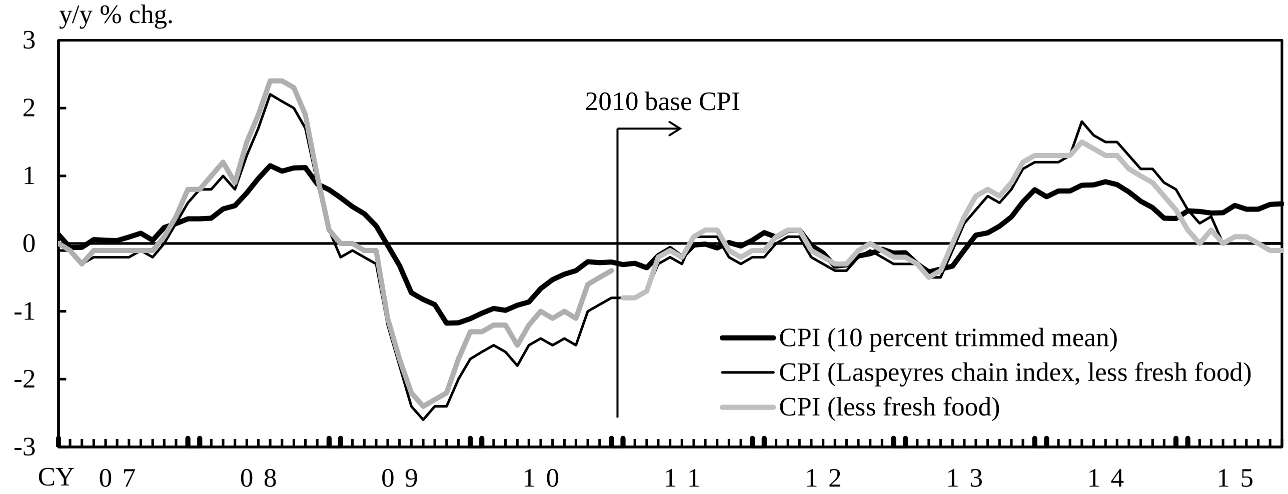


Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.
3. Including shirts, sweaters & underwear.
4. Less agricultural, aquatic & livestock products.
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and general services are calculated using published indices.
6. Figures are estimated by adjusting the direct effects of the consumption tax hike in April 2014.

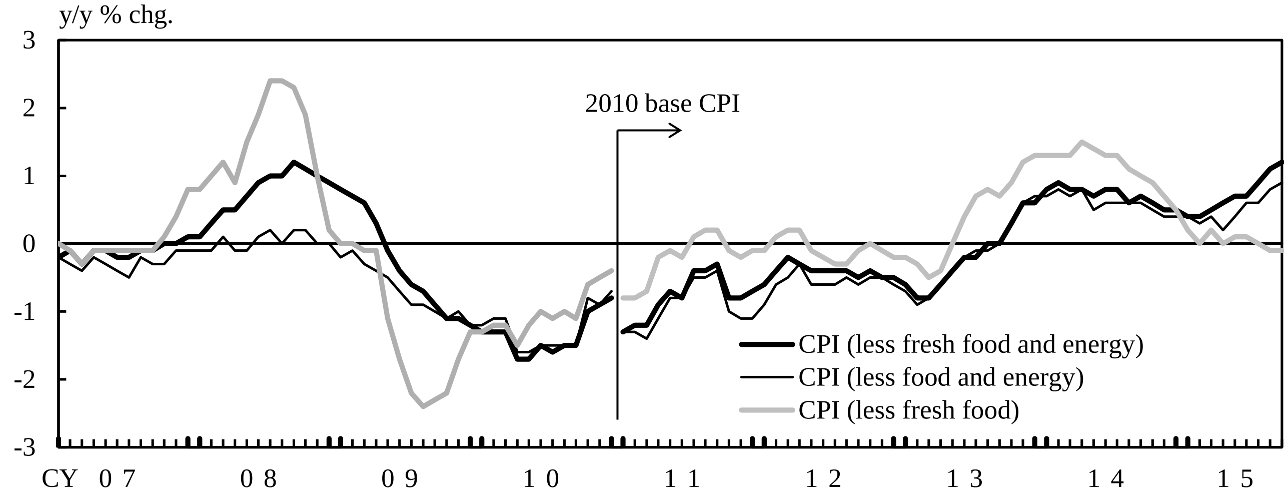
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

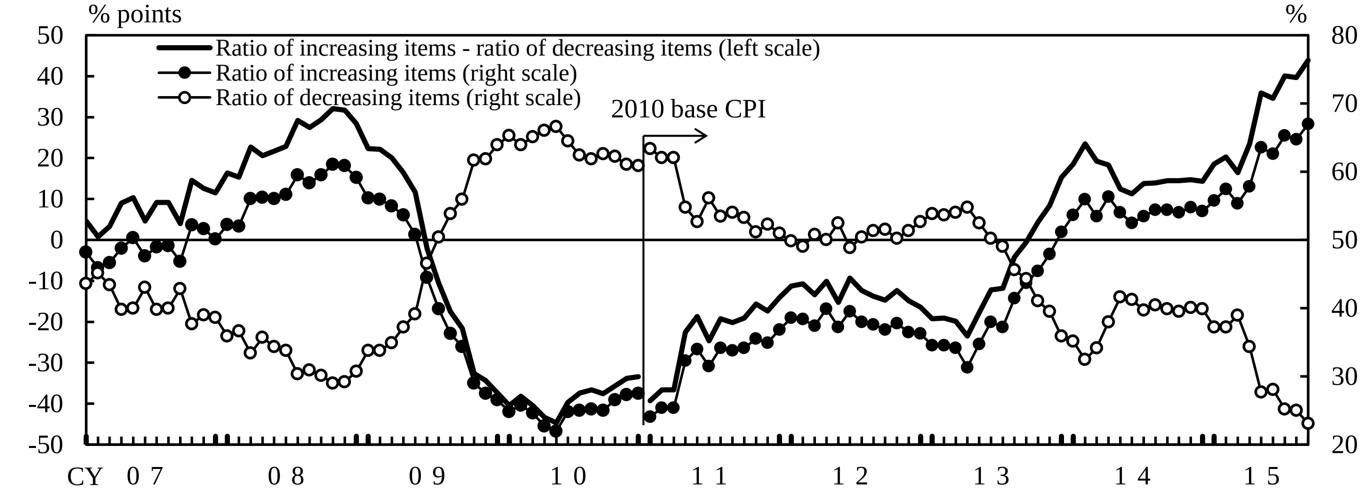
(1) Trimmed Mean and Laspeyres Chain Index



(2) CPI (Less Fresh Food and Energy) and CPI (Less Food and Energy)



(3) Ratio of Increasing and Decreasing Items



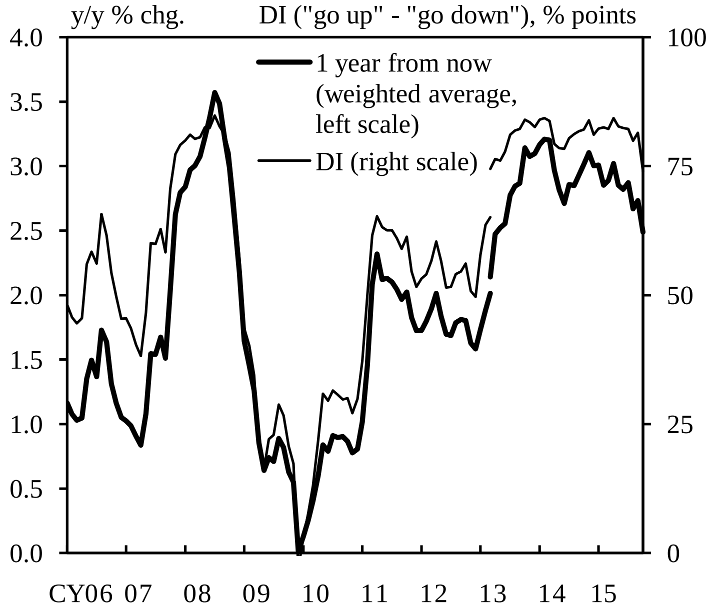
Notes: 1. Figures for the 10 percent trimmed mean are the weighted averages of the year-on-year price changes in individual items making up the CPI. Items are arranged in ascending order of their year-on-year rate of price change and those falling into the upper and lower 10 percent tails by weight are trimmed.
2. 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 for the CPI (less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan.
4. Figures for the ratio of increasing and decreasing items are proportions of items whose indices increased/decreased from a year earlier. All items less fresh food.
5. Figures are estimated by adjusting the direct effects of the consumption tax hike in April 2014.

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

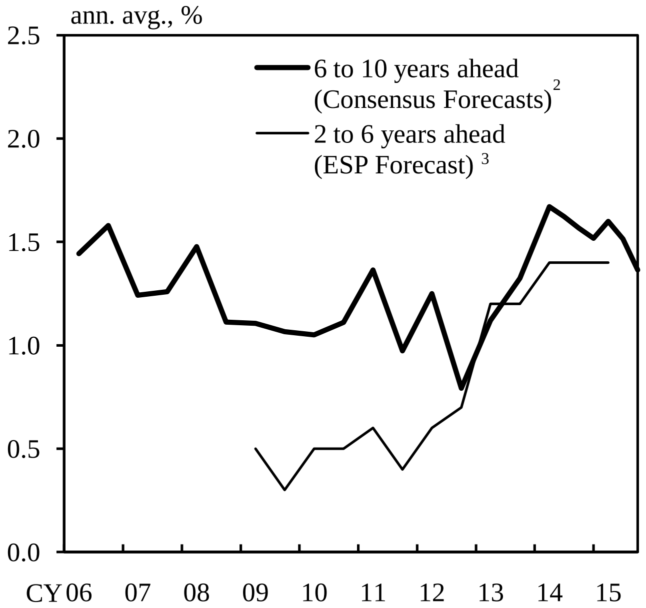
Inflation Expectations

(1) Households

<Consumer Confidence Survey>[1]

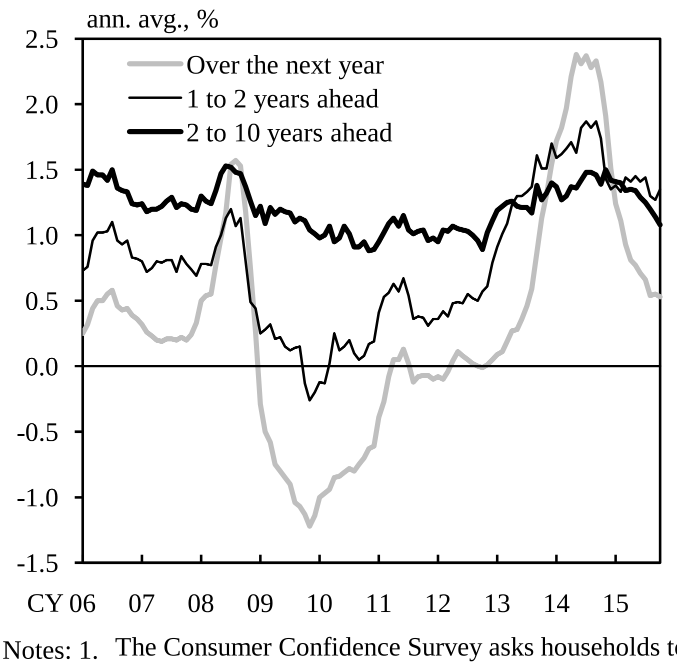


(2) Economists

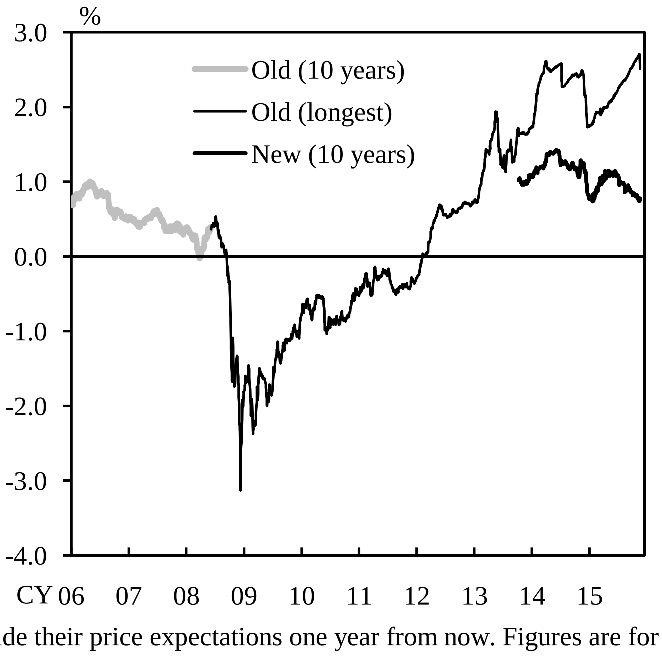


(3) Market Participants

<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.

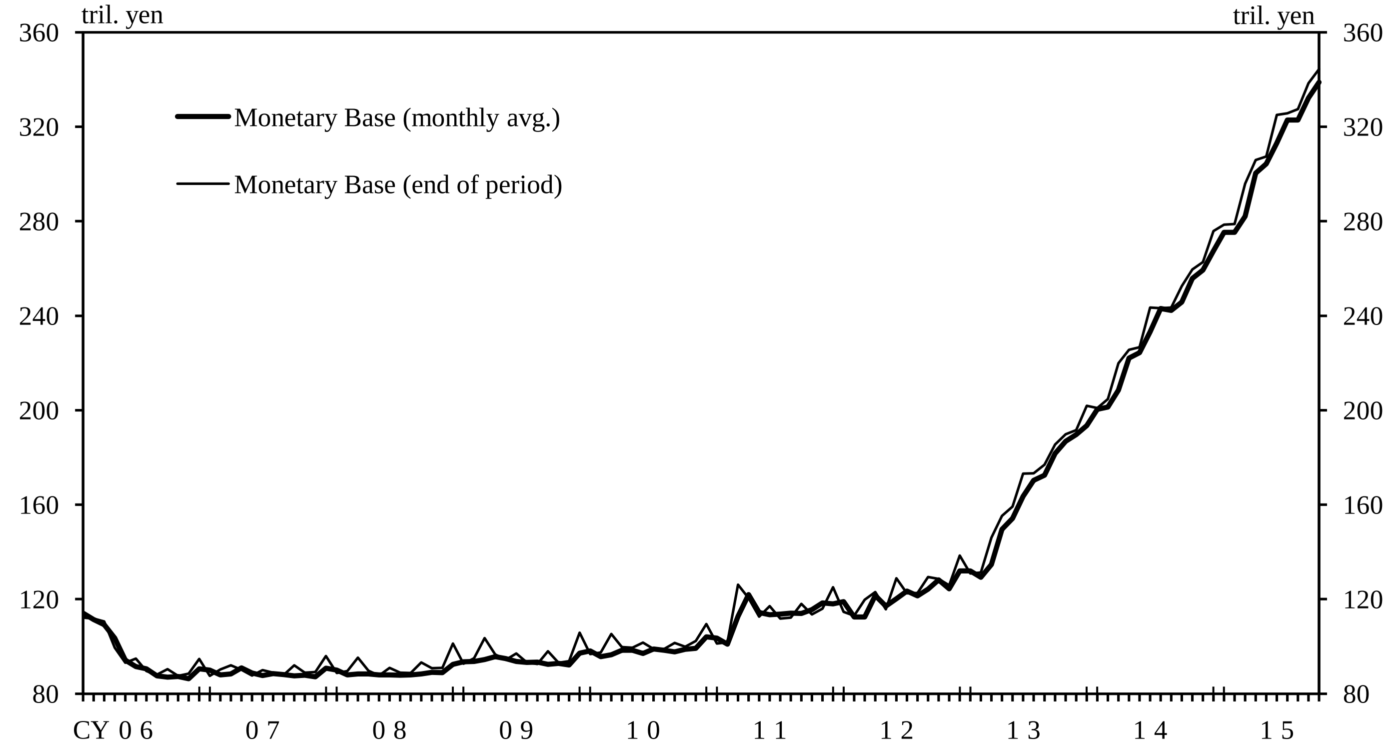
4. From the September 2013 survey, the QUICK Monthly Market Survey (Bonds) has asked respondents to include the effects of the consumption tax hikes.

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 inflation-indexed JGBs, which matures in June 2018.

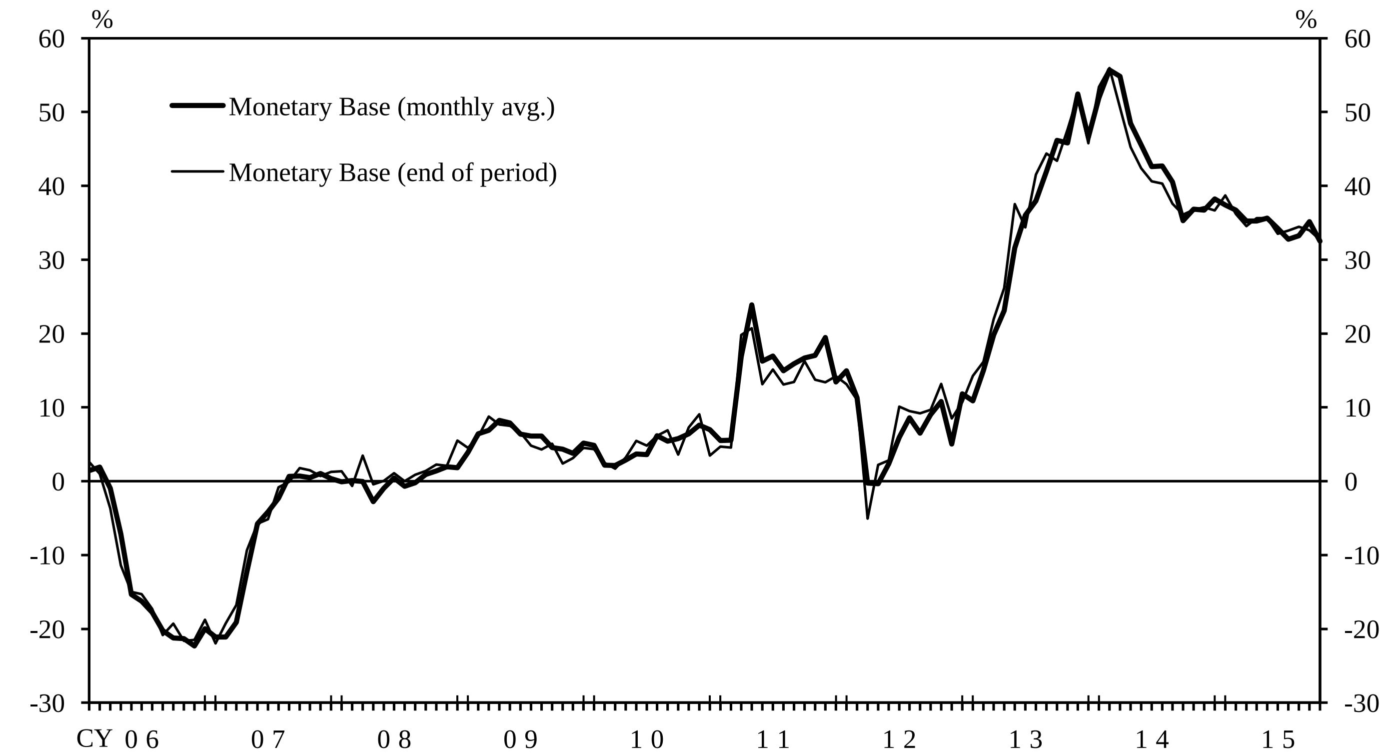
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

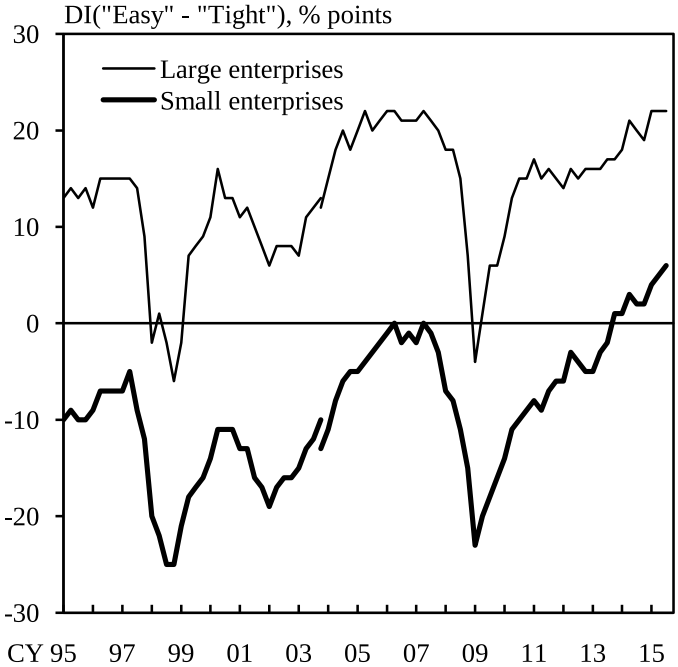


Source: Bank of Japan.

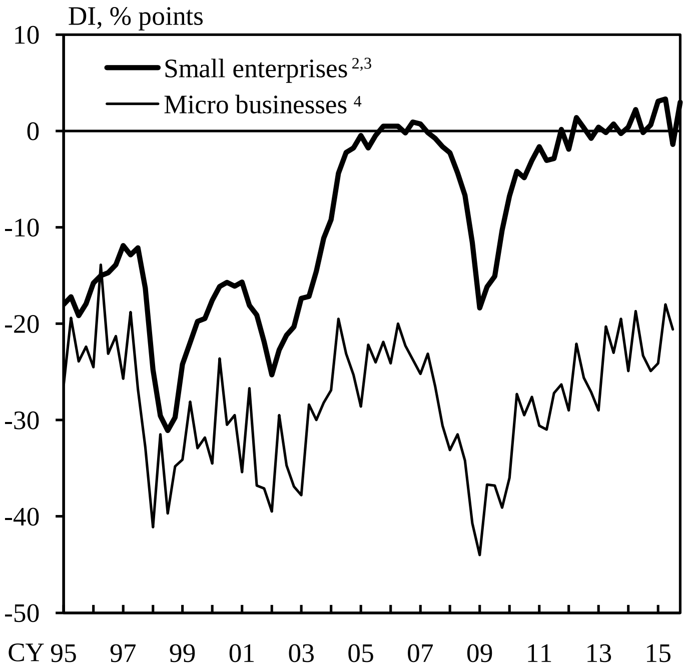
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan[1]>

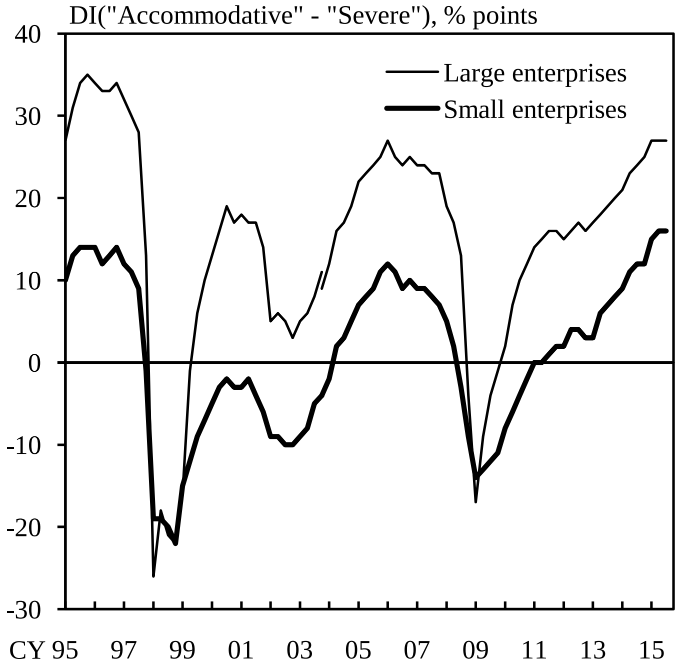


<Japan Finance Corporation Survey>

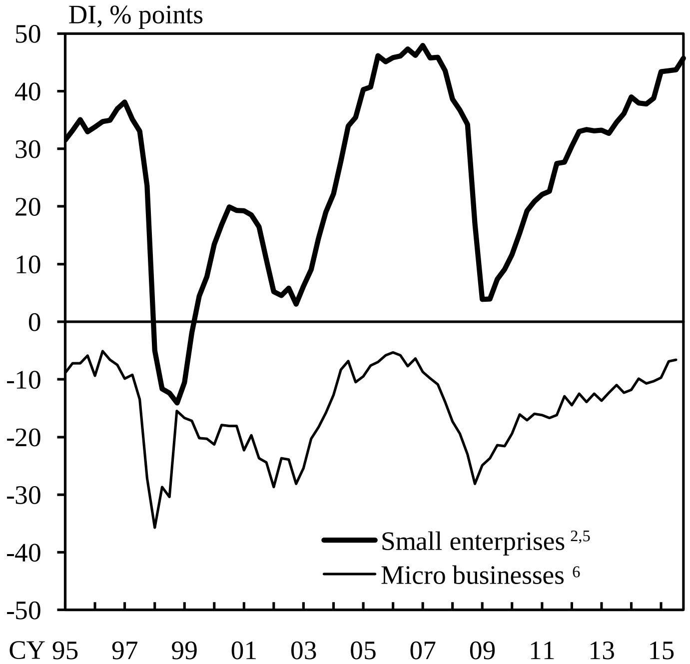


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan[1]>



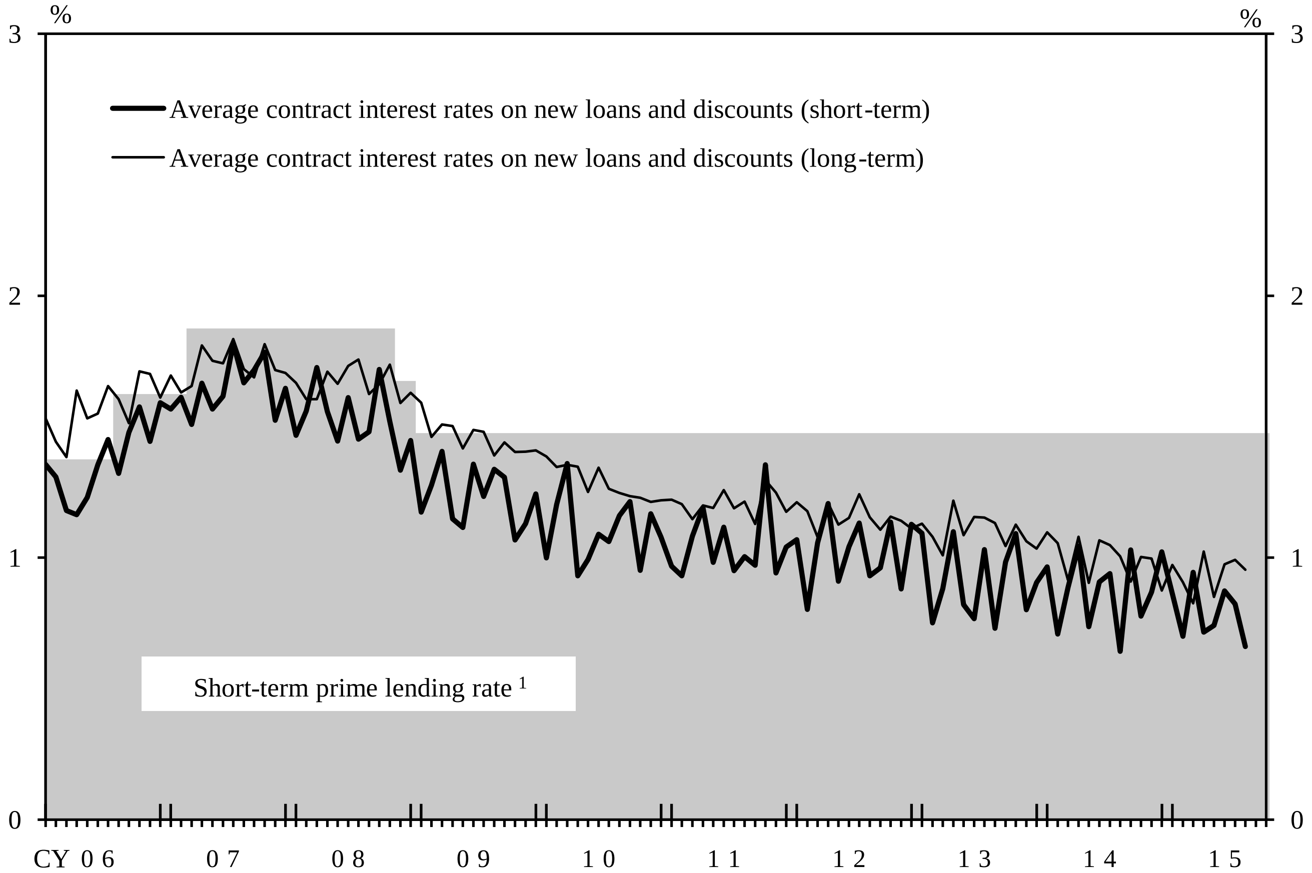
<Japan Finance Corporation Survey>



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. Figures for 2015/Q4 are those of October.
3. DI of "Easy" - "Tight."
4. DI of "Easier" - "Tighter."
5. DI of "Accommodative" - "Severe."
6. DI of "More accommodative" - "More severe."

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

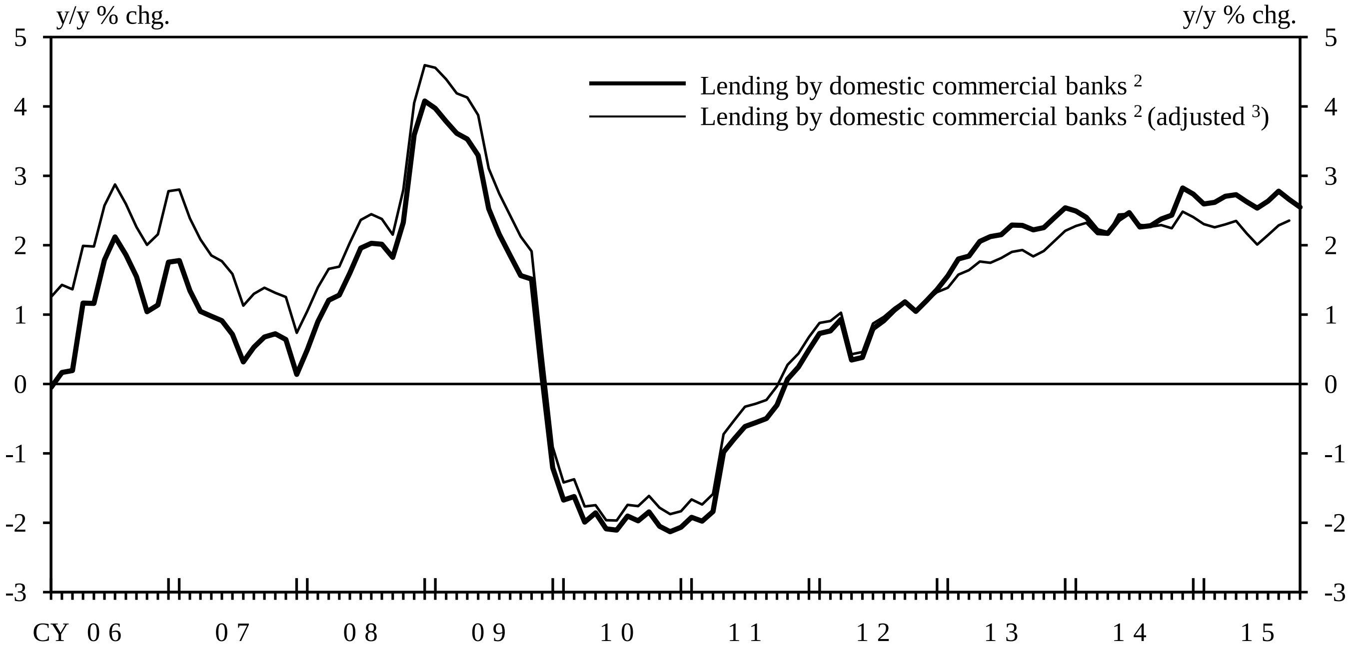
Lending Rates



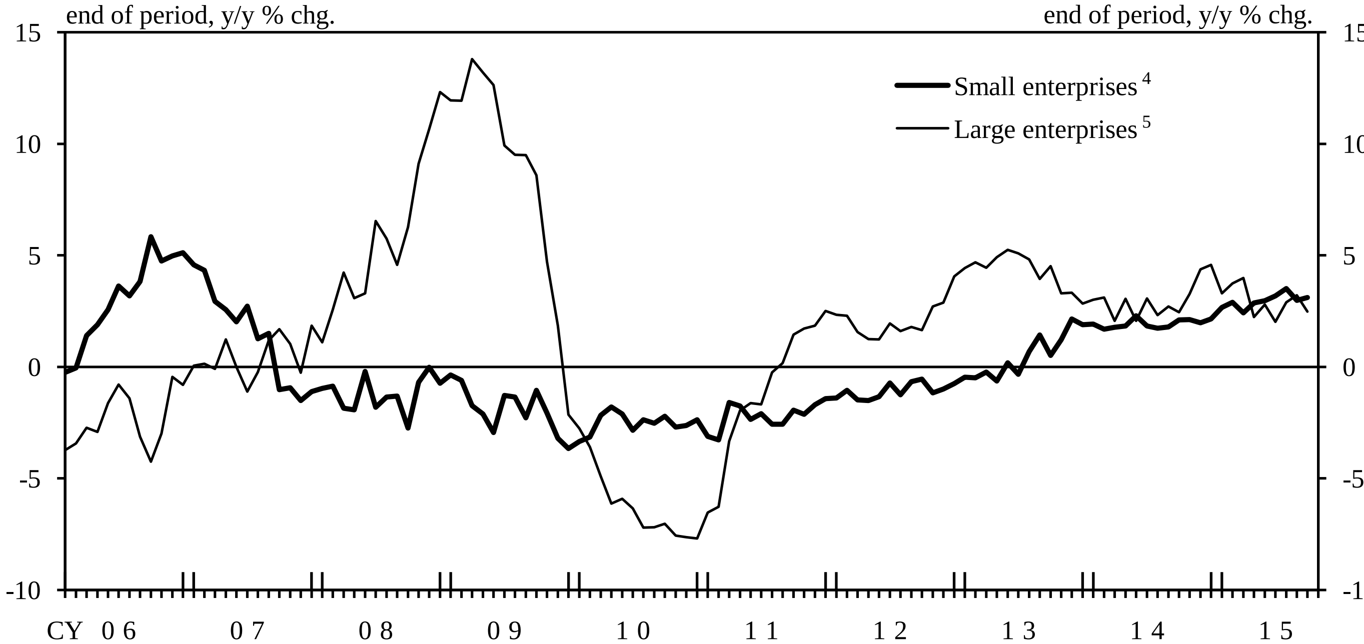
Note: 1. Data are at end of period.
Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks[1]



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

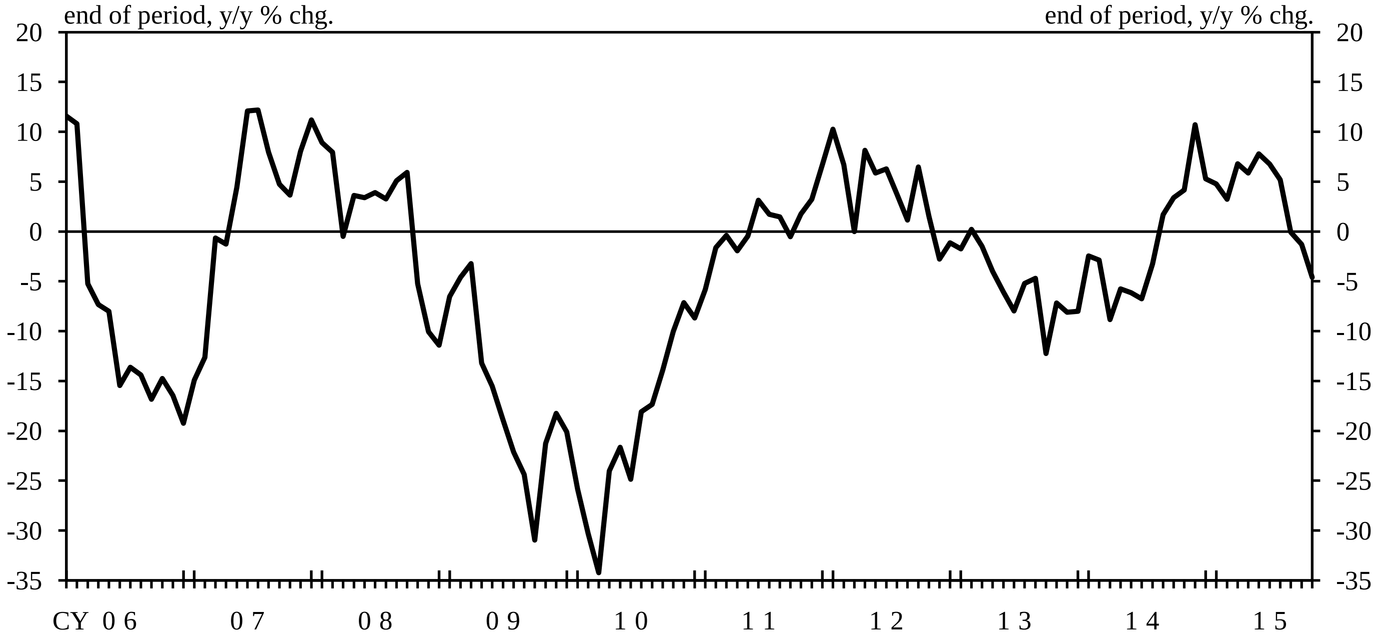


Notes: 1. Percent changes in average amounts outstanding from a year earlier.
2. "Domestic commercial banks" refers to major banks, regional banks I, and regional banks II.
3. Adjusted to exclude
(1) fluctuations due to the liquidation of loans,
(2) fluctuations in the yen value of foreign currency-denominated 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.

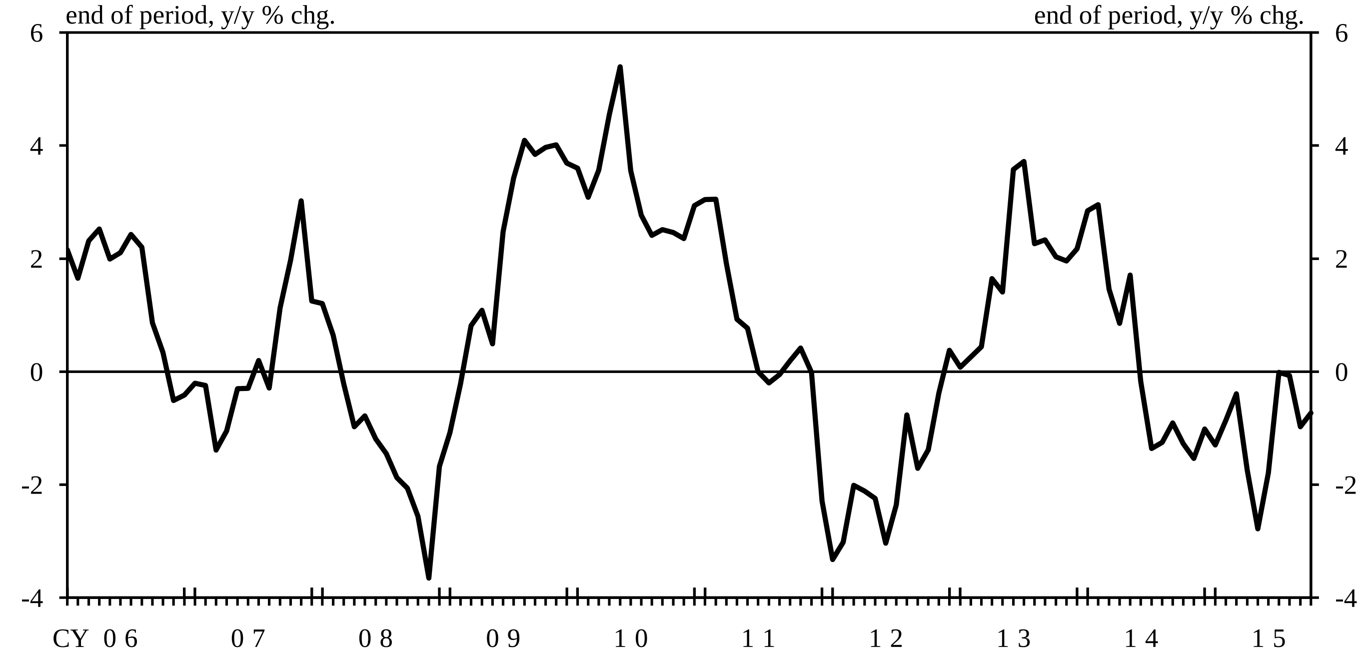
Private-Sector Fund-Raising in the Capital Markets

(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



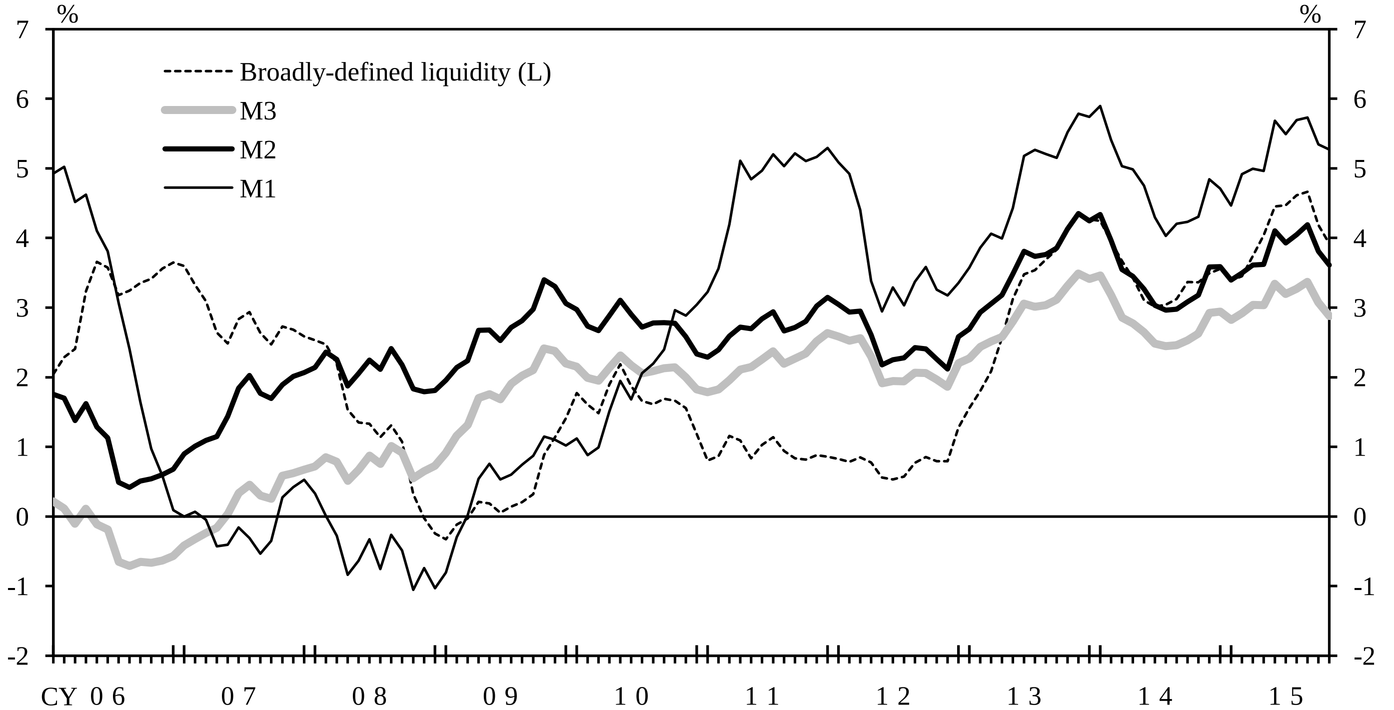
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

(1) The sum of straight bonds issued in both domestic and overseas markets is used.
(2) Bonds issued by banks and insurance companies are excluded.
(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.

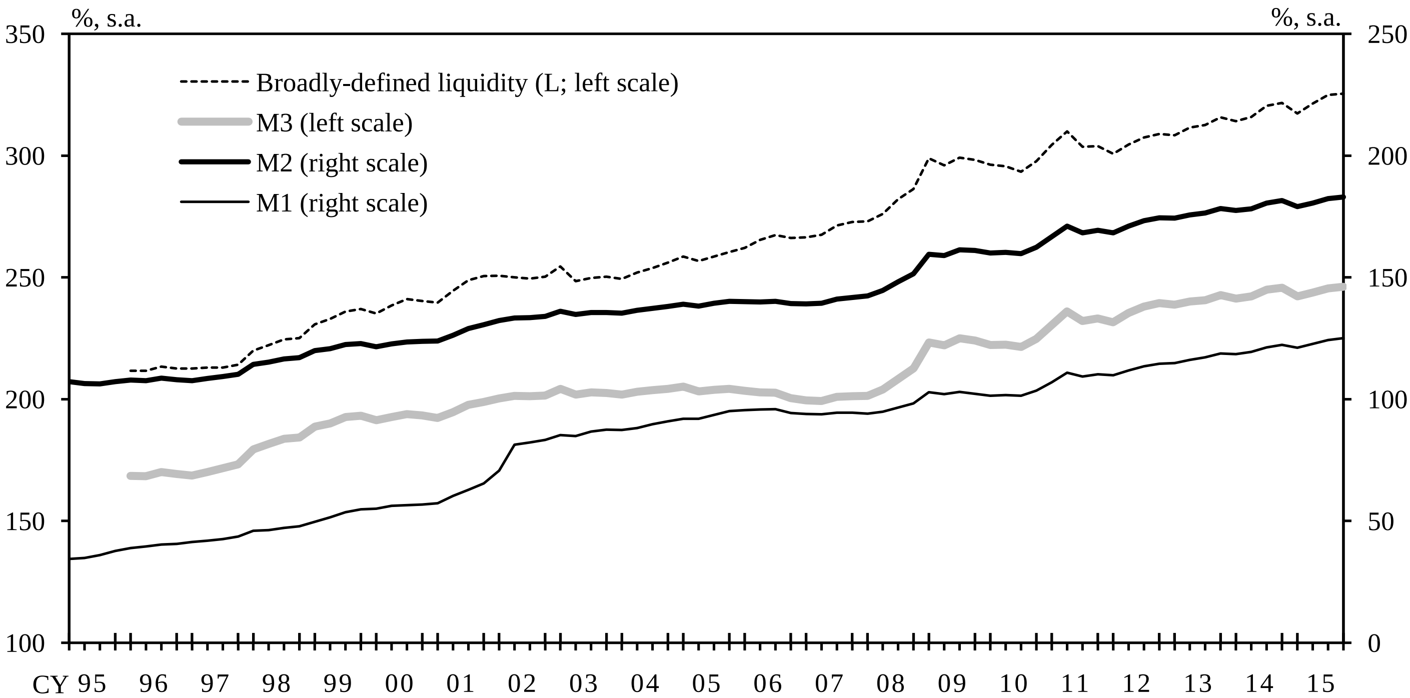
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

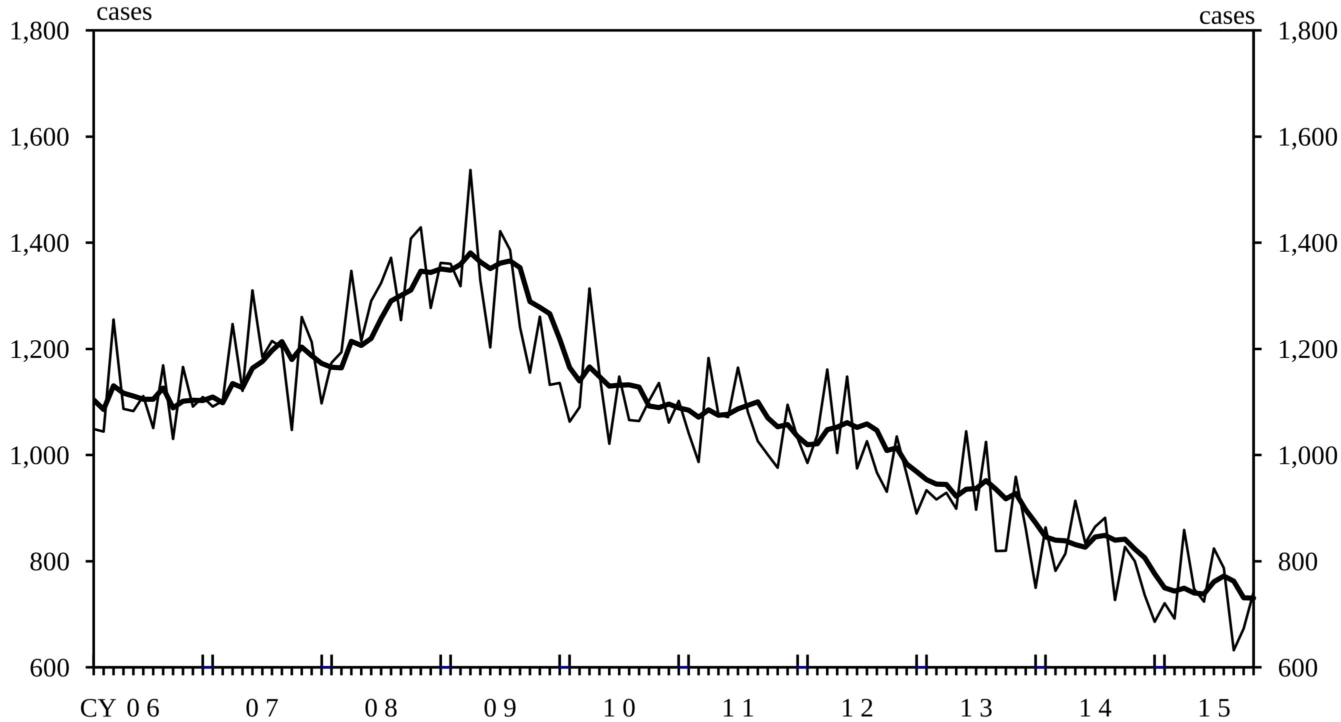


Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2003 are based on the former series.
4. Figures for money stock in 2015/Q4 are those of October, and nominal GDP in 2015/Q4 is assumed to be unchanged from the previous quarter.

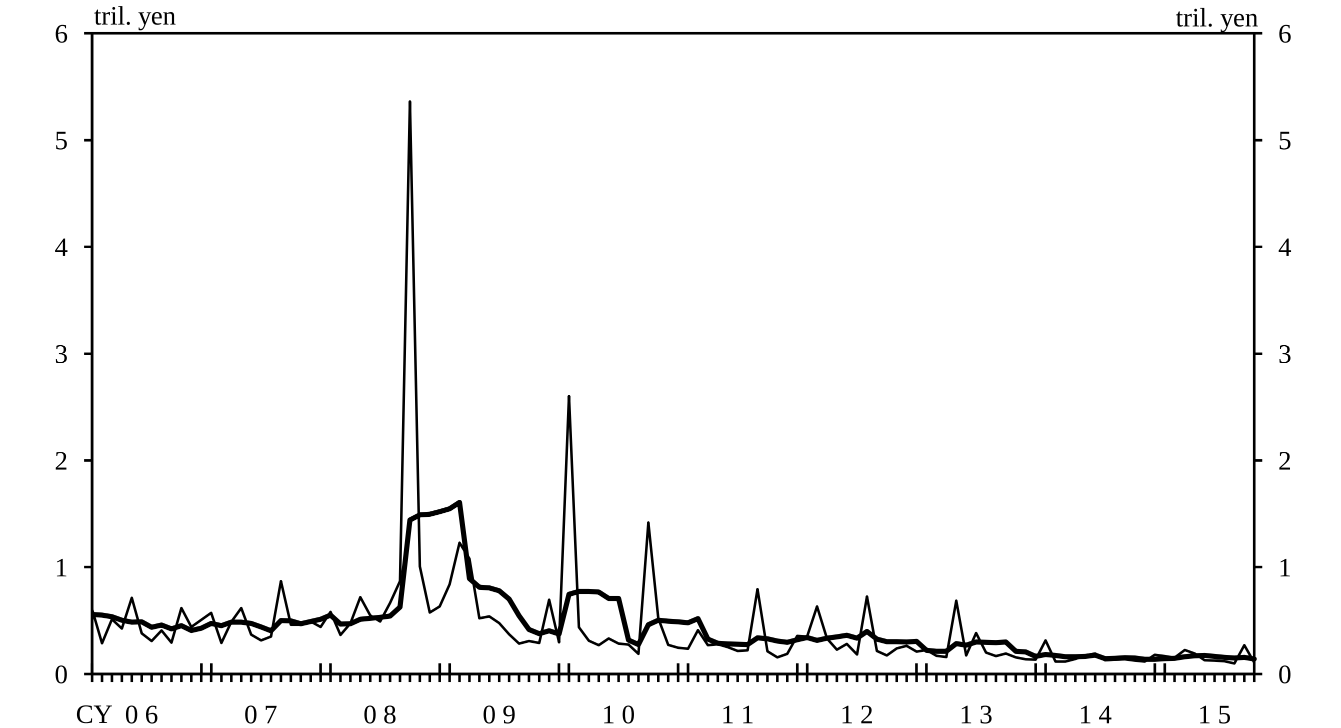
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

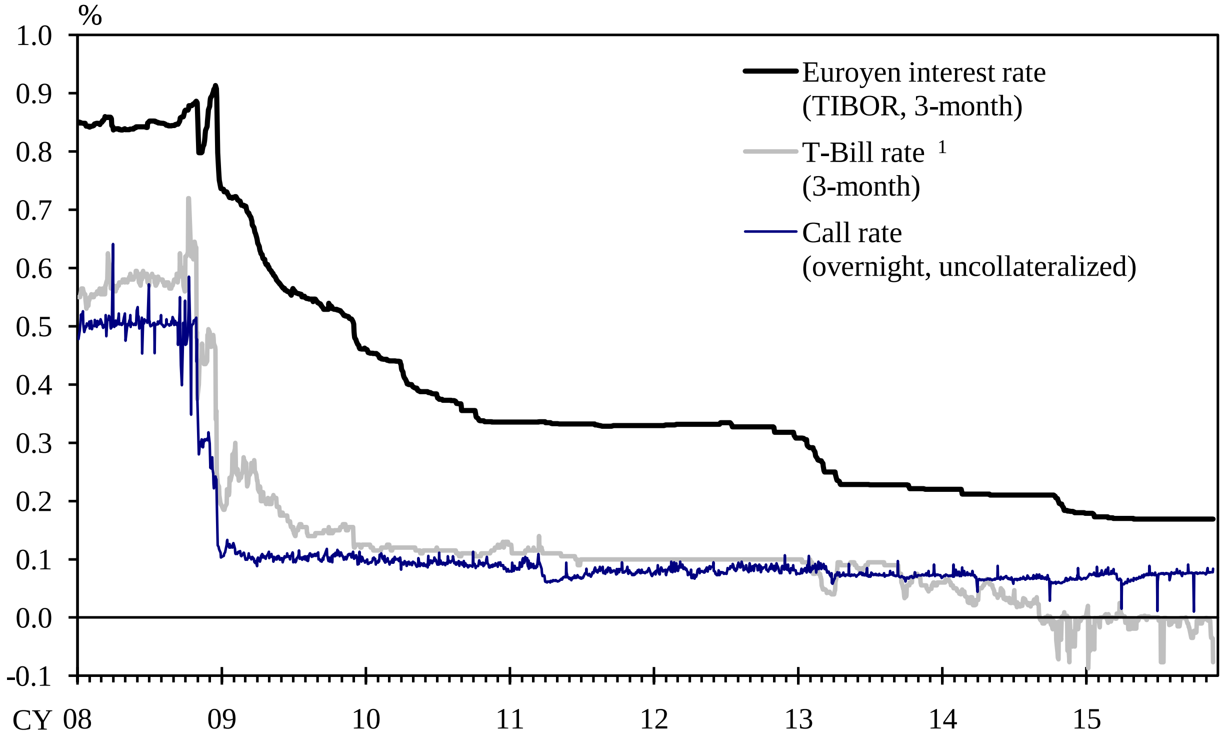


Note: Bold lines are the six-month moving average.

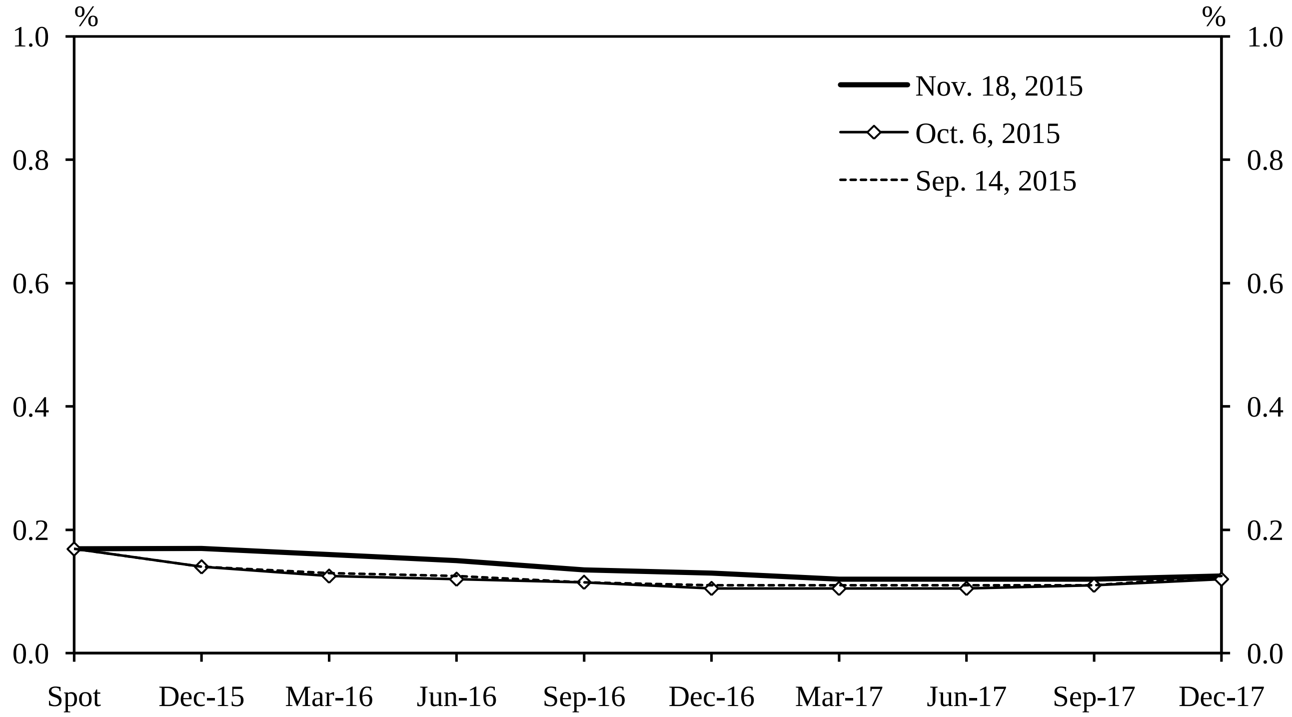
Source: Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



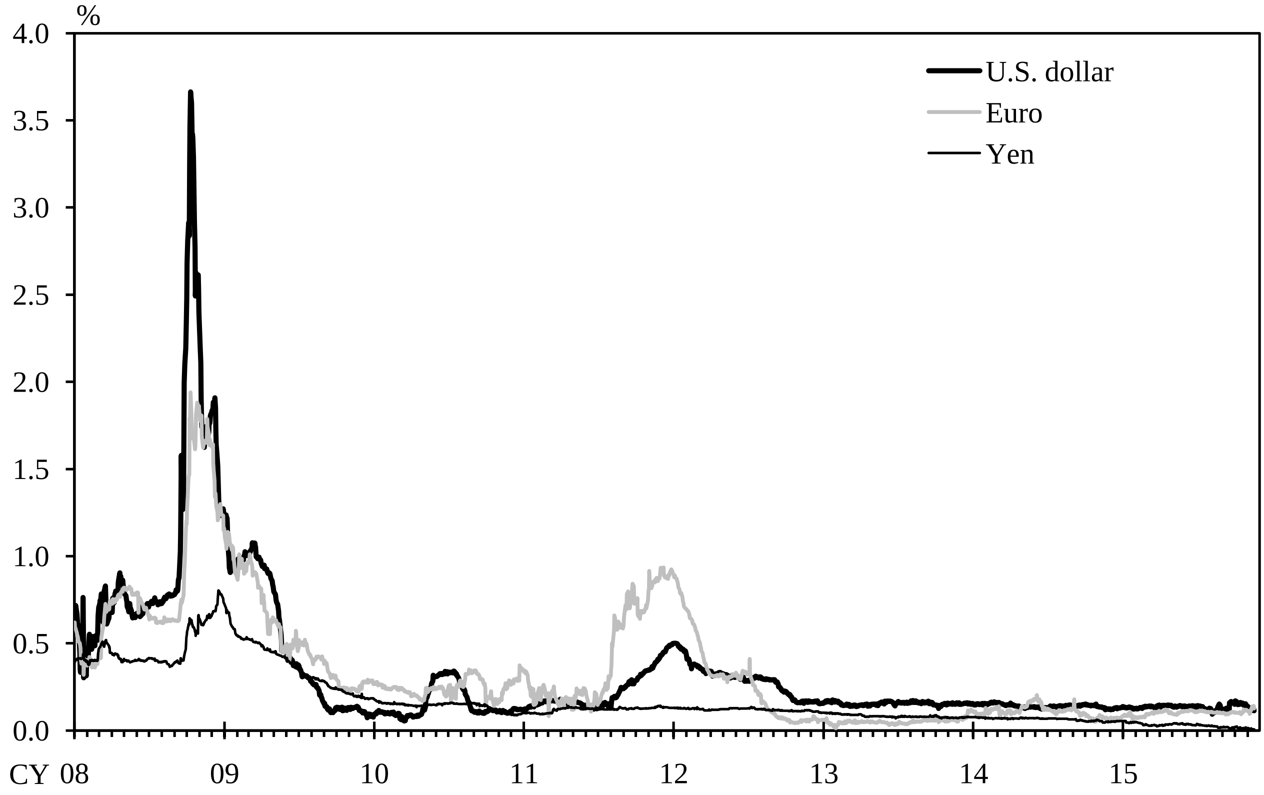
(2) Euroyen Interest Rate Futures (3-Month)



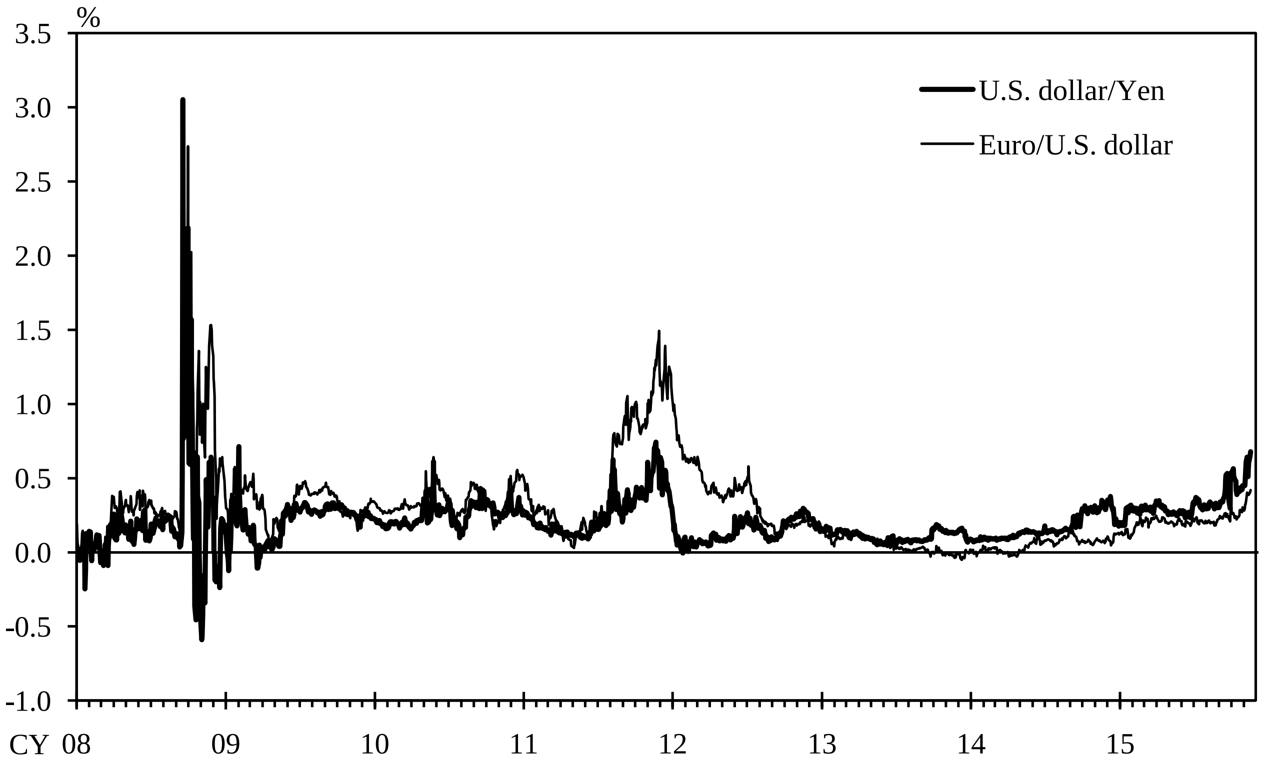
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
Sources: Japanese Bankers Association; JBA TIBOR Administration; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



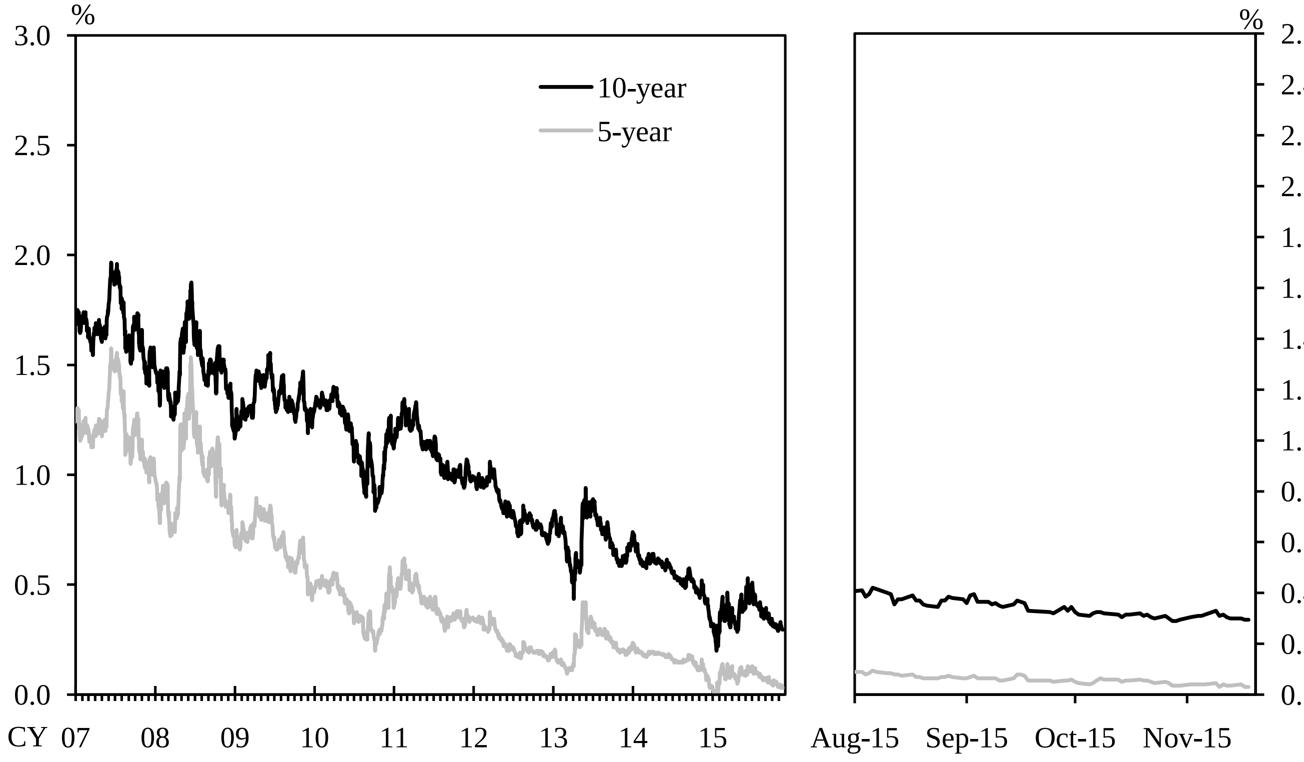
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



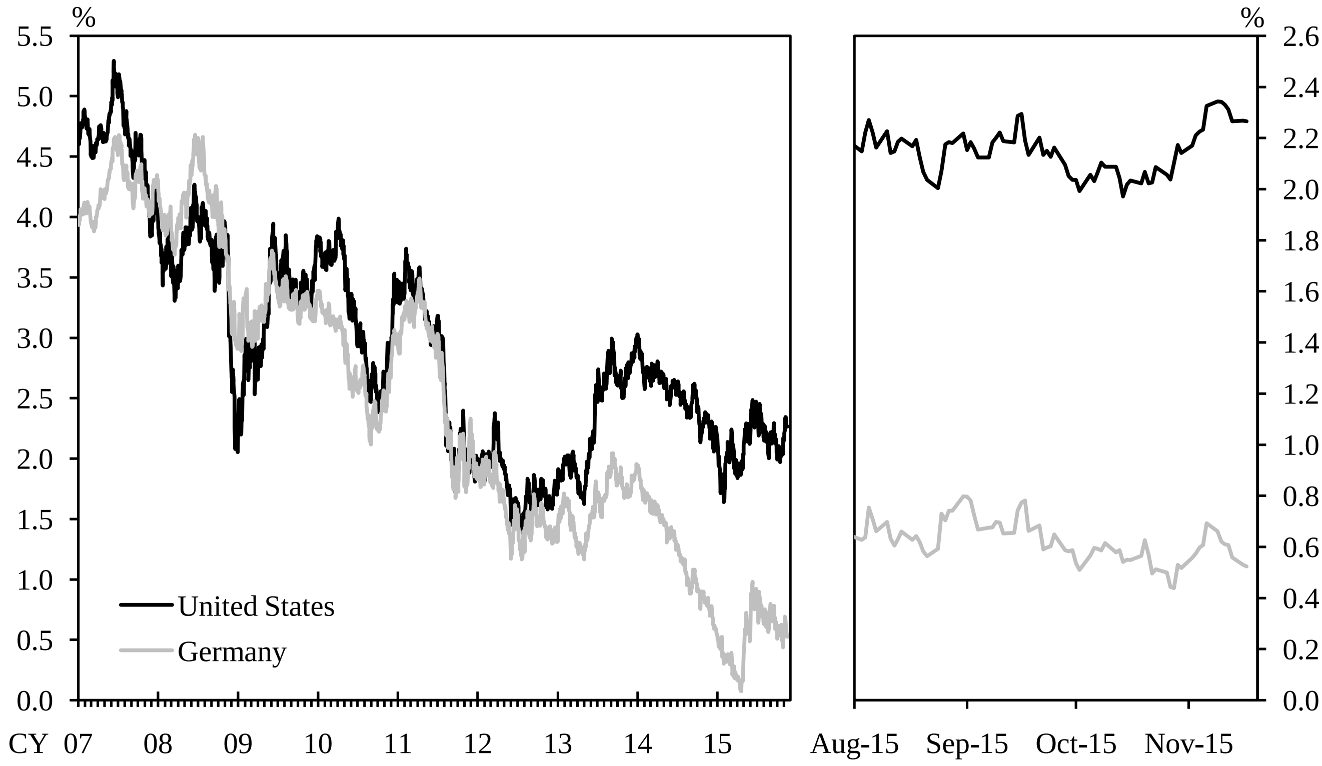
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields[1]



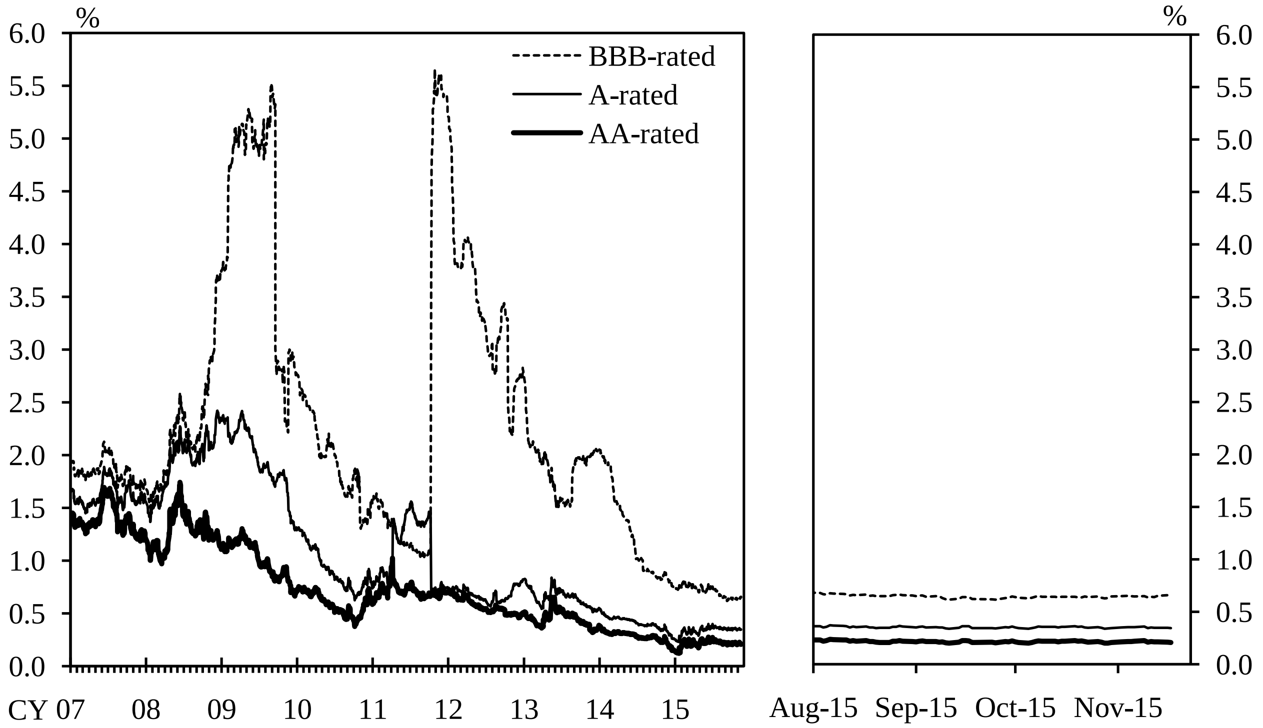
(2) Overseas Government Bond Yields (10-Year)



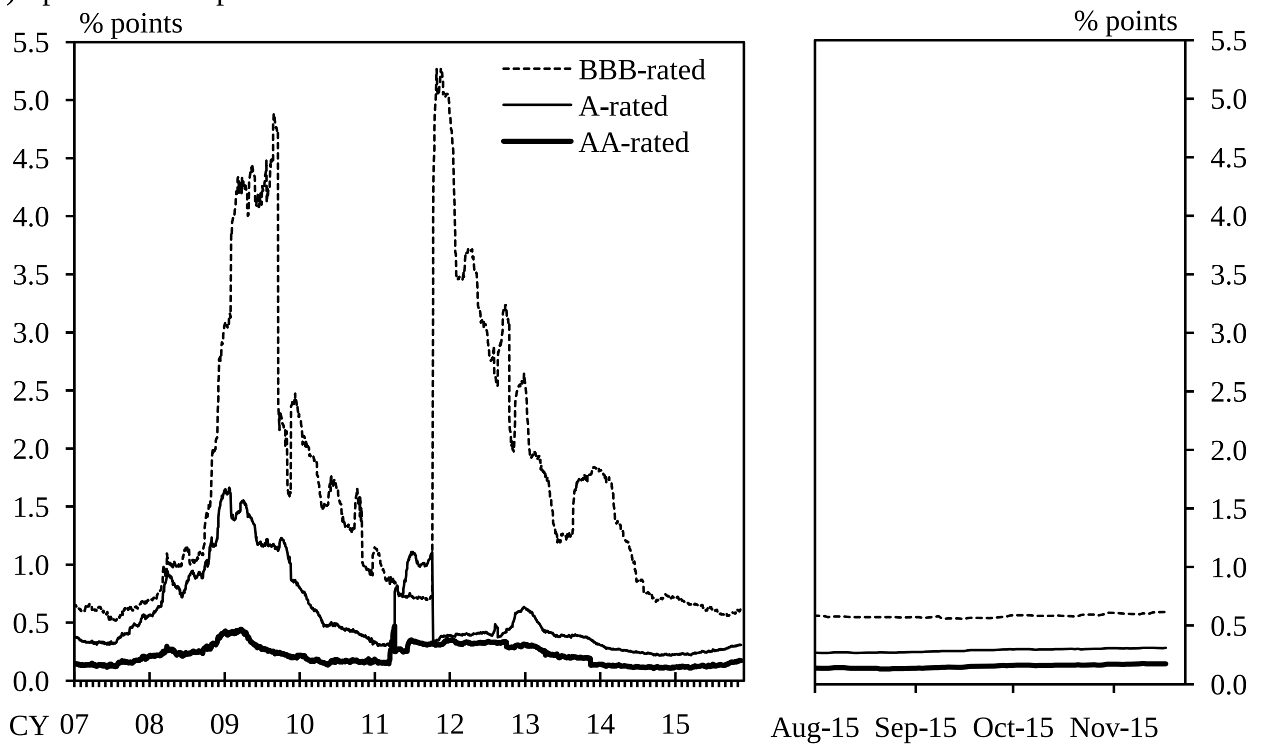
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields[1,2]



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

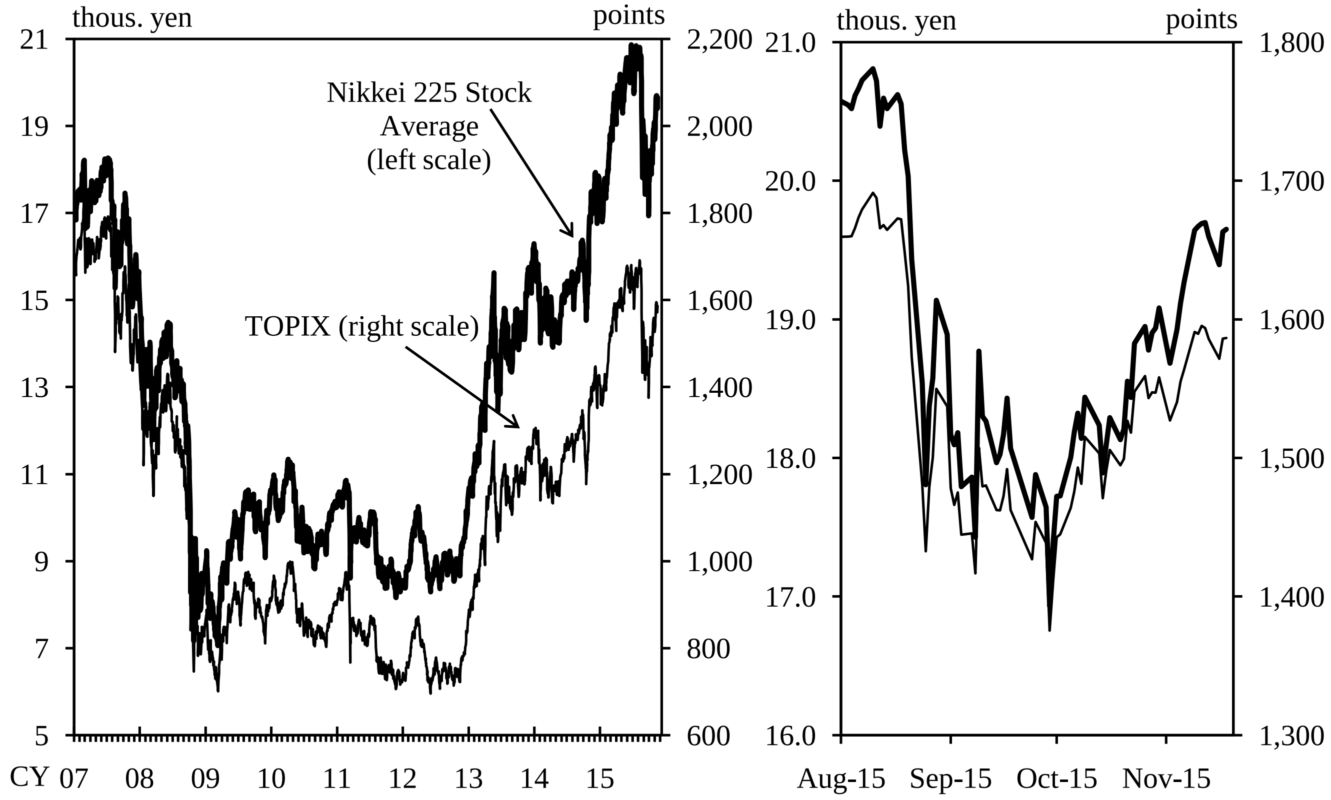


Notes: 1. Yields on bonds with 5-year maturity.
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
2. The indicated ratings are of Rating and Investment Information, Inc.

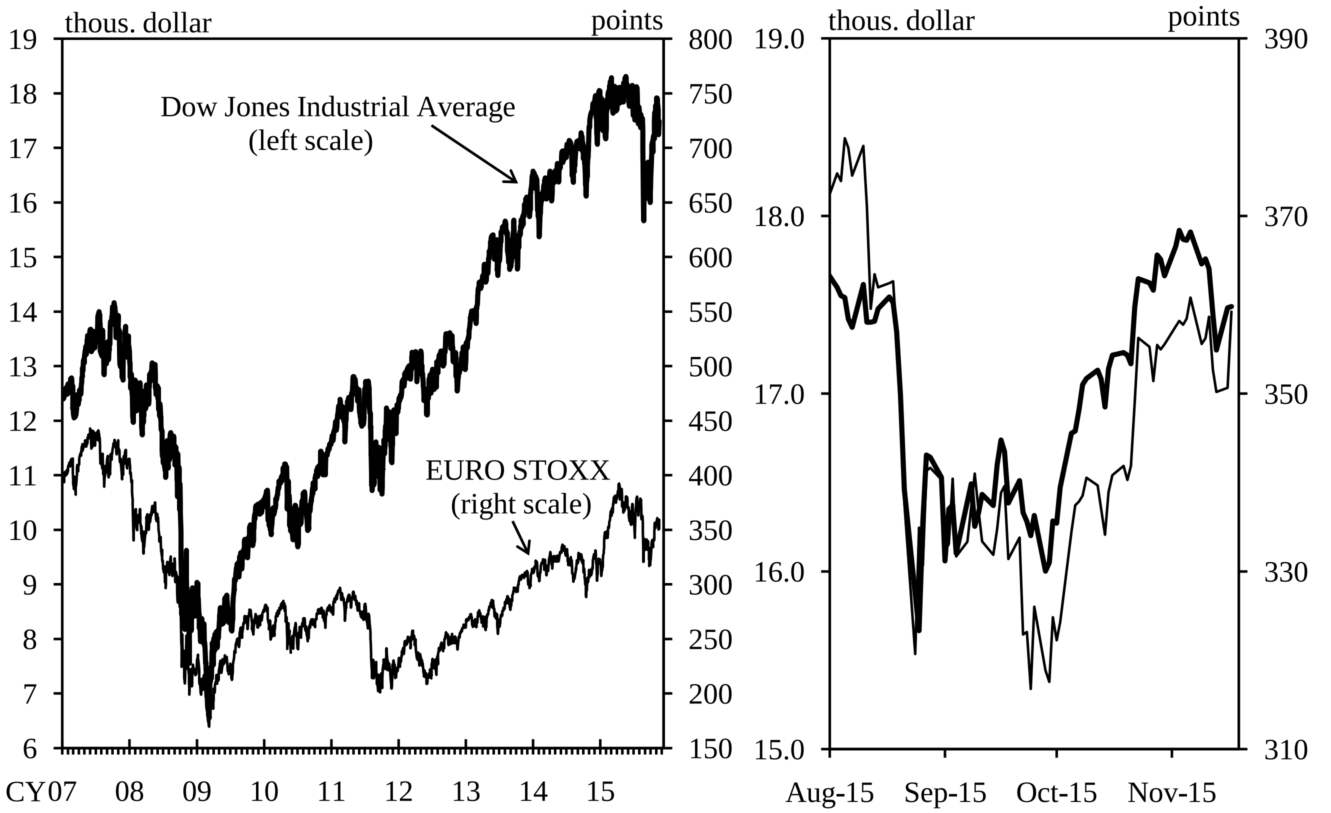
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



(2) Overseas Stock Prices

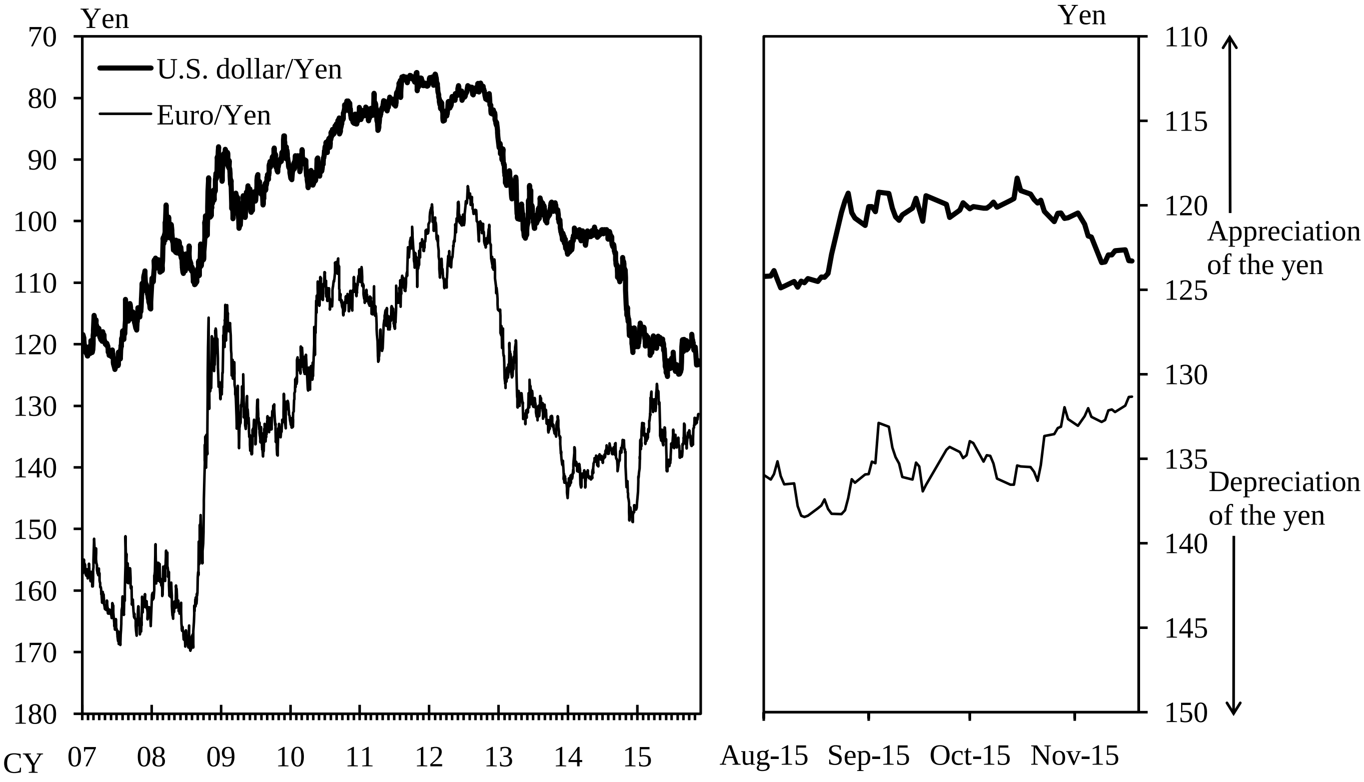


Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

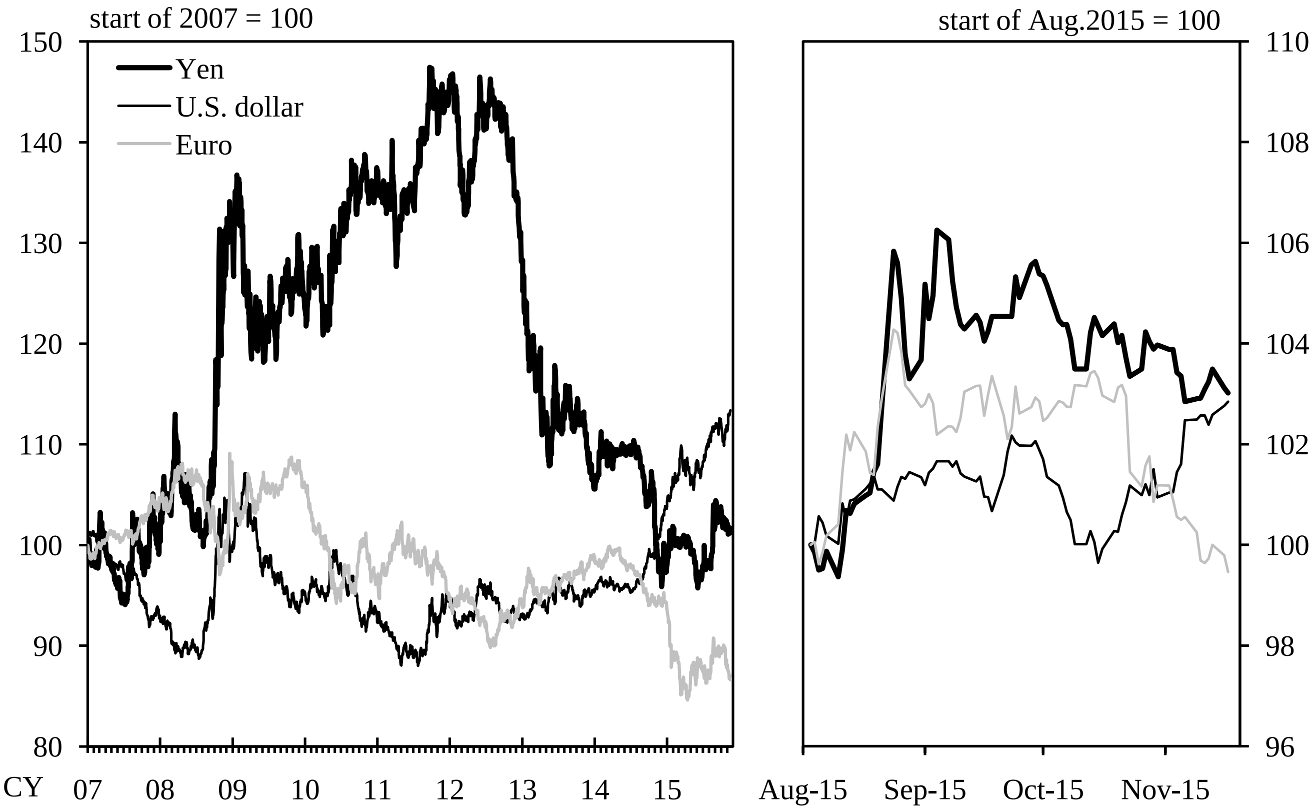
Chart 41

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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