

(English translation prepared by the Bank's staff based on the Japanese original)

**September 8, 2011**

**Bank of Japan**

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

**September 2011**

**Summary**

Japan's economic activity has been picking up steadily while the supply-side constraints caused by the earthquake disaster have been mostly resolved.

Production and exports have continued to increase and have almost recovered the pre-quake levels while the supply-side constraints have been mostly resolved. In this situation, business fixed investment has been picking up, aided partly by the restoration of disaster-stricken facilities. Private consumption has also been picking up on the whole, although weakness remains in some aspects of consumer behavior.

With regard to the outlook, Japan's economy is expected to return to a moderate recovery path.

Exports are expected to be on the rise against the background of firm overseas demand. In this situation, business fixed investment, housing investment, and public investment are expected to increase gradually, mainly due to growing demand for the purposes of restoring capital stock. Private consumption is expected to hold steady. Production is expected to continue increasing, albeit at a moderate pace.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat, reflecting movements in international commodity prices. The year-on-year rate of decline in consumer prices (all items less fresh food) has continued to slow, and is currently around 0 percent.<sup>2</sup>

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 6 and 7, 2011.

<sup>2</sup> The base year for the consumer price index (CPI) was changed to 2010 in August 2011, and year-on-year figures as far back as January 2011 were revised downward retroactively.

Domestic corporate goods prices are expected to remain more or less flat for the time being. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

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

Financial conditions have generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. Stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP have continued to be favorable. Those for corporate bonds have been favorable as seen in the increased variety of corporate bond issuers. As for credit demand, firms have shown signs of increasing their demand for working capital. Against this backdrop, the year-on-year rate of decline in bank lending is slowing. The amounts outstanding of both corporate bonds and CP have exceeded their previous year's levels. In these circumstances, firms have retained their recovered financial positions on the whole, albeit with weakness observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock has been at around 3 percent.