

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

**October 11, 2011**

**Bank of Japan**

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

**October 2011**

**Summary**

Japan's economic activity has continued picking up.

Production and exports have continued to increase, although their paces have moderated after going through the recovery phase immediately following the quake-induced plunge. In this situation, business fixed investment has been increasing moderately, 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. Housing investment has shown clear signs of picking up and public investment has almost stopped declining.

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

The underlying trend in overseas economic growth is expected to remain firm, led by emerging economies, although the pace is expected to slow for the time being. As a result, exports are expected to trend up moderately, due in part to the restocking of inventories abroad. 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 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

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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 October 6 and 7, 2011.

prices. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to be somewhat weak 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. Meanwhile, the value of the yen against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same levels as last month.

Financial conditions have continued to ease, albeit with weakness still being 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 also remained 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 gradually slowing. The amount outstanding of corporate bonds has exceeded the previous year's level, and that of CP was around the year-ago level in September. In these circumstances, firms have retained their recovered financial positions on the whole, albeit with weakness still being observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.