

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

**November 17, 2011**

**Bank of Japan**

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

**November 2011**

**Summary**

Japan's economic activity has continued picking up, but at a more moderate pace mainly due to effects of a slowdown in overseas economies.

As for domestic demand, business fixed investment has been increasing moderately, aided partly by the restoration of disaster-stricken facilities. Private consumption has remained firm. Housing investment has generally been picking up and public investment has almost stopped declining. On the other hand, exports and production have continued to increase, due in part to the restocking of inventories abroad that had declined after the earthquake, but at a more moderate pace mainly reflecting the effects of the slowdown in overseas economies.

With regard to the outlook, for the time being, Japan's economy will face an adverse effect from the slowdown in overseas economies and the appreciation of the yen as well as from the flooding in Thailand. After that, the economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually materializes.

Exports and production are expected to be more or less flat for the time being and increase moderately thereafter, mainly reflecting a pick-up in the pace of recovery in overseas economies. On the other hand, 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 remain firm.

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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 November 15 and 16, 2011.

On the price front, the three-month rate of change in domestic corporate goods prices shows that they have been somewhat weak, mainly due to the decline in international commodity 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 remain 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.

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 mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of change in bank lending has turned to a small positive. 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. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.