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Bank of Japan

**Monthly Report of  
Recent Economic and Financial Developments  
September 2012**

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released on September 20, 2012)

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

## September 2012

### Summary

The pick-up in Japan's economic activity has come to a pause.

Exports and industrial production have been relatively weak as overseas economies have moved somewhat deeper into a deceleration phase. On the other hand, domestic demand has been resilient, mainly supported by reconstruction-related demand. Specifically, public investment has continued to increase. Business fixed investment has been on a moderate increasing trend with improvement in corporate profits. Private consumption has been resilient with the employment situation on an improving trend. Housing investment has generally been picking up.

With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient and overseas economies gradually emerge from the deceleration phase.

Exports and industrial production are expected to remain relatively weak for the time being and increase moderately thereafter as overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to be on the rise and housing investment to continue to generally pick up, mainly supported by reconstruction-related demand. Business fixed investment is projected to continue a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits keep improving on the whole, notwithstanding the effects of the deceleration in overseas economies for the time being. Private consumption is expected to remain resilient as the employment situation continues its improving trend.

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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 18 and 19, 2012.

Meanwhile, there remains a high degree of uncertainty about the global economy, and furthermore, attention should be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

On the price front, the three-month rate of change in domestic corporate goods prices has been negative, mainly reflecting the earlier 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 decline at a reduced pace for the time being, reflecting movements in international commodity prices. 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 are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. 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 on the whole. 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 increase in the amount outstanding of bank lending has risen somewhat. The year-on-year rate of change in the amount outstanding of CP has been positive. In contrast, that of corporate bonds, especially electric company bonds, has been negative. 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 positive within the range of 2-3 percent.

## 1. Economic Developments

Public investment has continued to increase, primarily in that related to reconstruction after the earthquake disaster. The amount of public construction completed—which reflects the progress of public works—continued to rise in July relative to the second quarter, after having increased for four straight quarters through the second quarter (Chart 5). The value of public works contracted—a measure that reflects public orders—kept increasing in July-August compared with the second quarter, after having risen for five consecutive quarters through the second quarter.

Public investment is expected to be on the rise.<sup>2</sup>

Real exports have been relatively weak (Charts 6[1] and 7). Although real exports rose in the second quarter for the first time in three quarters on a quarter-on-quarter basis, they fell back sharply in July compared with the second quarter. Monthly figures show that they declined for three straight months through July after having risen in April. Looking at exports in July relative to the second quarter by region (Chart 7[1]), those to the United States as a whole declined for the first time in five quarters, since exports of motor vehicles and their related goods turned downward as the effects of upward pressure—assisted mainly by restocking—waned. Capital goods and parts also saw their exports fall back from the upsurge in the second quarter. Exports to both China and NIEs have remained somewhat weak on average: despite a temporary rise in the second quarter—including that in intermediate goods—after having declined for two quarters in a row through the first quarter, they turned downward again in July. Exports to the EU have continued to decrease markedly since the fourth quarter last year. Meanwhile, exports to ASEAN fell back in July from the upsurge through the second quarter, while those to Others also declined in July, reflecting fluctuations caused mainly by ships. Looking at exports in July compared with the second quarter by goods (Chart

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<sup>2</sup> Meanwhile, in response to a situation in which there is no prospect for the passage of the bill on special provisions concerning issuance of government bonds, the Cabinet decided its concrete policy on limiting the execution of the fiscal 2012 budget on September 7. This policy includes the postponement of some tax grants to local governments from October onward. Since postponements of tax grants are for prefectures, which are relatively stable financially, funding of these local governments for the meantime is expected to depend on other measures, including borrowing from financial institutions. Should this limit on the execution of the budget persist, attention should be given to its impact.

7[2]), those of IT-related goods have been sluggish primarily since final demand had not shown clear signs of improvement, despite a temporary rise in the first quarter as a reflection of the progress in inventory adjustments on a global scale. Exports of motor vehicles and their related goods fell at an accelerated pace in July after having declined—albeit very marginally—in the second quarter for the first time in four quarters, since the restocking of these goods in the United States ceased and parts exported to China were sluggish, with those to the EU having remained somewhat weak. Exports of capital goods and parts registered a sizeable decline in July as a reflection of ships exported to Others and NIEs which fell back from the previous quarter. Exports of intermediate goods—which had been somewhat weak through the first quarter primarily in those to China—grew at an accelerated pace in the second quarter, notably to East Asia (China, NIEs, and ASEAN), but they were almost flat in July. Meanwhile, exports of consumer goods (digital cameras) were almost level in the second quarter, since the effects of upward pressure caused by the removal of supply constraints as a result of the flooding in Thailand had waned, but they moved upward in July, particularly to the EU.

Real imports have trended upward (Charts 6[1] and 9). They rose again in the second quarter and continued to do so in July relative to the second quarter, after having exhibited a quarter-on-quarter decline—albeit marginally—in the first quarter for the first time in four quarters. Looking at movements in imports by goods (Chart 9[2]), those of raw materials fell in July compared with the second quarter, after having risen for four straight quarters through the second quarter, primarily in mineral fuels used for thermal power generation. Imports of IT-related goods trended upward, particularly in smartphones. Those of capital goods and parts have been on the rise in light of developments in domestic business fixed investment. Those of intermediate goods climbed in July compared with the second quarter, primarily in chemicals (medicinal pharmaceutical products) from Europe, after having been almost level in the second quarter on a quarter-on-quarter basis. In contrast, imports of foodstuffs and consumer goods were virtually flat, albeit with fluctuations.

Net exports—in terms of the real trade balance—declined as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus narrowed in July as a whole compared with the second

quarter, since the nominal goods and services balance expanded its deficit, although the income balance surplus kept rising slightly (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies have moved somewhat deeper into a deceleration phase (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery trend as a whole, with the housing market having shown some signs of bottoming out, although the pace of improvement in the employment situation has been modest. The European economy has receded slowly and has yet to show signs of improvement as the deterioration in both business and household sentiment in periphery countries has spilled over to core countries. As for the Chinese economy, production has been growing at a slower pace, affected by elevated inventory adjustment pressures in sectors—including raw materials and construction machinery—amid ongoing weakness in exports to the EU (which comprise a large weight), although signs of improvement have been observed in some areas, such as an increase in infrastructure investment as well as a pick-up in sales of real estate. Affected by these movements, the NIEs have faced somewhat sluggish exports and production, particularly in the IT-related sector. Meanwhile, as for the exchange rate, the yen has ceased to appreciate against the U.S. dollar and euro alike, after having appreciated slightly from the second half of July through early August, while the real effective exchange rate shows that the yen has been running slightly below levels of the second half of last year, when the yen kept appreciating (Chart 8[1]).

Overseas economies are expected to continue decelerating for the time being and then gradually emerge from the deceleration phase. However, there remains a high degree of uncertainty about the global economy, including future developments in the European debt problem, and furthermore, attention should be paid to the effects of financial and foreign exchange market developments on economic activity and prices. As for the Chinese economy, the effects of economic stimulus measures are projected to surface gradually, but loose supply and demand conditions may prevail in the manufacturing sector in light of relatively weak exports and inventory adjustment pressures. In relation to this, in the IT-related sector, contributions associated with new products are projected to gradually underpin Japan's exports. However,

attention should be paid to the risk that developments in final demand in European and other markets may lead to new inventory adjustment pressures.

Taking the above into consideration, exports are expected to remain relatively weak for the time being and increase moderately thereafter as overseas economies gradually emerge from the deceleration phase. A high degree of uncertainty about the timing of when overseas economies will head for recovery does remain, however. Imports are projected to continue rising at a moderate pace as a trend, assisted heavily by resilient domestic demand, although they will be affected by somewhat weak industrial production for the time being. As a reflection of these developments in exports and imports, net exports are projected to continue declining for the time being and then gradually resume their moderate uptrend.

Business fixed investment has been on a moderate increasing trend with improvement in corporate profits. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms declined marginally in the first and second quarters on a quarter-on-quarter basis, after having registered a significant quarter-on-quarter increase in the fourth quarter last year (Chart 10[1]). Looking at investment by industry and company size in the second quarter on a quarter-on-quarter basis (Chart 11), investment of manufacturing as a whole rose for the fourth straight quarter, with that of medium-sized and small firms increasing for four quarters in a row, while large firms saw their investment fall back from the increase for three consecutive quarters. As for nonmanufacturing, investment declined for the second quarter running, after having registered extremely high growth in the fourth quarter last year. The aggregate supply of capital goods—a coincident indicator of machinery investment—posted a sizeable decline in July relative to the second quarter, partly since steel ships and trucks fell back, after having increased in the second quarter on a quarter-on-quarter basis (Chart 12[1]). As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—fell in the second quarter on a quarter-on-quarter basis, after having inched upward in the first quarter, but they rose again in July compared with the second quarter (Chart 13[1]). By industry, manufacturing saw an increase in July relative to the second quarter, after having declined in the second quarter.

Machinery orders of nonmanufacturing (excluding orders for ships and those from electric power companies) fell in July relative to the second quarter, after having been more or less flat in the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued to increase for two consecutive quarters through the second quarter, but fell in July from the second quarter (Chart 13[2]). By industry, construction starts of mining and manufacturing were down for the second straight quarter and those of nonmanufacturing also fell since the effects of large projects in sectors related to distribution (wholesale and retail trade, transportation) in the previous quarter dissipated.

Regarding the environment surrounding business fixed investment, corporate profits have been improving, notably in domestic demand-oriented sectors. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales was flat, at high levels, in the second quarter, after having improved markedly through the first quarter. By industry and company size, the ratio worsened slightly for large manufacturing firms, while medium-sized and small manufacturing firms saw their ratio improve. The ratio of nonmanufacturing has been steady as a reflection of firm domestic demand with that of large firms—excluding production, transmission and distribution of electricity—having maintained a record high as well as medium-sized and small firms continuing to show improvement.<sup>3</sup> Corporate profits are projected to keep improving at a modest pace on the whole, supported by resilient domestic demand, although there will be times when sectors such as manufacturing become susceptible to the deceleration in overseas economies.

Business fixed investment is projected to continue a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits keep improving on the whole, notwithstanding the effects of the deceleration in overseas economies for the time being.

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<sup>3</sup> As for the ratio of current profits to sales of nonmanufacturing in the second quarter, comparable seasonally adjusted figures show that the ratio of large firms (excluding production, transmission and distribution of electricity) maintained a level close to that in the first quarter which peaked for the first time since fiscal 1985; that of medium-sized and small firms also posted a high level for the first time since the first quarter of 1989.

Private consumption has been resilient with the employment situation on an improving trend (Chart 14). Consumption of goods—as seen through sales at retail stores in real terms (Chart 15[1])—was almost level in the second quarter and in July, after having gained momentum through the first quarter. Looking at consumption of durable goods (Chart 15[2]), the number of new passenger-car registrations remained at a relatively high level, primarily in new models of small cars and mini-vehicles. Recently, however, the level has retreated slightly since a rush in demand in view of the ending of subsidies for purchasing energy-efficient cars has lacked vigor.<sup>4</sup> Sales of household electrical appliances in real terms have been more or less flat as a whole, albeit with fluctuations, since sales of tablet devices and of white goods installed with energy-saving devices were firm, whereas those of televisions and PCs were sluggish. Sales at department stores and supermarkets were almost level in July on a month-on-month basis, after having fallen in June, affected by the unseasonable weather and the postponement in summer sales at some stores (Chart 16[1]). In August, however, sales appeared to have picked up slightly. Meanwhile, sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 16[2]), outlays for travel have trended upward, albeit with fluctuations. Sales in the food service industry are considered to be solid as a trend, although they have recently shown some weakness.

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, automobiles, money gifts, and remittance" basis—which is compiled so as to make it similar to items used for estimating GDP—registered a decline in July relative to the second quarter, after

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<sup>4</sup> For business vehicles, applications for subsidies for purchasing energy-efficient cars closed on July 5. Although it has been said that applications for private vehicles may possibly come to an end sooner or later, a rush in demand has not been observed yet. As to this reason, some point that (i) several car manufacturers have revealed a measure in which they will guarantee consumers the amount equivalent to the subsidy assuming that they receive the subsidy even if the application ends after they make their purchases; demand has smoothed out with the prospect for a number of new energy-efficient models scheduled to be released to the market, whereas others cite that (ii) this phenomenon indicates the fact that manufacturers took in too much future demand in advance. As a result, attention should be paid—including the timing of when the application for subsidies will end—to how far automobile sales and furthermore production will fall back in the future.

having advanced for four quarters in a row through the second quarter (Chart 15[1]).<sup>5</sup> The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) also fell in July compared with the second quarter, after having increased for four straight quarters through the second quarter.

Indicators related to consumer confidence have maintained their moderate improving trend as a whole, supported mainly by improvements in the employment situation (Chart 17).

Private consumption is expected to remain resilient as the employment situation continues its improving trend.

Housing investment has generally been picking up, supported in part by reconstruction of disaster-stricken homes. The number of housing starts—a leading indicator of housing investment—has tended to pick up on average, although it inched downward in July relative to the second quarter, after having moved upward for two consecutive quarters through the second quarter (Chart 18[1]).

Housing investment is expected to continue to generally pick up.<sup>6</sup>

Industrial production has been relatively weak (Chart 19). On a monthly basis, production declined again in July in both the released-base index and the adjusted-base index,<sup>7</sup> although it inched upward in June, after a sizeable decline in May that was affected partly by factors such as fewer operating days for factories than in typical years as a result of the long holiday. Even on a quarterly basis, production turned downward in the second quarter and continued to do so in July compared with

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<sup>5</sup> Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

<sup>6</sup> With the enactment of the third supplementary budget for fiscal 2011, the eco-point system for housing as well as the preferential interest rate measures for the Flat 35S were introduced once again with preferential treatment for disaster-stricken areas. Applications for the housing eco-points outside disaster-stricken areas have closed as of those received on July 4. Attention should be paid to the magnitude of its impact on future housing starts.

<sup>7</sup> The adjusted-base index of industrial production is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

the second quarter, after having increased in the first quarter. The production forecast index also shows that a downtrend has become somewhat more evident with sizeable downward revisions in both the realization ratio of July and the amendment ratio of August.

Looking at production in July relative to the second quarter by industry, that of transport equipment (such as passenger cars) fell markedly, as production for the domestic market ceased to advance with the ending of subsidies for purchasing energy-efficient cars in prospect and as production of motor vehicle parts exported to China seems to be weak. Production of electronic parts and devices has declined again since the second quarter due to a delay in the recovery of final demand at home and abroad, although it temporarily turned upward in the first quarter in light of the progress in inventory adjustments. Production of general machinery continued to decline, amid somewhat sluggish overseas demand, including those for semiconductor products machinery and construction machinery. In contrast, production of ceramics, stone and clay products was relatively firm, due in part to reconstruction-related demand.

Shipments have declined recently (Chart 21[1]). Looking at the trend in shipments by goods (Chart 20), those of durable consumer goods—which had continued to pick up, supported by the increase in motor vehicles—have recently moved downward, especially among those for exports. On the other hand, shipments of non-durable consumer goods have continued to increase moderately. Shipments of capital goods—which had been on a mild uptrend—have recently been affected by fluctuations in those for ships and electricity as well as some weakness in goods such as semiconductor products machinery and construction machinery. Shipments of producer goods—which had continued to trend moderately upward, chiefly for motor vehicles (such as iron and steel as well as motor vehicle parts)—have declined lately, mainly since growth in those for motor vehicles came to a halt and since the pick-up in electronic parts and devices lagged behind. Meanwhile, shipments of construction goods still remain more or less level as a whole, but goods such as photovoltaic modules have recently shown an increase.

Inventories have piled up lately (Chart 21[1]). They have recently shown signs of increasing again by moving upward at the end of July from the end of June, although they were temporarily flat at the end of June relative to the end of March after having surged at the end of March compared with December-end. Looking at movements in July by industry, general machinery saw its inventories pile up, affected mainly by the downswing in demand for Asia. Inventories of electronic parts and devices seem to have piled up in some goods with the intention to meet future demand, but most goods saw their inventories accumulate notably for exports as the pick-up in demand lagged behind. Inventories of information and communication electronics equipment have moved upward, particularly in notebook computers and digital home appliances, reflecting weakness in demand. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has been above that in shipments (Chart 21[3]).<sup>8</sup> The shipment-inventory balance of electronic parts and devices and of other producer goods—which had been on an improving trend—has deteriorated lately since the pick-up in demand, mainly for exports, has lagged behind.<sup>9</sup>

Industrial production is expected to remain relatively weak for the time being, and increase moderately thereafter, in line with improvements in exports as overseas economies gradually emerge from the deceleration phase. Based on anecdotes by firms and other information, production is projected to decline in a wide range of industries for the third quarter: transport equipment will see its production decline, mainly as a reflection of relatively weak overseas demand and the ending of the application of subsidies for energy-efficient cars; production of general machinery is also expected to move downward due to the restrained recovery in demand for those to China and a downswing in IT-related demand. For the fourth quarter, production

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<sup>8</sup> As of the second quarter, growth in shipments was above that in inventories, but this was partly because the year-on-year increase in shipments rebounded this year from the sharp decline in shipments in the second quarter last year due to the effects of the earthquake disaster.

<sup>9</sup> Meanwhile, the inventory ratio has recently moved up sharply (Chart 21[1]). Not only was this caused by the aforementioned pile-up of inventories, mainly in electronic parts and devices as well as general machinery, but also influenced by movements in goods such as producer goods to pile up inventories slightly more compared with shipments, as a reflection of past experiences of the great earthquake and the flooding in Thailand, which had a significant impact on their supply chains. In addition, items that are subject to the inventory ratio comprise about 70 percent of production, and the expansion of the make-to-order system has enabled items to reduce their inventories. Based on these factors, the overhang in inventories may not be so large in the manufacturing sector as a whole, unlike the level shown in the inventory ratio.

is projected to turn upward, albeit marginally, notably in electronic parts and devices whose production is expected to increase in line with the introduction of new products in the IT-related sector. However, with the pick-up in overseas demand lagging behind, there is a high degree of uncertainty about whether this is likely to happen.

The employment and income situation has generally been improving, although it remains severe.

As for supply and demand conditions in the labor market, the ratio of job offers to applicants has continued to improve (Chart 22). The unemployment rate has been trending downward, albeit with monthly fluctuations. Recently, however, in light of relatively weak industrial production, the number of new job offers in manufacturing posted a sizeable decline and the improvement in the ratio of new job offers to applicants seems to have stalled. Non-scheduled hours worked—which had been on a mild uptrend, albeit with fluctuations—have recently shown signs of peaking out, notably in manufacturing. Future developments in the labor market require close monitoring.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* has recently registered a slight positive, although attention should be given to monthly fluctuations (Chart 23[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis. Meanwhile, with regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that the number of applicants for this subsidy has been trending downward with the fluctuations smoothed out, and has been well below the pre-earthquake level, although it rose in July for the first time in eight months on a month-on-month basis.

The year-on-year rate of decline in total cash earnings per employee has tended to narrow, although the pace of decline has recently accelerated slightly (Chart 23[2]). Scheduled cash earnings have recently been moving in the vicinity of 0 percent on a year-on-year basis, albeit with fluctuations. Non-scheduled cash earnings have continued to register year-on-year increases, but the pace has recently slowed in light of the sluggishness in non-scheduled hours worked. Meanwhile,

special cash earnings over the June-July period—which mostly comprise summer bonuses (about 95 percent)—posted a year-on-year decline as a reflection of the lackluster business performance of fiscal 2011.

The year-on-year rate of change in employee income has been almost 0 percent with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages (Chart 23[3]).

Employee income is highly expected to be more or less flat for the time being, mainly since the drag from the lackluster business performance of fiscal 2011 is likely to persist and the recent weakness in exports and industrial production will weigh on non-scheduled cash earnings, even though an improvement in supply and demand conditions in the labor market will support income gradually.

## **2. Prices**

International commodity prices have continued to pick up as a whole (Chart 25[1] and [3]). Movements, however, were mixed according to commodity. Crude oil prices have risen, partly due to mounting tensions regarding the situation in the Middle East. Prices of grains have also been high, reflecting anxiety over supply as a result of the unseasonable weather including that in the United States. Prices of nonferrous metals have recently inched upward, after having remained virtually level.

The three-month rate of change in import prices (on a yen basis) has declined at a somewhat modest pace, reflecting movements in international commodity prices (Chart 25[2]).

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) has been negative, mainly reflecting the earlier decline in international commodity prices (Chart 26[2]).<sup>10</sup> In August, the three-month rate of change declined for three months

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<sup>10</sup> Figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric

in a row since June, but the pace of decline slowed somewhat. Looking in detail at domestic corporate goods price movements in August, prices of "goods sensitive to exchange rates and overseas commodity prices" and "other materials" continued to fall—albeit at a somewhat moderate pace—mainly as a reflection of the earlier decline in international commodity prices. Prices of "iron & steel and construction goods" have also been on the decline, due partly to the effects of the loose supply and demand balance in the Asian market. Prices of "machinery" continued to decline mildly. Meanwhile, prices of "electric power, gas & water" rose at an accelerated pace, affected by the implementation of the Feed-in Tariff Scheme for Renewable Energy.

Corporate services prices (excluding international transportation; year-on-year basis, same hereafter) have continued to reduce their pace of decline and the year-on-year rate of change has recently been around 0 percent (Chart 27). As for developments on a year-on-year basis, they stood at negative 0.1 percent in June and marked 0.0 percent in July, after having risen marginally in April and May for two months in a row. Looking in detail at corporate services price movements in July, prices of advertising services—in the category of selling, general and administrative expenses—recently registered a year-on-year decline, albeit marginally, as the upward pressure on prices due to the rebound from the plunge caused by the earthquake disaster last year almost waned. On the other hand, prices of hotels continued to increase on year-on-year basis, assisted by the recovery in the number of foreign visitors to Japan and by firm demand for both domestic business and leisure travel. Prices related to domestic transportation and fixed investment have been increasing marginally. Prices related to real estate have continued their year-on-year decline, but the pace of decline has tended to slow, albeit moderately. Meanwhile, IT-related prices have continued to decrease on a year-on-year basis, due to price declines in leasing and rentals.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is currently around 0 percent, while the earlier fall in crude oil prices has been exerting downward pressure (Chart 28[1]). In July,

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power charges are set relatively high during July-September, when electric power consumption increases substantially.

consumer prices stood at negative 0.3 percent on a year-on-year basis following a decline of 0.2 percent in June. Looking at developments on a basis that excludes food and energy, prices in July registered negative 0.6 percent, which was on par with those in June. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has been slightly negative most recently, but from a somewhat long-term perspective, it has been on a moderate improving trend (Chart 29[2]).<sup>11</sup> The year-on-year rate of change in the Laspeyres chain index has moved up in tandem with that in the 2010-base index (Chart 29[1]).<sup>12</sup>

Looking in detail at consumer price movements in July, prices for goods (excluding agricultural, aquatic and livestock products) on a year-on-year basis fell at an accelerated pace overall. This was because prices of petroleum products declined at a faster pace on a year-on-year basis as a reflection of the downshift in gasoline prices, while prices of clothes turned positive on a year-on-year basis, assisted partly by the postponement in summer sales at some stores.<sup>13</sup> Prices of general services also accelerated their pace of decline as a whole, albeit slightly, mainly since package tours to overseas and hotel charges turned negative. Fees for public services somewhat reduced their pace of increase, mainly since the pace of increase in electricity slowed as a reflection of the earlier decline in international commodity prices.

Domestic corporate goods prices are expected to decline at a reduced pace for the time being, reflecting movements in international commodity prices. The

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<sup>11</sup> 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.

<sup>12</sup> The Laspeyres chain index is compiled as follows: (i) aggregates are produced after updating the weights of items of the base year and resetting the index level of individual items to 100 every year; then (ii) multiplying the previous year's chain index by the aggregated year-on-year figures obtained from the above calculation. Disregarding such factors as adopting and terminating items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

<sup>13</sup> Meanwhile, the year-on-year rate of decline in durable goods was on par with that of last month. In detail, downward pressures from prices of TV sets on overall consumer prices have diminished compared to before, while monthly fluctuations were large, with prices having declined again on a year-on-year basis since May, after having marked a year-on-year positive over the period from February to April.

year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

### **3. Financial Developments**

#### **(1) Financial Markets**

In Japan's money markets, interest rates have been stable at low levels—including those for longer term rates—as market participants share perceptions of an excess of liquidity, amid the Bank of Japan's ongoing provision of ample funds. 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 at around 0.1 percent. The Euroyen interest rate (3-month) has been more or less flat, at a somewhat high level relative to the OIS rates—the OIS rates mainly reflect expectations about future policy interest rates. Interest rates on Euroyen futures have been virtually level (Chart 30). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has narrowed somewhat (Chart 31).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved broadly in line with U.S. long-term interest rates; they rose temporarily, but have fallen thereafter. They are currently moving at around 0.8 percent (Chart 32).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 33).

Stock prices have inched up in line with U.S. and European stock prices, albeit with fluctuations. The Nikkei 225 Stock Average is currently moving in the range of 9,000-9,500 yen (Chart 34).

In the foreign exchange market, the yen's exchange rate has generally been moving within a narrow range of around 78-79 yen against the U.S. dollar, albeit with fluctuations partly in response to U.S. economic indicators (Chart 35). Meanwhile, the yen has depreciated against the euro as concern over the situation in Europe eased slightly, mainly as a reflection of the European Central Bank's introduction of

Outright Monetary Transactions; the yen is currently moving in the range of 102-103 yen against the euro.

## **(2) Corporate Finance and Monetary Aggregates**

Firms' funding costs have declined moderately, against the background that the overnight call rate has remained at an extremely low level. Issuance rates on CP and those on corporate bonds, meanwhile, have been at low levels. The average contracted interest rates on new loans and discounts have declined moderately (Chart 37).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 36). Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable on the whole. 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 risen somewhat (Chart 38). The year-on-year rate of change in the amount outstanding of CP has been positive. In contrast, that of corporate bonds, especially electric company bonds, has been negative (Chart 39).

In these circumstances, firms have retained their recovered financial positions on the whole (Chart 36). The number of corporate bankruptcies has been at a low level (Chart 41).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been positive within the range of 2-3 percent. Its August reading was 2.4 percent on a year-on-year basis, following 2.2 percent in July (Chart 40).<sup>14</sup>

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<sup>14</sup> On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of change has been positive at around 2 percent; its August reading was 2.1 percent, following 1.9 percent in July. The year-on-year rate of change in broadly-defined liquidity (L) has been positive within the range of 0.0-0.5 percent; it increased by 0.3 percent in August, following a decrease of 0.0 percent in July.

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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2011/Q4	2012/Q1	Q2	2012/May	Jun.	Jul.	Aug.
Index of consumption expenditure level (two-or-more-person households)	0.5	-0.3	2.3	1.9	-3.0	0.9	n.a.
Sales at department stores	0.4	-0.9	1.0	-1.0	-2.9	-0.1	n.a.
Sales at supermarkets	-0.7	0.5	-1.6	2.1	-3.5	0.5	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 267>	< 349>	< 316>	< 309>	< 327>	< 325>	< 284>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-5.2	0.9	-5.8	2.7	-4.2	6.1	n.a.
Outlays for travel	4.2	0.4	3.2	-1.8	-2.3	-3.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 80>	< 86>	< 88>	< 90>	< 84>	< 87>	<n.a.>
Machinery orders <sup>4</sup> (Private sector, exc. volatile orders)	-0.7	0.9	-4.1	-14.8	5.6	4.6	n.a.
Manufacturing	-0.7	0.1	-5.8	-8.0	-2.9	12.0	n.a.
Nonmanufacturing <sup>4</sup> (exc. volatile orders)	-0.5	0.5	0.0	-6.4	2.6	-2.1	n.a.
Construction starts (private, nondwelling use)	-1.0	1.9	0.3	15.5	-9.1	-3.5	n.a.
Mining & manufacturing	20.9	24.9	-20.4	-5.1	4.1	-12.5	n.a.
Nonmanufacturing <sup>5</sup>	-3.2	-3.1	4.7	15.2	-9.3	-1.0	n.a.
Value of public works contracted	1.8	3.5	9.2	10.9	-2.4	3.8	-1.5
Real exports	-2.8	-0.1	4.1	-2.8	-0.8	-3.1	n.a.
Real imports	1.3	-0.4	3.3	3.0	-2.9	2.3	n.a.
Industrial production	0.4	1.3	-2.0	-3.4	0.4	-1.0	n.a.
Shipments	0.3	0.8	-0.2	-1.3	-0.9	-3.1	n.a.
Inventories	-1.4	5.9	0.0	-0.7	-1.2	2.9	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 112.7>	< 115.3>	< 123.6>	< 118.6>	< 123.6>	< 128.2>	<n.a.>
Real GDP	0.1	1.3	0.2	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.5	-0.1	-0.2	-0.2	0.2	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2011/Q4	2012/Q1	Q2	2012/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 0.69>	< 0.75>	< 0.81>	< 0.81>	< 0.82>	< 0.83>	<n.a.>
Unemployment rate <s.a., %>	< 4.5>	< 4.6>	< 4.4>	< 4.4>	< 4.3>	< 4.3>	<n.a.>
Overtime working hours <sup>6</sup>	2.0	1.8	4.0	5.6	1.2	-0.8	n.a.
Number of employees	0.1	-0.5	-0.3	-0.7	0.1	0.6	n.a.
Number of regular employees <sup>6</sup>	0.6	0.6	0.9	0.9	0.9	0.6	n.a.
Nominal wages per person <sup>6</sup>	-0.1	0.0	-0.5	-1.1	-0.4	-1.6	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	1.1 <-0.9>	0.3 < 0.2>	-0.9 <-0.1>	-0.7 < 0.1>	-1.4 <-1.1>	-2.2 <-1.9>	p -1.8 <p -1.2>
Consumer price index <sup>8</sup>	-0.2	0.1	0.0	-0.1	-0.2	-0.3	n.a.
Corporate services price index <sup>9</sup>	-0.3	-0.5	0.1	0.2	-0.1	p 0.0	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	3.0	3.0	2.3	2.2	2.2	2.2	p 2.4
Number of corporate bankruptcies <cases per month>	<1,034>	<1,061>	<1,042>	<1,148>	<975>	<1,026>	<967>

Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally adjusted data.

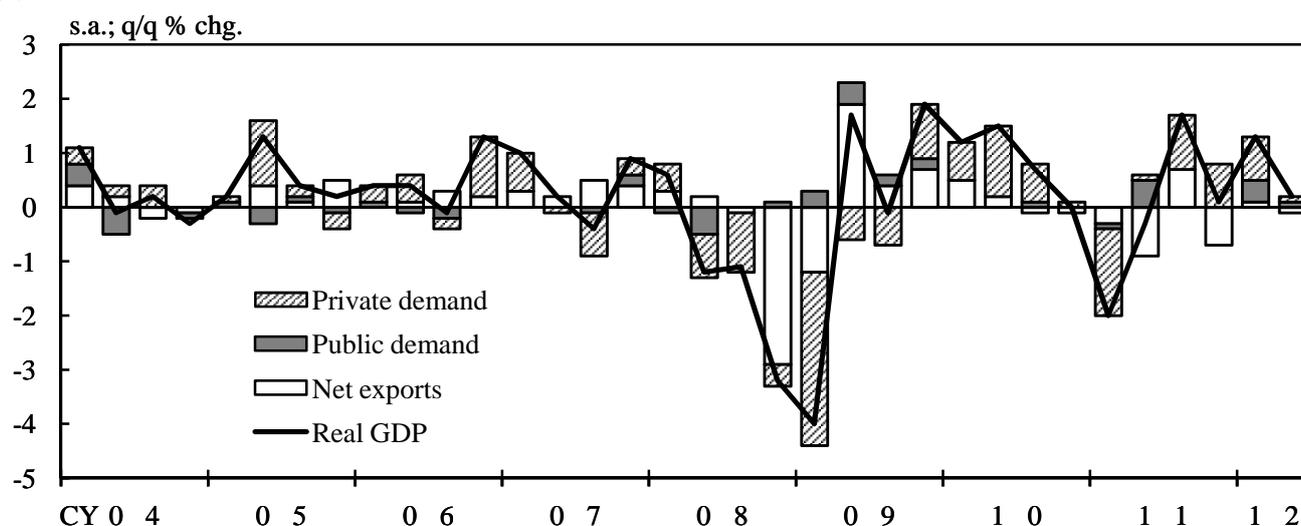
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders: Orders for ships and those from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusted to exclude a hike in electric power charges during the summer season.
8. All items, less fresh food.
9. Excludes international transportation.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey,"  
 "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index";  
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"  
 "Indices of All Industry Activity";  
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";  
 Japan Tourism Agency, "Major Travel Agents' Revenue";  
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts";  
 Ministry of Finance, "Trade Statistics";  
 Cabinet Office, "Orders Received for Machinery," "National Accounts";  
 East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";  
 Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";  
 Bank of Japan, "Corporate Goods Price Index," "Corporate Services 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



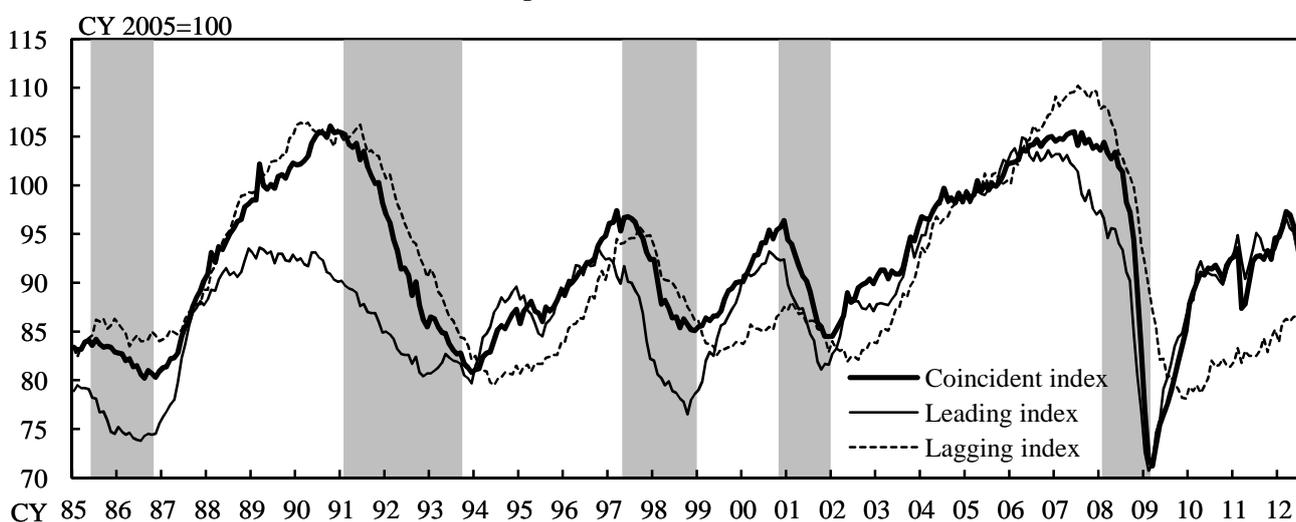
## (2) Components

s.a.; q/q % chg.

	2011			2012	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.3	1.7	0.1	1.3	0.2
[Annual rate]	[-1.3]	[6.9]	[0.3]	[5.3]	[0.7]
Domestic demand	0.6	1.0	0.8	1.2	0.2
Private demand	0.1	1.0	0.8	0.8	0.1
Private consumption	0.3	0.7	0.4	0.7	0.1
Non-Resi. investment	-0.1	0.0	0.7	-0.2	0.2
Residential investment	-0.1	0.1	0.0	-0.0	0.0
Private inventory	0.0	0.2	-0.4	0.3	-0.2
Public demand	0.5	0.0	0.0	0.4	0.1
Public investment	0.3	-0.1	-0.0	0.2	0.1
Net exports of goods and services	-0.9	0.7	-0.7	0.1	-0.1
Exports	-0.9	1.2	-0.6	0.5	0.2
Imports	-0.0	-0.5	-0.1	-0.4	-0.3
Nominal GDP	-1.3	1.6	-0.3	1.3	-0.3

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

## (3) Indexes of Business Conditions (Composite Indexes)

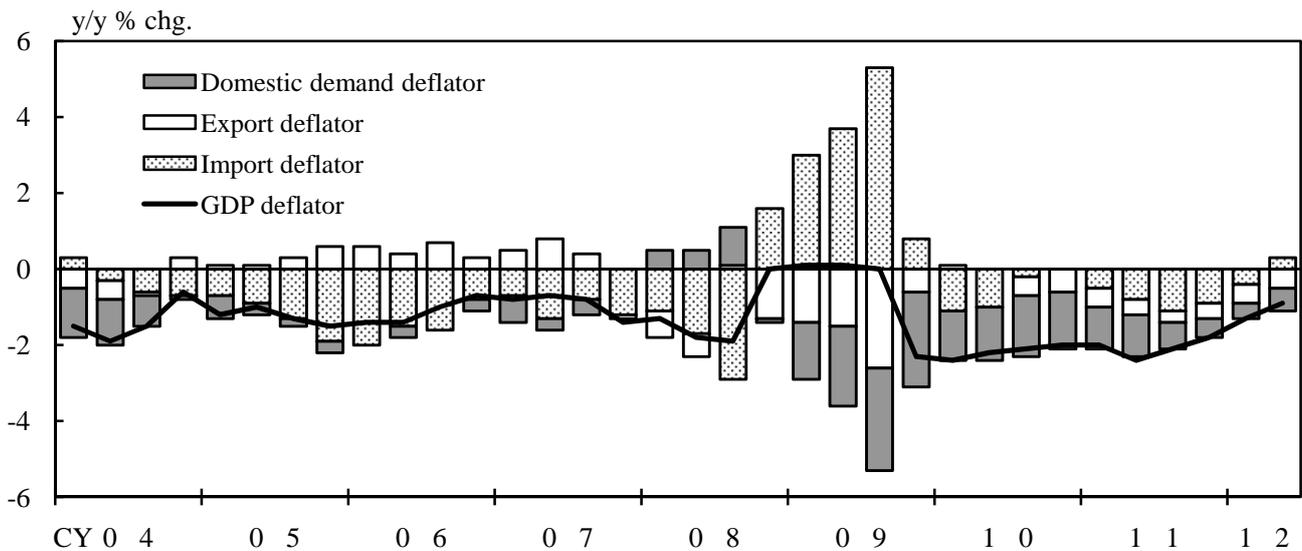


Note: Shaded areas indicate recession periods.

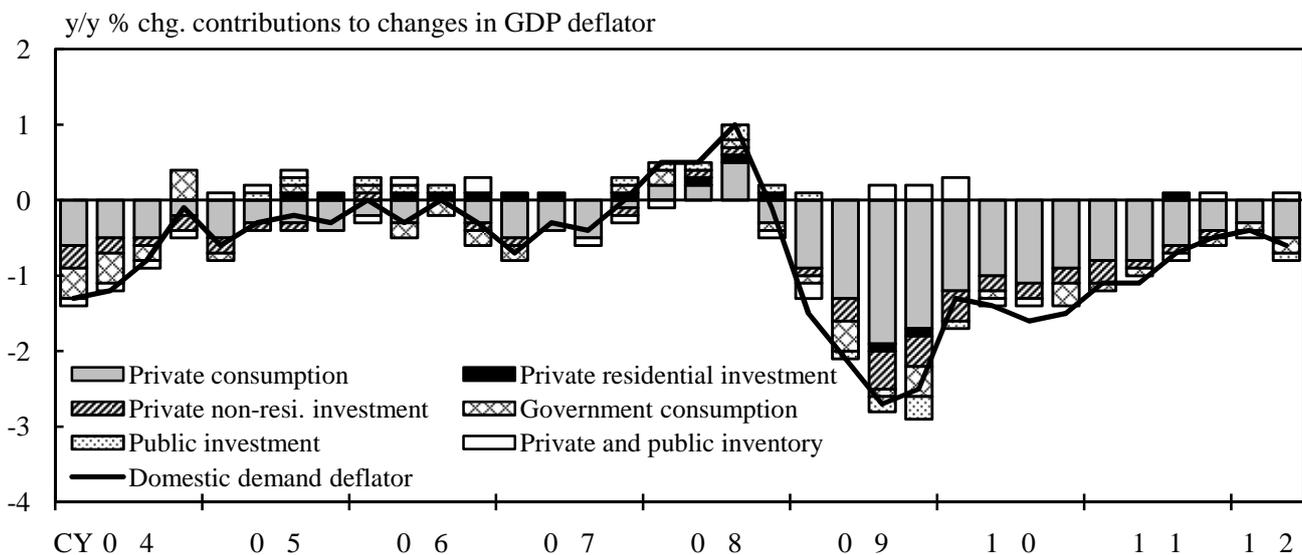
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

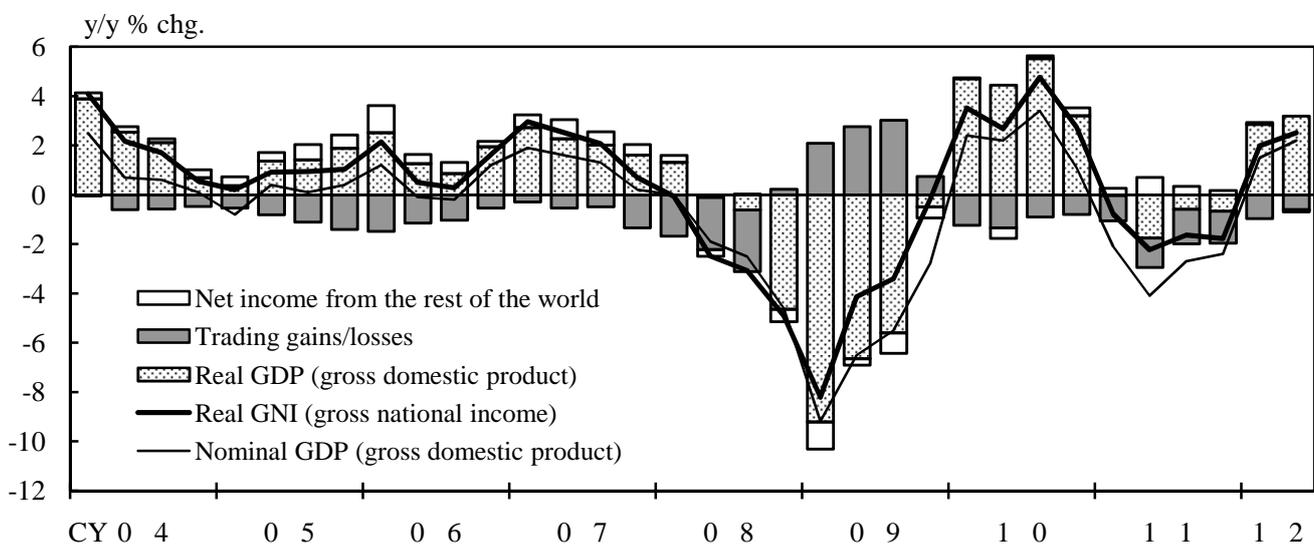
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

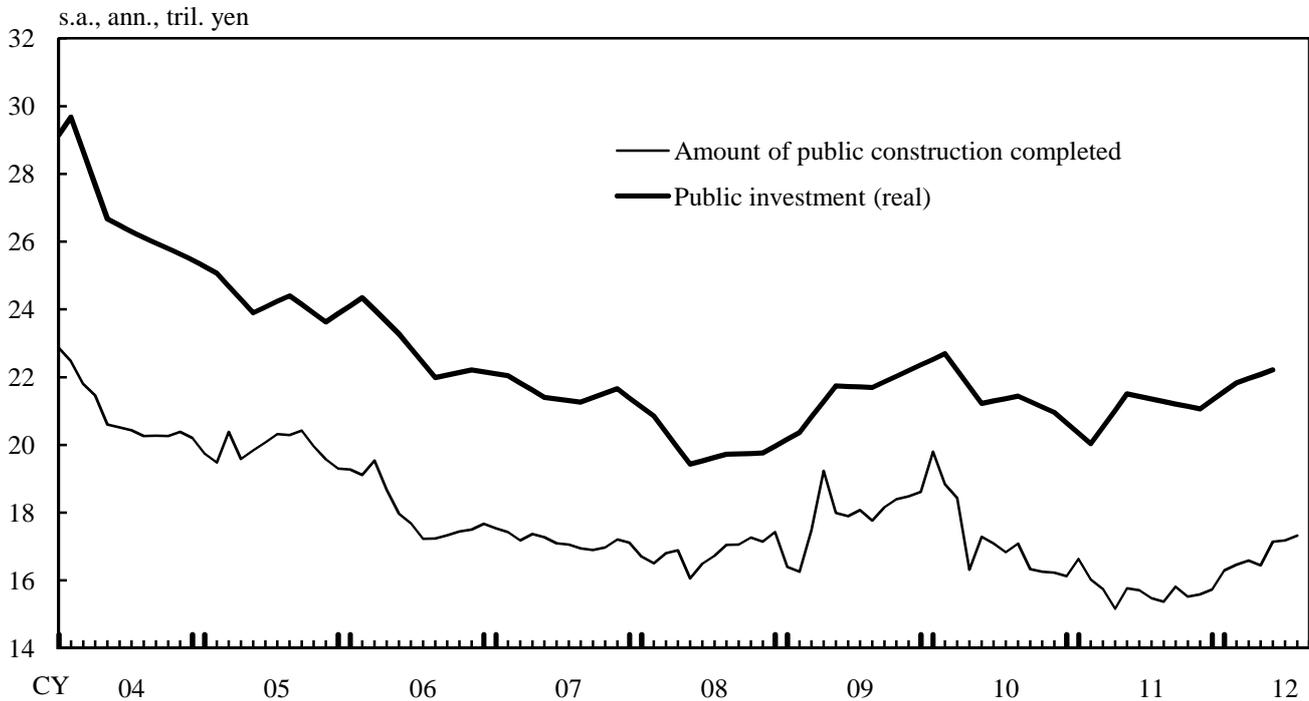
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

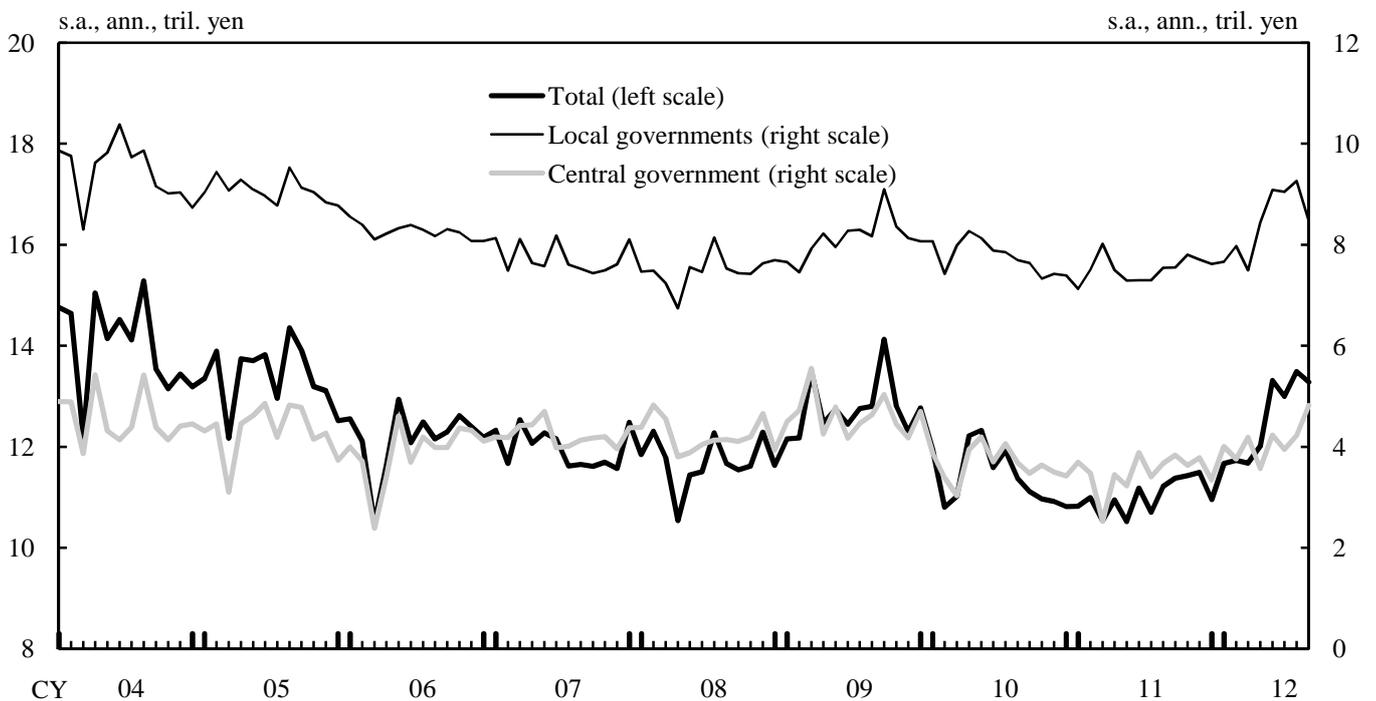
Source: Cabinet Office, "National Accounts."

## 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.

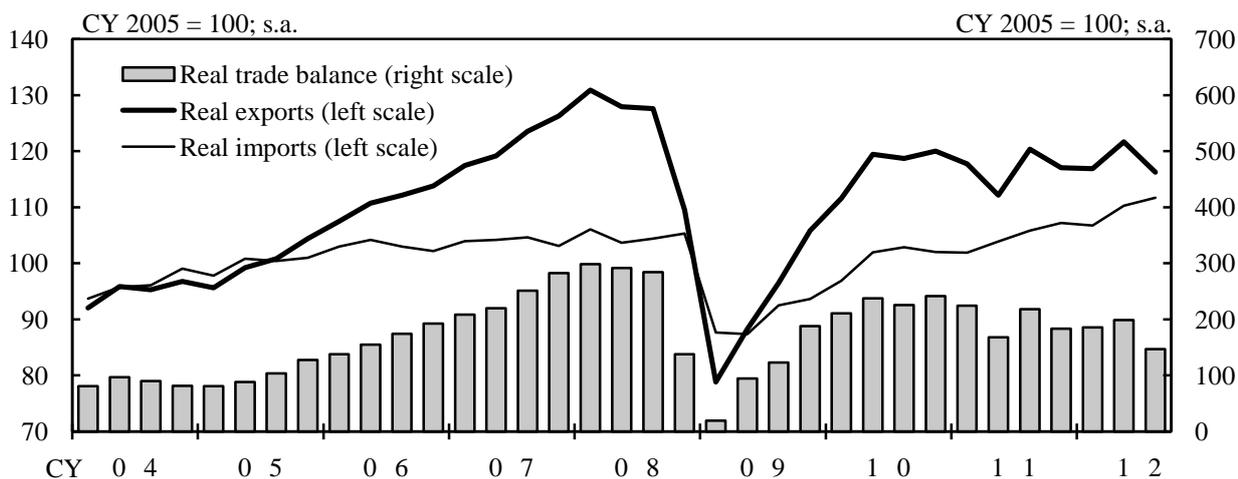
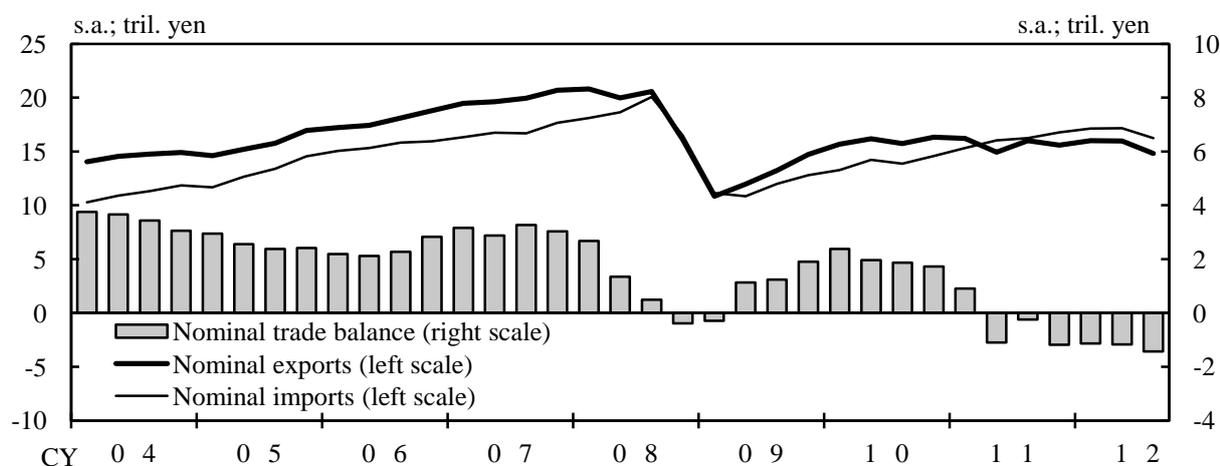
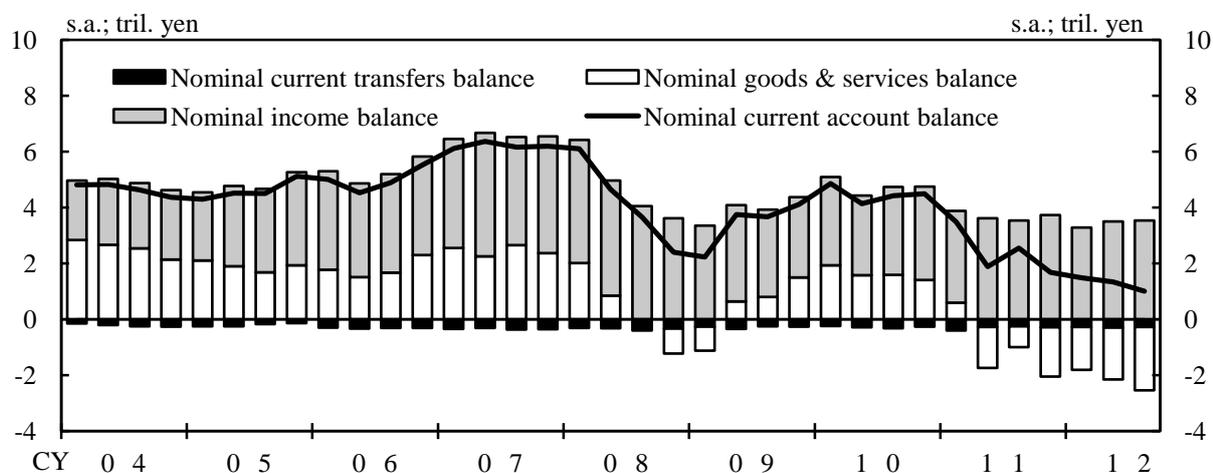
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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<sup>1</sup>(1) Real Exports, Real Imports, and Real Trade Balance<sup>2</sup>(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance<sup>3</sup>(3) Nominal Current Account Balance and Nominal Goods & Services Balance<sup>3</sup>

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q3 figures are July figures converted into quarterly amount.

2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." From May 2012 and onward, deflators are calculated by extending the 2005 base deflators using monthly changes of the 2010 base price indices. All the deflators regarding real exports/imports are similarly calculated in the following charts. "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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q3	2012 Q4	2012 Q1	2012 Q2	2012 Q3	2012 May	2012 Jun.	2012 Jul.
United States	<15.3>	24.7	-0.3	19.8	4.9	2.5	4.8	-4.8	-2.3	-2.6	-2.3
EU	<11.6>	17.4	2.9	9.8	-8.3	-4.0	-2.3	-4.1	-2.3	-10.9	4.6
East Asia	<52.8>	31.8	-1.2	4.8	-4.5	0.9	2.5	-1.9	-1.3	2.9	-3.4
China	<19.7>	31.3	1.9	7.5	-4.8	-1.9	1.8	-1.3	-0.6	4.0	-3.7
NIEs	<22.8>	28.0	-4.6	0.7	-4.1	-1.5	2.2	-1.5	-2.1	3.4	-3.0
Korea	<8.0>	23.6	-3.0	-4.1	-0.8	0.3	-2.3	2.7	-2.0	-3.1	5.6
Taiwan	<6.2>	36.8	-9.3	-3.4	-3.6	-4.9	5.9	0.3	2.5	4.9	-3.6
Hong Kong	<5.2>	29.2	-4.0	7.7	-4.3	2.0	-1.3	-3.7	-5.8	6.7	-5.8
Singapore	<3.3>	20.2	0.3	10.0	-13.2	-3.1	10.7	-7.4	4.4	8.3	-13.3
ASEAN4 <sup>3</sup>	<10.4>	42.7	0.8	9.4	-4.9	11.4	4.3	-3.6	-0.9	0.3	-3.5
Thailand	<4.6>	46.1	1.3	8.9	-20.8	27.1	10.3	-2.1	-0.6	0.4	-2.2
Others	<20.3>	29.2	1.6	13.7	-0.5	3.2	0.3	-8.4	-0.7	-0.5	-7.9
Real exports		27.5	-0.5	7.3	-2.8	-0.1	4.1	-4.5	-2.8	-0.8	-3.1

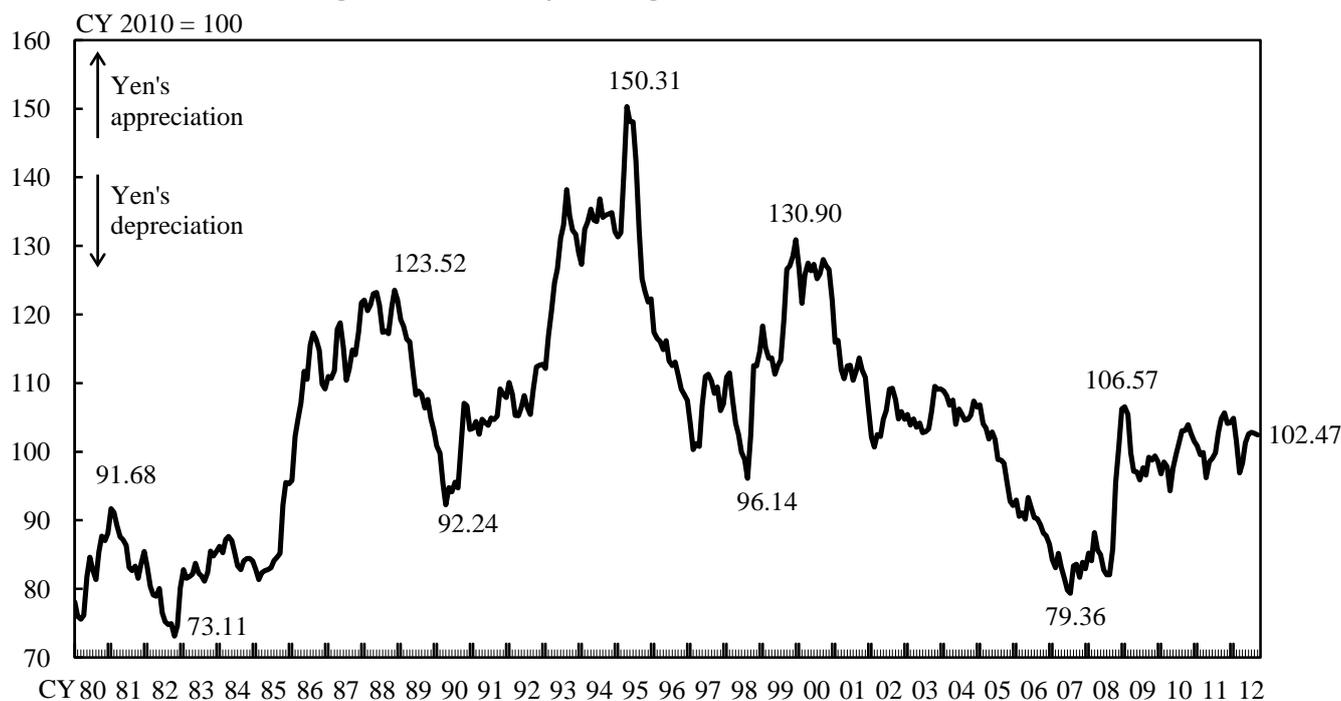
## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q3	2012 Q4	2012 Q1	2012 Q2	2012 Q3	2012 May	2012 Jun.	2012 Jul.
Intermediate goods	<20.9>	18.3	-4.6	-2.1	-1.4	-2.9	6.5	0.5	3.6	-1.0	-0.1
Motor vehicles and their related goods	<20.6>	41.8	-3.8	44.5	4.1	0.3	-0.7	-5.5	1.3	-10.5	1.5
Consumer goods <sup>4</sup>	<3.2>	13.7	-2.9	23.7	-20.2	28.6	-0.7	7.7	-6.4	18.3	-1.3
IT-related goods <sup>5</sup>	<10.0>	27.6	0.9	4.9	-3.5	1.6	-0.2	0.9	-5.6	4.5	-0.1
Capital goods and parts <sup>6</sup>	<30.3>	36.3	5.0	-0.1	-2.6	1.0	2.9	-5.9	-6.4	5.7	-7.2
Real exports		27.5	-0.5	7.3	-2.8	-0.1	4.1	-4.5	-2.8	-0.8	-3.1

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q3 figures are July figures converted into quarterly amount.  
2. Shares of each region and goods in 2011 are shown in angle brackets.  
3. Data of four members: Thailand, Malaysia, Indonesia, and Philippines.  
4. Excludes motor vehicles.  
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.  
6. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

## 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 August and September (up to September 14) 2012 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.

	CY2009	2010	2011	2011 Q3	Q4	2012 Q1	Q2
United States <sup>1</sup>	-3.1	2.4	1.8	1.3	4.1	2.0	1.7
European Union <sup>2</sup>	-4.3	2.1	1.5	0.8	-1.3	-0.1	-0.6
Germany <sup>1</sup>	-5.1	4.2	3.0	1.5	-0.6	2.0	1.1
France <sup>1</sup>	-3.1	1.6	1.7	1.1	0.0	0.1	-0.2
United Kingdom <sup>1</sup>	-4.0	1.8	0.8	2.4	-1.4	-1.3	-1.8
East Asia <sup>3</sup>	2.6	9.2	5.8	5.1	0.6	9.1	4.9
China <sup>1</sup>	9.2	10.4	9.3	9.5	7.8	6.6	7.4
NIEs <sup>1,3</sup>	-1.1	8.9	4.2	1.4	-0.3	3.5	1.2
ASEAN4 <sup>1,3,4</sup>	-0.3	7.3	3.0	5.3	-11.1	26.3	8.5
Main economies <sup>3</sup>	0.1	6.7	4.4	3.8	1.0	6.4	3.5

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, Malaysia, Indonesia, and Philippines

4. To calculate the quarterly figures, real GDP growth rates of some member countries are seasonally adjusted by the Bank of Japan using X-11.

Real Imports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q3	2012 Q4	2012 Q1	2012 Q2	2012 Q3	2012 May	2012 Jun.	2012 Jul.
United States	<8.7>	8.2	-1.0	-1.0	2.9	1.6	0.3	2.4	-3.1	-6.7	8.5
EU	<9.4>	6.4	7.9	0.7	0.6	-1.3	0.4	8.5	2.6	-1.0	8.3
East Asia	<41.5>	22.0	9.1	2.5	1.5	-1.8	2.4	0.8	4.0	-1.1	0.3
China	<21.5>	23.9	12.2	4.3	2.6	-3.5	3.2	-0.6	2.1	-2.7	0.6
NIEs	<8.6>	21.6	5.9	-0.7	2.8	-0.3	0.9	6.1	2.0	4.4	2.5
Korea	<4.7>	20.9	19.9	-2.5	3.8	1.6	-4.5	9.9	-2.4	15.3	0.9
Taiwan	<2.7>	21.2	-5.6	-0.1	4.1	-3.4	7.7	3.2	12.1	-3.4	1.8
Hong Kong	<0.2>	32.8	-5.4	5.8	-0.1	23.3	-16.7	-10.4	-5.2	-2.4	-7.2
Singapore	<1.0>	22.9	-2.8	-0.5	2.6	-2.1	4.6	1.0	-9.7	-8.1	10.9
ASEAN4 <sup>3</sup>	<11.5>	18.2	4.8	1.0	-2.3	1.1	1.6	-0.5	10.6	-1.7	-2.6
Thailand	<2.9>	25.7	4.0	0.7	-14.9	4.7	10.1	2.9	8.3	0.5	-0.0
Others	<40.4>	6.8	-0.3	1.8	1.2	0.8	5.3	-2.8	0.0	-2.7	-1.0
Real imports		12.0	3.7	1.9	1.3	-0.4	3.3	1.3	3.0	-2.9	2.3

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q3	2012 Q4	2012 Q1	2012 Q2	2012 Q3	2012 May	2012 Jun.	2012 Jul.
Raw materials <sup>4</sup>	<39.8>	5.5	-0.2	3.5	0.6	2.6	3.2	-3.6	2.9	-2.1	-3.2
Intermediate goods	<15.0>	18.5	8.7	-2.1	0.7	-6.9	0.7	6.2	-0.9	-1.1	7.3
Foodstuffs	<8.6>	2.2	1.6	-2.0	0.6	0.8	-3.7	0.9	-1.0	-3.5	3.7
Consumer goods <sup>5</sup>	<8.1>	22.7	6.1	1.8	-3.3	-0.1	2.5	-0.6	7.7	-2.1	-1.6
IT-related goods <sup>6</sup>	<9.8>	26.7	8.1	2.5	5.5	0.1	1.0	5.3	-2.9	-3.1	8.6
Capital goods and parts <sup>7</sup>	<10.4>	19.0	9.5	4.6	2.5	1.5	4.5	1.5	5.2	-8.2	5.8
Excluding aircraft	<10.0>	21.8	10.6	4.5	1.0	-1.1	4.6	2.9	3.6	-4.5	4.9
Real imports		12.0	3.7	1.9	1.3	-0.4	3.3	1.3	3.0	-2.9	2.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q3 figures are July figures converted into quarterly amount.

2. Shares of each region and goods in 2011 are shown in angle brackets.

3. Data of four members: Thailand, Malaysia, Indonesia, and Philippines.

4. Raw materials are mainly composed of woods, ores, and mineral fuels.

5. Excludes foodstuffs.

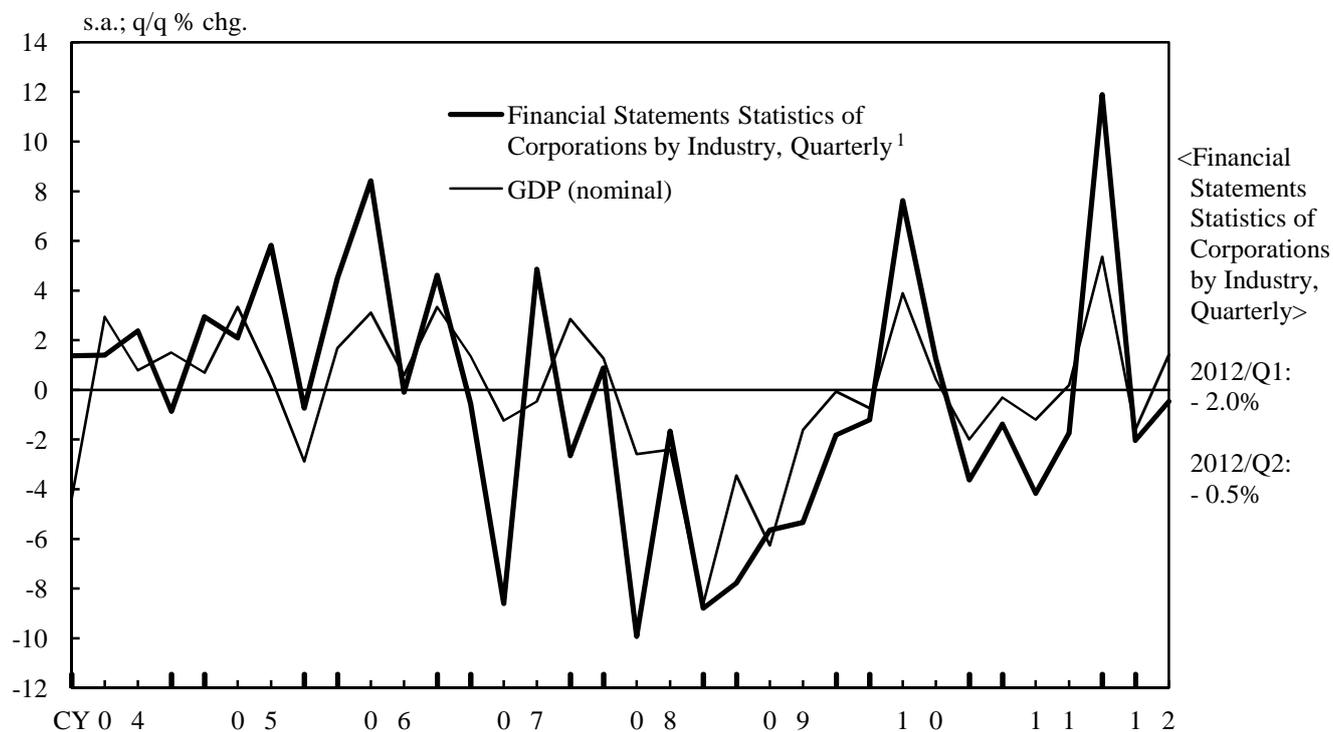
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

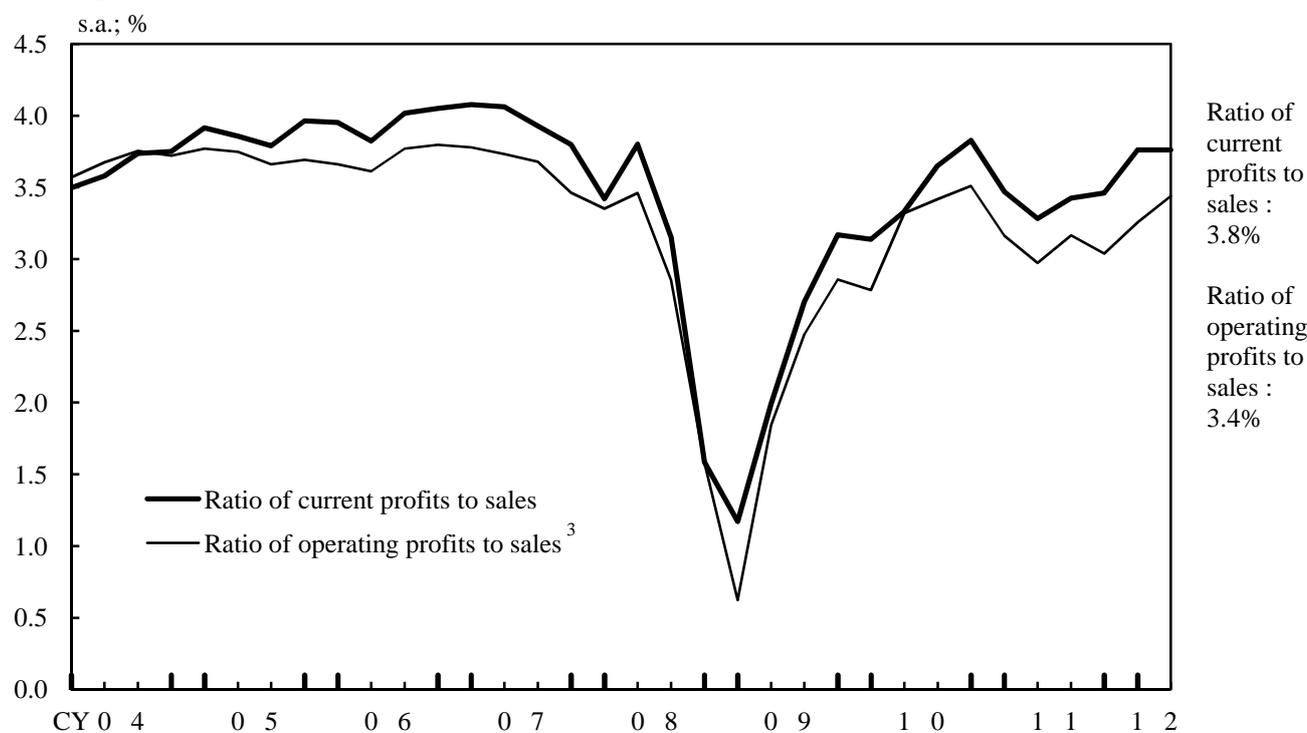
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales)<sup>1,2</sup>



Notes: 1. All enterprises excluding "Finance and Insurance."

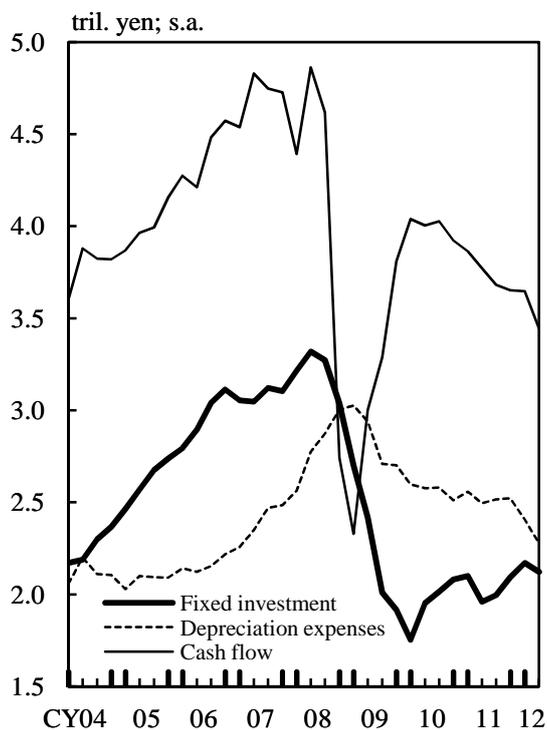
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

3. Figures are seasonally adjusted by X-12-ARIMA.

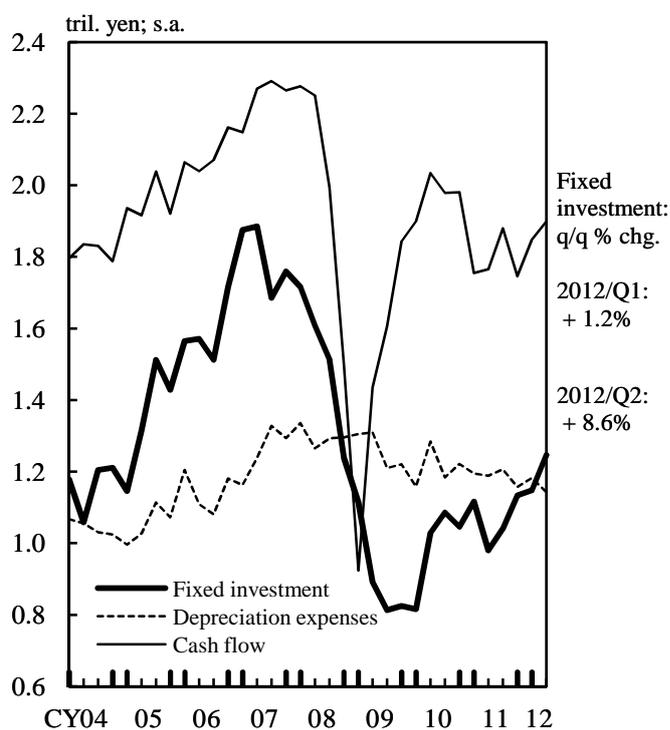
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

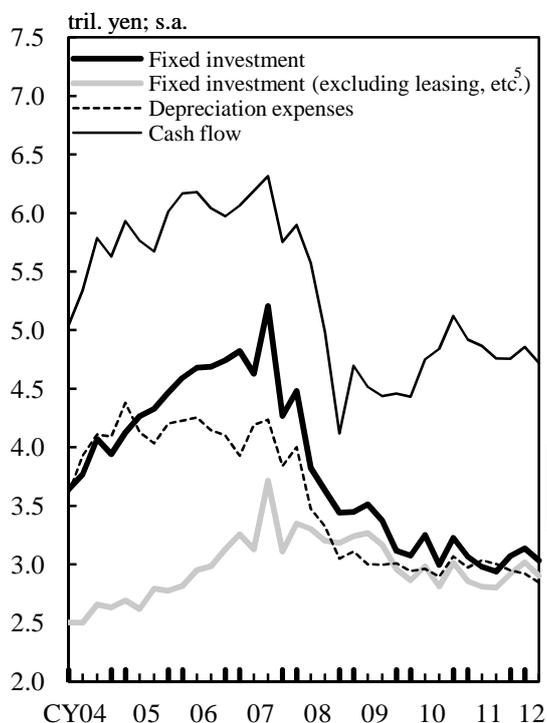
(1) Large Manufacturing Firms



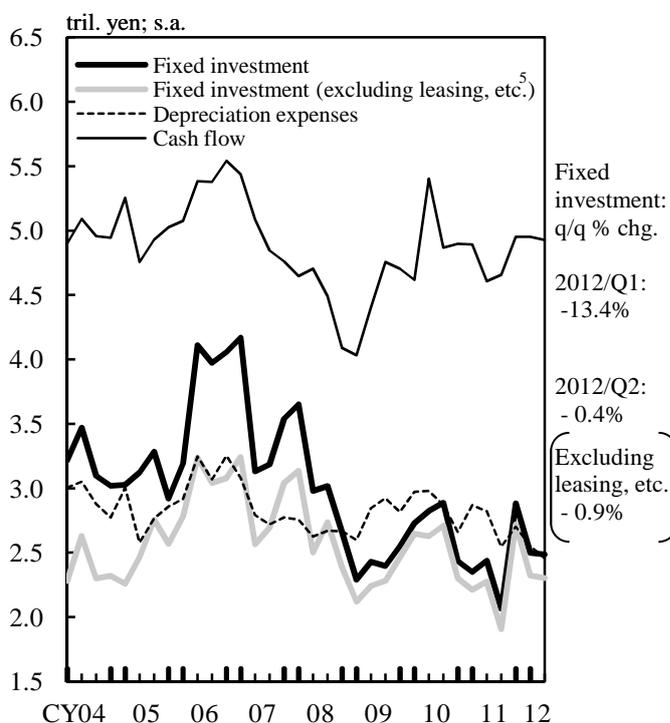
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

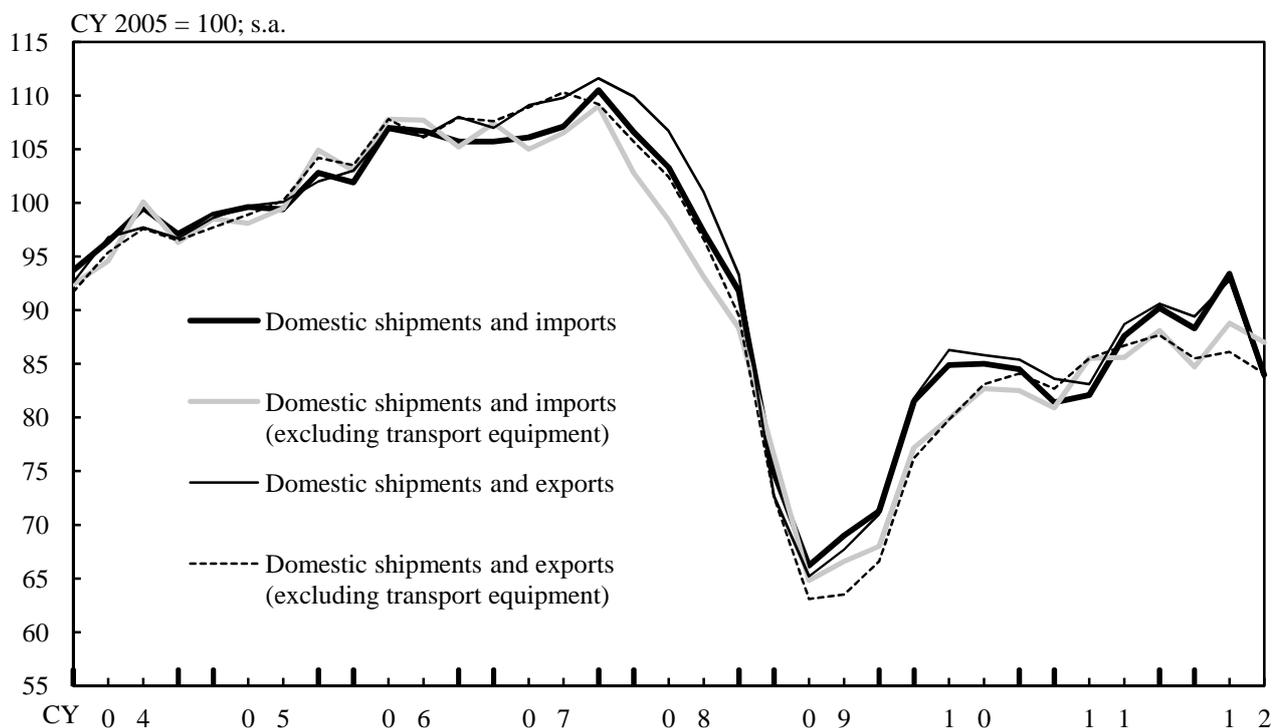


- Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.  
2. Cash flow = current profits / 2 + depreciation expenses.  
3. Seasonally adjusted by X-12-ARIMA.  
4. Excluding "Finance and Insurance."  
5. Up to 2004/Q1, excluding "Business Services." From 2004/Q2, excluding "Goods rental and Leasing."

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

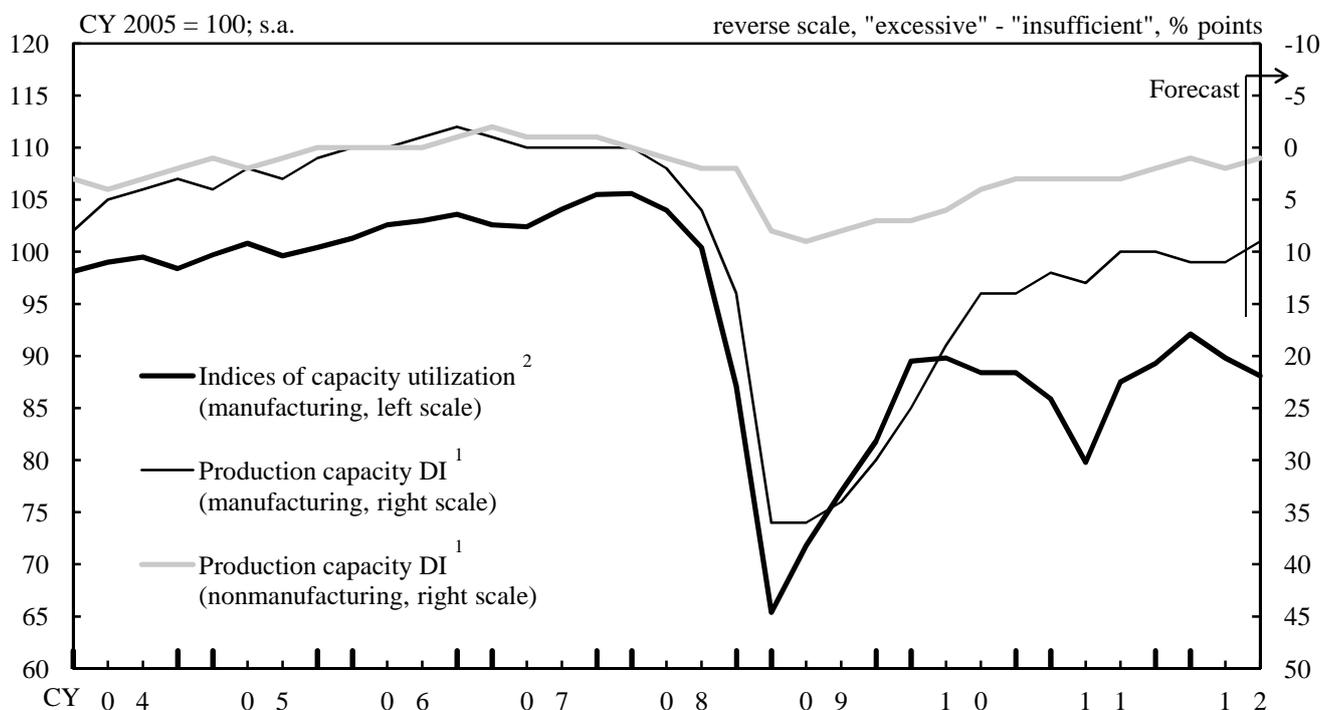
## Coincident Indicators of Business Fixed Investment

## (1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2012/Q3 are those of July.

## (2) Indices of Capacity Utilization and Production Capacity DI



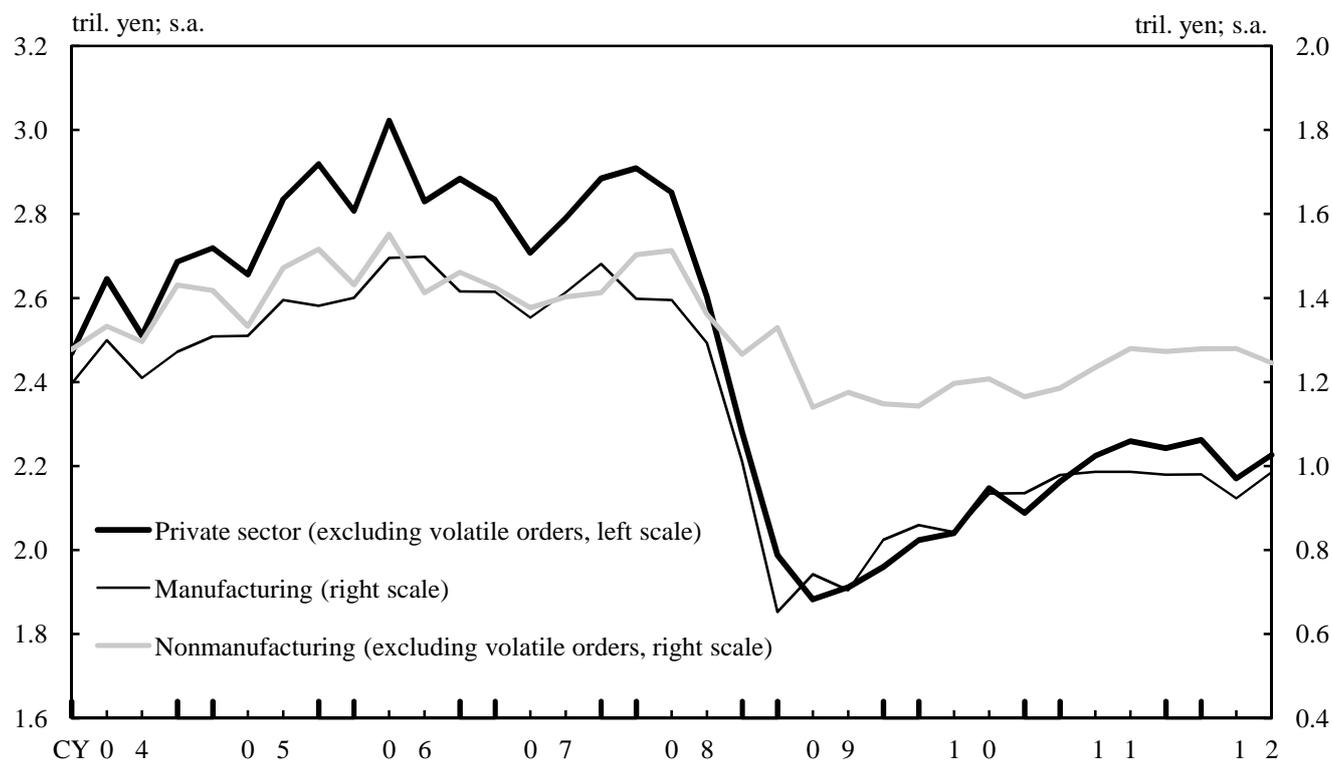
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2012/Q3 is that of July.

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

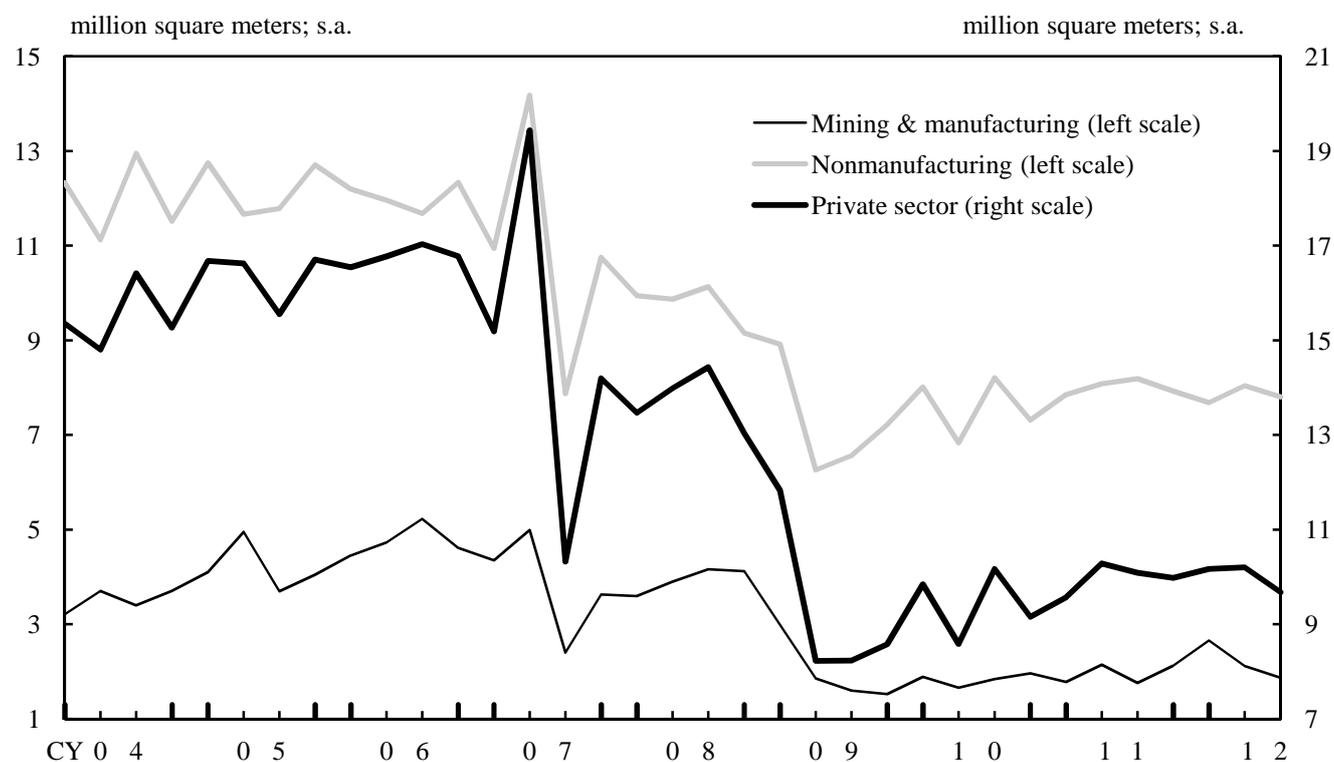
## Leading Indicators of Business Fixed Investment

### (1) Machinery Orders



- Notes: 1. Figures up to FY 2004 are estimated by the Cabinet Office.  
 2. Volatile orders: Orders for ships and those from electric power companies.  
 3. Figures for 2012/Q3 are those of July in quarterly amount.

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

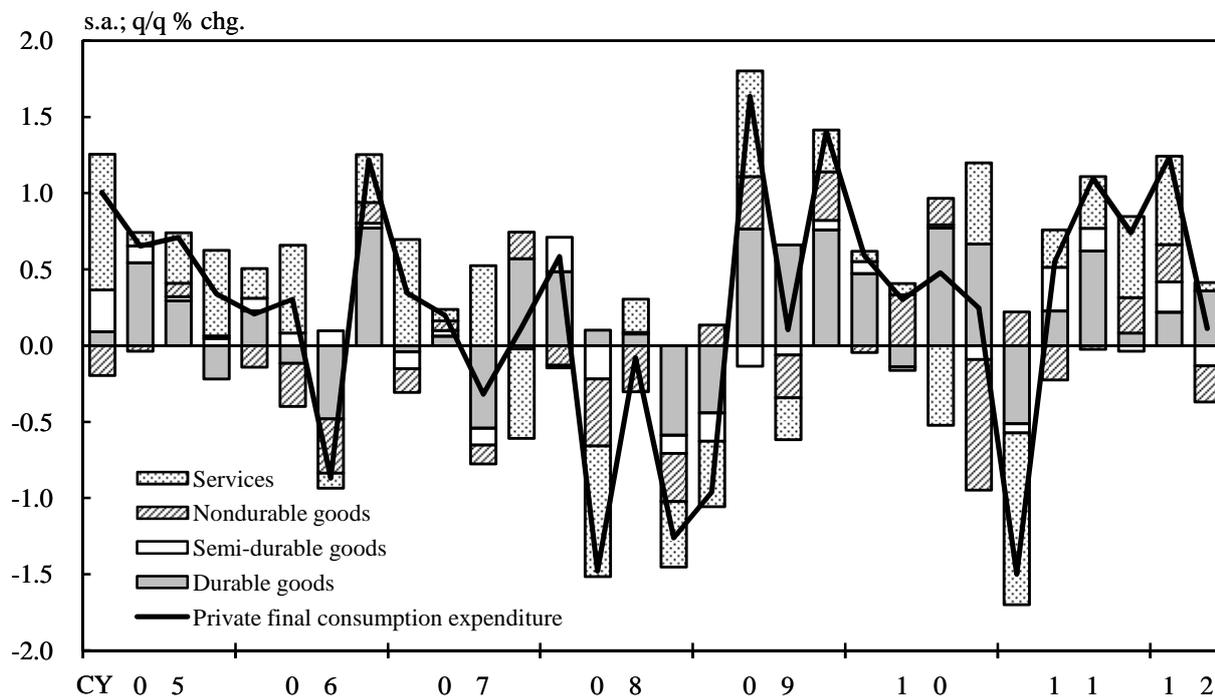


- Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2012/Q3 are those of July in quarterly amount.

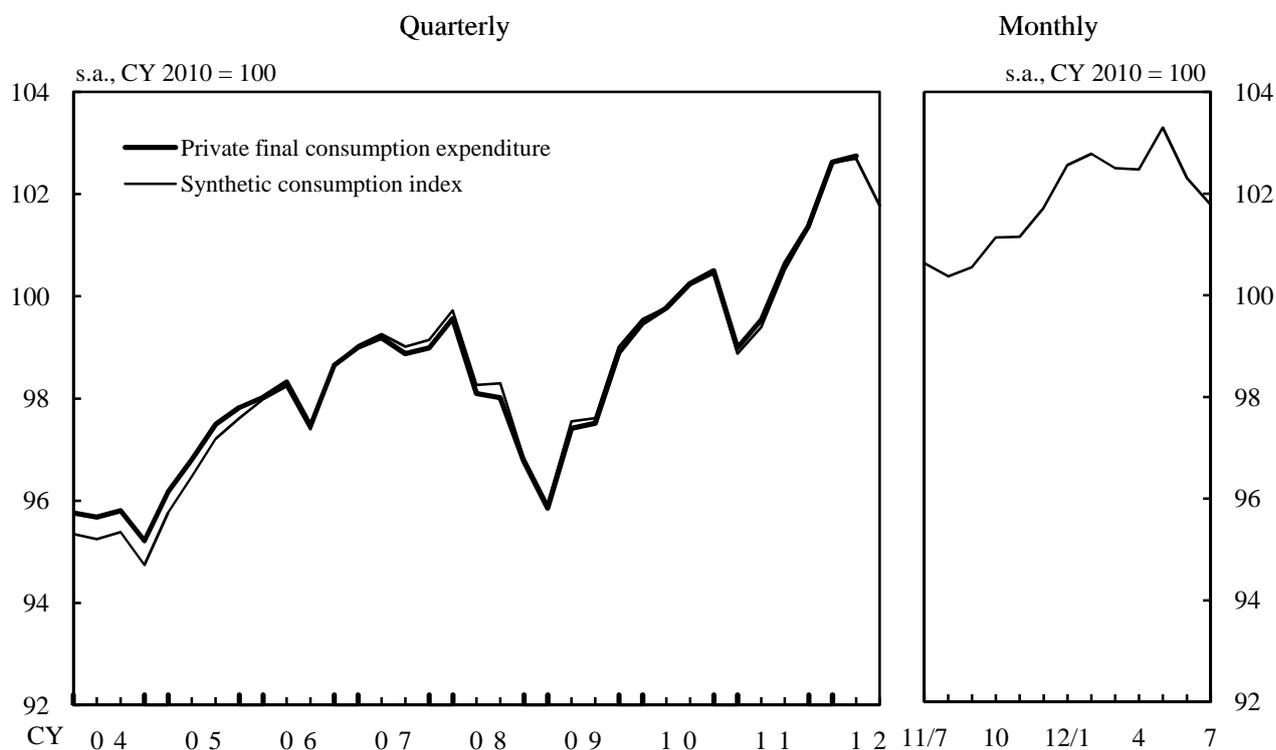
Sources: Cabinet Office, "Orders Received for Machinery";  
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



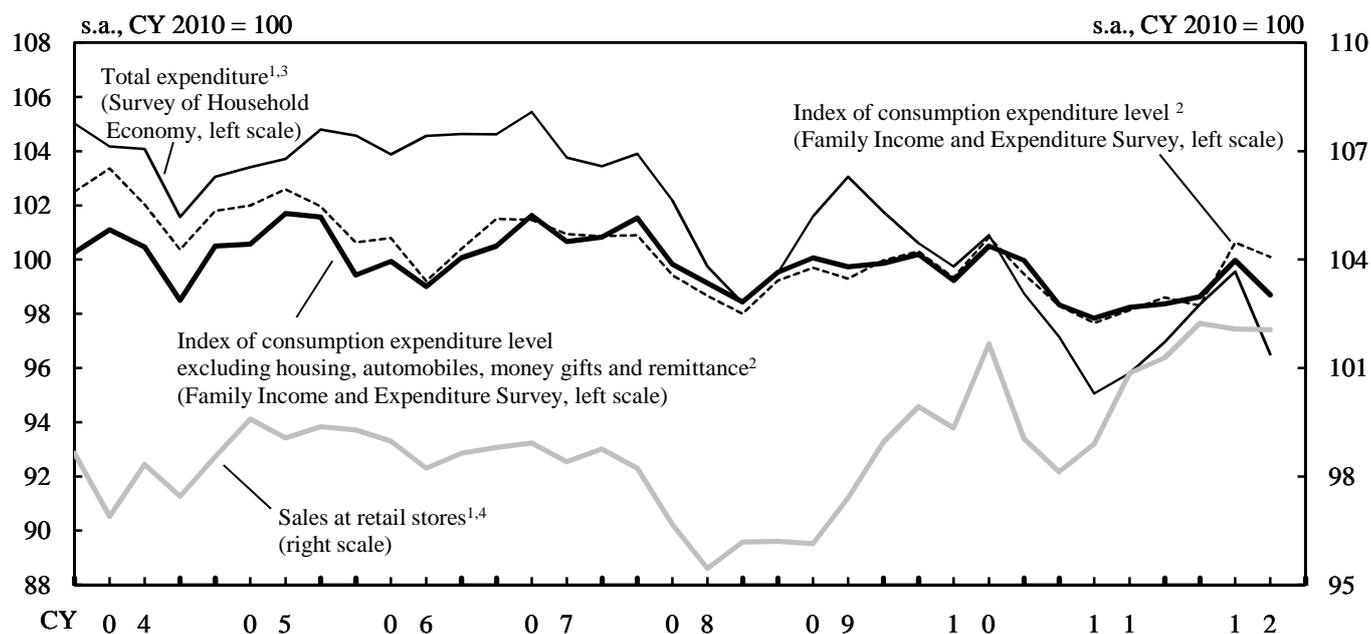
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



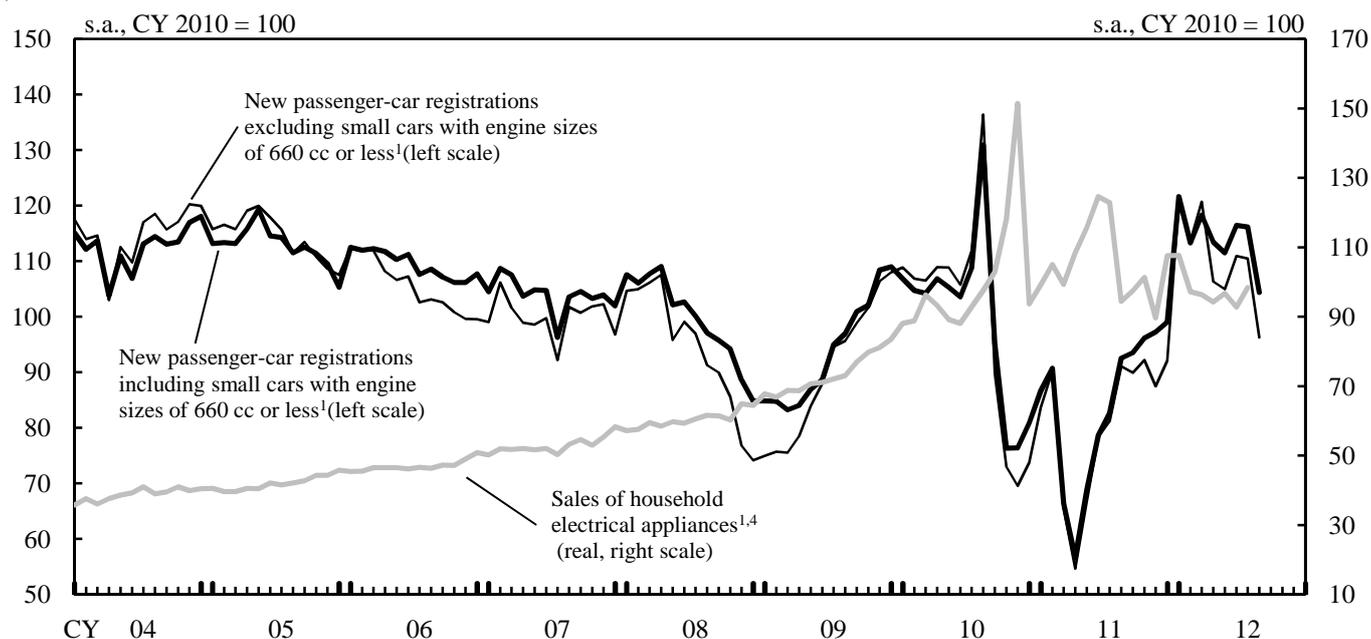
Note: The figure of the synthetic consumption index for 2012/Q3 is that of July in quarterly amount.

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

## Indicators of Private Consumption (2)

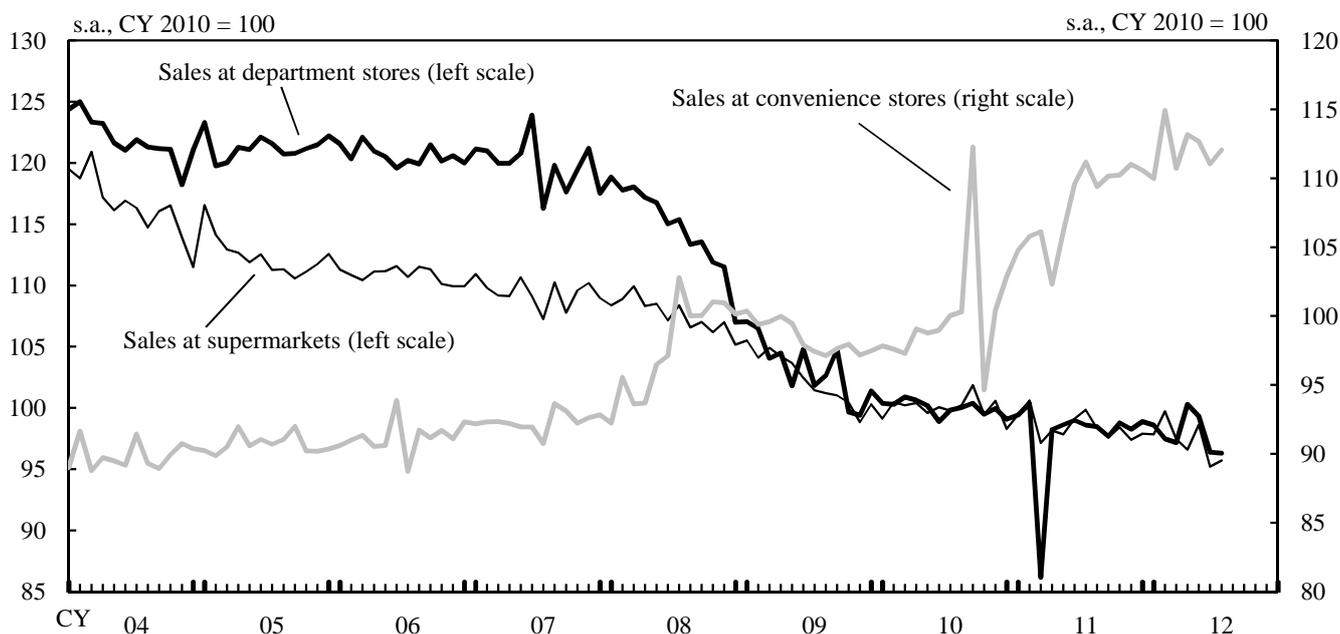
(1) Household Spending (Real)<sup>5</sup>

## (2) Sales of Durable Goods

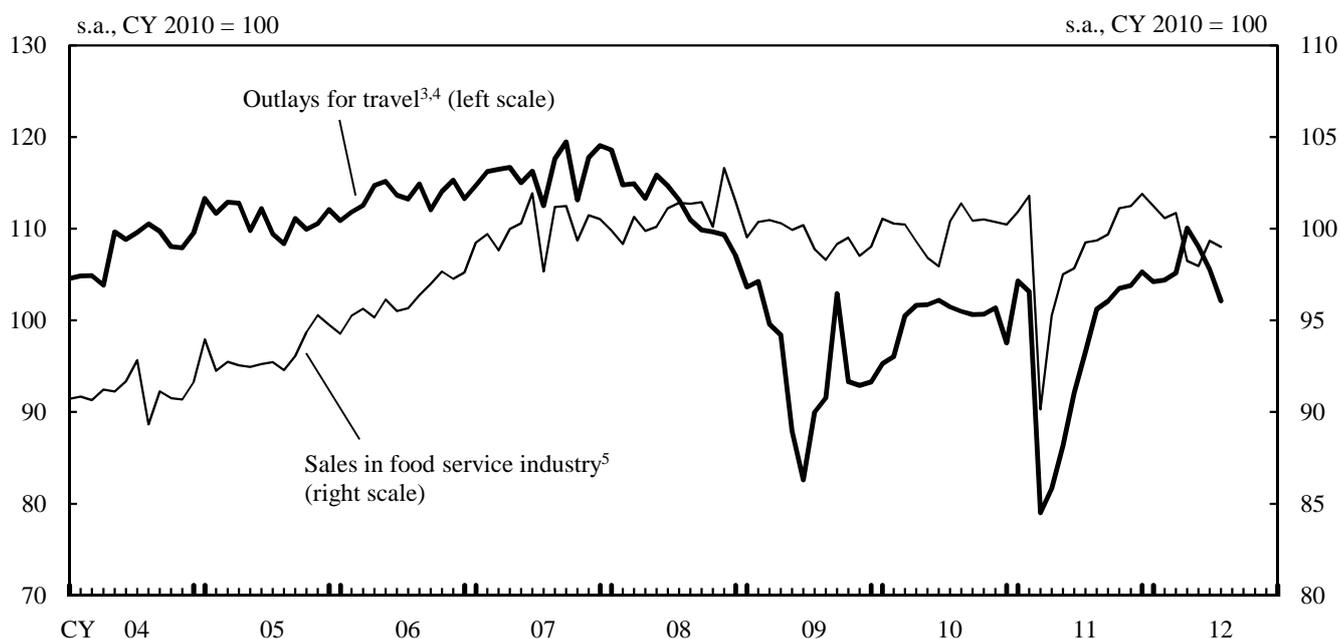


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household by number of household members and age group of household head.
3. "Total expenditure" is based on two-or-more-person households, and is deflated by the "consumer price index (CPI)" excluding imputed rent.
4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges).  
"Sales of household electrical appliances" is calculated as follows: indices of retail sales, of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.
5. Figures for 2012/Q3 are those of July in quarterly amount.

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

Indicators of Private Consumption<sup>1</sup> (3)(1) Sales at Retail Stores (Nominal)<sup>2</sup>

## (2) Consumption of Services (Nominal)



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

2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).

3. Excluding those by foreign travelers.

4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.

5. "Sales in food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

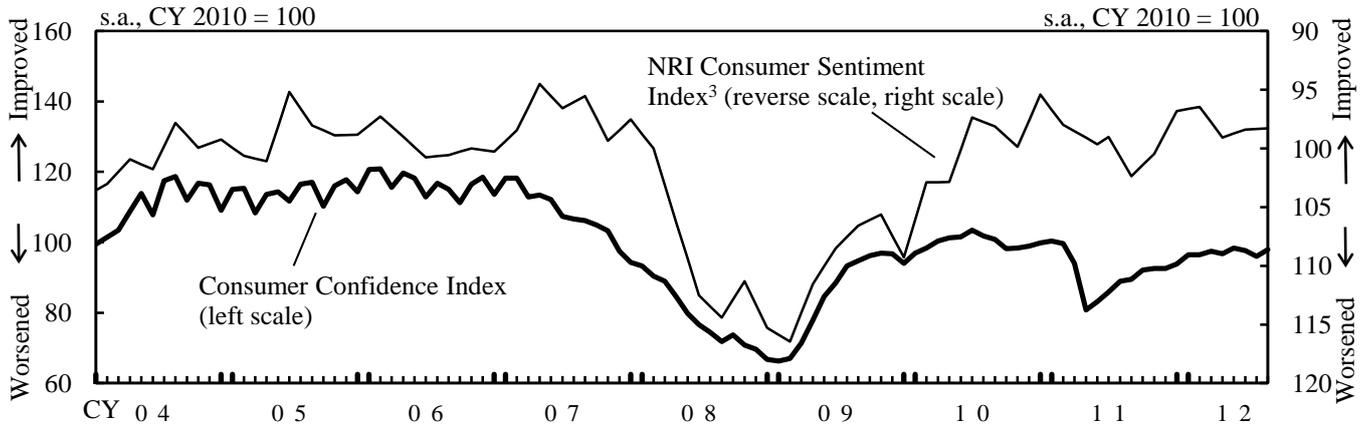
Japan Tourism Agency, "Major Travel Agents' Revenue";

Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly survey of food service sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa

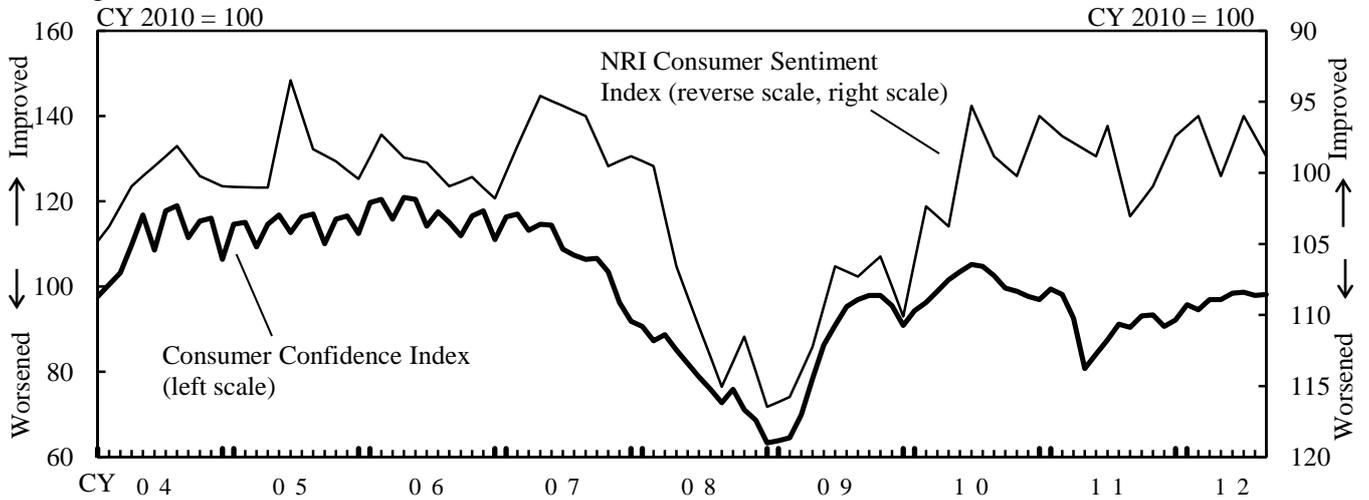
(Research on the food service industry)."

# Consumer Confidence <sup>1,2</sup>

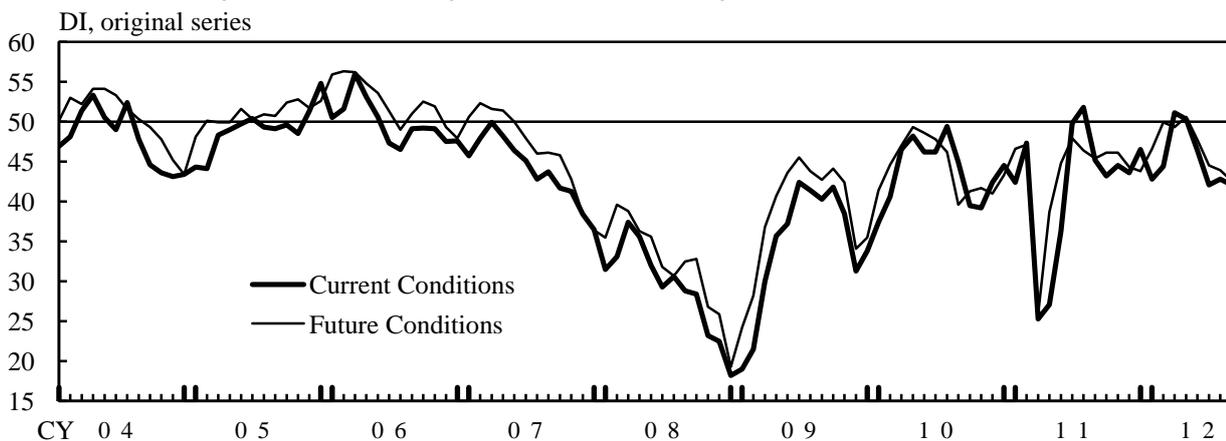
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

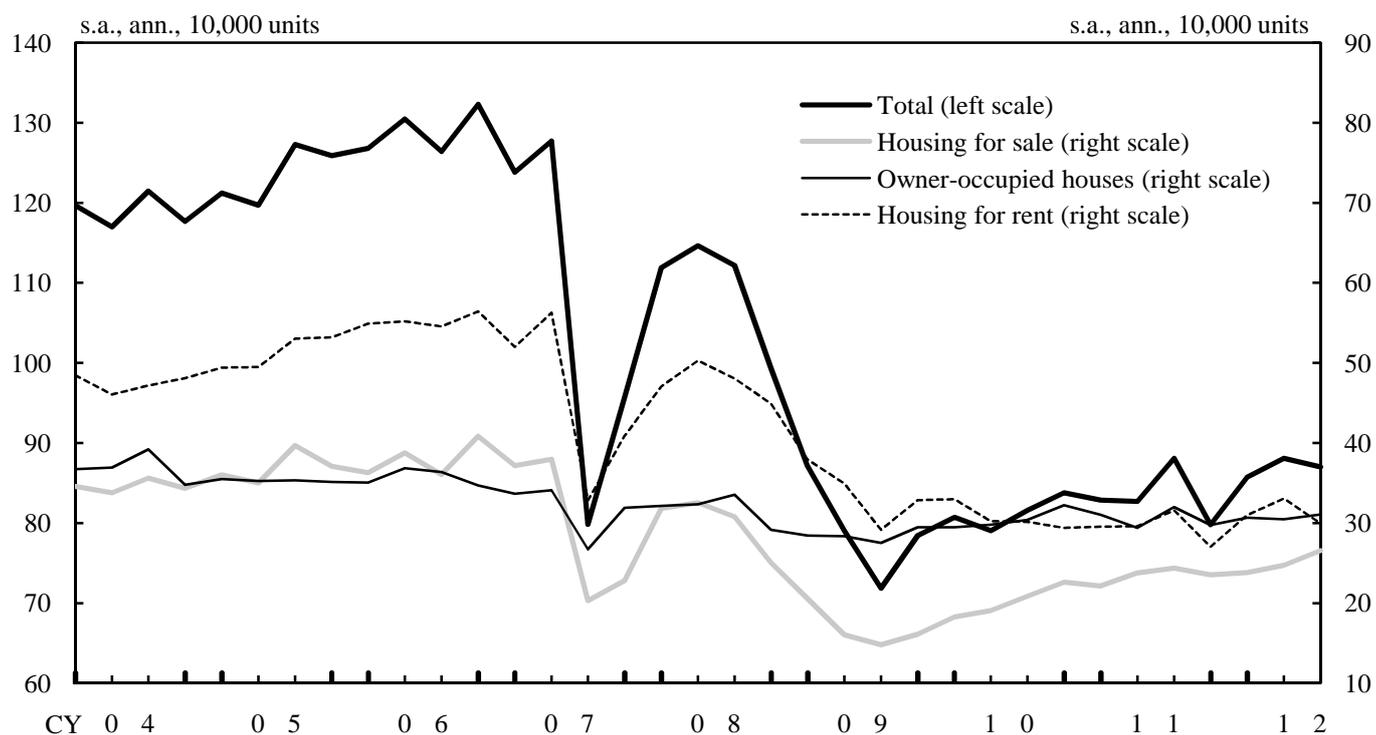


- Notes: 1. The Consumer Confidence Index (covering about 4,700 samples on a nationwide basis) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.  
 2. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.  
 3. Figures are seasonally adjusted by X-12-ARIMA.

Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

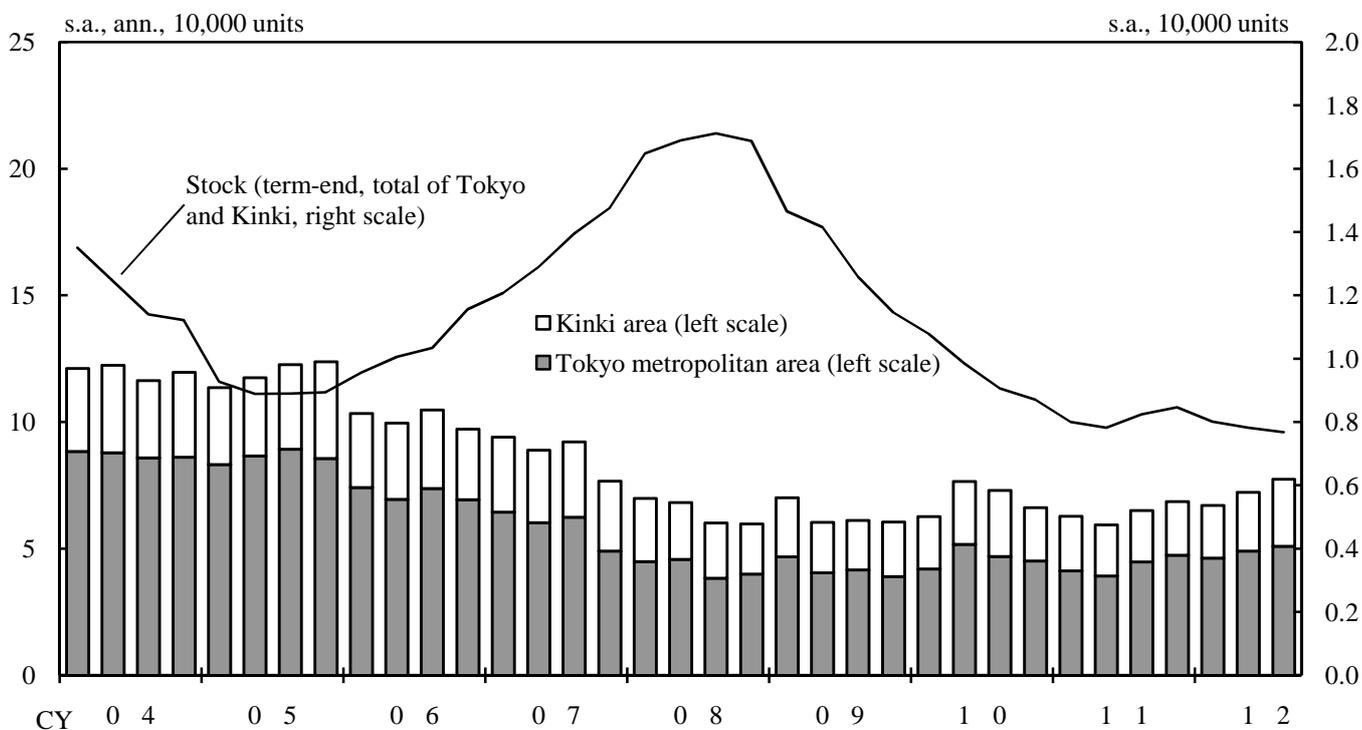
## Indicators of Housing Investment

## (1) Housing Starts



Note: Figures for 2012/Q3 are those of July.

## (2) Sales of Apartments



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

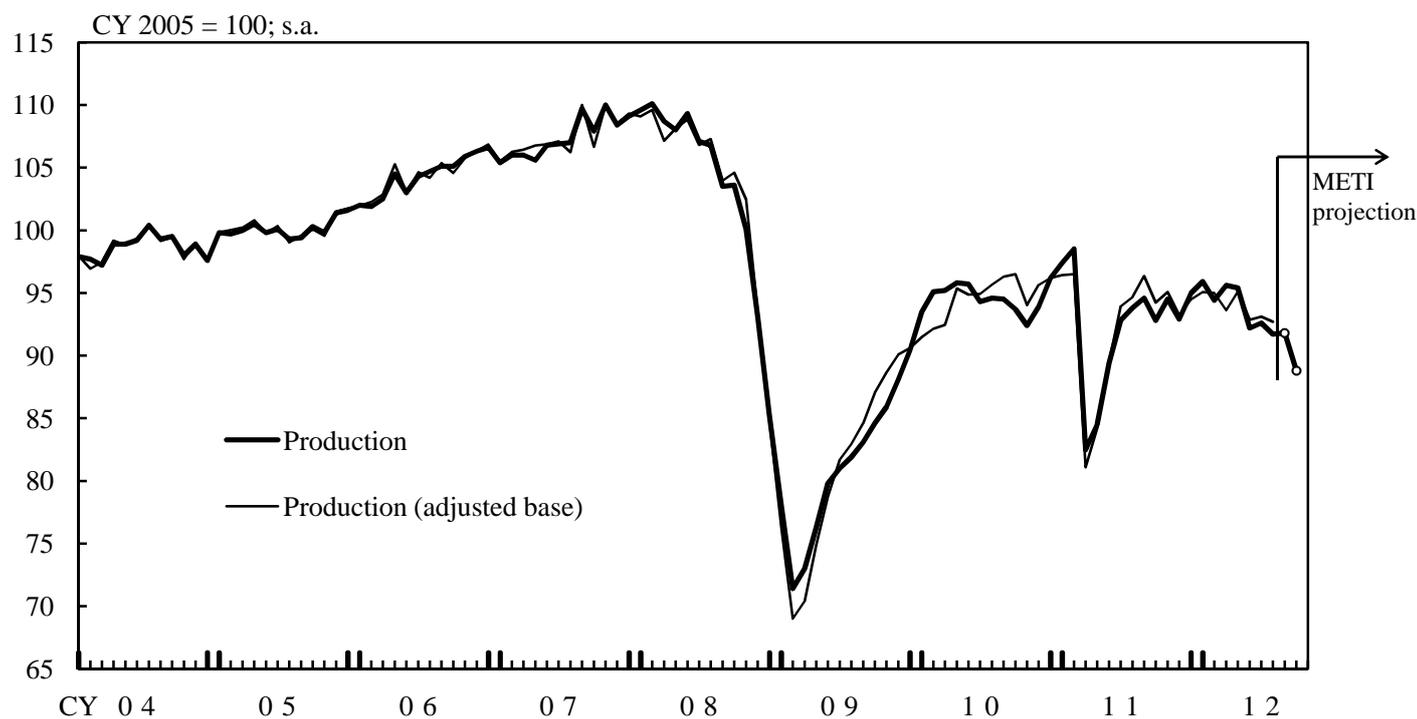
2. The figure of total apartment sales for 2012/Q3 is the July-August average.

The term-end stock for 2012/Q3 is that of August.

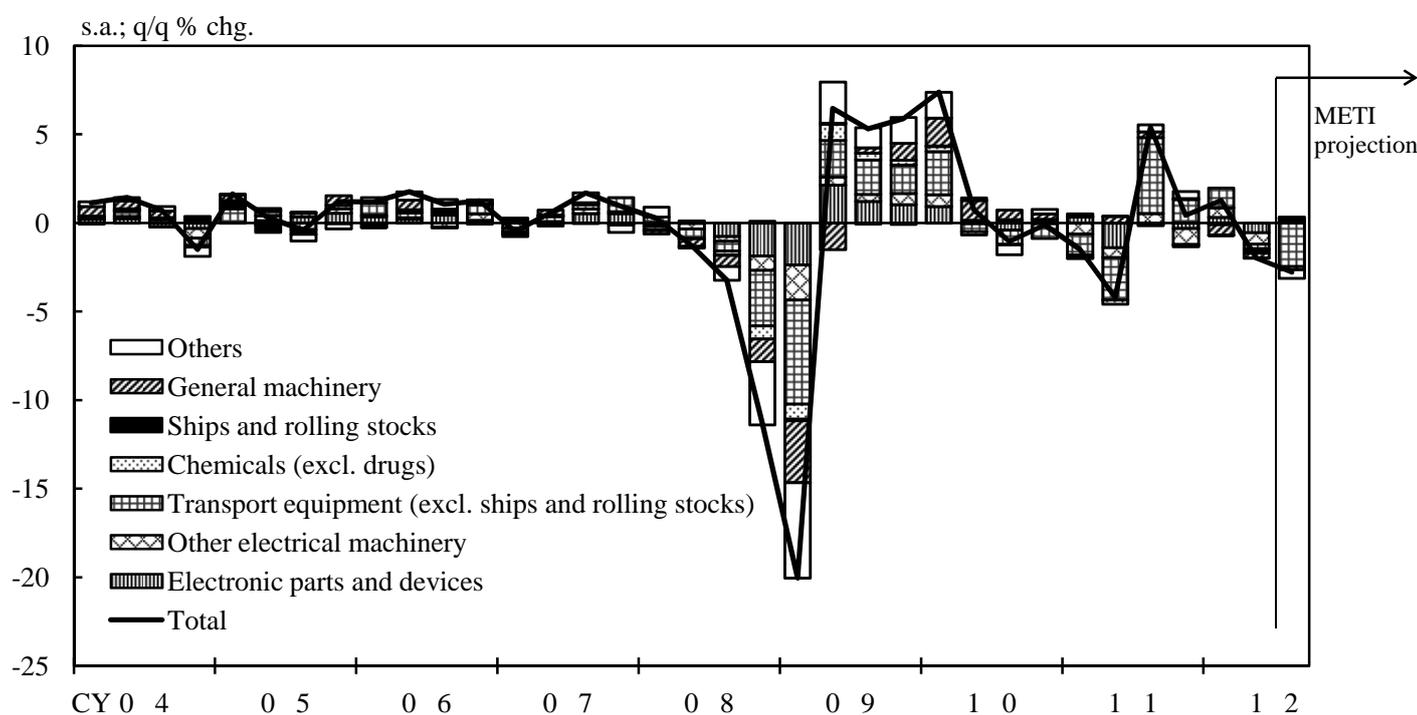
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

## Production

## (1) Production



## (2) Production by Industry

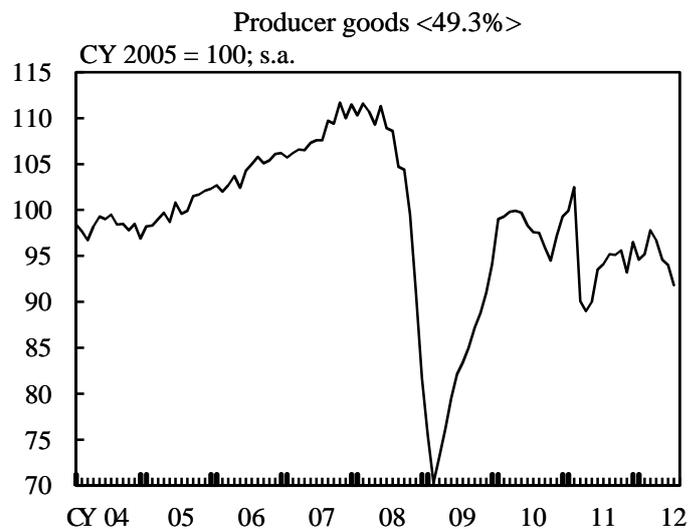
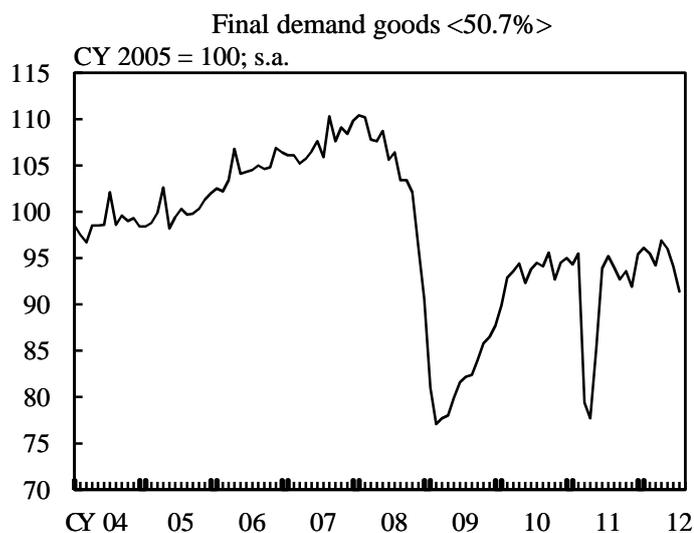


- Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
3. 2012/Q3 figures are based on the actual production levels in July, and the METI projection of August and September.

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

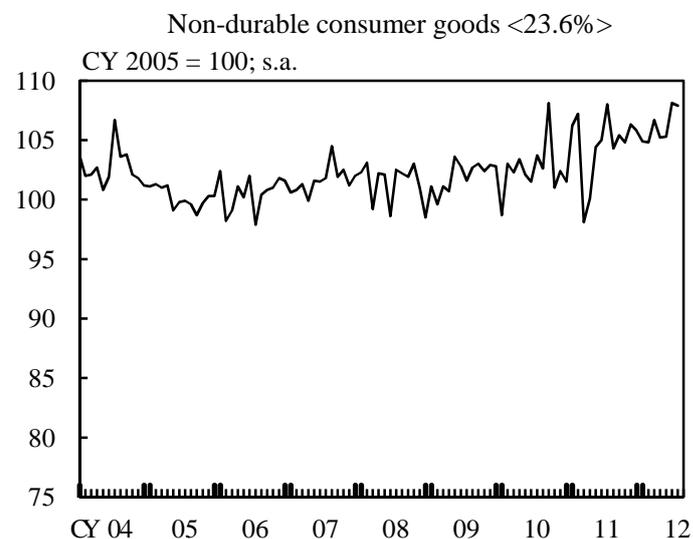
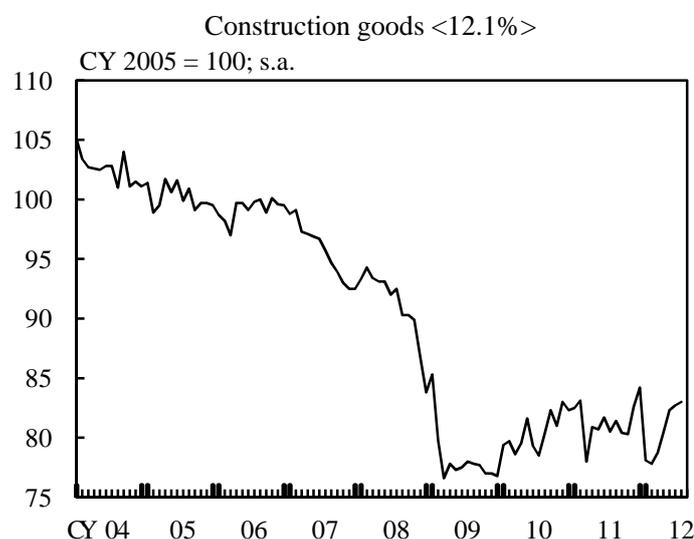
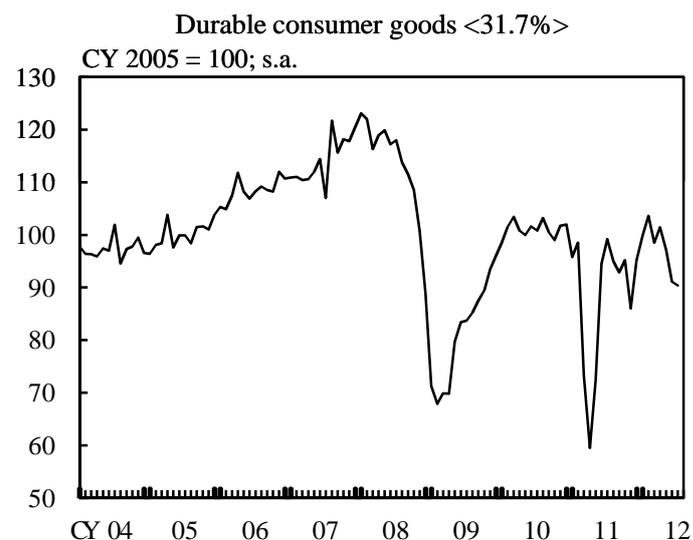
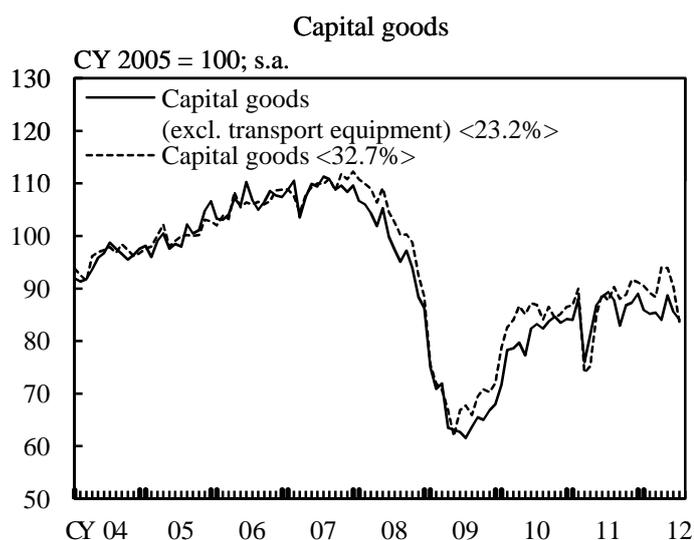
## Shipments by Type of Goods

### (1) Final Demand Goods and Producer Goods



Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

### (2) Breakdown of Final Demand Goods

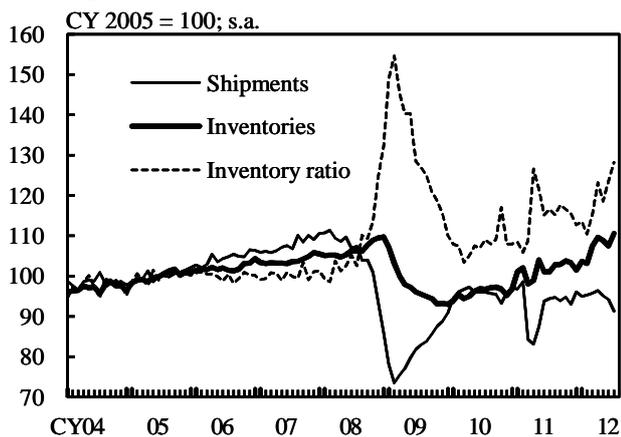


Note: Figures in angle brackets show the shares among shipments of final demand goods.

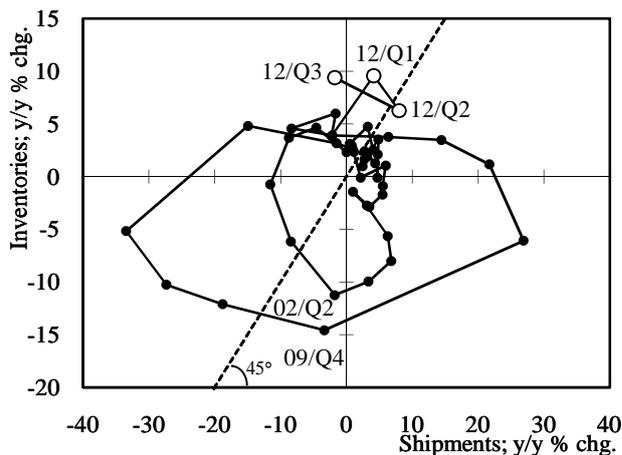
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

# Shipments and Inventories

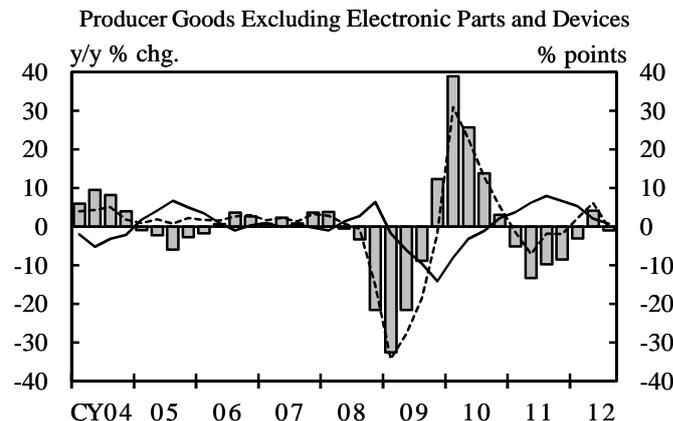
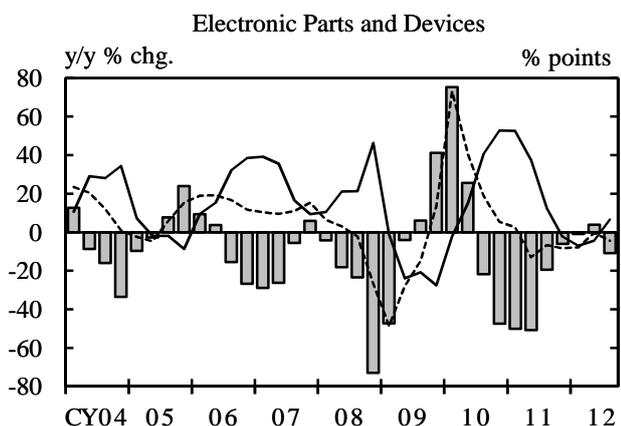
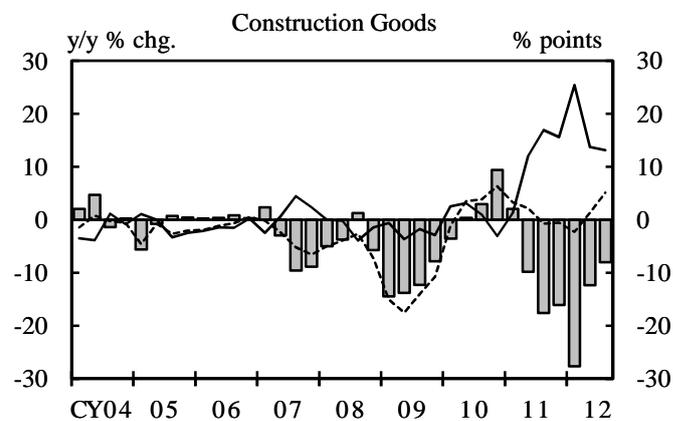
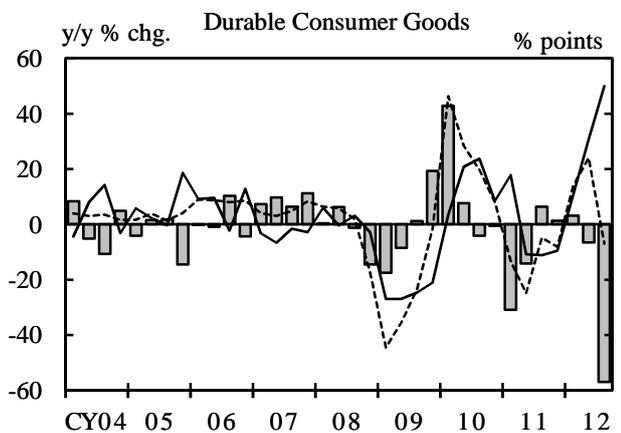
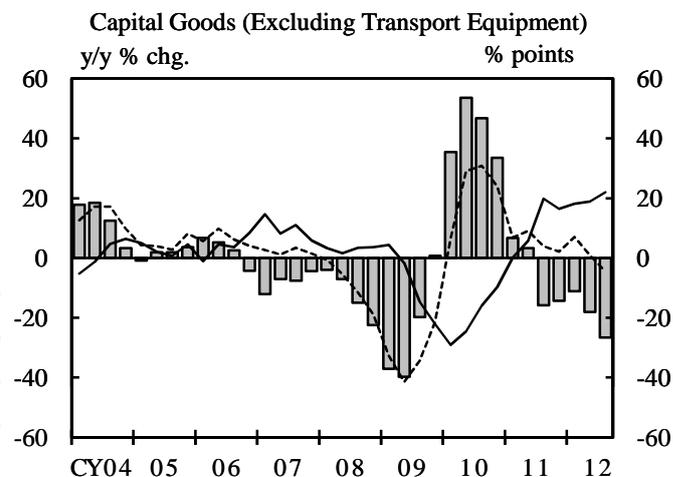
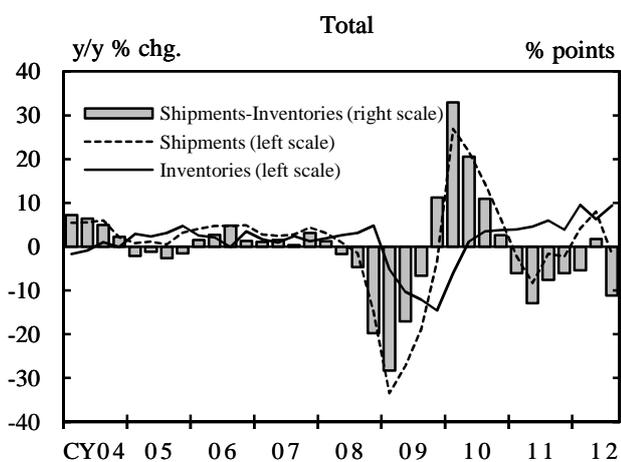
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



(3) Shipment-Inventory Balance

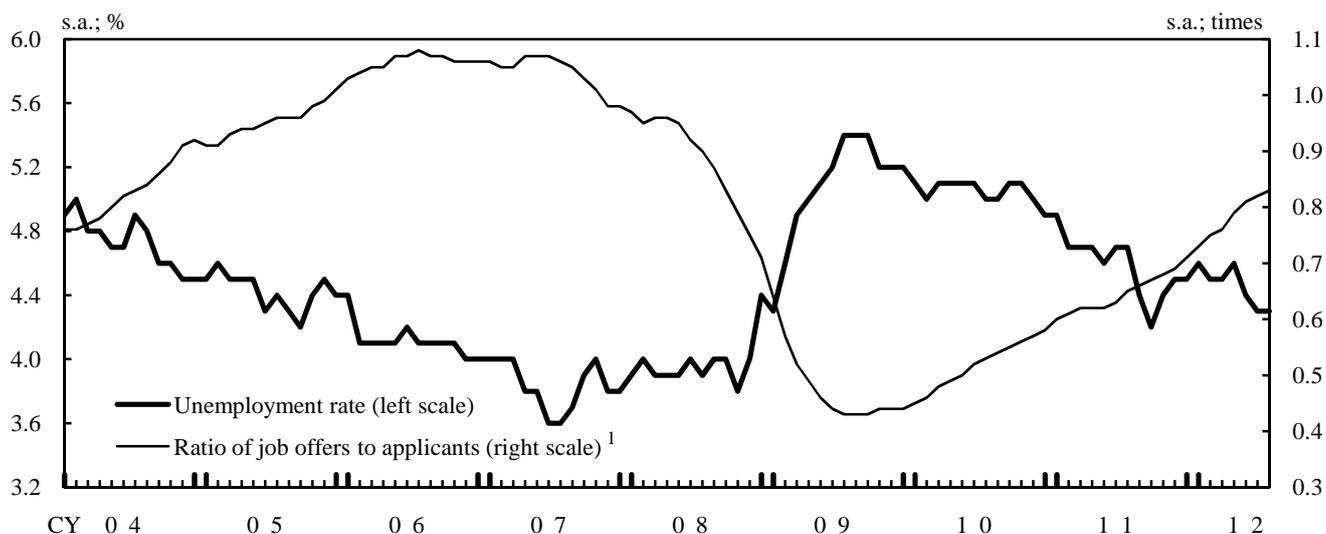


Note: Figures for 2012/Q3 are those of July.

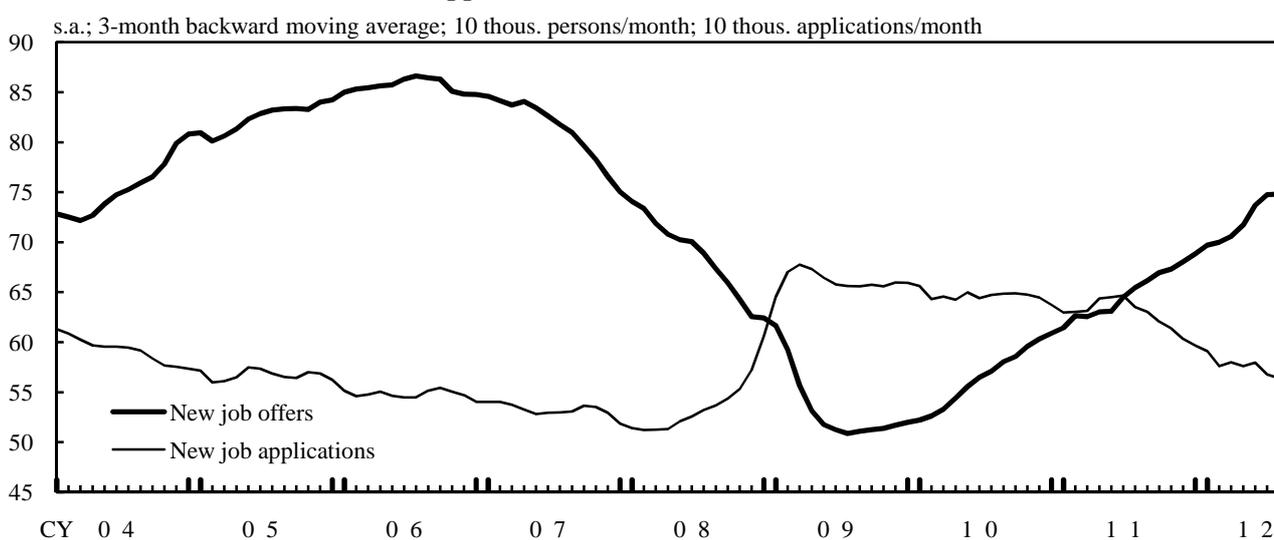
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

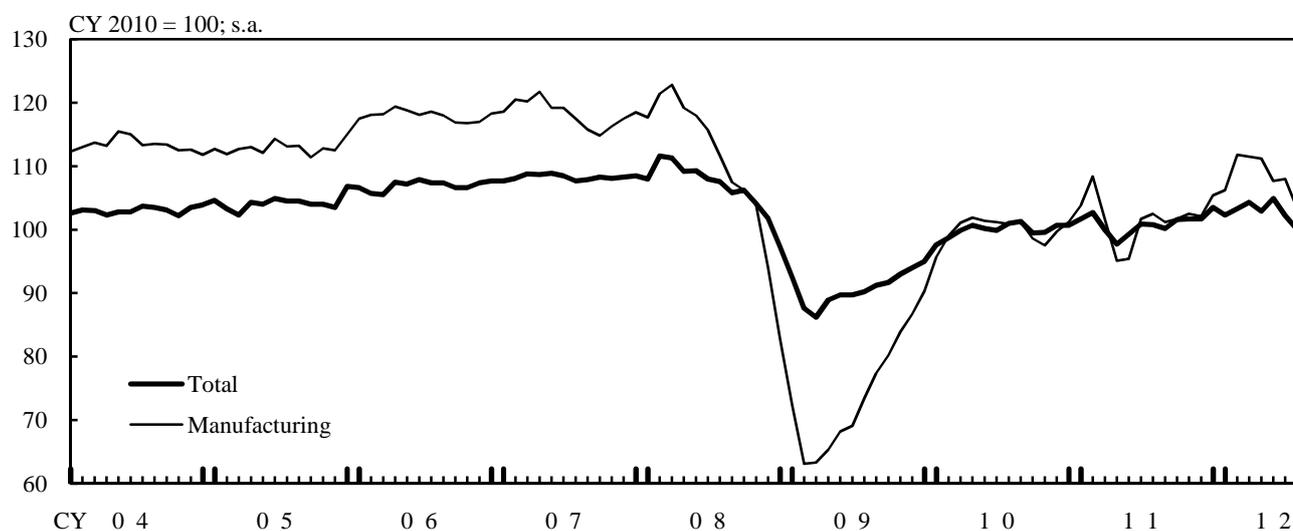
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants<sup>1</sup>



(3) Non-Scheduled Hours Worked<sup>2</sup>



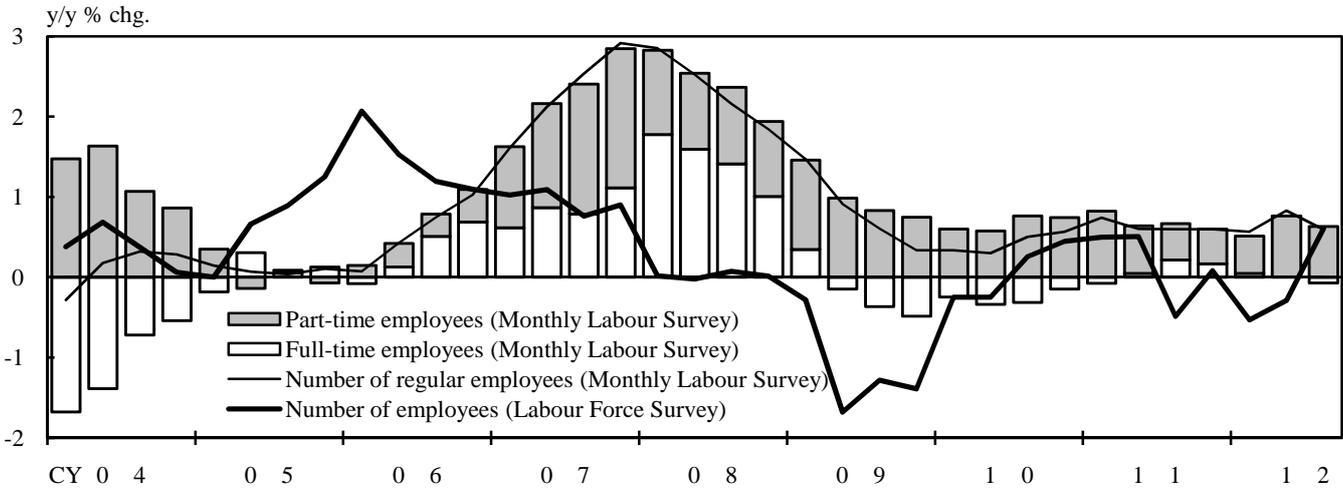
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

2. Data are for establishments with at least five employees.

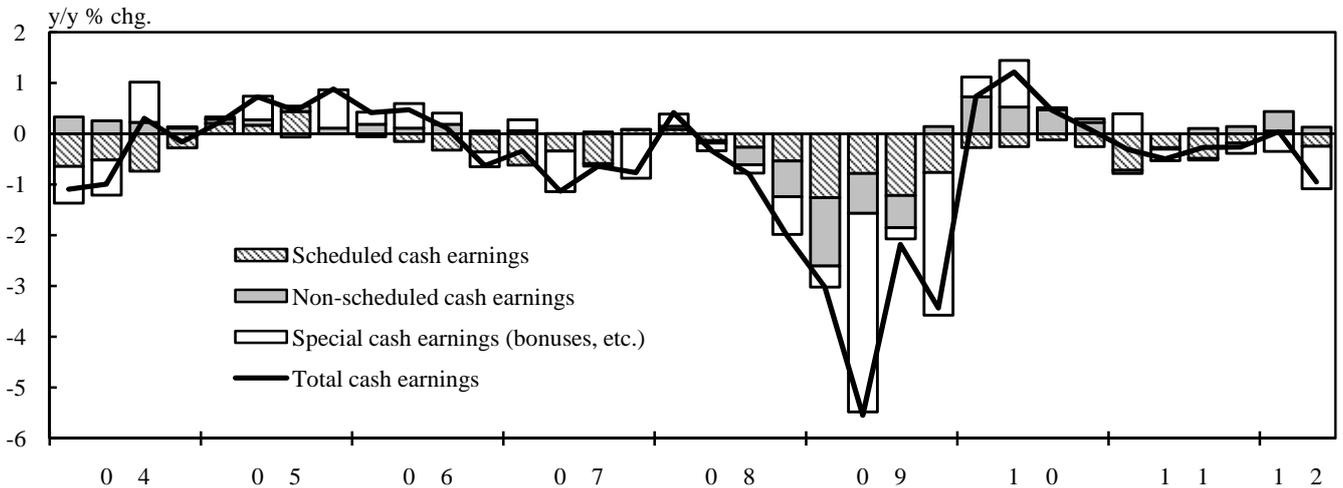
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";  
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

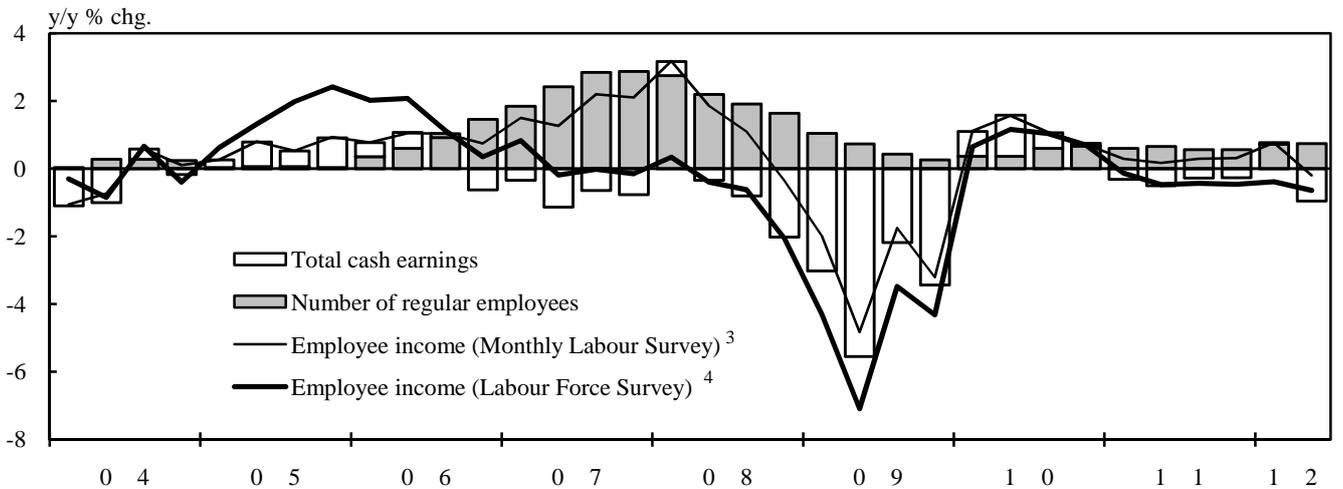
(1) Number of Employees<sup>1,5</sup>



(2) Breakdown of Total Cash Earnings<sup>1,2</sup>



(3) Breakdown of Employee Income<sup>1,2</sup>

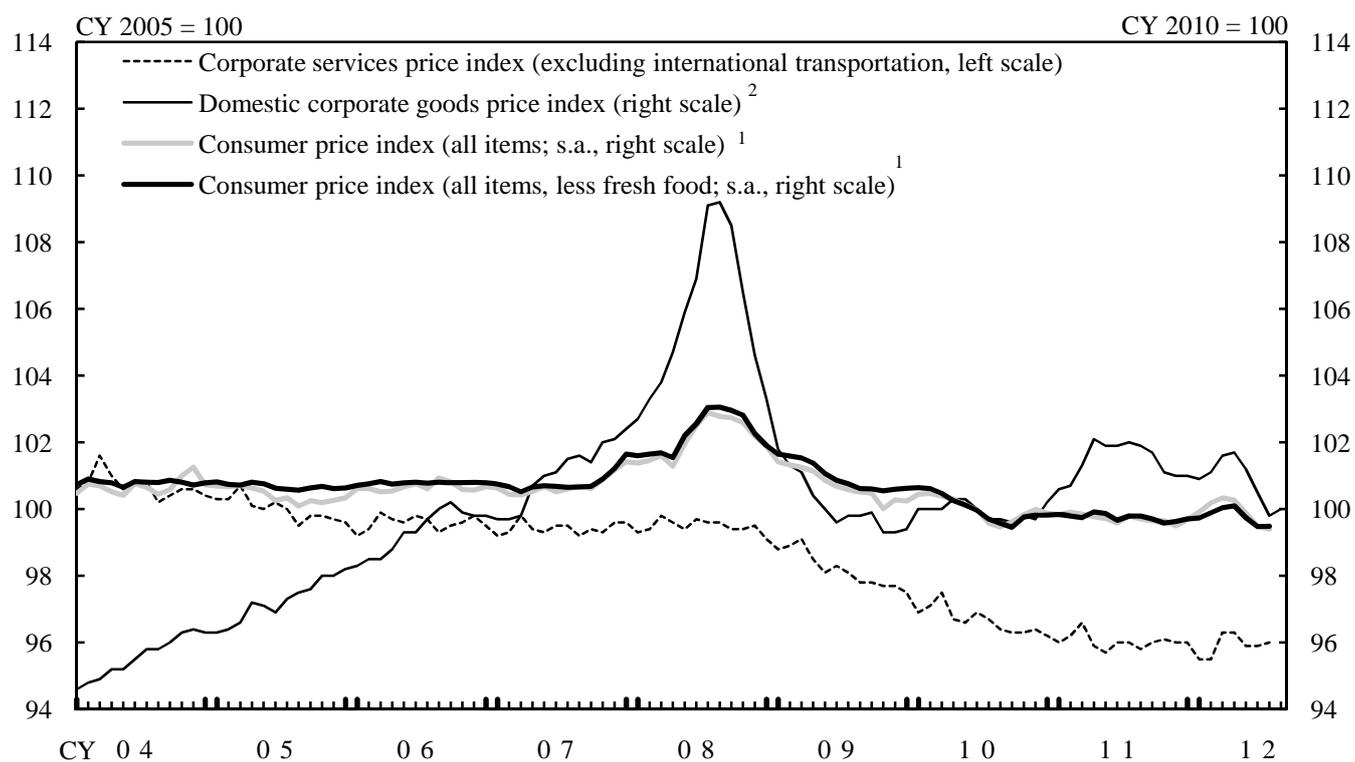


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 Figures for 2012/Q2 are June-July averages.  
 3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).  
 4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).  
 5. Figures for 2012/Q3 are those of July.

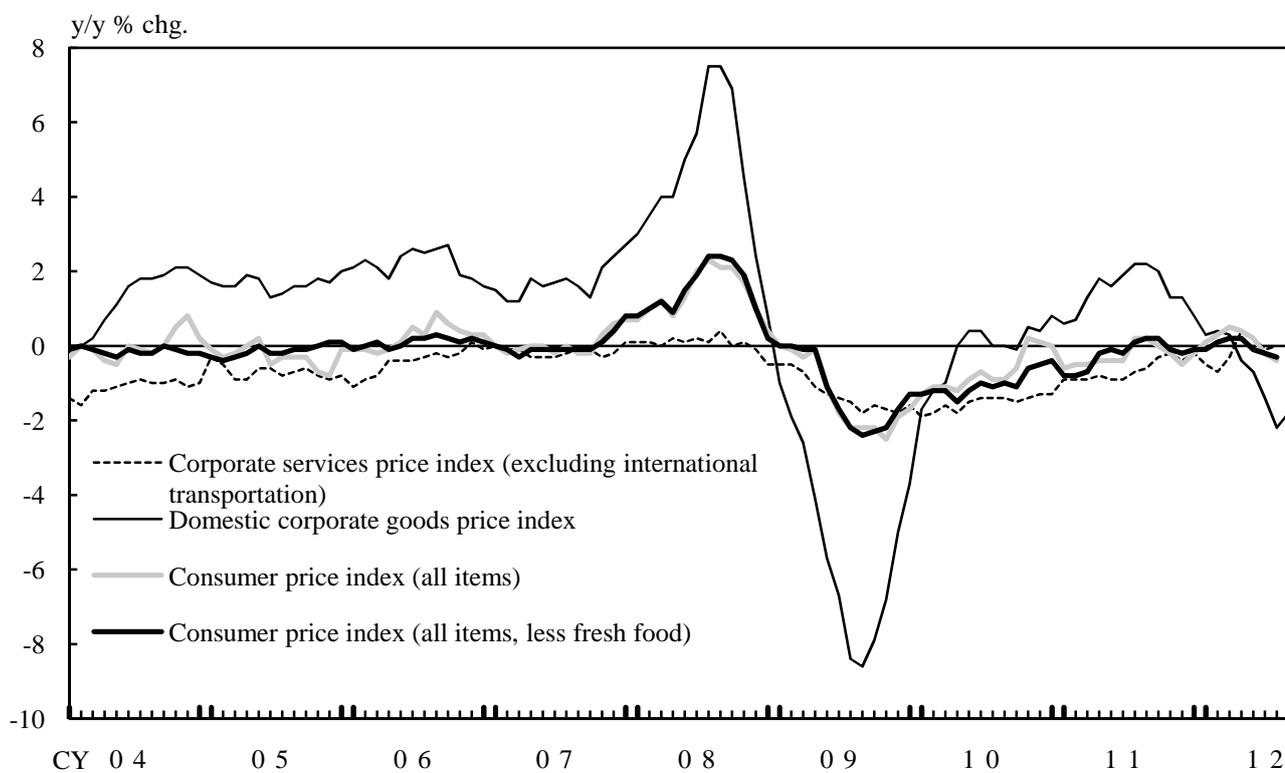
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

## 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.

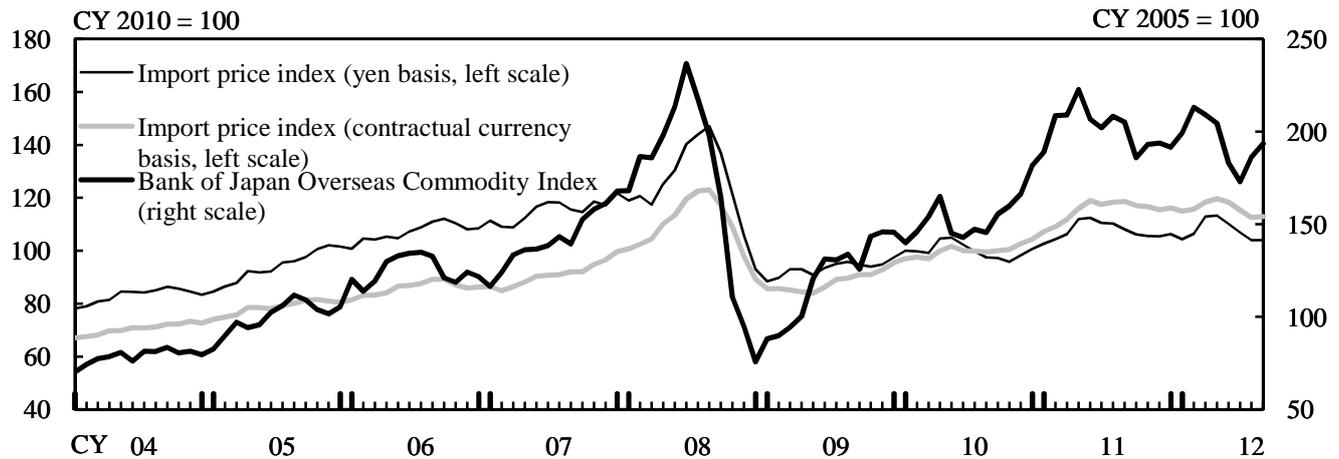
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

4. Figures of "Corporate Services Price Index" up to 2004 and "Corporate Goods Price Index" up to 2009 are based on the linked indices.

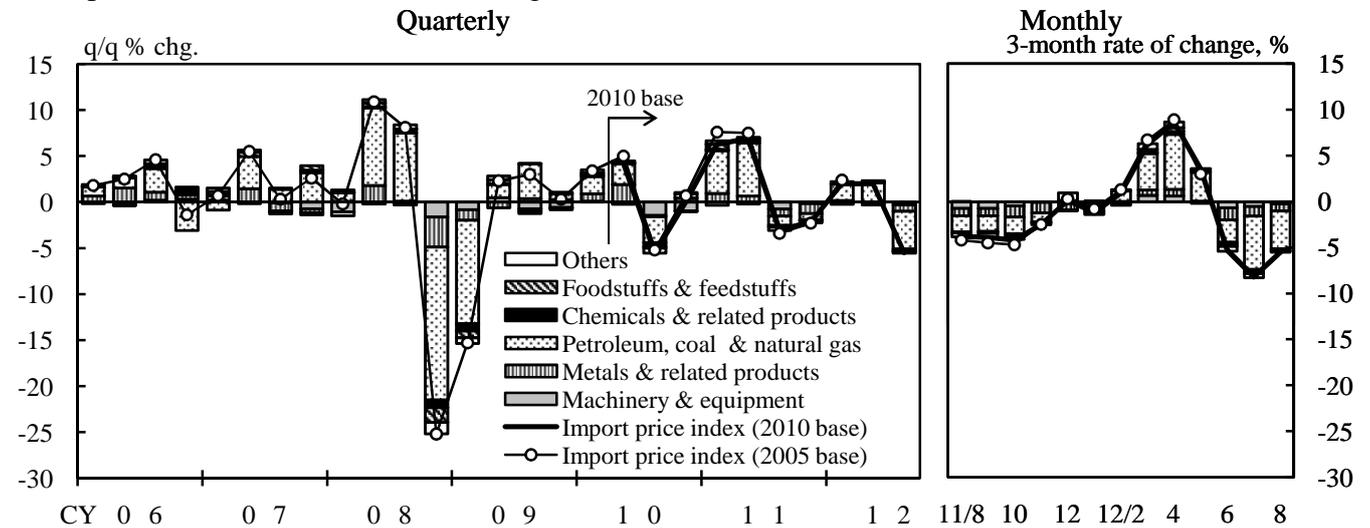
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

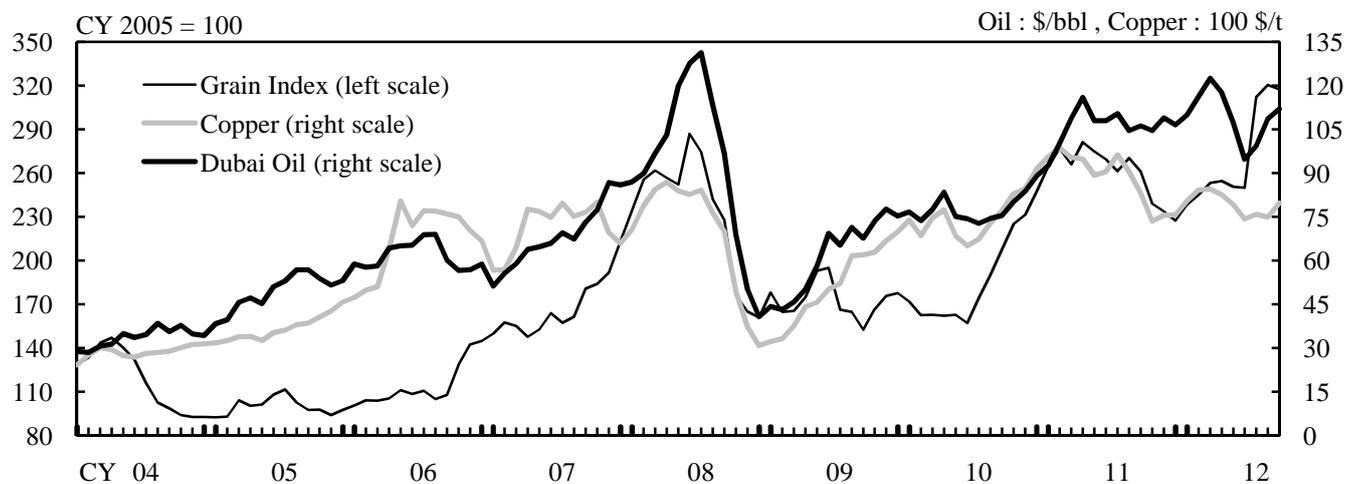


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.  
 2. Figures for 2012/Q3 are July-August averages.

(3) International Commodity Prices

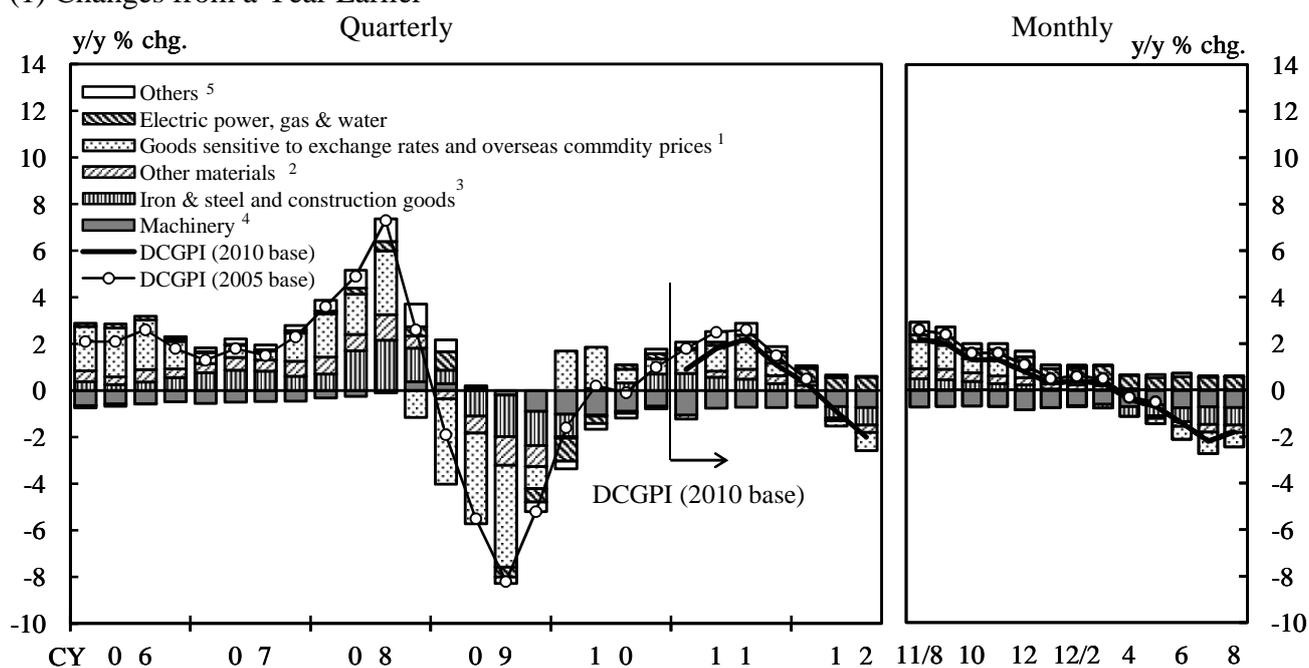
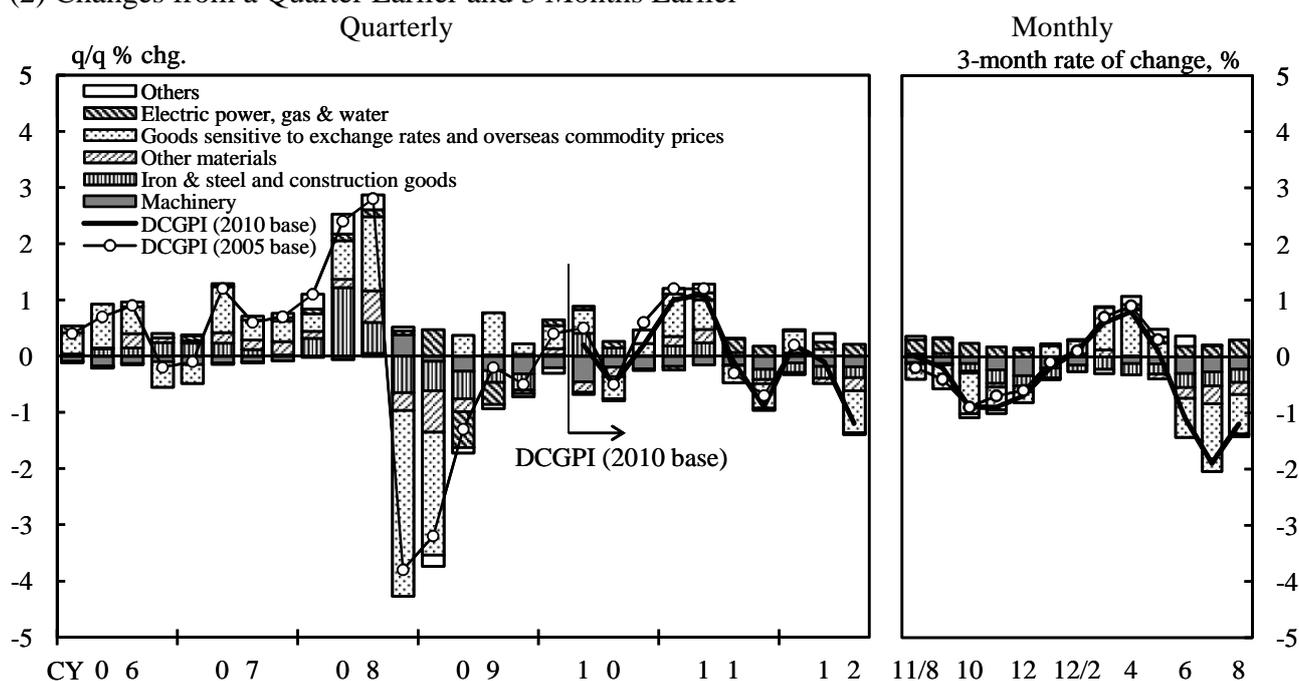


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."  
 2. Monthly averages. Figures for September 2012 are averages up to September 18.

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

## Domestic Corporate Goods Price Index

## (1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier <sup>6</sup>

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.

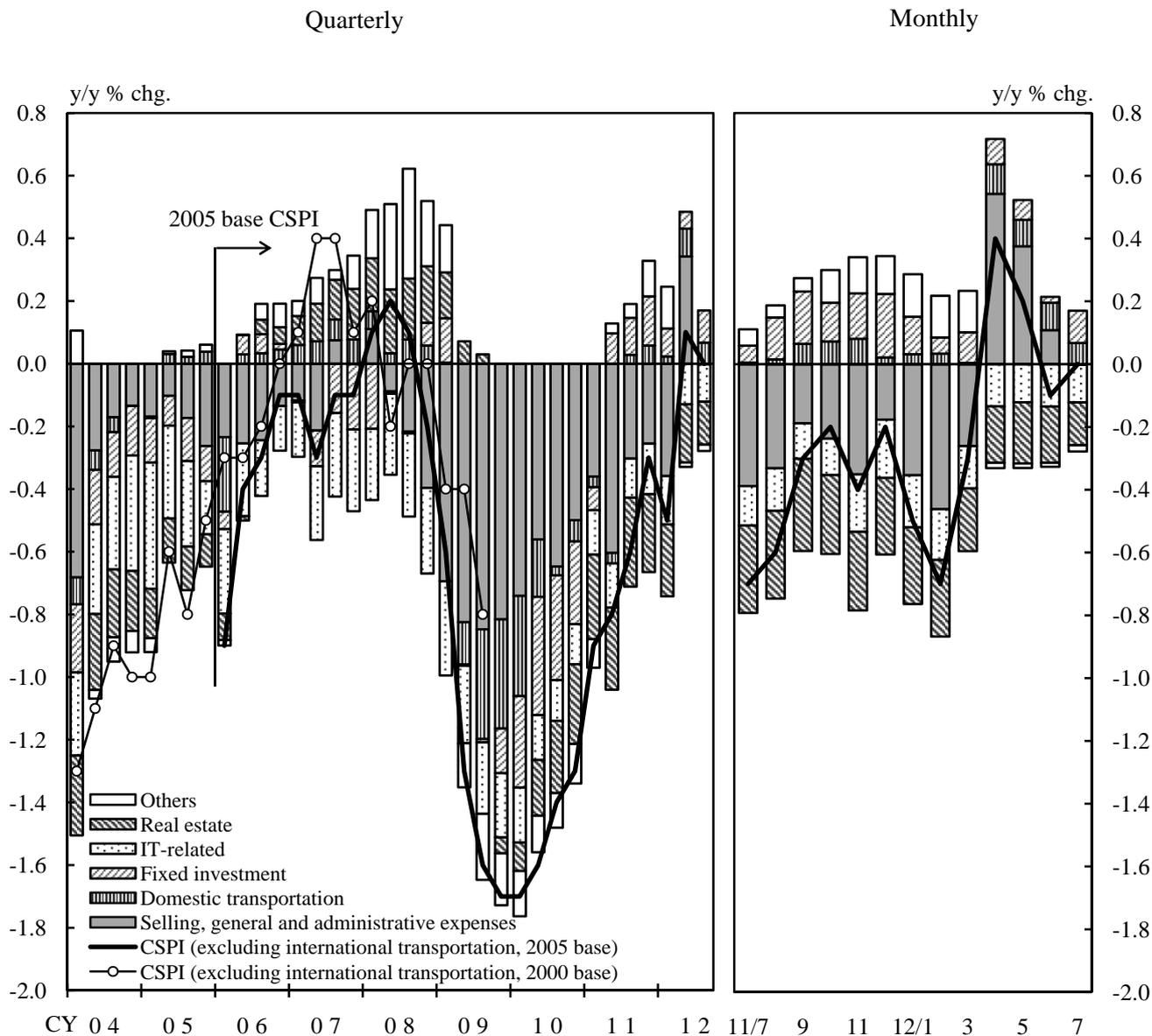
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Domestic Corporate Goods Price Index" fall by about 0.2%.

7. Figures for 2012/Q3 are July-August averages.

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

Corporate Services Price Index

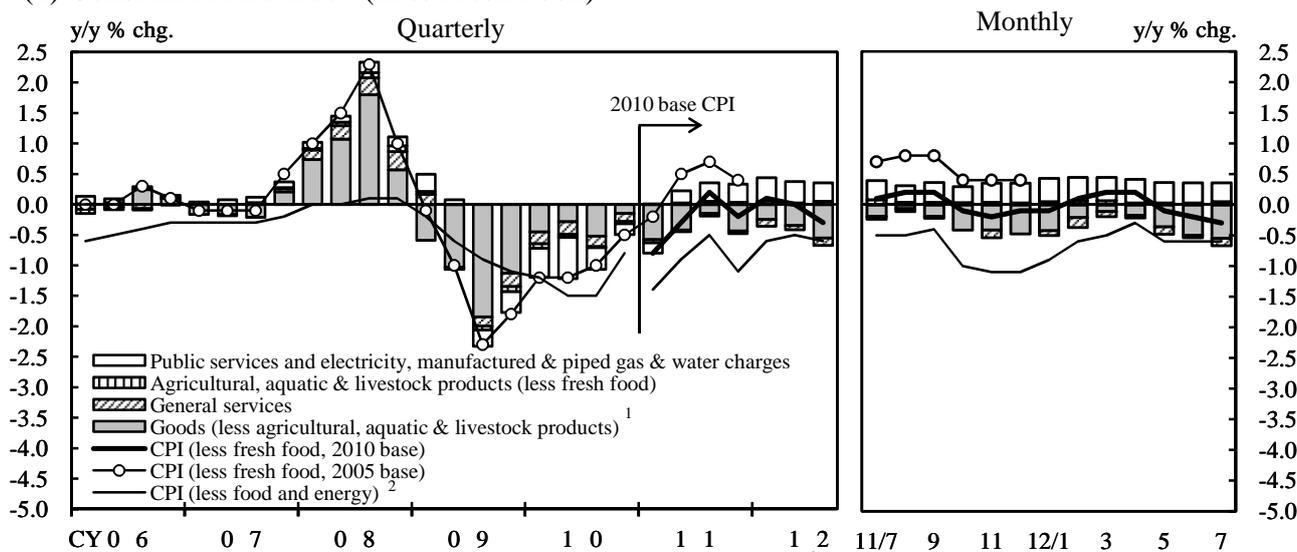


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).  
 2. Domestic transportation: transportation (excluding 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 for 2012/Q3 are those of July. Figures for 2009/Q3 on the 2000 base are July-August averages.

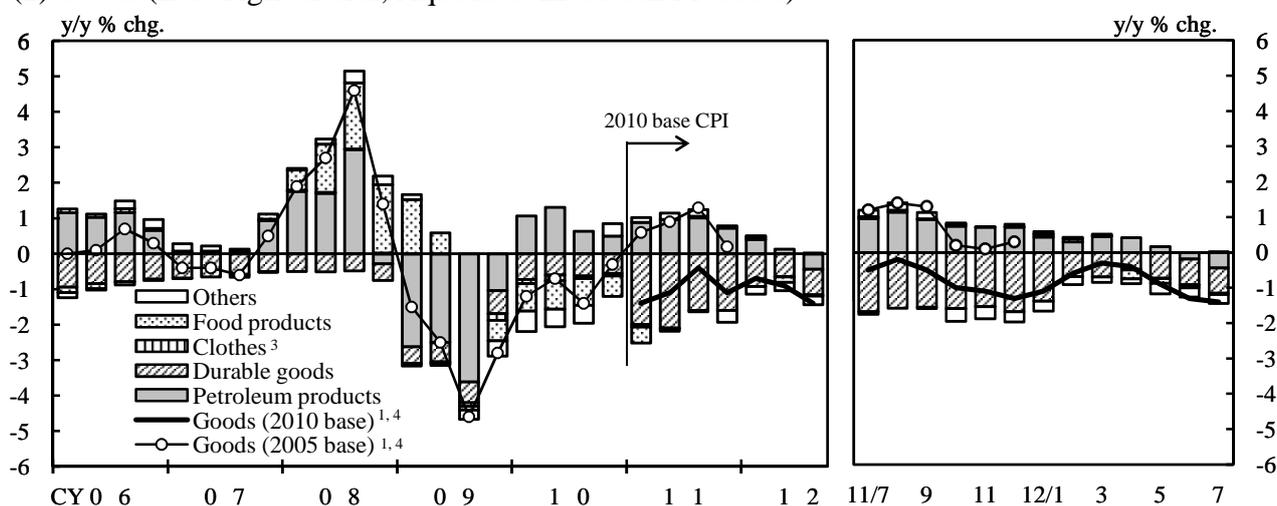
Source: Bank of Japan, "Corporate Services Price Index."

# Consumer Price Index (Less Fresh Food)

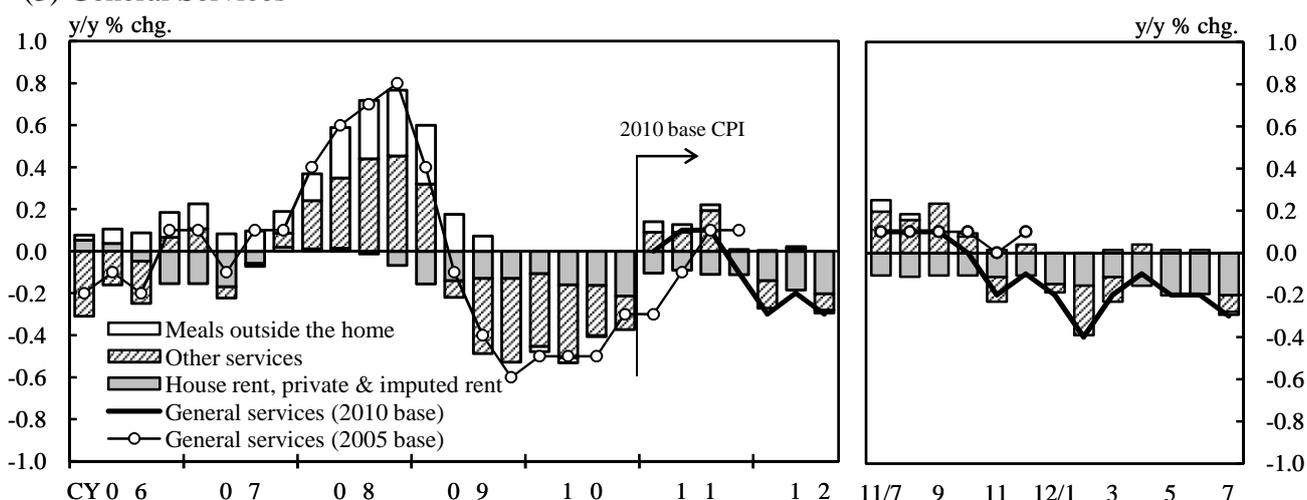
## (1) Consumer Price Index (Less Fresh Food)



## (2) Goods (Less Agricultural, Aquatic & Livestock Products)<sup>1</sup>



## (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.

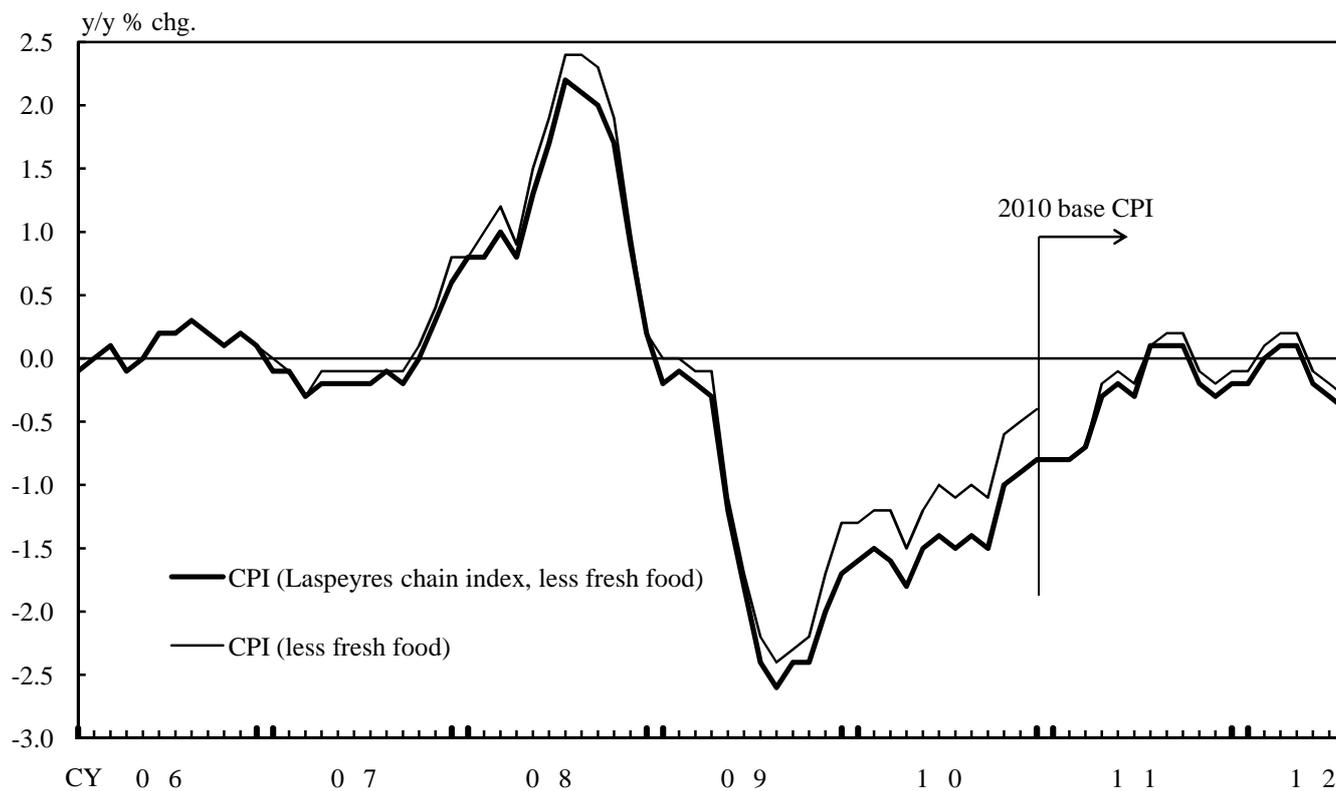
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

6. Figures for 2012/Q3 are those of July.

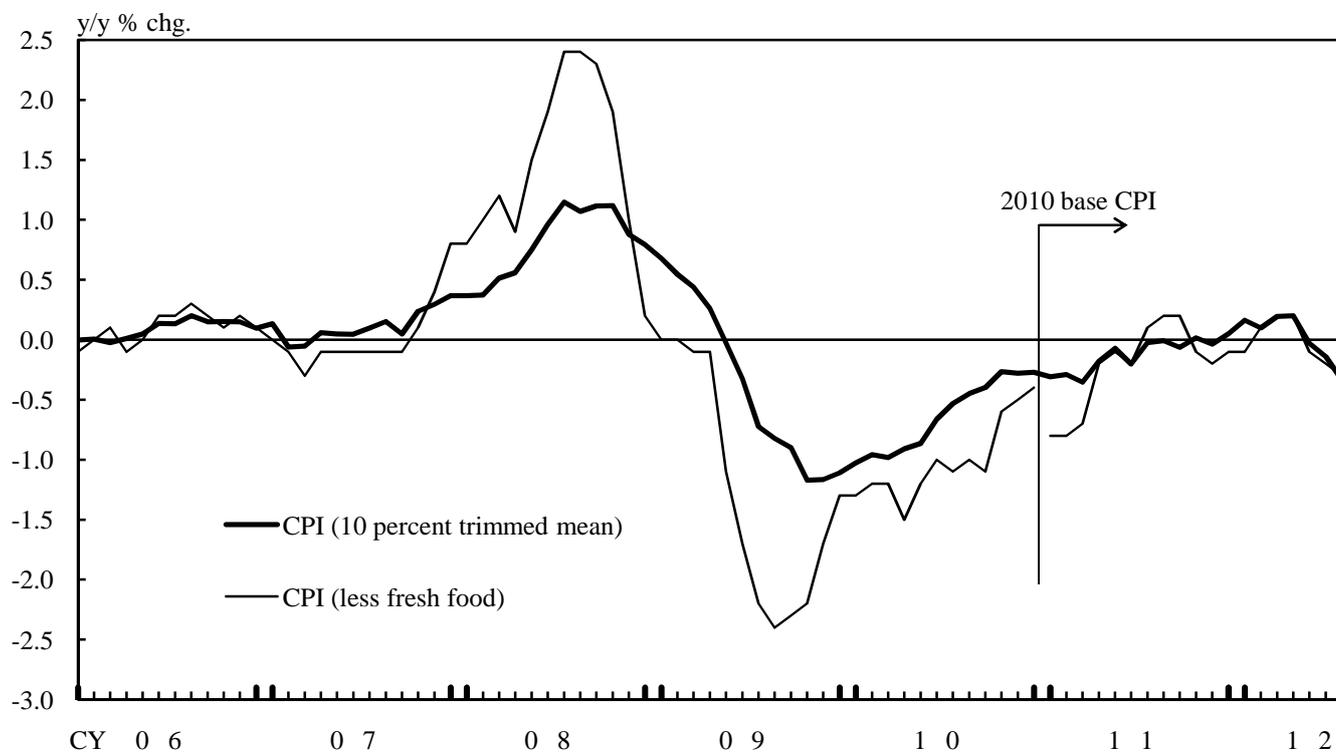
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

## Trend Changes in Consumer Prices

## (1) Laspeyres Chain Index



## (2) Trimmed Mean



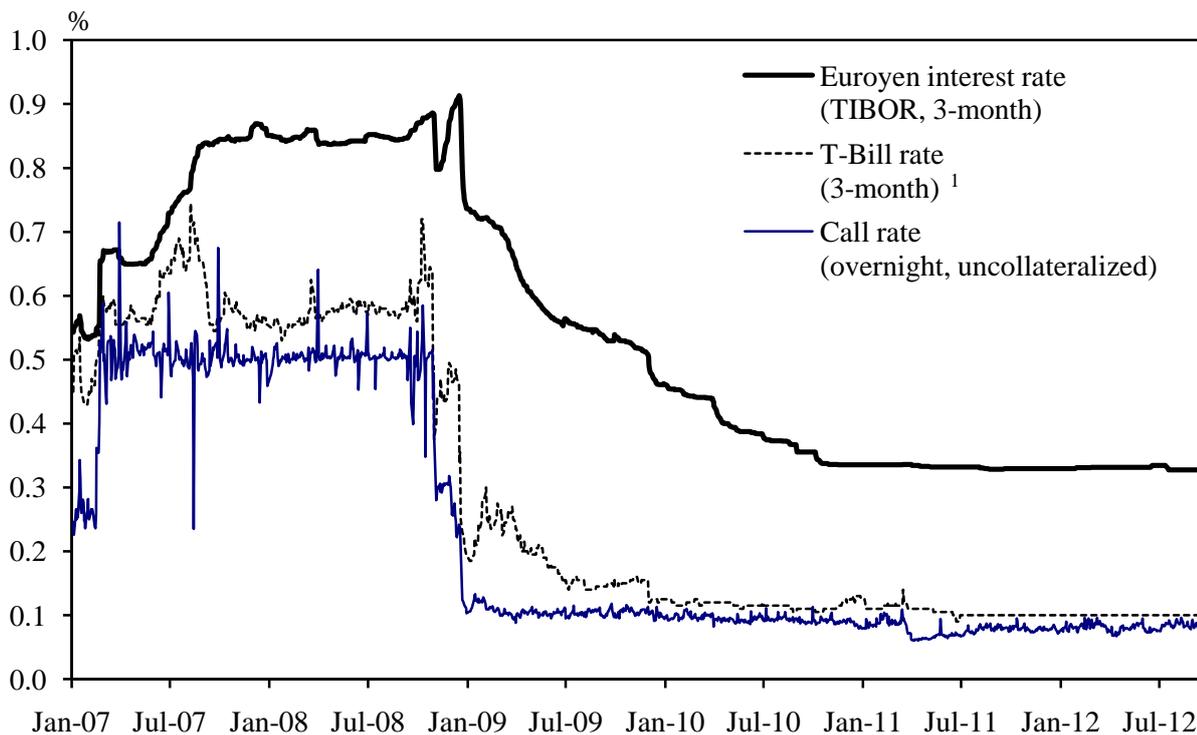
Notes:1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

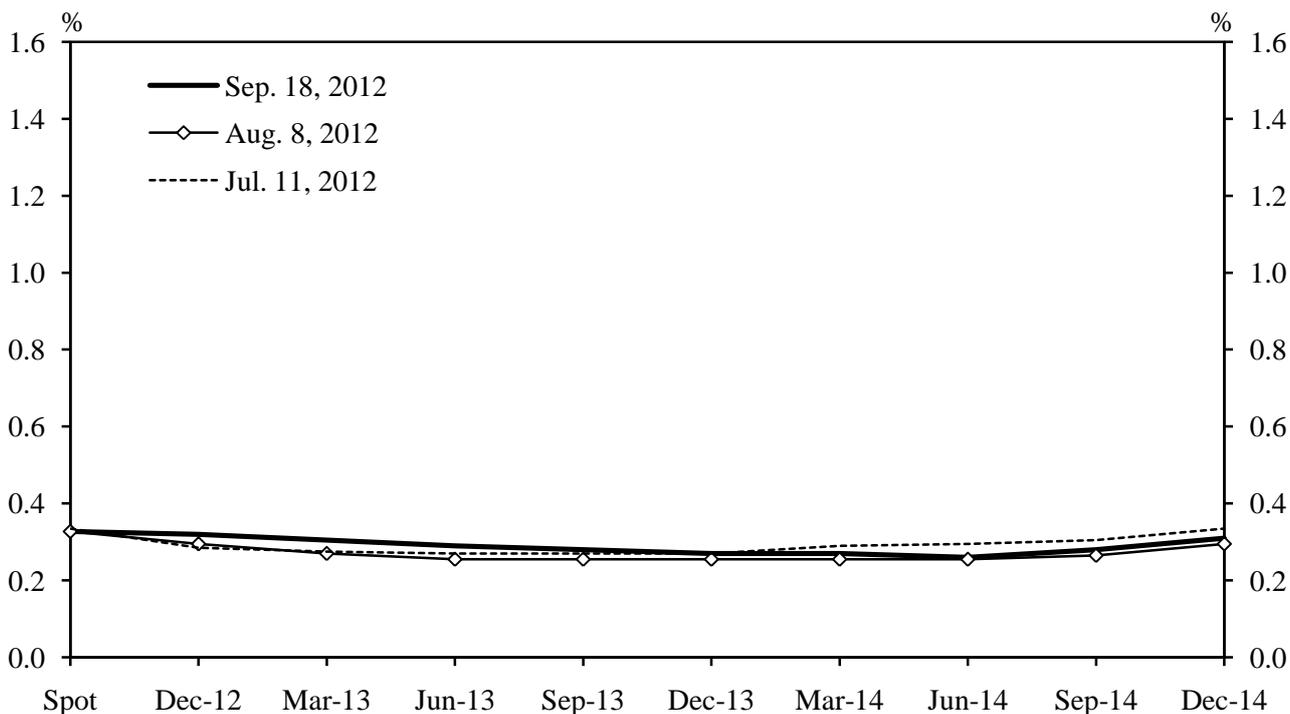
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



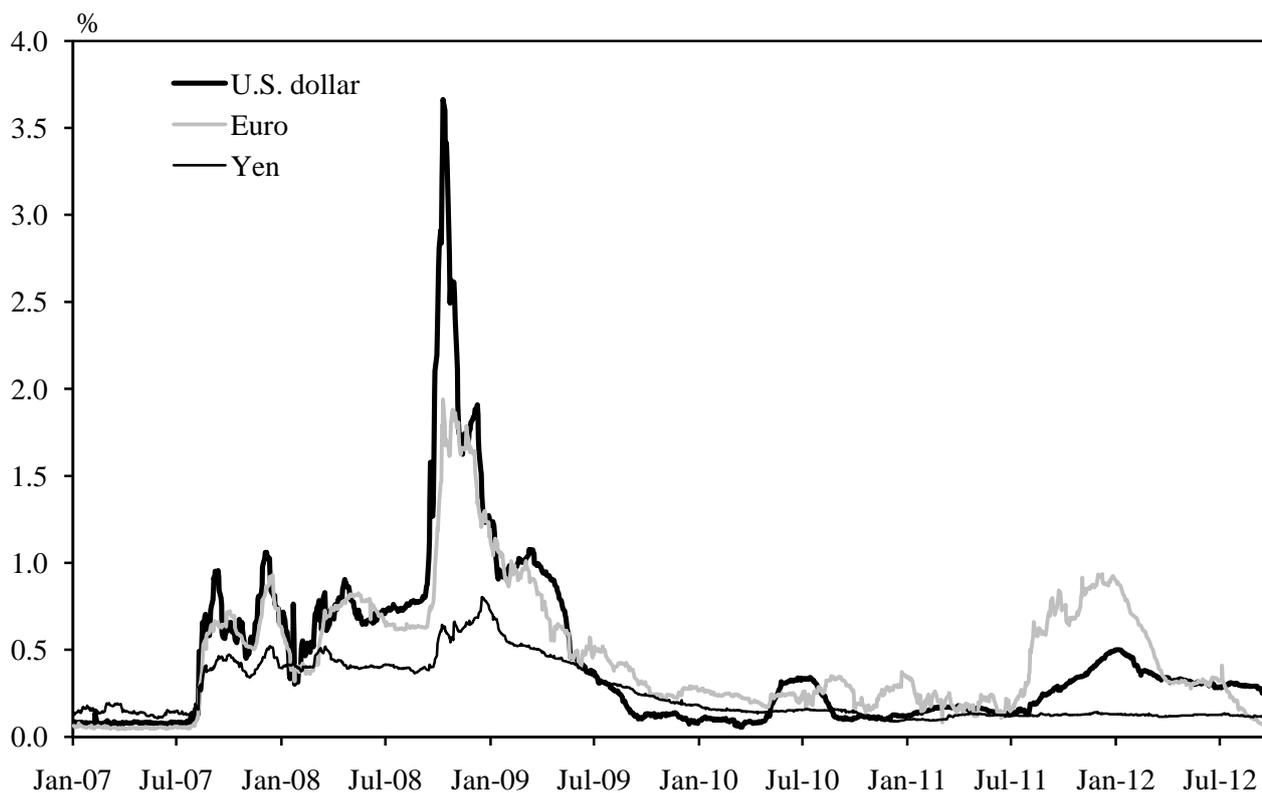
(2) Euroyen Interest Rate Futures (3-Month)



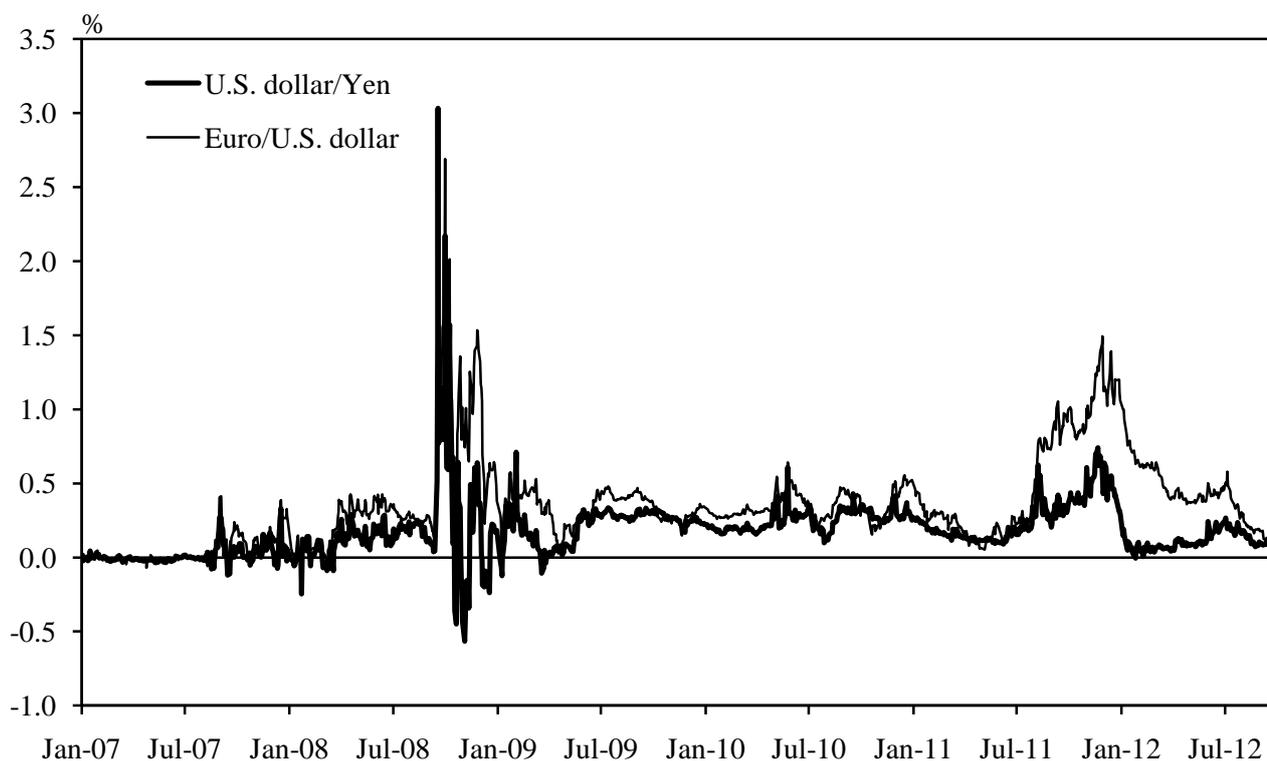
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.  
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;  
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



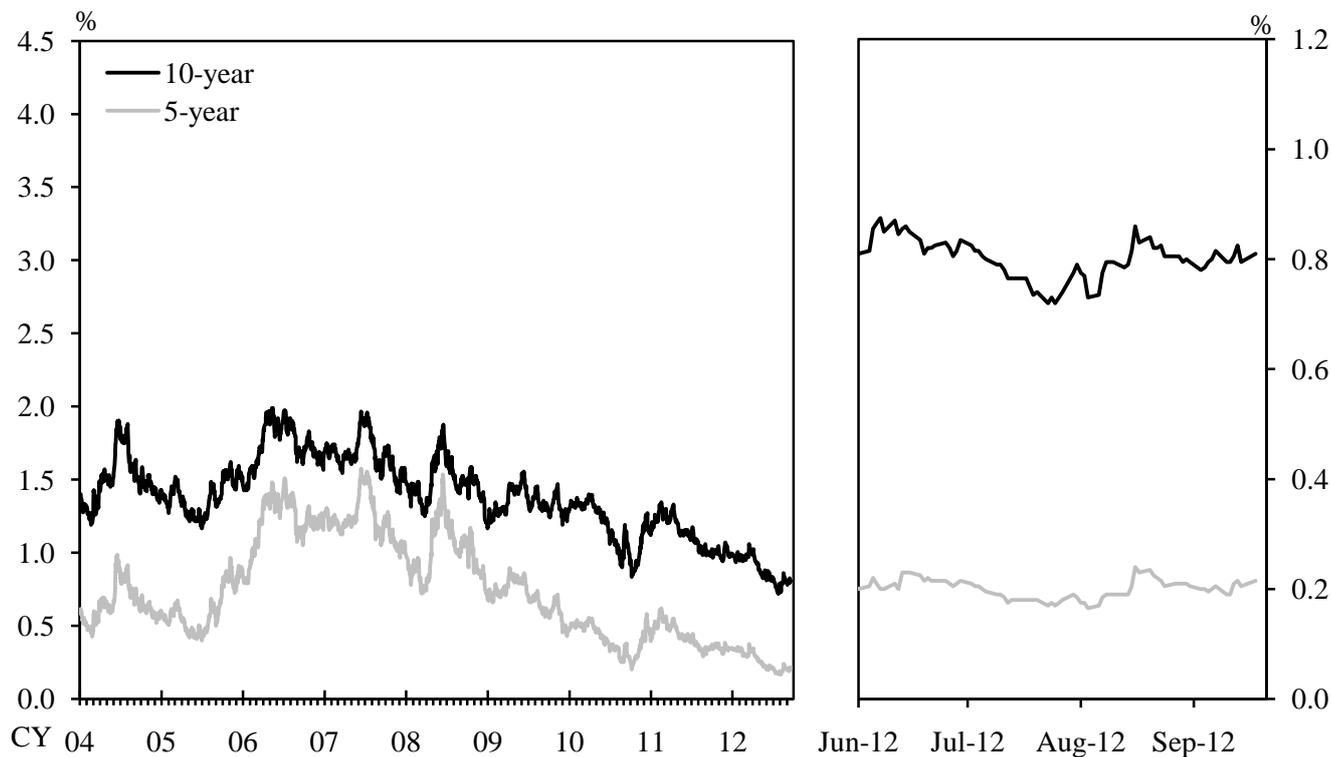
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



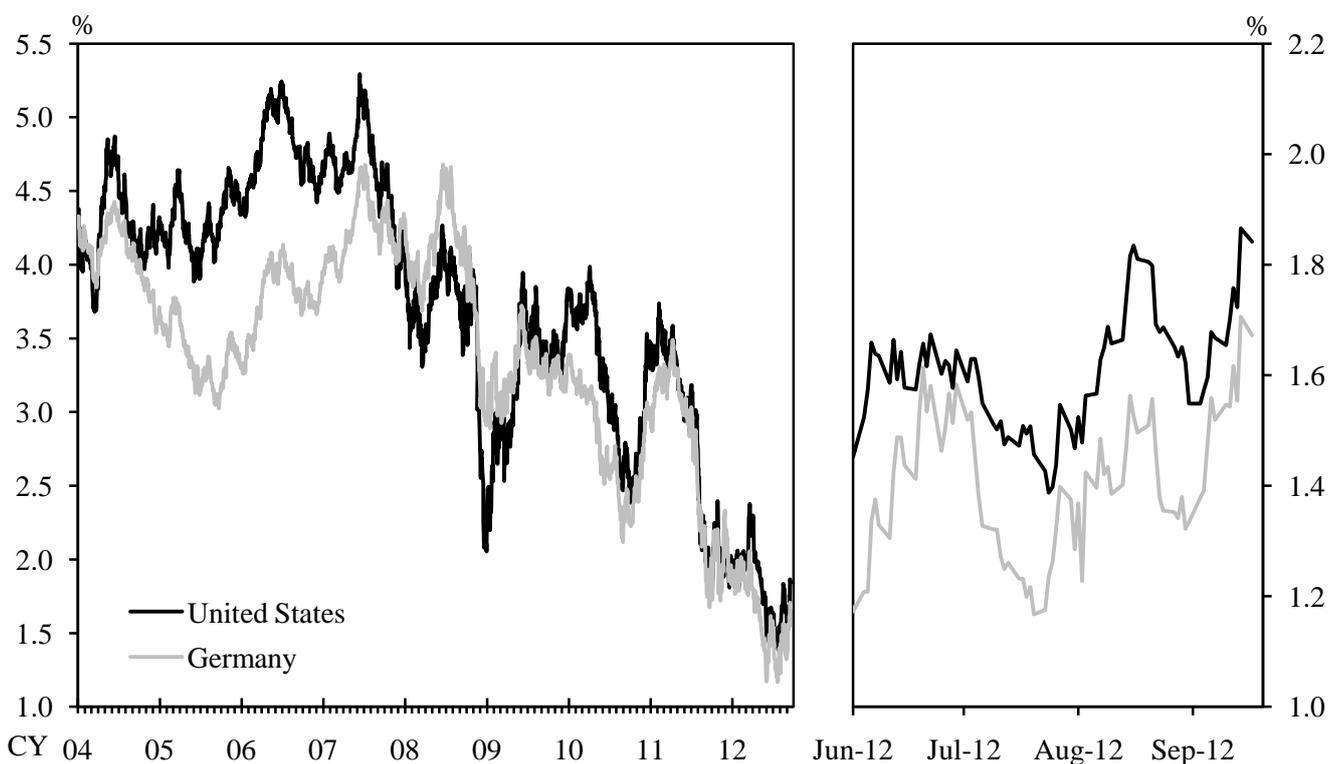
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields<sup>1</sup>



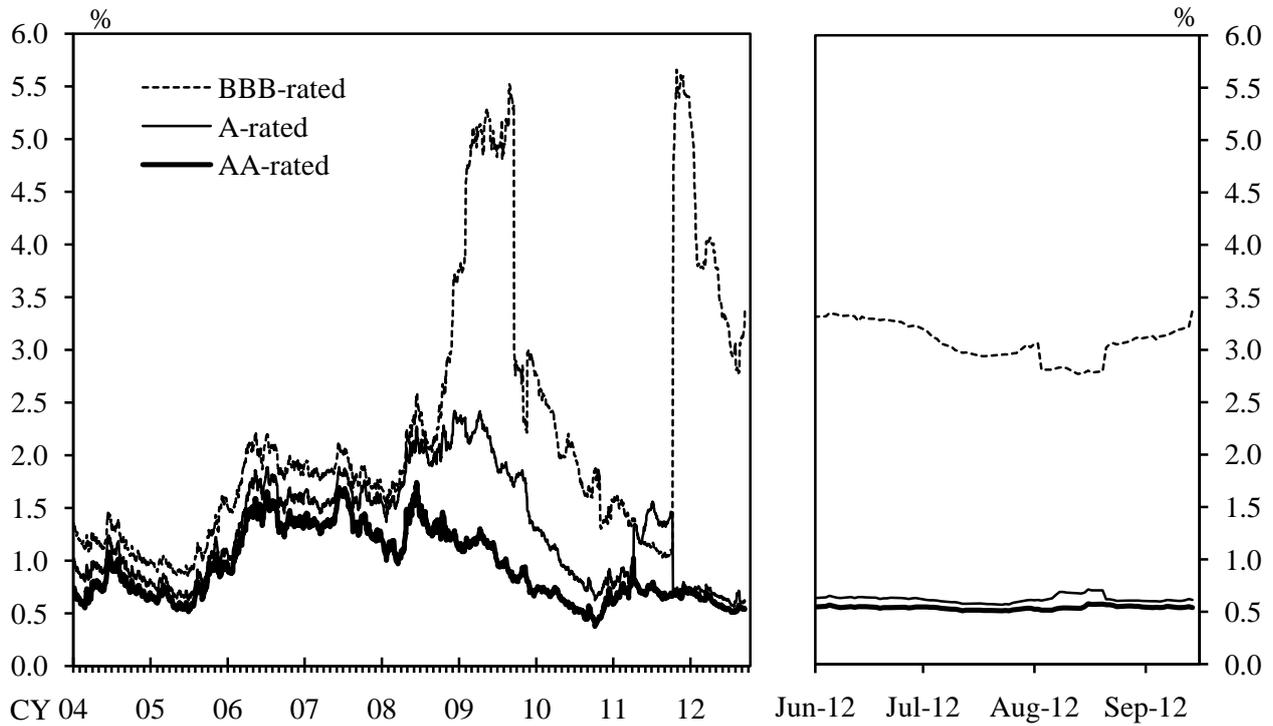
(2) Overseas Government Bond Yields (10-Year)



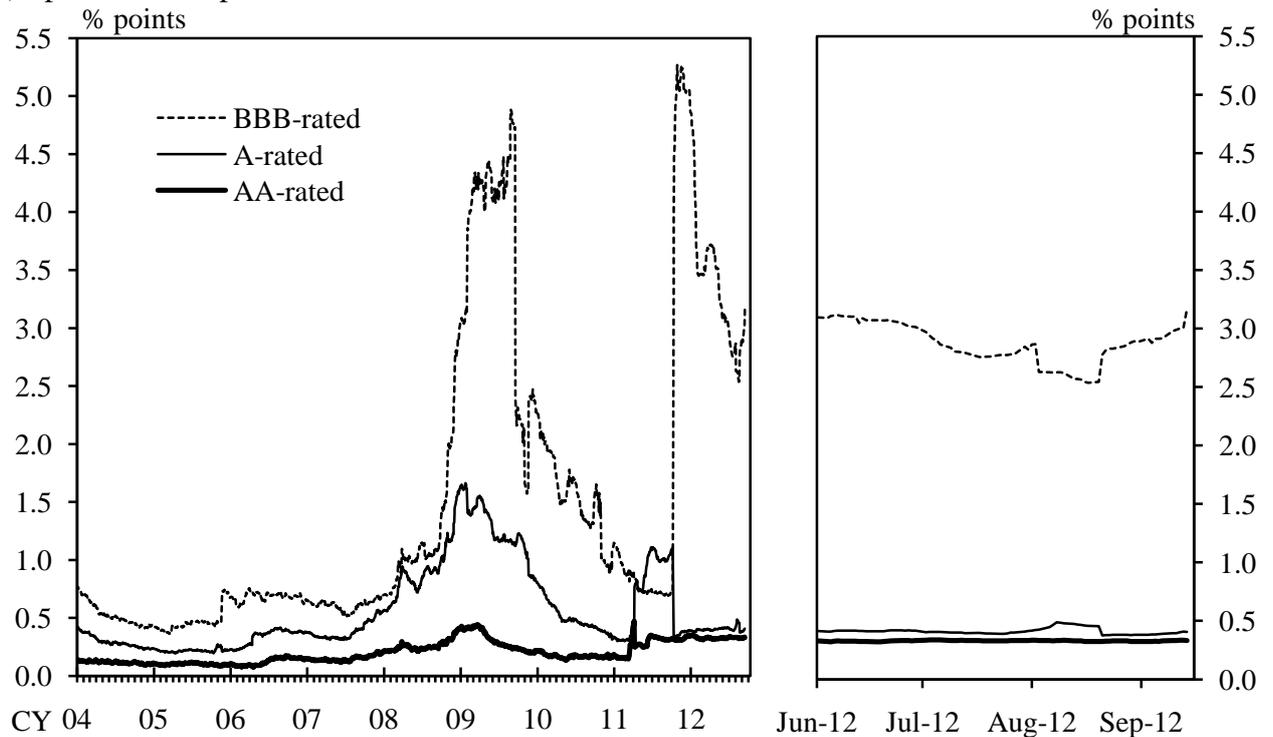
Note: 1. Yields on newly issued bonds.  
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields<sup>1,2</sup>



(2) Spreads of Corporate Bond Yields over Government Bond Yields<sup>1,2</sup>



Notes: 1. Yields on bonds with 5-year maturity.

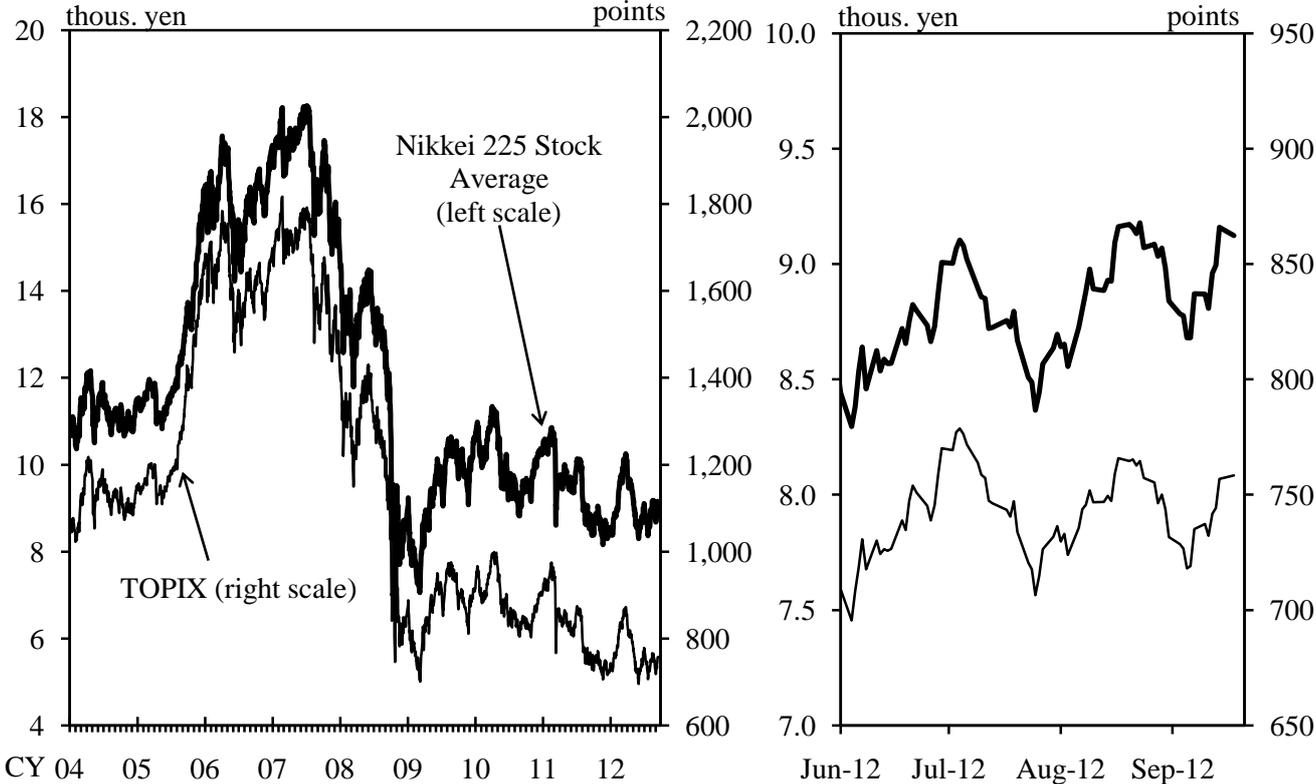
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

2. The indicated ratings are of Rating and Investment Information, Inc.

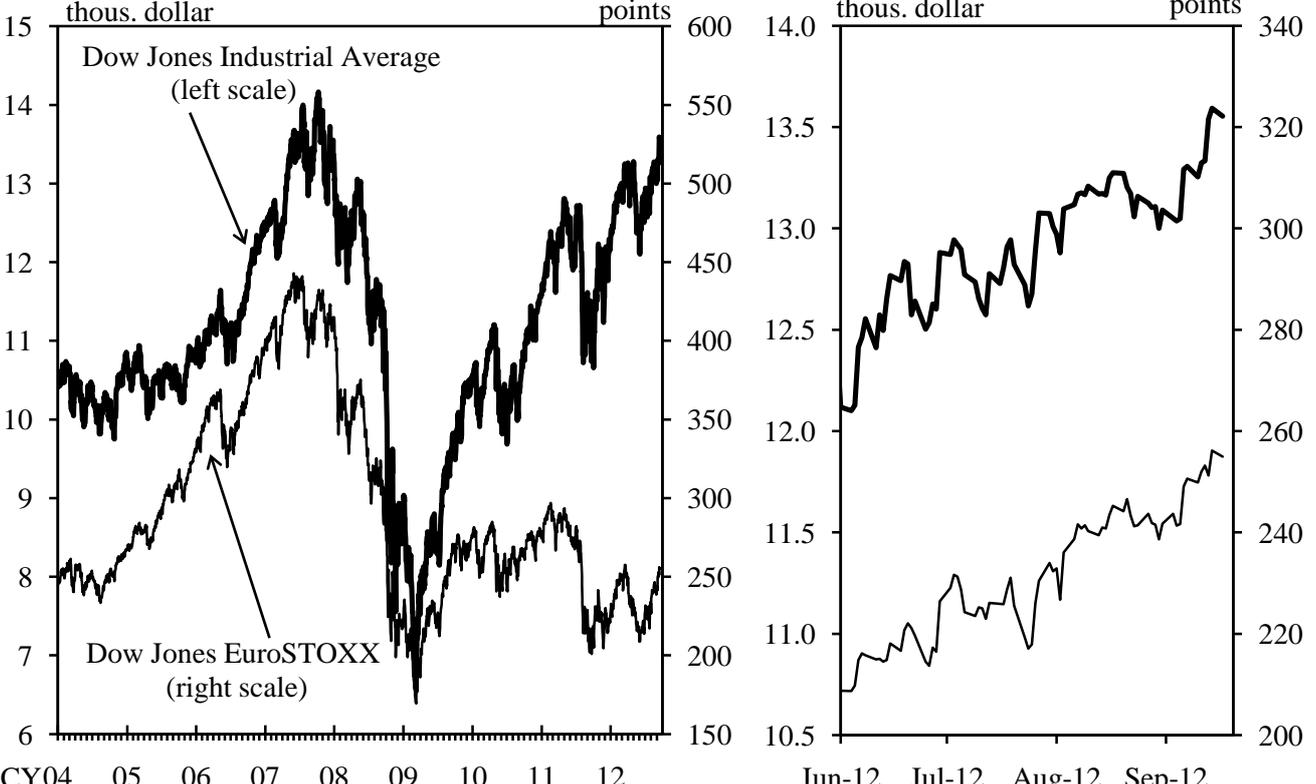
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



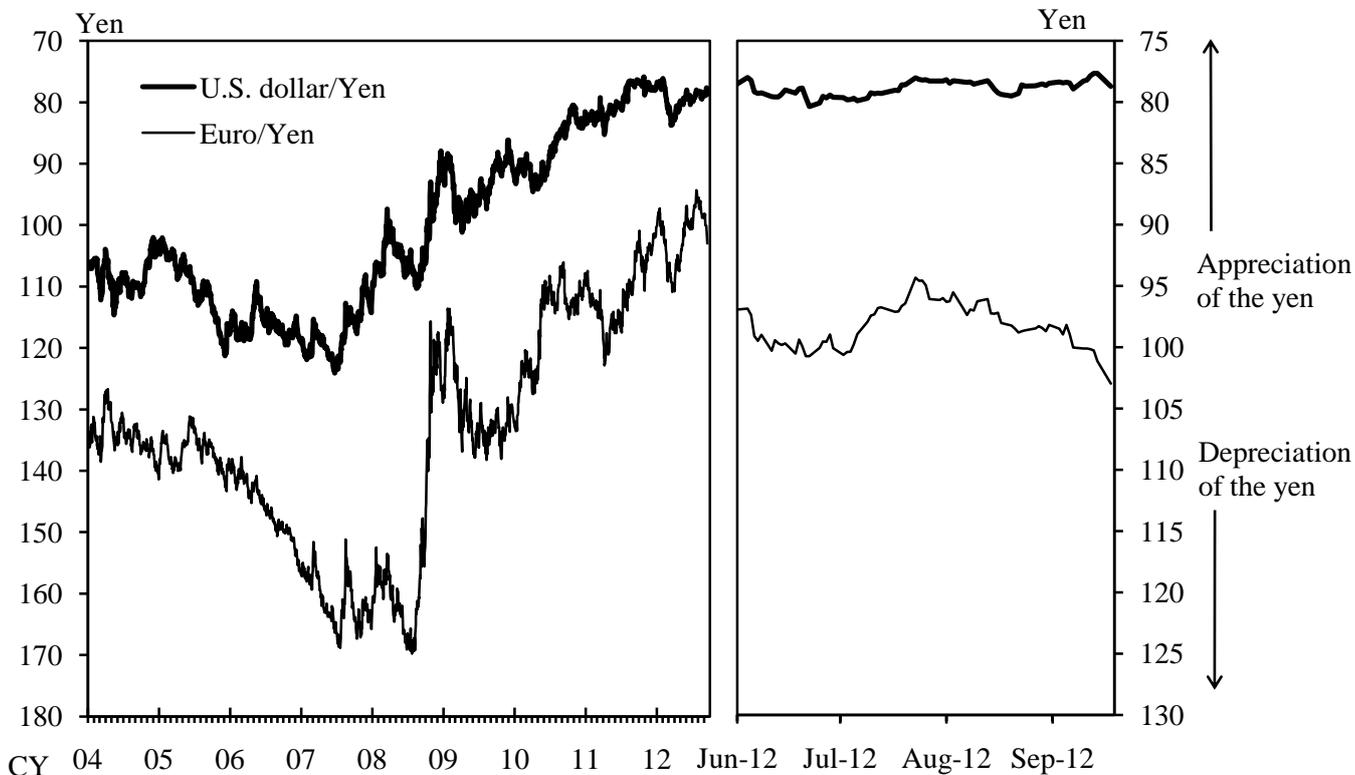
(2) Overseas Stock Prices



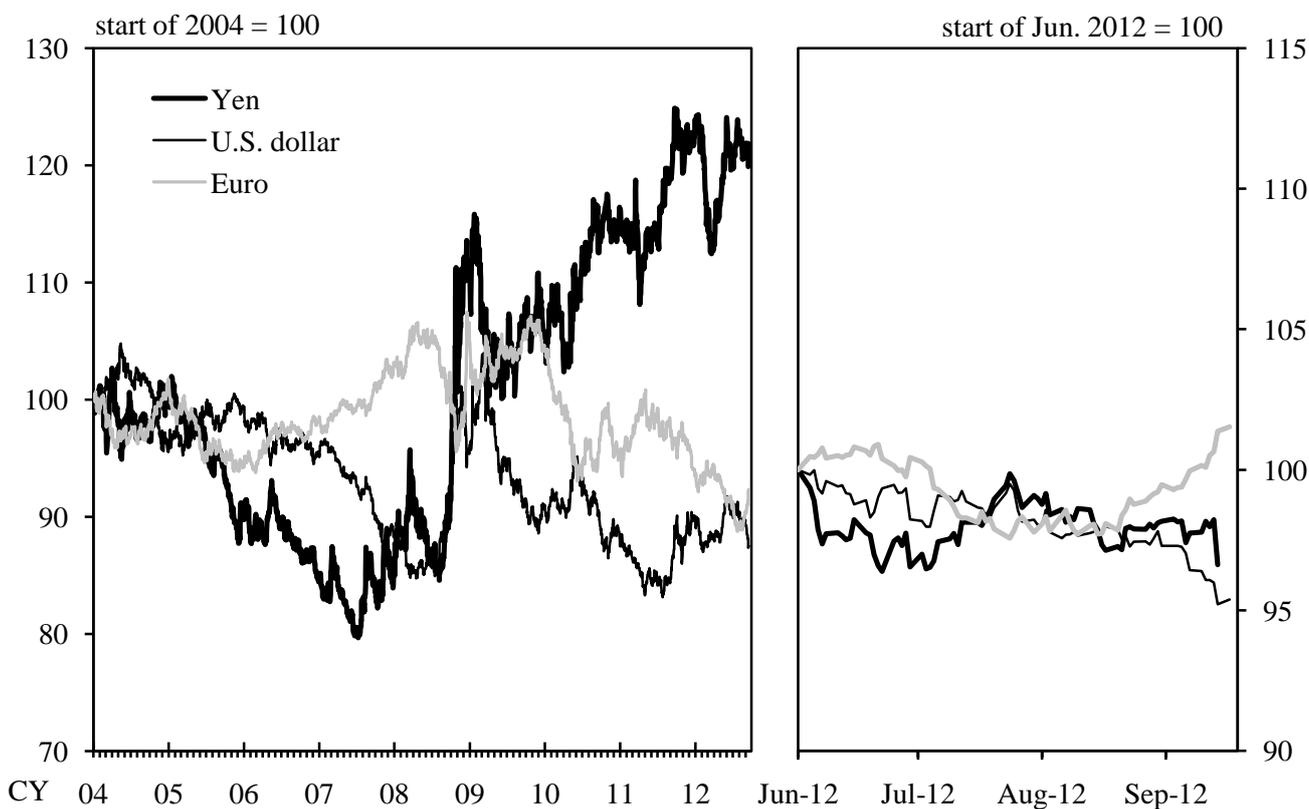
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



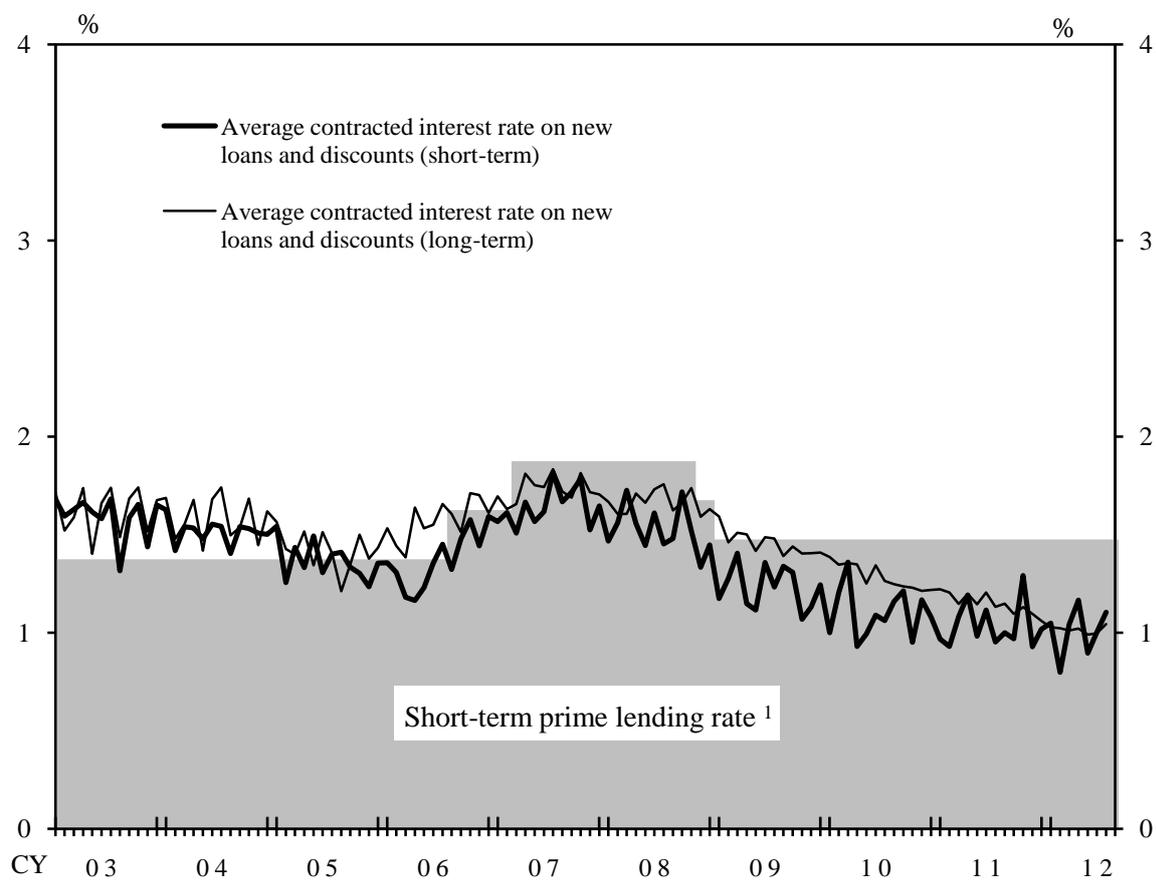
(2) Nominal Effective Exchange Rates



Sources: Bank of Japan; European Central Bank; Bloomberg.



## Lending Rates

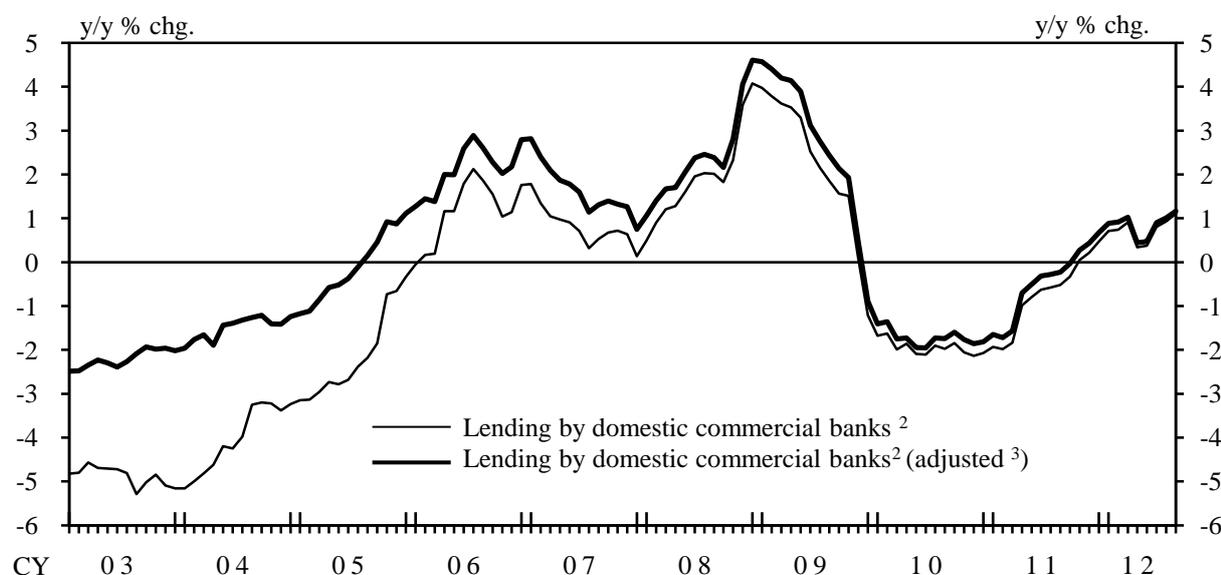


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

### (1) Lending by Domestic Commercial Banks<sup>1</sup>



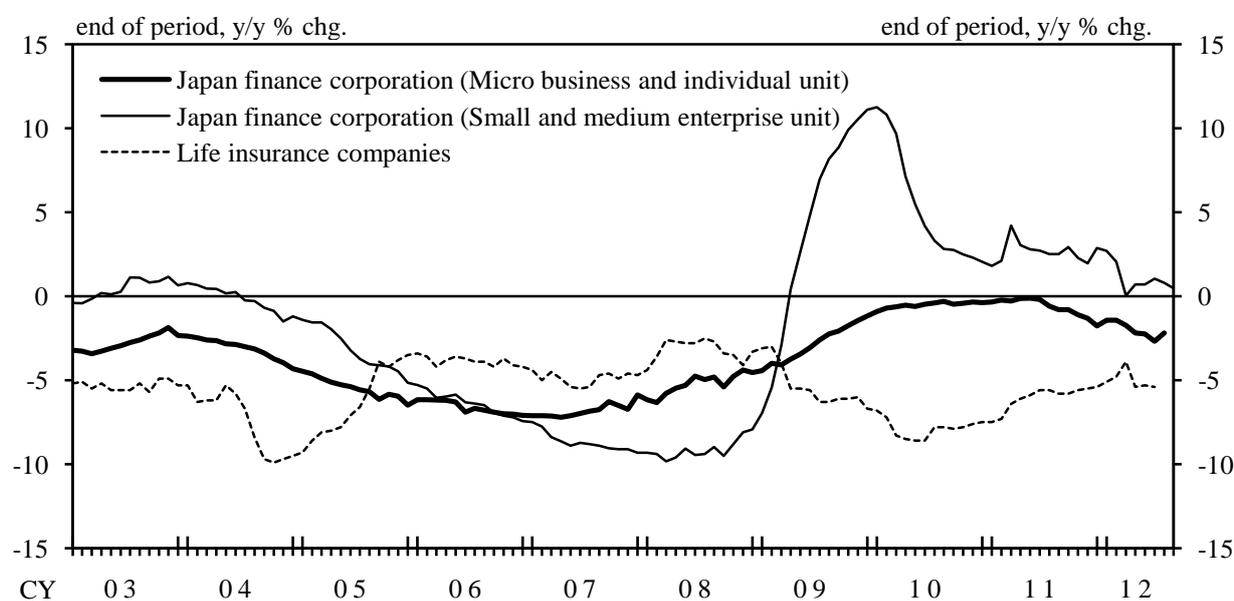
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to city banks, regional banks, 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.

### (2) Lending by Other Financial Institutions



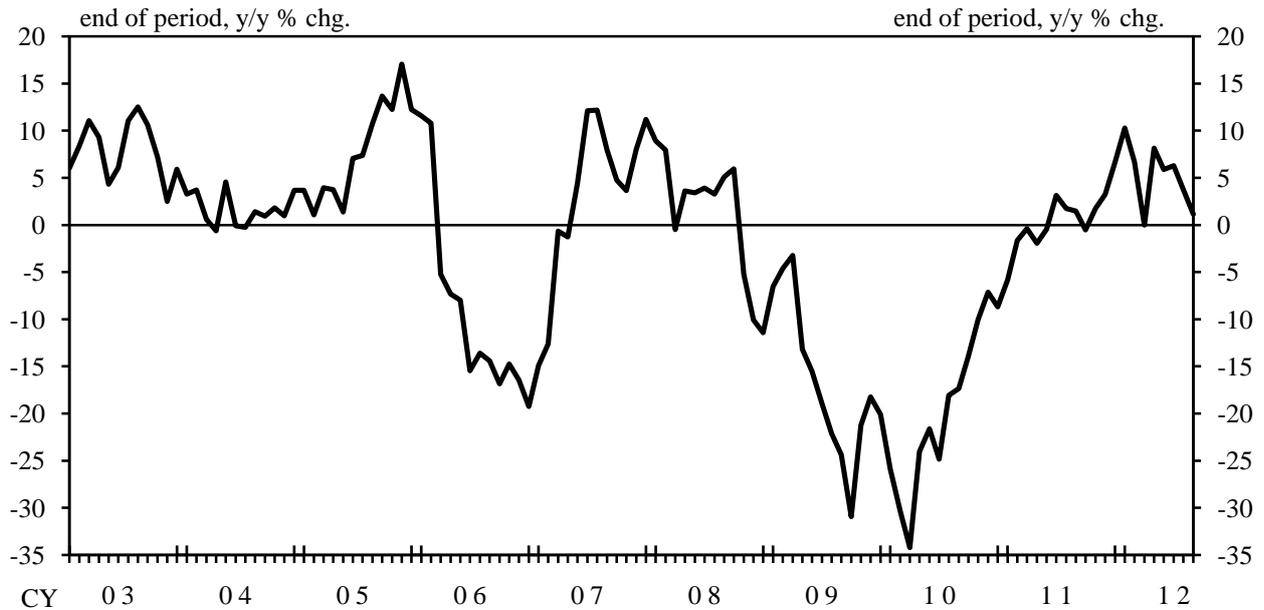
Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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 Private-Sector Fund-Raising in the Capital Markets
 

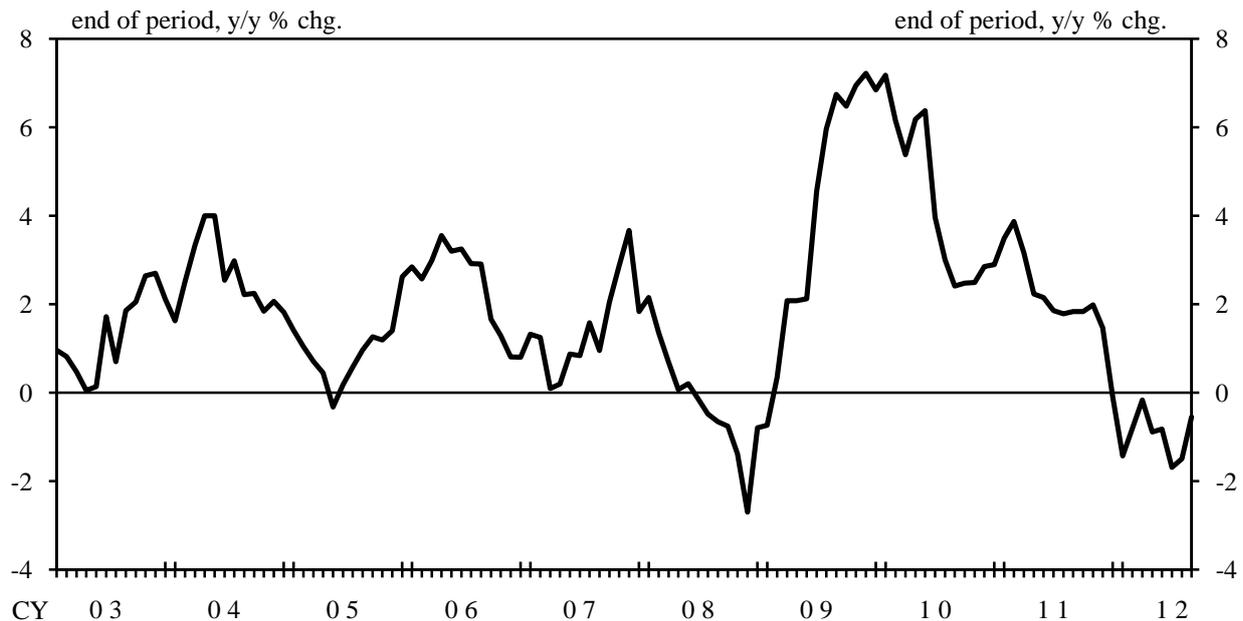
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## (1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures up to March 2008 are those compiled by the Bank of Japan.

## (2) Amount Outstanding of Corporate Bonds



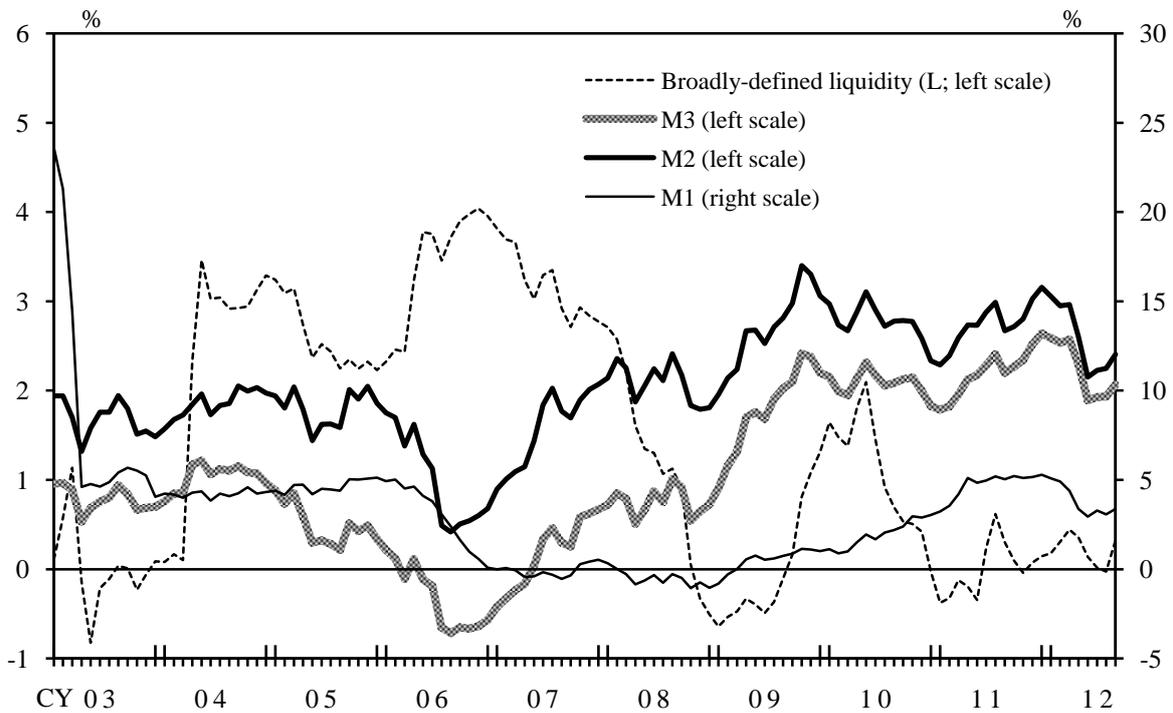
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

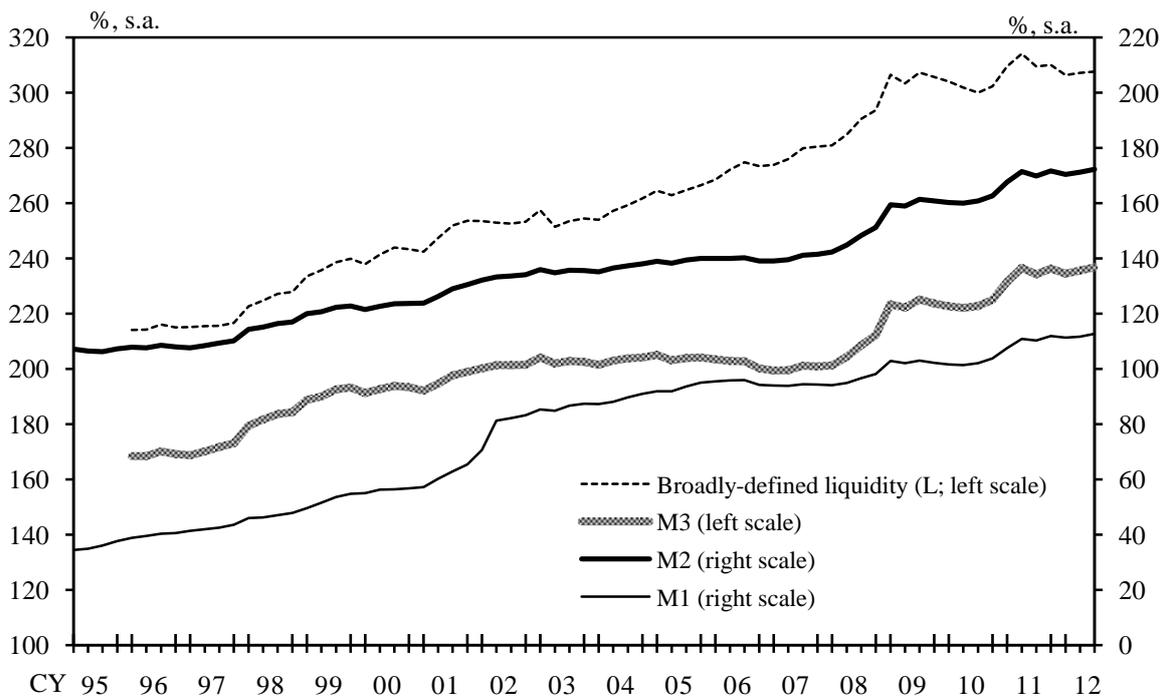
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";  
 Bank of Japan, "Principal Figures of Financial Institutions";  
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

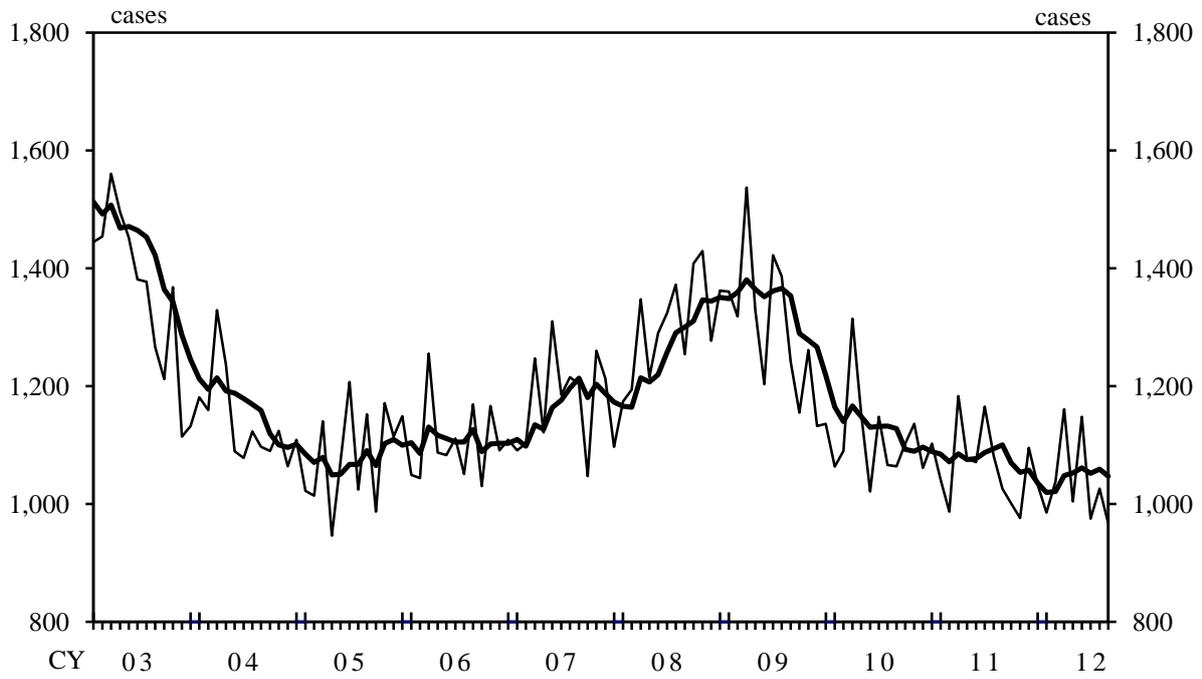


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
- 4. Figures for money stock in 2012/Q3 are those of Jul.-Aug. averages, and nominal GDP in 2012/Q3 is assumed to be unchanged from the previous quarter.

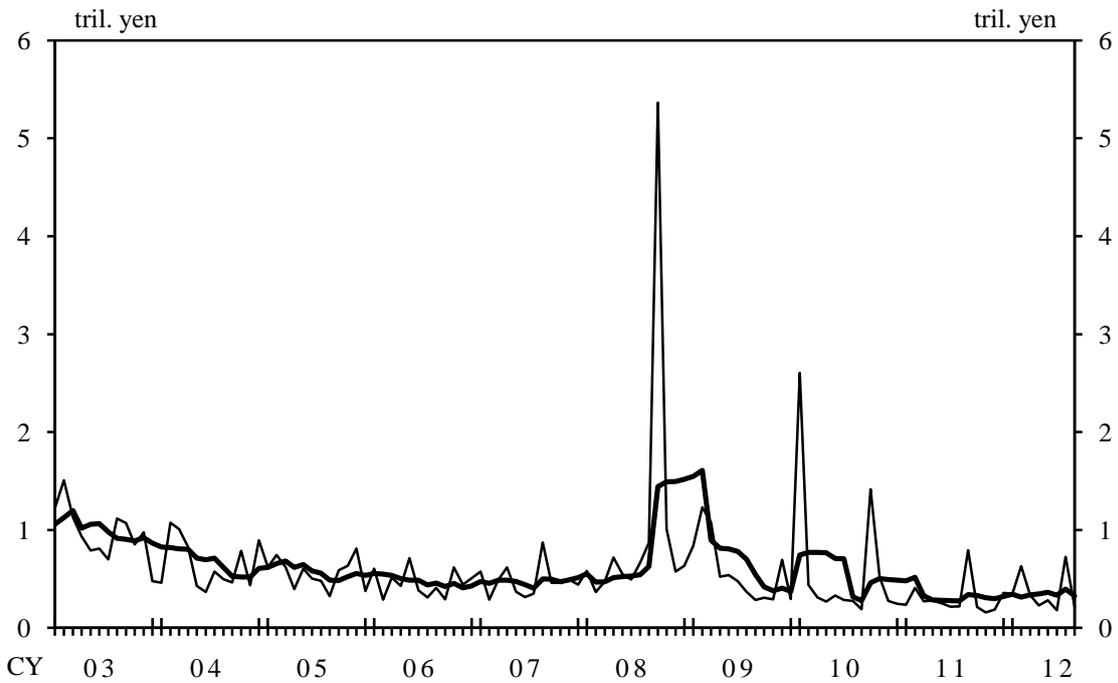
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."