

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

**December 21, 2012**

**Bank of Japan**

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

**December 2012**

**Summary**

Japan's economy has added somewhat weak movement.

Exports and industrial production have decreased mainly due to the fact that overseas economies remain in a deceleration phase. As a result, business sentiment—particularly that in manufacturing—has become cautious. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. Private consumption has remained resilient, despite lingering effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles. Meanwhile, public investment has continued to increase, and housing investment has generally been picking up.

With regard to the outlook, Japan's economy is expected to remain relatively weak for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient on the whole and overseas economies gradually emerge from the deceleration phase.

Exports and industrial production are expected to decrease at a reduced pace for the time being and start picking up thereafter as overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to continue increasing for the time being, albeit at a slower pace, and housing investment to continue to generally pick up, mainly supported by reconstruction-related demand. Business fixed investment is projected to remain relatively weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and

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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 December 19 and 20, 2012.

energy. Private consumption is expected to remain resilient as a trend, with the effects of the decline in car sales likely to wane.

Meanwhile, there remains a high degree of uncertainty about the global economy; 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 more or less flat. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

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

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

Financial conditions are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have 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 change in the amount outstanding of bank lending has been positive. The year-on-year rate of decrease in the amount outstanding of corporate bonds has slowed. In contrast, the year-on-year rate of change in that of CP has turned 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.