

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

January 23, 2013

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

January 2013

Summary

Japan's economy remains relatively weak.

Exports and industrial production have decreased, mainly due to the fact that overseas economies remain in a deceleration phase. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient and the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles have diminished.

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 partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase.

Exports 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 trending upward supported by the effects of various economic measures, and housing investment to continue to generally pick up. 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 energy. Private consumption is expected to remain resilient as a trend, with the effects of the decline in car sales continuing to diminish. As a

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on January 21 and 22, 2013.

reflection of these developments in demand both at home and abroad, industrial production is projected to stop decreasing and then start picking up.

Meanwhile, there remains a high degree of uncertainty about the global economy.

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 move slightly upward for the time being, reflecting movements in foreign exchange rates. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

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 change in the amount outstanding of corporate bonds has turned positive, whereas that of CP 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.