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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
February 2013**

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economy appears to stop weakening.

While overseas economies remain in a deceleration phase, they have shown some signs of picking up. In this situation, exports continue to decrease, but the pace of decrease has been moderating. 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 fallen off. Reflecting these developments in demand both at home and abroad, industrial production appears to stop decreasing.

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 stop decreasing and start picking up 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 somewhat 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. Under these circumstances, industrial production is projected to pick up gradually.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on February 13 and 14, 2013.

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 is rising moderately, reflecting movements in foreign exchange rates. 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 continue rising for the meantime. 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 increase in the amount outstanding of bank lending has risen somewhat. The year-on-year rate of change in the amount outstanding of corporate bonds has been positive and 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 2.5-3.0 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 move up in October-November compared with the third quarter, after having risen markedly in the third quarter on quarter-on-quarter basis (Chart 5). The value of public works contracted—a measure that reflects public orders—was more or less flat in the third and fourth quarters on a quarter-on-quarter basis, after having surged in the second quarter.

Public investment is expected to continue trending upward supported by the effects of various economic measures.²

Real exports continue to decrease, but the pace of decrease has been moderating (Charts 6[1] and 7). Real exports continued to decline in the fourth quarter on a quarter-on-quarter basis, after having registered a large decrease in the third quarter. On a monthly basis, however, they rose—albeit very slightly—in November for the first time in seven months, and posted only a tiny decline in December. Looking at exports in the fourth quarter on a quarter-on-quarter basis by region (Chart 7[1]), those to the United States continued to decline following those of the third quarter. Monthly data, however, show that they are bottoming out with increases observed for two months in a row in both November and December, since motor vehicles and their related goods resumed their increase, assisted by firm sales in the United States. Exports to the EU have continued to decrease markedly since the fourth quarter of 2011. Exports to East Asia remained relatively weak. As for those to China, monthly figures suggest that the decline in motor vehicles and their related goods has come to a halt, but the bottoming out of exports as a whole is yet to be confirmed. Meanwhile, exports to Others also continued to fall. By goods

² In the future, the effects of the economic measures—which are based on the reserve funds of fiscal 2012 and are already underway—will likely surface gradually. Moreover, should the supplementary budget for fiscal 2012, based on the emergency economic stimulus measures decided in January, be enacted and eventually executed, it is projected to push public investment upward to a considerable degree. In the budget for fiscal 2013, which was approved at the Cabinet meeting on January 29, a fairly large portion is allocated to public investment; the budget related to reconstruction—whose scope was originally requested for 19 trillion yen at the least for five years—was expanded to 25 trillion yen.

(Chart 7[2]), exports of motor vehicles and their related goods extended their decline for the third straight quarter on the whole, since those to China decreased sharply, although exports to the United States resumed their increase. On a monthly basis, however, they have been on the increase for three consecutive months since October; those to China have almost stopped declining as mentioned above. On the other hand, exports of capital goods and parts continued to decline to a wide range of regions. Exports of intermediate goods (chemicals; iron and steel products), mainly to East Asia, came down; those of consumer goods (digital cameras) also fell significantly, particularly to the EU and the United States. Meanwhile, exports of IT-related goods remained more or less flat on a quarterly basis, since they increased through November, notably in parts for new products of smartphones produced in East Asia, but fell back in December from these factors.

Real imports have recently stopped trending upward (Charts 6[1] and 9). Real imports—which had been on an uptrend through the third quarter, albeit with fluctuations—fell sharply in the fourth quarter on a quarter-on-quarter basis. Looking at movements in imports by goods (Chart 9[2]), those of raw materials fell back sharply in the fourth quarter on a quarter-on-quarter basis, mainly from the upsurge in September which was caused by a rush in demand prior to the introduction of the Carbon Tax. Imports of intermediate goods and those of capital goods and parts fell, against the backdrop of the decline in domestic industrial production as well as relatively weak business fixed investment particularly in manufacturing. Meanwhile, imports of IT-related goods continued to move upward, chiefly in smartphones.

The pace of decline in net exports—in terms of the real trade balance—has been moderating as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus in the fourth quarter somewhat reduced its level as a whole compared with the third quarter, since the nominal goods and services balance deficit somewhat increased, while the income balance surplus was almost flat (Chart 6[2] and [3]).

Regarding the environment surrounding exports, while overseas economies remain in a deceleration phase, they have shown some signs of picking up (Chart

8[2]). Looking at movements by major region, the European economy has continued to recede slowly, as the negative effects of the debt problem have spilled over from periphery countries to core countries. Meanwhile, the Chinese economy has seen an increase in infrastructure investment as well as signs of bottoming out in exports. Affected by these movements, the NIEs and ASEAN economies have also shown signs of bottoming out in their exports and production. Meanwhile, the U.S. economy has been on a moderate recovery trend, supported by the household sector as the employment situation continues its improving trend and as the downward pressure from balance sheet adjustments is lifted gradually; business fixed investment—which had been restrained—has also begun to show signs of picking up. As for the exchange rate, the yen has depreciated against both the U.S. dollar and euro; in terms of the real effective exchange rate, the yen has fallen to levels last observed in the summer of 2008 just before the Lehman shock (Chart 8[1]).

Overseas economies are expected to gradually emerge from the deceleration phase and start a moderate recovery. The aforementioned movements in foreign exchange rates are also projected to underpin exports in the future. However, a high degree of uncertainty remains about overseas economies. The European economy has continued to recede as a whole; this sluggishness in the European economy will provide grounds for the global economy to decelerate for an extended period through channels of trade, foreign investment, and worsening business sentiment. As for the Chinese economy, the loose supply and demand conditions may also prevail mainly because the supply of raw materials and other goods seems to have exceeded demand as a result of increased business fixed investment, while it is expected to emerge from its deceleration phase. The U.S. economy has been on a moderate recovery trend, but uncertainty regarding the outlook for fiscal policies remains. In relation to this, as for the IT-related sector, the upward impetus from new products—which seems to have pushed domestic production and exports of IT-related goods upward to a considerable degree—has started to dissipate lately. Final demand of this sector as a whole has yet to show noticeable improvement, and thus future developments in overall final demand, including developments in demand for conventional products such as PCs, continue to require close monitoring. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy has become less visible with automobile-related exports to China having almost bottomed out as well

as the effects of the decline in the number of Chinese visitors to Japan having started to wane.

Taking the above into consideration, exports are expected to stop decreasing and start picking up as overseas economies gradually emerge from the deceleration phase. Imports are projected to be more or less flat for the time being, and then to trend moderately upward along with the pick-up in industrial production, against the backdrop of resilient domestic demand. As a reflection of these developments in exports and imports, net exports are projected to be more or less flat for the time being and then gradually resume their moderate uptrend.

Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. Meanwhile, in manufacturing, fixed investment has declined affected by the decrease in exports and industrial production. The aggregate supply of capital goods—a coincident indicator of machinery investment—rose substantially in December alone, assisted mainly by a jump in shipments of large machinery, whereas on a quarterly basis, they were down in the fourth quarter on a quarter-on-quarter basis following a sharp decline in the third quarter, after having increased in the second quarter (Chart 10[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—rose in the fourth quarter, after having declined for two consecutive quarters since the second quarter (Chart 11[1]). By industry, machinery orders of manufacturing continued to fall in the fourth quarter on a quarter-on-quarter basis, following the decline in the second and third quarters. In contrast, those of nonmanufacturing (excluding orders for ships and those from electric power companies) registered a relatively large increase in the fourth quarter on a quarter-on-quarter basis, after having been more or less level in the second and third quarters. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued to move upward in the fourth quarter on a quarter-on-quarter basis, after having increased for three consecutive quarters through the third quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing were almost flat in the third quarter on a quarter-on-quarter basis, after having fallen back in the second quarter from the upsurge in the first quarter, but

they declined significantly in the fourth quarter. On the other hand, those of nonmanufacturing continued to climb in the fourth quarter on a quarter-on-quarter basis, following quarter-on-quarter increases in the second and third quarters.

Regarding the environment surrounding business fixed investment, developments in corporate profits show that they have continued to be steady on the whole, notably in domestic demand-oriented sectors, although the deceleration in overseas economies has affected manufacturing. Corporate profits are projected to continue a mild improving trend on the whole, supported by resilient domestic demand as well as movements in foreign exchange rates, although the effects of the deceleration in overseas economies and other factors will remain in manufacturing for the time being.

Taking the above into consideration, business fixed investment is projected to remain somewhat 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 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 fallen off (Charts 12 and 13[2]). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—has been more or less level since the second quarter, albeit with some fluctuations. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations has continued to pick up, after having fallen significantly following the ending of subsidies for purchasing energy-efficient cars; the effects of the decline have fallen off with its level recovering to that just before the ending of subsidies for purchasing energy-efficient cars aided partly by the introduction of new models in January. Sales of household electrical appliances in real terms have been more or less flat as a whole, albeit with fluctuations, since sales of smartphones, tablet devices, and white goods installed with energy-saving devices were firm, whereas those of televisions and PCs were sluggish. Sales at department stores were resilient on average, although they fell back in December from the rise in October and November, notably in apparel, affected by lower temperatures (Chart 14[1]). Sales at supermarkets continued to climb in

December, due in part to price increases in perishables caused by lower temperatures, after having shown movements similar to those of department stores in October and November. Meanwhile, sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 14[2]), outlays for travel dipped in early fall, chiefly in overseas travel (bound for China and South Korea), but they have been picking up slightly since November, boosted partly by calendar factors. Sales in the food service industry—which had been declining toward the middle of last year—remained relatively high in the fourth quarter, after having picked up in August-September.

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—was virtually flat in the fourth quarter, following a decline in the third quarter, after having advanced for four quarters in a row through the second quarter (Chart 13[1]).³ Similarly, the total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) was almost level in the fourth quarter, following a decline in the third quarter, after having increased for four straight quarters through the second quarter.

Indicators related to consumer confidence—which have plateaued since last fall—have recently headed toward improvement (Chart 15).

Private consumption is expected to remain resilient as a 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: it rose markedly in the fourth quarter, affected by a rush in demand prior to the expiration of some policy measures

³ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

to enhance home purchasing,⁴ after having been almost level in the third quarter following an increase for two consecutive quarters through the second quarter (Chart 16[1]).

Housing investment is expected to continue to generally pick up.

Industrial production appears to stop decreasing (Chart 17). In both the released-base index and the adjusted-base index,⁵ production, on a quarterly basis, continued to move down in the fourth quarter, after having declined for two quarters in a row since the second quarter. Looking at recent movements on a month-on-month basis, however, production has almost stopped decreasing on average as it rose again in December despite the fall in November, after having risen in October for the first time in four months. Looking at production in the fourth quarter by industry, that of transport equipment (such as passenger cars) declined sharply on a quarterly basis, as production for the domestic market decreased with the ending of subsidies for purchasing energy-efficient cars and also as exports to China dropped sharply as a reflection of the bilateral relationship between Japan and China. Monthly movements, however, show that it seems to have stopped declining and started picking up, assisted partly by steady exports to the United States as downward pressure from the above factors has been easing. Production of electronic parts and devices turned substantially upward in the fourth quarter, mainly in preparation for new products, but monthly movements reveal that this upward pressure has begun to wane. As for general machinery, production has still trended downward as a reflection of developments in business fixed investment at home and abroad, even though it rebounded in December alone, mainly in semiconductor products machinery. Meanwhile, production of ceramics, stone and clay products held steady, due in part to reconstruction-related demand.

⁴ As for the eco-point system for housing, the eligible construction starting period for houses to receive eco-points ended on October 31; applications for the preferential interest rate measures for the Flat 35S have also closed as of those received on October 31.

⁵ 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).

Shipments have also stopped decreasing (Chart 19[1]). Looking at the trend in shipments by goods (Chart 18), those of durable consumer goods have started to bottom out on the whole, affected by the gradual pick-up in motor vehicles. Shipments of producer goods have recently turned marginally upward overall, since those for motor vehicles (such as motor vehicle parts) headed for improvement in light of elevated shipments of some electronic parts and devices for new products. Shipments of capital goods, reflecting movements in business fixed investment at home and abroad, have remained on a downtrend, although they have bounced back somewhat sharply of late, mainly in semiconductor products machinery. Meanwhile, shipments of non-durable consumer goods have continued to increase moderately. Shipments of construction goods have advanced recently, primarily in photovoltaic modules, despite large monthly fluctuations.

Inventories are still at a relatively high level compared with shipments, although they have recently moved downward (Chart 19[1]). Inventories have declined lately, after having been more or less flat on average following the upsurge toward last spring. By industry, those of transport equipment were down as shipments have started to pick up. Inventories of electronic parts and devices were almost flat, partly due to the progress in preparation for new products. Meanwhile, inventories of general machinery including engineering and construction machinery have remained at relatively high levels against the backdrop of somewhat weak business fixed investment at home and abroad. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has remained well above that in shipments (Chart 19[3]). By goods, as for producer goods, growth in inventories of electronic parts and devices has been almost aligned with that in shipments, but other producer goods has continued to see its shipment-inventory balance somewhat deteriorate mainly since overseas demand has yet to improve markedly. As for capital goods, the shipment-inventory balance has continued to deteriorate, mainly due to sluggish demand in response to developments in business fixed investment at home and abroad. On the other hand, the shipment-inventory balance of construction goods has recently improved slightly, assisted by the increase in shipments.

Industrial production is expected to pick up gradually, in line with improvements in exports, as overseas economies gradually emerge from the deceleration phase. Based on anecdotes by firms and other information, regarding the first quarter, electronic parts and devices are expected to fall back from the substantial increase in the fourth quarter, chiefly for new products, whereas transport equipment is projected to turn upward, since the effects of the decline following the ending of subsidies for purchasing energy-efficient cars and cutbacks in products bound for China will wane amid steady exports to the United States. As for iron and steel as well as chemicals, it is expected that products for domestic motor vehicles will recover and those for exports will increase as a reflection of recent movements in foreign exchange rates. Production of general machinery is projected to keep declining, although at a reduced pace. As a result, industrial production as a whole is also expected to stop decreasing.

The employment and income situation has continued to be severe and the improvement in supply and demand conditions in the labor market has continued to peak out.

As for supply and demand conditions in the labor market, the unemployment rate has trended downward from a somewhat long-term perspective, but it has been almost level since last summer (Chart 20). New job openings have inched downward as a whole with manufacturing such as transport equipment showing some weakness affected by previous production cutbacks, but they recently seem to have started to bottom out. In response to these movements, the active job openings-to-applicant ratio—which ceased to improve and was down slightly—has most recently shown signs of bottoming out. Non-scheduled hours worked had been on a moderate downtrend since around last summer, mainly in manufacturing, while nonmanufacturing has been resilient on the whole, but it has started to bottom out lately.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* has registered a slight positive on average, despite extremely large monthly fluctuations (Chart 21[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis;

by industry, however, manufacturing has posted negative. 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 well below the pre-earthquake level, but the previous downtrend has recently come to a pause.

The year-on-year rate of change in total cash earnings per employee has declined marginally (Chart 21[2]). Looking in detail, scheduled cash earnings have posted a slight negative, since the ratio of part-time employees has trended upward and also since the number of hours worked of part-time employees remained somewhat weak. On the other hand, non-scheduled cash earnings have continued to register a year-on-year negative, but the rate of decline has narrowed gradually in response to movements in the number of hours worked. Meanwhile, special cash earnings paid during the November-December period—which mostly represents winter bonuses—remained somewhat sluggish similar to that of last summer and marked a decrease on a year-on-year basis, as a reflection of the previous lackluster business performance.⁶

The year-on-year rate of change in employee income has stayed at almost 0 percent as a trend, with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages. Recently, however, employee income has registered a slight negative, weighed down by special cash earnings (Chart 21[3]).

As for the outlook regarding employee income, the previous lackluster business performance will exert downward pressure for the time being, but after that, the improvement is expected to become gradually evident as the pick-up in economic activity and business performance becomes noticeable.

⁶ Winter bonuses correspond to the November-January aggregates of special cash earnings in the *Monthly Labour Survey*. Looking at the monthly weights in terms of the actual figures for fiscal 2011, winter bonuses comprise about 5 percent of special cash earnings made in November, 92 percent in December, and 3 percent in January.

2. Prices

International commodity prices have moved slightly upward (Chart 23[1] and [3]). With investors having become less risk-averse mainly in anticipation of a recovery in the global economy, prices of crude oil and of nonferrous metals have moved slightly upward lately. On the other hand, prices of grains have recently been almost flat, after having lowered their levels as anxiety over supply as a result of the unseasonable weather was reduced.

The three-month rate of change in import prices (on a yen basis) has increased, reflecting movements in foreign exchange rates (Chart 23[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) is rising moderately, reflecting movements in foreign exchange rates (Chart 24[2]).⁷ The three-month rate of change was positive 0.6 percent in January, after having marked an increase of 0.1 percent in November and December. Looking in detail at domestic corporate goods price movements in January, prices of "goods sensitive to exchange rates and overseas commodity prices" including petroleum & coal products, as well as those of "other materials" including chemicals & related products, accelerated their rate of increase, primarily due to recent movements in foreign exchange rates. Prices of "iron & steel and construction goods"—which had continued to be negative—became level as a reflection of the recent rise in those of scrap & waste. Meanwhile, prices of "electric power, gas & water" remained negative from the lingering effects of the decline in crude oil prices toward the middle of last year.

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has recently marked a slight negative (Chart 25). As for developments on a year-on-year basis, corporate services prices continued to decline, although they fell at a somewhat reduced pace at

⁷ 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 power charges are set relatively high during July-September, when electric power consumption increases substantially.

negative 0.4 percent in December, following a decline of 0.5 percent in November. Looking in detail at corporate services price movements in December, prices related to "selling, general and administrative expenses" reduced their year-on-year pace of decline, notably in advertising services. Prices related to "real estate," notwithstanding some fluctuations, are considered to be reducing their year-on-year pace of decline as a trend, albeit very mildly. Meanwhile, prices related to "fixed investment" have continued to increase marginally, particularly in civil engineering and architectural services, whereas "IT-related" prices have continued to decrease, due to price declines in leasing and rentals of equipment.

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 (Chart 26[1]). In December, consumer prices, in terms of all items less fresh food, stood at negative 0.2 percent, and those on a basis that excludes food and energy posted negative 0.6 percent; both prices accelerated their rate of decline by 0.1 percentage point. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has continued to stop improving since the middle of last year, but from a somewhat long-term perspective, it has been on a moderate improving trend (Chart 27[2]).⁸ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 27[1]).⁹

Looking in detail at consumer price movements over the past few months, fees for public services have been on the rise, as a reflection of movements in prices of electricity and automotive insurance premium. On the other hand, prices for goods have been on the decline, partly since prices of food products have been relatively sluggish while negative contributions from durable goods continue, even though prices of petroleum products have added positive impetus. Prices of general services

⁸ 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.

⁹ 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.

also continued to decline marginally, mainly in rent. Taking a closer look at price movements in December, prices of goods (excluding agricultural, aquatic and livestock products) somewhat narrowed their rate of decline as a whole, mainly due to the slower pace of decline in durable goods with prices of petroleum products continuing to make positive contributions similar to last month, even though the year-on-year rate of decline in food products expanded. Fees for public services continued to reduce their rate of increase, mainly since prices of electricity and of gas (manufactured & piped) reduced their rate of increase due to the decline in crude oil prices toward the middle of last year. Prices of general services fell at an accelerated pace overall, since prices of hotel charges turned negative and internet connection charges were lowered, despite the fact that package tours to overseas showed the same movements as last month with fuel surcharges having exerted upward pressure, whereas the effects of calendar factors (three consecutive holidays in November) dissipated.

Domestic corporate goods prices are expected to continue rising for the meantime. 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.

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) declined marginally and has been below the 0.1 percent level. The Euroyen interest rate (3-month) has recently trended downward at a very mild pace. Interest rates on Euroyen futures have fallen very marginally, primarily in those with distant contracts (Chart 28). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 29).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved slightly upward, amid firm Japanese stock prices and the increase in U.S. long-term interest rates; they are currently moving at around 0.75 percent (Chart 30).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 31).

Stock prices have risen mainly due to the depreciation of the yen, in light of the increase in U.S. stock prices. The Nikkei 225 Stock Average is currently moving in the range of 11,000-11,500 yen (Chart 32).

In the foreign exchange market, the yen has depreciated against the U.S. dollar, partly because speculation about policies and Japan's trade deficit have been regarded as reasons to sell the yen, amid the rise in U.S. interest rates; it is currently moving in the range of 93-94 yen against the U.S. dollar (Chart 33). In these circumstances, the yen has depreciated against the euro; the yen is currently moving in the range of 125-126 yen against the euro.

(2) Corporate Finance and Monetary Aggregates

Firms' funding costs have been hovering at low levels, 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 also been low (Chart 35).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 34). Issuing conditions for CP and corporate bonds have 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, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 36). The year-on-year rate of change in the amount outstanding of corporate bonds has been positive and that of CP has been negative (Chart 37).

In these circumstances, firms have retained their recovered financial positions on the whole (Chart 34). The number of corporate bankruptcies has remained at a low level (Chart 39).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been positive within the range of 2.5-3.0 percent. Its January reading was 2.7 percent on a year-on-year basis, following 2.6 percent in December (Chart 38).¹⁰

¹⁰ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of change has been positive within the range of 2.0-2.5 percent; its January reading was 2.3 percent, following 2.2 percent in December. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been within the range of 1.0-1.5 percent; it increased by 1.4 percent in January, following an increase of 1.1 percent in December.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2012/Q2	Q3	Q4	2012/Oct.	Nov.	Dec.	2013/Jan.
Index of consumption expenditure level (two-or-more-person households)	2.3	-1.4	-0.9	1.6	-1.5	0.6	n.a.
Sales at department stores	1.0	-1.7	p 1.8	1.2	3.1	p -3.6	n.a.
Sales at supermarkets	-1.6	-0.8	p 1.7	0.6	2.0	p 0.9	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 310>	< 282>	< 263>	< 246>	< 266>	< 276>	< 313>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-5.8	4.1	p 3.8	-1.9	-5.4	p 11.9	n.a.
Outlays for travel	3.2	-4.5	-0.0	-1.1	4.9	0.6	n.a.
Housing starts <s.a., ann. 10,000 units>	< 88>	< 88>	< 91>	< 97>	< 91>	< 88>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-4.1	-1.1	2.0	2.6	3.9	2.8	n.a.
Manufacturing	-5.8	-3.2	-3.9	-3.6	3.9	3.0	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	0.0	0.1	6.3	2.8	6.2	-8.0	n.a.
Construction starts (private, nondwelling use)	0.3	8.1	4.2	-11.0	2.6	10.3	n.a.
Mining & manufacturing	-20.4	0.1	-10.0	-22.2	3.3	14.3	n.a.
Nonmanufacturing ⁵	4.7	9.0	10.3	-4.5	1.2	8.3	n.a.
Value of public works contracted	9.2	-0.1	1.2	18.5	-12.6	11.1	n.a.
Real exports	4.1	-6.0	-5.4	-2.9	0.2	-0.4	n.a.
Real imports	3.3	0.9	-5.9	-9.7	2.2	-1.3	n.a.
Industrial production	-2.0	-4.2	p -1.9	1.6	-1.4	p 2.5	n.a.
Shipments	-0.2	-5.4	p -2.0	-0.1	-0.8	p 4.4	n.a.
Inventories	0.0	0.3	p -2.4	-0.1	-1.2	p -1.1	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 123.6>	< 130.4>	<p 126.4>	< 127.6>	< 127.2>	<p 126.4>	<n.a.>
Real GDP	-0.2	-1.0	-0.1	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	-0.5	n.a.	0.2	-0.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2012/Q2	Q3	Q4	2012/Oct.	Nov.	Dec.	2013/Jan.
Active job openings-to-applicants ratio <s.a., times>	< 0.81>	< 0.82>	< 0.81>	< 0.80>	< 0.80>	< 0.82>	<n.a.>
Unemployment rate <s.a., %>	< 4.4>	< 4.2>	< 4.2>	< 4.2>	< 4.1>	< 4.2>	<n.a.>
Non-scheduled hours worked ⁶	4.0	-0.9	p -2.8	-3.1	-2.2	p -3.1	n.a.
Number of employees	-0.3	0.5	0.1	0.6	0.3	-0.7	n.a.
Number of regular employees ⁶	0.9	0.6	p 0.7	0.7	0.6	p 0.7	n.a.
Nominal wages per person ⁶	-0.5	-0.7	p -1.0	-0.4	-0.8	p -1.4	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-1.0 <-0.2>	-1.9 <-1.0>	-0.8 < 0.2>	-1.0 < 0.3>	-0.9 < 0.1>	-0.7 < 0.1>	p -0.2 <p 0.6>
Consumer price index ⁸	0.0	-0.2	-0.1	0.0	-0.1	-0.2	n.a.
Corporate services price index ⁹	0.1	-0.1	p -0.5	-0.6	-0.5	p -0.4	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	2.4	2.4	2.3	2.3	2.1	2.6	p 2.7
Number of corporate bankruptcies <cases per month>	<1,042>	<975>	<963>	<1,035>	<964>	<890>	<934>

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

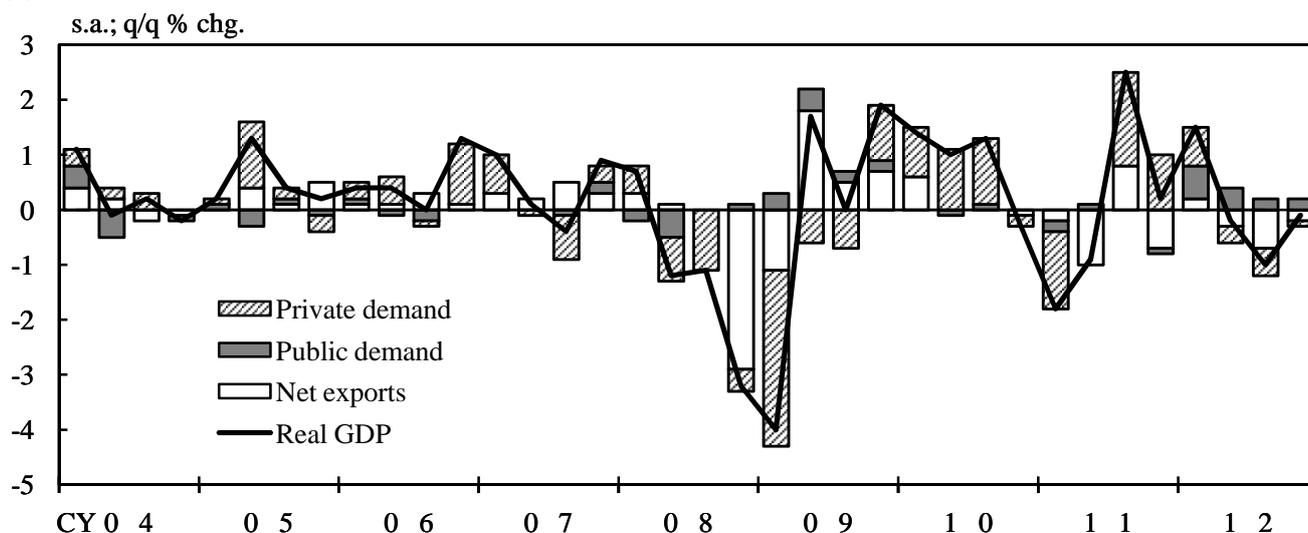
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



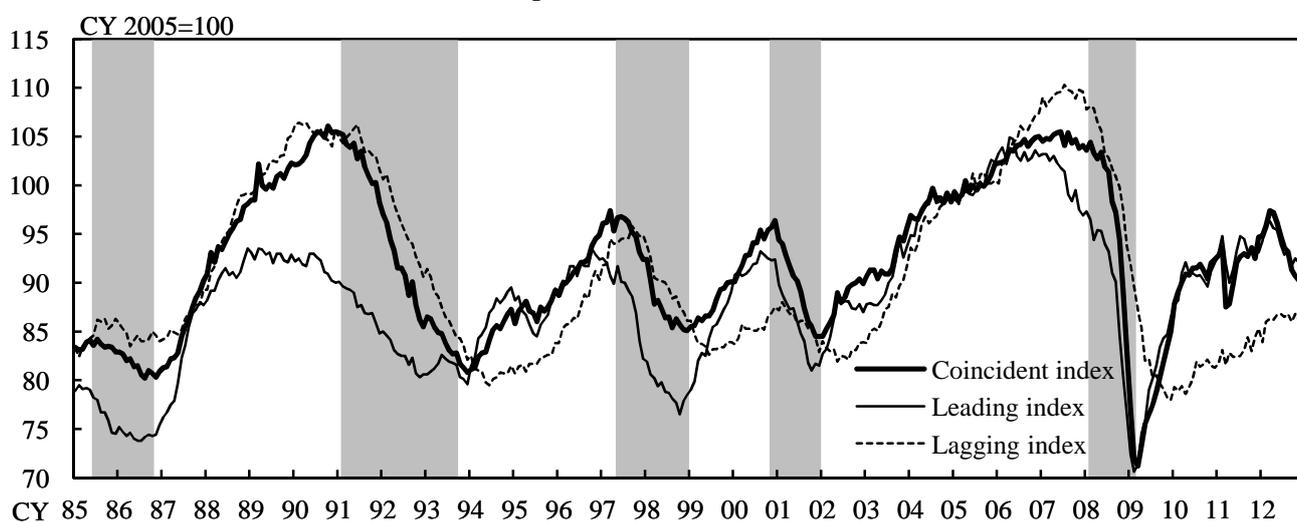
(2) Components

s.a.; q/q % chg.

	2011	2012			
	Q4	Q1	Q2	Q3	Q4
Real GDP	0.2	1.5	-0.2	-1.0	-0.1
[Annual rate]	[0.6]	[6.0]	[-1.0]	[-3.8]	[-0.4]
Domestic demand	0.9	1.3	0.0	-0.3	0.1
Private demand	1.0	0.7	-0.3	-0.5	-0.1
Private consumption	0.3	0.7	0.0	-0.3	0.3
Non-Resi. investment	1.1	-0.4	-0.0	-0.5	-0.3
Residential investment	-0.0	-0.0	0.1	0.0	0.1
Private inventory	-0.4	0.4	-0.4	0.3	-0.2
Public demand	-0.1	0.6	0.4	0.2	0.2
Public investment	-0.1	0.4	0.3	0.1	0.1
Net exports of goods and services	-0.7	0.2	-0.3	-0.7	-0.2
Exports	-0.5	0.5	0.0	-0.8	-0.5
Imports	-0.3	-0.3	-0.3	0.1	0.4
Nominal GDP	-0.1	1.4	-0.5	-1.1	-0.4

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

(3) Indexes of Business Conditions (Composite Indexes)

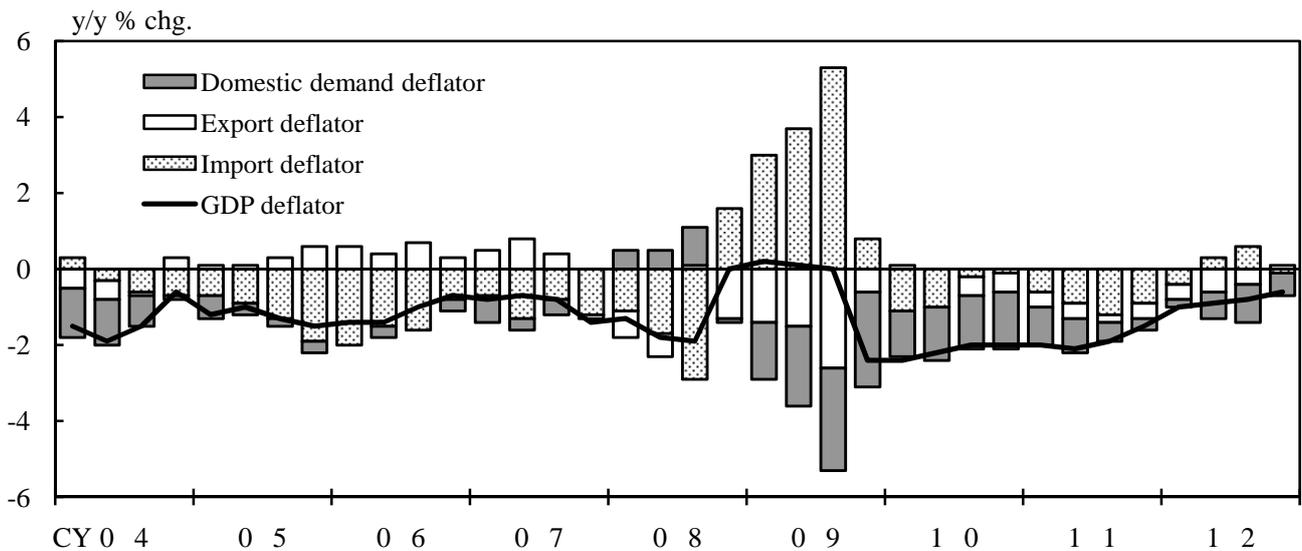


Note: Shaded areas indicate recession periods.

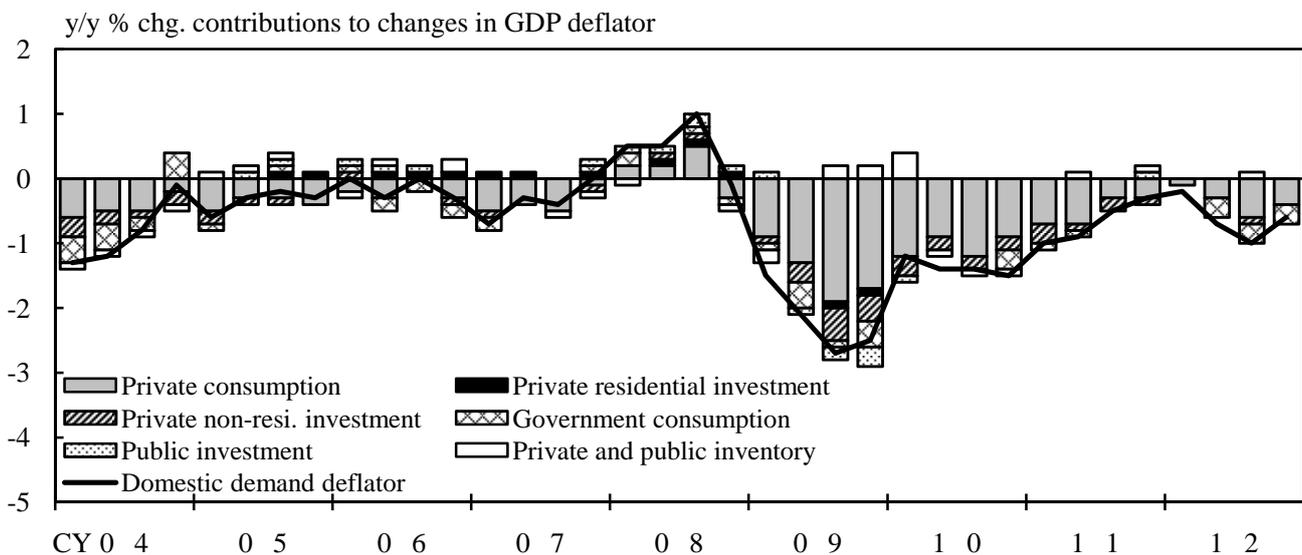
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

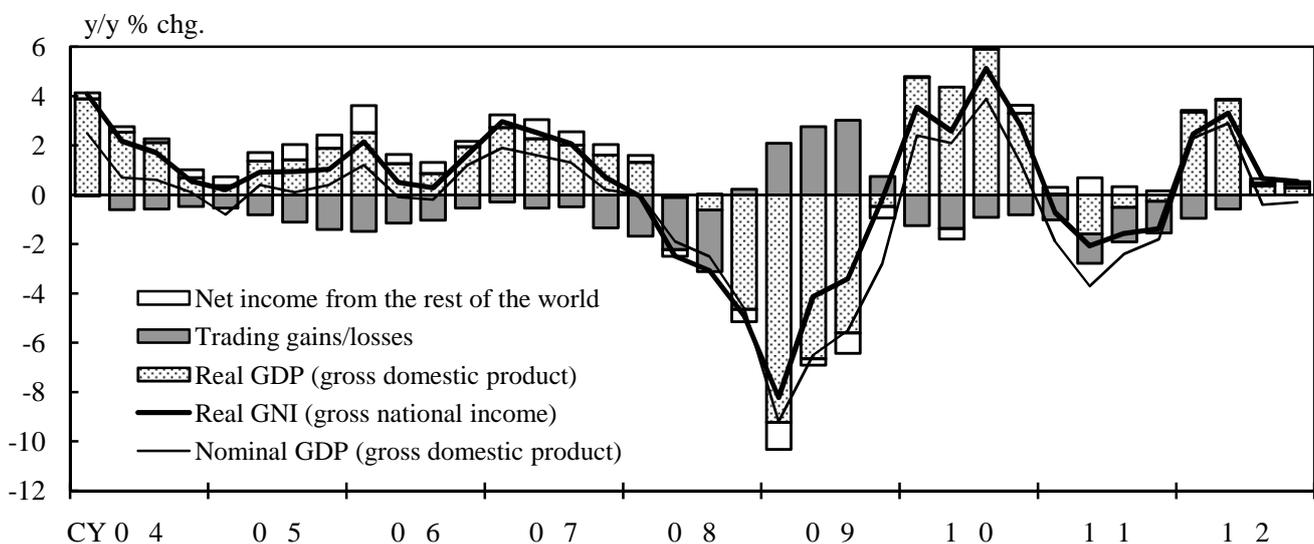
(1) GDP Deflator



(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

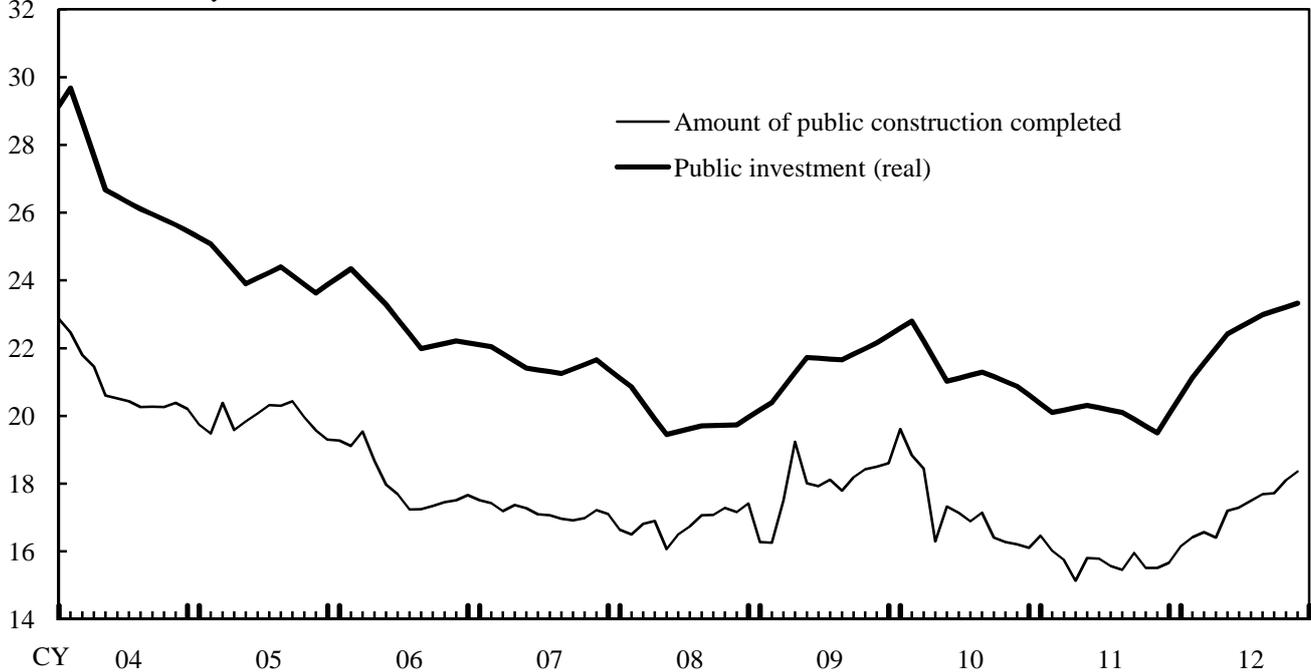
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment

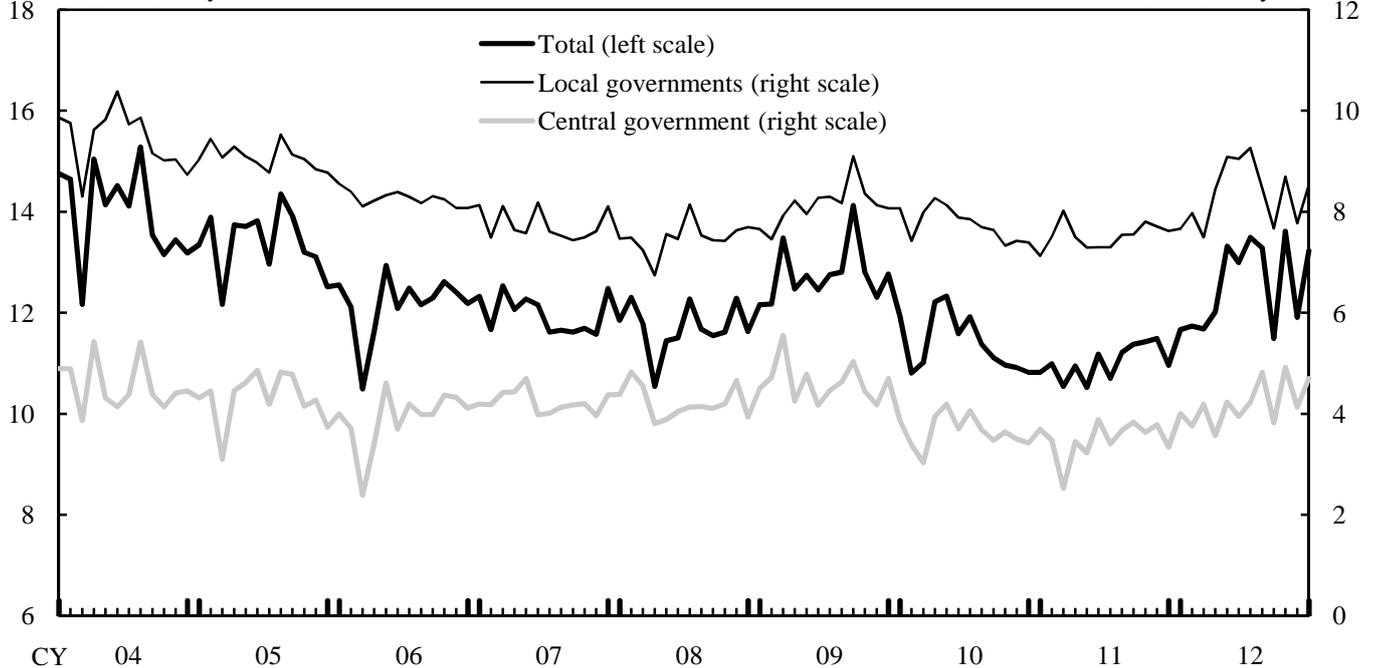
s.a., ann., tril. yen



(2) Value of Public Works Contracted

s.a., ann., tril. yen

s.a., ann., tril. yen



Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

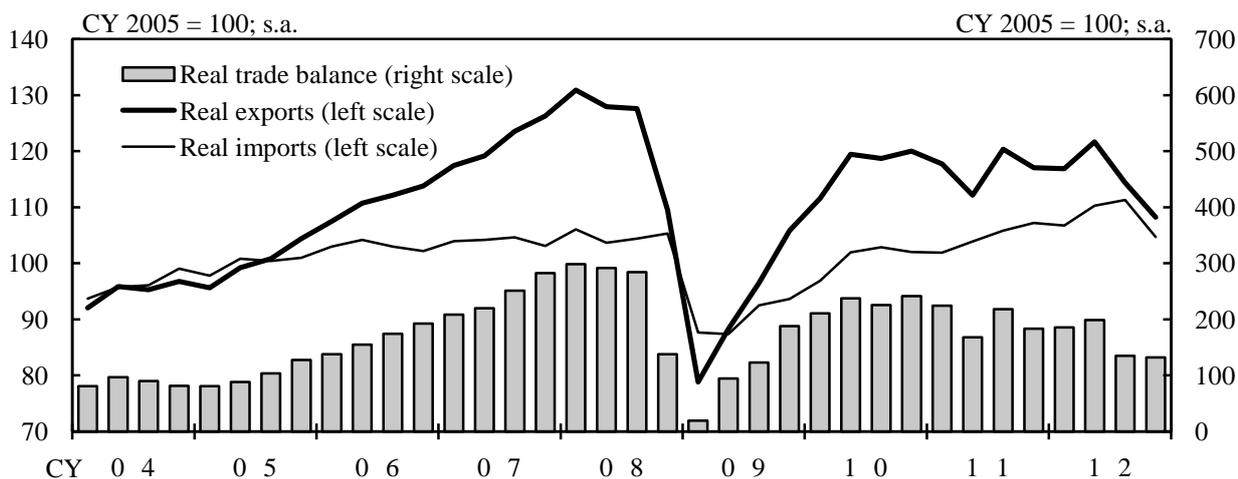
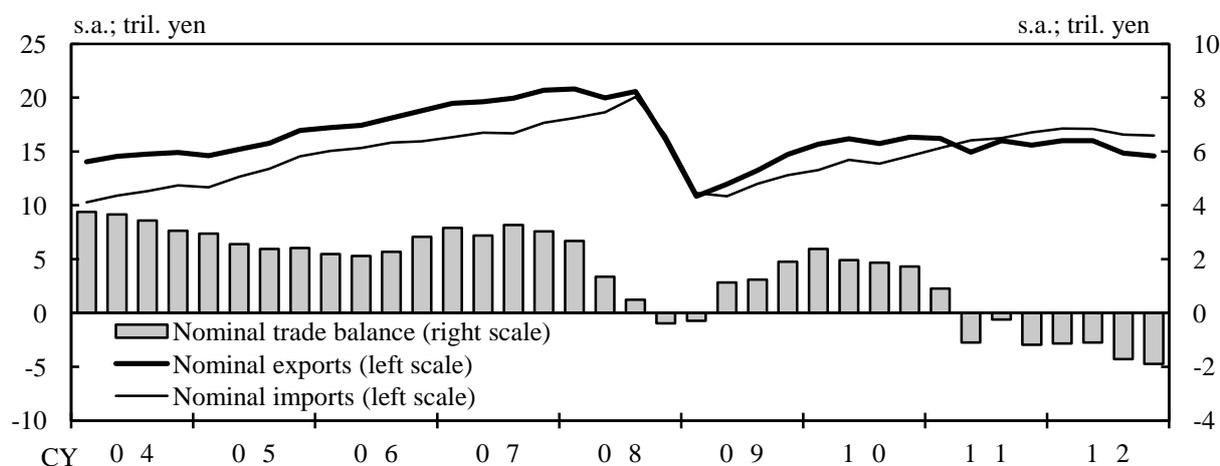
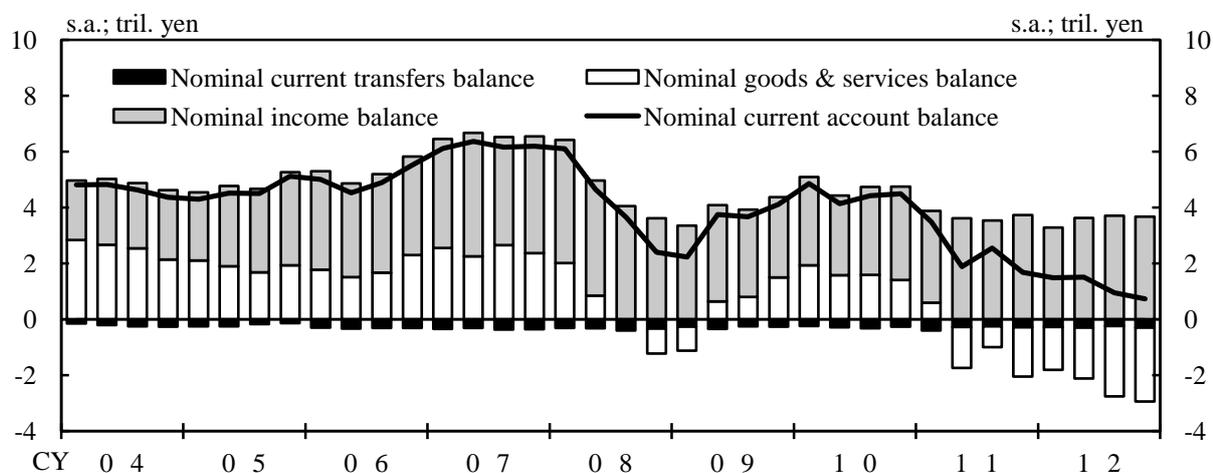
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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 Balance¹(1) Real Exports, Real Imports, and Real Trade Balance²(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance³(3) Nominal Current Account Balance and Nominal Goods & Services Balance³

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

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 ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Oct.	Nov.	Dec.
United States	<17.5>	-0.3	12.3	4.9	2.5	4.8	-4.7	-3.8	-2.3	1.0	4.8
EU	<10.2>	2.9	-12.7	-8.3	-4.0	-2.3	-6.0	-5.7	-8.5	-0.7	5.4
East Asia	<51.3>	-1.2	-2.4	-4.5	0.9	2.5	-3.0	-4.8	-4.1	-0.5	-1.5
China	<18.1>	1.9	-7.2	-4.8	-1.9	1.8	-2.8	-11.0	-7.1	-2.6	-3.1
NIEs	<21.5>	-4.6	-4.5	-4.1	-1.5	2.3	-2.6	-0.9	-2.0	0.5	0.5
Korea	<7.7>	-3.0	-3.3	-0.8	0.3	-2.3	-0.1	0.6	-2.8	-0.7	7.8
Taiwan	<5.8>	-9.3	-6.6	-3.6	-4.9	5.9	1.1	-3.6	-4.1	-2.7	3.6
Hong Kong	<5.1>	-4.0	-0.3	-4.3	2.0	-1.2	-0.3	-0.1	-2.6	9.3	-14.8
Singapore	<2.9>	0.3	-10.3	-13.2	-3.1	10.8	-15.3	-4.8	1.0	2.1	-1.1
ASEAN4 ³	<11.7>	0.8	11.6	-4.9	11.4	4.2	-4.2	-1.9	-3.2	0.7	-2.7
Thailand	<5.5>	1.3	18.2	-20.8	27.1	10.3	-2.2	0.6	-0.7	-2.9	-3.4
Others	<21.0>	1.6	1.4	-0.5	3.2	0.3	-9.6	-5.0	0.4	0.7	-1.3
Real exports		-0.5	-1.2	-2.8	-0.1	4.1	-6.0	-5.4	-2.9	0.2	-0.4

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Oct.	Nov.	Dec.
Intermediate goods	<20.4>	-4.6	-2.4	-1.4	-2.9	6.5	0.2	-5.8	-6.9	0.2	1.4
Motor vehicles and their related goods	<23.0>	-3.8	6.8	4.1	0.3	-0.7	-9.3	-4.9	0.6	0.1	2.6
Consumer goods ⁴	<3.3>	-2.9	12.3	-20.2	28.6	-0.9	3.8	-22.4	-11.0	-8.3	-0.7
IT-related goods ⁵	<9.8>	0.9	0.6	-3.5	1.6	-0.3	-0.8	1.0	1.6	0.7	-3.6
Capital goods and parts ⁶	<29.3>	5.0	-3.5	-2.6	1.0	2.9	-6.6	-6.8	-2.6	-0.6	0.6
Real exports		-0.5	-1.2	-2.8	-0.1	4.1	-6.0	-5.4	-2.9	0.2	-0.4

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

2. Shares of each region and goods in 2012 are shown in angle brackets.

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

4. Excludes motor vehicles.

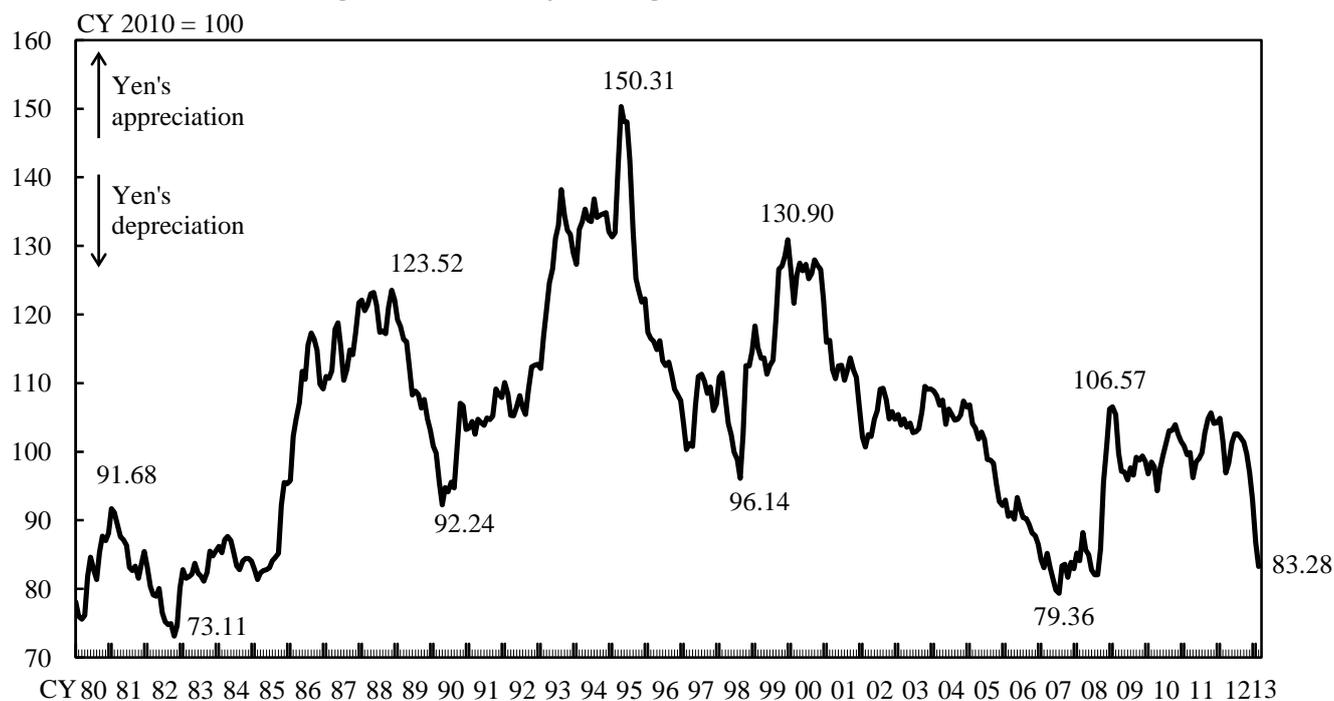
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

6. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

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

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 January and February (up to February 12) 2013 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.

	CY2010	2011	2012	2012 Q1	Q2	Q3	Q4
United States ¹	2.4	1.8	2.2	2.0	1.3	3.1	-0.1
European Union ²	2.1	1.5	n.a.	-0.2	-0.7	0.4	n.a.
Germany ¹	4.2	3.0	0.7	2.0	1.1	0.9	n.a.
France ¹	1.6	1.7	n.a.	-0.2	-0.4	0.4	n.a.
United Kingdom ¹	1.8	0.9	-0.0	-1.0	-1.5	3.8	-1.2
East Asia ³	9.2	5.8	n.a.	9.7	4.8	4.4	n.a.
China ¹	10.4	9.3	7.8	6.1	8.2	8.7	8.2
NIEs ^{1,3}	8.9	4.2	n.a.	4.6	0.3	0.7	n.a.
ASEAN4 ^{1,3,4}	7.3	3.0	n.a.	27.6	8.3	4.6	n.a.
Main economies ³	6.7	4.5	n.a.	6.8	3.3	3.6	n.a.

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, Indonesia, Malaysia, 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 ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Oct.	Nov.	Dec.
United States	<8.6>	-1.0	3.4	2.9	1.6	0.3	1.8	-9.9	-10.5	-1.0	3.2
EU	<9.4>	7.9	3.3	0.6	-1.3	0.4	4.2	-1.7	1.5	7.1	-11.9
East Asia	<40.8>	9.1	2.6	1.5	-1.8	2.4	-0.4	-1.6	-6.0	3.9	-1.8
China	<21.3>	12.2	3.6	2.6	-3.5	3.3	-0.5	0.3	-6.9	5.4	-4.9
NIEs	<8.5>	5.9	3.2	2.8	-0.3	0.9	1.7	-2.7	-4.3	5.8	-0.5
Korea	<4.6>	19.9	2.2	3.8	1.6	-4.6	3.0	-3.2	-2.7	4.4	-2.6
Taiwan	<2.7>	-5.6	5.8	4.1	-3.4	7.7	1.3	0.5	-1.9	1.5	3.9
Hong Kong	<0.2>	-5.4	-3.1	-0.1	23.3	-16.7	-7.1	-1.9	-4.5	-28.0	99.3
Singapore	<1.0>	-2.8	1.1	2.6	-2.1	4.6	-3.0	-3.6	-17.1	29.8	-4.1
ASEAN4 ³	<11.1>	4.8	-0.4	-2.3	1.1	1.7	-1.9	-5.5	-4.9	-1.9	5.5
Thailand	<2.7>	4.0	-1.5	-14.9	4.7	10.1	-3.2	-4.2	0.3	-3.5	-0.8
Others	<41.2>	-0.3	4.6	1.2	0.8	5.3	0.6	-10.9	-21.5	4.4	6.7
Real imports		3.7	4.0	1.3	-0.4	3.3	0.9	-5.9	-9.7	2.2	-1.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Oct.	Nov.	Dec.
Raw materials ⁴	<40.8>	-0.2	4.5	0.6	2.6	3.2	0.6	-12.7	-25.5	8.0	7.3
Intermediate goods	<13.5>	8.7	-4.2	0.7	-6.9	0.5	4.8	-4.9	-7.8	3.7	-0.5
Foodstuffs	<8.3>	1.6	-1.3	0.6	0.8	-3.7	1.2	-4.9	-4.1	-4.6	4.5
Consumer goods ⁵	<7.7>	6.1	-4.1	-3.3	-0.1	2.5	-5.2	-5.5	-2.1	-1.8	3.9
IT-related goods ⁶	<10.4>	8.1	9.5	5.5	0.1	1.1	3.1	4.3	-1.9	10.1	-12.0
Capital goods and parts ⁷	<10.9>	9.5	8.5	2.5	1.5	4.5	-1.4	-5.1	-7.4	3.1	-0.9
Excluding aircraft	<10.1>	10.6	5.2	1.0	-1.1	4.6	-1.0	-3.5	-3.2	1.6	0.1
Real imports		3.7	4.0	1.3	-0.4	3.3	0.9	-5.9	-9.7	2.2	-1.3

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

2. Shares of each region and goods in 2012 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

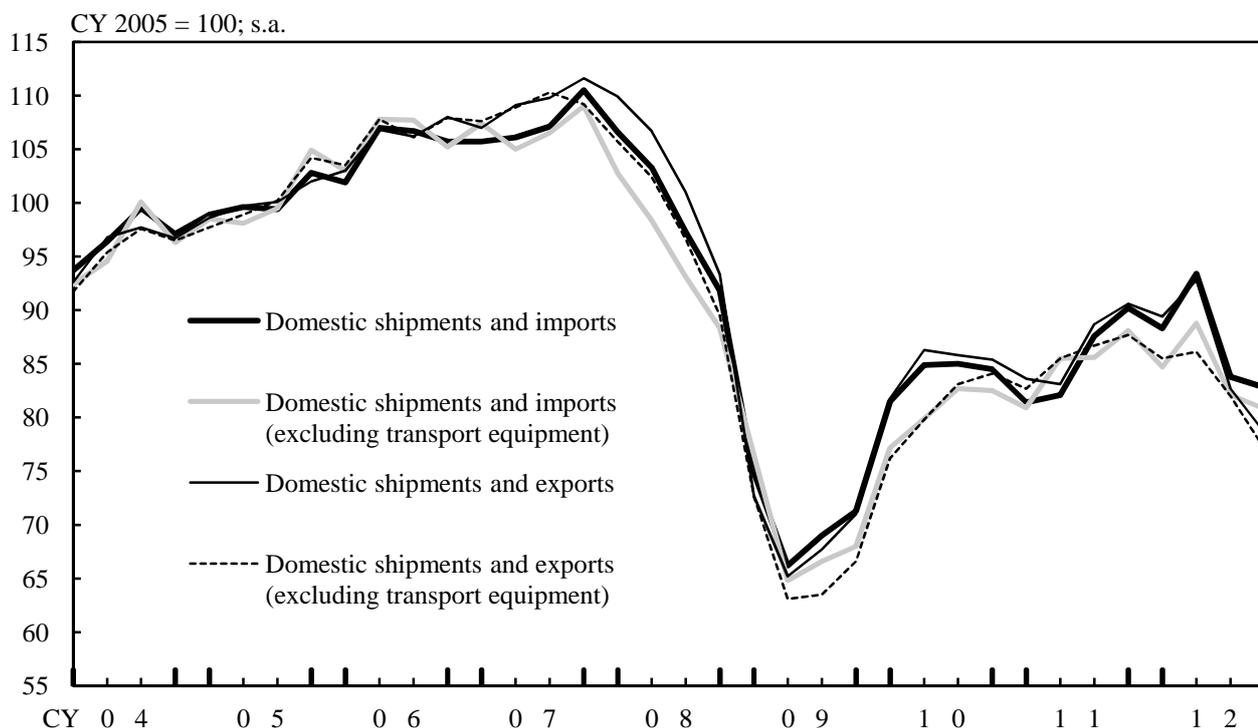
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

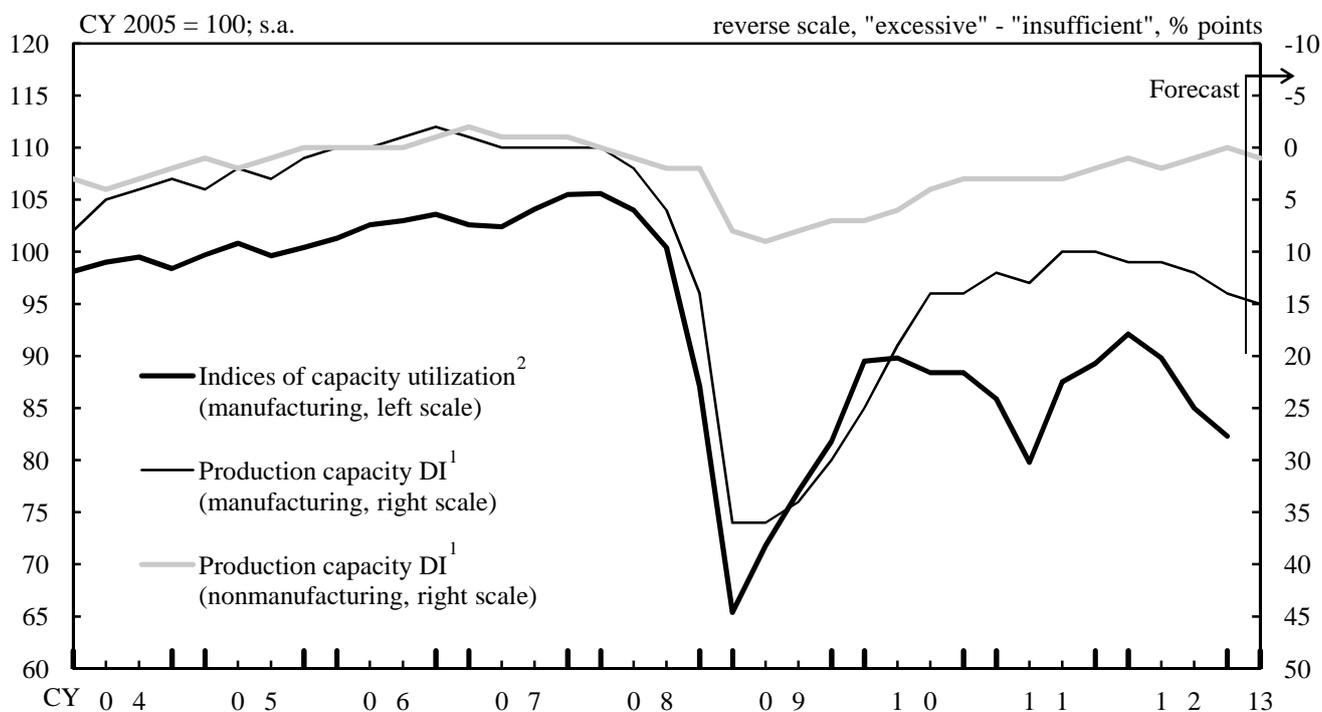
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



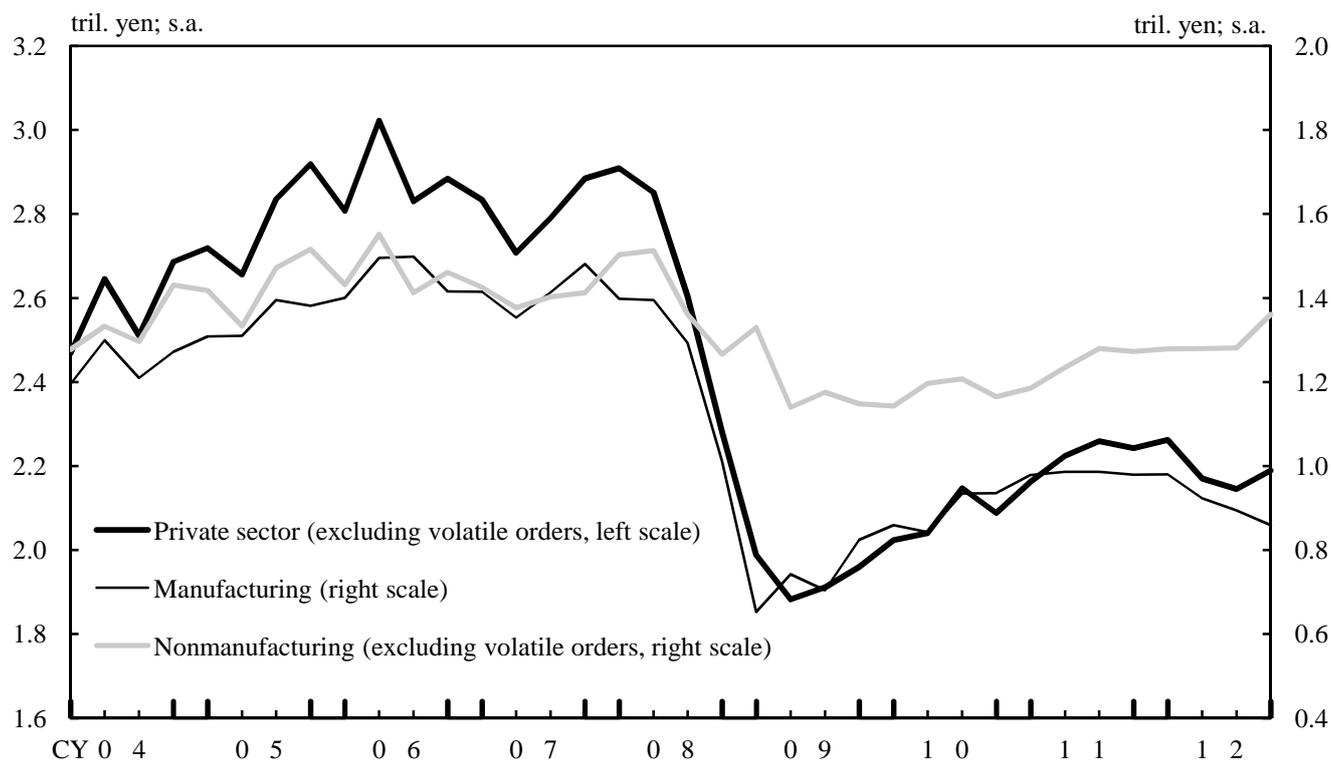
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2012/Q4 is the average of October-November.

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."

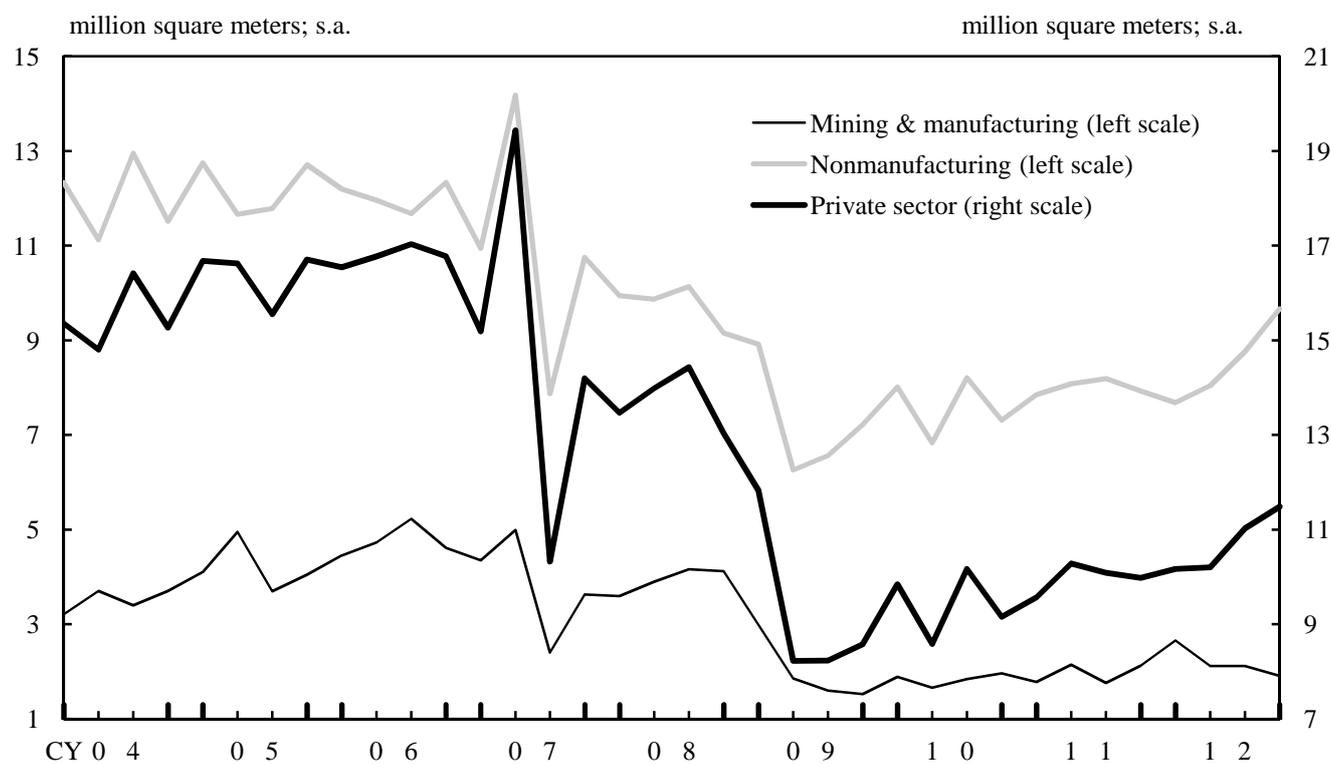
Leading Indicators of Business Fixed Investment

(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.

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

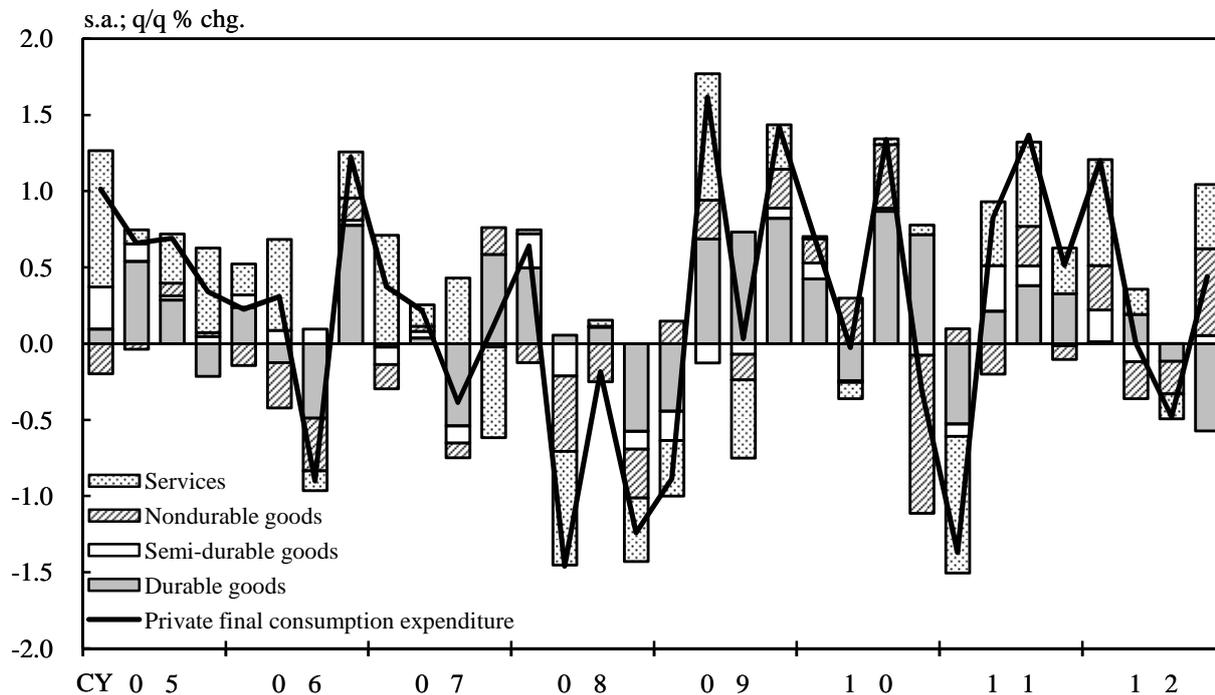


Note: Seasonally adjusted by X-12-ARIMA.

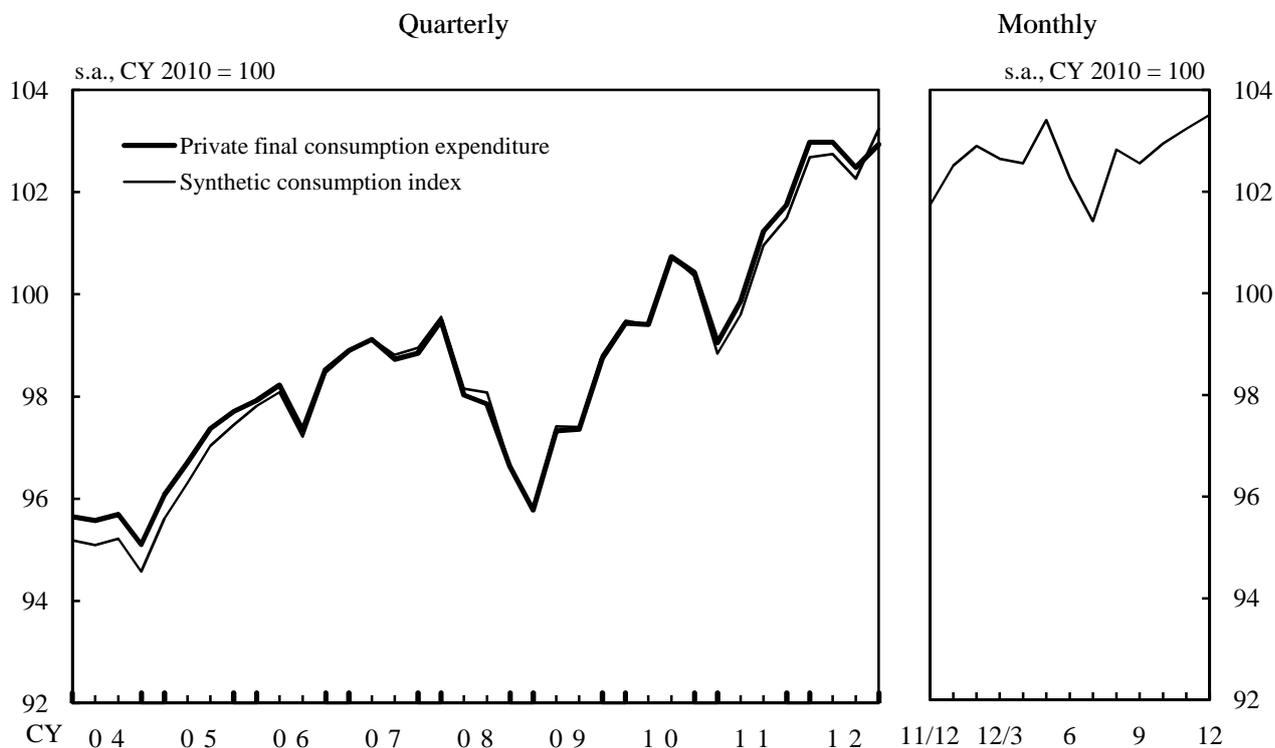
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



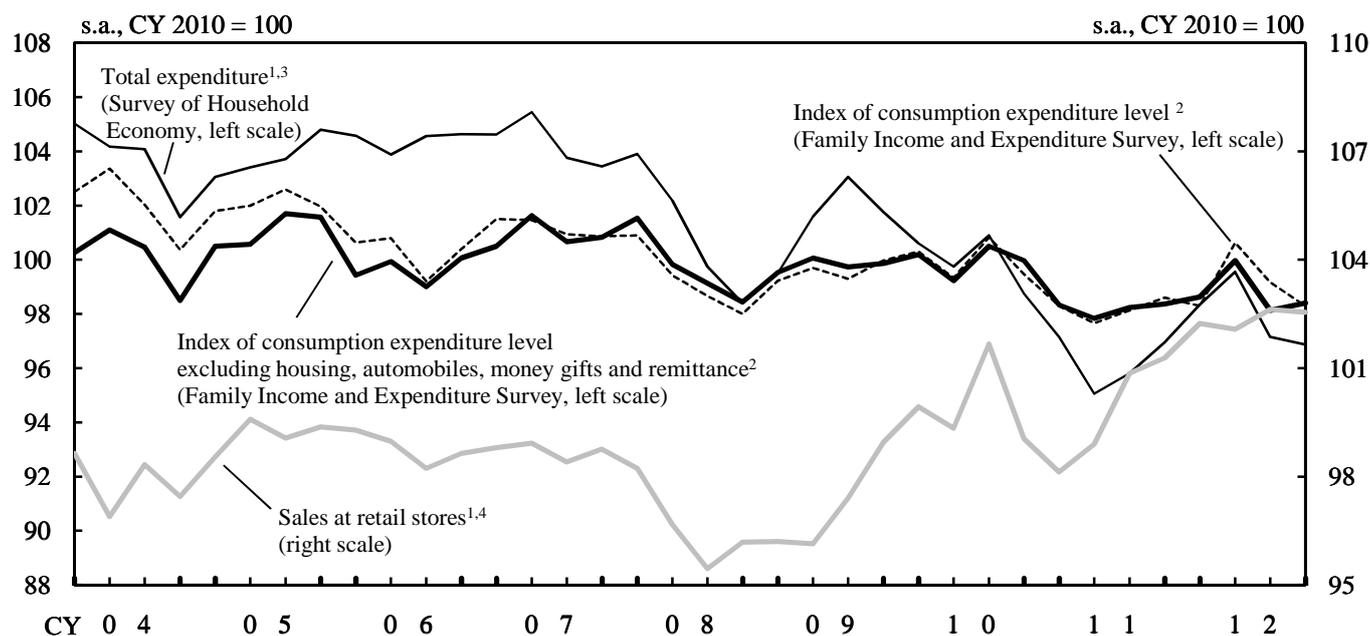
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



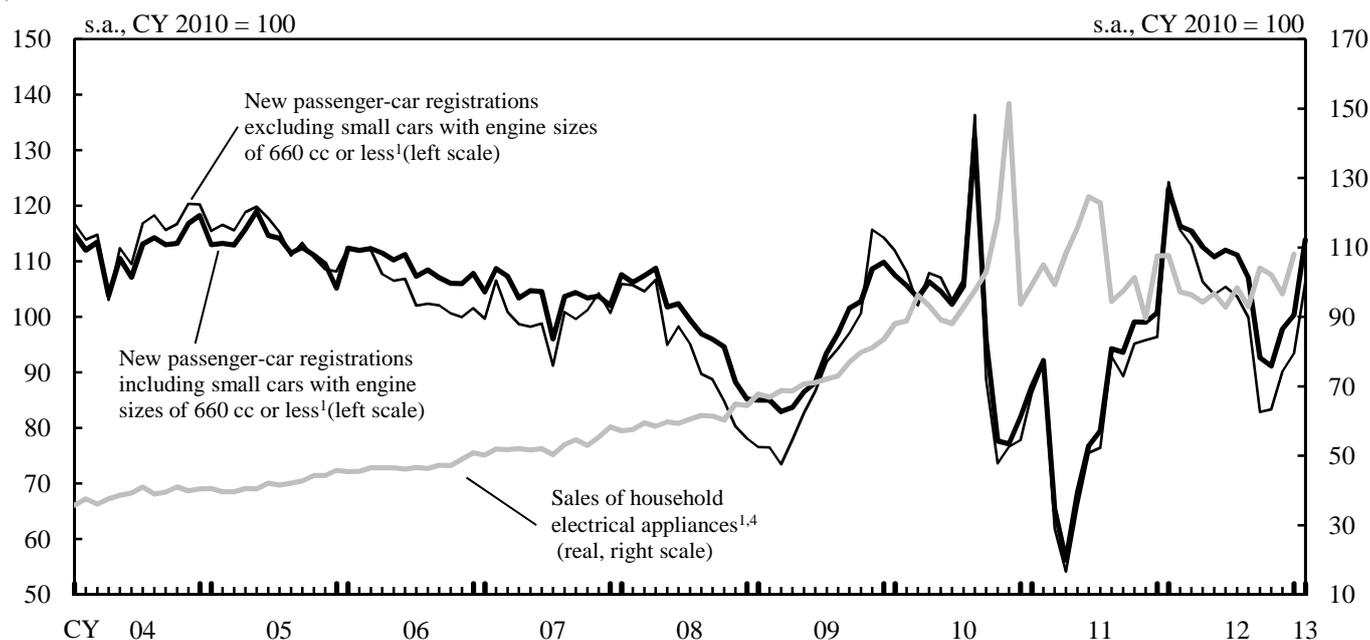
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

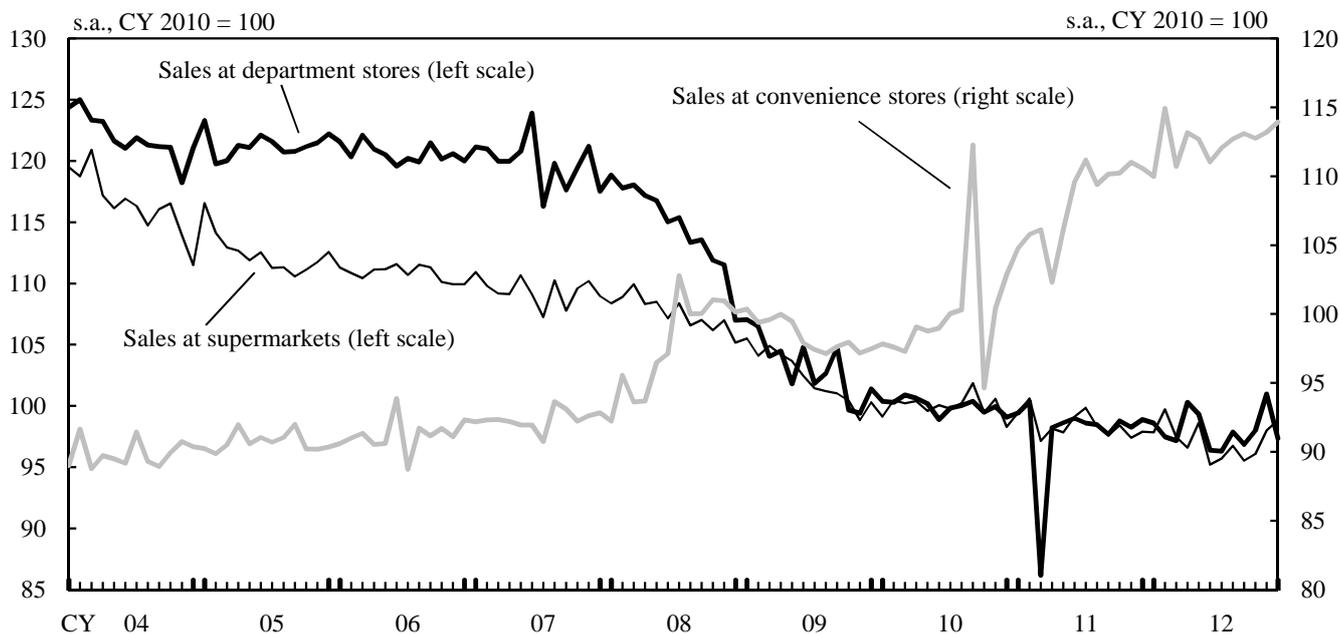


(2) Sales of Durable Goods

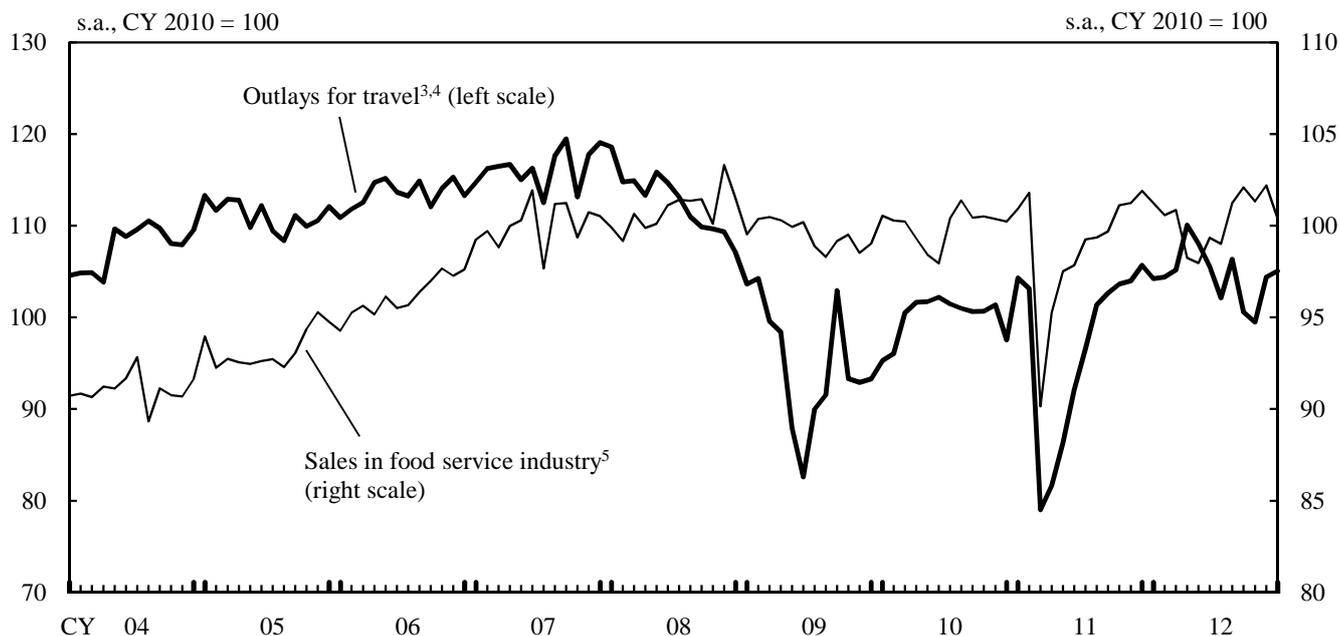


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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.

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 Consumption¹ (3)(1) Sales at Retail Stores (Nominal)²

(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";

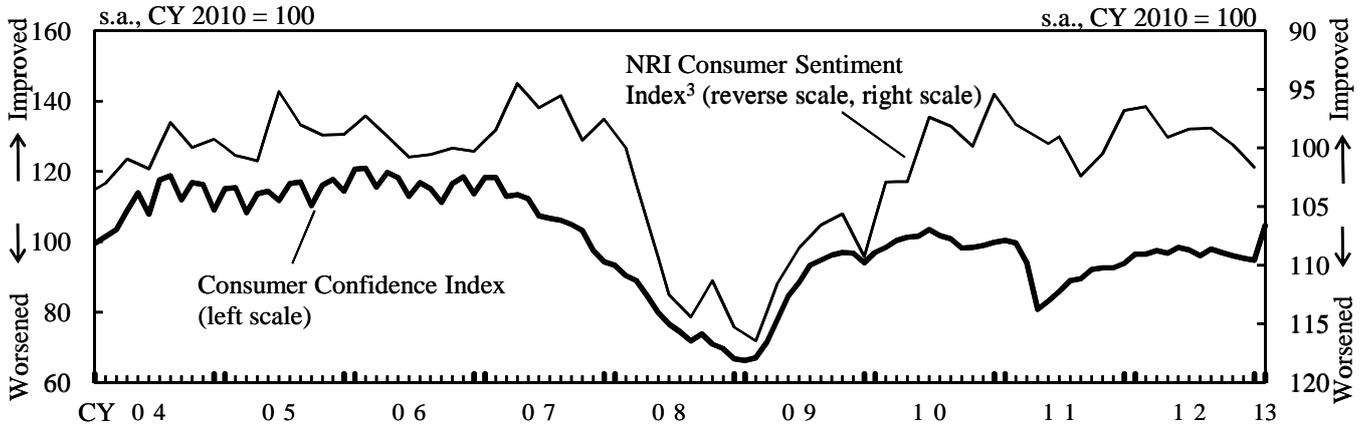
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

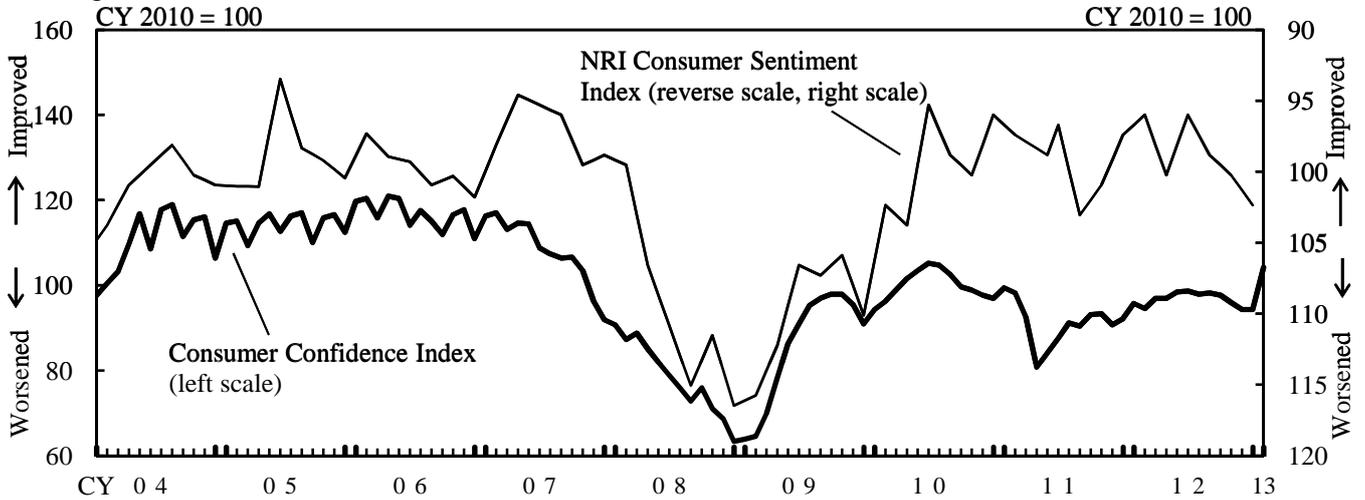
(Research on the food service industry)."

Consumer Confidence ^{1,2}

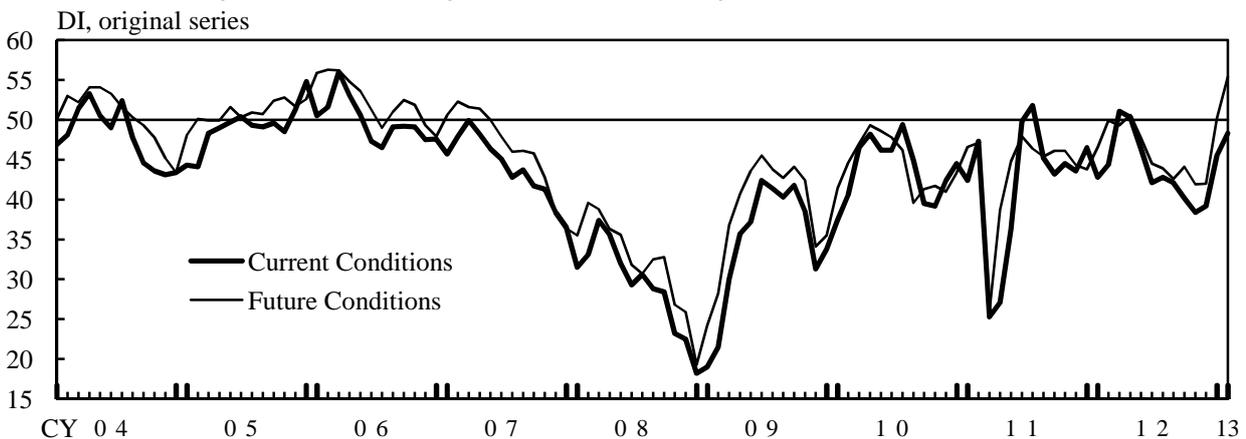
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

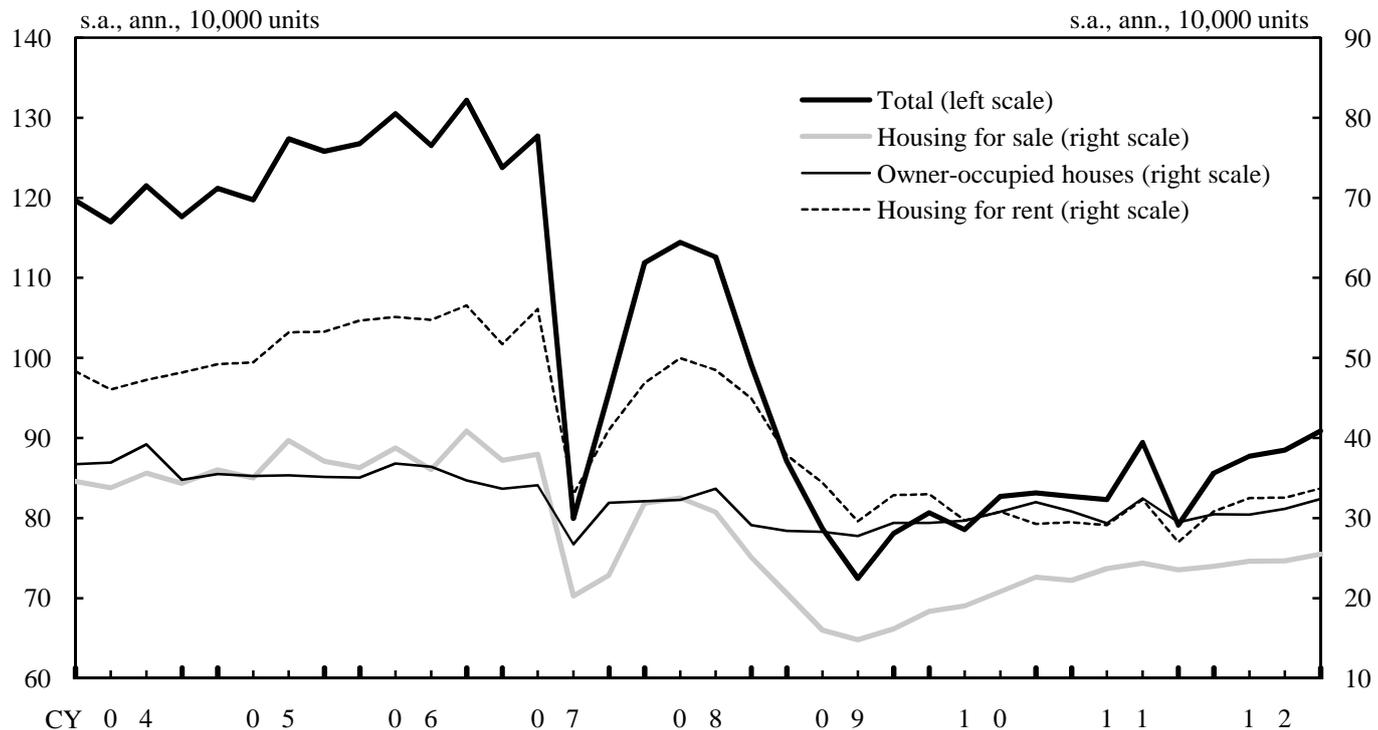


- Notes: 1. The Consumer Confidence Index (covering about 4,700 samples on a nationwide basis) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
 2. Figures are plotted for each surveyed month and the data for the intervening months are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

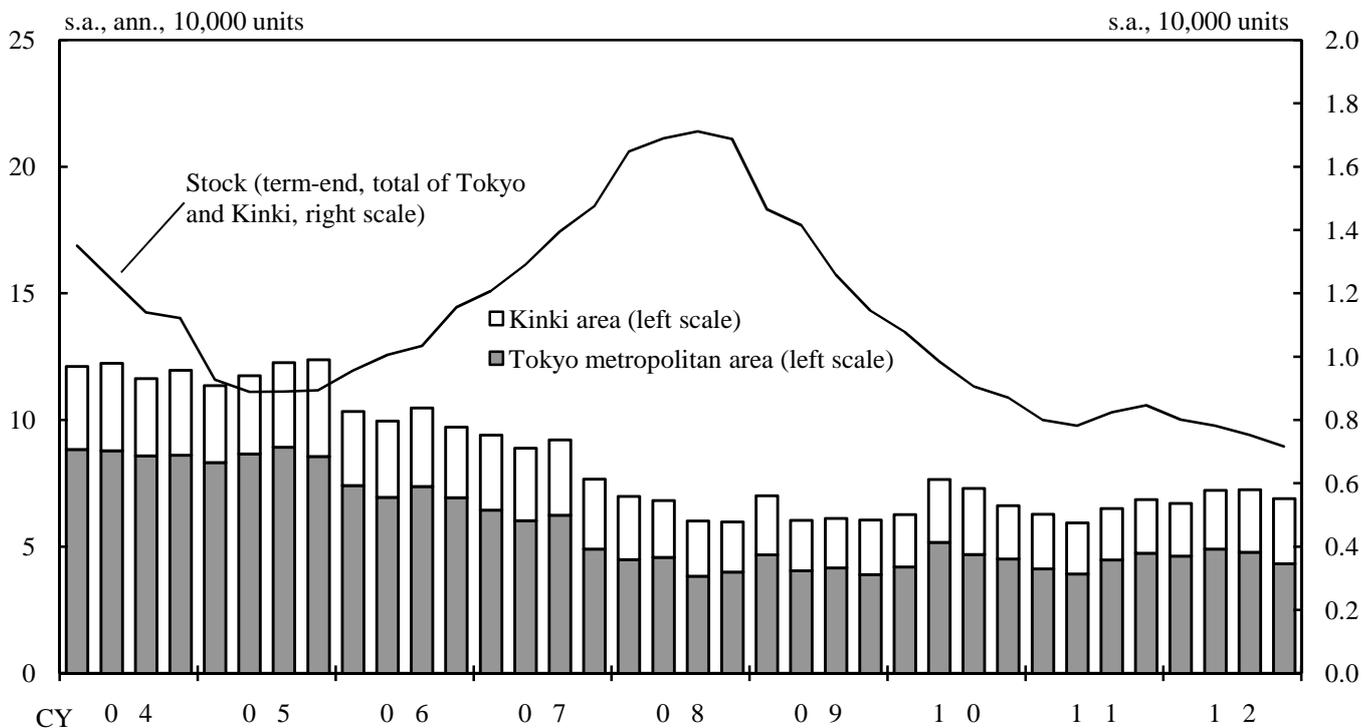
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



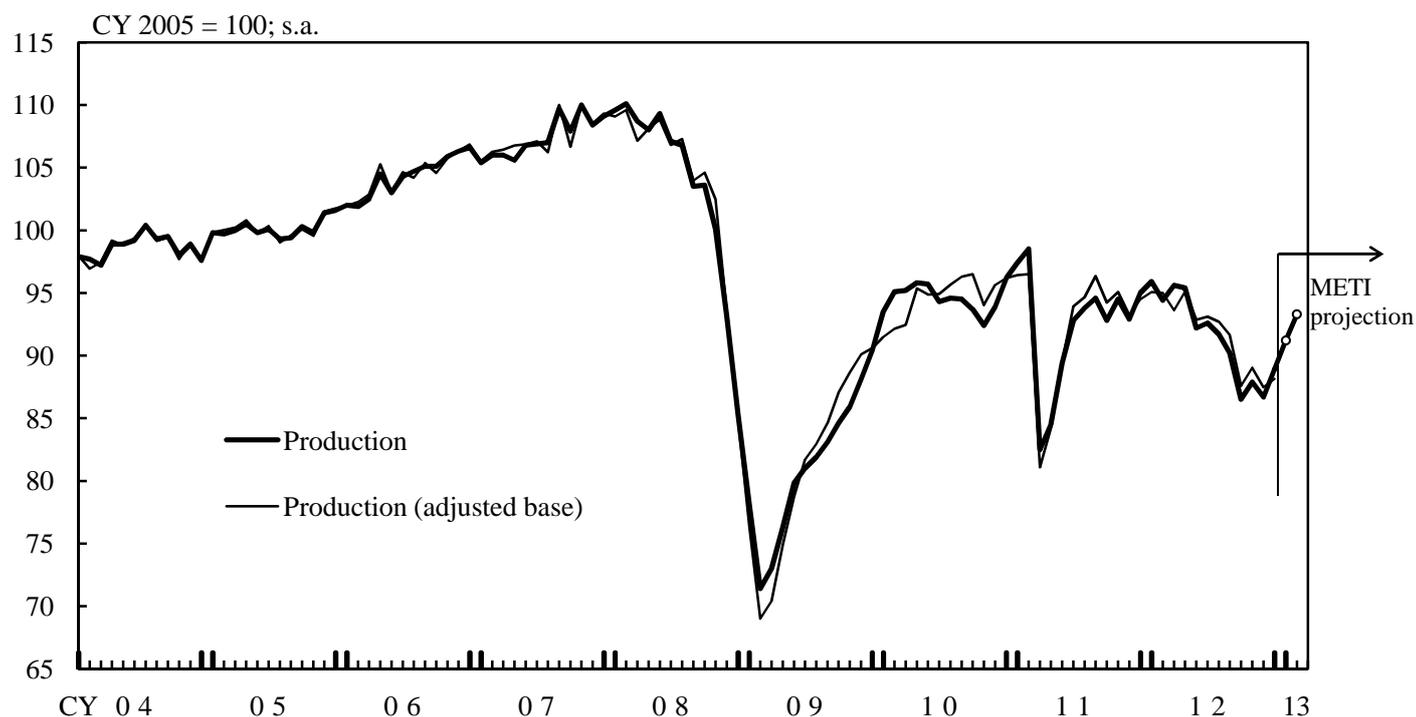
(2) Sales of Apartments



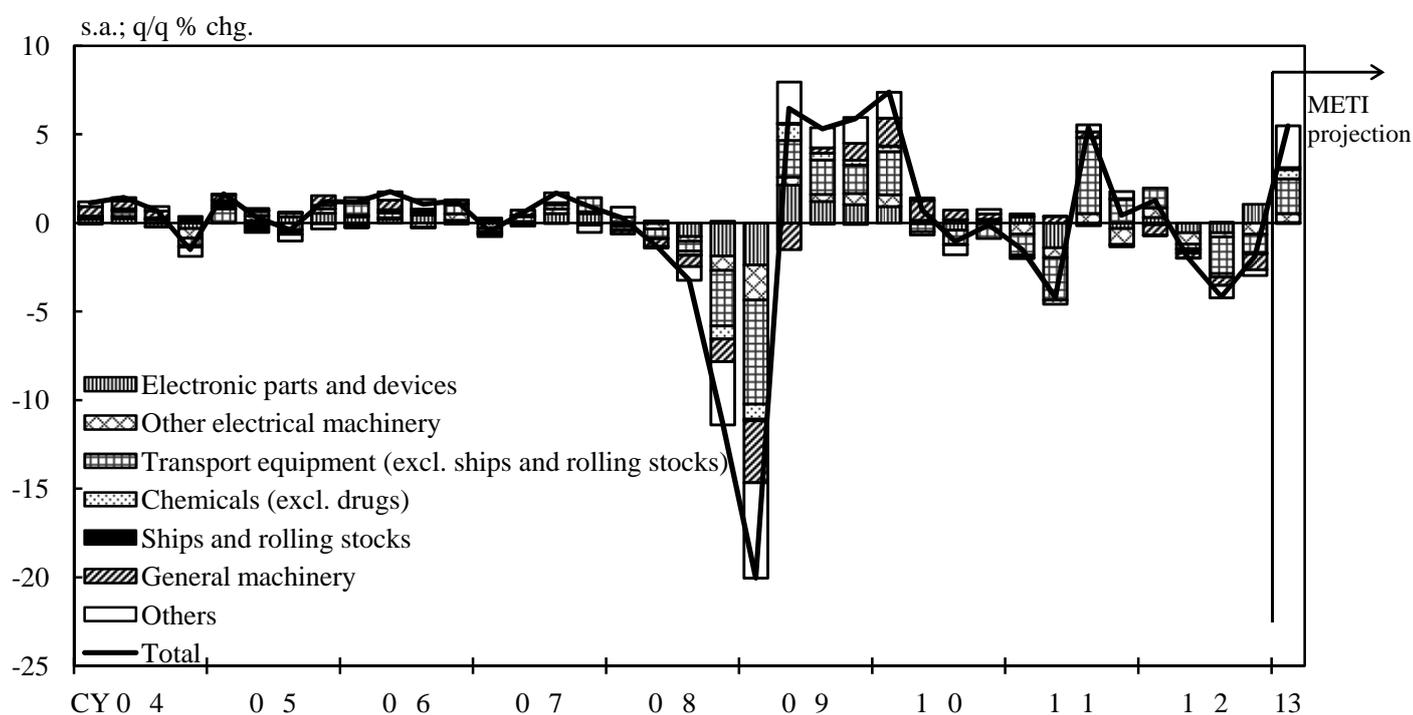
Note: Seasonally adjusted by X-12-ARIMA.

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).

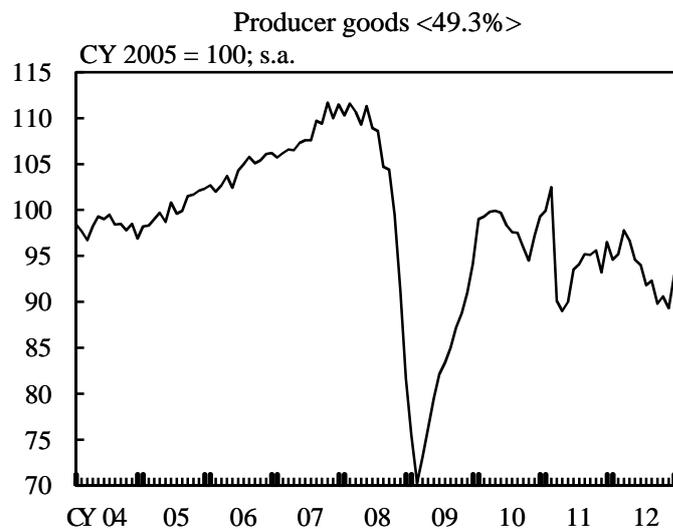
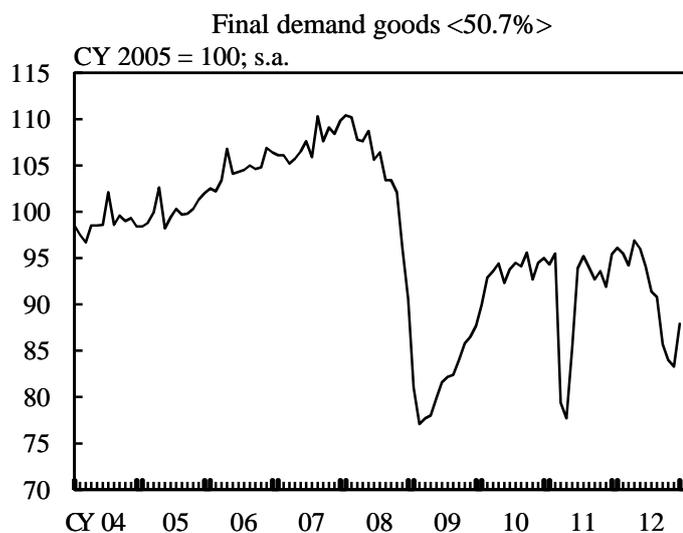
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

3. 2013/Q1 figures are based on the assumption that the production levels in March are the same as those of February.

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

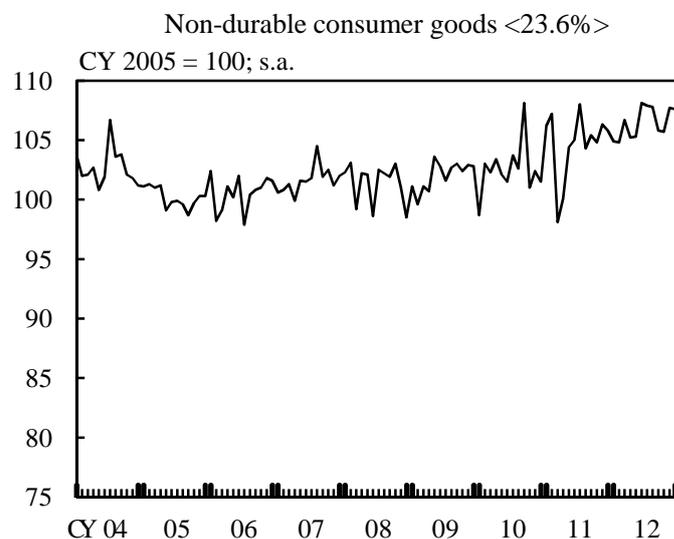
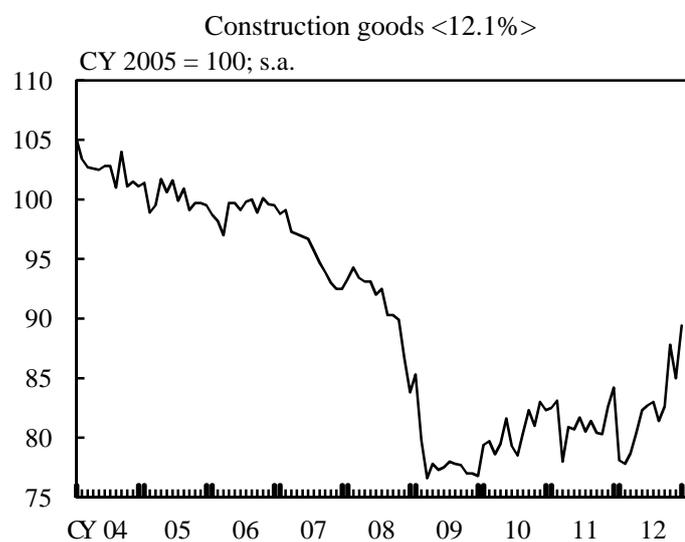
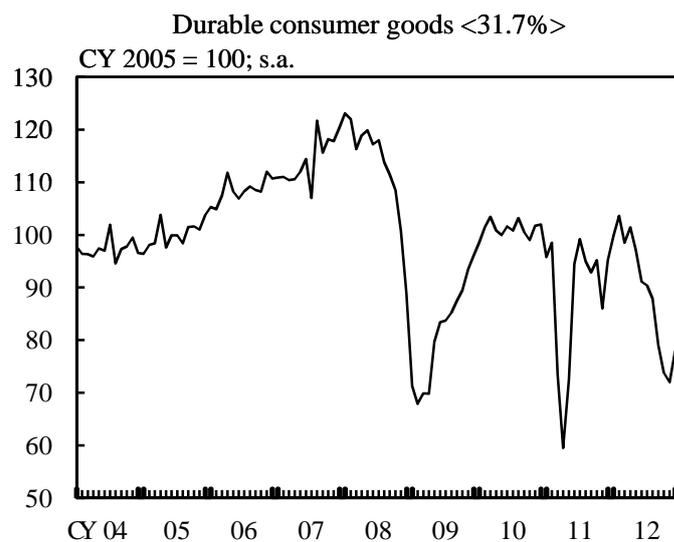
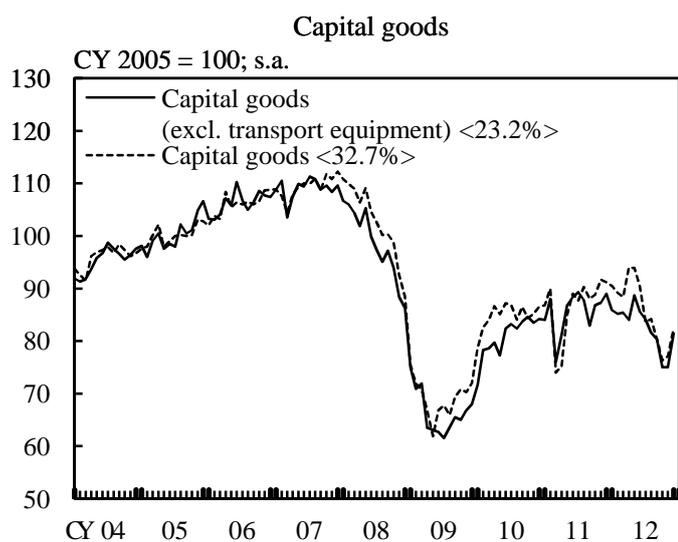
Shipments by Type of Goods

(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

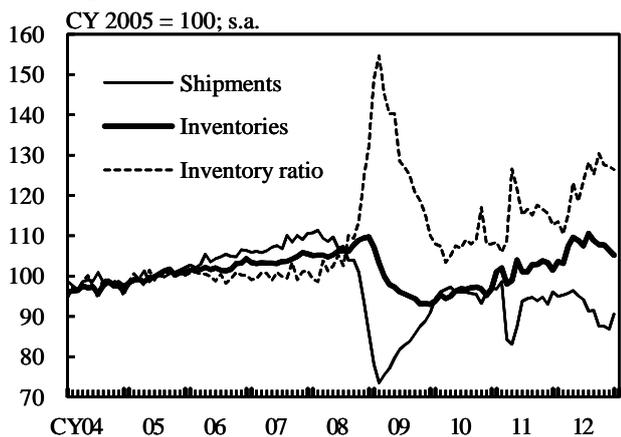


Note: Figures in angle brackets show the shares among shipments of final demand goods.

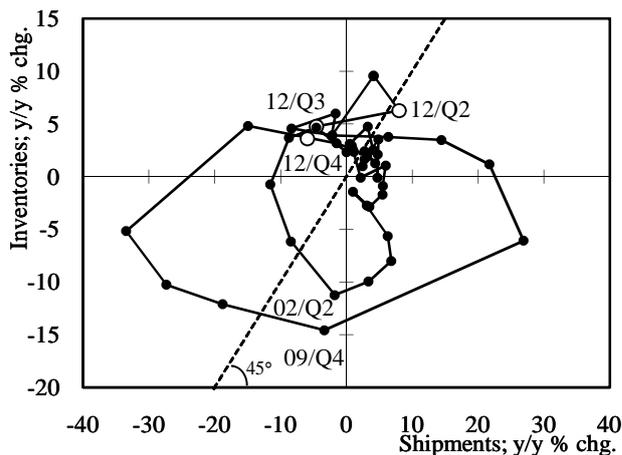
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments and Inventories

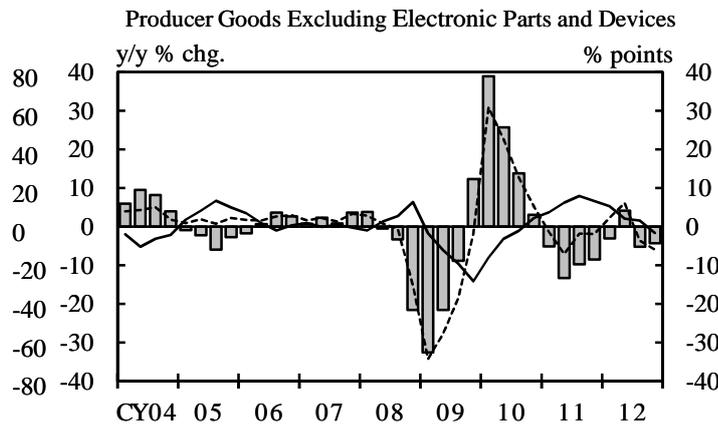
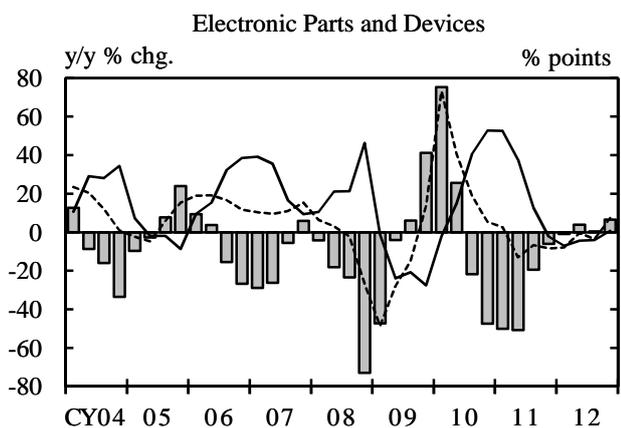
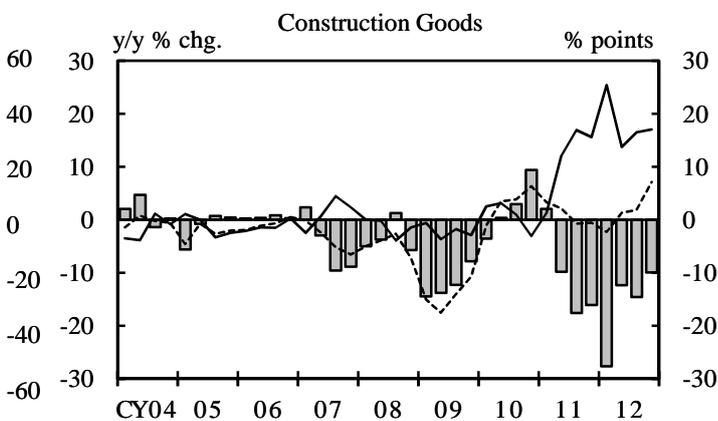
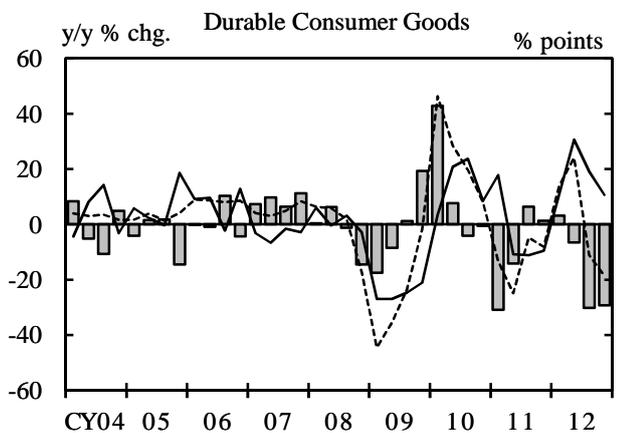
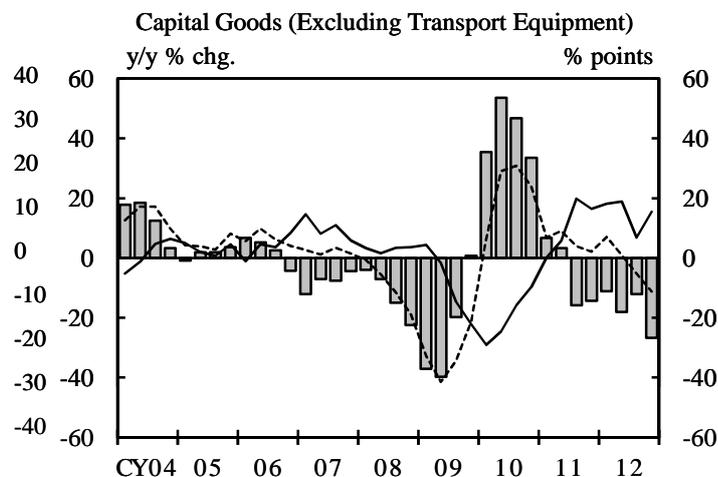
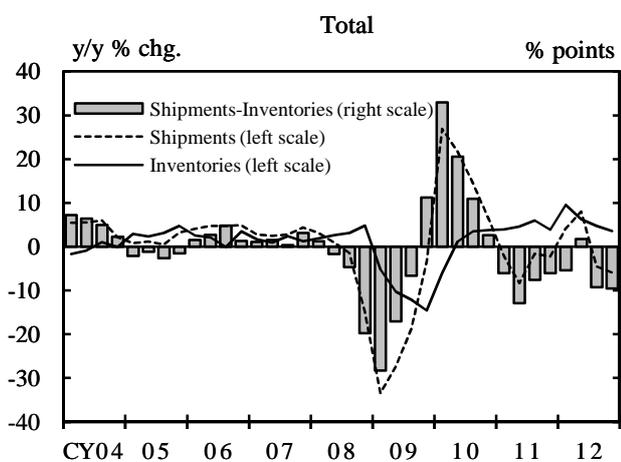
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



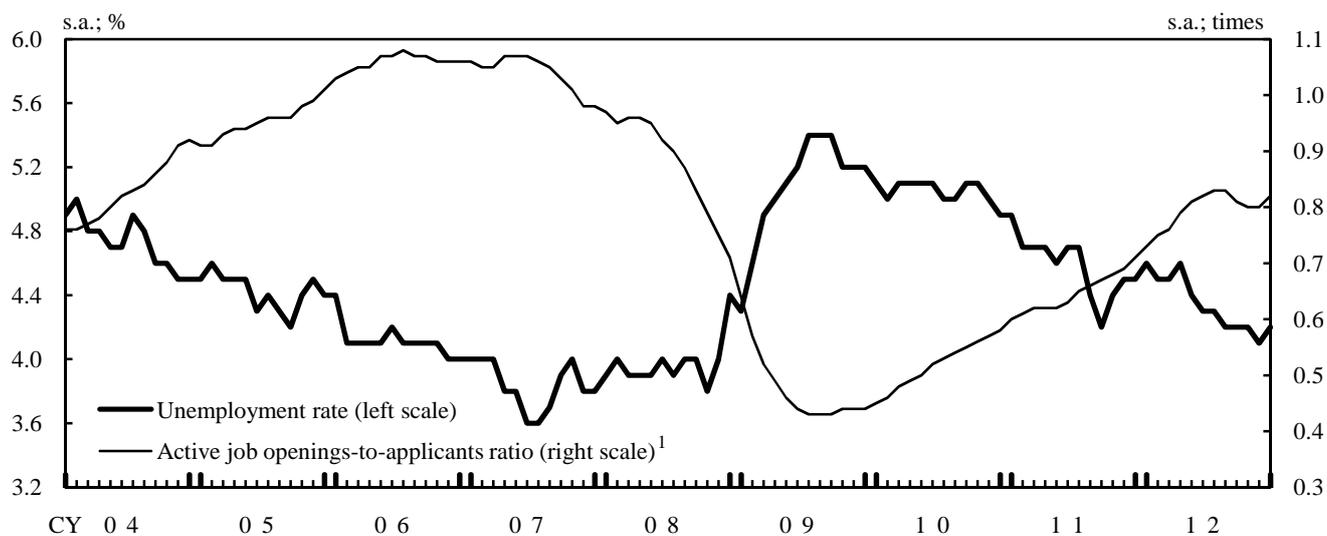
(3) Shipment-Inventory Balance



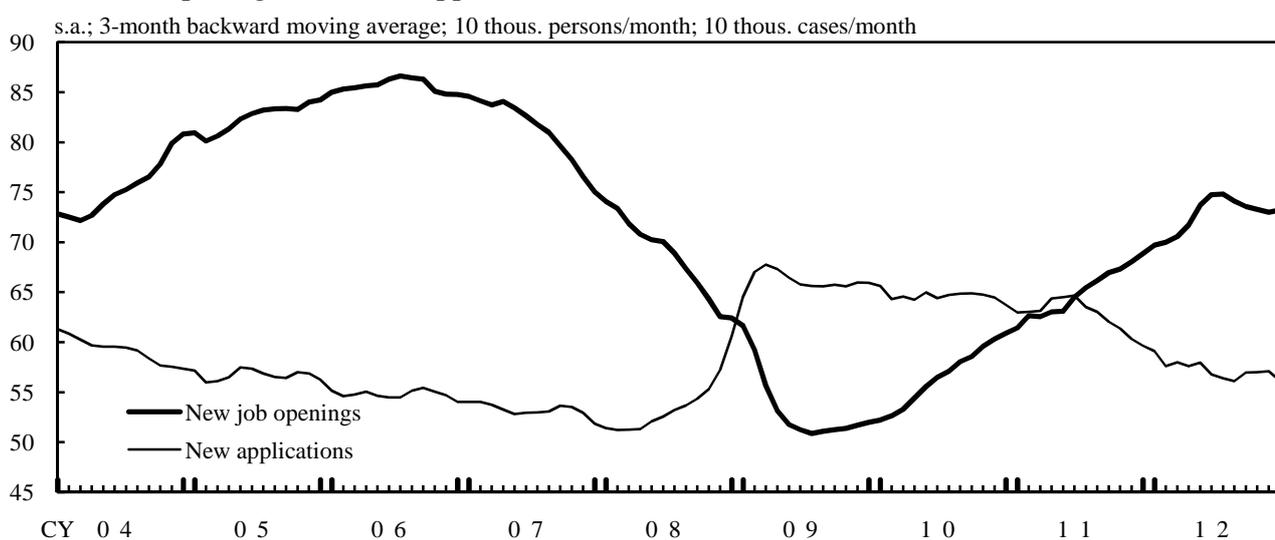
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

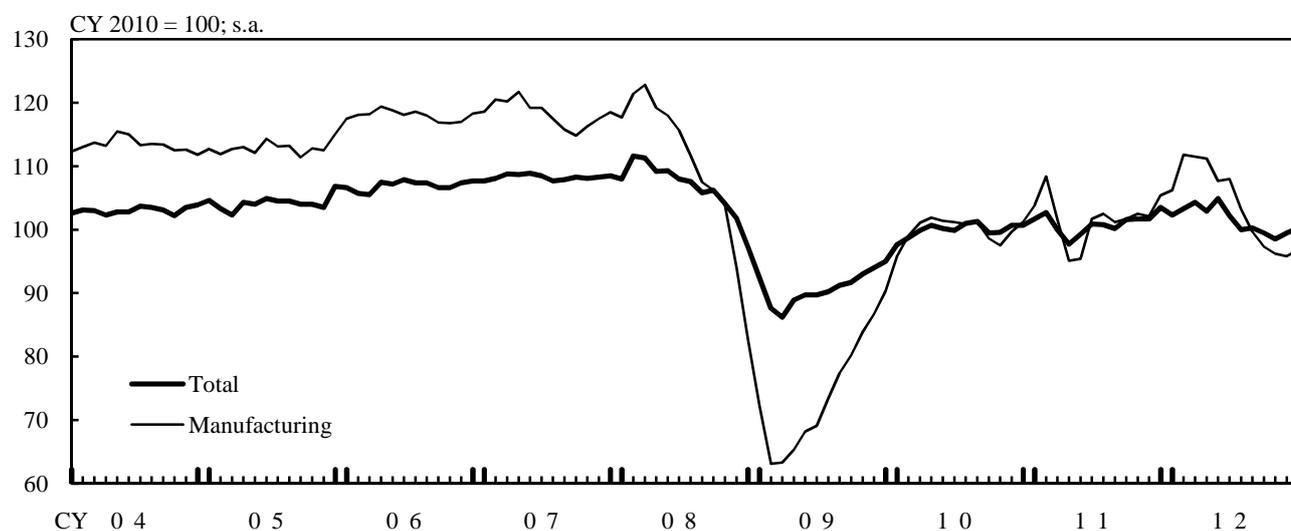
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²



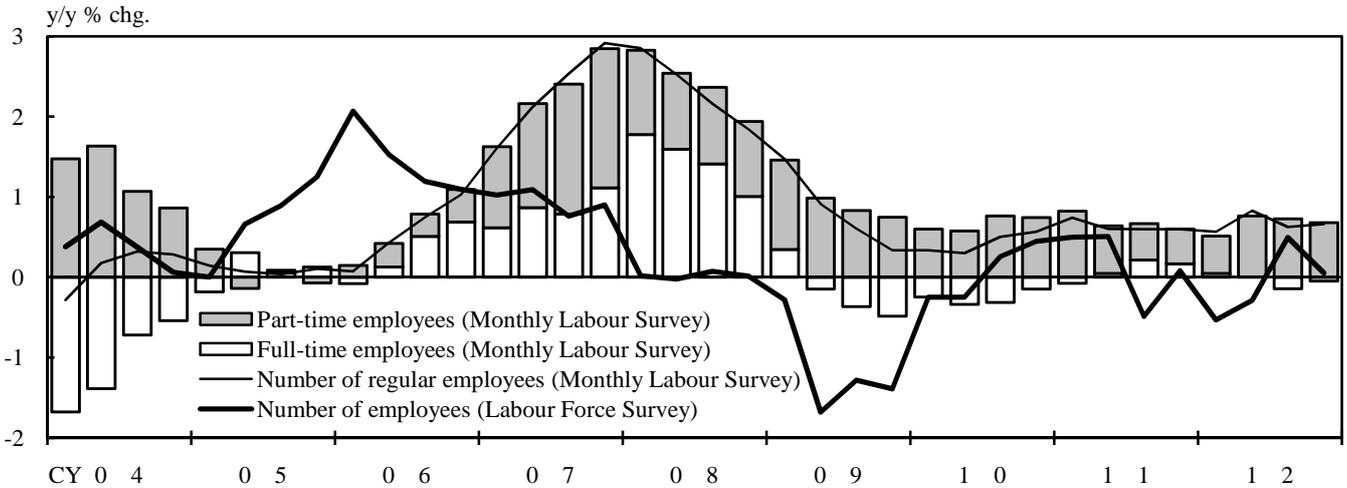
Notes: 1. Excluding new school graduates and including part-timers.

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

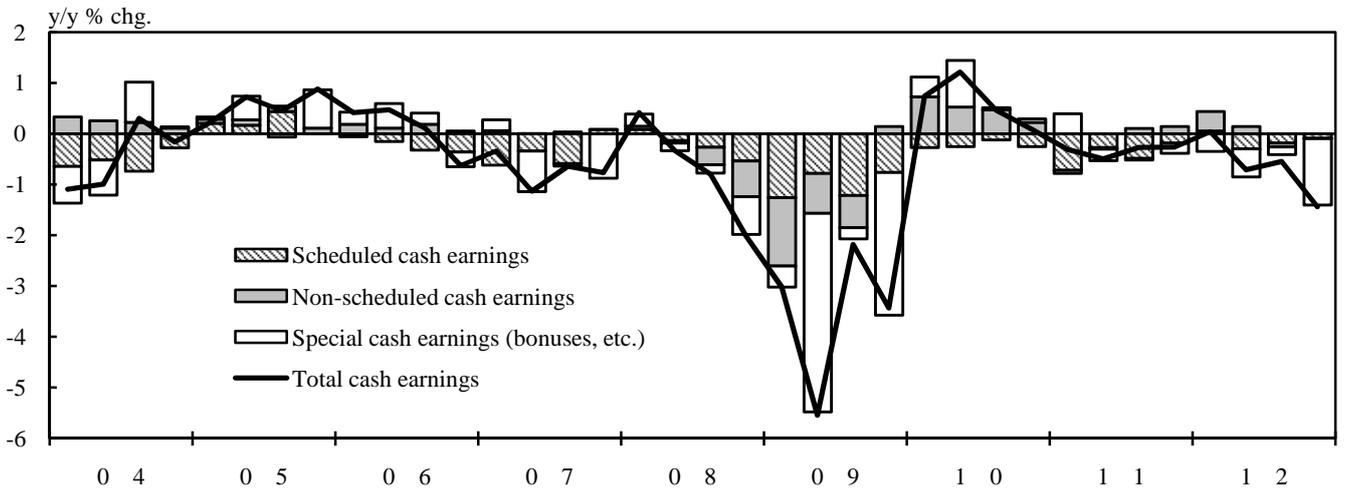
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

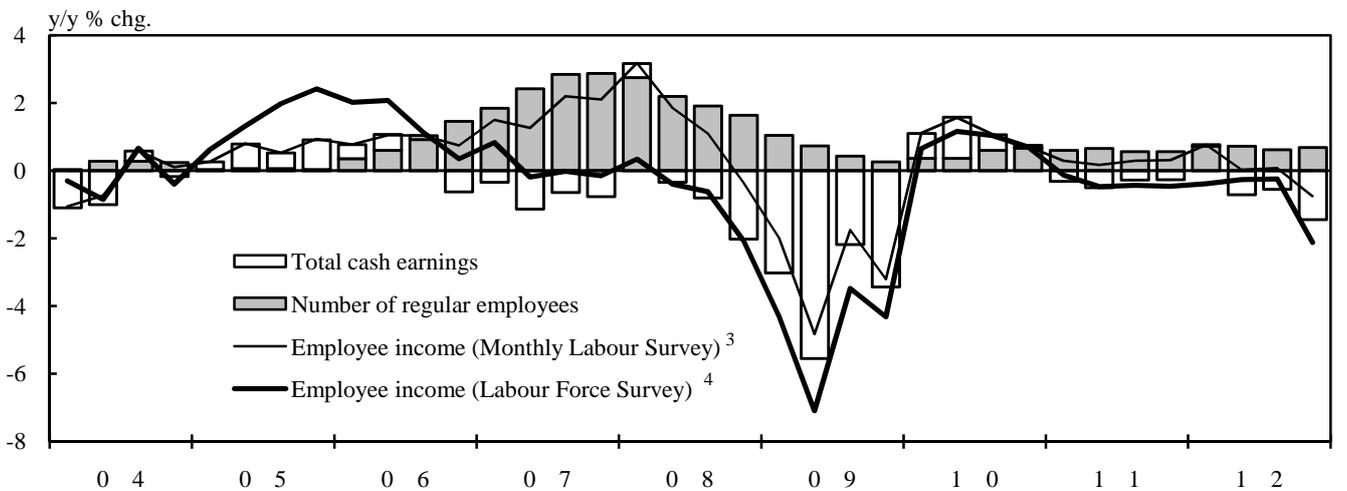
(1) Number of Employees¹



(2) Breakdown of Total Cash Earnings^{1,2}



(3) Breakdown of Employee Income^{1,2}

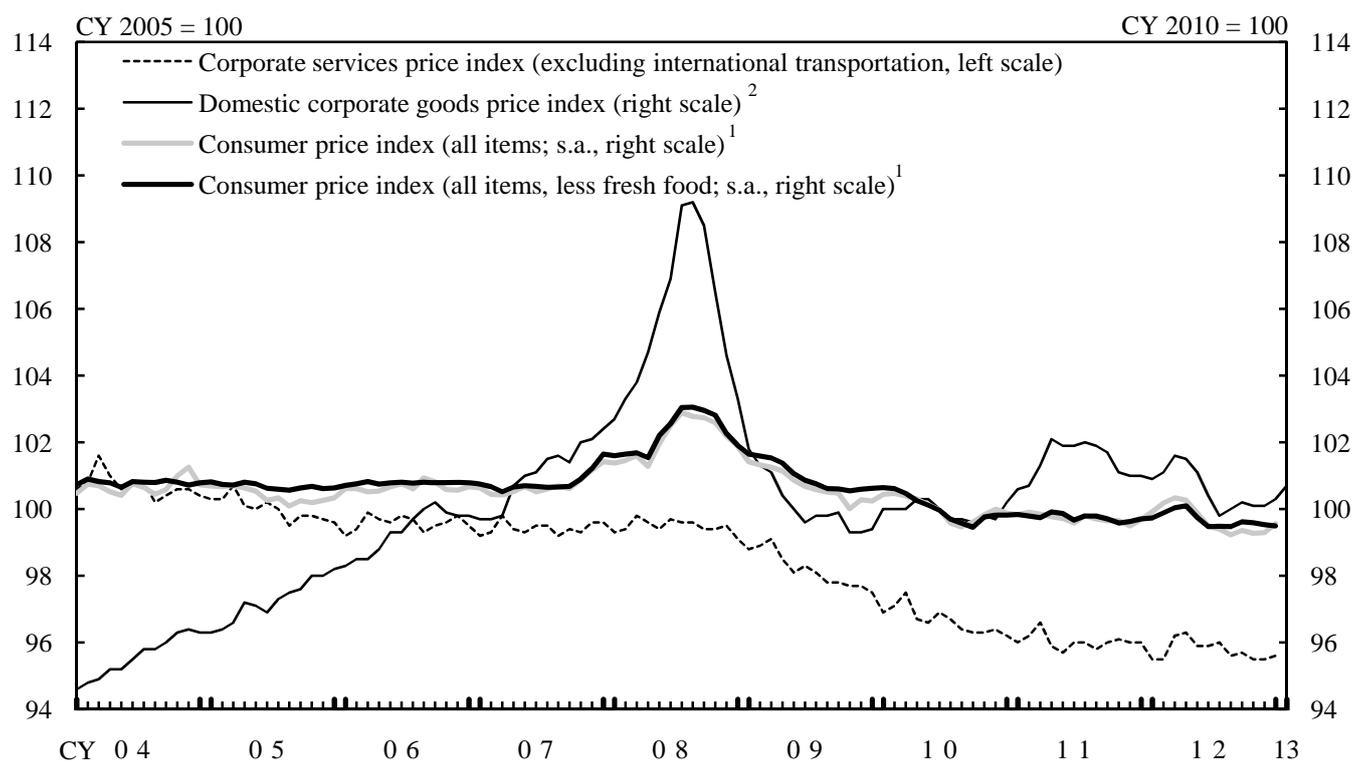


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2012/Q4 are those of December.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey)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

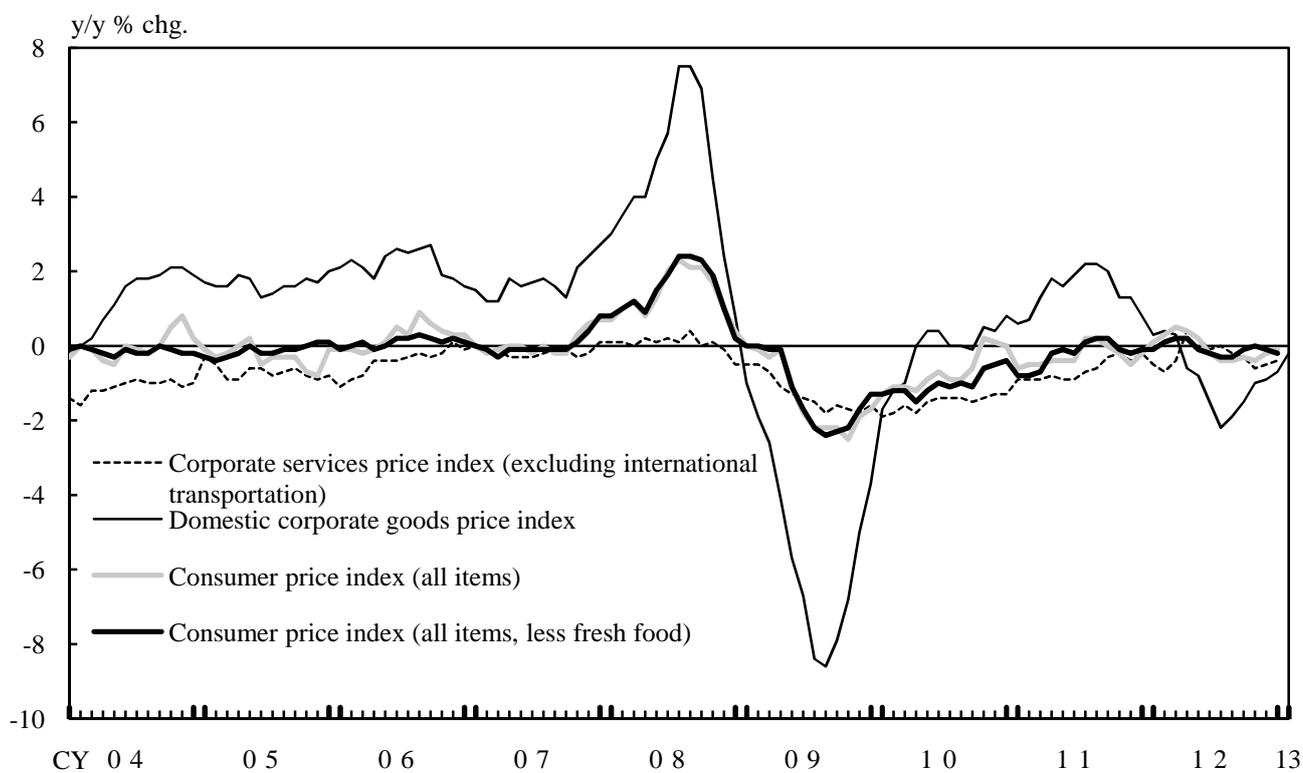
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

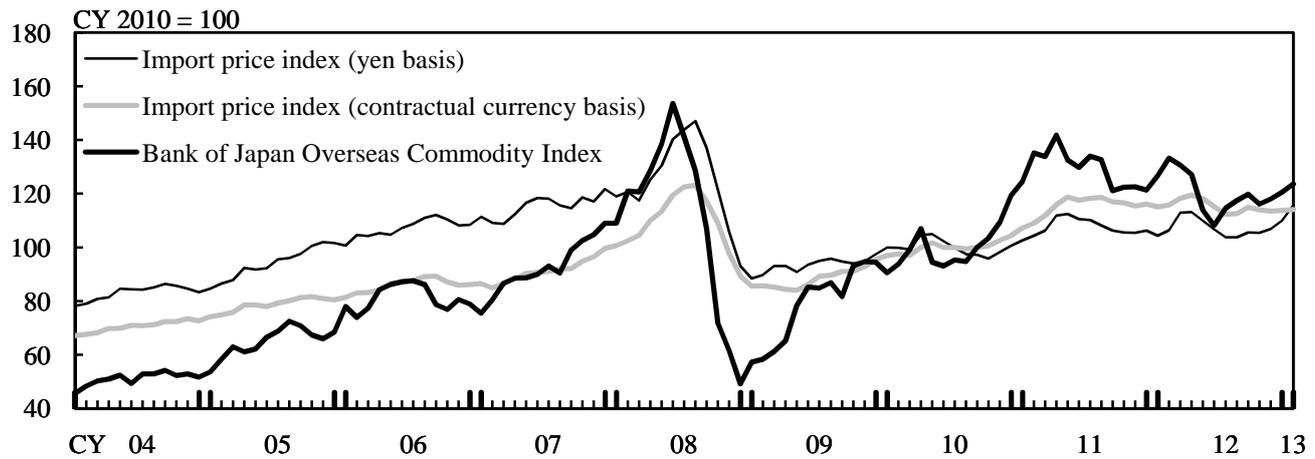
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

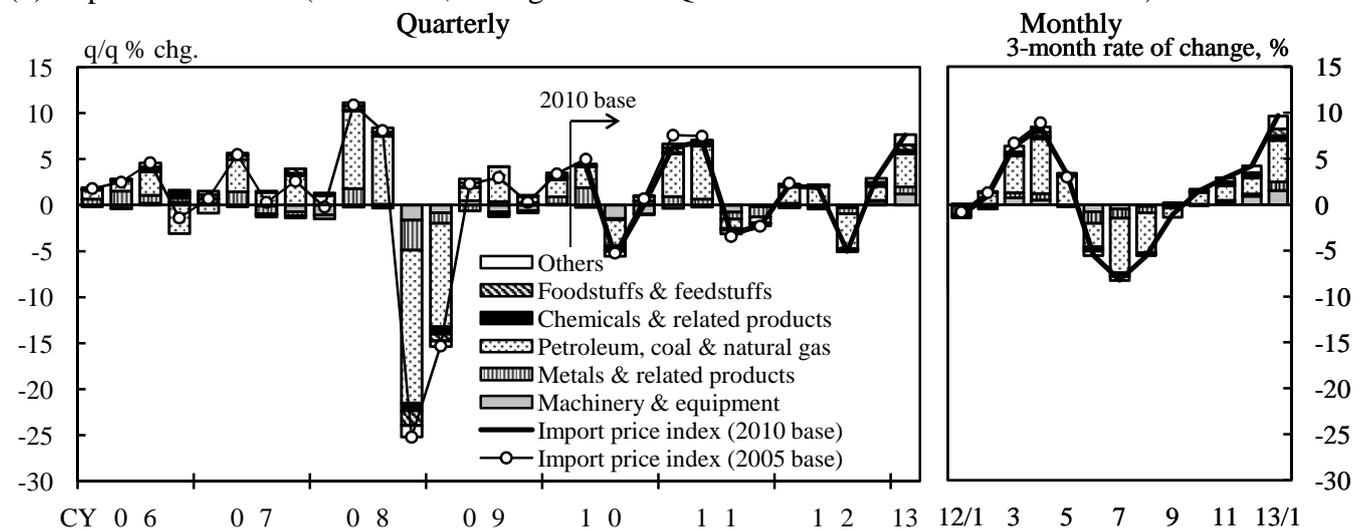
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

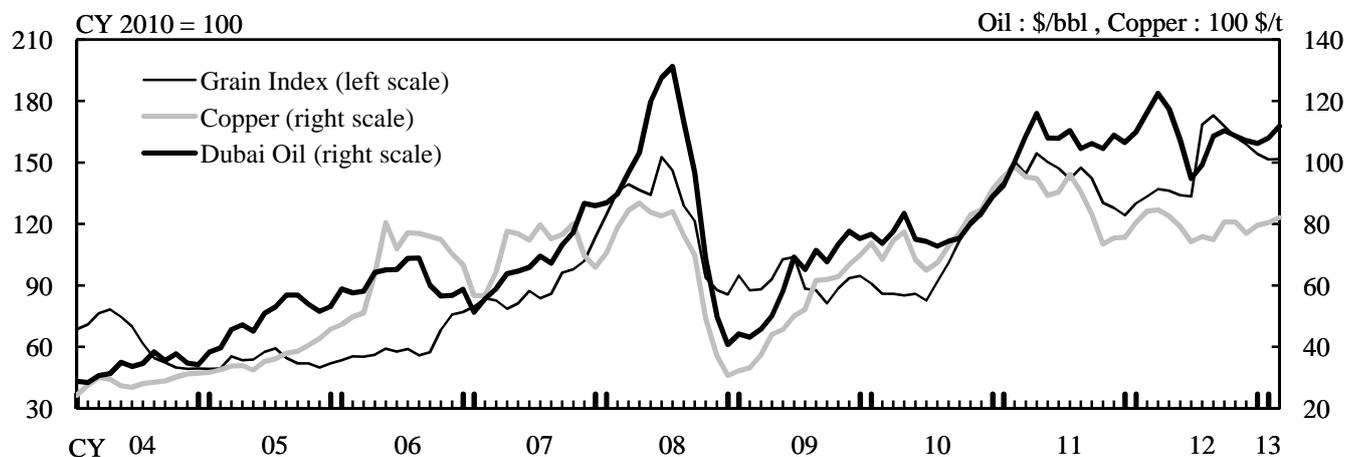


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
 2. Figures for 2013/Q1 are those of January.

(3) International Commodity Prices

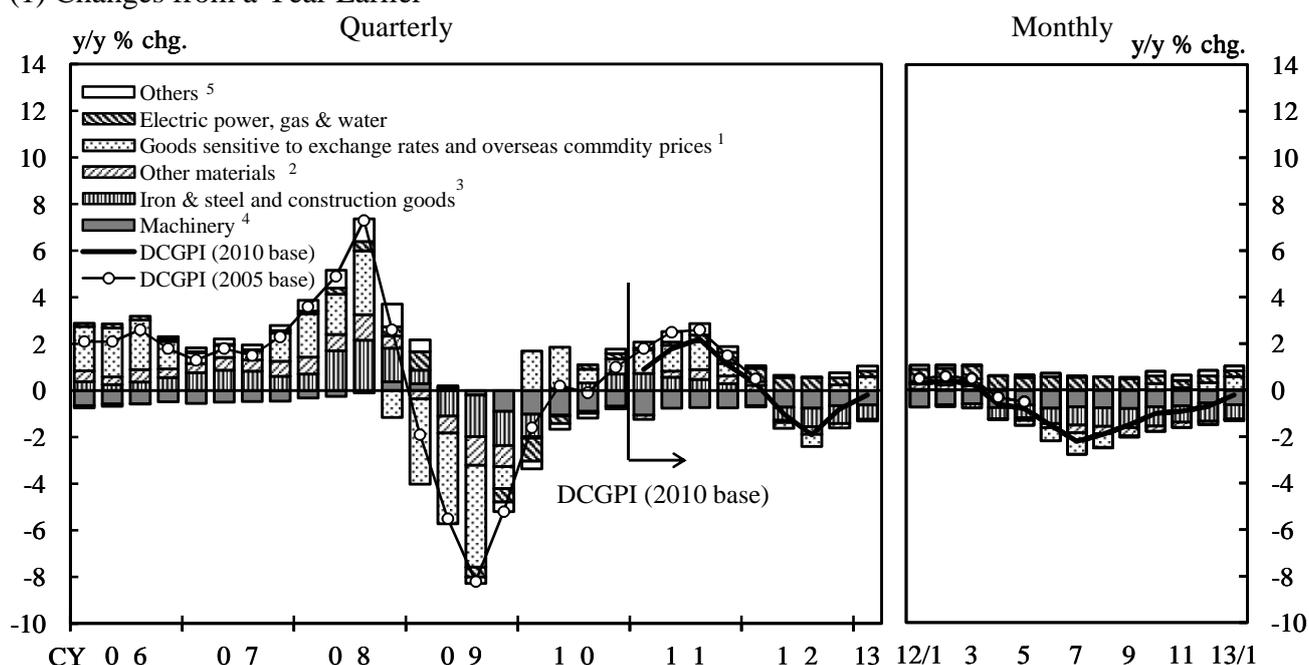
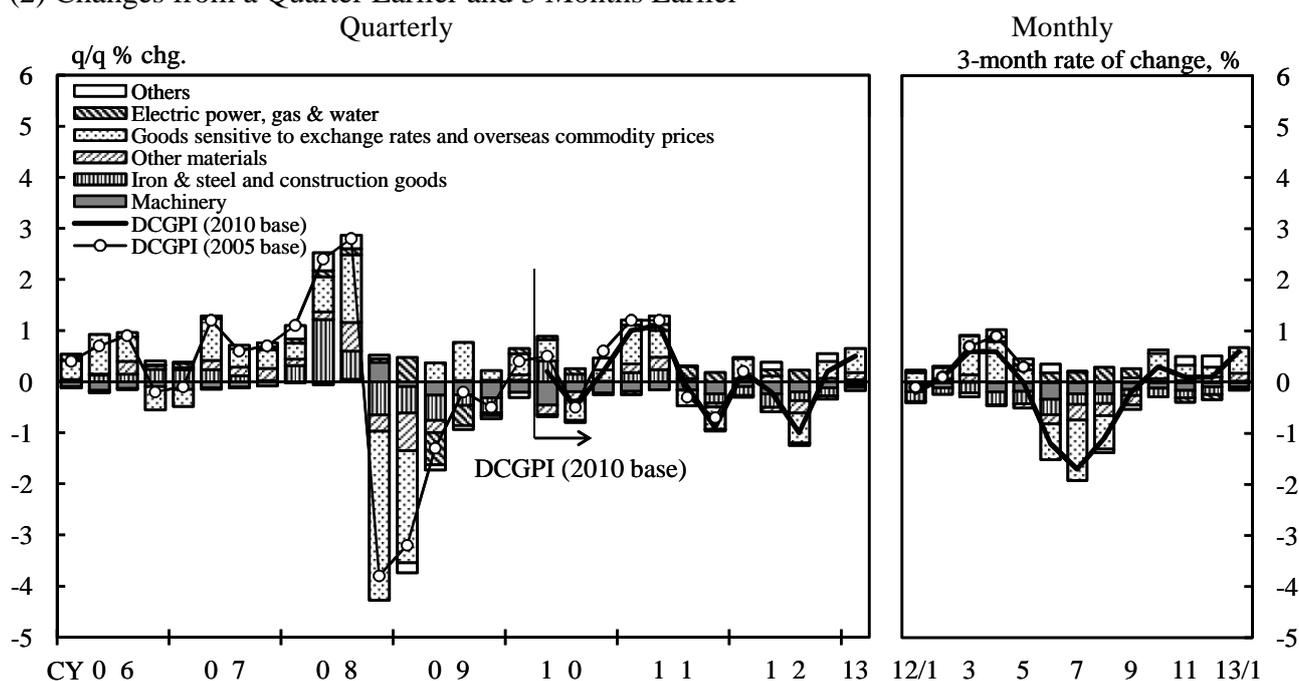


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics." The index has been switched from the 2005 base to the 2010 base.
 2. Monthly averages. Figures for February 2013 are averages up to February 13.

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 ⁶

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.

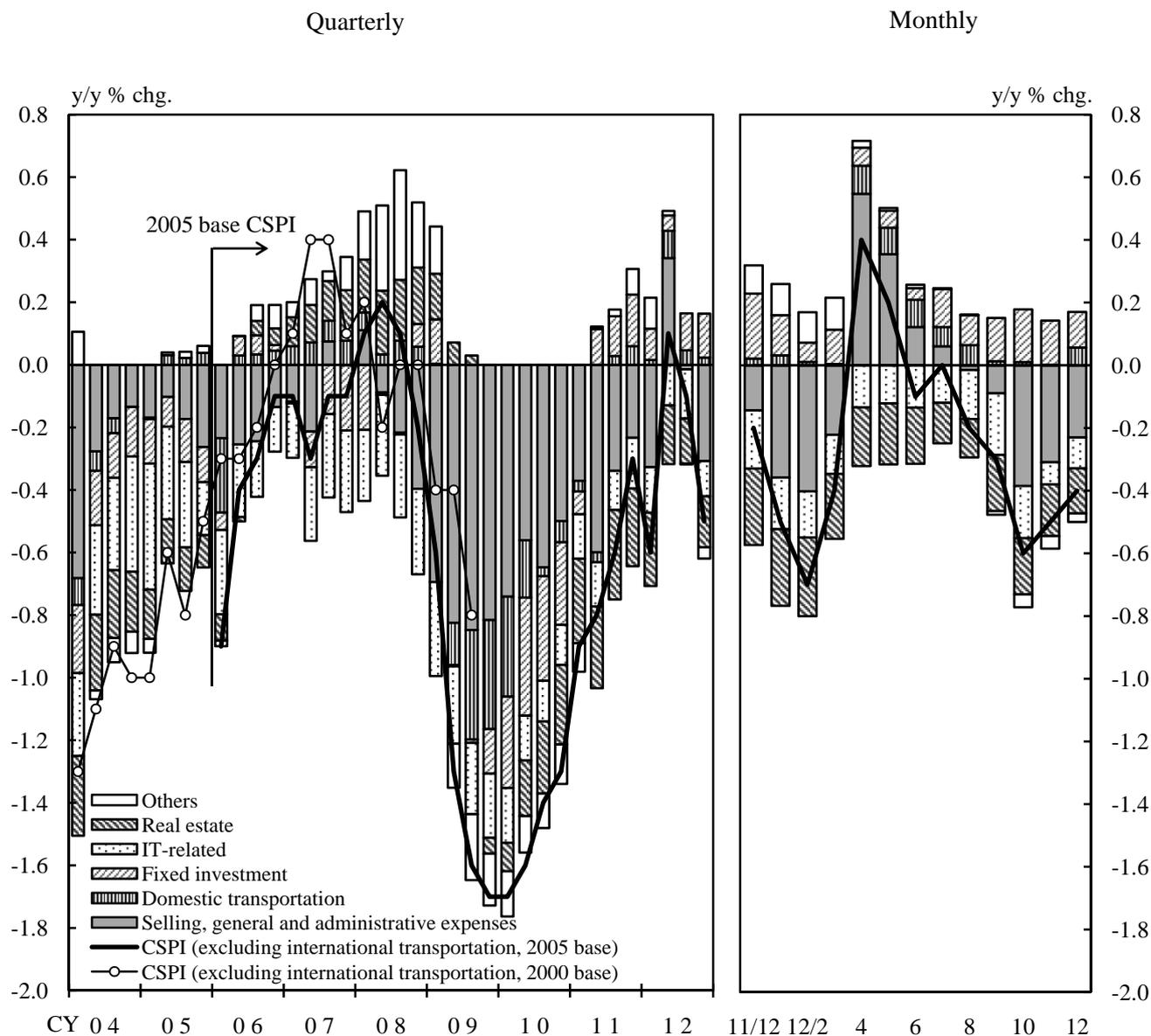
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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 2013/Q1 are those of January.

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

Corporate Services Price Index

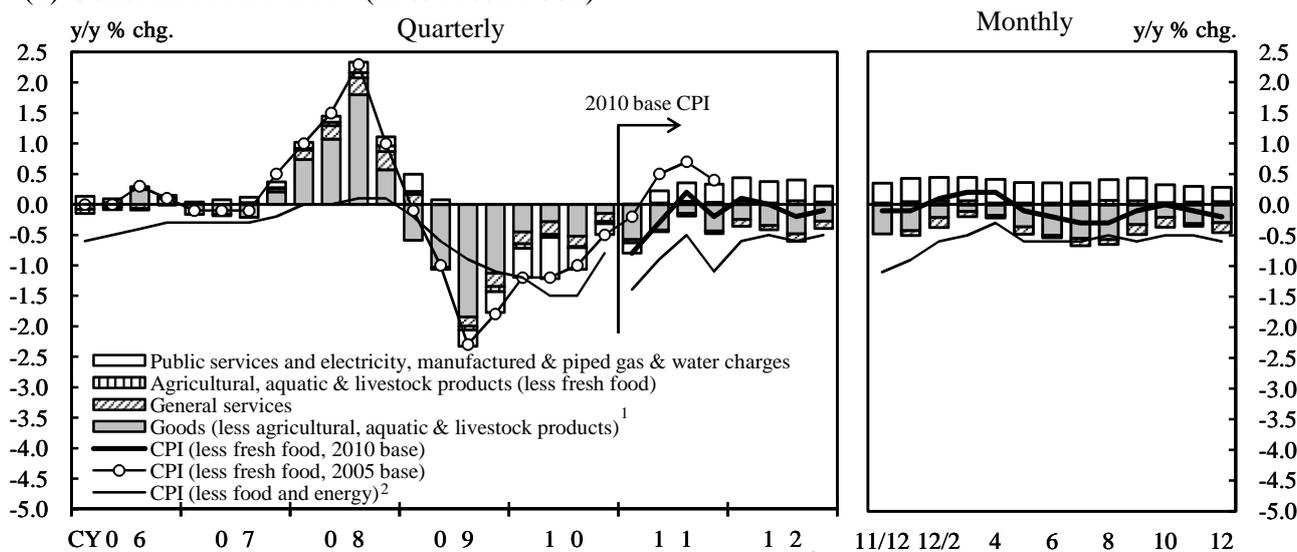


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding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

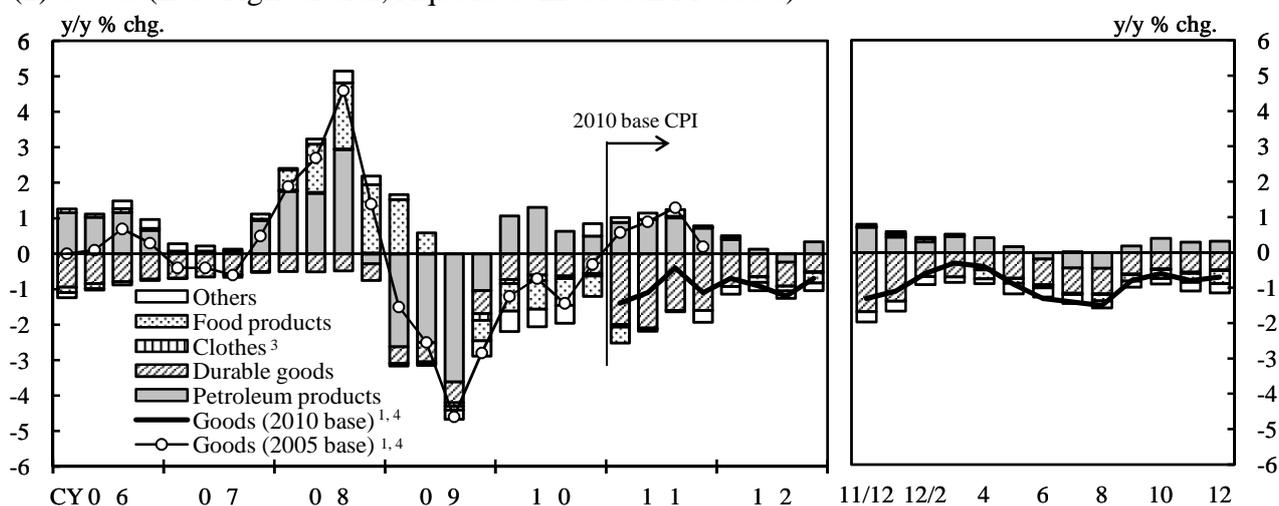
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

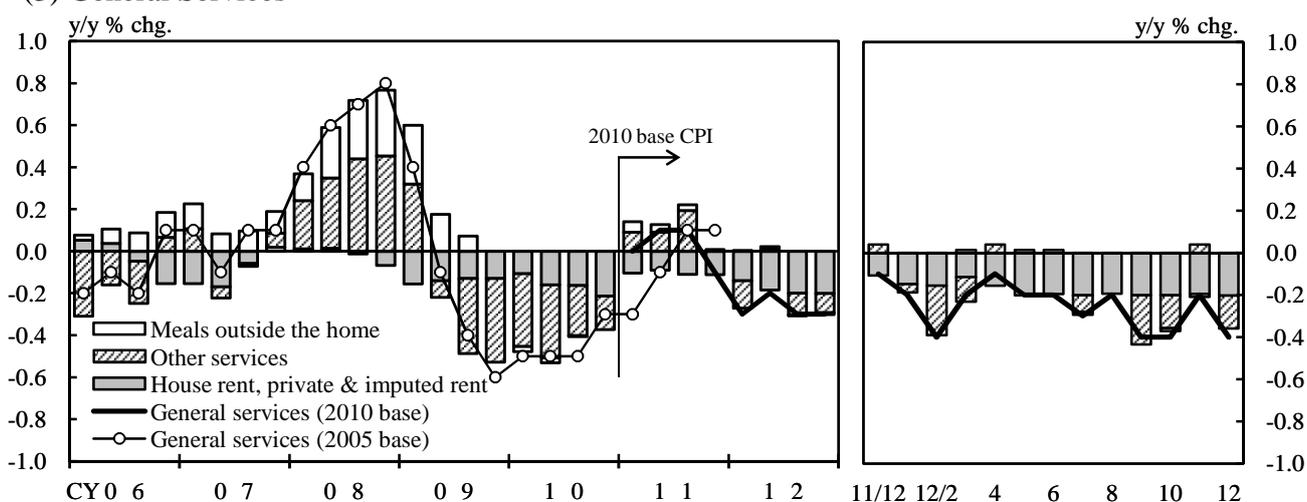
(1) Consumer Price Index (Less Fresh Food)



(2) Goods (Less Agricultural, Aquatic & Livestock Products)¹



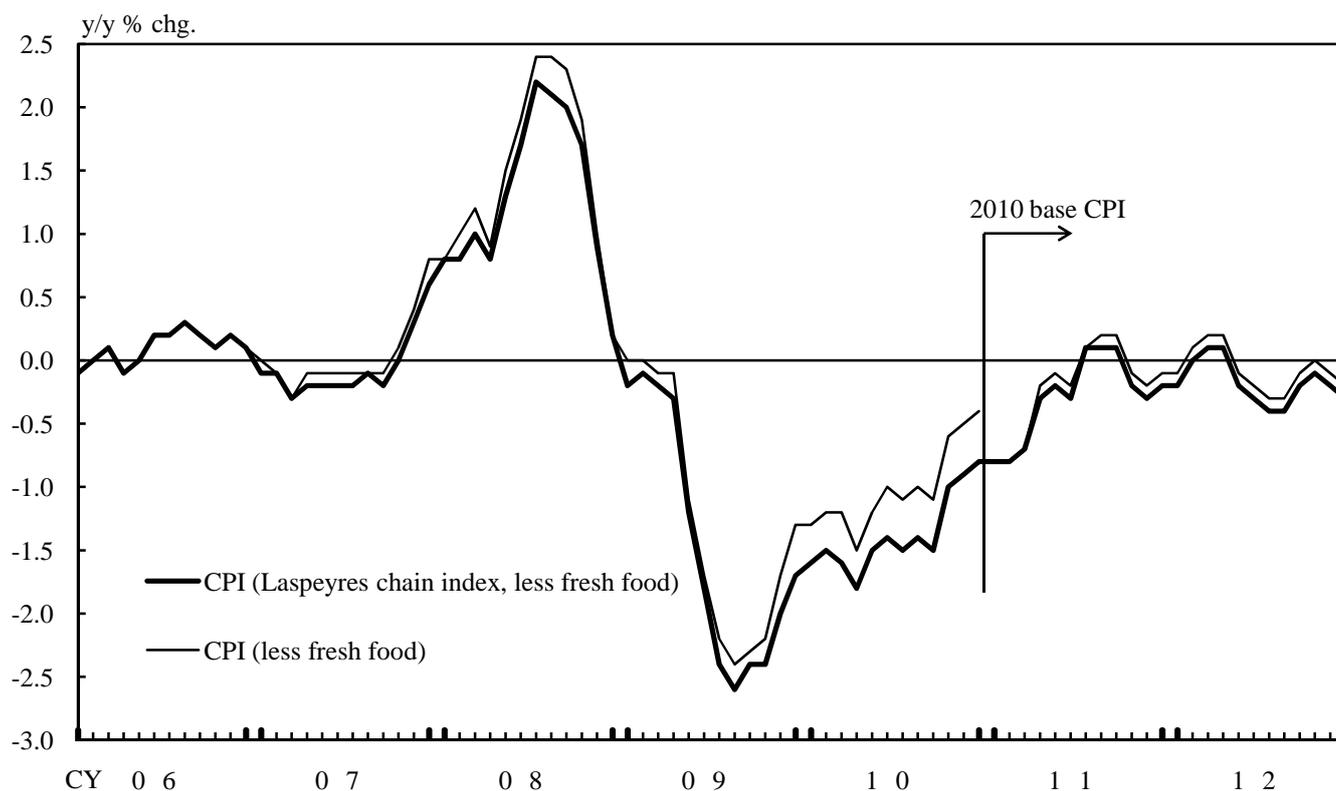
(3) General Services



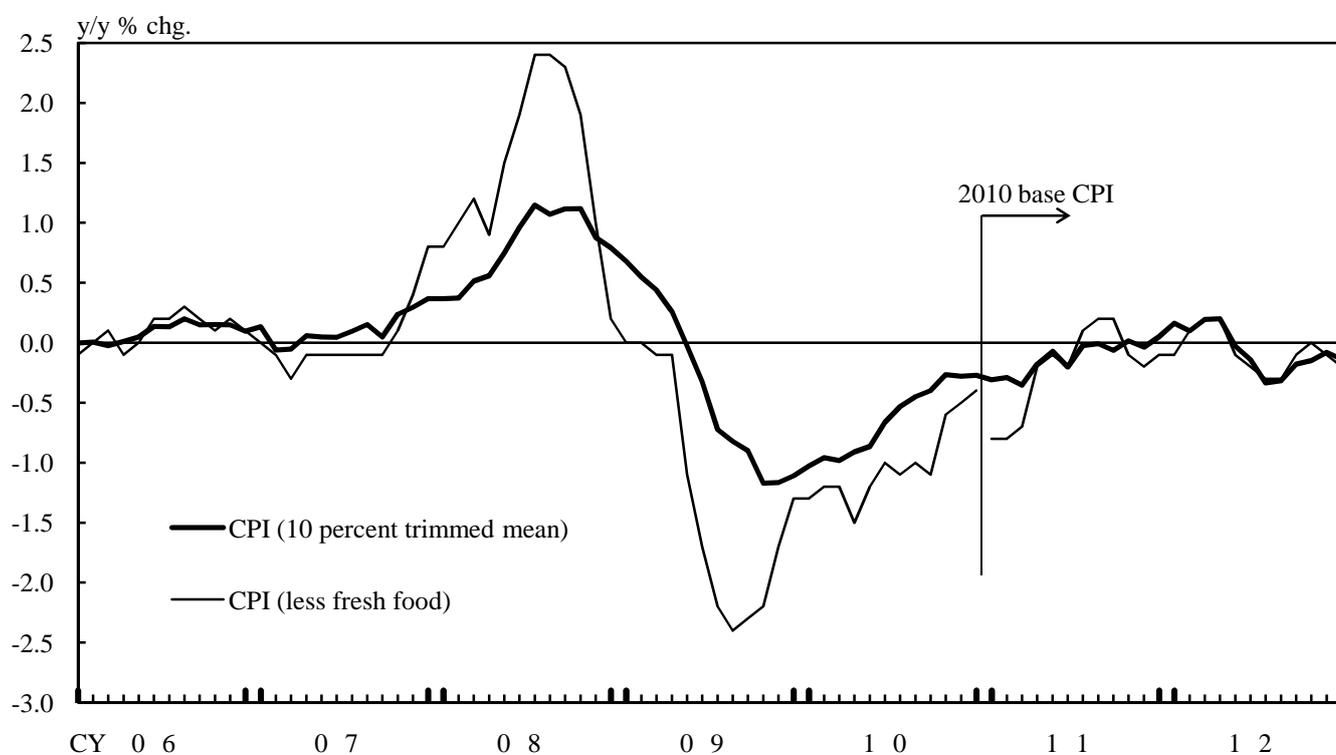
- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, 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.

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



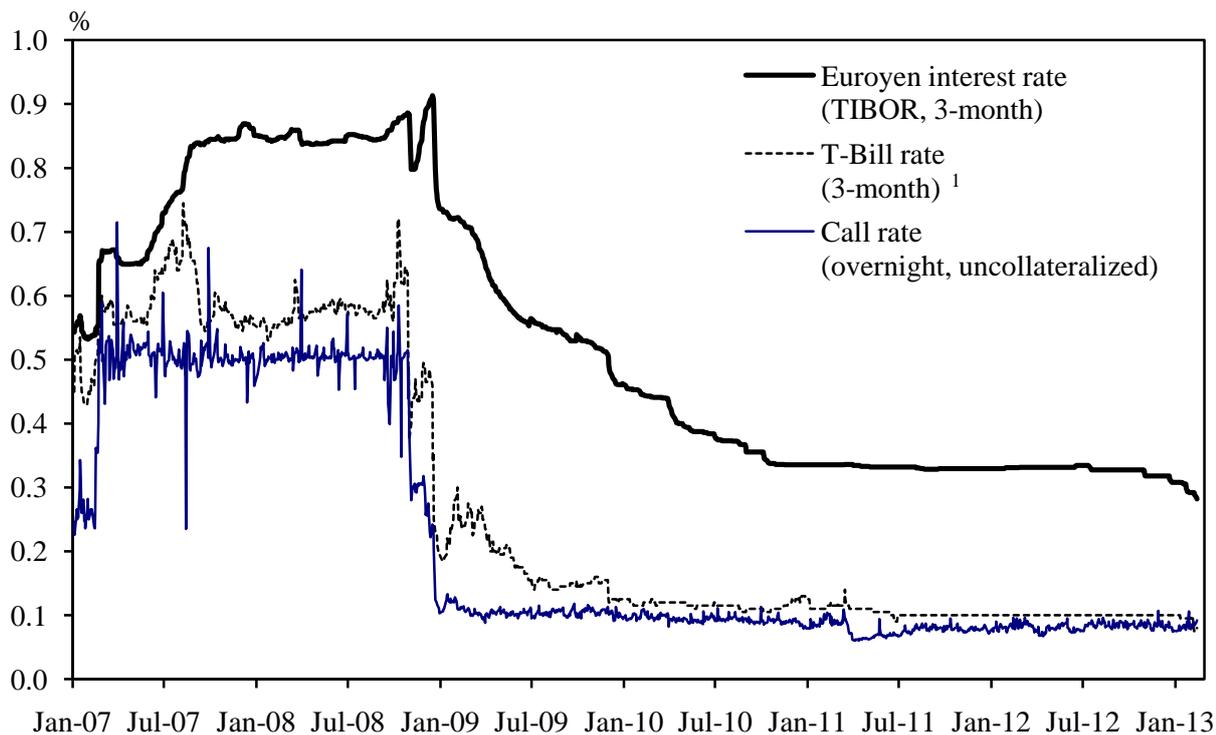
Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

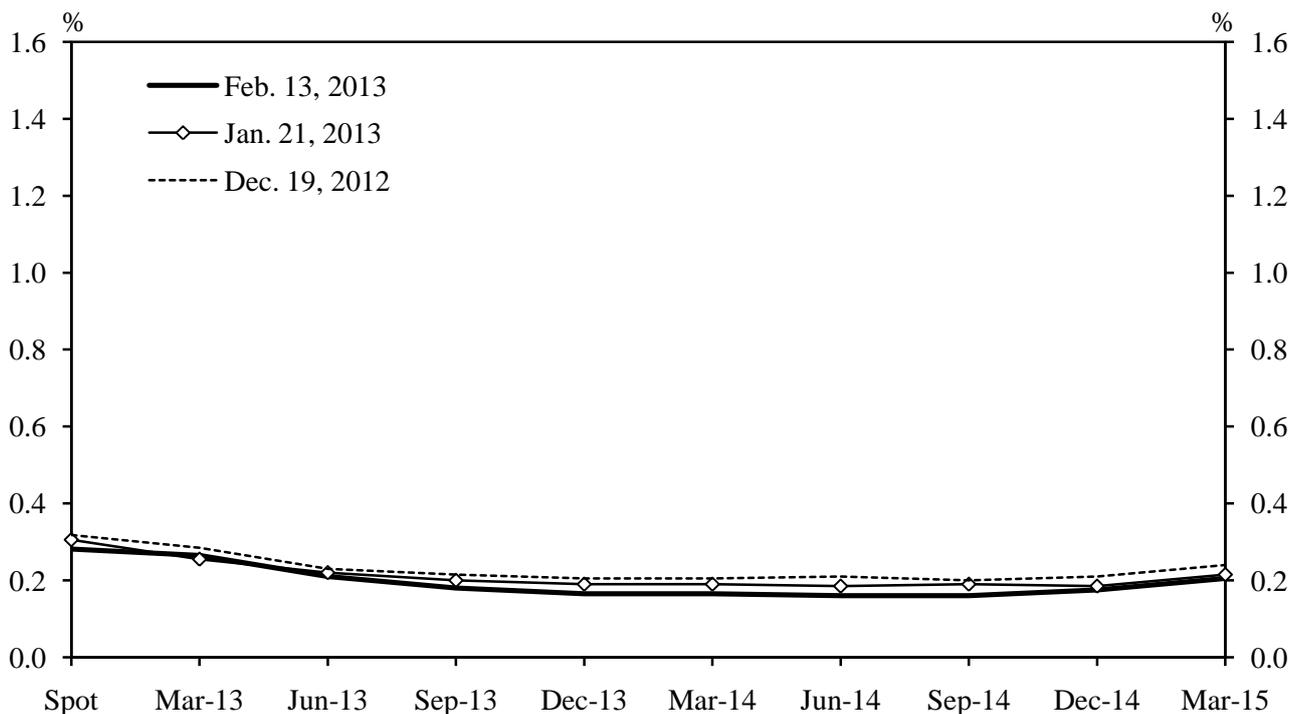
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



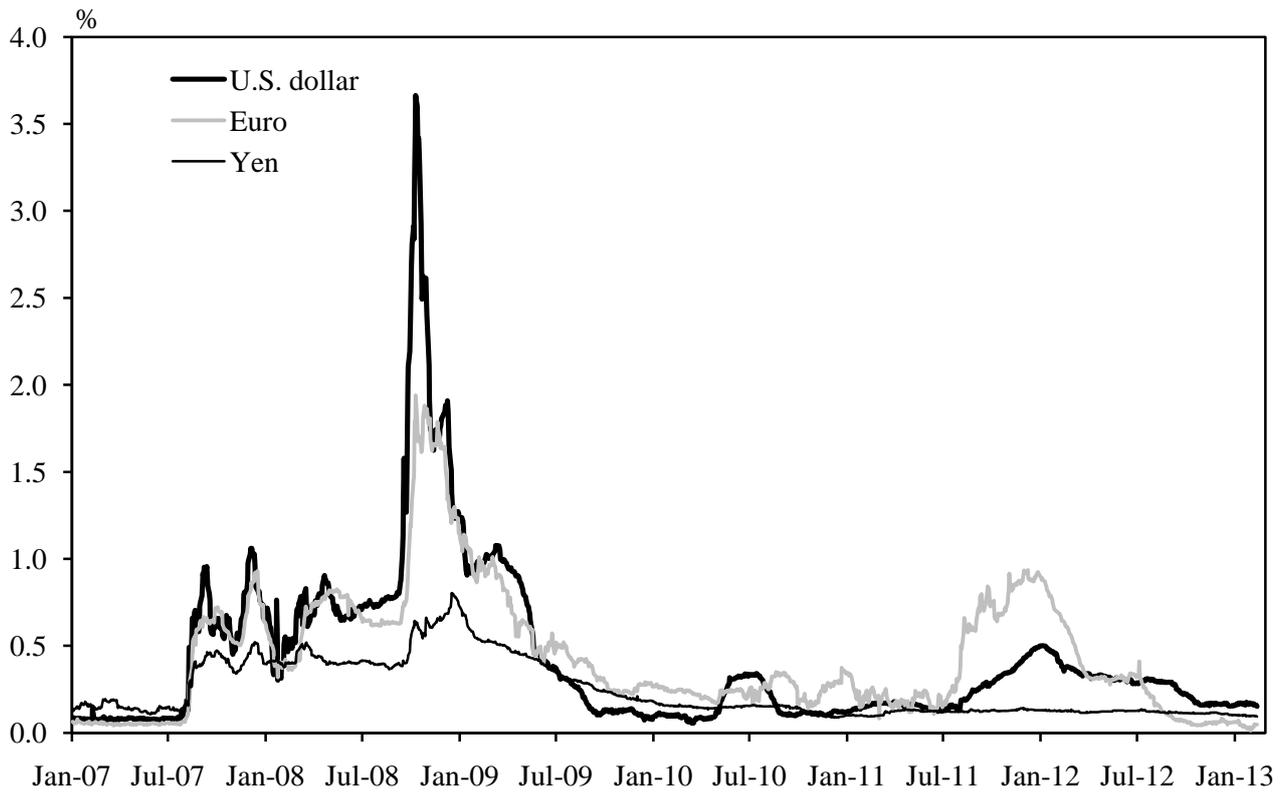
(2) Euroyen Interest Rate Futures (3-Month)



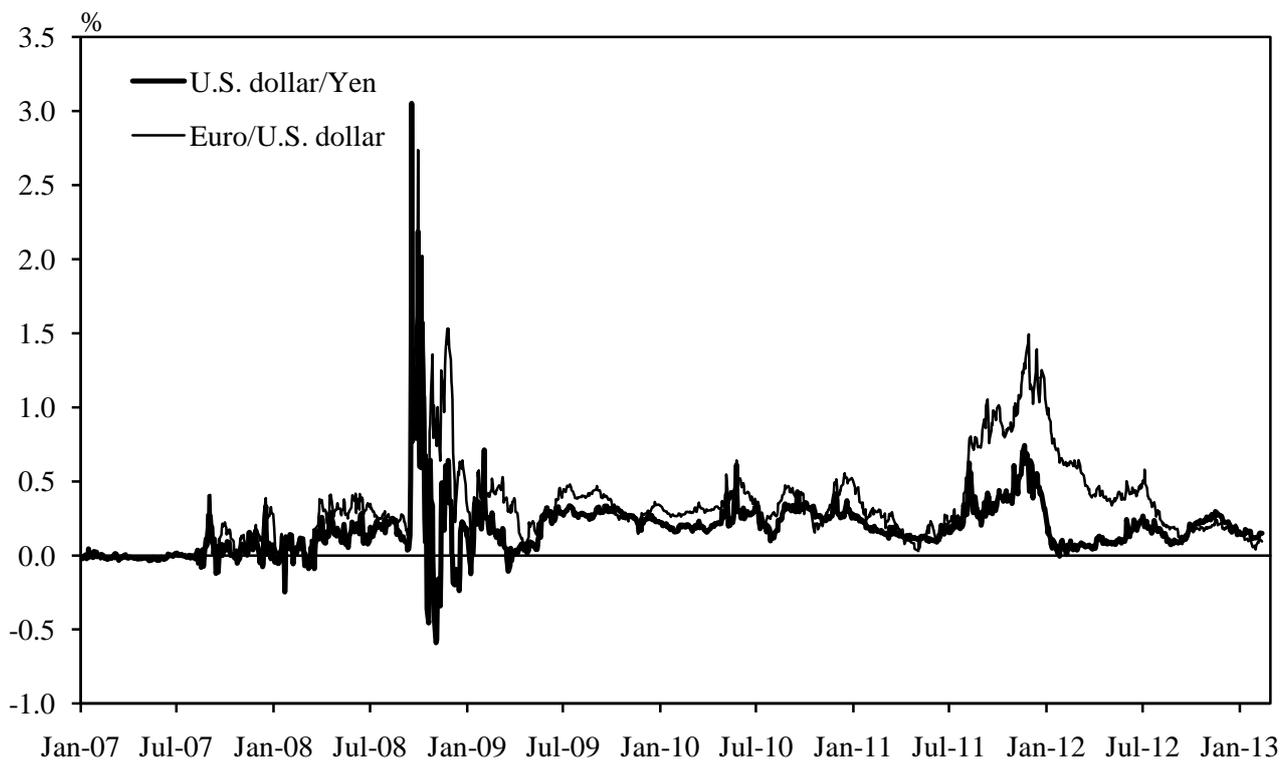
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



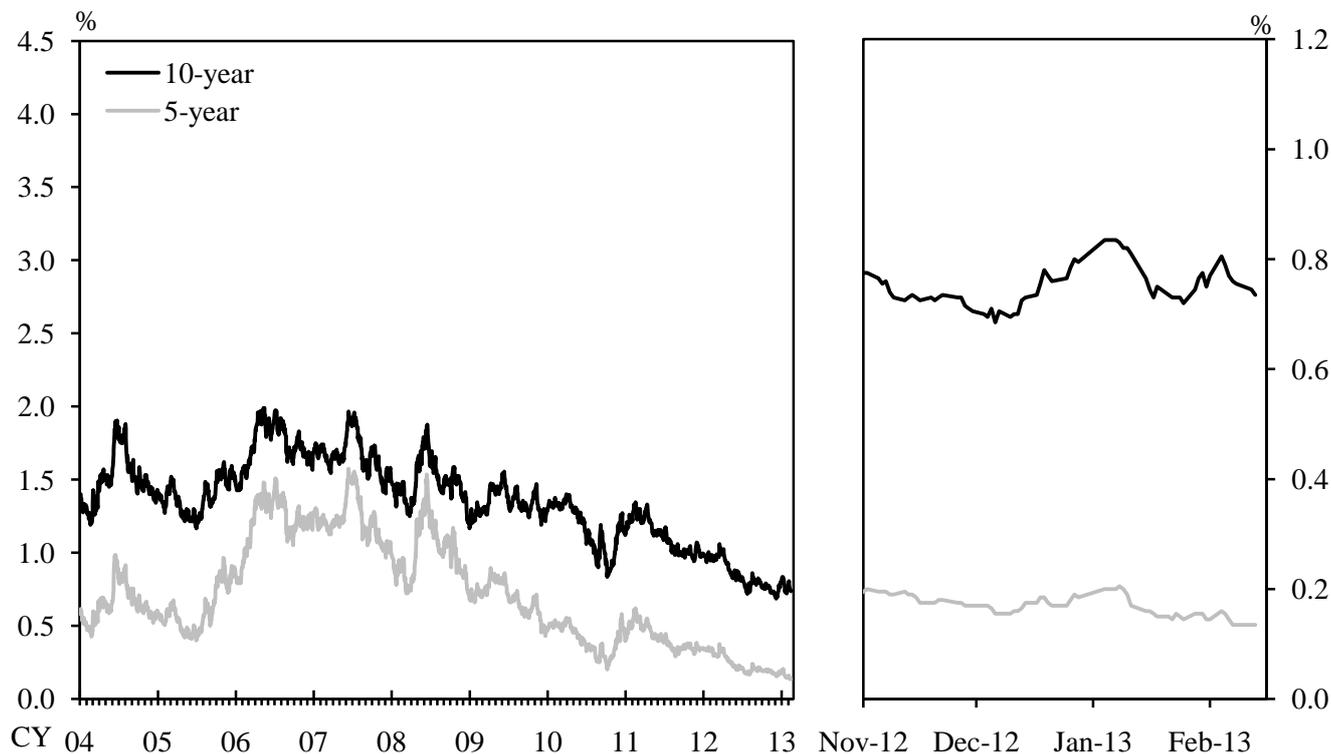
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



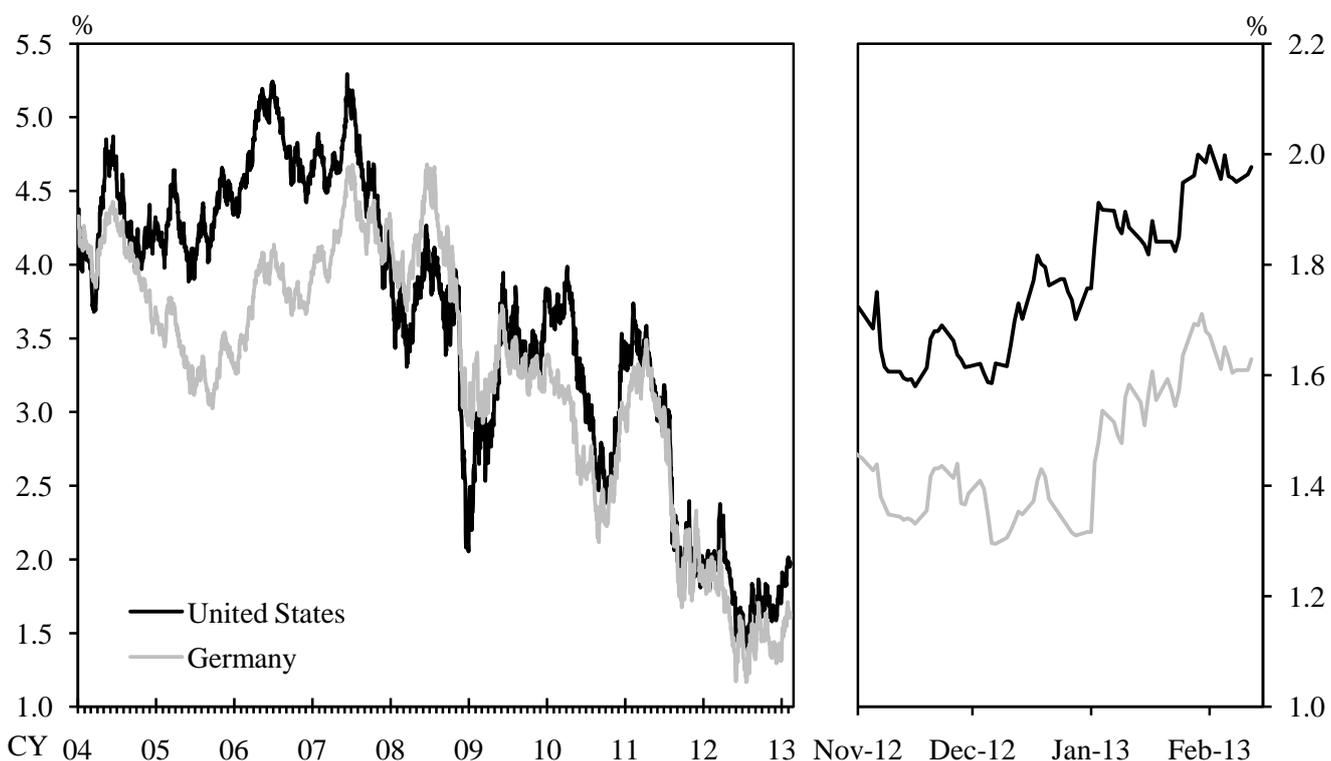
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



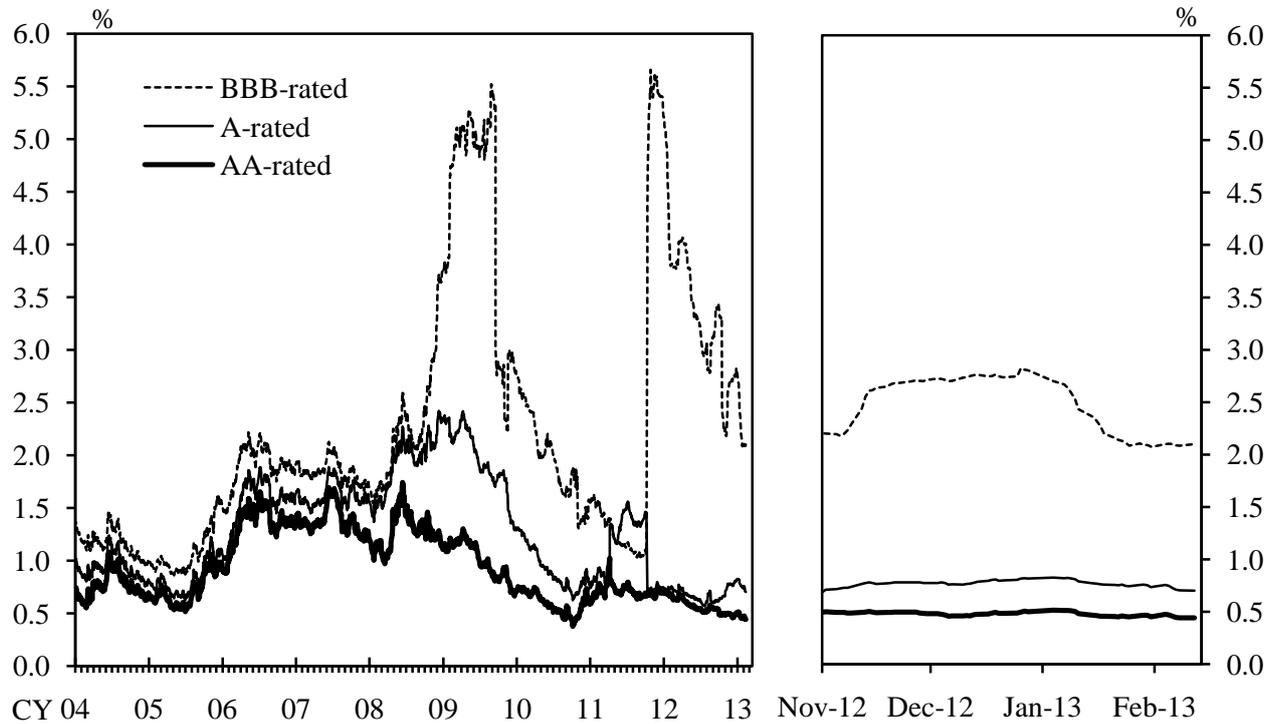
(2) Overseas Government Bond Yields (10-Year)



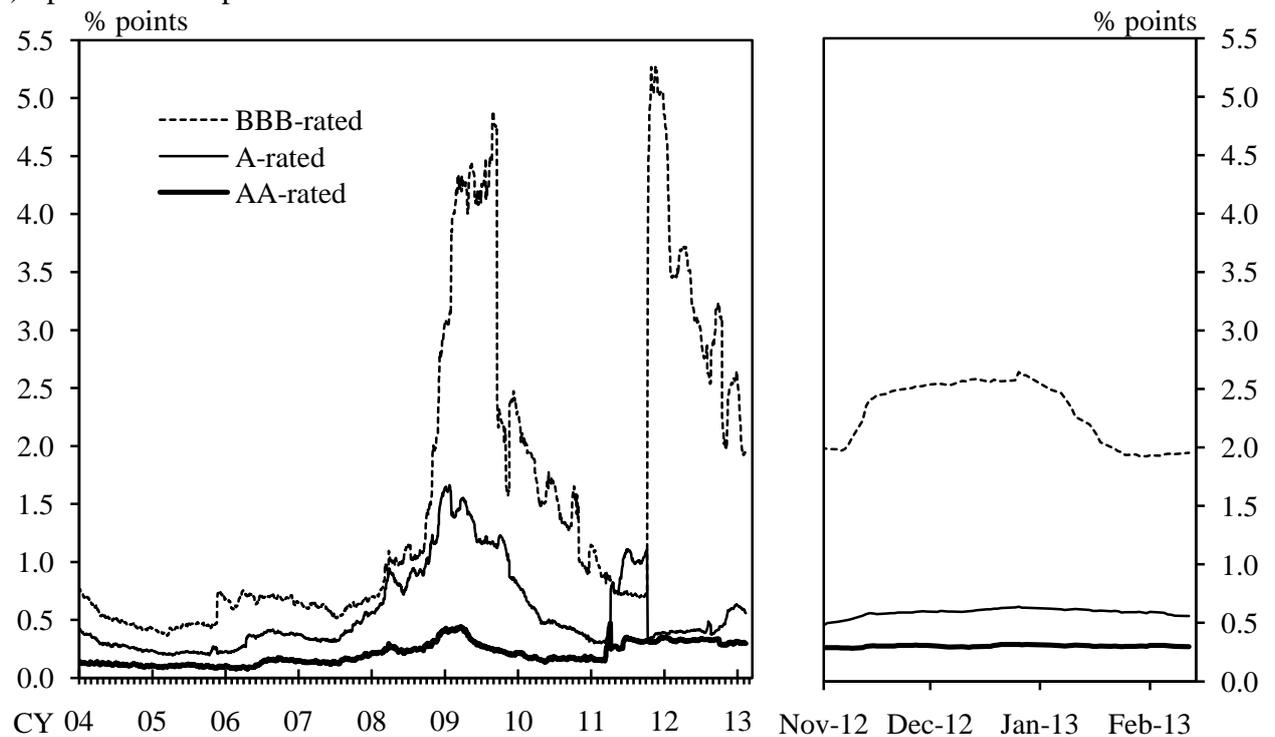
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields^{1,2}



(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



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

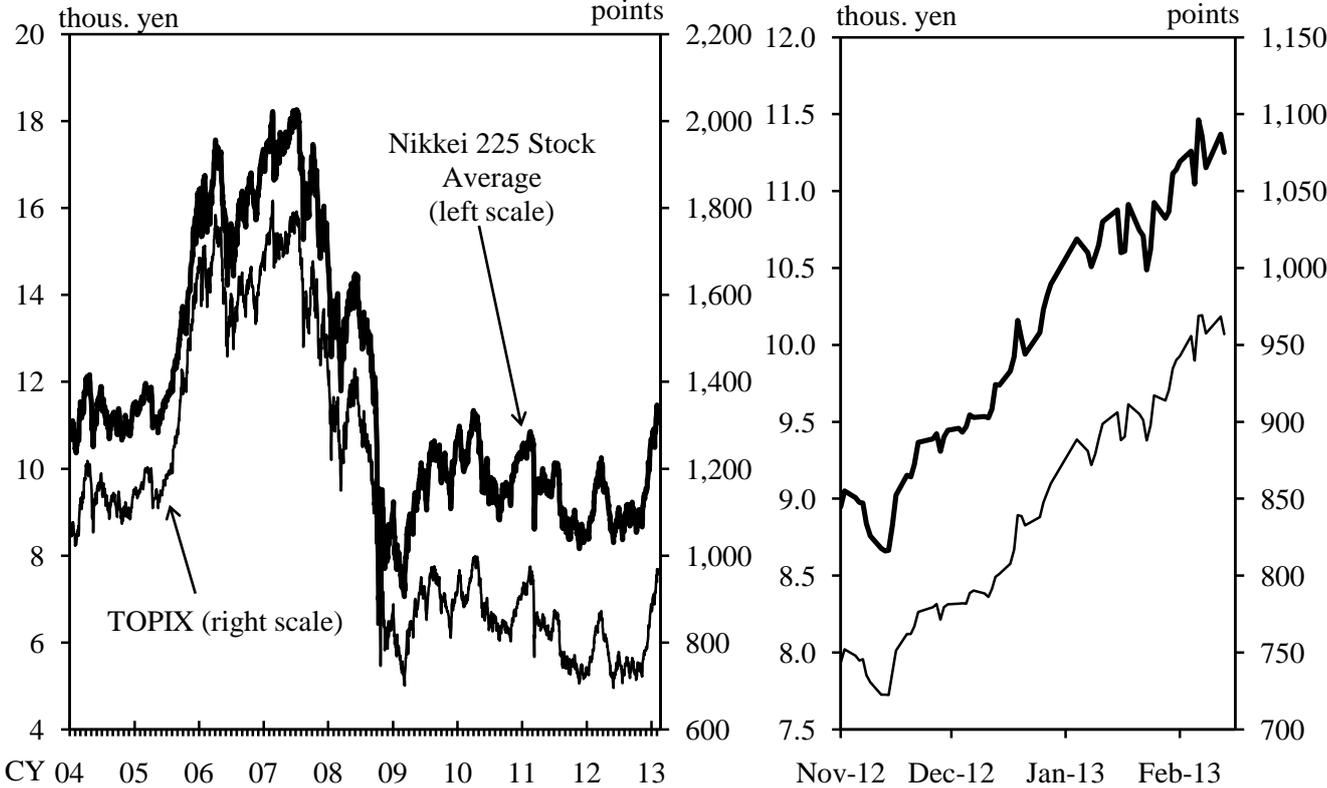
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

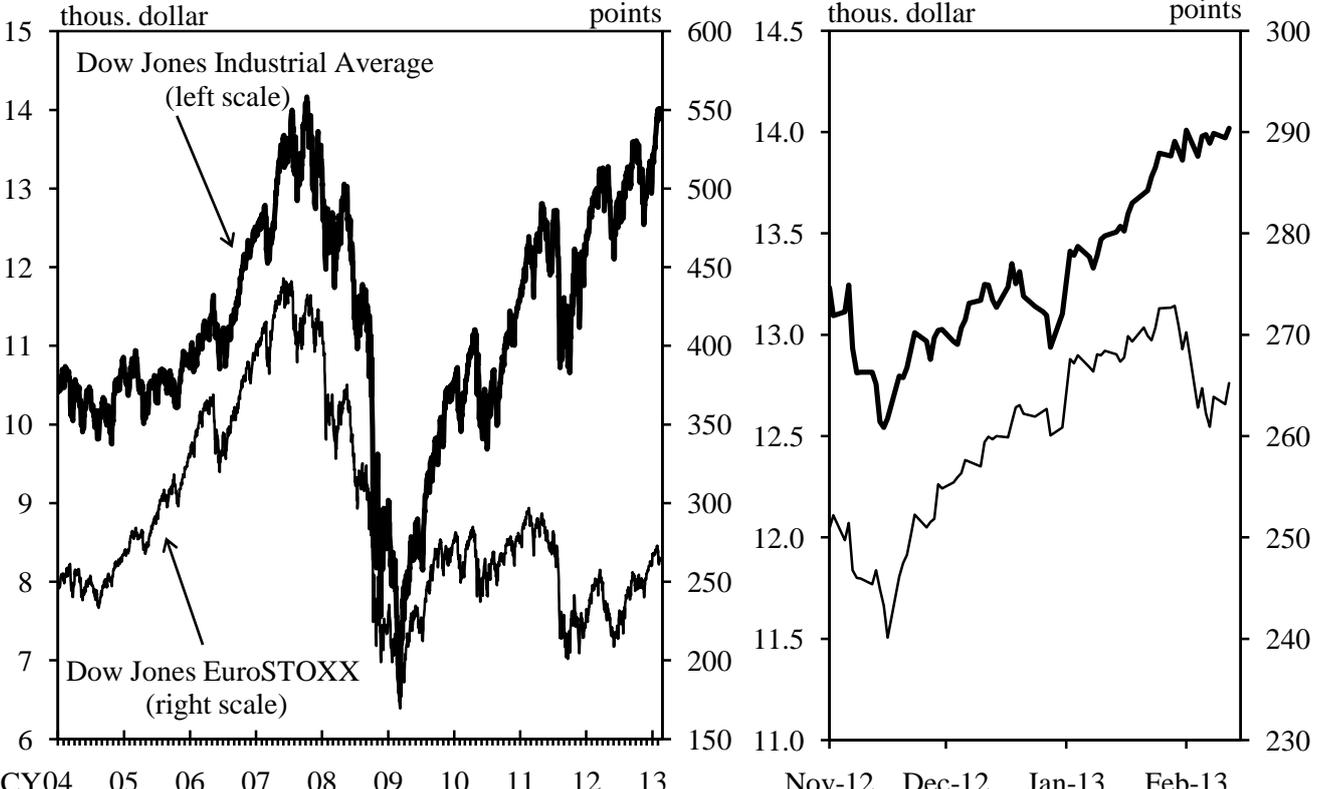
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



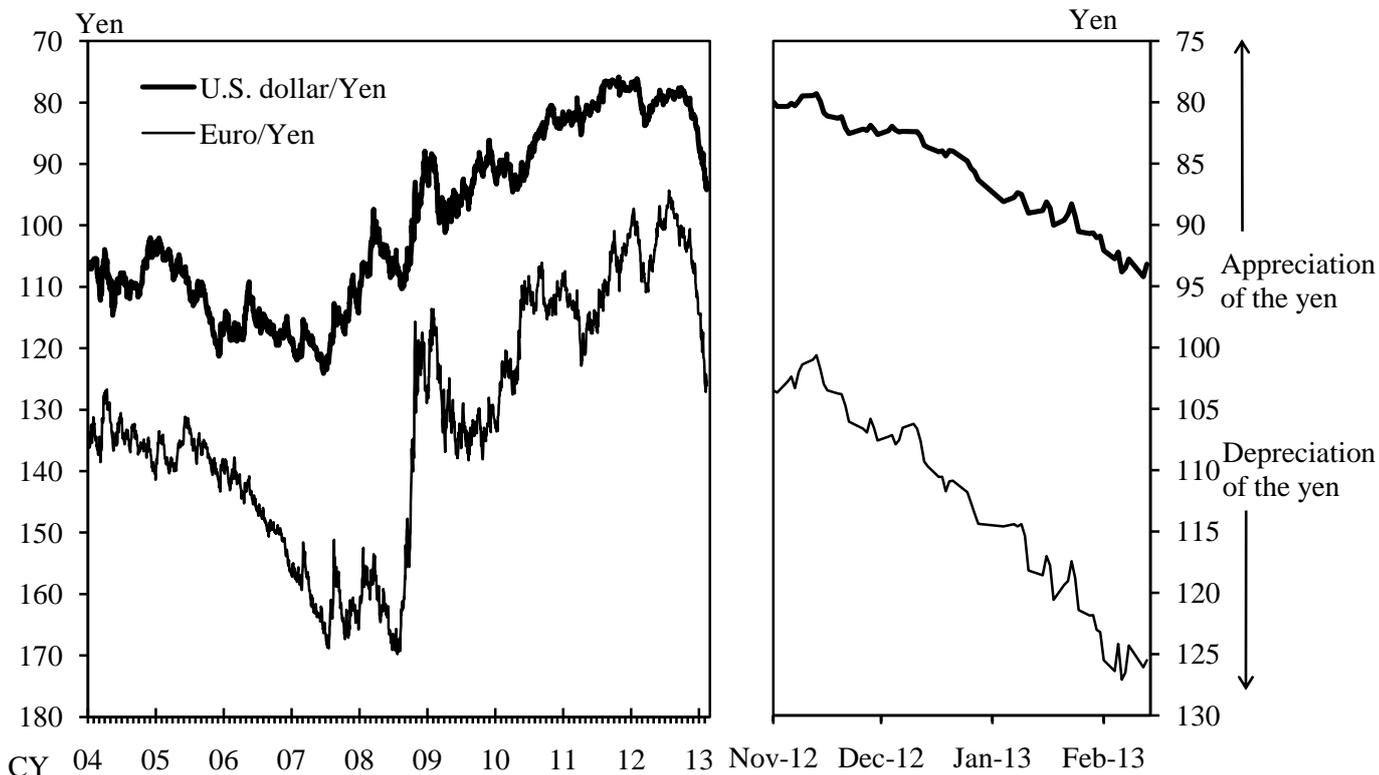
(2) Overseas Stock Prices



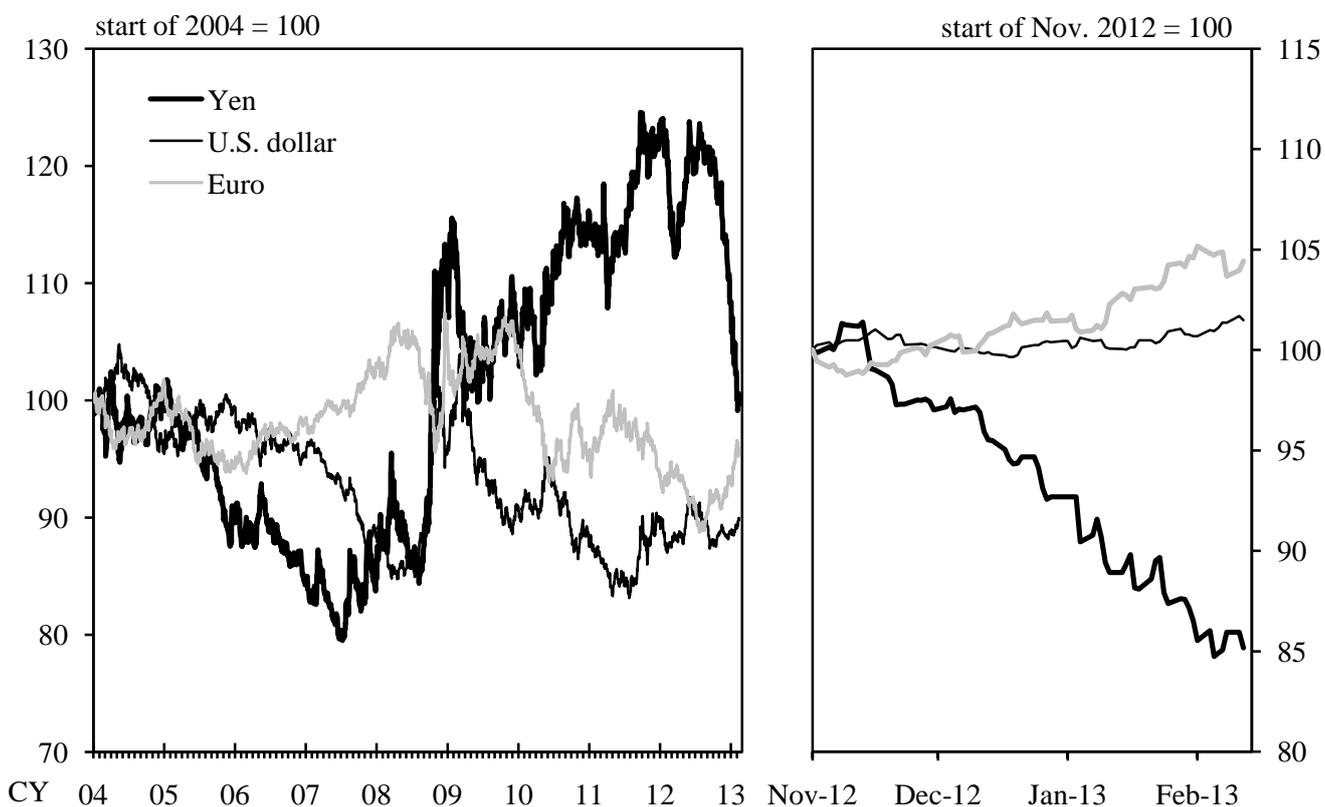
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates

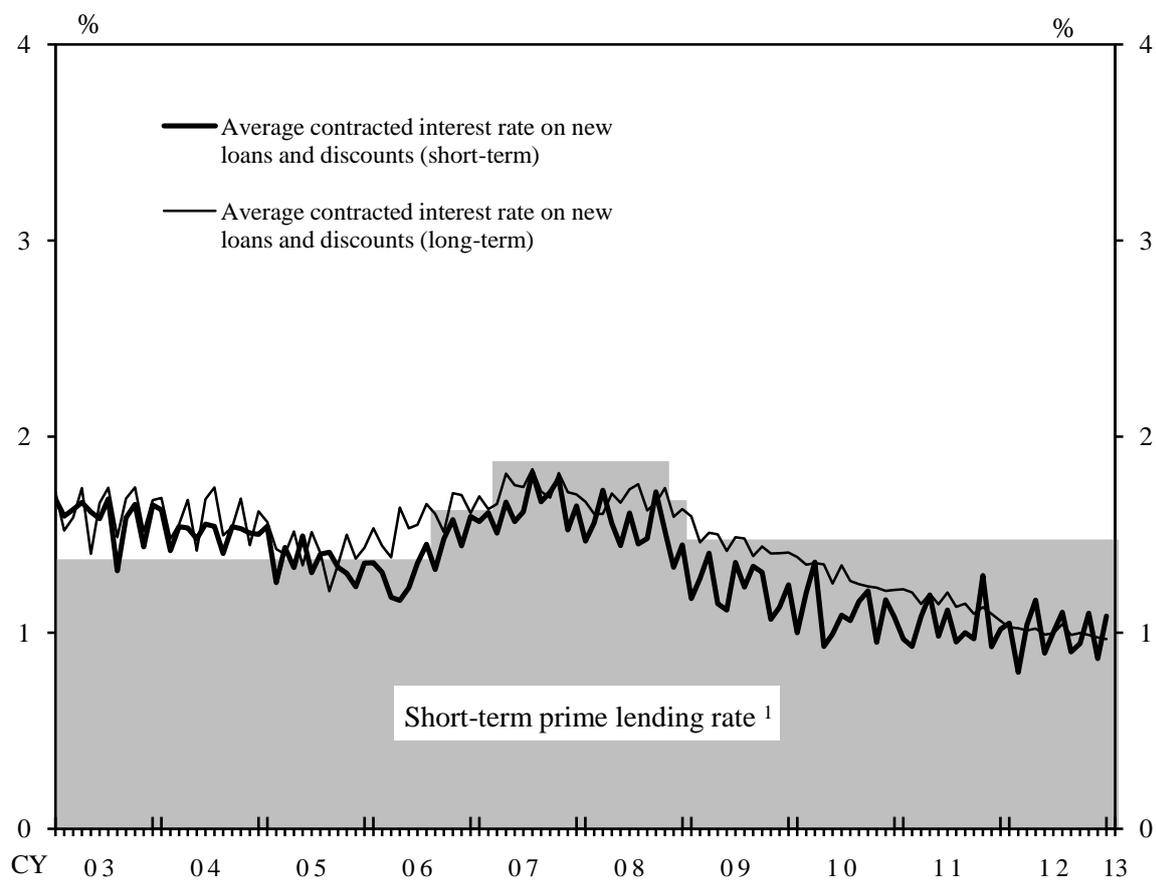


(2) Nominal Effective Exchange Rates



Sources: Bank of Japan; European Central Bank; Thomson Reuters Datastream.

Lending Rates

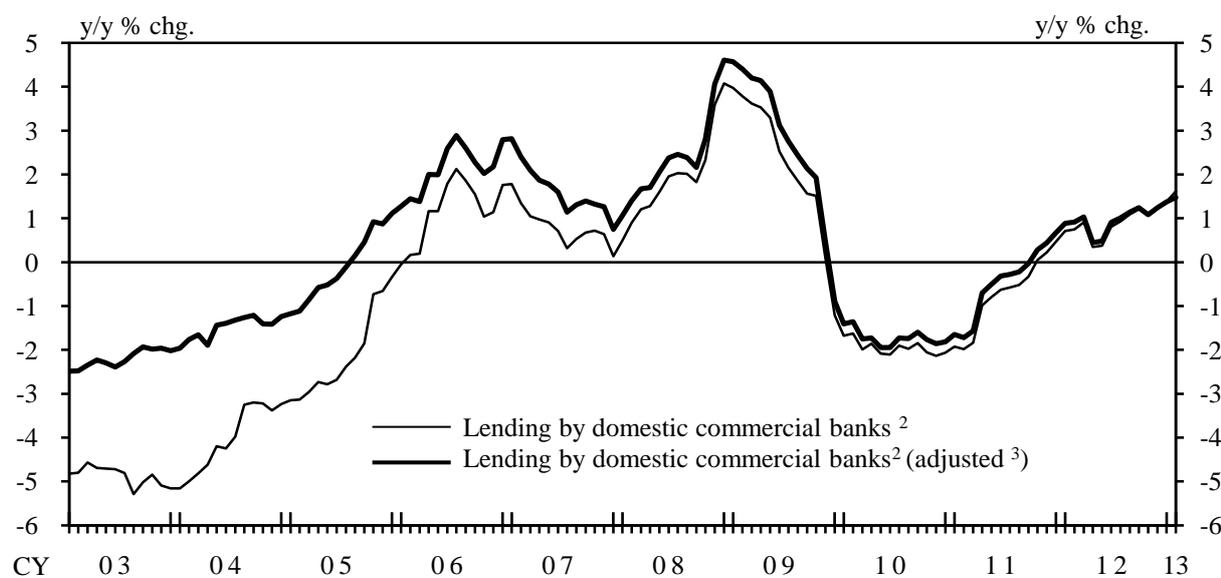


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



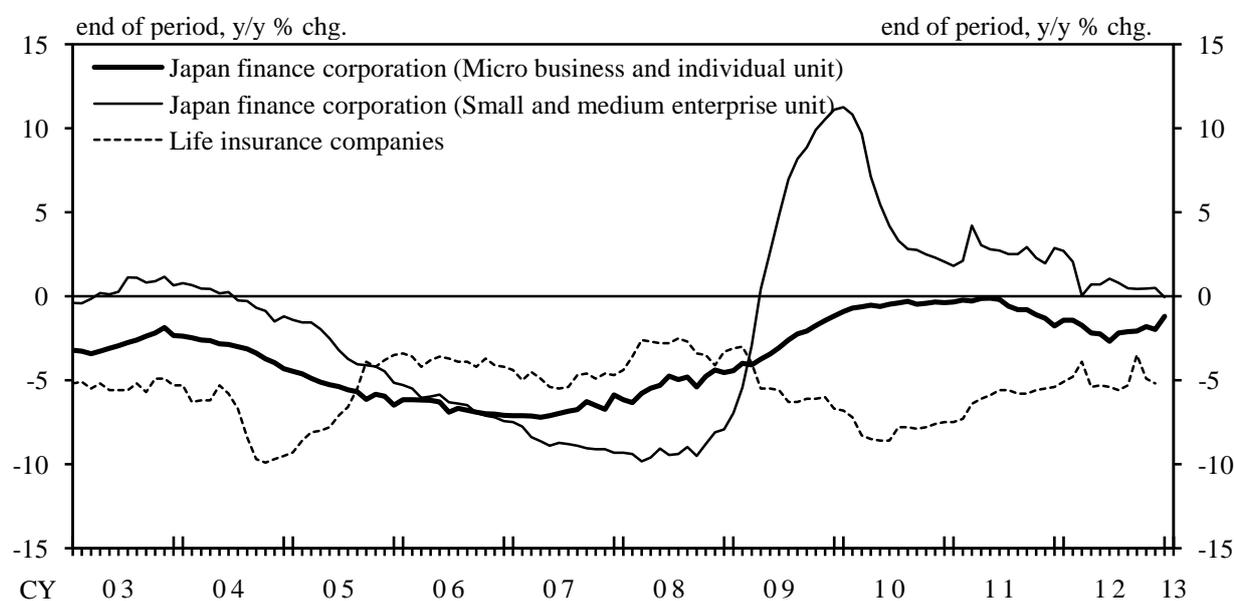
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

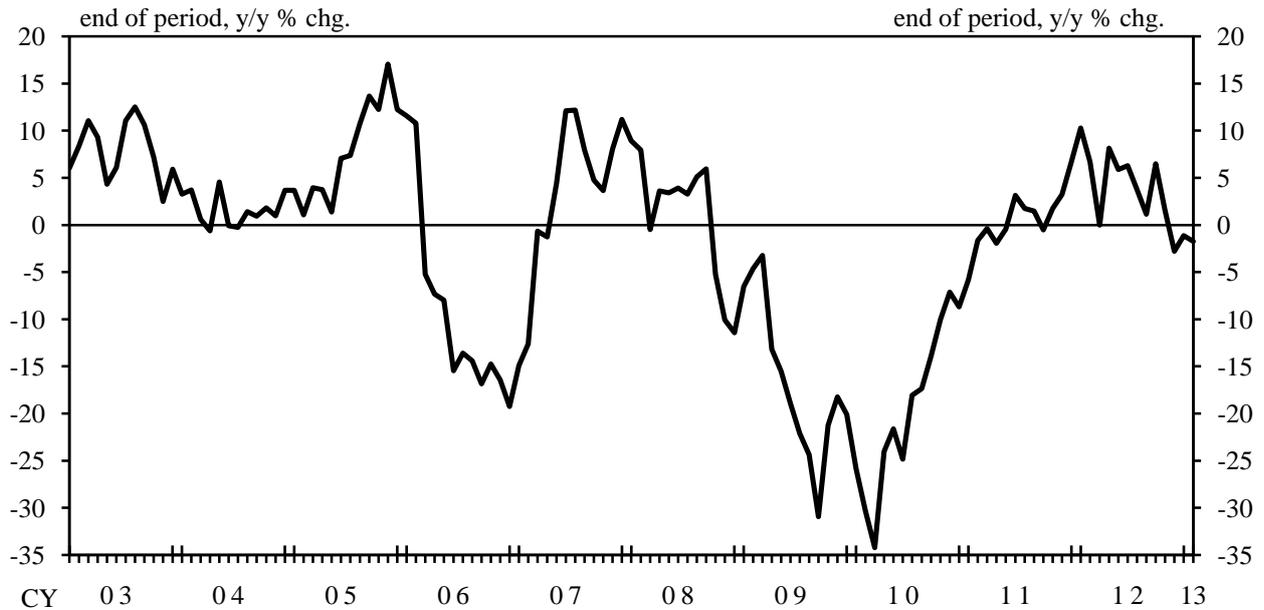
(2) Lending by Other Financial Institutions



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

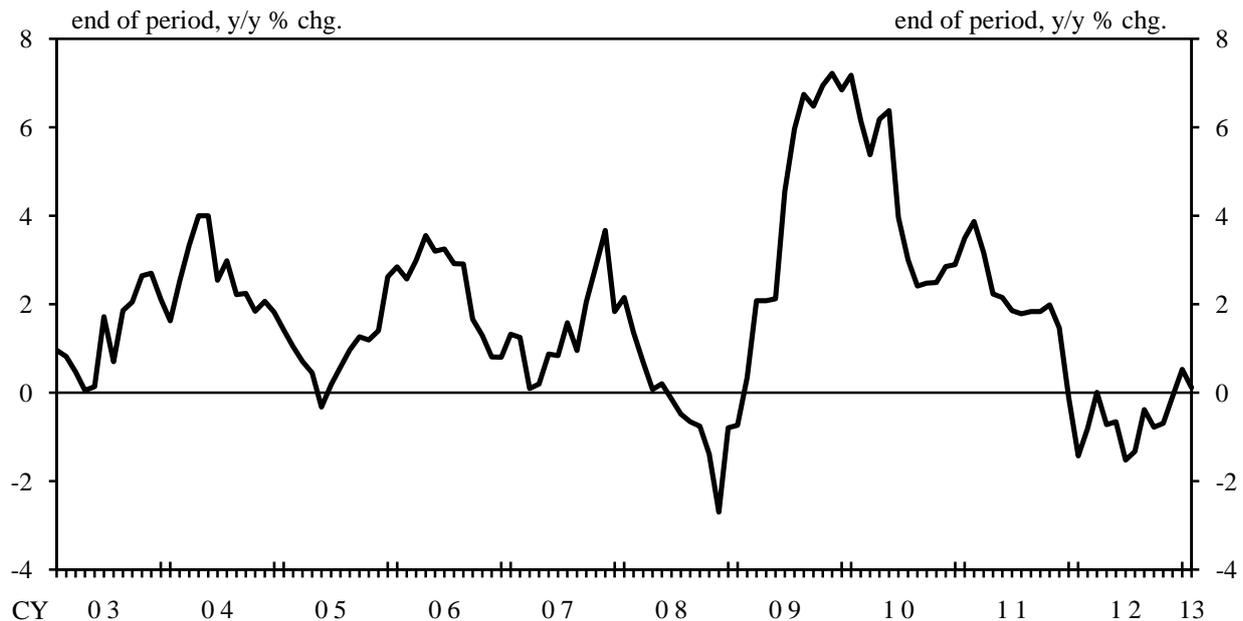
 Private-Sector Fund-Raising in the Capital Markets

(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



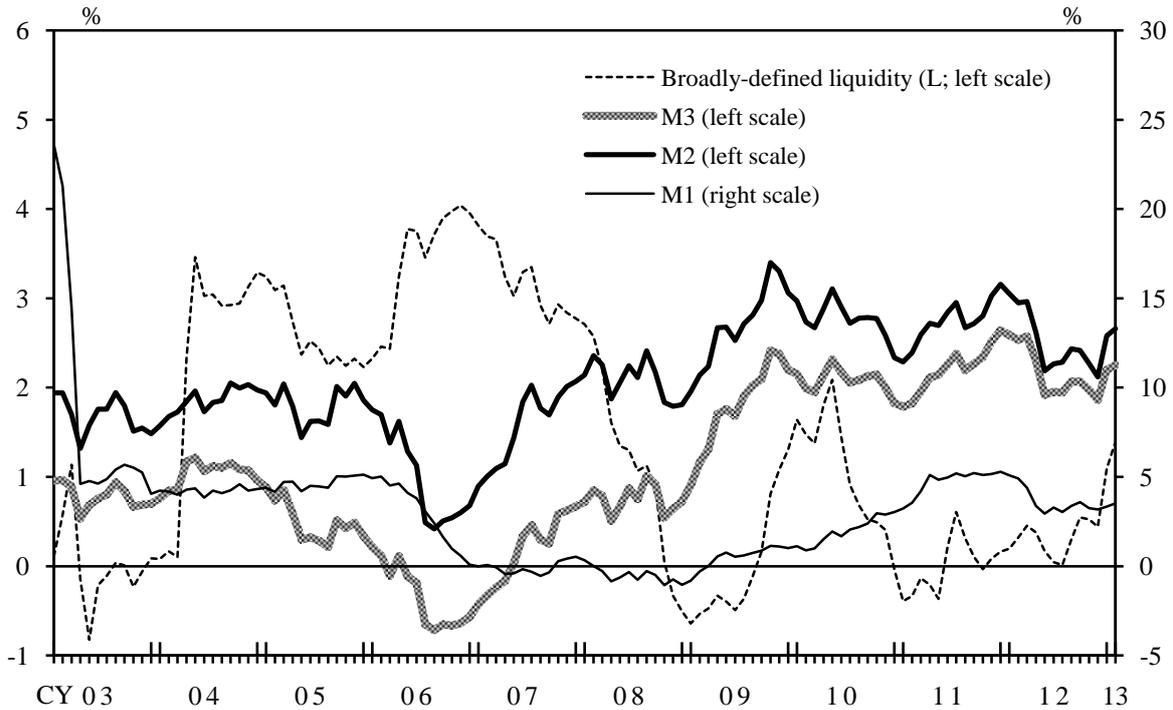
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

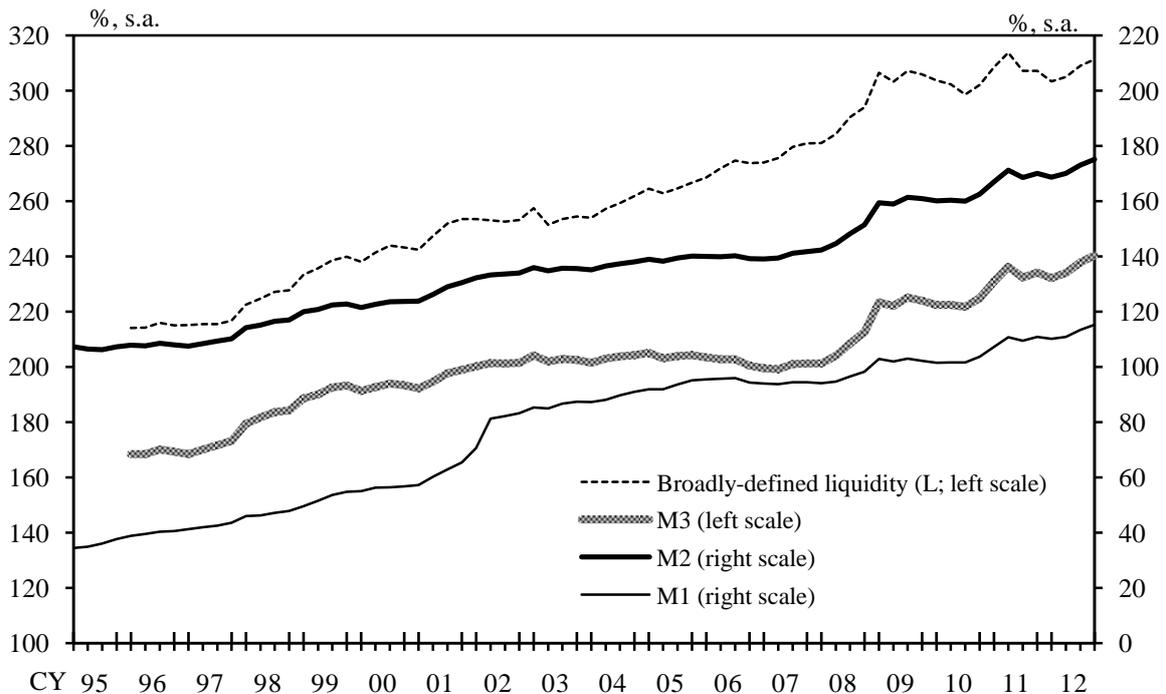
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



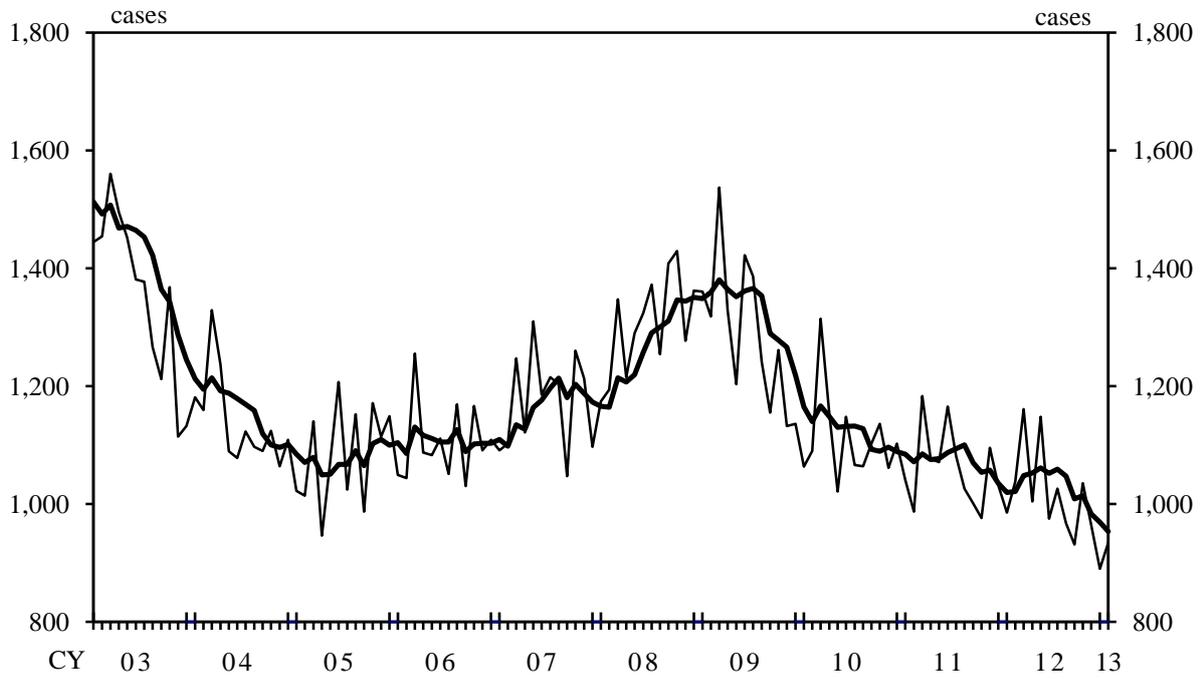
(2) Ratio of Money Stock to Nominal GDP



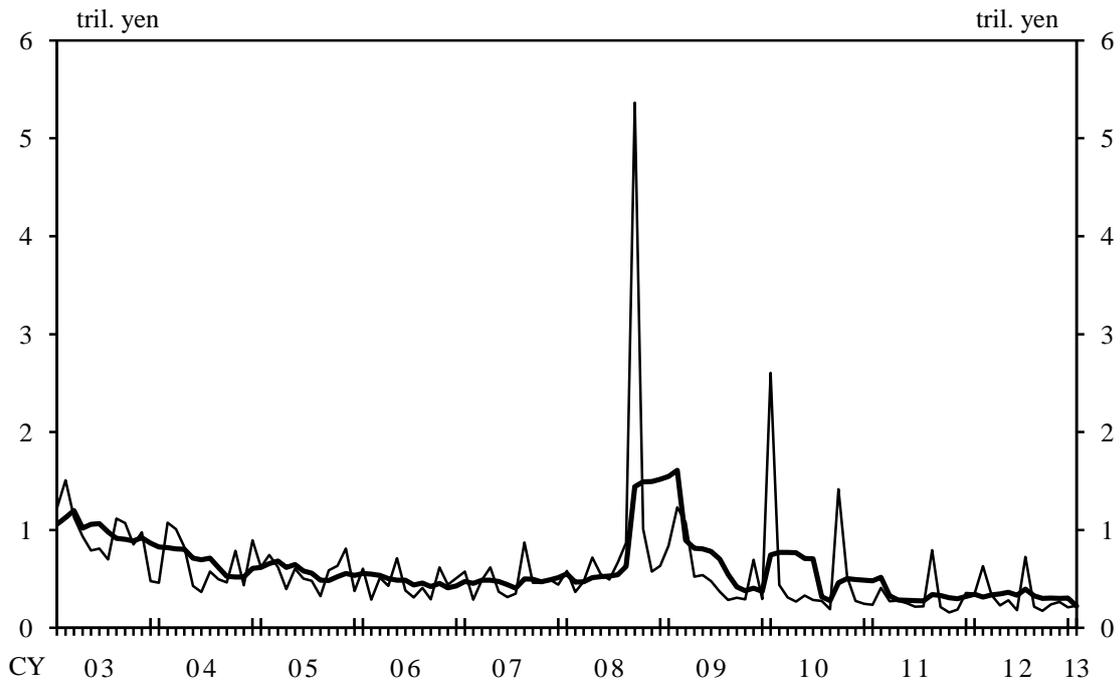
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.

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)."