

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

May 23, 2013

**Bank of Japan**

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

**May 2013**

**Summary**

Japan's economy has started picking up.

Overseas economies have been moving out of the deceleration phase that had continued since last year and are gradually heading toward a pick-up. In this situation, exports have stopped decreasing. Business fixed investment continues to show resilience in nonmanufacturing and appears to have stopped weakening on the whole. Public investment has continued to increase, and housing investment has generally been picking up. Private consumption has seen increased resilience, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing and signs of picking up have become increasingly evident.

With regard to the outlook, Japan's economy is expected to return to a moderate recovery path, mainly against the background that domestic demand remains resilient due to the effects of monetary easing as well as various economic measures, and that growth rates of overseas economies gradually pick up.

Exports are expected to pick up mainly against the background that growth rates of overseas economies gradually pick up. 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 follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits head toward improvement. Private consumption is expected to remain resilient. Under

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

these circumstances, industrial production is projected to pick 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 is rising, reflecting movements in foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) has been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods. Some indicators suggest a rise in inflation expectations.

Domestic corporate goods prices are expected to continue rising for the meantime. The year-on-year rate of change in consumer prices is expected to register smaller declines for the time being, and thereafter is likely to gradually turn positive.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 20-25 percent.

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. Firms' credit demand has been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has risen somewhat. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive. Firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 3.0-3.5 percent.

The weighted average of the overnight call rate has been below the 0.1 percent

level. Interest rates on term instruments have been more or less unchanged, after having risen slightly. Compared with last month, long-term interest rates and stock prices have risen, while the value of the yen against the U.S. dollar has fallen.