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Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original
released on May 23, 2013)

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Monthly Report of Recent Economic and Financial Developments¹

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 these circumstances, industrial production is projected to pick up.

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

¹ 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.

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.

1. Economic Developments

Public investment has continued to increase. The amount of public construction completed—which reflects the progress of public works—increased slightly in the first quarter on a quarter-on-quarter basis, after having risen for four quarters in a row until the fourth quarter (Chart 5). The value of public works contracted—a measure that reflects public orders—dipped marginally in the first quarter, after having continued to be more or less flat on average, albeit with monthly fluctuations, since the second quarter last year, but it increased markedly at the start of the new fiscal year in April.

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

Real exports have stopped decreasing (Charts 6[1] and 7). Real exports increased in the first quarter for the first time in three quarters, after having continued to decline in the fourth quarter on a quarter-on-quarter basis, following a large decrease in the third quarter. On a monthly basis, after having registered a month-on-month rise in January aided partly by increased exports prior to the Lunar New Year holidays, they fell back in February, but they went up again in March. Looking at exports in the first quarter on a quarter-on-quarter basis by region (Chart 7[1]), those to the United States turned positive for the first time in three quarters; they appear to have resumed their moderate uptrend with the economy having firmed up. Exports to Others also turned upward, mainly in motor vehicles and their related goods as well as capital goods and parts, and the influence of recent foreign exchange rates may have begun to appear. Exports to East Asia have recently started to show signs of picking up, notably for those to China and NIEs, despite persisting sluggishness; it is difficult, however, to read the underlying trend with exports rising sharply prior to the Lunar New Year holidays and then falling back later on. Meanwhile, exports to the EU have continued to trend downward. By goods (Chart 7[2]), exports of motor vehicles and their related goods dropped in March alone, but they are expected to resume a moderate uptrend assisted by the pick-up in those to China, which saw a significant drop, amid steady exports to the United States and Others. Exports of intermediate goods have been moving upward, chiefly in chemicals bound for East Asia. Exports of capital goods and parts have recently

shown signs of bottoming out, after having plunged in the second half of last year. Meanwhile, exports of IT-related goods (including visual and audio apparatus) have been somewhat weak, affected by the sluggishness in digital cameras and the downshift in demand of parts for new smartphone products.

Real imports have been heading toward an increase again (Charts 6[1] and 9). Real imports—which had fallen sharply in the fourth quarter last year on a quarter-on-quarter basis, after having trended upward through the third quarter, albeit with fluctuations—rose in the first quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials temporarily fell back sharply in the fourth quarter on a quarter-on-quarter basis, mainly from the upsurge in September caused by a rush in demand prior to the introduction of the Carbon Tax, but they bounced back up again in the first quarter. Imports of IT-related goods continued to move upward, albeit with monthly fluctuations, chiefly in smartphones. Meanwhile, despite persistent weakness in imports of intermediate goods and those of capital goods and parts, the downtrend appears to be coming to a halt, assisted mainly by the progress in inventory adjustments at home.

The pace of decline in net exports—in terms of the real trade balance—has become moderate as a reflection of the aforementioned developments in exports and imports, with the fluctuations smoothed out (Chart 6[1]). The nominal current account surplus in the first quarter decreased its level as a whole compared with the fourth quarter, since the nominal goods and services balance deficit outweighed the increase in the income surplus, which was affected by foreign exchange rates (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies have been moving out of the deceleration phase that had continued since last year and are gradually heading toward a pick-up (Chart 8[2]). Looking at movements by major region, the European economy has continued to recede slowly, amid its persistent debt problem. Meanwhile, the Chinese economy has seen an increase in infrastructure investment; added to this, exports have been heading toward a pick-up, and the manufacturing sector—which had long been under adjustment—has started to bottom out. 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 against the background of steady domestic demand, despite downward pressure from the fiscal side. As for the exchange rate, the yen has depreciated from a while ago against both the U.S. dollar and euro; in terms of the real effective exchange rate, the yen has fallen to a level similar to that last observed around 2007 prior to the Lehman shock (Chart 8[1]).

Growth rates of overseas economies, including the United States and China, are expected to gradually pick up. The aforementioned movements in foreign exchange rates are also projected to underpin exports more markedly. However, a high degree of uncertainty remains about overseas economies. Attention should continue to be paid to the risk that the sluggishness in the European economy may inhibit the pick-up in the global economy through channels of trade, foreign investment, and worsening business sentiment. As for the Chinese economy, the manufacturing sector—which has a large influence on Japan’s economy—has yet to show a noticeable recovery, despite having bottomed out; 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. As for the U.S. economy, although private demand has held steady, uncertainty regarding the outlook for fiscal policies remains. In relation to this, as for the IT-related sector, demand for parts for new products of smartphones—which had pushed exports and domestic production of IT-related goods upward since early fall last year—have fallen back and this, in turn, has exerted restraints on exports and production since the end of last year. Although downward pressure from this factor seems to be easing gradually of late, final demand of this sector as a whole has yet to show noticeable improvement, and thus future developments in overall final demand, including 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 the pick-up in automobile-related exports to China. Ongoing attention, however, should be paid to whether or not this trend of improvement continues.

Taking the above into consideration, exports are expected to pick up mainly against the background that growth rates of overseas economies gradually pick up.

Imports are projected to resume their moderate uptrend along with the pick-up in industrial production, against the backdrop of resilient domestic demand, even though movements in foreign exchange rates will bear down on some areas. As a reflection of these developments in exports and imports, net exports are projected to gradually resume their moderate uptrend.

Business fixed investment continues to show resilience in nonmanufacturing and appears to have stopped weakening on the whole. The aggregate supply of capital goods—a coincident indicator of machinery investment—was up in the first quarter on a quarter-on-quarter basis, after having decreased for two quarters in a row through the fourth quarter last year (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—were almost flat in the first quarter, after having declined for three straight quarters through the fourth quarter (Chart 11[1]). Monthly figures show that machinery orders increased sharply in March, after having bounced back in February from the sizeable decline in January. By industry, machinery orders of manufacturing declined for five quarters in a row until the fourth quarter and continued to do so in the first quarter on a quarter-on-quarter basis, although the pace of decline moderated. Those of nonmanufacturing (excluding orders for ships and those from electric power companies) have held steady with the fluctuations smoothed out, although they fell back in the first quarter on a quarter-on-quarter basis from the increase in the fourth quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—rose in the first quarter on a quarter-on-quarter basis, after having continued to move upward for four consecutive quarters through the fourth quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing—which had been somewhat weak, after having surged in the first quarter last year—climbed significantly in the first quarter on a quarter-on-quarter basis. Those of nonmanufacturing continued to be steady, as they rose further, albeit marginally, in the first quarter on a quarter-on-quarter basis, after having exhibited somewhat high growth for three straight quarters until the fourth quarter.

Regarding the environment surrounding business fixed investment, developments in corporate profits show that they have been steady on the whole.

Corporate profits are projected to continue a mild improving trend, supported by the pick-up in exports as well as by movements in foreign exchange rates on top of resilient domestic demand. Many listed firms project a notable increase in their profits for fiscal 2013.

Taking the above into consideration, 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 has seen increased resilience, assisted by the improvement in consumer sentiment (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—rose in the first quarter on a quarter-on-quarter basis, after having been more or less level through the fourth quarter last year, albeit with some fluctuations. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations has picked up, after having fallen significantly following the ending of subsidies for purchasing energy-efficient cars; since the start of this year, in particular, the number has been steady, having regained its level just before the ending of subsidies for purchasing energy-efficient cars, aided partly by the introduction of new models. Sales of household electrical appliances in real terms have been steady as a whole, aided by sales of smartphones, tablet devices, and white goods installed with energy-saving devices, although those of televisions and PCs continued to be sluggish. Sales at department stores climbed markedly in the first quarter assisted partly by increased sales of high-end products, after having risen in the fourth quarter—notably in winter apparel—affected by lower temperatures (Chart 14[1]). Sales at supermarkets rebounded toward March from the decline in January which was partly affected by snowfalls in the Tokyo metropolitan areas, after having registered month-on-month increases for three months in a row since October. 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 since November. Sales in the food service industry have been steady as a whole.

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—advanced significantly in the first quarter on a year-on-year basis, notably in automobiles and services (reading & recreation) which turned out to be somewhat strong, after having been virtually flat in the fourth quarter last year, following a decline in the third quarter (Chart 13[1]).² The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) was level in both the fourth and first quarters on a quarter-on-quarter basis, after having declined in the third quarter.

Indicators related to consumer confidence have improved markedly: this seems to be due to the improvement in supply and demand conditions in the labor market of late, along with the rise in stock prices (Chart 15).

Private consumption is expected to remain resilient.

Housing investment has generally been picking up. The number of housing starts—a leading indicator of housing investment—has tended to pick up on average, although it moved down slightly in the first quarter on a quarter-on-quarter basis (Chart 16[1]).

Housing investment is expected to continue to generally pick up.

Industrial production has stopped decreasing and signs of picking up have become increasingly evident (Chart 17). Industrial production, on a quarterly basis, advanced in the first quarter in the released-base index, while it was almost level in the adjusted-base index, after having declined for three quarters in a row since the second quarter last year.³ As for the shipment-inventory balance, on a

² Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

³ 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

quarter-on-quarter basis, inventories have continued to decline as shipments turned upward in the first quarter. As a result, on a year-on-year basis, the balance has improved, allowing for growth in shipments and inventories to be broadly balanced, and this in turn will provide grounds for production to increase. Anecdotes by firms also reveal that production is projected to increase markedly in the second quarter. This indicates that movements toward a pick-up are becoming evident. Looking at production in the first quarter on a quarter-on-quarter basis by industry, that of transport equipment (such as passenger cars) started to pick up as a whole: production picked up domestically, since the effects of the decline due to the ending of subsidies for purchasing energy-efficient cars have fallen off; added to this, as for exports, the slump in those bound for China—which was affected by the bilateral relationship between Japan and China—has eased and those to the United States and Others held steady. Production of iron and steel and of chemicals also moved upward aided by the effects of the pick-up in production of motor vehicles as well as the increase in exports in some sectors driven by recent movements in foreign exchange rates. As for general machinery, production—which had remained somewhat weak overall as a reflection of developments in business fixed investment at home and abroad—seems to be heading toward bottom, with the first quarter having stood positive for the first time in five quarters on a quarter-on-quarter basis. On the other hand, production of electronic parts and devices has stayed somewhat sluggish as a whole, since parts for new products—which had pushed production upward in the fourth quarter—fell back due to the downshift in demand for these products. Recently, however, the rise in inventories has been coming to a halt, in light of the uptick in shipments, and thereby downward pressure seems to be gradually easing in this regard.

Shipments have picked up moderately (Chart 19[1]). Looking at the trend in shipments by goods (Chart 18), those of durable consumer goods have tended to pick up, notably in motor vehicles. Shipments of non-durable consumer goods have continued to trend moderately upward; those of construction goods have also jumped lately, primarily in photovoltaic modules. Shipments of producer goods have been picking up mildly overall, since those for motor vehicles (such as motor vehicle parts,

Japan). Since industrial production fell sharply for about six months since fall 2008 as a result of the Lehman shock, quarterly changes of the released-base seasonally adjusted figures—which regard this fall as a seasonal factor—tend to be somewhat stronger in the fourth and first quarters than the adjusted-base seasonally adjusted figures, which treat this factor as an outlier.

iron and steel, and chemicals) have headed for improvement and some of those related to materials have seen an increase in exports affected by recent movements in foreign exchange rates. Shipments of electronic parts and devices—which had shown some sluggishness due to the downshift in demand for new products—have recently shown some signs of heading for improvement. Meanwhile, shipments of capital goods have remained somewhat weak, but they finally seem to be bottoming out.

Inventories have continued to move downward (Chart 19[1]). Inventories—which had reached a plateau following the upsurge toward last spring—have been on the decline since fall last year. By industry, those of transport equipment, iron and steel, and chemicals have been on a downtrend amid a pick-up in shipments. Inventories of general machinery—which had been at relatively high levels—have recently declined markedly. In contrast, the increase in inventories of electronic parts and devices—which had continued to be at somewhat high levels, affected mainly by the downshift in demand for new products—has recently been coming to a halt. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories and in shipments has been broadly balanced (Chart 19[3]). As for producer goods, the shipment-inventory balance of other producer goods (for motor vehicles) has been heading toward a situation in which growth in inventories and in shipments is broadly balanced. Looking at construction goods, the shipment-inventory balance has recently improved significantly, assisted by the increase in shipments. As for capital goods, the shipment-inventory balance seems to be gradually heading toward improvement.

Industrial production is expected to pick up mainly reflecting developments in demand at home and abroad. Based on anecdotes by firms and other information, regarding the second quarter, transport equipment is projected to increase moderately, after having registered somewhat high growth in the first quarter; partly in response to this, iron and steel as well as chemicals are also expected to continue growing. It is also expected that general machinery will grow at a somewhat accelerated pace as a reflection of the pick-up in business fixed investment at home and abroad and that electronic parts and devices will increase again, due mainly to the progress in

inventory adjustments. As a result, industrial production as a whole is projected to advance markedly.

The employment and income situation has continued to be severe, but supply and demand conditions in the labor market have been improving again.

As for supply and demand conditions in the labor market, the unemployment rate—which had been almost level since last summer—has recently shown signs of moving toward a moderate decline again (Chart 20). New job openings—which had been sluggish as a whole until around the end of last year amid the weakness in manufacturing as a reflection of movements in exports and industrial production—have recently trended upward again. In response to these movements, the active job openings-to-applicant ratio also resumed to improve moderately. Non-scheduled hours worked has been picking up at a mild pace, as a reflection of movements in manufacturing, while nonmanufacturing has been resilient on the whole.

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 as a whole on a year-on-year basis supported by the rise in nonmanufacturing, although manufacturing has continued to decline. 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 remained well below the pre-earthquake level.

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 a year-on-year basis. On the other hand, the year-on-year rate of decline in non-scheduled cash earnings has tended to narrow, in response to movements in the number of hours worked.

The year-on-year rate of change in employee income has stayed at almost 0 percent, with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages (Chart 21[3]).

As for the outlook regarding employee income, the lackluster business performance during the last fiscal year will mainly act as a constraining factor for the time being, but after that, improvement is expected to become gradually evident as the pick-up in economic activity and business performance becomes noticeable.

2. Prices

International commodity prices have shown sluggish movements (Chart 23[1] and [3]). Prices of crude oil and of nonferrous metals have recently been somewhat weak, as uncertainty over the outlook for the global economy persists. Prices of grains have lowered their levels as anxiety over supply due to 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, reflecting movements in foreign exchange rates (Chart 24[2]).⁴ The three-month rate of change continued to rise with an increase of 0.9 percent in April, after having posted positive 0.8 percent in March. Looking in detail at domestic corporate goods price movements in April, prices of "goods sensitive to exchange rates and overseas commodity prices" as well as those of "other materials," including chemicals & related products continued to rise, albeit at a slightly moderate pace, as a reflection of recent movements in foreign exchange rates. Prices of "iron & steel and construction goods" kept increasing on the whole as the effects of recent movements

⁴ 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.

in foreign exchange rates have been passed on to some downstream products, even though those of scrap & waste increased at a somewhat subdued pace. Meanwhile, prices of "electric power, gas & water" turned upward, partly because movements in foreign exchange rates since the end of last year have started to push prices upward through the fuel cost adjustment system and also due in part to the effects of price increases by some electric power companies.⁵

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has marked a slight negative (Chart 25). As for developments on a year-on-year basis, corporate services prices registered negative 0.4 percent in March, following a decline of 0.2 percent in February. Looking in detail at corporate services price movements in March, prices related to "selling, general and administrative expenses" accelerated their year-on-year rate of decline as a whole, albeit slightly, partly due to fluctuations in prices of other services and of information and communications, although prices of advertising services stayed positive boosted by a large event. Prices related to "fixed investment" continued to increase marginally, particularly in civil engineering and architectural services, but the year-on-year rate of increase has diminished slightly. "IT-related" prices continued to decrease, due to price declines in leasing and rentals of equipment. On the other hand, prices related to "real estate" continued to gently reduce their year-on-year pace of decline as a trend.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) has been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods (Chart 26[1]). In March, consumer prices expanded their rate of decline by 0.2 percentage points to negative 0.5 percent on a year-on-year basis from a decline of 0.3 percent in February. Those on a basis that excludes food and energy stood at negative 0.8 percent in March, reducing their rate of decline by 0.1 percentage point from February. 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 and has been somewhat weak of late, but from a somewhat long-term

⁵ Under the fuel cost adjustment system, electricity prices reflect fuel costs of three to five months earlier.

perspective, it has been on a moderate improving trend (Chart 27[2]).⁶ 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]).⁷

Looking in detail at consumer price movements over the past few months, fees for public services have been increasing marginally, despite having reduced their pace of increase compared to a while ago due to the effects of the decline in crude oil prices toward the middle of last year, mainly as a reflection of fluctuations in prices of electricity and of gas (manufactured & piped). On the other hand, prices of general services have continued to decline marginally, mainly in rent. In addition, prices for goods have accelerated their pace of decline, since negative contributions from durable goods increased while petroleum products reduced their positive impetus, both due to the reversal of the previous year's movements. Taking a closer look at price movements in March, prices of goods (excluding agricultural, aquatic and livestock products) expanded their rate of decline. This was because the rate of increase in prices of petroleum products narrowed sharply due to the reversal from the previous year's increase as a reflection of movements in crude oil prices, although prices of durable goods somewhat reduced their rate of decline reflecting the prices of new products and the rate of decline in prices of other goods diminished mainly due to prices increases in some imports. The year-on-year rate of decline in prices of general services somewhat accelerated as a whole, since package tours to overseas turned negative as calendar factors—which gave a boost to prices in February—were no longer evident and also since the rate of decline in rent somewhat accelerated. Meanwhile, the year-on-year rate of increase in fees for public services was on par with last month.

⁶ 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.

⁷ 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.

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.

Meanwhile, some indicators suggest a rise in inflation expectations (Chart 28).

3. Financial Developments

(1) Corporate Finance and Monetary Aggregates

The monetary base (average amounts outstanding) 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 (Chart 29).

Firms' funding costs have been hovering at low levels. Issuance rates on CP and those on corporate bonds have been at low levels. The average contract interest rates on new loans and discounts have also been low (Chart 31).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 30). 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 32). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive (Chart 33).

Firms have retained their recovered financial positions on the whole (Chart 30). The number of corporate bankruptcies has remained at a low level (Chart 35).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been in the range of 3.0-3.5 percent. Its April reading was 3.3 percent on a year-on-year basis, following 3.1 percent in March (Chart 34).⁸

(2) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. 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) rose slightly and has recently been moving at around 0.1 percent. The Euroyen interest rate (3-month) has been more or less flat. Interest rates on Euroyen futures have moved slightly upward, primarily in those with distant contracts (Chart 36). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 37).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved upward, in light of the rise in U.S. and European long-term interest rates as well as in Japanese stock prices; they are currently moving at around 0.85 percent (Chart 38).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 39).

Stock prices have continued to trend upward, mainly due to the rise in U.S. and European stock prices together with the depreciation of the yen. The Nikkei 225 Stock Average is currently moving at around 15,500 yen (Chart 40).

In the foreign exchange market, the yen has depreciated against the U.S. dollar, mainly in response to the stronger-than-projected U.S. economic indicators and to speculation about the direction of U.S. and Japanese monetary policies; the yen is currently moving in the range of 102-103 yen against the U.S. dollar (Chart 41). Meanwhile, the yen has depreciated against the euro; the yen is currently moving in the range of 132-133 yen against the euro.

⁸ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 2.5 percent; its April reading was 2.6 percent, following 2.5 percent in March. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 2 percent; it increased by 2.0 percent in April, following an increase of 1.6 percent in March.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2012/Q3	Q4	2013/Q1	2013/Jan.	Feb.	Mar.	Apr.
Index of consumption expenditure level (two-or-more-person households)	-1.4	-0.7	4.4	1.9	3.0	1.1	n.a.
Sales at department stores	-0.5	1.1	1.5	0.8	1.9	0.1	n.a.
Sales at supermarkets	-0.5	0.8	-1.9	-4.7	1.3	3.4	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 282>	< 263>	< 304>	< 313>	< 313>	< 285>	< 310>
Sales of household electrical appliances (real, "Current Survey of Commerce")	3.8	-1.0	6.1	2.9	5.4	-3.5	n.a.
Outlays for travel	-4.5	-0.0	0.6	-1.7	2.3	-3.4	n.a.
Housing starts <s.a., ann. 10,000 units>	< 88>	< 91>	< 90>	< 86>	< 94>	< 90>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-1.3	-0.8	-0.0	-7.5	4.2	14.2	n.a.
Manufacturing	-3.0	-5.3	-1.7	-10.0	4.9	13.3	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	-0.3	5.6	-3.1	-4.5	0.3	14.3	n.a.
Construction starts (private, nondwelling use)	8.1	4.2	4.9	-11.7	16.8	-1.6	n.a.
Mining & manufacturing	0.1	-10.0	26.7	38.2	-18.5	-16.4	n.a.
Nonmanufacturing ⁵	9.0	10.3	1.4	-20.2	30.8	-1.1	n.a.
Value of public works contracted	-0.3	1.1	-3.6	-2.2	0.3	-5.6	28.7
Real exports	-4.5	-4.2	1.5	2.5	-2.4	2.8	n.a.
Real imports	1.0	-5.5	3.1	1.6	1.3	0.1	n.a.
Industrial production	-4.2	-1.9	2.2	0.3	0.6	0.9	n.a.
Shipments	-5.4	-2.1	3.4	-0.3	1.4	1.2	n.a.
Inventories	0.3	-2.5	-2.2	-0.4	-2.0	0.2	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 130.4>	< 126.5>	< 119.6>	< 122.5>	< 121.1>	< 119.6>	<n.a.>
Real GDP	-0.9	0.3	0.9	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.5	0.3	-0.4	-1.6	0.6	-0.3	n.a.

Main Economic Indicators (2)

y/y % chg.¹

	2012/Q3	Q4	2013/Q1	2013/Jan.	Feb.	Mar.	Apr.
Active job openings-to-applicants ratio <s.a., times>	< 0.81>	< 0.82>	< 0.85>	< 0.85>	< 0.85>	< 0.86>	<n.a.>
Unemployment rate <s.a., %>	< 4.3>	< 4.2>	< 4.2>	< 4.2>	< 4.3>	< 4.1>	<n.a.>
Non-scheduled hours worked ⁶	-0.9	-2.5	-1.6	-1.9	-1.0	-1.9	n.a.
Number of employees	0.5	0.1	0.4	0.2	0.5	0.7	n.a.
Number of regular employees ⁶	0.6	0.7	0.5	0.6	0.5	0.5	n.a.
Nominal wages per person ⁶	-0.7	-1.1	-0.6	0.1	-0.8	-0.9	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-2.0 <-1.0>	-0.9 < 0.2>	-0.3 < 0.8>	-0.4 < 0.5>	-0.1 < 1.1>	-0.5 < 0.8>	p 0.0 <p 0.9>
Consumer price index ⁸	-0.2	-0.1	-0.3	-0.2	-0.3	-0.5	n.a.
Corporate services price index ⁹	-0.2	-0.5	p -0.4	-0.4	-0.2	p -0.4	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	2.4	2.3	2.9	2.7	2.9	3.1	p 3.3
Number of corporate bankruptcies <cases per month>	<975>	<963>	<926>	<934>	<916>	<929>	<899>

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

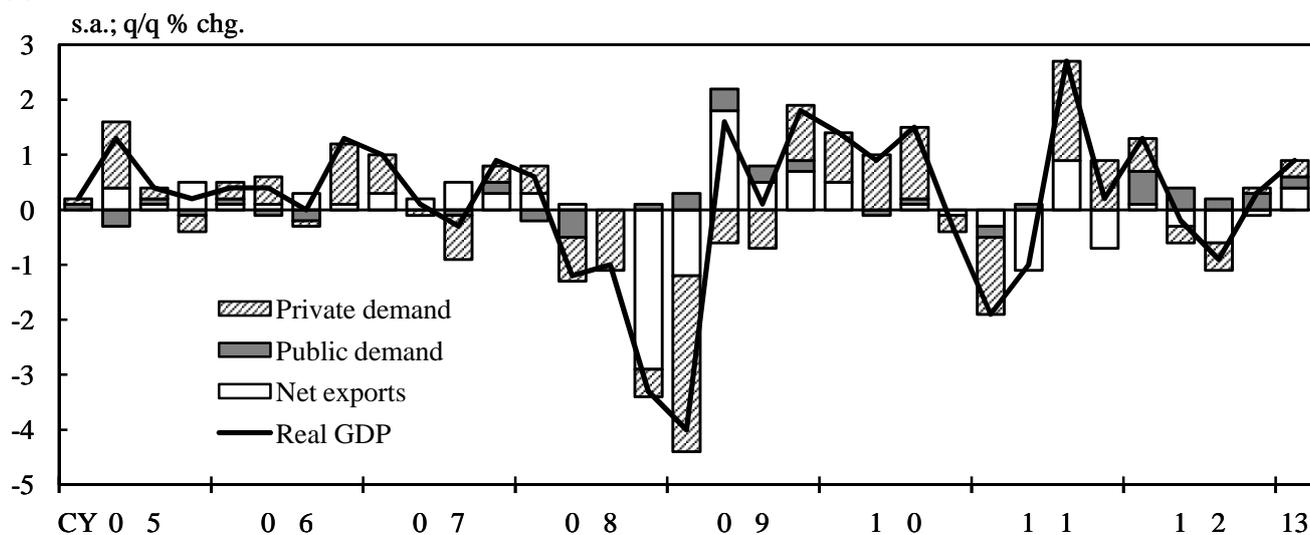
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



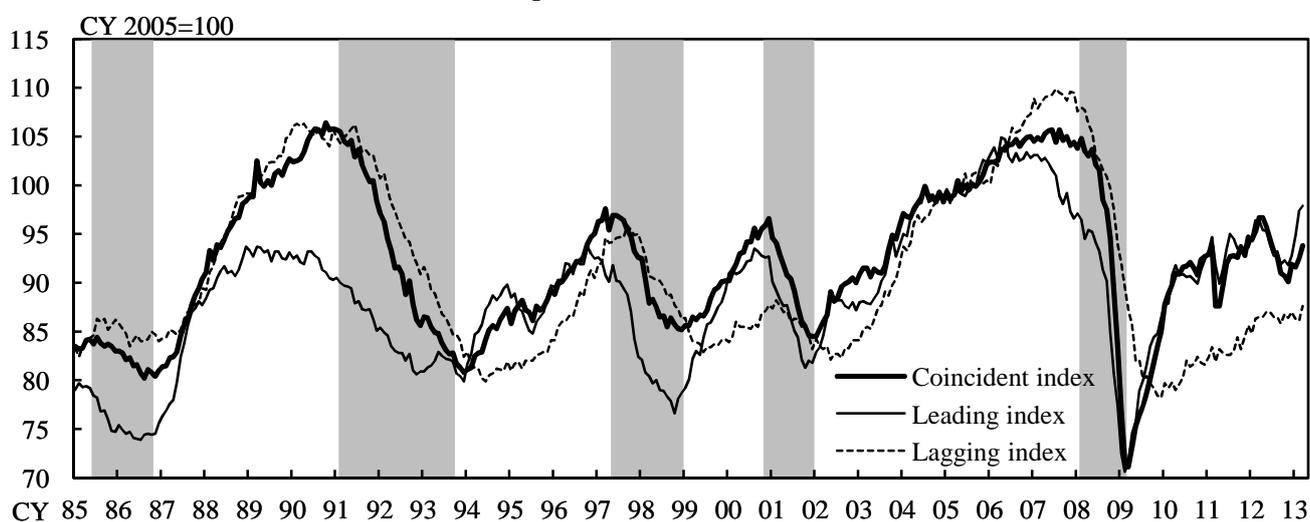
(2) Components

s.a.; q/q % chg.

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Real GDP	1.3	-0.2	-0.9	0.3	0.9
[Annual rate]	[5.3]	[-0.9]	[-3.5]	[1.0]	[3.5]
Domestic demand	1.2	0.1	-0.3	0.3	0.5
Private demand	0.6	-0.3	-0.5	0.1	0.3
Private consumption	0.5	0.1	-0.2	0.3	0.6
Non-Resi. investment	-0.3	-0.0	-0.4	-0.2	-0.1
Residential investment	-0.0	0.1	0.0	0.1	0.1
Private inventory	0.5	-0.5	0.1	-0.1	-0.2
Public demand	0.6	0.4	0.2	0.3	0.2
Public investment	0.3	0.3	0.2	0.1	0.0
Net exports of goods and services	0.1	-0.3	-0.6	-0.1	0.4
Exports	0.4	-0.0	-0.7	-0.4	0.5
Imports	-0.3	-0.3	0.1	0.4	-0.2
Nominal GDP	1.2	-0.6	-1.0	0.1	0.4

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

(3) Indexes of Business Conditions (Composite Indexes)

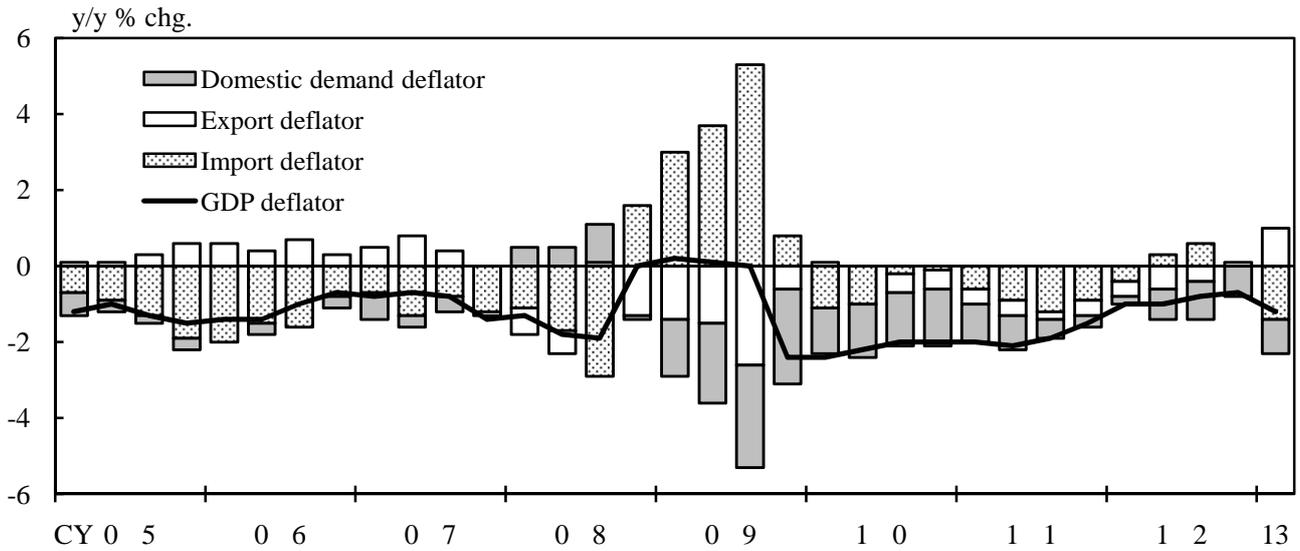


Note: Shaded areas indicate recession periods.

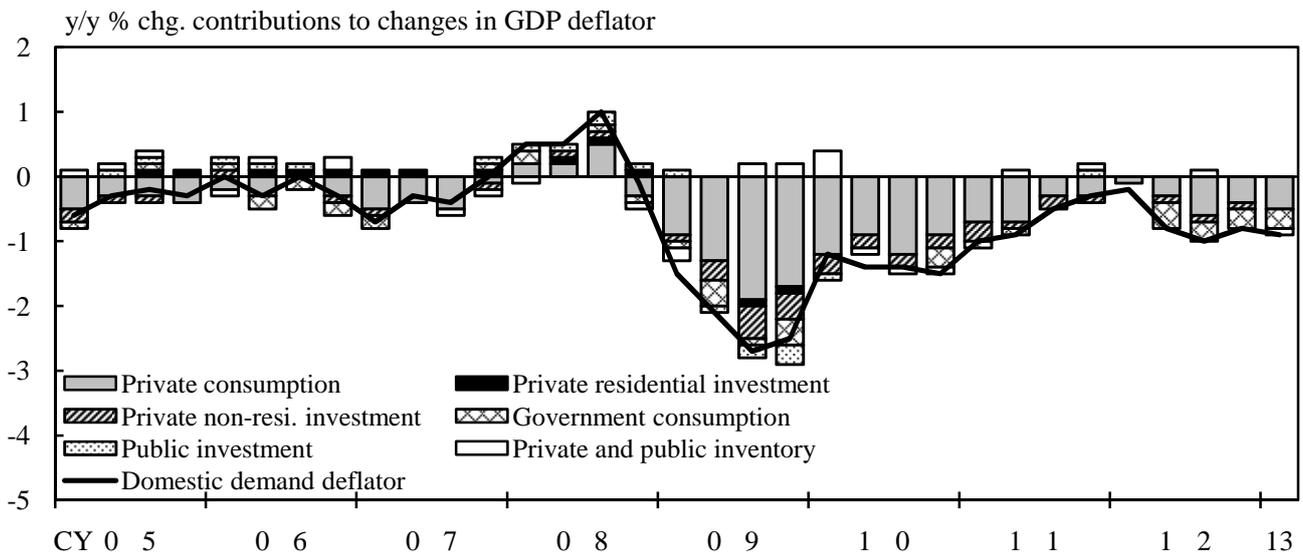
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

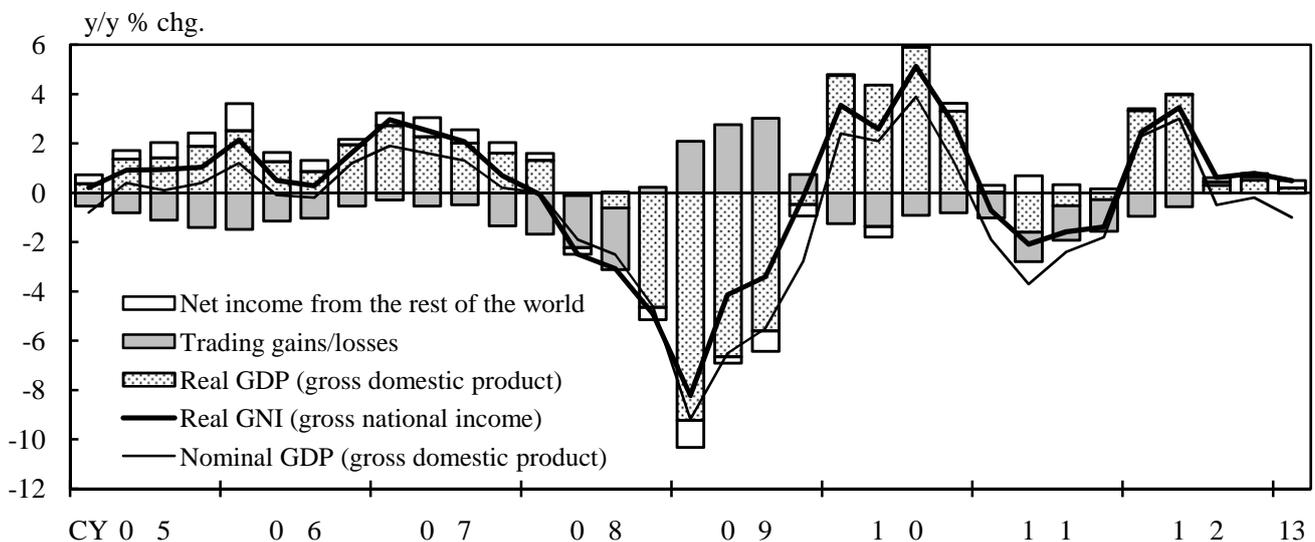
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

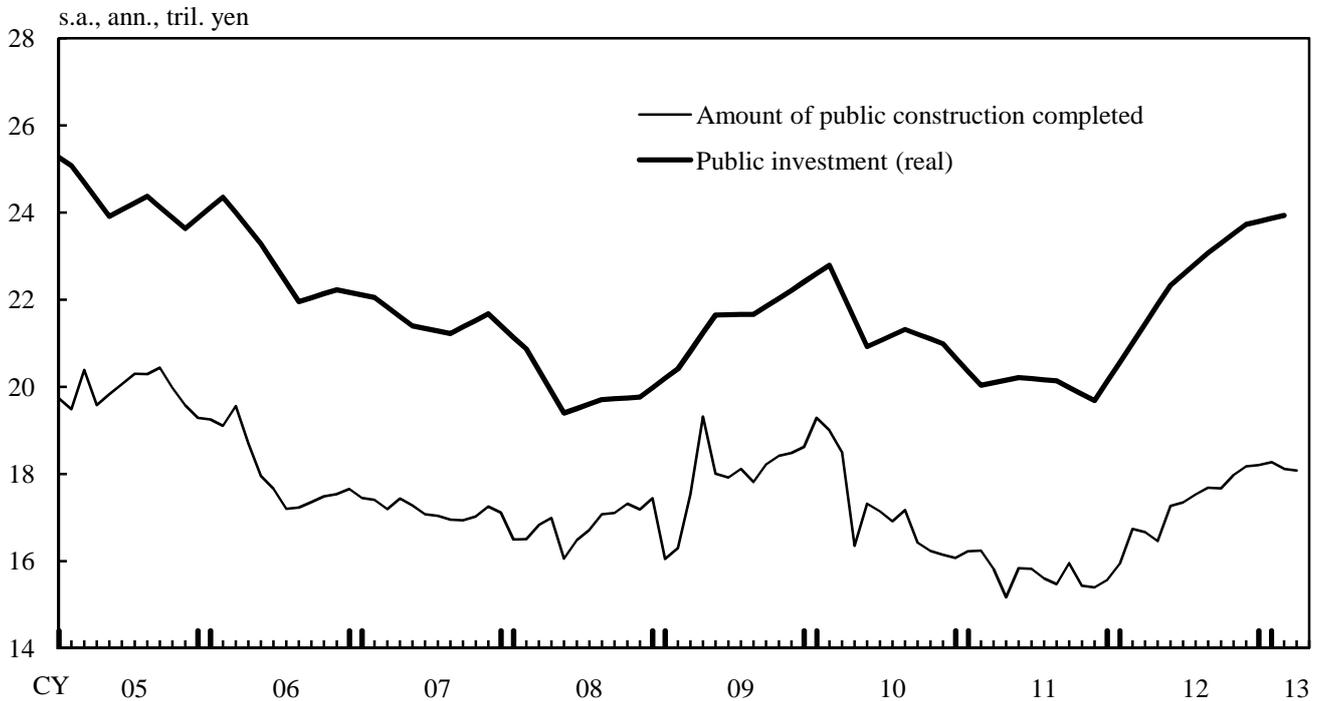
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

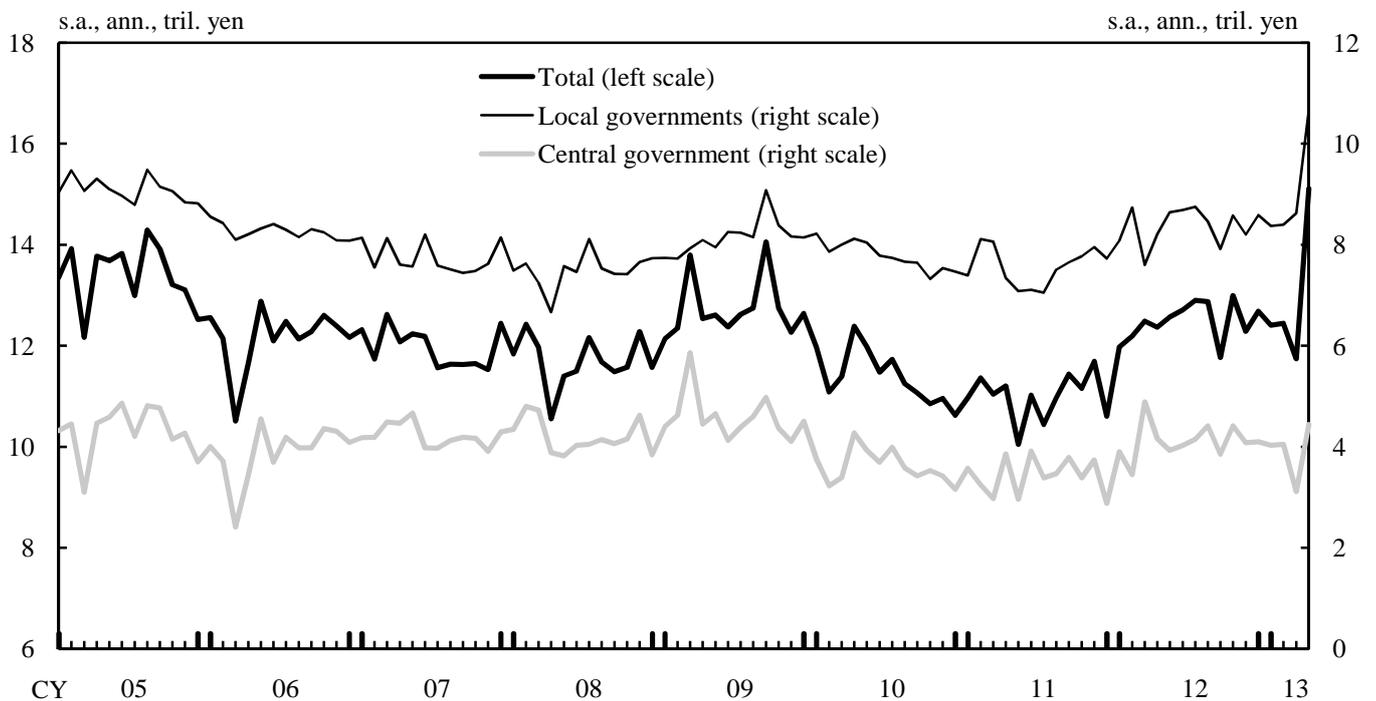
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



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

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

3. Figures of the value of public works contracted and the amount of public construction completed are seasonally adjusted by X-12-ARIMA. As figures of the amount of public construction completed are seasonally adjusted on a monthly basis, the data are retroactively revised every month.

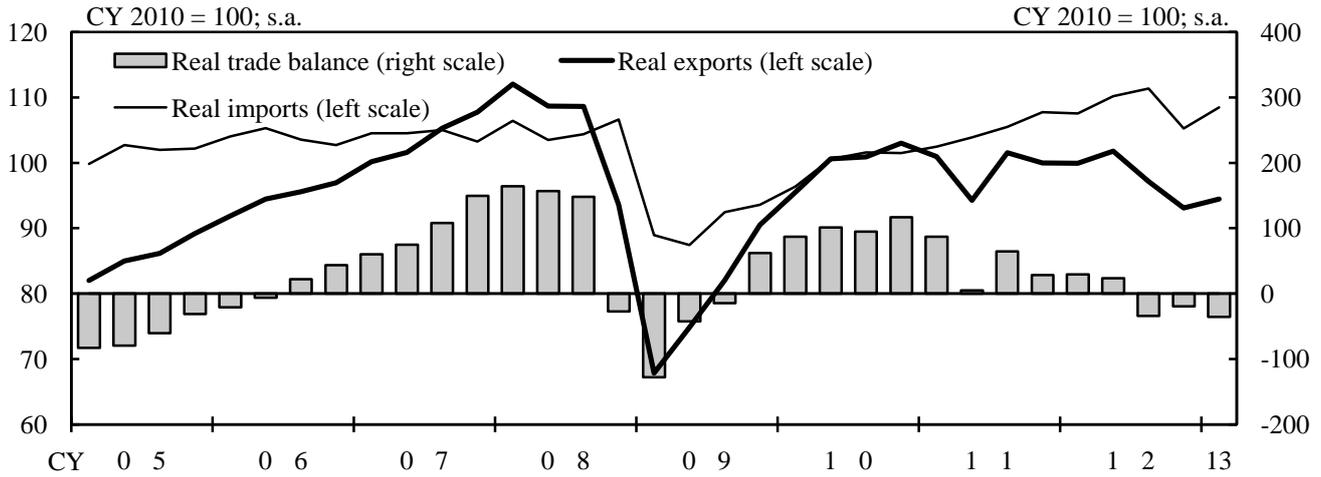
Sources: Cabinet Office, "National Accounts";

East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";

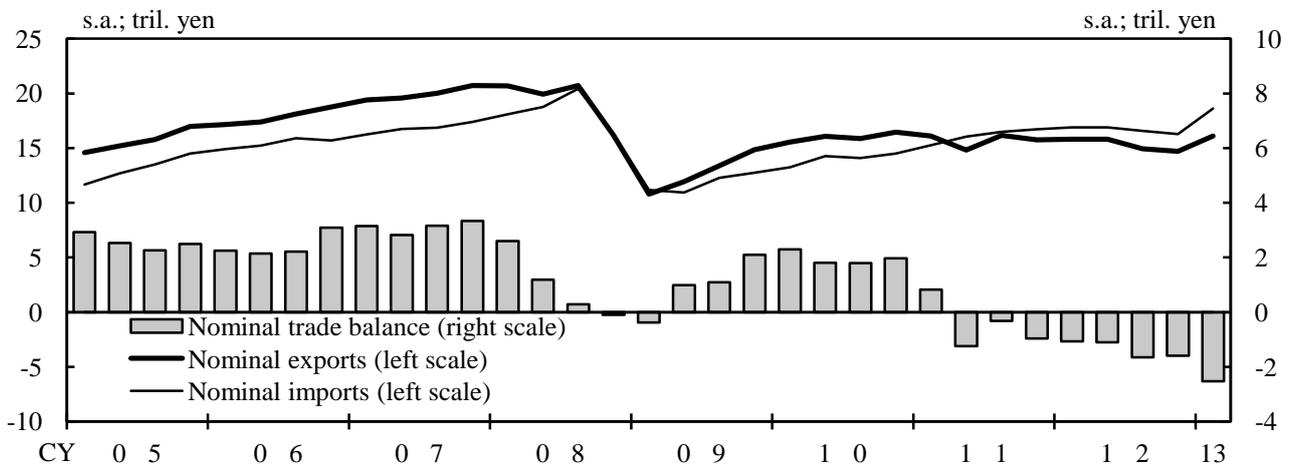
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance ¹

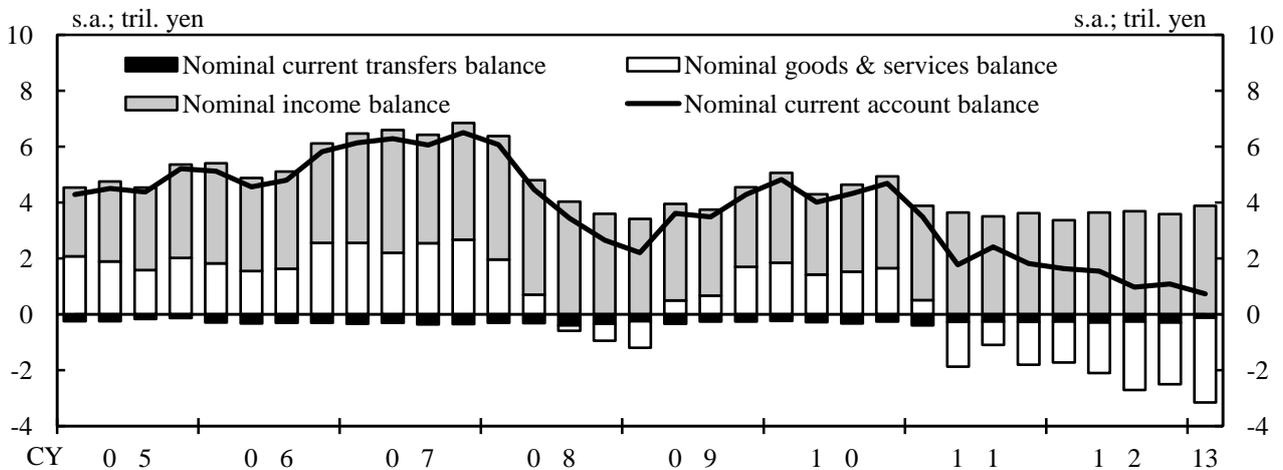
(1) Real Exports, Real Imports, and Real Trade Balance ²



(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance ³



(3) Nominal Current Account Balance and Nominal Goods & Services Balance ³



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." "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	2012 Q1	Q2	Q3	Q4	2013 Q1	2013 Jan.	Feb.	Mar.
United States	<17.6>	-0.3	13.0	1.9	4.6	-3.8	-3.0	2.2	-2.3	3.8	0.8
EU	<10.2>	3.4	-12.9	-5.7	-2.5	-6.3	-4.4	-0.4	1.3	-5.2	-1.6
East Asia	<51.3>	-1.4	-2.6	0.1	1.8	-2.6	-3.9	-1.1	0.8	-4.1	5.1
China	<18.1>	1.3	-8.1	-3.6	0.7	-2.6	-9.2	-0.7	1.9	-6.1	11.5
NIEs	<21.5>	-4.5	-4.7	-1.6	1.6	-2.5	-0.5	-0.3	2.4	-6.4	3.6
Korea	<7.7>	-2.6	-3.5	-0.1	-2.6	-0.1	1.1	1.0	-2.8	-1.8	4.0
Taiwan	<5.8>	-9.4	-6.0	-4.2	5.4	0.6	-2.8	2.4	4.9	-5.8	-1.8
Hong Kong	<5.1>	-4.2	-0.7	1.9	-1.7	-0.4	-0.9	-5.1	9.1	-13.7	4.7
Singapore	<2.9>	0.6	-11.6	-7.8	13.1	-15.9	-2.6	0.5	8.5	-18.3	10.8
ASEAN4 ³	<11.7>	0.6	12.5	11.0	4.0	-2.7	-1.9	-3.1	-3.8	3.8	-0.9
Thailand	<5.5>	1.4	19.3	27.2	9.1	-0.8	0.1	-6.0	-1.6	-3.4	0.9
Others	<21.0>	0.9	1.7	1.1	1.4	-7.5	-5.1	3.6	4.0	-0.5	3.0
Real exports		-0.9	-1.0	-0.0	1.8	-4.5	-4.2	1.5	2.5	-2.4	2.8

(2) Breakdown by Goods⁶

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2011	2012	2012 Q1	Q2	Q3	Q4	2013 Q1	2013 Jan.	Feb.	Mar.
Intermediate goods	<20.4>	-3.2	-0.7	-1.3	5.0	0.4	-3.4	1.9	1.2	-2.0	3.3
Motor vehicles and their related goods	<23.4>	-4.9	7.7	-1.5	1.5	-6.2	-5.8	0.6	0.8	0.9	-2.2
IT-related goods ⁴	<11.2>	2.3	3.6	6.3	-1.3	-0.3	-1.9	-6.6	-5.2	-3.4	6.5
Capital goods and parts ⁵	<29.3>	5.8	-4.0	0.8	0.8	-5.7	-6.5	1.2	1.9	-2.4	4.3
Real exports		-0.9	-1.0	-0.0	1.8	-4.5	-4.2	1.5	2.5	-2.4	2.8

Notes: 1. Seasonally adjusted by X-12-ARIMA. The seasonally adjusted figures by region or goods have been retroactively revised due to (a) the regular annual revision of the previous year's data in the "Trade Statistics" and (b) the revision of the "Export and Import Price Index" following the base year change in the CGPI from the 2005 base to 2010 base. This also applies to Chart 9.

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

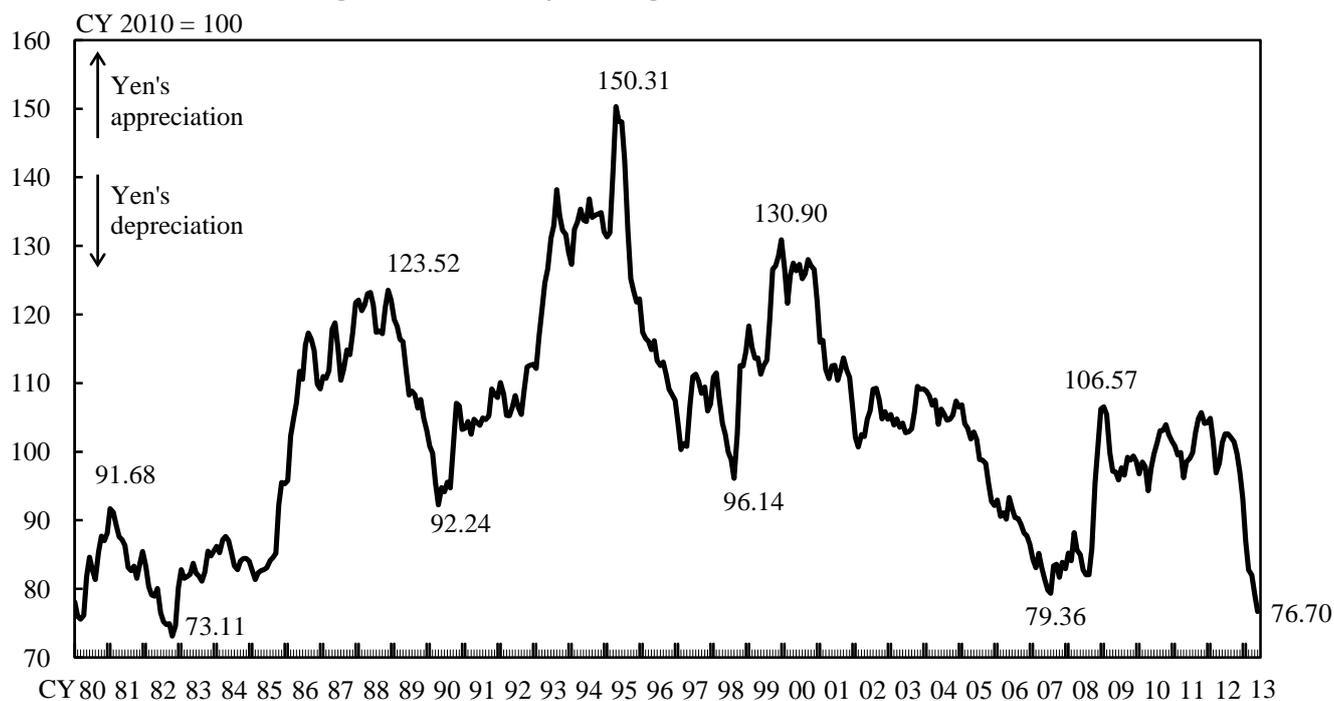
5. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

6. Classification of consumer goods has been abolished this time. In line with this, some goods have changed their classifications (eg. visual apparatus and audio apparatus are classified into IT-related goods).

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. The figure for May (up to May 20) 2013 has 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

	CY2010	2011	2012	s.a., ann., q/q % chg.			
				2012 Q2	Q3	Q4	2013 Q1
United States ¹	2.4	1.8	2.2	1.3	3.1	0.4	2.5
European Union ²	2.1	1.6	-0.3	-0.7	0.4	-1.9	-0.4
Germany ¹	4.2	3.0	0.7	0.6	0.9	-2.7	0.3
France ¹	1.6	2.0	0.0	-0.7	0.3	-0.8	-0.7
United Kingdom ¹	1.8	1.0	0.3	-1.5	3.8	-1.2	1.2
East Asia ³	9.2	5.9	4.8	4.8	5.1	6.7	n.a.
China ¹	10.4	9.3	7.8	7.8	8.7	8.2	6.6
NIEs ^{1,3}	8.9	4.3	1.6	0.3	1.4	4.2	0.4
ASEAN4 ^{1,3,4}	7.4	3.0	6.3	8.7	6.0	9.6	n.a.
Main economies ³	6.7	4.5	3.6	3.3	4.0	4.3	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	2012 Q1	Q2	Q3	2013 Q4	2013 Q1	2013 Jan.	Feb.	Mar.
United States	<8.6>	0.5	3.8	0.7	0.5	1.7	-8.1	-0.1	2.9	-5.4	-2.7
EU	<9.4>	10.3	4.0	-1.2	1.7	3.0	-1.2	-1.8	-3.2	9.3	-1.3
East Asia	<40.8>	11.1	3.8	-1.2	1.2	0.6	-2.0	2.8	0.1	5.0	-3.1
China	<21.3>	14.5	4.9	-2.8	2.0	0.9	-0.9	3.5	2.8	6.8	-6.6
NIEs	<8.5>	10.0	4.9	0.4	0.1	2.0	-1.6	1.1	2.3	-4.0	0.7
Korea	<4.6>	24.3	4.2	2.9	-4.7	2.7	-3.8	2.8	7.2	-5.6	-2.1
Taiwan	<2.7>	-3.1	7.2	-2.9	7.4	2.3	1.5	-1.1	-4.1	-0.4	3.9
Hong Kong	<0.2>	-5.6	-2.5	16.5	-18.6	-5.2	-1.3	8.2	-1.0	-28.6	37.7
Singapore	<1.0>	-0.1	2.9	-4.0	5.9	-1.2	-0.4	-1.1	2.1	-8.7	0.7
ASEAN4 ³	<11.1>	5.6	0.5	1.0	0.3	-0.9	-4.7	2.7	-7.7	9.2	1.8
Thailand	<2.7>	7.3	-1.0	2.6	9.0	-2.4	-2.9	3.5	-0.6	4.3	5.5
Others	<41.2>	-0.4	4.6	1.6	4.5	0.5	-10.5	7.7	0.1	3.2	1.6
Real imports		4.8	4.1	-0.2	2.5	1.0	-5.5	3.1	1.6	1.3	0.1

(2) Breakdown by Goods ⁸

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2011	2012	2012 Q1	Q2	Q3	2013 Q4	2013 Q1	2013 Jan.	Feb.	Mar.
Raw materials ⁴	<40.8>	-0.2	4.5	3.4	2.9	0.3	-12.3	9.7	0.2	5.5	-0.3
Intermediate goods	<13.5>	11.7	-2.7	-6.3	0.7	3.0	-3.1	-1.5	-4.3	3.3	-0.1
Foodstuffs	<8.3>	1.3	-0.7	0.4	-2.7	0.6	-3.9	3.5	-1.2	6.5	-1.7
Consumer goods ⁵	<7.5>	9.9	4.5	-1.3	3.6	0.8	-2.9	1.9	-3.7	12.0	-9.3
IT-related goods ⁶	<12.0>	11.2	8.8	0.2	2.3	2.1	3.5	2.9	9.3	-3.3	0.6
Capital goods and parts ⁷	<10.9>	11.3	10.3	1.7	3.8	-0.7	-3.7	0.5	2.2	-3.7	-0.3
Excluding aircraft	<10.1>	12.6	6.9	-1.1	3.8	0.2	-2.3	-0.3	-1.2	0.2	1.0
Real imports		4.8	4.1	-0.2	2.5	1.0	-5.5	3.1	1.6	1.3	0.1

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, audio and visual apparatus, and medical and optical instruments.

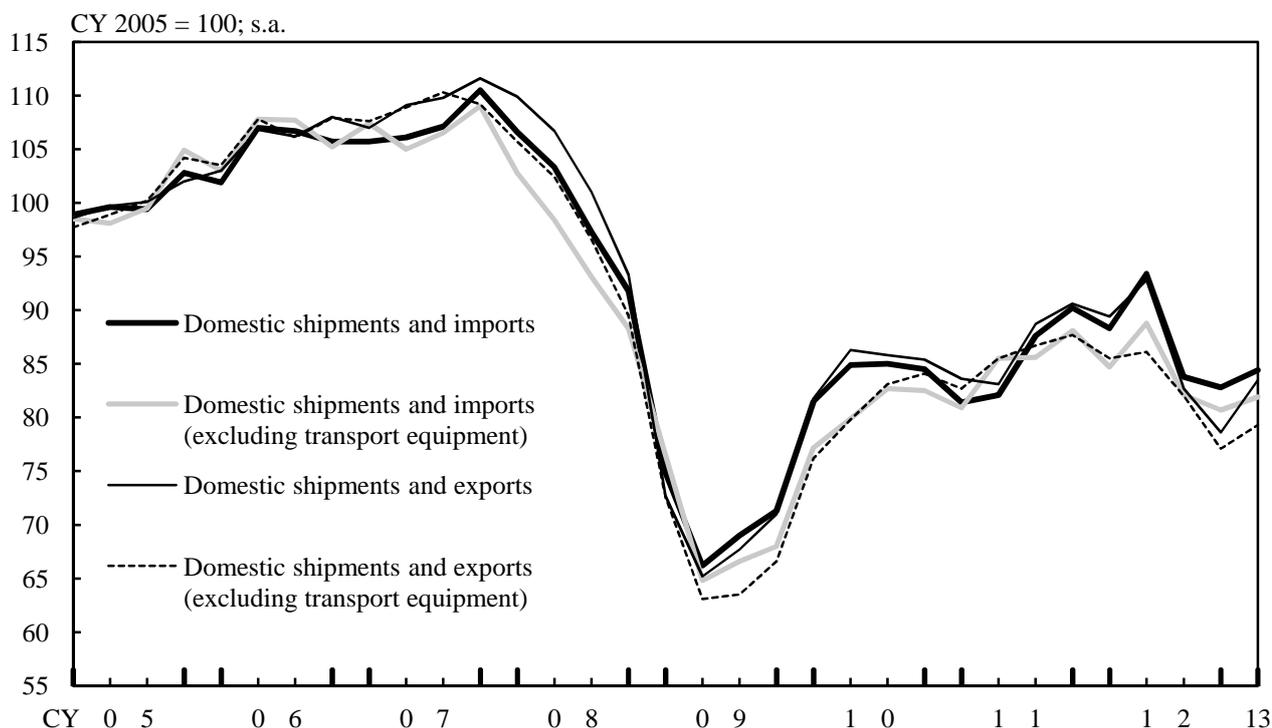
7. Excludes IT-related goods.

8. Some goods have changed their classifications this time (eg. Audio and visual apparatus are reclassified from consumer goods into IT-related goods).

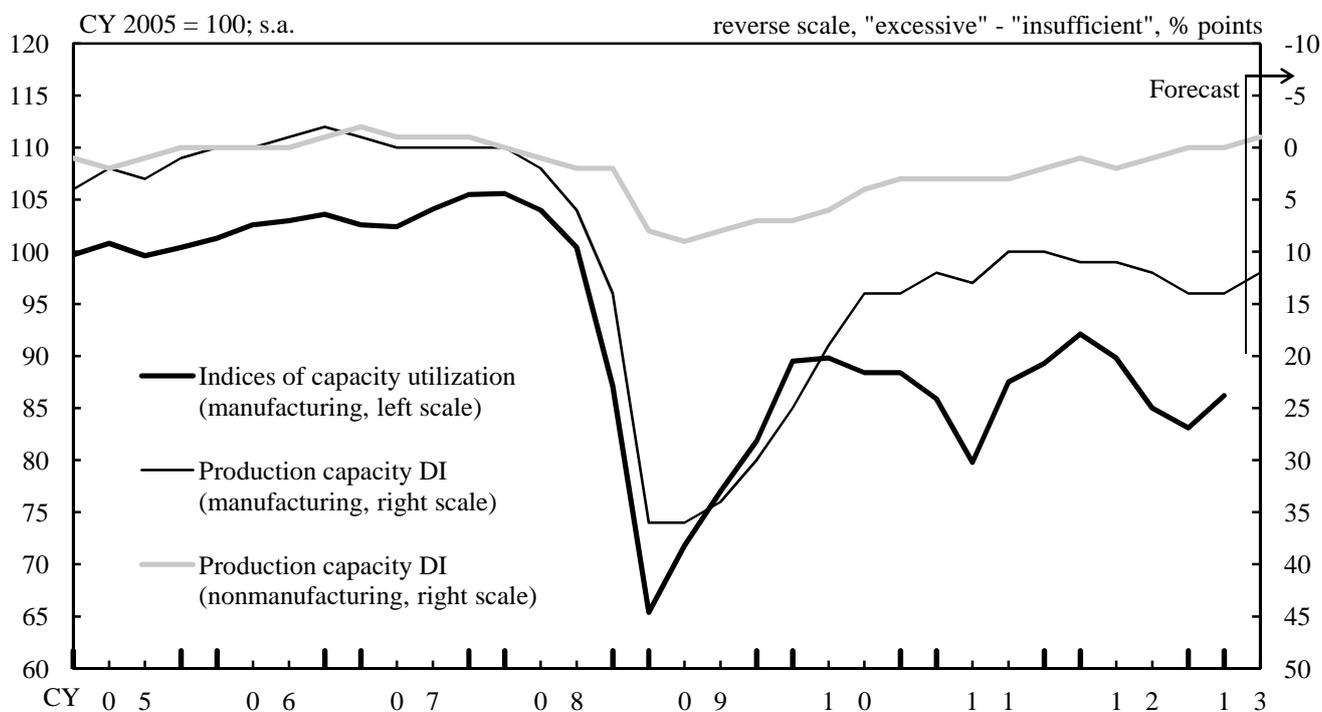
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI

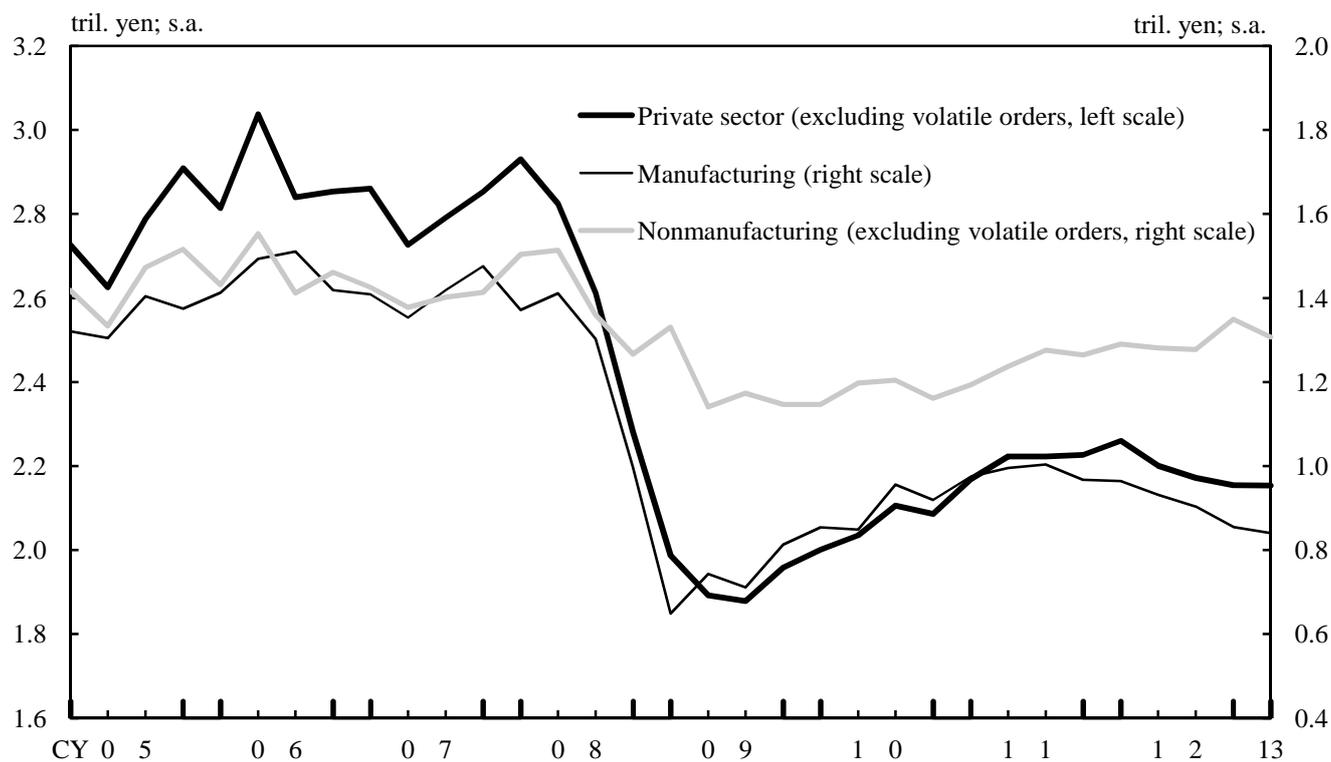


Note: Production capacity DIs are those of all enterprises.

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

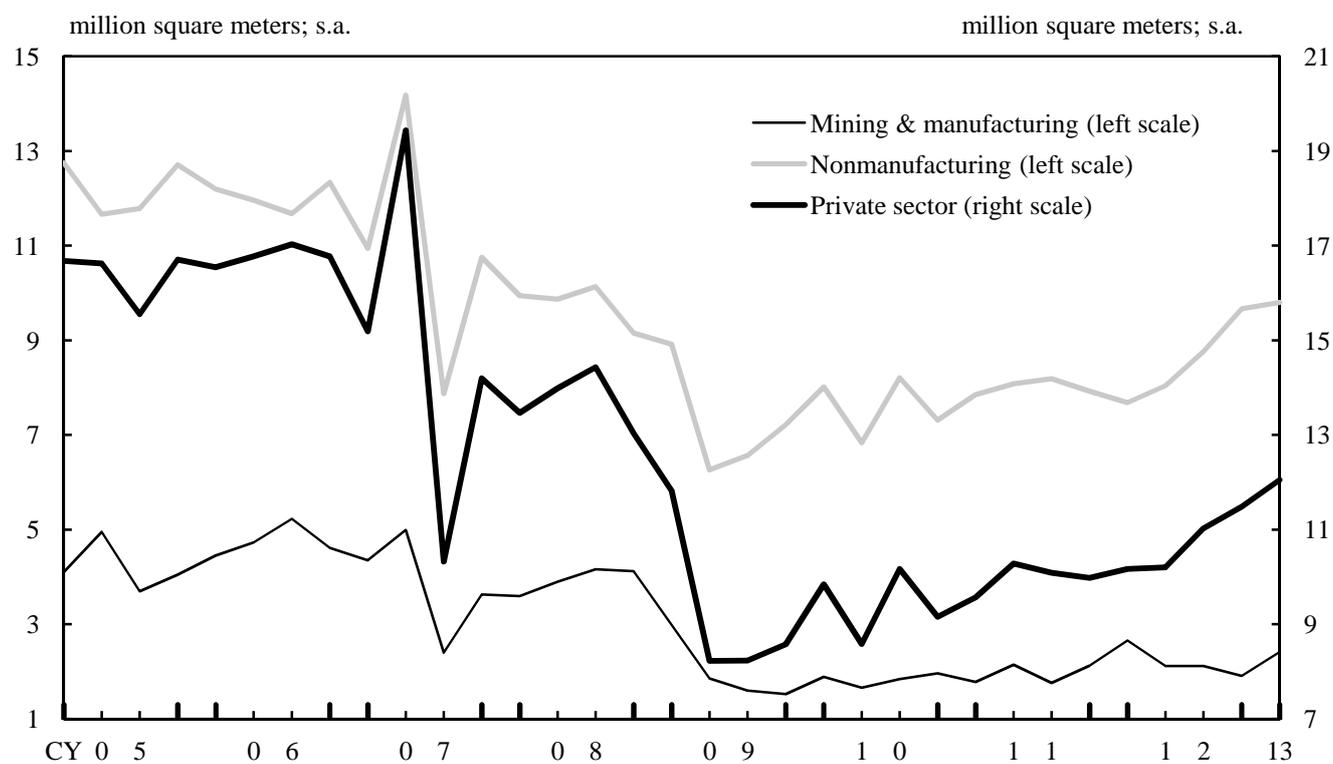
(1) Machinery Orders



Notes: 1. Figures for 2005/Q1 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)



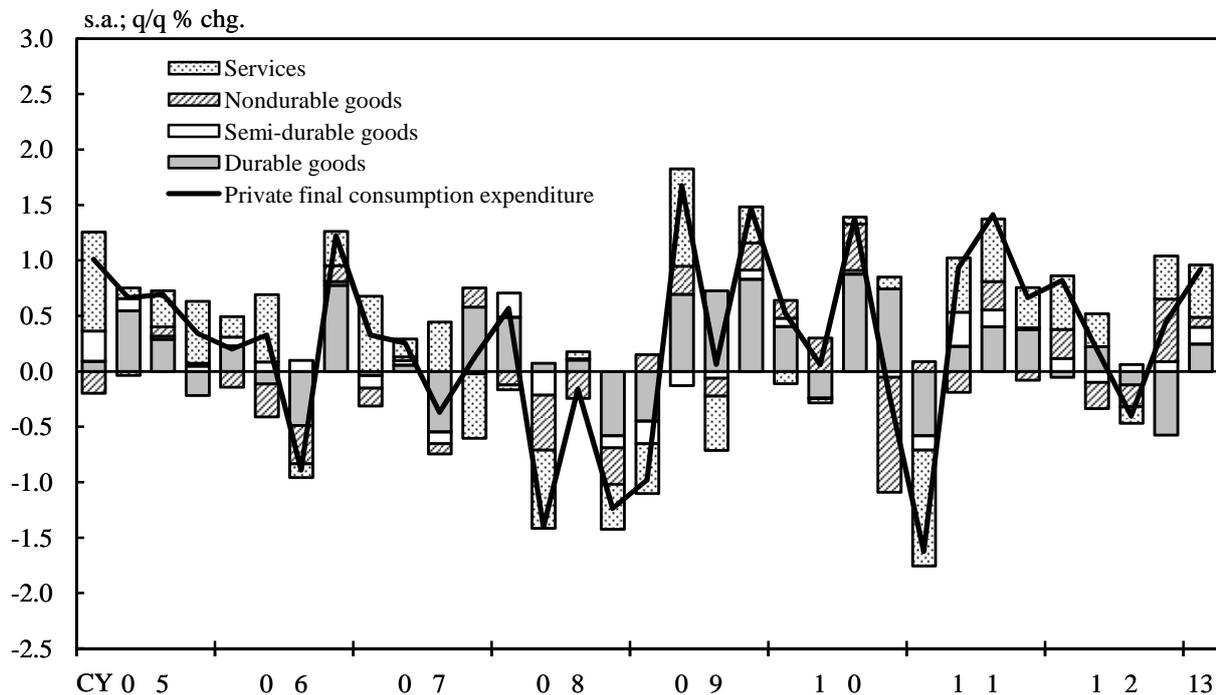
Note: Seasonally adjusted by X-12-ARIMA.

Sources: Cabinet Office, "Orders Received for Machinery";

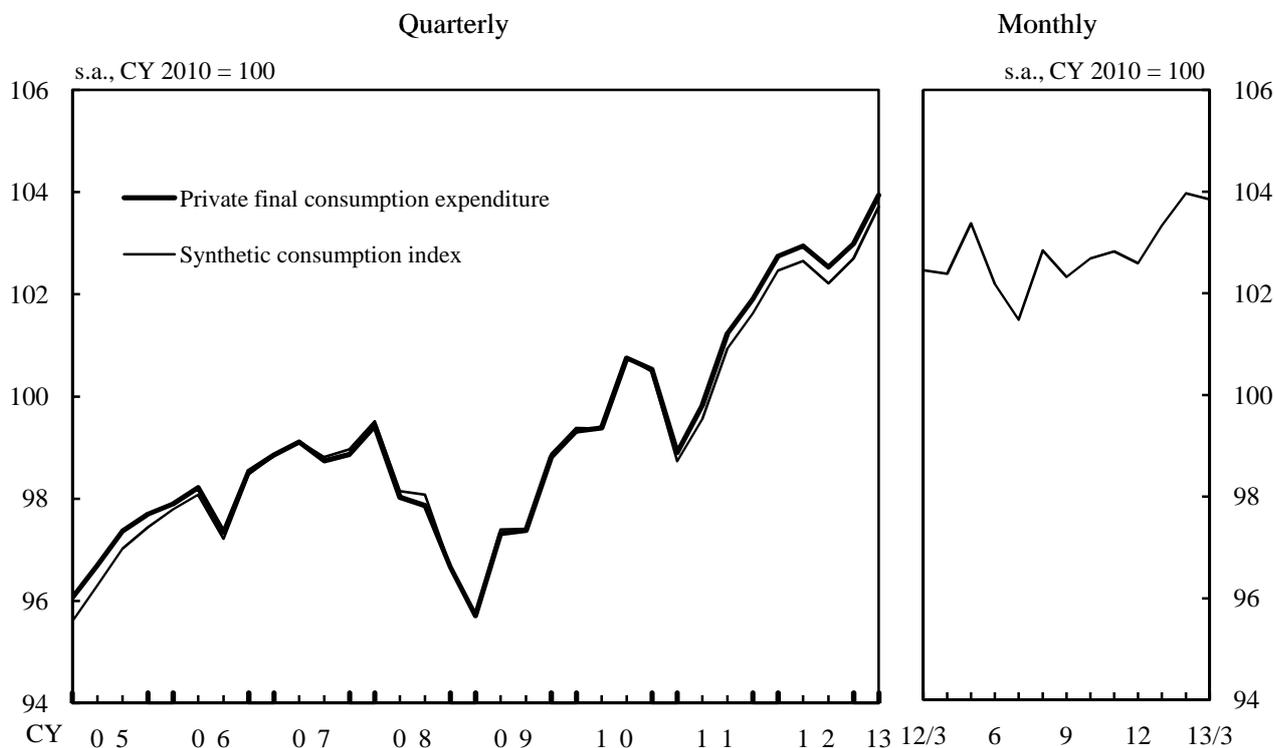
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



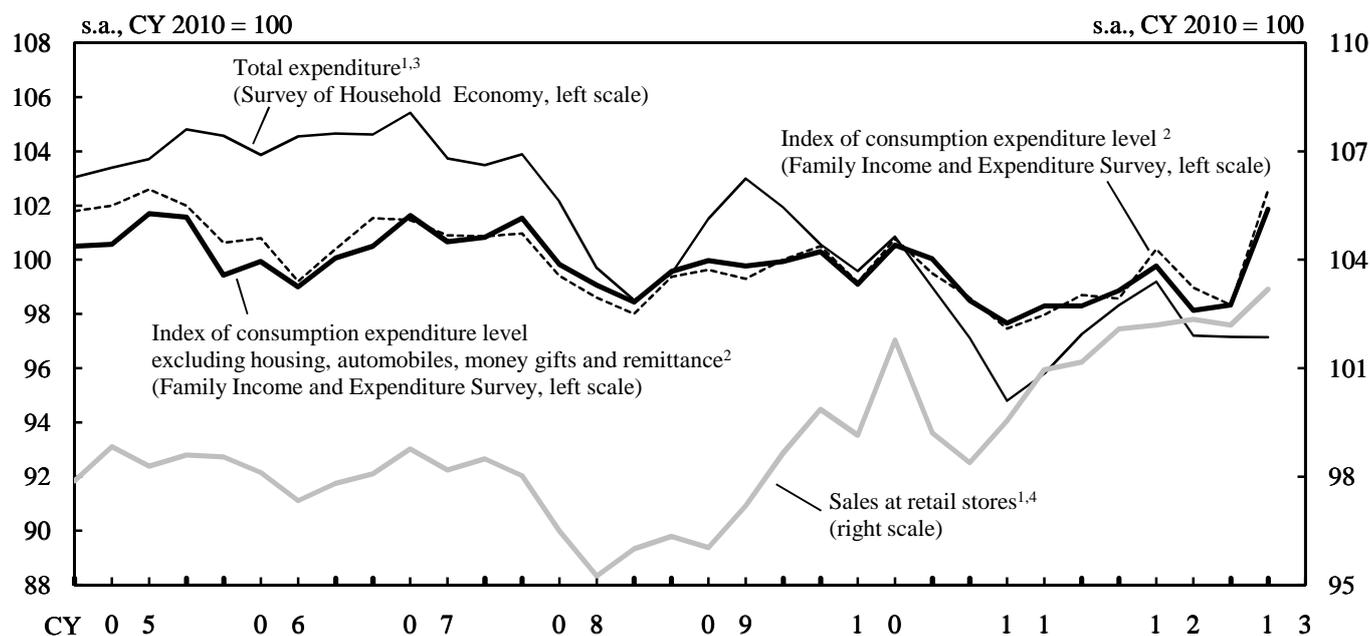
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



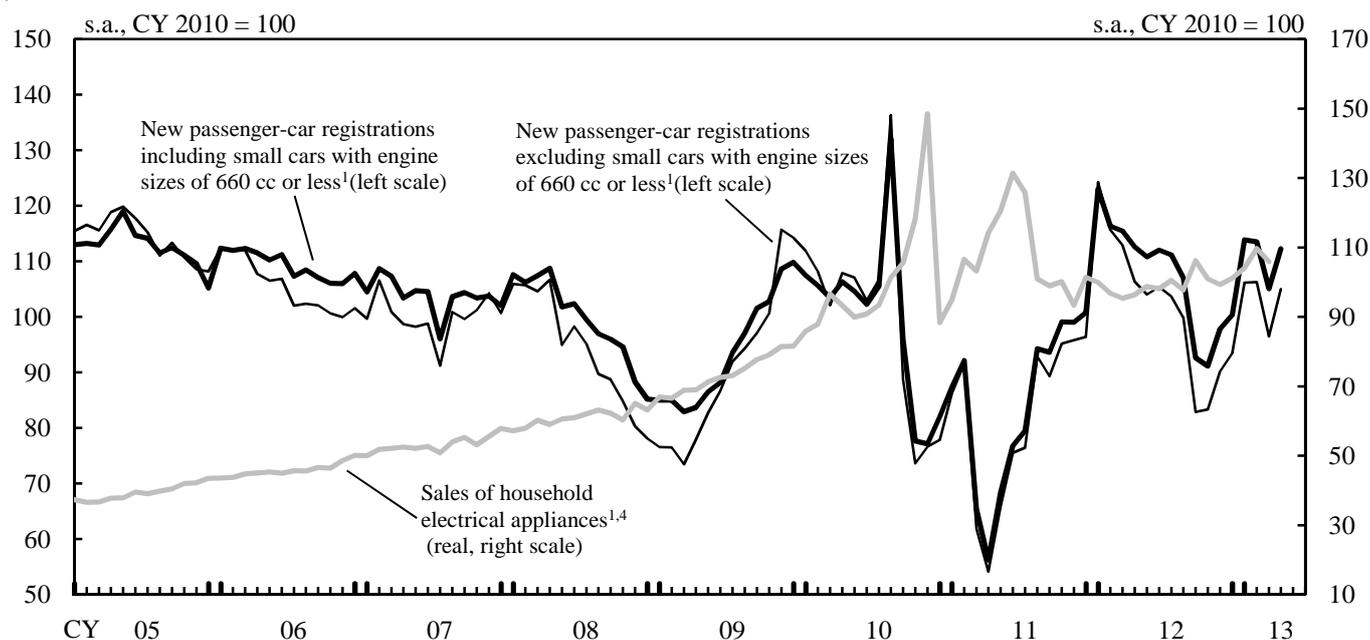
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

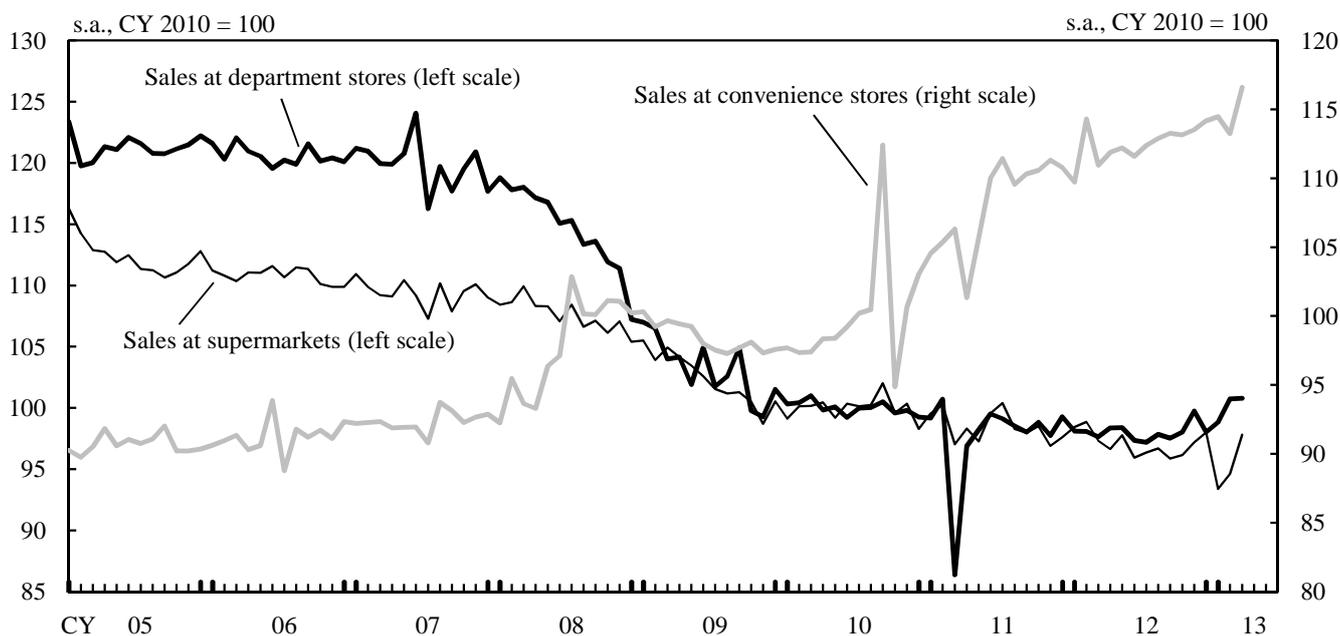


(2) Sales of Durable Goods

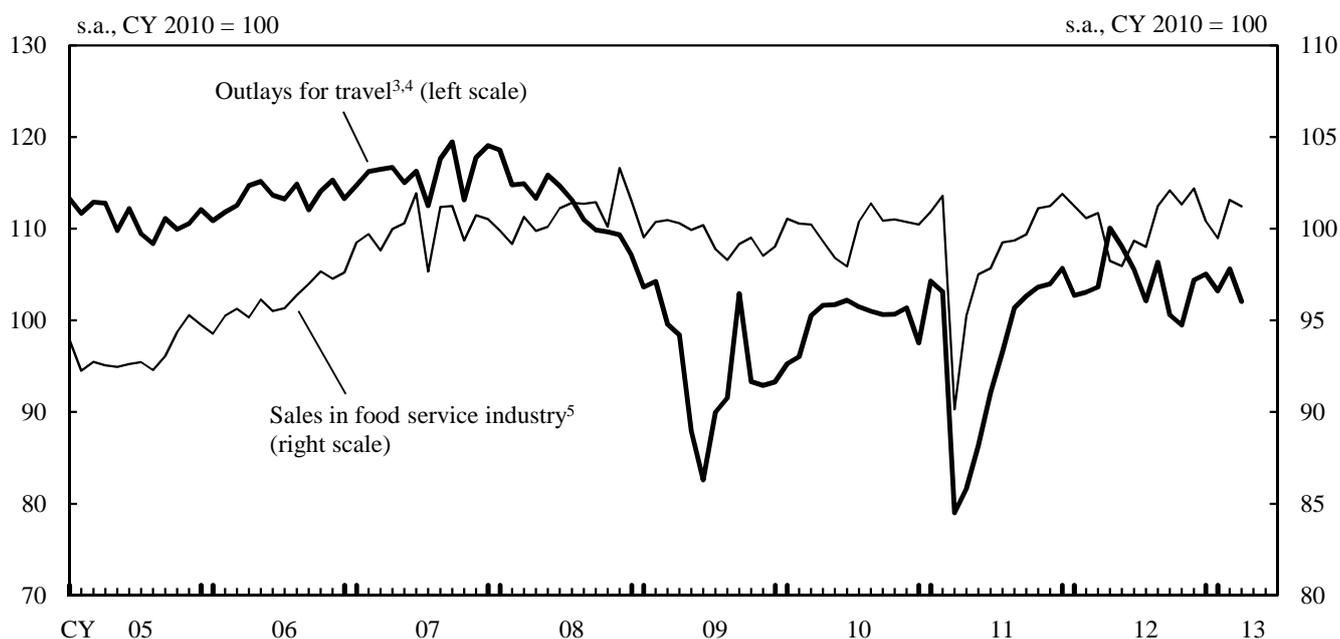


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household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

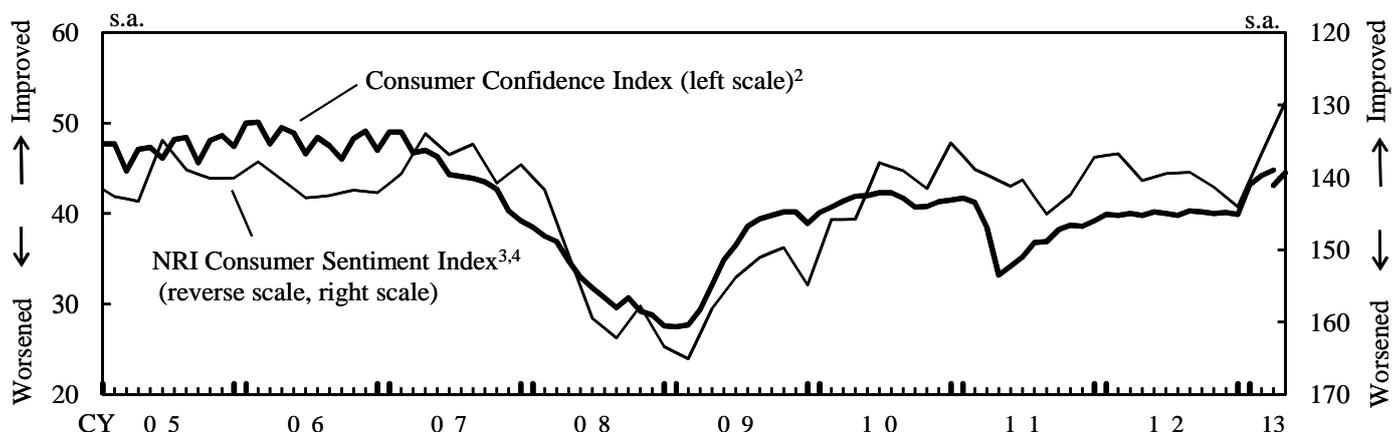
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

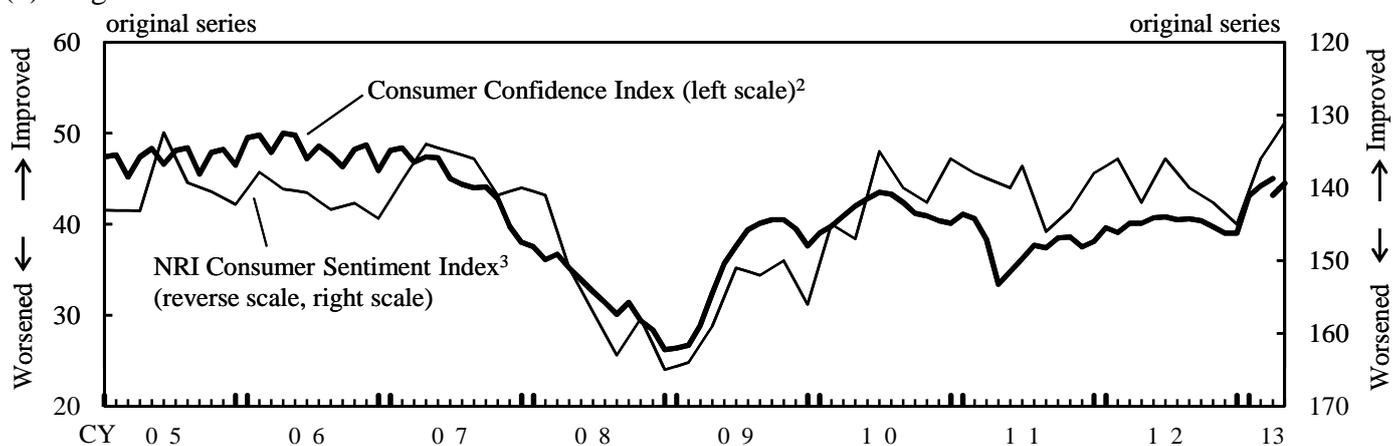
(Research on the food service industry)."

Consumer Confidence ¹

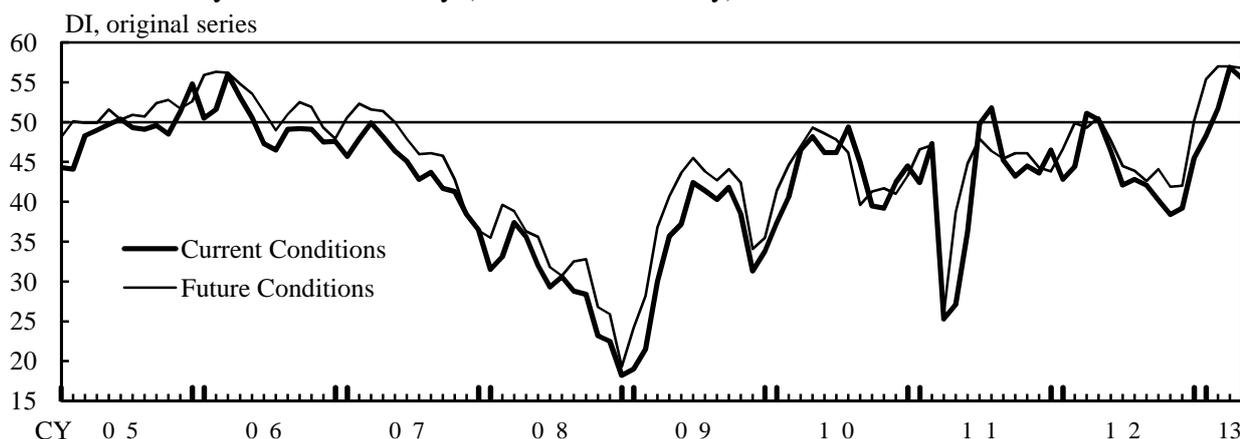
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

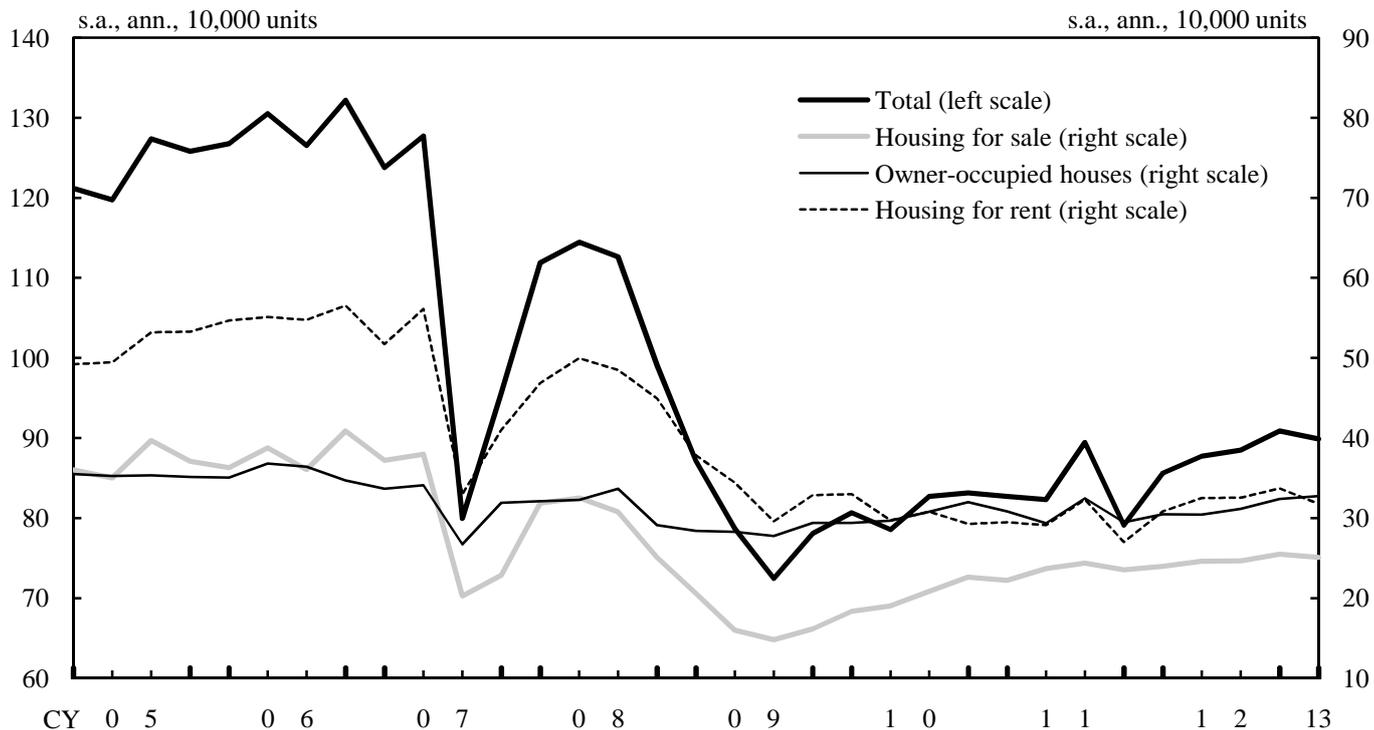


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting the Consumer Confidence Survey to a postal method, along with some other changes. For this reason, there is a discontinuity between data up to March 2013, which were obtained from the survey on a visit-and-leave method, and those thereafter. The figure for March 2013 on a postal-method basis is obtained from an examination survey.
3. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.
4. Figures are seasonally adjusted by X-12-ARIMA.

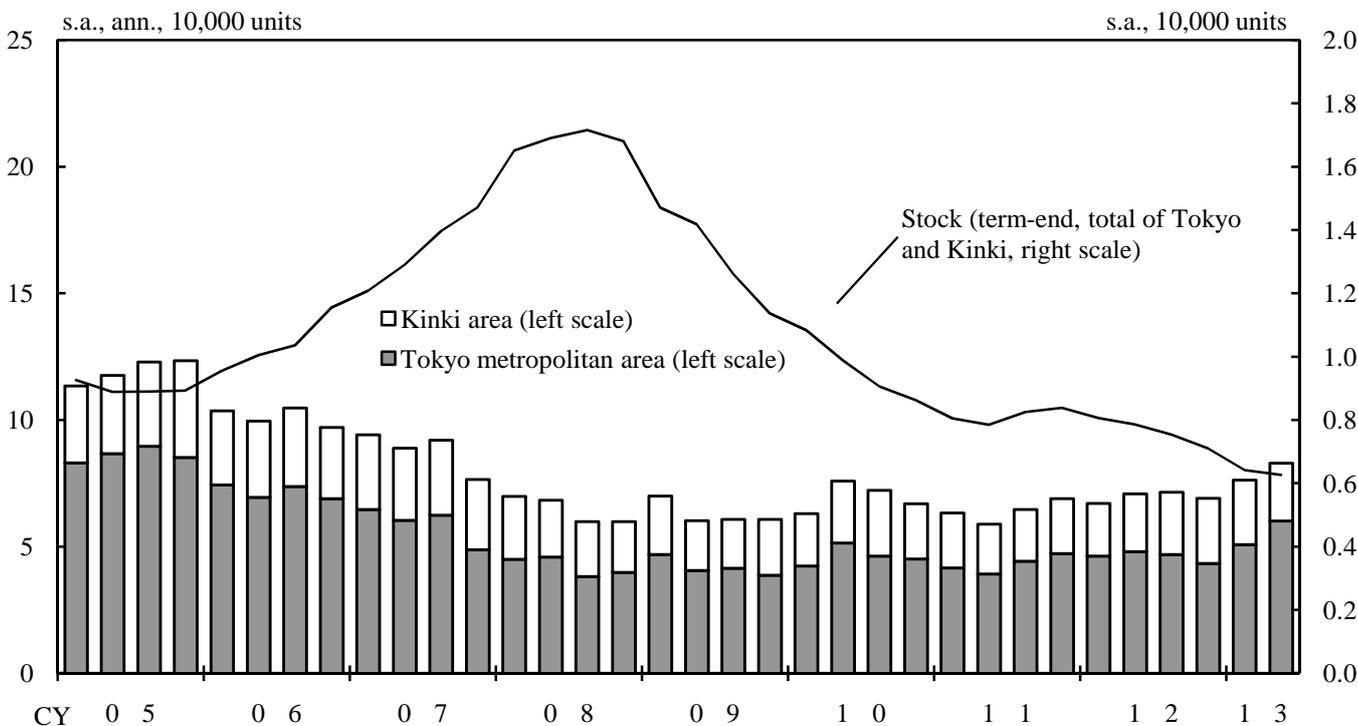
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

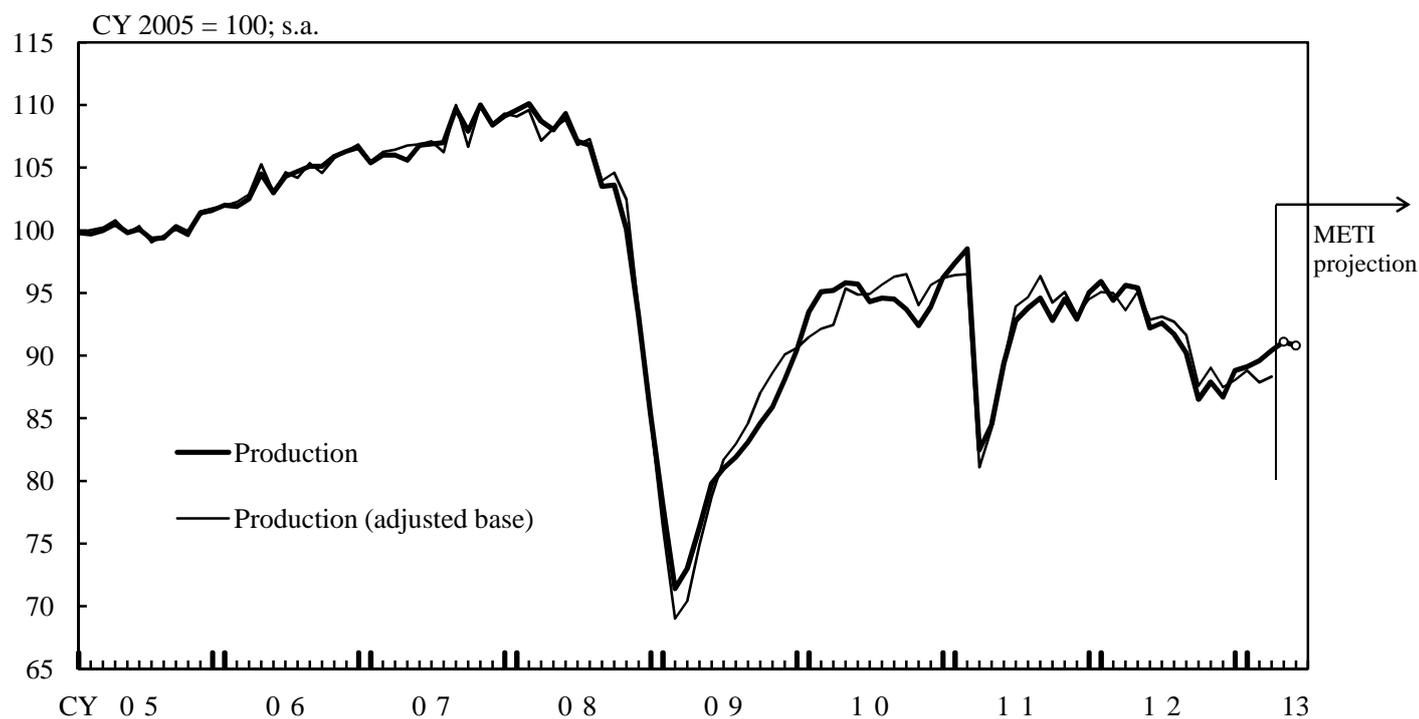


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2013/Q2 are those of April.

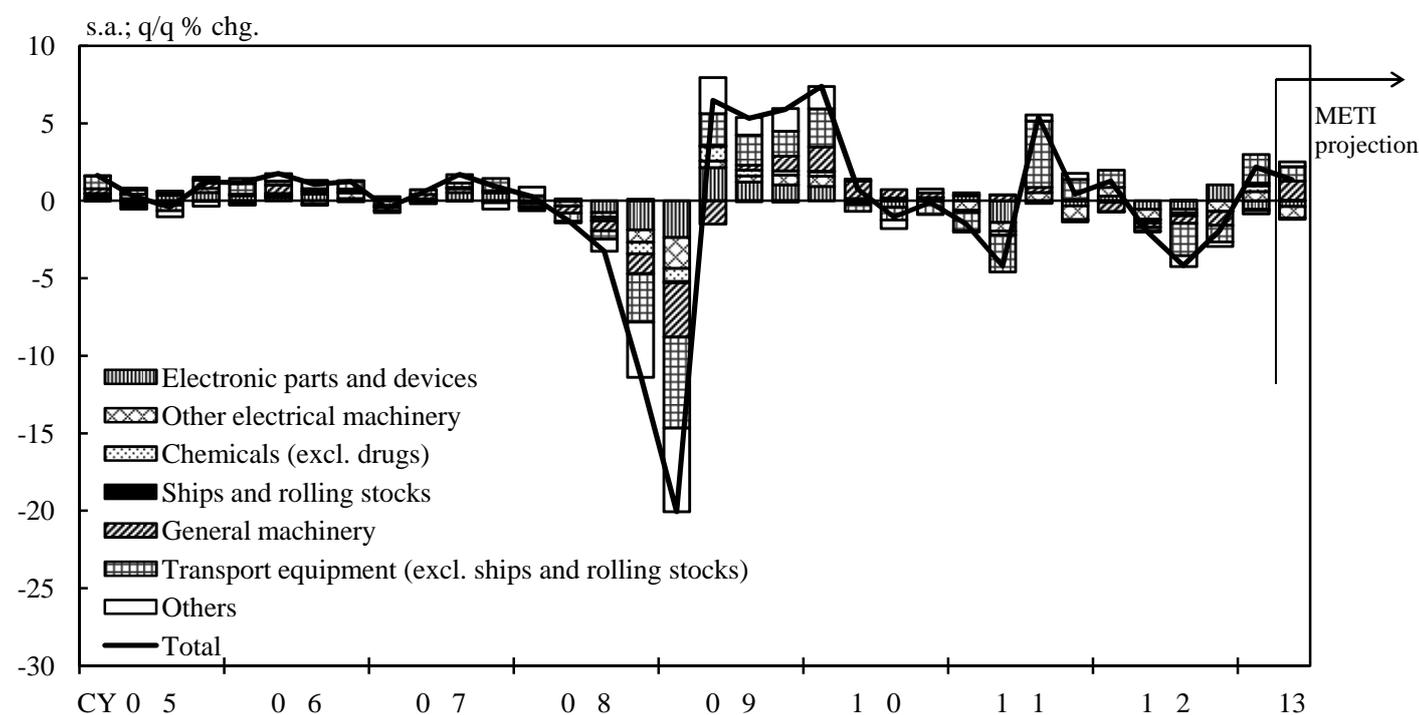
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production

(1) Production



(2) Production by Industry



Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

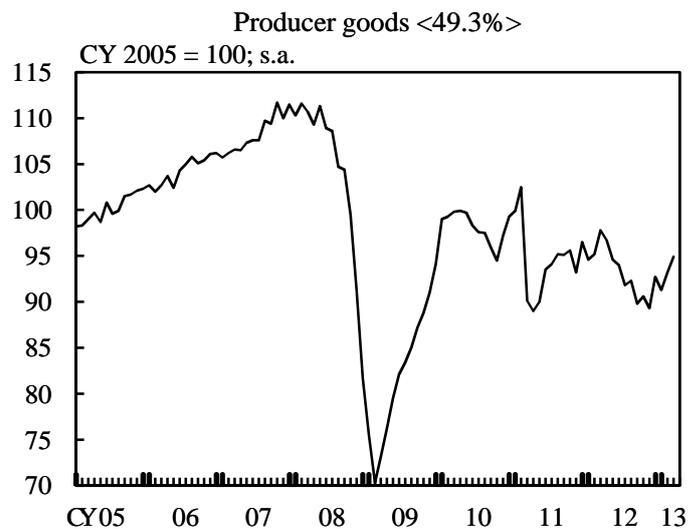
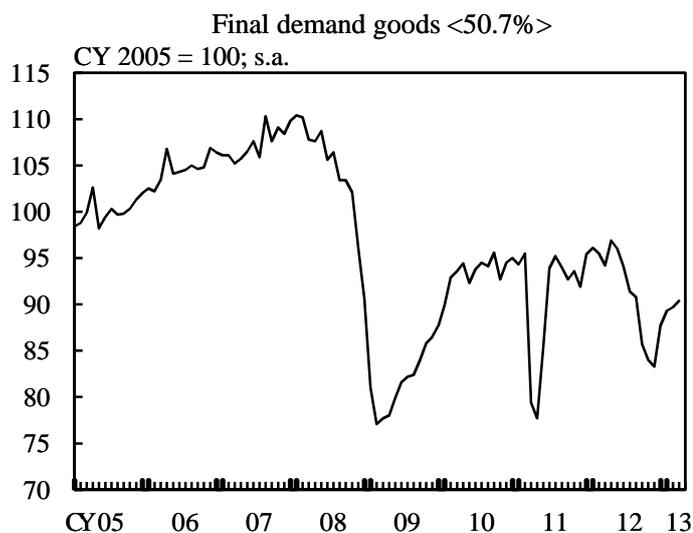
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

3. 2013/Q2 figures are based on the assumption that the production levels in June are the same as those of May.

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

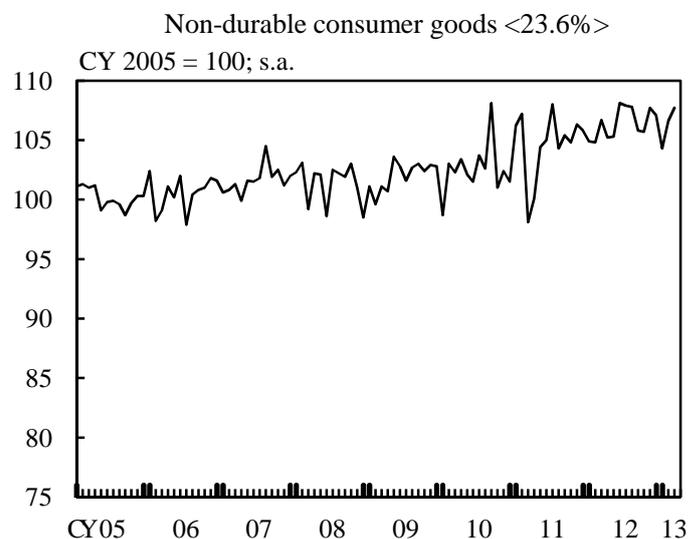
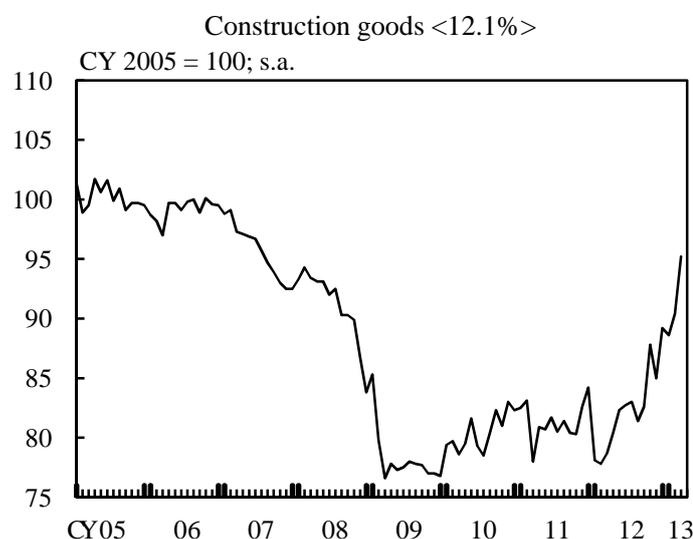
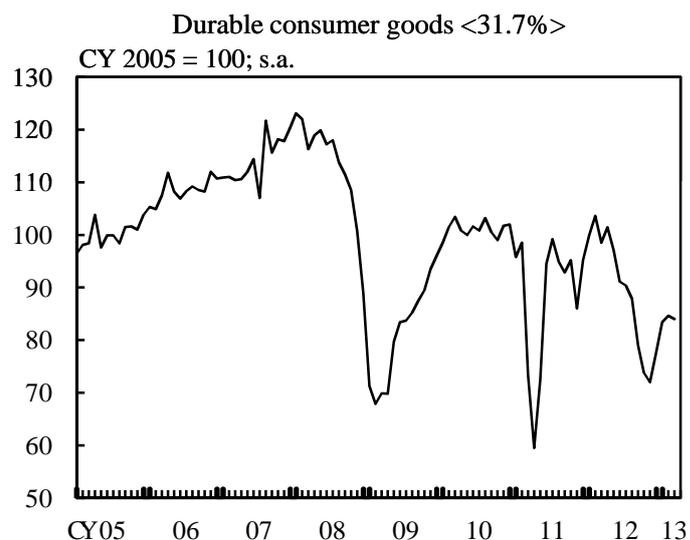
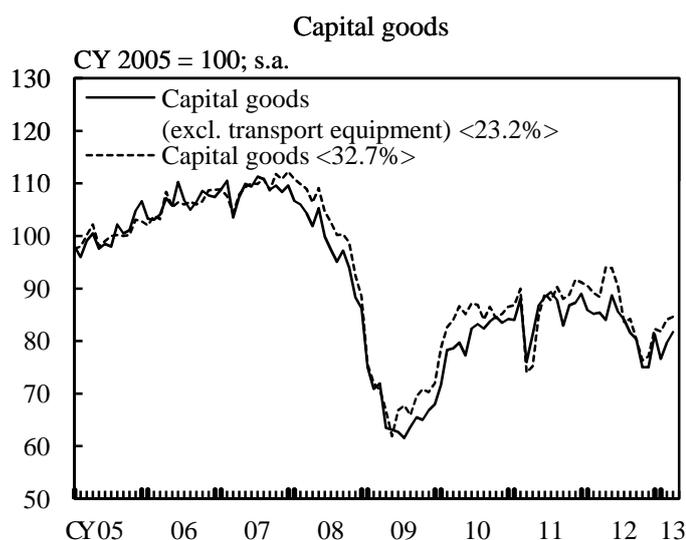
Shipments by Type of Goods

(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

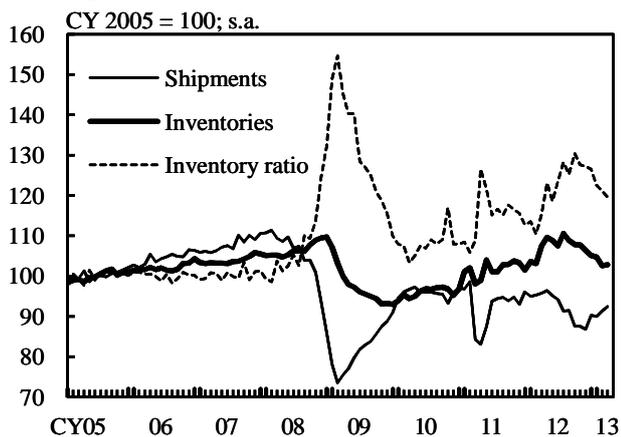


Note: Figures in angle brackets show the shares among shipments of final demand goods.

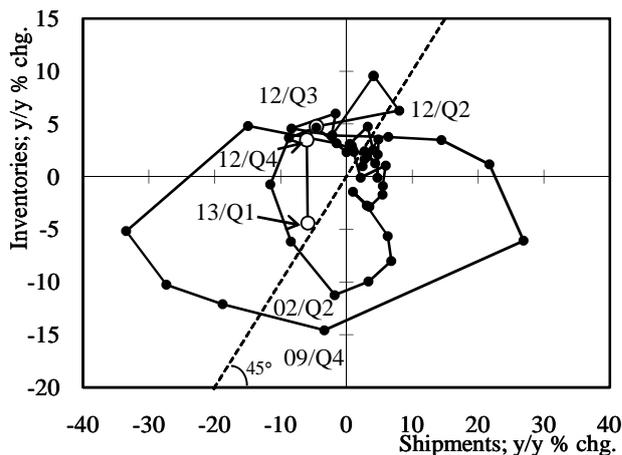
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments and Inventories

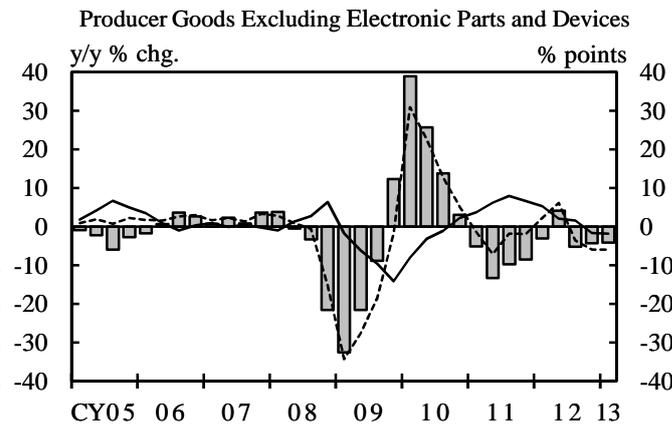
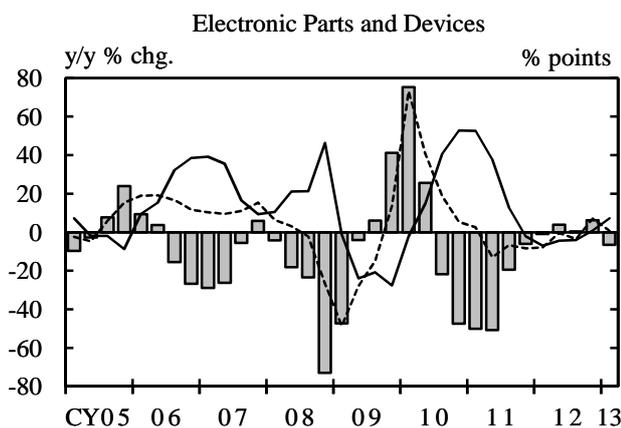
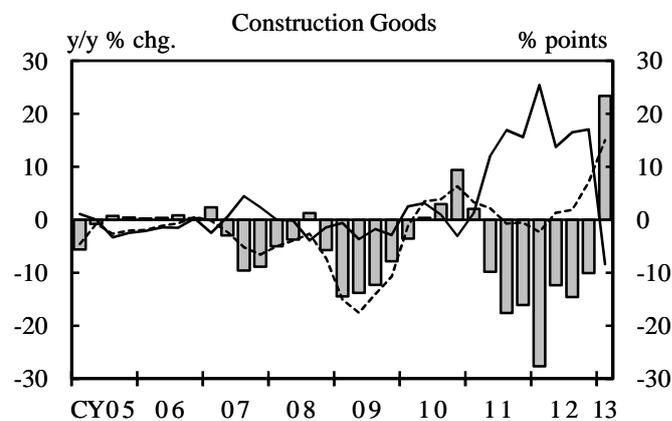
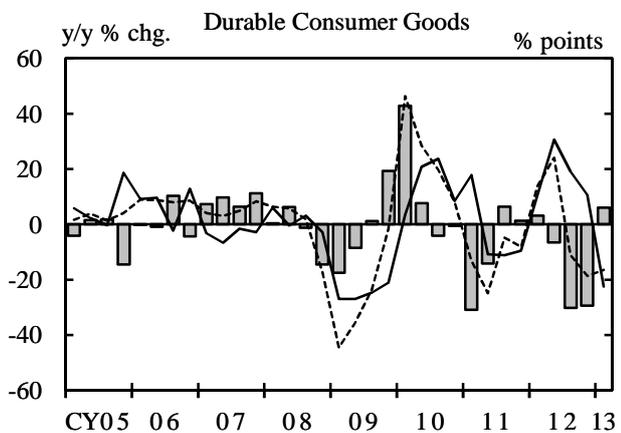
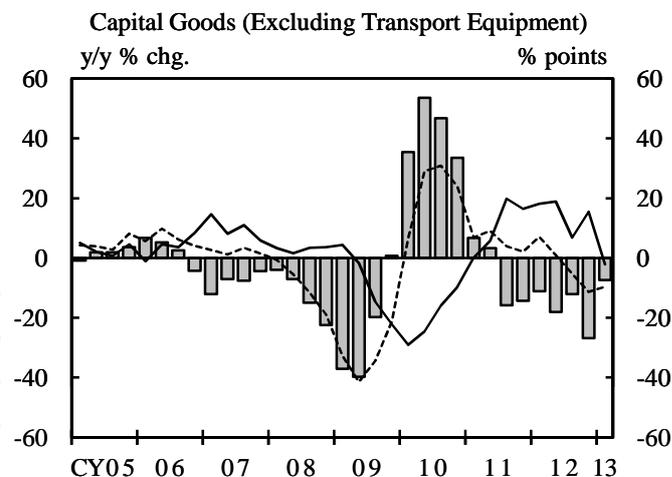
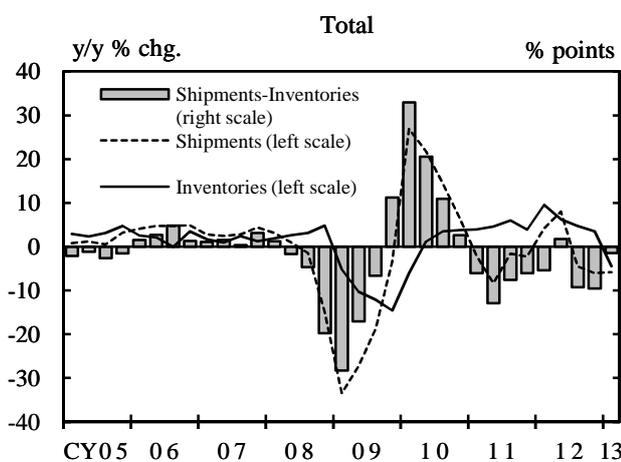
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



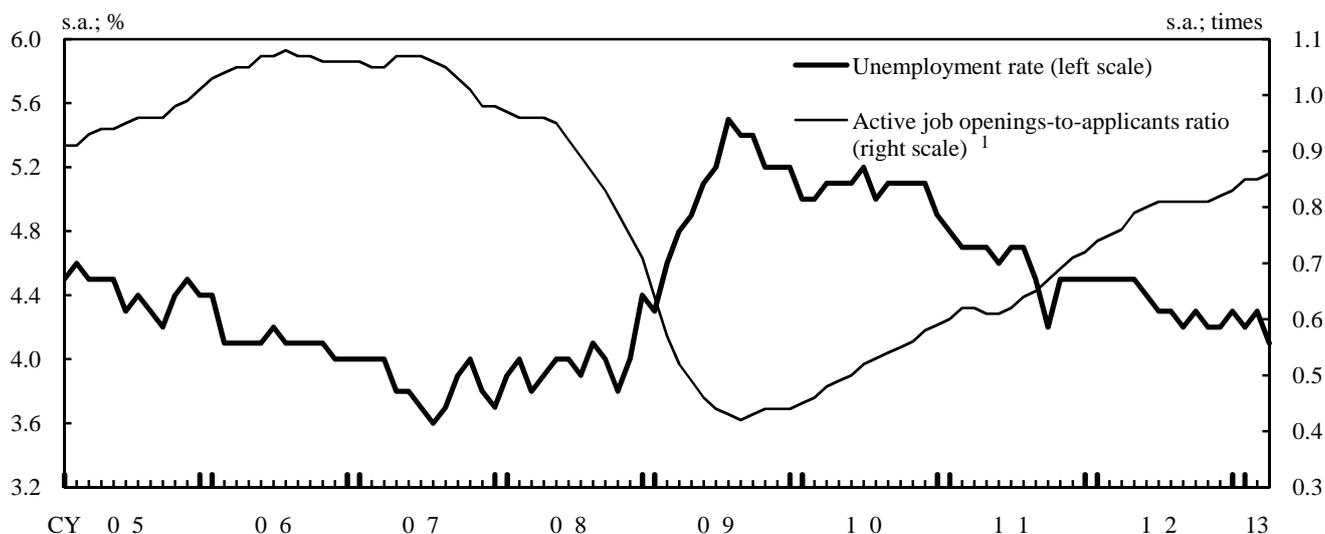
(3) Shipment-Inventory Balance



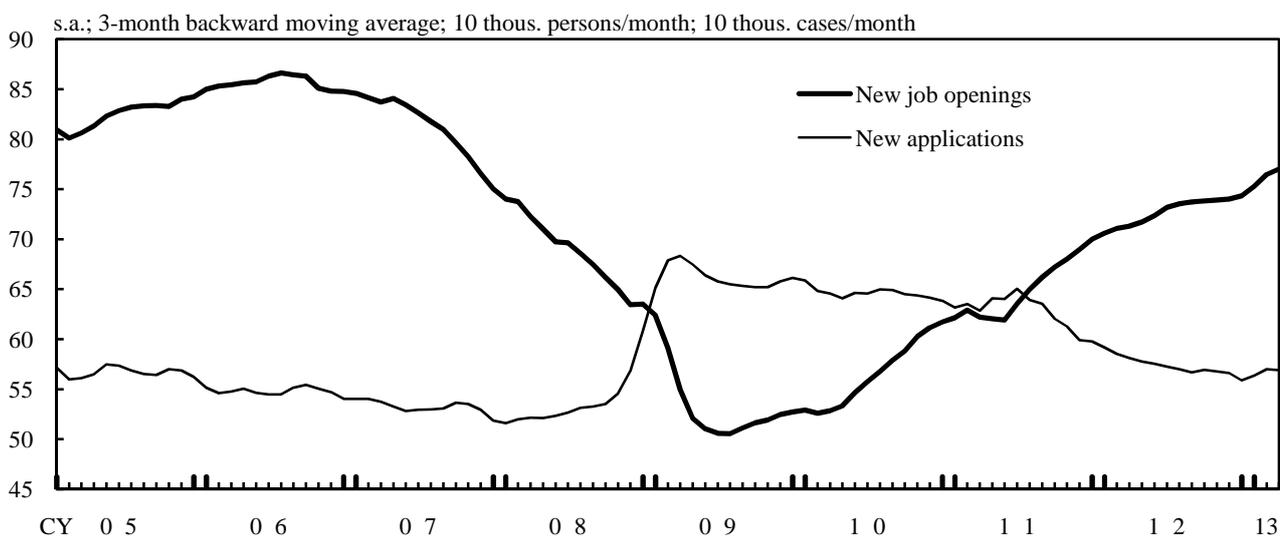
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

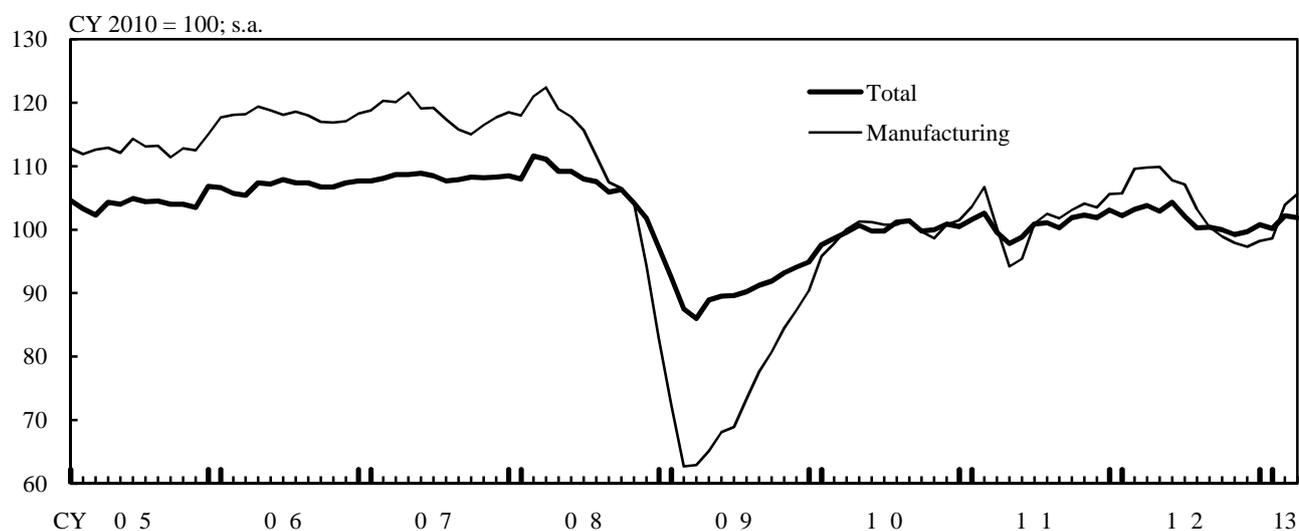
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²



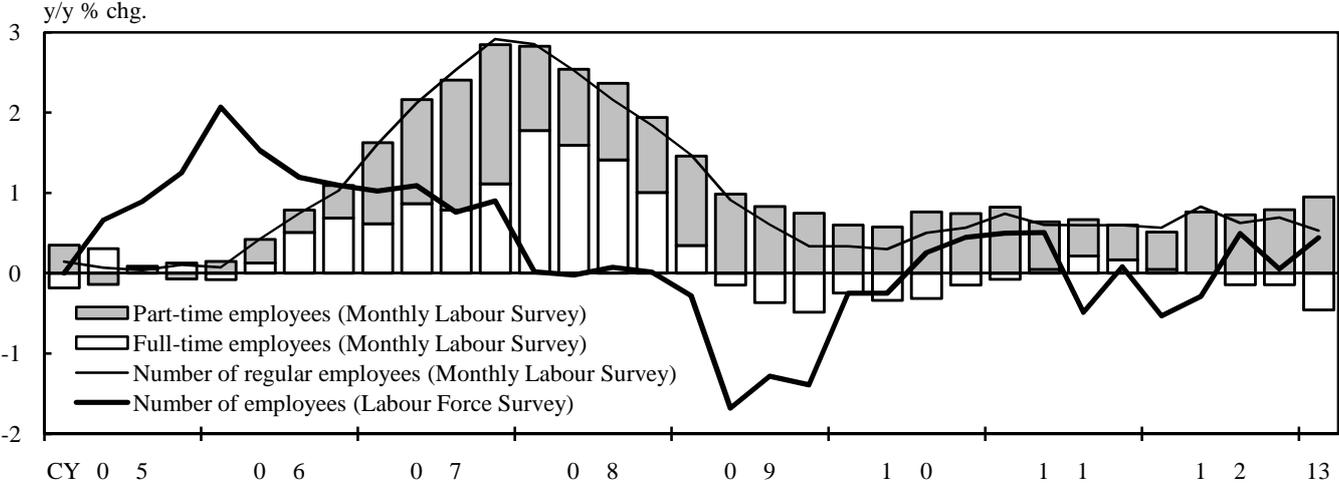
Notes: 1. Excluding new school graduates and including part-timers.

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

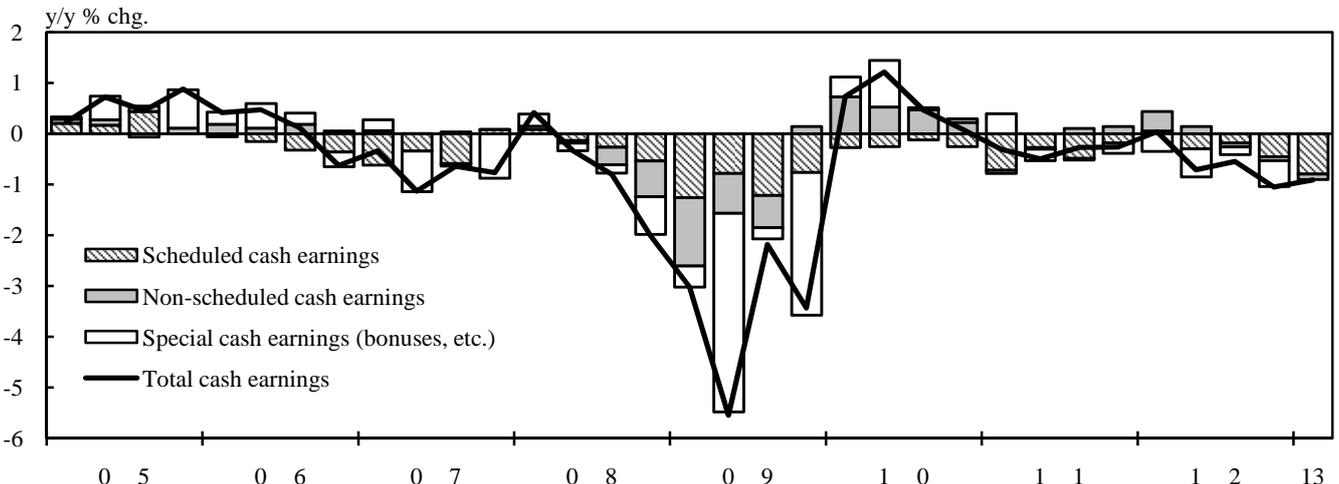
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

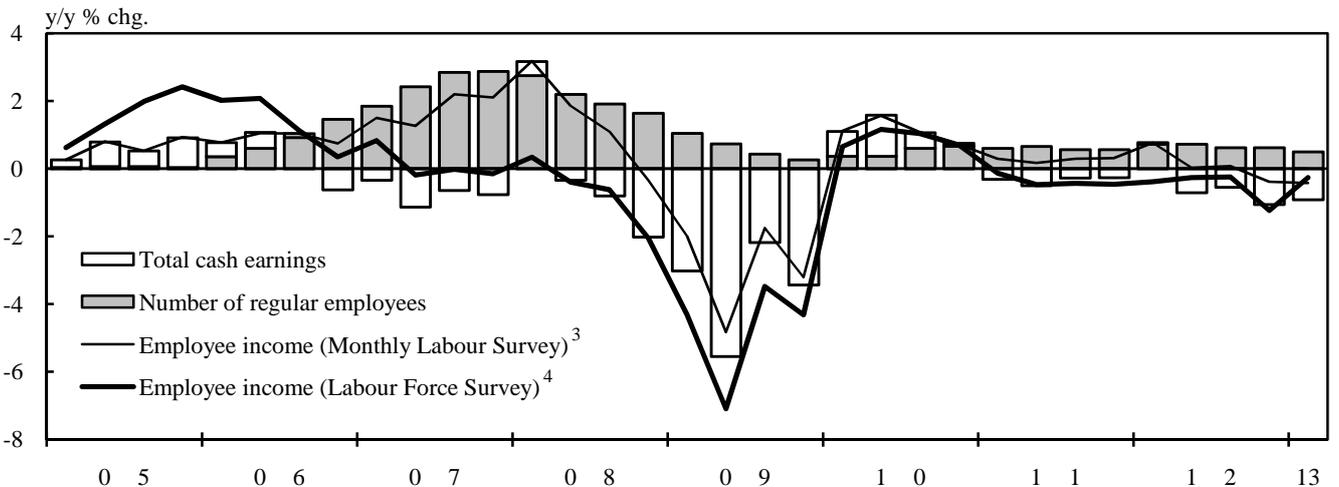
(1) Number of Employees¹



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



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

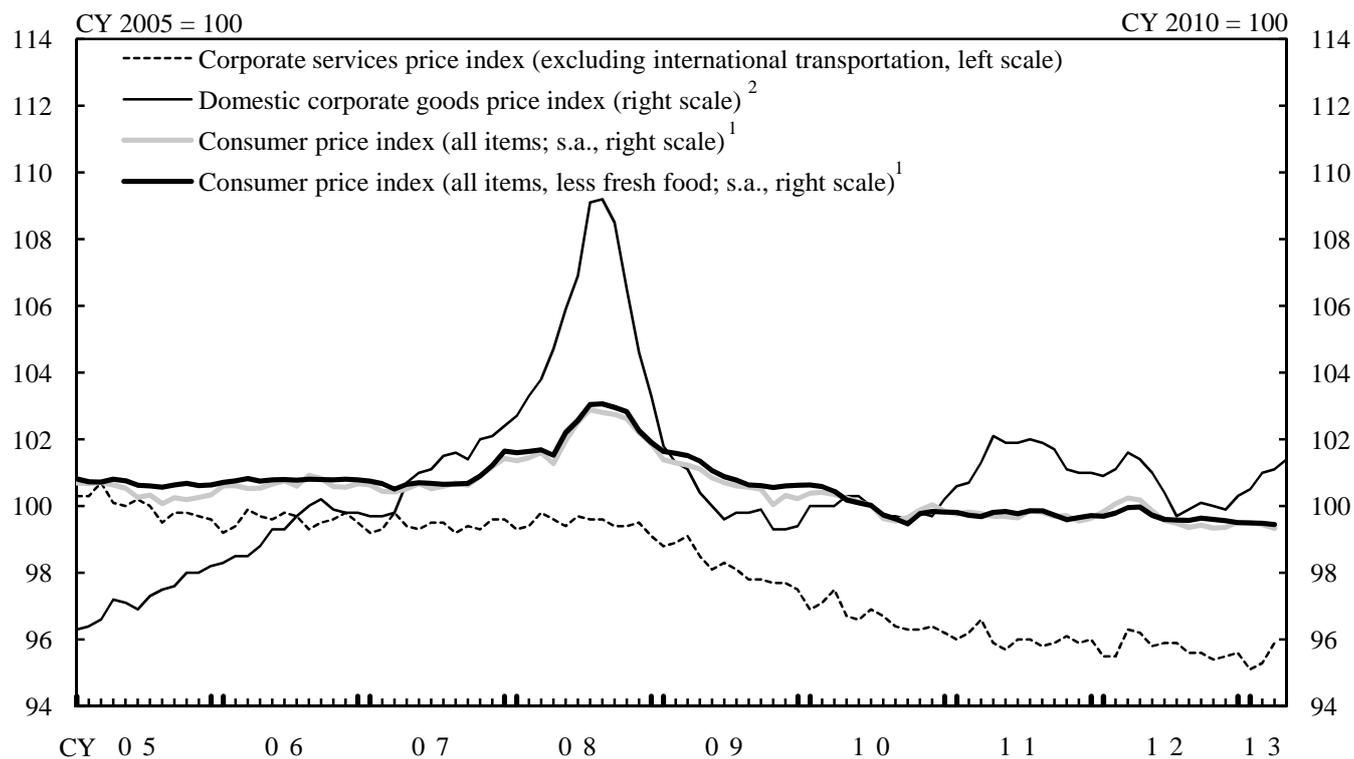


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2013/Q1 are those of March.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
 4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

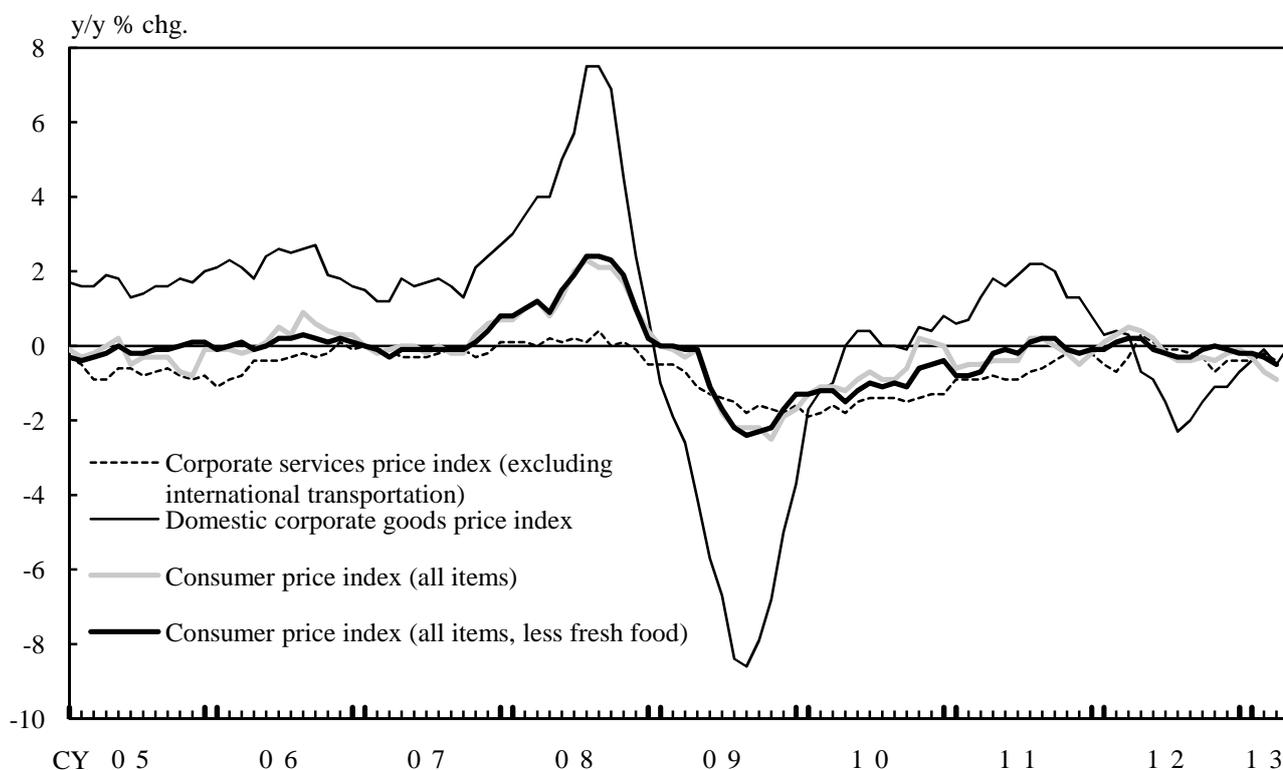
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

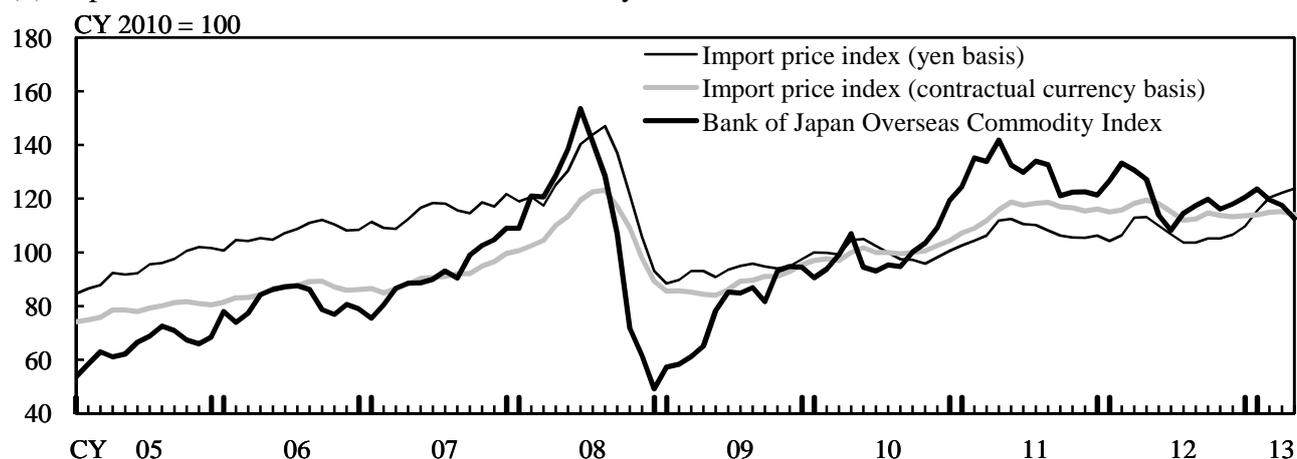
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

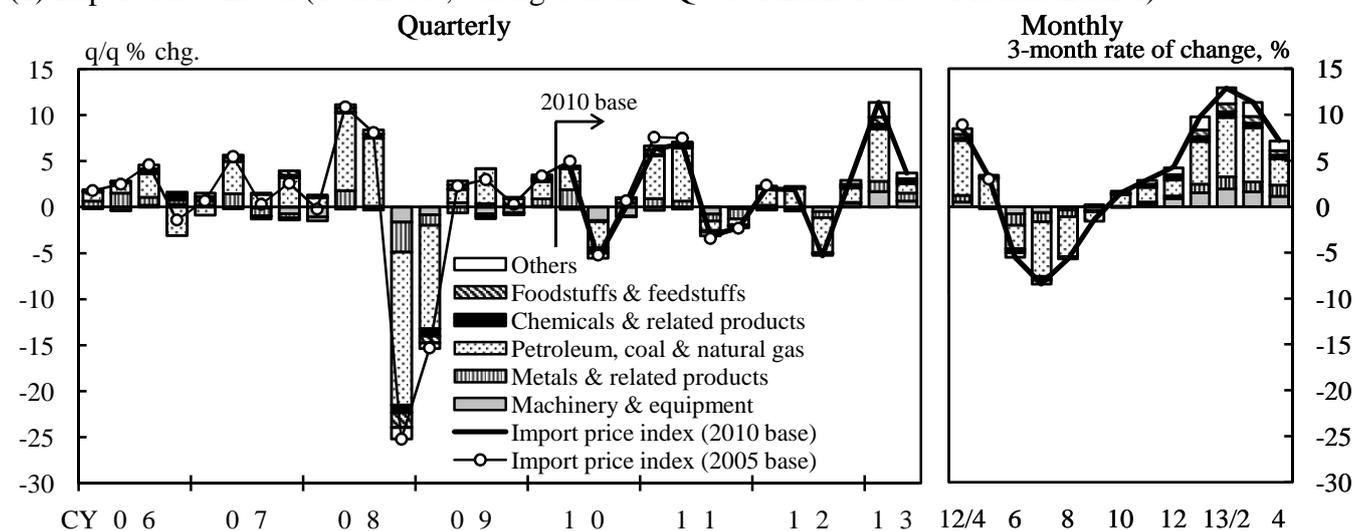
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



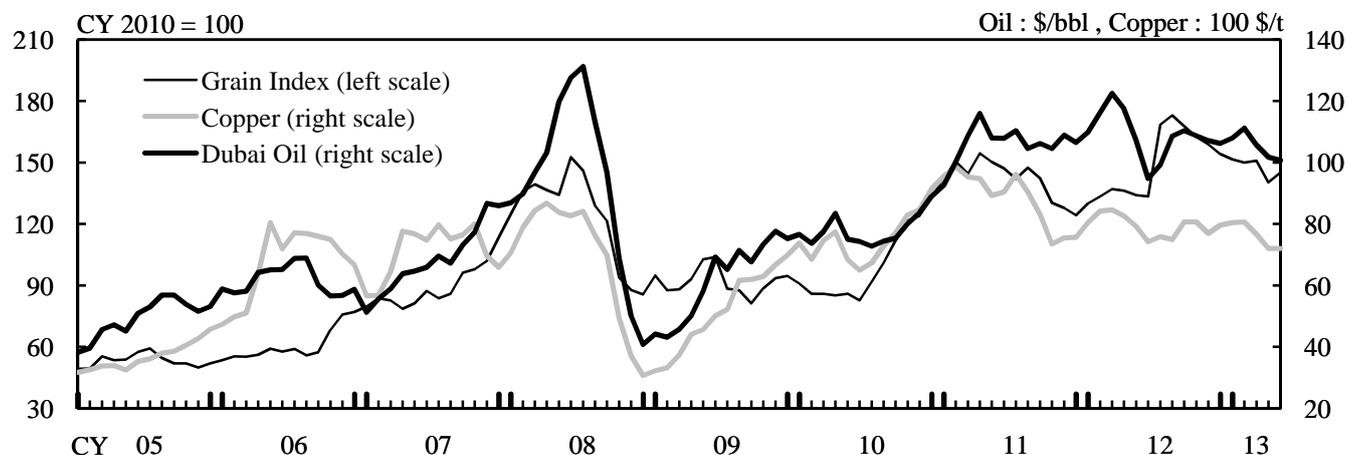
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.

2. Figures for 2013/Q2 are those of April.

(3) International Commodity Prices



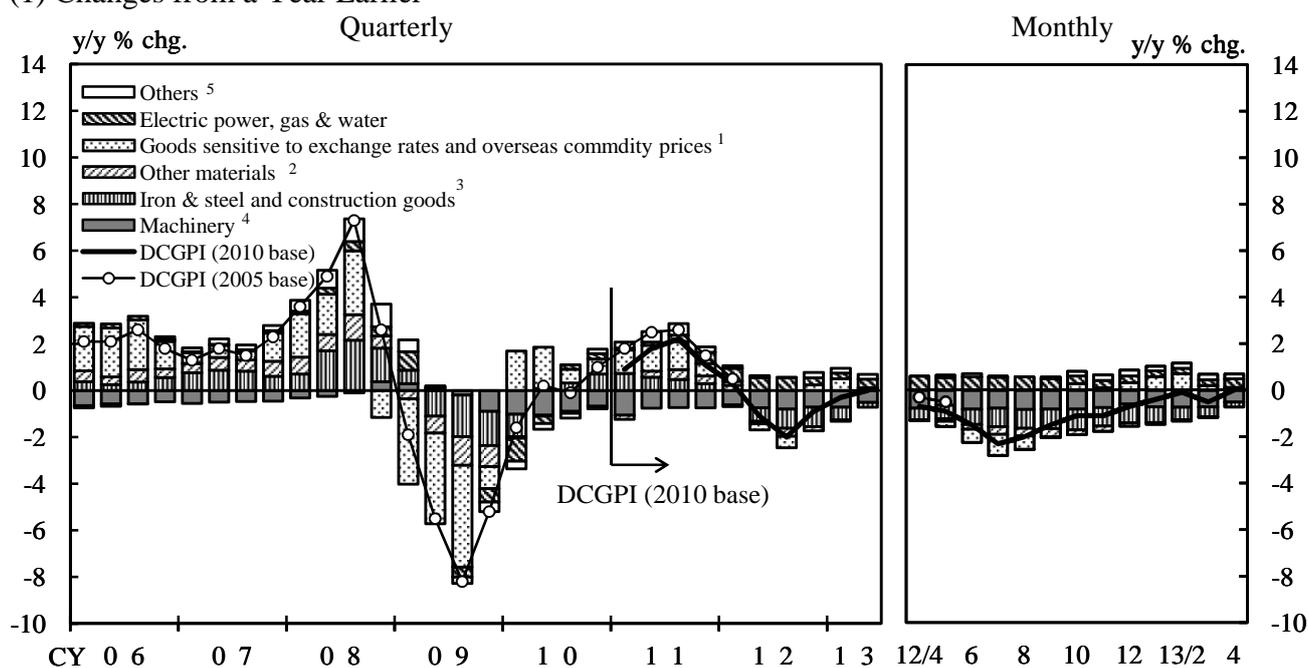
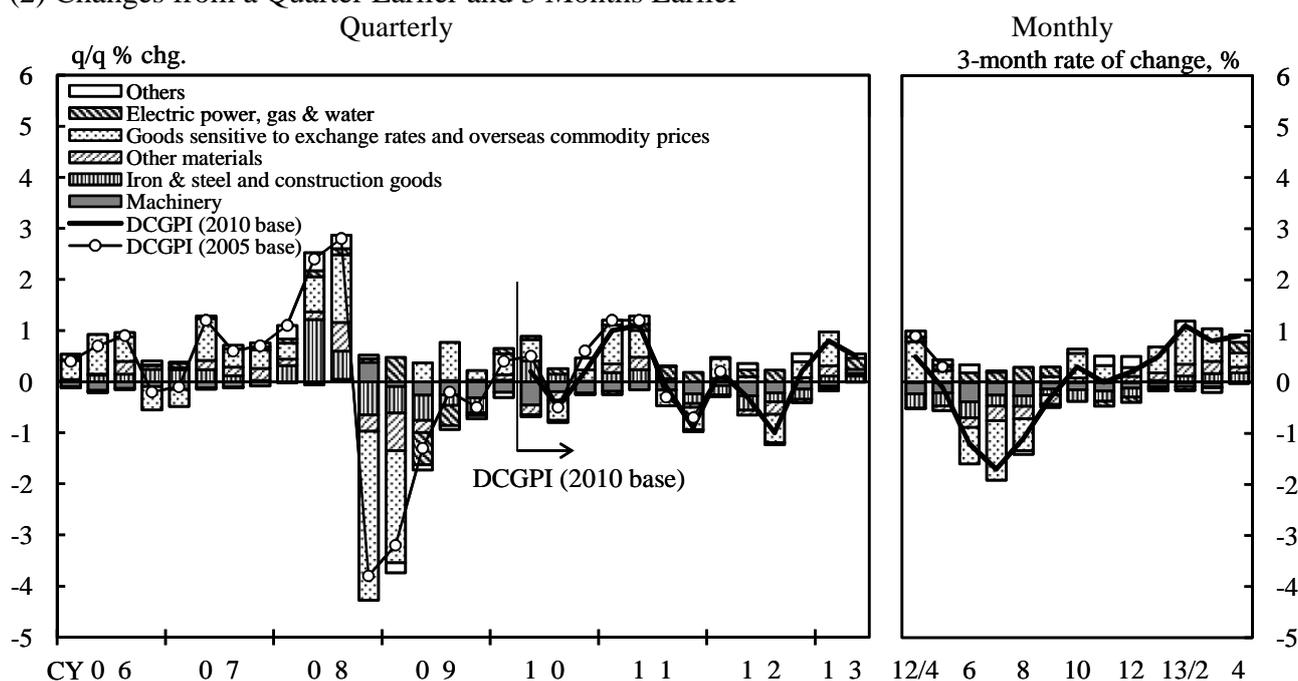
Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."

2. Monthly averages. Figures for May 2013 are averages up to May 21.

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 Earlier⁶

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.

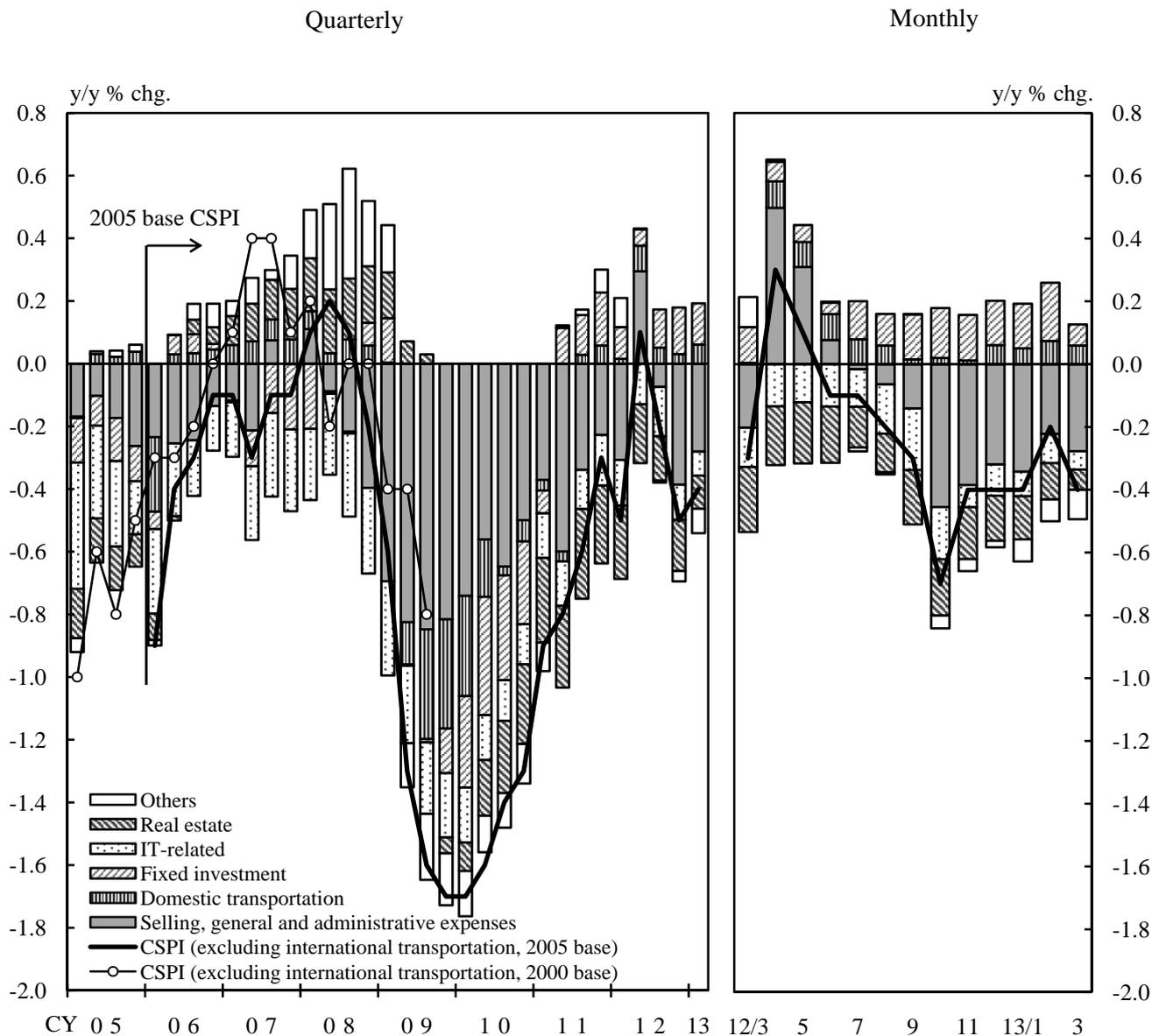
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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/Q2 are those of April.

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

Corporate Services Price Index

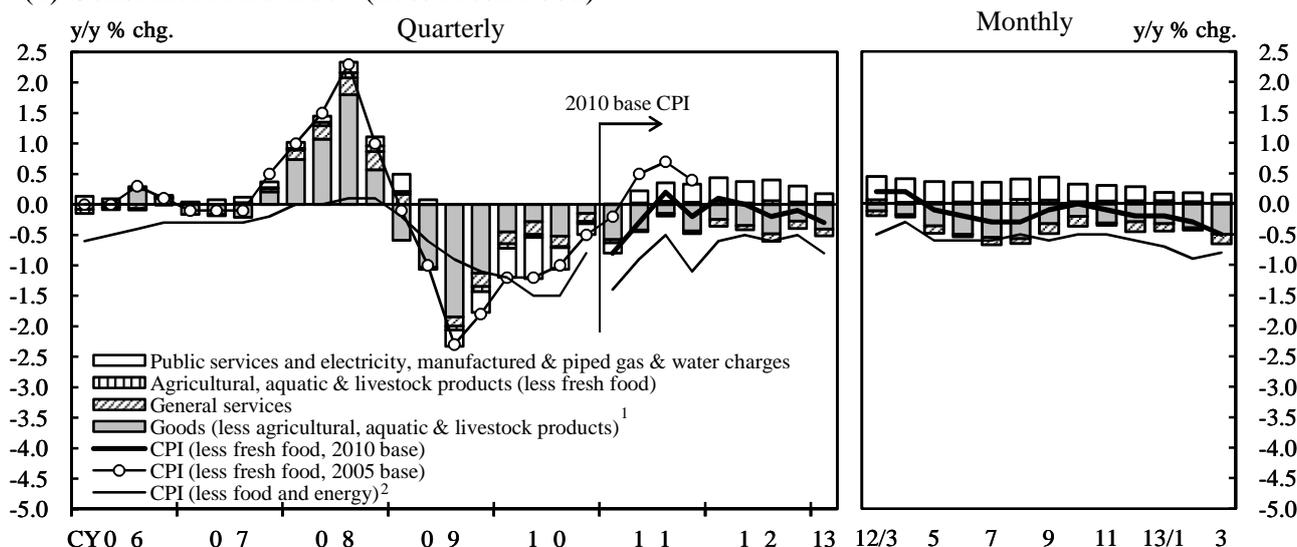


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding 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.

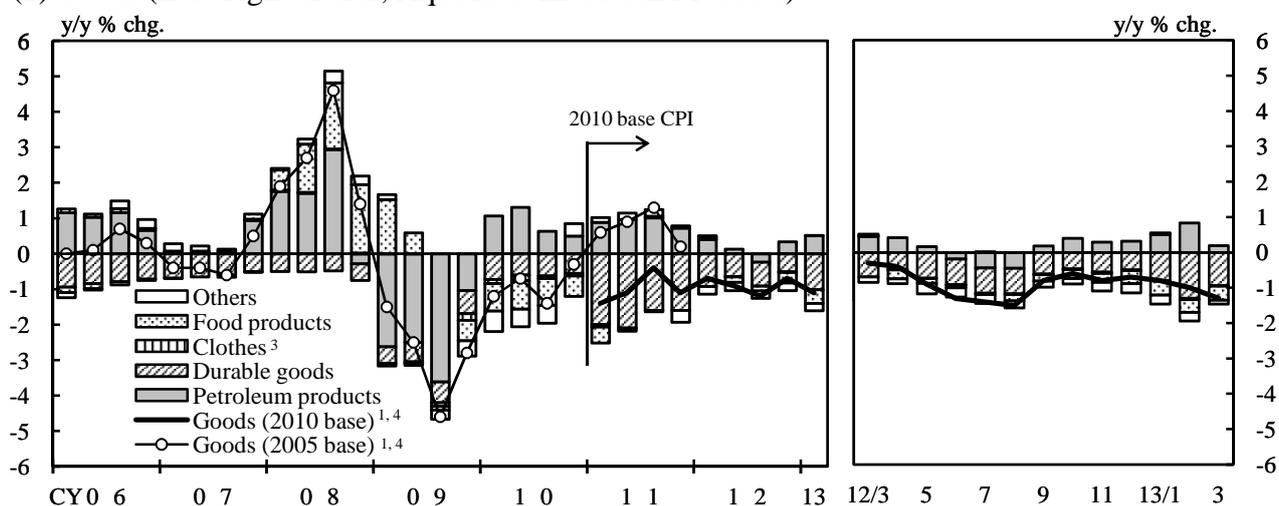
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

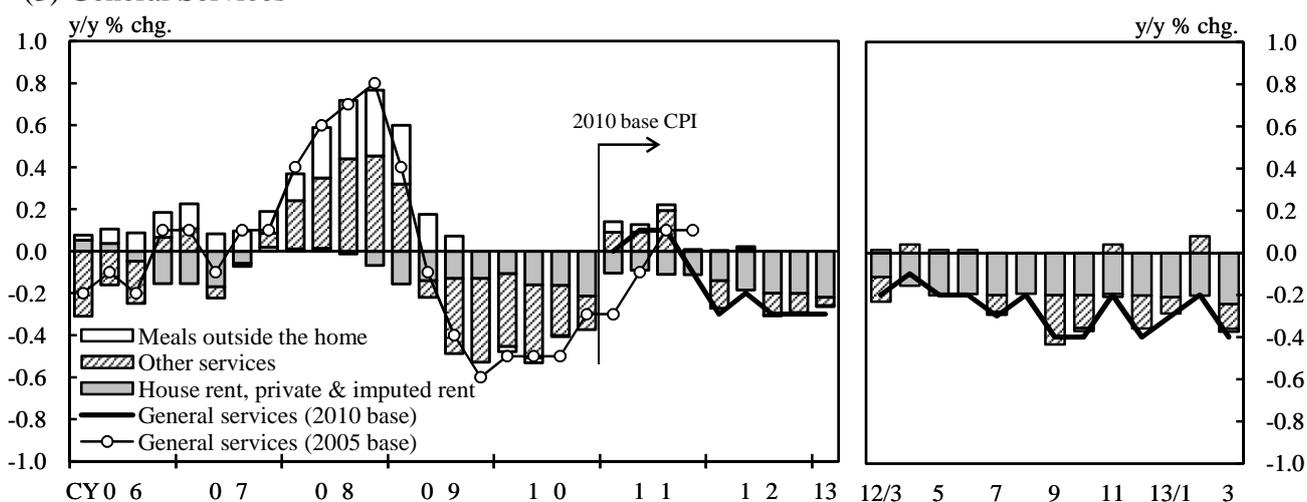
(1) Consumer Price Index (Less Fresh Food)



(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.

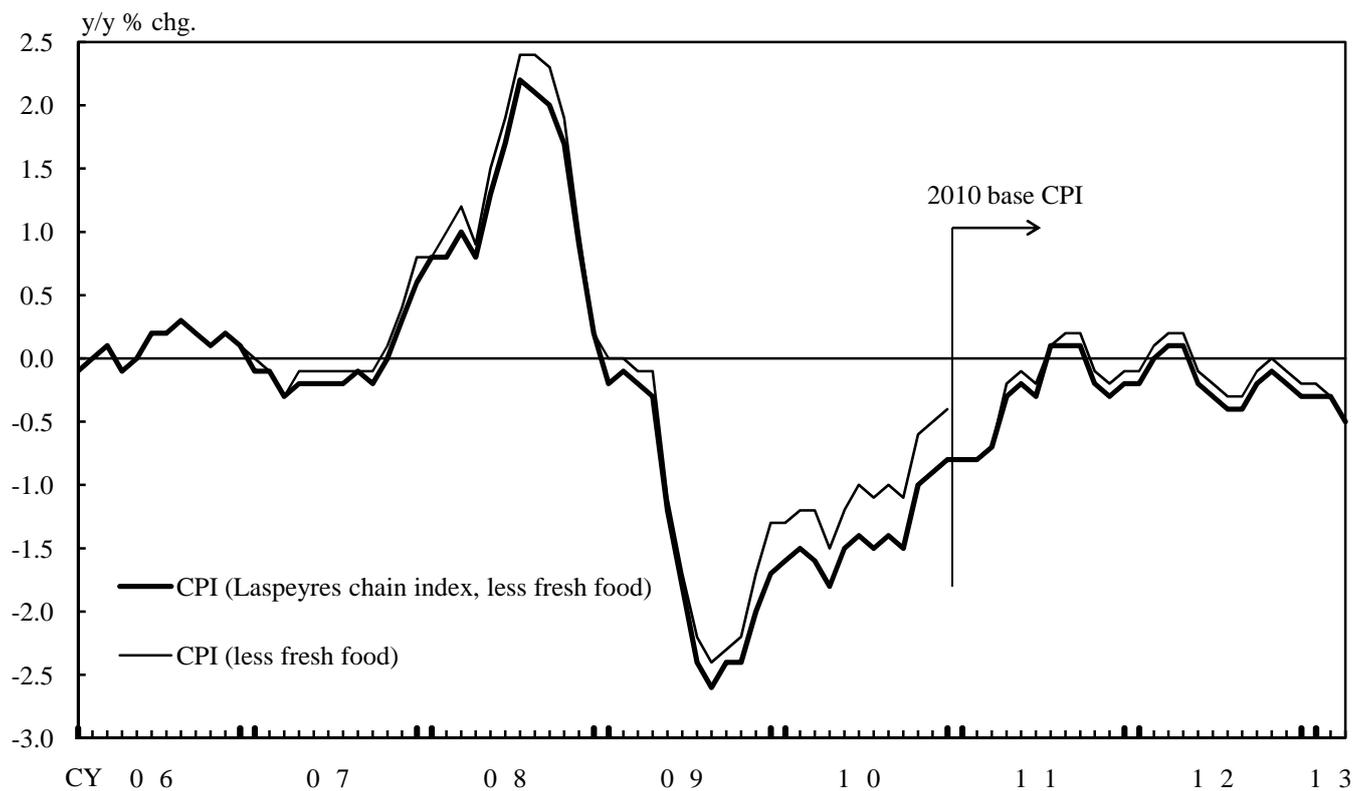
3. Including shirts, sweaters & underwear.

4. Less agricultural, aquatic & livestock products.

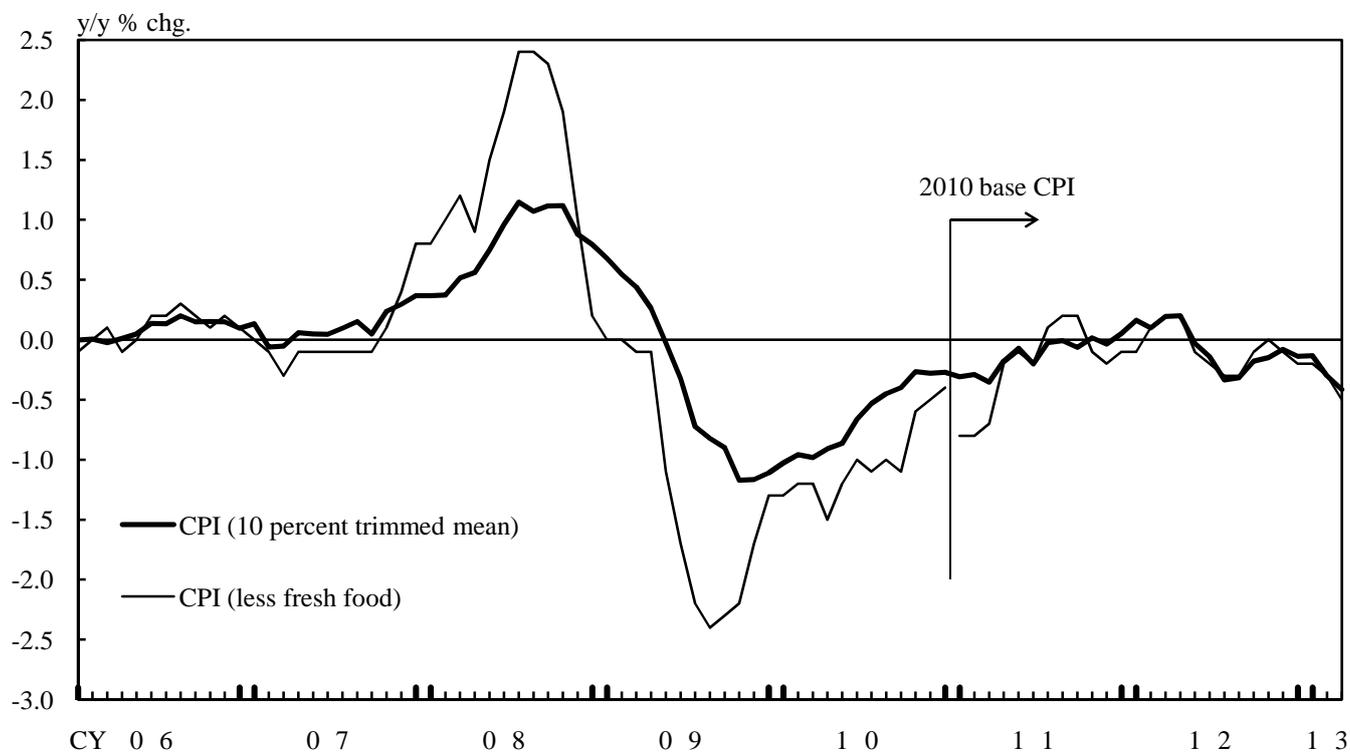
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



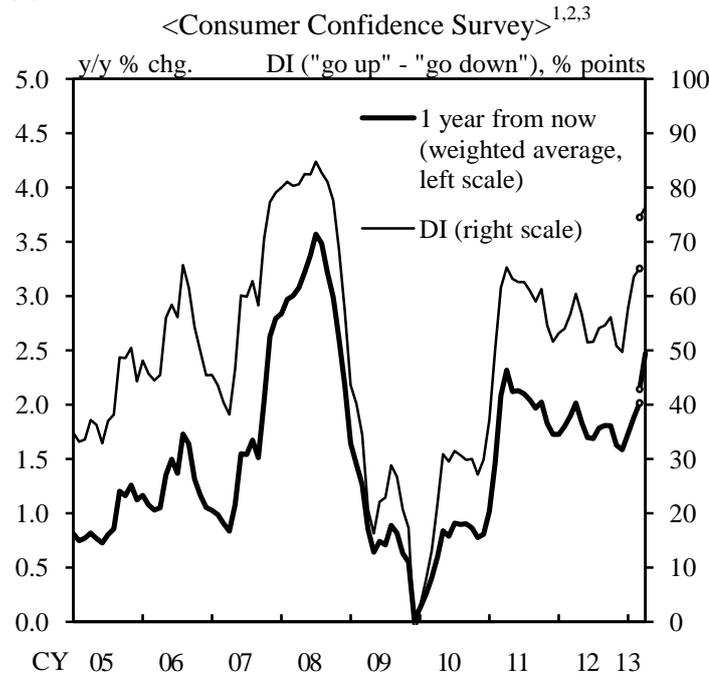
Notes:1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

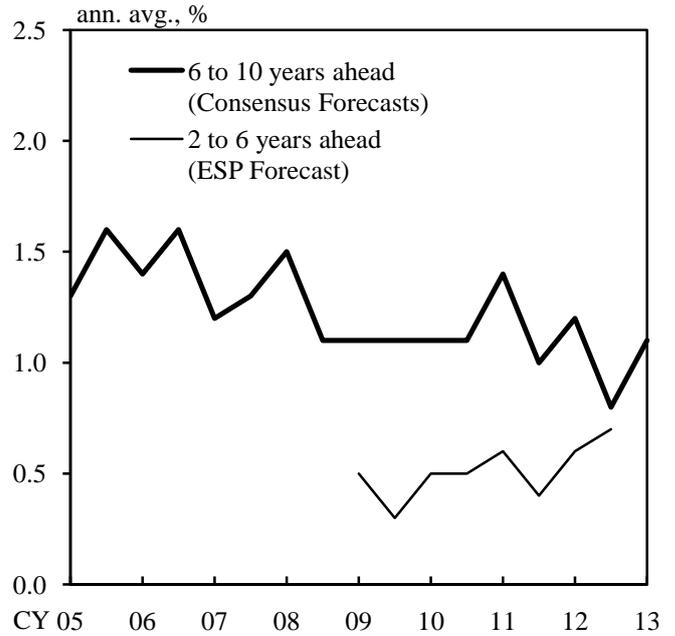
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Inflation Expectations

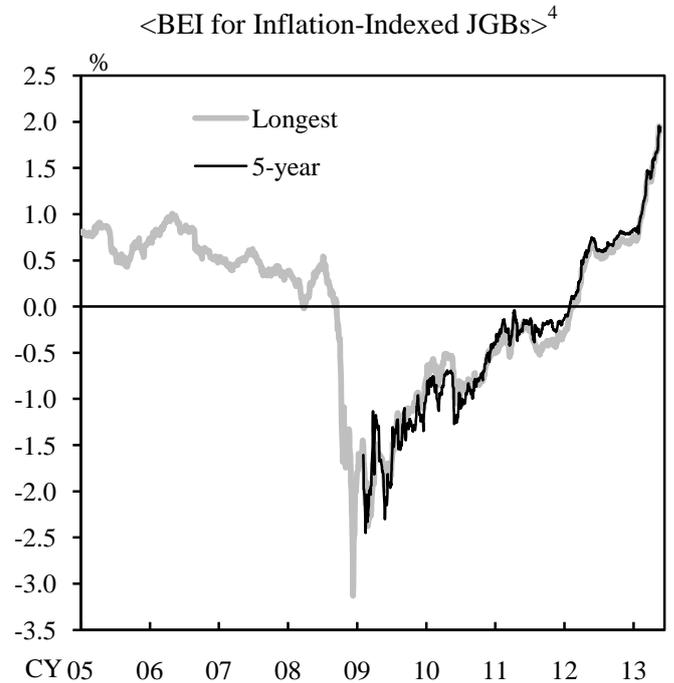
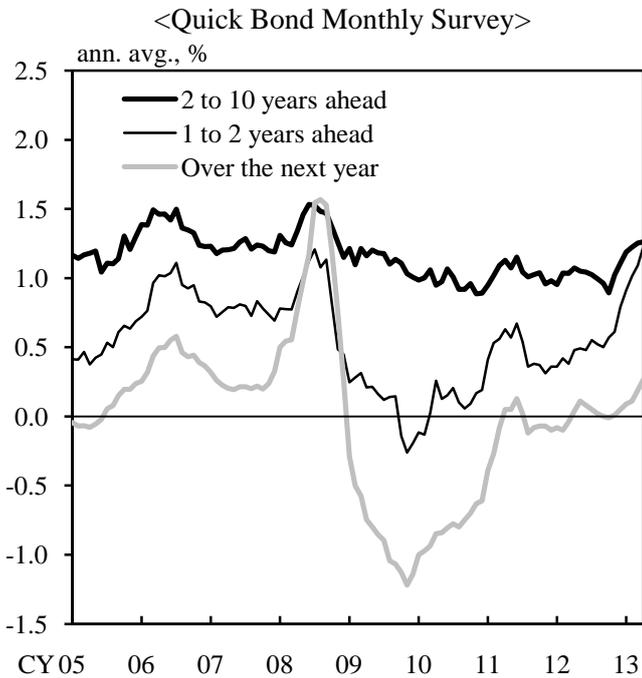
(1) Households



(2) Economists



(3) Market Participants

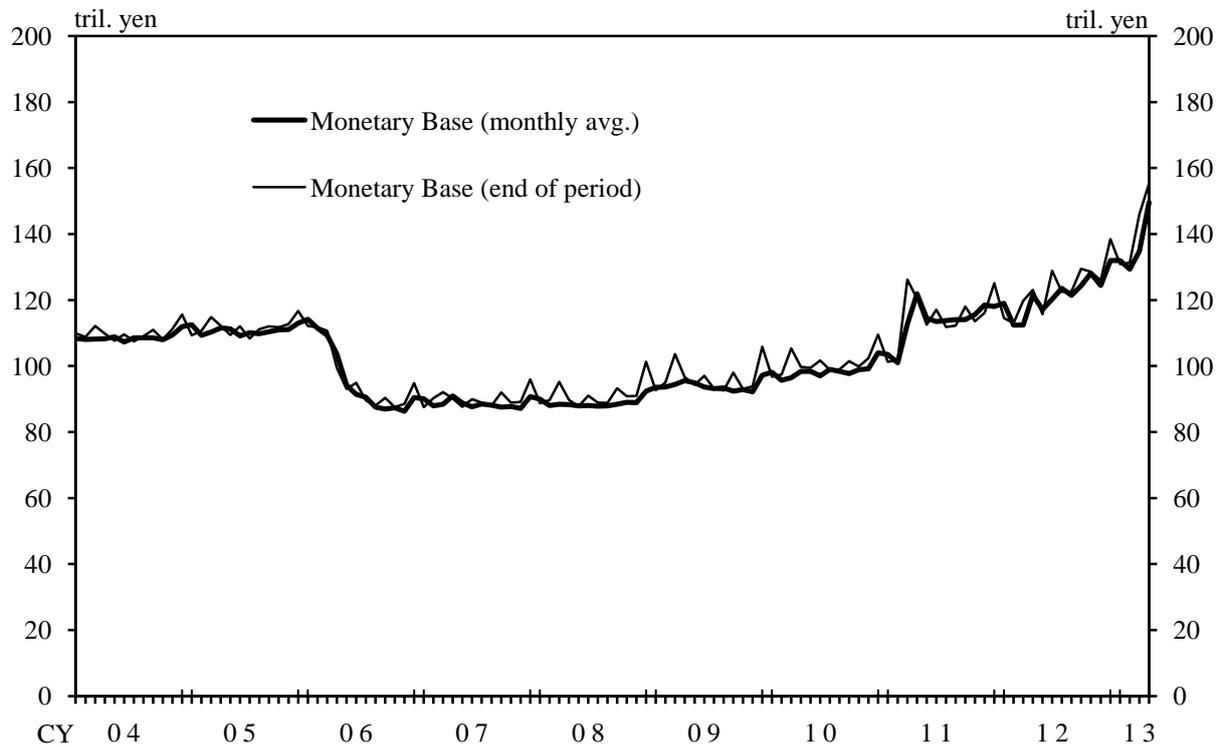


- Notes: 1. Figures are for all households.
 2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.
 3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.
 4. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures for "Longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period.

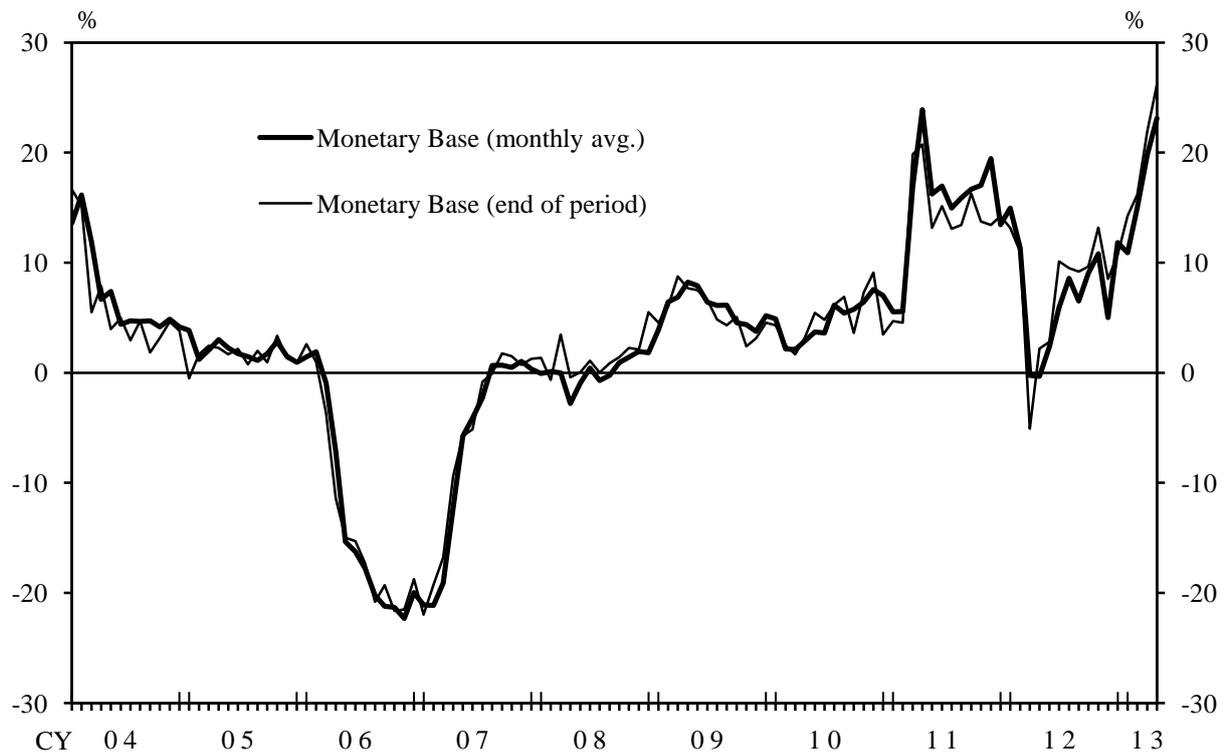
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Monetary Base

(1) Level

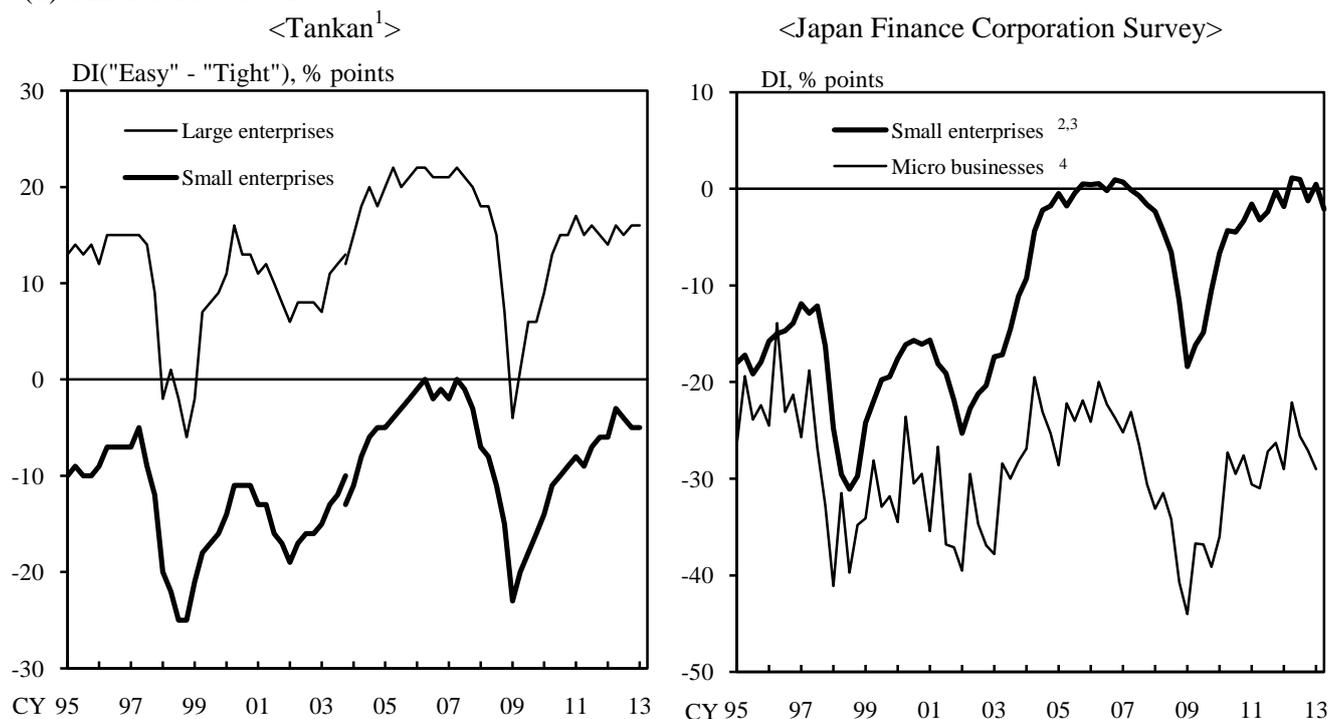


(2) Changes from a Year Earlier

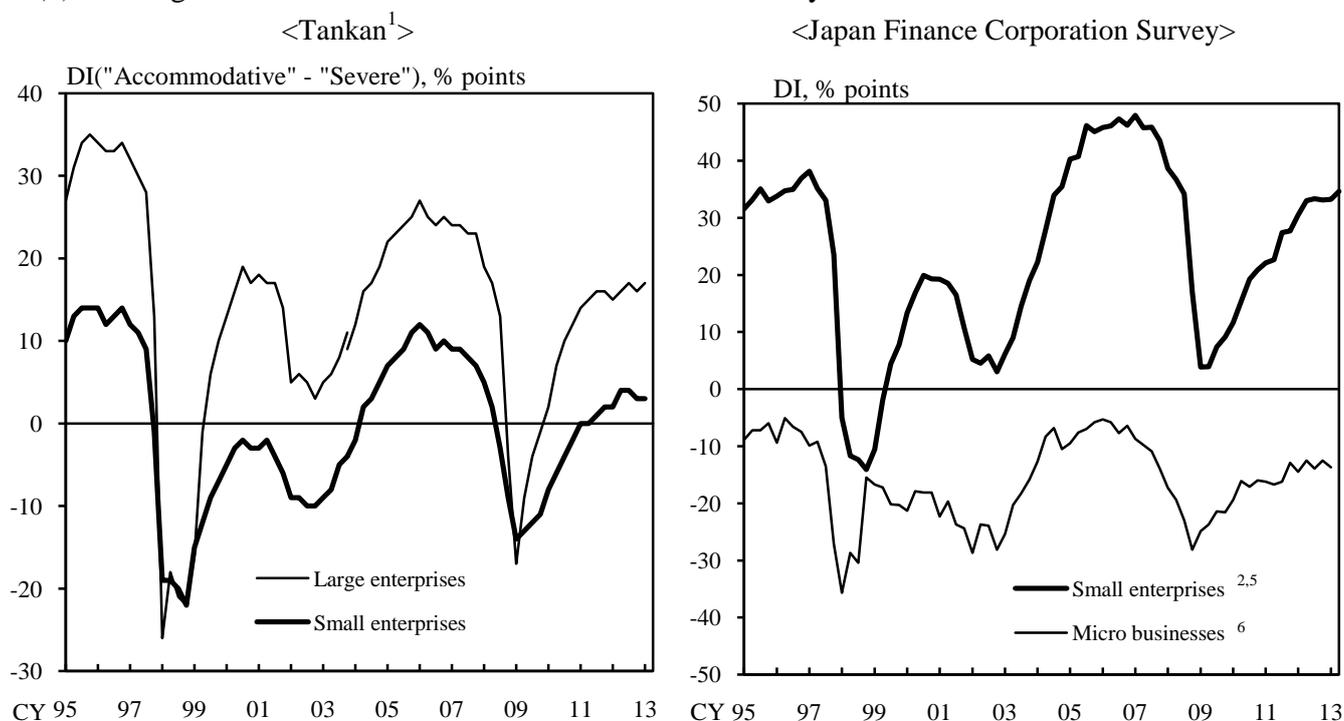


Corporate Finance-Related Indicators

(1) Financial Position



(2) Lending Attitude of Financial Institutions as Perceived by Firms



Notes: 1. Data of the *Tankan* are based on all industries. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

2. Figures are quarterly averages of monthly data. Figures for 2013/Q2 are those of April.

3. DI of "Easy" - "Tight."

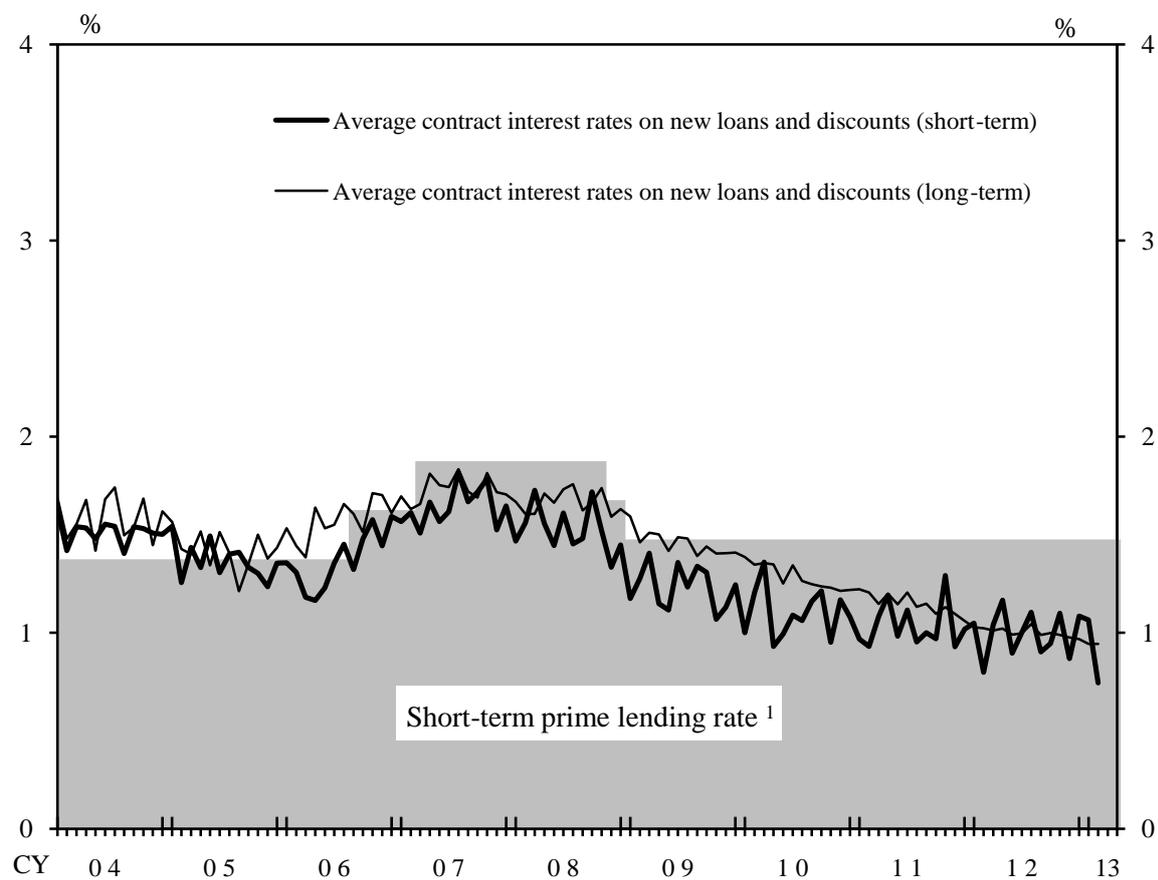
4. DI of "Easier" - "Tighter."

5. DI of "Accommodative" - "Severe."

6. DI of "More accommodative" - "More severe."

Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation, "Monthly Survey of Small Businesses in Japan," "Quarterly Survey of Small Businesses in Japan (for micro businesses)."

Lending Rates

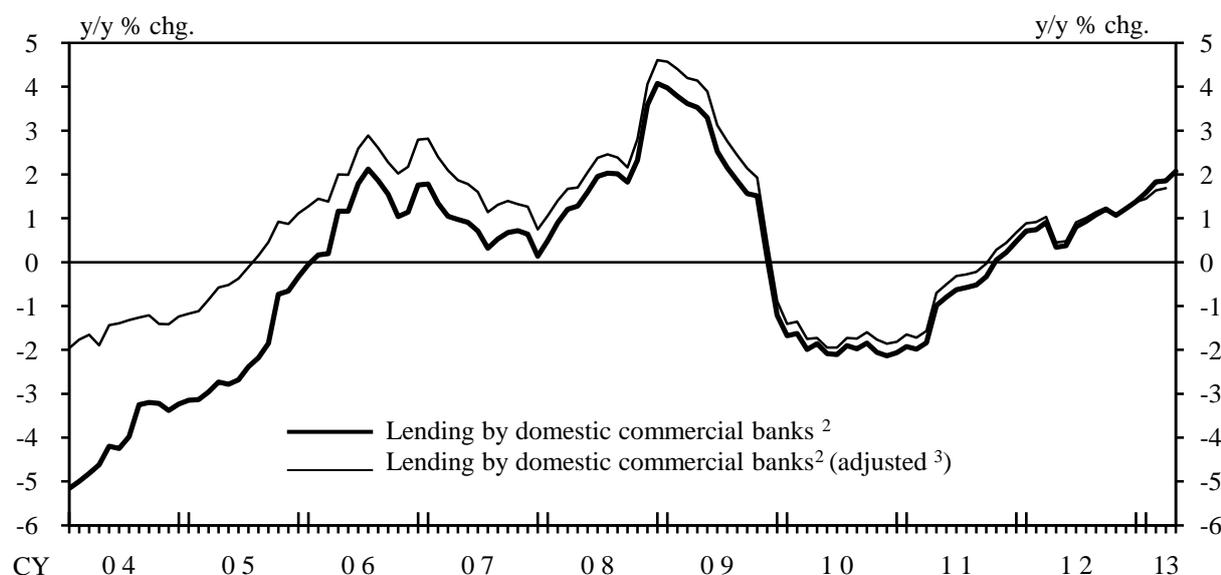


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



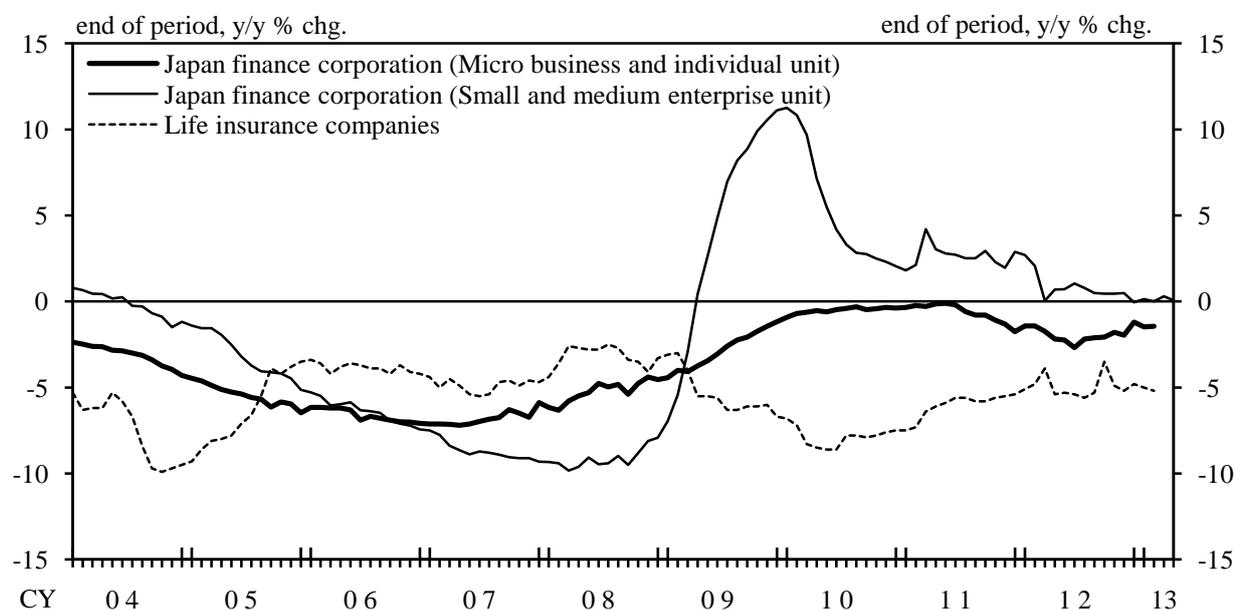
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

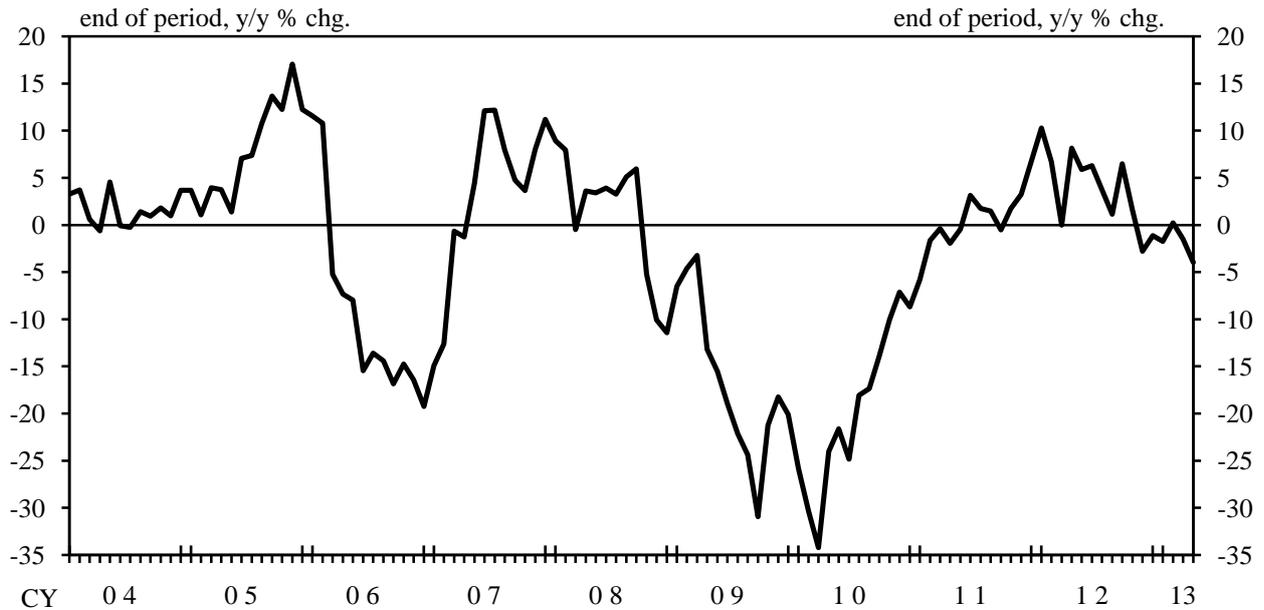
(2) Lending by Other Financial Institutions



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

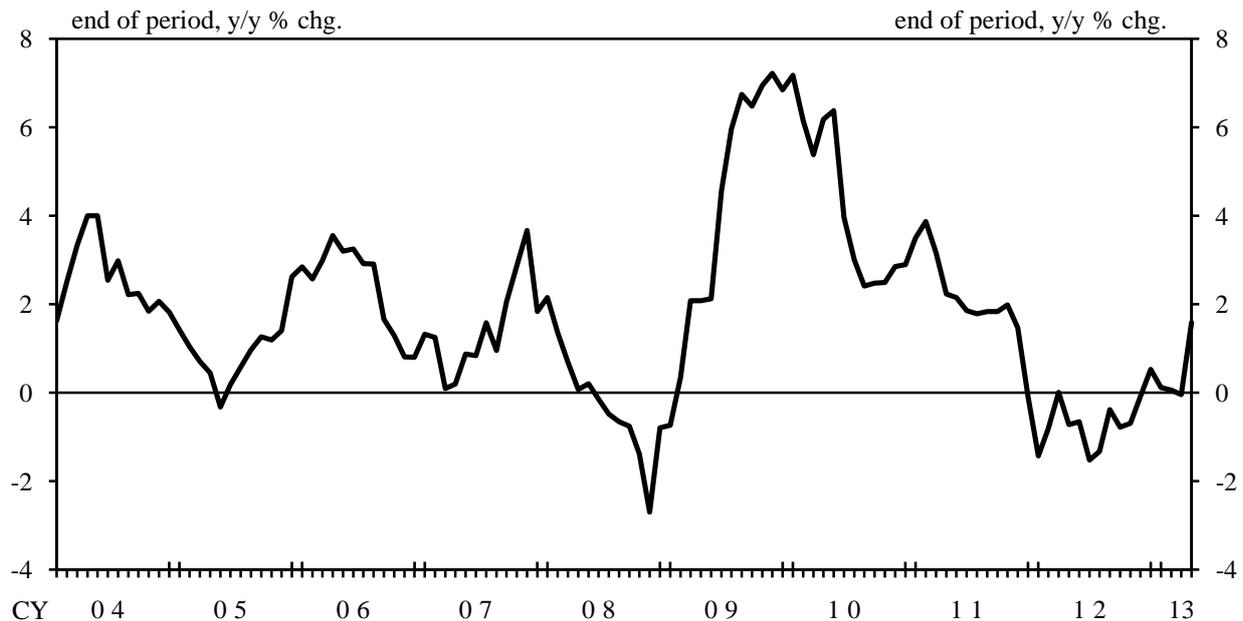
 Private-Sector Fund-Raising in the Capital Markets

(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



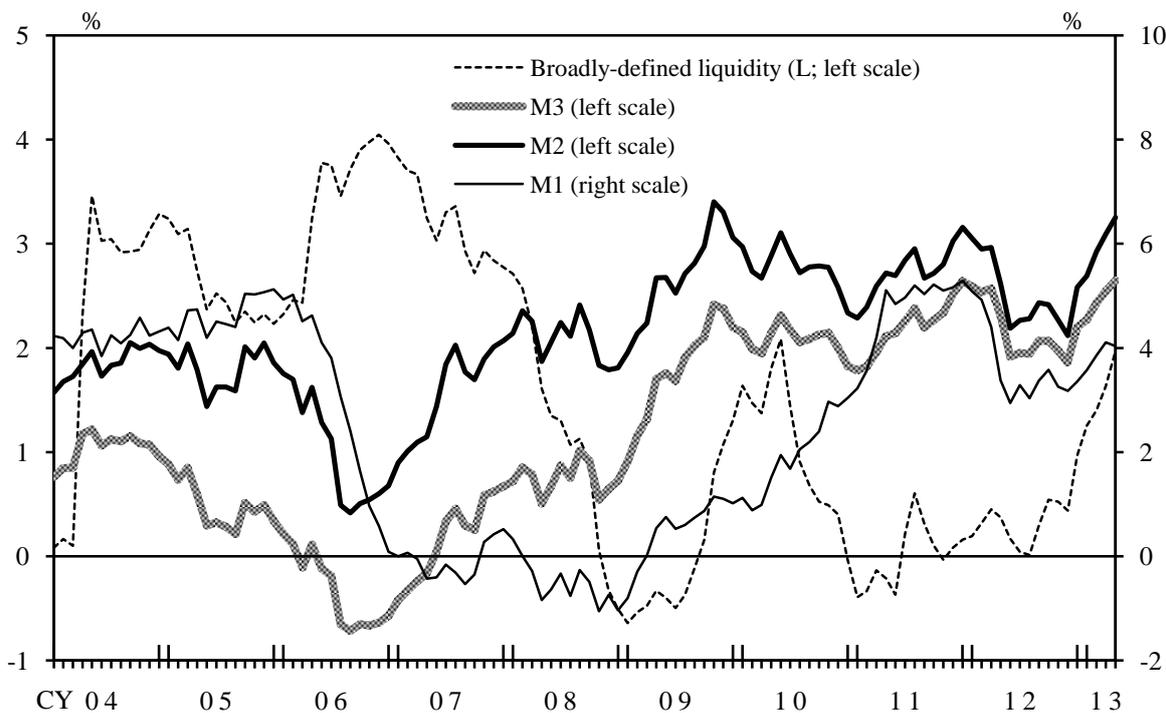
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

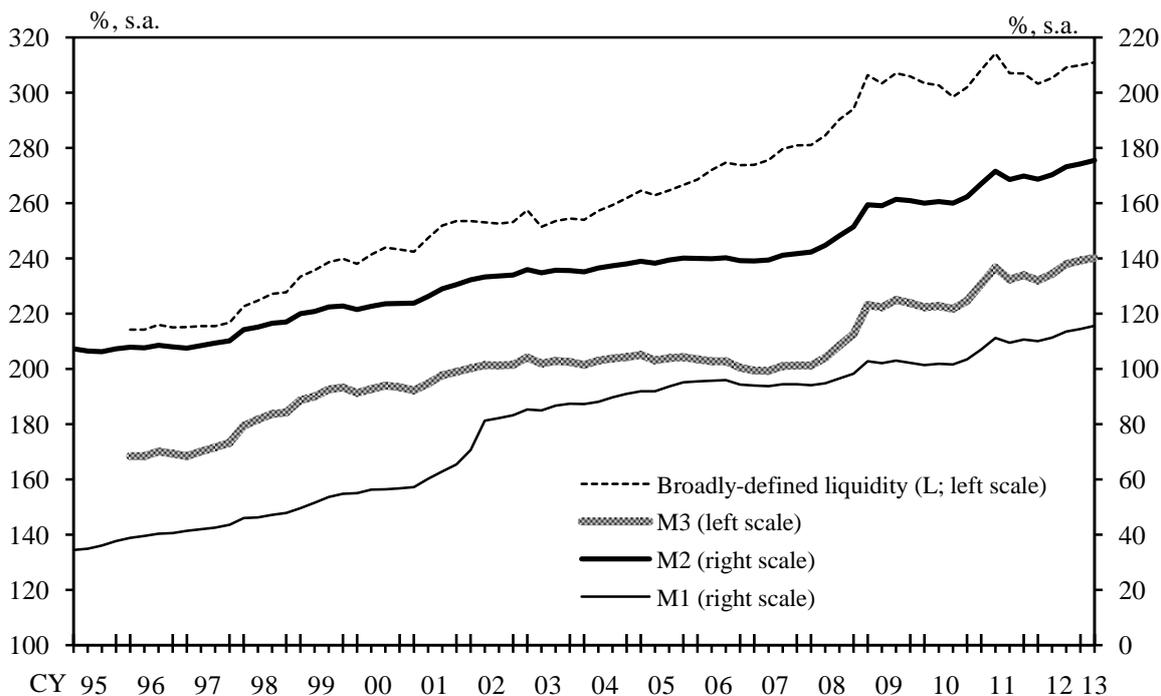
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



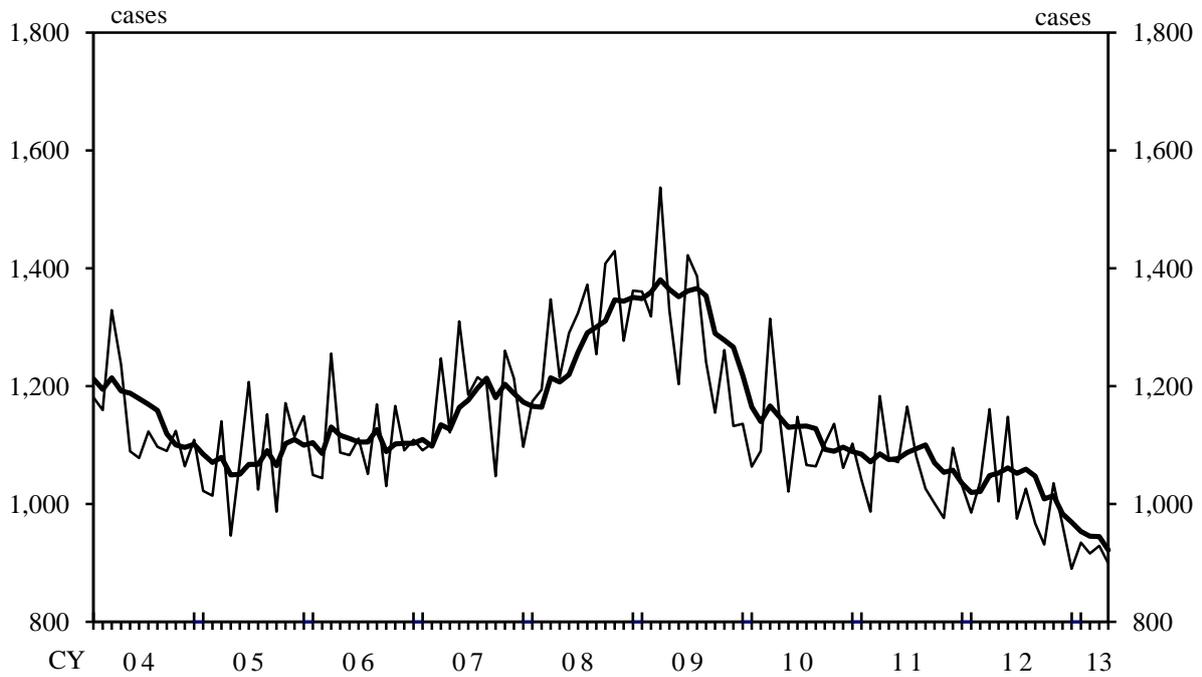
(2) Ratio of Money Stock to Nominal GDP



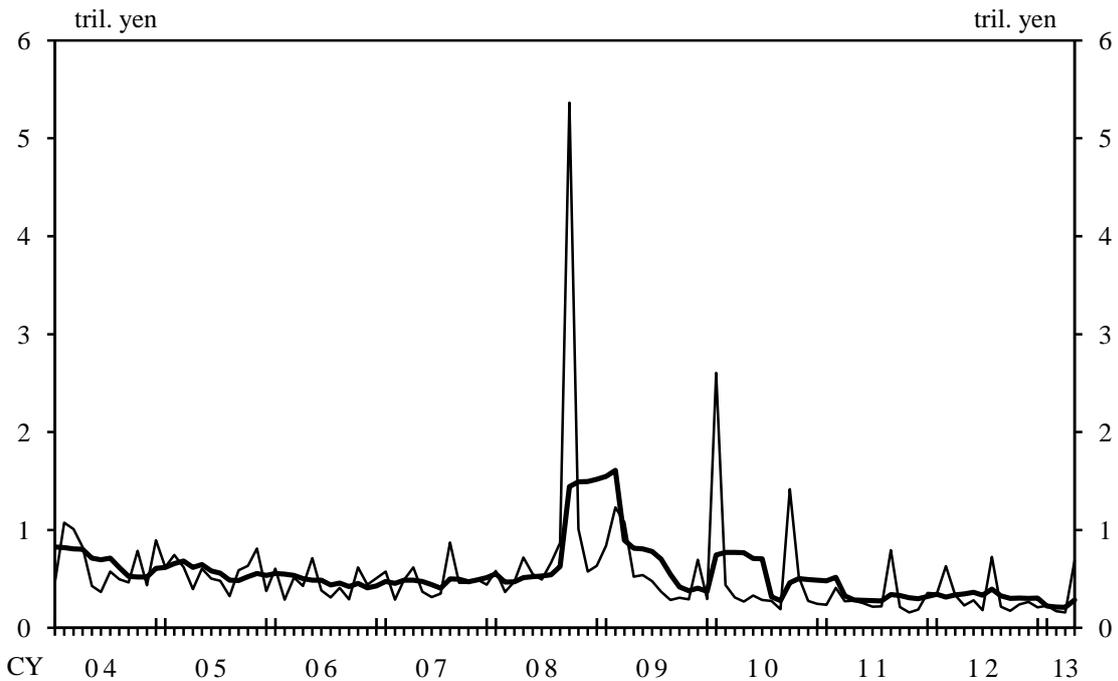
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures 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

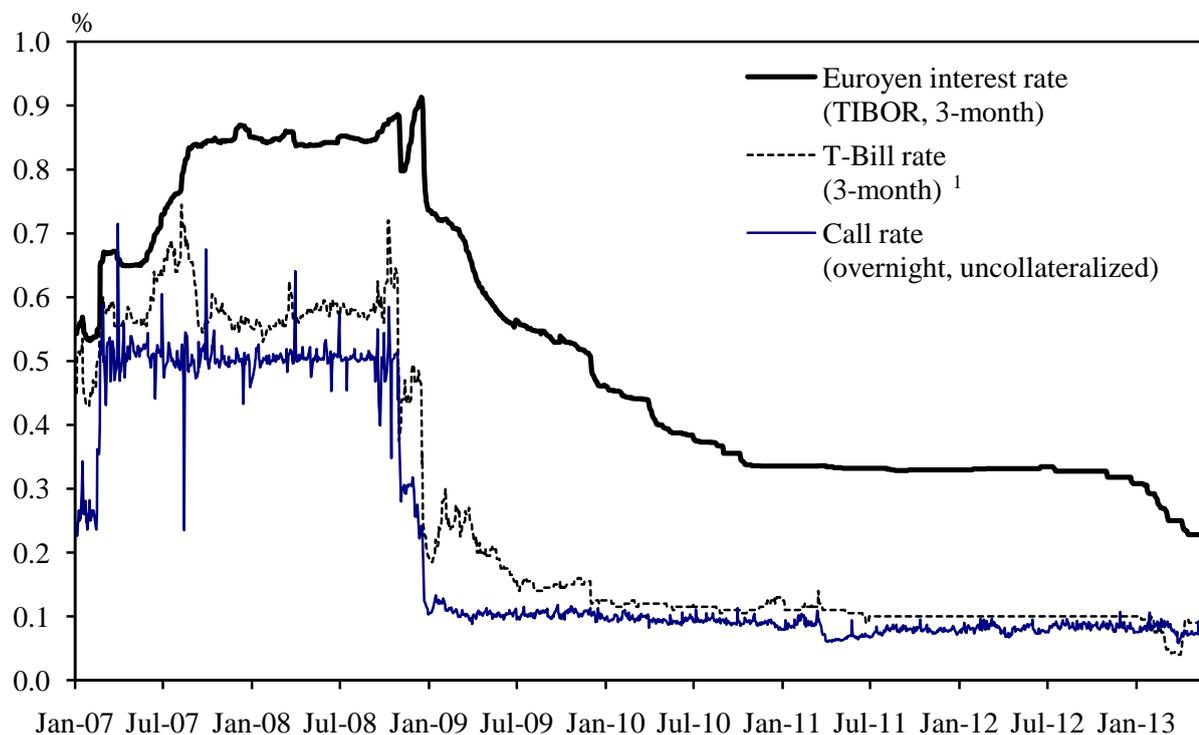


Note: Bold lines are the six-month moving average.

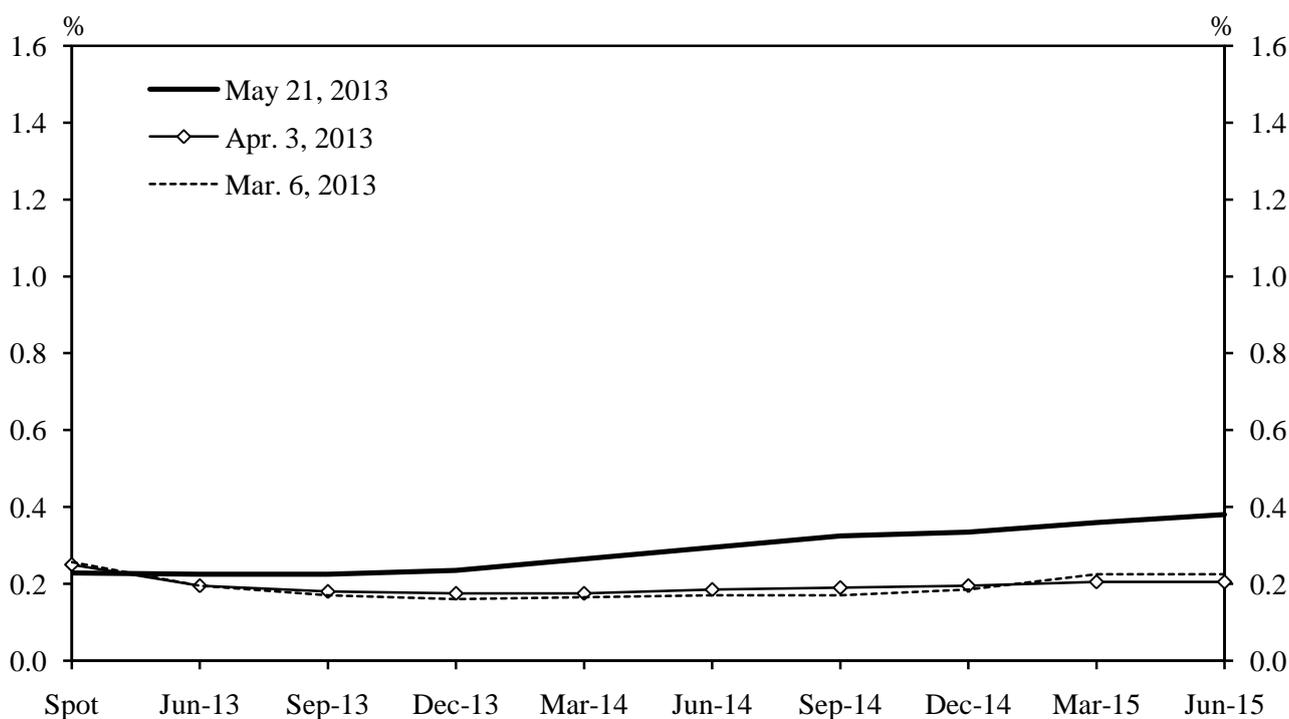
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



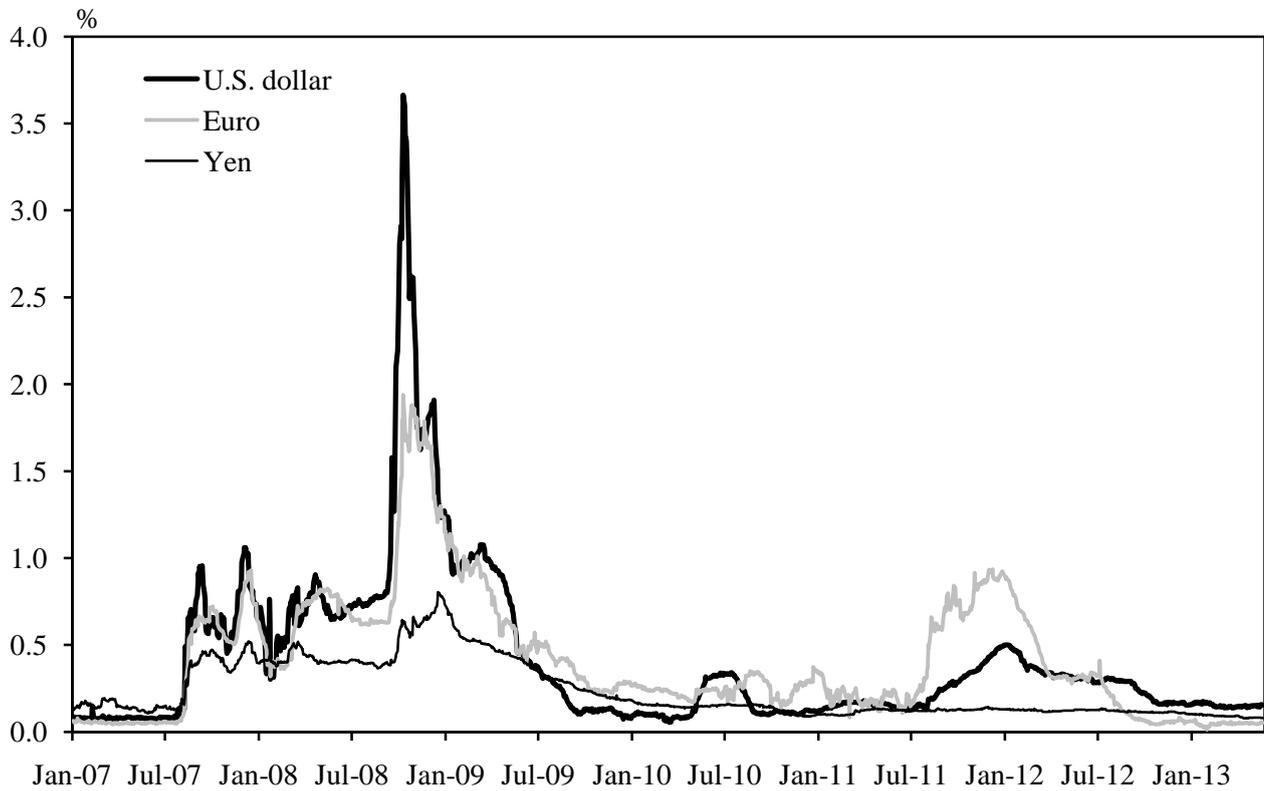
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;

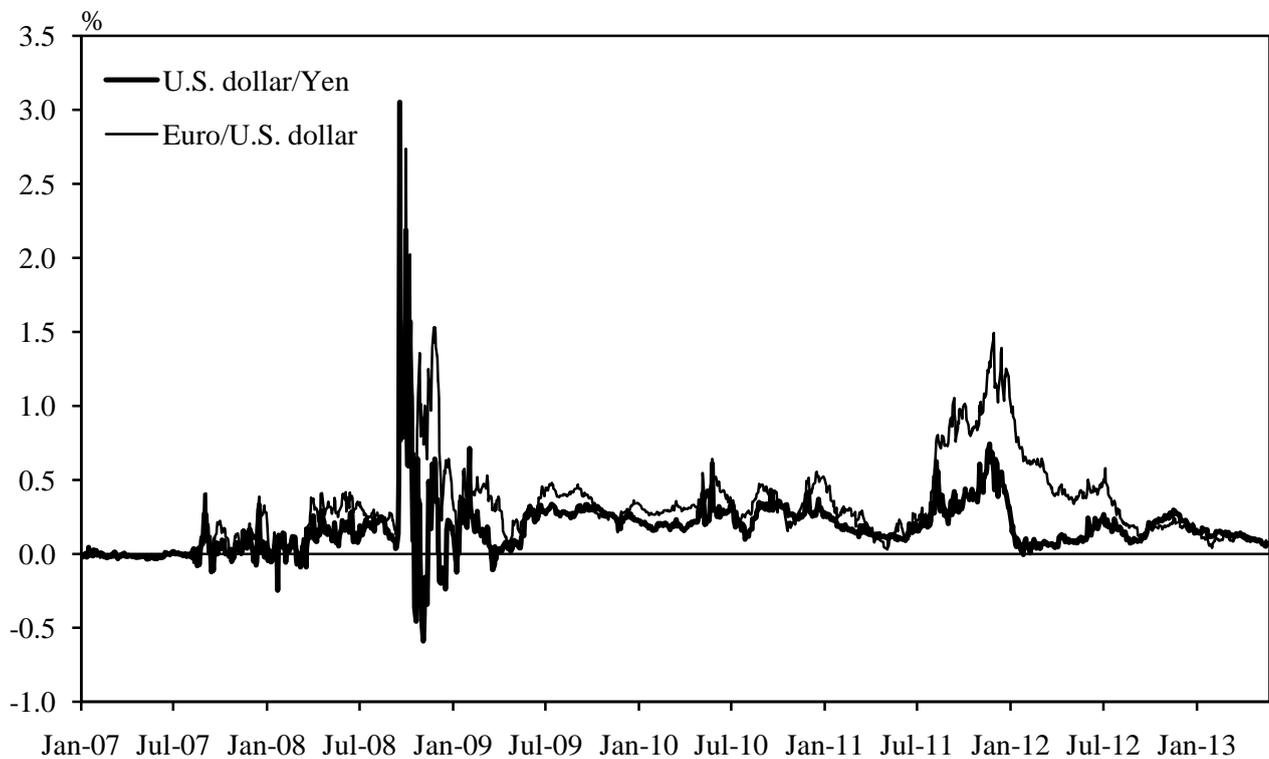
Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



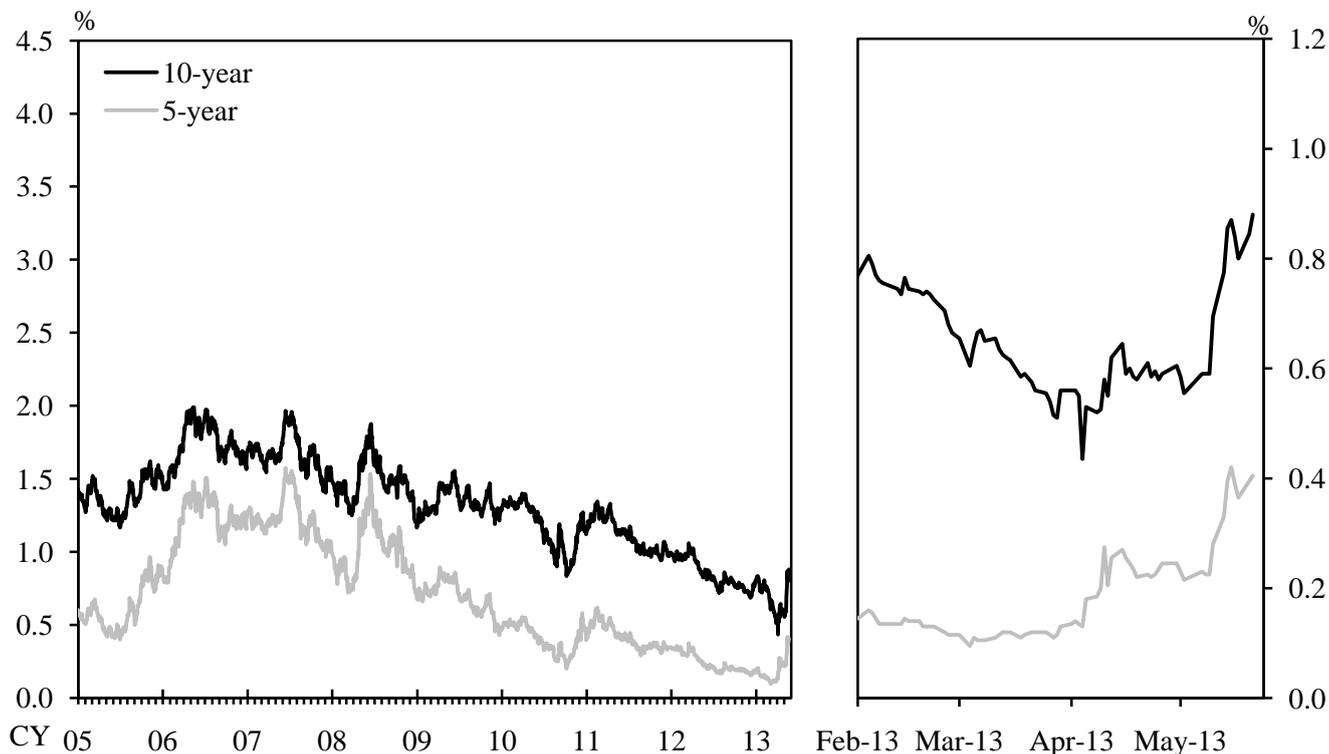
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



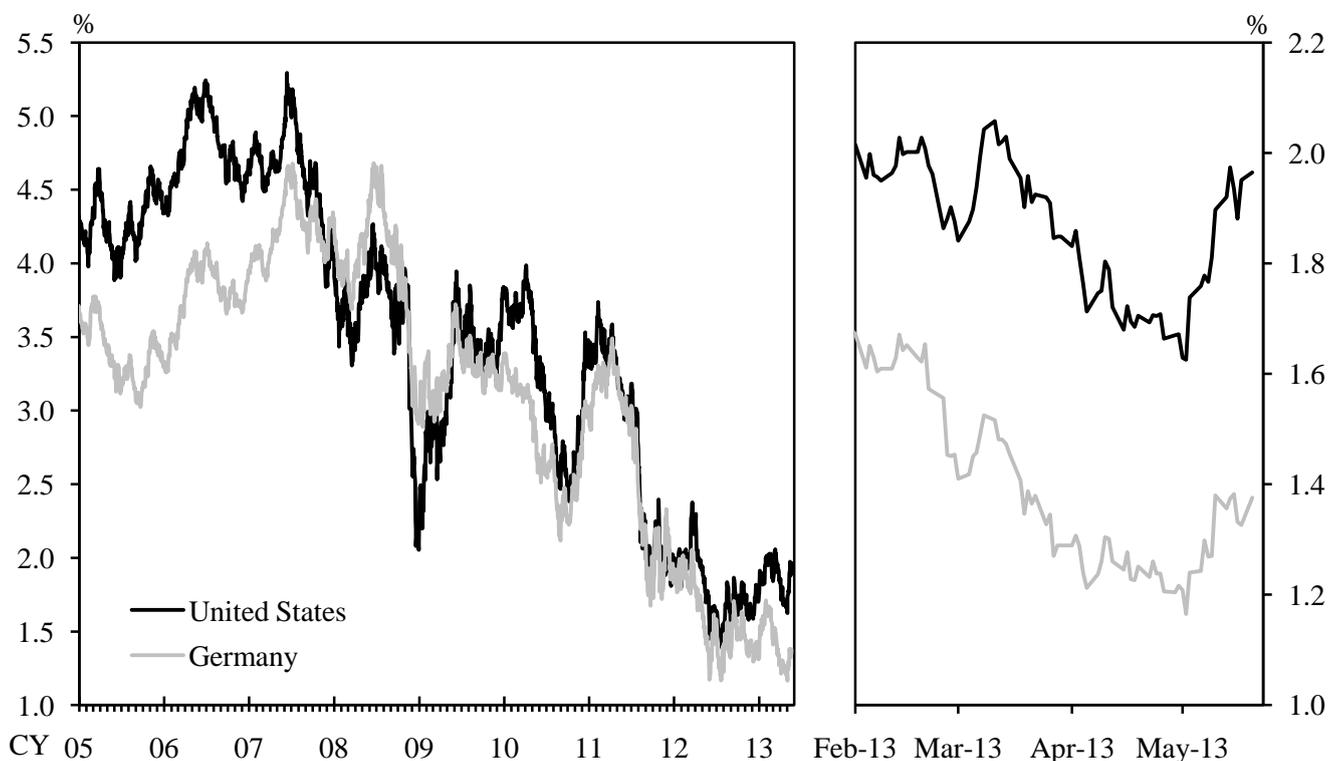
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



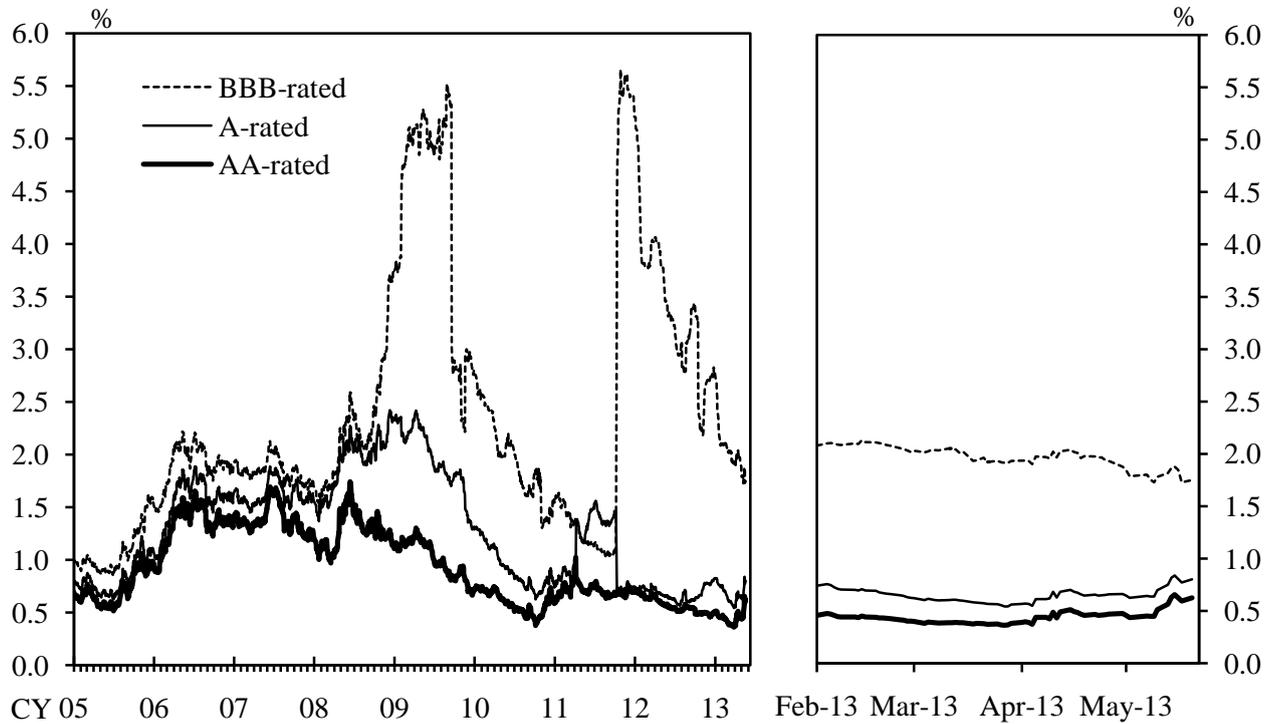
(2) Overseas Government Bond Yields (10-Year)



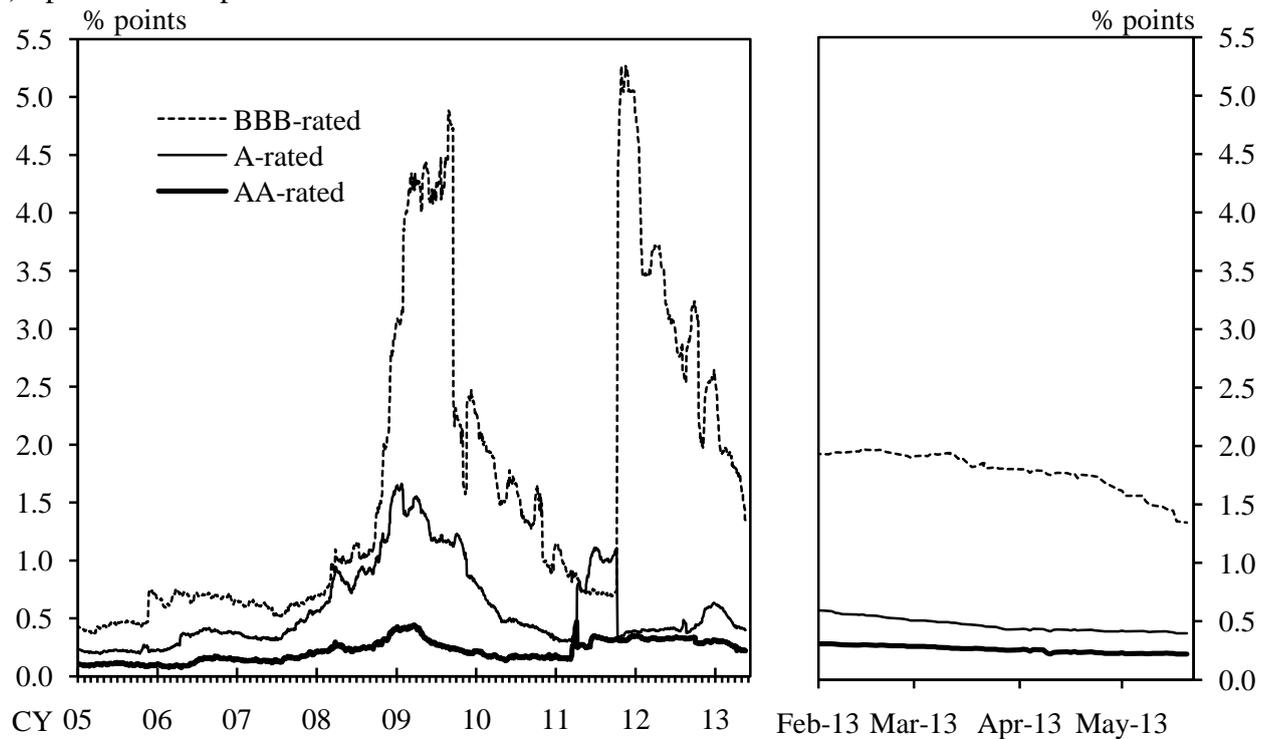
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

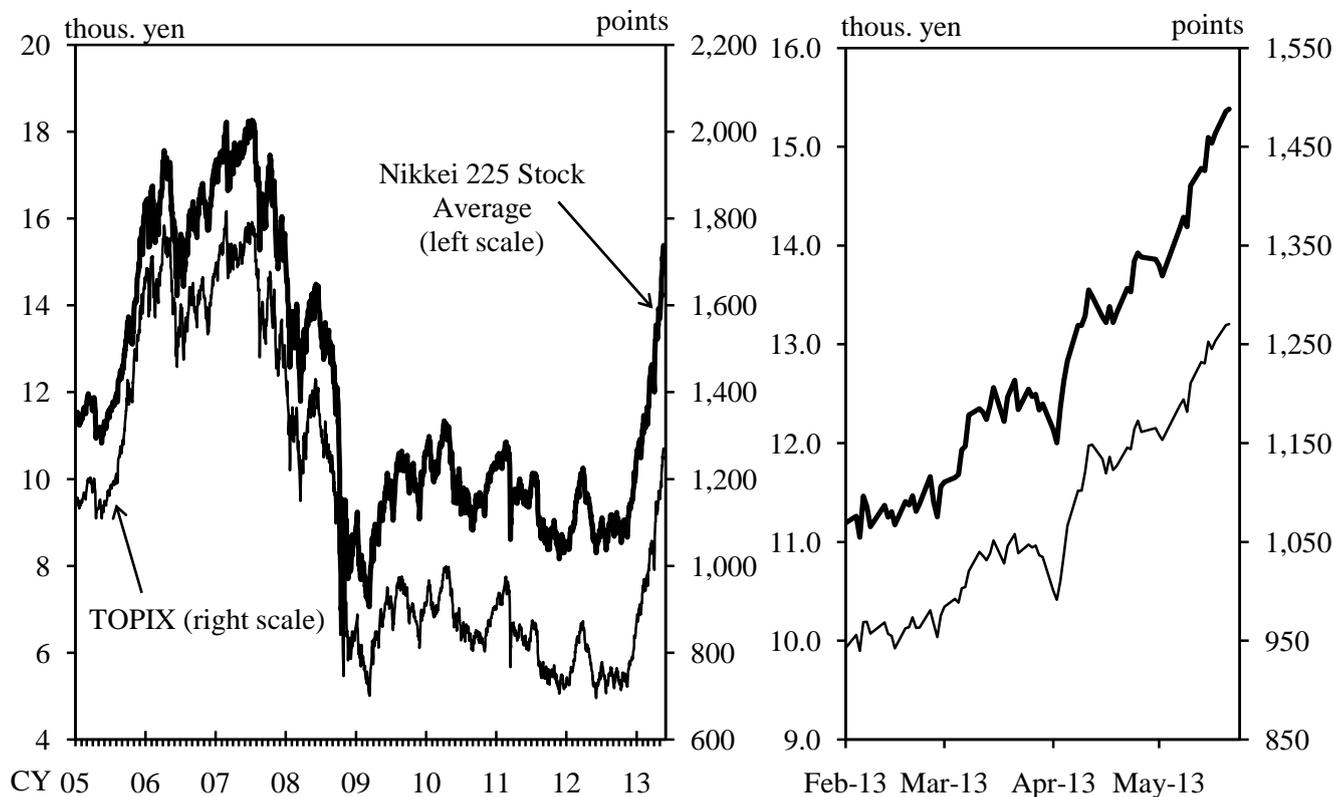
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

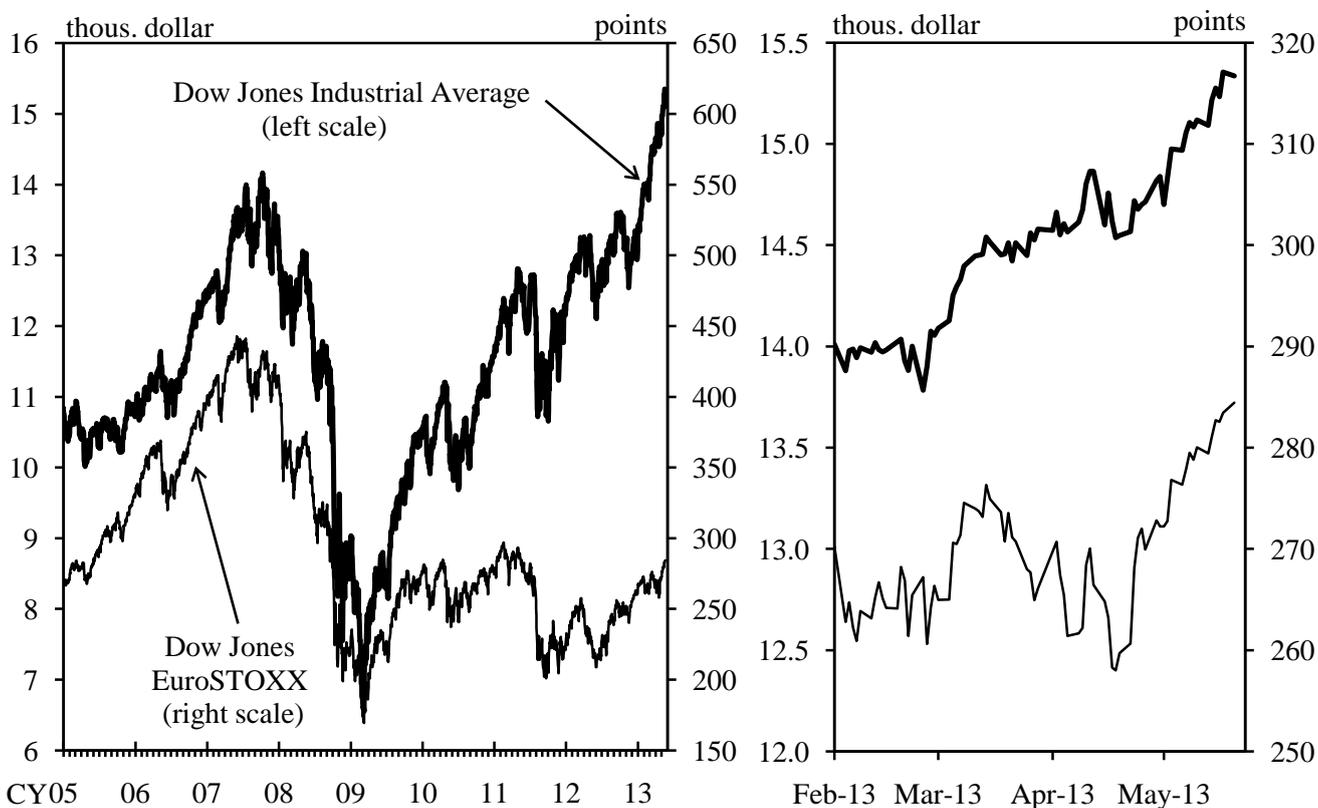
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



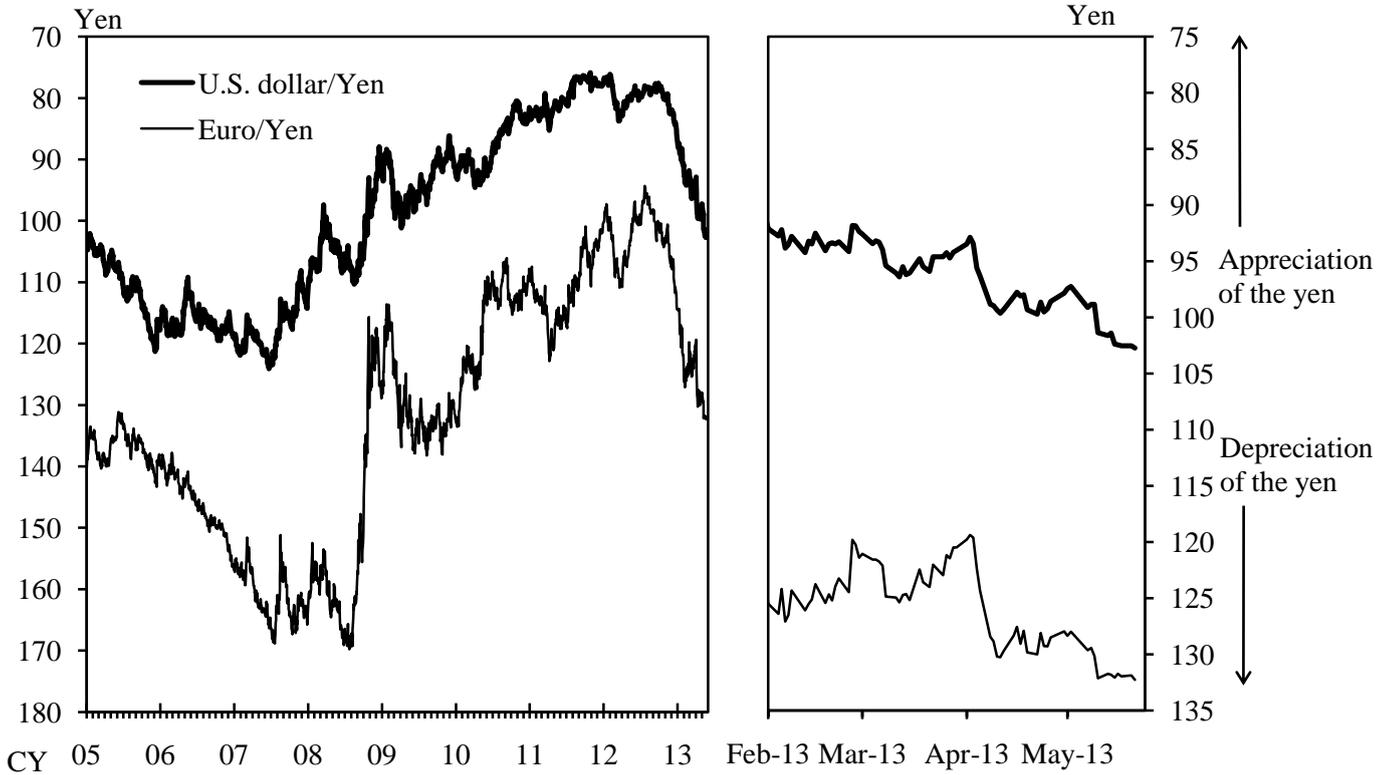
(2) Overseas Stock Prices



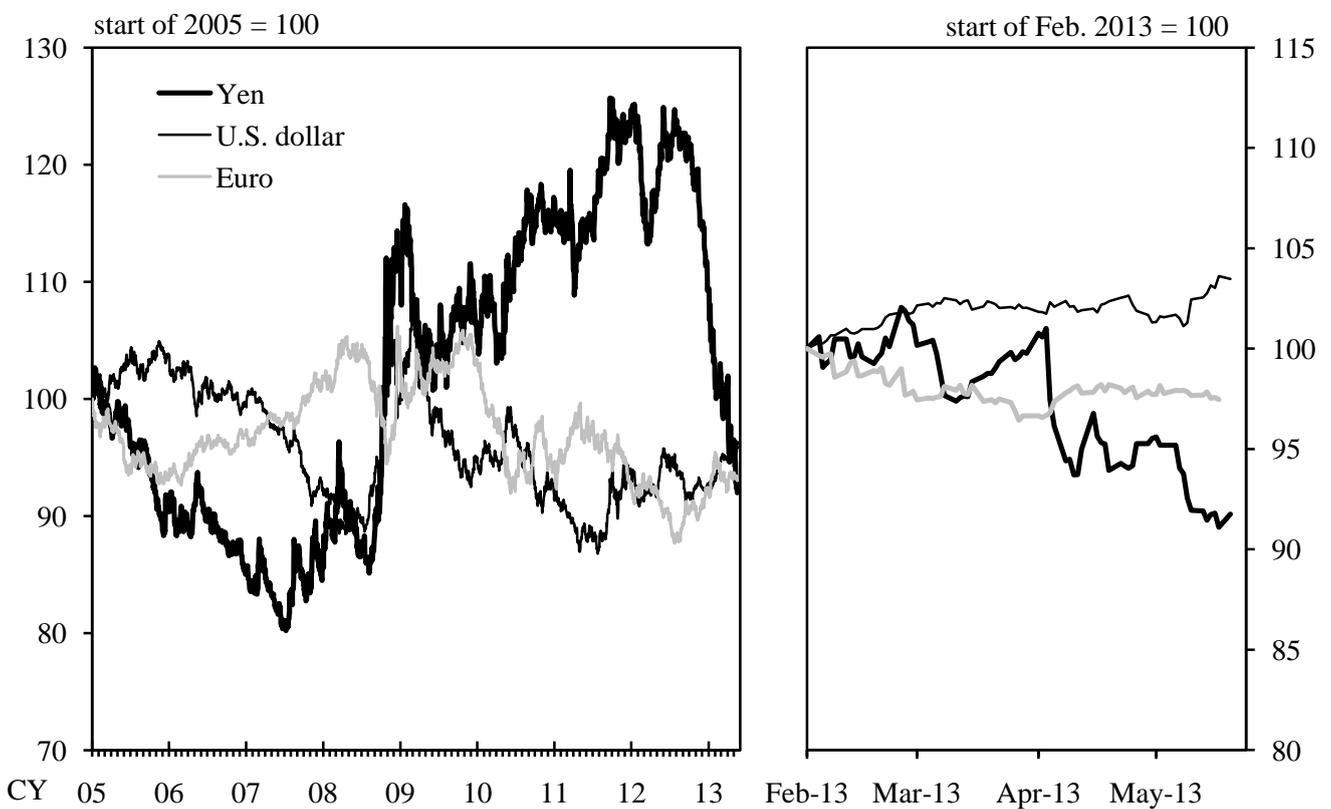
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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