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Bank of Japan

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

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released on November 22, 2013)

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Monthly Report of Recent Economic and Financial Developments¹

November 2013

Summary

Japan's economy has been recovering moderately.

Overseas economies as a whole are picking up moderately, although a lackluster performance is partly seen. In this situation, exports have generally been picking up. Business fixed investment has been picking up as corporate profits have improved. Public investment has continued to increase, and housing investment has also increased. Private consumption has remained resilient, with some improvement observed in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production has been increasing moderately.

With regard to the outlook, Japan's economy is expected to continue a moderate recovery.

Exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. As for domestic demand, both public and housing investments are expected to continue trending upward. Business fixed investment is projected to follow a moderate increasing trend as corporate profits continue to improve. Private consumption is expected to remain resilient, supported by improvement in the employment and income situation. Under these circumstances, industrial production is expected to continue increasing moderately.

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

On the price front, domestic corporate goods prices are rising moderately relative to three months earlier against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of change in

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on November 20 and 21, 2013.

consumer prices (all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations appear to be rising on the whole.

Domestic corporate goods prices are expected to rise at a reduced pace for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in consumer prices is likely to rise gradually.

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 at around 45 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 have continued to be favorable. Those for corporate bonds have also 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 been in the range of 2.0-2.5 percent. 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 at around 4 percent.

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

1. Economic Developments

Public investment has continued to increase. The amount of public construction completed—which reflects the progress of public works—registered quarter-on-quarter increases for seven quarters in a row until the third quarter this year (Chart 5). The value of public works contracted—a measure that reflects public orders—fell only marginally in the third quarter following the upsurge in the second quarter, but October saw a somewhat significant decline compared with the third quarter.

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

Real exports have generally been picking up (Charts 6[1] and 7). Real exports fell marginally in the third quarter on a quarter-on-quarter basis, after having turned positive in the first quarter for the first time in three quarters and having grown at an accelerated rate in the second quarter, but they rose again in October relative to the third quarter. Looking at movements in exports by region (Chart 7[1]), exports to the United States bounced back up again, albeit marginally, in October compared with the third quarter, after having fallen back marginally in the third quarter from the upsurge in the second quarter. With the moderate recovery in the U.S. economy, exports have trended upward, particularly in motor vehicles and their related goods, assisted partly by movements in foreign exchange rates. Exports to the EU have shown signs of picking up; as they continued to increase in October relative to the third quarter, following a noticeable increase in the third quarter, mainly in motor vehicles and their related goods, as well as capital goods and parts, after having bottomed toward the second quarter. Exports to China have been picking up overall, as improvements were observed in some capital goods, including semiconductor products machinery, with the effects of the bilateral relationship between Japan and China dissipating, chiefly in motor vehicles and their related goods. On the other hand, exports to NIEs have shown mixed movements, as they were virtually level in October compared with the third quarter, after having fallen in the third quarter following the increase in the second quarter. Exports to ASEAN have continued to be somewhat sluggish. Exports to Others—which had been on a moderate uptrend overall, supported by the effects of movements in foreign exchange rates, mainly in

motor vehicles and their related goods as well as in capital goods and parts—has recently ceased to move upward. By goods (Chart 7[2]), exports of motor vehicles and their related goods—due in part to the effects of movements in foreign exchange rates—have trended upward, assisted by the pick-up in those to the EU as well as to China—which had seen a significant drop in the second half of last year—amid steady exports to the United States. Exports of capital goods and parts appear to have picked up mildly, with increases in exports of semiconductor products machinery bound for East Asia, after having plunged in the second half of last year. Exports of IT-related goods (including visual and audio apparatus) have begun to stop declining, aided by upward pressure from parts for new products of smartphones. Meanwhile, exports of intermediate goods have been relatively weak lately.

Real imports are increasing moderately again (Charts 6[1] and 9). Real imports—which stayed flat in the second quarter as a result of the previous increase and also due in part to movements in foreign exchange rates, after having risen in the first quarter on a quarter-on-quarter basis—were up in both the third quarter and October relative to the third quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials have become more or less flat on average, although the underlying trend is difficult to read with the large fluctuations. Imports of IT-related goods have risen markedly, supported in part by upward pressure from new smartphone models. Imports of consumer goods have continued to increase, mainly in motor vehicles; those of capital goods and parts have tended to pick up, as a reflection of the progress in inventory adjustments and of developments in business fixed investment at home. Meanwhile, imports of intermediate goods (such as chemicals as well as iron and steel) have begun to pick up as a whole in line with movements in domestic production, despite the restraints still in place caused by movements in foreign exchange rates.

Net exports—in terms of the real trade balance—seem to be picking up moderately as a trend, reflecting the aforementioned developments in exports and imports, but they have recently been more or less flat (Chart 6[1]). Looking at movements in the nominal current account surplus on a quarterly basis (Chart 6[2] and [3]), the current account surplus increased its level in the second quarter as a whole compared with the first quarter, since the nominal goods and services balance

saw its deficit narrow as a reflection of movements in exports and imports and also since the income surplus increased, due in part to the effects of movements in foreign exchange rates. In the third quarter, the amount of current account surplus as a whole narrowed relative to the second quarter since (i) the nominal goods and services balance increased its volume of deficit somewhat significantly, due to continued growth in imports, while exports remained flat, and (ii) the income surplus somewhat narrowed from the previous term, despite having stayed at a high level.

Regarding the environment surrounding exports, overseas economies as a whole are picking up moderately, although a lackluster performance is partly seen (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery trend against the background of steady private demand. The European economy—which had continued to recede slowly—has recently begun to pick-up. The Chinese economy has stabilized as it exhibited somewhat lower growth compared to a while ago. Meanwhile, some emerging economies apart from China and commodity-exporting economies have shown somewhat sluggish movements. As for the exchange rate, the yen has depreciated from a while ago against both the U.S. dollar and euro, albeit with fluctuations; in terms of the real effective exchange rate, the yen has fallen to a level similar to that last observed around 2007 (Chart 8[1]).

Overseas economies, including the United States, are expected to continue picking up. The aforementioned movements in foreign exchange rates are also projected to continue exerting upward pressure on exports. A high degree of uncertainty remains about overseas economies, however, and the pace of pick-up is expected to remain modest for the time being. The sluggishness in the European economy is projected to remain for the time being, and thus attention should continue to be paid to its impact on the global economy, including the outcome of its debt problem. As for the Chinese economy, the manufacturing sector—which has a large influence on Japan's economy—warrants careful monitoring with an overhang in the supply of raw materials and other goods in place. Some emerging and commodity-exporting economies—which have shown relatively slack movements—are facing structural issues mainly in terms of fiscal balance and current accounts; this, together with developments in the international financial and capital

markets, warrants attention. In contrast, the U.S. economy is expected to continue a moderate recovery trend, partly since accommodative financial conditions will be maintained and downward pressure from the fiscal side is expected to wane gradually, although attention should be paid to the outcome of the fiscal problem and other factors. In relation to this, as for the IT-related sector, orders received and production of electronic parts and semiconductor products machinery for Japanese firms have seen an incipient pick-up, mainly against the backdrop of increased production of new smartphone products. As to movements in final demand, demand for smartphones has held steady both at home and abroad, assisted partly by the introduction of new models; added to this, renewal demand for PCs has seemingly started to emerge in the corporate sector, triggered by the ending of support for an OS scheduled next year. Final demand of the IT-related sector as a whole, however, has continued to lack vigor; with the effects of upward pressure from the above new products possibly dissipating, future developments in this sector continue to require close monitoring. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy, despite lingering severity, has continued to become less visible with the pick-up in automobile-related exports to China.

Taking the above into consideration, exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. Imports are projected to trend moderately upward along with movements in industrial production, amid firm 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 trend moderately upward, albeit with fluctuations.

Business fixed investment has been picking up as corporate profits have improved. As for the aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment, it was more or less flat in the second and third quarters on a quarter-on-quarter basis, after having increased significantly in the first quarter; it is considered to be picking up as a trend (Chart 10[1]). The overall aggregate supply of capital goods, including transport equipment, has also tended to pick up, albeit with fluctuations. As for leading indicators, machinery orders (private sector, excluding orders for ships and those from

electric power companies)—a leading indicator of machinery investment—turned upward in the second quarter for the first time in five quarters and continued to advance markedly in the third quarter, after having been almost flat in the first quarter (Chart 11[1]). By industry, machinery orders of manufacturing have begun to pick up noticeably, as their pace of growth accelerated in the third quarter following the upturn in the second quarter, after having declined for six quarters in a row until the first quarter. Those of nonmanufacturing (excluding orders for ships and those from electric power companies) have stayed firm with the fluctuations smoothed out, despite having fallen back in the third quarter on a quarter-on-quarter basis from the upsurge in the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—are considered to have trended upward, as they have become more or less flat, after having risen markedly toward the first quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing have continued to be more or less flat, albeit with fluctuations. On the other hand, those of nonmanufacturing have continued to trend moderately upward.

Regarding the environment surrounding business fixed investment, corporate profits have improved. Corporate profits are projected to keep improving, supported by firm domestic demand as well as by the moderate rise in exports and movements in foreign exchange rates.

Taking the above into consideration, business fixed investment is projected to follow a moderate increasing trend as corporate profits continue to improve.

Private consumption has remained resilient, with some improvement observed in the employment and income situation (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—fell in the third quarter on a quarter-on-quarter basis, after having risen in both the first and second quarters. Monthly figures, however, show that it moved upward for two straight months in August and September, after having declined in July. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations—although having fallen back from the upsurge, aided partly by the introduction of new models since the start of this year—has recently turned upward

again, driven mainly by the introduction of new models, thereby holding steady as a trend. Sales of household electrical appliances in real terms have been steady as a whole, albeit with fluctuations, 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 dropped in the third quarter, after having exhibited quarter-on-quarter increases for three consecutive quarters since the fourth quarter last year (Chart 14[1]). On a monthly basis, however, sales have remained firm as a trend, notably in imports and high-end products, as they were up in August and September for two consecutive months, after having fallen back in July from the front-loading of summer sales. Sales at supermarkets—which had continued to show somewhat sluggish movements—have shown signs of bottoming, with sales having been almost flat in the third quarter following that of the second quarter. Sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 14[2]), outlays for travel and sales in the food service industry have held 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 (Chart 13[1])—which is compiled so as to make it similar to items used for estimating GDP—fell back marginally in the second quarter, after having advanced significantly in the first quarter, mainly due to strong automobiles and services (reading & recreation); it was also down slightly in the third quarter.² The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) has remained almost flat on a quarter-on-quarter basis, despite large monthly fluctuations.

Indicators related to consumer confidence—which had continued an improving trend, albeit with fluctuations, after having risen at a rapid pace since the start of the year—have most recently fallen back (Chart 15).

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

Private consumption is expected to remain resilient, supported by improvement in the employment and income situation.

Housing investment has increased. The number of housing starts—a leading indicator of housing investment—has recently continued to increase its level, aided partly by the front-loaded increase in demand prior to the consumption tax hike; it registered 1.004 million units (on a seasonally adjusted, annual basis) in the third quarter, following 983 thousand units in the second quarter, after having recorded 899 thousand units in the first quarter (Chart 16[1]).

Housing investment is expected to continue trending upward.

Industrial production has been increasing moderately (Chart 17). Industrial production, on a quarterly basis, kept moving upward in the second and third quarters on a quarter-on-quarter basis, after having turned upward, albeit marginally, in the first quarter for the first time in four quarters. By industry, production of transport equipment (such as passenger cars) has continued to trend upward, despite having inched downward in the third quarter, following the rise in the first and second quarters. While domestic sales have been steady, supported in part by the introduction of new models, production for exports to the EU—which had been relatively weak—and those to China—which dipped temporarily, affected by the bilateral relationship between Japan and China—have continued their improving trend, and production for exports to the United States have held steady. Production of iron and steel and of chemicals has also held steady as a whole, amid the uptrend in domestic production of motor vehicles, despite the effects of loose supply and demand conditions in some Asian economies. Production of electronic parts and devices has picked up, aided partly by upward pressure from parts for new smartphone and tablet products. Production of general-purpose, production and business oriented machinery has begun to pick up as a reflection of developments in business fixed investment at home and abroad; that of other electrical machinery (electrical machinery; information and communication electronics equipment), including electronic computers and some other capital goods (such as communication equipment), has shown upward movements. Meanwhile, production such as of

ceramics, stone and clay products and of fabricated metals has been steady as a reflection of firm demand with ties to construction.

Shipments have also been on a mild uptrend, with the fluctuations smoothed out (Chart 17[1]). Looking at the trend in shipments by goods (Chart 18), producer goods are considered to be on a mild uptrend overall, since electronic parts and devices—which had remained sluggish—have recently turned upward, as shipments for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals) have been steady. Shipments of construction goods have kept trending moderately upward in response to movements in public and housing investments. Shipments of capital goods have started to pick up. Shipments of durable consumer goods appear to have tended to pick up on average, notably in motor vehicles. Meanwhile, shipments of non-durable consumer goods have continued to be more or less flat.

Inventories have bottomed out (Chart 17[1]). Inventories posted marginal increases at the end of June relative to the end of March and at the end of September compared with the end of June, after having been on a declining trend since the end of last year; inventories have bottomed out, as production and shipments enter a recovery phase. By industry, inventories of transport equipment—which had been declining amid a pick-up in shipments—have recently begun to bottom out as a trend, despite fluctuations caused mainly by inventories waiting to be shipped overseas. Inventories of general-purpose, production and business oriented machinery—which had continued to trend downward after having been at relatively high levels a while ago—have also ceased to decline lately. Inventories of electronic parts and devices have recently piled up, which appears to be attributable to the overhang in stocks of new products. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in shipments has somewhat outpaced that in inventories as a whole (Chart 19[2]). As for durable consumer goods, construction goods, and electronic parts and devices, shipments have continued to grow at a faster pace than inventories, and the shipment-inventory balance has recently improved further. Shipments of capital goods (excluding transport equipment) have also grown at a slightly faster pace than inventories; those of producer goods excluding electronic parts and devices have improved to a situation in which growth in shipments and in inventories is balanced.

Industrial production is expected to continue increasing moderately, mainly reflecting developments in demand at home and abroad. Based on anecdotes by firms and other information, in the fourth quarter transport equipment is projected to increase against the background of firm domestic and overseas demand, and general-purpose, production and business oriented machinery is expected to continue to increase in response to the pick-up in business fixed investment at home and abroad, although increased production of electronic parts and devices—the overhang in stocks of new products which had been observed in the previous term—is projected to come to a halt. Furthermore, many other industries, including ceramics, stone and clay products as well as chemicals, are projected to move gradually upward, aided in part by firm construction demand as seen in an increase in housing investment. As a result, industrial production as a whole is projected to continue to increase.

As for the employment and income situation, supply and demand conditions in the labor market have continued to improve moderately and employee income has also shown a pick-up.

As for supply and demand conditions in the labor market, the unemployment rate has trended moderately downward on average; it has recently marked the 4.0 percent level which was on par with that around the summer of 2008 prior to the Lehman shock (Chart 20). New job openings have trended upward again since the beginning of this year. In response to these movements, the active job openings-to-applicants ratio also continued its moderate improving trend; they stood at 0.95 in September, recovering to the May 2008 level (0.95). Non-scheduled hours worked have increased at a mild pace, together with the pick-up in manufacturing, while nonmanufacturing has been resilient.

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has recently risen somewhat on average, as a reflection of movements in nonmanufacturing (Chart 22[1]). The year-on-year rate of increase in the number of regular employees in the *Monthly Labour Survey* has expanded mildly as a whole, supported by the rise in nonmanufacturing, although manufacturing has continued to decline.

Total cash earnings per employee have begun to bottom out as a whole, albeit with fluctuations (Chart 22[2]). Hourly cash earnings of overall employees have begun to improve moderately (Chart 21[1]). Taking a closer look, as a reflection of movements in nonmanufacturing, monthly cash earnings of full-time employees per employee have stopped declining, and hourly cash earnings of part-time employees increased their rate of increase very gently (Chart 21[2]). The year-on-year rate of change in scheduled cash earnings, however, has still been slightly negative, with the uptrend in the ratio of part-time employees having exerted downward pressure and due in part to the effects of the reduced number of hours worked of part-time employees (Chart 21[3]). Meanwhile, the year-on-year rate of change in non-scheduled cash earnings has turned positive, as a reflection of movements in the number of hours worked.

Employee income seems to be picking up, as it has shown year-on-year increases of late, as a reflection of the aforementioned developments in employment and wages (Chart 22[3]).

As for the outlook regarding employee income, a pick-up is expected to become gradually evident as the recovery in economic activity and business performance becomes noticeable.

2. Prices

International commodity prices have been more or less flat as a whole (Chart 24[1] and [3]). Prices of crude oil—which had increased their levels slightly in view of geopolitical risks, mainly in response to the situation in the Middle East—have recently fallen back a bit mainly as a reflection of receding concern over the situation in the Middle East. Prices of nonferrous metals have generally been flat, after having bounced back slightly in August triggered by the upturn in some Chinese economic indicators. Prices of grains have been soft, mainly due to a bountiful harvest forecast.

The three-month rate of change in import prices (on a yen basis) has been more or less flat since mid-year, after having risen consistently (Chart 24[2]).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) are rising moderately relative to three months earlier against the backdrop of movements in international commodity prices and foreign exchange rates (Chart 25[2]).³ Prices have risen moderately relative to three months earlier; they stood at positive 0.6 percent in October, after having registered positive 0.6 percent in August and positive 0.8 percent in September. Looking in detail at domestic corporate goods price movements in October, prices of "goods sensitive to exchange rates and overseas commodity prices" continued to rise as a reflection of movements in crude oil prices. Prices of "iron & steel and construction goods" grew at a somewhat accelerated pace and those of "Other materials" were relatively strong, partly due to the effects of increases in costs of raw materials imports and in prices of import-competing products, as a reflection of movements in foreign exchange rates, as construction-related demand remains firm. In contrast, prices of "electric power, gas & water" continued to rise, assisted partly by the effects of price increases by electric power companies, but overall prices grew at a somewhat sluggish pace with the effects of upward pressure through the fuel cost adjustment system having been on the wane.⁴ Meanwhile, prices of "machinery" have trended moderately downward.

The year-on-year rate of decline in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) had tended to continue narrowing, and the rate of change is currently around 0 percent (Chart 26). As for developments on a year-on-year basis, the rate of change was 0.0 percent in the third quarter, after having narrowed its rate of decline from negative 0.5 percent in the fourth quarter last year to readings of negative 0.4 percent in the first quarter this year and negative 0.2 percent in the second quarter. Looking in detail at corporate services price movements in the third quarter, the rate of decline in prices related to "selling, general and administrative expenses" diminished since advertising services stopped declining and also since hotels rose at an accelerated pace; the rate of decline

³ 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.

⁴ Under the fuel cost adjustment system, electricity prices reflect fuel costs of three to five months earlier.

in prices related to "real estate" narrowed as well as a reflection of movements in office space rental. Reflecting movements of those for leasing, prices related to "fixed investment" continued to register year-on-year positive and "IT-related" prices reduced their rate of decline.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is in the range of 0.5-1.0 percent (Chart 27[1]). On a year-on-year basis, consumer prices—which had turned upward to positive 0.4 percent in June after having registered 0.0 percent in May—stood at positive 0.7 percent in September, after having risen at a somewhat accelerated pace in July and August with readings of positive 0.7 percent and 0.8 percent, respectively. Meanwhile, those on a basis that excludes food and energy—which had been narrowing their pace of decline moderately—improved in September by posting 0.0 percent (on par with the December 2008 level), after having stood at negative 0.1 percent in August. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean—which had ceased to improve since the middle of last year—has recently improved again; it has been accelerating at a very modest pace, after having turned marginally upward (Chart 28[2]).⁵ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 28[1]).⁶

Looking at year-on-year movements in consumer prices in September, fees for public services reduced their pace of increase from the previous month, with the effects of price increases by electric power companies—which were introduced in the same month a year earlier—having waned. As for prices for goods, petroleum products, which comprise a large weight, reduced their rate of increase, since upward pressure in response to the previous year's movement had diminished. Nevertheless,

⁵ 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.

⁶ 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.

prices of some categories, including durable goods, food products, other goods, and clothes appear to have either reduced their rate of decline or turned marginally upward, partly because cost increases have been passed on in the form of higher prices as a reflection of movements in foreign exchange rates under resilient private consumption. Meanwhile, prices of general services have not shown a discernable improvement as a whole, since prices of rent—which comprise a large weight—have continued to be somewhat sluggish. Prices of eating out, however, have increased marginally, and those of other services have been on a very modest but improving trend compared to a while ago, albeit with fluctuations.

Domestic corporate goods prices are expected to rise at a reduced pace for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in consumer prices is likely to rise gradually.

Meanwhile, inflation expectations appear to be rising on the whole (Chart 29).

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 at around 45 percent (Chart 30).

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 32).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 31). Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also 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 been in the range of 2.0-2.5 percent, mainly in demand for working capital and funds

related to mergers and acquisitions (Chart 33). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive (Chart 34).

Firms have retained their recovered financial positions on the whole (Chart 31). The number of corporate bankruptcies has remained at a low level (Chart 36).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been at around 4 percent. Its October reading was 4.1 percent on a year-on-year basis, following 3.9 percent in September (Chart 35).⁷

(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) has been moving below the 0.1 percent level. The Euroyen interest rate (3-month) and interest rates on Euroyen futures have been virtually level (Chart 37). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 38).

Yields on 10-year government bonds (newly issued 10-year JGB) have been more or less flat, in light of the increase, albeit with fluctuations, in U.S. long-term interest rates; they are currently moving in the range of 0.60-0.65 percent (Chart 39).

Yield spreads between corporate bonds and government bonds have been narrowing very moderately on the whole, despite a widening in some corporate bond spreads (Chart 40).

Stock prices have moved upward, albeit with fluctuations, as U.S. stock prices continue to rise. The Nikkei 225 Stock Average is currently moving in the range of 15,000-15,500 yen (Chart 41).

⁷ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been in the range of 3.0-3.5 percent; its October reading was 3.3 percent, following 3.1 percent in September. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 4 percent; it increased by 4.1 percent in October, following an increase of 3.8 percent in September.

In the foreign exchange market, the yen has depreciated against the U.S. dollar mainly due to speculation about U.S. monetary policies; the yen is currently moving in the range of 100-101 yen against the U.S. dollar. The yen's exchange rate against the euro has been fluctuating, after having depreciated mainly in response to stronger-than-projected European economic indicators; the yen is currently moving in the range of 134-135 yen against the euro (Chart 42).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2013/Q1	Q2	Q3	2013/Jul.	Aug.	Sep.	Oct.
Index of consumption expenditure level (two-or-more-person households)	4.4	-2.2	-0.4	1.1	-2.1	4.8	n.a.
Sales at department stores	1.5	1.1	-2.2	-8.1	4.2	0.9	n.a.
Sales at supermarkets	-1.9	0.3	0.2	-0.4	-0.9	0.5	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 304>	< 283>	< 267>	< 252>	< 275>	< 275>	< 294>
Sales of household electrical appliances (real, "Current Survey of Commerce")	6.1	-2.7	-2.5	-8.7	4.1	4.7	n.a.
Outlays for travel	0.8	-0.1	-0.1	-3.5	4.5	-4.0	n.a.
Housing starts <s.a., ann. 10,000 units>	< 90>	< 98>	< 100>	< 98>	< 96>	< 104>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-0.0	6.8	4.3	-0.0	5.4	-2.1	n.a.
Manufacturing	-1.7	5.6	9.8	4.8	0.8	4.1	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	-3.1	12.5	-4.1	0.0	6.2	-7.0	n.a.
Construction starts (private, nondwelling use)	5.2	-3.2	-0.5	5.9	-7.0	14.2	n.a.
Mining & manufacturing	20.0	-9.9	8.9	9.9	-9.1	25.7	n.a.
Nonmanufacturing ⁵	0.7	1.5	-1.3	5.0	-4.1	12.2	n.a.
Value of public works contracted	-3.6	28.6	-3.0	-1.6	-11.2	12.6	-17.1
Real exports	1.5	3.5	-1.1	-4.9	6.4	-4.4	p 2.5
Real imports	3.2	-0.0	2.6	-1.7	1.6	2.5	p -1.1
Industrial production	0.6	1.5	1.7	3.4	-0.9	1.3	n.a.
Shipments	4.1	-1.9	0.6	2.0	-0.1	1.5	n.a.
Inventories	-3.4	0.4	1.2	1.6	-0.2	-0.2	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 112.8>	< 111.0>	< 110.1>	< 110.5>	< 112.5>	< 110.1>	<n.a.>
Real GDP	1.1	0.9	0.5	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.0	1.0	0.5	0.4	0.3	0.4	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2013/Q1	Q2	Q3	2013/Jul.	Aug.	Sep.	Oct.
Active job openings-to-applicants ratio <s.a., times>	< 0.85>	< 0.90>	< 0.95>	< 0.94>	< 0.95>	< 0.95>	<n.a.>
Unemployment rate <s.a., %>	< 4.2>	< 4.0>	< 4.0>	< 3.8>	< 4.1>	< 4.0>	<n.a.>
Non-scheduled hours worked ⁶	-1.6	1.0	4.0	3.9	4.0	3.9	n.a.
Number of employees	0.4	0.9	0.9	0.9	0.9	1.0	n.a.
Number of regular employees ⁶	0.5	0.7	0.9	0.9	0.9	1.0	n.a.
Nominal wages per person ⁶	-0.6	0.3	-0.4	-0.1	-0.9	-0.2	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-0.3 < 0.8>	0.7 < 0.7>	2.2 < 0.6>	2.2 < 0.4>	2.3 < 0.6>	2.2 < 0.8>	p 2.5 <p 0.6>
Consumer price index ⁸	-0.3	0.0	0.7	0.7	0.8	0.7	n.a.
Corporate services price index ⁹	-0.4	-0.2	p 0.0	-0.1	0.1	p 0.1	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	2.9	3.5	3.8	3.7	3.8	3.9	p 4.1
Number of corporate bankruptcies <cases per month>	<926>	<947>	<888>	<1,025>	<819>	<820>	<959>

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

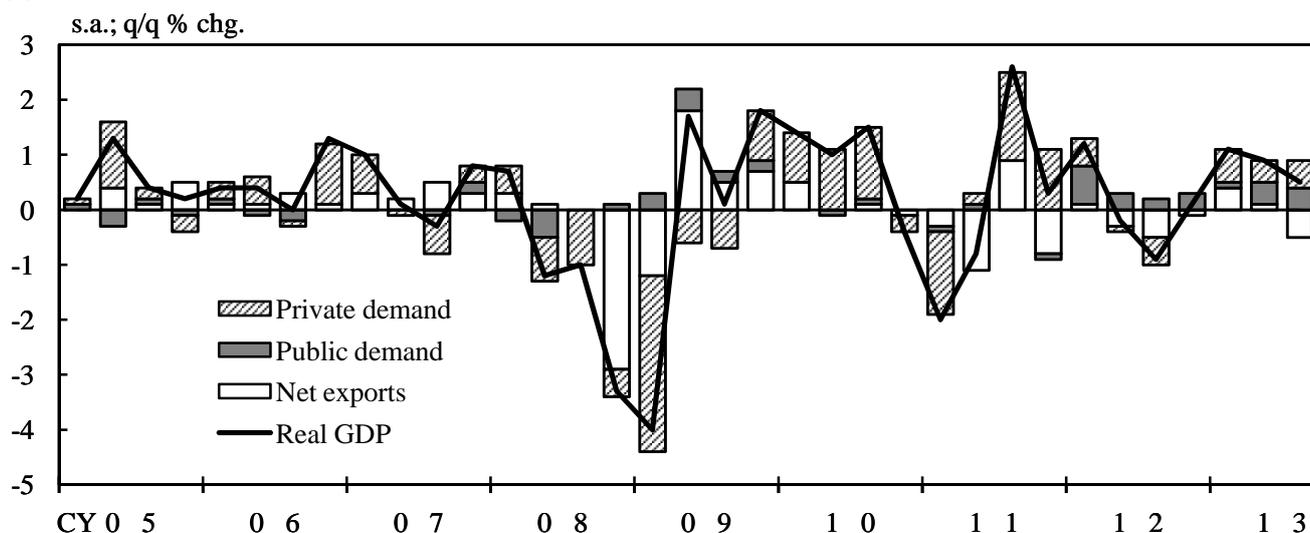
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



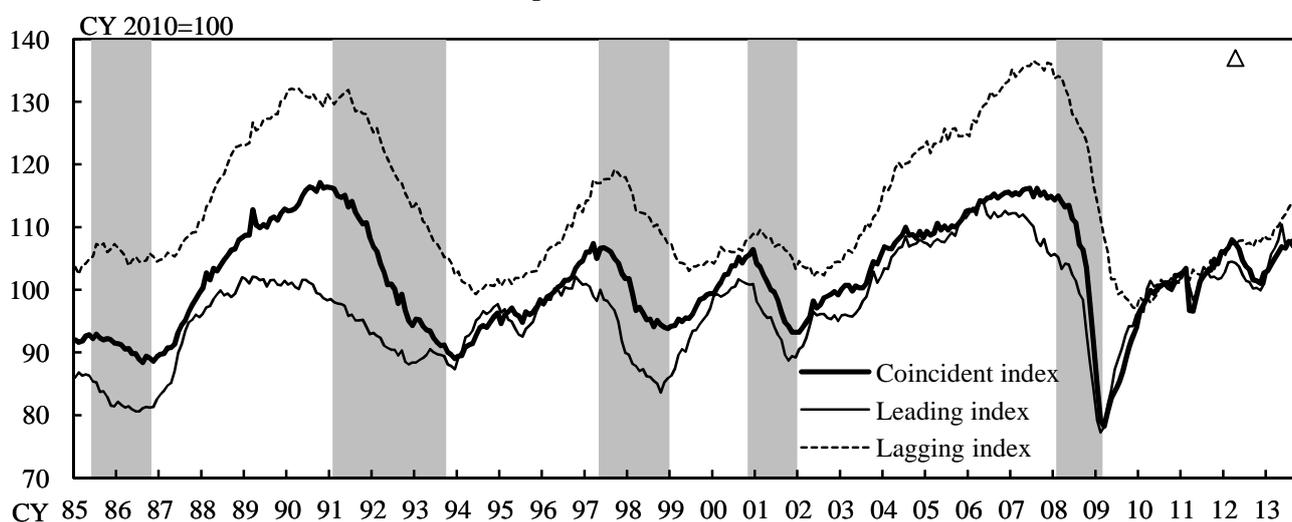
(2) Components

s.a.; q/q % chg.

	2012		2013		
	Q3	Q4	Q1	Q2	Q3
Real GDP	-0.9	0.1	1.1	0.9	0.5
[Annual rate]	[-3.7]	[0.6]	[4.3]	[3.8]	[1.9]
Domestic demand	-0.4	0.3	0.7	0.8	0.9
Private demand	-0.5	0.0	0.6	0.4	0.5
Private consumption	-0.2	0.2	0.5	0.4	0.1
Non-Resi. investment	-0.4	-0.2	0.0	0.1	0.0
Residential investment	0.0	0.1	0.1	0.0	0.1
Private inventory	0.0	-0.2	-0.0	-0.1	0.4
Public demand	0.2	0.3	0.1	0.4	0.4
Public investment	0.1	0.2	0.1	0.2	0.4
Net exports of goods and services	-0.5	-0.1	0.4	0.1	-0.5
Exports	-0.6	-0.4	0.6	0.4	-0.1
Imports	0.0	0.3	-0.2	-0.3	-0.4
Nominal GDP	-1.2	0.2	0.7	1.1	0.4

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

(3) Indexes of Business Conditions (Composite Indexes)

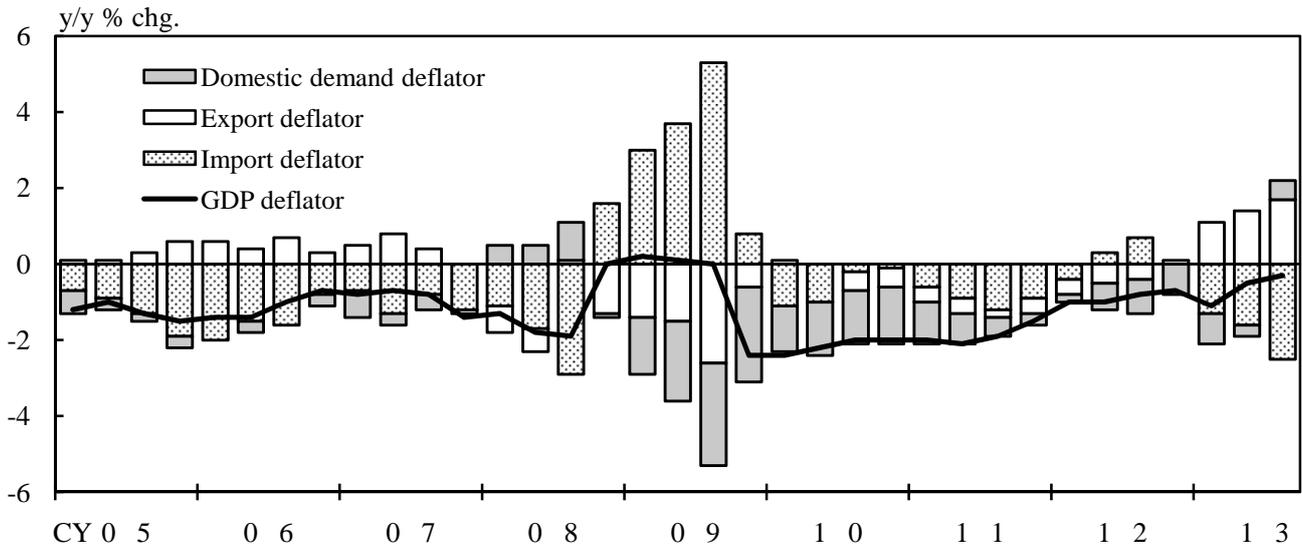


Note: Shaded areas indicate recession periods. Triangle shows the latest peak.

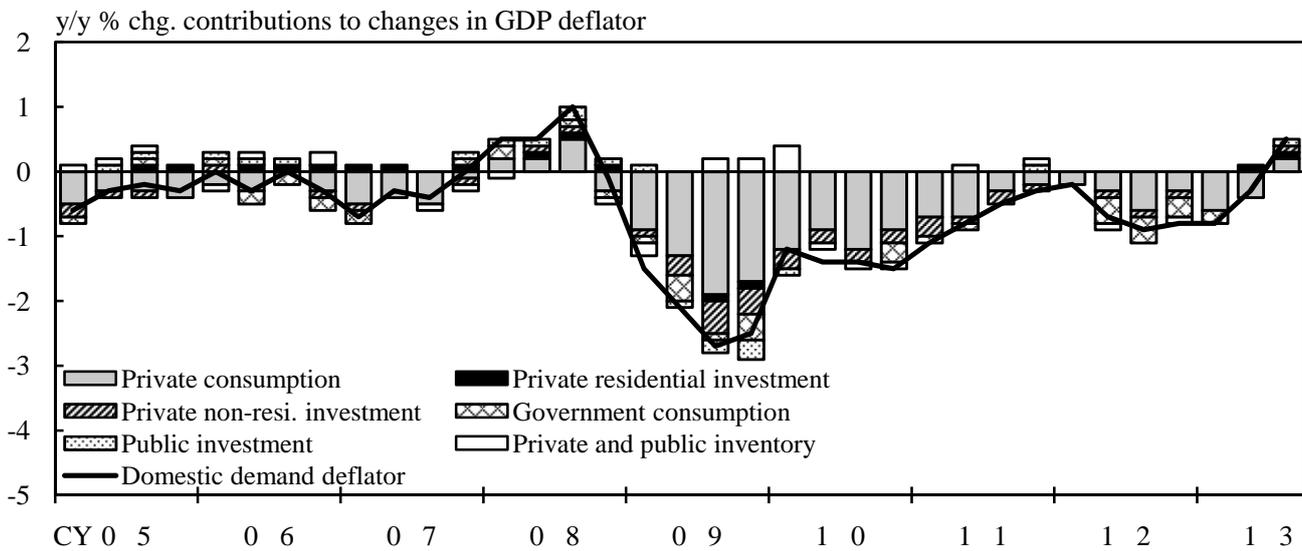
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

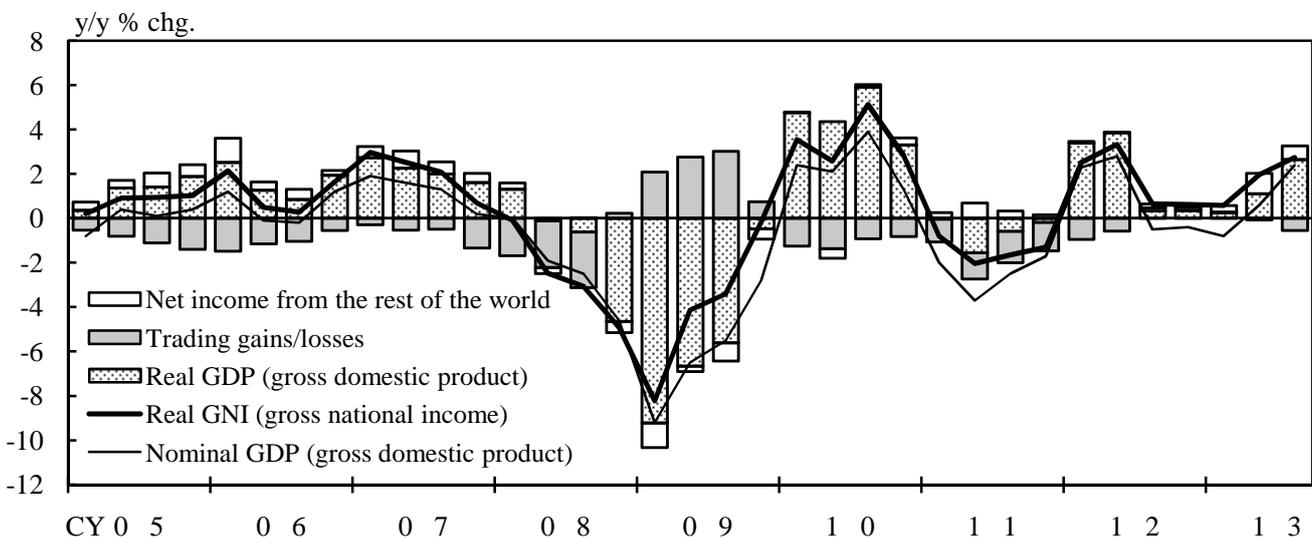
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

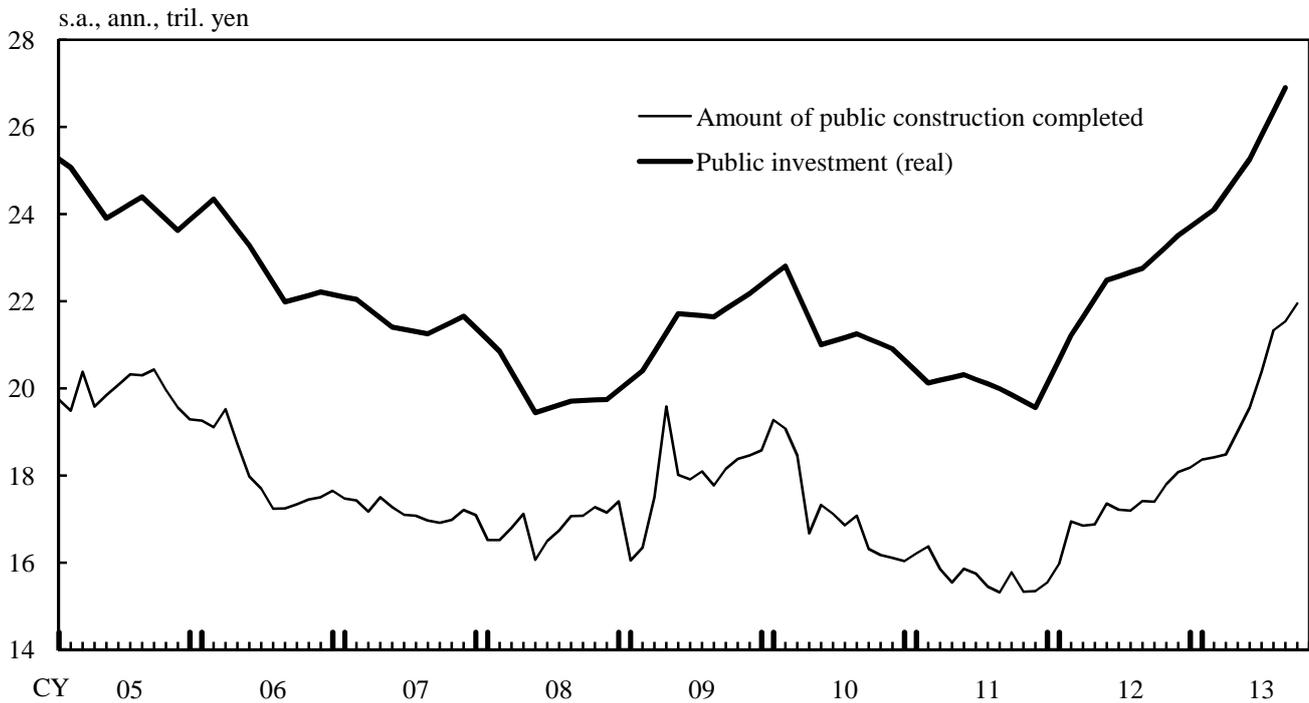
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

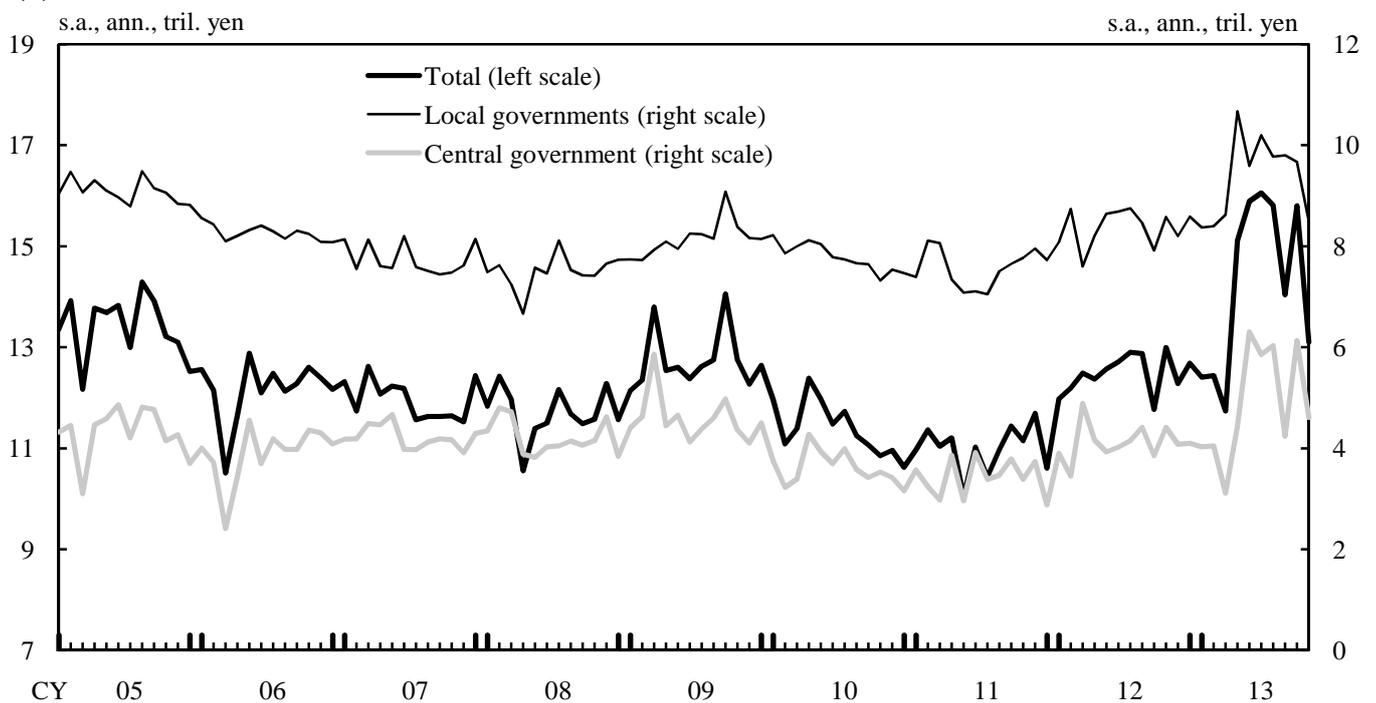
Source: Cabinet Office, "National Accounts."

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.

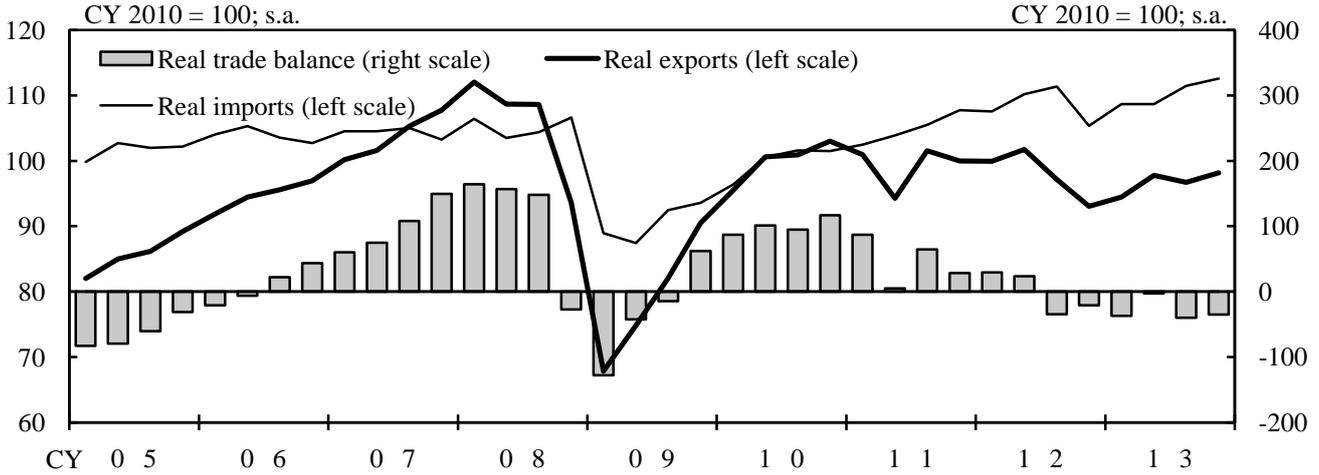
Sources: Cabinet Office, "National Accounts";

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

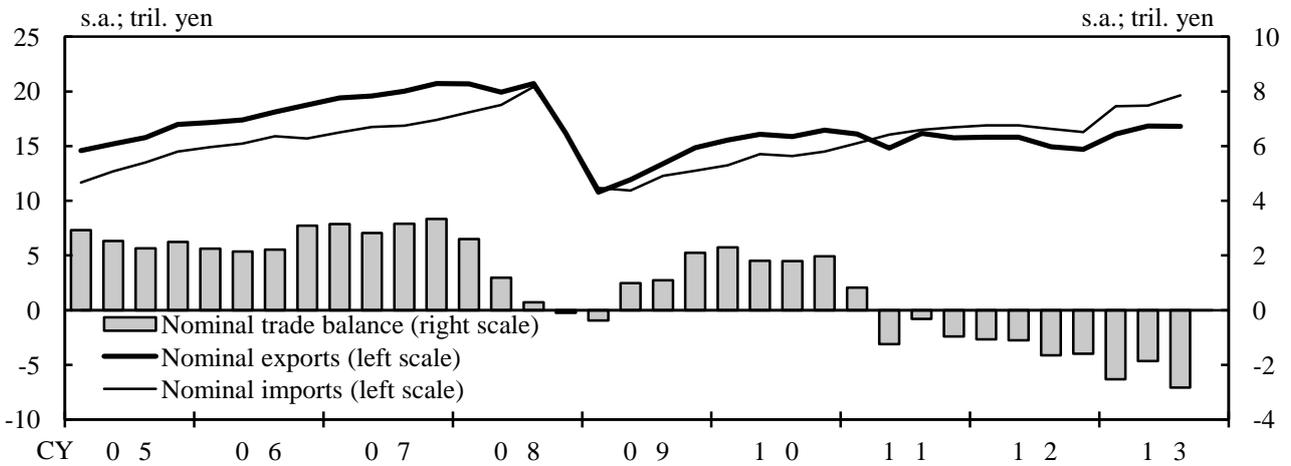
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance ¹

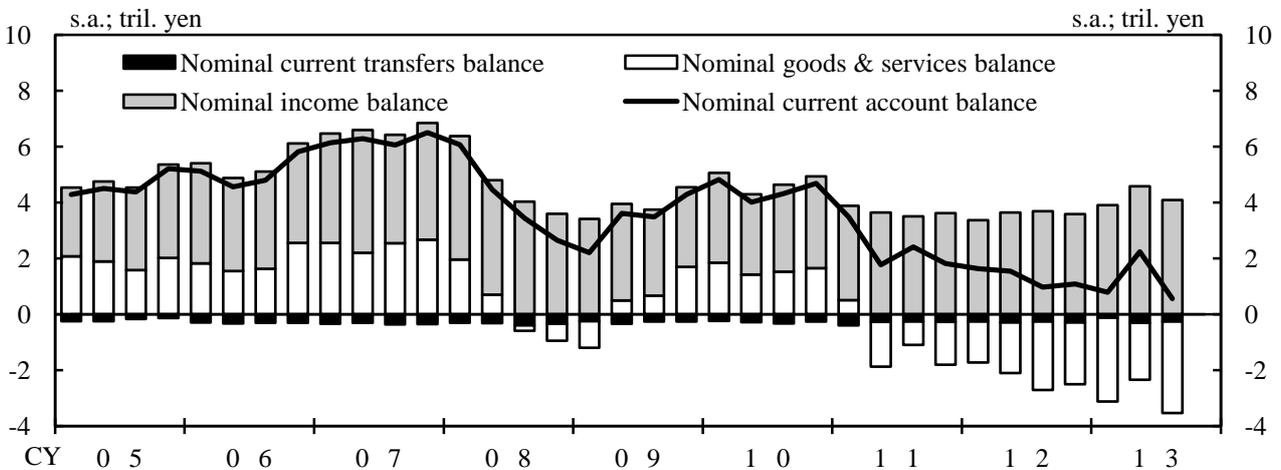
(1) Real Exports, Real Imports, and Real Trade Balance ²



(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. 2013/Q4 figures are October figures converted into quarterly amount.

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 Q4	2013 Q1	Q2	Q3	Q4	2013 Aug.	Sep.	Oct.
United States	<17.6>	-0.3	13.0	-3.0	2.2	7.5	-1.4	0.7	10.2	-6.4	1.9
EU	<10.2>	3.4	-13.0	-4.4	-0.4	0.4	7.9	1.6	1.3	2.5	-0.4
East Asia	<51.3>	-1.4	-2.6	-3.9	-1.1	3.8	-2.1	0.3	7.4	-4.0	0.7
China	<18.1>	1.3	-8.1	-9.2	-0.7	7.0	2.1	0.2	10.2	-5.8	1.0
NIEs	<21.5>	-4.5	-4.7	-0.5	-0.3	4.2	-4.1	0.3	5.2	-1.5	-0.4
Korea	<7.7>	-2.6	-3.5	1.1	1.0	2.0	-0.4	-1.0	-0.1	-2.2	0.5
Taiwan	<5.8>	-9.4	-6.0	-2.8	2.4	-1.2	-6.8	1.0	4.8	-6.2	3.8
Hong Kong	<5.1>	-4.2	-0.7	-0.9	-5.0	9.8	-0.6	-6.6	10.1	-0.1	-9.4
Singapore	<2.9>	0.6	-11.6	-2.7	0.5	13.8	-14.4	16.6	5.1	1.1	13.8
ASEAN4 ³	<11.7>	0.6	12.5	-1.9	-3.1	-1.6	-4.9	0.5	7.3	-5.9	2.3
Thailand	<5.5>	1.4	19.3	0.1	-5.9	0.7	-7.7	-7.1	-1.2	-8.1	-1.2
Others	<21.0>	0.9	1.7	-5.1	3.6	1.0	-1.8	0.4	0.0	-5.2	4.0
Real exports		-0.9	-1.0	-4.2	1.5	3.5	-1.1	1.5	6.4	-4.4	2.5

(2) Breakdown by Goods

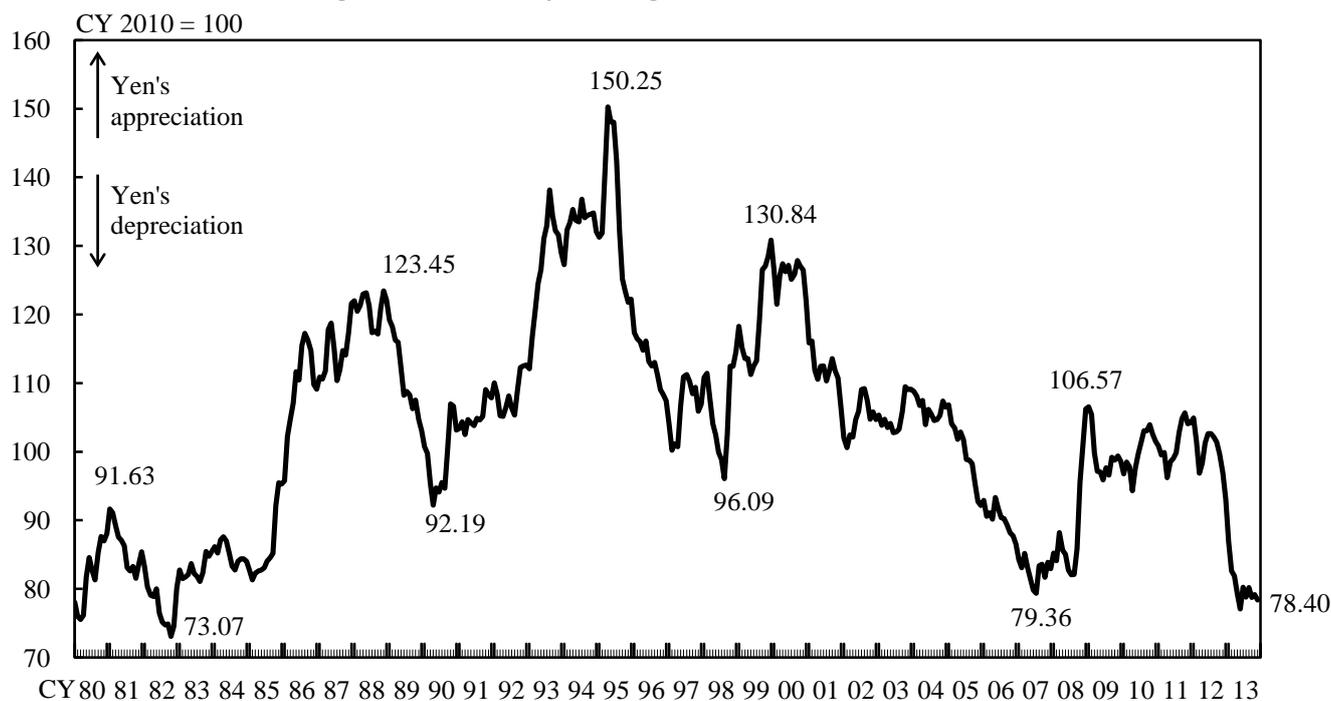
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Aug.	Sep.	Oct.
Intermediate goods	<20.4>	-3.2	-0.7	-3.4	1.8	1.8	-0.1	-2.7	7.8	-6.1	-1.0
Motor vehicles and their related goods	<23.4>	-4.9	7.7	-5.8	0.6	6.0	3.1	2.7	7.7	-4.2	3.1
IT-related goods ⁴	<11.2>	2.3	3.6	-1.9	-6.4	0.8	0.2	0.9	8.5	-4.9	1.6
Capital goods and parts ⁵	<29.3>	5.8	-4.0	-6.5	1.2	0.3	1.0	1.2	3.4	-3.4	2.4
Real exports		-0.9	-1.0	-4.2	1.5	3.5	-1.1	1.5	6.4	-4.4	2.5

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q4 figures are October figures converted into quarterly amount.
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.

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 November (up to November 19) 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

s.a., ann., q/q % chg.

	CY2010	2011	2012	2012 Q4	2013 Q1	Q2	Q3
United States ¹	2.5	1.8	2.8	0.1	1.1	2.5	2.8
European Union ²	2.0	1.7	-0.4	-1.7	-0.3	1.3	1.0
Germany ¹	4.0	3.3	0.7	-1.8	0.0	2.9	1.3
France ¹	1.6	2.0	0.0	-0.7	-0.2	2.2	-0.6
United Kingdom ¹	1.7	1.1	0.1	-1.2	1.5	2.7	3.2
East Asia ³	9.2	5.9	4.8	6.6	2.4	5.6	n.a.
China ¹	10.4	9.3	7.7	7.8	6.1	7.8	9.1
NIEs ^{1,3}	8.9	4.3	1.6	4.1	1.1	5.2	2.0
ASEAN4 ^{1,3,4}	7.4	3.0	6.3	9.9	-0.7	3.0	n.a.
Main economies ³	6.7	4.5	3.7	4.2	1.8	4.4	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 a member country 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 Q4	2013 Q1	Q2	Q3	Q4	2013 Aug.	Sep.	Oct.
United States	<8.6>	0.5	3.8	-8.0	-0.1	2.5	4.4	-4.6	0.5	-1.2	-4.0
EU	<9.4>	10.3	4.0	-1.1	-1.7	-0.7	5.3	-2.8	0.1	8.7	-8.0
East Asia	<40.8>	11.1	3.9	-1.8	3.1	-2.0	3.6	1.9	3.5	4.6	-2.2
China	<21.3>	14.5	5.1	-0.6	3.9	-1.8	5.2	0.1	6.0	10.8	-8.1
NIEs	<8.5>	10.0	5.0	-1.5	1.2	-5.9	7.1	5.1	6.4	-5.5	6.9
Korea	<4.6>	24.3	4.3	-3.7	2.8	-10.0	6.8	6.3	5.8	-8.9	11.1
Taiwan	<2.7>	-3.1	7.2	1.6	-1.0	5.0	4.5	-1.2	4.8	-2.7	-0.9
Hong Kong	<0.2>	-5.6	-2.5	-1.3	8.3	-10.2	12.1	0.4	15.1	-7.4	1.0
Singapore	<1.0>	-0.1	3.0	-0.2	-0.8	-16.3	14.8	6.0	8.3	2.5	1.7
ASEAN4 ³	<11.1>	5.6	0.5	-4.6	2.8	0.9	-2.9	3.5	-4.5	-1.0	5.8
Thailand	<2.7>	7.3	-0.9	-2.7	3.6	0.9	-2.5	2.5	-2.4	-3.3	5.7
Others	<41.2>	-0.4	4.7	-10.5	7.7	1.0	0.1	-1.4	4.1	-3.5	-0.3
Real imports		4.8	4.2	-5.4	3.2	-0.0	2.6	1.0	1.6	2.5	-1.1

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Aug.	Sep.	Oct.
Raw materials ⁴	<40.8>	-0.2	4.5	-12.3	9.8	-1.6	-0.3	-1.5	4.5	-5.2	0.6
Intermediate goods	<13.5>	11.7	-2.7	-3.0	-1.5	-2.6	3.7	0.4	-0.3	-0.0	0.5
Foodstuffs	<8.3>	1.3	-0.7	-3.9	3.3	-6.0	4.7	-2.7	2.3	-1.9	-2.2
Consumer goods ⁵	<7.5>	9.9	4.5	-2.9	2.0	3.0	2.6	0.9	-1.4	-1.2	2.2
IT-related goods ⁶	<12.0>	11.2	9.0	4.1	3.6	1.1	4.9	4.8	6.6	17.5	-7.5
Capital goods and parts ⁷	<10.9>	11.3	10.4	-3.5	0.7	4.5	5.8	-2.9	3.7	4.0	-6.5
Excluding aircraft	<10.1>	12.6	7.0	-2.1	-0.1	4.7	5.0	-0.5	4.8	4.1	-4.6
Real imports		4.8	4.2	-5.4	3.2	-0.0	2.6	1.0	1.6	2.5	-1.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q4 figures are October figures converted into quarterly amount.

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.

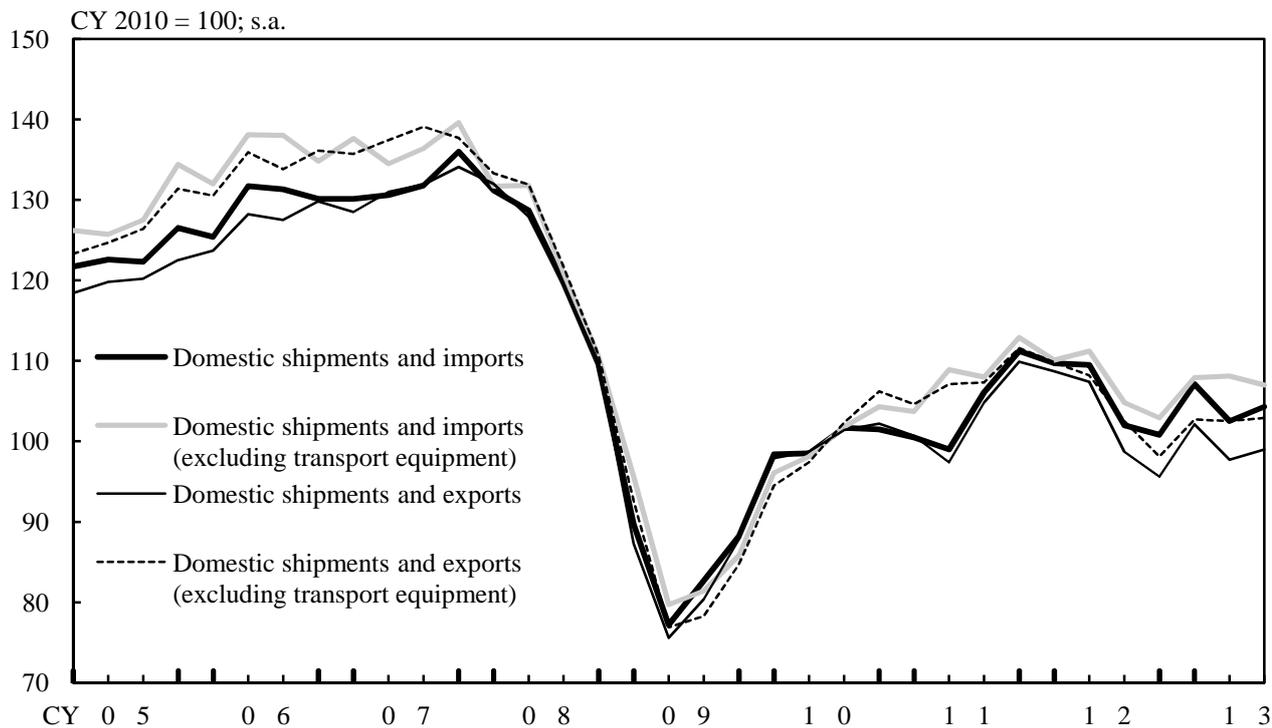
5. Excludes foodstuffs.

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.

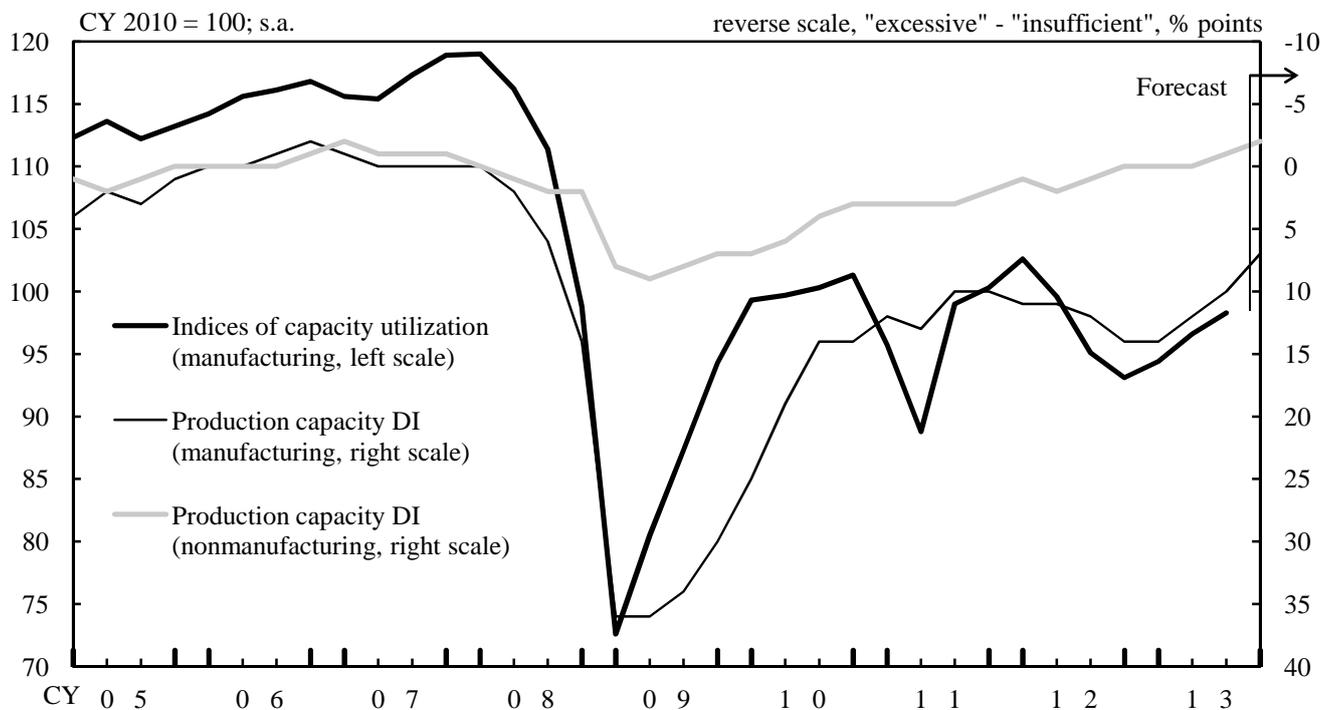
7. Excludes IT-related goods.

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI

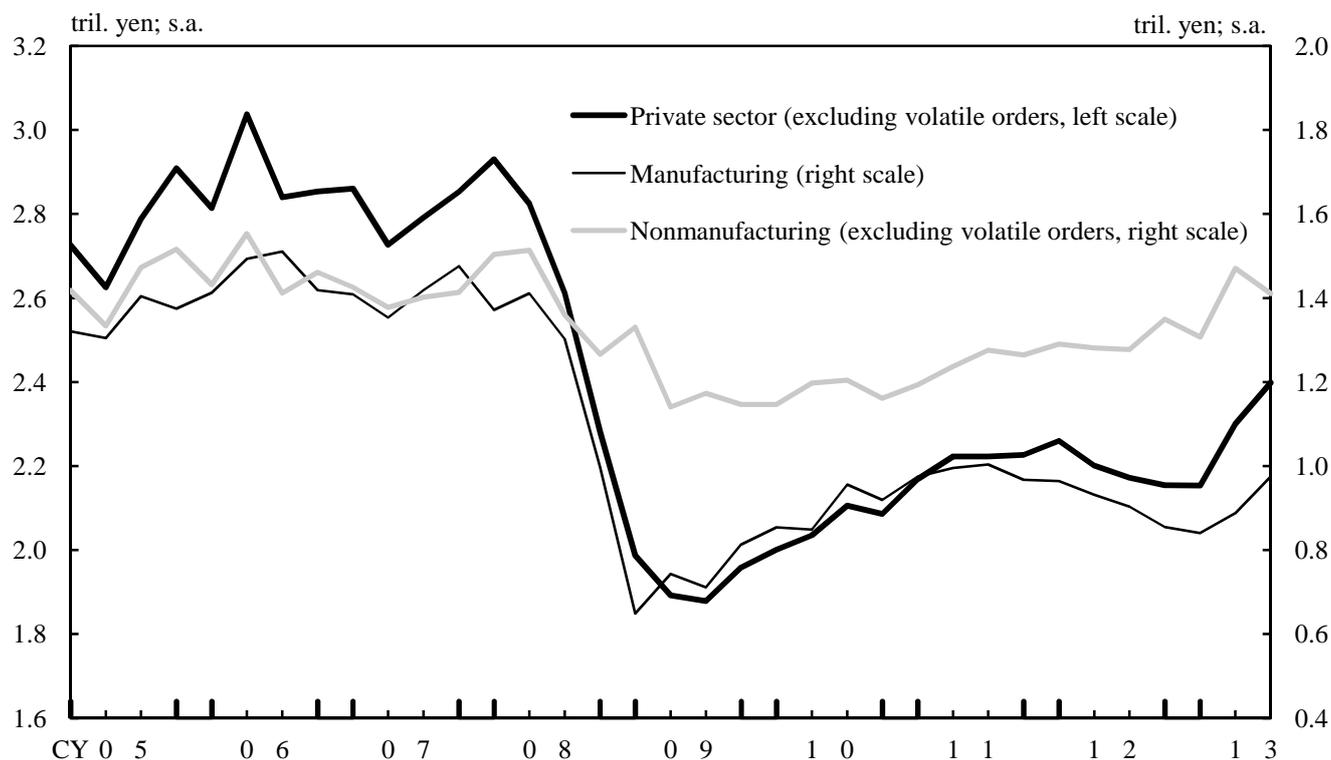


Note: Production capacity DIs are those of all enterprises.

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."

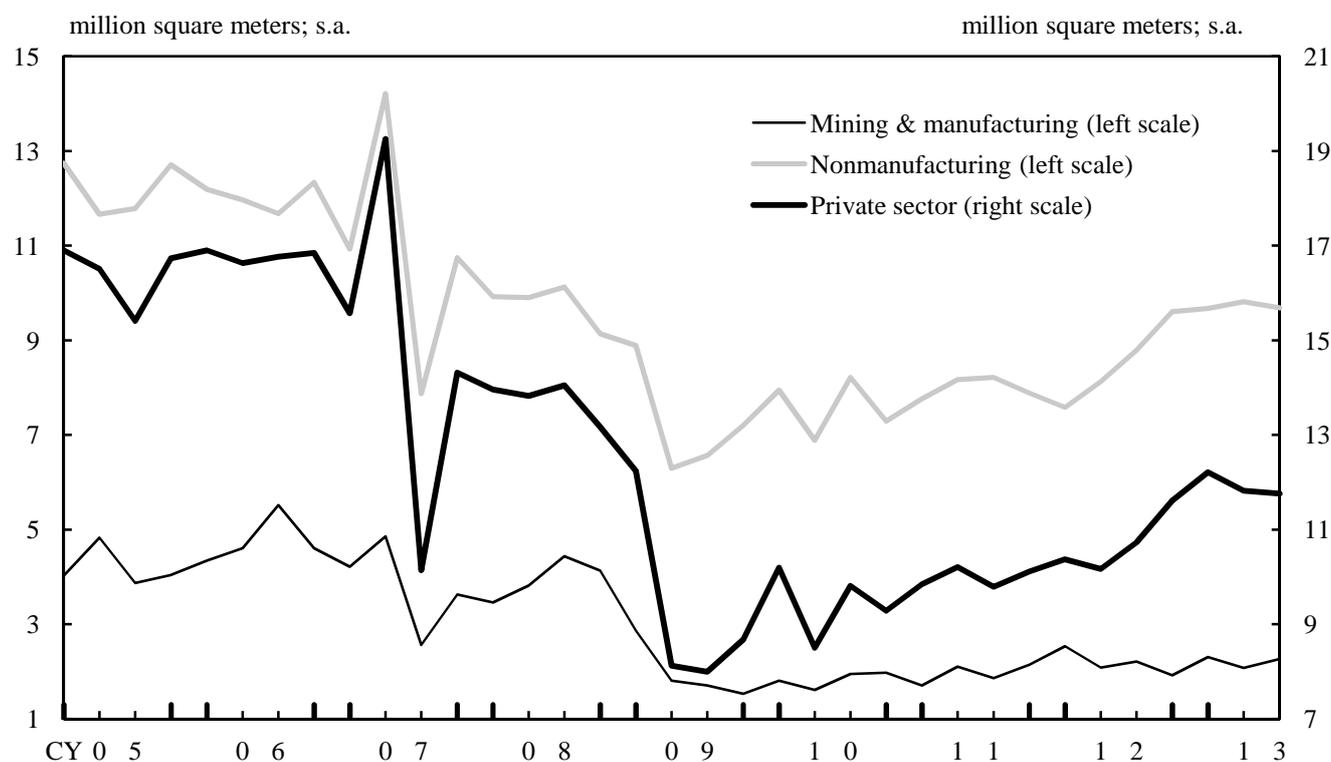
Leading Indicators of Business Fixed Investment

(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)

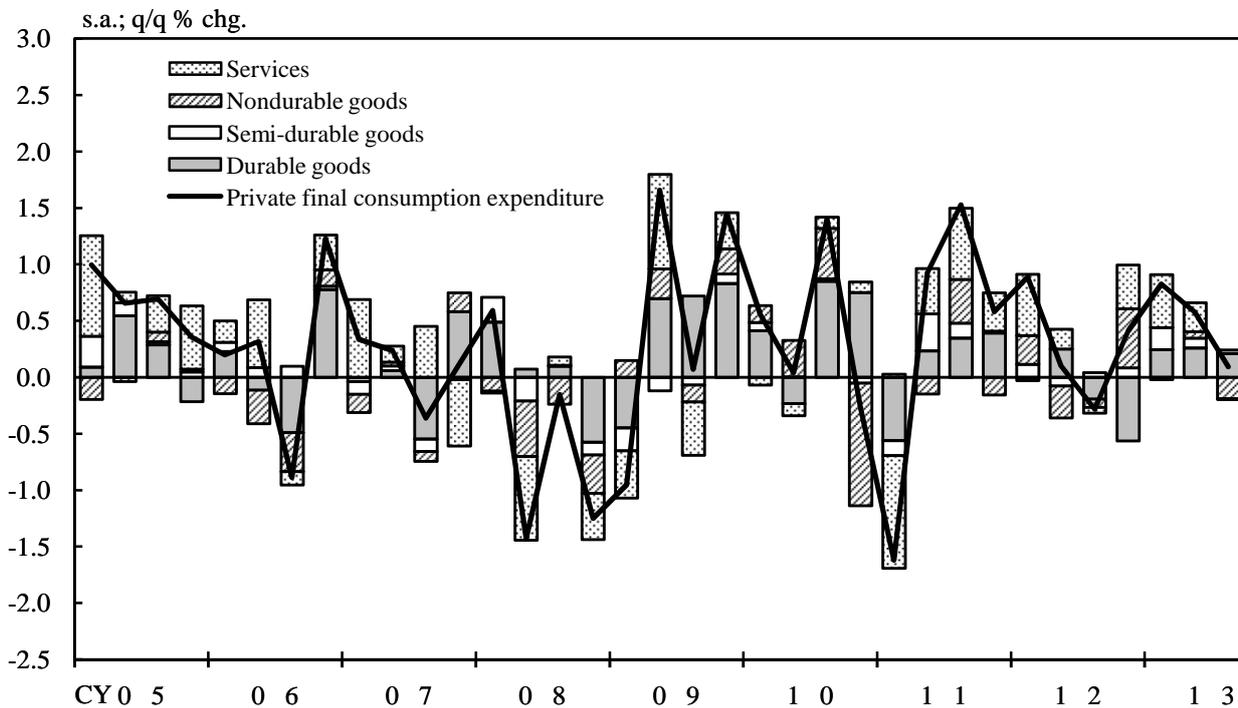


Note: Seasonally adjusted by X-12-ARIMA.

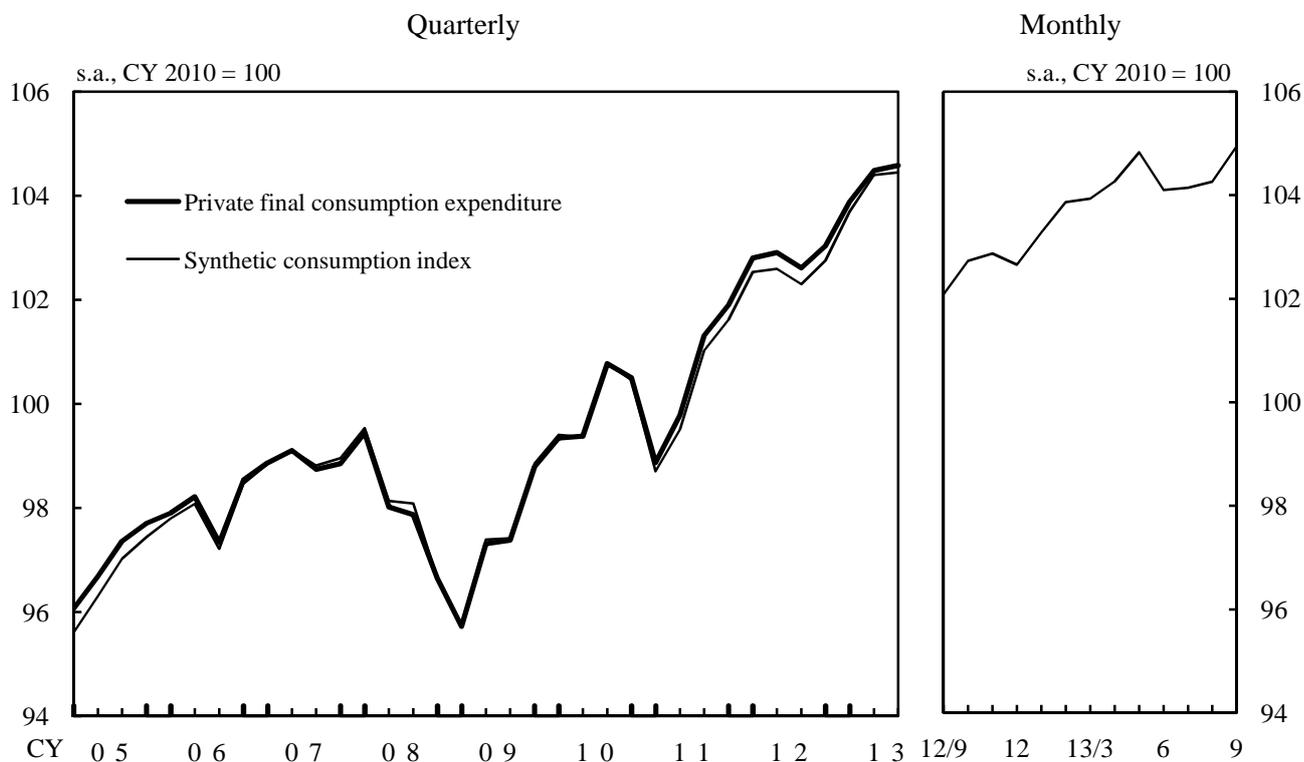
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



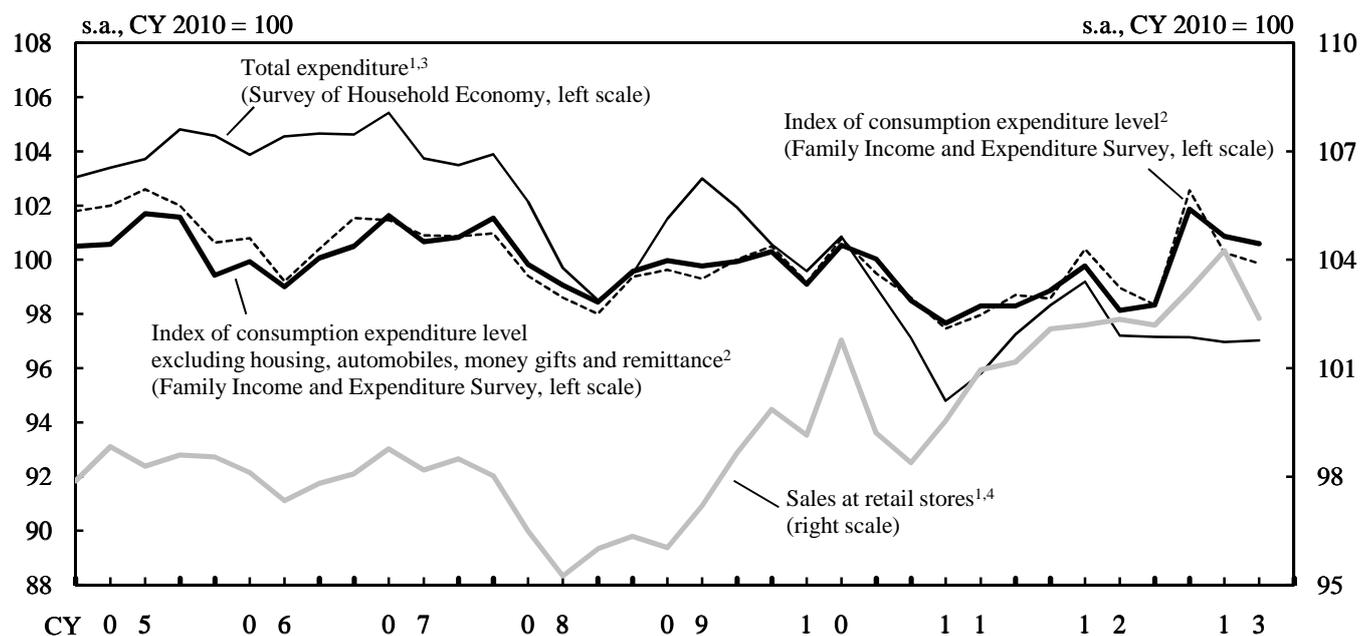
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



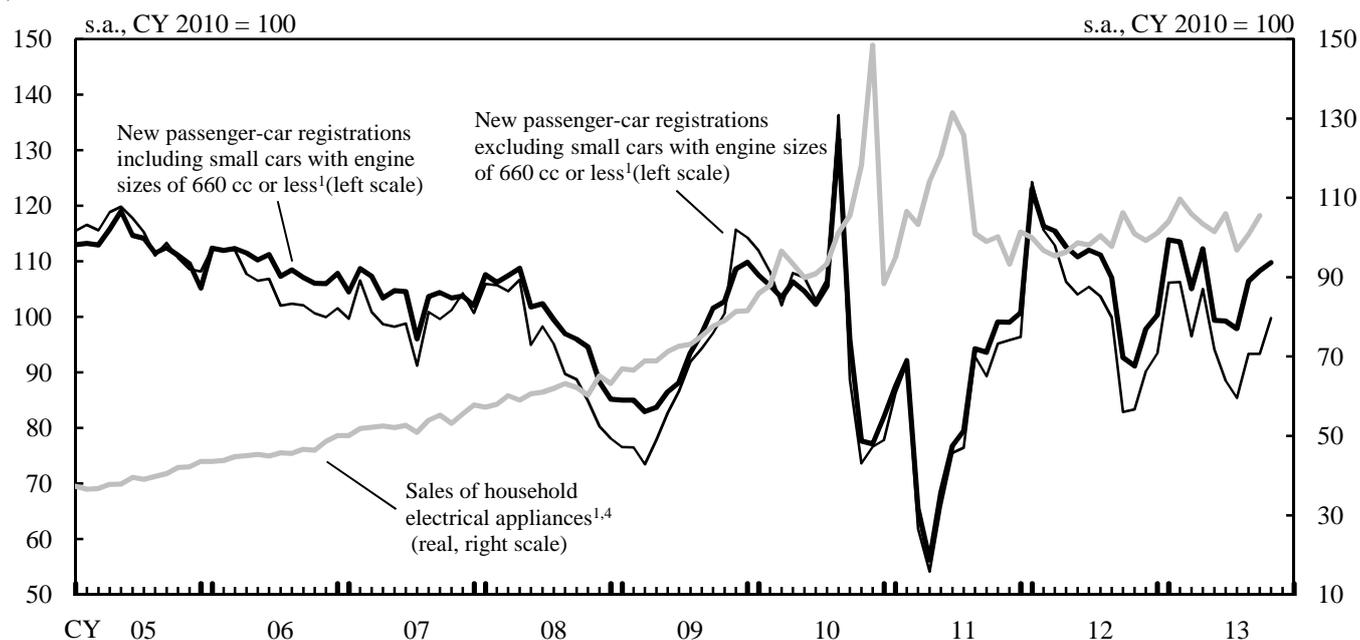
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

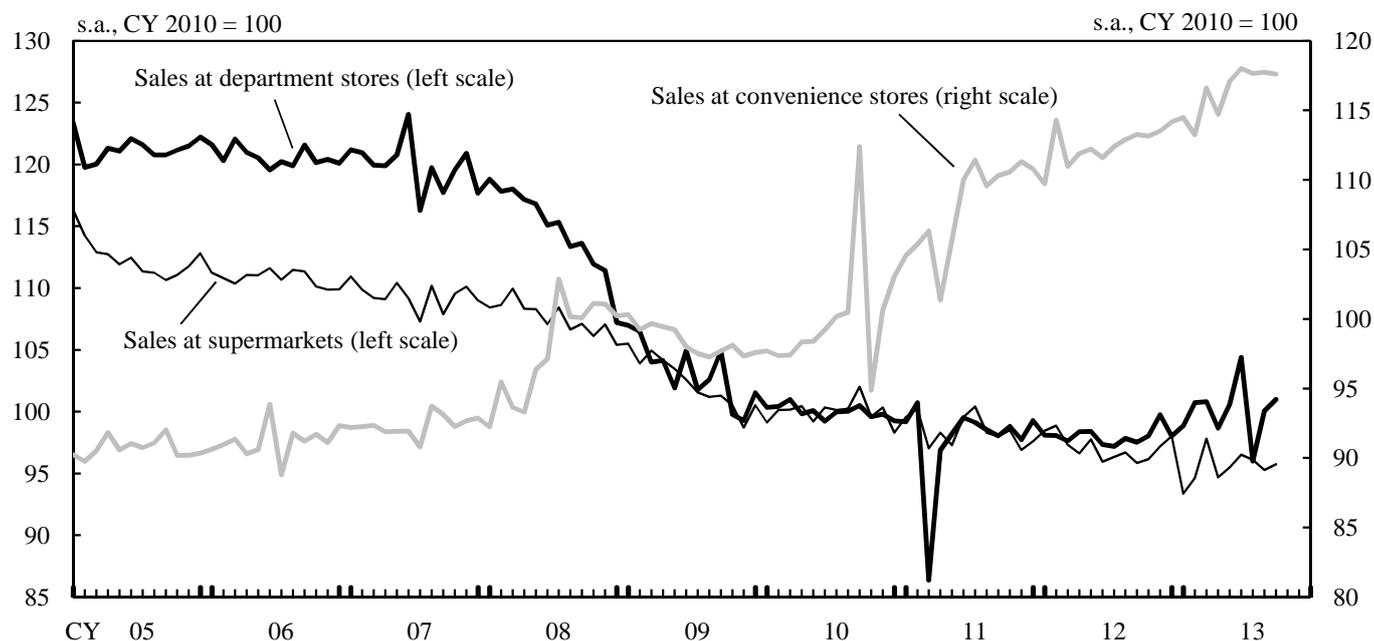


(2) Sales of Durable Goods

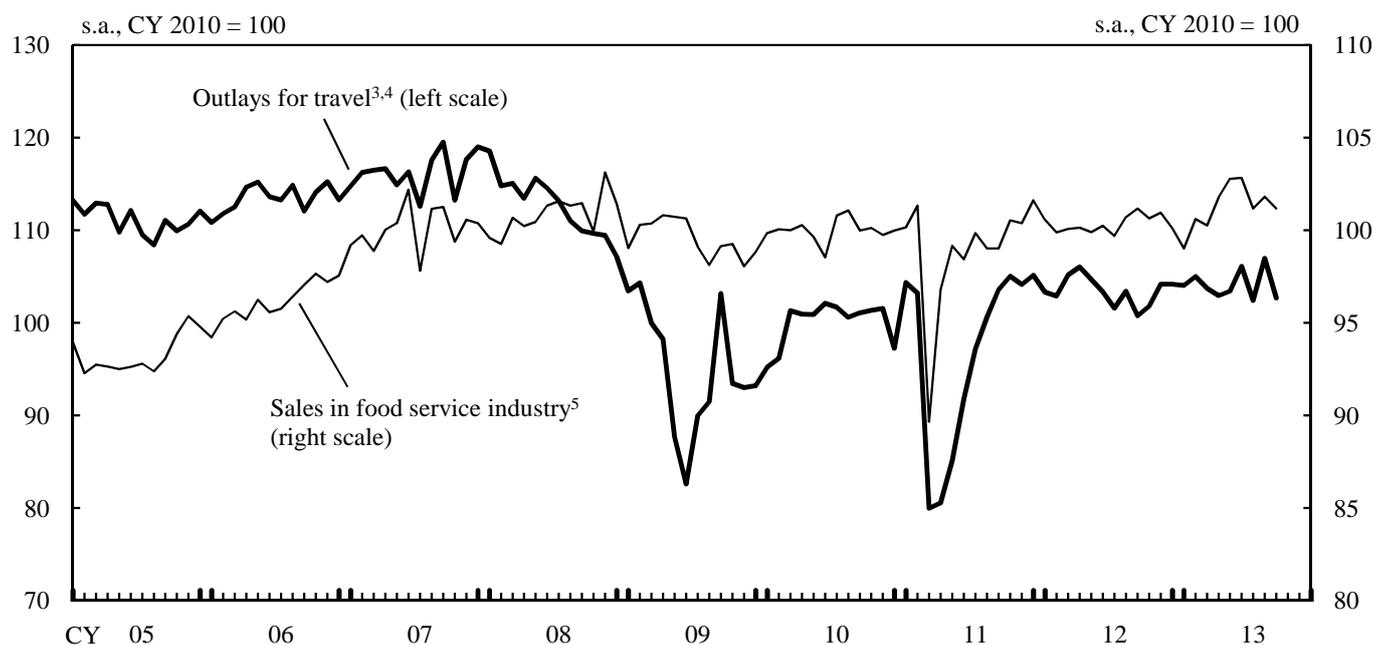


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household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

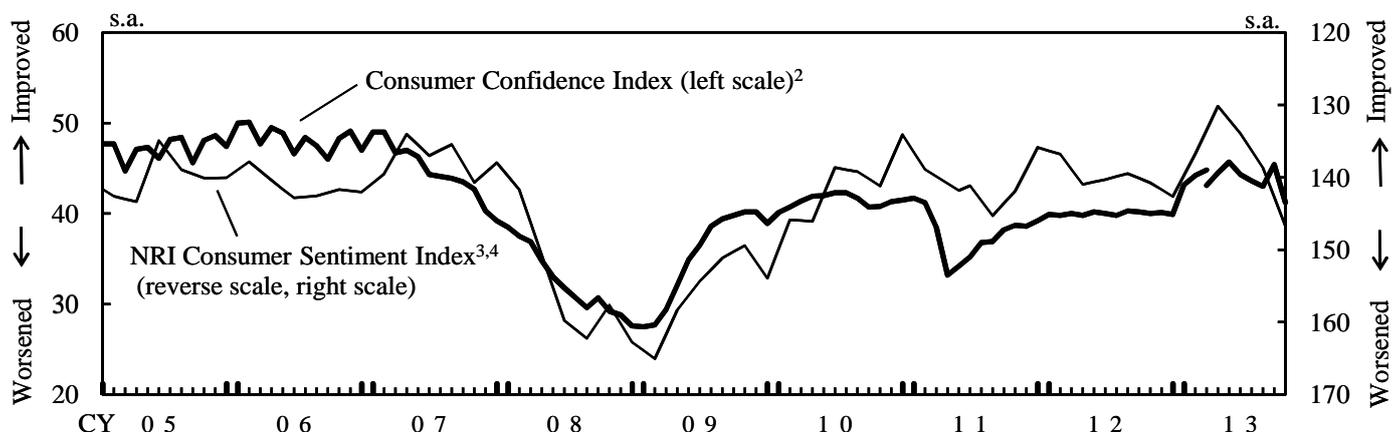
Japan Tourism Agency, "Major Travel Agents' Revenue";

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*

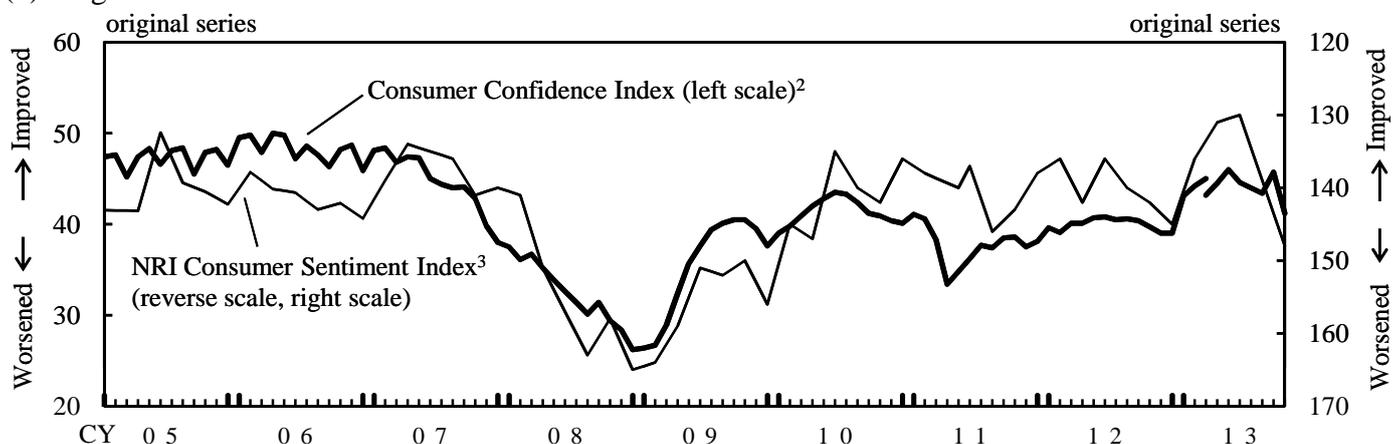
(Research on the food service industry)."

Consumer Confidence¹

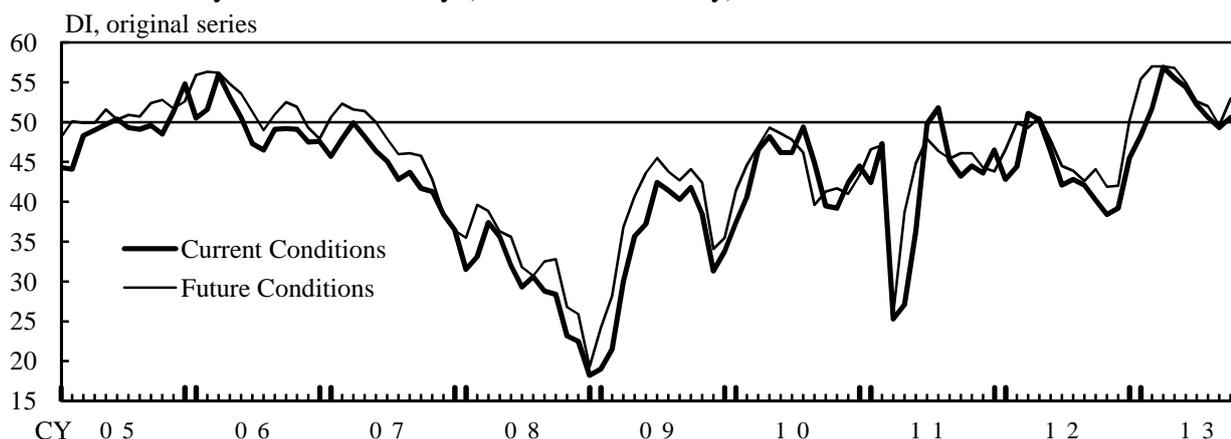
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

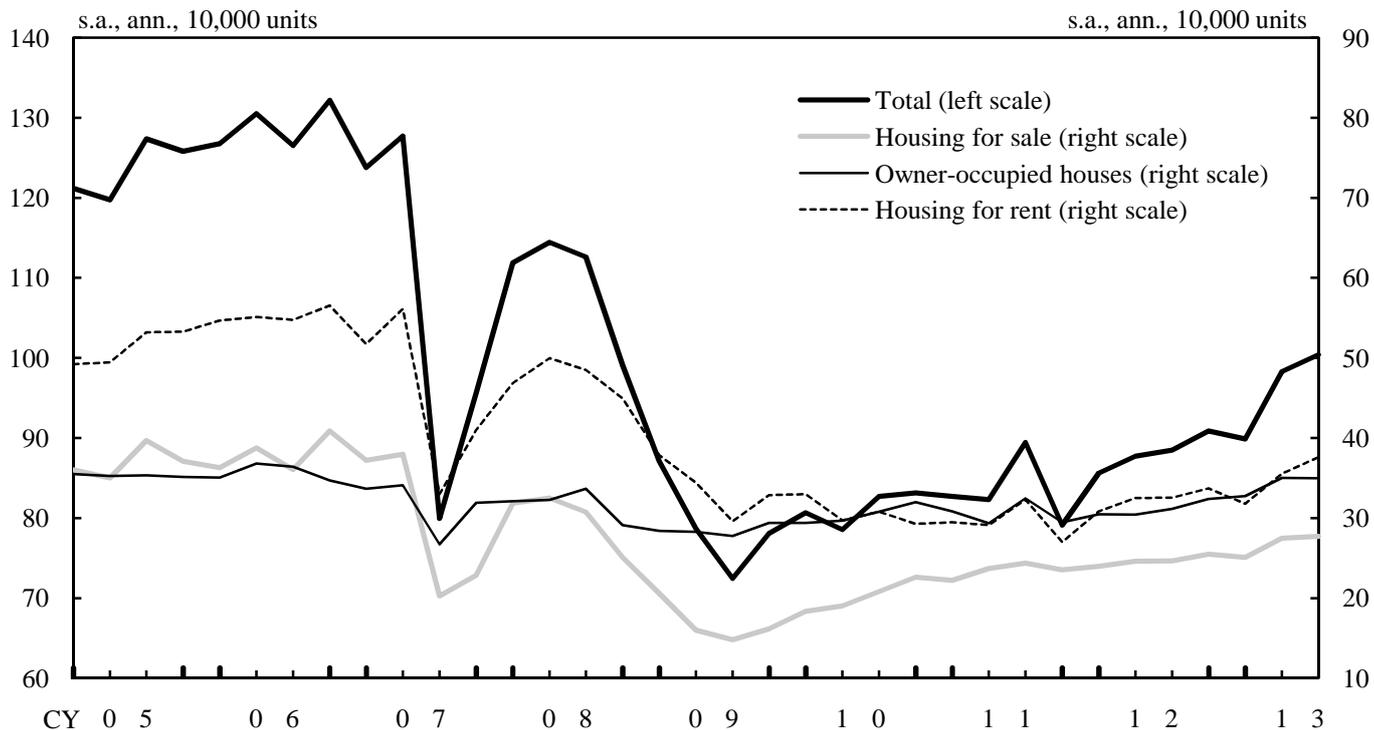


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting 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.

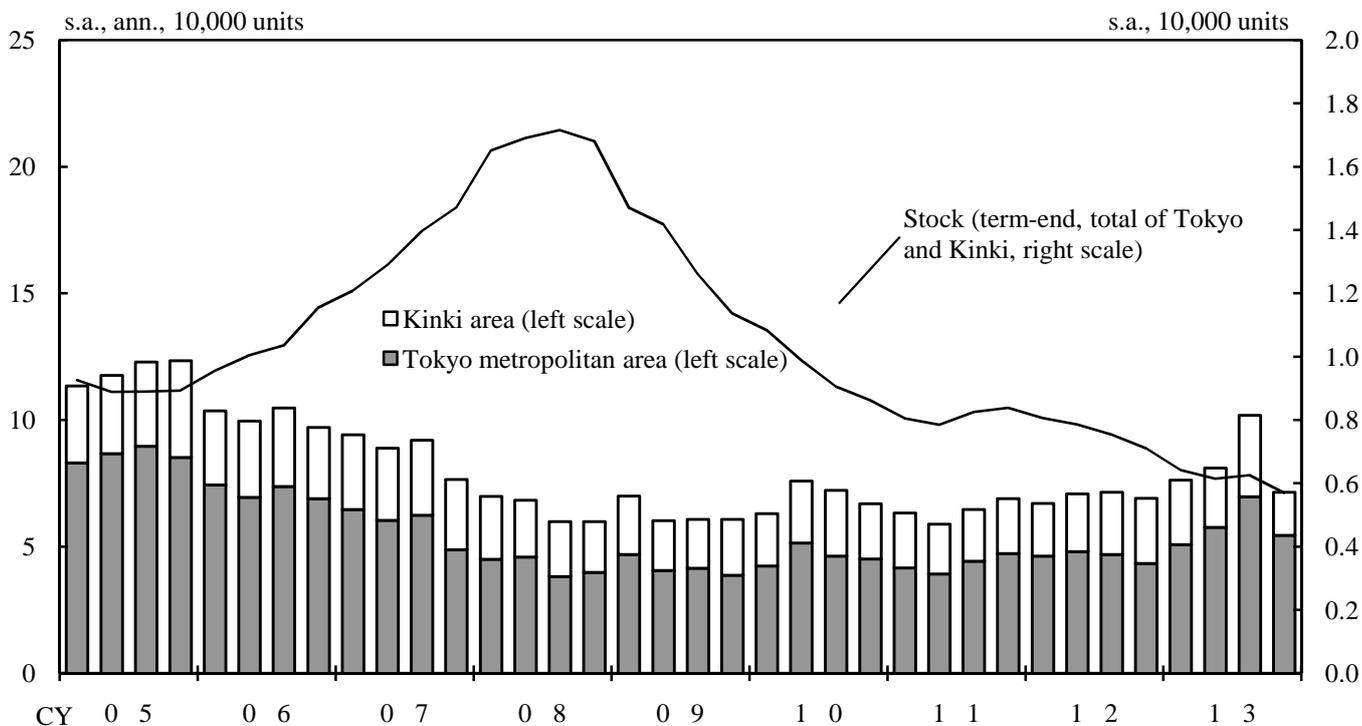
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

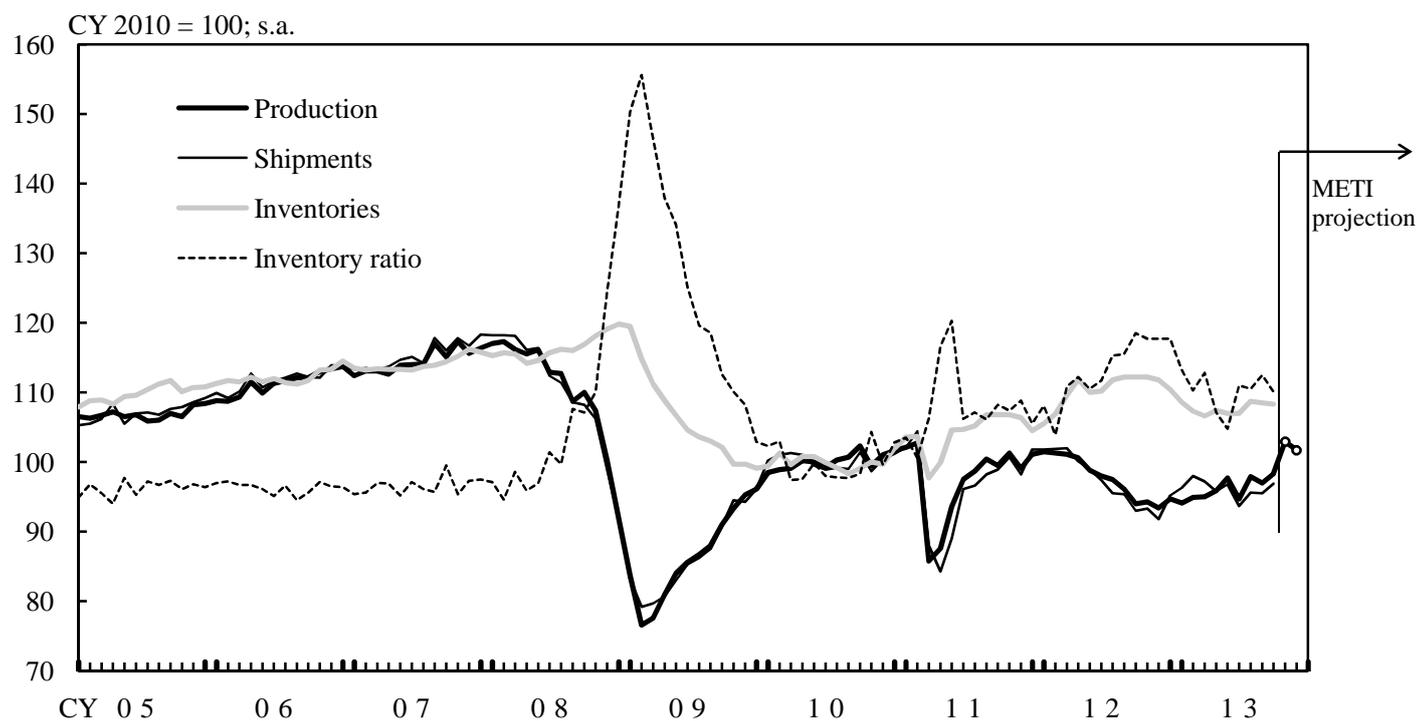


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2013/Q4 are those of October.

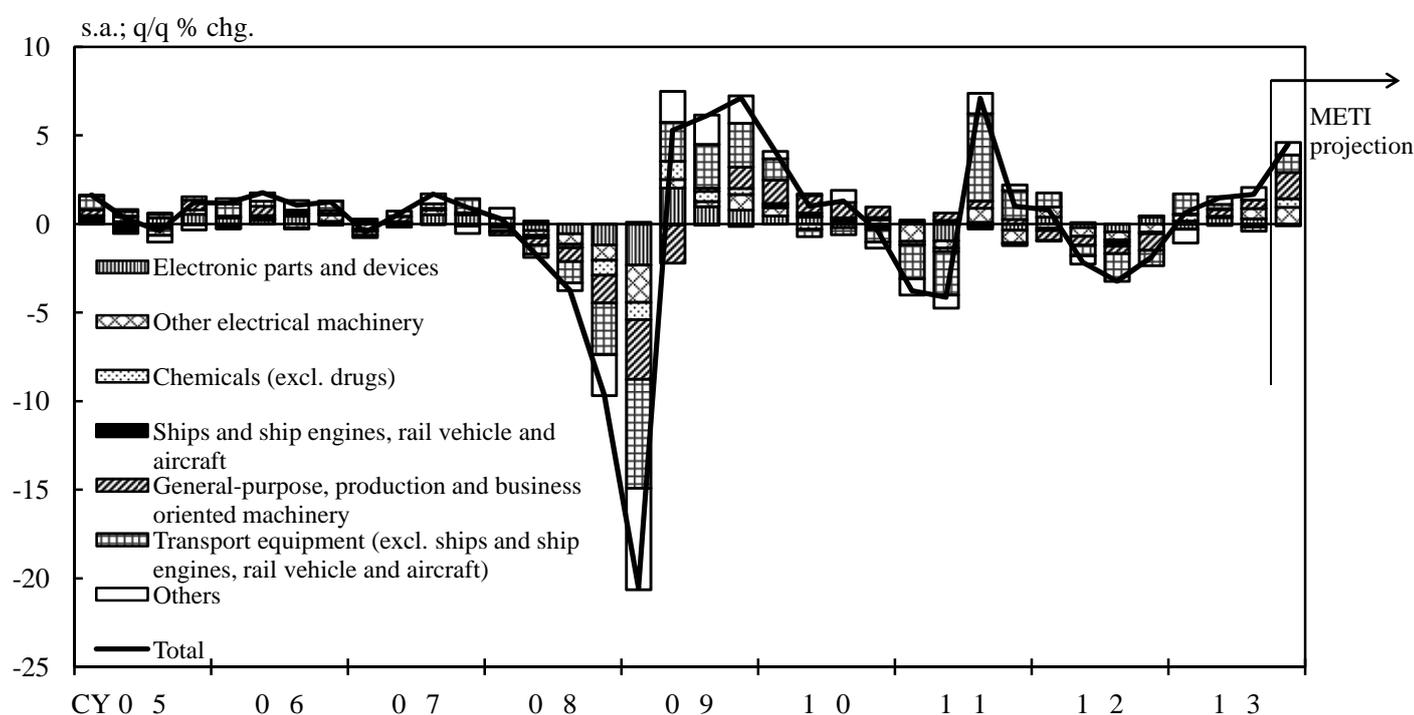
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industry^{1,2,3}



Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

2. Figures up to 2008/Q1 are on the 2005 base.

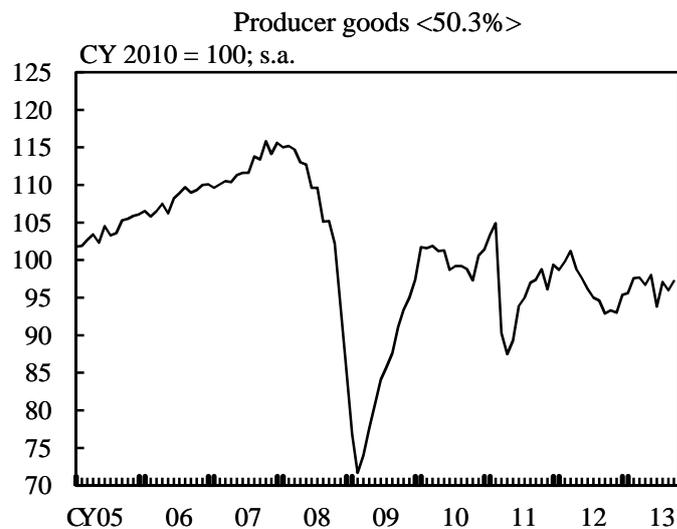
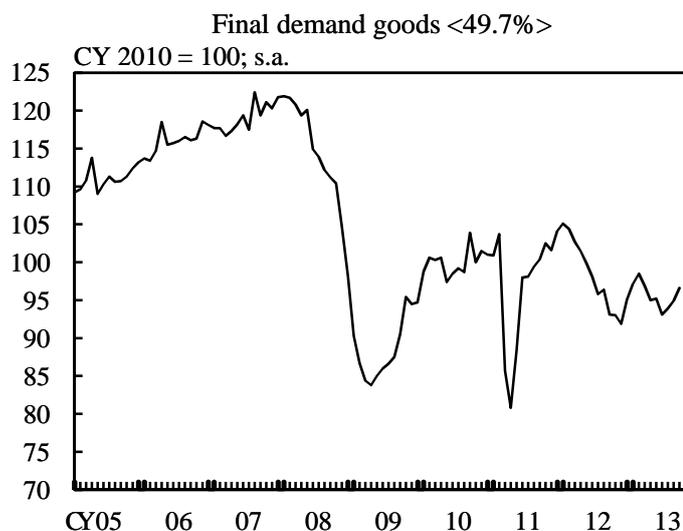
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2013/Q4 figures are based on the assumption that the production levels in December are the same as those of November.

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

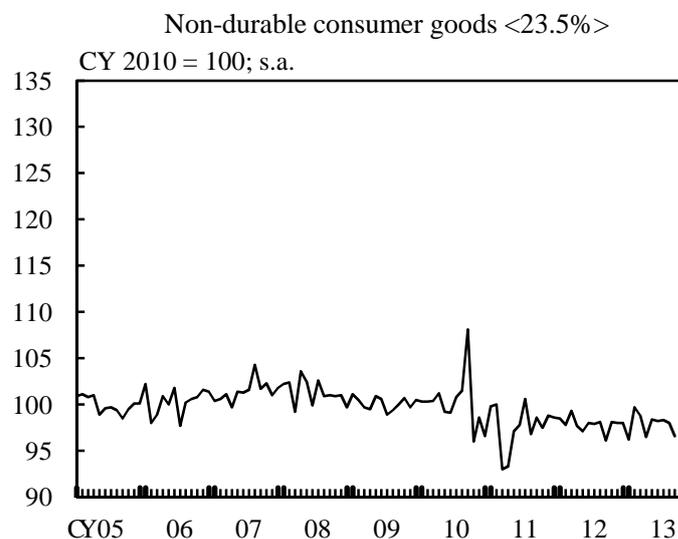
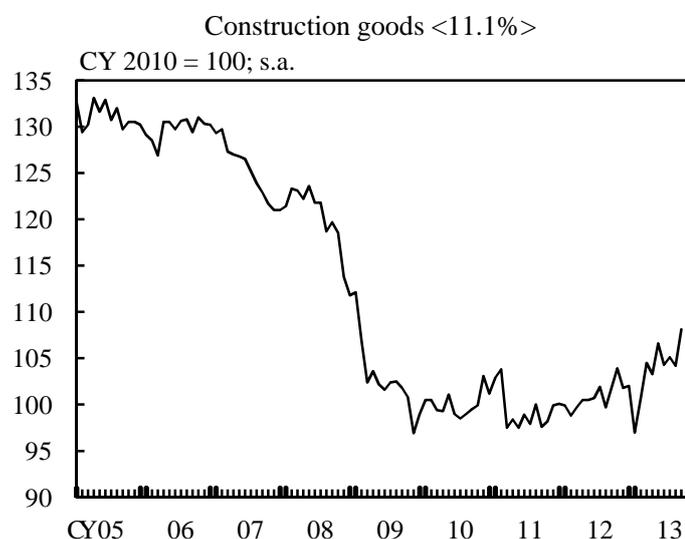
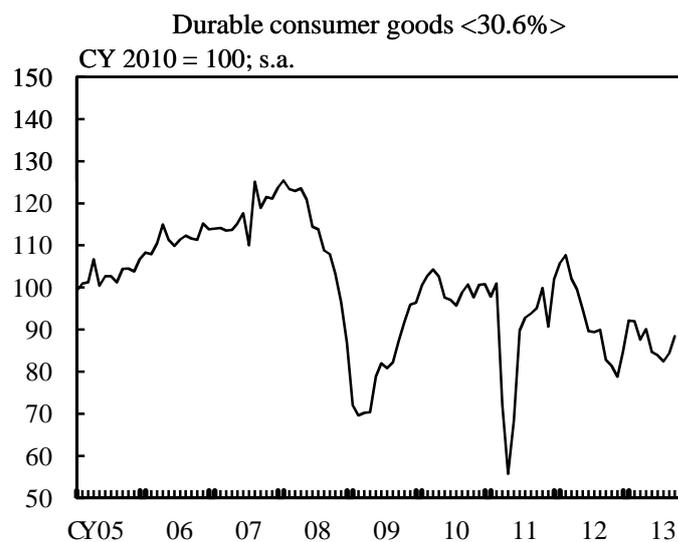
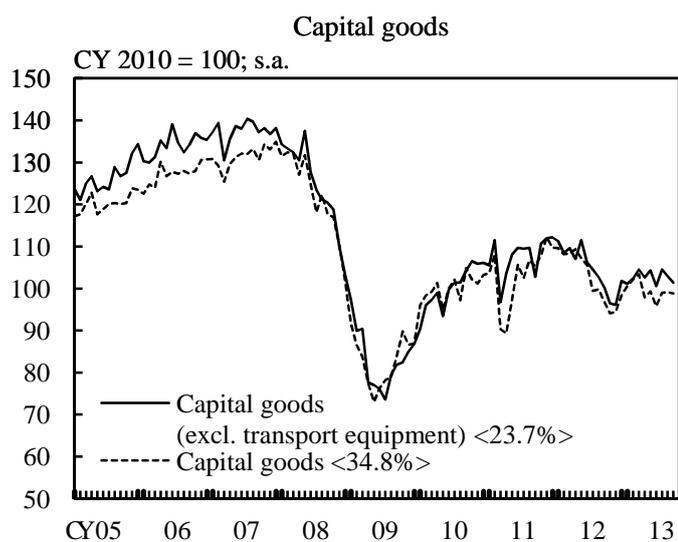
Shipments by Type of Goods

(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

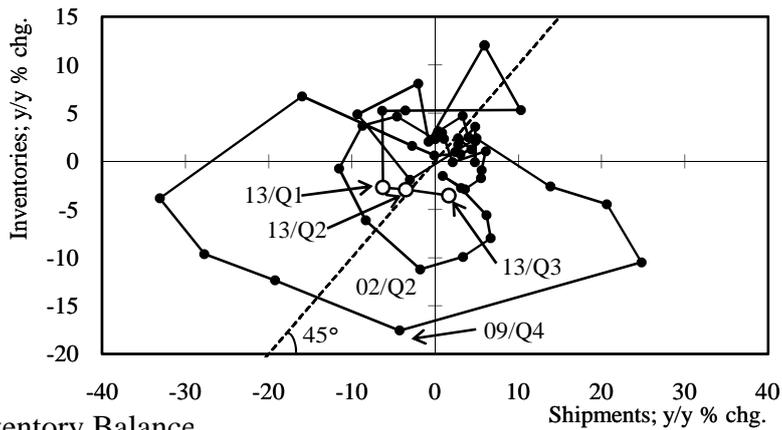


Note: Figures in angle brackets show the shares among shipments of final demand goods.

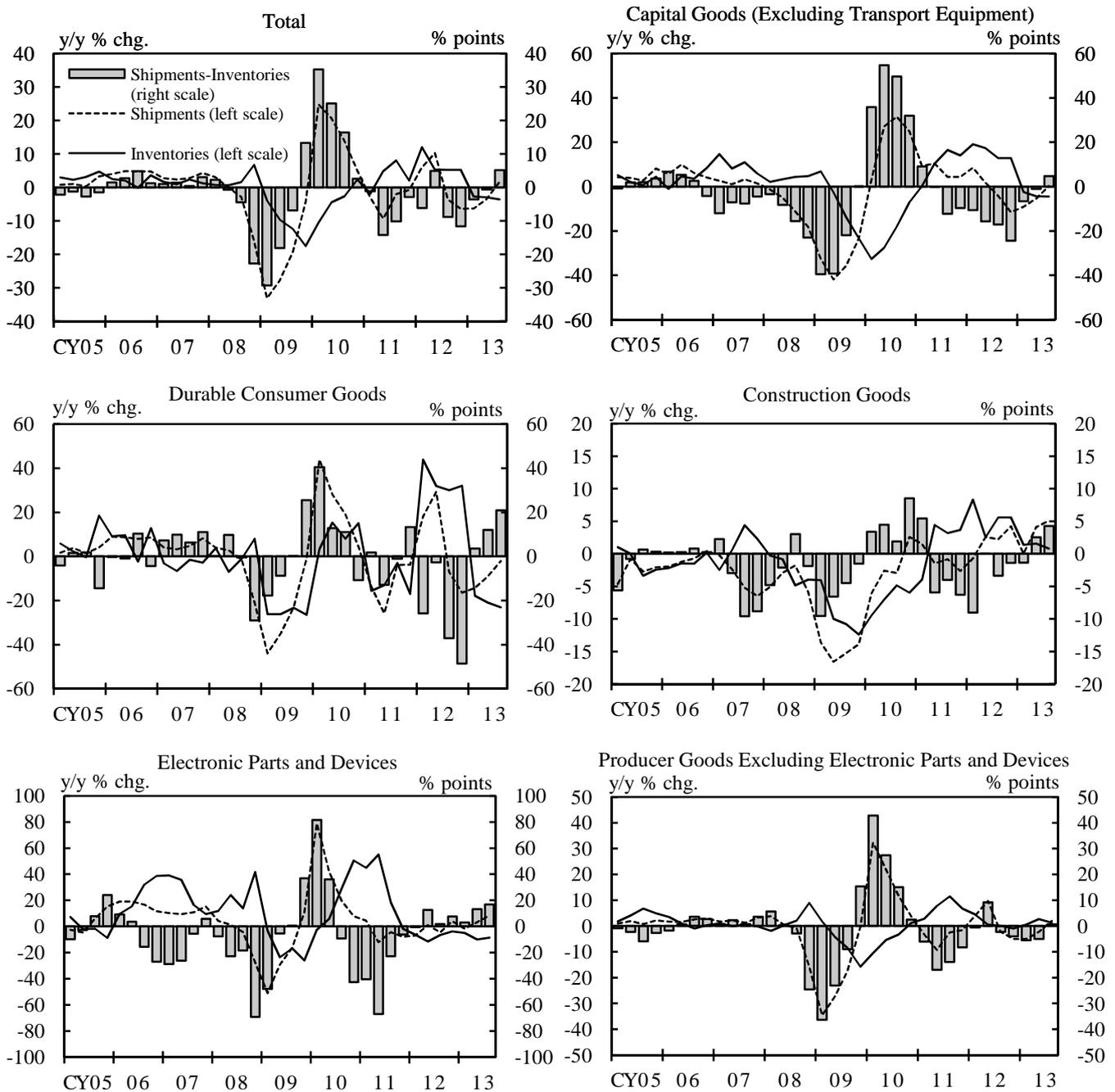
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



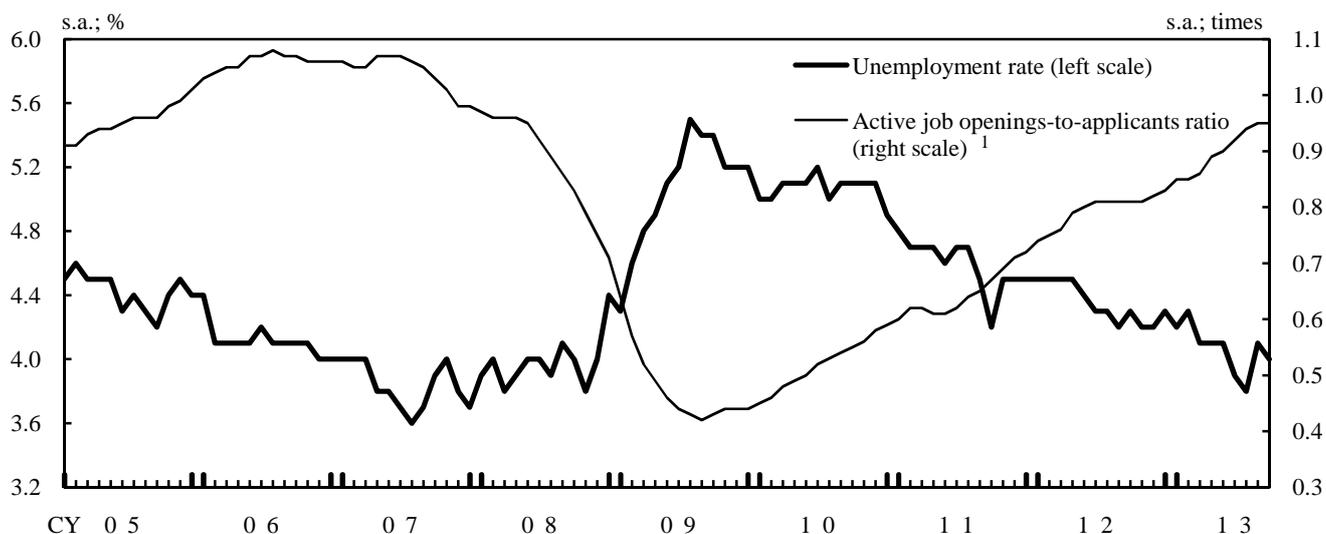
(2) Shipment-Inventory Balance



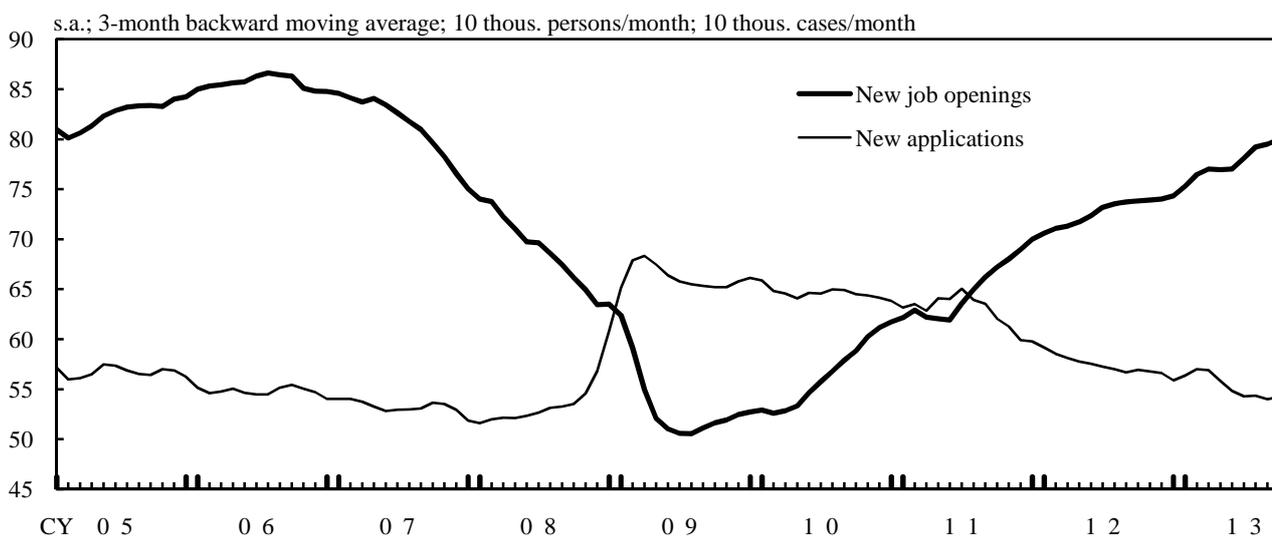
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

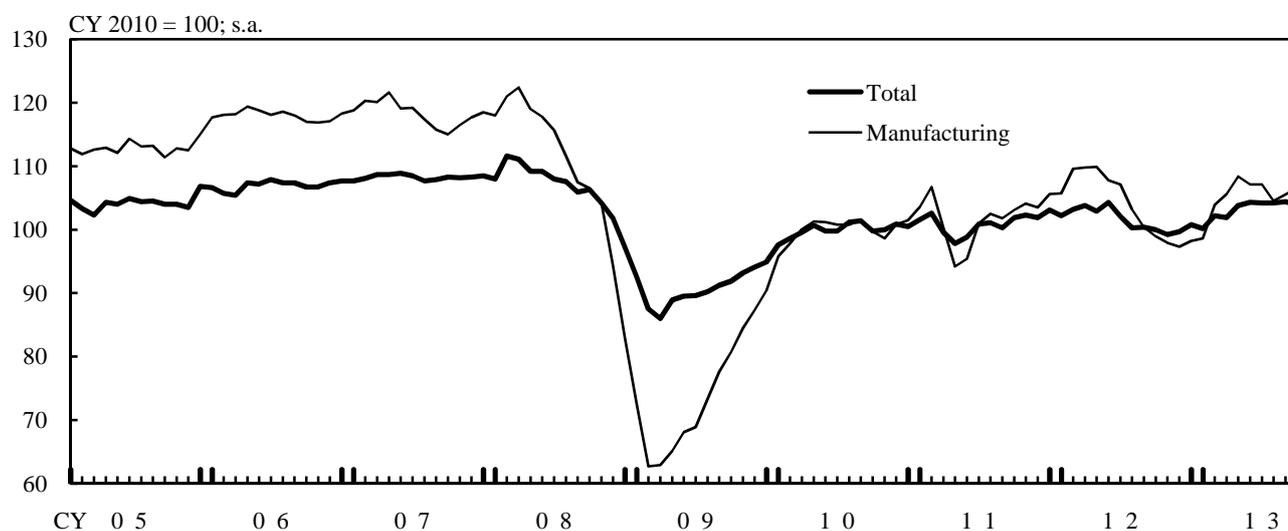
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²

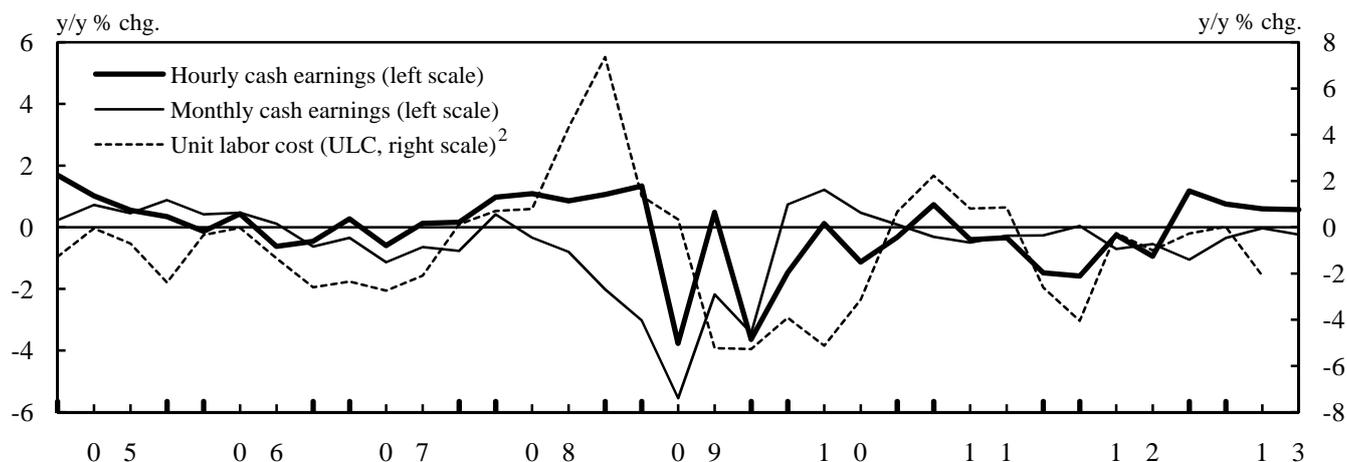
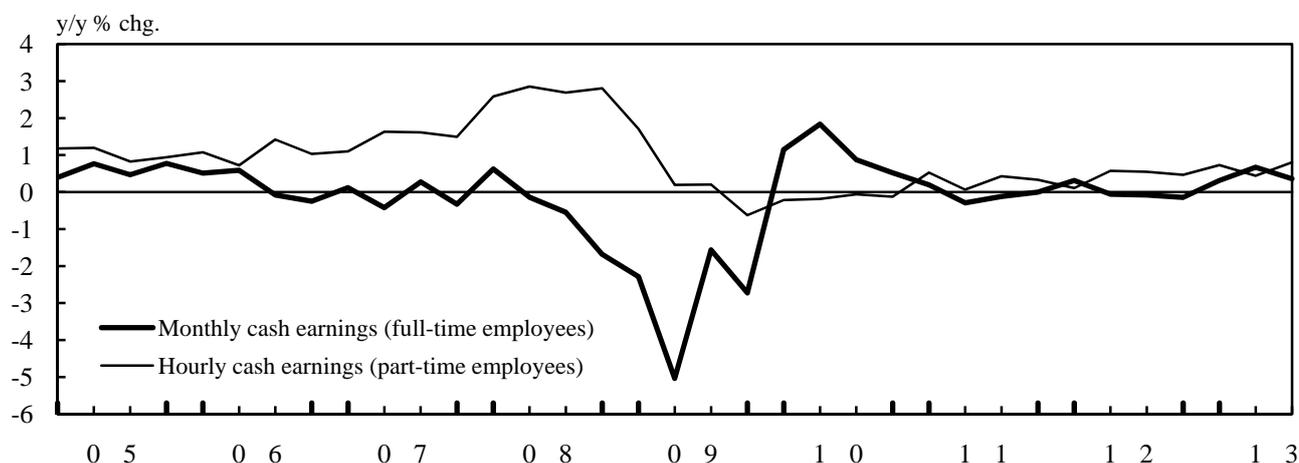
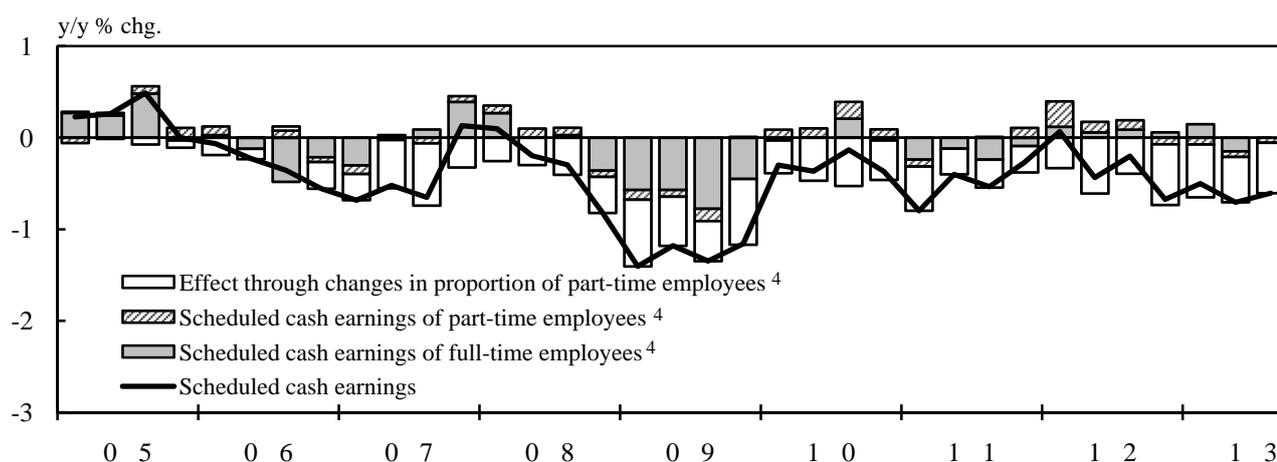


Notes: 1. Excluding new school graduates and including part-timers.

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."

Wages

(1) Total^{1,3}(2) Cash Earnings by Type of Worker^{1,3}(3) Breakdown of Scheduled Cash Earnings^{1,3}

Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.

2. ULC = nominal compensation of employees (SNA) / real GDP

3. Figures for 2013/Q3 are those of September (except ULC).

Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

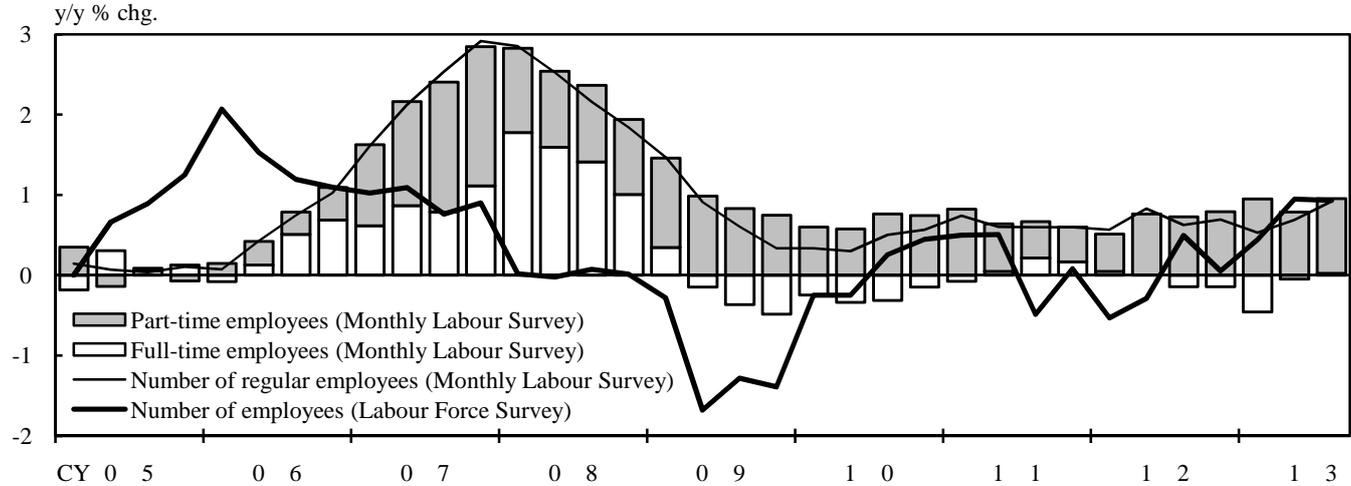
ULC : Q1 = April-June, Q2 = July-September, Q3 = October-December, Q4 = January-March.

4. Contributions from scheduled cash earnings of full-time employees and those of part-time employees are calculated as: "scheduled cash earnings of each type of employee (y/y chg.)" times "proportion of the corresponding type's scheduled cash earnings to the previous year's total." Contributions from the effect through changes in proportion of part-time employees are the residuals.

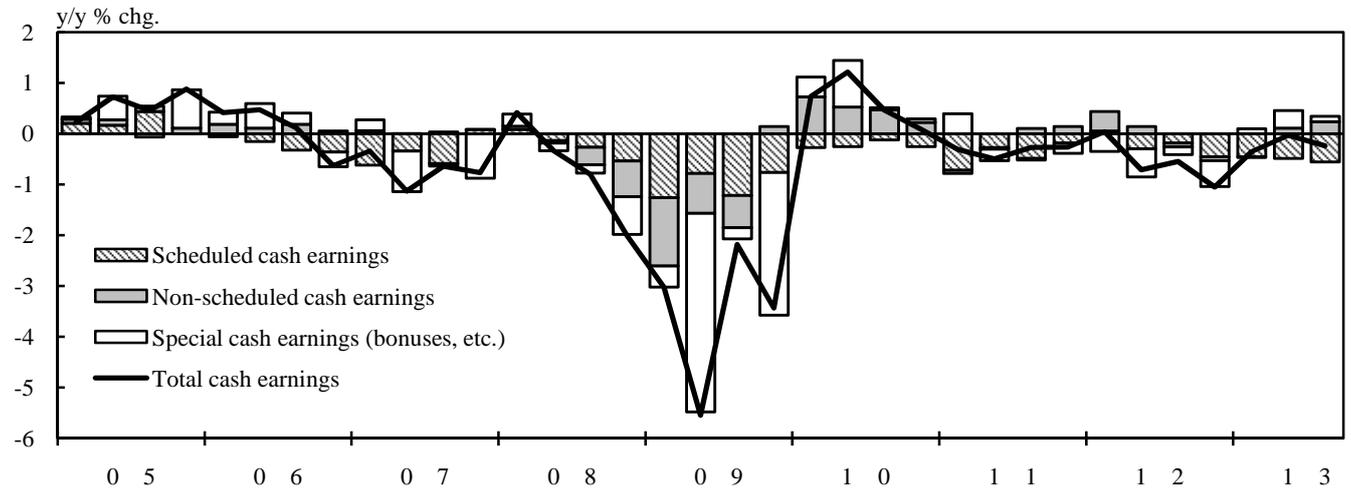
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

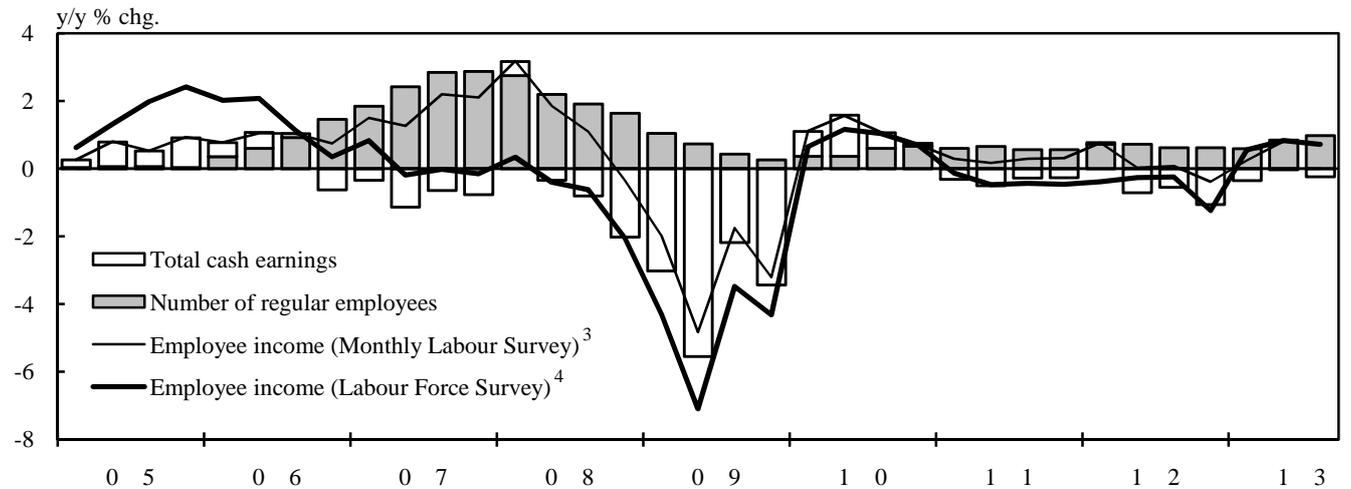
(1) Number of Employees¹



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



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

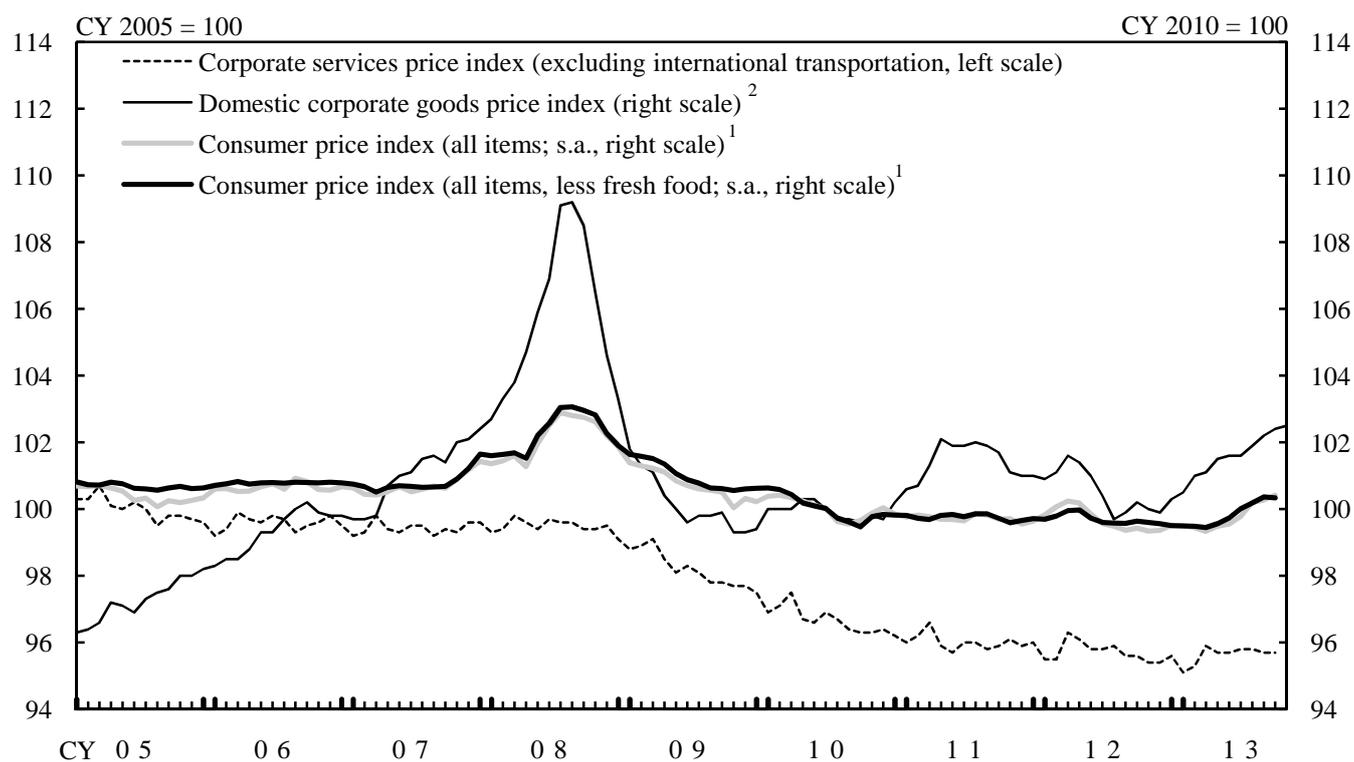


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2013/Q3 are those of September.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey)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

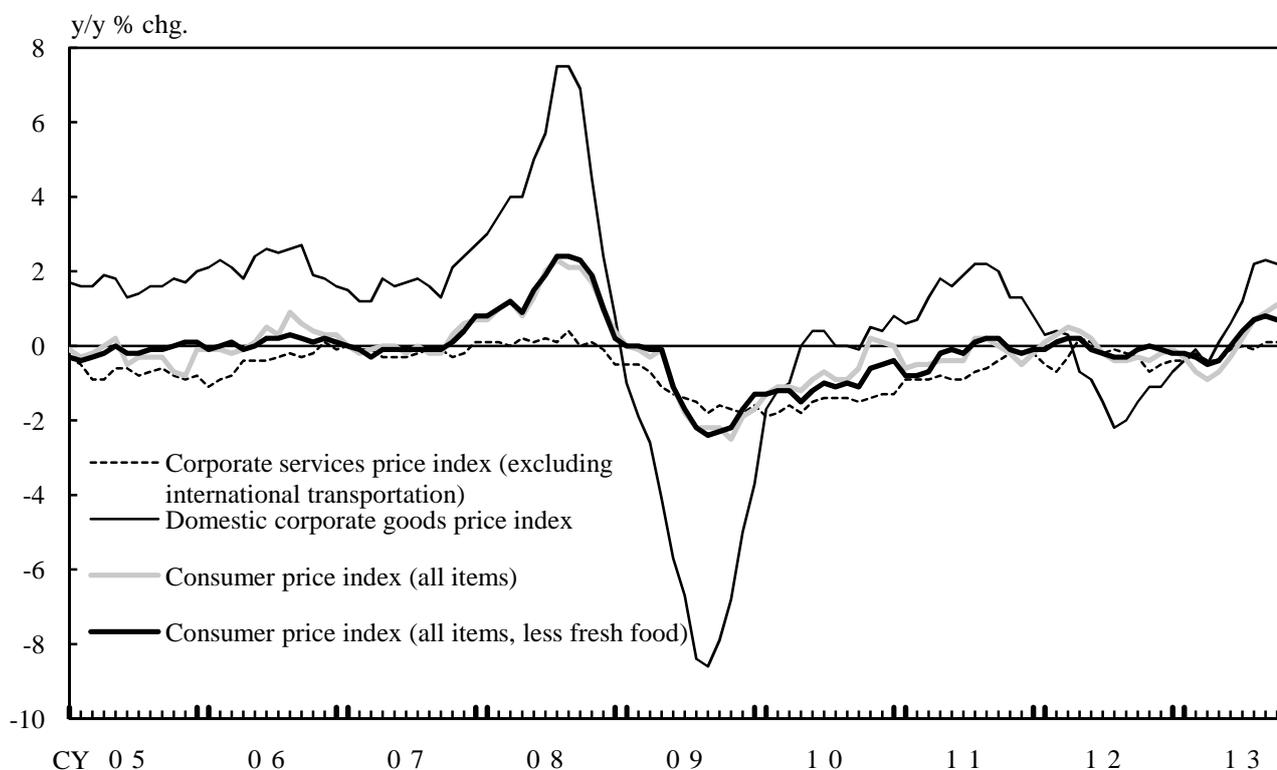
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

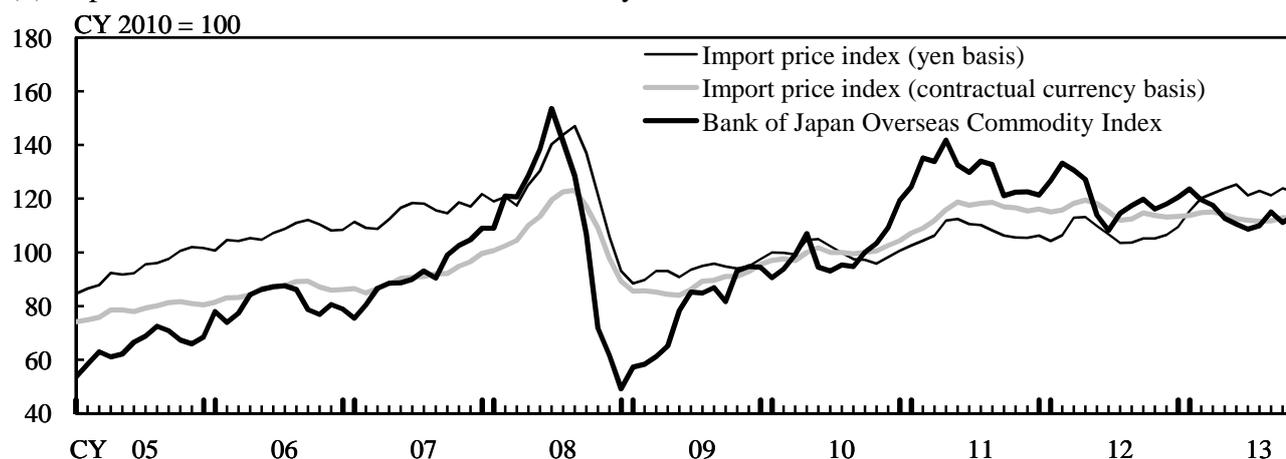
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

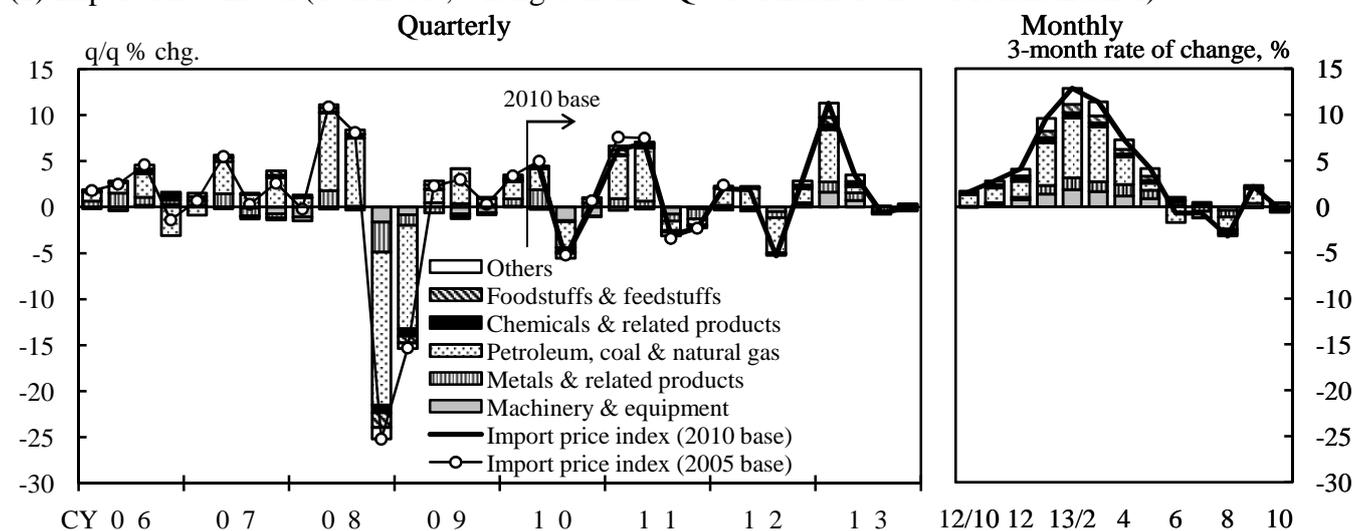
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

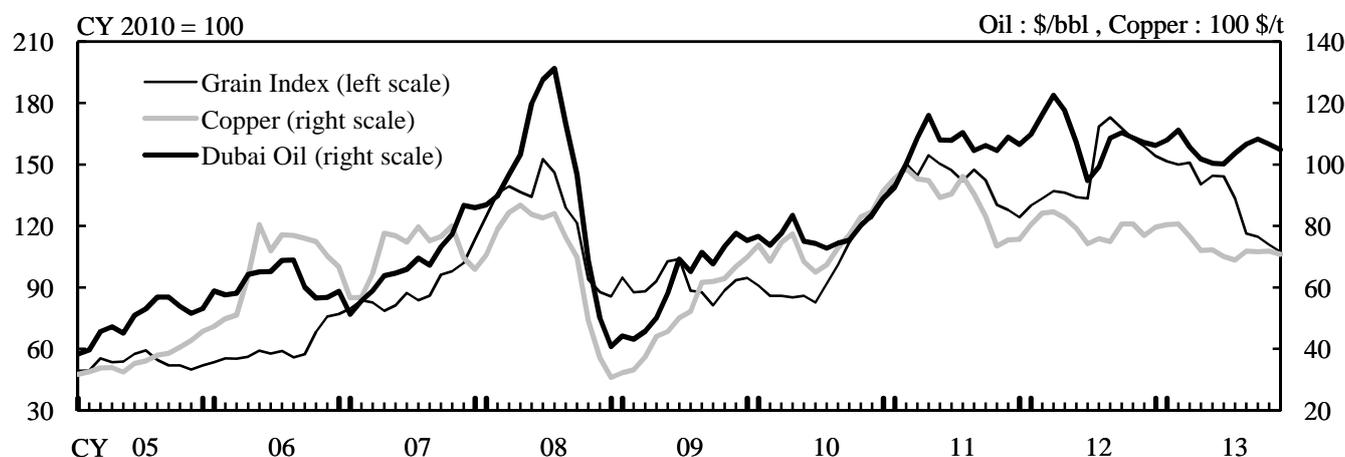


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
 2. Figures for 2013/Q4 are those of October.

(3) International Commodity Prices

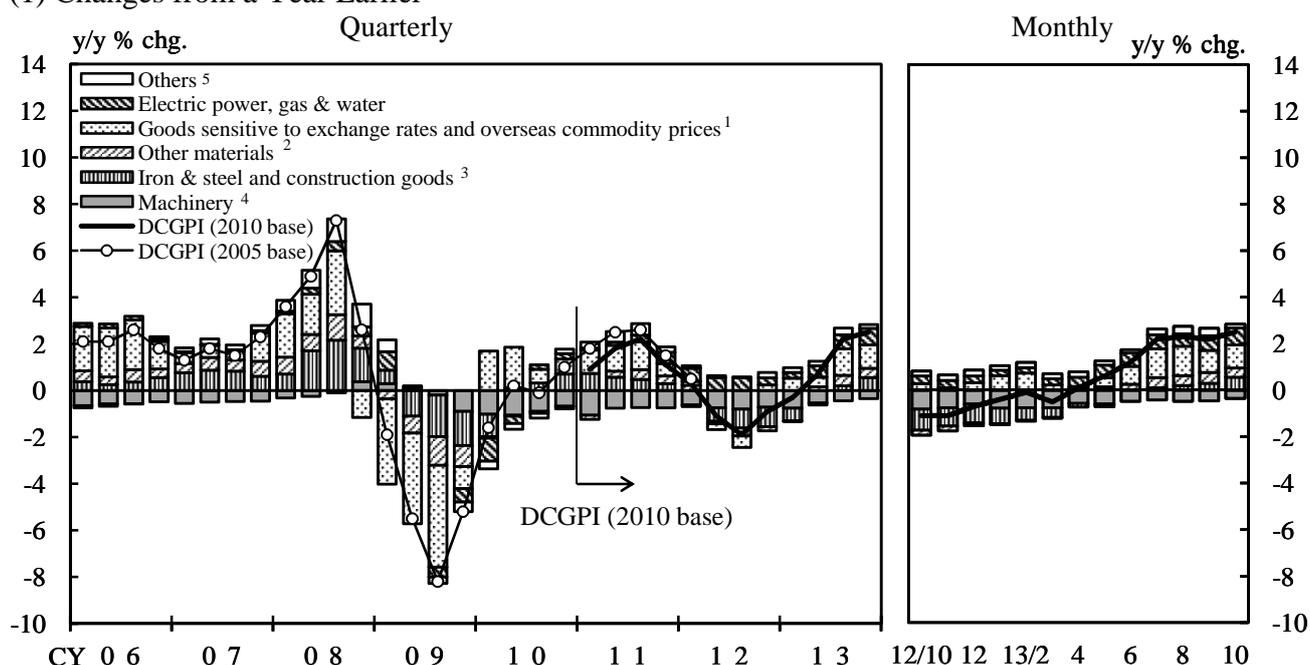


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
 2. Monthly averages. Figures for November 2013 are averages up to November 20.

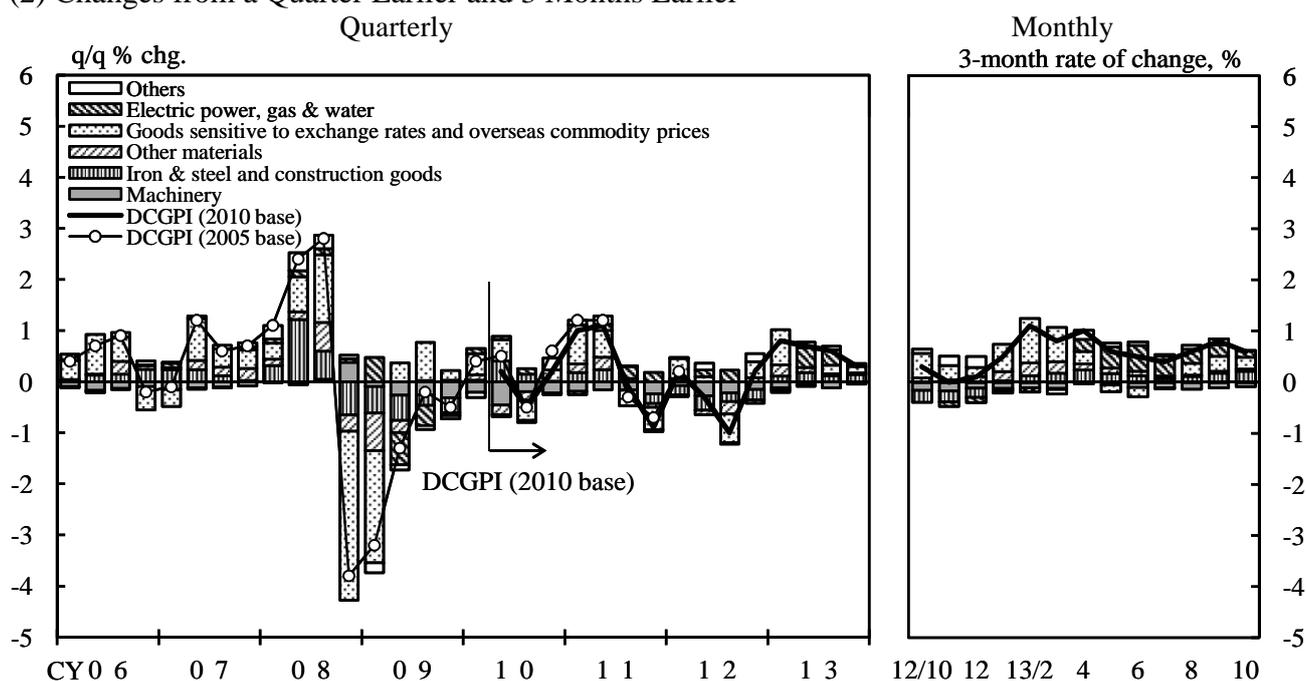
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

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.

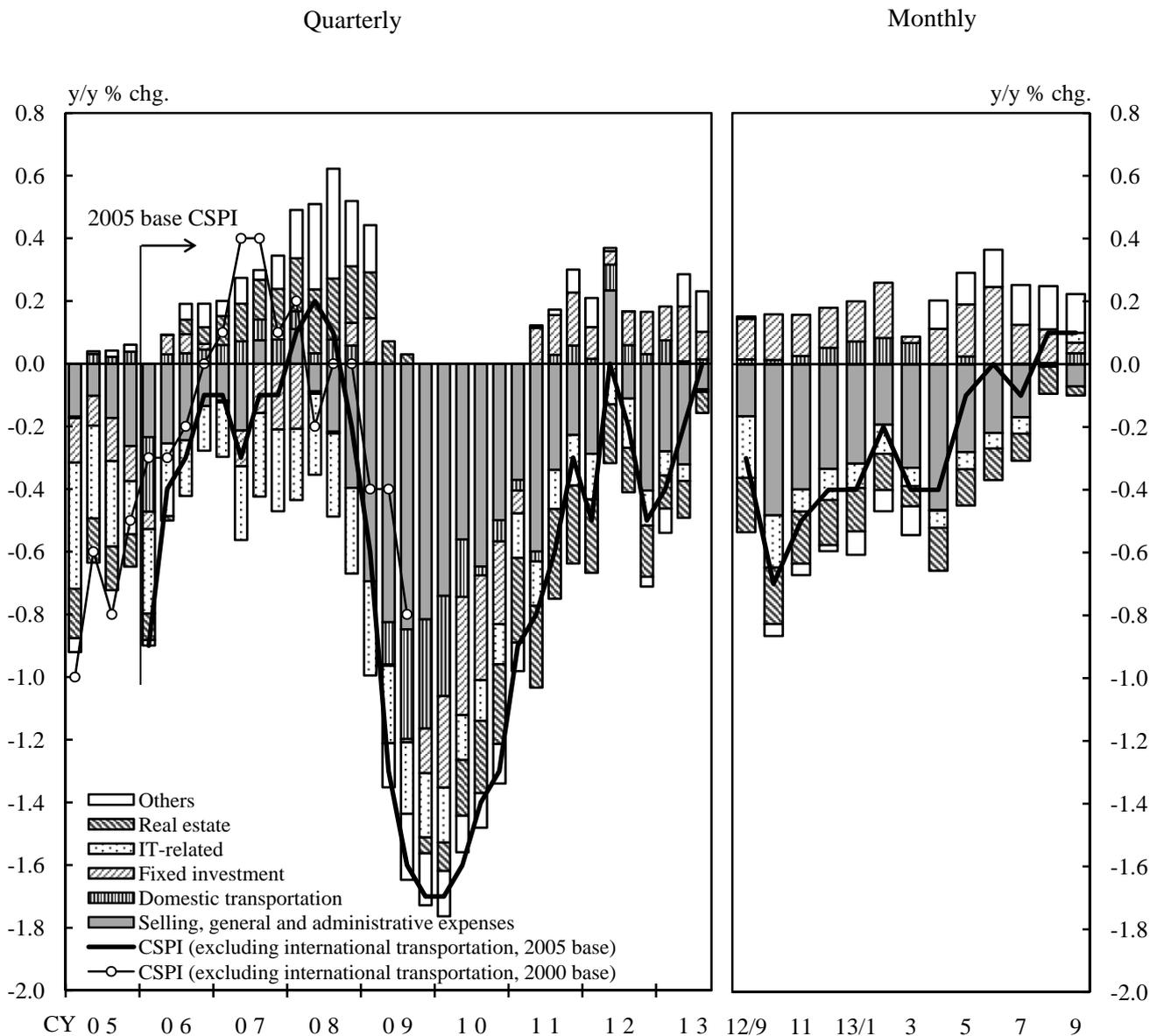
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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/Q4 are those of October.

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

Corporate Services Price Index

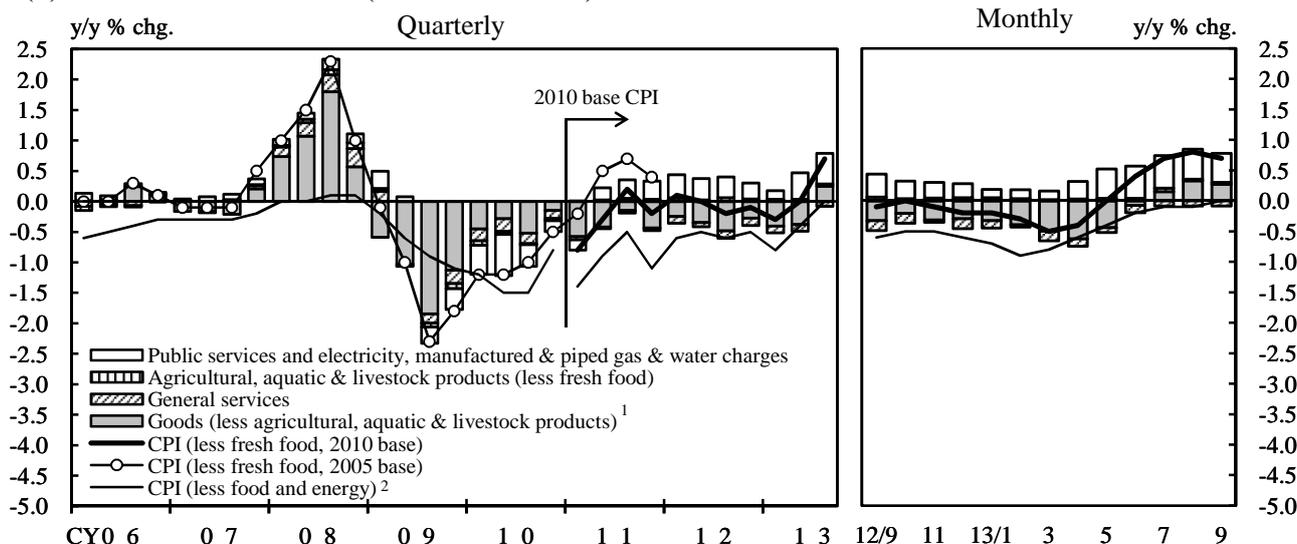


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding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

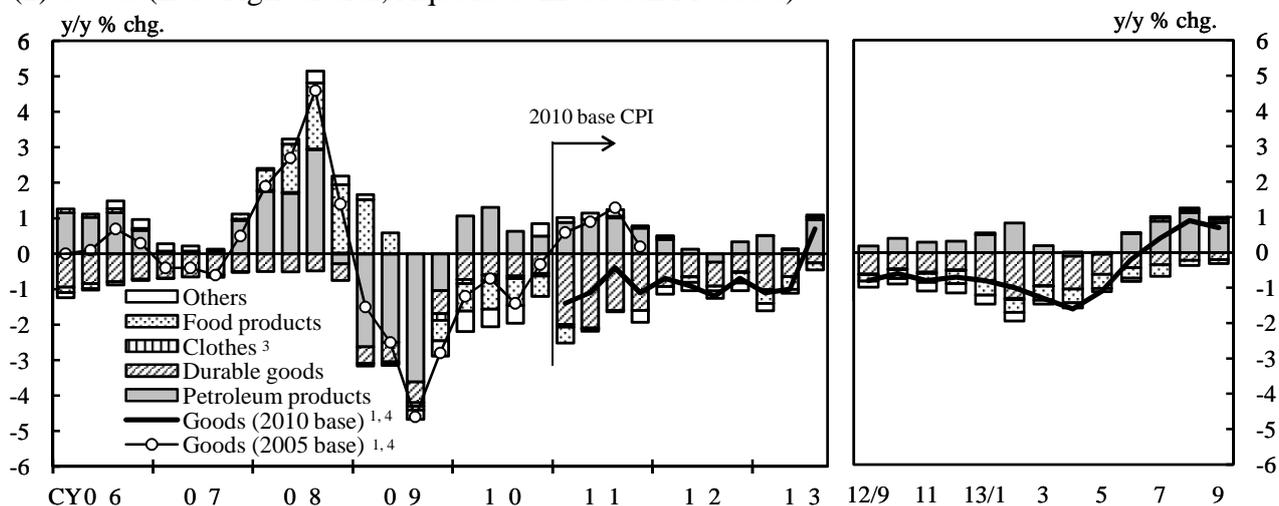
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

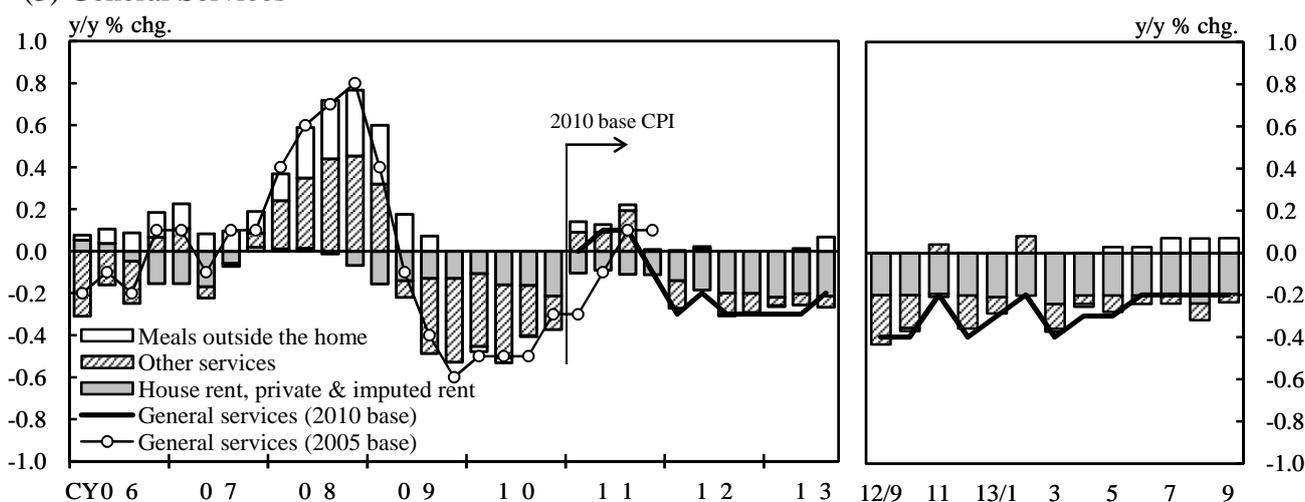
(1) Consumer Price Index (Less Fresh Food)



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



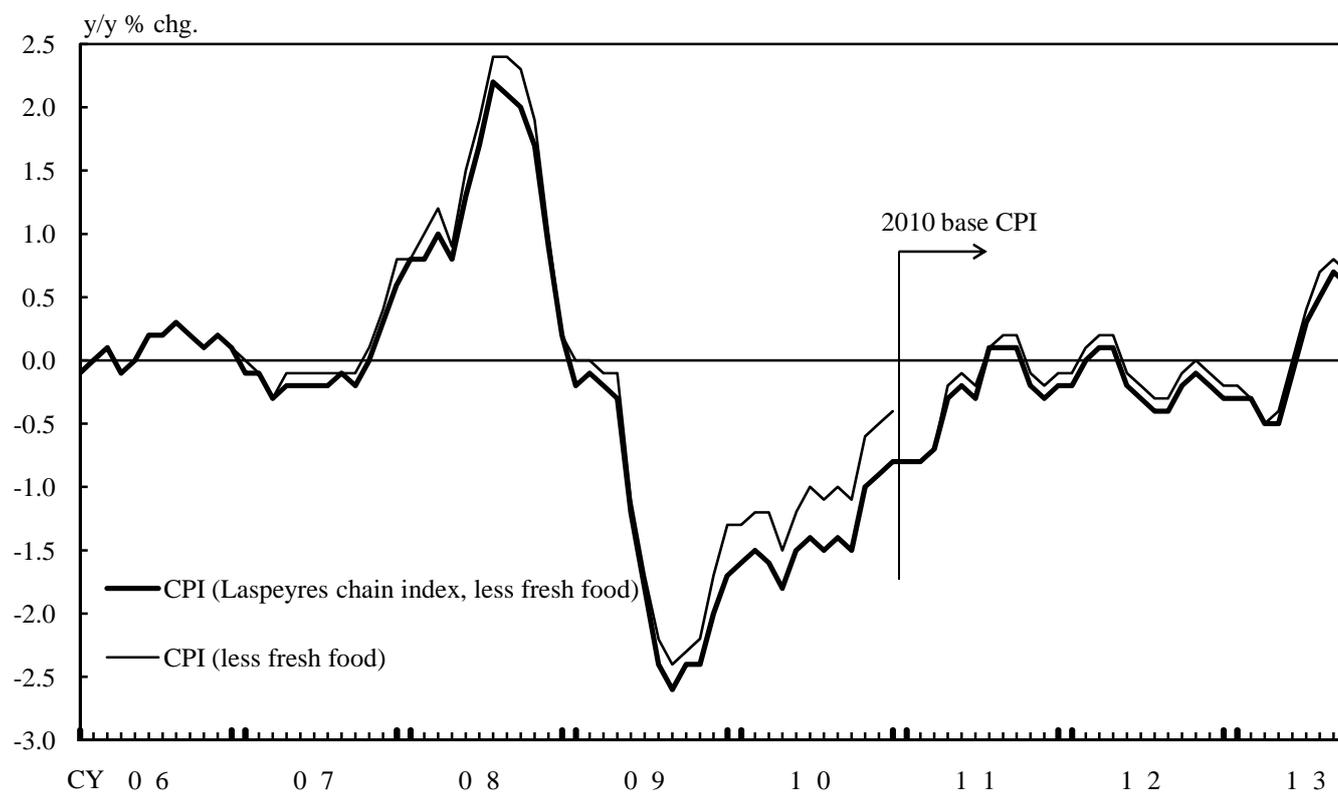
(3) General Services



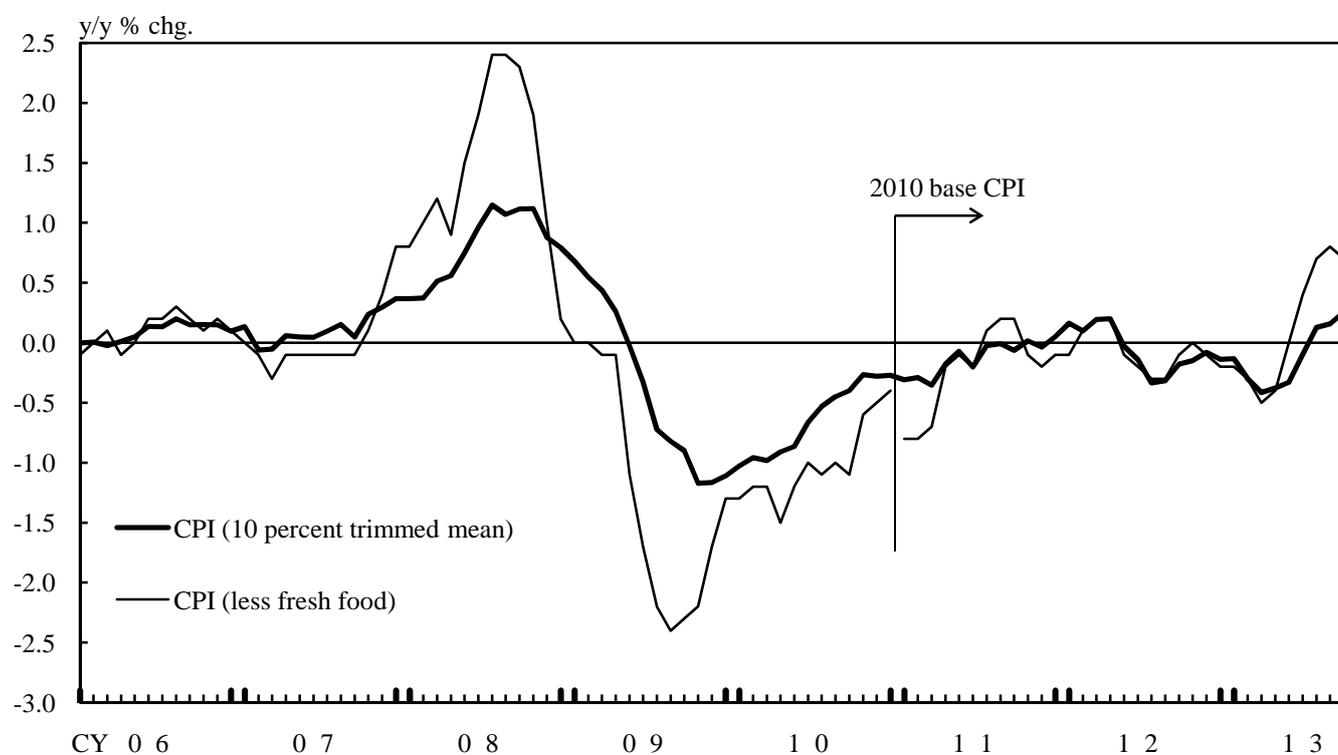
- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped,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



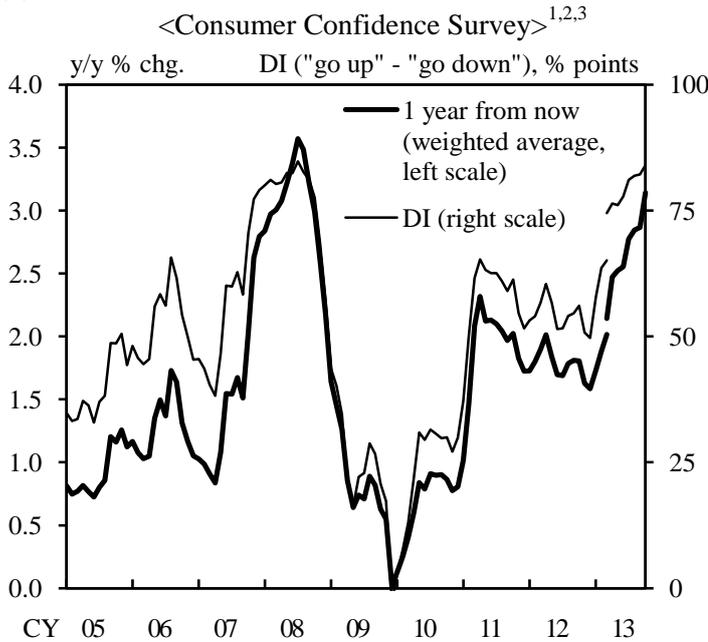
Notes:1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

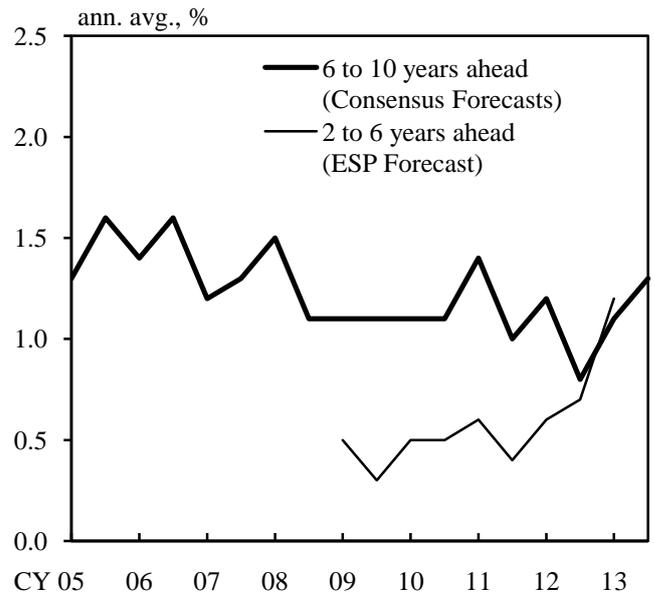
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Inflation Expectations

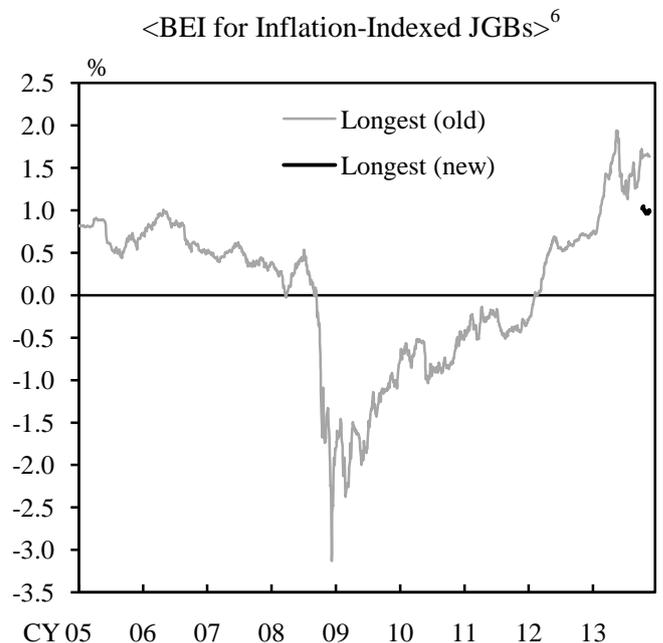
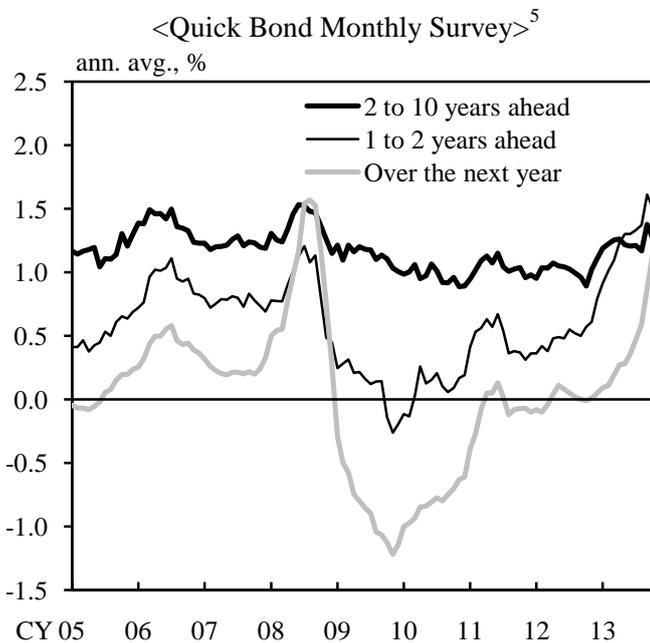
(1) Households



(2) Economists⁴



(3) Market Participants

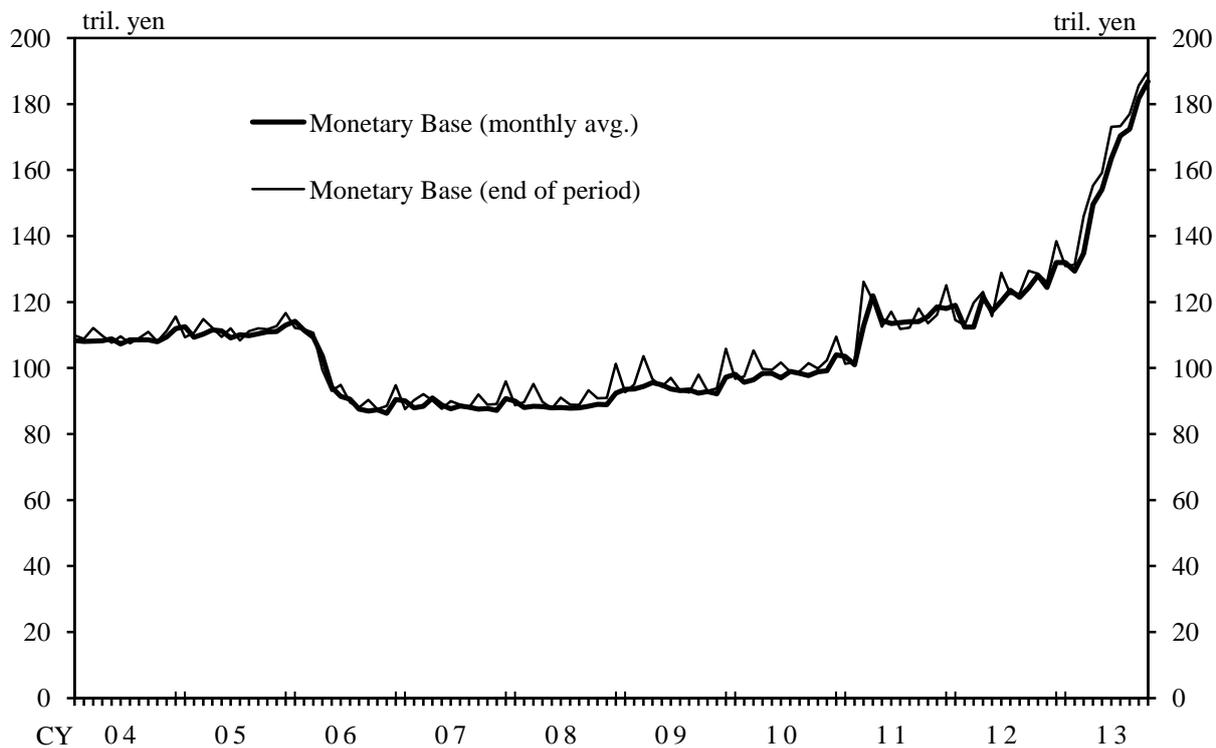


- Notes: 1. Figures are for all households.
 2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or 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. Figures for the ESP Forecast exclude the effects of the scheduled consumption tax hikes.
 5. From the September 2013 survey, the Quick Bond Monthly Survey has asked respondents to include the effects of the scheduled consumption tax hikes.
 6. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest of them are designated as "old." Figures for "longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period, which currently correspond to those maturing in June 2018 for "old" and September 2023 for "new."

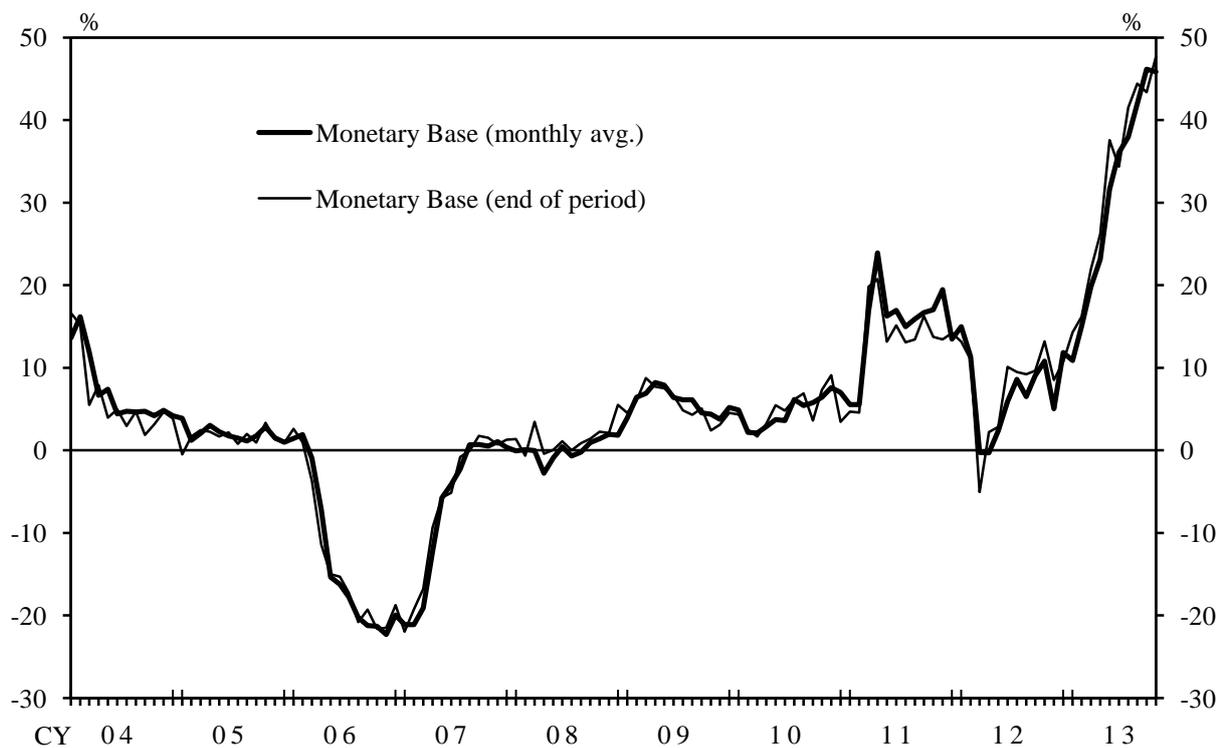
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

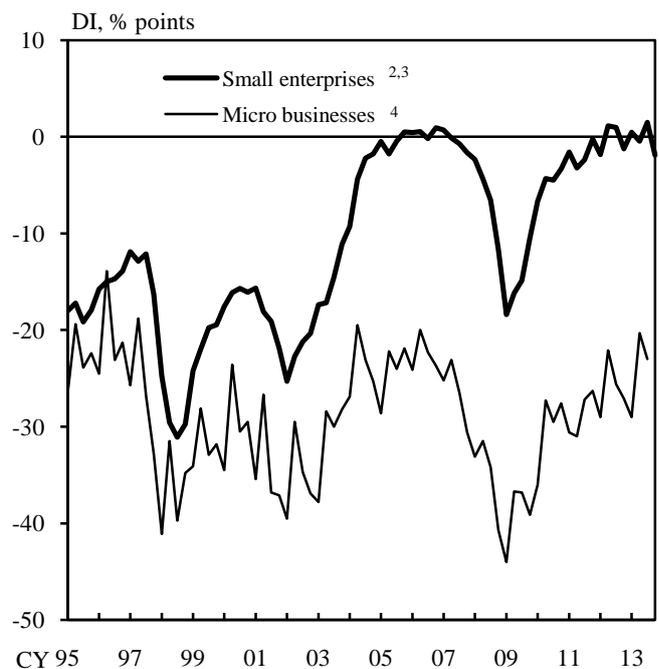
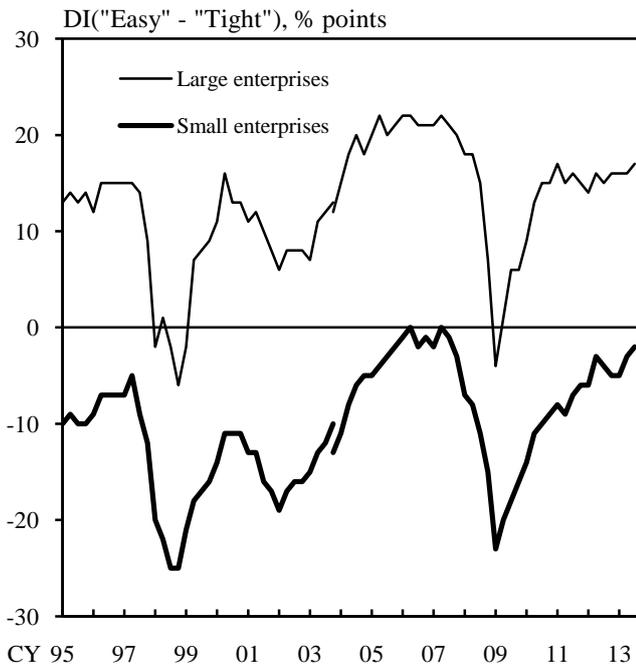


Corporate Finance-Related Indicators

(1) Financial Position

<Tankan¹>

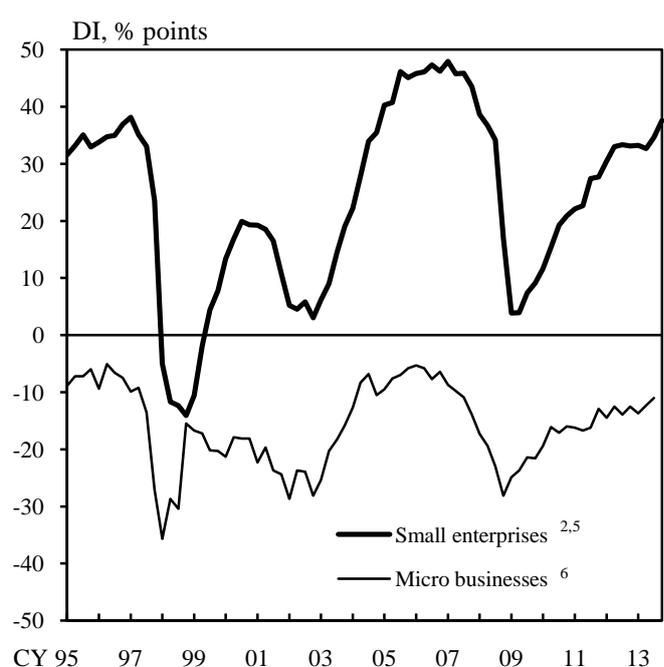
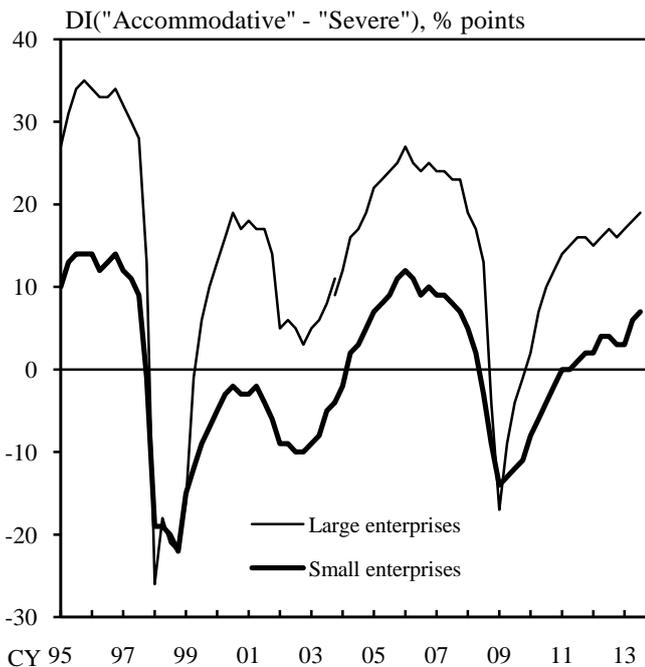
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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 the new basis.

2. Figures are quarterly averages of monthly data. Figures for 2013/Q4 are those of October.

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

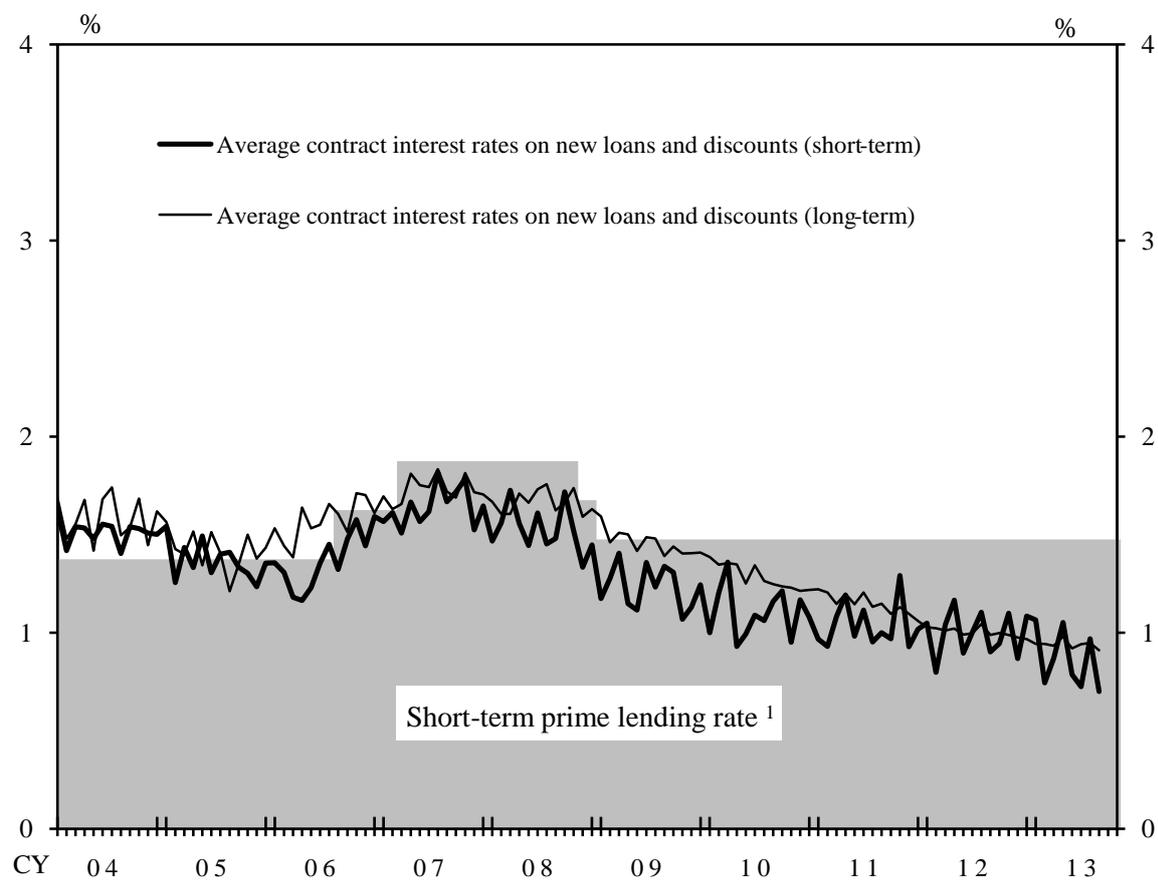
4. DI of "Easier" - "Tighter."

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

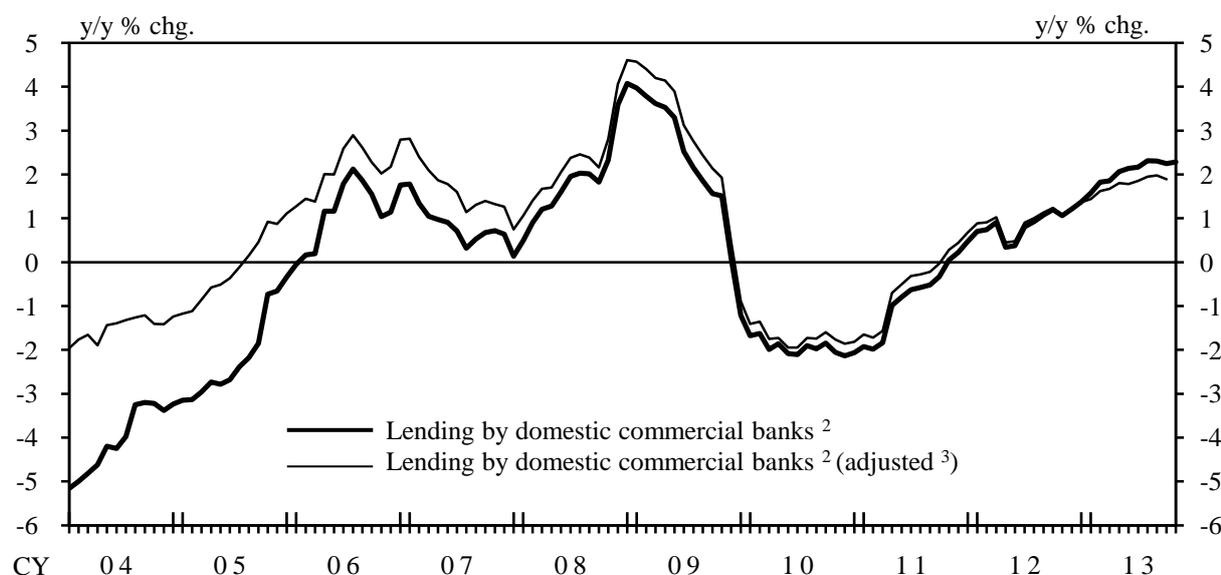


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



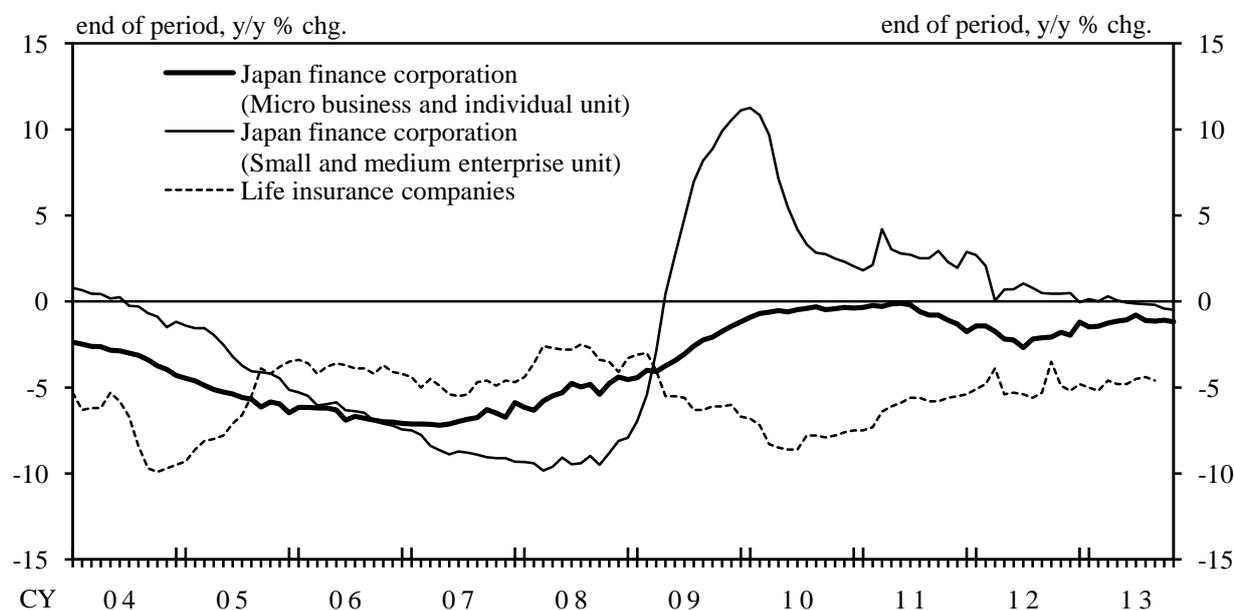
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to major banks, regional banks I, 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.

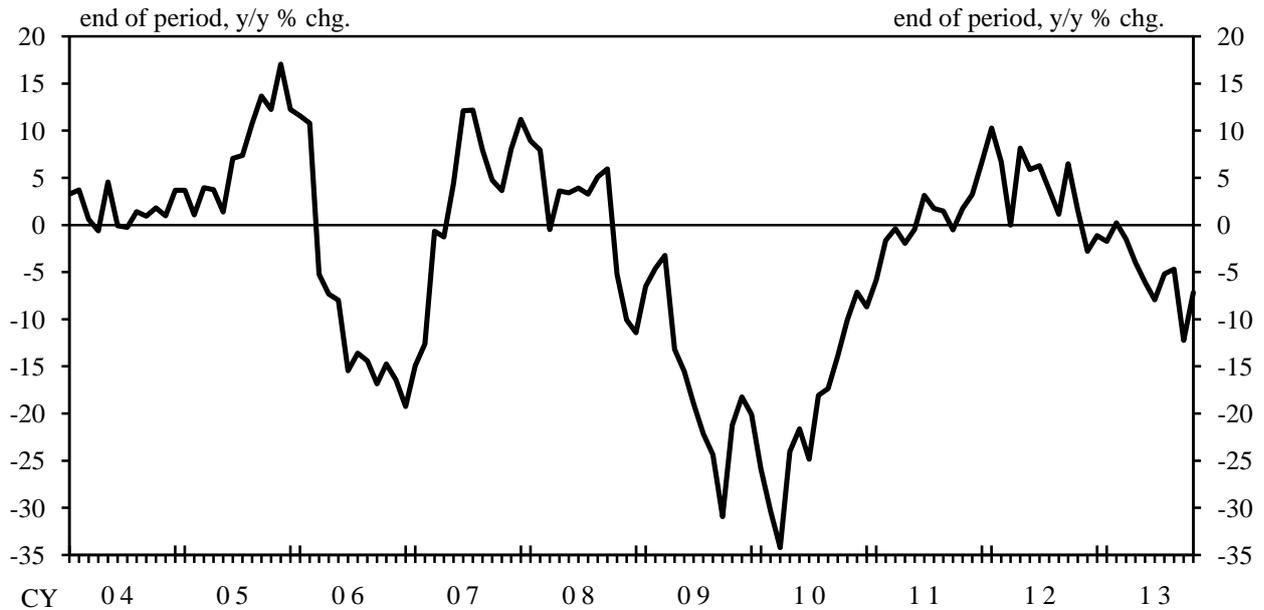
(2) Lending by Other Financial Institutions



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

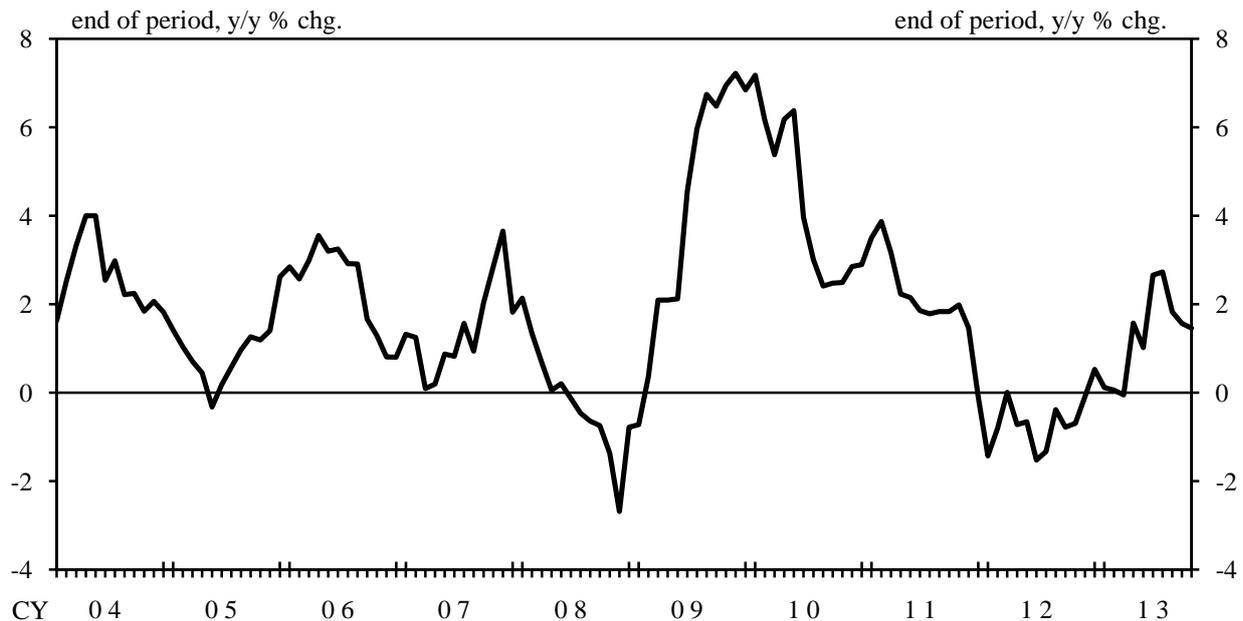
 Private-Sector Fund-Raising in the Capital Markets

(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



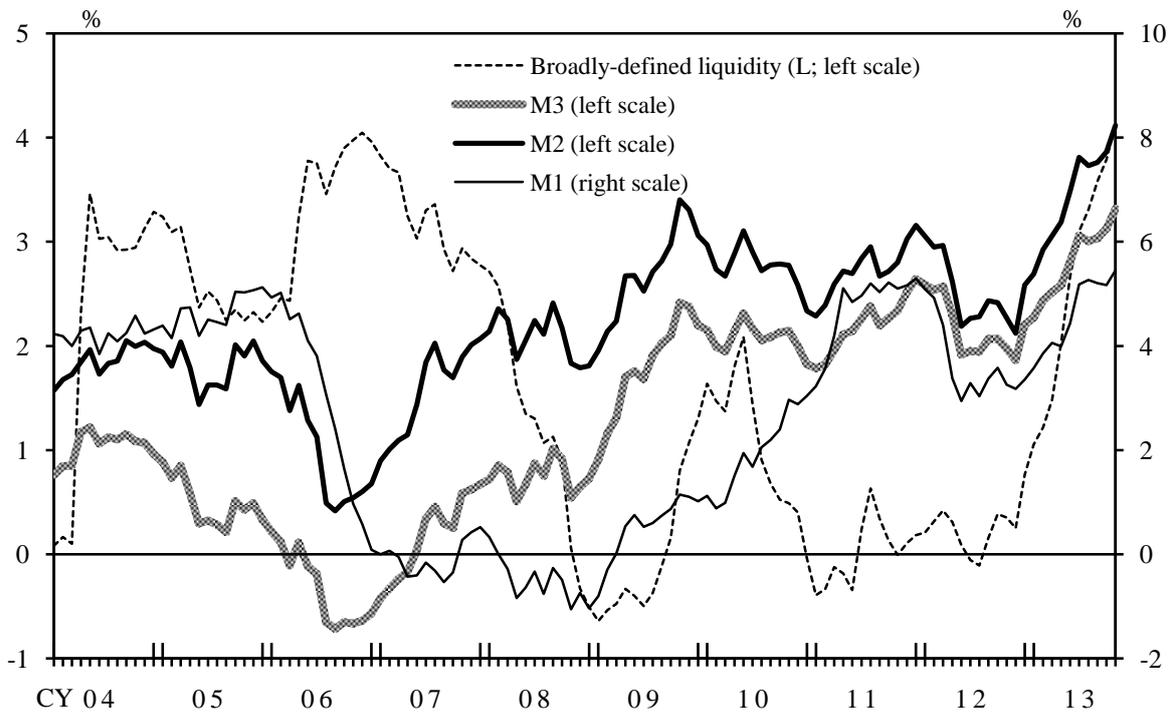
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

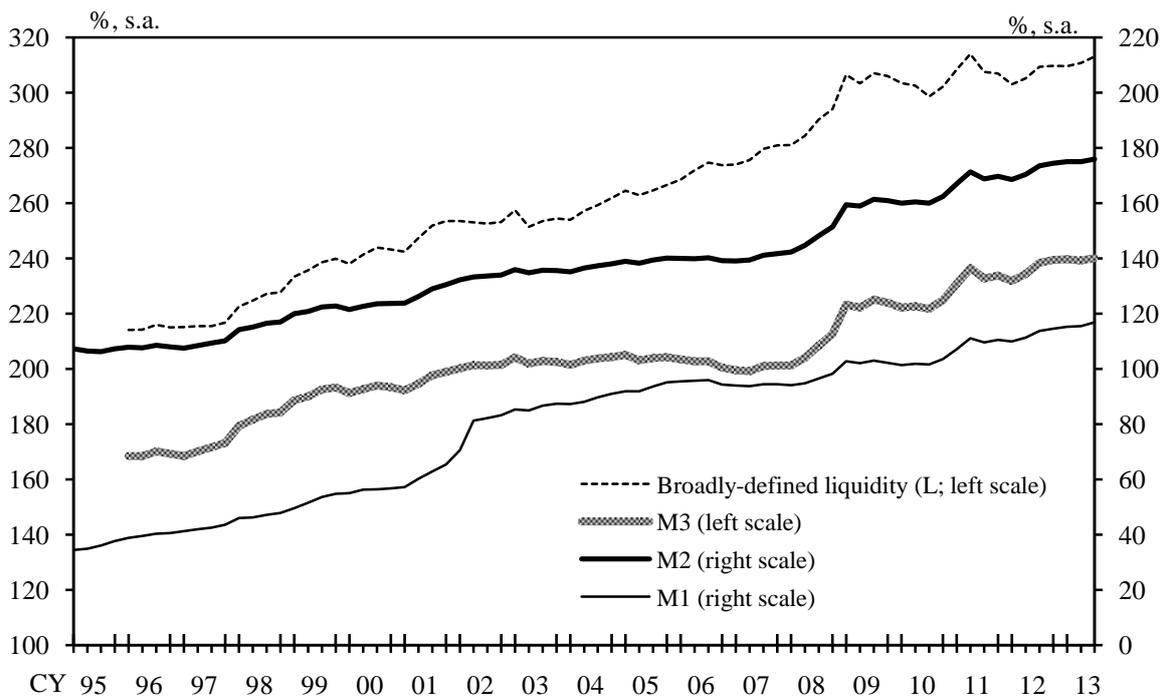
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



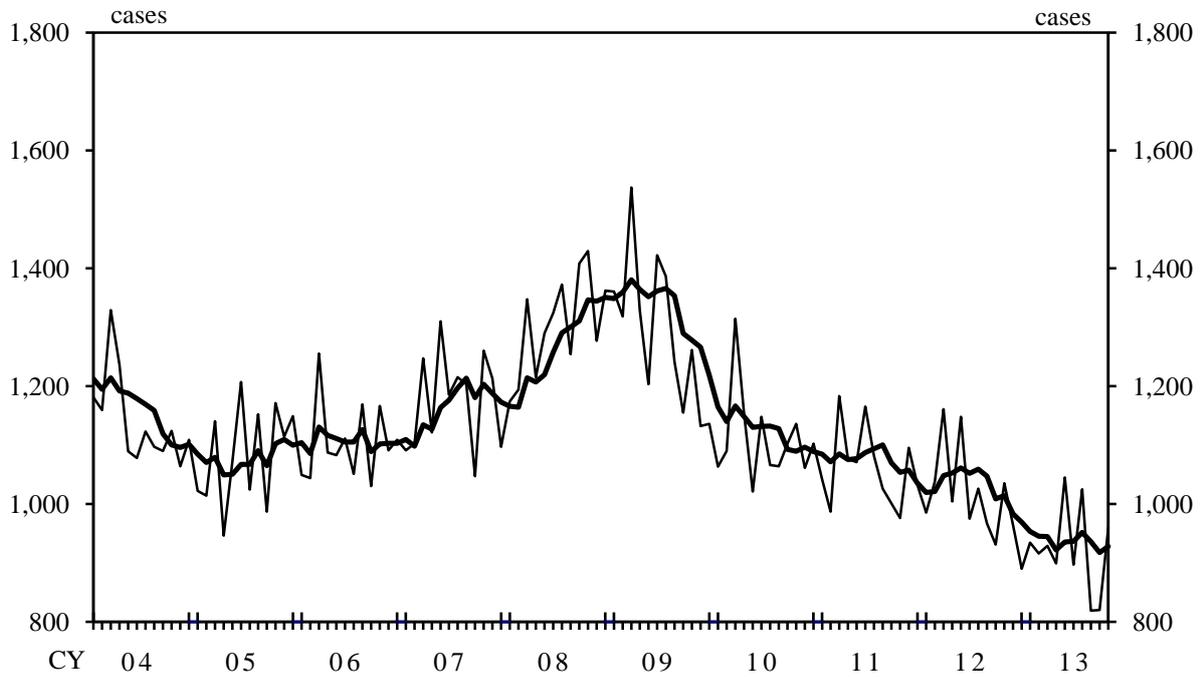
(2) Ratio of Money Stock to Nominal GDP



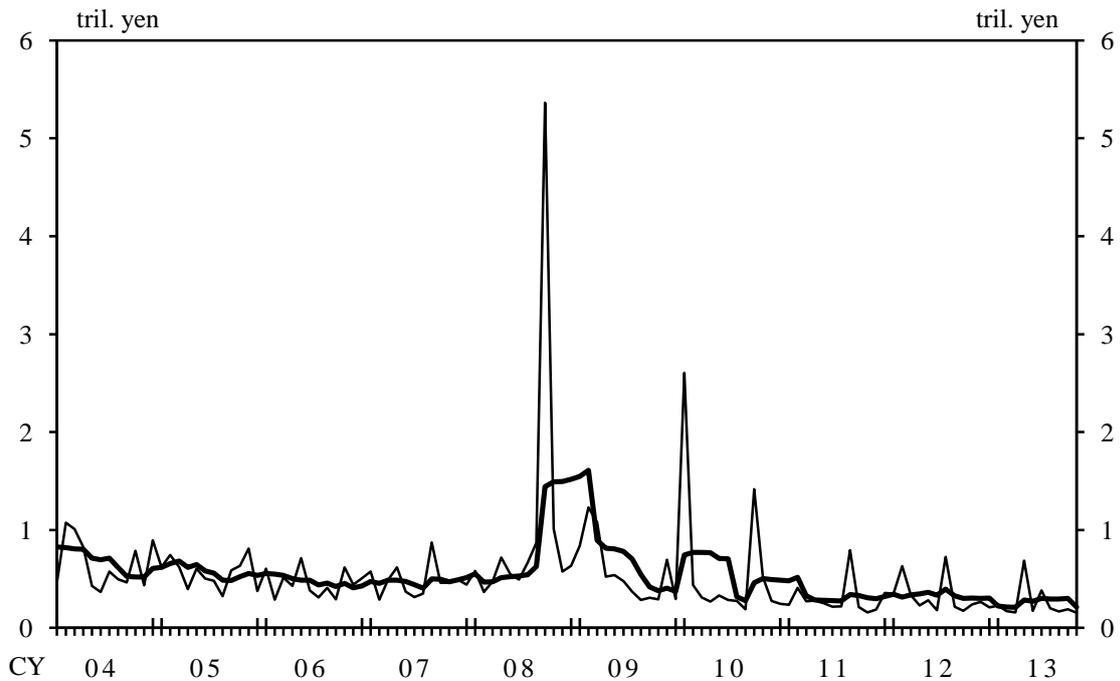
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures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

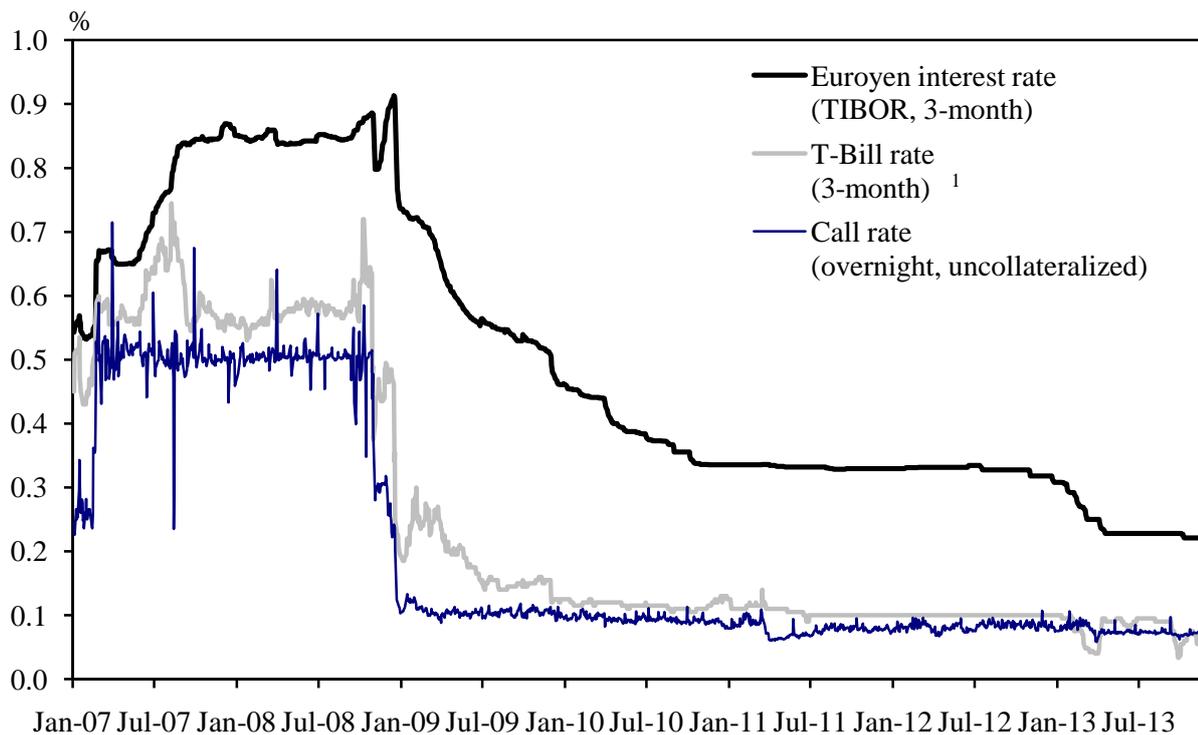


Note: Bold lines are the six-month moving average.

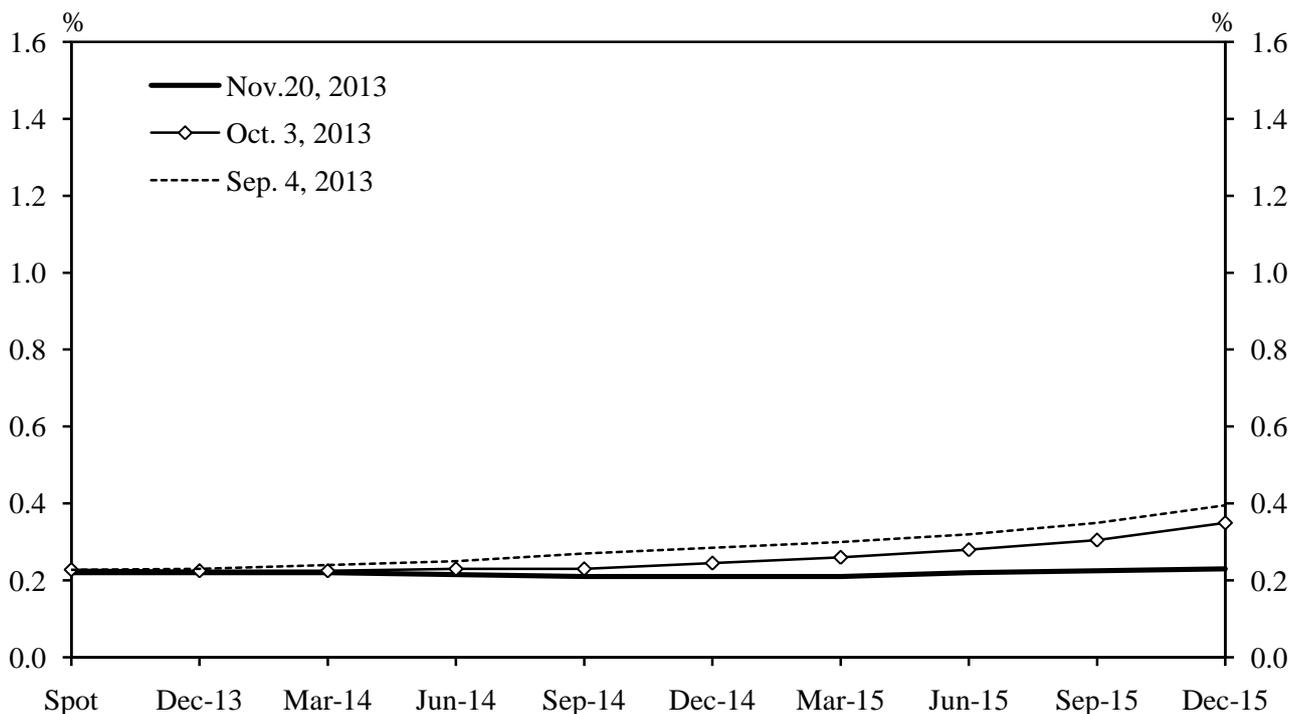
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



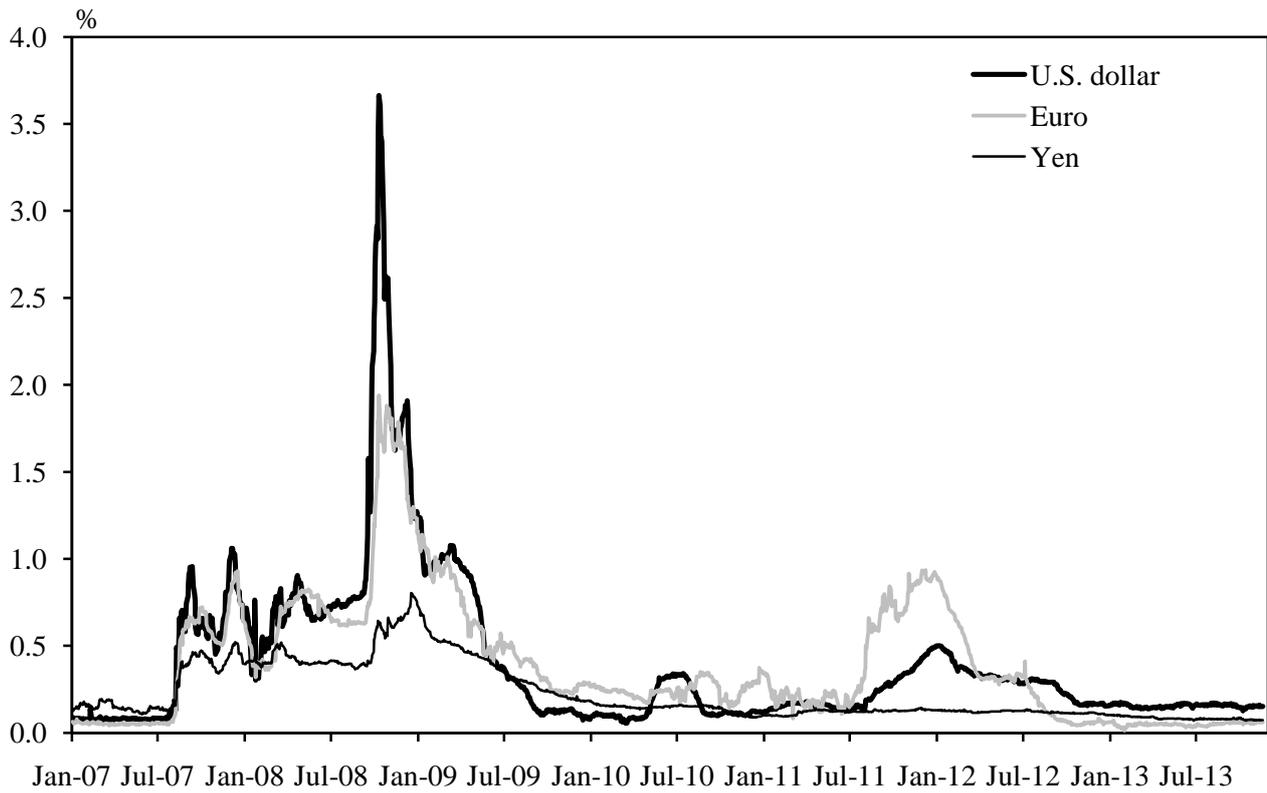
(2) Euroyen Interest Rate Futures (3-Month)



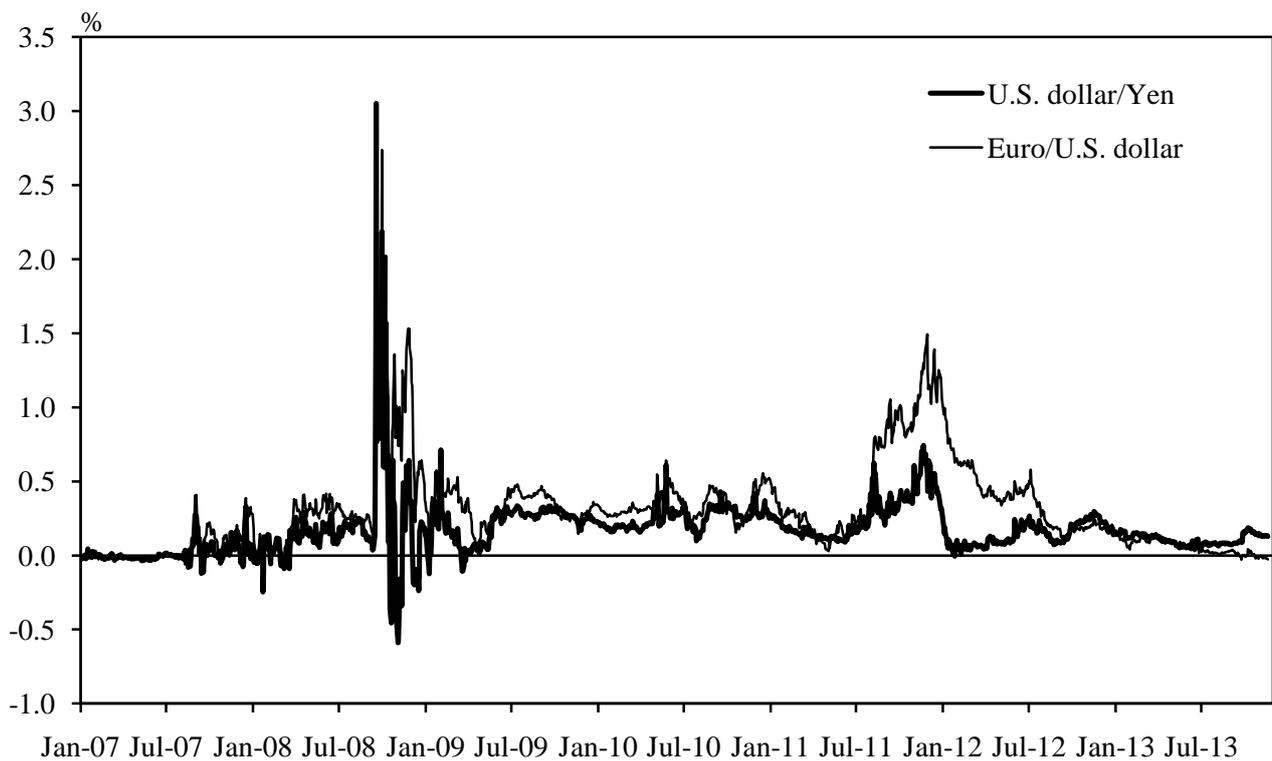
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



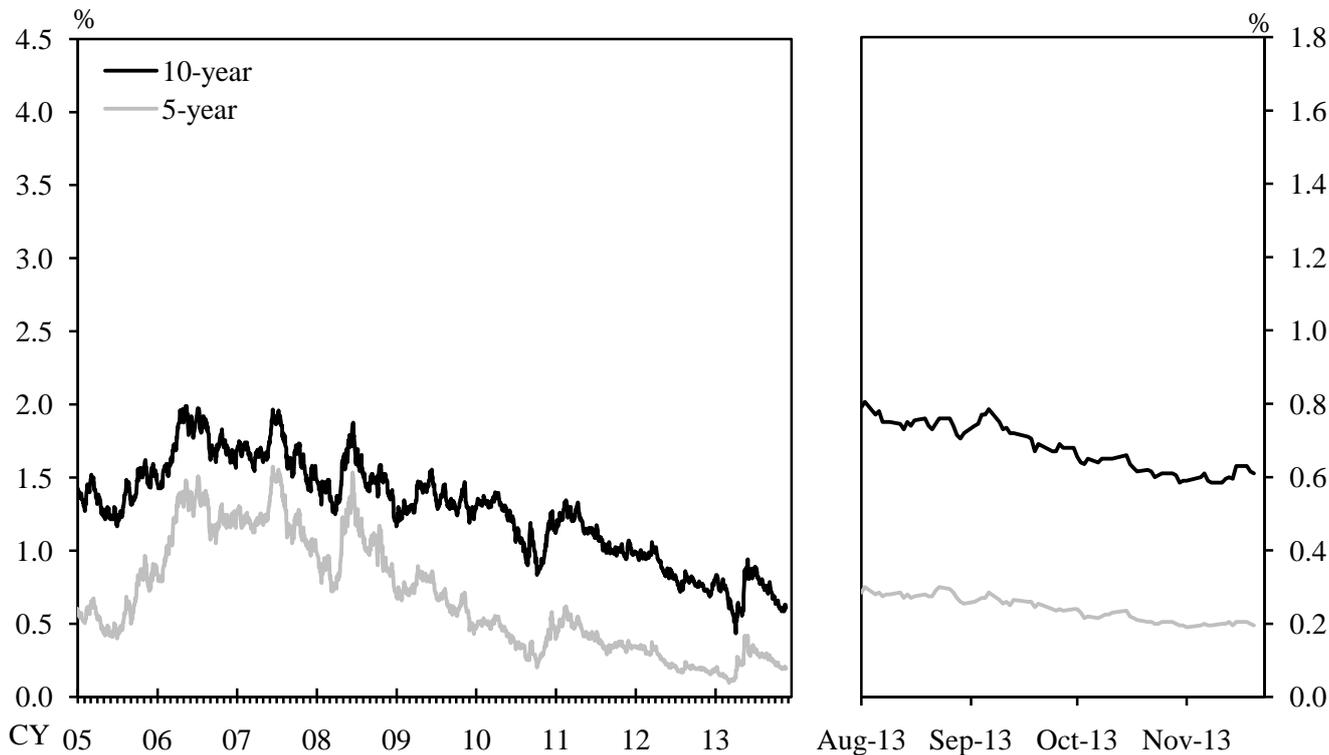
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



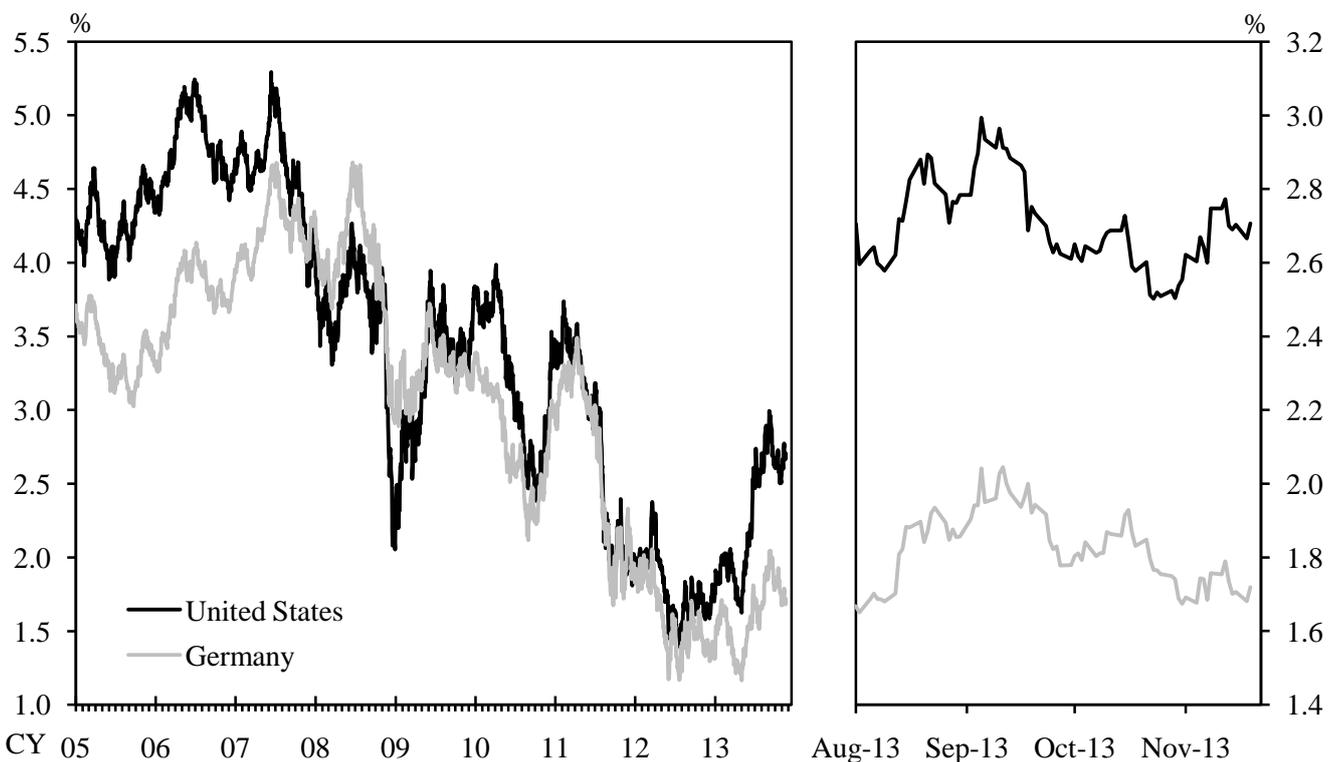
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



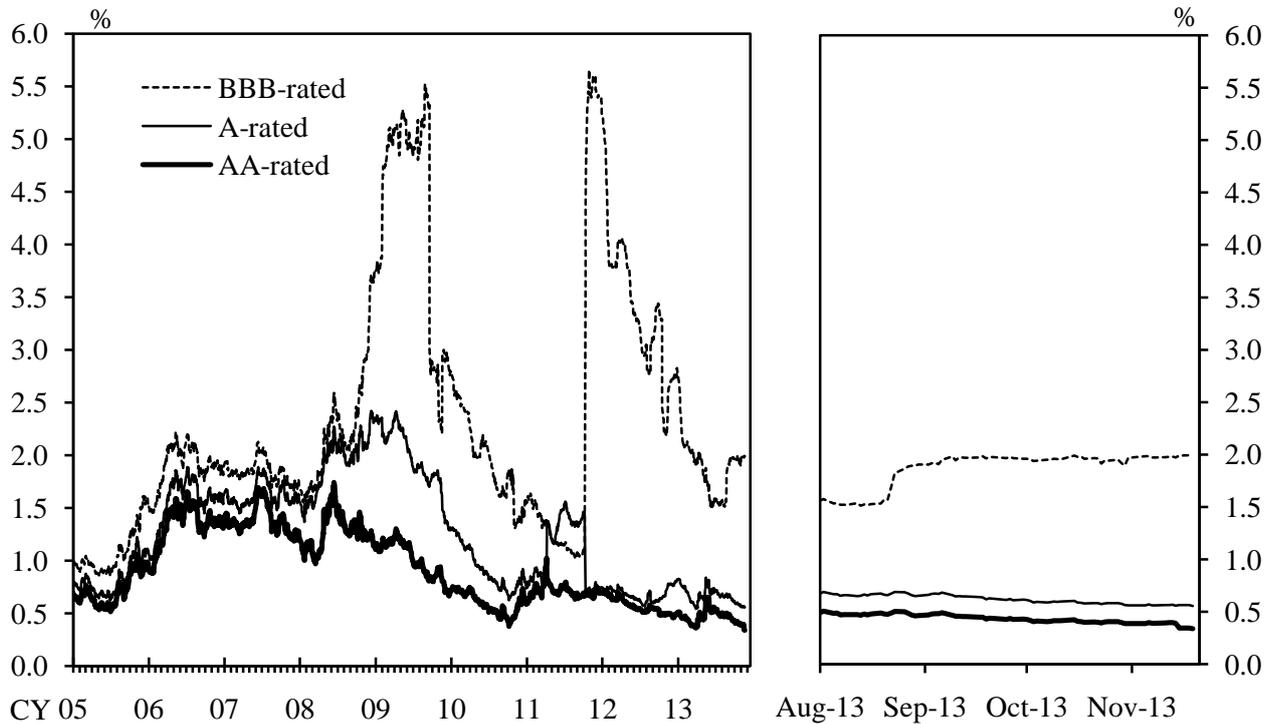
(2) Overseas Government Bond Yields (10-Year)



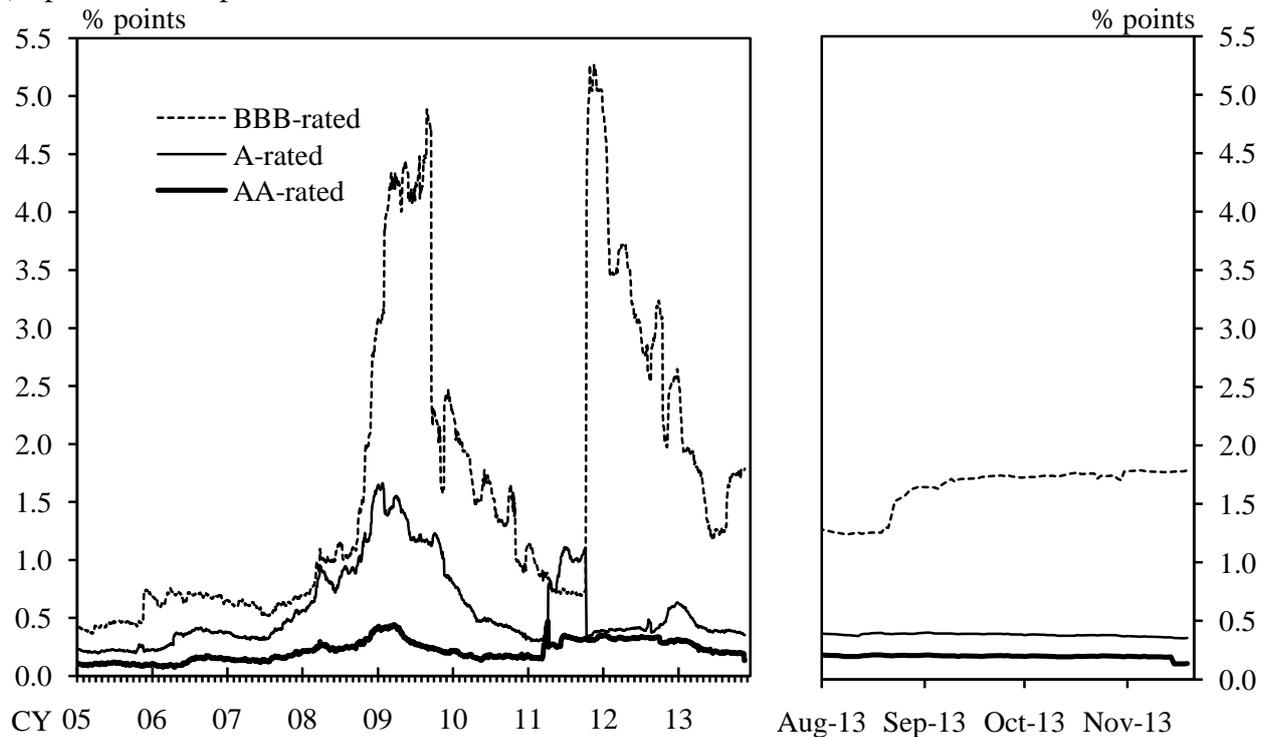
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

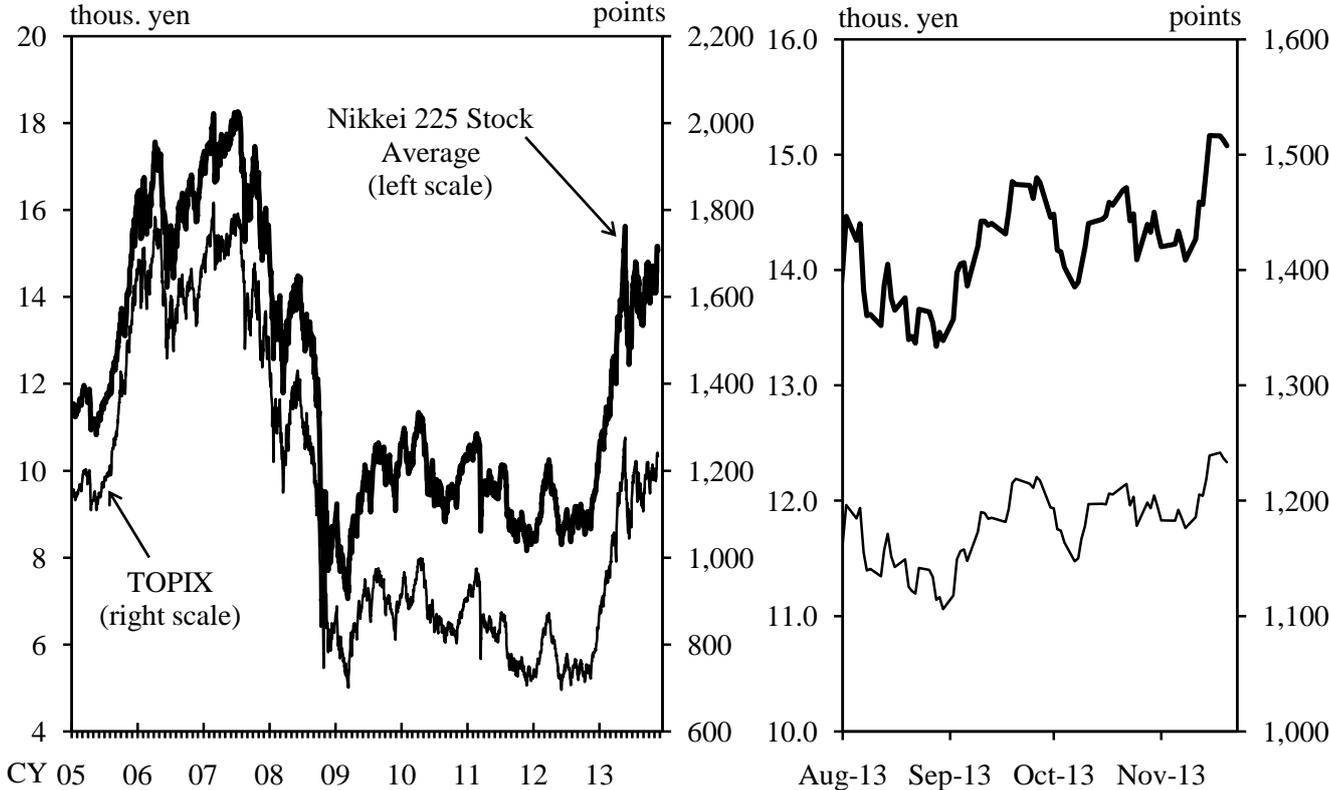
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

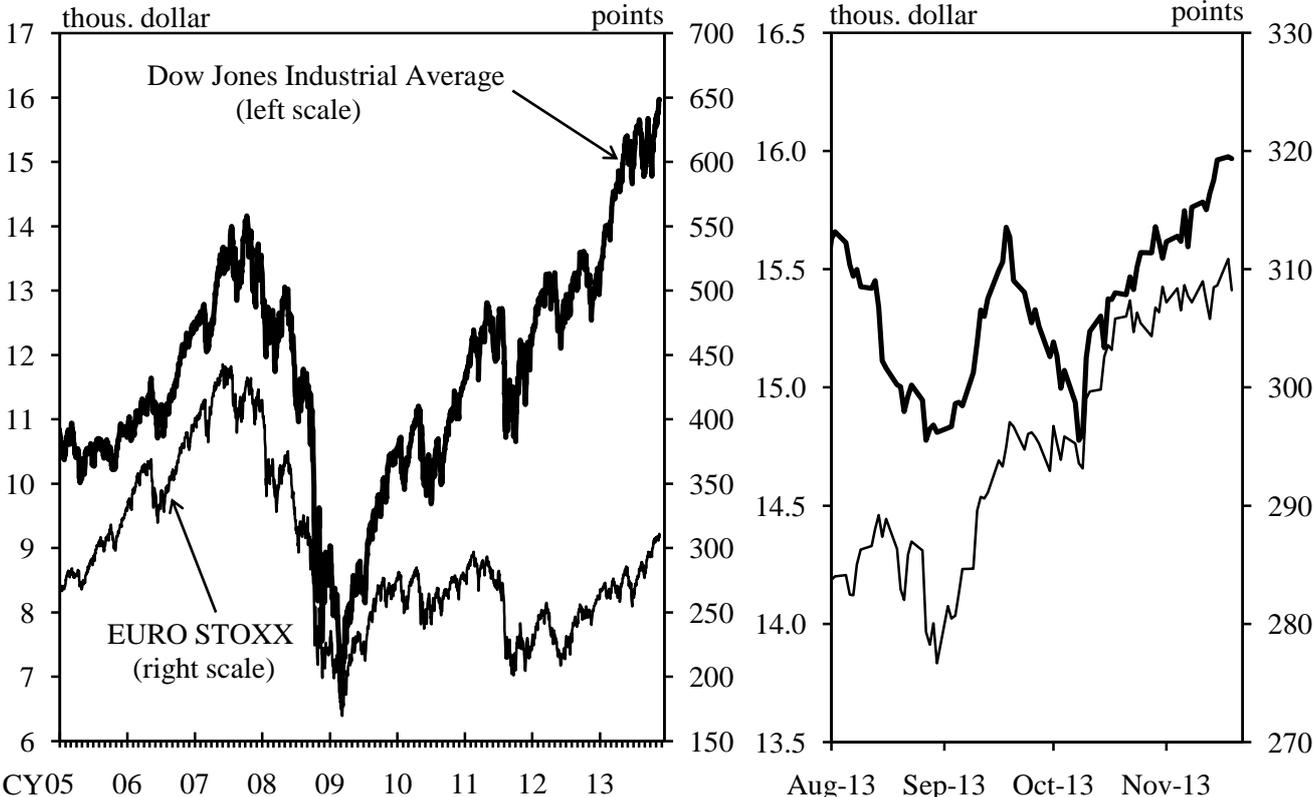
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



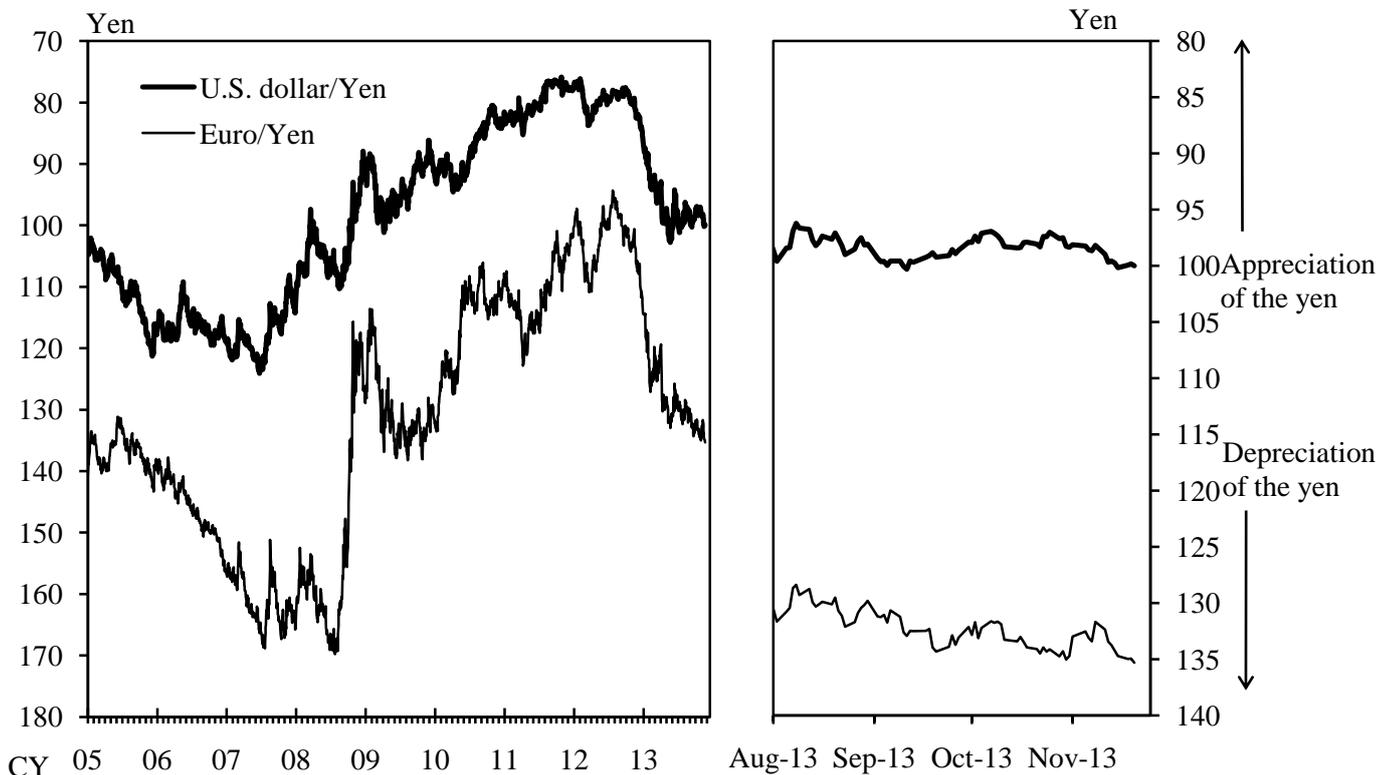
(2) Overseas Stock Prices



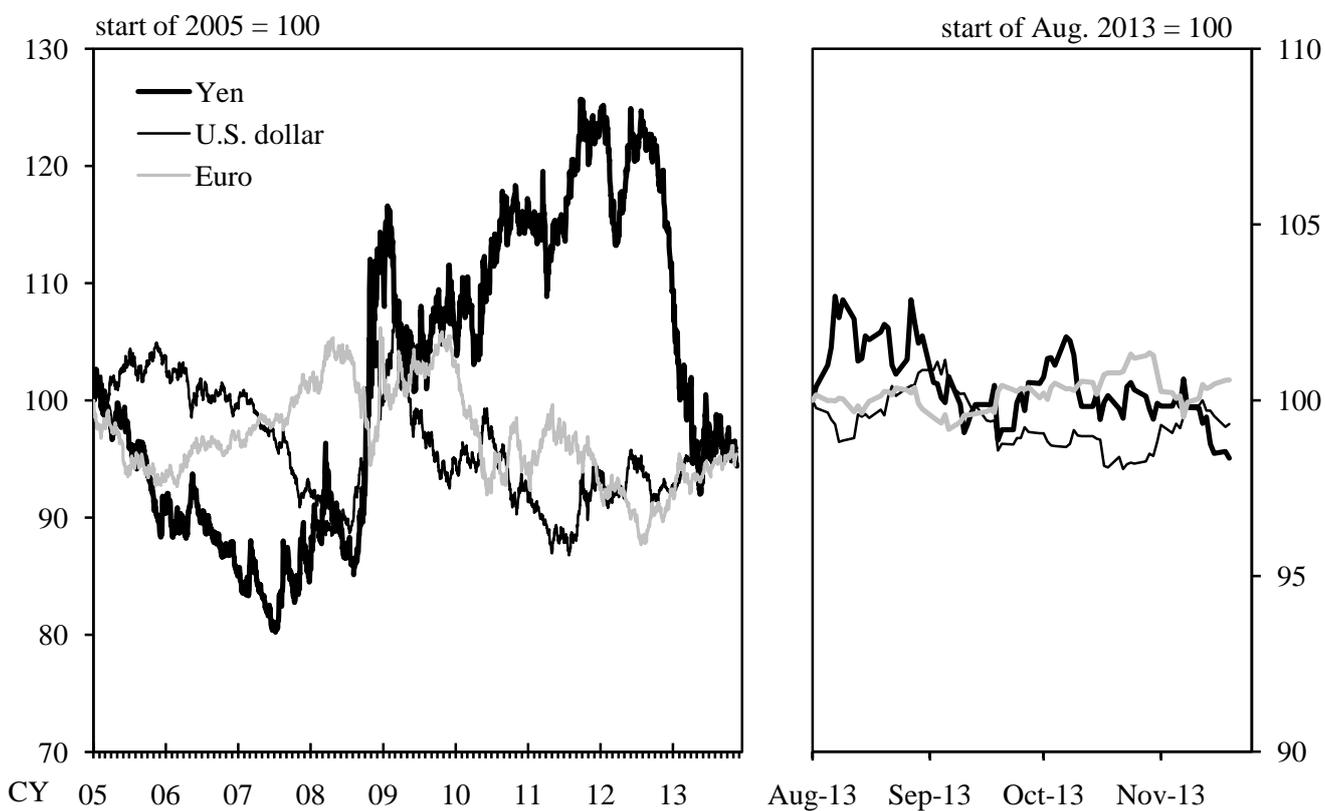
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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