

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

December 24, 2013

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

December 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 improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production has been increasing moderately. Improvement in business sentiment has continued and become widespread.

With regard to the outlook, Japan's economy is expected to continue a moderate recovery as a trend, while it will be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike.

Exports are expected to increase moderately mainly against the background of the pick-up in overseas economies. As for domestic demand, public investment is expected to trend upward for the time being and then become more or less flat at a high level. Business fixed investment is projected to follow a moderate increasing trend as corporate profits continue to improve. Private consumption and housing investment, albeit with some fluctuations, are expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation. Under these circumstances, industrial production is expected to follow a moderate increasing trend.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 19 and 20, 2013.

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, mainly against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) is at around 1 percent. Inflation expectations appear to be rising on the whole.

Domestic corporate goods prices are expected to continue rising moderately for the time being. The year-on-year rate of increase in consumer prices is likely to rise for the time being.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 50-55 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 at around 2.5 percent. The amount outstanding of CP and corporate bonds has been more or less around the year-ago level. Firms have retained their recovered financial positions. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 4.0-4.5 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.