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Bank of Japan

Monthly Report of
Recent Economic and Financial Developments

January 2014

(English translation prepared by the Bank's staff based on the Japanese original released on January 23, 2014)

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Summary

Japan's economy has continued to recover moderately, and a front-loaded increase in demand prior to the consumption tax hike has recently been observed.

Overseas economies -- mainly advanced economies -- are starting to recover, although a lackluster performance is still seen in part. 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. With improvement in the employment and income situation, housing investment has continued to increase and private consumption has remained resilient; in these segments of the economy, the front-loaded increase in demand prior to the consumption tax hike has also been observed. 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 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 recovery 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 January 21 and 22, 2014.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects for the European debt problem, and the pace of recovery in the U.S. 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 increase in consumer prices (all items less fresh food) is around 1¼ percent. Inflation expectations appear to be rising on the whole.

With regard to the outlook, excluding the direct effects of the consumption tax hike, domestic corporate goods prices are expected to continue rising moderately for the time being, and the year-on-year rate of increase in consumer prices is likely to be around 1¼ percent for some time.

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 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. Meanwhile, the value of the yen against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same levels 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—continued to move upward in October-November last year compared to the third quarter, albeit at a somewhat subdued pace, after having registered quarter-on-quarter increases for seven quarters in a row until the third quarter (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 the fourth quarter saw a somewhat significant decline.

Public investment is expected to trend upward for the time being and then become more or less flat at a high level.

Real exports have generally been picking up (Charts 6[1] and 7). Real exports fell marginally in the third quarter last year 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-November relative to the third quarter. Looking at movements in exports by region (Chart 7[1]), exports to the United States were flat in October-November 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; they were almost level in October-November 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 picked up overall, as improvements continued to be observed in some capital goods, including semiconductor products machinery, and as motor vehicles and their related goods have been recovering moderately along with the dissipation of the effects of the bilateral relationship between Japan and China. On the other hand, exports to NIEs have shown mixed movements; they inched upward again in October-November 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 moving moderately upward during the first half of last year, 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—have been relatively weak since the middle of last year. 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 moderate recovery in those to the EU as well as to China amid steady exports to the United States. Exports of capital goods and parts have picked up mildly, primarily in those of semiconductor products machinery bound for East Asia. Exports of IT-related goods (including visual and audio apparatus) have stopped declining, aided by upward pressure from parts for new smartphone products. Meanwhile, exports of intermediate goods have been relatively weak lately, chiefly in those to NIEs and ASEAN.

Real imports are increasing moderately (Charts 6[1] and 9). Real imports—which stayed flat in the second quarter last year 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-November 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 been on an increasing trend, mainly in motor vehicles; those of capital goods and parts have picked 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— have recently been more or less flat, reflecting the aforementioned developments in exports and imports (Chart 6[1]). Looking at movements in the nominal current account surplus on a quarterly basis (Chart 6[2] and [3]), in the third quarter last year, 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. Movements in October-November relative to the third quarter show that the current account balance marked a slight deficit since (i) the nominal goods and services balance further increased its volume of deficit, as growth in imports outpaced that in exports, and (ii) the income surplus continued to narrow.

Regarding the environment surrounding exports, overseas economies—mainly advanced economies—are starting to recover, although a lackluster performance is still seen in part (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery that has gradually become widespread. The European economy has been picking up. The Chinese economy has continued to be stable, despite having exhibited somewhat lower growth compared to a while ago. Meanwhile, some emerging economies apart from China and commodity-exporting economies have kept showing somewhat sluggish movements. As for the exchange rate, the yen has depreciated against both the U.S. dollar and euro, albeit with fluctuations; in terms of the real effective exchange rate, the yen has depreciated slightly below the level around 2007 (Chart 8[1]).

Overseas economies, mainly advanced economies, are expected to recover moderately. The aforementioned movements in foreign exchange rates are also projected to continue exerting upward pressure on exports. By major region, the U.S. economy is expected to continue a moderate recovery, partly since downward pressure from the fiscal side is expected to wane gradually in the face of somewhat reduced uncertainty, mainly as a result of the progress in budget negotiations and forecasts that accommodative financial conditions will be maintained. On the other hand, developments in the European economy are projected to lose steam for the time being, and attention should still be paid to its impact on the global economy, including the outcome of its debt problem. As for the Chinese economy, in the manufacturing sector—which has a large influence on Japan's economy—the problem of an overhang in the supply of raw materials and other goods has persisted. Growth in some emerging and commodity-exporting economies—which have shown relatively slack movements—are expected to lose pace for the time being, as these economies face structural issues, mainly in terms of fiscal balance and current accounts. In relation to this, as for the IT-related sector, with demand for parts for smartphone products on an uptrend, renewal demand for PCs has started to emerge in the corporate sector, triggered by the ending of support for an OS scheduled this coming spring. In this situation, orders received and production of electronic parts and semiconductor products machinery for Japanese firms appear to be picking up as a trend. Future developments, however, continue to require close monitoring, mainly since the effects of upward pressure from new smartphone products seem to have begun to dissipate. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy has continued to become less visible, mainly with the moderate recovery of exports to China in motor vehicles and their related goods. However, attention should be paid to whether these movements will continue, since lingering severity still partly exists.

Taking the above into consideration, exports are expected to increase moderately mainly against the background of the recovery in overseas economies. Imports are projected to increase moderately as a trend, amid firm domestic demand, while it will be affected by fluctuations mainly in private consumption as a result of the consumption tax hike. As a reflection of these developments in exports and imports, net exports are projected to trend moderately upward, albeit with fluctuations.

<u>Business fixed investment</u> has been picking up as corporate profits have improved. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment was more or less flat in the second and third quarters last year, after having increased significantly in the first quarter, but it rose noticeably in October-November compared with the third quarter (Chart 10[1]). The overall aggregate supply of capital goods, including transport equipment, has picked 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 last year for the first time in five quarters, after having been almost flat in the first quarter (Chart 11[1]). Machinery orders have since

continued to move markedly upward in the third quarter on a quarter-on-quarter basis and in October-November relative to the third quarter. By industry, machinery orders of manufacturing have picked up noticeably. Those of nonmanufacturing (excluding orders for ships and those from electric power companies) have trended upward with the fluctuations smoothed out. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—remained more or less flat, after having risen markedly toward the first quarter last year, but they have kept trending upward, albeit at a modest pace, as they rose again in October-November relative to the third 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.

<u>Private consumption</u> has remained resilient, with improvement in the employment and income situation, and the front-loaded increase in demand prior to the consumption tax hike has been observed (Chart 12). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—fell in the third quarter last year on a quarter-on-quarter basis, after having risen in both the first and second quarters, but increased again in October–November relative to the third quarter. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations—although having fallen back toward the middle of last year from the upsurge, aided partly by the introduction of new models—has turned upward again since around summer with the introduction of new models, and has recently shown considerably strong movements. 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. The front-loaded increase in demand prior to the consumption tax hike is likely to have added a certain impetus to these movements in durable consumer goods. Sales at department stores rose marginally again in October-November last year compared with the third quarter, after having posted negative in the third quarter on a quarter-on-quarter basis for the first time in four quarters with the subsequent plunge in July sales in place following the front-loading of summer sales (Chart 14[1]). Sales at supermarkets—which had continued to show sluggish movements—have stayed almost level or moved slightly upward since the second quarter last year. 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—was somewhat sluggish in the second and third quarters last year, after having advanced significantly in the first quarter, mainly due to strong automobiles and services (culture & recreation); it was also down in October-November relative to the third quarter, mainly due to the plunge in school fees included in education.[2] On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) has remained more or less 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 last year—have been relatively weak since October (Chart 15).

Private consumption is expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation, albeit with some

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

fluctuations caused by the effects of the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike.

Housing investment has continued to increase, and the effects of the front-loaded increase in demand prior to the consumption tax hike have become clearly visible. The number of housing starts—a leading indicator of housing investment—inched further upward in October-November last year relative to the third quarter, after having increased its level by surpassing the annualized 1 million unit level in the third quarter (on a seasonally adjusted, annual basis, it recorded 983 thousand units in the second quarter, 1.004 million units in the third quarter, and 1.035 million units in October-November; Chart 16[1]).

Housing investment is expected to remain resilient as a trend, albeit with some fluctuations caused by the consumption tax hike.

Industrial production has been increasing moderately (Chart 17). Industrial production, on a quarterly basis, kept increasing since the first quarter last year and continued to do so in October-November compared with the third quarter. By industry, production of transport equipment (such as passenger cars) has continued to trend upward; it increased again in October-November last year relative to the third quarter, despite having inched downward in the third quarter, following the rise in the first and second quarters. Domestic sales have been considerably strong of late, supported in part by the introduction of new models as well as the effects of the front-loaded increase in demand prior to the consumption tax hike, while production for exports have held steady. Production of iron and steel and of chemicals has also held steady as a whole, against the backdrop of the increase in domestic production of motor vehicles and firm demand with ties to construction, although it is partly affected by loose supply and demand conditions in Asian economies. The pick-up in production of general-purpose, production and business oriented machinery has become noticeable as a reflection of developments in business fixed investment at home and abroad. Production of other electrical machinery (electrical machinery; information and communication electronics equipment) has shown an increase across a wide range of items, including white goods and some capital goods such as electronic computers. Production such as of ceramics, stone and clay products and of fabricated metals has been solid, albeit with fluctuations, as a reflection of firm demand with ties to construction. Meanwhile, production of electronic parts and devices seems to be picking up as a trend, mainly in parts for smartphone and tablet products produced in Asia, but it has fallen back recently since growth in demand for new smartphone products came to a halt.

Shipments have 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 have been on a mild uptrend overall, chiefly in shipments for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals), although electronic parts and devices have recently been sluggish. Shipments of construction goods have kept trending moderately upward in response to movements in public and housing investments. Shipments of capital goods have picked 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—which had continued to be more or less flat—have advanced slightly of late, in such goods as food and beverage.

Inventories appear to be bottoming out as a trend, but they have fallen again lately (Chart 17[1]). Inventories—which posted marginal increases at the end of June last year relative to the end of March and at the end of September compared with the end of June—bottomed out, as production and shipments enter a recovery phase. Recently, however, inventories have declined again, notably in transport equipment, in light of the front-loaded increase in demand prior to the consumption tax hike. By industry, inventories of transport equipment—which temporarily appeared to have bottomed out toward last summer—have recently declined somewhat significantly again, amid somewhat high growth in shipments. Inventories of electronic parts and devices came down recently, partly due to the release of inventories that were piled up in preparation for new products, including tablet devices. Meanwhile, 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, albeit with fluctuations. 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]).

Shipments of durable consumer goods, electronic parts and devices, and construction goods have continued to grow at a faster pace than those in inventories. As for durable consumer goods, the shipment-inventory balance has recently improved further, due partly to the effects of the front-loaded increase in demand prior to the consumption tax hike. Shipments of capital goods (excluding transport equipment) have also grown at a noticeably faster pace than that in inventories; growth in shipments of producer goods excluding electronic parts and devices have somewhat outpaced that in inventories.

Industrial production is expected to follow a moderate increasing trend, mainly as a reflection of developments in demand at home and abroad, albeit with some fluctuations caused by the effects of the consumption tax hike. 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. Many other industries, including chemicals, iron and steel as well as ceramics, stone and clay products, are projected to move gradually upward, aided in part by firm construction demand. As a result, industrial production as a whole is projected to continue to increase. Production for the first quarter is projected to continue to increase in a wide range of industries, primarily in transport equipment, general-purpose, production and business oriented machinery, and information and communication electronics equipment with the ongoing moderate recovery in demand both at home and abroad. Meanwhile, the effects of the consumption tax hike are expected to exert upward pressure on production for the fourth and first quarters.

As for the employment and income situation, supply and demand conditions in the labor market have continued to improve steadily, albeit at a moderate pace, 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. In response to these movements, the active job openings-to-applicants ratio also continued its moderate improving trend; it stood at 1.00 in November, recovering to the 1.00-2.00 level for the first time since October 2007. Non-scheduled hours worked have picked up markedly 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 expanded compared to a while ago with the fluctuations smoothed out, 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, since manufacturing has declined at a somewhat reduced rate, while nonmanufacturing has continued to increase.

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 have continued their year-on-year increases, albeit at a very mild pace (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 increase in non-scheduled cash earnings has expanded, as a reflection of movements in the number of hours worked.

<u>Employee income</u> has shown a pick-up, as it has recently registered year-on-year increases, 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 continued to be more or less flat as a whole (Chart 24[1] and [3]). Prices of crude oil—which had been more or less flat, albeit with fluctuations, mainly as a reflection of the situation in the Middle East—have recently lowered their levels slightly. Prices of nonferrous metals have continued to stay generally flat. Prices of grains have been soft on the whole, mainly due to a bountiful harvest forecast.

The three-month rate of change in import prices (on a yen basis) has recently inched upward again, as a reflection of movements in foreign exchange rates, after having been more or less flat since the middle of last year (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, mainly against the backdrop of movements in international commodity prices and foreign exchange rates (Chart 25[2]).[3] Prices have kept rising moderately relative to three months earlier; they stood at positive 0.4 percent in December, after having registered positive 0.3 percent in November. Looking in detail at domestic corporate goods price movements in December, prices of "goods sensitive to exchange rates and overseas commodity prices"—which had ceased to rise temporarily in the previous month—bounced back slightly, as a reflection of movements in foreign exchange rates. Prices of "iron & steel and construction goods" continued to move marginally upward and those of "Other materials" remained relatively strong. These movements in prices associated with materials were affected by increases in costs of raw materials imports and in prices of

[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.

import-competing products, as a reflection of movements in foreign exchange rates, as demand related to construction and motor vehicles remains firm. In contrast, prices of "electric power, gas & water" turned downward since the effects of price increases by electric power companies had disappeared, as downward pressure was brought on by previous movements in international commodity prices and in foreign exchange rates through the fuel cost adjustment system.[4]

The year-on-year rate of increase in <u>corporate services prices</u> (excluding international transportation; year-on-year basis, same hereafter) is expanding somewhat (Chart 26). As for developments on a year-on-year basis, the pace of increase accelerated in October and November last year to positive 0.3 percent and positive 0.6 percent, respectively, after having turned upward to positive 0.1 percent in August and September, a year-on-year positive last recorded in May 2012 (positive 0.1 percent). Looking in detail at recent corporate services price movements, the year-on-year rate of change in prices related to "selling, general and administrative expenses" has turned slightly positive overall since advertising services stopped declining and turned upward and also since other items saw widespread price increases having begun, mainly as a reflection of the recovery in corporate profits, while hotel services have been firm. The rate of change in prices related to "real estate" has recently marked positive, albeit marginally, after having continued to narrow their rate of decline as a reflection of movements in office space rental. Prices related to "fixed investment" have continued to register year-on-year positive amid firm demand with ties to construction; prices of "others" have expanded their rate of increase as a whole, mainly due to the recent rise in finance and insurance as a result of increased property and casualty insurance services, as plant engineering continues to mark a year-on-year positive. Meanwhile, "IT-related" prices have recently turned negative again, reflecting movements of prices for leasing.

The year-on-year rate of increase in <u>consumer prices</u> (all items less fresh food; year-on-year basis, same hereafter) is around 1¼ percent (Chart 27[1]). On a year-on-year basis, consumer prices—which had moved in the range of positive 0.7-0.8 percent in the third quarter last year—grew at an accelerated pace to the

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

1.0-1.5 percent range by expanding their rate of increase to positive 0.9 percent in October and then positive 1.2 percent in November (the highest level since positive 1.9 percent in October 2008). Those on a basis that excludes food and energy has continued an improving trend: November saw its rate of increase expand to positive 0.6 percent, a level last recorded in August 1998 (positive 0.7 percent), after having turned positive to 0.3 percent in October. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has continued to rise steadily at an accelerated pace, albeit very mildly (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 November, the rise in overall prices was attributable to the ongoing improvement in a wide range of items in both goods and services, although fees for public services continued to grow at the same rate after having increased at an accelerated pace in the previous month, due mainly to increased charges for accident insurance. In detail, prices for goods (excluding agricultural, aquatic & livestock products) accelerated their pace of increase markedly compared with October. Taking a closer look, petroleum products, which comprise a large weight, expanded their positive contribution in response to the previous year’s movement; food products and other goods also accelerated their pace of increase, amid ongoing movements in a wide range of items to pass on cost increases in the form of higher prices as a reflection of movements in foreign exchange rates. Added to this, prices of durable goods turned positive for the first time since September 1992, in response to movements in TV sets and refrigerators. Meanwhile, prices of general services turned positive as a whole for the first time since September 2011, since prices of eating out expanded their rate of increase, albeit slightly, and also since prices of other services rose noticeably, chiefly

[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.

in package tours to overseas and hotel charges, although prices of rent—which comprise a large weight—continued to be somewhat sluggish.

With regard to the outlook, excluding the direct effects of the consumption tax hike, domestic corporate goods prices are expected to continue rising moderately for the time being, and the year-on-year rate of increase in consumer prices is likely to be around 1¼ percent for some time.

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 at around 2.5 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 33). The amount outstanding of CP and corporate bonds has been more or less around the year-ago level (Chart 34).

Firms have retained their recovered financial positions (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 in the range of 4.0-4.5 percent. Its December reading was 4.2 percent on a year-on-year basis, following 4.4 percent in November (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) rose marginally, mainly on the back of the increase in Japanese stock prices and U.S. long-term interest rates, but have since fallen slightly in line with the decline in Japanese stock prices; they are currently moving in the range of 0.65-0.70 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 moved upward in conjunction with the yen’s depreciation, as a reflection of the rise in U.S. stock prices, but have declined thereafter mainly in response to the yen’s appreciation. The Nikkei 225 Stock Average is currently moving in the range of 15,500-16,000 yen (Chart 41).

In the foreign exchange market, the yen depreciated against the U.S. dollar in conjunction with the rise in Japanese stock prices, against the backdrop of

[7] On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3.5 percent; its December reading was 3.4 percent, following 3.5 percent in November. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 4.5 percent; it increased by 4.4 percent in December, following an increase of 4.5 percent in November.

stronger-than-projected U.S. economic indicators, but the yen has then appreciated against the U.S. dollar, mainly in response to weaker-than-projected U.S. employment statistics; the yen is currently moving in the range of 104-105 yen against the U.S. dollar. The yen's exchange against the euro has been more or less level; the yen is currently moving in the range of 141-142 yen against the euro (Chart 42).

Charts

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.[1]

	2013/Q2	Q3	Q4	2013/Sep.	Oct.	Nov.	Dec.
Index of consumption expenditure level (two-or-more-person households)	-2.2	-0.4	n.a.	4.8	-2.1	-1.8	n.a.
Sales at department stores	1.1	-2.2	n.a.	0.9	-2.9	2.8	n.a.
Sales at supermarkets	0.3	0.2	n.a.	0.5	0.0	0.3	n.a.
New passenger-car registrations[3] <s.a., ann. 10,000 units>	< 283>	< 267>	< 311>	< 275>	< 294>	< 308>	< 332>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-2.7	-2.5	n.a.	4.7	3.3	-1.6	n.a.
Outlays for travel	-0.1	-0.1	n.a.	-4.0	3.4	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 98>	< 100>	<n.a.>	< 104>	< 104>	< 103>	<n.a.>
Machinery orders[4] (Private sector, exc. volatile orders)	6.8	4.3	n.a.	-2.1	0.6	9.3	n.a.
Manufacturing	5.6	9.8	n.a.	4.1	-0.2	6.0	n.a.
Nonmanufacturing[4] (exc. volatile orders)	12.5	-4.1	n.a.	-7.0	11.5	8.1	n.a.
Construction starts (private, nondwelling use)	-3.2	-0.5	n.a.	14.2	-2.0	-2.1	n.a.
Mining & manufacturing	-9.9	8.9	n.a.	25.7	-22.0	1.9	n.a.
Nonmanufacturing[5]	1.5	-1.3	n.a.	12.2	0.6	-4.3	n.a.
Value of public works contracted	28.6	-3.0	-12.4	12.6	-17.1	0.6	3.9
Real exports	3.5	-1.1	n.a.	-4.4	2.4	0.1	n.a.
Real imports	-0.0	2.6	n.a.	2.5	-1.1	1.3	n.a.
Industrial production	1.5	1.7	n.a.	1.3	1.0	-0.1	n.a.
Shipments	-1.9	0.6	n.a.	1.5	2.3	0.0	n.a.
Inventories	0.4	1.2	n.a.	-0.2	-0.3	-1.8	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 111.0>	< 110.1>	<n.a.>	< 110.1>	< 106.0>	< 104.7>	<n.a.>
Real GDP	0.9	0.3	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.0	0.6	n.a.	0.5	-0.2	n.a.	n.a.

Chart 2

Main Economic Indicators (2)

y/y % chg.[1]

	2013/Q2	Q3	Q4	2013/Sep.	Oct.	Nov.	Dec.
Active job openings-to-applicants ratio <s.a., times>	< 0.90>	< 0.95>	<n.a.>	< 0.95>	< 0.98>	< 1.00>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	<n.a.>	< 4.0>	< 4.0>	< 4.0>	<n.a.>
Non-scheduled hours worked[6]	1.0	4.0	n.a.	3.9	5.8	6.7	n.a.
Number of employees	0.9	0.9	n.a.	1.0	0.9	1.1	n.a.
Number of regular employees[6]	0.7	0.9	n.a.	1.0	1.0	1.2	n.a.
Nominal wages per person[6]	0.3	-0.4	n.a.	-0.2	-0.1	0.6	n.a.
Domestic corporate goods price index	0.7	2.2	p 2.5	2.2	2.5	2.6	p 2.5
<q/q % chg., 3-month rate of change>[7]	< 0.7>	< 0.6>	<p 0.4>	< 0.8>	< 0.6>	< 0.3>	<p 0.4>
Consumer price index[8]	0.0	0.7	n.a.	0.7	0.9	1.2	n.a.
Corporate services price index[9]	-0.2	0.0	n.a.	0.1	0.3	p 0.6	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	3.5	3.8	p 4.2	3.9	4.1	4.4	p 4.2
Number of corporate bankruptcies <cases per month>	<947>	<888>	<857>	<820>	<959>	<862>	<750>

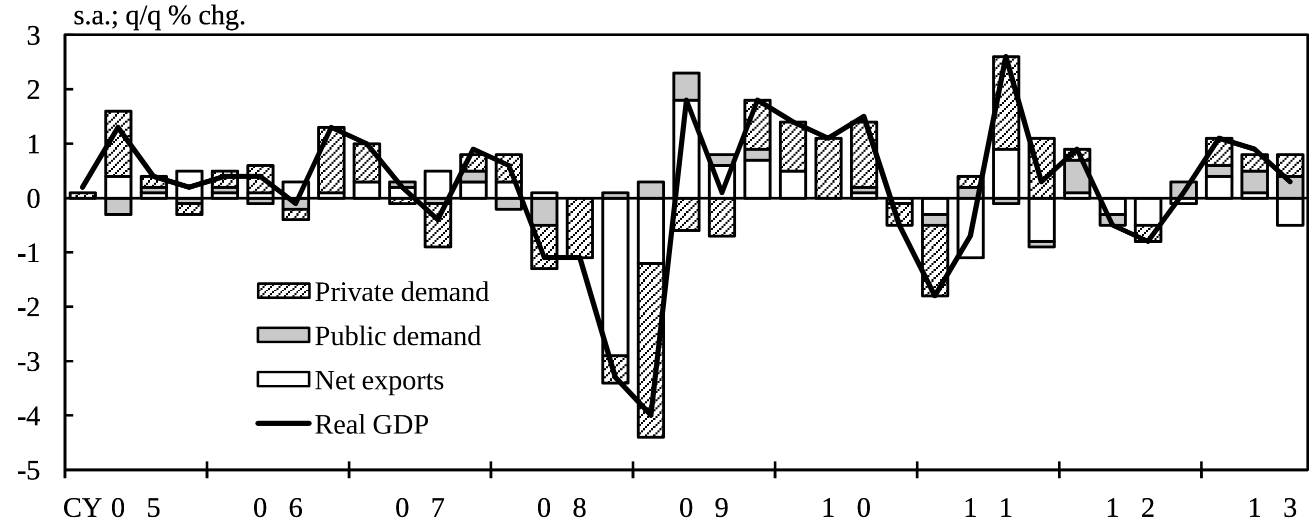
Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally adjusted data. All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted 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



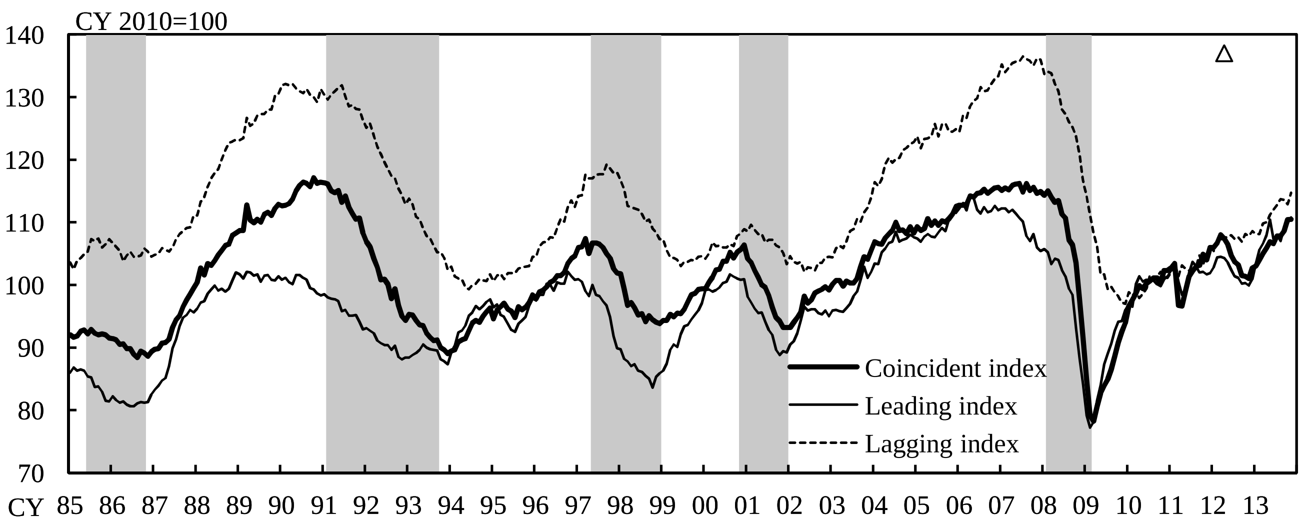
(2) Components

s.a.; q/q % chg.

			2012		2013		
			Q3	Q4	Q1	Q2	Q3
Real GDP			-0.8	0.1	1.1	0.9	0.3
		[Annual rate]	[-3.2]	[0.6]	[4.5]	[3.6]	[1.1]
Domestic demand			-0.3	0.3	0.7	0.7	0.7
	Private demand		-0.3	0.0	0.5	0.3	0.4
		Private consumption	-0.3	0.4	0.6	0.4	0.1
		Non-Resi. investment	-0.3	-0.1	-0.1	0.1	0.0
		Residential investment	0.0	0.1	0.1	0.0	0.1
		Private inventory	0.3	-0.3	0.0	-0.2	0.2
	Public demand		0.0	0.3	0.2	0.4	0.4
		Public investment	-0.1	0.1	0.1	0.3	0.3
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		0.1	0.3	-0.2	-0.3	-0.4
Nominal GDP			-1.0	0.2	0.7	0.9	0.3

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

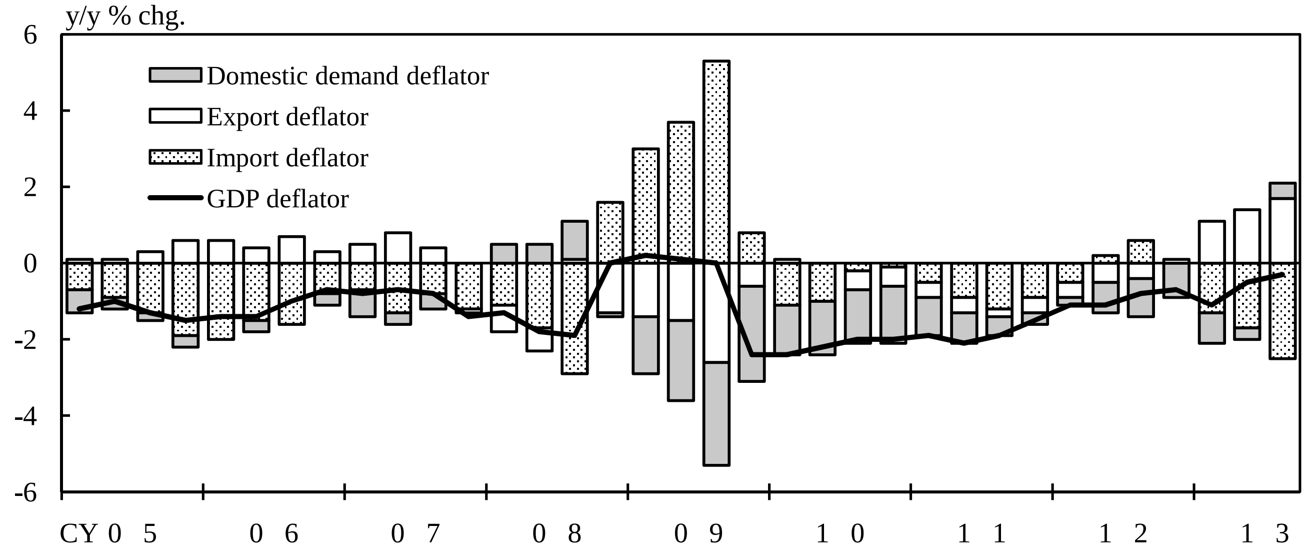
(3) Indexes of Business Conditions (Composite Indexes)



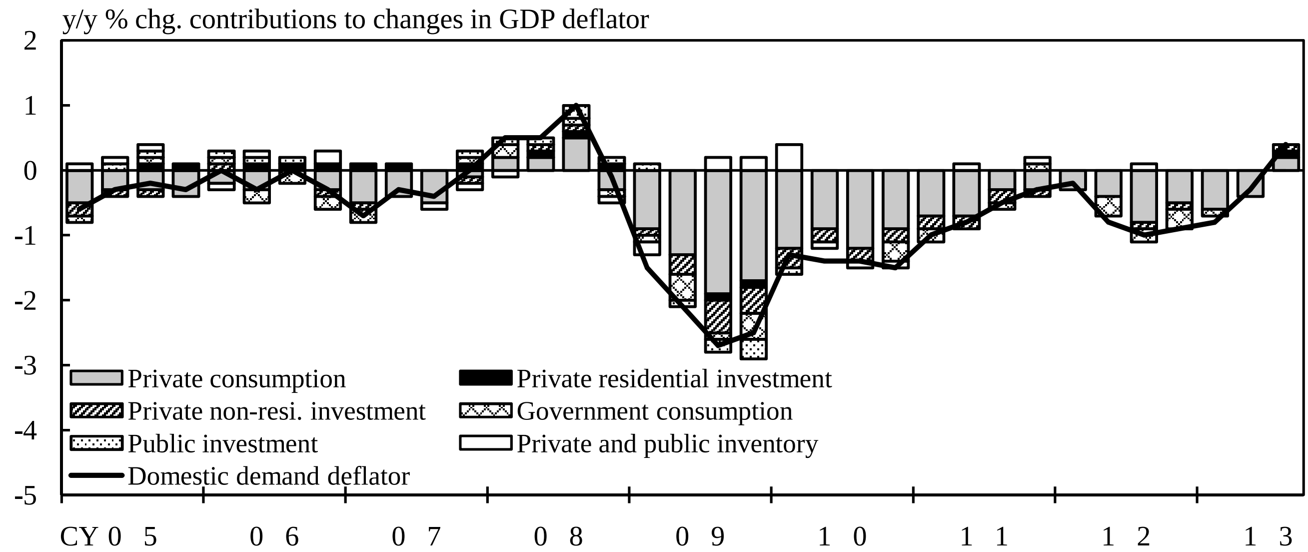
Note: Shaded areas indicate recession periods. Triangle shows the latest peak.
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

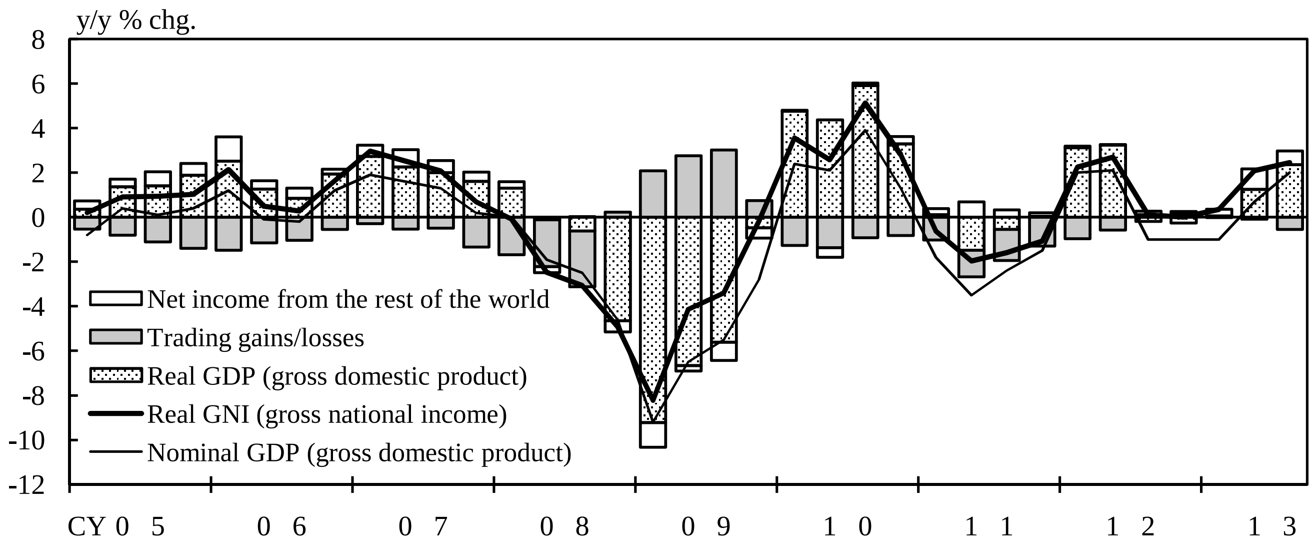
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation

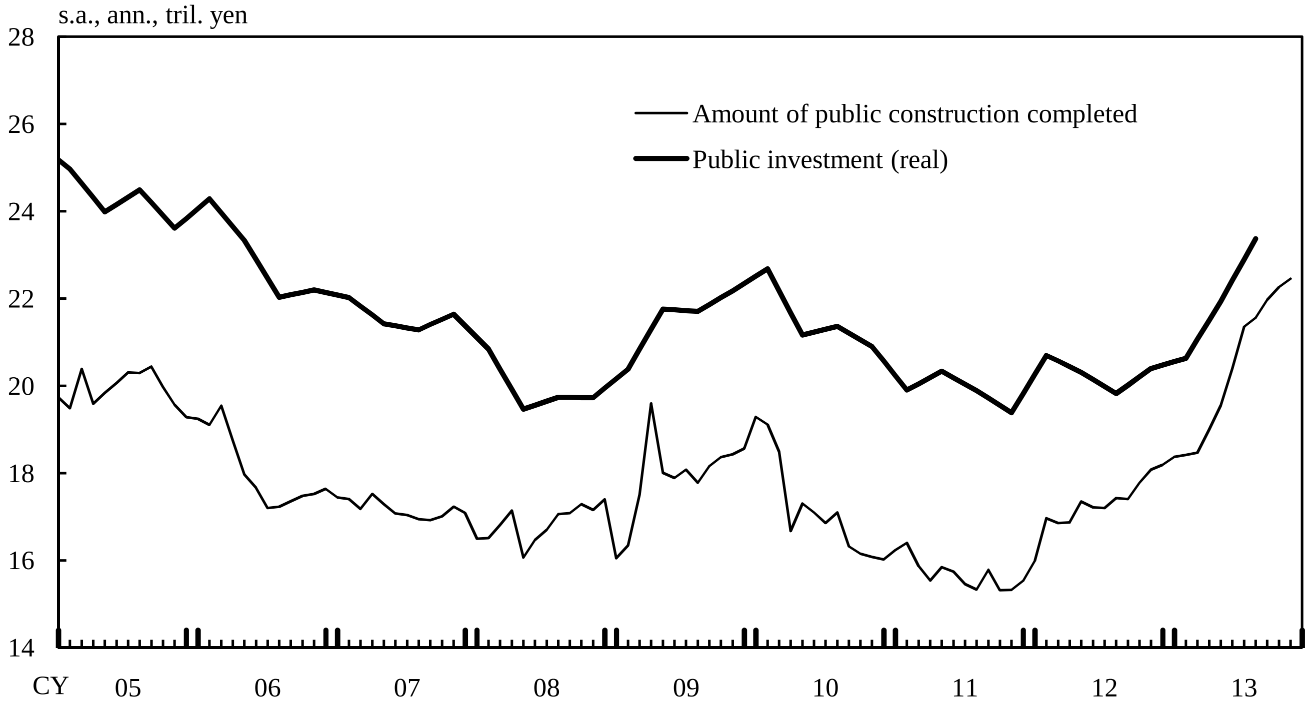


Notes: 1. Figures of components indicate contributions to changes in real GNI.
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

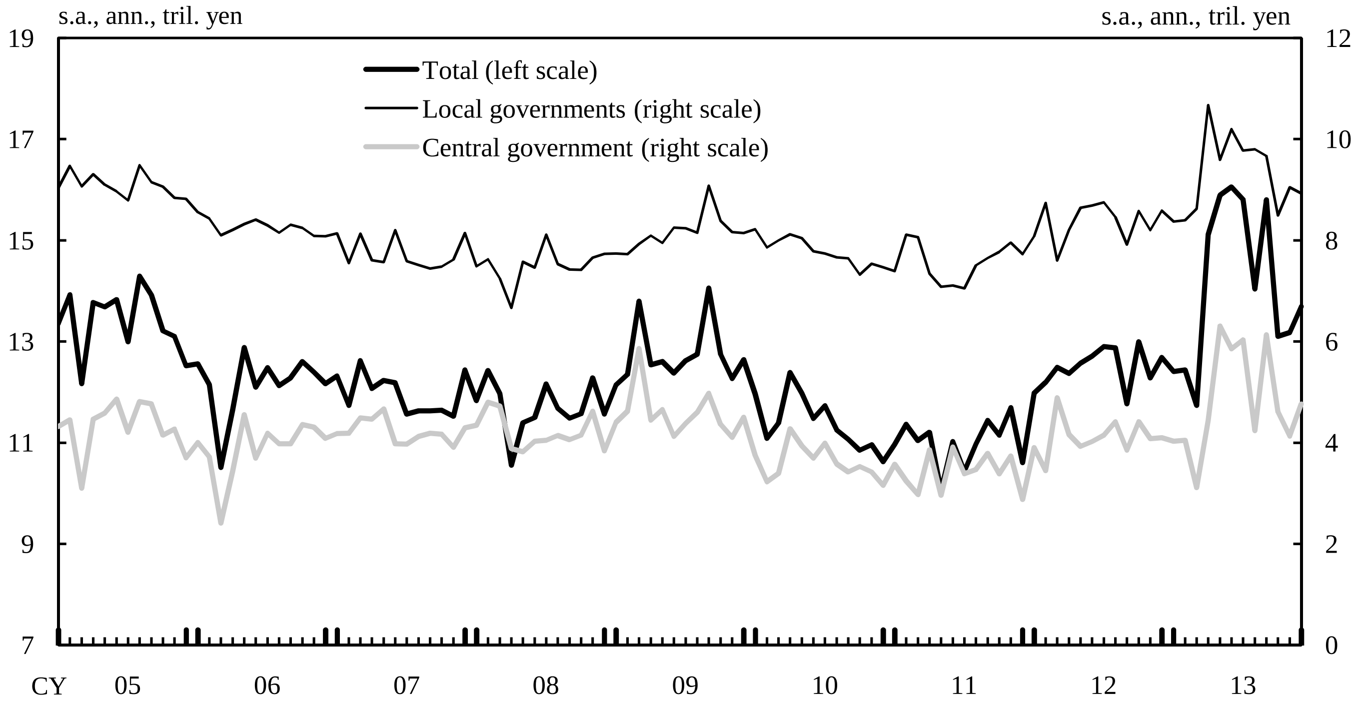
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

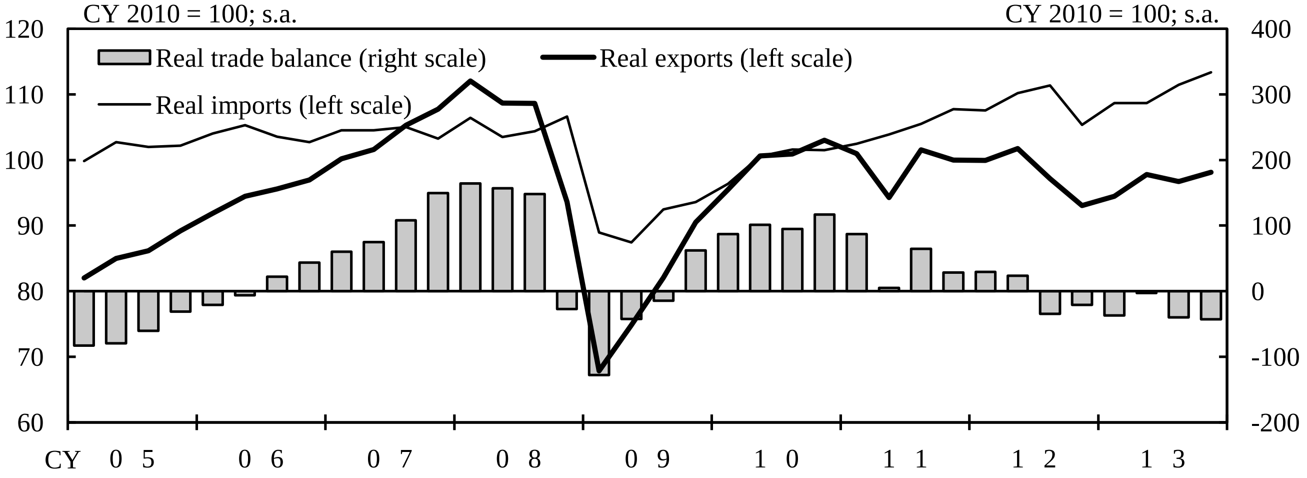


Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."
3. Figures of the value of public works contracted and the amount of public 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.

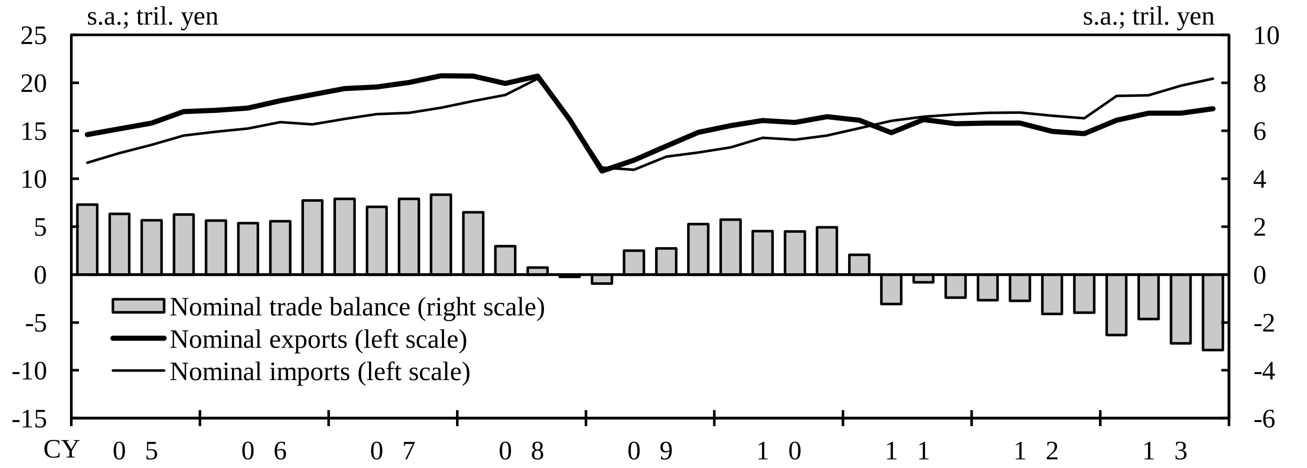
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance [1]

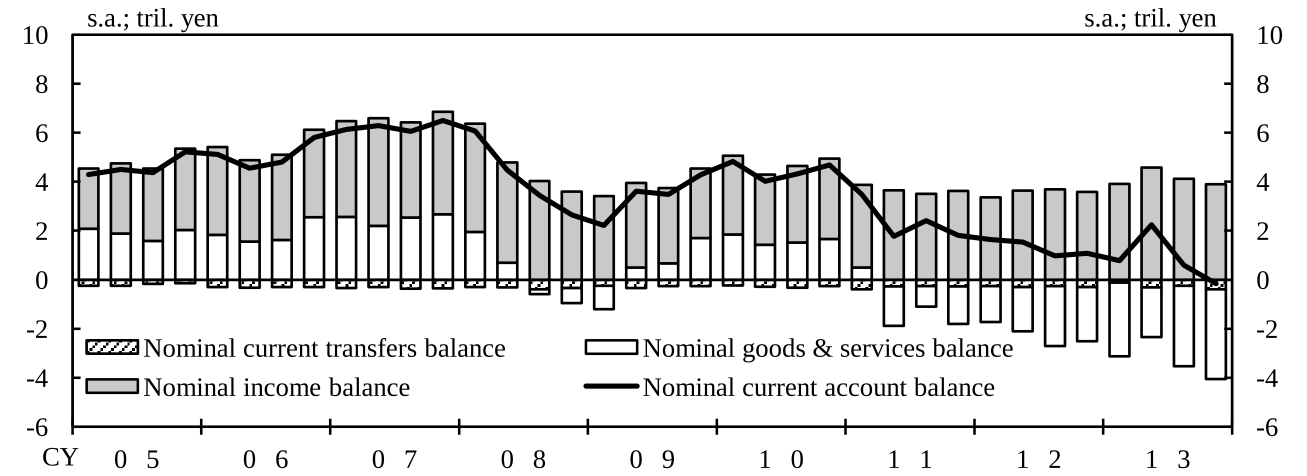
(1) Real Exports, Real Imports, and Real Trade Balance[2]



(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. 2013/Q4 figures are October-November averages converted into quarterly amount.
2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." "Real trade balance" is defined as real exports minus real imports.
3. Figures are based on the "Balance of Payments."

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

Real Exports [1]

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Sep.	Oct.	Nov.
United States	<17.6>	-0.3	13.0	-3.0	2.2	7.5	-1.4	-0.1	-6.4	1.8	-1.4
EU	<10.2>	3.4	-13.0	-4.4	-0.4	0.4	7.9	-0.9	2.5	-0.5	-4.9
East Asia	<51.3>	-1.4	-2.6	-3.9	-1.1	3.8	-2.1	2.4	-4.0	0.5	4.6
China	<18.1>	1.3	-8.1	-9.2	-0.7	7.0	2.2	4.2	-5.8	0.9	8.2
NIEs	<21.5>	-4.5	-4.7	-0.5	-0.3	4.2	-4.1	1.7	-1.4	-0.5	3.0
Korea	<7.7>	-2.6	-3.5	1.1	1.0	2.0	-0.4	-3.7	-2.1	0.1	-4.6
Taiwan	<5.8>	-9.4	-6.0	-2.8	2.4	-1.2	-6.8	4.2	-6.2	2.7	8.7
Hong Kong	<5.1>	-4.2	-0.7	-0.9	-5.0	9.8	-0.6	-3.0	-0.1	-9.3	7.5
Singapore	<2.9>	0.6	-11.6	-2.7	0.5	13.8	-14.4	21.6	1.2	11.6	12.8
ASEAN4 [3]	<11.7>	0.6	12.5	-1.9	-3.1	-1.6	-4.9	0.8	-5.9	1.7	1.8
Thailand	<5.5>	1.4	19.3	0.1	-5.9	0.7	-7.7	-4.7	-8.1	-0.9	4.6
Others	<21.0>	0.9	1.7	-5.1	3.6	1.0	-1.8	-1.2	-5.2	4.4	-3.7
Real exports		-0.9	-1.0	-4.2	1.5	3.5	-1.1	1.4	-4.4	2.4	0.1

(2) Breakdown by Goods

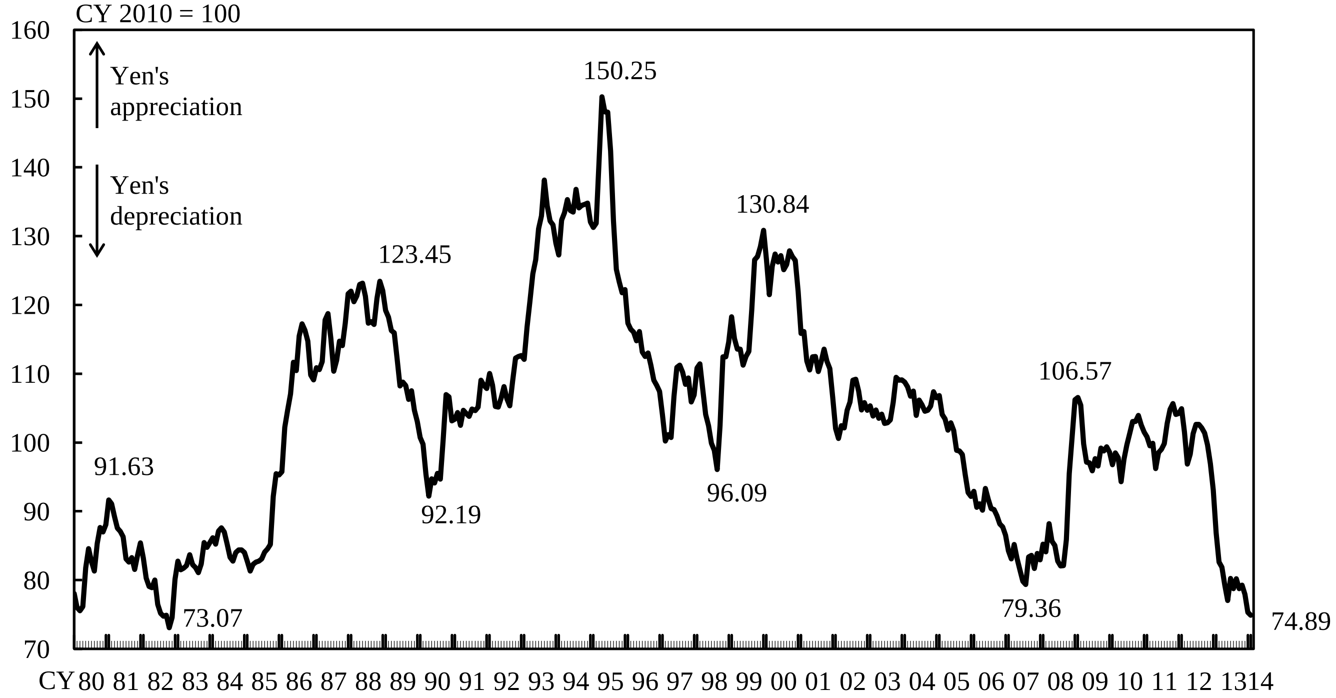
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Sep.	Oct.	Nov.
Intermediate goods	<20.4>	-3.2	-0.7	-3.4	1.8	1.8	-0.1	-1.4	-6.1	-1.1	2.8
Motor vehicles and their related goods	<23.4>	-4.9	7.7	-5.8	0.6	6.0	3.1	2.1	-4.2	3.2	-1.2
IT-related goods [4]	<11.2>	2.3	3.6	-1.9	-6.4	0.8	0.2	0.8	-4.9	1.7	-0.4
Capital goods and parts [5]	<29.3>	5.8	-4.0	-6.5	1.2	0.3	1.0	1.1	-3.3	2.0	0.5
Real exports		-0.9	-1.0	-4.2	1.5	3.5	-1.1	1.4	-4.4	2.4	0.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q4 figures are October-November averages 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 January (up to January 20) 2014 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.

	CY2011	2012	2013	2013 Q1	Q2	Q3	Q4
United States[1]	1.8	2.8	n.a.	1.1	2.5	4.1	n.a.
European Union[2]	1.6	-0.4	n.a.	-0.2	1.5	1.0	n.a.
Germany[1]	3.3	0.7	0.4	0.0	2.9	1.3	n.a.
France[1]	2.0	0.0	n.a.	-0.2	2.3	-0.5	n.a.
United Kingdom[1]	1.1	0.3	n.a.	2.0	3.2	3.1	n.a.
East Asia[3]	5.9	4.8	n.a.	2.4	5.6	5.5	n.a.
China[1]	9.3	7.7	7.7	6.1	7.4	9.1	7.4
NIEs[1,3]	4.3	1.6	n.a.	1.1	5.4	2.6	n.a.
ASEAN4[1,3,4]	3.0	6.3	n.a.	-0.8	3.1	5.3	n.a.
Main economies[3]	4.5	3.7	n.a.	1.8	4.4	4.6	n.a.

Notes: 1. Figures for each country are based on those released by the government or central bank. Quarterly figures for China are annualized based on quarter-on-quarter changes released by the National Bureau of Statistics of China.
2. Figures are based on those released by the European Commission.
3. Figures are averages of members' real GDP growth rates, weighted by the value of exports from Japan to each country or region.
The members are described below.
Main economies: United States, European Union, and East Asia
East Asia: China, NIEs, and ASEAN4
NIEs: Korea, Taiwan, Hong Kong, and Singapore
ASEAN4: Thailand, Indonesia, Malaysia, and Philippines
4. To calculate the quarterly figures, real GDP growth rates of 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	CY 2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Sep.	Oct.	Nov.
United States	<8.6>	0.5	3.8	-8.0	-0.1	2.5	4.4	3.3	-1.2	-3.8	16.1
EU	<9.4>	10.3	4.0	-1.1	-1.7	-0.7	5.3	-3.3	8.7	-7.9	-1.2
East Asia	<40.8>	11.1	3.9	-1.8	3.1	-2.0	3.6	3.5	4.6	-2.2	3.2
China	<21.3>	14.5	5.1	-0.6	3.9	-1.8	5.2	2.6	10.9	-8.1	4.7
NIEs	<8.5>	10.0	5.0	-1.5	1.2	-5.9	7.1	2.8	-5.5	7.0	-4.2
Korea	<4.6>	24.3	4.3	-3.7	2.8	-10.0	6.8	4.0	-9.0	10.2	-2.7
Taiwan	<2.7>	-3.1	7.2	1.6	-1.0	5.0	4.5	2.4	-2.7	3.0	-0.8
Hong Kong	<0.2>	-5.6	-2.5	-1.3	8.3	-10.2	12.1	5.6	-7.4	0.1	12.3
Singapore	<1.0>	-0.1	3.0	-0.2	-0.8	-16.3	14.8	1.3	2.5	2.7	-10.9
ASEAN4 [3]	<11.1>	5.6	0.5	-4.6	2.8	0.9	-2.9	6.4	-1.0	5.3	6.4
Thailand	<2.7>	7.3	-0.9	-2.7	3.6	0.9	-2.4	3.9	-3.2	7.5	-0.8
Others	<41.2>	-0.4	4.7	-10.5	7.7	1.0	0.1	-1.2	-3.4	-0.3	0.1
Real imports		4.8	4.2	-5.4	3.2	-0.0	2.6	1.7	2.5	-1.1	1.3

(2) Breakdown by Goods

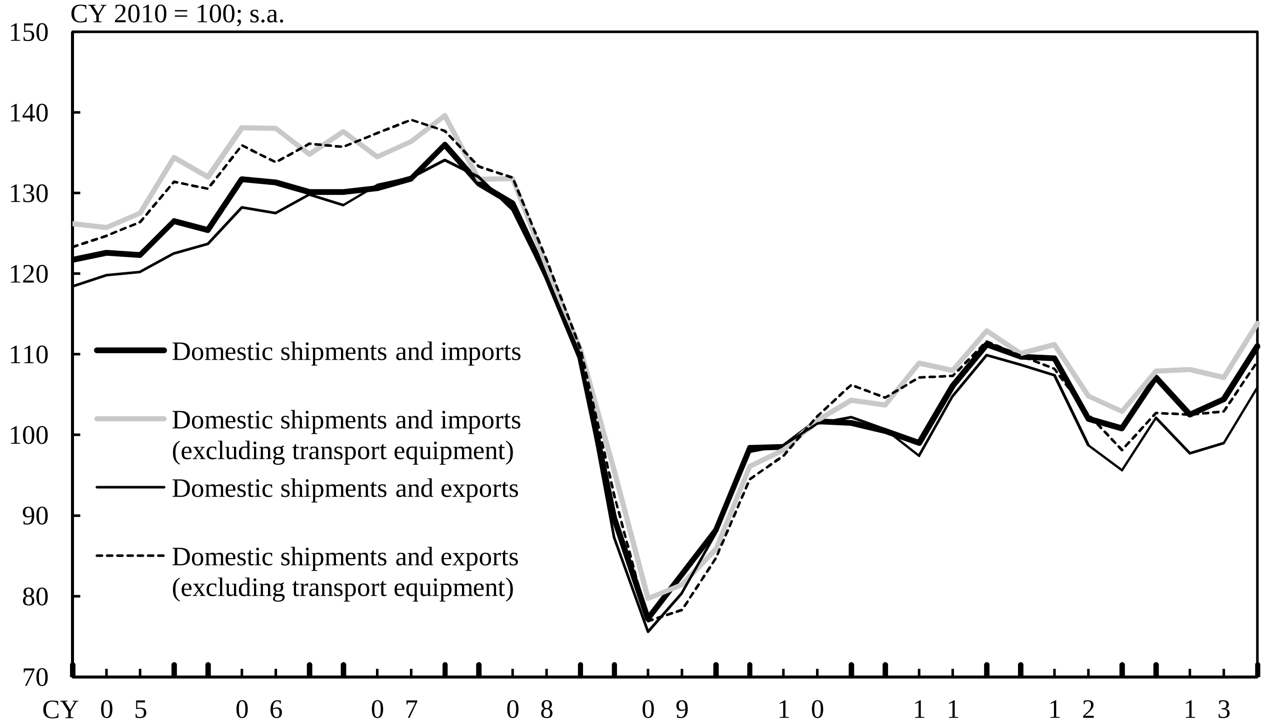
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	CY 2012	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Sep.	Oct.	Nov.
Raw materials [4]	<40.8>	-0.2	4.5	-12.3	9.8	-1.6	-0.3	-0.2	-5.2	0.4	3.0
Intermediate goods	<13.5>	11.7	-2.7	-3.0	-1.5	-2.6	3.7	-0.7	0.0	0.6	-2.5
Foodstuffs	<8.3>	1.3	-0.7	-3.9	3.3	-6.0	4.7	-3.0	-1.8	-2.0	-1.0
Consumer goods [5]	<7.5>	9.9	4.5	-2.9	2.0	3.0	2.7	-0.2	-0.8	2.1	-2.6
IT-related goods [6]	<12.0>	11.2	9.0	4.1	3.6	1.1	4.9	7.0	17.5	-7.4	4.2
Capital goods and parts [7]	<10.9>	11.3	10.4	-3.5	0.7	4.5	5.8	3.0	4.0	-6.4	11.8
Excluding aircraft	<10.1>	12.6	7.0	-2.1	-0.1	4.7	5.0	1.0	4.1	-4.5	2.8
Real imports		4.8	4.2	-5.4	3.2	-0.0	2.6	1.7	2.5	-1.1	1.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q4 figures are October-November averages 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.

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

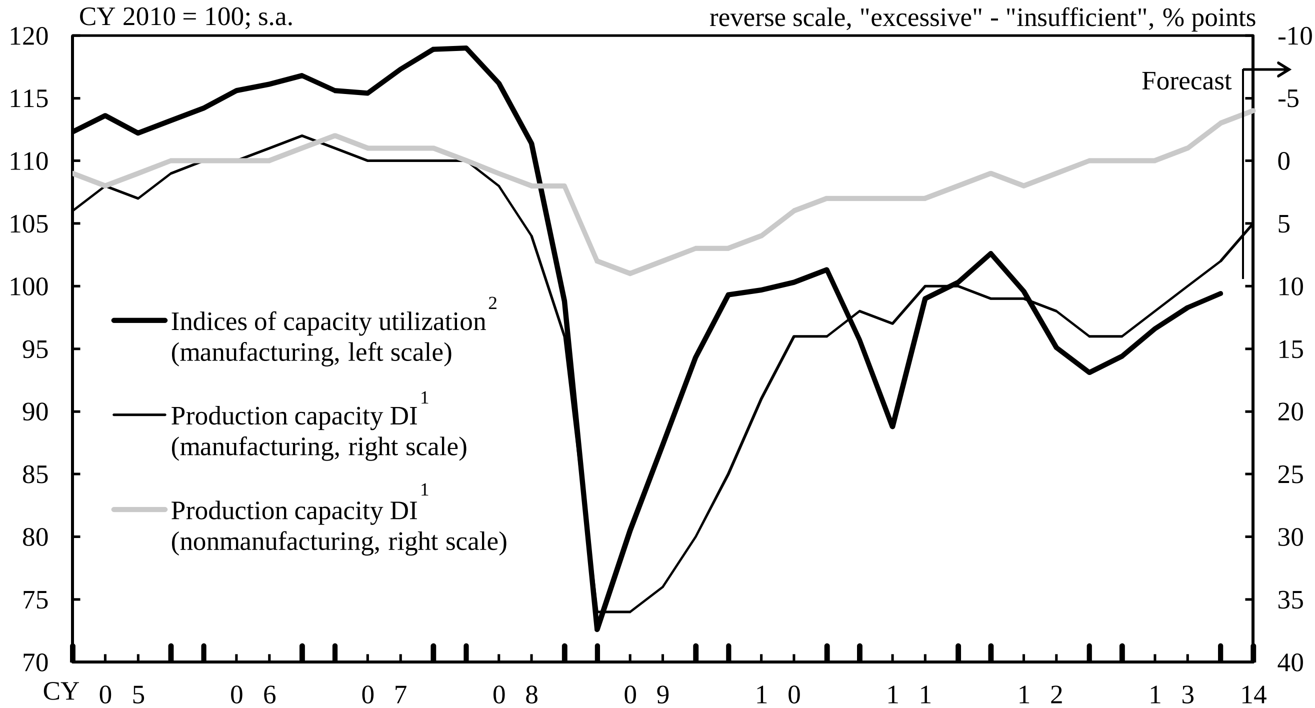
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2013/Q4 are October-November averages.

(2) Indices of Capacity Utilization and Production Capacity DI

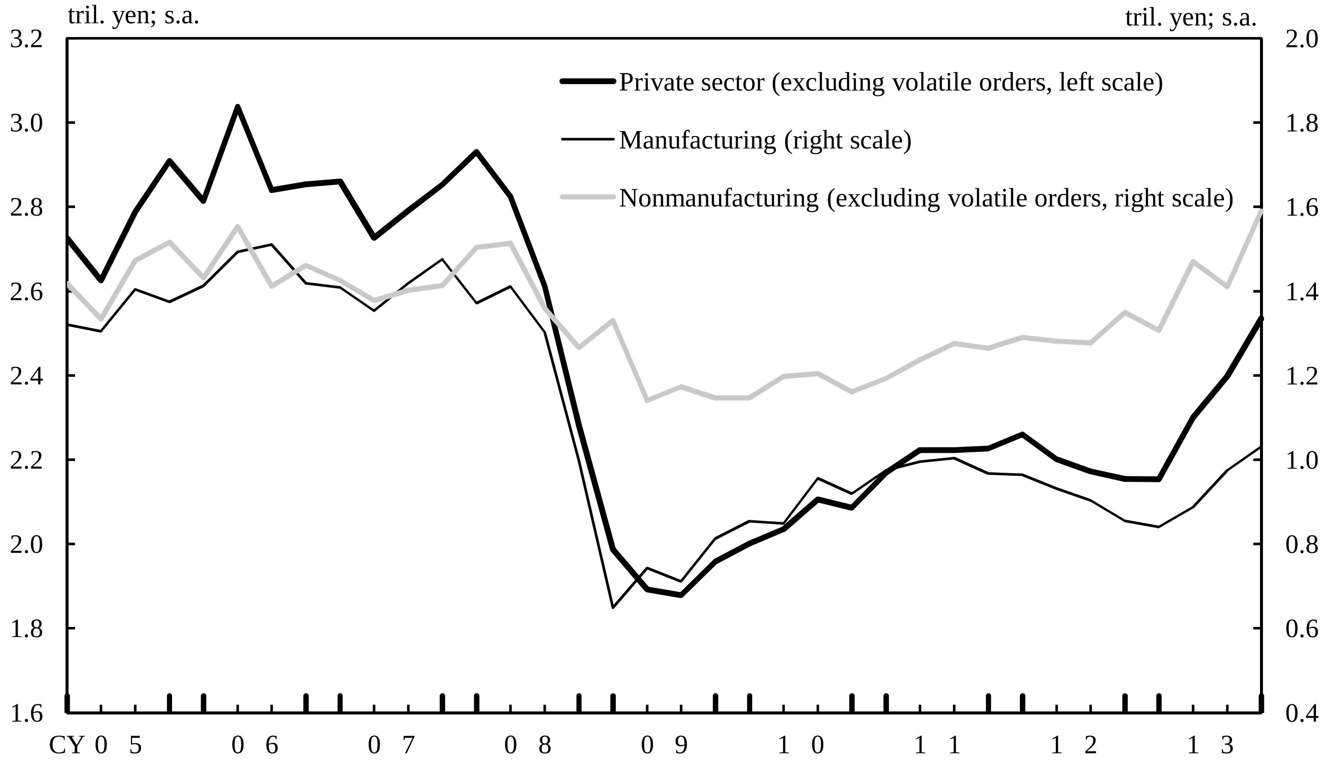


Notes: 1. Production capacity DIs are those of all enterprises.
2. The figure for 2013/Q4 is the average of October-November.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

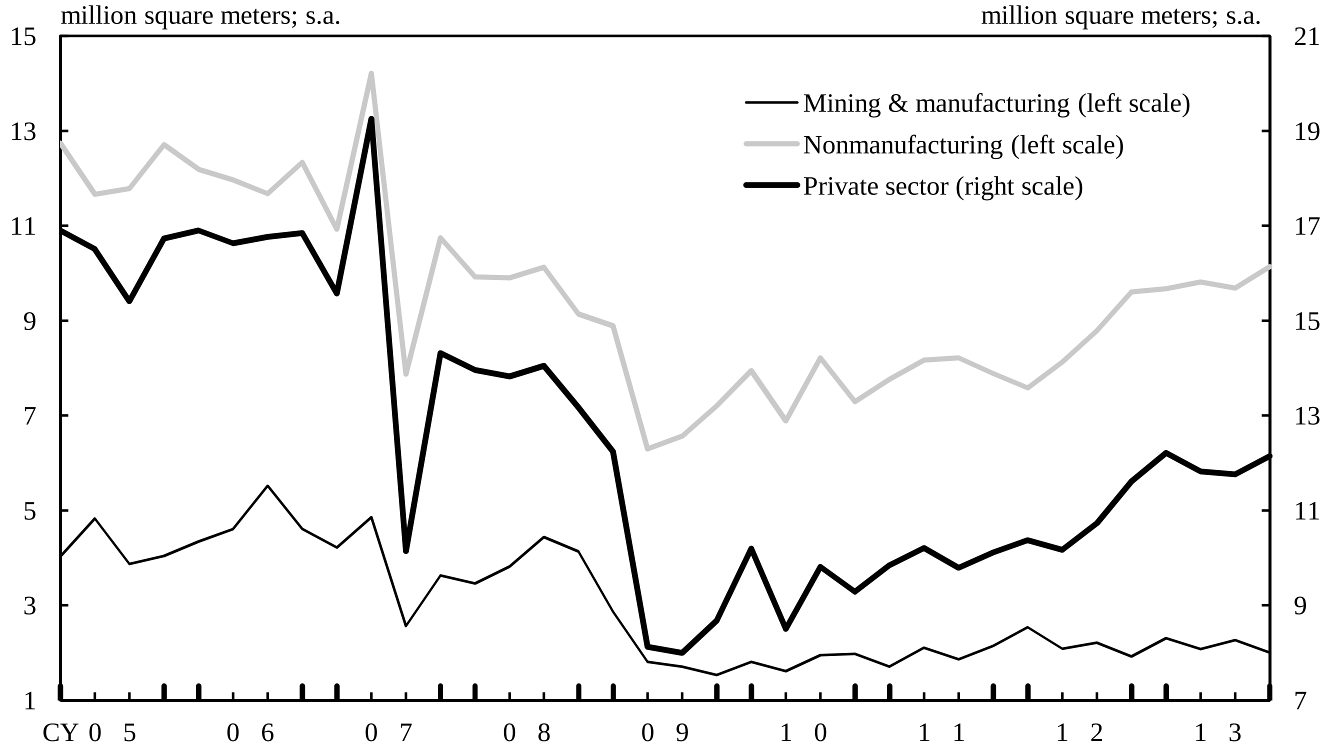
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Figures for 2005/Q1 are estimated by the Cabinet Office.
2. Volatile orders: Orders for ships and those from electric power companies.
3. Figures for 2013/Q4 are October-November averages in quarterly amount.

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

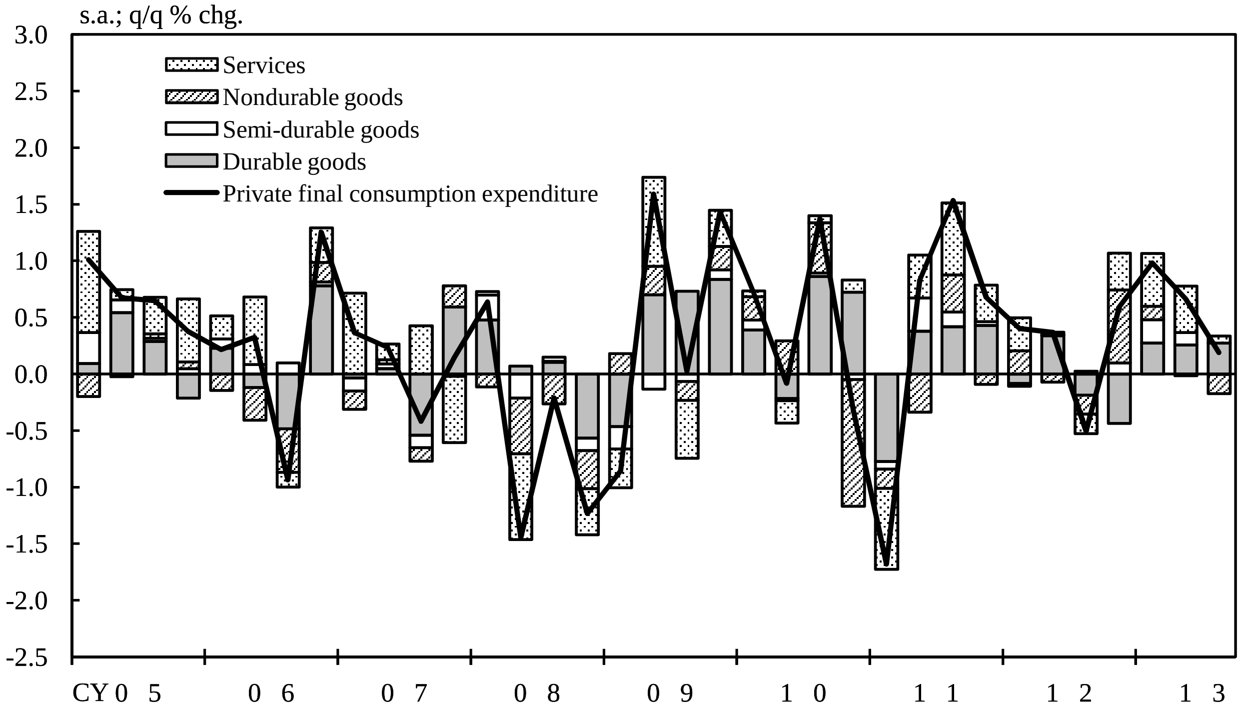


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2013/Q4 are October-November averages in quarterly amount.

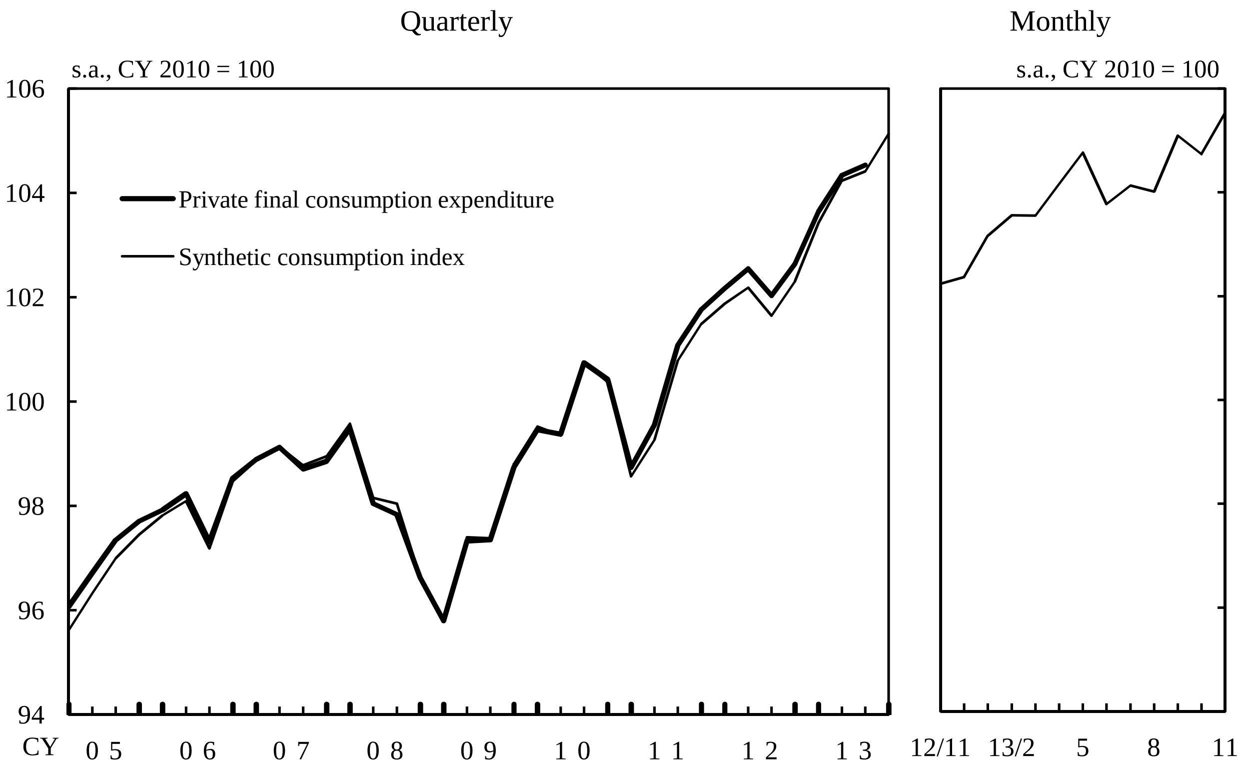
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



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

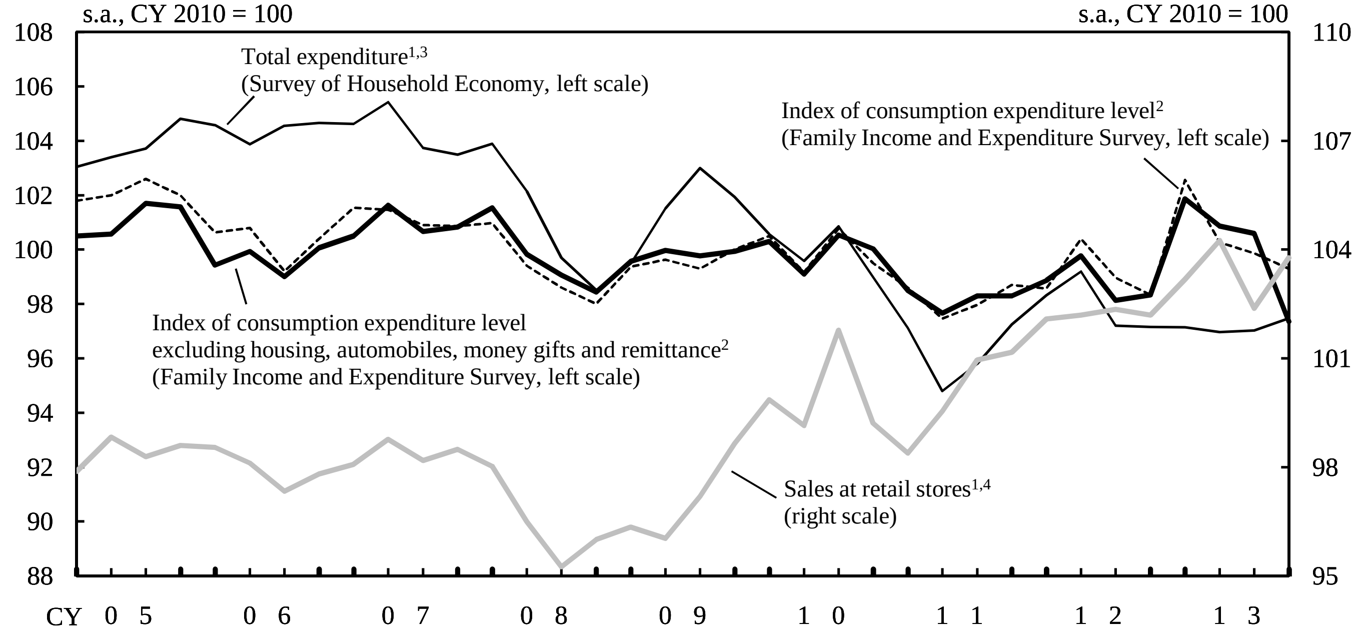


Note: The figure of the synthetic consumption index for 2013/Q4 is the average of October-November in quarterly amount.

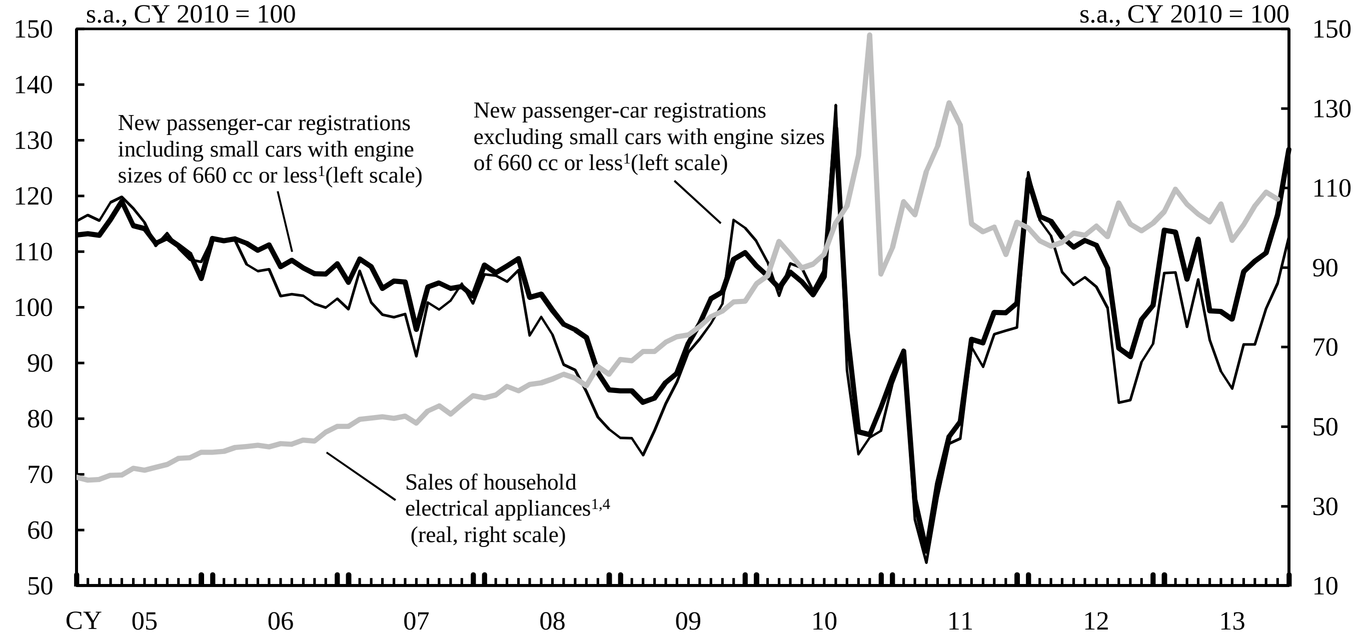
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)[5]



(2) Sales of Durable Goods

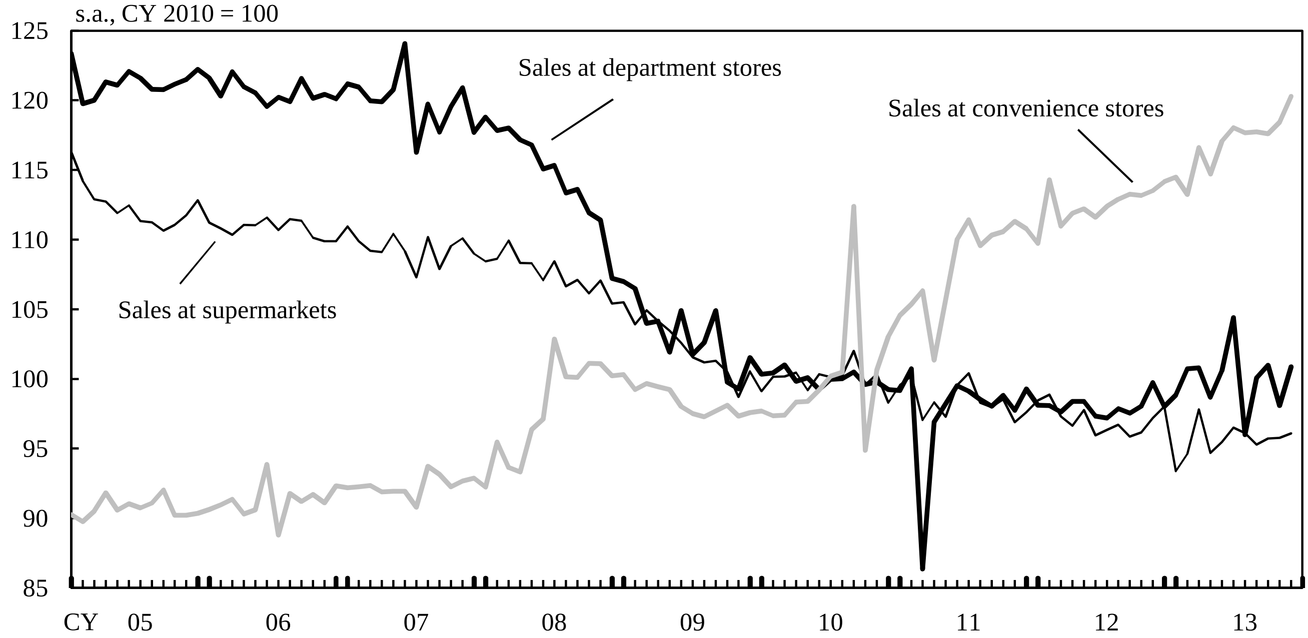


Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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.
5. Figures for 2013/Q4 are those of October-November averages in quarterly amount.

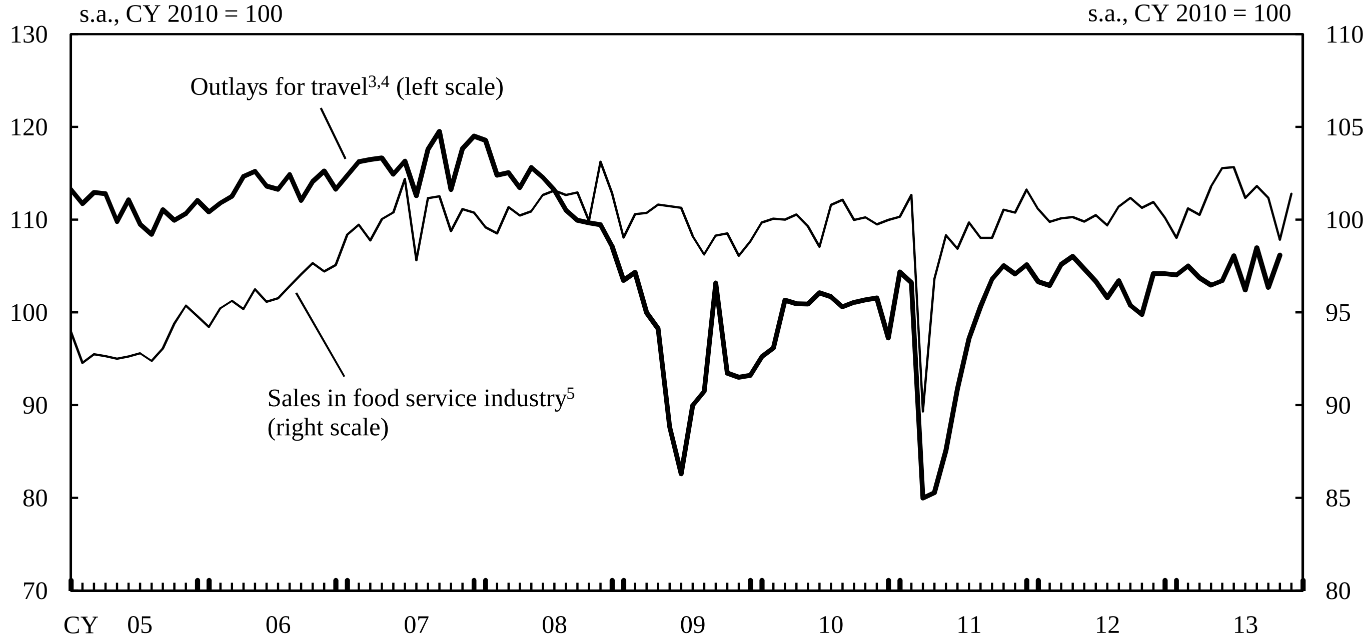
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index,"
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators of Private Consumption[1] (3)

(1) Sales at Retail Stores (Nominal)[2]



(2) Consumption of Services (Nominal)

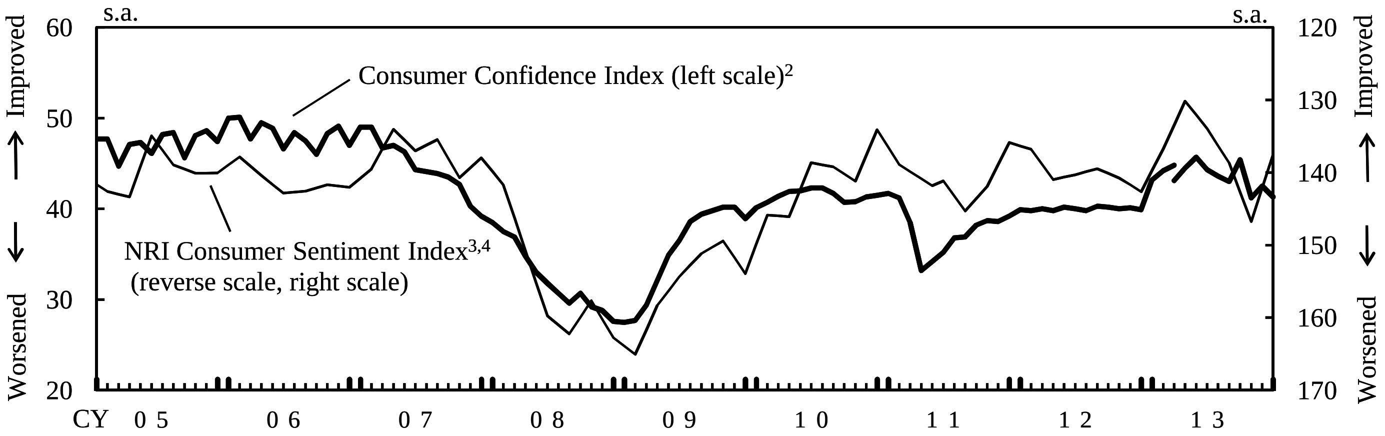


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).
3. Excluding those by foreign travelers.
4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.
5. "Sales in food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

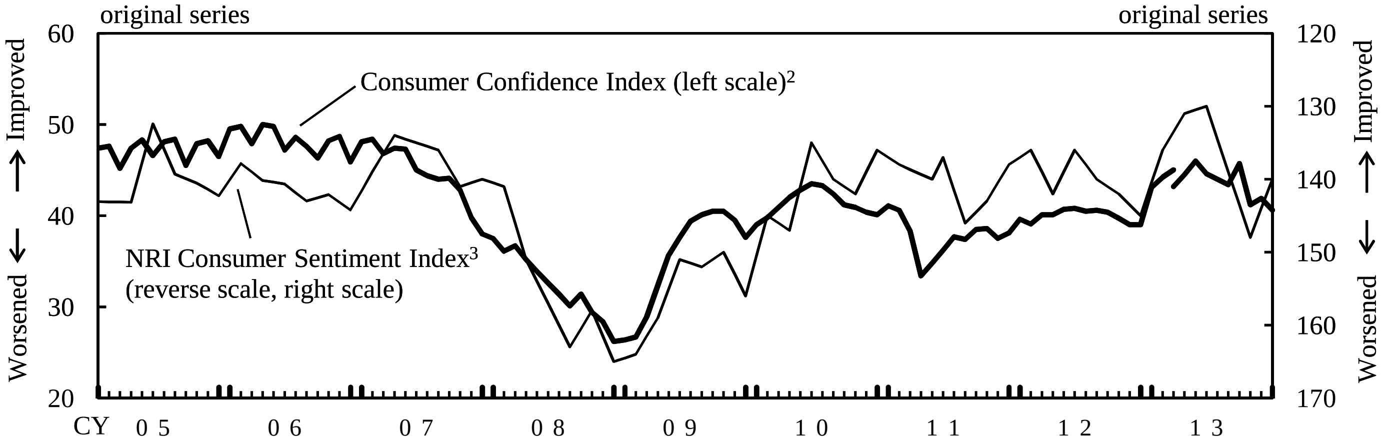
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Tourism Agency, "Major Travel Agents' Revenue";
Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey of food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou Shijou Doukou Chousa* (Research on the food service industry)."

Consumer Confidence[1]

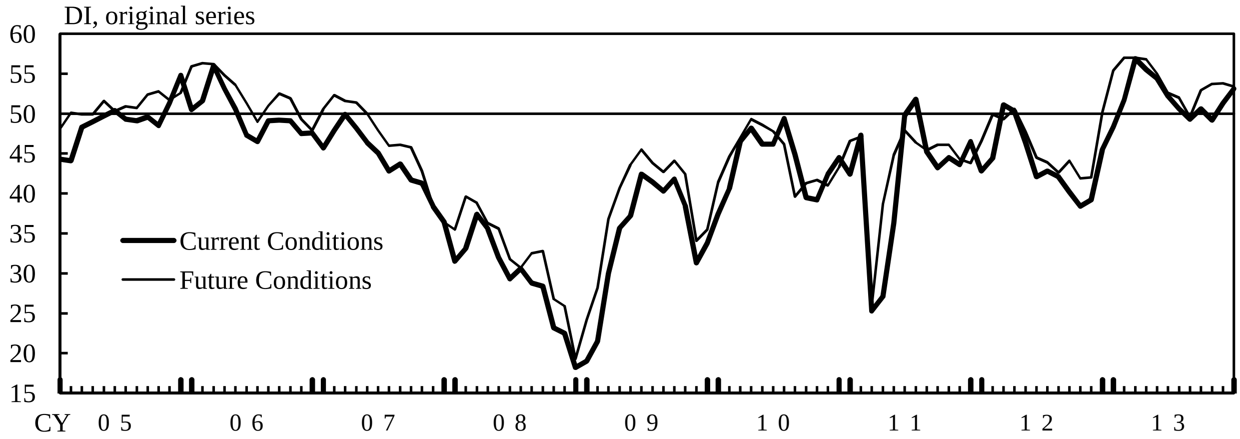
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)



Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

2. In April 2013, the Cabinet Office changed the method for conducting the Consumer Confidence Survey to a postal method, along with some other changes. For this reason, there is a discontinuity between data up to March 2013, which were obtained from the survey on a visit-and-leave method, and those thereafter. The figure for March 2013 on a postal-method basis is obtained from an examination survey.

3. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.

4. Figures are seasonally adjusted by X-12-ARIMA.

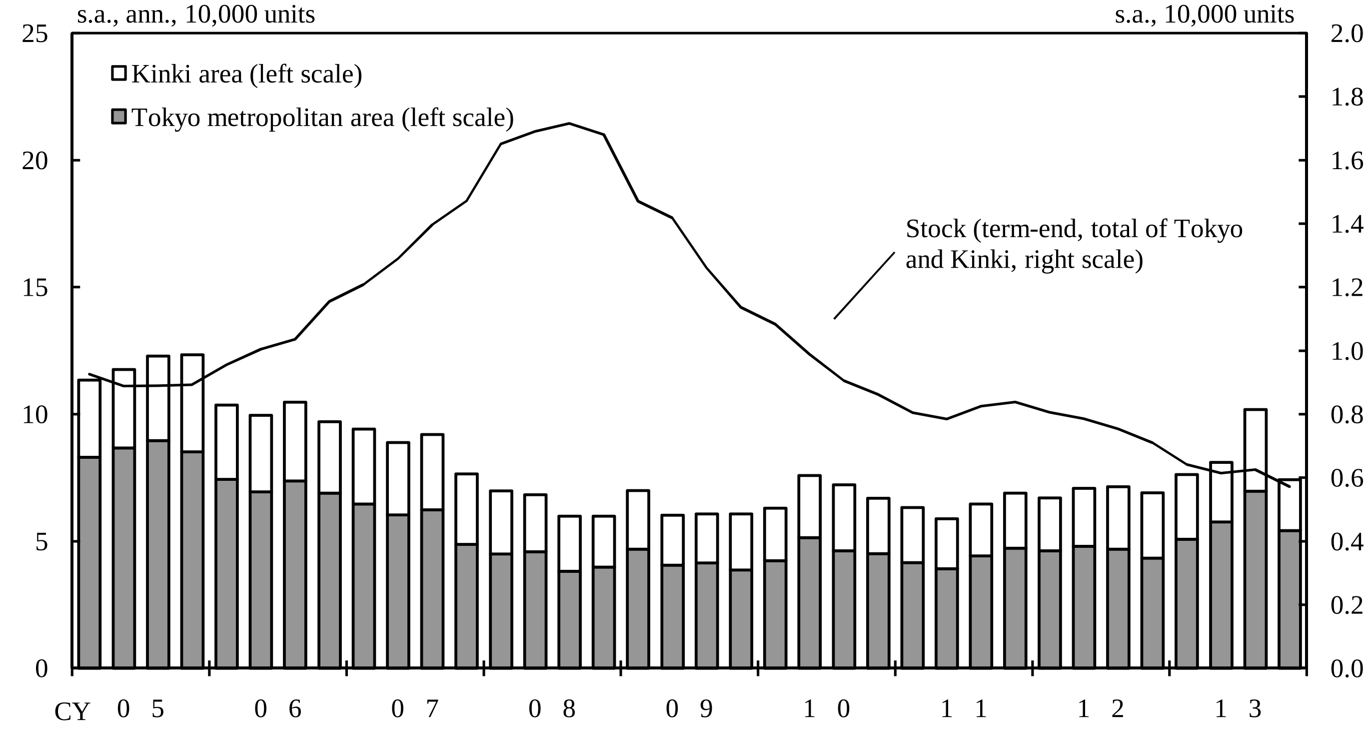
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts

Note: Figures for 2013/Q4 are October-November averages.

(2) Sales of Apartments

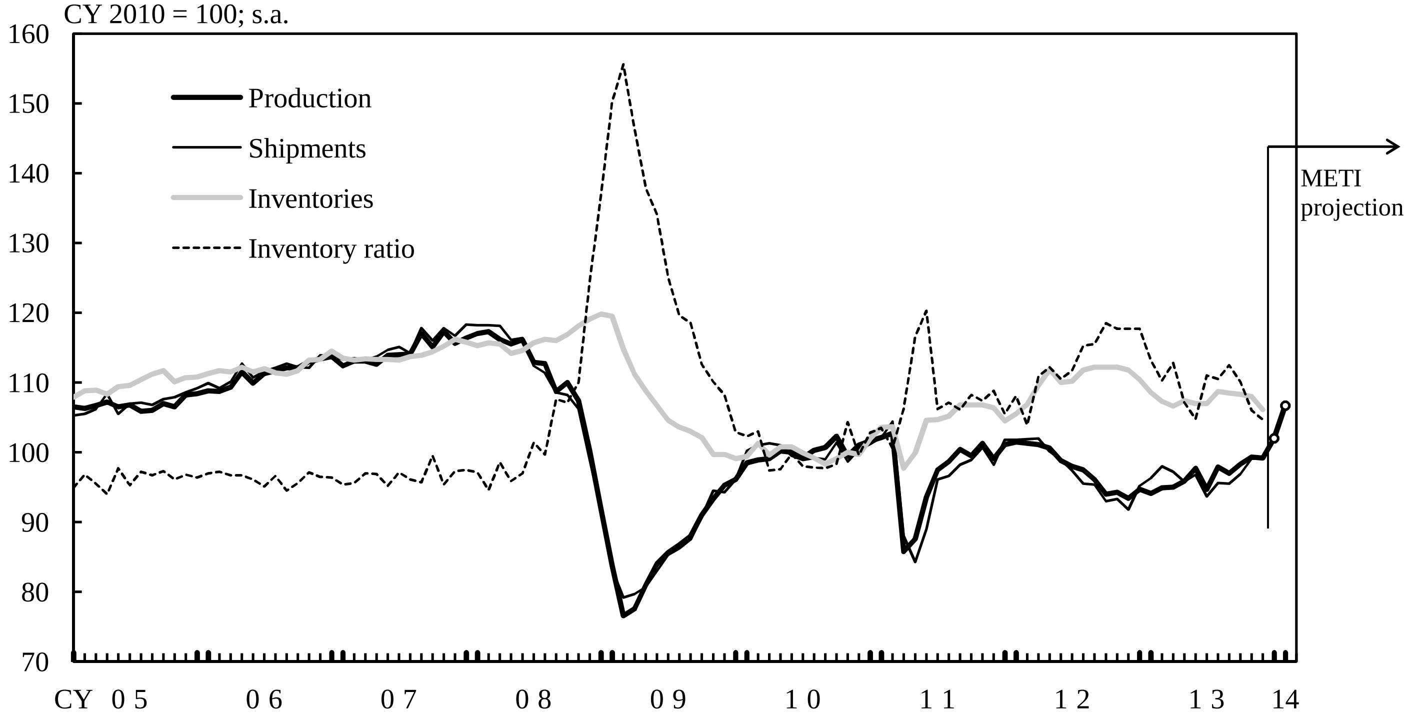


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. The figure of total apartment sales for 2013/Q4 is the October-November average. The term-end stock for 2013/Q4 is that of November.

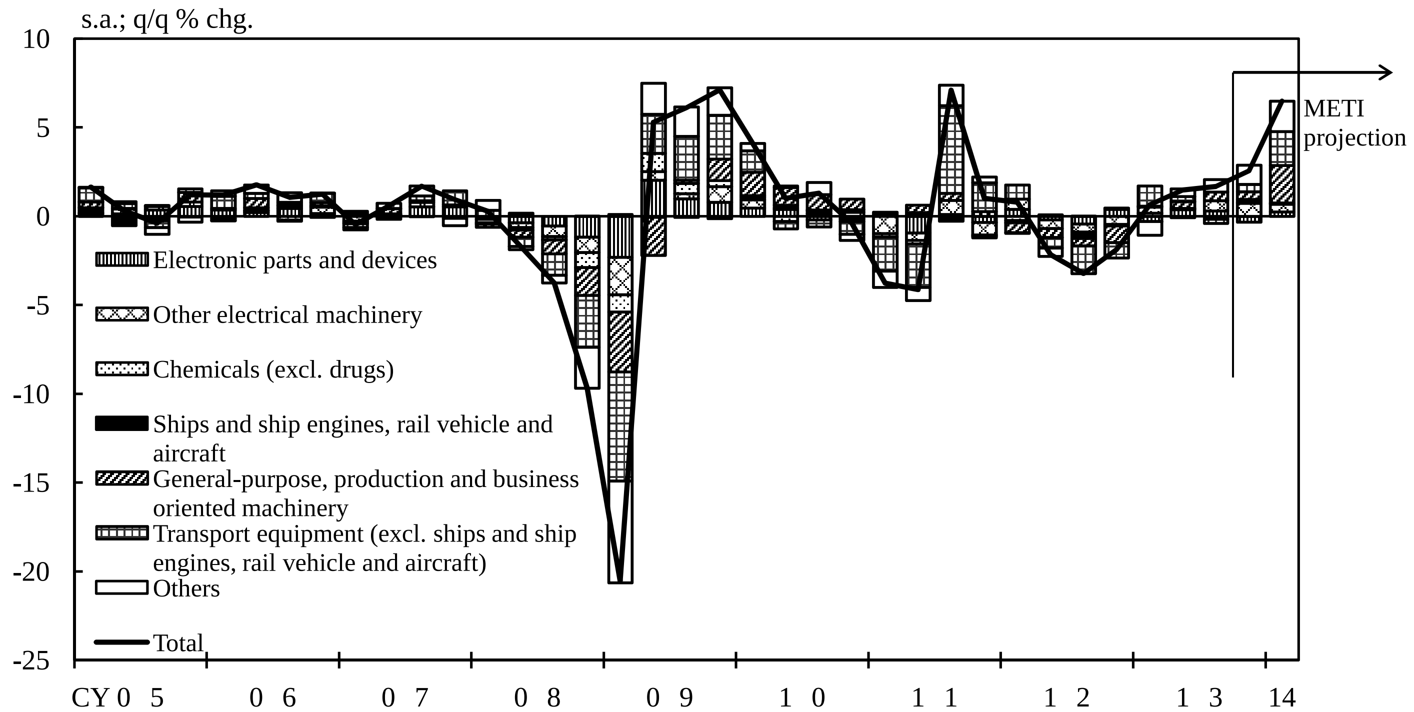
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industry[1,2,3]



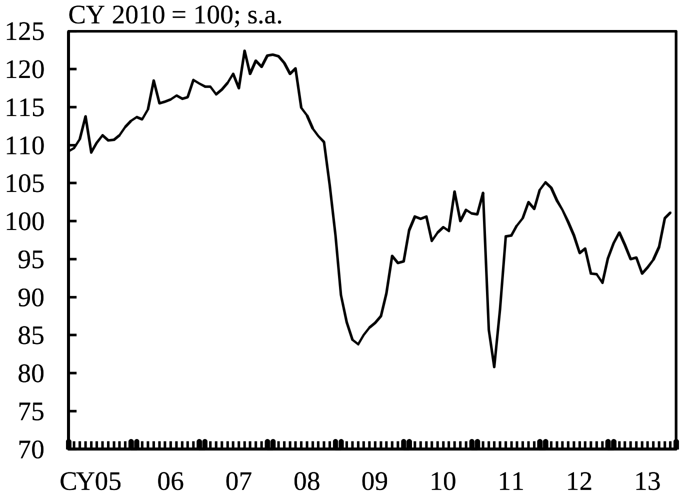
Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
2. Figures up to 2008/Q1 are on the 2005 base.
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."
3. 2013/Q4 figures are based on the actual production levels in October and November, and the METI projection of December. 2014/Q1 figures are based on the assumption that the production levels in February and March are the same as those of January.

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

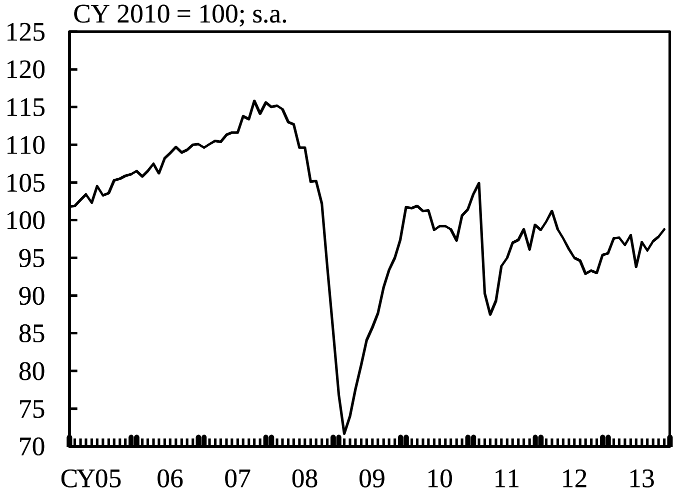
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods

Final demand goods <49.7%>



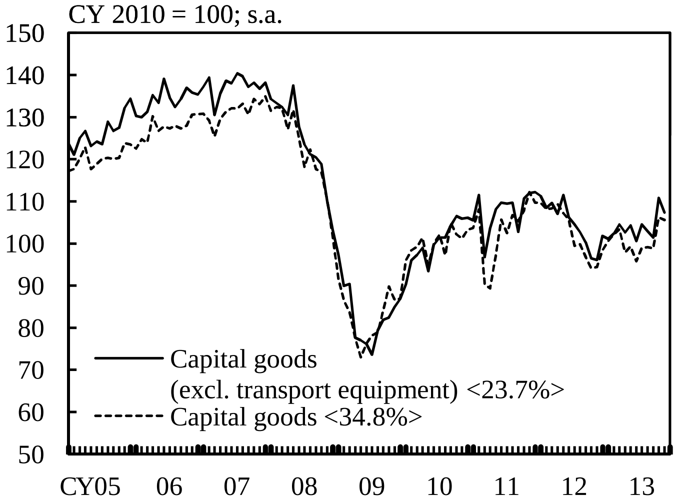
Producer goods <50.3%>



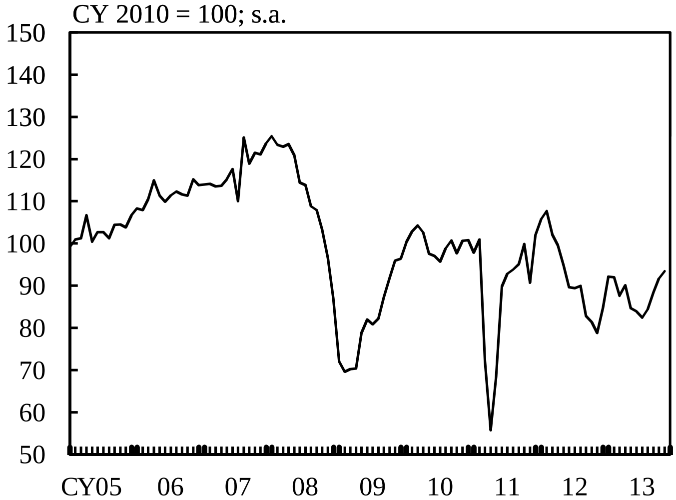
Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

(2) Breakdown of Final Demand Goods

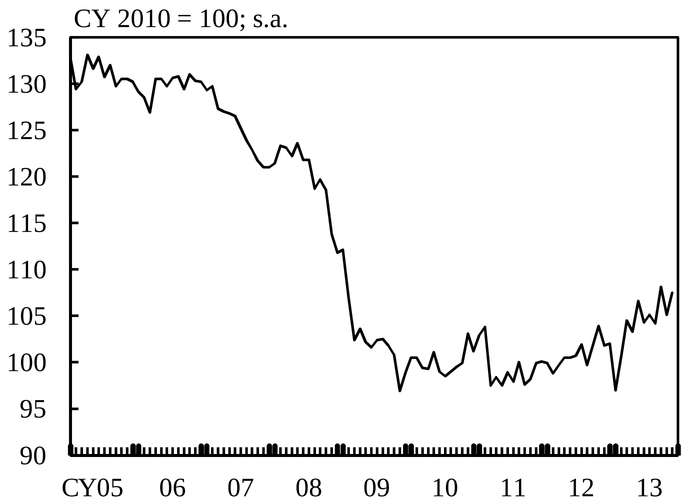
Capital goods



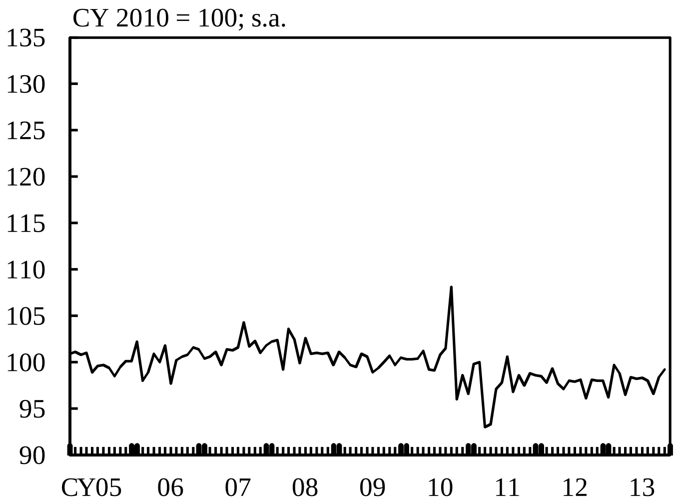
Durable consumer goods <30.6%>



Construction goods <11.1%>



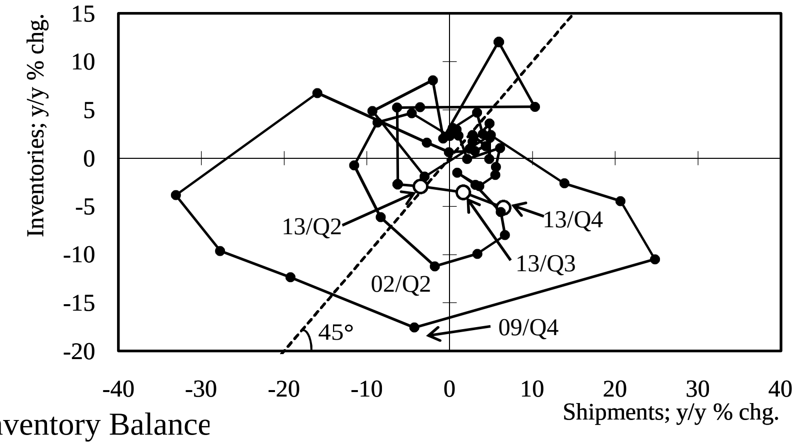
Non-durable consumer goods <23.5%>



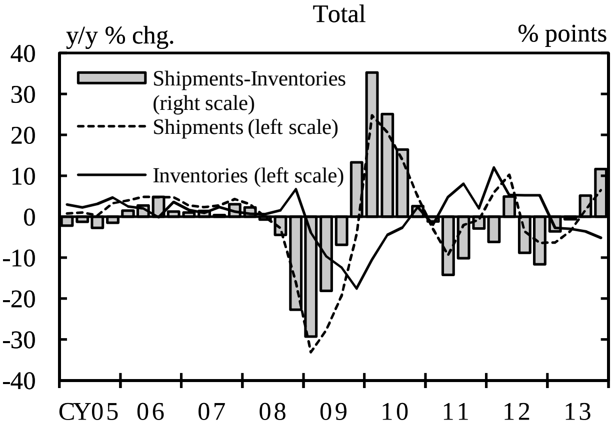
Note: Figures in angle brackets show the shares among shipments of final demand goods.
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

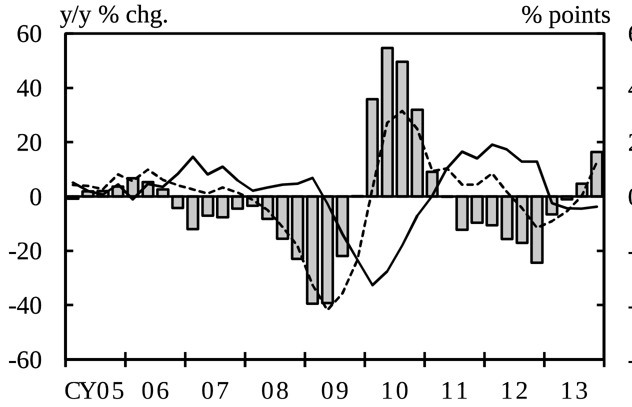
Inventory Cycle

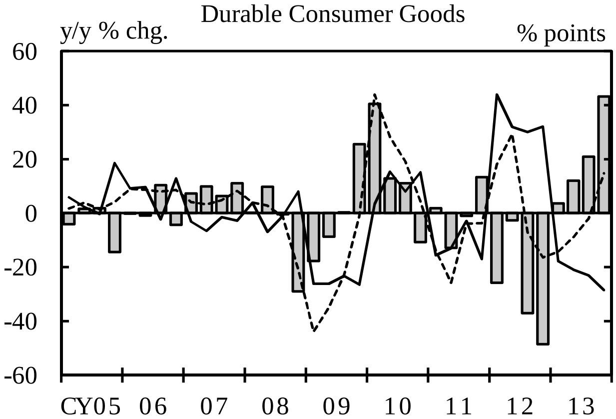
(1) Inventory Cycle (Total)

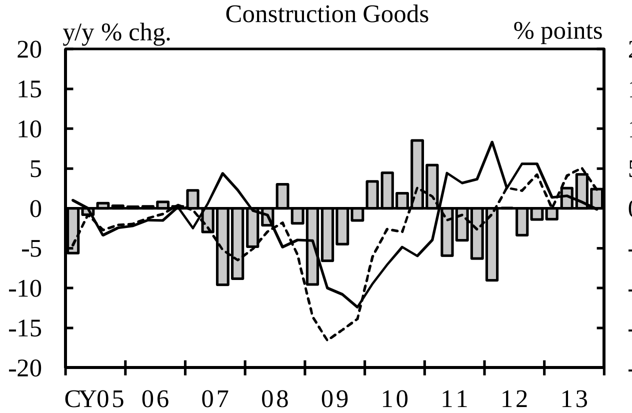


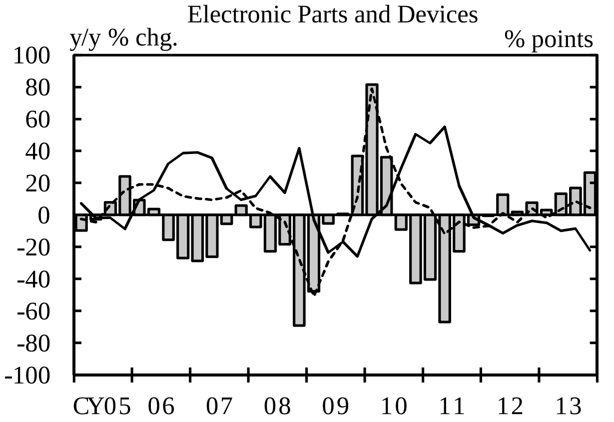
(2) Shipment-Inventory Balance

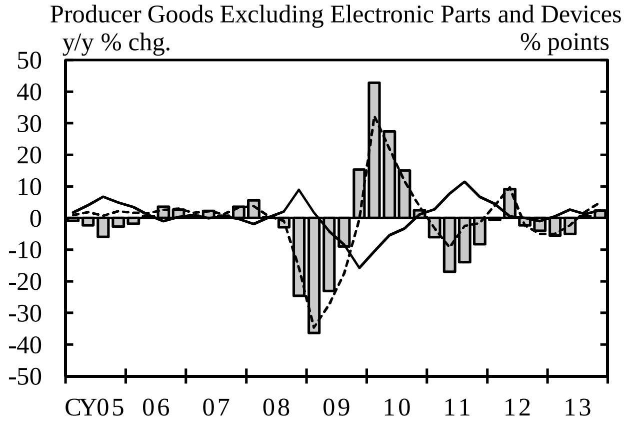










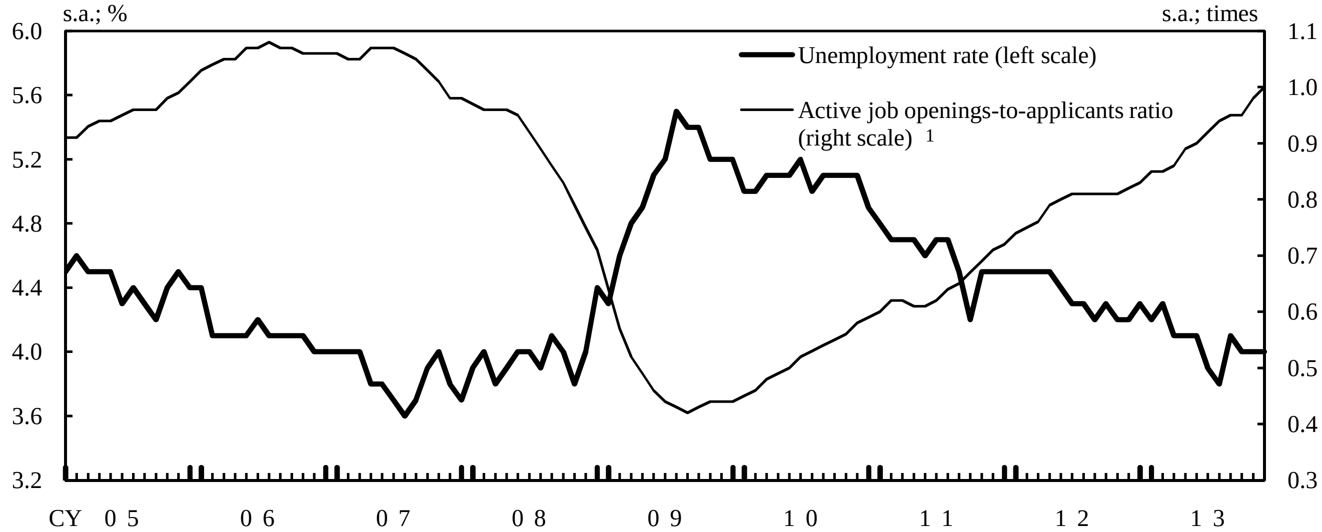


Note: Figures of shipments for 2013/Q4 are October-November averages.
Inventories for 2013/Q4 are those of November.

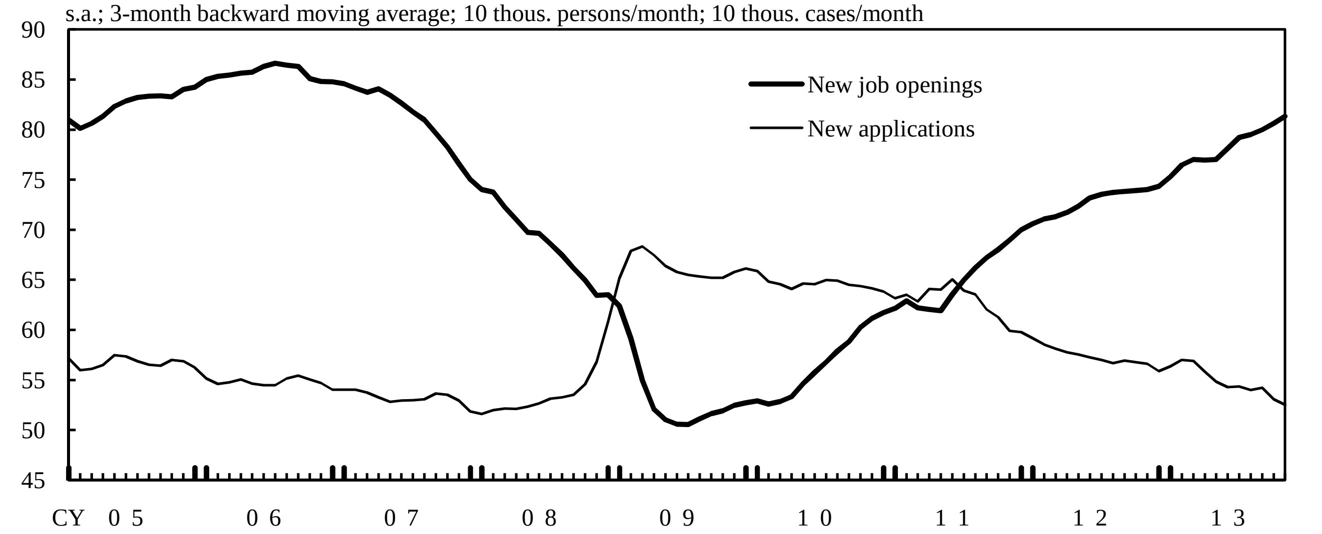
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

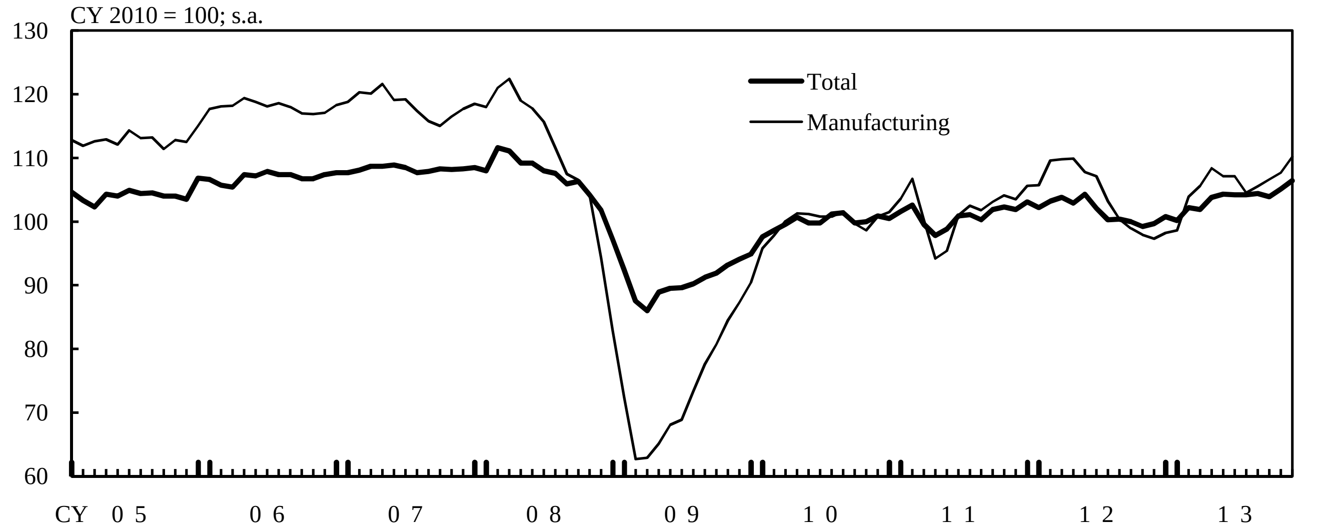
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications[1]



(3) Non-Scheduled Hours Worked[2]

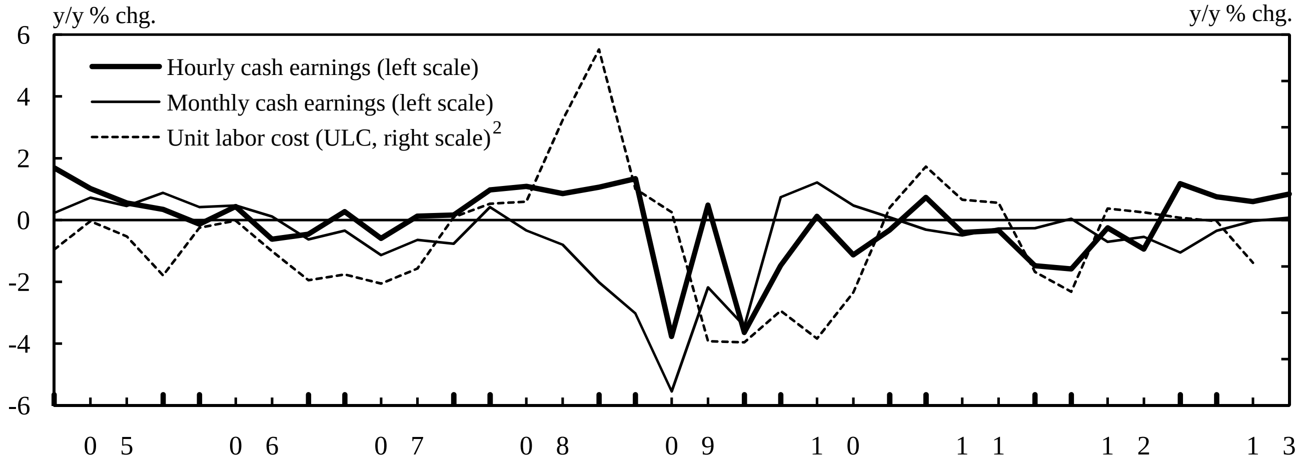


Notes: 1. Excluding new school graduates and including part-timers.
2. Data are for establishments with at least five employees.

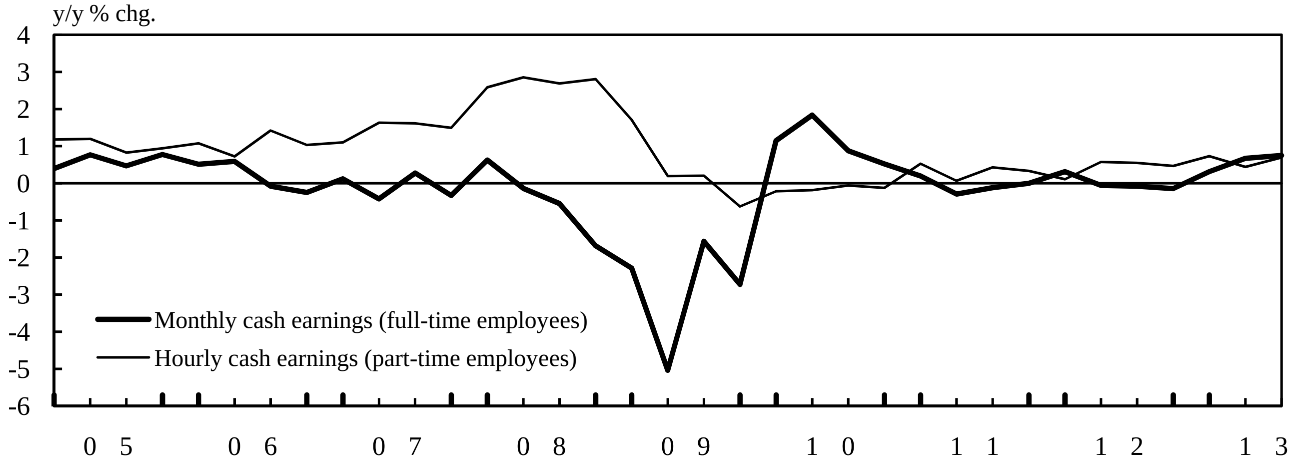
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Wages

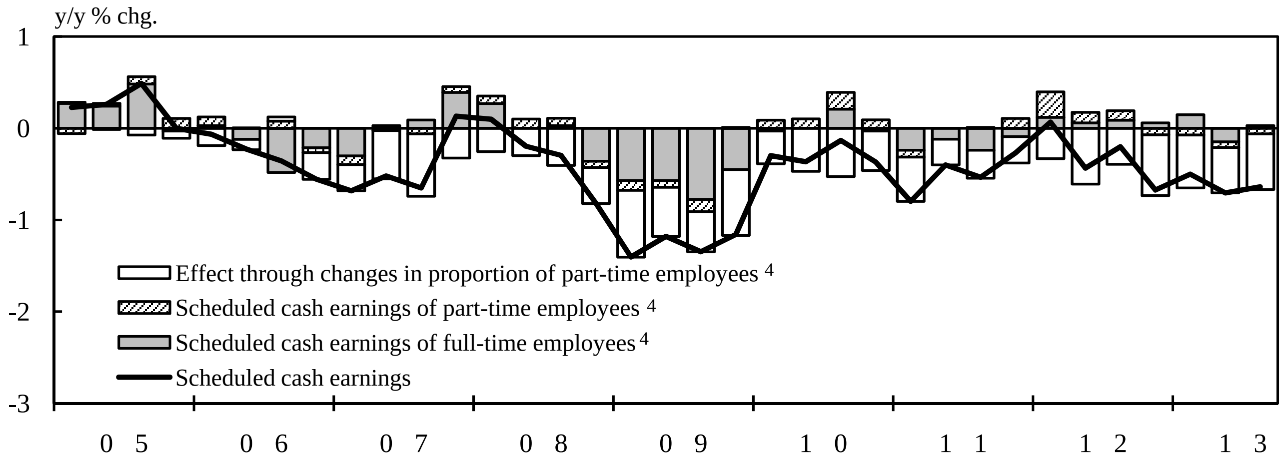
(1) Total[1,3]



(2) Cash Earnings by Type of Worker[1,3]



(3) Breakdown of Scheduled Cash Earnings[1,3]



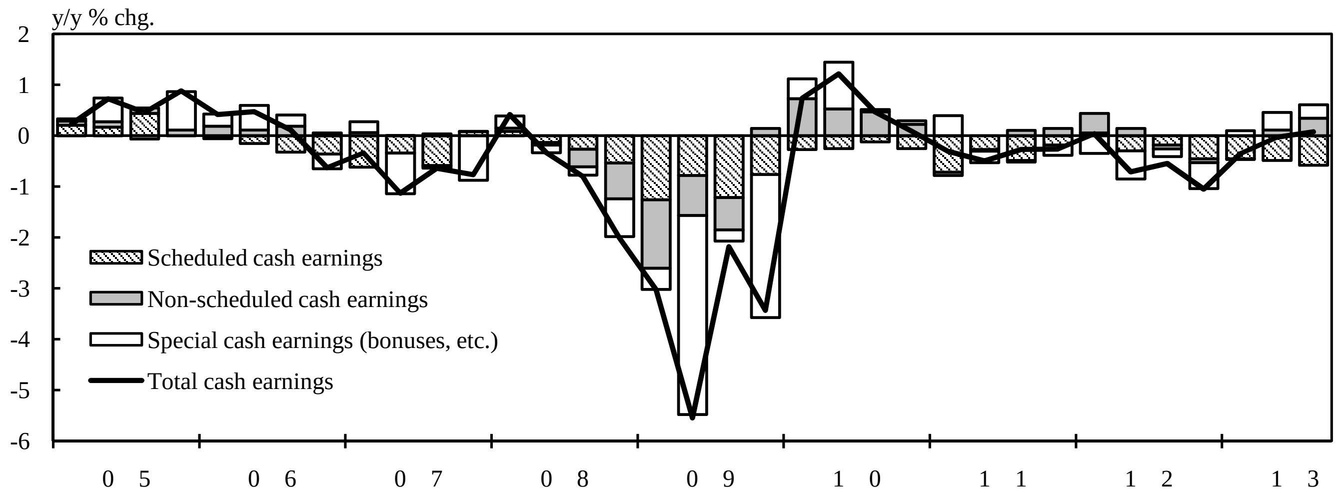
Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. ULC = nominal compensation of employees (SNA) / real GDP
3. Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
ULC : Q1 = April-June, Q2 = July-September, 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."

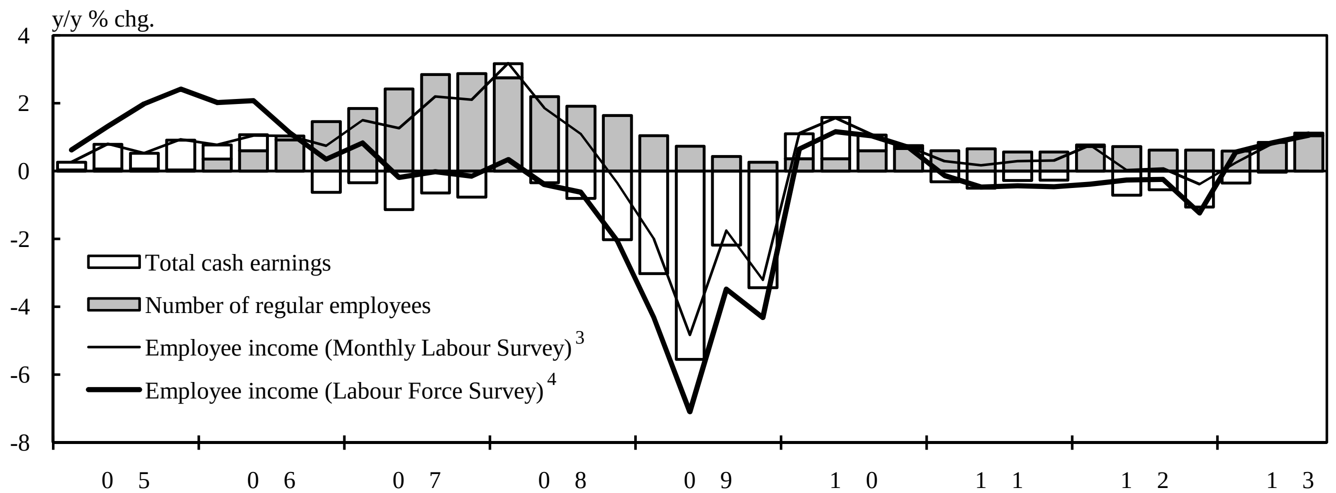
Employee Income

(1) Number of Employees[1,5]

(2) Breakdown of Total Cash Earnings[1,2]



(3) Breakdown of Employee Income[1,2]

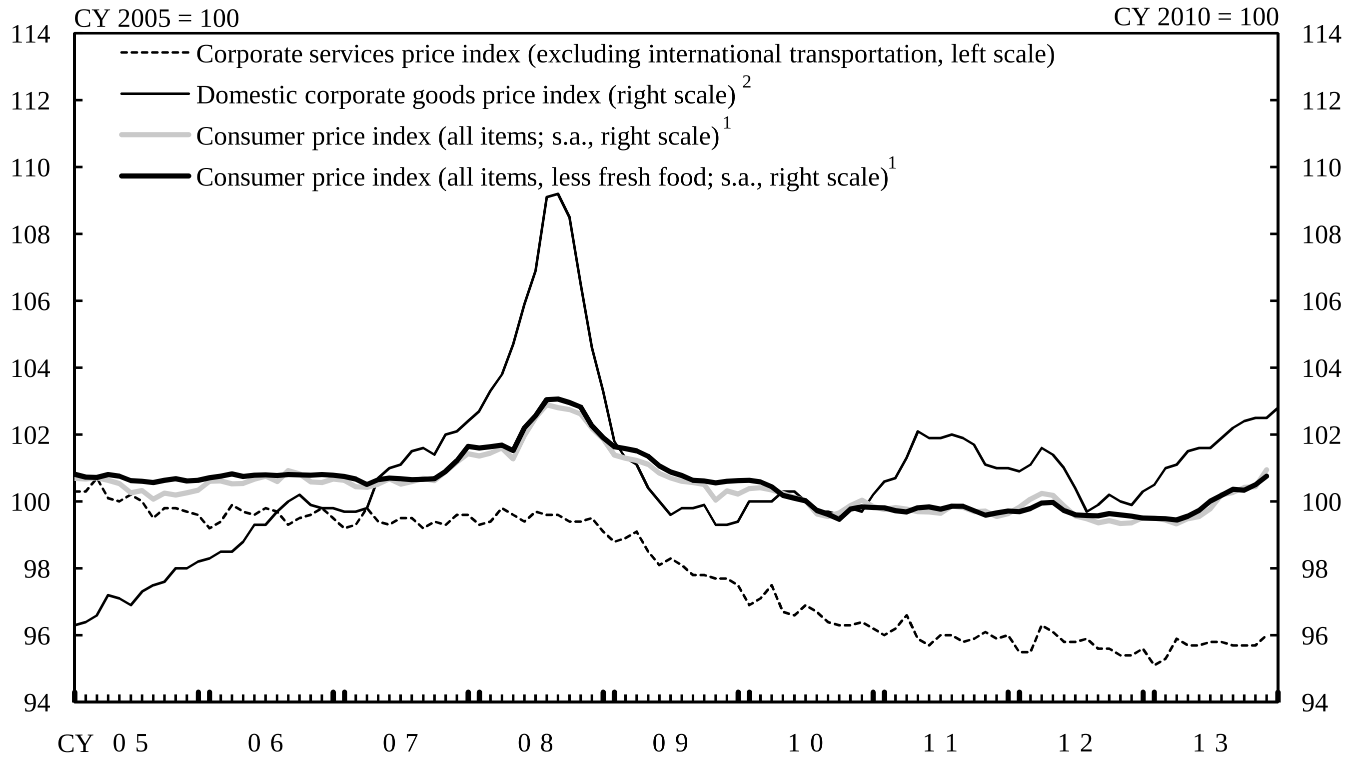


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour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

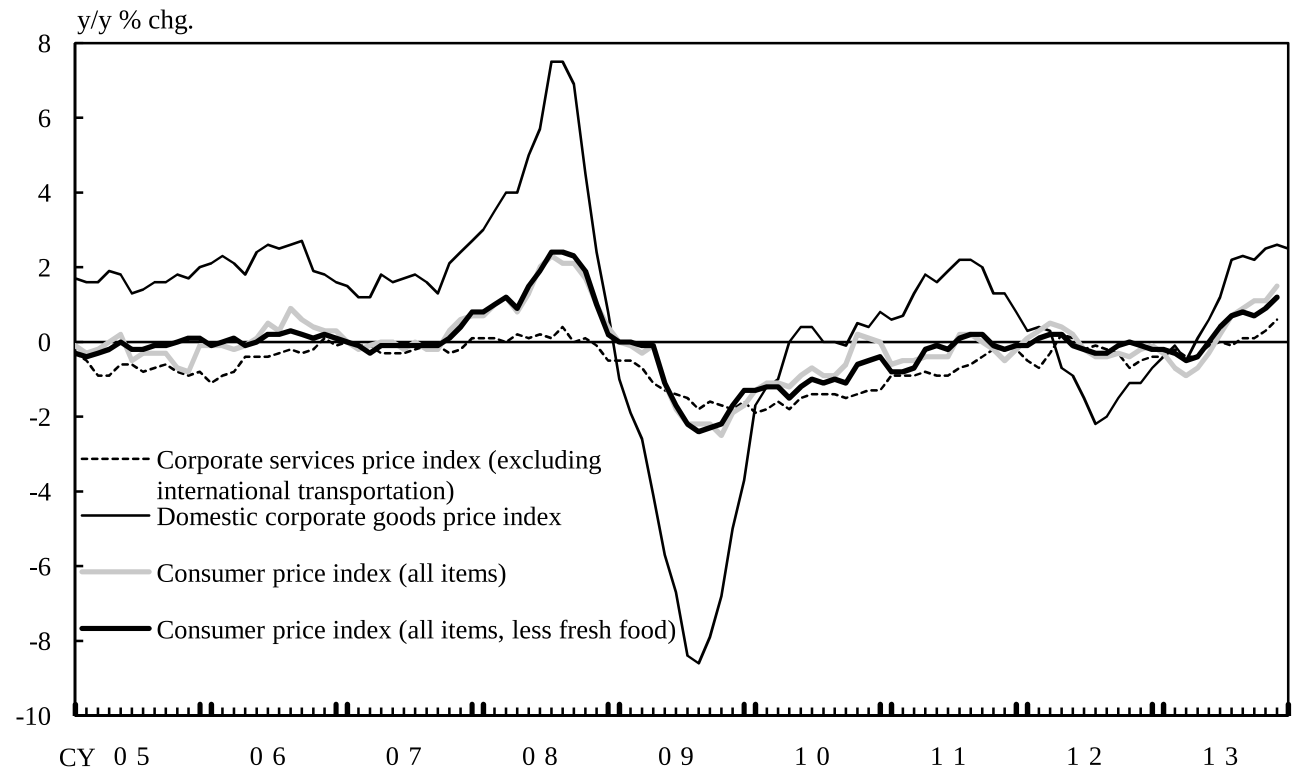
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier

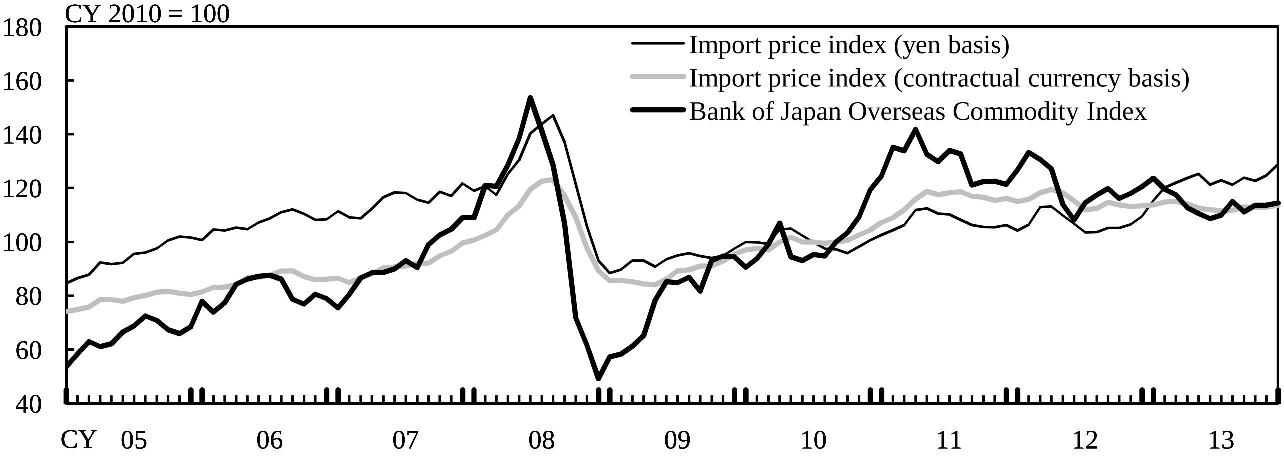


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.
4. Figures of "Corporate Services Price Index" up to 2004 and "Corporate Goods Price Index" up to 2009 are based on the linked indices.

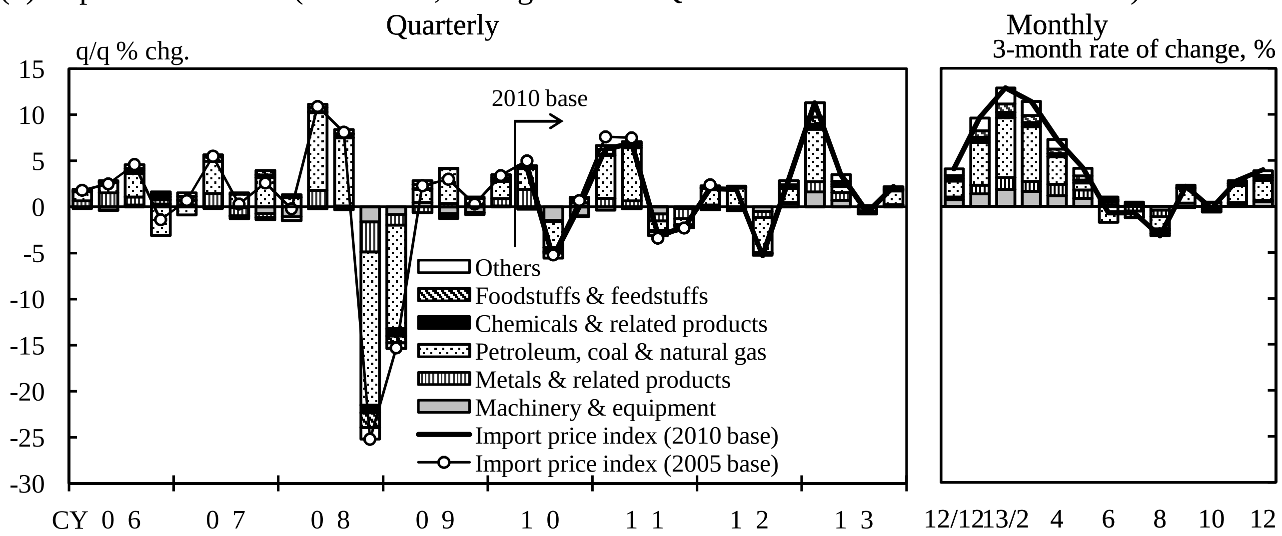
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

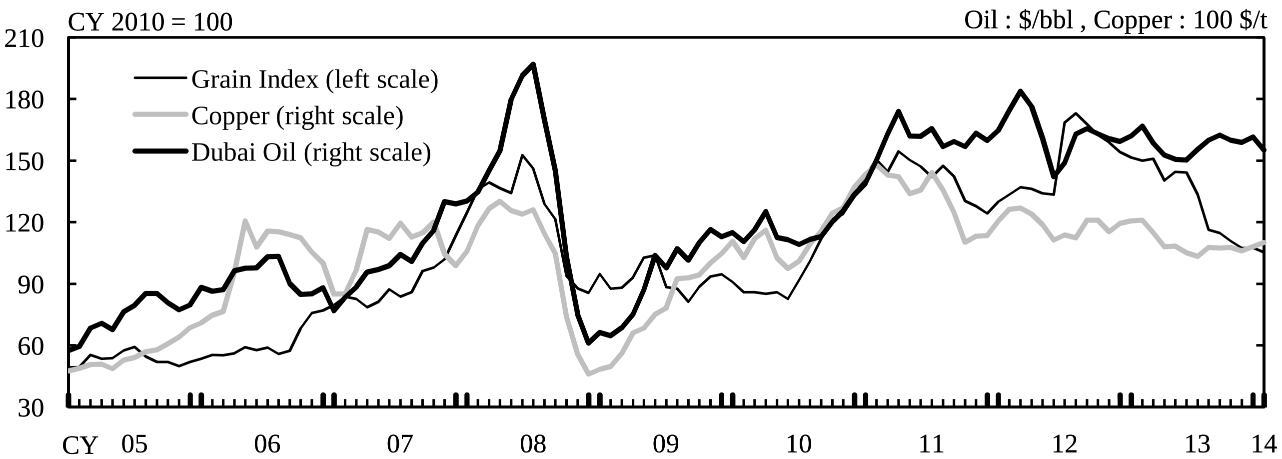


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

(3) International Commodity Prices

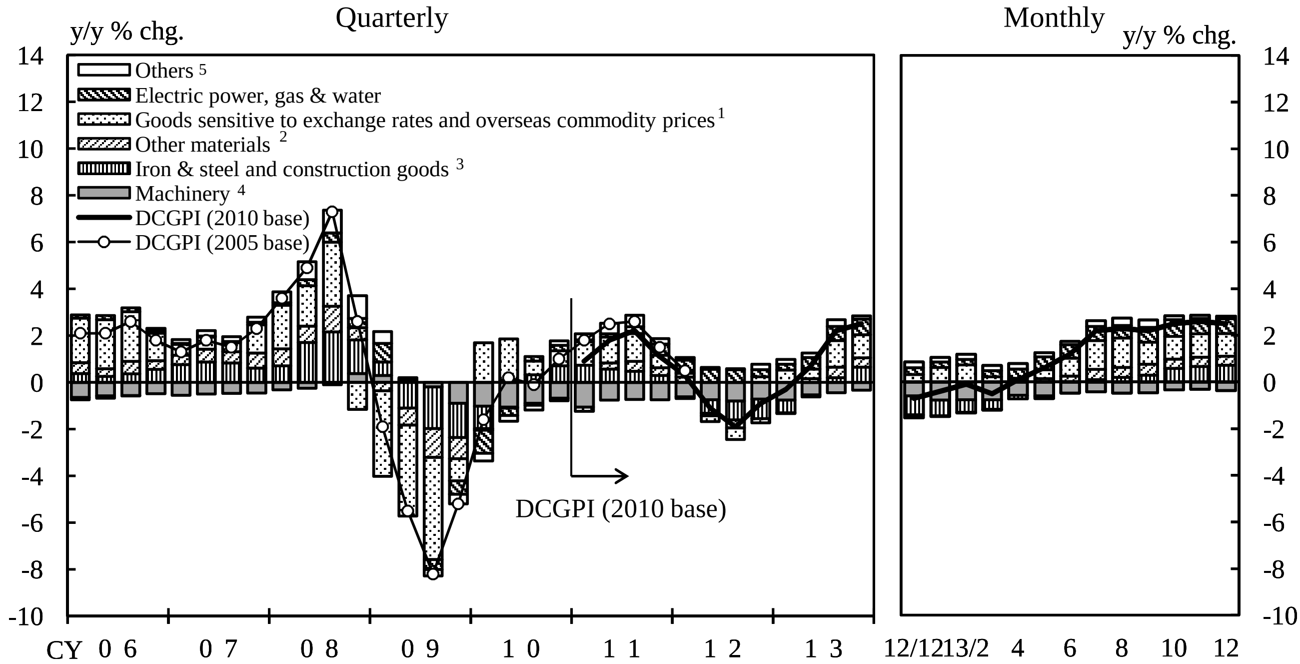


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for January 2014 are averages up to January 21.

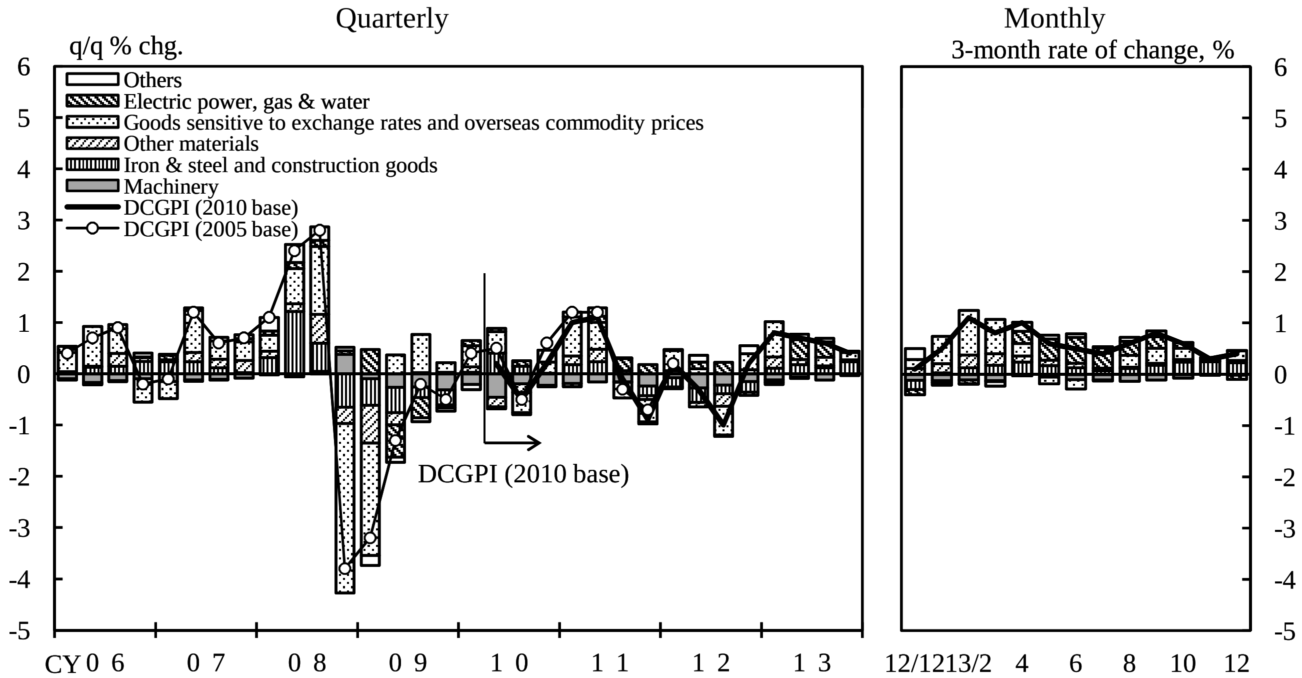
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index

(1) Changes from a Year Earlier



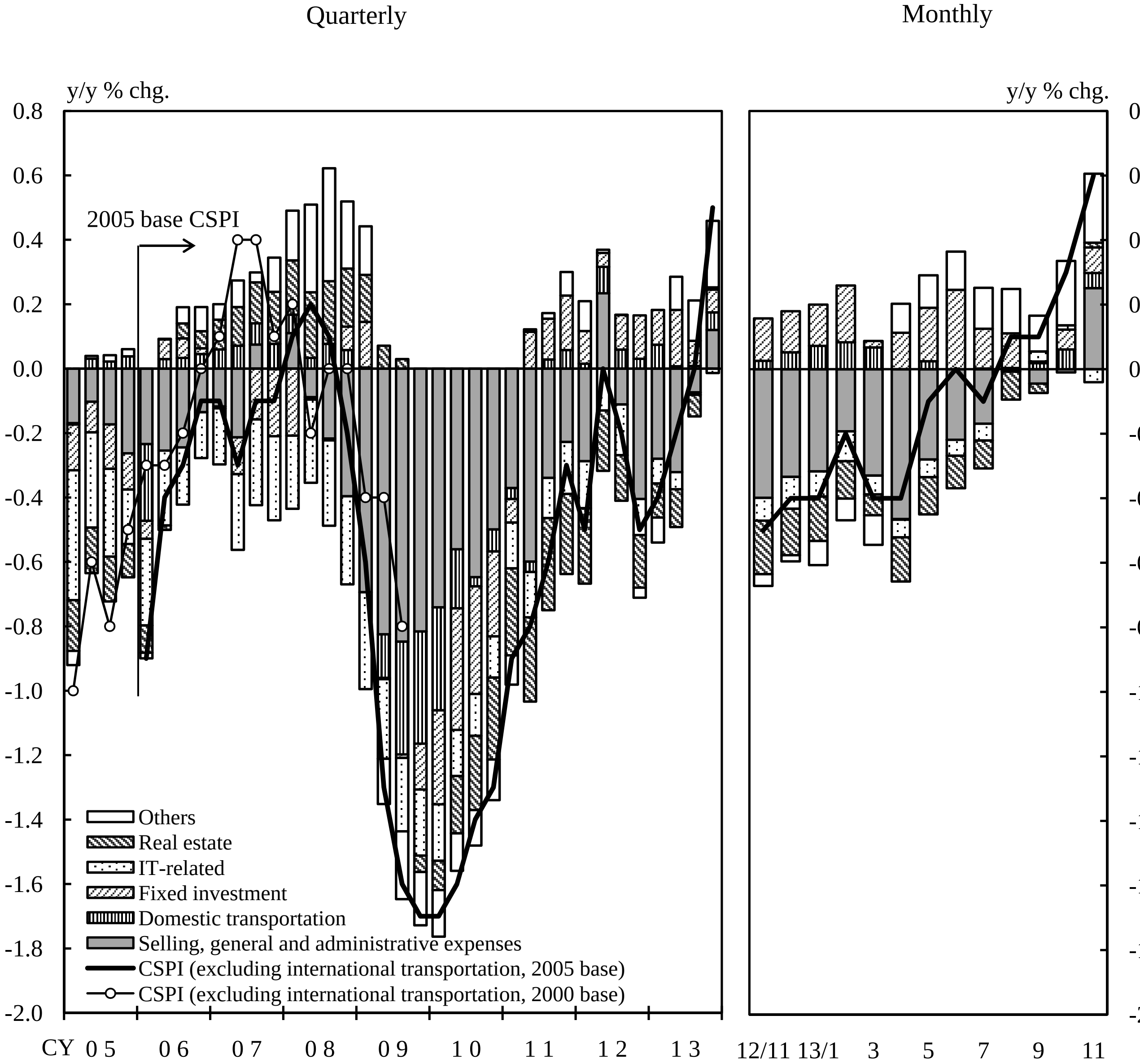
(2) Changes from a Quarter Earlier and 3 Months Earlier [6]



Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.
2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.
4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.
6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Domestic Corporate Goods Price Index" fall by about 0.2%.

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

Corporate Services Price Index

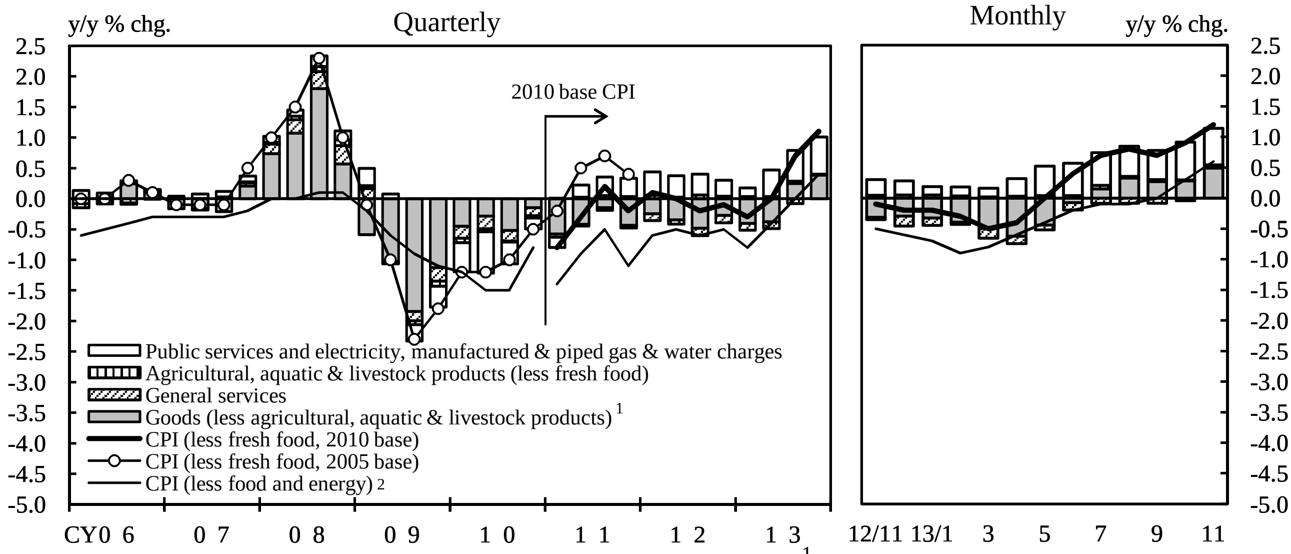


Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
2. Domestic transportation: transportation (excluding international 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 2013/Q4 are October-November averages. Figures for 2009/Q3 on the 2000 base are July-August averages.

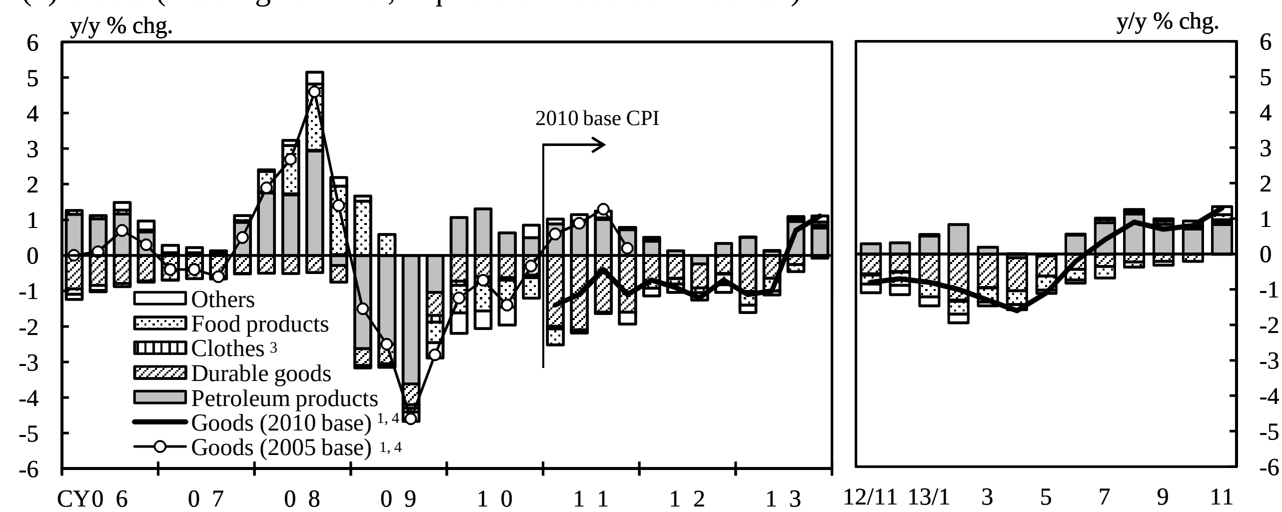
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

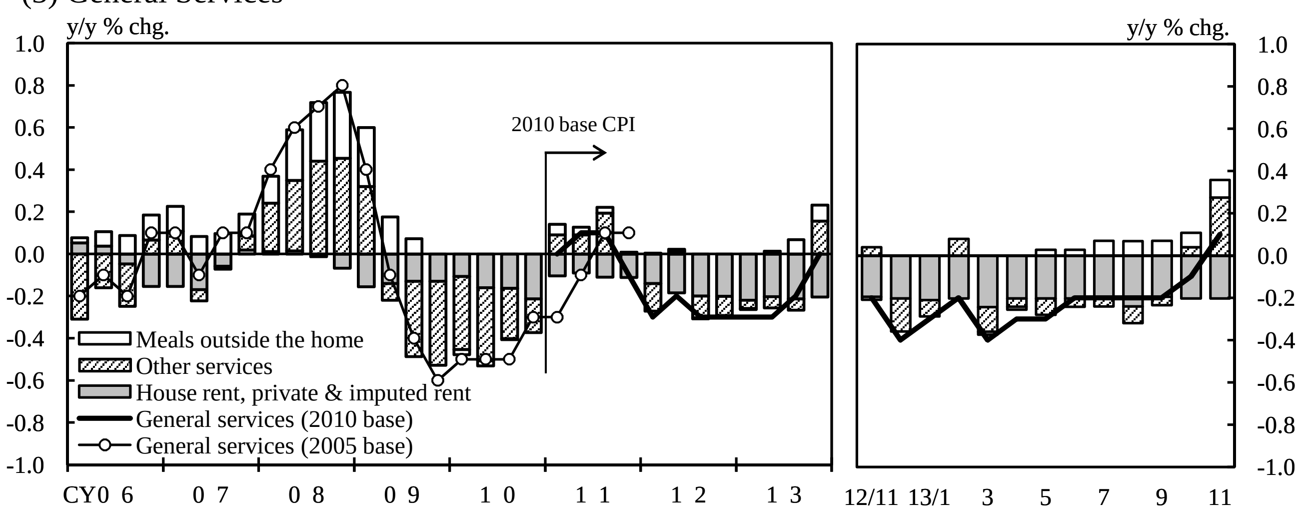
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

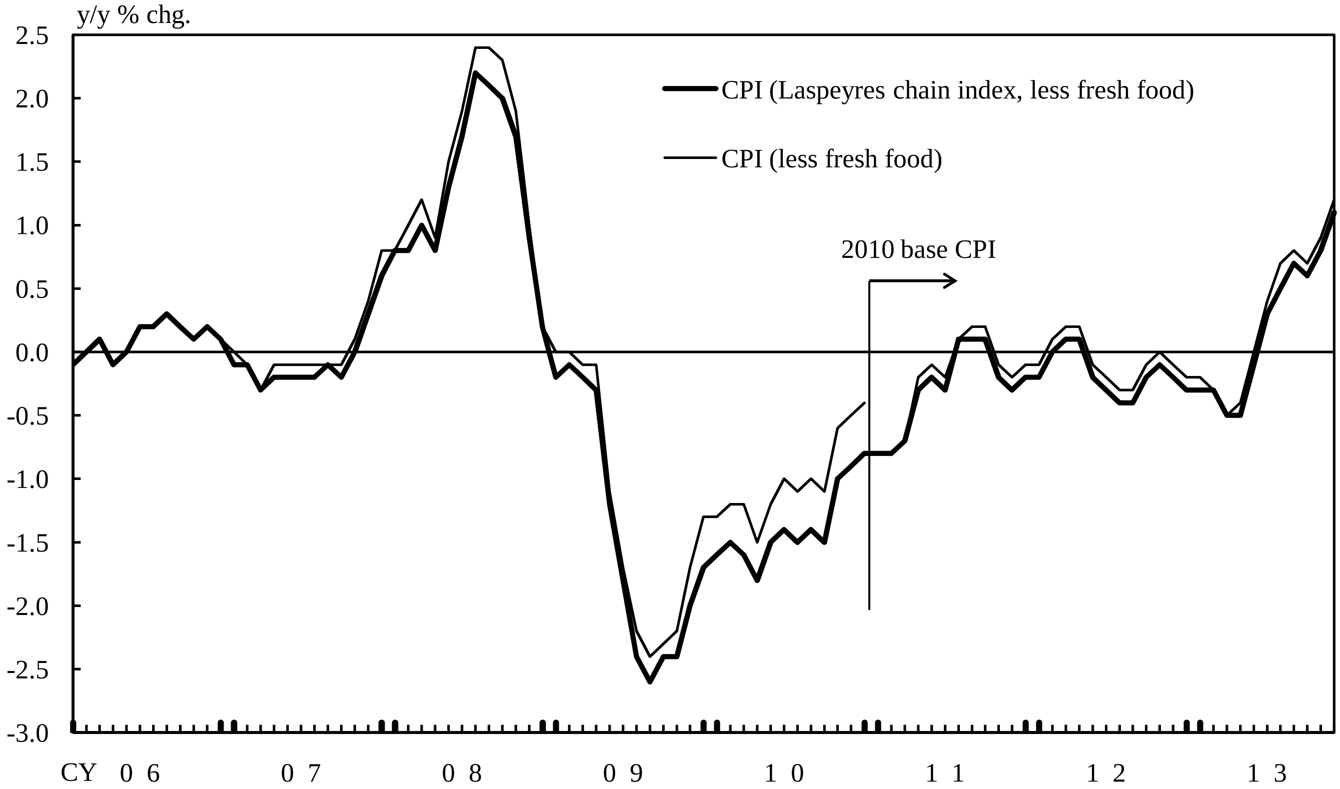


Notes:1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied 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.
6. Figures for 2013/Q4 are October-November averages.

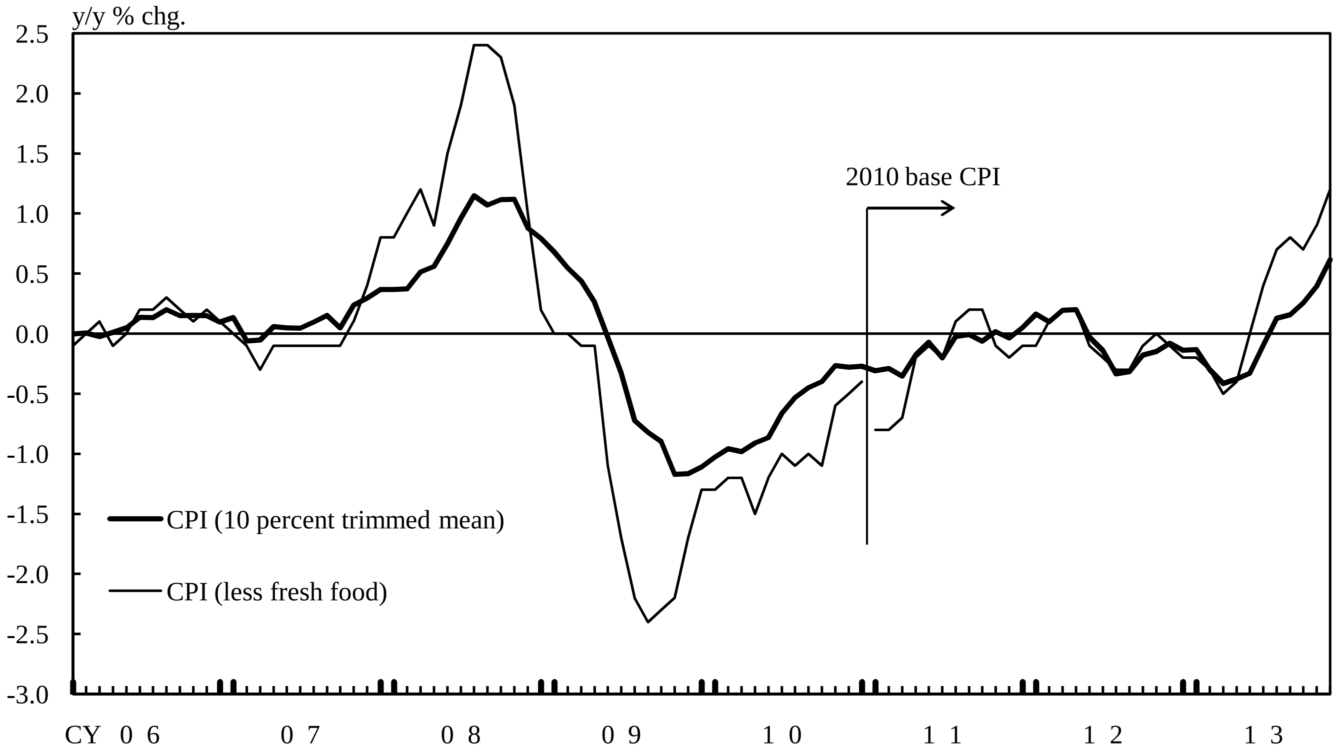
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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.

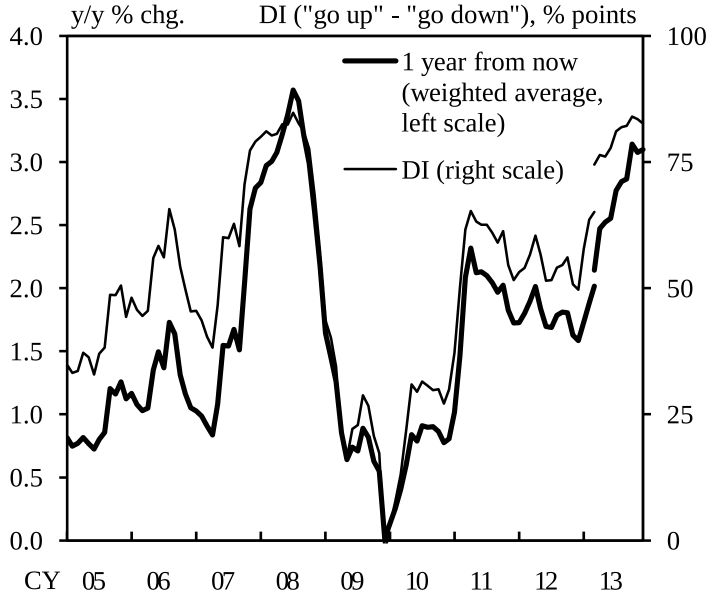
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

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

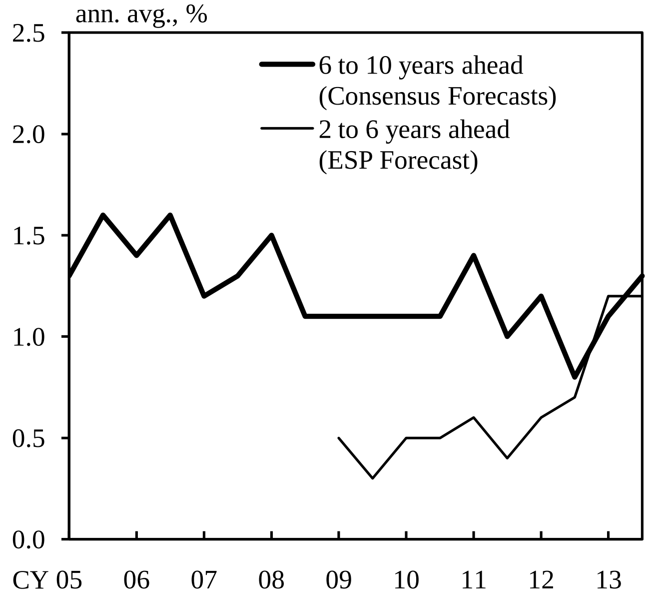
Inflation Expectations

(1) Households

<Consumer Confidence Survey>[1,2,3]

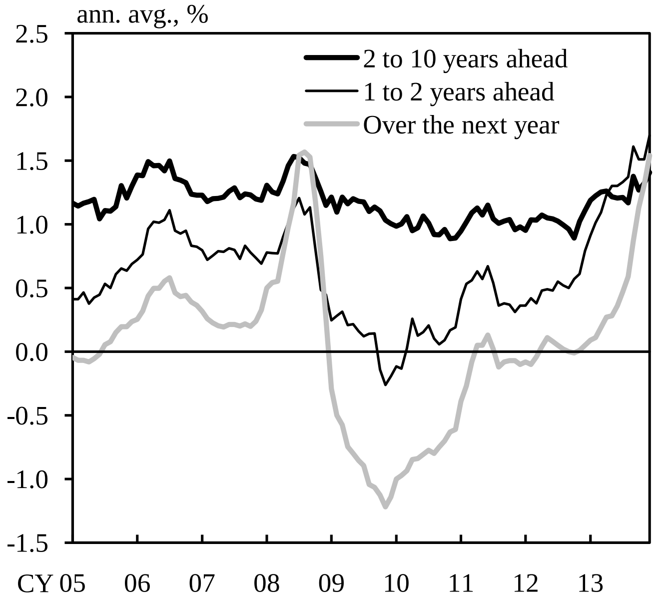


(2) Economists[4]

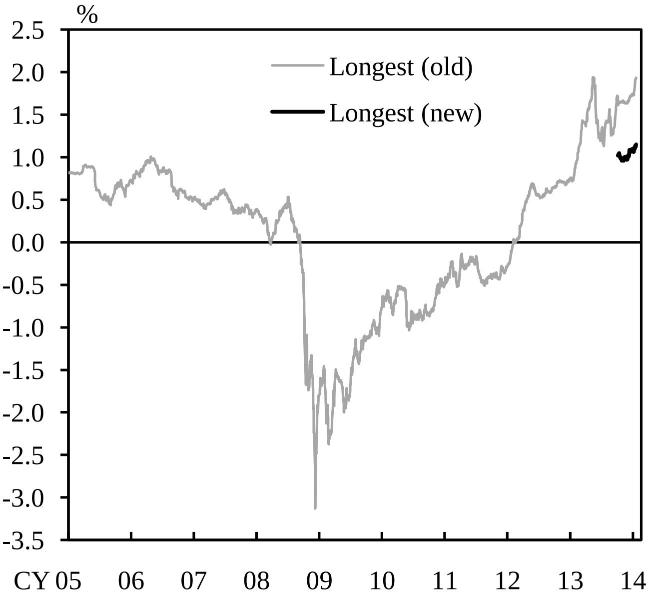


(3) Market Participants

<Quick Bond Monthly Survey>[5]



<BEI for Inflation-Indexed JGBs>[6]

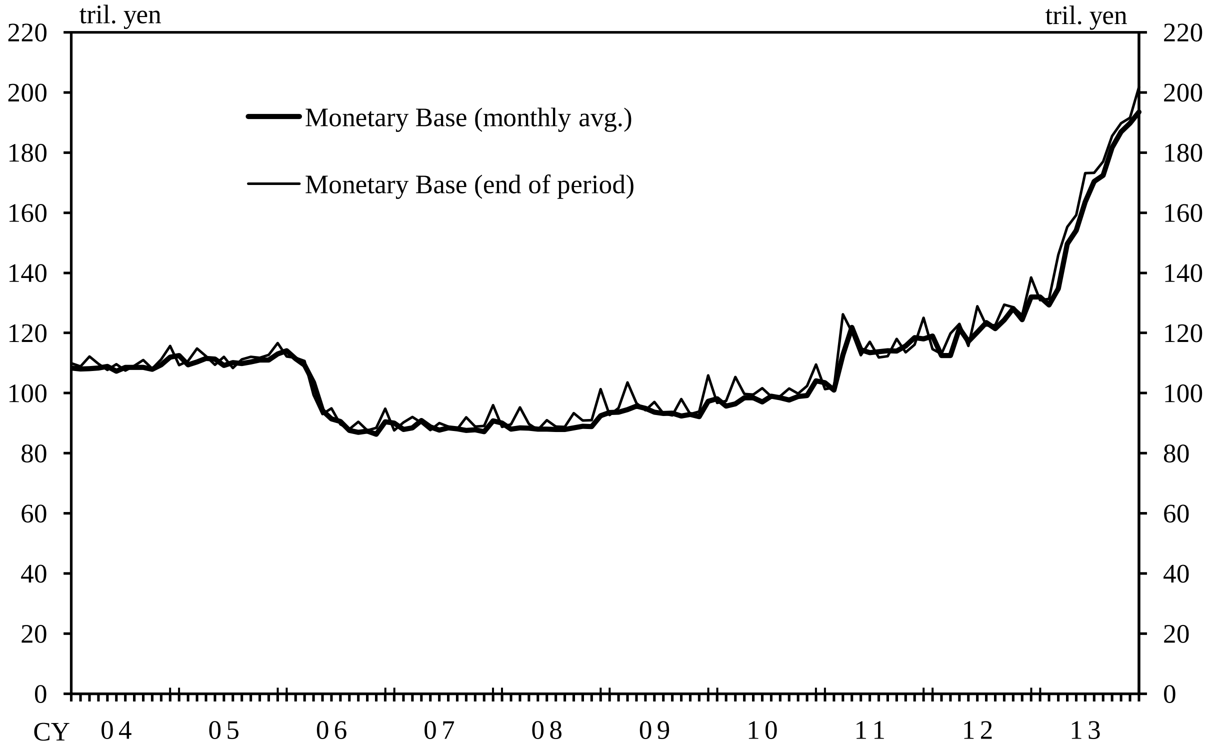


Notes:
1. Figures are for all households.
2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "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."

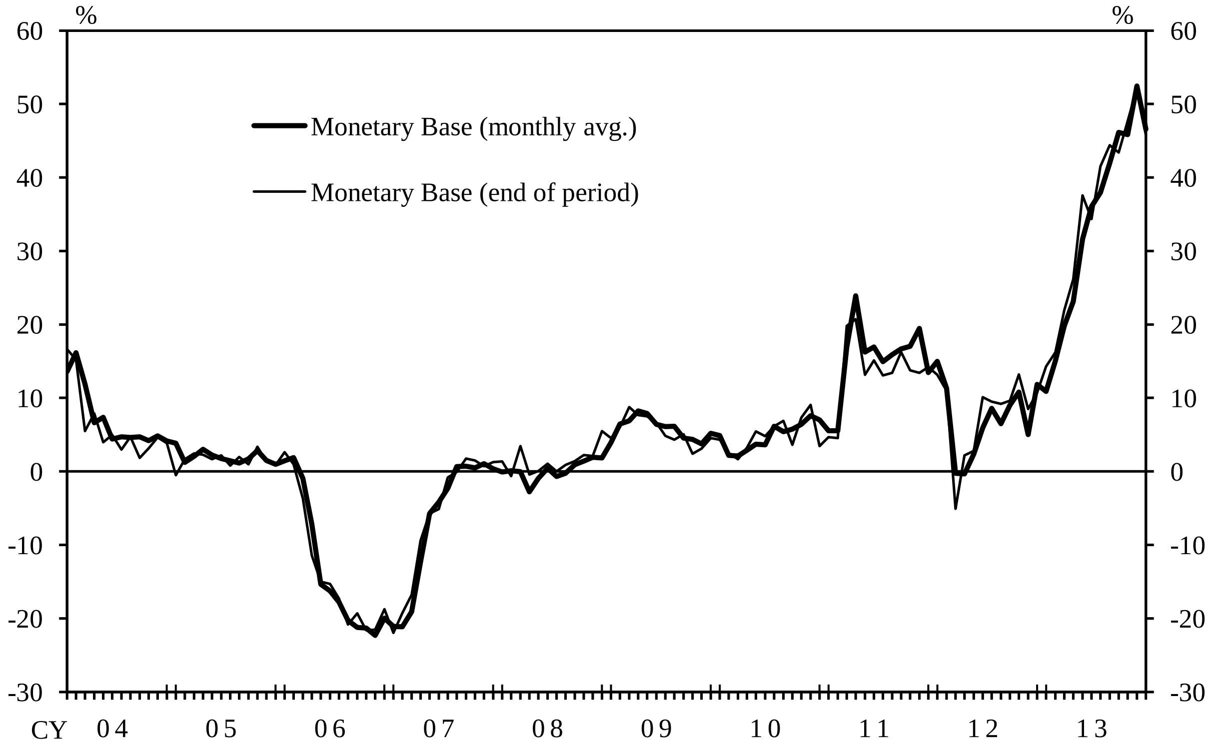
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

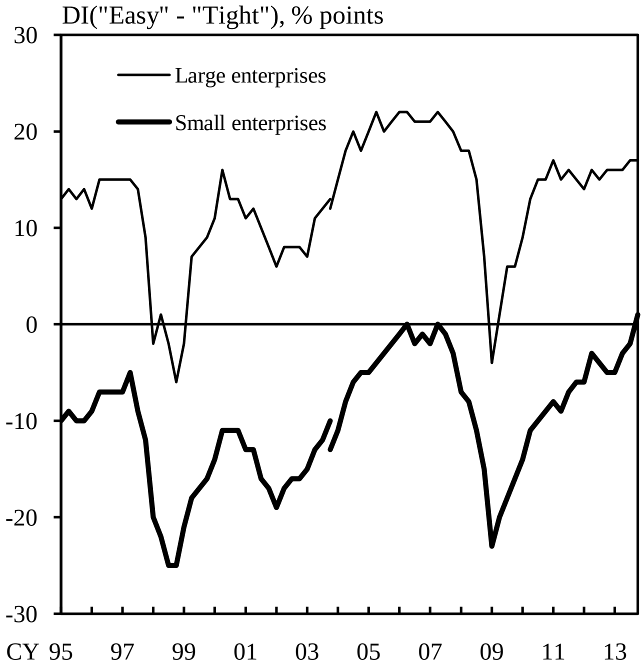


Source: Bank of Japan.

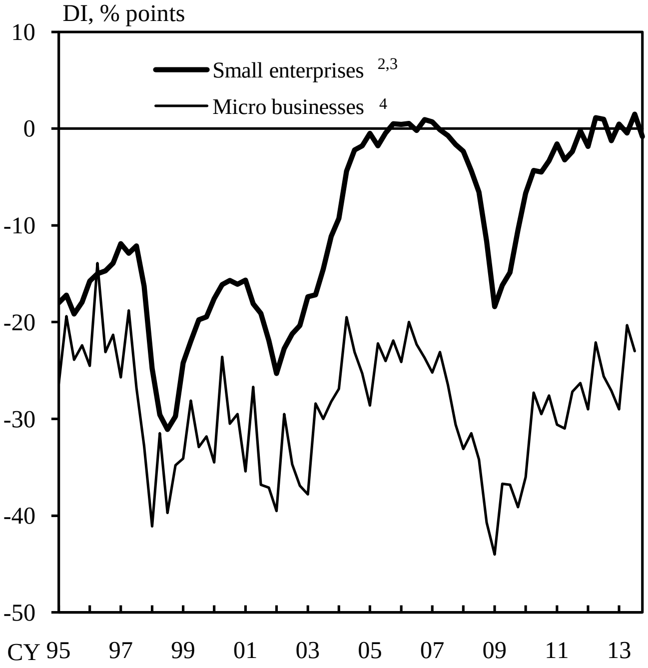
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan[1]>

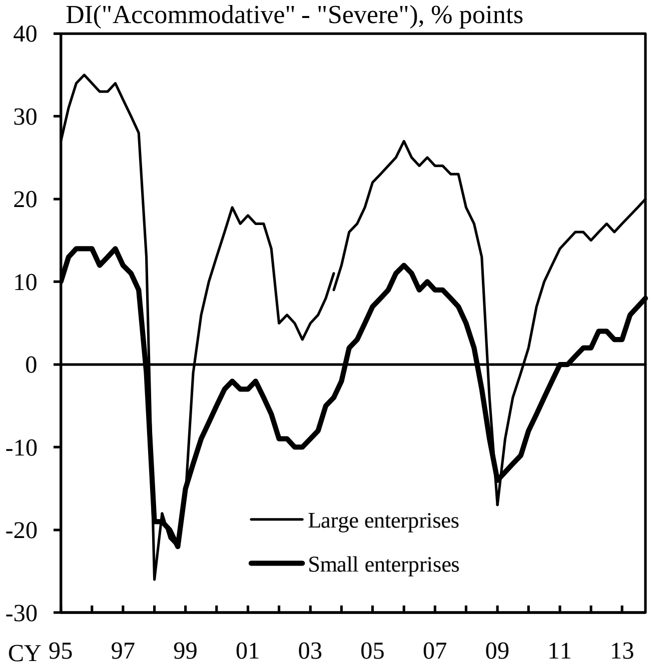


<Japan Finance Corporation Survey>

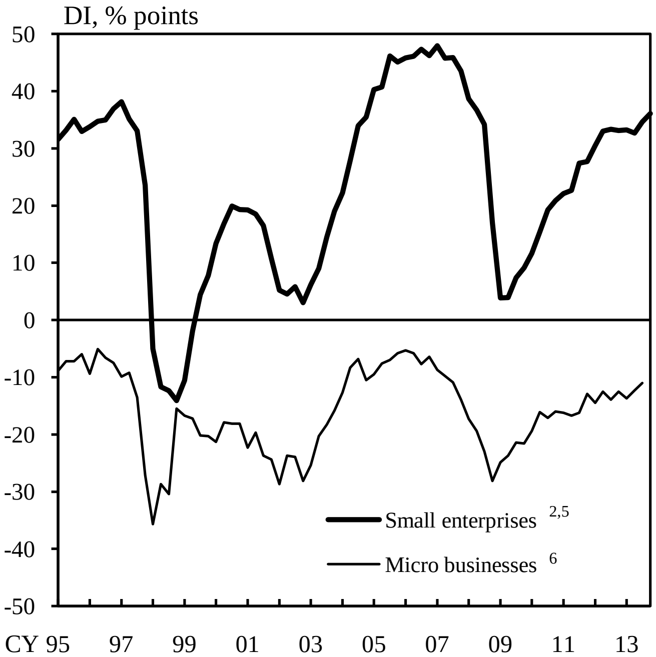


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan[1]>



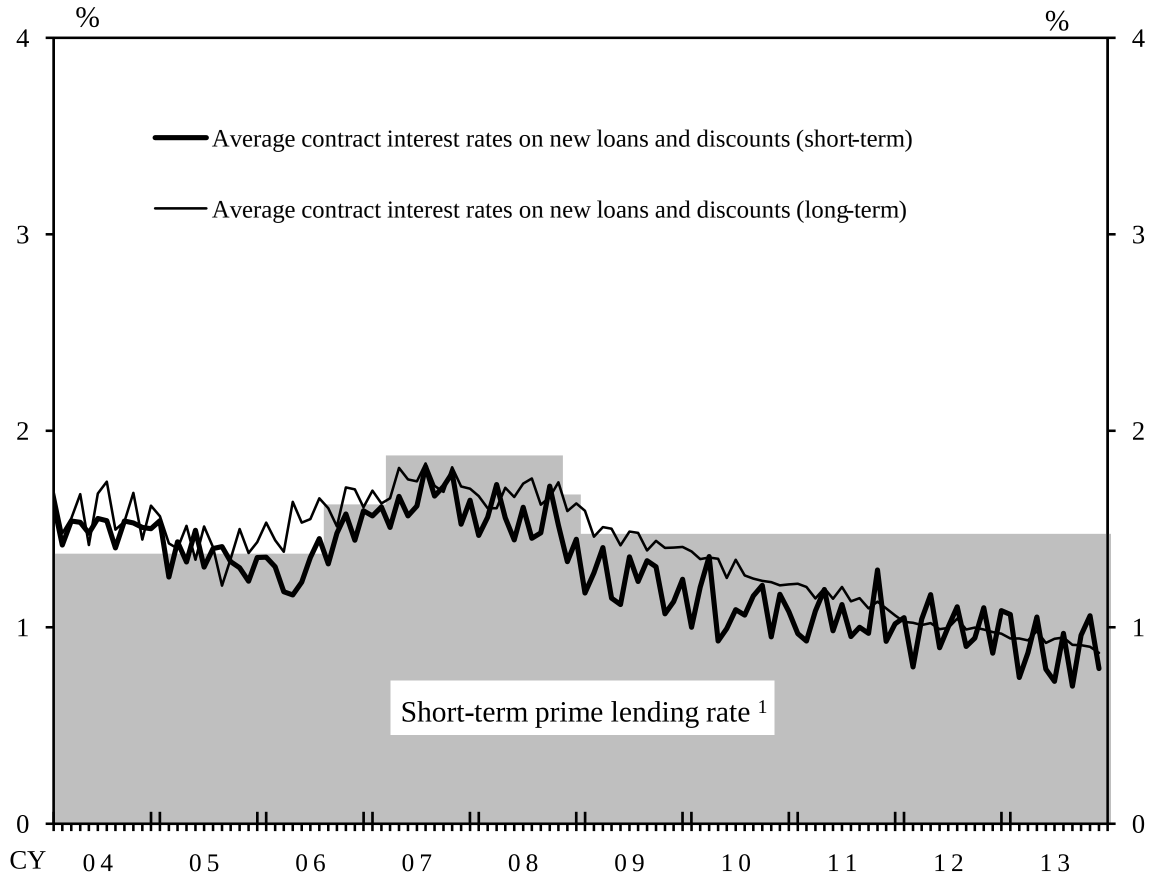
<Japan Finance Corporation Survey>



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.
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

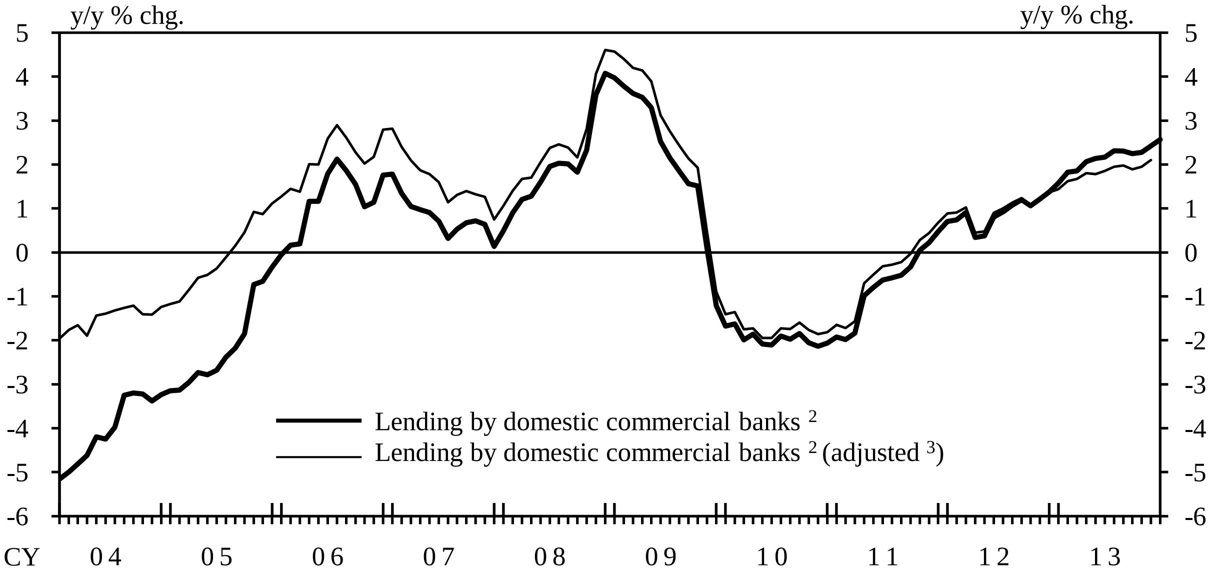


Note: 1. Data are at end of period.

Source: Bank of Japan.

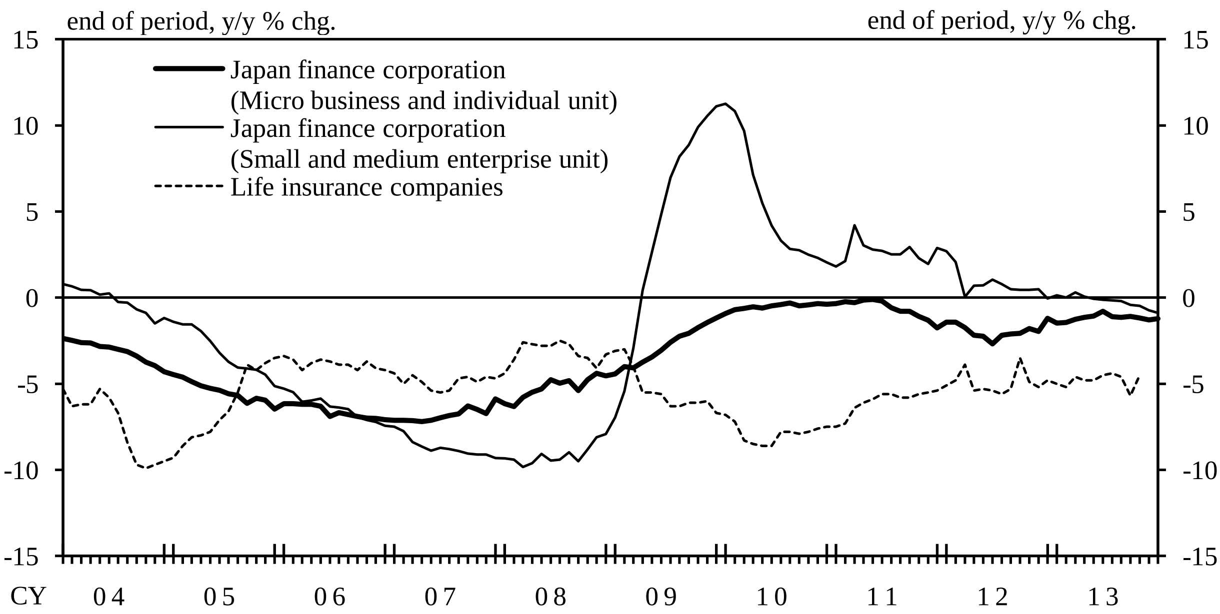
Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks[1]



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

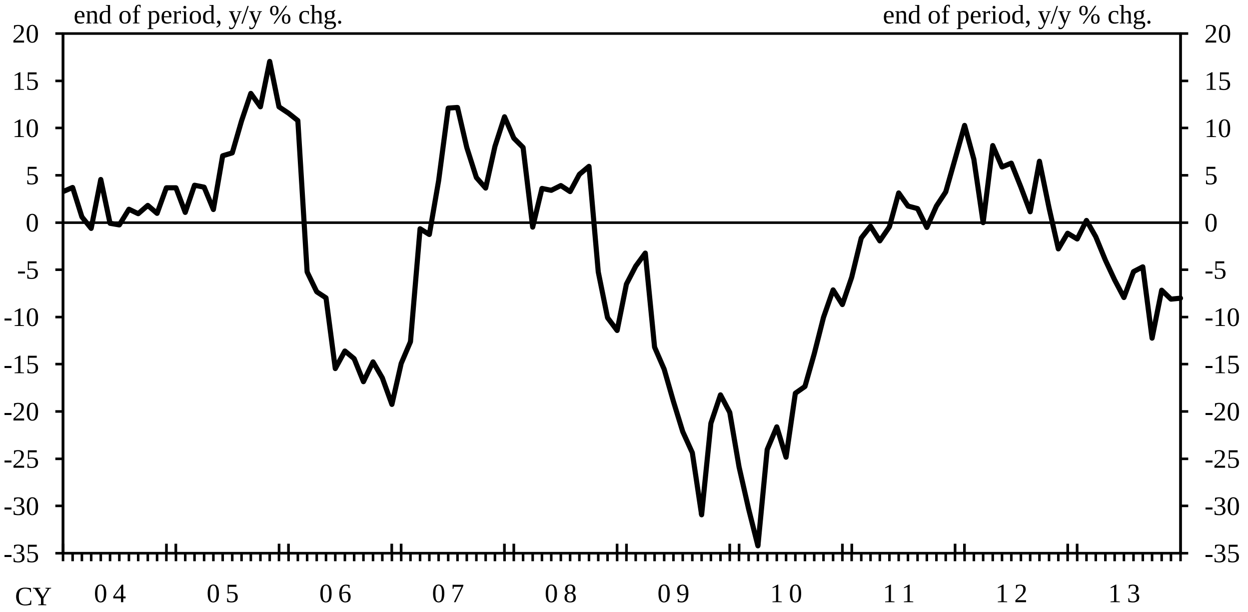


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

Sources: Bank of Japan; Japan Finance Corporation; The Life Insurance Association of Japan.

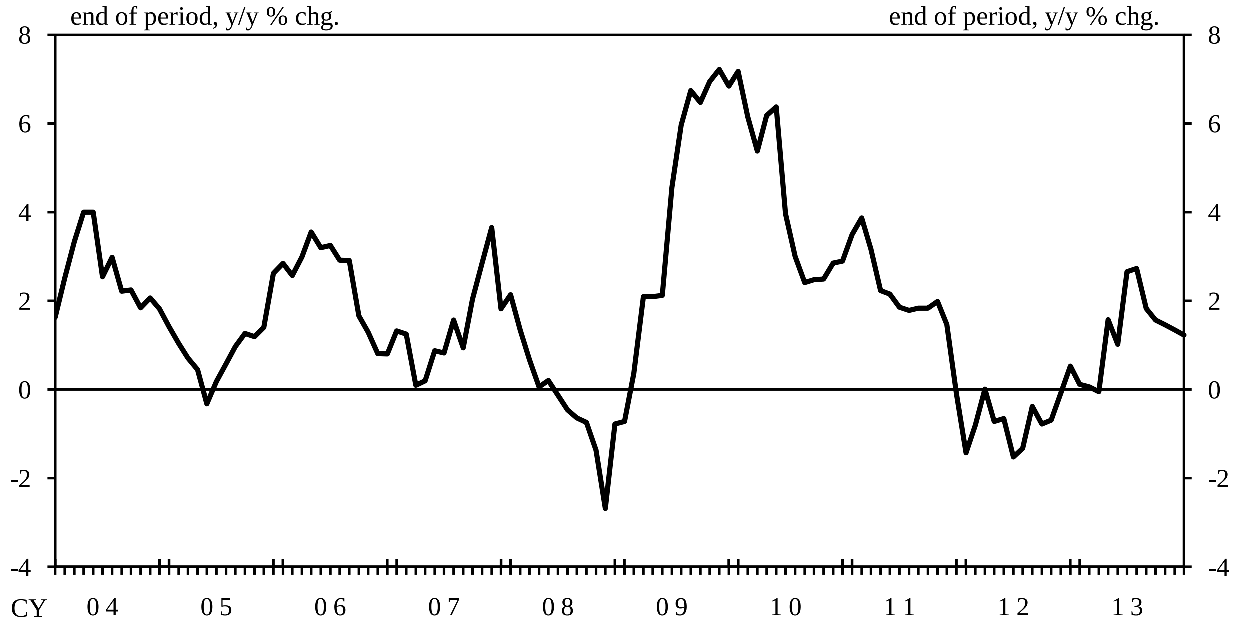
Private-Sector Fund-Raising in the Capital Markets

(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

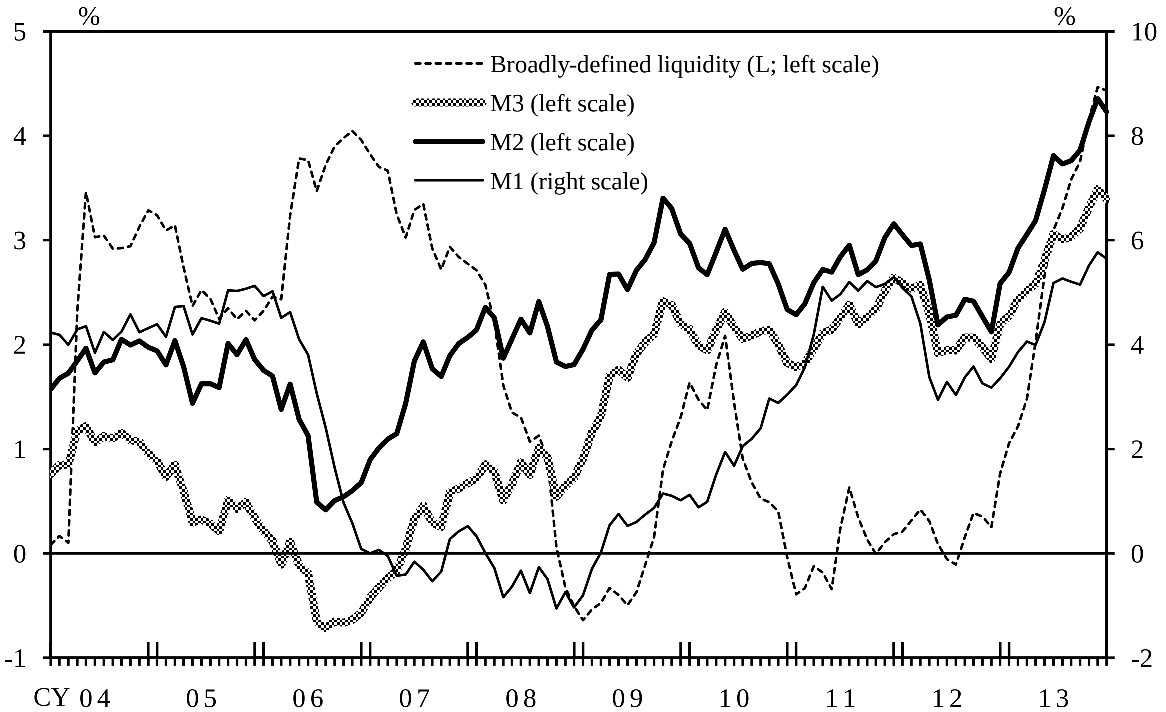


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
(1) The sum of straight bonds issued in both domestic and overseas markets is used.
(2) Bonds issued by banks are included.
(3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

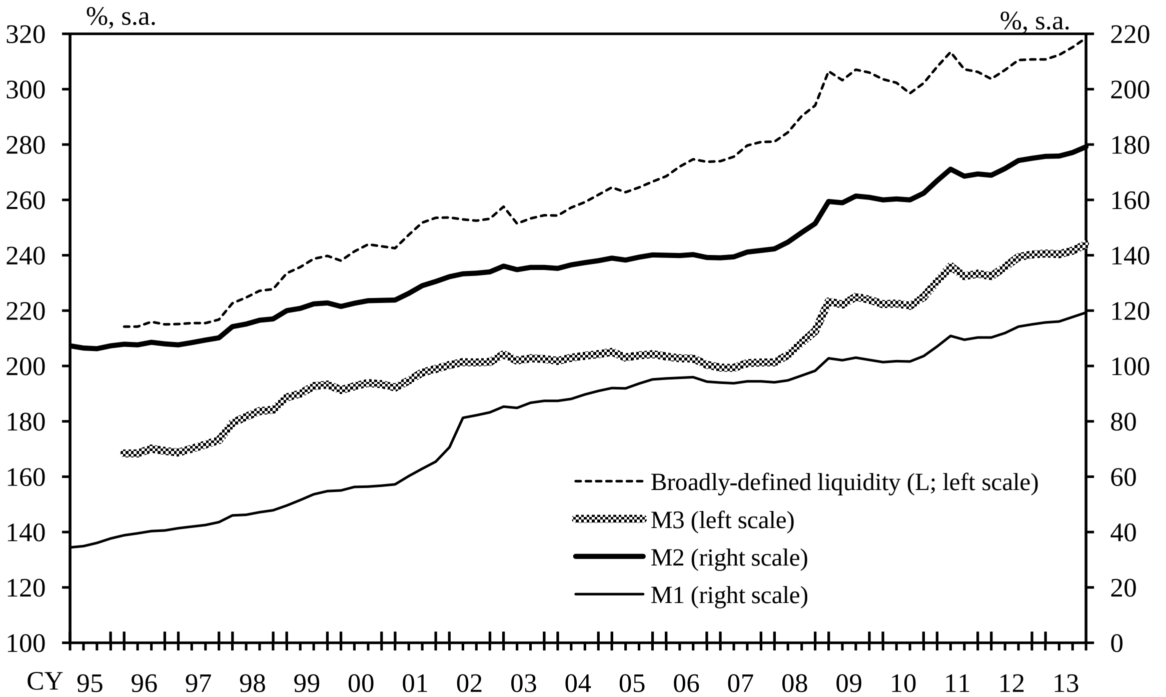
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

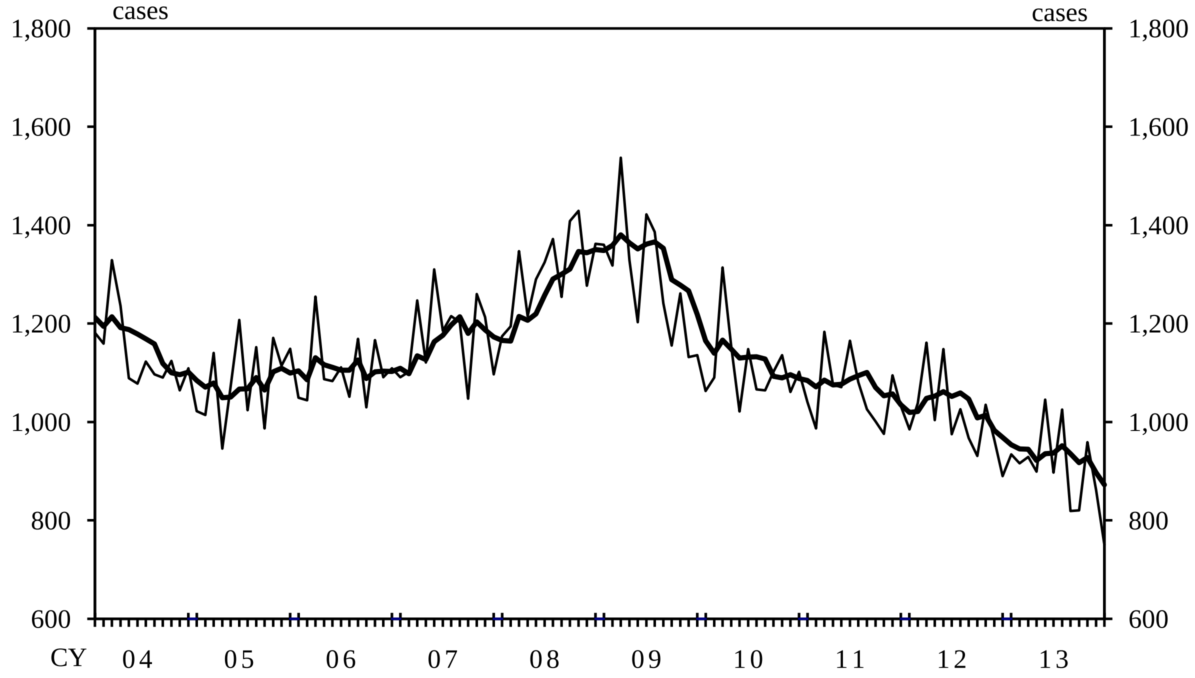


Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
4. The figure for nominal GDP in 2013/Q4 is assumed to be unchanged from the previous quarter.

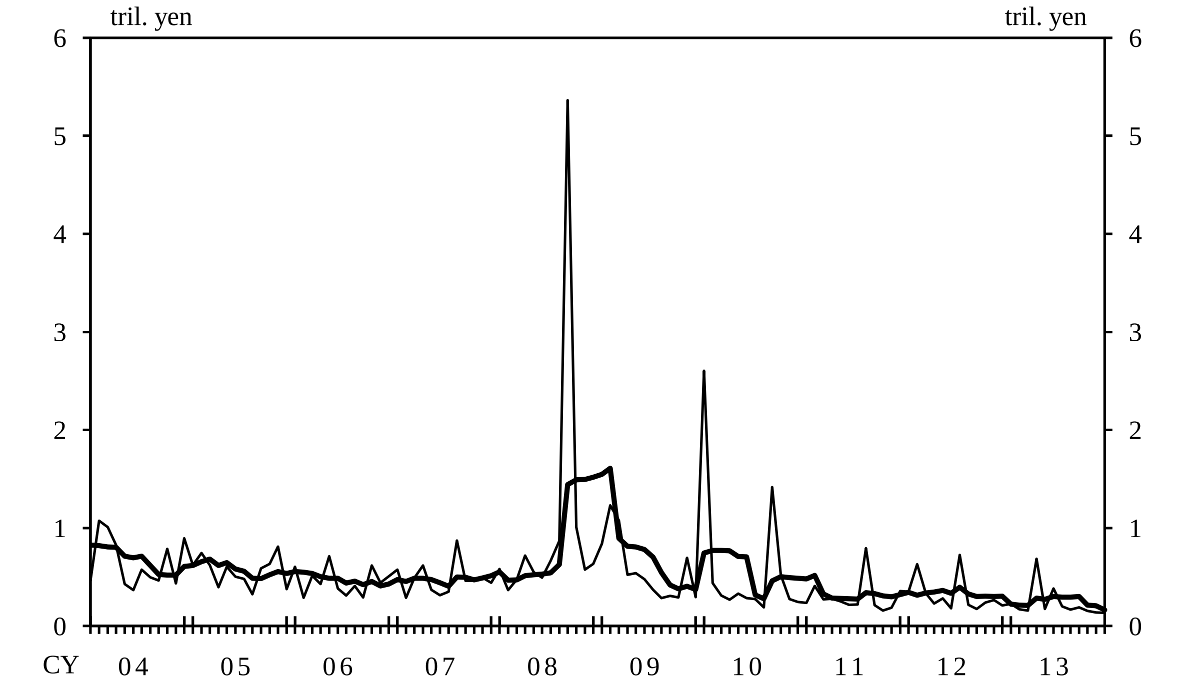
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

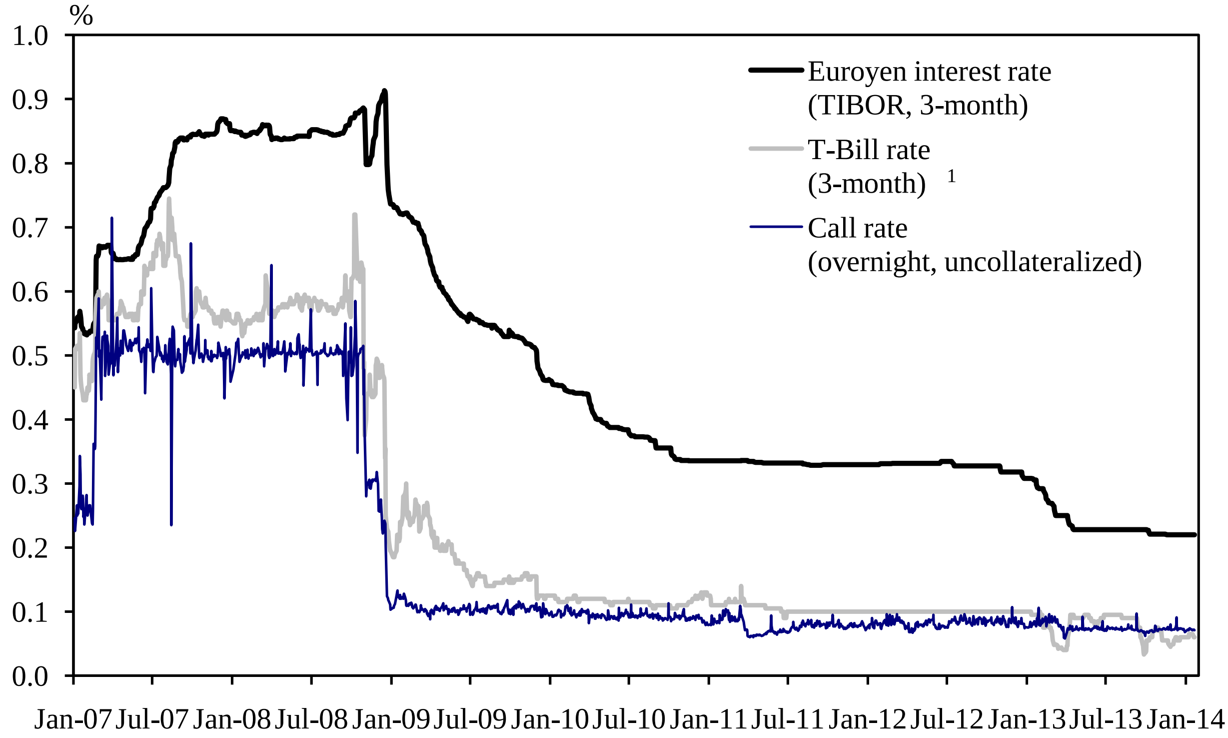


Note: Bold lines are the six-month moving average.

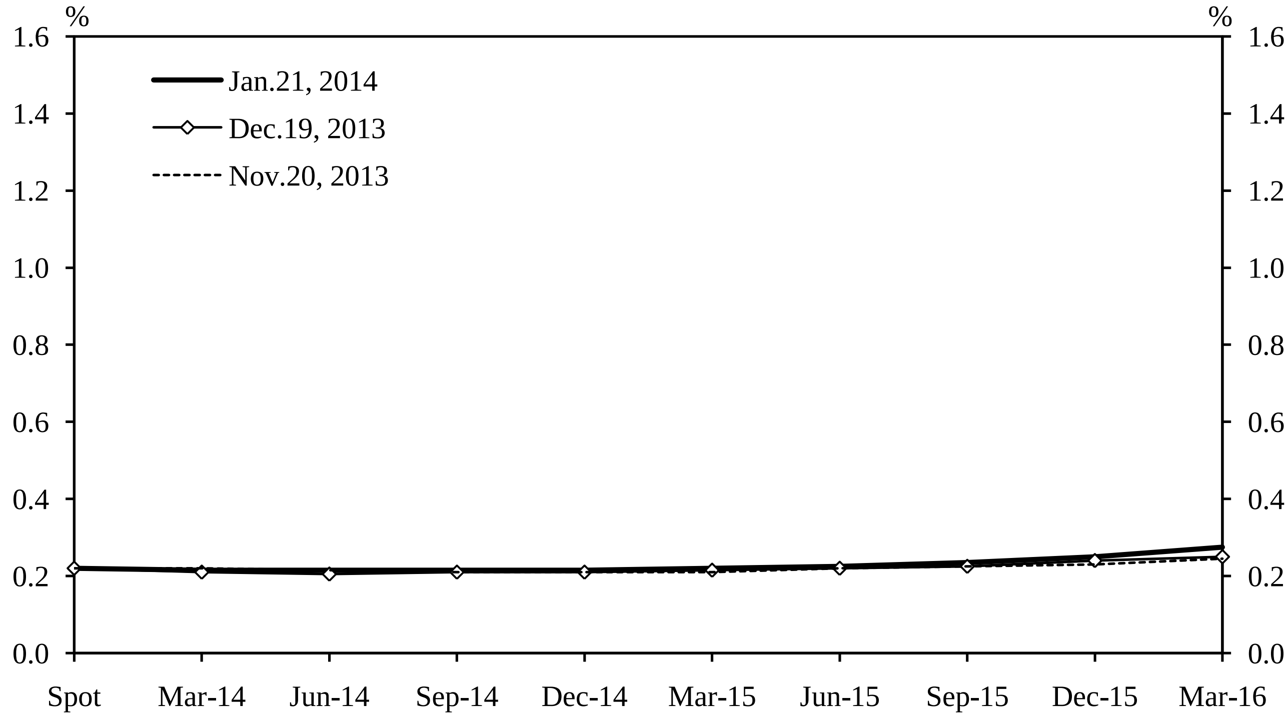
Source: Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



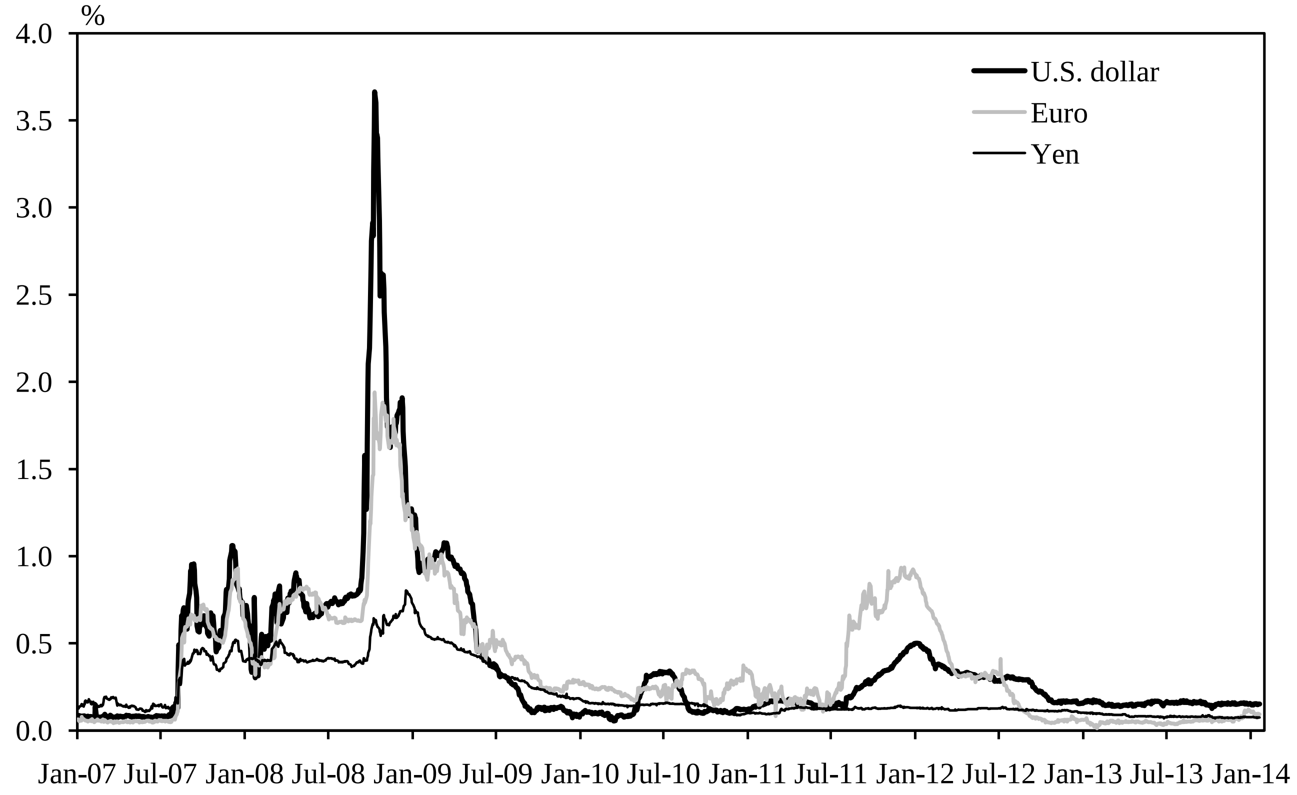
(2) Euroyen Interest Rate Futures (3-Month)



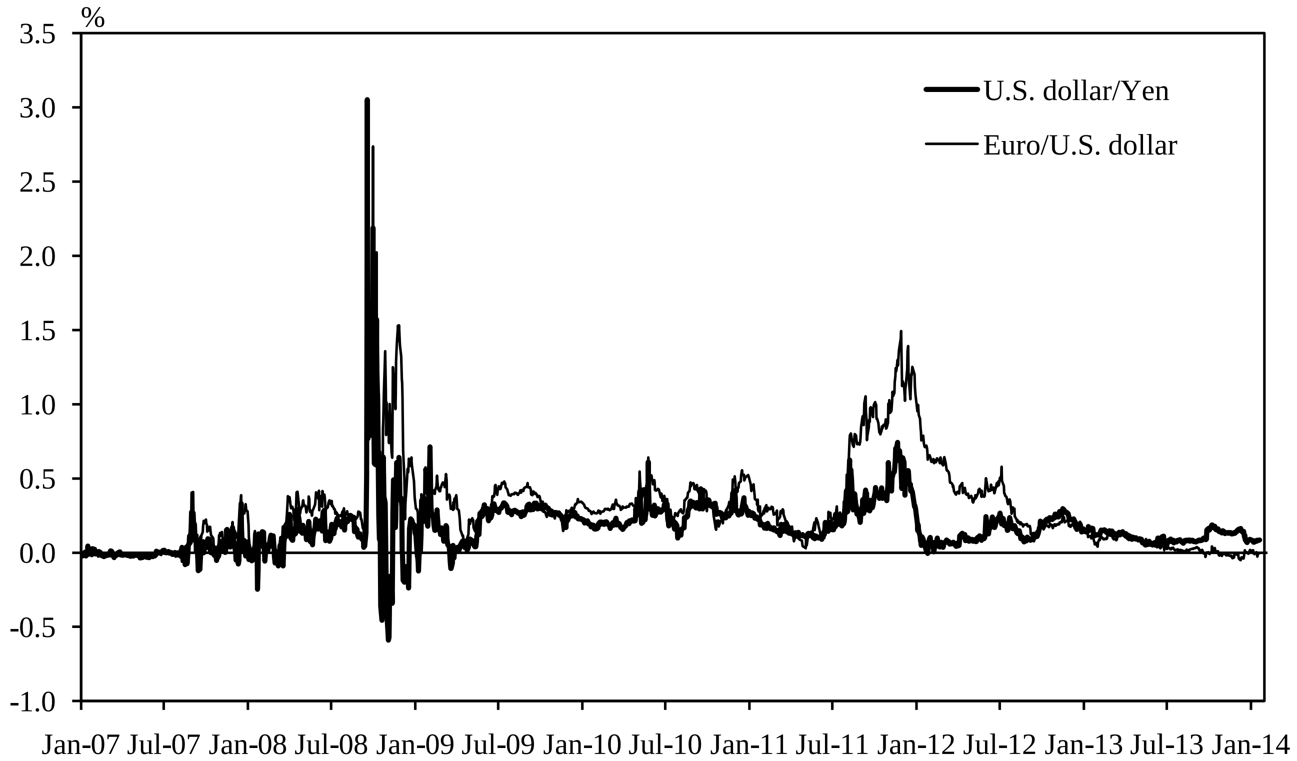
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



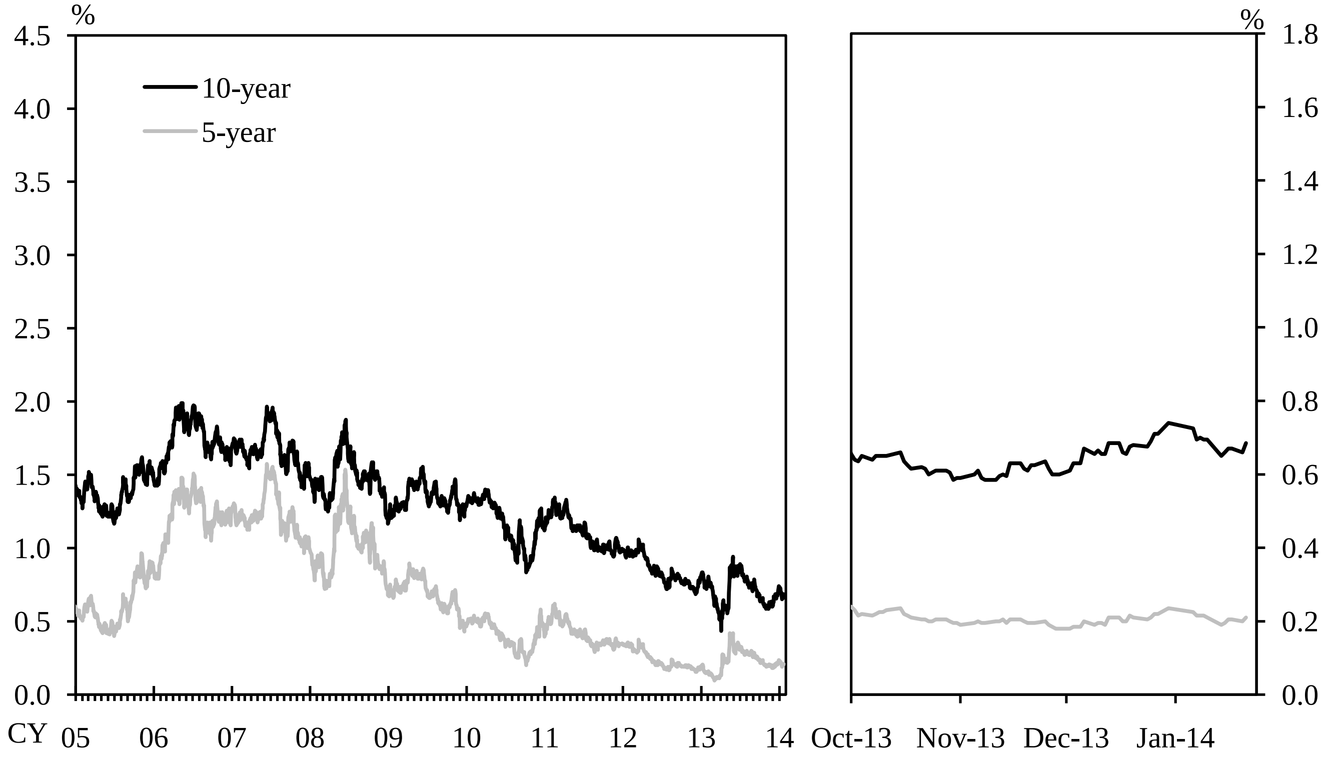
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



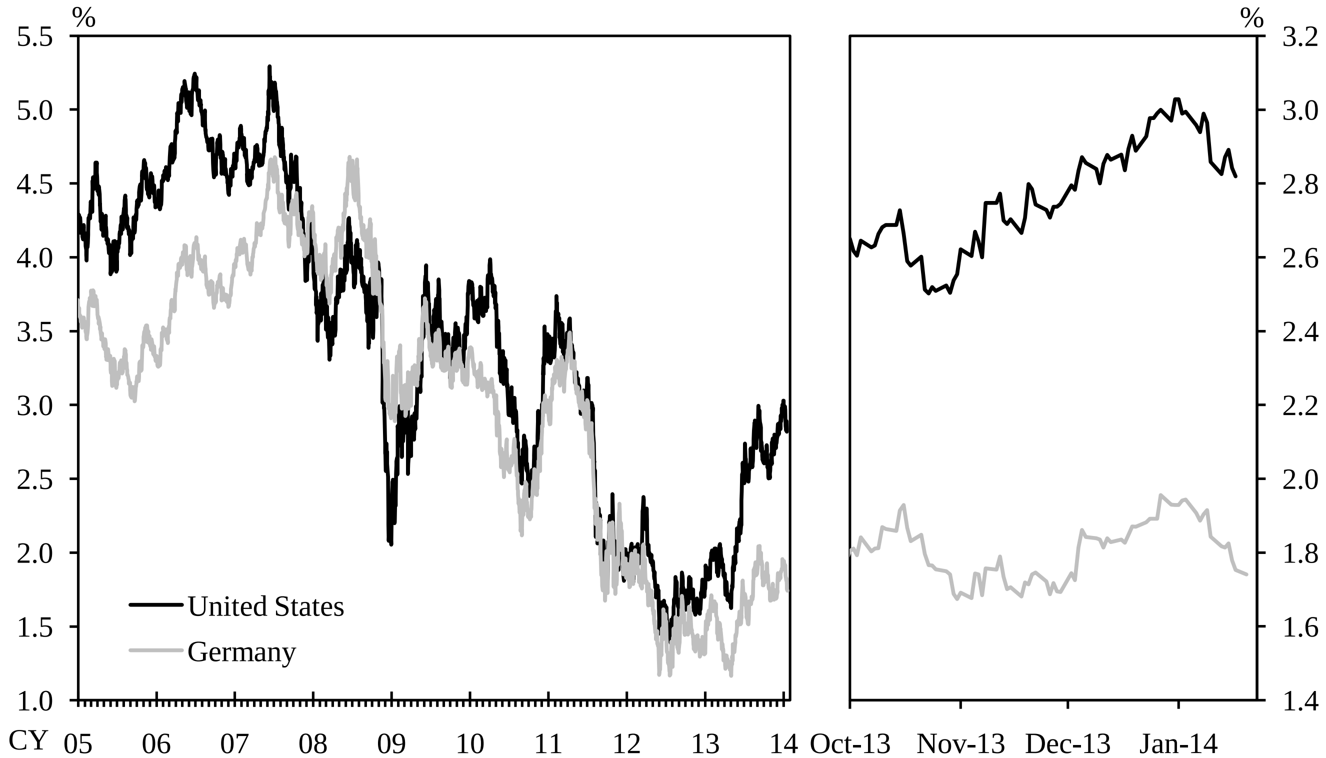
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields[1]



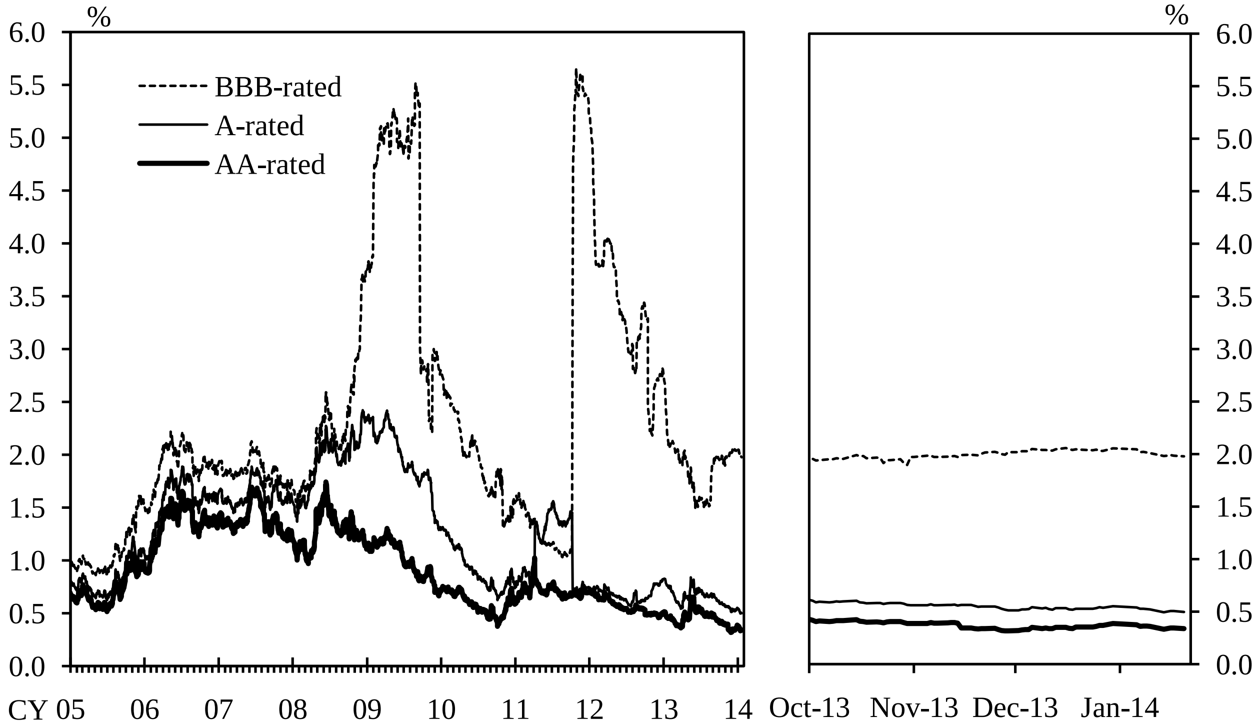
(2) Overseas Government Bond Yields (10-Year)



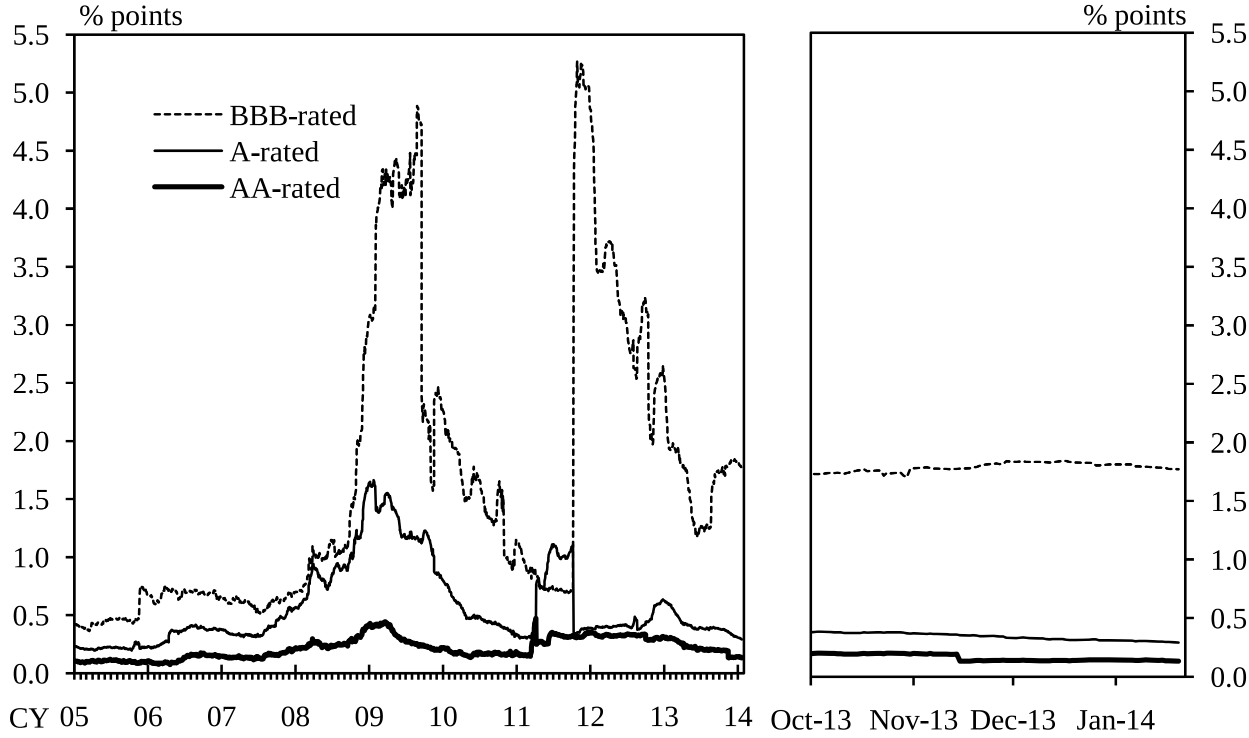
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields[1,2]



(2) Spreads of Corporate Bond Yields over Government Bond Yields[1,2]

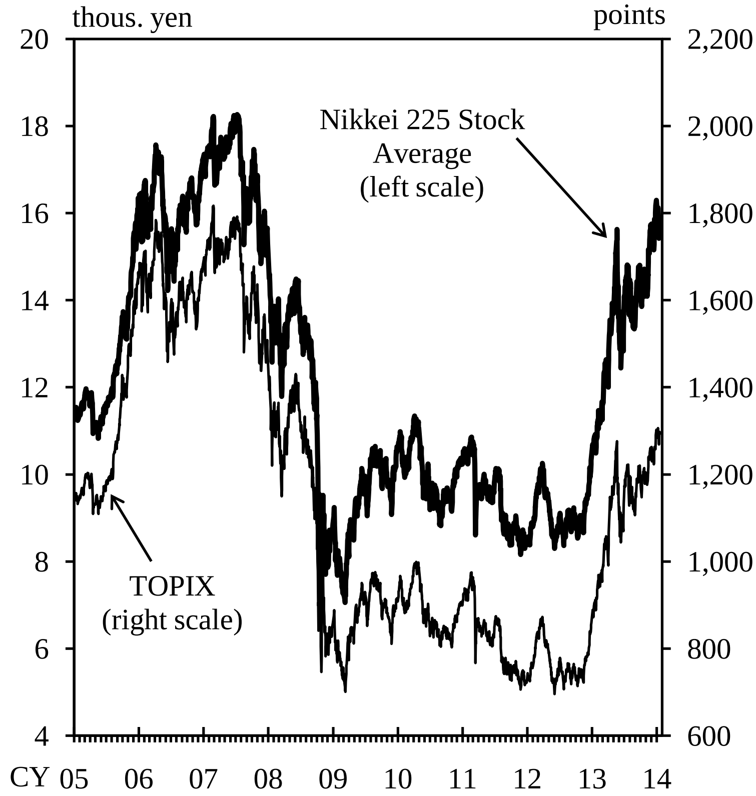


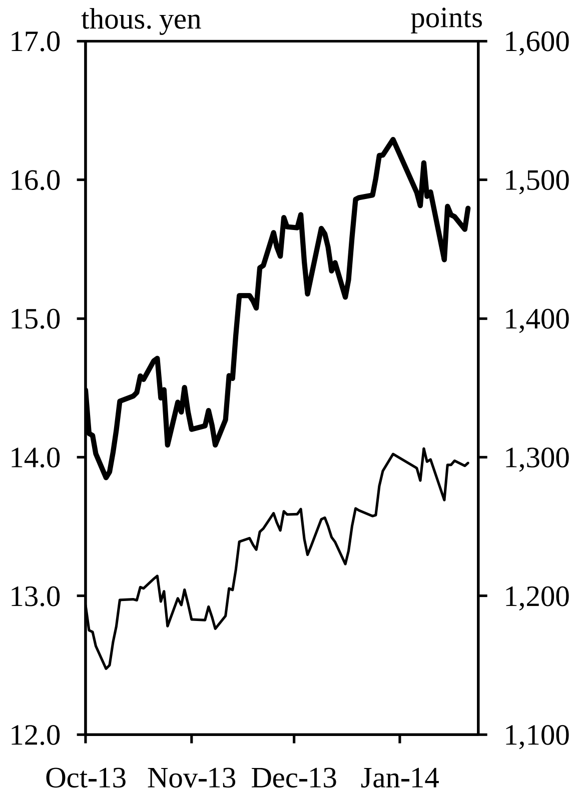
Notes: 1. Yields on bonds with 5-year maturity.
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
2. The indicated ratings are of Rating and Investment Information, Inc.

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

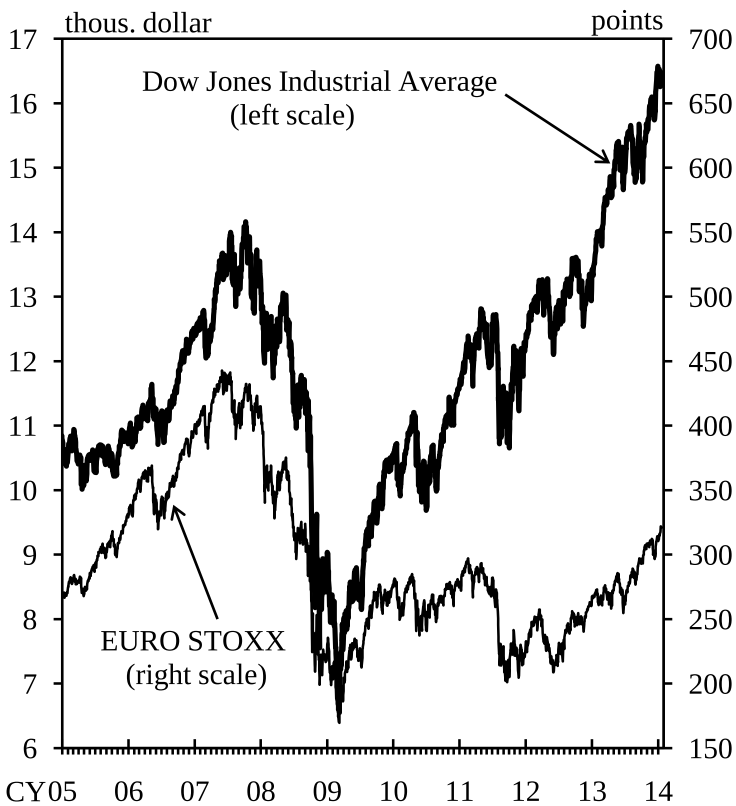
Stock Prices

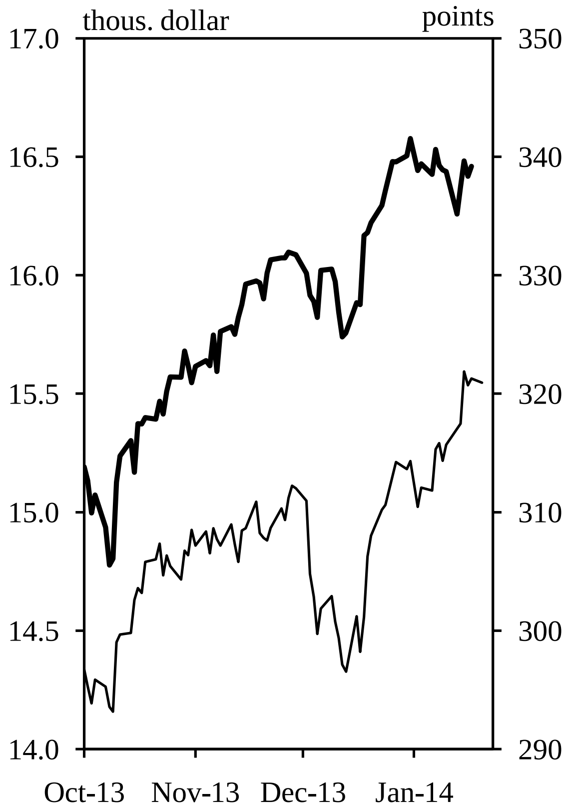
(1) Japanese Stock Prices





(2) Overseas Stock Prices

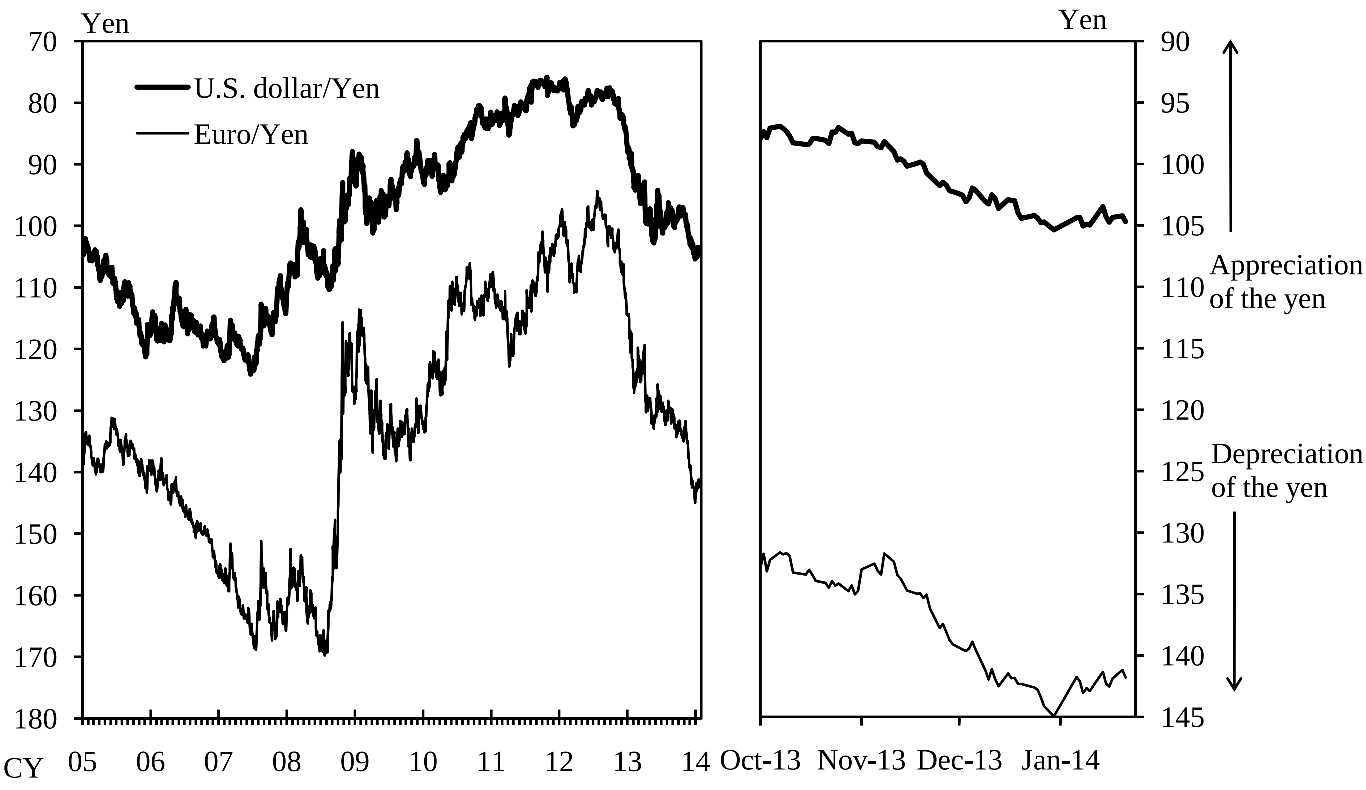




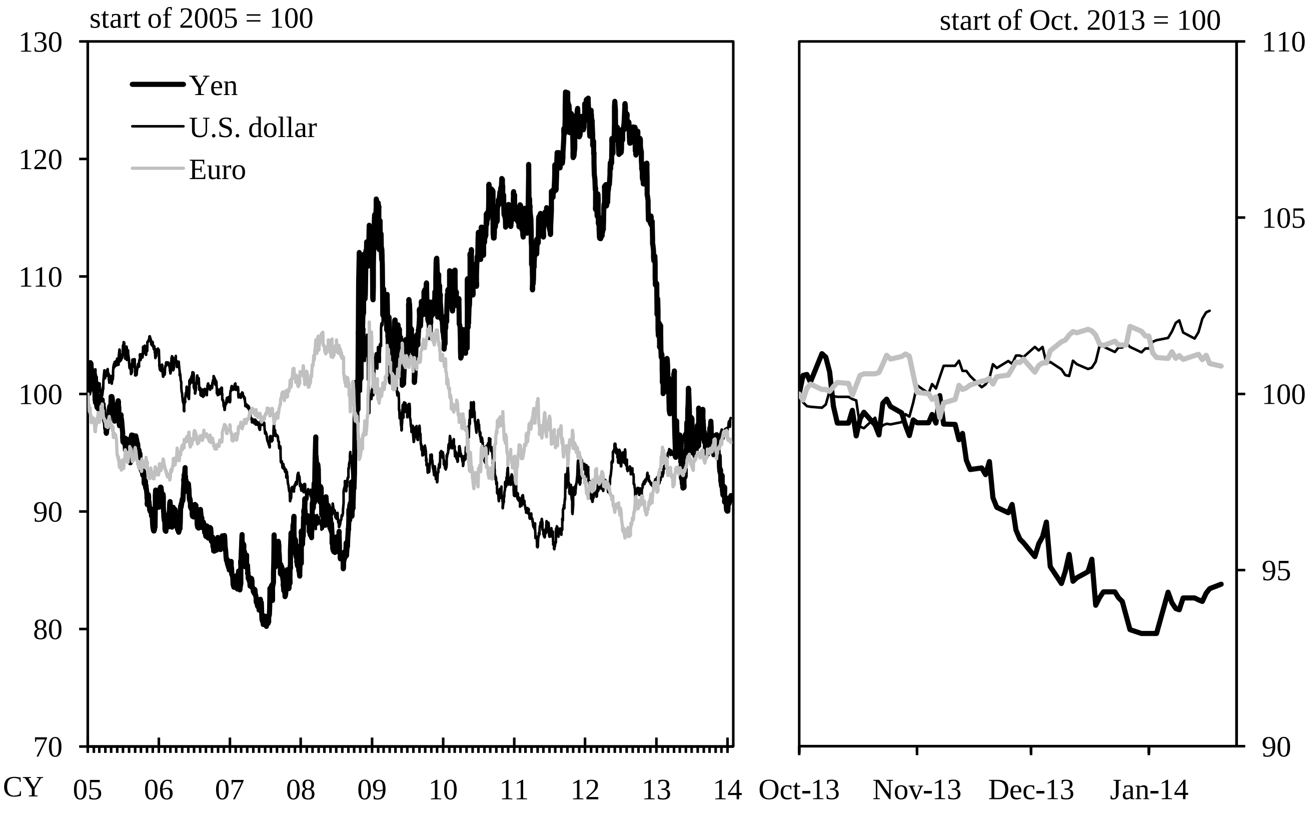
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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