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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
February 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 February 17 and 18, 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 50 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 year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive. Firms have retained their recovered financial positions. Meanwhile, the year-on-year rate of growth in the money stock has been at around 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 declined slightly. Compared with

last month, the value of the yen against the U.S. dollar has risen, while stock prices have fallen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.

1. Economic Developments

Public investment has continued to increase. The amount of public construction completed—which reflects the progress of public works—continued to move upward in the fourth quarter last year, 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—had continued to decline in both the third and fourth quarters, following the upsurge in the second quarter, but it rose again in January compared with the fourth quarter.

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 in the third quarter last year on a quarter-on-quarter basis, after having turned upward 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 the fourth quarter. Looking at movements in exports by region (Chart 7[1]), exports to the United States dropped marginally in both the third and fourth quarters following the upsurge in the second quarter. Notwithstanding these fluctuations, with the moderate recovery in the U.S. economy becoming widespread, 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 been picking up; they kept increasing marginally in the fourth 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 against the backdrop of improved sales in China. On the other hand, exports to NIEs have shown mixed movements; they inched upward again in the fourth quarter, after having fallen in the third quarter following the increase in the second quarter. Exports to ASEAN have continued to be somewhat sluggish on average, albeit with fluctuations, as they rose marginally in the fourth quarter, after having declined significantly in the third quarter. Meanwhile,

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—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 on average, assisted by the moderate recovery in those to the EU as well as to China amid steady exports to the United States on the whole, albeit with fluctuations, although those bound for some emerging economies have recently shown somewhat sluggish movements. 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, mainly due to movements in parts for smartphone products. Meanwhile, exports of intermediate goods have been relatively weak, chiefly in those to NIEs and ASEAN, possibly due in part to the effects of supply constraints driven by the increase in domestic demand.

Real imports are increasing moderately (Charts 6[1] and 9). Real imports—which had risen in the first quarter last year on a quarter-on-quarter basis—stayed flat in the second quarter in response to previous movements and also due in part to movements in foreign exchange rates, but then kept moving upward in both the third and fourth quarters. 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 picked 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. The current account balance in the fourth quarter marked a slight deficit because of a further increase in the volume of deficit of the nominal goods and services balance, as growth in imports outpaced that in exports and partly since 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, with 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 continue to wane in light of forecasts that accommodative financial conditions will be maintained. On the other hand, the European economy is projected to continue picking up, but attention should still be paid to such issues as 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 emerged 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 shipments for smartphones may fluctuate depending on developments in production and sales of new products. 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.

Business fixed investment 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 in the first quarter, but it rose noticeably in the fourth 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—continued to increase in both the third and fourth quarters last year, albeit with monthly fluctuations, after having turned upward in the second quarter for the first time in five quarters (Chart 11[1]). By industry, machinery orders of manufacturing have picked up. 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 at a modest pace, as they rose again in the fourth quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing have been more or less flat, while those of nonmanufacturing have continued to trend moderately upward, albeit with fluctuations.

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

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

Private consumption has remained resilient, with 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 the fourth quarter. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations—which had been more or less level during the first half of last year—has turned upward since around last summer, supported by the effects of the introduction of new models; it has recently moved further upward. 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 the fourth quarter last year, 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 somewhat sluggish movements—have stopped declining 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 the fourth 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) inched upward in the fourth quarter last year, after having remained almost flat until the third quarter 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 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

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

investment—inched further upward in the fourth quarter last year, after having increased its level to around the annualized 1 million unit level in the third quarter (on a seasonally adjusted, annual basis, it recorded approximately 978,000 units in the second quarter, approximately 999,000 units in the third quarter, and approximately 1.026 million units in the fourth quarter; 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 from the first quarter last year through the fourth quarter. By industry, production of transport equipment (such as passenger cars) increased again in the fourth quarter last year, despite having inched downward in the third quarter, following the rise in the first and second quarters. It has continued to trend upward because of considerably strong domestic sales of late supported in part by the effects of the introduction of new models as well as those of the front-loaded increase in demand prior to the consumption tax hike, while production for exports has held steady as a whole. Production of iron and steel and of chemicals has also held steady, against the backdrop of the increase in domestic production of motor vehicles and firm demand with ties to construction. Production of general-purpose, production and business oriented machinery has picked up noticeably 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 increased 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 has fallen back recently as a whole, primarily since shipments for new smartphone products came to a halt, although parts for smartphone and tablet products produced in Asia have held steady as a trend.

Shipments have been increasing moderately (Chart 17[1]). Looking at the trend in shipments by goods (Chart 18), producer goods have been on a mild uptrend,

chiefly in shipments for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals). 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 have continued to be more or less flat as a whole, although such items as food and beverage have recently gone slightly upward.

Inventories have declined again, after having ceased to decline temporarily toward early fall last year (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. Nevertheless, inventories have declined again, notably in transport equipment; they were down at the end of December relative to the end of September, in view of the recent 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 iron and steel and of chemicals have recently declined, amid a pick-up 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 leveled off lately. Other electrical machinery (such as photovoltaic modules and car navigation system) has seen its inventories pile up, partly in response to the front-loaded increase in demand prior to the consumption tax hike. 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 (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; the shipment-inventory balance has recently improved further. As for durable consumer goods in particular, the improvement has been significant of late, due partly to the effects of the front-loaded increase in demand prior to the consumption tax hike. The pace of shipments of capital goods

(excluding transport equipment) has also been noticeably faster than that of 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 first quarter, electronic parts and devices are projected to remain relatively weak, with shipments for new products having come to a halt. Aside from this, however, a wide range of industries including transport equipment, general-purpose, production and business oriented machinery, electrical machinery, and information and communication electronics equipment are projected to continue to increase their production as domestic and overseas demand continues to recover moderately. The effects of the consumption tax hike are expected to exert upward pressure on production, with an impact larger than that in the fourth quarter last year, mainly in transport equipment, electrical machinery, and information and communication electronics equipment with the front-loaded increase in demand prior to the consumption tax hike projected to gather momentum. As a result, industrial production in the first quarter as a whole is projected to exhibit somewhat high growth.

As for the employment and income situation, supply and demand conditions in the labor market have continued to improve steadily, and employee income has picked up moderately.

As for supply and demand conditions in the labor market, the unemployment rate has been on a moderate improving trend on average; its reading in December last year was 3.7 percent, marking a low last observed in December 2007 (Chart 20). New job openings have trended upward. The active job openings-to-applicants ratio also continued its moderate improving trend; it kept improving to 1.03 in December last year, after having 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 with the fluctuations smoothed out, mainly 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 risen at a moderately accelerated pace.

Total cash earnings per employee have generally bottomed out as a whole, albeit with fluctuations (Chart 22[2]). Hourly cash earnings of overall employees have turned to improve moderately overall as non-scheduled cash earnings and special cash earnings have increased (Chart 21[1]). Taking a closer look, as a reflection of movements in nonmanufacturing, monthly cash earnings of full-time employees per employee have increased marginally, 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]). On the other hand, the year-on-year rate of increase in non-scheduled cash earnings has tended to expand, as a reflection of movements in the number of hours worked. Meanwhile, special cash earnings in November-December (preliminary figures)—which mostly comprise winter bonuses—stood at positive 1.9 percent and continued to increase markedly following that of summer bonuses (a year-on-year increase of 1.3 percent for the June-August period).³

Employee income has been picking up moderately, as it has recently continued to register year-on-year increases, as a reflection of the aforementioned developments in employment and wages (Chart 22[3]).

³ Winter bonuses correspond to the November-January aggregates of special cash earnings in the *Monthly Labour Survey*. The weights of each month in actual figures for fiscal 2012 show that winter bonuses comprise just over 4 percent of special cash earnings in November, just over 91 percent in December, and about 4 percent in January.

As for the outlook regarding employee income, a pick-up is expected to become more evident in line with the recovery in economic activity and business performance.

2. Prices

International commodity prices have recently been somewhat sluggish (Chart 24[1] and [3]). Prices of crude oil have continued to be more or less flat, albeit with fluctuations, mainly as a reflection of the situation in the Middle East. Prices of nonferrous metals have recently fallen slightly as uncertainty about emerging economies has been perceived, after having stayed generally flat. Prices of grains have continued to be 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 inched upward again toward the start of this year, 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]).⁴ Prices have kept rising moderately relative to three months earlier; they stood at positive 0.4 percent in January, after having registered positive 0.3 percent in November last year and positive 0.4 percent in December. Looking in detail at domestic corporate goods price movements in January, prices of "goods sensitive to exchange rates and overseas commodity prices" continued to increase at a somewhat accelerated pace, 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

⁴ Figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when electric power consumption increases substantially.

costs of raw materials imports and in prices of 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" continued to fall following the previous month, as downward pressure was brought on by previous movements in international commodity prices and in foreign exchange rates through the fuel cost adjustment system.⁵

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has been at around 0.5 percent (Chart 26). As for developments on a year-on-year basis, the pace of increase has accelerated and is recently moving at around 0.5 percent (positive 0.3 percent in October, positive 0.6 percent in November, and positive 0.5 percent in December), after having turned upward to positive 0.1 percent in August and September last year, 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 been slightly positive overall since advertising services have moved upward, primarily in response to the recovery in firms' attitudes toward advertisement placements and also since price increases have continued to take place in other items, 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 a slight positive as a whole, as office space rental has tended to bottom out. Prices related to "fixed investment" have continued to register a year-on-year positive amid firm demand with ties to construction; prices of "others" have marked their rate of increase somewhat significantly, buoyed by the effects of the 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, the year-on-year rate of change in "IT-related" prices has remained negative, albeit marginally, reflecting movements of prices for leasing.

The year-on-year rate of increase in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is around 1¼ percent (Chart 27[1]). On a

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

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—have recently been around 1¼ percent by expanding their rate of increase to positive 0.9 percent in October, positive 1.2 percent in November, and then positive 1.3 percent in December. Those on a basis that excludes food and energy have continued an improving trend, after having turned upward on a year-on-year basis to positive 0.3 percent in October; they have recently been moving around 0.75 percent with readings of positive 0.6 percent in November and positive 0.7 percent in December. 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]).⁶ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 28[1]).⁷

Looking at recent year-on-year movements in consumer prices, fees for public services have continued to grow at generally the same rate, after having increased at an accelerated pace in October due mainly to increased charges for accident insurance. Prices for goods (excluding agricultural, aquatic & livestock products) have accelerated their pace of increase markedly from November onward compared to the period up until then. Taking a closer look at goods prices, although the positive contribution from petroleum products has recently weakened slightly mainly in response to the previous year's movement, food products and other goods have accelerated their pace of increase, amid movements in a wide range of items to continue passing on cost increases in the form of higher prices primarily as a reflection of movements in foreign exchange rates. Added to this, prices of durable goods rose at an accelerated pace in December, after having turned positive in November in response to movements in TV sets and refrigerators. Meanwhile, prices of general services have registered a slight positive as a whole, since prices of

⁶ The trimmed mean is obtained by systematically discarding a certain percentage of the highest and lowest marks of the price fluctuation distribution by item to eliminate large relative price fluctuations.

⁷ The Laspeyres chain index is compiled as follows: (i) aggregates are produced after updating the weights of items of the base year and resetting the index level of individual items to 100 every year; then (ii) multiplying the previous year's chain index by the aggregated year-on-year figures obtained from the above calculation. Disregarding such factors as adopting and terminating items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

eating out have expanded their rate of increase mildly, and also since prices of other services have recently risen at an accelerated pace, chiefly in package tours to overseas and hotel charges, although prices of rent—which comprise a large weight—have 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 50 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 year-on-year rate of change in the amount outstanding of CP and corporate bonds has been positive (Chart 34).

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

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been at around 4.5 percent. Its January reading was 4.4 percent on a year-on-year basis, following 4.3 percent in December (Chart 35).⁸

(2) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been declining slightly. The Euroyen interest rate (3-month) and interest rates on Euroyen futures have been virtually level (Chart 37). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 38).

Yields on 10-year government bonds (newly issued 10-year JGB) have fallen marginally, mainly on the back of the decline in U.S. long-term interest rates and in Japanese stock prices; they are currently moving at around 0.6 percent (Chart 39).

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

Stock prices have moved downward in conjunction with the yen's appreciation, in the face of a decline in U.S. and European stock prices. The Nikkei 225 Stock Average is currently moving at around 14,500 yen (Chart 41).

In the foreign exchange market, the yen has appreciated against the U.S. dollar in conjunction with the decline in Japanese stock prices, as investors temporarily became risk averse; the yen is currently moving at around 102 yen against the U.S. dollar. As for the yen's exchange against the euro, the yen has also appreciated against the euro; the yen is currently moving in the range of 139-140 yen against the euro (Chart 42).

⁸ 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 January reading was 3.5 percent, following 3.4 percent in December. 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 January, following an increase of 4.5 percent in December.

Charts

Chart 1	Main Economic Indicators (1)	Chart 23	Prices
Chart 2	Main Economic Indicators (2)	Chart 24	Import Prices and International Commodity Prices
Chart 3	Real GDP and Indexes of Business Conditions	Chart 25	Domestic Corporate Goods Price Index
Chart 4	GDP Deflator and Income Formation	Chart 26	Corporate Services Price Index
Chart 5	Public Investment	Chart 27	Consumer Price Index (Less Fresh Food)
Chart 6	External Balance	Chart 28	Trend Changes in Consumer Prices
Chart 7	Real Exports	Chart 29	Inflation Expectations
Chart 8	Real Effective Exchange Rate and Overseas Economies	Chart 30	Monetary Base
Chart 9	Real Imports	Chart 31	Corporate Finance-Related Indicators
Chart 10	Coincident Indicators of Business Fixed Investment	Chart 32	Lending Rates
Chart 11	Leading Indicators of Business Fixed Investment	Chart 33	Lending by Financial Institutions
Chart 12	Indicators of Private Consumption (1)	Chart 34	Private-Sector Fund-Raising in the Capital Markets
Chart 13	Indicators of Private Consumption (2)	Chart 35	Money Stock
Chart 14	Indicators of Private Consumption (3)	Chart 36	Corporate Bankruptcies
Chart 15	Consumer Confidence	Chart 37	Short-Term Interest Rates
Chart 16	Indicators of Housing Investment	Chart 38	Global Money Markets
Chart 17	Production, Shipments, and Inventories	Chart 39	Long-Term Interest Rates
Chart 18	Shipments by Type of Goods	Chart 40	Yields of Corporate Bonds
Chart 19	Inventory Cycle	Chart 41	Stock Prices
Chart 20	Labor Market	Chart 42	Exchange Rates
Chart 21	Wages		
Chart 22	Employee Income		

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2013/Q2	Q3	Q4	2013/Oct.	Nov.	Dec.	2014/Jan.
Index of consumption expenditure level (two-or-more-person households)	-2.2	-0.4	-0.6	-2.1	-1.8	1.0	n.a.
Sales at department stores	1.1	-2.2	0.8	-2.9	2.8	-0.4	n.a.
Sales at supermarkets	0.3	0.2	0.5	0.0	0.3	0.6	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 282>	< 284>	< 309>	< 299>	< 307>	< 320>	< 356>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-2.7	-2.5	4.4	3.3	-1.6	-6.4	n.a.
Outlays for travel	-0.1	-0.1	n.a.	3.4	0.3	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 98>	< 100>	< 103>	< 103>	< 104>	< 105>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	6.8	4.3	1.5	0.6	9.3	-15.7	n.a.
Manufacturing	5.6	9.8	0.6	-0.2	6.0	-17.3	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	12.5	-4.1	7.5	11.5	8.1	-17.2	n.a.
Construction starts (private, nondwelling use)	-3.2	-0.5	2.9	-2.0	-2.1	0.1	n.a.
Mining & manufacturing	-9.9	8.9	3.1	-22.0	1.9	48.5	n.a.
Nonmanufacturing ⁵	1.5	-1.3	0.6	0.6	-4.3	-9.8	n.a.
Value of public works contracted	28.6	-3.0	-12.4	-17.1	0.6	3.9	17.8
Real exports	3.5	-1.1	1.1	2.3	0.0	-0.7	n.a.
Real imports	-0.0	2.6	1.5	-1.1	1.3	-1.2	n.a.
Industrial production	1.5	1.7	1.8	1.0	-0.1	0.9	n.a.
Shipments	-1.9	0.6	3.5	2.3	0.0	0.8	n.a.
Inventories	0.4	1.2	-2.5	-0.3	-1.8	-0.5	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 111.0>	< 110.1>	< 104.6>	< 106.0>	< 104.7>	< 104.6>	<n.a.>
Real GDP	1.0	0.3	0.3	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.0	0.6	n.a.	-0.4	0.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2013/Q2	Q3	Q4	2013/Oct.	Nov.	Dec.	2014/Jan.
Active job openings-to-applicants ratio <s.a., times>	< 0.90>	< 0.95>	< 1.00>	< 0.98>	< 1.00>	< 1.03>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	< 3.9>	< 4.0>	< 4.0>	< 3.7>	<n.a.>
Non-scheduled hours worked ⁶	1.0	4.0	p 5.7	5.8	6.7	p 4.6	n.a.
Number of employees	0.9	0.9	1.2	0.9	1.1	1.7	n.a.
Number of regular employees ⁶	0.7	0.9	p 1.1	1.0	1.2	p 1.0	n.a.
Nominal wages per person ⁶	0.3	-0.4	p 0.4	-0.1	0.6	p 0.8	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	0.7 < 0.7>	2.2 < 0.6>	2.5 < 0.4>	2.5 < 0.6>	2.6 < 0.3>	2.5 < 0.4>	p 2.4 <p 0.4>
Consumer price index ⁸	0.0	0.7	1.1	0.9	1.2	1.3	n.a.
Corporate services price index ⁹	-0.2	0.0	p 0.4	0.3	0.6	p 0.5	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	3.5	3.8	4.2	4.1	4.4	4.3	p 4.4
Number of corporate bankruptcies <cases per month>	<947>	<888>	<857>	<959>	<862>	<750>	<864>

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

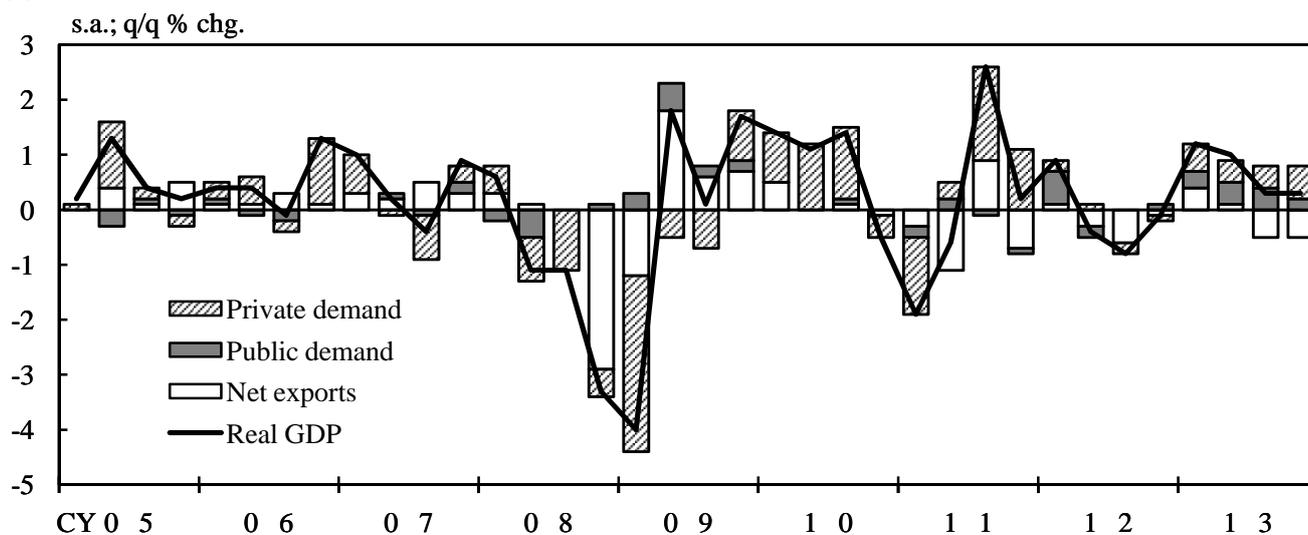
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



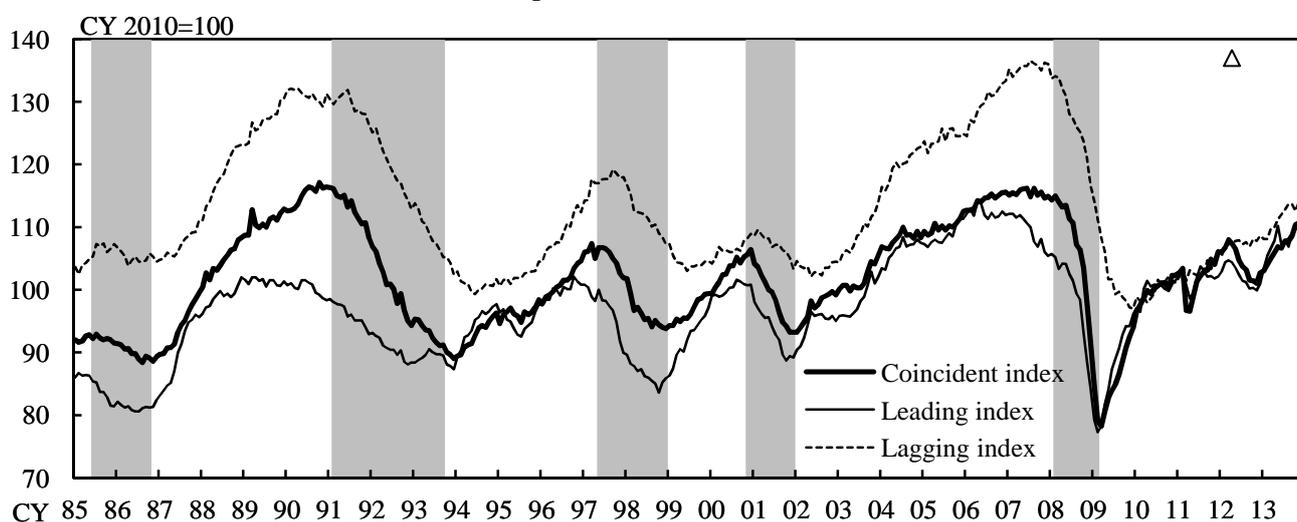
(2) Components

s.a.; q/q % chg.

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Real GDP	-0.1	1.2	1.0	0.3	0.3
[Annual rate]	[-0.2]	[4.8]	[3.9]	[1.1]	[1.0]
Domestic demand	0.1	0.8	0.8	0.8	0.8
Private demand	-0.1	0.5	0.4	0.4	0.6
Private consumption	0.2	0.6	0.4	0.1	0.3
Non-Resi. investment	-0.1	-0.1	0.1	0.0	0.2
Residential investment	0.1	0.1	0.0	0.1	0.1
Private inventory	-0.2	-0.1	-0.2	0.1	-0.0
Public demand	0.1	0.3	0.4	0.4	0.2
Public investment	0.0	0.1	0.3	0.3	0.1
Net exports of goods and services	-0.1	0.4	0.1	-0.5	-0.5
Exports	-0.4	0.6	0.4	-0.1	0.1
Imports	0.3	-0.2	-0.3	-0.4	-0.6
Nominal GDP	0.0	0.7	1.0	0.2	0.4

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

(3) Indexes of Business Conditions (Composite Indexes)

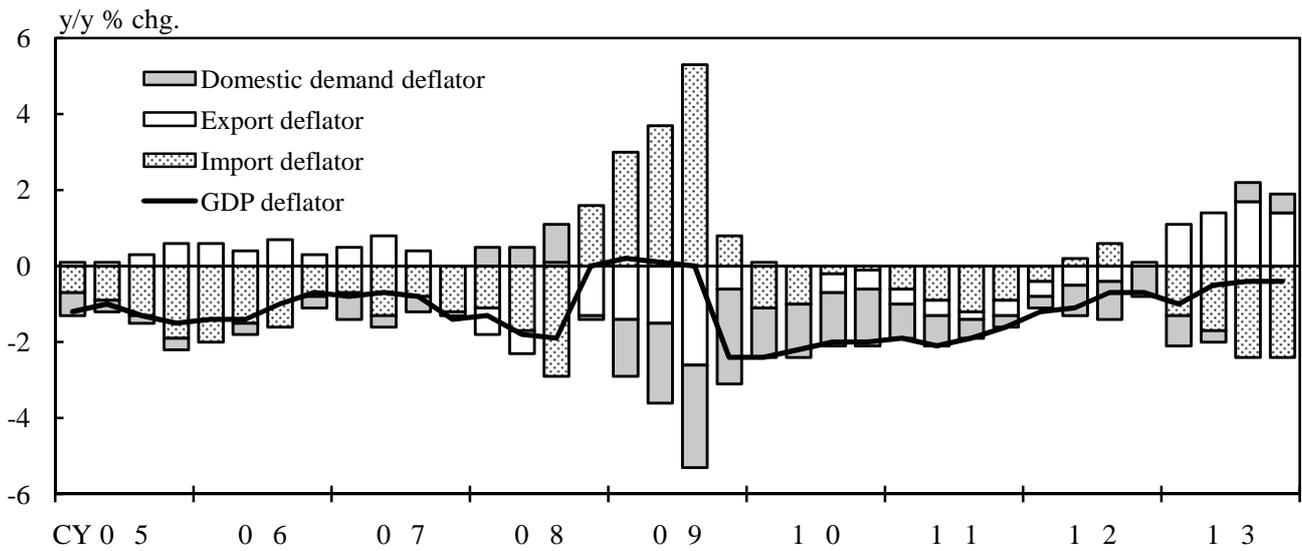


Note: Shaded areas indicate recession periods. Triangle shows the latest peak.

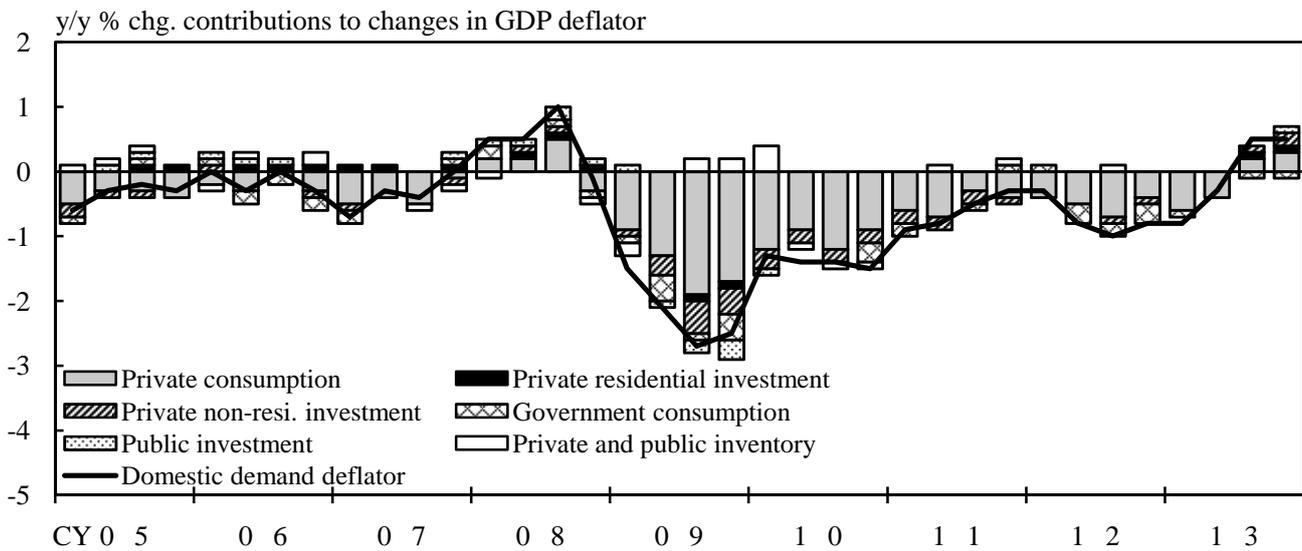
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

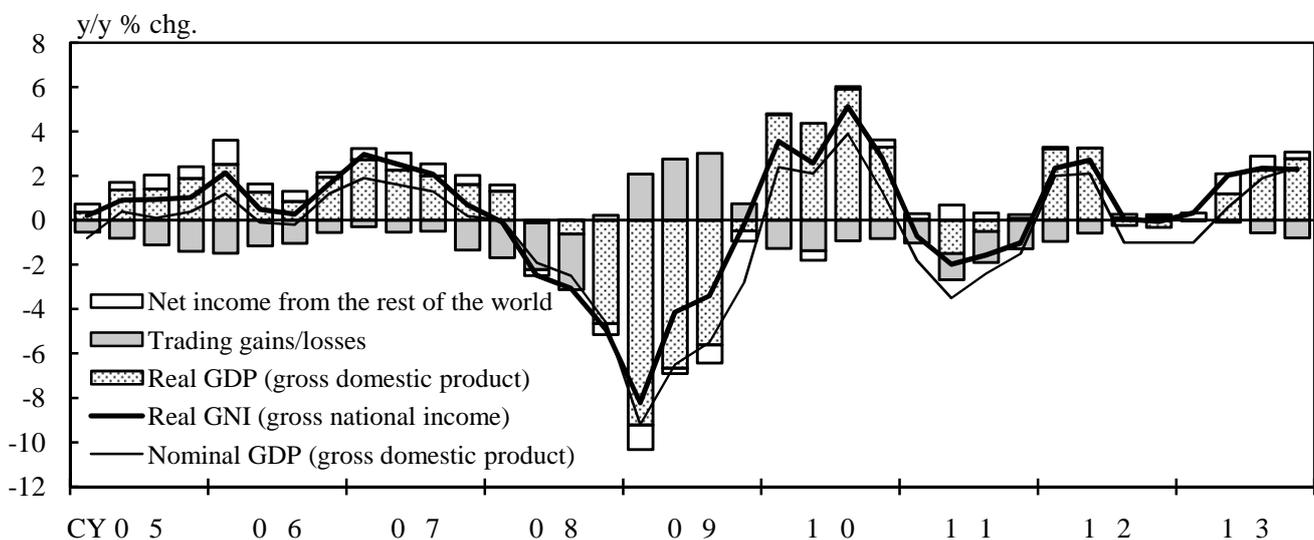
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

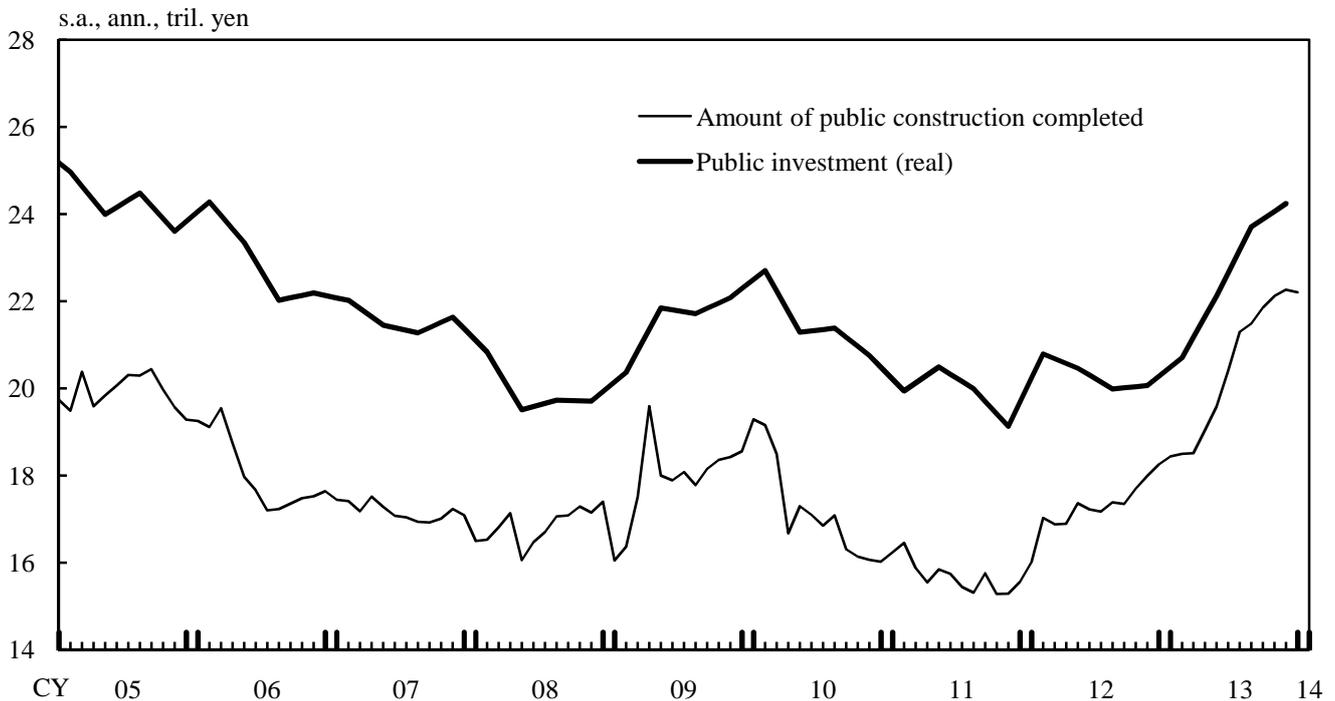
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

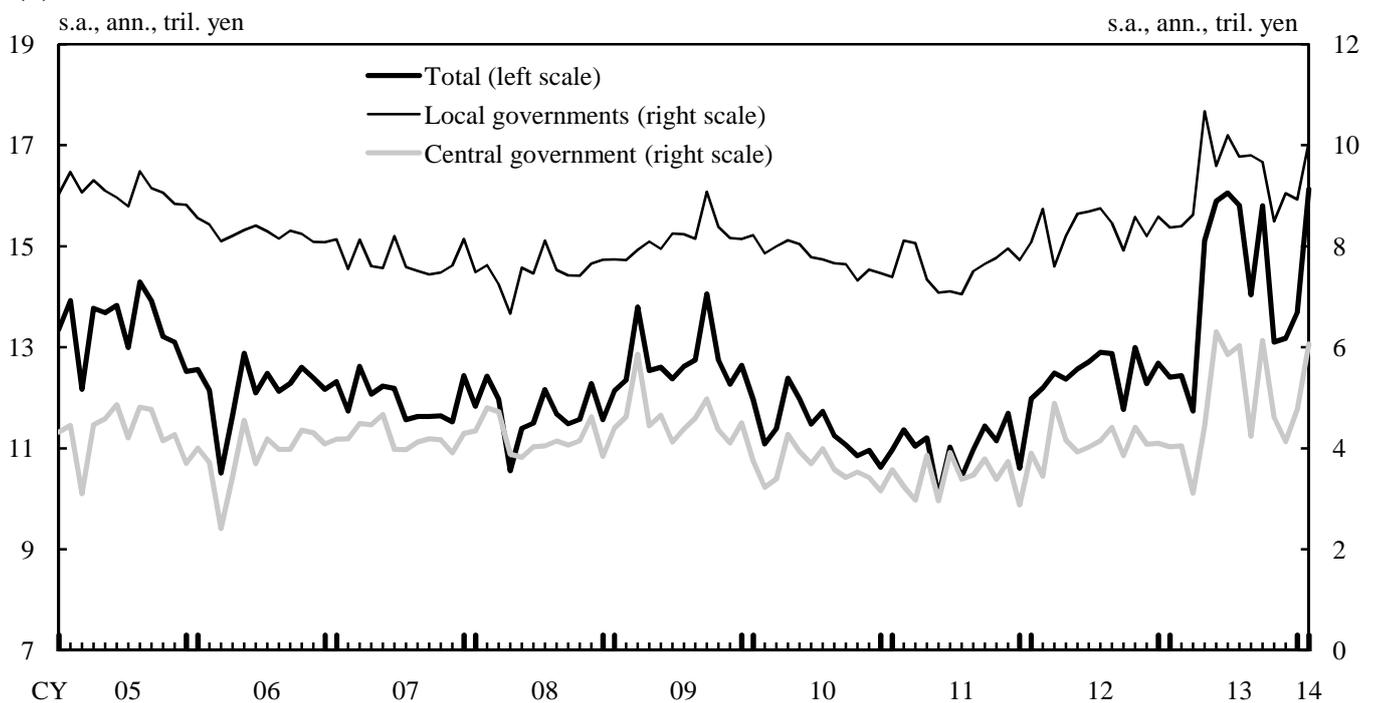
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



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

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

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

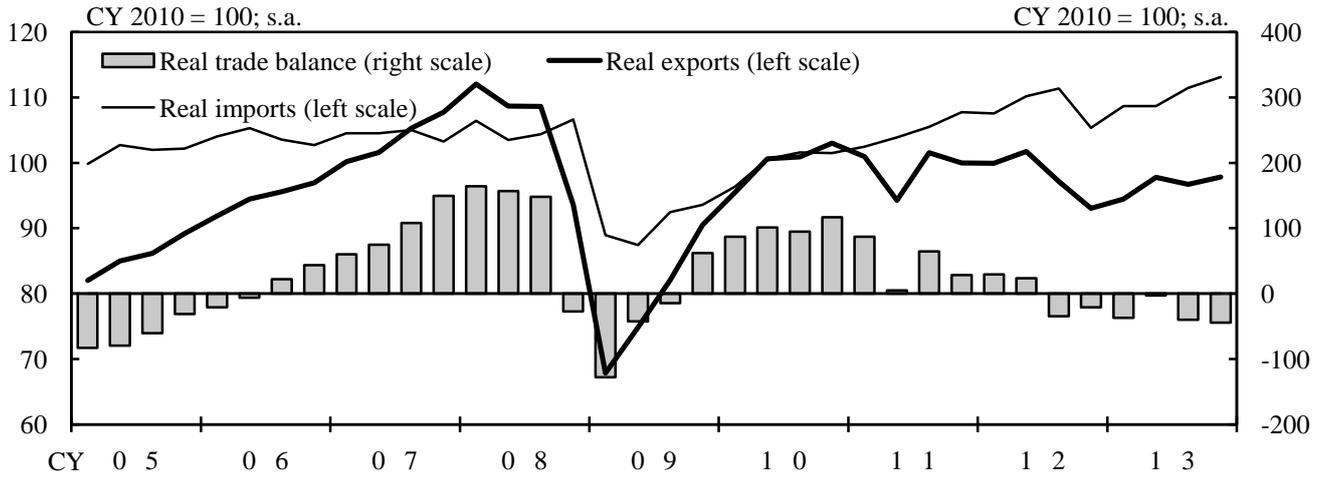
Sources: Cabinet Office, "National Accounts";

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

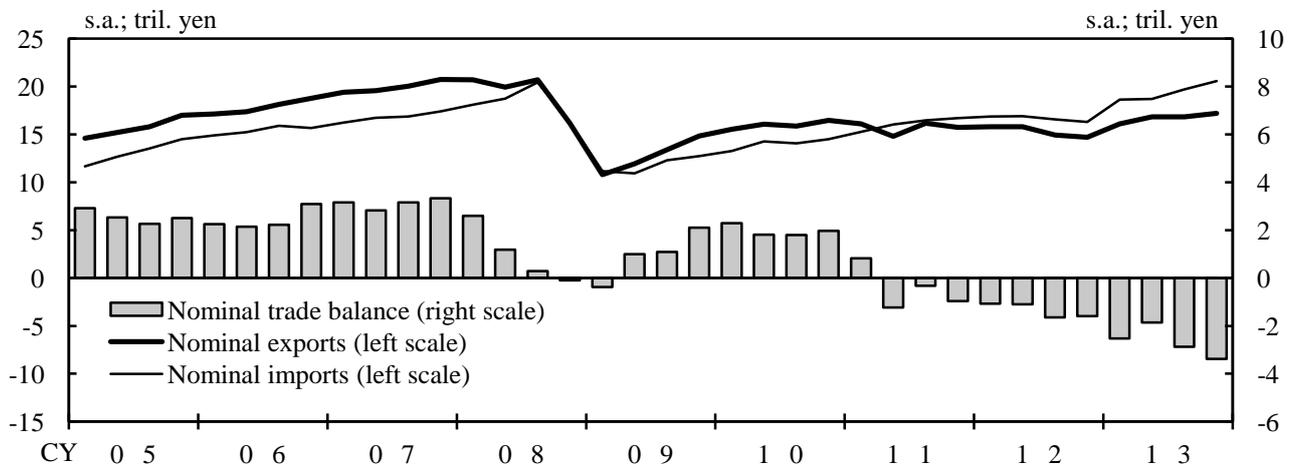
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance ¹

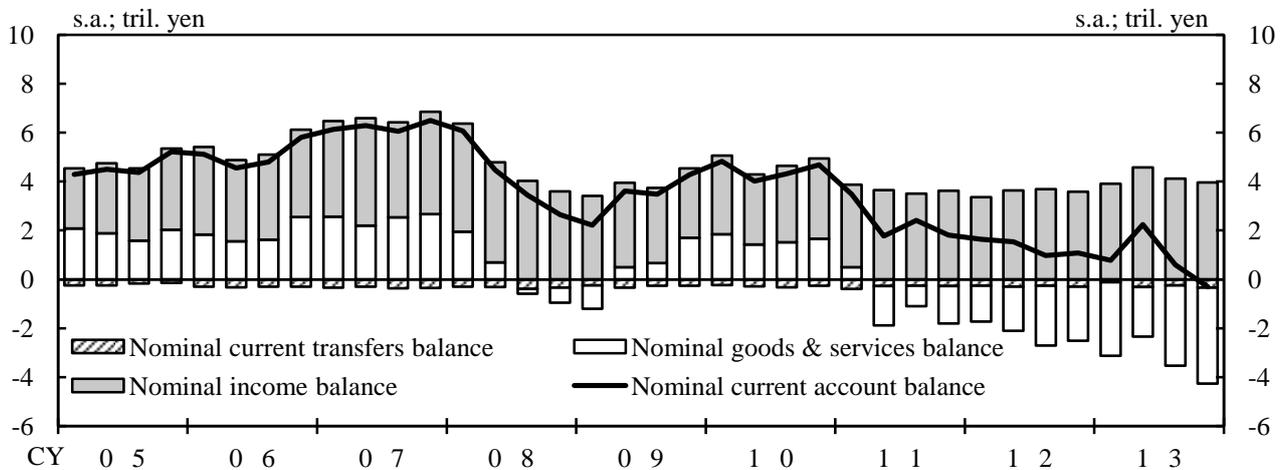
(1) Real Exports, Real Imports, and Real Trade Balance ²



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



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



Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." "Real trade balance" is defined as real exports minus real imports.

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 2012	2013	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Oct.	Nov.	Dec.
United States	<18.5>	13.0	2.8	-3.0	2.2	7.5	-1.4	-1.4	1.8	-1.7	-2.5
EU	<10.0>	-13.0	-3.6	-4.4	-0.4	0.4	7.9	1.2	-0.5	-4.9	9.1
East Asia	<50.9>	-2.6	-2.9	-3.9	-1.1	3.8	-2.1	2.8	0.4	4.8	-1.5
China	<18.1>	-8.1	-1.6	-9.2	-0.7	7.0	2.2	5.8	0.9	8.3	0.5
NIEs	<21.9>	-4.7	-0.9	-0.5	-0.3	4.2	-4.1	1.0	-0.5	3.2	-3.7
Korea	<7.9>	-3.5	0.5	1.1	1.0	2.0	-0.4	-4.3	0.0	-4.5	0.2
Taiwan	<5.8>	-6.0	-1.5	-2.8	2.4	-1.2	-6.8	6.2	2.6	8.9	1.4
Hong Kong	<5.2>	-0.7	-1.3	-0.9	-5.0	9.8	-0.6	-4.0	-9.3	7.7	-6.9
Singapore	<2.9>	-11.6	-2.7	-2.7	0.5	13.8	-14.4	15.3	11.5	12.8	-20.2
ASEAN4 ³	<10.9>	12.5	-8.5	-1.9	-3.1	-1.6	-4.9	1.0	1.7	1.9	-0.5
Thailand	<5.0>	19.3	-9.2	0.1	-5.9	0.7	-7.7	-4.5	-1.0	4.7	-1.9
Others	<20.6>	1.7	-5.0	-5.1	3.6	1.0	-1.8	-3.0	4.4	-4.1	-3.1
Real exports		-1.0	-1.8	-4.2	1.5	3.5	-1.1	1.1	2.3	0.0	-0.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Oct.	Nov.	Dec.
Intermediate goods	<21.1>	-0.7	1.2	-3.4	1.8	1.8	-0.1	-0.7	-1.1	2.8	0.6
Motor vehicles and their related goods	<23.9>	7.7	-1.4	-5.8	0.6	6.0	3.1	-0.0	3.2	-2.0	-4.1
IT-related goods ⁴	<10.6>	3.6	-7.2	-1.9	-6.4	0.8	0.2	2.9	1.7	0.0	5.4
Capital goods and parts ⁵	<27.5>	-4.0	-5.8	-6.5	1.2	0.3	1.0	1.9	1.9	0.8	1.8
Real exports		-1.0	-1.8	-4.2	1.5	3.5	-1.1	1.1	2.3	0.0	-0.7

Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Shares of each region and goods in 2013 are shown in angle brackets.

3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.

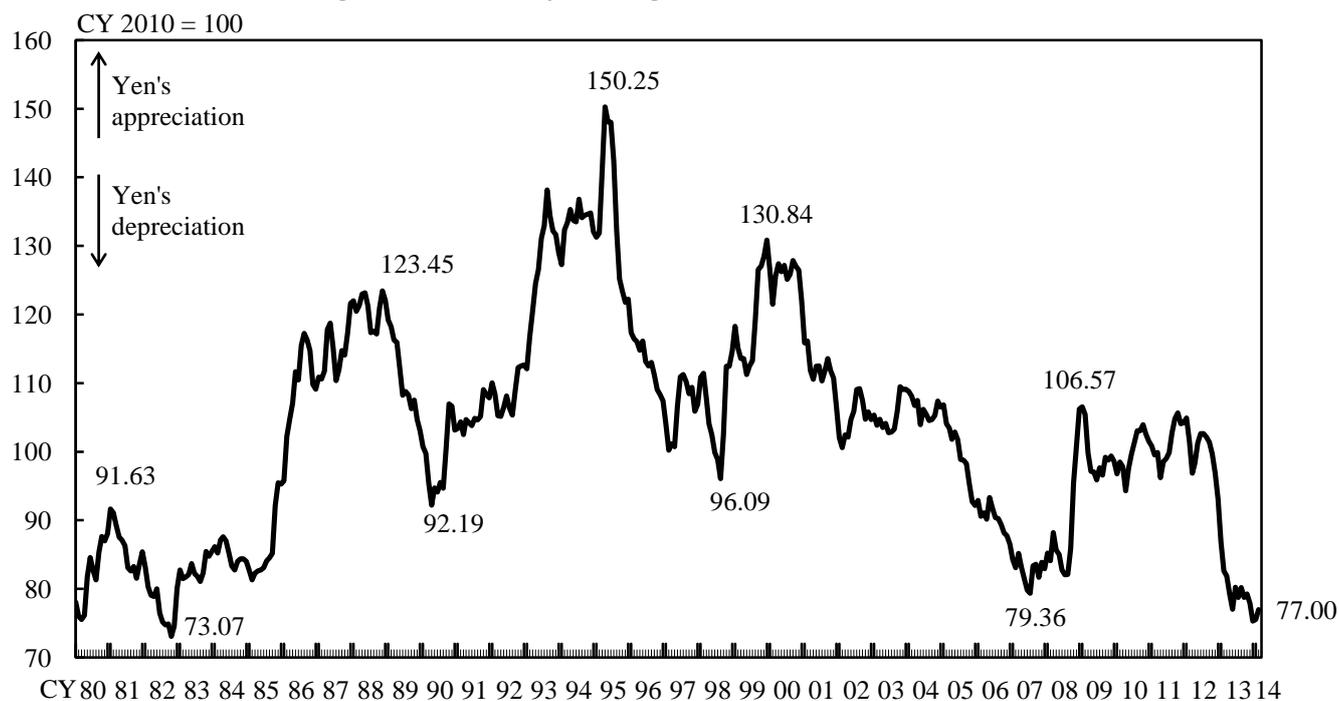
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.

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. Figures for January and February (up to February 14) 2014 have 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	1.9	1.1	2.5	4.1	3.2
European Union ²	1.6	-0.4	0.1	-0.2	1.5	1.0	1.6
Germany ¹	3.3	0.7	0.4	0.0	2.9	1.3	1.5
France ¹	2.0	0.0	0.3	-0.2	2.3	-0.2	1.2
United Kingdom ¹	1.1	0.3	1.9	2.0	3.2	3.1	2.8
East Asia ³	5.9	4.8	n.a.	2.2	5.8	5.6	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	4.4	-1.6	4.1	5.8	4.9
Main economies ³	4.5	3.7	n.a.	1.7	4.5	4.7	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 2012	2013	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Oct.	Nov.	Dec.
United States	<8.4>	3.8	-2.1	-8.0	-0.1	2.5	4.4	-0.7	-3.8	16.0	-17.7
EU	<9.4>	4.0	0.8	-1.1	-1.7	-0.7	5.3	-0.6	-7.9	-1.2	9.1
East Asia	<40.8>	3.9	2.6	-1.8	3.1	-2.0	3.6	3.8	-2.2	3.4	-1.1
China	<21.7>	5.1	5.4	-0.6	3.9	-1.8	5.2	3.6	-8.1	5.0	0.1
NIEs	<8.2>	5.0	-0.2	-1.5	1.2	-5.9	7.1	1.8	7.0	-4.3	-0.6
Korea	<4.3>	4.3	-4.7	-3.7	2.8	-10.0	6.8	2.5	10.2	-3.2	-1.9
Taiwan	<2.8>	7.2	8.5	1.6	-1.0	5.0	4.5	0.6	3.0	-0.4	-5.4
Hong Kong	<0.2>	-2.5	9.3	-1.3	8.3	-10.2	12.1	20.9	0.1	12.3	35.7
Singapore	<0.9>	3.0	-6.8	-0.2	-0.8	-16.3	14.8	1.5	2.7	-10.7	6.3
ASEAN4 ³	<10.8>	0.5	-1.0	-4.6	2.8	0.9	-2.9	5.9	5.3	6.6	-4.5
Thailand	<2.6>	-0.9	1.6	-2.7	3.6	0.9	-2.4	3.4	7.5	-0.7	-1.0
Others	<41.5>	4.7	0.4	-10.5	7.7	1.0	0.1	-0.7	-0.3	-0.1	2.0
Real imports		4.2	1.0	-5.4	3.2	-0.0	2.6	1.5	-1.1	1.3	-1.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2012 Q4	2013 Q1	Q2	Q3	Q4	2013 Oct.	Nov.	Dec.
Raw materials ⁴	<40.4>	4.5	-1.8	-12.3	9.8	-1.6	-0.3	-0.5	0.4	2.6	-1.7
Intermediate goods	<12.9>	-2.7	-2.8	-3.0	-1.5	-2.6	3.7	0.9	0.6	-2.5	6.4
Foodstuffs	<8.0>	-0.7	-3.5	-3.9	3.3	-6.0	4.7	-2.0	-2.0	-1.1	3.7
Consumer goods ⁵	<7.8>	4.5	4.1	-2.9	2.0	3.0	2.7	0.4	2.1	-2.2	2.6
IT-related goods ⁶	<12.6>	9.0	13.1	4.1	3.6	1.1	4.9	6.1	-7.4	4.6	-5.3
Capital goods and parts ⁷	<11.4>	10.4	4.8	-3.5	0.7	4.5	5.8	3.0	-6.4	11.9	-5.4
Excluding aircraft	<10.5>	7.0	5.4	-2.1	-0.1	4.7	5.0	2.6	-4.5	3.0	2.8
Real imports		4.2	1.0	-5.4	3.2	-0.0	2.6	1.5	-1.1	1.3	-1.2

Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Shares of each region and goods in 2013 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.

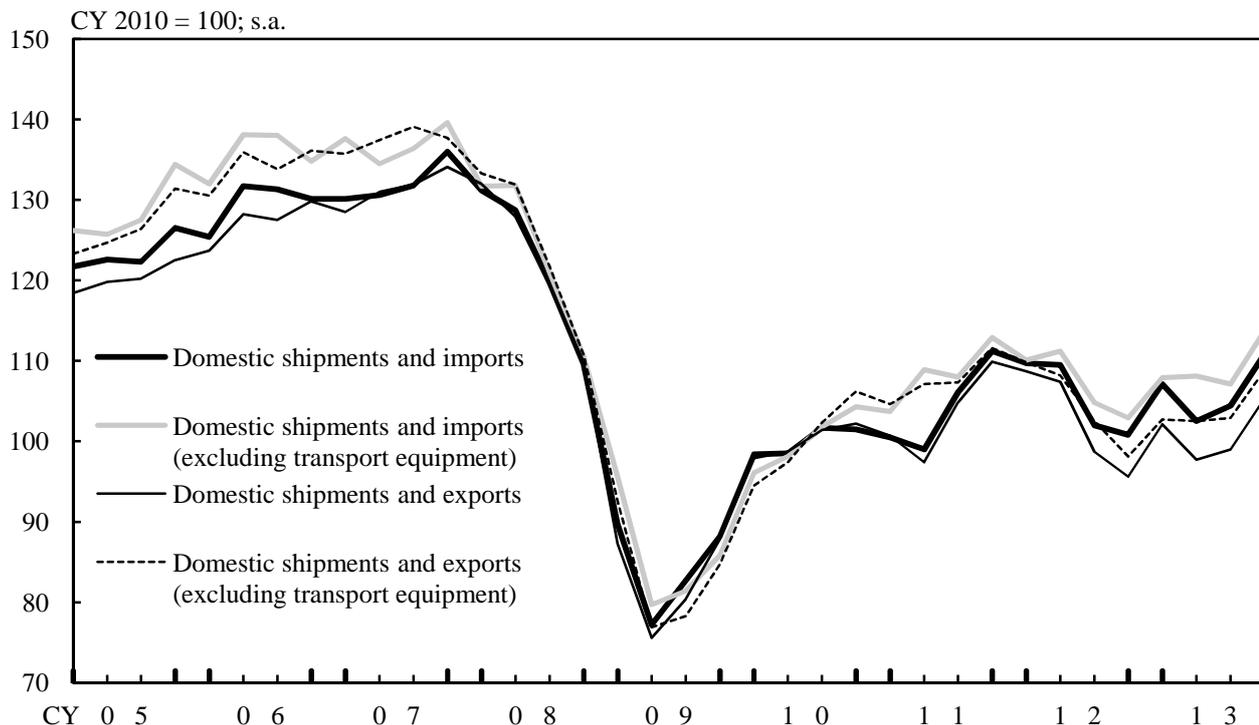
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.

7. Excludes IT-related goods.

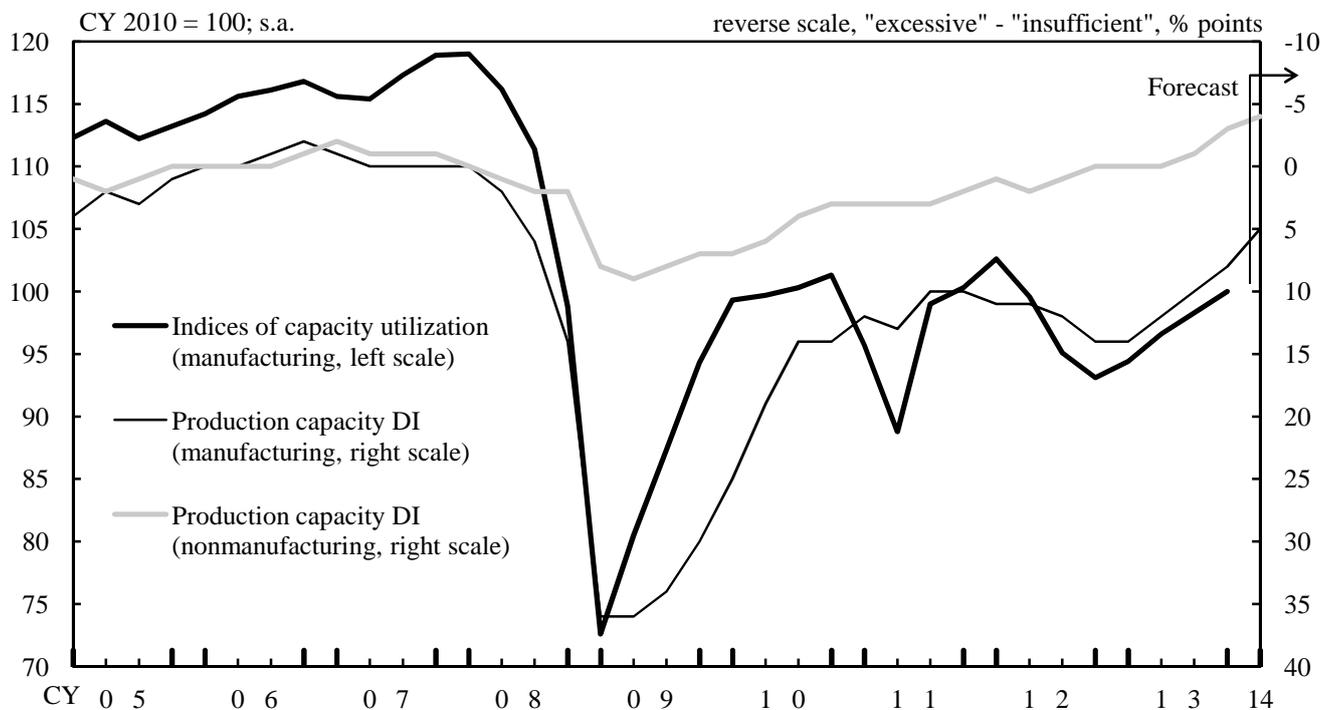
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI

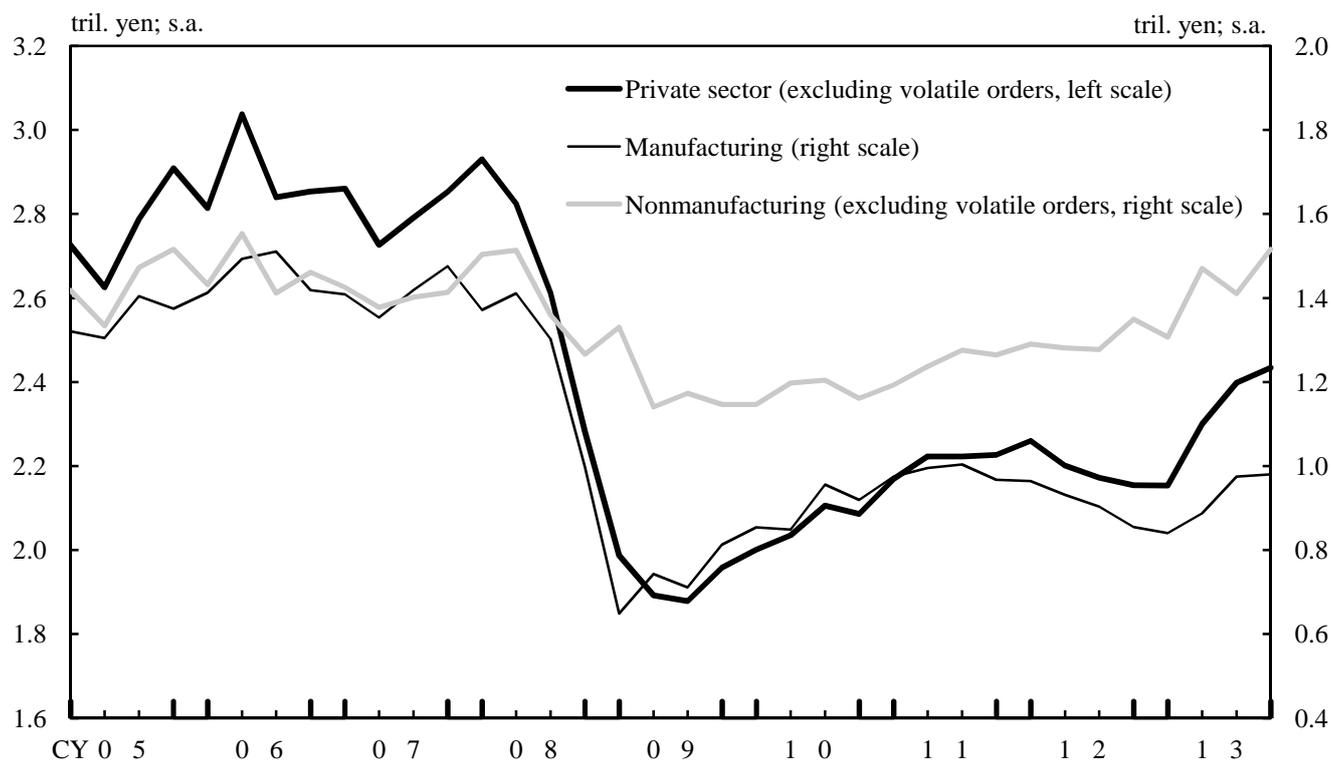


Note: Production capacity DIs are those of all enterprises.

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

Leading Indicators of Business Fixed Investment

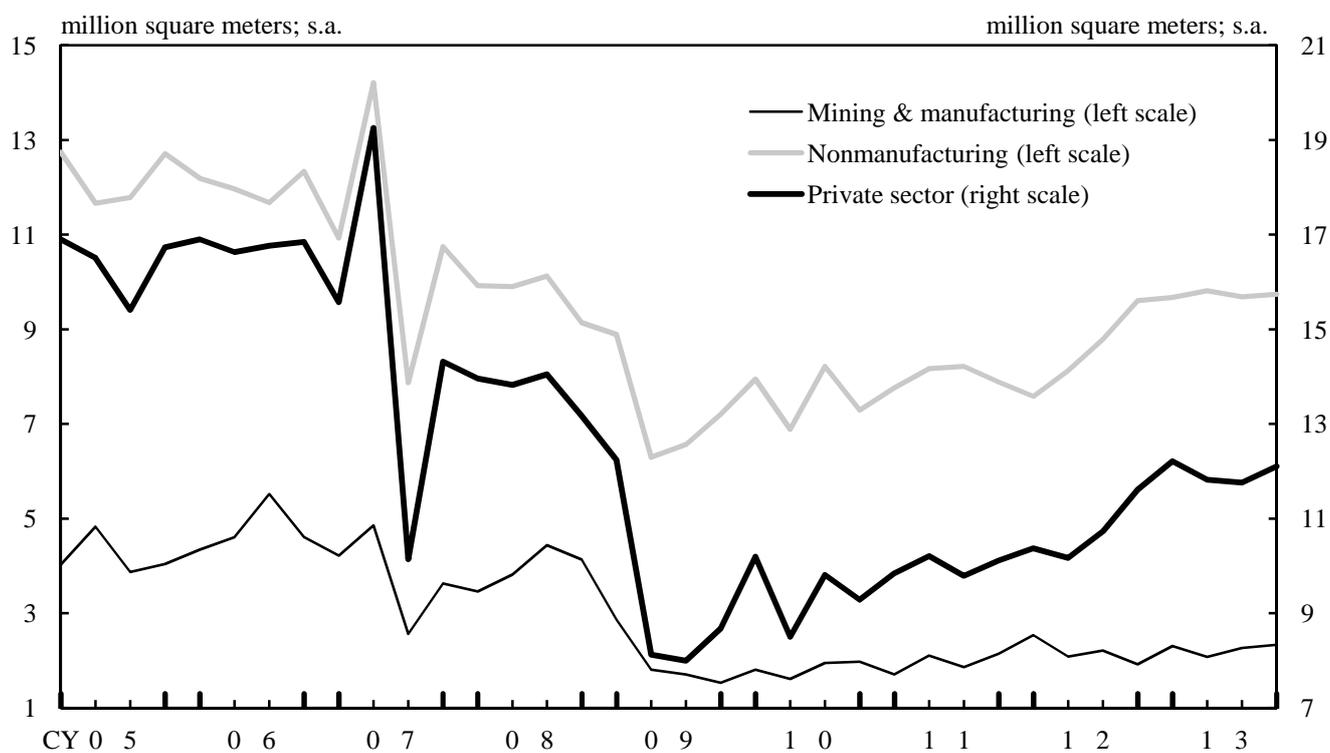
(1) Machinery Orders



Notes: 1. Figures for 2005/Q1 are estimated by the Cabinet Office.

2. Volatile orders: Orders for ships and those from electric power companies.

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



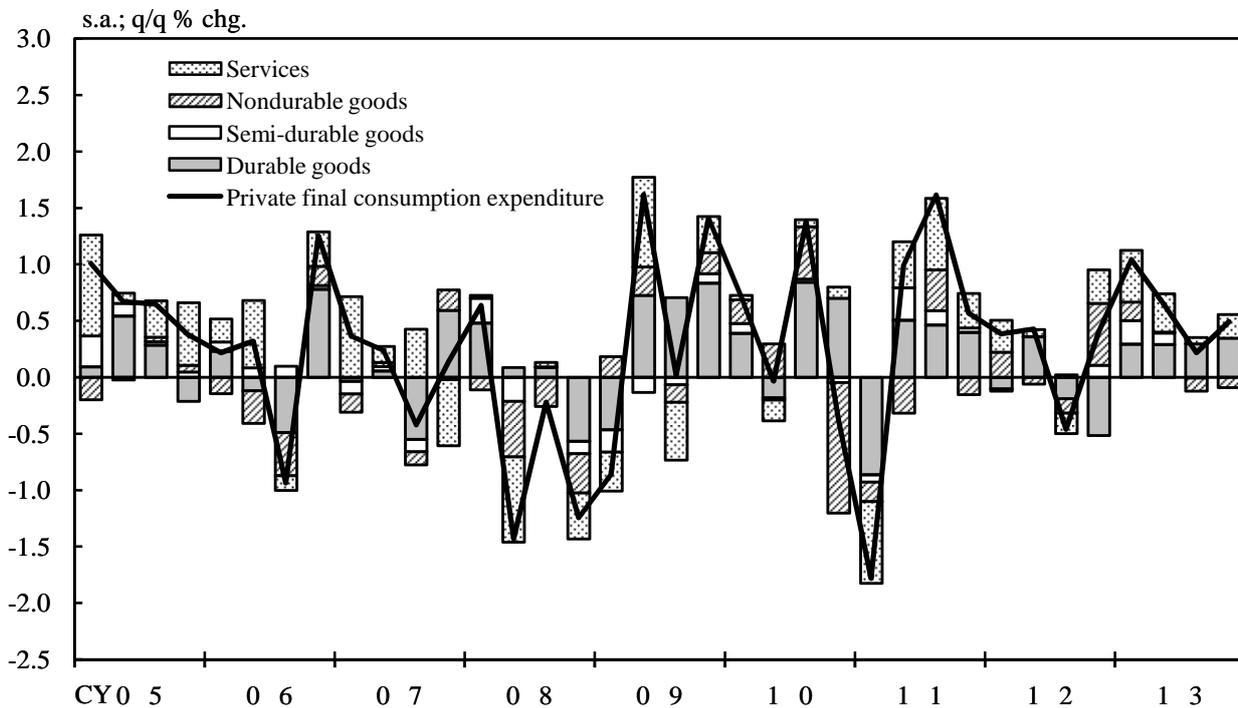
Note: Seasonally adjusted by X-12-ARIMA.

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

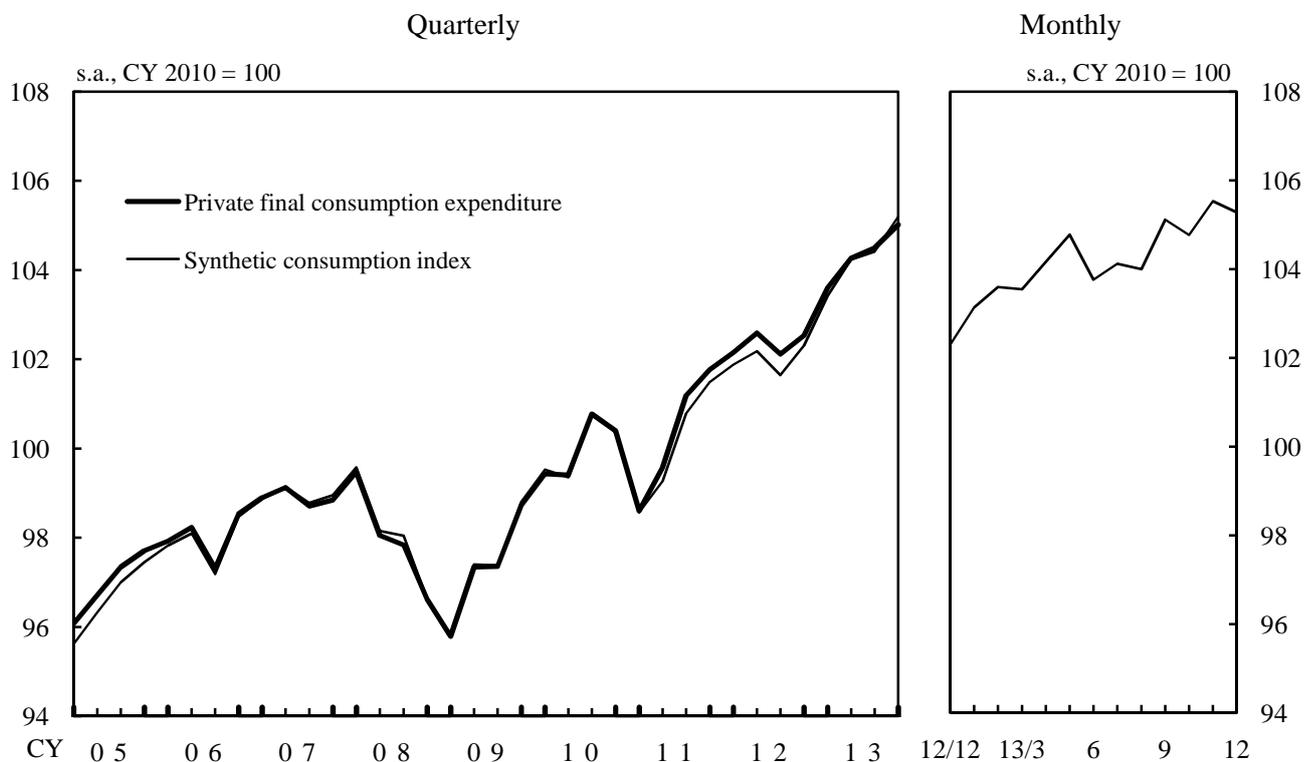
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



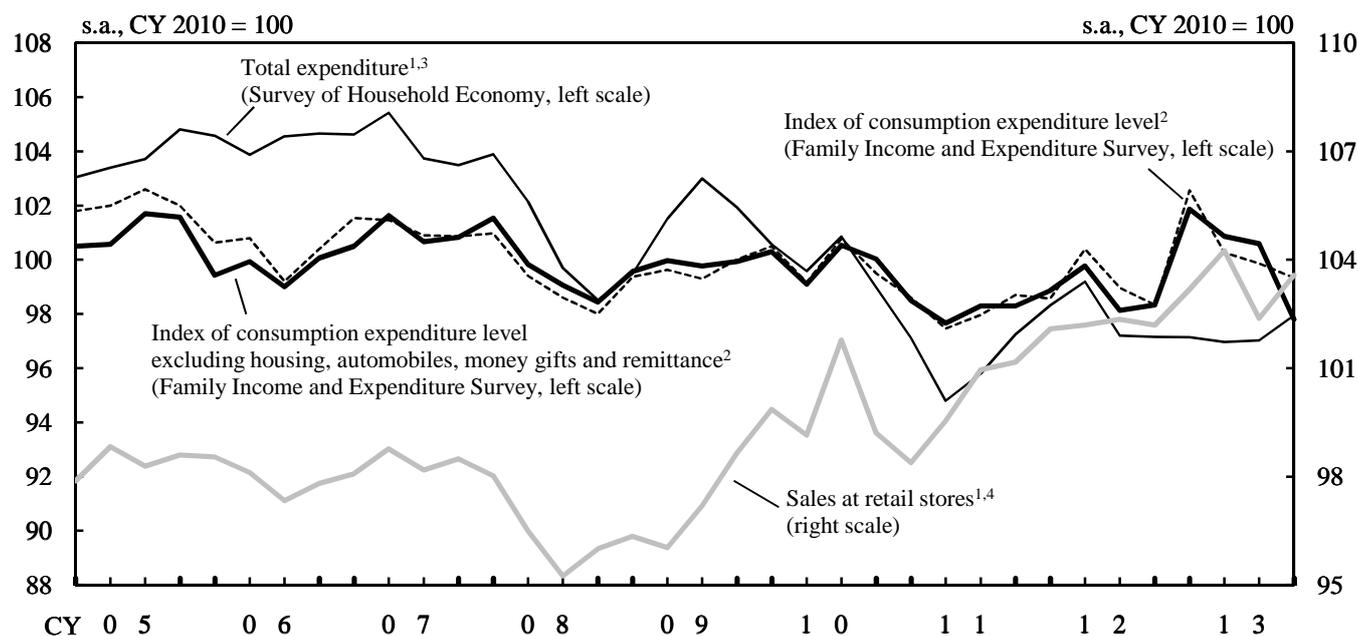
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



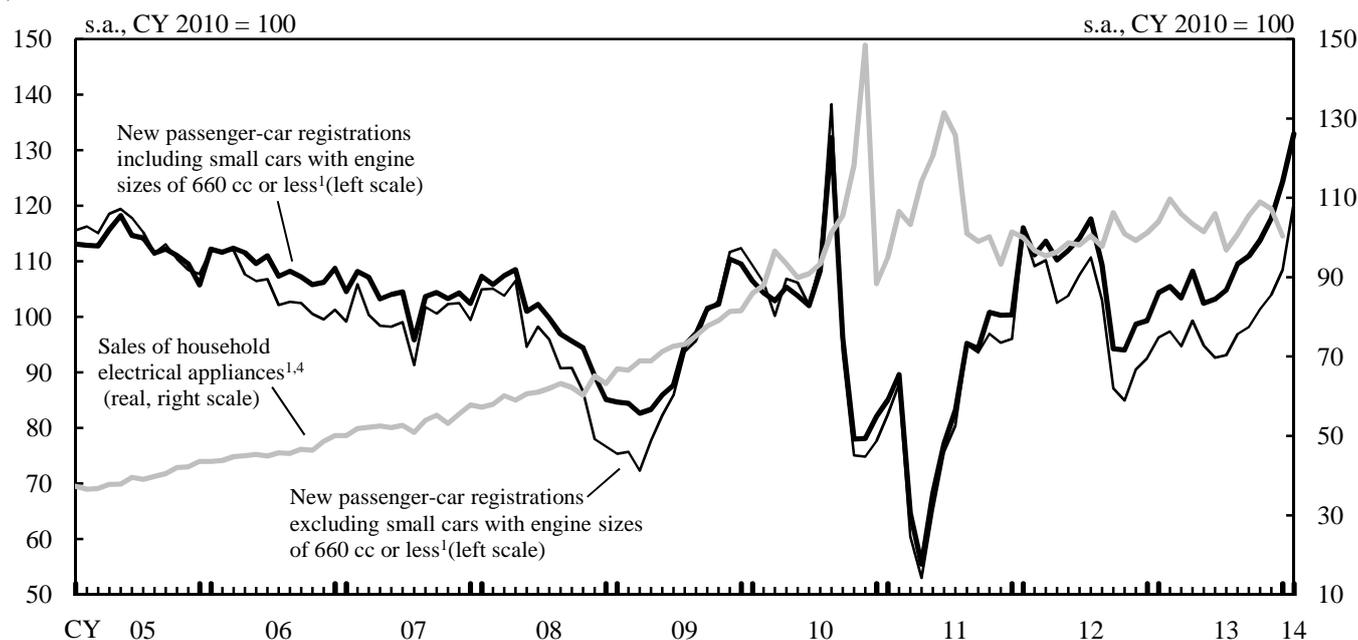
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

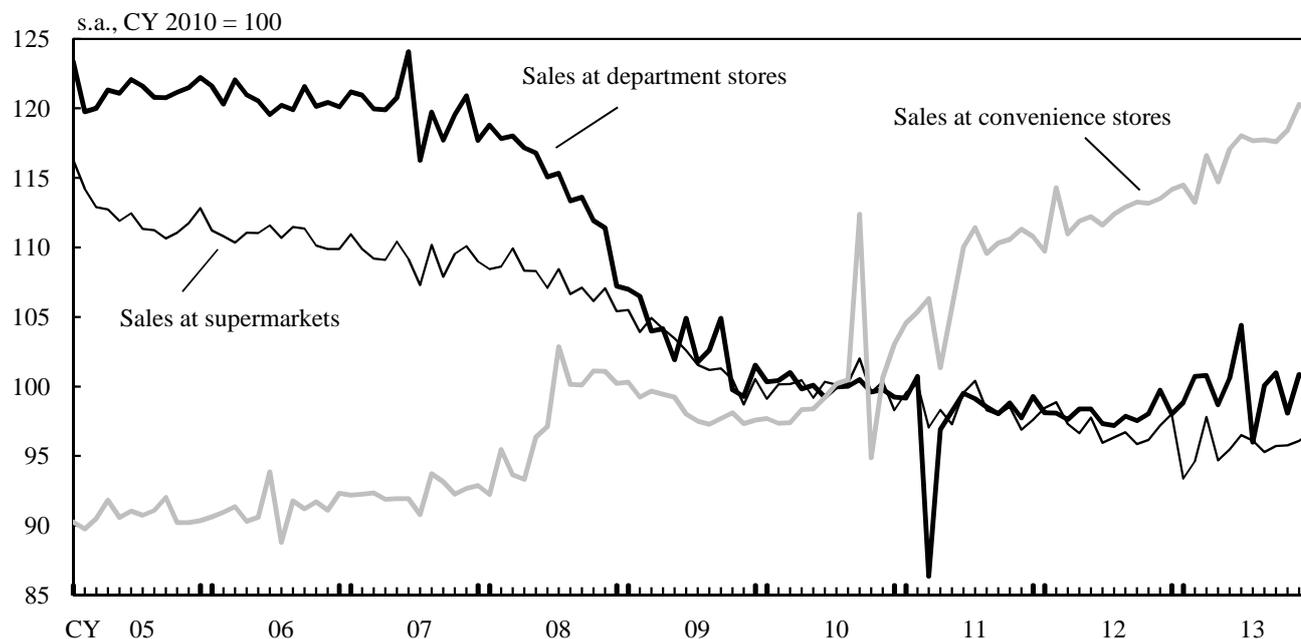


(2) Sales of Durable Goods

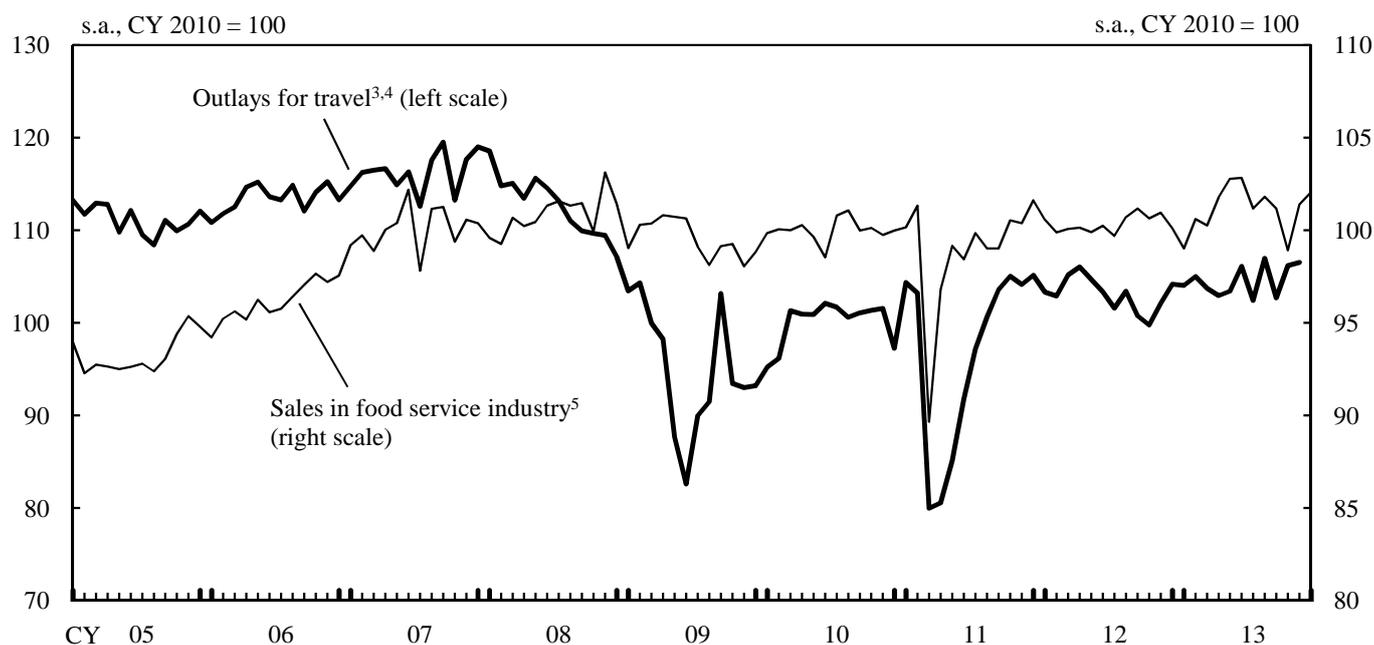


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household by number of household members and age group of household head.
3. "Total expenditure" is based on two-or-more-person households, and is deflated by the "consumer price index (CPI)" excluding imputed rent.
4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges). "Sales of household electrical appliances" is calculated as follows: indices of retail sales of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.

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

Indicators of Private Consumption¹ (3)(1) Sales at Retail Stores (Nominal)²

(2) Consumption of Services (Nominal)



Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).

3. Excluding those by foreign travelers.

4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.

5. "Sales in food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

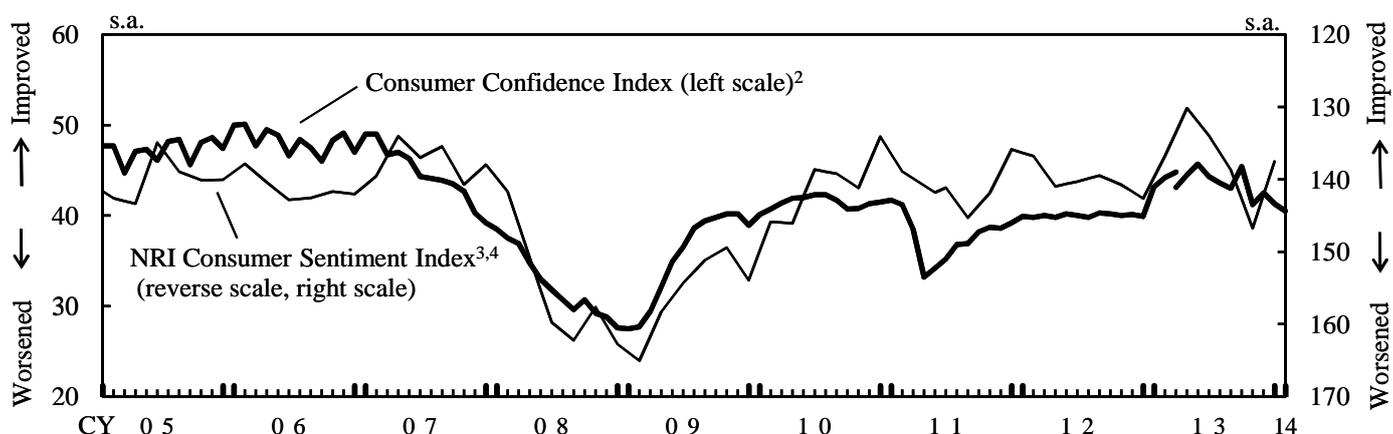
Japan Tourism Agency, "Major Travel Agents' Revenue";

Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly survey of food service sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa

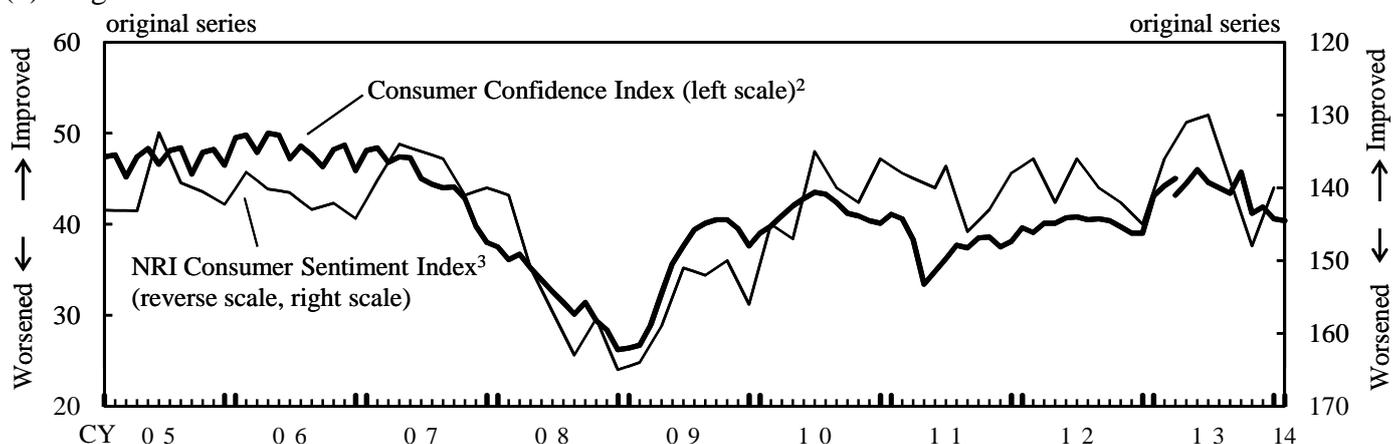
(Research on the food service industry)."

Consumer Confidence¹

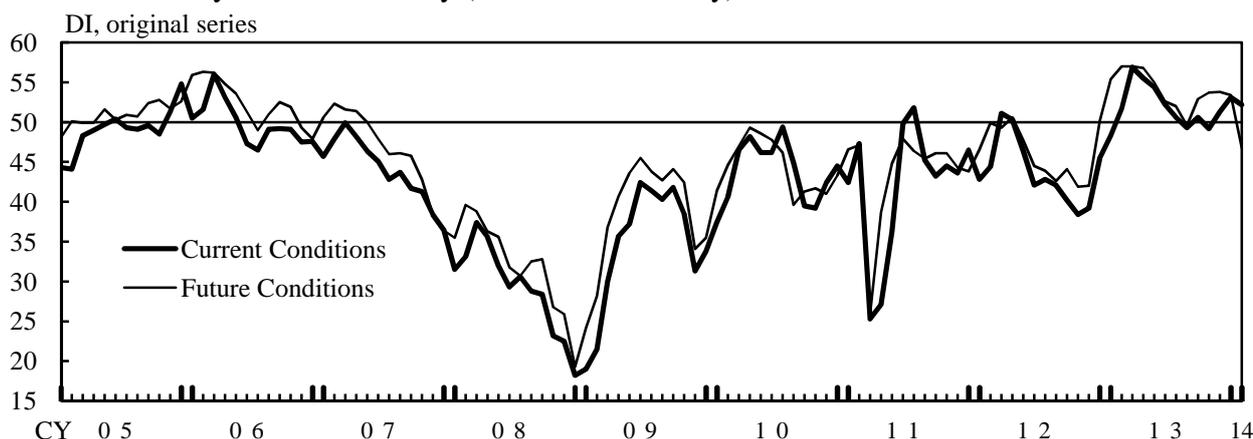
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

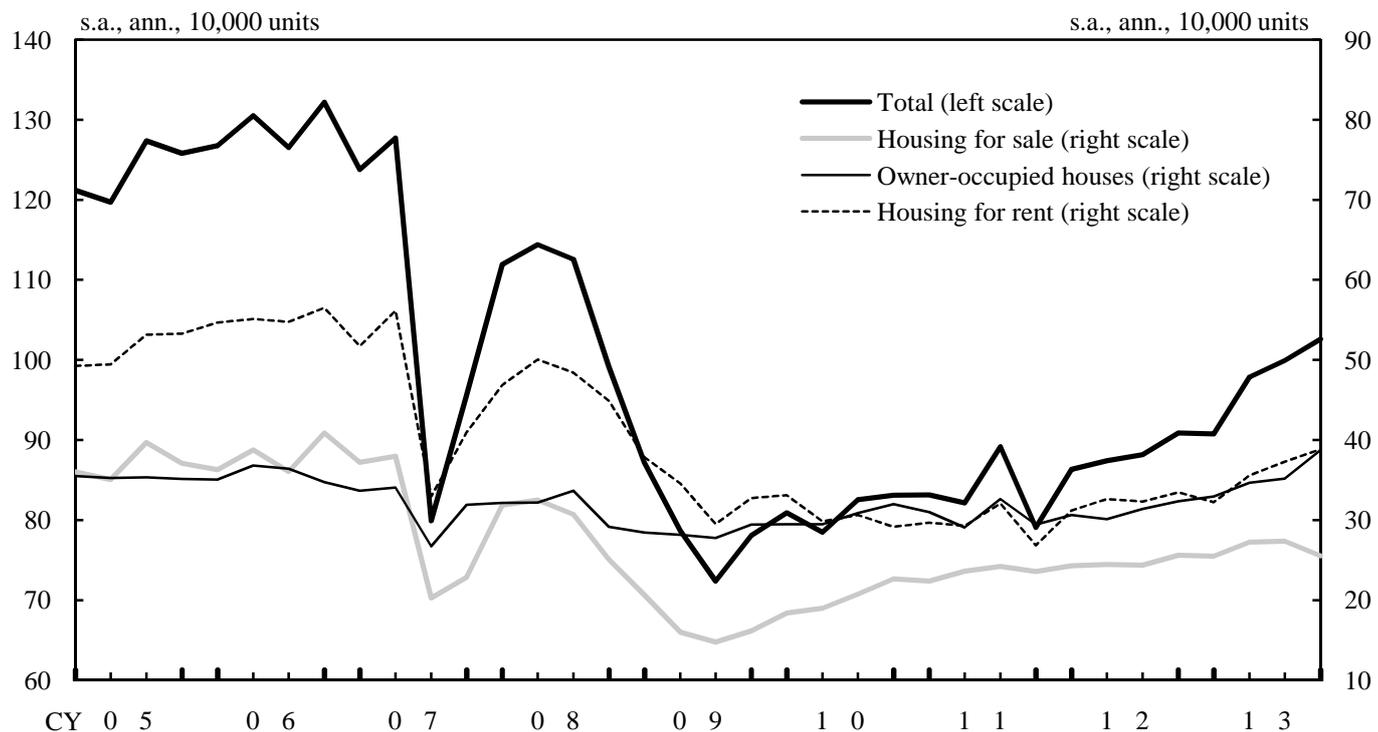


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting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

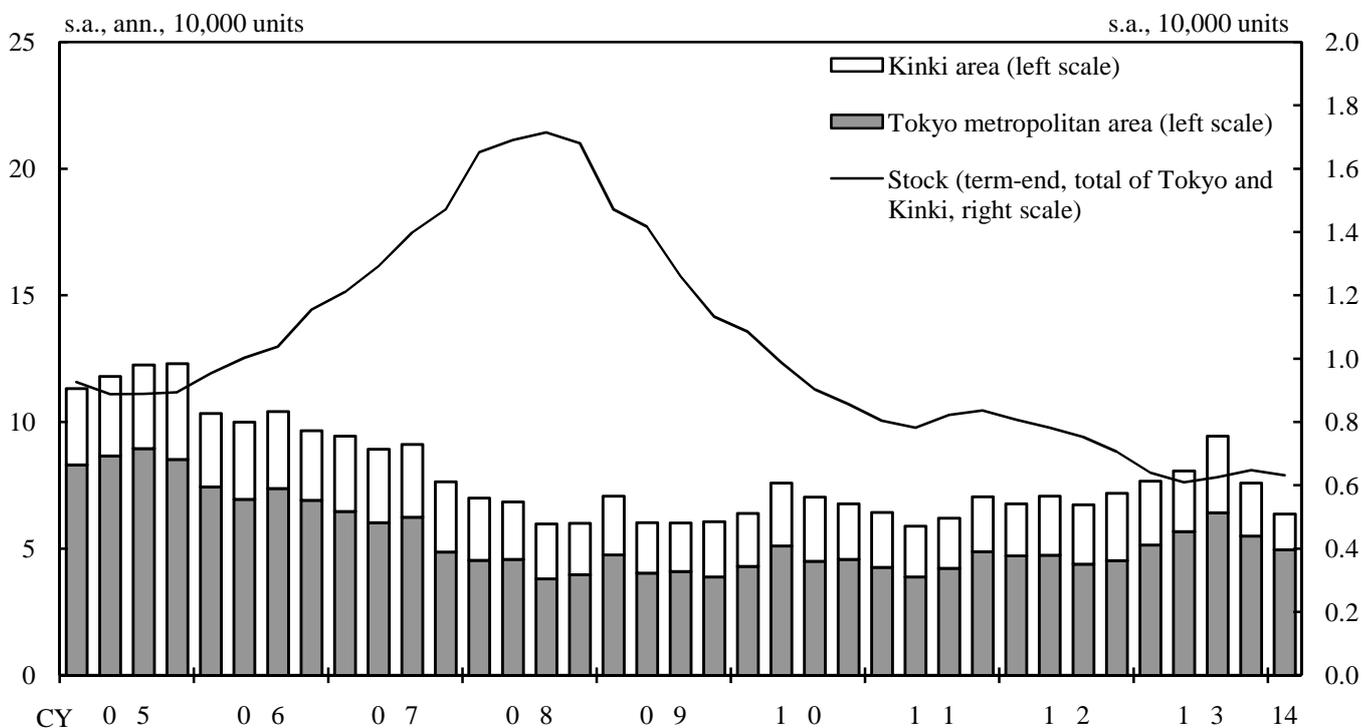
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

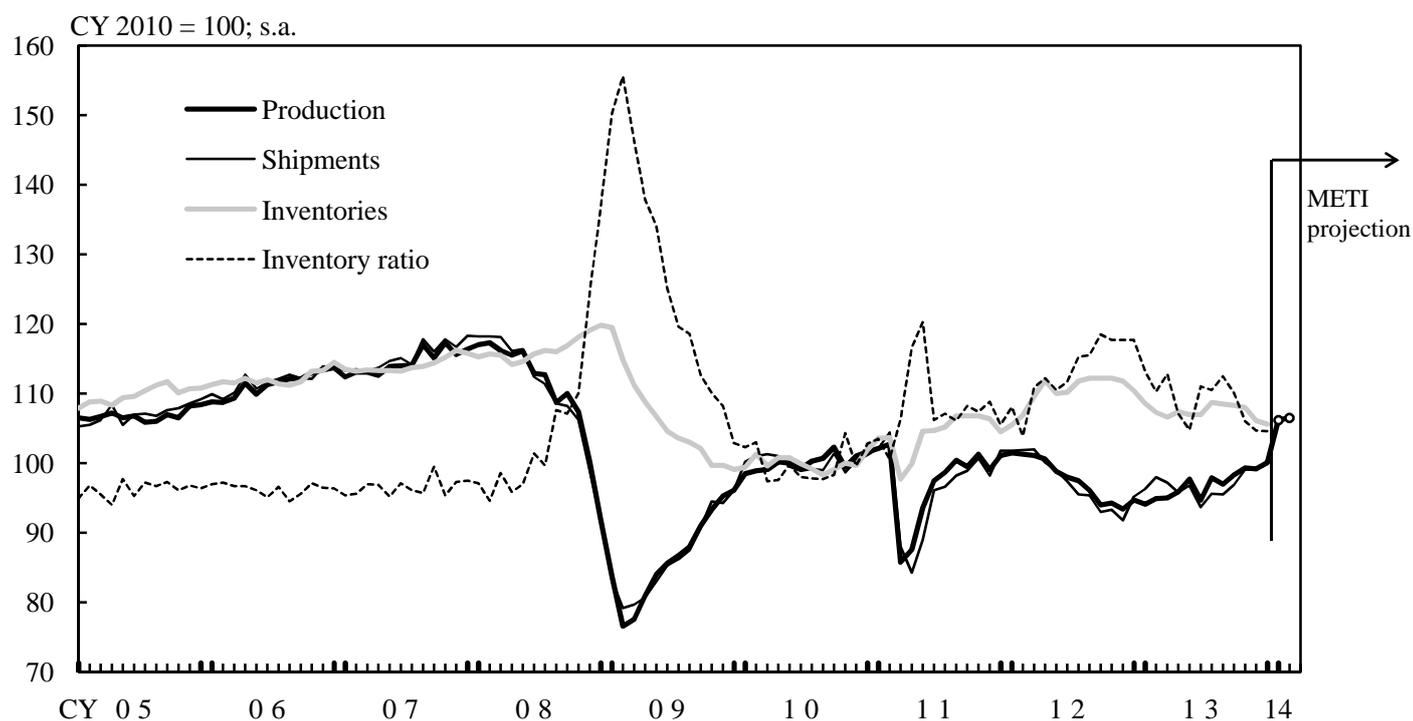


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2014/Q1 are those of January.

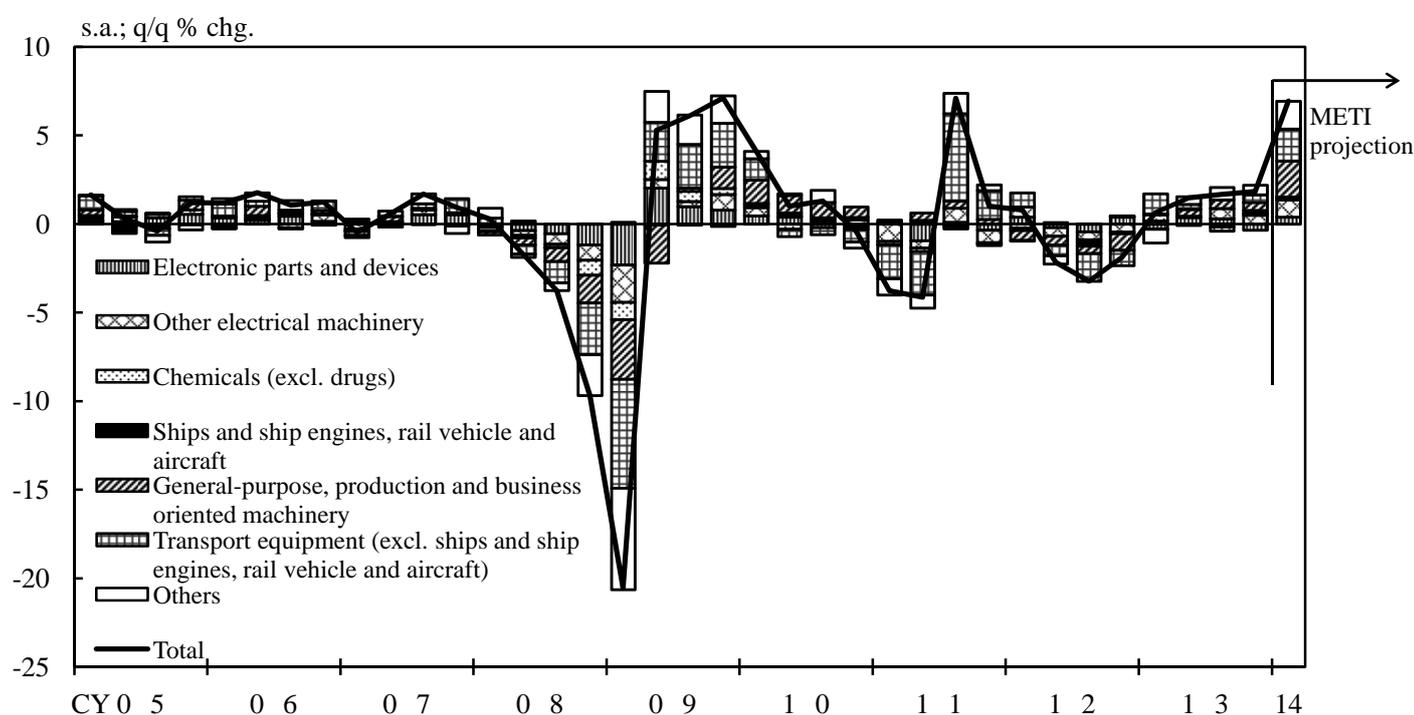
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

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.

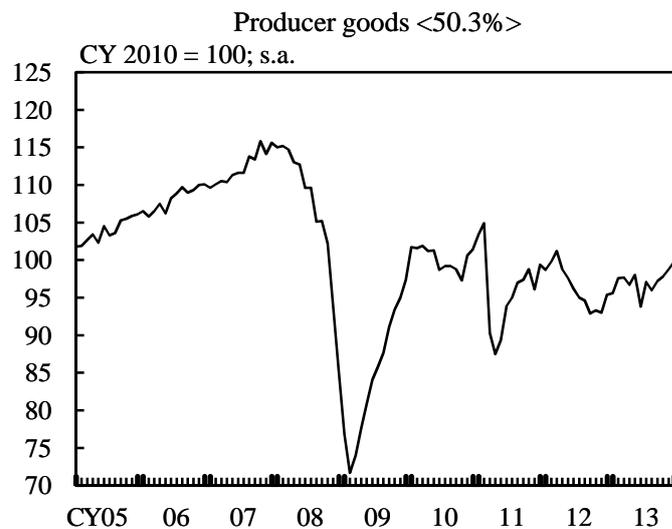
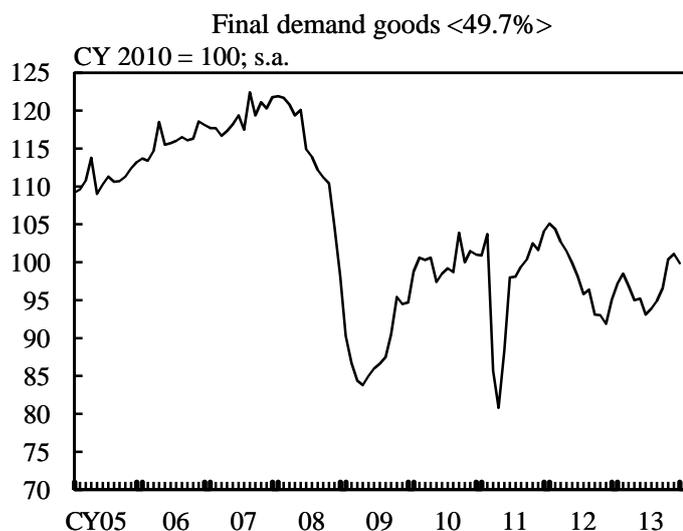
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2014/Q1 figures are based on the assumption that the production levels in March are the same as those of February.

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

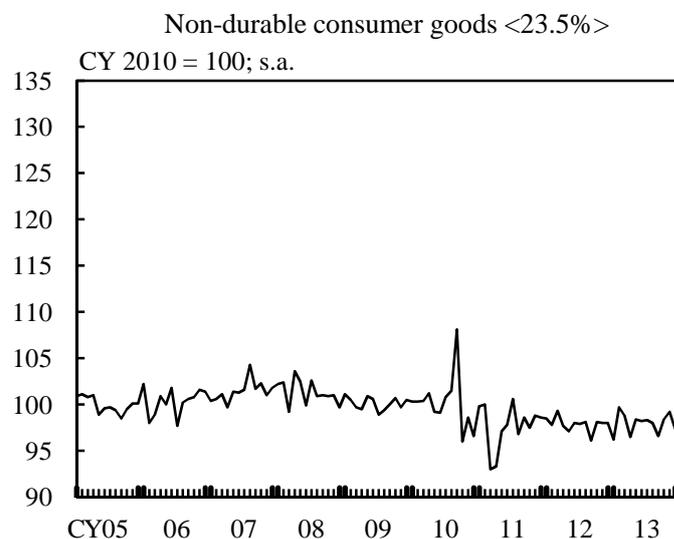
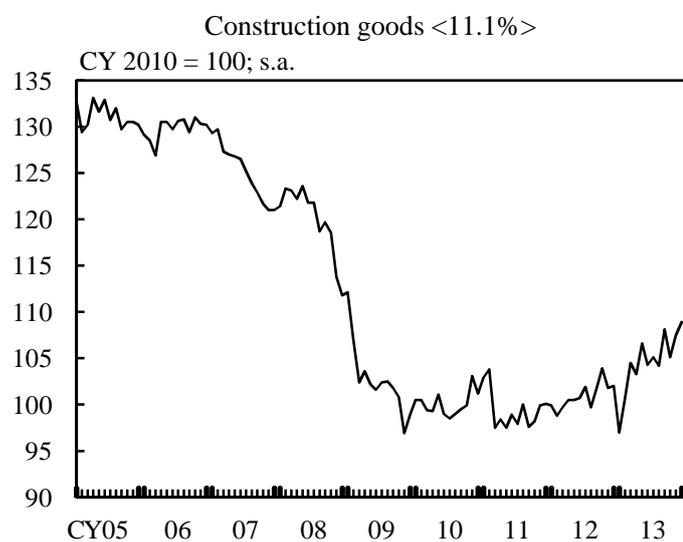
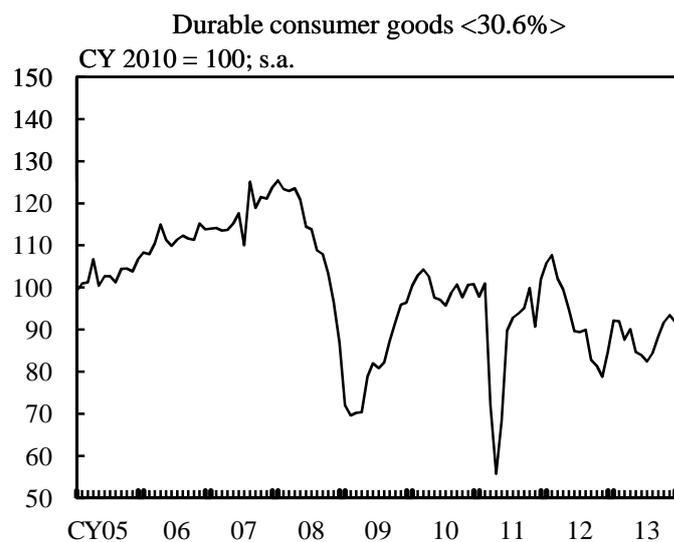
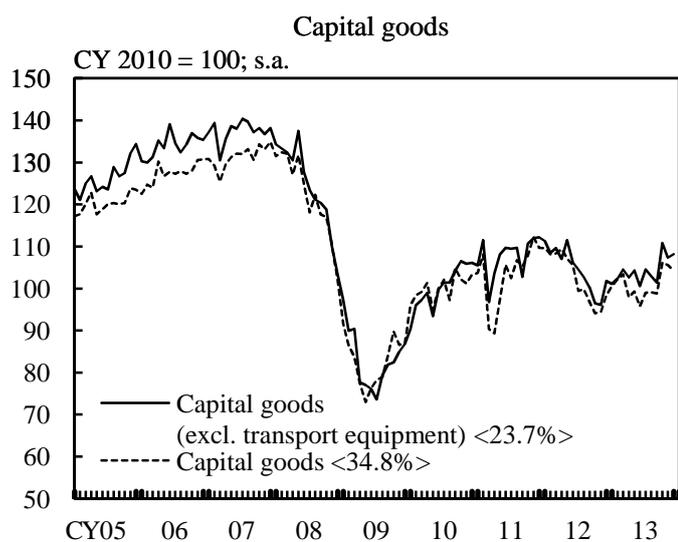
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods

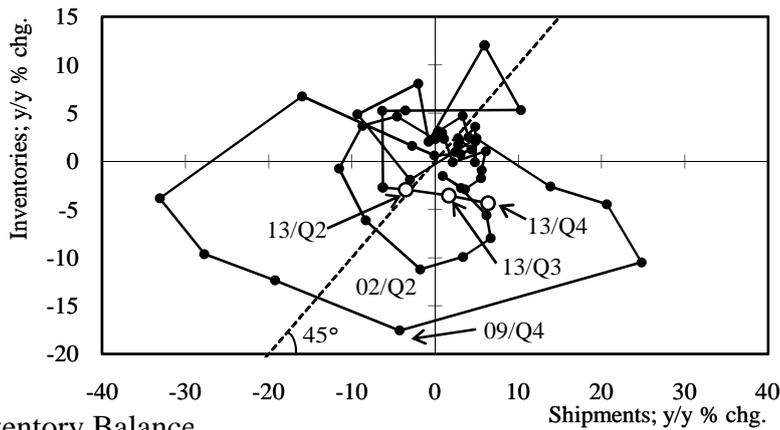


Note: Figures in angle brackets show the shares among shipments of final demand goods.

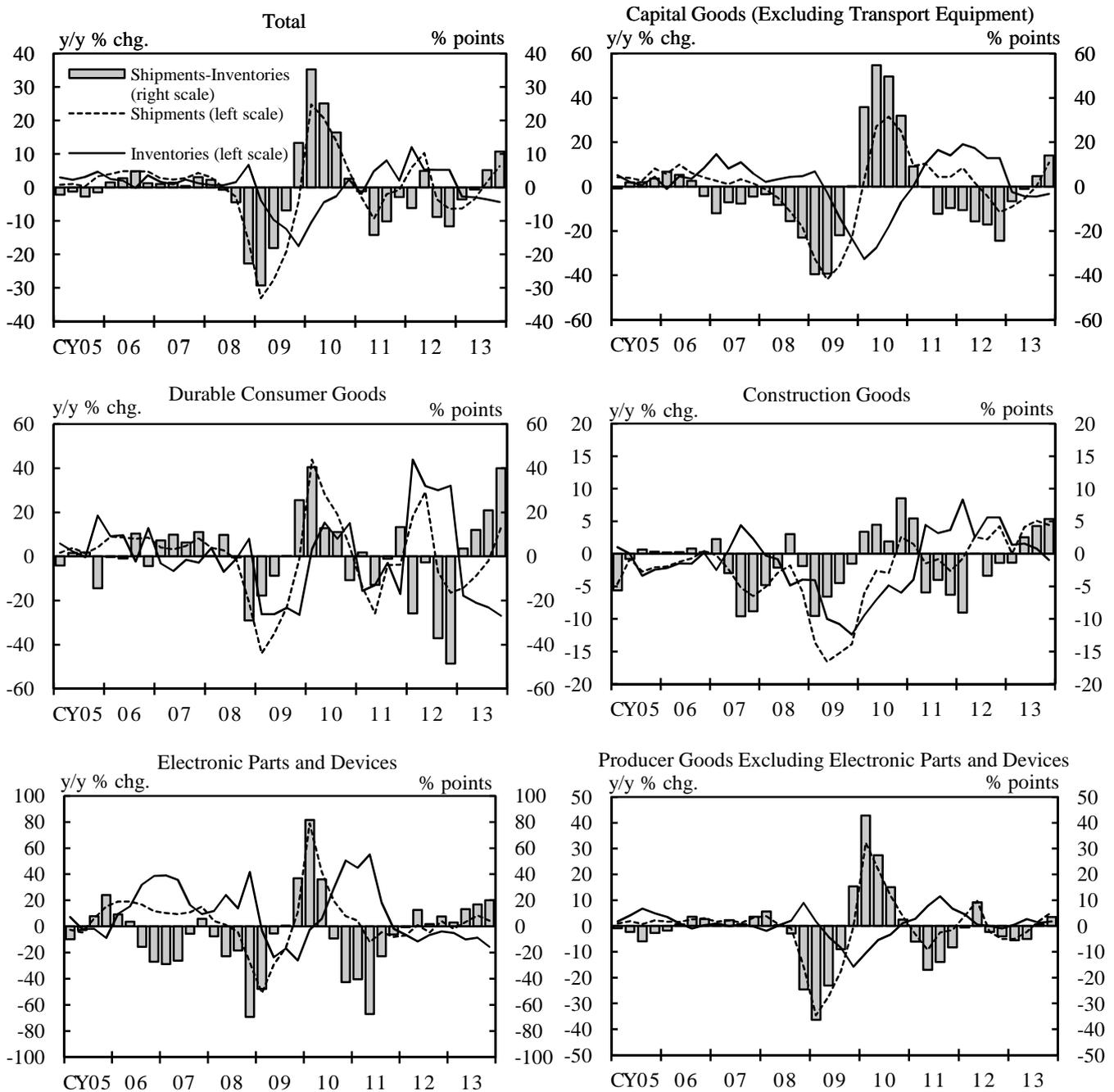
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



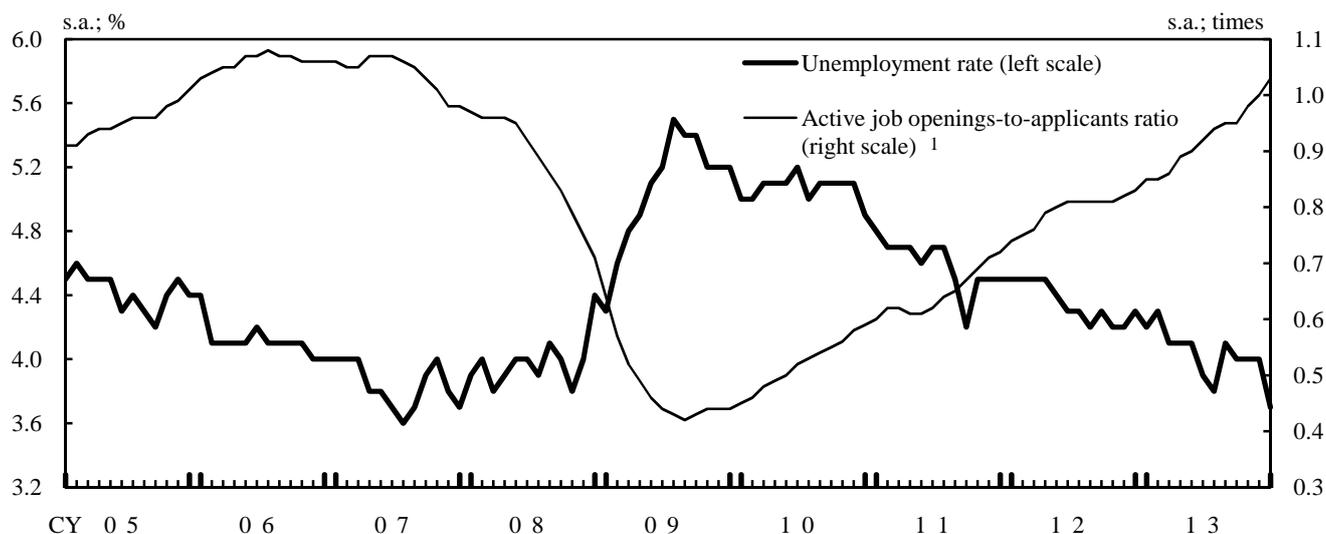
(2) Shipment-Inventory Balance



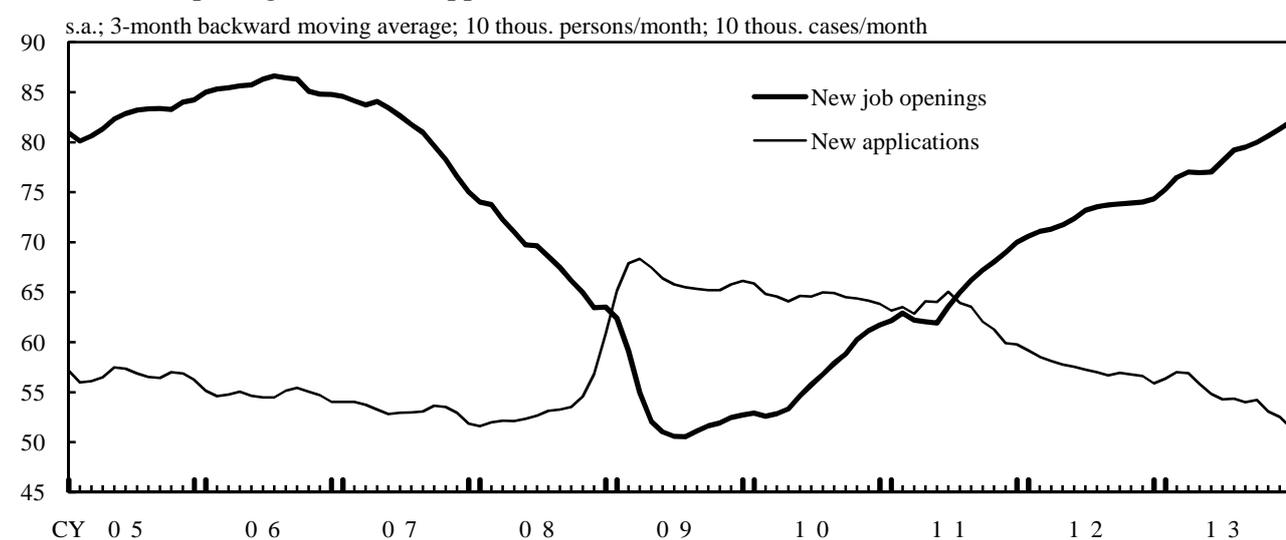
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

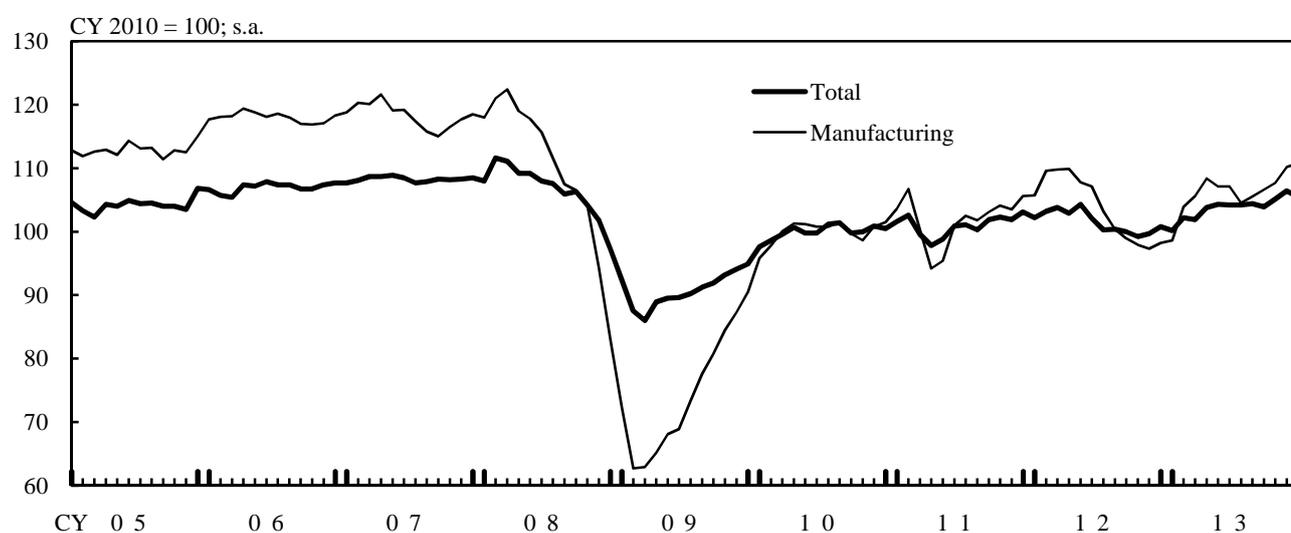
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²

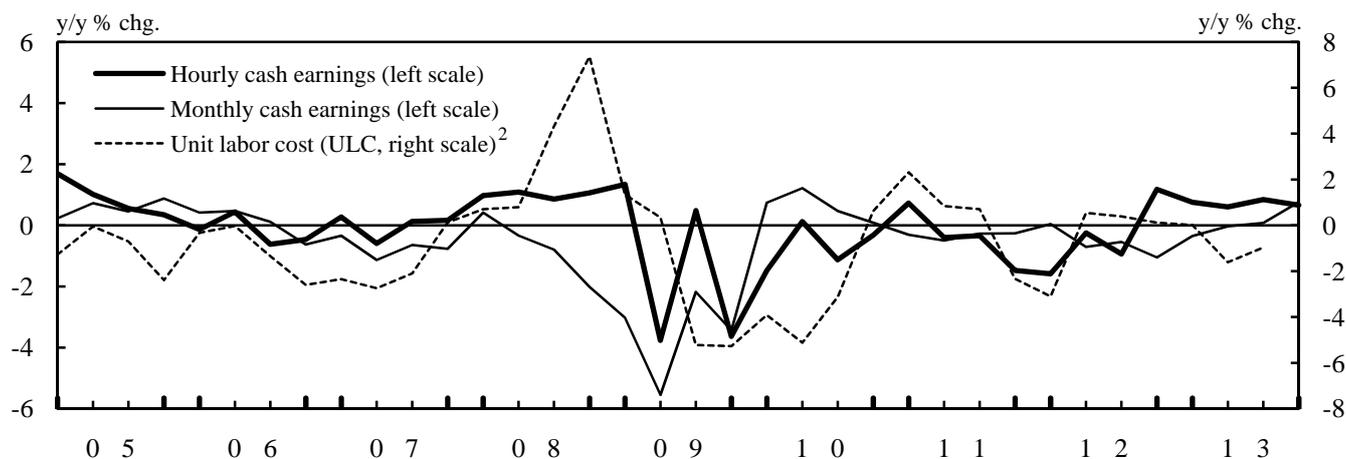
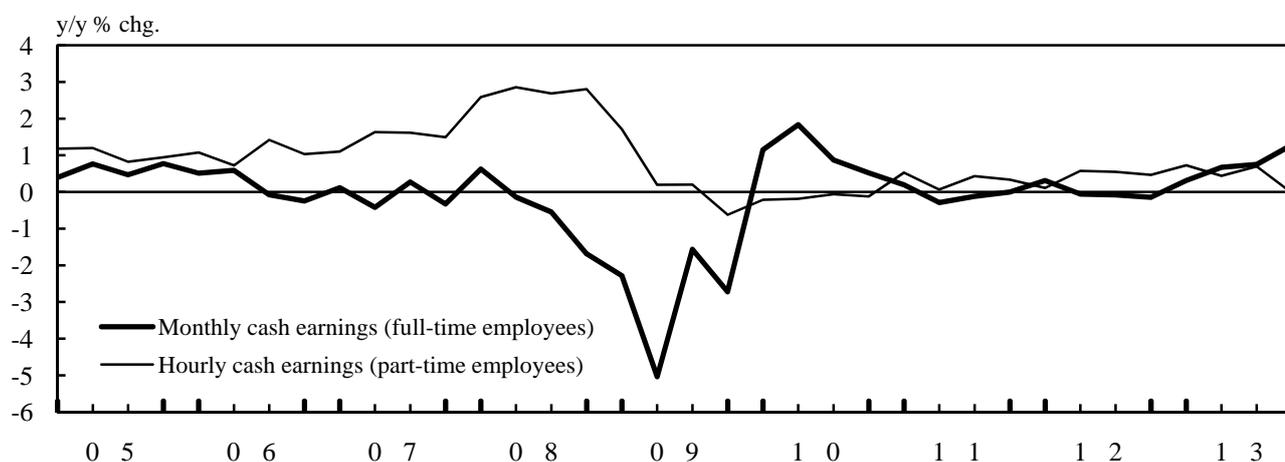
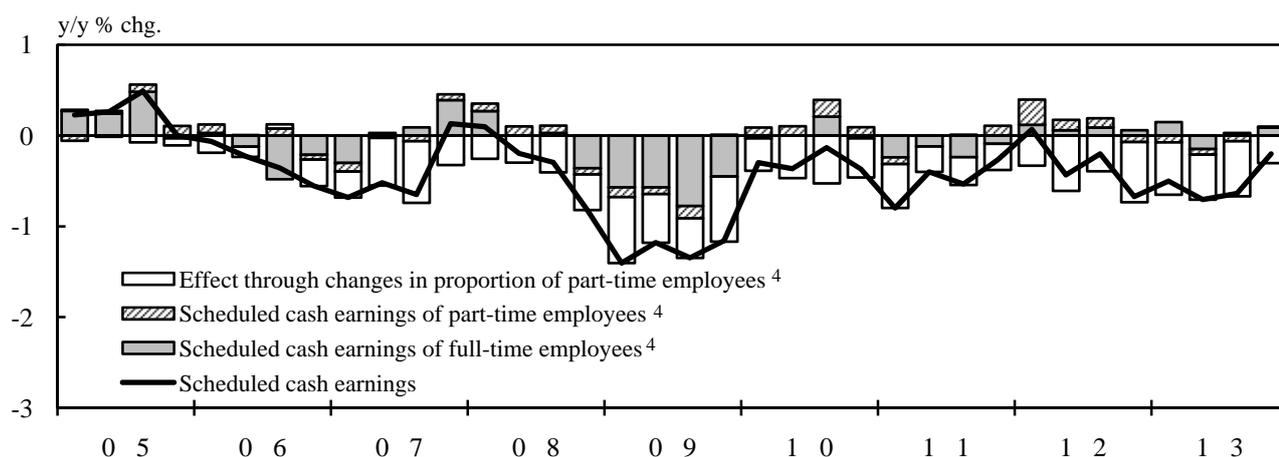


Notes: 1. Excluding new school graduates and including part-timers.

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

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

Wages

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

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

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

3. Figures for 2013/Q4 are those of December (except ULC).

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

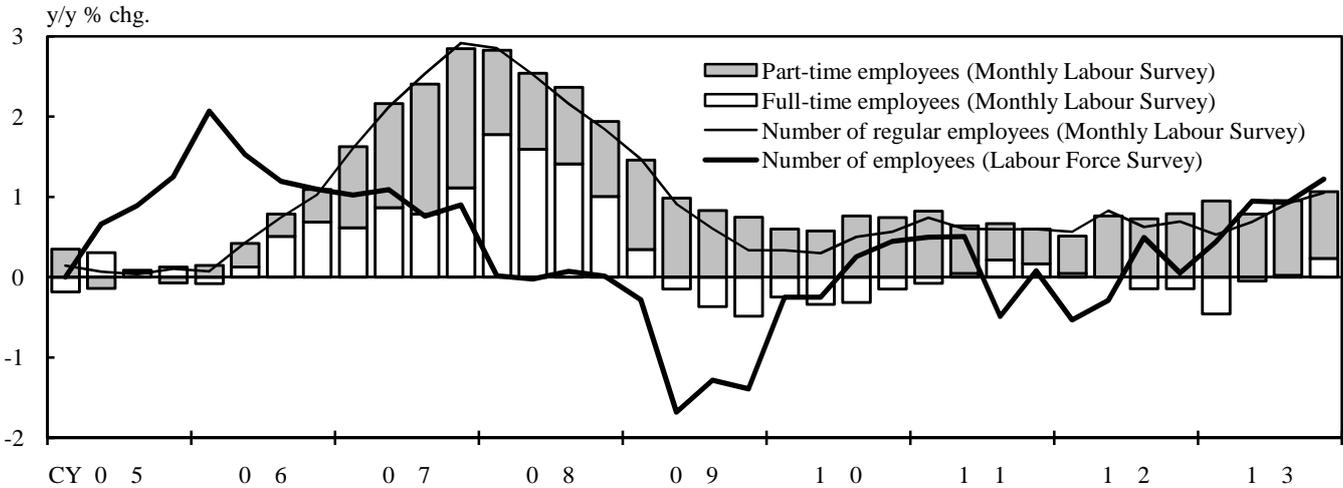
ULC : Q1 = April-June, Q2 = July-September, Q3 = October-December, Q4 = January-March.

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

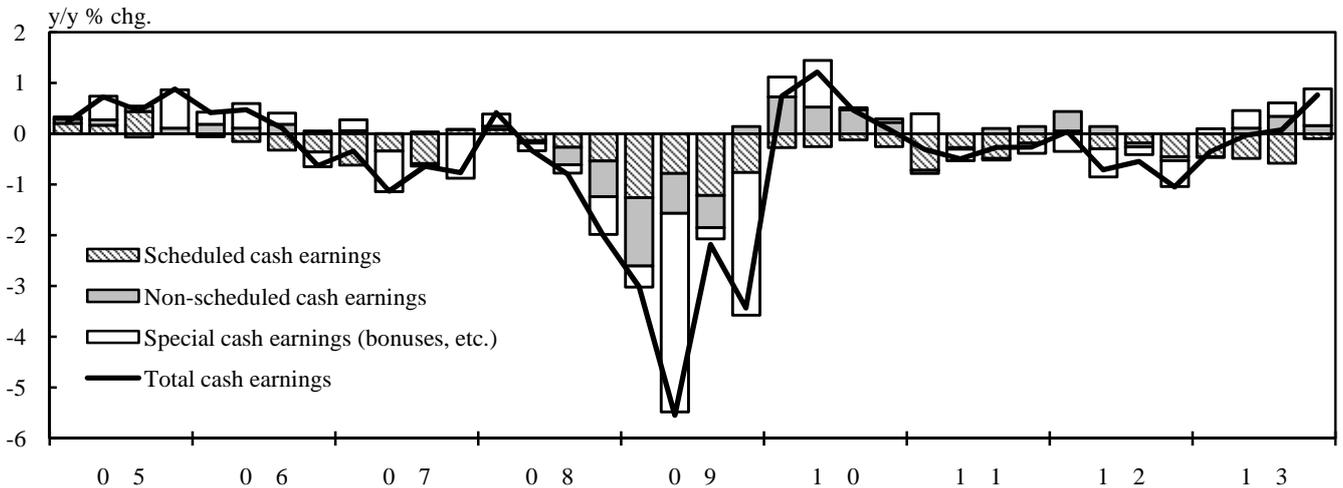
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

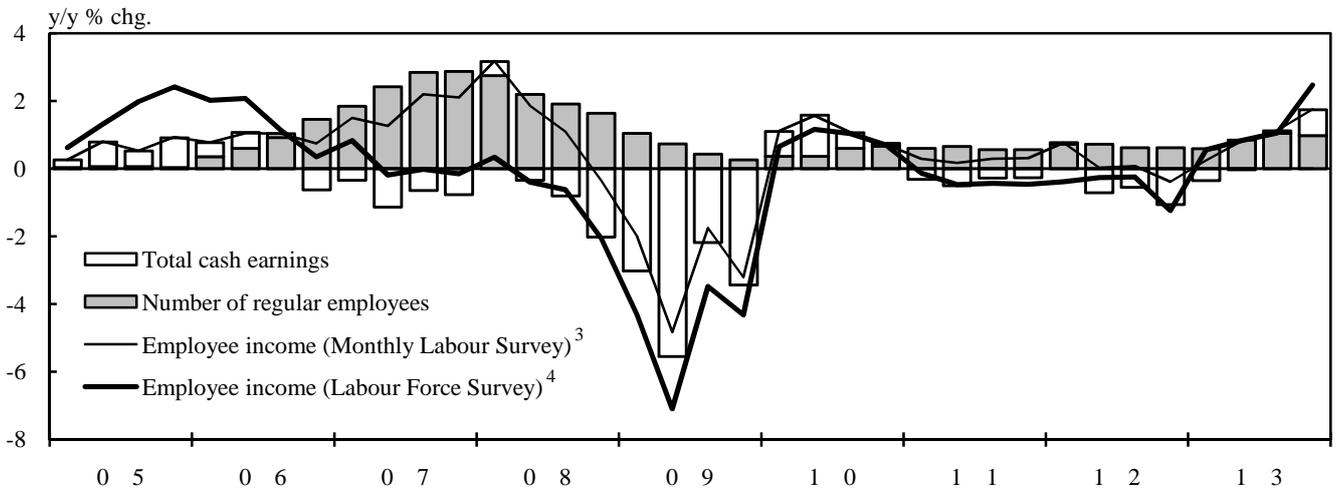
(1) Number of Employees¹



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



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

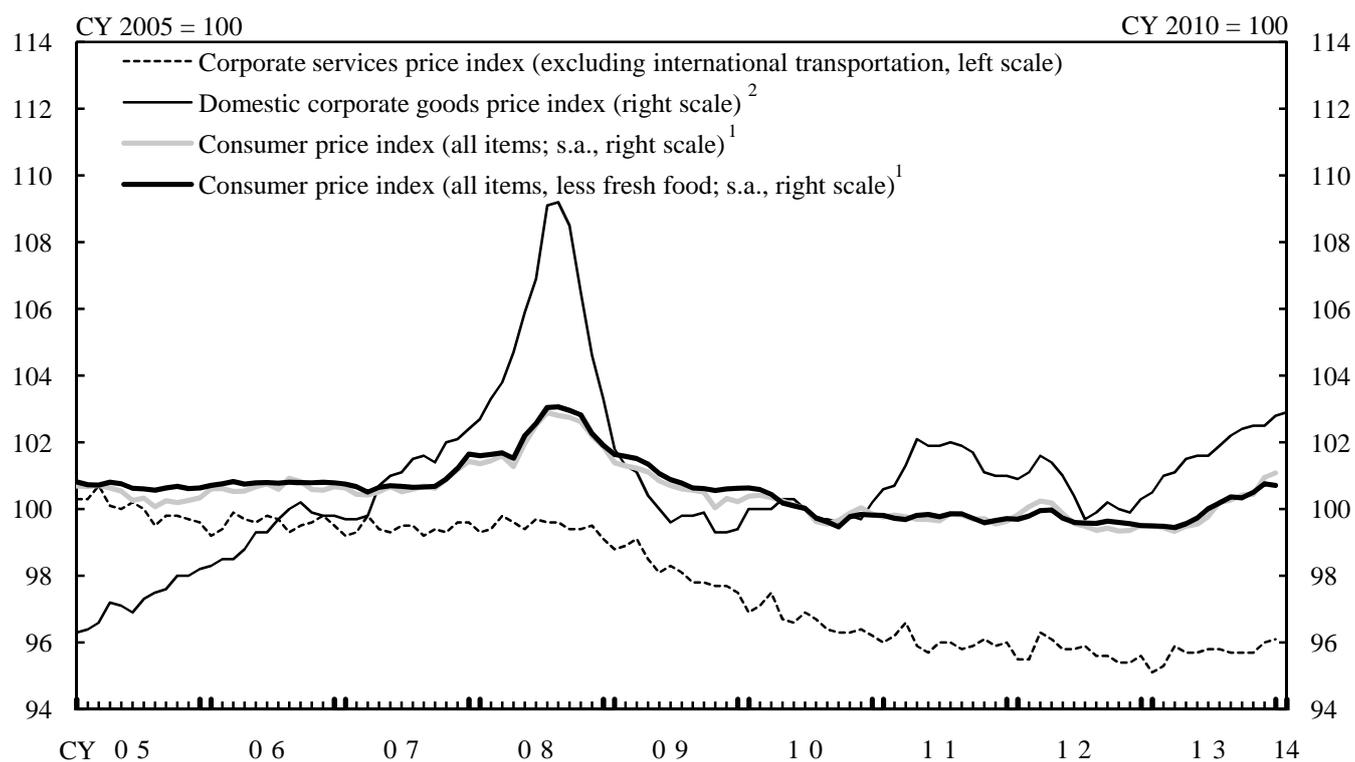


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Figures for 2013/Q4 are those of December.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey)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

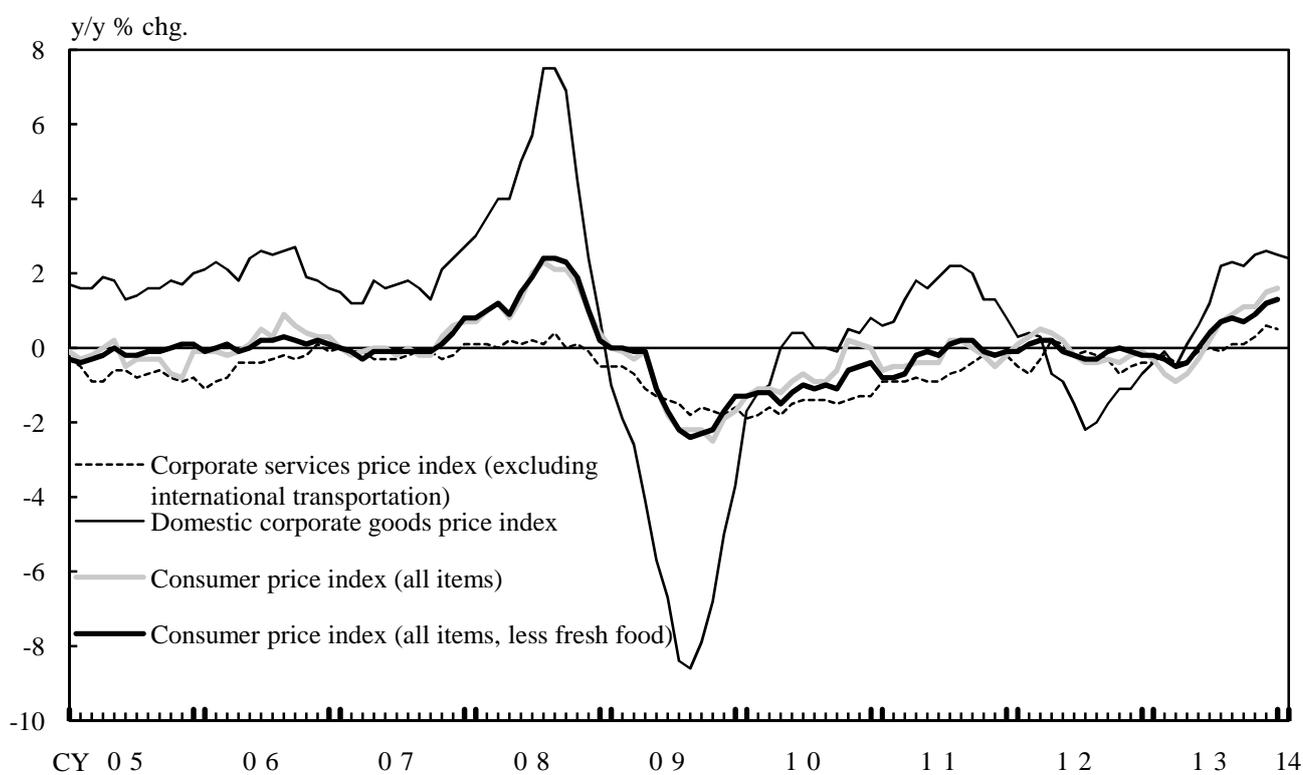
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

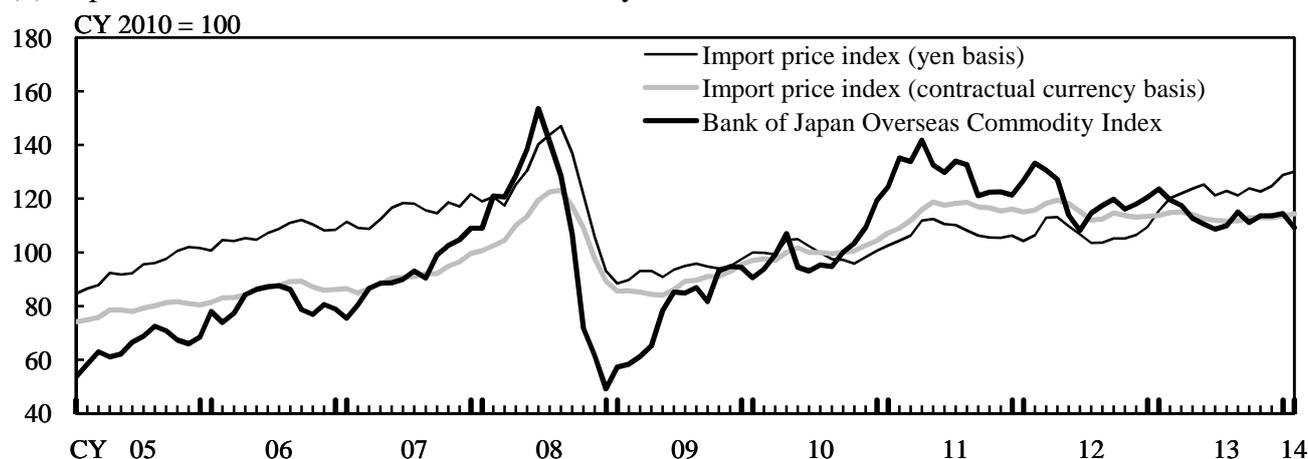
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

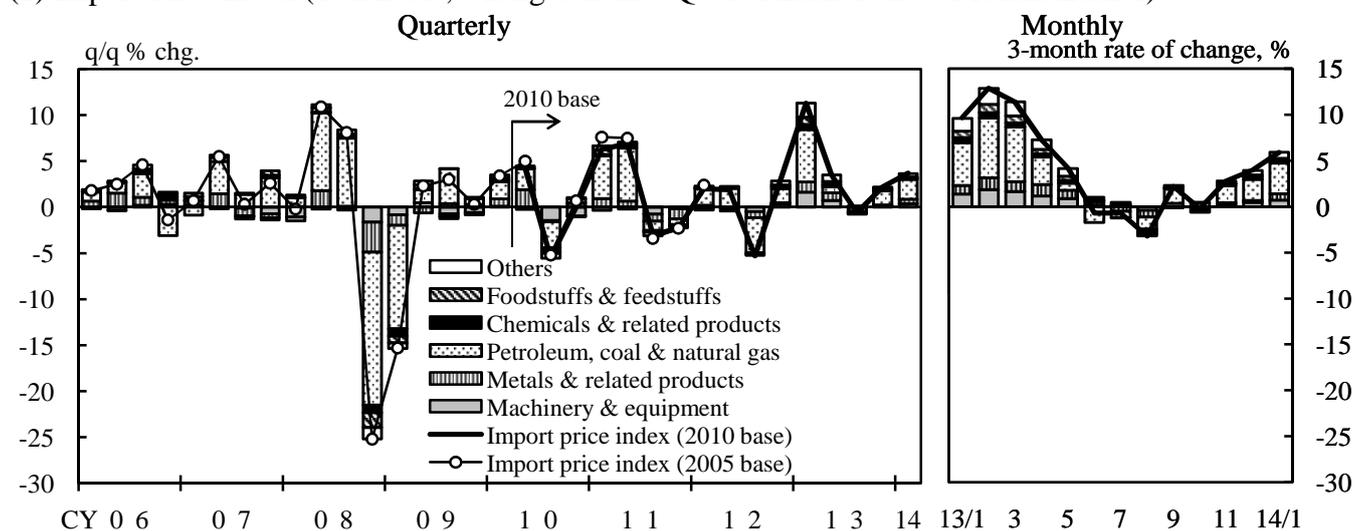
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

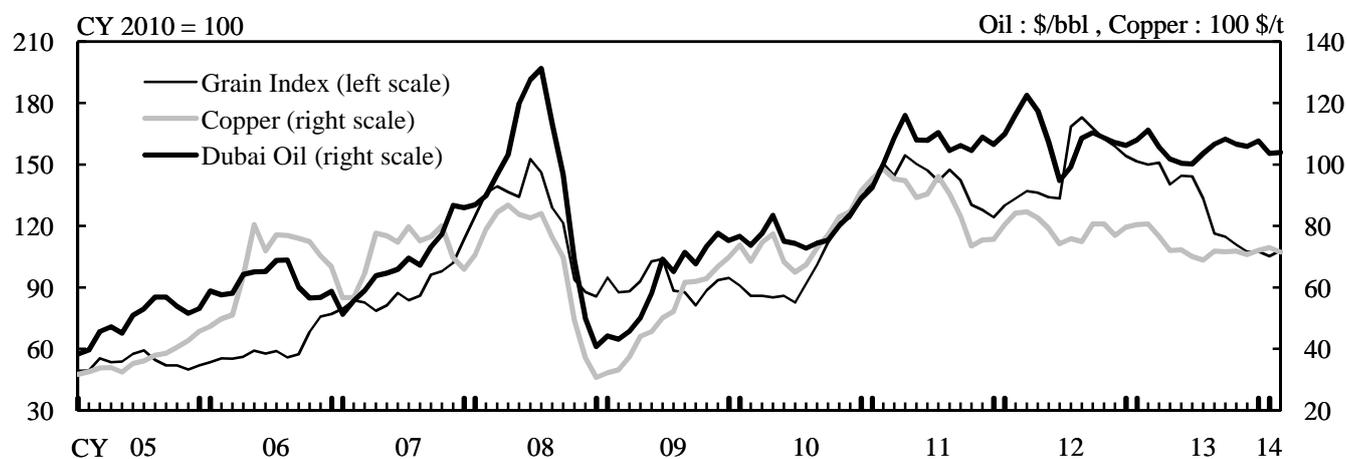


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
2. Figures for 2014/Q1 are those of January.

(3) International Commodity Prices

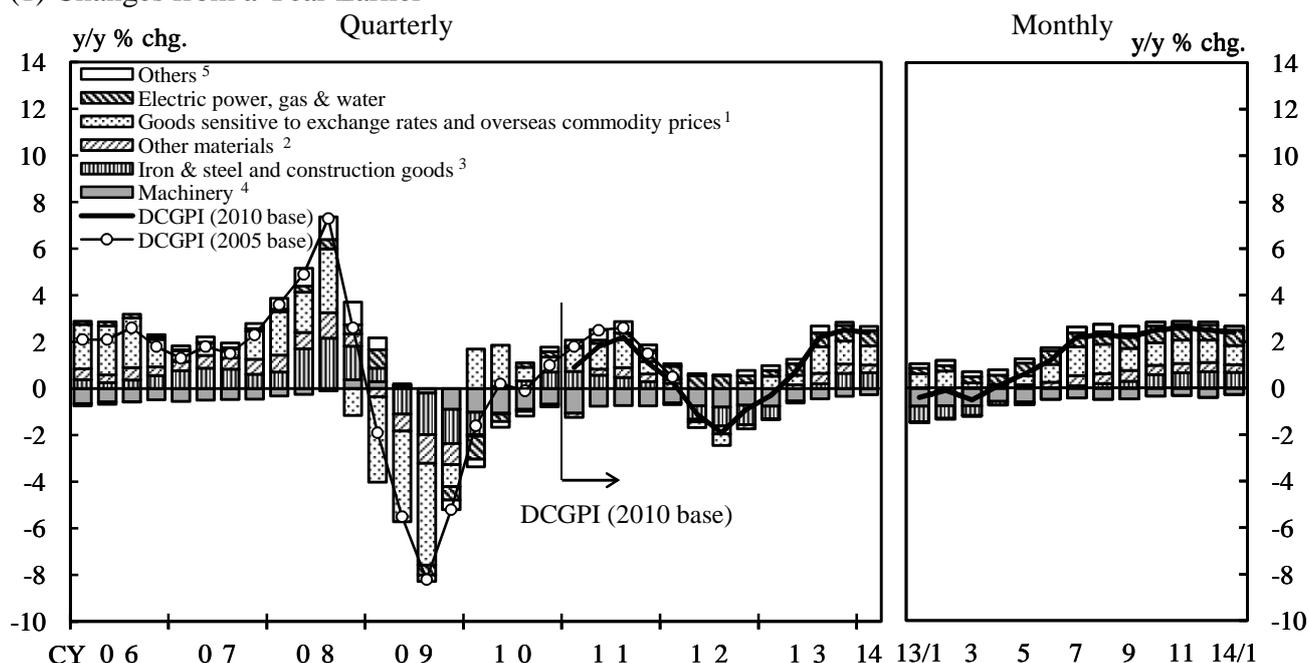
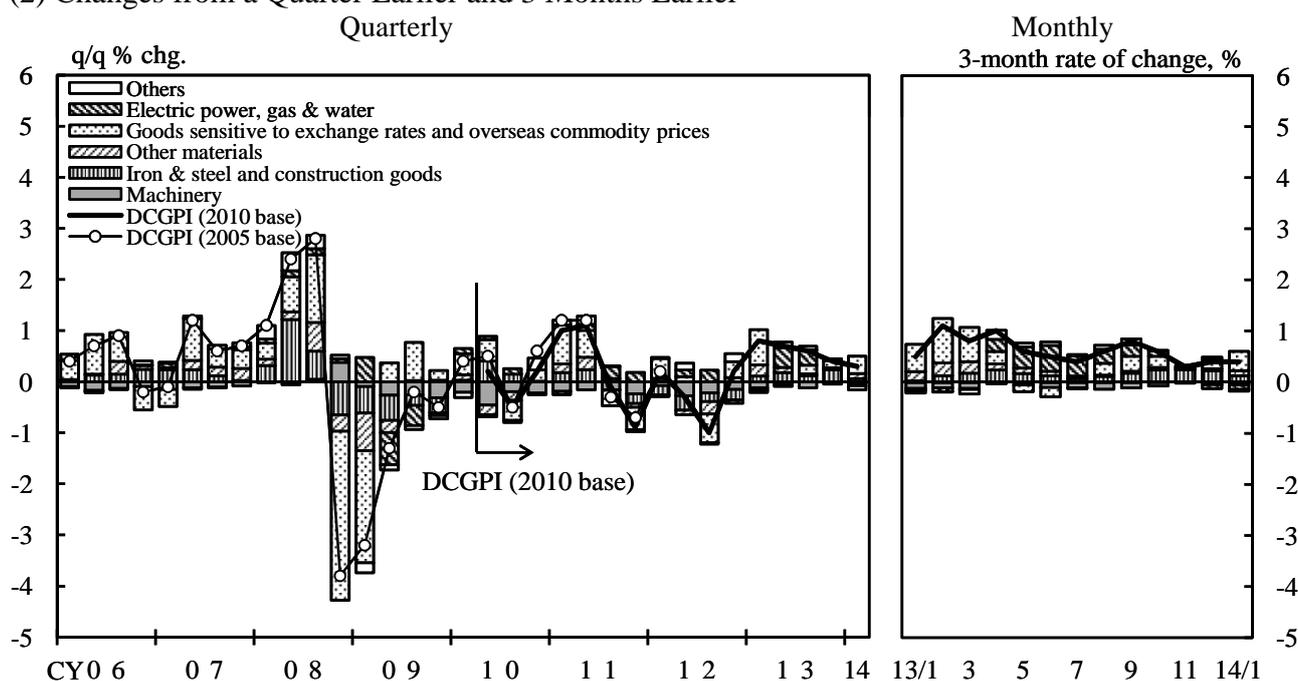


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for February 2014 are averages up to February 17.

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

Domestic Corporate Goods Price Index

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.

2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.

3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.

4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.

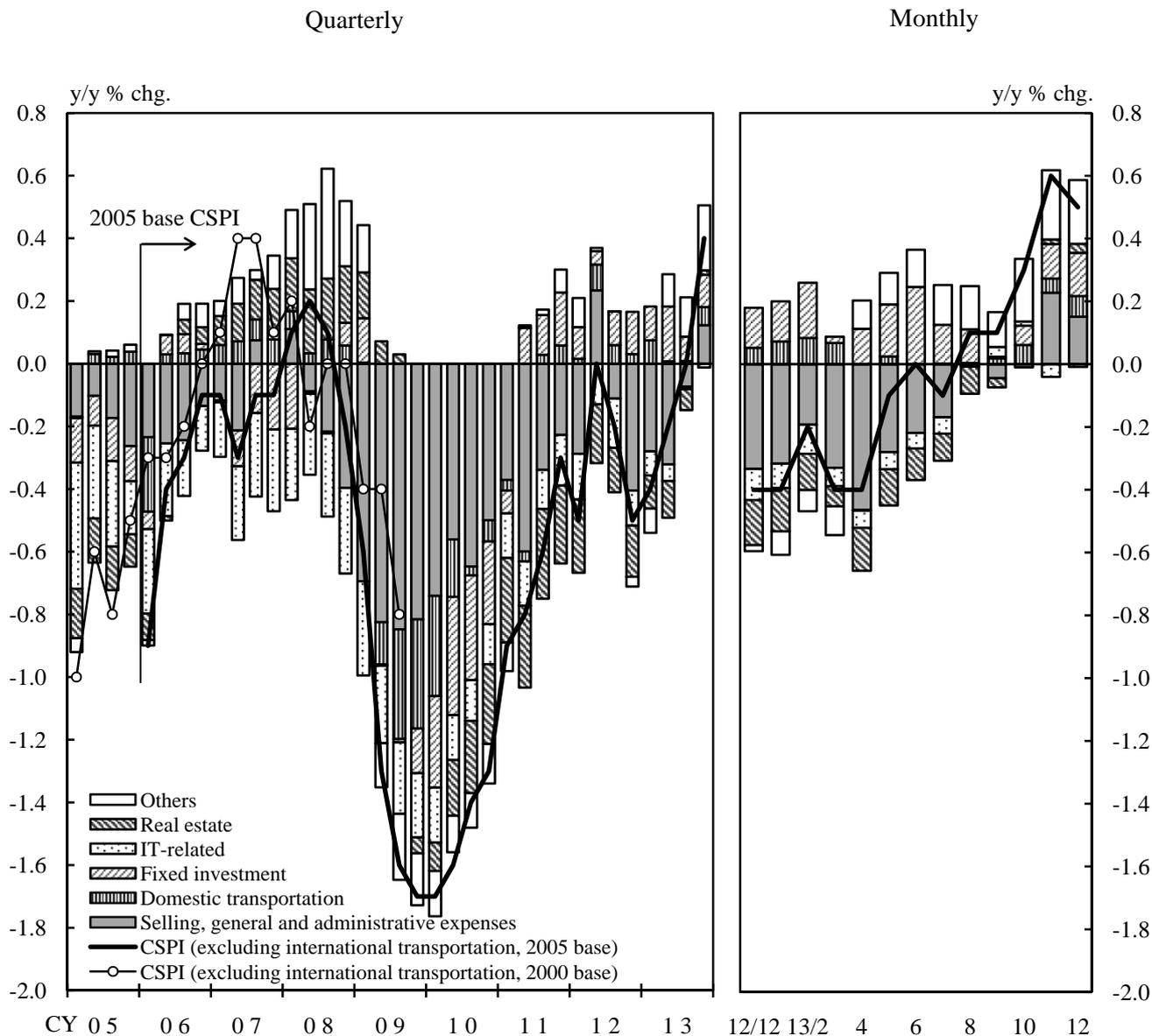
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Domestic Corporate Goods Price Index" fall by about 0.2%.

7. Figures for 2014/Q1 are those of January.

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

Corporate Services Price Index

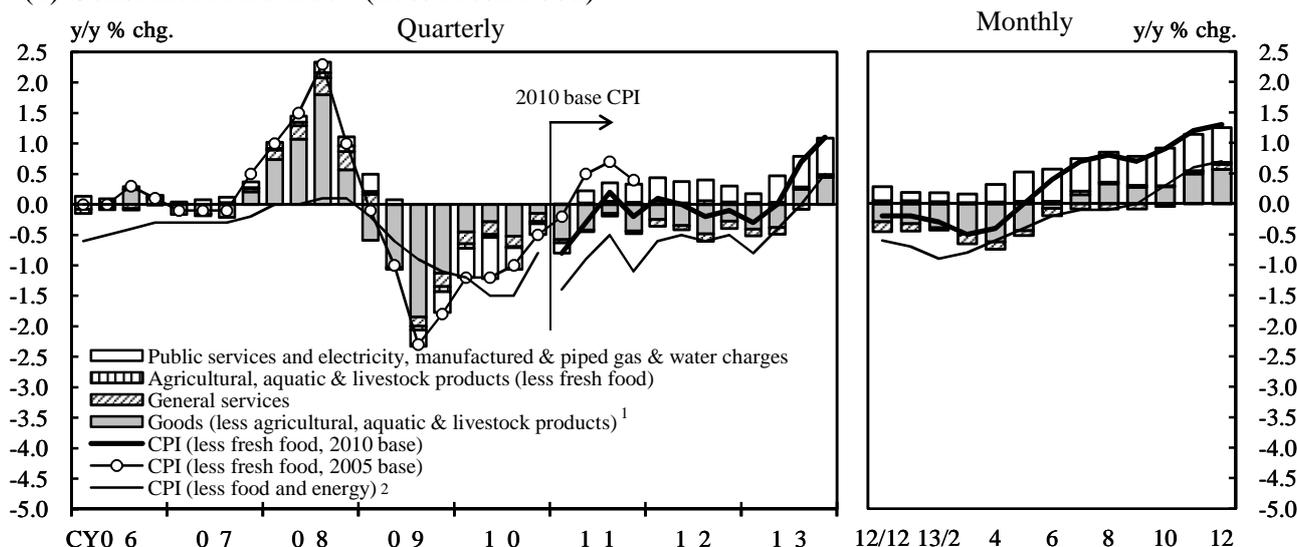


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, and domestic air passenger transportation).
 3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment, and computer rental), and civil engineering and architectural services.
 4. IT-related: leasing of computer and related equipment, and computer rental.
 5. Real estate: real estate services.
 6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, and plant engineering.
 7. Figures for 2009/Q3 on the 2000 base are July-August averages.

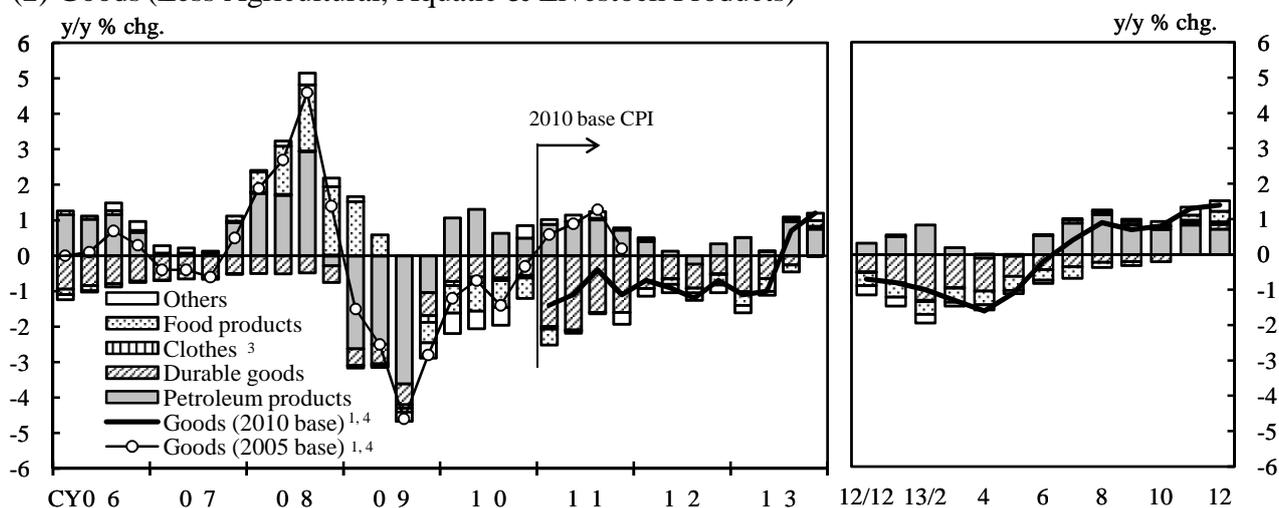
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

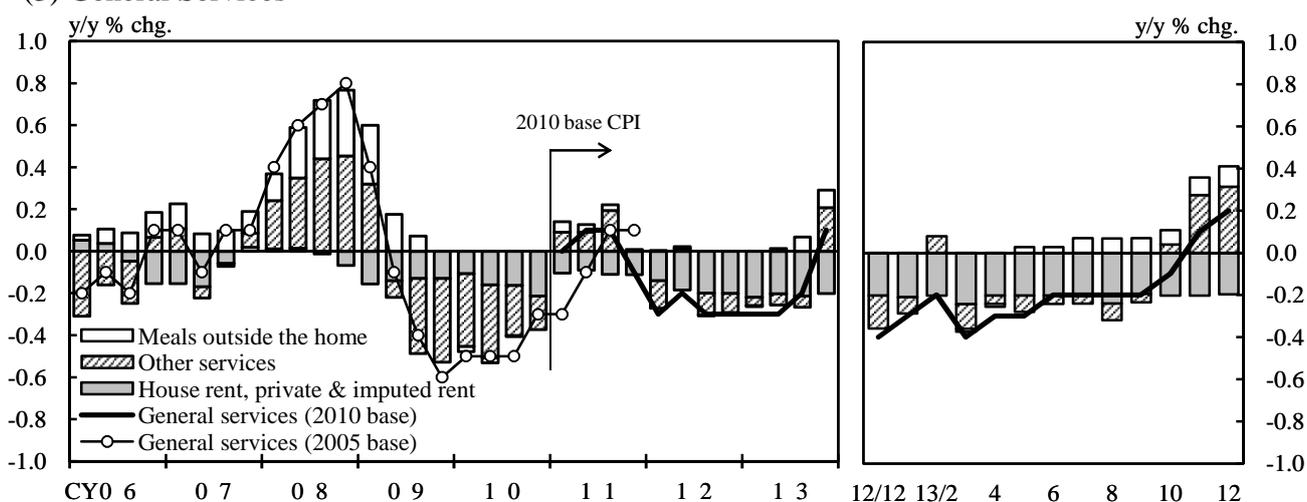
(1) Consumer Price Index (Less Fresh Food)



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



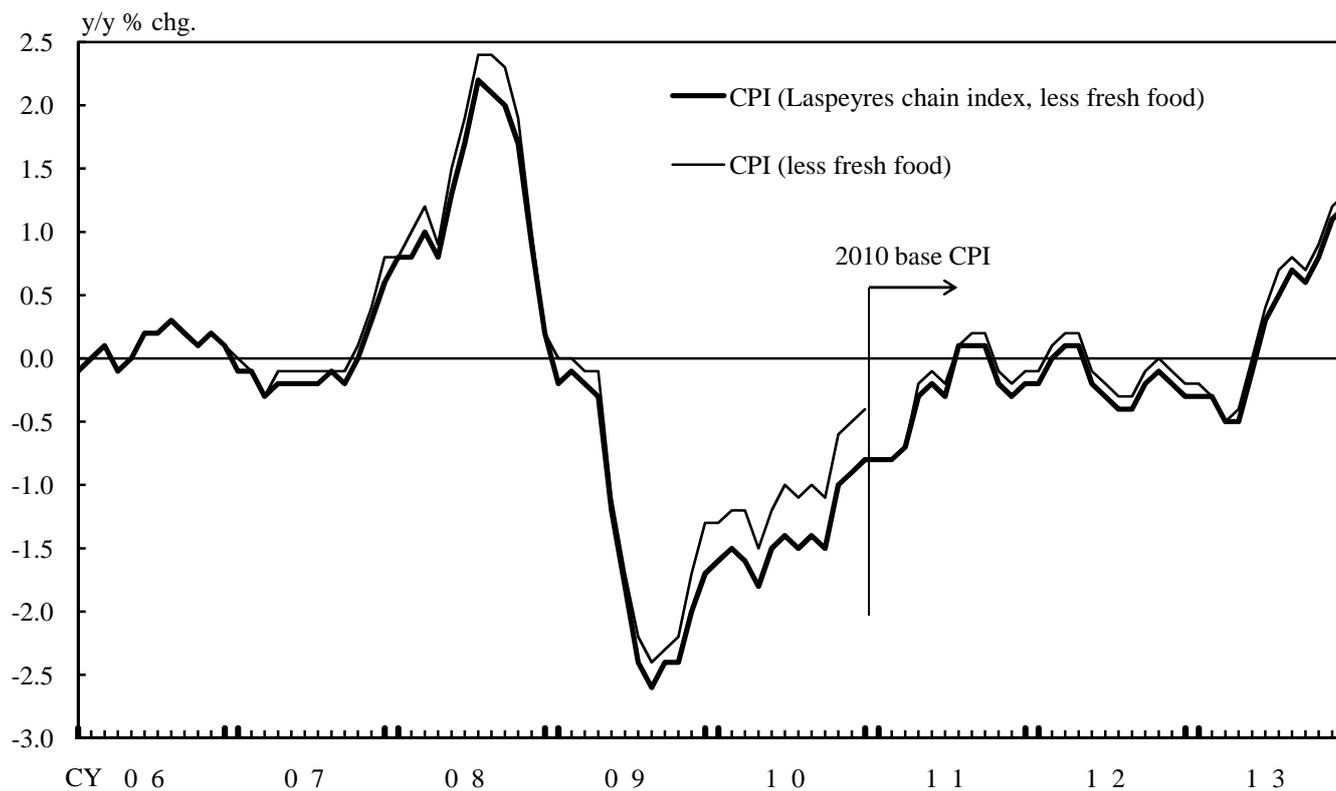
(3) General Services



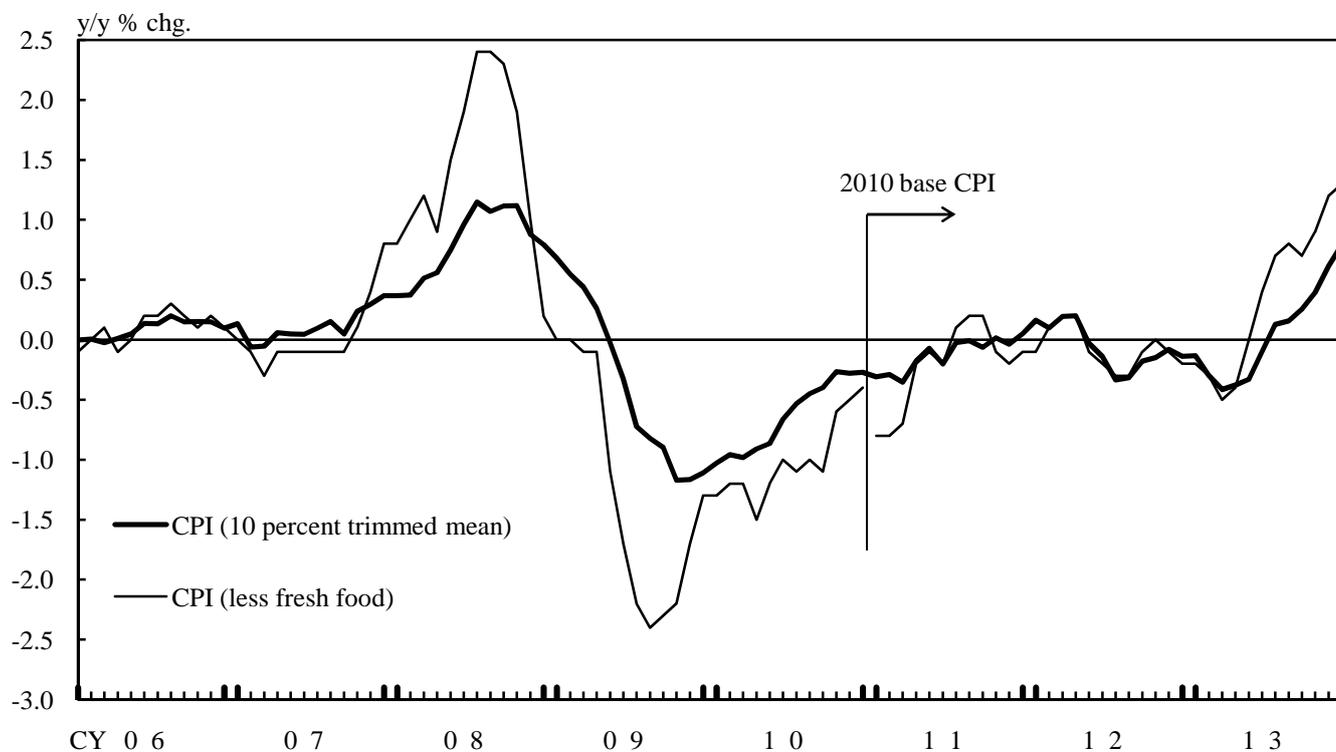
- Notes:1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied propane, kerosene, and gasoline.
3. Including shirts, sweaters & underwear.
4. Less agricultural, aquatic & livestock products.
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



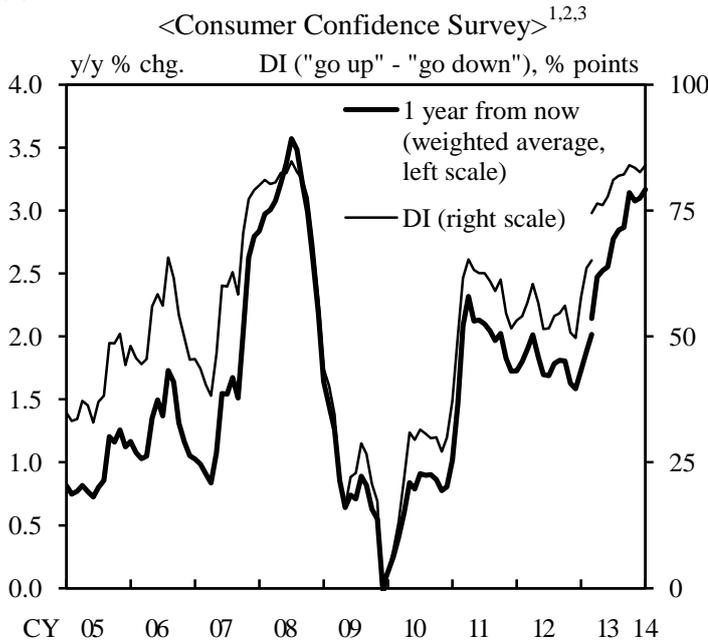
Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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

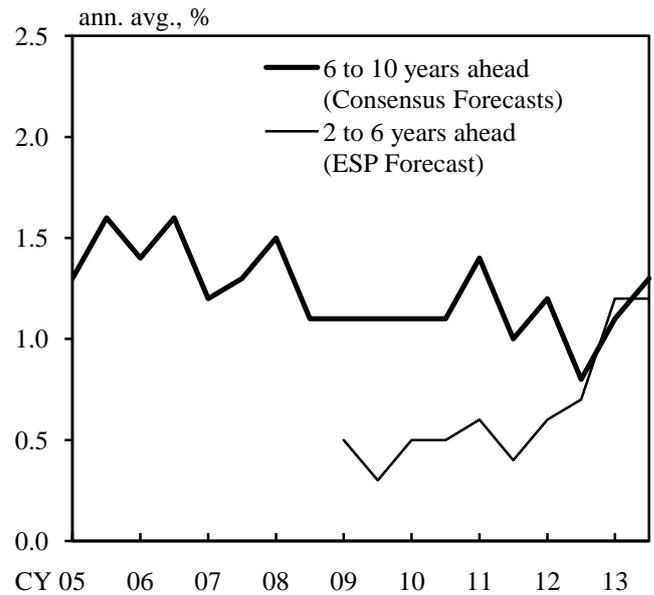
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Inflation Expectations

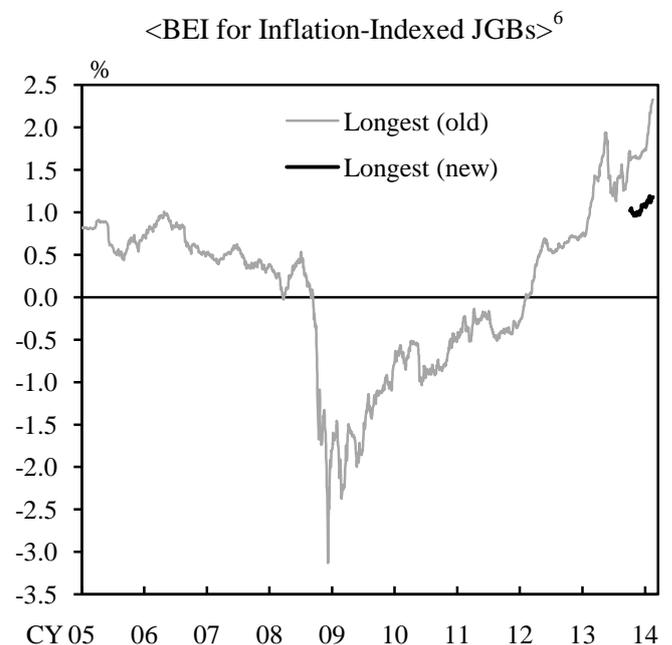
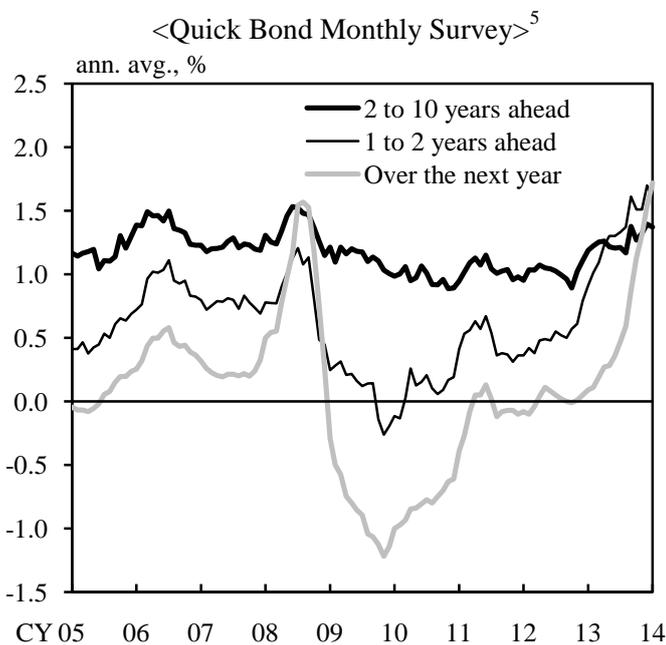
(1) Households



(2) Economists⁴



(3) Market Participants

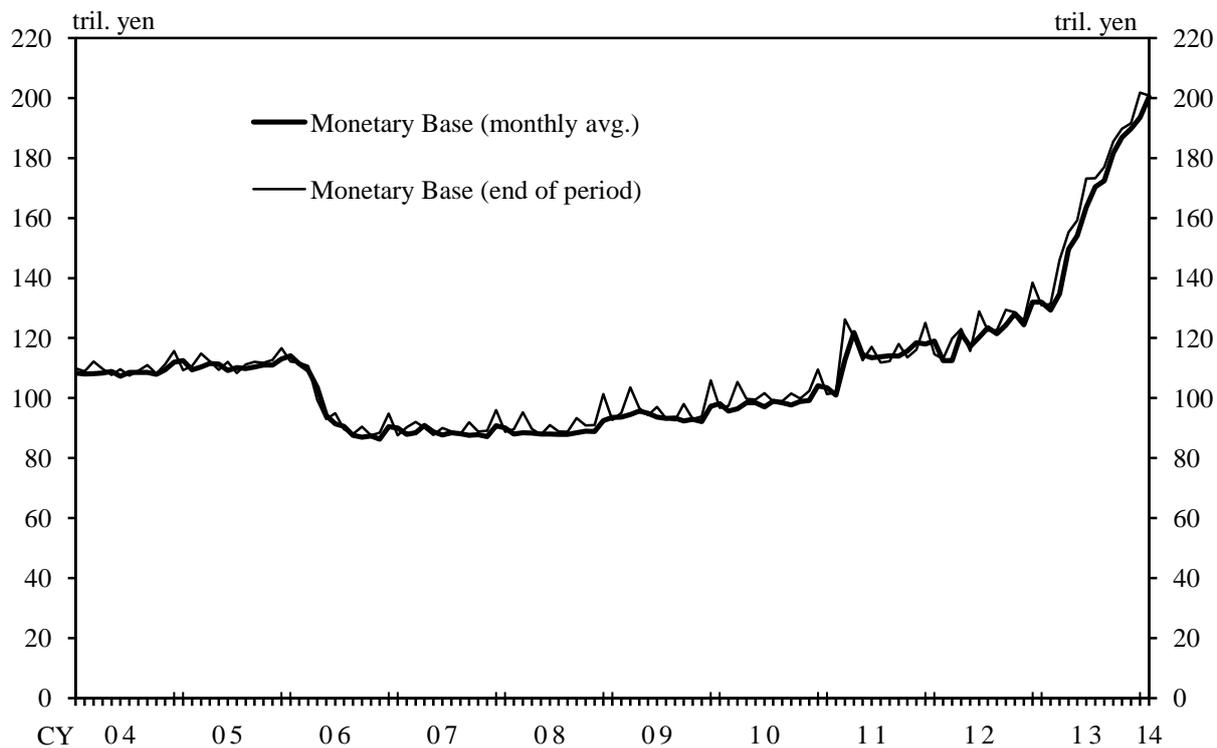


- Notes: 1. Figures are for all households.
 2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.
 3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.
 4. Figures for the ESP Forecast exclude the effects of the scheduled consumption tax hikes.
 5. From the September 2013 survey, the Quick Bond Monthly Survey has asked respondents to include the effects of the scheduled consumption tax hikes.
 6. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest of them are designated as "old." Figures for "longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period, which currently correspond to those maturing in June 2018 for "old" and September 2023 for "new."

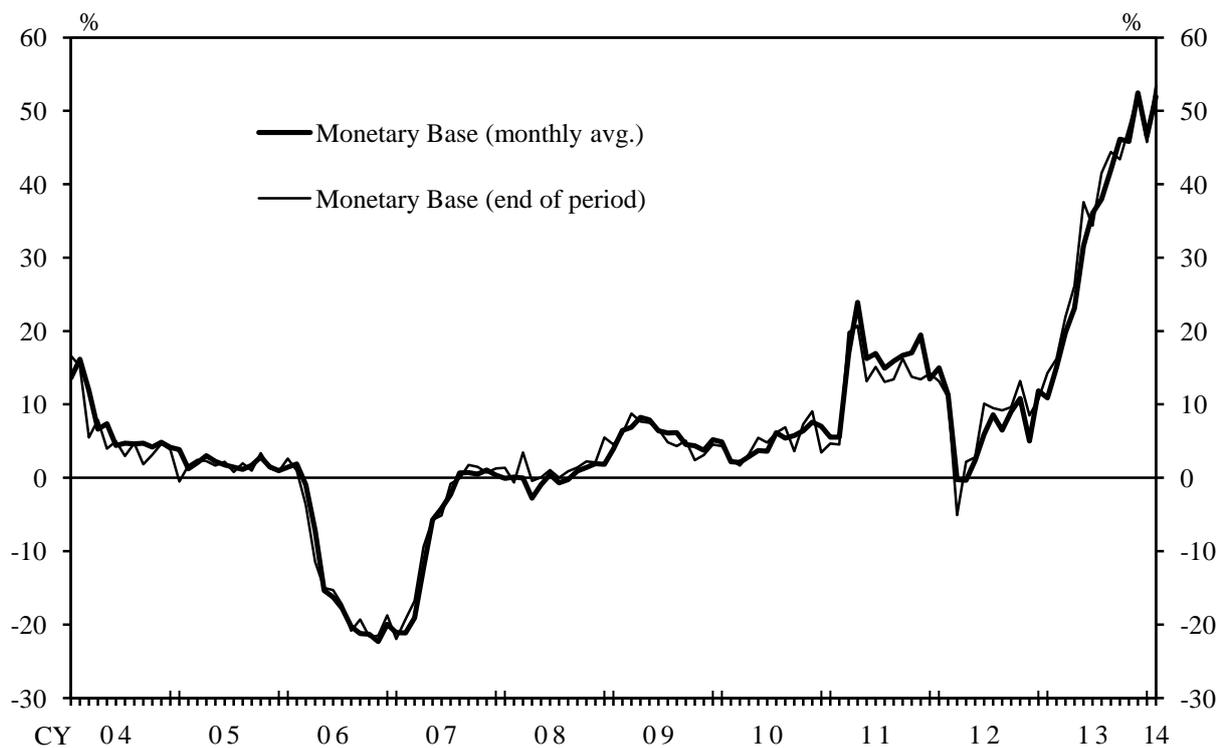
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

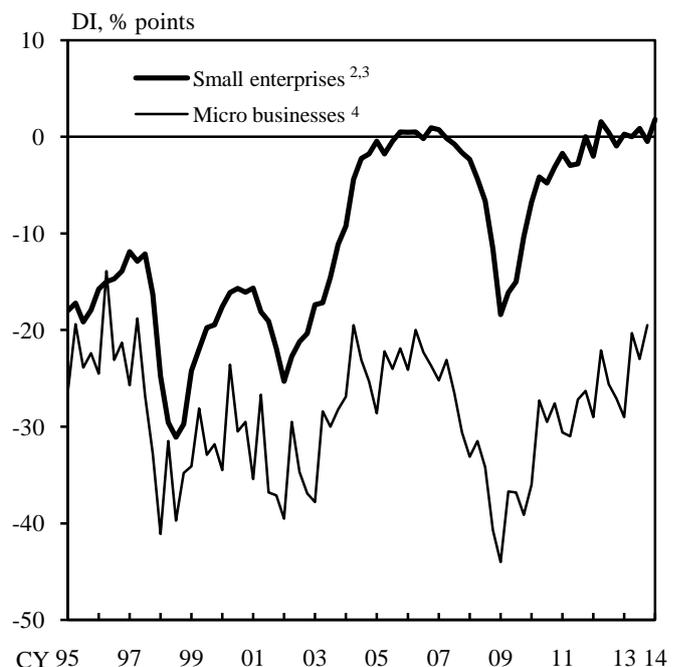
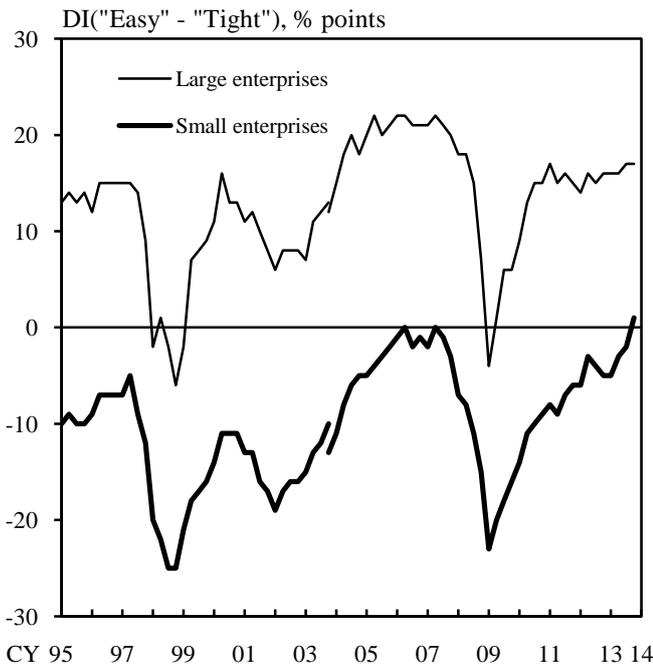


Corporate Finance-Related Indicators

(1) Financial Position

<Tankan¹>

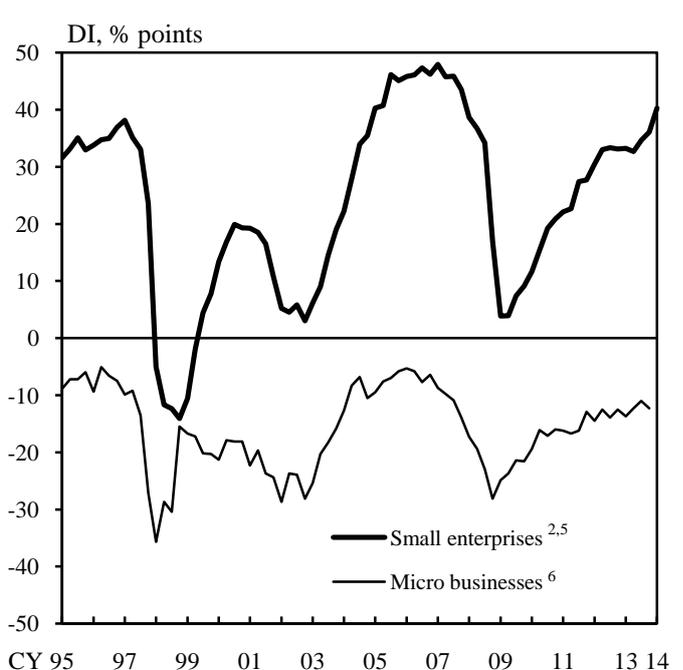
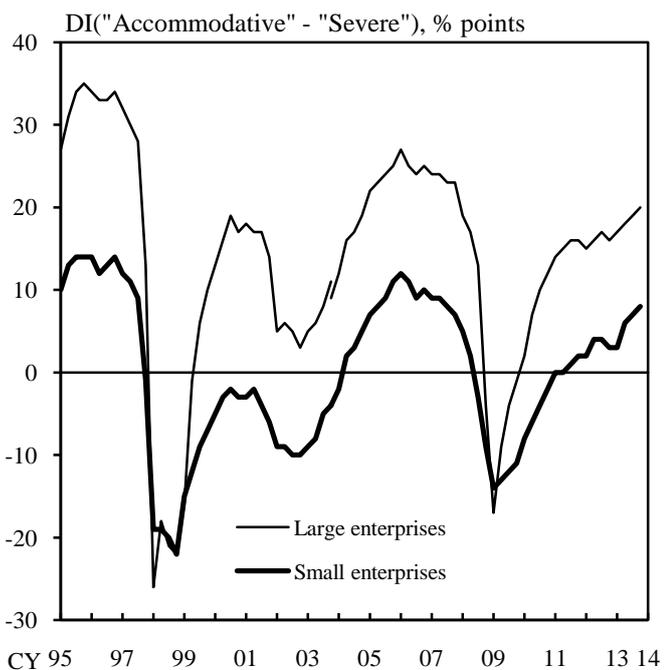
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data. Figures for 2014/Q1 are those of January.

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

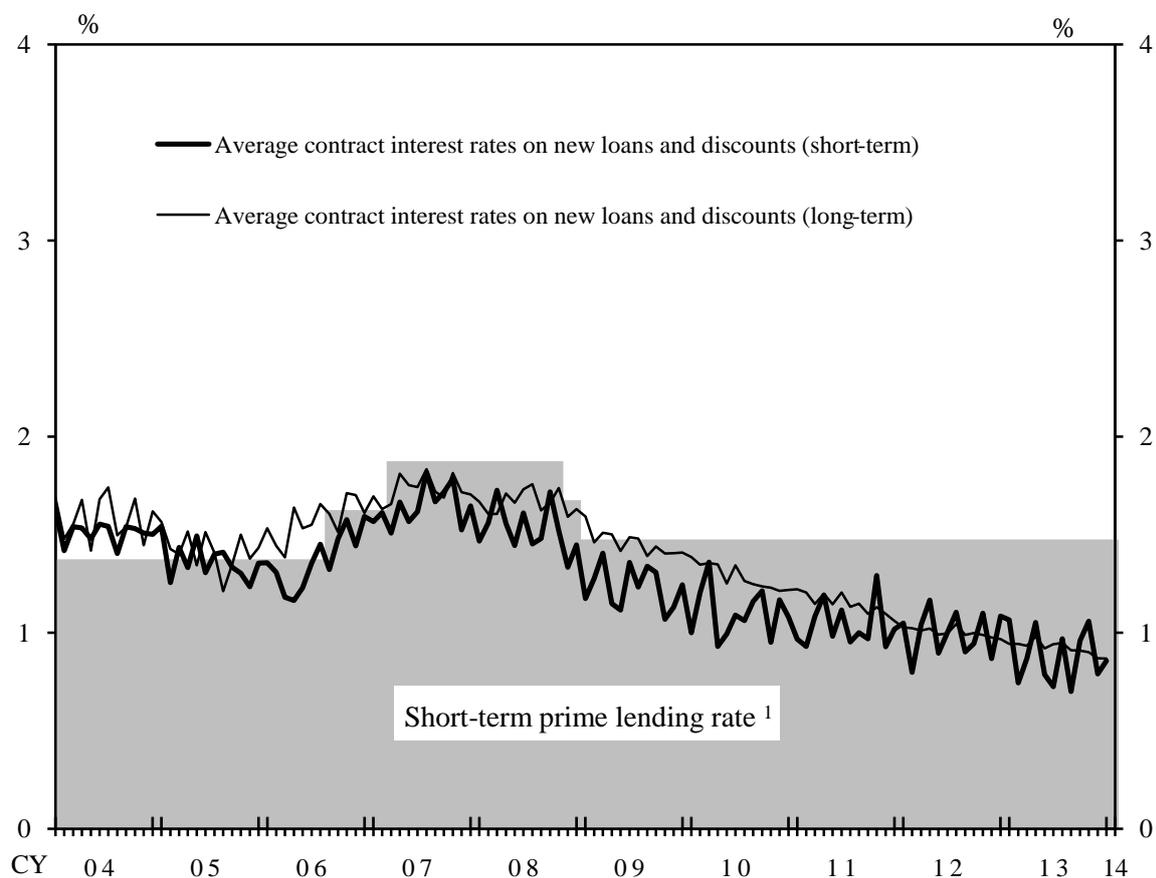
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

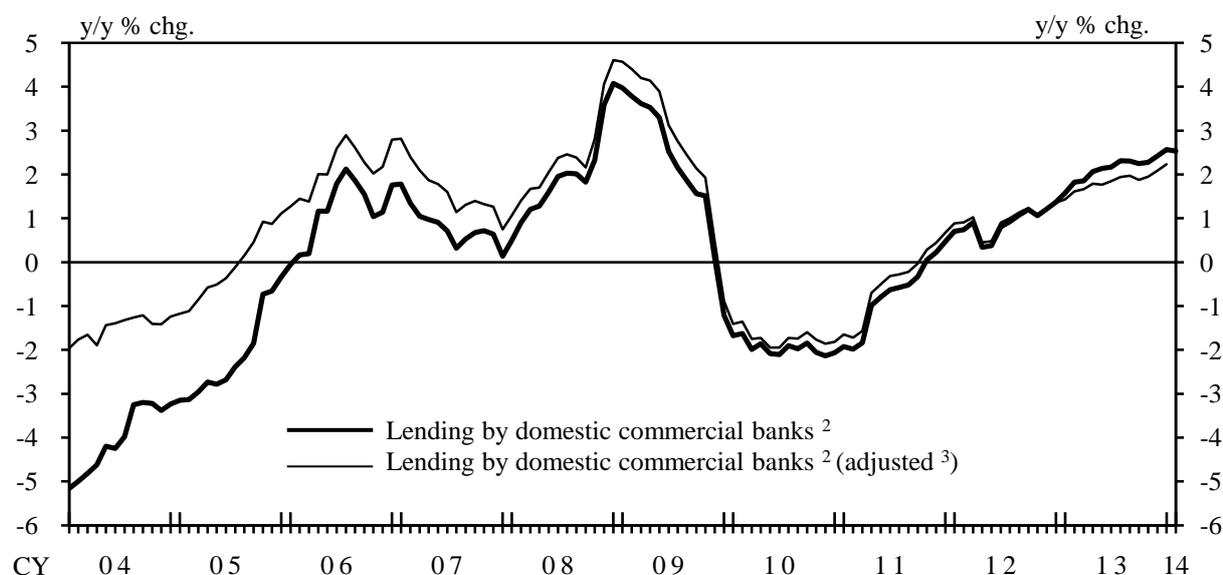


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



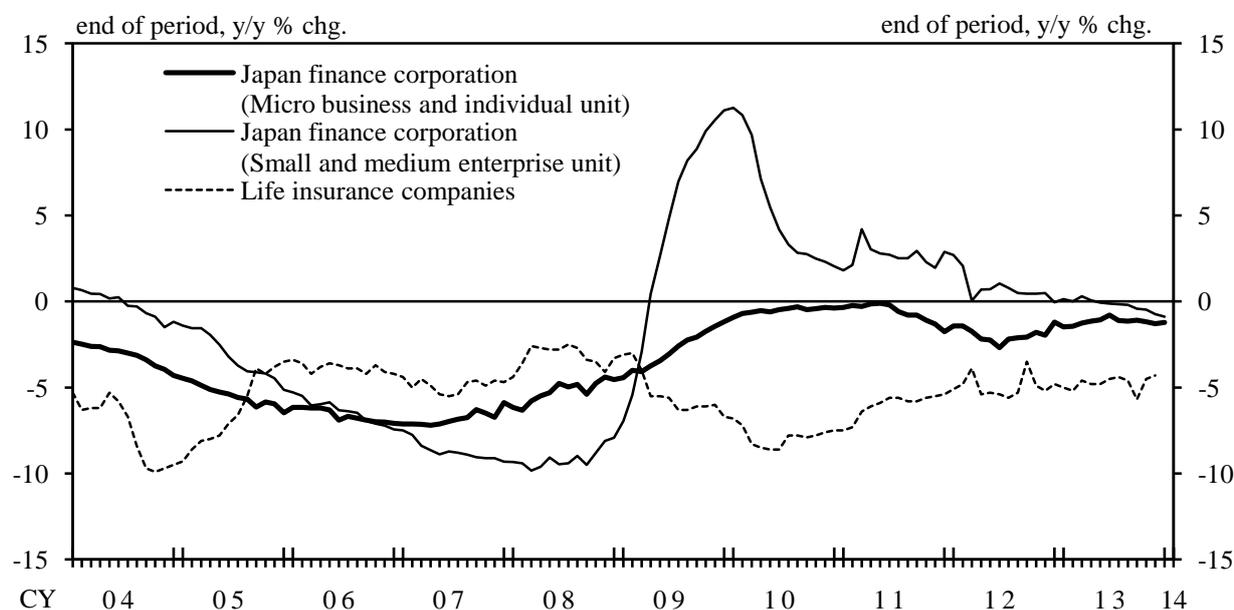
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

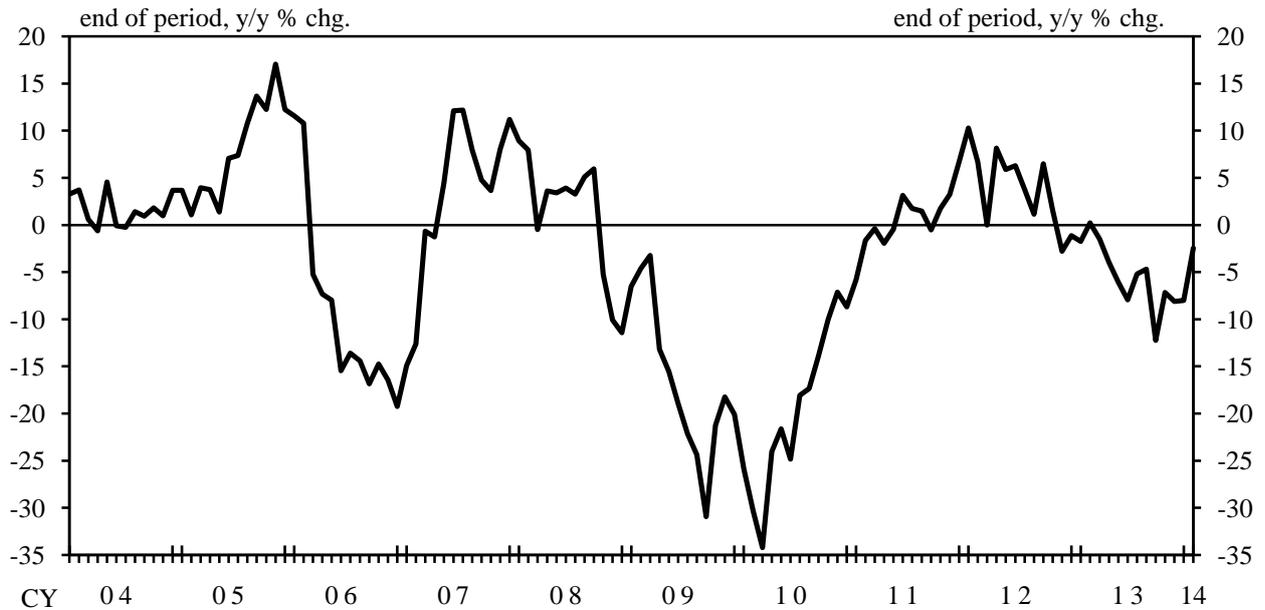
(2) Lending by Other Financial Institutions



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

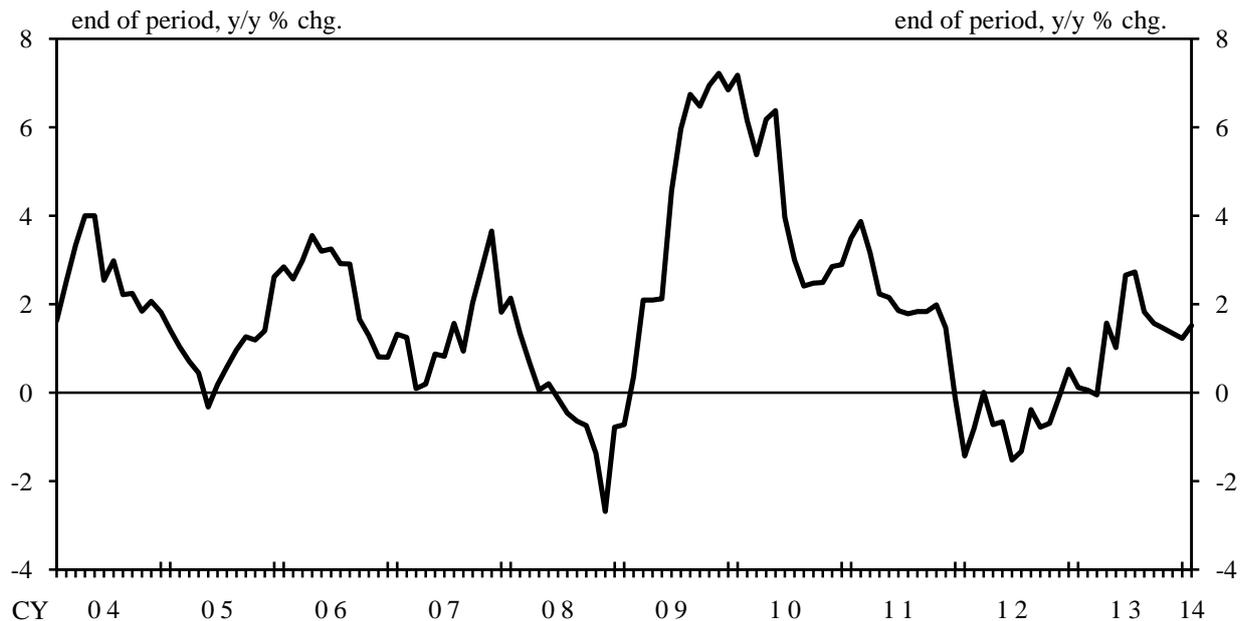
 Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures up to March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



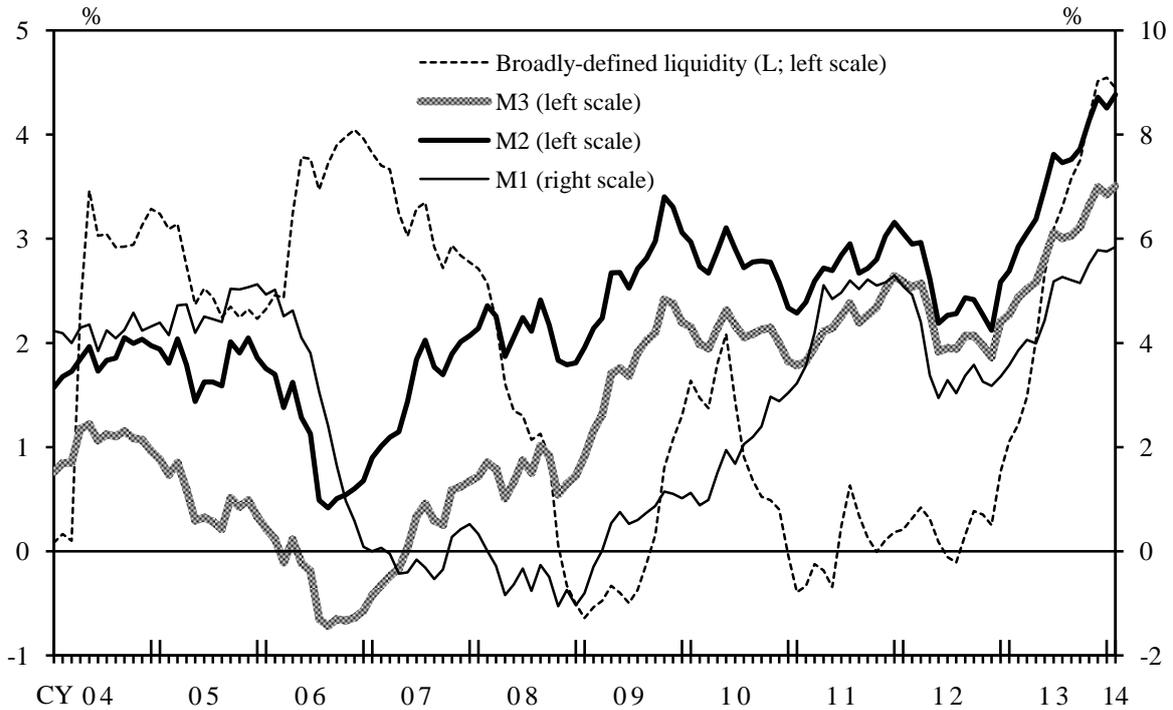
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

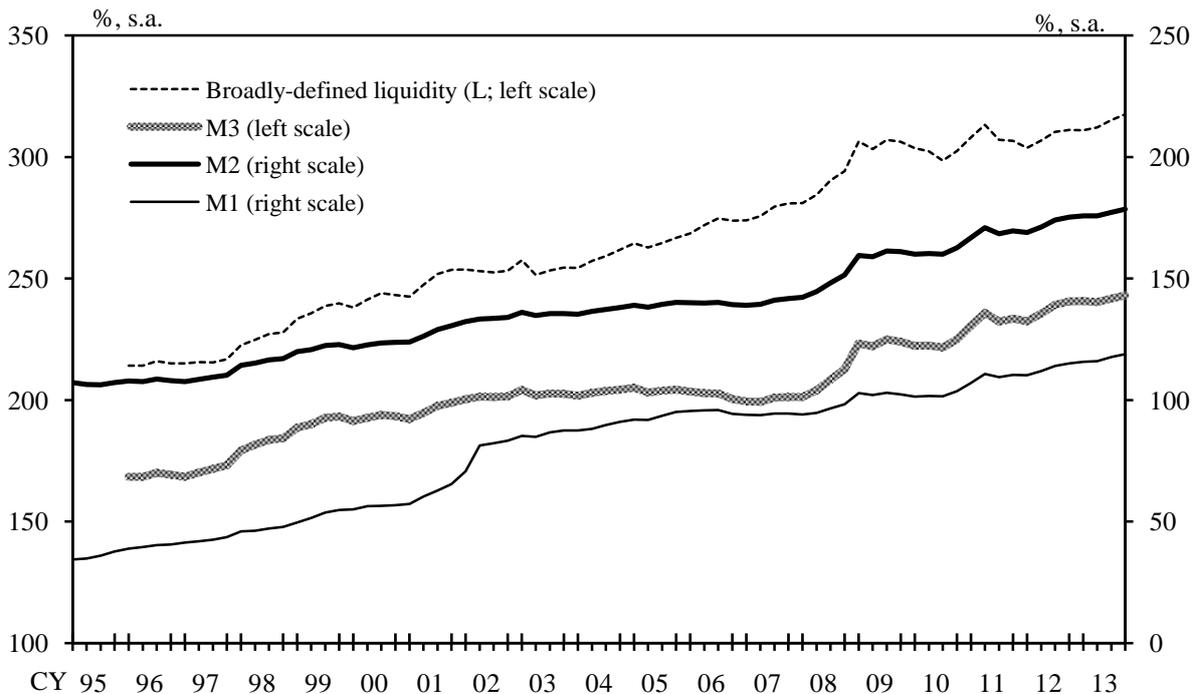
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



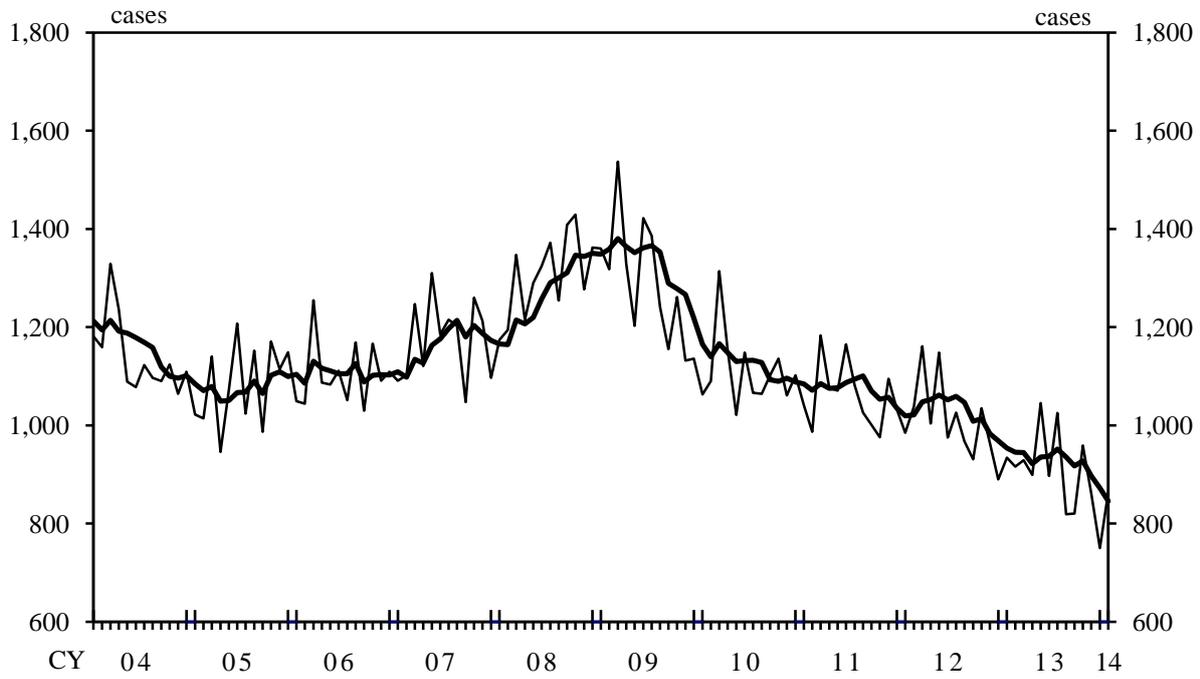
(2) Ratio of Money Stock to Nominal GDP



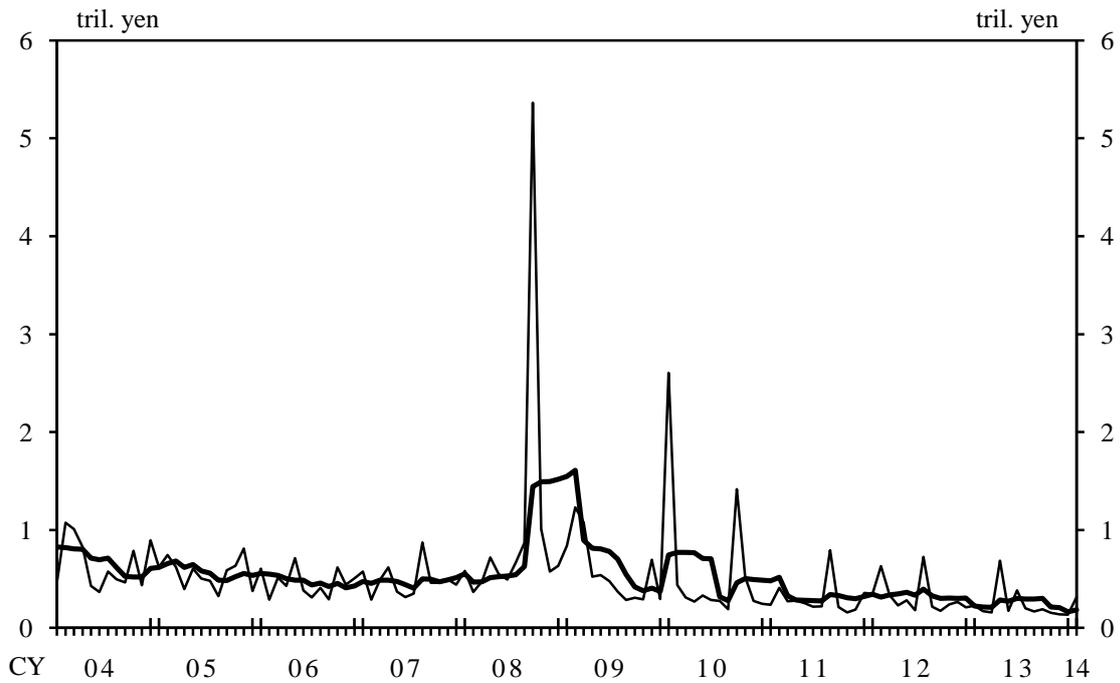
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

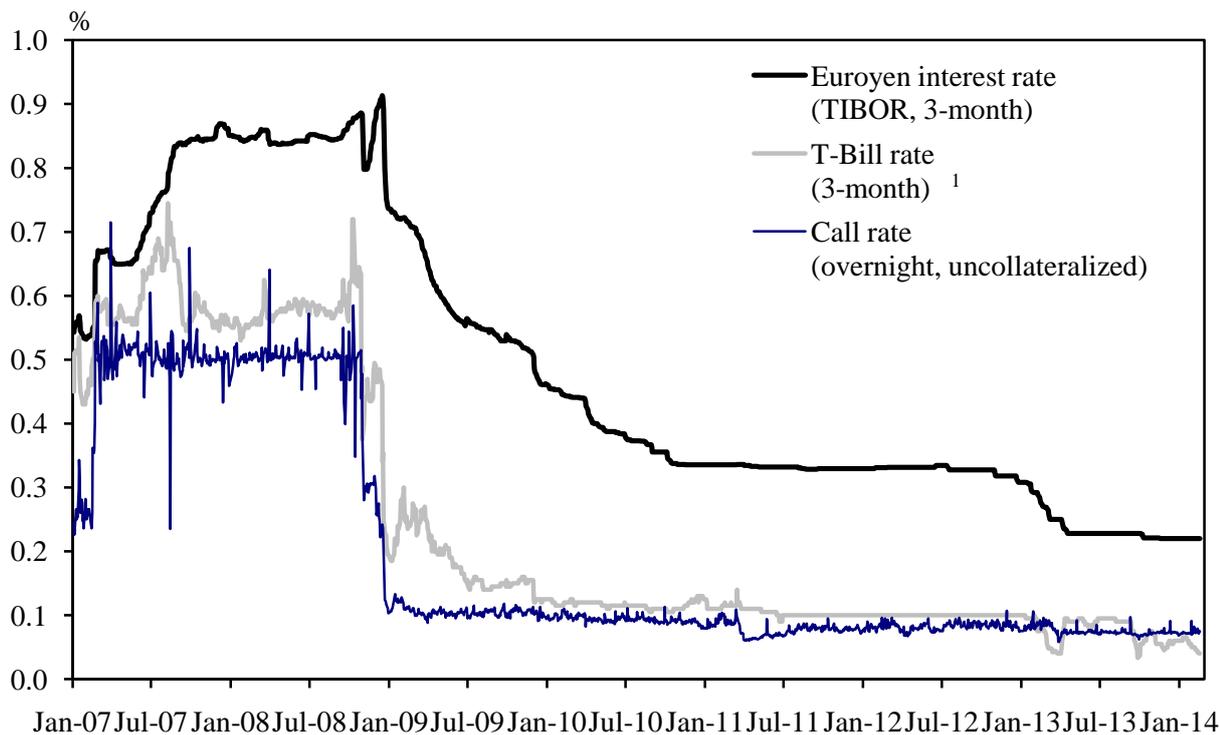


Note: Bold lines are the six-month moving average.

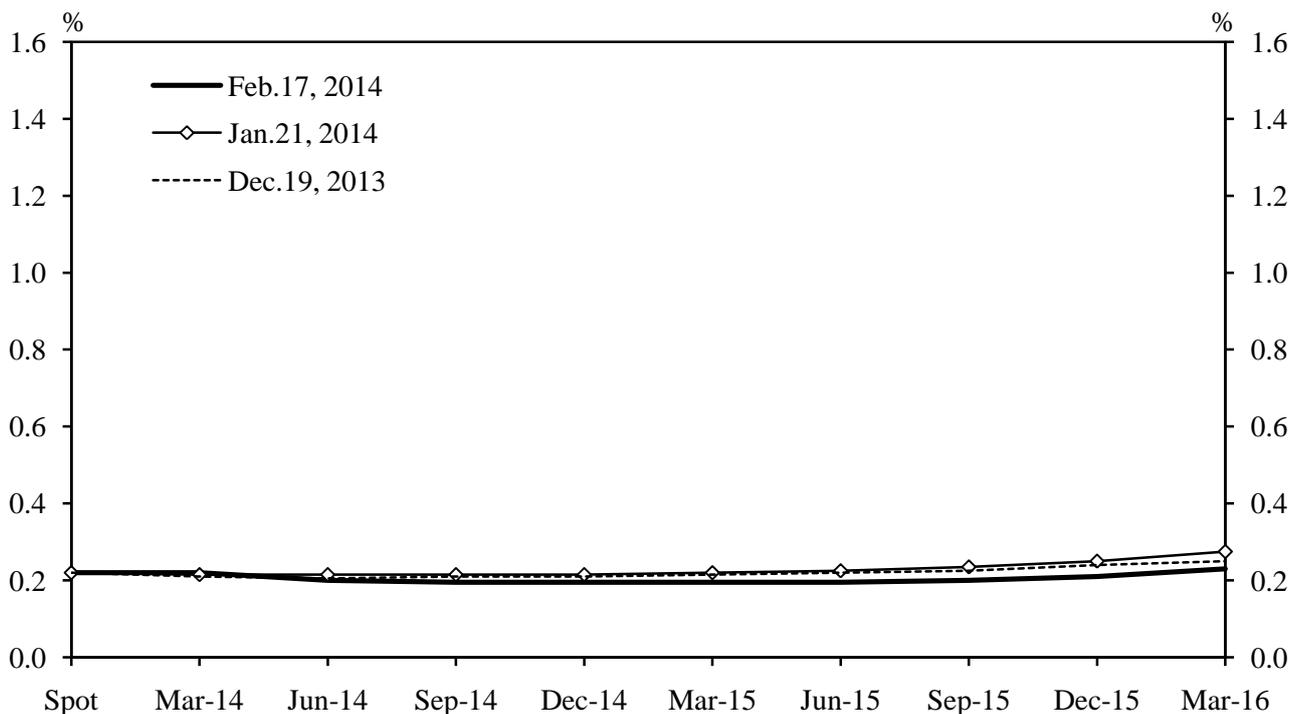
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



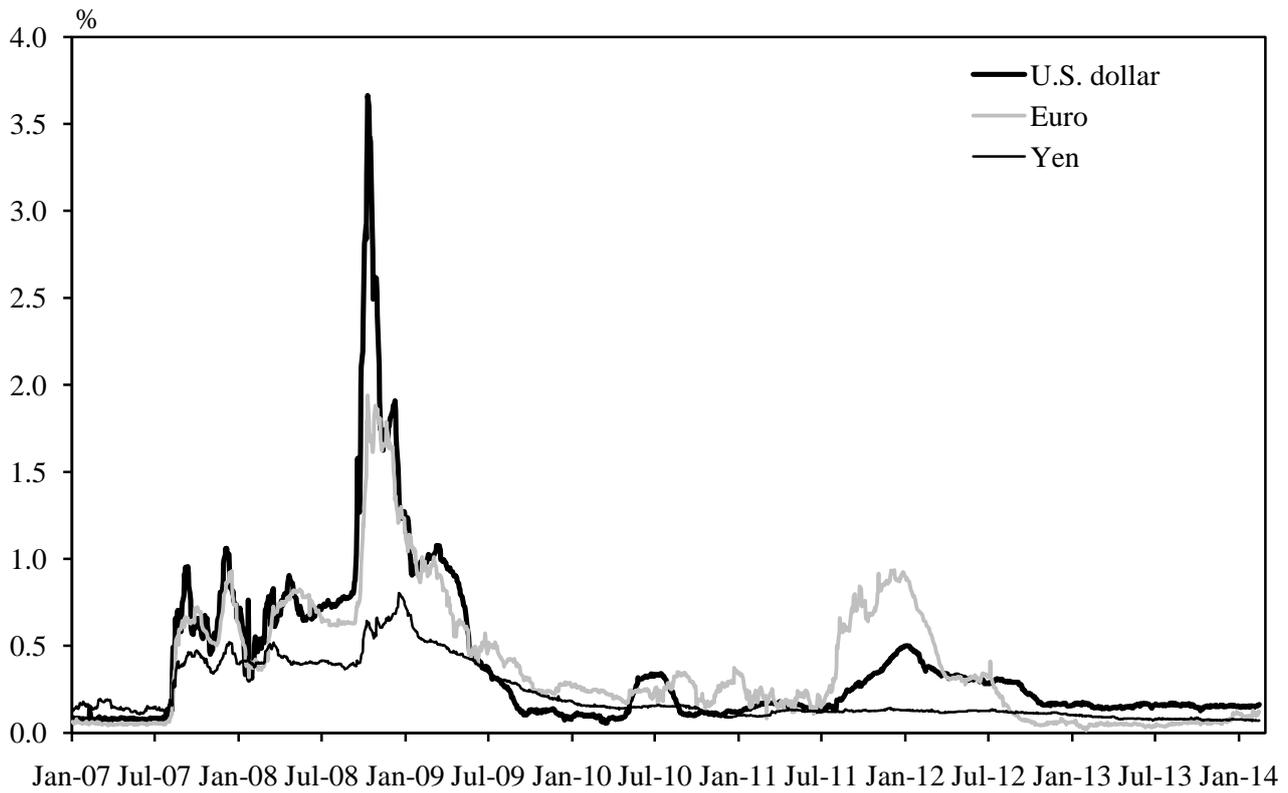
(2) Euroyen Interest Rate Futures (3-Month)



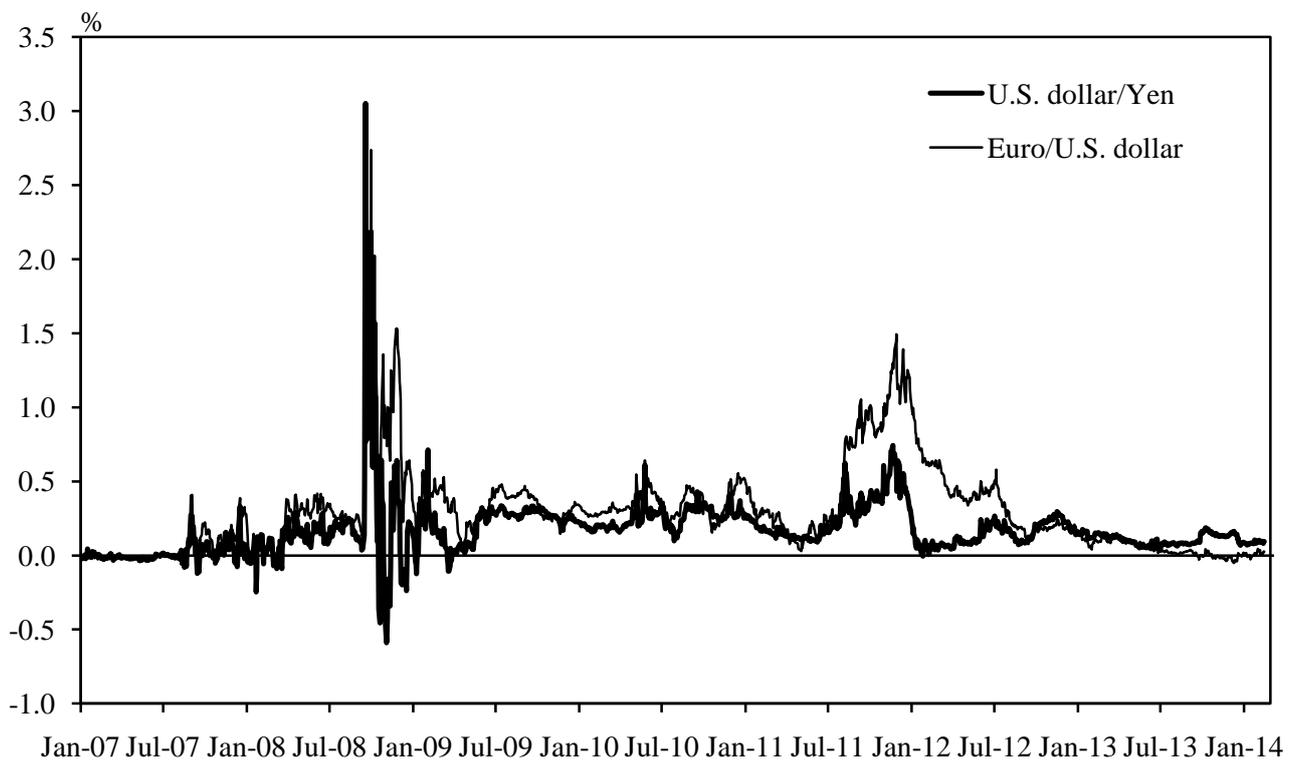
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



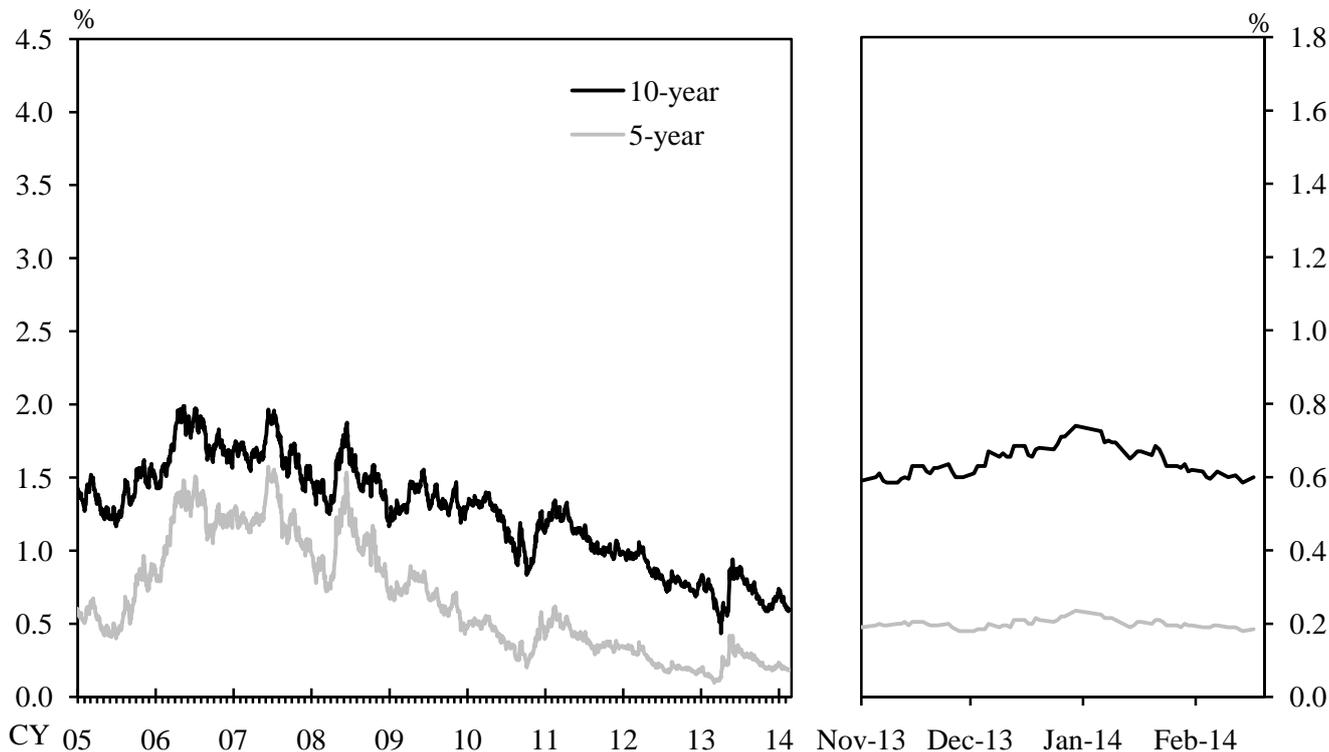
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



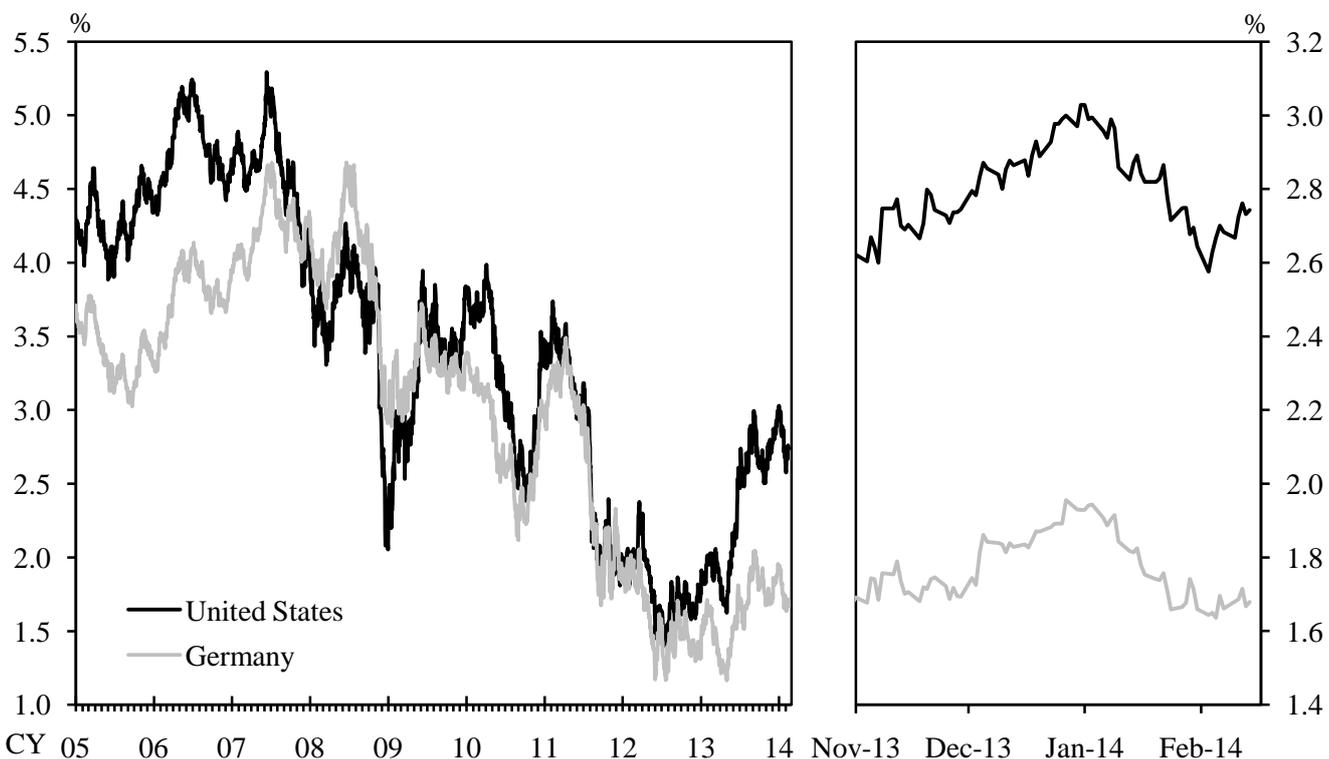
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



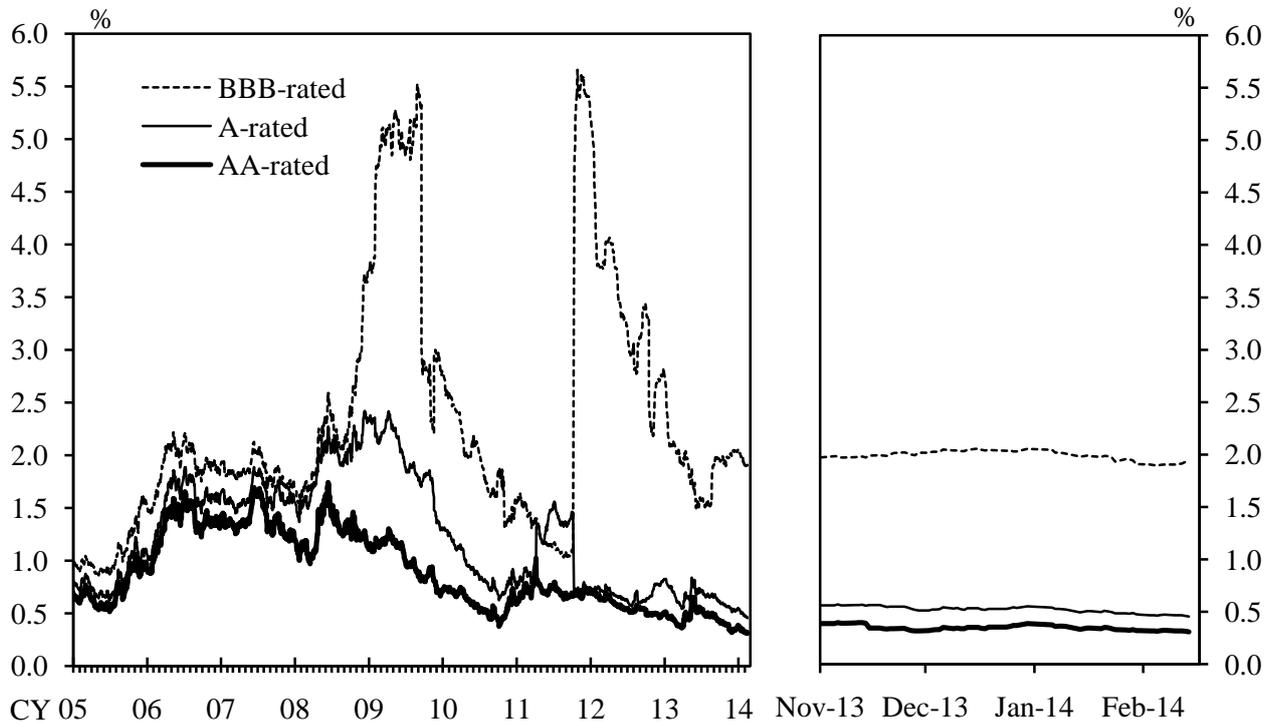
(2) Overseas Government Bond Yields (10-Year)



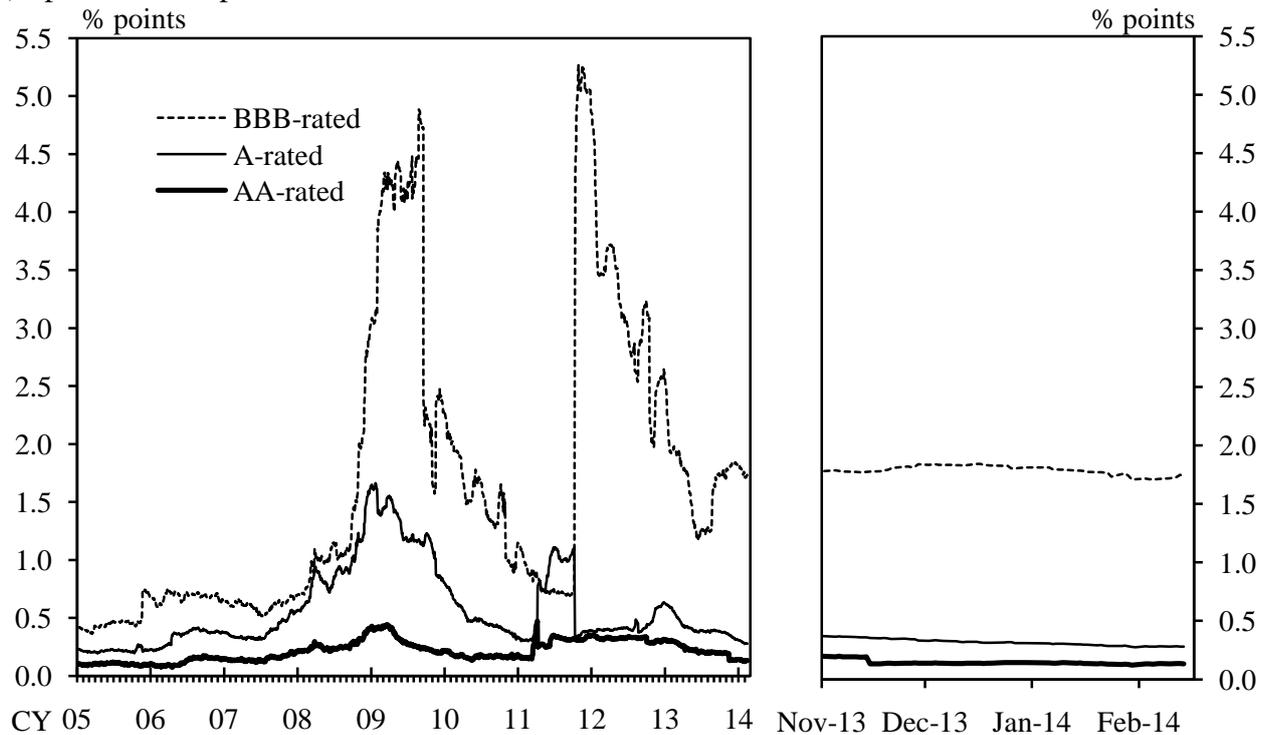
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields^{1,2}



(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



Notes: 1. Yields on bonds with 5-year maturity.

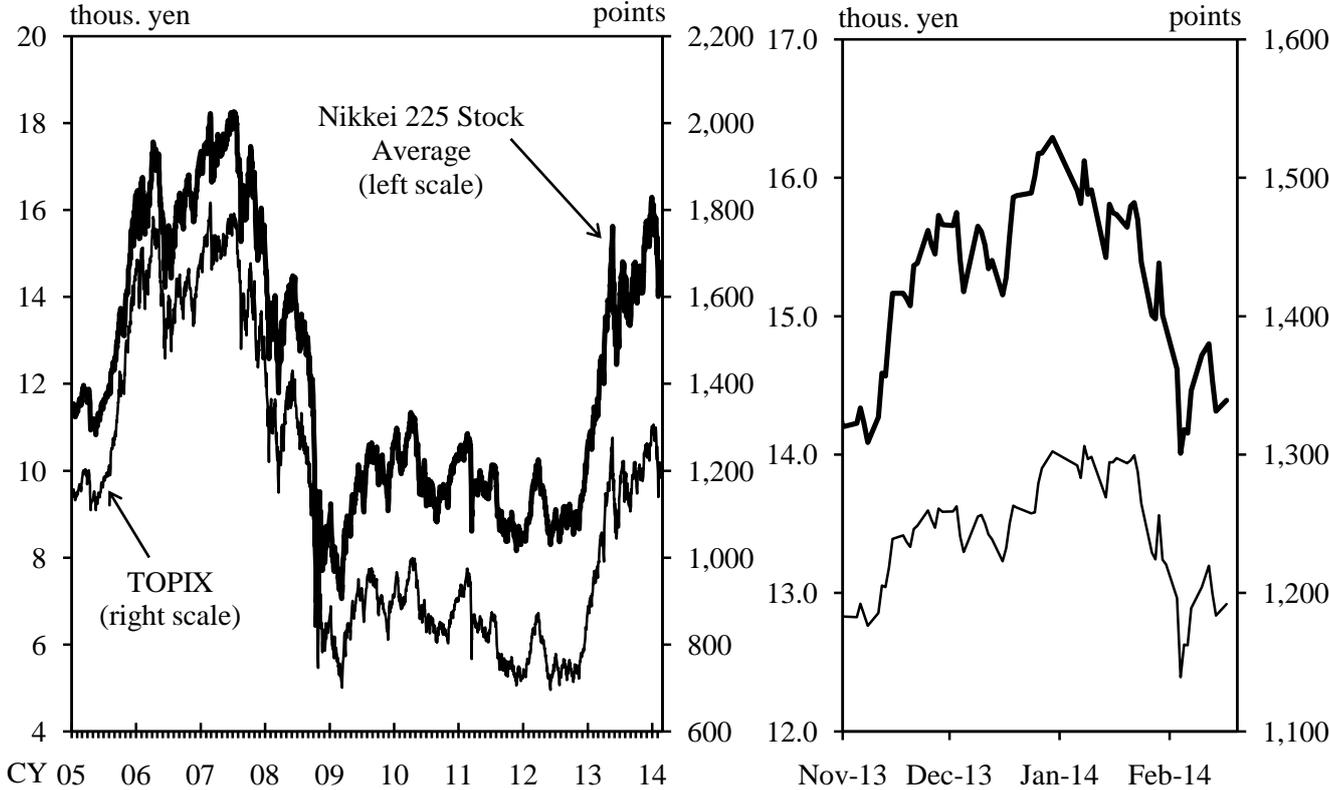
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

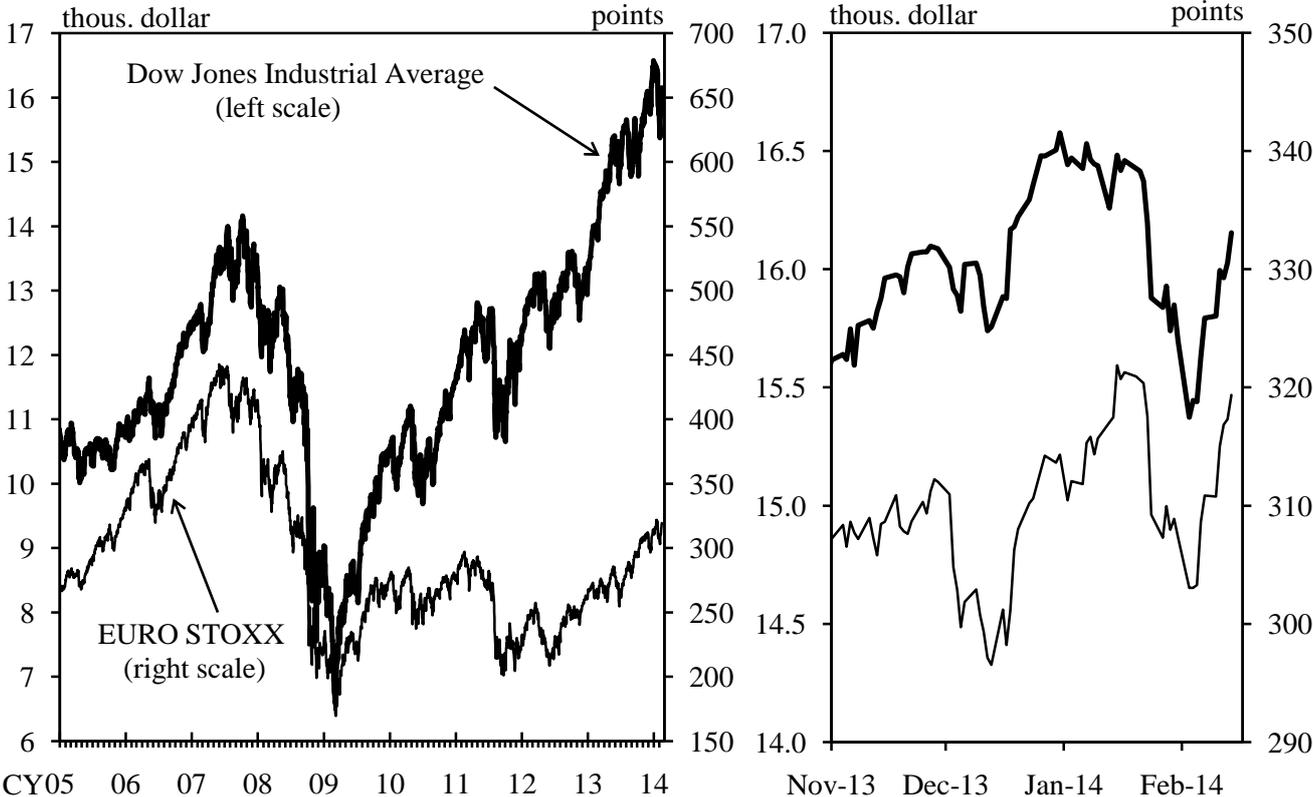
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



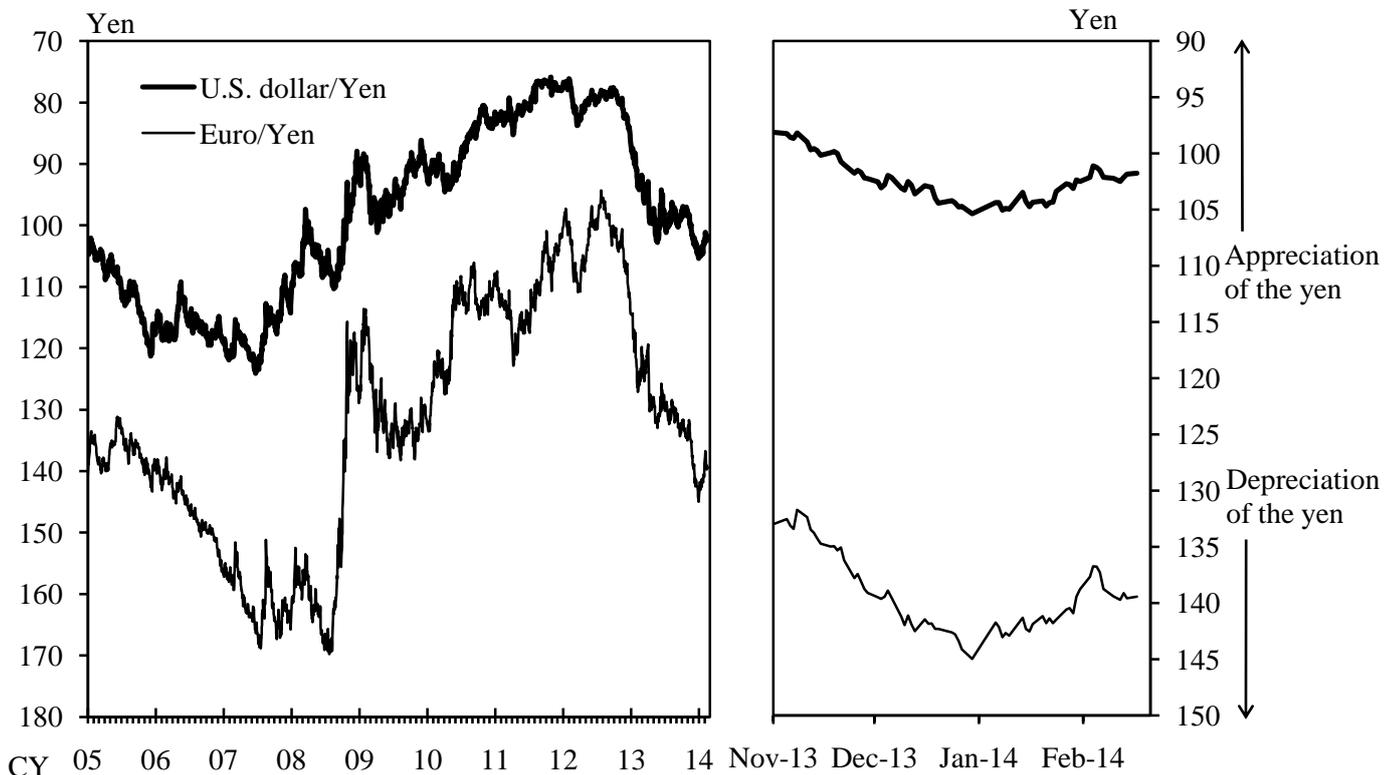
(2) Overseas Stock Prices



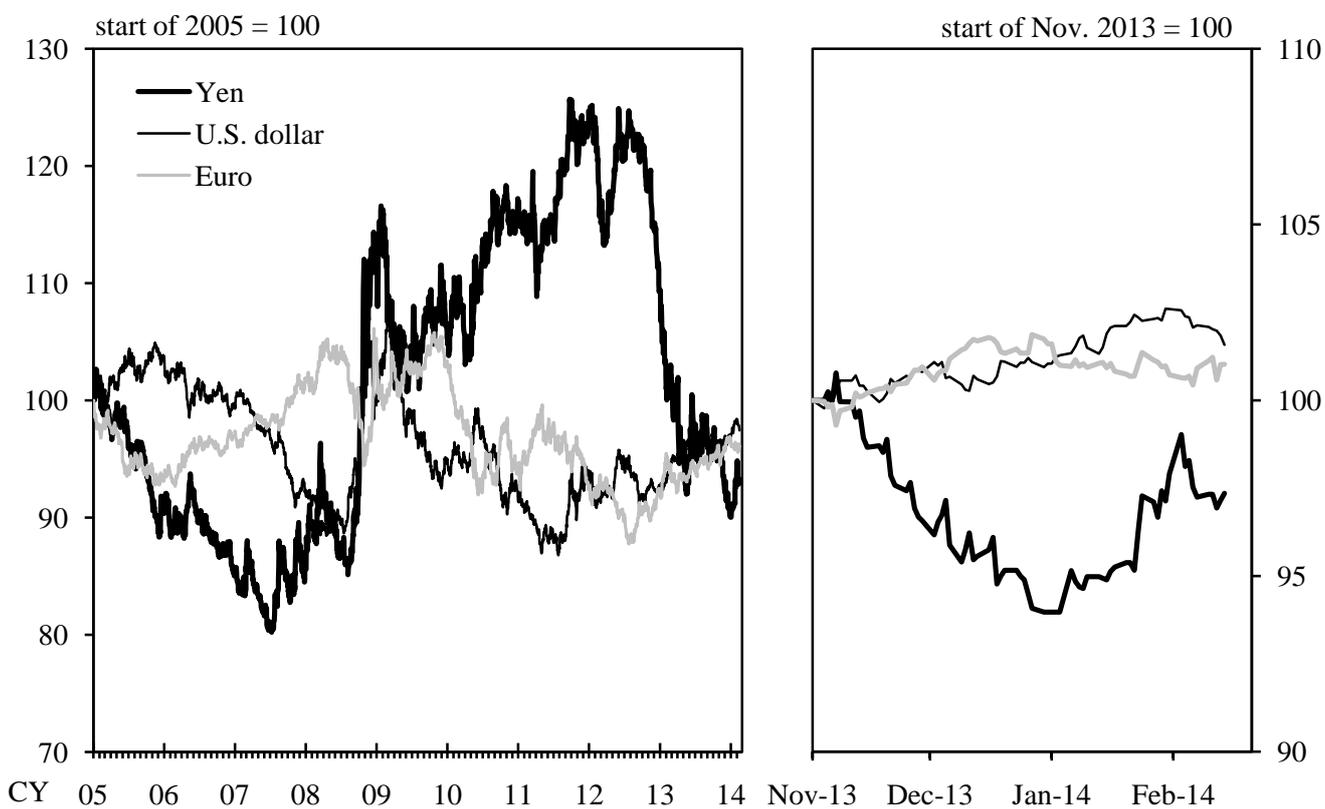
Sources: The Nihon Keizai Shimbun ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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