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Bank of Japan

Monthly Report of
Recent Economic and Financial Developments
July 2014

(English translation prepared by the Bank's staff based on the Japanese original released on July 16, 2014)

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Summary

Japan's economy has continued to recover moderately as a trend, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike has been observed.

Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. Exports have recently leveled off more or less. Business fixed investment has increased moderately as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption and housing investment have remained resilient as a trend with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase has recently been observed. Industrial production has continued to increase moderately as a trend, albeit with some fluctuations. Business sentiment has generally stayed at a favorable level, although the effects of the subsequent decline in demand following the front-loaded increase have been observed.

With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike are expected to wane gradually.

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 continue leveling off more or less at a high level. Business fixed investment is projected to follow a moderate increasing trend as corporate profits continue their improving trend. With the continued improvement in the employment and income situation, private consumption and housing investment are expected to remain resilient, and the effects of the subsequent decline in demand following the

[1] This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 14 and 15, 2014.

front-loaded increase are expected to wane gradually. Reflecting these developments in demand both at home and abroad, industrial production is expected to follow a moderate increasing trend.

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, excluding the direct effects of the consumption tax hike, producer prices are rising moderately relative to three months earlier, and the year-on-year rate of increase in consumer prices (all items less fresh food) is around 1¼ percent.[2] Inflation expectations appear to be rising on the whole.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer 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 in the range of 40-45 percent.

Firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have continued to be favorable. 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 negative. Firms' financial positions

[2] Producer prices were previously referred to as domestic corporate goods prices.

have improved further. Meanwhile, the year-on-year rate of growth in the money stock has been at around 3 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 somewhat. Compared with last month, stock prices have risen. Meanwhile, the value of the yen against the U.S. dollar and long-term interest rates have remained at more or less the same levels as last month.

1. Economic Developments

Public investment has more or less leveled off at a high level. The amount of public construction completed—which reflects the progress of public works—marked a small decline in the first quarter while the past effects of the upward pressure from the emergency economic package diminished, after registering an increase on a quarter-on-quarter basis for eight consecutive quarters until the fourth quarter last year. It then leveled off in April compared with the first quarter (Chart 5). The value of public works contracted—a measure that reflects public orders—rose again in the first quarter, after temporarily declining toward the fourth quarter last year, and it continued to move upward in April-May compared with the first quarter, mainly due to the effects of the supplementary budget for fiscal 2013.

Public investment is expected to continue leveling off more or less at a high level, as the effects of the upward pressure from various economic measures to date continue to diminish, while the effects of the supplementary budget for fiscal 2013 become evident and the initial budget for fiscal 2014 is expected to be implemented at an early stage.

Real exports have recently leveled off more or less (Charts 6[1] and 7). Real exports declined in the first quarter, after rising in the fourth quarter last year on a quarter-on-quarter basis; exports in April-May also marked a marginal decline compared with the first quarter. Looking at recent developments on a month-on-month basis, real exports continued to show mix movements; they increased in April, but declined in May. One main reason why exports have continued to lose pace even after the start of this fiscal year is that emerging economies that have strong economic ties with Japan's economy, including some ASEAN economies, have been sluggish. In addition, a greater-than-expected slowdown in the U.S. economy in the first quarter, mainly due to the effects of the freezing weather, and continued movements mainly by Japanese automakers to expand their production base overseas through this year have been exerting downward pressure on exports with a time lag, while movements to prioritize domestic shipments due to the front-loaded increase in demand seem to have subsided. Looking at movements in exports by region (Chart 7[1]), exports to the United States increased slightly in the first quarter on a quarter-on-quarter basis and decreased in

April-May compared with the first quarter. Exports to the United States seem to be on a moderate upward trend in general considering the moderate recovery in the U.S. economy and movements in foreign exchange rates. However, factors such as the aforementioned effects of the freezing weather and the expansion of production base overseas have been exerting downward pressure on exports, particularly those of motor vehicles and their related goods. Exports to the EU increased for four consecutive quarters and almost leveled off in April-May compared with the first quarter; they seem to be continuing to pick up as a trend, mainly in motor vehicles and their related goods, as well as capital goods and parts. Exports to China—which fell back both in the first quarter on a quarter-on-quarter basis and in April-May compared with the first quarter—seem to be picking up overall as a trend, with fluctuations smoothed out, as improvements have been observed mainly in information-related goods and in some capital goods. On the other hand, exports to NIEs have still continued to show mixed movements. Exports to ASEAN decreased for seven consecutive quarters and almost leveled off in April-May compared with the first quarter; they have continued to be somewhat sluggish. It remains difficult to judge whether exports to Others—which increased in April-May compared with the first quarter, after being relatively weak since the middle of last year—have improved as a trend. By goods (Chart 7[2]), exports of motor vehicles and their related goods fell toward the first quarter and decreased slightly in April-May compared with the first quarter. These developments are considered to be driven by the effects of the aforementioned factors such as the weakness in some emerging economies, the freezing weather in the United States, and the expansion of production base overseas. However, given that sales of automobiles in the United States have been at a high level for the first time since 2006, exports of motor vehicles and their related goods are considered to generally maintain a moderate increasing trend. Exports of capital goods and parts seem to be picking up, albeit with fluctuations, primarily reflecting developments in business fixed investment in the global economy. Exports of IT-related goods (including visual and audio apparatus) have headed toward a pick-up after bottoming out, mainly due to movements in parts for smartphone products. Meanwhile, exports of intermediate goods have been relatively weak as a trend, mainly in those to NIEs and ASEAN, although they have shown large fluctuations recently.

Real imports have continued to increase moderately as a trend against the backdrop of firm domestic demand, although they have recently declined due to the subsequent decline in demand following the front-loaded increase in line with the consumption tax hike (Charts 6[1] and 9). Real imports stepped up their growth in the first quarter: this is considered to be mainly attributable to the effects of the front-loaded increase in demand prior to the consumption tax hike and in line with the ending of support for software (operating system) amid firm domestic demand. In April-May, they declined significantly compared with the first quarter due to the subsequent decline in demand following the front-loaded increase. Looking at movements in imports by goods (Chart 9[2]), those of raw materials marked a relatively high rise in the first quarter, assisted partly by the front-loaded increase in demand prior to the rise in the environment tax rate in April; they fell back substantially in April-May compared with the first quarter. Looking at basic developments in other goods, imports of IT-related goods have been firm, since those of smartphones have been exerting upward pressure; those of capital goods and parts have continued to pick up, mainly as a reflection of the progress in inventory adjustments and of developments in business fixed investment at home. However, imports of both of these goods fell back substantially in April-May from the relatively high growth marked in the first quarter due to the front-loaded increase in demand, mainly in line with the consumption tax hike.[3] Meanwhile, imports of intermediate goods (such as chemicals as well as iron and steel) have been picking up, in line with movements in domestic production, while movements in foreign exchange rates have been restraining. However, they marked a subsequent decline in April-May compared with the first quarter following the first quarter's high growth.

Net exports—in terms of the real trade balance—improved noticeably in April-May compared with the first quarter after deteriorating significantly toward that quarter, reflecting the aforementioned developments in exports and imports (Chart 6[1]). Looking at movements in the nominal current account balance on a quarterly basis (Chart 6[2] and [3]), as for the first quarter, the current account balance turned to a deficit because of a further increase in the volume of deficit of the nominal goods and services balance, due mainly to significant increase in imports mainly affected by

[3] Some consumer goods, such as white goods, are included in capital goods and parts as well since it is difficult to categorize them separately.

the front-loaded increase in demand, although the surplus of the primary income balance continued to be on par with the fourth quarter. On the other hand, as for April-May, the current account balance as a whole returned to a surplus because the volume of deficit of the nominal goods and services balance decreased for the first time in four quarters, due mainly to the plunge in imports owing to the effects of the subsequent decline in demand following the front-loaded increase, and because the surplus of the primary income balance expanded slightly.

Regarding the environment surrounding exports, overseas economies—mainly advanced economies—have been recovering, albeit with a lackluster performance still seen in part (Chart 8[2]). Looking at movements by major region, in the United States, the moderate recovery—which is centered on private demand—is becoming firm, aided in part by improvement in the employment situation as the effects of the freezing weather—which had been pushing the economy downward considerably until early spring—have dissipated. The European economy has been recovering moderately. The Chinese economy has continued to be stable, with somewhat lower growth compared to a while ago. Some emerging economies apart from China and commodity-exporting economies have continued to lose pace as a whole, although signs of improvement have started to be seen in some countries. As for the exchange rate, the yen has depreciated significantly against both the U.S. dollar and the euro compared to the period prior to 2012; 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 projected to gradually accelerate its pace of recovery, as improvement in the employment and income situation becomes notable, with downward pressure on the economy from the fiscal side expected to wane in light of forecasts that accommodative financial conditions will be maintained. The European economy is projected to continue a moderate recovery, although attention should still be paid to such issues as the outcome of its debt problem. On the other hand, as for the Chinese economy, it is expected to continue to be stable, with somewhat lower growth compared to a while ago, although problems such as an overhang in supply have persisted in the manufacturing sector—which has a large influence on Japan's economy. Growth in some emerging economies apart from China and commodity-exporting economies might lose pace for a protracted period, as these economies deal with issues, mainly in terms of current accounts and inflation rates, although signs of improvement have started to be seen in some countries. In relation to this, as for the IT-related sector, with demand for smartphones and other products on an uptrend, orders received and production of electronic parts and semiconductor products machinery for Japanese firms appear to be picking up as a trend. As for future developments, it is considered that the pick-up will become more noticeable, due in part to shipments for new smartphone products. Attention should be paid, however, to the point that shipments for smartphone products tend to fluctuate significantly, depending on movements in production and sales of new products.

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, mainly as a reflection of movements in domestic demand, although the effects of the subsequent decline in private consumption in response to prior increases remain for the time being. As a reflection of these developments in exports and imports, net exports are projected to be on a moderate improving trend, albeit with fluctuations.

Business fixed investment has increased moderately as corporate profits have improved. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment has continued to increase moderately as a trend, although in April-May it showed a subsequent decline following the substantial increase in the first quarter, after showing a continued increase for three quarters in a row since the third quarter last year (Chart 10[1]).[4] As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—increased for three consecutive quarters from the second to the fourth quarter last year; they marked a relatively high growth in the first quarter, and showed

[4] As for business fixed investment in the first quarter, renewal demand for PCs in line with the ending of support for software and other factors seemed to have temporary exerted upward pressure.

a relatively large subsequent decline in April-May compared with the first quarter following the increase in the first quarter (Chart 11[1]). By industry, both machinery orders of manufacturing and those of nonmanufacturing (excluding orders for ships and those from electric power companies) had so far continued to trend upward, but decreased noticeably in April-May compared with the first quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have been more or less flat, albeit with fluctuations, after rising toward the second quarter last year (Chart 11[2]).[5] Meanwhile, the production capacity DI in the June *Tankan* continues to be on an improving trend in general, although the effects of the subsequent decline in demand following the front-loaded increase were slightly seen for the present; the DI for all industries and enterprises is expected to move into a net "insufficient" territory in the future (Chart 10 [2]).

Regarding the environment surrounding business fixed investment, corporate profits have continued to improve. Business sentiment has generally stayed at a favorable level, although the effects of the subsequent decline in demand following the front-loaded increase have been observed. The business conditions DI for all industries and enterprises in the June *Tankan* deteriorated compared with the March *Tankan*. However, it remained at almost the same level as in December 2013 and in the peak of the previous economic expansion (December 2006 and March 2007); the DI showed that business conditions have generally been resilient. Looking in detail, the DIs for all categories regardless of industry and size remained in "favorable" territory, and surpassed the forecast DIs in the March *Tankan*. As for the outlook, the DI for all industries and enterprises is expected to stay at the same level as present.[6] By industry and size (Chart 13), the net "favorable" narrowed for large manufacturing firms. However, there were some mixed movements by industries; the DIs for motor vehicles and housing-related (lumber & wood products)—both tend to be affected by the font-loaded increase and the subsequent decline—deteriorated

[5] On the other hand, planned construction expenses have continued to be on an apparent increasing trend, mainly due to the rise in the unit cost of construction. This could be attributable to the increase in high-value added constructions, but could also be due to the effects of the rise in construction costs, mainly reflecting a shortage of labor.

[6] When the business conditions DI for the present is already at a high level, the *Tankan* survey entails a general tendency in which firms' views regarding the outlook are apt to become cautious; taking this tendency into account, it can be assessed that firms forecast that business conditions will actually improve to a certain degree in the future.

noticeably, while the DIs for electrical machinery—reflecting resilient demand related to smartphones—and shipbuilding & heavy machinery, etc.—which tend to be positively affected by movements in foreign exchange rates—improved somewhat. With regard to industries related to business fixed investment (general-purpose machinery, production and business oriented machinery), the DIs declined marginally on the whole from the large improvement in March, but are expected to improve steadily again in the future. The DI for small manufacturing firms moved basically in line with large manufacturing firms, and business sentiment deteriorated from March. The DI for large nonmanufacturing firms also deteriorated from March, although it was at a high level. Looking at distinctive developments, the DI for retailing deteriorated largely due to the effects of the subsequent decline in demand following the front-loaded increase. On the other hand, the DIs for service-related industries—which are relatively less affected by the front-loaded increase—such as services for households (services for individuals and accommodations, eating & drinking services) and those for firms (information services and services for businesses) were resilient. Meanwhile, the DIs for constructions and real estate deteriorated somewhat, albeit at high levels, as shortage of labor and higher costs have been perceived; they seem likely to hit the peak as a trend in the future. The DI for nonmanufacturing small firms deteriorated from March as a whole, and deterioration in retailing is somewhat pronounced compared with that of large firms in detail.

Corporate profits are projected to continue an improving trend, albeit with fluctuations, supported by firm domestic demand as well as by the gradual and moderate rise in exports. Meanwhile, in the June *Tankan*, current profits (for all industries and enterprises) on a fiscal year basis are forecasted to be somewhat cautious for fiscal 2014 with a year-on-year decline of 5.4 percent at this stage, after registering a significant increase for fiscal 2013 with a year-on-year increase of 28.4 percent. However, they remained at a relatively high level and were revised upward from those in the March *Tankan* for both fiscal 2013 and 2014 (Chart 12).

Taking the above into consideration, business fixed investment is projected to follow a moderate increasing trend as corporate profits continue their improving trend. Business fixed investment plans (excluding software investment and including land purchasing expenses) for all industries and enterprises for fiscal 2014 in the June *Tankan* were revised noticeably upward from the March *Tankan* with a year-on-year increase of 1.7 percent. By industry and size (Chart 14), plans of large manufacturing firms showed a year-on-year increase of 12.7 percent which was considerably high for this time of the year, although this could be attributable to the point that some investment plans might be postponed to fiscal 2014 from fiscal 2013, during which actual results were revised downward. Business fixed investment plans for large nonmanufacturing firms continued to increase firmly with a year-on-year increase of 4.9 percent as like those for fiscal 2013. Plans of small manufacturing firms saw a year-on-year decline of 5.4 percent for fiscal 2014 and their plans were stronger than the averages since fiscal 2000 for this time of the year; it can be judged that their plans are relatively solid at this stage, taking also into account that the year-on-year increase was high for fiscal 2013. Plans of small nonmanufacturing firms were somewhat weak at this stage with a year-on-year decline of 26.0 percent. This, however, was largely affected by the fact that actual results for fiscal 2012 and 2013 exhibited extremely high growth for two consecutive years; together with the fact that the revision rate from the March *Tankan* was relatively high, their plans suggest that small nonmanufacturing firms have held a solid stance on investment. On a "software and fixed investment excluding land purchasing expenses" basis—a concept close to that of GDP—business fixed investment plans of all industries and enterprises are forecasted to grow firmly for fiscal 2014 as their plans for fiscal 2014 have been revised noticeably upward compared with those in the March *Tankan*, with a year-on-year increase of 4.7 percent, after having stood at positive 5.3 percent growth on a year-on-year basis for fiscal 2013.

<u>Private consumption</u> has remained resilient as a trend with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase in line with the consumption tax hike has recently been observed (Chart 15). Looking at consumption of goods—as seen through sales at retail stores in real terms (Chart 16[1])—it increased at a significantly accelerated pace in the first quarter due to the front-loaded increase in demand; it subsequently fell back substantially in April-May compared with the first quarter following the front-loaded increase. Monthly developments show that consumption of goods

increased largely in March, marked a significant subsequent decline in April, and picked up somewhat in May. Looking at consumption of durable goods (Chart 16[2]), the number of new passenger-car registrations has fallen back substantially through April due to the effects of the subsequent decline in demand following the front-loaded increase; it was almost flat for two consecutive months, in May and June. Sales of household electrical appliances in real terms decreased significantly in April-May compared with the first quarter, because of a considerable scale of a subsequent decline following the front-loaded increase in demand in line with the consumption tax hike and a subsequent decline following the renewal demand for PCs in line with the ending of support for software. Monthly developments show that although they marked an increase in May, the extent of the pick-up has been limited compared with the degree of the decline in April. According to anecdotes by firms and other information, however, the scale of the subsequent decline in demand following the increase in durable goods to date seems to have been basically within the scope that was previously projected. Sales at department stores increased markedly in March due to the front-loaded increase in demand. They fell back largely in April due to the previous month's increase and picked up in May, mainly in apparel (Chart 17[1]). Sales at supermarkets decreased largely in April, after the effects of the front-loaded increase in demand were seen noticeably in March, and then picked up in May, mainly in food and beverage. On the other hand, sales at convenience stores showed relatively small fluctuations from March to April since the front-loaded increase in demand was seen only in some items; they continued to show their moderate increasing trend in May. In all of these sectors, many firms have voiced that the degree of the subsequent decline following the front-loaded increase in demand have been generally within the scope previously projected, and some anecdotes have suggested a gradual reduction of the degree of the subsequent decline. Meanwhile, as for consumption of services (Chart 17[2]), outlays for travel and sales in the food service industry have remained steady as a whole with fluctuations smoothed out; the effects of the front-loaded increase in demand followed by the subsequent decline seem to have been limited.

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, purchase of vehicles, money gifts and remittance" basis (Chart 16[1])—which is compiled so as to make it similar to items used for estimating GDP—was up significantly in the first quarter, due in part to the front-loaded increase in demand, but decreased significantly in April-May compared with the first quarter.[7] The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) registered high growth in the first quarter with the front-loaded increase in demand having been observed, notably in durable goods, despite large monthly fluctuations, but it decreased significantly in April-May compared with the first quarter.

Looking at indicators related to consumer confidence, the consumer confidence index had continued its weak development since October last year, but improved for two consecutive months in May and June (Chart 18).

Private consumption is expected to remain resilient with the continued improvement in the employment and income situation, and the effects of the subsequent decline in demand following the front-loaded increase are expected to wane gradually.

<u>Housing investment</u> has remained resilient as a trend with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase in line with the consumption tax hike has recently been observed. The number of housing starts—a leading indicator of housing investment—has been falling back since the first quarter due to the subsequent decline in demand following the front-loaded increase (Chart 19[1]).

With the continued improvement in the employment and income situation, housing investment is expected to remain resilient, also supported by the accommodative financial conditions, and the effects of the subsequent decline in demand following the front-loaded increase are expected to wane gradually.

<u>Industrial production</u> has continued to increase moderately as a trend, albeit with some fluctuations caused by the consumption tax hike (Chart 20). Industrial

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

production had kept increasing moderately since the first quarter last year; as for the first quarter this year, it grew at a somewhat high pace, partly in response to the front-loaded increase in demand, and decreased noticeably in April-May compared with the first quarter due to the effects of the subsequent decline following the front-loaded increase. Looking at recent developments on a month-on-month basis, industrial production picked up somewhat in May after decreasing largely in April. By industry, production of transport equipment (such as passenger cars) decreased noticeably in April-May compared with the first quarter after increasing toward the first quarter, as a reflection of the front-loaded increase and the subsequent decline in demand. Production of chemicals decreased noticeably in April-May compared with the first quarter after increasing in that quarter partly due to the front-loaded increase in demand for daily necessities. Production of other electrical machinery (electrical machinery; information and communication electronics equipment) also decreased in April-May compared with the first quarter due to the subsequent decline in demand following the front-loaded increase for white goods and the subsequent decline following the renewal demand for electronic computers in line with the ending of support for software. On the other hand, production of iron and steel as well as nonferrous metals has continued to be resilient as demand with ties to construction has been firm, while it has been affected by fluctuations in motor vehicle production. Production of general-purpose, production and business oriented machinery—which accelerated toward the first quarter—generally maintained a high level in April-May, reflecting developments in business fixed investments at home and abroad. Production of electronic parts and devices as a whole is considered to be on an upward trend, albeit with fluctuations, with parts for smartphone and tablet products produced in Asia having held steady as a trend. Furthermore, production of ceramics, stone and clay products has continued to be solid, albeit with fluctuations, as a reflection of firm demand with ties to construction.

Shipments grew at a noticeably accelerated pace in the first quarter and marked a subsequent decline in April-May (Chart 20[1]). By goods (Chart 21), shipments for nondurable consumer goods—which had been affected by the front-loaded increase in demand, mainly those for daily necessities—turned to a pick-up in May after marking a subsequent decline in April. As for durable goods, they continued relatively high growth in the fourth quarter last year and in the first quarter this year partly due to the front-loaded increase in demand; they decreased noticeably in April-May compared with the first quarter. Shipments for capital goods had continued a moderate increase since the third quarter last year and marked a higher growth in the first quarter; they declined subsequently in April-May following the growth in the first quarter. Shipments for construction goods have continued to be firm on the whole, albeit with fluctuations, but housing-related goods have recently shown somewhat weak developments.

Inventories have followed a downward trend since around the end of last year, due in part to the effects of the front-loaded increase in demand, albeit with monthly fluctuations, and have recently increased somewhat due to the effects of the subsequent response to the previous development (Chart 20[1]). With regard to the recent movements in inventories, they increased in May compared with the end of March: this is affected by the subsequent decline following the front-loaded increase and movements considered to be an accumulation of inventories of automobiles waiting to be shipped overseas. In addition, inventories of general-purpose, production and business oriented machinery as well as electronic parts and devices and other industries seem to be piling up as a trend, partly in anticipation of recovery in demand. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has been broadly balanced with that in shipments on the whole (Chart 22[2]). By goods, the shipment-inventory balance has deteriorated somewhat for durable and other goods due to the effects of the subsequent decline following the front-loaded increase and movements considered to be an accumulation of inventories waiting for shipments. Growth in inventories, however, has been generally balanced with that in shipments. In relation to this, with regard to the DI of inventory level of finished goods and merchandise for large manufacturing firms in the June *Tankan*, there was almost no difference between net "excessive or somewhat excessive" before the consumption tax hike and that after the hike, and a heightening in inventory adjustment pressure has not been seen so far.

Industrial production is expected to follow a moderate increasing trend, mainly as a reflection of developments in demand both at home and abroad, and the effects of the subsequent decline in demand following the front-loaded increase are expected to wane gradually. Based on anecdotes by firms and other information, as for the second quarter, industrial production as a whole is projected to fall back temporarily due to the subsequent decline from the previous quarter that registered somewhat high growth mainly in response to the front-loaded increase in demand prior to the consumption tax hike. By industry, due to the fall-back from the front-loaded increase in demand, production of transport equipment and chemicals is projected to decline. Production of information and communication electronics equipment is expected to decline noticeably, mainly due to the subsequent decline following the renewal demand for electronic computers in line with the ending of support for software. On the other hand, production of general-purpose, production and business oriented machinery is projected to continue increasing, with the ongoing improvement of developments in business fixed investment both at home and abroad. Production of electronic parts and devices is also forecasted to continue an increasing trend, with demand for parts for smartphone products being firm. As for the third quarter, production as a whole is expected to stop declining and head toward a pick-up, although large uncertainty remains. By industry, production of general-purpose, production and business oriented machinery is expected to continue increasing on the back of improvement in business fixed investment both at home and abroad. Production of electronic parts and devices is expected to increase steadily with the overhang in stocks of parts for smartphones, including those for new products scheduled to be sold, becoming active. Production of chemicals is also projected to turn to an increase while the effects of the subsequent decline in demand following the front loaded increase are expected to wane gradually. Meanwhile, as for transport equipment, production is likely to be flat or maintain somewhat weak development as the effects of the subsequent decline in demand following the front loaded increase remain for production for home.

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 May was 3.5 percent, being slightly lower than the bottom marked prior to the Lehman shock (3.6

percent in July 2007) and was at the same level as in December 1997 for the first time (Chart 23). New job openings have continued to trend upward, although they have recently been somewhat sluggish. The active job openings-to-applicants ratio has also kept improving steadily and recorded 1.09 in May for the first time since June 1992—slightly exceeding the level in July 2006 of 1.08, which was the peak prior to the Lehman shock. Non-scheduled hours worked accelerated their pace of growth toward March, partly in response to the front-loaded increase in demand, and declined slightly in April-May. As a trend, however, it has generally been increasing moderately for both manufacturing and nonmanufacturing. Meanwhile, looking at the employment conditions DI in the June *Tankan*, net "insufficient" employment in June for all industries and enterprises narrowed slightly due to the annual trend in which firms usually feel that employment has become less insufficient, affected by hiring new graduates. However, the tightening has become stronger steadily as a trend, and net "insufficient" is expected to expand noticeably again in the future (Chart 24).

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has been at around 1 percent on average, despite large monthly fluctuations (Chart 26[1]). The year-on-year rate of increase in the number of regular employees in the *Monthly Labour Survey* has tended to expand moderately as a whole, since manufacturing has continued to decline at a reduced rate, while nonmanufacturing has gradually showed higher growth.

Total cash earnings per employee have started to pick-up as a whole, albeit with fluctuations (Chart 26[2]). Hourly cash earnings of overall employees have improved moderately as a whole, albeit with fluctuations, as non-scheduled cash earnings and special cash earnings have increased and scheduled cash earnings have recently started to stop declining (Chart 25[1]). Taking a closer look, both monthly cash earnings of full-time employees per employee and hourly cash earnings of part-time employees have accelerated their year-on-year rate of increases, albeit at a mild pace (Chart 25 [2]). Scheduled cash earnings have recently started to bottom out as the year-on-year rate of decline has been slowing steadily as a trend (Chart 25[3]). By type of workers, scheduled cash earnings of full-time employees have turned upward since April while the effects of the rise in base wages this spring have started to materialize. The rate of increase in scheduled cash earnings of part-time employees has recently been positive as a whole, although an increase in employees with short hours worked has still been exerting downward pressure. In addition, the rate of increase in part-time employees has recently shown a slowdown as a trend, albeit with fluctuations, and there is a possibility that downward pressure on wages as a whole may be weakening from such aspect. The year-on-year rate of increase in non-scheduled cash earnings has registered a distinct positive as a reflection of movements in the number of hours worked, and special cash earnings have also recently continued to mark a high growth.

Employee income has accelerated moderately its year-on-year rate of increase, as a reflection of the aforementioned developments in employment and wages (Chart 26[3]).

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 been more or less flat as a whole (Chart 28[1] and [3]). Prices of crude oil have been at somewhat high levels compared to a while ago, although they have marked a subsequent decline to some extent after rising in view of geopolitical risks such as the situation in Iraq. Prices of nonferrous metals have recently been more or less level after being sluggish around spring, against the background of uncertainty about emerging economies, including China. In contrast, prices of grains have been weakening somewhat again, a reflection of a reduction in anxiety over supply and an increase in stocks on a global basis.

The three-month rate of change in import prices (on a yen basis) has recently been almost flat, as a reflection of movements in foreign exchange rates and international commodity prices (Chart 28[2]).

Producer prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter), on a basis excluding the direct effects of the consumption tax hike, are rising moderately relative to three months earlier (Chart 29[2]).[8] Excluding the direct effects of the consumption tax hike, the three-month rate of change in producer prices had registered 0.1 percent in April, expanded the rate of increase to 0.4 percent in May, and registered about the same rate of 0.5 percent in June. Looking in detail at producer price movements in June relative to three months earlier, the rate of increase in prices of "goods sensitive to exchange rates and overseas commodity prices" heightened slightly as a whole since petroleum products such as gasoline rose, a partial reflection of heightened crude oil prices and price rises for the purpose of improving profit. Prices of "iron & steel and construction goods" turned positive as a whole since scrap & waste marked a subsequent increase following the prior decline while iron prices increased somewhat on the back of firm demand for construction. "Others" showed somewhat strong developments, mainly in other manufacturing industry products, due to a pass-on of past cost increases in the form of higher prices. Meanwhile, prices of "other materials" continued to decline as the effects of reduced pharmaceutical prices lingered, and the rate of increase in prices of "electric power, gas & water" declined somewhat since upward pressure of the fuel and gas resource cost adjustment system reflecting past movements in foreign exchange rates has been diminishing.

The year-on-year rate of change in service producer prices (excluding international transportation; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, is in the range of 0.5-1.0 percent (Chart 30).[9,10] The year-on-year rate of increase, on a basis excluding the direct effects of the consumption tax hike, has been expanding since the start of the year, reaching 0.9 percent in May which was the highest level since March 1993. Looking in detail at

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

[9] Service producer prices were previously referred to as corporate services prices.

[10] The base year for service producer prices was rebased from 2005 to 2010. Recent developments show that there isn't a large divergence between the year-on-year rate of change for 2005-base price index and that for 2010-base price index.

service producer prices movements, the year-on-year rate of change in prices related to "selling, general and administrative expenses" has recently been rising as a whole since the year-on-year rate of change in prices in advertising services has followed a positive trend, albeit with fluctuations, mainly on the back of the recovery in corporate profits, and hotel services have marked a relatively large increase, reflecting firm demand for business and sightseeing. The rate of increase in prices related to "fixed investment" has continued to be high, mainly in civil engineering and architectural services, amid firm demand with ties to construction. In a situation where the rate of increase in overland flight transportation fare has continued to mark a moderate increase—which reflects economic recovery—the rate of increase in prices related to "domestic transportation" has expanded since April because prices have also been affected by the abolishment of a discount in some charges in the expressway toll system. Prices of "others" have also marked a somewhat high growth as a whole, as finance and insurance has continued to mark a relatively high growth and the rate of increase in plant engineering has been expanding. Meanwhile, prices of "real estate services" have recently started to bottom out as the rate of decline has been narrowing moderately, albeit with fluctuations.

The year-on-year rate of increase in consumer prices (all items less fresh food; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, is around 1¼ percent (Chart 31[1]).[11] Consumer prices for May, on a basis excluding the direct effects of the consumption tax hike, recorded positive 1.4 percent—which had diminished slightly from the rate of increase of positive 1.5 percent registered in April. Those on a basis that excludes food and energy have also slightly diminished their rate of increase on a year-on-year basis to positive 0.5 percent in May from positive 0.8 percent in April, largely affected by the slowdown in the rate of increase in prices of general services as mentioned later. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has continued to be on a moderate rising trend (Chart 32[2]).[12]

[11] For details on the direct effects of the consumption tax hike (estimates), see BOX in the *Monthly Report of Recent Economic and Financial Developments*, March 2014.

[12] 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.

Looking at recent year-on-year movements in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have recently continued to show a relatively strong development as evidenced by the expansion of the rate of increase in April and by the fact that May was also at the same level as April. Looking in detail, the rate of increase in prices of food products has been expanding steadily due to a continued pass-on of past cost increases in the form of higher prices, while private consumption has remained resilient. In May, in addition to such upward pressure as a trend, the fact that the prices of petroleum products showed a stronger development even compared to movements in crude oil prices contributed to raising the overall rate of change. On the other hand, some items of other goods (daily necessities) diminished their rate of increase, albeit marginally, after prices were raised in April, and the rate of increase in durable goods prices (cellular phones) also diminished in response to the price rise in April 2013; these developments contributed to bringing down the overall rate of change in consumer prices. Prices of general services had been on a moderate expanding trend, albeit with fluctuations, but the rate of increase diminished in May. This is largely attributable to the following factors: (i) the rate of increase in other services diminished, mainly in hotel charges and package tours to overseas—both tend to show large fluctuations—and (ii) the subsequent decline following the increase in May 2013 in some prices of eating out was observed. Meanwhile, the rate of decline in prices of rent—which accounts for a large share—has continued to be about the same extent as before even since April, when price revisions are often made. Fees for public services—which had grown somewhat since the start of the year mainly due to the rise in electricity prices through the fuel cost adjustment system—diminished their rate of increase in May 2014 due to the dissipation of effects of price rises by some electricity power companies in May 2013.

With regard to <u>domestic supply and demand conditions</u> in the June *Tankan* (Chart 33), the supply and demand conditions DI for products and services has continued their improvement trend as a whole, although the net "excess supply" expanded somewhat due to the effects of the subsequent decline in demand following the front-loaded increase. The output prices DI has continued to improve steadily, mainly for nonmanufacturing industries, while movements to pass the past increase in costs onto prices have continued against the background of economic recovery. Especially, for small nonmanufacturing firms, the DI moved into a net "rise" territory in June, being at the highest level since November 1991. Meanwhile, the weighted average of the production capacity DI and employment conditions DI has been improving moderately as a trend, although it has recently been stalling due to the aforementioned seasonal patterns of employment judgment. As for the outlook, the net "insufficient" is expected to expand to the level seen for the first time since May 1992.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer 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 34).

3. Financial Developments

(1) Corporate Finance and Monetary Aggregates

The monetary base (average amounts outstanding) has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been in the range of 40-45 percent (Chart 35).

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 37).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 36). Issuing conditions for CP and corporate bonds have continued to be favorable. 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 38). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative (Chart 39).

Firms' financial positions have improved further (Chart 36). The number of corporate bankruptcies has remained at a low level (Chart 41).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been at around 3 percent. Its June reading was 3.0 percent on a year-on-year basis, following 3.3 percent in May (Chart 40).[13]

(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 all been virtually level (Chart 42). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 43).

Yields on 10-year government bonds (newly issued 10-year JGB) have been declining somewhat, partly since European long-term interest rates have fallen while U.S. long-term interest rates have been at a low level; they are currently moving at around 0.55 percent (Chart 44).

Yield spreads between corporate bonds and government bonds have been narrowing very moderately (Chart 45).

Stock prices have increased, mainly in response to the rise in U.S. stock prices. The Nikkei 225 Stock Average is currently moving at around 15,500 yen (Chart 46).

[13] On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 2.5 percent; its June reading was 2.4 percent, following 2.6 percent in May. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been in the range of 2.5-3.0 percent; it increased by 2.8 percent in June, following an increase of 2.9 percent in May.

In the foreign exchange market, the yen's exchange rate has been more or less flat against the U.S. dollar; the yen is currently moving in the range of 101-102 yen against the U.S. dollar. The yen's exchange rate against the euro has generally been more or less level; the yen is currently moving in the range of 138-139 yen against the euro (Chart 47).

Charts

Main Economic Indicators (1)

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

	2013/Q4	2014/Q1	Q2	2014/Mar.	Apr.	May	Jun.
Index of consumption expenditure level (two-or-more-person households)	-0.1	4.3	n.a.	10.6	-12.1	-5.7	n.a.
Sales at department stores	1.0	9.4	n.a.	22.1	-28.5	8.2	n.a.
Sales at supermarkets	0.1	3.2	n.a.	12.8	-16.8	5.4	n.a.
New passenger-car registrations[3] <s.a., ann. 10,000 units>	< 309>	< 333>	< 264>	< 315>	< 259>	< 266>	< 268>
Sales of household electrical appliances (real, "Current Survey of Commerce")	3.1	14.3	n.a.	25.6	-39.0	4.9	n.a.
Outlays for travel	2.1	0.6	n.a.	2.7	-7.9	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 103>	< 94>	<n.a.>	< 89>	< 91>	< 87>	<n.a.>
Machinery orders[4] (Private sector, exc. volatile orders)	1.9	4.2	n.a.	19.1	-9.1	-19.5	n.a.
Manufacturing	2.0	3.9	n.a.	23.7	-9.4	-18.6	n.a.
Nonmanufacturing[4] (exc. volatile orders)	4.9	-1.0	n.a.	8.5	0.9	-17.8	n.a.
Construction starts (private, nondwelling use)	1.1	-2.5	n.a.	-0.3	-1.4	-5.9	n.a.
Mining & manufacturing	4.4	-3.6	n.a.	-2.6	-15.3	46.5	n.a.
Nonmanufacturing[5]	0.0	-2.2	n.a.	-1.4	2.9	-17.0	n.a.
Value of public works contracted	-3.6	6.6	n.a.	3.0	4.5	17.3	n.a.
Real exports	1.5	-1.0	n.a.	-3.3	1.4	-2.2	n.a.
Real imports	1.6	4.5	n.a.	8.3	-9.8	-2.6	n.a.
Industrial production	1.8	2.9	n.a.	0.7	-2.8	0.7	n.a.
Shipments	2.6	4.6	n.a.	-0.2	-5.0	-1.0	n.a.
Inventories	-1.9	0.2	n.a.	1.4	-0.5	3.0	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 104.1>	< 105.4>	<n.a.>	< 105.4>	< 103.7>	< 107.8>	<n.a.>
Real GDP	0.1	1.6	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.3	1.6	n.a.	1.5	-4.3	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.[1]

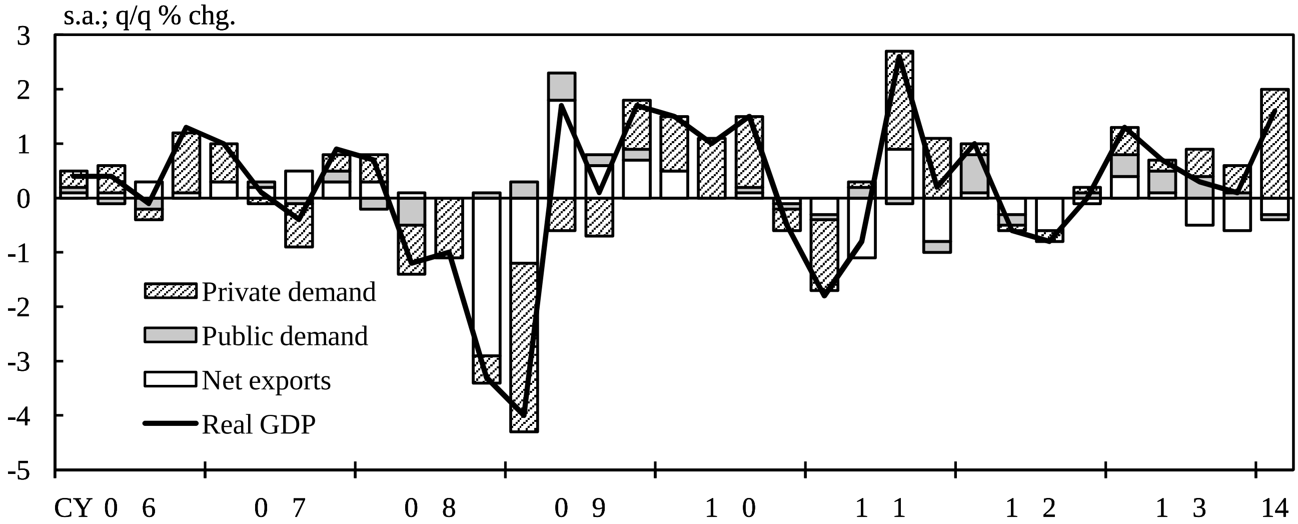
	2013/Q4	2014/Q1	Q2	2014/Mar.	Apr.	May	Jun.
Active job openings-to-applicants ratio <s.a., times>	< 1.01>	< 1.05>	<n.a.>	< 1.07>	< 1.08>	< 1.09>	<n.a.>
Unemployment rate <s.a., %>	< 3.9>	< 3.6>	<n.a.>	< 3.6>	< 3.6>	< 3.5>	<n.a.>
Non-scheduled hours worked[6]	6.0	7.1	n.a.	8.4	6.4	p 4.9	n.a.
Number of employees	1.2	0.8	n.a.	1.0	0.3	0.7	n.a.
Number of regular employees[6]	1.1	1.2	n.a.	1.2	1.4	p 1.4	n.a.
Nominal wages per person[6]	0.4	0.1	n.a.	0.7	0.7	p 0.8	n.a.
Producer price index[10]	2.5	1.9	p 4.4	1.7	4.2	4.4	p 4.6
<excluding consumption tax, y/y % chg.>			<p 1.6>		< 1.5>	< 1.6>	<p 1.7>
<excluding consumption tax, q/q % chg., 3-month rate of change>[7]	< 0.4>	< 0.2>	<p 0.4>	< 0.0>	< 0.1>	< 0.4>	<p 0.5>
Consumer price index[8]	1.1	1.3	n.a.	1.3	3.2	3.4	n.a.
<consumption tax adjusted, y/y % chg.>			<n.a.>		< 1.5>	< 1.4>	<n.a.>
Services producer price index[9,10,11]	0.1	0.2	n.a.	0.4	3.4	p 3.6	n.a.
<excluding consumption tax, y/y % chg.>			<n.a.>		< 0.7>	<p 0.9>	<n.a.>
Money stock (M2) <average outstanding, y/y % chg.>	4.2	4.0	p 3.2	3.6	3.5	3.3	p 3.0
Number of corporate bankruptcies <cases per month>	<857>	<820>	<871>	<814>	<914>	<834>	<865>

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.
10. "Corporate Services Price Index" and "Domestic Corporate Goods Price Index" have been renamed "Services Producer Price Index" and "Producer Price Index," respectively.
11. Data have been revised to the 2010 base.

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," "Services Producer 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



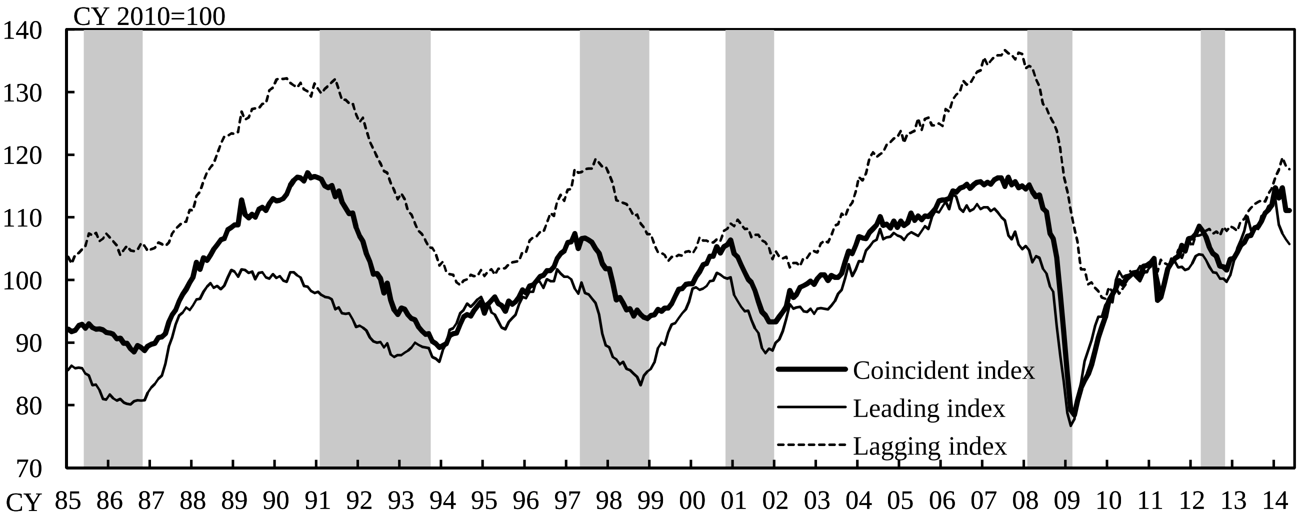
(2) Components

s.a.; q/q % chg.

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Real GDP	1.3	0.7	0.3	0.1	1.6
[Annual rate]	[5.3]	[2.9]	[1.3]	[0.3]	[6.7]
Domestic demand	0.9	0.6	0.8	0.6	1.9
Private demand	0.5	0.2	0.5	0.5	2.0
Private consumption	0.6	0.4	0.1	0.2	1.4
Non-Resi. investment	-0.3	0.1	0.1	0.2	1.1
Residential investment	0.1	0.0	0.1	0.1	0.1
Private inventory	0.1	-0.4	0.1	-0.1	-0.5
Public demand	0.4	0.4	0.4	0.1	-0.1
Public investment	0.2	0.3	0.3	0.1	-0.1
Net exports of goods and services	0.4	0.1	-0.5	-0.6	-0.3
Exports	0.6	0.4	-0.1	0.1	1.0
Imports	-0.2	-0.3	-0.4	-0.6	-1.2
Nominal GDP	0.9	0.6	0.2	0.2	1.4

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

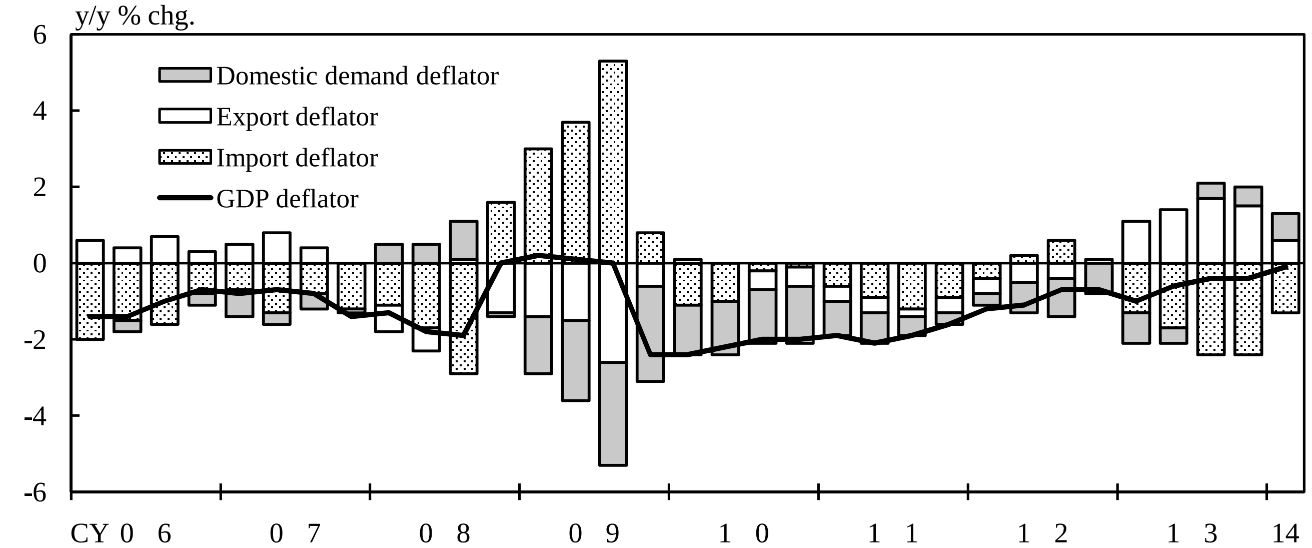
(3) Indexes of Business Conditions (Composite Indexes)



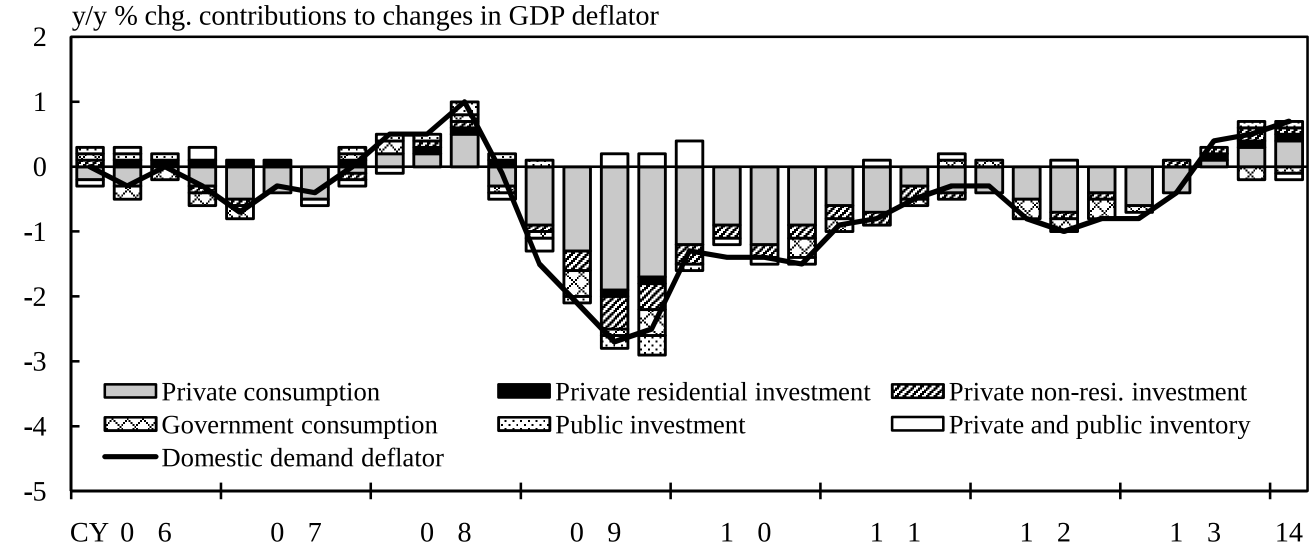
Note: Shaded areas indicate recession periods.
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

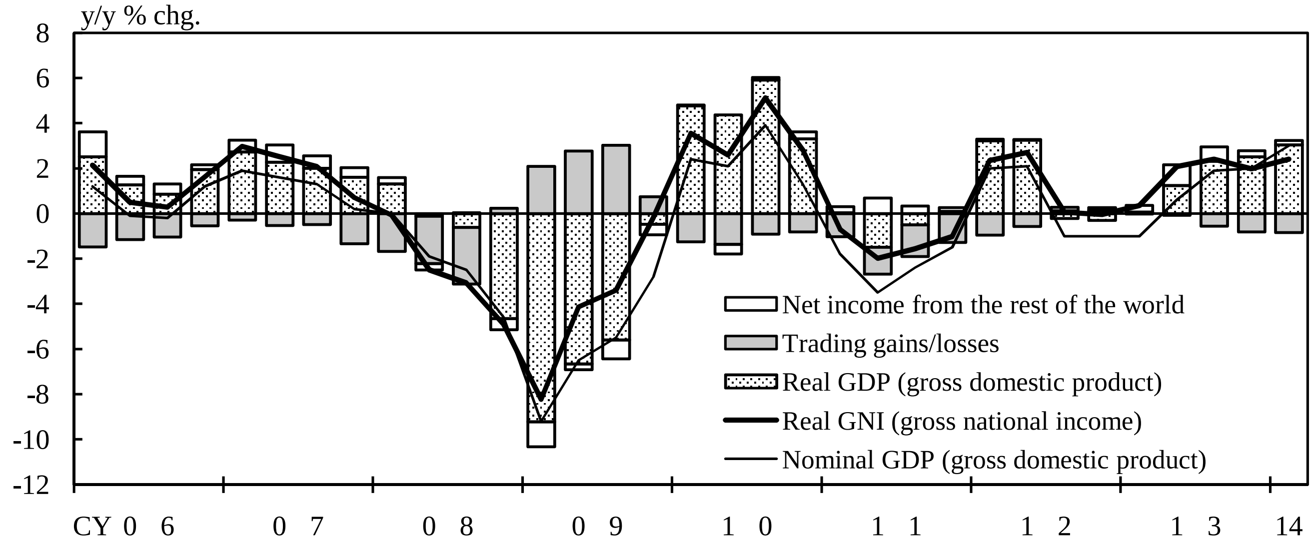
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation

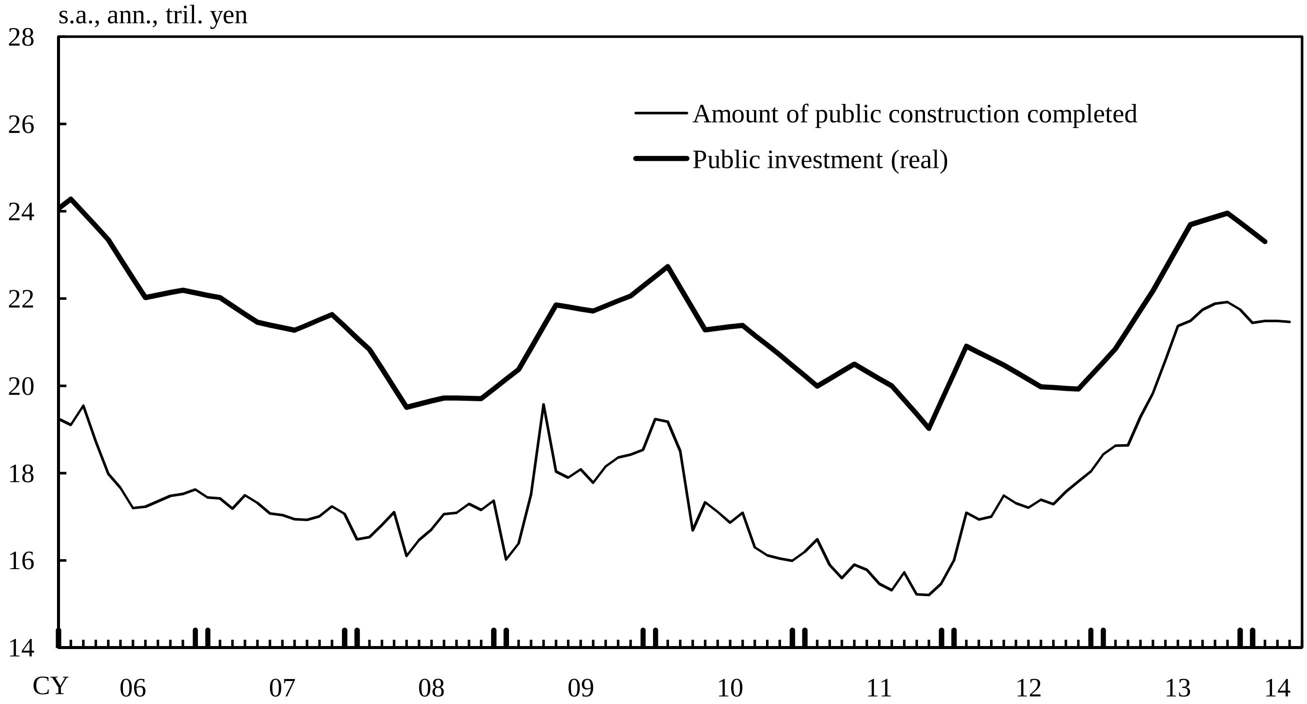


Notes: 1. Figures of components indicate contributions to changes in real GNI.
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

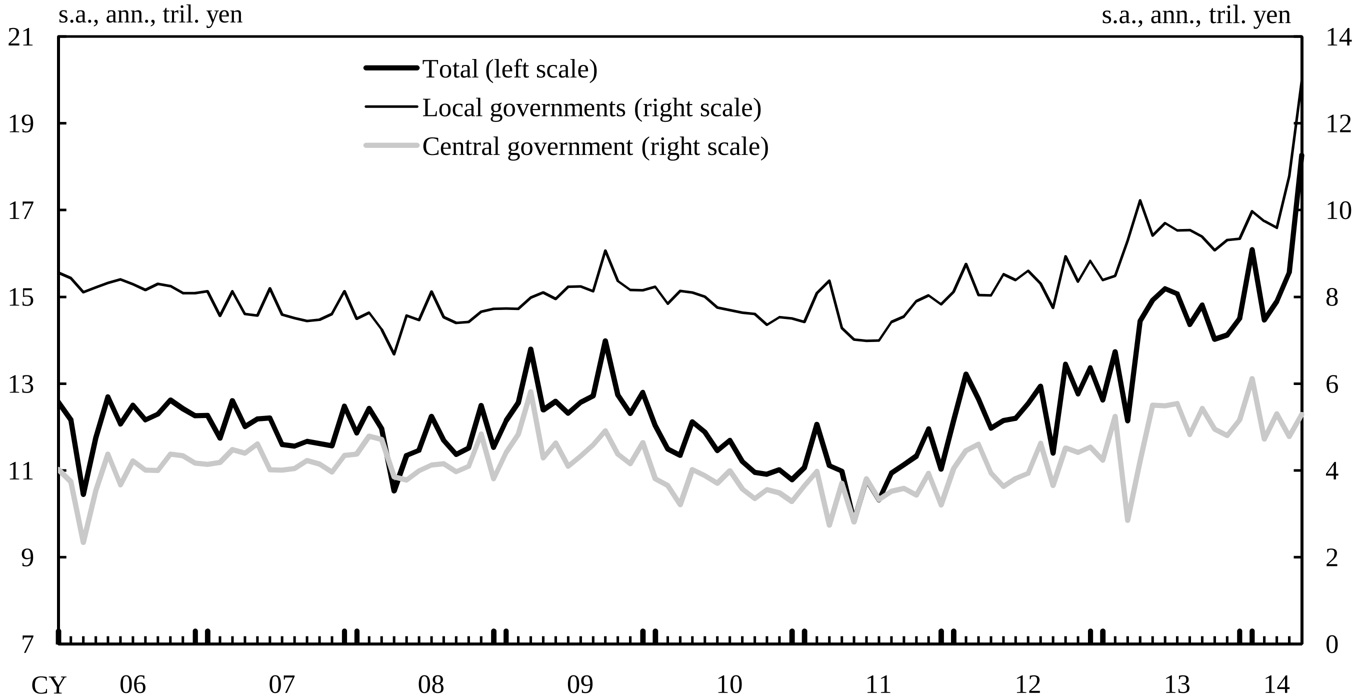
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

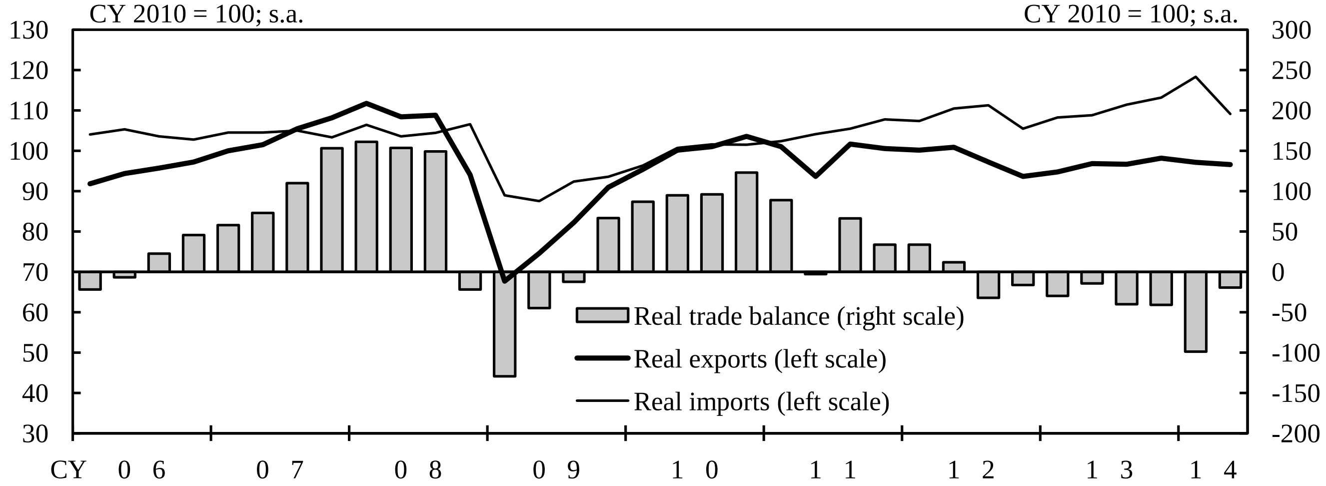


Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."
3. Figures of the value of public works contracted and the amount of public construction completed are seasonally adjusted by X-12-ARIMA. As figures of the amount of public construction completed are seasonally adjusted on a monthly basis, the data are retroactively revised every month.

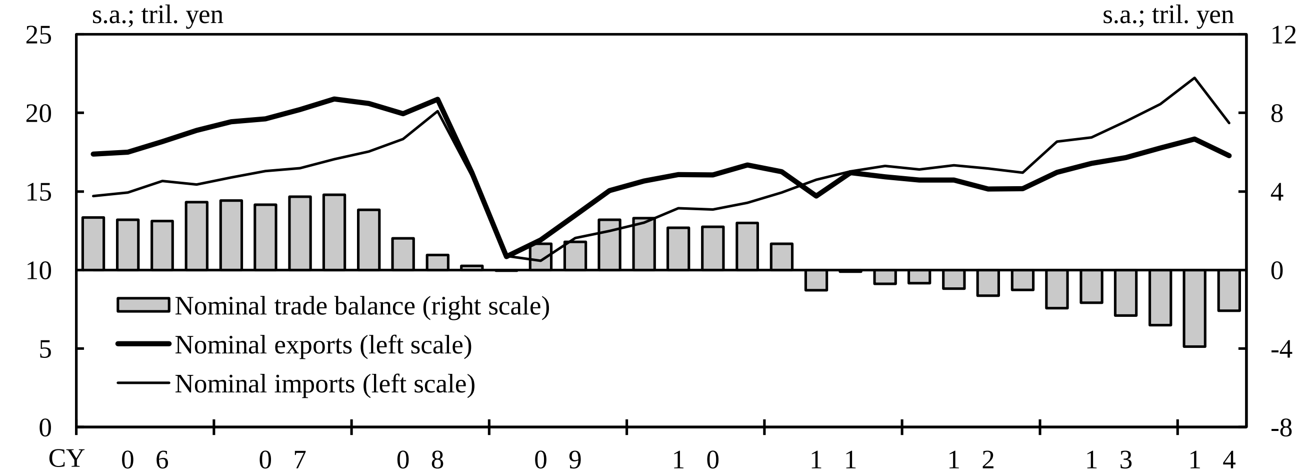
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance[1]

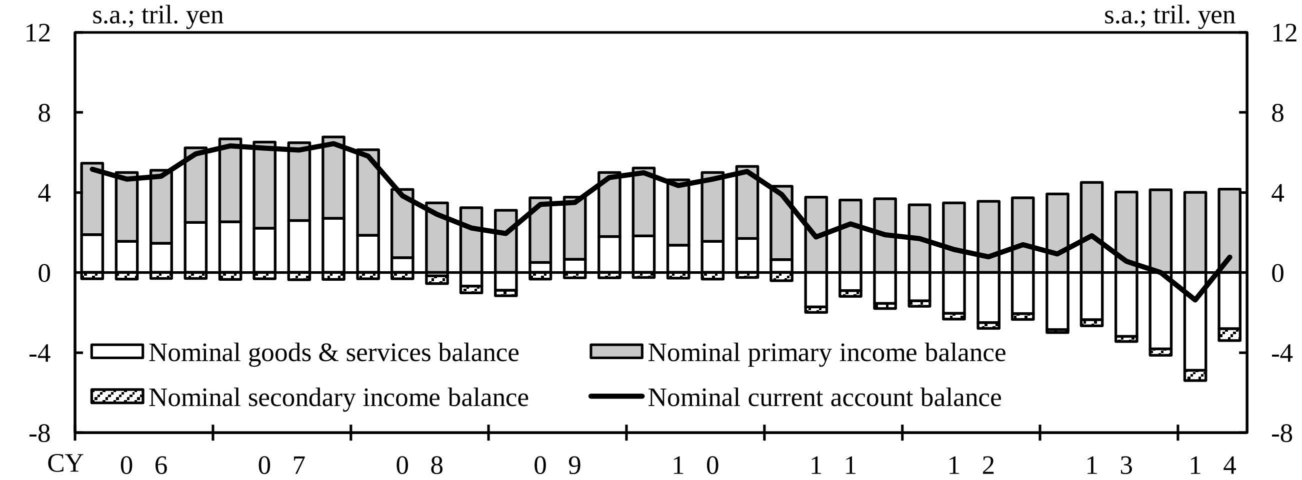
(1) Real Exports, Real Imports, and Real Trade Balance[2]



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



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



Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q2 figures are April-May averages converted into quarterly amount.
2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." "Real trade balance" is defined as real exports minus real imports.
3. Figures are based on the "Balance of Payments."

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

Real Exports [1]

(1) Breakdown by Region

		CY 2012	CY 2013	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar.	2014 Apr.	2014 May
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
United States	<18.5>	13.0	2.7	4.7	-0.8	-0.4	0.9	-1.7	0.7	1.2	-3.9
EU	<10.0>	-13.0	-3.7	0.7	6.3	2.2	0.6	-0.5	-0.3	-1.0	2.6
East Asia	<50.9>	-2.6	-3.0	2.8	-1.3	2.5	-1.5	-1.5	-5.1	-0.2	-0.6
China	<18.1>	-8.1	-1.7	5.8	2.4	5.7	-3.9	-0.9	-8.8	1.8	0.4
NIEs	<21.9>	-4.7	-1.0	2.7	-2.8	1.1	1.0	-2.7	-4.6	-2.3	-0.5
Korea	<7.9>	-3.5	0.4	0.3	-0.3	-3.1	0.4	-6.4	-6.4	-4.7	0.6
Taiwan	<5.8>	-6.0	-1.5	-1.6	-5.1	4.8	0.5	-0.1	-2.6	1.3	-1.5
Hong Kong	<5.2>	-0.7	-1.4	7.1	-1.0	-2.3	2.2	5.5	-2.5	0.0	2.8
Singapore	<2.9>	-11.6	-2.8	9.4	-9.3	10.6	4.0	-10.3	-8.9	-3.7	-9.3
ASEAN4 [3]	<10.9>	12.5	-8.5	-1.6	-4.5	-0.0	-2.1	0.2	1.1	1.0	-2.5
Thailand	<5.0>	19.3	-9.3	-0.7	-7.0	-4.2	-1.9	0.9	0.2	0.9	0.6
Others	<20.6>	1.7	-5.0	0.1	-0.8	-2.0	0.2	2.4	-2.5	4.4	-3.4
Real exports		-1.0	-1.9	2.1	-0.1	1.5	-1.0	-0.6	-3.3	1.4	-2.2

(2) Breakdown by Goods

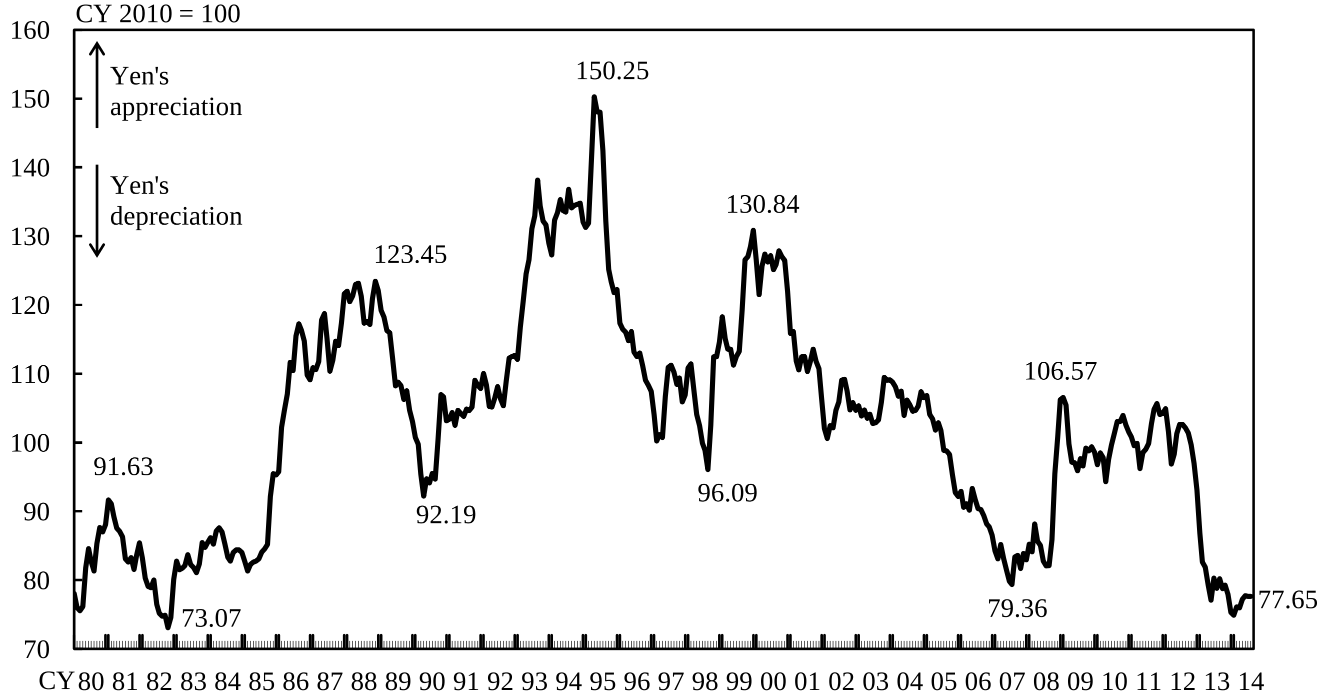
		CY 2012	CY 2013	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar.	2014 Apr.	2014 May
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
Intermediate goods	<21.1>	-0.7	1.2	1.7	-0.1	-0.1	1.1	-2.2	-3.0	-1.1	0.3
Motor vehicles and their related goods	<23.9>	7.7	-1.4	4.6	2.4	-0.2	-4.6	-1.3	-0.3	0.4	-3.6
IT-related goods [4]	<10.6>	3.6	-7.5	-0.2	0.2	1.9	-0.6	1.3	-4.9	2.0	1.7
Capital goods and parts [5]	<27.5>	-4.0	-5.8	0.1	1.6	2.3	-1.8	0.7	-4.6	1.4	-0.3
Real exports		-1.0	-1.9	2.1	-0.1	1.5	-1.0	-0.6	-3.3	1.4	-2.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q2 figures are April-May averages converted into quarterly amount.
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 June and July (up to July 11) 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 Q2	Q3	Q4	2014 Q1
United States[1]	1.8	2.8	1.9	2.5	4.1	2.6	-2.9
European Union[2]	1.6	-0.4	0.1	1.6	1.1	1.7	1.3
Germany[1]	3.3	0.7	0.4	2.9	1.3	1.5	3.3
France[1]	2.1	0.4	0.4	2.4	-0.2	0.7	0.2
United Kingdom[1]	1.1	0.3	1.7	2.7	3.4	2.6	3.3
East Asia[3]	5.9	4.9	4.9	5.3	5.7	5.5	2.7
China[1]	9.3	7.7	7.7	7.4	9.5	7.0	5.7
NIEs[1,3]	4.4	1.9	2.9	4.4	2.4	5.1	2.3
ASEAN4[1,3,4]	3.0	6.3	4.4	3.6	5.9	3.9	-1.7
Main economies[3]	4.5	3.7	3.6	4.2	4.8	4.4	1.2

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	CY 2013	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar.	2014 Apr.	2014 May
United States	<8.4>	3.8	-2.1	3.0	3.8	-0.2	5.8	-8.8	-2.8	-7.3	2.6
EU	<9.4>	4.0	0.8	-0.7	4.8	-0.2	5.6	-5.1	0.4	-5.9	-1.6
East Asia	<40.8>	3.9	2.5	-0.6	3.1	3.1	5.3	-8.1	7.0	-8.2	-5.0
China	<21.7>	5.0	5.4	0.1	4.2	3.0	5.7	-9.6	11.3	-9.9	-6.5
NIEs	<8.2>	5.0	-0.4	-4.6	6.2	0.9	5.7	-6.2	5.5	-5.6	-5.0
Korea	<4.3>	4.3	-4.8	-6.5	5.0	1.3	2.1	-5.6	0.5	-7.4	4.1
Taiwan	<2.8>	7.2	8.0	4.8	3.5	-0.1	8.4	-7.0	7.4	-4.6	-9.1
Hong Kong	<0.2>	-2.5	9.2	-7.6	9.2	1.9	0.6	8.6	37.7	-10.9	9.0
Singapore	<0.9>	3.0	-7.0	-13.0	12.6	0.4	13.9	-7.8	12.1	-2.8	-14.7
ASEAN4 [3]	<10.8>	0.5	-1.2	1.0	-2.0	5.4	3.9	-6.2	-1.1	-6.0	-1.3
Thailand	<2.6>	-0.9	1.6	1.1	-0.8	3.3	7.2	-7.1	-1.5	-3.1	-7.1
Others	<41.4>	4.7	0.2	1.5	0.4	-0.6	4.6	-8.6	12.0	-13.3	-2.8
Real imports		4.2	0.9	0.5	2.4	1.6	4.5	-7.8	8.3	-9.8	-2.6

(2) Breakdown by Goods

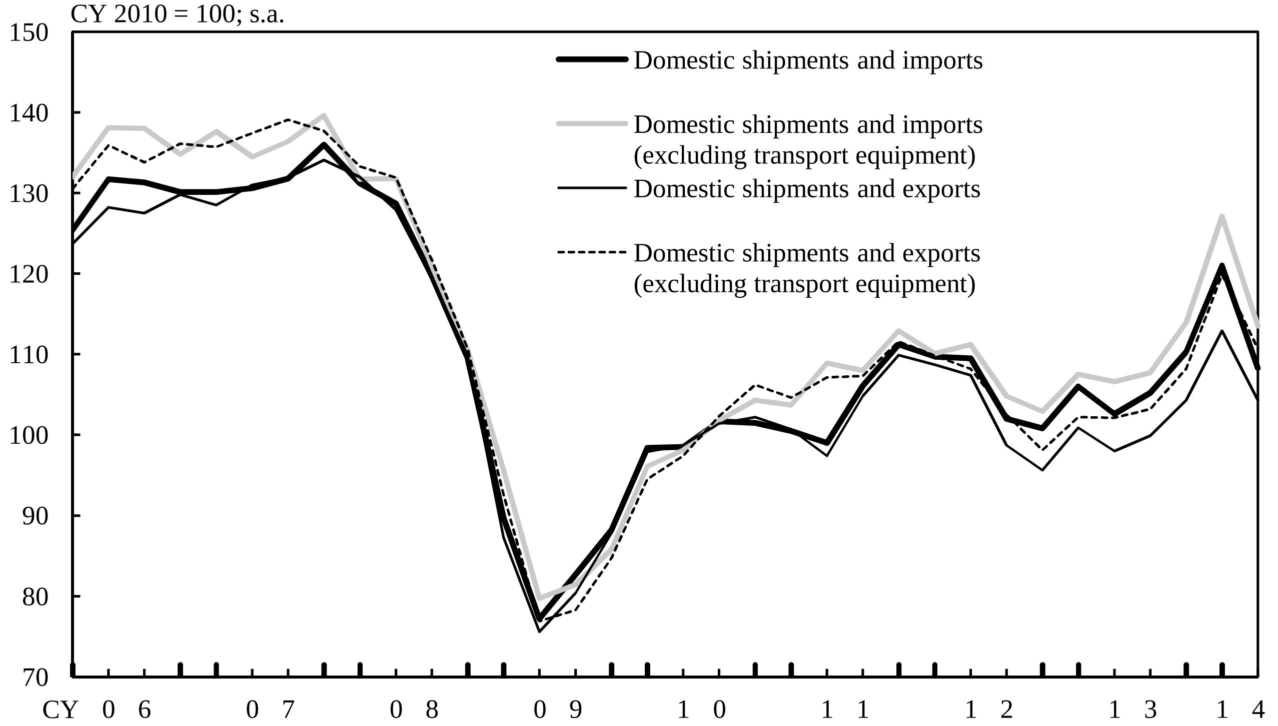
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	CY 2013	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar.	2014 Apr.	2014 May
Raw materials [4]	<40.4>	4.5	-2.0	-0.7	0.2	-0.7	5.0	-9.4	10.4	-14.2	-1.3
Intermediate goods	<12.9>	-2.7	-2.7	-1.3	2.8	0.8	5.6	-1.9	8.1	-4.5	-3.3
Foodstuffs	<8.0>	-0.7	-3.2	-5.0	3.3	0.7	-1.2	-3.6	3.1	-4.7	4.0
Consumer goods [5]	<7.9>	4.5	4.1	3.4	2.4	1.1	2.2	-9.9	-1.4	-8.0	-0.8
IT-related goods [6]	<12.6>	9.0	12.9	3.0	4.8	4.7	6.8	-11.9	8.8	-10.8	-10.6
Capital goods and parts [7]	<11.4>	10.4	4.7	4.3	5.3	2.6	7.2	-8.3	3.2	-8.3	-0.6
Excluding aircraft	<10.5>	7.0	5.3	4.3	4.8	2.7	8.5	-8.0	4.1	-9.5	0.7
Real imports		4.2	0.9	0.5	2.4	1.6	4.5	-7.8	8.3	-9.8	-2.6

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q2 figures are April-May averages converted into quarterly amount.
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."

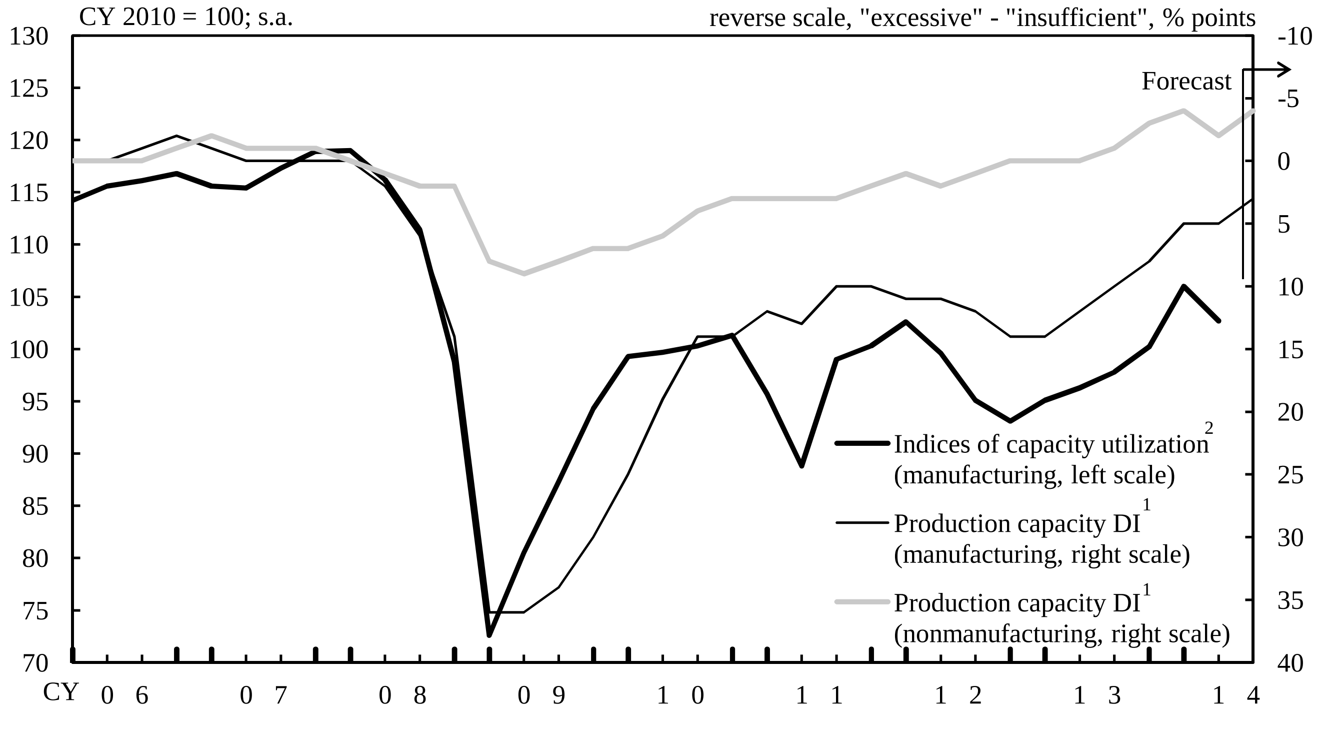
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2014/Q2 are April-May averages.

(2) Indices of Capacity Utilization and Production Capacity DI



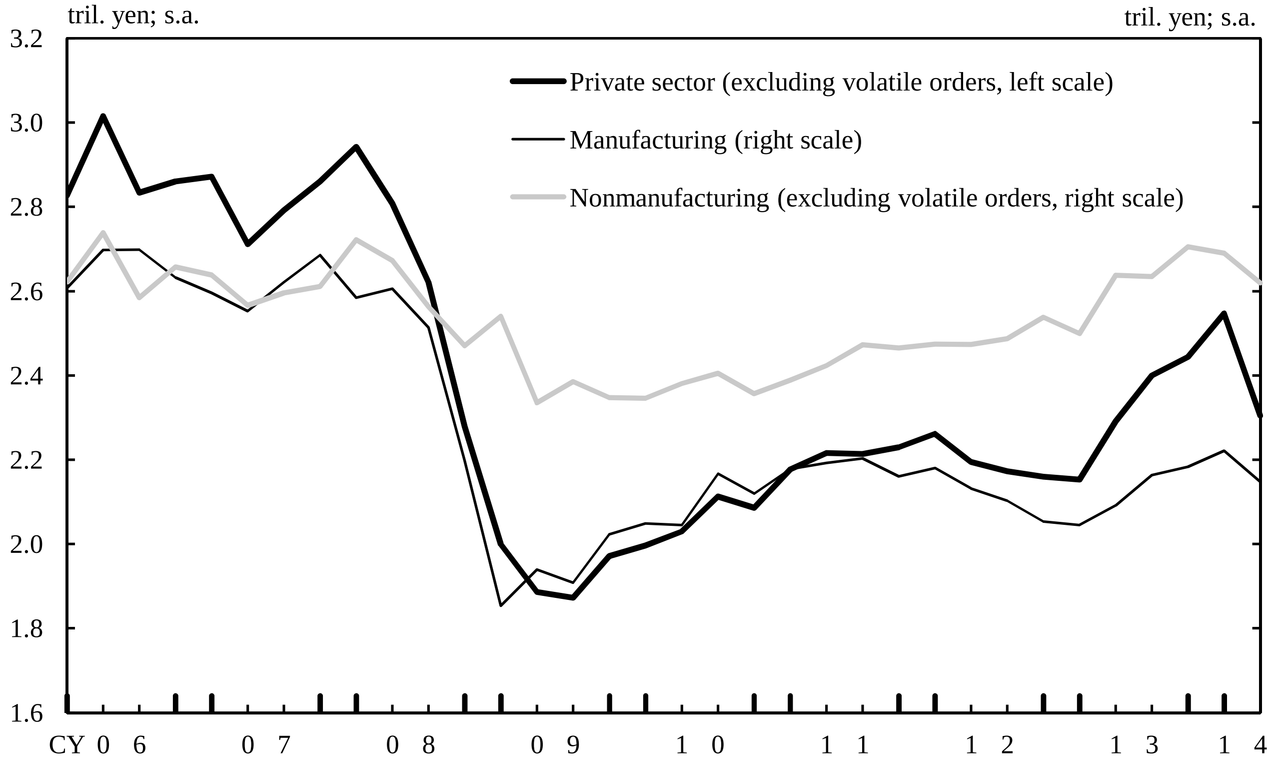
Notes: 1. Production capacity DIs are those of all enterprises.
2. The figure for 2014/Q2 is the average of April-May .

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."

Chart 11

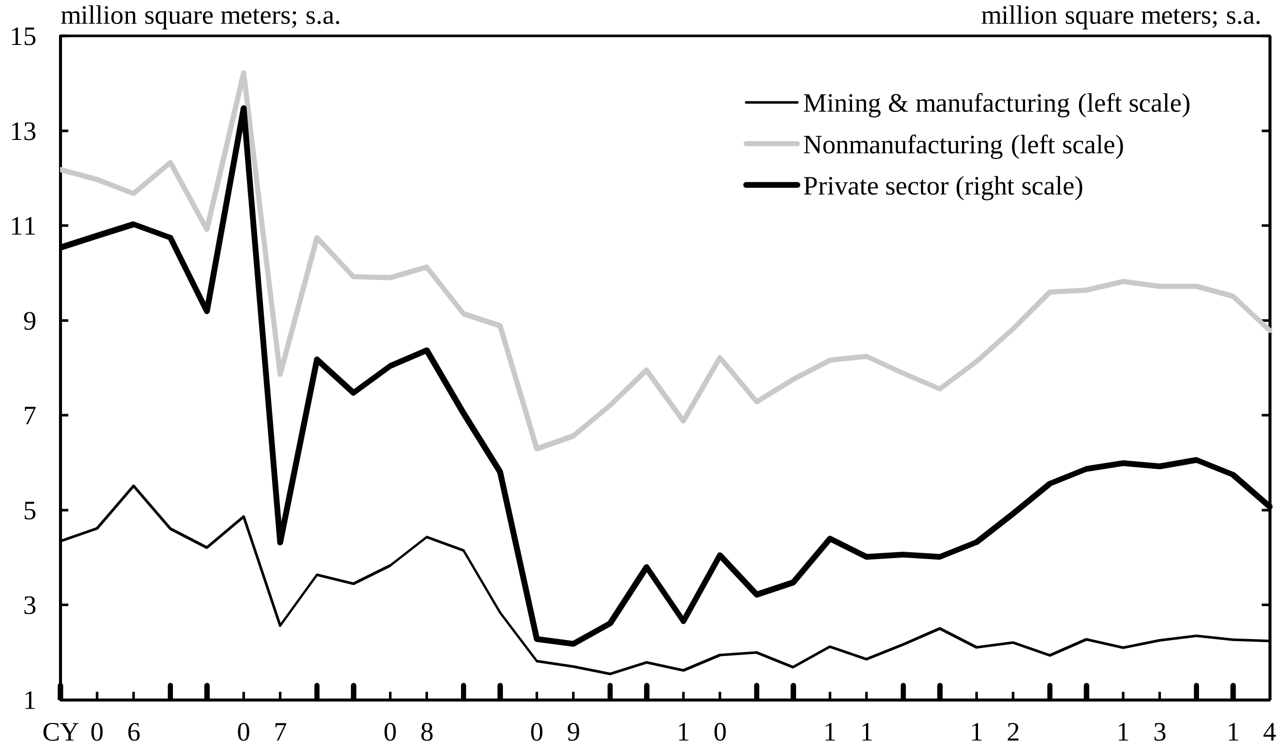
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Volatile orders: Orders for ships and those from electric power companies.
2. Figures for 2014/Q2 are April-May averages in quarterly amount.

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

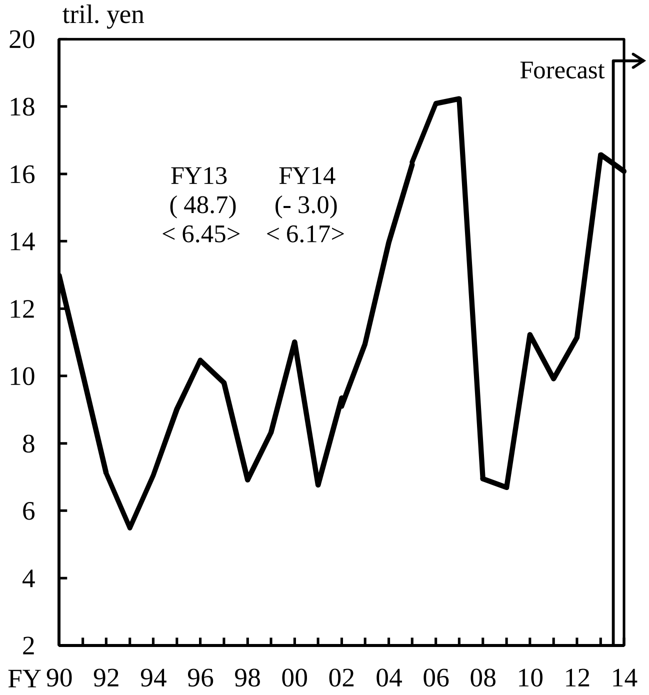


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2014/Q2 are April-May averages in quarterly amount.

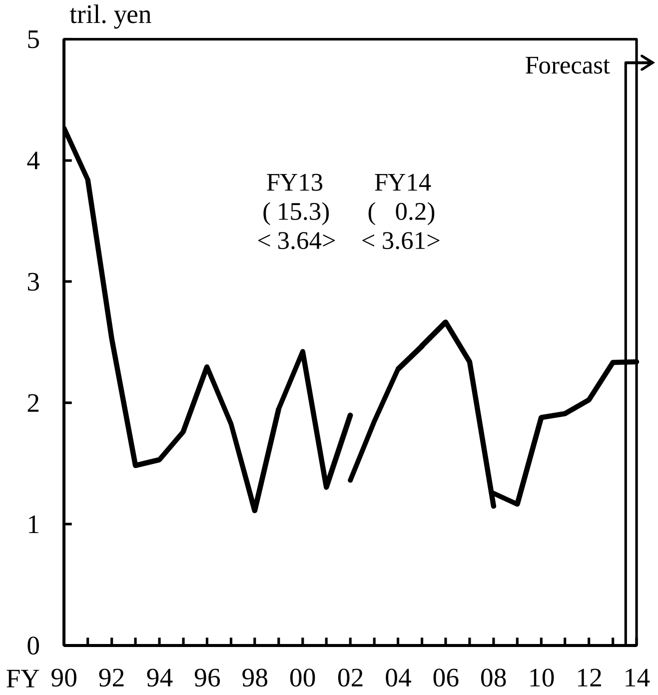
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

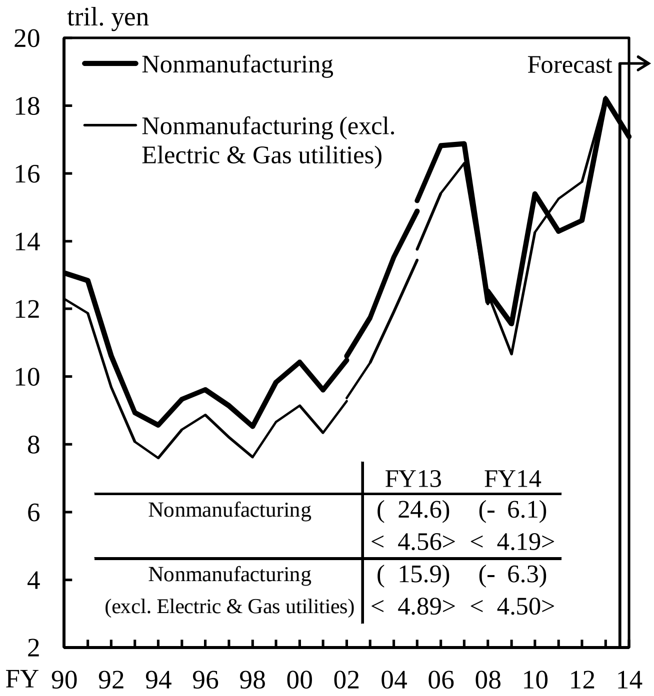
(1) Large Manufacturing Enterprises



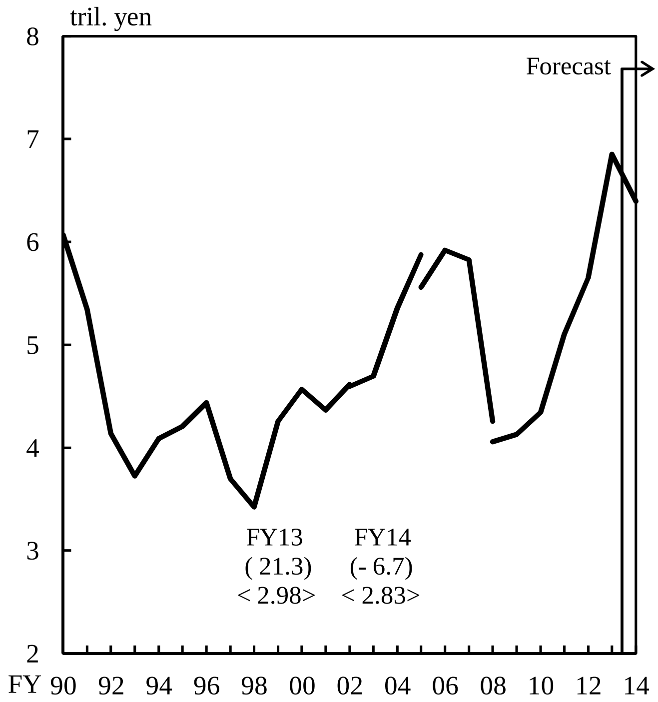
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



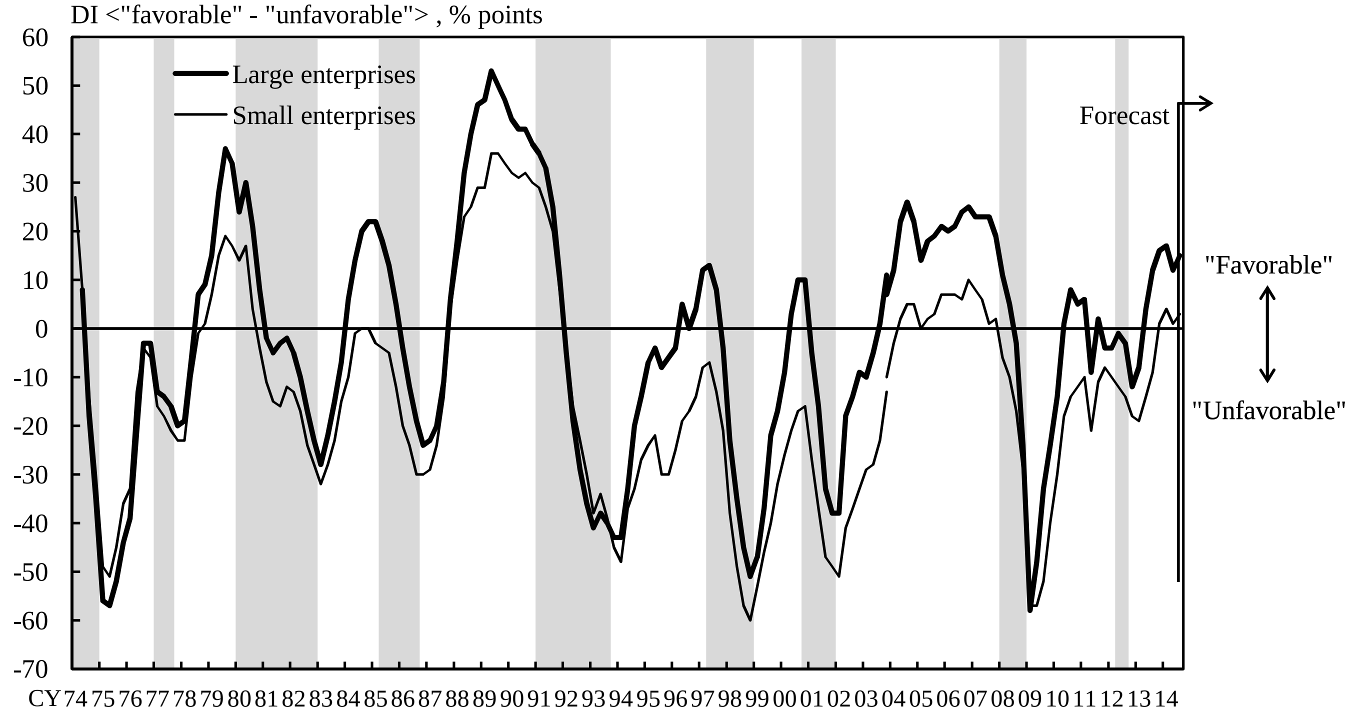
Notes: 1. ( ): Current profits (y/y % chg.); < >: Ratio of current profit to sales (%).

2. In the March 2004 survey, the "Tankan" underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 and March 2010 surveys, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

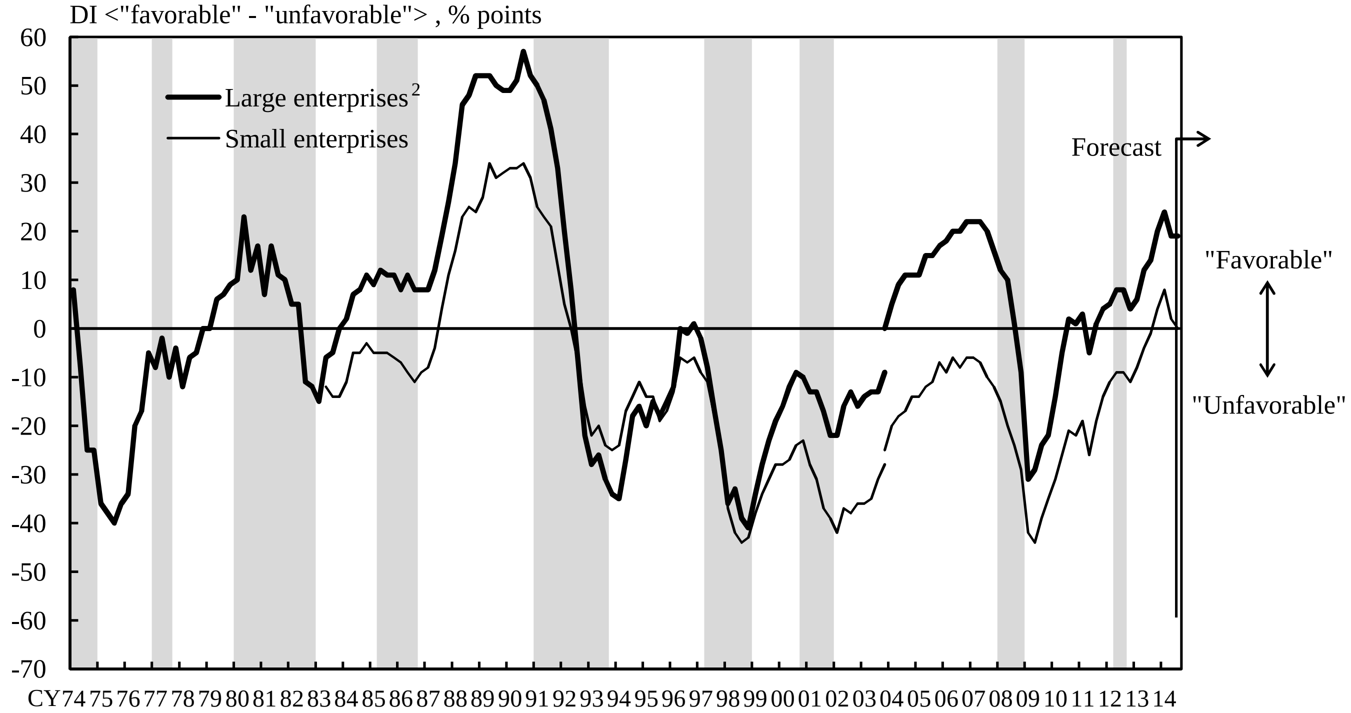
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing

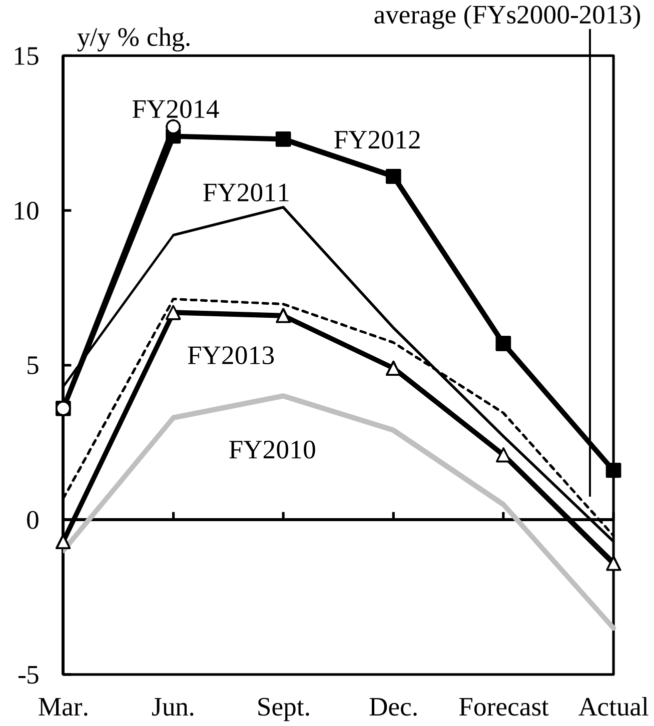


Notes: 1. The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.
2. Data prior to February 1983 are those of principal enterprises.
3. Shaded areas indicate recession periods.

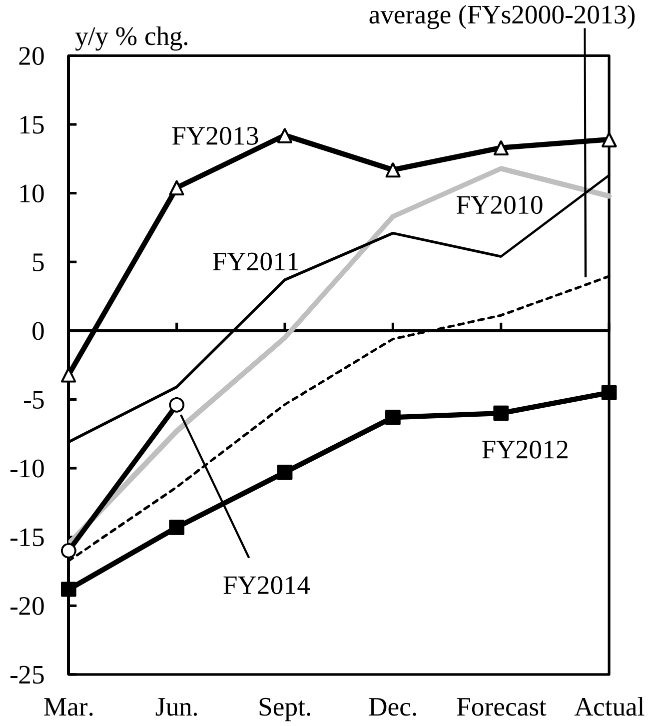
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

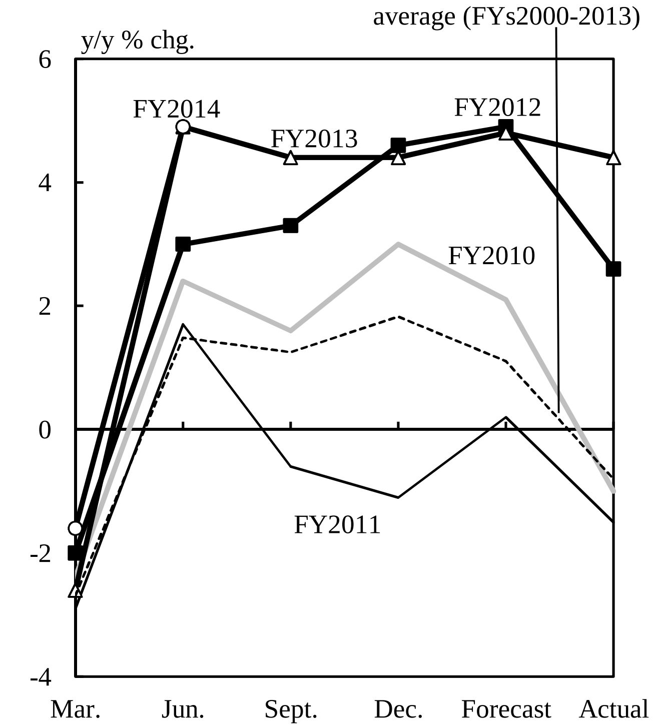
(1) Large Manufacturing Enterprises



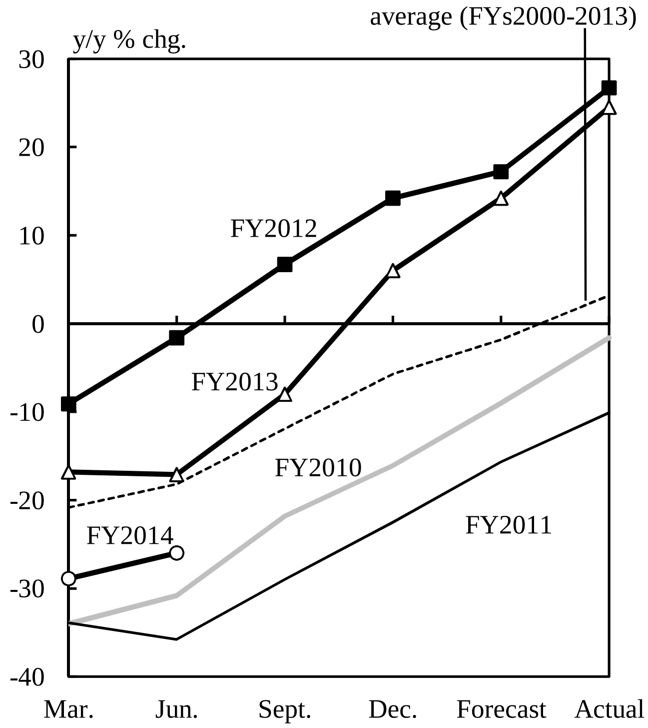
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises

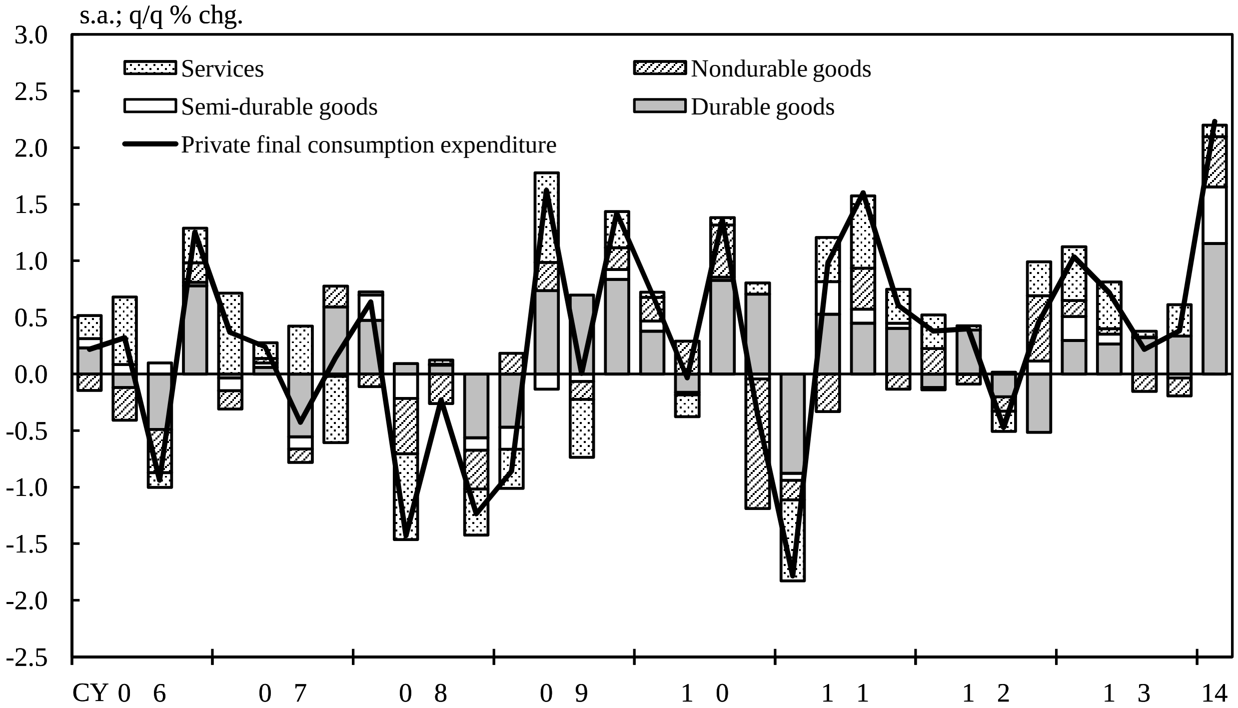


Notes: 1. Includes land purchasing expenses and excludes software investment.
2. Since the introduction of the new accounting standard for lease transactions beginning April 1, 2008, figures up to FY2008 are based on the previous standard and figures from FY2009 onward are based on the new standard. Past averages (FYs 2000-2013) are calculated using these figures.

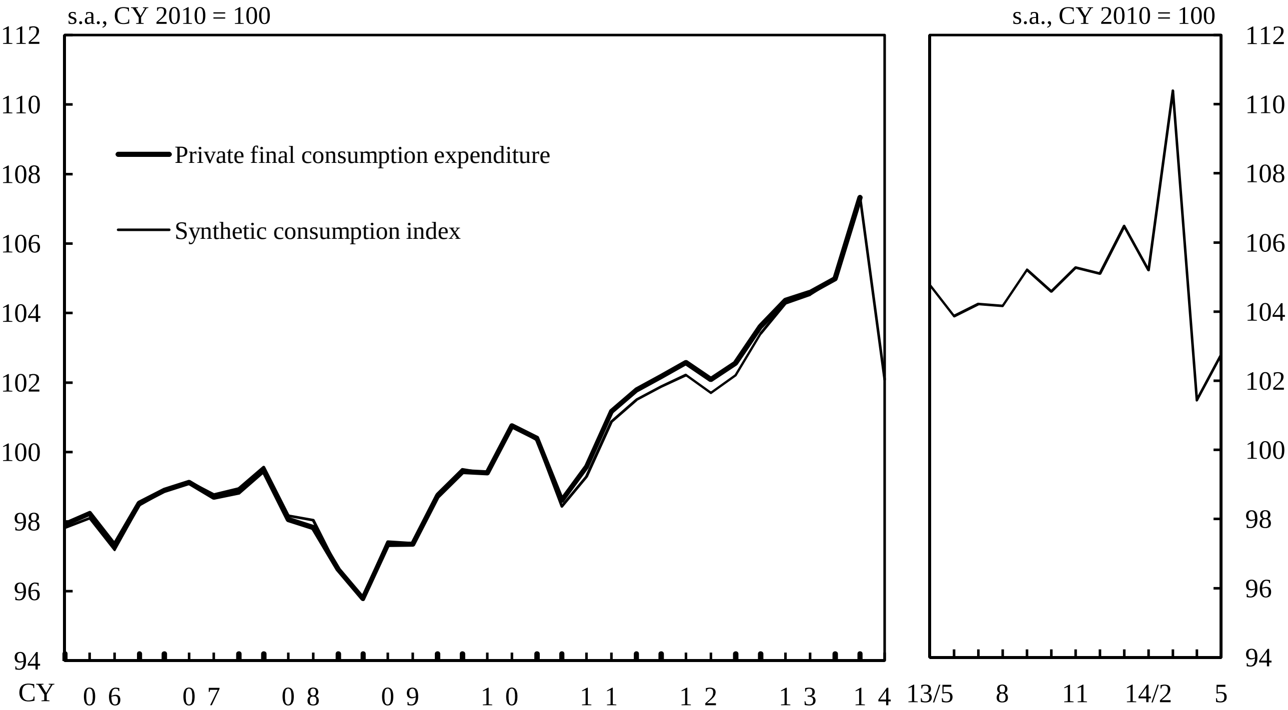
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Indicators of Private Consumption (1)

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



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

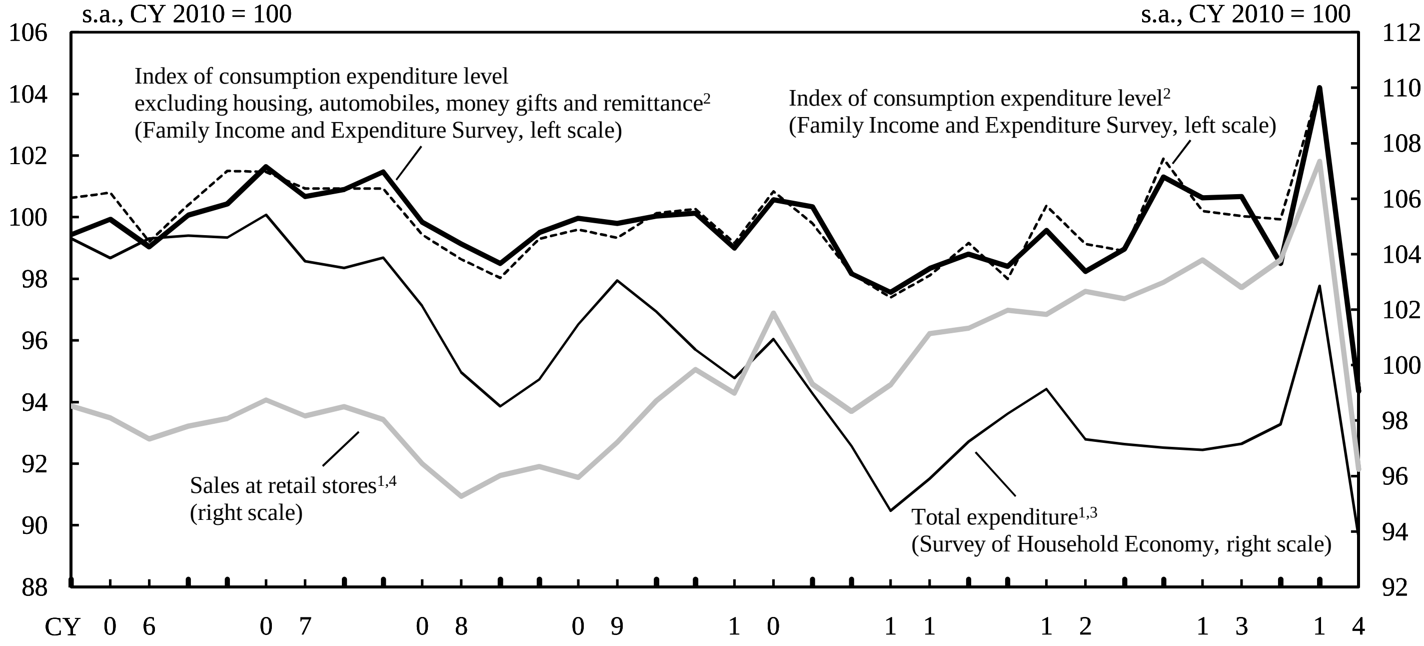


Note: The figure of the synthetic consumption index for 2014/Q2 is the average of April-May in quarterly amount.

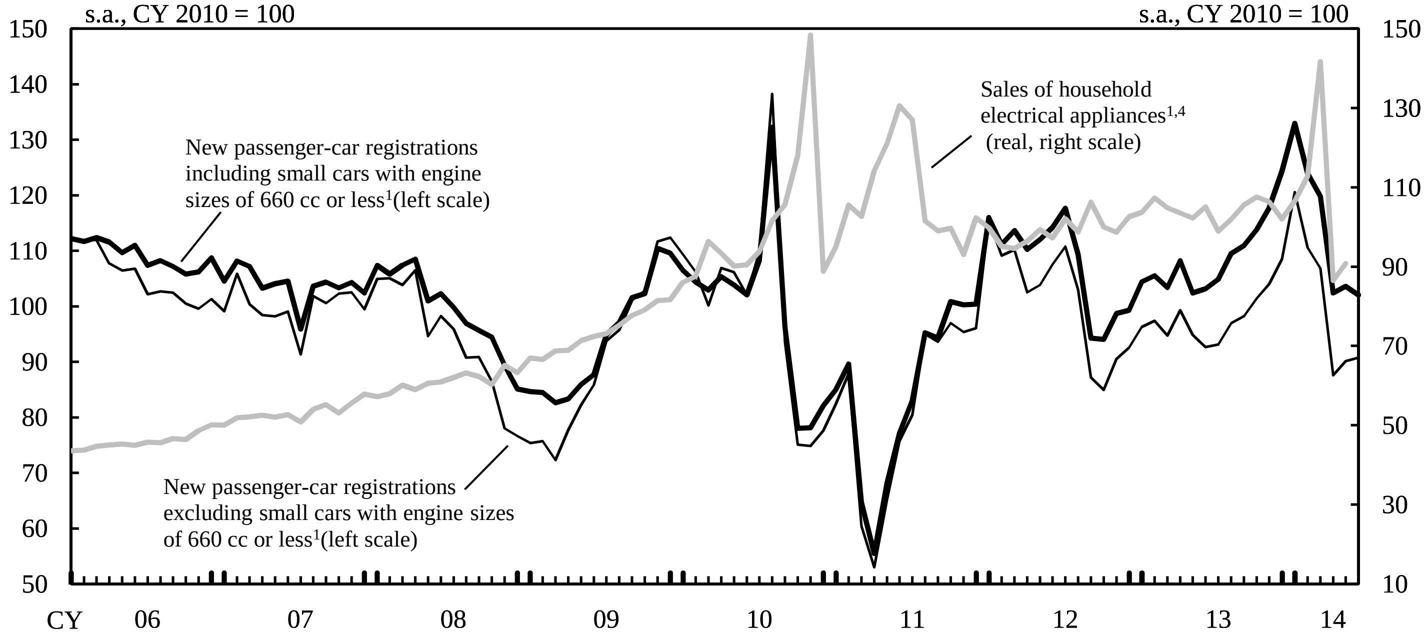
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)[5]



(2) Sales of Durable Goods

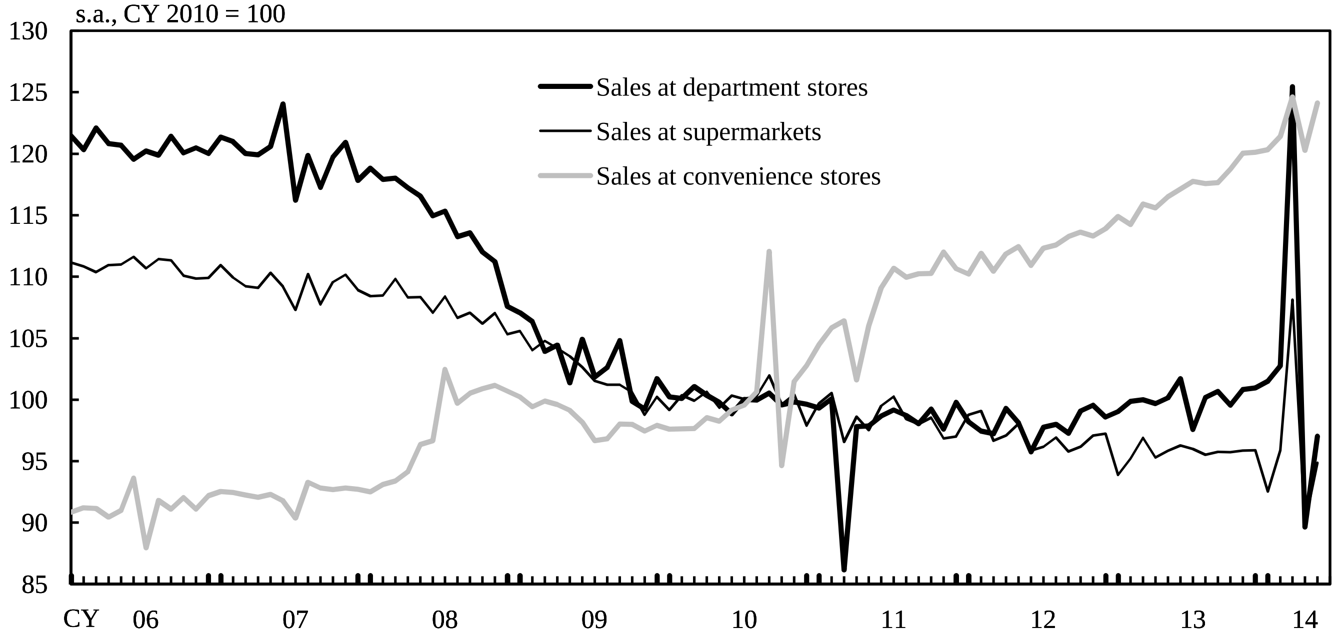


Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household by number of household members and age group of household head.
3. "Total expenditure" is based on two-or-more-person households, and is deflated by the "consumer price index (CPI)" excluding imputed rent.
4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges).
"Sales of household electrical appliances" is calculated as follows: indices of retail sales of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.
5. Figures for 2014/Q2 are those of April-May averages in quarterly amount.

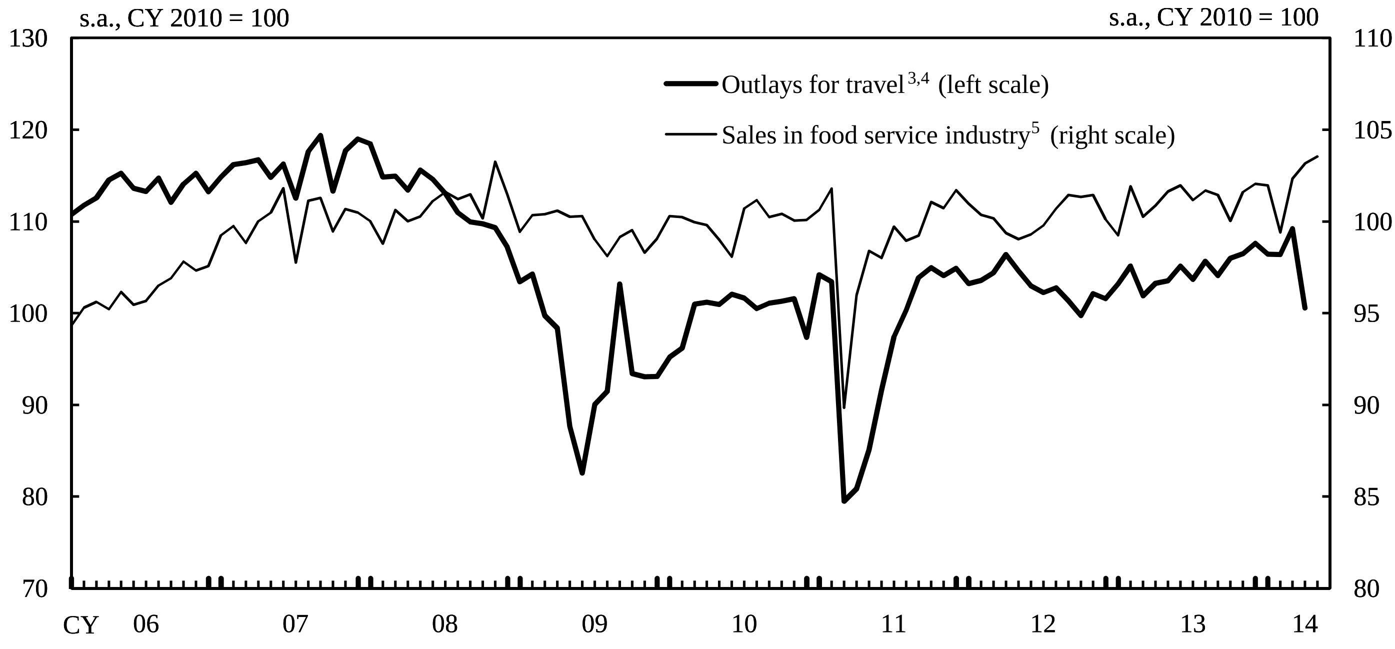
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index,"
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of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

Indicators of Private Consumption[1] (3)

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



(2) Consumption of Services (Nominal)

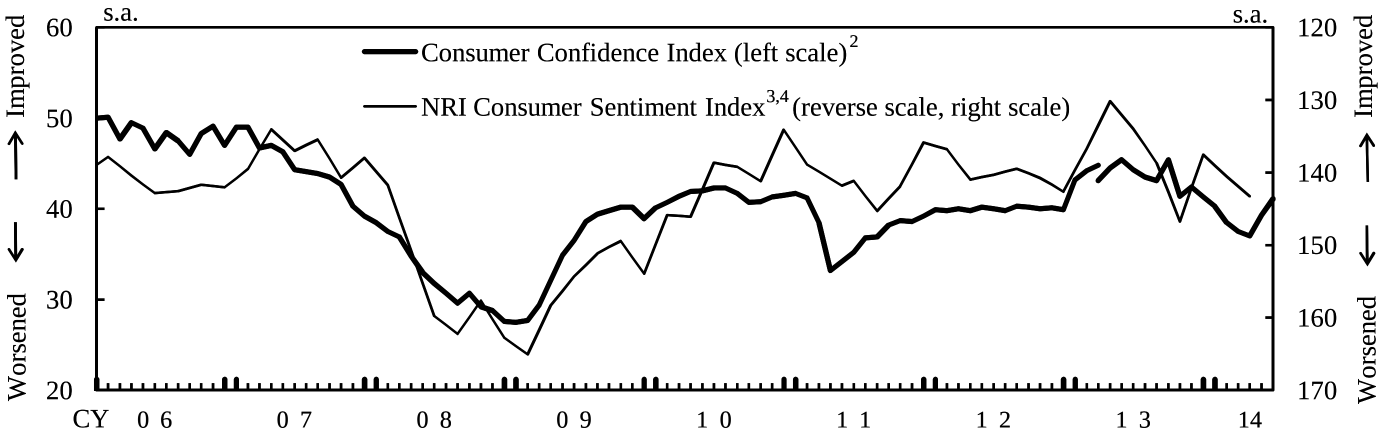


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).
3. Excluding those by foreign travelers.
4. There are discontinuities in the underlying data as of April 2007, April 2010 and April 2014 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.
5. "Sales in food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

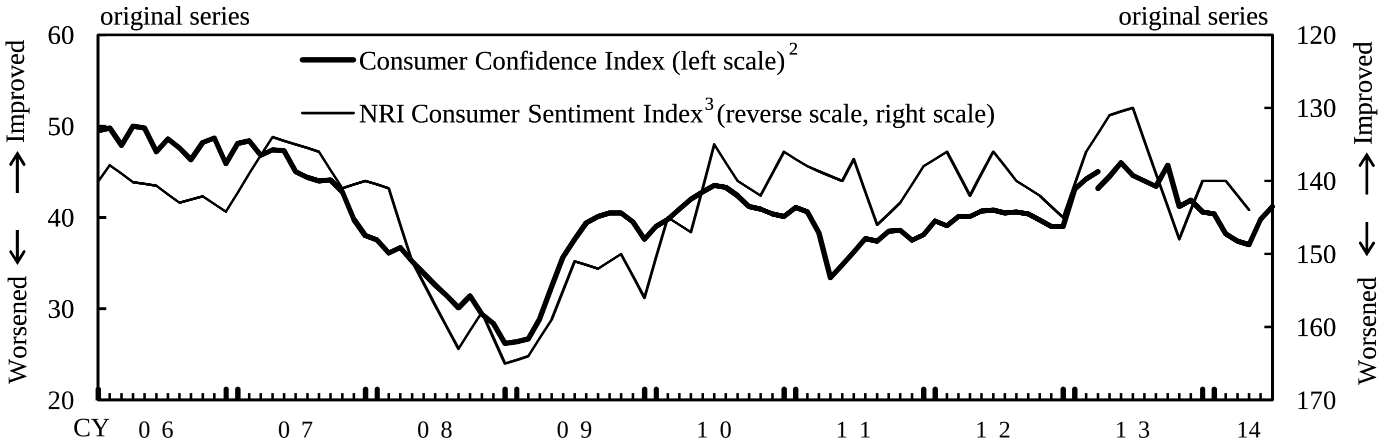
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Tourism Agency, "Major Travel Agents' Revenue";
Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey of food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou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

Consumer Confidence[1]

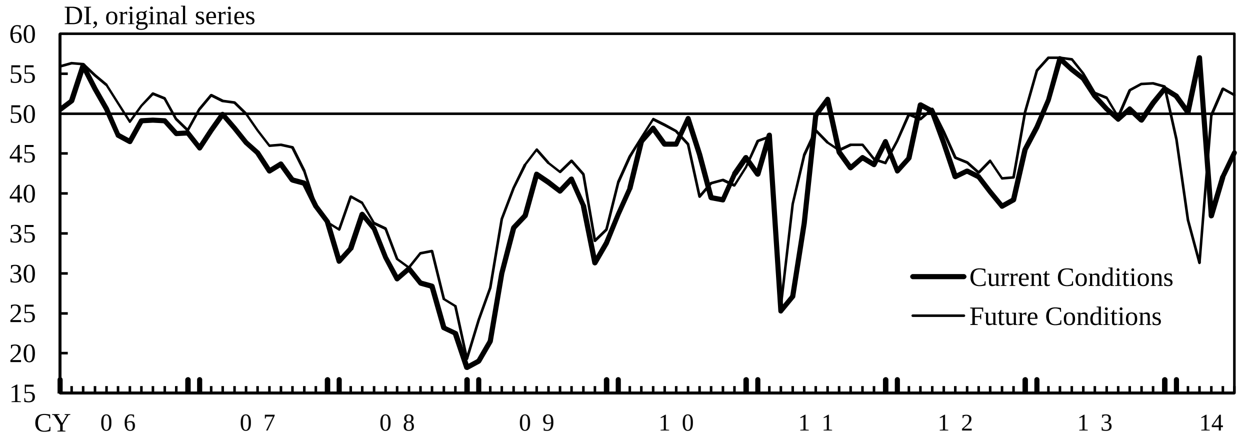
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

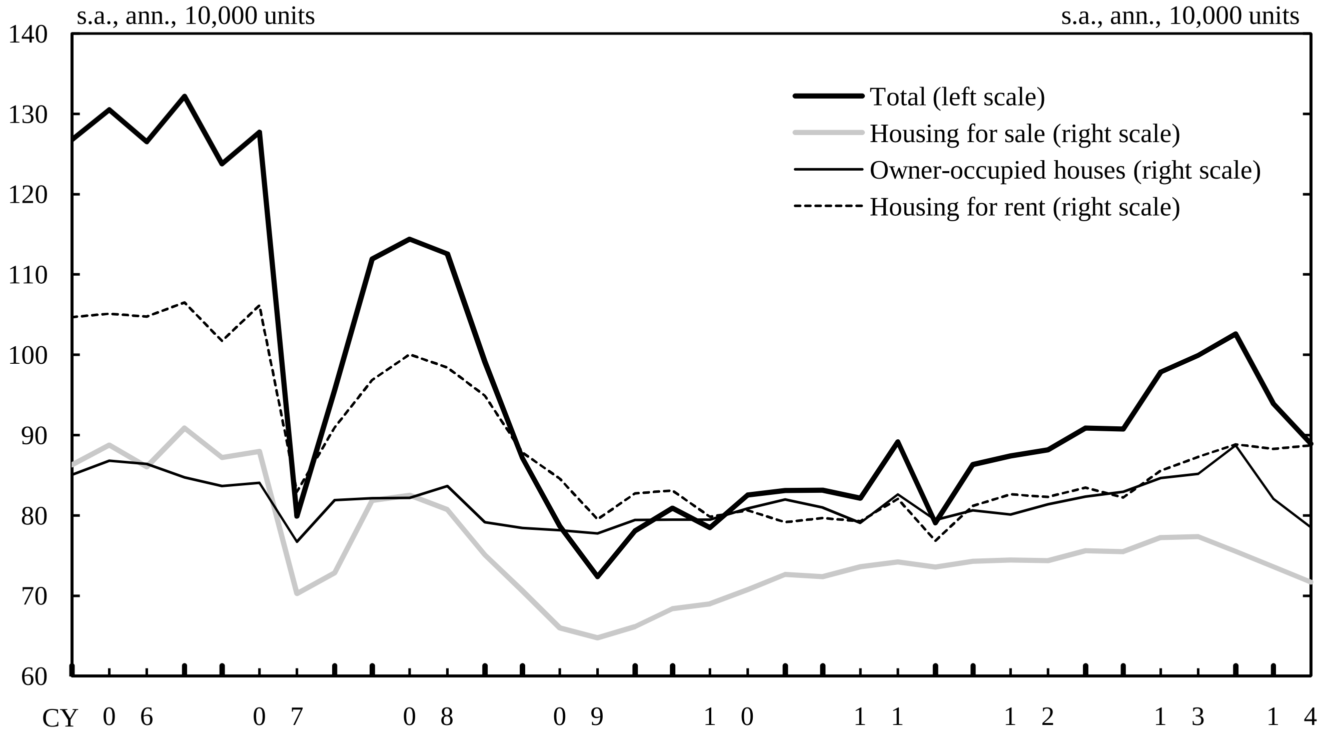


Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting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

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

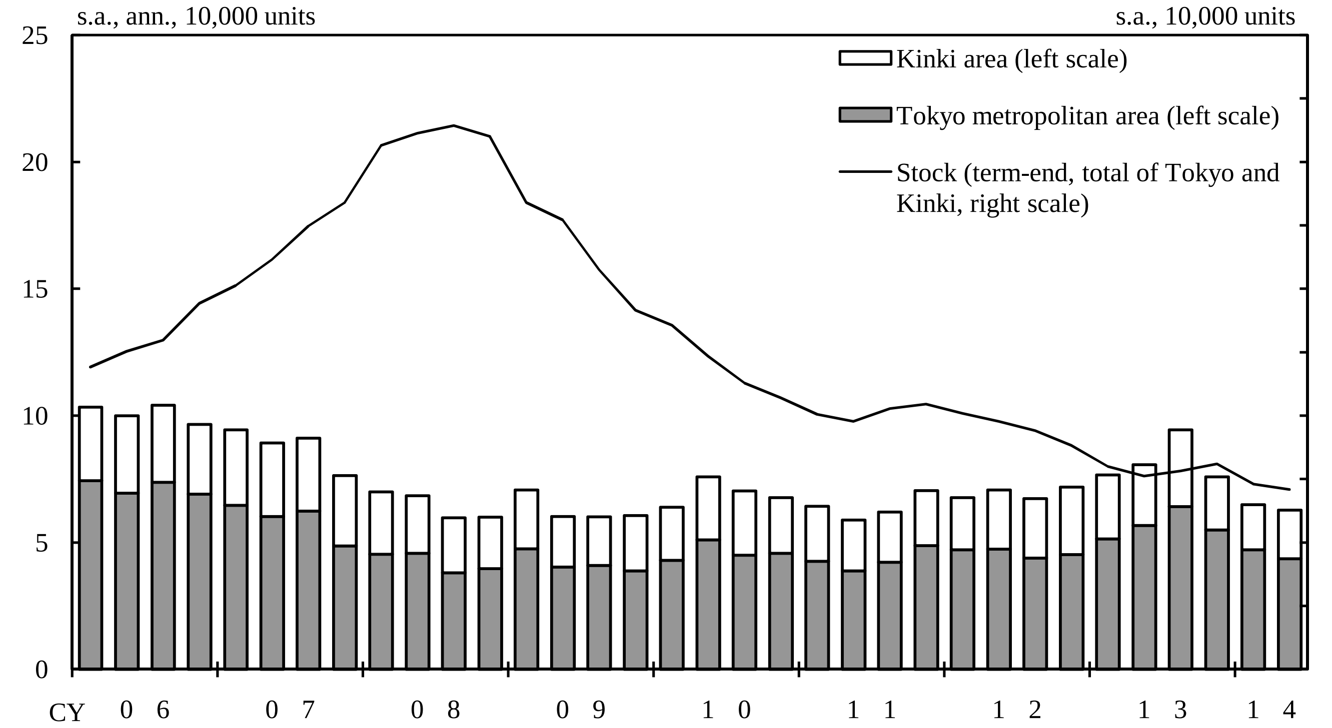
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2014/Q2 are April-May averages.

(2) Sales of Apartments

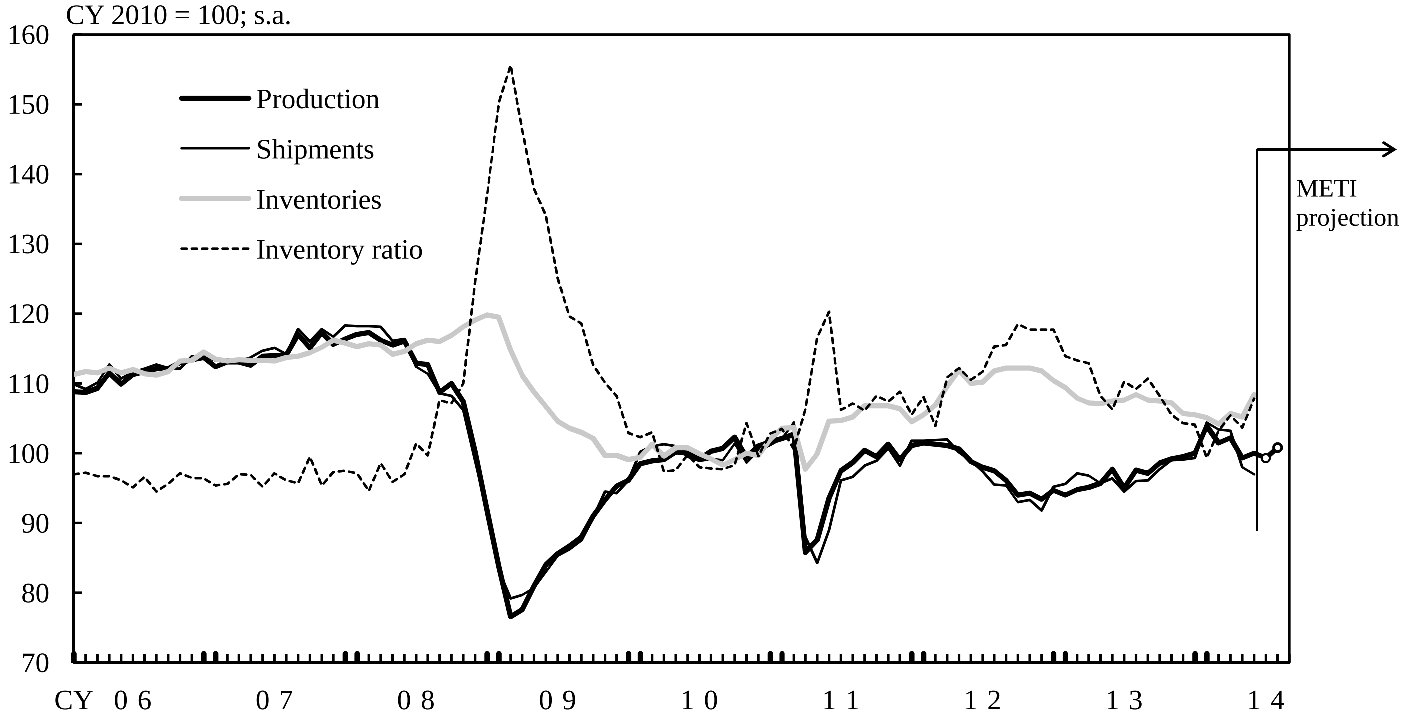


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. The figure of total apartment sales for 2014/Q2 is the April-May average.
The term-end stock for 2014/Q2 is that of May.

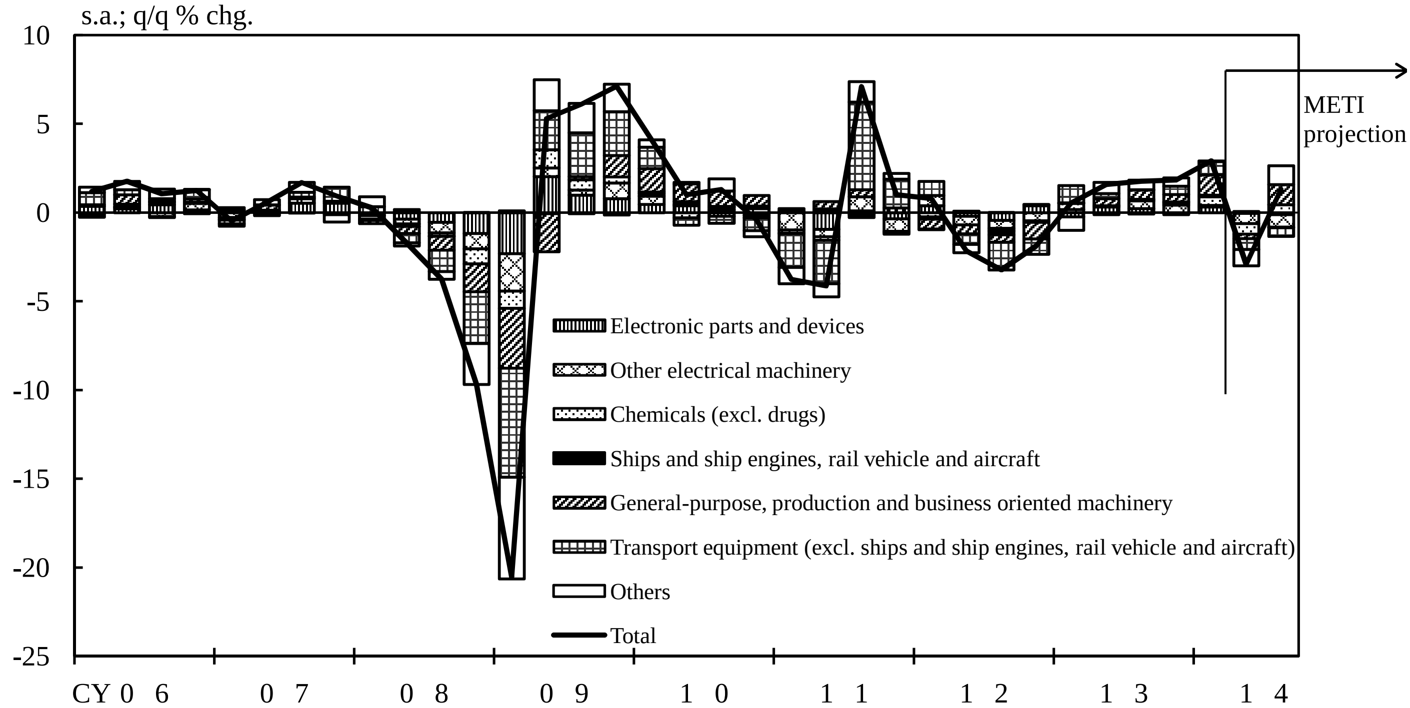
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



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



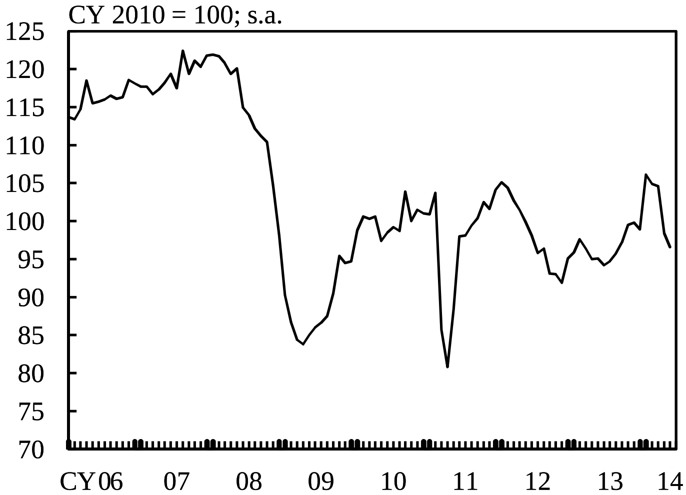
Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
2. Figures up to 2008/Q1 are on the 2005 base.
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."
3. 2014/Q2 figures are based on the actual production levels in April and May, and the METI projection of June. 2014/Q3 figures are based on the assumption that the production levels in August and September are the same as those of July.

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

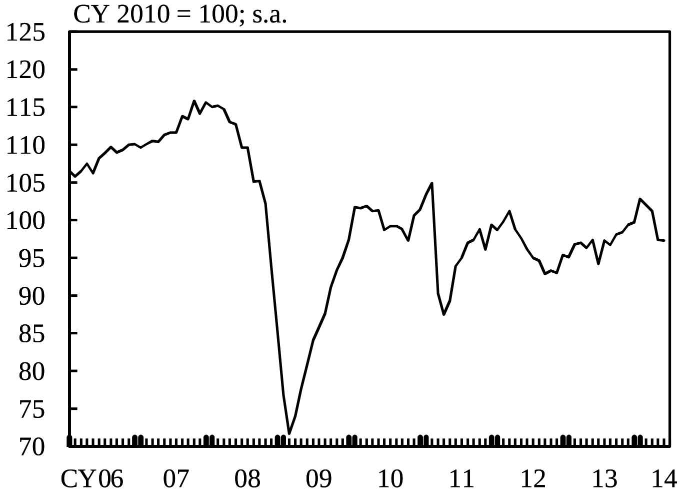
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods

Final demand goods <49.7%>



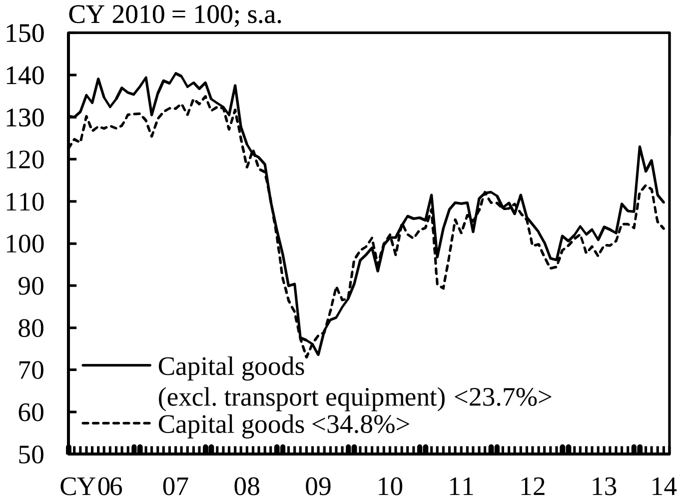
Producer goods <50.3%>



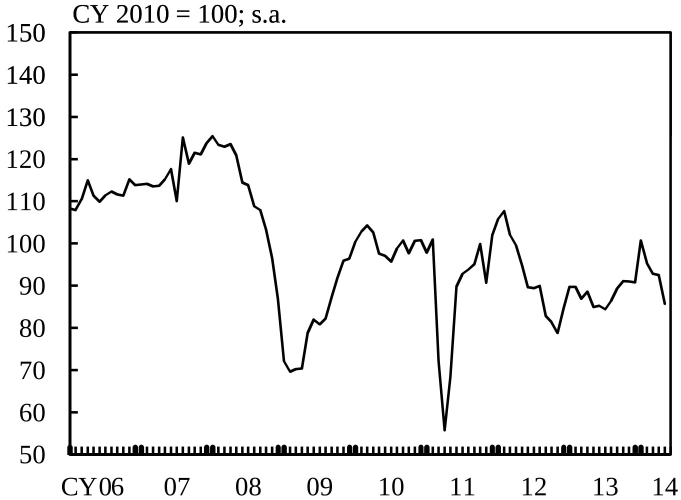
Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

(2) Breakdown of Final Demand Goods

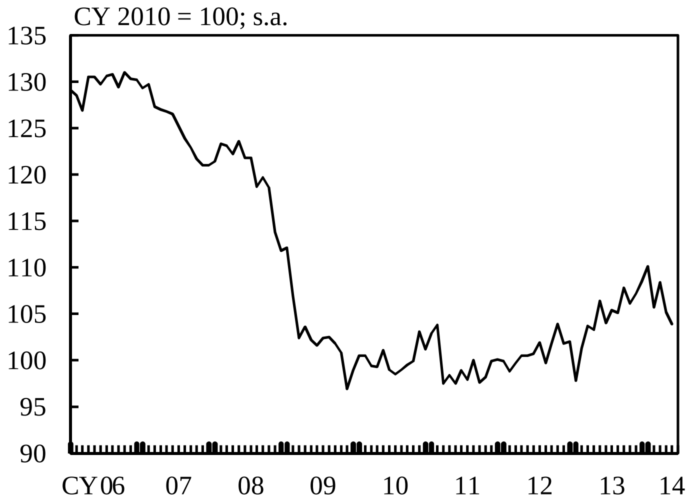
Capital goods



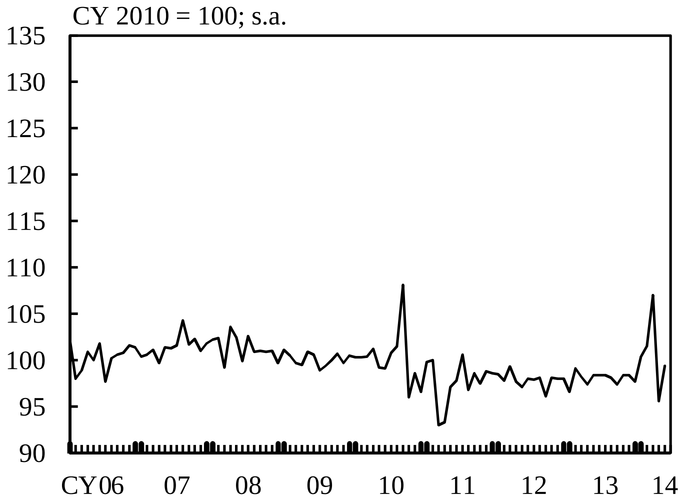
Durable consumer goods <30.6%>



Construction goods <11.1%>



Non-durable consumer goods <23.5%>

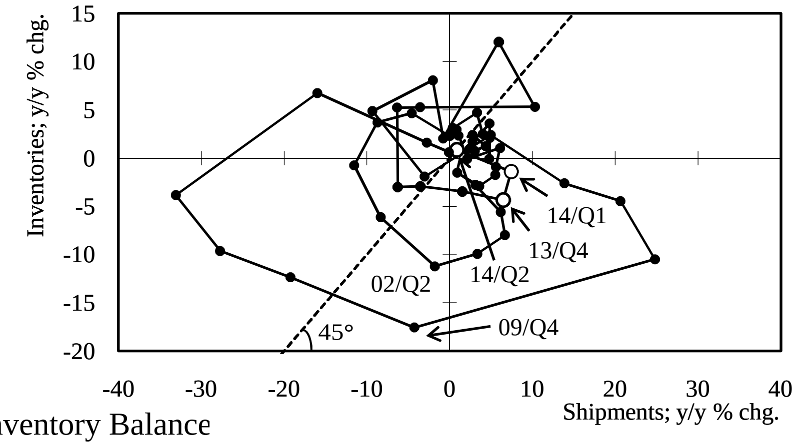


Note: Figures in angle brackets show the shares among shipments of final demand goods.

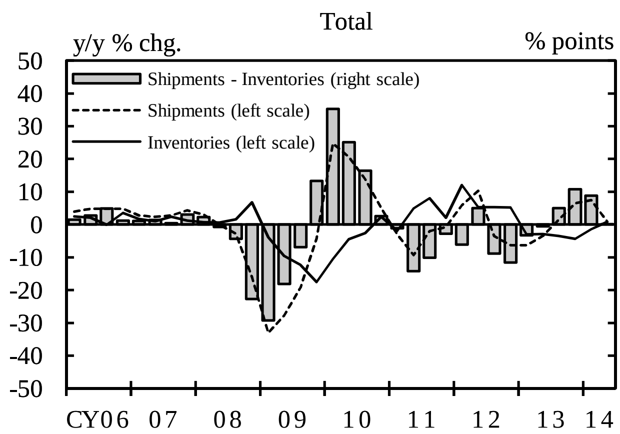
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

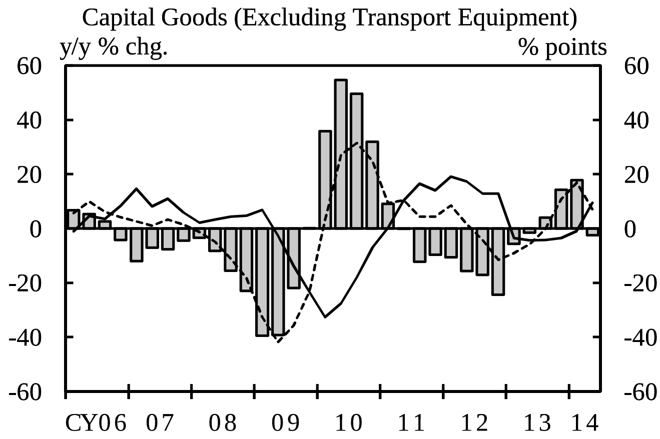
Inventory Cycle

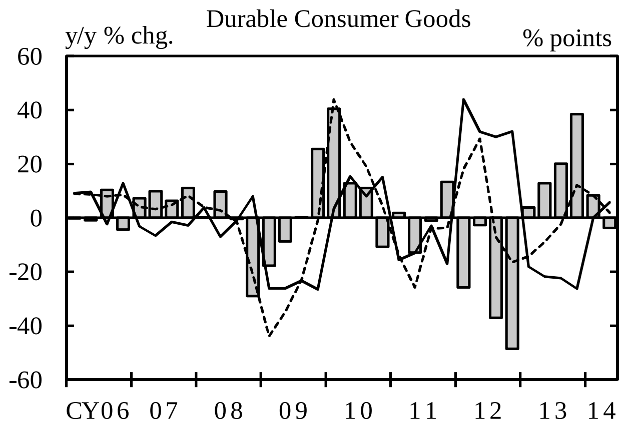
(1) Inventory Cycle (Total)

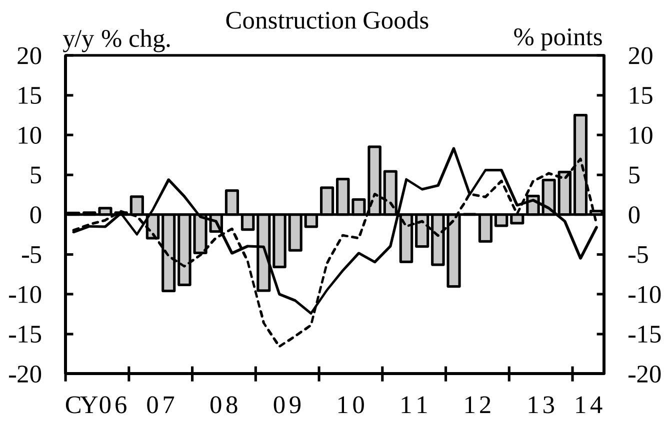


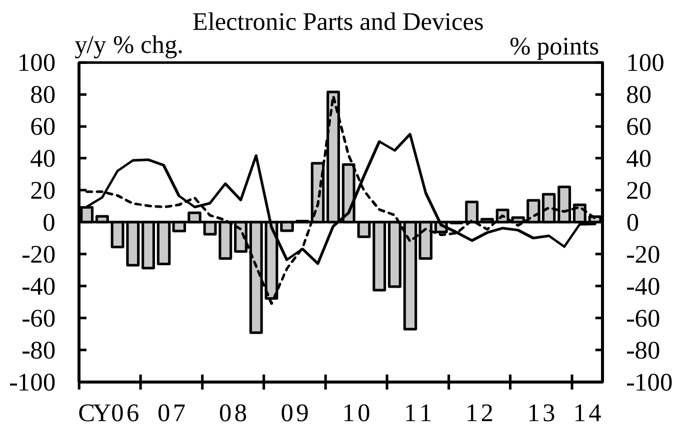
(2) Shipment-Inventory Balance

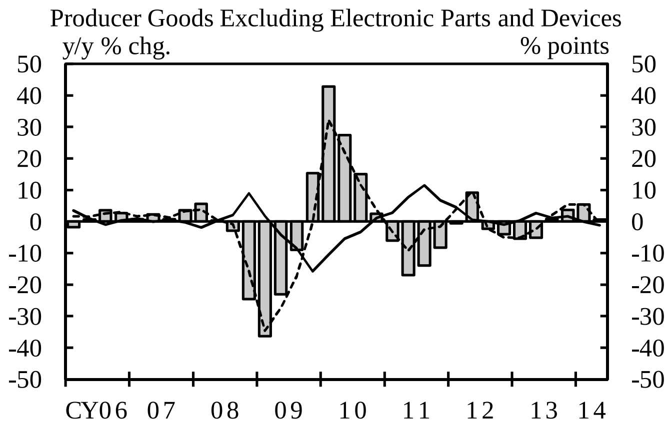










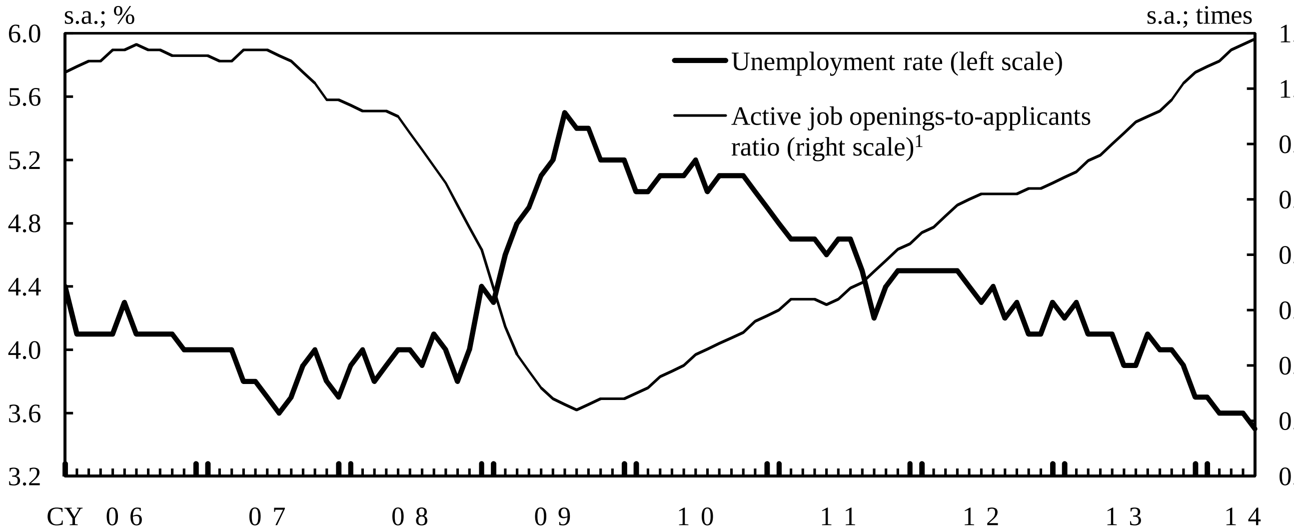


Note: Figures of shipments for 2014/Q2 are April-May averages.
Inventories for 2014/Q2 are those of May.

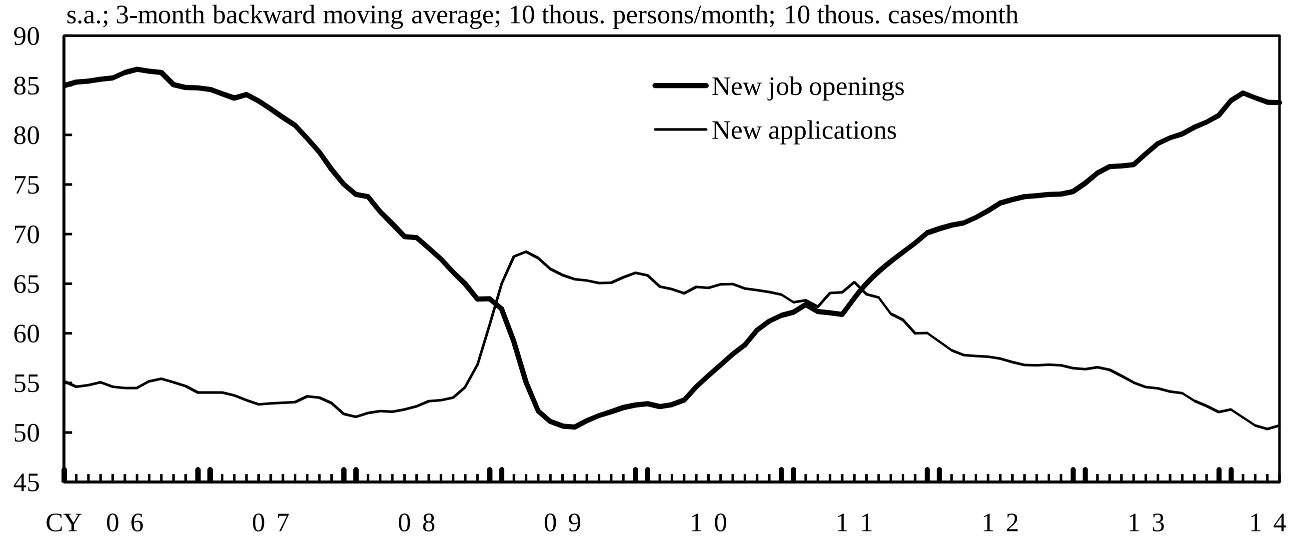
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

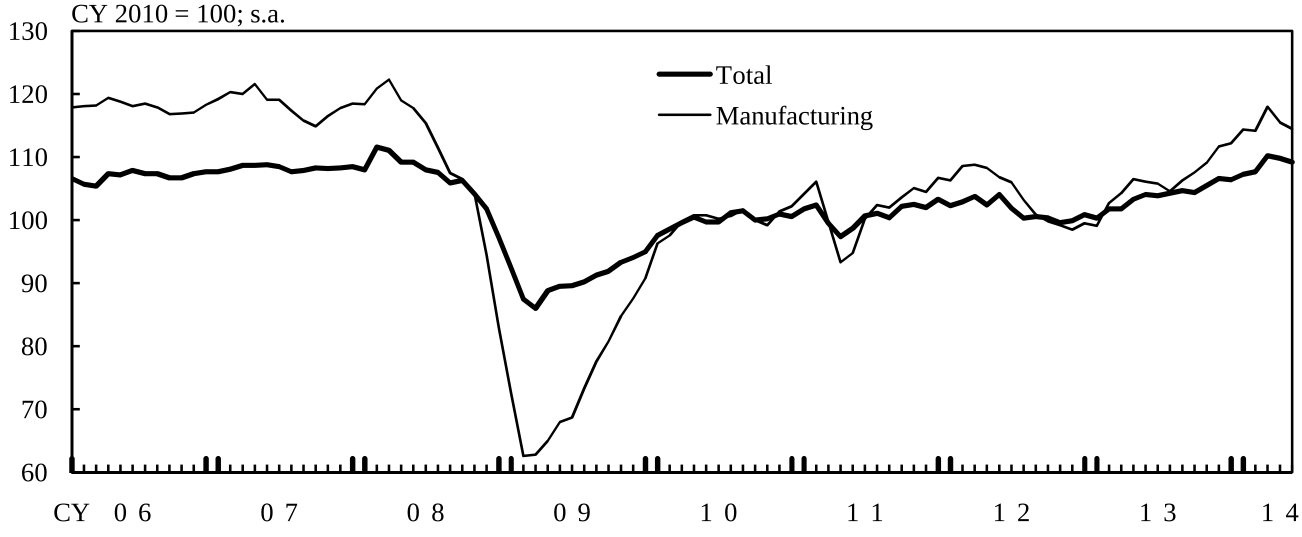
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



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



(3) Non-Scheduled Hours Worked[2]

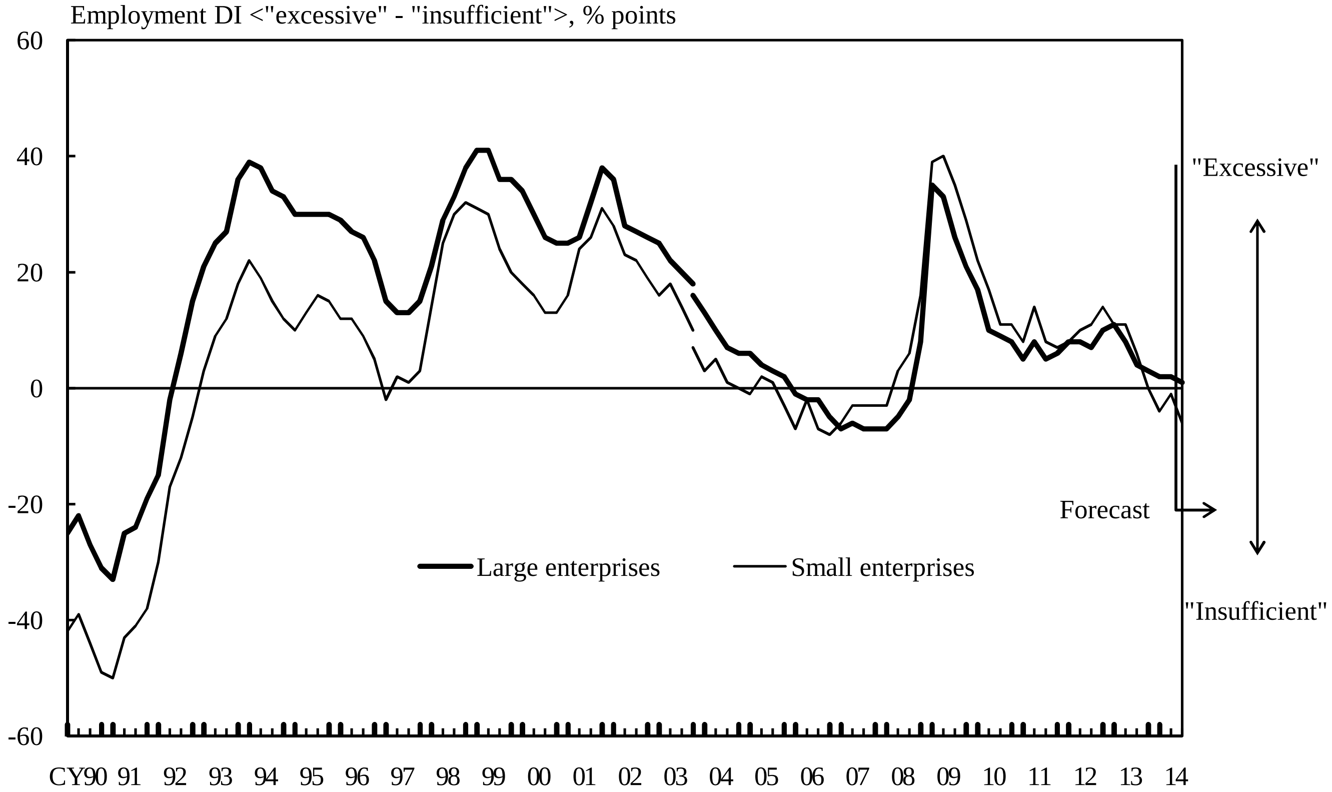


Notes: 1. Excluding new school graduates and including part-timers.
2. Data are for establishments with at least five employees.

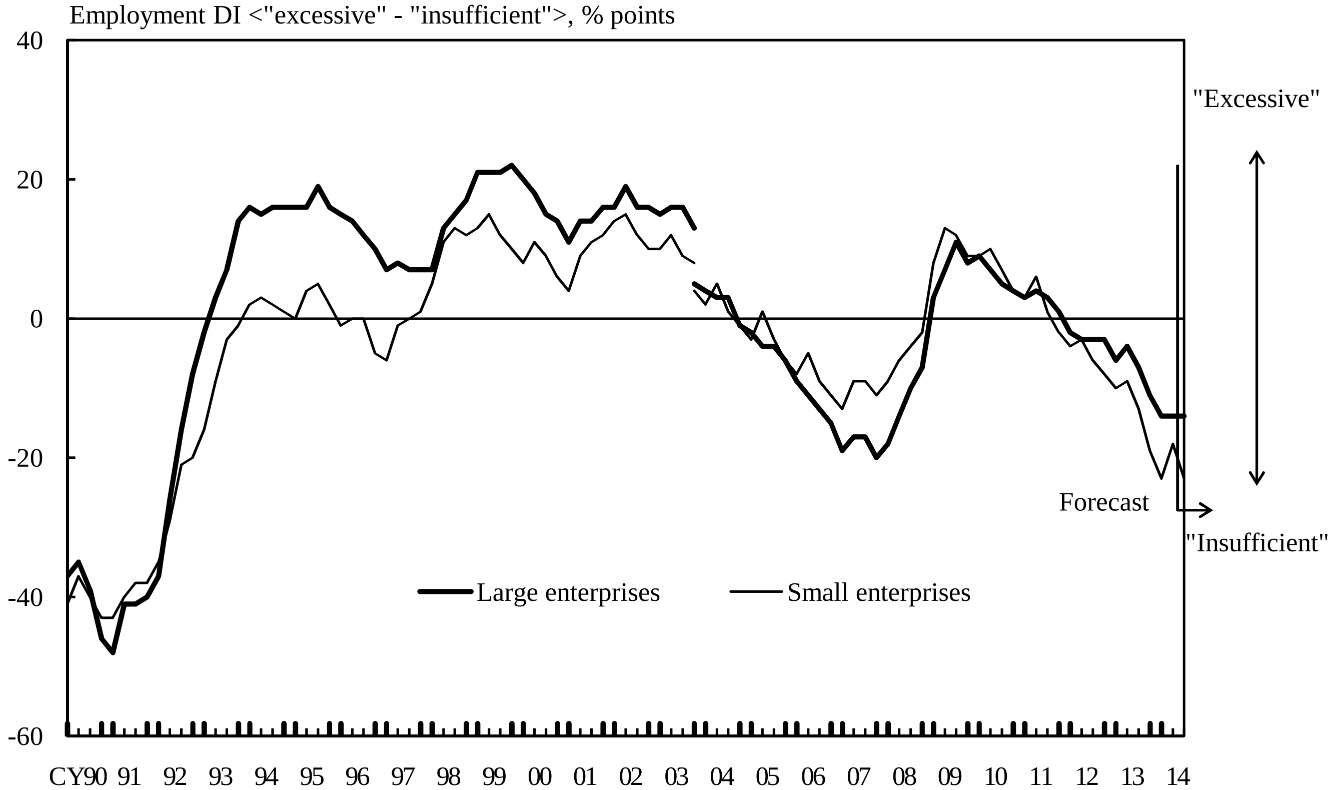
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

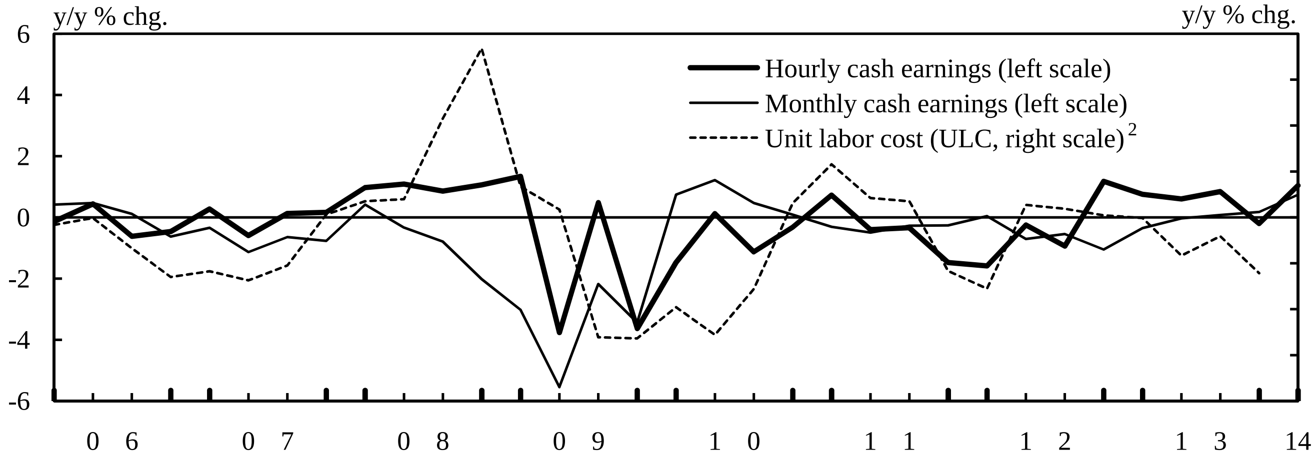


Note: The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.

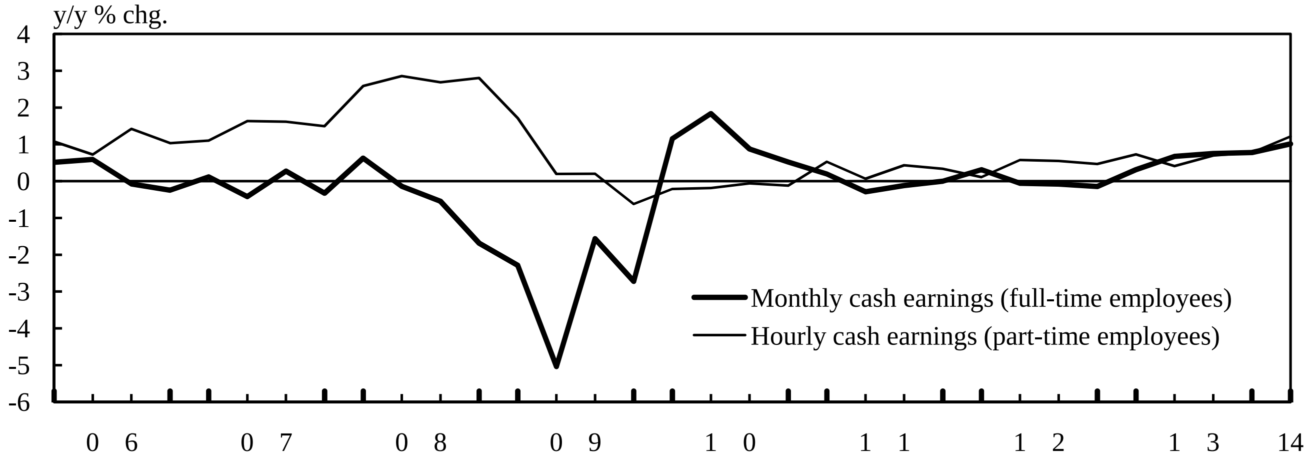
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Wages

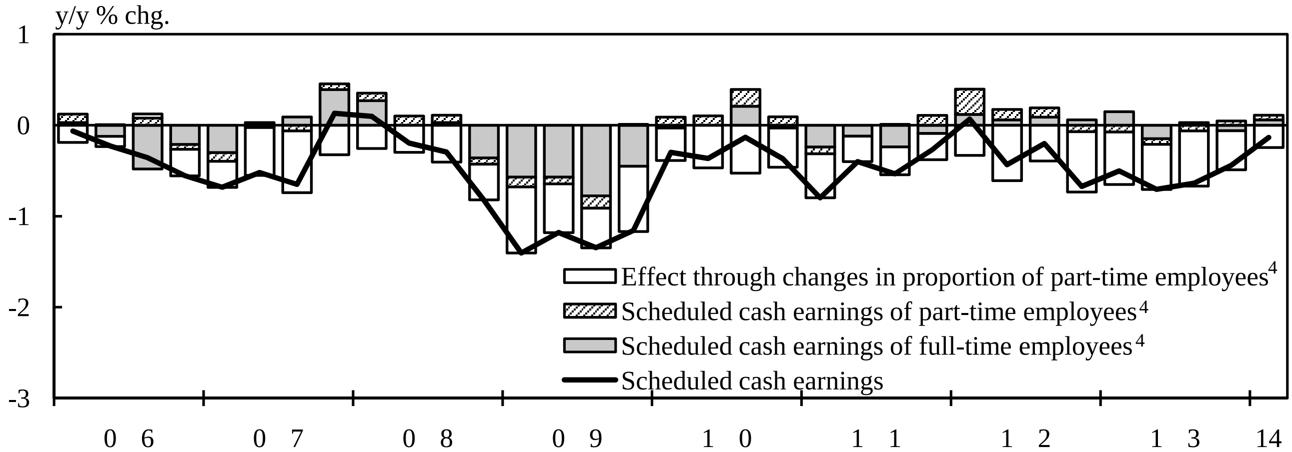
(1) Total[1,3]



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



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

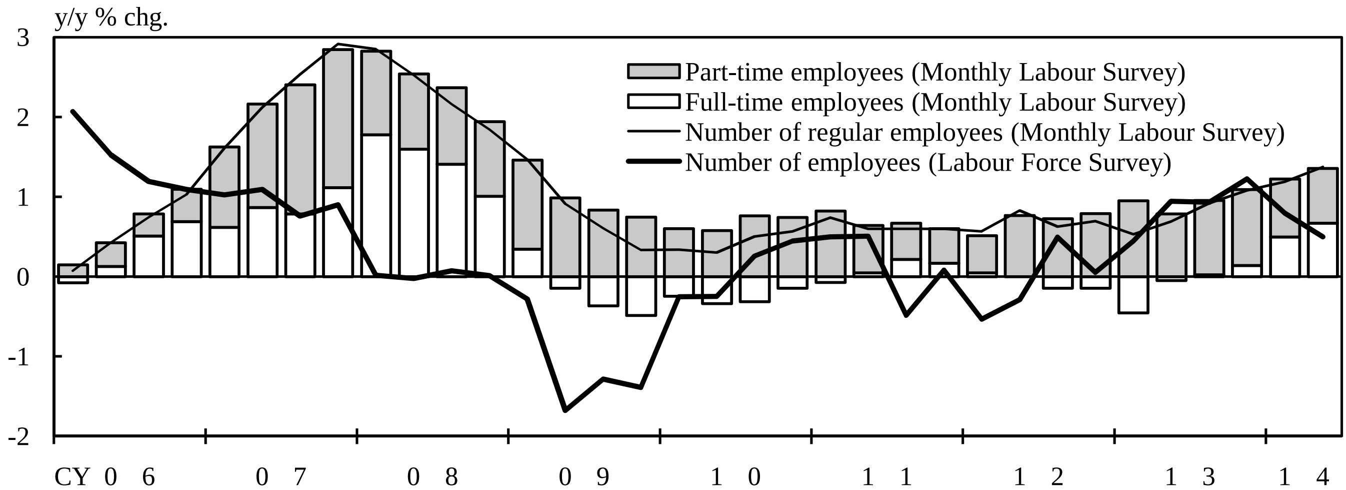


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. ULC = nominal compensation of employees (SNA) / real GDP
3. Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
ULC : Q1 = April-June, Q2 = July-September, Q3 = October-December, Q4 = January-March.
4. Contributions from scheduled cash earnings of full-time employees and those of part-time employees are calculated as: "scheduled cash earnings of each type of employee (y/y chg.)" times "proportion of the corresponding type's scheduled cash earnings to the previous year's total." Contributions from the effect through changes in proportion of part-time employees are the residuals.

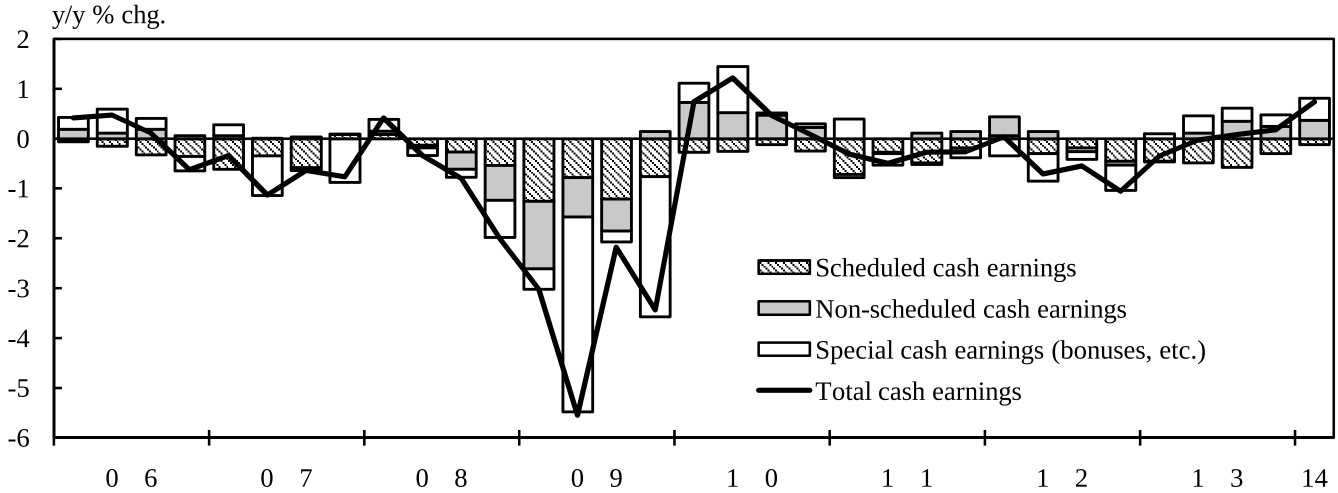
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

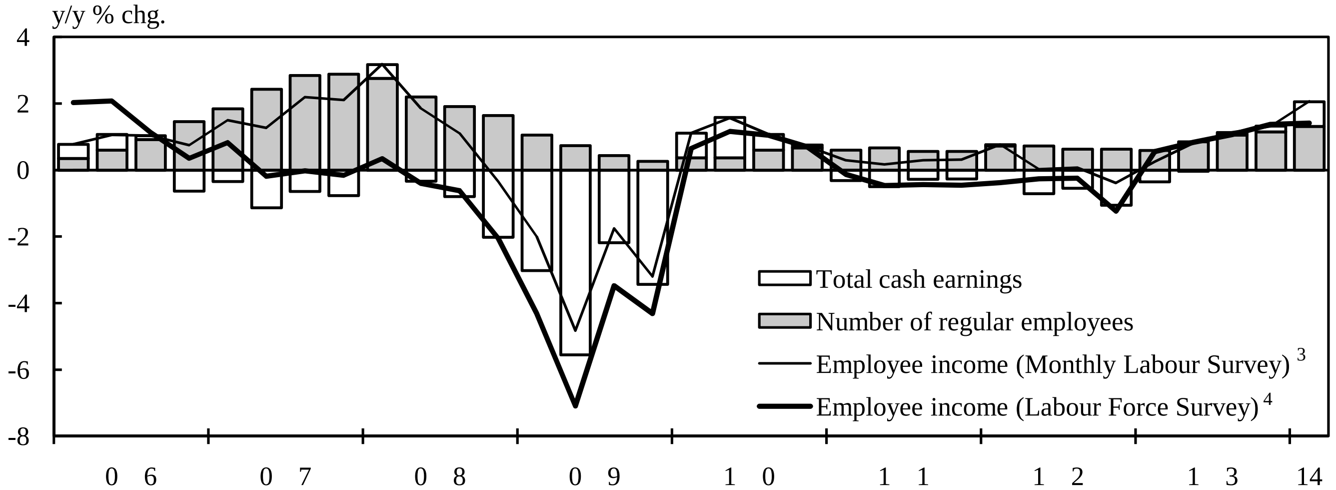
(1) Number of Employees[1,5]



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



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

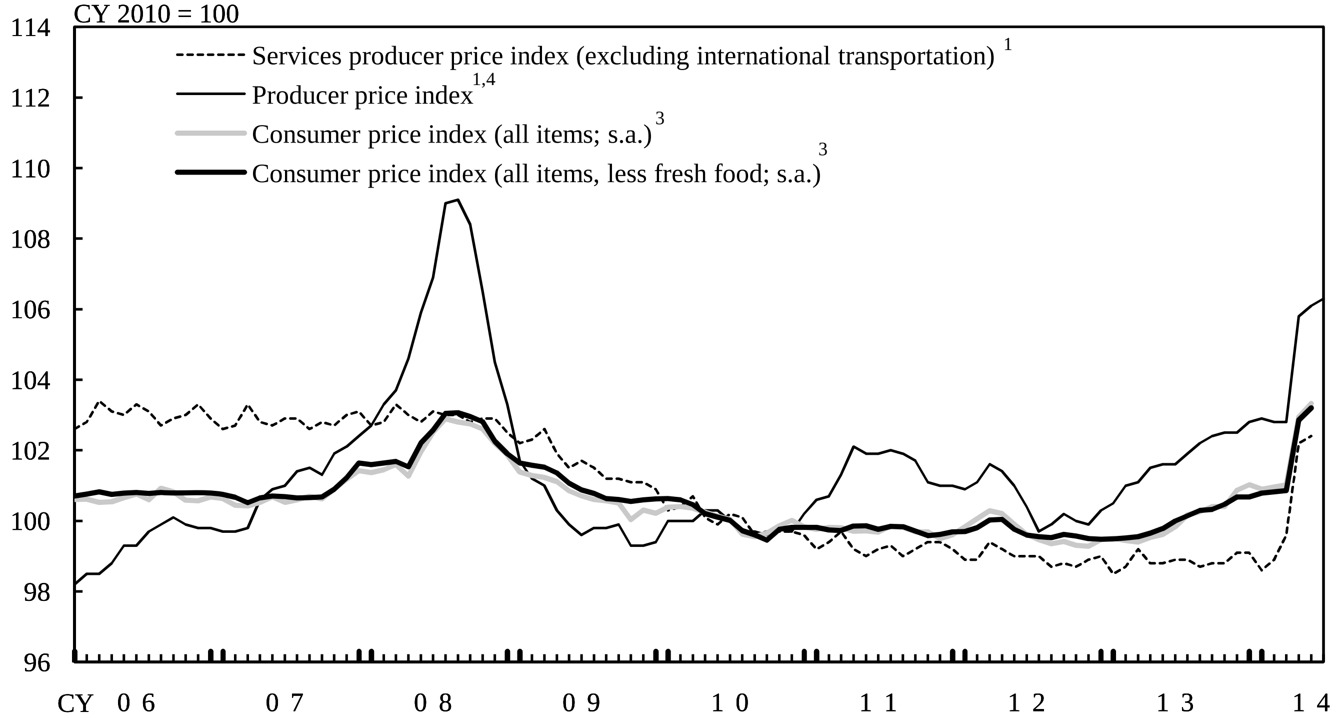


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).
5. Figures for 2014/Q2 are April-May averages.

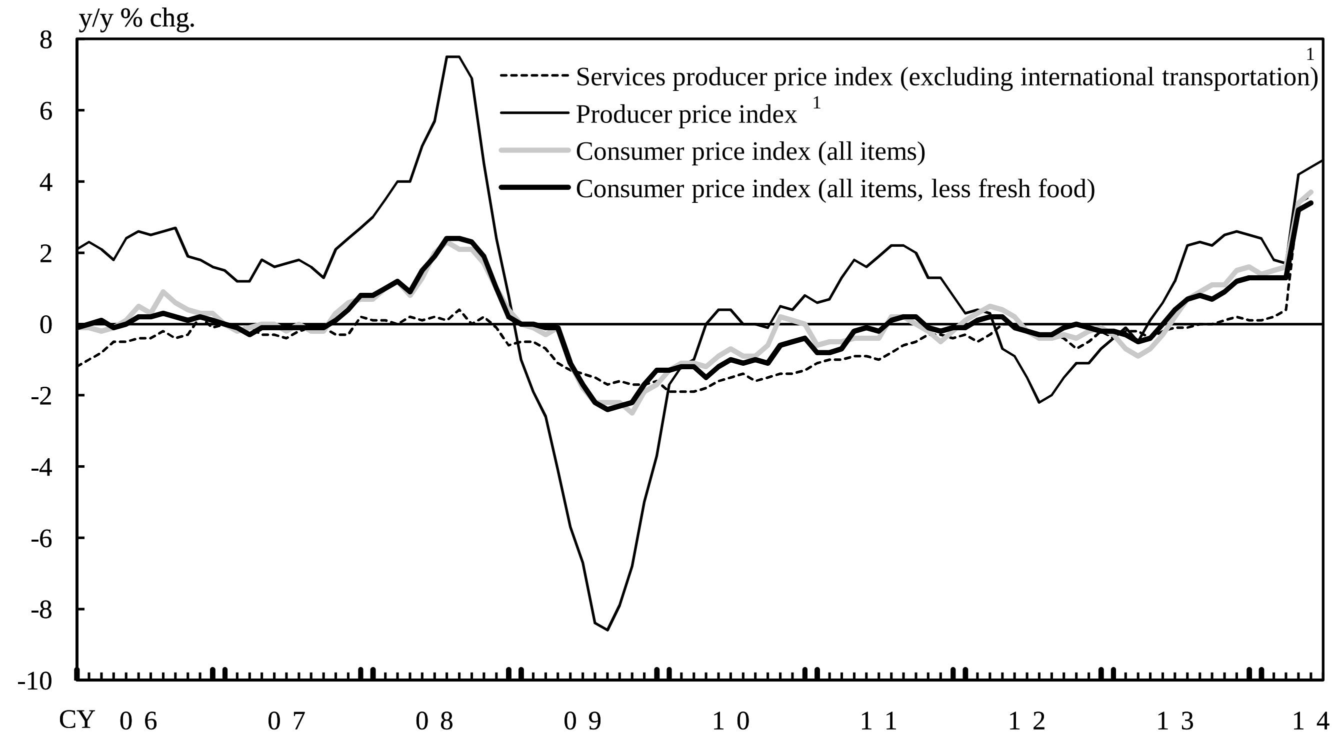
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier

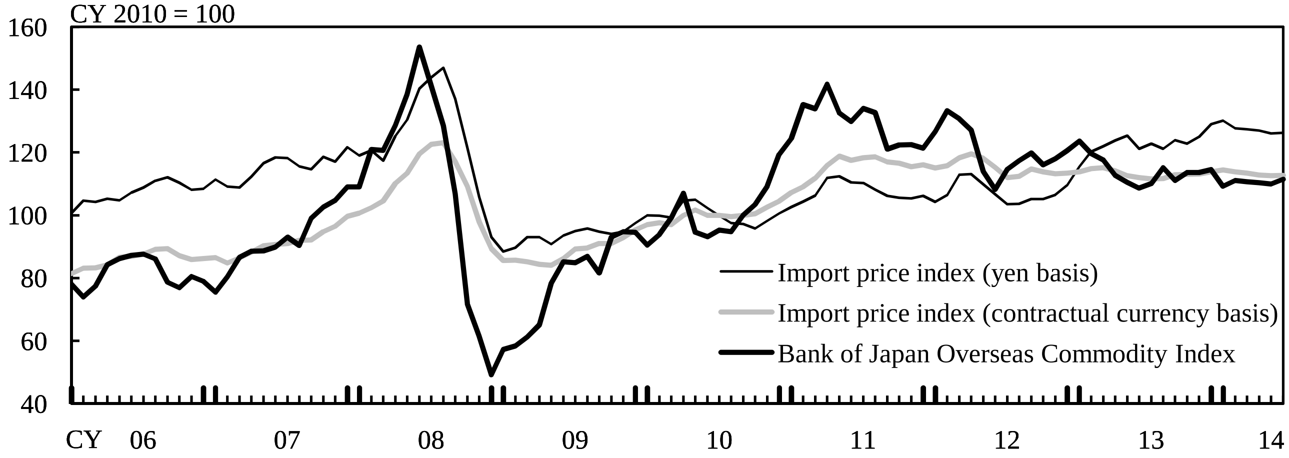


Notes: 1. "Corporate Services Price Index" and "Domestic Corporate Goods Price Index" have been renamed "Services Producer Price Index" and "Producer Price Index," respectively.
2. The base year of "Services Producer Price Index" has been switched from the 2005 base to the 2010 base.
3. Seasonally adjusted by X-12-ARIMA.
4. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
5. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.
6. Figures of "Services Producer Price Index" and "Producer Price Index" up to 2009 are based on the linked indices.
7. Figures include the consumption tax.

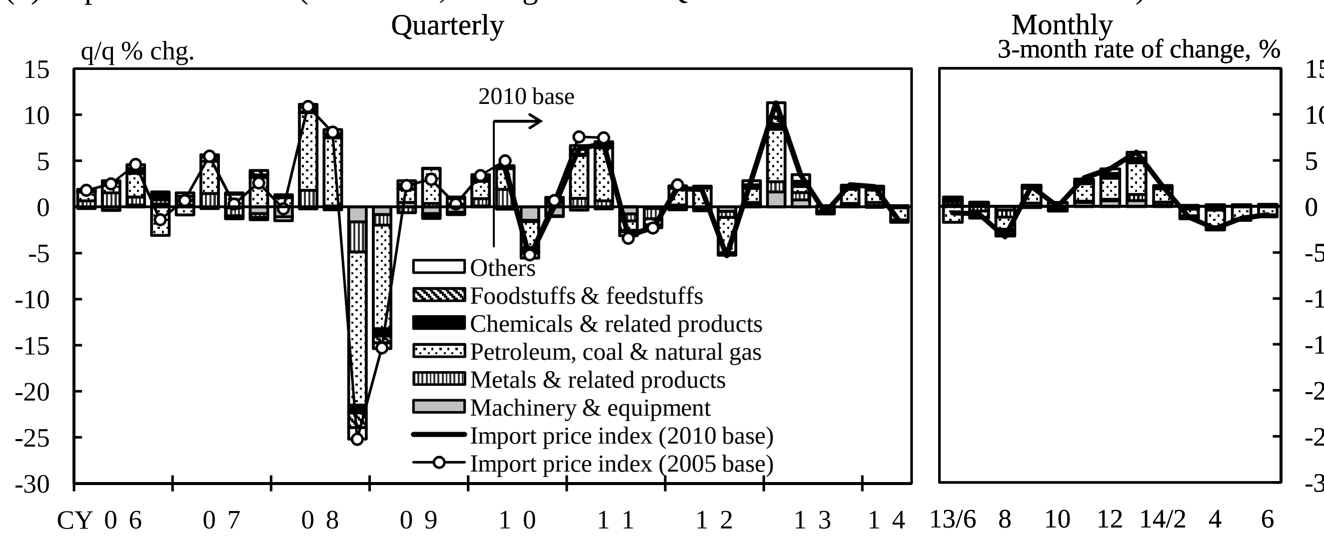
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

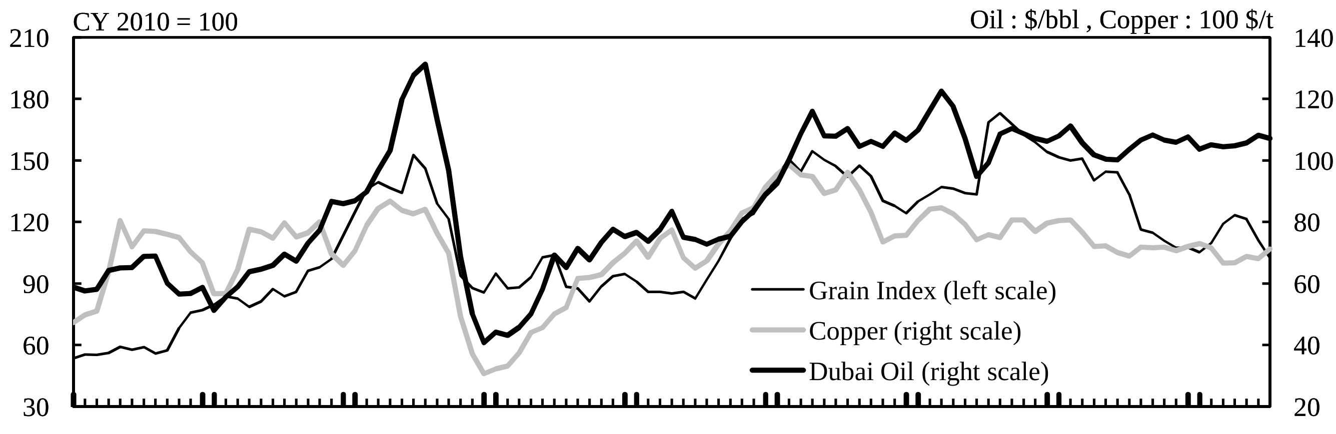


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

(3) International Commodity Prices

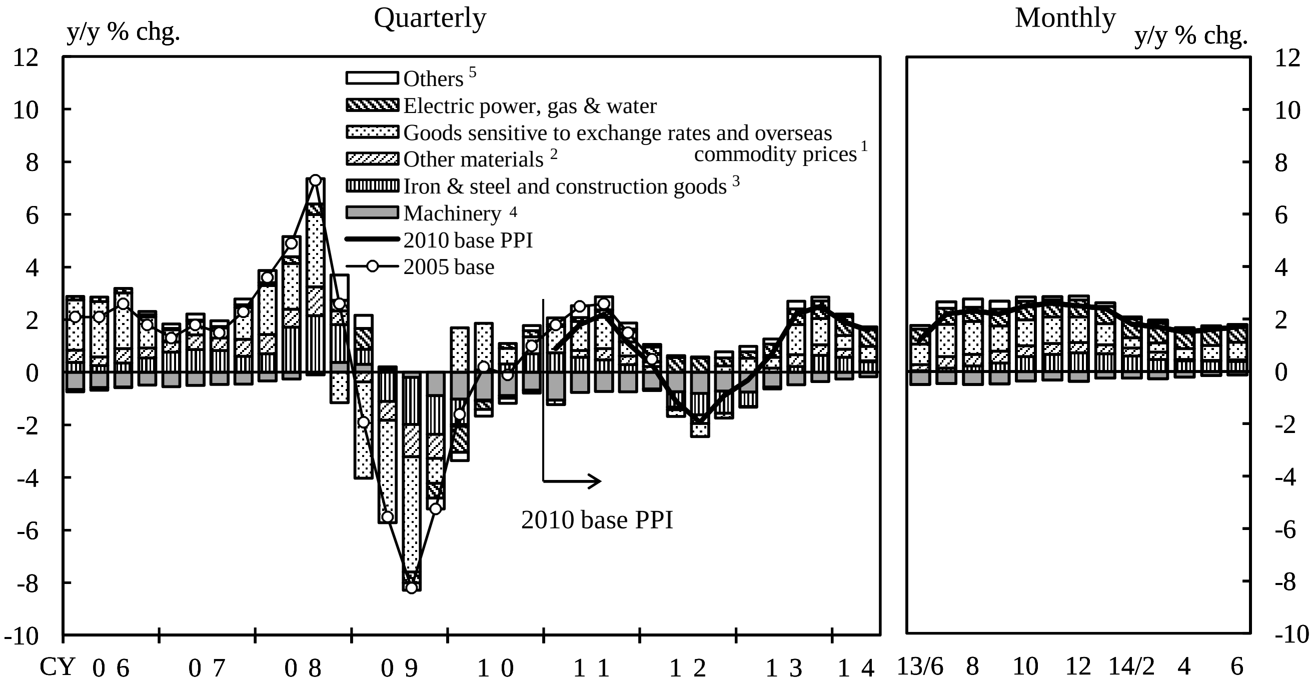


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for July 2014 are averages up to July 14.

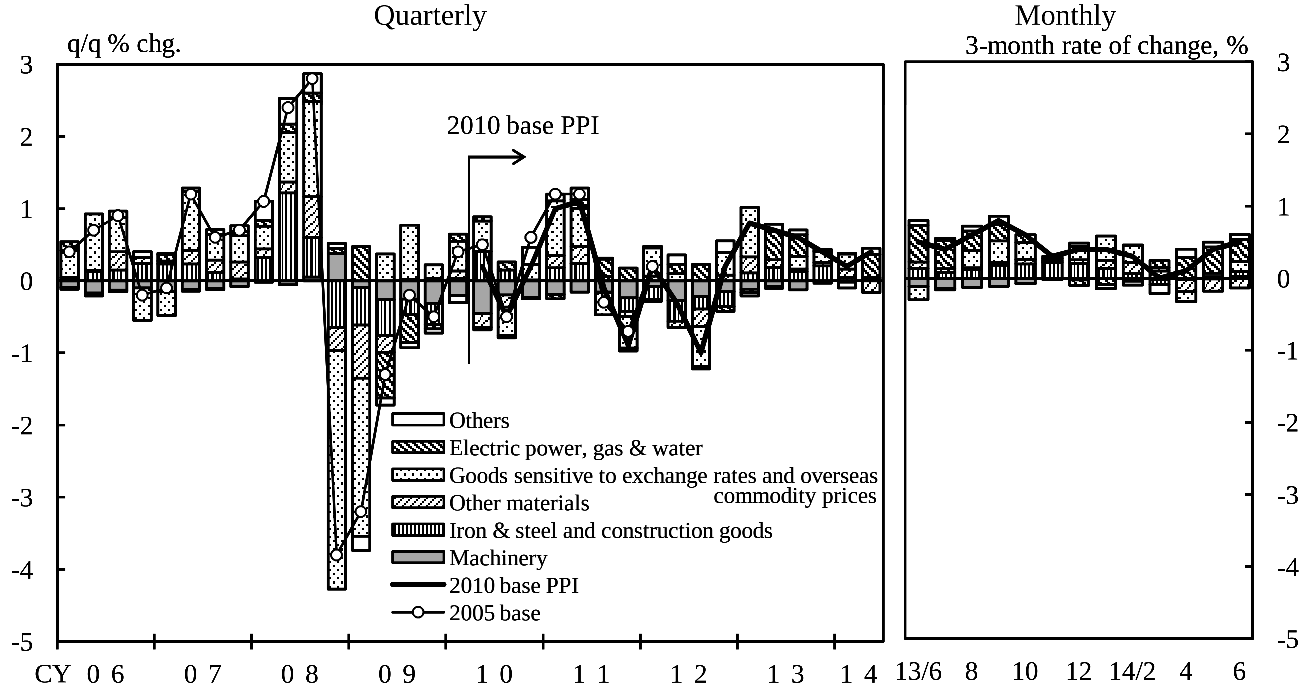
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



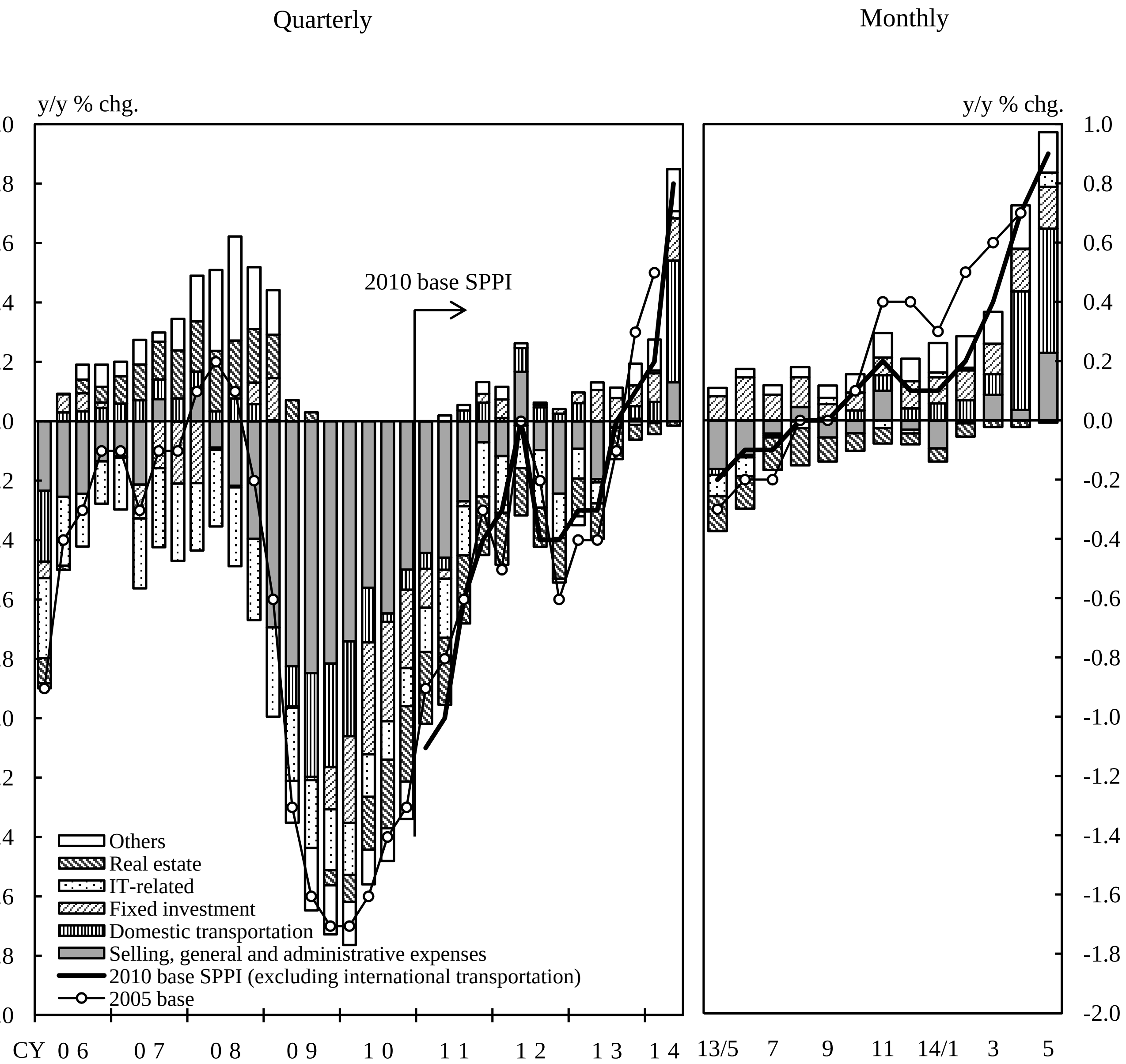
(2) Changes from a Quarter Earlier and 3 Months Earlier 6



Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.
2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.
4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.
6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Producer Price Index" fall by about 0.2%.
7. Figures from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.

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

Services Producer Price Index

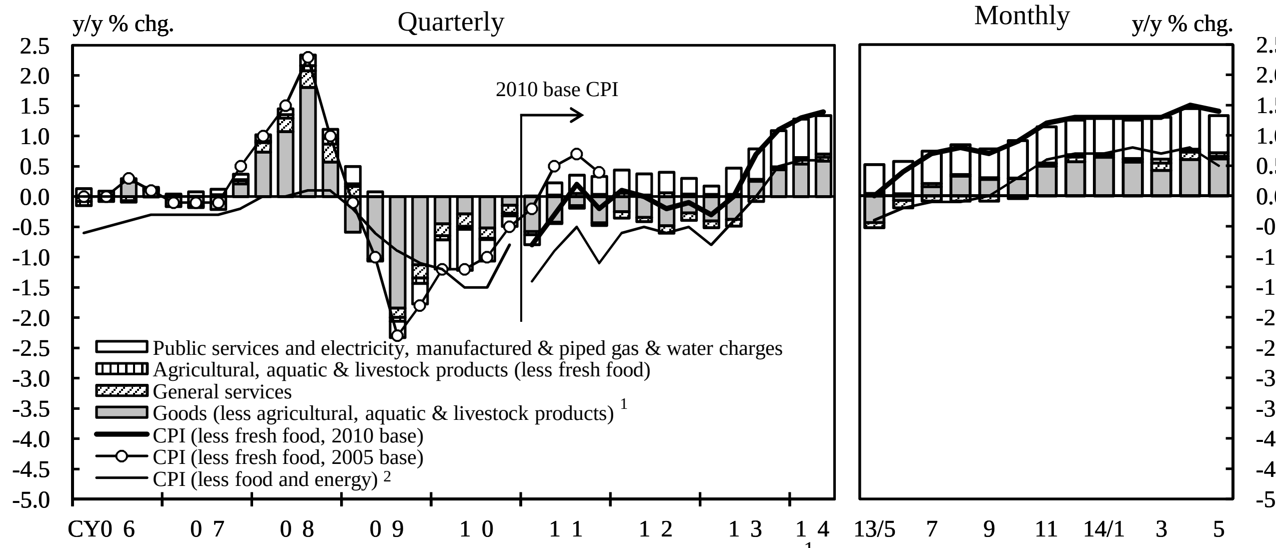


Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
2. Domestic transportation: transportation and postal services (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 from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.
8. Figures for 2014/Q2 are April-May averages.

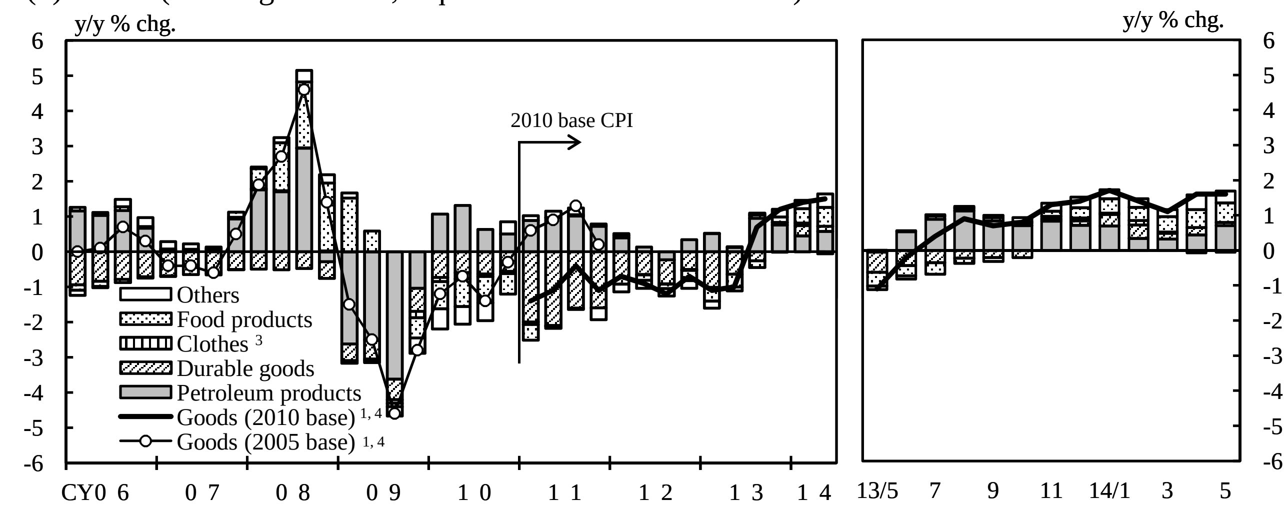
Source: Bank of Japan, "Services Producer Price Index."

Consumer Price Index (Less Fresh Food)

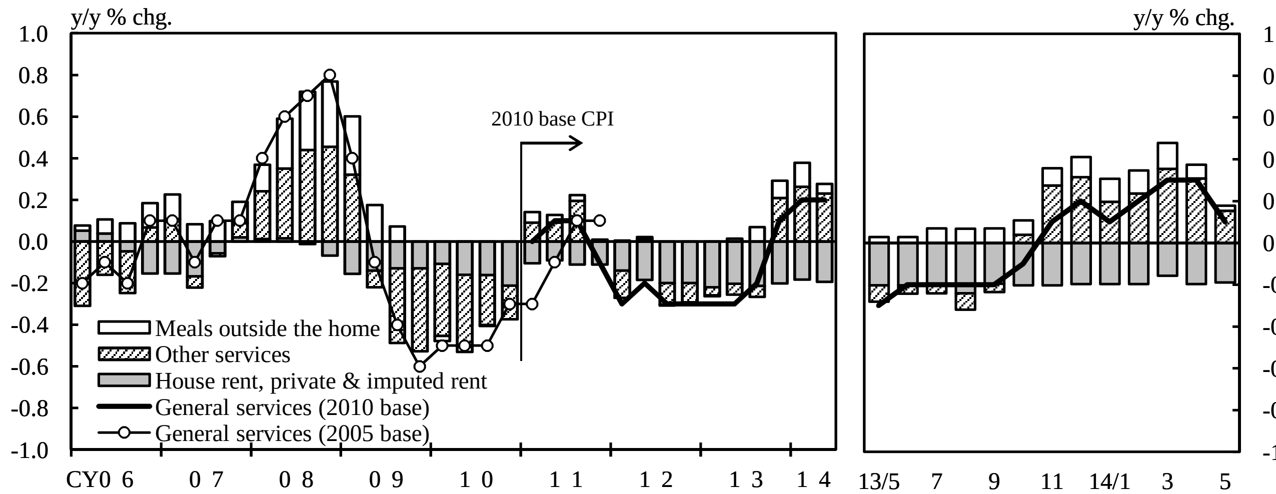
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

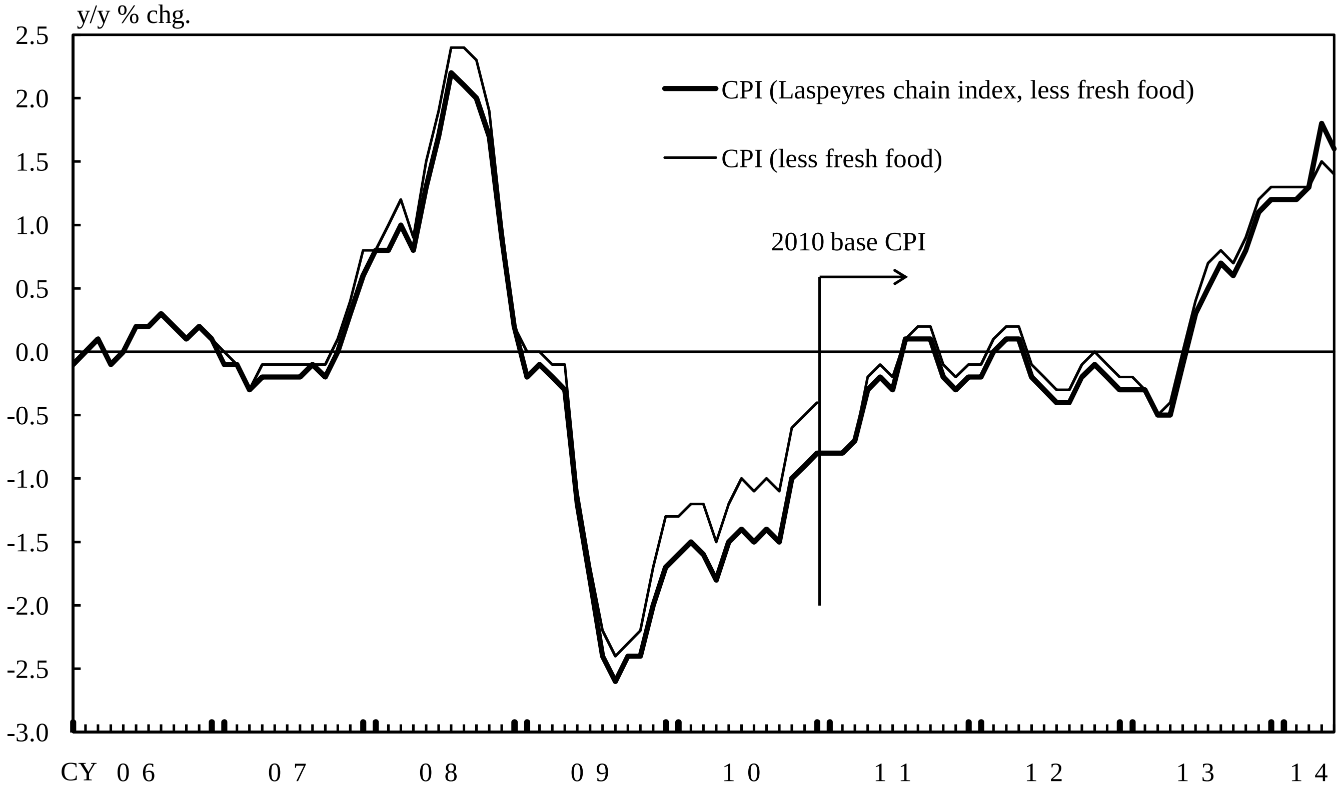


Notes:1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied propane, kerosene, and gasoline.
3. Including shirts, sweaters & underwear.
4. Less agricultural, aquatic & livestock products.
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.
6. Figures from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike. Figures for 2014/Q2 are April-May averages.

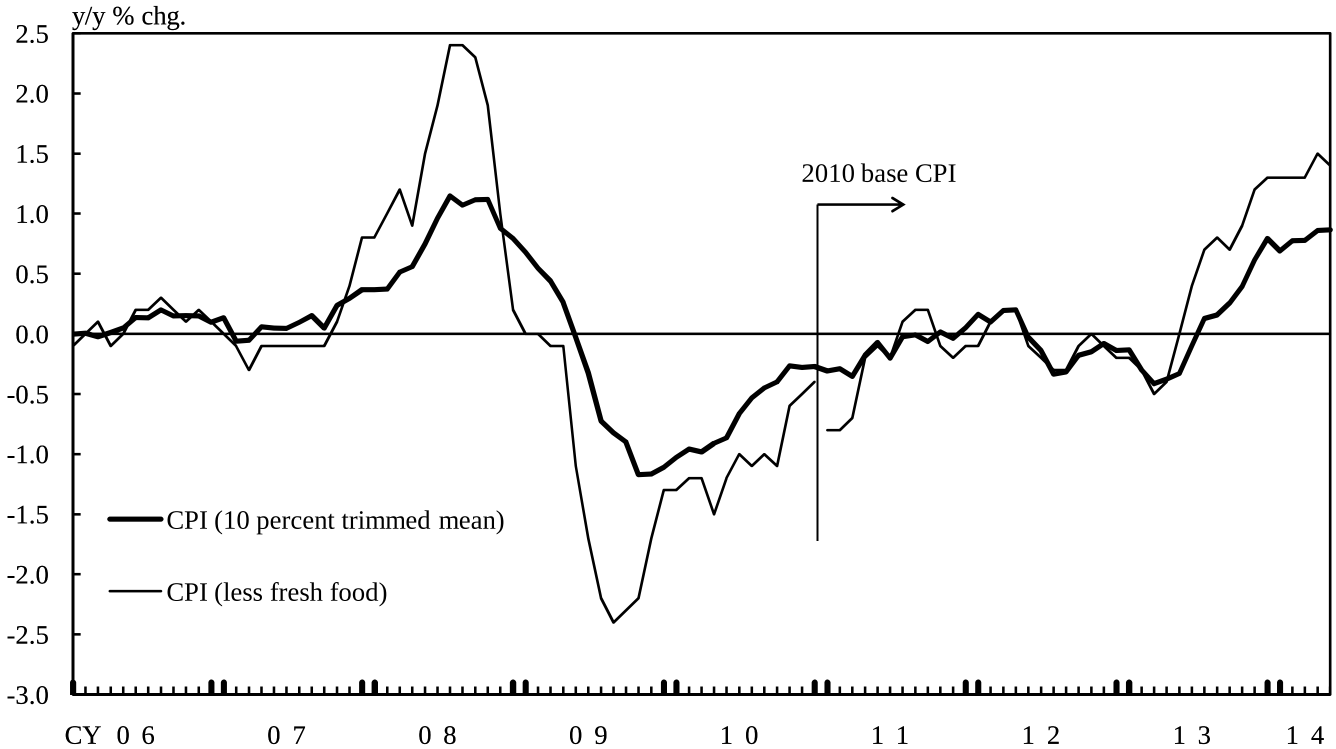
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



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

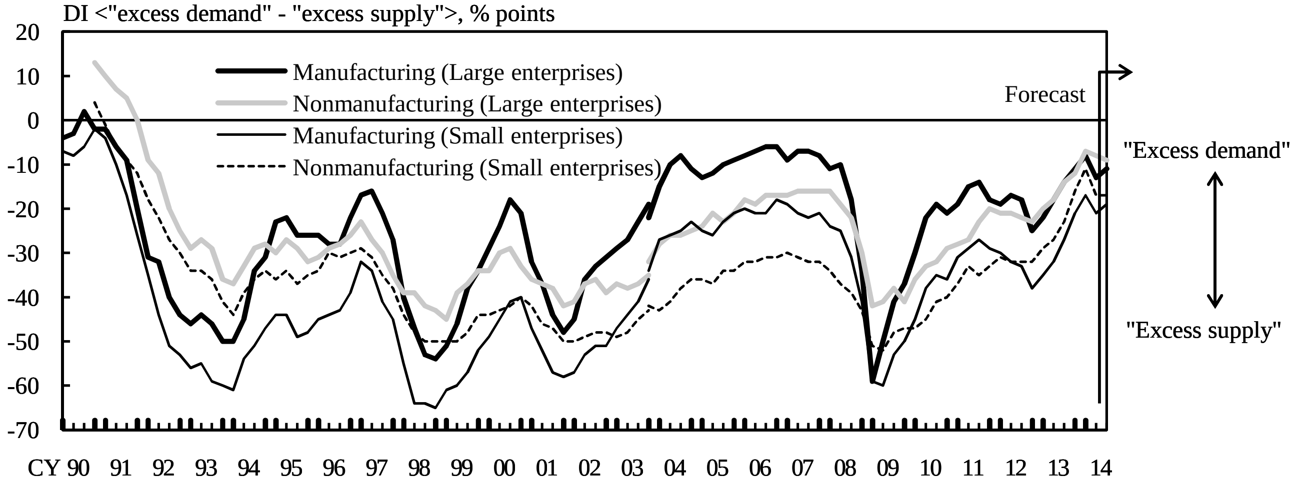
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

3. Figures from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike.

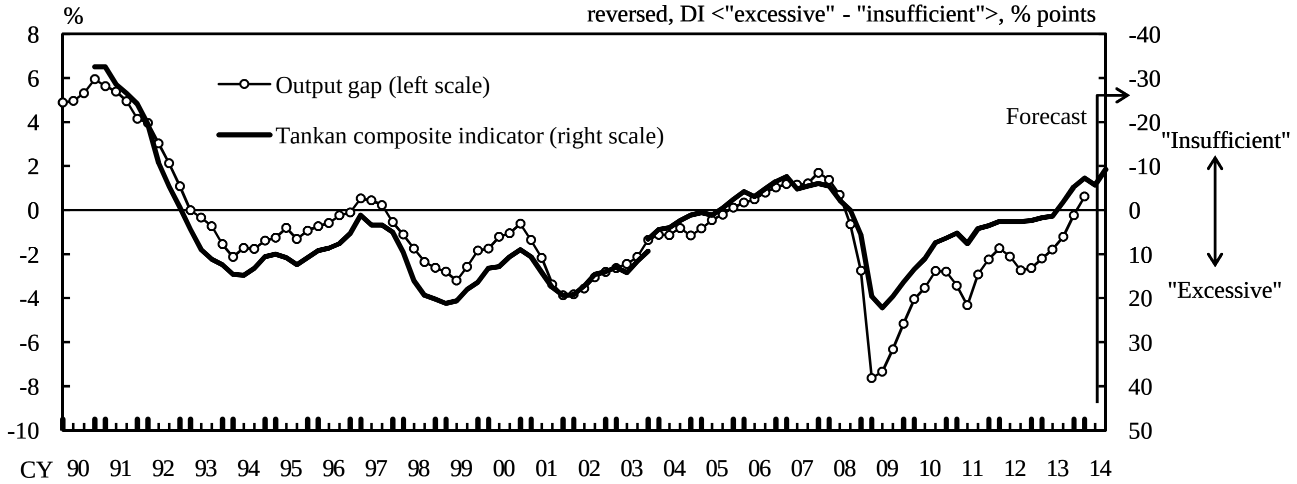
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions[1]

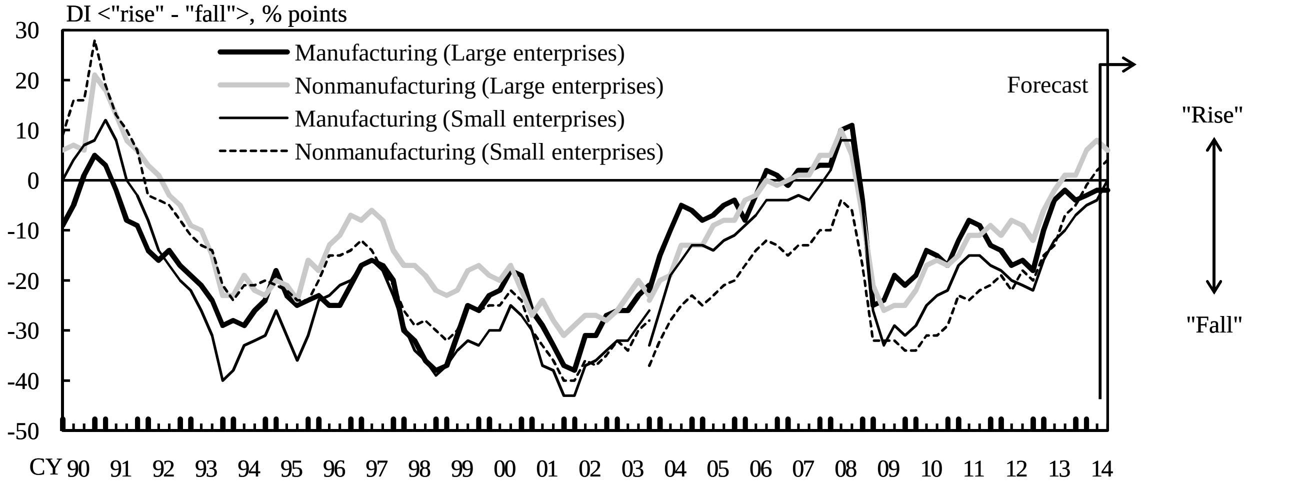
(1) Domestic Supply and Demand Conditions for Products and Services



(2) *Tankan* Composite Indicator[2] (All Enterprises) and Output Gap[3]



(3) Change in Output Prices



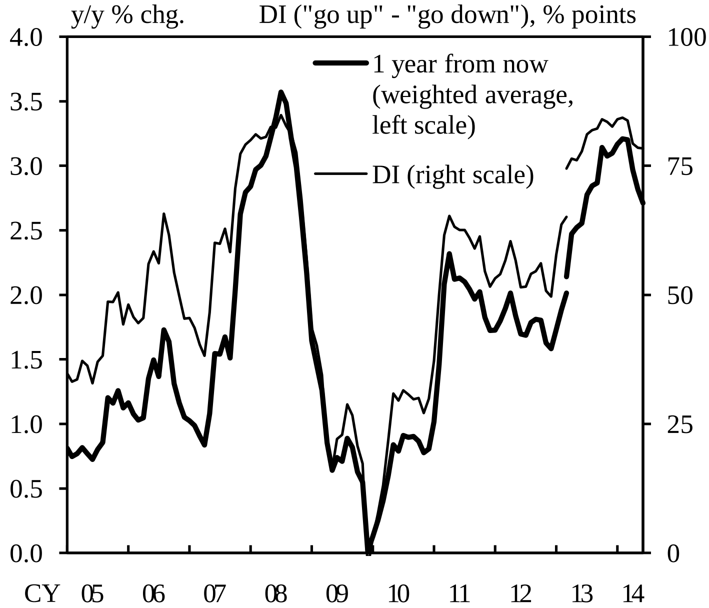
Notes: 1. The "Tankan" has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on the new basis.
2. Figures are weighted averages of the production capacity DI and employment conditions DI. The FY 1990-2012 averages of capital and labor shares in the "National Accounts" are used as the weight.
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

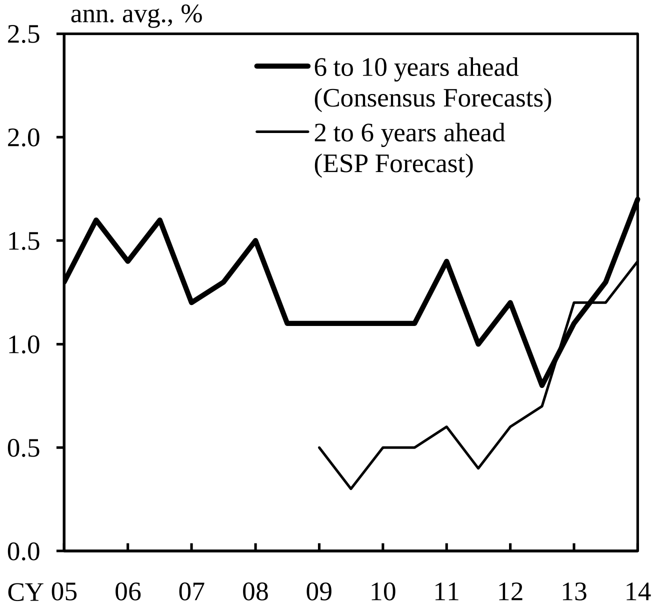
Inflation Expectations

(1) Households

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

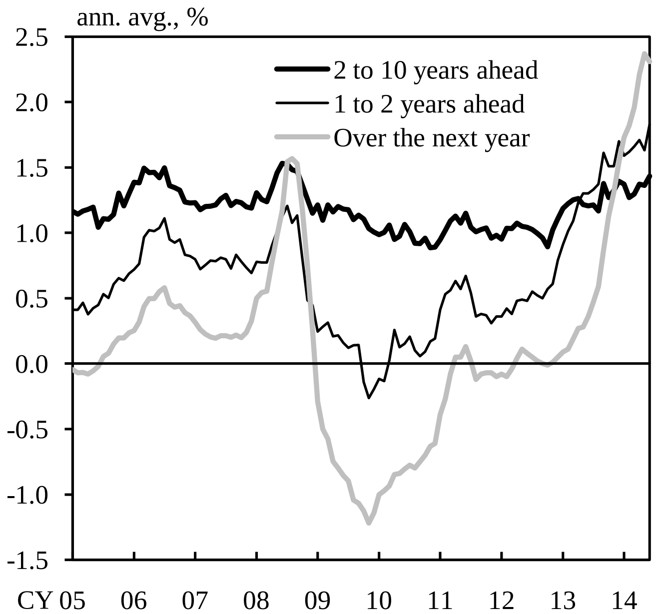


(2) Economists[4]

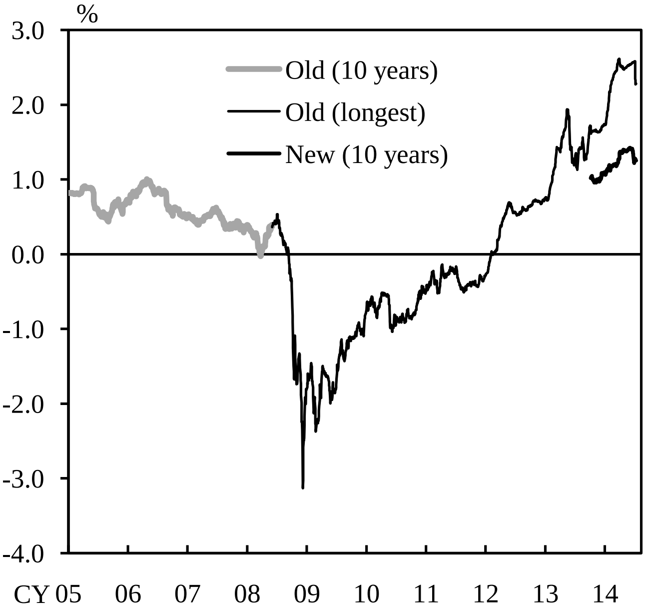


(3) Market Participants

<QUICK Survey>[5]



<BEI for Inflation-Indexed JGBs>[6]



Notes: 1. Figures are for all households.

2. The Consumer Confidence Survey asks households to provide their price expectations one year from now. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively.

3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.

4. Figures for the ESP Forecast exclude the effects of the consumption tax hikes.

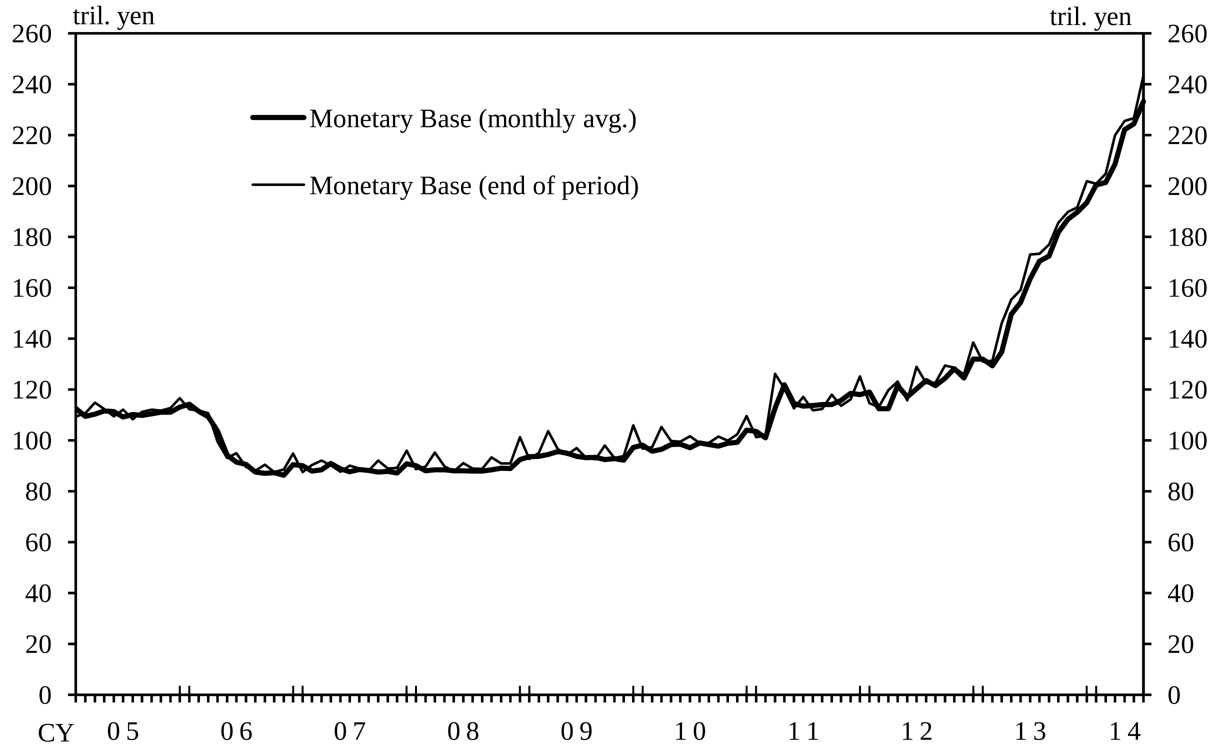
5. From the September 2013 survey, the QUICK Monthly Market Survey (Bonds) has asked respondents to include the effects of the consumption tax hikes.

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 are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of the inflation-indexed JGBs, which matures in June 2018.

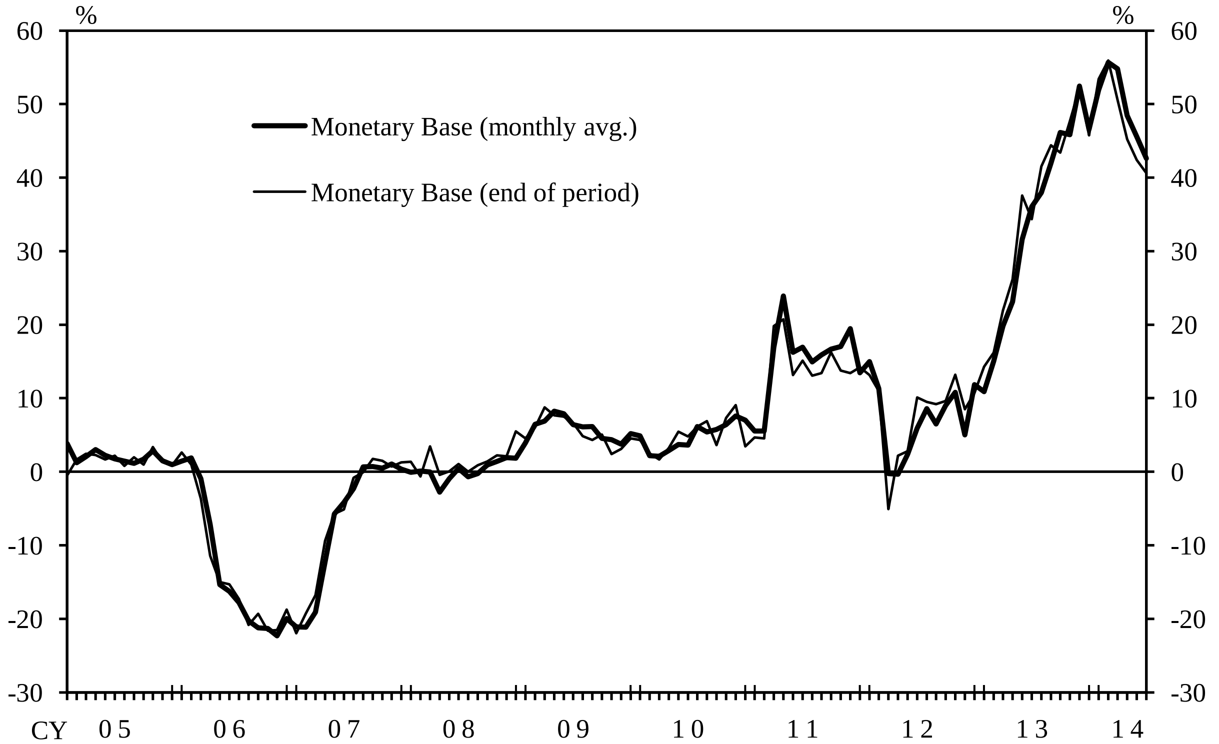
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

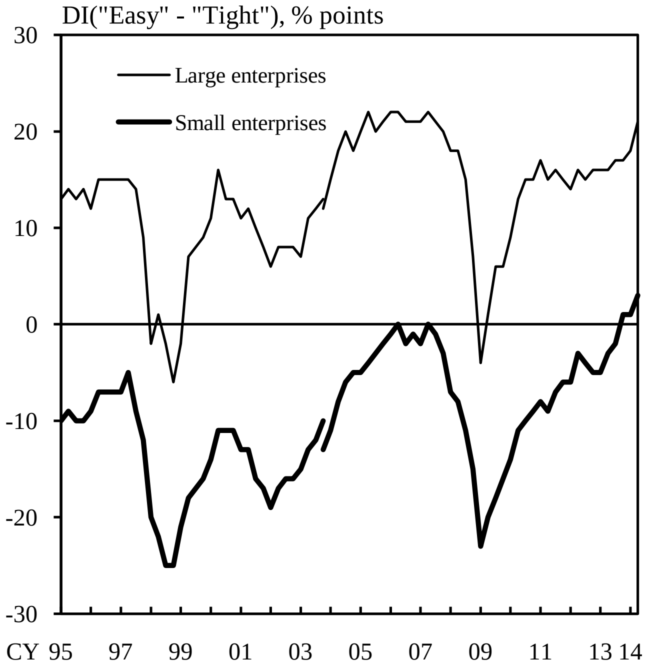


Source: Bank of Japan.

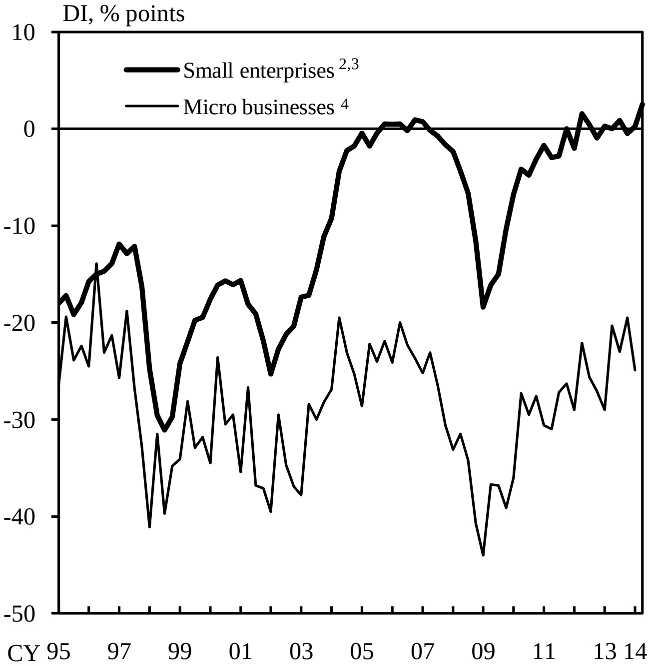
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan[1]>

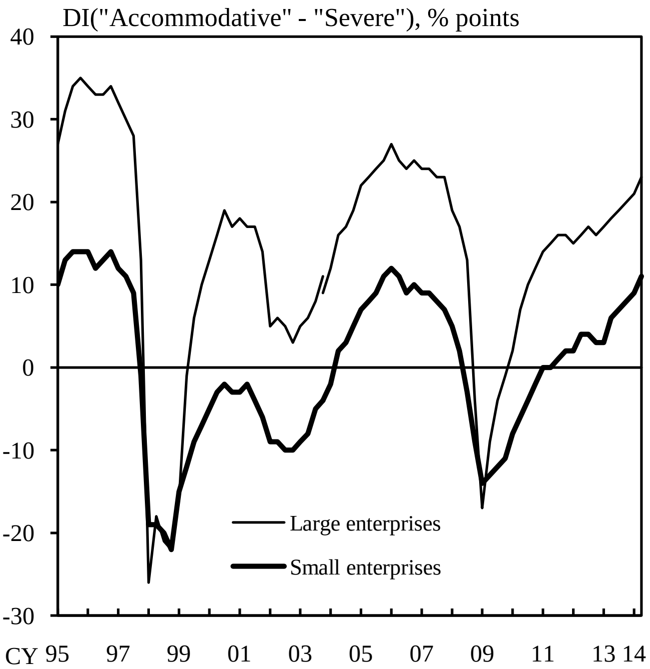


<Japan Finance Corporation Survey>

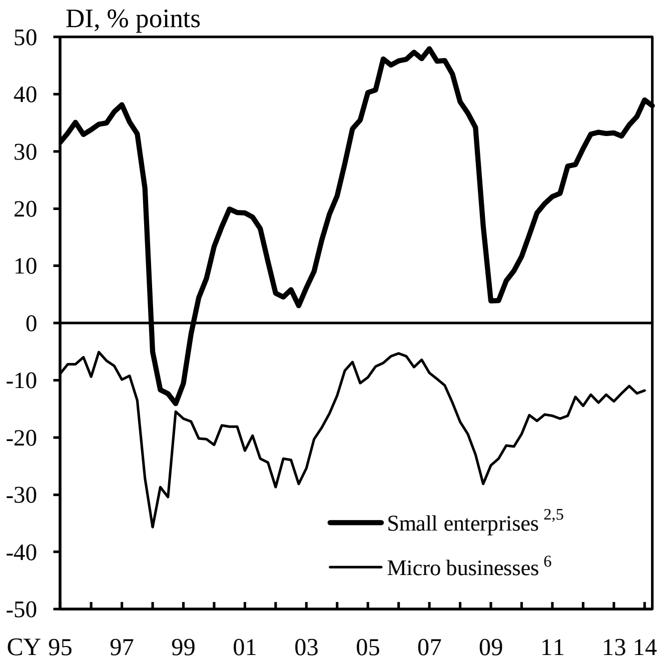


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan[1]>



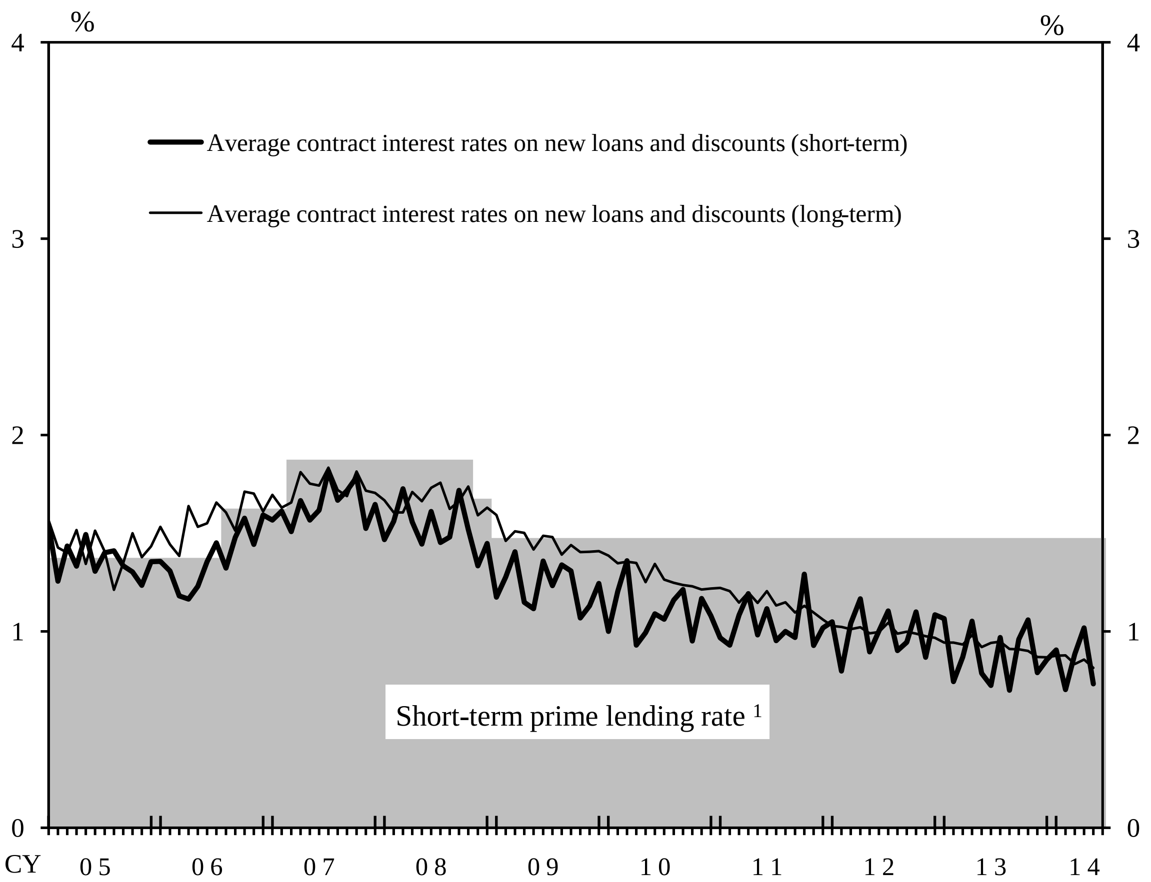
<Japan Finance Corporation Survey>



Notes: 1. Data of the "Tankan" are based on all industries. The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.
2. Figures are quarterly averages of monthly data.
3. DI of "Easy" - "Tight."
4. DI of "Easier" - "Tighter."
5. DI of "Accommodative" - "Severe."
6. DI of "More accommodative" - "More severe."

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

Lending Rates

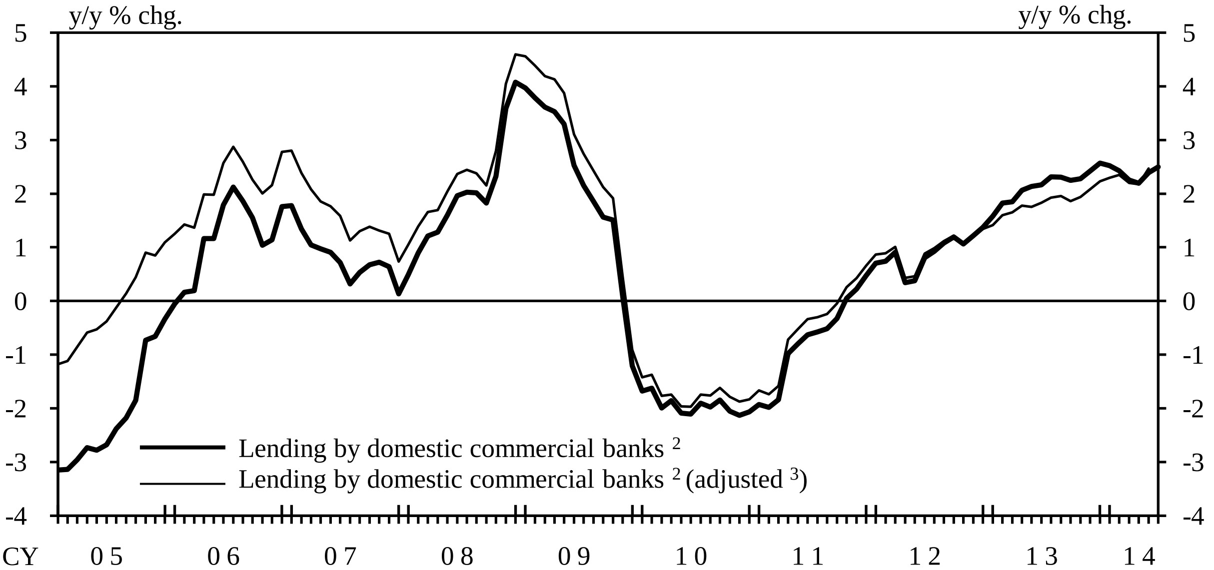


Note: 1. Data are at end of period.

Source: Bank of Japan.

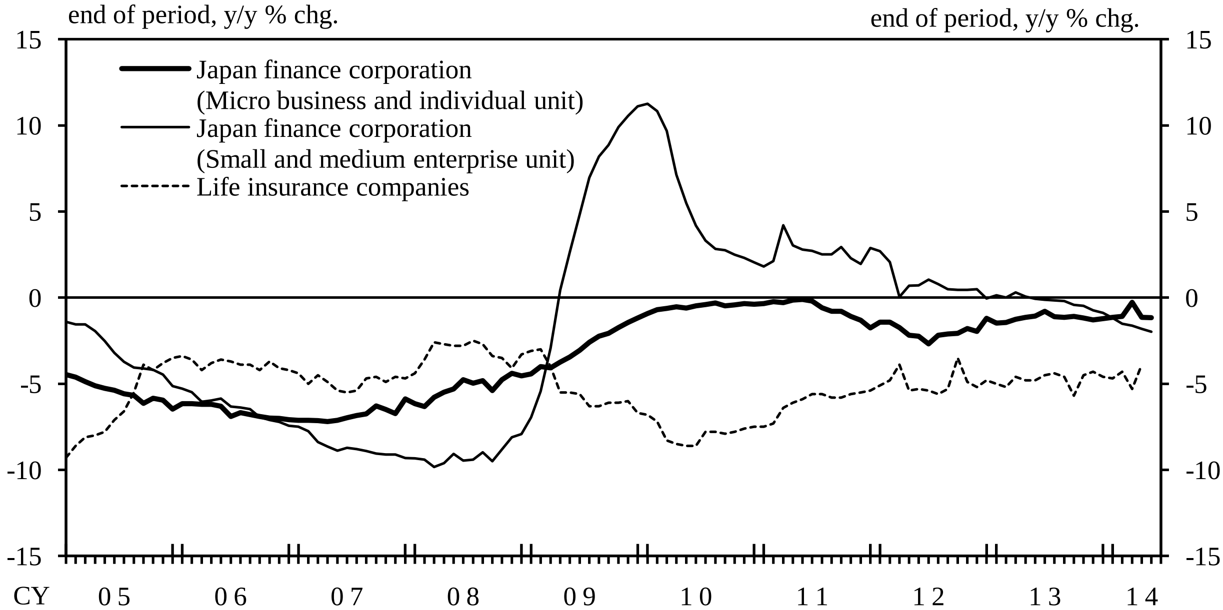
Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks[1]



Notes: 1. Percent changes in average amounts outstanding from a year earlier.
2. "Domestic commercial banks" refers to major banks, regional banks I, and regional banks II.
3. Adjusted to exclude
(1) fluctuations due to the liquidation of loans,
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
(3) fluctuations due to loan write-offs,
(4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
(5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

(2) Lending by Other Financial Institutions

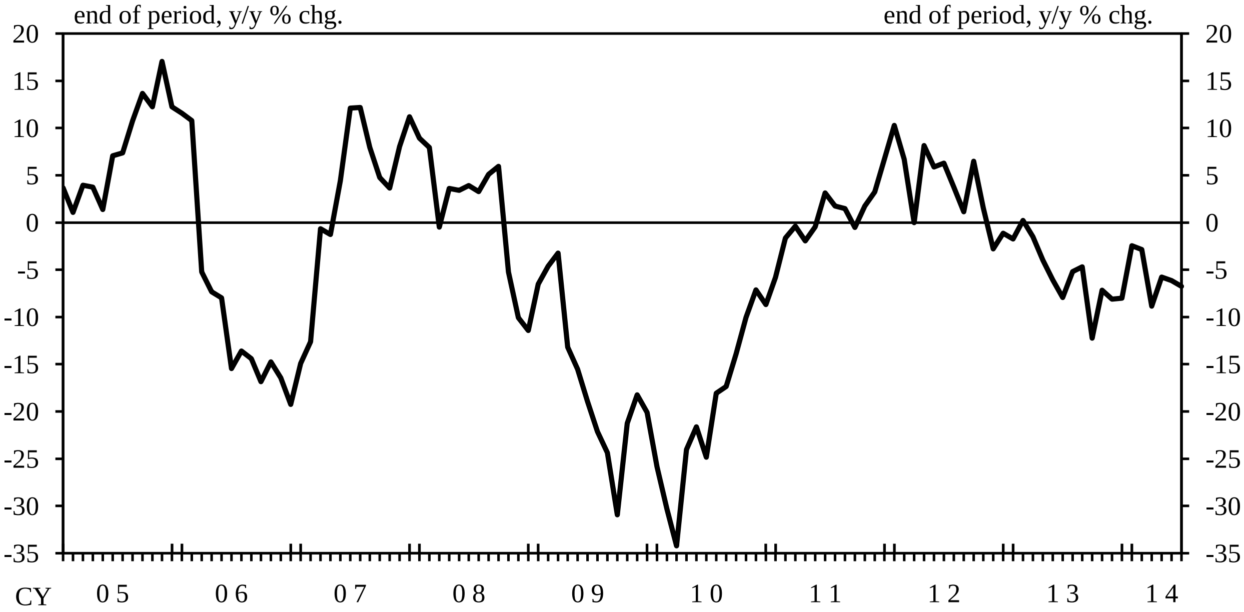


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

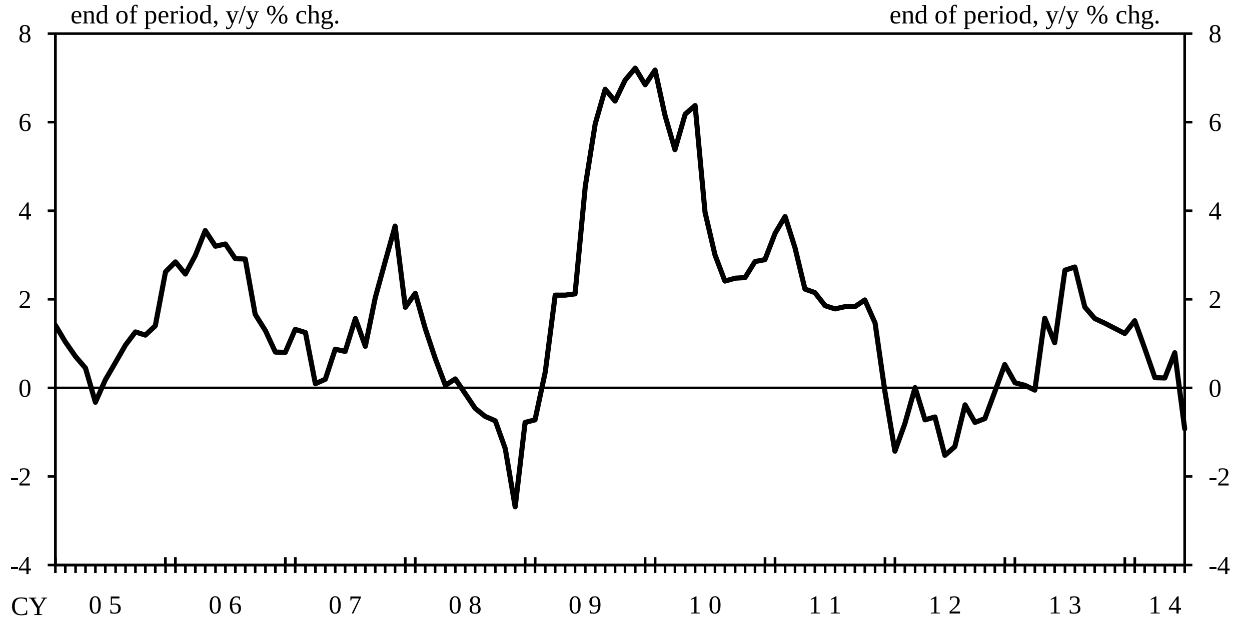
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

(2) Amount Outstanding of Corporate Bonds

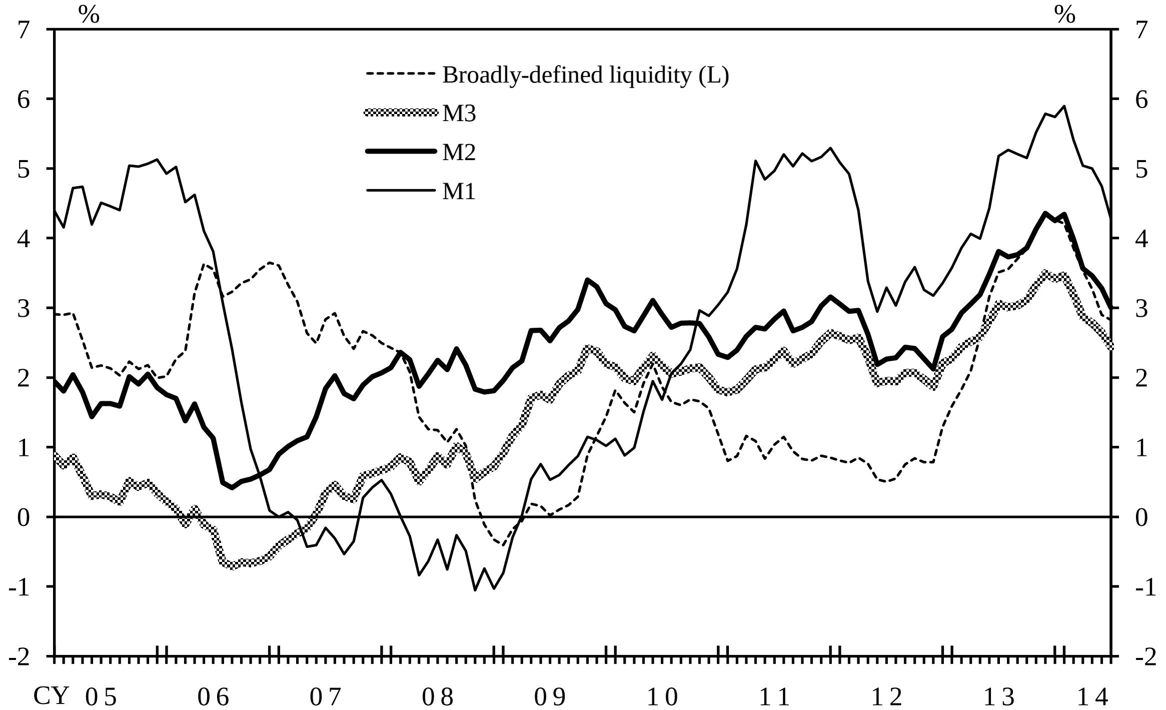


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
(1) The sum of straight bonds issued in both domestic and overseas markets is used.
(2) Bonds issued by banks are included.
(3) Domestic bonds are those registered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

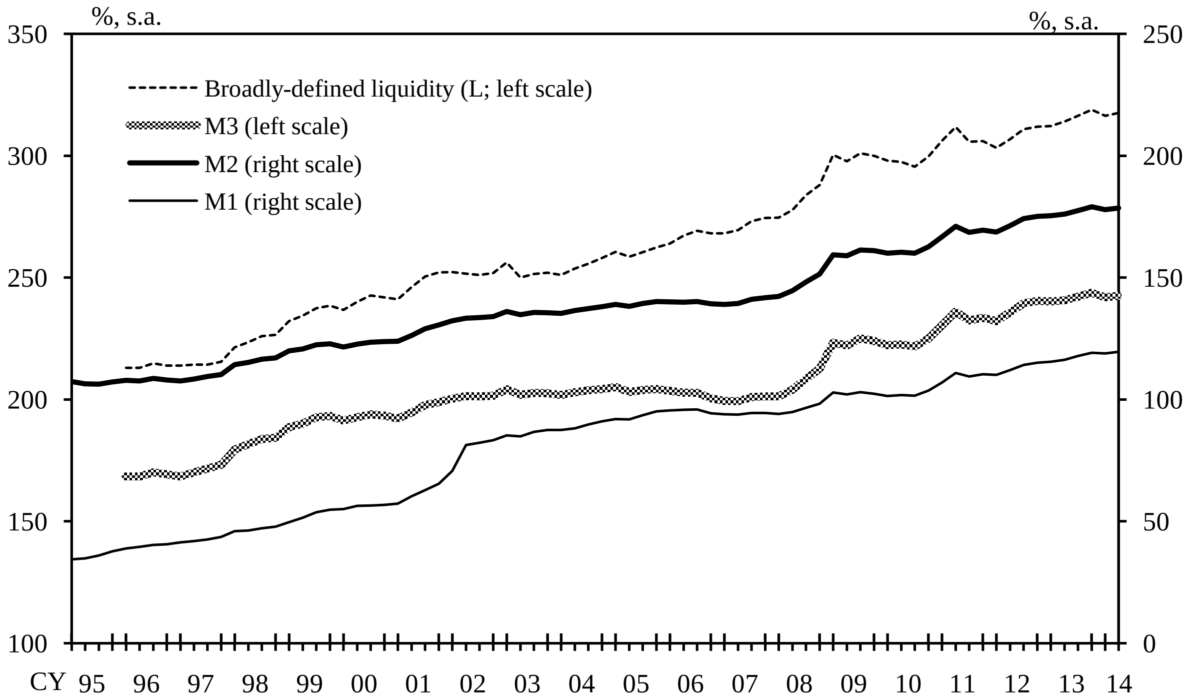
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

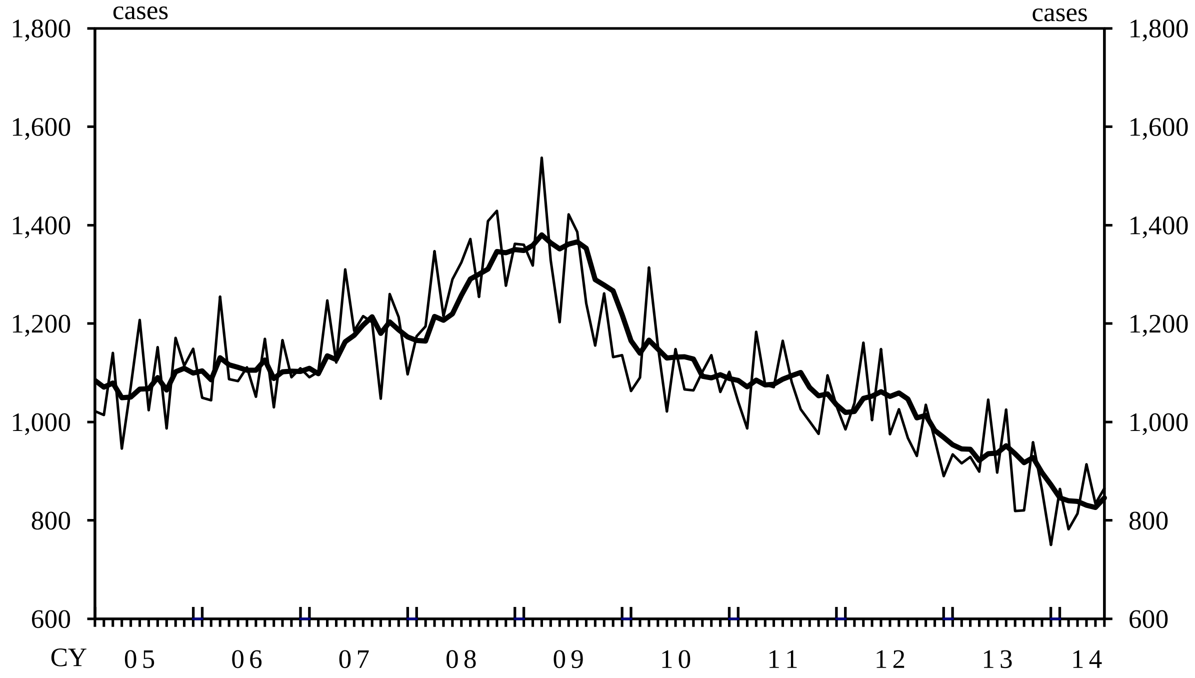


Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2003 are based on the former series.
4. The figure for nominal GDP in 2014/Q2 is assumed to be unchanged from the previous quarter.

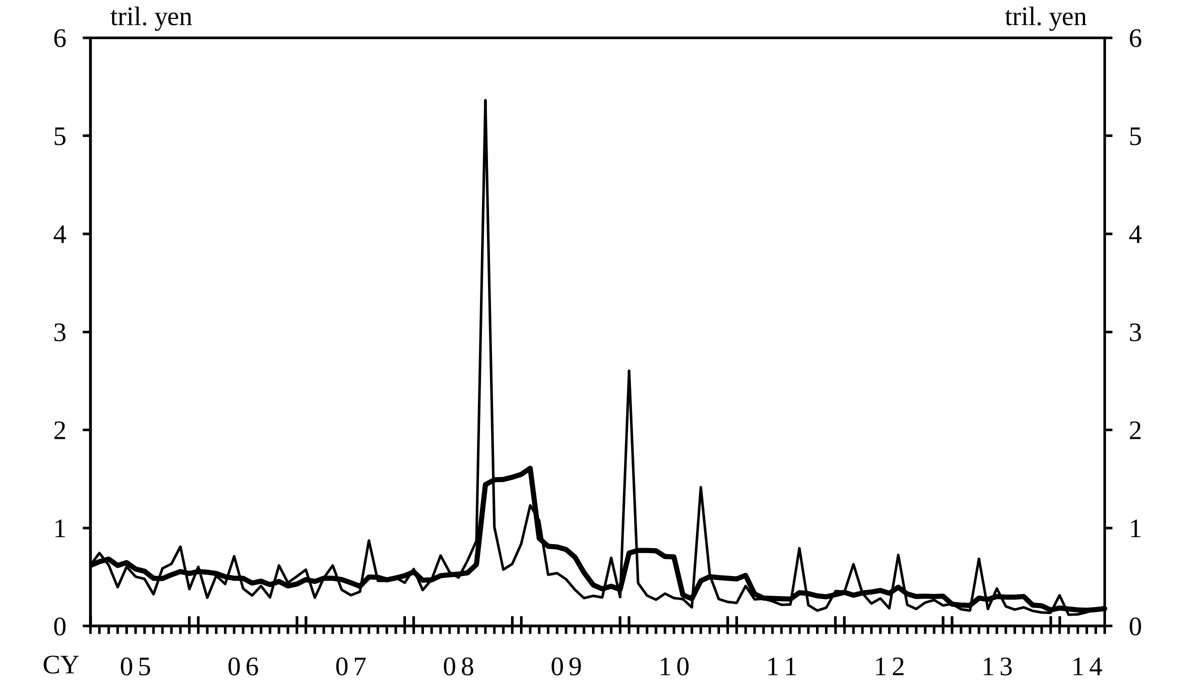
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

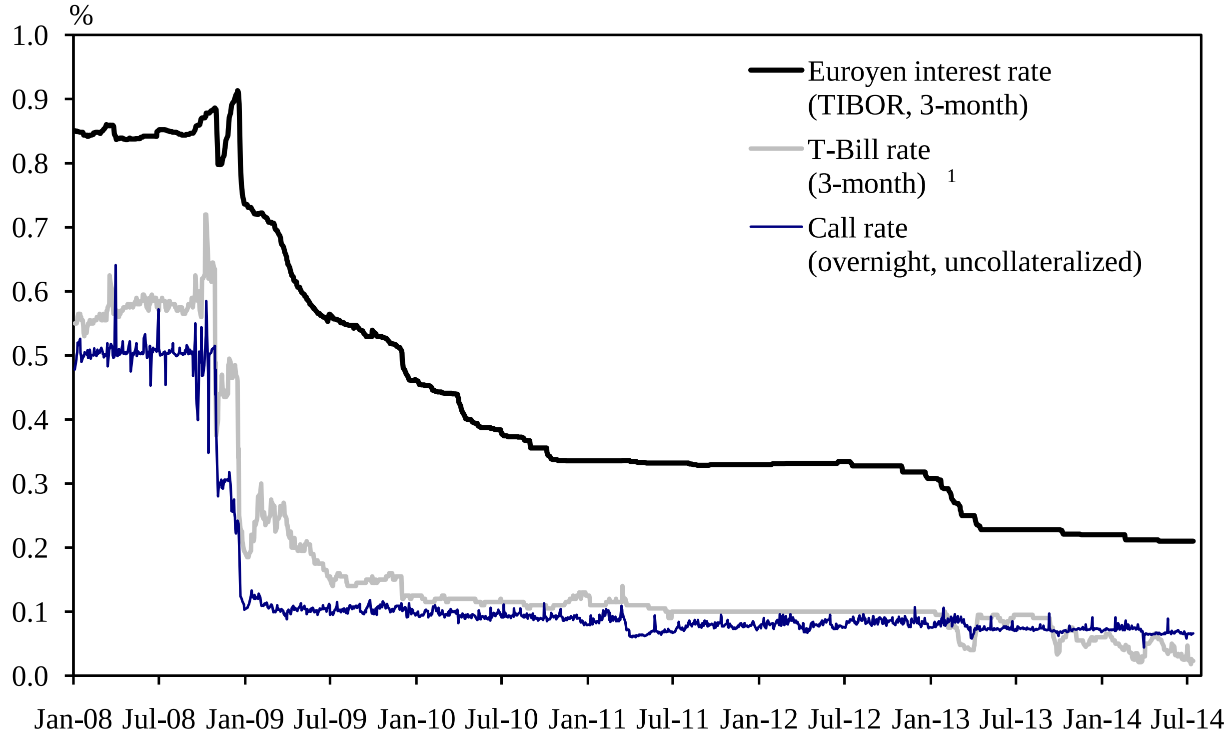


Note: Bold lines are the six-month moving average.

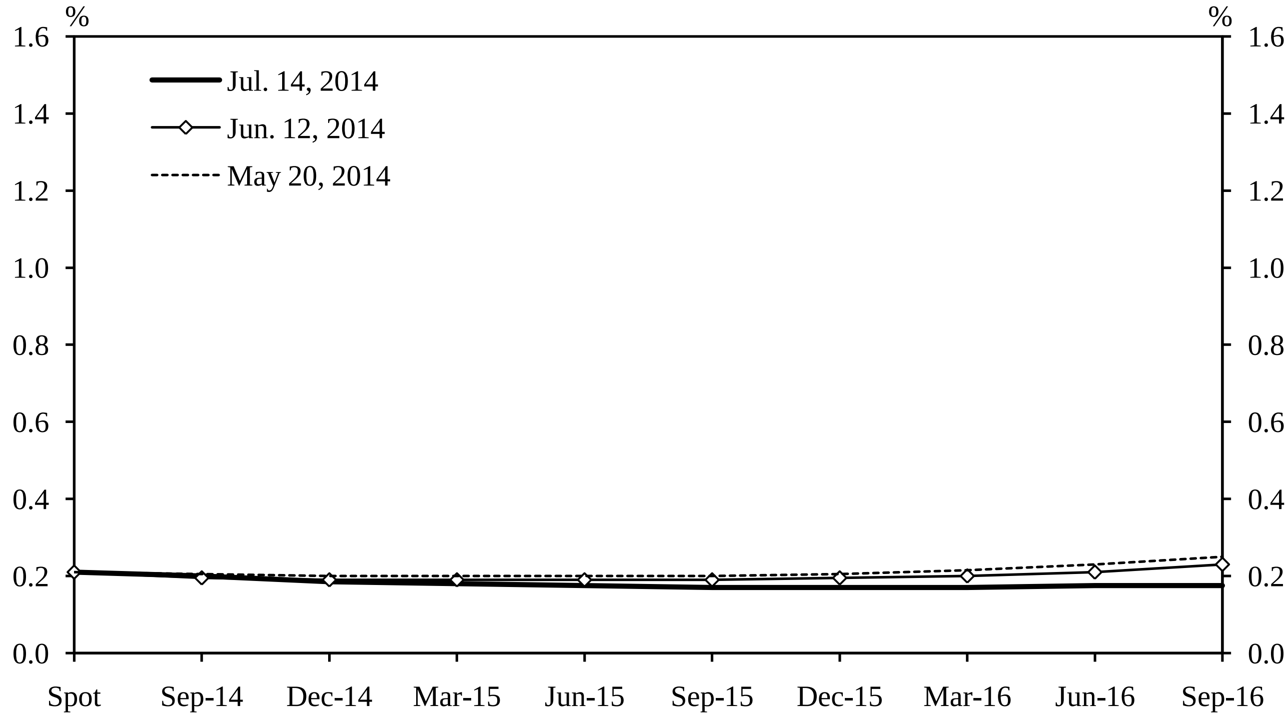
Source: Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



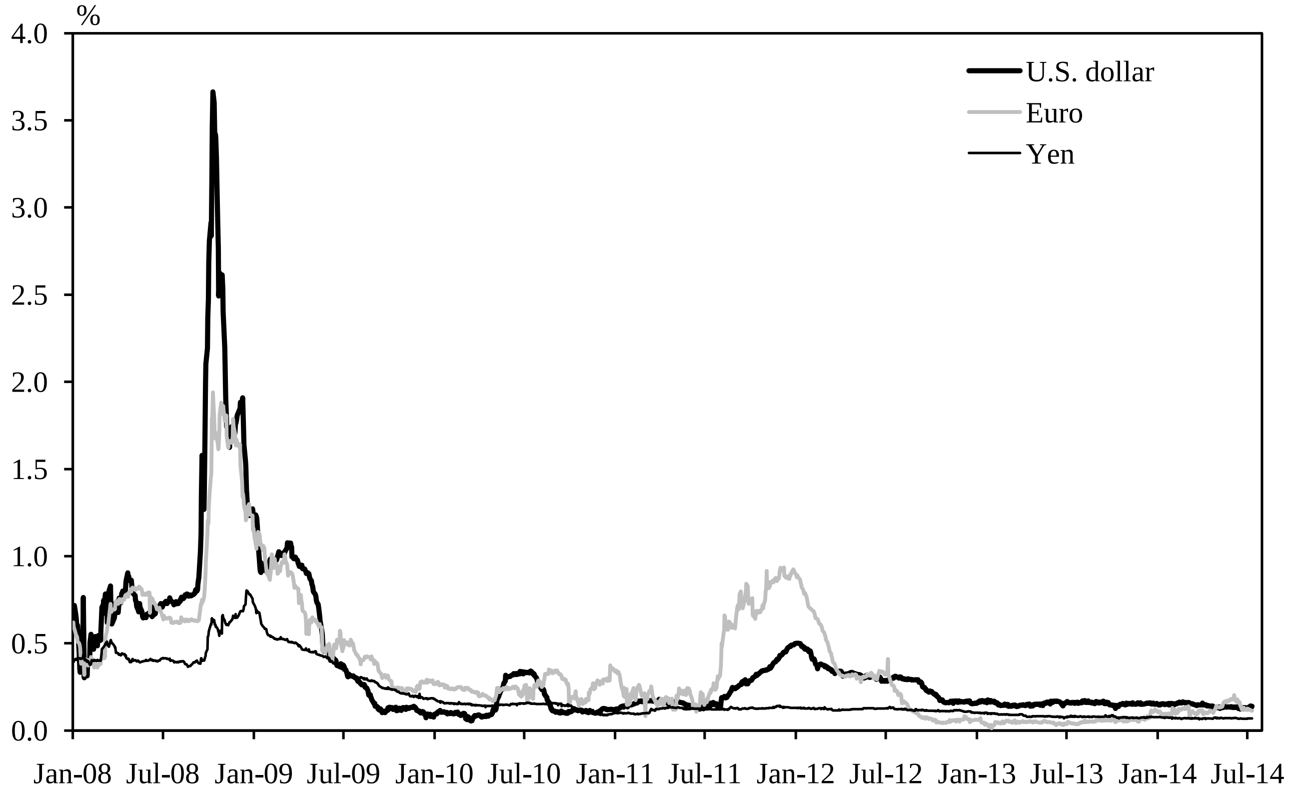
(2) Euroyen Interest Rate Futures (3-Month)



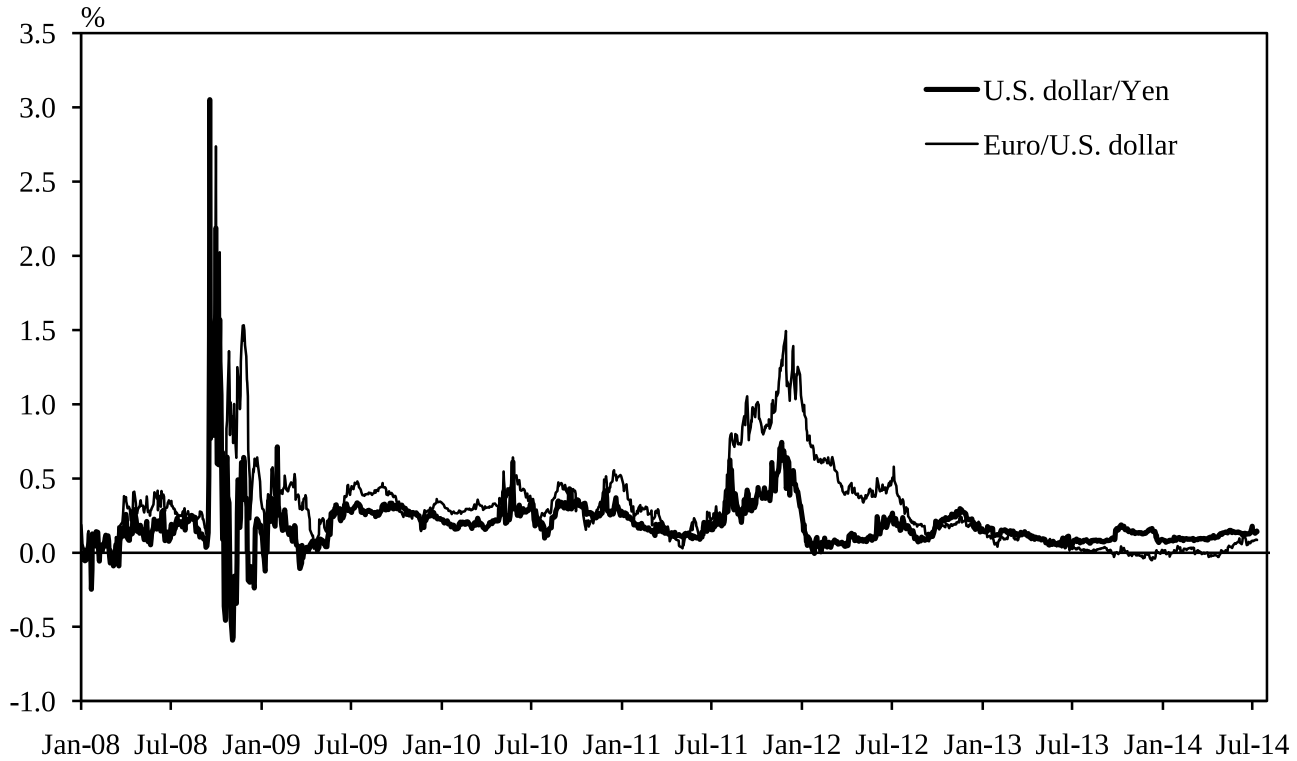
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
Sources: Japanese Bankers Association; Bloomberg; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



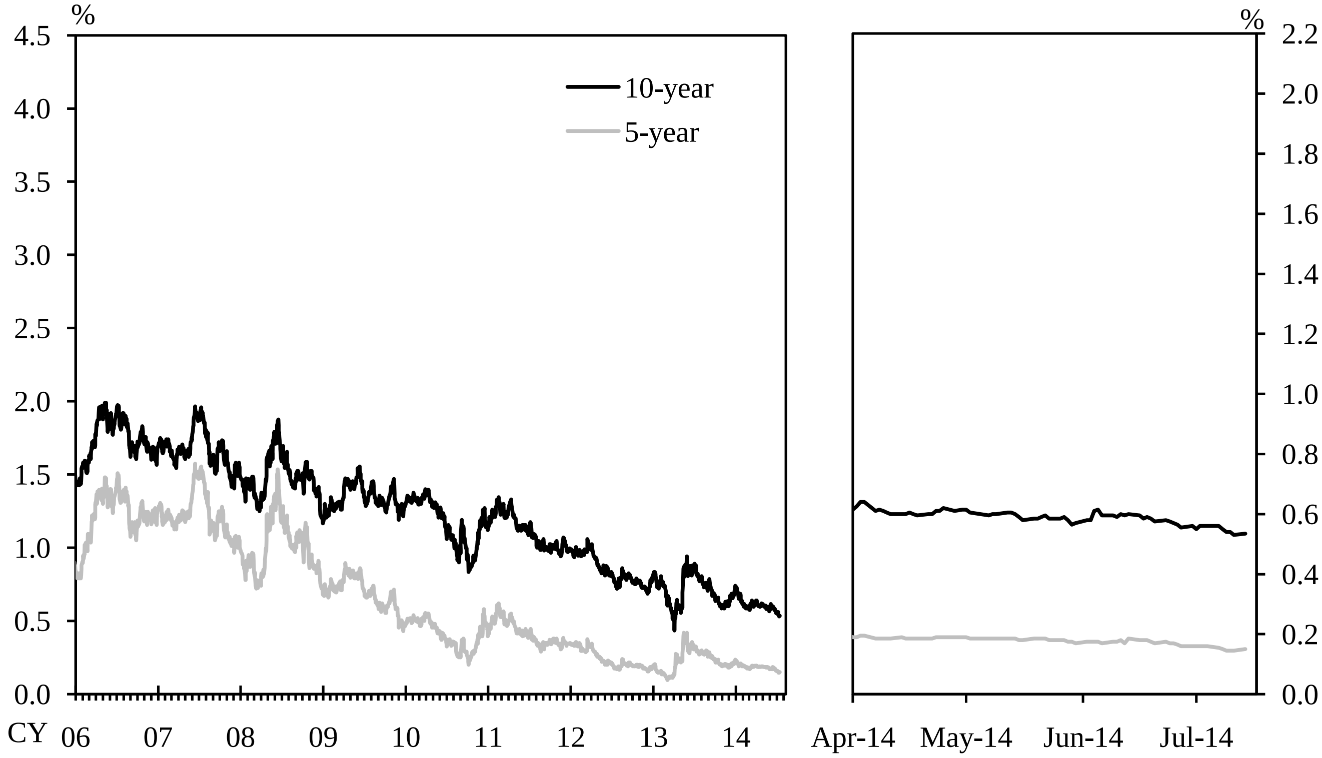
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



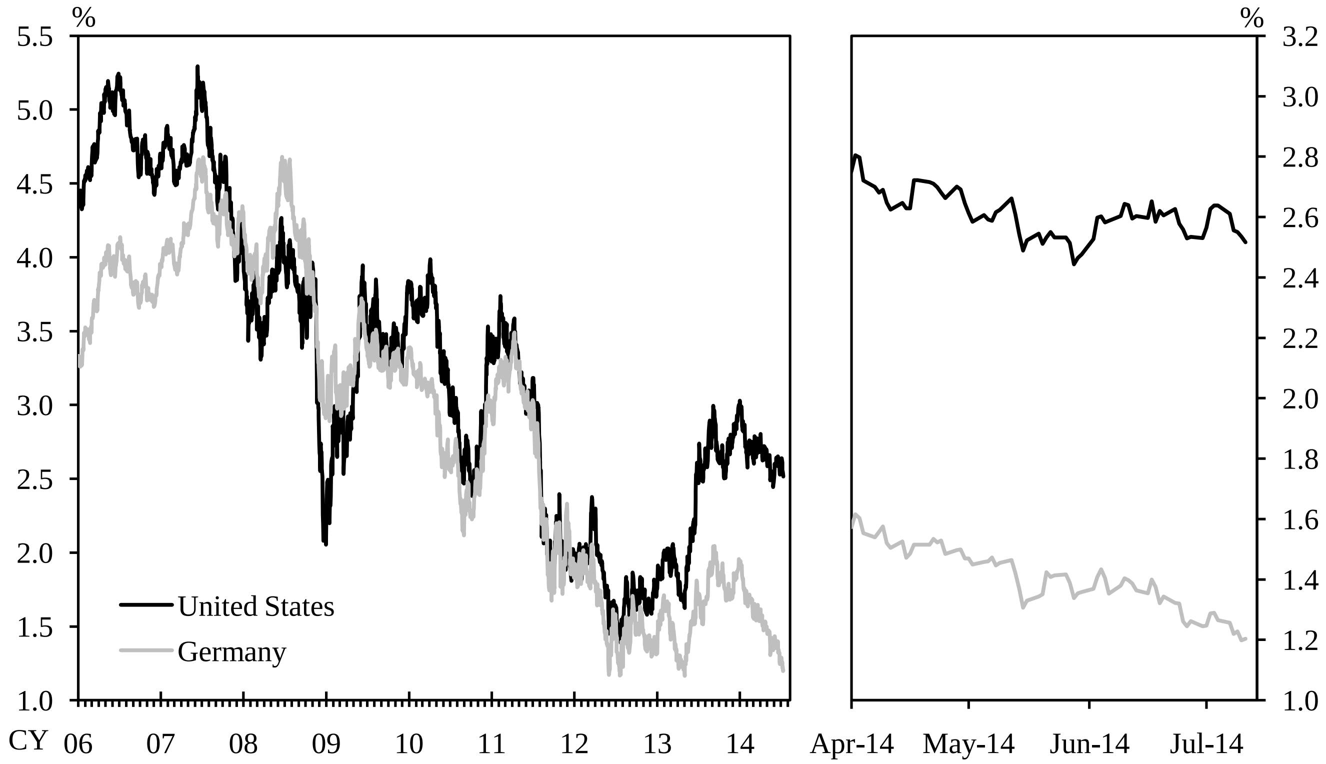
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields[1]



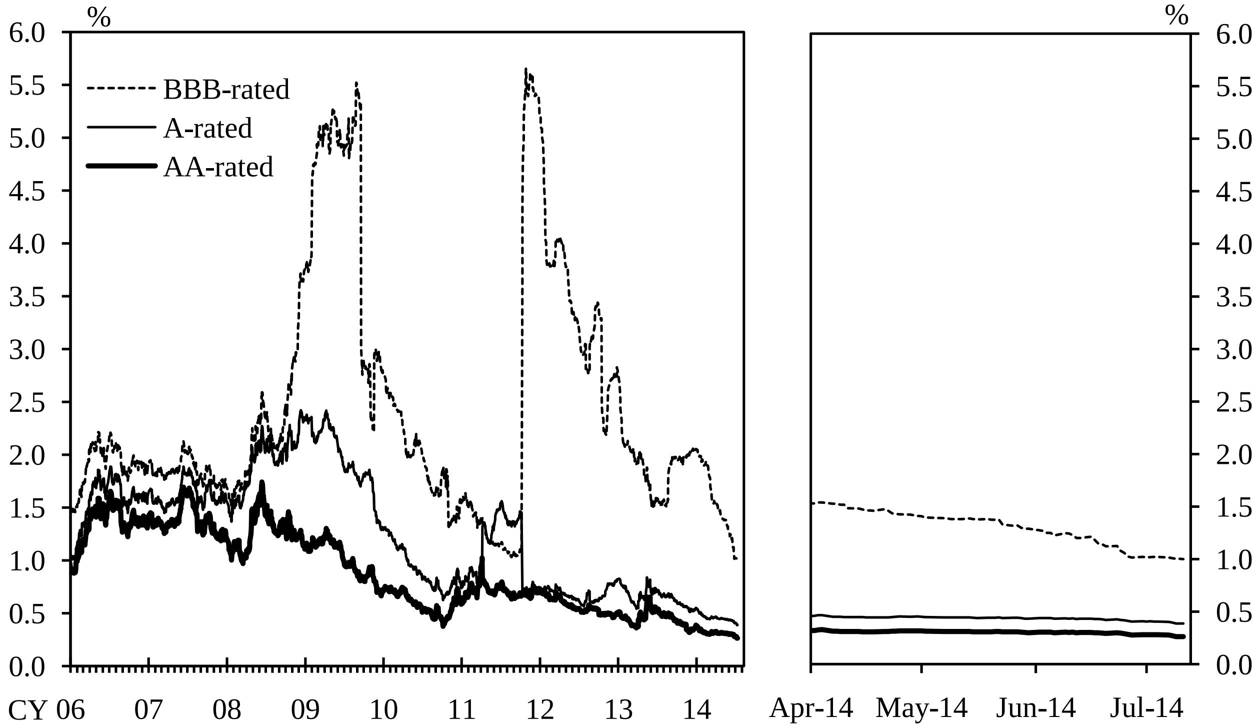
(2) Overseas Government Bond Yields (10-Year)



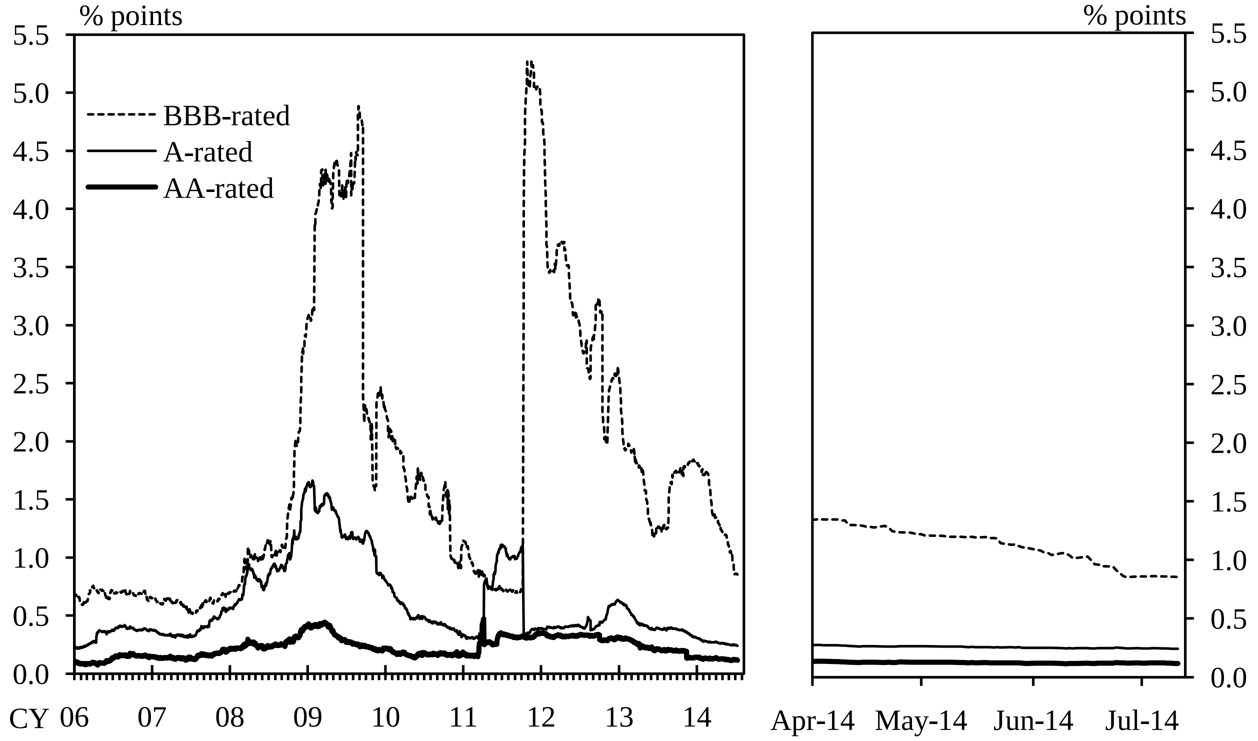
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields[1,2]



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

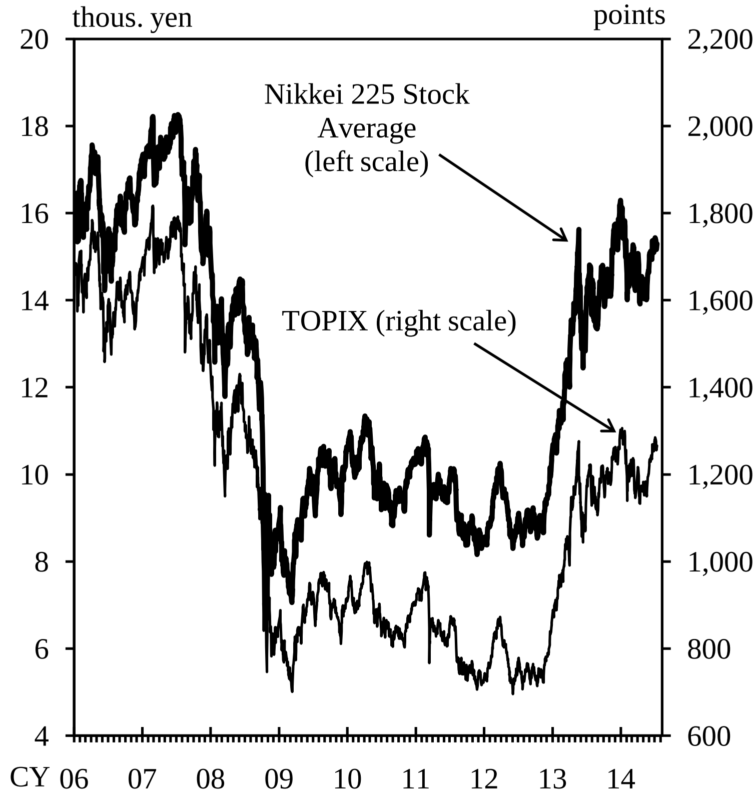


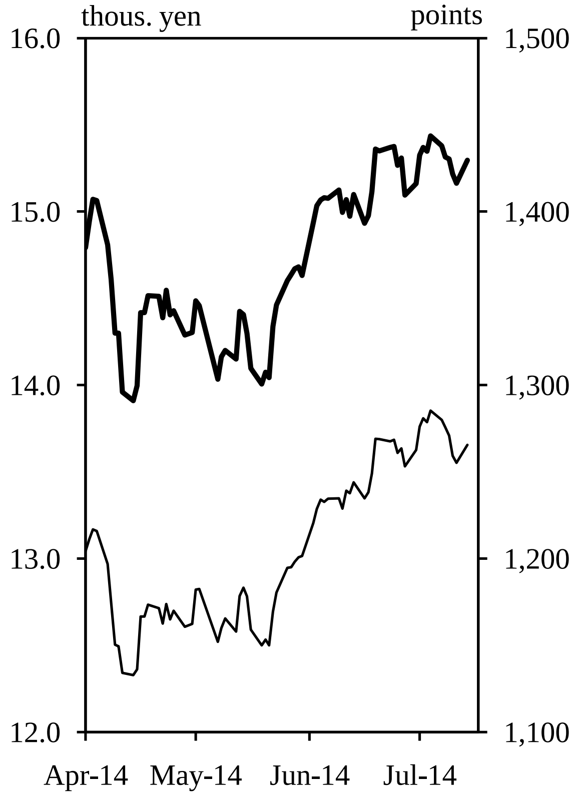
Notes: 1. Yields on bonds with 5-year maturity.
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
2. The indicated ratings are of Rating and Investment Information, Inc.

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

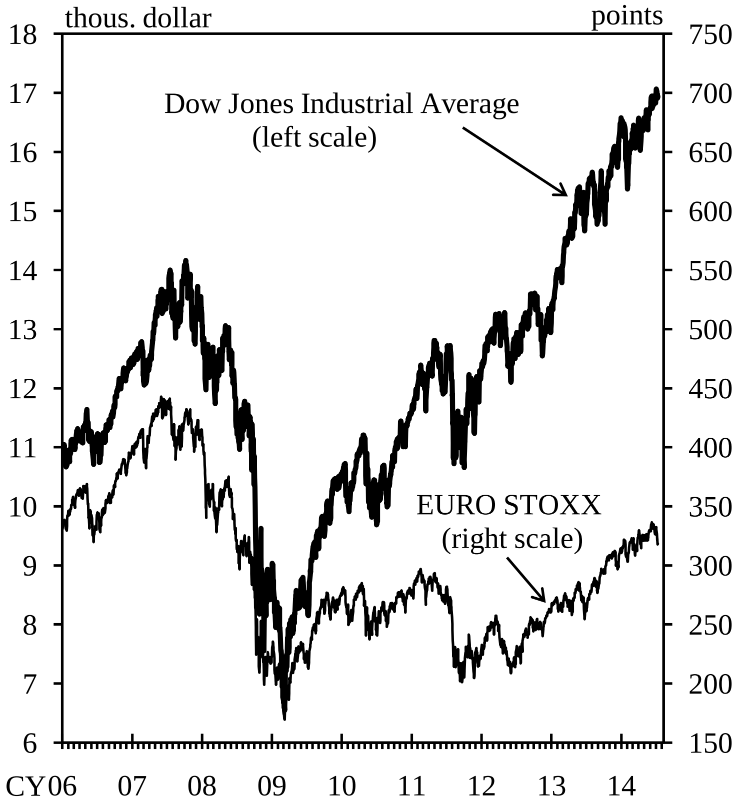
Stock Prices

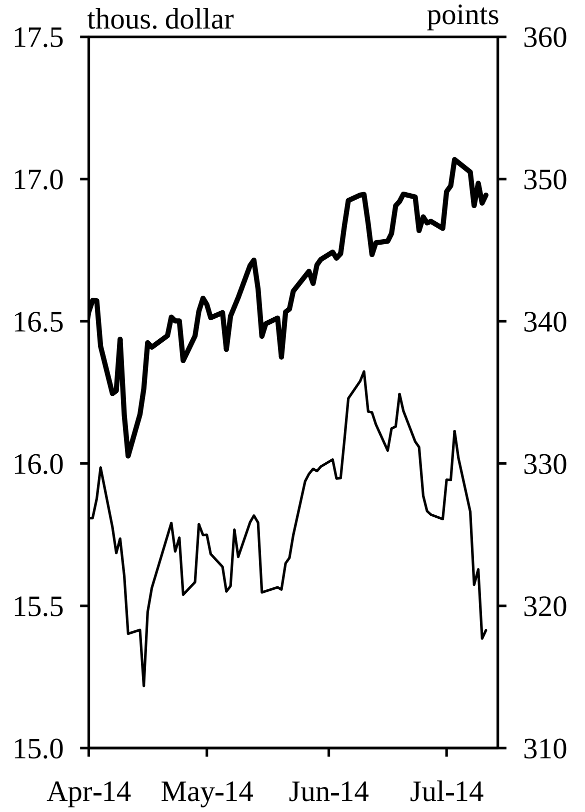
(1) Japanese Stock Prices





(2) Overseas Stock Prices

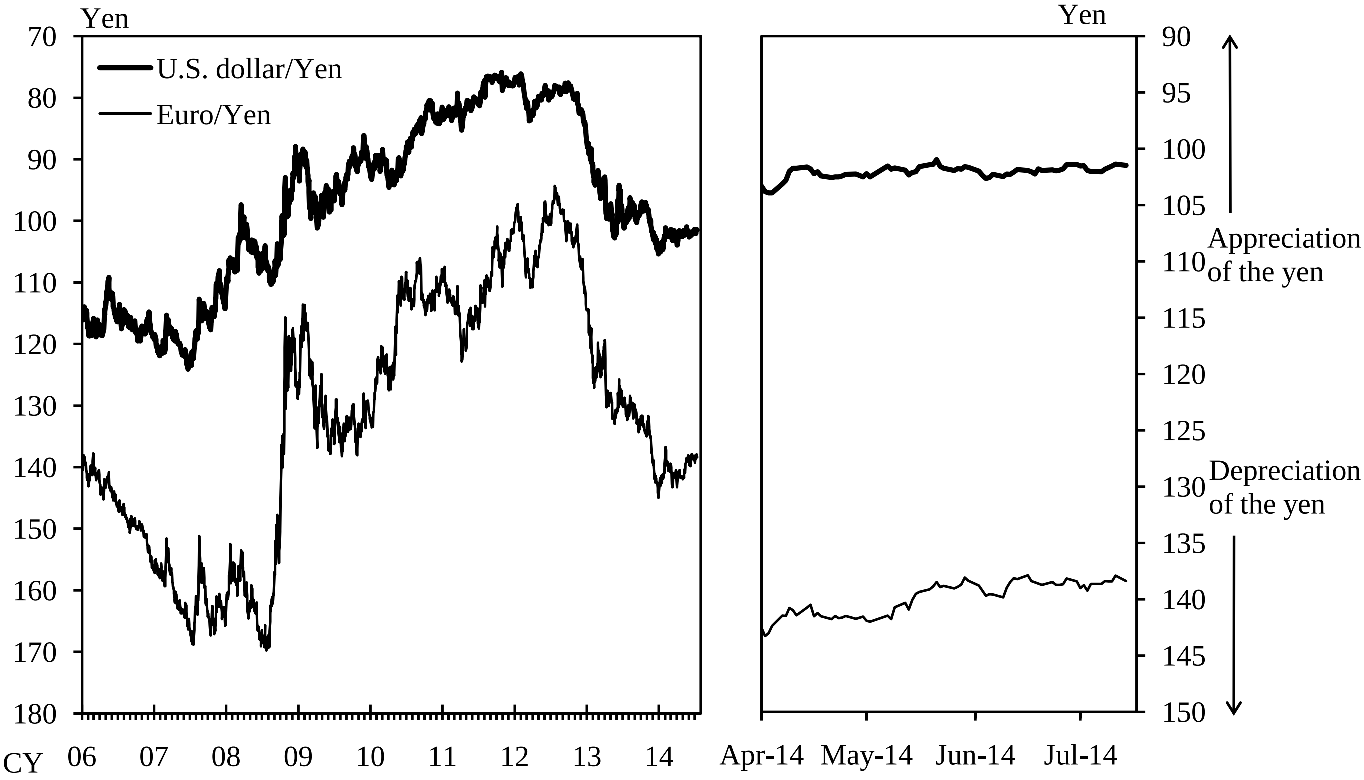




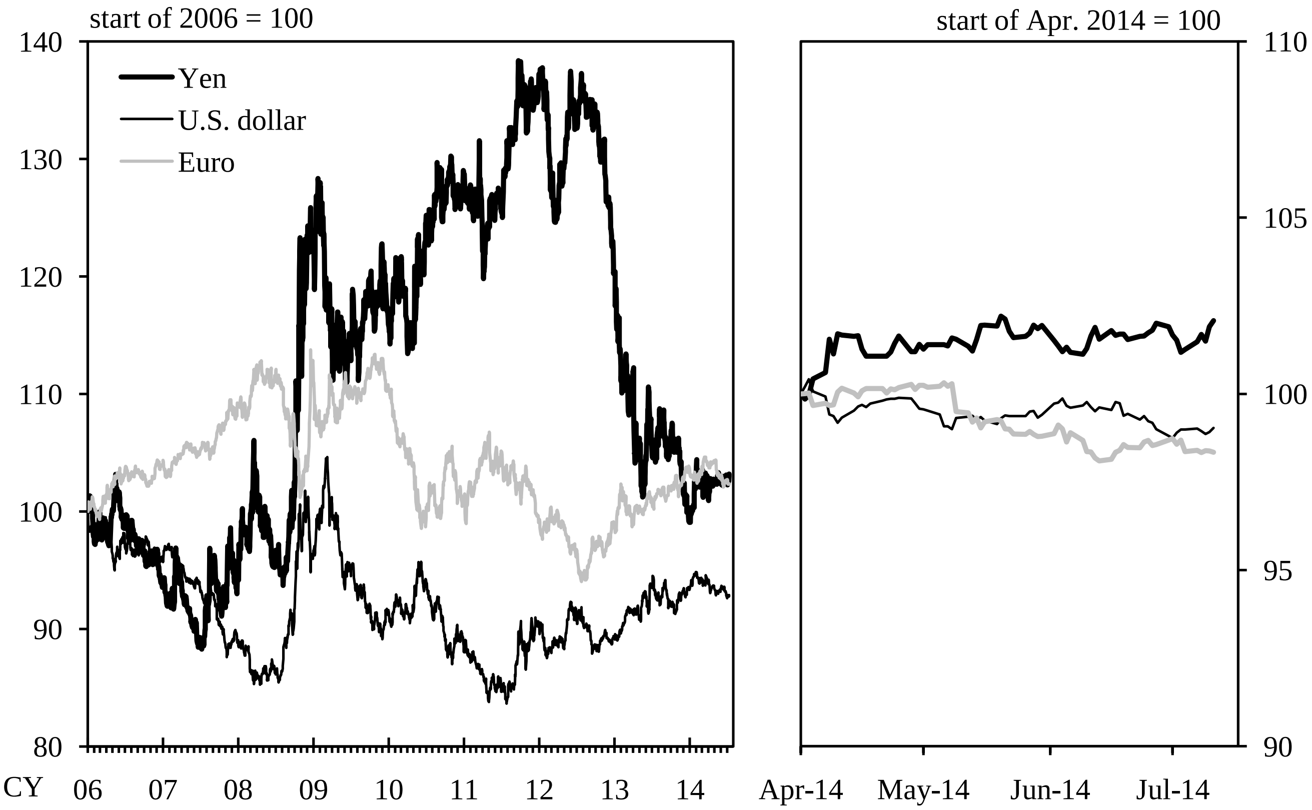
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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