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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
October 2014**

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Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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Summary

Japan's economy has continued to recover moderately as a trend, although some weakness particularly on the production side has been observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike.

Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. Exports have shown some weakness. 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 has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole, albeit unevenly. As for housing investment, the decline following the front-loaded increase has continued. Industrial production has recently been showing some weakness, due in part to inventory adjustments. Business sentiment has generally stayed at a favorable level, although its improvement has paused due mainly to the effects of the consumption tax hike.

With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects including those 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 head for a moderate increase 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 for the time being. Business fixed investment is projected to follow a moderate increasing trend as corporate profits continue their improving trend. Private consumption is

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 6 and 7, 2014.

expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase are expected to wane further. Housing investment is projected to regain its resilience gradually, while the effects of the decline following the front-loaded increase are expected to remain for the time being. Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase, after showing some weakness for the time being.

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 more or less flat 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. 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 stay more or less flat for the time being, and the year-on-year rate of increase in consumer prices is likely to be around 1¼ percent for some time.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been at around 35 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 in the range of 2.0-2.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative. Firms' financial positions have been favorable. 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, the value of the yen against the U.S. dollar has fallen. Meanwhile, long-term interest rates and stock prices have remained at more or less the same levels as last month.

1. Economic Developments

Public investment has more or less leveled off at a high level. The amount of public construction completed—which reflects the progress of public works—rose again in the second quarter, albeit slightly, on a quarter-on-quarter basis, mainly due to the effects of the supplementary budget for fiscal 2013, after turning down slightly in the first quarter, and continued to increase in July as well, relative to the second quarter (Chart 5). After increasing in the first quarter, the value of public works contracted—a measure that reflects public orders—registered a sizeable increase in the second quarter, assisted partly by the effects of the early implementation of the initial budget for fiscal 2014, but it fell back in July-August from the second quarter.

Public investment is expected to continue leveling off more or less at a high level for the time being.

Real exports have shown some weakness (Charts 6[1] and 7). They marked a slight increase in July-August relative to the second quarter, after declining slightly in both the first and second quarters on a quarter-on-quarter basis. One main reason why exports have continued to lose pace is that emerging economies that have strong economic ties with Japan's economy, including some ASEAN economies, have been sluggish. In addition, successive movements, mainly by Japanese automakers to expand their production base overseas through this year, have still been exerting downward pressure on exports. Looking at movements in exports by region (Chart 7[1]), exports to the United States, after increasing slightly in the first quarter on a quarter-on-quarter basis, decreased in the second quarter and registered a marginal decline in July-August compared with the second quarter. The decline in exports to the United States since early spring is considered to be attributable to the fact that the aforementioned factors, such as the expansion of production base overseas, have been exerting downward pressure on exports, mainly those of motor vehicles and their related goods. Exports to the EU increased for five consecutive quarters and also inched upward in July-August relative to the second quarter; they have continued to trend moderately upward, mainly in motor vehicles and their related goods, as well as in capital goods and parts. Exports to China were almost flat in July-August compared with the second quarter, after declining for two quarters in a row in the first and second quarters; the pick-up in exports has paused, mainly in intermediate goods

and in capital goods and parts. Exports to NIEs have shown both upward and downward movements: they fell in the second quarter for the first time in three quarters, but bounced back again in July-August relative to the second quarter. Exports to ASEAN almost leveled off temporarily in the second quarter after decreasing for seven consecutive quarters, but they have remained somewhat sluggish, showing a decline again in July-August compared with the second quarter. Meanwhile, exports to Others—which had increased slightly in the second quarter on a quarter-on-quarter basis, after being relatively weak since the middle of last year—rose slightly in July-August as well relative to the second quarter, mainly in motor vehicles and their related goods. By goods (Chart 7[2]), exports of motor vehicles and their related goods fell toward the first quarter and stayed more or less flat in the second quarter, but they increased in July-August compared with the second quarter, mainly in those bound for Others and the EU. Exports of motor vehicles and their related goods—which have recently fluctuated somewhat sharply—are considered to stay on an increasing trend, albeit moderately. Exports of capital goods and parts seem to be picking up as a whole, primarily reflecting developments in business fixed investment abroad, despite persisting sluggishness among those bound for East Asia including China. Exports of IT-related goods have picked up, mainly due to movements in parts for new smartphone products. In contrast, exports of intermediate goods, including iron and steel as well as chemicals, have been somewhat weak, mainly in those to East Asia.

As for real imports, the effects of the decline in demand following the front-loaded increase in line with the consumption tax hike have gradually begun to wane, while they have continued to trend moderately upward against the backdrop of firm domestic demand (Charts 6[1] and 9). Real imports stepped up their quarter-on-quarter growth in the first quarter due to the front-loaded increase in demand prior to the consumption tax hike and in line with the ending of support for some software (operating system), but they fell back sharply in the second quarter in response to prior increases. Thereafter, imports were almost flat in July-August compared with the second quarter, and the effects of the decline in demand following the front-loaded increase have gradually begun to wane. Looking at movements in imports by goods (Chart 9[2]), those of raw materials fell back substantially in the second quarter from the 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, but they increased again in July-August compared with the second quarter. Imports of consumer goods have recently begun to pick up, after declining noticeably in the second quarter due mainly to the effects of the decline in demand following the consumption tax hike. On the other hand, imports of IT-related goods continued to decline in July-August due to the following reasons: (i) the effects of the decline in demand following the front-loaded increase in line with the ending of support for some software have remained, and (ii) inventories of smartphones have been drawn down prior to the sales of new models. Imports of capital goods and parts have continued to pick up as a trend, albeit with fluctuations, mainly as a reflection of developments in business fixed investment at home. Meanwhile, imports of intermediate goods, as a reflection of movements in domestic production, fell back in the second quarter from the high growth in the first quarter and declined slightly in July-August as well compared with the second quarter.

Net exports—in terms of the real trade balance—have improved, after bottoming in the first 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]), the current account balance showed a surplus again in the second quarter, since the volume of deficit of the trade balance diminished as imports fell back, although the current account balance tentatively turned to a deficit in the first quarter, mainly because of an increase in the volume of deficit of the trade balance in line with an increase in imports as a reflection of the front-loaded increase in demand. In July, although the volume of deficit of the trade balance increased a little relative to the second quarter, the current account balance has maintained a surplus, assisted partly by the expansion in the surplus of the primary income balance.

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 economic recovery has started to take hold, as the firmness in the household sector has been feeding through to the corporate sector. The European economy has been recovering moderately, although its improvement has paused

recently. As for the Chinese economy, stable growth has continued as a trend; recently, however, growth momentum has slowed with downward pressure from an overhang in supply in the manufacturing sector and adjustments in the real estate market. Emerging economies apart from China and commodity-exporting economies have continued to lose pace as a whole. 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 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 it is expected to continue a steady recovery centered on private demand. The European economy is projected to maintain its moderate recovery trend, although attention should be paid to such issues as the outcome of its debt problem and the effects of the slowdown in the Russian economy. As for the Chinese economy, stable growth is projected to continue, albeit with somewhat lower growth rates; the aforementioned downward pressure continues to require close monitoring. Growth in emerging economies apart from China and the commodity-exporting economies might lose pace for a protracted period, although the recovery in advanced economies is basically expected to exert positive effects gradually. Meanwhile, although the expansion of production base overseas, mainly in automobiles, is expected to keep weighing down on exports for the time being, the yen's depreciation since the end of 2012 is considered to ease the downward pressure on exports from a somewhat long-term perspective.

Taking the above into consideration, exports are expected to head for a moderate increase mainly against the background of the recovery in overseas economies. Imports are projected to continue trending moderately upward, mainly as a reflection of movements in domestic demand, and the effects of the decline in private consumption in response to prior increases are expected to wane. 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, albeit with large quarterly fluctuations (Chart 10[1]). As for leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—fell back somewhat significantly in the second quarter from the relatively high growth in the first quarter, but they rose again, albeit at a modest pace, in July compared with the second quarter (Chart 11[1]). 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]). Meanwhile, the production capacity DI in the September *Tankan* was almost flat from the June *Tankan*; as for the outlook, the DI for all industries and enterprises is expected to move slightly into net "insufficient" territory (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 its improvement has paused due mainly to the effects of the consumption tax hike. The business conditions DI for all industries and enterprises in the September *Tankan* remained in "favorable" territory, although it deteriorated slightly relative to the June *Tankan*. Compared with the forecast at the time of the June survey, however, the DI shifted somewhat downward; it seems that the recovery in housing investment and private consumption might have lagged somewhat behind from firms' projections, due in part to the effects of the irregular weather during this summer. By industry and size (Chart 13), the DI for large manufacturing firms was almost flat from the June survey, whereas that for small manufacturing firms deteriorated marginally. Looking in more detail by industry, industries such as lumber & wood products, pulp & paper, and processed metals saw their DIs deteriorate, as a reflection of the sluggishness in housing investment; the DIs for food & beverages (mainly beverages) and petroleum & coal products (gasoline) also deteriorated. On the other hand, the DIs for general-purpose machinery and production machinery held steady in response to developments in business fixed investment at home and abroad; those for electrical machinery and motor vehicles

improved, mainly as a reflection of favorable overseas earnings, despite the ongoing decline in demand following the front-loaded increase. The DI for nonmanufacturing firms deteriorated for large firms and deteriorated slightly for small firms. Looking at noticeable movements in terms of changes from the June survey, the DIs for retailing, services for individuals, and accommodations, eating & drinking services deteriorated, due to the effects of the decline in demand following the front-loaded increase and the irregular weather during this summer; the DI for real estate also deteriorated somewhat significantly against the backdrop of the decline in housing investment in response to prior increases. In addition, the DIs for communications, information services, and services for businesses deteriorated, due in part to some weakness on the production side as well as to various cost increases, including personnel expenses.

Corporate profits are projected to continue an improving trend, albeit with fluctuations, supported by firm domestic demand and partly by exports heading for a moderate increase. Meanwhile, according to business plans of firms in the September *Tankan*, the year-on-year growth of current profits (all industries and enterprises) for fiscal 2014 is forecasted to be negative 4.0 percent after registering a significant increase of 28.4 percent for fiscal 2013. Although firms showed somewhat cautious plans at this stage, the growth rate itself was revised slightly upward from that in the June *Tankan* (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. According to business fixed investment plans for all industries and enterprises in the September *Tankan*, the year-on-year growth of fixed investment (excluding software investment and including land purchasing expenses) for fiscal 2014 is forecasted to be somewhat high with an increase of 4.2 percent, which has been revised upward from the June *Tankan*. By industry and size (Chart 14), the year-on-year growth for both large manufacturing and nonmanufacturing firms is forecasted to be high with an increase of 13.4 percent and 6.3 percent, respectively. As for small firms, the year-on-year growth of fixed investment for fiscal 2014 has been revised steadily upward from the June *Tankan* for both manufacturing and nonmanufacturing firms, although the growth is forecasted to be relatively low partly

in response to the high growth in the previous fiscal year; it is considered that firms have retained their strong investment appetite. Meanwhile, software investment (all industries and enterprises) is forecasted to advance firmly with a year-on-year increase of 5.4 percent. 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 for fiscal 2014 have been revised slightly upward compared with those in the June *Tankan*; they are forecasted to exhibit solid growth with a year-on-year increase of 6.1 percent.

Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole, albeit unevenly (Chart 15). Looking at consumption of goods—as seen through sales at retail stores in real terms (Chart 16[1])—it rose at a significantly accelerated pace in the first quarter due to the front-loaded increase and fell back substantially in the second quarter. It then moved up slightly in July-August relative to the second quarter; the effects of the decline in demand following the front-loaded increase have been waning, mainly in components other than durable goods, despite being affected by weather-related and other factors. Looking at consumption of durable goods (Chart 16[2]), the number of new passenger-car registrations fell substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase and was almost flat in the third quarter. Sales of household electrical appliances in real terms decreased significantly in the second quarter on a quarter-on-quarter basis, due to the decline following (i) the front-loaded demand in line with the consumption tax hike and (ii) the renewal demand for PCs in line with the ending of support for some software; sales in July-August rose but only very slightly, partly since the effects of the irregular weather were observed in sales of air conditioners and other electrical appliances. In this regard, as for durable consumer goods, since the scale of the front-loaded increase in demand was significant to begin with, the subsequent decline is considered to be large in scale and to be dragging on. In relation to this, some manufacturers associated with durable consumer goods have pointed out that the recovery from the decline has lagged behind. Sales at department stores have picked up since May, after declining substantially in April in response to the front-loaded increase in demand (Chart 17[1]). Sales at supermarkets decreased largely in April,

but they have tended to pick up mildly since May. As for sales at convenience stores, fluctuations caused by the front-loaded increase in demand have been relatively small; sales have continued to show their moderate increasing trend. In all of these sectors, the effects of the subsequent decline have been waning gradually, notably in sectors other than durable goods; the effects of the irregular weather during the summer seem to have been abating from the end of August through September. However, some firms have continued to point out that the pace of improvement has been uneven across regions. Meanwhile, as for consumption of services (Chart 17[2]), outlays for travel have been steady, chiefly in domestic travel, with the monthly fluctuations smoothed out. Sales in the food service industry have been affected by issues related to tainted chicken products from China as well as the irregular weather, but they have also remained steady as a trend, disregarding these factors.

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 to the front-loaded increase in demand and then fell back sharply in the second quarter. It generally bottomed out in July-August, but has continued to show some weakness relative to sales statistics, due in part to short-term fluctuations.² The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households)—which had registered high growth in the first quarter as a reflection of the front-loaded increase in demand, notably in durable goods—decreased significantly in the second quarter and was more or less flat in July compared with the second quarter.

Looking at indicators related to consumer confidence, the consumer confidence index had continued its weak development since October last year, but has been on an improving trend since May (Chart 18).

² Movements of income in the *Family Income and Expenditure Survey* have recently diverged downward from those of total cash earnings in the *Monthly Labour Survey*; this might be attributable to the sampling factor.

Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase are expected to wane further.

As for housing investment, the decline following the front-loaded increase has continued. The number of housing starts—a leading indicator of housing investment—has kept falling since the first quarter due to the decline in demand following the front-loaded increase (Chart 19[1]).

Housing investment is projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, also supported by the accommodative financial conditions, while the effects of the decline following the front-loaded increase are expected to remain for the time being.

Industrial production has recently been showing some weakness, due in part to inventory adjustments (Chart 20). Industrial production grew at a somewhat rapid pace in the first quarter this year on a quarter-on-quarter basis, partly in response to the front-loaded increase in demand, but fell back noticeably in the second quarter, and continued to decrease in July-August as well compared with the second quarter. In terms of durable consumer goods (automobiles and household electrical appliances) and construction goods (with ties to housing), inventory adjustments have been observed as the effects of the decline in demand following the front-loaded increase have lingered somewhat; these adjustments have also entrenched in producer goods to a certain degree. By industry, production of transport equipment decreased noticeably in July-August relative to the second quarter following the decline in the second quarter, as inventory adjustments have continued to take place amid a delayed pick-up from the decline in demand following the front-loaded increase. Production of electrical machinery and of information and communication electronics equipment has also continued to register a sizeable decline since early spring, mainly due to the effects of the decline in demand for household electrical appliances (air conditioners and PCs) in response to prior increases. Production of fabricated metals and of ceramics, stone and clay products has been somewhat sluggish, mainly due to the effects of the decline in housing investment in response to prior increases. These developments have affected production such as that of iron and steel and non-ferrous

metals, which has also been relatively weak. On the other hand, production of general-purpose, production and business oriented machinery has risen mildly as a trend, in light of developments in business fixed investment at home and abroad, although production in August fell back from the relatively high growth in July. Production of electronic parts and devices has been on an upward trend as a whole, with parts for smartphone and tablet products produced in Asia having held steady as a trend.

Shipments fell back in the second quarter, after growing at a noticeably accelerated pace in the first quarter. Thereafter, the growth in July-August compared with the second quarter was still negative, mainly in durable consumer goods and construction goods (Chart 20[1]).

Inventories have continued to rise, due mainly to the effects of the decline in demand following the front-loaded increase, after trending downward toward early spring (Chart 20[1]). Recent movements show that inventories went up as of the end of August compared with the end of June, after increasing noticeably as of the end of June relative to the end of March. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has marginally outpaced that in shipments on the whole (Chart 21[2]). By goods, the shipment-inventory balance has deteriorated markedly for durable consumer goods as well as for construction goods, whereas that for capital goods, nondurable consumer goods, and producer goods has deteriorated only marginally. In relation to this, with regard to the inventory level of finished goods & merchandise of large manufacturing firms in the September *Tankan*, the net "excessive or somewhat excessive" expanded slightly relative to the June *Tankan*, mainly in the processing industry.

Industrial production is expected to resume its moderate increase, after showing some weakness for the time being, as the effects of the decline in demand following the front-loaded increase wane gradually. Based on anecdotes by firms and on other information, as for the third quarter, industrial production as a whole is projected to decrease. By industry, while the effects of the decline in demand following the front-loaded increase have somewhat lingered in durable goods,

transport equipment as well as information and communication electronics equipment (such as PCs) are expected to see ongoing production cutbacks, due in part to inventory adjustments. Production of electrical machinery is also projected to continue declining, mainly in air conditioners, on top of the effects of the irregular weather during this summer. Meanwhile, production of iron and steel and of chemicals is expected to continue moving downward, affected mainly by production cutbacks in transport equipment and other industries. On the other hand, production of general-purpose, production and business oriented machinery is expected to maintain its increasing trend on the back of continued improvement in business fixed investment both at home and abroad. Production of electronic parts and devices is expected to increase, mainly for smartphone products. As for the fourth quarter, it seems that production as a whole is expected to pick up moderately, although large uncertainty still remains. By industry, production of electronic parts and devices is expected to continue increasing, mainly for smartphone products. Production of general-purpose, production and business oriented machinery is also expected to keep trending upward, as business fixed investment continues its improving trend both at home and abroad. Meanwhile, production of transport equipment and of electrical machinery is projected to remain more or less flat, as the effects of the decline in demand following the front-loaded increase still persist.

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

As for supply and demand conditions in the labor market, the unemployment rate has been on a moderate improving trend with the fluctuations smoothed out, as it registered 3.5 percent in August, recording again a low level since December 1997 (Chart 22). New job openings have recently improved at a somewhat subdued pace, due mainly to the effects of the decline in demand following the front-loaded increase, but the ratio of new job openings has continued to be around the peak prior to the Lehman shock. The active job openings-to-applicants ratio has also continued an improving trend, albeit at a sluggish pace; it has recorded 1.10 since June, a level on par with that in June 1992. Non-scheduled hours worked have been on a moderate uptrend, but the effects, including those of the decline in demand following the

front-loaded increase, have recently been observed, mainly in manufacturing. Meanwhile, looking at the employment conditions DI in the September *Tankan*, net "insufficient" employment for all industries and enterprises expanded from the June *Tankan*, surpassing the peak for this current economic recovery phase; the current level is the highest since May 1992 (Chart 23). Even in a situation of the ongoing decline in demand following the front-loaded increase prior to the consumption tax hike, the tightening of labor supply and demand conditions has become stronger steadily and the net "insufficient" is expected to expand further in the future.

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has been moving in the range of 0.5-1.0 percent on average, despite large monthly fluctuations (Chart 25[1]). The year-on-year rate of increase in the number of regular employees in the *Monthly Labour Survey* has kept expanding moderately as a trend overall, since manufacturing has tended to reduce its rate of decline, while nonmanufacturing has gradually shown higher growth.

Total cash earnings per employee have risen moderately, albeit with fluctuations (Chart 25[2]). Hourly cash earnings of overall employees have also improved moderately as a whole (Chart 24[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 rates of increase at a modest pace (Chart 24[2]). Scheduled cash earnings have been picking up recently on a year-on-year basis, while downward pressure from the increase in the ratio of part-time workers has diminished mildly (Chart 24[3]). By type of employee, the year-on-year growth rate of scheduled cash earnings of full-time employees has expanded at a modest pace since April, mainly due to the effects of the rise in base wages this spring. The year-on-year growth rate of scheduled cash earnings of part-time employees has recently been positive. The year-on-year growth of non-scheduled cash earnings has recently tended to diminish, as a reflection of movements in the number of hours worked, but has still maintained a distinct positive. Meanwhile, special cash earnings in June-August—which covers summer bonuses—increased on a year-on-year basis in a wide range of industries, chiefly in

manufacturing, as a reflection of favorable business performance; they recorded a somewhat large positive overall.

Employee income has accelerated moderately its year-on-year rate of increase, as a reflection of the aforementioned developments in employment and wages (Chart 25[3]).

As for the outlook, employee income is expected to continue increasing moderately, in line with the recovery in economic activity and business performance.

2. Prices

International commodity prices have declined (Chart 27[1] and [3]). Prices of crude oil have recently fallen, mainly in light of the following developments: (i) some oil-producing countries have resumed their exports and (ii) economic indicators of China and the EU have shown some weakness. Prices of nonferrous metals have also declined somewhat, as a reflection of the recent slowdown in China's growth momentum. Meanwhile, prices of grains have kept declining, a reflection of a good harvest and an increase in stocks both 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 27[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 more or less flat relative to three months earlier (Chart 28[2]).³ Excluding the direct effects of the consumption tax hike, the three-month rate of change in producer prices—which had continued to be positive at around 0.5 percent since May for three months in a row—registered positive 0.1 percent in

³ 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.

August. Looking in detail at producer price movements in August relative to three months earlier, the rate of increase in prices of "goods sensitive to exchange rates and overseas commodity prices" narrowed as a whole mainly due to price declines in petroleum products such as gasoline, which is a reflection of soft crude oil prices. The rate of change in prices of "electric power, gas & water" turned negative in response to the fuel and gas resource cost adjustment system, which reflects the decline in crude oil prices. As for prices of "iron & steel and construction goods," the rate of increase diminished, mainly due to reduced prices of lumber & wood products in light of the decline in demand for housing investment following the front-loaded increase; these prices have recently been almost flat. On the other hand, the rate of change in prices of "other materials" was positive against the backdrop of the increase in prices of chemicals & related products, while the effects of reduced pharmaceutical prices through June have dissipated. Meanwhile, the rate of change in prices of "others"—which had continued to increase slightly since April—has been negative since July as a whole, due to price declines in agriculture, forestry & fishery products.

The year-on-year rate of increase in services producer prices (excluding international transportation; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, has been expanding since the start of the year; it has recently been moving in the range of 0.5-1.0 percent (Chart 29).⁴ Looking in detail at services producer price movements, the year-on-year rate of change in prices related to "selling, general and administrative expenses" has been rising slightly as a whole: although prices of information services have continued to register a year-on-year decline, hotel services have marked a relatively large increase, reflecting firm demand for business and sightseeing, and added to this, temporary employment agency services have also risen at a mild pace against the backdrop of increased job offers. The rate of increase in prices related to "fixed investment" has tended to expand, mainly in civil engineering and architectural services. The rate of increase in prices related to "domestic transportation" has been somewhat elevated, mainly in overland freight transportation and in warehousing and other transportation services. Prices of "others" have recently risen at a somewhat accelerated pace,

⁴ The year-on-year growth of the *Services Producer Price Index* was revised slightly downward as a whole, mainly due to the downward revision in national expressways since April as a result of the retroactive revision of past figures which is conducted every six months.

together with the price increase in domestic air passenger transportation, as finance and insurance (mainly motor vehicle insurance) has continued to show relatively strong movements. Meanwhile, the rate of change in prices of "real estate services" including office space rental—which had continued to decline since October 2009—has turned slightly positive since July.

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 30[1]).⁵ Consumer prices for August, on a basis excluding the direct effects of the consumption tax hike, somewhat narrowed their rate of increase to positive 1.1 percent from positive 1.3 percent in July on a less fresh food basis; they recorded positive 0.6 percent growth on a basis excluding food and energy, which was about the same as that of the previous month. 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 31[2]).⁶

Looking at recent year-on-year growth in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have continued to show a relatively strong development as a trend, although they reduced their rate of increase in August from the previous month. Looking in detail, the rate of increase in prices of food products has been expanding as a trend amid a continued pass-on of past cost increases in the form of higher prices, although the rate of increase diminished marginally in August from the previous month. Prices of durable goods and clothes have also been on a positive trend. On the other hand, prices of petroleum products have reduced their rate of increase in response to the decline in crude oil prices. Prices of general services have narrowed their rate of increase compared to a while ago; they have leveled off since June on a year-on-year basis. This development is mainly attributable to the following factors: (i) the introduction of new price plans for mobile telephone charges and (ii) the decline following last year's increase in some

⁵ 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.

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

prices of eating out. On the contrary, the rate of change in prices of rent—which accounts for a large share—has begun to level off and the year-on-year rate of decline has narrowed very modestly. Meanwhile, fees for public services have continued to diminish their rate of increase moderately in response to last year's increase, mainly in electricity prices.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 32), the supply and demand conditions DI for products and services has maintained its improving trend on average: the DI was almost flat from the June *Tankan* for manufacturing, while it deteriorated slightly for nonmanufacturing compared with the June *Tankan*. The output prices DI deteriorated slightly, mainly for nonmanufacturing in the September *Tankan* after improving toward June, but it is expected to improve again in the future. Meanwhile, the weighted average of the production capacity DI and employment conditions DI has continued to improve moderately; as for the outlook, the net "insufficient" is expected to expand to a 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 stay more or less flat 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. For the time being, however, attention should be paid to the possibility that the recent decline in crude oil prices and other factors may temporarily weigh down on consumer prices.

Meanwhile, inflation expectations appear to be rising on the whole (Chart 33).

Looking at developments in land prices through the *Land Price Survey by Prefectural Governments* as of July (Chart 34), the national average of all land prices declined slightly on a year-on-year basis, but the rate of decline diminished from July last year. By region, as for the three large city areas as a whole, the rate of increase expanded for commercial land prices, along with residential land prices turning upward for the first time in six years. In the other areas, both commercial and residential land prices reduced their rates of decline for the third straight year.

3. Financial Developments

(1) Corporate Finance and Monetary Aggregates

The monetary base (average amounts outstanding) has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been at around 35 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 in the range of 2.0-2.5 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 been favorable (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 August reading was 3.0 percent on a year-on-year basis, following 3.0 percent in July (Chart 40).⁷

(2) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has declined somewhat and has been slightly negative. The

⁷ 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 August reading was 2.4 percent, following 2.5 percent in July. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 3.0 percent; it increased by 2.9 percent in August, following an increase of 2.9 percent in July.

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) moved slightly upward, due partly to the yen's depreciation in the face of rising U.S. and European long-term interest rates, but they have somewhat declined thereafter against the backdrop of investors' firm demand for long-term government bonds; they have recently been moving in the range of 0.50-0.55 percent (Chart 44).

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

Stock prices have increased somewhat, mainly in response to the depreciation of the yen. The Nikkei 225 Stock Average is recently moving in the range of 15,500-16,000 yen (Chart 46).

In the foreign exchange market, the yen's exchange rate has depreciated against the U.S. dollar, mainly due to speculations about U.S. monetary policies; the yen is currently moving at around 109 yen against the U.S. dollar. Meanwhile, the yen's exchange rate against the euro has been more or less flat; the yen is recently moving in the range of 137-138 yen against the euro (Chart 47).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2014/Q1	Q2	Q3	2014/Jun.	Jul.	Aug.	Sep.
Index of consumption expenditure level (two-or-more-person households)	4.3	-8.5	n.a.	5.3	-2.6	0.3	n.a.
Sales at department stores	9.4	-13.2	n.a.	2.6	-1.2	p 2.8	n.a.
Sales at supermarkets	3.2	-5.4	n.a.	0.8	-0.7	p 0.8	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 333>	< 264>	< 275>	< 268>	< 277>	< 279>	< 270>
Sales of household electrical appliances (real, "Current Survey of Commerce")	14.3	-25.5	n.a.	1.1	-2.1	p 4.7	n.a.
Outlays for travel	0.6	-2.4	n.a.	-2.5	2.1	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 94>	< 89>	<n.a.>	< 88>	< 84>	< 84>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	4.2	-10.4	n.a.	8.8	3.5	n.a.	n.a.
Manufacturing	3.9	-8.5	n.a.	6.7	20.3	n.a.	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	-1.0	-6.7	n.a.	4.0	-4.3	n.a.	n.a.
Construction starts (private, nondwelling use)	-2.5	-3.8	n.a.	9.6	-5.1	1.8	n.a.
Mining & manufacturing	-3.6	-8.6	n.a.	-34.7	16.2	19.5	n.a.
Nonmanufacturing ⁵	-2.2	-3.4	n.a.	25.1	-8.2	-2.2	n.a.
Value of public works contracted	6.6	11.3	n.a.	-8.3	-9.0	-8.8	n.a.
Real exports	-1.0	-1.2	n.a.	-0.3	2.2	-0.4	n.a.
Real imports	4.5	-7.0	n.a.	3.6	-1.3	-1.2	n.a.
Industrial production	2.9	-3.8	n.a.	-3.4	0.4	p -1.5	n.a.
Shipments	4.6	-6.8	n.a.	-1.9	0.7	p -1.9	n.a.
Inventories	0.2	4.6	n.a.	2.0	0.9	p 1.0	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 105.4>	< 111.5>	<n.a.>	< 111.5>	< 109.1>	<p 118.4>	<n.a.>
Real GDP	1.5	-1.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.6	-3.4	n.a.	-0.3	-0.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2013/Q4	2014/Q1	Q2	2014/May	Jun.	Jul.	Aug.
Active job openings-to-applicants ratio <s.a., times>	< 1.01>	< 1.05>	< 1.09>	< 1.09>	< 1.10>	< 1.10>	< 1.10>
Unemployment rate <s.a., %>	< 3.9>	< 3.6>	< 3.6>	< 3.5>	< 3.7>	< 3.8>	< 3.5>
Non-scheduled hours worked ⁶	6.0	7.1	5.1	4.9	3.9	2.9	p 1.0
Number of employees	1.2	0.8	0.6	0.7	0.8	1.0	0.7
Number of regular employees ⁶	1.1	1.2	1.4	1.4	1.5	1.7	p 1.6
Nominal wages per person ⁶	0.4	0.1	0.8	0.6	1.0	2.4	p 1.4
Producer price index <excluding consumption tax, y/y % chg.>	2.5	1.9	4.3	4.4	4.5	4.3	p 3.9
<excluding consumption tax, q/q % chg., 3-month rate of change> ⁷	< 0.4>	< 0.2>	< 0.3>	< 0.3>	< 0.5>	< 0.4>	<p 0.1>
Consumer price index ⁸ <consumption tax adjusted, y/y % chg.>	1.1	1.3	3.3	3.4	3.3	3.3	3.1
<consumption tax adjusted, y/y % chg.>	< 1.4>	< 1.4>	< 1.3>	< 1.3>	< 1.3>	< 1.3>	< 1.1>
Services producer price index ⁹ <excluding consumption tax, y/y % chg.>	0.1	0.3	3.5	3.5	3.5	3.4	p 3.5
<excluding consumption tax, y/y % chg.>	< 0.8>	< 0.8>	< 0.8>	< 0.7>	< 0.7>	< 0.7>	<p 0.7>
Money stock (M2) <average outstanding, y/y % chg.>	4.2	4.0	3.3	3.3	3.0	3.0	p 3.0
Number of corporate bankruptcies <cases per month>	<857>	<820>	<871>	<834>	<865>	<882>	<727>

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

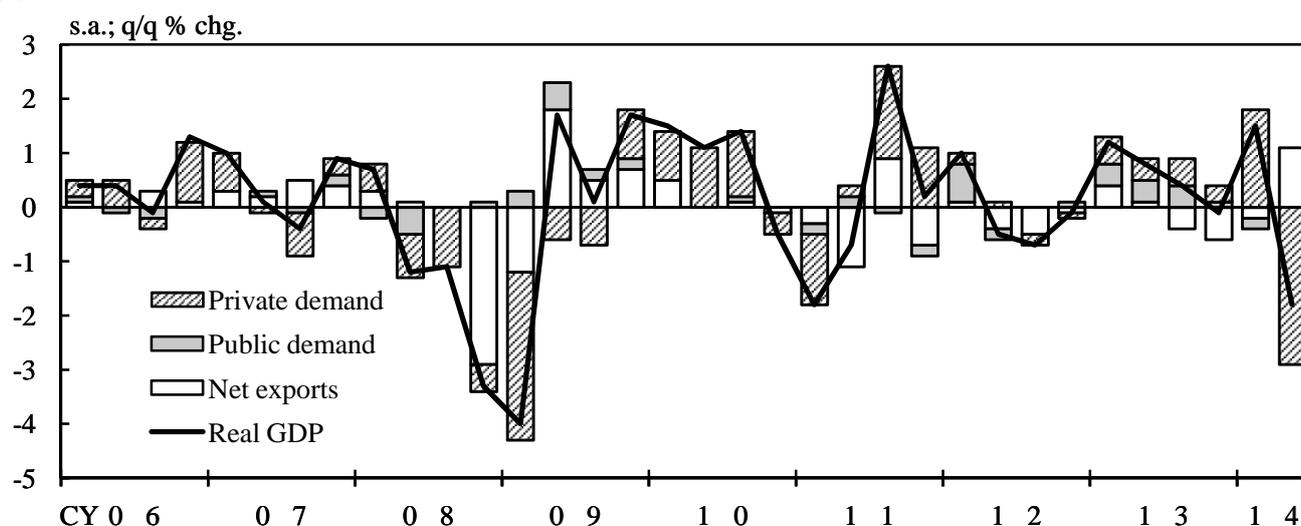
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders: Orders for ships and those from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusted to exclude a hike in electric power charges during the summer season.
8. All items, less fresh food.
9. Excludes international transportation.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices of All Industry Activity"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts"; Ministry of Finance, "Trade Statistics"; Cabinet Office, "Orders Received for Machinery," "National Accounts"; East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics"; Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey"; Bank of Japan, "Corporate Goods Price Index," "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



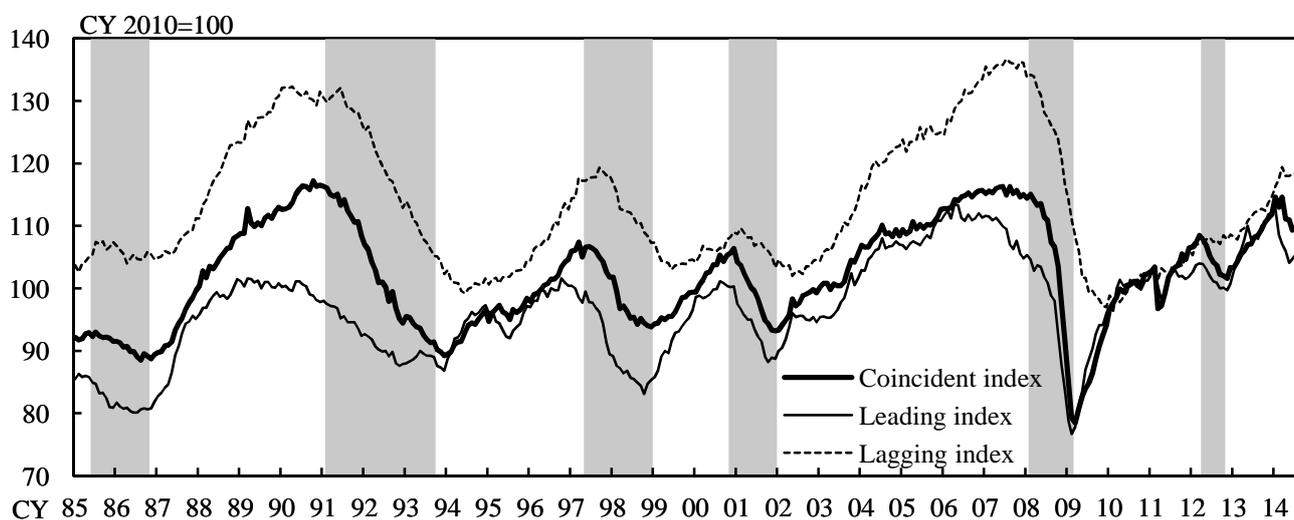
(2) Components

s.a.; q/q % chg.

	2013			2014	
	Q2	Q3	Q4	Q1	Q2
Real GDP	0.8	0.4	-0.1	1.5	-1.8
[Annual rate]	[3.4]	[1.8]	[-0.5]	[6.0]	[-7.1]
Domestic demand	0.8	0.8	0.5	1.7	-2.9
Private demand	0.4	0.5	0.3	1.8	-2.9
Private consumption	0.5	0.1	0.2	1.3	-3.2
Non-Resi. investment	0.2	0.1	0.1	1.1	-0.7
Residential investment	0.1	0.1	0.1	0.1	-0.3
Private inventory	-0.4	0.2	-0.1	-0.5	1.4
Public demand	0.4	0.4	0.1	-0.2	-0.0
Public investment	0.3	0.3	0.1	-0.1	-0.0
Net exports of goods and services	0.1	-0.4	-0.6	-0.2	1.1
Exports	0.4	-0.1	0.0	1.1	-0.1
Imports	-0.4	-0.3	-0.6	-1.3	1.2
Nominal GDP	0.3	0.4	0.2	1.6	-0.2

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

(3) Indexes of Business Conditions (Composite Indexes)

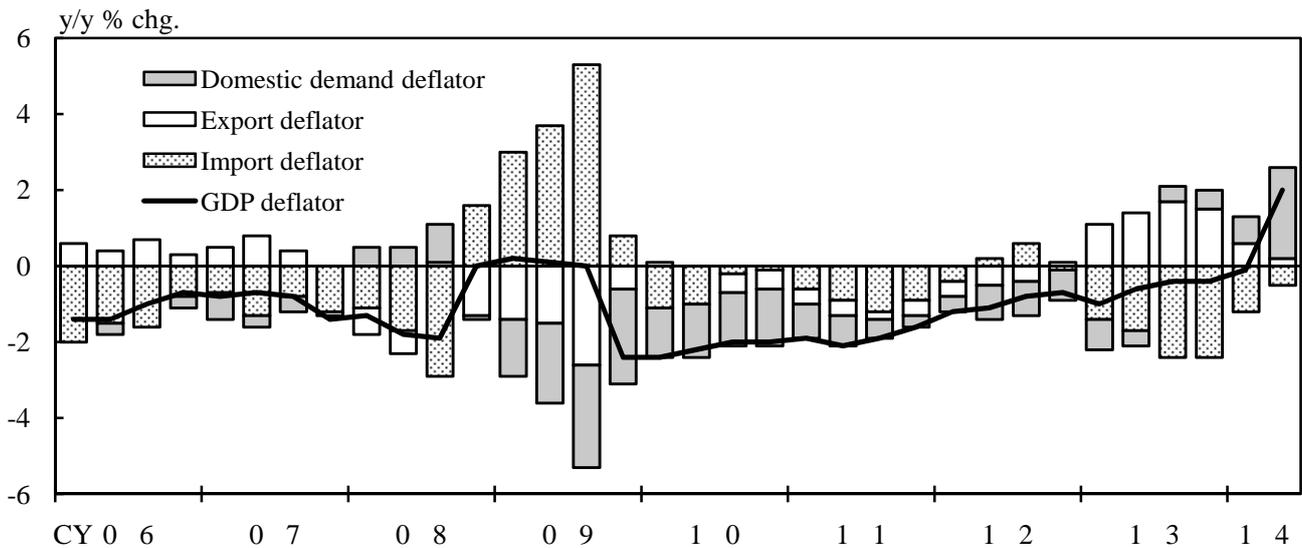


Note: Shaded areas indicate recession periods.

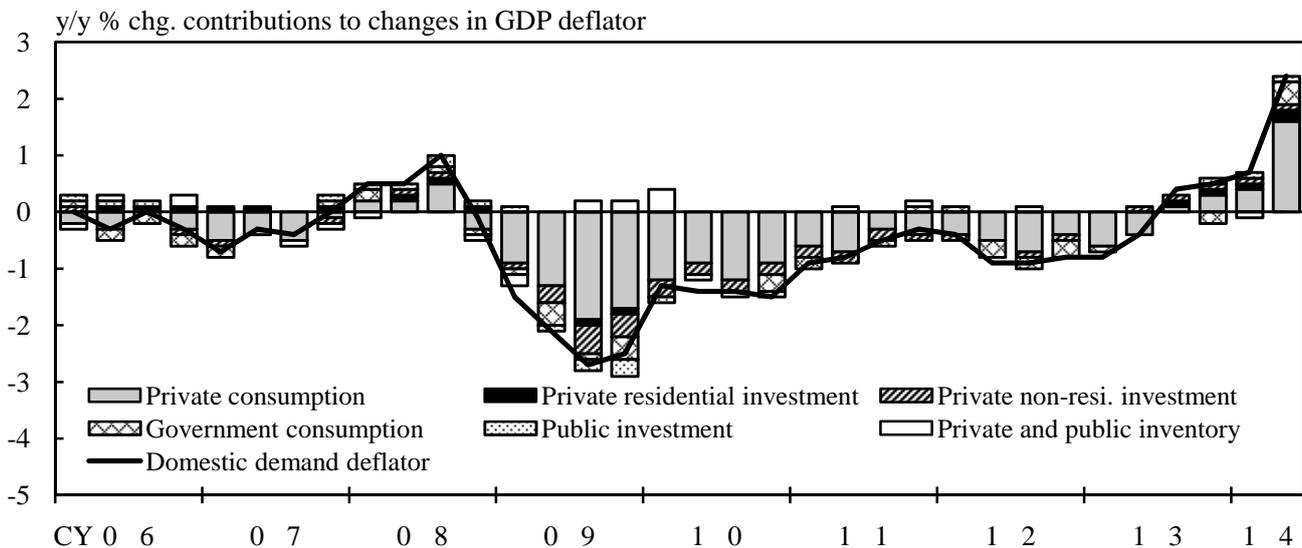
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

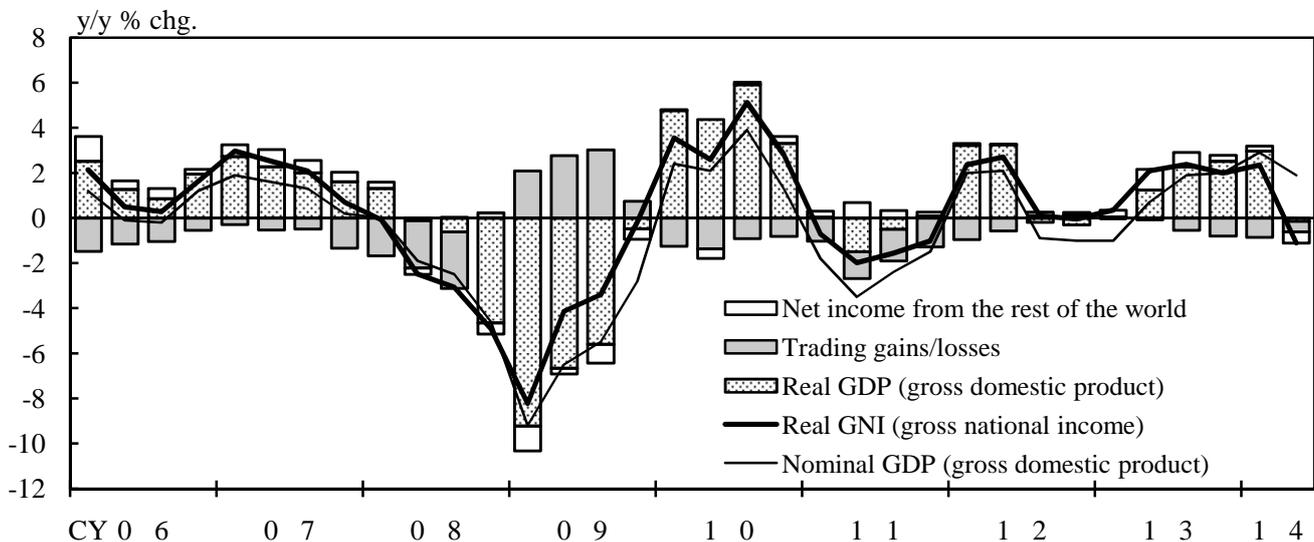
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

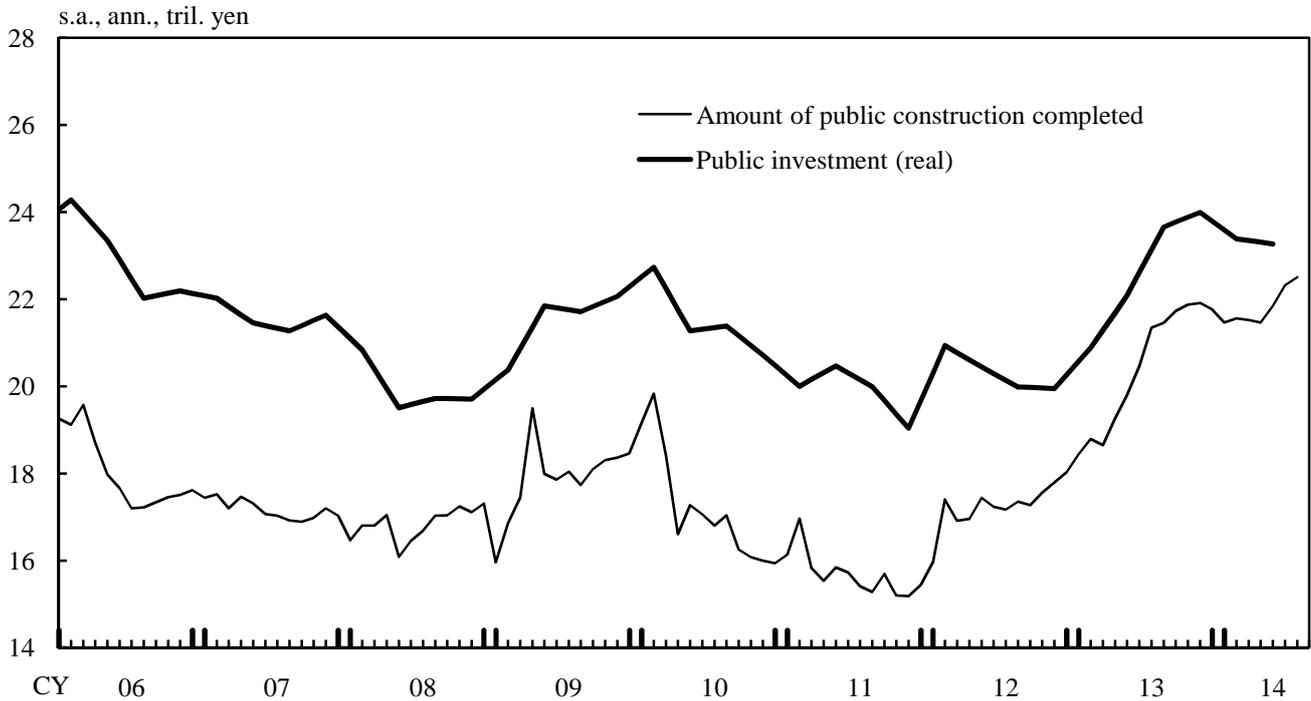
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

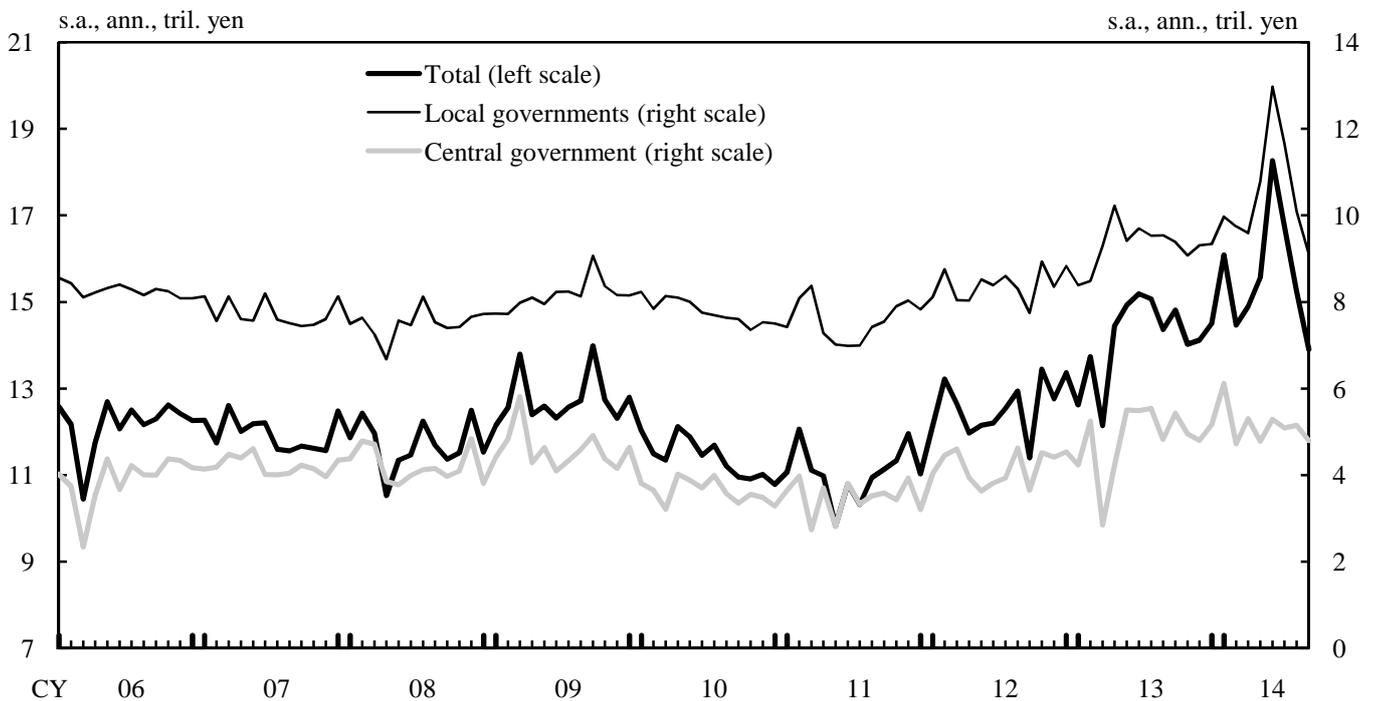
Source: Cabinet Office, "National Accounts."

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.

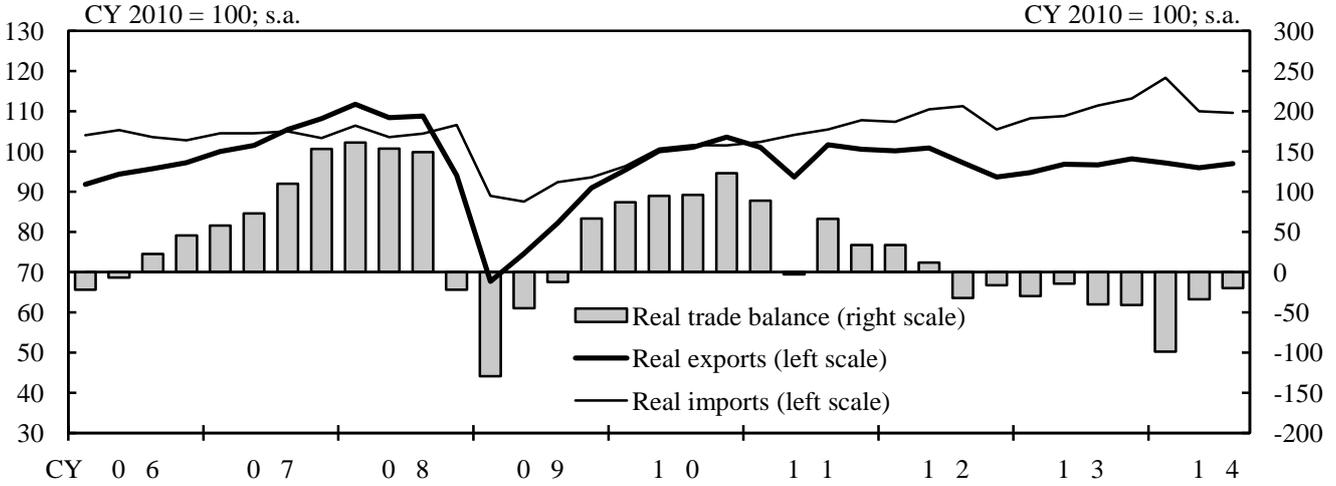
Sources: Cabinet Office, "National Accounts";

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

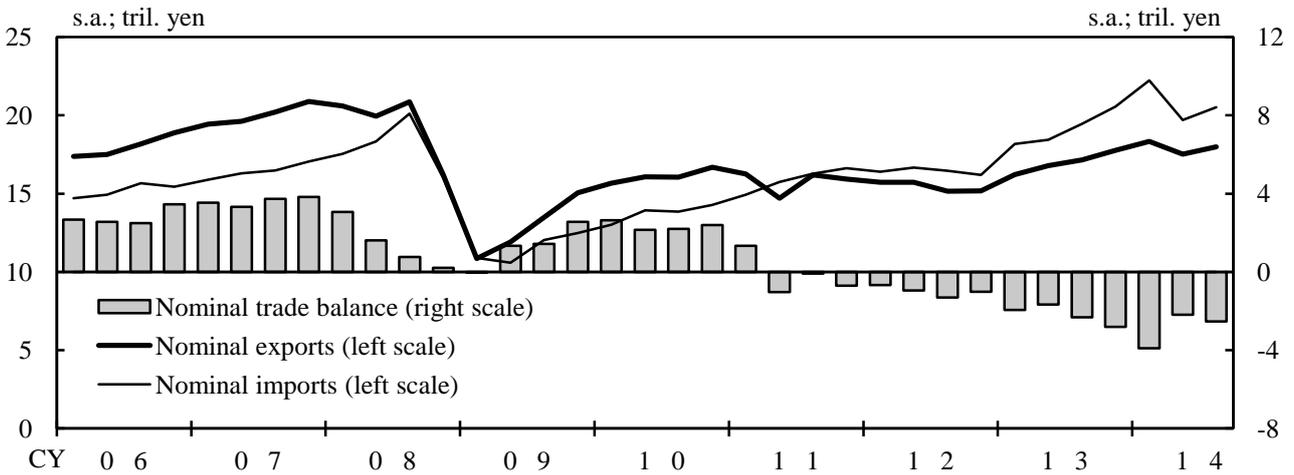
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance ¹

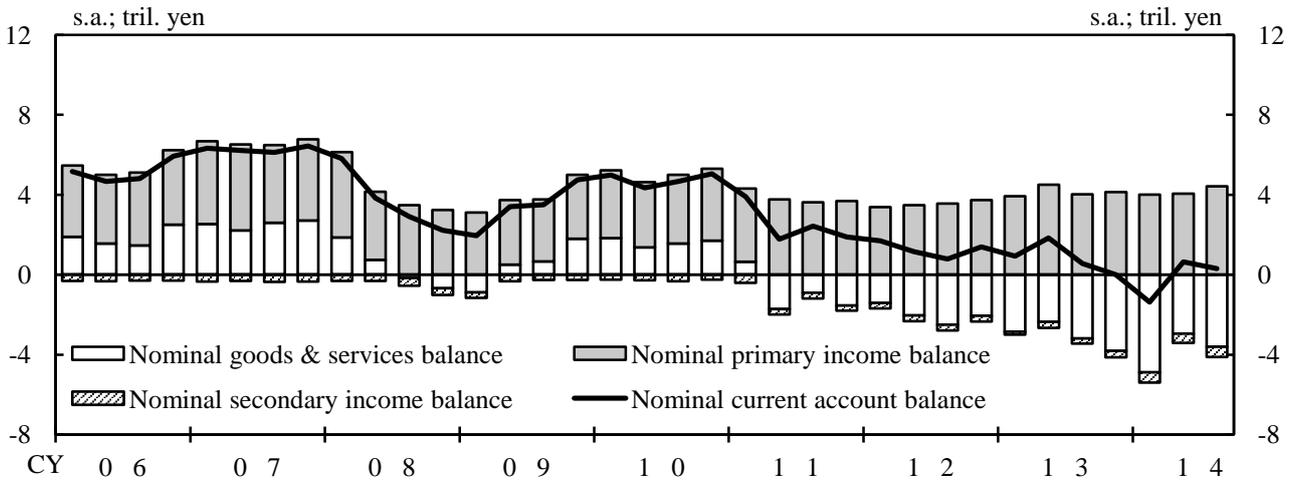
(1) Real Exports, Real Imports, and Real Trade Balance ²



(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.

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. 2014/Q3 figures are July-August averages converted into quarterly amount.

3. Figures are based on the "Balance of Payments." 2014/Q3 figures are July figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2013 Q3	2014 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Jun.	2014 Jul.	2014 Aug.
United States	<18.5>	13.0	2.7	-0.8	-0.4	0.9	-2.3	-0.6	1.0	-1.4	2.9
EU	<10.0>	-13.0	-3.7	6.3	2.2	0.6	0.5	1.9	2.1	0.3	-1.0
East Asia	<50.9>	-2.6	-3.0	-1.3	2.5	-1.5	-1.5	1.1	0.3	0.1	2.0
China	<18.1>	-8.1	-1.7	2.4	5.7	-3.9	-0.7	0.4	0.8	-2.8	5.2
NIEs	<21.9>	-4.7	-1.0	-2.8	1.1	1.0	-3.1	2.8	-0.9	4.4	-1.4
Korea	<7.9>	-3.5	0.4	-0.3	-3.1	0.4	-6.3	2.0	-0.0	0.3	3.1
Taiwan	<5.8>	-6.0	-1.5	-5.1	4.8	0.5	-0.7	3.5	-0.8	5.7	-2.0
Hong Kong	<5.2>	-0.7	-1.4	-1.0	-2.3	2.2	4.6	2.1	-3.9	8.4	-8.3
Singapore	<2.9>	-11.6	-2.8	-9.3	10.6	4.0	-11.3	5.5	1.4	8.3	-0.5
ASEAN4 ³	<10.9>	12.5	-8.5	-4.5	-0.0	-2.1	0.3	-1.2	1.8	-3.2	3.5
Thailand	<5.0>	19.3	-9.3	-7.0	-4.2	-1.9	0.5	0.2	-1.2	-1.9	5.8
Others	<20.6>	1.7	-5.0	-0.8	-2.0	0.2	1.4	1.6	0.3	6.5	-7.3
Real exports		-1.0	-1.9	-0.1	1.5	-1.0	-1.2	1.0	-0.3	2.2	-0.4

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2013 Q3	2014 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Jun.	2014 Jul.	2014 Aug.
Intermediate goods	<21.1>	-0.7	1.2	-0.1	-0.1	1.1	-2.0	-1.0	0.4	-2.2	1.7
Motor vehicles and their related goods	<23.9>	7.7	-1.4	2.4	-0.2	-4.6	-0.8	2.8	5.5	3.4	-5.8
IT-related goods ⁴	<10.6>	3.6	-7.5	0.2	1.9	-0.6	0.8	1.9	-2.6	1.3	3.4
Capital goods and parts ⁵	<27.5>	-4.0	-5.8	1.6	2.3	-1.8	0.0	1.3	-1.3	1.7	1.3
Real exports		-1.0	-1.9	-0.1	1.5	-1.0	-1.2	1.0	-0.3	2.2	-0.4

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q3 figures are July-August 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.

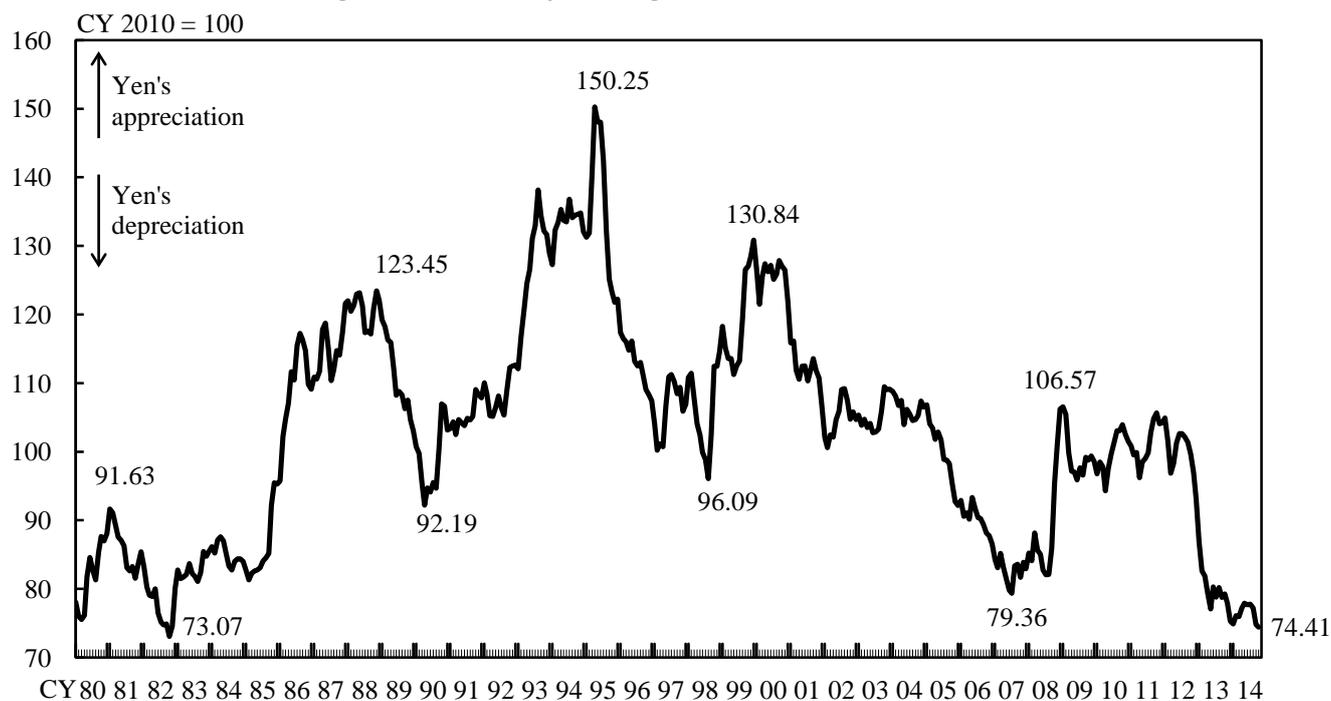
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.

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 September and October (up to October 3) 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 Q3	Q4	2014 Q1	Q2
United States ¹	1.6	2.3	2.2	4.5	3.5	-2.1	4.6
European Union ²	1.6	-0.4	0.1	1.1	1.7	1.3	0.6
Germany ¹	3.6	0.4	0.1	1.2	1.8	2.7	-0.6
France ¹	2.1	0.4	0.4	-0.4	0.8	0.2	-0.1
United Kingdom ¹	1.6	0.7	1.7	3.5	2.5	3.0	3.7
East Asia ³	5.9	4.9	4.9	5.7	5.4	3.0	4.7
China ¹	9.3	7.7	7.7	9.5	7.0	6.1	8.2
NIEs ^{1,3}	4.4	1.9	2.9	2.4	5.1	2.5	1.6
ASEAN4 ^{1,3,4}	3.0	6.3	4.4	5.8	3.6	-1.1	5.1
Main economies ³	4.5	3.7	3.7	4.8	4.5	1.6	4.2

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	2013	2013 Q3	2014 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Jun.	2014 Jul.	2014 Aug.
United States	<8.4>	3.8	-2.1	3.8	-0.2	5.8	-7.2	9.4	4.1	3.4	4.3
EU	<9.4>	4.0	0.8	4.8	-0.2	5.6	-5.1	-3.2	0.9	-2.0	-2.7
East Asia	<40.8>	3.9	2.5	3.1	3.1	5.3	-8.8	-3.5	0.4	-3.6	3.3
China	<21.7>	5.0	5.4	4.2	3.0	5.7	-9.4	-5.7	4.2	-8.7	5.8
NIEs	<8.2>	5.0	-0.4	6.2	0.9	5.7	-8.4	1.5	-3.5	5.0	2.0
Korea	<4.3>	4.3	-4.8	5.0	1.3	2.1	-6.9	-0.6	-4.0	1.1	0.2
Taiwan	<2.8>	7.2	8.0	3.5	-0.1	8.4	-9.0	2.0	-1.8	5.2	2.9
Hong Kong	<0.2>	-2.5	9.2	9.2	1.9	0.6	9.2	-3.3	-2.2	-16.7	29.4
Singapore	<0.9>	3.0	-7.0	12.6	0.4	13.9	-10.8	4.7	-2.0	16.8	-7.8
ASEAN4 ³	<10.8>	0.5	-1.2	-2.0	5.4	3.9	-7.8	-2.4	-5.0	2.0	-1.1
Thailand	<2.6>	-0.9	1.6	-0.8	3.3	7.2	-8.5	-0.9	-0.8	-1.2	7.0
Others	<41.4>	4.7	0.2	0.4	-0.6	4.6	-6.0	2.3	9.2	-0.8	-3.7
Real imports		4.2	0.9	2.4	1.6	4.5	-7.0	-0.4	3.6	-1.3	-1.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2013 Q3	2014 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Jun.	2014 Jul.	2014 Aug.
Raw materials ⁴	<40.4>	4.5	-2.0	0.2	-0.7	5.0	-7.0	2.5	7.9	-0.7	-3.0
Intermediate goods	<12.9>	-2.7	-2.7	2.8	0.8	5.6	-2.7	-0.8	-0.7	0.7	0.0
Foodstuffs	<8.0>	-0.7	-3.2	3.3	0.7	-1.2	-2.3	4.0	2.2	1.2	0.2
Consumer goods ⁵	<7.9>	4.5	4.1	2.4	1.1	2.2	-8.8	2.3	3.3	-1.5	3.6
IT-related goods ⁶	<12.6>	9.0	12.9	4.8	4.7	6.8	-12.9	-8.1	2.7	-8.9	6.1
Capital goods and parts ⁷	<11.4>	10.4	4.7	5.3	2.6	7.2	-8.4	3.2	0.0	5.0	-3.2
Excluding aircraft	<10.5>	7.0	5.3	4.8	2.7	8.5	-6.8	0.8	3.9	-1.1	-1.8
Real imports		4.2	0.9	2.4	1.6	4.5	-7.0	-0.4	3.6	-1.3	-1.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q3 figures are July-August 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.

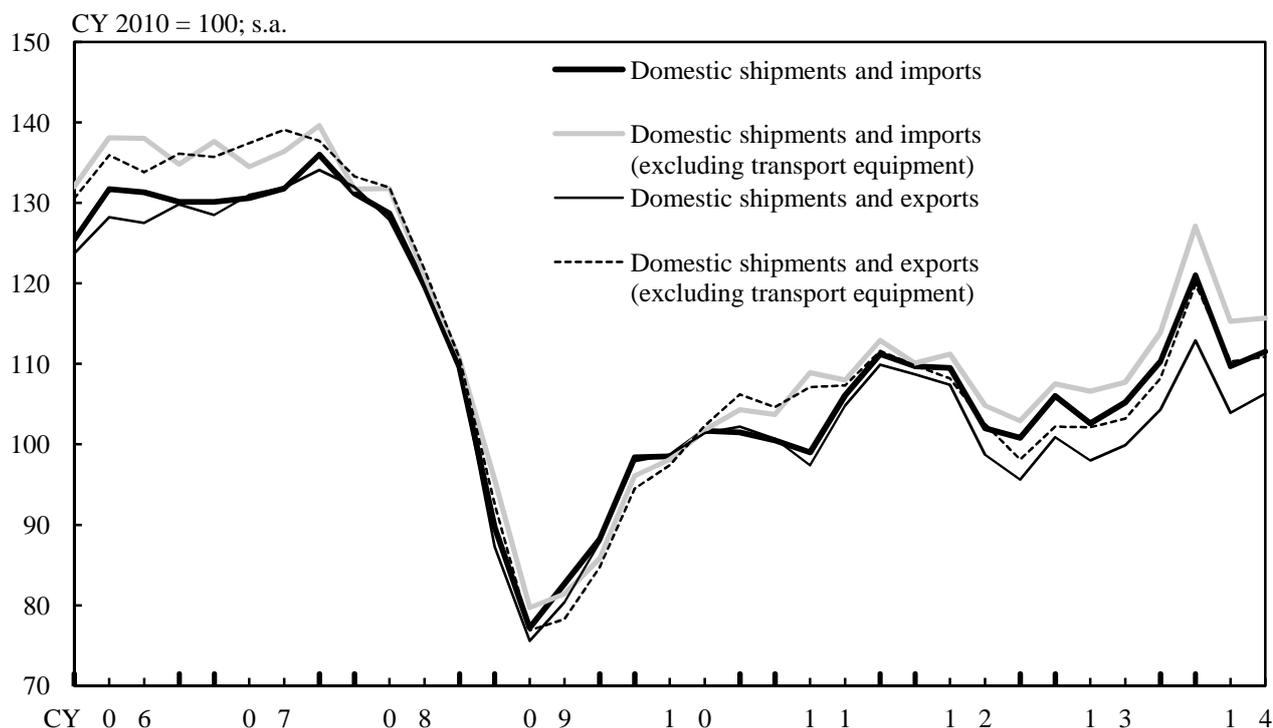
5. Excludes foodstuffs.

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.

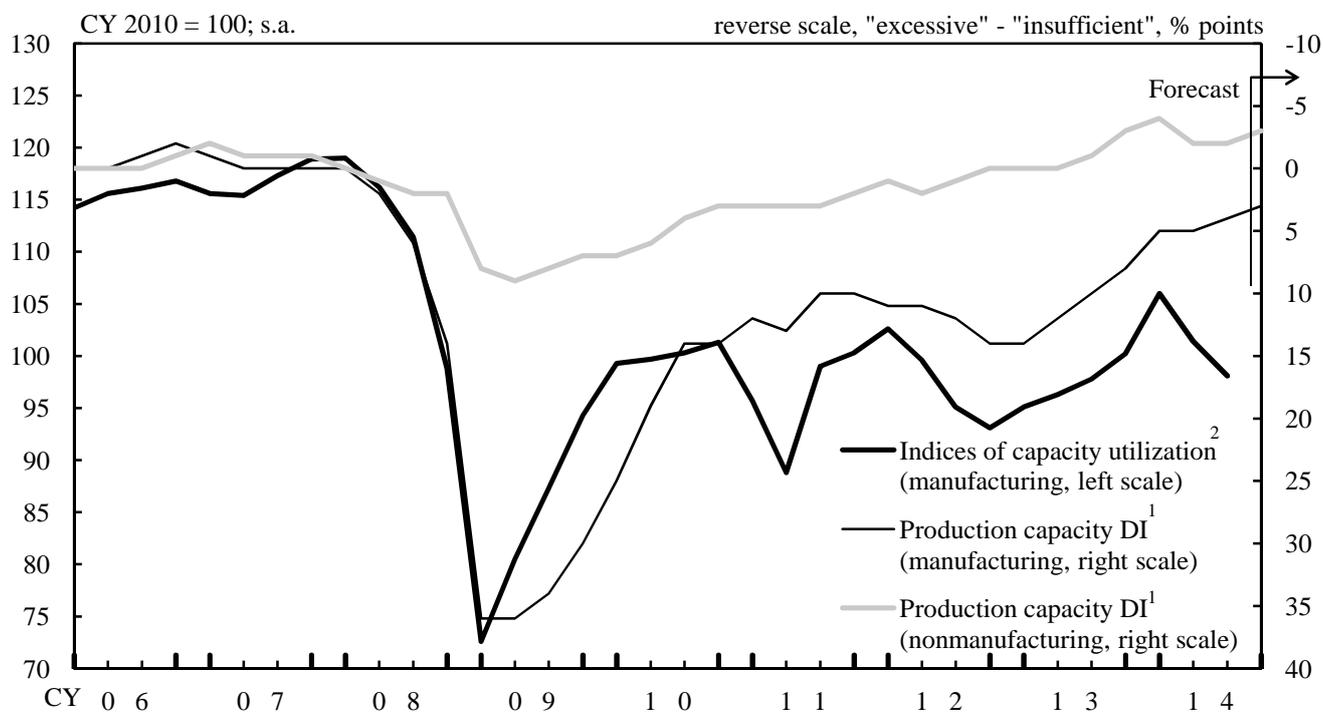
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2014/Q3 are July-August averages.

(2) Indices of Capacity Utilization and Production Capacity DI



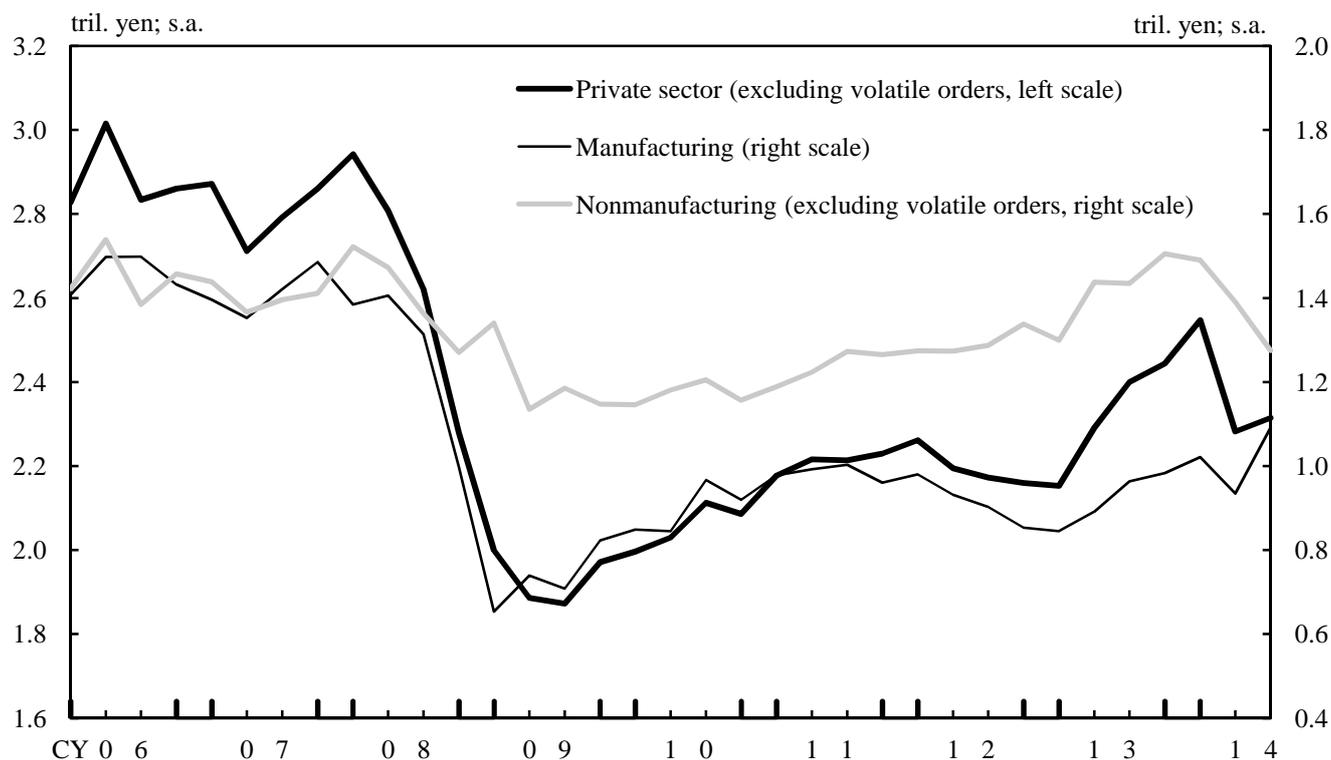
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2014/Q3 is that of July.

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

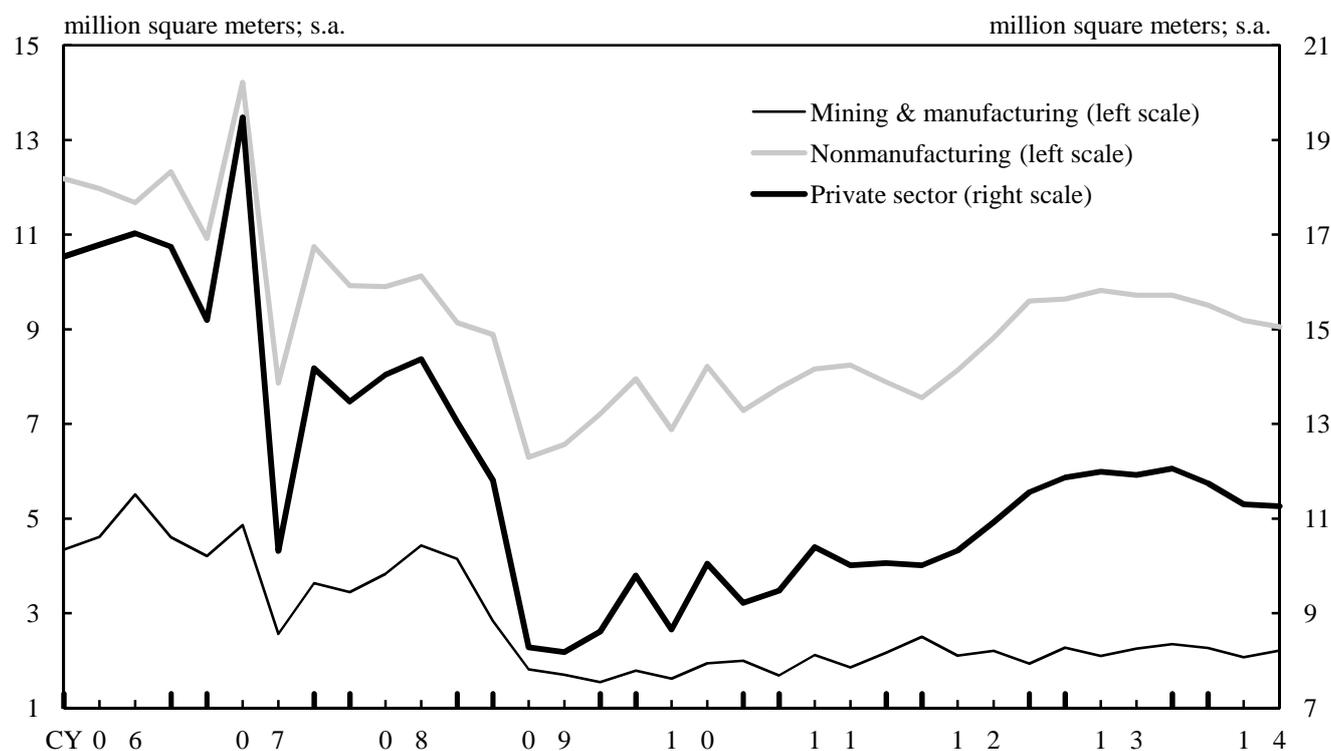
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Volatile orders: Orders for ships and those from electric power companies.
 2. Figures for 2014/Q3 are those of July in quarterly amount.

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

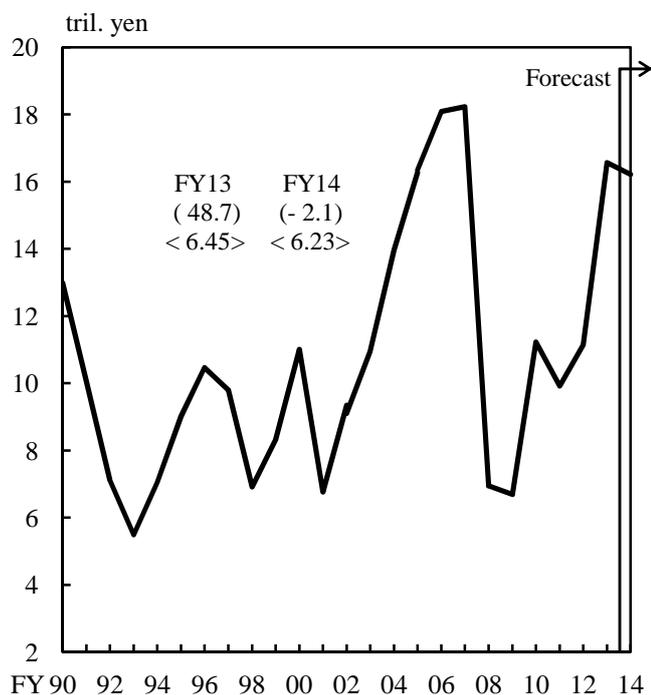


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2014/Q3 are July-August averages in quarterly amount.

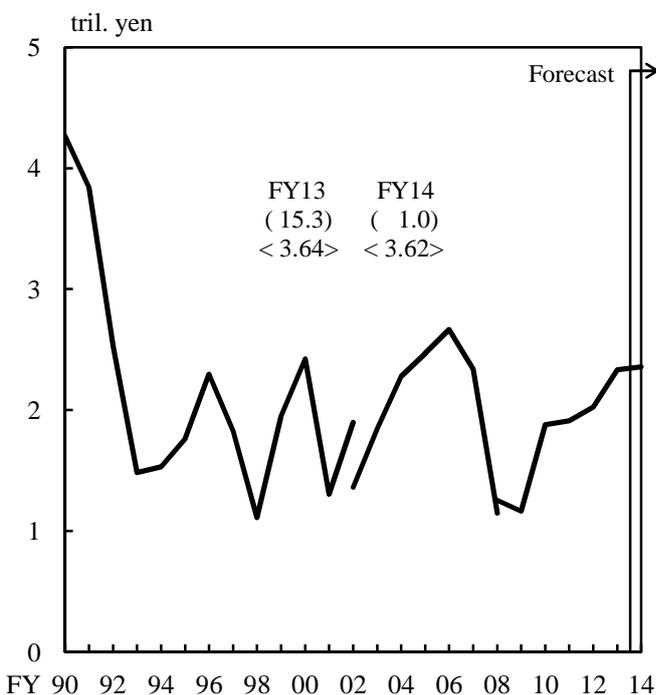
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

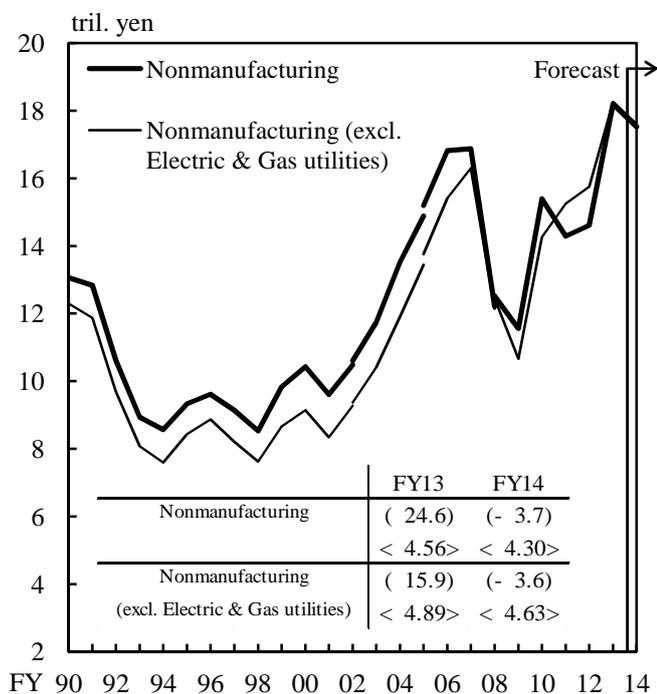
(1) Large Manufacturing Enterprises



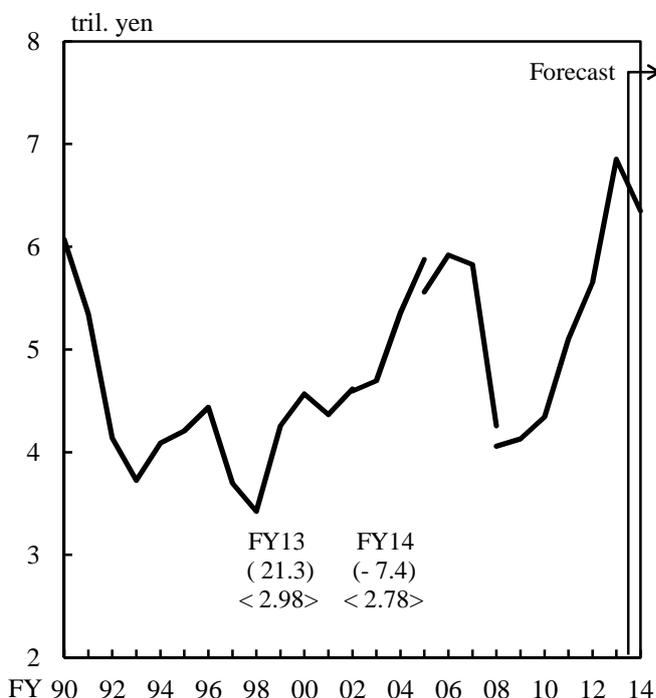
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



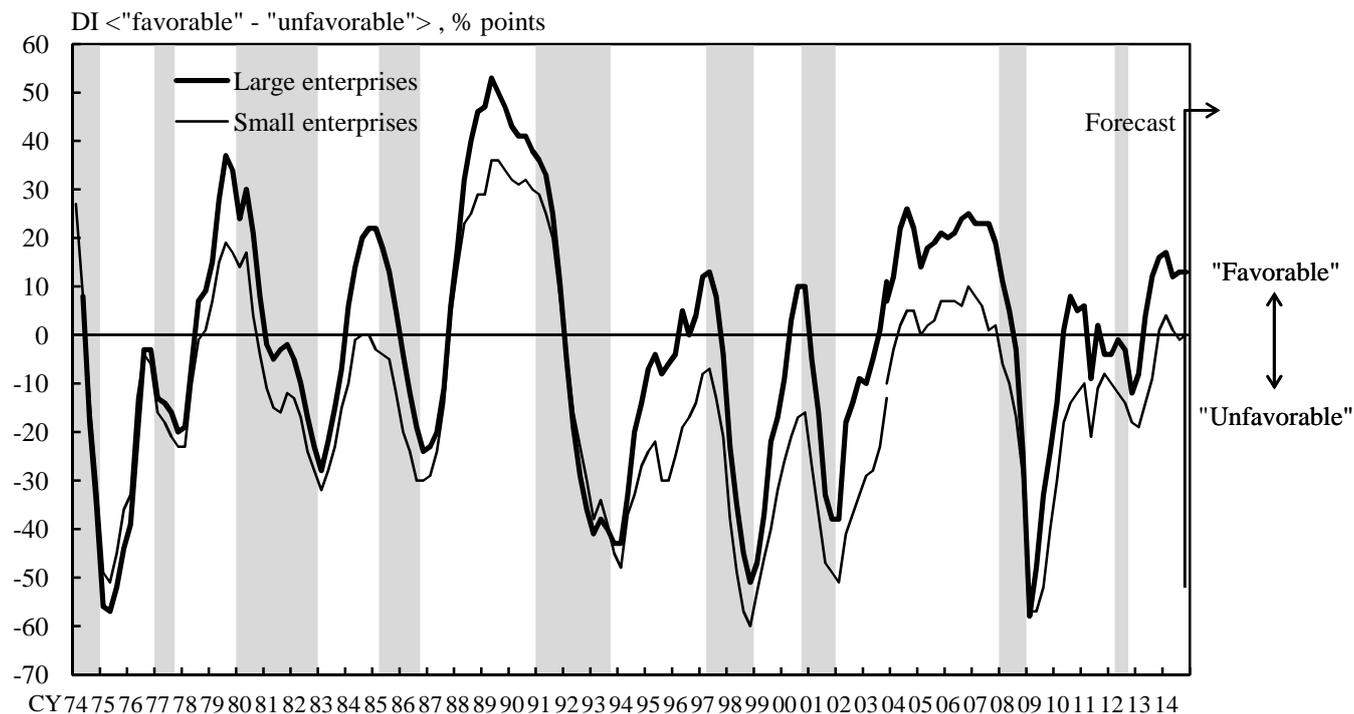
Notes: 1. (): Current profits (y/y % chg.); < >: Ratio of current profit to sales (%).

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.

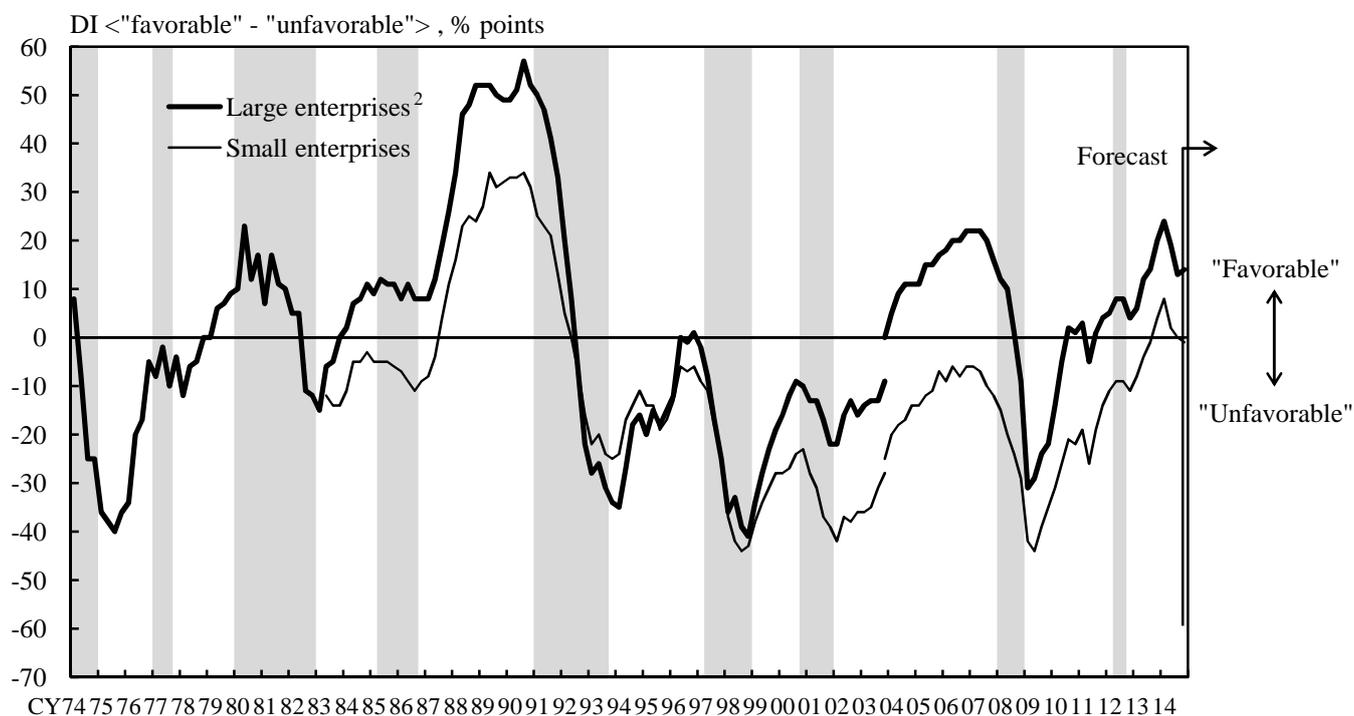
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

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.

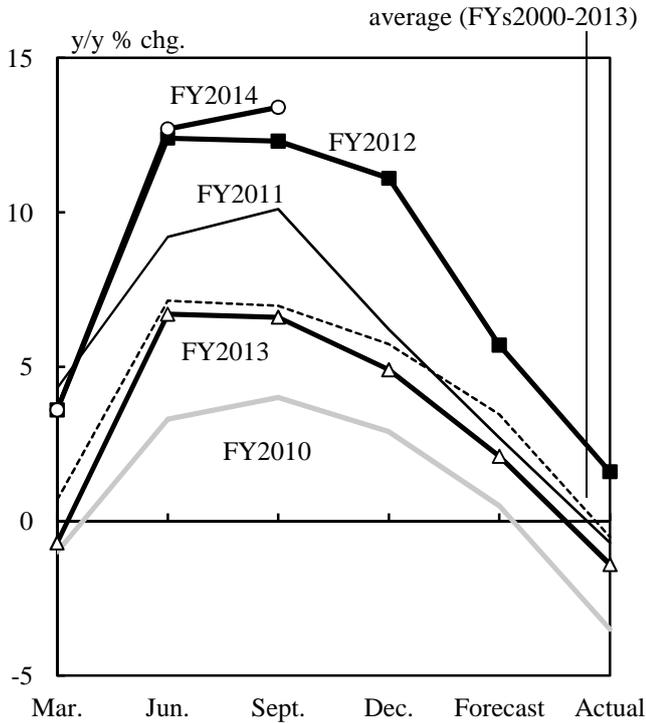
2. Data prior to February 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

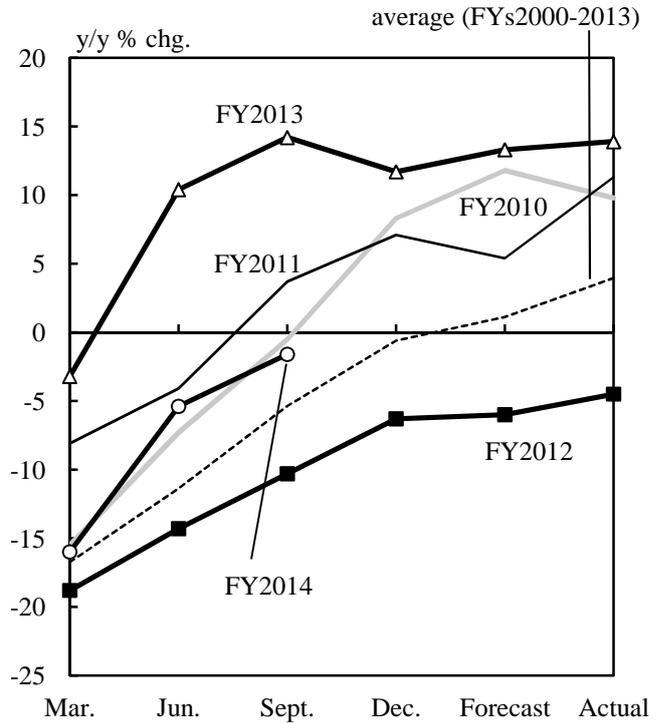
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

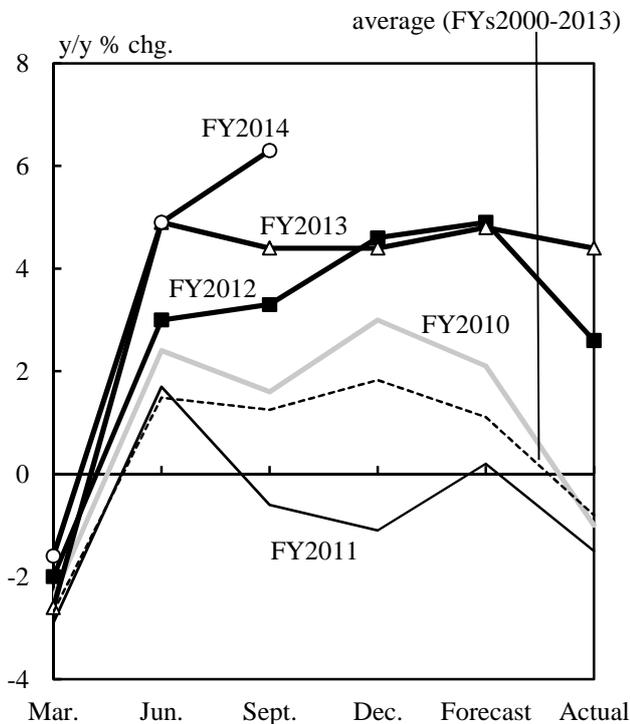
(1) Large Manufacturing Enterprises



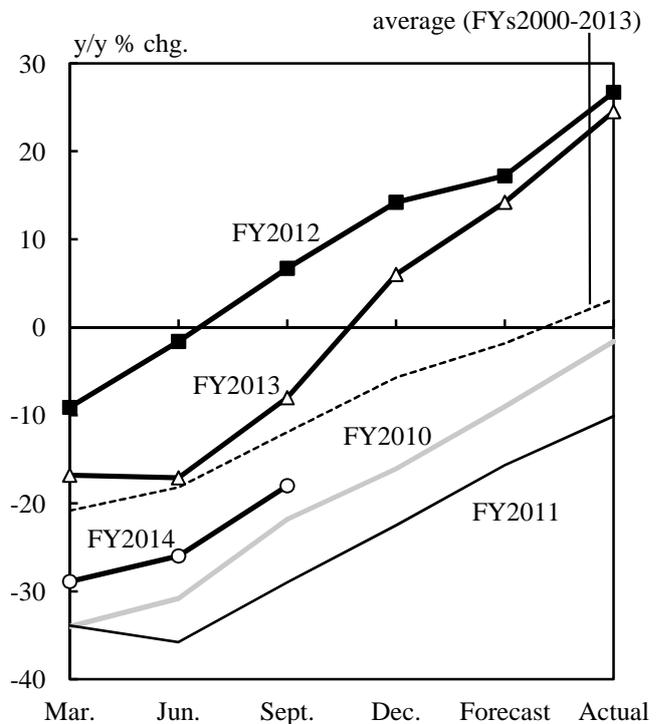
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



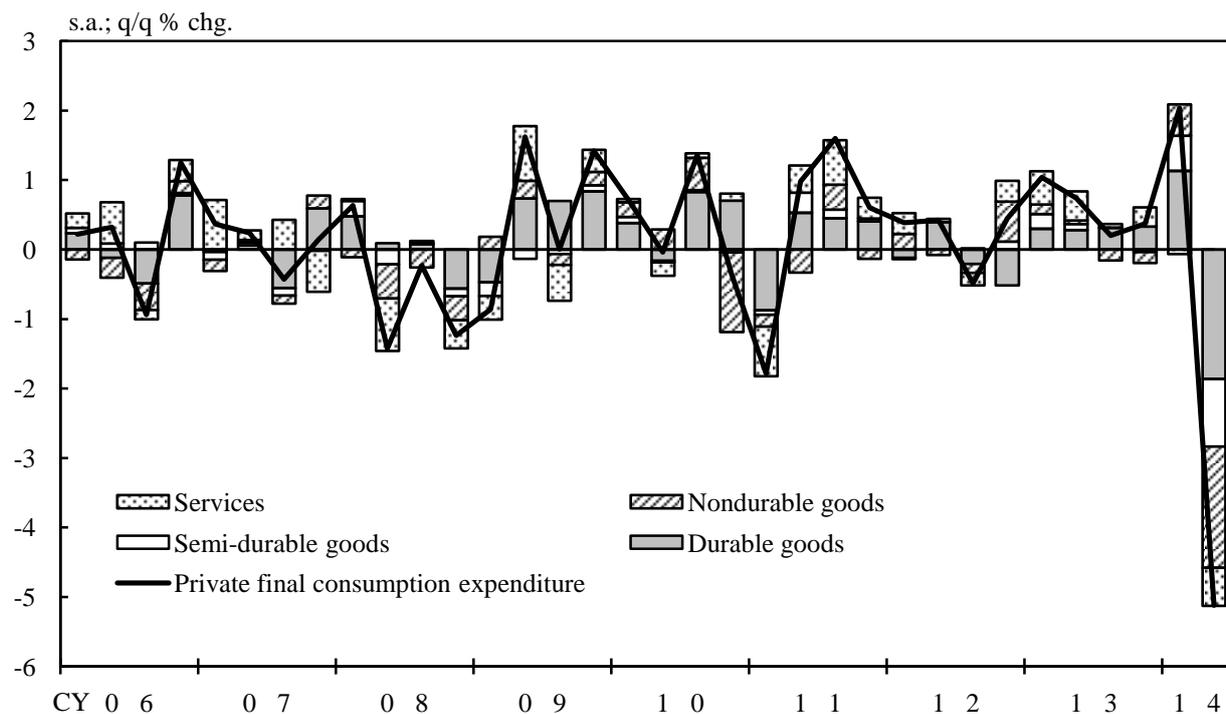
(4) Small Nonmanufacturing Enterprises



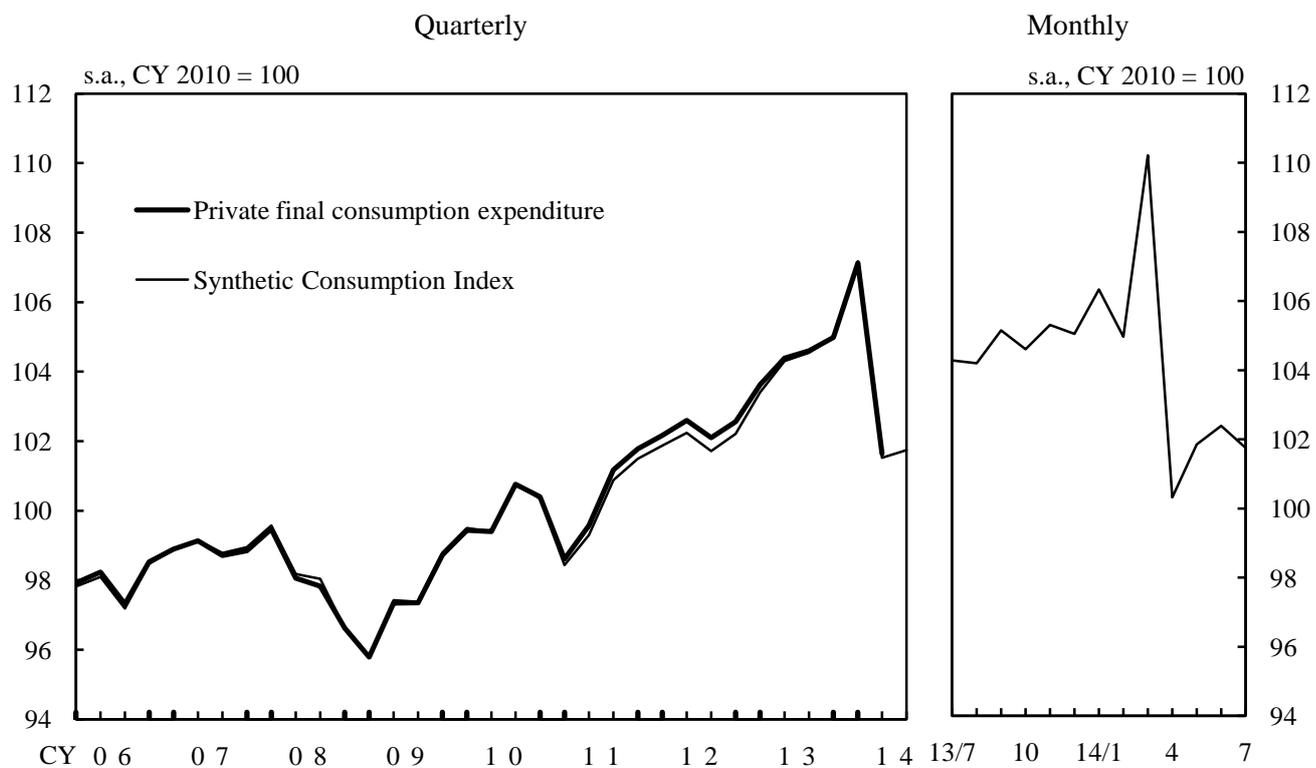
Notes: 1. Includes land purchasing expenses and excludes software investment.
 2. Since the introduction of the new accounting standard for lease transactions beginning April 1, 2008, figures up to FY2008 are based on the previous standard and figures from FY2009 onward are based on the new standard.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

Indicators of Private Consumption (1)

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



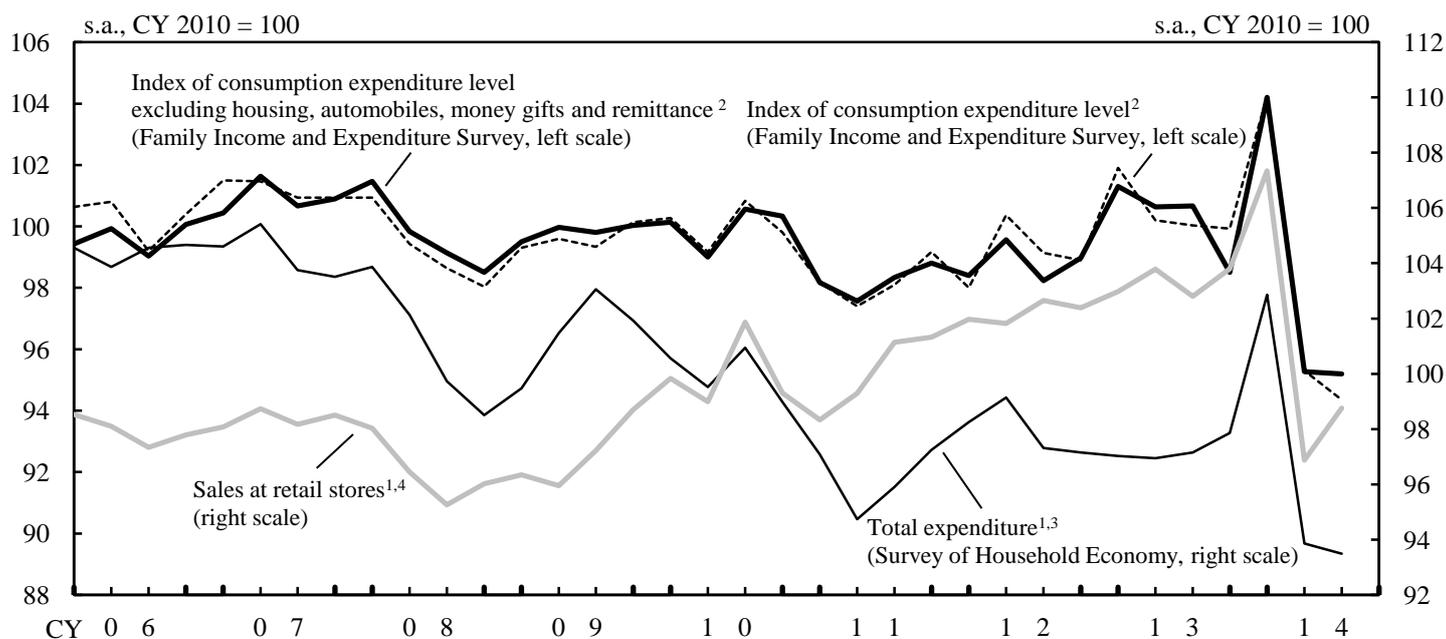
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



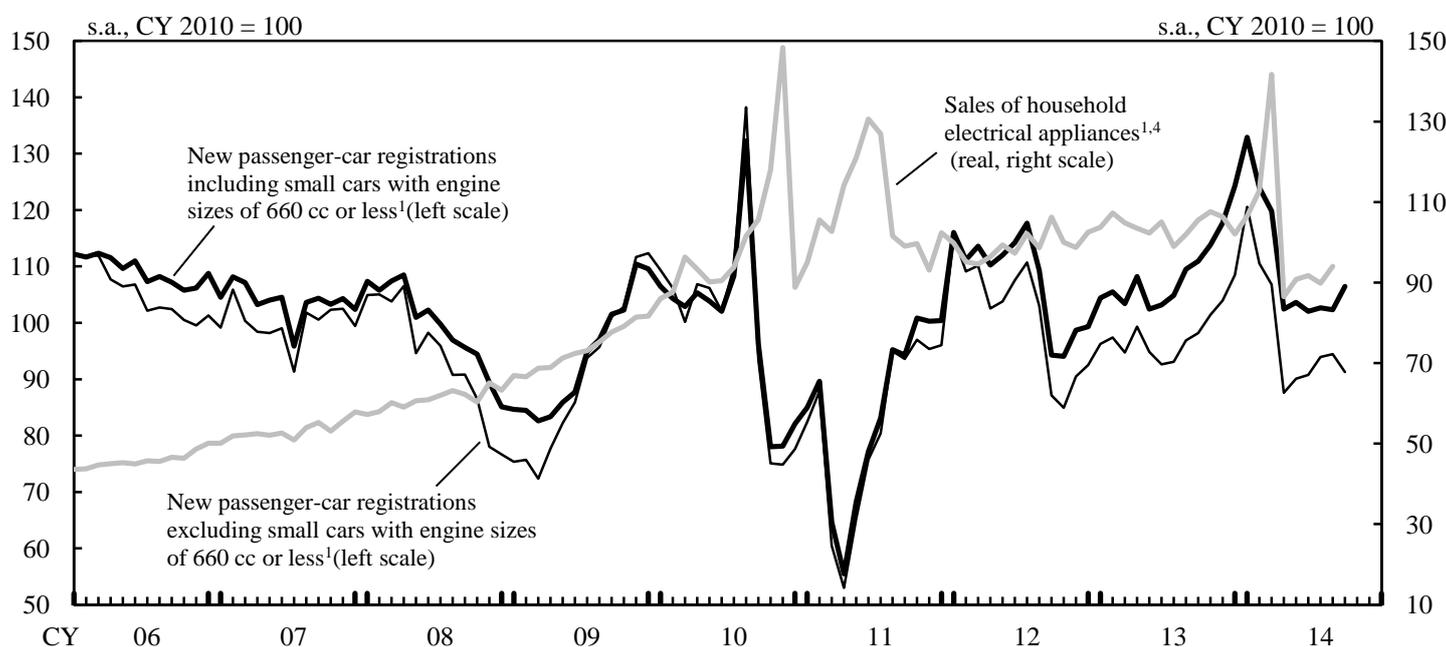
Note: The figure for 2014/Q3 is that of July in quarterly amount.

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. Figures for total expenditure, sales at retail stores, sales of household electrical appliances, and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.

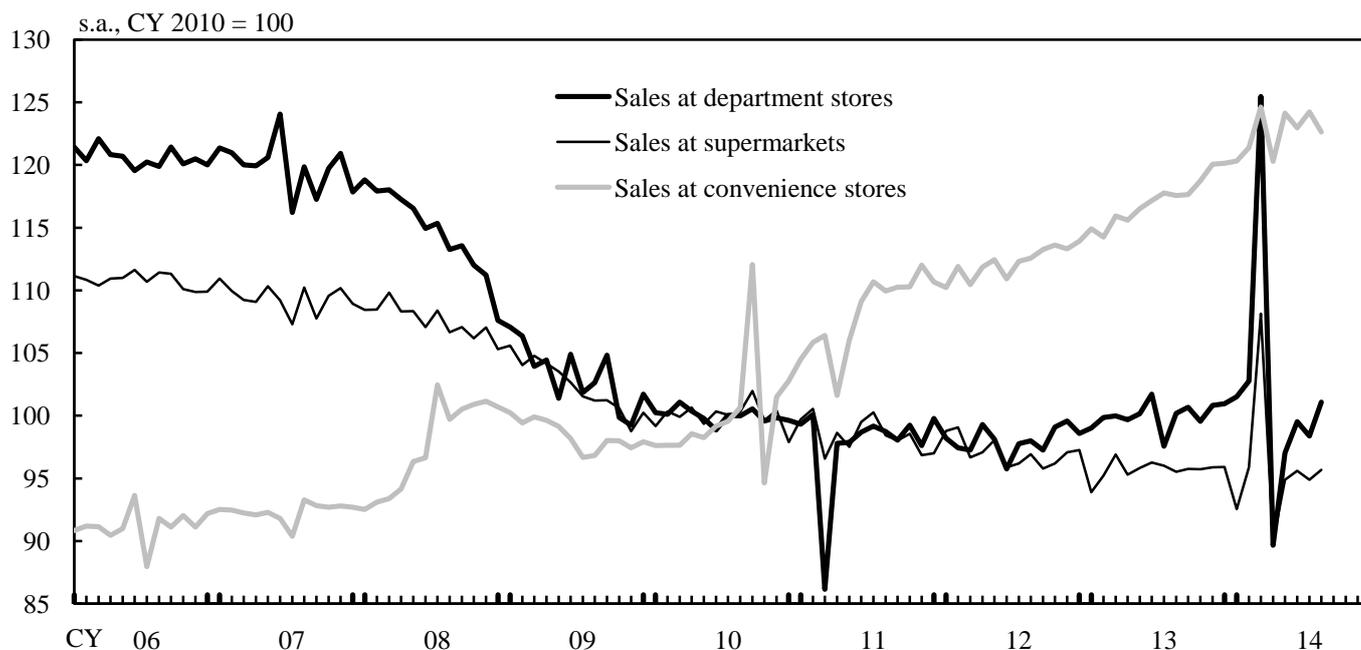
2. Figures for index of consumption expenditure level are based on two-or-more-person households, and are adjusted using the distribution of household by number of household members and age group of household head.

3. Figures for total expenditure are based on two-or-more-person households, and are deflated by the "Consumer Price Index (CPI)" excluding imputed rent.

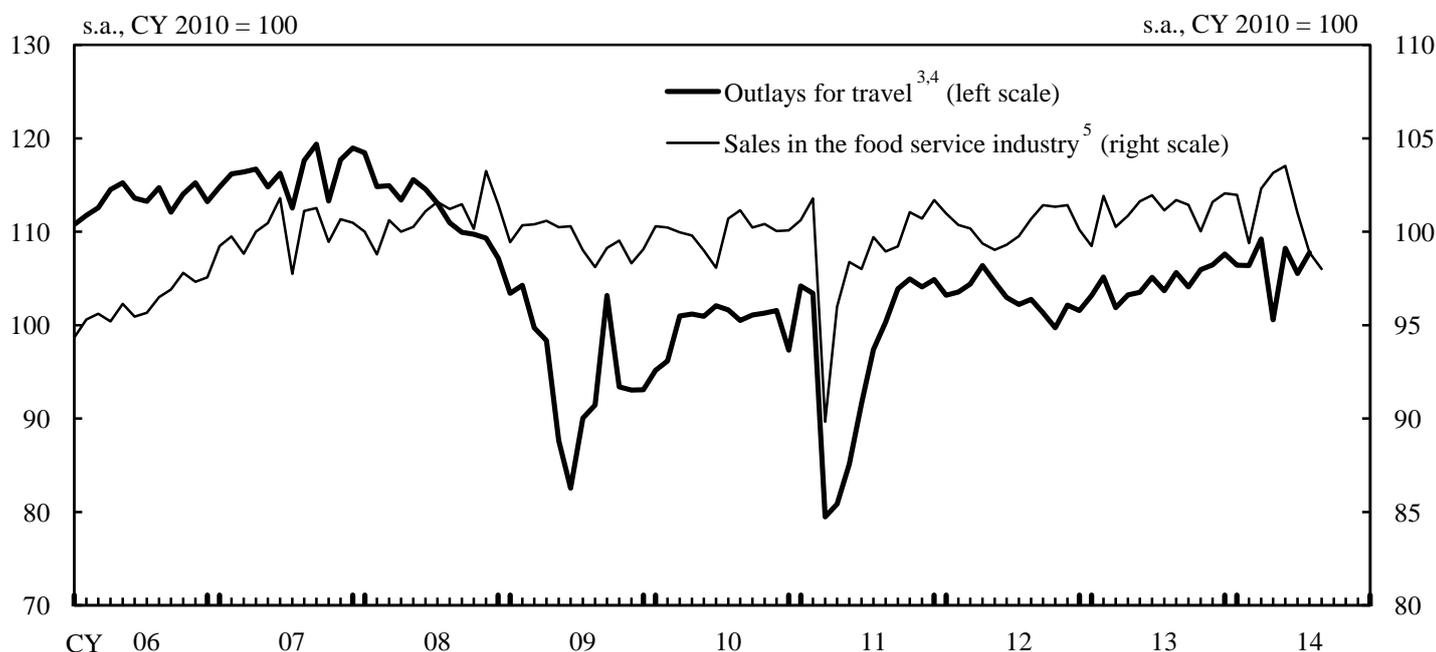
4. Figures for sales at retail stores are deflated by the CPI for goods (excluding electricity, gas & water charges). Figures for sales of household electrical appliances are calculated as follows: indices of retail sales of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.

5. The figure of total expenditure for 2014/Q3 is that of July; Figures of index of consumption expenditure level and sales at retail stores for 2014/Q3 are those of July-August averages in terms of 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 Consumption¹ (3)(1) Sales at Retail Stores (Nominal)²

(2) Consumption of Services (Nominal)



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

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

3. Excluding those by foreign travelers.

4. There are discontinuities in the underlying data as of April 2007, 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. Figures for sales in the food service industry are 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";

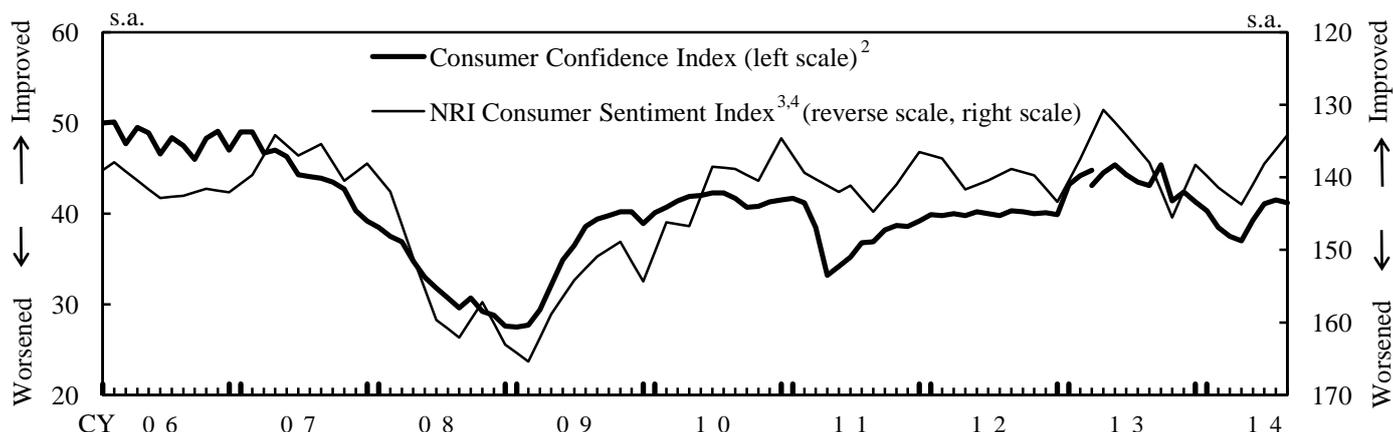
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

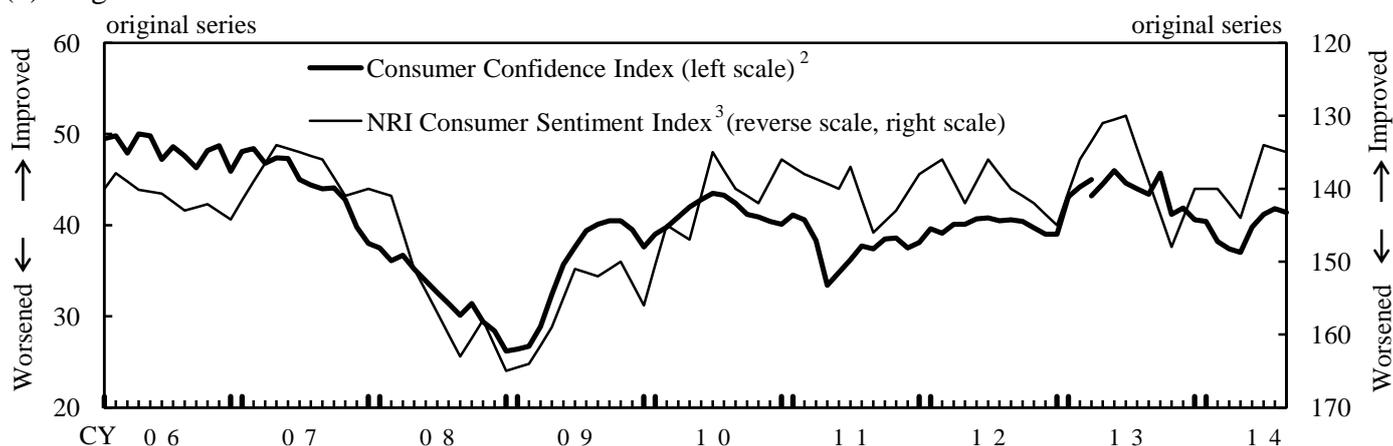
(Research on the food service industry)."

Consumer Confidence¹

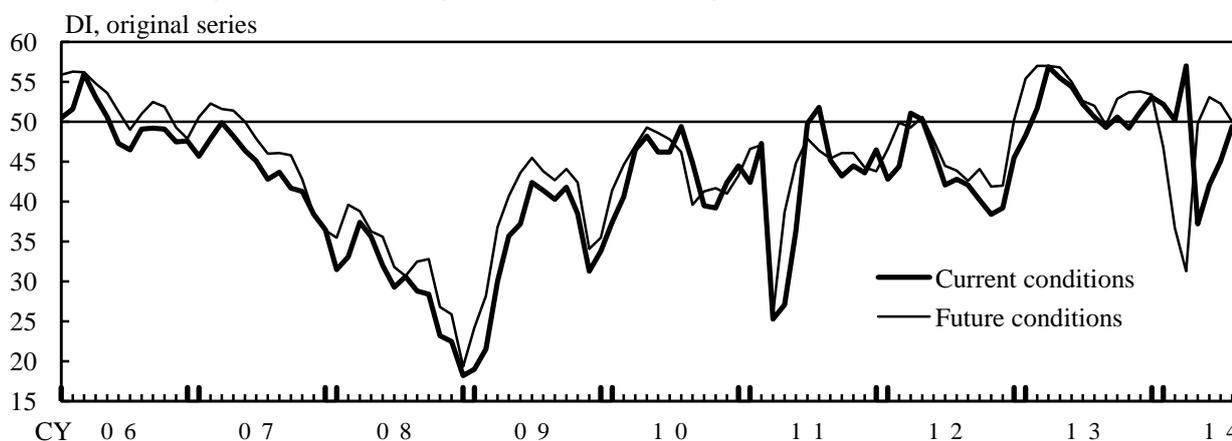
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

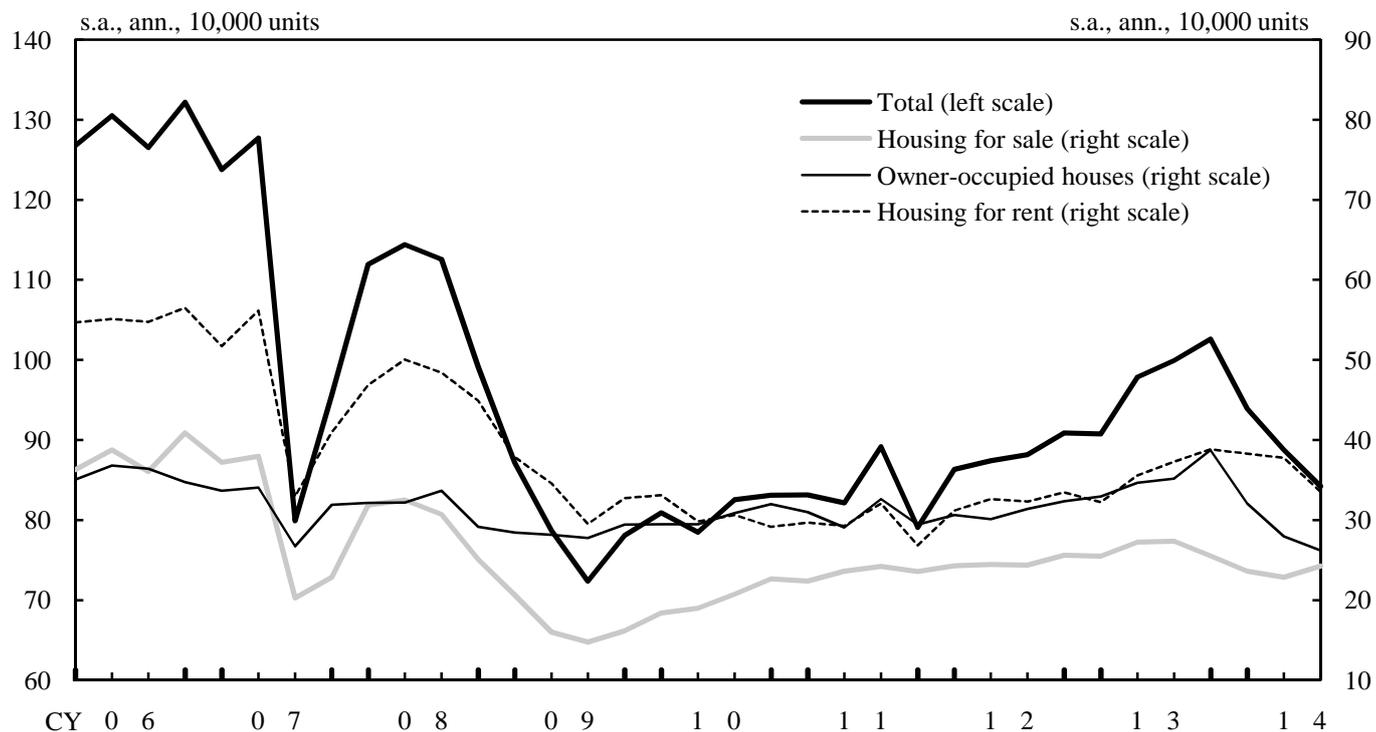


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting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

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

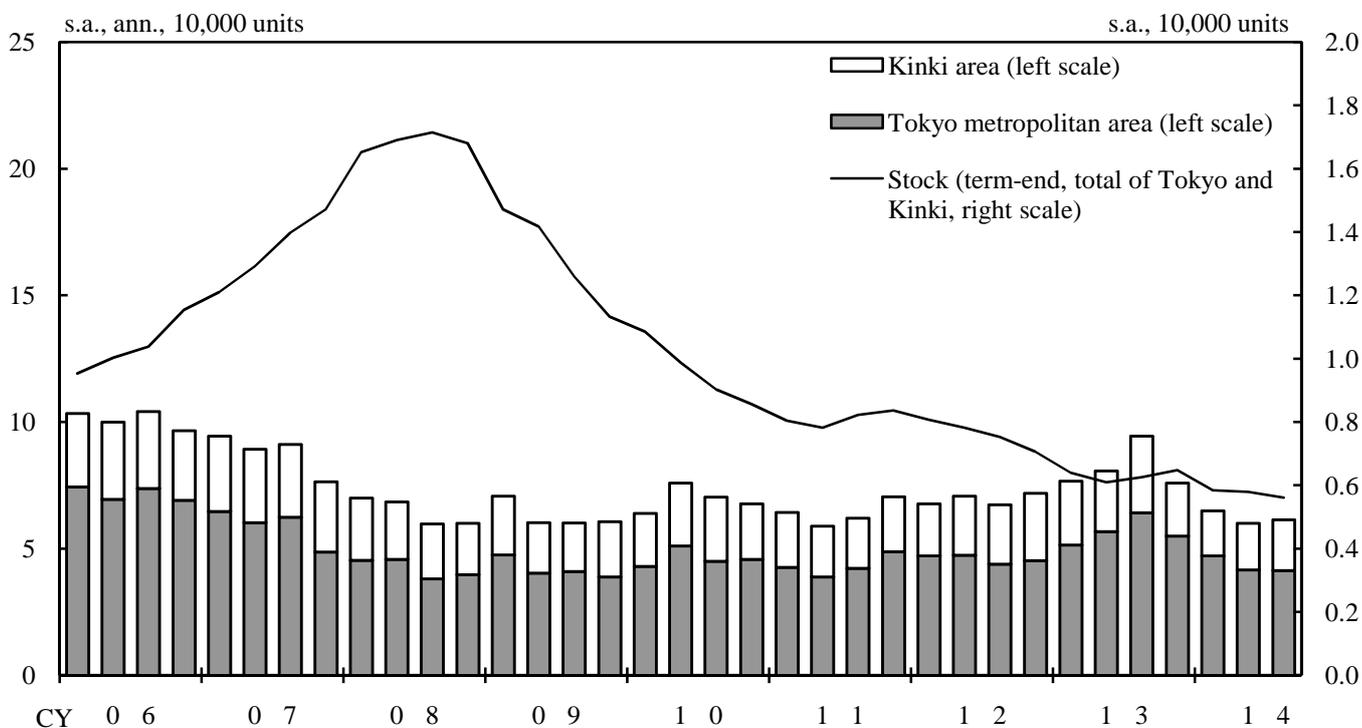
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2014/Q3 are July-August averages.

(2) Sales of Apartments



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

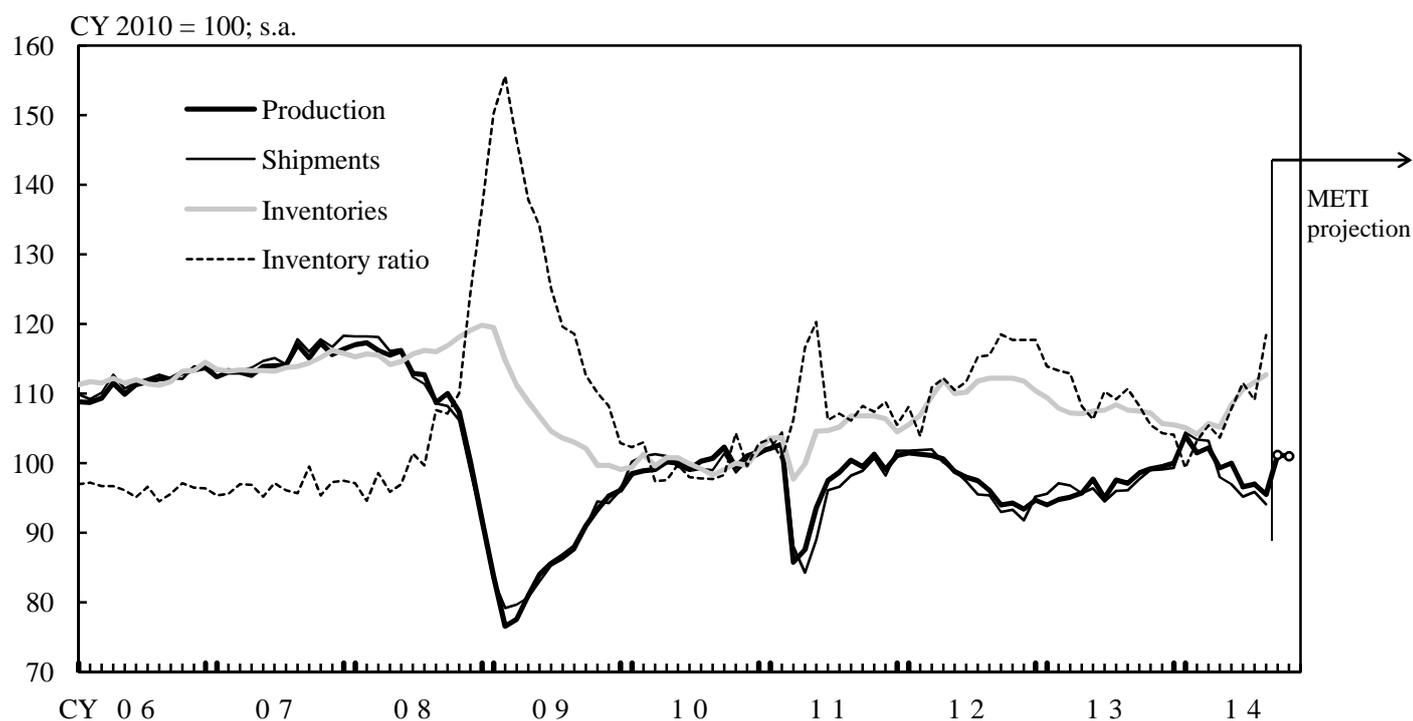
2. The figure of total apartment sales for 2014/Q3 is the July-August average.

The term-end stock for 2014/Q3 is that of August.

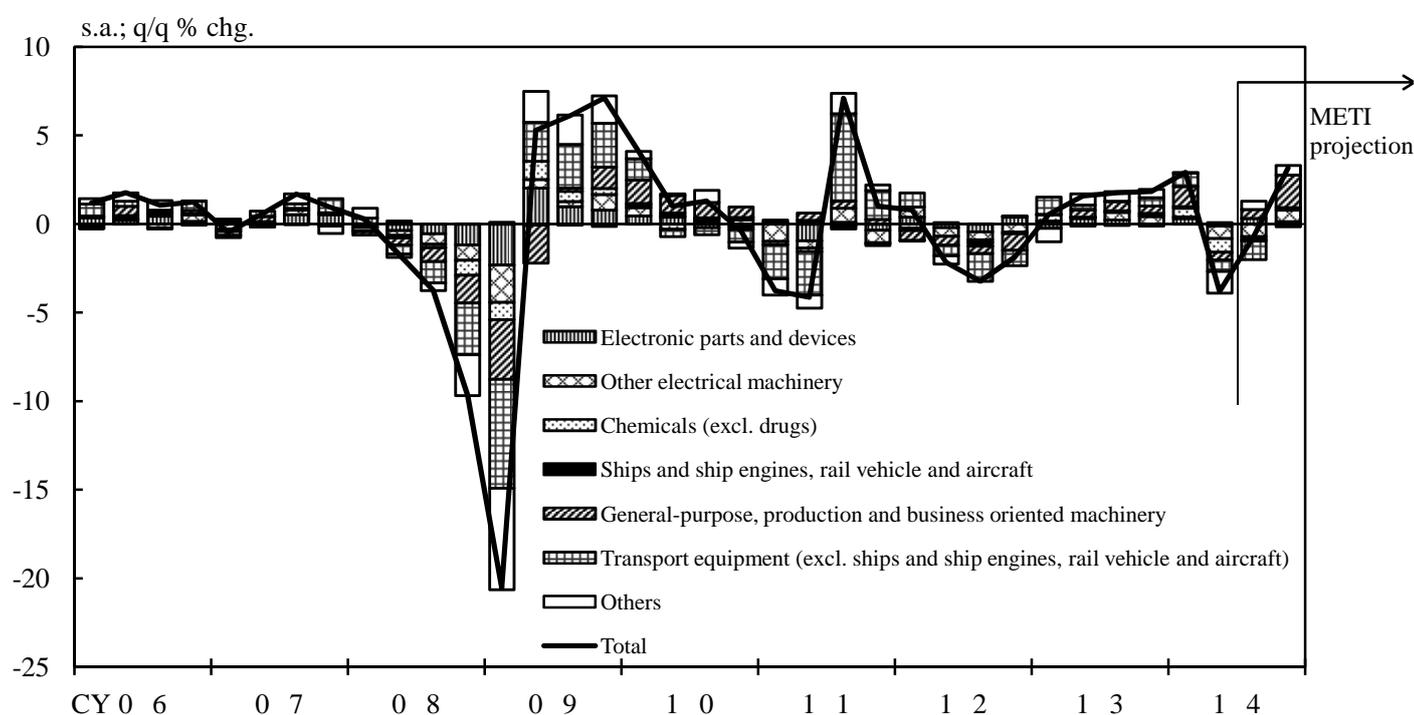
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

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.

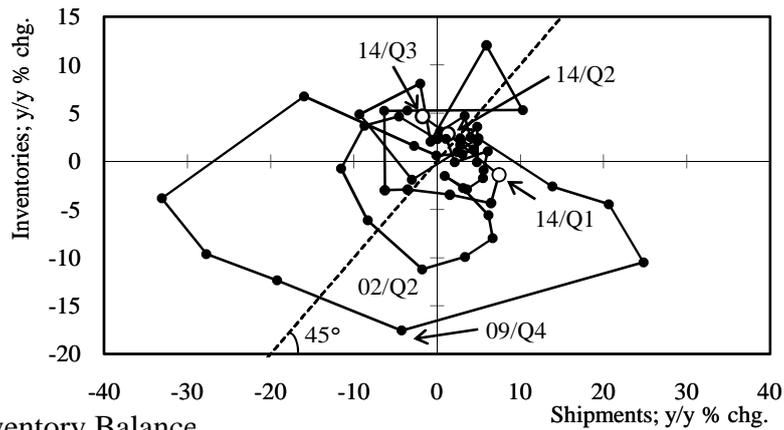
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2014/Q3 figures are based on the actual production levels in July and August, and the METI projection of September. 2014/Q4 figures are based on the assumption that the production levels in November and December are the same as those of October.

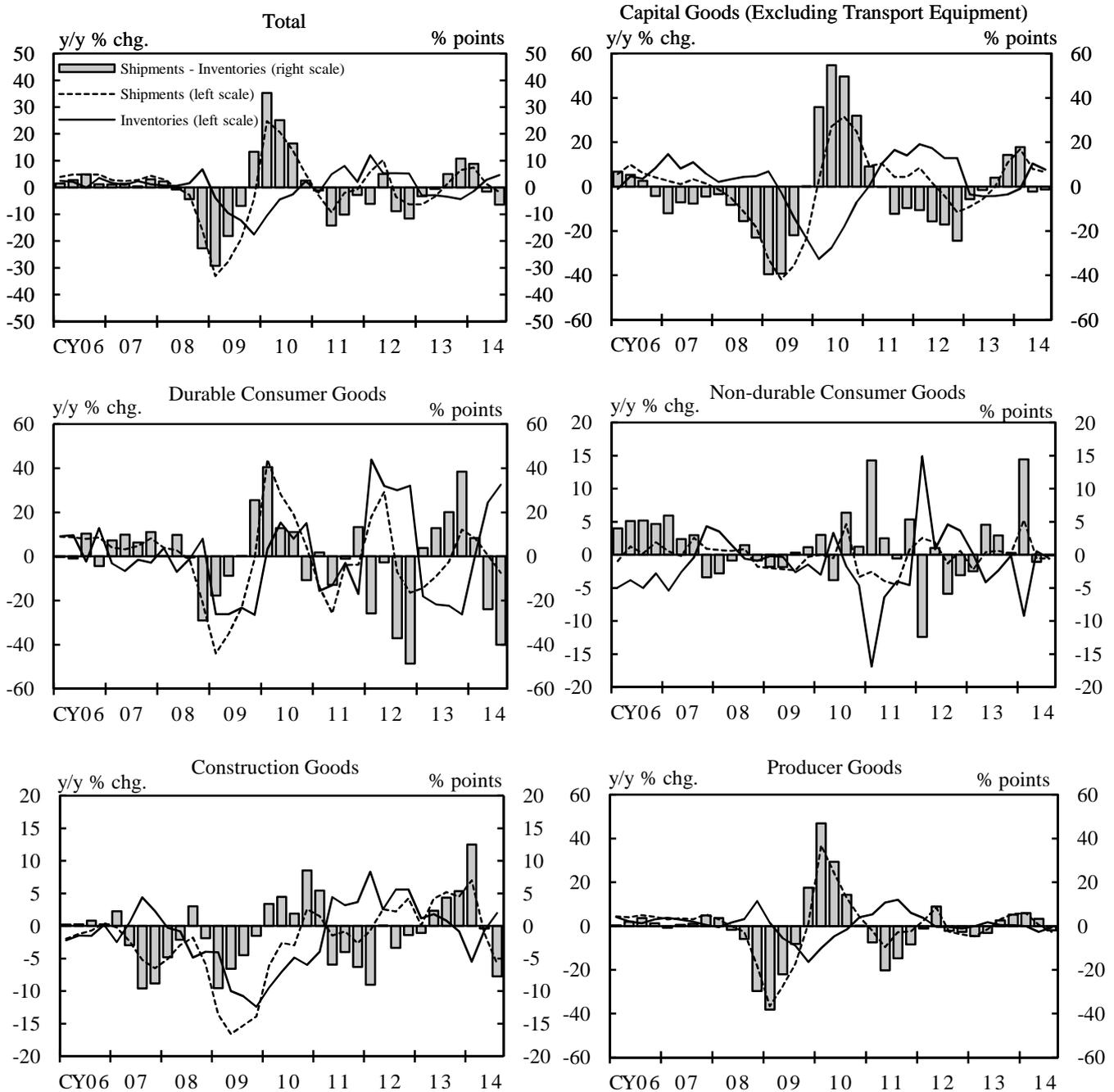
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



(2) Shipment-Inventory Balance



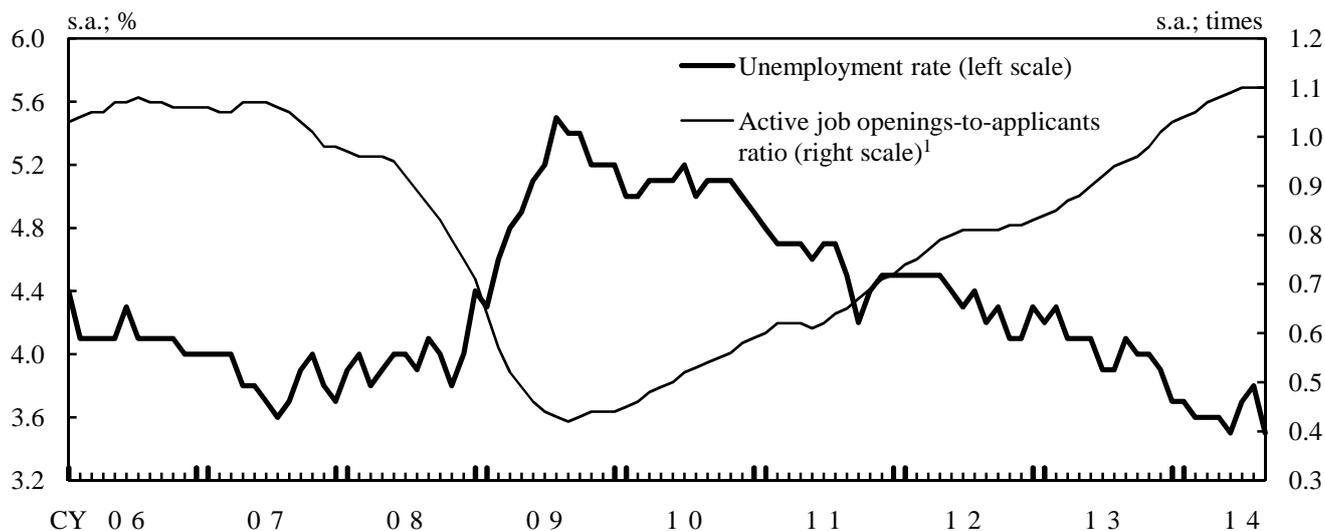
Note: Figures of shipments for 2014/Q3 are July-August averages.

Inventories for 2014/Q3 are those of August.

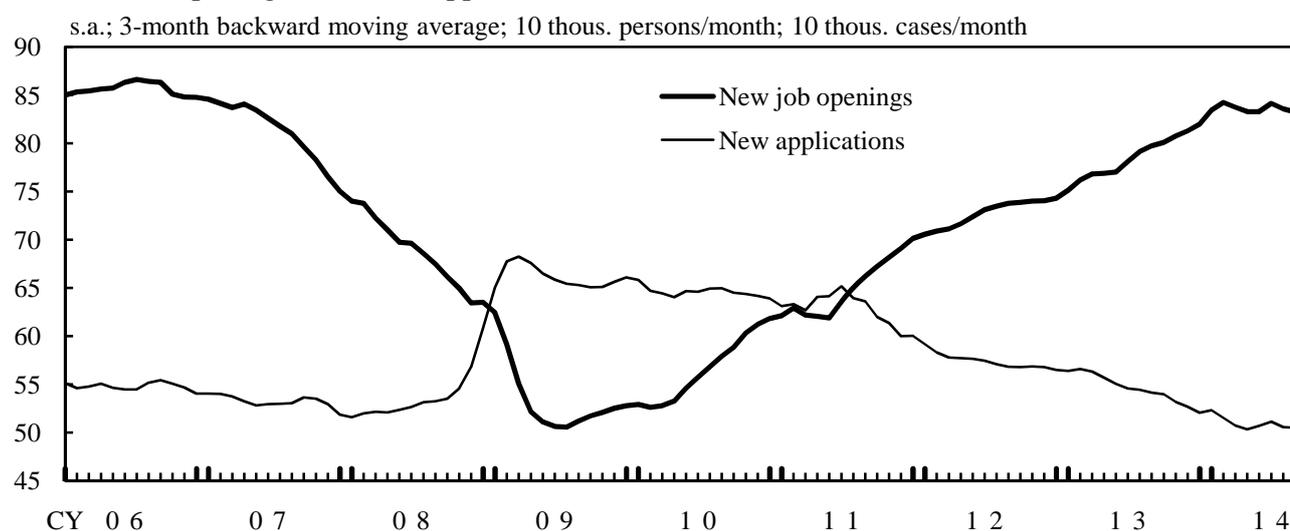
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

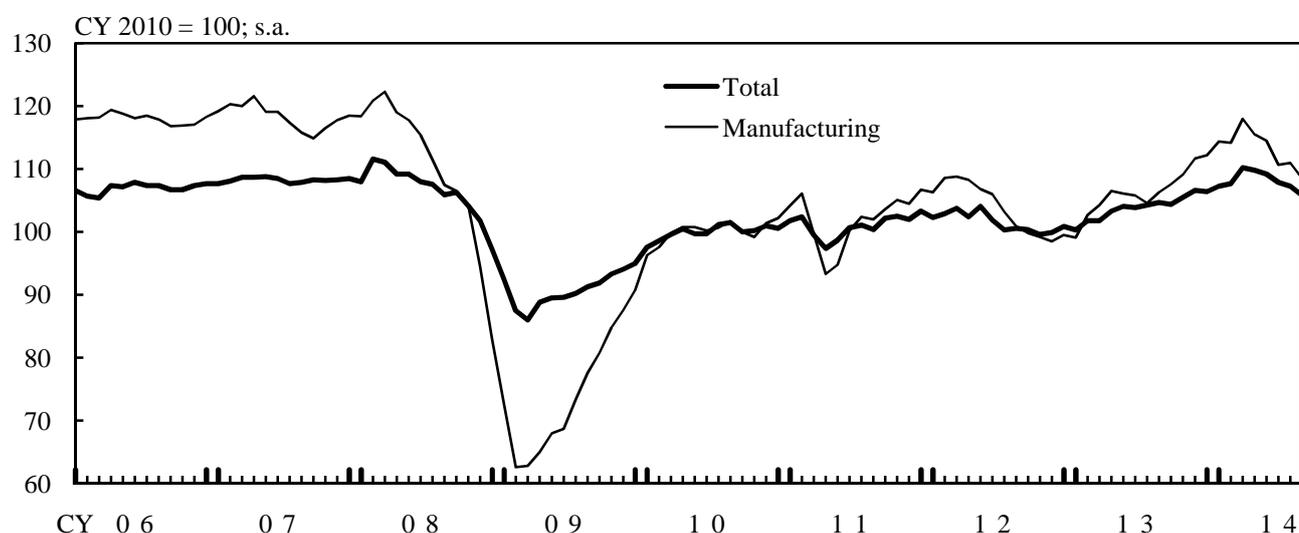
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications¹



(3) Non-Scheduled Hours Worked²



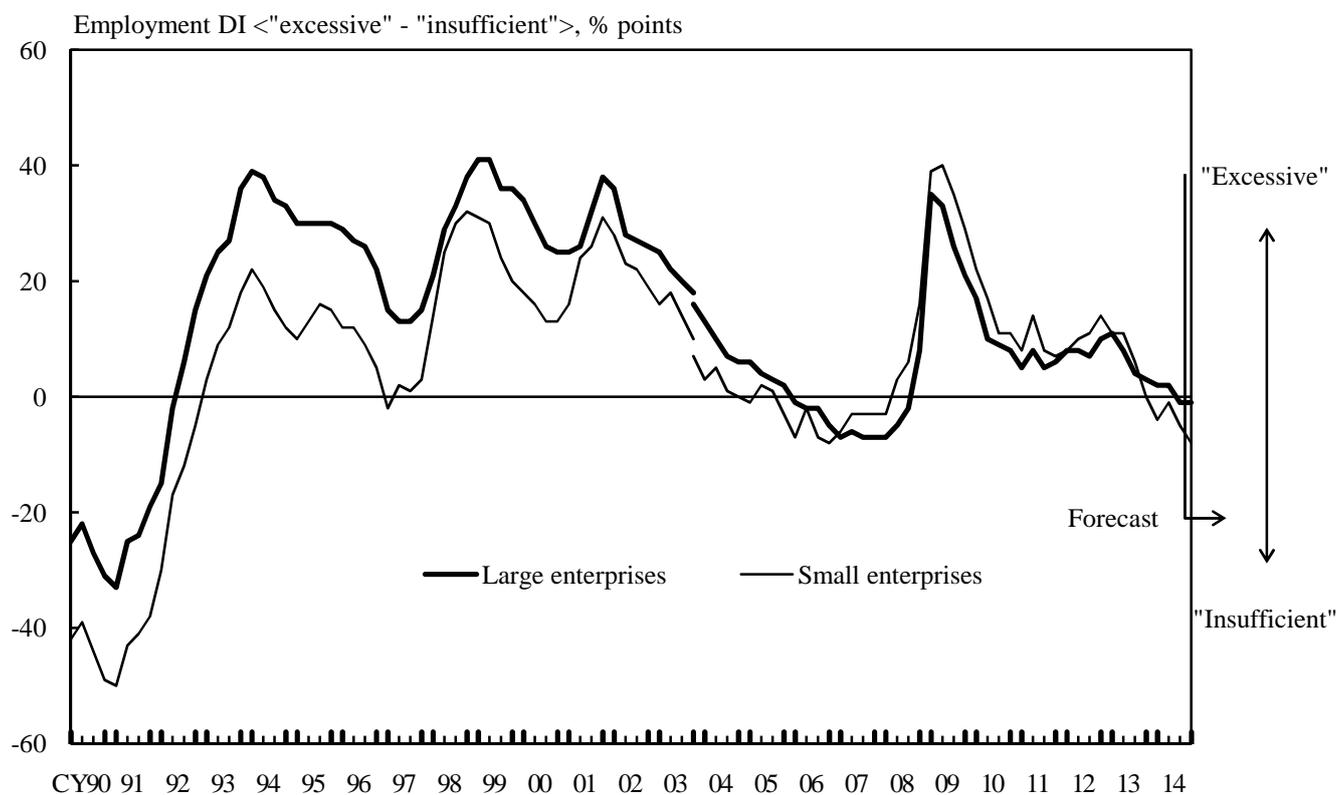
Notes: 1. Excluding new school graduates and including part-timers.

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

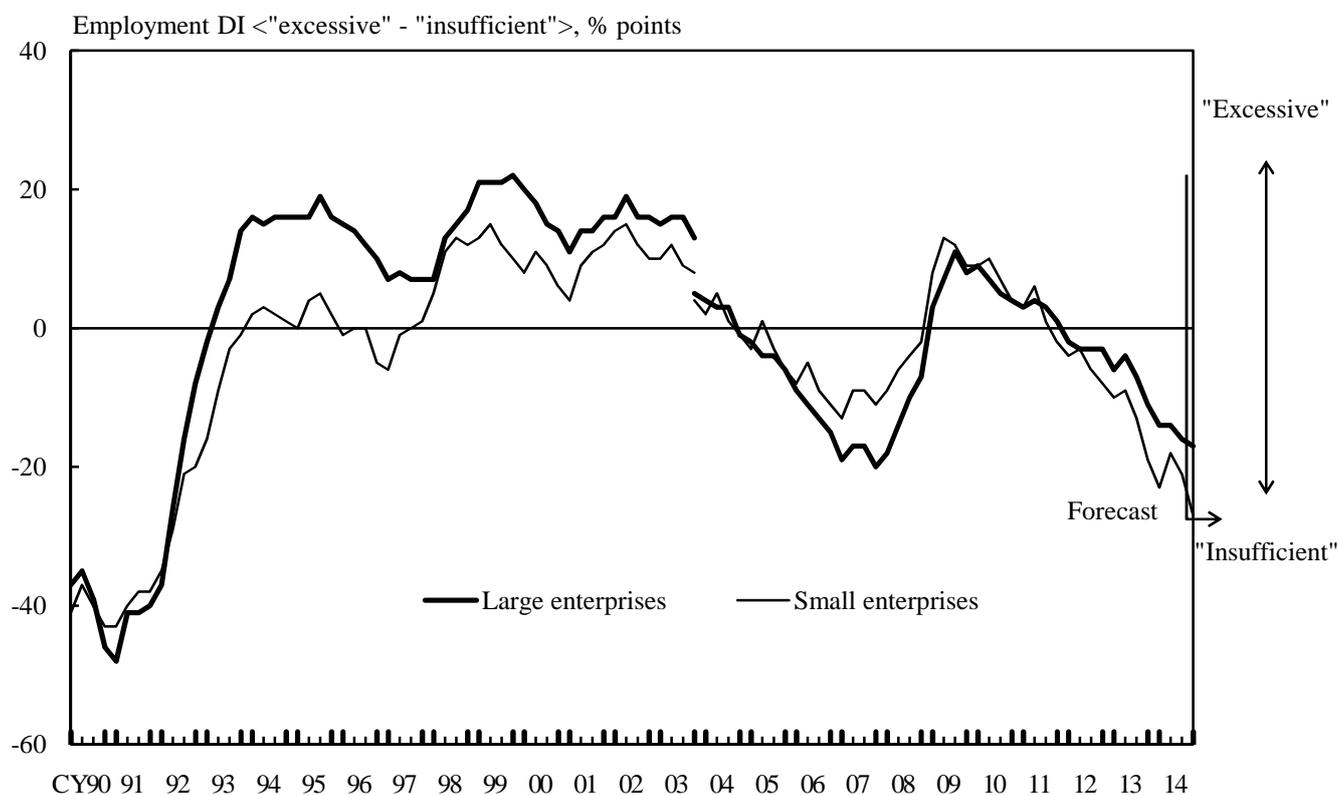
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employment Conditions

(1) Manufacturing

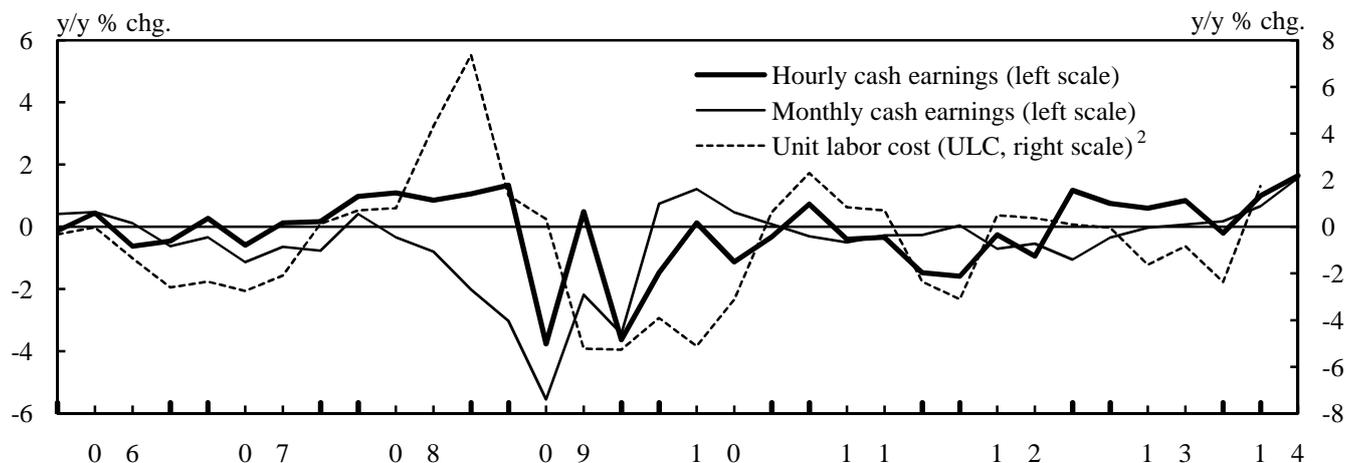
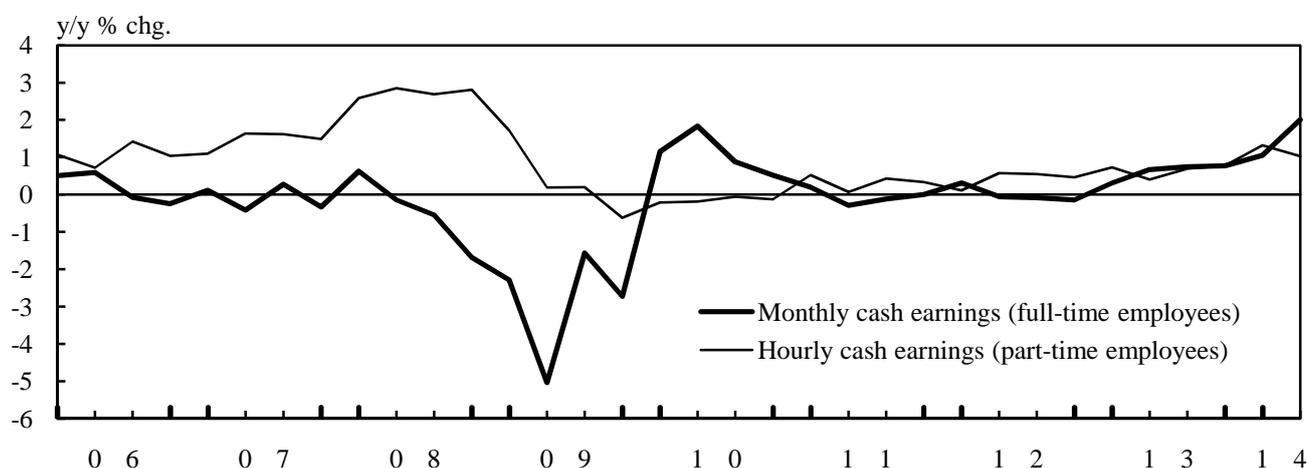
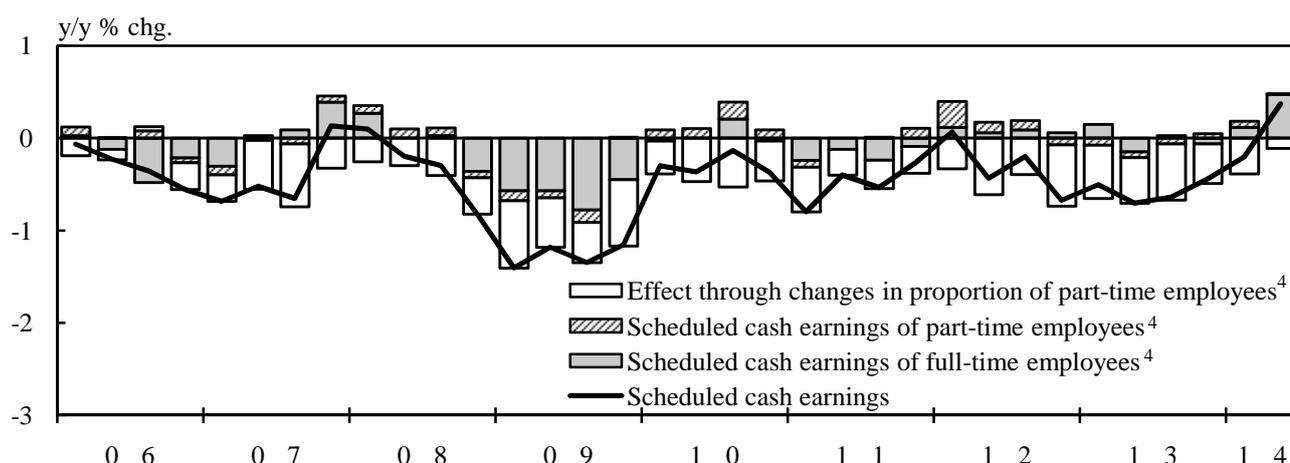


(2) Nonmanufacturing



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.

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.

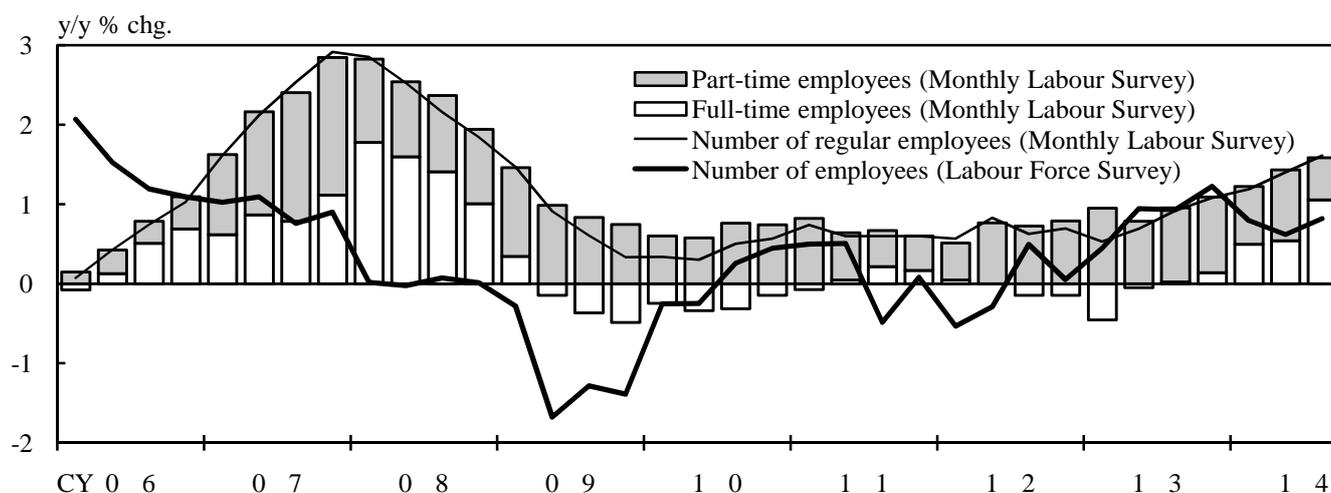
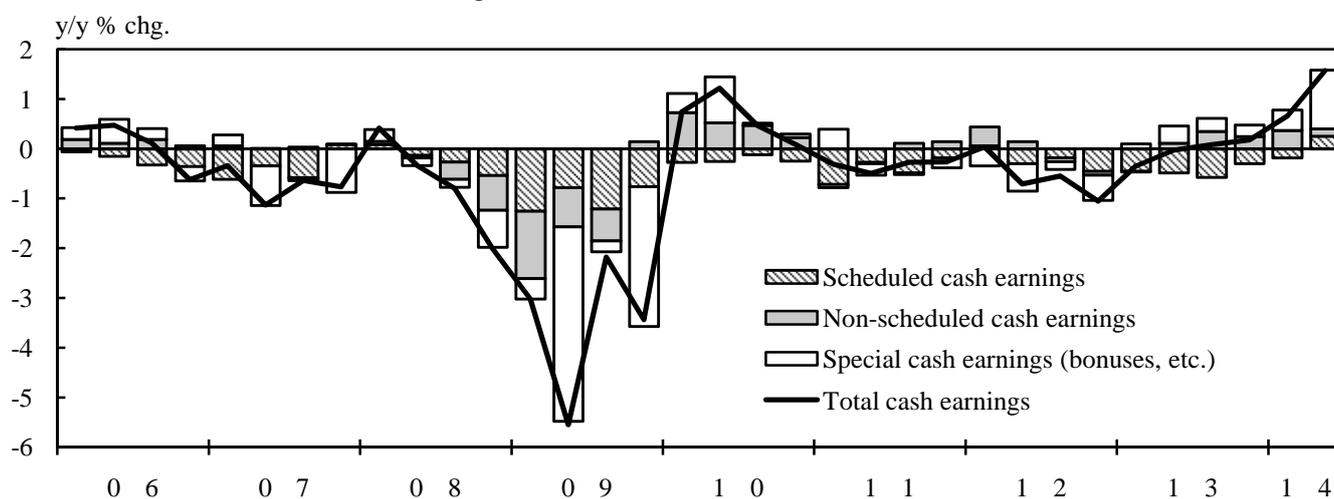
2. ULC = nominal compensation of employees (SNA) / real GDP

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).

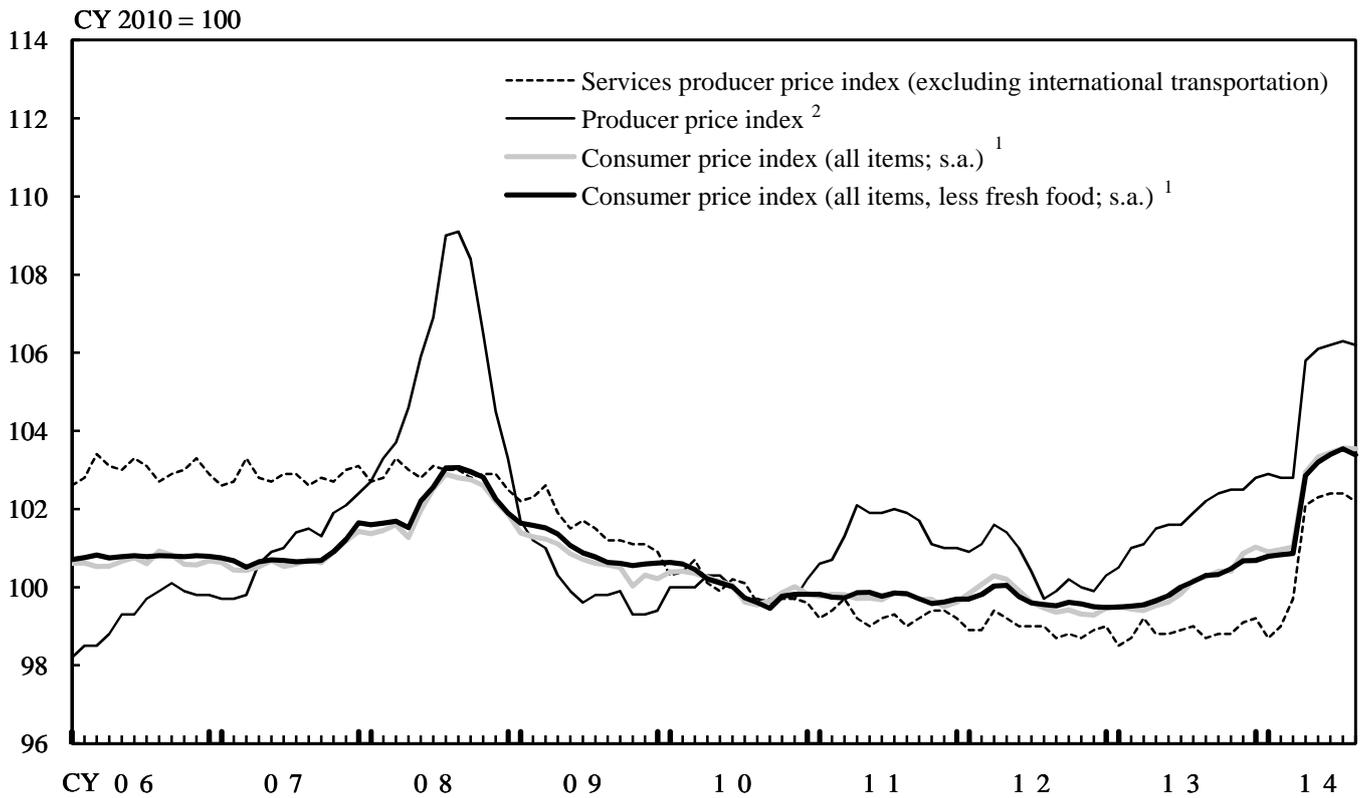
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

5. Figures for 2014/Q3 are those of July-August averages.

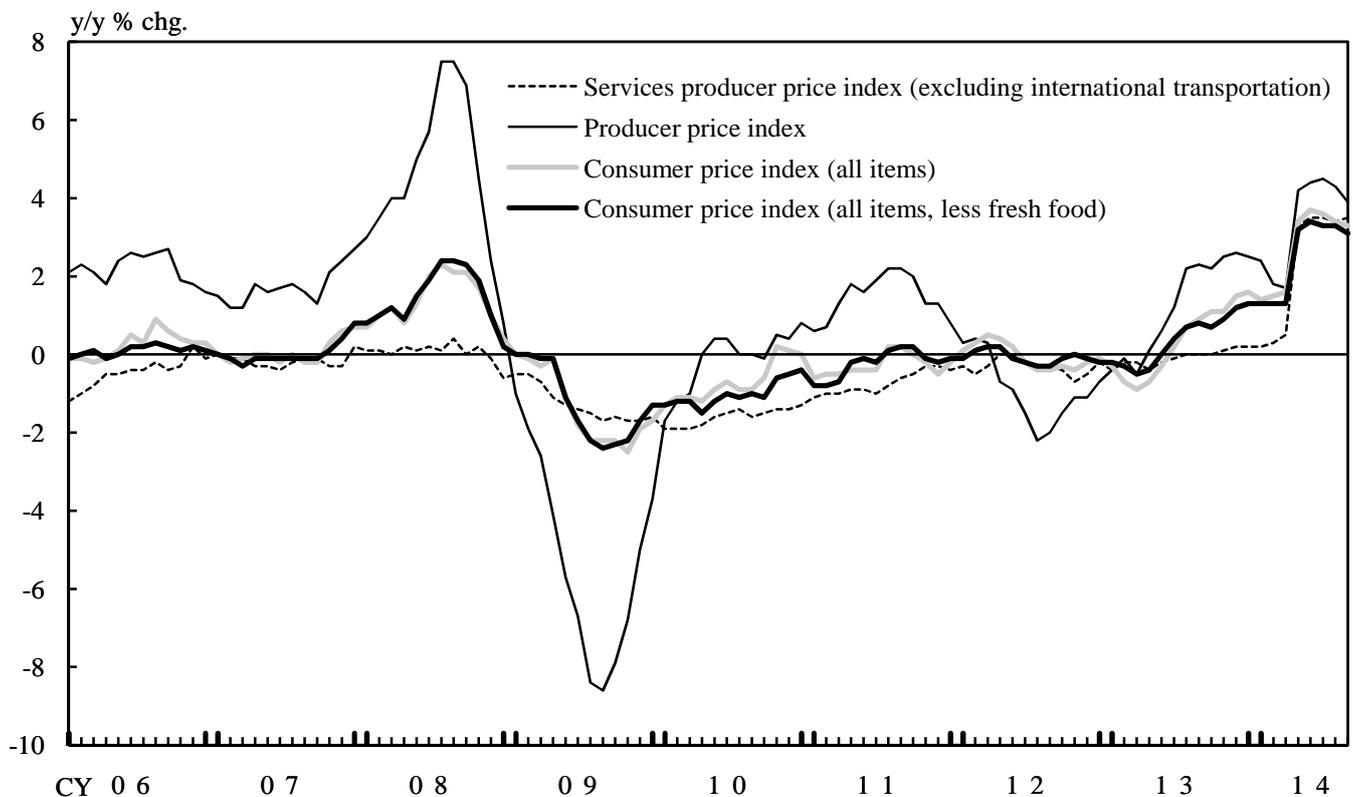
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



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

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

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

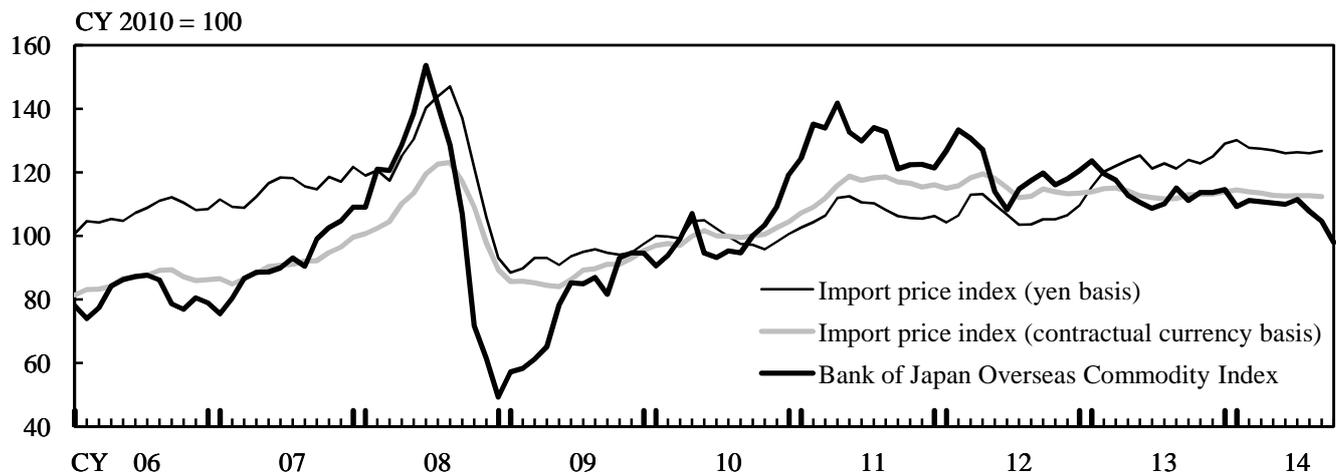
4. Figures of "Services Producer Price Index" and "Producer Price Index" up to 2009 are based on the linked indices.

5. Figures include the consumption tax.

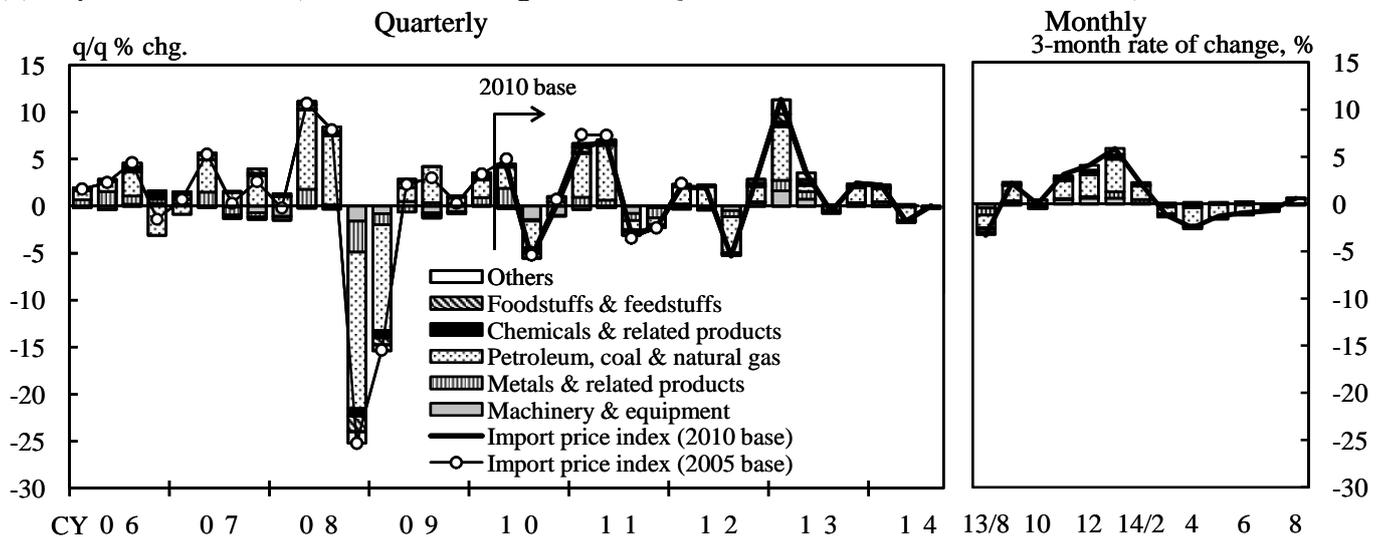
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

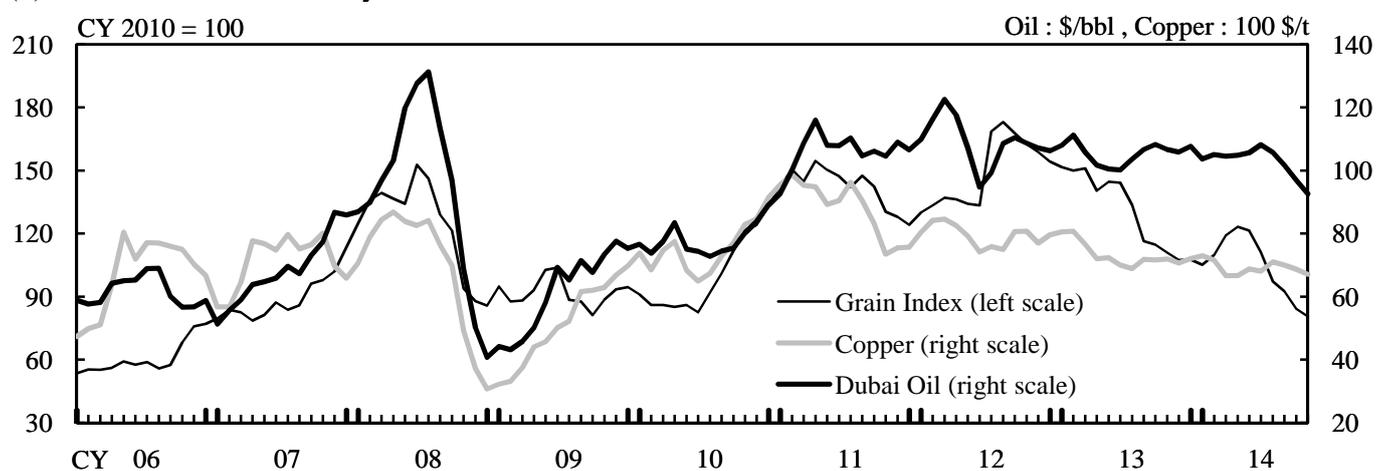


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.
 2. Figures for 2014/Q3 are July-August averages.

(3) International Commodity Prices

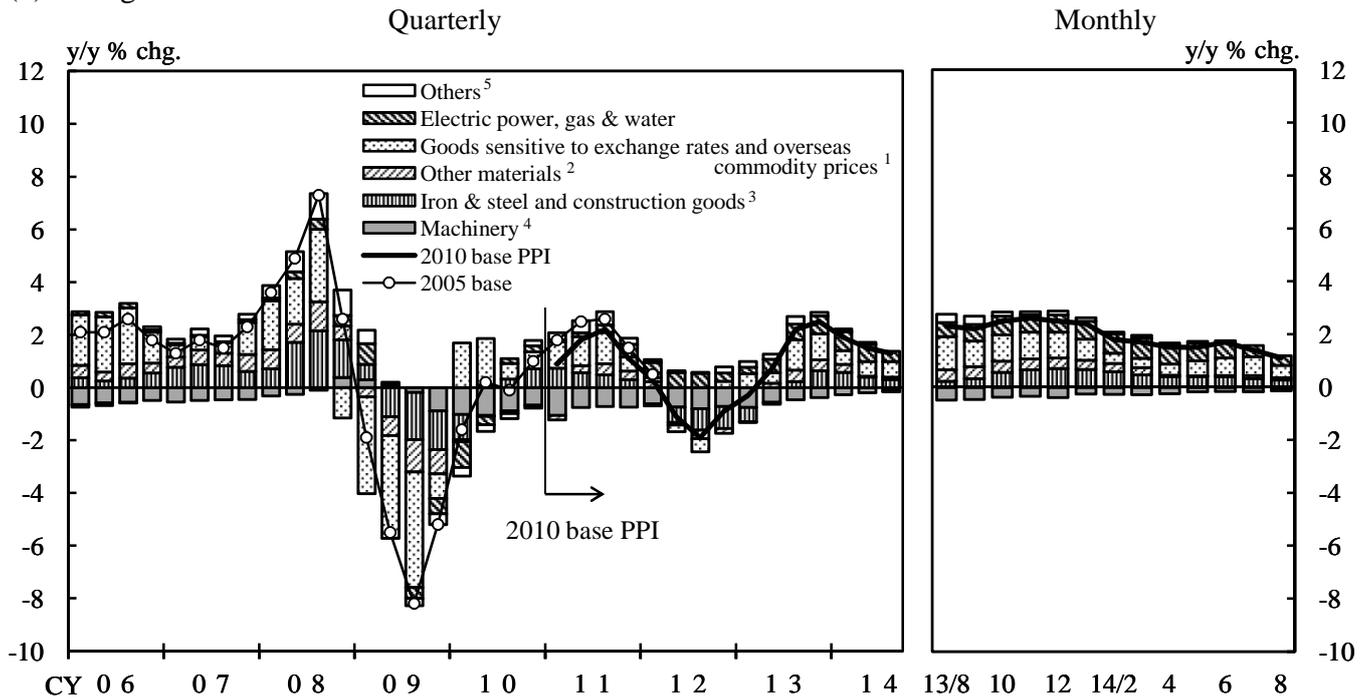


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
 2. Monthly averages. Figures for October 2014 are averages up to October 6.

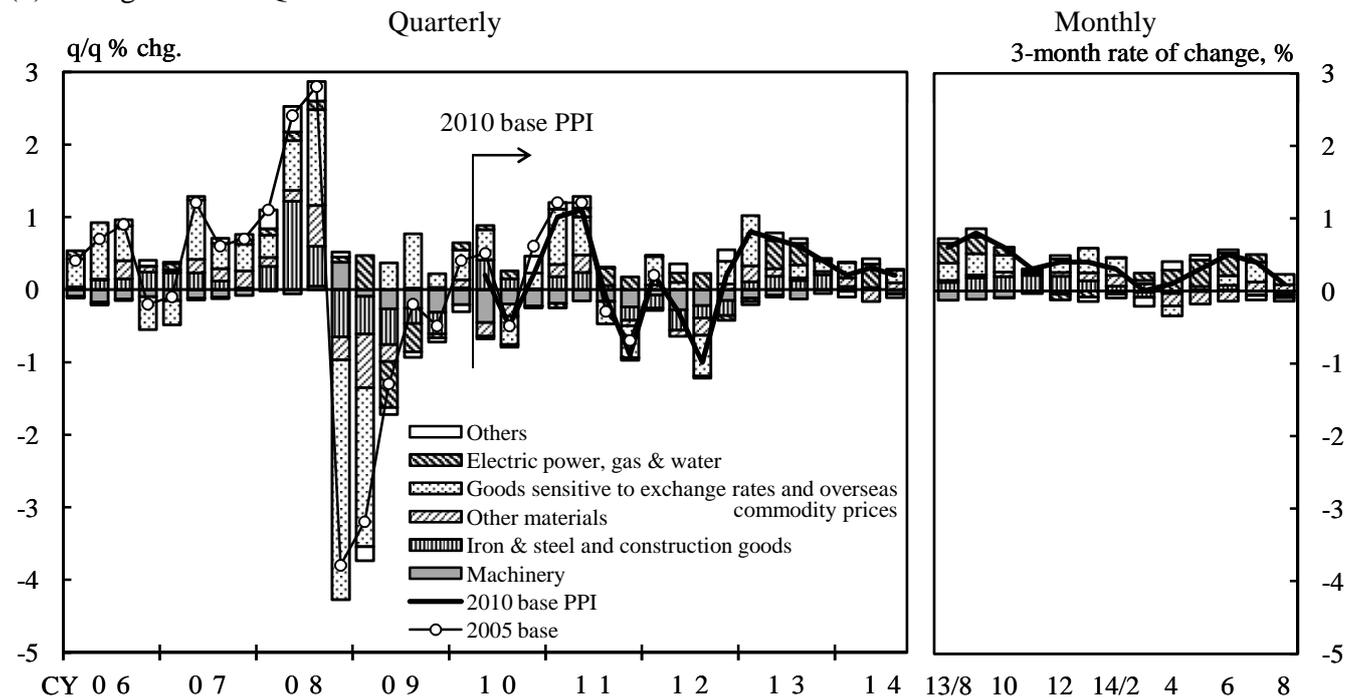
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



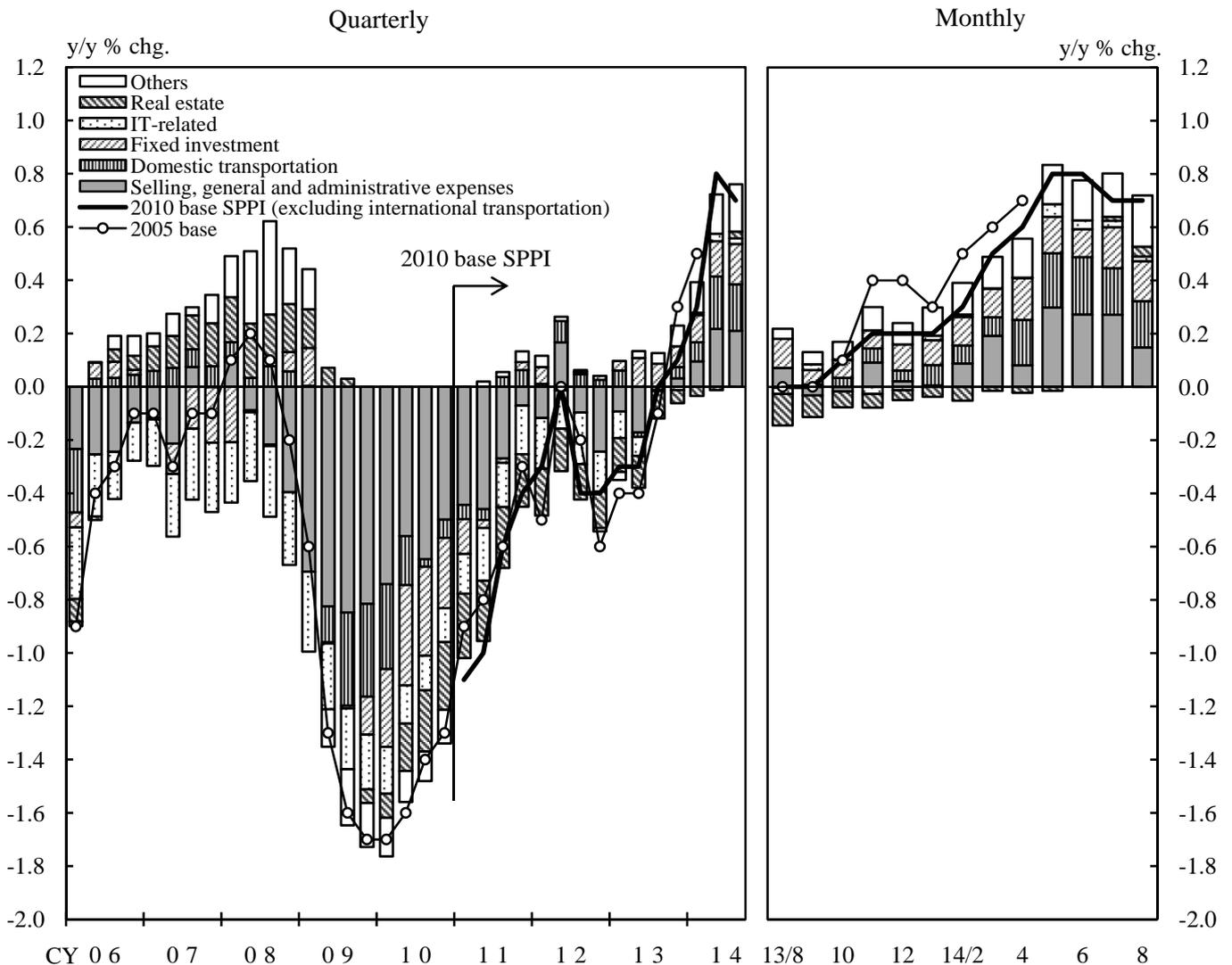
(2) Changes from a Quarter Earlier and 3 Months Earlier⁶



- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.
 2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.
 3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.
 4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.
 5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.
 6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "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.
 8. Figures for 2014/Q3 are July-August averages.

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

Services Producer Price Index

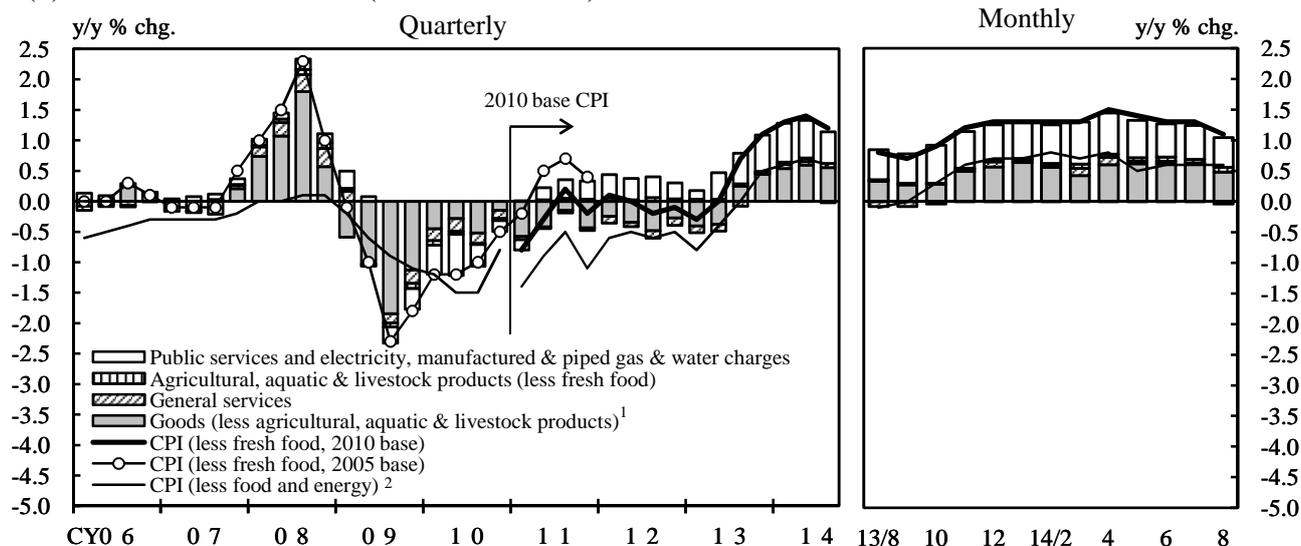


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation and postal 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/Q3 are July-August averages.

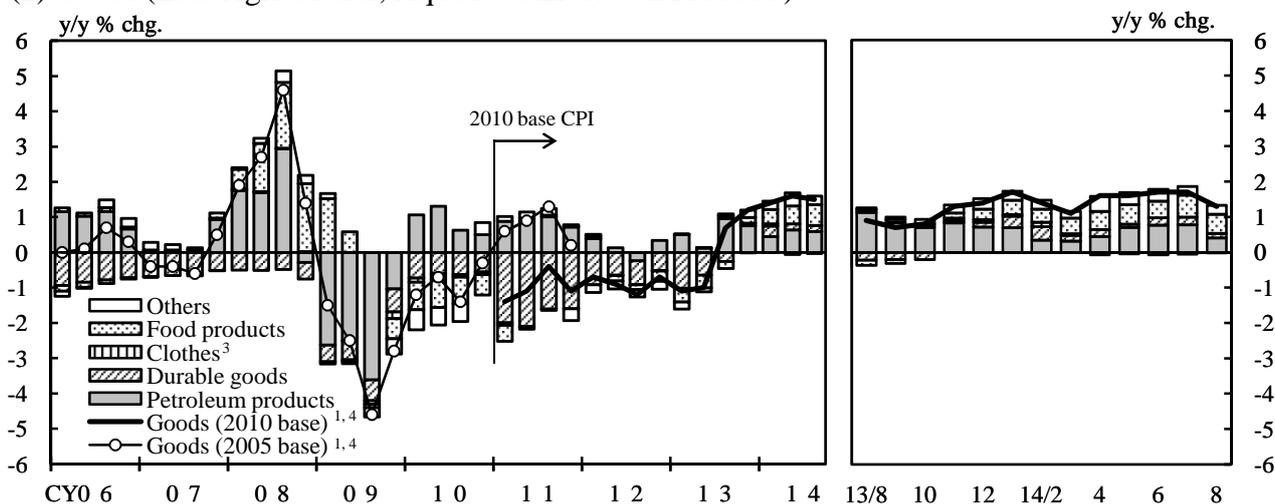
Source: Bank of Japan, "Services Producer Price Index."

Consumer Price Index (Less Fresh Food)

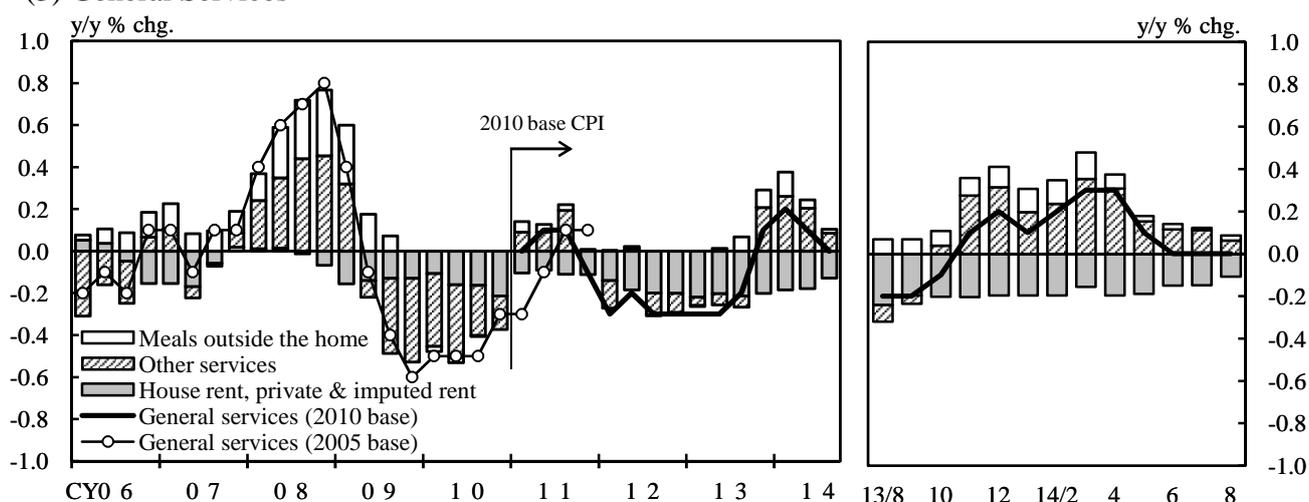
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

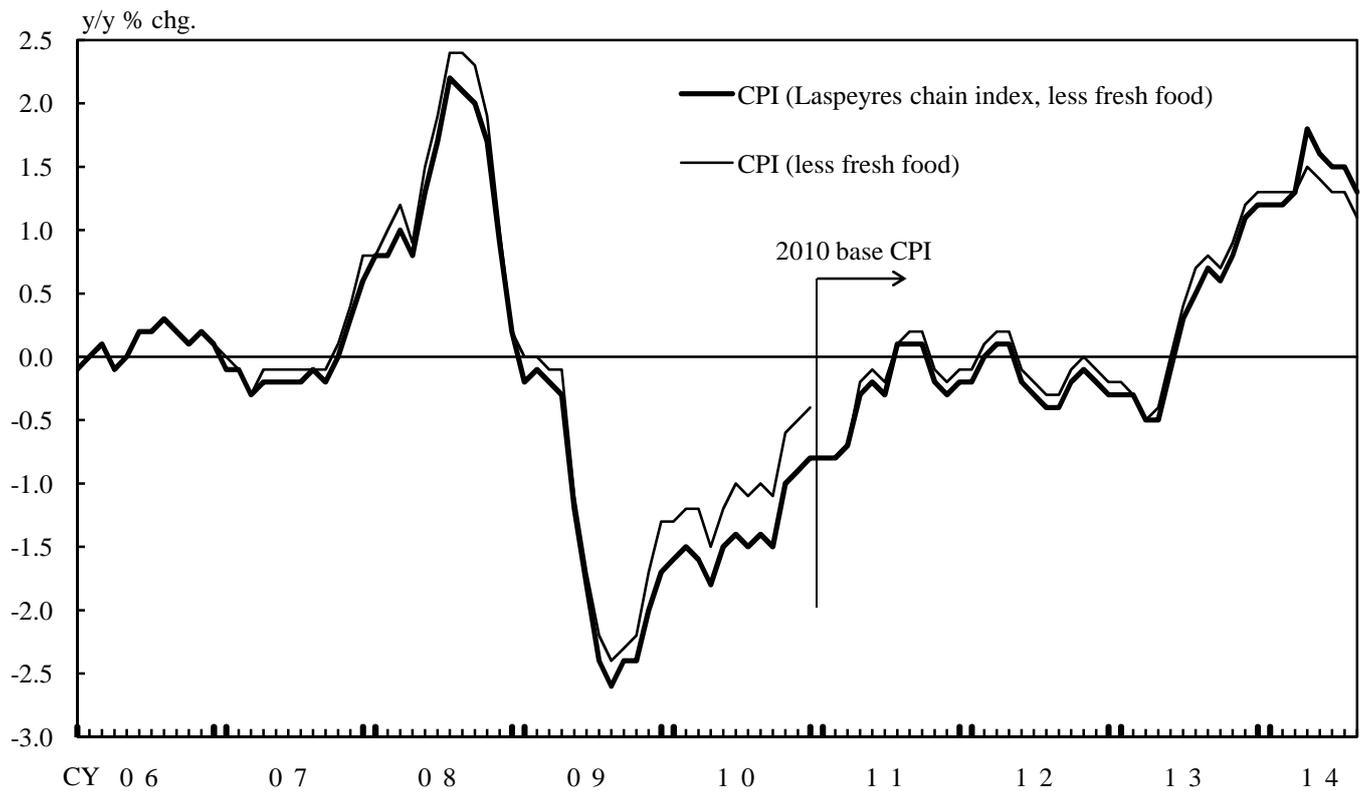


- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, 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/Q3 are July-August averages.

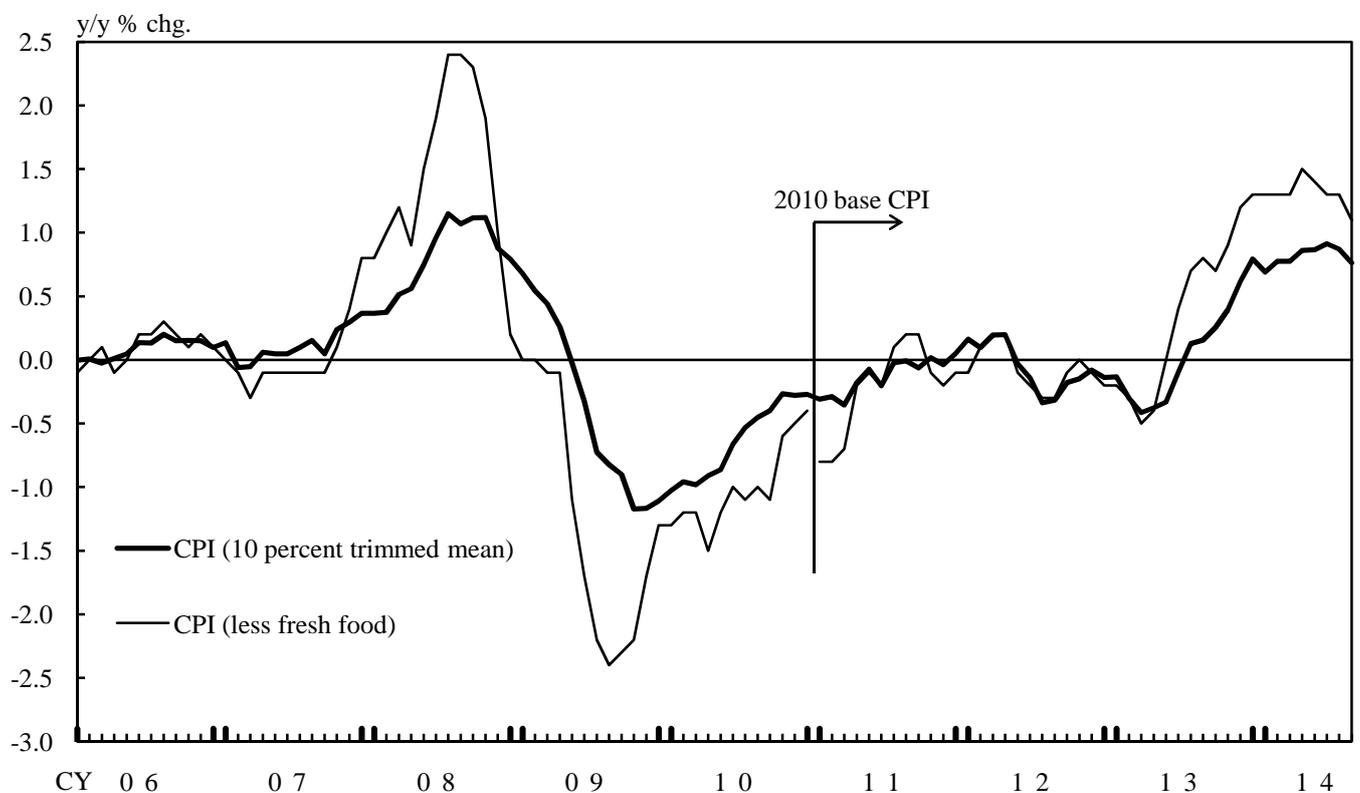
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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.

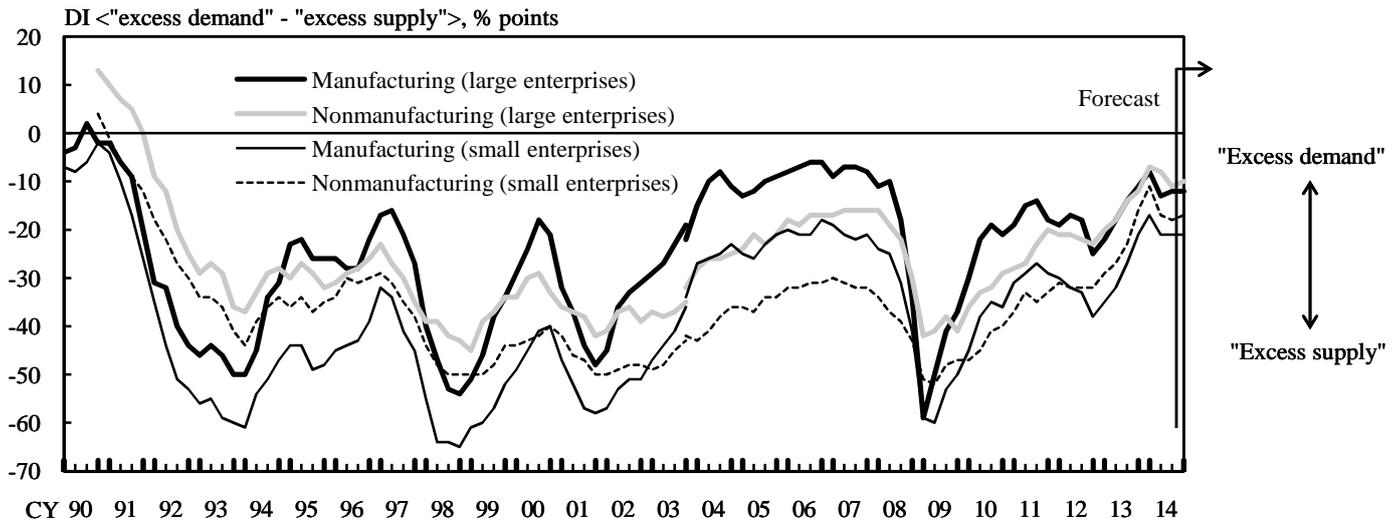
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

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

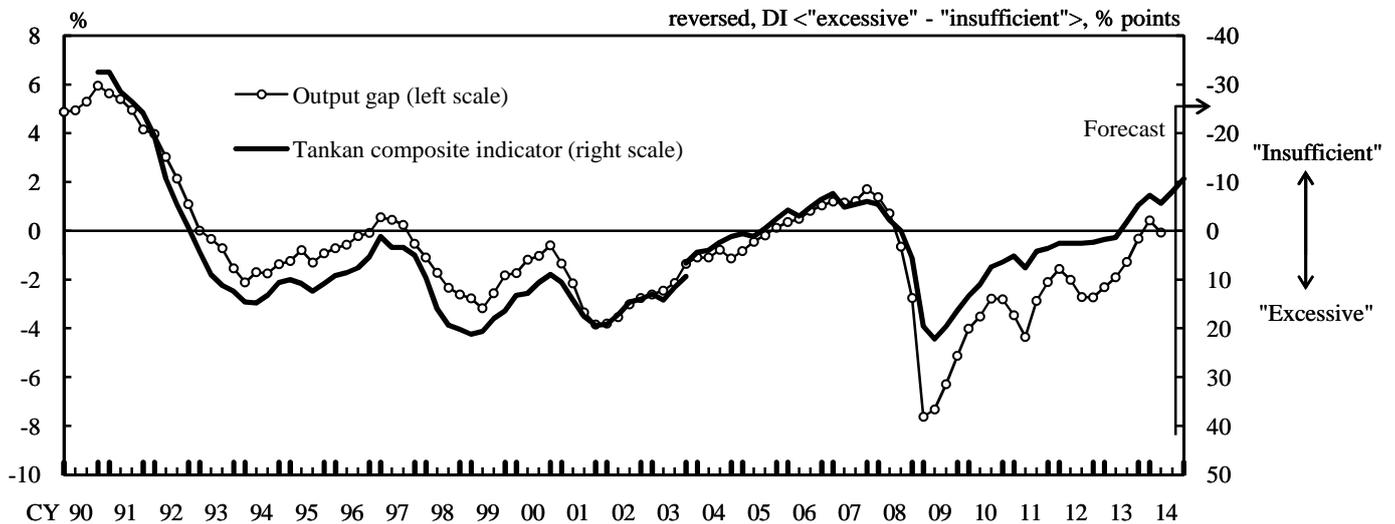
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

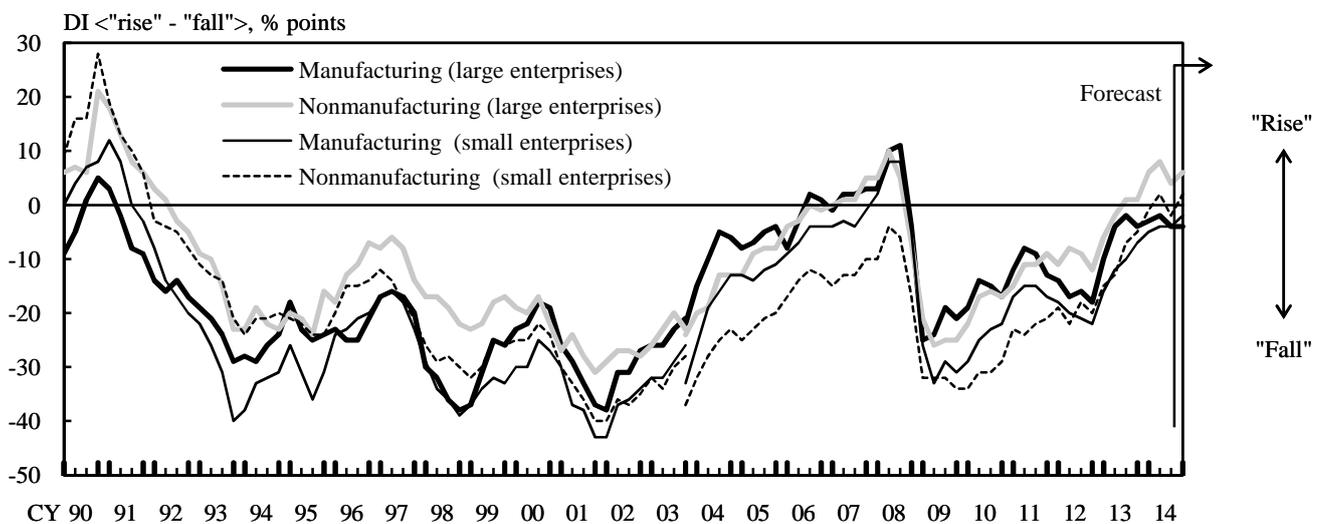
(1) Domestic Supply and Demand Conditions for Products and Services



(2) Tankan Composite Indicator² (All Enterprises) and Output Gap³



(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.

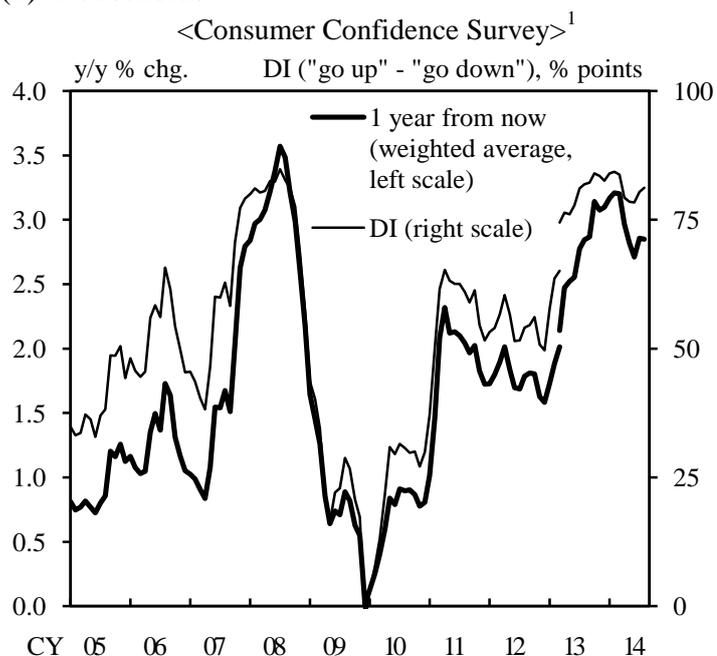
2. Figures are weighted averages of the production capacity DI and employment conditions DI. The FY 1990-2012 averages of capital and labor shares in the "National Accounts" are used as the weight.

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.

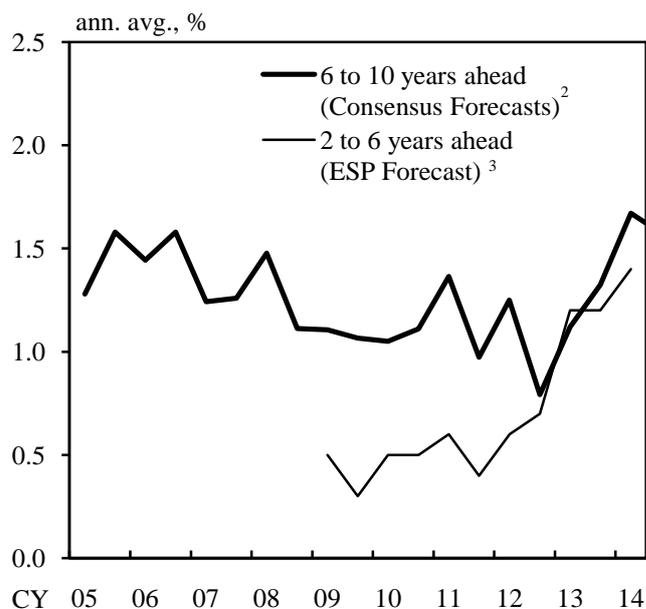
Sources: Cabinet Office, "National Accounts"; Bank of Japan, "Tankan, Short-Term Economic Survey of Enterprises in Japan," etc.

Inflation Expectations

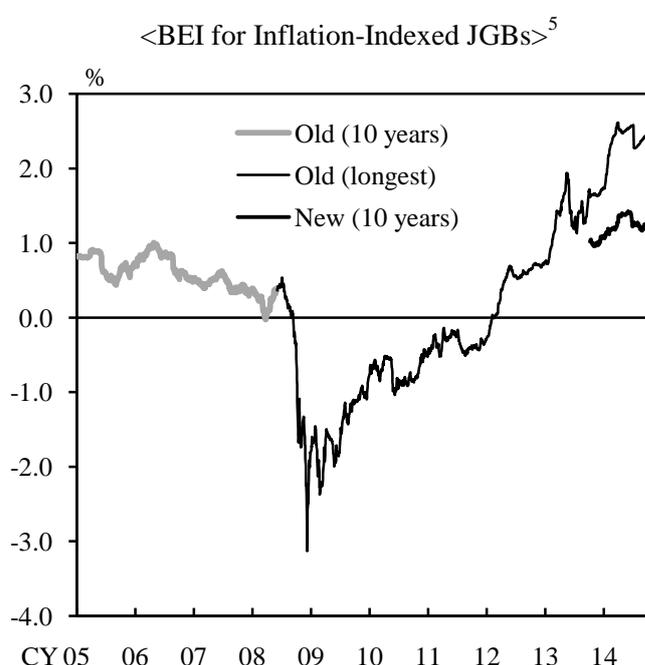
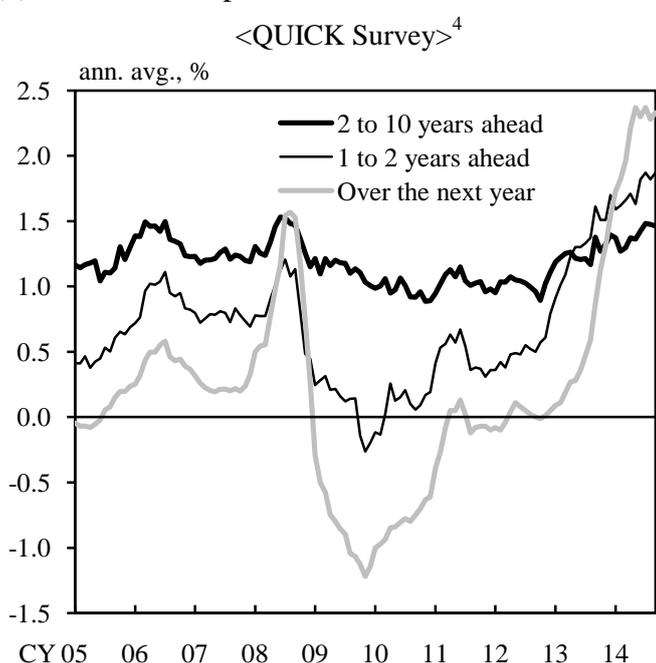
(1) Households



(2) Economists



(3) Market Participants

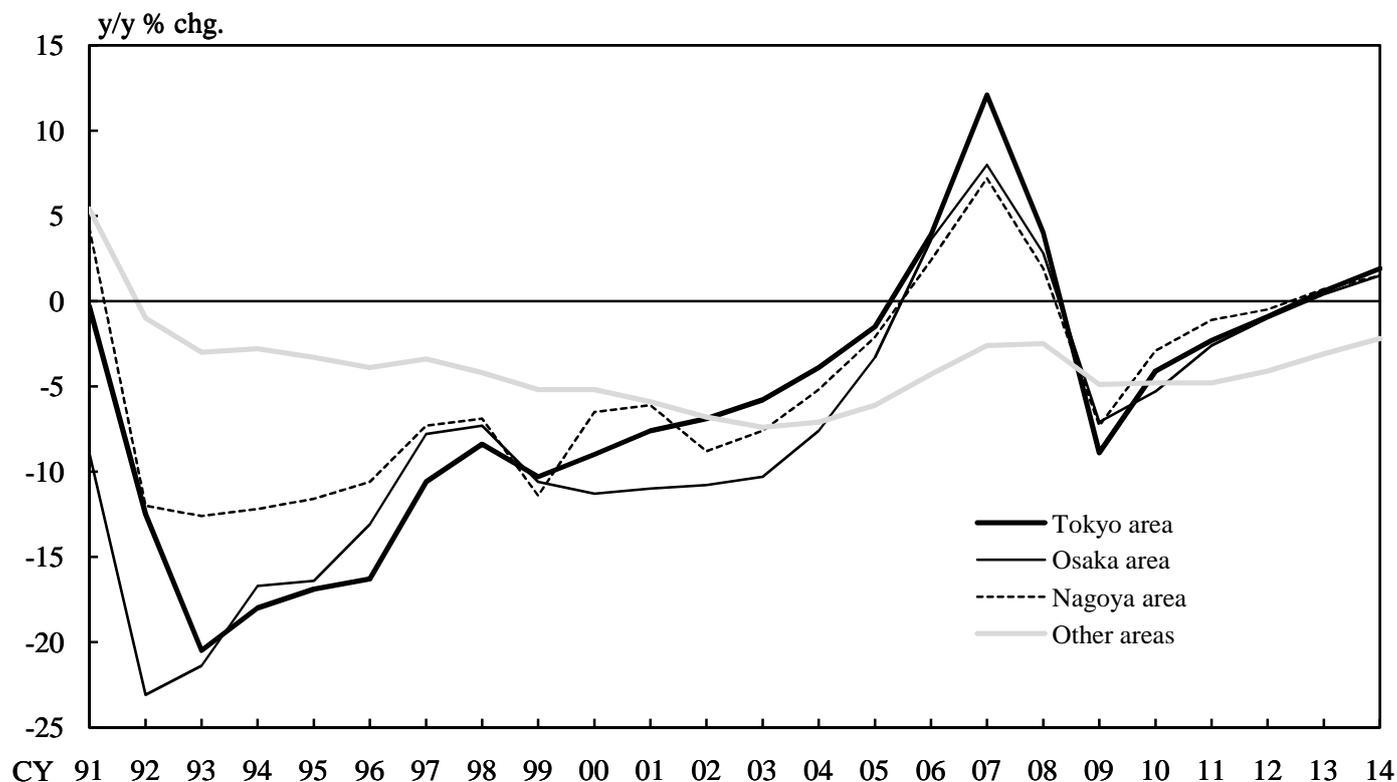


- Notes: 1. The Consumer Confidence Survey asks households to provide their price expectations one year from now. Figures are for all households. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "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. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013.
2. Figures are forecasts made every January, April, July, and October. Those up through April 2014 are forecasts made every April and October.
3. Figures are forecasts made every June and December. The effects of the consumption tax hikes are excluded.
4. From the September 2013 survey, the QUICK Monthly Market Survey (Bonds) has asked respondents to include the effects of the consumption tax hikes.
5. 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.

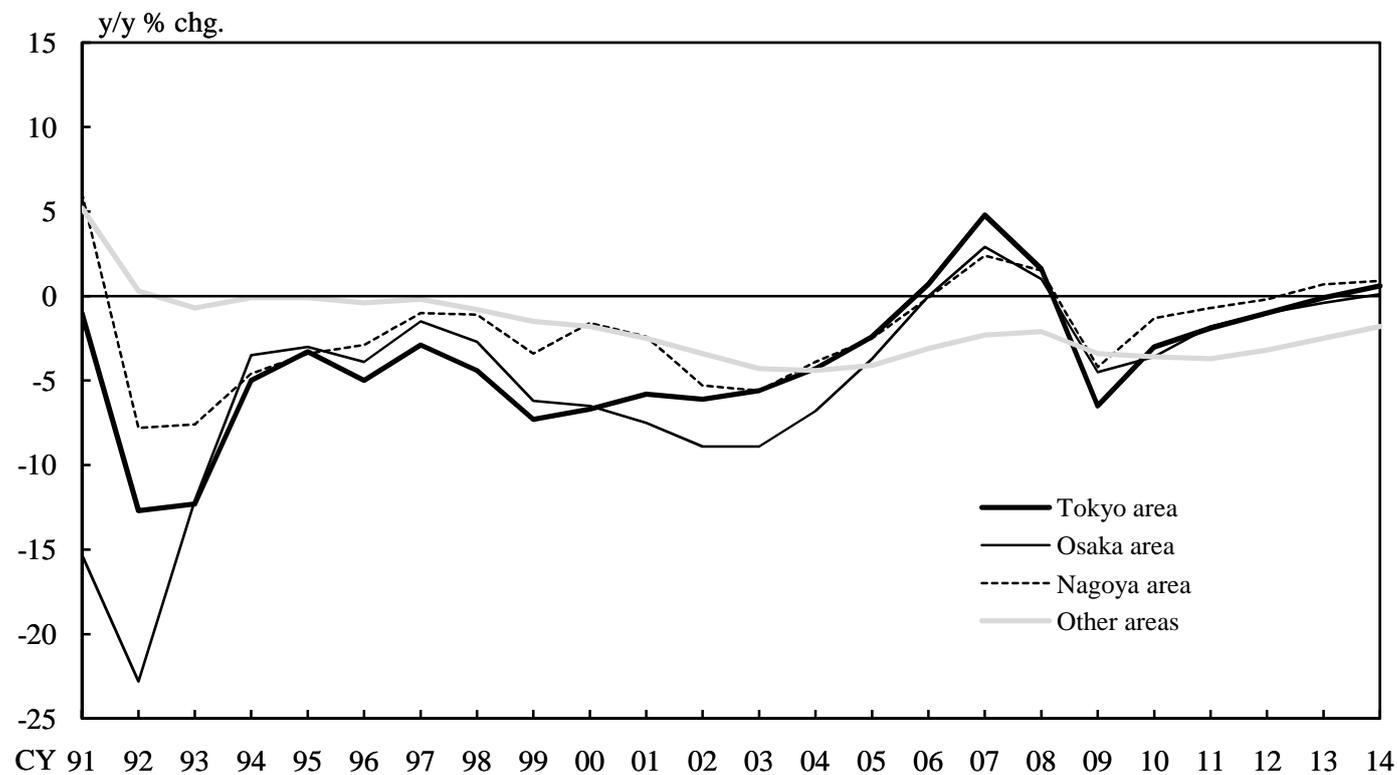
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Land Prices

(1) Commercial Land



(2) Residential Land

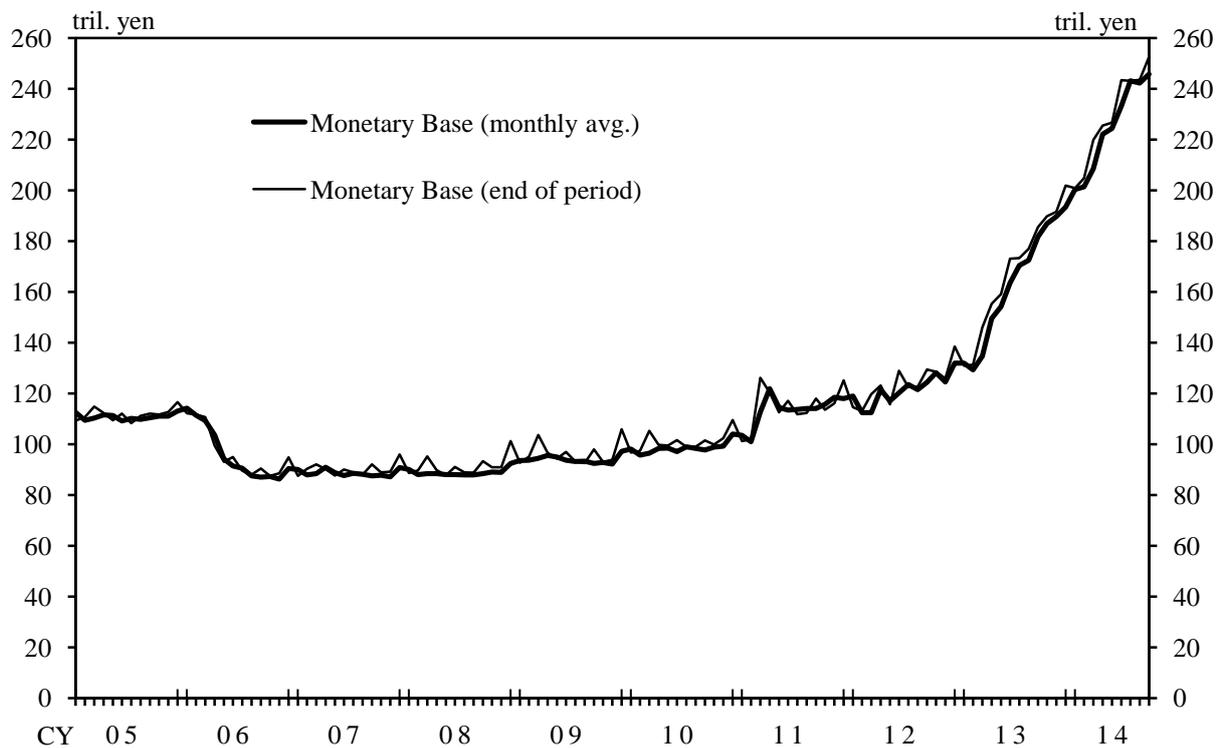


Note: "Land Price Survey by Prefectural Governments" shows land prices as of July 1.

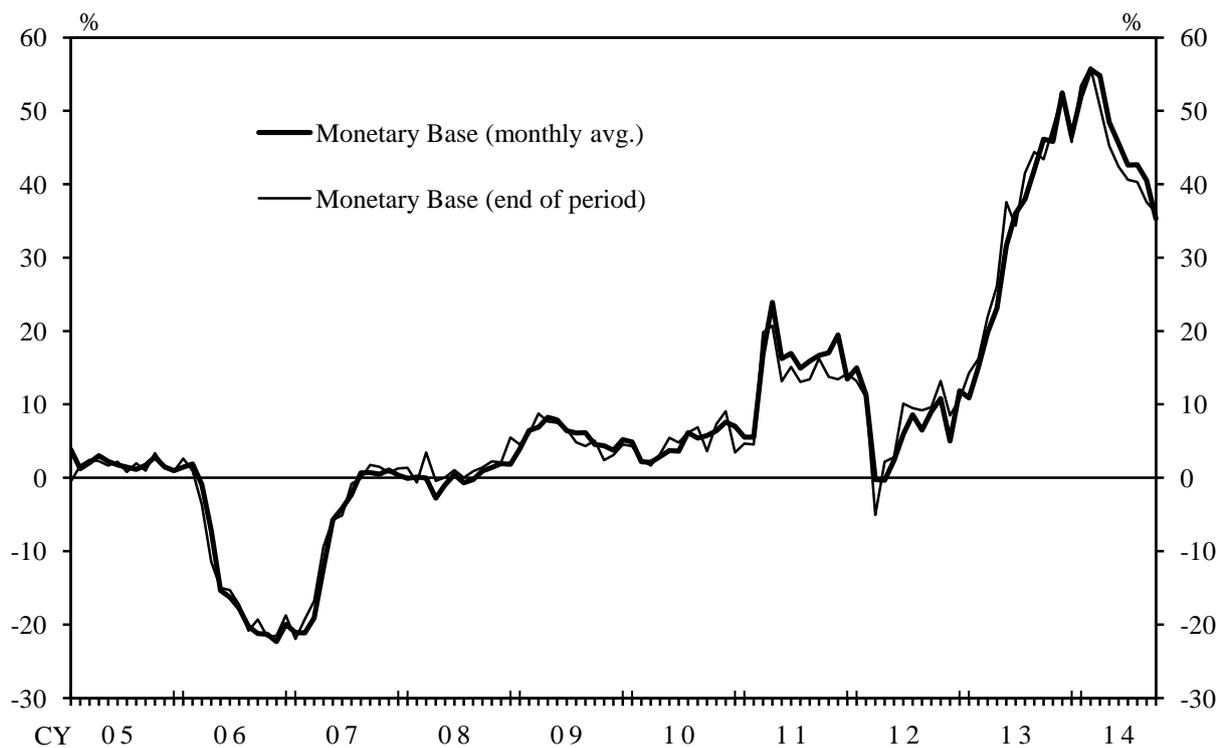
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Land Price Survey by Prefectural Governments."

Monetary Base

(1) Level



(2) Changes from a Year Earlier

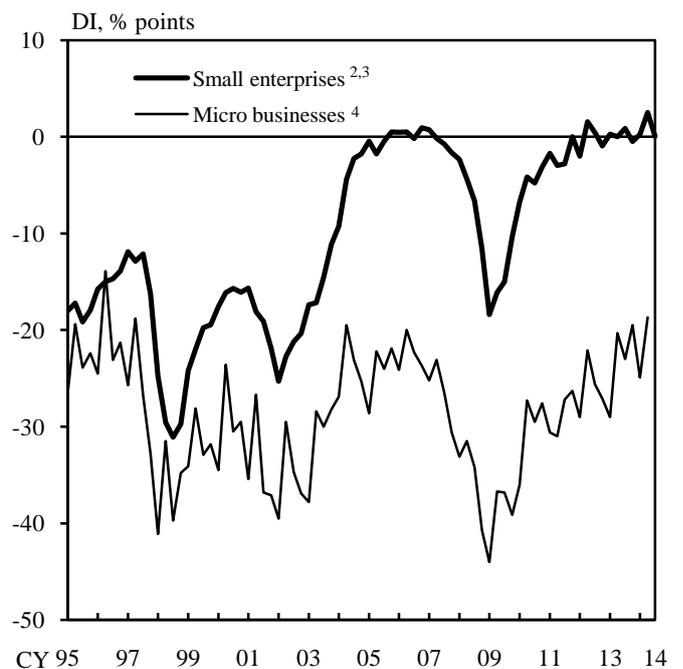
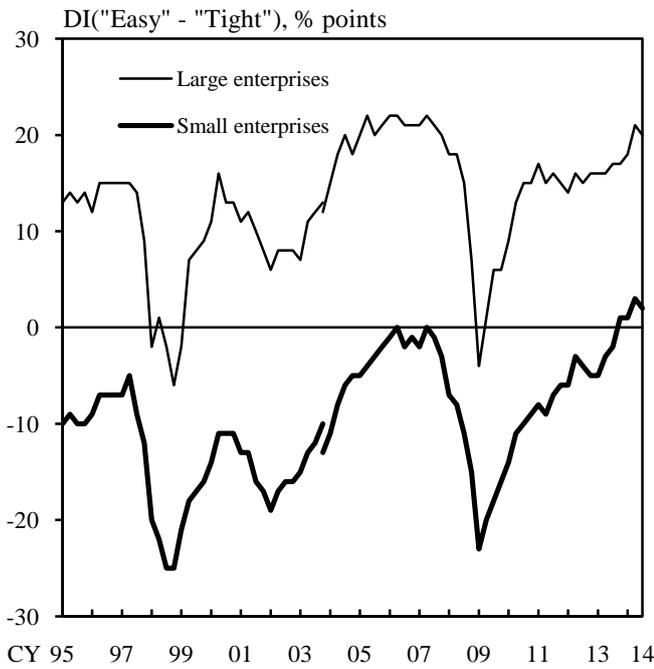


Corporate Finance-Related Indicators

(1) Financial Position

<Tankan¹>

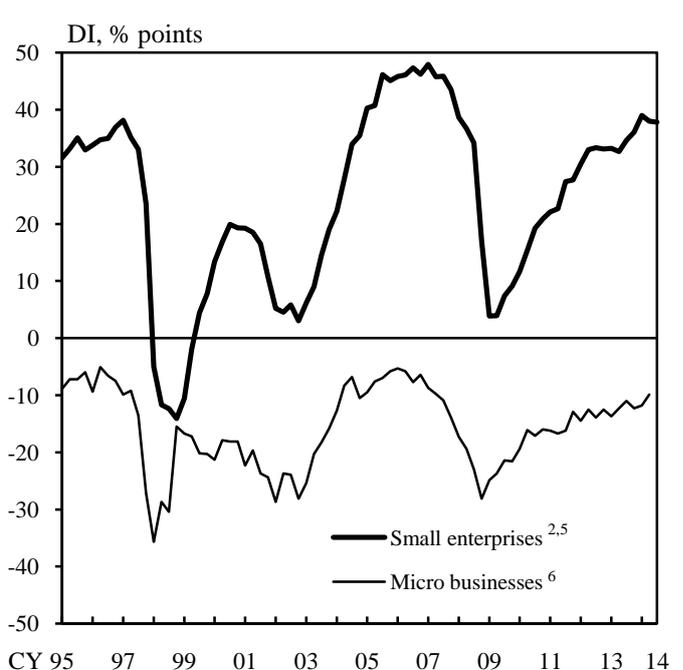
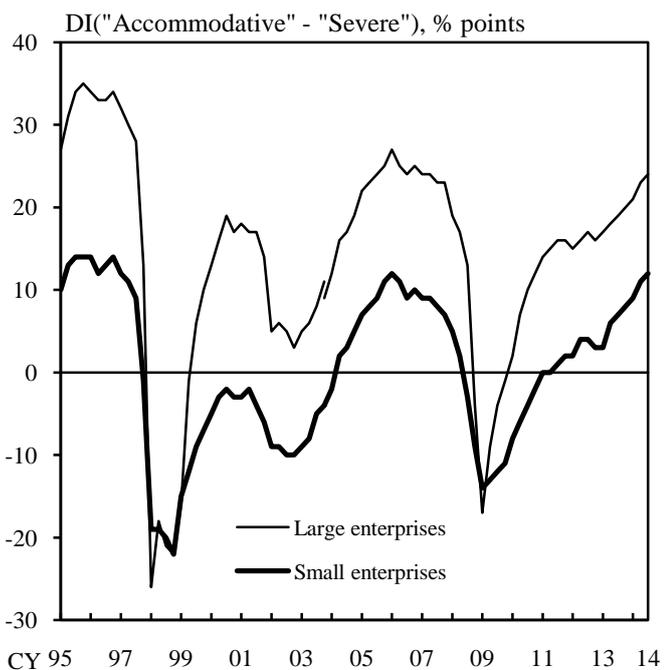
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data.

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

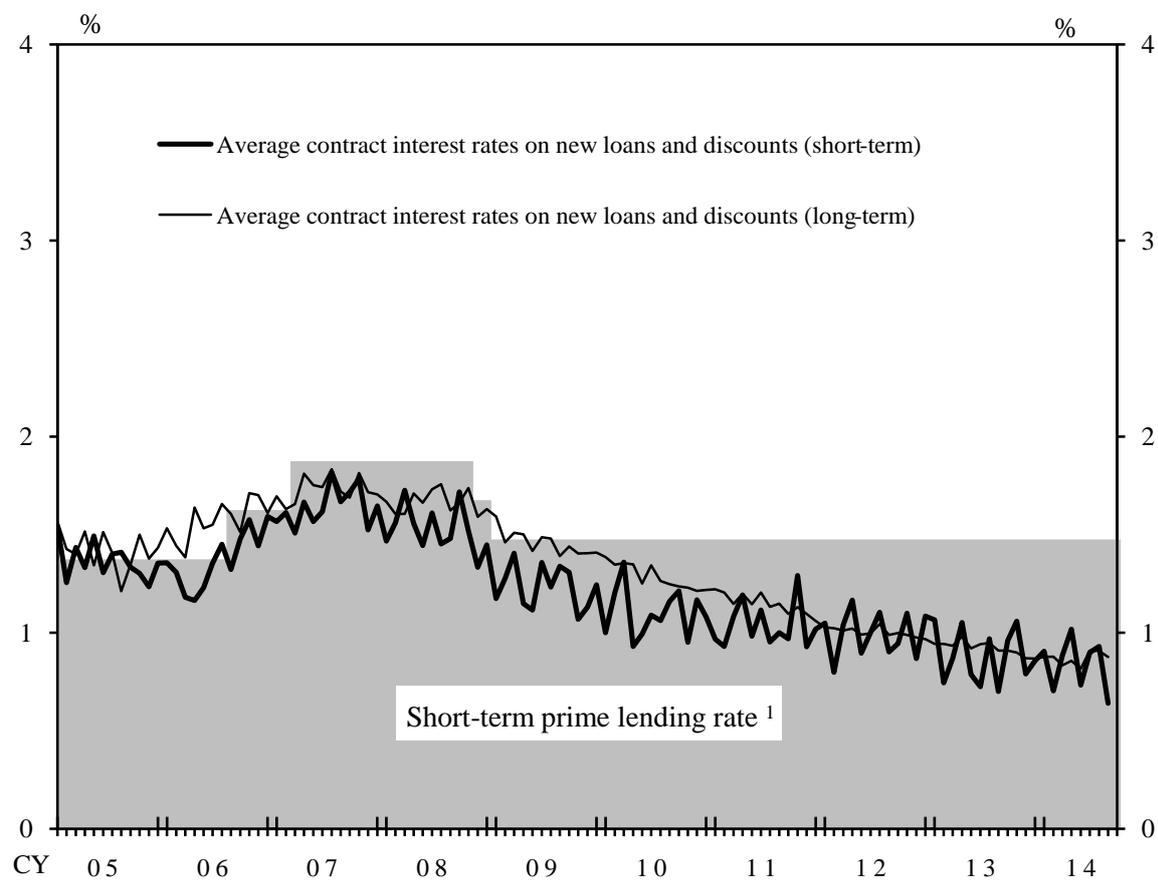
4. DI of "Easier" - "Tighter."

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

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

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

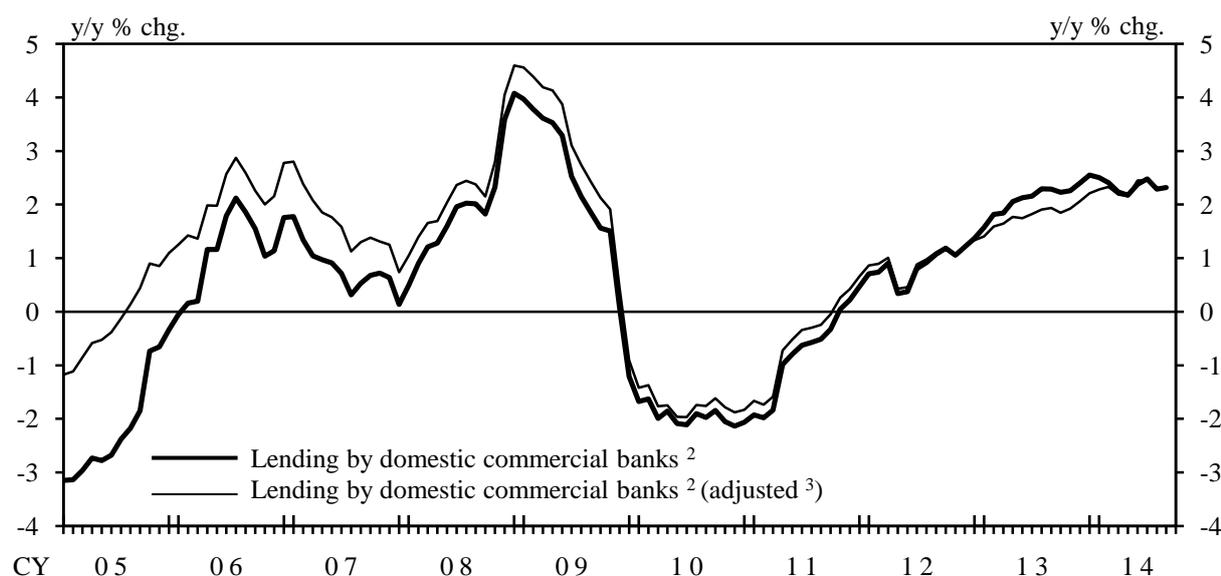
Lending Rates



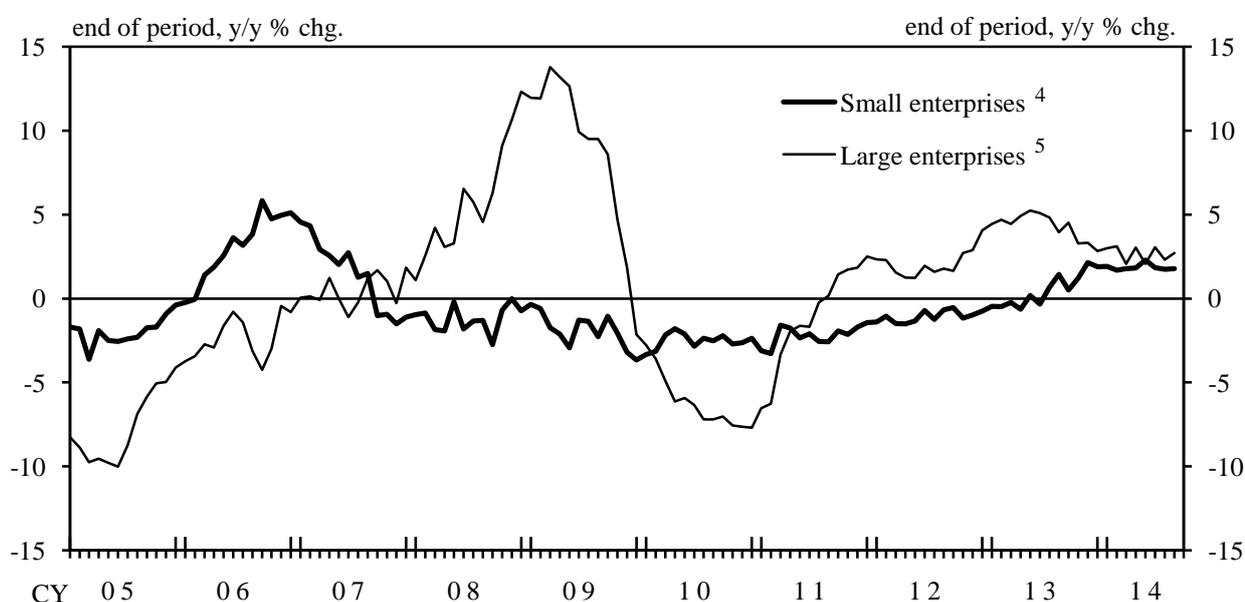
Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹

(2) Lending by Domestically Licensed Banks (by Firm Size)



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.

4. Small enterprises are those capitalized at 300 million yen or less or with regular employees of 300 persons or less ("wholesale trade" capitalized at 100 million yen or less or with regular employees of 100 persons or less, "retail trade" and "eating and drinking services" capitalized at 50 million yen or less or with regular employees of 50 persons or less, and "goods rental and leasing," etc. capitalized at 50 million yen or less or with regular employees of 100 persons or less).

5. Other than small enterprises.

Source: Bank of Japan.

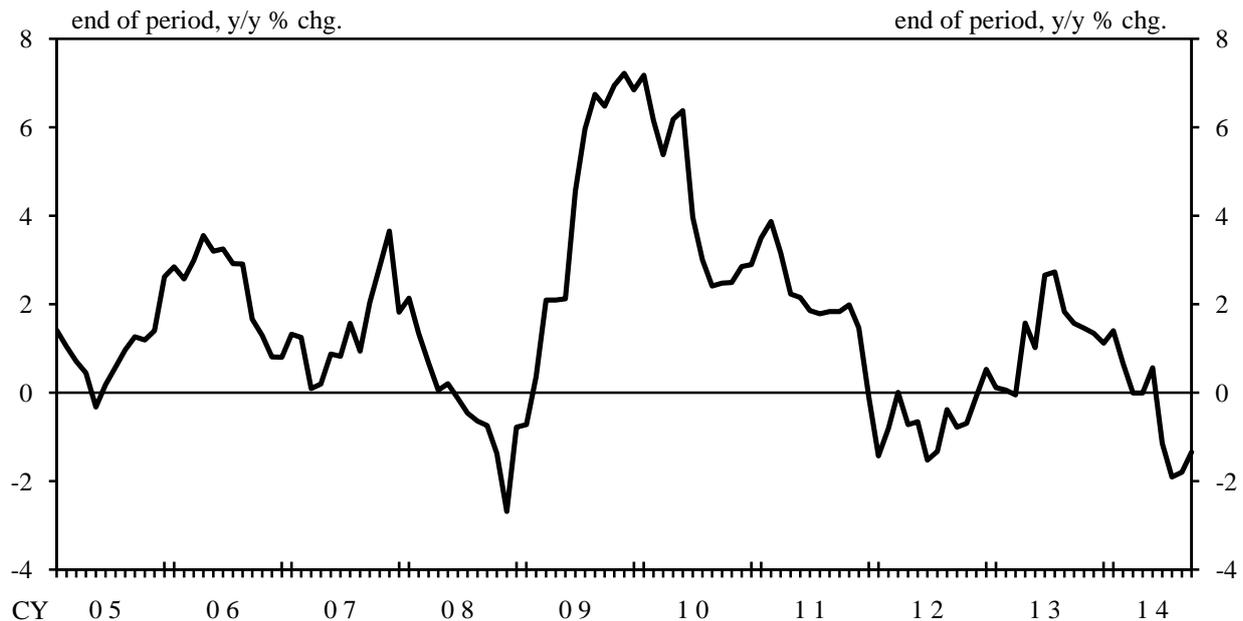
 Private-Sector Fund-Raising in the Capital Markets

(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



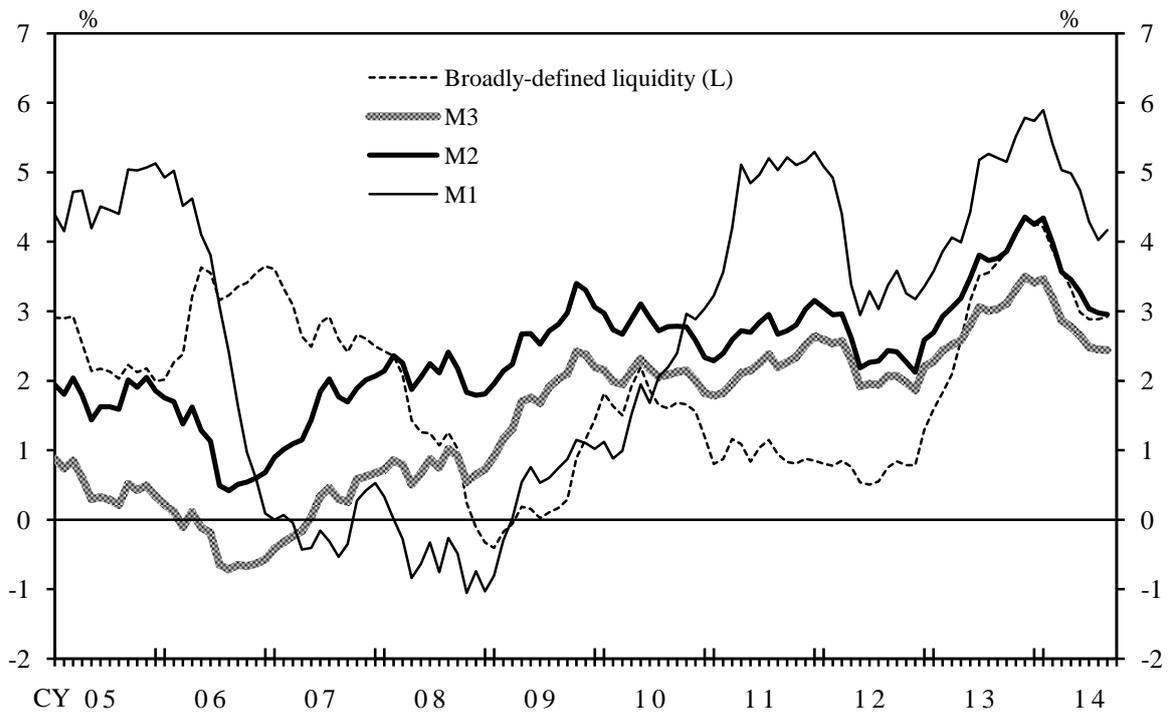
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

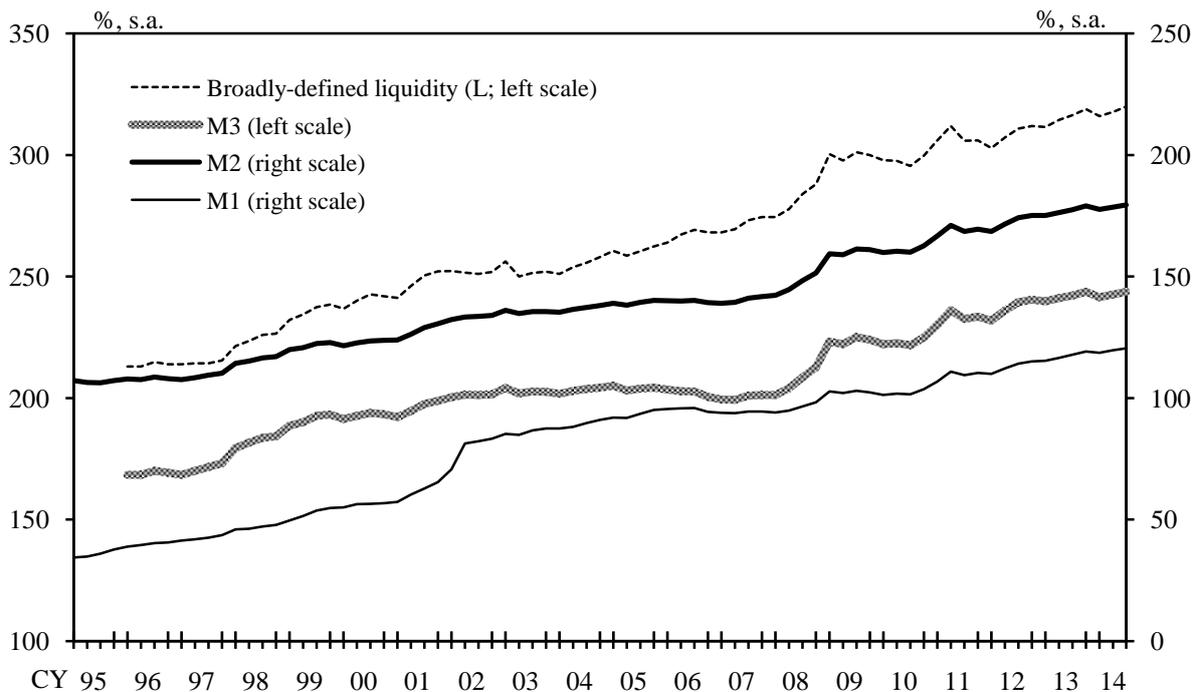
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

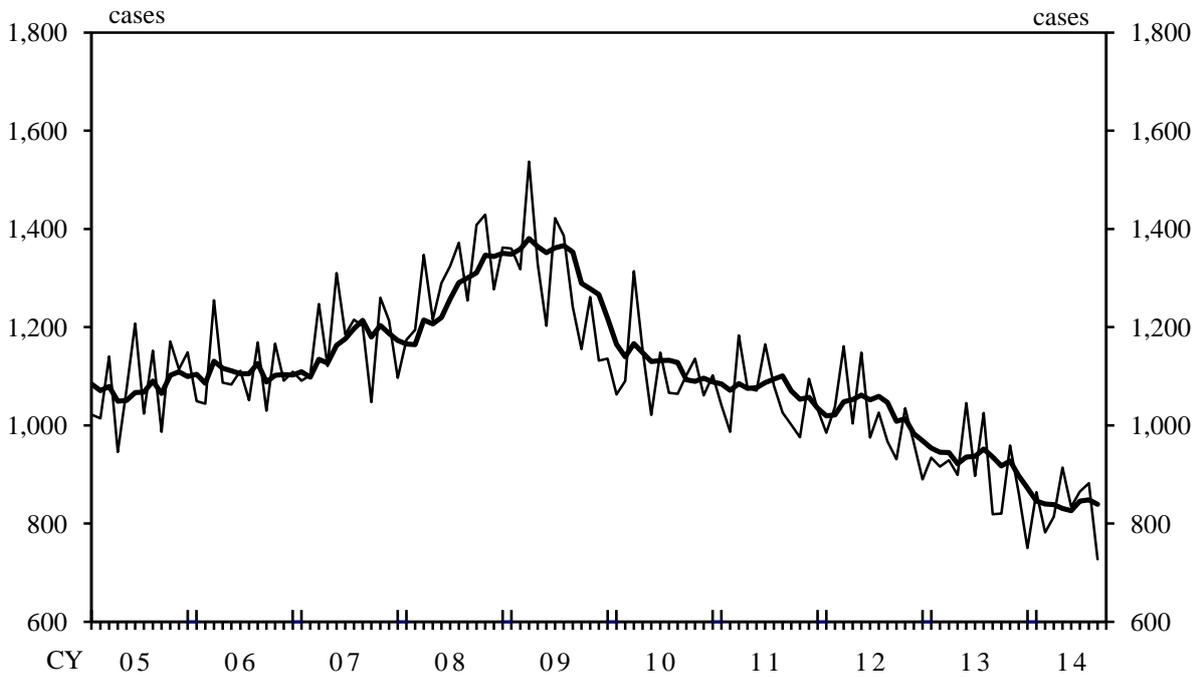


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2003 are based on the former series.
- 4. Figures for money stock in 2014/Q3 are those of Jul.-Aug. averages, and nominal GDP in 2014/Q3 is assumed to be unchanged from the previous quarter.

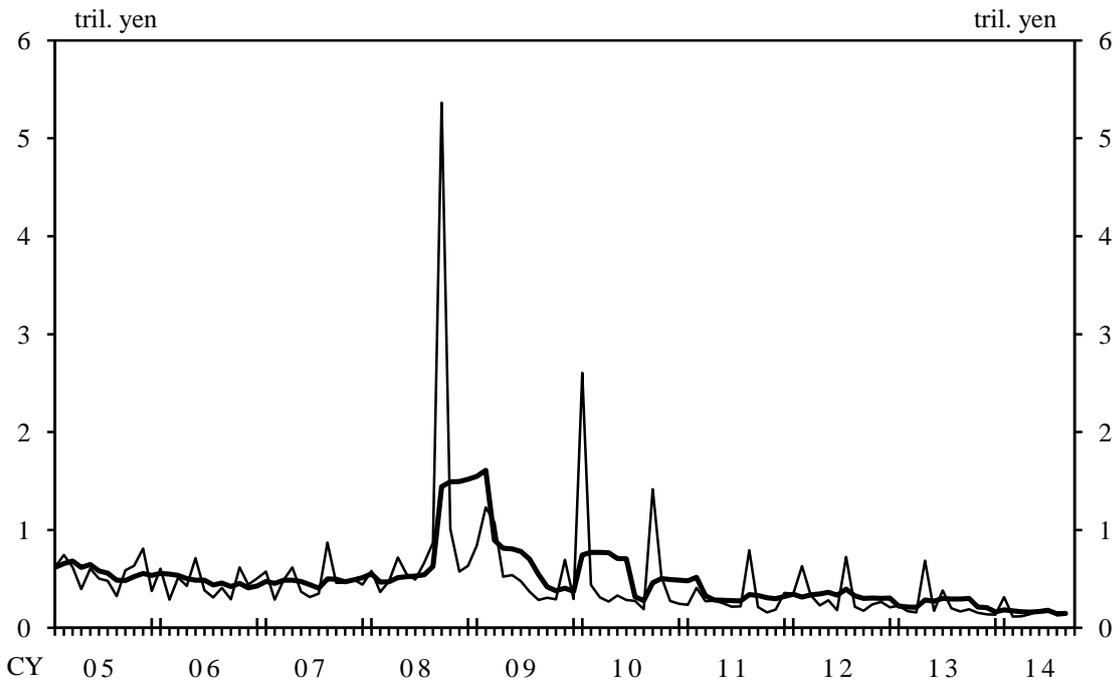
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

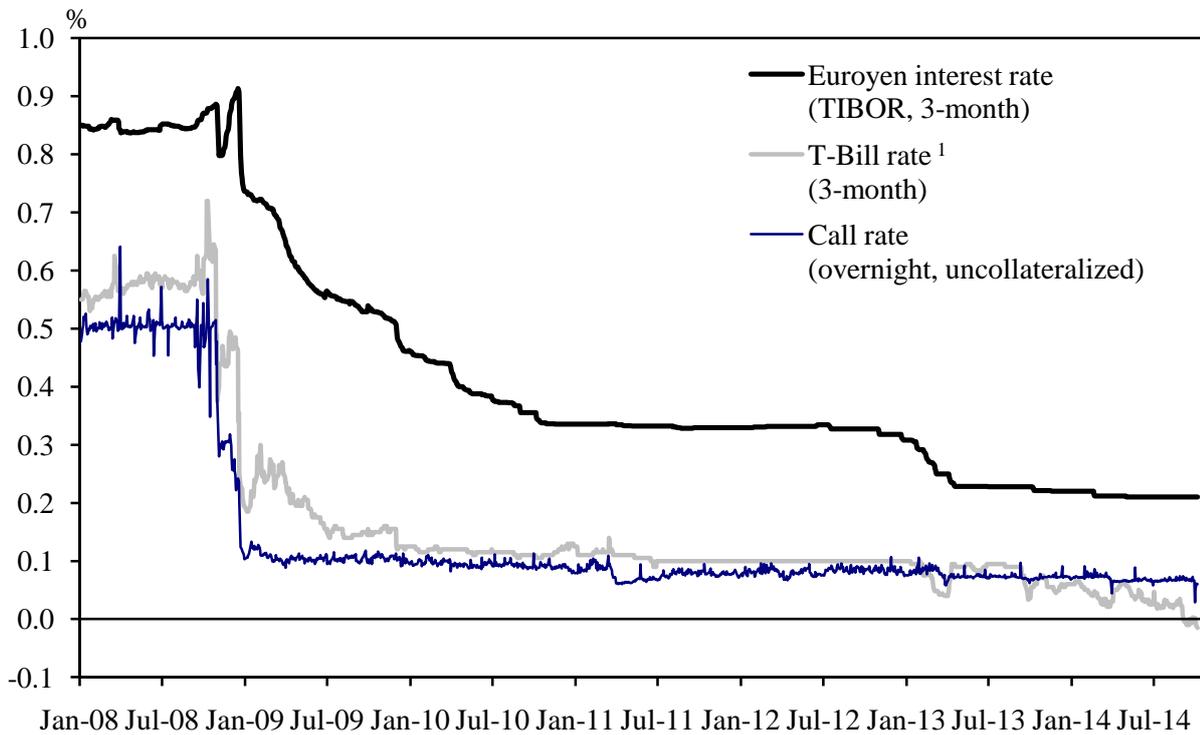


Note: Bold lines are the six-month moving average.

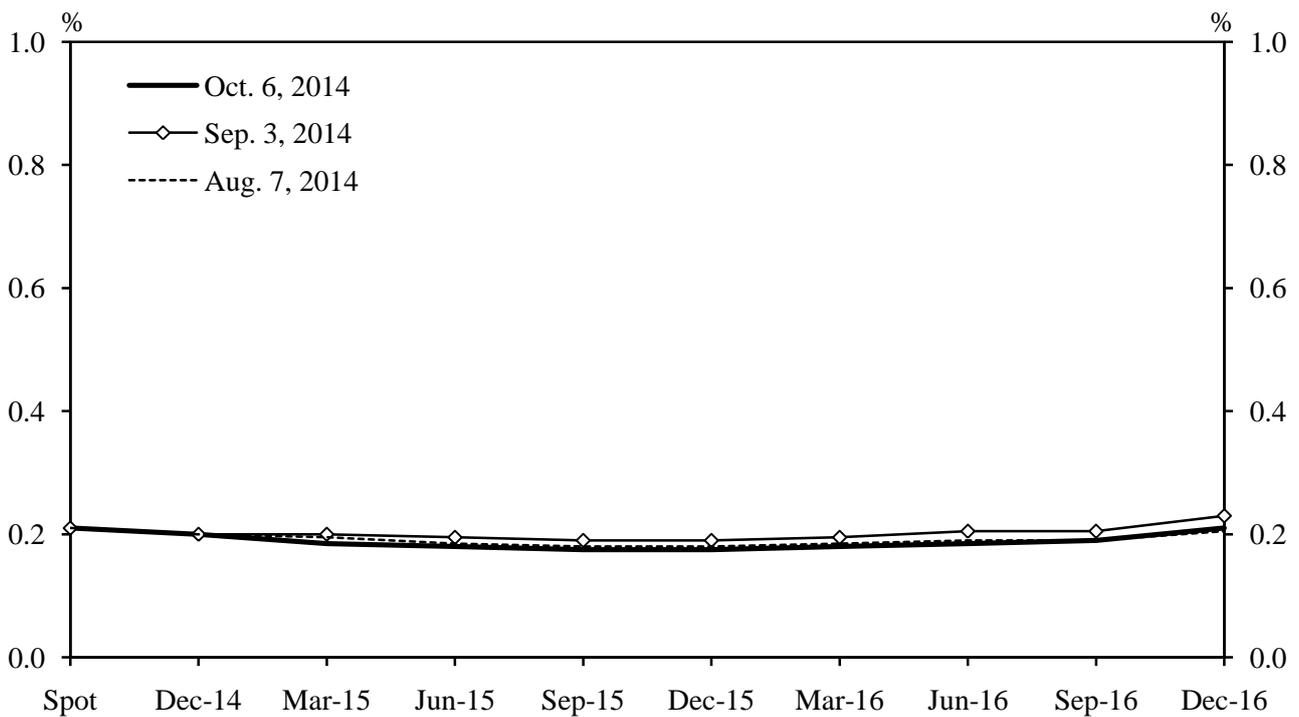
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



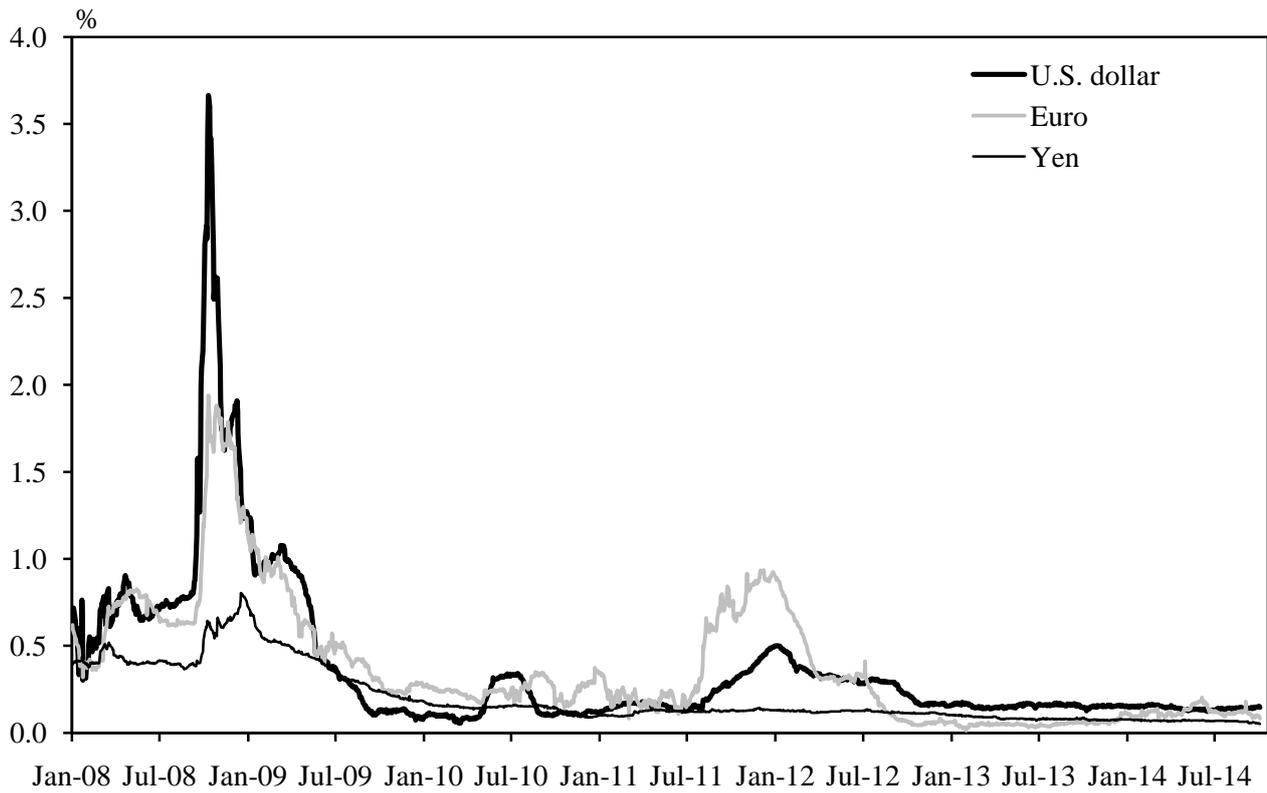
(2) Euroyen Interest Rate Futures (3-Month)



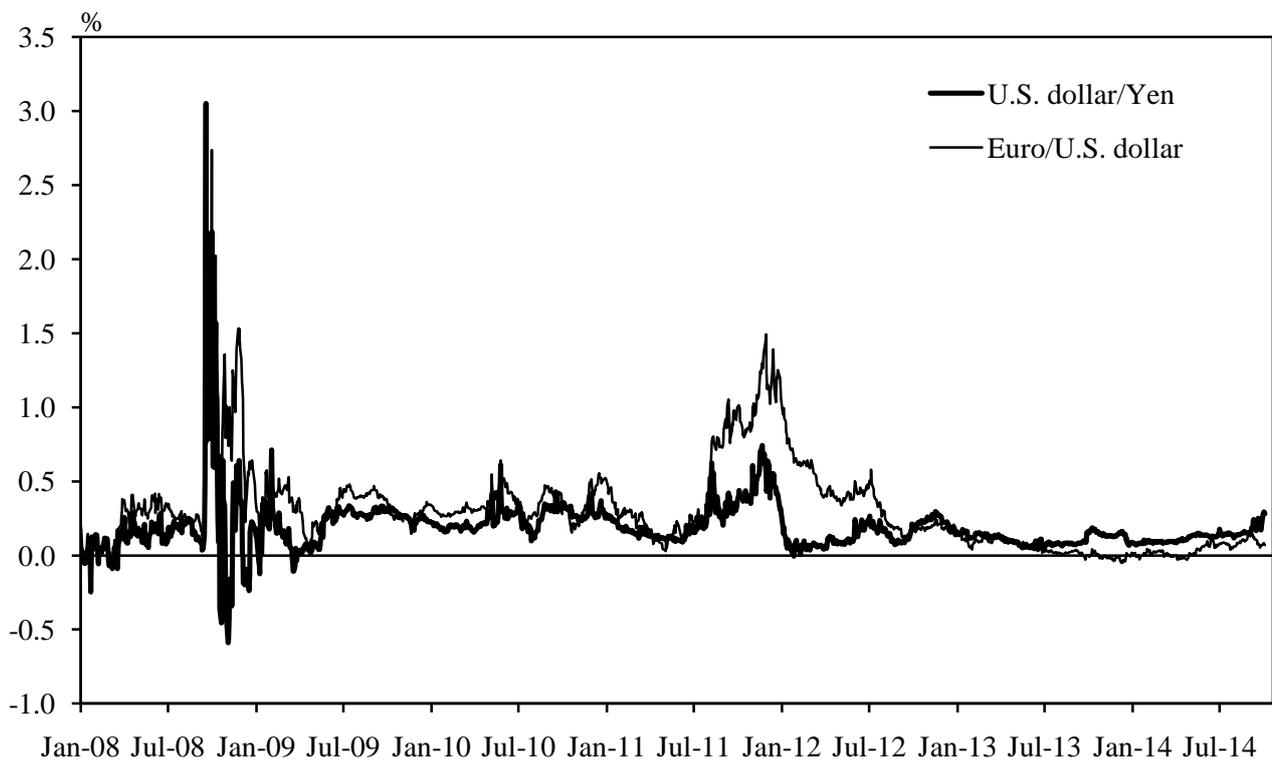
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
 Sources: Japanese Bankers Association; Bloomberg; Japan Bond Trading Co., Ltd.;
 Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



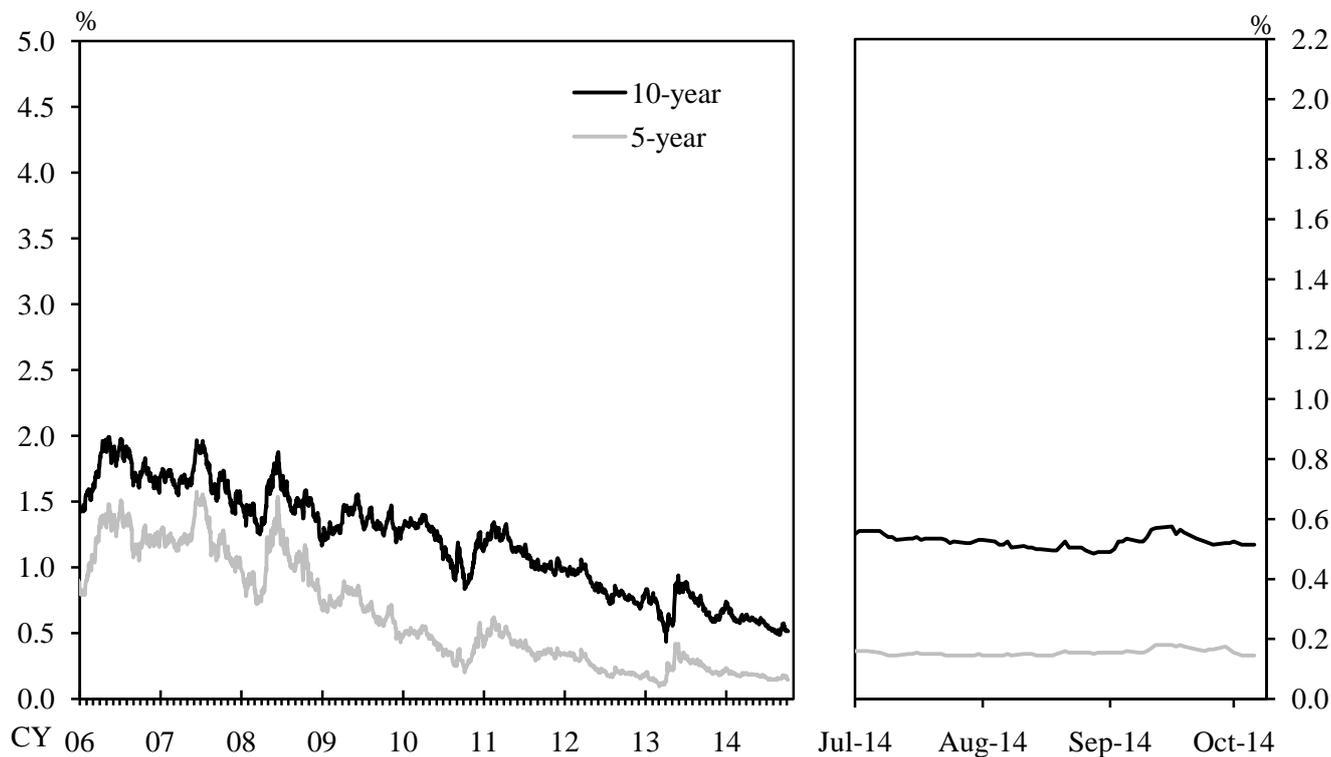
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



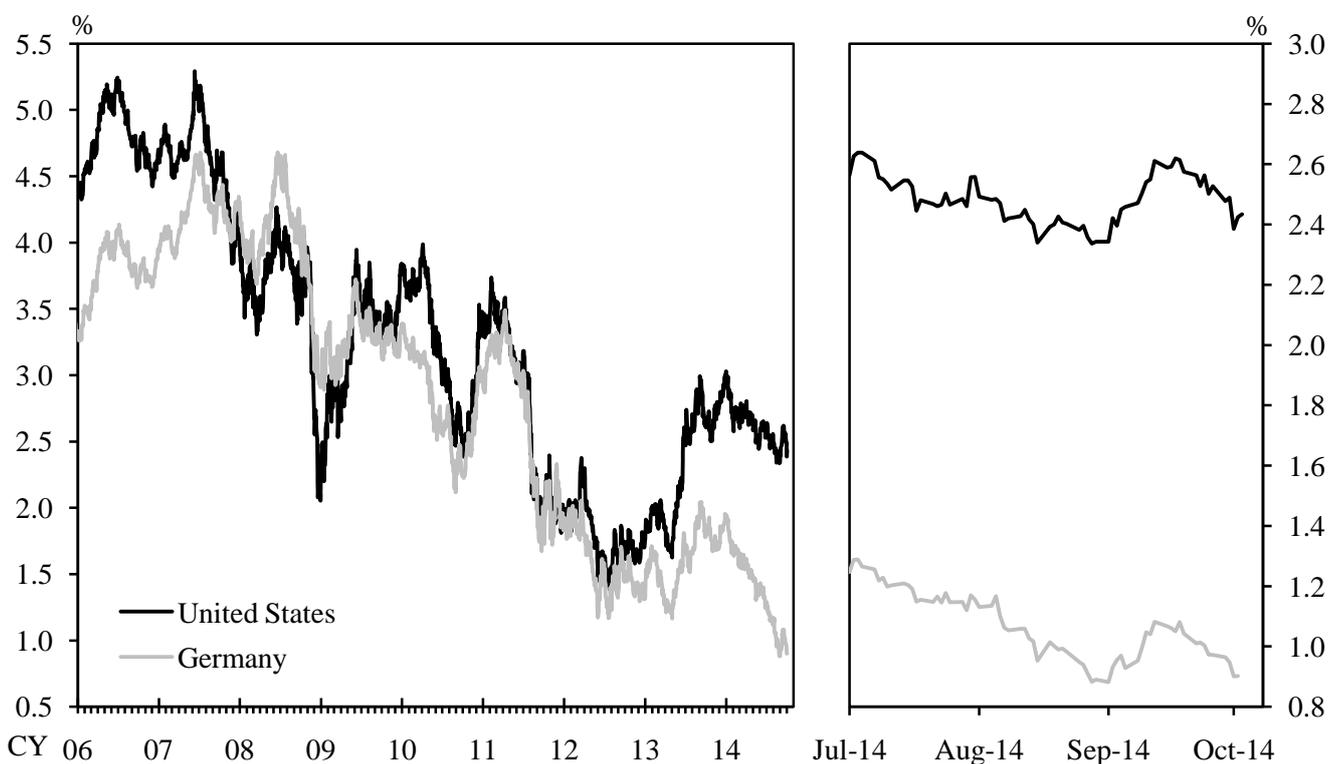
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



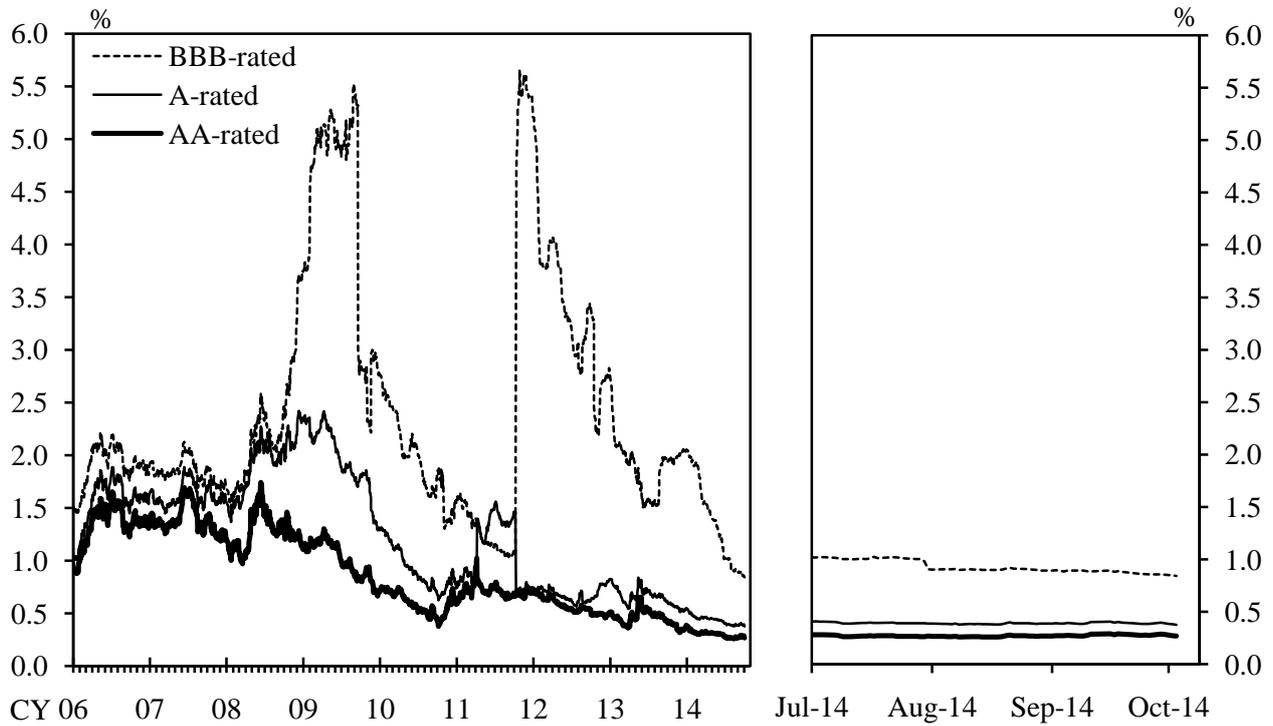
(2) Overseas Government Bond Yields (10-Year)



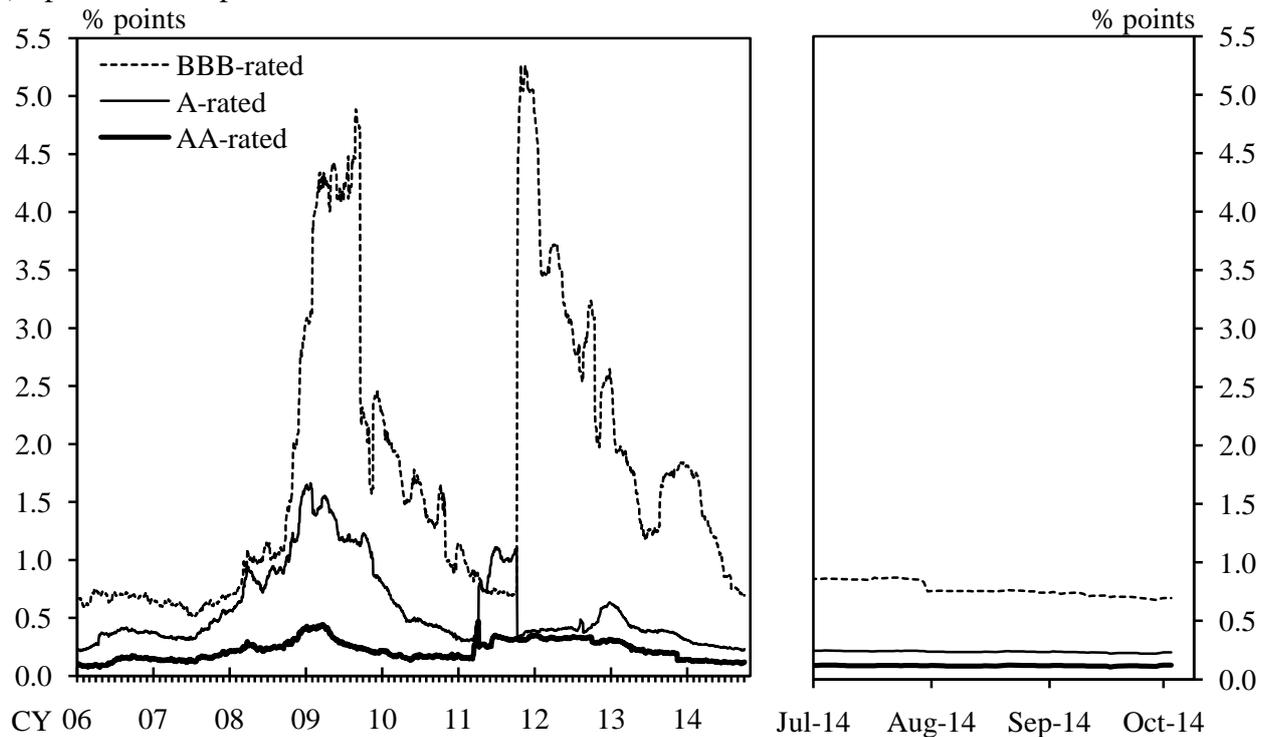
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



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



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

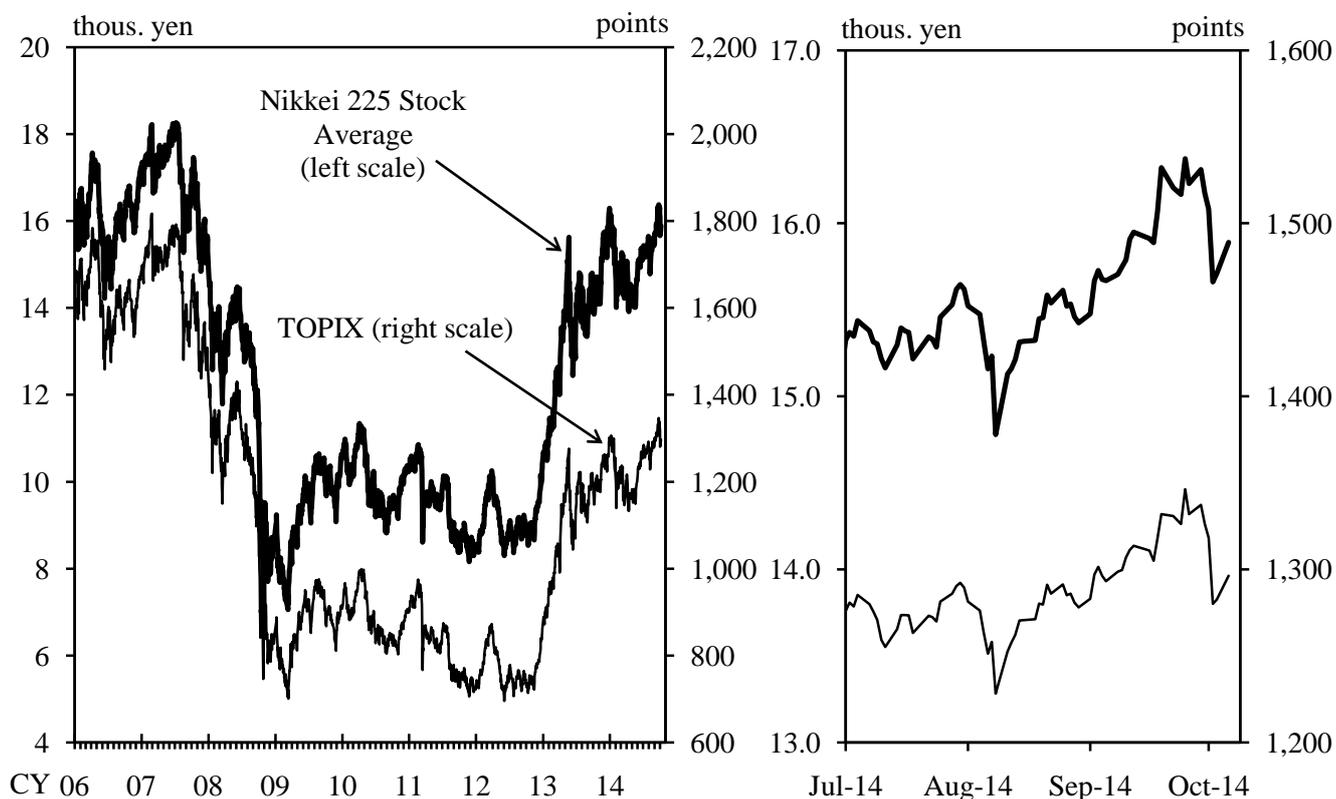
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

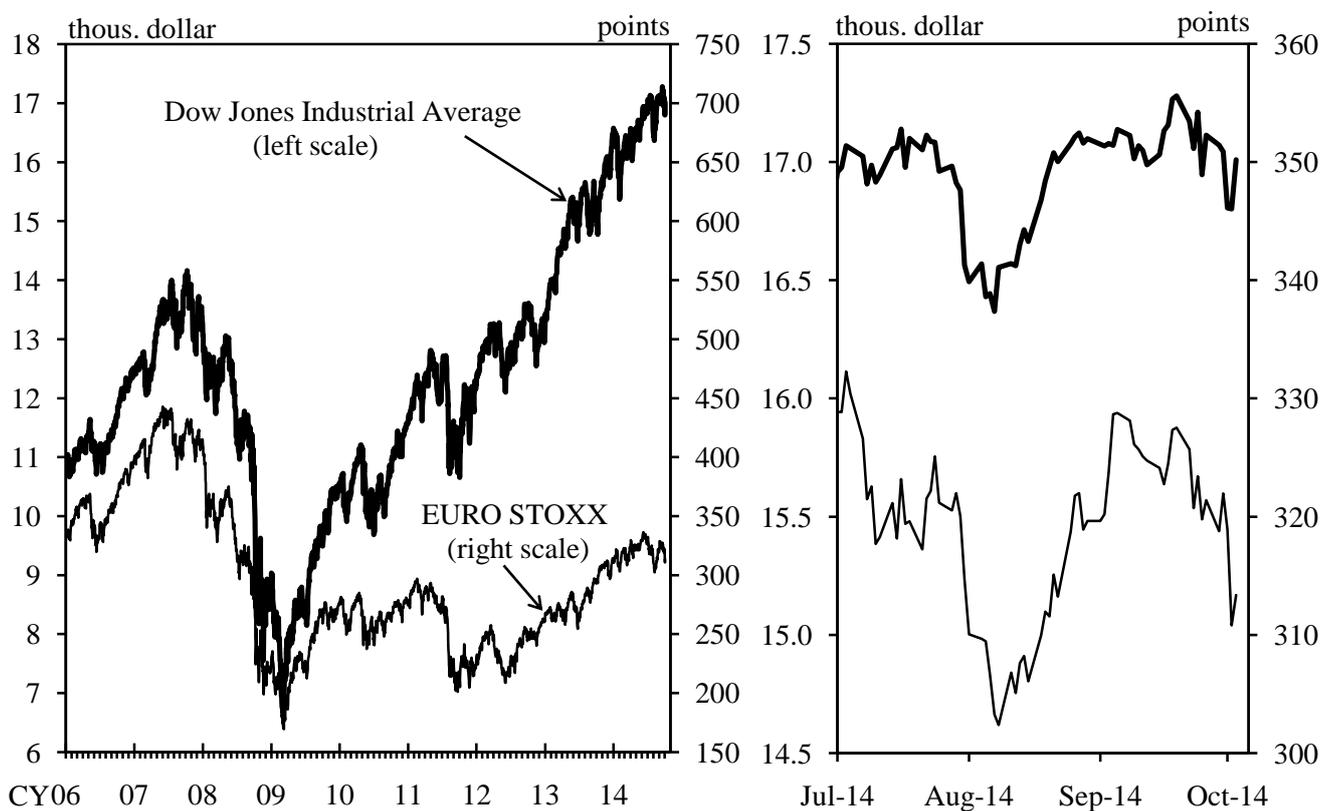
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices

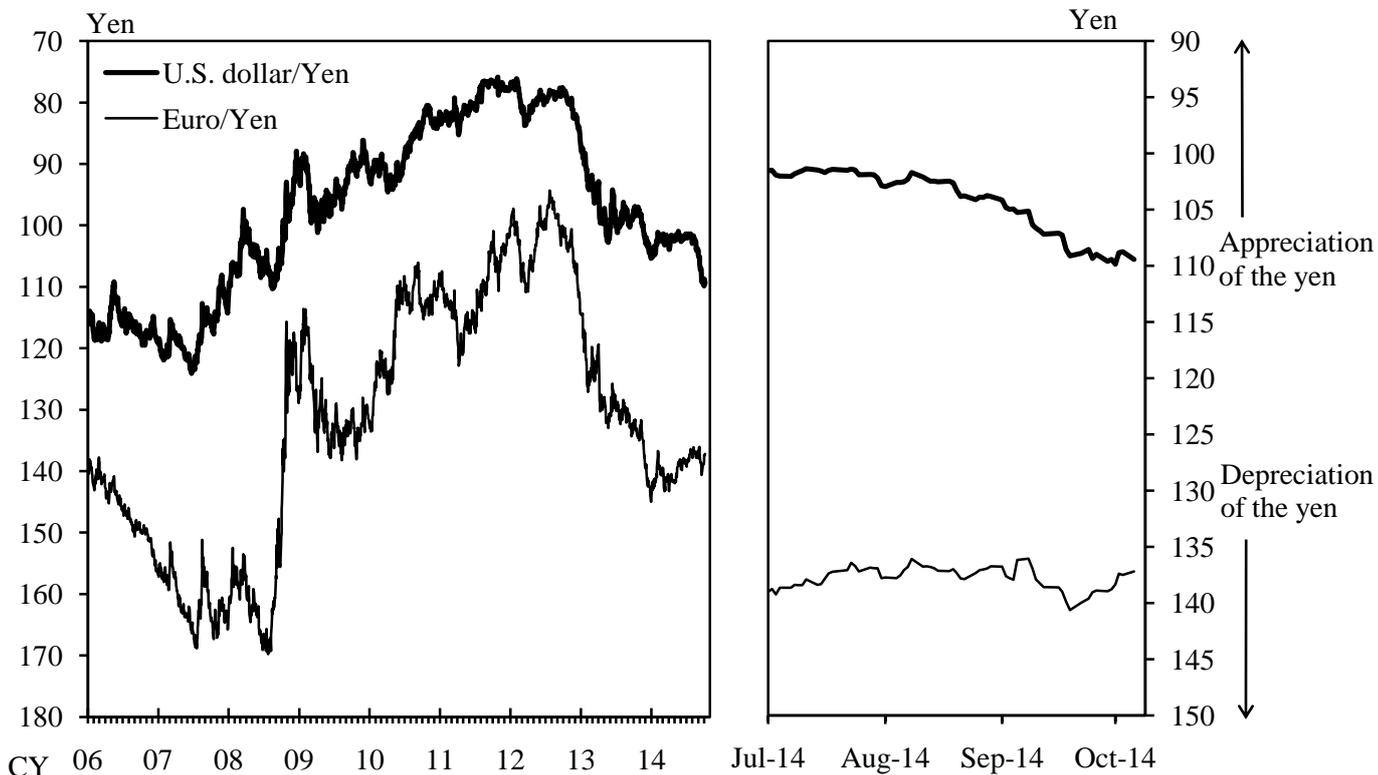


(2) Overseas Stock Prices

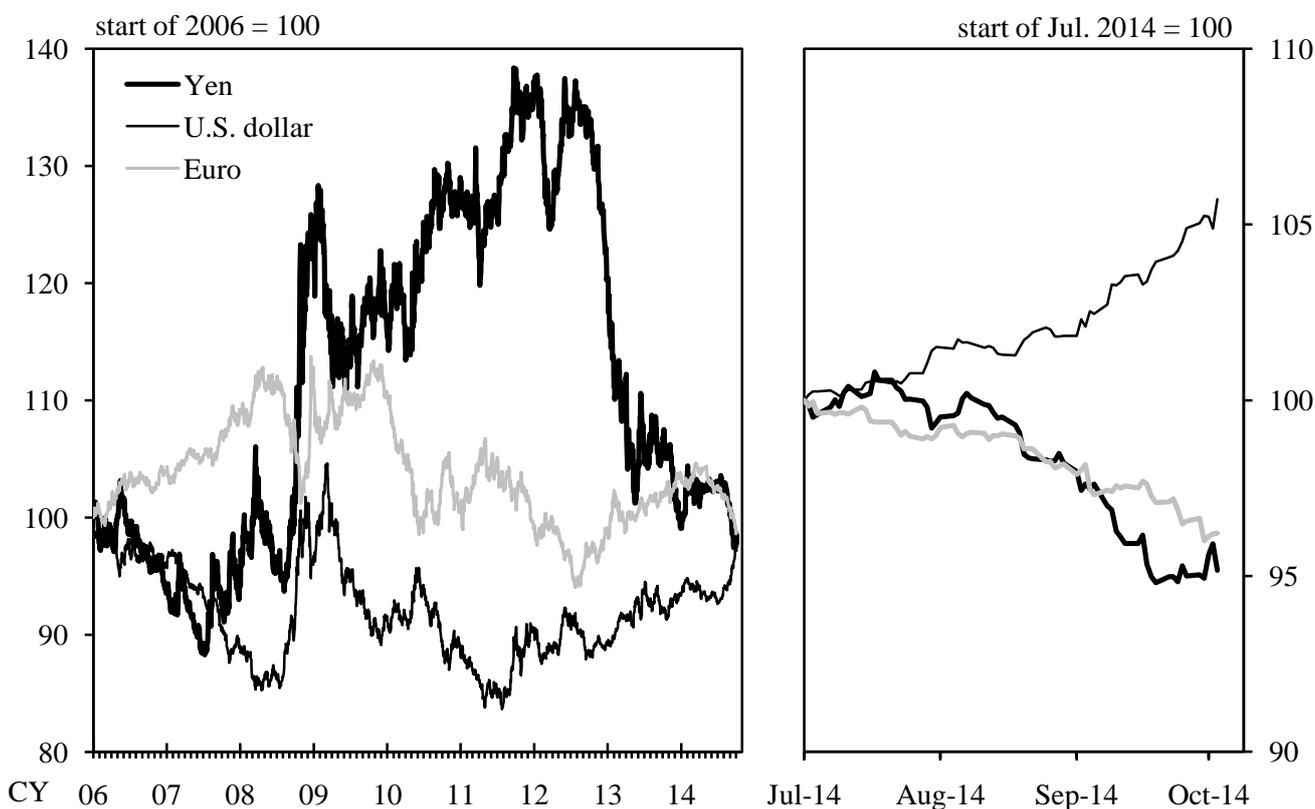


Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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