

November 21, 2014  
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original  
released on November 20, 2014)

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# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

November 2014

## Summary

Japan's economy has continued to recover moderately as a trend, although some weakness particularly on the production side has remained 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 been more or less flat. Business fixed investment has been on a moderate increasing trend 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. As for housing investment, the decline following the front-loaded increase has continued, while signs of bottoming out have been observed recently. Some weakness in industrial production has remained with continued inventory adjustments.

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 dissipate 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 and thereafter gradually enter a declining trend. Business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving trend. Private consumption is expected to remain resilient

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on November 18 and 19, 2014.

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 dissipate gradually. Housing investment is projected to regain its resilience gradually. Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase, due in part to the progress in inventory adjustments.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the risk of low inflation rates being protracted in Europe, 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 declining relative to three months earlier, reflecting the significant fall in international commodity prices, and the year-on-year rate of increase in consumer prices (all items less fresh food) is around 1 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer prices are expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices is likely to be at around the current level for the time being.

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been 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 at around 2.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative. Firms' financial positions have been favorable. Meanwhile, the year-on-year rate of growth in the money stock has been in the range of 3.0-3.5 percent.

The weighted average of the overnight call rate has been below the 0.1 percent level, and interest rates on term instruments have been more or less unchanged. Compared with last month, stock prices have risen, while the value of the yen against the U.S. dollar has fallen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.

## 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 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 the third quarter as well (Chart 5). After increasing in the first quarter, the value of public works contracted—a measure that reflects public orders—registered a sharp 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 significantly in the third quarter and continued to decline in October relative to the third quarter.

Public investment is expected to continue leveling off more or less at a high level for the time being and thereafter gradually enter a declining trend.

Real exports have been more or less flat (Charts 6[1] and 7). They marked a slight increase in the third quarter on a quarter-on-quarter basis, after declining slightly in both the first and second quarters. Movements on a monthly basis show that exports dropped marginally in August after increasing in July, but they bounced back again in September. 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 leveled off in the third quarter. As for motor vehicles and their related goods, movements such as the expansion of production bases overseas have still been exerting downward pressure on exports to the United States, but other goods—mainly in capital goods and parts—have shown some signs of a pick-up on a monthly basis. Exports to the EU increased for five consecutive quarters, but the improvement has come to a pause and they remained roughly flat in the third quarter. Exports to China—which had declined for two quarters in a row in the first and second quarters—increased only slightly in the third quarter as a whole with persisting sluggishness in intermediate and other goods, although a pick-up was observed for IT-related goods. 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 the third 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 the third quarter. Meanwhile, exports to Others increased in the second quarter on a quarter-on-quarter basis, mainly in motor vehicles and their related goods, and rose in the third quarter as well, after being relatively weak since the middle of last year. 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 the third quarter, mainly in those bound for Others, including the Middle East. Exports of capital goods and parts have shown signs of 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 also 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 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, growth in imports turned positive, albeit slightly, in the third quarter, and the effects of the decline in demand following the front-loaded increase have 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 growth 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 the third 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. Imports of IT-related goods continued to decline through this summer due to the following reasons: (i) the effects of the decline in demand following the front-loaded increase remained, and (ii) inventories of smartphones were drawn down prior to the sales of new models.

However, they almost bottomed out in the third quarter with a significant increase in imports of new smartphone products contributing to lifting total imports of IT-related goods. 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. On the other hand, imports of intermediate goods, as a reflection of movements in domestic production, fell back in the second quarter from the high growth in the previous quarter and declined slightly in the third quarter as well.

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, albeit slightly, in the second quarter, mainly because of a subsequent decline in imports, although the current account balance tentatively turned to a deficit in the first quarter, because of an increase in imports as a reflection of the front-loaded increase in demand. In the third quarter, although the volume of deficit of the goods and services balance increased somewhat, the current account balance 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 continued to recover moderately as a trend, but the pace has slowed, mainly in the manufacturing sector. 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 the commodity-exporting economies have continued to lose pace as a whole. As for the exchange rate, the yen has recently depreciated markedly against both the U.S. dollar and the euro; in terms of the real effective exchange rate, the yen has depreciated to the level around 1982, below that of 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 underpin 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. Although the European economy is projected to maintain its moderate recovery trend, 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 bases 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 longer-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 dissipate gradually. 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 been on a moderate increasing trend as corporate profits have improved. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment has maintained its moderate uptrend, with the fluctuations smoothed out, although it was more or less flat in the third quarter, after falling back in the second quarter from the upsurge in the previous quarter (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 in the third quarter, notably in manufacturing (Chart 11[1]). On a monthly basis, machinery orders exhibited month-on-month increases for four consecutive months since June. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have recently shown some weakness, mainly in nonmanufacturing, after staying more or less flat since the middle of last year (Chart 11[2]).

Regarding the environment surrounding business fixed investment, corporate profits have continued to improve. 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.

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

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 (Chart 12). Looking at consumption of goods—as seen through sales at retail stores in real terms (Chart 13[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 registered a quarter-on-quarter increase in the third quarter and was up on a month-on-month basis for two months in a row in August and September; the effects of the irregular weather during this summer have dissipated and those of the decline in demand following the front-loaded increase have also been waning, mainly in components other than durable consumer goods. Meanwhile, looking at consumption of durable consumer goods (Chart 13[2]), the number of new passenger-car registrations has almost bottomed out: it rose slightly in the third quarter as well as in October relative to the third quarter, after falling substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase. 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. Thereafter, sales in the third quarter rose slightly, partly due to the start of sales of new smartphone products. As for durable consumer goods, however, some manufacturers associated with these goods have pointed out that the recovery from the decline has still lagged somewhat behind. Sales at department stores have picked up since May, after declining substantially in April in response to the front-loaded increase in demand, and the improvement since August has started to become evident (Chart 14[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 irregular weather during the summer abated from the end of August through September and those of the subsequent decline have also been waning, notably in sectors other than durable consumer goods. 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 14[2]), outlays for travel have been steady, chiefly in domestic travel, disregarding the effects of the irregular weather during this summer and other factors. Sales in the food service industry have remained steady as a trend, disregarding the effects of issues related to tainted chicken products from China as well as the irregular weather during this summer.

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 13[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 almost bottomed out in the third quarter, but has continued to show some weakness relative to sales statistics, due in part to short-term fluctuations.<sup>2</sup> 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

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<sup>2</sup> 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.

the front-loaded increase in demand, notably in durable consumer goods—decreased significantly in the second quarter and was more or less flat in the third quarter.

Looking at indicators related to consumer confidence, the improvement in the consumer confidence index has recently paused, although it has maintained a moderate improving trend from a somewhat longer-term perspective, mainly as a reflection of movements in the employment and income situation (Chart 15).

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 dissipate gradually.

As for housing investment, the decline following the front-loaded increase has continued, while signs of bottoming out have been observed recently. The number of housing starts—a leading indicator of housing investment—had continued to fall since the first quarter due to the decline in demand following the front-loaded increase, mainly in owner-occupied houses; monthly movements, however, show that housing starts have begun to bottom out, with month-on-month increases for two consecutive months in August and September (Chart 16[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.

Some weakness in industrial production has remained with continued inventory adjustments (Chart 17). Industrial production grew at a somewhat rapid pace in the first quarter, partly in response to the front-loaded increase in demand, but fell back noticeably in the second quarter, and continued to decrease in the third quarter. In terms of durable consumer goods (automobiles and household electrical appliances) and construction goods (with ties to housing), inventory adjustments have continued to be in place as the effects of the decline in demand following the front-loaded increase have lingered somewhat; these adjustments have also entrenched into producer goods to a certain degree. On a monthly basis, however, September saw a pick-up in production in a wide range of industries with high growth

in shipments and as a result, overall production increased markedly. Looking at quarterly movements by industry, production of transport equipment decreased noticeably in the third quarter following the decline in the second quarter, as inventory adjustments have continued to take place in light of 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 household electrical appliances (air conditioners and PCs) in response to prior increases. Production of fabricated metals and of ceramics, stone and clay products has also 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 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 been on a moderate increasing trend, with the fluctuations smoothed out, in light of developments in business fixed investment at home and abroad. 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. The quarter-on-quarter growth was still slightly negative in the third quarter, mainly in durable consumer goods and construction goods; on a monthly basis, however, shipments in September registered high growth (Chart 17[1]).

Inventories have still continued to rise, albeit at a subdued pace, with the effects including the decline in demand following the front-loaded increase having somewhat lingered on (Chart 17[1]). Recent movements show that inventories went up slightly as of the end of September compared with the end of June, after increasing noticeably as of the end of June relative to the end of March. On a month-on-month basis, however, inventories went down in September for the first time in five months, albeit slightly. 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 18[2]). By goods, the shipment-inventory

balance has deteriorated markedly for durable consumer goods as well as for construction goods, whereas growth in inventories of capital goods, nondurable consumer goods, and producer goods has been generally balanced with that in shipments.

Industrial production is expected to resume its moderate increase, due in part to the progress in inventory adjustments, as the effects of the decline in final demand following the front-loaded increase dissipate gradually. Based on anecdotes by firms and on other information, industrial production as a whole is projected to turn to a pick-up in the fourth quarter at a moderate pace. By industry, production of electronic parts and devices is expected to continue moving upward, mainly in new smartphone products; production of general-purpose, production and business oriented machinery is also expected to increase on the back of the ongoing improving trend in business fixed investment both at home and abroad. On the other hand, production of transport equipment is expected to remain more or less flat: inventory adjustments have progressed, but their effects have still remained.

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 recently been at around 3.5 percent—posting the same level prevailing around the end of 1997—after being on a moderate improving trend, albeit with fluctuations (Chart 19). New job openings had improved at a somewhat subdued pace toward this summer, 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, owing partly to the decline in new applications. The active job openings-to-applicants ratio has also been on an improving trend, albeit at a sluggish pace; it recorded 1.10 in the third quarter, a level on par with that in June 1992. Non-scheduled hours worked have been on a moderate uptrend, but the effects of the decline in demand following the front-loaded increase have recently been observed, mainly in manufacturing.

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 21[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 21[2]). Hourly cash earnings of overall employees have also been on a moderate improving trend as a whole (Chart 20[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 20[2]). The pick-up in scheduled cash earnings on a year-on-year basis has recently become evident, while downward pressure from the increase in the ratio of part-time workers has diminished mildly (Chart 20[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 been positive with the fluctuations smoothed out. The year-on-year growth of non-scheduled cash earnings has recently tended to decline, as a reflection of movements in the number of hours worked, but has still maintained a distinct positive.

Employee income has accelerated moderately its year-on-year rate of increase, as a reflection of the aforementioned developments in employment and wages (Chart 21[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 significantly (Chart 23[1] and [3]). Prices of crude oil have continued to fall, mainly since the uptrend in the production volume of oil-producing countries has been maintained despite concern over sluggish demand due to the slowdown in the Chinese and EU economies. Prices of nonferrous metals have recently bottomed out, after continuing to show somewhat sluggish movements as a reflection of the recent slowdown in China's growth momentum. Meanwhile, prices of grains—which had kept declining, as a reflection of a good harvest and an increase in stocks both on a global basis—have recently bounced back up a bit.

The three-month rate of change in import prices (on a yen basis) has recently been more or less flat, as a reflection of movements in foreign exchange rates and international commodity prices (Chart 23[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 declining relative to three months earlier, reflecting the significant fall in international commodity prices (Chart 24[2]).<sup>3</sup> Excluding the direct effects of the consumption tax hike, the three-month rate of change in producer prices registered negative 0.8 percent in October, mainly due to the fall in international commodity prices including crude oil, grains, and iron ores, after being more or less flat in August and September. Looking in detail at producer price movements in October relative to three months earlier, prices of "goods sensitive to exchange rates and overseas commodity prices" declined somewhat sharply as a whole mainly due to price declines in petroleum products such as gasoline, which is a reflection of decreases in crude oil prices, although prices of nonferrous metals rose slightly in response to movements in foreign exchange rates. The rate of decline in prices of "electric power, gas & water" expanded in response to the fuel and gas resource cost adjustment system, which reflects the decline in crude oil prices.

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<sup>3</sup> 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.

Prices of "other materials" and "iron & steel and construction goods" also declined, chiefly in chemicals & related products, iron & steel, and scrap & waste, due either to the fall in international commodity prices or to the effects of deterioration of supply and demand conditions in Asia. Prices of "others" posted negative growth, as a reflection of the decline in prices of rice on the back of increased inventories. Meanwhile, prices of machinery have been more or less flat.

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 recently been moving in the range of 0.5-1.0 percent (Chart 25). Looking in detail at recent 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 advertising services have narrowed their rate of increase, mainly in response to the rise in the previous year, hotel services have marked a relatively large increase in light of firm demand from business and sightseeing. In addition, temporary employment agency services have also continued to rise 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 risen at a somewhat accelerated pace since August, 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 been 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 1 percent (Chart 26[1]).<sup>4</sup> Consumer prices for September, on a basis excluding the direct effects of the consumption tax hike,

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<sup>4</sup> 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.

narrowed their rate of increase marginally to positive 1.0 percent from positive 1.1 percent in August 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 from a somewhat longer-term perspective, but the improvement has recently come to a pause (Chart 27[2]).<sup>5</sup>

Looking at recent year-on-year growth in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have recently reduced their rate of increase at a mild pace. Looking in detail, prices of petroleum products have reduced their rate of increase markedly in response to the decline in crude oil prices. Prices of food products have continued to be somewhat strong as a trend that reflects the continued pass-on of past cost increases in the form of higher prices, although the rate of increase has recently diminished marginally. Prices of durable goods and clothes have continued to be on a positive trend, but the pace has recently tailed off marginally. 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 since June and (ii) the decline following last year's increase in some prices of eating out. On the contrary, the year-on-year rate of decline in prices of rent—which accounts for a large share—has tended to narrow, albeit very modestly. Meanwhile, fees for public services have continued to diminish their rate of increase moderately, mainly in electricity prices, in response to the recent decline in crude oil prices and to last year's increase.

With regard to the outlook, excluding the direct effects of the consumption tax hike, producer prices are expected to continue declining for the time being reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices is likely to be at around the current level for the time being.

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<sup>5</sup> 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.

Meanwhile, inflation expectations appear to be rising on the whole from a somewhat longer-term perspective (Chart 28).

### **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 29).

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 31).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 30). Issuing conditions for CP and corporate bonds have continued to be favorable. In these circumstances, as for funding of the private sector, the year-on-year rate of increase in the amount outstanding of bank lending has been at around 2.5 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 32). The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative (Chart 33).

Firms' financial positions have been favorable (Chart 30). The number of corporate bankruptcies has remained at a low level (Chart 35).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been in the range of 3.0-3.5 percent. Its October reading was 3.2 percent on a year-on-year basis, following 3.1 percent in September (Chart 34).<sup>6</sup>

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<sup>6</sup> 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 October reading was 2.6 percent, following 2.5 percent in September. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been in the range of 3.0-3.5 percent; it increased by 3.2 percent in October, following an increase of 3.2 percent in September.

## **(2) Financial Markets**

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been negative with some fluctuations. The Euroyen interest rate (3-month) has declined, albeit very marginally. Interest rates on Euroyen futures have been virtually level (Chart 36). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 37).

Yields on 10-year government bonds (newly issued 10-year JGB) moved downward, mainly against the backdrop of the decline in U.S. long-term interest rates, but have since increased somewhat due in part to the rise in Japanese stock prices and to the yen's depreciation; they have recently been moving at around 0.5 percent (Chart 38).

Yield spreads between corporate bonds and government bonds have been more or less flat at low levels (Chart 39).

Stock prices fell due to the heightening of investors' risk aversion, but they have risen substantially, mainly as a reflection of the expansion of monetary easing by the Bank of Japan and the yen's depreciation in response to these measures as well as of an announcement by an institutional investor to raise its weight of investment in stocks. The Nikkei 225 Stock Average is recently moving in the range of 17,000-17,500 yen (Chart 40).

In the foreign exchange market, the yen's exchange rate has depreciated against the U.S. dollar, mainly since the difference in the direction of monetary policy between Japan and the United States has been recognized; the yen is currently moving in the range of 117-118 yen against the U.S. dollar. The yen's exchange rate has depreciated against the euro; the yen is recently moving in the range of 146-147 yen against the euro (Chart 41).

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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2014/Q1	Q2	Q3	2014/Jul.	Aug.	Sep.	Oct.
Index of consumption expenditure level (two-or-more-person households)	4.3	-8.5	-0.3	-2.6	0.3	1.8	n.a.
Sales at department stores	9.4	-13.2	5.8	-1.2	2.8	2.3	n.a.
Sales at supermarkets	3.2	-5.4	2.5	-0.7	0.8	1.4	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 333>	< 264>	< 275>	< 277>	< 279>	< 270>	< 265>
Sales of household electrical appliances (real, "Current Survey of Commerce")	14.3	-25.5	4.3	-2.1	4.4	3.5	n.a.
Outlays for travel	0.6	-2.4	n.a.	2.1	-2.3	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 94>	< 89>	< 86>	< 84>	< 84>	< 88>	<n.a.>
Machinery orders <sup>4</sup> (Private sector, exc. volatile orders)	4.2	-10.4	5.6	3.5	4.7	2.9	n.a.
Manufacturing	3.9	-8.5	12.6	20.3	-10.8	12.0	n.a.
Nonmanufacturing <sup>4</sup> (exc. volatile orders)	-1.0	-6.7	-1.2	-4.3	10.7	1.7	n.a.
Construction starts (private, nondwelling use)	-2.5	-3.8	-2.7	-5.1	1.8	-7.7	n.a.
Mining & manufacturing	-3.6	-8.6	5.8	16.2	19.5	-11.1	n.a.
Nonmanufacturing <sup>5</sup>	-2.2	-3.4	-3.8	-8.2	-2.2	-6.3	n.a.
Value of public works contracted	6.6	11.3	-16.8	-9.0	-8.8	-7.0	1.5
Real exports	-1.0	-1.2	1.6	2.2	-0.4	1.8	n.a.
Real imports	4.5	-6.9	0.7	-1.3	-1.2	4.1	n.a.
Industrial production	2.9	-3.8	-1.9	0.4	-1.9	2.9	n.a.
Shipments	4.6	-6.8	-0.8	0.7	-2.1	4.4	n.a.
Inventories	0.2	4.6	1.1	0.9	0.9	-0.7	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 105.4>	< 111.5>	< 111.4>	< 109.1>	< 118.5>	< 111.4>	<n.a.>
Real GDP	1.6	-1.9	-0.4	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.6	-3.4	n.a.	-0.4	-0.1	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2014/Q1	Q2	Q3	2014/Jul.	Aug.	Sep.	Oct.
Active job openings-to-applicants ratio <s.a., times>	< 1.05>	< 1.09>	< 1.10>	< 1.10>	< 1.10>	< 1.09>	<n.a.>
Unemployment rate <s.a., %>	< 3.6>	< 3.6>	< 3.6>	< 3.8>	< 3.5>	< 3.6>	<n.a.>
Non-scheduled hours worked <sup>6</sup>	7.1	5.1	2.2	2.9	1.0	2.9	n.a.
Number of employees	0.8	0.6	0.9	1.0	0.7	1.1	n.a.
Number of regular employees <sup>6</sup>	1.2	1.4	1.7	1.7	1.7	1.7	n.a.
Nominal wages per person <sup>6</sup>	0.1	0.8	1.5	2.4	0.9	0.7	n.a.
Producer price index <excluding consumption tax, y/y % chg.>	2.0	4.3	4.0	4.4	3.9	3.6	p 2.9
<excluding consumption tax, q/q % chg., 3-month rate of change> <sup>7</sup>	< 0.3>	< 0.2>	< 0.2>	< 0.5>	< 0.1>	< 0.0>	<p -0.8>
Consumer price index <sup>8</sup> <consumption tax adjusted, y/y % chg.>	1.3	3.3	3.2	3.3	3.1	3.0	n.a.
Services producer price index <sup>9</sup> <excluding consumption tax, y/y % chg.>	0.3	3.5	p 3.5	3.4	3.5	p 3.5	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	4.0	3.3	3.0	3.0	3.0	3.1	p 3.2
Number of corporate bankruptcies <cases per month>	<820>	<871>	<812>	<882>	<727>	<827>	<800>

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

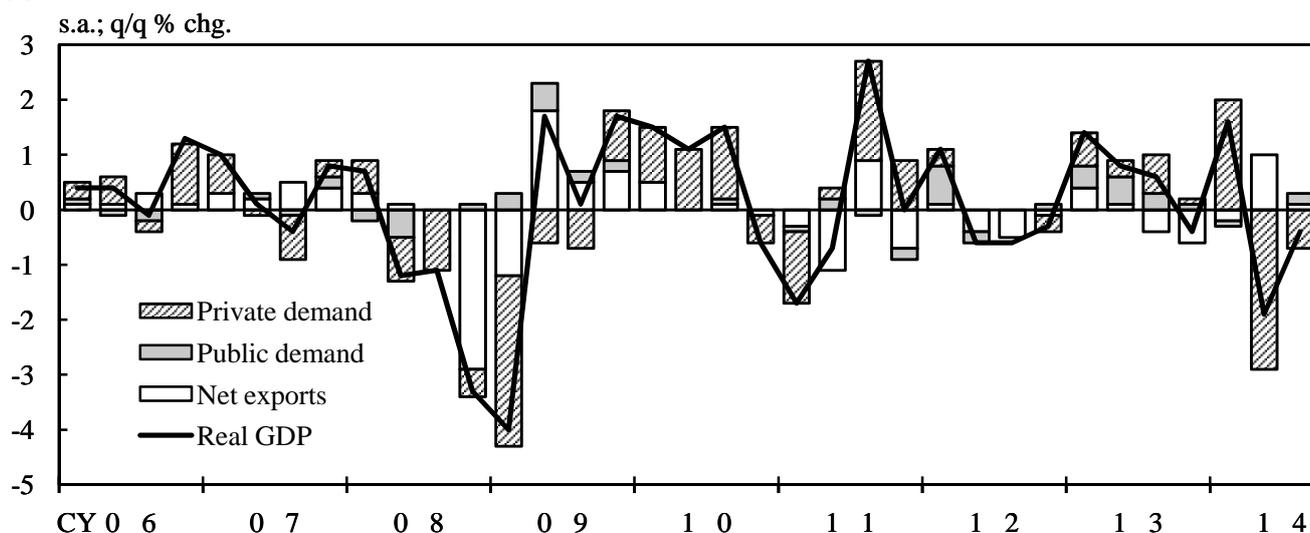
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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



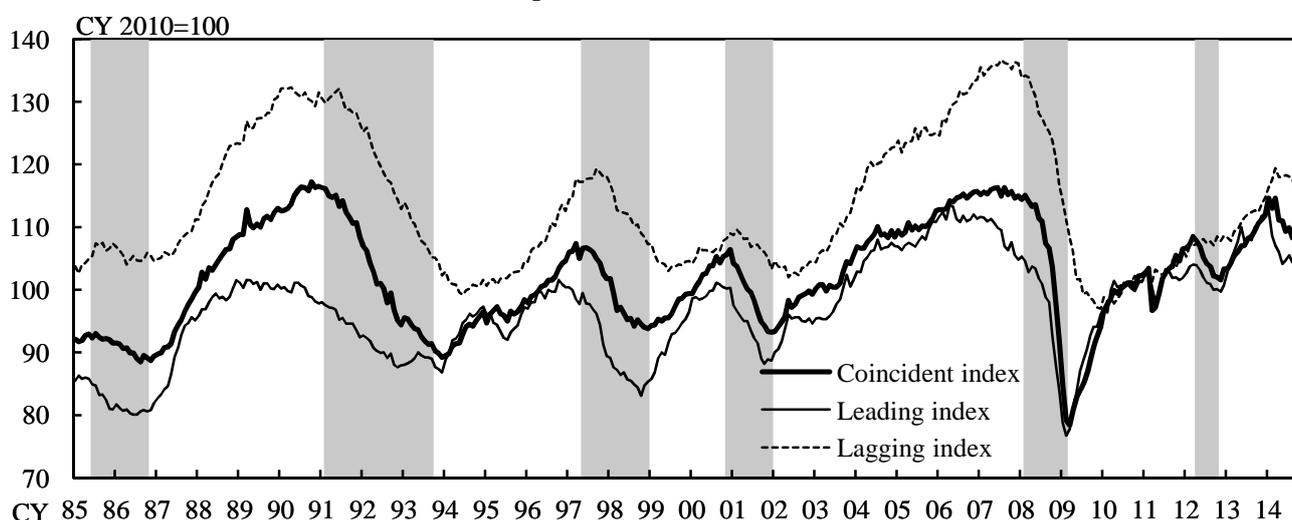
## (2) Components

s.a.; q/q % chg.

	2013		2014		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.6	-0.4	1.6	-1.9	-0.4
[Annual rate]	[2.4]	[-1.6]	[6.7]	[-7.3]	[-1.6]
Domestic demand	1.0	0.2	1.8	-2.9	-0.5
Private demand	0.7	0.1	2.0	-2.9	-0.7
Private consumption	0.2	-0.0	1.3	-3.1	0.2
Non-Resi. investment	0.1	0.1	1.0	-0.7	-0.0
Residential investment	0.1	0.1	0.1	-0.3	-0.2
Private inventory	0.3	-0.1	-0.5	1.2	-0.6
Public demand	0.3	0.1	-0.1	0.0	0.2
Public investment	0.3	0.1	-0.1	0.0	0.1
Net exports of goods and services	-0.4	-0.6	-0.2	1.0	0.1
Exports	-0.1	0.0	1.0	-0.1	0.2
Imports	-0.3	-0.6	-1.2	1.1	-0.2
Nominal GDP	0.4	0.1	1.5	-0.1	-0.8

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

## (3) Indexes of Business Conditions (Composite Indexes)

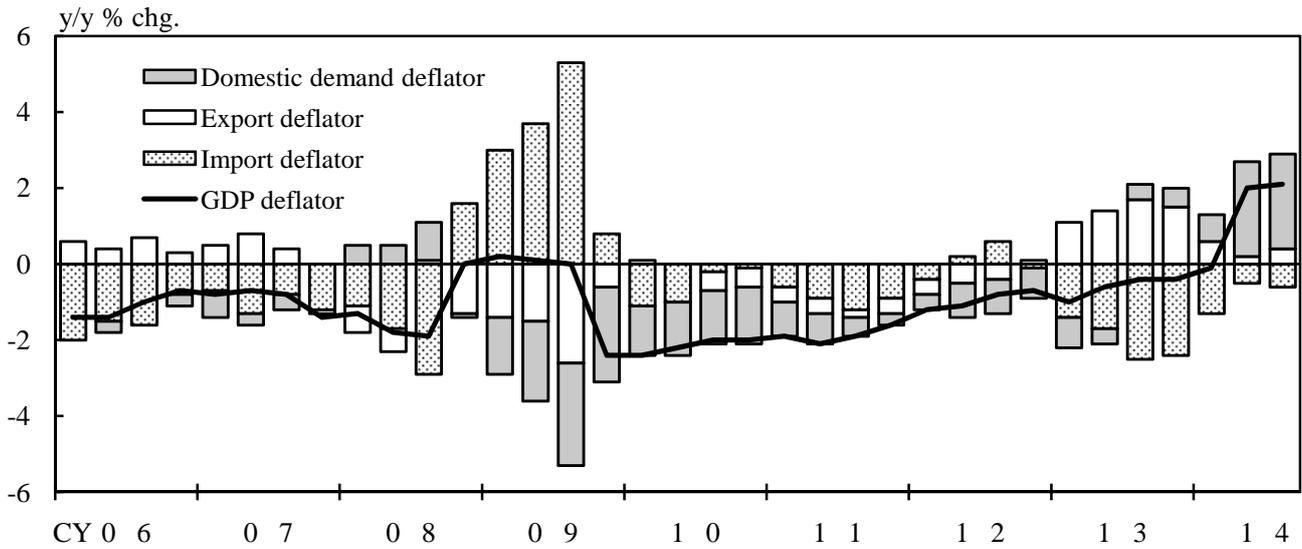


Note: Shaded areas indicate recession periods.

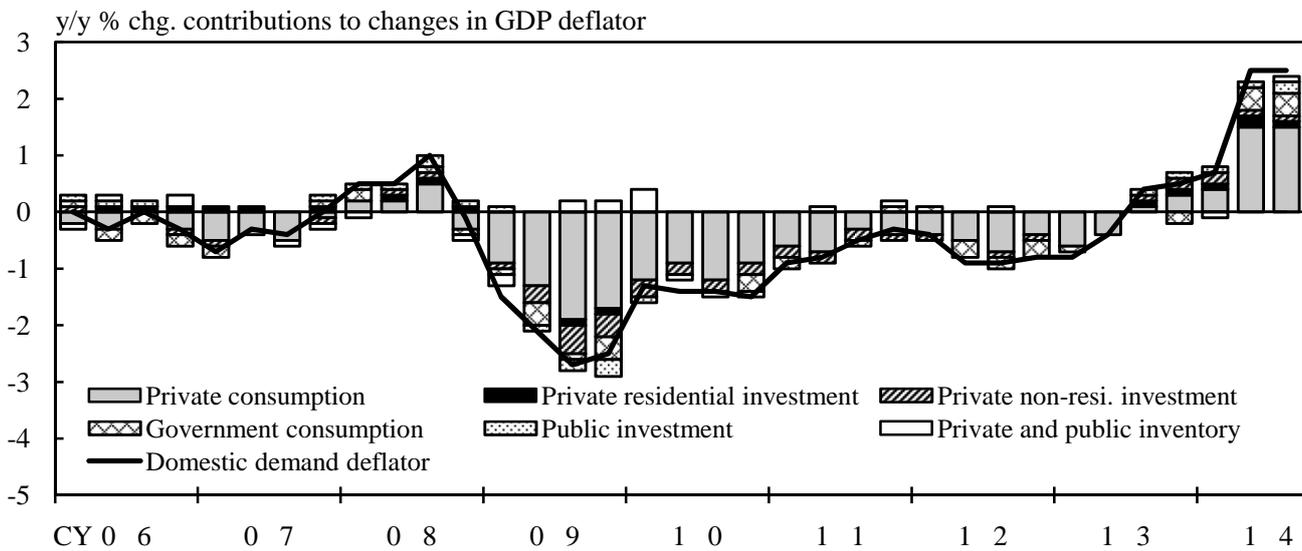
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

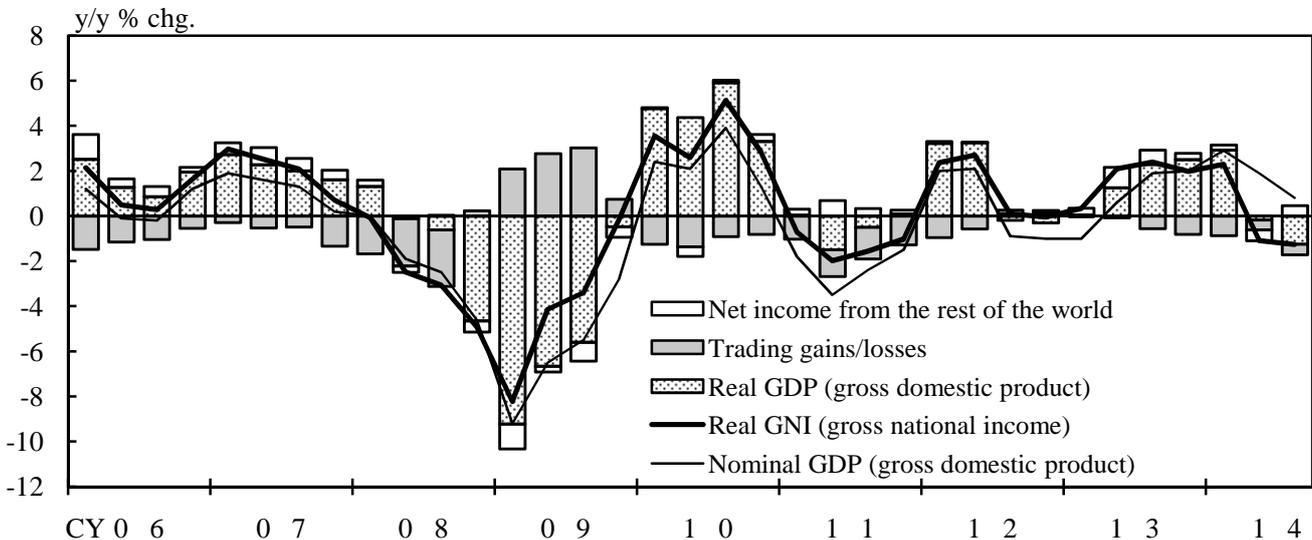
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

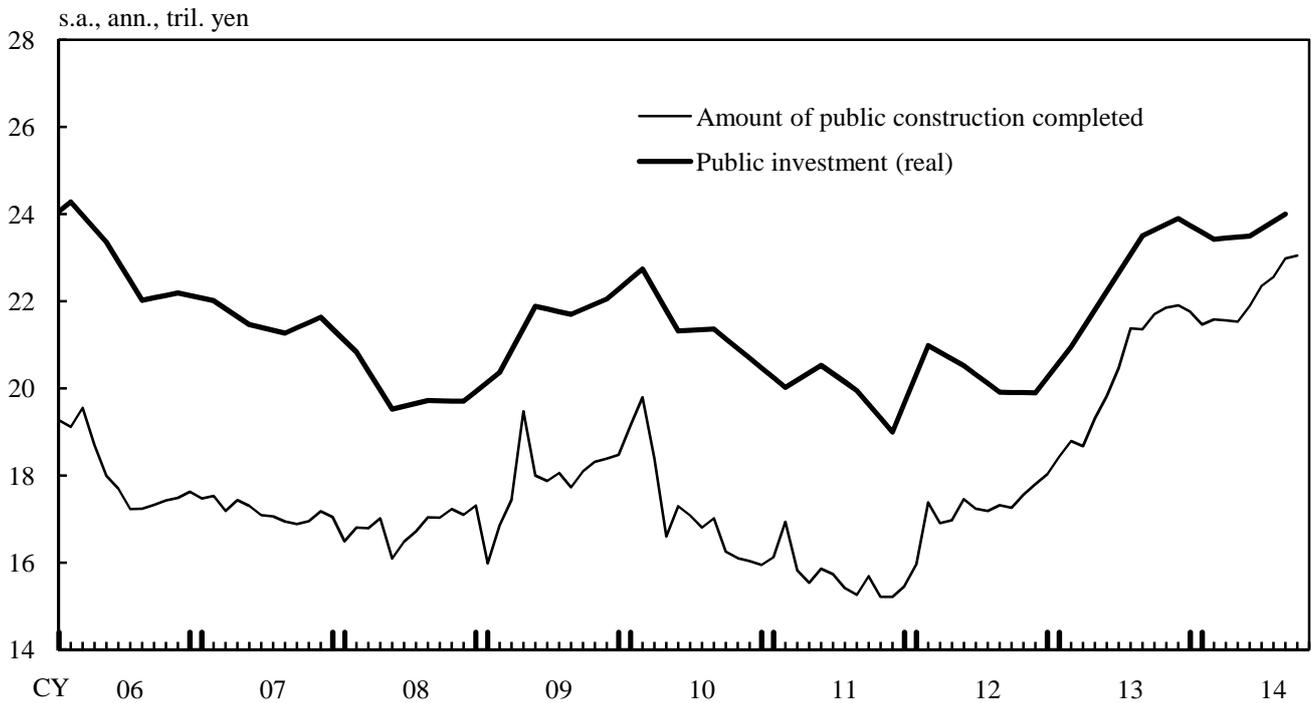
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

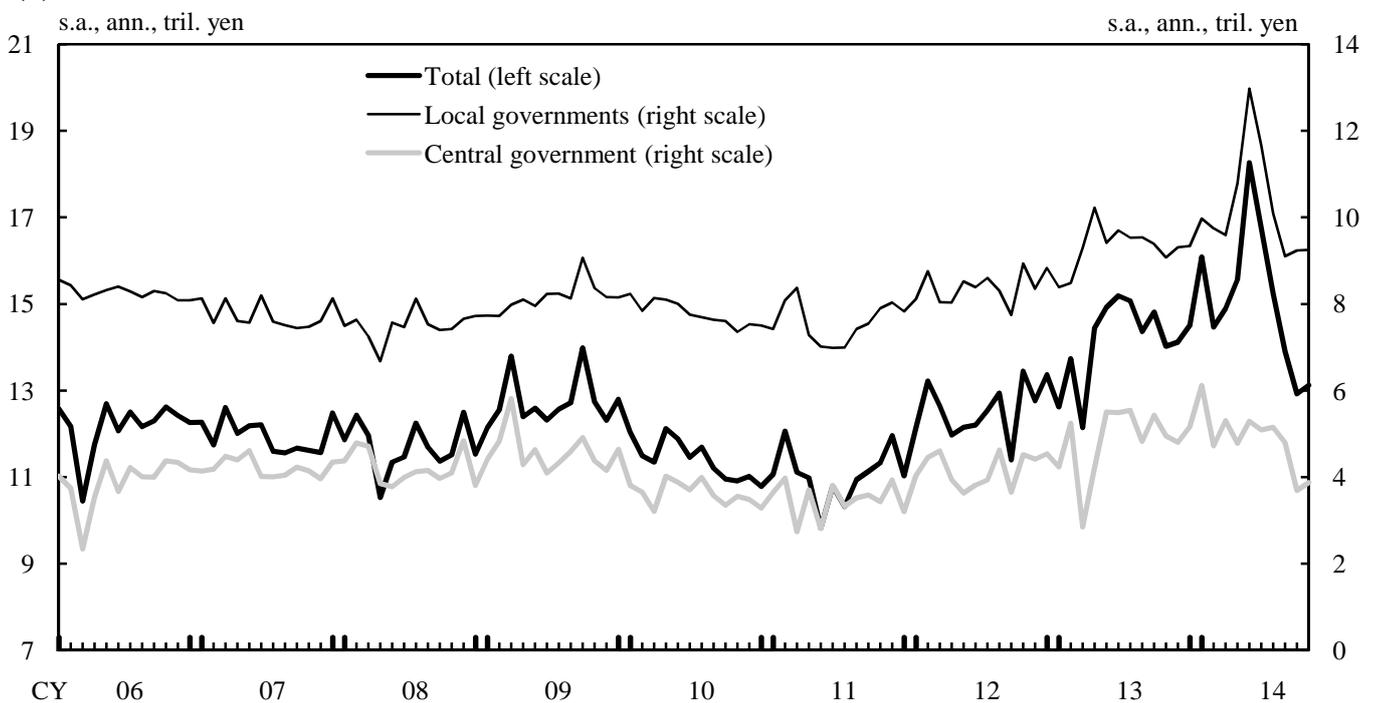
Source: Cabinet Office, "National Accounts."

## 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.

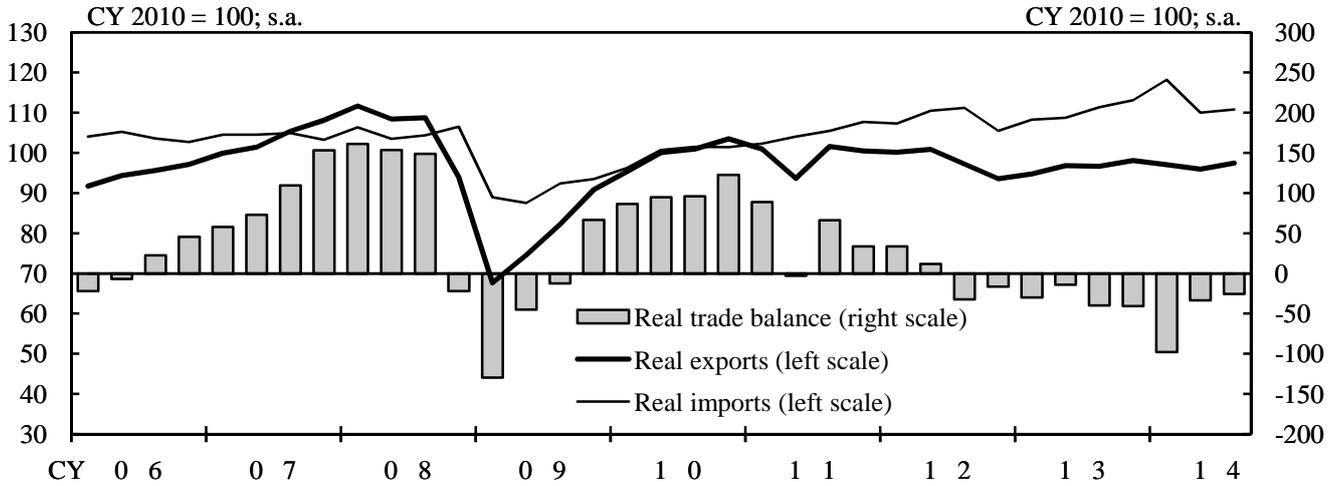
Sources: Cabinet Office, "National Accounts";

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

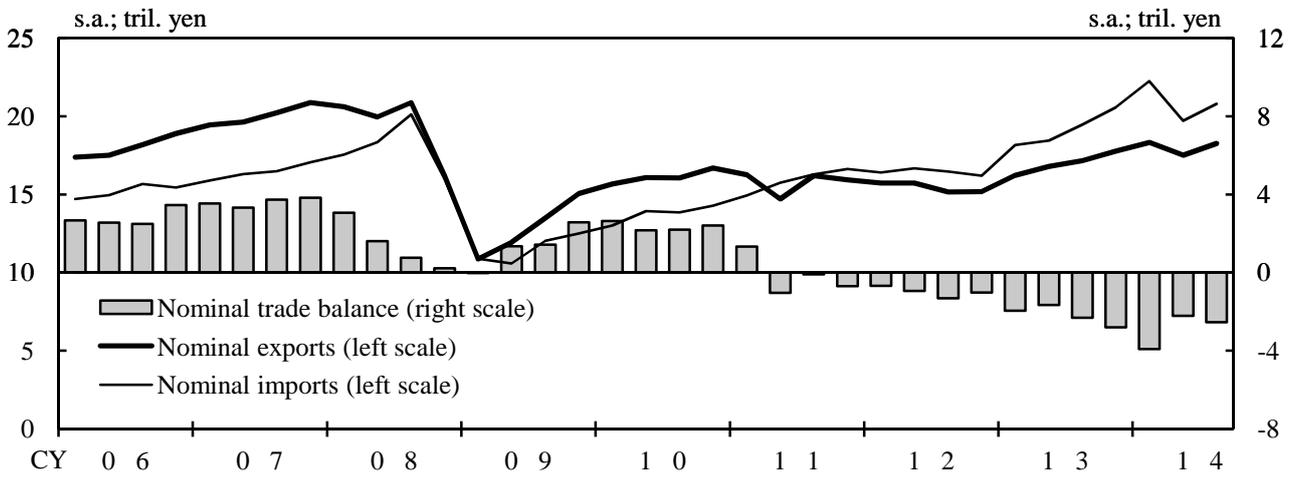
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance <sup>1</sup>

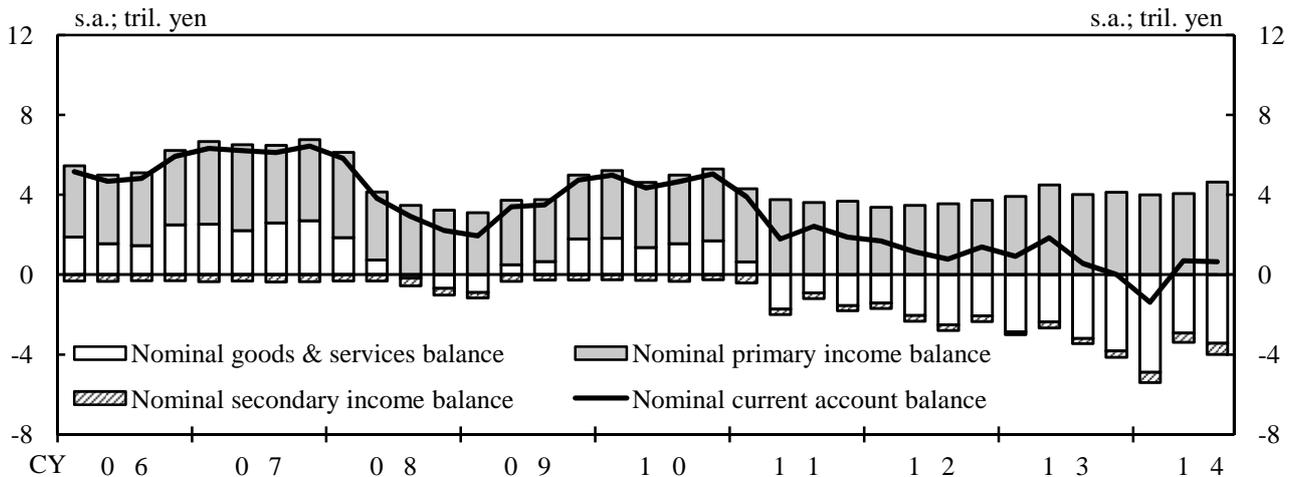
(1) Real Exports, Real Imports, and Real Trade Balance <sup>2</sup>



(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance <sup>3</sup>



(3) Nominal Current Account Balance and Nominal Goods & Services Balance <sup>3</sup>



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

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

3. Figures are based on the "Balance of Payments."

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

Real Exports <sup>1</sup>

## (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	Q2	Q3	2014 Jul.	Aug.	Sep.
United States	<18.5>	13.0	2.8	-0.9	-0.4	0.9	-2.3	-0.0	-1.4	2.9	0.3
EU	<10.0>	-13.0	-3.6	6.3	2.2	0.6	0.5	-0.1	0.3	-1.0	-5.7
East Asia	<50.9>	-2.6	-3.0	-1.4	2.5	-1.5	-1.5	1.9	0.1	2.0	1.3
China	<18.1>	-8.1	-1.7	2.3	5.7	-3.9	-0.7	1.2	-2.8	5.2	-0.2
NIEs	<21.9>	-4.7	-1.0	-2.8	1.1	1.0	-3.1	3.8	4.4	-1.3	3.3
Korea	<7.9>	-3.5	0.4	-0.3	-3.1	0.4	-6.3	3.8	0.2	3.1	3.6
Taiwan	<5.8>	-6.0	-1.5	-5.1	4.8	0.5	-0.7	1.6	5.7	-2.0	-4.8
Hong Kong	<5.2>	-0.7	-1.4	-1.0	-2.3	2.2	4.6	4.0	8.4	-8.3	10.0
Singapore	<2.9>	-11.6	-2.8	-9.3	10.6	4.0	-11.3	6.5	8.3	-0.4	3.0
ASEAN4 <sup>3</sup>	<10.9>	12.5	-8.5	-4.5	-0.0	-2.1	0.3	-0.8	-3.2	3.5	-0.5
Thailand	<5.0>	19.3	-9.3	-7.0	-4.2	-1.9	0.5	0.9	-2.0	5.8	-0.8
Others	<20.6>	1.7	-5.0	-0.9	-2.0	0.2	1.4	2.4	6.5	-7.3	6.6
Real exports		-1.0	-1.9	-0.2	1.5	-1.0	-1.2	1.6	2.2	-0.4	1.8

## (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	Q2	Q3	2014 Jul.	Aug.	Sep.
Intermediate goods	<21.1>	-0.7	1.2	-0.1	-0.2	1.1	-1.9	-0.9	-2.2	1.8	-0.6
Motor vehicles and their related goods	<23.9>	7.7	-1.4	2.4	-0.2	-4.6	-0.8	3.0	3.4	-5.8	3.5
IT-related goods <sup>4</sup>	<10.6>	3.6	-7.5	0.2	1.9	-0.6	0.8	2.0	1.3	3.4	-1.1
Capital goods and parts <sup>5</sup>	<27.5>	-4.0	-5.8	1.5	2.4	-1.8	0.0	2.4	1.7	1.2	2.7
Real exports		-1.0	-1.9	-0.2	1.5	-1.0	-1.2	1.6	2.2	-0.4	1.8

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

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

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

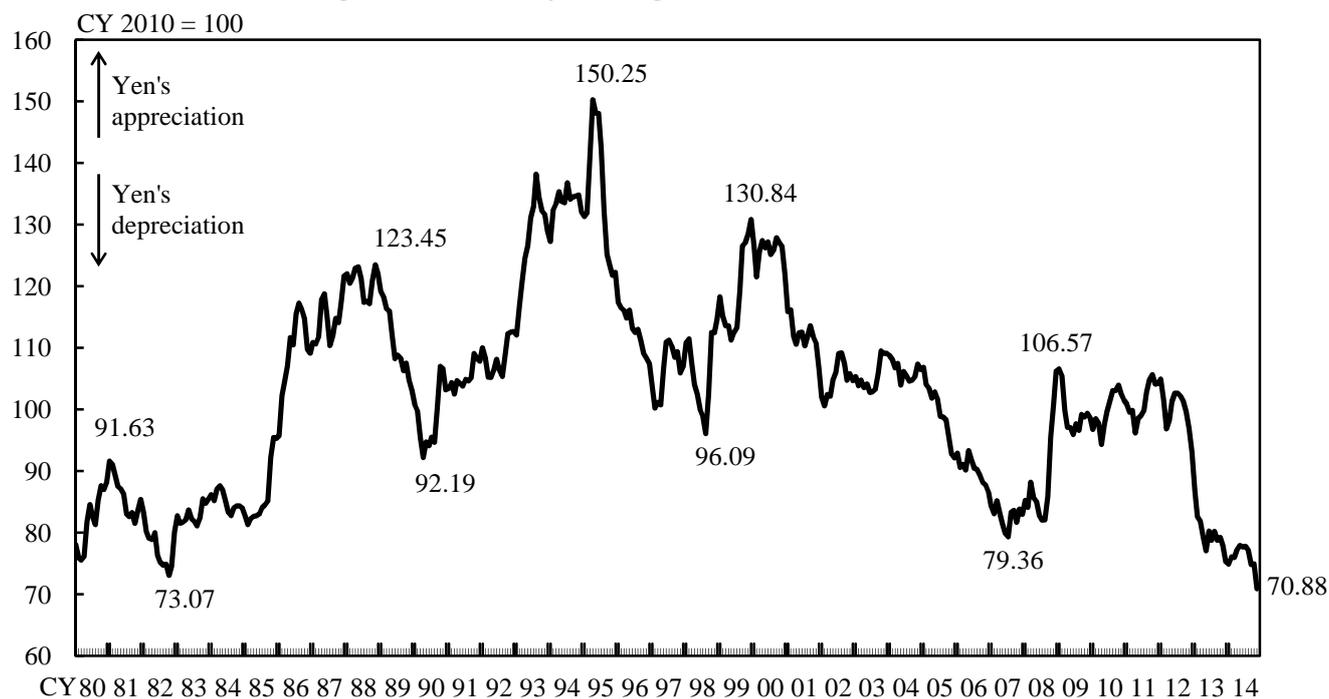
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.

5. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

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

## Real Effective Exchange Rate and Overseas Economies

## (1) Real Effective Exchange Rate (Monthly Average)



- Notes: 1. Figures are based on the broad index of the BIS effective exchange rate, and those prior to 1994 are calculated using the narrow index.  
2. Figures for October and November (up to November 17) 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 Q4	2014 Q1	Q2	Q3
United States <sup>1</sup>	1.6	2.3	2.2	3.5	-2.1	4.6	3.5
European Union <sup>2</sup>	1.7	-0.4	0.0	1.5	1.5	1.0	1.2
Germany <sup>1</sup>	3.6	0.4	0.1	1.8	3.1	-0.3	0.3
France <sup>1</sup>	2.1	0.4	0.4	0.8	0.1	-0.4	1.1
United Kingdom <sup>1</sup>	1.6	0.7	1.7	2.5	3.0	3.7	2.8
East Asia <sup>3</sup>	5.9	4.9	4.9	5.7	2.9	4.8	n.a.
China <sup>1</sup>	9.3	7.7	7.7	7.0	6.1	8.2	7.8
NIEs <sup>1,3</sup>	4.4	1.9	2.9	5.1	2.6	1.6	3.6
ASEAN4 <sup>1,3,4</sup>	3.0	6.3	4.4	4.9	-1.7	5.5	n.a.
Main economies <sup>3</sup>	4.5	3.7	3.7	4.7	1.6	4.3	n.a.

- Notes: 1. Figures for each country are based on those released by the government or central bank. Quarterly figures for China are annualized based on quarter-on-quarter changes released by the National Bureau of Statistics of China.  
2. Figures are based on those released by the European Commission.  
3. Figures are averages of members' real GDP growth rates, weighted by the value of exports from Japan to each country or region.  
The members are described below.  
Main economies: United States, European Union, and East Asia  
East Asia: China, NIEs, and ASEAN4  
NIEs: Korea, Taiwan, Hong Kong, and Singapore  
ASEAN4: Thailand, Indonesia, Malaysia, and Philippines  
4. To calculate the quarterly figures, real GDP growth rates of a member country are seasonally adjusted by the Bank of Japan using X-11.

Real Imports <sup>1</sup>

## (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	Q2	Q3	2014 Jul.	Aug.	Sep.
United States	<8.4>	3.8	-2.1	3.8	-0.2	5.7	-7.1	6.8	3.3	4.3	-8.8
EU	<9.4>	4.0	0.8	4.8	-0.2	5.4	-5.0	-1.2	-2.0	-2.7	7.6
East Asia	<40.8>	3.9	2.5	3.0	3.1	5.3	-8.7	-0.8	-3.6	3.3	6.8
China	<21.7>	5.0	5.4	4.1	3.0	5.8	-9.2	-0.7	-8.8	5.9	12.9
NIEs	<8.2>	5.0	-0.4	6.2	0.9	5.6	-8.2	1.5	4.8	1.9	-0.3
Korea	<4.3>	4.3	-4.8	5.0	1.3	2.0	-6.8	-1.2	1.0	0.0	-1.5
Taiwan	<2.8>	7.2	8.0	3.5	-0.1	8.4	-8.8	3.0	4.9	2.8	2.4
Hong Kong	<0.2>	-2.5	9.2	9.2	1.9	0.5	9.3	1.5	-16.8	29.3	2.2
Singapore	<0.9>	3.0	-7.0	12.5	0.3	13.8	-10.6	0.6	16.6	-7.8	-7.4
ASEAN4 <sup>3</sup>	<10.8>	0.5	-1.2	-2.0	5.4	3.9	-7.7	-3.0	1.9	-1.1	-1.2
Thailand	<2.6>	-0.9	1.5	-0.8	3.3	7.1	-8.4	-0.3	-1.3	7.1	-1.7
Others	<41.4>	4.7	0.2	0.3	-0.5	4.6	-6.0	1.6	-0.8	-3.8	0.1
Real imports		4.2	0.9	2.4	1.6	4.5	-6.9	0.7	-1.3	-1.2	4.1

## (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	Q2	Q3	2014 Jul.	Aug.	Sep.
Raw materials <sup>4</sup>	<40.4>	4.5	-2.1	0.1	-0.7	5.0	-7.0	1.4	-0.7	-3.1	-1.7
Intermediate goods	<12.9>	-2.7	-2.7	2.8	0.9	5.2	-2.6	-1.2	0.7	0.0	-1.9
Foodstuffs	<8.0>	-0.7	-3.3	3.2	0.7	-1.3	-2.2	3.5	1.1	-0.2	-0.8
Consumer goods <sup>5</sup>	<7.9>	4.5	4.1	2.4	1.1	2.2	-8.8	2.6	-1.5	4.0	-1.6
IT-related goods <sup>6</sup>	<12.6>	9.0	12.8	4.8	4.6	7.0	-12.6	-1.2	-9.1	6.2	19.9
Capital goods and parts <sup>7</sup>	<11.4>	10.4	4.7	5.3	2.5	7.1	-8.2	3.7	4.9	-3.1	3.5
Excluding aircraft	<10.5>	7.0	5.3	4.8	2.6	8.4	-6.6	1.3	-1.2	-1.8	2.7
Real imports		4.2	0.9	2.4	1.6	4.5	-6.9	0.7	-1.3	-1.2	4.1

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

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

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

4. Raw materials are mainly composed of woods, ores, and mineral fuels.

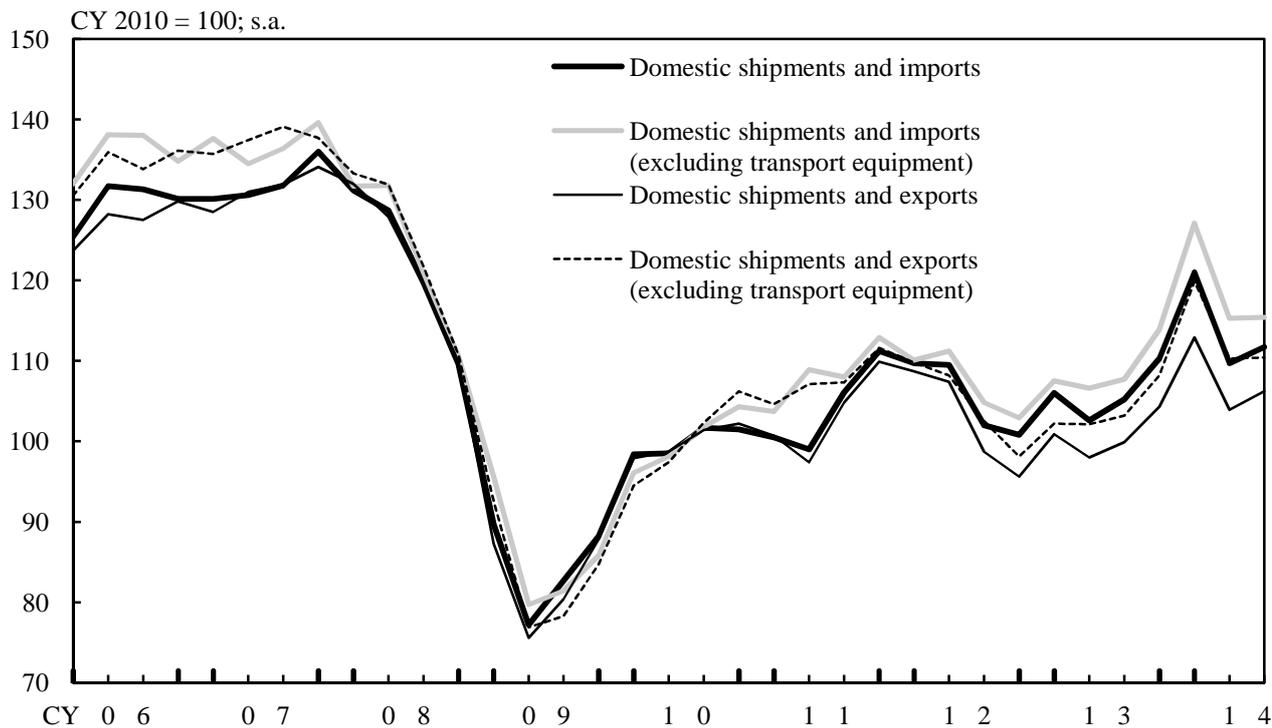
5. Excludes foodstuffs.

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

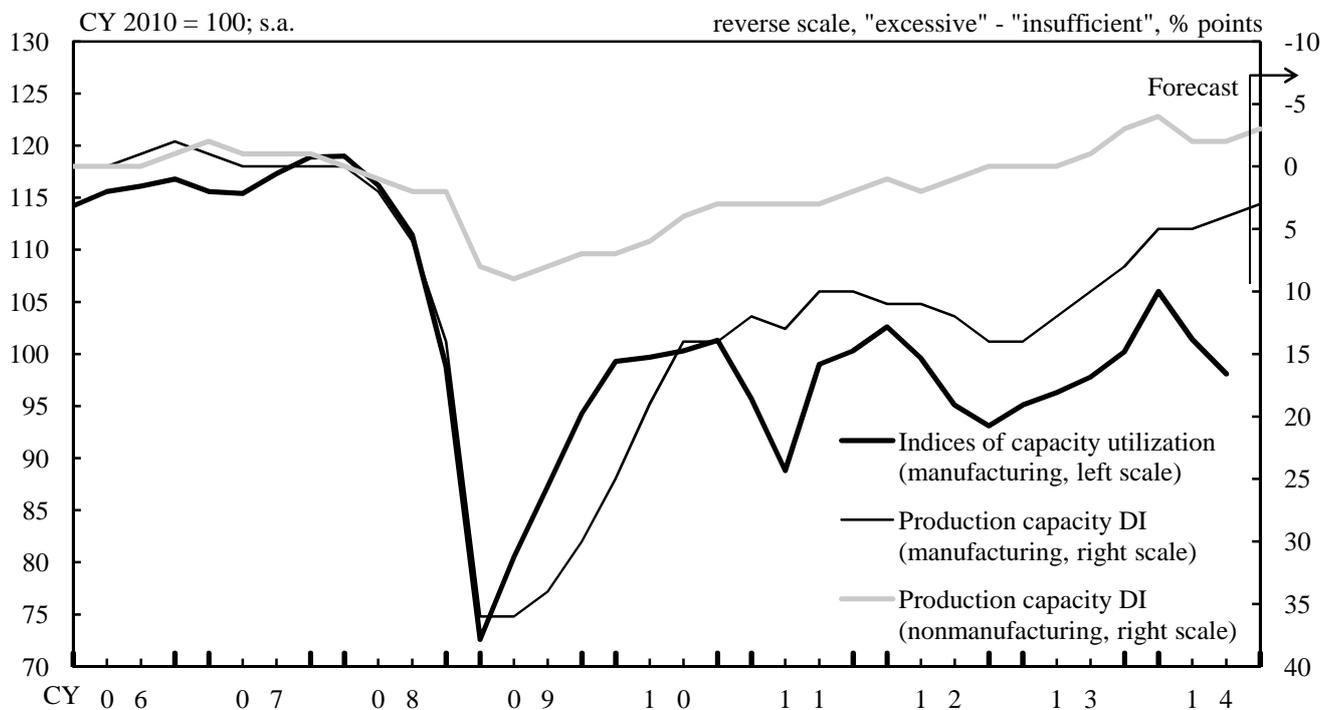
7. Excludes IT-related goods.

Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI

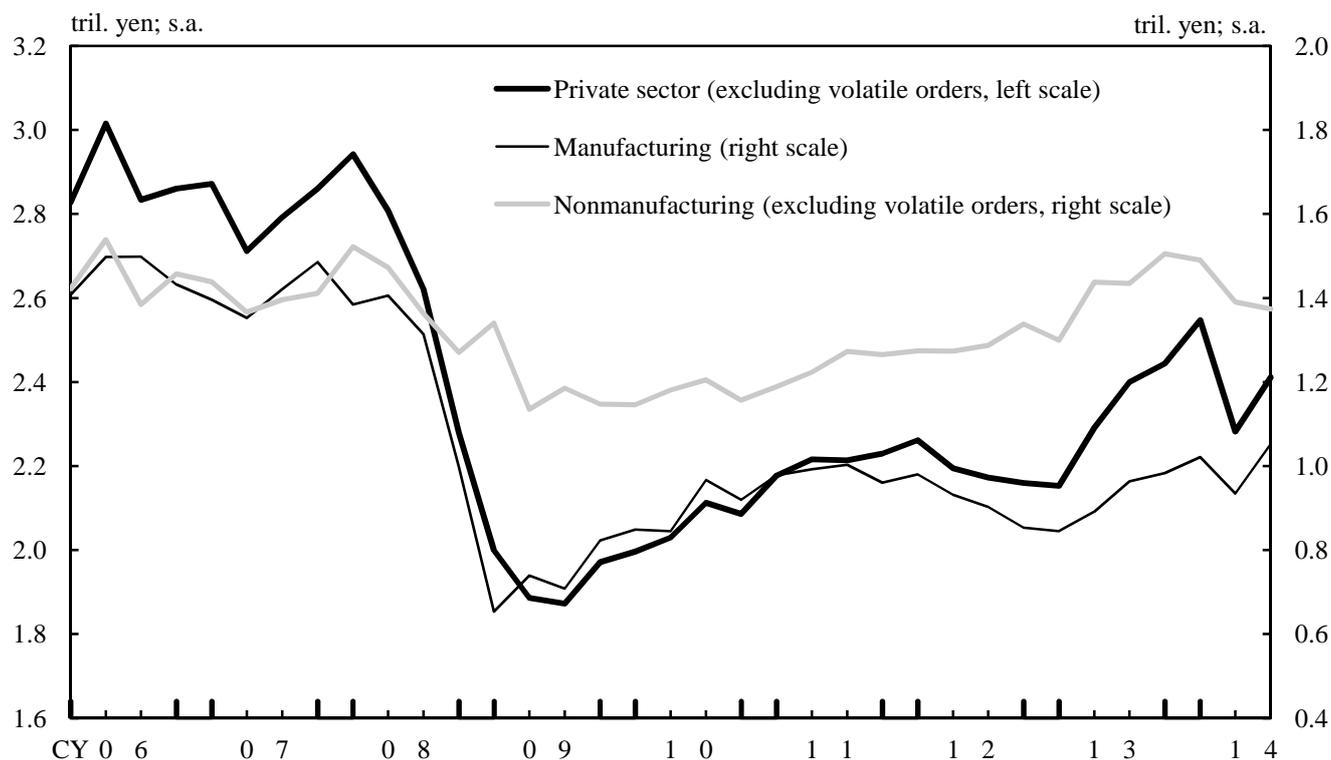


Note: Production capacity DIs are those of all enterprises.

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

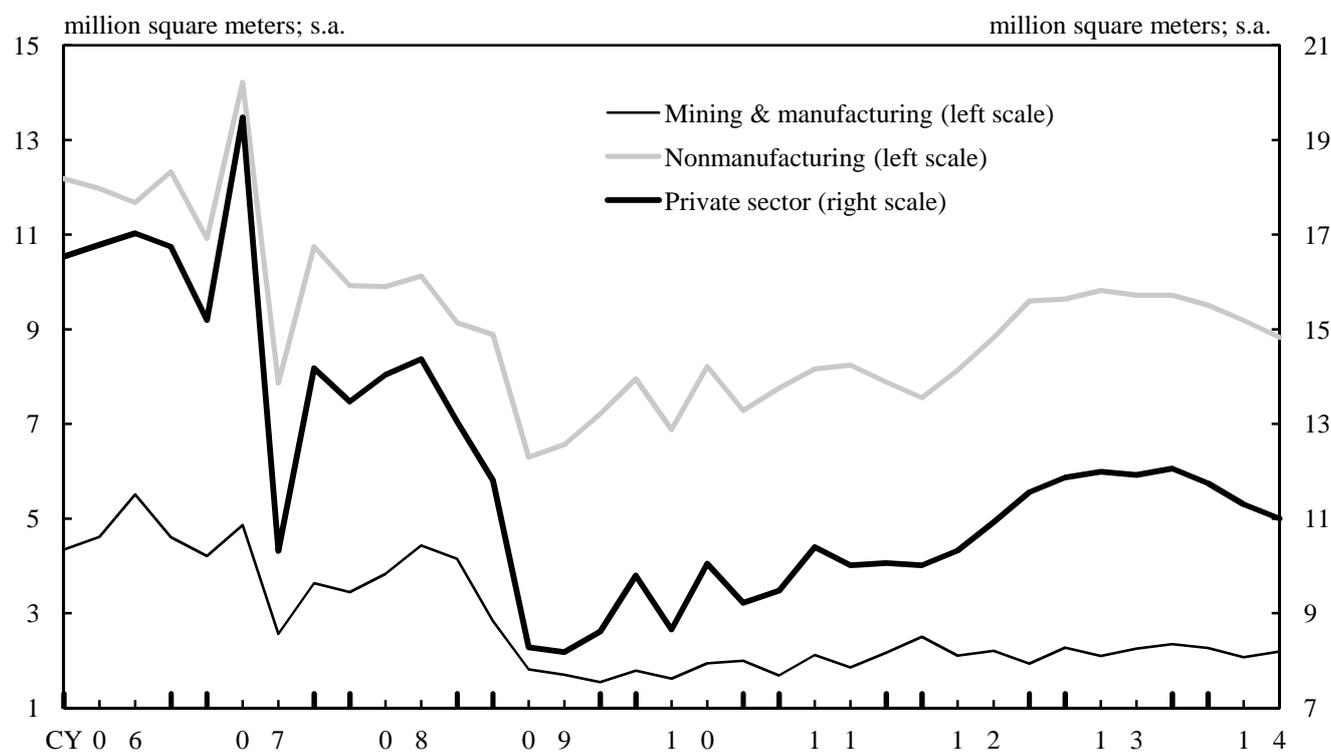
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



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

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

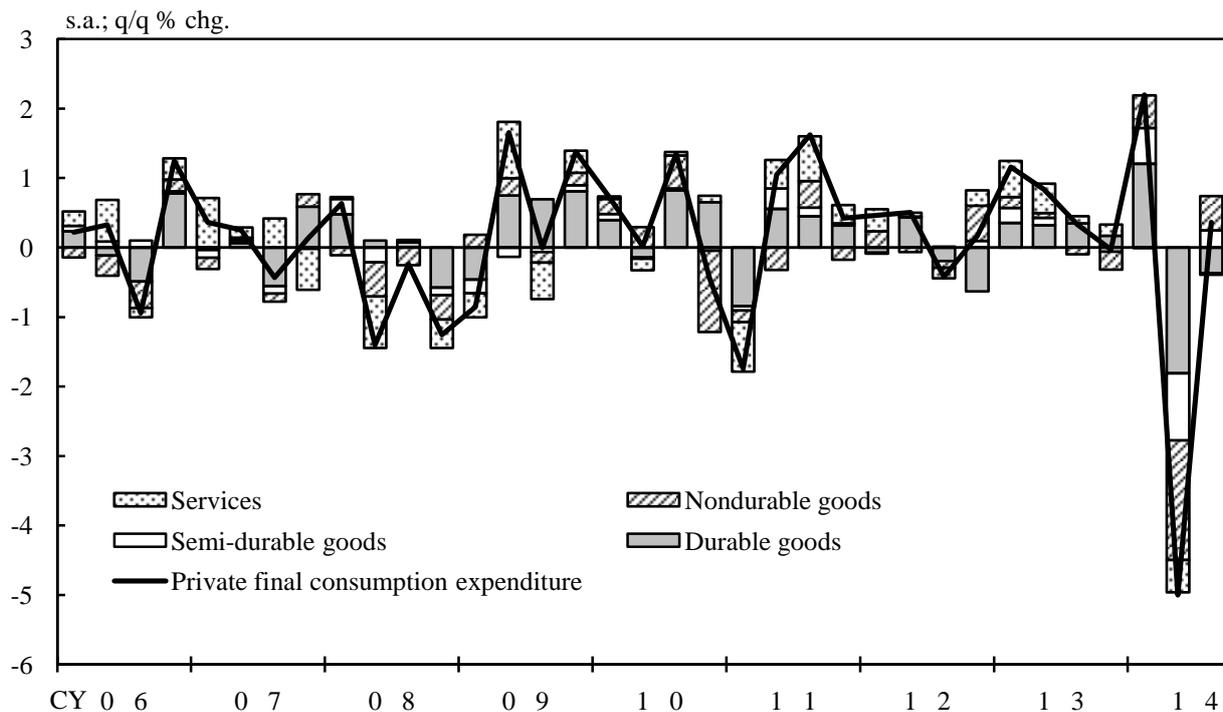


Note: Seasonally adjusted by X-12-ARIMA.

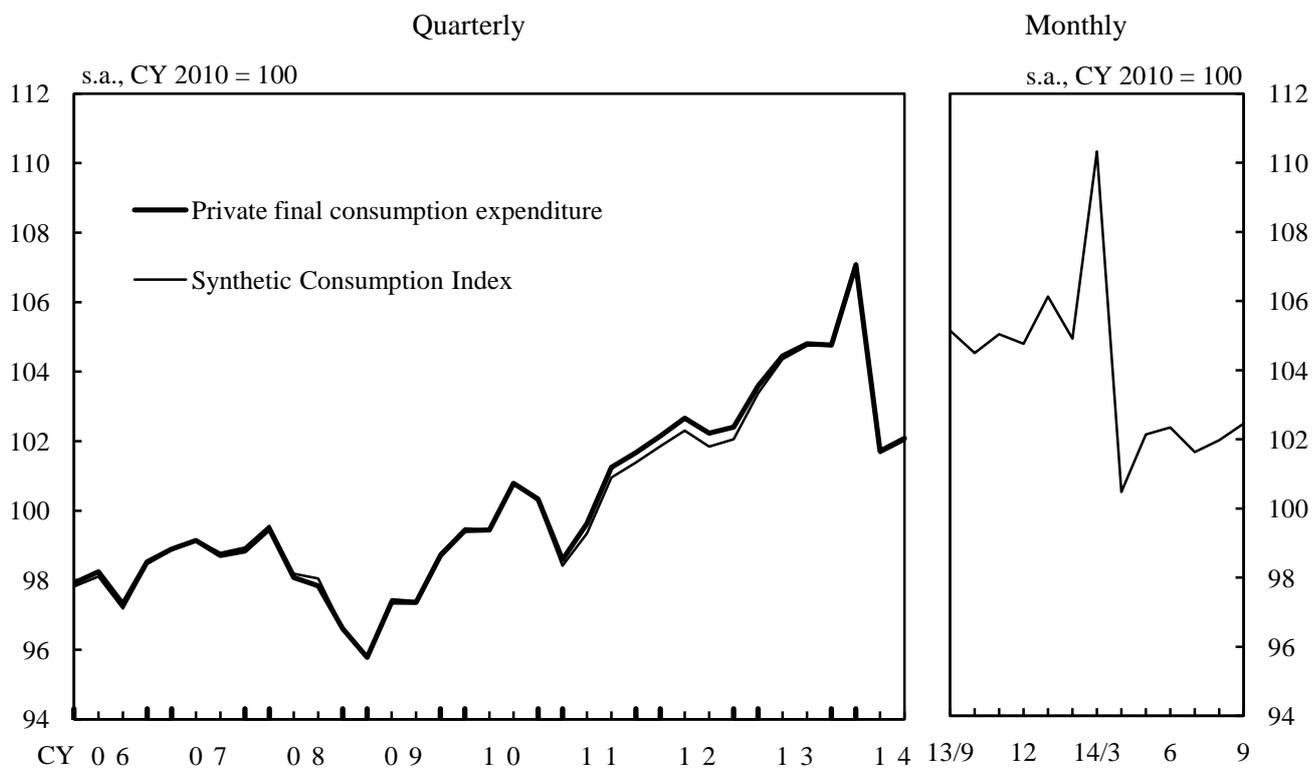
Sources: Cabinet Office, "Orders Received for Machinery";  
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



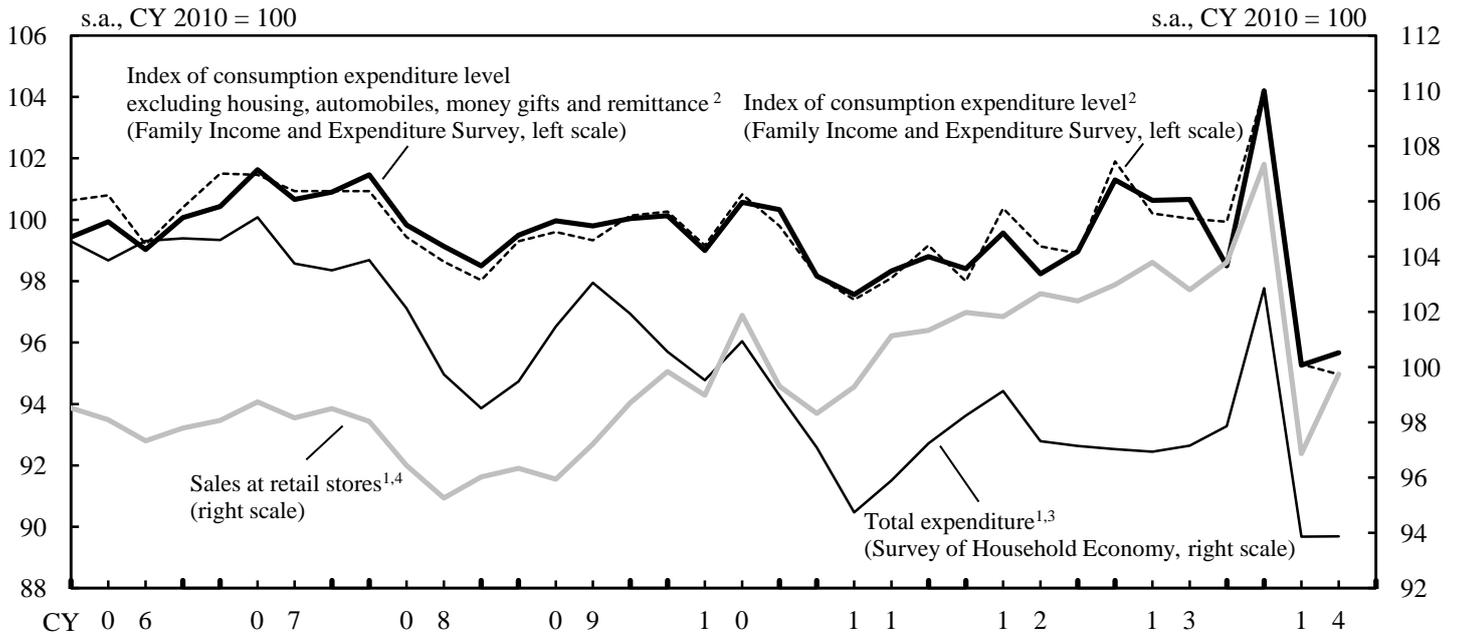
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



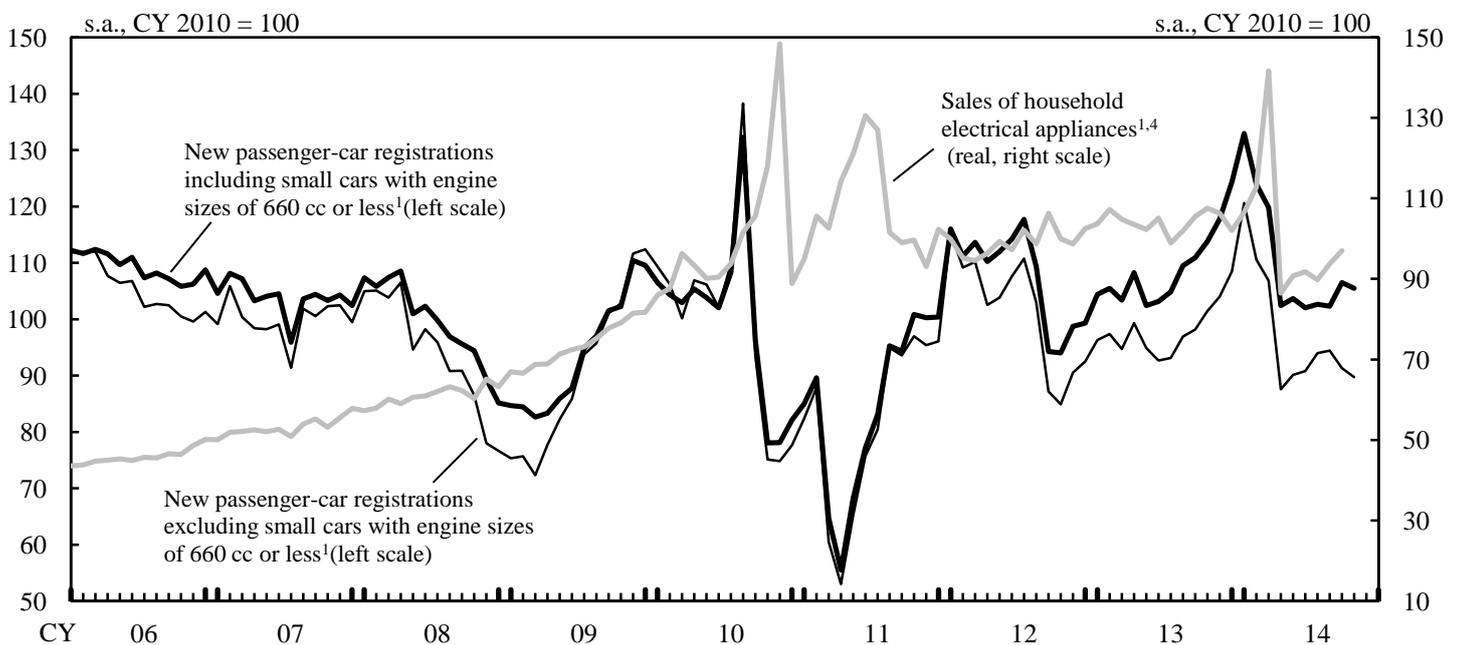
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)

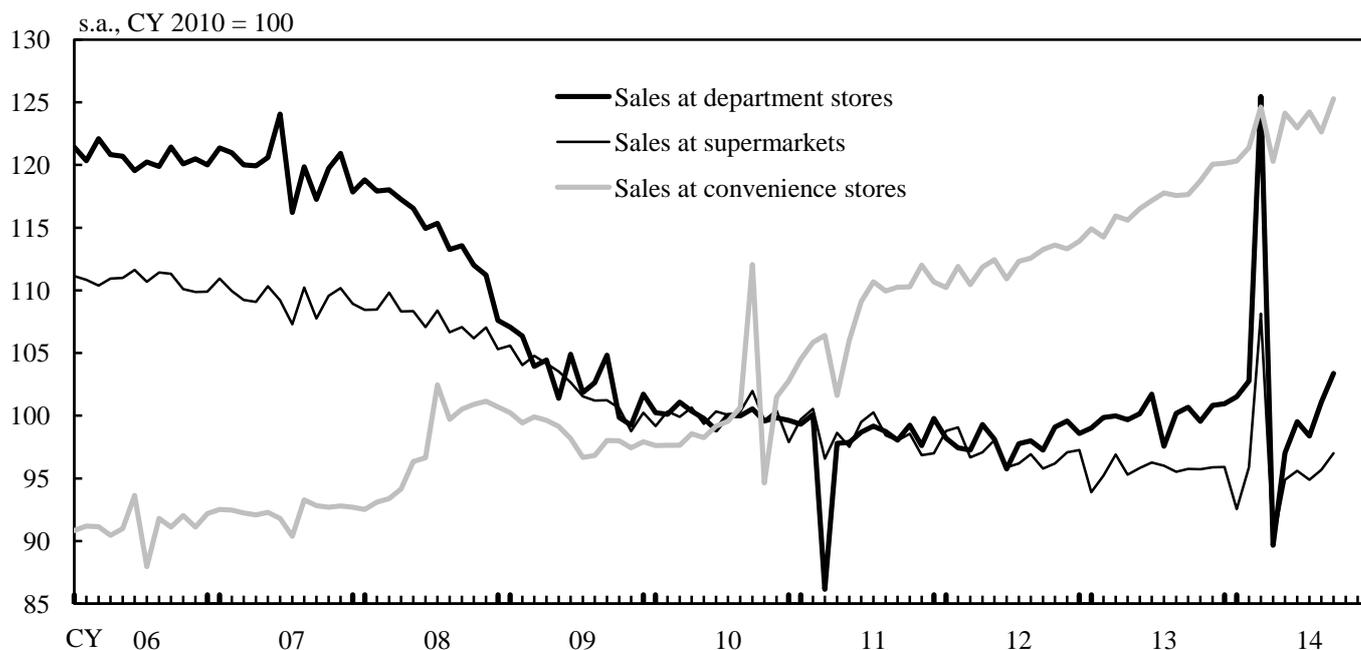


(2) Sales of Durable Goods

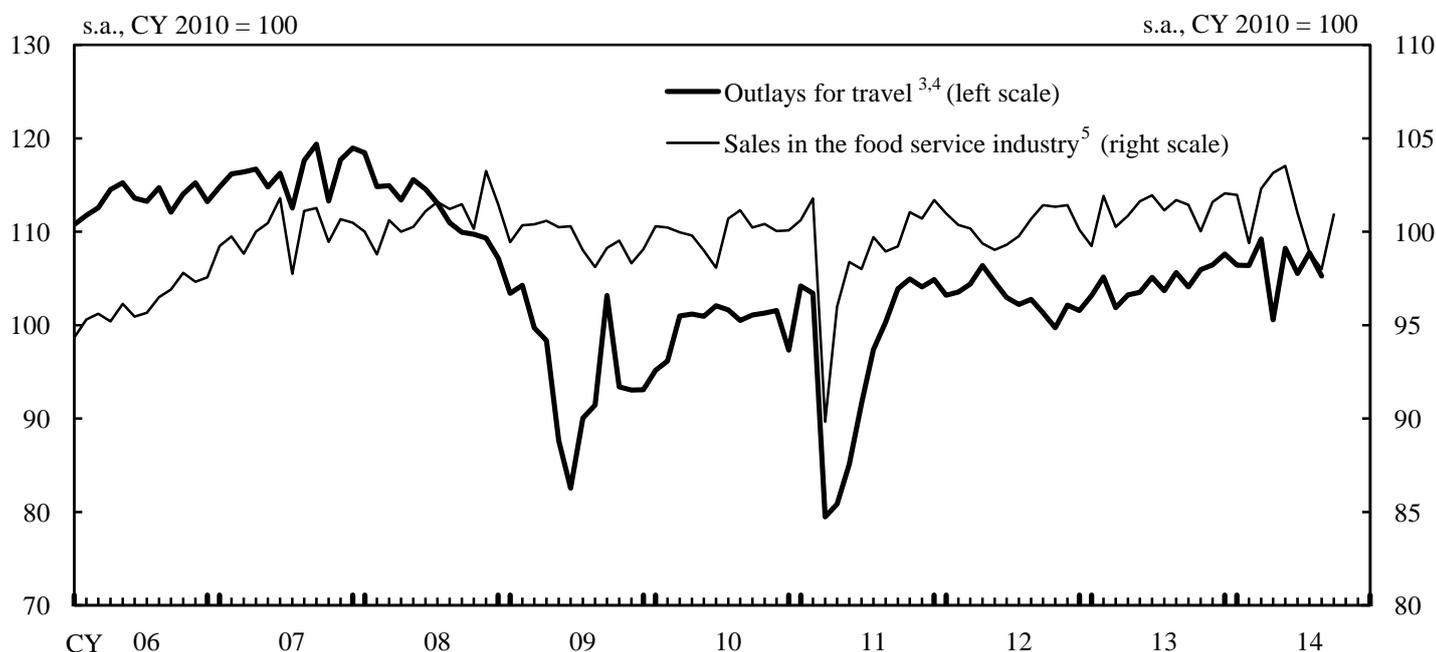


- Notes: 1. Figures for total expenditure, sales at retail stores, sales of household electrical appliances, and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Figures for index of consumption expenditure level are based on two-or-more-person households, and are adjusted using 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.

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

Indicators of Private Consumption<sup>1</sup> (3)(1) Sales at Retail Stores (Nominal)<sup>2</sup>

## (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";

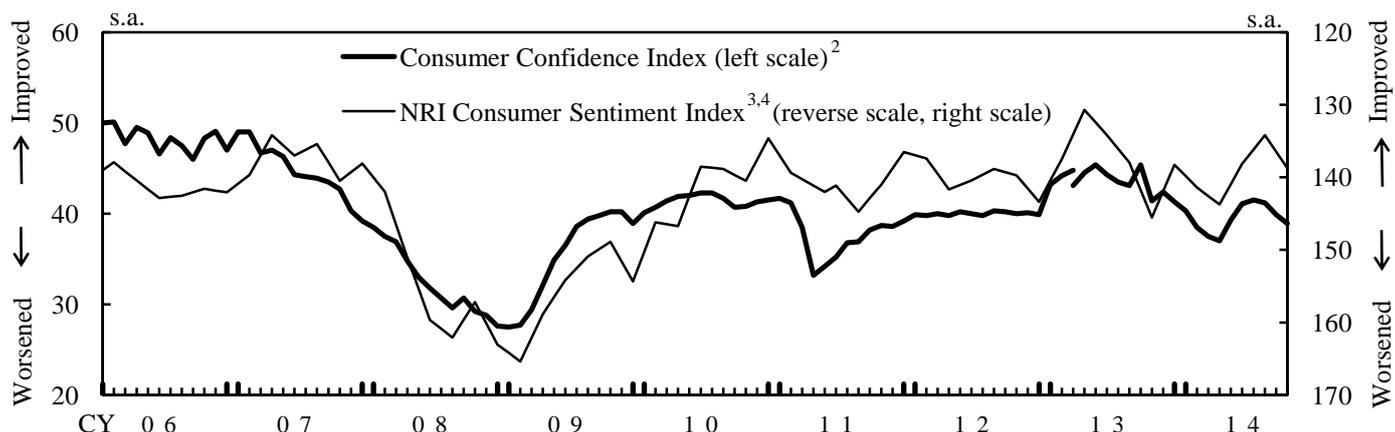
Japan Tourism Agency, "Major Travel Agents' Revenue";

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*

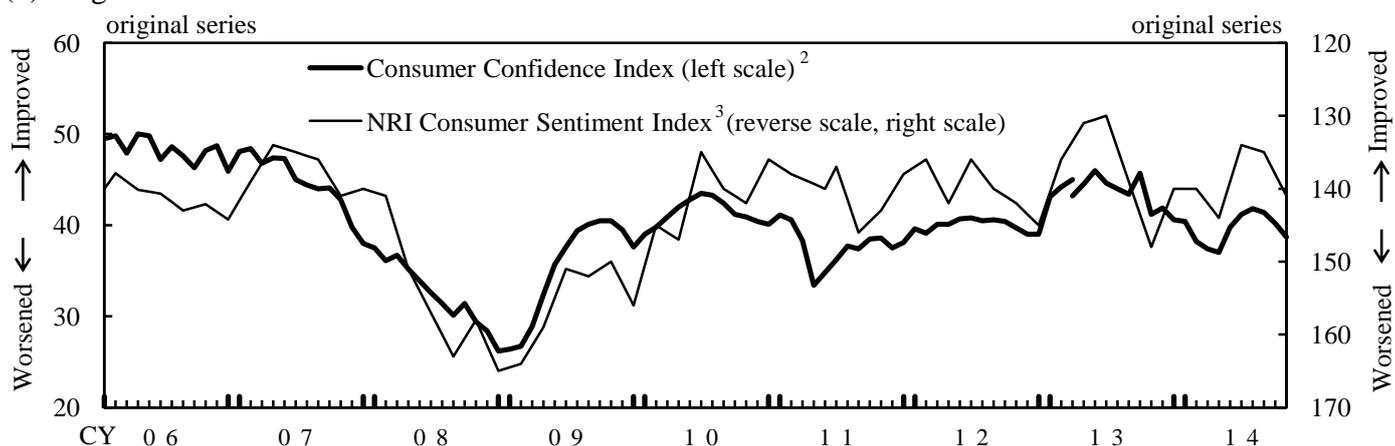
(Research on the food service industry)."

# Consumer Confidence<sup>1</sup>

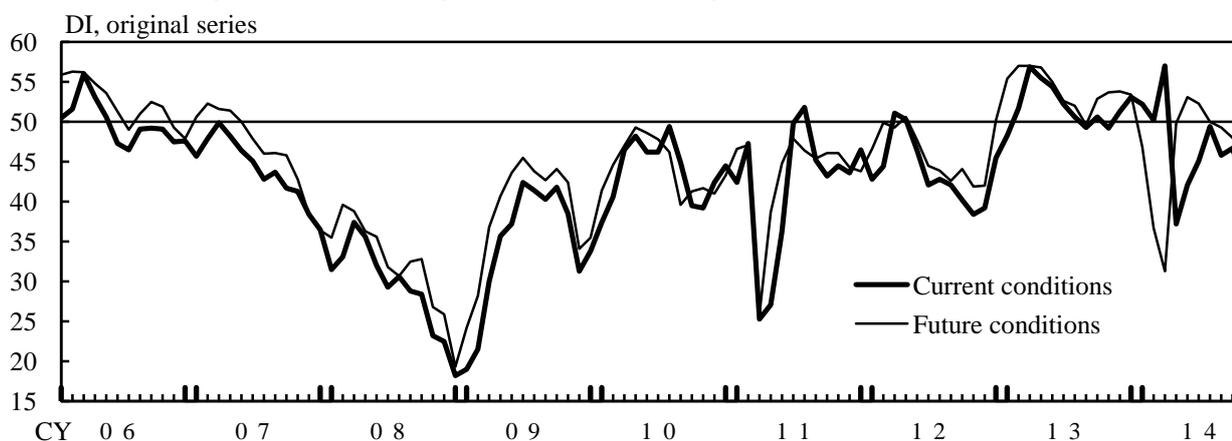
## (1) Seasonally Adjusted Series



## (2) Original Series



## Reference: Economy Watchers Survey (Household Activity)

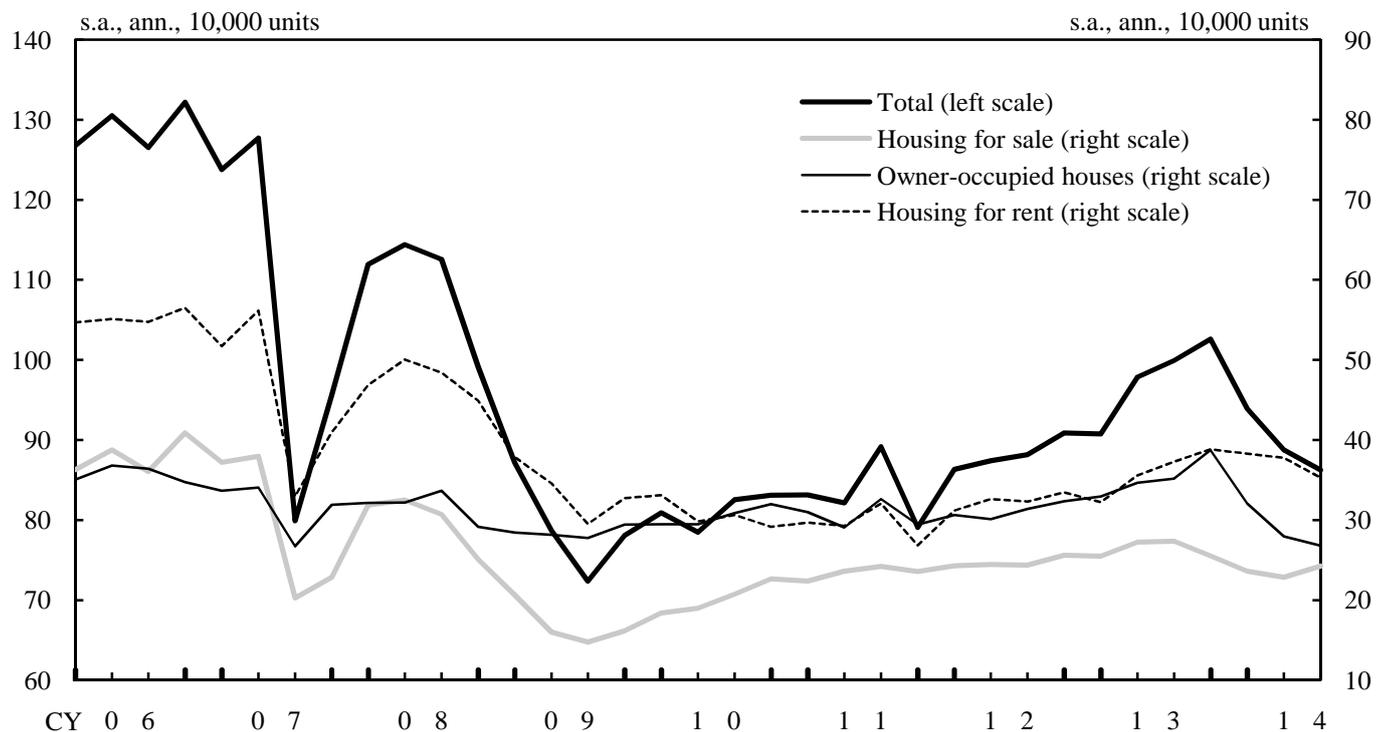


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
- 2. In April 2013, the Cabinet Office changed the method for conducting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

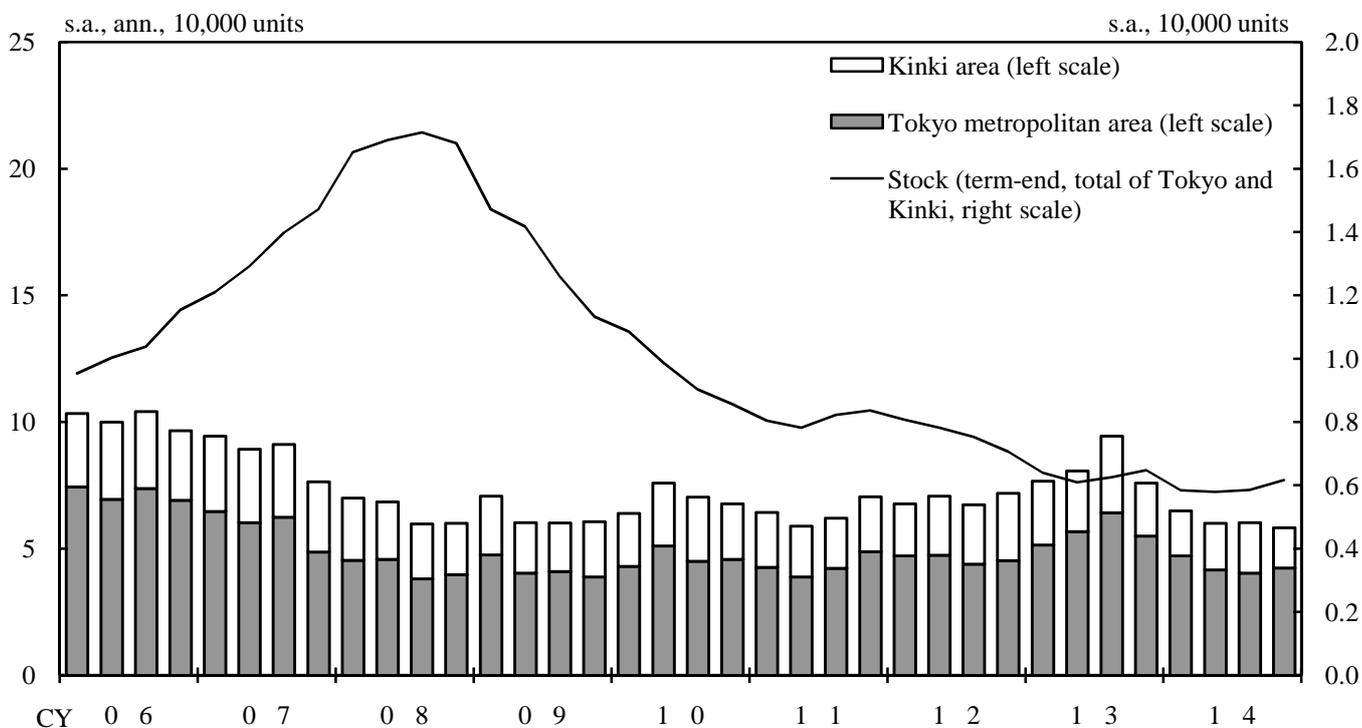
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators of Housing Investment

(1) Housing Starts



(2) Sales of Apartments

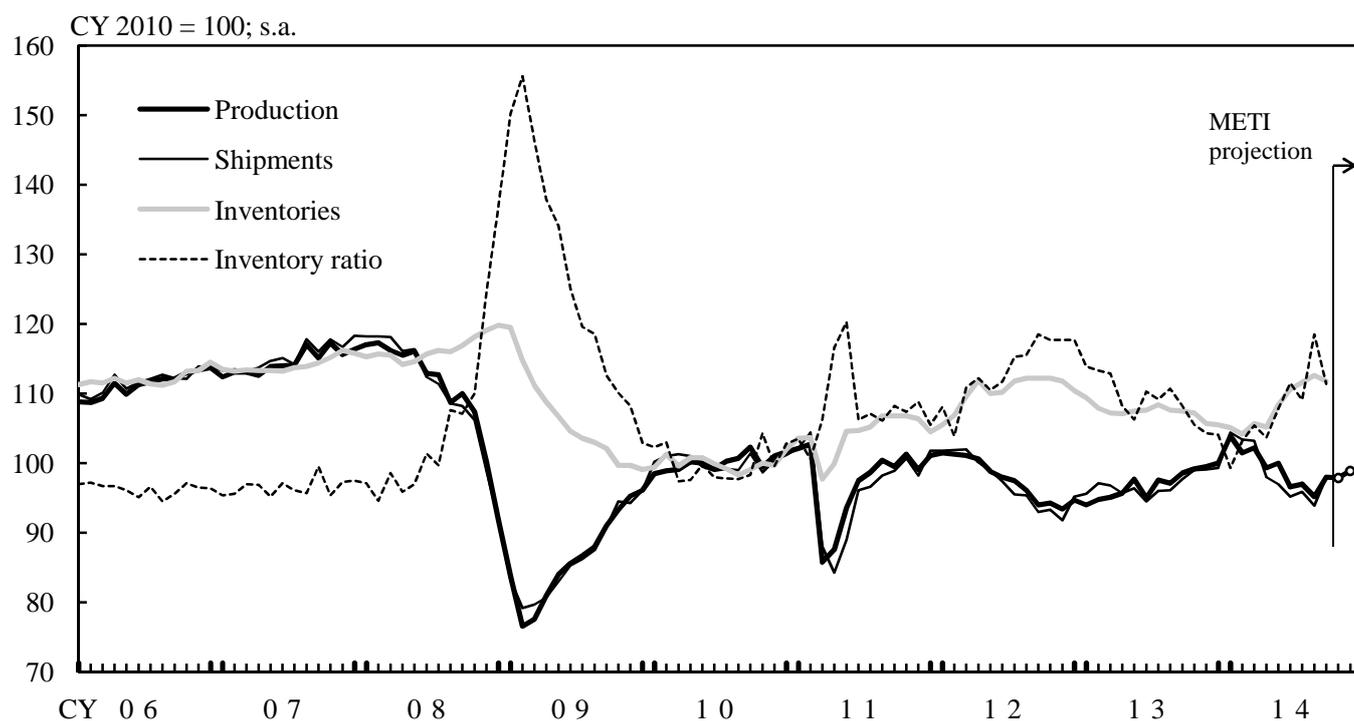


Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2014/Q4 are those of October.

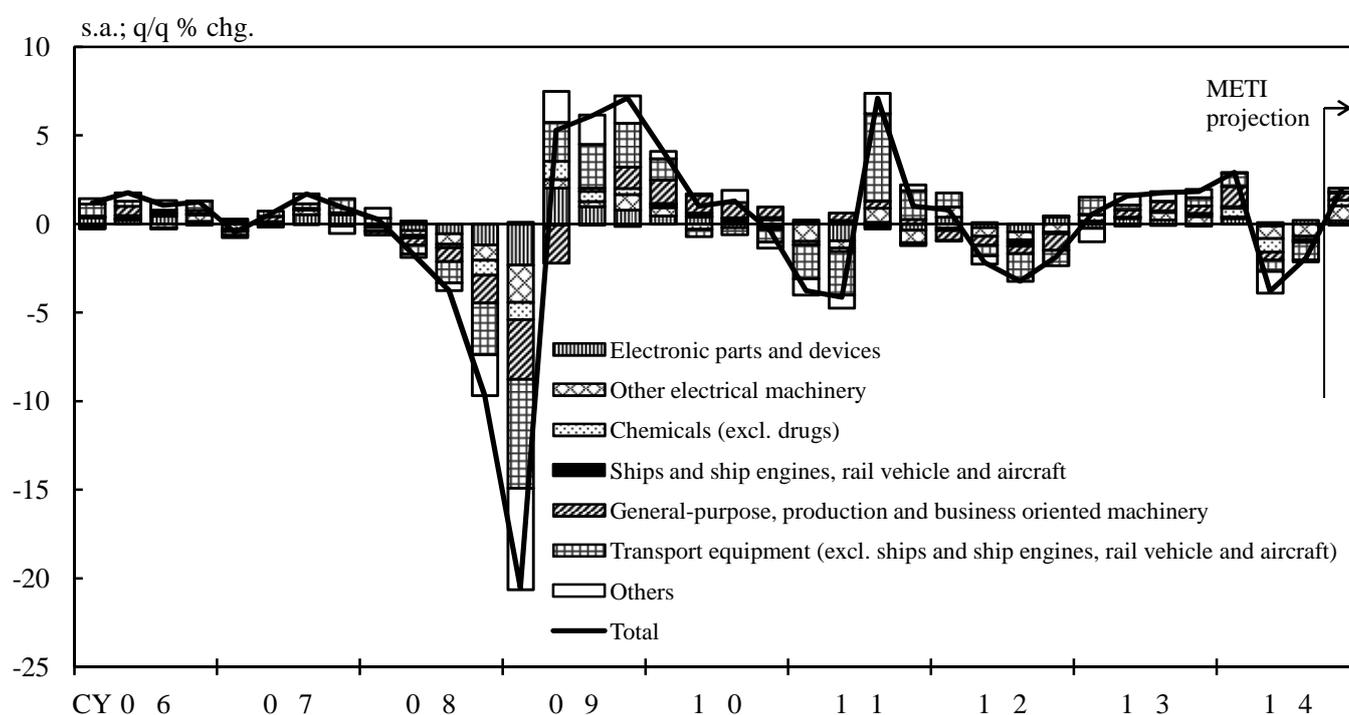
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

## Production, Shipments, and Inventories

### (1) Production, Shipments, and Inventories



### (2) Production by Industry<sup>1,2,3</sup>



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.

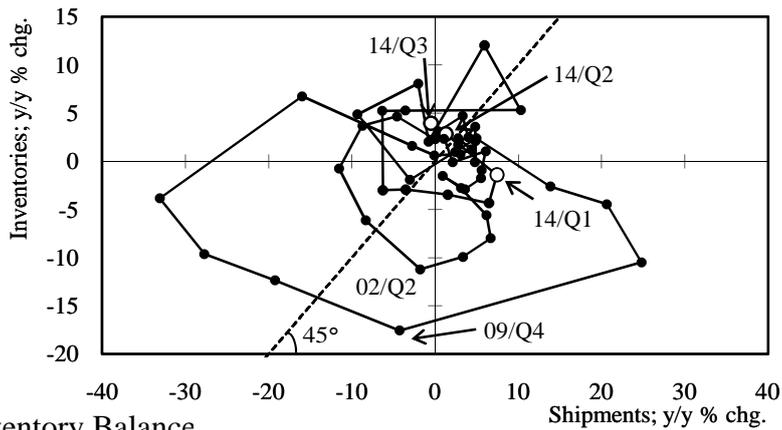
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."

3. 2014/Q4 figures are based on the assumption that the production levels in December are the same as those of November.

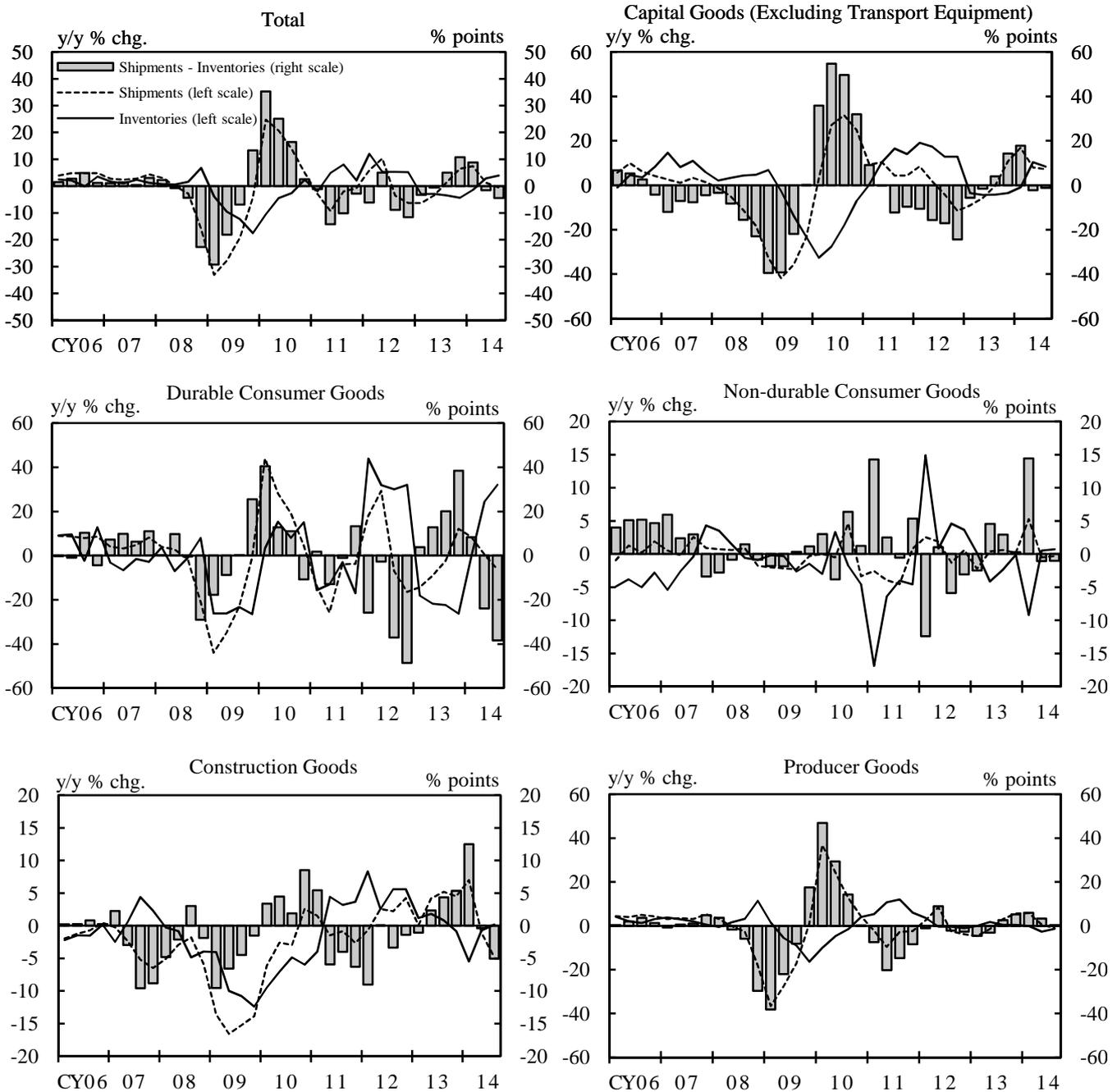
Source: Ministry of Economy, Trade and Industry (METI), "Indices of Industrial Production."

Inventory Cycle

(1) Inventory Cycle (Total)



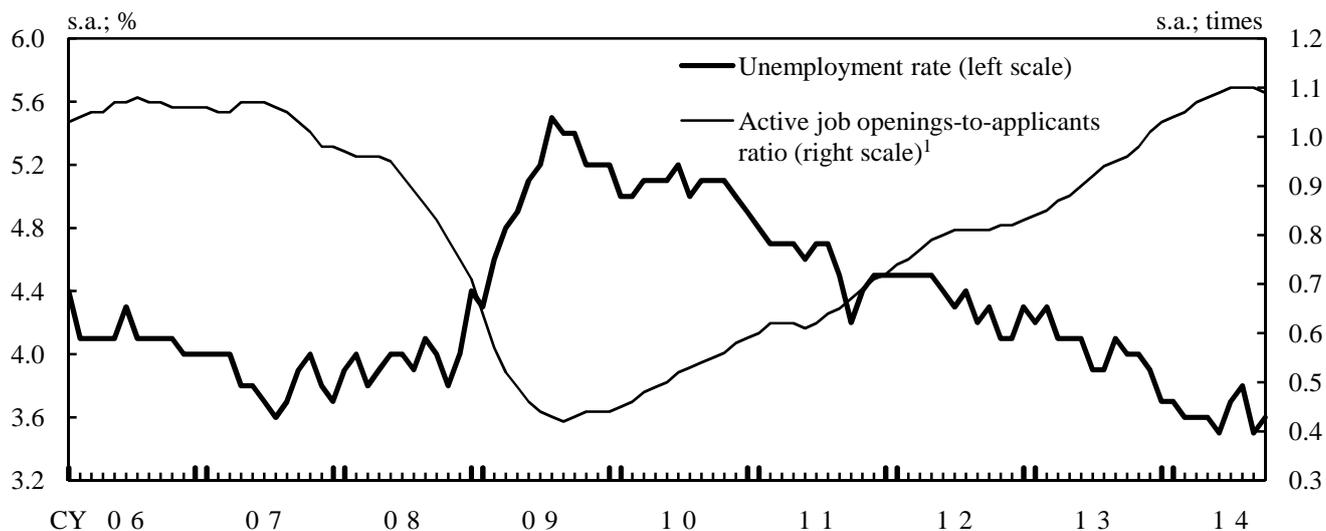
(2) Shipment-Inventory Balance



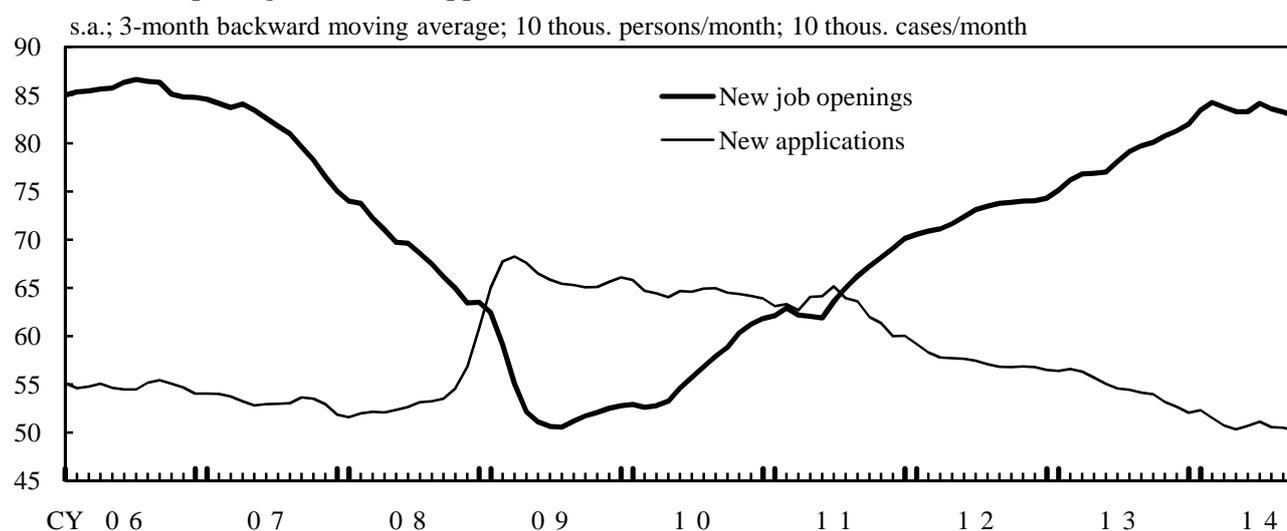
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

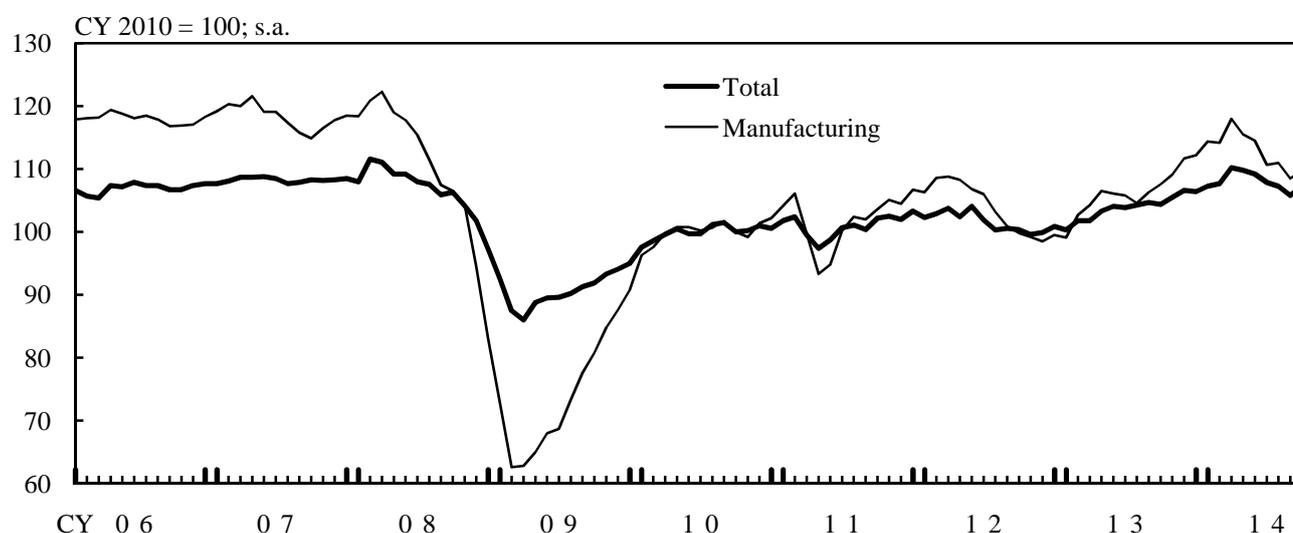
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



(2) New Job Openings and New Applications<sup>1</sup>



(3) Non-Scheduled Hours Worked<sup>2</sup>

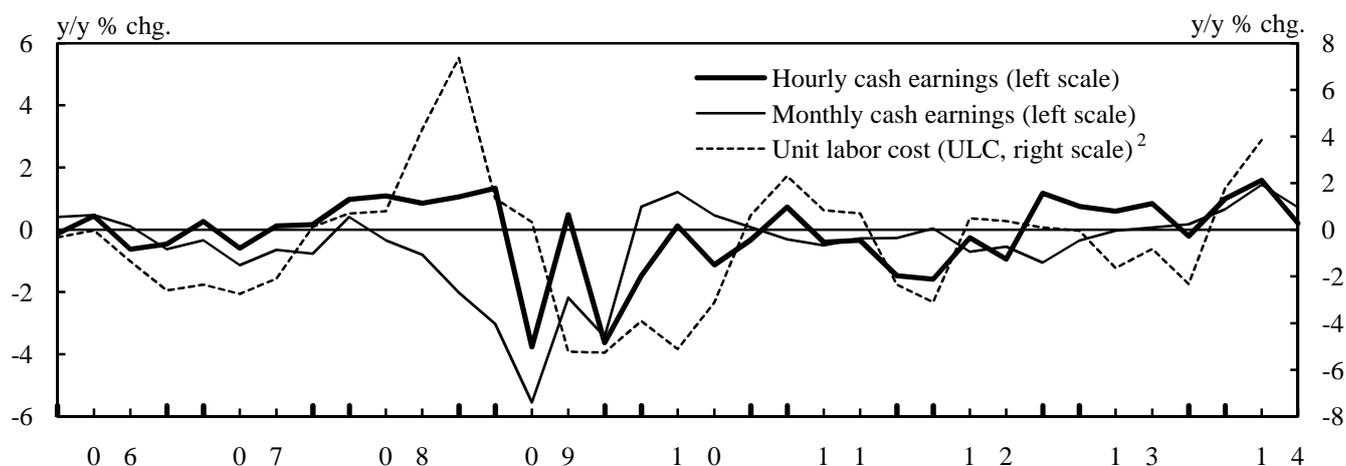
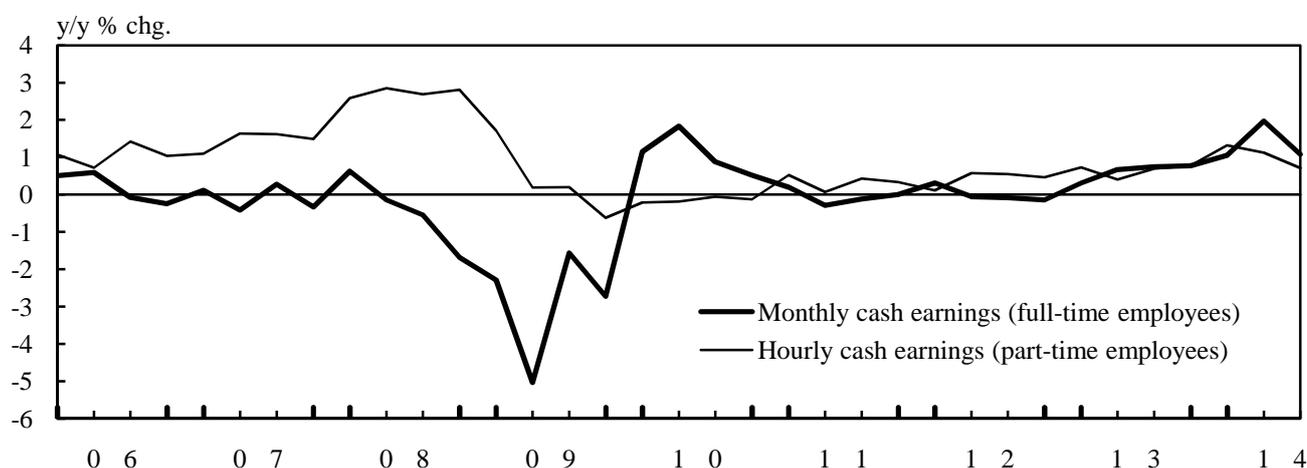
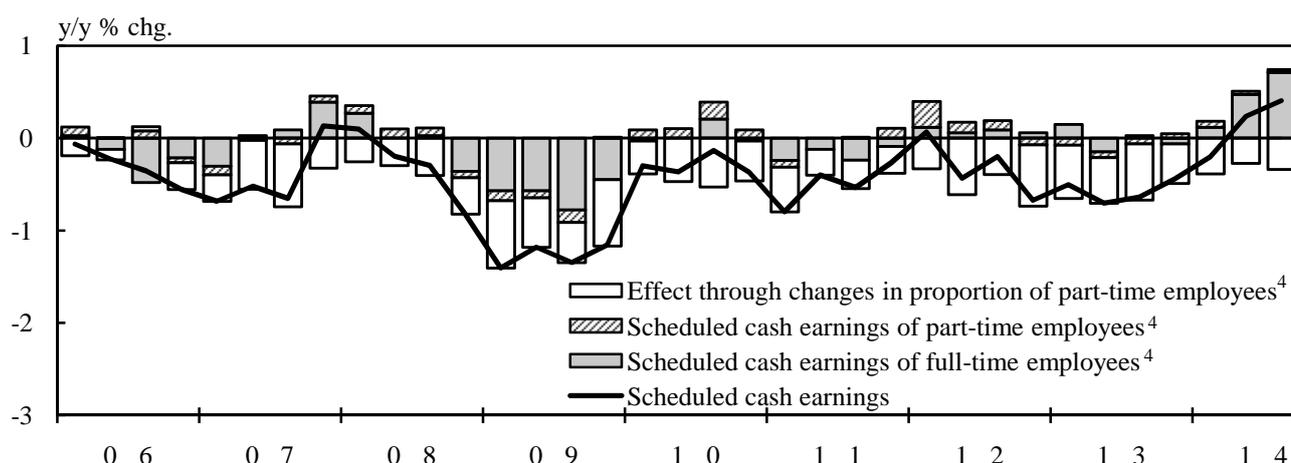


Notes: 1. Excluding new school graduates and including part-timers.

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

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

## Wages

(1) Total<sup>1,3</sup>(2) Cash Earnings by Type of Worker<sup>1,3</sup>(3) Breakdown of Scheduled Cash Earnings<sup>1,3</sup>

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

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

3. Figures for 2014/Q3 are those of September (except ULC).

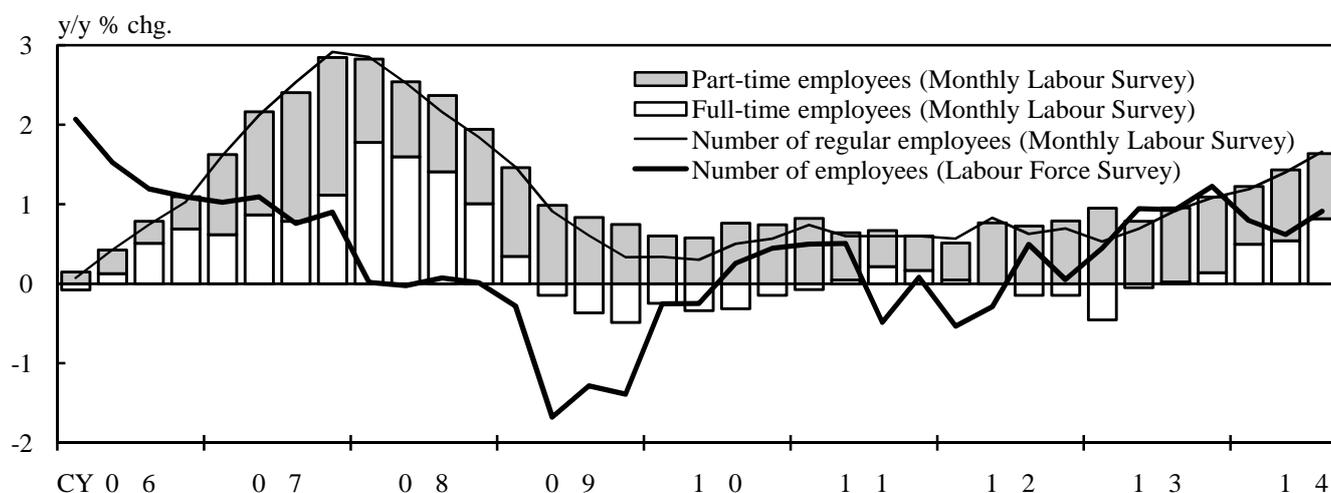
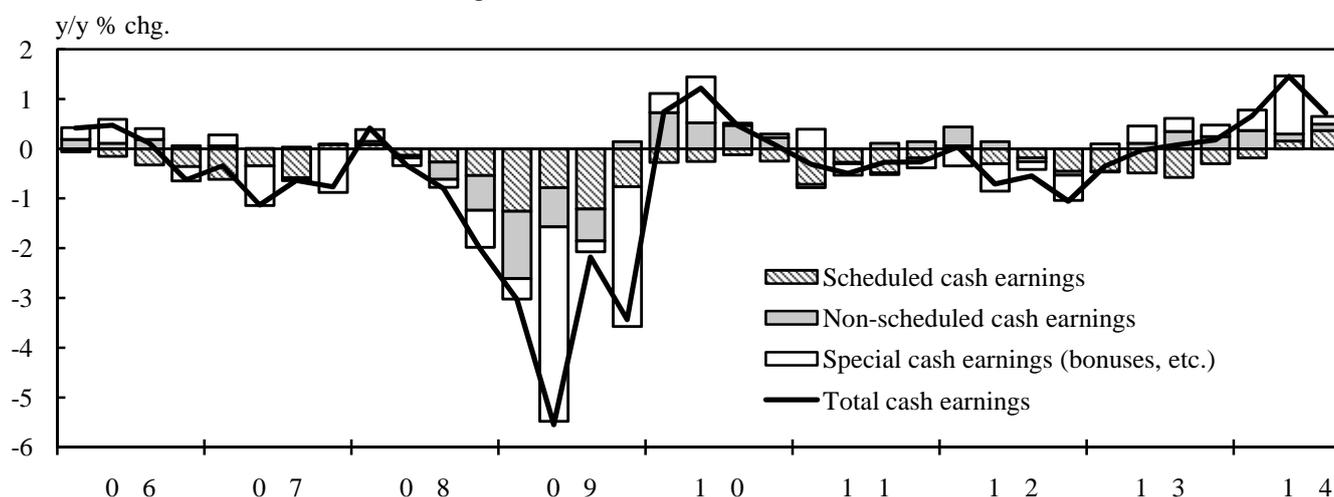
Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

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

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

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

## Employee Income

(1) Number of Employees<sup>1</sup>(2) Breakdown of Total Cash Earnings<sup>1,2</sup>(3) Breakdown of Employee Income<sup>1,2</sup>

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

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

Figures for 2014/Q3 are those of September.

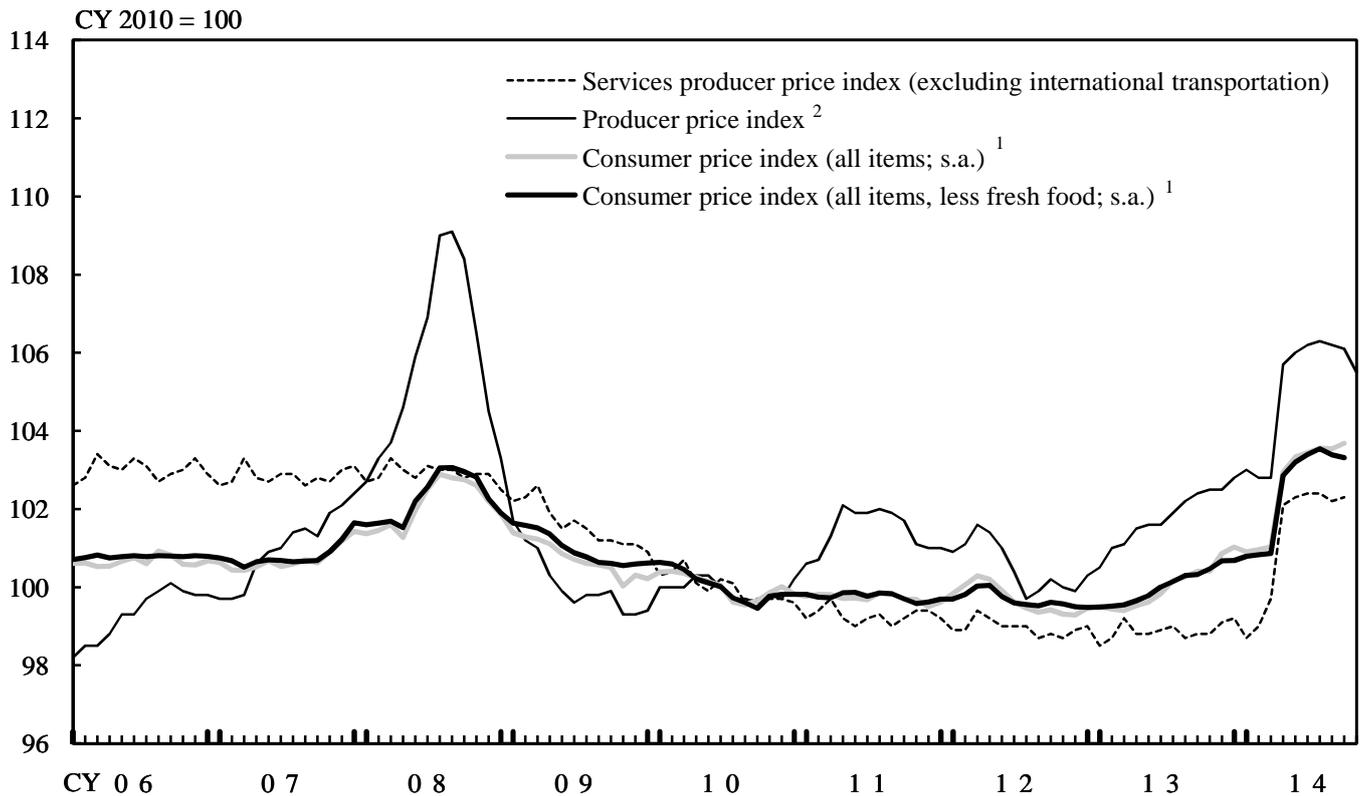
3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).

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

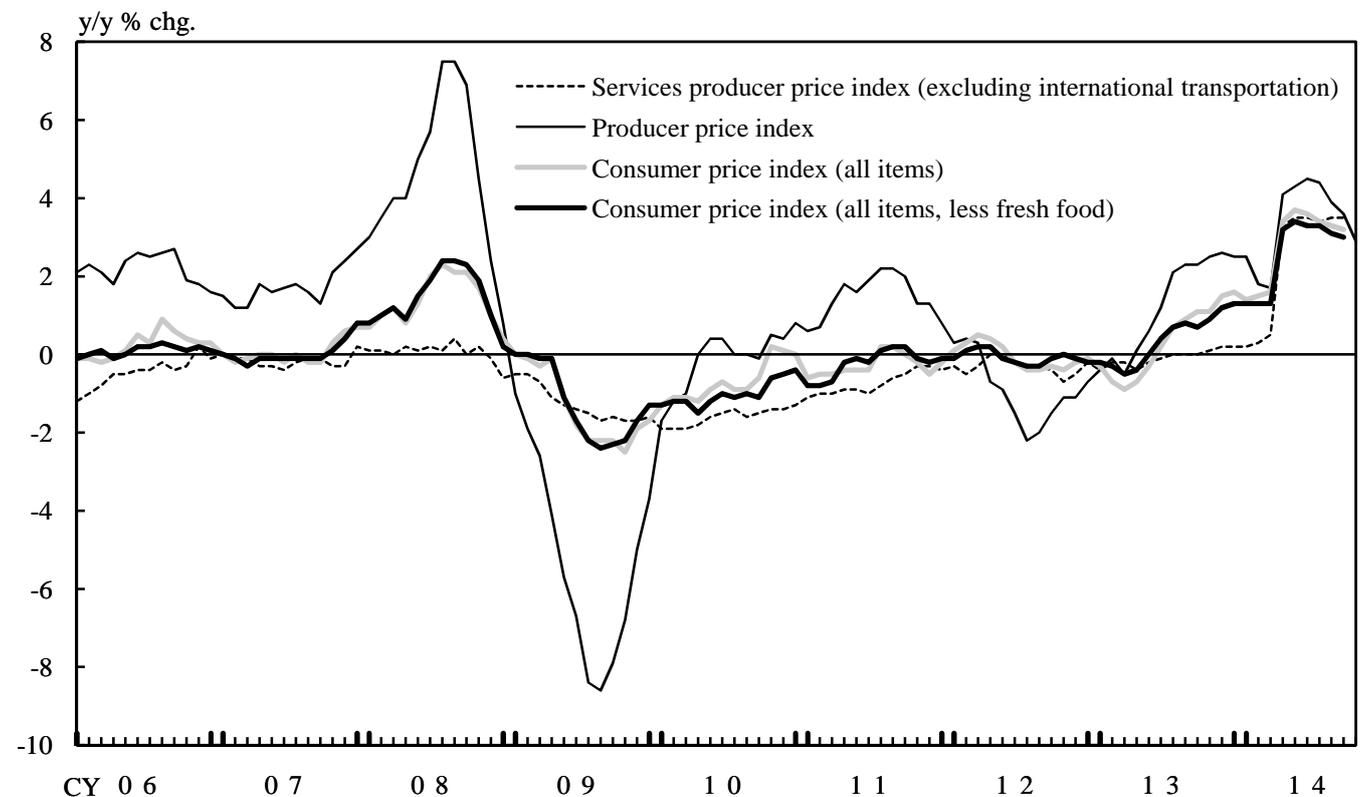
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

## Prices

## (1) Level



## (2) Changes from a Year Earlier



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

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

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

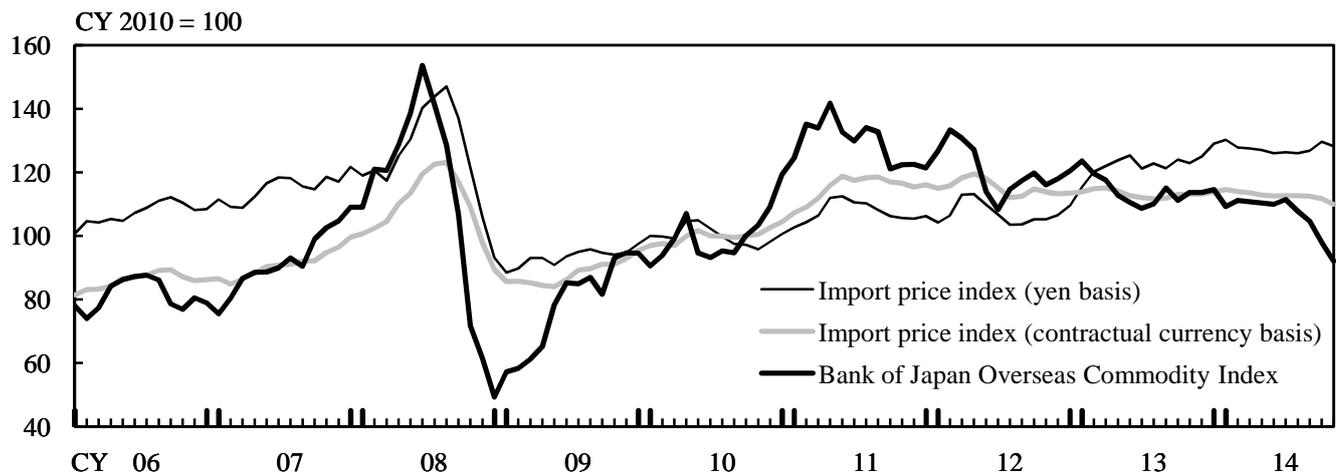
4. Figures of "Services Producer Price Index" and "Producer Price Index" up to 2009 are based on the linked indices.

5. Figures include the consumption tax.

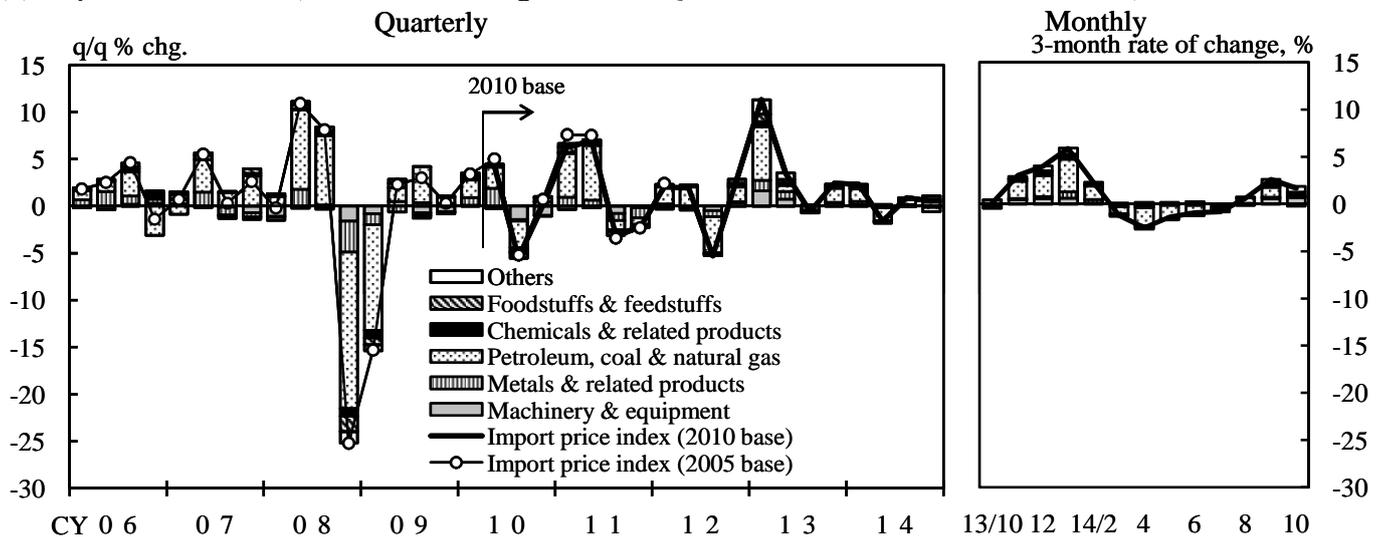
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

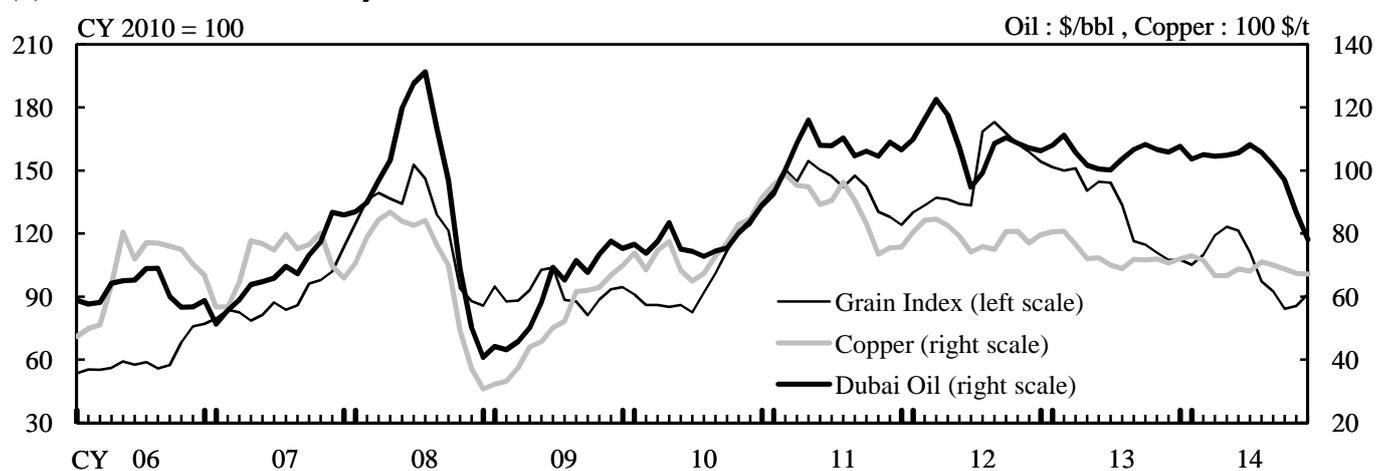


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.  
 2. Figures for 2014/Q4 are those of October.

(3) International Commodity Prices

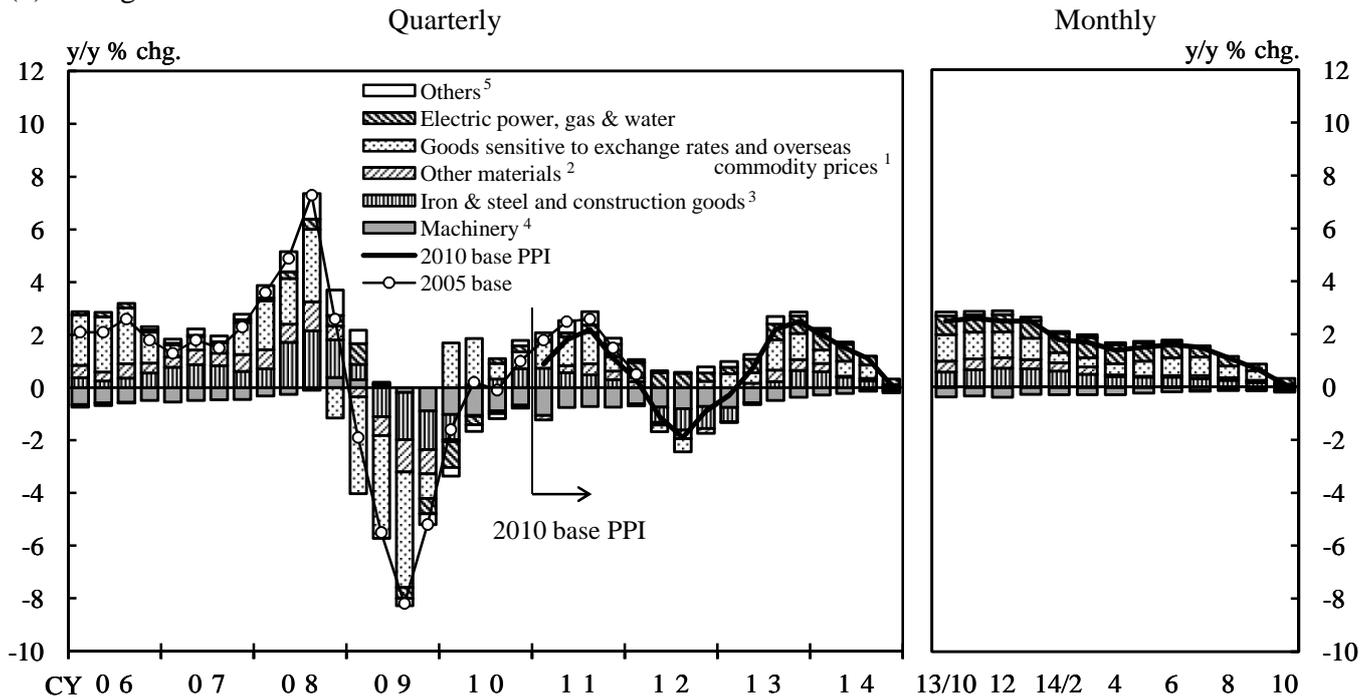


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."  
 2. Monthly averages. Figures for November 2014 are averages up to November 18.

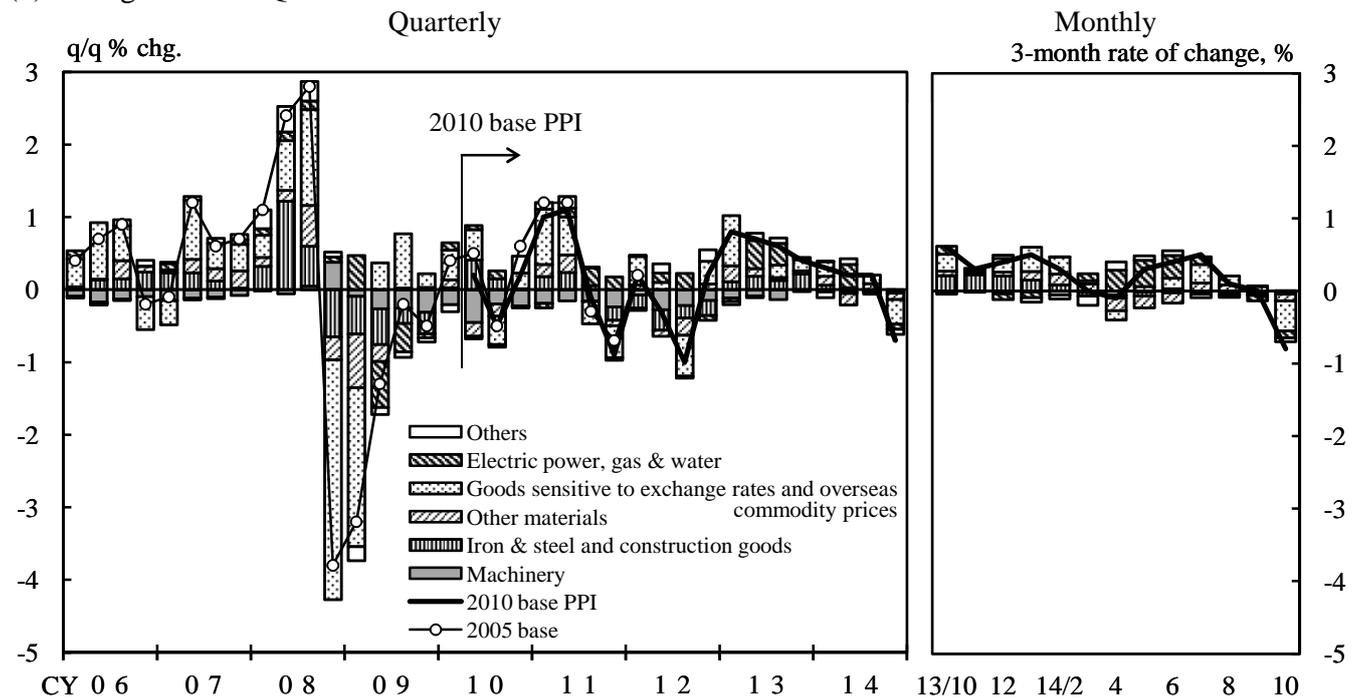
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



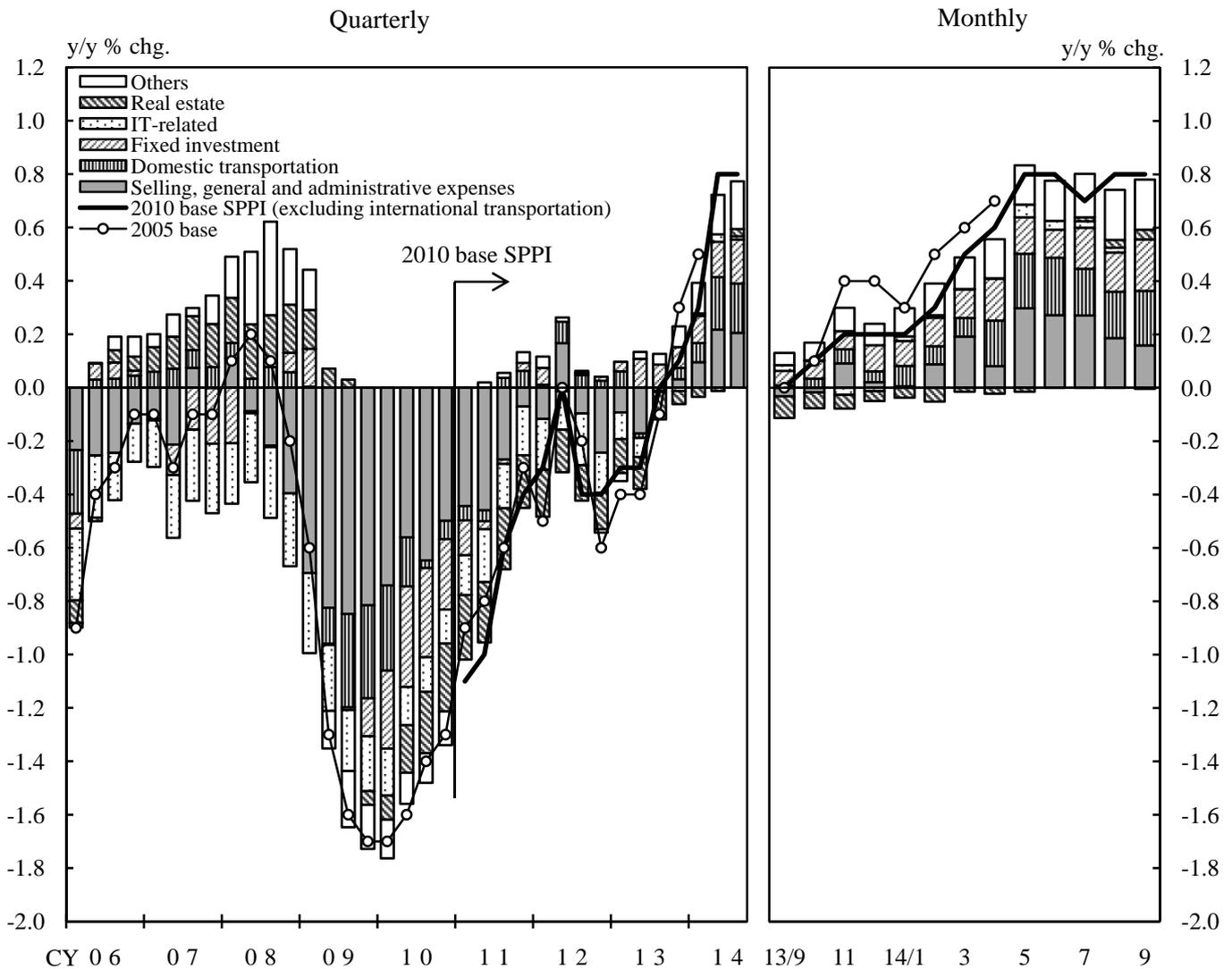
(2) Changes from a Quarter Earlier and 3 Months Earlier<sup>6</sup>



- 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/Q4 are those of October.

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

## Services Producer Price Index

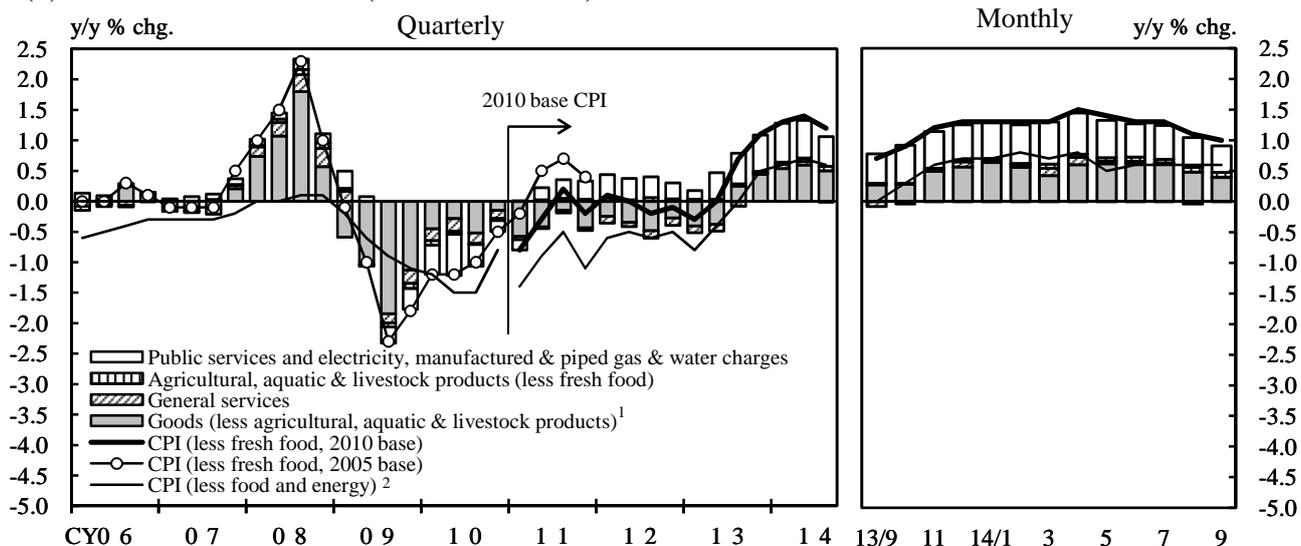


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).  
 2. Domestic transportation: transportation and postal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

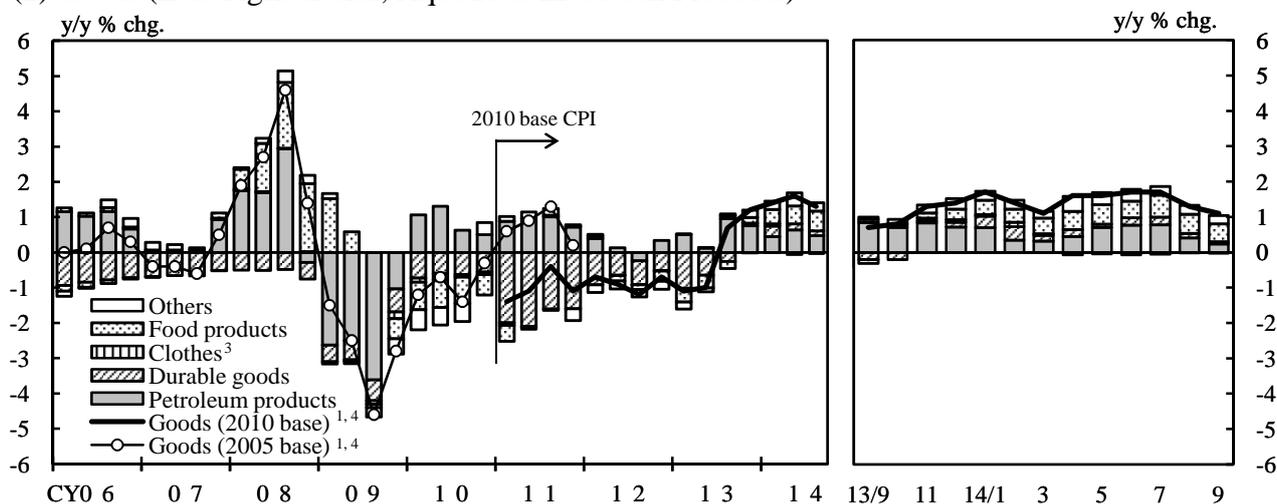
Source: Bank of Japan, "Services Producer Price Index."

# Consumer Price Index (Less Fresh Food)

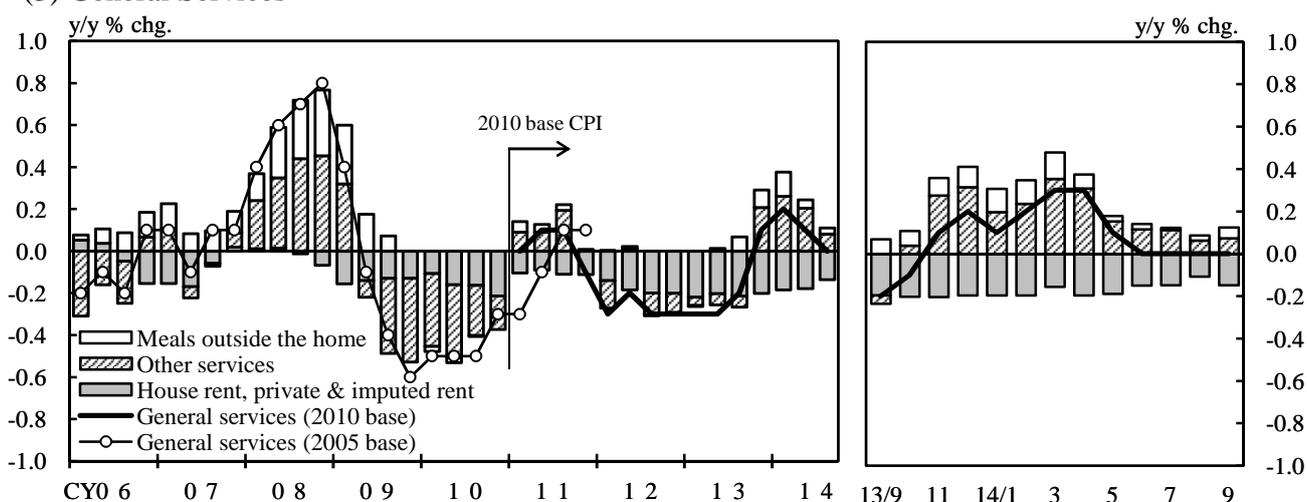
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

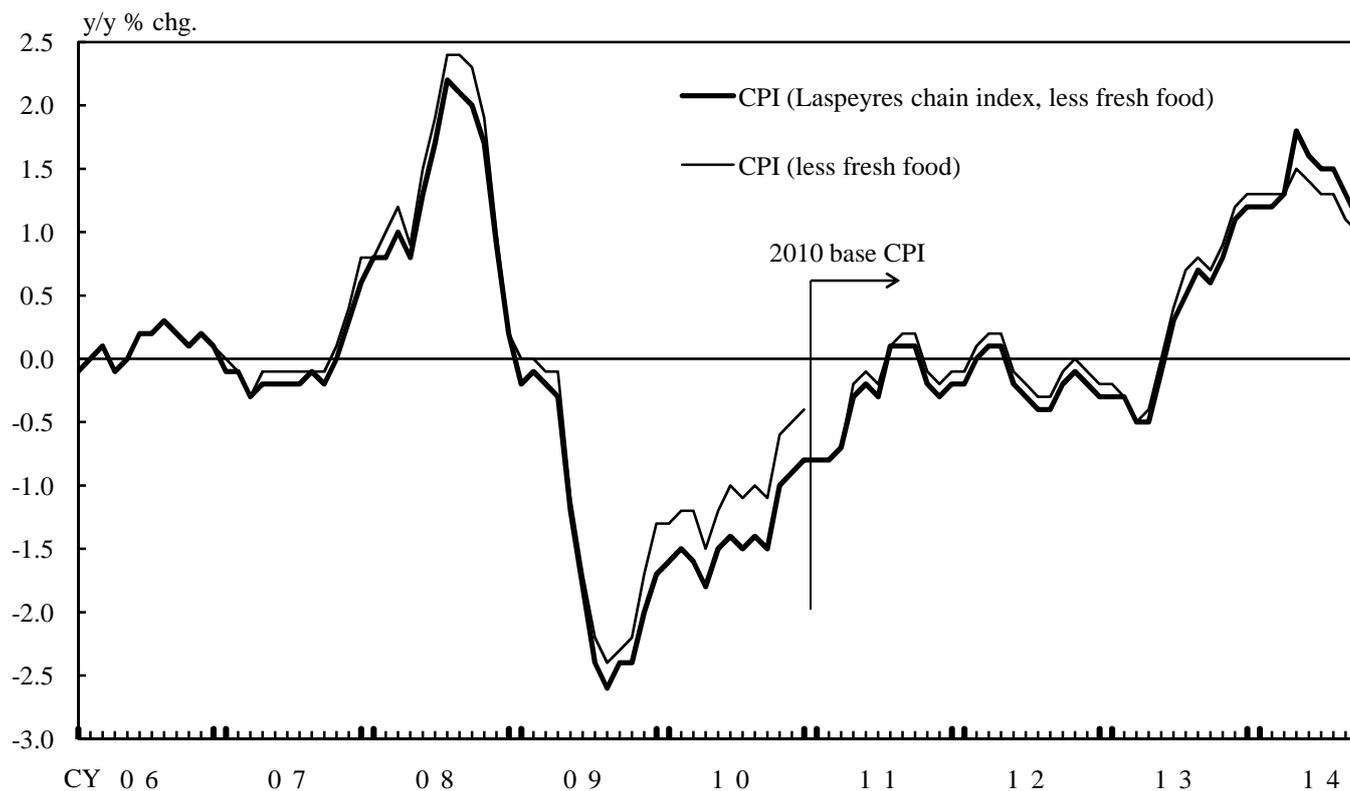


- Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.  
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped,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

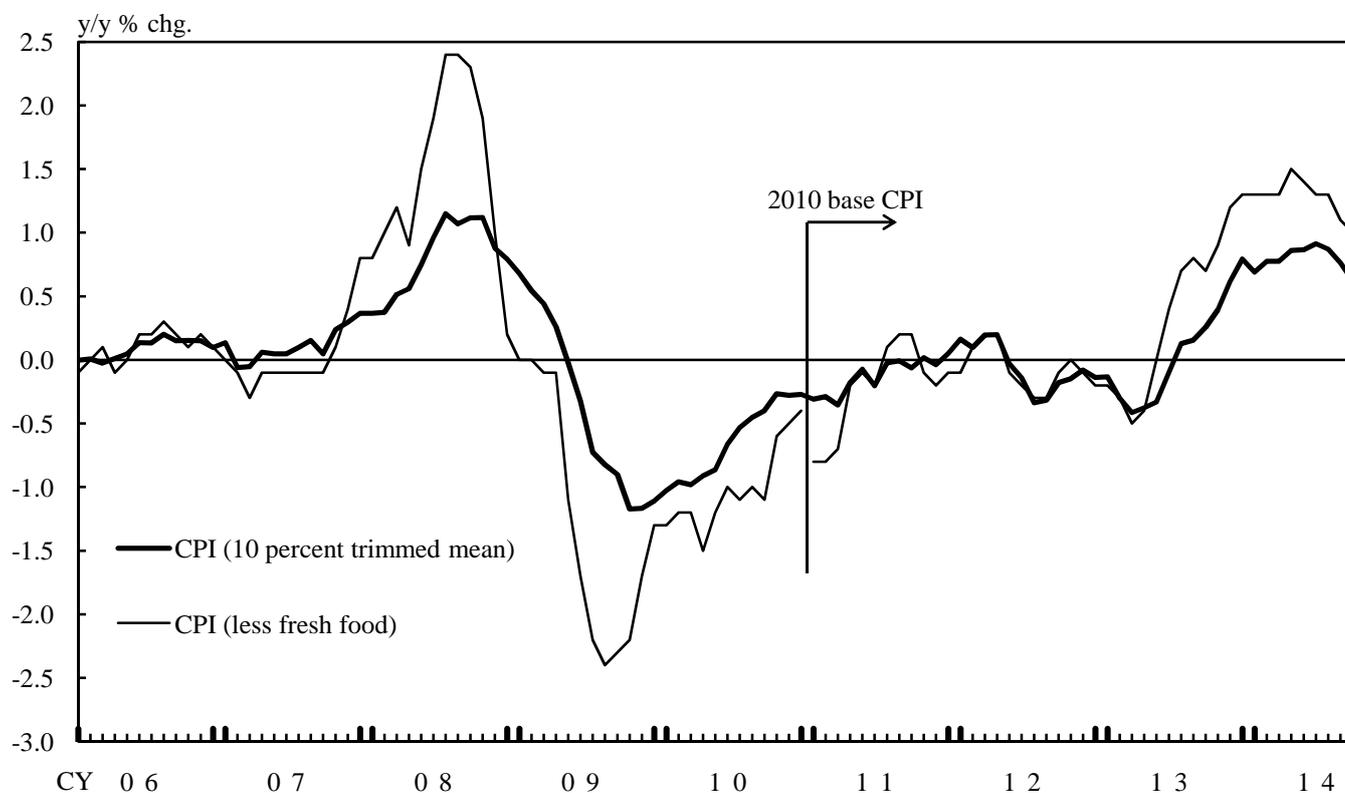
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

## 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.

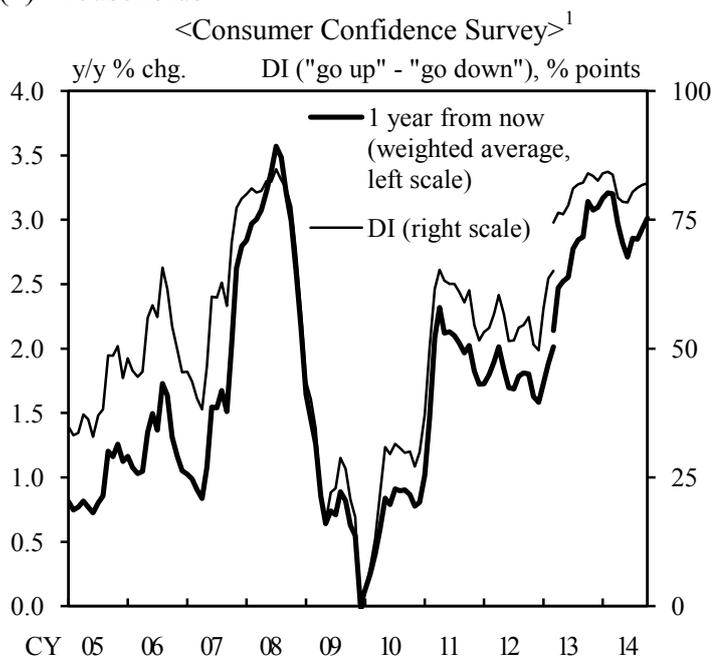
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.

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

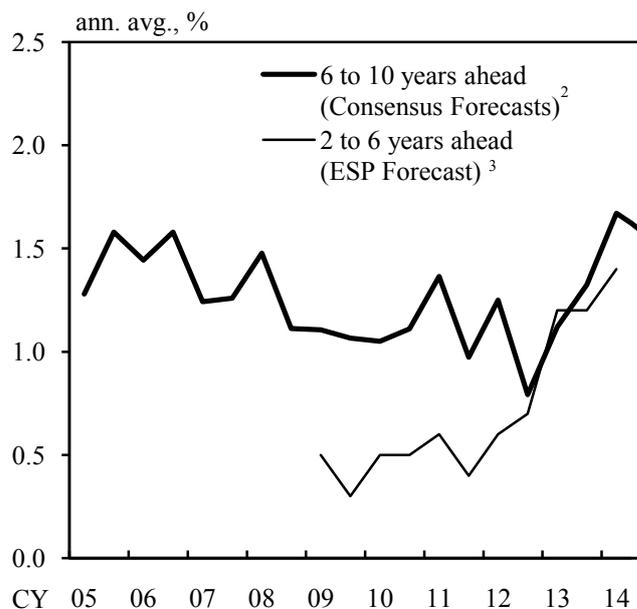
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

## Inflation Expectations

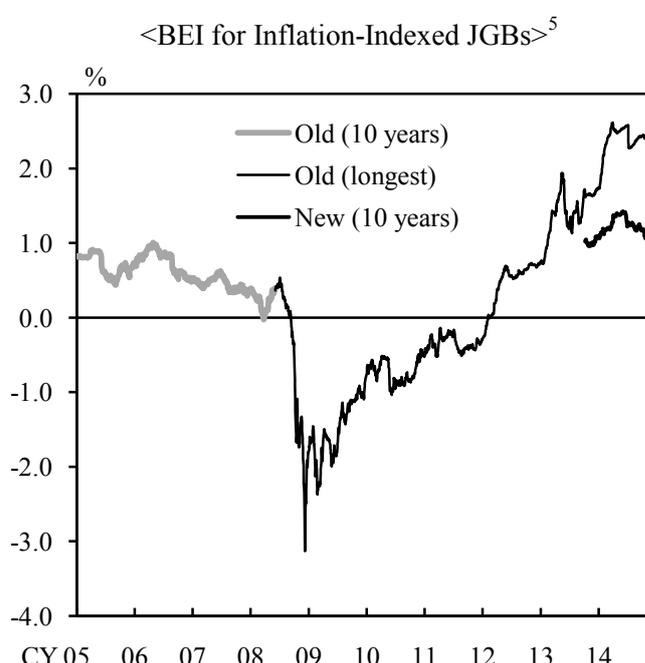
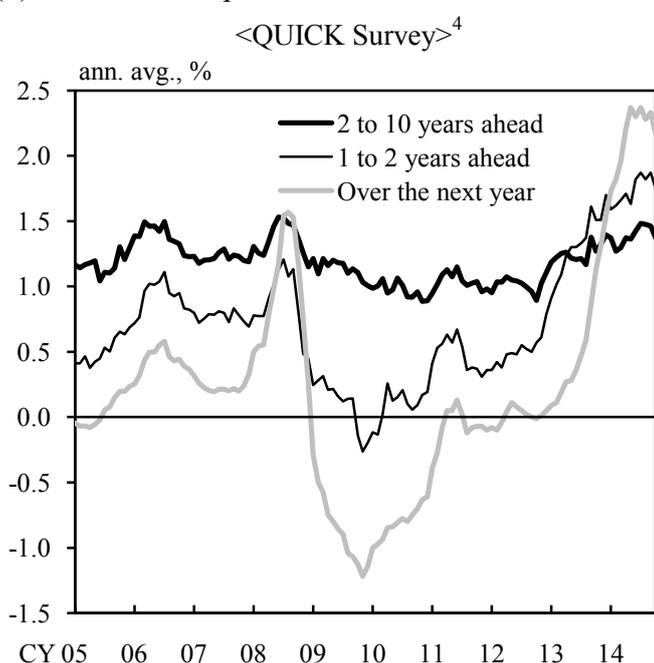
## (1) Households



## (2) Economists



## (3) Market Participants

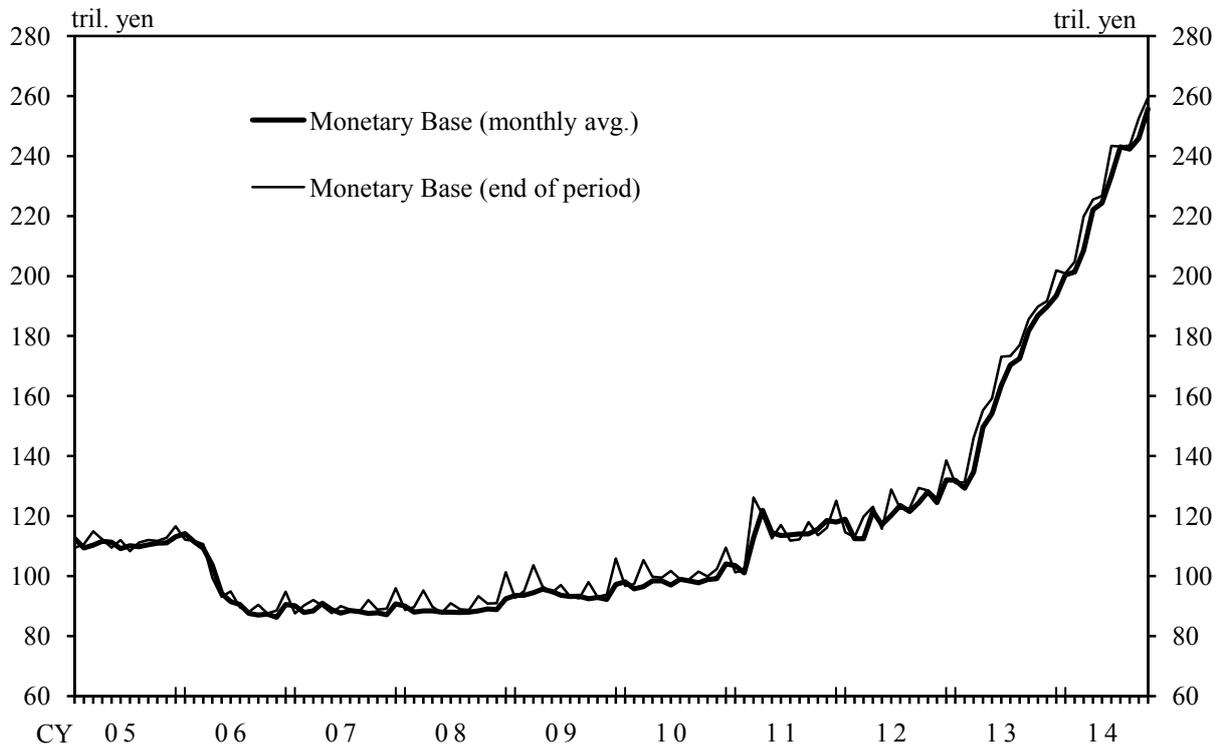


- Notes: 1. The Consumer Confidence Survey asks households to provide their price expectations one year from now. Figures are for all households. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below,"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

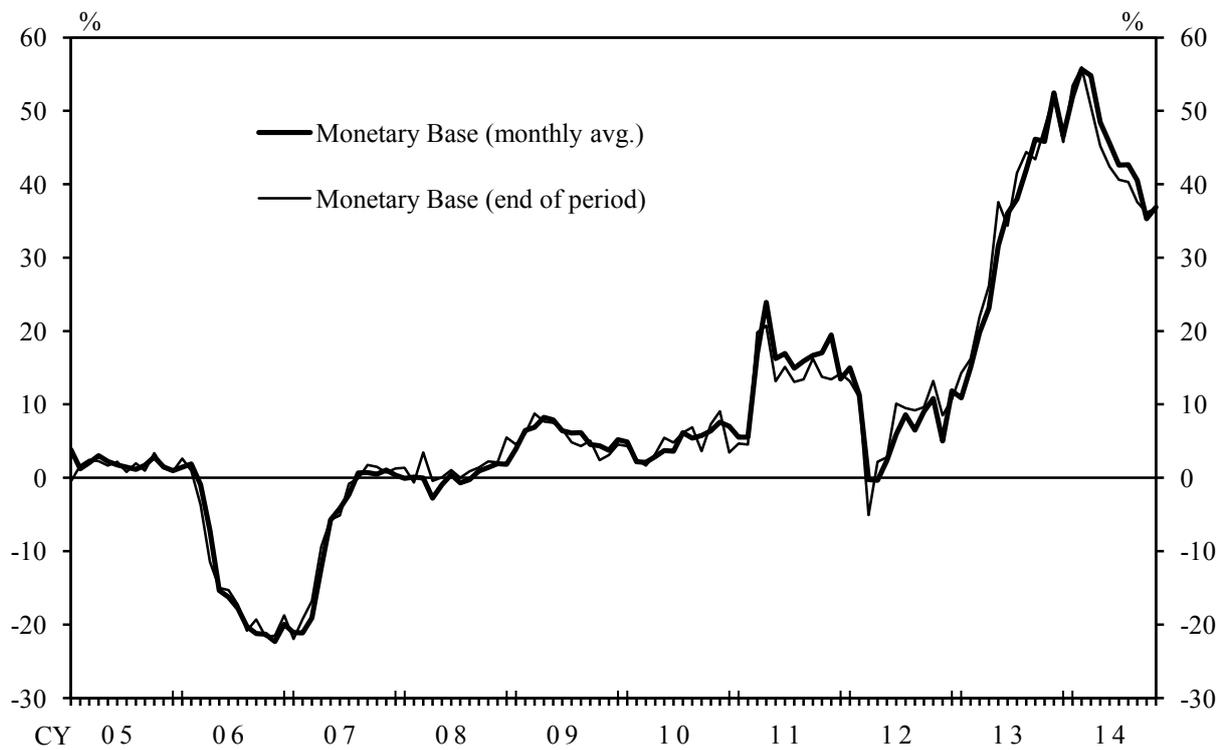
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Monetary Base

(1) Level



(2) Changes from a Year Earlier

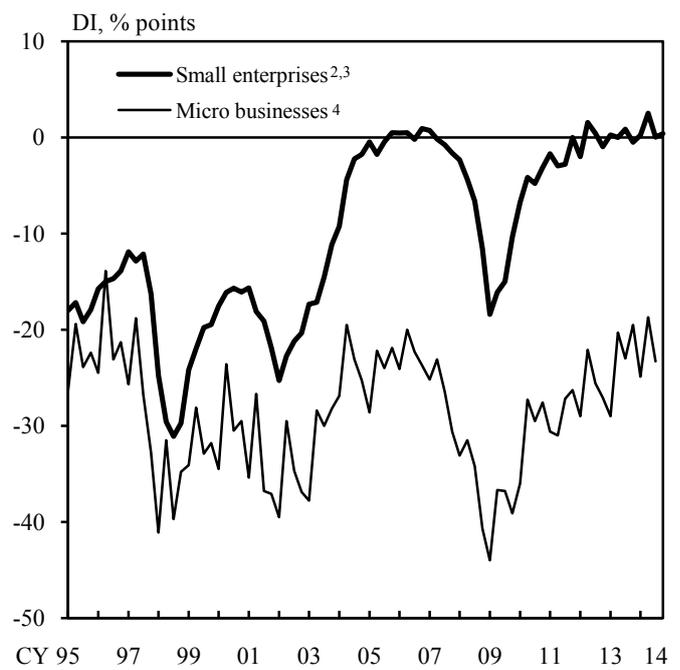
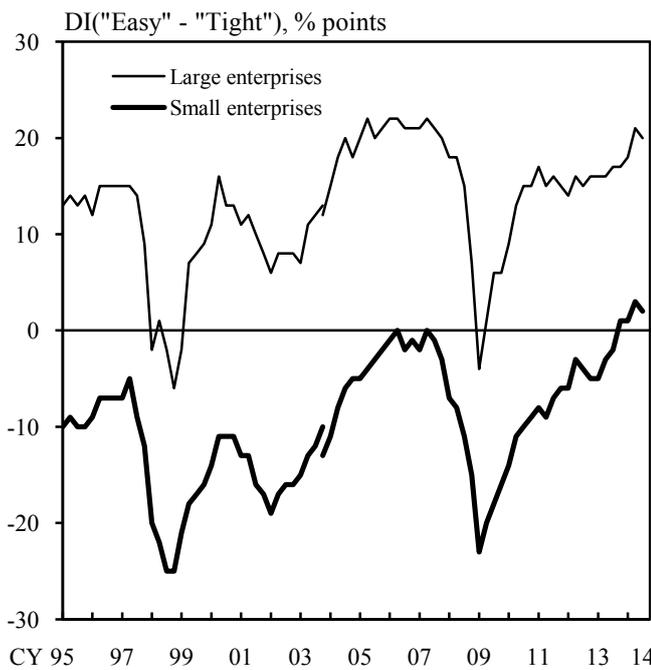


Corporate Finance-Related Indicators

(1) Financial Position

<Tankan<sup>1</sup>>

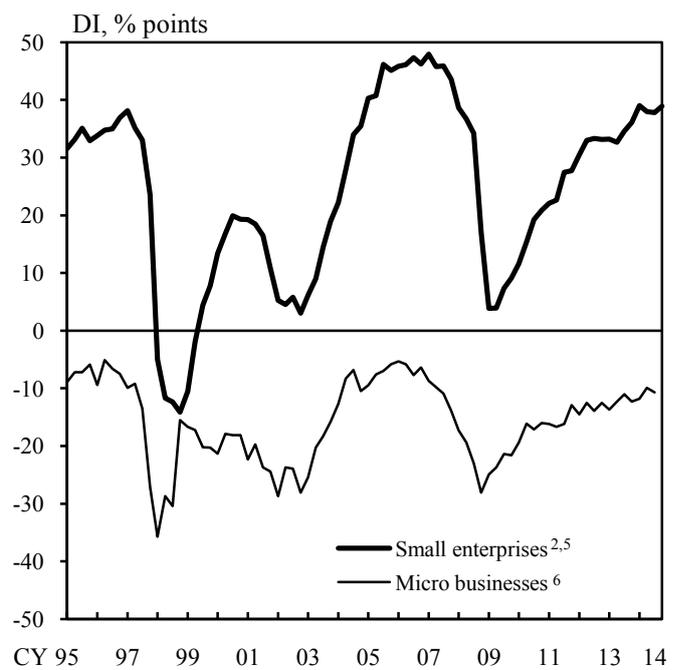
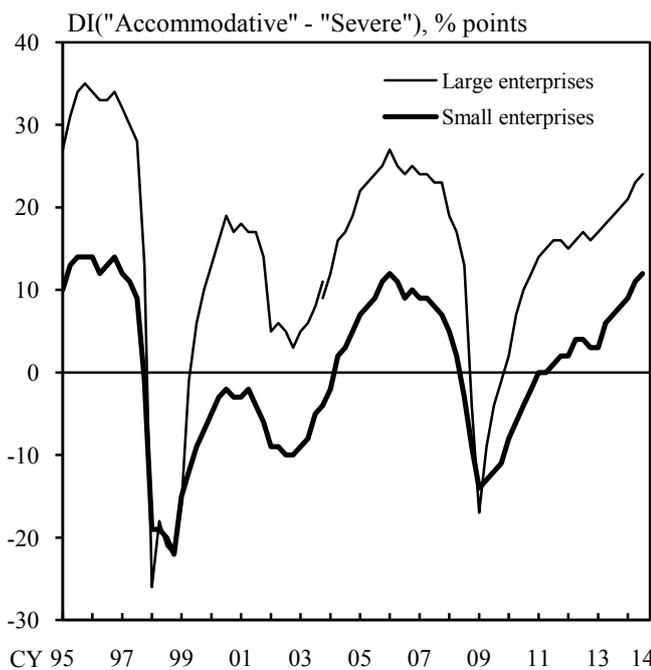
<Japan Finance Corporation Survey>



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

<Tankan<sup>1</sup>>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data. Figures for 2014/Q4 are those of October.

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

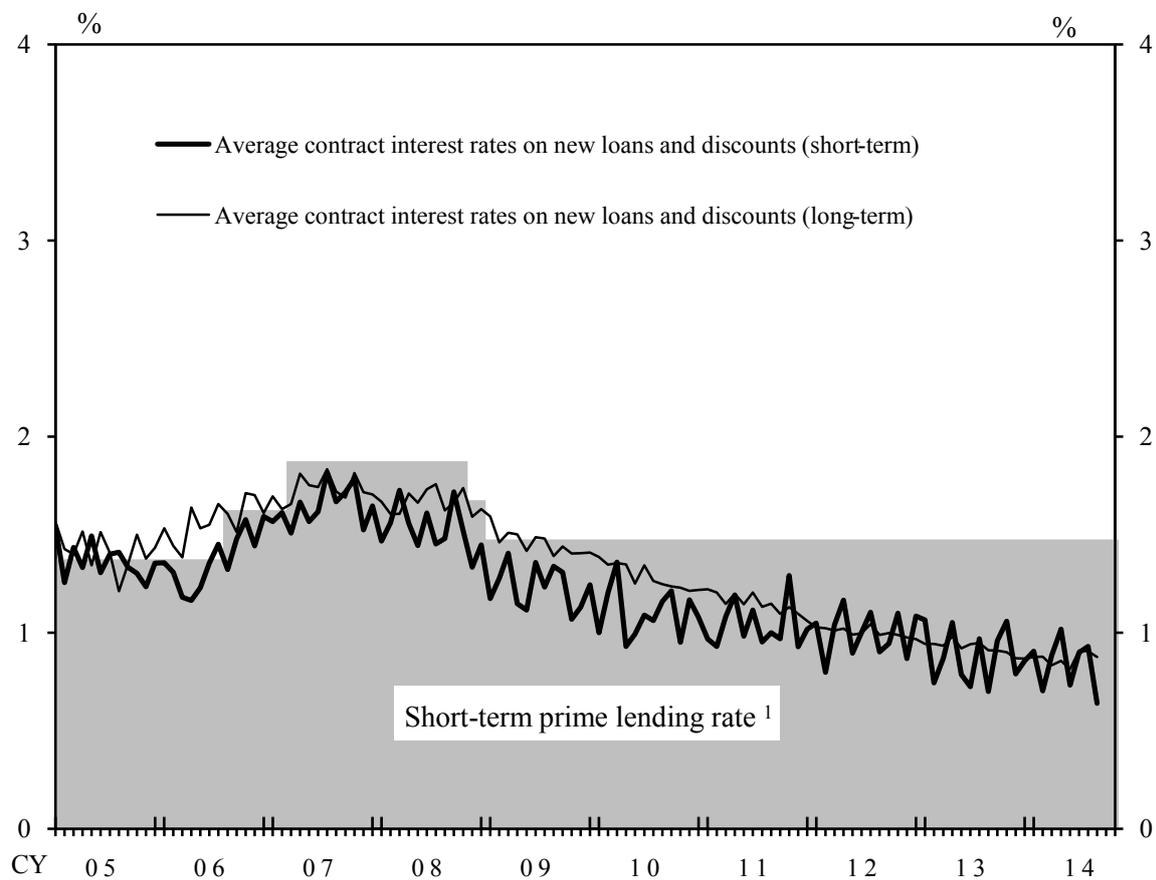
4. DI of "Easier" - "Tighter."

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

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

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

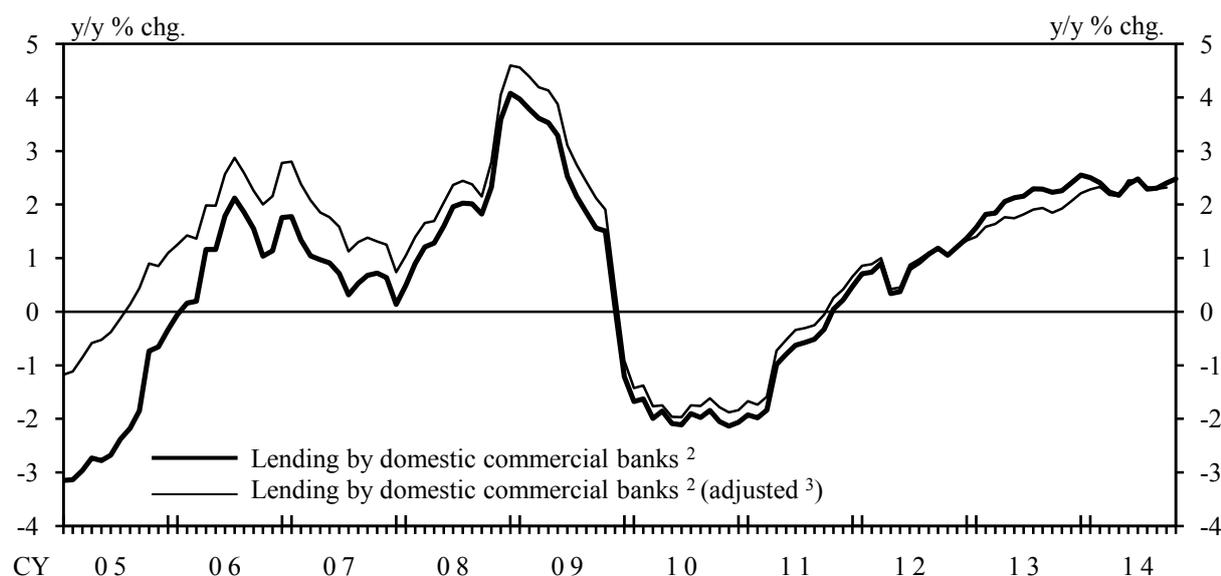
## Lending Rates



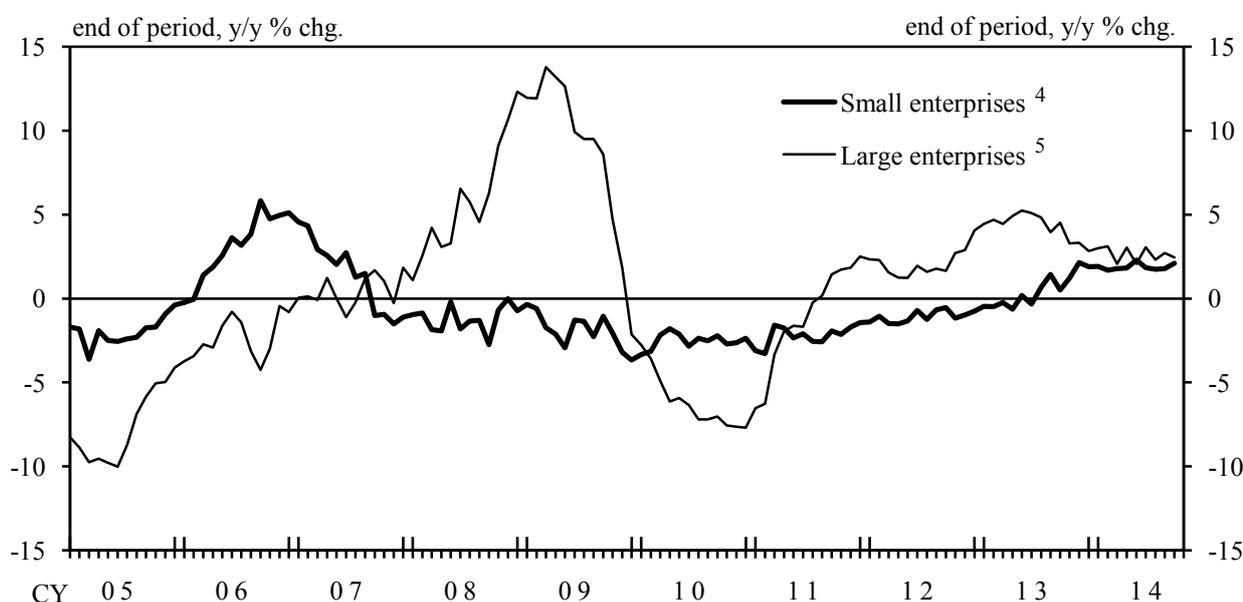
Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks<sup>1</sup>

## (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.

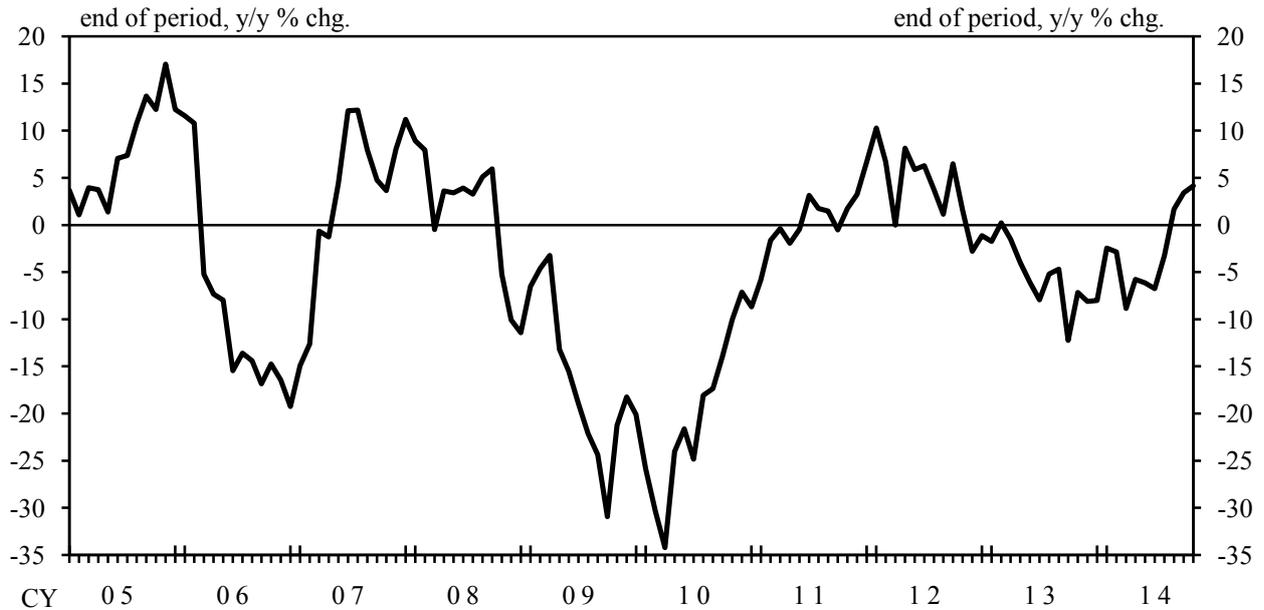
Source: Bank of Japan.

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 Private-Sector Fund-Raising in the Capital Markets
 

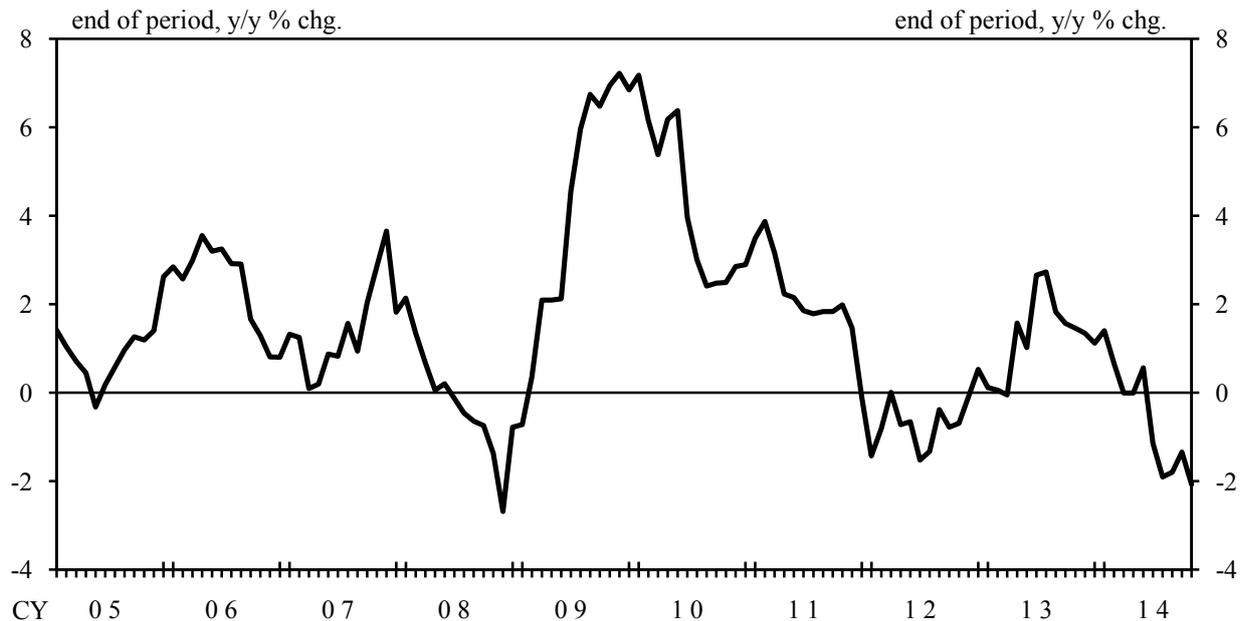
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## (1) Amount Outstanding of Commercial Paper



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



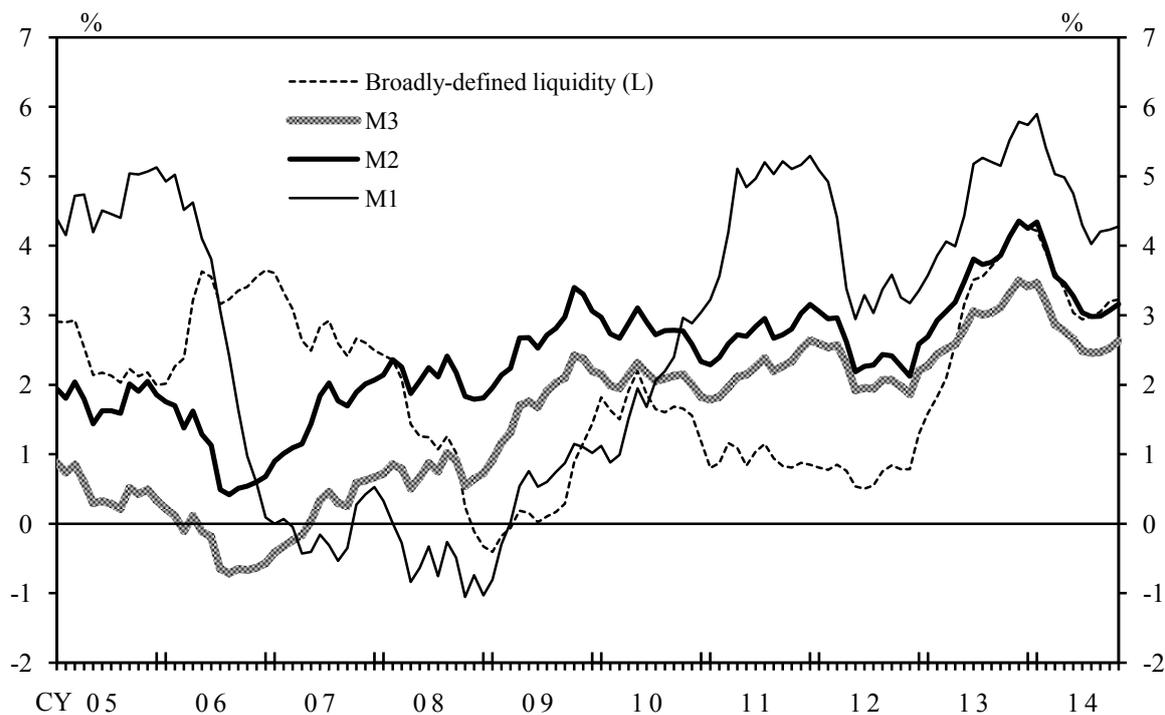
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

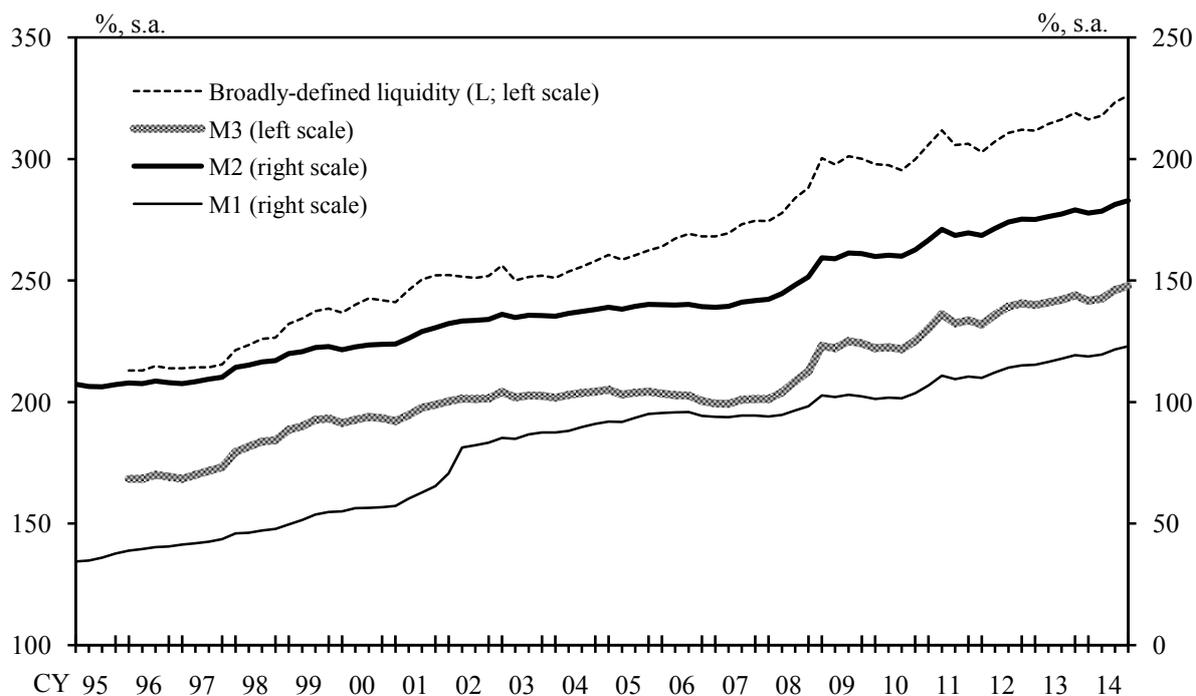
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";  
 Bank of Japan, "Principal Figures of Financial Institutions";  
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

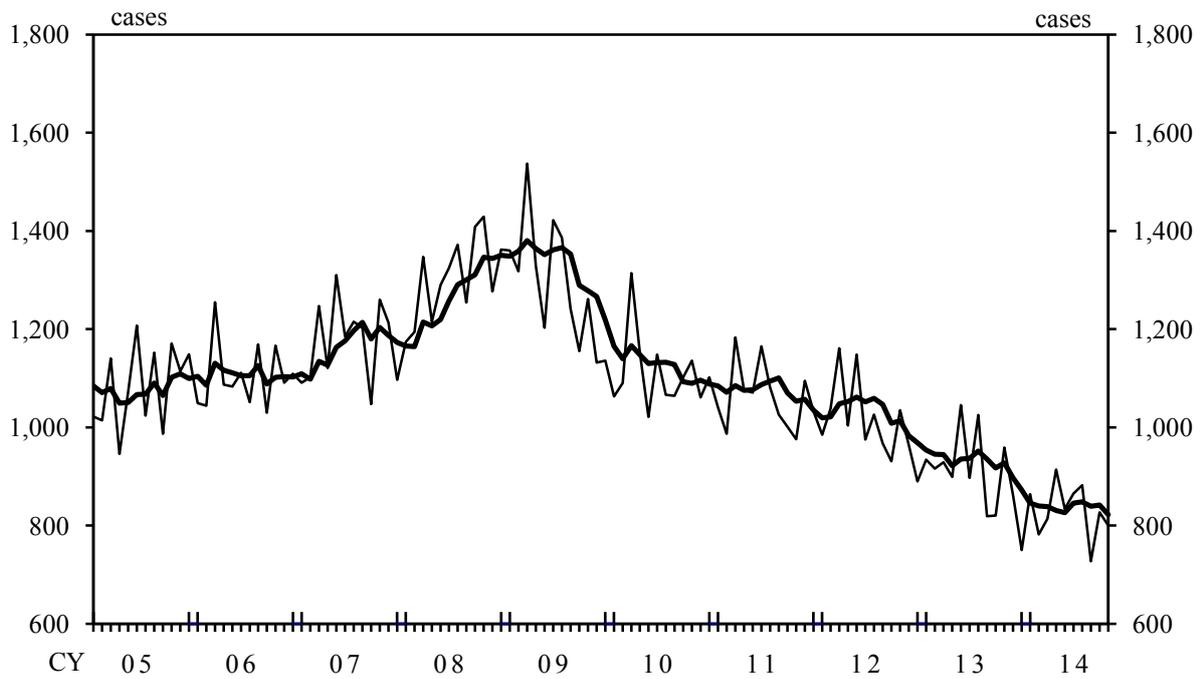
3. The figures up to March 2003 are based on the former series.

4. Figures for money stock in 2014/Q4 are those of October, and nominal GDP in 2014/Q4 is assumed to be unchanged from the previous quarter.

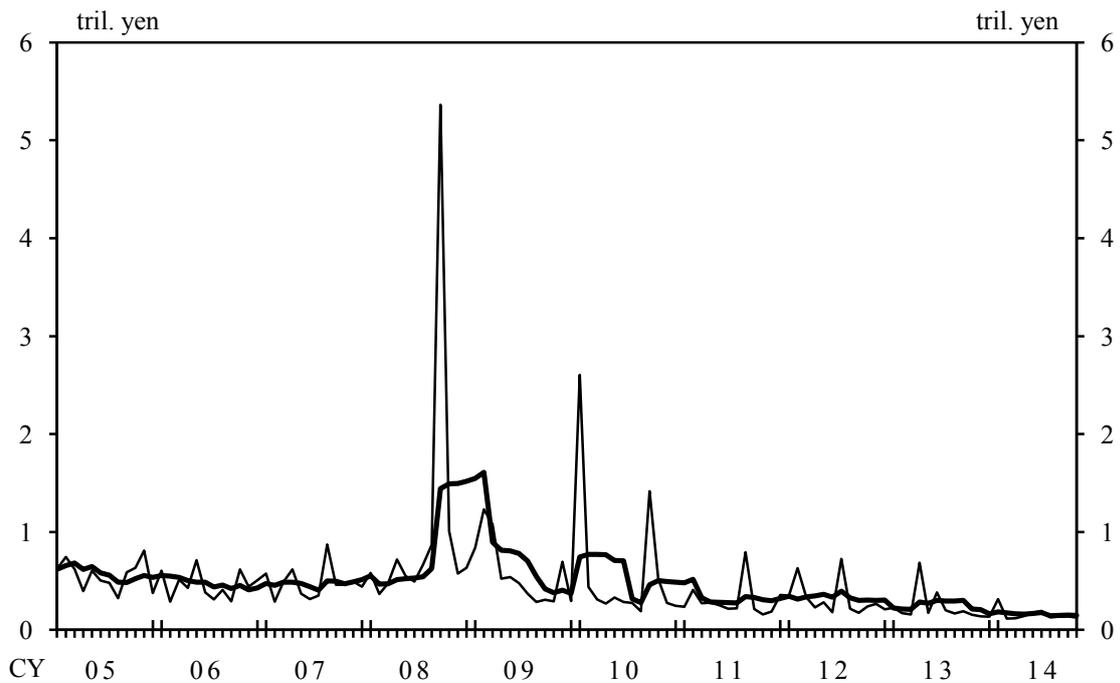
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

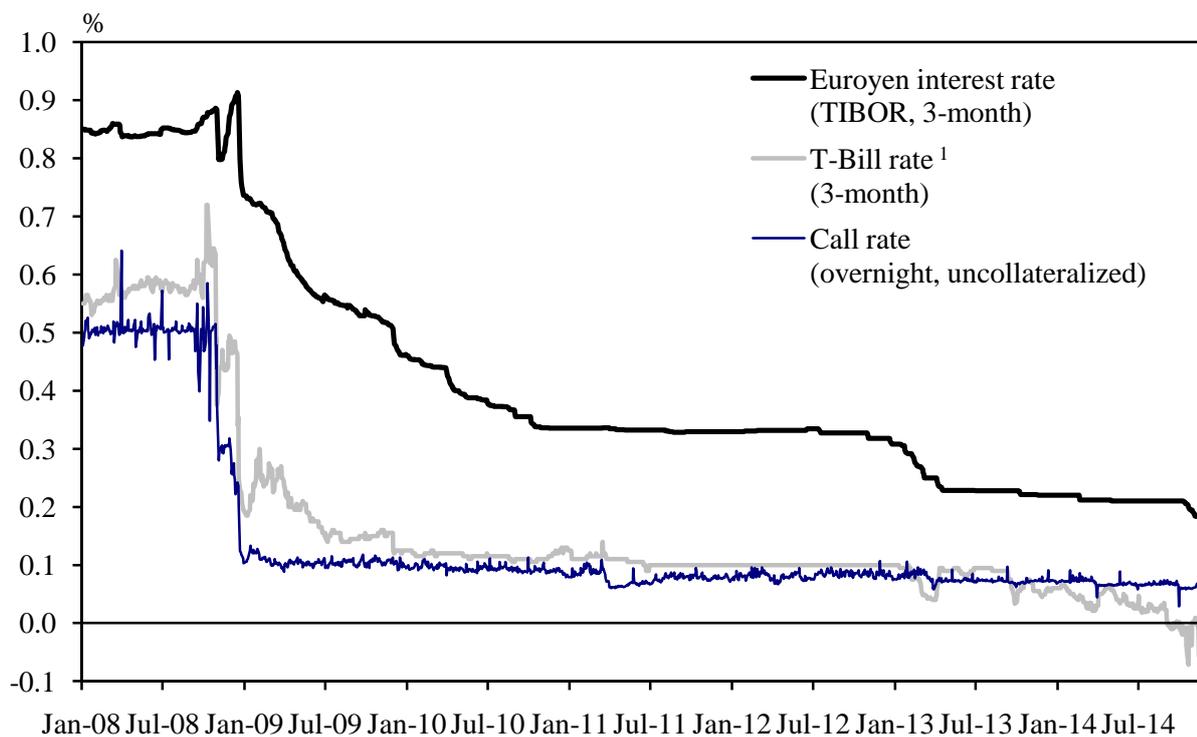


Note: Bold lines are the six-month moving average.

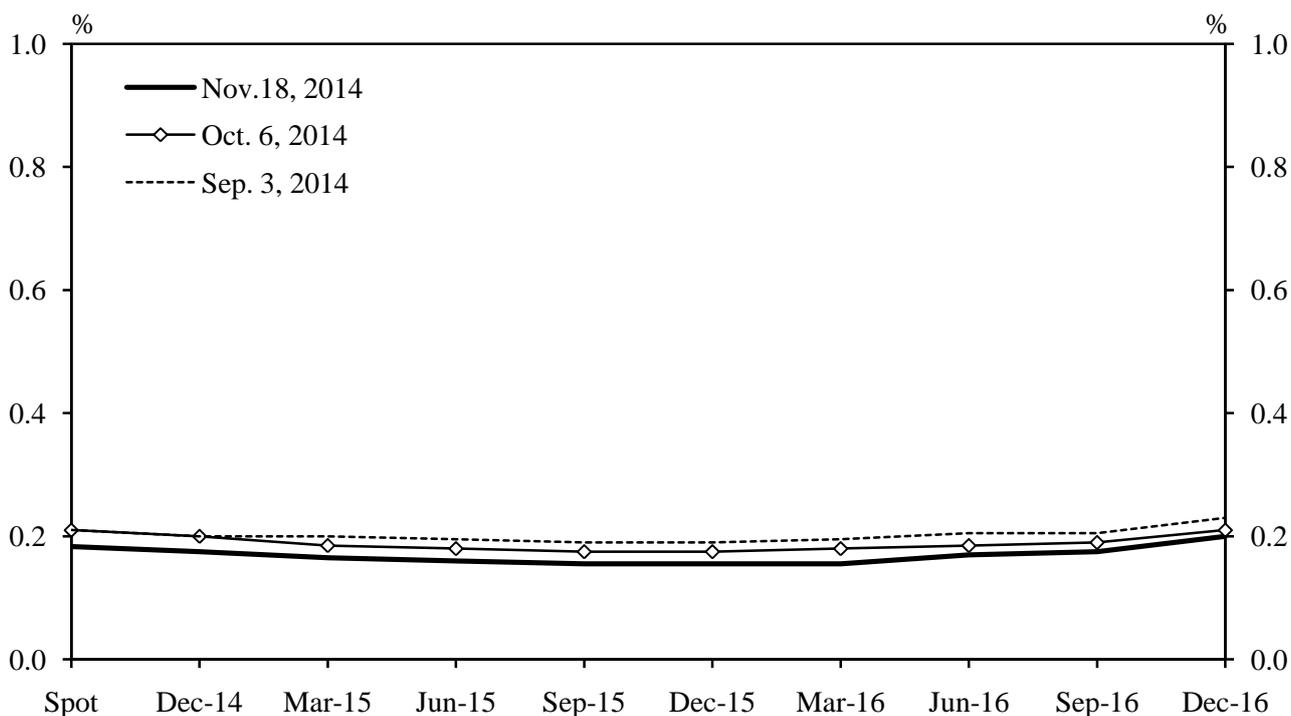
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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

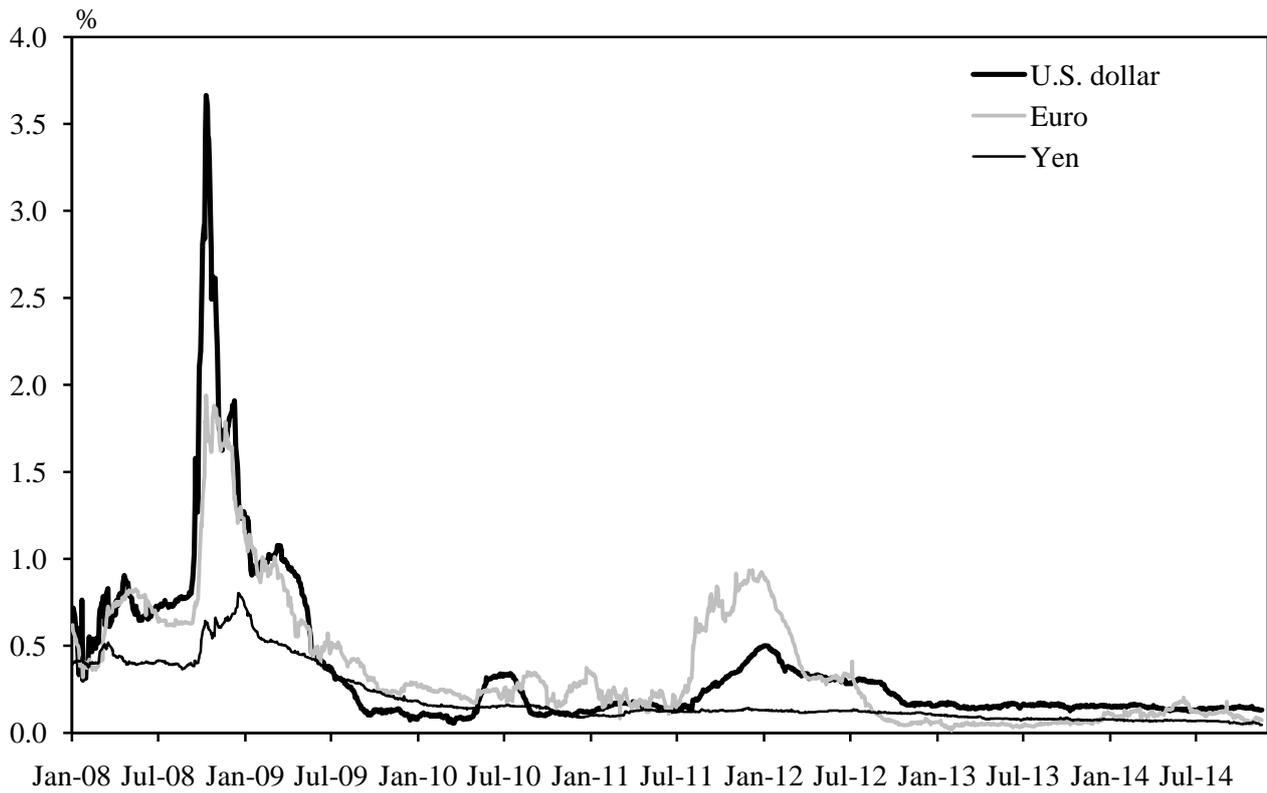


Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

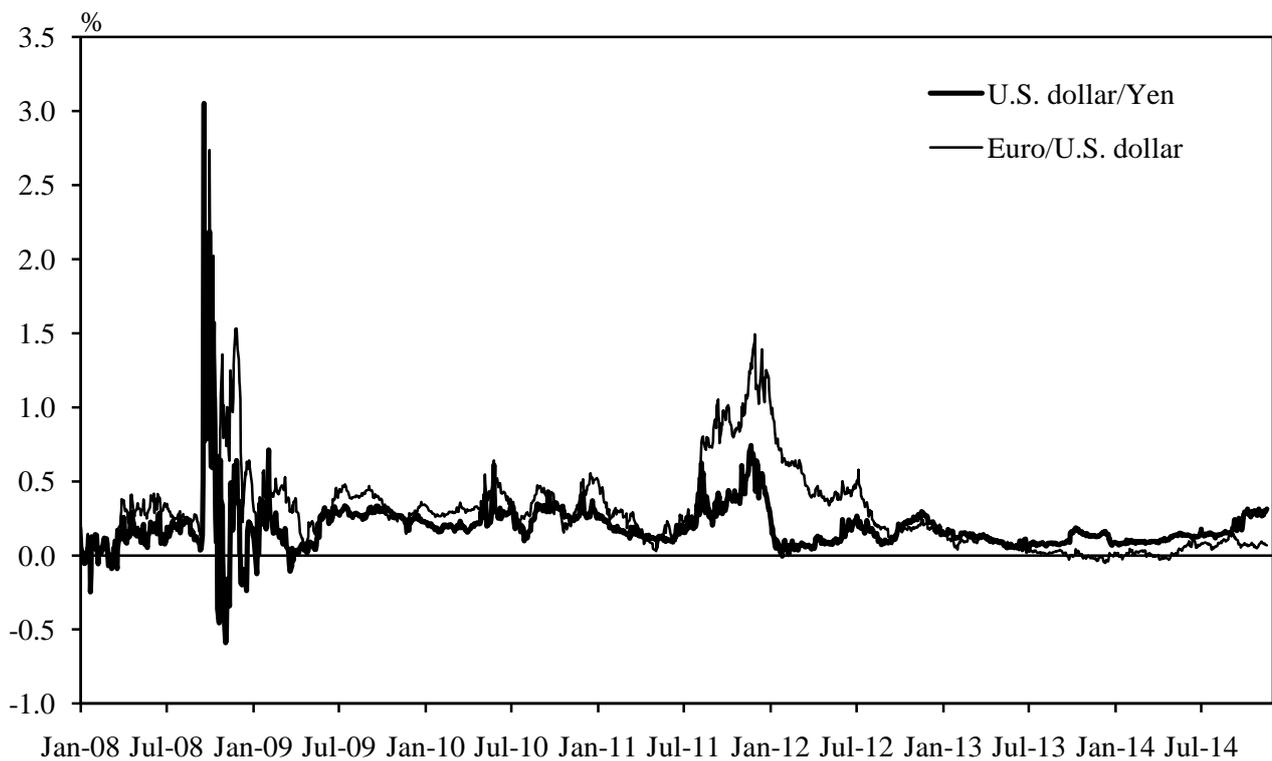
Sources: Japanese Bankers Association; JBA TIBOR Administration; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



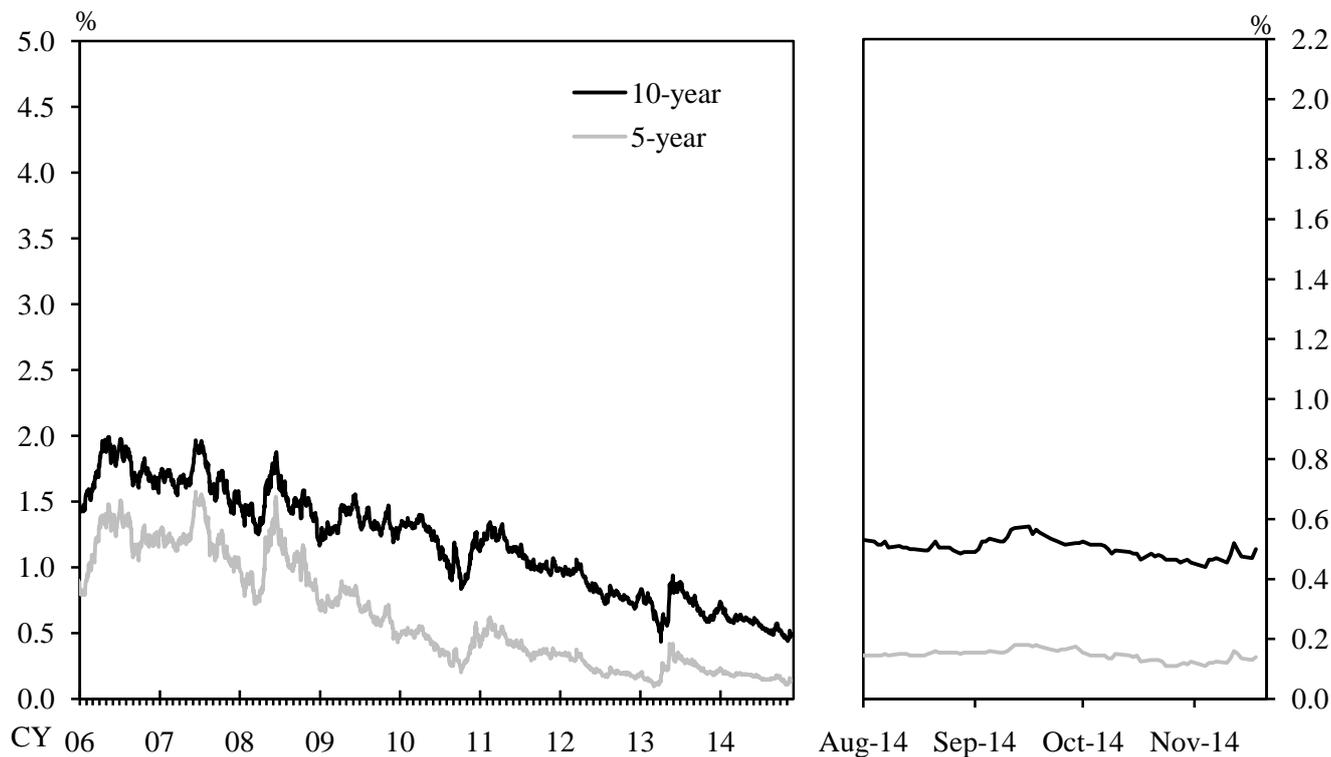
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



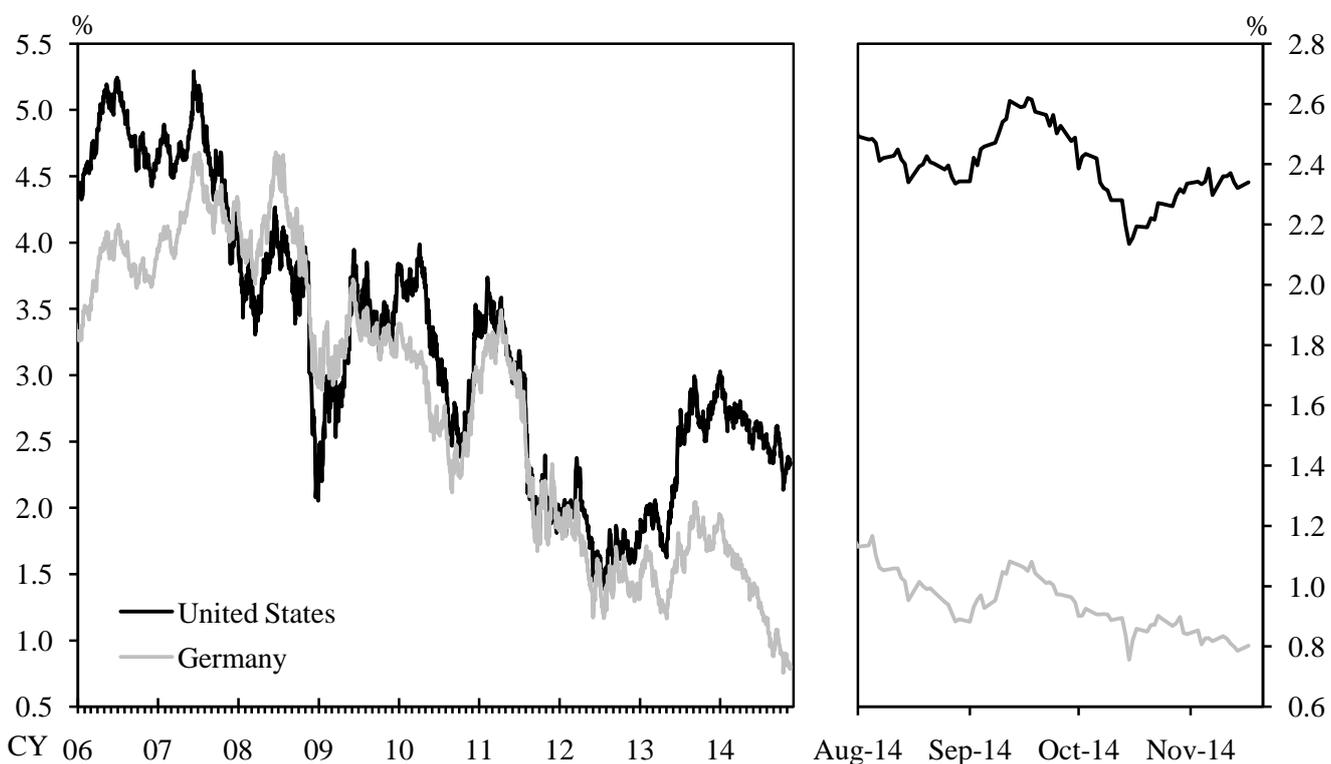
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields<sup>1</sup>



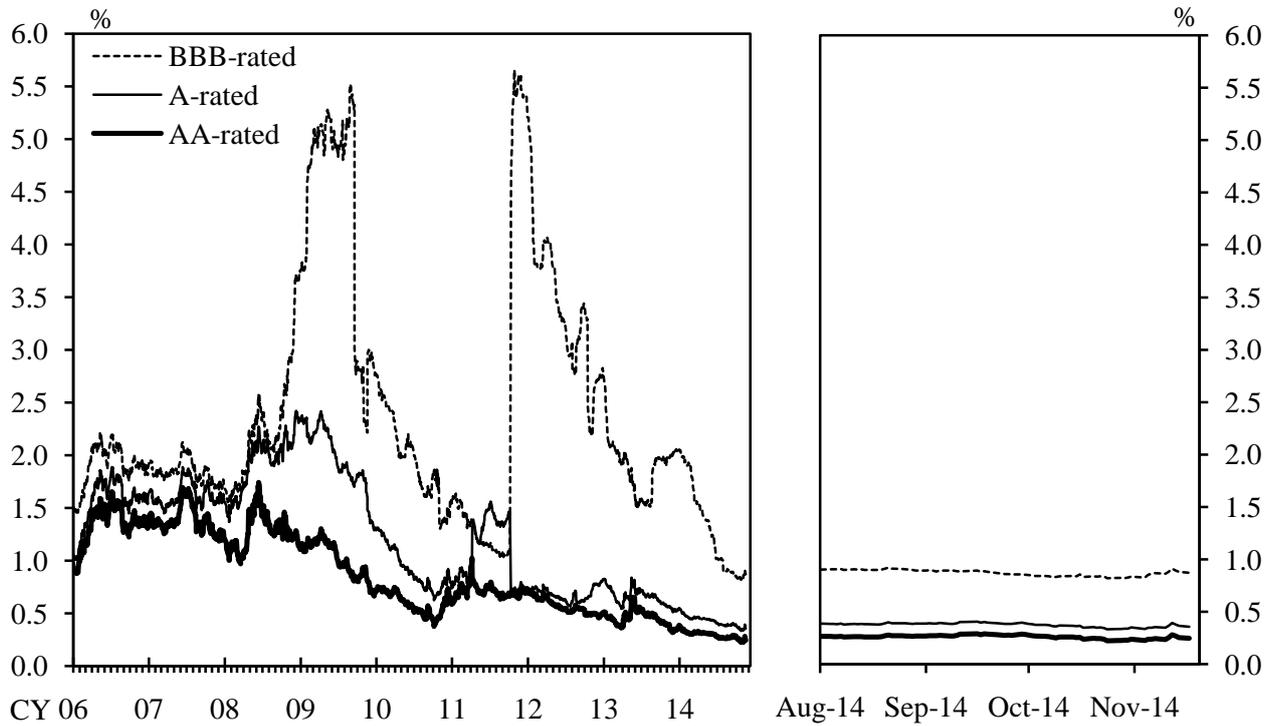
(2) Overseas Government Bond Yields (10-Year)



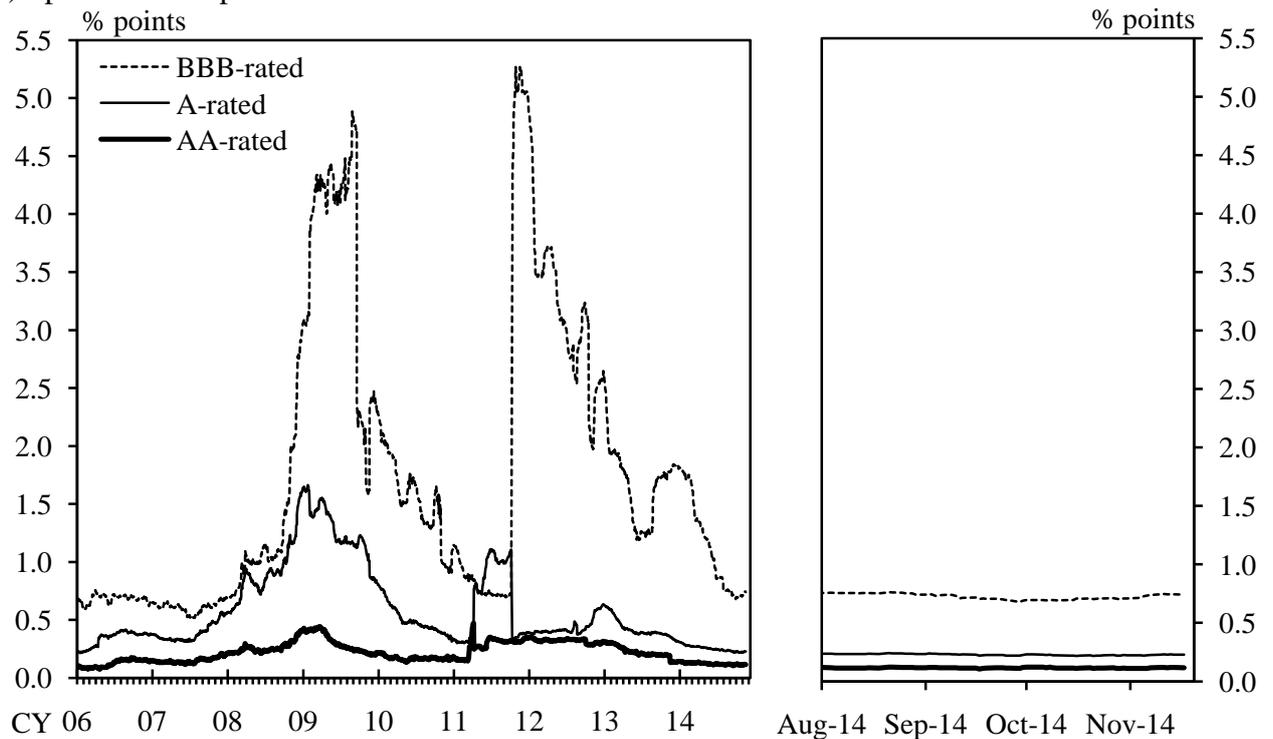
Note: 1. Yields on newly issued bonds.  
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields<sup>1,2</sup>



(2) Spreads of Corporate Bond Yields over Government Bond Yields<sup>1,2</sup>



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

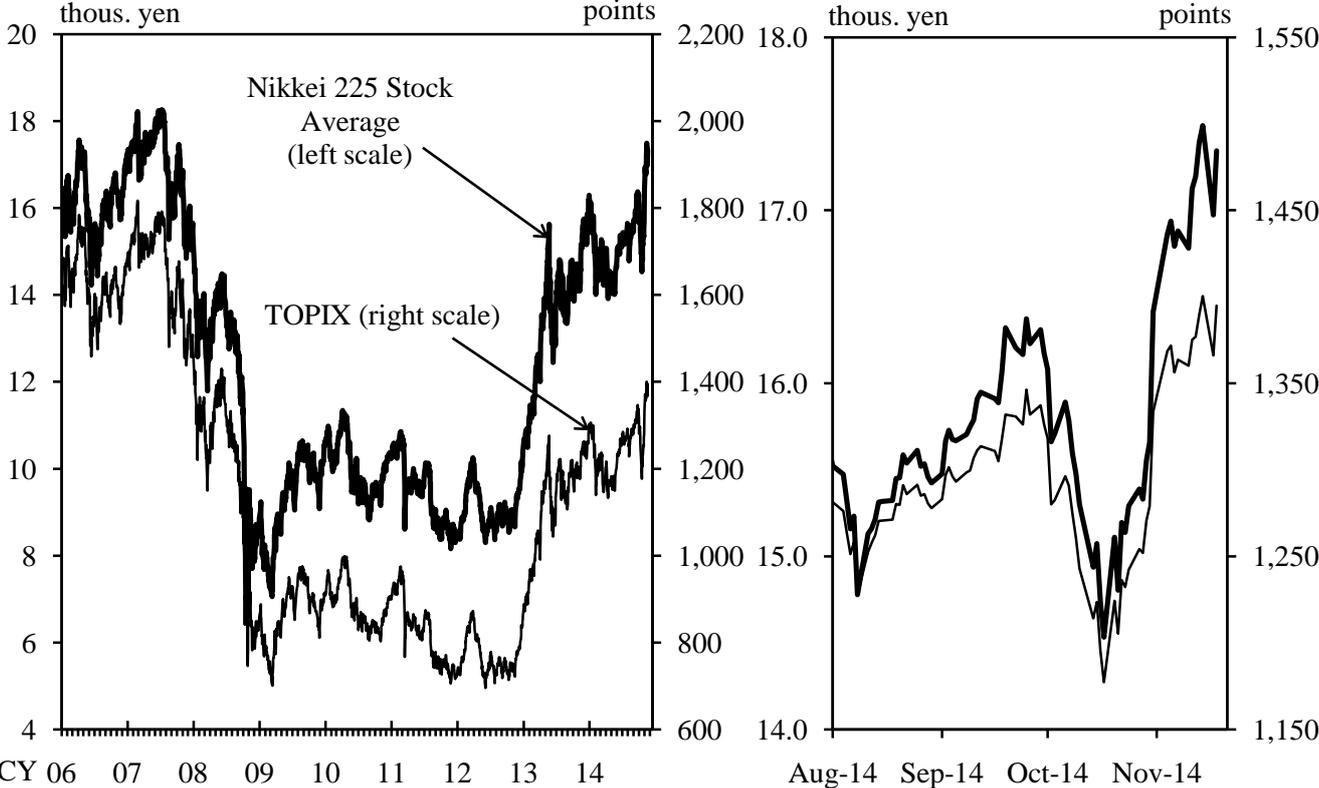
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

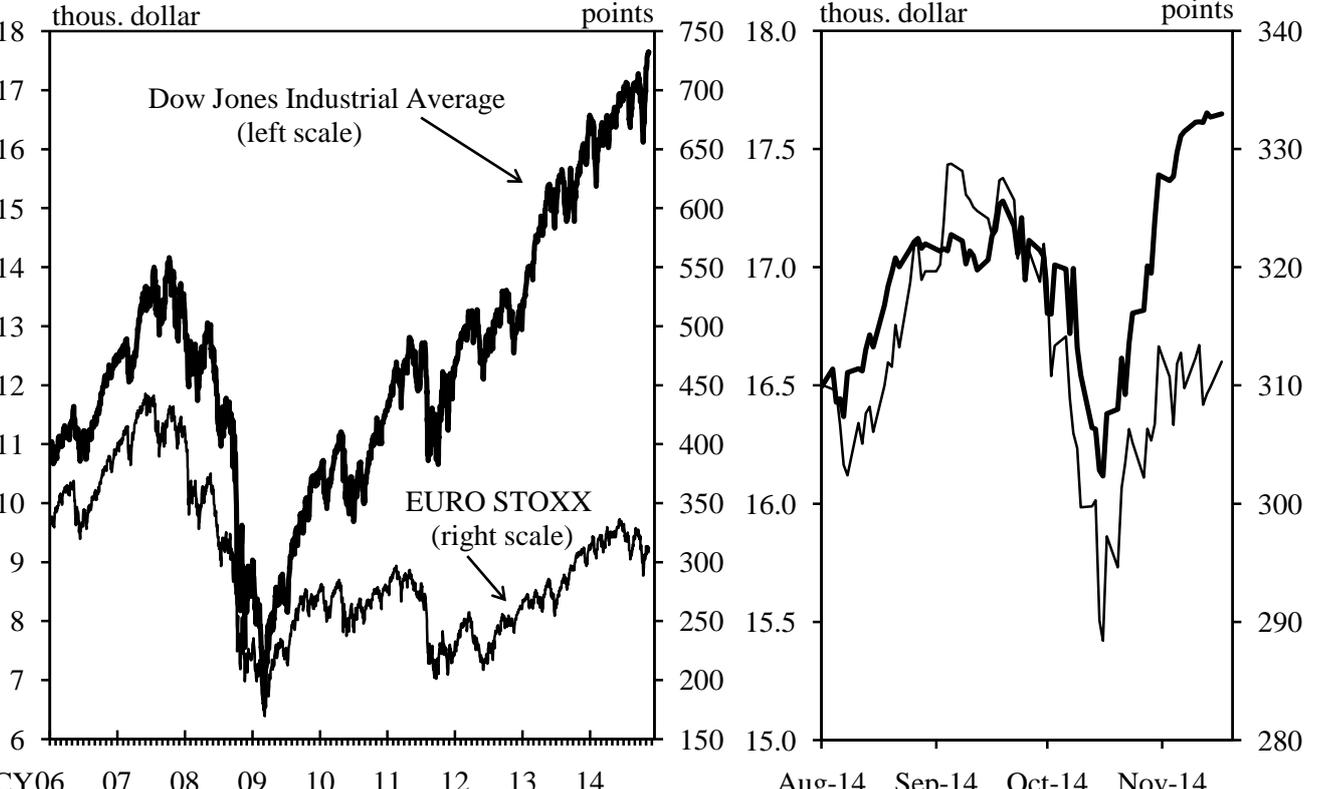
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



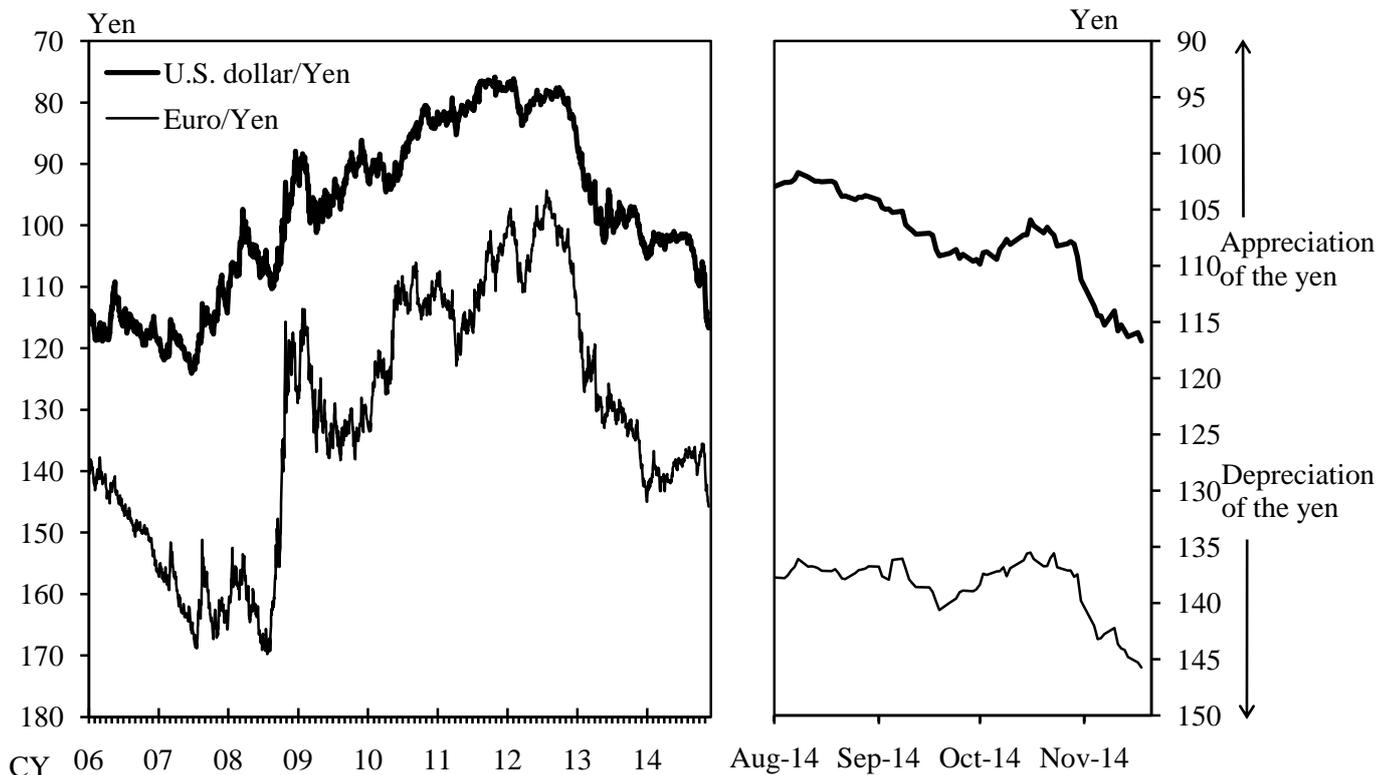
(2) Overseas Stock Prices



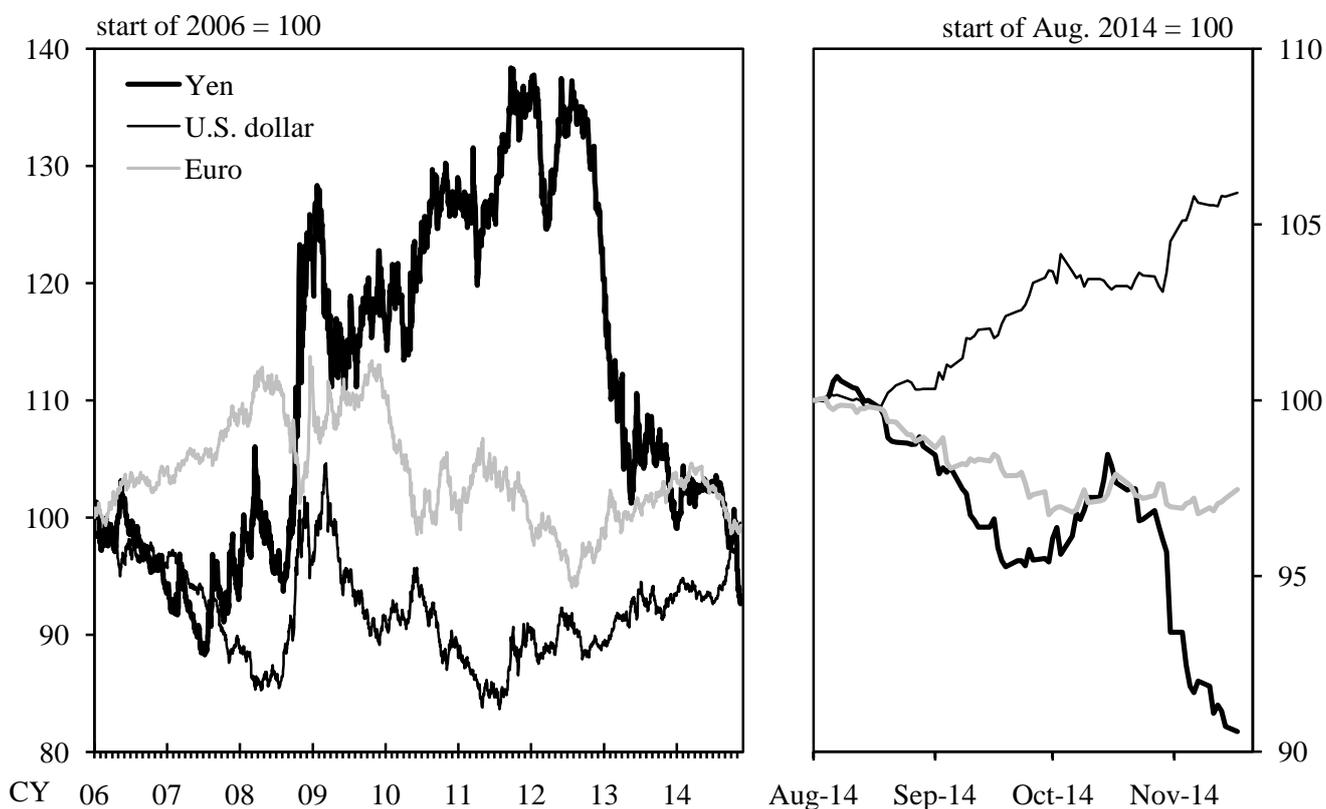
Sources: The Nihon Keizai Shimbun ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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