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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments
January 2013**

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Monthly Report of Recent Economic and Financial Developments¹

January 2013

Summary

Japan's economy remains relatively weak.

Exports and industrial production have decreased, mainly due to the fact that overseas economies remain in a deceleration phase. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient and the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles have diminished.

With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase.

Exports are expected to decrease at a reduced pace for the time being and start picking up thereafter as overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to continue trending upward supported by the effects of various economic measures, and housing investment to continue to generally pick up. Business fixed investment is projected to remain relatively weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy. Private consumption is expected to remain resilient as a trend, with the effects of the decline in car sales continuing to diminish. As a reflection of these developments in demand both at home and abroad, industrial production is projected to stop decreasing and then start picking up.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on January 21 and 22, 2013.

Meanwhile, there remains a high degree of uncertainty about the global economy.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to move slightly upward for the time being, reflecting movements in foreign exchange rates. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

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

Financial conditions are accommodative.

The overnight call rate has remained at an extremely low level, and 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 remained favorable on the whole. As for credit demand, firms have shown signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of change in the amount outstanding of bank lending has been positive. The year-on-year rate of change in the amount outstanding of corporate bonds has turned positive, whereas that of CP has been negative. In these circumstances, firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of change in the money stock has been positive within the range of 2-3 percent.

1. Economic Developments

Public investment has continued to increase, primarily in that related to reconstruction after the earthquake disaster. The amount of public construction completed—which reflects the progress of public works—continued to move up in October-November compared with the third quarter, after having risen markedly in the third quarter on quarter-on-quarter basis (Chart 5). The value of public works contracted—a measure that reflects public orders—was more or less flat in the third and fourth quarters on a quarter-on-quarter basis, after having surged in the second quarter.

Public investment is expected to continue trending upward supported by the effects of various economic measures.²

Real exports have decreased (Charts 6[1] and 7). Real exports continued to decline in October-November relative to the third quarter, after having registered a large quarter-on-quarter decrease in the third quarter. On a monthly basis, they rose, albeit very marginally, in November for the first time in seven months. Looking at exports in October-November relative to the third quarter by region (Chart 7[1]), exports to the United States continued to decline as a whole, mainly since those of capital goods and parts recorded a decrease, although motor vehicles and their related goods resumed their increase, assisted by favorable sales in the United States, after having dipped in the third quarter largely because the effects of upward pressure—assisted mainly by restocking—waned. Exports to the EU have continued to decrease markedly since the fourth quarter of 2011. Exports to East Asia were relatively weak; those to China in particular dropped substantially, chiefly in motor vehicles and their related goods, as a reflection of the bilateral relationship between Japan and China. Meanwhile, exports to Others also continued to fall. By goods (Chart 7[2]), exports of IT-related goods increased, albeit marginally, notably in parts

² The government decided its emergency economic stimulus measures on January 11 and the supplementary budget for fiscal 2012 was approved at the Cabinet meeting on January 15. The total amount of the supplementary budget is about 13 trillion yen: public investment—including grants for supporting local governments—is worth approximately 5 trillion yen. Should this budget be enacted and eventually executed, this, in sync with the economic measures—which are based on reserve funds of fiscal 2012—already underway, are expected to push public investment upward to a considerable degree.

exported to East Asia for new products of smartphones. On the other hand, exports of motor vehicles and their related goods extended their decline for the third straight quarter on the whole, since those to China decreased sharply, although exports to the United States resumed their increase. Exports of capital goods and parts also continued to decline to a wide range of regions. Exports of intermediate goods (chemicals; iron and steel products), mainly to East Asia, came down; those of consumer goods (digital cameras) also fell significantly, particularly to the EU and the United States.

Real imports have recently stopped trending upward (Charts 6[1] and 9). Real imports—which had been on an uptrend through the third quarter, albeit with fluctuations—fell sharply in October-November relative to the third quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials fell back sharply in October-November compared with the third quarter, mainly from the upsurge in September which was caused by a rush in demand prior to the introduction of the Carbon Tax. Imports of intermediate goods and those of capital goods and parts fell in October-November alike compared with the third quarter, against the backdrop of the decline in domestic industrial production as well as relatively weak business fixed investment particularly in manufacturing. Meanwhile, imports of IT-related goods continued to trend upward, chiefly in smartphones.

Net exports—in terms of the real trade balance—have decreased as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus in October-November was at around the same level as that in the third quarter as a whole, since the nominal goods and services balance deficit and the income balance surplus were both similar to those in the third quarter (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies have remained in a deceleration phase (Chart 8[2]). Looking at movements by major region, the European economy has receded slowly, as the negative effects of the debt problem have spilled over from periphery countries to core countries. As for the Chinese economy, the deceleration has remained noticeable since inventory adjustment pressures have been placed especially on raw materials and construction

machinery sectors, with exports to Europe having been somewhat sluggish. Recently, however, exports have started to show signs of bottoming out with increases in infrastructure investment; some indicators show that manufacturing—which had long been under adjustment—seems to have stopped declining. The pick-up in the NIEs and ASEAN economies has continued to moderate, notably in the corporate sector, affected by the receding European economy and the slowdown in the Chinese economy. Meanwhile, the U.S. economy has been on a moderate recovery trend as a whole, with a mild increase in private consumption in the household sector as well as a distinct pick-up in housing investment, while the corporate sector has been relatively weak. In addition, as for the concerned sharp decline in the budget deficit, a combination of events such as the expiration of large tax reliefs and sharp spending cuts, which were to occur simultaneously, were avoided. As for the exchange rate, the yen has depreciated against both the U.S. dollar and euro; in terms of the real effective exchange rate, the yen has fallen to levels last observed in the fall of 2008 just after the Lehman shock (Chart 8[1]).

Overseas economies have recently shown signs of stabilizing, particularly in the United States and China; they are expected to gradually emerge from the deceleration phase and start a moderate recovery. The aforementioned movements in foreign exchange rates are also projected to underpin exports gradually. However, a high degree of uncertainty remains about overseas economies, including the timing of when they will head for recovery. Although investors have recently become less risk averse against the backdrop of the European debt problem, there is still a risk that the sluggishness in the European economy will provide grounds for the global economy to decelerate for an extended period through channels of trade, financial markets, and worsening business sentiment. As for the Chinese economy, the loose supply and demand conditions may prevail mainly because the supply of raw materials and other goods seems to have exceeded demand as a result of increased business fixed investment, while it has shown signs of emerging from its deceleration phase. In the U.S. economy, uncertainty regarding the outlook for fiscal policies remains, although balance sheet adjustments by households have started to move gradually forward and the employment situation continues to improve mildly. In relation to this, as for the IT-related sector, in line with the introduction of new products of final demand goods as well as the progress in inventory adjustments,

shipments of related parts by Japanese manufacturers have facilitated the increase in exports of IT-related goods; the IT-related sector has shown signs of starting to improve even on a global basis. Final demand of this sector as a whole, however, has yet to show noticeable improvement, and thus future developments in overall final demand, including upward pressure from new products as well as developments in demand for conventional products such as PCs, continue to require close monitoring. Meanwhile, although the impact of the bilateral relationship between Japan and China is projected to remain as a downward impetus on Japan's economy for the time being through the decline in automobile-related exports to China as well as the number of Chinese visitors to Japan, it is expected to ease gradually.

Taking the above into consideration, exports are expected to decrease at a reduced pace for the time being and start picking up thereafter as overseas economies gradually emerge from the deceleration phase. Imports are projected to show some weak movements for the time being, affected partly by the decrease in industrial production. After that, they are projected to trend moderately upward along with the pick-up in industrial production, against the backdrop of resilient domestic demand. As a reflection of these developments in exports and imports, net exports are projected to be more or less flat for the time being and then gradually resume their moderate uptrend.

Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. Meanwhile, in manufacturing, fixed investment has declined affected by the decrease in exports and industrial production. The aggregate supply of capital goods—a coincident indicator of machinery investment—continued to move downward in October-November relative to the third quarter following a sharp decline in the third quarter on a quarter-on-quarter basis, after having increased in the second 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—rose, albeit slightly, in October-November compared with the third quarter, after having declined for two consecutive quarters since the second quarter (Chart 11[1]). By industry, machinery orders of manufacturing continued to fall in October-November relative to the third quarter, following the decline in the second

and third quarters on a quarter-on-quarter basis. Meanwhile, those of nonmanufacturing (excluding orders for ships and those from electric power companies) registered a relatively large increase in October-November compared with the third quarter, after having been more or less level in the second and third quarters on a quarter-on-quarter basis. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—were generally flat in October-November compared with the third quarter, after having increased for three consecutive quarters through the third quarter (Chart 11[2]). By industry, construction starts of mining and manufacturing were almost flat in the third quarter, after having fallen back in the second quarter from the upsurge in the first quarter, but declined significantly in October-November relative to the third quarter. On the other hand, those of nonmanufacturing kept rising in October-November compared with the third quarter, following the quarter-on-quarter increase in the second and third quarters.

Regarding the environment surrounding business fixed investment, developments in corporate profits show that they have continued to be steady on the whole, notably in domestic demand-oriented sectors, although the deceleration in overseas economies has started to affect manufacturing lately. Corporate profits are projected to continue a mild improving trend on the whole, supported by resilient domestic demand, although the effects of the deceleration in overseas economies and other factors will remain in manufacturing for the time being.

Taking the above into consideration, business fixed investment is projected to remain relatively weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy.

Private consumption has remained resilient and the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles have diminished (Charts 12 and 13[2]). Consumption of goods—as seen through sales at retail stores in real terms (Chart 13[1])—has been more or less level since the second quarter, albeit with some fluctuations. Looking at consumption of durable goods (Chart 13[2]), the number of new passenger-car registrations fell back significantly in

October from the effects of the decline in car sales following the ending of subsidies for purchasing energy-efficient cars. However, it picked up in November and December for two months in a row as the effects of the decline started to diminish. Sales of household electrical appliances in real terms have been more or less flat as a whole, albeit with fluctuations, since sales of smartphones, tablet devices, and white goods installed with energy-saving devices were firm, whereas those of televisions and PCs were sluggish. Sales at department stores and supermarkets climbed in October and November, notably in apparel, affected by lower temperatures (Chart 14[1]). Sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 14[2]), outlays for travel—which had continued to trend upward, albeit with fluctuations—were down in early fall, chiefly in overseas travel (bound for China and South Korea). Both domestic and overseas travel, however, seem to have been firm during the period from the end of the year to the start of the year, after having picked up slightly in November, boosted partly by calendar factors. Sales in the food service industry—which had been declining toward the middle of last year—remained relatively high in October-November, after having picked up in August-September.

As for statistics on the demand side, consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) shows that the index on an "excluding housing, automobiles, money gifts, and remittance" basis—which is compiled so as to make it similar to items used for estimating GDP—was virtually flat in October-November compared with the third quarter, following a decline in the third quarter, after having advanced for four quarters in a row through the second quarter (Chart 13[1]).³ Similarly, the total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) was almost level in October-November relative to the third quarter, following a decline in the third quarter, after having increased for four straight quarters through the second quarter.

Indicators related to consumer confidence—which had maintained their moderate improving trend—have recently peaked out (Chart 15).

³ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

Private consumption is expected to remain resilient as a trend, with the effects of the decline in car sales continuing to diminish.

Housing investment has generally been picking up, supported in part by reconstruction of disaster-stricken homes. The number of housing starts—a leading indicator of housing investment—has tended to pick up: it rose sharply in October-November relative to the third quarter, affected by a rush in demand prior to the expiration of some policy measures to enhance home purchasing,⁴ after having been almost level in the third quarter following an increase for two consecutive quarters through the second quarter (Chart 16[1]).

Housing investment is expected to continue to generally pick up.

Industrial production has decreased (Chart 17). In both the released-base index and the adjusted-base index,⁵ monthly figures showed that production rose marginally in October, its first time in four months, but fell again in November; on a quarterly basis, it continued to move down in October-November relative to the third quarter, after having declined for two quarters in a row since the second quarter. The pace of decline, however, has moderated slightly, as the effects of the decline in motor vehicles following the ending of subsidies for purchasing energy-efficient cars have eased. Looking at production by industry in October-November compared with the third quarter, that of transport equipment (such as passenger cars) declined sharply, as production for the domestic market decreased with the ending of subsidies for purchasing energy-efficient cars and also as exports to China dropped sharply as a reflection of the bilateral relationship between Japan and China. Production of general machinery continued to decline markedly, due to somewhat weak domestic demand, including semiconductor products machinery, on top of the overall decline in overseas demand. In contrast, production of electronic parts and devices turned

⁴ With the enactment of the third supplementary budget for fiscal 2011, the eco-point system for housing as well as the preferential interest rate measures for the Flat 35S were introduced once again with preferential treatment for disaster-stricken areas. As for the former, the eligible construction starting period for houses to receive eco-points ended on October 31, while applications for the latter have closed as of those received on October 31.

⁵ The adjusted-base index of industrial production is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

substantially upward, mainly in preparation for new products. Production of ceramics, stone and clay products held steady, due in part to reconstruction-related demand.

Shipments have been moving down (Chart 19[1]). Looking at the trend in shipments by goods (Chart 18), those of durable consumer goods have declined on the whole, with shipments of motor vehicles for exports having moved down as a reflection of the bilateral relationship between Japan and China as well as those to the domestic market having been at low levels reflecting the ending of subsidies for purchasing energy-efficient cars. On the other hand, shipments of non-durable consumer goods have continued to increase moderately. As for capital goods, reflecting movements in business fixed investment at home and abroad, shipments have recently declined significantly, since those of goods such as semiconductor products machinery as well as engineering and construction machinery were down. Shipments of producer goods have continued to trend downward overall, affected largely by the decline in those for motor vehicles (such as iron and steel as well as motor vehicle parts), even though shipments of new products have recently been observed for some electronic parts and devices. Meanwhile, shipments of construction goods have advanced recently, primarily in photovoltaic modules, despite large monthly fluctuations.

Inventories are still at a relatively high level, although they have recently inched downward (Chart 19[1]). Inventories at the end of November were down slightly compared with the end of September. On average, however, they have been more or less flat at a somewhat high level, after having surged at the end of March last year. By industry, general machinery including engineering and construction machinery has continued to see its inventories pile up, affected mainly by the downswing in demand from Asia. Inventories of electronic parts and devices have risen significantly, mainly in preparation for new products, but unintended accumulation of some inventories has also been observed. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has been well above that in shipments (Chart 19[3]). By goods, as for producer goods, growth in inventories of electronic parts and devices has been almost aligned with that in shipments, but other producer goods

has continued to see its shipment-inventory balance somewhat deteriorate due to decreased demand, primarily from Asia. As for capital goods, the shipment-inventory balance has continued to deteriorate, mainly due to the downswing in demand in response to developments in business fixed investment at home and abroad. On the other hand, the shipment-inventory balance of construction goods has recently improved slightly, assisted by the increase in shipments.

Industrial production is expected to start picking up, in line with improvements in exports, as overseas economies gradually emerge from the deceleration phase, after having stopped decreasing. Based on anecdotes by firms and other information, regarding the fourth quarter, electronic parts and devices are projected to see noticeable production increases, chiefly for new products, whereas transport equipment will face substantial production declines, mainly as a reflection of the ending of subsidies for purchasing energy-efficient cars as well as cutbacks in products bound for China; production of general machinery is also projected to move downward in a wide range of items, due to the weakness in business fixed investment at home and abroad. As a result, industrial production as a whole is also projected to continue decreasing. For the first quarter, although there is still a high degree of uncertainty, it is expected that production of general machinery will continue decreasing, and that of electronic parts and devices will fall back from the upsurge in the fourth quarter, whereas that of transport equipment will turn markedly upward. As a whole, production is expected to become more or less flat.

The employment and income situation has continued to be severe and the improvement in supply and demand conditions in the labor market has peaked out.

As for supply and demand conditions in the labor market, the unemployment rate has still trended downward, albeit with monthly fluctuations (Chart 20). On the other hand, job openings have recently been on a mild downtrend, with the number of new job openings in manufacturing, including transport equipment, registering a sizeable decline. In this situation, the active job openings-to-applicant ratio—which had been on an improving trend—has come to a standstill. Non-scheduled hours worked have been on a moderate downtrend, notably in manufacturing.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* has recently registered a slight positive, despite large monthly fluctuations (Chart 21[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis; by industry, however, manufacturing has faced an accelerated pace of decline. Meanwhile, with regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that the number of applicants for this subsidy has been trending downward with the fluctuations smoothed out, and has been well below the pre-earthquake level.

The year-on-year rate of change in total cash earnings per employee has declined marginally, with the fluctuations smoothed out, mainly as a reflection of the decrease in the number of hours worked (Chart 21[2]). Looking in detail, non-scheduled cash earnings have turned negative on a year-on-year basis, affected by movements in the number of hours worked. Scheduled cash earnings have recently been slightly negative, albeit with fluctuations, mainly since the number of hours worked, especially in part-time employees, was reduced.

The year-on-year rate of change in employee income has been almost 0 percent with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages (Chart 21[3]).

Employee income is unlikely to improve for the time being, since the previous lackluster business performance will exert downward pressure on special cash earnings and since the decrease in exports and industrial production will weigh on non-scheduled cash earnings. After that, however, the improvement in employee income is expected to become gradually evident as the pick-up in exports and industrial production becomes noticeable.

2. Prices

International commodity prices have been more or less level (Chart 23[1] and [3]). Crude oil prices have inched upward lately, as investors became less risk-averse, after having softened slightly toward mid-December. Prices of

nonferrous metals have moved slightly upward, as a reflection of expectations for a future recovery in the Chinese economy. Meanwhile, prices of grains have lowered their levels compared with a while ago, mainly since anxiety over supply as a result of the unseasonable weather has been reduced.

The three-month rate of change in import prices (on a yen basis) has increased, reflecting movements in foreign exchange rates (Chart 23[2]).

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter) has been more or less flat (Chart 24[2]).⁶ The three-month rate of change was positive 0.2 percent in December, after having marked an increase of 0.1 percent in November. Looking in detail at domestic corporate goods price movements in December, as a reflection of international commodity prices having become more or less flat after a temporary pick up, prices of "goods sensitive to exchange rates and overseas commodity prices" somewhat diminished their rate of increase, notably in petroleum & coal products. On the other hand, those of "other materials" somewhat accelerated their pace of increase, mainly in chemicals & related products. Meanwhile, prices of "electric power, gas & water" remained negative from the lingering effects of the decline in crude oil prices toward the middle of last year; those of "iron & steel and construction goods" also continued to decline, with the effects of the loose supply and demand balance in the Asian market remaining in place. Prices of "others" somewhat accelerated their pace of increase; this was largely attributable to seasonal movements in agriculture, forestry & fishery products.

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has recently declined marginally (Chart 25). As for developments on a year-on-year basis, corporate services prices fell at a somewhat reduced pace, having marked negative 0.4 percent in November, following a decline of 0.6 percent in October. Looking in detail at

⁶ Figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when electric power consumption increases substantially.

corporate services price movements in November, prices related to "selling, general and administrative expenses" somewhat reduced their year-on-year pace of decline as a whole, since the rate of decline in advertising services diminished; it was affected by some advertising services with high per unit prices, despite having remained relatively weak as firms continue to take a somewhat restrictive stance on advertisement placements. Prices related to "real estate," notwithstanding some fluctuations, are considered to be reducing their year-on-year pace of decline as a trend, albeit very mildly. Meanwhile, prices related to "fixed investment" have been increasing marginally, particularly in civil engineering and architectural services, whereas "IT-related" prices have continued to decrease, due to price declines in leasing and rentals of equipment.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is currently around 0 percent (Chart 26[1]). In November, consumer prices deteriorated by 0.1 percentage point from October and stood at negative 0.1 percent, but on a basis that excludes food and energy, prices in November posted negative 0.5 percent, having remained unchanged from October. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has stopped improving since the middle of last year, but from a somewhat long-term perspective, it has been on a moderate improving trend (Chart 27[2]).⁷ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 27[1]).⁸ Looking in detail at consumer price movements in November, prices for goods (excluding agricultural, aquatic and livestock products) accelerated their year-on-year pace of decline as a whole, since prices of petroleum products reduced their pace of increase and those of durable goods (cellular phones) and other goods (such as automobile navigation and supplements) declined at a somewhat faster pace. Fees for public services continued

⁷ 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.

⁸ The Laspeyres chain index is compiled as follows: (i) aggregates are produced after updating the weights of items of the base year and resetting the index level of individual items to 100 every year; then (ii) multiplying the previous year's chain index by the aggregated year-on-year figures obtained from the above calculation. Disregarding such factors as adopting and terminating items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

to reduce their year-on-year pace of increase as prices of electricity and of gas (manufactured & piped) reduced their rate of increase due to the decline in crude oil prices toward the middle of last year. In contrast, prices of general services fell at a reduced pace overall, mainly since the rate of decline in package tours to overseas narrowed aided mainly by calendar factors, amid the ongoing decline in rent.

Domestic corporate goods prices are expected to move slightly upward for the time being, reflecting movements in foreign exchange rates. For the time being, the year-on-year rate of change in consumer prices is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have been stable at low levels—including those for longer term rates—as market participants share perceptions of an excess of liquidity, amid the Bank of Japan's ongoing provision of ample funds. 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 at around 0.1 percent. The Euroyen interest rate (3-month) has been more or less flat, at a somewhat high level relative to the T-Bill rate (3-month). Interest rates on Euroyen futures have been virtually level (Chart 28). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 29).

Yields on 10-year government bonds (newly issued 10-year JGB) temporarily rose to the 0.80-0.85 percent level, as U.S. long-term interest rates increased mainly since the concerned sharp decline in the budget deficit was avoided in the United States, but they have fallen thereafter against the backdrop of firm demand from investors; they are currently moving in the range of 0.70-0.75 percent (Chart 30).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 31).

Stock prices have risen mainly due to the depreciation of the yen, in light of increases in U.S. and European stock prices as the concerned sharp decline in the budget deficit was avoided in the United States. The Nikkei 225 Stock Average is currently moving in the range of 10,500-11,000 yen (Chart 32).

In the foreign exchange market, the yen has depreciated against the U.S. dollar, partly because speculation about policies and Japan's current account deficit have been regarded as reasons to sell the yen, amid the marginal rise in U.S. interest rates; it is currently moving in the range of 89-90 yen against the U.S. dollar (Chart 33). In these circumstances, the yen has depreciated against the euro; the yen is currently moving in the range of 119-120 yen against the euro.

(2) Corporate Finance and Monetary Aggregates

Firms' funding costs have been hovering at low levels, against the background that the overnight call rate has remained at an extremely low level. Issuance rates on CP and those on corporate bonds, meanwhile, have been at low levels. The average contracted interest rates on new loans and discounts have also been low (Chart 35).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 34). Issuing conditions for CP and corporate bonds have remained favorable on the whole. In these circumstances, as for funding of the private sector, the year-on-year rate of change in the amount outstanding of bank lending has been positive, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 36). The year-on-year rate of change in the amount outstanding of corporate bonds has turned positive, whereas that of CP has been negative (Chart 37).

In these circumstances, firms have retained their recovered financial positions on the whole (Chart 34). The number of corporate bankruptcies has remained at a low level (Chart 39).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been positive within the range of 2-3 percent. Its December reading was 2.6 percent on a year-on-year basis, following 2.1 percent in November (Chart 38).⁹

⁹ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of change has been positive at around 2 percent; its December reading was 2.2 percent, following 1.9 percent in November. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been at around 1 percent; it increased by 1.1 percent in December, following an increase of 0.5 percent in November.

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Main Economic Indicators (1)

	s.a., q/q (m/m) % chg. ¹						
	2012/Q2	Q3	Q4	2012/Sep.	Oct.	Nov.	Dec.
Index of consumption expenditure level (two-or-more-person households)	2.3	-1.4	n.a.	-2.4	1.6	-1.5	n.a.
Sales at department stores	1.0	-1.7	n.a.	-1.0	1.2	3.1	n.a.
Sales at supermarkets	-1.6	-0.8	n.a.	-1.3	0.6	2.0	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 316>	< 285>	< 247>	< 245>	< 232>	< 246>	< 264>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-5.8	4.1	n.a.	12.0	-1.9	-5.4	n.a.
Outlays for travel	3.2	-4.5	n.a.	-5.4	-1.1	4.9	n.a.
Housing starts <s.a., ann. 10,000 units>	< 88>	< 87>	<n.a.>	< 87>	< 98>	< 91>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-4.1	-1.1	n.a.	-4.3	2.6	3.9	n.a.
Manufacturing	-5.8	-3.2	n.a.	2.8	-3.6	3.9	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	0.0	0.1	n.a.	1.3	2.8	6.2	n.a.
Construction starts (private, nondwelling use)	0.3	8.1	n.a.	9.8	-11.0	2.6	n.a.
Mining & manufacturing	-20.4	0.1	n.a.	4.1	-22.2	3.3	n.a.
Nonmanufacturing ⁵	4.7	9.0	n.a.	12.2	-4.5	1.2	n.a.
Value of public works contracted	9.2	-0.1	1.2	-13.5	18.5	-12.6	11.1
Real exports	4.1	-6.0	n.a.	-3.5	-2.9	0.3	n.a.
Real imports	3.3	0.8	n.a.	6.7	-9.6	2.2	n.a.
Industrial production	-2.0	-4.2	n.a.	-4.1	1.6	-1.4	n.a.
Shipments	-0.2	-5.4	n.a.	-4.3	-0.1	-0.8	n.a.
Inventories	0.0	0.3	n.a.	-0.9	-0.1	-1.2	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 123.6>	< 130.4>	<n.a.>	< 130.4>	< 127.6>	< 127.2>	<n.a.>
Real GDP	-0.0	-0.9	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	-0.5	n.a.	-0.4	0.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2012/Q2	Q3	Q4	2012/Sep.	Oct.	Nov.	Dec.
Active job openings-to-applicants ratio <s.a., times>	<0.81>	<0.82>	<n.a.>	<0.81>	<0.80>	<0.80>	<n.a.>
Unemployment rate <s.a., %>	<4.4>	<4.2>	<n.a.>	<4.2>	<4.2>	<4.1>	<n.a.>
Overtime working hours ⁶	4.0	-0.9	n.a.	-2.0	-3.1	-2.2	n.a.
Number of employees	-0.3	0.5	n.a.	0.1	0.6	0.3	n.a.
Number of regular employees ⁶	0.9	0.6	n.a.	0.6	0.7	0.6	n.a.
Nominal wages per person ⁶	-0.5	-0.7	n.a.	-0.5	-0.4	-0.8	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-1.0 <-0.2>	-1.9 <-1.0>	p -0.8 <p 0.2>	-1.5 <-0.2>	-1.0 <0.3>	-0.9 <0.1>	p -0.6 <p 0.2>
Consumer price index ⁸	0.0	-0.2	n.a.	-0.1	0.0	-0.1	n.a.
Corporate services price index ⁹	0.1	-0.1	n.a.	-0.3	-0.6	p -0.4	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	2.4	2.4	p 2.3	2.4	2.3	2.1	p 2.6
Number of corporate bankruptcies <cases per month>	<1,042>	<975>	<963>	<931>	<1,035>	<964>	<890>

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

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

2. Figures with "p" indicate preliminary data.

3. Excludes small cars with engine sizes of 660 cc or less.

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

5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.

6. Data for establishments with at least five regular employees.

7. Adjusted to exclude a hike in electric power charges during the summer season.

8. All items, less fresh food.

9. Excludes international transportation.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey,"

"Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index";

Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"

"Indices of All Industry Activity";

Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

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

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

Ministry of Finance, "Trade Statistics";

Cabinet Office, "Orders Received for Machinery," "National Accounts";

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

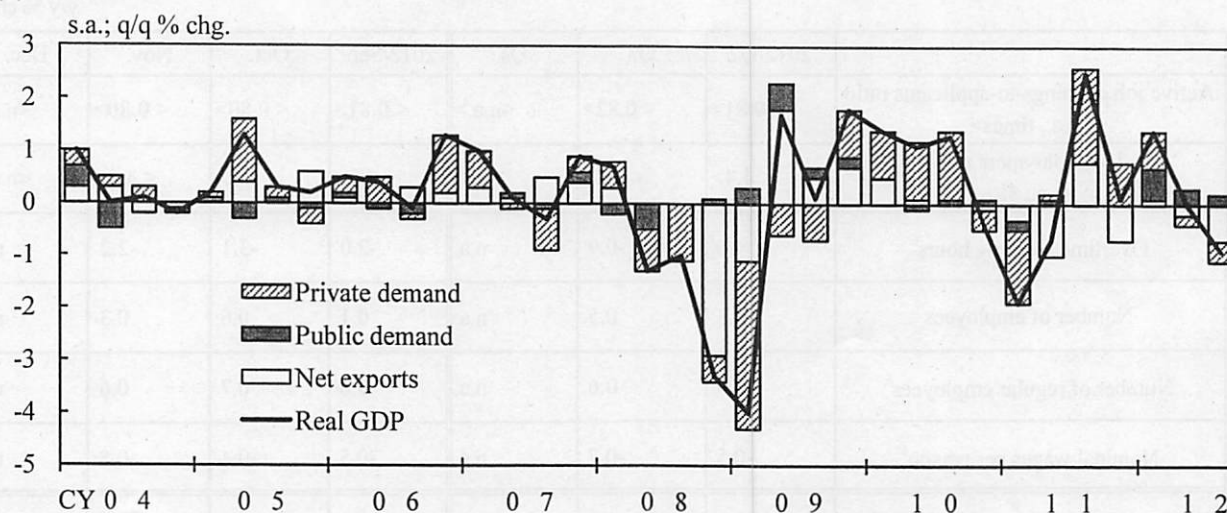
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index," "Money Stock";

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

Real GDP and Indexes of Business Conditions

(1) Real GDP



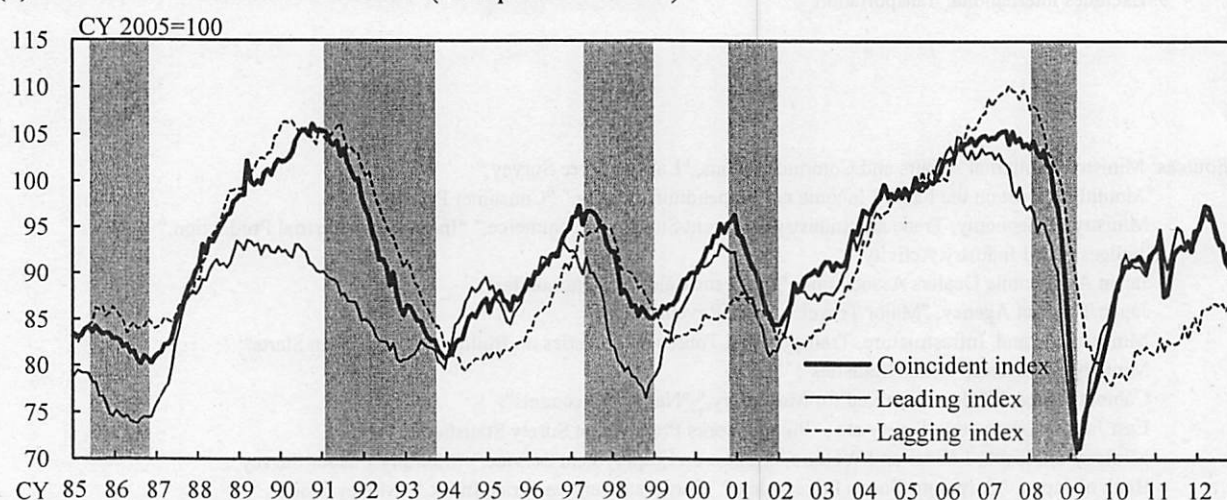
(2) Components

s.a.; q/q % chg.

	2011		2012		
	Q3	Q4	Q1	Q2	Q3
Real GDP	2.5	0.1	1.4	-0.0	-0.9
[Annual rate]	[10.4]	[0.3]	[5.7]	[-0.1]	[-3.5]
Domestic demand	1.7	0.8	1.3	0.1	-0.2
Private demand	1.8	0.8	0.7	-0.2	-0.4
Private consumption	0.8	0.3	0.7	0.0	-0.3
Non-Resi. investment	0.3	1.0	-0.3	0.0	-0.4
Residential investment	0.1	-0.0	-0.0	0.0	0.0
Private inventory	0.5	-0.5	0.3	-0.3	0.3
Public demand	-0.0	0.0	0.6	0.3	0.2
Public investment	-0.1	-0.1	0.3	0.2	0.1
Net exports of goods and services	0.8	-0.7	0.1	-0.2	-0.7
Exports	1.3	-0.6	0.5	0.1	-0.8
Imports	-0.5	-0.1	-0.4	-0.3	0.1
Nominal GDP	2.3	-0.3	1.5	-0.5	-0.9

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

(3) Indexes of Business Conditions (Composite Indexes)

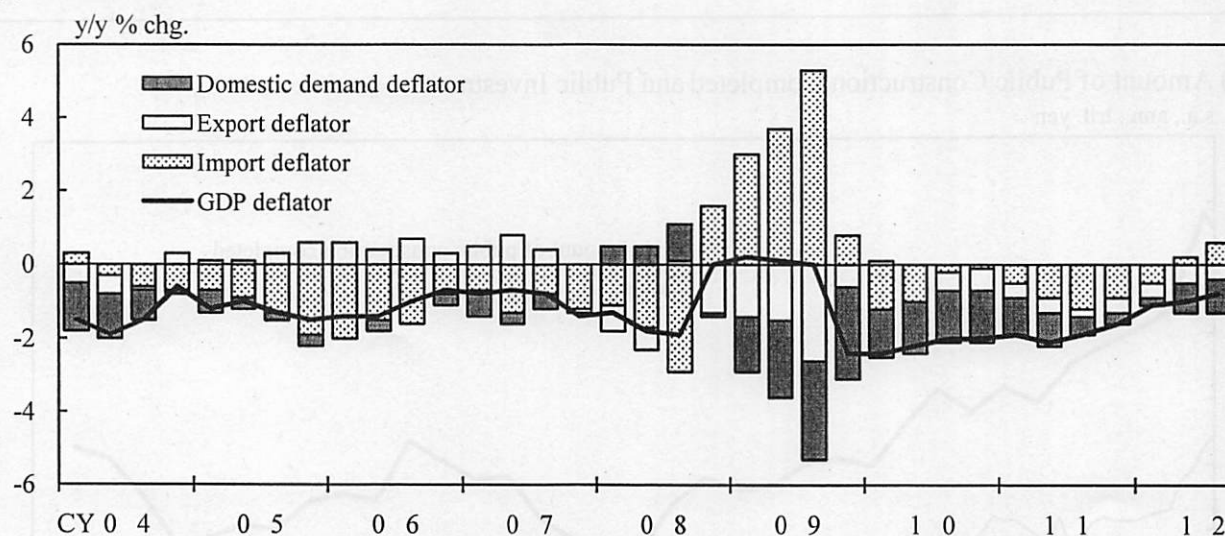


Note: Shaded areas indicate recession periods.

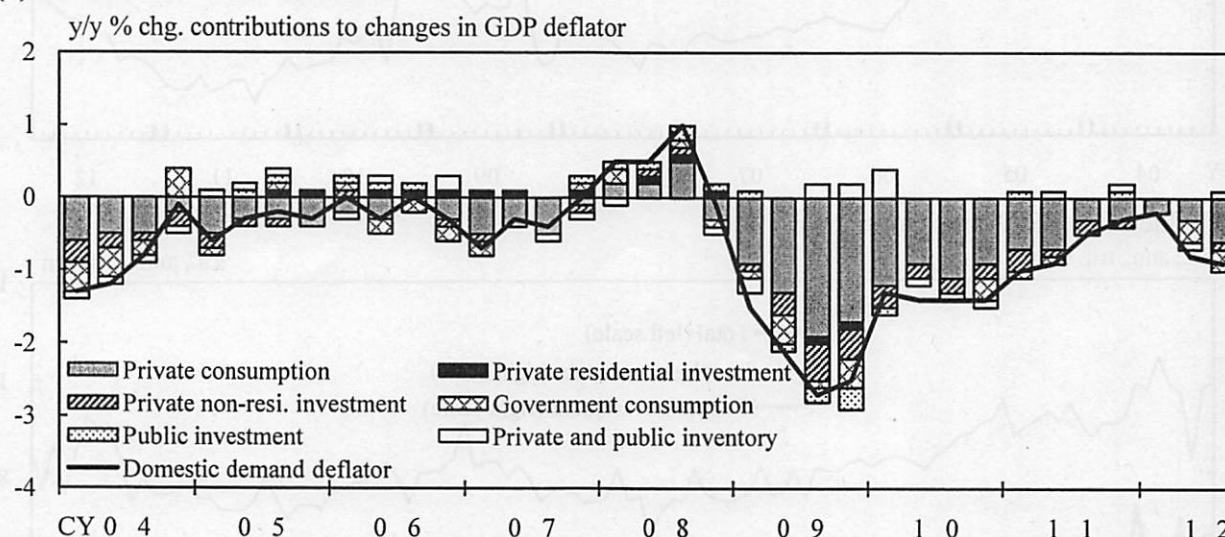
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

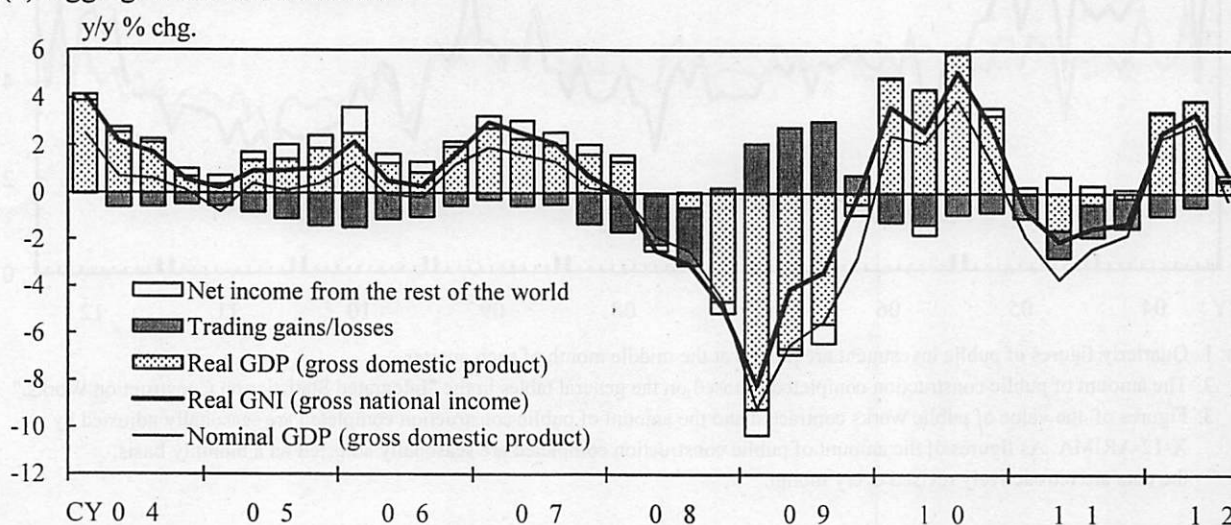
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

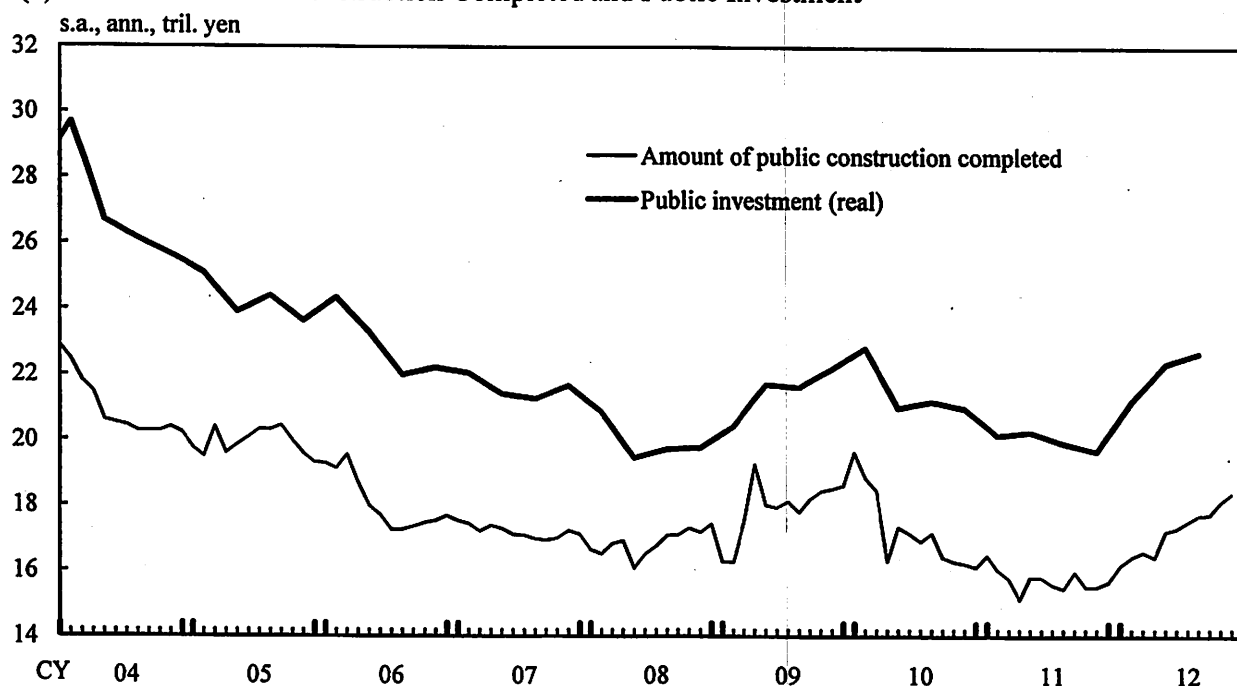
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

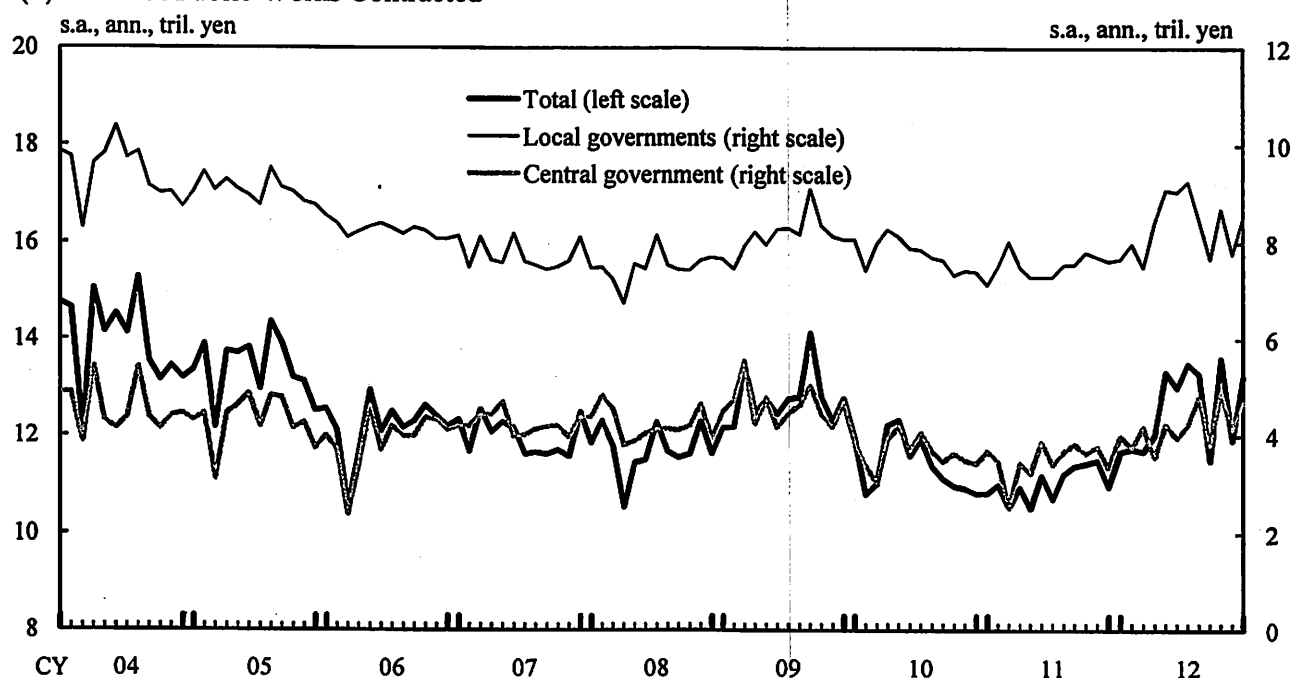
Source: Cabinet Office, "National Accounts."

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.

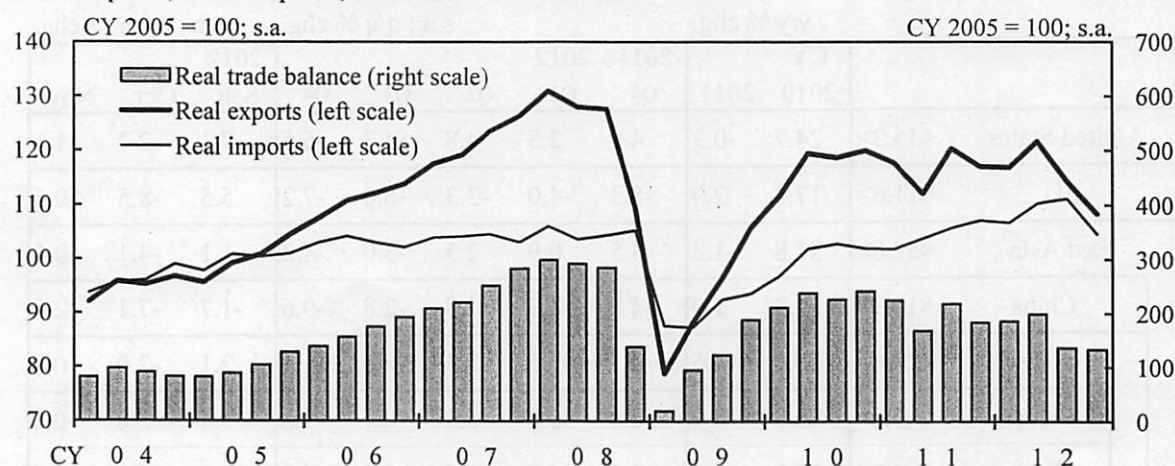
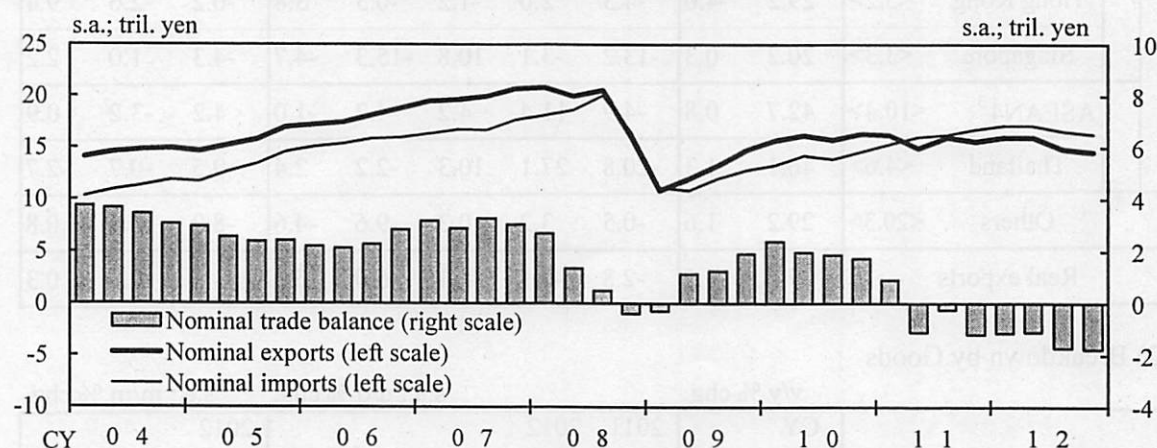
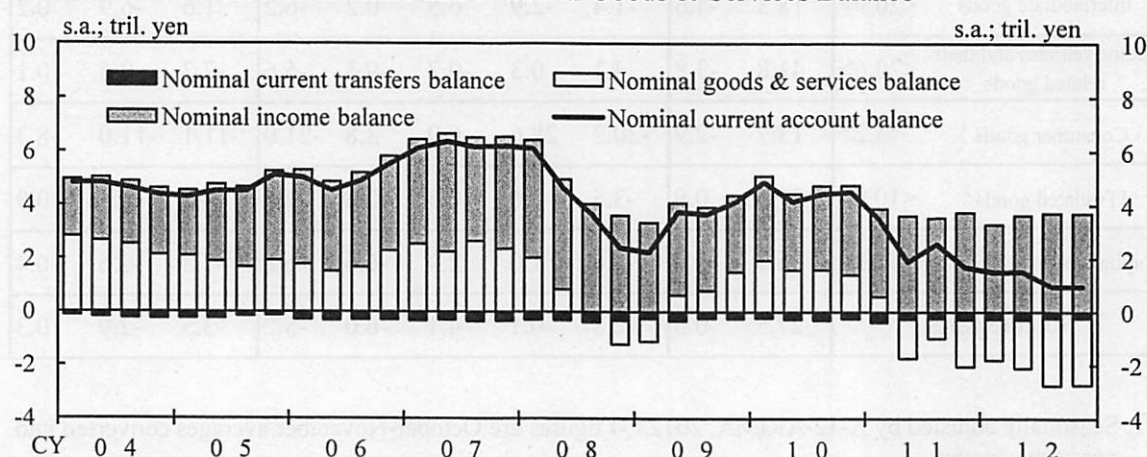
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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 Balance¹(1) Real Exports, Real Imports, and Real Trade Balance²(2) Nominal Exports, Nominal Imports, and Nominal Trade Balance³(3) Nominal Current Account Balance and Nominal Goods & Services Balance³

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q4 figures are October-November averages converted into quarterly amount.

2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." From May 2012 and onward, deflators are calculated by extending the 2005 base deflators using monthly changes of the 2010 base price indices. All the deflators regarding real exports/imports are similarly calculated in the following charts. "Real trade balance" is defined as real exports minus real imports.

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

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Sep.	Oct.	Nov.
United States	<15.3>	24.7	-0.3	4.9	2.5	4.8	-4.7	-5.5	-7.3	-2.3	1.1
EU	<11.6>	17.4	2.9	-8.3	-4.0	-2.3	-6.0	-7.2	5.5	-8.5	-0.5
East Asia	<52.8>	31.8	-1.2	-4.5	0.9	2.5	-3.0	-4.2	1.1	-4.1	-0.4
China	<19.7>	31.3	1.9	-4.8	-1.9	1.8	-2.8	-9.6	-1.7	-7.1	-2.5
NIEs	<22.8>	28.0	-4.6	-4.1	-1.5	2.3	-2.6	-1.1	2.1	-2.0	0.7
Korea	<8.0>	23.6	-3.0	-0.8	0.3	-2.3	-0.1	-1.8	5.4	-2.8	-0.5
Taiwan	<6.2>	36.8	-9.3	-3.6	-4.9	5.9	1.1	-4.3	1.1	-4.1	-2.6
Hong Kong	<5.2>	29.2	-4.0	-4.3	2.0	-1.2	-0.3	3.8	-0.2	-2.6	9.4
Singapore	<3.3>	20.2	0.3	-13.2	-3.1	10.8	-15.3	-4.7	-4.3	1.0	2.2
ASEAN4 ³	<10.4>	42.7	0.8	-4.9	11.4	4.2	-4.2	-1.0	4.2	-3.2	0.9
Thailand	<4.6>	46.1	1.3	-20.8	27.1	10.3	-2.2	2.4	9.5	-0.7	-2.7
Others	<20.3>	29.2	1.6	-0.5	3.2	0.3	-9.6	-4.6	-8.9	0.4	0.8
Real exports		27.5	-0.5	-2.8	-0.1	4.1	-6.0	-5.2	-3.5	-2.9	0.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Sep.	Oct.	Nov.
Intermediate goods	<20.9>	18.3	-4.6	-1.4	-2.9	6.5	0.2	-6.2	1.6	-6.9	0.2
Motor vehicles and their related goods	<20.6>	41.8	-3.8	4.1	0.3	-0.7	-9.3	-5.6	-7.7	0.6	0.1
Consumer goods ⁴	<3.2>	13.7	-2.9	-20.2	28.6	-0.9	3.8	-21.0	-11.1	-11.0	-8.3
IT-related goods ⁵	<10.0>	27.6	0.9	-3.5	1.6	-0.3	-0.8	2.2	0.8	1.6	0.9
Capital goods and parts ⁶	<30.3>	36.3	5.0	-2.6	1.0	2.9	-6.6	-6.8	-7.3	-2.6	-0.4
Real exports		27.5	-0.5	-2.8	-0.1	4.1	-6.0	-5.2	-3.5	-2.9	0.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q4 figures are October-November averages converted into quarterly amount.

2. Shares of each region and goods in 2011 are shown in angle brackets.

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

4. Excludes motor vehicles.

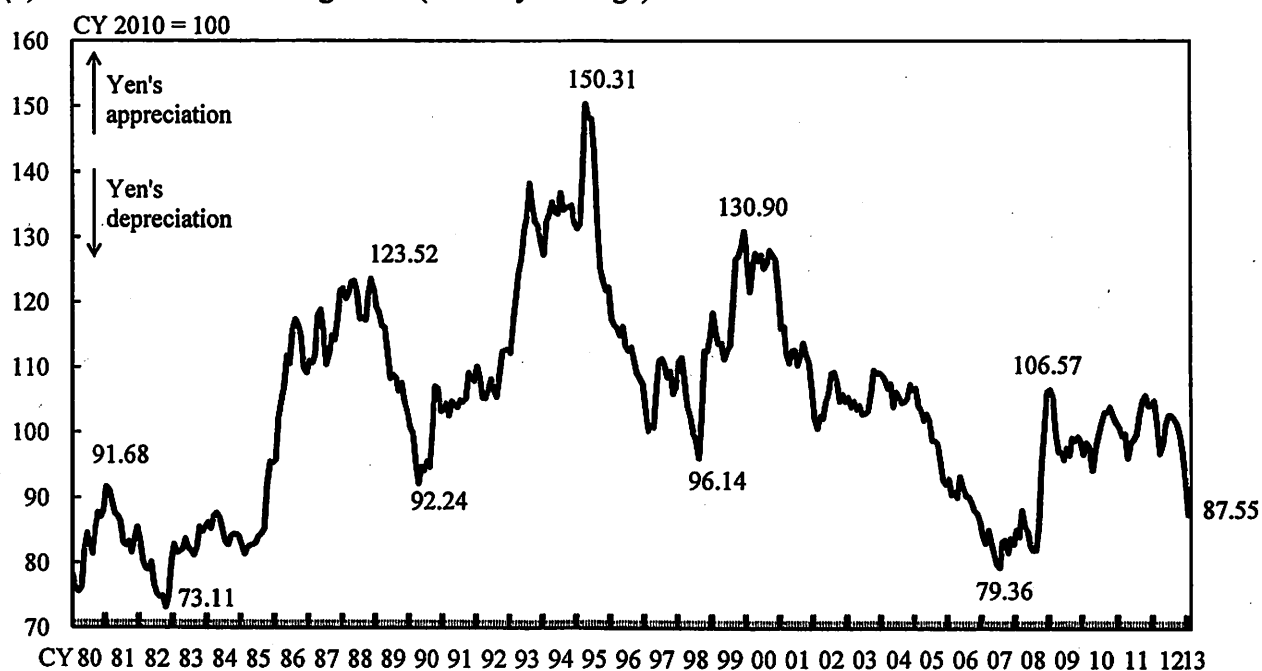
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate (Monthly Average)



Notes: 1. Figures are based on the broad index of the BIS effective exchange rate, and those prior to 1994 are calculated using the narrow index.

2. The figure for January (up to January 18) 2013 has been calculated using the monthly average of the BOJ's nominal effective exchange rate (the Yen Index).

(2) Real GDP Growth Rates of Overseas Economies

	CY2010	2011	2012	2012 Q1	Q2	Q3	Q4
United States ¹	2.4	1.8	n.a.	2.0	1.3	3.1	n.a.
European Union ²	2.1	1.5	n.a.	-0.2	-0.7	0.4	n.a.
Germany ¹	4.2	3.0	0.7	2.0	1.1	0.9	n.a.
France ¹	1.6	1.7	n.a.	-0.2	-0.4	0.4	n.a.
United Kingdom ¹	1.8	0.9	n.a.	-1.0	-1.5	3.8	n.a.
East Asia ³	9.2	5.8	n.a.	9.6	4.8	4.5	n.a.
China ¹	10.4	9.3	7.8	6.1	8.2	8.7	8.2
NIEs ^{1,3}	8.9	4.2	n.a.	4.6	0.2	0.8	n.a.
ASEAN4 ^{1,3,4}	7.3	3.0	n.a.	27.3	8.4	4.5	n.a.
Main economies ³	6.7	4.5	n.a.	6.7	3.3	3.6	n.a.

Notes: 1. Figures for each country are based on those released by the government or central bank. Quarterly figures for China are annualized based on quarter-on-quarter changes released by the National Bureau of Statistics of China.

2. Figures are based on those released by the European Commission.

3. Figures are averages of members' real GDP growth rates, weighted by the value of exports from Japan to each country or region.

The members are described below.

Main economies: United States, European Union, and East Asia

East Asia: China, NIEs, and ASEAN4

NIEs: Korea, Taiwan, Hong Kong, and Singapore

ASEAN4: Thailand, Malaysia, Indonesia, and Philippines

4. To calculate the quarterly figures, real GDP growth rates of some member countries are seasonally adjusted by the Bank of Japan using X-11.

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Sep.	Oct.	Nov.
United States	<8.7>	8.2	-1.0	2.9	1.6	0.3	1.8	-10.6	1.1	-10.5	-0.9
EU	<9.4>	6.4	7.9	0.6	-1.3	0.4	4.2	1.4	-3.3	1.5	7.3
East Asia	<41.5>	22.0	9.1	1.5	-1.8	2.4	-0.4	-1.8	6.5	-6.0	3.6
China	<21.5>	23.9	12.2	2.6	-3.5	3.3	-0.5	0.9	12.0	-6.9	5.0
NIEs	<8.6>	21.6	5.9	2.8	-0.3	0.9	1.7	-3.5	-0.1	-4.3	5.7
Korea	<4.7>	20.9	19.9	3.8	1.6	-4.6	2.9	-3.2	1.3	-2.7	4.1
Taiwan	<2.7>	21.2	-5.6	4.1	-3.4	7.7	1.3	-1.1	1.3	-1.9	1.4
Hong Kong	<0.2>	32.8	-5.4	-0.1	23.3	-16.7	-7.1	-19.8	-7.7	-4.5	-28.1
Singapore	<1.0>	22.9	-2.8	2.6	-2.1	4.6	-3.0	-6.0	0.7	-17.1	30.1
ASEAN4 ³	<11.5>	18.2	4.8	-2.3	1.1	1.6	-2.0	-6.9	-0.6	-4.9	-2.0
Thailand	<2.9>	25.7	4.0	-14.9	4.7	10.1	-3.2	-3.4	2.6	0.3	-3.7
Others	<40.4>	6.8	-0.3	1.2	0.8	5.2	0.4	-13.3	13.4	-21.4	4.4
Real imports		12.0	3.7	1.3	-0.4	3.3	0.8	-5.9	6.7	-9.6	2.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q4	2012 Q1	Q2	Q3	Q4	2012 Sep.	Oct.	Nov.
Raw materials ⁴	<39.8>	5.5	-0.2	0.6	2.6	3.2	0.3	-15.7	14.6	-25.4	8.0
Intermediate goods	<15.0>	18.5	8.7	0.7	-6.9	0.5	4.8	-5.2	2.6	-7.8	4.0
Foodstuffs	<8.6>	2.2	1.6	0.6	0.8	-3.7	1.2	-5.5	1.6	-4.1	-4.6
Consumer goods ⁵	<8.1>	22.7	6.1	-3.3	-0.1	2.5	-5.2	-6.7	-2.5	-2.1	-2.4
IT-related goods ⁶	<9.8>	26.7	8.1	5.5	0.1	1.1	3.1	6.9	10.1	-1.9	9.7
Capital goods and parts ⁷	<10.4>	19.0	9.5	2.5	1.5	4.5	-1.4	-5.4	4.6	-7.4	2.9
Excluding aircraft	<10.0>	21.8	10.6	1.0	-1.1	4.6	-1.0	-3.9	1.1	-3.2	1.3
Real imports		12.0	3.7	1.3	-0.4	3.3	0.8	-5.9	6.7	-9.6	2.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2012/Q4 figures are October-November averages converted into quarterly amount.

2. Shares of each region and goods in 2011 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

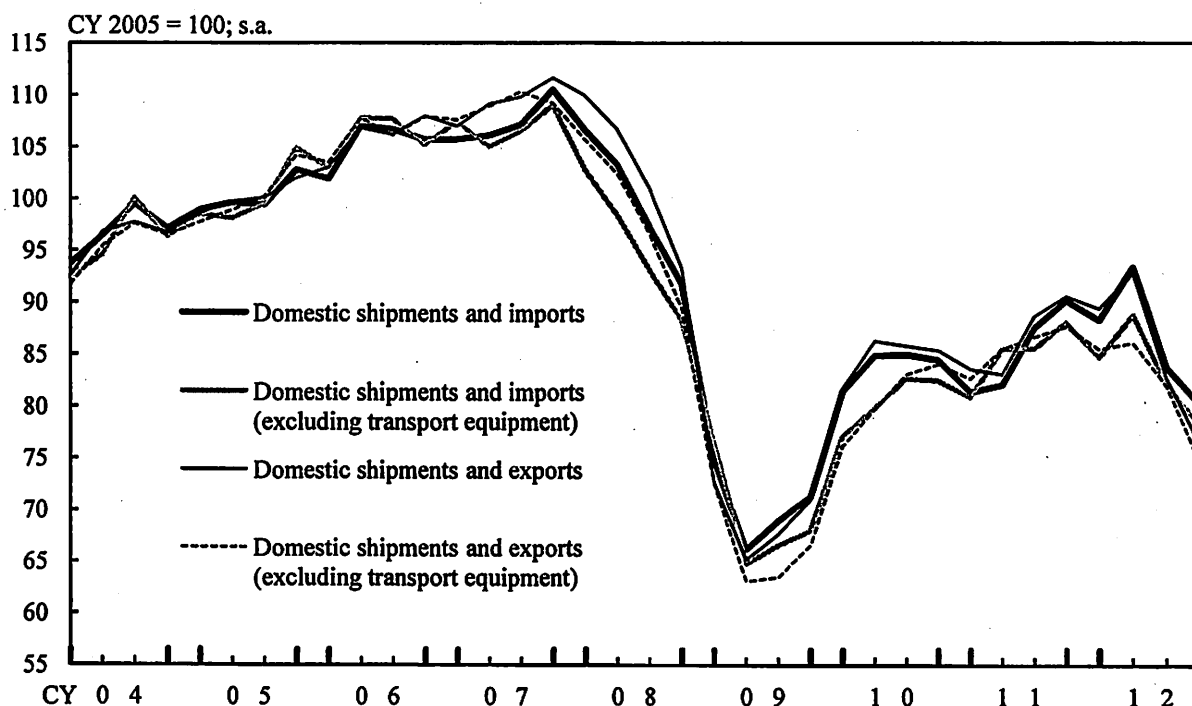
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

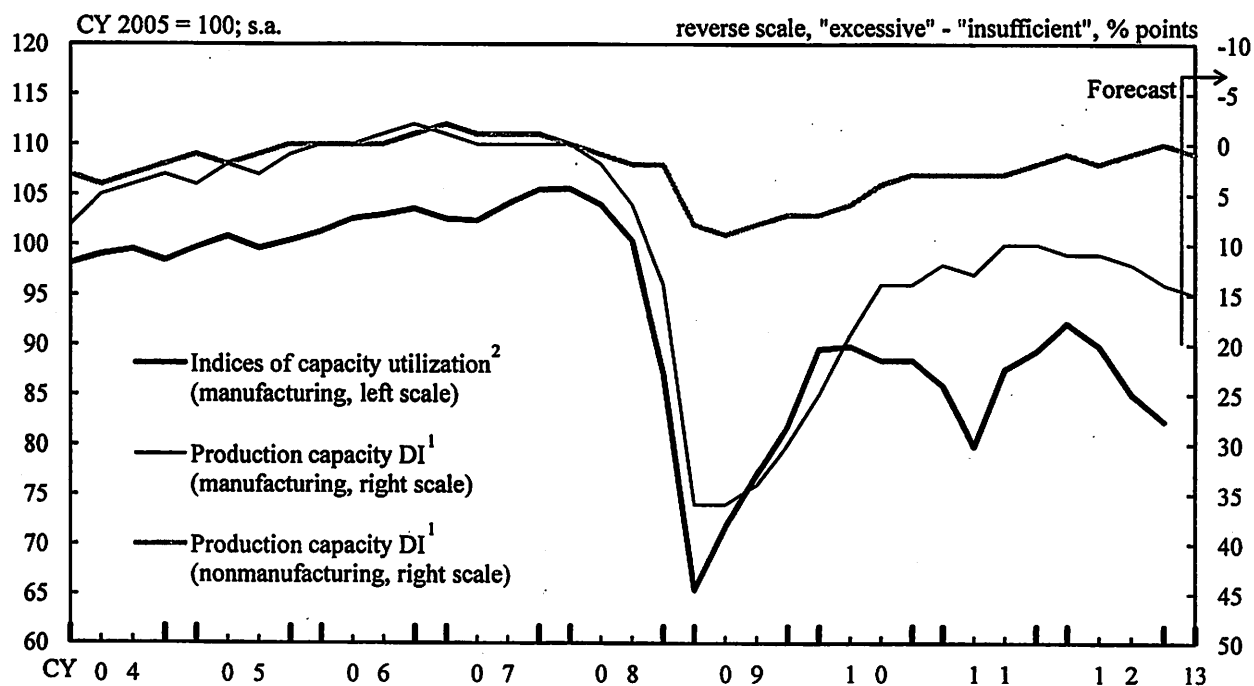
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2012/Q4 are October-November averages.

(2) Indices of Capacity Utilization and Production Capacity DI



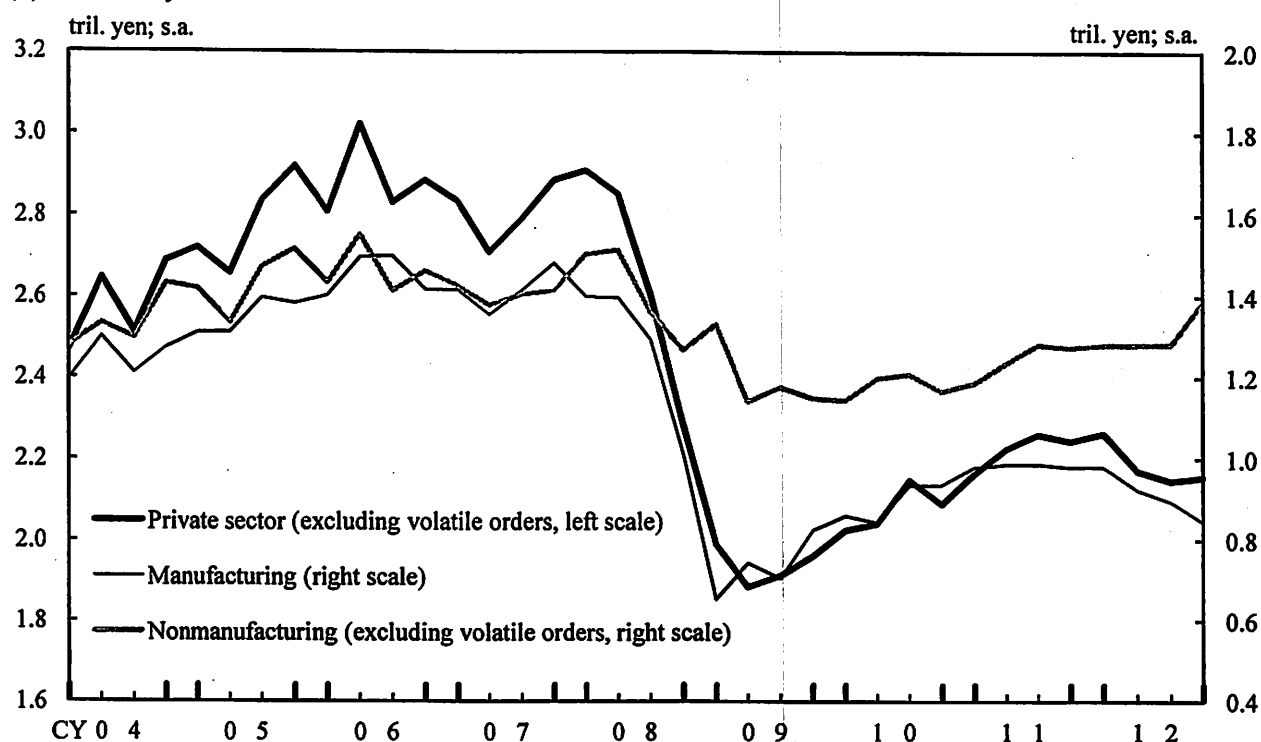
Notes: 1. Production capacity DIs are those of all enterprises.

2. The figure for 2012/Q4 is the average of October-November.

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

Leading Indicators of Business Fixed Investment

(1) Machinery Orders

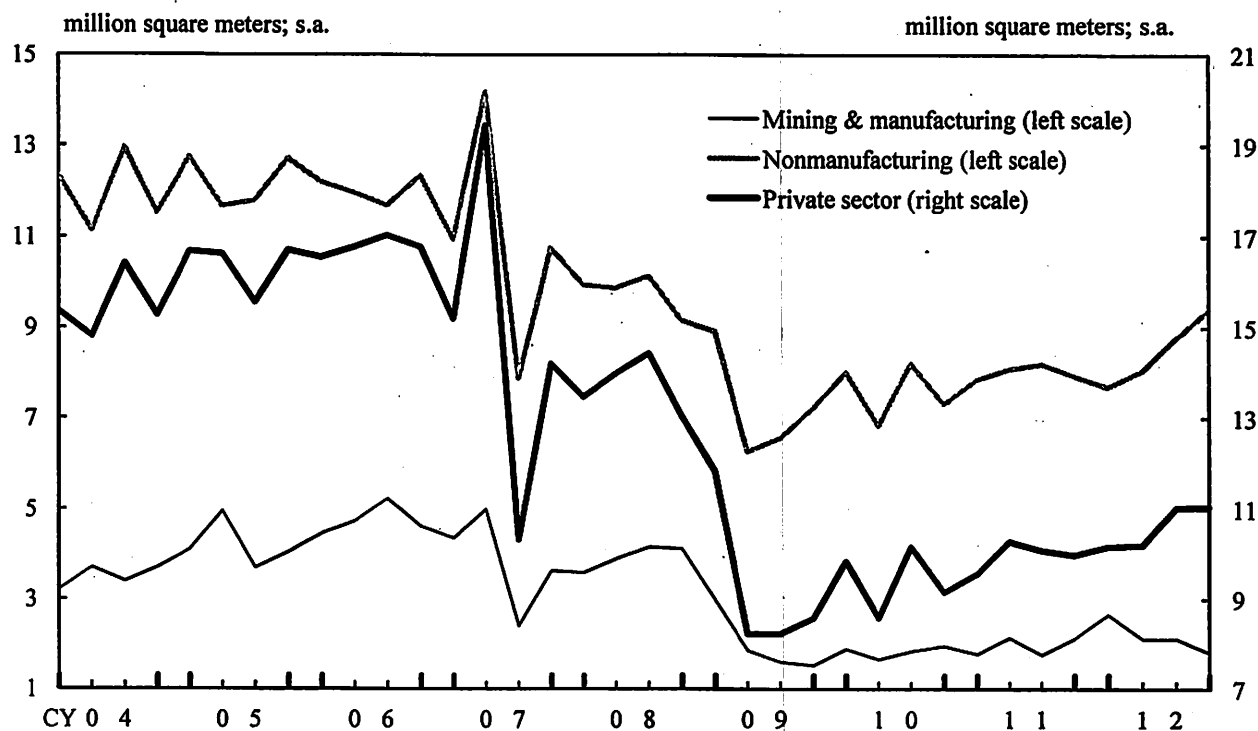


Notes: 1. Figures up to FY 2004 are estimated by the Cabinet Office.

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

3. Figures for 2012/Q4 are October-November averages in quarterly amount.

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



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

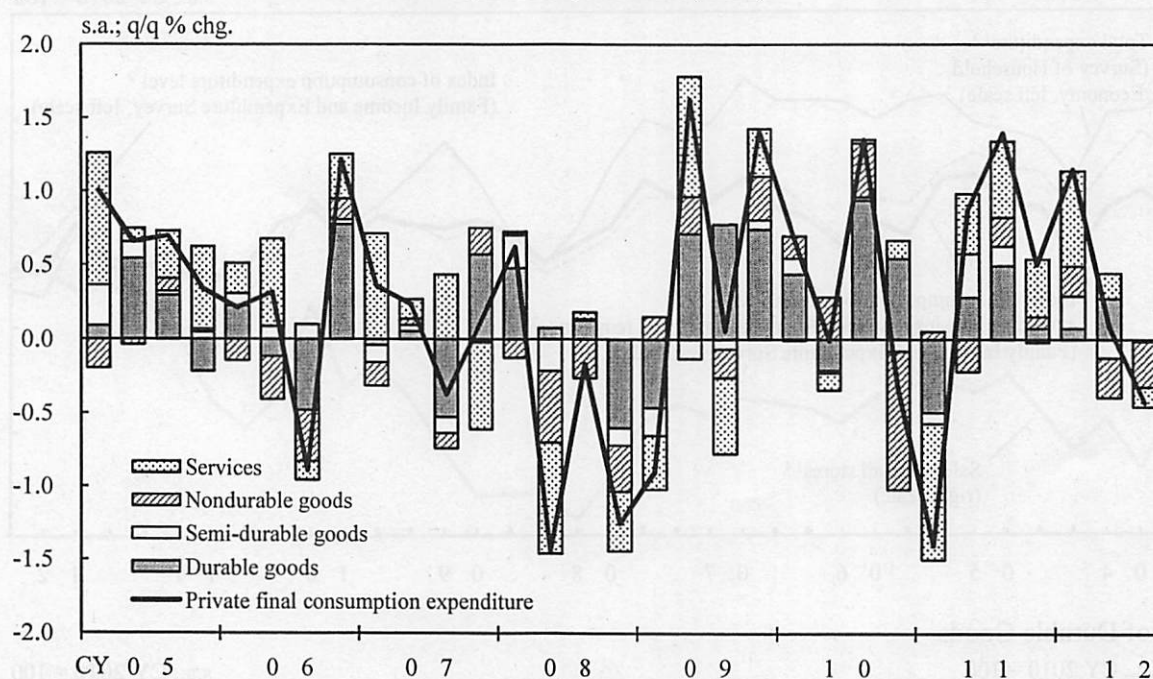
2. Figures for 2012/Q4 are October-November averages in quarterly amount.

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

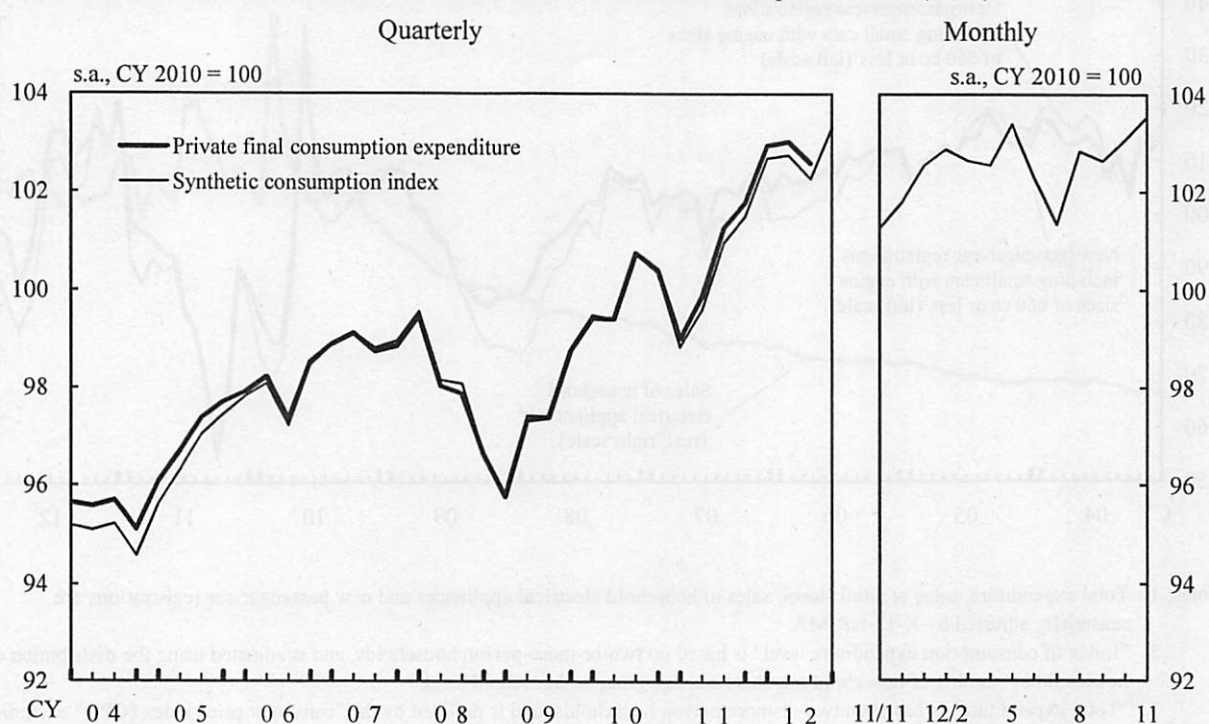
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



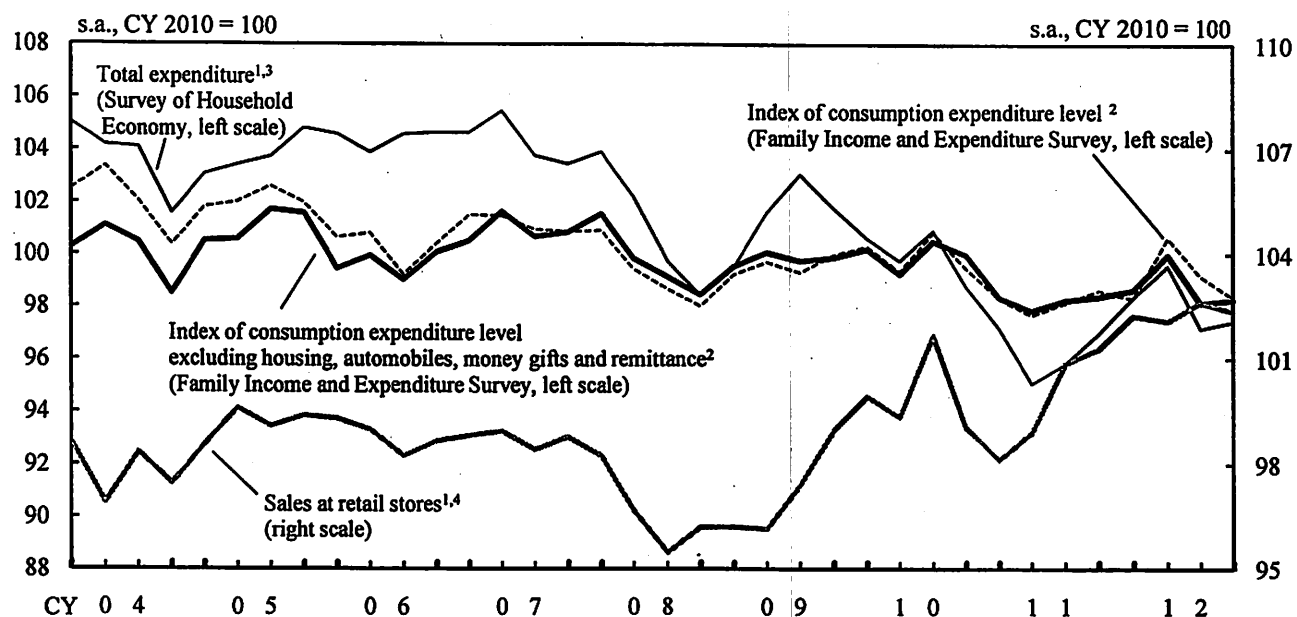
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



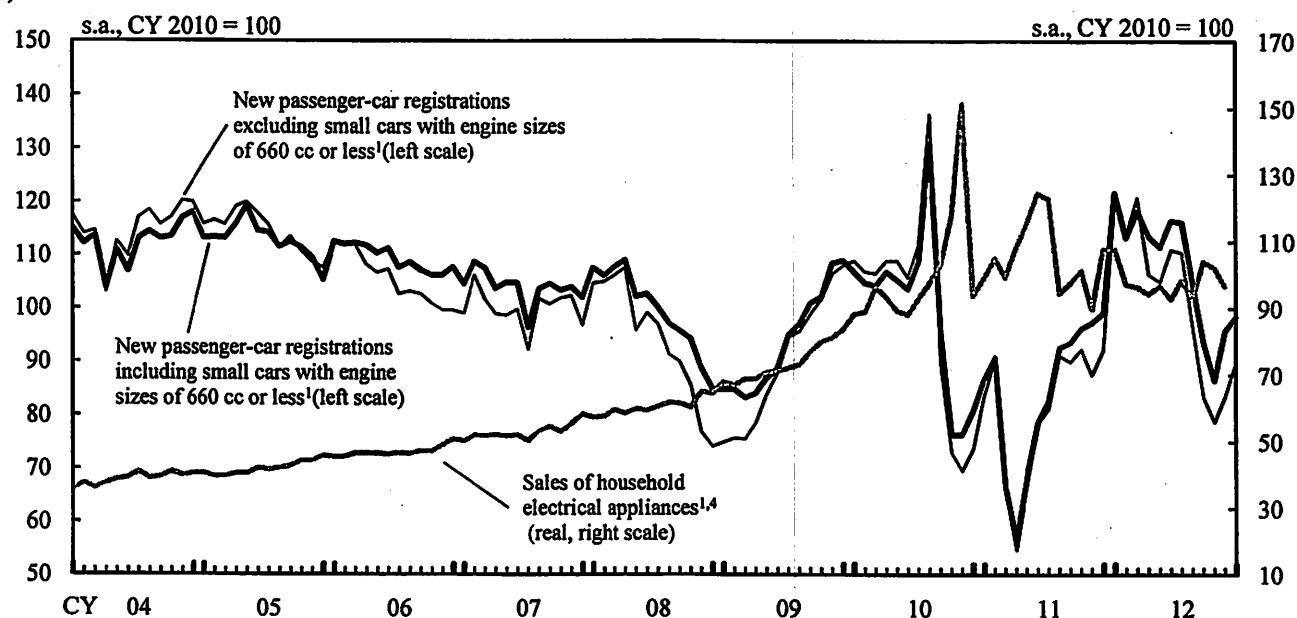
Note: The figure of the synthetic consumption index for 2012/Q4 is the average of October-November in quarterly amount.

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

Indicators of Private Consumption (2)

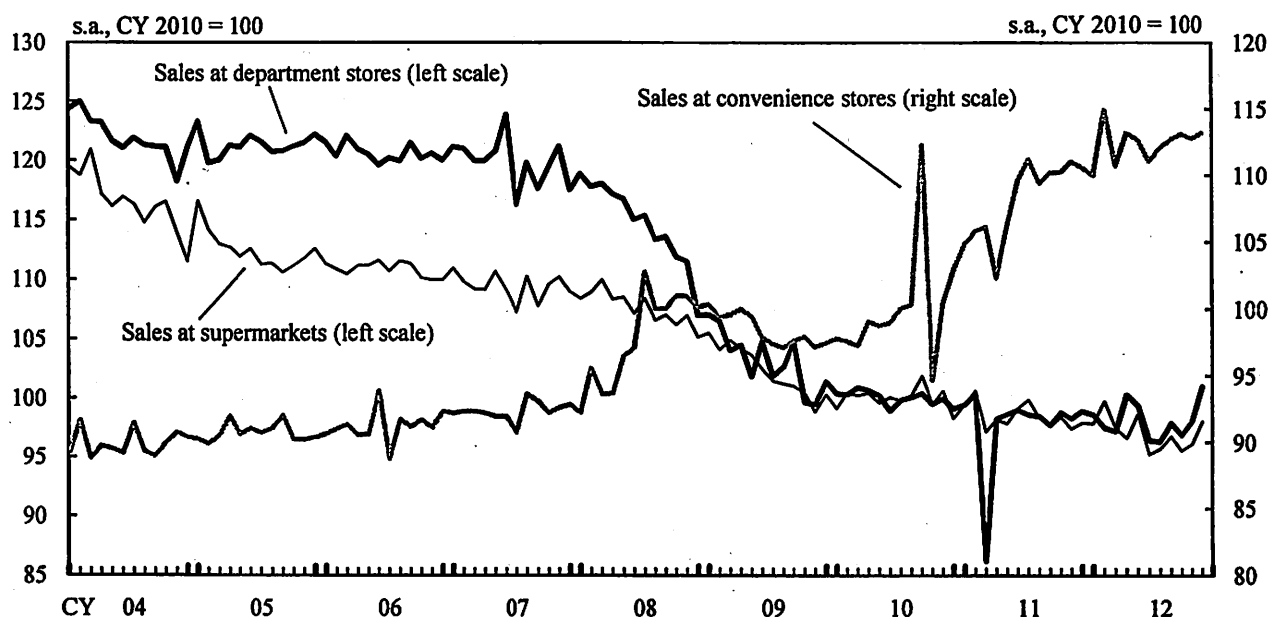
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

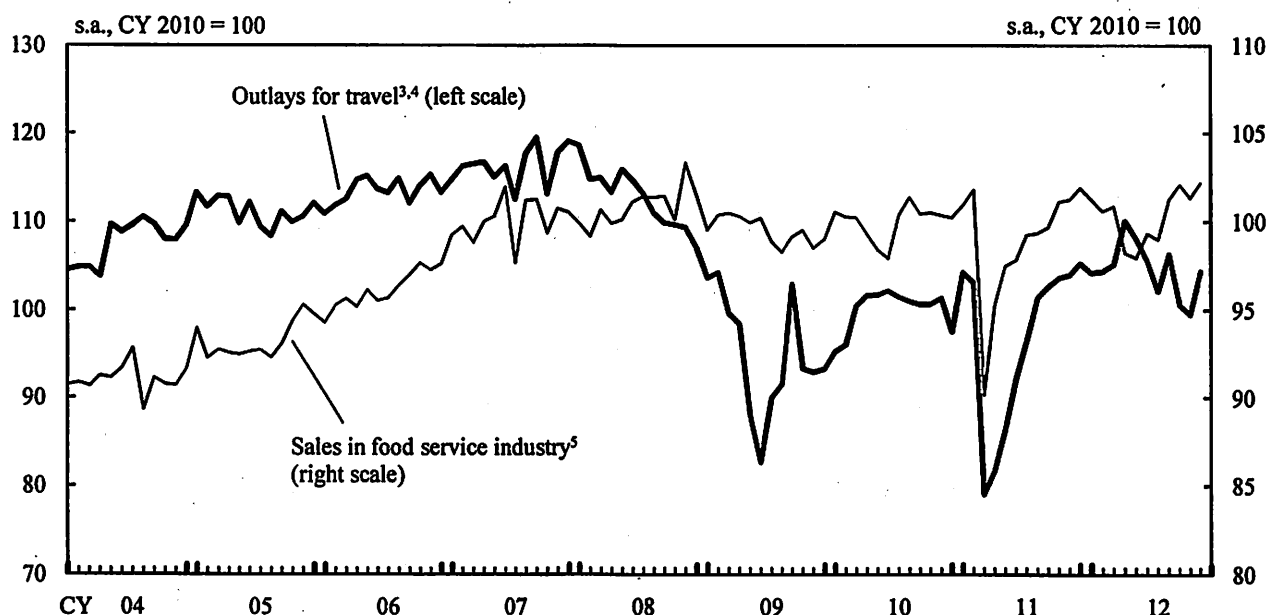


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
 2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household by number of household members and age group of household head.
 3. "Total expenditure" is based on two-or-more-person households, and is deflated by the "consumer price index (CPI)" excluding imputed rent.
 4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges).
 "Sales of household electrical appliances" is calculated as follows: indices of retail sales, of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.
 5. Figures for 2012/Q4 are those of October-November averages in quarterly amount.

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

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

(2) Consumption of Services (Nominal)



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

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

3. Excluding those by foreign travelers.

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

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

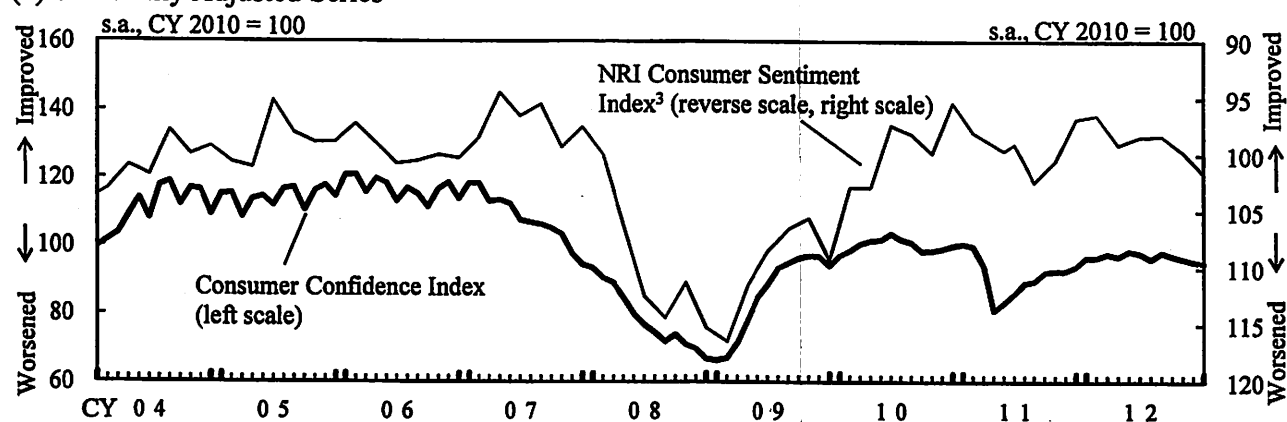
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

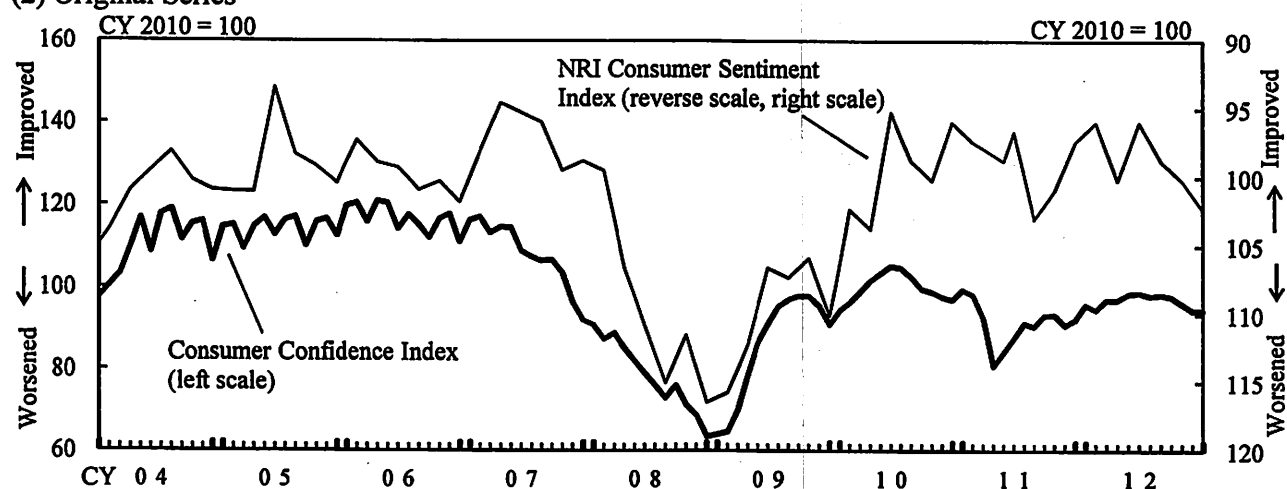
Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly survey of food service sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (Research on the food service industry)."

Consumer Confidence^{1,2}

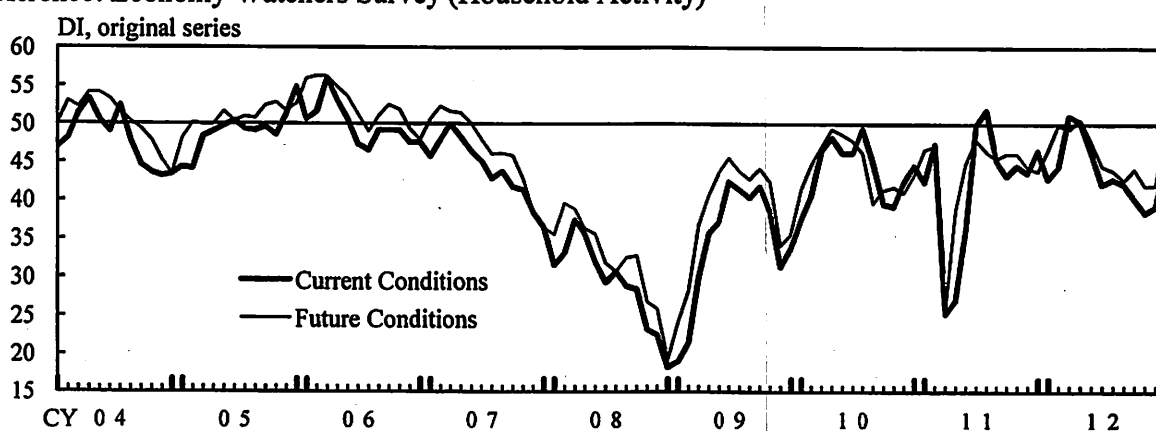
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)



Notes: 1. The Consumer Confidence Index (covering about 4,700 samples on a nationwide basis) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

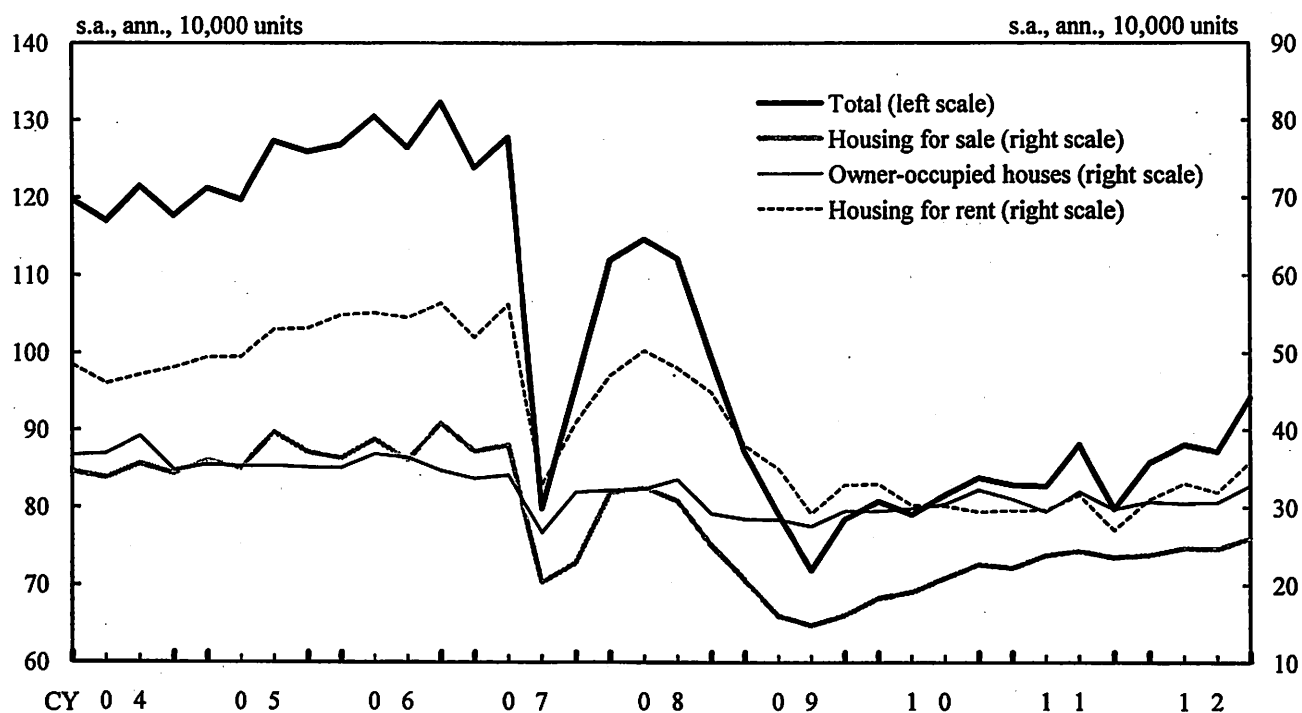
2. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.

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

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

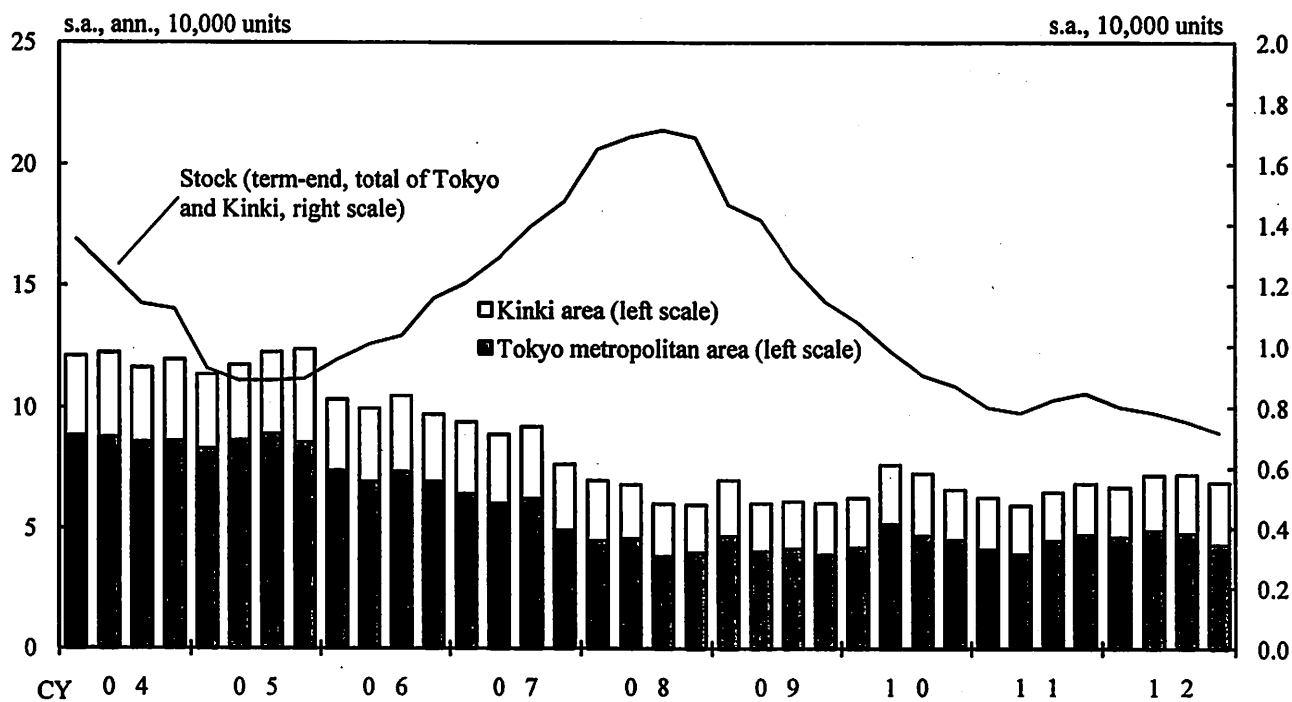
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2012/Q4 are October-November averages.

(2) Sales of Apartments

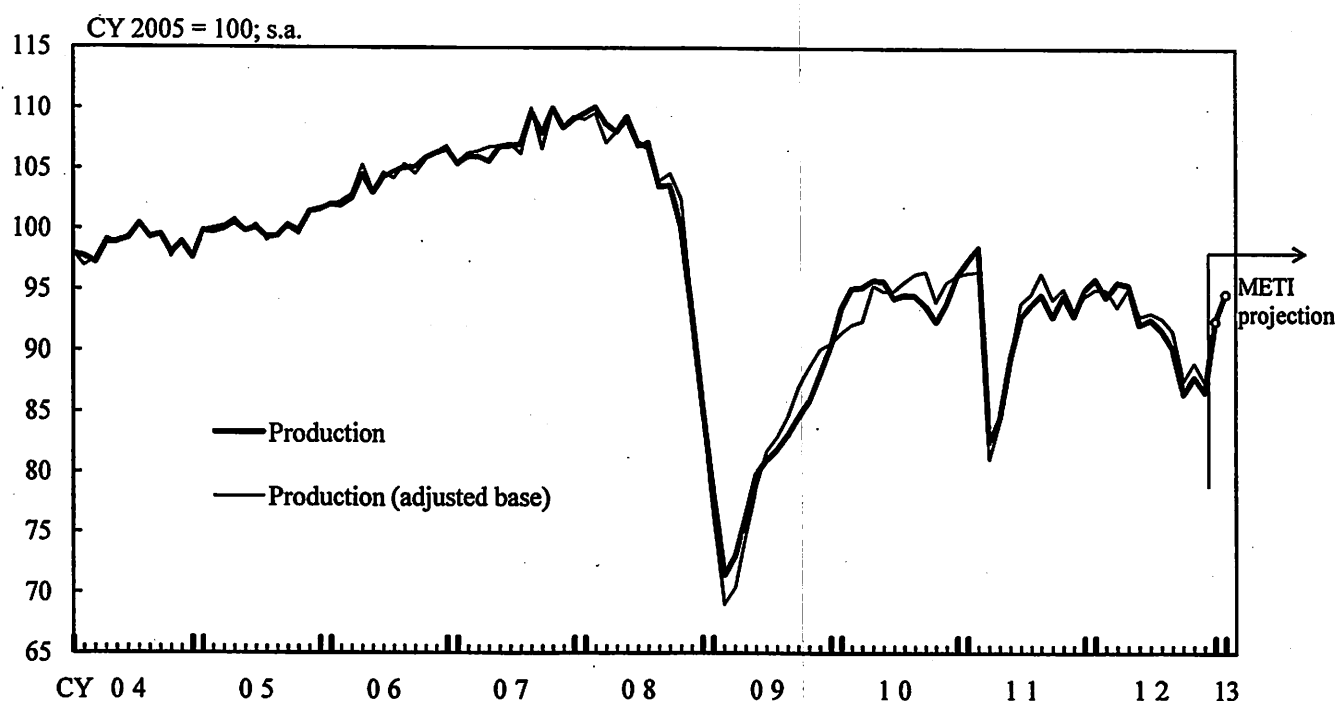


Note: Seasonally adjusted by X-12-ARIMA.

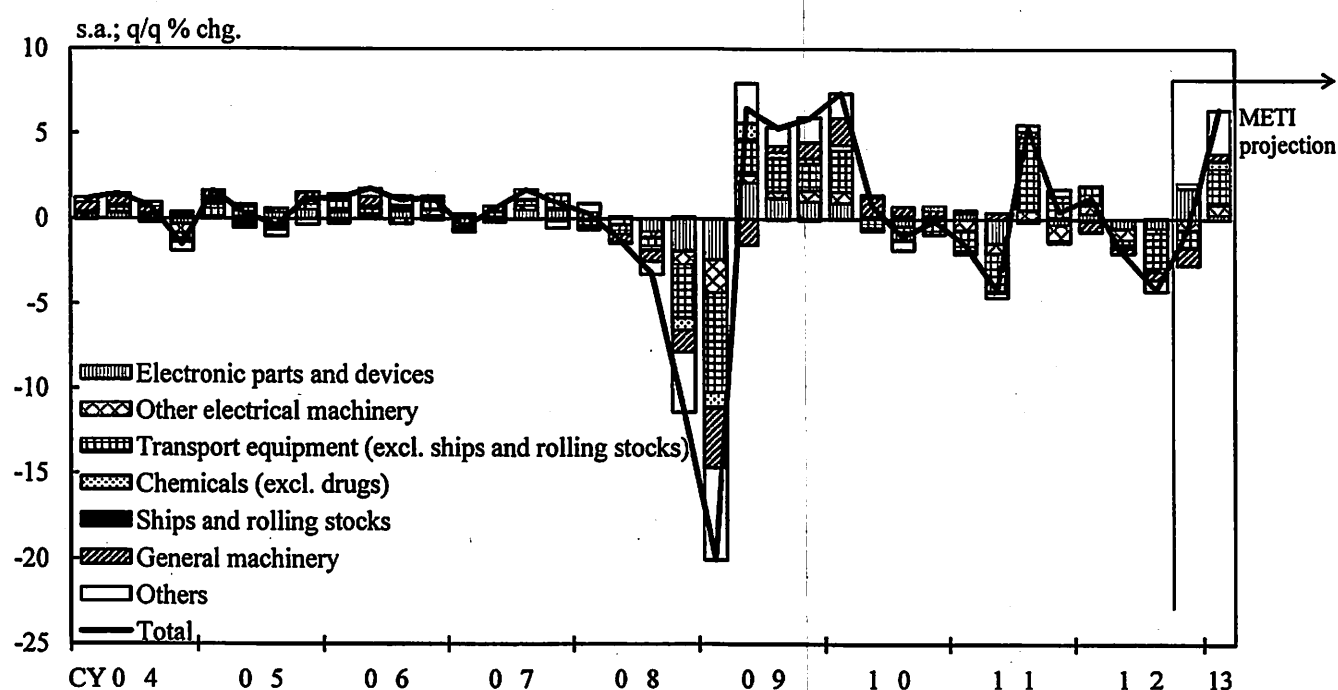
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production

(1) Production



(2) Production by Industry



Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

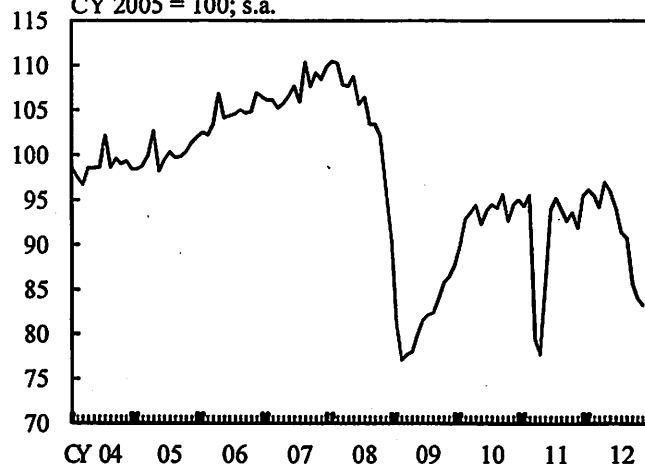
3. 2012/Q4 figures are based on the actual production levels in October and November, and the METI projection of December. 2013/Q1 figures are based on the assumption that the production levels in February and March are the same as those of January.

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

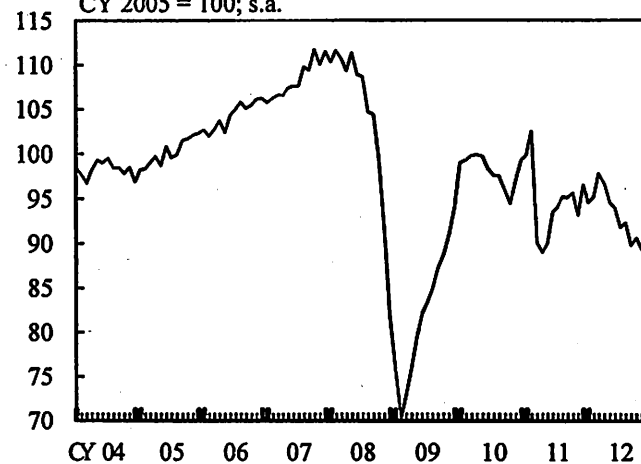
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods

Final demand goods <50.7%>
CY 2005 = 100; s.a.



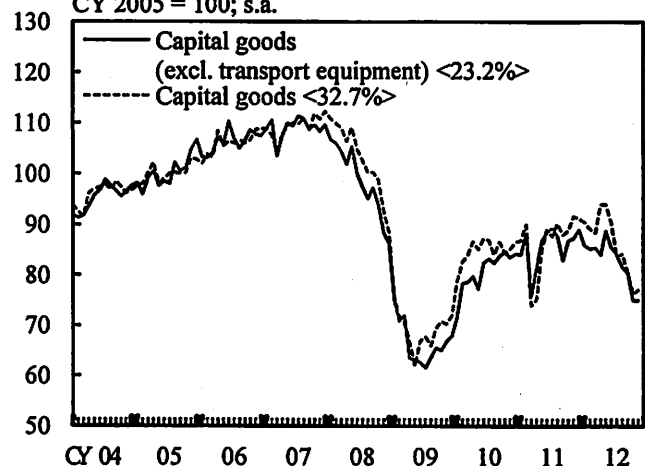
Producer goods <49.3%>
CY 2005 = 100; s.a.



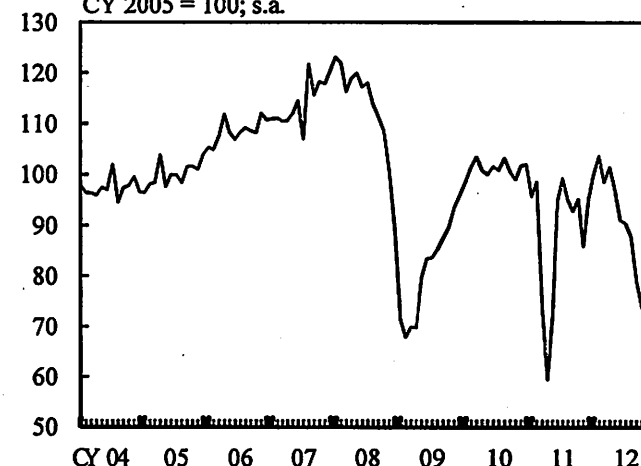
Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

(2) Breakdown of Final Demand Goods

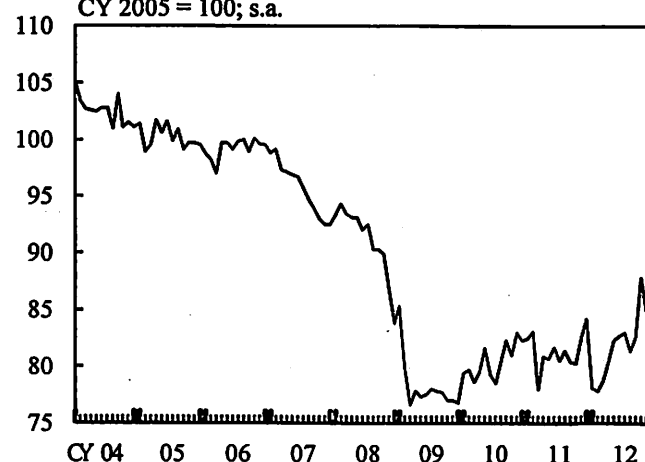
Capital goods
CY 2005 = 100; s.a.



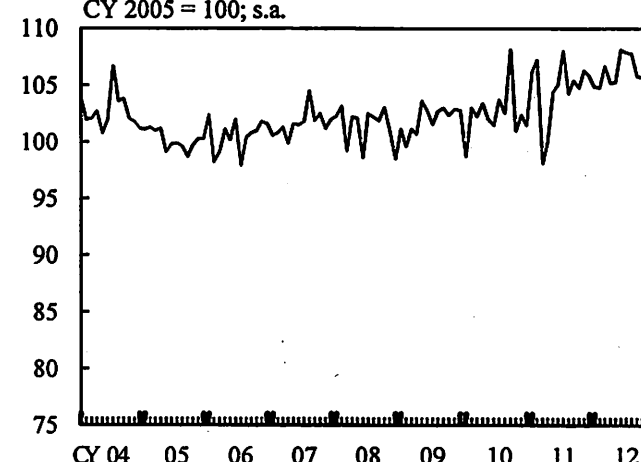
Durable consumer goods <31.7%>
CY 2005 = 100; s.a.



Construction goods <12.1%>
CY 2005 = 100; s.a.



Non-durable consumer goods <23.6%>
CY 2005 = 100; s.a.

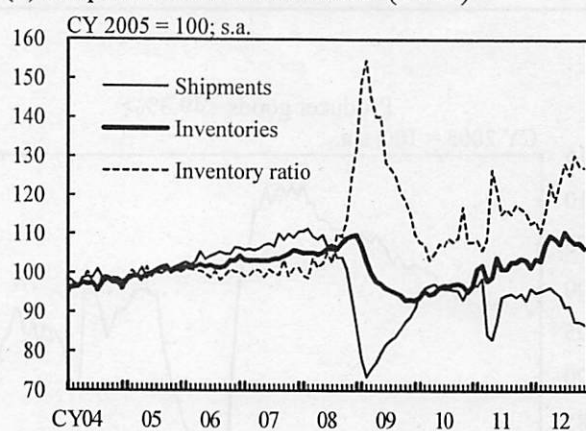


Note: Figures in angle brackets show the shares among shipments of final demand goods.

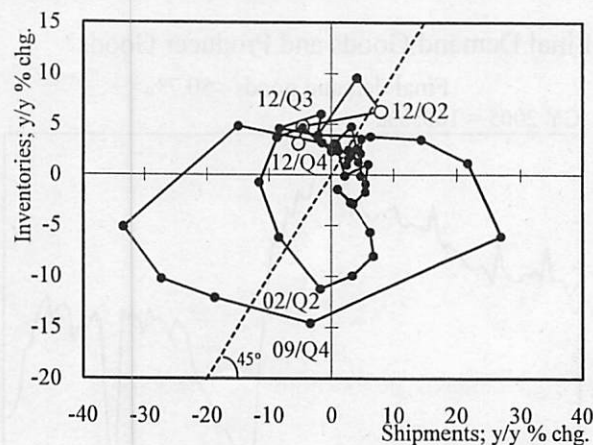
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments and Inventories

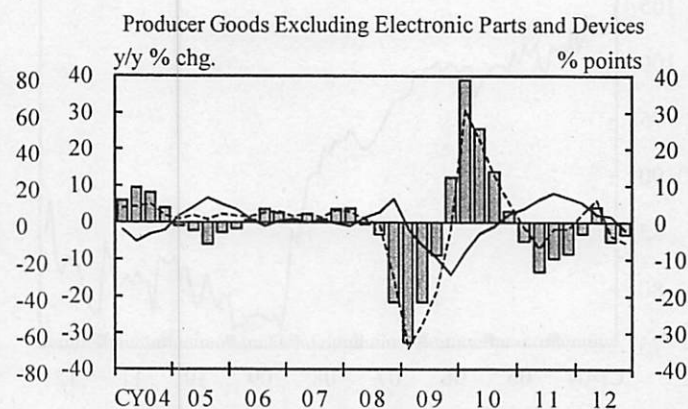
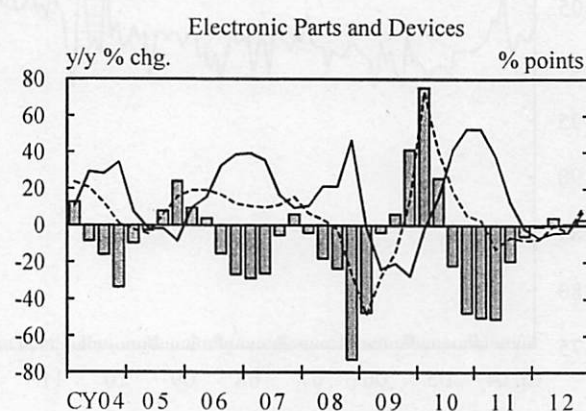
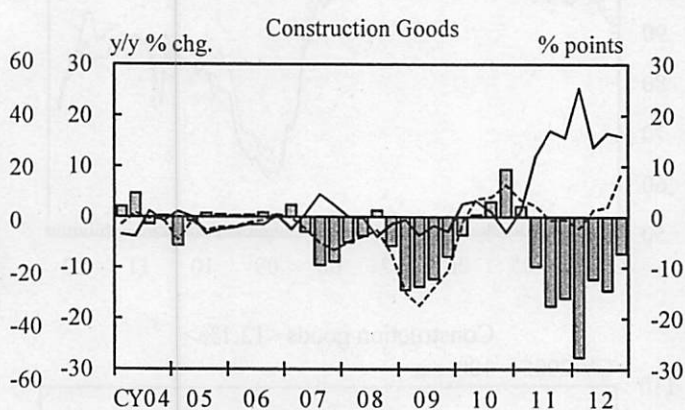
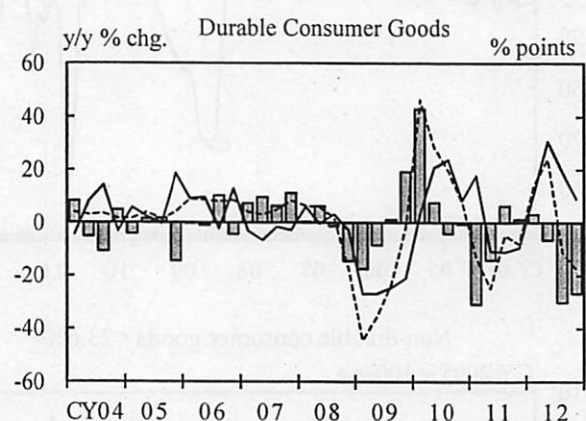
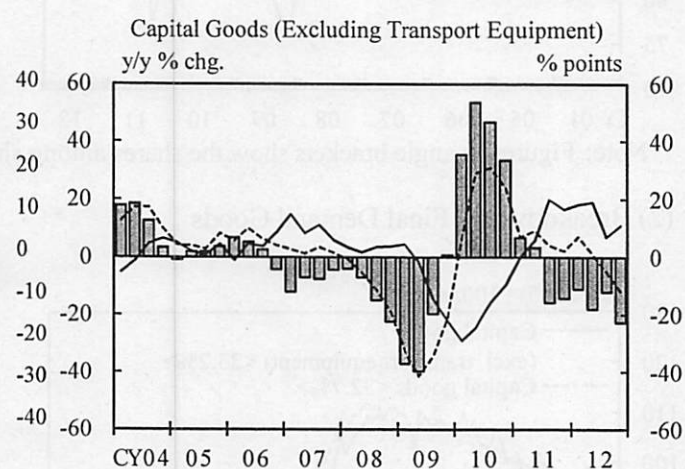
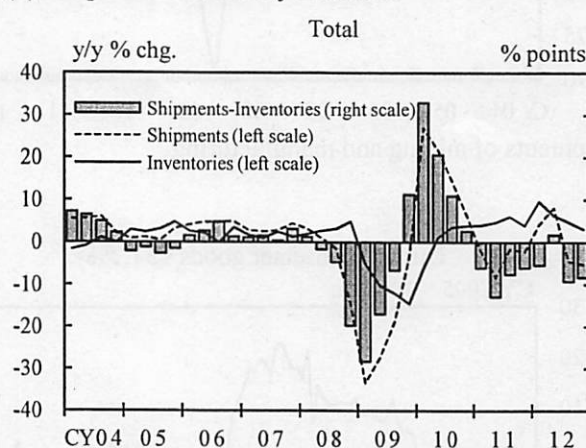
(1) Shipments and Inventories (Total)



(2) Inventory Cycle (Total)



(3) Shipment-Inventory Balance



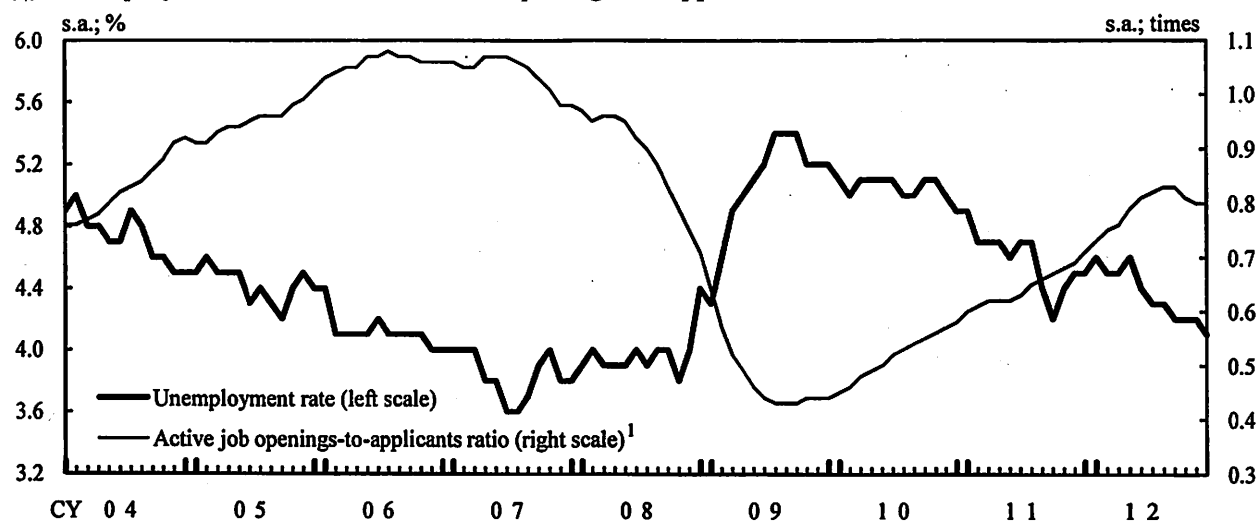
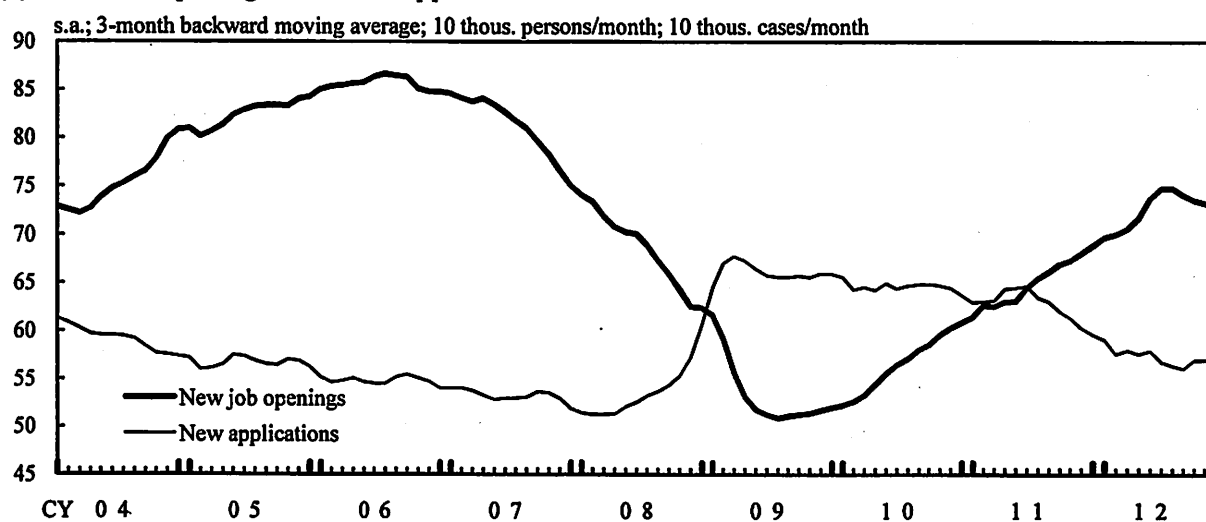
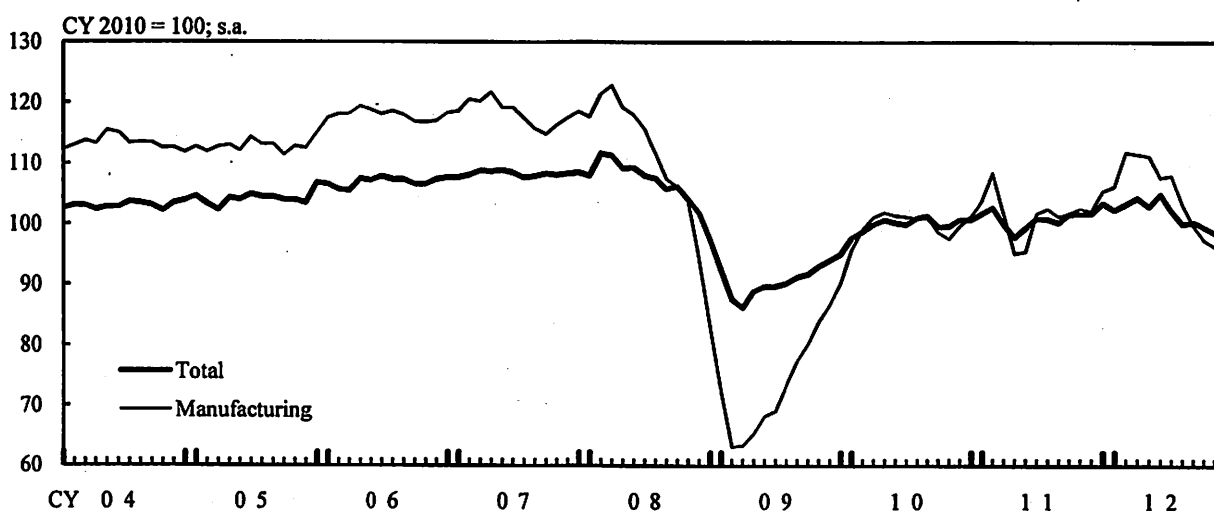
Note: Figures of shipments for 12/Q4 are October-November averages.

Inventories for 12/Q4 are those of November.

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

Labor Market

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

(2) New Job Openings and New Applications¹(3) Non-Scheduled Hours Worked²

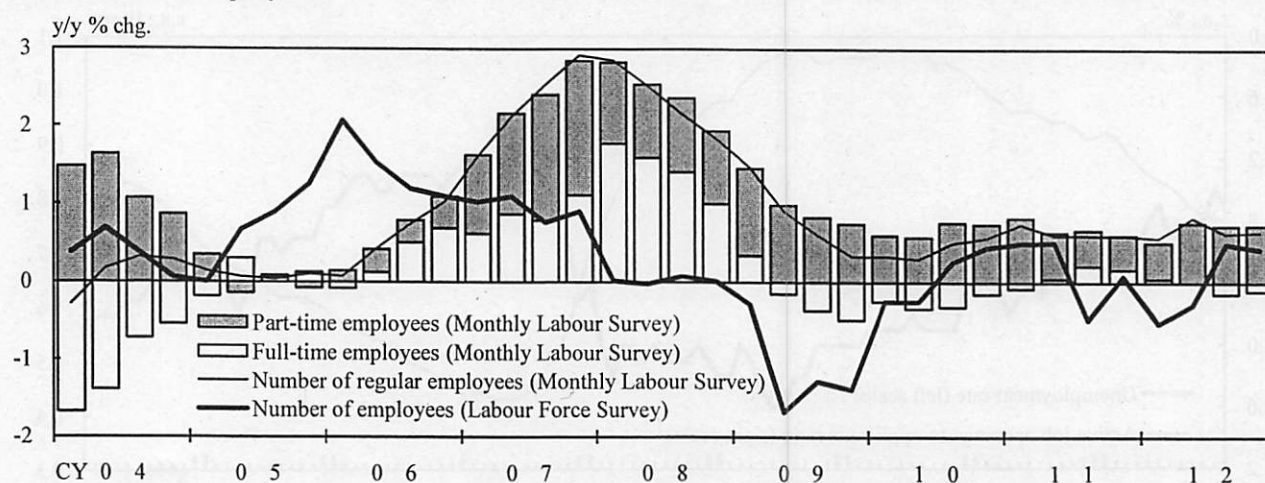
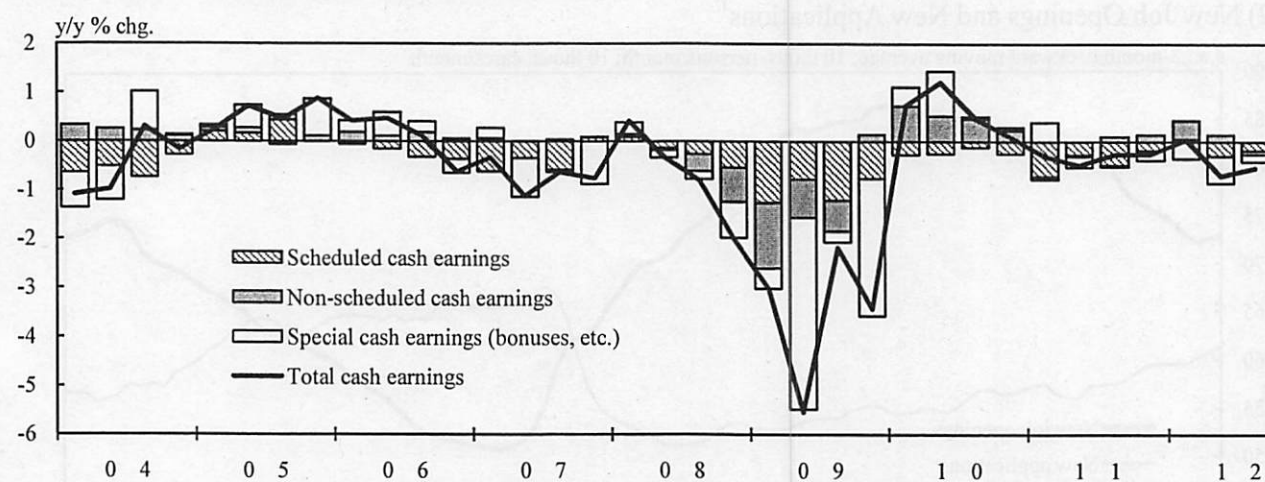
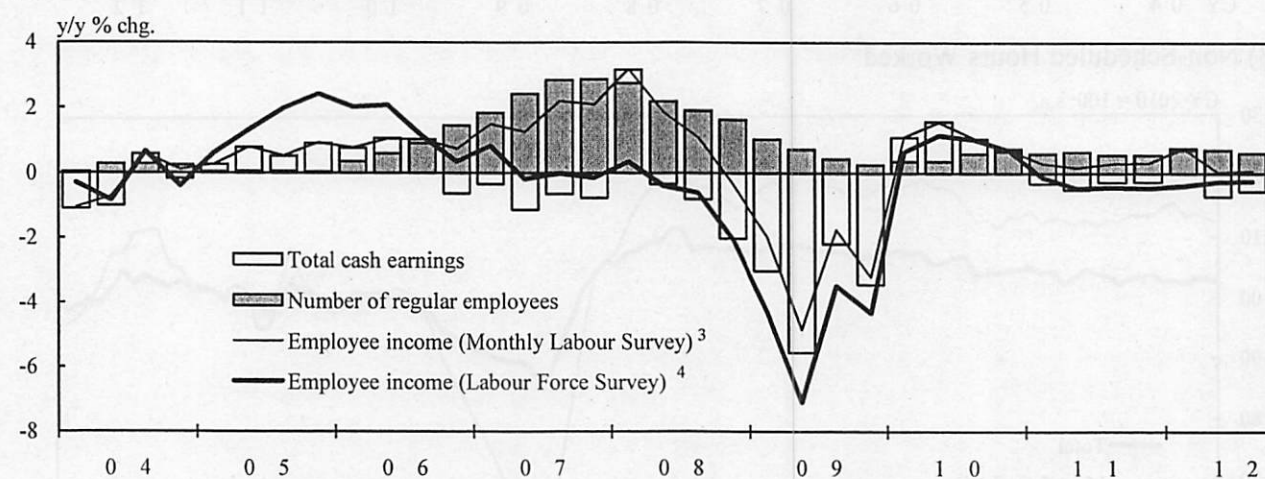
Notes: 1. Excluding new school graduates and including part-timers.

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

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";

Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employee Income

(1) Number of Employees^{1,5}(2) Breakdown of Total Cash Earnings^{1,2}(3) Breakdown of Employee Income^{1,2}

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

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

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

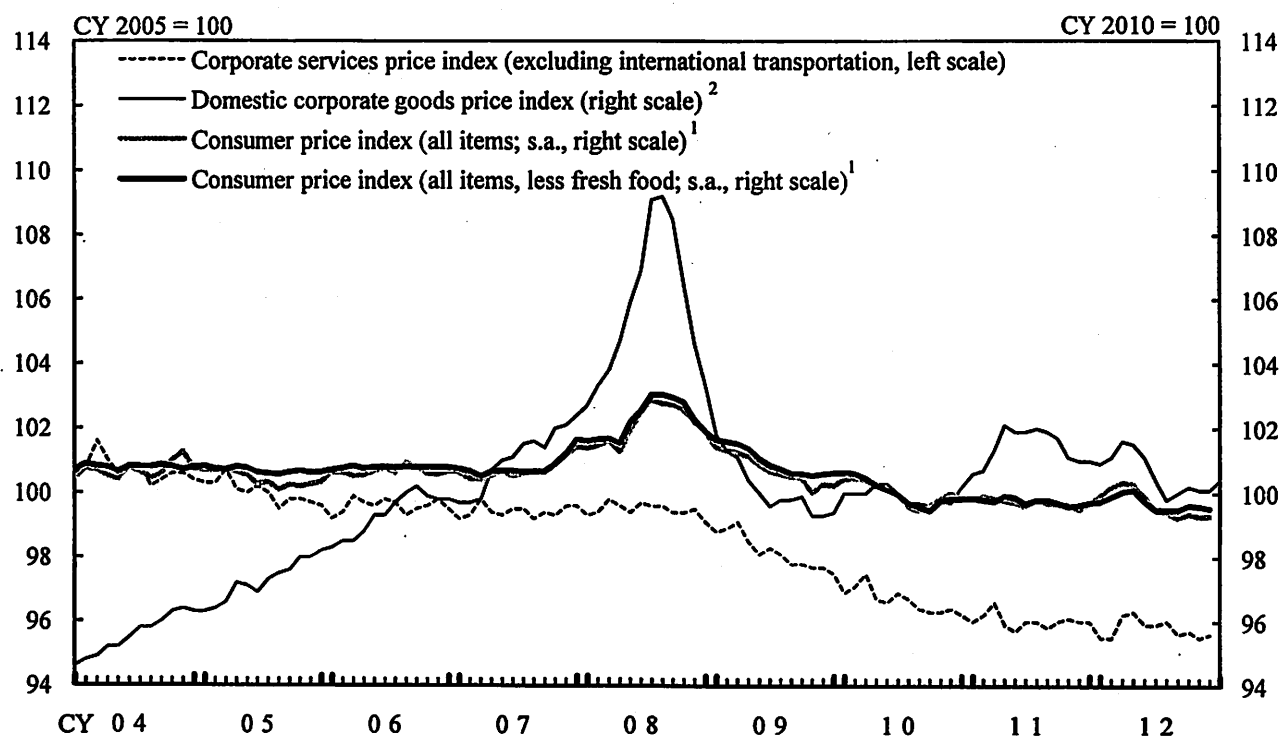
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

5. Figures for 2012/Q4 are October-November averages.

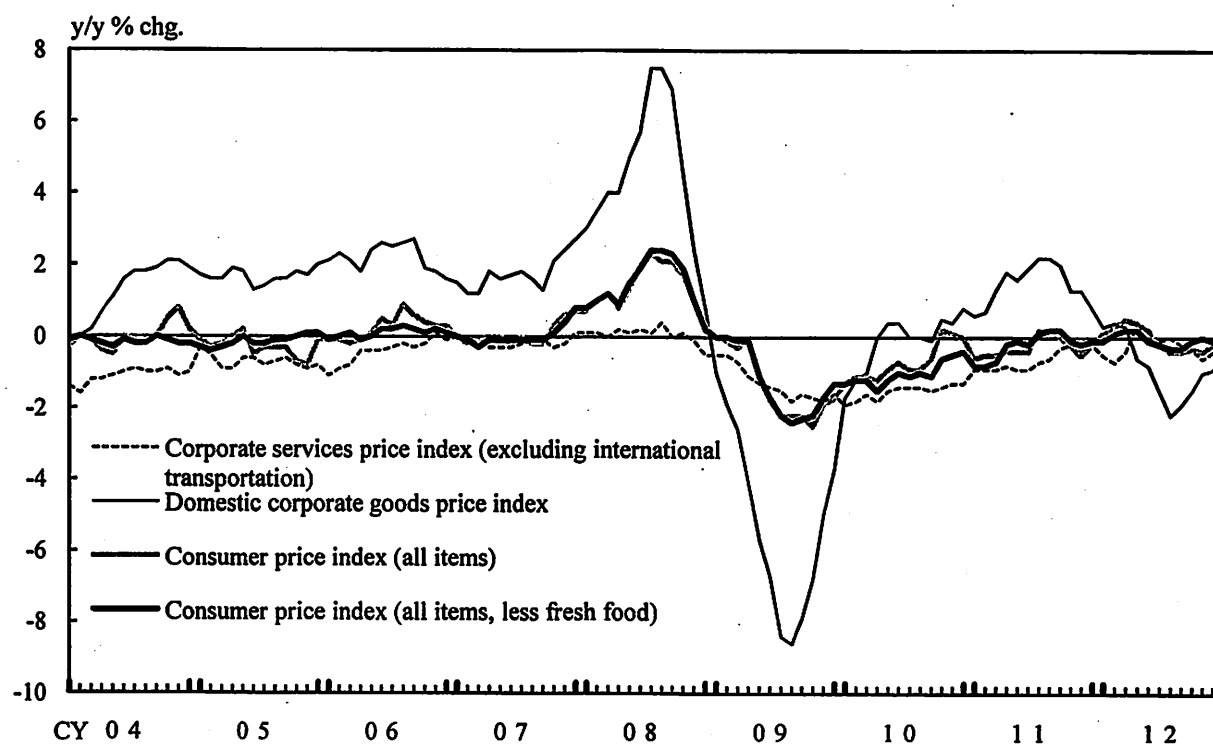
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



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

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

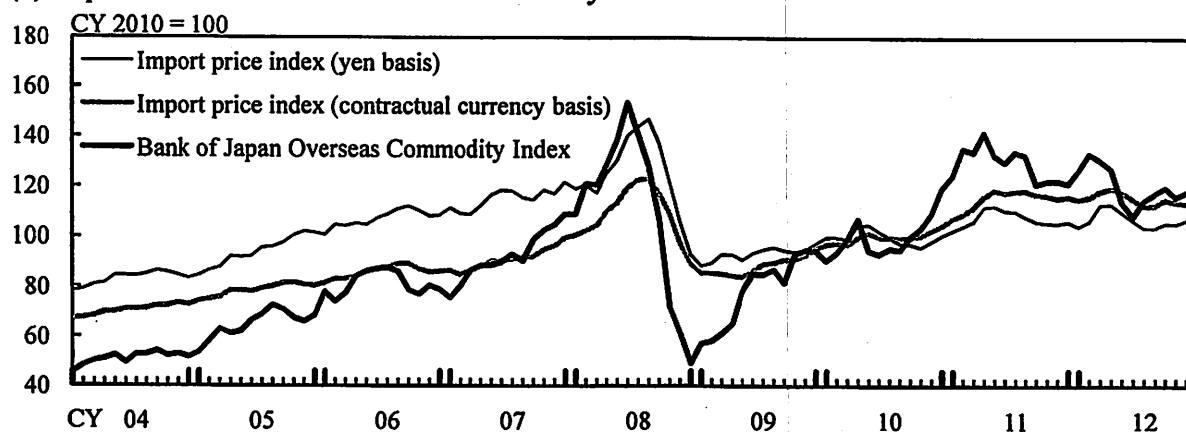
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

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

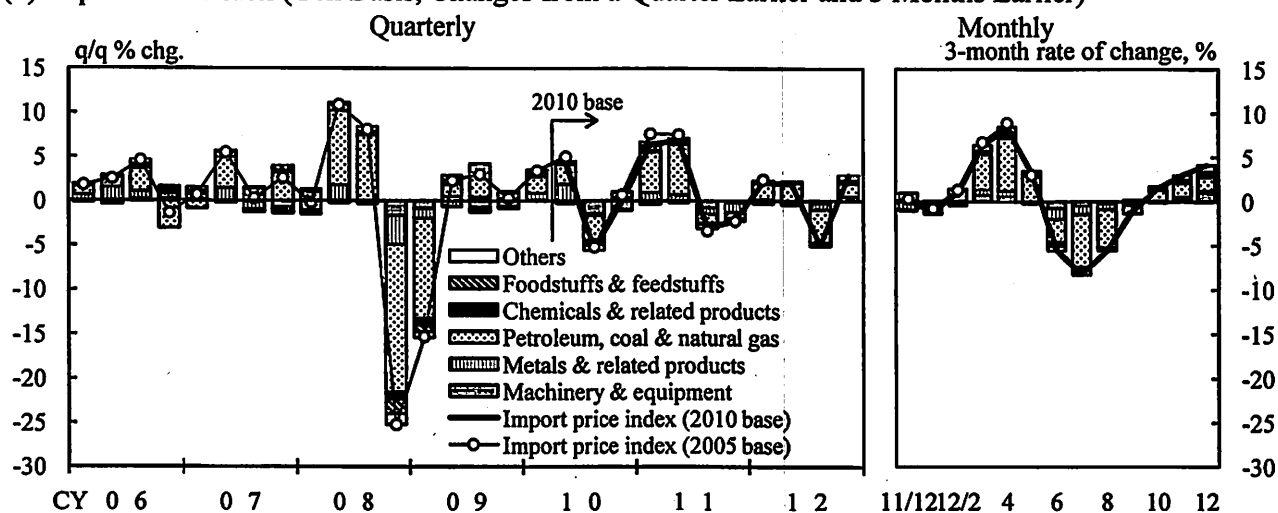
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



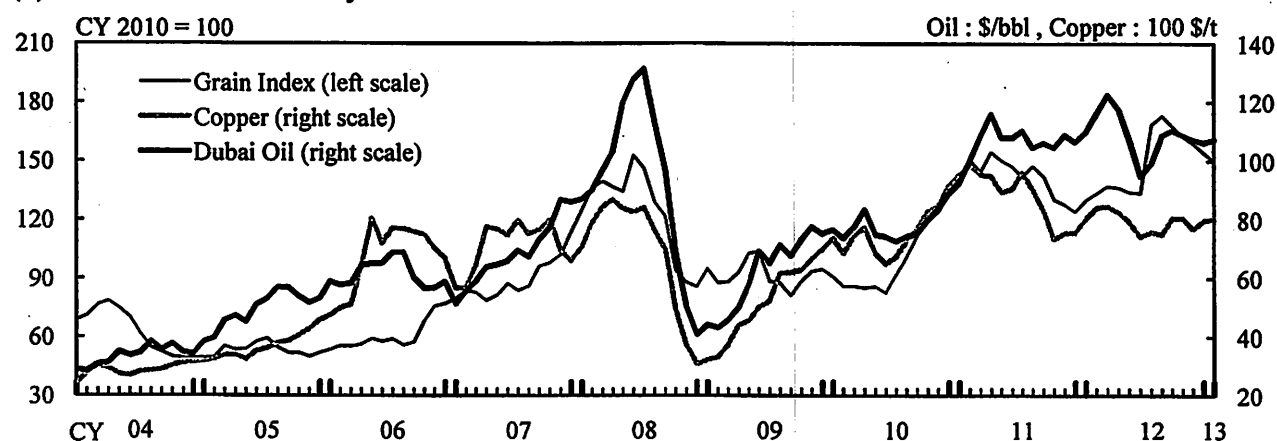
Note: The base year of "Bank of Japan Overseas Commodity Index" has been switched from 2005 to 2010.

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



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

(3) International Commodity Prices



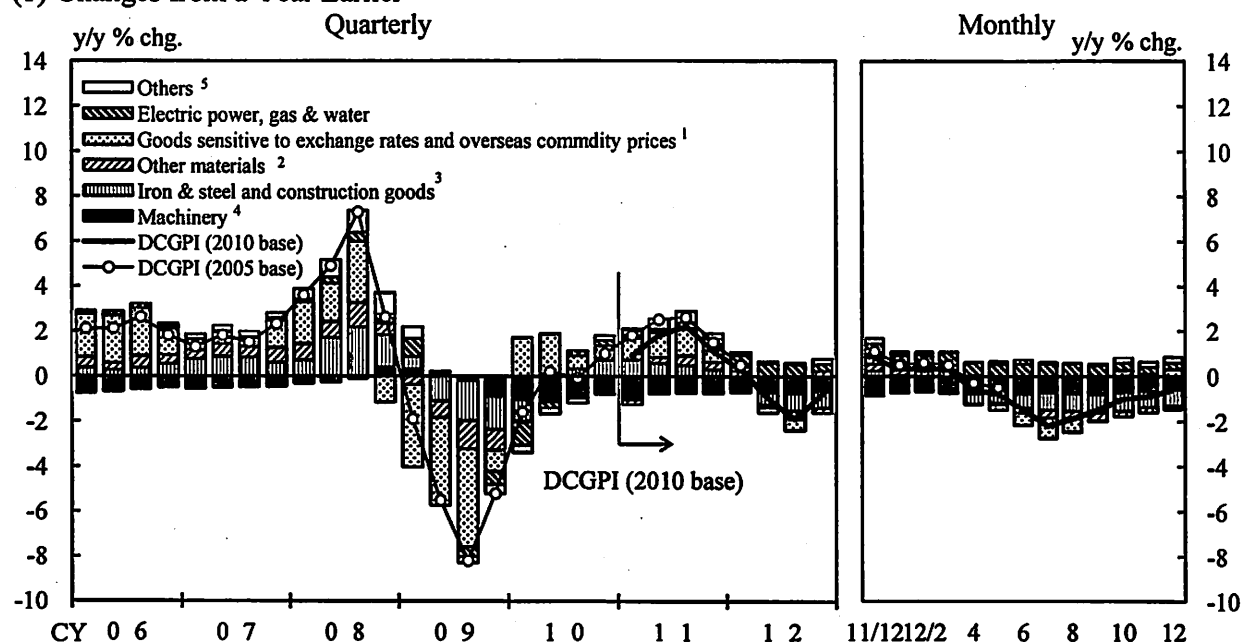
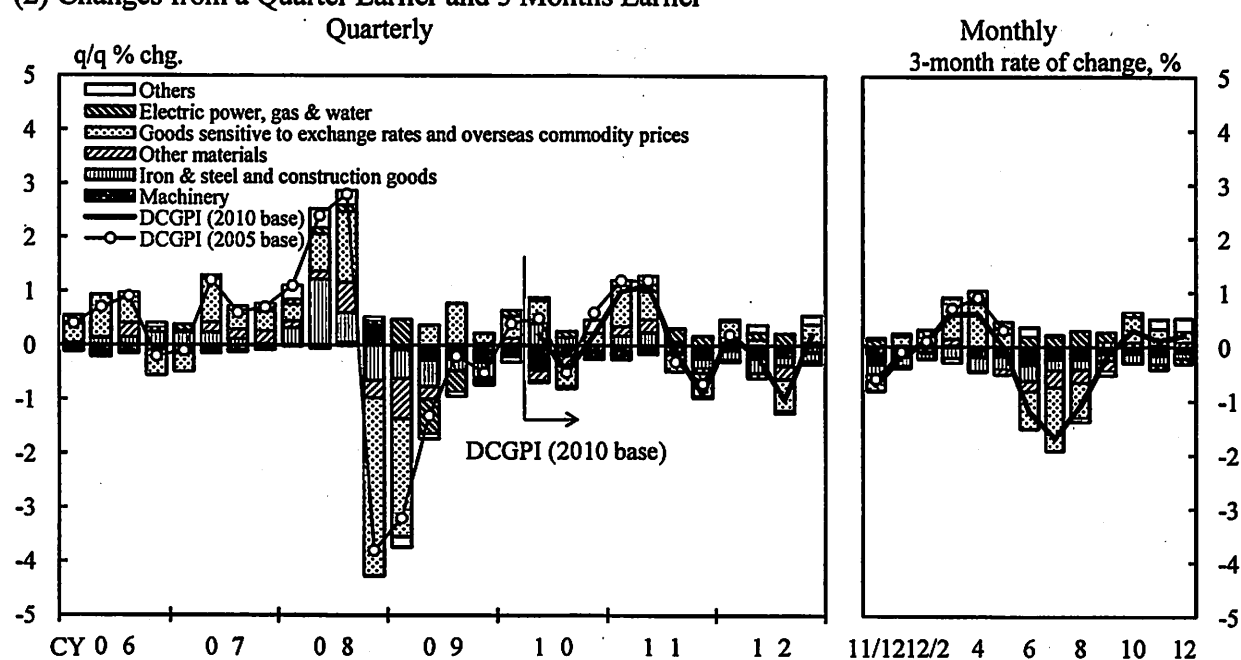
Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics." The index has been switched from the 2005 base to the 2010 base.

2. Monthly averages. Figures for January 2013 are averages up to January 21.

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

Domestic Corporate Goods Price Index

(1) Changes from a Year Earlier

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

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

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

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

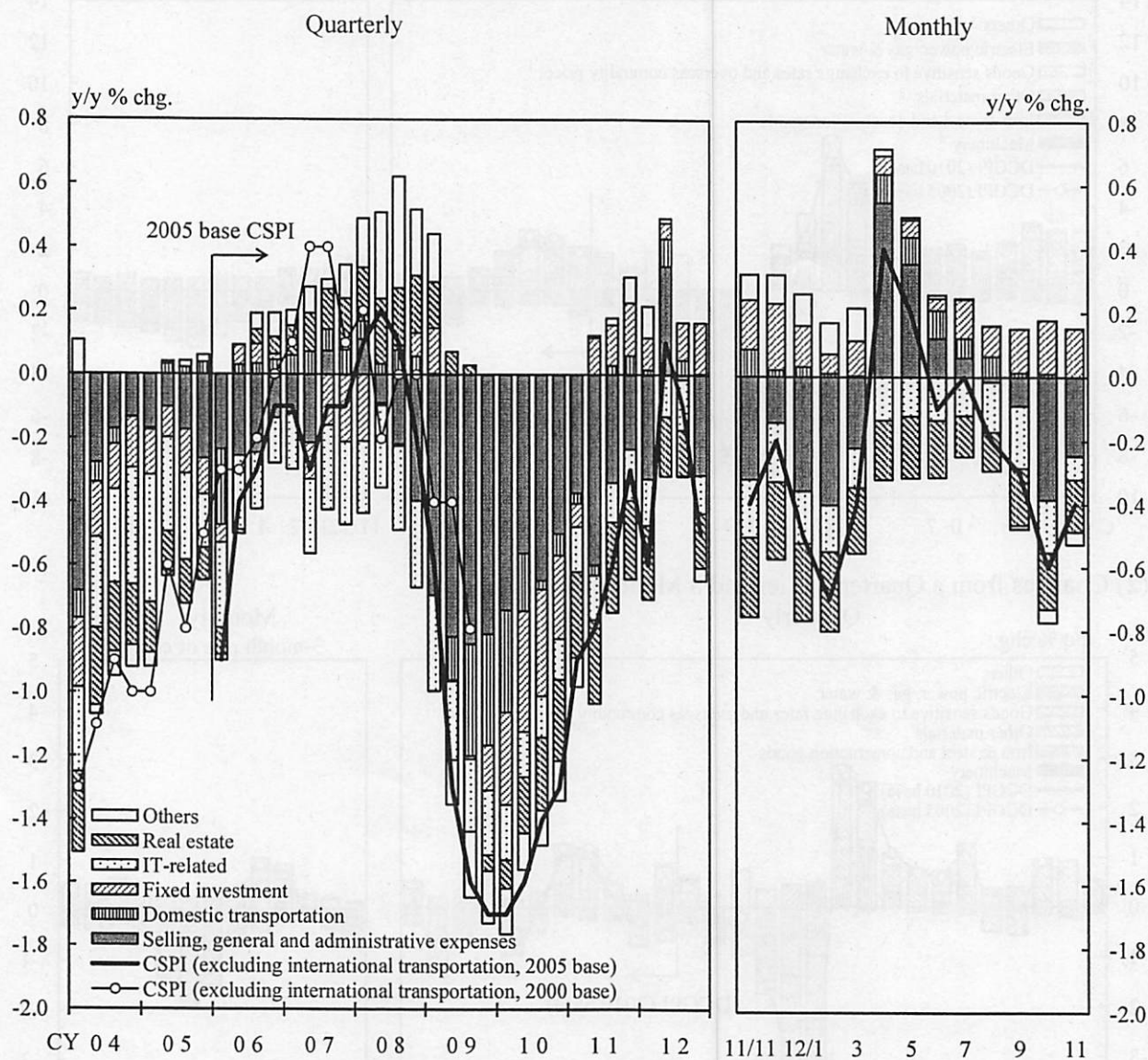
4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.

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

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

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

Corporate Services Price Index

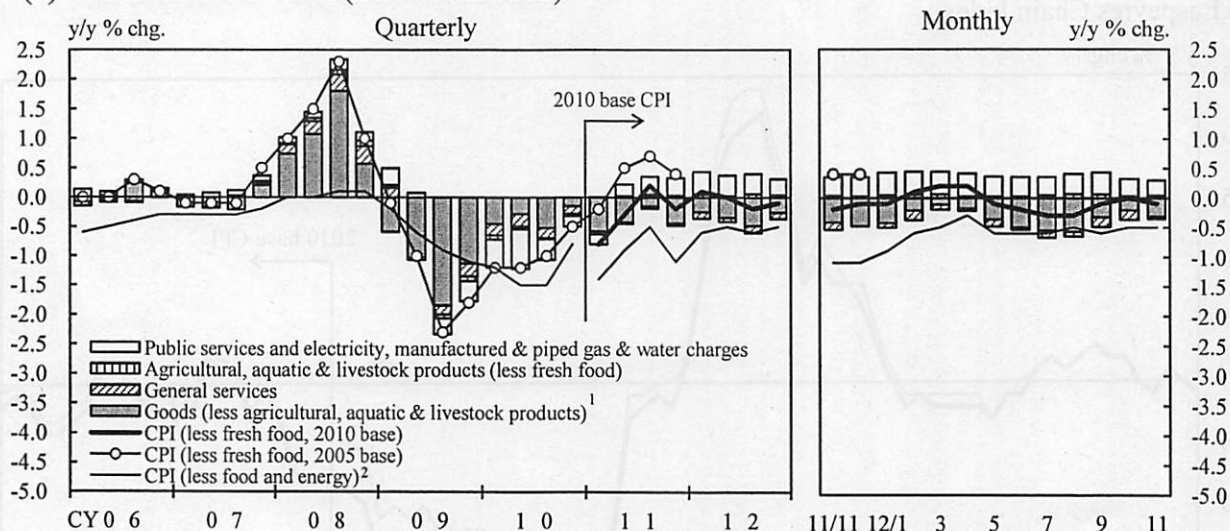
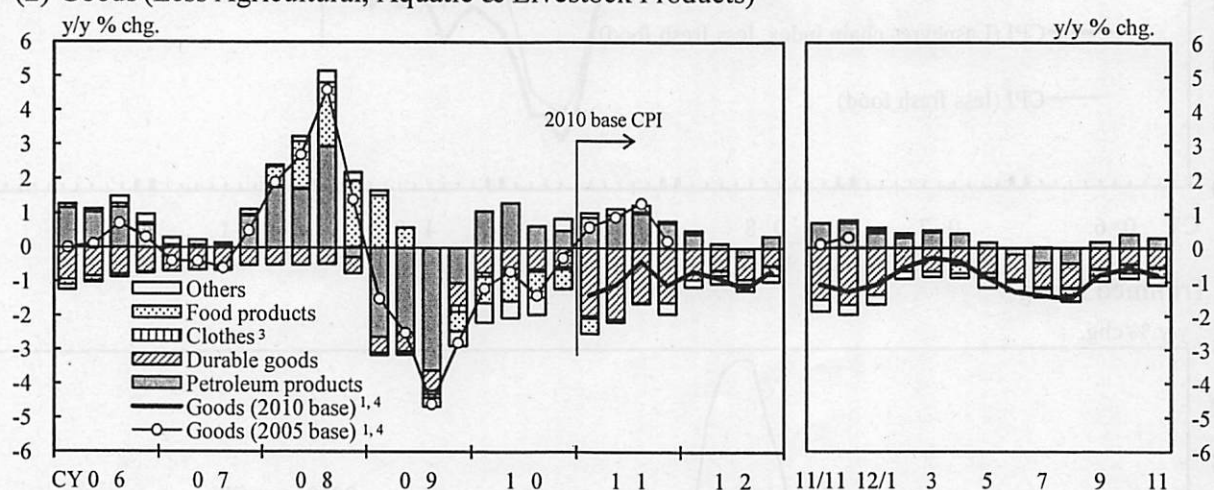


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, and domestic air passenger transportation).
 3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment and computer rental), and civil engineering and architectural services.
 4. IT-related: leasing of computer and related equipment, and computer rental.
 5. Real estate: real estate services.
 6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, and plant engineering.
 7. Figures for 2012/Q4 are October-November averages. Figures for 2009/Q3 on the 2000 base are July-August averages.

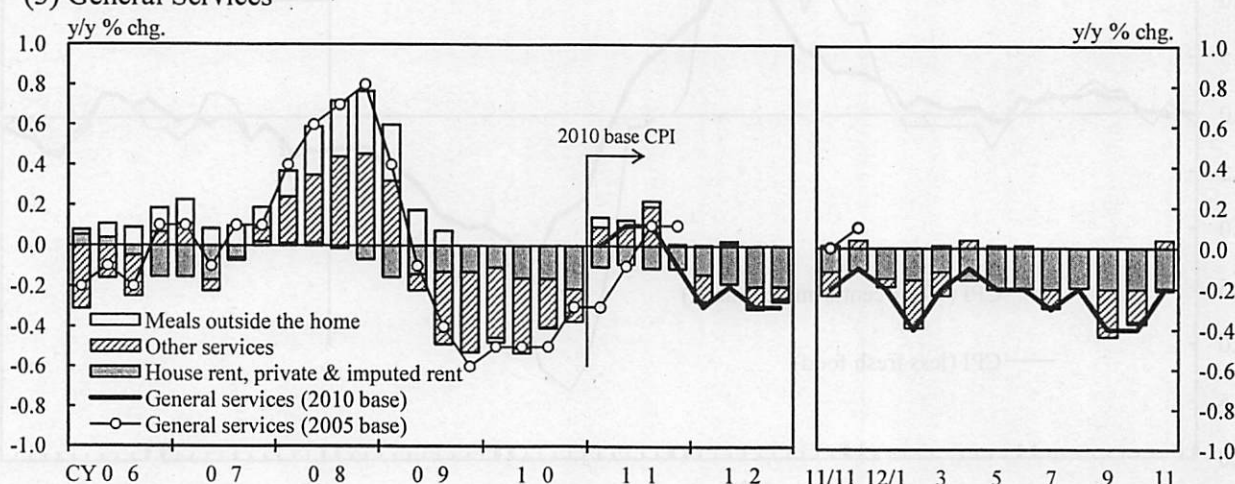
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

(1) Consumer Price Index (Less Fresh Food)

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

(3) General Services



Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications.

However, electricity, manufactured & piped gas & water charges are excluded from goods.

2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied propane, kerosene, and gasoline.

3. Including shirts, sweaters & underwear.

4. Less agricultural, aquatic & livestock products.

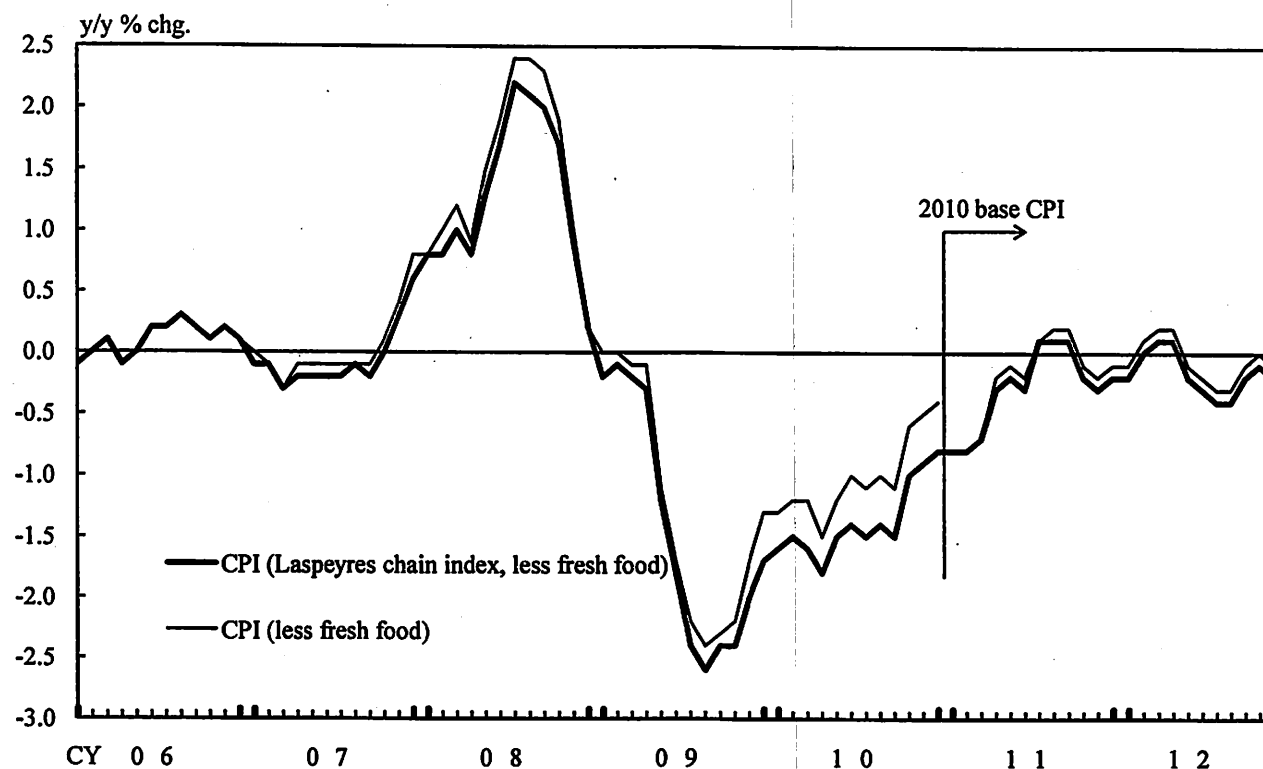
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

6. Figures for 2012/Q4 are October-November averages.

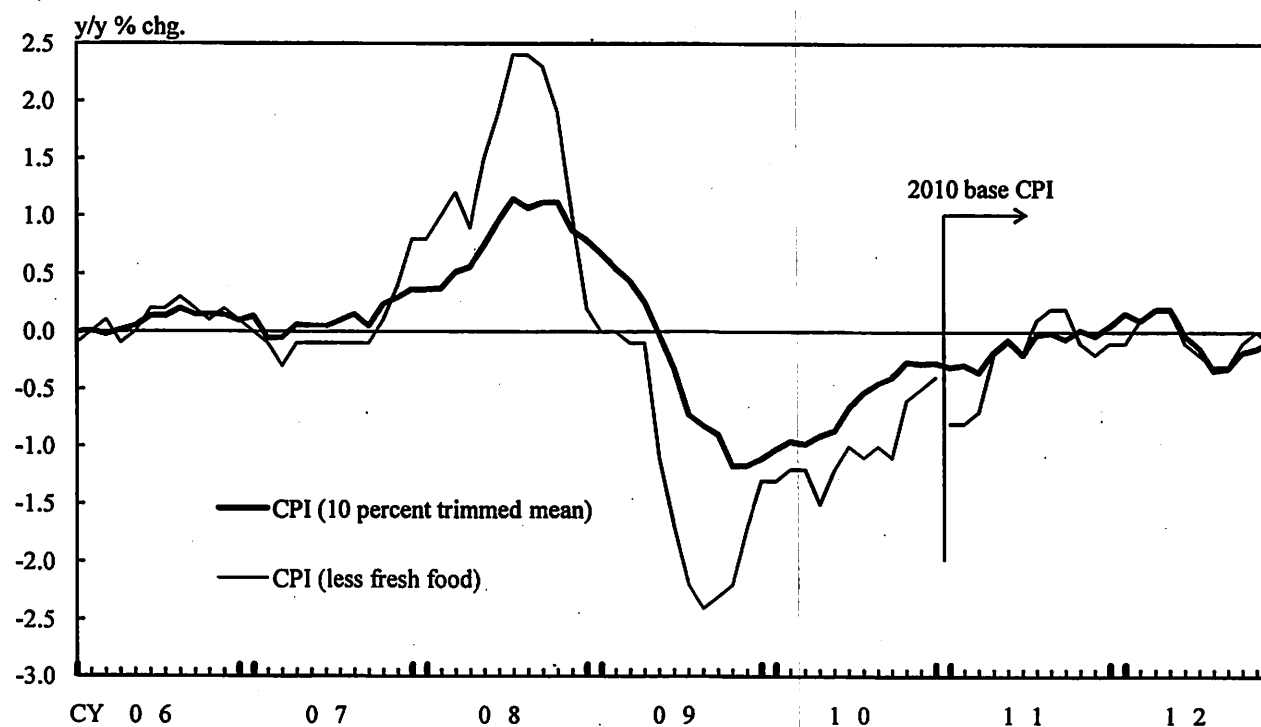
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



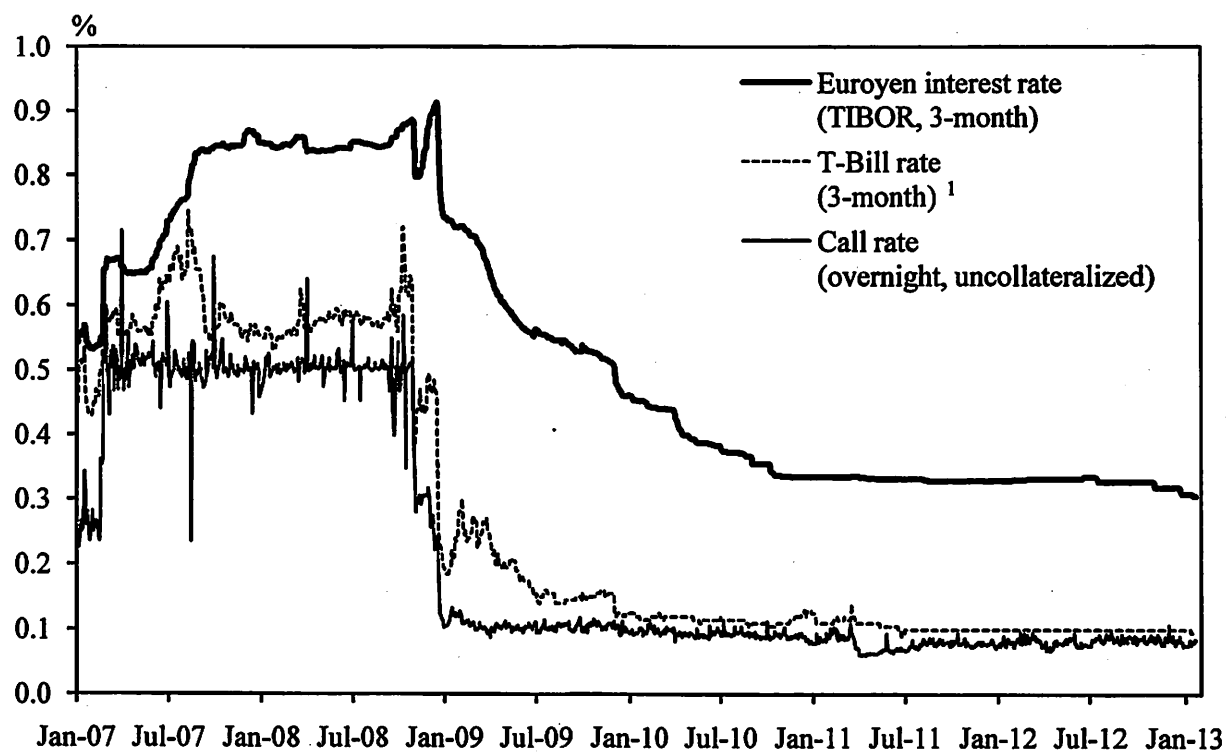
Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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

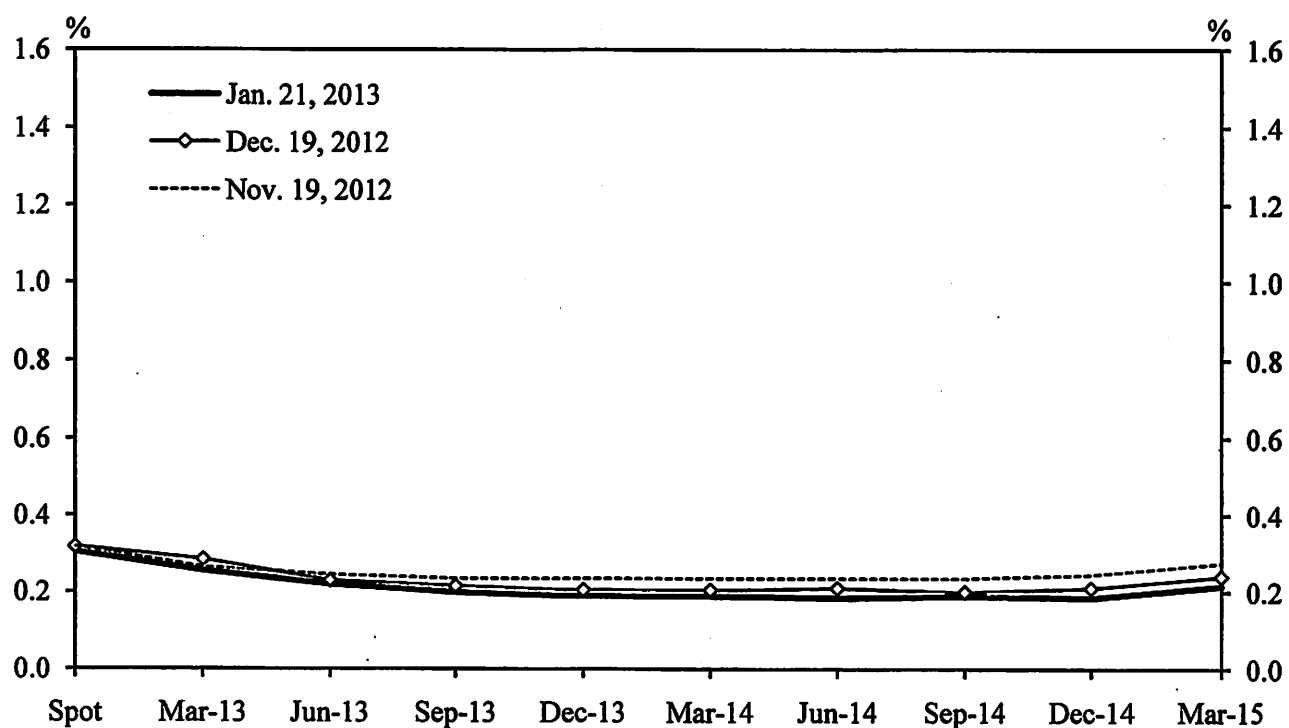
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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

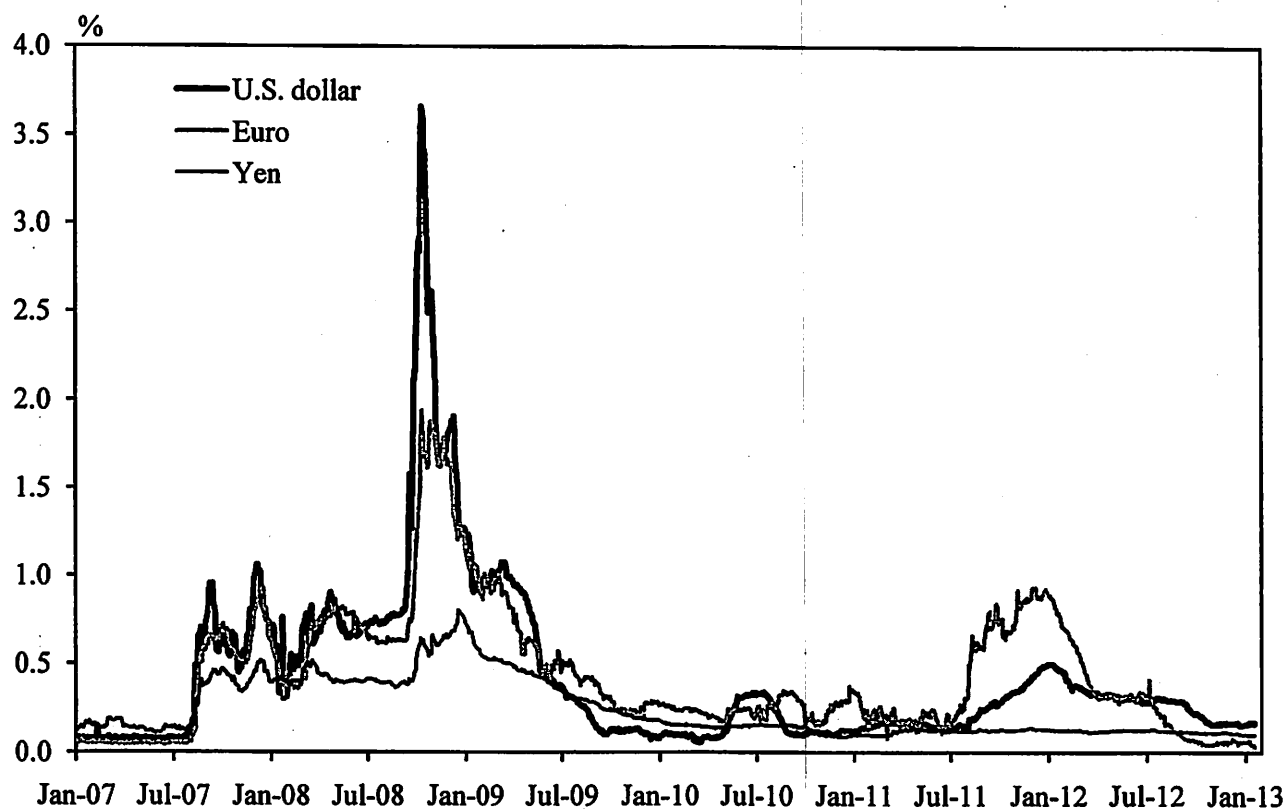


Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

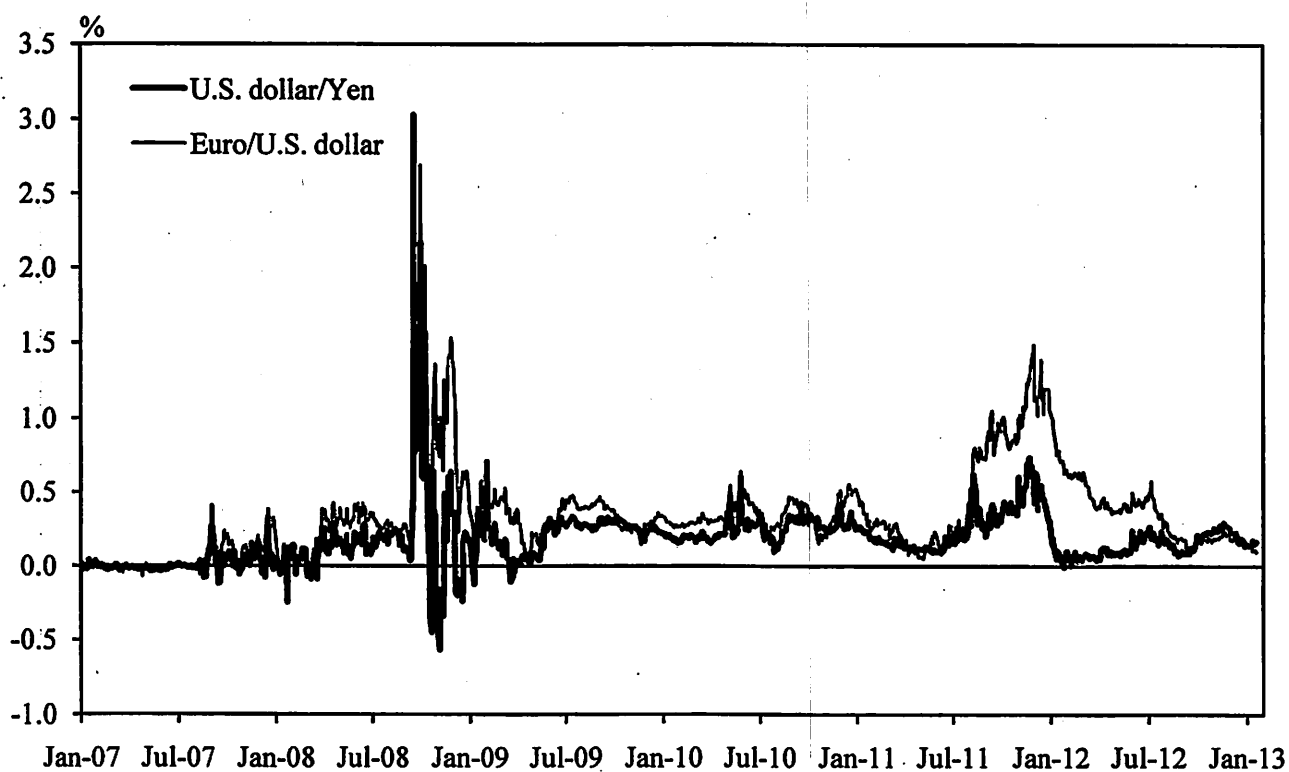
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



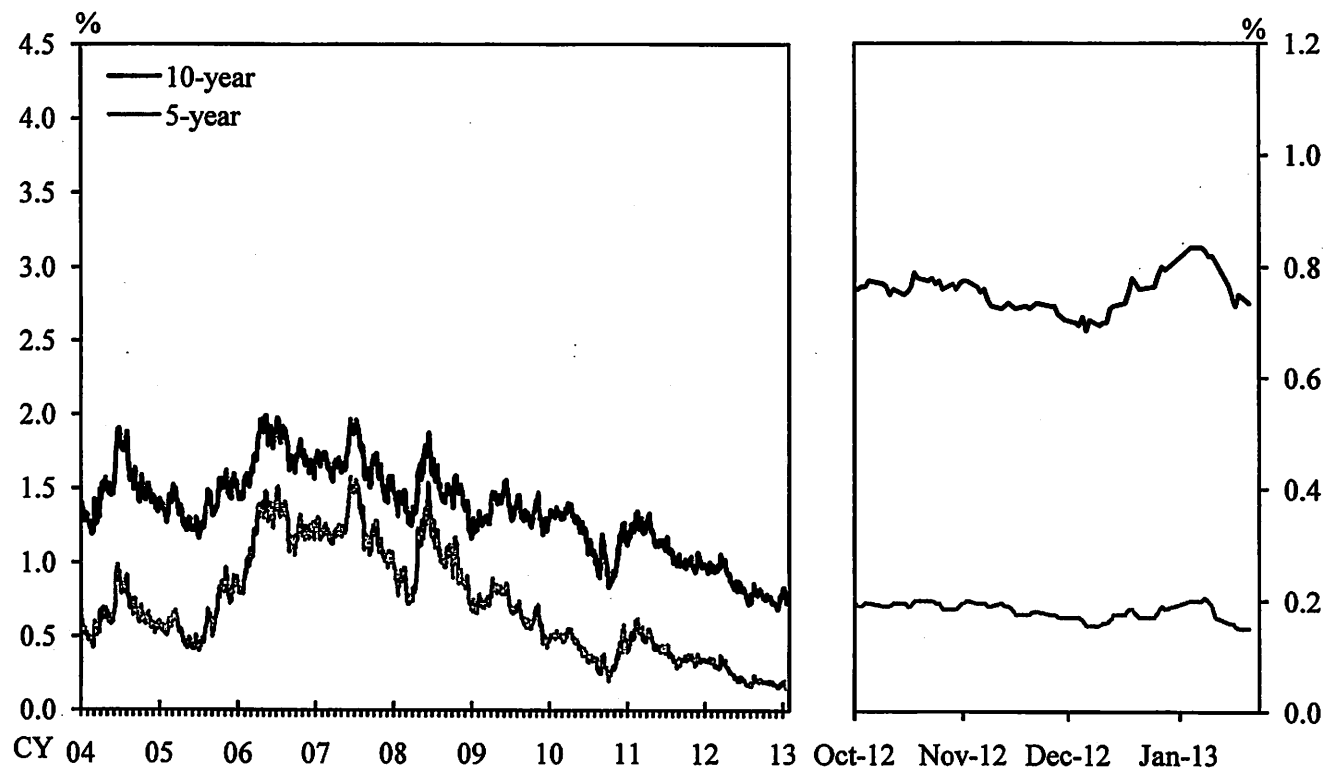
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



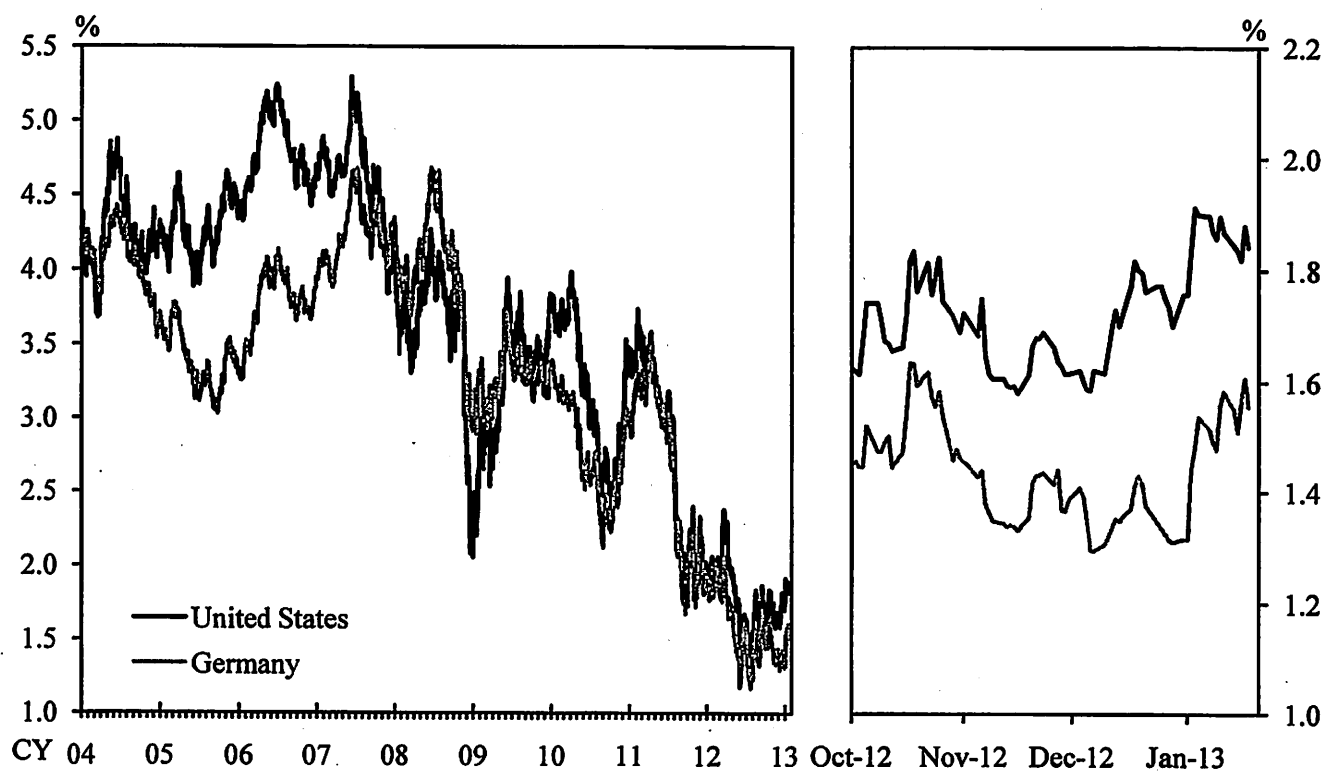
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



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

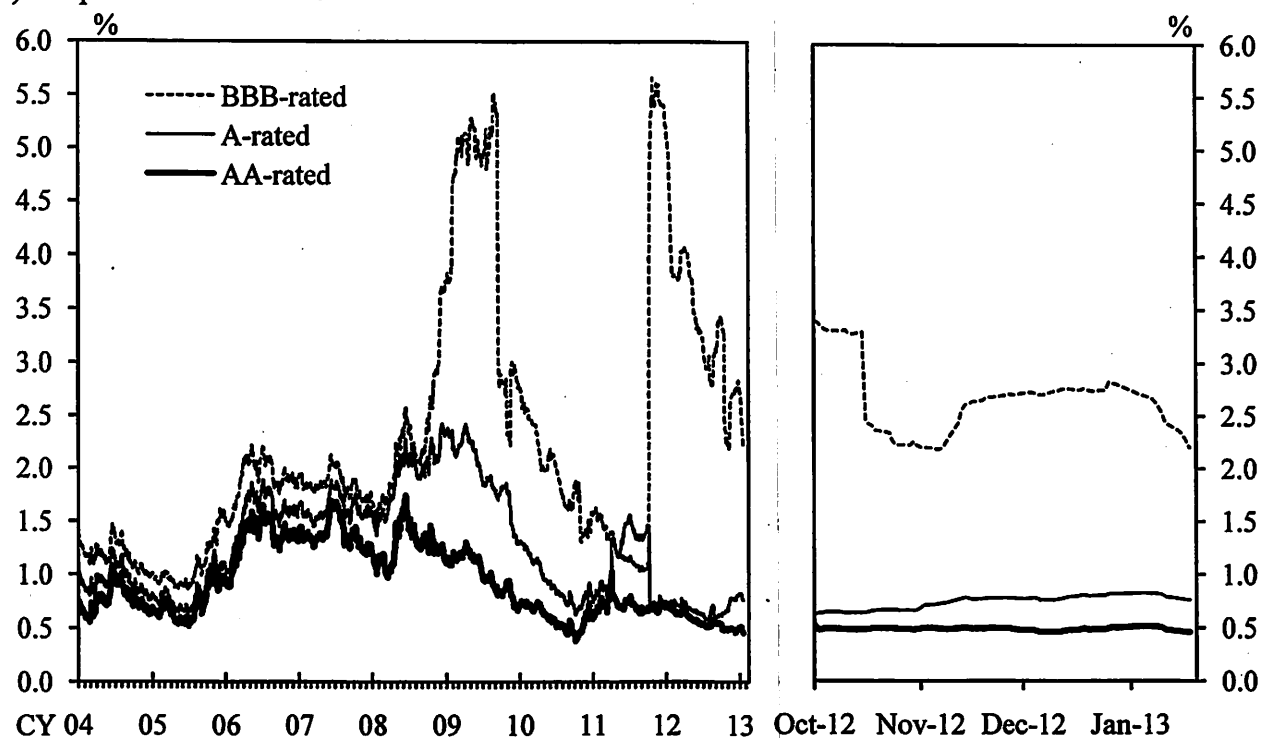


Note: 1. Yields on newly issued bonds.

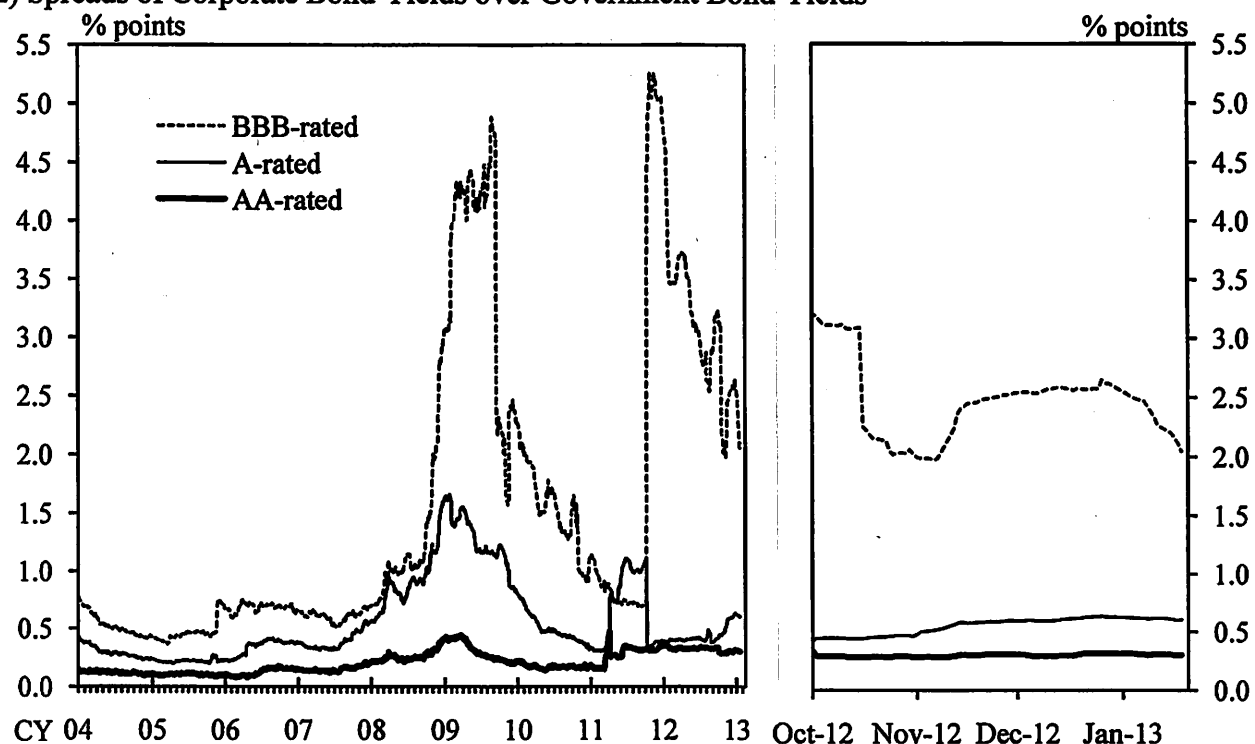
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



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



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

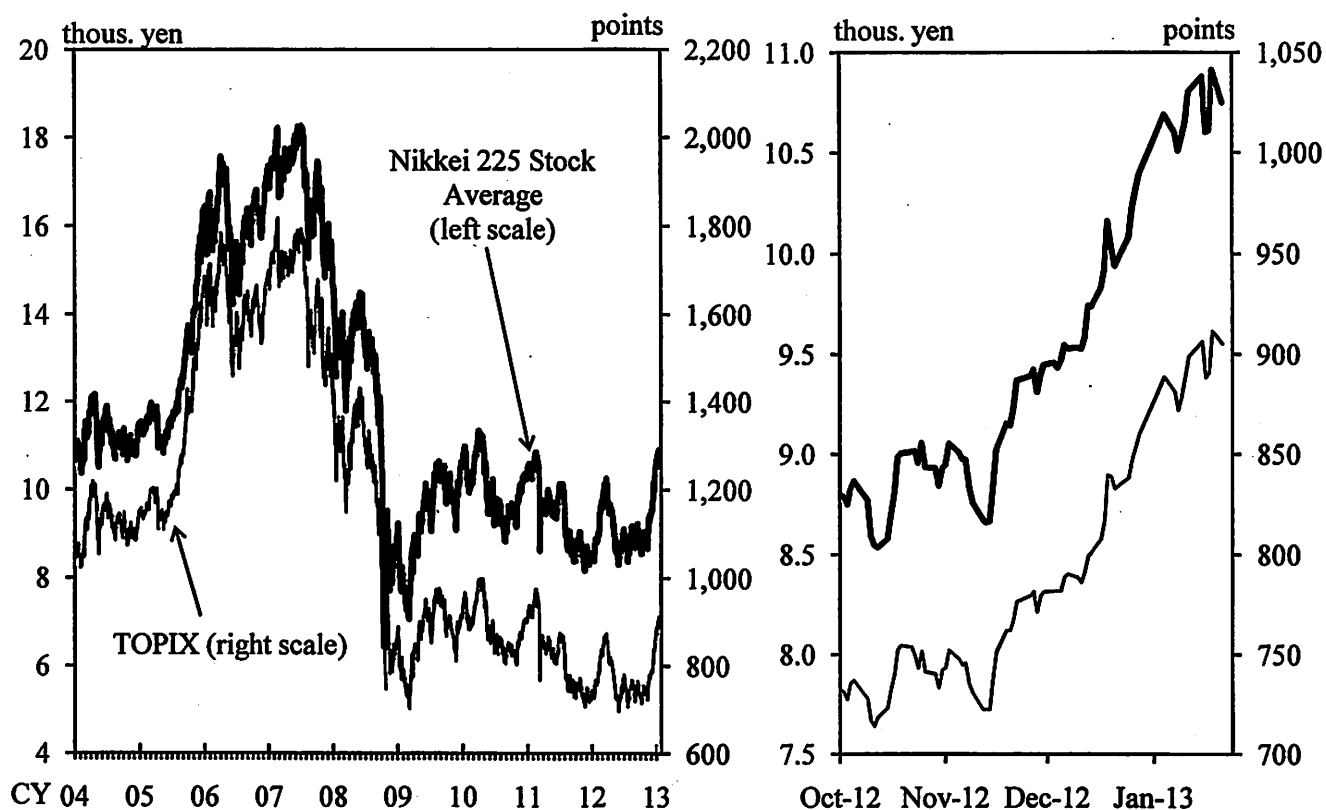
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

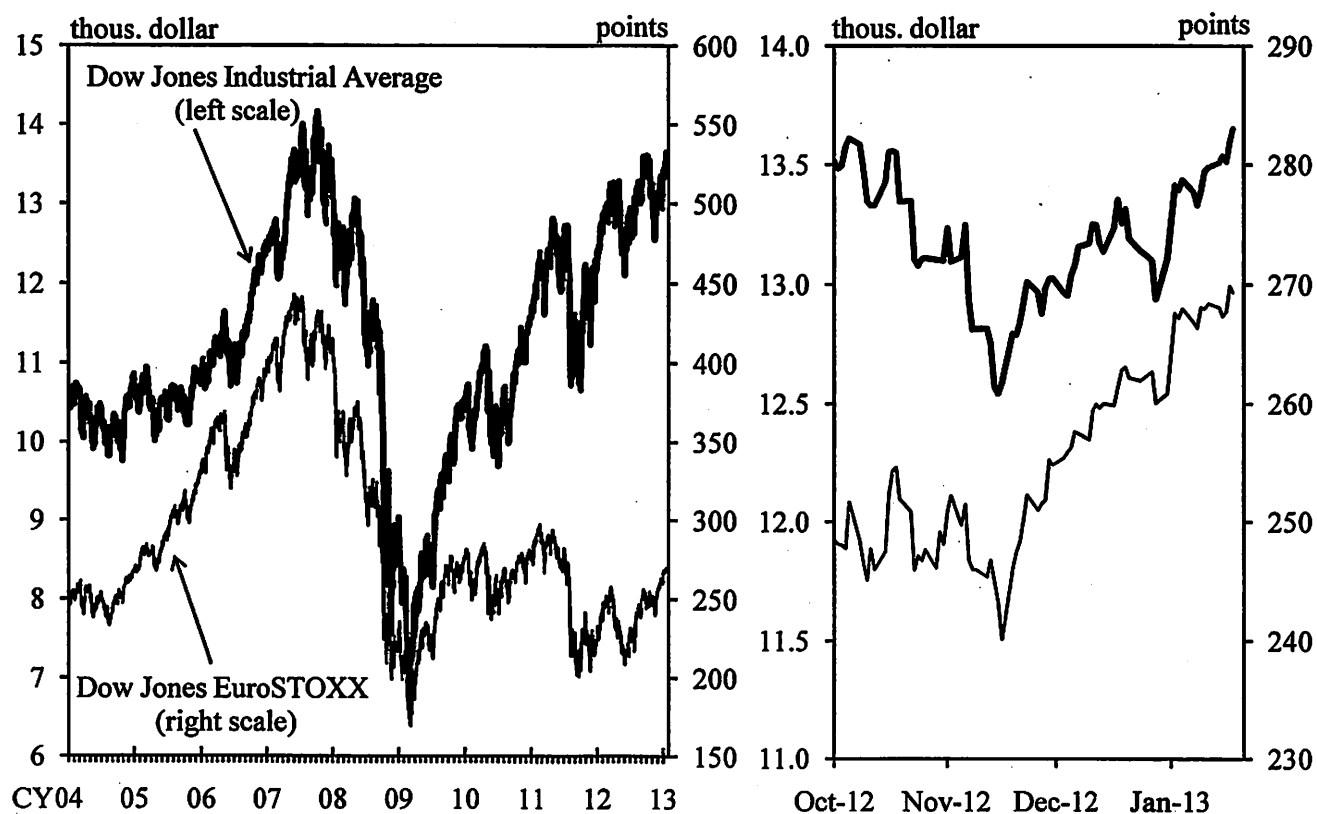
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



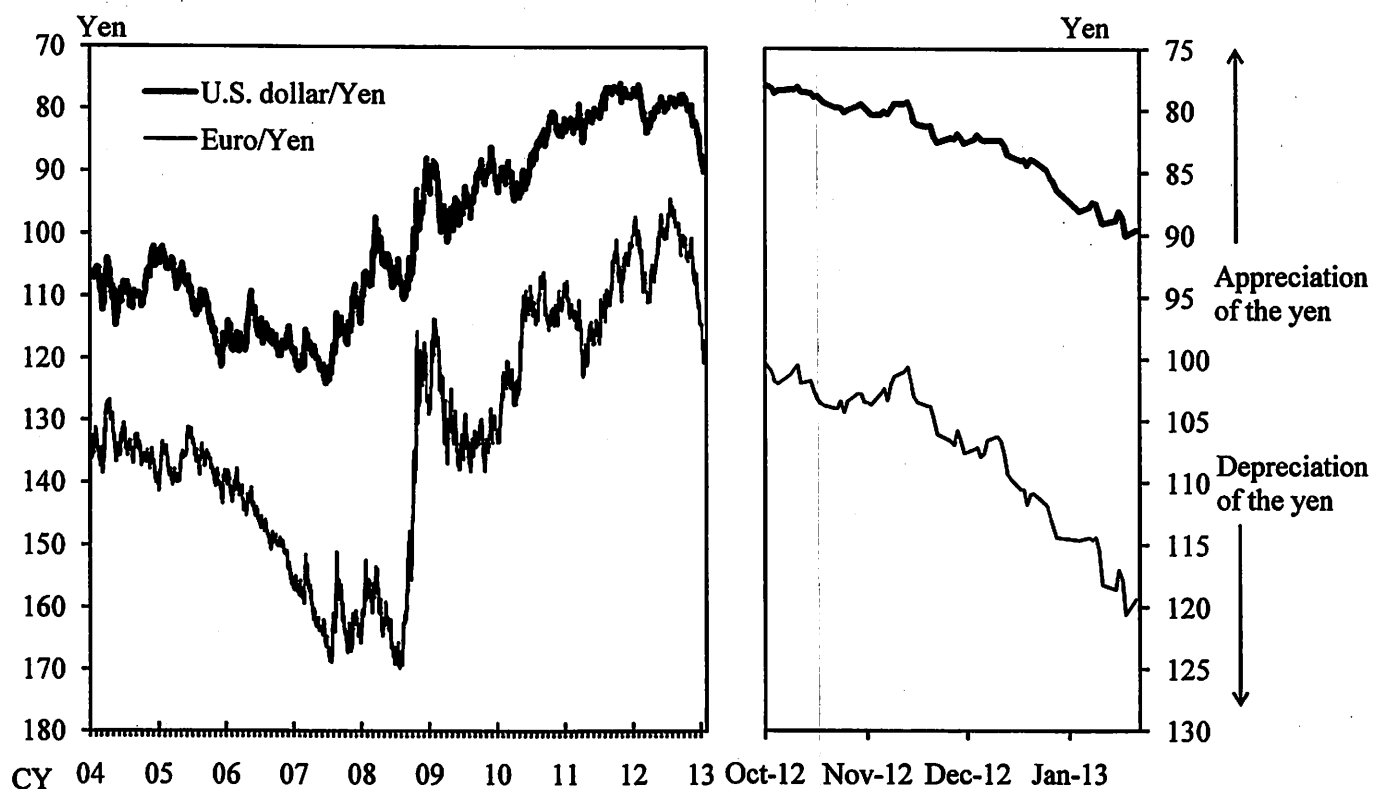
(2) Overseas Stock Prices



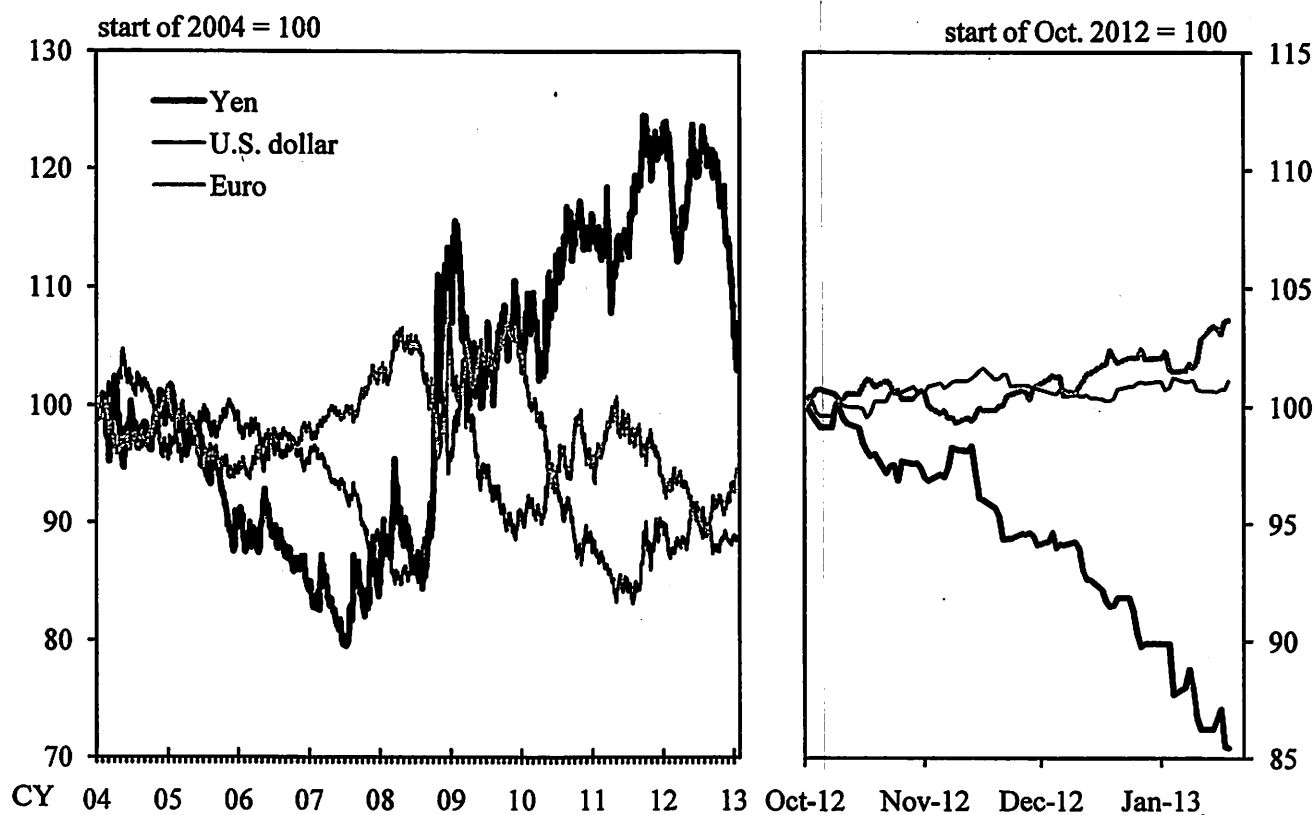
Sources: The *Nihon Keizai Shimbun*; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



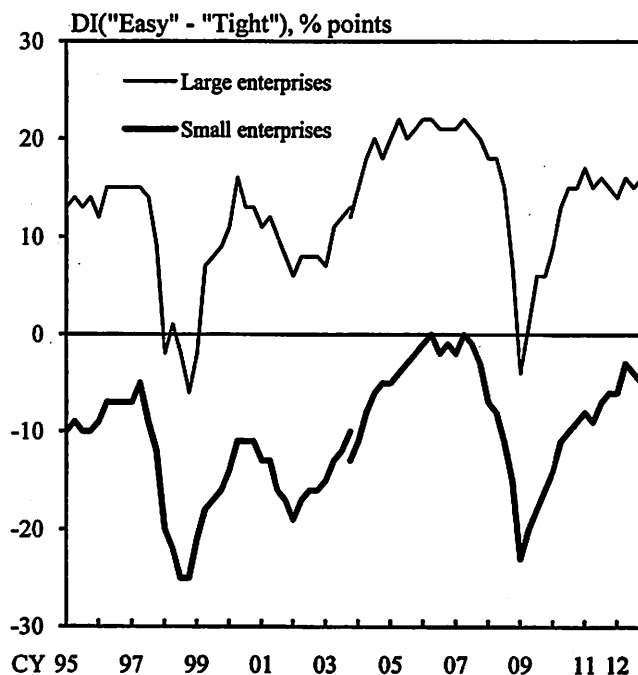
(2) Nominal Effective Exchange Rates



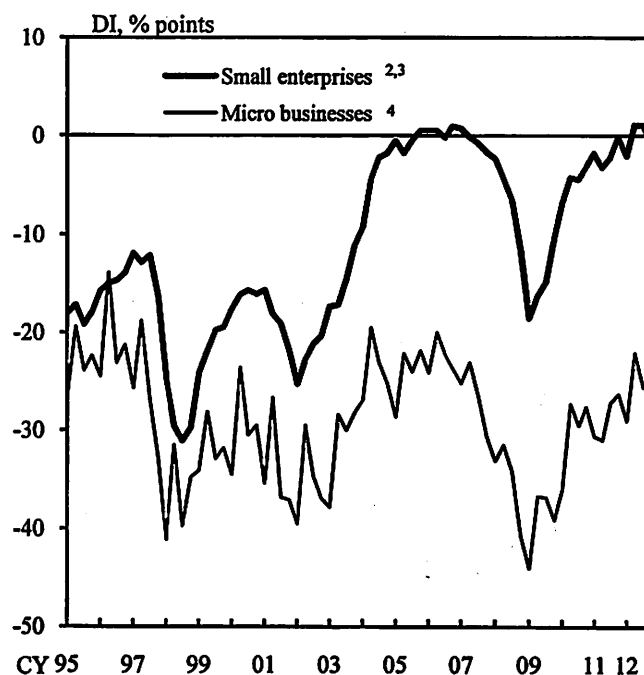
Sources: Bank of Japan; European Central Bank; Thomson Reuters Datastream.

Corporate Finance-Related Indicators

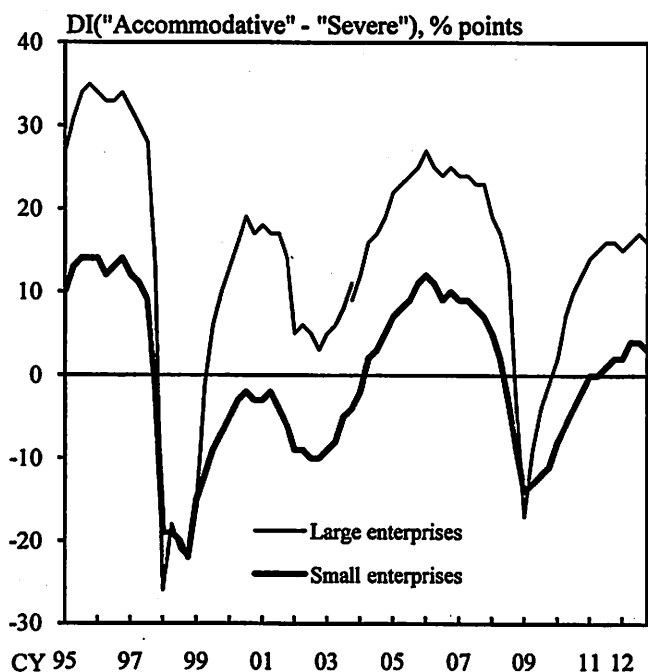
(1) Financial Position

<Tankan¹>

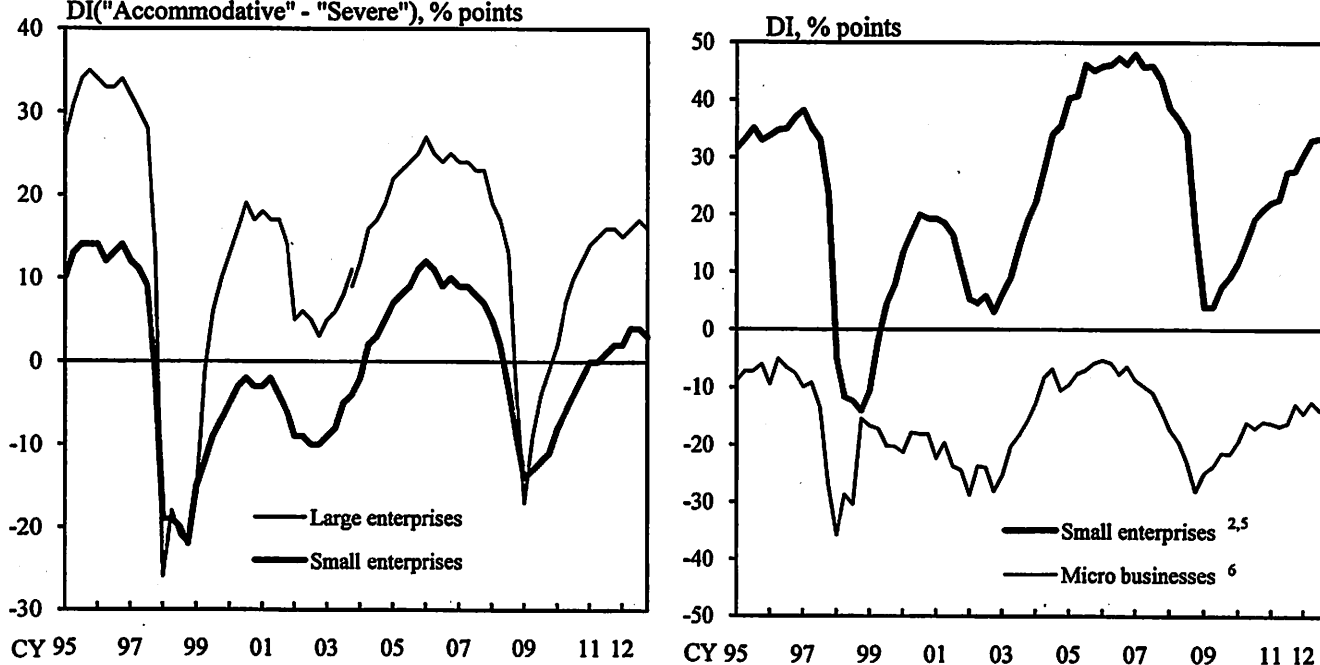
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data.

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

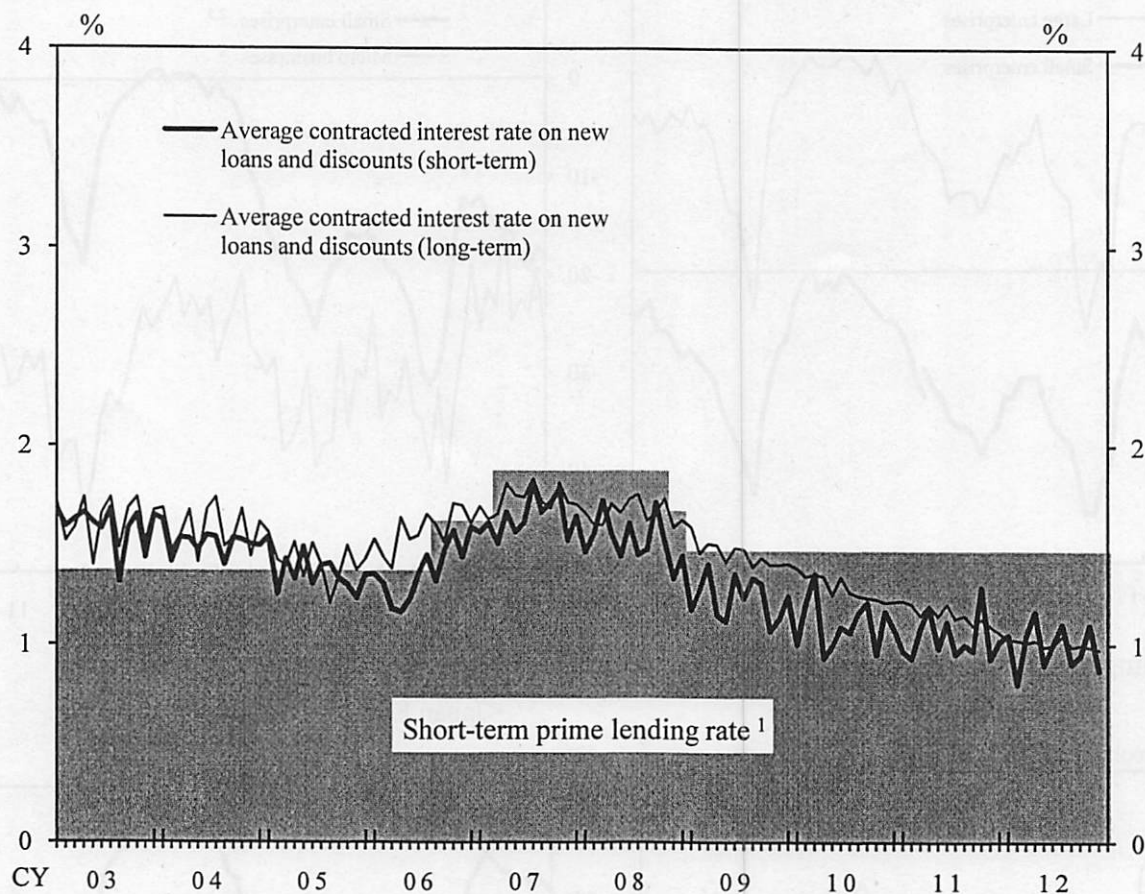
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

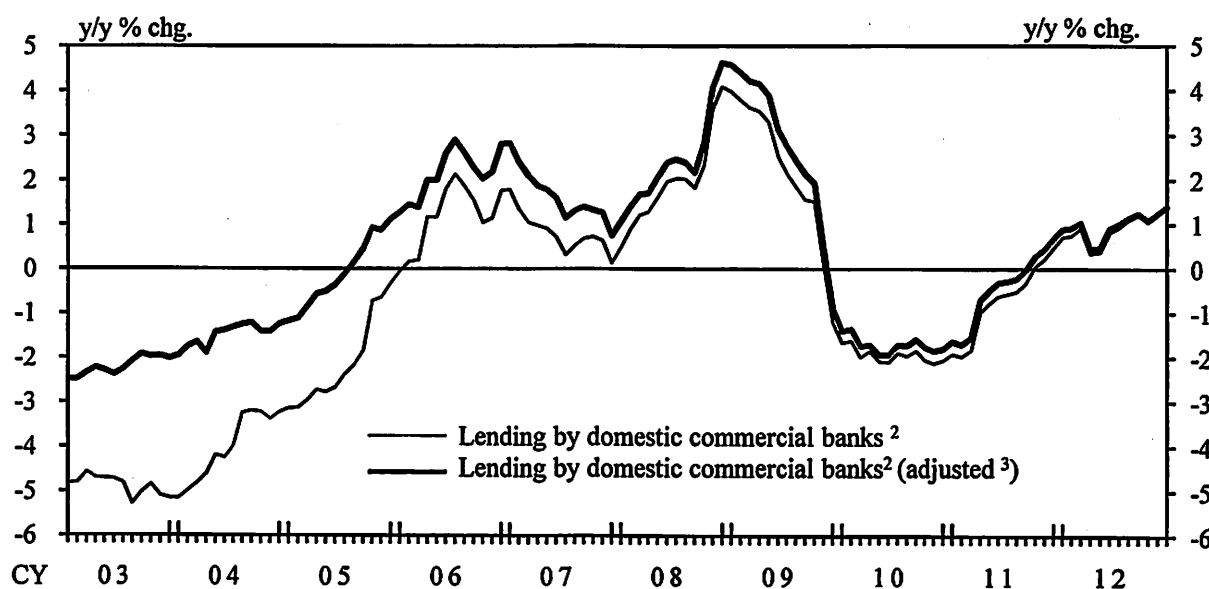


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



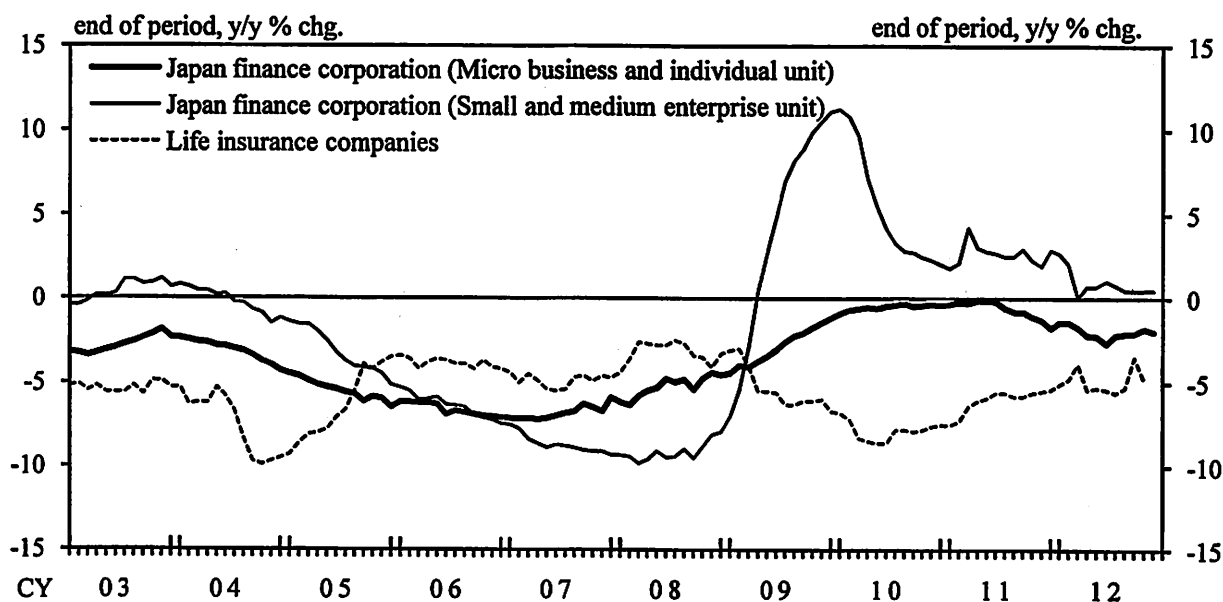
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

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

(2) Lending by Other Financial Institutions

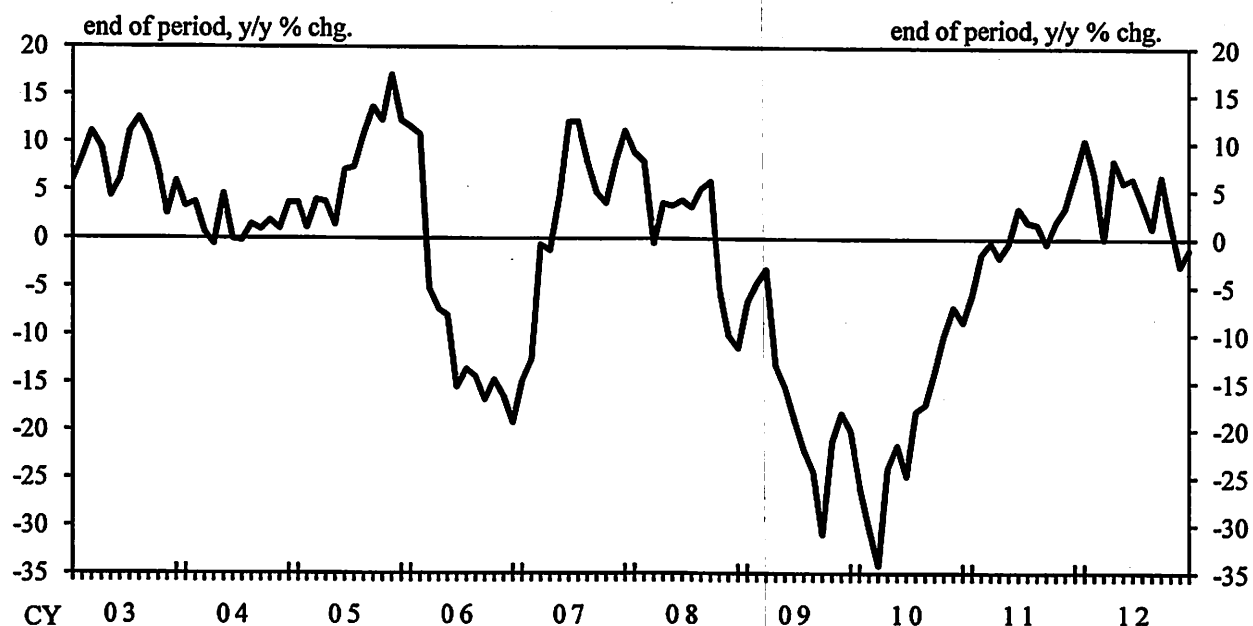


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

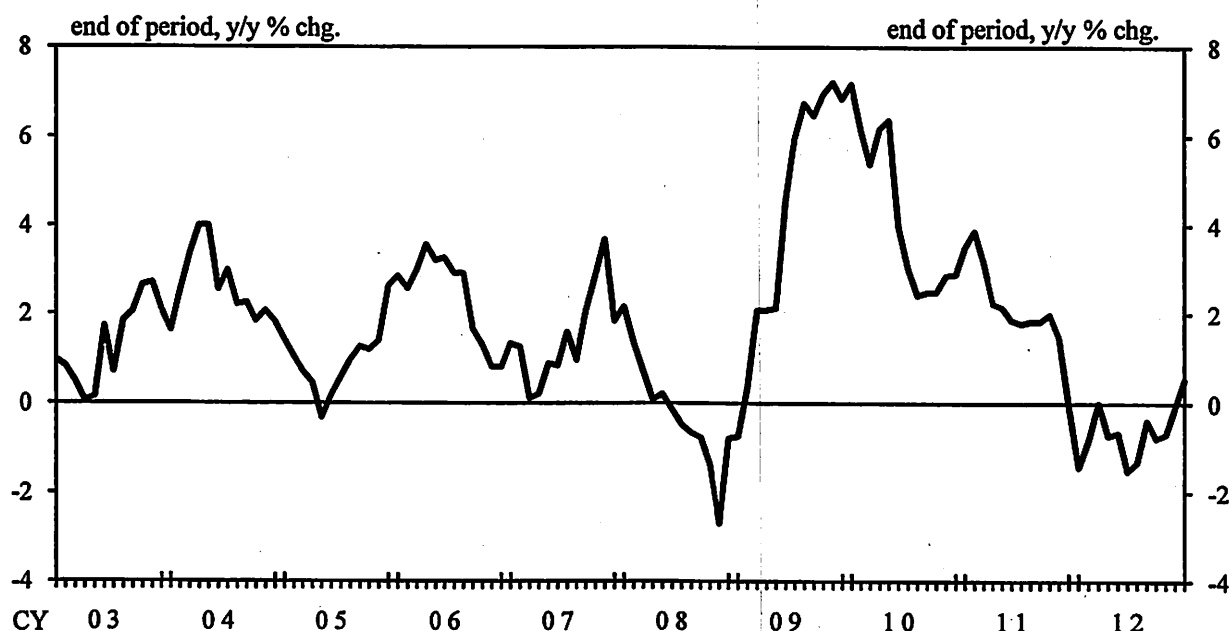
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

(2) Amount Outstanding of Corporate Bonds



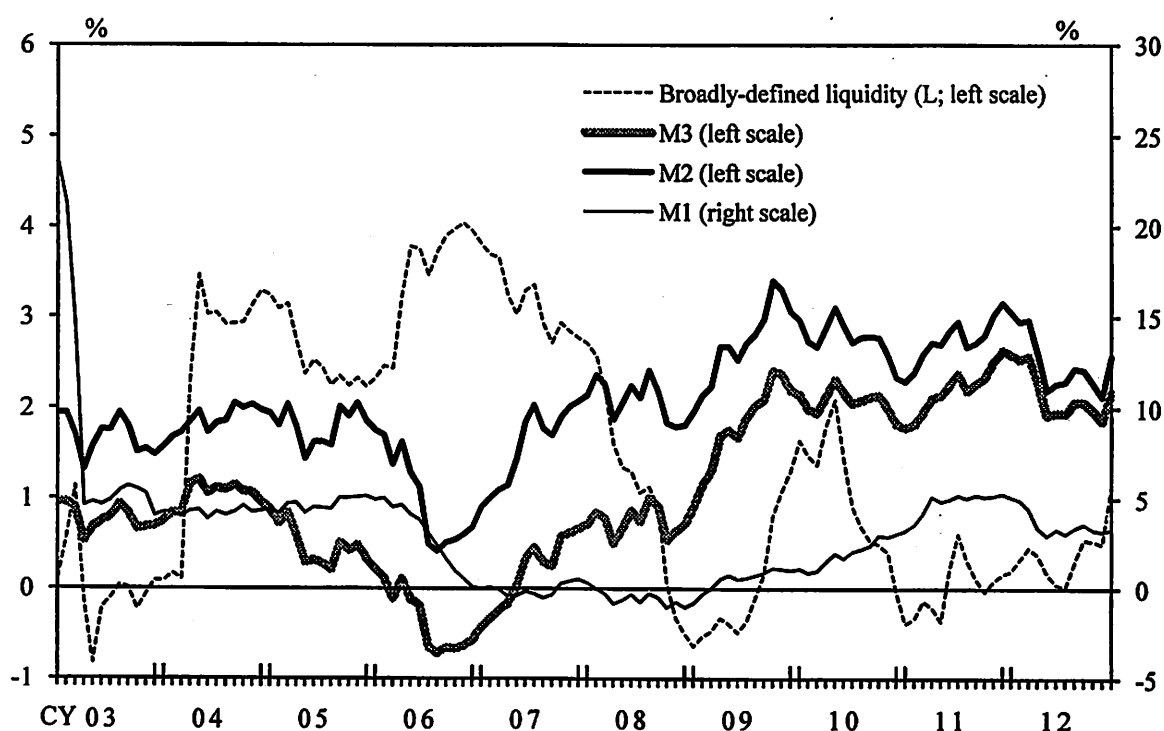
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

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

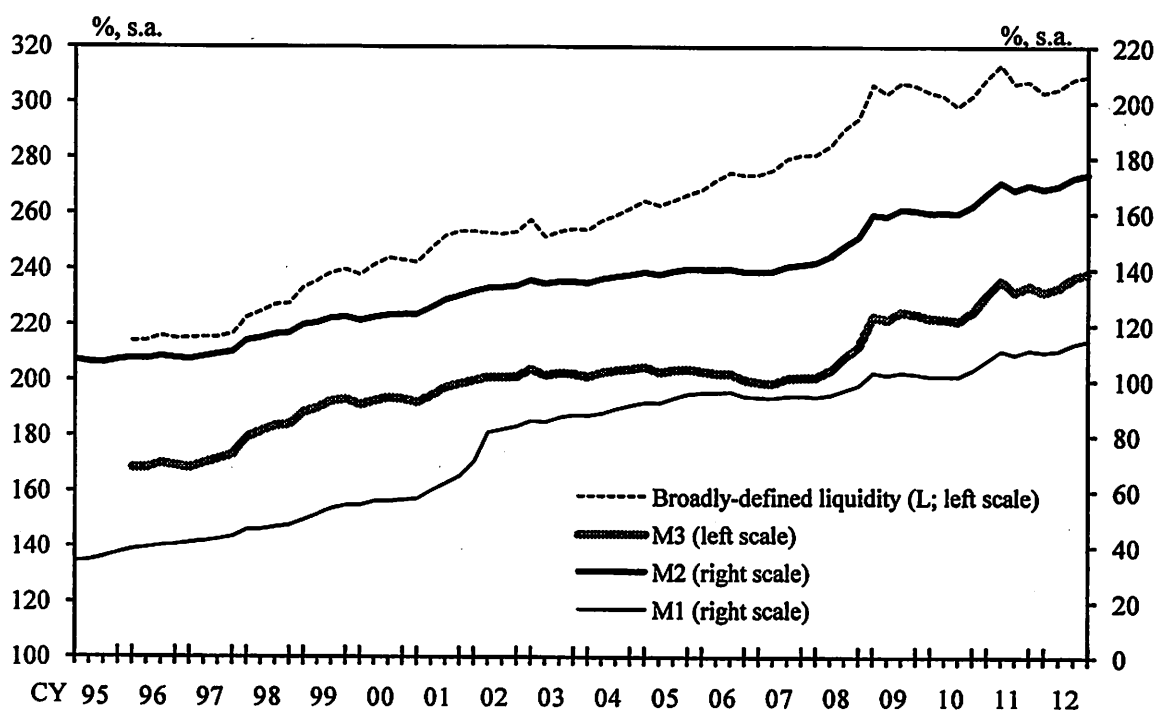
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category"; Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

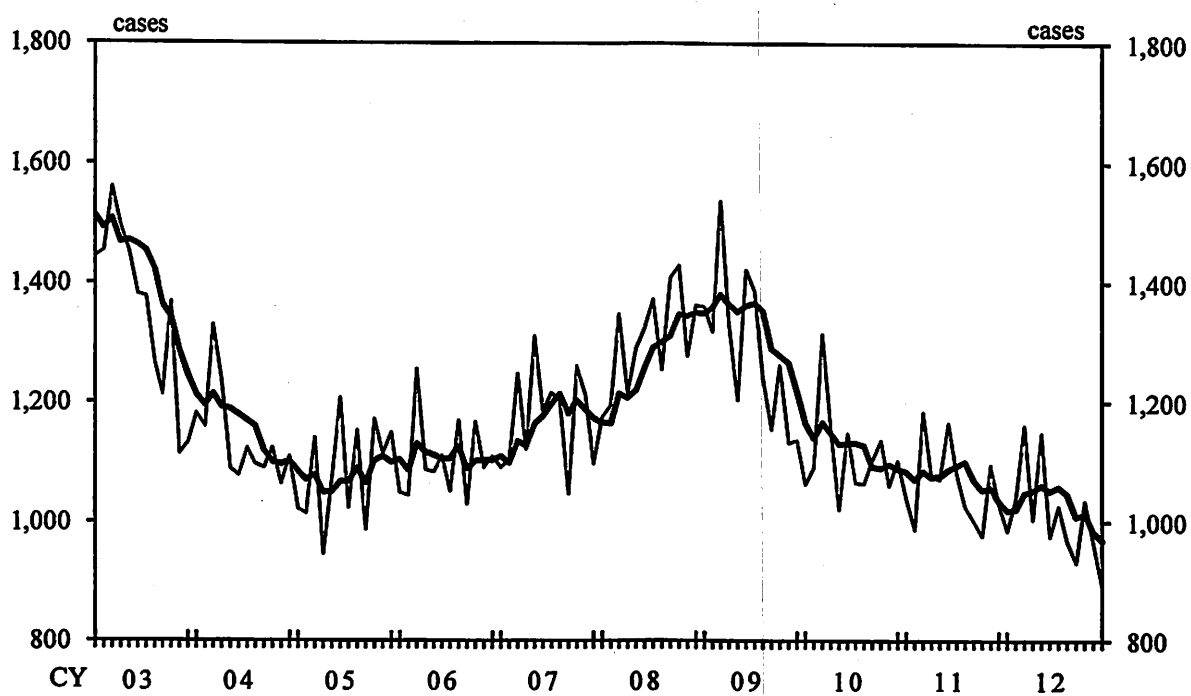


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
 4. The figure for nominal GDP in 2012/4Q is assumed to be unchanged from the previous quarter.

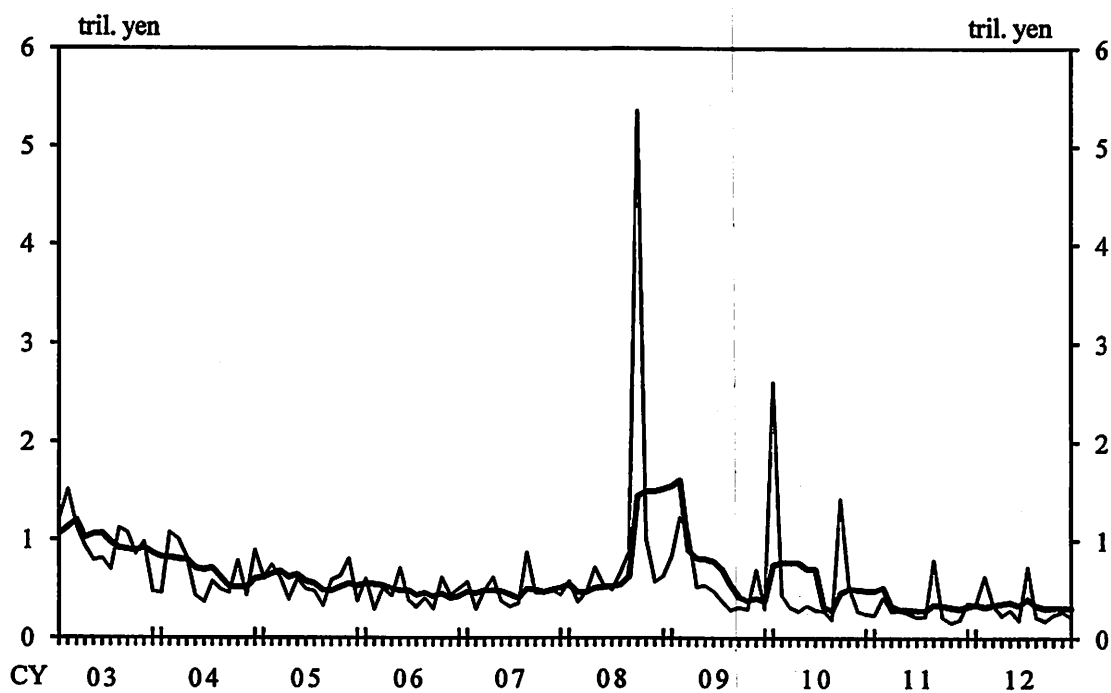
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."

