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Bank of Japan

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

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

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Monthly Report of Recent Economic and Financial Developments¹

June 2013

Summary

Japan's economy has been picking up.

As for overseas economies, while the manufacturing sector continues to show a lackluster performance, they are gradually heading toward a pick-up as a whole. In this situation, exports have started picking up. Business fixed investment continues to show resilience in nonmanufacturing and appears to have stopped weakening on the whole. Public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production has been picking up.

With regard to the outlook, Japan's economy is expected to return to a moderate recovery path, mainly against the background that domestic demand increases its resilience due to the effects of monetary easing as well as various economic measures, and that growth rates of overseas economies gradually pick up, albeit moderately.

Exports are expected to pick up mainly against the background that growth rates of overseas economies gradually pick up, albeit moderately. 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 follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits head toward improvement. Private consumption is expected to remain resilient, supported in part by improvement in the employment situation. Under these circumstances, industrial production is expected to increase moderately.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 10 and 11, 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 is rising, reflecting movements in foreign exchange rates. The year-on-year rate of change in consumer prices (all items less fresh food) has been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods. Some indicators suggest a rise in inflation expectations.

Domestic corporate goods prices are expected to continue rising for the meantime. The year-on-year rate of change in consumer prices is likely to gradually turn positive.

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 30 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 remained favorable on the whole. Firms' credit demand has been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has been at around 2 percent. The amount outstanding of CP and corporate bonds has been more or less around the year-ago level. Firms have retained their recovered financial positions on the whole. 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, the value of the yen against the U.S. dollar has risen,

while stock prices have fallen. Meanwhile, long-term interest rates have remained at more or less the same level as last month.

1. Economic Developments

Public investment has continued to increase. The amount of public construction completed—which reflects the progress of public works—increased slightly in the first quarter on a quarter-on-quarter basis, after having risen for four quarters in a row until the fourth quarter last year (Chart 5). The value of public works contracted—a measure that reflects public orders—dipped marginally in the first quarter, after having continued to be more or less flat on average, albeit with monthly fluctuations, since the second quarter last year, but it increased markedly at the start of the new fiscal year in April.

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

Real exports have started picking up (Charts 6[1] and 7). Real exports increased in the first quarter for the first time in three quarters and kept doing so in April relative to the first quarter, after having continued to decline in the fourth quarter last year on a quarter-on-quarter basis, following a large decrease in the third quarter. On a monthly basis, after having registered a month-on-month rise in January aided partly by increased exports prior to the Lunar New Year holidays, they fell back in February, but went up again in both March and April. Looking at movements in exports by region (Chart 7[1]), exports to the United States have exhibited relatively high growth, particularly in motor vehicles and their related goods, and together with the U.S. economy having firmed up, they have resumed their uptrend, assisted partly by the effects of recent foreign exchange rates. Exports to Others have fallen recently, due to the fluctuations in ships; setting this factor aside, they seem to have turned upward, mainly in motor vehicles and their related goods as well as in capital goods and parts (excluding ships). Although it is difficult to read the underlying trend as exports to East Asia tend to show large fluctuations, they have recently started to show signs of picking up, notably to China and NIEs, notwithstanding persistent sluggishness. Meanwhile, exports to the EU have continued to trend downward on average, despite having risen in April. By goods (Chart 7[2]), exports of motor vehicles and their related goods—due in part to the effects of developments in foreign exchange rates—have resumed an uptrend, assisted by the pick-up in those to China—which had seen a significant drop—amid steady

exports to the United States and Others. Exports of intermediate goods have been moving upward, chiefly in iron and steel and in chemicals bound for East Asia. Exports of capital goods and parts recently seem to have started to bottom out, disregarding the fluctuations in ships, after having plunged in the second half of last year. Meanwhile, exports of IT-related goods (including visual and audio apparatus) appear to be heading for bottom as a whole, with the effects of the downshift in demand for parts for new smartphone products gradually easing, although digital cameras have been somewhat sluggish.

Real imports have been heading toward an increase again, with the fluctuations smoothed out (Charts 6[1] and 9). Real imports—which had fallen sharply in the fourth quarter last year on a quarter-on-quarter basis, after having trended upward through the third quarter, albeit with fluctuations—rose in the first quarter. Although imports fell in April relative to the first quarter, they are expected to start heading for an increase again with the fluctuations smoothed out, in light of steady domestic demand and a pick-up in industrial production. Looking at movements in imports by goods (Chart 9[2]), those of raw materials have become more or less flat on average, although the underlying trend is difficult to read with the large fluctuations. Imports of IT-related goods appear to be on an increasing trend, chiefly in smartphones, but they have fallen back lately from the rise toward the beginning of this year. As to imports of capital goods and parts, the downtrend appears to be coming to a halt, despite their persistent weakness, assisted mainly by the progress in inventory adjustments at home. Meanwhile, the slight weakness observed in imports of goods including intermediate goods (such as chemicals as well as iron and steel) indicates a possibility that movements in foreign exchange rates have started to take effect.

Net exports—in terms of the real trade balance—have started to trend moderately upward as a reflection of the aforementioned developments in exports and imports (Chart 6[1]). The nominal current account surplus in April increased its level as a whole compared with the first quarter, since the income surplus increased while the nominal goods and services balance was almost flat (Chart 6[2] and [3]).

Regarding the environment surrounding exports, overseas economies, while the manufacturing sector continues to show a lackluster performance, are gradually heading toward a pick-up as a whole (Chart 8[2]). Looking at movements by major region, the U.S. economy has been on a moderate recovery trend against the background of firm domestic demand. On the other hand, the European economy has continued to recede slowly, amid its persistent debt problem. A clear recovery in the Chinese economy is also yet to be confirmed as the manufacturing sector continues to show some weakness. Affected by these movements, the pick-up in the NIEs and ASEAN economies has been modest as a whole. As for the exchange rate, the yen has depreciated from a while ago against both the U.S. dollar and euro; in terms of the real effective exchange rate, the yen has fallen to a level similar to that last observed around 2007 prior to the Lehman shock (Chart 8[1]).

Growth rates of overseas economies, including the United States, are expected to gradually pick up. The aforementioned movements in foreign exchange rates are also projected to underpin exports more markedly. A high degree of uncertainty remains about overseas economies, however, and the pace of recovery is expected to remain very modest for the time being. Attention should continue to be paid to the risk that the sluggishness in the European economy may inhibit the pick-up in the global economy through channels of trade, foreign investment, and worsening business sentiment. As for the Chinese economy, the manufacturing sector—which has a large influence on Japan's economy—may face a situation in which the loose supply and demand conditions may prevail even further, mainly because the supply of raw materials and other goods seems to have exceeded demand as a result of increased business fixed investment. As for the U.S. economy, although private demand has held steady, downward pressure from the fiscal side is likely to work as a restraining factor for the time being. In relation to this, as for the IT-related sector, the effects of the downshift in demand for parts for new products of smartphones—which had pushed exports and domestic production of IT-related goods downward since the end of last year—have started to ease gradually. Final demand of this sector as a whole, however, has yet to show noticeable improvement, and thus future developments in overall final demand, including conventional products such as PCs, continue to require close monitoring. Meanwhile, the impact of the bilateral relationship between Japan and China on Japan's economy has become less visible,

with the pick-up in automobile-related exports to China. Ongoing attention, however, should be paid to whether or not this trend of improvement continues.

Taking the above into consideration, exports are expected to pick up mainly against the background that growth rates of overseas economies gradually pick up, albeit moderately. Imports are projected to resume their moderate uptrend along with movements in industrial production, against the backdrop of increased resilience in domestic demand, even though movements in foreign exchange rates will bear down on some areas. As a reflection of these developments in exports and imports, net exports are projected to trend moderately upward.

Business fixed investment continues to show resilience in nonmanufacturing and appears to have stopped weakening on the whole. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms fell marginally in the first quarter, after having risen in the fourth quarter last year on a quarter-on-quarter basis, following a decline since the first quarter through the third quarter (Chart 10[1]). By industry and company size (Chart 11), business fixed investment by manufacturing was down for the third straight quarter as a whole, although the rate of decline has been narrowing, since investment by large firms was on the decline, despite slight increases in that by medium-sized and small firms. Meanwhile, business fixed investment by nonmanufacturing declined marginally in the first quarter for large as well as medium-sized and small firms, after having increased in the fourth quarter. The aggregate supply of capital goods—a coincident indicator of machinery investment—rose in April as well relative to the first quarter due partly to fluctuations of some items following the quarter-on-quarter increase in the first quarter, after having decreased for two quarters in a row through the fourth quarter last year (Chart 12[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—were almost flat in the first quarter, after having declined for three straight quarters through the fourth quarter (Chart 13[1]). Monthly figures show that machinery orders increased sharply in March, after having bounced back in February from the sizeable decline in January. By industry, machinery orders of manufacturing declined for five quarters in a row until the fourth quarter and

continued to do so in the first quarter on a quarter-on-quarter basis, although the pace of decline moderated. Those of nonmanufacturing (excluding orders for ships and those from electric power companies) have held steady with the fluctuations smoothed out, although they fell back in the first quarter on a quarter-on-quarter basis from the increase in the fourth quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—were more or less flat in April compared with the first quarter, after having increased for three consecutive quarters through the first quarter (Chart 13[2]). By industry, construction starts of mining and manufacturing have continued to be more or less flat, albeit with fluctuations, after having surged in the first quarter last year. Those of nonmanufacturing registered somewhat high growth in April relative to the first quarter, after having moved upward for four straight quarters until the first quarter.

Regarding the environment surrounding business fixed investment, corporate profits have started to improve. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales improved in the first quarter, mainly in manufacturing, supported in part by the effects of foreign exchange rates, after having improved moderately through the fourth quarter last year, notably in nonmanufacturing. By industry and company size, in manufacturing, the ratio of large firms continued to improve following that in the fourth quarter; that for medium-sized and small firms—which had deteriorated slightly in the fourth quarter—also started to show improvement. As for nonmanufacturing, the ratio of large firms—excluding production, transmission and distribution of electricity—continued to be more or less at its historical peak; that of medium-sized and small firms maintained a high level. Corporate profits are projected to continue their mild improving trend, supported by the pick-up in exports as well as by movements in foreign exchange rates on top of increased resilience in domestic demand.

Taking the above into consideration, business fixed investment is projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits head toward improvement.

Private consumption has remained resilient, assisted by the improvement in consumer sentiment (Chart 14). Consumption of goods—as seen through sales at retail stores in real terms (Chart 15[1])—rose in the first quarter on a quarter-on-quarter basis and continued to do so in April relative to the first quarter, after having been more or less level through the fourth quarter last year, albeit with some fluctuations. Looking at consumption of durable goods (Chart 15[2]), the number of new passenger-car registrations—although having fallen back lately from the upsurge, aided partly by the introduction of new models—has tended to pick up, after having fallen significantly following the ending of subsidies for purchasing energy-efficient cars. Sales of household electrical appliances in real terms have been steady as a whole, albeit with fluctuations, aided by sales of smartphones, tablet devices, and white goods installed with energy-saving devices, although those of televisions and PCs continued to be sluggish. Sales at department stores fell back in April compared with the first quarter, after having climbed in the first quarter assisted partly by increased temperatures; the underlying trend, however, has been steady, notably in imports and high-end products (Chart 16[1]). Sales at supermarkets fell back in April, particularly in spring apparel, after having rebounded toward March buoyed by increased temperatures from the decline in January which was partly affected by snowfalls in the Tokyo metropolitan areas. Sales at convenience stores have continued to trend moderately upward. As for consumption of services (Chart 16[2]), outlays for travel dipped in early-fall, chiefly in overseas travel (bound for China and South Korea), but they have been picking up since November. Sales in the food service industry have been steady as a whole.

As for statistics on the demand side, consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) shows that the index on an "excluding housing, automobiles, money gifts, and remittance" basis (Chart 15[1])—which is compiled so as to make it similar to items used for estimating GDP—was almost flat in April relative to the first quarter, after having advanced significantly in the first quarter, mainly due to strong automobiles and services (reading & recreation).² The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) declined in April

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

compared with the first quarter, after having been level in both the fourth and first quarters on a quarter-on-quarter basis.

Indicators related to consumer confidence have improved markedly: this seems to be due to improvement in the employment situation of late, along with the rise in stock prices since the end of last year (Chart 17).

Private consumption is expected to remain resilient, supported in part by improvement in the employment situation.

Housing investment has generally been picking up. The number of housing starts—a leading indicator of housing investment—has tended to pick up on average, as it bounced back up again in April relative to the first quarter from the slight fall in the first quarter on a quarter-on-quarter basis (Chart 18[1]).

Housing investment is expected to continue to generally pick up.

Industrial production has been picking up (Chart 19). Industrial production, on a quarterly basis, rose markedly in April relative to the first quarter in both the released-base and adjusted-base indices, following the quarter-on-quarter increase in the first quarter in the released-base index, while it was almost level in the adjusted-base index, after having declined for three quarters in a row since the second quarter last year.³ Looking at movements in April compared with the first quarter by industry, production of transport equipment (such as passenger cars) continued to register somewhat high growth following the first quarter: while such factors as the introduction of new models have supported firm domestic sales, production for exports to China—which was affected by the bilateral relationship between Japan and China—continued an improving trend and exports to the United States and Others held steady. Production of iron and steel and of chemicals also kept moving upward, aided by the effects of the pick-up in production of motor vehicles as well as by the

³ 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). Since industrial production fell sharply for about six months since fall 2008 as a result of the Lehman shock, quarterly changes of the released-base seasonally adjusted figures—which regard this fall as a seasonal factor—tend to be somewhat stronger in the fourth and first quarters than the adjusted-base seasonally adjusted figures, which treat this factor as an outlier.

increase in exports in some sectors as a reflection of recent movements in foreign exchange rates. Production of electronic parts and devices has gradually turned upward, as the effects of the downshift in demand for some new products—which had pushed production downward until the first quarter—eased. Production of general machinery—which had fallen toward the end of last year as a reflection of developments in business fixed investment at home and abroad—has recently headed toward bottom, with production in April having been more or less flat following that of the first quarter.

Shipments have picked up moderately (Chart 21[1]). Looking at the trend in shipments by goods (Chart 20), those of durable consumer goods have picked up, notably in motor vehicles. Shipments of non-durable consumer goods have continued to trend moderately upward. Shipments of construction goods have been on an uptrend on average, although they have recently fallen back, after having jumped toward the fiscal year-end, primarily in photovoltaic modules. Shipments of producer goods have started picking up mildly overall since: (i) those for motor vehicles (such as motor vehicle parts, iron and steel, and chemicals) have continued to improve; (ii) some of those related to materials have seen an increase in exports affected by recent movements in foreign exchange rates; and (iii) electronic parts and devices—which had remained sluggish—have recently headed for an increase. Meanwhile, shipments of capital goods seem to have started to bottom out, despite their persistent weakness.

Inventories have continued to trend downward (Chart 21[1]). Movements in inventories suggest that they have been on a declining trend since fall last year, although they recently seem to have shown signs of bottoming out with April posting a marginal increase relative to the end of March. By industry, those of transport equipment have been on a downtrend amid a pick-up in shipments. Inventories of general machinery—which had been at relatively high levels—have continued to decline. Inventories of electronic parts and devices inched upward in April, with a pile-up in inventories for new products appearing to have been playing a part. Meanwhile, inventories—including those of iron and steel—have risen slightly of late, which may be attributable to movements to front-load production in view of increases in electricity prices. As for the shipment-inventory balance (year-on-year

rate of change in shipments less than in inventories), growth in shipments has somewhat outpaced that in inventories overall (Chart 21[3]). As for durable consumer goods and construction goods, shipments have recently grown at a faster pace than inventories as a result of increased shipments. Growth in inventories and in shipments has been broadly balanced for capital goods, producer goods excluding electronic parts and devices (for motor vehicles), and for electronic parts and devices.

Industrial production is expected to increase moderately, mainly reflecting developments in demand at home and abroad. Based on anecdotes by firms and other information, regarding the second quarter, transport equipment is projected to increase moderately as demand holds steady at home and abroad, after having registered somewhat high growth in the first quarter; partly in response to this, iron and steel as well as chemicals are also expected to continue growing. General machinery is expected to grow at a somewhat accelerated pace as a reflection of the pick-up in business fixed investment at home and abroad, and electronic parts and devices are likely to increase again, due mainly to the progress in inventory adjustments. As a result, industrial production as a whole is projected to advance markedly. Although there is still a high degree of uncertainty, production in the third quarter is expected to increase in a wide range of industries, including general machinery, transport equipment, iron and steel, and chemicals, driven mainly by a projected recovery in demand both at home and abroad. It looks as though industrial production as a whole will continue to increase.

The employment and income situation has continued to be severe, but supply and demand conditions in the labor market have been improving moderately.

As for supply and demand conditions in the labor market, the unemployment rate—which had been almost level since last summer—has recently shown signs of moving toward a moderate decline again (Chart 22). New job openings—which had been sluggish as a whole until around the end of last year amid the weakness in manufacturing as a reflection of movements in exports and industrial production—have recently trended upward again. In response to these movements, the active job openings-to-applicant ratio also resumed its moderate improving trend. Non-scheduled hours worked has picked up at a mild pace, as a reflection of

movements in manufacturing, while nonmanufacturing has been resilient on the whole.

In terms of employment, the year-on-year rate of change in the number of employees in the *Labour Force Survey* has recently risen somewhat on average, as a reflection of movements in nonmanufacturing, despite extremely large monthly fluctuations (Chart 23[1]). The number of regular employees in the *Monthly Labour Survey* has been increasing as a whole on a year-on-year basis supported by the rise in nonmanufacturing, although manufacturing has continued to decline.

The year-on-year rate of change in total cash earnings per employee has declined marginally as a trend (Chart 23[2]). Looking in detail, scheduled cash earnings have posted a slight negative. Scheduled cash earnings per regular employee has almost stopped declining and scheduled cash earnings per hour of part-time employees has turned upward at a very mild pace, but the uptrend in the ratio of part-time employees together with the somewhat weak number of hours worked of part-time employees have exerted downward pressure on scheduled cash earnings per employee. On the other hand, the year-on-year rate of decline in non-scheduled cash earnings has tended to narrow, in response to movements in the number of hours worked.

The year-on-year rate of change in employee income has stayed at almost 0 percent, with the fluctuations smoothed out, as a reflection of the aforementioned developments in employment and wages (Chart 23[3]).

As for the outlook regarding employee income, the lackluster business performance during the last fiscal year will mainly remain as a constraining factor for the time being, but after that, improvement is expected to become gradually evident as the pick-up in economic activity and business performance becomes noticeable.

2. Prices

International commodity prices have shown sluggish movements (Chart 25[1] and [3]). Prices of crude oil and of nonferrous metals have recently been somewhat weak, as uncertainty over the outlook for the global economy persists. Prices of grains have lowered their levels as anxiety over supply due to the unseasonable weather was reduced.

The three-month rate of change in import prices (on a yen basis) has increased, reflecting movements in foreign exchange rates (Chart 25[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) is rising, reflecting movements in foreign exchange rates (Chart 26[2]).⁴ The three-month rate of change continued to rise with an increase of 0.9 percent in April, after having posted positive 0.8 percent in March. Looking in detail at domestic corporate goods price movements in April, prices of "goods sensitive to exchange rates and overseas commodity prices" as well as those of "other materials," including chemicals & related products, continued to rise, albeit at a slightly moderate pace, as a reflection of recent movements in foreign exchange rates. Prices of "iron & steel and construction goods" kept increasing on the whole as the effects of recent movements in foreign exchange rates have been passed on to some downstream products, even though those of scrap & waste increased at a somewhat subdued pace. Meanwhile, prices of "electric power, gas & water" turned upward, partly because movements in foreign exchange rates since the end of last year have started to push prices upward through the fuel cost adjustment system and also due in part to the effects of price increases by some electric power companies.⁵

The year-on-year rate of change in corporate services prices (excluding international transportation; year-on-year basis, same hereafter) has continued to mark

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

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

a slight negative on average, albeit with fluctuations (Chart 27). As for developments on a year-on-year basis, corporate services prices registered negative 0.7 percent in April, expanding their rate of decline from negative 0.4 percent in March. Looking in detail at corporate services price movements, prices related to "selling, general and administrative expenses" accelerated their year-on-year rate of decline markedly as a whole, since the positive effects from a large event seen last month dissipated and also since prices of advertising services saw advertisement placements by some industries—regarded as a fluctuation—decline significantly. Prices related to "real estate" somewhat accelerated their year-on-year pace of decline, partly since April saw these prices fall back from the increase last year as well as fluctuations in some sampled prices, even though the pace of decline has tended to narrow moderately. Meanwhile, prices related to "fixed investment" continued to increase marginally, although the rate of increase has diminished. "IT-related" prices 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) has been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods (Chart 28[1]). In April, consumer prices continued to decline and stood at negative 0.4 percent on a year-on-year basis, but the rate of decline narrowed by 0.1 percentage point from negative 0.5 percent in March. Those on a basis that excludes food and energy stood at negative 0.6 percent in April, reducing their rate of decline by 0.2 percentage points from March. Regarded as a method for capturing trend changes, the year-on-year rate of change in the trimmed mean has ceased to improve since the middle of last year, but from a somewhat long-term perspective, it has been on a moderate improving trend (Chart 29[2]).⁶ The year-on-year rate of change in the Laspeyres chain index has moved in tandem with that in the 2010-base index (Chart 29[1]).⁷

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

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

Looking in detail at consumer price movements over the past few months, fees for public services have expanded their year-on-year rate of increase lately since electricity prices have risen at an accelerated pace again in response to movements in foreign exchange rates and also since the automotive insurance premium was raised, despite having reduced their pace of increase since the second half of last year, mainly due to the slower pace of increase in electricity prices as a reflection of the effects of the decline in crude oil prices toward the middle of last year. On the other hand, prices of general services have continued to decline marginally, mainly in rent. In addition, prices for goods have accelerated their pace of decline, since the rate of decline in durable goods expanded and also since petroleum products turned negative, both due to the reversal of the previous year's movements. Taking a closer look at price movements in April relative to March, prices of goods (excluding agricultural, aquatic and livestock products) expanded their rate of decline as a whole, primarily since prices of petroleum products turned marginally negative on a year-on-year basis in response to last year's increase. In contrast, the year-on-year rate of increase in fees for public services expanded, affected by the rise in electricity prices due to the fuel cost adjustment system as a reflection of movements in foreign exchange rates since the end of last year as well as by the hike in the automotive insurance premium. The year-on-year rate of decline in prices of general services somewhat narrowed, mainly due to movements in hotel charges and package tours to overseas.

Domestic corporate goods prices are expected to continue rising for the meantime. The year-on-year rate of change in consumer prices is likely to gradually turn positive.

Meanwhile, some indicators suggest a rise in inflation expectations (Chart 30).

As for land prices, the urban land price index shows that prices of both commercial and residential land in the six large city areas—which had continued to decline at a reduced pace relative to six months ago—have recently turned to an increase, albeit marginally (Chart 31). Both commercial and residential land prices

items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

outside the six large city areas have continued to decline moderately, but the pace of decline has slowed relative to six months ago.

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 30 percent (Chart 32).

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 34).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 33). 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 increase in the amount outstanding of bank lending has been at around 2 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 35). The amount outstanding of CP and corporate bonds has been more or less around the year-ago level (Chart 36).

Firms have retained their recovered financial positions on the whole (Chart 33). The number of corporate bankruptcies has remained at a low level (Chart 38).

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 May reading was 3.4 percent on a year-on-year basis, following 3.2 percent in April (Chart 37).⁸

⁸ On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been in the range of 2.5-3.0 percent; its May reading was 2.8 percent, following 2.6 percent in April. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been in the range of 2.5-3.0 percent; it increased by 2.8 percent in May, following an increase of 2.2 percent in April.

(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 fallen slightly and has been below the 0.1 percent level. The Euroyen interest rate (3-month) has been more or less flat. Interest rates on Euroyen futures have been virtually level (Chart 39). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been more or less flat (Chart 40).

Yields on 10-year government bonds (newly issued 10-year JGB) are currently moving at around 0.85 percent, albeit with fluctuations caused mainly by the rise in U.S. long-term interest rates as well as by the fall in Japanese stock prices (Chart 41).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 42).

Stock prices have fallen mainly in response to profit-taking sales by investors. The Nikkei 225 Stock Average is currently moving at around 13,500 yen (Chart 43).

In the foreign exchange market, the yen has appreciated against the U.S. dollar, partly since the yen was bought back in view of the decline in Japanese stock prices; the yen is currently moving in the range of 98-99 yen against the U.S. dollar (Chart 44). In these circumstances, the yen has appreciated against the euro; the yen is currently moving in the range of 130-131 yen against the euro.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2012/Q3	Q4	2013/Q1	2013/Feb.	Mar.	Apr.	May
Index of consumption expenditure level (two-or-more-person households)	-1.4	-0.7	4.4	3.0	1.1	-2.2	n.a.
Sales at department stores	-0.5	1.1	1.5	1.9	0.1	p -2.1	n.a.
Sales at supermarkets	-0.5	0.8	-1.9	1.3	3.4	p -3.2	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	<282>	<263>	<304>	<313>	<285>	<310>	<278>
Sales of household electrical appliances (real, "Current Survey of Commerce")	3.8	-1.0	6.1	5.4	-3.5	p -2.0	n.a.
Outlays for travel	-4.5	-0.0	0.6	2.3	-3.4	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	<88>	<91>	<90>	<94>	<90>	<94>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	-1.3	-0.8	-0.0	4.2	14.2	n.a.	n.a.
Manufacturing	-3.0	-5.3	-1.7	4.9	13.3	n.a.	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	-0.3	5.6	-3.1	0.3	14.3	n.a.	n.a.
Construction starts (private, nondwelling use)	5.5	8.2	5.2	14.4	1.4	-5.8	n.a.
Mining & manufacturing	6.2	-13.2	20.0	-20.5	-12.2	4.3	n.a.
Nonmanufacturing ⁵	8.1	9.3	0.7	28.4	-1.4	0.9	n.a.
Value of public works contracted	-0.3	1.1	-3.6	0.3	-5.6	28.7	n.a.
Real exports	-4.5	-4.2	1.5	-2.4	2.8	2.0	n.a.
Real imports	1.0	-5.5	3.1	1.3	0.1	-2.2	n.a.
Industrial production	-4.2	-1.9	2.2	0.6	0.9	p 1.7	n.a.
Shipments	-5.4	-2.1	3.4	1.4	1.2	p 1.1	n.a.
Inventories	0.3	-2.5	-2.2	-2.0	0.2	p 0.6	n.a.
Inventory ratio <s.a., CY 2005 = 100>	<130.4>	<126.5>	<119.6>	<121.1>	<119.6>	<p 120.2>	<n.a.>
Real GDP	-0.9	0.3	1.0	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.5	0.3	-0.4	0.6	-0.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2012/Q3	Q4	2013/Q1	2013/Feb.	Mar.	Apr.	May
Active job openings-to-applicants ratio <s.a., times>	<0.81>	<0.82>	<0.85>	<0.85>	<0.86>	<0.89>	<n.a.>
Unemployment rate <s.a., %>	<4.3>	<4.2>	<4.2>	<4.3>	<4.1>	<4.1>	<n.a.>
Non-scheduled hours worked ⁶	-0.9	-2.5	-1.6	-1.0	-1.9	p 0.0	n.a.
Number of employees	0.5	0.1	0.4	0.5	0.7	1.0	n.a.
Number of regular employees ⁶	0.6	0.7	0.5	0.5	0.5	p 0.6	n.a.
Nominal wages per person ⁶	-0.7	-1.1	-0.6	-0.8	-0.9	p 0.3	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-2.0 <-1.0>	-0.9 <0.2>	-0.3 <0.8>	-0.1 <1.1>	-0.5 <0.8>	p 0.0 <p 0.9>	n.a. <n.a.>
Consumer price index ⁸	-0.2	-0.1	-0.3	-0.3	-0.5	-0.4	n.a.
Corporate services price index ⁹	-0.2	-0.5	-0.4	-0.2	-0.4	p -0.7	n.a.
Money stock (M2) <average outstanding, y/y % chg.>	2.4	2.3	2.9	2.9	3.1	3.2	p 3.4
Number of corporate bankruptcies <cases per month>	<975>	<963>	<926>	<916>	<929>	<899>	<1,045>

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

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

2. Figures with "p" indicate preliminary data.

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

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

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

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

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

8. All items, less fresh food.

9. Excludes international transportation.

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

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

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

"Indices of All Industry Activity";

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

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

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

Ministry of Finance, "Trade Statistics";

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

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

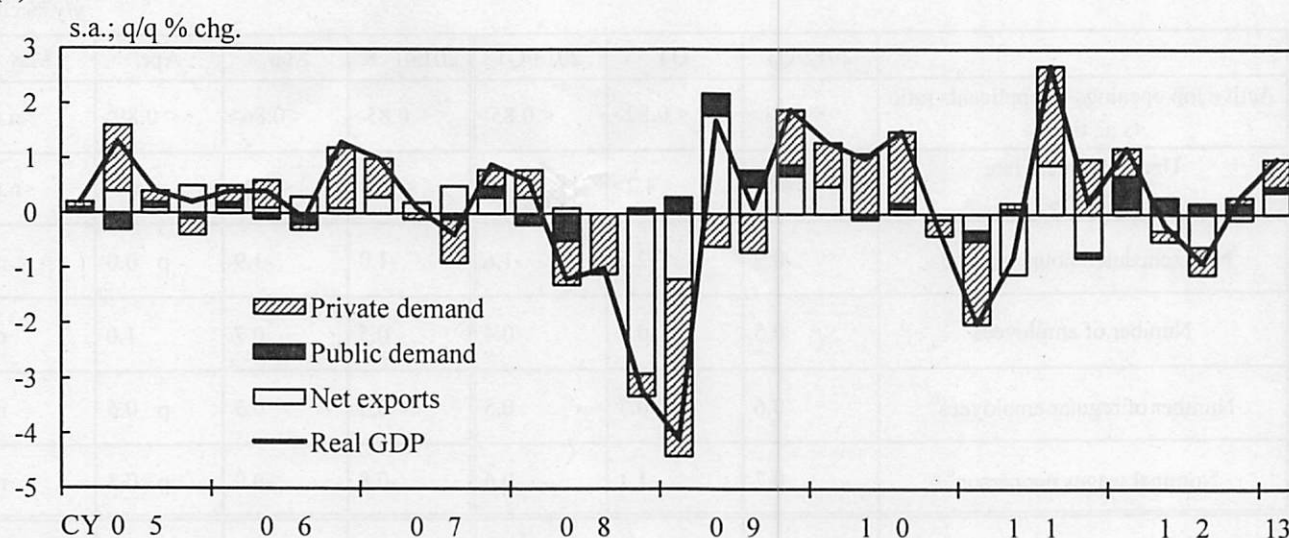
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

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

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

Real GDP and Indexes of Business Conditions

(1) Real GDP



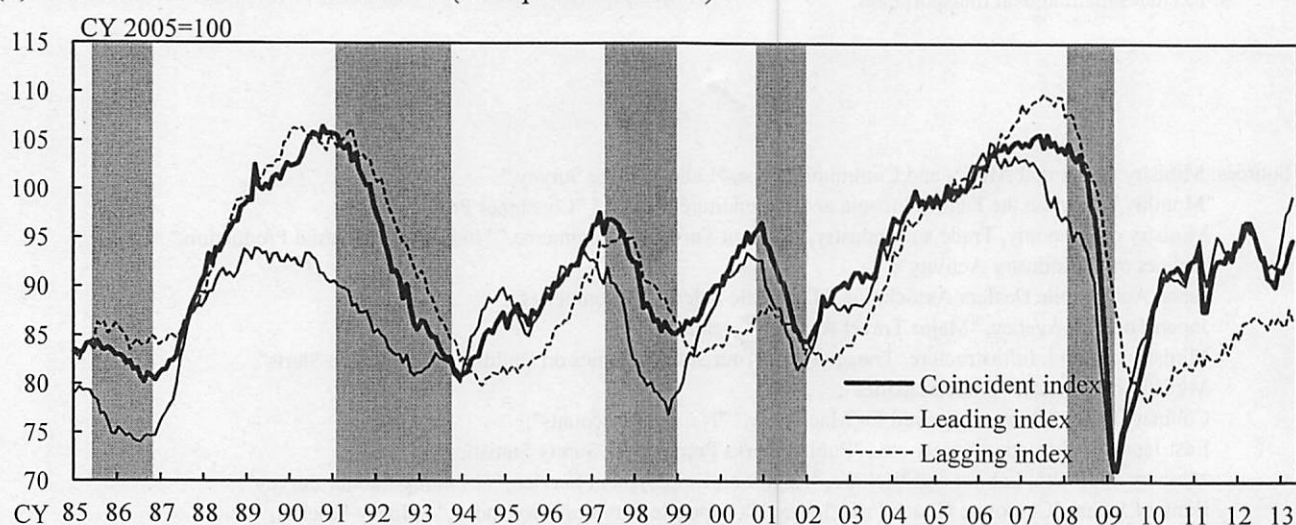
(2) Components

s.a.; q/q % chg.

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Real GDP	1.2	-0.2	-0.9	0.3	1.0
[Annual rate]	[4.8]	[-0.6]	[-3.6]	[1.2]	[4.1]
Domestic demand	1.1	0.1	-0.3	0.4	0.6
Private demand	0.5	-0.2	-0.5	0.1	0.5
Private consumption	0.5	0.1	-0.2	0.3	0.5
Non-Resi. investment	-0.4	-0.0	-0.4	-0.2	-0.0
Residential investment	-0.0	0.1	0.0	0.1	0.1
Private inventory	0.4	-0.3	0.1	-0.1	-0.0
Public demand	0.6	0.3	0.2	0.2	0.1
Public investment	0.3	0.3	0.2	0.1	0.0
Net exports of goods and services	0.1	-0.3	-0.6	-0.1	0.4
Exports	0.4	-0.0	-0.7	-0.4	0.5
Imports	-0.3	-0.3	0.1	0.4	-0.2
Nominal GDP	1.1	-0.5	-1.1	0.2	0.6

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

(3) Indexes of Business Conditions (Composite Indexes)

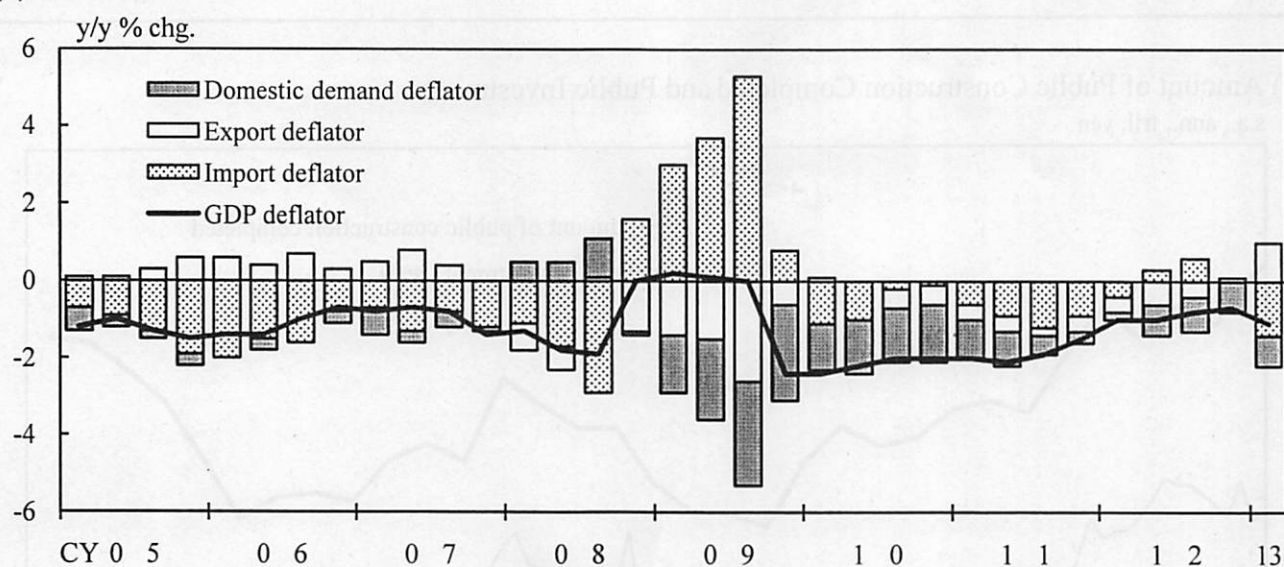


Note: Shaded areas indicate recession periods.

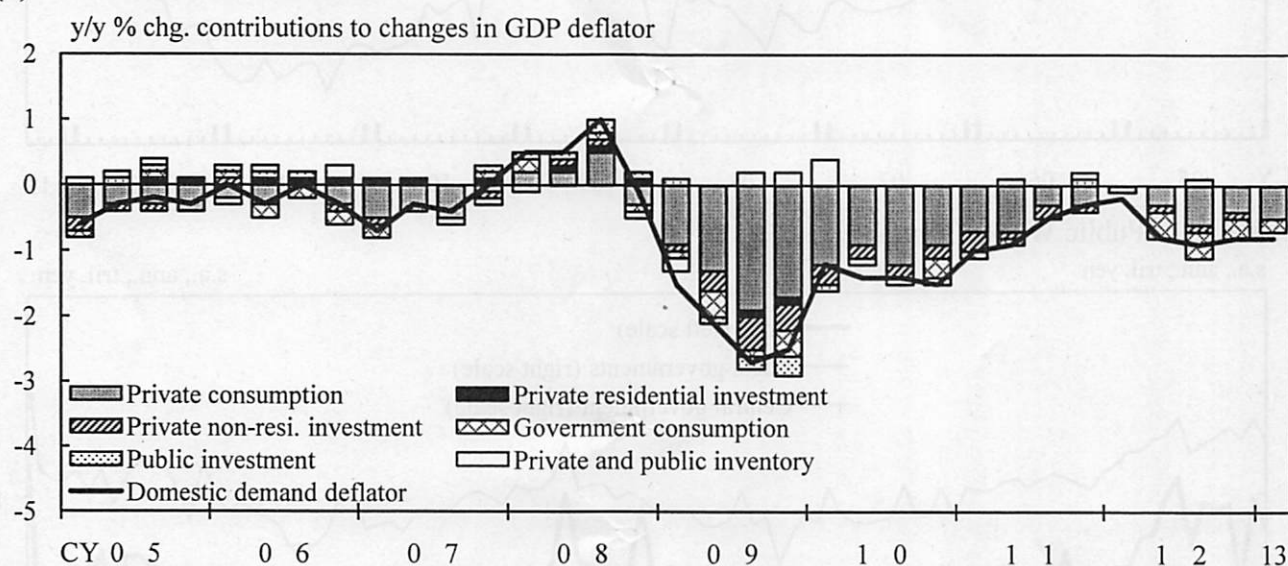
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

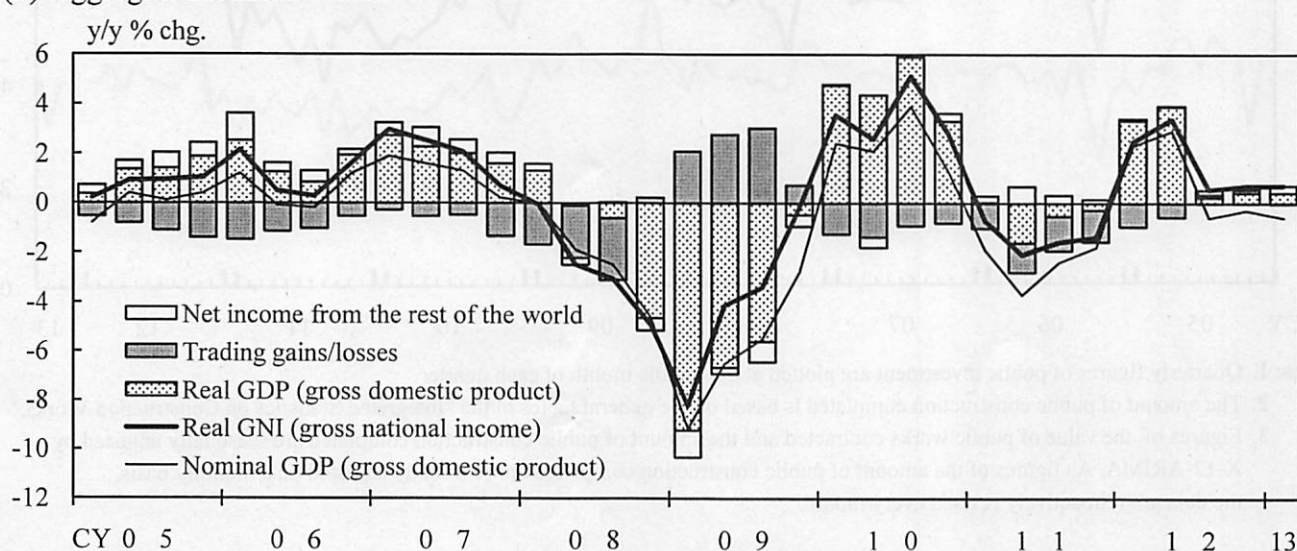
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

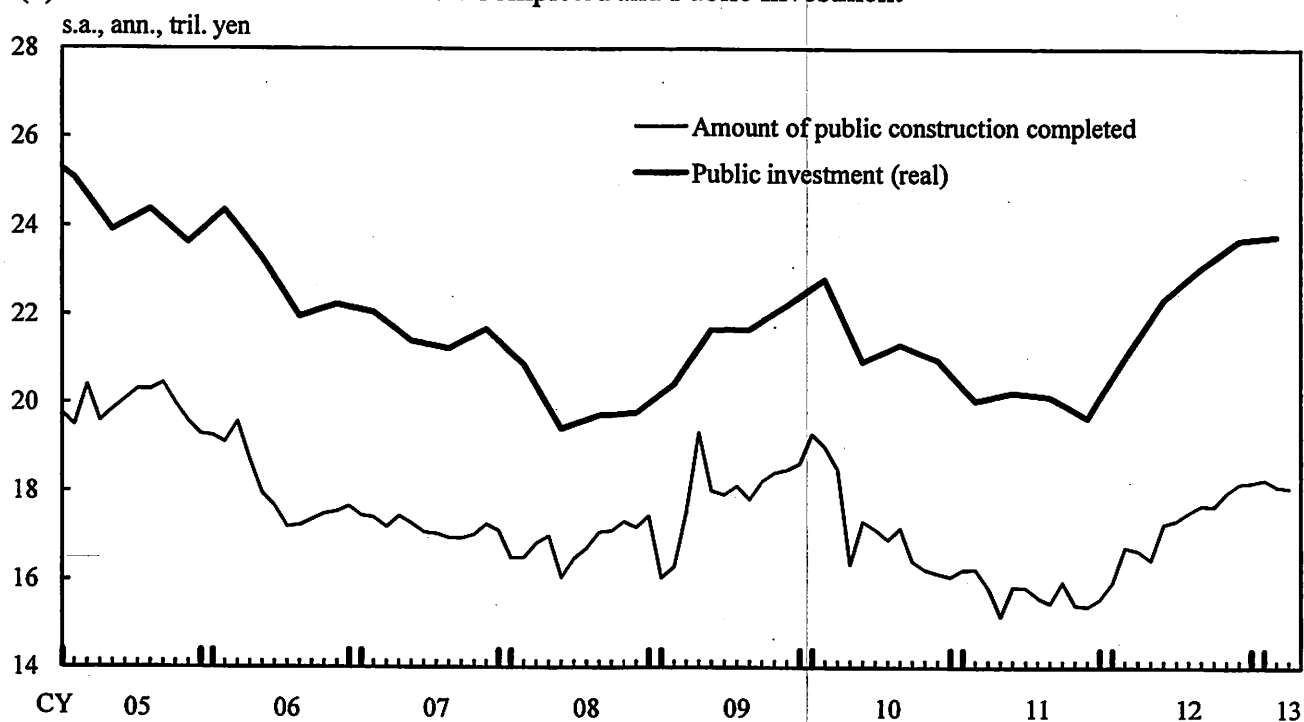
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

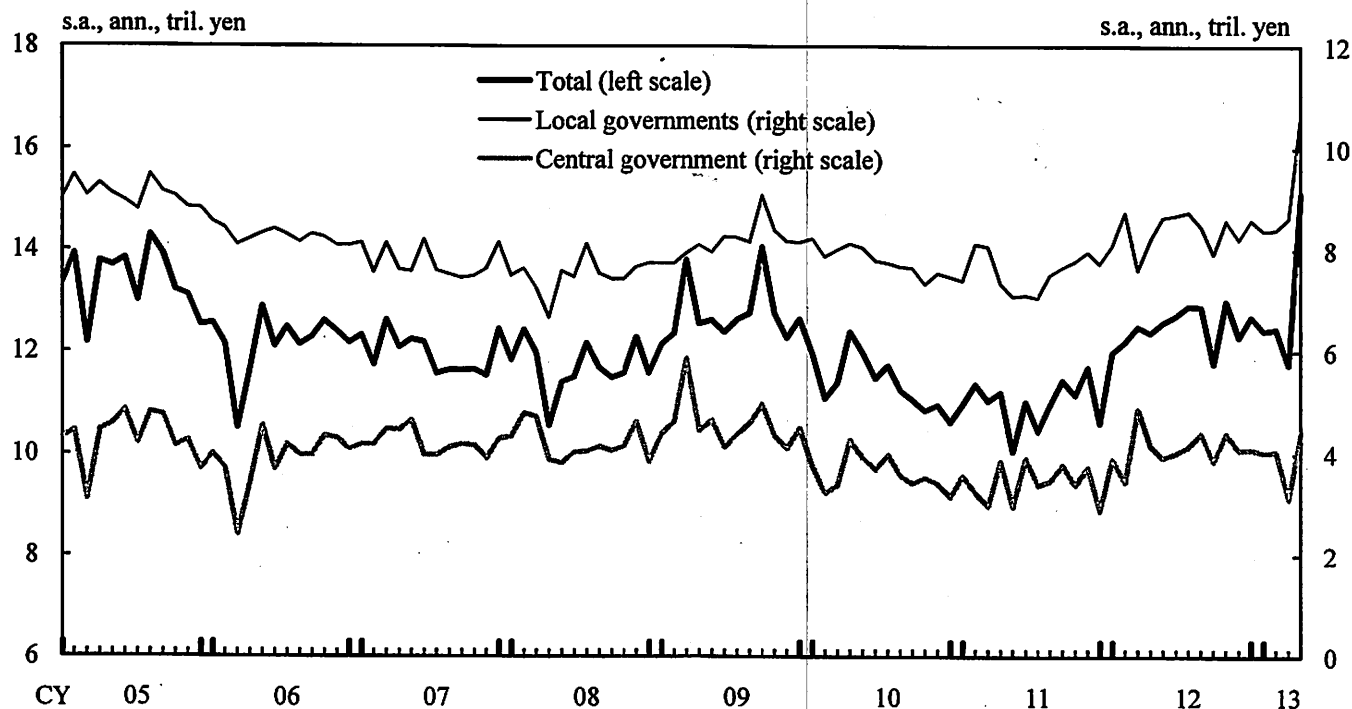
Source: Cabinet Office, "National Accounts."

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.

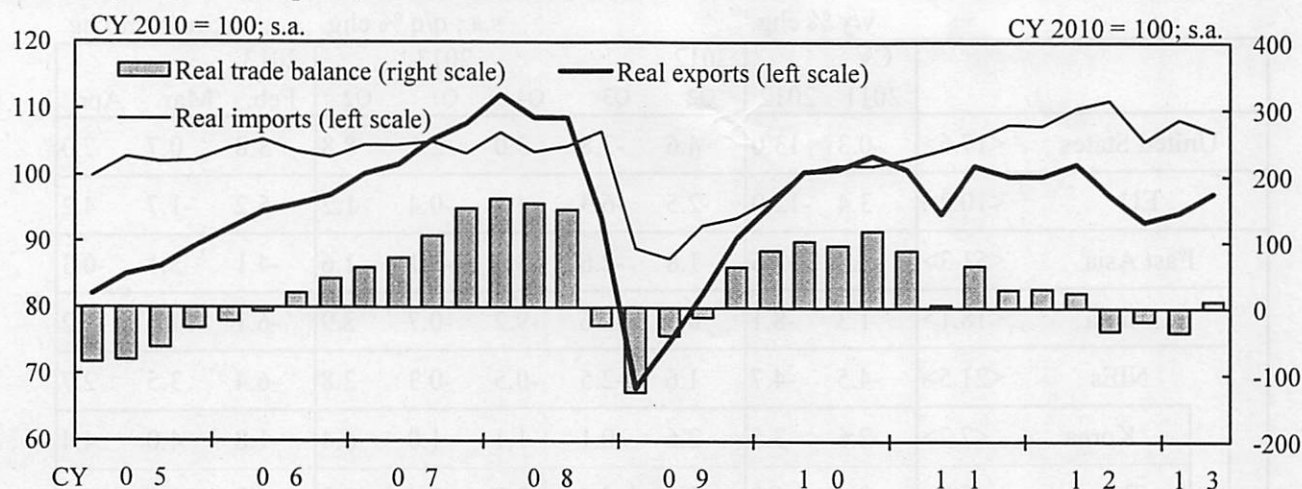
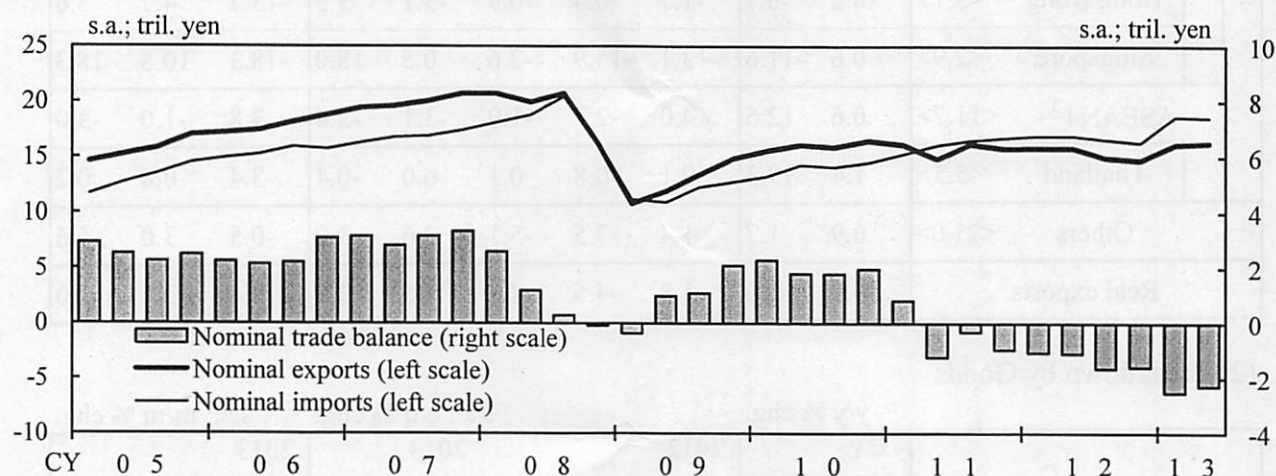
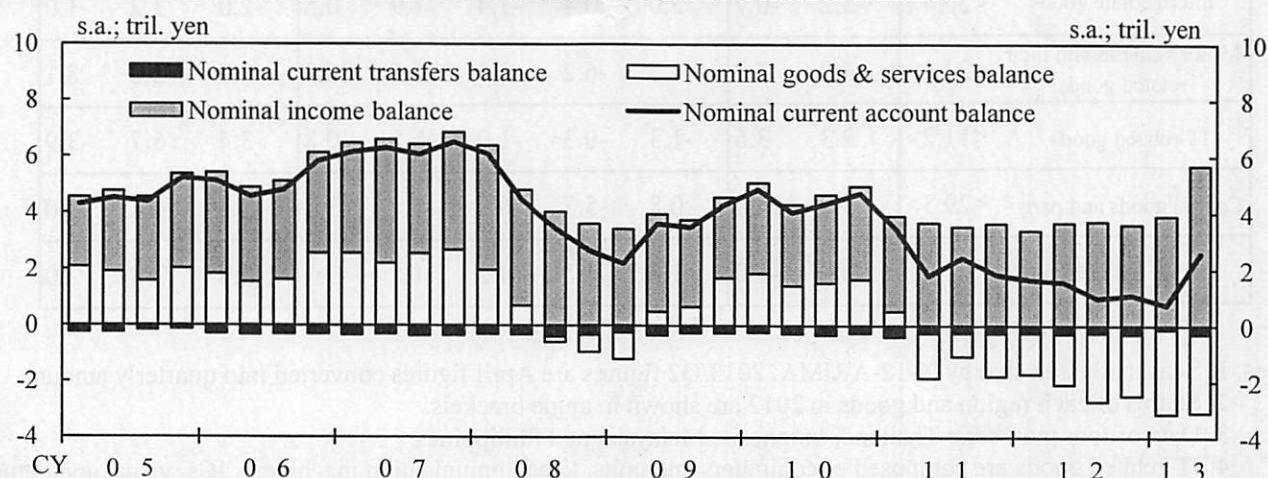
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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. 2013/Q2 figures are April figures converted into quarterly amount.
 2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." "Real trade balance" is defined as real exports minus real imports.
 3. Figures are based on the "Balance of Payments."

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	2013 Q4	Q1	Q2	2013 Feb.	Mar.	Apr.
United States	<17.6>	-0.3	13.0	4.6	-3.8	-3.0	2.1	8.8	3.8	0.7	7.0
EU	<10.2>	3.4	-12.9	-2.5	-6.3	-4.4	-0.4	1.2	-5.2	-1.7	4.2
East Asia	<51.3>	-1.4	-2.6	1.8	-2.6	-3.9	-1.1	1.6	-4.1	5.1	-0.3
China	<18.1>	1.3	-8.1	0.7	-2.6	-9.2	-0.7	2.9	-6.1	11.4	-2.2
NIEs	<21.5>	-4.5	-4.7	1.6	-2.5	-0.5	-0.3	2.8	-6.4	3.5	2.7
Korea	<7.7>	-2.6	-3.5	-2.6	-0.1	1.1	1.0	6.4	-1.8	4.0	4.4
Taiwan	<5.8>	-9.4	-6.0	5.4	0.6	-2.8	2.4	-9.2	-5.8	-1.9	-6.2
Hong Kong	<5.1>	-4.2	-0.7	-1.7	-0.4	-0.9	-5.1	3.5	-13.7	4.7	5.6
Singapore	<2.9>	0.6	-11.6	13.1	-15.9	-2.6	0.5	18.0	-18.3	10.8	18.3
ASEAN4 ³	<11.7>	0.6	12.5	4.0	-2.7	-1.9	-3.1	-2.4	3.8	-1.0	-3.0
Thailand	<5.5>	1.4	19.3	9.1	-0.8	0.1	-6.0	-0.4	-3.4	0.8	0.2
Others	<21.0>	0.9	1.7	1.4	-7.5	-5.1	3.6	-3.9	-0.5	3.0	-5.6
Real exports		-0.9	-1.0	1.8	-4.5	-4.2	1.5	3.1	-2.4	2.8	2.0

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	2013 Q4	Q1	Q2	2013 Feb.	Mar.	Apr.
Intermediate goods	<20.4>	-3.2	-0.7	5.0	-0.4	-3.4	1.9	0.5	-2.0	3.2	-1.0
Motor vehicles and their related goods	<23.4>	-4.9	7.7	1.5	-6.2	-5.8	0.6	6.9	0.9	-2.2	8.1
IT-related goods ⁴	<11.2>	2.3	3.6	-1.3	-0.3	-1.9	-6.5	-0.8	-3.4	6.7	-3.9
Capital goods and parts ⁵	<29.3>	5.8	-4.0	0.8	-5.7	-6.5	1.1	-3.2	-2.4	4.1	-5.0
Real exports		-0.9	-1.0	1.8	-4.5	-4.2	1.5	3.1	-2.4	2.8	2.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q2 figures are April figures converted into quarterly amount.

2. Shares of each region and goods in 2012 are shown in angle brackets.

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

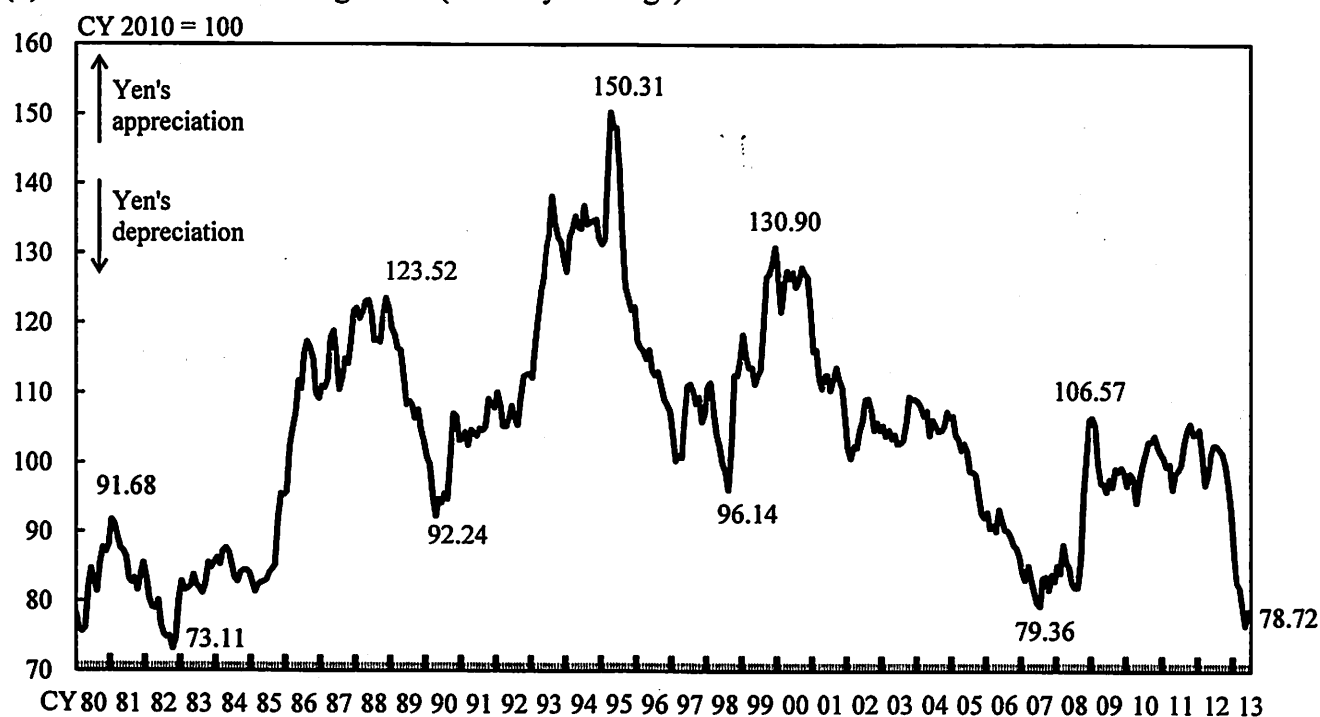
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.

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 May and June (up to June 7) 2013 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

	CY2010	2011	2012	2012 Q2	Q3	Q4	2013 Q1
United States ¹	2.4	1.8	2.2	1.3	3.1	0.4	2.4
European Union ²	2.1	1.6	-0.3	-0.8	0.3	-2.0	-0.3
Germany ¹	4.2	3.0	0.7	0.6	0.9	-2.7	0.3
France ¹	1.6	2.0	0.0	-0.7	0.3	-0.8	-0.7
United Kingdom ¹	1.8	1.0	0.3	-1.5	3.8	-1.2	1.3
East Asia ³	9.2	5.9	4.8	4.8	5.0	6.7	2.2
China ¹	10.4	9.3	7.8	7.8	8.7	8.2	6.6
NIEs ^{1,3}	8.9	4.3	1.6	0.3	1.2	4.1	1.0
ASEAN4 ^{1,3,4}	7.4	3.0	6.3	8.9	6.3	9.6	-2.3
Main economies ³	6.7	4.5	3.6	3.3	3.9	4.2	1.9

- 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 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 2011	2012	2012 Q2	Q3	2013 Q4	Q1	Q2	2013 Feb.	Mar.	Apr.
United States	<8.6>	0.5	3.8	0.5	1.7	-8.1	-0.1	-3.4	-5.4	-2.6	0.3
EU	<9.4>	10.3	4.0	1.7	3.0	-1.2	-1.8	-1.7	9.3	-1.3	-3.7
East Asia	<40.8>	11.1	3.8	1.2	0.6	-2.0	2.8	-3.9	5.0	-3.1	-3.5
China	<21.3>	14.5	4.9	2.0	0.9	-0.9	3.6	-3.8	6.8	-6.6	-1.5
NIEs	<8.5>	10.0	4.9	0.1	2.0	-1.6	1.1	-8.8	-4.0	0.7	-8.0
Korea	<4.6>	24.3	4.2	-4.7	2.7	-3.8	2.8	-13.3	-5.6	-2.1	-10.3
Taiwan	<2.7>	-3.1	7.2	7.4	2.3	1.5	-1.1	1.1	-0.4	4.1	-1.4
Hong Kong	<0.2>	-5.6	-2.5	-18.6	-5.2	-1.3	8.2	-9.7	-28.6	37.7	-17.4
Singapore	<1.0>	-0.1	2.9	5.9	-1.2	-0.4	-1.1	-18.9	-8.7	0.8	-16.8
ASEAN4 ³	<11.1>	5.6	0.5	0.3	-0.9	-4.7	2.7	-0.0	9.2	1.9	-4.0
Thailand	<2.7>	7.3	-1.0	9.0	-2.4	-2.9	3.5	1.7	4.3	5.6	-3.3
Others	<41.2>	-0.4	4.6	4.5	0.5	-10.5	7.7	1.4	3.2	1.8	-0.8
Real imports		4.8	4.1	2.5	1.0	-5.5	3.1	-1.7	1.3	0.1	-2.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2011	2012	2012 Q2	Q3	2013 Q4	Q1	Q2	2013 Feb.	Mar.	Apr.
Raw materials ⁴	<40.8>	-0.2	4.5	2.9	0.3	-12.3	9.8	-2.7	5.5	-0.1	-4.3
Intermediate goods	<13.5>	11.7	-2.7	0.7	3.0	-3.1	-1.5	-0.3	3.3	-0.0	-1.3
Foodstuffs	<8.3>	1.3	-0.7	-2.7	0.6	-3.9	3.4	-7.1	6.5	-1.9	-7.9
Consumer goods ⁵	<7.5>	9.9	4.5	3.6	0.8	-2.9	1.9	-0.8	12.0	-9.3	2.0
IT-related goods ⁶	<12.0>	11.2	8.8	2.3	2.1	3.5	2.9	-4.6	-3.3	0.6	-3.9
Capital goods and parts ⁷	<10.9>	11.3	10.3	3.8	-0.7	-3.7	0.5	1.4	-3.7	-0.3	2.9
Excluding aircraft	<10.1>	12.6	6.9	3.8	0.2	-2.3	-0.3	4.4	0.2	1.0	3.6
Real imports		4.8	4.1	2.5	1.0	-5.5	3.1	-1.7	1.3	0.1	-2.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2013/Q2 figures are April figures converted into quarterly amount.

2. Shares of each region and goods in 2012 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

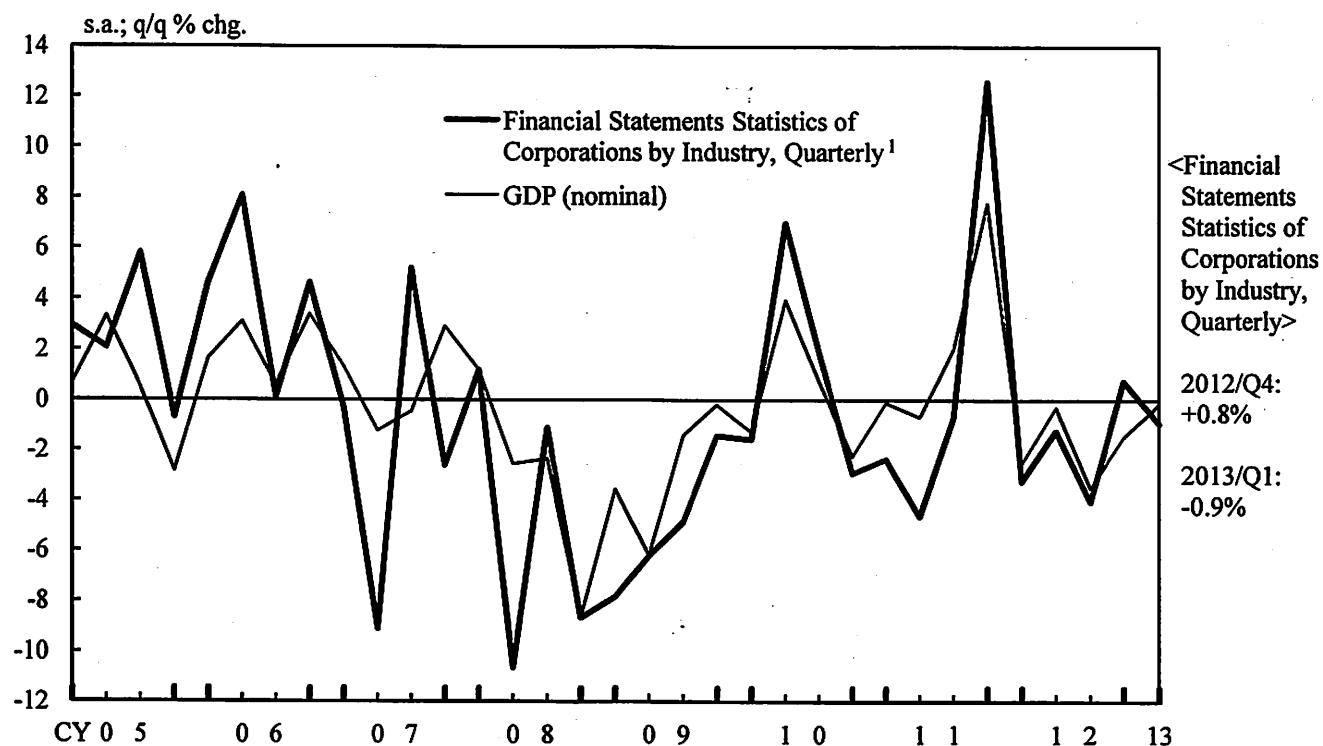
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.

7. Excludes IT-related goods.

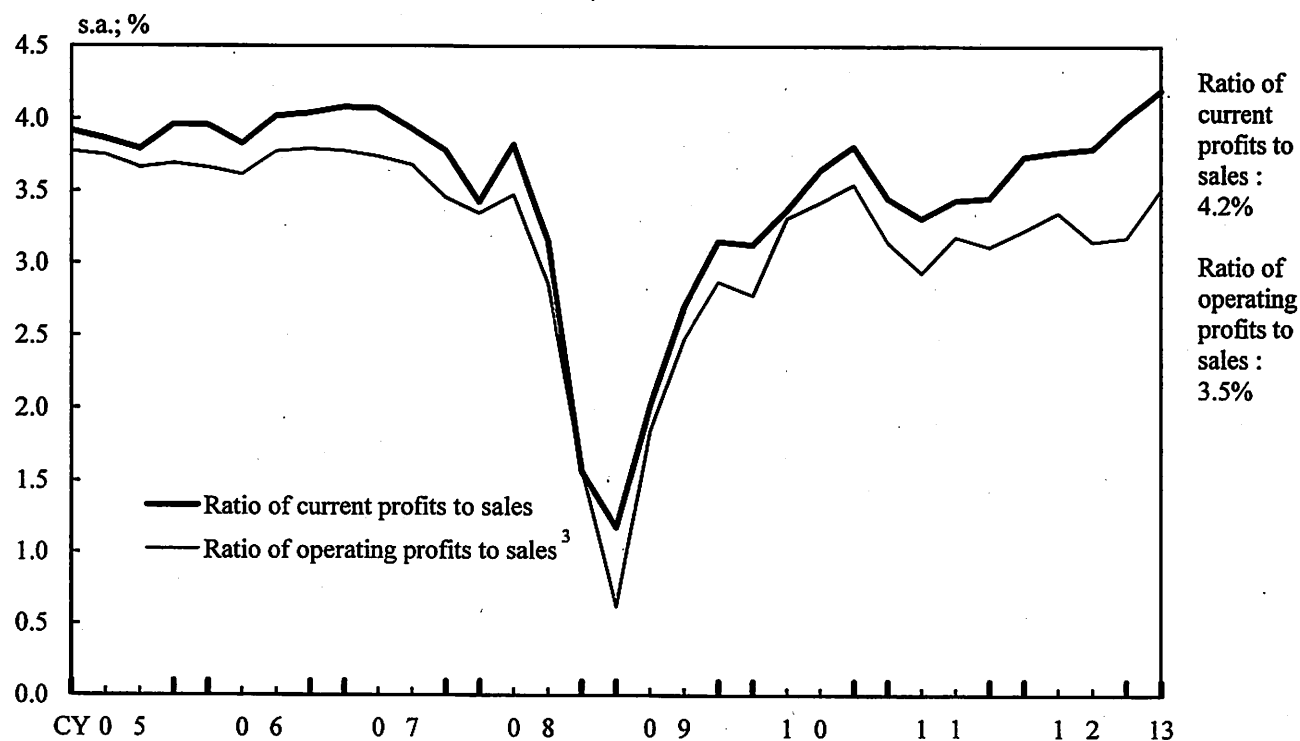
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales)^{1,2}



Notes: 1. All enterprises excluding "Finance and Insurance."

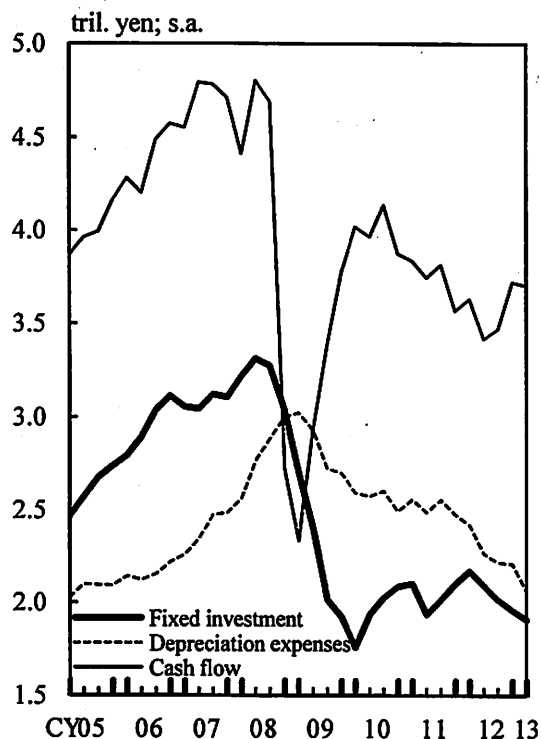
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

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

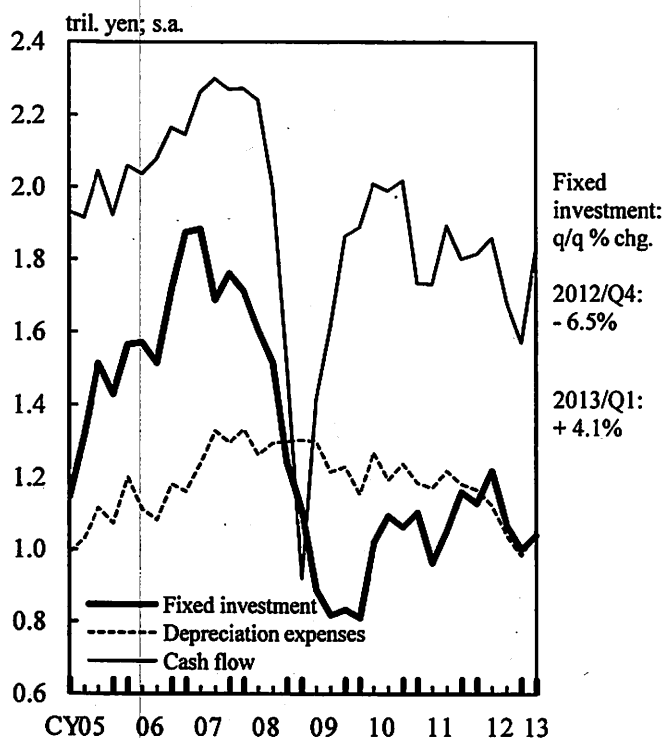
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

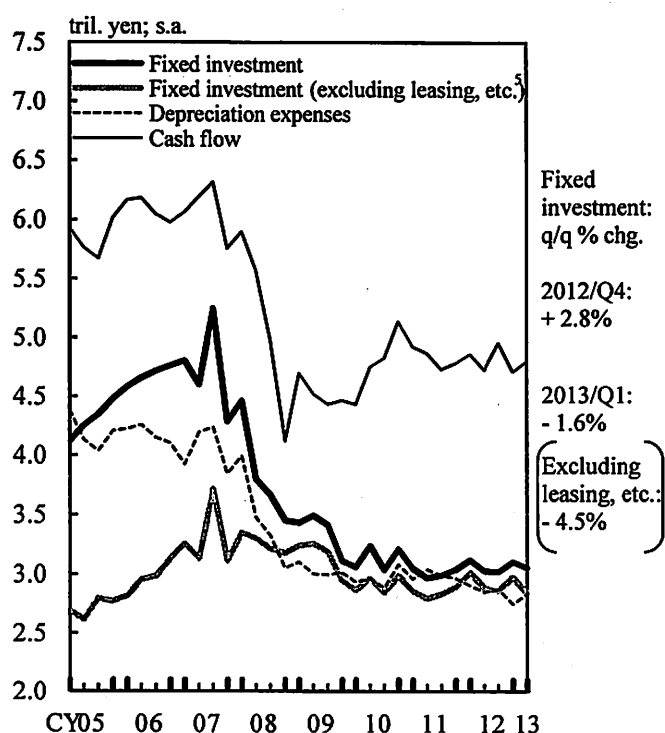
(1) Large Manufacturing Firms



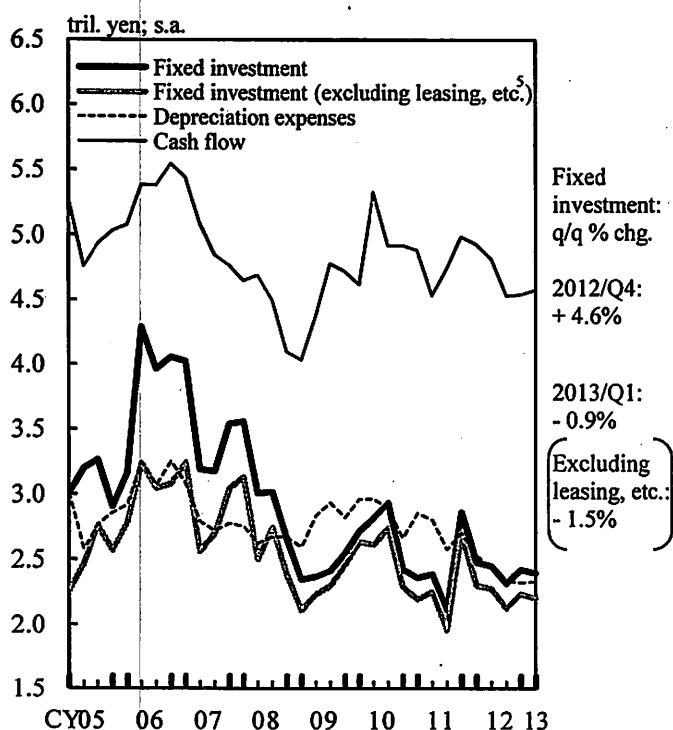
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

2. Cash flow = current profits / 2 + depreciation expenses.

3. Seasonally adjusted by X-12-ARIMA.

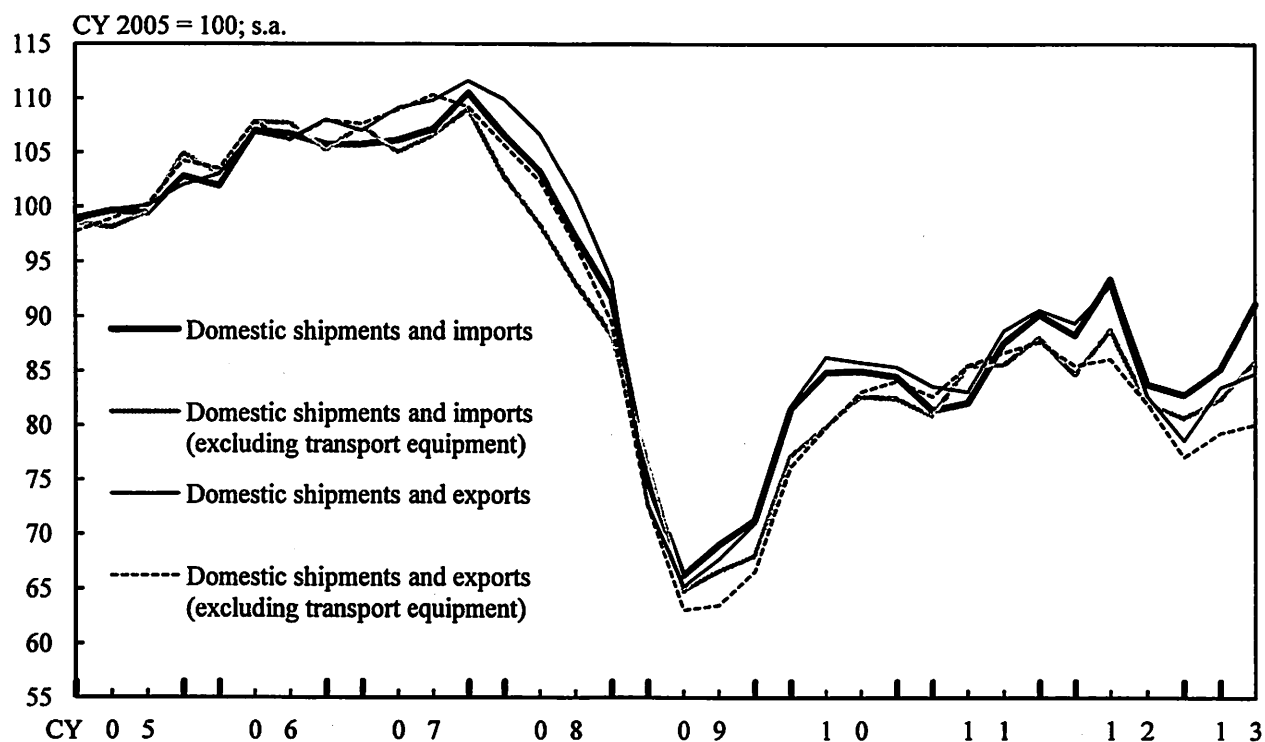
4. Excluding "Finance and Insurance."

5. Excluding "Goods rental and Leasing."

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

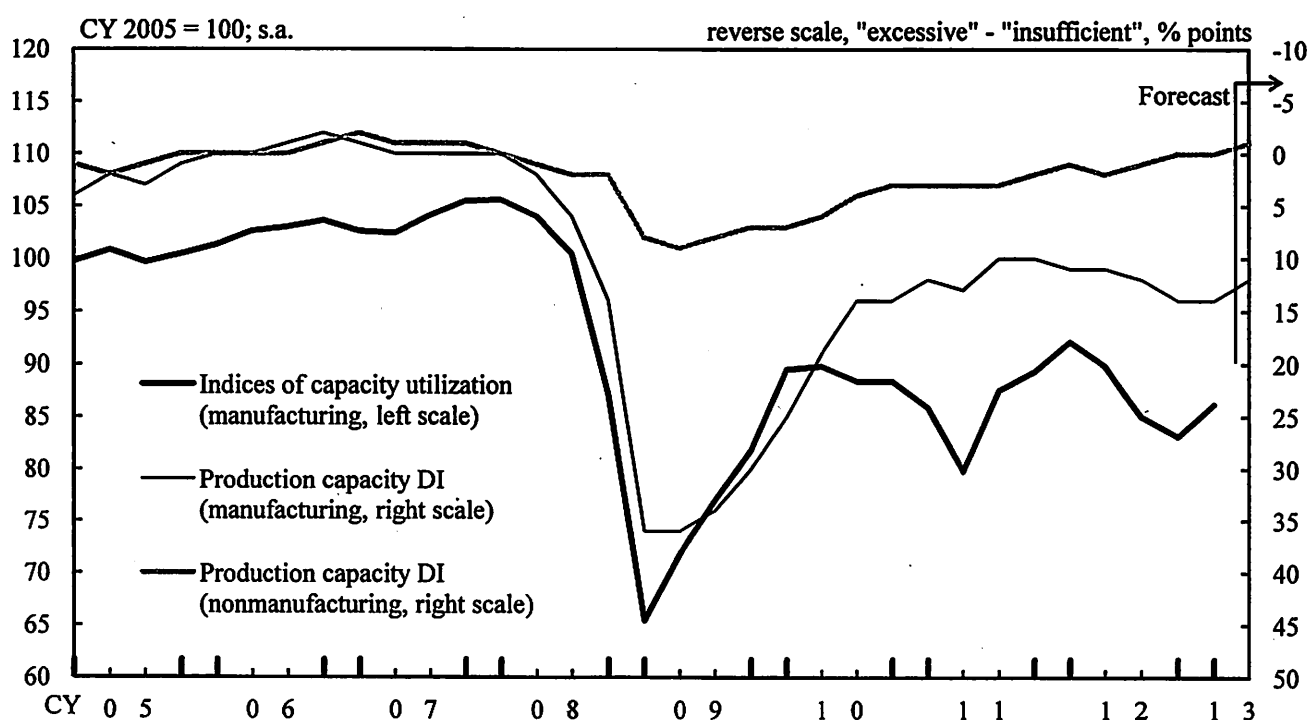
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2013/Q2 are those of April.

(2) Indices of Capacity Utilization and Production Capacity DI

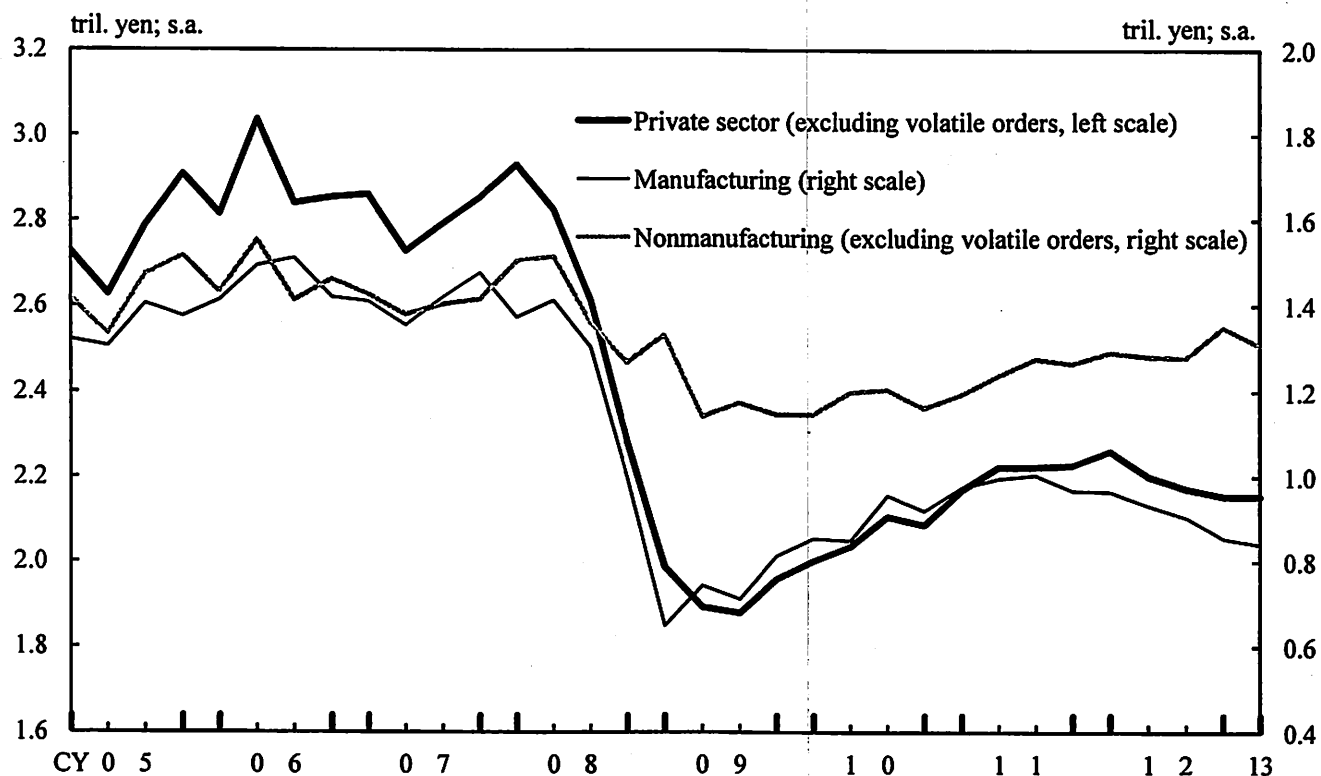


Note: Production capacity DIs are those of all enterprises.

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

Leading Indicators of Business Fixed Investment

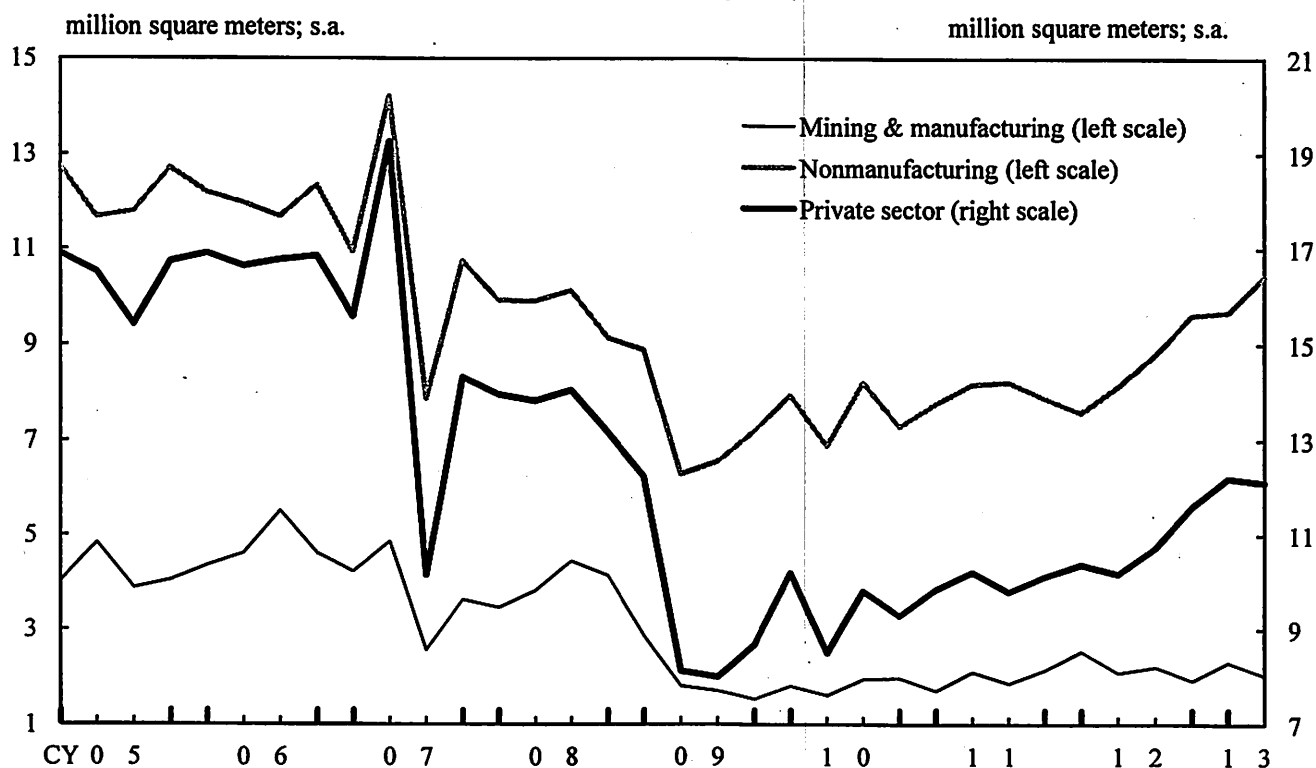
(1) Machinery Orders



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

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

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



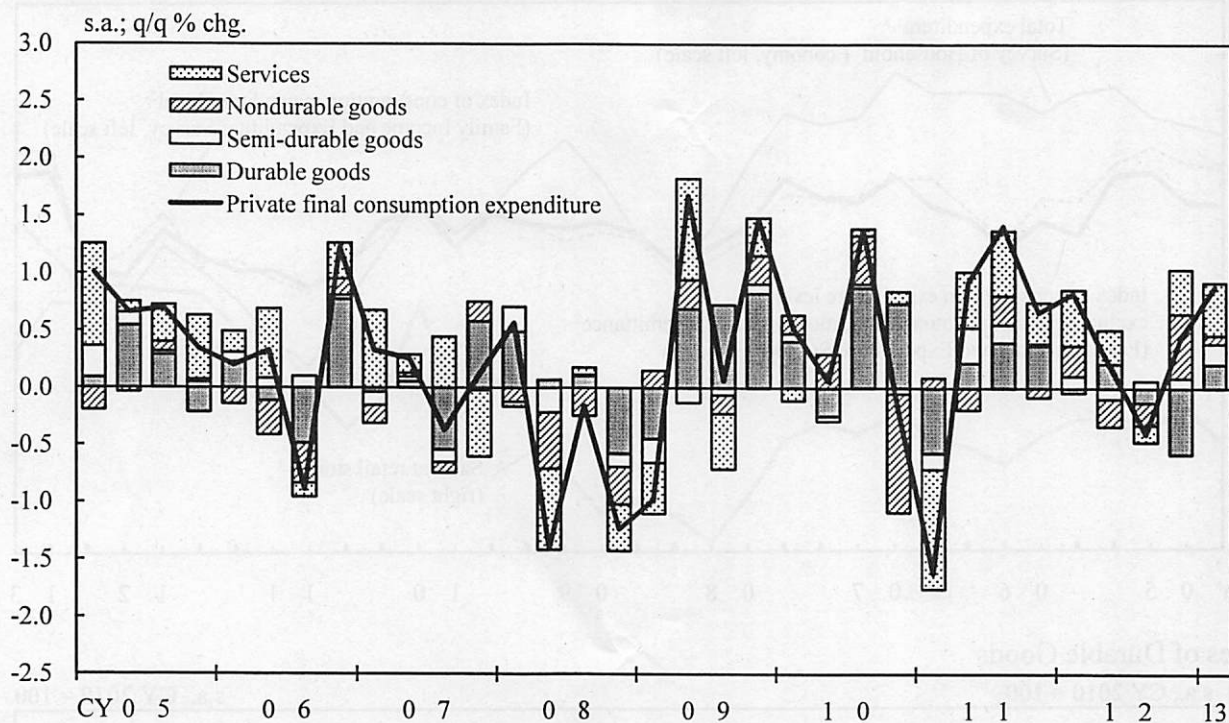
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Figures for 2013/Q2 are those of April in quarterly amount.

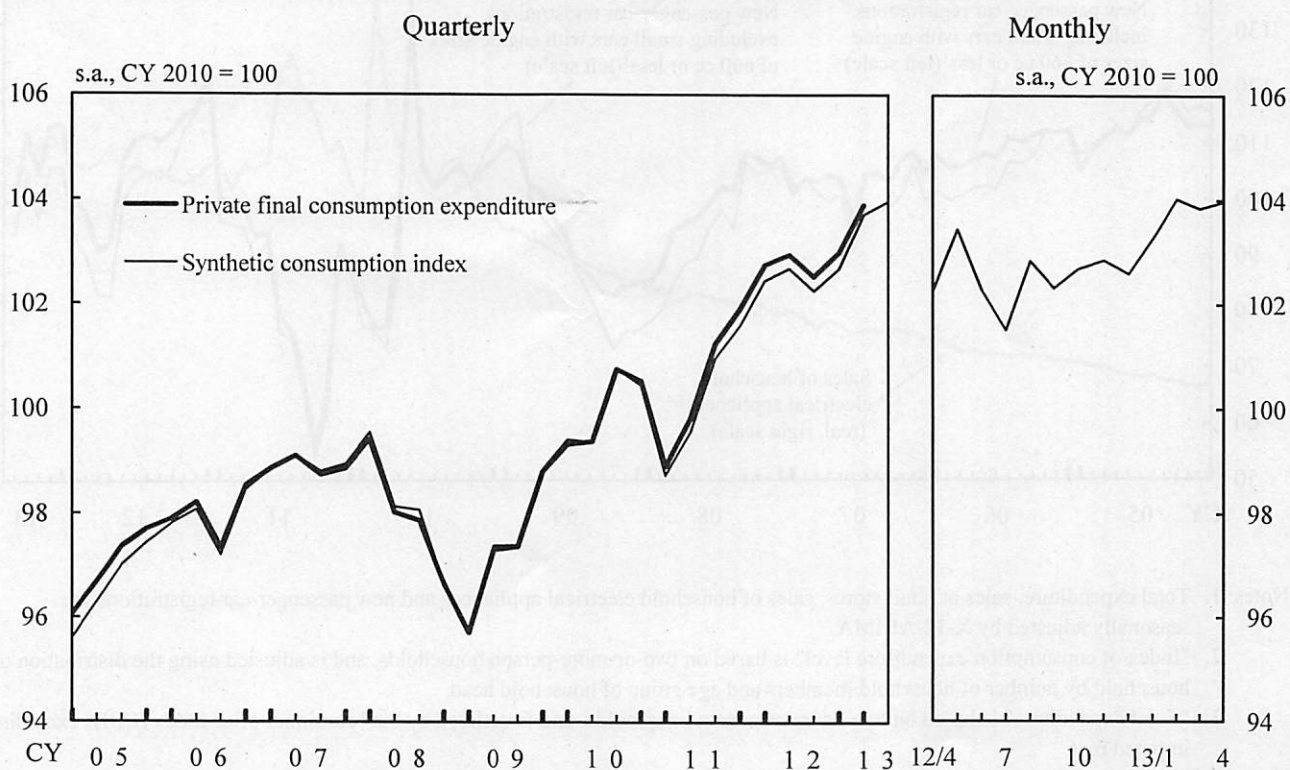
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators of Private Consumption (1)

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



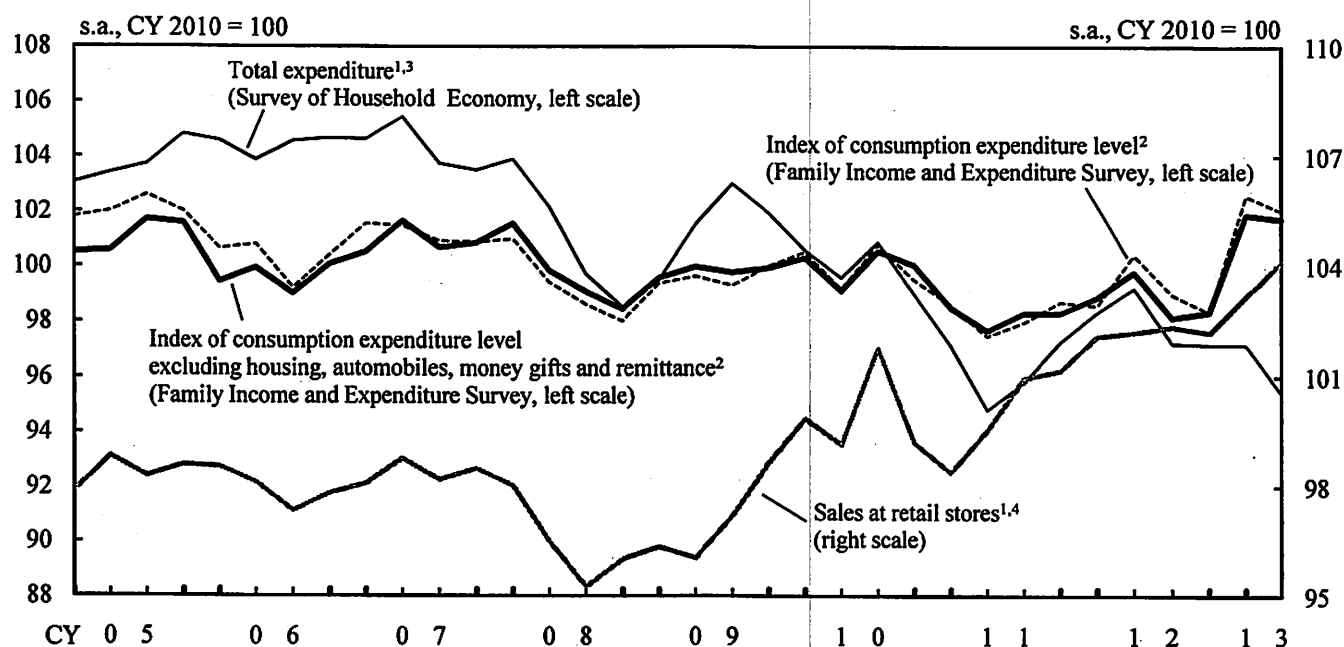
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



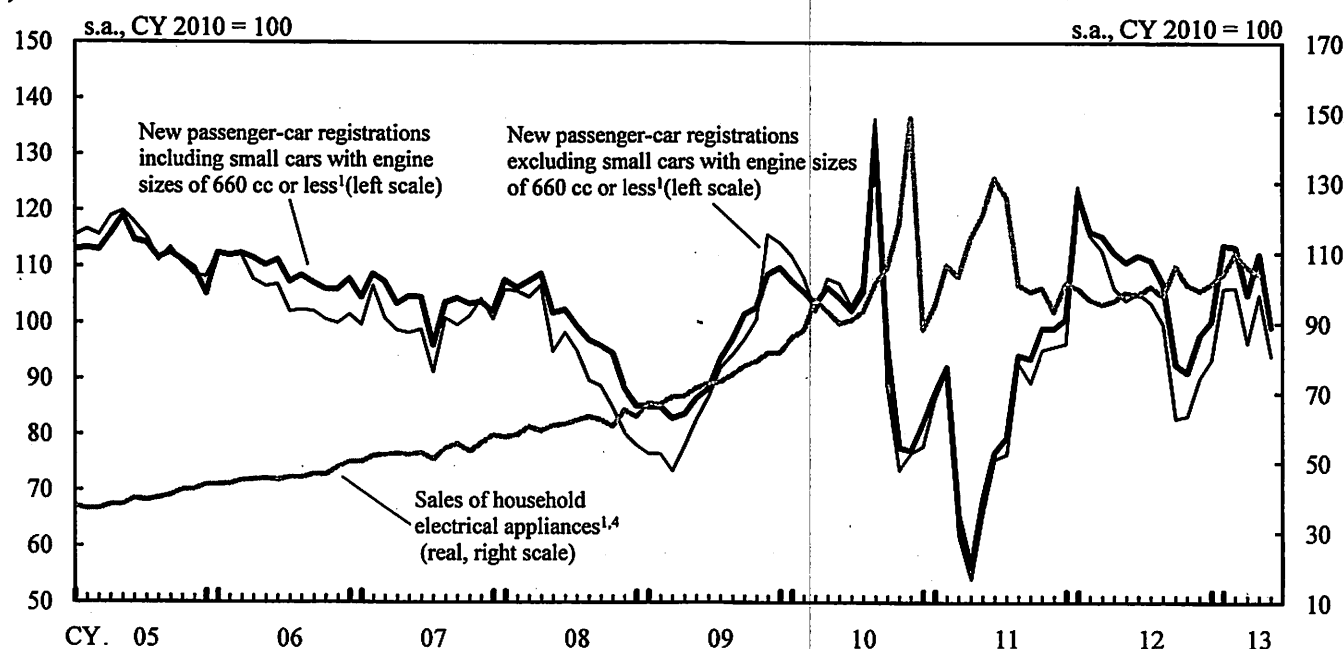
Note: The figure of the synthetic consumption index for 2013/Q2 is that of April in quarterly amount.

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

Indicators of Private Consumption (2)

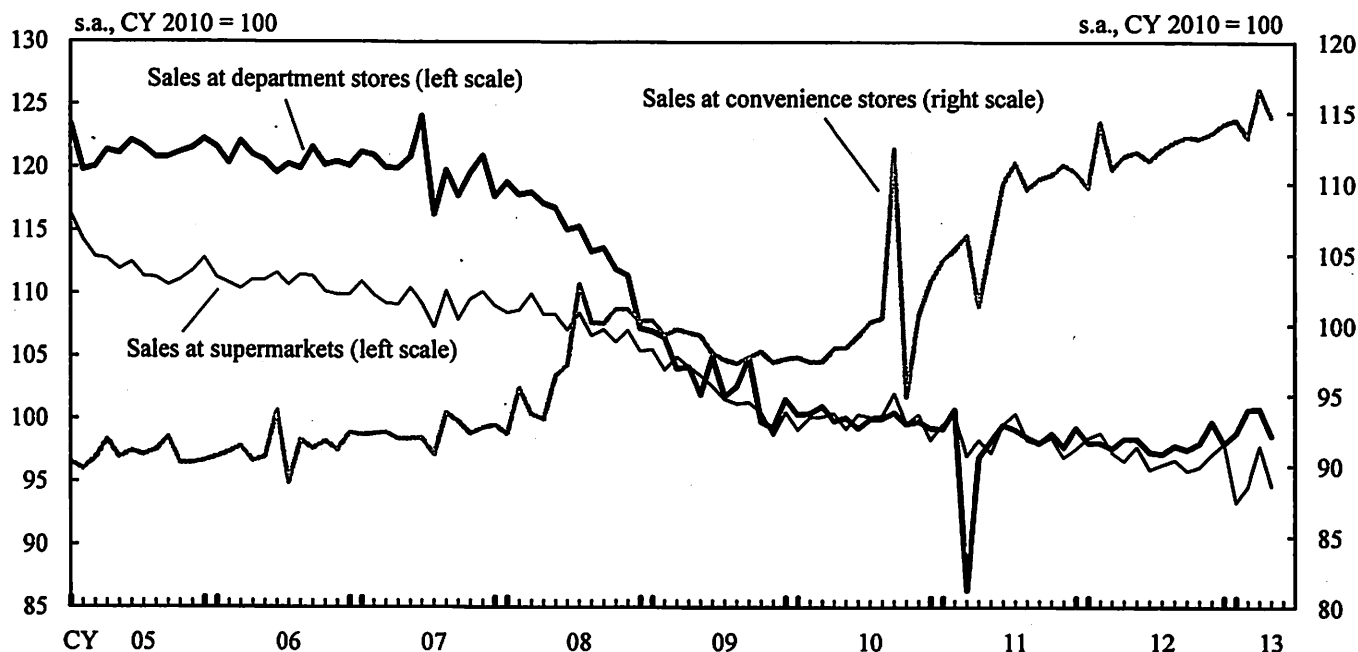
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

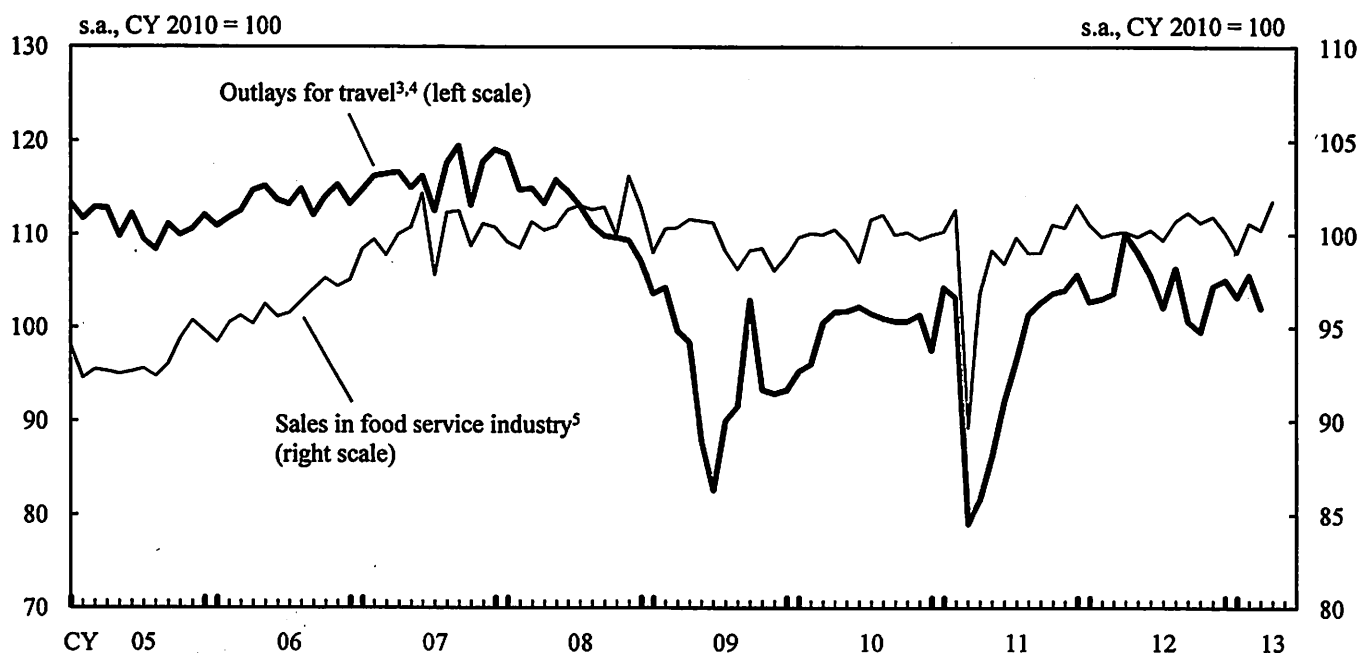


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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 2013/Q2 are those of April 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.

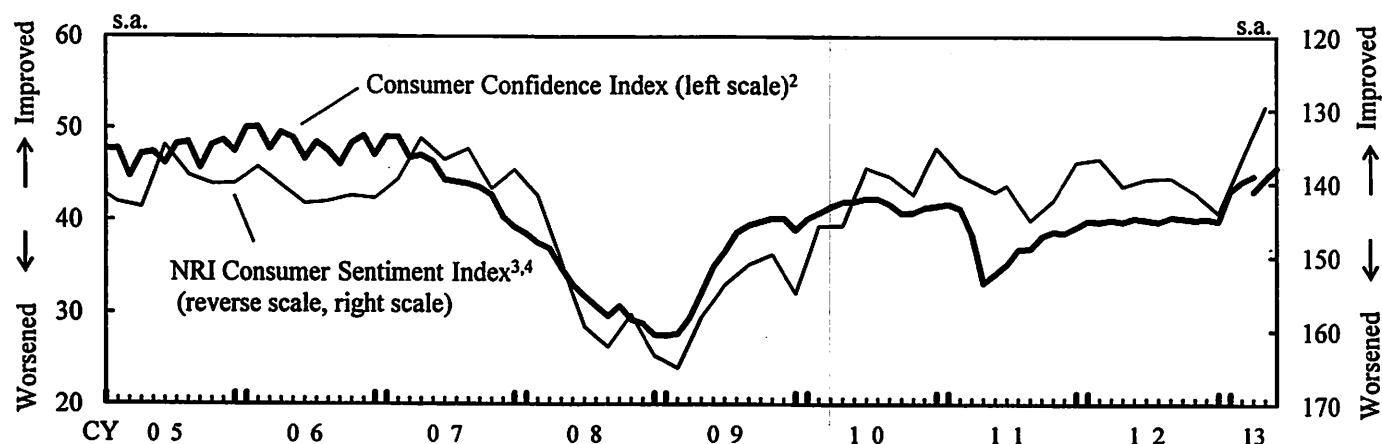
4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.

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.

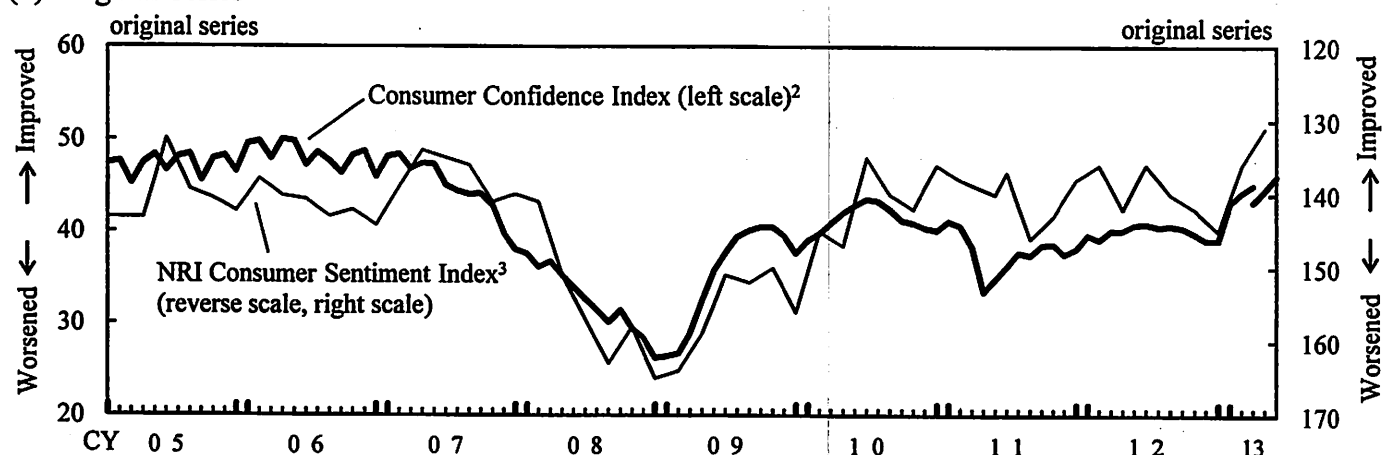
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey of food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou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

Consumer Confidence¹

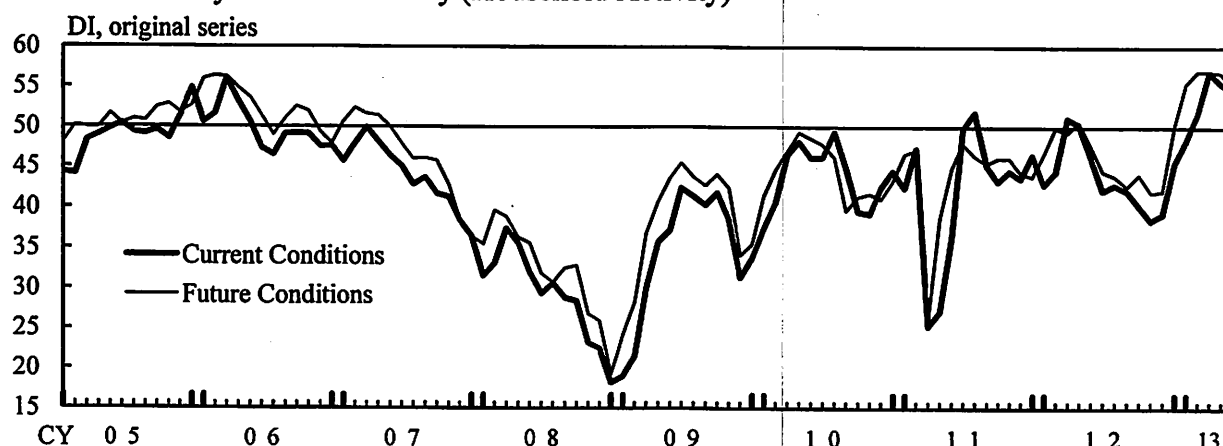
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

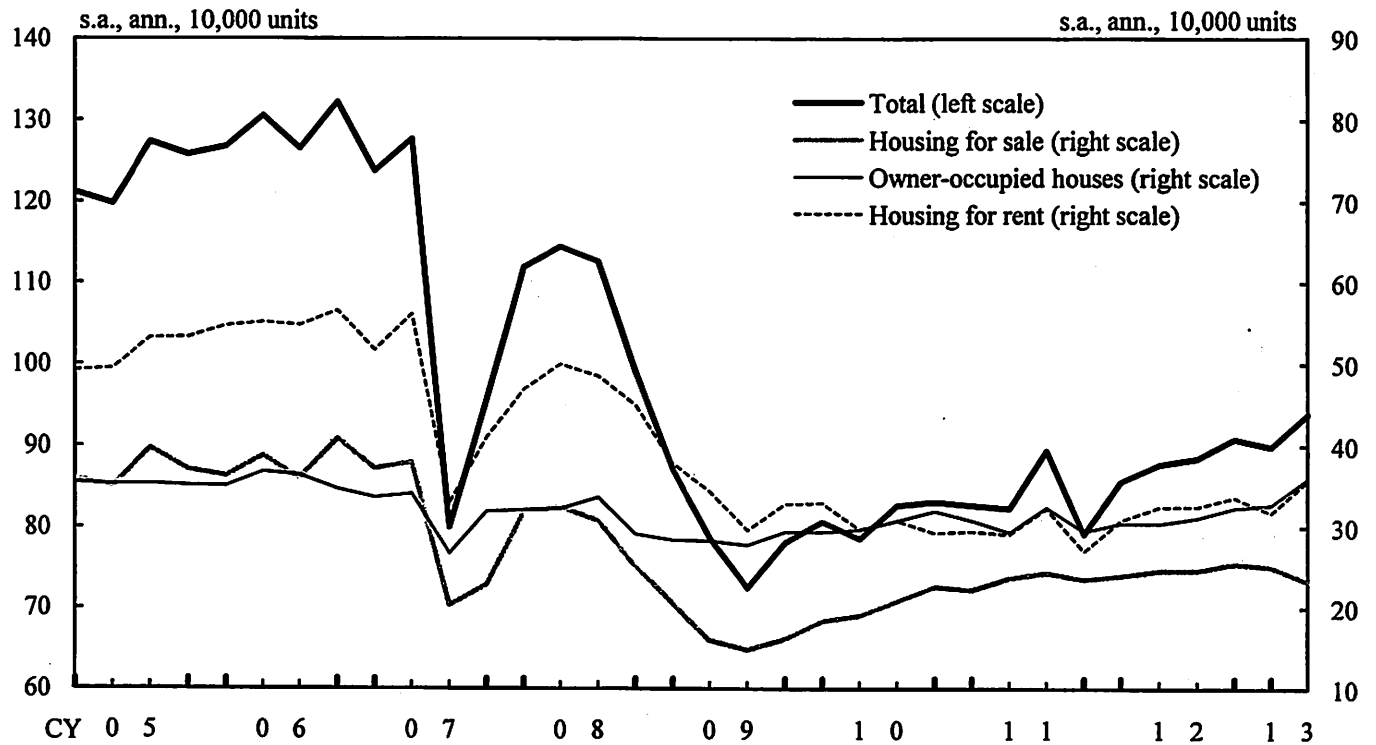


- Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. In April 2013, the Cabinet Office changed the method for conducting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

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

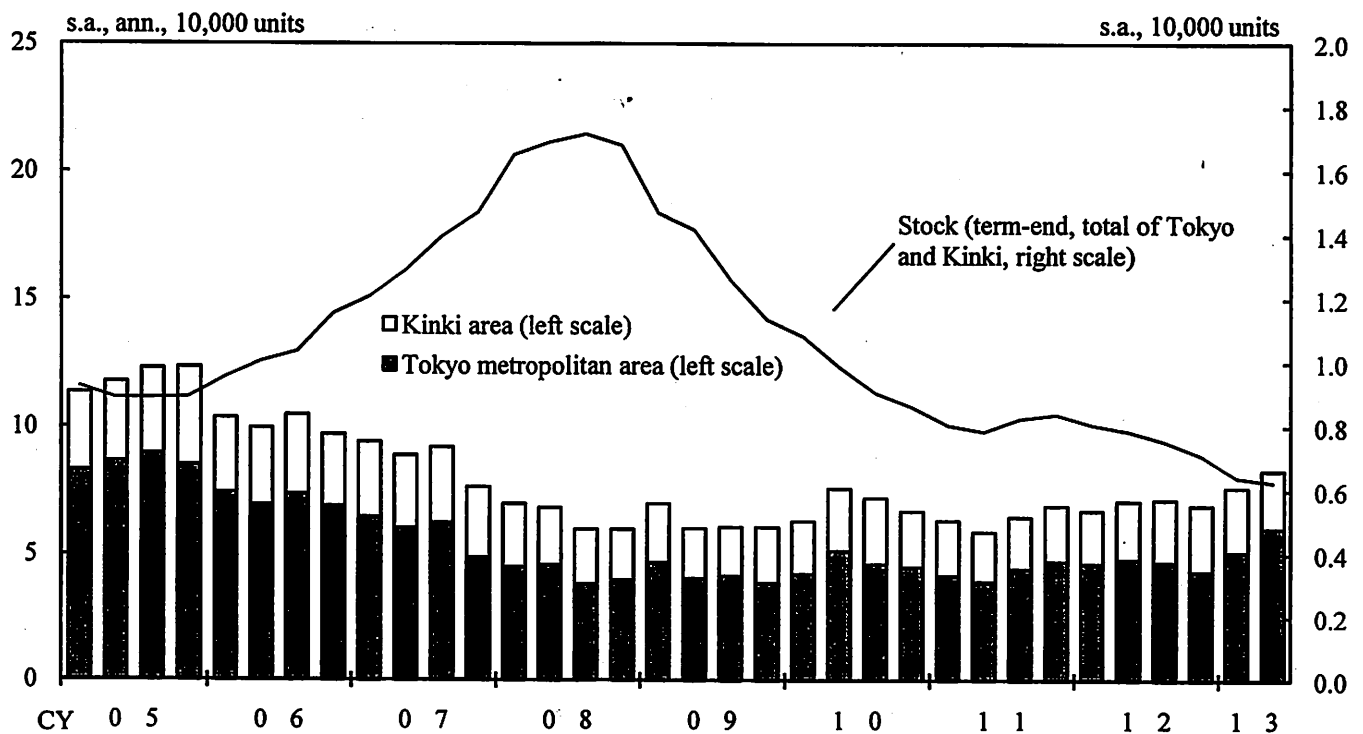
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2013/Q2 are those of April.

(2) Sales of Apartments

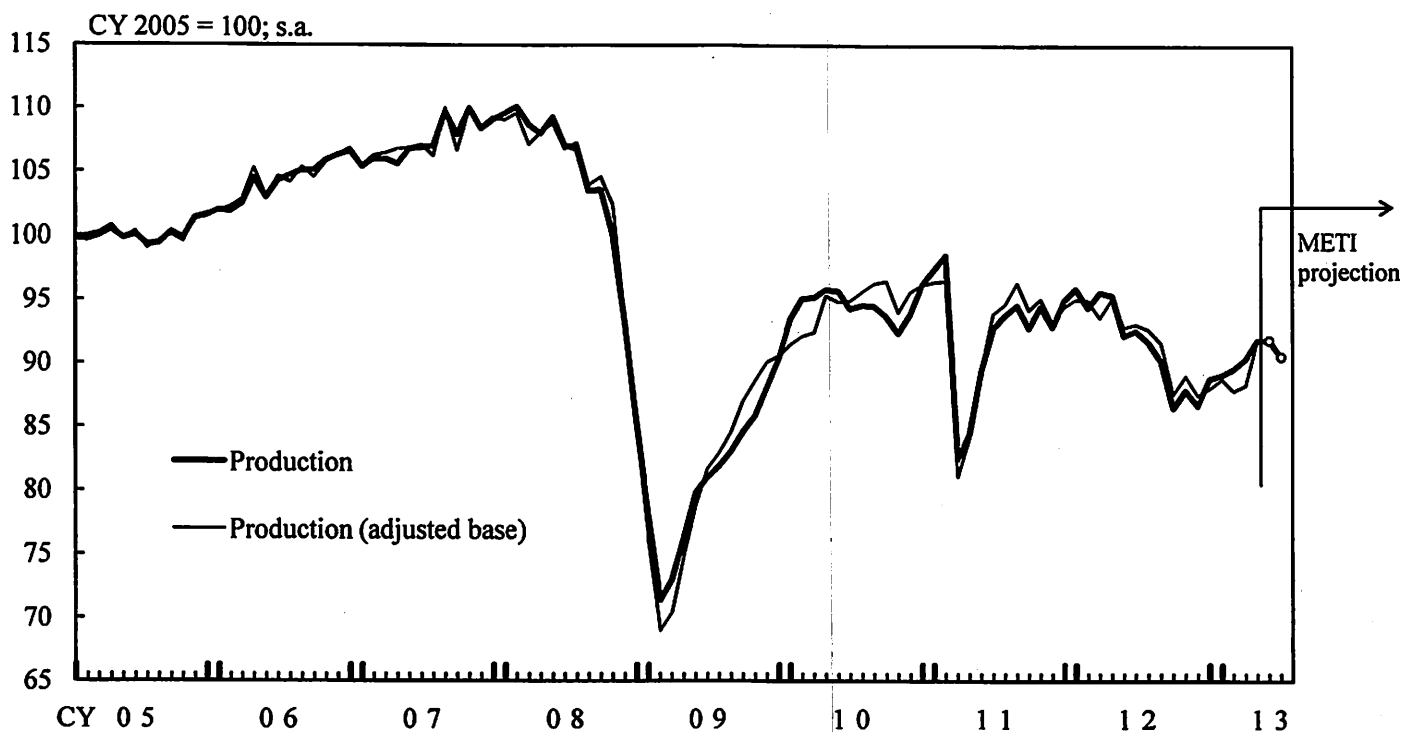


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2013/Q2 are those of April.

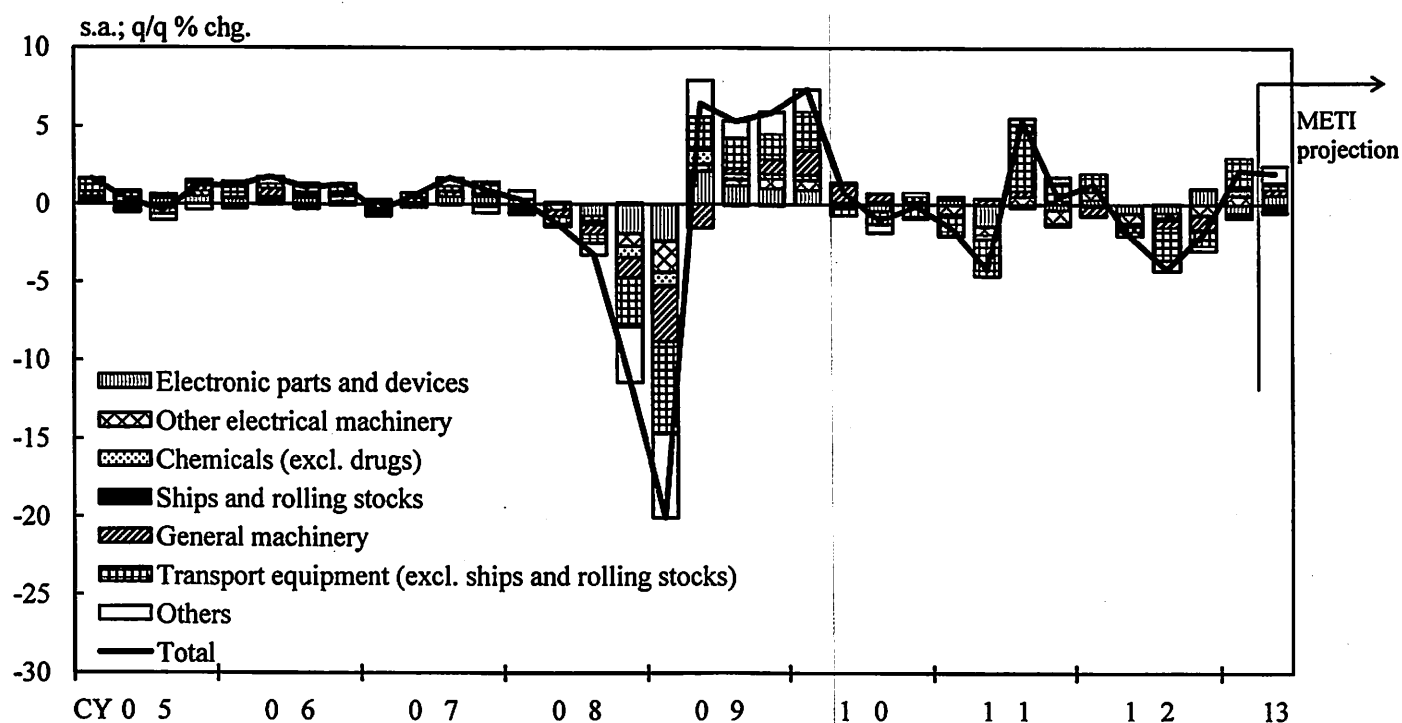
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production

(1) Production



(2) Production by Industry

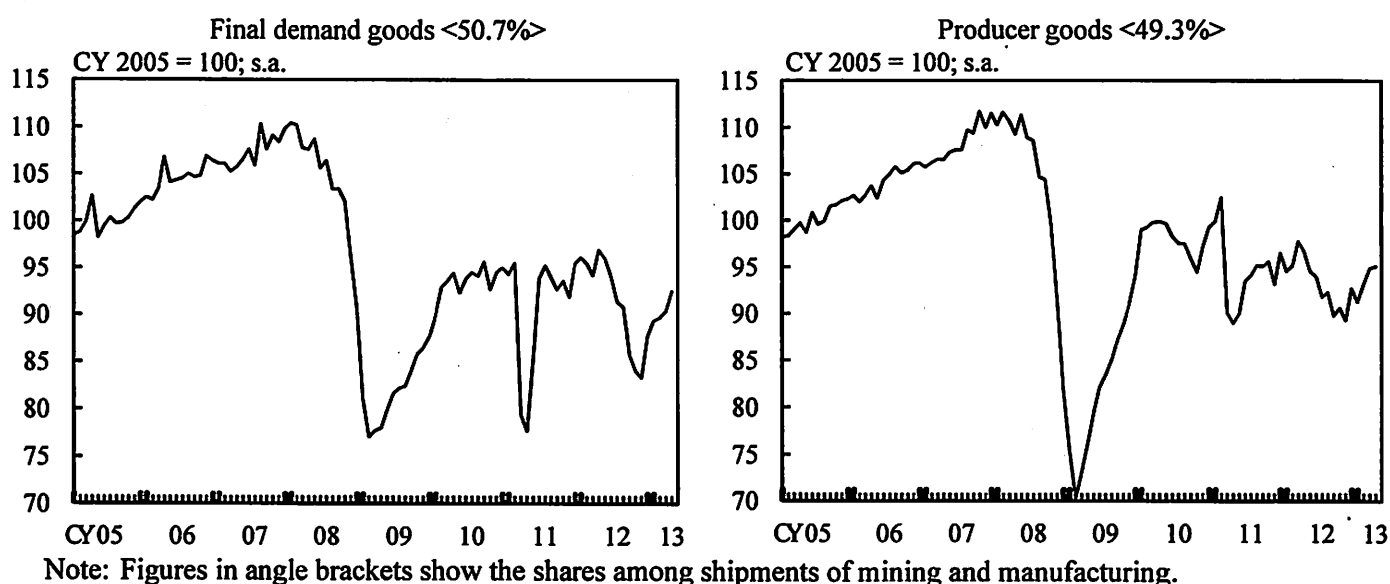


- Notes: 1. Industrial production (adjusted base) is calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).
2. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
3. 2013/Q2 figures are based on the actual production levels in April, and the METI projection of May and June.

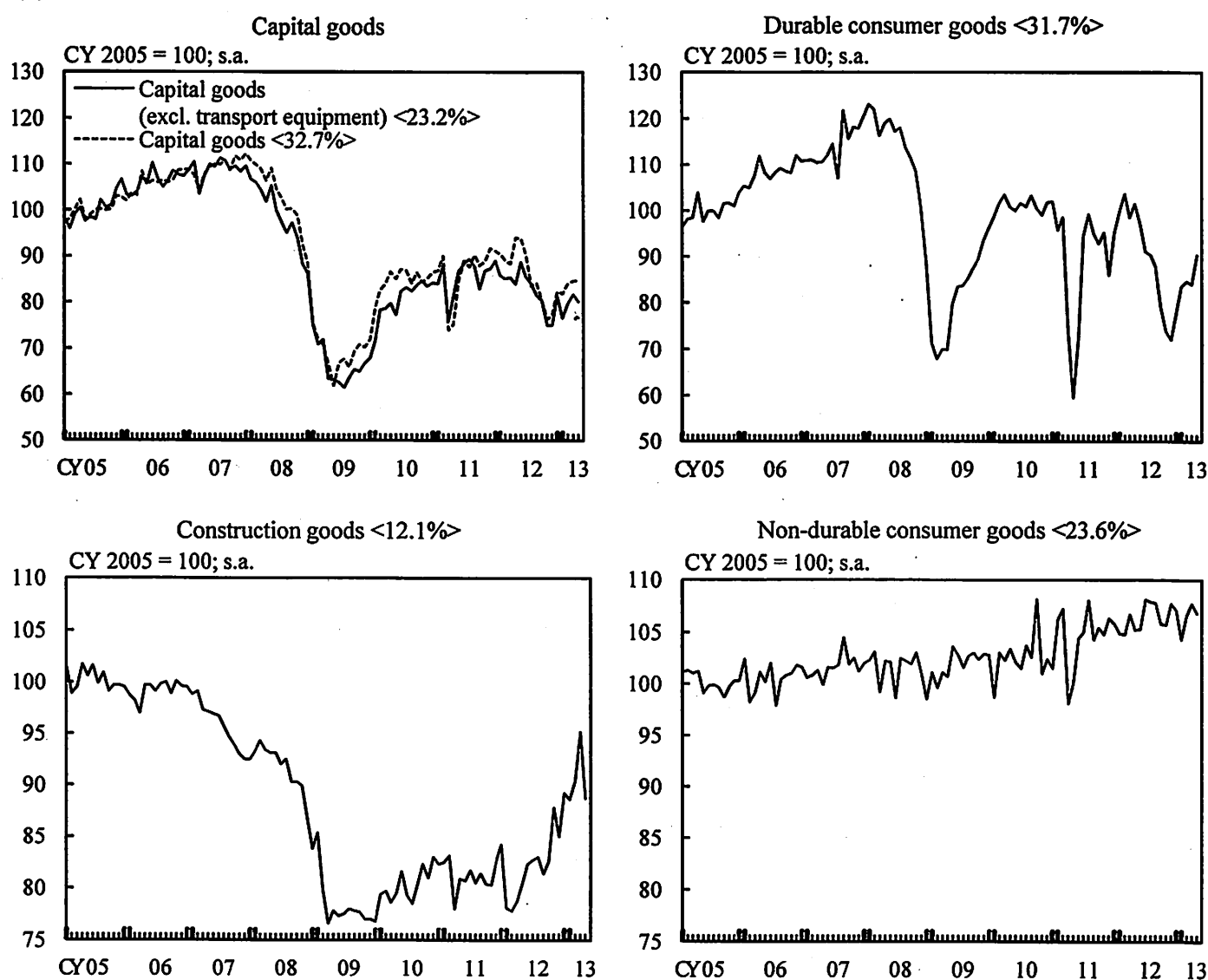
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods



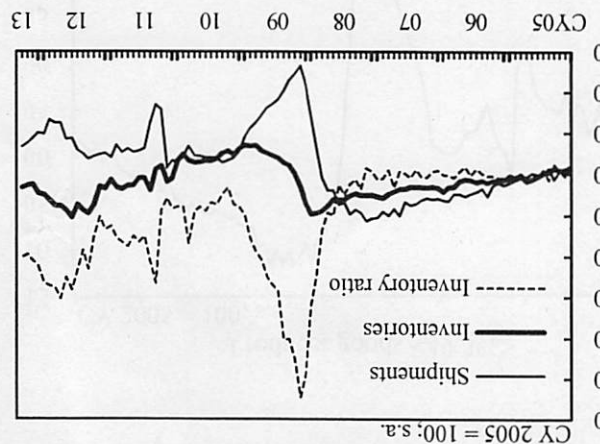
(2) Breakdown of Final Demand Goods



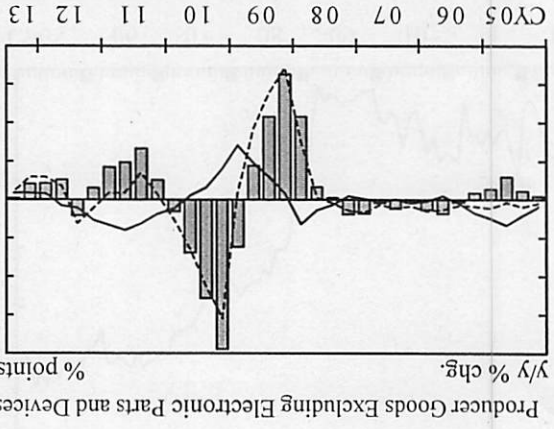
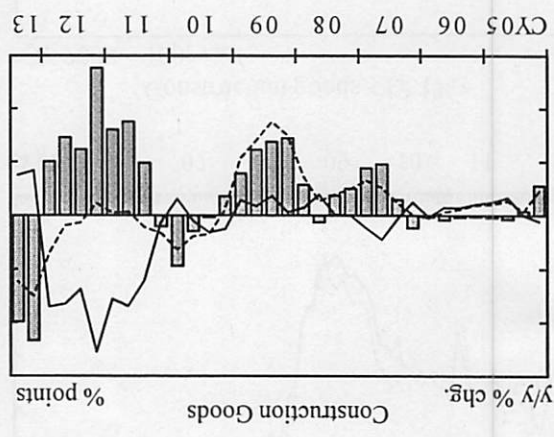
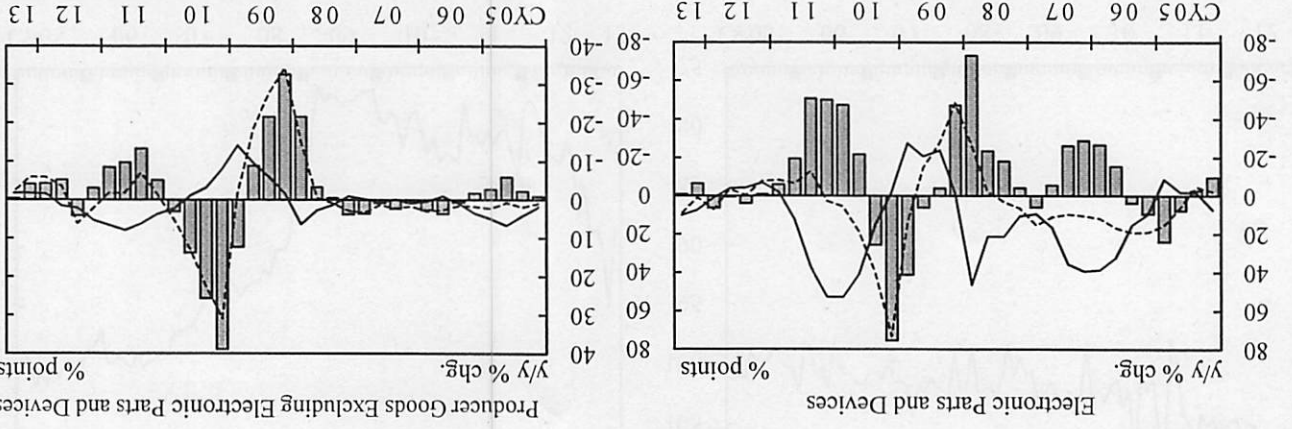
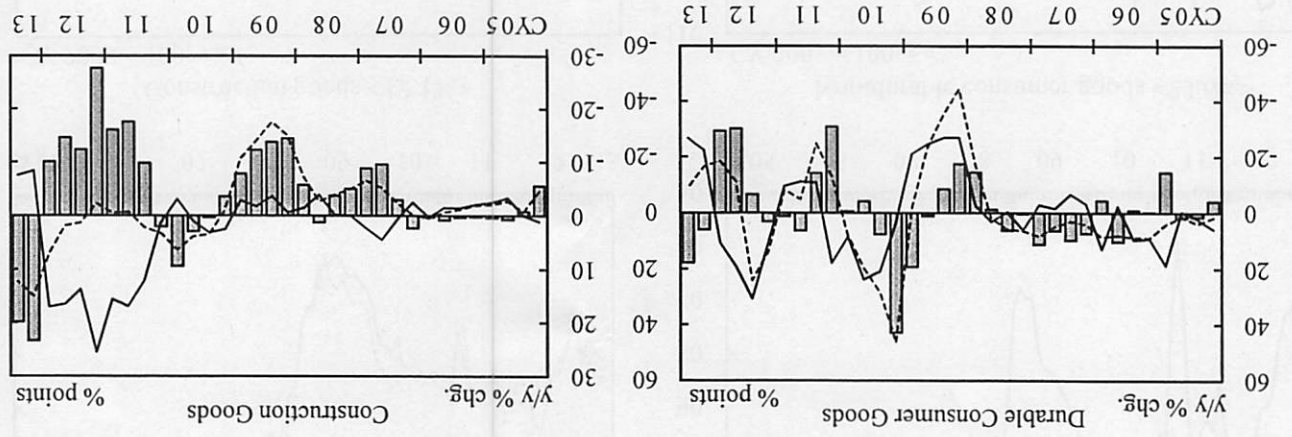
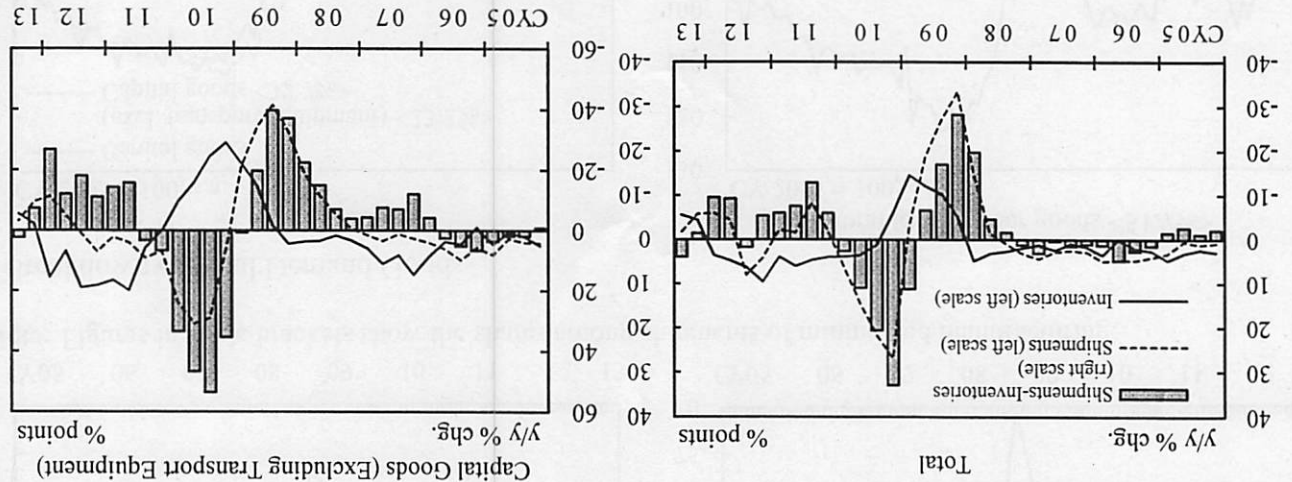
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

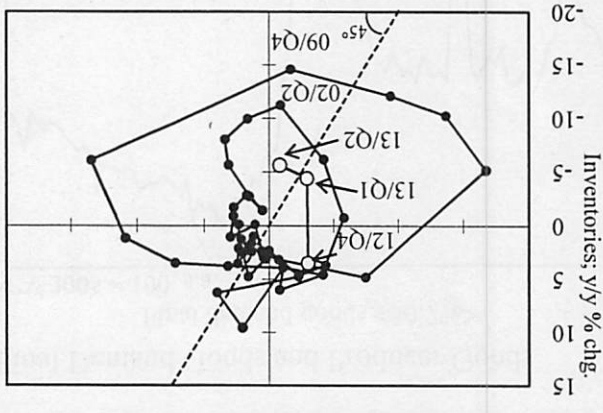
(1) Shipments and Inventories (Total)



(3) Shipment-Inventory Balance



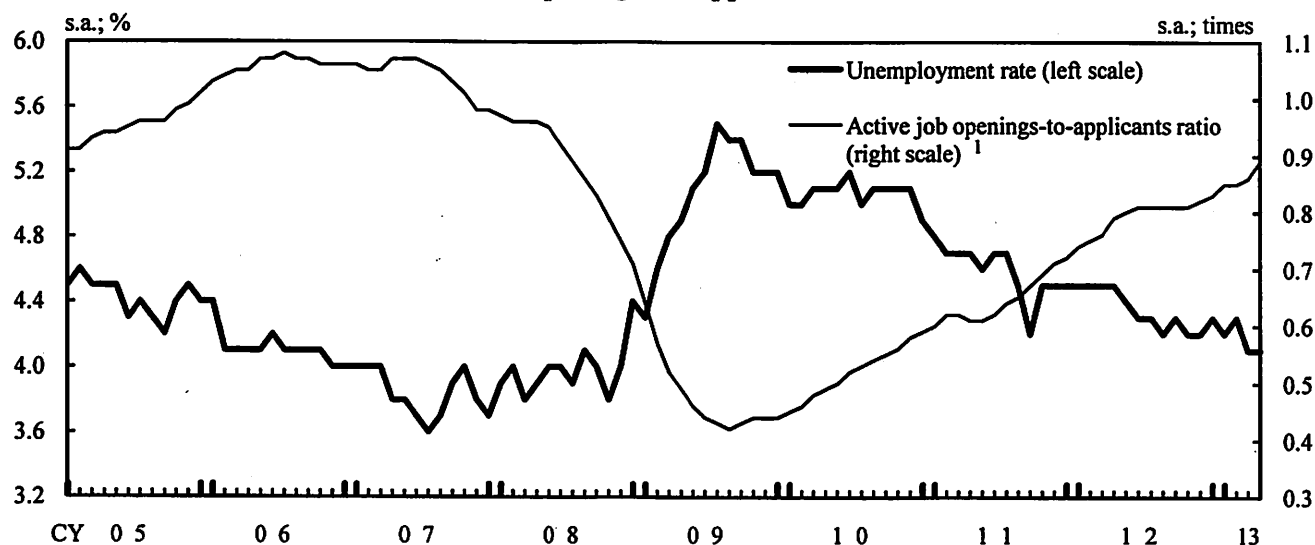
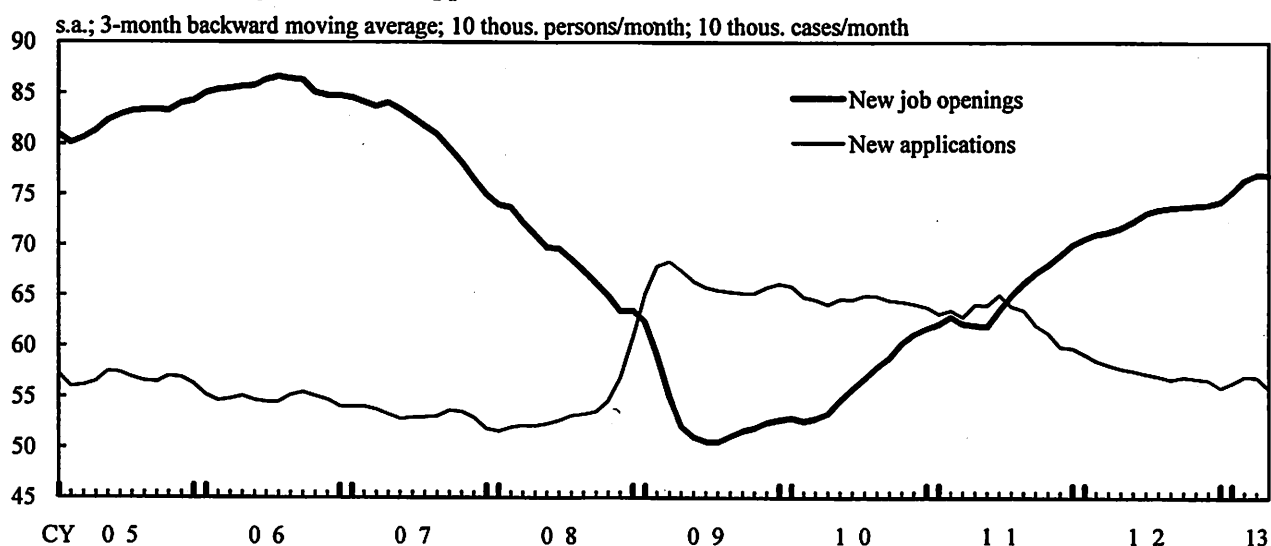
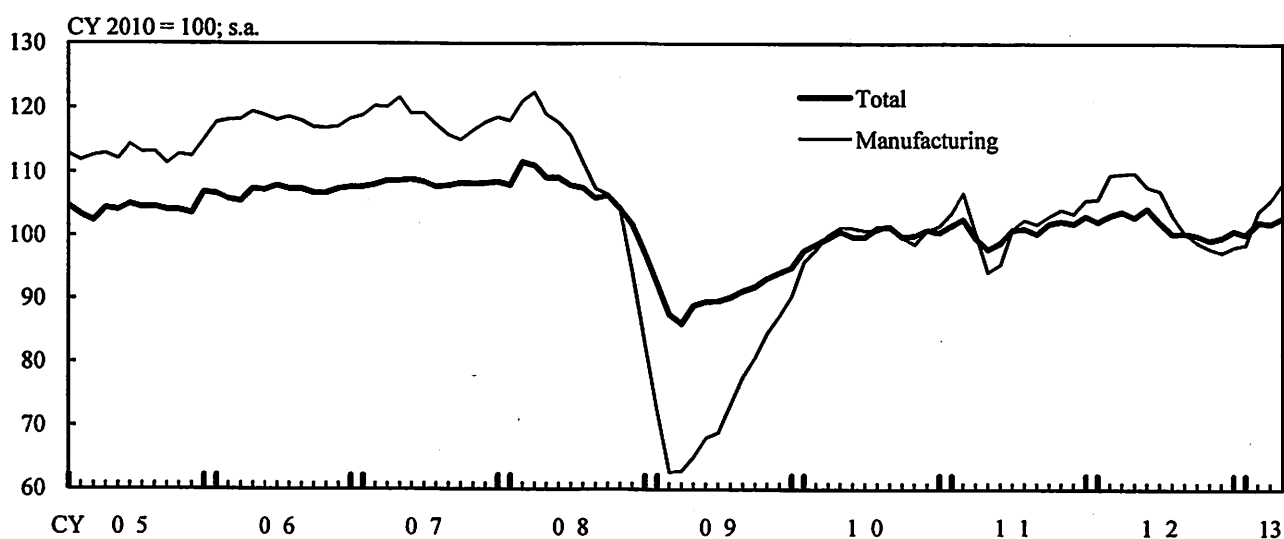
(2) Inventory Cycle (Total)



Note: Figures for 2013/Q2 are those of April.
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

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

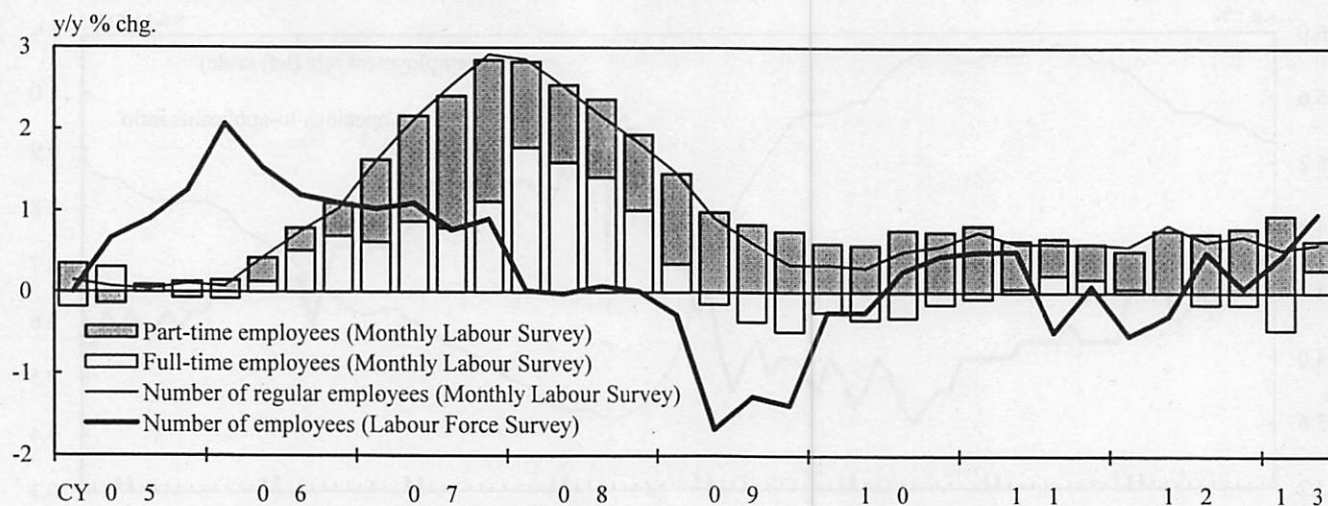
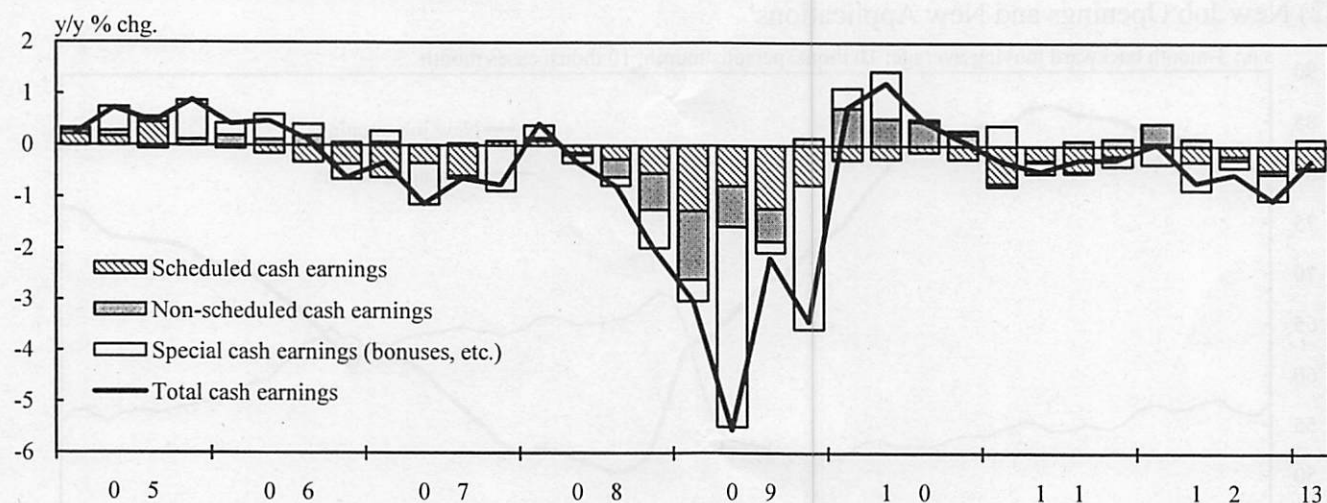
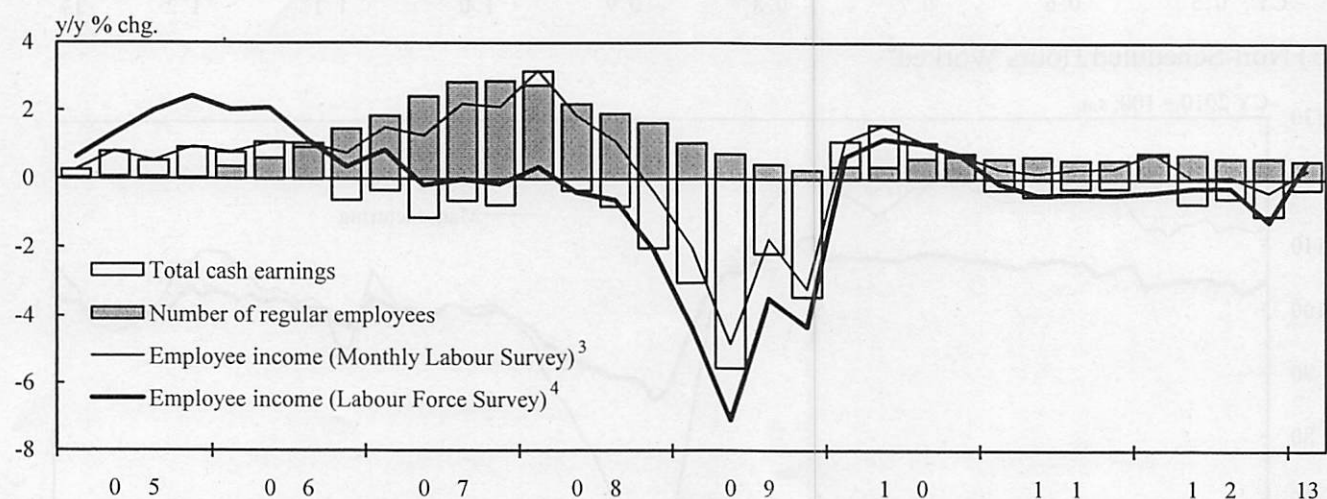
(2) New Job Openings and New Applications¹(3) Non-Scheduled Hours Worked²

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.

Figures for 2013/Q1 are March-April averages.

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

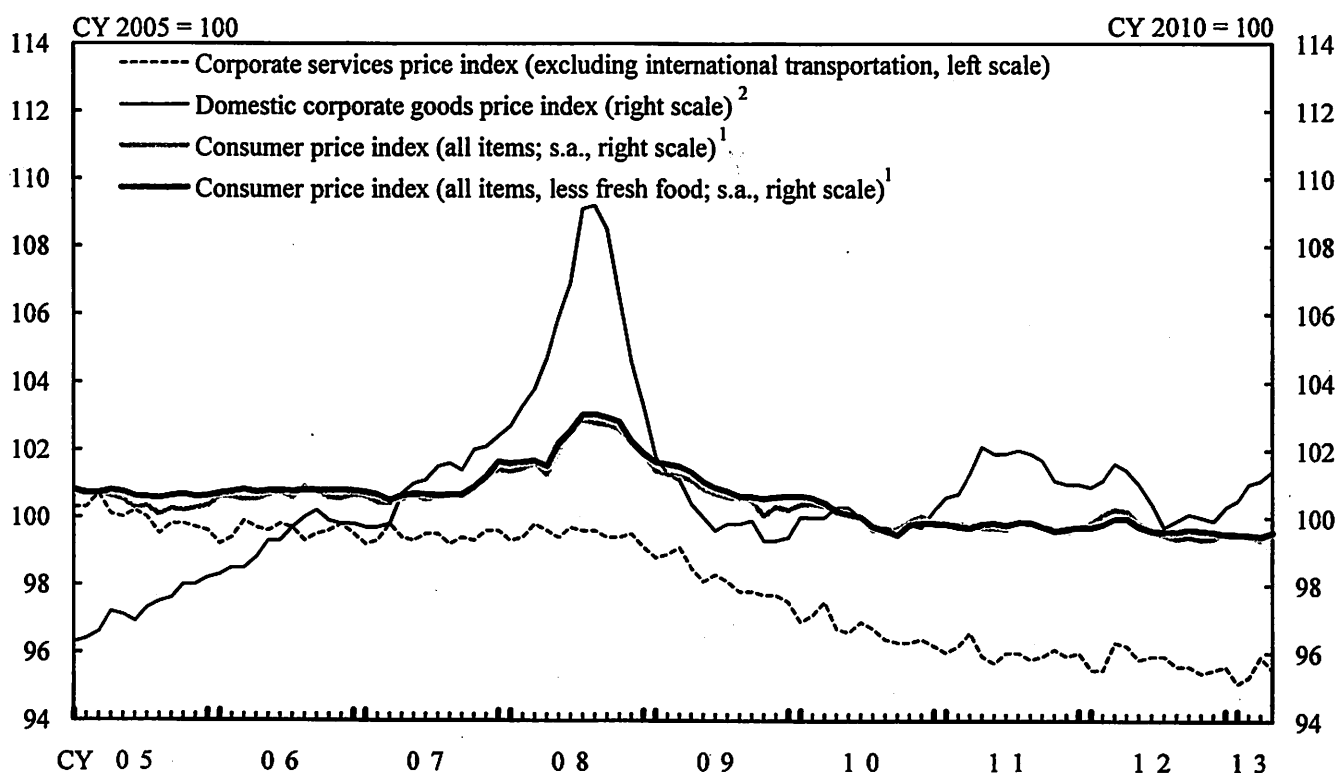
4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

5. Figures for 2013/Q2 are those of April.

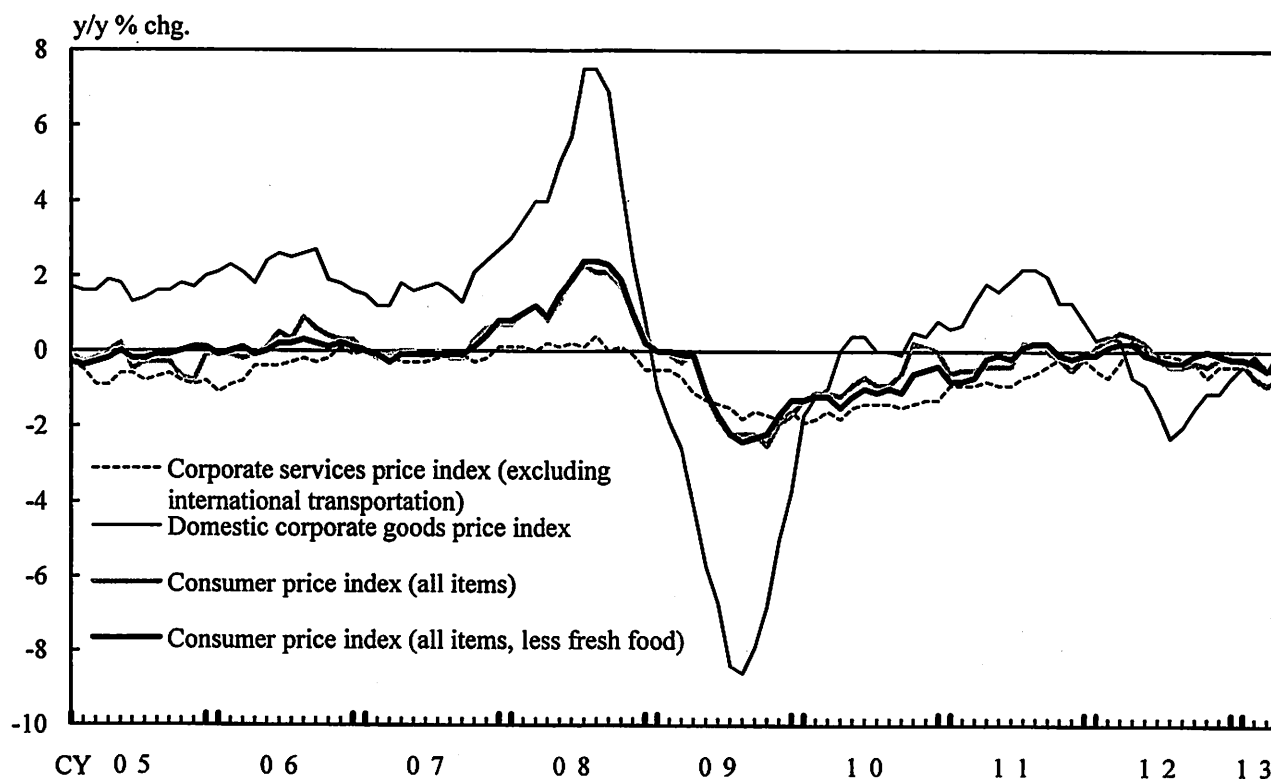
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



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

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

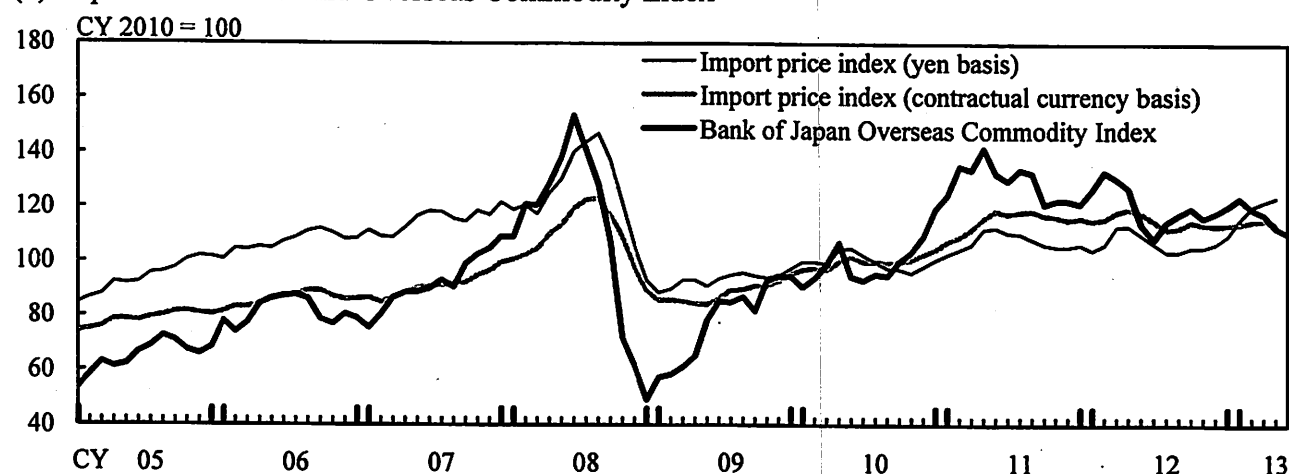
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

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

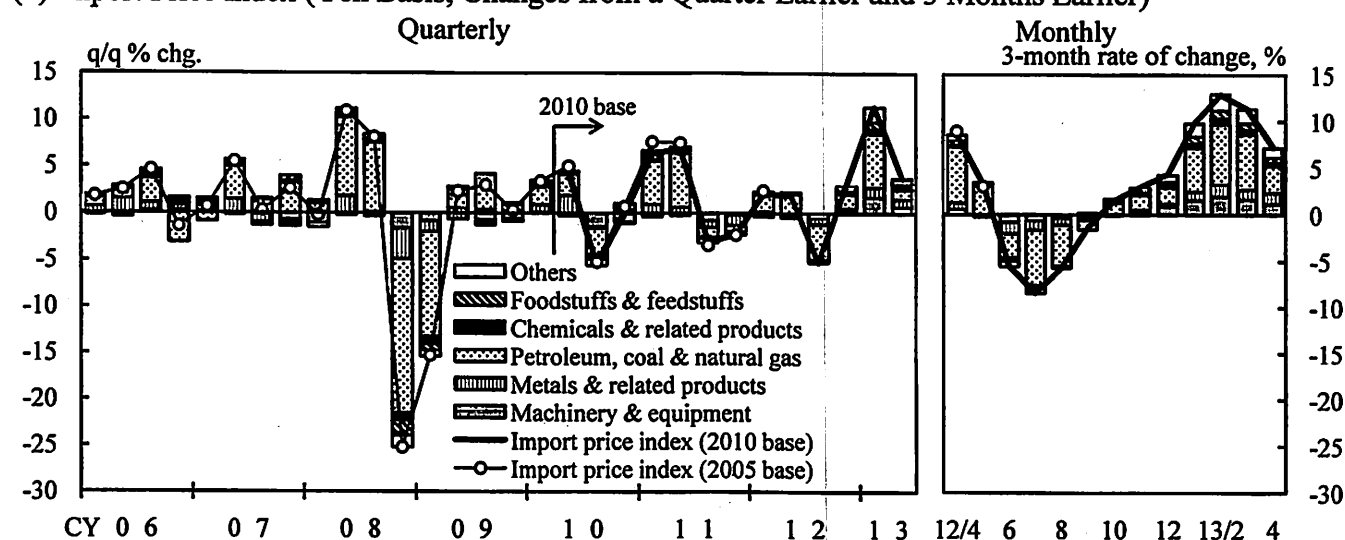
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



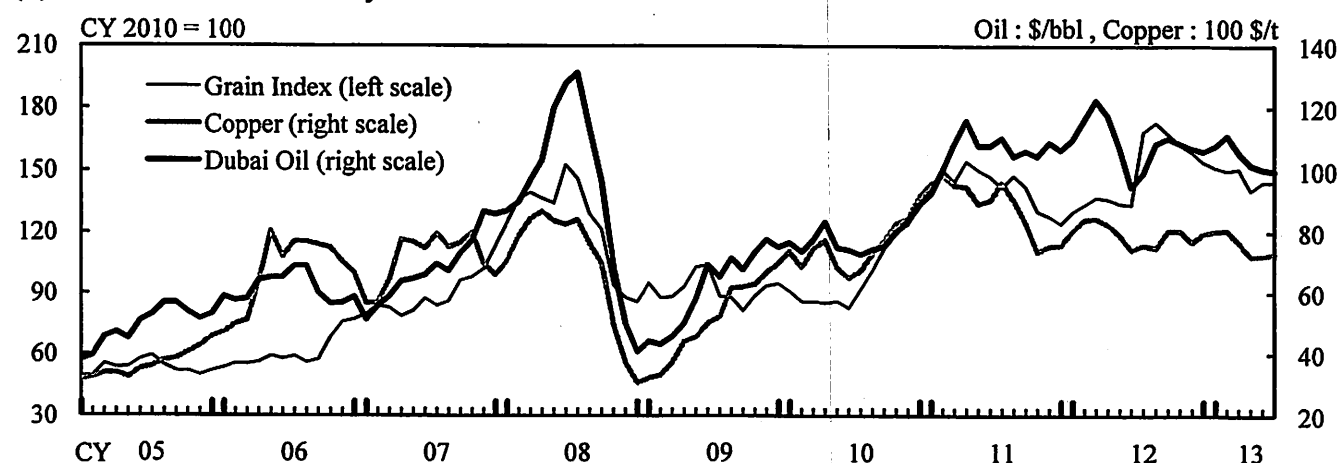
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general purpose, production & business oriented machinery, electric & electronic products, and transportation equipment.

2. Figures for 2013/Q2 are those of April.

(3) International Commodity Prices



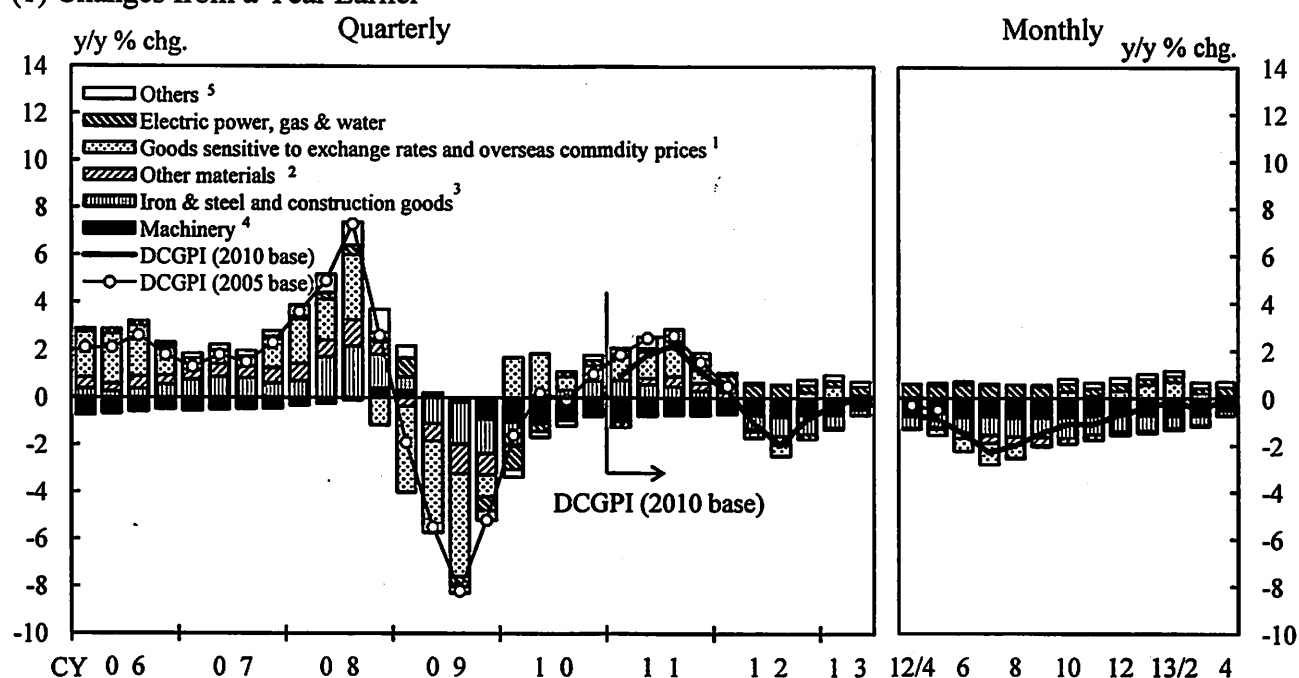
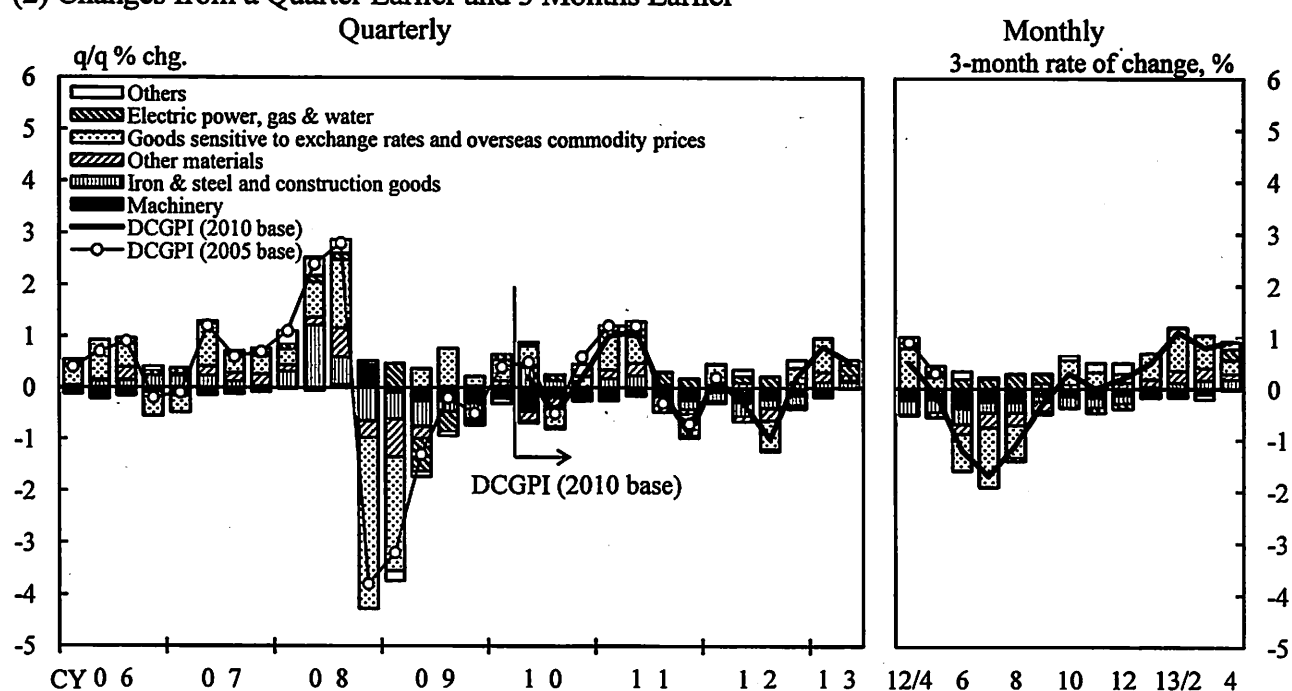
Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."

2. Monthly averages. Figures for June 2013 are averages up to June 10.

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.

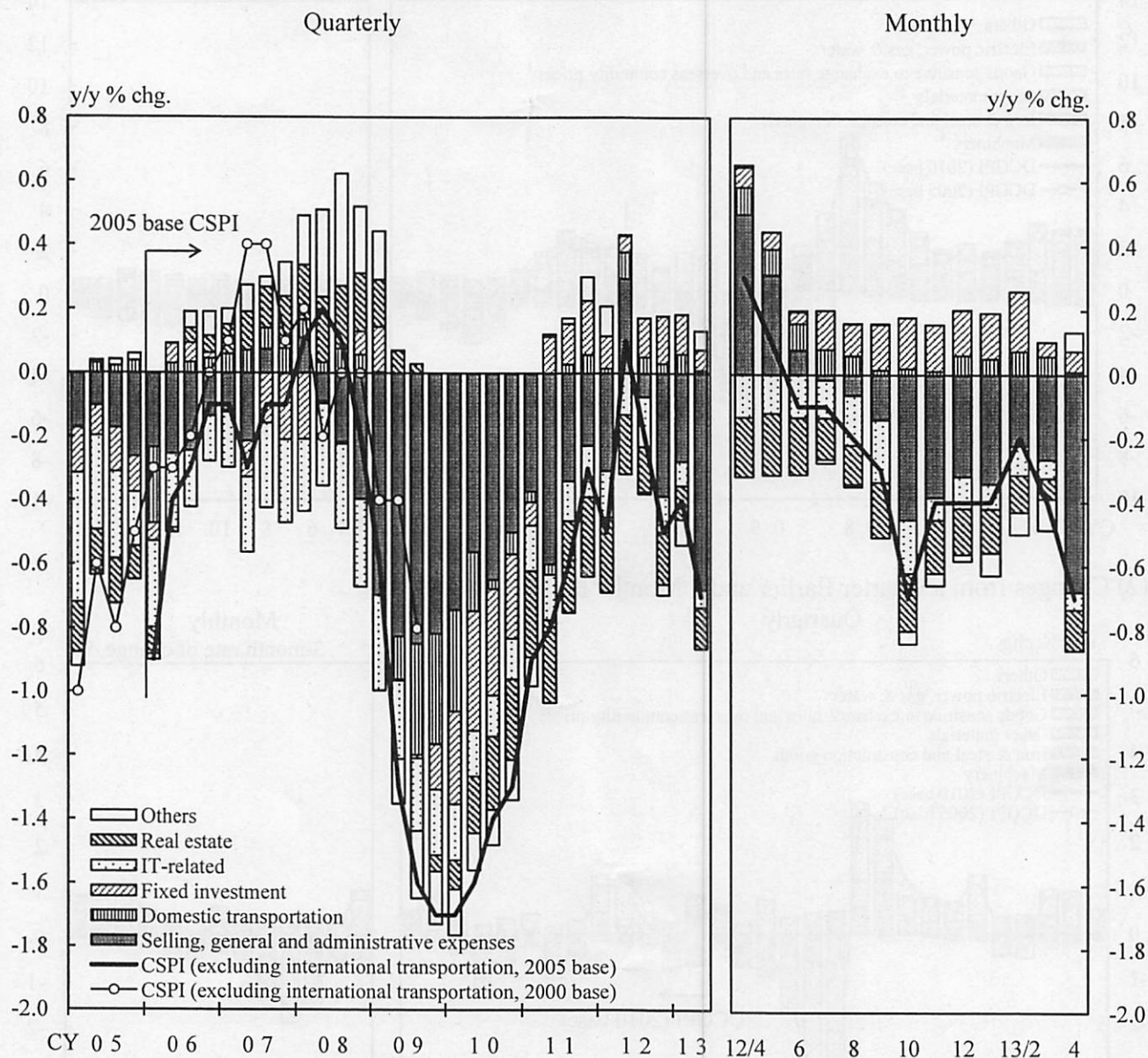
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

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%.

7. Figures for 2013/Q2 are those of April.

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

Corporate Services Price Index

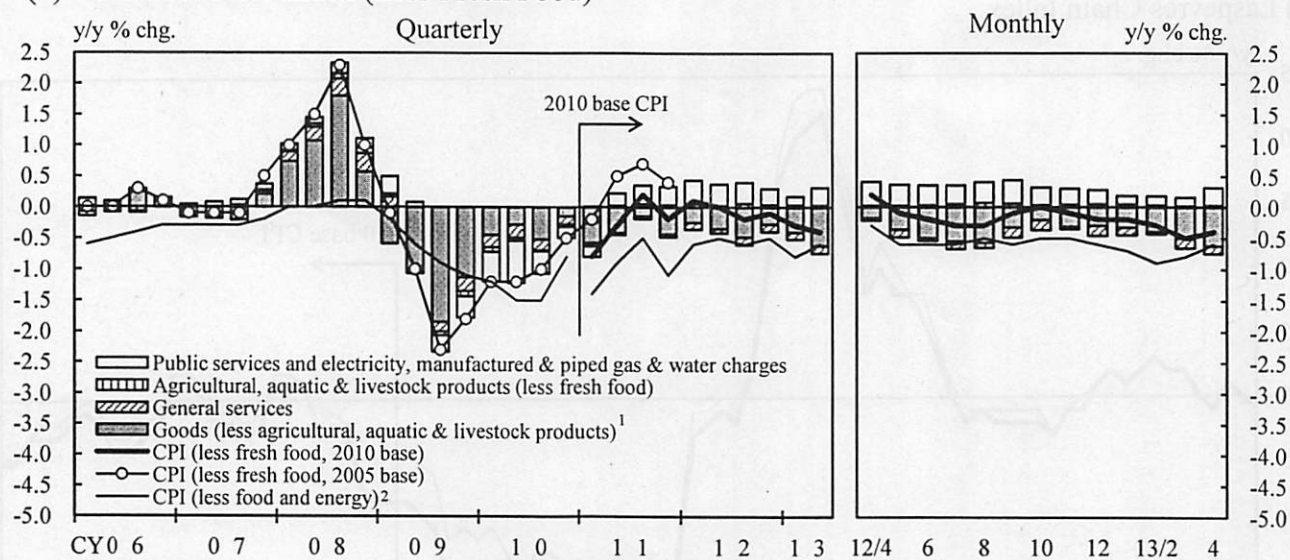
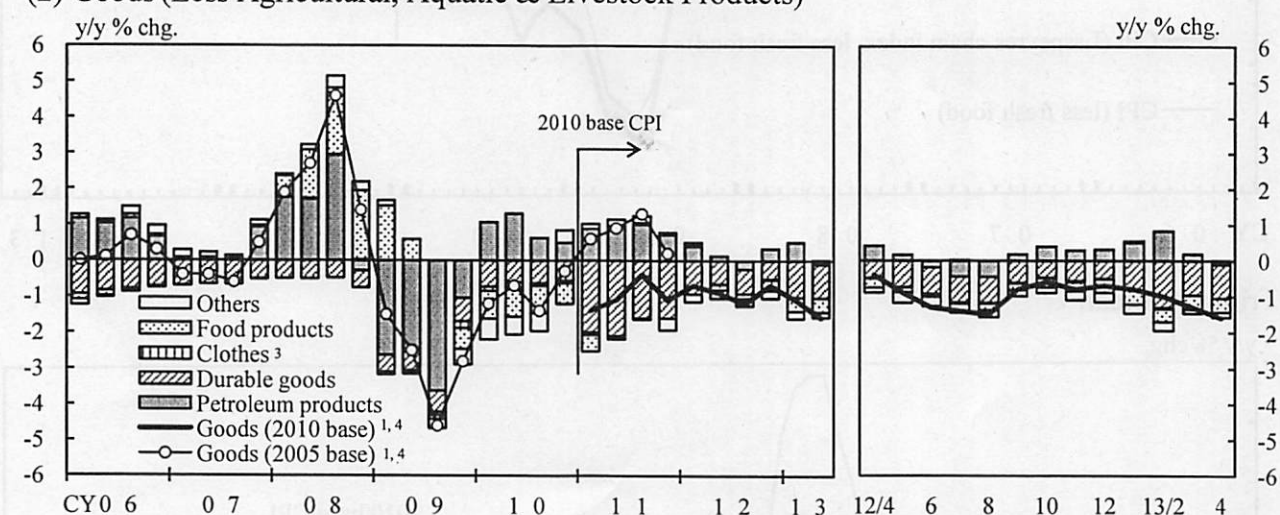


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding 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 2013/Q2 are those of April. Figures for 2009/Q3 on the 2000 base are July-August averages.

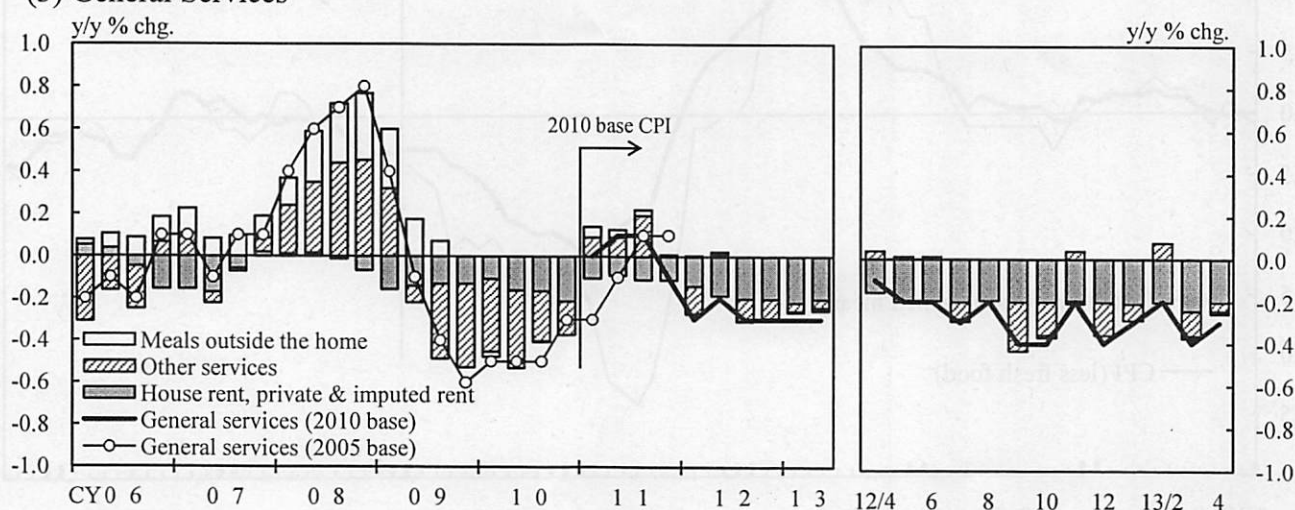
Source: Bank of Japan, "Corporate Services Price Index."

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.

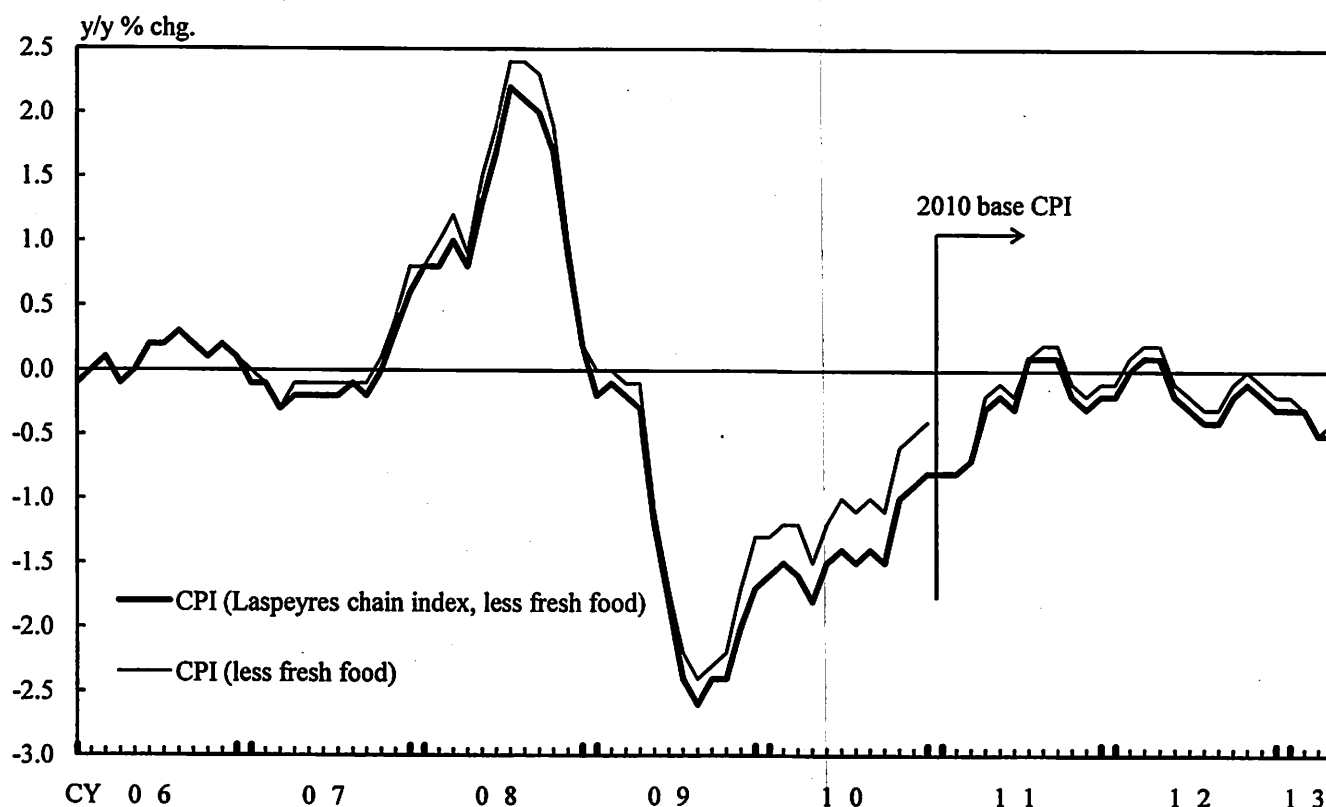
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.

6. Figures for 2013/Q2 are those of April.

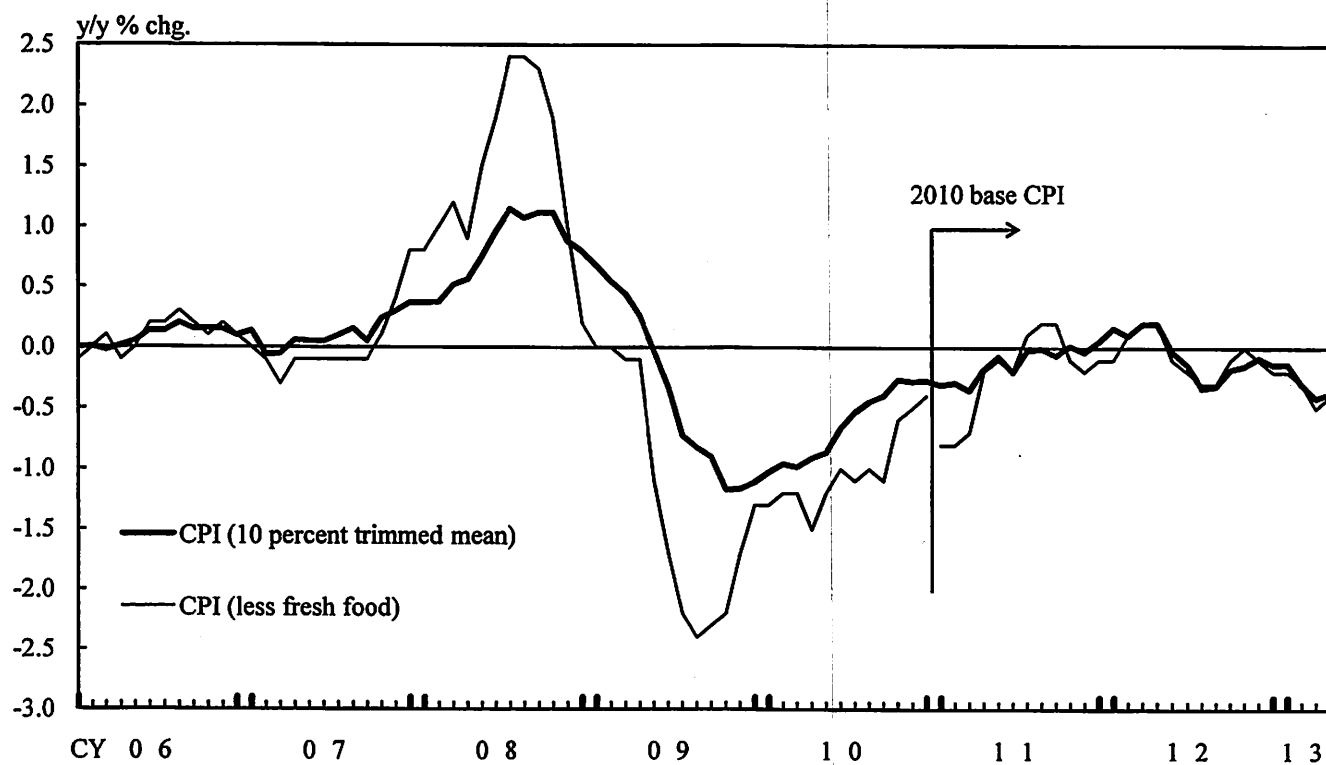
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean



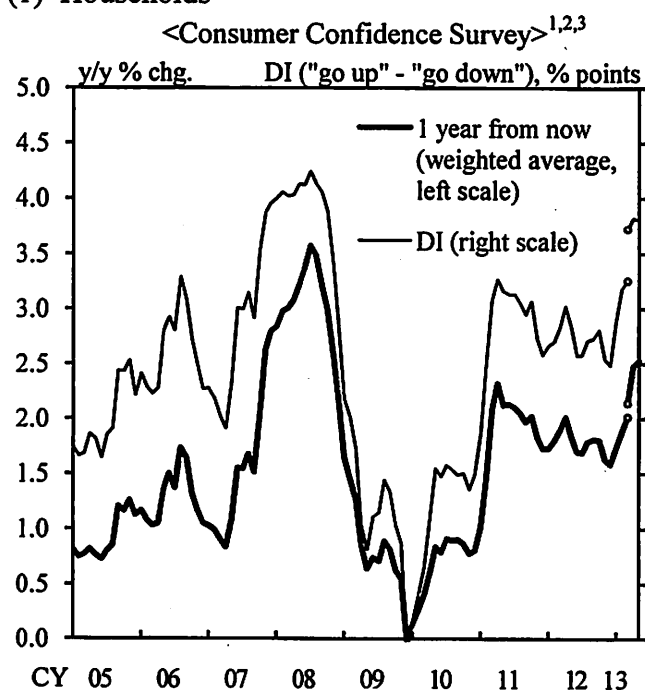
Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

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.

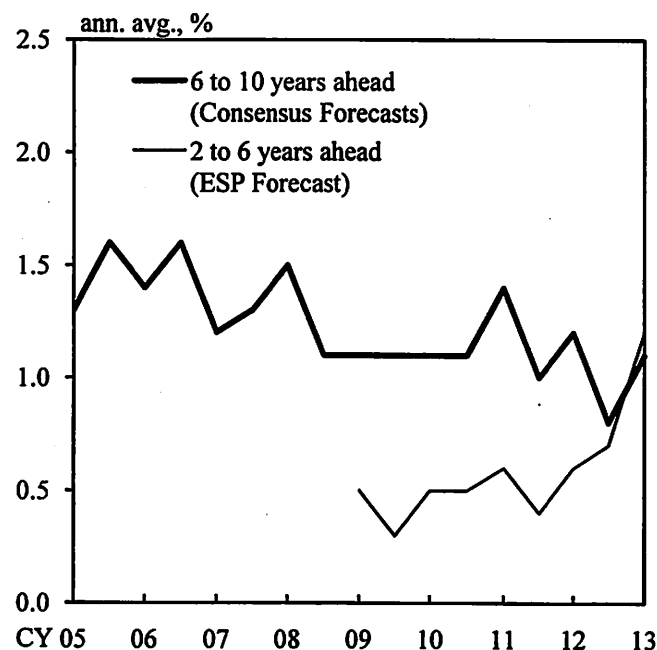
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Inflation Expectations

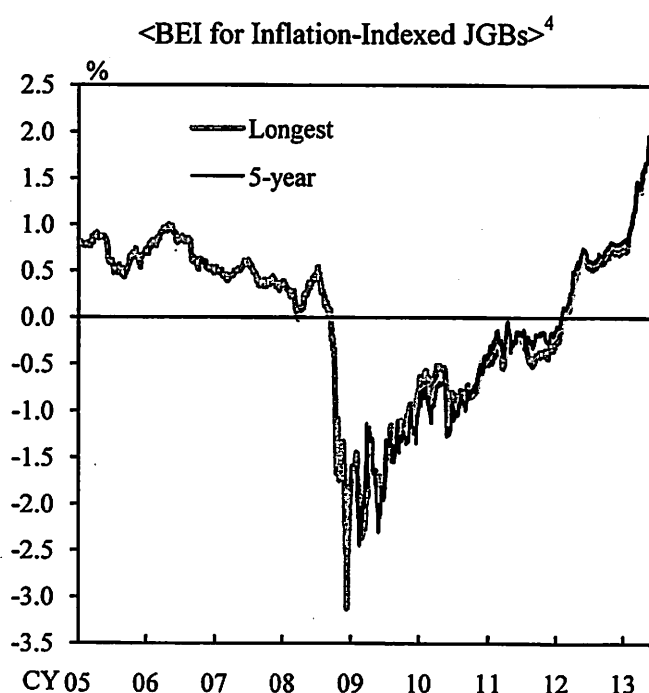
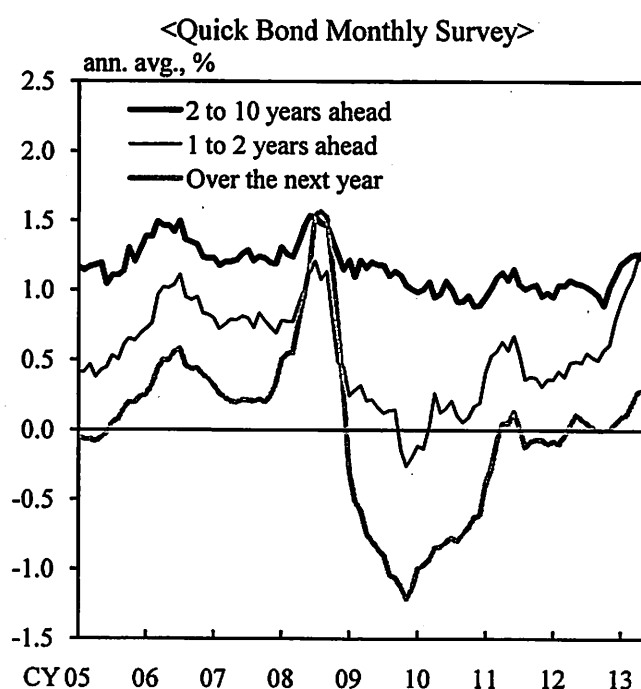
(1) Households



(2) Economists



(3) Market Participants



Notes: 1. Figures are for all households.

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

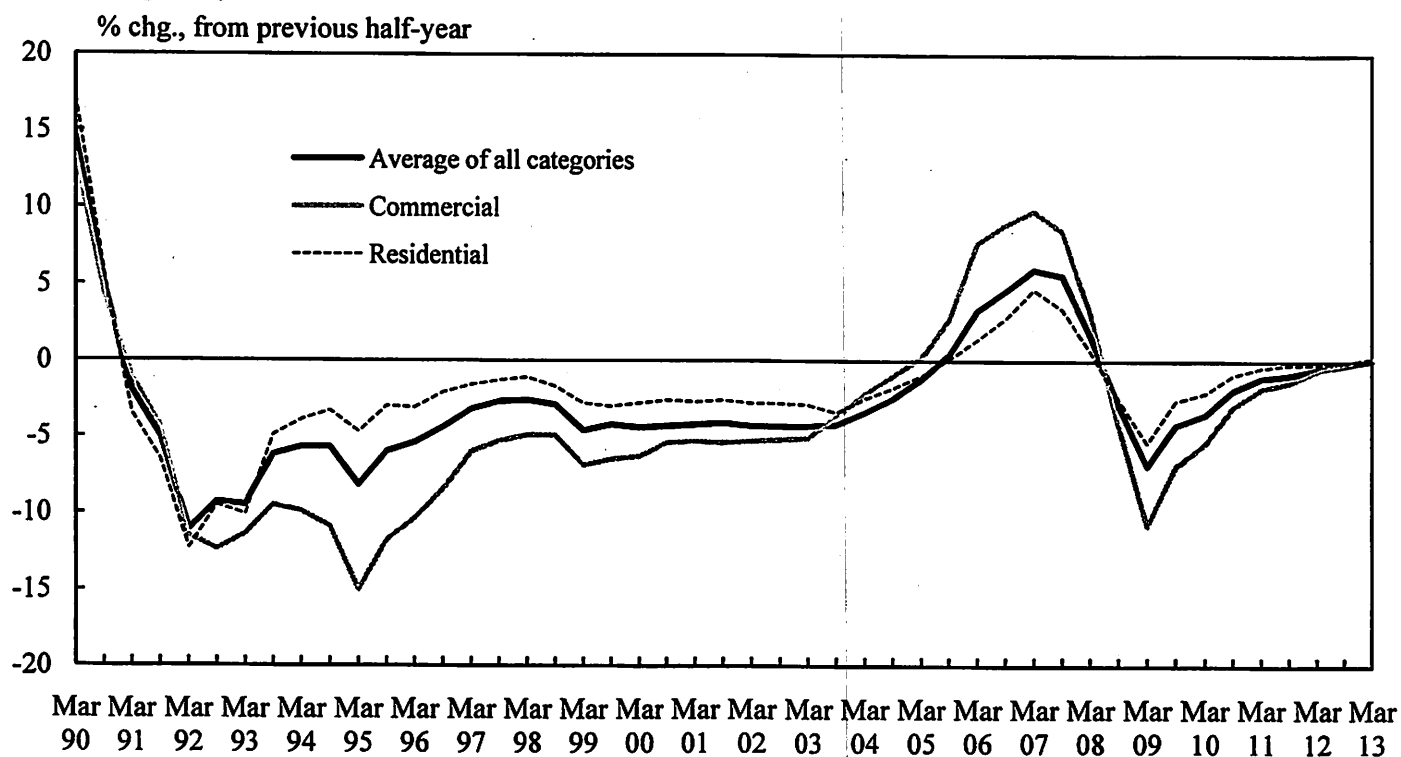
3. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013. Figures for March 2013 via the new survey method are reference values obtained from the examination survey.

4. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures for "Longest" are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period.

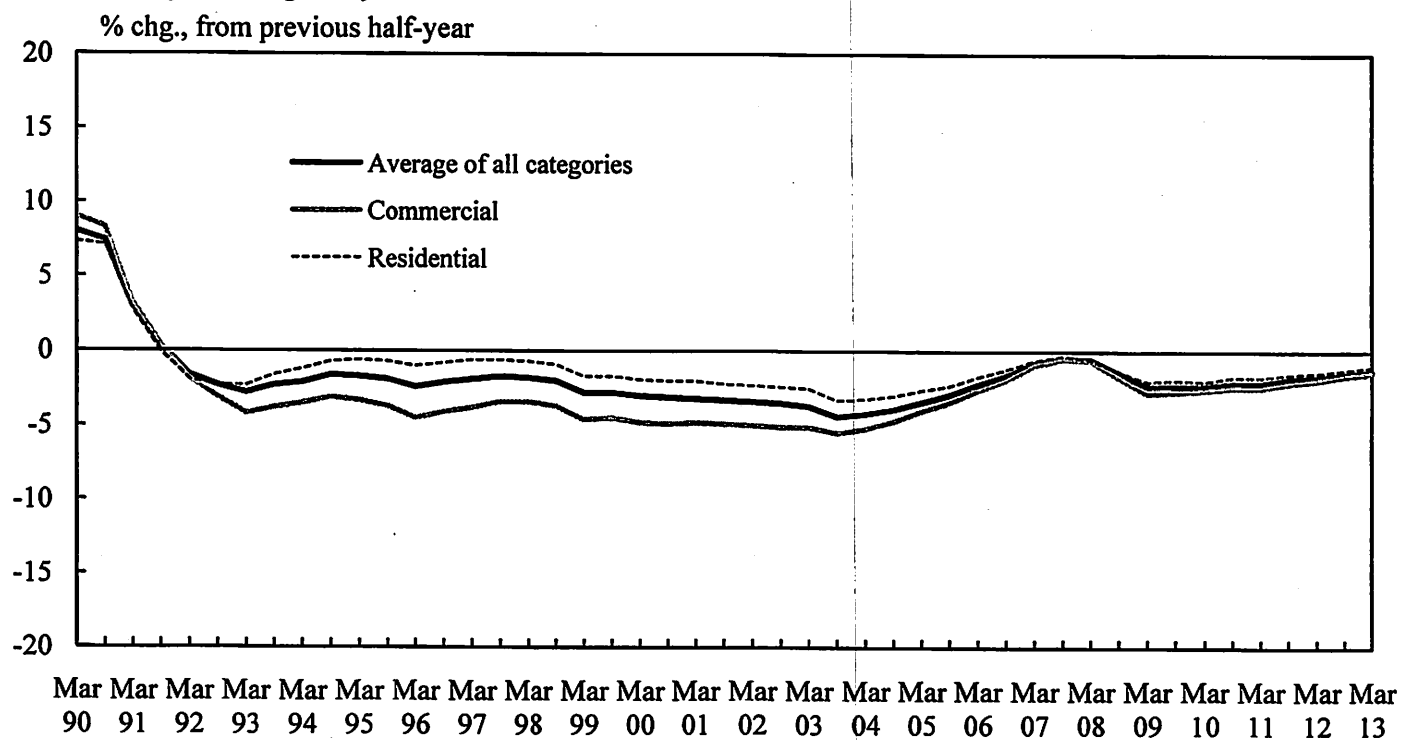
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "Quick Bond Monthly Survey"; Bloomberg.

Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas

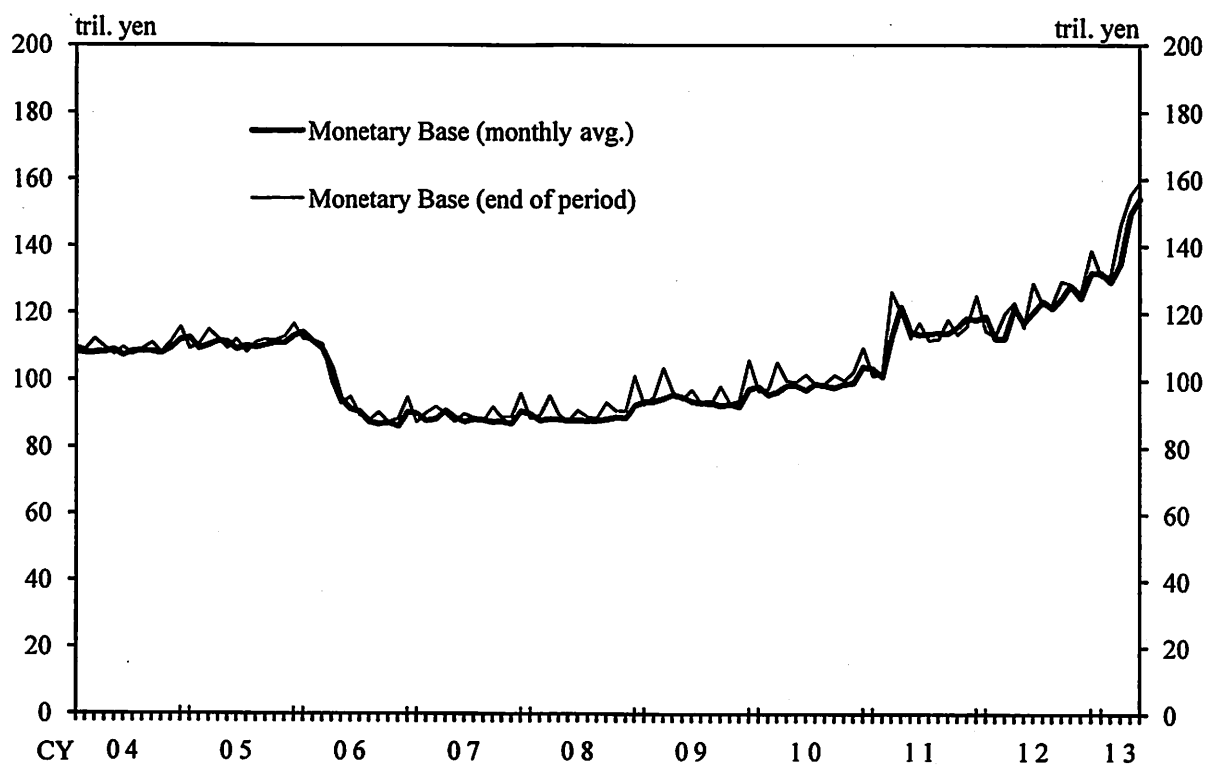


Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.
 2. Six Large City Areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.

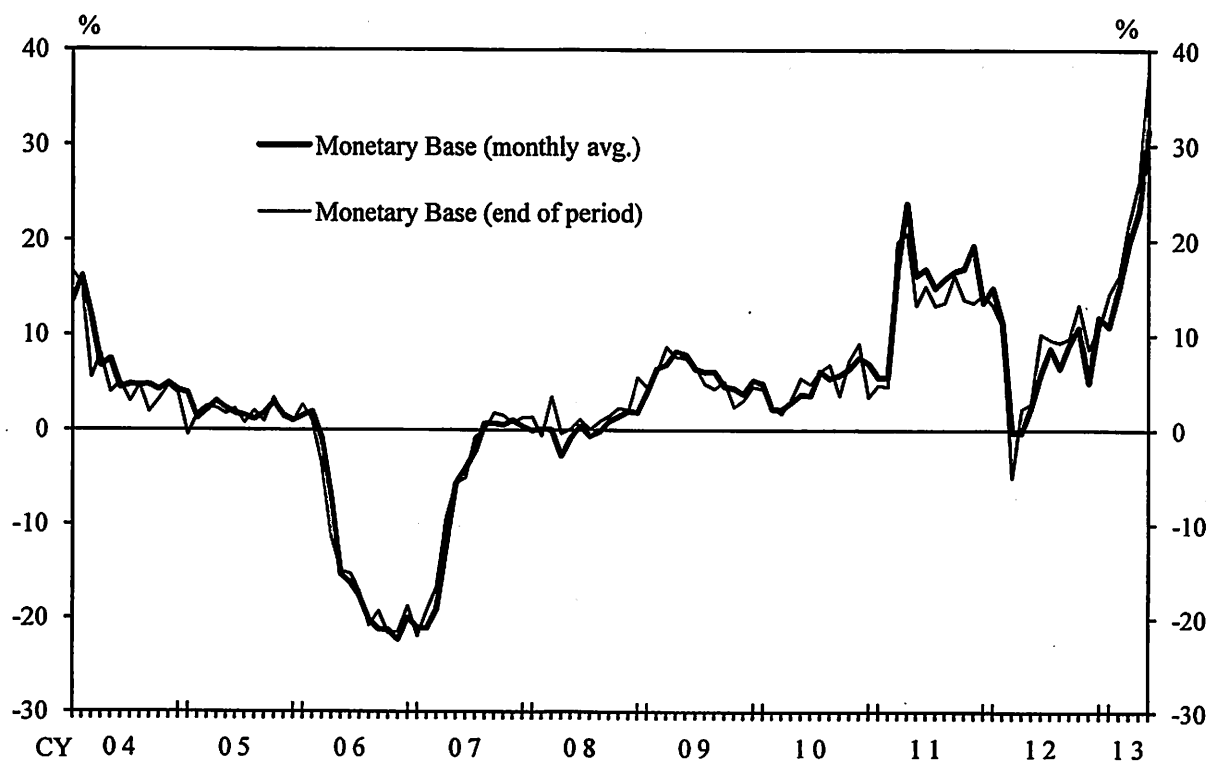
Source: Japan Real Estate Institute, "Urban Land Price Index."

Monetary Base

(1) Level

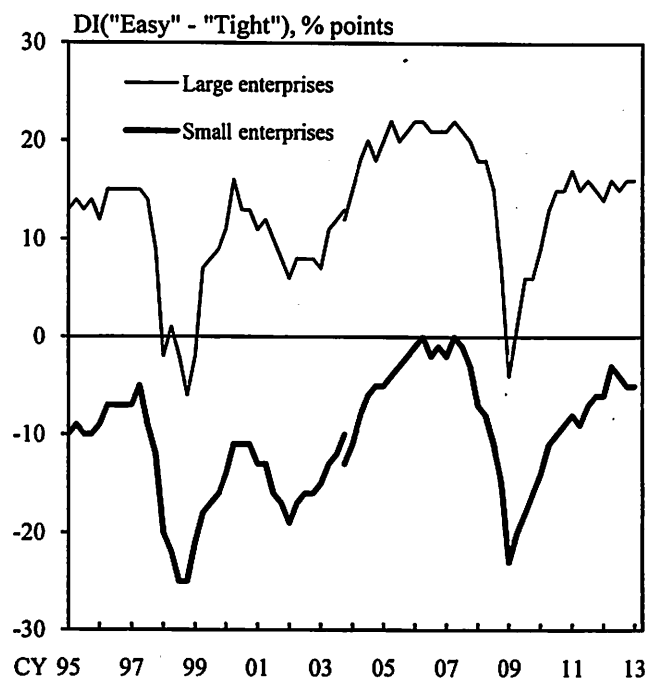


(2) Changes from a Year Earlier

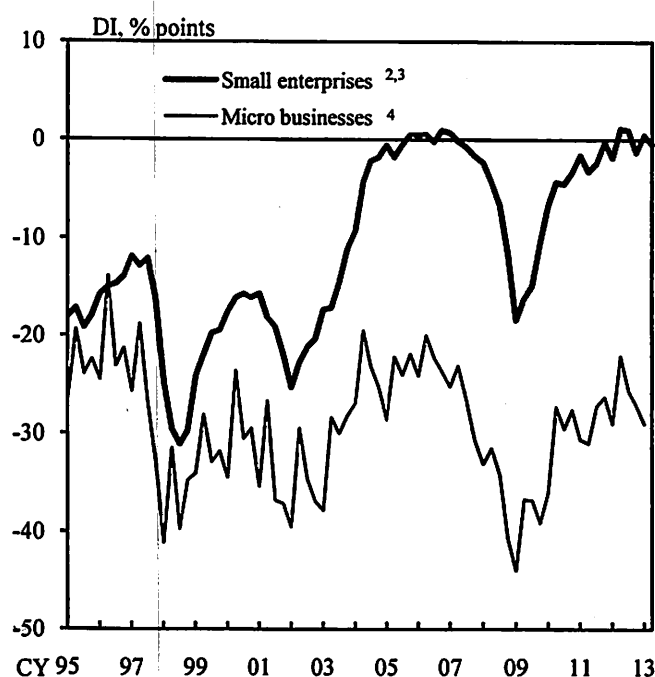


Corporate Finance-Related Indicators

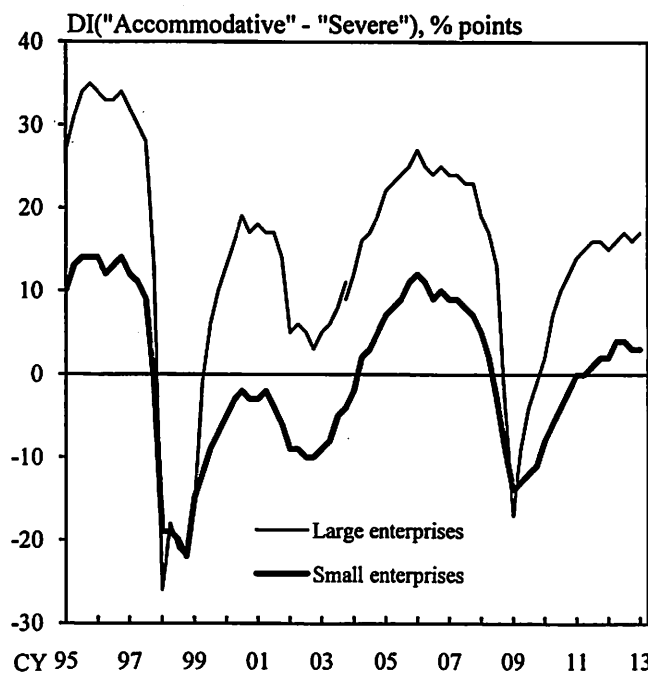
(1) Financial Position

<Tankan¹>

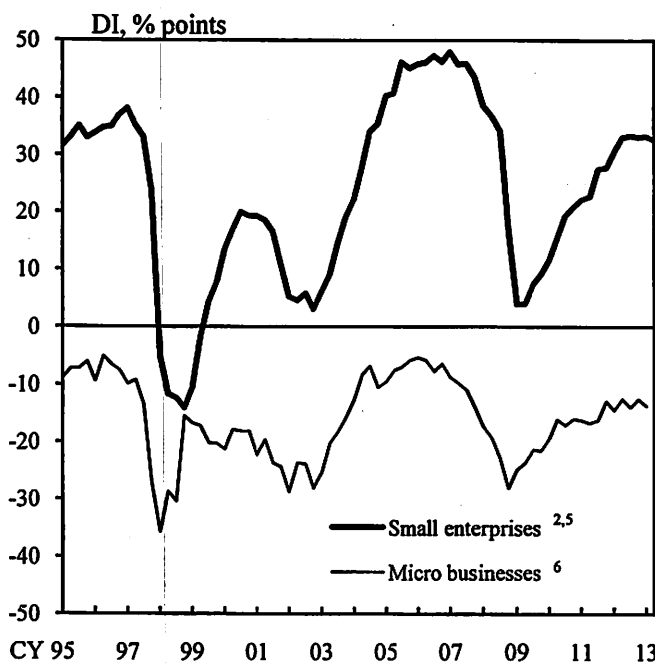
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data. Figures for 2013/Q2 are those of Apr.-May averages.

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

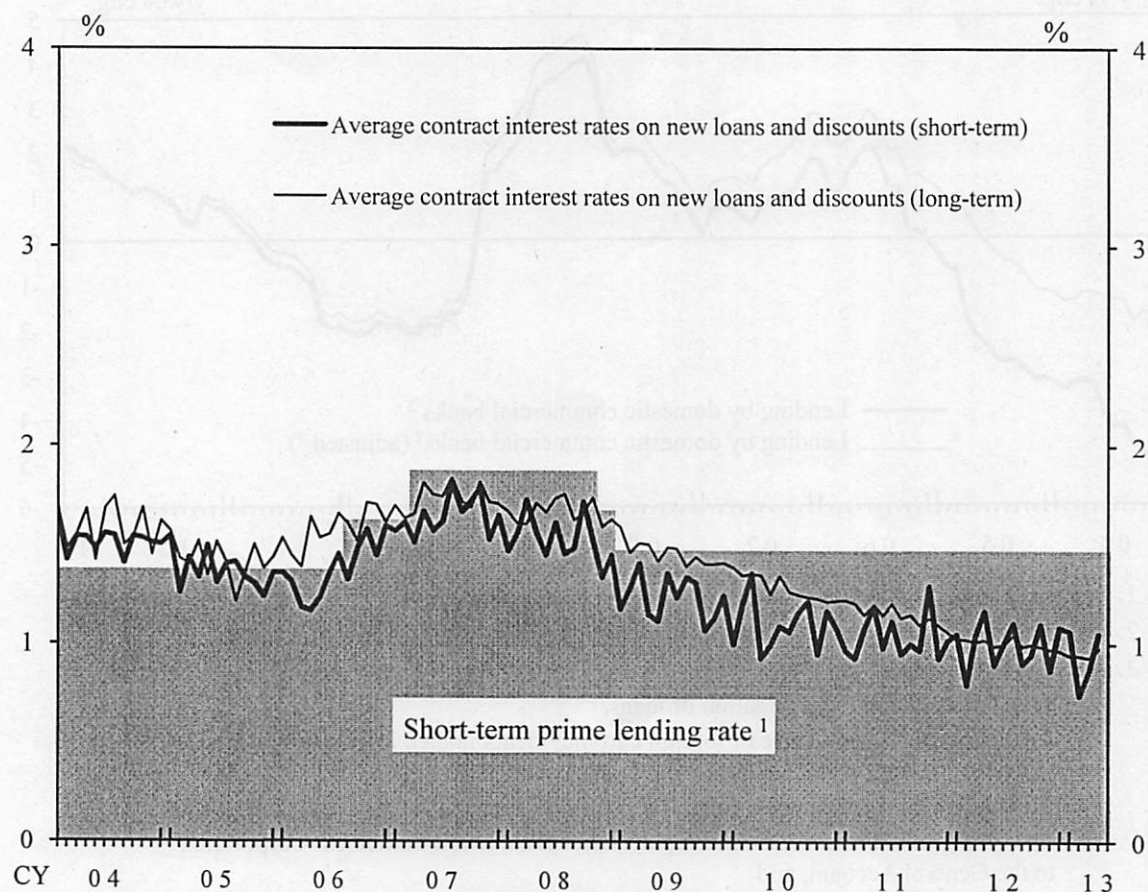
4. DI of "Easier" - "Tighter."

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)."

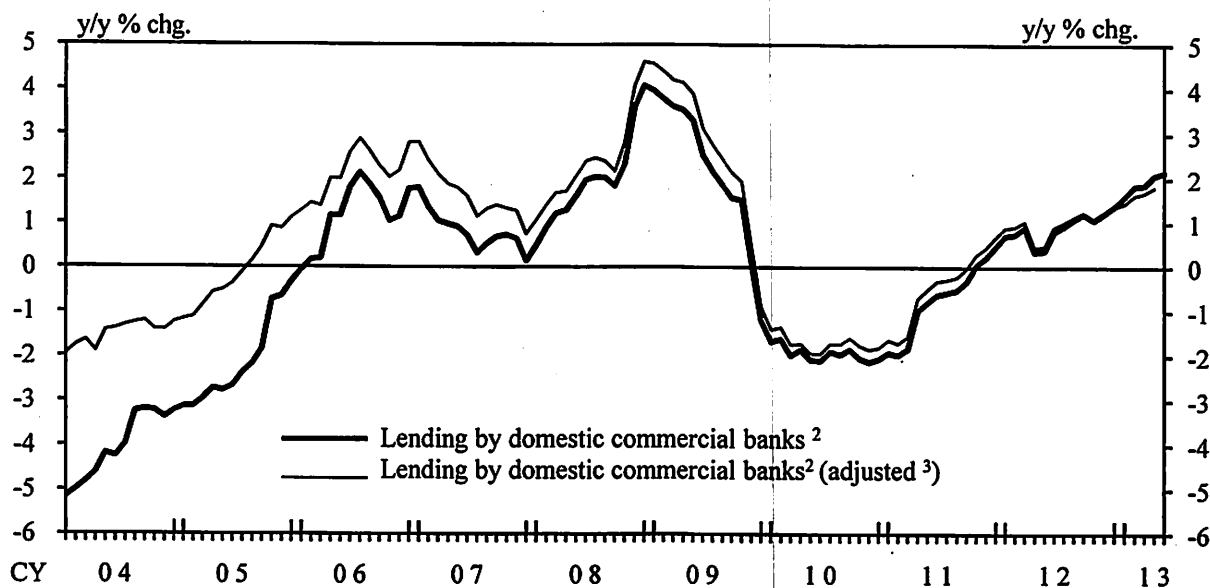
Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹

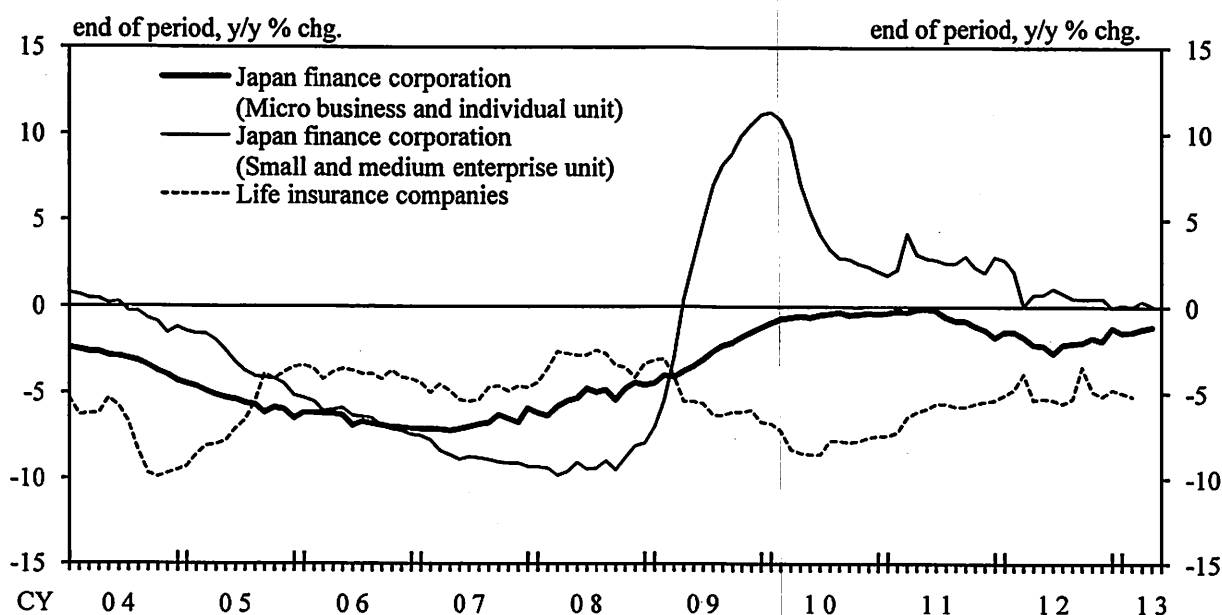
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

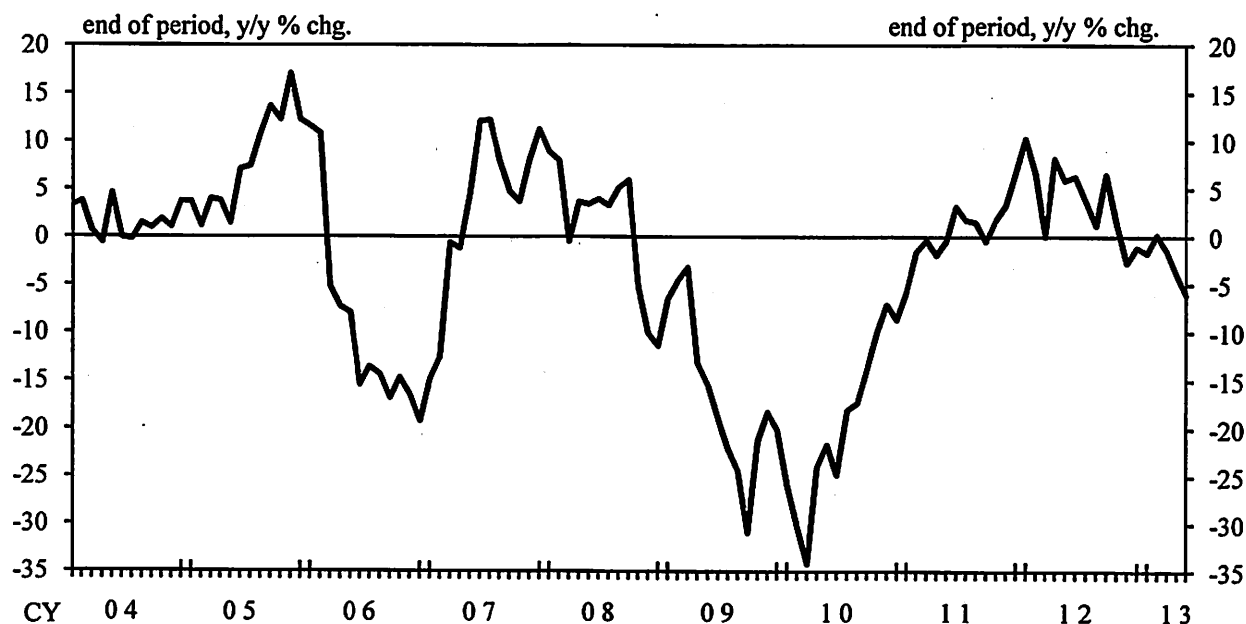


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

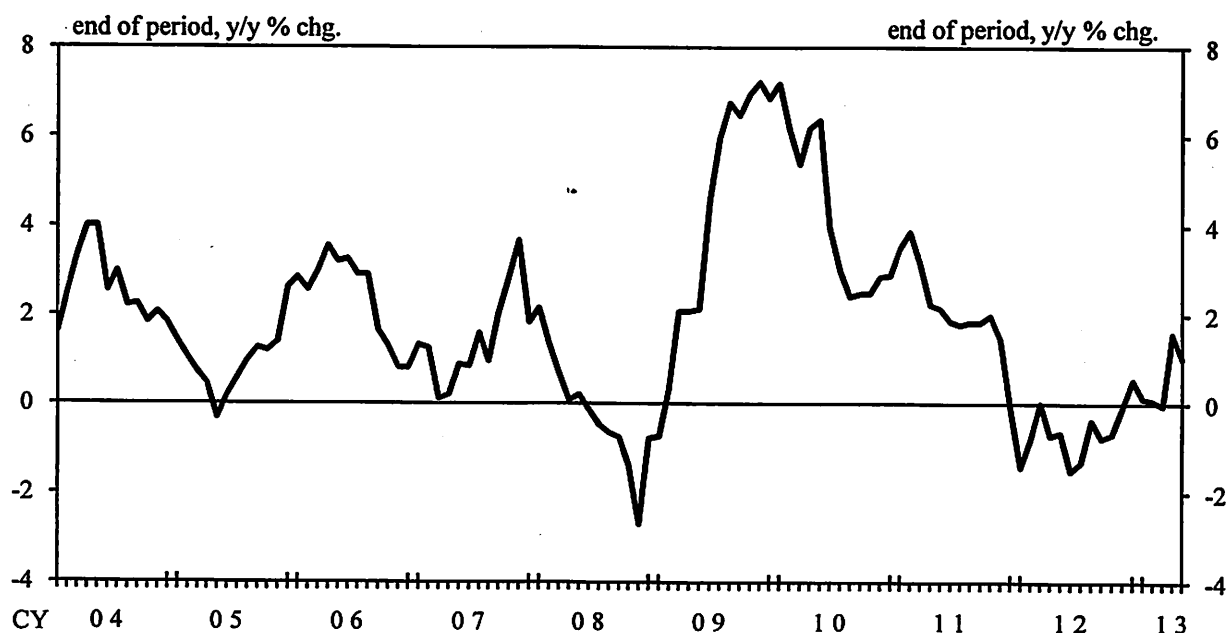
Private-Sector Fund-Raising in the Capital Markets

(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



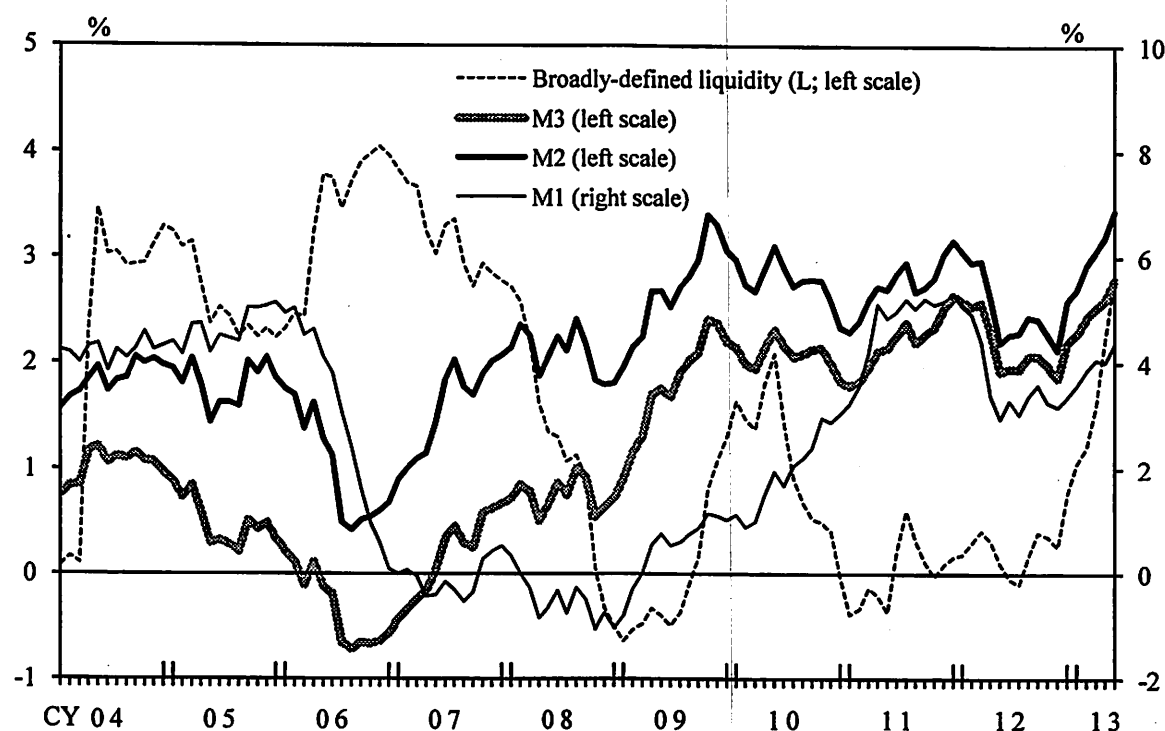
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

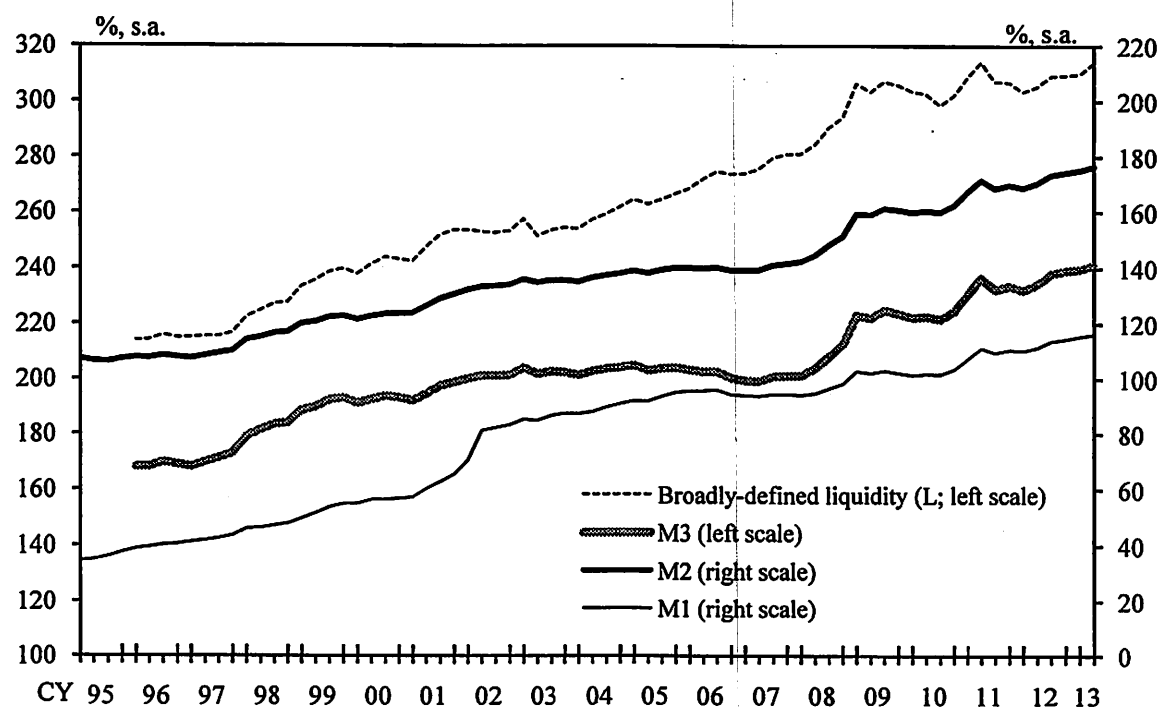
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

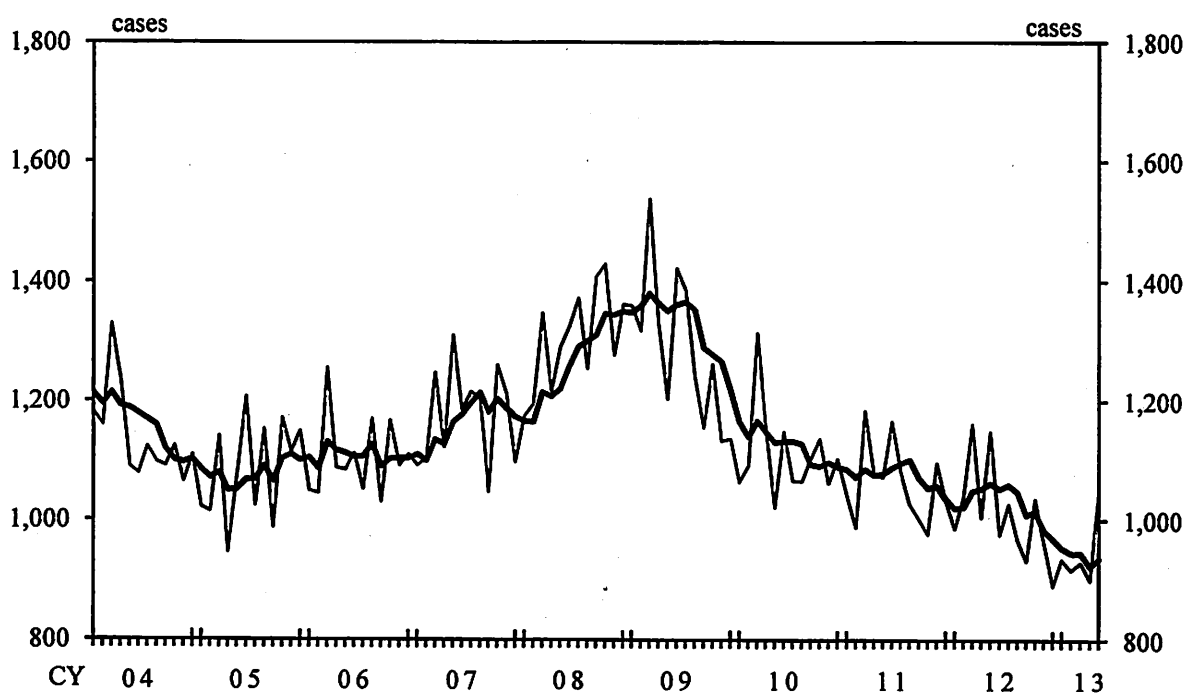


- Notes:
1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
 3. The figures 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. Figures for money stock in 2013/Q2 are those of Apr.-May averages, and nominal GDP in 2013/Q2 is assumed to be unchanged from the previous quarter.

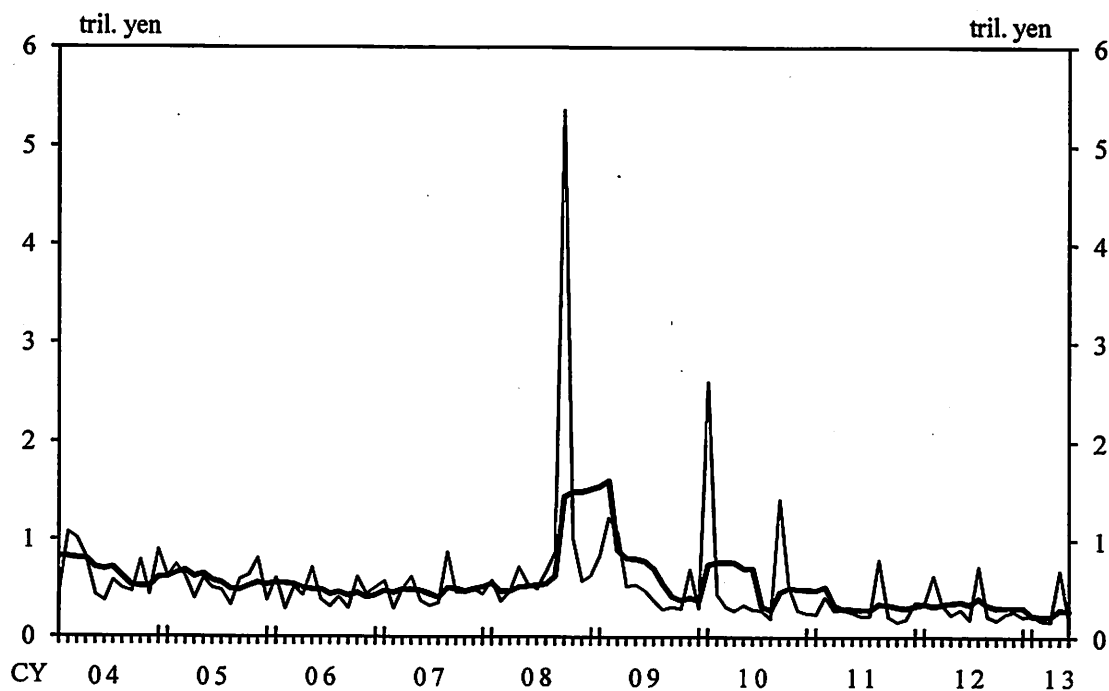
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

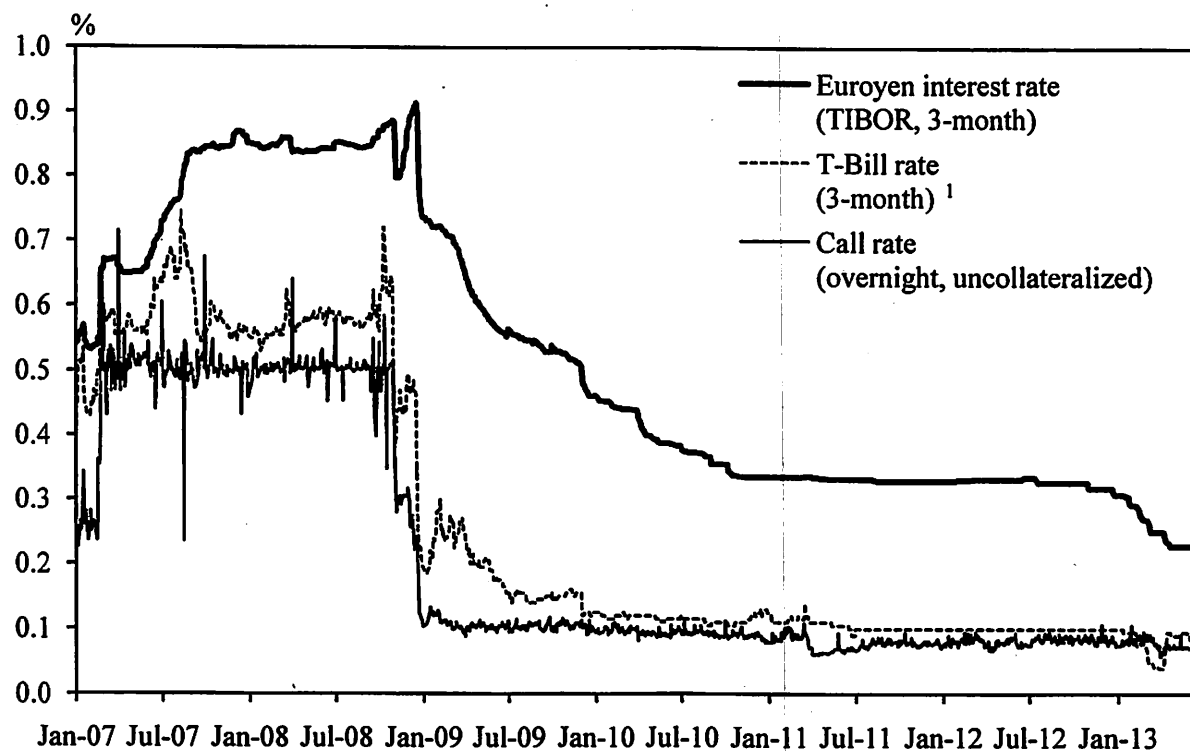


Note: Bold lines are the six-month moving average.

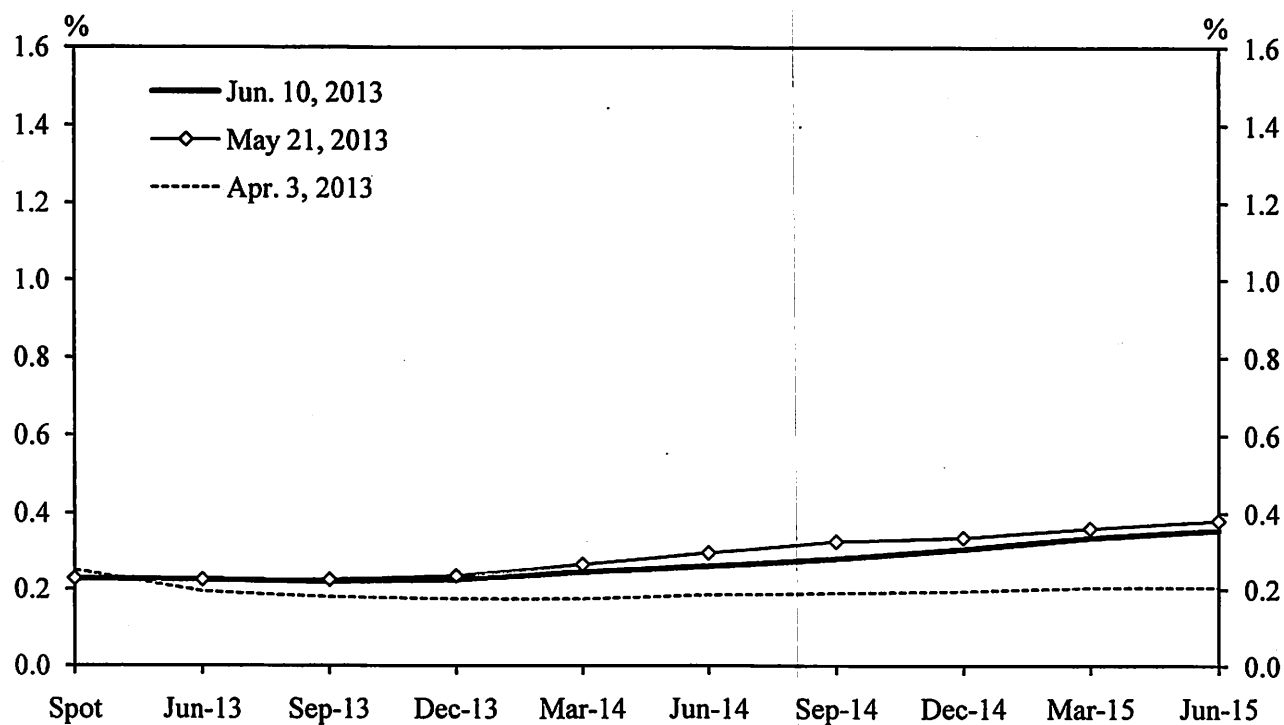
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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

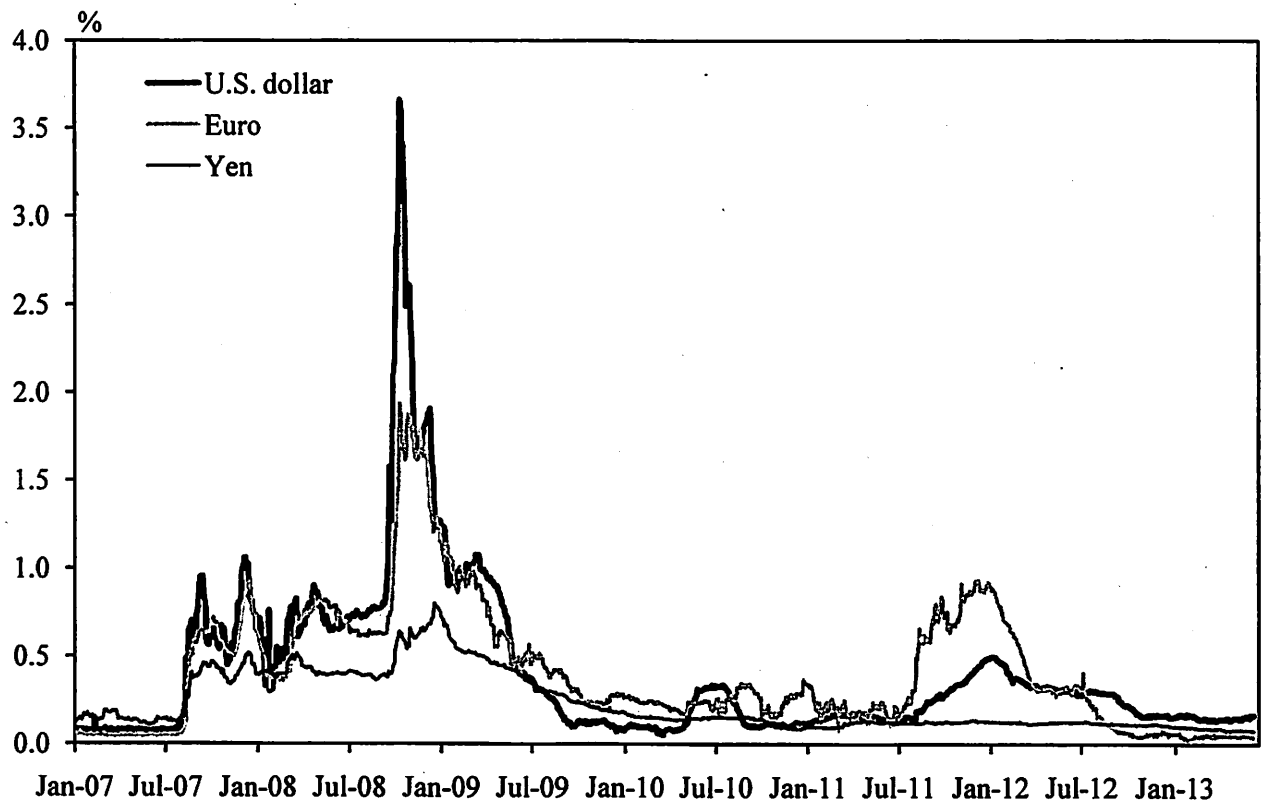


Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

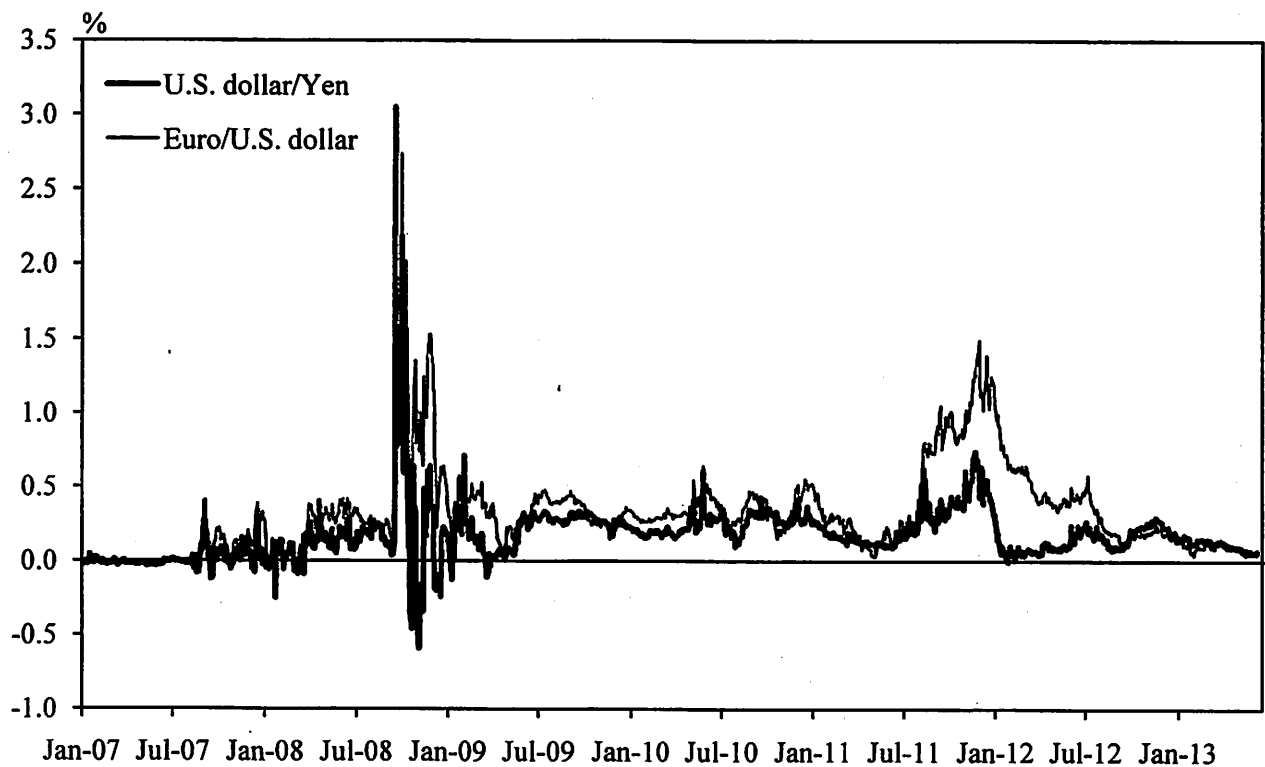
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.;
Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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

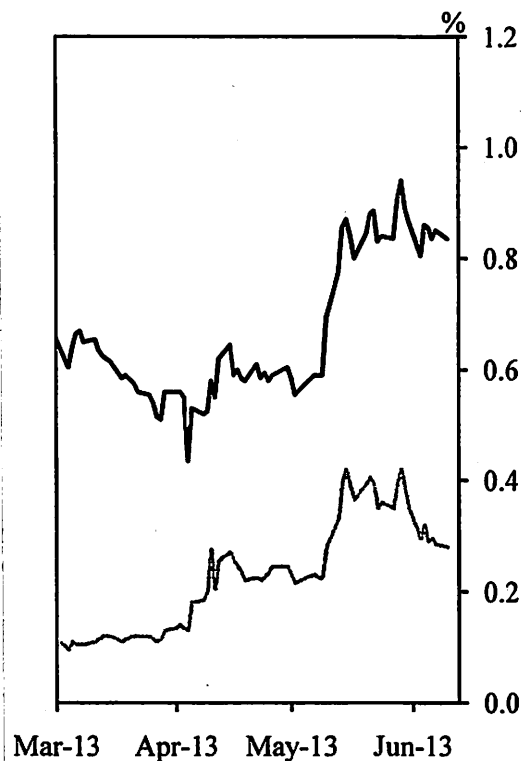
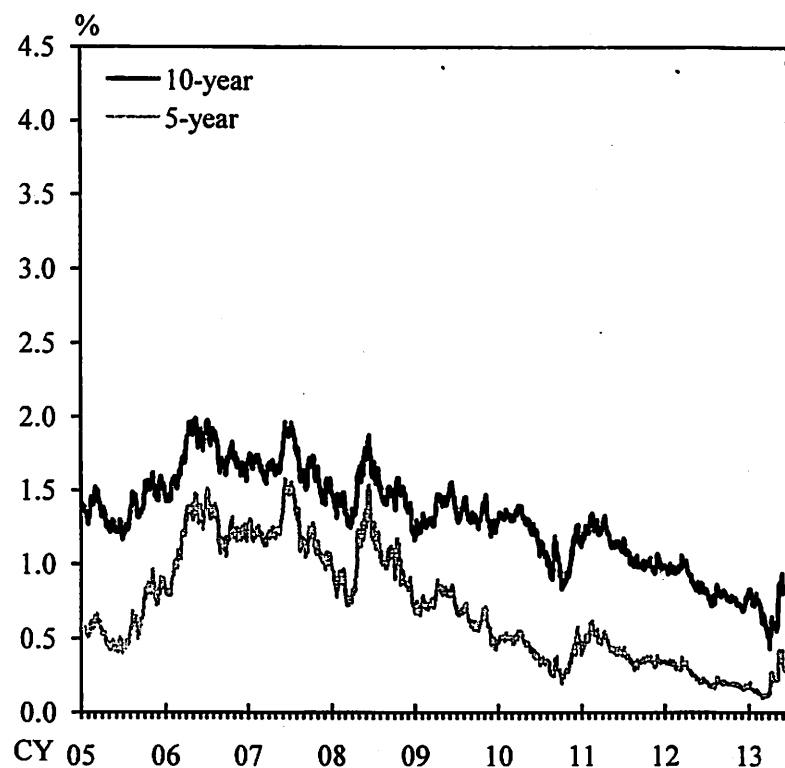


(2) FX swap implied dollar rate - LIBOR spreads (3-Month)

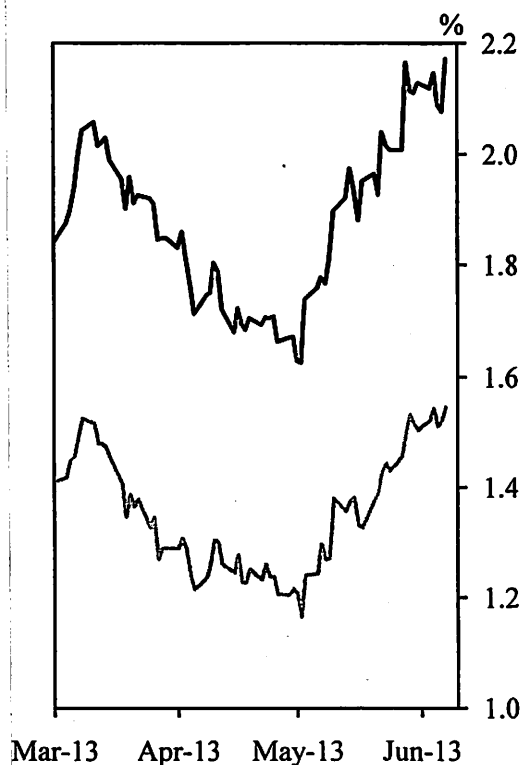
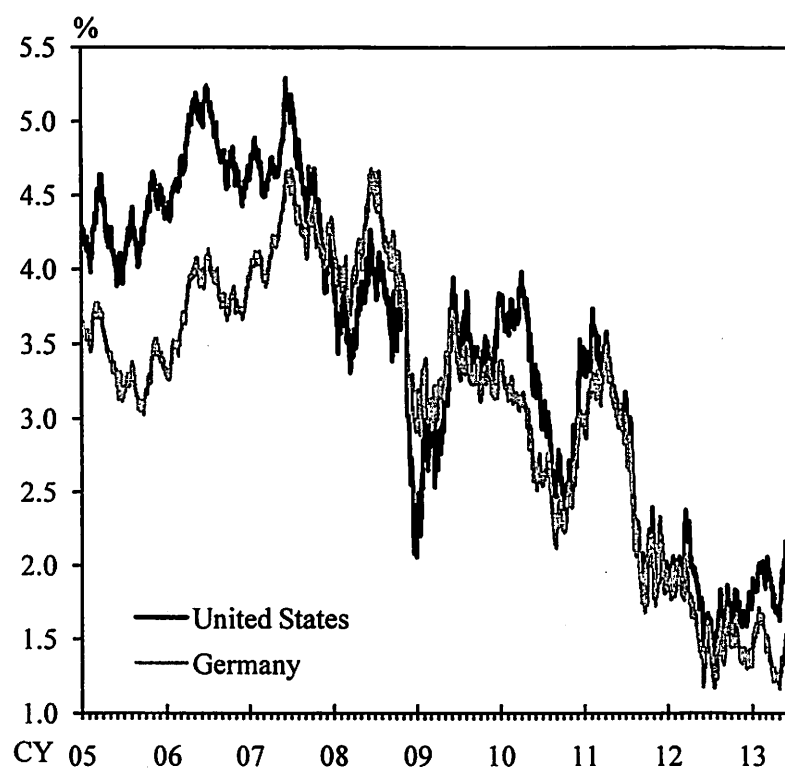


Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹

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

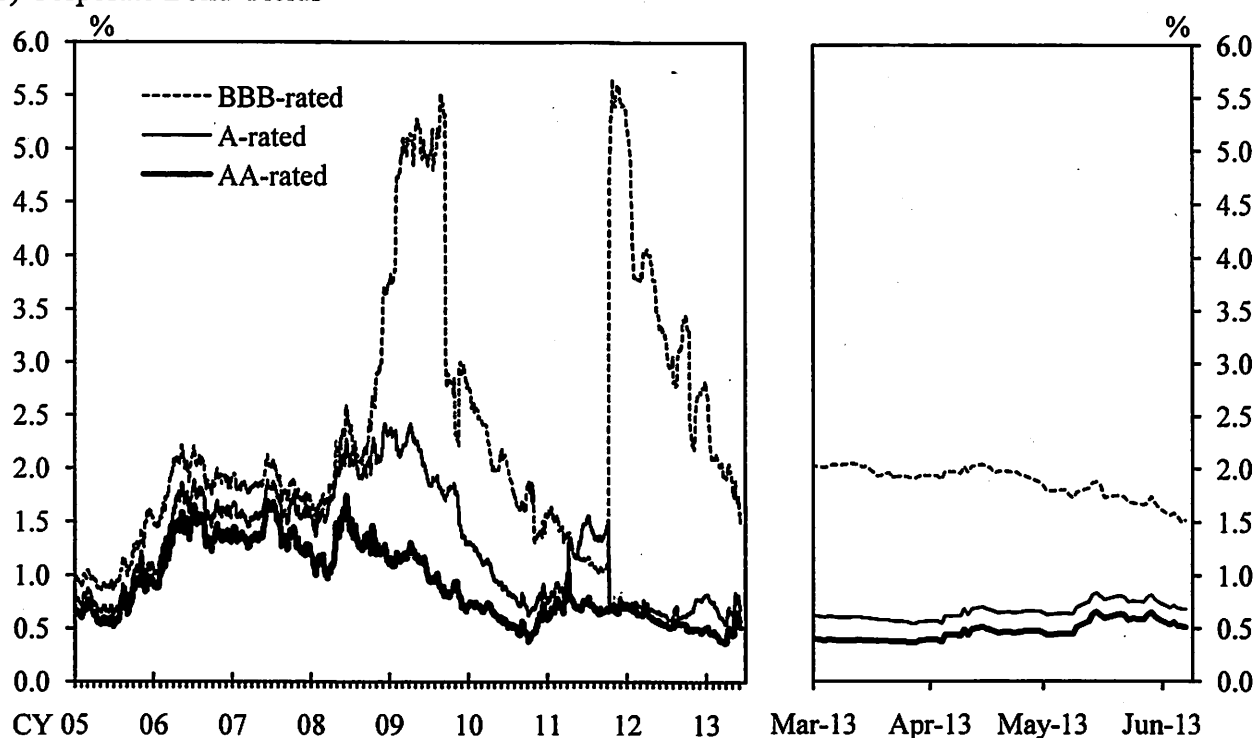


Note: 1. Yields on newly issued bonds.

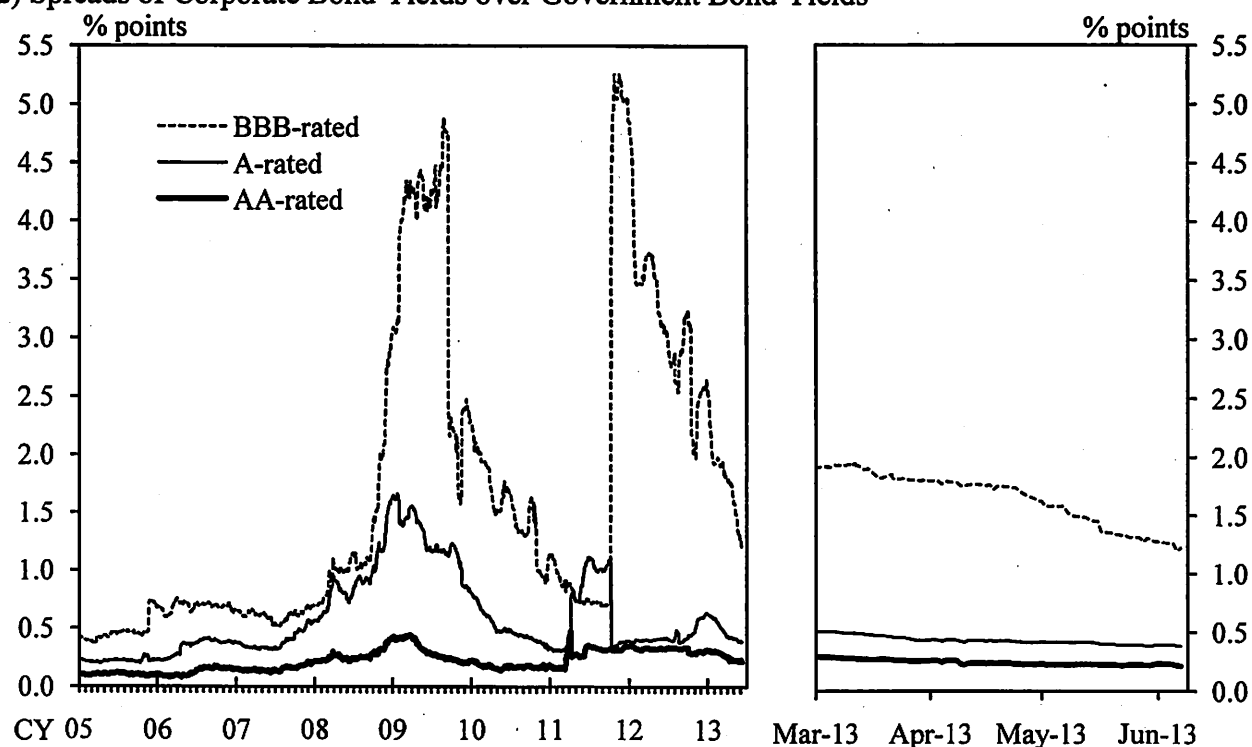
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



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



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

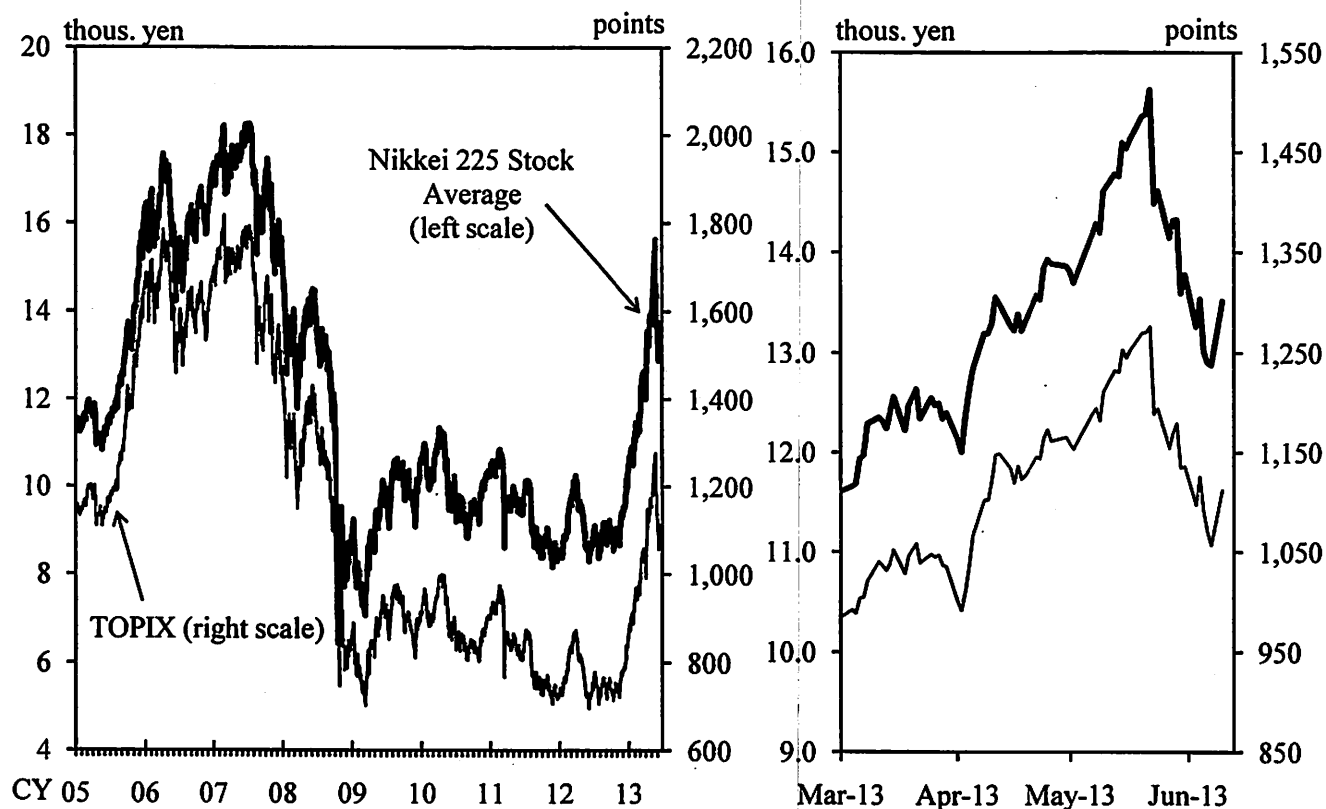
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

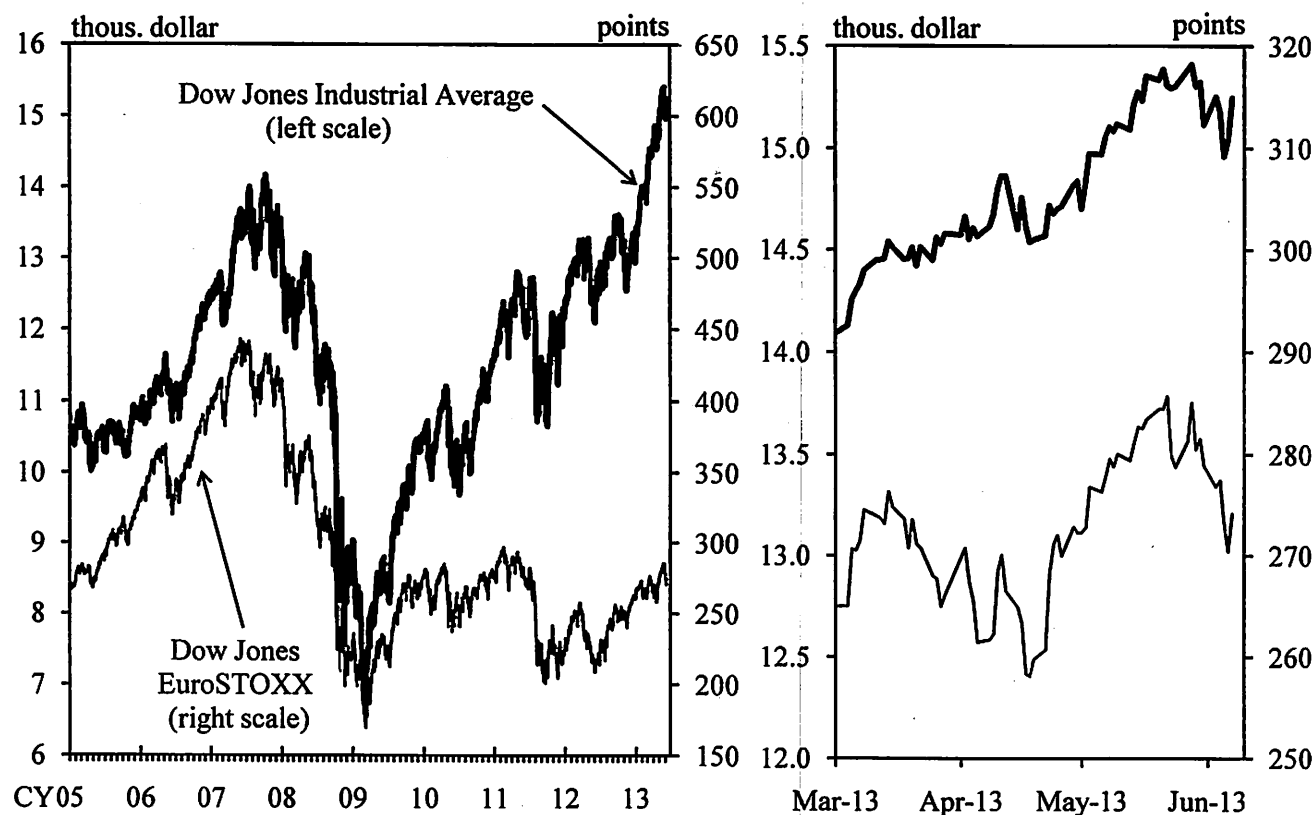
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices

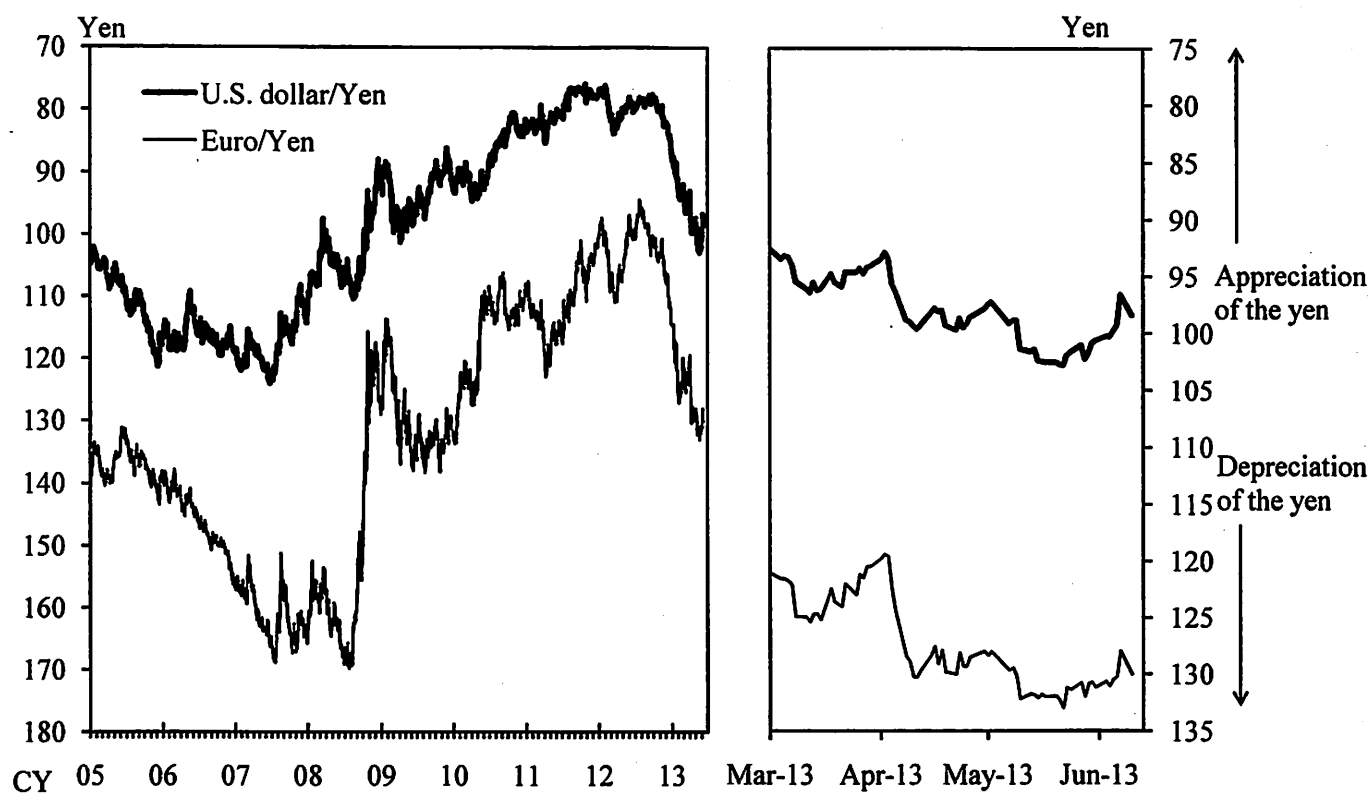


(2) Overseas Stock Prices

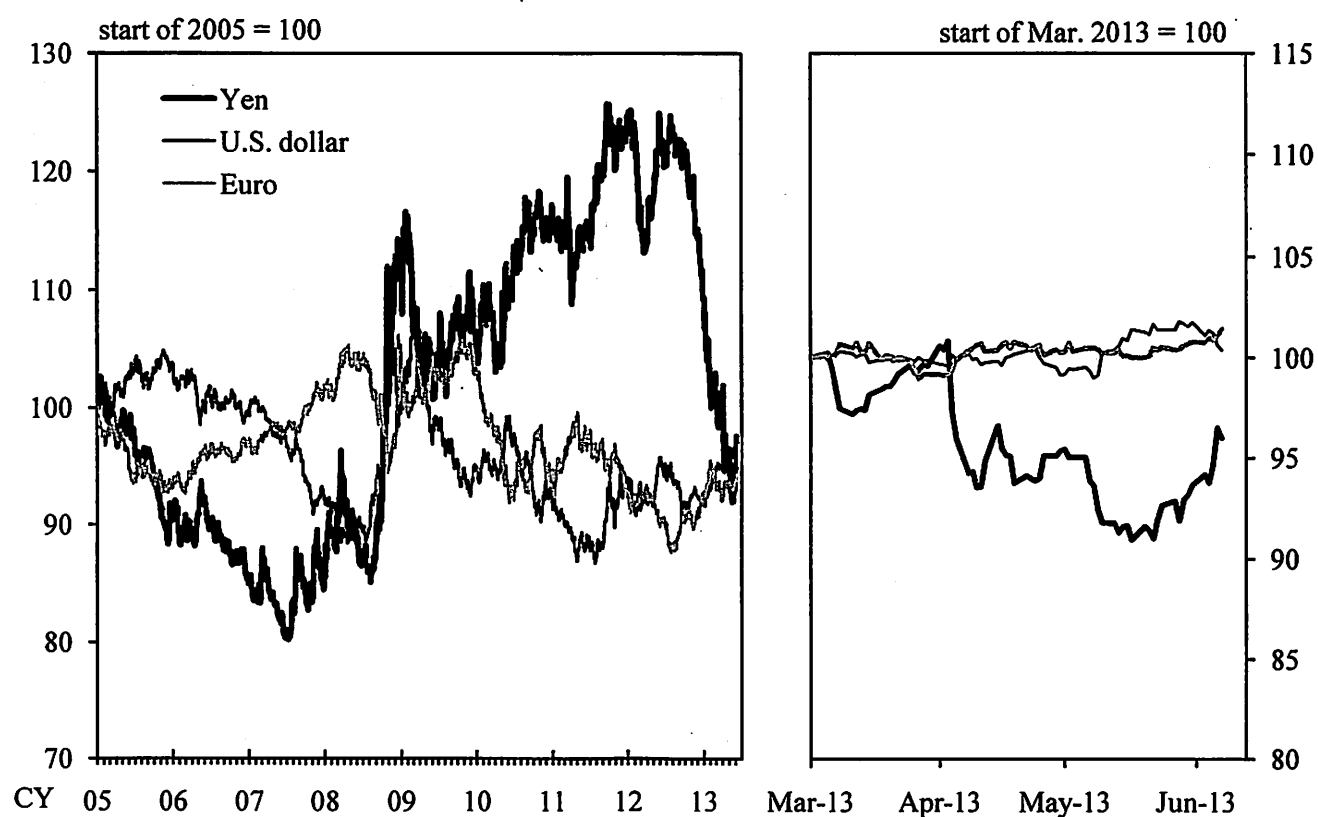


Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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