December 24, 2014
Bank of Japan

Monthly Report of Recent Economic and Financial Developments

December 2014

(English translation prepared by the Bank's staff based on the Japanese original released on December 22, 2014)

Monthly Report of Recent Economic and Financial Developments[1]

December 2014

Summary

Japan's economy has continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike have been waning on the whole.

Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have shown signs of picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole. Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has started to bottom out, due in part to the progress in inventory adjustments. Business sentiment has generally stayed at a favorable level, although some cautiousness has been observed.

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

Exports are expected to increase moderately mainly against the background of the recovery in overseas economies. As for domestic demand, public investment is expected to continue leveling off more or less at a high level for the time being and thereafter gradually enter a declining trend. Business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving

[1] This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 18 and 19, 2014.

trend. Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase are expected to dissipate gradually. Housing investment is projected to regain its resilience gradually. Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the risk of low inflation rates being protracted in Europe, and the pace of recovery in the U.S. economy.

On the price front, excluding the direct effects of the consumption tax hike, producer prices are declining relative to three months earlier, reflecting the significant fall in international commodity prices, and the year-on-year rate of increase in consumer prices (all items less fresh food) is around 1 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

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

Financial conditions are accommodative.

The monetary base has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been at around 35 percent.

Firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have continued to be favorable. Firms' credit demand has been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has been in the range of 2.5-3.0 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative. Firms' financial positions have been favorable. Meanwhile, the year-on-year rate of growth in the money stock has been at around 3.5 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, long-term interest rates have fallen. Meanwhile, the value of the yen against the U.S. dollar and stock prices have remained at more or less the same levels as last month.

1. Economic Developments

Public investment has more or less leveled off at a high level. The amount of public construction completed—which reflects the progress of public works—was virtually flat in October compared with the third quarter, after it continued to increase in the third quarter, following the rise in the second quarter mainly due to the effects of the supplementary budget for fiscal 2013 (Chart 5). The value of public works contracted—a measure that reflects public orders—registered a sharp increase in the second quarter, assisted partly by the effects of the early implementation of the initial budget for fiscal 2014. It then fell back significantly in the third quarter and declined slightly in October-November relative to the third quarter.

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

Real exports have shown signs of picking up (Charts 6[1] and 7). They marked a slight increase in the third quarter on a quarter-on-quarter basis, after declining slightly in both the first and second quarters, and rose noticeably in October-November relative to the third quarter. On a monthly basis, exports dropped slightly in November, after increasing for two months in a row in September and October. Looking at movements in exports by region (Chart 7[1]), exports to the United States—which had decreased in the second quarter and leveled off in the third quarter—registered a sizeable increase in October-November compared with the third quarter. With motor vehicles and their related goods starting to bottom out, exports to the United States have started to pick up overall since capital goods and parts have recently increased, reflecting the recovery in business fixed investment in the United States. Exports to the EU—which were roughly flat in the third quarter, after increasing for five consecutive quarters since the second quarter last year—dropped markedly in October-November relative to the third quarter. Exports to China—which had declined for two quarters in a row in the first and second quarters—increased slightly in the third quarter and rose in October-November as well compared with the third quarter, mainly in IT-related goods. Exports to NIEs have started to pick up, supported by IT-related goods and by capital goods and parts: they turned upward in the third quarter after declining in the second quarter, and continued to increase somewhat significantly in October-November relative to the third quarter. Exports to ASEAN have been more or less flat since the second quarter after decreasing for seven consecutive quarters, and remained somewhat sluggish. Meanwhile, exports to Others—which had been relatively weak since the middle of last year—increased for two consecutive quarters in the second and third quarters, mainly in motor vehicles and their related goods and in capital goods and parts, due in part to movements in foreign exchange rates. They also continued to move upward, albeit slightly, in October-November compared with the third quarter. By goods (Chart 7[2]), exports of motor vehicles and their related goods fell somewhat in October-November relative to the third quarter, notably in those bound for the EU, after increasing in the third quarter, mainly in those bound for Others, including the Middle East. Exports of capital goods and parts have been picking up as a trend, reflecting developments in business fixed investment in the United States and other countries. Exports of IT-related goods have also continued to pick up, mainly due to movements in parts for new smartphone products. Meanwhile, exports of intermediate goods, including iron and steel as well as chemicals, had been somewhat weak, mainly in those to East Asia, but they went up in October-November compared with the third quarter.

As for real imports, the effects of the decline in demand following the front-loaded increase in line with the consumption tax hike have been waning, while they have continued to trend moderately upward against the backdrop of firm domestic demand (Charts 6[1] and 9). Real imports fell back sharply in the second quarter in response to various declines in demand following the front-loaded increase, but they rose, albeit slightly, in the third quarter and continued to move slightly upward in October-November relative to the third quarter. Looking at movements in imports by goods (Chart 9[2]), those of raw materials turned upward in the third quarter, after falling back substantially in the second quarter, due to the decline in demand following the front-loaded increase prior to the rise in the environment tax rate, but they declined again in October-November compared with the third quarter. In contrast, imports of consumer goods have been picking up since the third quarter, after declining noticeably in the second quarter due mainly to the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike. Imports of IT-related goods continued to decline through the summer due to the following reasons: (i) the effects of the decline in demand following the front-loaded increase—mainly in line with the ending of support for some software (operating system)—remained, and (ii) inventories of smartphones were drawn down prior to the sales of new models. Recently, however, they have surged partly due to the increase in imports of new smartphone products. Imports of capital goods and parts have continued to pick up as a trend, albeit with fluctuations, mainly as a reflection of developments in business fixed investment at home. Meanwhile, imports of intermediate goods, as a reflection of movements in domestic production, declined for two consecutive quarters in the second and third quarters and continued to decrease in October-November compared with the third quarter.

Net exports—in terms of the real trade balance—have improved, after bottoming in the first quarter, reflecting the aforementioned developments in exports and imports (Chart 6[1]). Looking at movements in the nominal current account balance on a quarterly basis (Chart 6[2] and [3]), the current account balance showed a surplus again, albeit slightly, in the second quarter, mainly because of a subsequent decline in imports, although the current account balance tentatively turned to a deficit in the first quarter, because of an increase in imports as a reflection of the front-loaded increase in demand. From the third quarter onward, the surplus of the current account balance has tended to expand moderately, mainly as a result of the expansion in the surplus of the primary income balance and the improvement in the travel balance, supported primarily by movements in foreign exchange rates.

Regarding the environment surrounding exports, overseas economies—mainly advanced economies—have been recovering, albeit with a lackluster performance still seen in part (Chart 8[2]). Looking at movements by major region, the U.S. economy has continued to recover steadily, since the firmness in the household sector has been feeding through to the corporate sector. The recovery in the European economy has been losing momentum recently. As for the Chinese economy, stable growth has continued as a trend; recently, however, growth momentum has slowed with downward pressure from an overhang in supply in the manufacturing sector and adjustments in the real estate market. Emerging economies apart from China and the commodity-exporting economies have continued to lose pace as a whole. As for the exchange rate, the yen has depreciated against both the U.S. dollar and the euro; in terms of the real effective exchange rate, the yen has depreciated to the level around 1982, below that of around 2007 (Chart 8[1]).

Overseas economies, mainly advanced economies, are expected to continue recovering moderately. The aforementioned movements in foreign exchange rates are also projected to underpin exports, including those of services such as travel. By major region, the U.S. economy is expected to continue a firm recovery centered on private demand. As for the European economy, growth is projected to be sluggish for the near future; attention should continue to be paid to such issues as the outcome of its debt problem and the effects of the slowdown in the Russian economy. As for the Chinese economy, stable growth is projected to continue, albeit with lower growth rates; the aforementioned downward pressure continues to require close monitoring. Growth in emerging economies apart from China and the commodity-exporting economies might lose pace for a protracted period, although the recovery in advanced economies is basically expected to exert positive effects gradually.

Taking the above into consideration, exports are expected to increase moderately mainly against the background of the recovery in overseas economies. Imports are projected to continue trending moderately upward, mainly as a reflection of movements in domestic demand, although movements in foreign exchange rates are expected to exert downward pressure on imports. Considering these developments in exports and imports, net exports are projected to be on a moderate improving trend, albeit with fluctuations.

Business fixed investment has been on a moderate increasing trend as corporate profits have improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms has increased moderately, albeit with fluctuations, as investment registered somewhat high growth again in the third quarter, after falling back in the second quarter from the increase in the previous quarter (Chart 10[1]). By industry and company size (Chart 11), as for manufacturing, business fixed investment for large as well as medium-sized and small firms rose noticeably in the third quarter. Meanwhile, as for nonmanufacturing, business fixed investment fell somewhat for large firms, but medium-sized and small firms showed an increase for six consecutive quarters. The aggregate supply of capital goods—a coincident indicator of machinery investment—on a basis excluding transport equipment has been on a moderate uptrend, with the fluctuations smoothed out: it was temporarily more or less flat in the third quarter, after falling back in the second quarter from the upsurge in the previous quarter, but rose markedly again in October relative to the third quarter (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—fell back somewhat significantly in the second quarter from the increase in the previous quarter; they rose again in the third quarter, notably in manufacturing, but moved somewhat downward in October compared with the third quarter for both manufacturing and nonmanufacturing (Chart 13[1]). On a monthly basis, machinery orders dropped in October, after exhibiting month-on-month increases for four consecutive months since June. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—had shown some weakness since the turn of the year, mainly in nonmanufacturing, but they increased significantly in October relative to the third quarter, due in part to an upsurge in orders for large-scale projects mainly in industries such as wholesale and retail as well as transportation (Chart 13[2]). Meanwhile, the production capacity DI in the December *Tankan* moved out of "excessive capacity" territory for all industries and enterprises; as for the outlook, the DI is expected to enter, albeit marginally, "insufficient capacity" territory (Chart 12[2]).

Regarding the environment surrounding business fixed investment, corporate profits have continued to improve. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales recorded a historical high in the fourth quarter last year for all industries and company sizes; the same level was sustained for three consecutive quarters up to the third quarter. By industry and company size, the ratio of current profits for large as well as medium-sized and small manufacturing firms has remained at a high level, assisted mainly by strong overseas performance and movements in foreign exchange rates; it improved in the third quarter on a quarter-on-quarter basis. As for nonmanufacturing, the ratio of current profits to sales has stayed at a high level for large firms as well as medium-sized and small firms, but it was relatively weak in the third quarter compared with manufacturing, mainly due to the effects of the decline in demand following the front-loaded increase. Meanwhile, business sentiment has generally stayed at a favorable level, although some cautiousness has been observed. The business conditions DI for all industries and enterprises in the December *Tankan* improved marginally from September and continued to post a slight "favorable." As for the outlook, however, some cautiousness has been observed, and business sentiment might be affected by uncertainty surrounding the business environment such as movements in foreign exchange rates and the decline in crude oil prices. By industry and size (Chart 15), the DI showed mixed movements mainly reflecting the differences in the impact of the decline in crude oil prices and movements in foreign exchange rates as well as the unevenness in the pace of a pick-up after the consumption tax hike across firms. Looking at manufacturing in more detail by industry, the DIs for general-purpose machinery, production machinery, and business oriented machinery improved as a whole in response to developments in business fixed investment at home and abroad. The DIs for nonferrous metals and shipbuilding & heavy machinery improved as well, due in part to the effects of movements in foreign exchange rates. On the other hand, the DIs for industries such as lumber & wood products and motor vehicles deteriorated, mainly due to the somewhat lingering effects of the decline in housing investment and automobile sales in response to prior increases following the consumption tax hike. Looking at noticeable movements in large nonmanufacturing firms, the DIs for construction and real estate improved since orders continued to be at high levels. The DIs for wholesaling, transport & postal activities, and services for businesses also improved with corporate activity having bottomed out after the consumption tax hike. Moreover, the DI for accommodations, eating & drinking services improved, mainly as a reflection of the increase in the number of foreign visitors. In contrast, the DIs for retailing and services for individuals deteriorated slightly in response to movements in private consumption following the consumption tax hike. As for small nonmanufacturing firms, cautiousness has been observed for a decent number of firms, due in part to movements in private consumption following the consumption tax hike as well as to growing concern over an increase in input prices on the back of movements in foreign exchange rates.

Corporate profits are projected to continue an improving trend, supported by the increase in domestic and foreign demand as well as by the decline in crude oil prices and movements in foreign exchange rates. Meanwhile, according to business plans of firms in the December *Tankan*, the year-on-year growth of current profits for fiscal 2014 is revised upward for all categories regardless of industry and size based on the better-than-expected results for the first half of the fiscal year; current profits for all industries and sizes are forecasted to maintain their high level on par with that of fiscal 2013 which saw large profit increases (Chart 14).

Taking the above into consideration, business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving trend. According to business fixed investment plans for all industries and enterprises in the December *Tankan*, the year-on-year growth of fixed investment (excluding software investment and including land purchasing expenses) for fiscal 2014 is revised slightly upward from September; it is forecasted to be 5.5 percent, a relatively high growth compared with that of last fiscal year's plan (year-on-year growth of 4.5 percent) as of December 2013. By industry and size (Chart 16), large firms have maintained their high year-on-year growth as a whole at 8.9 percent. The year-on-year growth for manufacturing firms is revised slightly downward from September to 11.4 percent, whereas growth for nonmanufacturing firms is revised marginally upward to 7.6 percent. As for small firms, their growth is forecasted to be relatively low with a year-on-year decrease of 6.7 percent, partly in response to the high growth in the previous fiscal year (year-on-year increase of 21.0 percent). Nevertheless, their year-on-year growth has continued to be revised steadily upward from their initial plans, and it is considered that small firms have retained their strong investment appetite. Meanwhile, software investment (all industries and enterprises) is revised slightly downward from September, but it has maintained firm growth with a year-on-year increase of 3.9 percent. On a "software and fixed investment excluding land purchasing expenses" basis—a concept close to that of GDP—business fixed investment plans of all industries and enterprises for fiscal 2014 are revised marginally upward compared with those in September; they are forecasted to exhibit solid growth with a year-on-year increase of 6.5 percent.

<u>Private consumption</u> has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole (Chart 17).

Looking at consumption of goods—as seen through sales at retail stores in real terms (Chart 18[1])—it registered a quarter-on-quarter increase in the third quarter, after falling substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase, and continued to move upward, albeit slightly, in October relative to the third quarter. Meanwhile, looking at consumption of durable consumer goods (Chart 18[2]), the number of new passenger-car registrations has almost bottomed out since the summer, after falling substantially in the second quarter due to the effects of the decline in demand following the front-loaded increase. Sales of household electrical appliances in real terms decreased significantly in the second quarter, due to the decline following (i) the front-loaded demand in line with the consumption tax hike and (ii) the renewal demand for PCs in line with the ending of support for some software, but sales in the third quarter rose slightly, partly due to the start of sales of new smartphone products, and they kept climbing in October relative to the third quarter. The effects of the decline in demand for durable consumer goods were noticeable in scale and somewhat lingered since the front-loaded increase was relatively large, but these effects have finally been waning of late. Sales at department stores have picked up since May, after declining substantially in April in response to the front-loaded increase in demand, and the improvement since August has been evident (Chart 19[1]). Sales at supermarkets decreased largely in April, but they have continued to pick up mildly since May. As for sales at convenience stores, fluctuations caused by the front-loaded increase in demand have been relatively small; sales have continued to show their moderate increasing trend. Meanwhile, as for consumption of services (Chart 19[2]), outlays for travel have been steady on the whole, aided by the firmness in domestic travel, despite sluggish overseas travel affected partly by movements in foreign exchange rates. Sales in the food service industry have remained steady as a trend, disregarding the effects of issues related to tainted chicken products from China as well as the irregular weather.

As for statistics on the demand side, consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) shows that the index on an "excluding housing, purchase of vehicles, money gifts and remittance" basis (Chart 18[1])—which is compiled so as to make it similar to items used for estimating GDP—almost bottomed out in the third quarter, after falling back sharply in the second quarter from the front-loaded increase in demand, and inched upward in October compared with the third quarter; however, it has continued to show some weakness relative to sales statistics, due in part to short-term fluctuations.[2] The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) has continued to be more or less flat since the summer, after decreasing significantly in the second quarter in response to the front-loaded increase in demand, notably in durable consumer goods.

Looking at indicators related to consumer confidence, the consumer confidence index—which improved temporarily around the summer, after having become cautious from around the end of last year through around spring this year—has become cautious again (Chart 20).

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

Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. The number of housing starts—a leading indicator of housing investment—continued to fall since the first quarter due to the decline in demand following the front-loaded increase, mainly in owner-occupied houses, but it has virtually bottomed out recently, with month-on-month increases for three consecutive months since August (Chart 21[1]).

Housing investment is projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, also supported by the accommodative financial conditions.

Industrial production has started to bottom out, due in part to the progress in inventory adjustments (Chart 22). Industrial production—which had continued to decrease in the third quarter after falling back noticeably in the second quarter from

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

the front-loaded increase in demand—turned upward in October relative to the third quarter. On a monthly basis, production rose slightly in October, after registering somewhat strong month-on-month growth in September. Inventories piled up, notably in durable consumer goods (automobiles and household electrical appliances) and construction goods (with ties to housing), due mainly to the effects of the decline in demand following the front-loaded increase, but inventory adjustments have recently progressed gradually in light of the pick-up in final demand. Looking at quarterly movements by industry, production of transport equipment fell in October compared with the third quarter following noticeable decreases for two quarters in a row in the second and third quarters, since inventory adjustments have continued to take place in line with the decline in demand following the front-loaded increase. Recently, however, inventories have turned downward, mainly in large passenger cars, and inventory adjustment pressures have begun to ease gradually, while shipments have bottomed out. Production of electrical machinery and of information and communication electronics equipment—which continued to register a sizeable decline since early spring, mainly due to the effects of the decline in household electrical appliances (air conditioners and PCs) in response to prior increases—have recently started to bottom out. As for production of fabricated metals and of ceramics, stone and clay products, the effects of the decline in housing investment in response to prior increases have started to wear off. On the other hand, production of general-purpose, production and business oriented machinery has been on a moderate increasing trend, in light of developments in business fixed investment at home and abroad; it has recently risen at a somewhat accelerated pace, mainly in semiconductor manufacturing equipment bound for overseas. Production of electronic parts and devices has continued a noticeable increase, primarily in parts for smartphone products produced in Asia.

Shipments, like production, declined slightly in the third quarter relative to the previous quarter, after falling back somewhat sharply in the second quarter from the prior increase in demand, but they increased markedly in October relative to the third quarter. On a monthly basis, shipments in October registered slight positive growth, increasing for the second straight month, after posting high growth in September (Chart 22[1]). By goods, shipments of capital goods and producer goods (mainly electronic parts and devices) have picked up, while those of durable consumer goods and construction goods have almost stopped declining.

Inventories have recently started to decline, although they are still at a somewhat high level (Chart 22[1]). Recent movements show that inventories went up slightly as of the end of September compared with the end of June, after increasing noticeably as of the end of June relative to the end of March, but they turned down, albeit slightly, in October compared with the end of September. On a monthly basis, inventories fell for two months in a row. As for the shipment-inventory balance (year-on-year rate of change in shipments less that in inventories), growth in inventories has marginally outpaced that in shipments on the whole (Chart 23[2]).[3] By goods, growth in inventories of durable consumer goods and construction goods has still outpaced that in shipments, whereas growth in inventories of capital goods, nondurable consumer goods, and producer goods has been generally balanced with that in shipments.

Reflecting these developments in demand both at home and abroad, industrial production is expected to resume its moderate increase. Based on anecdotes by firms and on other information, industrial production as a whole is projected to turn moderately upward in the fourth quarter. By industry, production of electronic parts and devices is expected to continue moving markedly upward, mainly in new smartphone products; production of general-purpose, production and business oriented machinery is also expected to increase on the back of the ongoing improving trend in business fixed investment both at home and abroad. On the other hand, production of transport equipment is expected to stay more or less flat: inventory adjustments have progressed, but their effects have still remained. As for the first quarter next year, it seems that production as a whole is expected to continue increasing moderately, despite large uncertainty. By industry, production of transport equipment is expected to turn upward with inventory adjustments having come to a halt. Production of general-purpose, production and business oriented machinery is also projected to keep moving upward as a reflection of developments in

[3] As for the shipment-inventory balance, attention should be paid to the fact that growth in shipments on a year-on-year basis has a tendency to be somewhat low and that in inventories to be somewhat high for some time to come, due to the front-loaded increase in demand prior to the consumption tax hike in the second half of fiscal 2013.

business fixed investment at home and abroad. In contrast, as for production of electronic parts and devices, the increase as a reflection of the production of new smartphones is expected to pause.

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

As for supply and demand conditions in the labor market, the unemployment rate has recently been at around 3.5 percent—posting the same level prevailing around the end of 1997—after being on a moderate improving trend, albeit with fluctuations (Chart 24). The improvement in new job openings has paused as a reflection of economic activity during the first half of this fiscal year, but the ratio of new job openings in October recorded 1.69, rising to a level last seen in April 1992, owing partly to the decline in new applications. The active job openings-to-applicants ratio has also been on an improving trend, albeit at a sluggish pace; it recorded 1.10 in October following the third quarter, a level on par with that in June 1992. Non-scheduled hours worked have maintained their moderate uptrend, but have recently become more or less flat. Meanwhile, looking at the employment conditions DI in the December *Tankan*, net "insufficient" employment for all industries and enterprises expanded marginally from September; the current level is the largest since May 1992 (Chart 25). Although some cautiousness about the outlook for business conditions has been observed, firms have maintained their strong stance on employment; the net "insufficient" is expected to expand further in the future.

In terms of employment, the year-on-year rate of increase in the number of employees in the *Labour Force Survey* has been moving in the range of 0.5-1.0 percent on average, despite large monthly fluctuations (Chart 27[1]). The year-on-year rate of increase in the number of regular employees in the *Monthly Labour Survey* has kept expanding moderately as a trend overall, since manufacturing has tended to reduce its rate of decline, while nonmanufacturing has gradually shown higher growth.

Total cash earnings per employee have risen moderately, albeit with fluctuations (Chart 27[2]). Hourly cash earnings of overall employees have also been on a moderate improving trend as a whole (Chart 26[1]). Taking a closer look, both monthly cash earnings of full-time employees per employee and hourly cash earnings of part-time employees have accelerated their year-on-year rates of increase, albeit at a modest pace (Chart 26[2]). The pick-up in scheduled cash earnings on a year-on-year basis has recently become evident, while downward pressure from the increase in the ratio of part-time workers has diminished mildly (Chart 26[3]). By type of employee, the year-on-year growth rate of scheduled cash earnings of full-time employees has expanded at a modest pace since April, mainly due to the effects of the rise in base wages this spring. The year-on-year growth rate of scheduled cash earnings of part-time employees has been positive with the fluctuations smoothed out. The year-on-year growth of non-scheduled cash earnings has continued to improve, but the rate of increase has recently tended to diminish, as a reflection of movements in the number of hours worked.

Employee income has accelerated moderately its year-on-year rate of increase, as a reflection of the aforementioned developments in employment and wages (Chart 27[3]).

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

2. Prices

International commodity prices have declined significantly (Chart 29[1] and [3]). Prices of crude oil have continued to fall sharply, due mainly to concern over a decline in demand primarily reflecting the slowdown in the Chinese and European economies, and also to the decision by the Organization of the Petroleum Exporting Countries (OPEC) not to reduce oil production. Prices of nonferrous metals have continued to show somewhat sluggish movements on the whole, as a reflection of the slowdown in China's growth momentum. Meanwhile, prices of grains have recently risen, due in part to the effects of the irregular weather in Europe and other countries.

The three-month rate of change in import prices (on a yen basis) has been more or less flat, albeit with some fluctuations, as a reflection of movements in foreign exchange rates and international commodity prices (Chart 29[2]).

Producer prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter), on a basis excluding the direct effects of the consumption tax hike, are declining relative to three months earlier, reflecting the significant fall in international commodity prices (Chart 30[2]).[4] Excluding the direct effects of the consumption tax hike, the three-month rate of change in producer prices continued to decline in November by registering negative 0.9 percent, mainly due to the fall in international commodity prices including crude oil and iron ores. Looking in detail at producer price movements in November relative to three months earlier, prices of "goods sensitive to exchange rates and overseas commodity prices" declined somewhat sharply as a whole mainly due to price declines in petroleum products such as gasoline and kerosene, which is a reflection of the decline in crude oil prices, although prices of nonferrous metals rose slightly in response to movements in foreign exchange rates. Prices of "electric power, gas & water" kept moving downward in response to the fuel and gas resource cost adjustment system, which reflects the decline in crude oil prices. The rate of decline in prices of "other materials" and "iron & steel and construction goods" expanded, chiefly in chemicals & related products, iron & steel, and scrap & waste, due to the effects of either the fall in international commodity prices or the deterioration of supply and demand conditions in Asia. Prices of "others" continued to post negative growth as a whole, partly since the rate of increase in prices of other manufacturing industry products (printed matter) diminished, although prices of agriculture, forestry & fishery products (such as pork and beef) declined at a reduced pace. Meanwhile, prices of machinery have been more or less flat.

The year-on-year rate of increase in services producer prices (excluding international transportation; year-on-year basis, same hereafter), on a basis excluding

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

the direct effects of the consumption tax hike, has recently been moving in the range of 0.5-1.0 percent (Chart 31). Looking in detail at recent services producer price movements, the year-on-year rate of change in prices related to "selling, general and administrative expenses" has been rising slightly as a whole, since (i) advertising services have maintained their positive trend, albeit with fluctuations, (ii) temporary employment agency services have continued to be positive on the back of increased job offers, and (iii) hotel services have registered a relatively large increase in light of firm demand from business and sightseeing. The rate of increase in prices related to "fixed investment" has tended to expand, mainly in civil engineering and architectural services. The rate of increase in prices related to "domestic transportation" has been somewhat elevated, mainly in overland freight transportation and in warehousing and other transportation services. Prices of "others" have risen at a somewhat accelerated pace since August, together with the price increase in domestic air passenger transportation, as finance and insurance (mainly motor vehicle insurance) has continued to show relatively strong movements. Meanwhile, the rate of change in prices of "real estate services" including office space rental—which had continued to decline since October 2009—has been slightly positive since July.

The year-on-year rate of increase in consumer prices (all items less fresh food; year-on-year basis, same hereafter), on a basis excluding the direct effects of the consumption tax hike, is around 1 percent (Chart 32[1]).[5] Consumer prices for October, on a basis excluding the direct effects of the consumption tax hike, narrowed their rates of increase marginally from September to positive 0.9 percent growth on a less fresh food basis and to positive 0.5 percent growth on a basis excluding food and energy. Regarded as a method for capturing trend changes, the improving trend of the year-on-year rate of change in the trimmed mean has recently come to a pause (Chart 33[2]).[6]

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

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

Looking at recent year-on-year growth in consumer prices, prices for goods (excluding agricultural, aquatic & livestock products) have recently reduced their rate of increase at a mild pace. Looking in detail, prices of petroleum products have reduced their rate of increase markedly as a reflection of the decline in crude oil prices. Prices of food products have continued to be somewhat strong as a trend, reflecting the continued pass-on of past cost increases in the form of higher prices, although the rate of increase has recently diminished marginally. Prices of durable goods and clothes have maintained their positive trend, but the pace has recently tailed off marginally in response to movements in private consumption after the consumption tax hike. Meanwhile, prices of agricultural, aquatic & livestock products (less fresh food) have reduced their rate of increase marginally overall, as a reflection of the decline in prices of rice, despite upward pressure from prices of meats. Prices of general services have narrowed their rate of increase compared to a while ago; they have more or less leveled off since June on a year-on-year basis. This development is mainly attributable to the following factors: (i) the introduction of new price plans for mobile telephone charges since June and (ii) the decline in some prices of eating out following last year's increase. On the contrary, the year-on-year rate of decline in prices of rent—which accounts for a large share—has tended to narrow, albeit very modestly, with the fluctuations smoothed out. Fees for public services have continued to narrow their rate of increase moderately as a whole, mainly since positive contributions from electricity prices and gas prices have diminished due to the decline in crude oil prices and in response to last year's increase and also since the effects of the rise in charges for accident insurance last October have worn off.

With regard to <u>domestic supply and demand conditions</u> in the December *Tankan* (Chart 34), the supply and demand conditions DI for products and services was almost unchanged from September for both manufacturing and nonmanufacturing firms, as a reflection of economic activity after the consumption tax hike. The output prices DI was also more or less flat, but it is expected to improve again in the future, mainly for nonmanufacturing. Meanwhile, the weighted average of the production capacity DI and employment conditions DI has continued to improve moderately, and the level of the net "insufficient" in December was the largest since that in May 1992. As for the outlook, the net "insufficient" is expected to continue expanding moderately.

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

Meanwhile, inflation expectations appear to be rising on the whole from a somewhat longer-term perspective (Chart 35).

Looking at developments in land prices through the *Urban Land Price Index* (Chart 36), the rate of increase in the six large city areas relative to six months earlier has continued to expand moderately for both commercial and residential land. Excluding the six large city areas, the rate of decline relative to six months earlier has tended to narrow for both commercial and residential land.

3. Financial Developments

(1) Corporate Finance and Monetary Aggregates

The monetary base (average amounts outstanding) has increased significantly as asset purchases by the Bank of Japan have progressed, and the year-on-year rate of growth has been at around 35 percent (Chart 37).

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 39).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 38). Issuing conditions for CP and corporate bonds have continued to be favorable. In these circumstances, as for funding of the private sector, the year-on-year rate of increase in the amount outstanding of bank lending has been in the range of 2.5-3.0 percent, mainly in demand for working capital and funds related to mergers and acquisitions (Chart 40).

The year-on-year rate of change in the amount outstanding of CP and corporate bonds has been negative (Chart 41).

Firms' financial positions have been favorable (Chart 38). The number of corporate bankruptcies has remained at a low level (Chart 43).

Meanwhile, the year-on-year rate of growth in the money stock (M2) has been at around 3.5 percent. Its November reading was 3.6 percent on a year-on-year basis, following 3.2 percent in October (Chart 42).[7]

(2) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, including those for longer term rates. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been more or less flat in negative territory. The Euroyen interest rate (3-month) and interest rates on Euroyen futures have both been virtually level (Chart 44). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has basically been flat (Chart 45).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved downward, mainly against the backdrop of the decline in U.S. and European long-term interest rates; they are recently moving at around 0.35 percent (Chart 46).

Yield spreads between corporate bonds and government bonds have been more or less flat at low levels (Chart 47).

Stock prices have increased somewhat compared with last month, although they temporarily decreased in the first half of December mainly against the background of the decline in foreign stock prices. The Nikkei 225 Stock Average is recently moving at around 17,500 yen (Chart 48).

[7] On an M3 basis, which includes the Japan Post Bank, the year-on-year rate of growth has been at around 3 percent; its November reading was 2.9 percent, following 2.6 percent in October. The year-on-year rate of growth in broadly-defined liquidity (L) has recently been in the range of 3.0-3.5 percent; it increased by 3.3 percent in November, following an increase of 3.3 percent in October.

In the foreign exchange market, the yen's exchange rate has depreciated somewhat against the U.S. dollar, mainly since the difference in the direction of monetary policy between Japan and the United States has been recognized; the yen is currently moving at around 119 yen against the U.S. dollar. The yen's exchange rate against the euro has been more or less unchanged; the yen is recently moving at around 146 yen against the euro (Chart 49).

Charts

Chart 1

Main Economic Indicators (1)

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

	2014/Q1	Q2	Q3	2014/Aug.	Sep.	Oct.	Nov.
Index of consumption expenditure level (two-or-more-person households)	4.3	-8.5	-0.3	0.3	1.8	0.1	n.a.
Sales at department stores	9.4	-13.2	5.8	2.8	2.3	-3.5	n.a.
Sales at supermarkets	3.2	-5.4	2.5	0.8	1.4	-1.7	n.a.
New passenger-car registrations[3] <s.a., ann. 10,000 units>	< 333>	< 264>	< 275>	< 279>	< 270>	< 265>	< 267>
Sales of household electrical appliances (real, "Current Survey of Commerce")	14.3	-25.5	4.3	4.4	3.5	-0.3	n.a.
Outlays for travel	0.6	-2.4	1.9	-2.3	2.0	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 94>	< 89>	< 86>	< 84>	< 88>	< 90>	<n.a.>
Machinery orders[4] (Private sector, exc. volatile orders)	4.2	-10.4	5.6	4.7	2.9	-6.4	n.a.
Manufacturing	3.9	-8.5	12.6	-10.8	12.0	-5.5	n.a.
Nonmanufacturing[4] (exc. volatile orders)	-1.0	-6.7	-1.2	10.7	1.7	-7.5	n.a.
Construction starts (private, nondwelling use)	-2.5	-3.8	-2.7	1.8	-7.7	33.8	n.a.
Mining & manufacturing	-3.6	-8.6	5.8	19.5	-11.1	30.5	n.a.
Nonmanufacturing[5]	-2.2	-3.4	-3.8	-2.2	-6.3	34.0	n.a.
Value of public works contracted	6.6	11.3	-16.8	-8.8	-7.0	1.5	6.3
Real exports	-1.0	-1.2	1.6	-0.4	1.8	3.8	p -1.7
Real imports	4.5	-6.9	0.8	-1.2	4.2	-1.8	p 0.3
Industrial production	2.9	-3.8	-1.9	-1.9	2.9	0.4	n.a.
Shipments	4.6	-6.8	-0.8	-2.1	4.4	0.6	n.a.
Inventories	0.2	4.6	1.1	0.9	-0.7	-0.4	n.a.
Inventory ratio <s.a., CY 2010 = 100>	< 105.4>	< 111.5>	< 111.4>	< 118.5>	< 111.4>	< 112.3>	<n.a.>
Real GDP	1.4	-1.7	-0.5	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.6	-3.4	-0.1	0.0	1.0	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.[1]

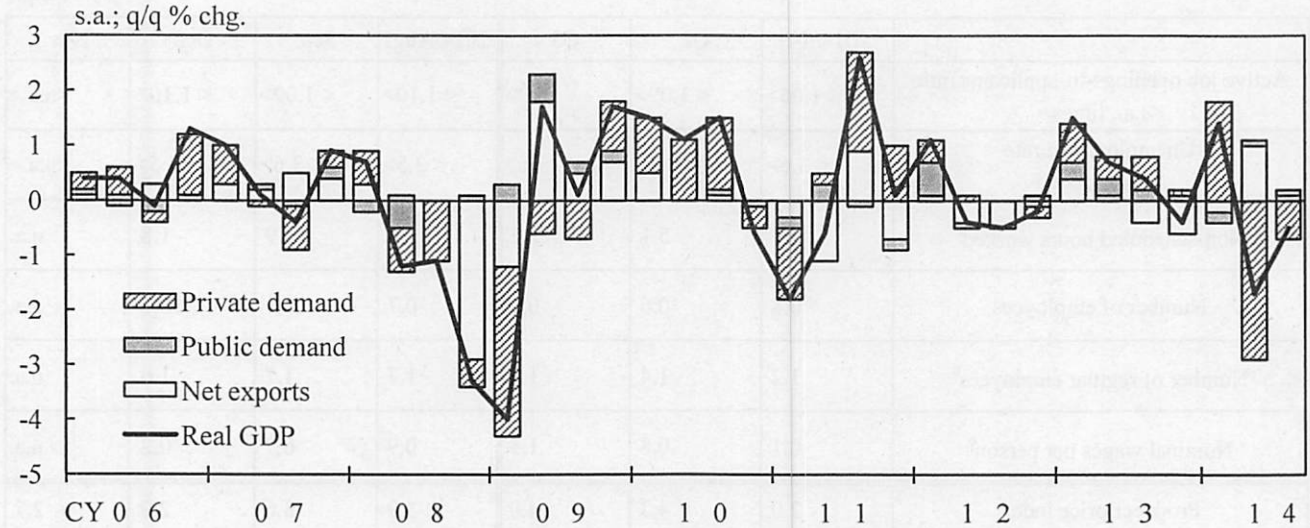
	2014/Q1	Q2	Q3	2014/Aug.	Sep.	Oct.	Nov.
Active job openings-to-applicants ratio <s.a., times>	< 1.05>	< 1.09>	< 1.10>	< 1.10>	< 1.09>	< 1.10>	<n.a.>
Unemployment rate <s.a., %>	< 3.6>	< 3.6>	< 3.6>	< 3.5>	< 3.6>	< 3.5>	<n.a.>
Non-scheduled hours worked[6]	7.1	5.1	2.2	1.0	2.9	1.8	n.a.
Number of employees	0.8	0.6	0.9	0.7	1.1	0.6	n.a.
Number of regular employees[6]	1.2	1.4	1.7	1.7	1.7	1.6	n.a.
Nominal wages per person[6]	0.1	0.8	1.5	0.9	0.7	0.2	n.a.
Producer price index	2.0	4.3	4.0	3.9	3.6	2.9	p 2.7
<excluding consumption tax, y/y % chg.>		< 1.5>	< 1.1>	< 1.1>	< 0.7>	< 0.1>	<p -0.2>
<excluding consumption tax, q/q % chg., 3-month rate of change>[7]	< 0.3>	< 0.2>	< 0.2>	< 0.1>	< 0.0>	<-0.8>	<p -0.9>
Consumer price index[8]	1.3	3.3	3.2	3.1	3.0	2.9	n.a.
<consumption tax adjusted, y/y % chg.>		< 1.4>	< 1.2>	< 1.1>	< 1.0>	< 0.9>	<n.a.>
Services producer price index[9]	0.3	3.5	3.5	3.5	3.5	p 3.6	n.a.
<excluding consumption tax, y/y % chg.>		< 0.8>	< 0.8>	< 0.8>	< 0.8>	<p 0.9>	<n.a.>
Money stock (M2) <average outstanding, y/y % chg.>	4.0	3.3	3.0	3.0	3.1	3.2	p 3.6
Number of corporate bankruptcies <cases per month>	<820>	<871>	<812>	<727>	<827>	<800>	<736>

Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally adjusted data. All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.
2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders: Orders for ships and those from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusted to exclude a hike in electric power charges during the summer season.
8. All items, less fresh food.
9. Excludes international transportation.

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

Real GDP and Indexes of Business Conditions

(1) Real GDP



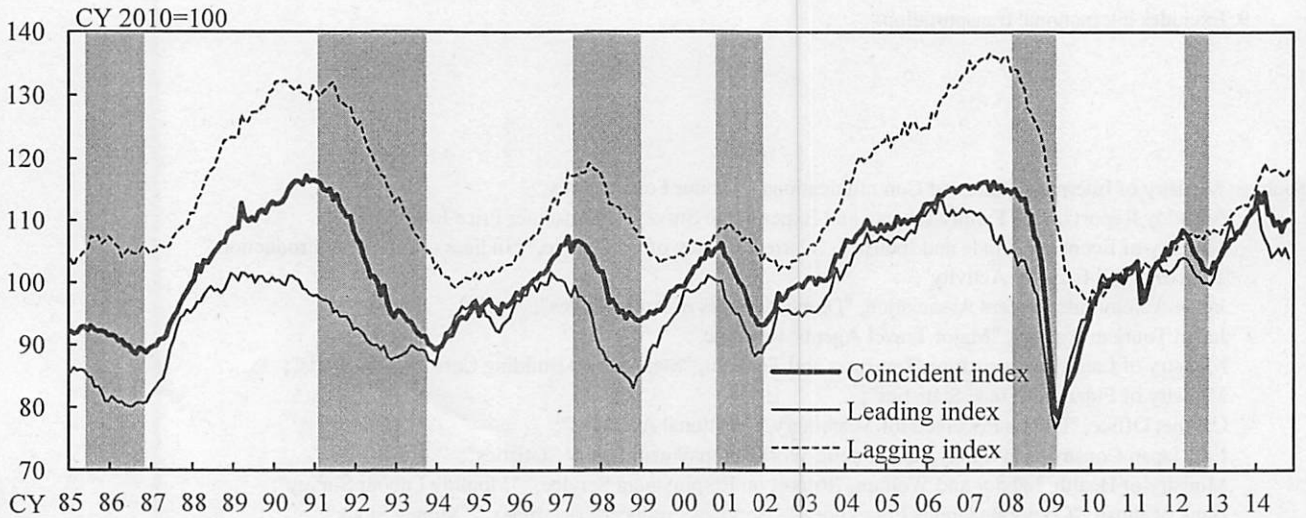
(2) Components

s.a.; q/q % chg.

	2013		2014		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.4	-0.4	1.4	-1.7	-0.5
[Annual rate]	[1.6]	[-1.5]	[5.8]	[-6.7]	[-1.9]
Domestic demand	0.8	0.2	1.6	-2.8	-0.5
Private demand	0.6	0.1	1.8	-2.9	-0.7
Private consumption	0.2	-0.0	1.3	-3.1	0.2
Non-Resi. investment	0.1	0.1	0.9	-0.7	-0.1
Residential investment	0.1	0.1	0.1	-0.3	-0.2
Private inventory	0.2	-0.1	-0.4	1.3	-0.6
Public demand	0.2	0.1	-0.2	0.1	0.1
Public investment	0.2	0.1	-0.1	0.0	0.1
Net exports of goods and services	-0.4	-0.6	-0.2	1.0	0.1
Exports	-0.1	0.0	1.0	-0.1	0.2
Imports	-0.3	-0.6	-1.2	1.1	-0.1
Nominal GDP	0.2	0.2	1.3	0.1	-0.9

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

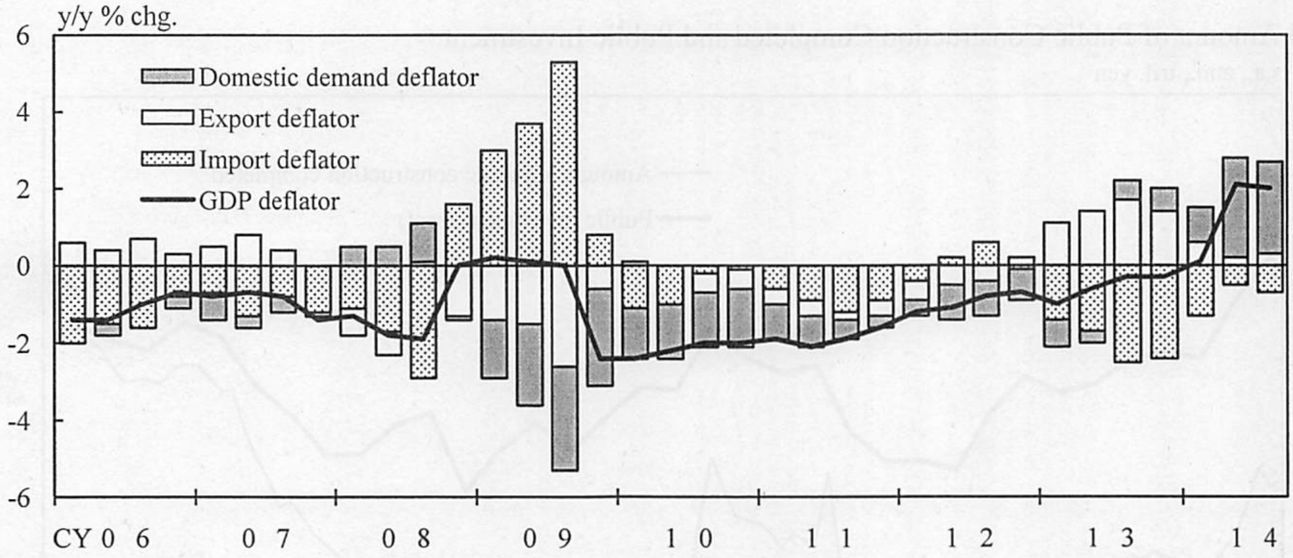
(3) Indexes of Business Conditions (Composite Indexes)



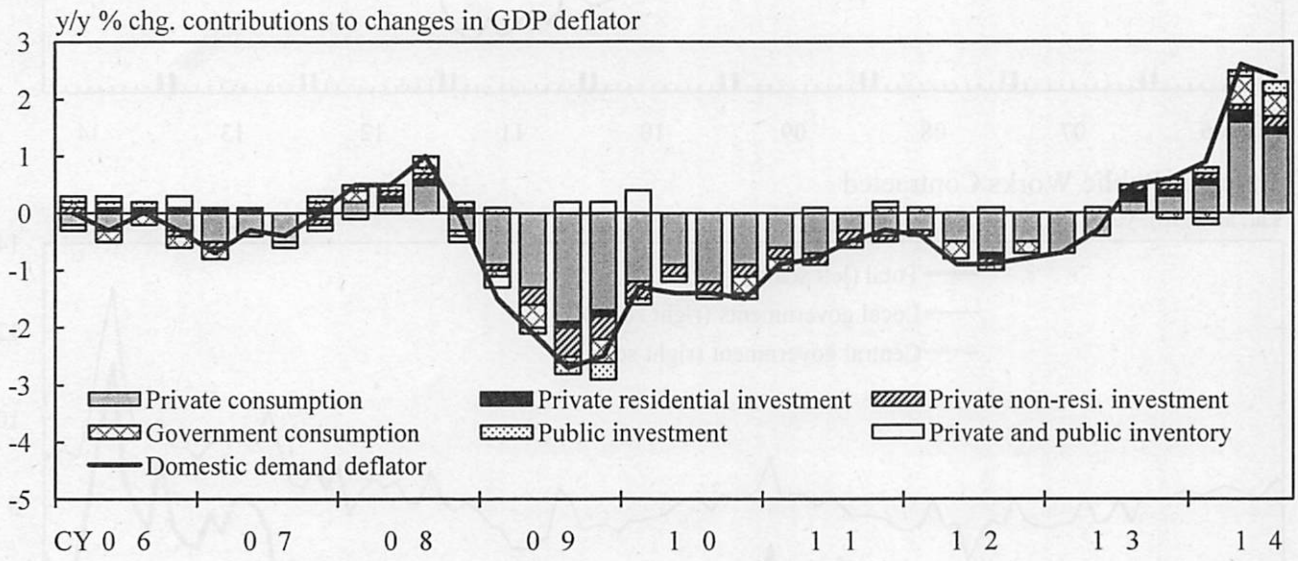
Note: Shaded areas indicate recession periods.
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

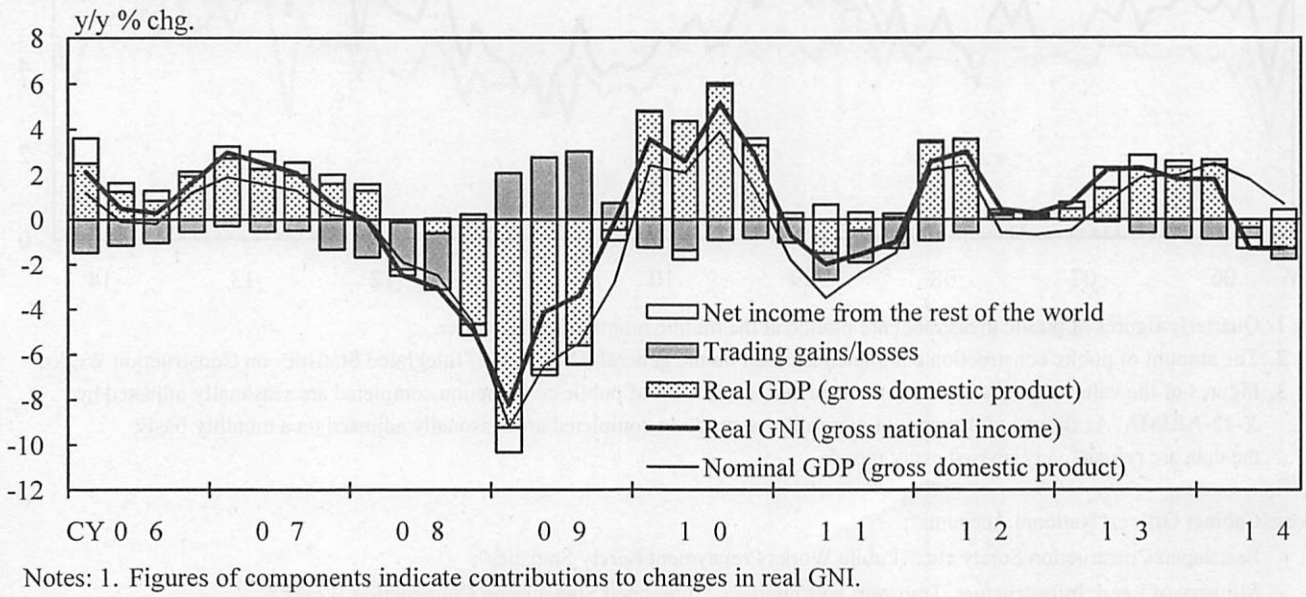
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation

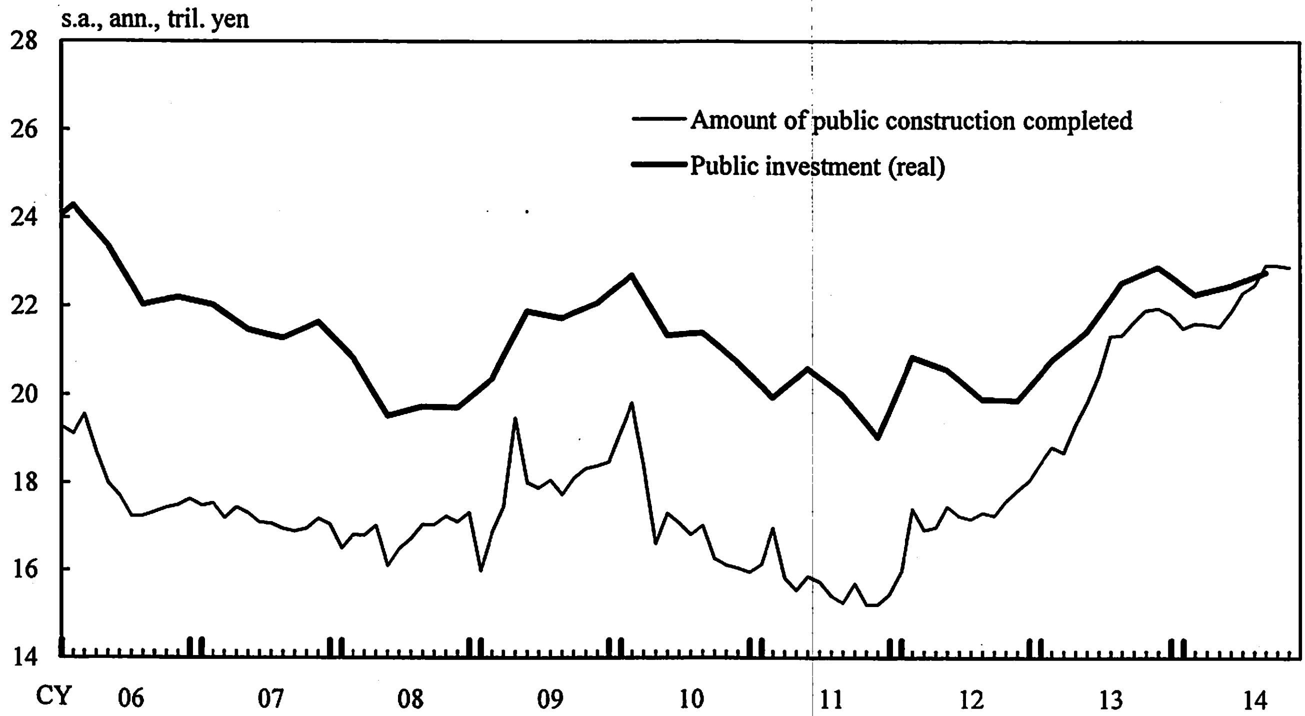


Notes: 1. Figures of components indicate contributions to changes in real GNI.
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

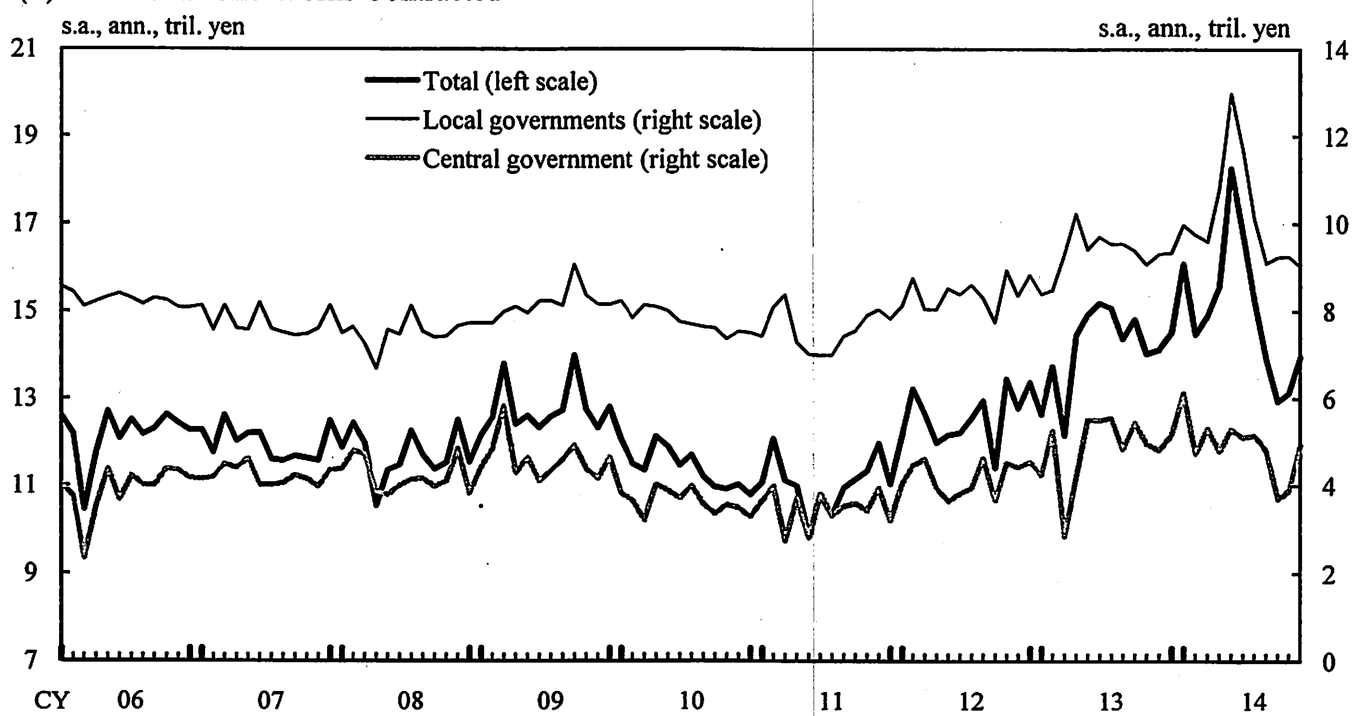
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

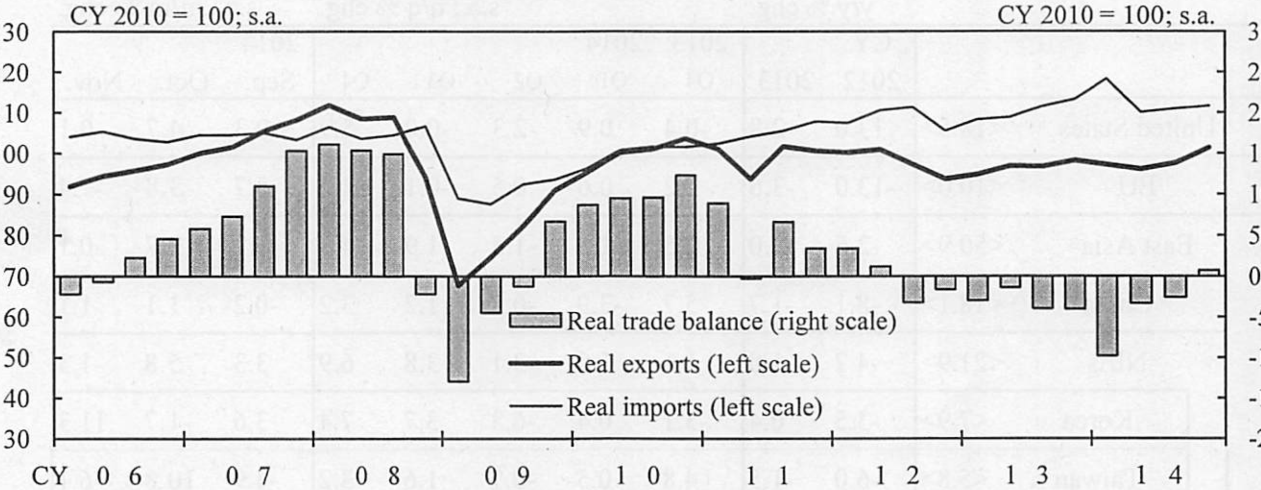


Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. The amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."
3. Figures of the value of public works contracted and the amount of public 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.

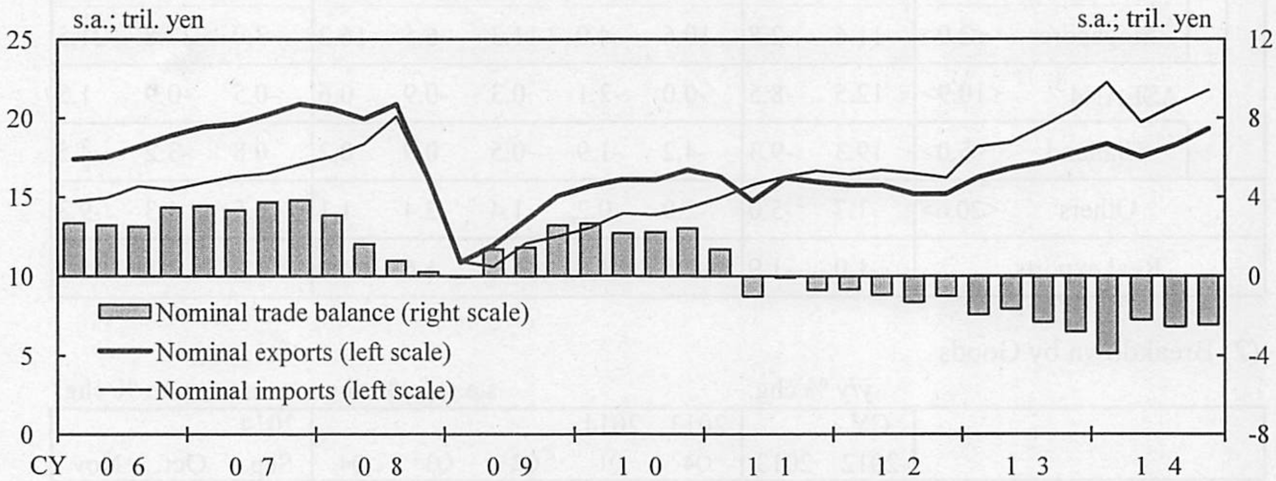
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance [1]

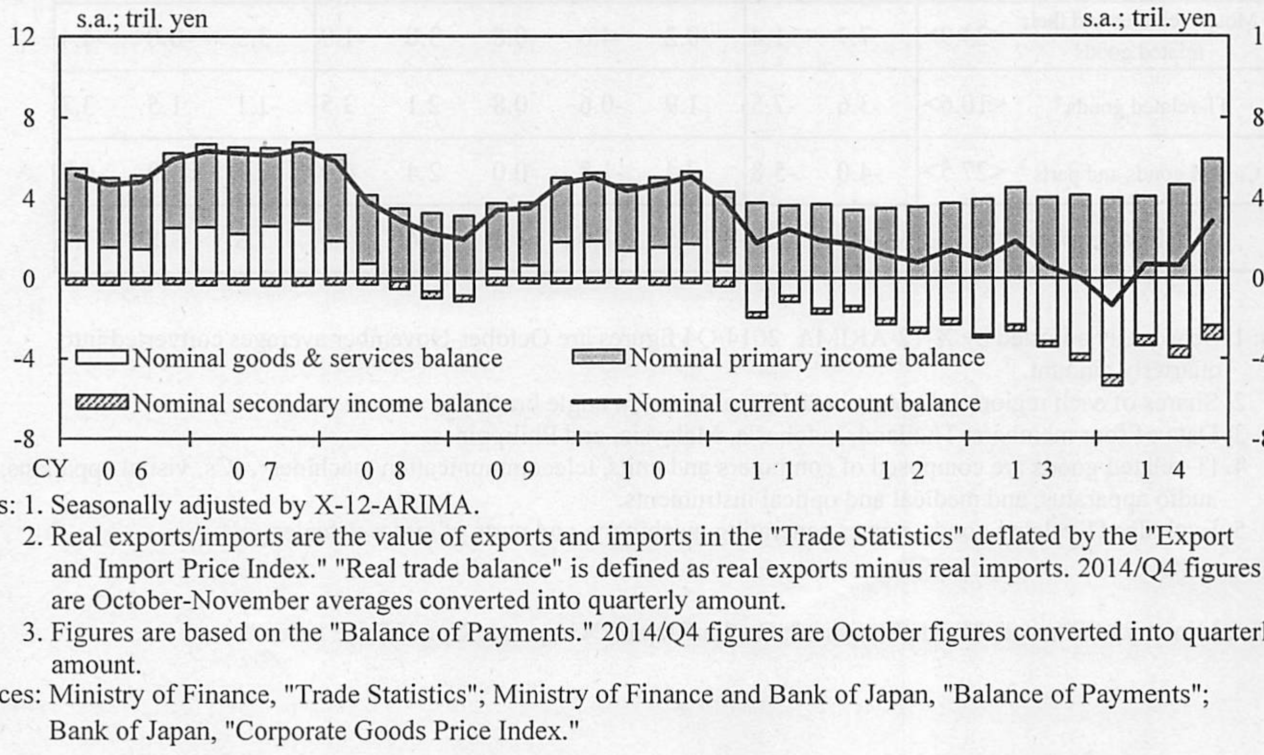
(1) Real Exports, Real Imports, and Real Trade Balance[2]



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



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



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

2. Real exports/imports are the value of exports and imports in the "Trade Statistics" deflated by the "Export and Import Price Index." "Real trade balance" is defined as real exports minus real imports. 2014/Q4 figures are October-November averages converted into quarterly amount.

3. Figures are based on the "Balance of Payments." 2014/Q4 figures are October figures converted into quarterly amount.

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

Real Exports [1]

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2013 Q4	2014 Q1	Q2	Q3	Q4	2014 Sep.	Oct.	Nov.
United States	<18.5>	13.0	2.8	-0.4	0.9	-2.3	-0.0	5.9	0.3	4.7	0.1
EU	<10.0>	-13.0	-3.6	2.2	0.6	0.5	-0.1	-4.2	-5.7	3.8	-7.4
East Asia	<50.9>	-2.6	-3.0	2.5	-1.5	-1.5	1.9	4.3	1.2	2.7	0.1
China	<18.1>	-8.1	-1.7	5.7	-3.9	-0.7	1.2	3.2	-0.2	1.1	1.1
NIEs	<21.9>	-4.7	-1.0	1.1	1.0	-3.1	3.8	6.9	3.3	5.8	-1.3
Korea	<7.9>	-3.5	0.4	-3.1	0.4	-6.3	3.7	7.4	3.6	-1.7	11.3
Taiwan	<5.8>	-6.0	-1.5	4.8	0.5	-0.7	1.6	3.2	-4.9	10.8	-6.1
Hong Kong	<5.2>	-0.7	-1.4	-2.3	2.2	4.6	4.0	3.6	10.0	-2.7	5.8
Singapore	<2.9>	-11.6	-2.8	10.6	4.0	-11.3	6.5	16.2	3.0	27.8	-21.5
ASEAN4 [3]	<10.9>	12.5	-8.5	-0.0	-2.1	0.3	-0.9	0.6	-0.5	-0.9	1.5
Thailand	<5.0>	19.3	-9.3	-4.2	-1.9	0.5	0.9	0.2	-0.8	-3.2	4.5
Others	<20.6>	1.7	-5.0	-2.0	0.2	1.4	2.4	1.1	6.5	4.3	-9.3
Real exports		-1.0	-1.9	1.5	-1.0	-1.2	1.6	4.0	1.8	3.8	-1.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2012	2013	2013 Q4	2014 Q1	Q2	Q3	Q4	2014 Sep.	Oct.	Nov.
Intermediate goods	<21.1>	-0.7	1.2	-0.2	1.1	-1.9	-0.9	3.2	-0.6	3.1	-0.3
Motor vehicles and their related goods	<23.9>	7.7	-1.4	-0.2	-4.6	-0.8	3.0	-1.9	3.5	-0.0	-4.4
IT-related goods [4]	<10.6>	3.6	-7.5	1.9	-0.6	0.8	2.1	3.5	-1.1	1.5	3.2
Capital goods and parts [5]	<27.5>	-4.0	-5.8	2.4	-1.8	0.0	2.4	4.9	2.7	6.0	-6.3
Real exports		-1.0	-1.9	1.5	-1.0	-1.2	1.6	4.0	1.8	3.8	-1.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q4 figures are October-November averages converted into quarterly amount.
2. Shares of each region and goods in 2013 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.
4. IT-related goods are composed of computers and units, telecommunication machinery, ICs, visual apparatus, audio apparatus, and medical and optical instruments.
5. Excludes IT-related goods, power generating machinery, and parts of motor vehicles.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate (Monthly Average)

Notes: 1. Figures are based on the broad index of the BIS effective exchange rate, and those prior to 1994 are calculated using the narrow index.
2. The figure for December (up to December 17) 2014 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

s.a., ann., q/q % chg.

	CY2011	2012	2013	2013 Q4	2014 Q1	Q2	Q3
United States[1]	1.6	2.3	2.2	3.5	-2.1	4.6	3.9
European Union[2]	1.7	-0.4	0.0	1.5	1.6	0.9	1.2
Germany[1]	3.6	0.4	0.1	1.8	3.1	-0.3	0.3
France[1]	2.1	0.4	0.4	0.8	0.1	-0.4	1.1
United Kingdom[1]	1.6	0.7	1.7	2.5	3.0	3.7	2.8
East Asia[3]	5.9	5.0	4.9	5.7	2.8	4.7	5.4
China[1]	9.3	7.7	7.7	7.0	6.1	8.2	7.8
NIEs[1,3]	4.3	2.1	2.9	5.1	2.2	1.5	4.1
ASEAN4[1,3,4]	3.0	6.3	4.4	4.8	-1.7	5.6	4.0
Main economies[3]	4.5	3.7	3.7	4.7	1.5	4.2	4.5

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

Chart 9

Real Imports [1]

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY		2013	2014				2014		
		2012	2013	Q4	Q1	Q2	Q3	Q4	Sep.	Oct.	Nov.
United States	<8.4>	3.8	-2.1	-0.2	5.7	-7.1	6.8	-1.6	-8.8	3.9	-1.2
EU	<9.4>	4.0	0.8	-0.2	5.4	-5.0	-1.2	-0.5	7.6	-1.3	-6.2
East Asia	<40.8>	3.9	2.5	3.1	5.3	-8.7	-0.8	5.1	6.9	-2.1	3.4
China	<21.7>	5.0	5.4	3.0	5.8	-9.2	-0.7	7.1	13.0	-2.9	-0.0
NIEs	<8.2>	5.0	-0.4	0.9	5.6	-8.2	1.5	-1.6	-0.3	-2.7	1.3
Korea	<4.3>	4.3	-4.8	1.3	2.0	-6.8	-1.2	-1.1	-1.6	-3.1	6.2
Taiwan	<2.8>	7.2	8.0	-0.1	8.4	-8.8	3.0	-0.4	2.3	-3.1	0.6
Hong Kong	<0.2>	-2.5	9.2	1.9	0.5	9.3	1.6	-23.3	2.5	-19.8	-25.9
Singapore	<0.9>	3.0	-7.0	0.3	13.8	-10.6	0.6	-2.5	-7.4	12.7	-12.5
ASEAN4 [3]	<10.8>	0.5	-1.2	5.4	3.9	-7.7	-3.0	6.4	-1.1	0.4	14.3
Thailand	<2.6>	-0.9	1.5	3.3	7.1	-8.4	-0.3	-1.1	-1.6	-7.5	11.4
Others	<41.4>	4.7	0.2	-0.5	4.6	-6.0	1.7	-4.2	0.1	-2.5	-1.0
Real imports		4.2	0.9	1.6	4.5	-6.9	0.8	0.6	4.2	-1.8	0.3

(2) Breakdown by Goods

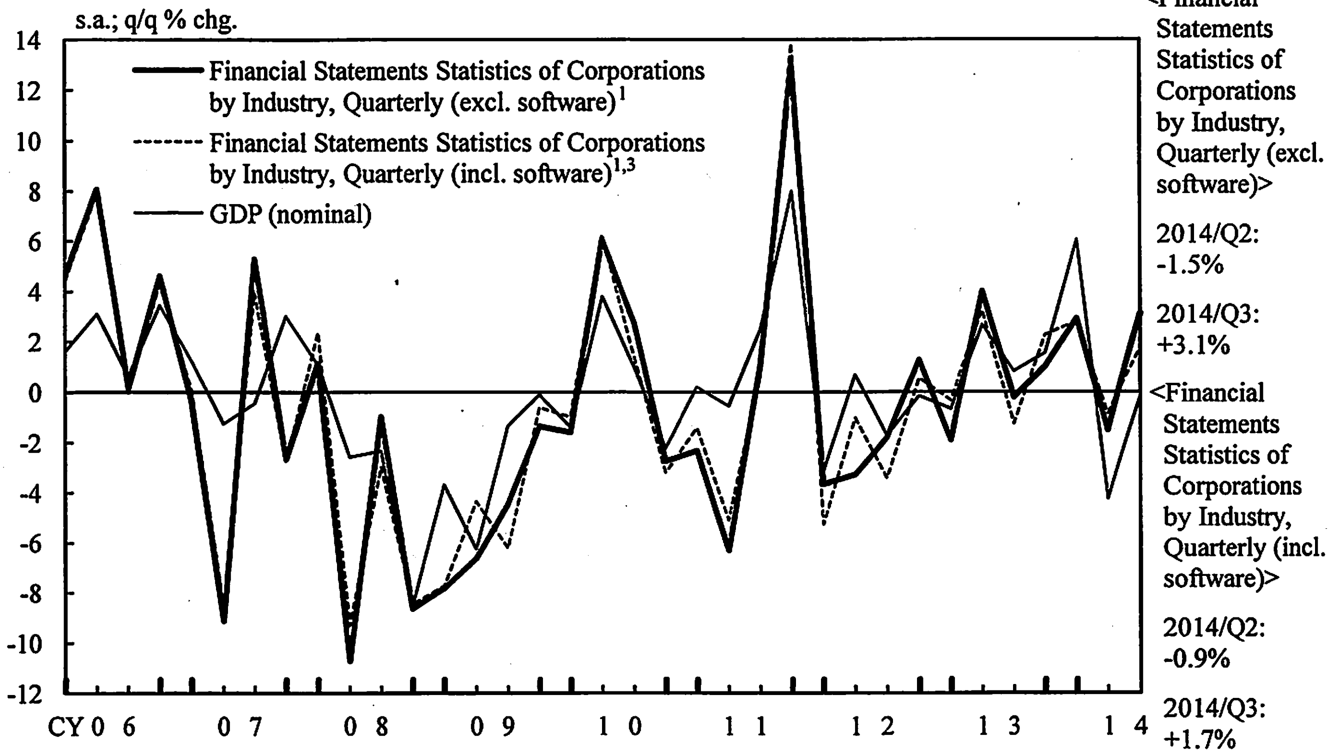
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY		2013	2014				2014		
		2012	2013	Q4	Q1	Q2	Q3	Q4	Sep.	Oct.	Nov.
Raw materials [4]	<40.4>	4.5	-2.1	-0.7	5.0	-7.0	1.4	-3.5	-1.7	-2.2	1.6
Intermediate goods	<12.9>	-2.7	-2.7	0.9	5.2	-2.6	-1.2	-1.6	-2.0	0.6	-1.7
Foodstuffs	<8.0>	-0.7	-3.3	0.7	-1.3	-2.2	3.6	-3.2	-0.6	-0.1	-5.2
Consumer goods [5]	<7.9>	4.5	4.1	1.1	2.2	-8.8	2.7	2.4	-1.5	3.0	-1.8
IT-related goods [6]	<12.6>	9.0	12.8	4.6	7.0	-12.6	-1.2	15.5	20.0	-0.1	1.8
Capital goods and parts [7]	<11.4>	10.4	4.7	2.5	7.1	-8.2	3.8	-1.2	3.6	-3.9	3.0
Excluding aircraft	<10.5>	7.0	5.3	2.6	8.4	-6.6	1.3	-1.4	2.8	-2.8	0.4
Real imports		4.2	0.9	1.6	4.5	-6.9	0.8	0.6	4.2	-1.8	0.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2014/Q4 figures are October-November averages converted into quarterly amount.
2. Shares of each region and goods in 2013 are shown in angle brackets.
3. Data of four members: Thailand, Indonesia, Malaysia, and Philippines.
4. Raw materials are mainly composed of woods, ores, and mineral fuels.
5. Excludes foodstuffs.
6. IT-related goods are composed of computers and units, parts of computers, telecommunication machinery, ICs, audio and visual apparatus, and medical and optical instruments.
7. Excludes IT-related goods.

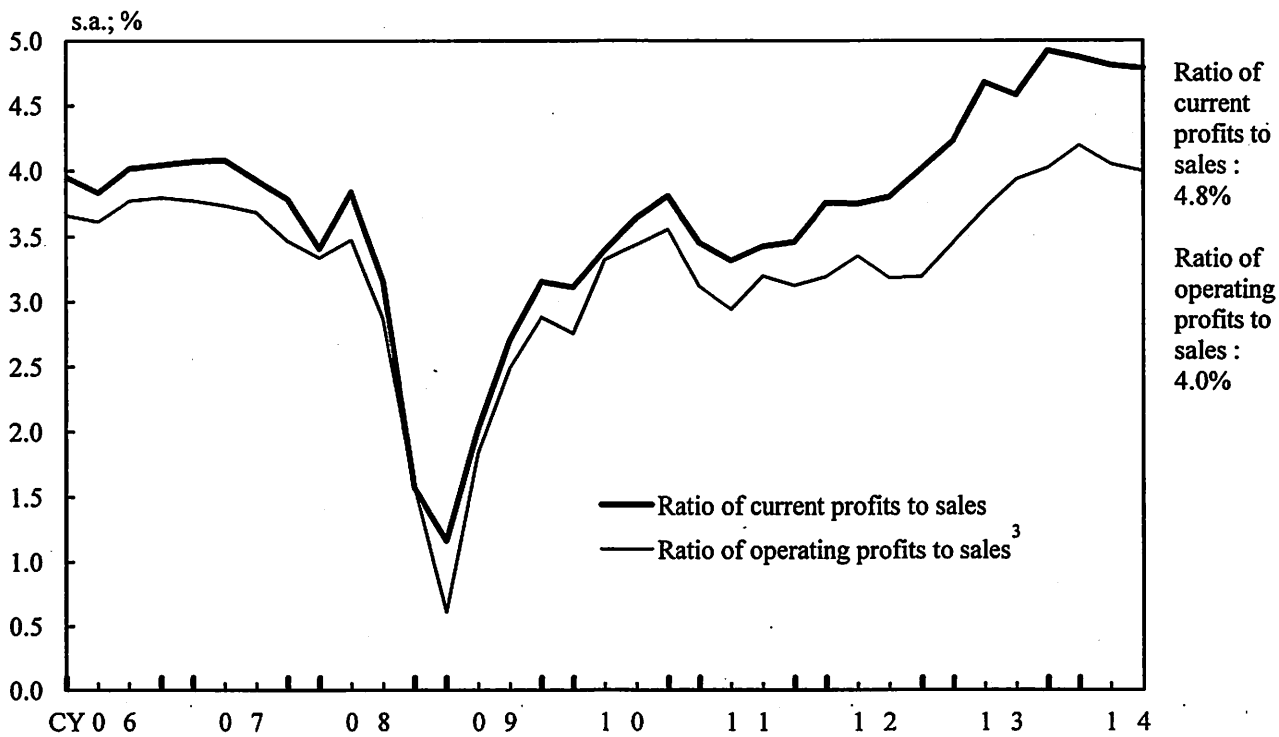
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales) [1,2]

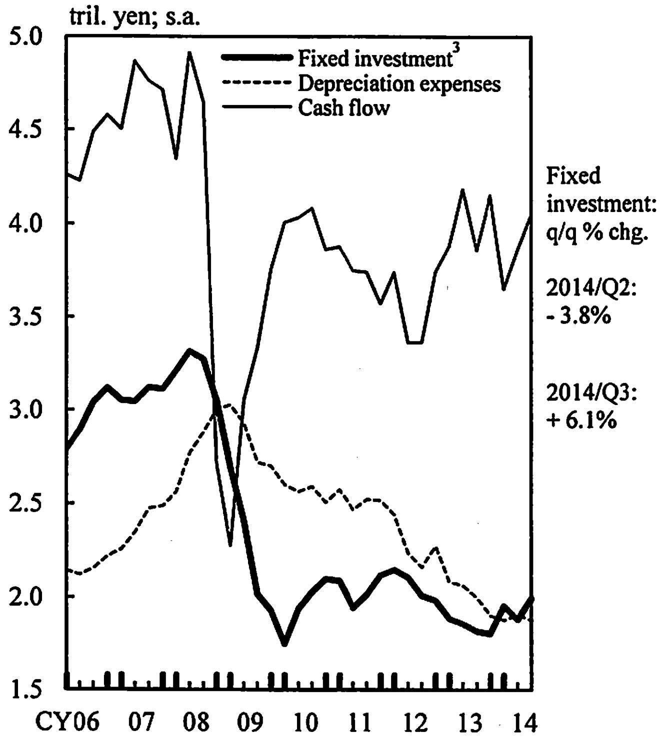


Notes: 1. All enterprises excluding "Finance and Insurance."
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."
3. Figures are seasonally adjusted by X-12-ARIMA.

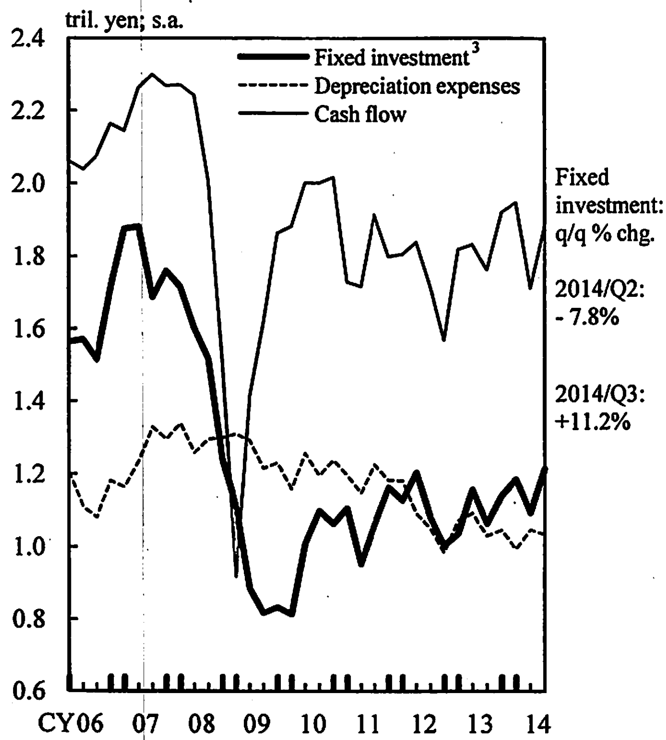
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

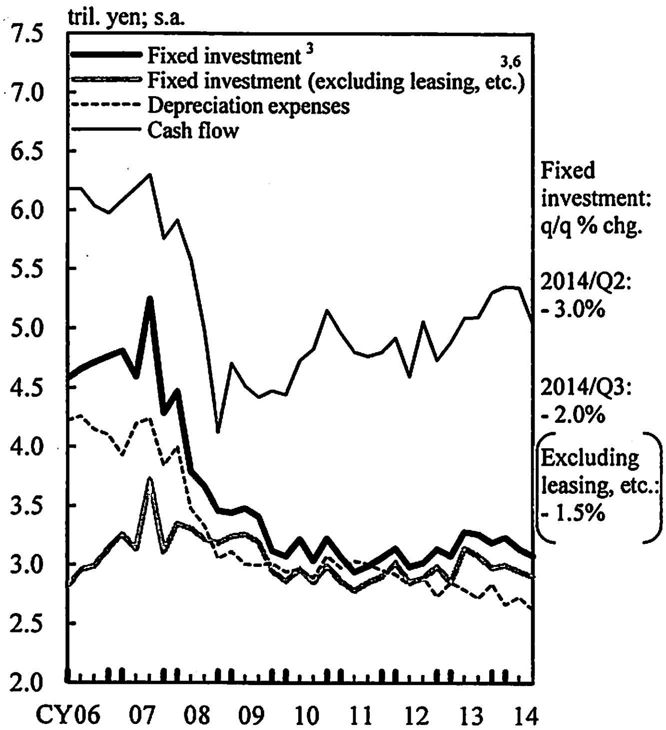
(1) Large Manufacturing Firms



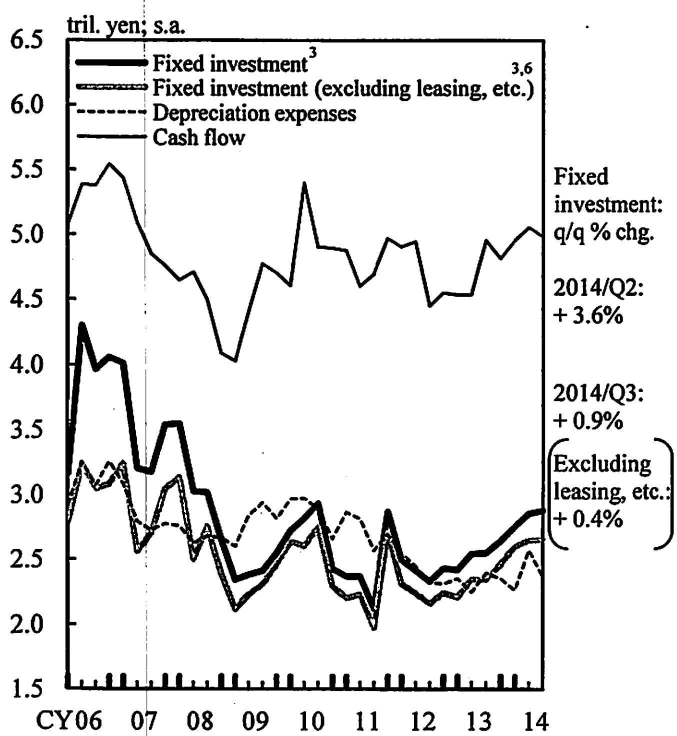
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

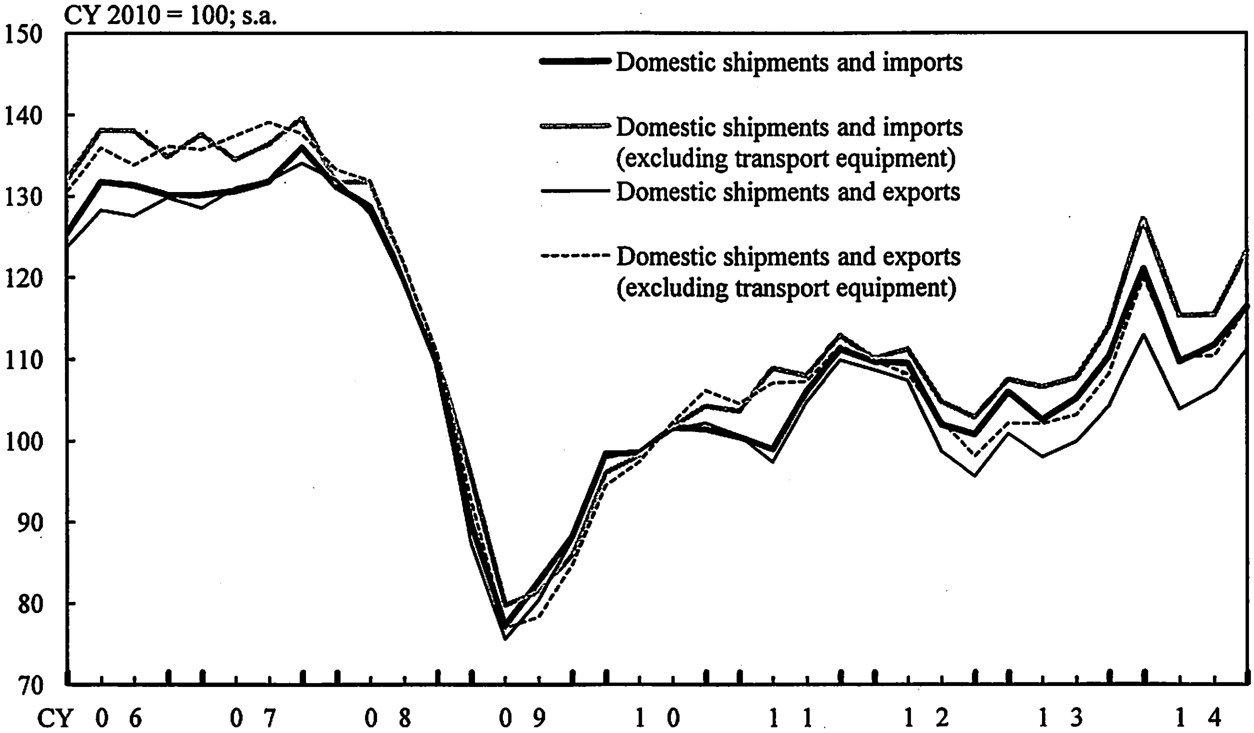


Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.
2. Cash flow = current profits / 2 + depreciation expenses.
3. Excluding software investment.
4. Seasonally adjusted by X-12-ARIMA.
5. Excluding "Finance and Insurance."
6. Excluding "Goods rental and Leasing."

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

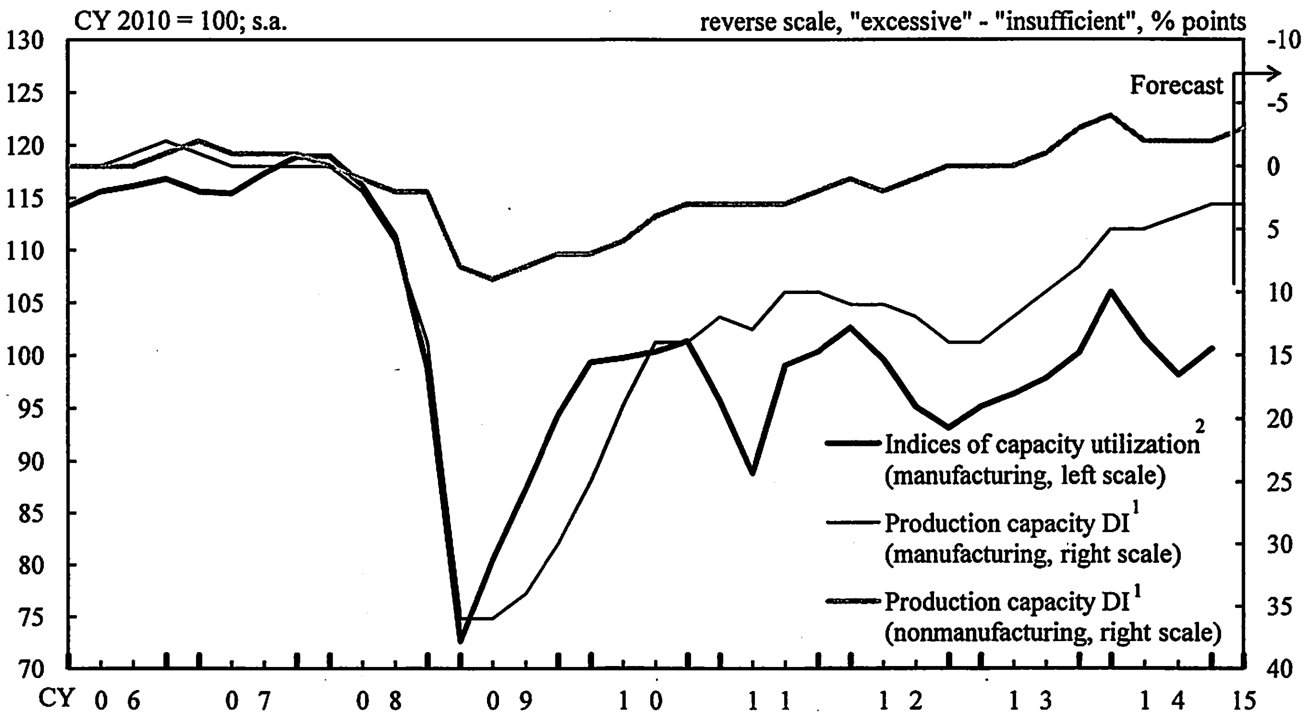
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2014/Q4 are those of October.

(2) Indices of Capacity Utilization and Production Capacity DI

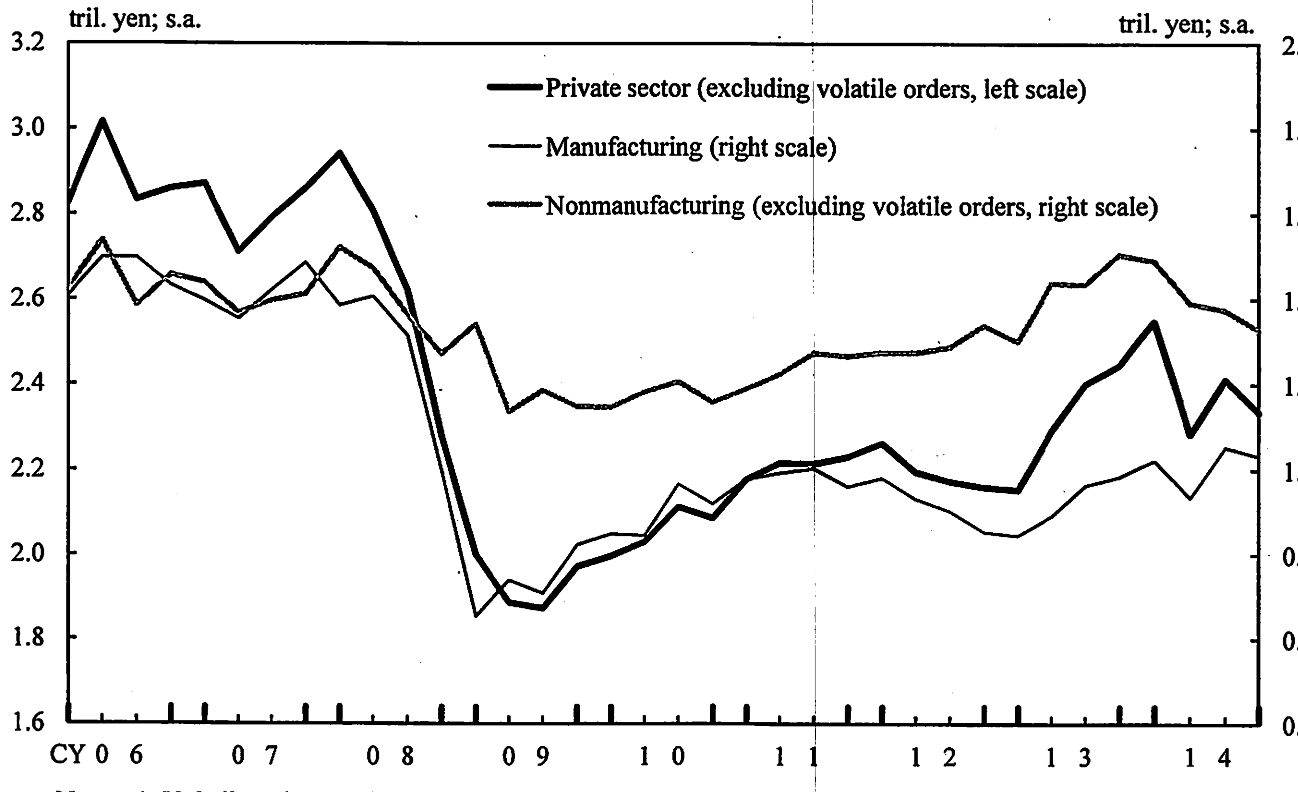


Notes: 1. Production capacity DIs are those of all enterprises.
2. The figure for 2014/Q4 is that of October.

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

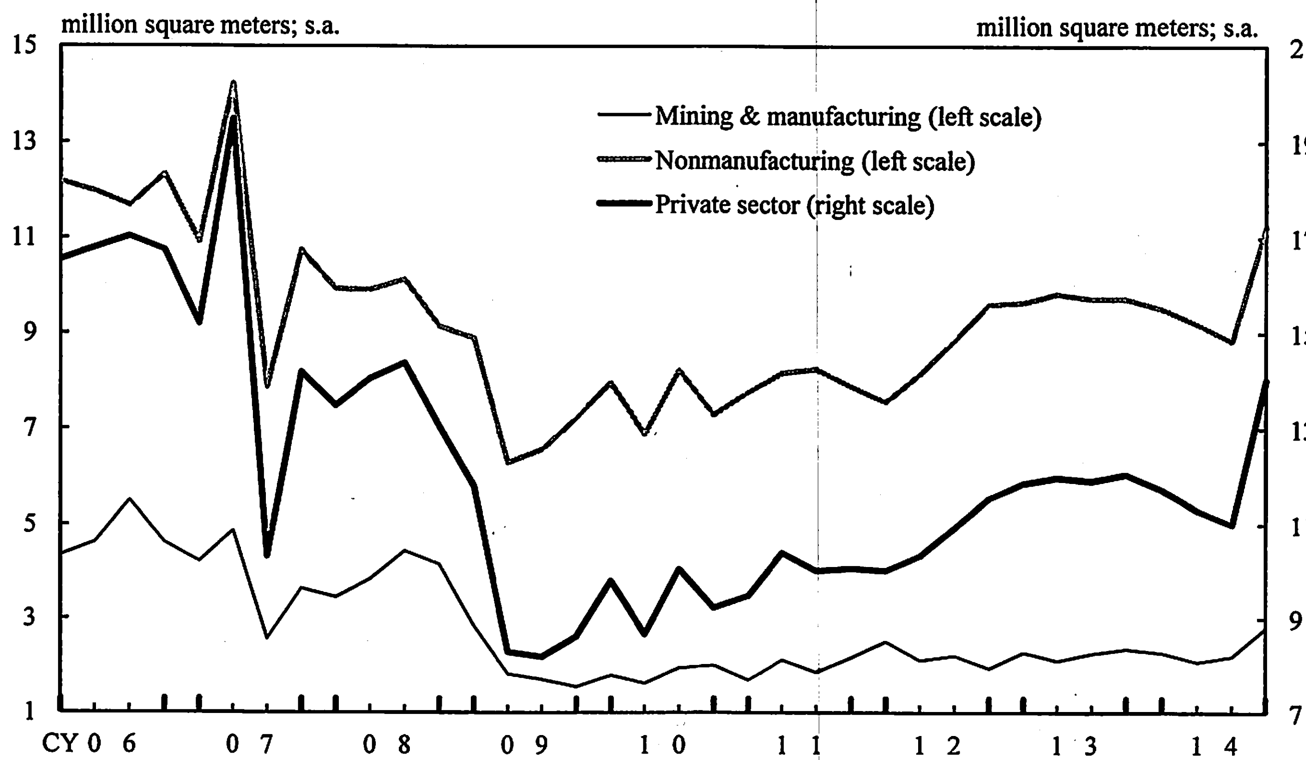
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



Notes: 1. Volatile orders: Orders for ships and those from electric power companies.
2. Figures for 2014/Q4 are those of October in the quarterly amount.

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

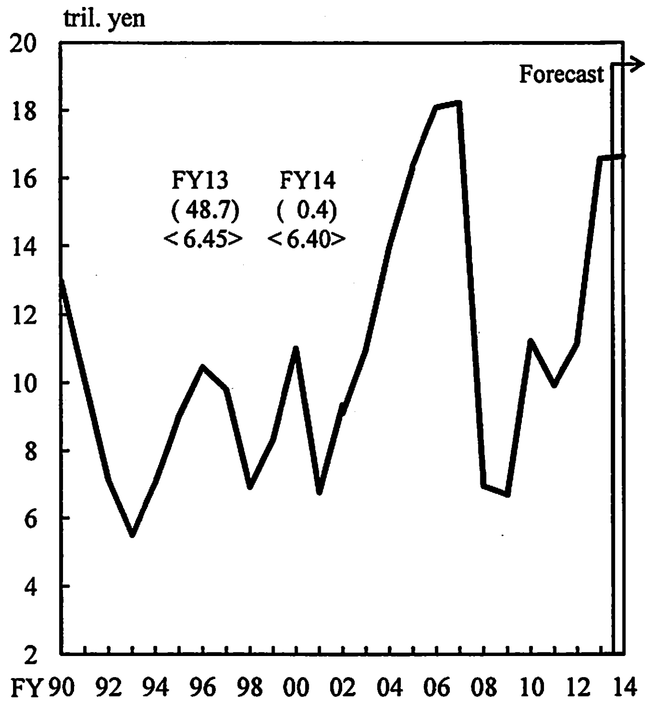


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2014/Q4 are those of October in the quarterly amount.

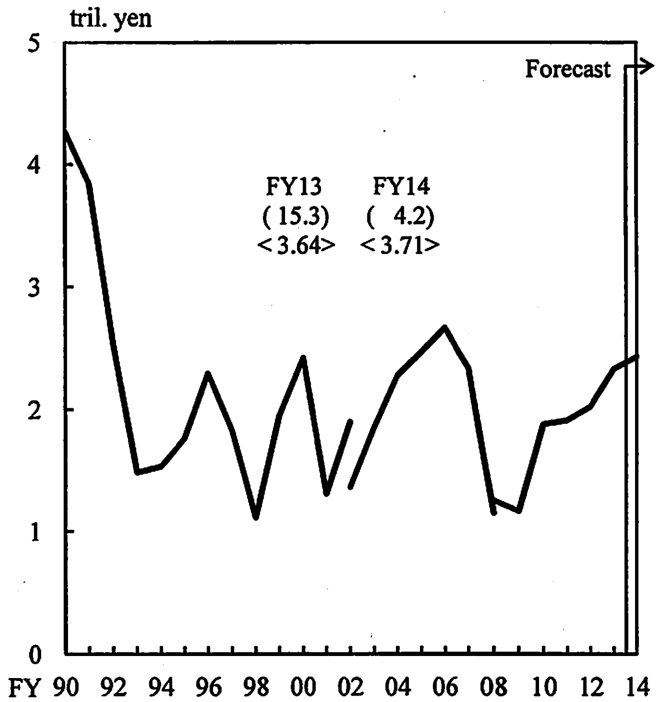
Sources: Cabinet Office, "Orders Received for Machinery";
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

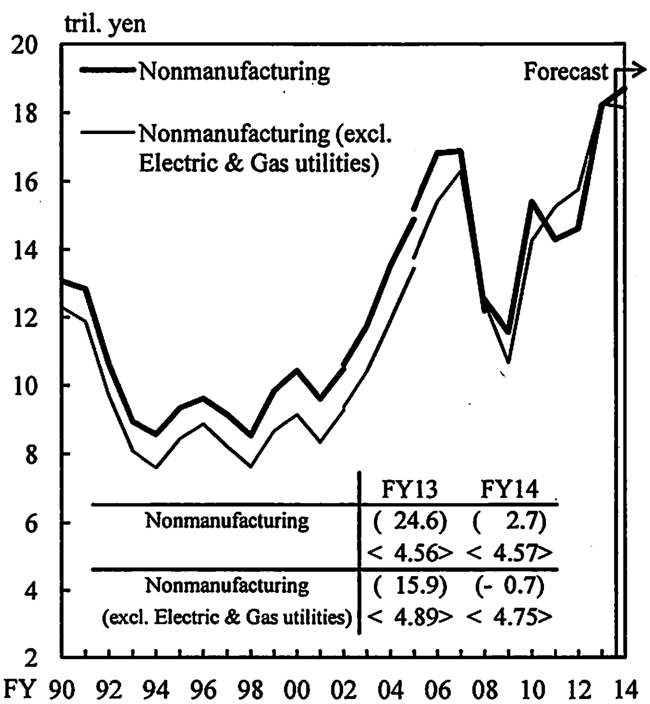
(1) Large Manufacturing Enterprises



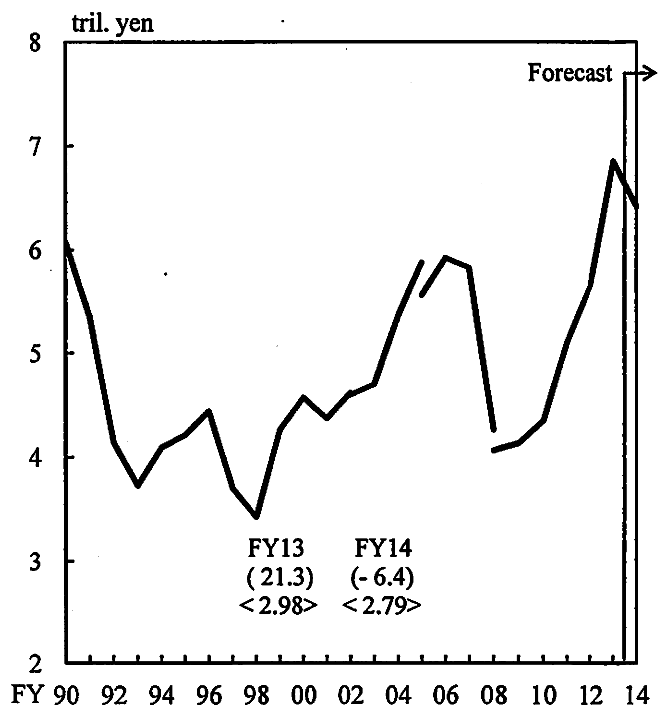
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises

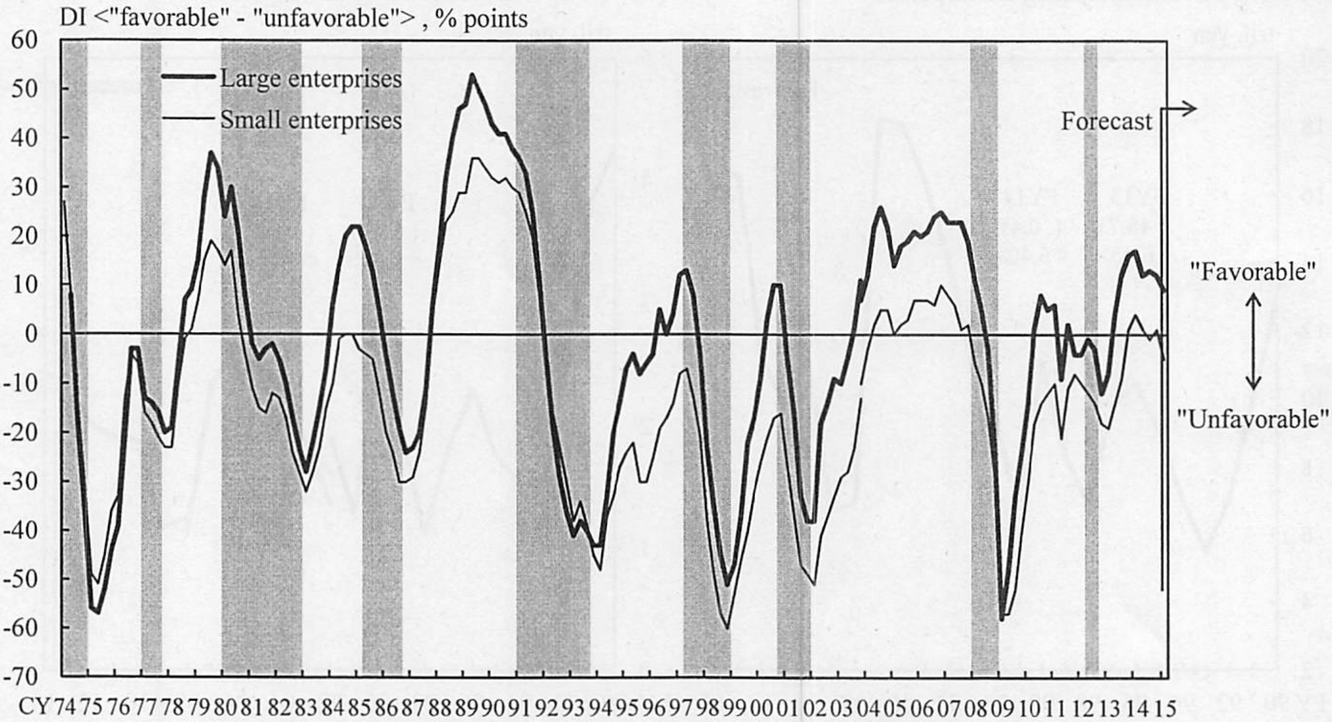


Notes: 1. ( ): Current profits (y/y % chg.); < >: Ratio of current profit to sales (%).
2. In the March 2004 survey, the "Tankan" underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 and March 2010 surveys, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

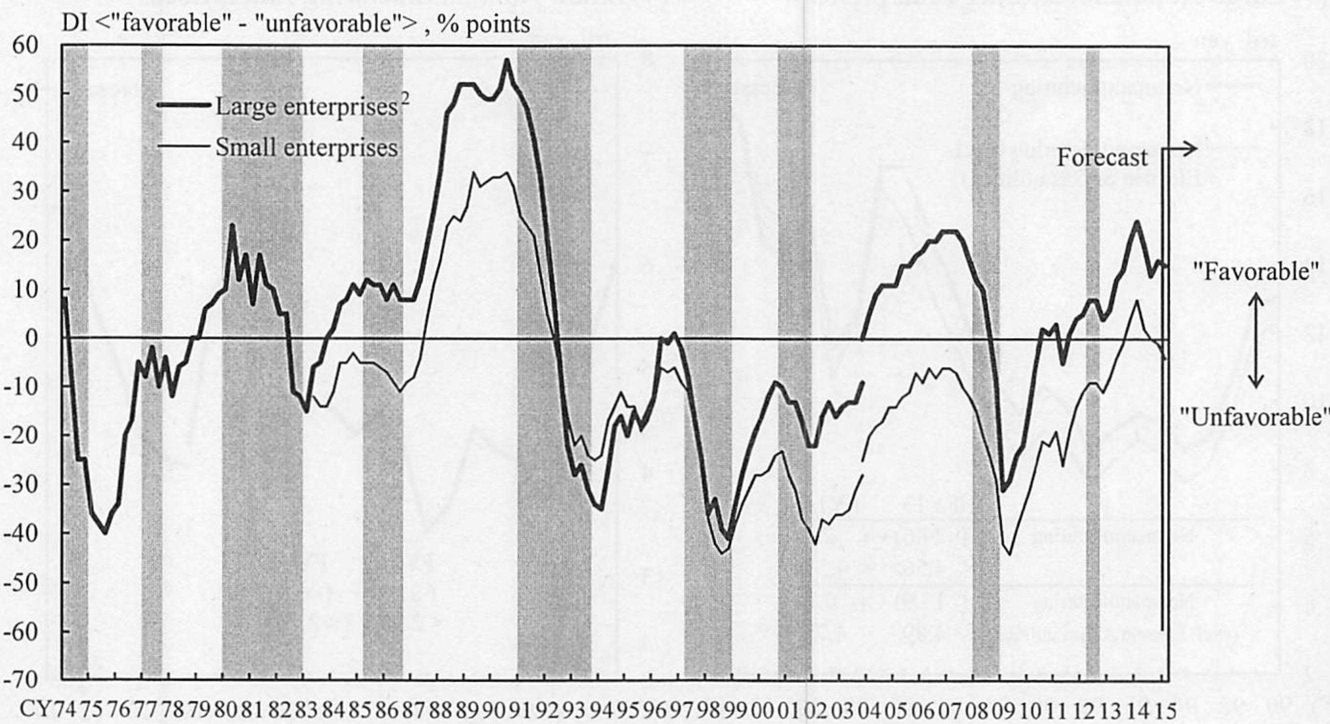
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing

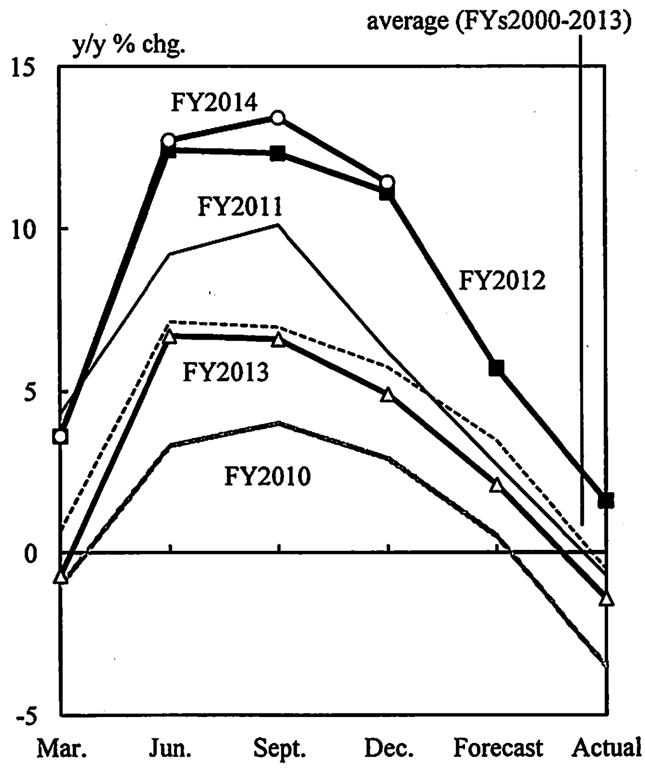


Notes: 1. The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.
2. Data prior to February 1983 are those of principal enterprises.
3. Shaded areas indicate recession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

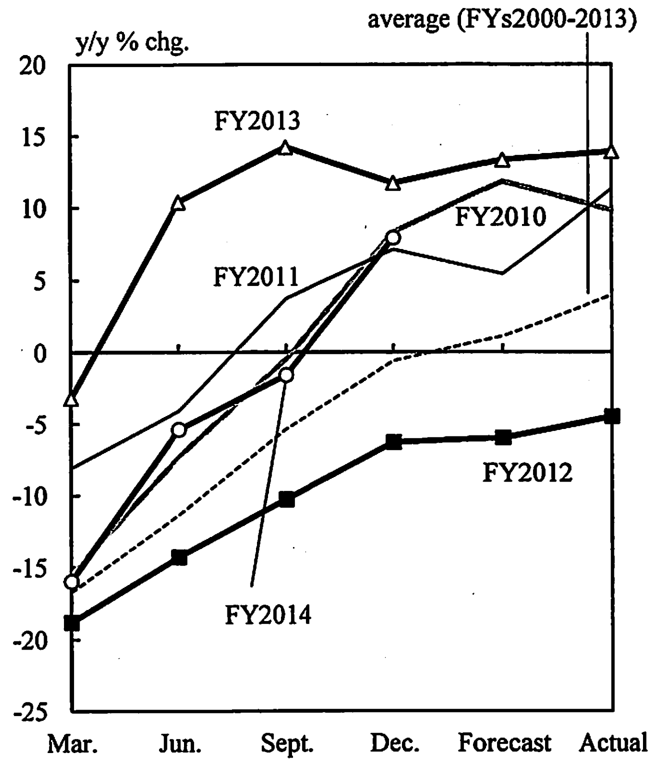
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

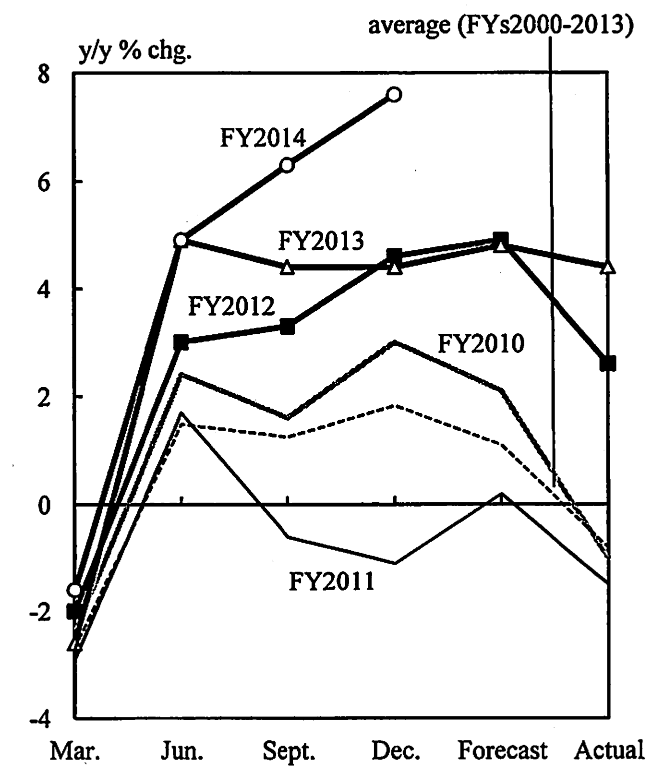
(1) Large Manufacturing Enterprises



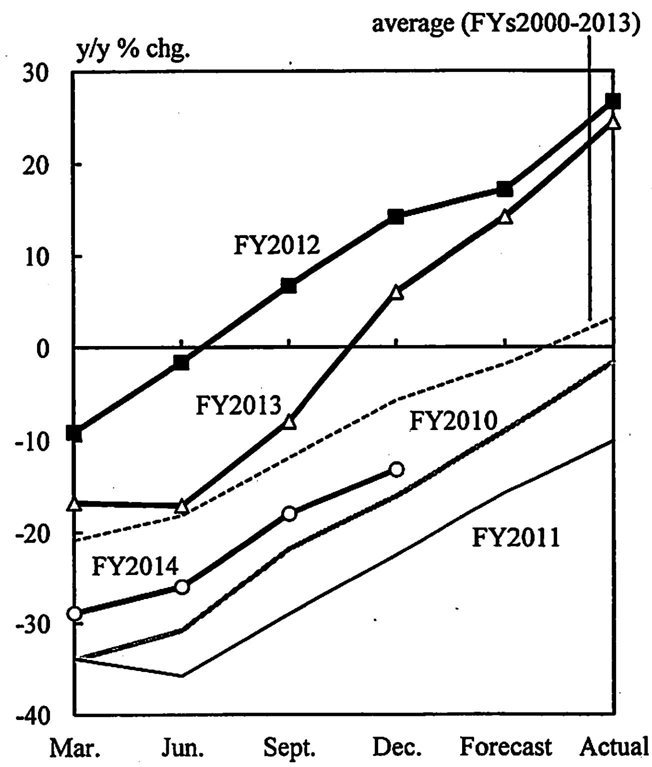
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises

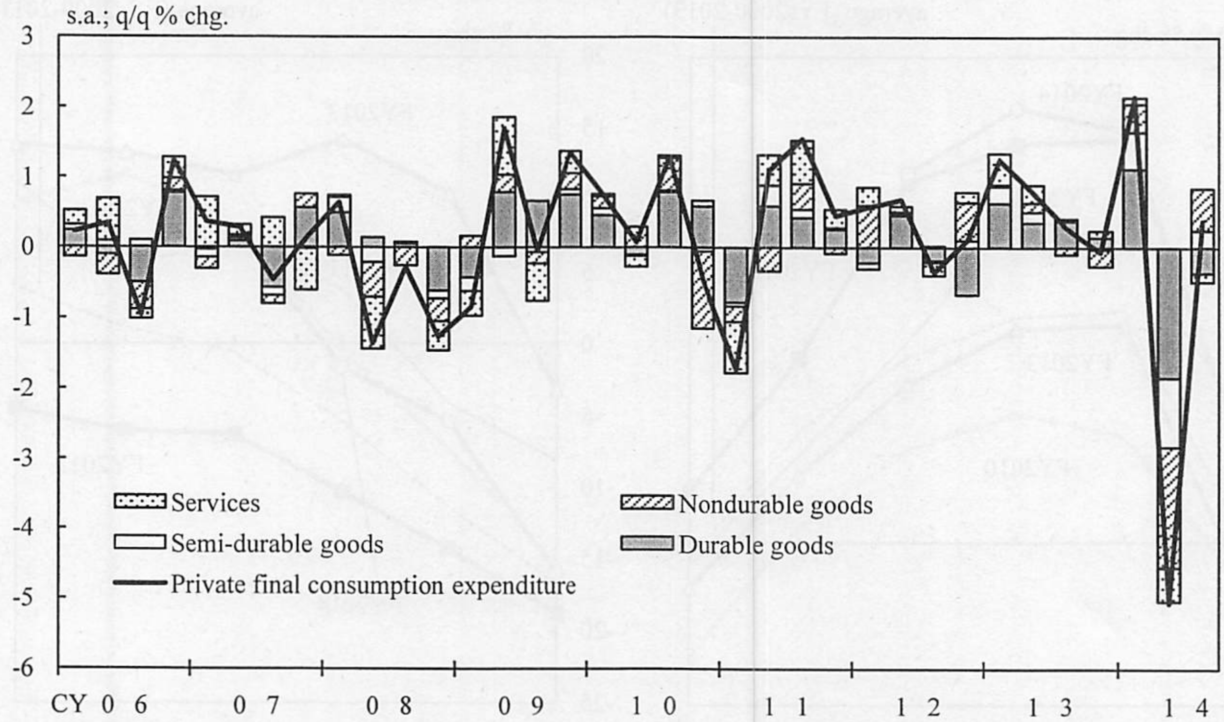


Notes: 1. Includes land purchasing expenses and excludes software investment.
2. Since the introduction of the new accounting standard for lease transactions beginning April 1, 2008, figures up to FY2008 are based on the previous standard and figures from FY2009 onward are based on the new standard.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

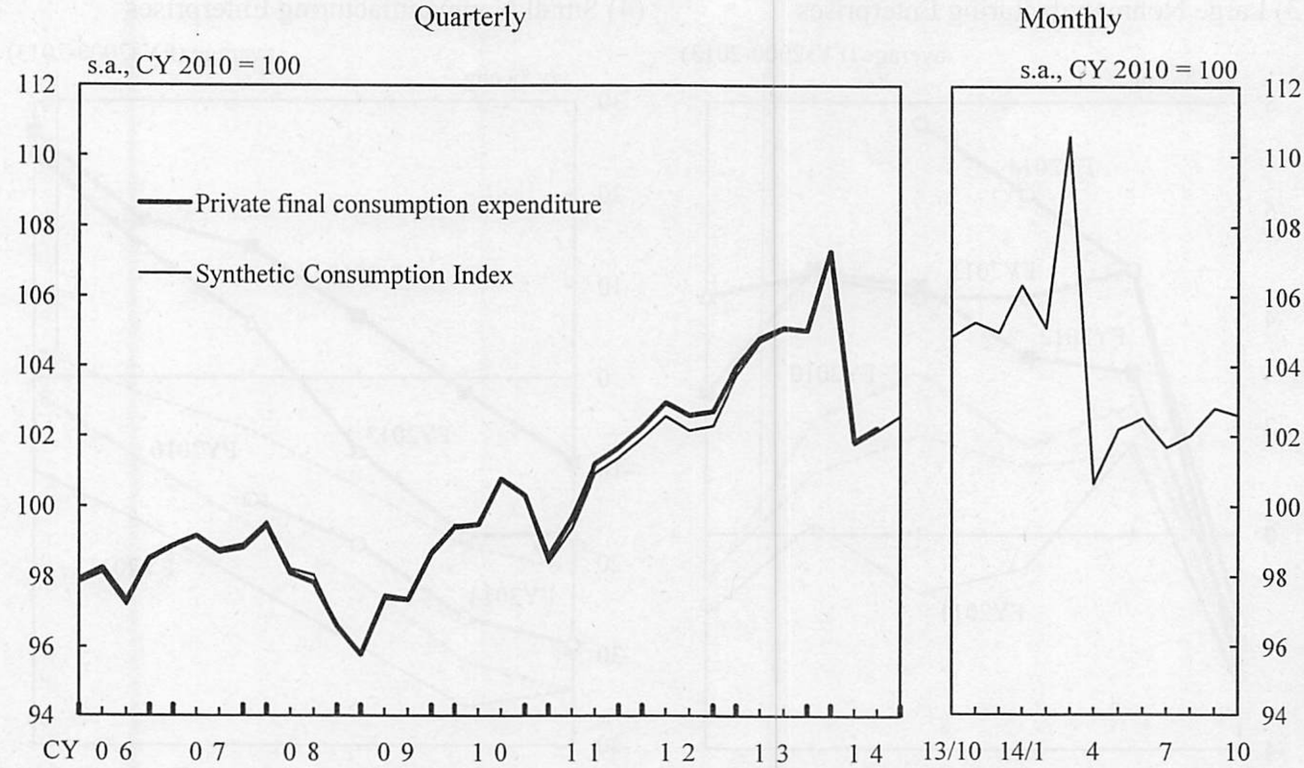
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Indicators of Private Consumption (1)

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



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

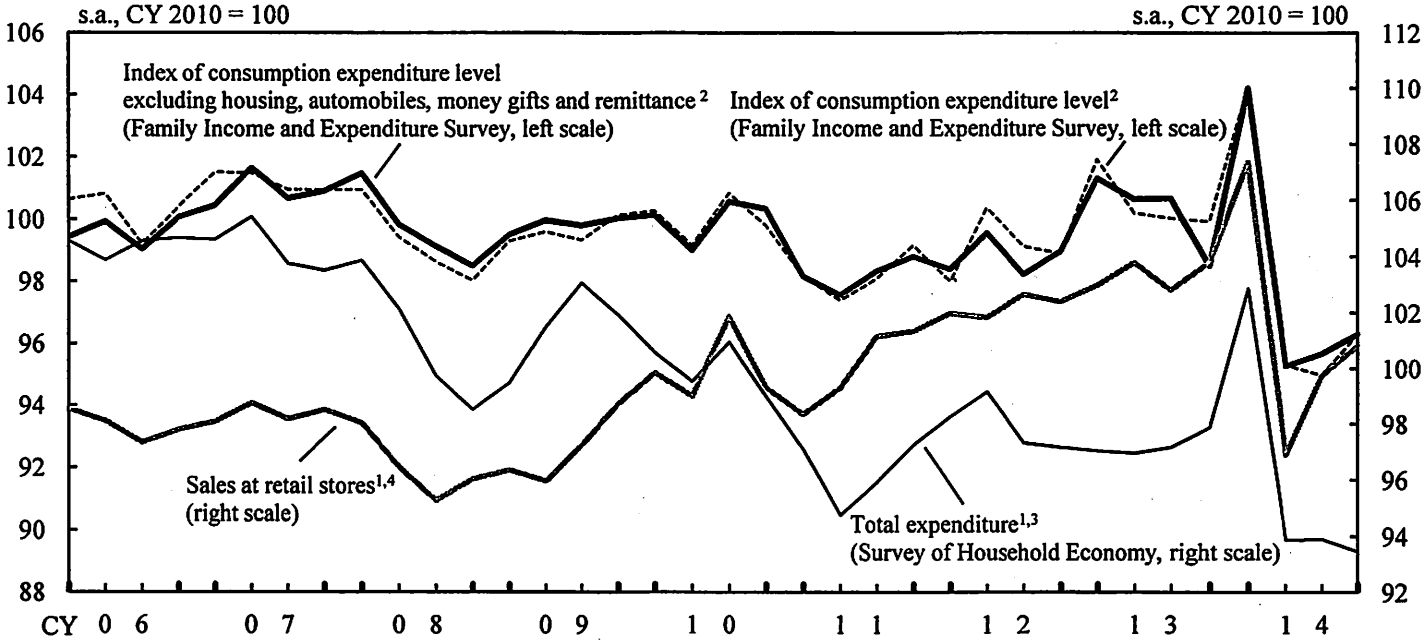


Note: The figure for 2014/Q4 is that of October in quarterly amount.

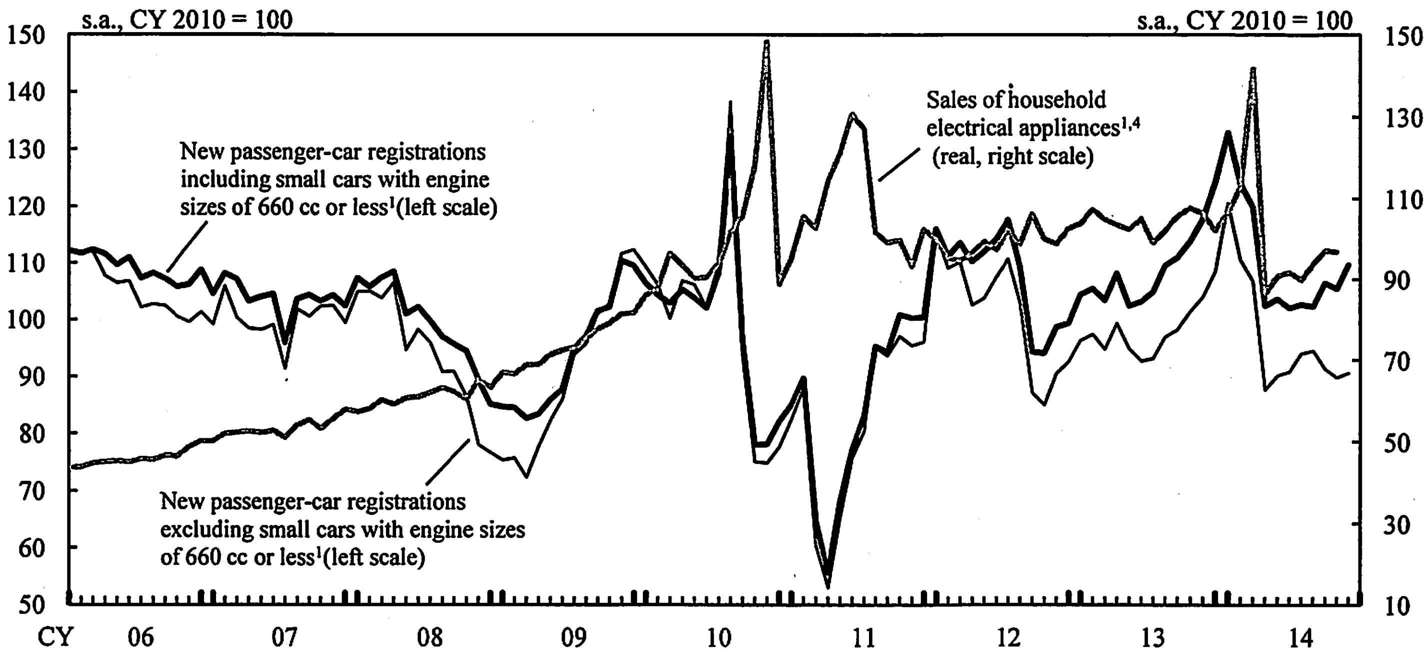
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."

Indicators of Private Consumption (2)

(1) Household Spending (Real)[5]



(2) Sales of Durable Goods



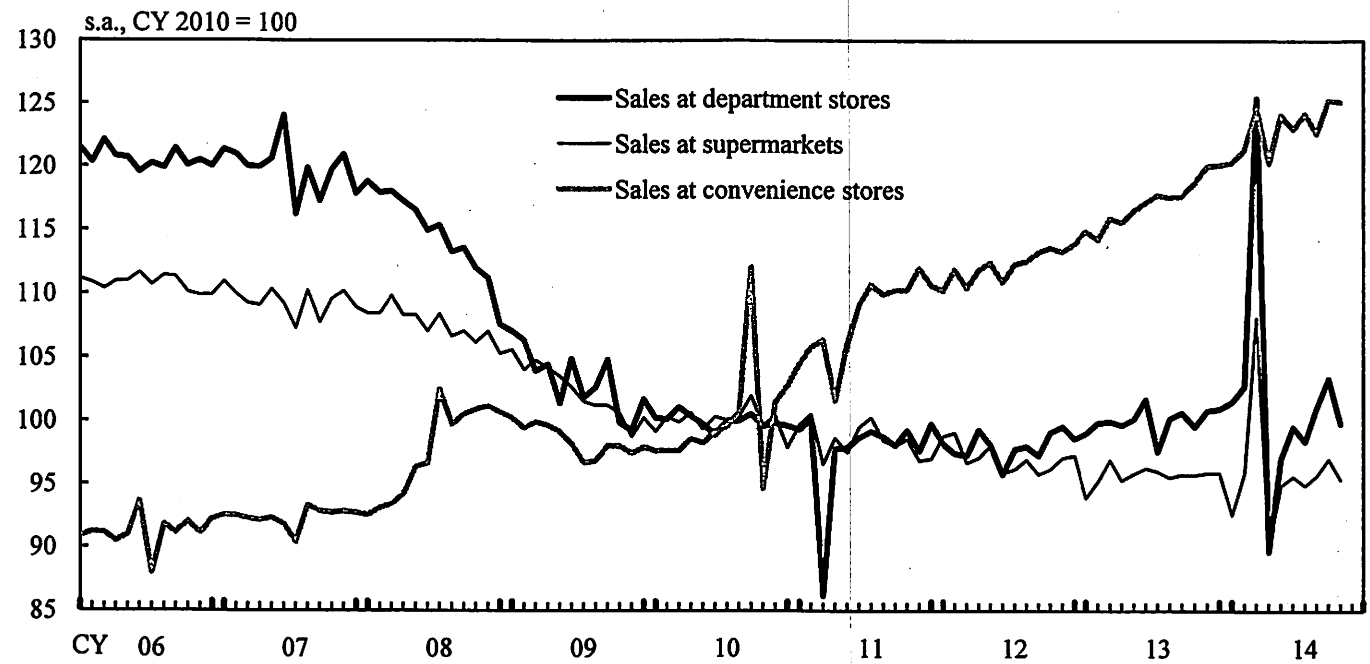
Notes: 1. Figures for total expenditure, sales at retail stores, sales of household electrical appliances, and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.

2. Figures for index of consumption expenditure level are based on two-or-more-person households, and are adjusted using the distribution of household by number of household members and age group of household head.
3. Figures for total expenditure are based on two-or-more-person households, and are deflated by the "Consumer Price Index (CPI)" excluding imputed rent.
4. Figures for sales at retail stores are deflated by the CPI for goods (excluding electricity, gas & water charges). Figures for sales of household electrical appliances are calculated as follows: indices of retail sales of machinery and equipment in the "Current Survey of Commerce" are deflated by the geometric means of the corresponding CPI.
5. Figures for 2014/Q4 are those of October in quarterly amount.

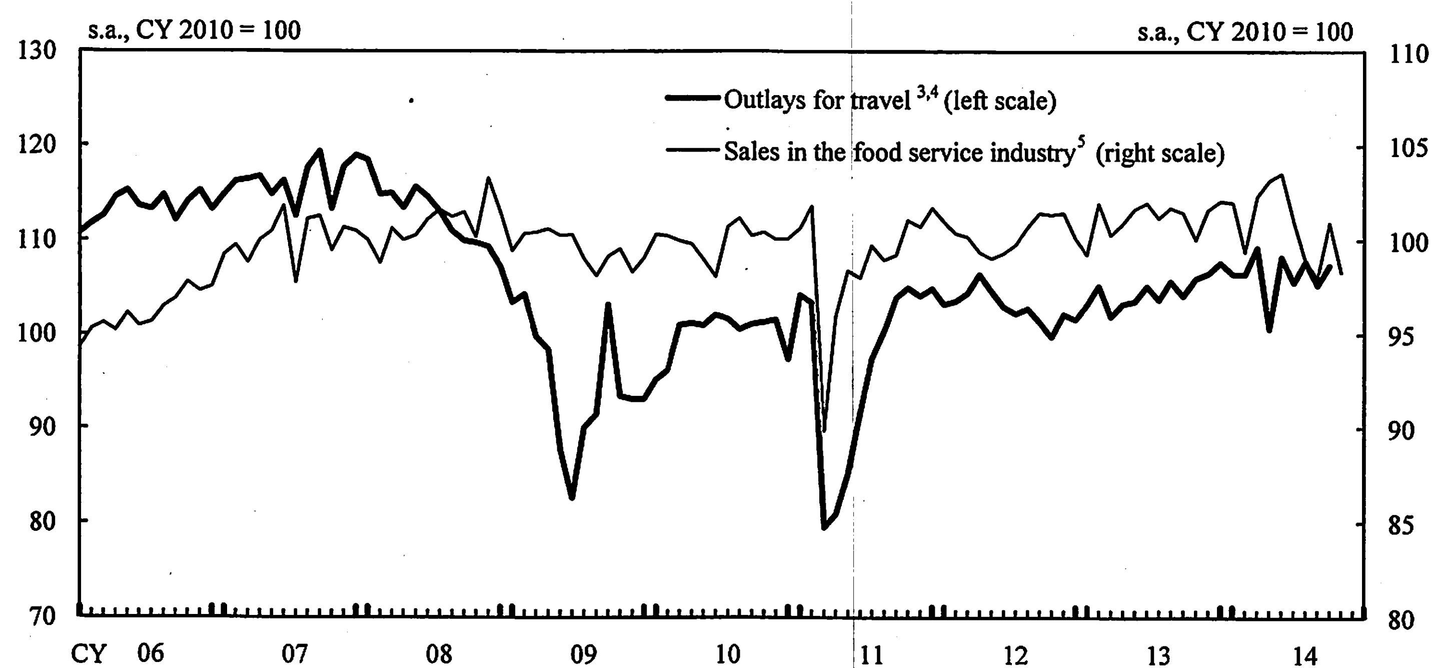
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of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

Indicators of Private Consumption[1] (3)

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



(2) Consumption of Services (Nominal)

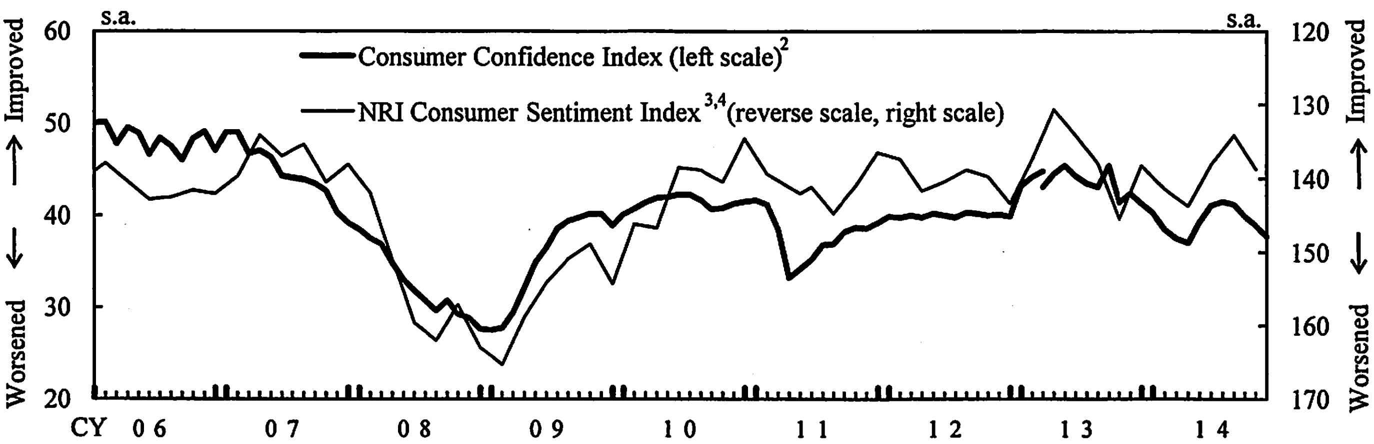


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude the effects of the increase in the number of stores (except for convenience stores).
3. Excluding those by foreign travelers.
4. There are discontinuities in the underlying data as of April 2007, April 2010, and April 2014 due to changes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

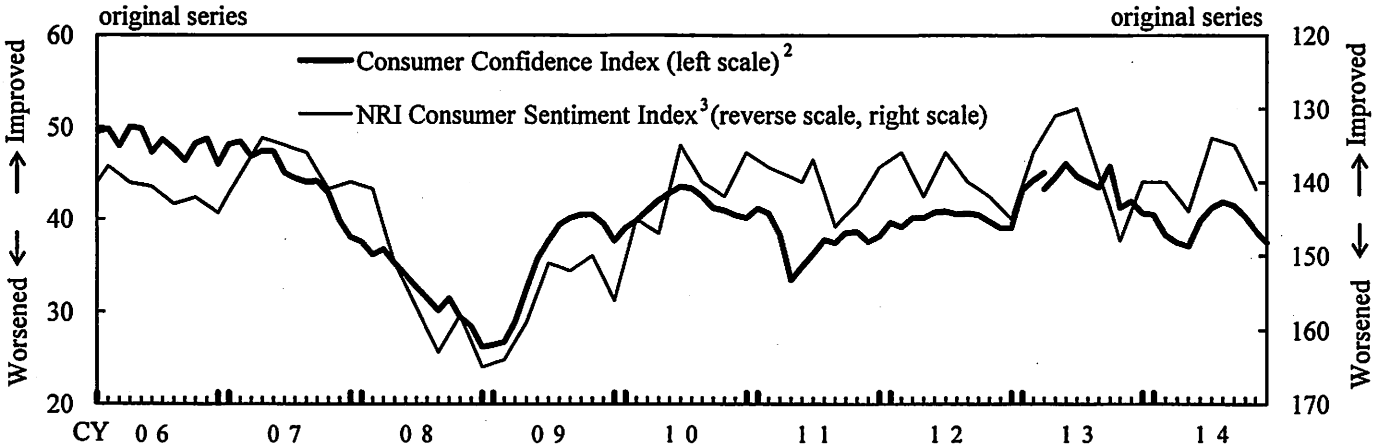
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly survey on food service sales)"; Japan Food Service Association, "*Gaishoku Sangyou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

Consumer Confidence[1]

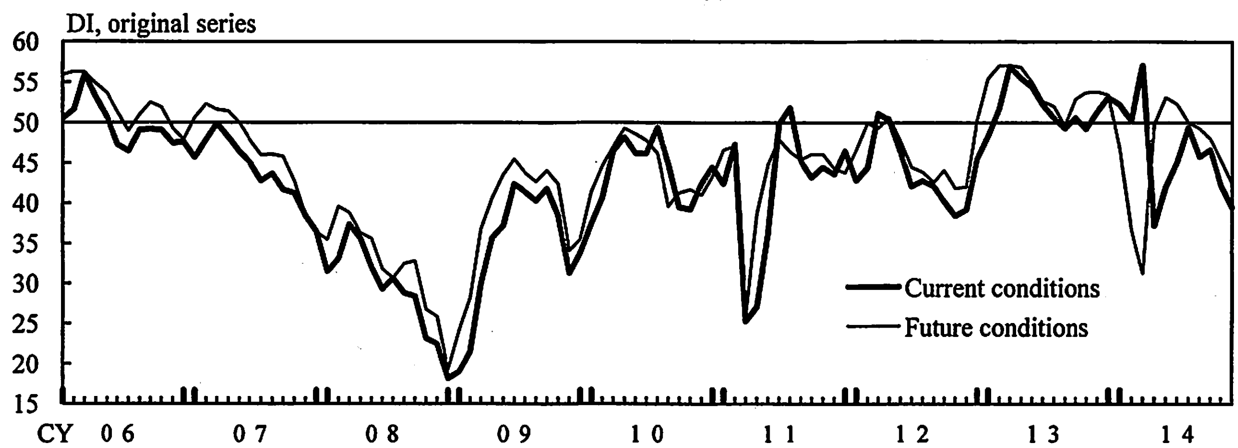
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)



Notes: 1. The Consumer Confidence Index (covering about 5,700 samples on a nationwide basis from April 2013 onward) and NRI Consumer Sentiment Index (1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

2. In April 2013, the Cabinet Office changed the method for conducting the Consumer Confidence Survey to a postal method, along with some other changes. For this reason, there is a discontinuity between data up to March 2013, which were obtained from the survey on a visit-and-leave method, and those thereafter. The figure for March 2013 on a postal-method basis is obtained from an examination survey.

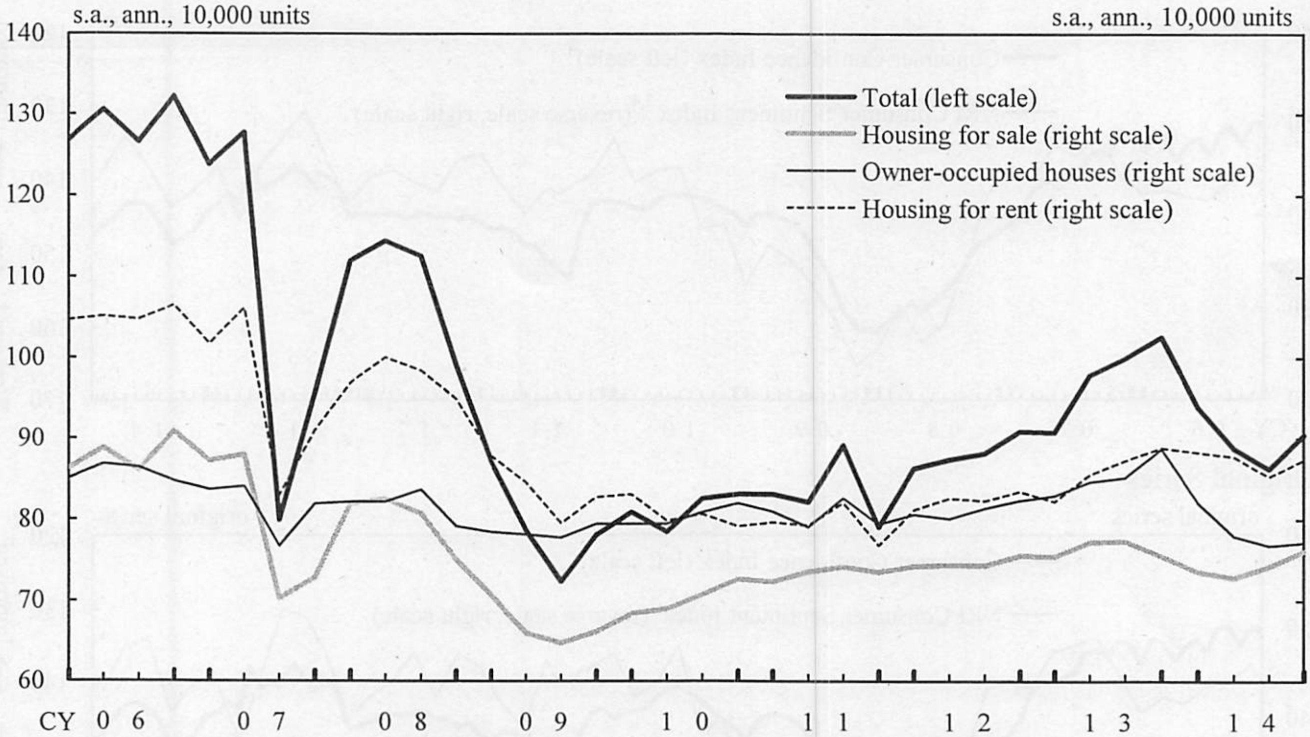
3. Figures are plotted for each surveyed month and the data for the intervening months are linearly interpolated.

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

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

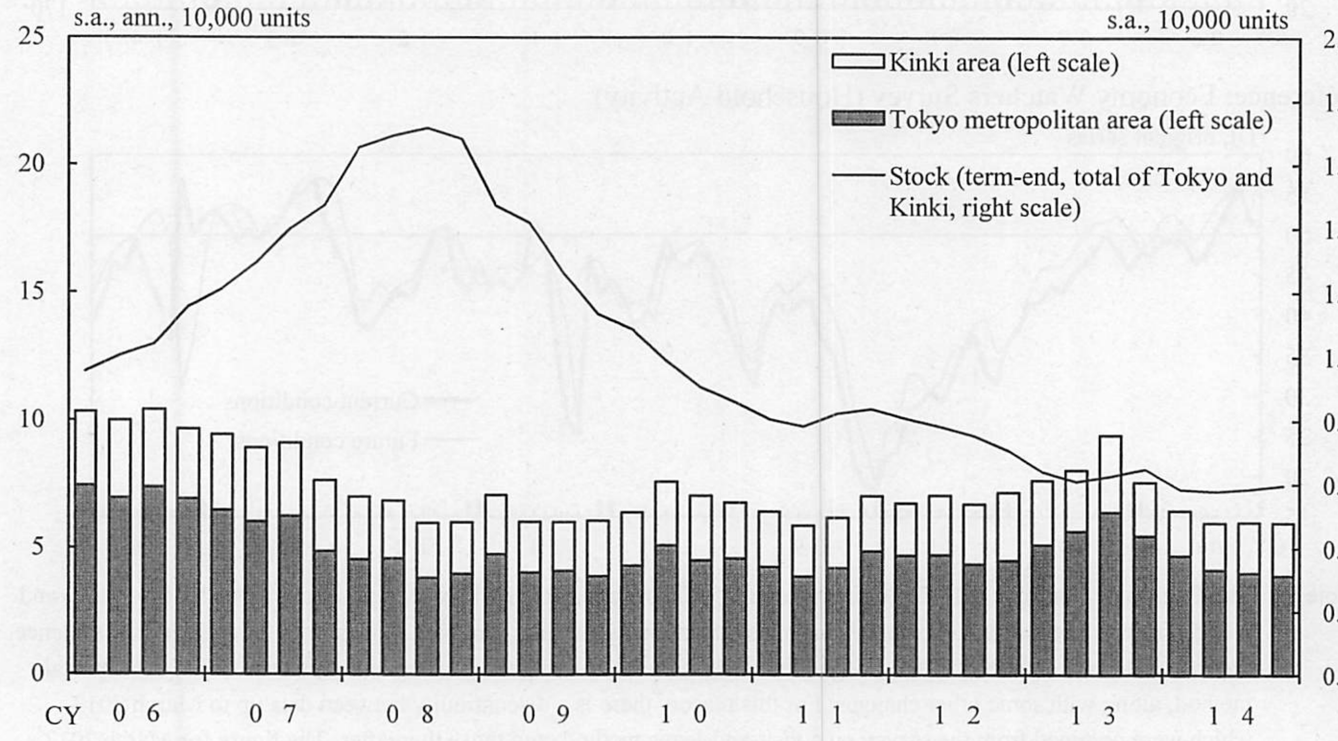
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2014/Q4 are those of October.

(2) Sales of Apartments

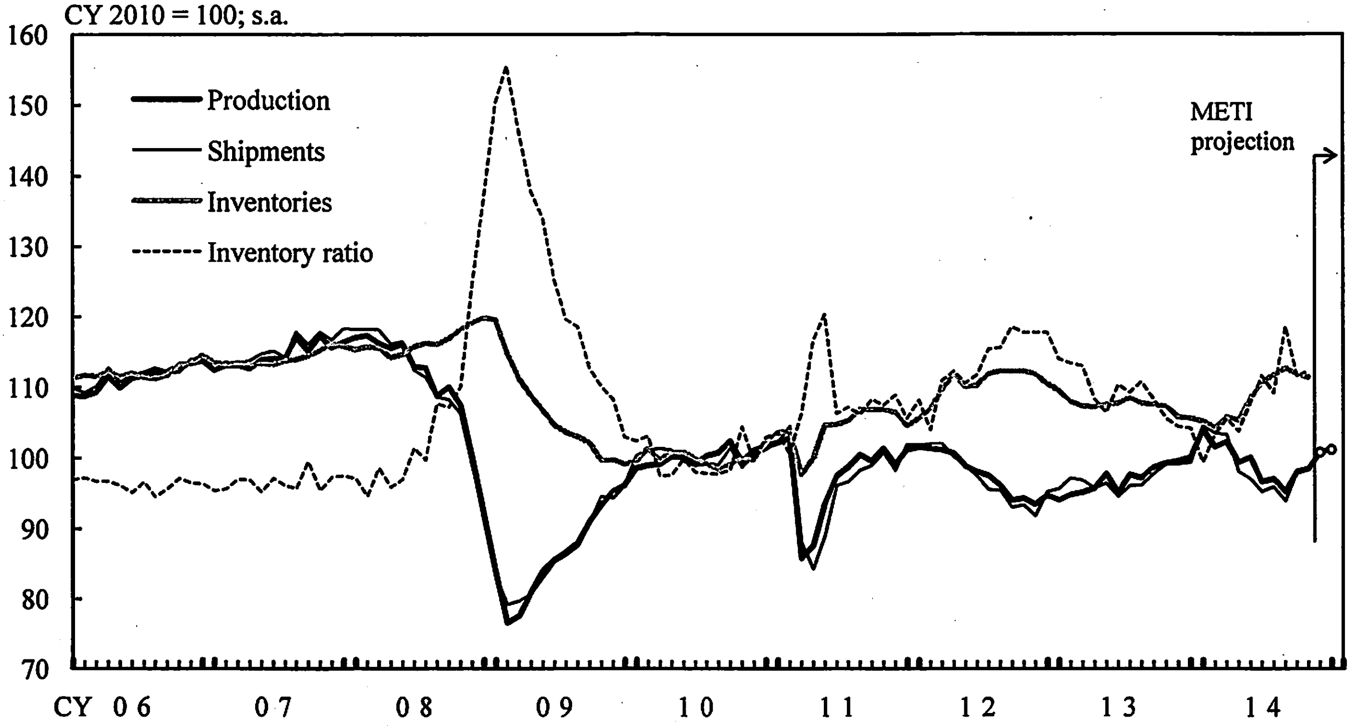


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. The figure of total apartment sales for 2014/Q4 is the October-November average. The term-end stock for 2014/Q4 is that of November.

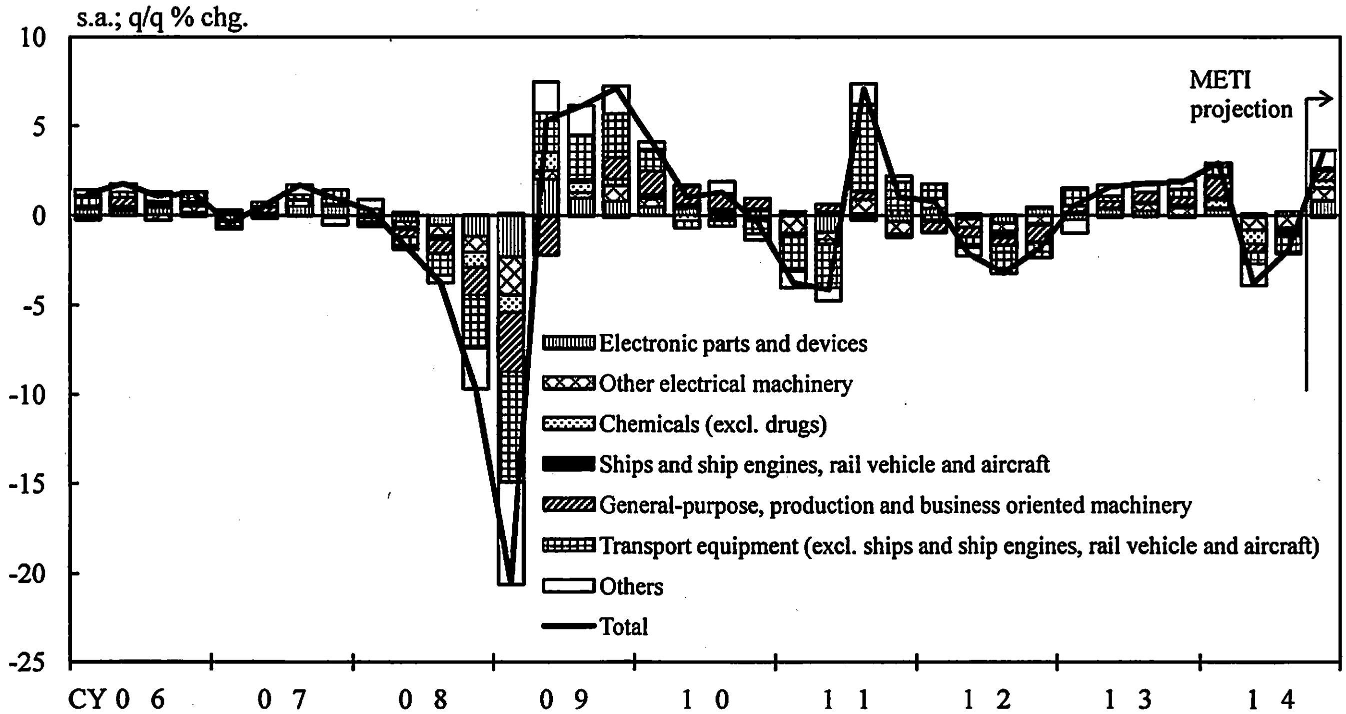
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



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

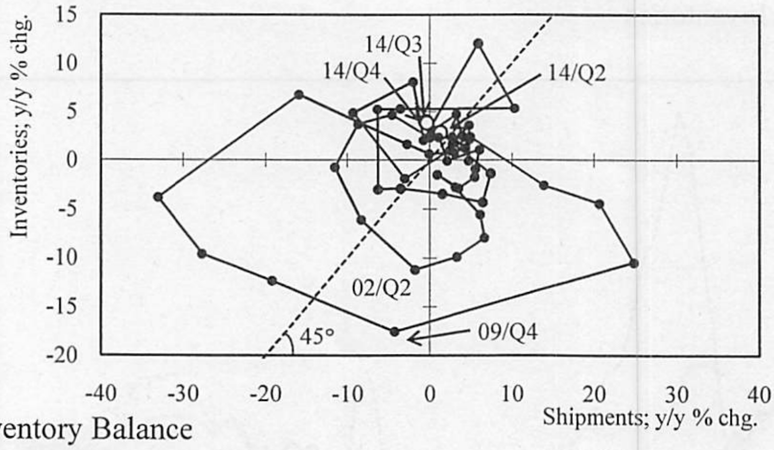


Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
2. Figures up to 2008/Q1 are on the 2005 base.
Figures for "general-purpose, production and business oriented machinery" up to 2008/Q1 are those for "general machinery."
3. 2014/Q4 figures are based on the actual production levels in October, and the METI projection of November and December.

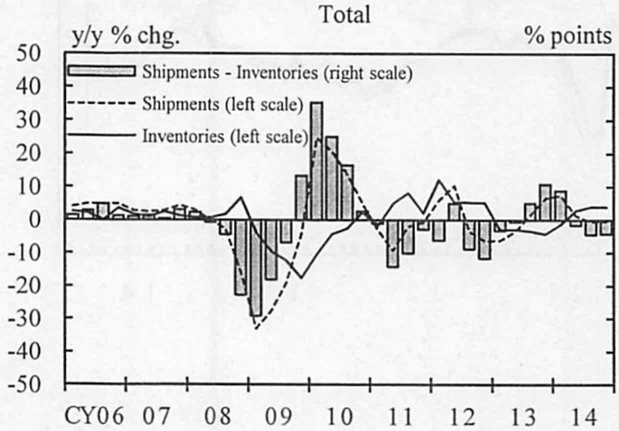
Source: Ministry of Economy, Trade and Industry (METI), "Indices of Industrial Production."

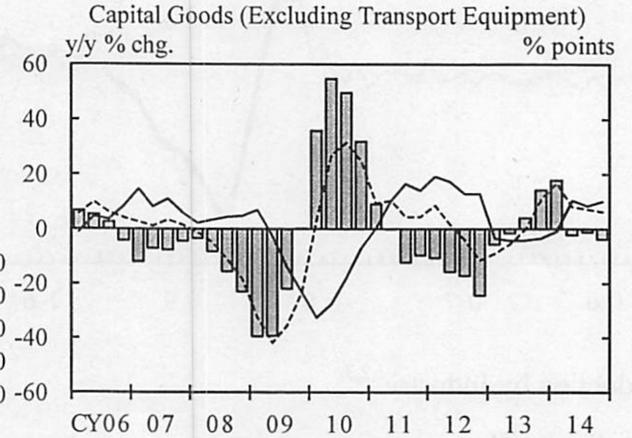
Inventory Cycle

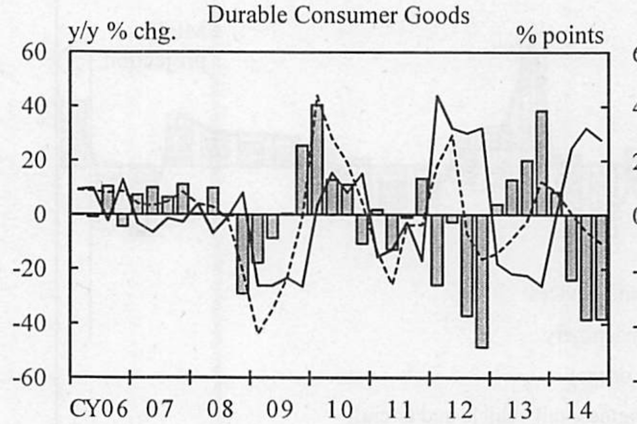
(1) Inventory Cycle (Total)

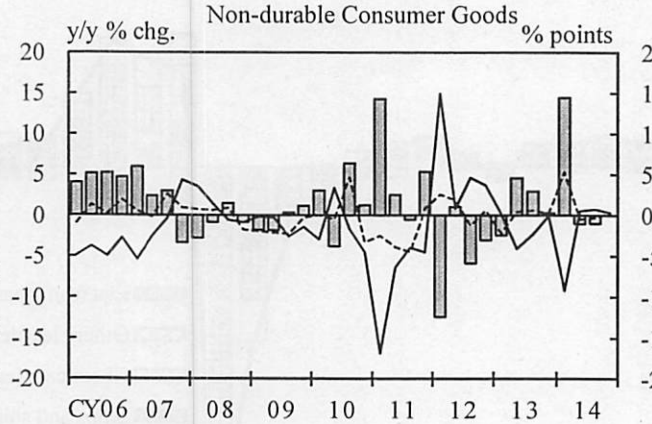


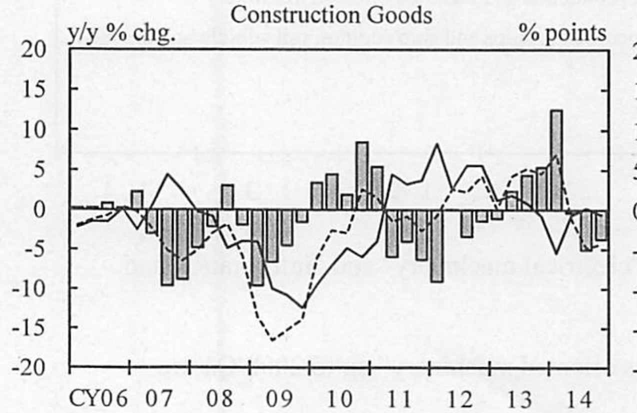
(2) Shipment-Inventory Balance

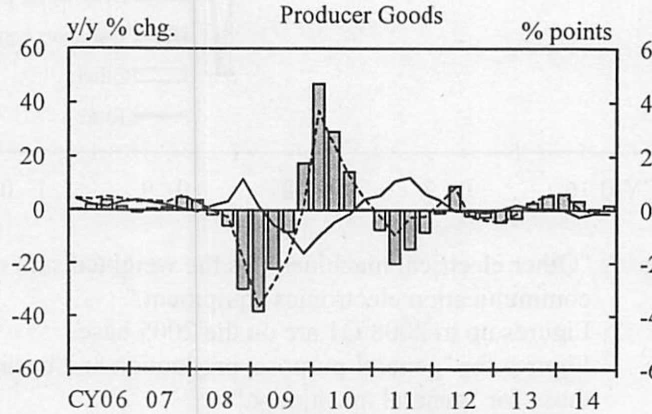








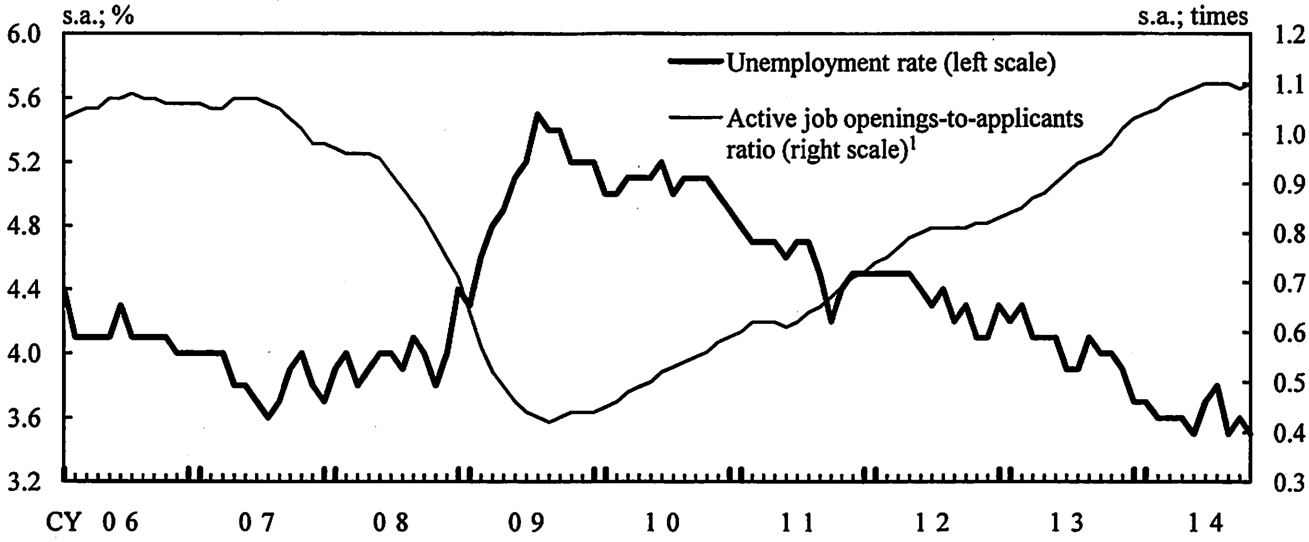




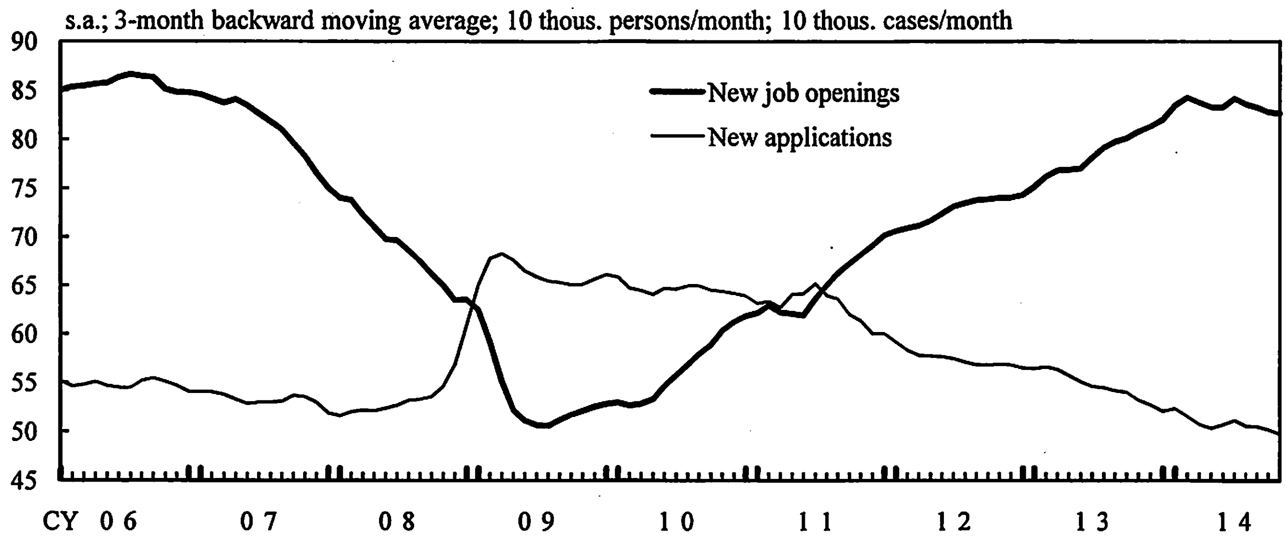
Note: Figures for 2014/Q4 are those of October.
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market

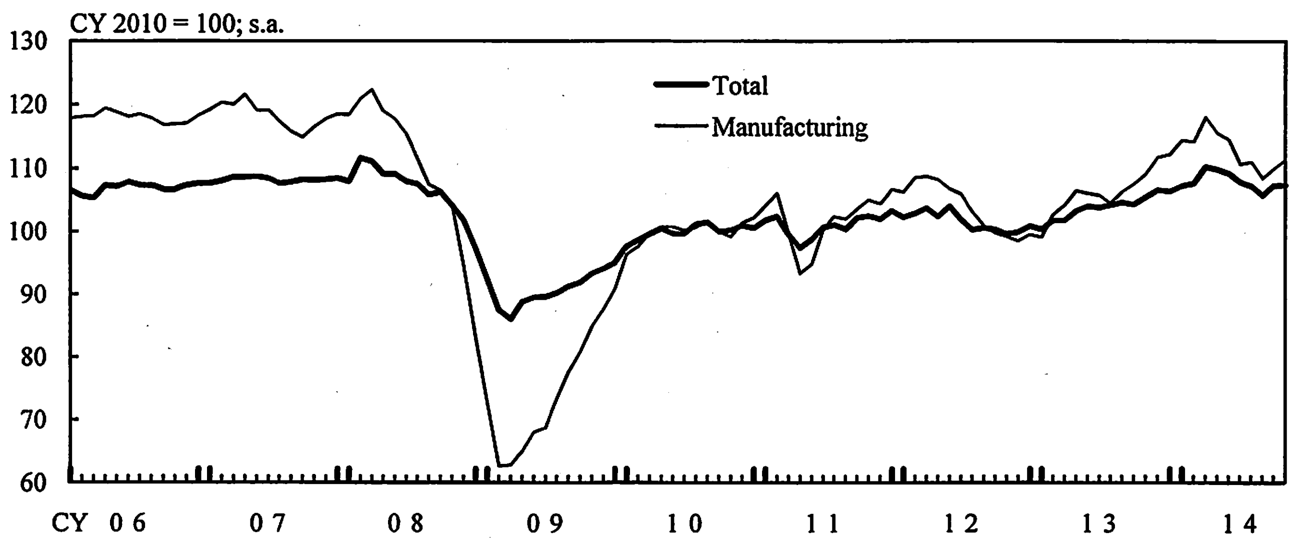
(1) Unemployment Rate and Active Job Openings-to-Applicants Ratio



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



(3) Non-Scheduled Hours Worked[2]

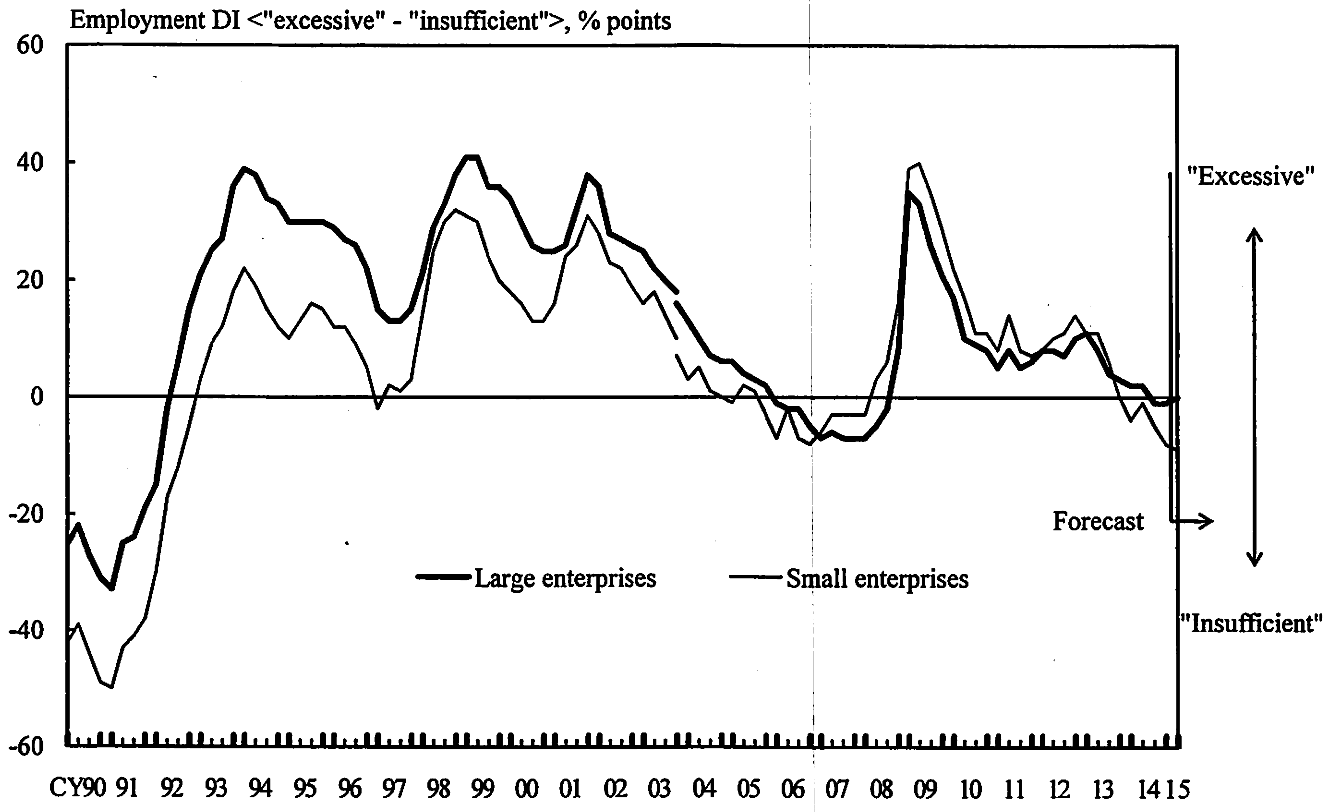


Notes: 1. Excluding new school graduates and including part-timers.
2. Data are for establishments with at least five employees.

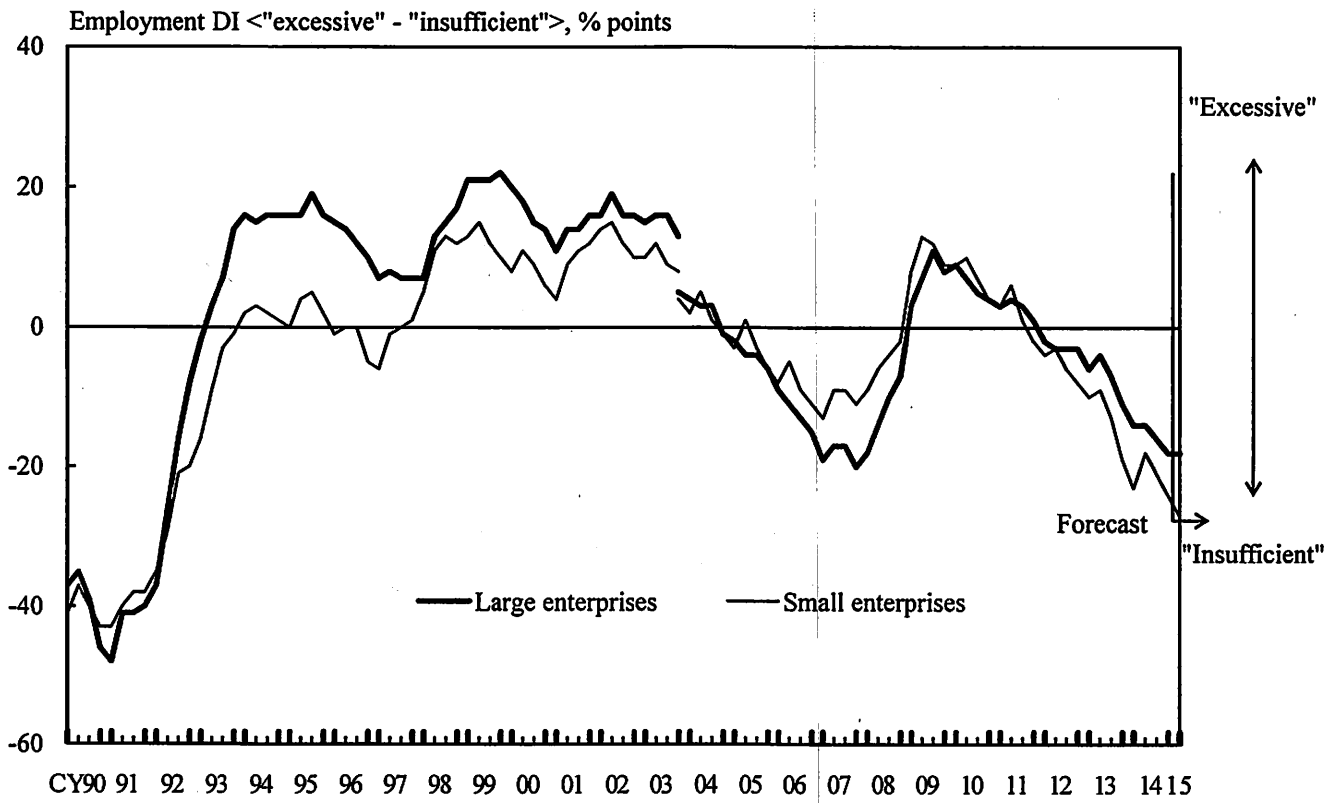
Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey";
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

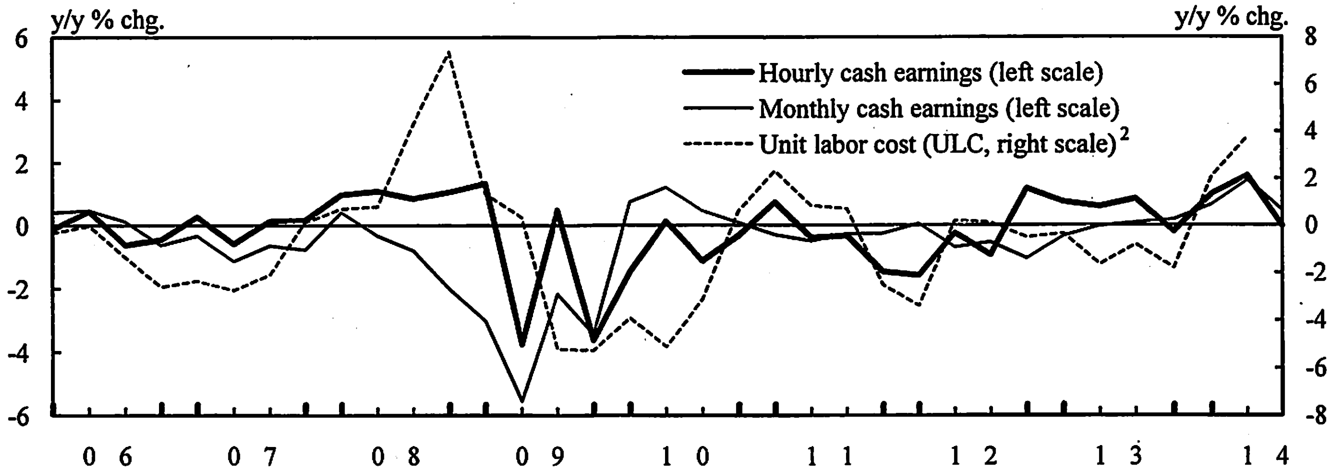


Note: The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.

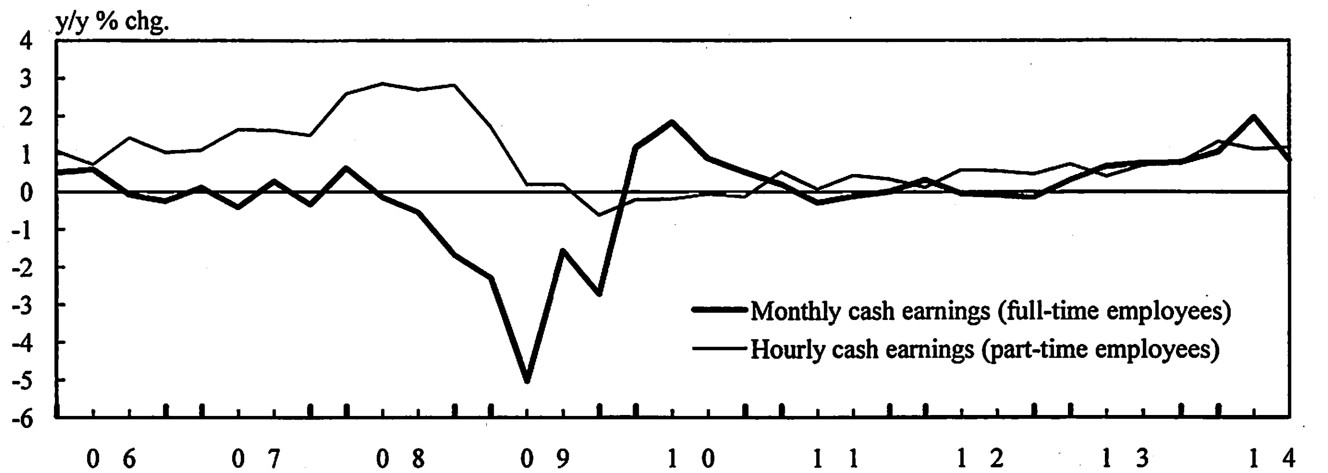
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Wages

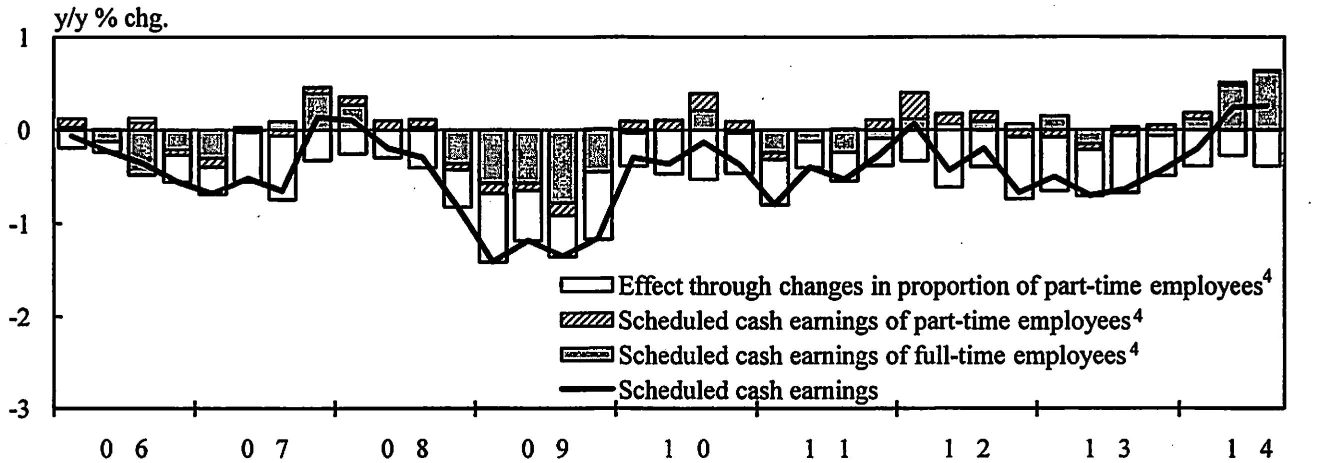
(1) Total[1,3]



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



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

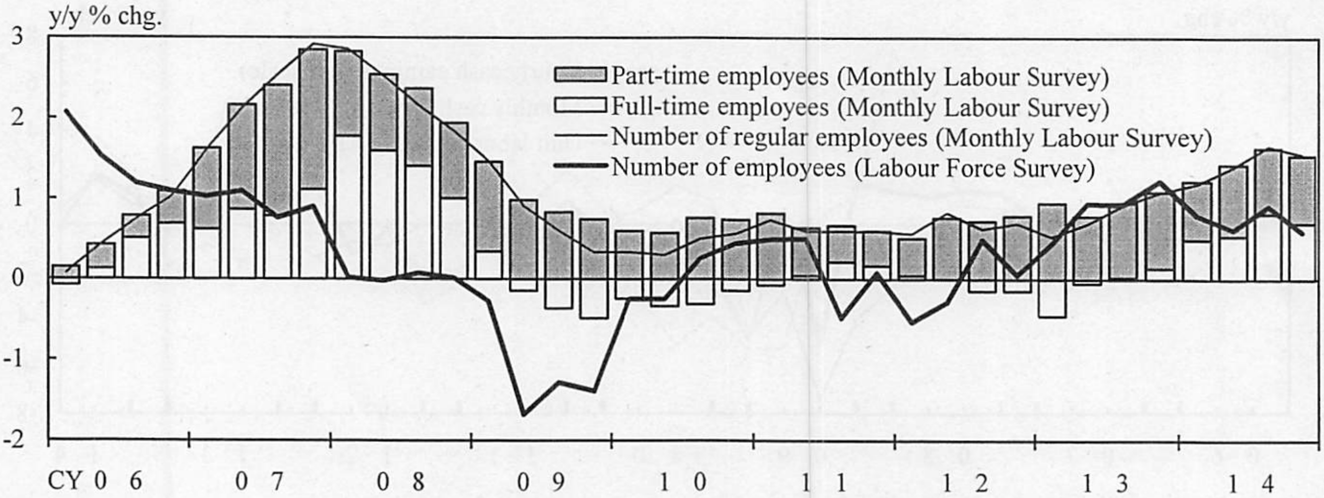


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. ULC = nominal compensation of employees (SNA) / real GDP
3. Figures for 2014/Q3 are September-October averages (except ULC).
Except ULC : Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
ULC : Q1 = April-June, Q2 = July-September, Q3 = October-December, Q4 = January-March.
4. Contributions from scheduled cash earnings of full-time employees and those of part-time employees are calculated as: "scheduled cash earnings of each type of employee (y/y chg.)" times "proportion of the corresponding type's scheduled cash earnings to the previous year's total." Contributions from the effect through changes in proportion of part-time employees are the residuals.

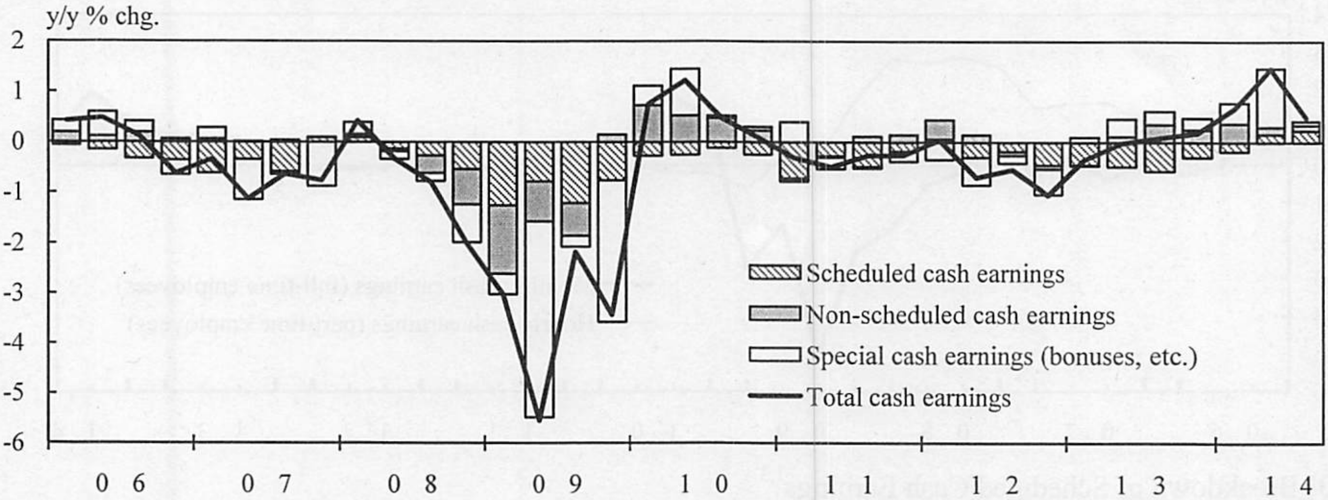
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Cabinet Office, "National Accounts."

Employee Income

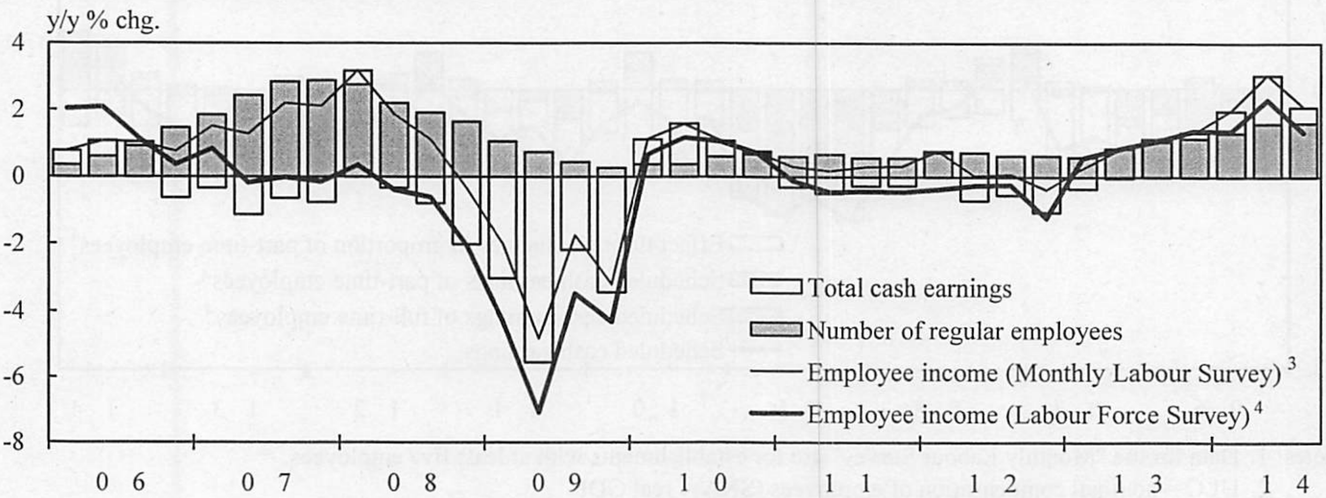
(1) Number of Employees[1,5]



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



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

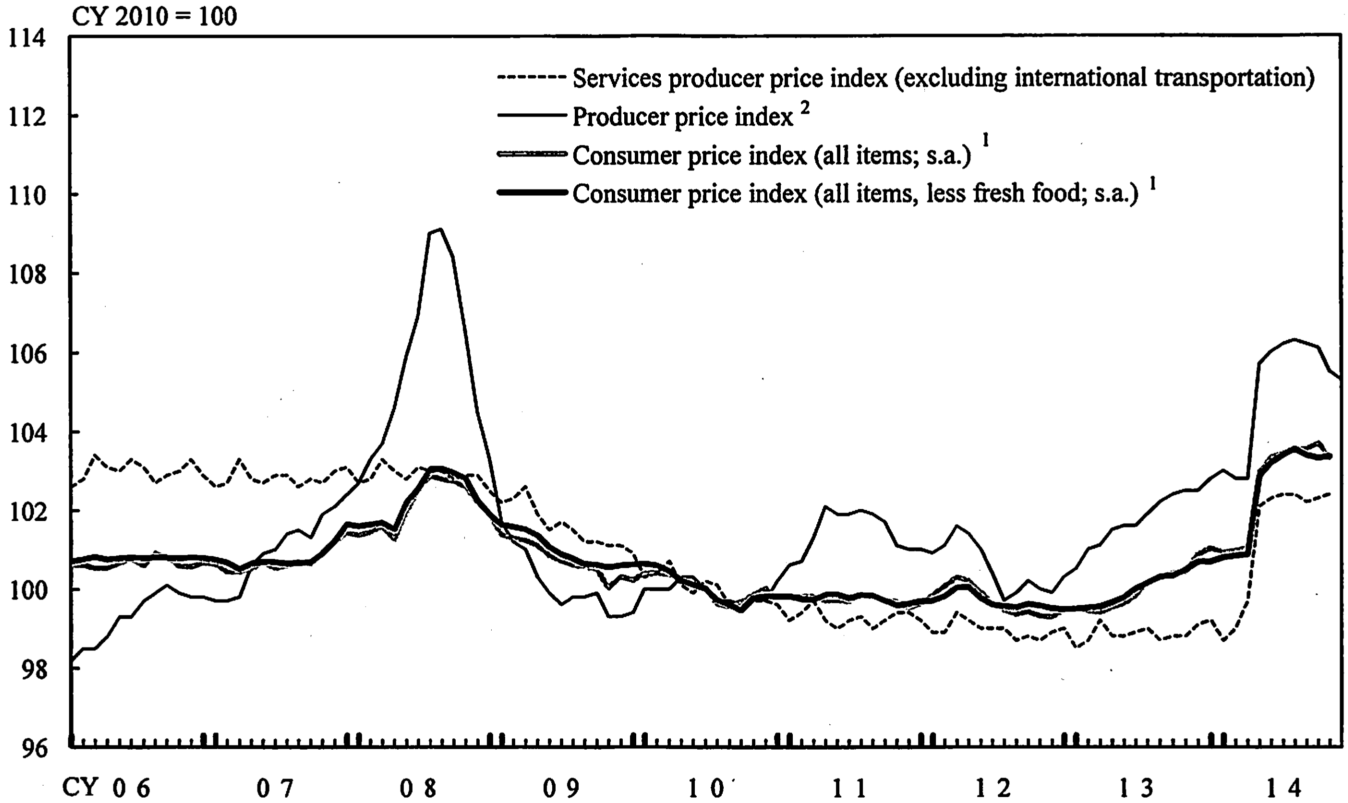


Notes: 1. Data for the "Monthly Labour Survey" are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
Figures for 2014/Q3 are September-October averages.
3. Calculated as the "number of regular employees" (Monthly Labour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

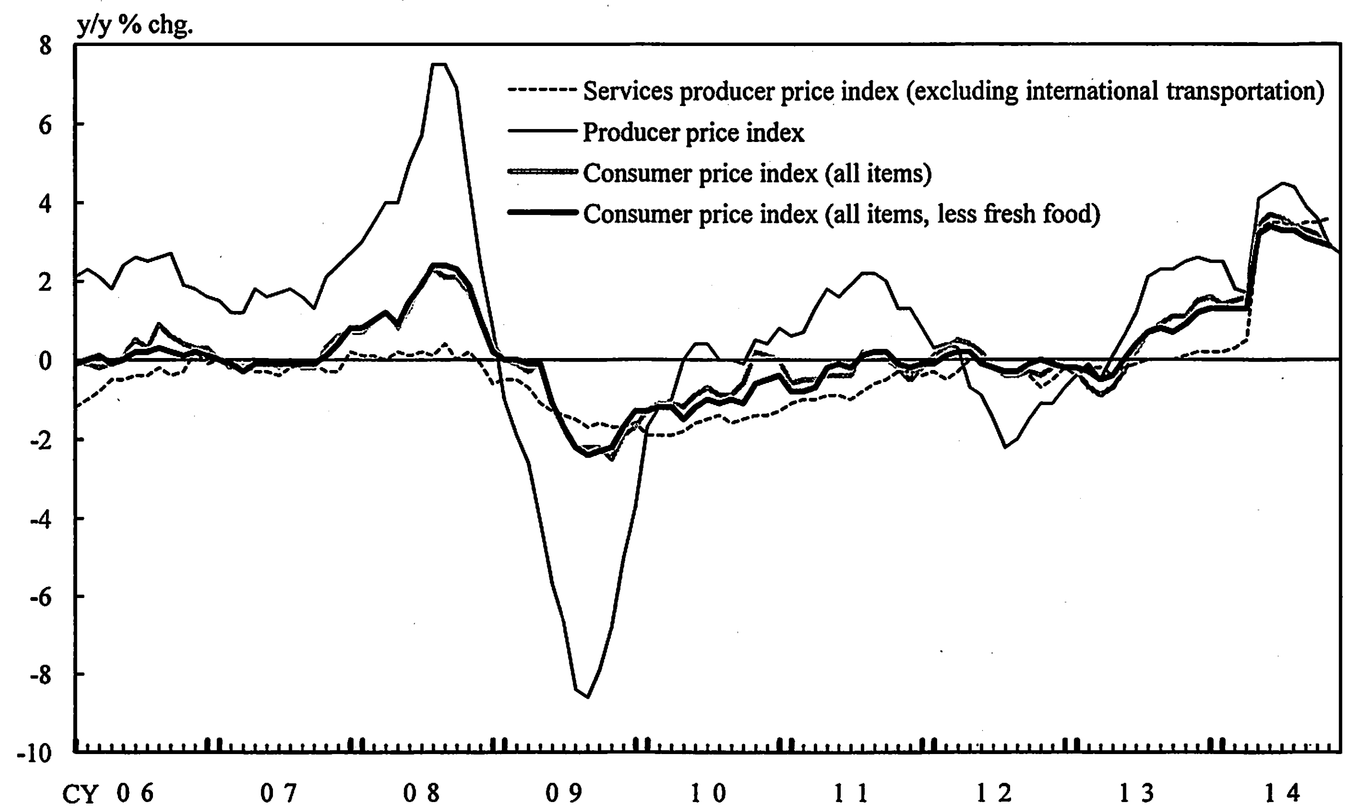
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier

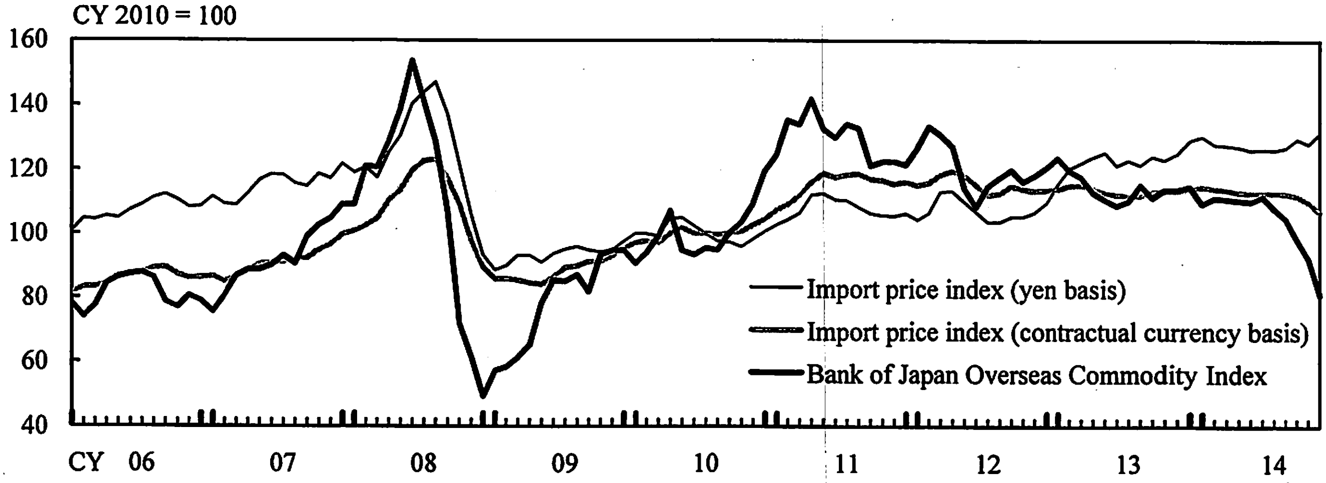


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.
4. Figures of "Services Producer Price Index" and "Producer Price Index" up to 2009 are based on the linked indices.
5. Figures include the consumption tax.

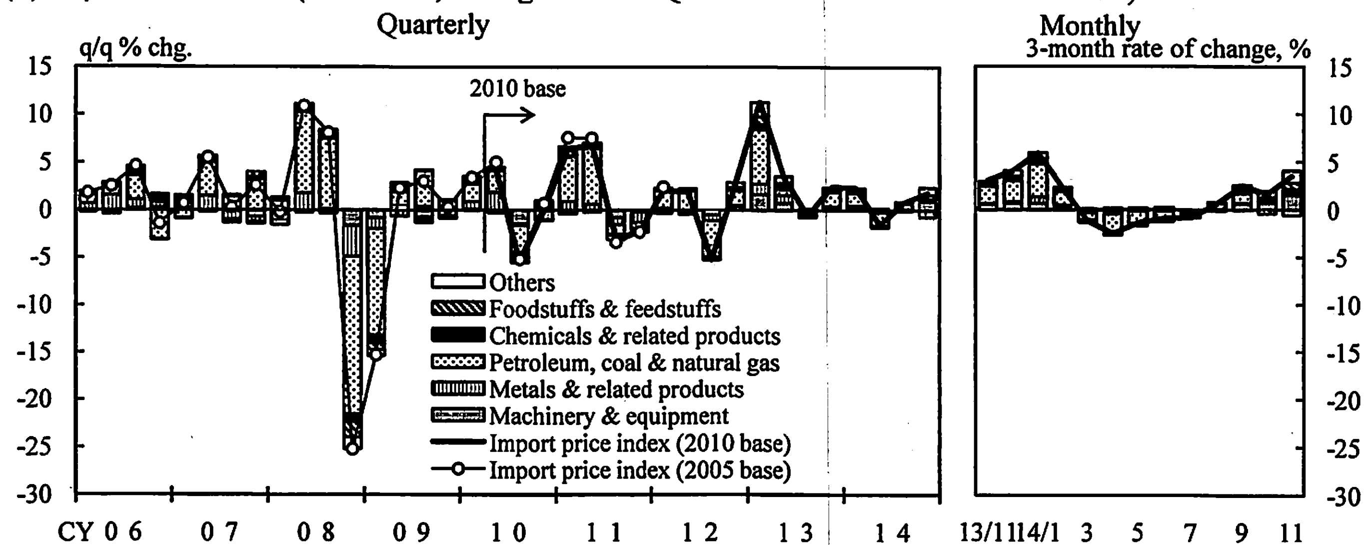
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Services Producer Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

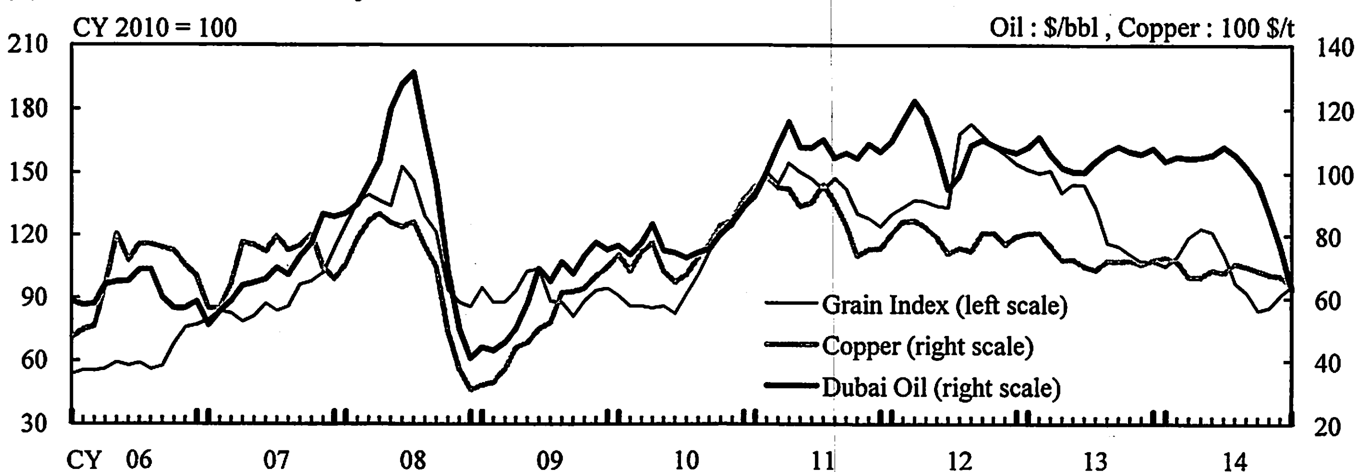


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

(3) International Commodity Prices

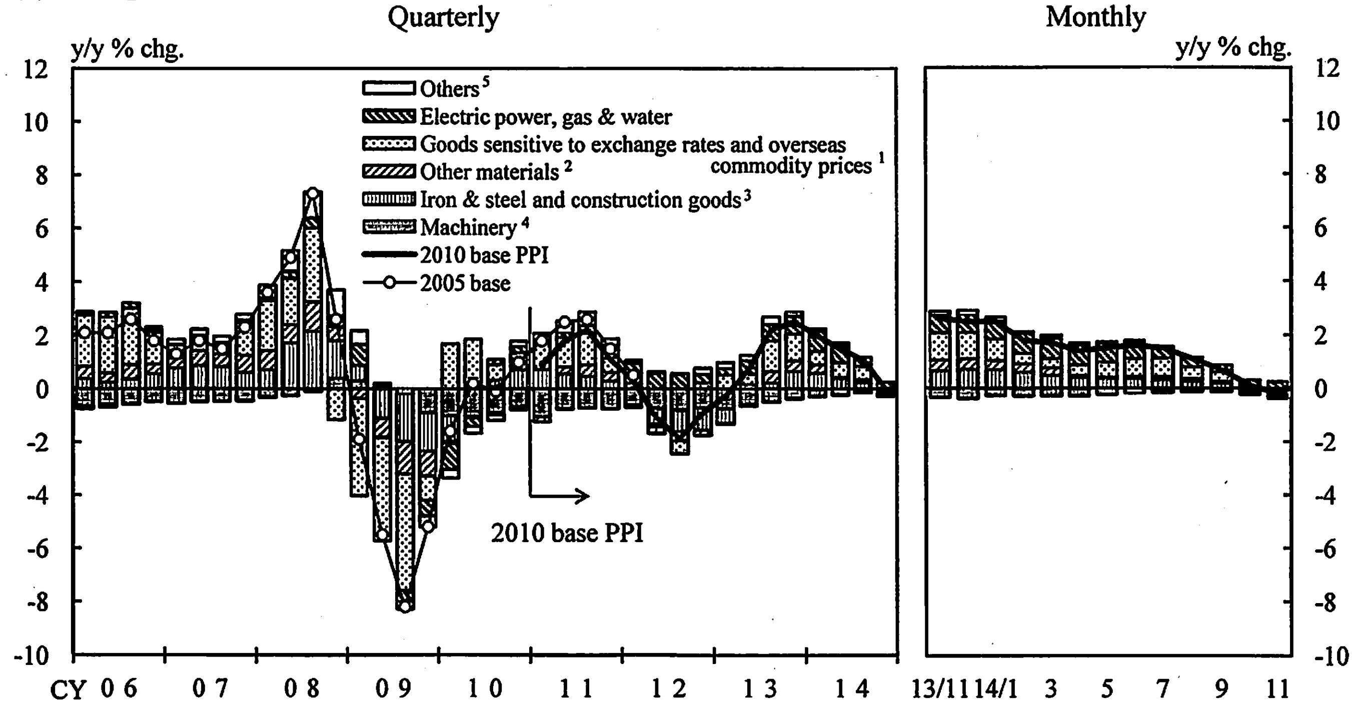


Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."
2. Monthly averages. Figures for December 2014 are averages up to December 18.

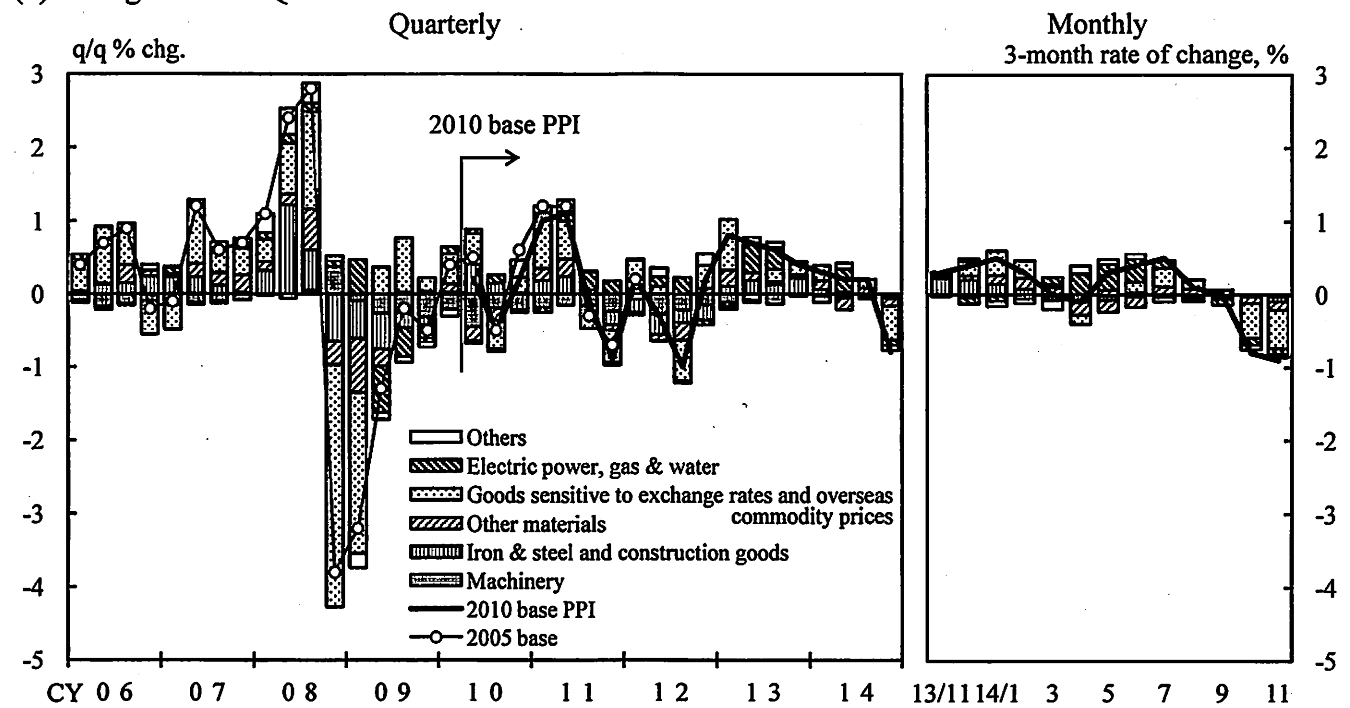
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Producer Price Index

(1) Changes from a Year Earlier



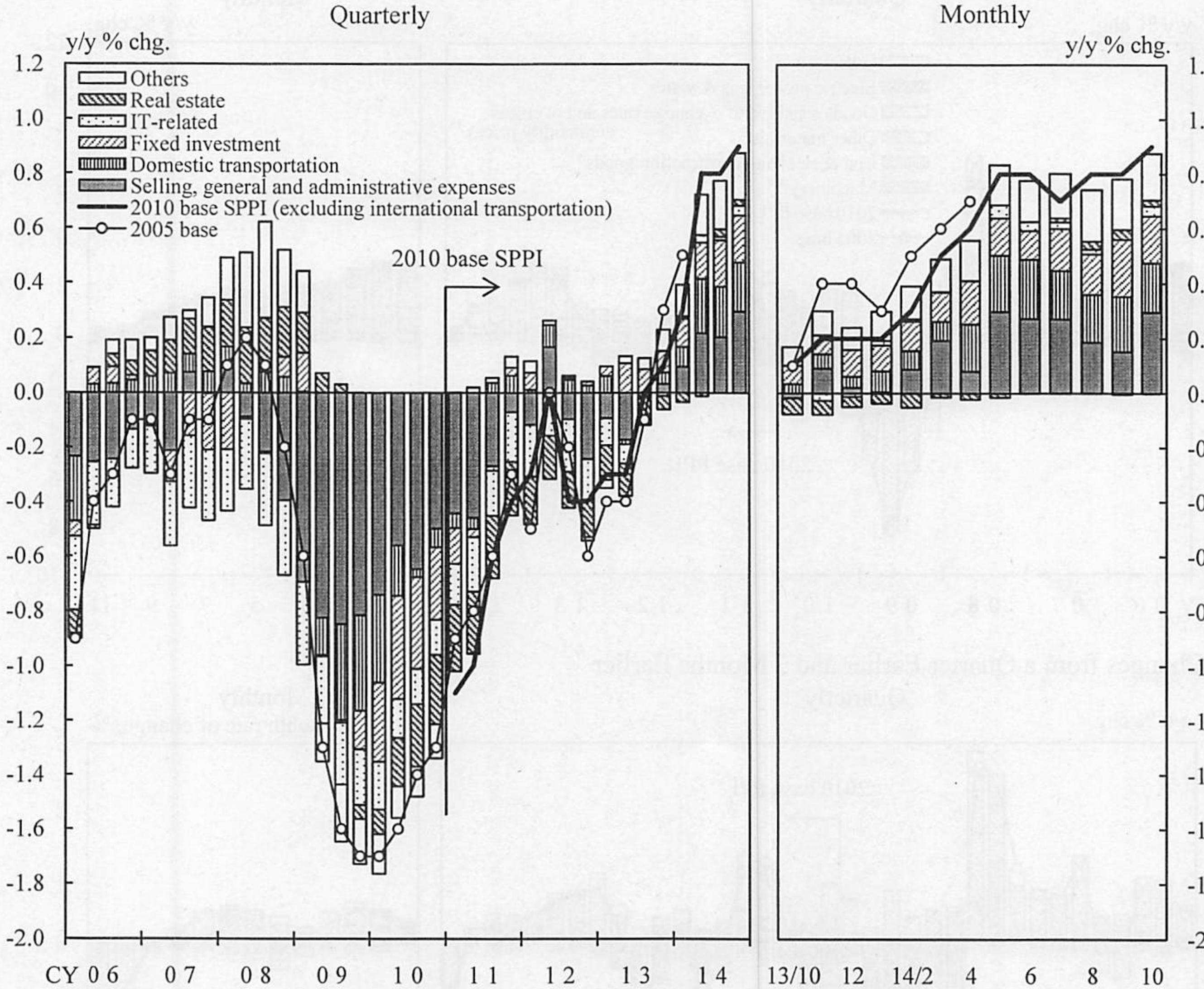
(2) Changes from a Quarter Earlier and 3 Months Earlier[6]



Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.
2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramic, stone & clay products, lumber & wood products, and scrap & waste.
4. Machinery: general purpose machinery, production machinery, business oriented machinery, electronic components & devices, electrical machinery & equipment, information & communications equipment, and transportation equipment.
5. Others: food, beverages, tobacco & feedstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.
6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Producer Price Index" fall by about 0.2%.
7. Figures from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.
8. Figures for 2014/Q4 are October-November averages.

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

Services Producer Price Index

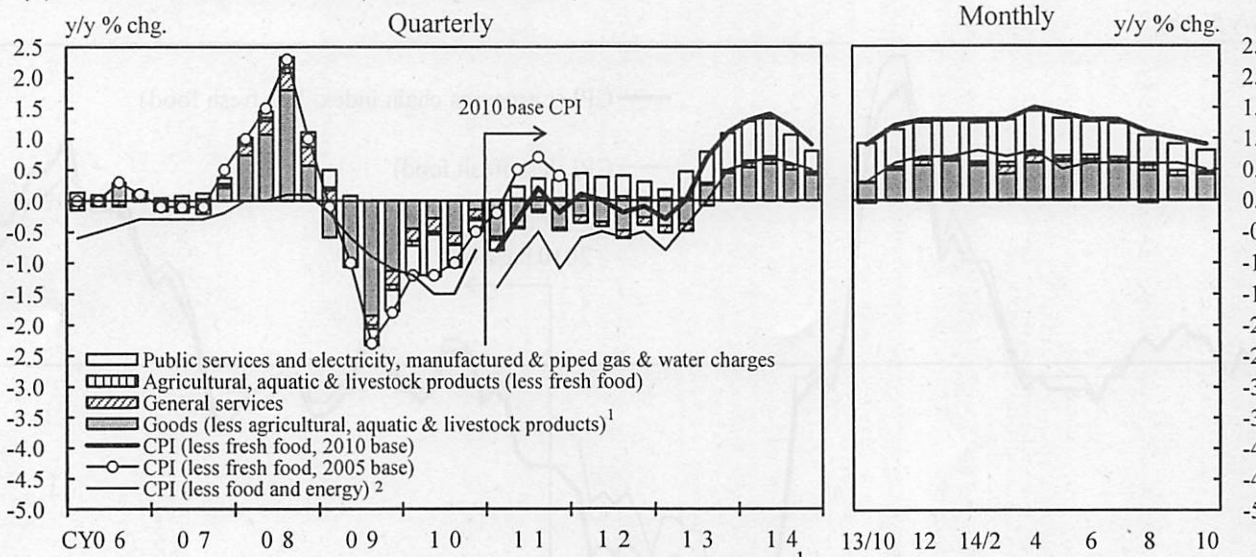


Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
2. Domestic transportation: transportation and postal services (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, and domestic air passenger transportation).
3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment and computer rental), and civil engineering and architectural services.
4. IT-related: leasing of computer and related equipment, and computer rental.
5. Real estate: real estate services.
6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, and plant engineering.
7. Figures from April 2014 onward are adjusted to exclude the direct effects of the consumption tax hike, using indices excluding the consumption tax.
8. Figures for 2014/Q4 are those of October.

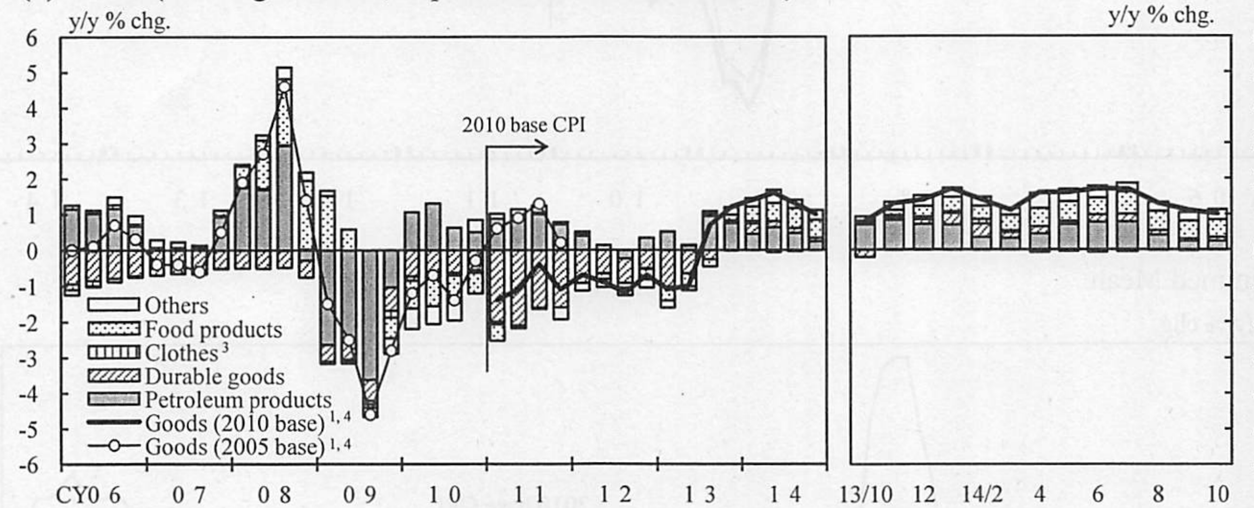
Source: Bank of Japan, "Services Producer Price Index."

Consumer Price Index (Less Fresh Food)

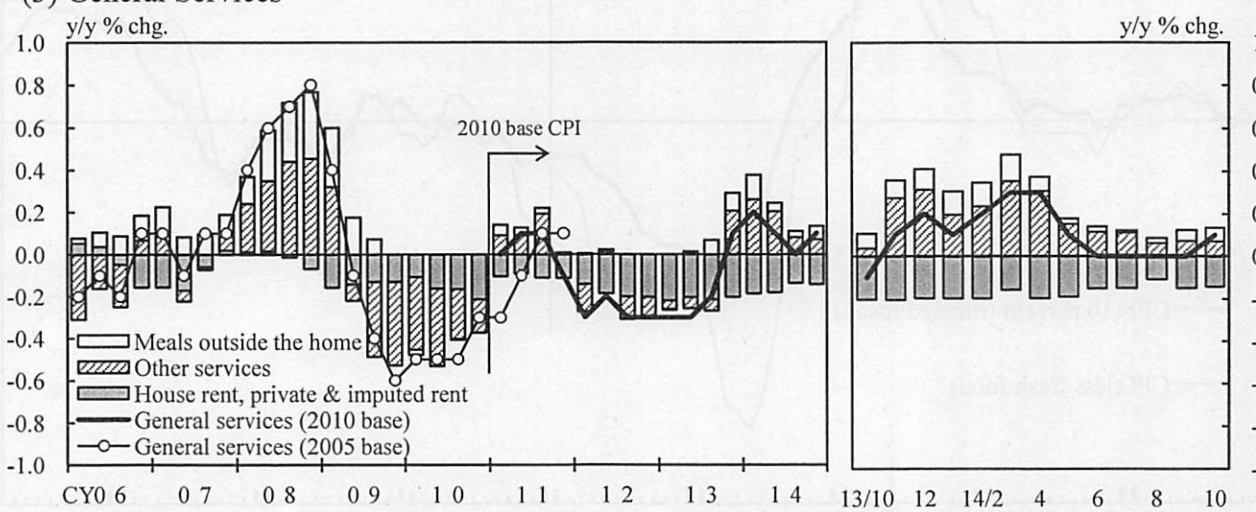
(1) Consumer Price Index (Less Fresh Food)



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



(3) General Services

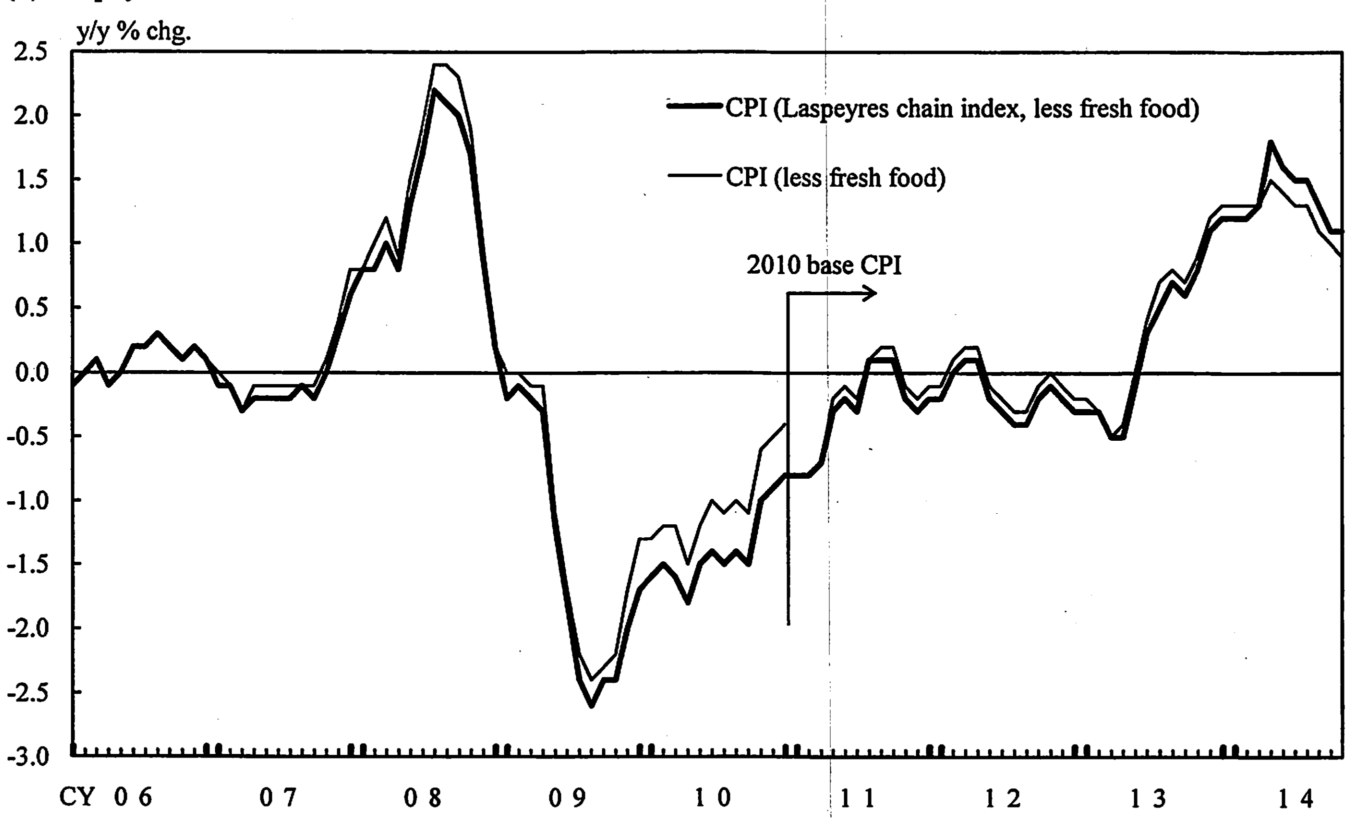


Notes: 1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.
3. Including shirts, sweaters & underwear.
4. Less agricultural, aquatic & livestock products.
5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and general services are calculated using published indices.
6. Figures from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike. Figures for 2014/Q4 are those of October.

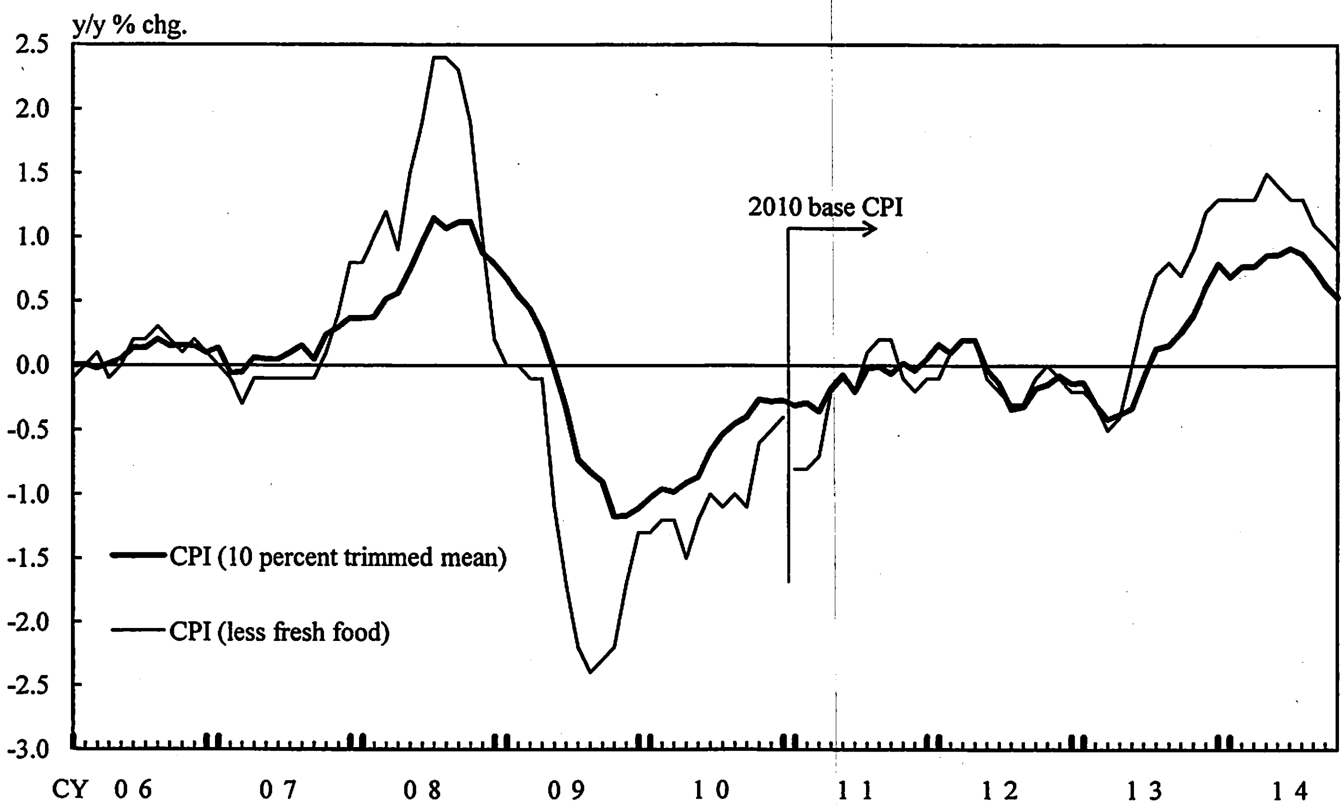
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) Laspeyres Chain Index



(2) Trimmed Mean

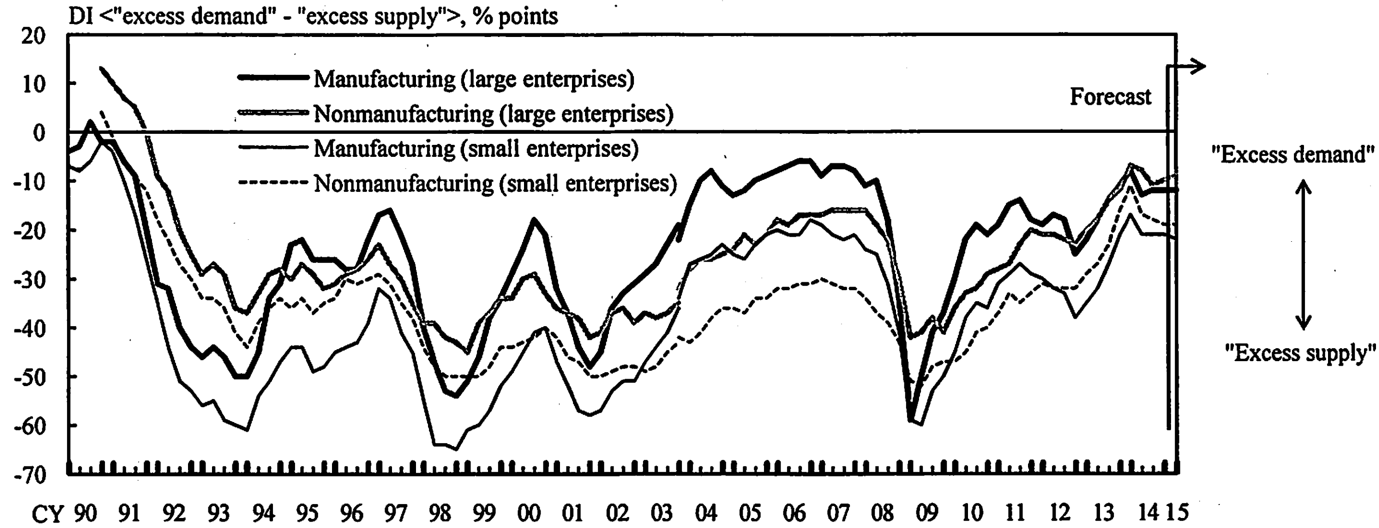


Notes: 1. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.
2. Figures for the Laspeyres chain index for 2006 are the year-on-year rates for the fixed-base method. The year-on-year figures for the Laspeyres chain index up to 2010 are on the 2005 base, and those from 2011 onward are on the 2010 base.
3. Figures from April 2014 onward are estimated to adjust the direct effects of the consumption tax hike.

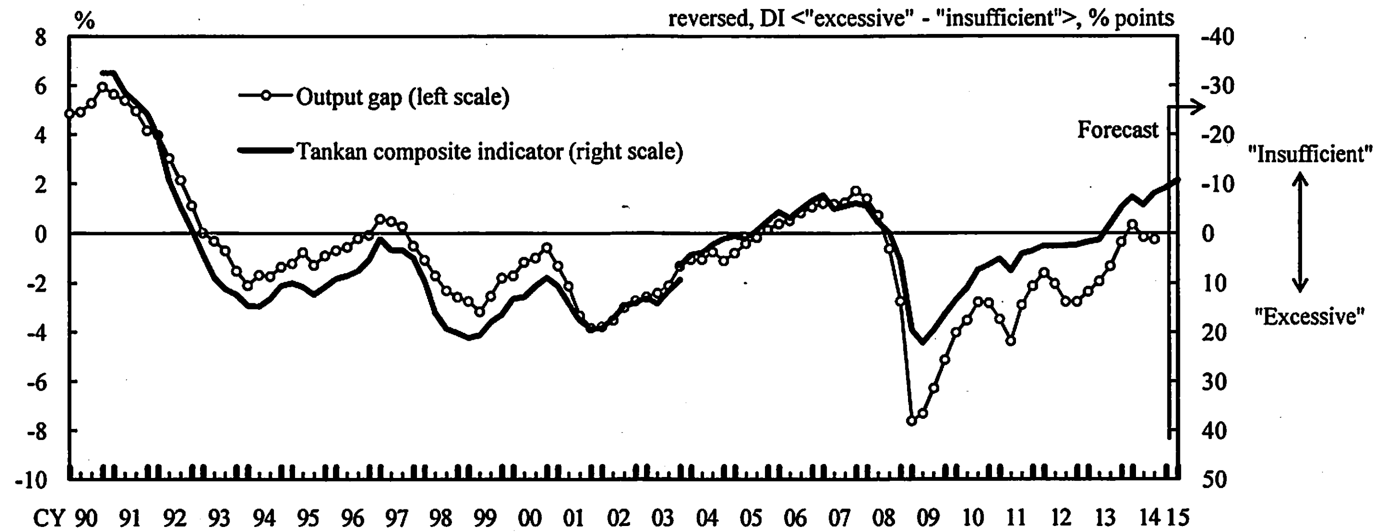
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions[1]

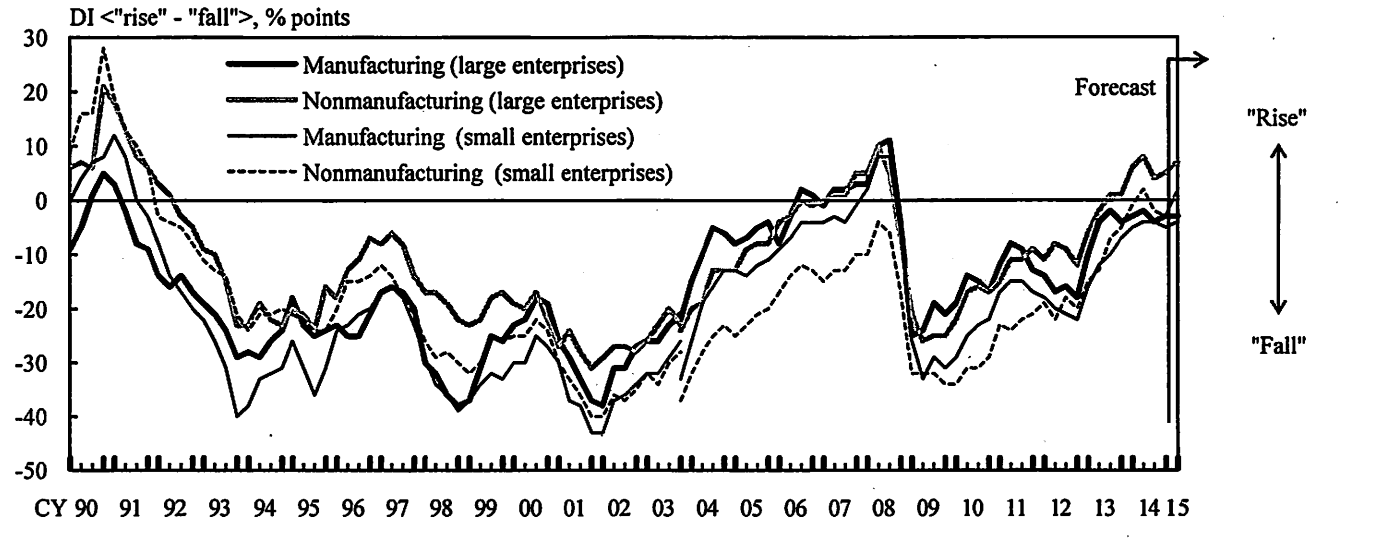
(1) Domestic Supply and Demand Conditions for Products and Services



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



(3) Change in Output Prices



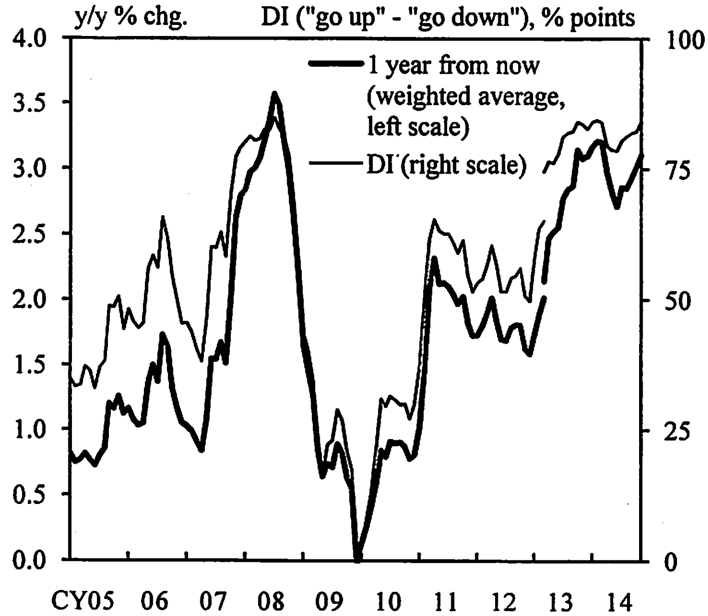
Notes: 1. The "Tankan" has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on the new basis.
2. Figures are weighted averages of the production capacity DI and employment conditions DI. The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

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

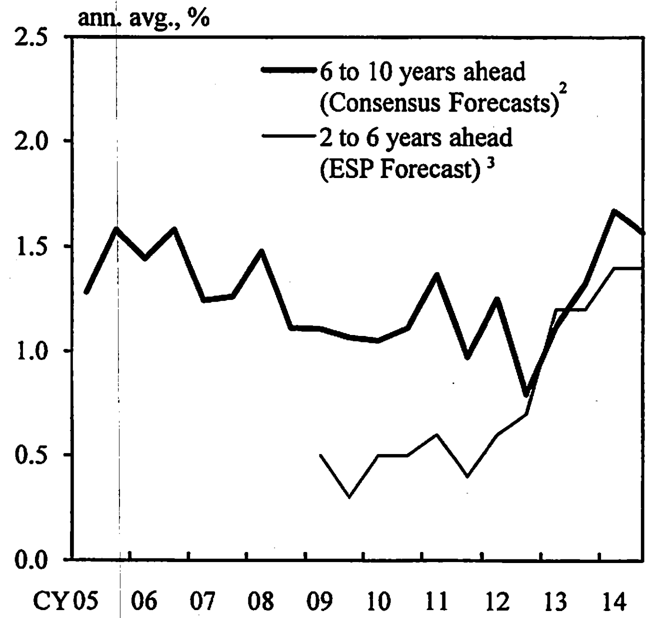
Inflation Expectations

(1) Households

<Consumer Confidence Survey>[1]

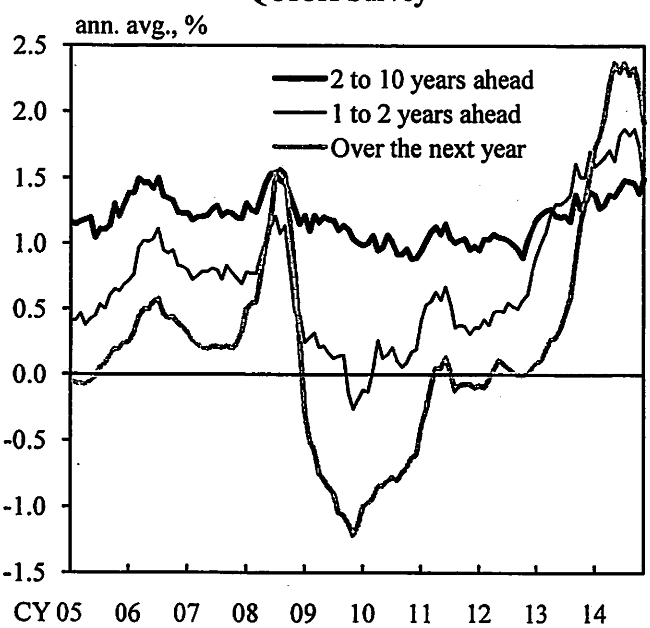


(2) Economists

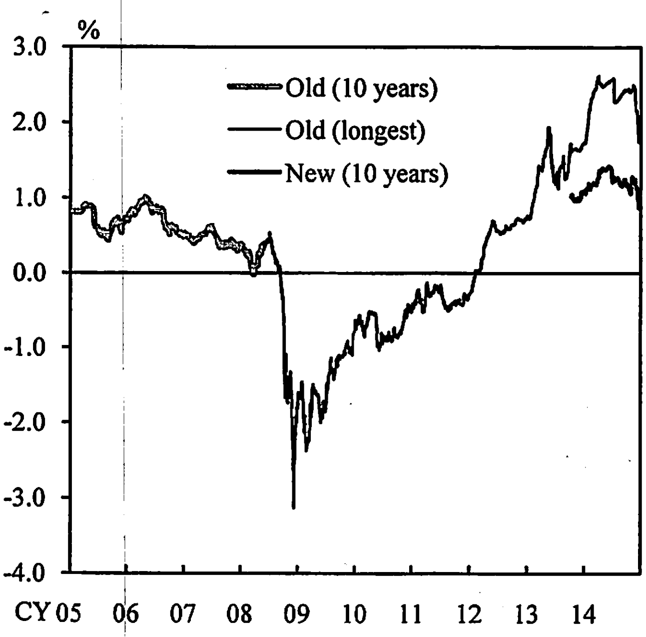


(3) Market Participants

<QUICK Survey>[4]



<BEI for Inflation-Indexed JGBs>[5]



Notes: 1. The Consumer Confidence Survey asks households to provide their price expectations one year from now. Figures are for all households. The weighted average is calculated based on the following assumption: survey responses chosen by households as their expected inflation rates -- "-5% or below," "from -5% to -2%," "from -2% to 0%," "from 0% to +2%," "from +2% to +5%," and "+5% or above" -- indicate inflation rates of -5%, -3.5%, -1%, +1%, +3.5%, and +5%, respectively. There is discontinuity between figures up to March 2013 and those thereafter due to the change in the survey method in April 2013.

2. Figures are forecasts made every January, April, July, and October. Those up through April 2014 are forecasts made every April and October.

3. Figures are forecasts made every June and December. The effects of the consumption tax hikes are excluded.

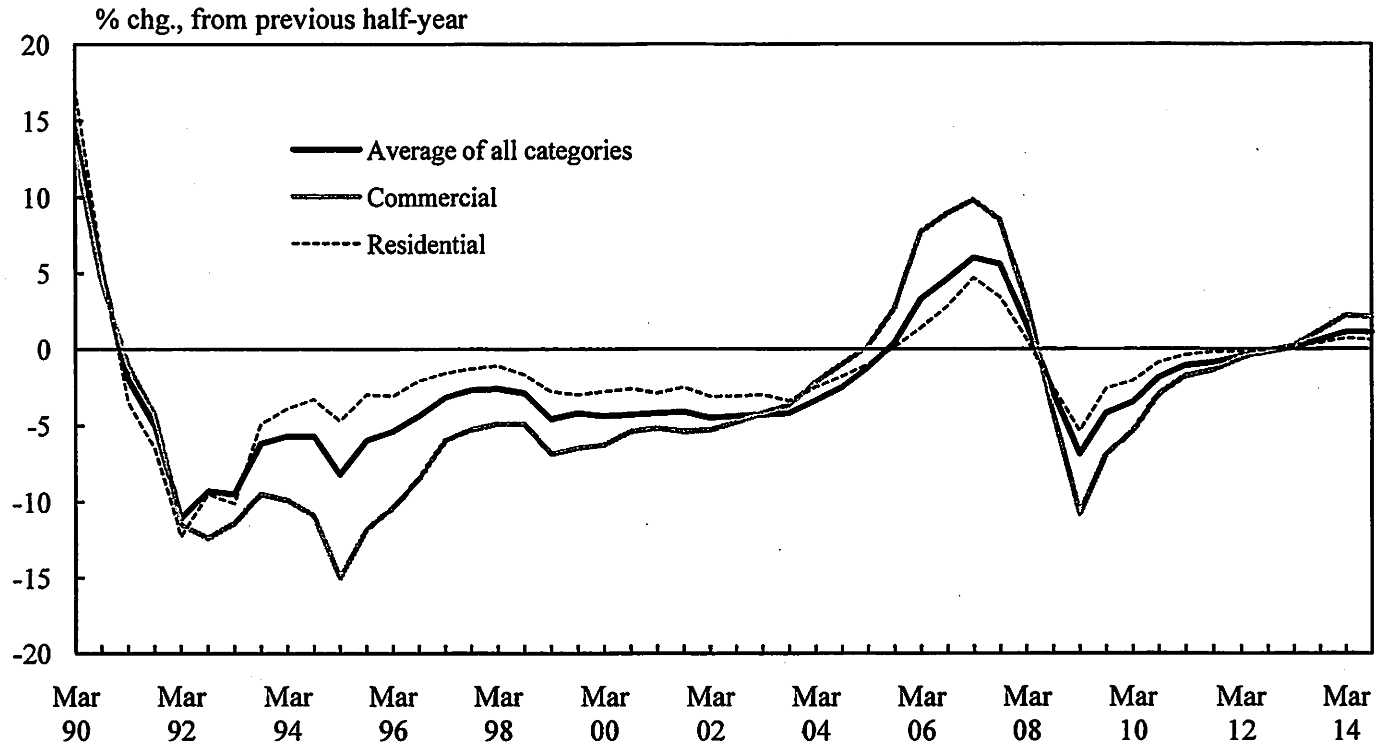
4. From the September 2013 survey, the QUICK Monthly Market Survey (Bonds) has asked respondents to include the effects of the consumption tax hikes.

5. Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of the inflation-indexed JGBs, which matures in June 2018.

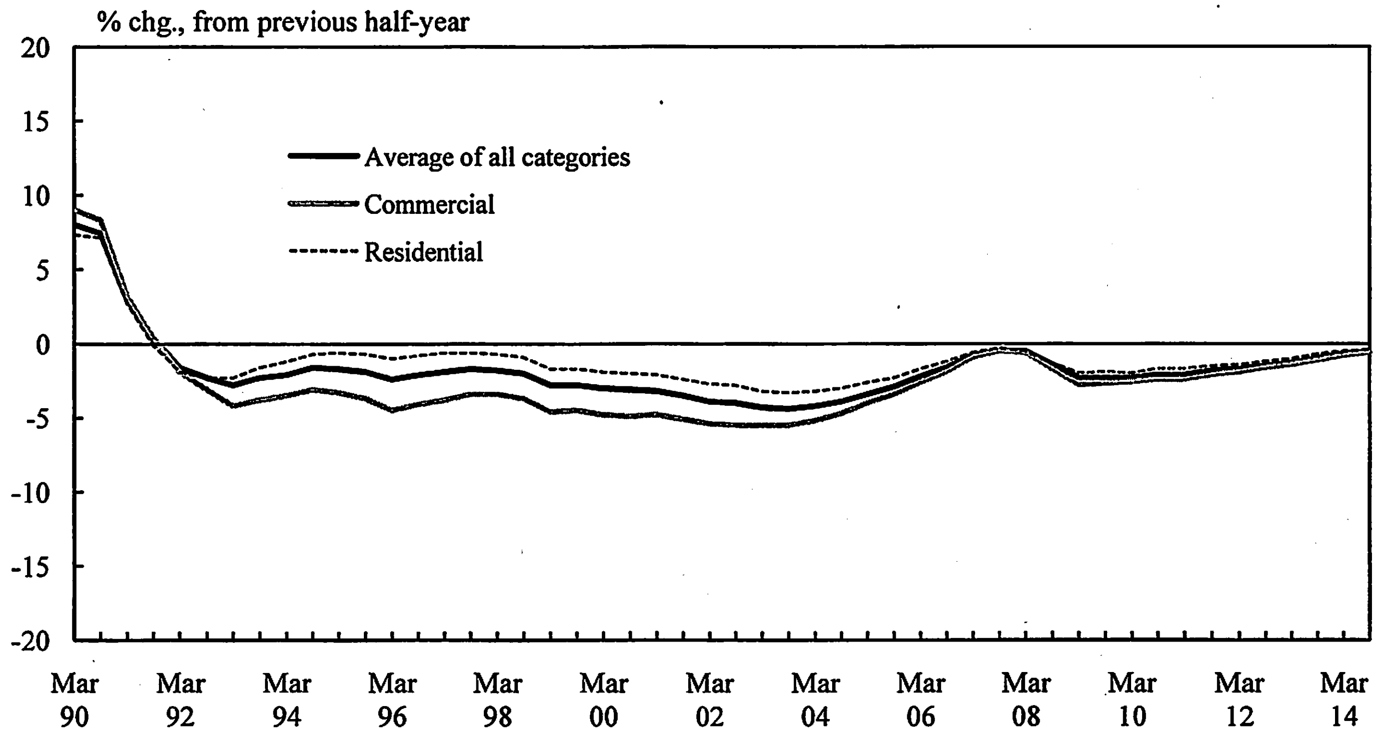
Sources: Cabinet Office, "Consumer Confidence Survey"; Consensus Economics Inc., "Consensus Forecasts"; JCER, "ESP Forecast"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg.

Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas

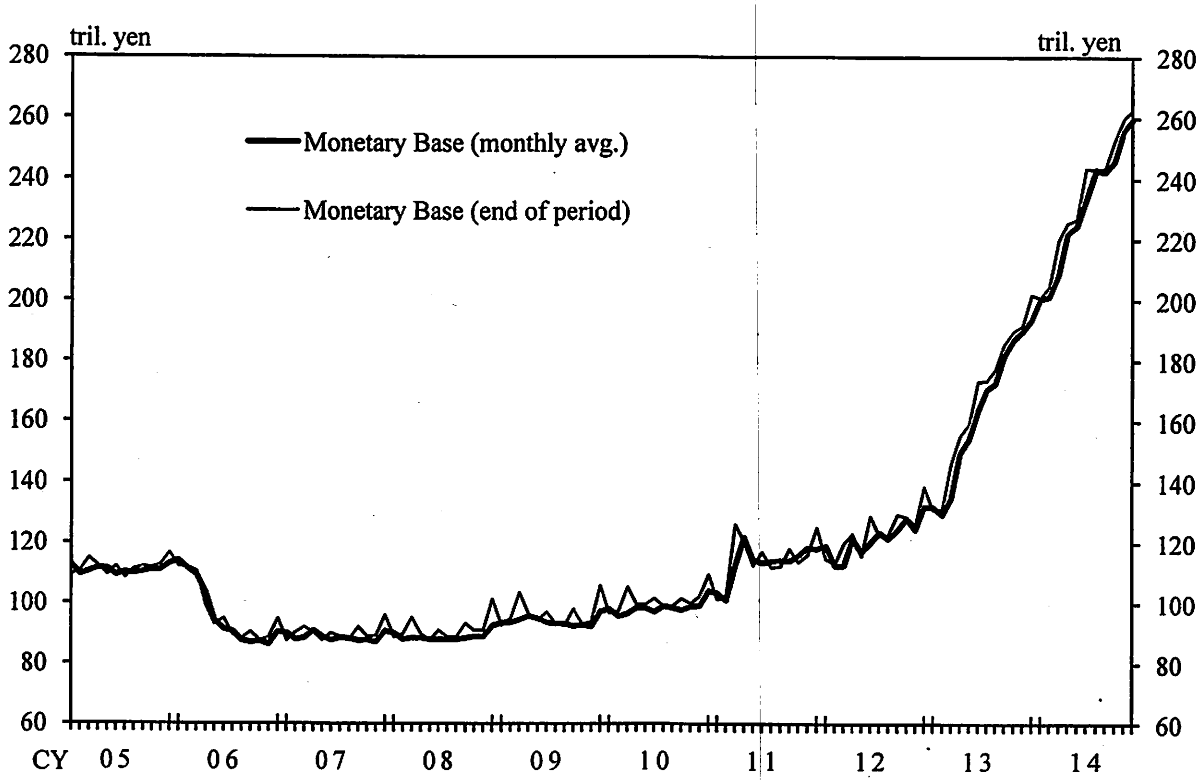


Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.
2. Six Large City Areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.

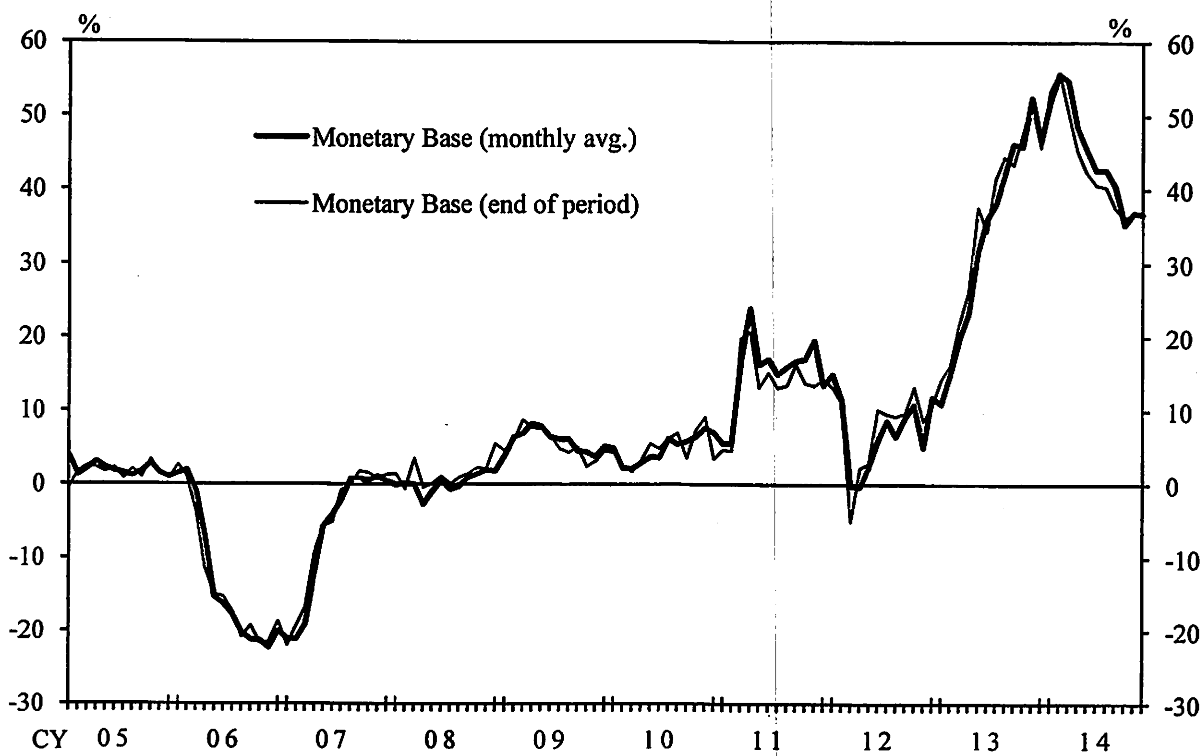
Source: Japan Real Estate Institute, "Urban Land Price Index."

Monetary Base

(1) Level



(2) Changes from a Year Earlier

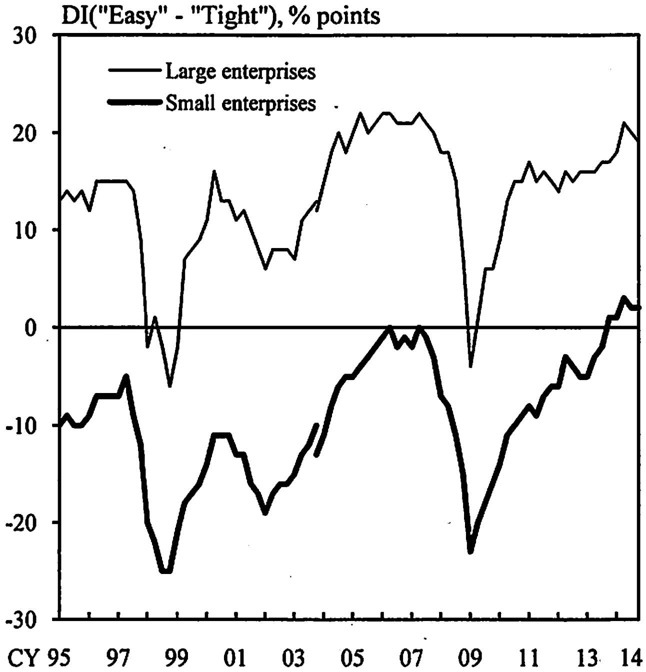


Source: Bank of Japan.

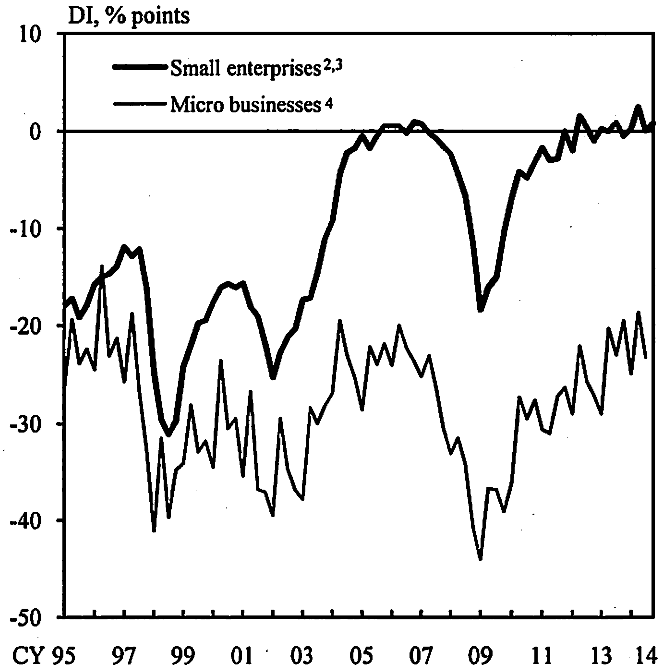
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan[1]>

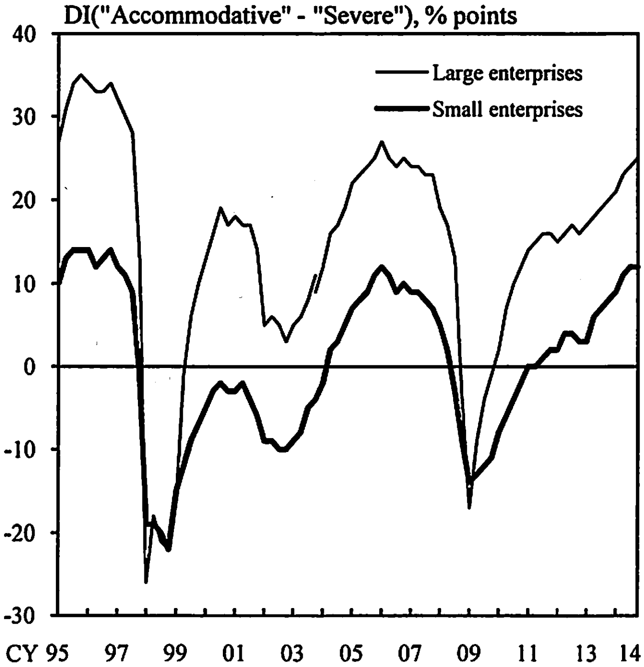


<Japan Finance Corporation Survey>

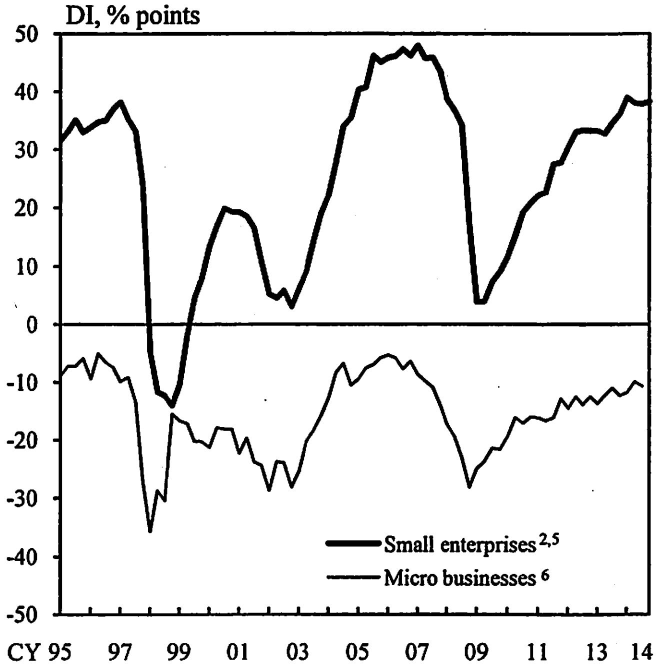


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan[1]>



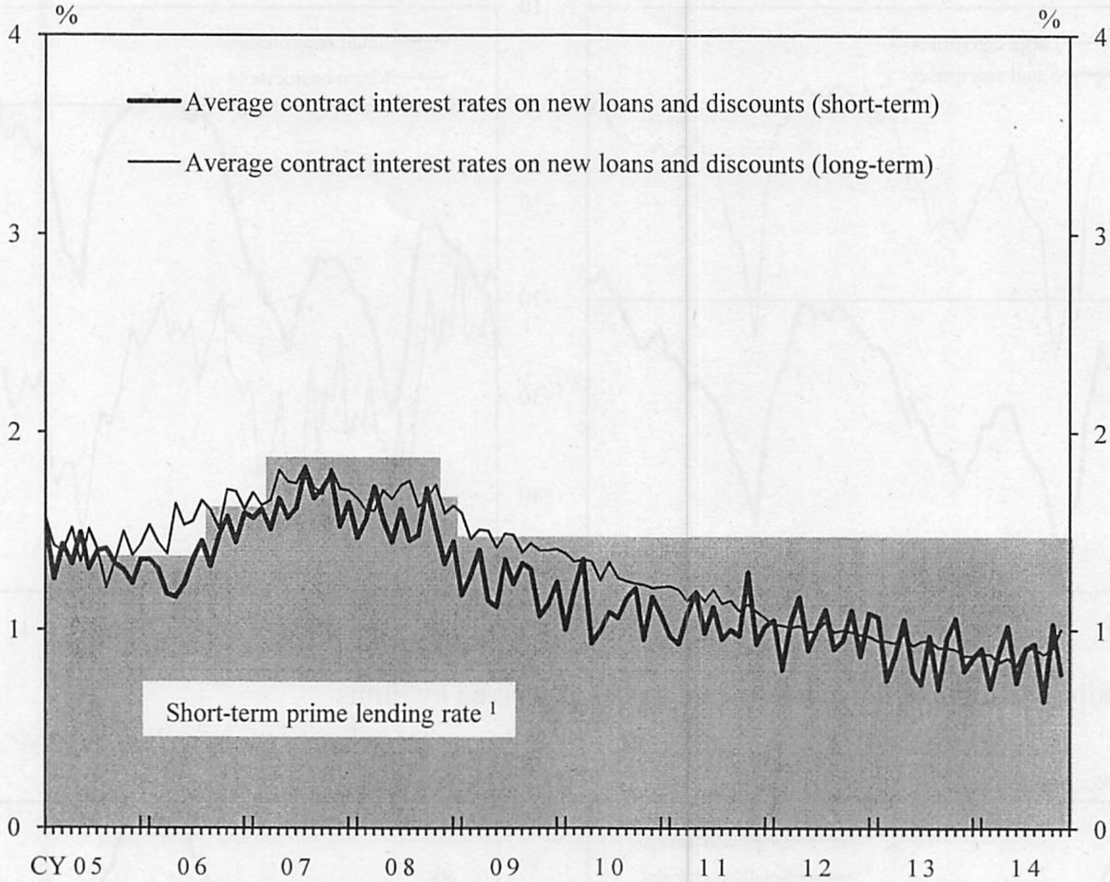
<Japan Finance Corporation Survey>



Notes: 1. Data of the "Tankan" are based on all industries. The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.
2. Figures are quarterly averages of monthly data. Figures for 2014/Q4 are those of Oct.-Nov. 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)."

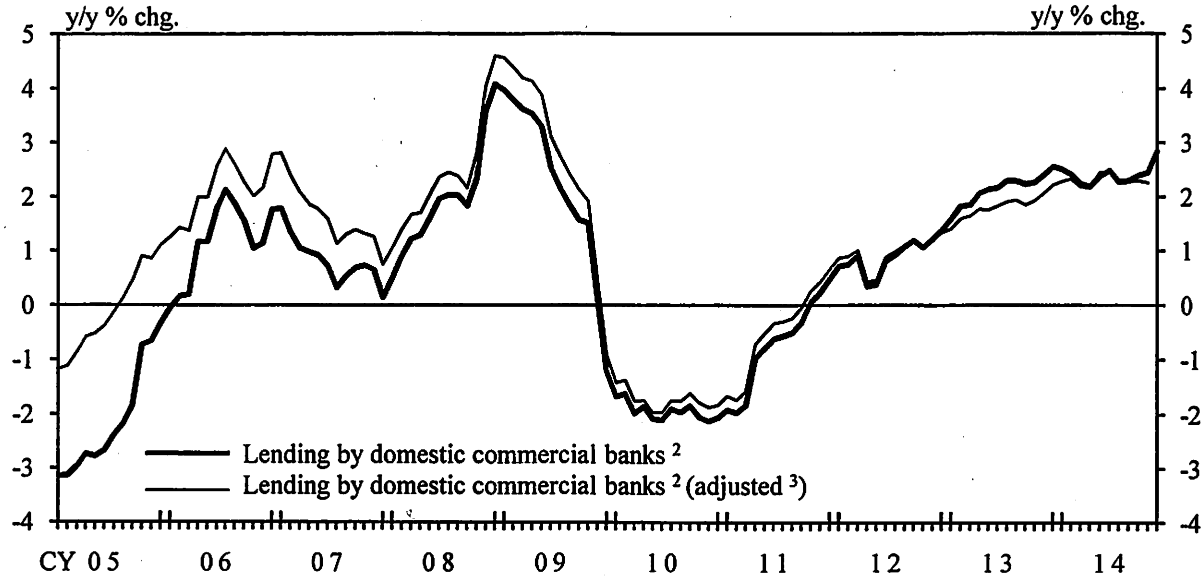
Lending Rates



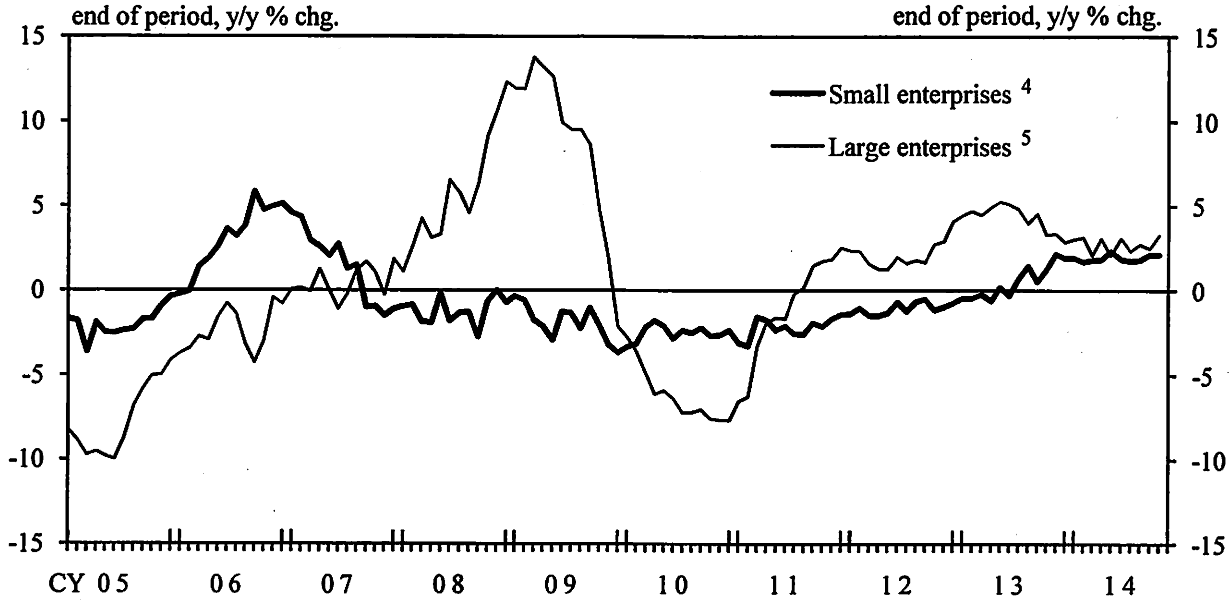
Note: 1. Data are at end of period.
Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks[1]



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

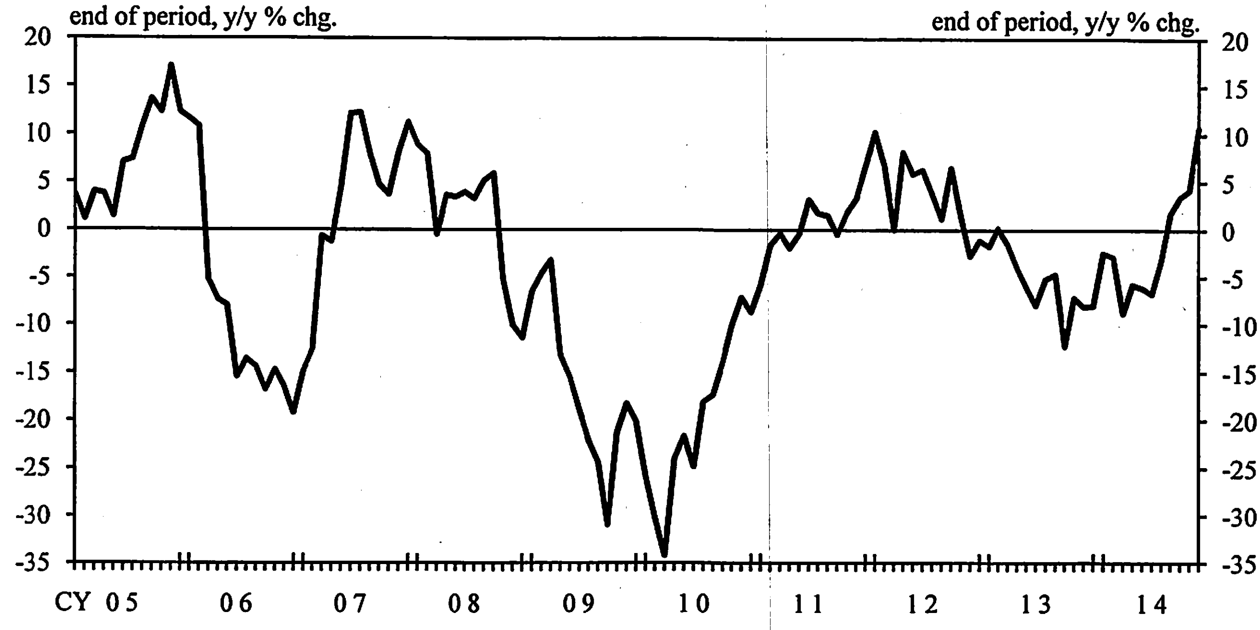


Notes: 1. Percent changes in average amounts outstanding from a year earlier.
2. "Domestic commercial banks" refers to major banks, regional banks I, and regional banks II.
3. Adjusted to exclude
(1) fluctuations due to the liquidation of loans,
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
(3) fluctuations due to loan write-offs,
(4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
(5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.
4. Small enterprises are those capitalized at 300 million yen or less or with regular employees of 300 persons or less ("wholesale trade" capitalized at 100 million yen or less or with regular employees of 100 persons or less, "retail trade" and "eating and drinking services" capitalized at 50 million yen or less or with regular employees of 50 persons or less, and "goods rental and leasing," etc. capitalized at 50 million yen or less or with regular employees of 100 persons or less).
5. Other than small enterprises.

Source: Bank of Japan.

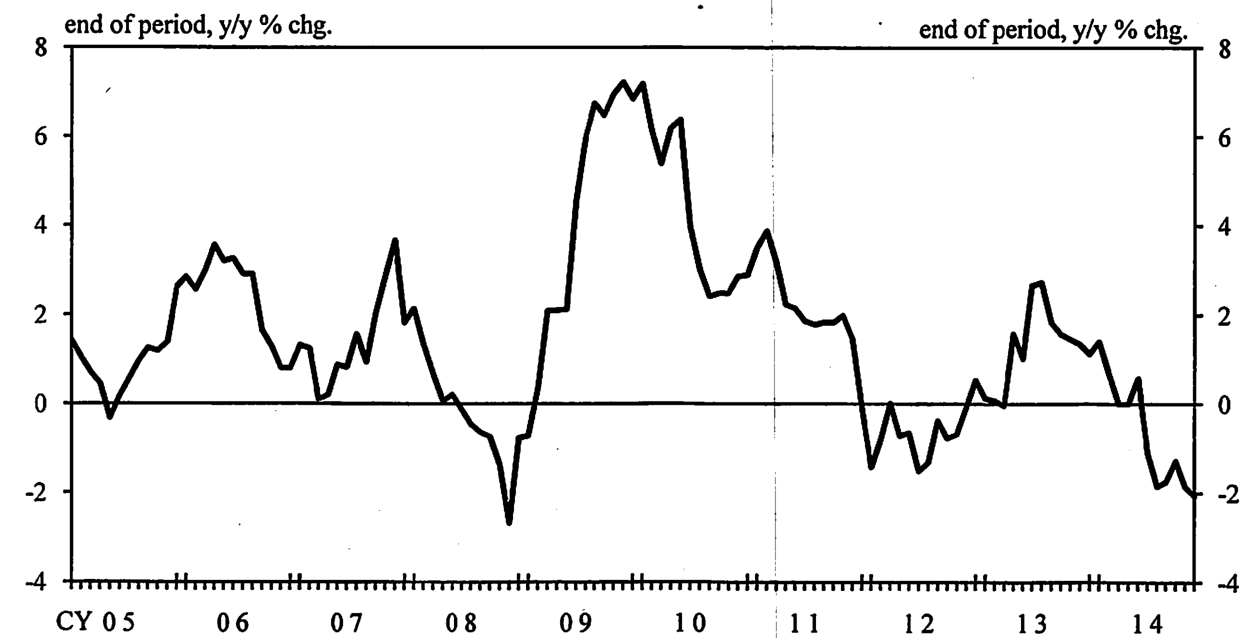
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

(2) Amount Outstanding of Corporate Bonds

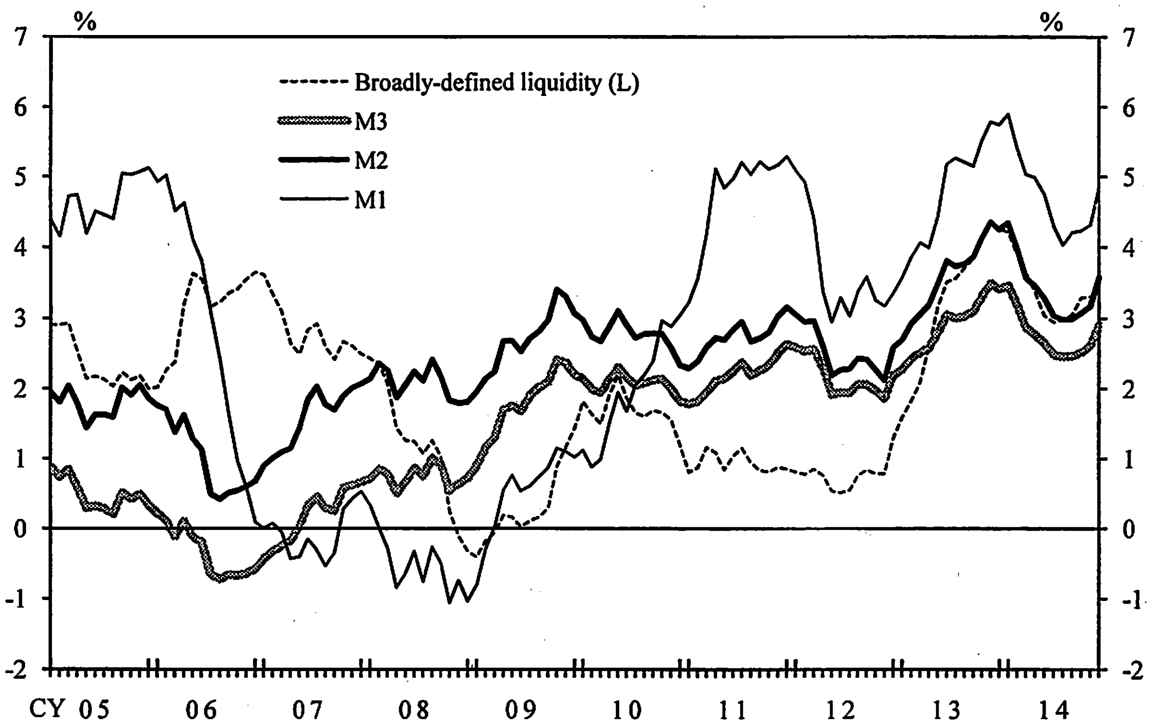


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
(1) The sum of straight bonds issued in both domestic and overseas markets is used.
(2) Bonds issued by banks are included.
(3) Domestic bonds are those registered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

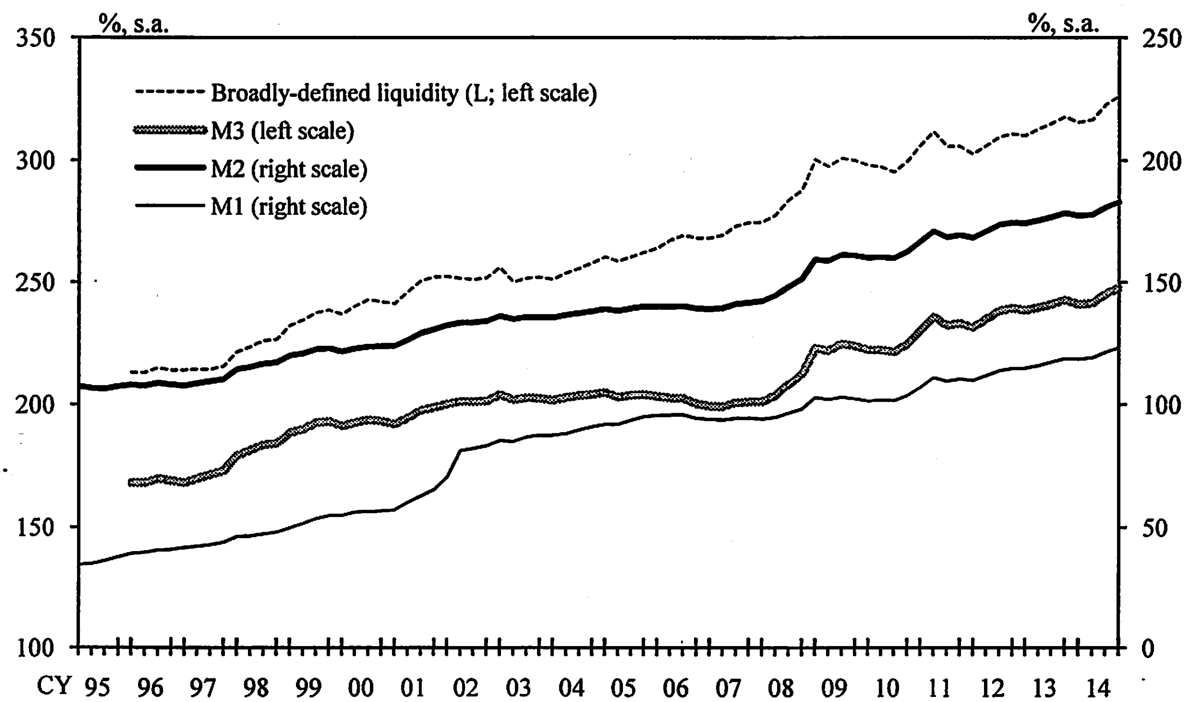
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

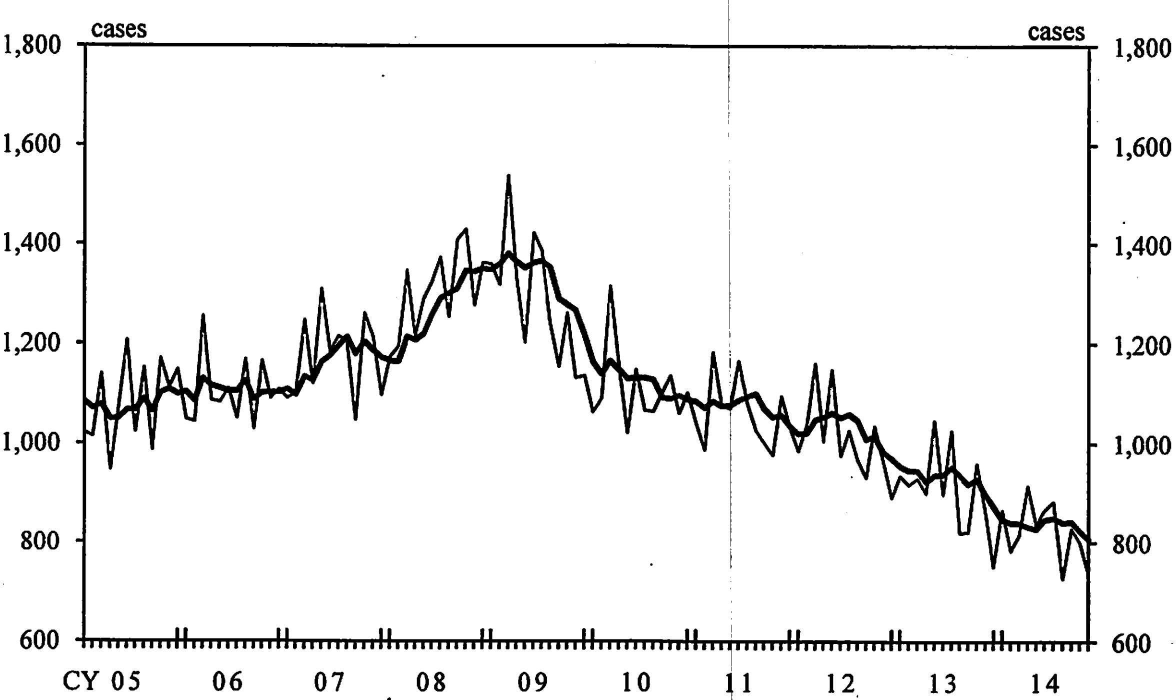


Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2003 are based on the former series.
4. Figures for money stock in 2014/Q4 are those of Oct.-Nov. averages, and nominal GDP in 2014/Q4 is assumed to be unchanged from the previous quarter.

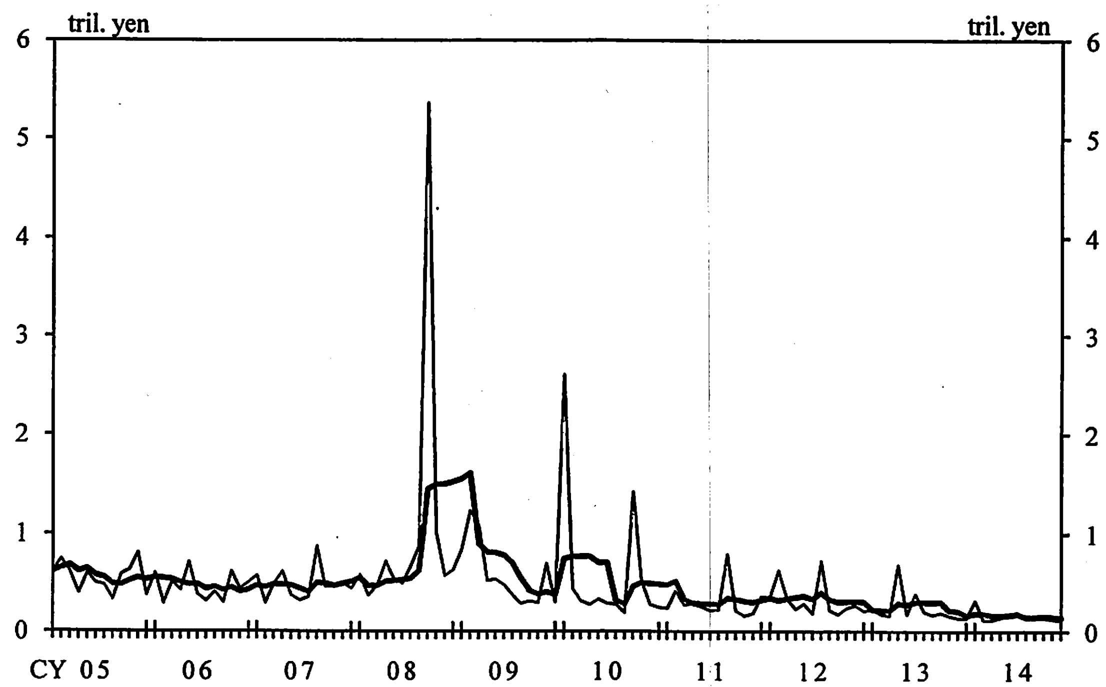
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



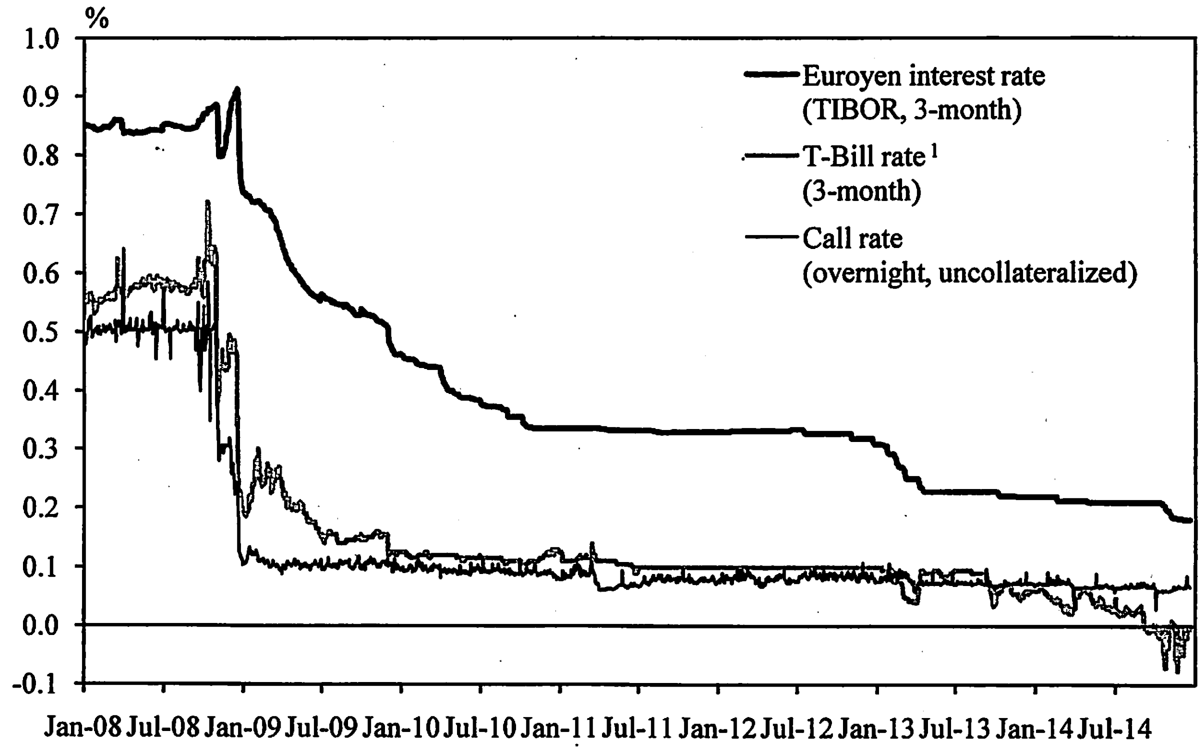
(2) Amount of Liabilities



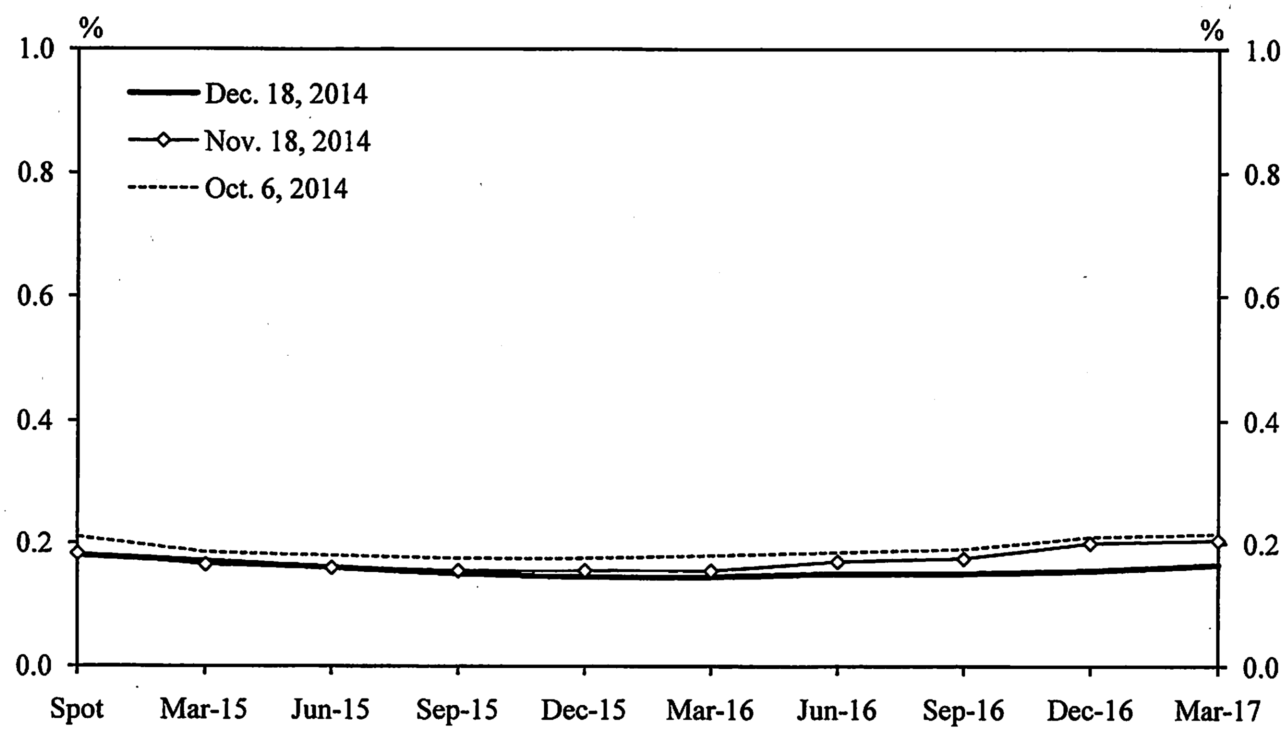
Note: Bold lines are the six-month moving average.
Source: Tokyo Shoko Research Ltd., "*Tosan Geppo* (Monthly review of corporate bankruptcies)."

Short-Term Interest Rates

(1) Short-Term Interest Rates



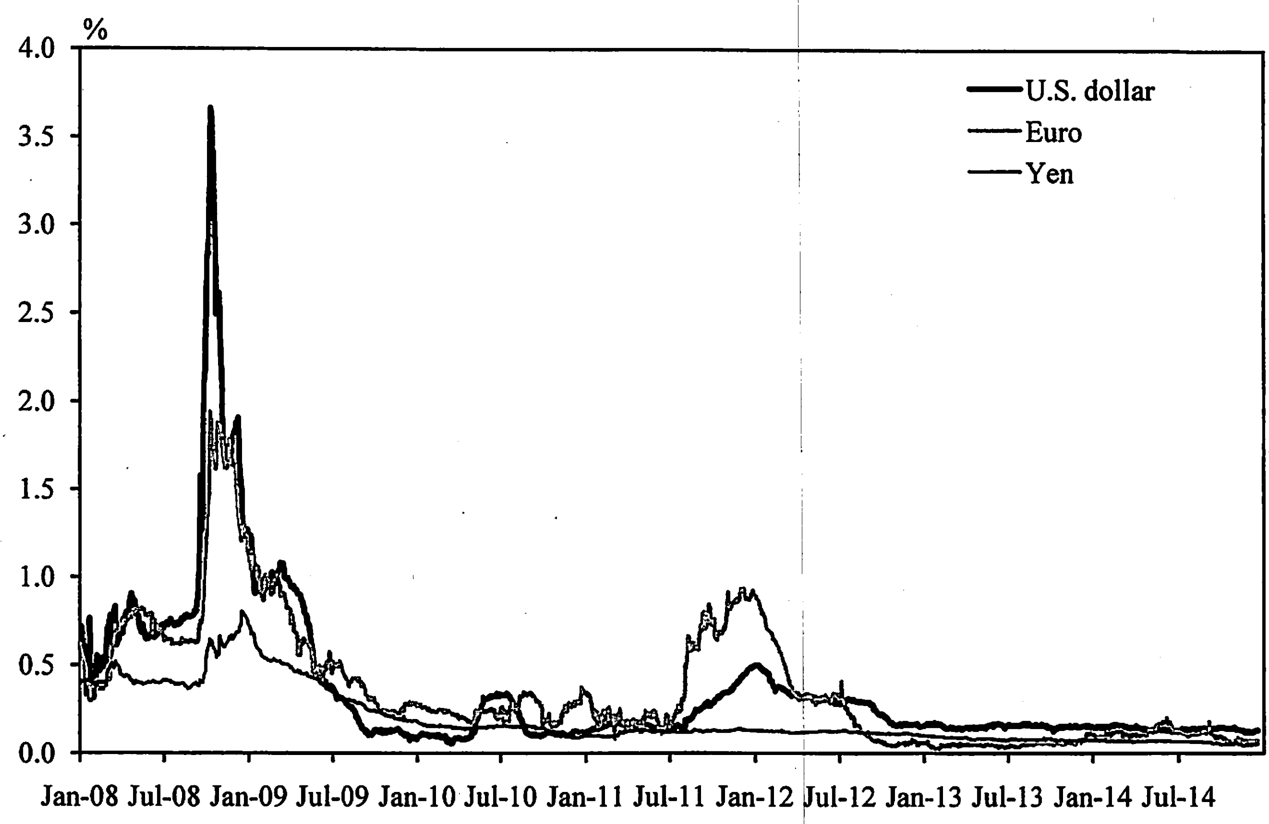
(2) Euroyen Interest Rate Futures (3-Month)



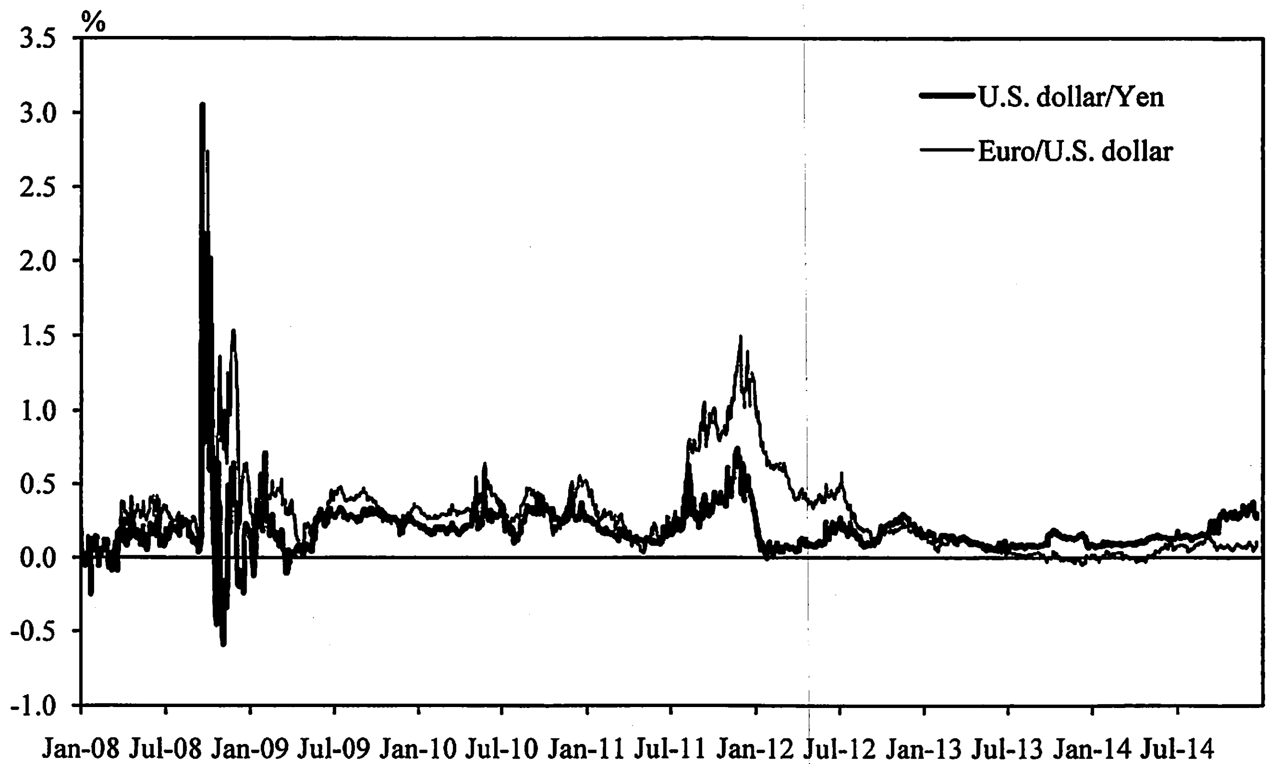
Note: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.
Sources: Japanese Bankers Association; JBA TIBOR Administration; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



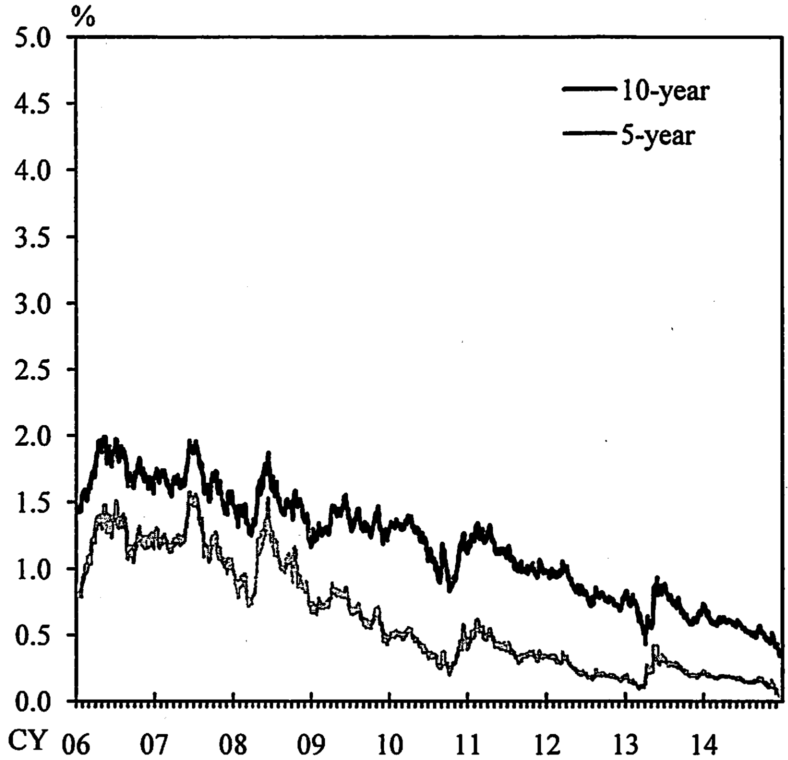
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)

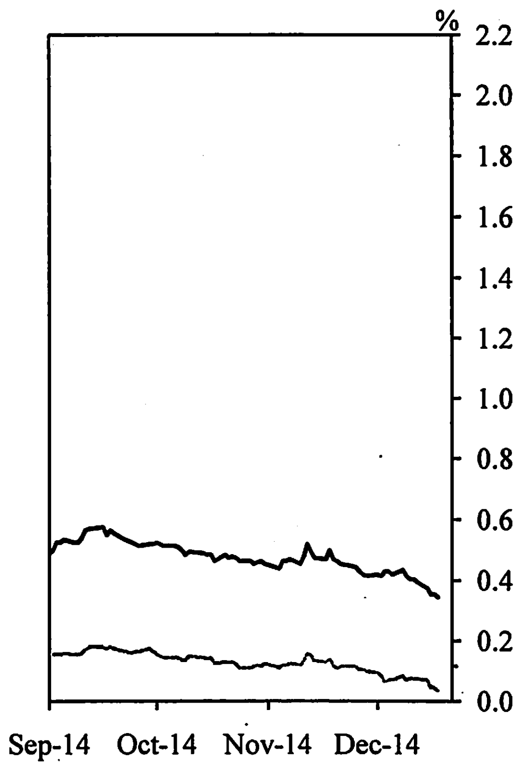


Source: Bloomberg.

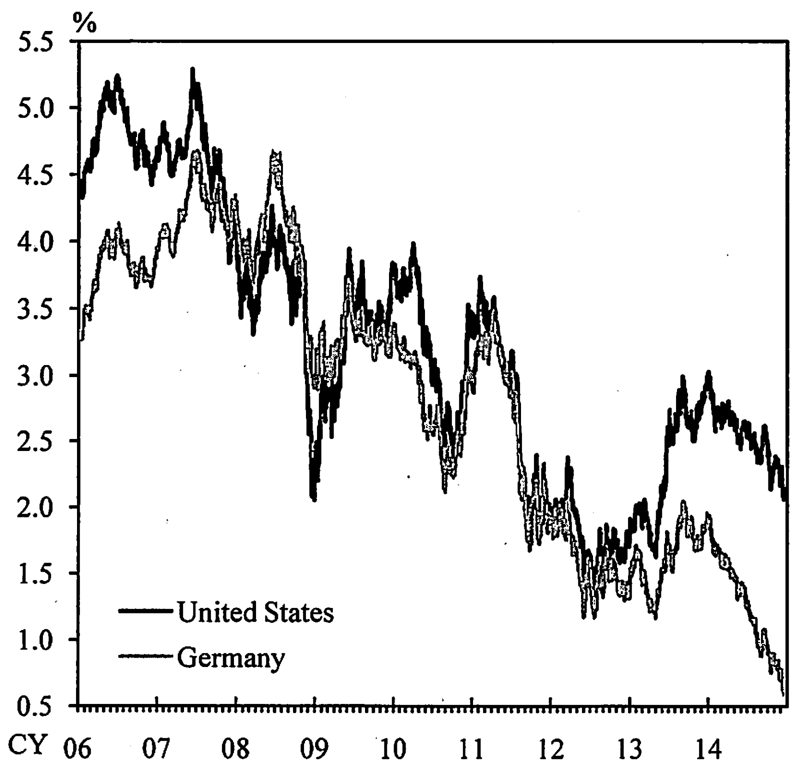
Long-Term Interest Rates

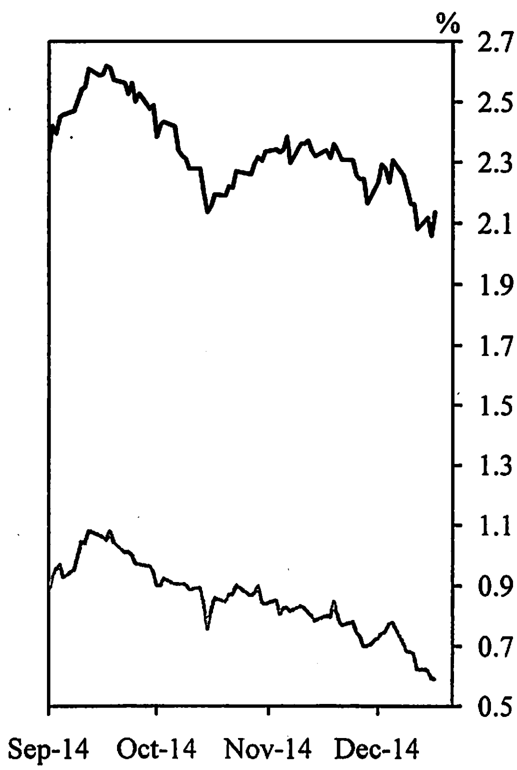
(1) Japanese Government Bond Yields[1]





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

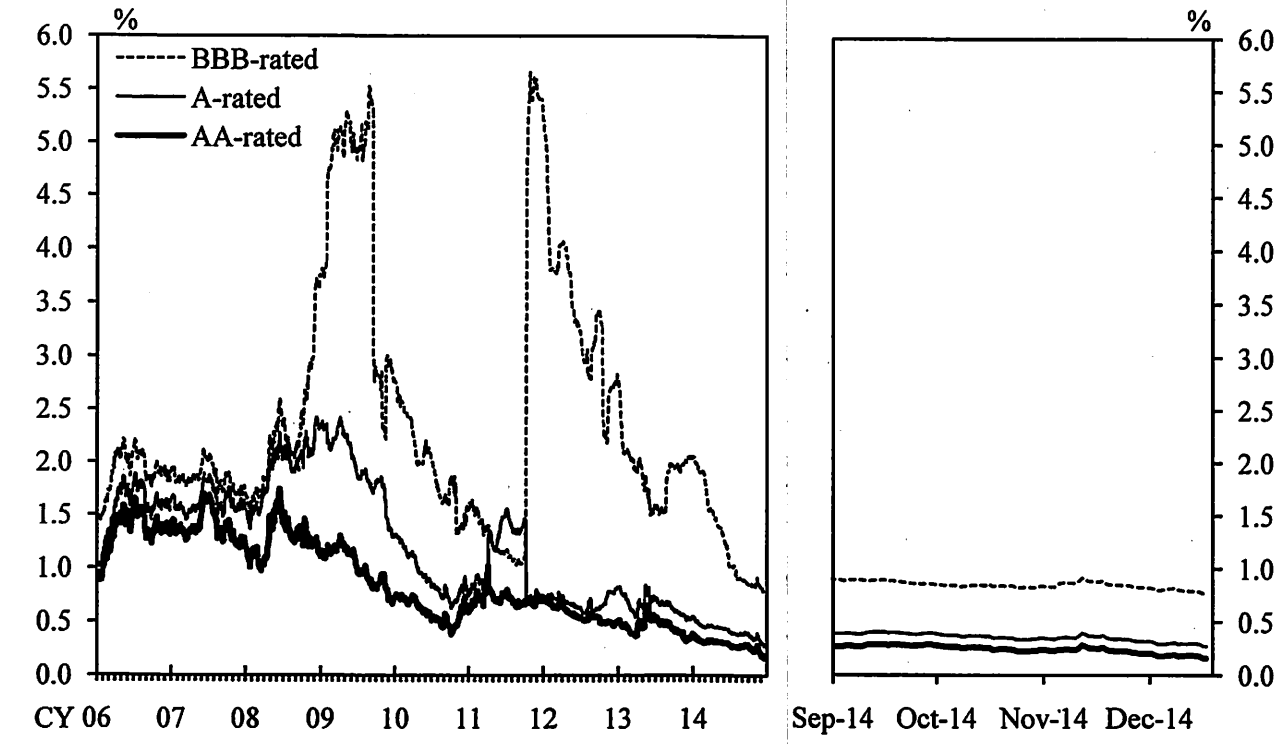




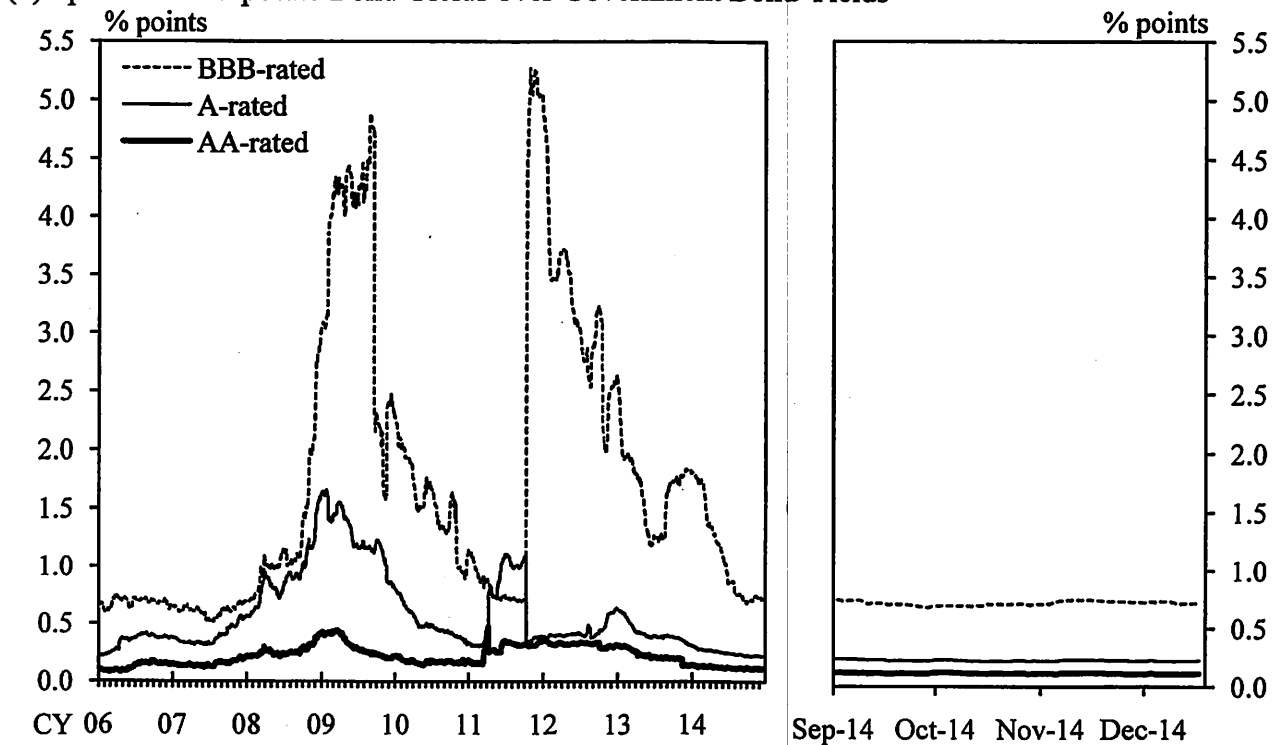
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields[1,2]



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

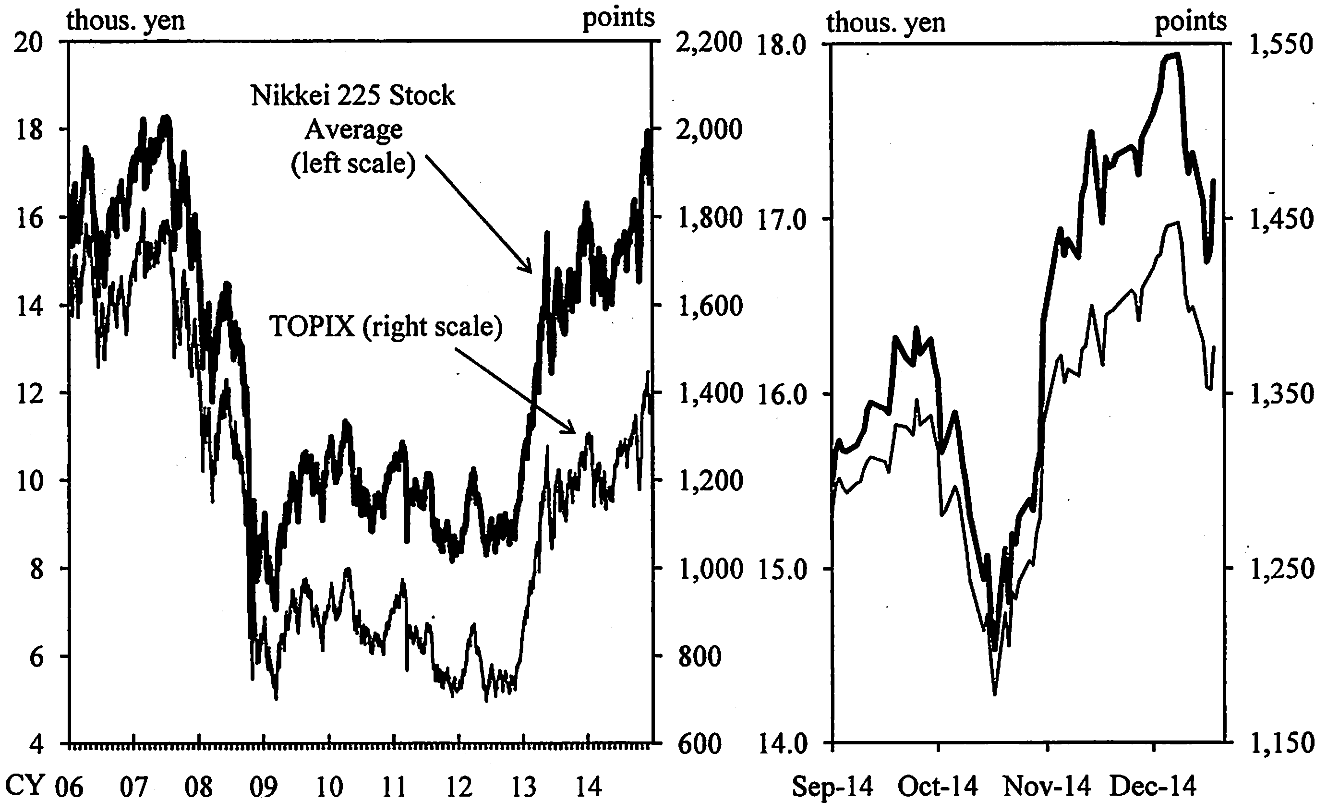


Notes: 1. Yields on bonds with 5-year maturity.
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
2. The indicated ratings are of Rating and Investment Information, Inc.

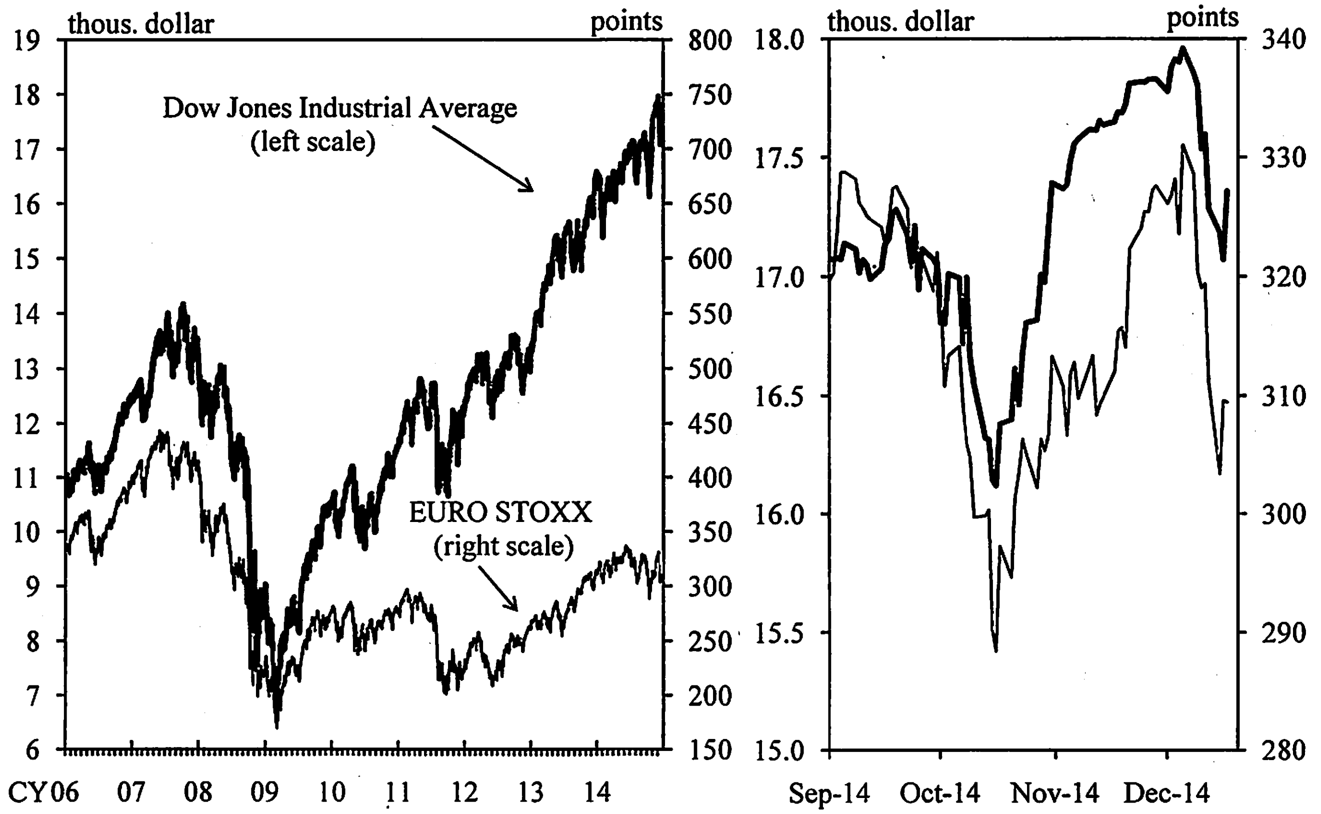
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



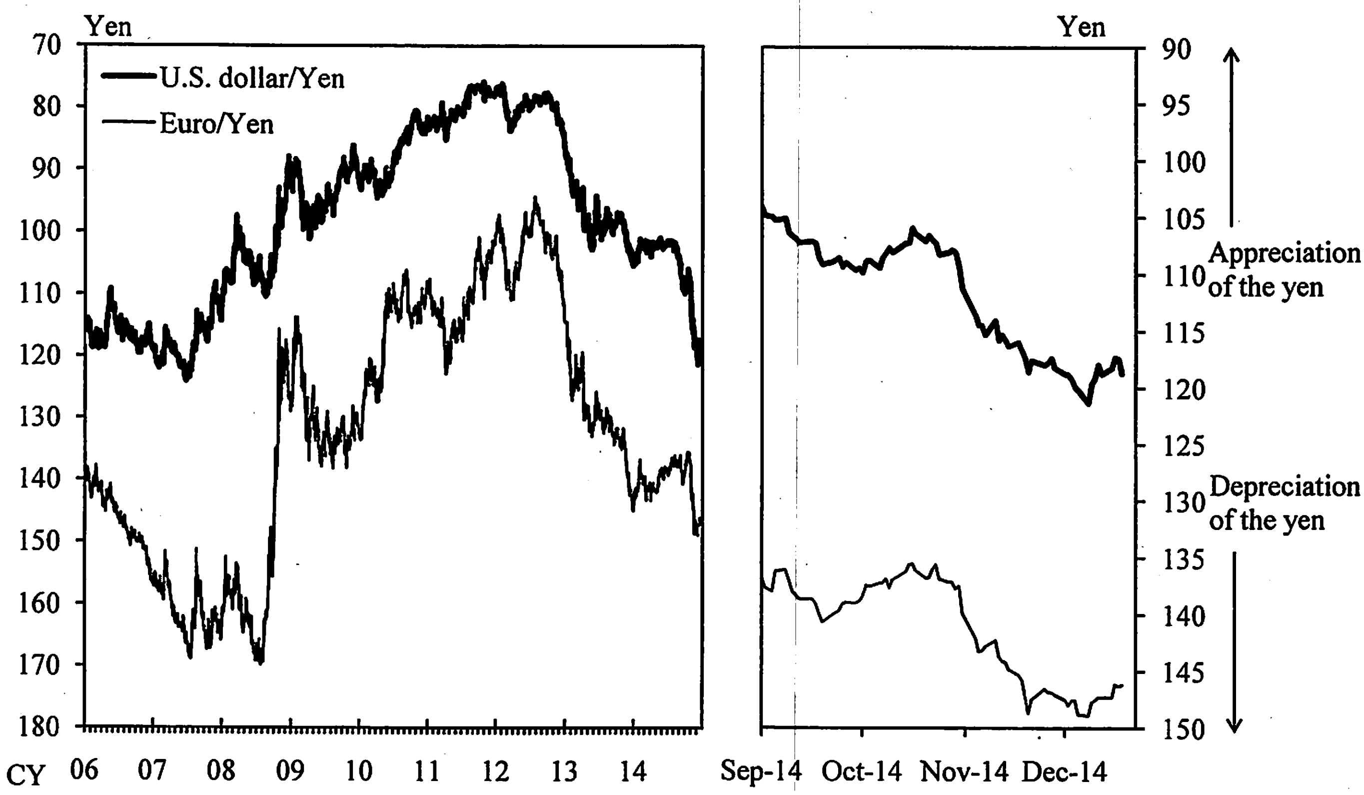
(2) Overseas Stock Prices



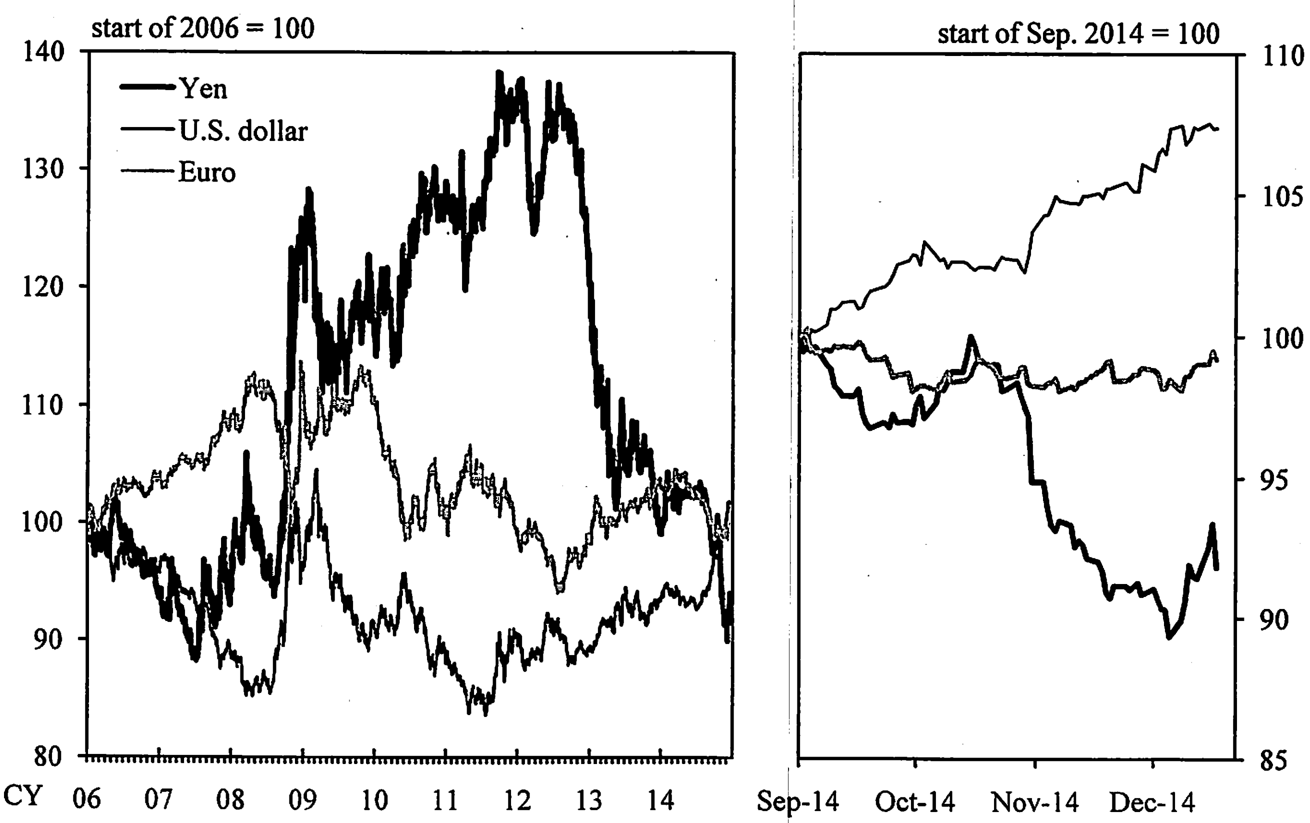
Sources: The *Nihon Keizai Shimbun*; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



(2) Nominal Effective Exchange Rates



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