

(English translation prepared by the Bank's staff based on the Japanese original)

October 9, 2012

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

October 2012

Summary

Japan's economic activity is leveling off more or less.

Exports and industrial production have been relatively weak as overseas economies have moved somewhat deeper into a deceleration phase. On the other hand, domestic demand has been resilient, mainly supported by reconstruction-related demand. Specifically, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has been resilient with the employment situation on an improving trend. Business fixed investment has been on a moderate increasing trend as corporate profits have improved on the whole. As for business sentiment, firms have turned somewhat cautious mainly against the background of the deceleration in overseas economies.

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

Exports and industrial production are expected to remain relatively weak for the time being and increase moderately thereafter as overseas economies gradually emerge from the deceleration phase. As for domestic demand, public investment is expected to be on the rise and housing investment to continue to generally pick up, mainly supported by reconstruction-related demand. Business fixed investment is projected to continue a moderate increasing trend, albeit impacted for the time being by the deceleration in overseas economies, partly due to investment related to disaster

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 4 and 5, 2012.

prevention and energy, as corporate profits keep improving on the whole. Private consumption is expected to remain resilient as the employment situation continues its improving trend, although car sales are expected to fall back for the time being following the ending of subsidies for purchasing energy-efficient cars.

Meanwhile, there remains a high degree of uncertainty about the global economy, and furthermore, attention should be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

On the price front, the three-month rate of change in domestic corporate goods prices has been negative, mainly reflecting the earlier decline in international commodity prices. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

Domestic corporate goods prices are expected to decline at a reduced pace for the time being, reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

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. Meanwhile, the value of the yen against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same levels as last month.

Financial conditions are accommodative.

The overnight call rate has remained at an extremely low level, and firms' funding costs have been hovering at low levels. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds have remained favorable on the whole. As for credit demand, firms have shown signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending has risen somewhat. The year-on-year rate of change in the amount

outstanding of CP has been positive. In contrast, that of corporate bonds, especially electric company bonds, has been negative. In these circumstances, firms have retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of change in the money stock has been positive within the range of 2-3 percent.