

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

May 25, 2015

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

May 2015

Summary

Japan's economy has continued to recover moderately.

Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have been picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has entered a moderate declining trend, although at a high level. Private consumption has been resilient against the background of steady improvement in the employment and income situation. Housing investment has bottomed out and shown some signs of picking up. Reflecting these developments in demand both at home and abroad, industrial production has been picking up.

With regard to the outlook, Japan's economy is expected to continue recovering moderately.

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 its moderate declining trend, albeit maintaining a somewhat high level. Business fixed investment is projected to continue a moderate increasing trend as corporate profits follow their improving trend. Private consumption is expected to remain resilient with the employment and income situation continuing to improve steadily. Housing investment is projected to pick up. Reflecting these developments in demand both at home and abroad, industrial production is expected to increase moderately.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on May 21 and 22, 2015.

Meanwhile, risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices 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 have stopped declining relative to three months earlier, reflecting movements in international commodity prices, and the year-on-year rate of increase in consumer prices (all items less fresh food) is about 0 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 rise moderately 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 about 0 percent for the time being, due to the effects of the decline in energy prices.

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. 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.