

20100908 Bank of Japan: Monthly Report of Recent Economic and Financial Developments (September 2010)

Source: Bank of Japan

Japan's economy shows further signs of a moderate recovery.

Exports and production have been increasing, albeit at a slower pace. Business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. In these circumstances, private consumption has been generally picking up and has recently been boosted by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of the policy measure. Housing investment has leveled out. Meanwhile, public investment is declining.

Japan's economy is likely to recover at a moderate pace, although the pace of improvement is likely to slow temporarily.

Exports are expected to continue increasing, albeit moderately for the time being, reflecting continued improvement in overseas economic conditions. Signs of picking up in business fixed investment are expected to gradually become more evident as the improvement in corporate profits continues. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment is likely to remain moderate for the time being. Private consumption is expected to remain on a recovery trend, despite a likely temporary weakening mainly due to the ending of the boost from the extremely hot weather and the abolition of subsidies for purchasing energy efficient cars. Meanwhile, the decline in public investment is likely to continue. In these circumstances, production is expected to continue to trend upward, although it is likely to temporarily show weakness primarily in durable consumer goods.

On the price front, domestic corporate goods prices have been somewhat lower than their levels of three months earlier, mainly due to the decrease in commodity prices, amid the persistent slack in supply and demand conditions for products. Consumer prices (excluding fresh food) are declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the slowing trend in the pace of decline has continued.

Domestic corporate goods prices are expected to be somewhat weak for the time being, since the effects of the decrease in commodity prices are likely to continue. The year-on-year pace of decline in consumer prices is expected to slow as a trend as the aggregate supply and demand balance improves gradually.

The weighted average of the overnight call rate has been at around 0.1 percent. Interest rates on term instruments have declined somewhat. Meanwhile, compared with last month, the value of the yen against the U.S. dollar and long-term interest rates have risen, while stock prices have declined.

Financial conditions have continued to show signs of easing.

The overnight call rate has remained at an extremely low level, and the declining trend in firms' funding costs has continued. While stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices, such effects are beginning to strengthen in light of improved corporate profits. With regard to credit supply, firms see financial institutions' lending attitudes as improving. Issuing conditions for CP and corporate bonds have remained favorable. As for credit demand, firms' need to fund working capital and fixed investment has declined, and some firms have reduced the on-hand liquidity that they had accumulated. Against this backdrop, bank lending has declined on a year-on-year basis. The amount outstanding of corporate bonds has exceeded the previous year's level, while that of CP has declined. In these circumstances, the financial positions of firms have continued to show signs of improvement as a whole. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.

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