

October 16, 2001
Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
October 2001

(English translation prepared by the Bank staff based on the Japanese original
released on October 15, 2001)

Monthly Report of Recent Economic and Financial Developments¹

October 2001

The Bank's View²

Adjustments in economic activity are becoming more severe, as the substantial decline in production has a negative influence on employment and income conditions. In addition, the terrorist attacks in the U.S. have further heightened uncertainty in Japan's economy.

With regard to final demand, net exports (real exports minus real imports) continue to decline, reflecting not only a slowdown in overseas economies but also sluggish demand for IT-related goods. Business fixed investment is also decreasing noticeably while exporting conditions continue to deteriorate. Housing investment remains sluggish and public investment is declining. Meanwhile, private consumption remains almost flat on the whole, although somewhat weak indicators are increasing recently.

Industrial production continues to decline considerably, reflecting these developments in final demand and also strong excessiveness in inventories of electronic parts and materials. The decrease in corporate profits, particularly in manufacturing, has become evident and household income weakens gradually.

Moreover, while such perception is becoming widespread that a further deceleration in overseas economies is inevitable due to the terrorist attacks in the U.S., precautions against the business outlook are intensifying among Japanese exporting firms.

Turning to the outlook, as for exporting conditions, although inventory adjustments in IT-related goods worldwide are expected to continue for the time

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 11 and 12, 2001.

² The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on October 11 and 12 as the basis for monetary policy decisions.

being, the prevailing view is that the adjustments will be basically completed by around next spring. However, there exists a risk that the prolonged downturn in U.S. private consumption affected by the terrorist attacks would induce another round of adjustments in the Japanese economy, starting from the decline in exports such as of consumer goods. Under these circumstances for exports, uncertainty toward the economy is growing further. Meanwhile, with respect to domestic demand, business fixed investment is expected to follow a downward trend judged not only from the continuous decline in corporate profits, but also from the successive downward revisions of firms' investment plans in the IT-related sector. Private consumption is likely to weaken gradually along with the deteriorating employment and income conditions. Thus, the income-generating mechanism from corporate profits to employment and wages is starting to work adversely, and at the same time government spending is projected to follow a downward trend. Consequently, it may take quite a while for overall production activity to stop declining, although the decrease in the production of IT-related goods may eventually come to an end.

Overall, adjustments in economic activity, starting from the decline in exports since the beginning of this year, will surely affect domestic demand gradually. At the same time, concern that another substantial decline in exports will exert downward pressure on the economy is growing. Moreover, while the economy continues to be in a fragile state, continuous attention should be paid to the risk of a negative impact on the economy induced by developments in foreign and domestic capital markets via corporate and household confidence.

With regard to prices, import prices are declining mainly reflecting the softening of international commodity prices. Domestic wholesale prices are also declining somewhat faster because the effects from high crude oil prices and the depreciation of the yen in the past have dissipated, while prices of electrical machinery and materials continue to decrease. Consumer prices are weakening owing mainly to the decline in prices of imported products and their substitutes. Corporate service prices continue to decrease.

As for the conditions surrounding price developments, with the prolonged adjustments in economic activity, the balance between supply and demand in the

domestic market will exert downward pressure on prices gradually. Furthermore, in addition to the declining trend of machinery prices caused by technological innovations, the decreases in the prices of goods and services reflecting deregulation and the streamlining of distribution channels will continue to restrain price developments. Overall, prices are expected to follow a gradual declining trend for the time being. Moreover, given the high degree of uncertainty regarding future economic developments, the possibility that weak demand will further intensify downward pressure on prices warrants careful monitoring.

In the financial market, the overnight call rate is moving around zero percent as the Bank of Japan provided ample liquidity to the money market by aiming at maintaining the current account balances held at the Bank at above 6 trillion yen due to the changes in the guideline for money market operations decided at the Monetary Policy Meeting held on September 18.

Interest rates on term instruments are basically level on the whole. The Japan premium remains negligible.

Yields on long-term government bonds are recently moving around 1.35-1.40 percent. As for the yield spreads between private bonds (bank debentures and corporate bonds) and government bonds, while spreads between bonds with relatively high credit ratings and government bonds remain mostly unchanged, those between bonds with low credit ratings and government bonds seem to be expanding somewhat.

Stock prices are recently starting to recover slightly.

In the foreign exchange market, the yen is currently being traded in the range of 120-122 yen to the U.S. dollar.

With regard to corporate finance, private banks continue to be more active in extending loans, mainly to blue-chip companies, while carefully evaluating the credit risks involved. However, the lending attitudes of financial institutions as perceived by small firms are becoming slightly more cautious. In corporate bonds and CP markets, the fund-raising conditions for firms continue to be generally favorable.

On the other hand, credit demand in the private sector is declining faster mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

In view of this, private banks' lending is following a downward trend. The amount outstanding of corporate bonds issued is growing at about 2 percent on a year-on-year basis. Meanwhile, the amount outstanding of CP issued continues to be at a high level, significantly exceeding that of the previous year, due to the favorable environment for issuing CP.

The growth rate of money stock ($M_2 + \text{CDs}$) in September was higher than that of the previous month.

Funding costs for firms continue to be at extremely low levels.

Overall, the recent financial environment remains extremely easy: witness the permeation of easiness in money market conditions, stably low interest rates, higher growth in monetary indicators, and the generally favorable conditions in corporate bonds and CP markets. However, against the background of deteriorating corporate earnings and the more cautious lending attitudes of financial institutions, fund-raising conditions of small firms are apparently becoming more severe. Hence, the developments in the behavior of financial institutions and corporate financing need closer monitoring.

In addition, it is necessary to carefully monitor the effects of the terrorist attacks in the U.S. and the subsequent developments on global financial markets and economic activity.

The Background

1. Japan's Economy

Public investment is declining. The value of public works contracted—a metric that reflects orders—has been at low levels since the start of this fiscal year. Reflecting such low orders, actual implementation of those works is also clearly on a downward trend (Chart 2). Public investment is expected to follow a declining trend.

Real exports continue to decline substantially, reflecting not only a slowdown in overseas economies but also sluggish demand for IT-related goods (Charts 3[1], 4, and 5). Real exports in July-August decreased significantly compared to the second quarter of 2001 following the considerable decline in both the first and second quarters. This is due mainly to the continuous substantial decline in IT-related goods (semiconductor electronic parts) and capital goods and parts (semiconductor fabrication machines and equipment, and industrial machinery) in addition to the decrease in intermediate goods (chemicals), while automobile exports increased, particularly for those to the U.S. Real imports also continue to decline, owing to the continuous substantial decline in exports and production (Charts 3[1] and 6). As for real imports in July-August compared to the second quarter, materials and intermediate goods continued to decline in addition to the noticeable decreases in imports of personal computers, reflecting poor domestic sales, and IT-related parts. Net exports (real exports minus real imports), in terms of the real trade balance,³ continue to decline since the pace of decrease in exports is faster than that of imports⁴ (Chart 3[2]).

Regarding the future environment for foreign trade, the real effective exchange rate of the yen has recently been appreciating slightly after a period of steadiness

³ Strictly speaking, the real trade balance presented in Chart 3[2] differs from net exports on a GDP basis, but the changes in the real trade balance are broadly in line with those of net exports. (The real trade balance is on a customs-clearance basis and does not include trade in services, while net exports of GDP statistics are on an ownership-transfer basis and include trade in services.)

⁴ The surplus of nominal balance on goods and services has been on a declining trend and the surplus in the third quarter of 2001 (July) has diminished to the level recorded in the second quarter of 1996, which is the most recent bottom (Chart 3[2]).

following the depreciation from the end of 2000 (Chart 7[1]). As for overseas economies (Chart 7[2]), the terrorist attacks in the U.S. have further heightened uncertainty surrounding the world economy,⁵ which had already intensified the concurrent deceleration observed in the U.S., East Asian, and European economies. Still, a majority believes that the inventory adjustments in IT-related goods will be basically completed by around next spring. However, there is a risk that the prolonged downturn in U.S. private consumption affected by the terrorist attacks would result in a marked decline in Japan's exports of consumer goods. Considering these developments, exports are expected to follow the current declining trend at least for some time, and attention should also be paid to the risk of a sharp drop in exports, depending on the economic developments in the U.S. Imports are also projected to follow a downward trend for the time being, while a decline in production is inevitable. However, as the pace of decline in exports will be faster than that in imports, net exports are likely to continue decreasing for a while.

Business fixed investment is decreasing noticeably, particularly in manufacturing, while the demand forecast for the IT-related sector has been revised downward. As for investment-related indicators, aggregate supply of capital goods⁶ (excluding transport equipment)—which basically moves simultaneously with machinery investment—was notably on a declining trend (Chart 8-1[1]). Among leading indicators (Chart 8-2), machinery orders (private demand, excluding shipbuilding and electric power equipment) increased somewhat in the second quarter but declined again in July-August compared to the second quarter; the decline was

⁵ Private research institutes and international organizations have released projections that the growth rate of the global economy, especially in the U.S., would be lower than had been estimated before the terrorist attacks. In this case, Japanese exports will be affected definitely. Particularly, if automobile-related exports, which have been increasing in contrast to sluggish exports of IT-related goods, decrease substantially (Chart 5[2]), it will have a large impact on production because the automobile industry has a greater spillover effect compared to other industries; attention should thus be paid to future developments in those exports.

⁶ In the *Indices of Industrial Domestic Shipments and Imports*, the aggregate supply by goods is shown by adding domestic shipments based on *Indices of Industrial Production* and the import volume based on *Foreign Trade Statistics*. Charts 8-1(1) and 13-4 show the developments in aggregate supply of capital goods (excluding transport equipment) and consumer goods. Figures for the third quarter of 2001 (July-August) are calculated by the Bank of Japan using indices of industrial shipments and real imports and exports.

apparent in manufacturing.⁷ Meanwhile, construction starts (nonresidential) have been following a declining trend since the start of the previous fiscal year but increased in July-August compared to the second quarter, reflecting large-scale constructions in nonmanufacturing (such as commercial facilities).

With regard to the environment surrounding business fixed investment based on the Bank of Japan's *Tankan—Short-term Economic Survey of Enterprises—*of September 2001, the projections of current profits for fiscal 2001 (all industries basis) have obviously turned negative as both manufacturing and nonmanufacturing firms revised their projections downward compared to the June *Tankan* (Chart 9). Particularly in manufacturing, firms in industries such as electrical machinery have made substantial downward revisions. Under these projections, the deterioration in the business sentiment of manufacturing firms was not only intensifying further but also spreading over sectors; that of nonmanufacturing was also worsening gradually (Chart 10). As for corporate finance, the financial position of manufacturing firms was more severe than the previous *Tankan*, reflecting the deterioration in corporate profits, although corporate financing conditions were easy on the whole. In addition, the lending attitudes of financial institutions perceived by small firms seemed to be slightly more cautious⁸ (Chart 11).

Turning to the outlook, business fixed investment is expected to follow a downward trend judged not only from the continuous decline in corporate profits, but also from the successive downward revisions of firms' investment plans in the IT-related sector. Business fixed investment plans for fiscal 2001 reported in the September *Tankan* (Chart 12) showed that large manufacturing firms still plan to increase investment compared to the previous year but firms in industries such as electrical machinery have revised their plans significantly downward. Furthermore, investment plans of small manufacturing firms were revised upward modestly

⁷ Machinery orders in the third quarter (surveyed as of June-end) are projected to decline by 5.1 percent in private demand (excluding shipbuilding and electric power equipment).

⁸ According to the September *Tankan*, manufacturing firms (in electrical machinery and materials such as paper and pulp, and iron and steel) perceived their production capacity to be more excessive, along with the continuous decline of the capacity utilization rate. Also, the excessiveness (excessive minus insufficient) has expanded slightly in nonmanufacturing (Chart 8-1[2]).

compared to those usually observed at this time of year and thus were well below the year-ago level. Plans of large nonmanufacturing firms, mainly in construction and real estate, and wholesaling and retailing were below the previous year's level. Those of small nonmanufacturing firms maintained a cautious stance and thus were substantially below the year-ago level.⁹

Private consumption remains almost flat on the whole, although somewhat weak indicators are increasing recently (Chart 13). With regard to sales indicators, passenger car sales remained firm with the introduction of new models. Although outlays for travel remained steady toward this summer, individuals are recently refraining from travelling, particularly overseas, in the wake of the terrorist attacks in the U.S. Moreover, sales at department stores have decreased recently, especially for apparel and foodstuffs, and sales at chain stores also remained at low levels. Sales of household electrical appliances remained weak mainly due to the drop in sales of personal computers. The level of indices of aggregated sales¹⁰ was flat-to-up compared to that of the previous year. On the other hand, the level of aggregate supply of consumer goods was slightly below that of the previous year since domestic shipments were stagnant in addition to the modest increase in imports. According to the latest consumer survey, consumers were becoming more cautious again, after their confidence had improved somewhat toward early summer (Chart 14[1]). Private consumption is likely to become weak gradually, mainly reflecting employment and income conditions.

Housing investment remains sluggish (Chart 15[1]). Construction starts in July-August increased compared to the second quarter particularly in condominiums,¹¹ while those of owner-occupied houses financed by the government Housing Loan

⁹ Consequently, business fixed investment for fiscal 2001 based on all firms is planned to be below the actual results of the previous fiscal year by just under 6 percent.

¹⁰ While various sales indicators show different movements, the indices of aggregated sales are compiled by adding the weights of various sales indicators (including a few services consumption) to grasp the consumption trend from the supply side. For the detailed calculation method, see notes in Chart 13-3.

¹¹ The increase in the construction starts of condominiums was reflected by the situation that sales of condominiums basically remained at a high level, especially in the Tokyo metropolitan area (Chart 15[3]). However, the recent increase in the number of construction starts of condominiums has been partly supported by some large-scale constructions.

Corporation in particular remained at low levels. However, judged mainly from the low number of loan applications to the government Housing Loan Corporation¹² and the more severe employment and income conditions of households, housing investment is likely to remain sluggish for the time being.

Reflecting these developments in final demand, industrial production continues to decline considerably due not only to a drop in exports of IT-related and intermediate goods, but also to a decrease in domestic business fixed investment and public investment. Although the increase in inventories to date has started to peak against the background of ongoing production cuts, a strong excessiveness in inventories still exists while the inventory ratio remained at a high level (Chart 16). As for inventories in detail (Chart 17), among final demand goods, those of construction goods increased slightly but inventories overall were still broadly contained. On the contrary, as for production goods, inventories of electronic parts started to decline as a result of the production cutbacks, but the level remained quite high. Moreover, inventories of materials piled up even further particularly for those such as iron and steel. Under these circumstances, industrial production is expected to follow a declining trend for some time, mainly reflecting the decrease in exports and fixed investment.¹³

As for employment and income conditions amid prolonged adjustments in economic activity, household income weakens gradually along with the easing supply-demand condition in the labor market, particularly in manufacturing (Chart 18). Among labor-market-related indicators (Charts 19 and 20), the September *Tankan* indicated that firms' perception of excessive employment, especially in manufacturing, rose further. The unemployment rate continued to edge up and the ratio of job offers to applicants declined gradually, reflecting the increase in the

¹² The number of loan applications to the government Housing Loan Corporation during its second offering period for fiscal 2001 (construction of private houses; offering period: July 16-August 27, 2001) was at a lower level of 23,000 applications compared to 28,000 applications in the previous offering period (Chart 15[2]). The third offering period is scheduled to be from September 17 to October 15.

¹³ According to the survey of production forecasts, production in September is projected to decline again by 1.4 percent on a month-to-month basis. In this case, the decline in production for the third quarter (-3.8 percent on a quarter-to-quarter basis) would be significant following the first and second quarters (-3.7 percent and -4.1 percent respectively on a quarter-to-quarter basis).

number of job seekers. The number of new job offers in nonmanufacturing still remained firm while that in manufacturing continued to decline substantially. The number of regular employees (on a Monthly Labour Survey basis at establishments with five employees or more) was basically unchanged. However, in detail, firms in manufacturing continued to reduce the number of workers, particularly of marginal workers such as part-time workers. Moreover, nonmanufacturing firms continued to switch from full-time workers to part-time workers while the overall number of employees increased slightly.

In these circumstances, nominal wages per employee were recently somewhat sluggish. In detail (Chart 18[2]), overtime payments continued to decrease and regular payments started to weaken, reflecting the decline in production activity. Special cash earnings during June-August (preliminary figures for August), most of which consist of summer bonuses, were below the year-ago level.¹⁴ Amid the ongoing adjustments in economic activity, compensation of employees is projected to be weak for the time being.

2. Prices

Import prices on a yen basis declined compared to levels three months earlier due to the effects of the appreciation of the yen in addition to the softening of international commodity prices such as nonferrous metals and crude oil (Chart 22).

Domestic wholesale prices are declining somewhat faster. In September, domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates¹⁵) decreased slightly faster compared to levels three months earlier (Chart 23). This was because high crude oil prices and the depreciation of the yen in the past have dissipated while prices of materials such as iron and steel and

¹⁴ In detail by type of industry, manufacturing decreased slightly and among nonmanufacturing, in addition to construction, services, wholesaling and retailing, in which the ratio of part-time workers is increasing, was also below the previous year's level.

¹⁵ Industrial and commercial electric power consumption charges are set relatively high during July-September, when the consumption volume increases substantially. To view the underlying changes in domestic wholesale prices, adjustments are made to exclude such factors that result in large seasonal fluctuations.

construction goods continued to decrease in addition to the price decline in machinery (electrical machinery).

Corporate service prices are decreasing. In August, corporate service prices (domestic supply-demand factors¹⁶) declined compared to levels three months earlier (Chart 24). The decrease was mainly due to the decline in prices for advertising in addition to the continued reduction in prices for leasing reflecting the price decline in IT-related equipment, although communications charges, which had been decreasing, became flat.

Consumer prices are weakening. In August, consumer prices (excluding fresh food)¹⁷ declined compared to levels three months earlier mainly due to the decreases in prices of durable goods and nondurable goods such as clothes (Chart 25). These price declines of goods occurred mainly because prices of imported products and their substitutes continued to decline in line with the increase in imports of inexpensive consumer goods¹⁸ (Chart 26). The overall year-to-year rate of decline in August was the same as that of the previous month.¹⁹ (The year-to-year change was -0.9 percent in June, -0.9 percent in July, and -0.9 percent in August.)

¹⁶ Corporate service prices (domestic supply-demand factors) only include items whose monthly price changes primarily reflect changes in domestic private demand. Specifically, items with the following properties are removed from the overall CSPI: (1) regulated fees, (2) overseas factors, and (3) fees with a large monthly fluctuation that do not necessarily reflect short-term changes in supply-demand trends. For the detailed calculation, see the note in Chart 24.

¹⁷ The base year of CPI has been switched from the 1995 base to the 2000 base and the figures based on the year 2000 from January 2000 have been retroactively published. In the 2000 revision, the items and weights have been changed. In addition, some technical changes in compiling the statistics were made (for details on the revision, see the Ministry of Public Management, Home Affairs, Posts and Telecommunications Internet website: <http://www.stat.go.jp/english/1.htm>).

¹⁸ On revising the base period, PCs were adopted as a new item. Prices and number of units sold derived from scanner data of all products collected from major electric appliance shops across the country are used and the Hedonic method is applied to compile the price indices to adjust the quality change. As a result, the price indices for PCs declined by about 40 percent compared to the previous year and this has had a downward impact on the overall CPI on the new basis by -0.3 percent on a year-to-year basis.

¹⁹ Consumer prices including fresh food in August were basically the same as those excluding fresh food. (The year-to-year change was -0.8 percent in June, -0.8 percent in July, and -0.7 percent in August.)

As for land prices (Chart 27), the prices of both commercial and residential land continue to decline.

Regarding the conditions surrounding price developments, with the prolonged adjustments in economic activity, the balance between supply and demand in the domestic market will exert downward pressure on prices gradually (Chart 28). Furthermore, in addition to the declining trend of machinery prices caused by technological innovations, the decreases in prices of goods and services reflecting deregulation and the streamlining of distribution channels will continue to restrain price developments. Overall, prices are expected to follow a gradual declining trend for the time being.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in short-term money markets (Charts 29[1] and 30), the overnight call rate (uncollateralized) is moving around zero percent. This is mainly because the Bank of Japan provided ample liquidity to the money market by aiming at maintaining the current account balances held at the Bank at above 6 trillion yen due to changes in the guideline for money market operations decided at the Monetary Policy Meeting held on September 18 (Chart 31).

As for interest rates on term instruments (Chart 30), three-month Euro-yen rates (TIBOR) are basically level on the whole. The Japan premium (Chart 33) remains negligible.

Yields on ten-year government bonds (newly issued; Chart 29[2]) are basically unchanged and recently moving around 1.35-1.40 percent, while the market continued to be inactive on the whole around the September-end interim closing. As for the yield spreads between government and private bonds (bank debentures and corporate bonds; Charts 35 and 36), while spreads between bonds with relatively high credit ratings and government bonds remain mostly unchanged, those between bonds with low credit ratings and government bonds seem to be expanding somewhat.

Stock prices (Chart 37[1]) are recently starting to recover slightly, as the foreign stock markets have become stable although uncertainty toward the outlook for the overseas and domestic economies persists.

In the foreign exchange market (Chart 38), the yen appreciated against the U.S. dollar mostly due to intensifying uncertainty regarding the outlook for the U.S. economy following the terrorist attacks in the U.S., but has started to depreciate thereafter, reflecting the news on yen-selling intervention by the Japanese monetary authority. The yen is currently being traded in the range of 120-122 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The growth rate of money stock (M_2 + CDs; Chart 39) in September was higher than that of the previous month. (The year-on-year change was 3.3 percent in July, 3.4 percent in August, and 3.7 percent in September.) As for the fourth quarter, the year-on-year growth is projected to slow down slightly compared to the third quarter as the inflow from postal savings will peak out, while credit demand of private firms will remain sluggish. (The projected year-on-year growth rate for the fourth quarter is around three percent.)

In September, the year-on-year growth rate of monetary base (currency in circulation + current account balances at the Bank of Japan; Chart 40) became higher due to a large increase in the current account balances at the Bank of Japan. (The year-on-year change was 8.0 percent in July, 9.0 percent in August, and 14.2 percent in September.)

As for the lending attitudes of private financial institutions, financial institutions continue to be more active in extending loans mainly to blue-chip companies, while carefully evaluating the credit risks involved. However, the lending attitudes of financial institutions as perceived by small firms are becoming slightly more cautious. In corporate bonds and CP markets, the fund-raising conditions for firms continue to be generally favorable.

On the other hand, credit demand in the private sector is declining faster mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

Amid these developments, lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors;²⁰ Chart 41), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, is following a downward trend. (The year-on-year change was -1.8 percent in July, -2.0 percent in August, and -2.0 percent in September.) The amount outstanding of corporate bonds issued is growing at about 2 percent on a year-on-year basis. Meanwhile, the amount outstanding of CP issued continues to be at a high level, significantly exceeding that of the previous year, due to the favorable environment for issuing CP (Chart 42).

Funding costs for firms continue to be at extremely low levels. As for the average contracted interest rates on new loans and discounts in August, short-term rates were more or less unchanged while long-term rates decreased (Chart 44). In the capital market, corporate bond issuance rates are basically flat. CP issuance rates are at low levels.

The number of corporate bankruptcies (Chart 45) is basically flat.

Overall, the recent financial environment remains extremely easy: witness the permeation of easiness in money market conditions, stably low interest rates, higher growth in monetary indicators, and the generally favorable conditions in corporate bonds and CP markets. However, against the background of deteriorating corporate earnings and the more cautious lending attitudes of financial institutions, fund-raising conditions of small firms are apparently becoming more severe. Hence, the developments in the behavior of financial institutions and corporate financing need closer monitoring.

²⁰ The figures are adjusted for (1) fluctuations from the liquidation of loans, (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates, and (3) fluctuations from loan write-offs.

In addition, it is necessary to carefully monitor the effects of the terrorist attacks in the U.S. and the subsequent developments on global financial markets and economic activity.

Charts

Chart 1	Main Economic Indicators
Chart 2	Public Investment
Chart 3	External Balance
Chart 4	Impacts of the U.S. Slowdown
Chart 5	Real Exports
Chart 6	Real Imports
Chart 7	Real Effective Exchange Rate and Overseas Economic Conditions
Chart 8	Indicators for Business Fixed Investment
Chart 9	Recurring Profit
Chart 10	Business Conditions
Chart 11	Corporate Finance-Related Indicators
Chart 12	Business Fixed Investment Plans as Surveyed
Chart 13	Private Consumption
Chart 14	Consumer Confidence and Propensity to Consume
Chart 15	Indicators for Housing Investment
Chart 16	Production, Shipments, and Inventories
Chart 17	Inventory Cycle
Chart 18	Compensation of Employees
Chart 19	Employment Conditions
Chart 20	Labor Market
Chart 21	Prices
Chart 22	Import Prices and Commodity Prices
Chart 23	Domestic Wholesale Price Index
Chart 24	Corporate Service Price Index
Chart 25	Consumer Price Index (excluding fresh food)
Chart 26	Consumer Price Index (Imported goods and their substitutes)
Chart 27	Land Prices
Chart 28	Factors Contributing to the Change in Prices
Chart 29	Interest Rates
Chart 30	Short-Term Money Market Rates
Chart 31	Current Account Balances at the Bank of Japan
Chart 32	Euro-Yen Interest Rates Futures (3-Month)
Chart 33	Japan Premium in the Eurodollar Market
Chart 34	Implied Forward Rates (1-year)
Chart 35	Yields of Bank Debentures
Chart 36	Corporate Bond Yields
Chart 37	Stock Prices
Chart 38	Exchange Rates
Chart 39	Money Stock (M2+CDs, Broadly-Defined Liquidity)
Chart 40	Monetary Base
Chart 41	Lending by Domestic Commercial Banks
Chart 42	Private-Sector Fund-Raising in the Capital Markets
Chart 43	Lending by Other Financial Institutions
Chart 44	Lending Rates
Chart 45	Corporate Bankruptcies

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2001/Q1	Q2	Q3	2001/June	July	August	September
Index of living expenditure level (all households)	1.0	-3.2	n.a.	-2.7	1.4	-1.1	n.a.
Sales at department stores	0.4	0.8	n.a.	1.0	-3.8	1.6	n.a.
Sales at chain stores	-0.1	-2.6	n.a.	-0.1	-0.1	-1.1	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 301>	< 303>	< 317>	< 308>	< 320>	< 323>	< 307>
Sales of household electrical appliances (real, NEBA)	13.0	-7.4	n.a.	5.9	-1.0	-5.8	n.a.
Outlays for travel (50 major travel agencies)	0.7	-1.2	n.a.	-1.3	2.0	1.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 118>	< 115>	<n.a.>	< 111>	< 123>	< 122>	<n.a.>
Machinery orders (from private sector ⁴)	-7.0	1.1	n.a.	-6.6	-1.6	8.7	n.a.
Manufacturing	-12.8	-6.6	n.a.	-12.0	0.1	8.0	n.a.
Nonmanufacturing ⁴	-2.8	5.7	n.a.	-2.7	-2.1	14.0	n.a.
Construction Starts (private, nonresidential use)	-5.6	-7.2	n.a.	0.0	11.8	-1.9	n.a.
Mining & manufacturing	9.0	-18.5	n.a.	2.6	-8.9	2.1	n.a.
Nonmanufacturing ⁵	-9.4	-1.1	n.a.	1.2	23.2	-9.4	n.a.
Value of public works contracted	13.0	-16.5	n.a.	8.0	4.5	-3.3	n.a.
Real exports ⁶	-4.6	-4.9	n.a.	-2.3	-5.5	6.5	n.a.
Real imports ⁶	-3.3	-1.6	n.a.	-12.2	3.5	-1.1	n.a.
Industrial production	-3.7	-4.1	n.a.	-0.8	-3.0	p 0.8	n.a.
Shipments	-3.5	-3.9	n.a.	-0.1	-3.0	p 0.9	n.a.
Inventories	2.3	2.4	n.a.	-0.6	-1.4	p 0.1	n.a.
Inventories/shipments <s.a., 1995=100>	<106.6>	<112.5>	<n.a.>	<112.5>	<112.9>	<p 109.4>	<n.a.>
Real GDP	0.1	-0.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.9	-1.9	n.a.	0.3	-1.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2001/Q1	Q2	Q3	2001/June	July	August	September
Ratio of job offers to applicants <s.a., times>	<0.63>	<0.61>	<n.a.>	<0.61>	<0.60>	<0.59>	<n.a.>
Unemployment rate <s.a., %>	<4.75>	<4.87>	<n.a.>	<4.92>	<5.02>	<4.96>	<n.a.>
Overtime working hours ⁷	0.7	-2.8	n.a.	-3.2	-5.2	p -5.3	n.a.
Number of employees	1.2	0.9	n.a.	0.6	0.5	0.3	n.a.
Number of regular employees ⁷	-0.1	-0.2	n.a.	-0.2	-0.2	p -0.1	n.a.
Nominal wages per person ⁷	0.1	-0.4	n.a.	-0.9	-0.6	p -3.2	n.a.
Domestic wholesale price index ⁶ <q/q % chg.> (3-month growth rate)	-0.4 <-0.2>	-0.6 <-0.2>	-1.0 <-0.3>	-0.7 <-0.2>	-0.9 <-0.2>	-1.0 <-0.3>	-1.1 <-0.4>
Consumer price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.2>	-0.9 <-0.2>	n.a. <n.a.>	-0.9 <-0.2>	-0.9 <-0.2>	-0.9 <-0.1>	n.a. <n.a.>
Corporate service price index ⁹ <s.a., q/q % chg.> (3-month growth rate)	-1.4 <-0.4>	-1.5 <-0.5>	n.a. <n.a.>	-1.6 <-0.5>	-1.4 <-0.3>	-1.6 <-0.2>	n.a. <n.a.>
Monetary aggregates (M ₂ +CDs) <average outstanding, y/y % chg.>	2.6	2.8	p 3.5	3.2	3.3	3.4	p 3.7
Number of suspension of transactions with banks	-9.0	-3.4	n.a.	-9.3	-10.1	-10.3	n.a.

Notes: 1. Excludes the cases indicated inside angle brackets in the index section.

2. P indicates preliminary figures.

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

4. Excludes ships and demand from electric power companies.

5. Nonmanufacturing = commerce + services + agriculture & fisheries + public utilities industries, etc.

6. Some figures of Domestic wholesale price index and Export and Import price index are revised retroactively since CY1999. In line with this, those of real exports and imports (charts 3-6), aggregate supply of capital goods (excluding transport equipment; chart 8-1), and estimation of consumer goods supply (chart 13-4) are also revised retroactively.

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

8. Excludes fresh food.

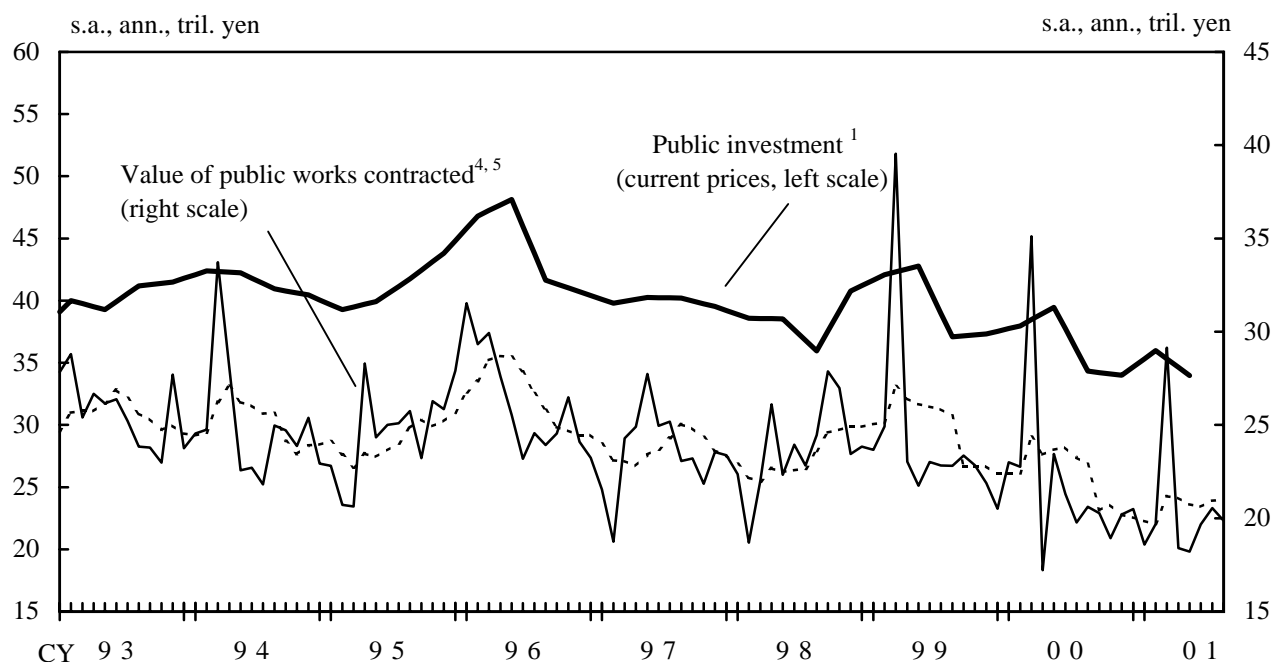
9. Domestic supply-demand factors.

10. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

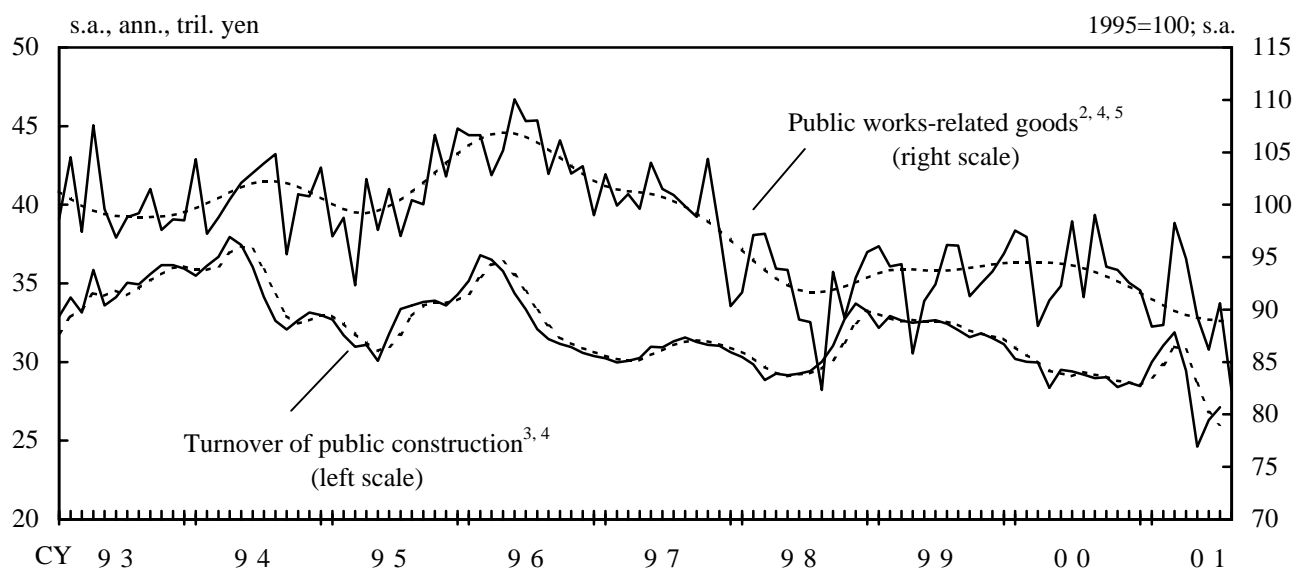
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices of Tertiary Industry Activity"; Japan Chain Stores Association, "Sales at Chain Stores"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue," "Monthly of Construction Statistics"; Ministry of Finance, "The Summary Report on Trade of Japan"; Cabinet Office, "Machinery Orders Statistics," "National Accounts"; Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics"; Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey"; Bank of Japan, "Wholesale Price Indexes," "Corporate Service Price Index," "Financial and Economic Statistics Monthly"; Japanese Bankers Associations, "Suspension of Transaction with Banks."

Public Investment

(1) Value of Public Works Contracted and Public Investment



(2) Shipments of Public Works-related Goods and Turnover of Public Construction



Notes: 1. Quarterly basis public investment is plotted at the middle month of each quarter.

2. Public works-related goods are weighted average of asphalt, concrete products for roads, bridges, and cement, where weights are based on 1995-basis IIP (shipment). Shipments of these goods also include those to the private sector. The data for August 2001 are preliminary.

3. Turnover of public construction is based on the public sector table in the "Integrated Statistics on Construction Works."

4. Value of public works contracted, public works-related goods, and turnover of public construction are seasonally adjusted by X-12-ARIMA (β version). As the figures of value of public works contracted and public works-related goods are seasonally adjusted on a monthly basis, the data are retroactively revised each month. Seasonal factors of turnover of public construction are calculated by using data until March 2001, and are fixed for FY2001.

5. Among the dotted lines, the line for value of public works contracted is the 6 months moving average, the line for public works-related goods is the trend cycle factor, and the line for turnover of public construction is the 3 months moving average.

Sources: Cabinet Office, "National Accounts";

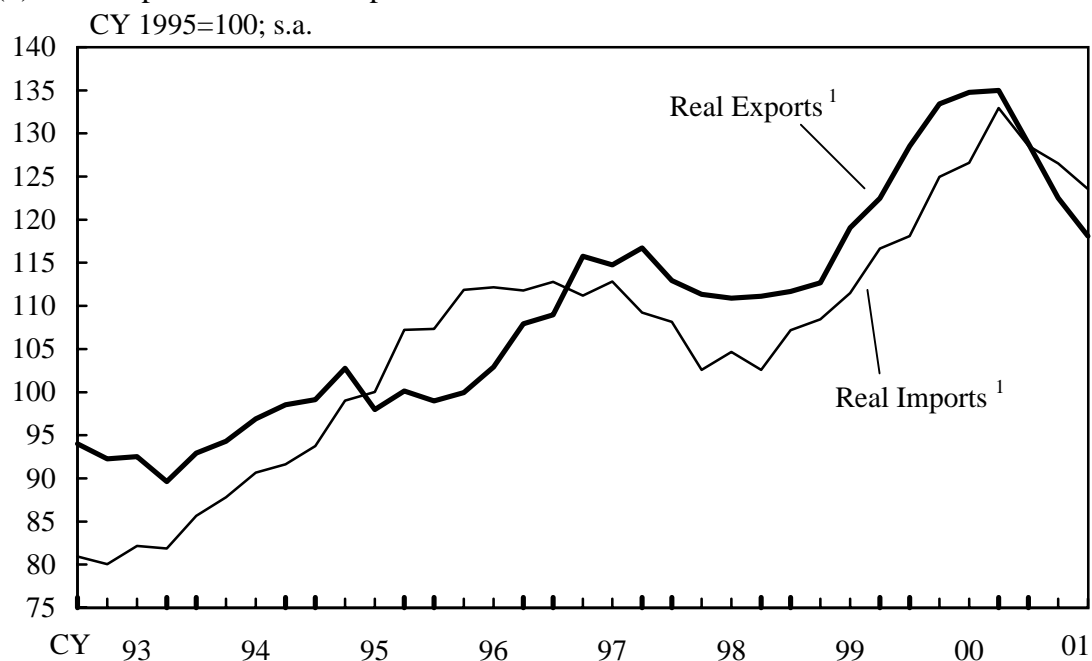
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";

Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works";

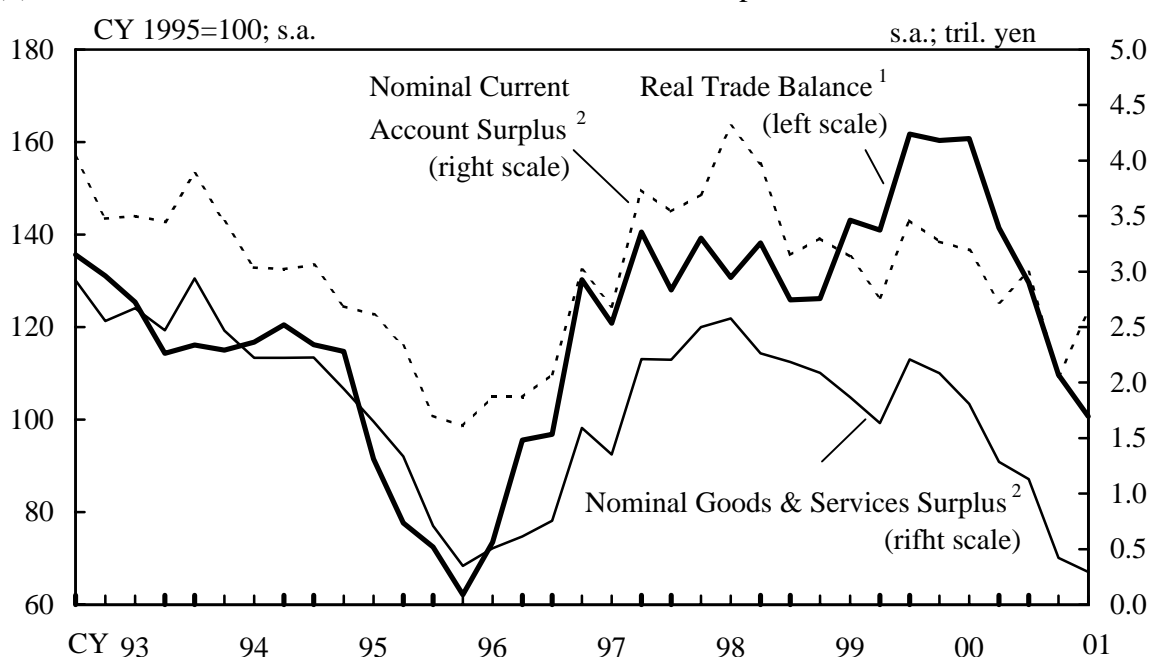
Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



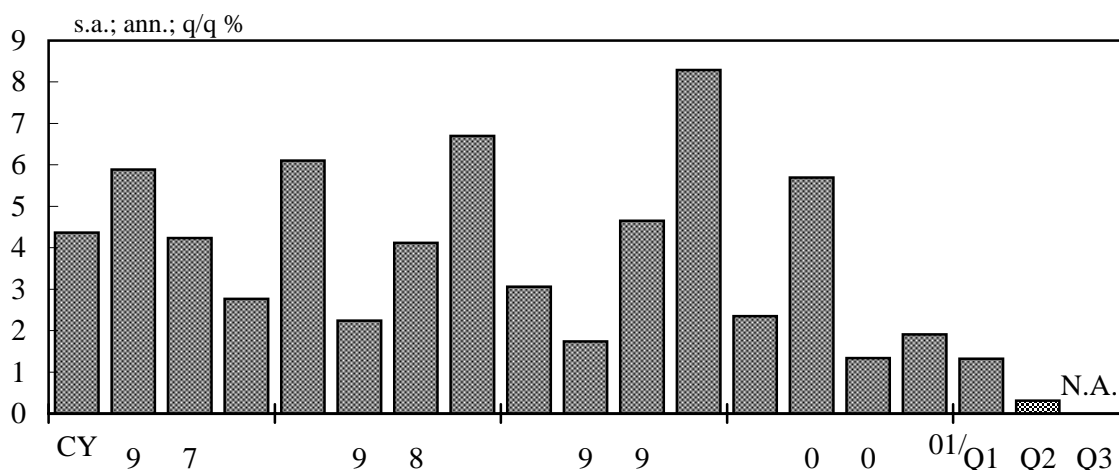
Notes: 1. Seasonally adjusted by X-11. 2001/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

2. 2001/Q3 figures are July figures converted into quarterly amount.

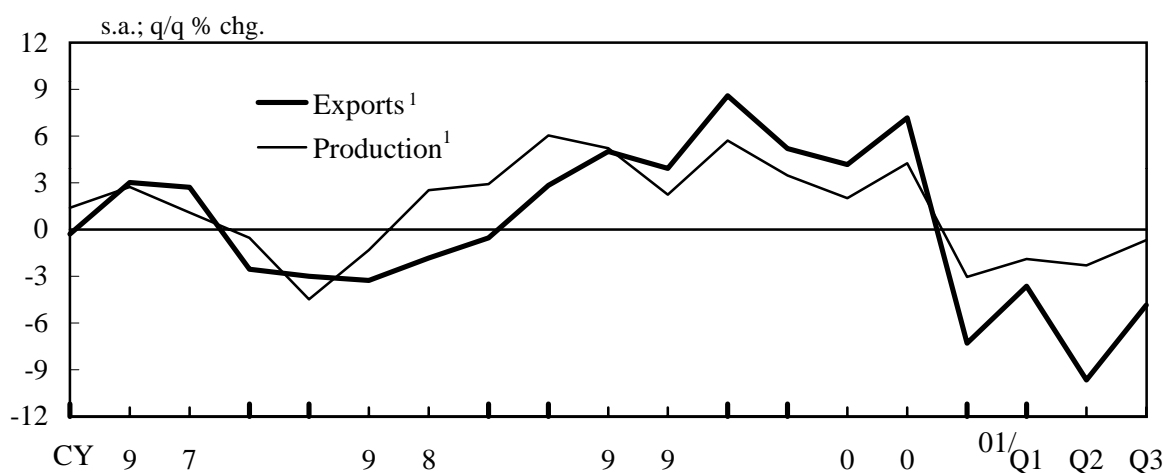
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Balance of Payments Monthly," "Wholesale Price Indexes."

Impacts of the U.S. Slowdown

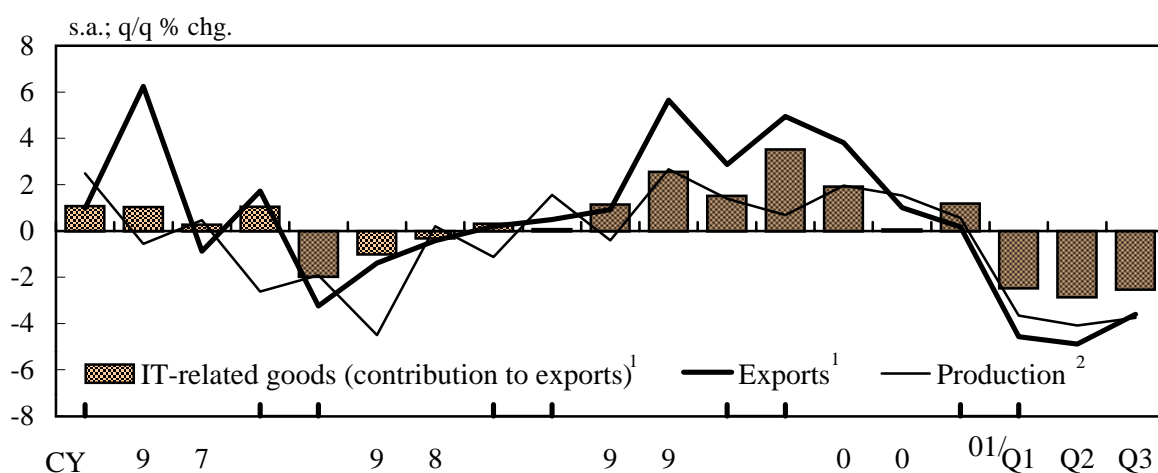
(1) United States - Real GDP



(2) NIEs3 - Exports and Production ³



(3) Japan - Exports and Production ⁴



Notes: 1. 2001/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

2. 2001/Q3 figures are METI projection.

3. Data for three members: Korea, Taiwan, and Singapore. Figures are the weighted sum of those three members, where weights come from real GDP. Exports are in nominal (U.S. dollar) terms.

4. Exports are in real terms (seasonally adjusted by X-11).

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production"; U.S. Department of Commerce, "National Income and Product Accounts"; CEIC Data Company.

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Jun.	2001 Jul.	2001 Aug.
United States	<29.7>	4.6	11.7	0.8	6.0	-6.6	-6.7	-0.6	-0.1	-2.9	6.8
EU	<16.3>	0.8	6.4	0.0	-2.2	1.3	-10.1	-7.4	-0.8	-11.3	11.7
East Asia	<39.7>	12.0	25.7	2.8	-1.7	-4.3	-5.8	-3.8	-2.9	-7.3	9.1
China	<6.3>	12.3	27.8	11.6	1.3	10.2	-5.4	0.3	-9.0	-4.5	14.5
NIEs	<23.9>	11.2	25.8	1.5	-2.3	-9.4	-6.3	-3.9	-2.0	-6.4	7.7
Taiwan	<7.5>	7.8	22.5	2.8	-9.2	-16.5	-3.2	-13.7	-7.0	-11.9	3.1
Korea	<6.4>	43.8	30.4	1.2	-0.8	-5.4	-8.3	5.4	4.0	-2.7	6.6
ASEAN4 ³	<9.5>	13.6	24.0	0.8	-2.3	-1.7	-5.0	-6.7	-0.2	-11.1	8.2
Thailand	<2.8>	15.3	19.0	4.8	1.6	-5.1	-4.7	-1.7	-1.5	-3.6	7.2
Real exports		4.5	14.1	1.0	0.2	-4.6	-4.9	-3.6	-2.3	-5.5	6.5

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Jun.	2001 Jul.	2001 Aug.
Intermediate goods	<14.1>	5.3	5.3	0.9	0.8	-1.8	-4.8	-1.8	-5.2	-3.8	6.7
Motor vehicles and their related goods	<20.2>	2.8	9.2	4.2	-1.1	-7.8	3.5	6.4	2.9	-0.6	10.4
Consumer goods ⁴	<7.0>	5.0	13.0	-0.3	2.6	-6.0	-0.4	-4.4	4.6	-6.1	0.5
IT-related goods ⁵	<18.8>	6.4	25.2	-2.6	5.9	-5.7	-6.4	-8.8	-1.1	-10.1	5.4
Capital goods and parts ⁶	<29.7>	1.8	21.1	1.6	-3.3	-3.2	-10.2	-6.8	-4.4	-7.0	6.3
Real exports		4.5	14.1	1.0	0.2	-4.6	-4.9	-3.6	-2.3	-5.5	6.5

Notes: 1. Seasonally adjusted by X-11. 2001/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

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

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

4. Excluding motor vehicles.

5. IT-related goods = automatic data processing machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

6. Excluding IT-related goods, power generating machinery and parts of motor vehicles.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Real Imports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Jun.	2001 Jul.	2001 Aug.
United States	<19.0>	-2.9	7.9	2.4	4.8	-5.5	-0.4	-7.7	-10.9	-1.0	-3.7
EU	<12.3>	5.8	8.5	2.1	4.4	2.2	-4.8	-0.3	-15.0	6.7	-1.1
East Asia	<39.6>	15.8	25.5	4.8	6.6	-1.1	-3.9	-2.3	-10.1	2.5	-0.7
China	<14.5>	11.9	28.1	1.4	10.1	5.2	-1.2	-1.8	-10.3	0.8	1.4
NIEs	<12.2>	24.2	28.4	8.1	4.4	-5.2	-9.7	-2.8	-10.6	4.4	-1.7
Taiwan	<4.7>	25.6	43.6	6.3	8.1	-7.7	-12.7	-7.8	-8.4	-3.6	0.7
Korea	<5.4>	30.8	22.5	6.3	2.4	-2.6	-7.3	-3.8	-10.0	1.1	-3.0
ASEAN4 ³	<12.8>	12.6	20.2	5.3	5.0	-3.8	-1.4	-2.5	-9.4	2.8	-2.4
Thailand	<2.8>	5.4	19.3	1.6	8.9	-4.1	4.2	-3.9	-6.7	-3.8	5.3
Real imports		6.1	13.3	1.3	5.0	-3.3	-1.6	-2.3	-12.2	3.5	-1.1

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Jun.	2001 Jul.	2001 Aug.
Raw materials ⁴	<26.8>	2.7	1.7	-1.3	0.6	-1.7	-2.1	-0.4	-16.5	8.9	1.2
Intermediate goods	<13.0>	3.6	8.2	-1.0	5.7	0.3	-4.1	-1.4	-14.1	5.4	-0.4
Foodstuffs	<12.1>	2.8	5.3	-0.3	2.4	-2.3	-1.1	-2.1	-11.1	4.3	-5.2
Consumer goods	<10.5>	8.2	21.4	1.4	9.3	-2.7	1.3	-1.4	-11.5	1.4	3.5
IT-related goods ⁵	<16.1>	18.7	43.9	11.7	7.3	-5.0	-6.1	-10.5	-7.5	-3.9	-7.3
Capital goods and parts ⁶	<11.5>	5.1	12.4	6.2	7.6	-3.7	-0.3	-2.2	-10.4	0.4	3.4
excluding aircraft		4.4	21.5	5.5	8.9	0.5	-0.9	-3.0	-10.1	2.0	0.8
Real imports		6.1	13.3	1.3	5.0	-3.3	-1.6	-2.3	-12.2	3.5	-1.1

Notes: 1. Seasonally adjusted by X-11. 2001/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

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

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

4. Raw materials = woods + ores + mineral fuel, etc.

5. IT-related goods = office machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

6. Excluding IT-related goods.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Real Effective Exchange Rate and Overseas Economic Conditions

(1) Real Effective Exchange Rate



Note: Monthly average. The figure for October 2001 is the average of October 1-11. Calculated by the Bank of Japan. Figures are the index of weighted average of the yen's real exchange rates versus 25 major currencies which are calculated from exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

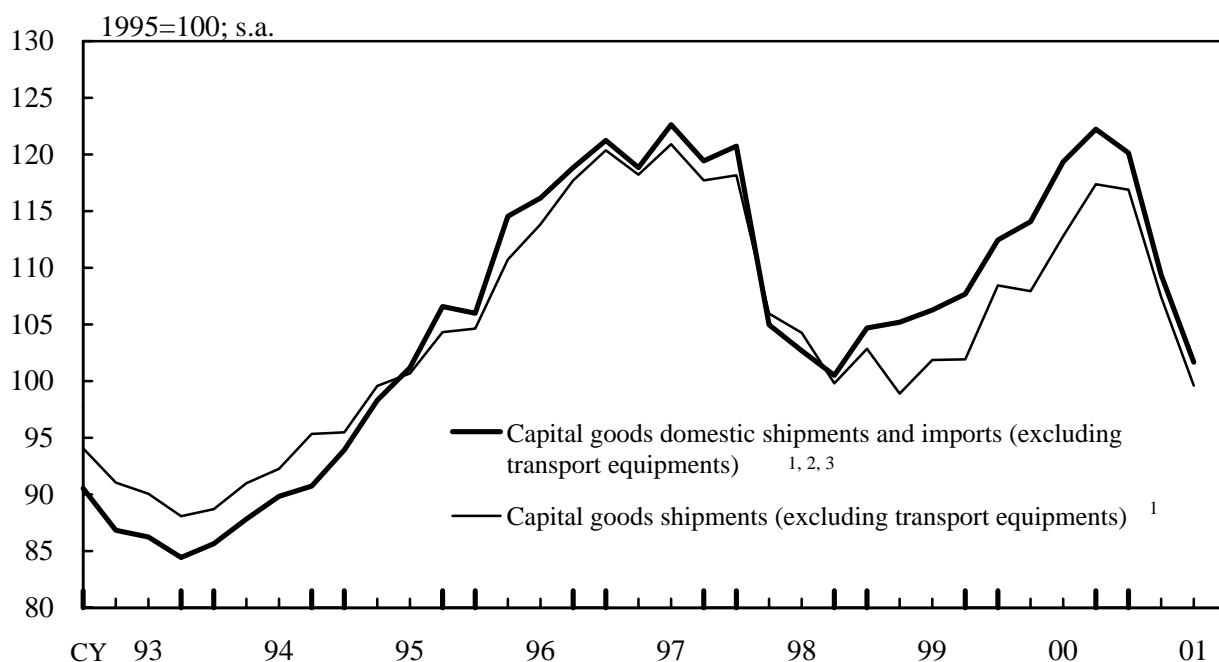
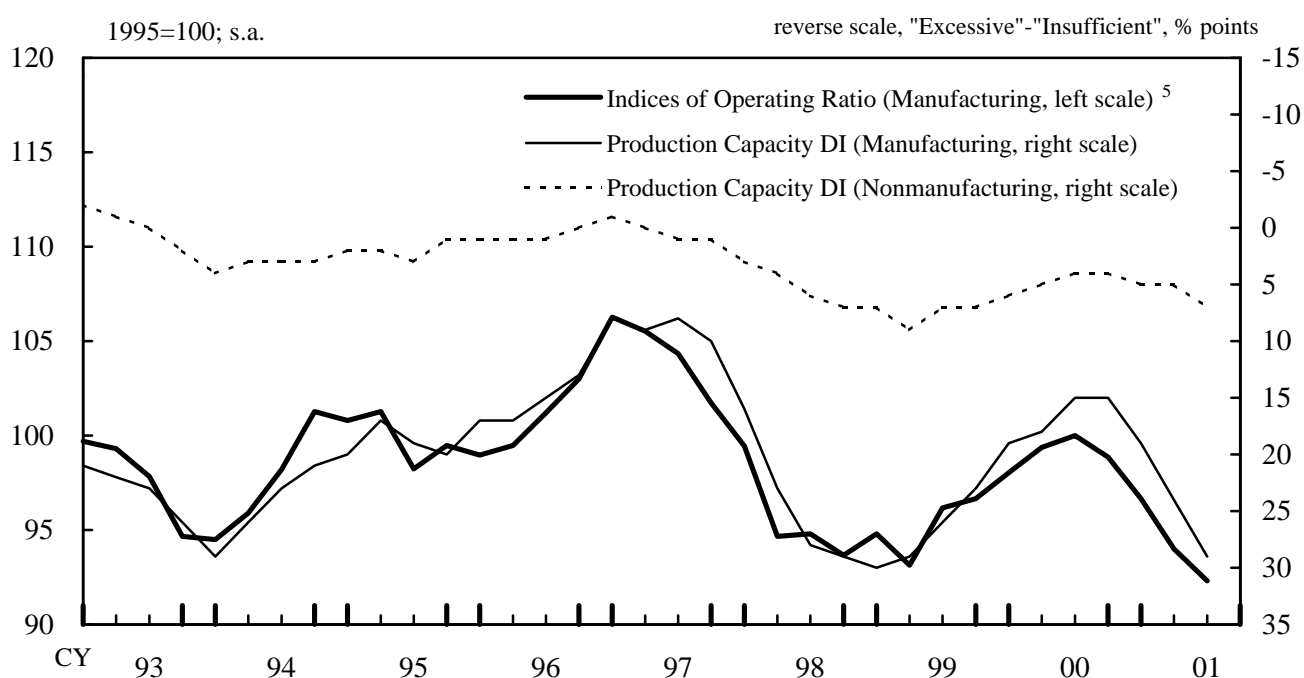
		CY98	99	2000	2000 Q4	2001 Q1	Q2	Q3	
United States ¹		4.3	4.1	4.1	1.9	1.3	0.3	n.a.	
European Union ¹		2.9	2.6	3.3	2.4	2.0	0.6	n.a.	
	Germany	2.0	1.8	3.0	0.6	1.6	-0.1	n.a.	
	France	3.5	3.0	3.4	3.3	1.7	1.0	n.a.	
	United Kingdom	3.0	2.1	2.9	2.0	2.6	1.8	n.a.	
East Asia ²	China	7.8	7.1	8.0	(Jan-Dec) 8.0	8.1	(Jan-Jun) 7.9	(Jan-Sep) n.a.	
	NIEs	Korea	-6.7	10.9	8.8	4.6	3.7	2.7	n.a.
		Taiwan	4.6	5.4	5.9	3.8	0.9	-2.4	n.a.
		Hong Kong	-5.3	3.0	10.5	7.0	2.3	0.5	n.a.
		Singapore	0.1	5.9	9.9	11.0	4.8	-0.7	-5.6
	ASEAN4	Thailand	-10.8	4.2	4.4	3.2	1.8	1.9	n.a.
		Indonesia	-13.1	0.8	4.8	5.2	3.2	3.5	n.a.
Malaysia		-7.4	6.1	8.3	6.3	3.1	0.5	n.a.	
Philippines		-0.6	3.4	4.0	3.8	3.2	3.3	n.a.	

Notes: 1. Quarterly data are quarter-to-quarter percent changes.

2. Quarterly data are percent changes from a year earlier.

Indicators for Business Fixed Investment (1)

(1) Capital goods domestic shipments and imports (excluding transport equipments)

(2) Indices of Operating Ratio and Production Capacity DI ⁴

Notes: 1. Figures for 2001/Q3 are those of Jul.-Aug. average.

2. Figure for 2001/Q3 of "Domestic shipments" is calculated from quarterly changes of *Indices of Industrial Production* (excluding effects of exports).

3. Figure for 2001/Q3 of "Capital goods domestic shipments and imports (excluding transport equipments)" is calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports", based on real imports (see chart 6).

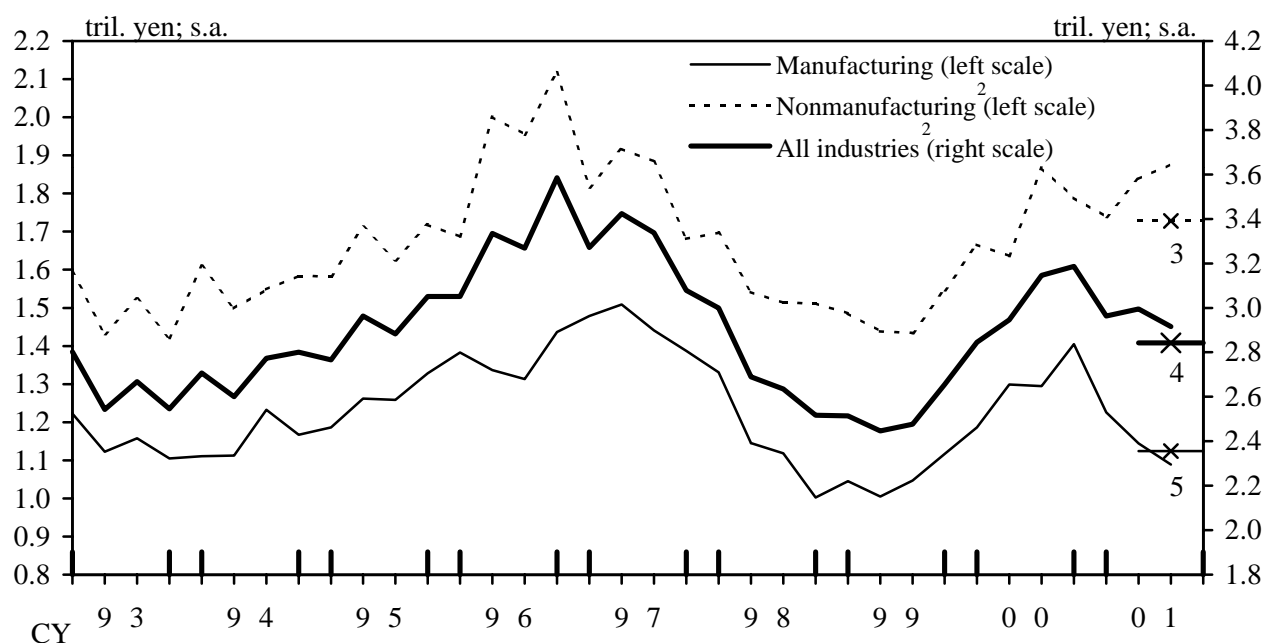
4. All enterprises.

5. Figures for 2001/Q3 are those of July.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes," "*Tankan* Short-term Economic Survey of Enterprises in Japan."

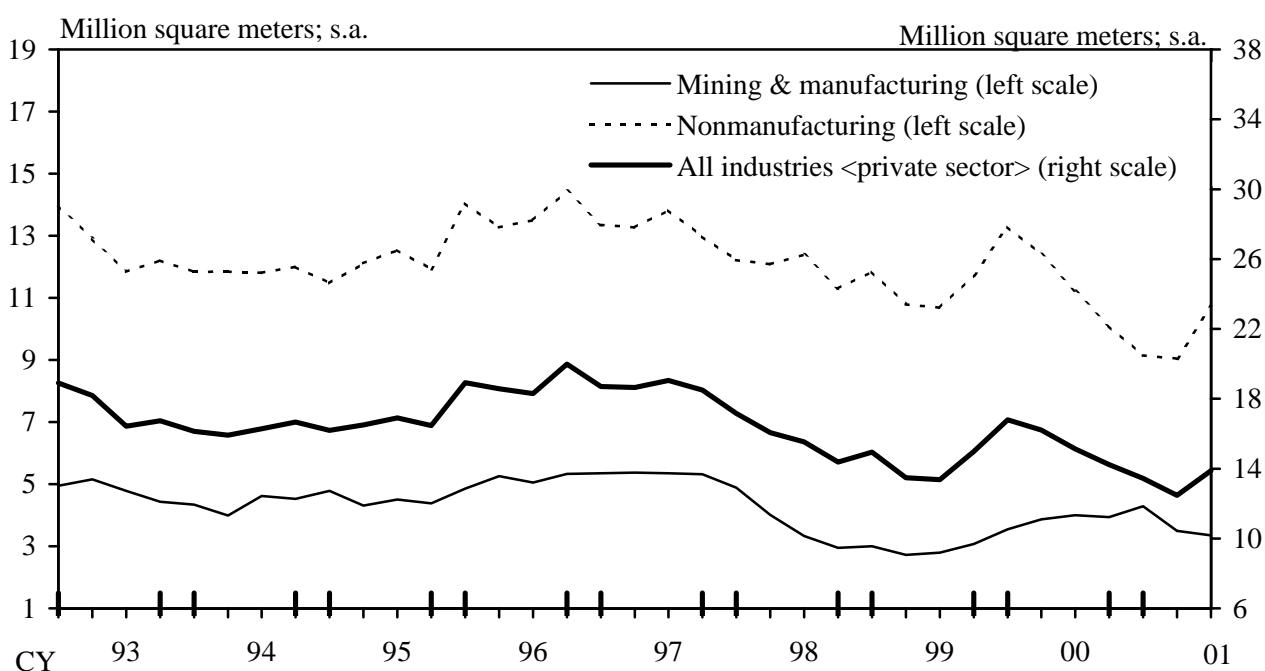
Indicators for Business Fixed Investment (2)

(1) Machinery Orders



- Notes: 1. Figures for 2001/Q3 are average of July and August in terms of quarterly amount.
 2. Excludes orders from electric power companies and shipbuilding orders.
 3. Forecast of nonmanufacturing industries for 2001/Q3.
 4. Forecast of all industries for 2001/Q3.
 5. Forecast of manufacturing industries for 2001/Q3.

(2) Construction Starts (Nonresidential)

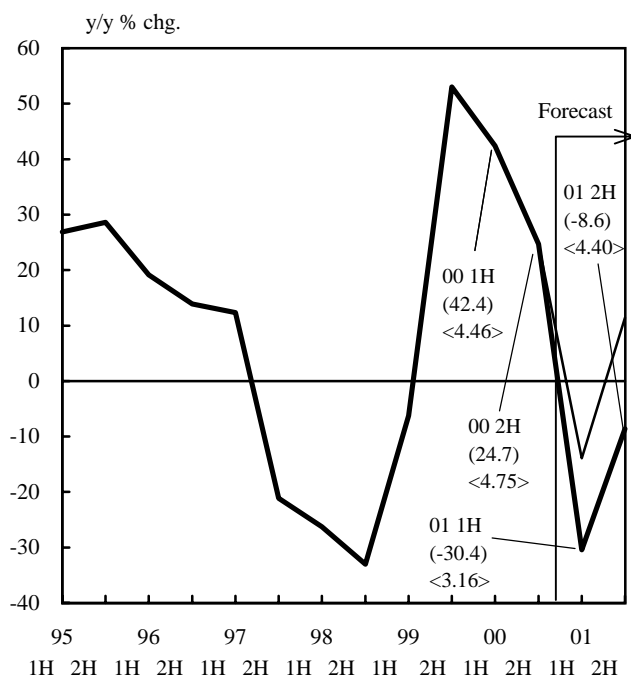


- Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).
 2. Figures for 2001/Q3 are average of July and August in terms of quarterly amount.

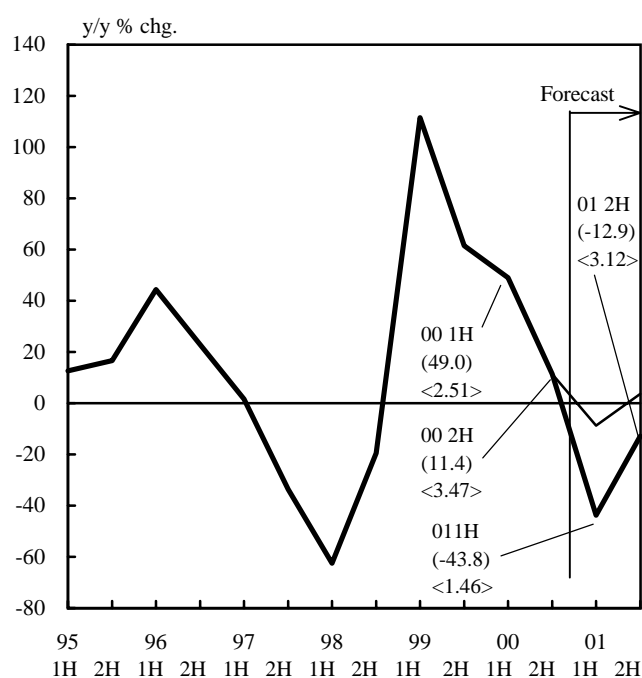
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

Recurring Profit

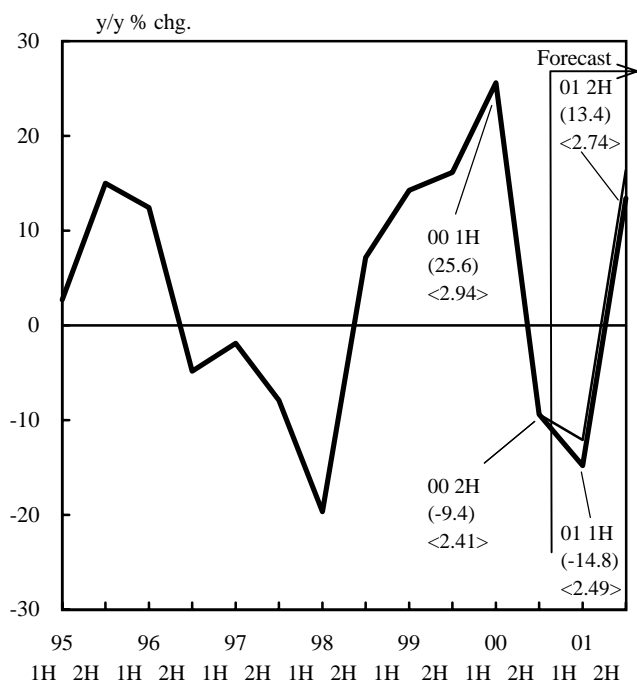
(1) Manufacturing / Large Enterprises



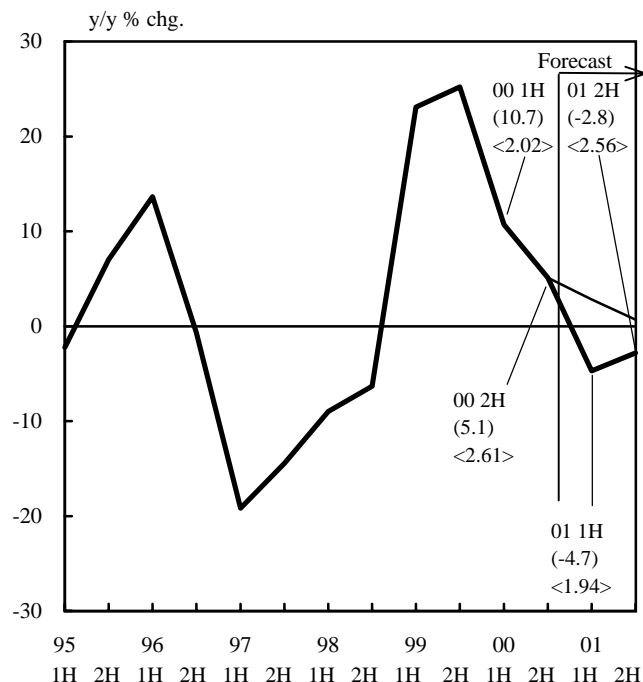
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



(4) Nonmanufacturing / Small Enterprises



Notes: 1. The thin solid line shows the figures as of the June 2001 survey.

2. Large enterprises: 1,000 employees or more

Small enterprises: 50-299 employees (Manufacturing), 20-99 employees (Wholesaling),

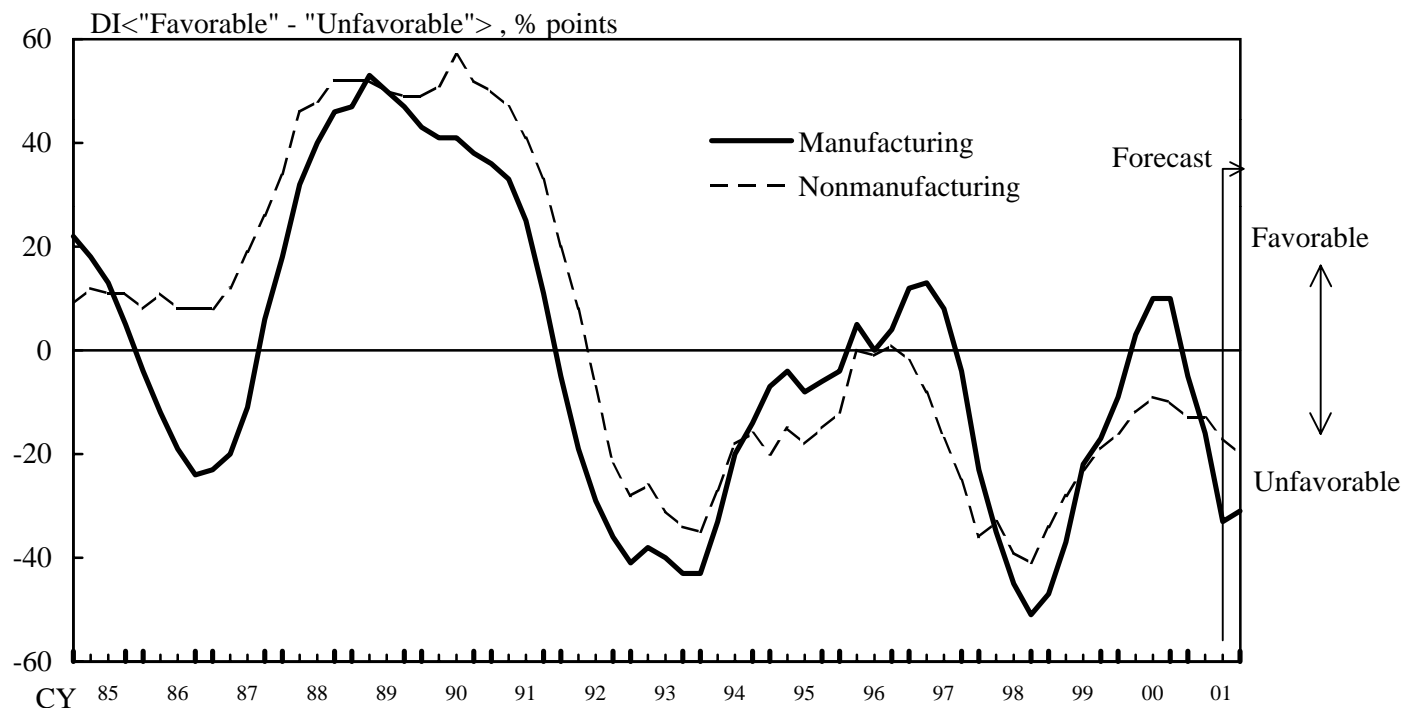
20-49 employees (Retailing, services, and leasing), 50-299 employees (Other industries)

3. (): Recurring Profits (y/y% chg.), < >: Ratio of recurring profit to sales (%).

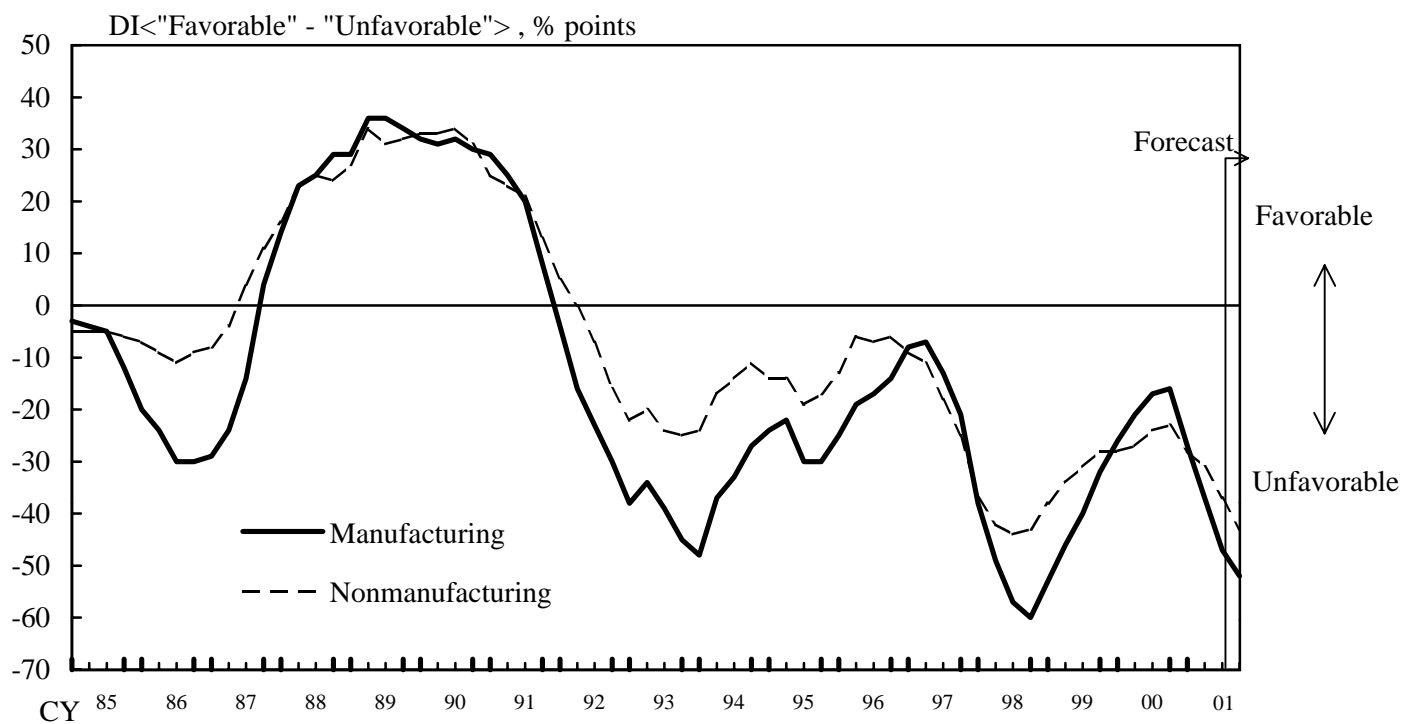
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Large Enterprises



(2) Small Enterprises



Note: Large enterprises: 1,000 employees or more

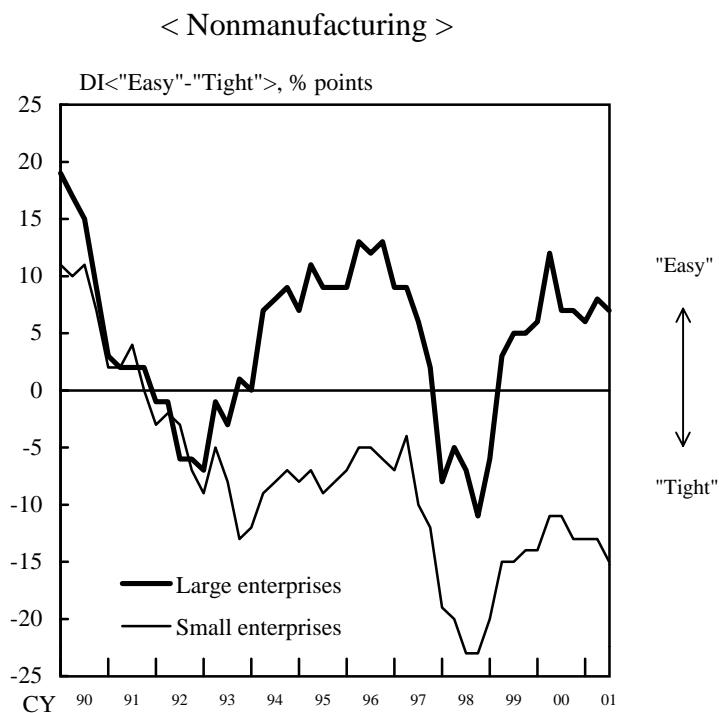
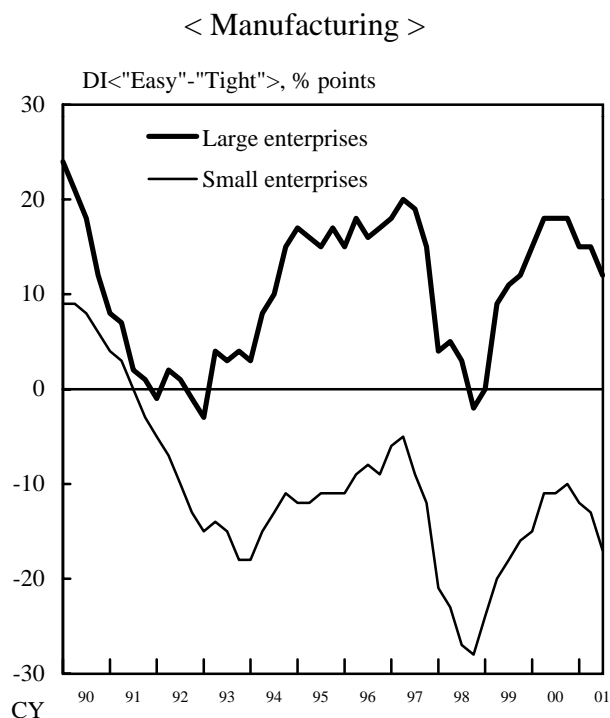
Small enterprises: 50-299 employees (Manufacturing), 20-99 employees (Wholesaling),

20-49 employees (Retailing, services, and leasing), 50-299 employees (Other industries)

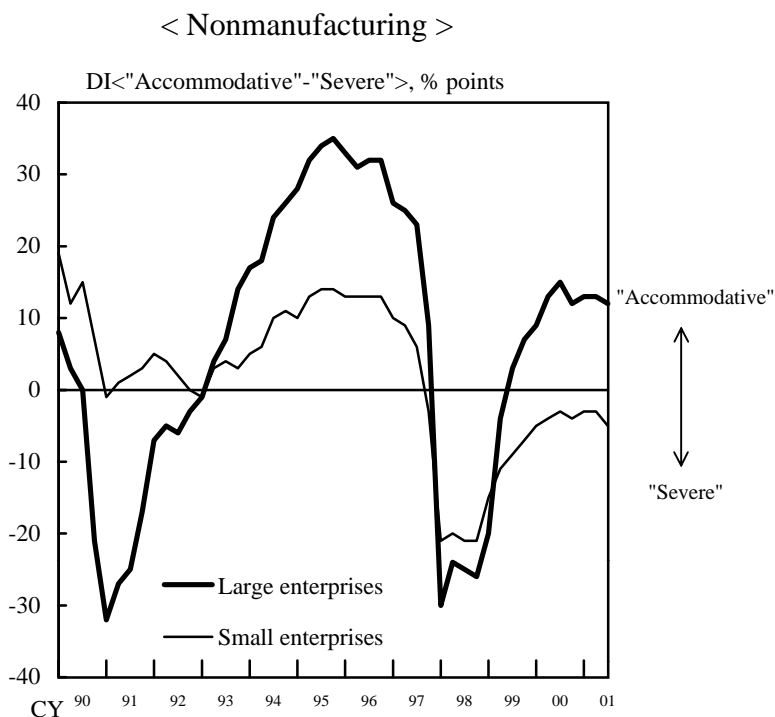
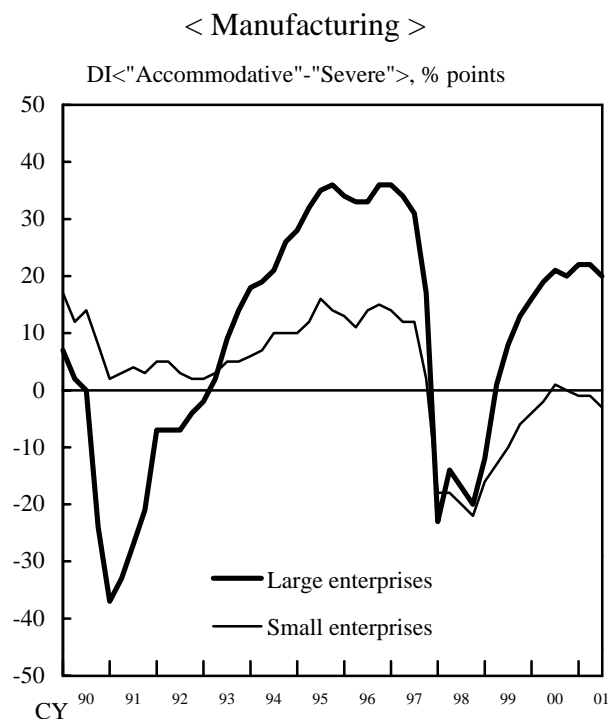
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Corporate Finance-Related Indicators

(1) Financial Position



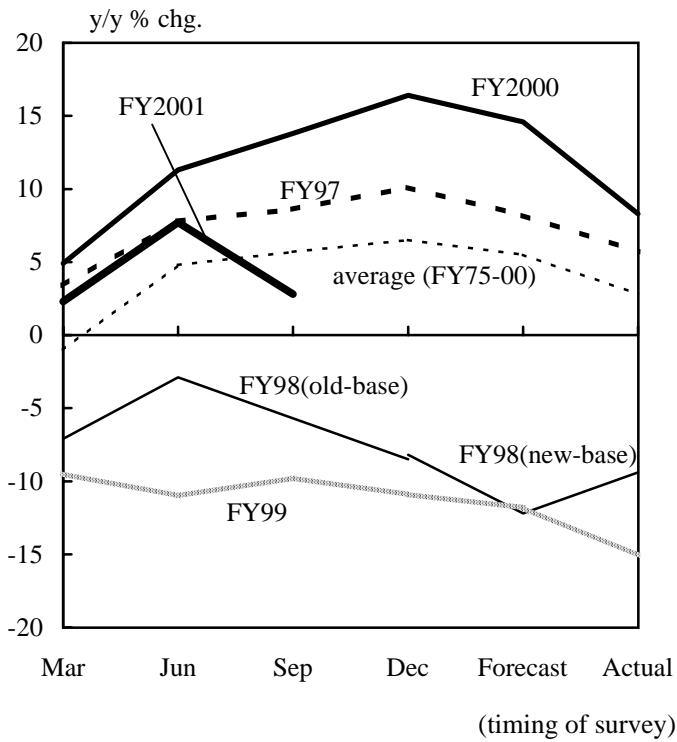
(2) Lending Attitude of Financial Institutions



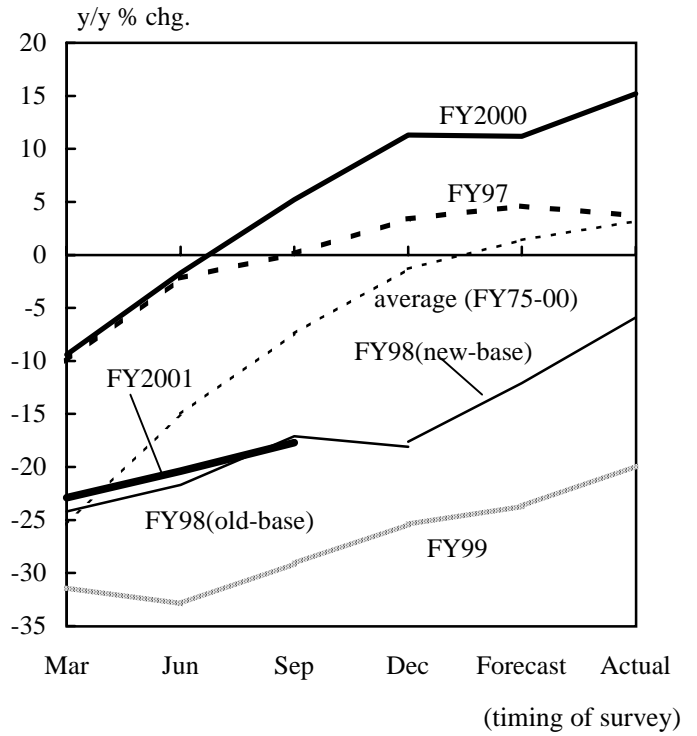
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

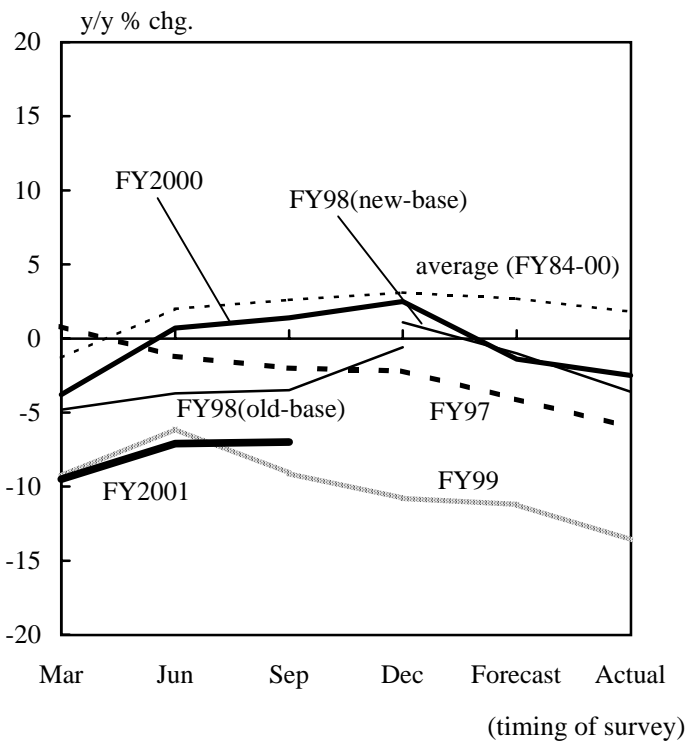
(1) Manufacturing / Large Enterprises



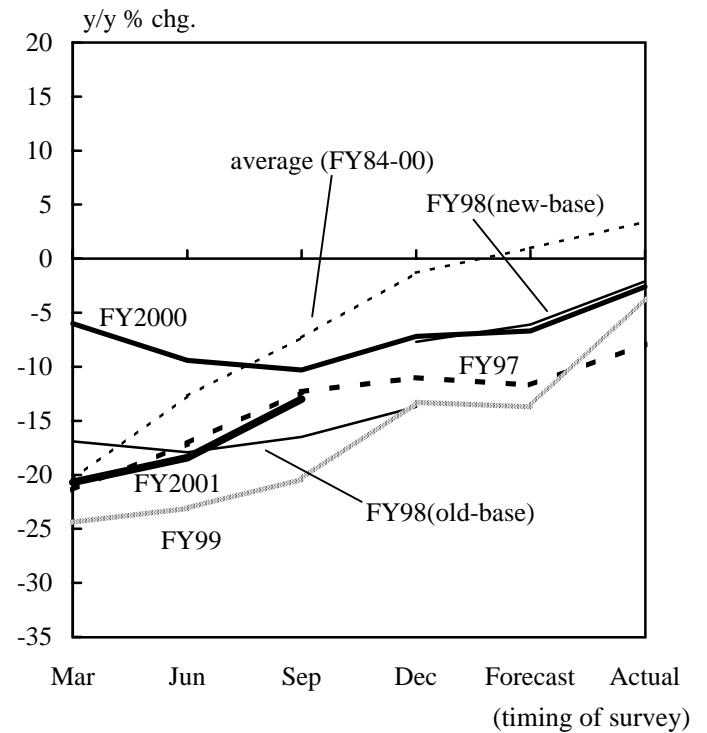
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



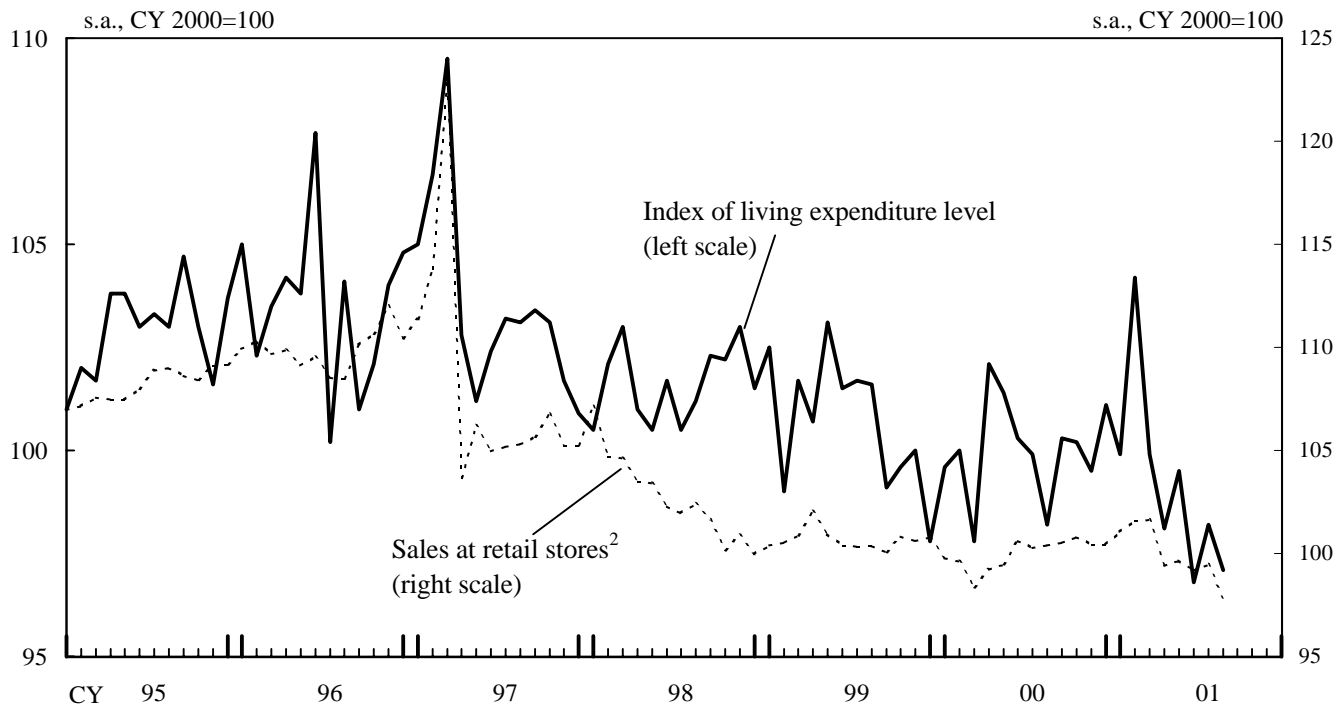
(4) Nonmanufacturing / Small Enterprises



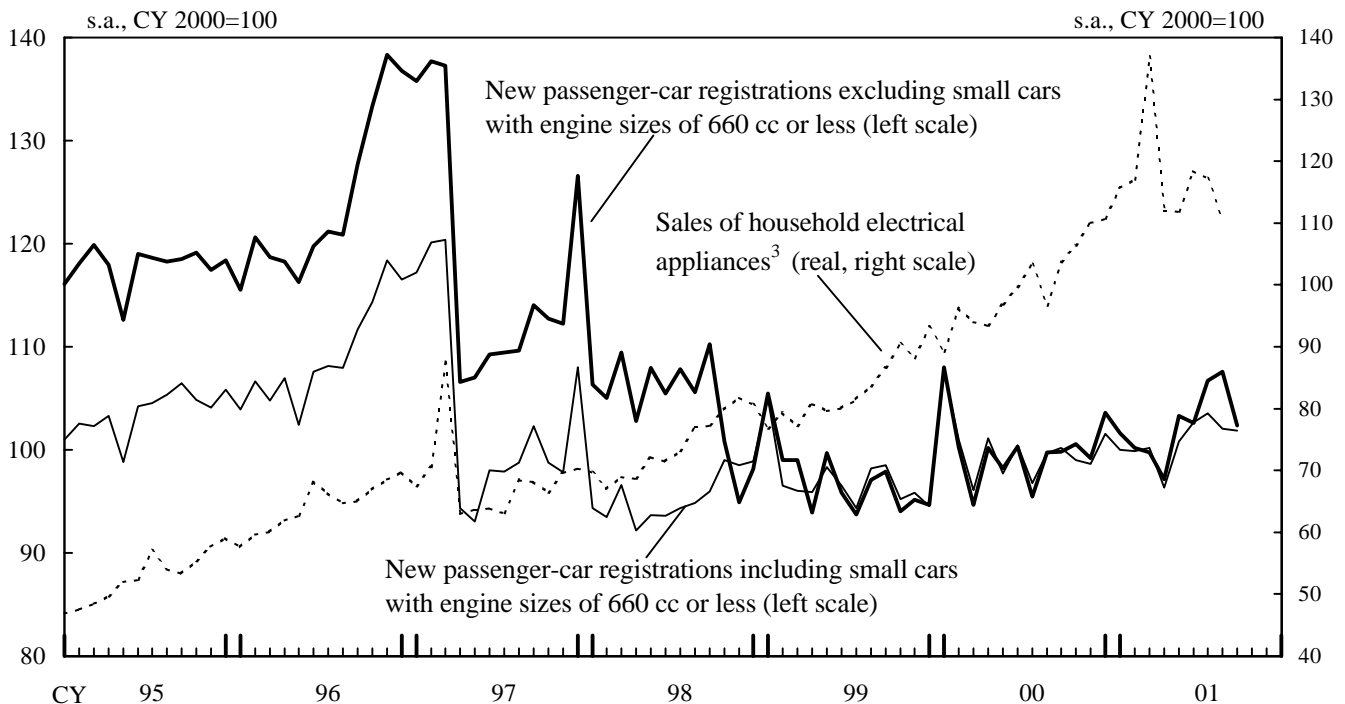
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Private Consumption¹ (1)

(1) Household Spending



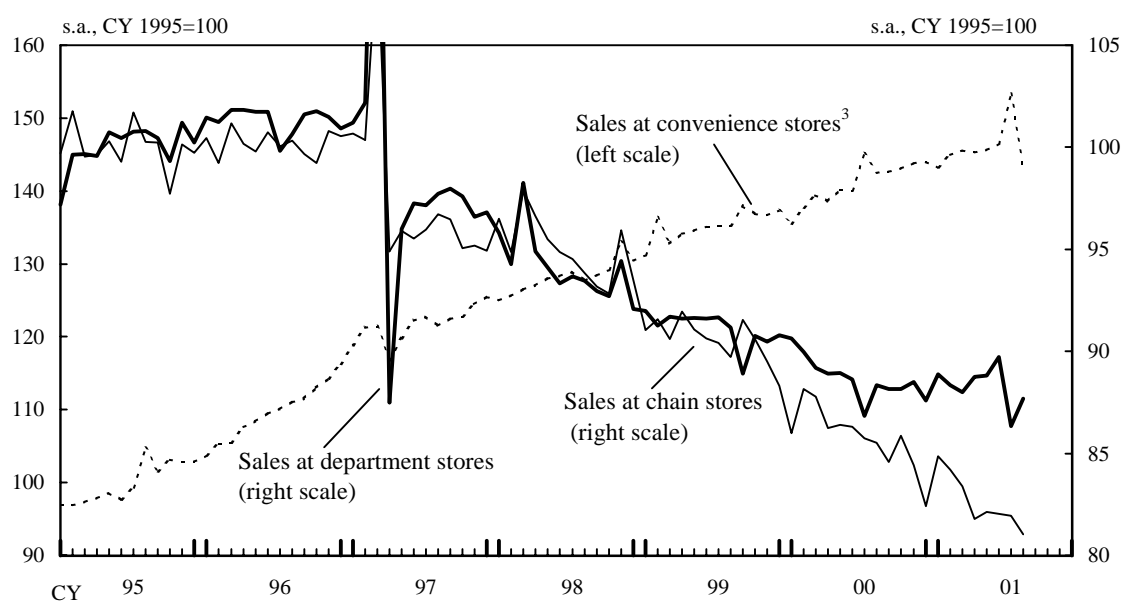
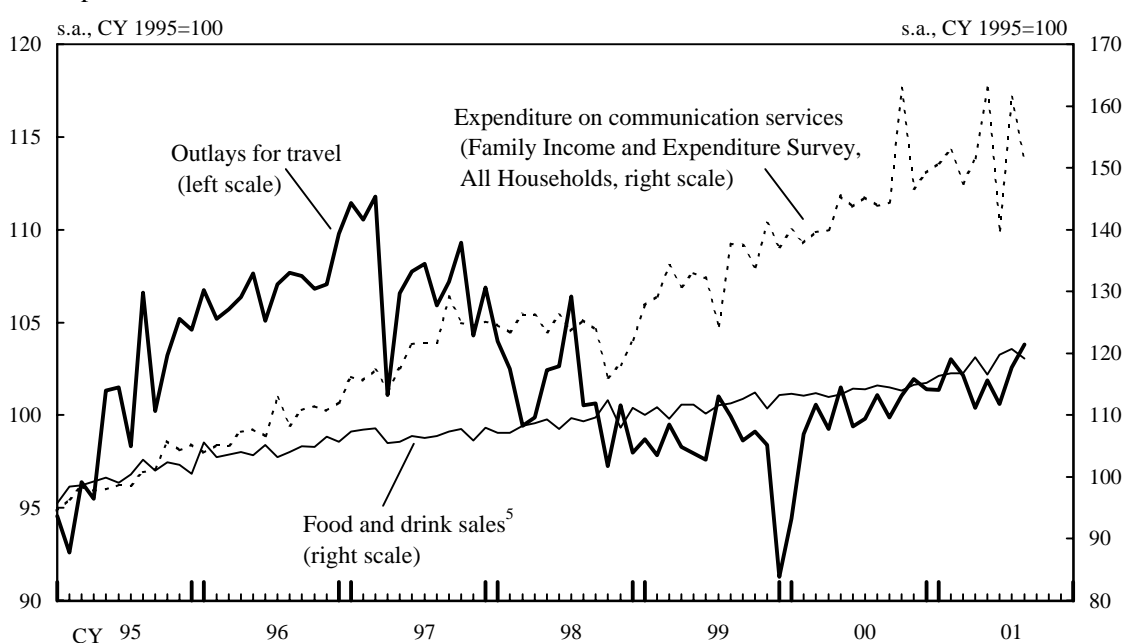
(2) Sales of Durable Goods



Notes: 1. Seasonally adjusted by X-12-ARIMA (β version). Index of living expenditure level is seasonally adjusted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.

2. Sales at retail stores are deflated by the consumer price index for goods. Sales of household electrical appliances are the sum of its components deflated by the consumer price index (or the wholesale price index for personal computers before 1999).

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles Association, "Sales of Mini Vehicles"; Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances"; Bank of Japan, "Wholesale Price Indexes."

Private Consumption¹ (2)(3) Sales of Retail Stores²(4) Consumption of Services⁴

Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).

2. Adjusted to exclude the effect of the increase in the number of stores (except convenience stores).

Sales at department stores and sales at chain stores are adjusted to exclude the effect of the rise in the consumption tax rate.

3. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan.

From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

4. Outlays for travel and sales of food and drink are adjusted to exclude the effect of the rise in the consumption tax rate.

5. For food and drink sales, figures are calculated by the Bank of Japan using both the Japan Foodservice Association's y/y data and the 1993 data of the Foodservice Industry Survey & Research Center as a bench mark.

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications,

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

Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

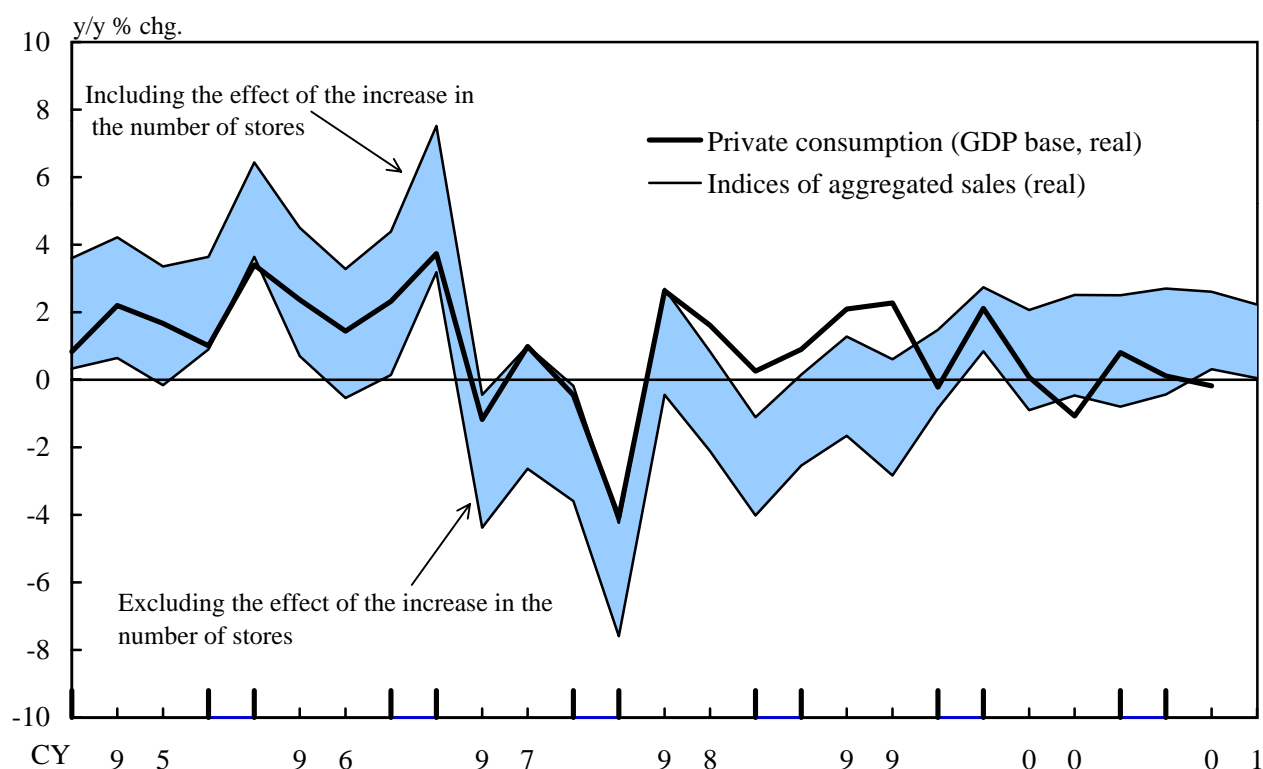
Japan Chain Stores Association, "Sales at Chain Stores";

Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue";

Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales";

Japan Foodservice Association, "The Research of Food and Drink Markets."

Private Consumption (3)

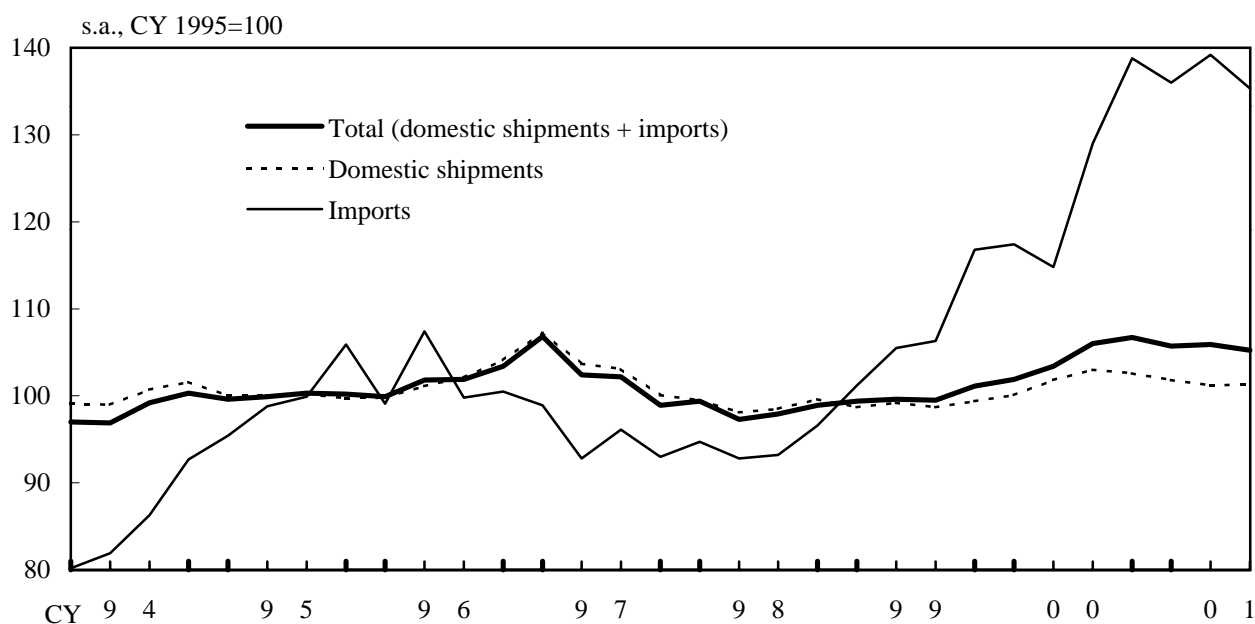


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *Sales at chain stores*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Food and drink sales*, where the weights come from the *Family Income and Expenditure Survey*. *Sales at convenience stores* (until March 1997 surveyed by the Bank of Japan) are also taken into account for the index and include the effect of the increase in the number of stores. Sales indicators in nominal terms are deflated by the corresponding items of the consumer price index or the wholesale price index.
2. Indices of aggregated sales consist of the series including and excluding the effect of the increase in the number of stores. The former, which tries to cover development of private consumption to the widest extent possible, includes sales at newly opened stores, which may arise from the fresh demand they create or from demand shifted from existing stores. In contrast, the latter shows ongoing development of consumption at existing stores by excluding sales at new stores. It is supposed that the truth (i.e., actual development of consumption) is somewhere between the former wide-coverage series and the latter narrow-coverage series, which is shown by the shaded area between the two series.
3. 2001/Q3 figures are those of July-Aug. converted to a quarterly basis.

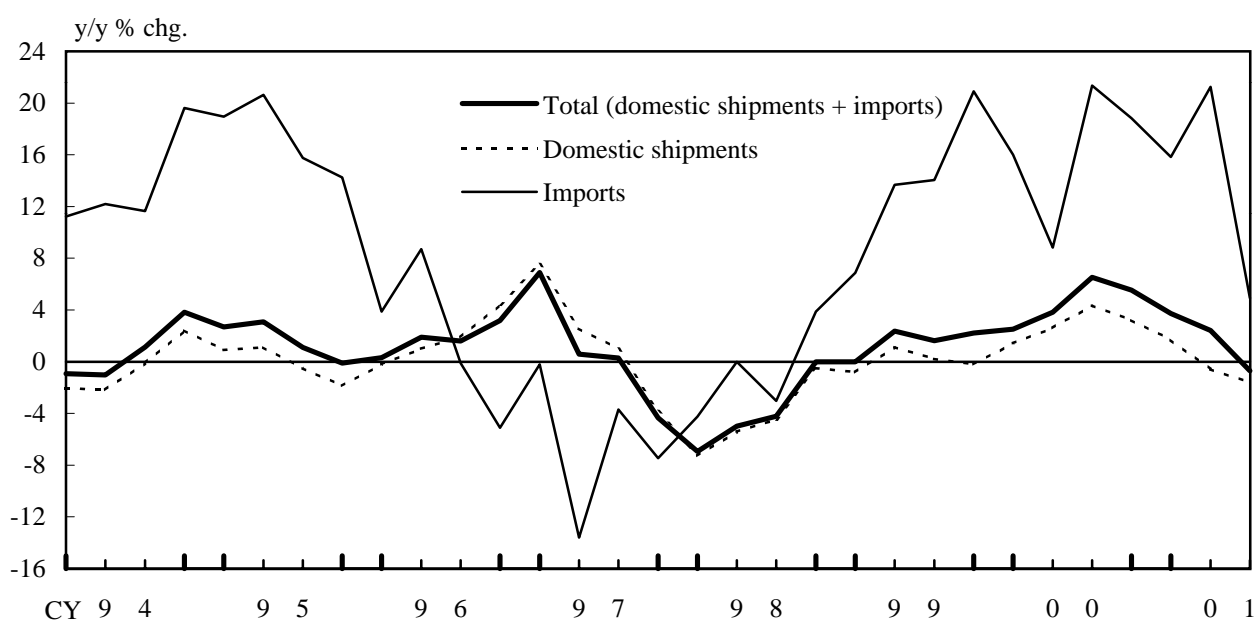
Sources: Cabinet Office, "National Accounts";
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index,"
 "Monthly Report on the Family Income and Expenditure Survey";
 Bank of Japan, "Wholesale Price Indexes";
 Japan Chain Stores Association, "Sales at Chain Stores";
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
 Japan Mini Vehicles Association, "Sales of Mini Vehicles";
 Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances";
 Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales";
 Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue";
 Japan Foodservice Association, "The Research of Food and Drink Markets."

Private Consumption (4) - Estimation of consumer goods supply

(1) Level



(2) Changes from a year earlier

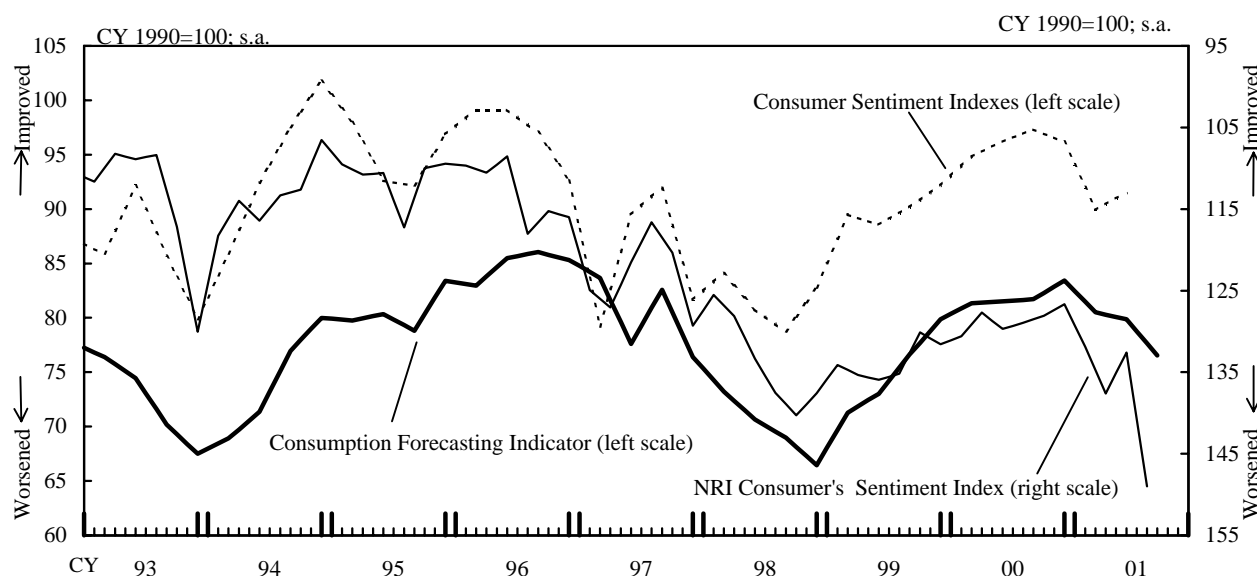


- Notes: 1. "Domestic shipments" and "Imports" are components of "consumer goods" in the Indices of Industrial Domestic Shipments and Imports. (The definition for "consumer goods" is the same as that in the Indices of Industrial Production.)
2. Figures for 2001/Q3 of "Domestic shipments" are calculated from quarterly changes of Indices of Industrial Production (excluding the effects of exports).
3. Figures for 2001/Q3 of "Imports" are calculated from quarterly changes of real imports. Real imports (consumer goods) = motor vehicles + audio and visual apparatus + office machinery + foodstuffs + textiles.
4. Figures for 2001/Q3 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports".
5. Year-on-year changes are calculated from seasonal adjusted series.
6. 2001/Q3 figures are those of July -Aug. in terms of quarterly amount.

Sources: Ministry of Economy Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

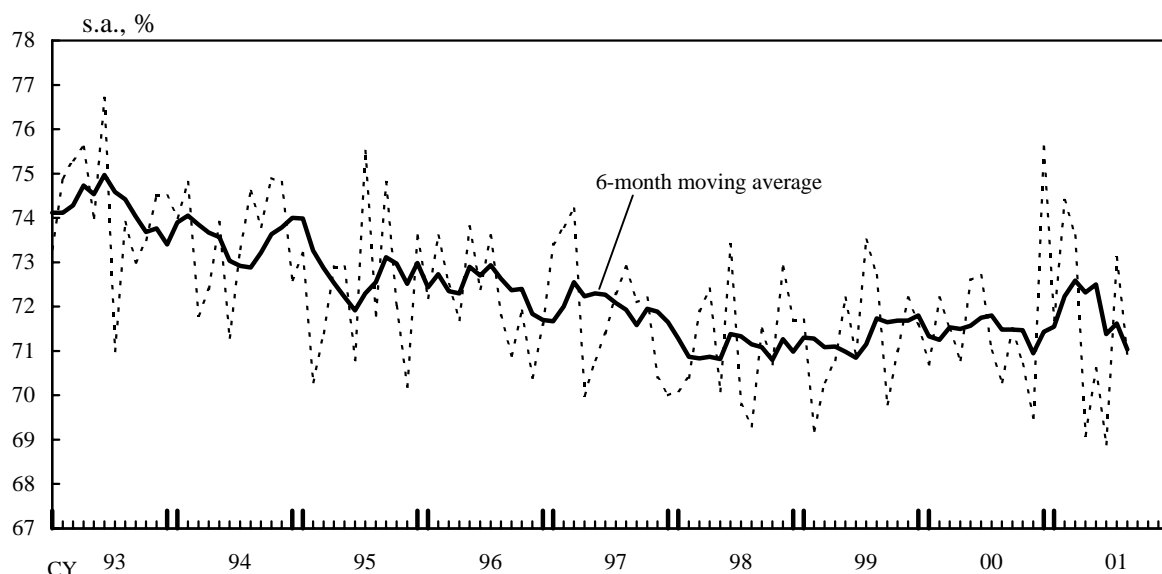
Consumer Confidence and Propensity to Consume

(1) Surveys on Consumer Confidence



- Notes: 1. Seasonally adjusted by X-11. "Consumer Sentiment Indexes" is seasonally adjusted by the Cabinet Office.
 2. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.
 3. Data are plotted at the months of each survey.
 4. "Consumer Sentiment Indexes" is surveyed by the Cabinet Office, "Consumption Forecasting Indicator" by NIKKEI RIM, and "NRI Consumer's Sentiment Index" by NRI.

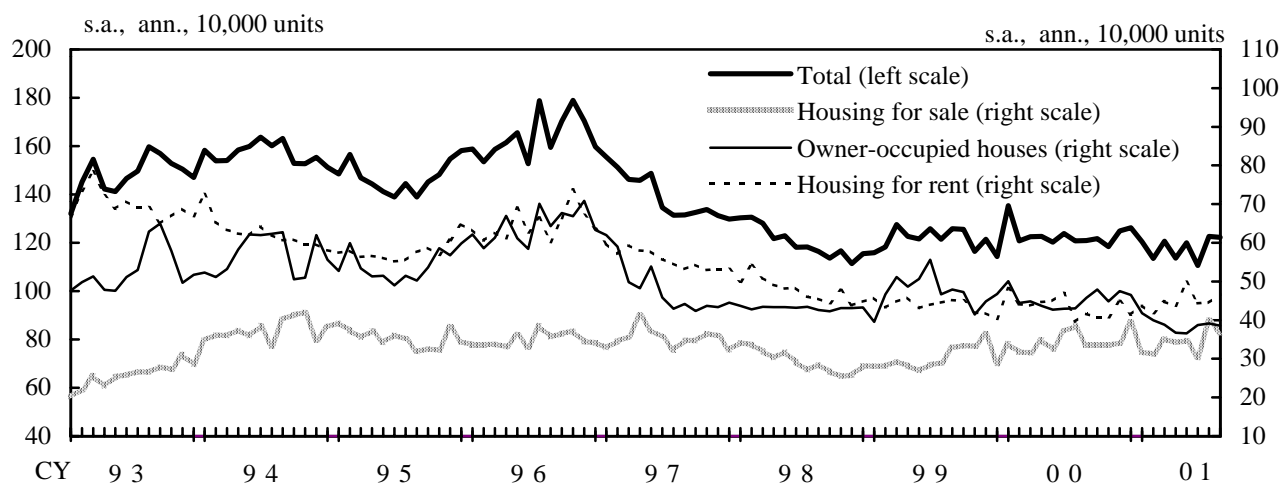
(2) Propensity to Consume (Family Income and Expenditure Survey)



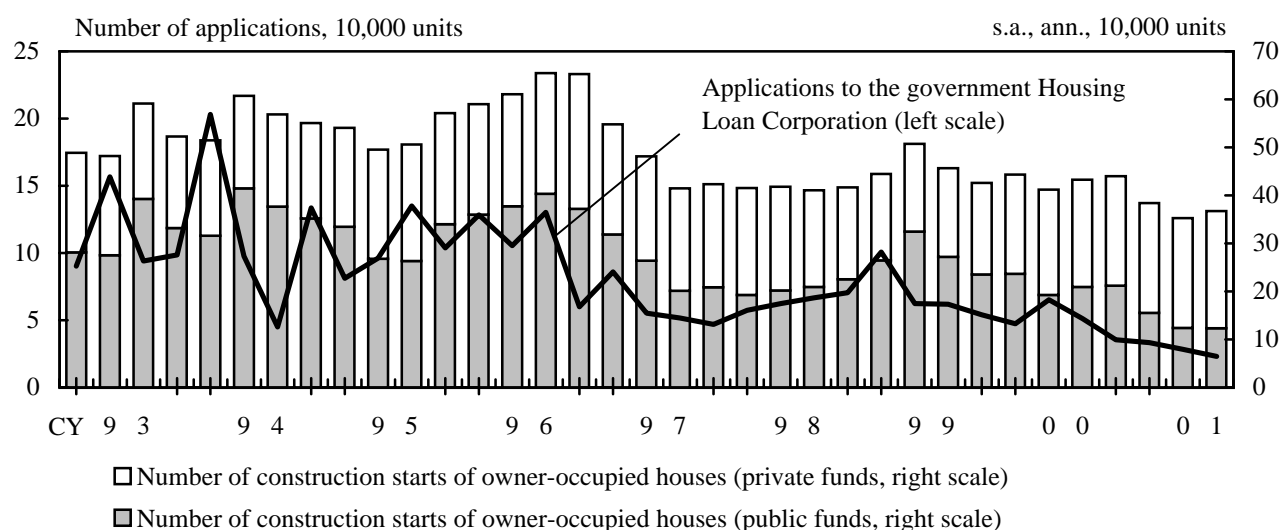
Sources: Cabinet Office, "Consumer Behavior Survey";
 Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications,
 "Monthly Report on the Family Income and Expenditure Survey";
 Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



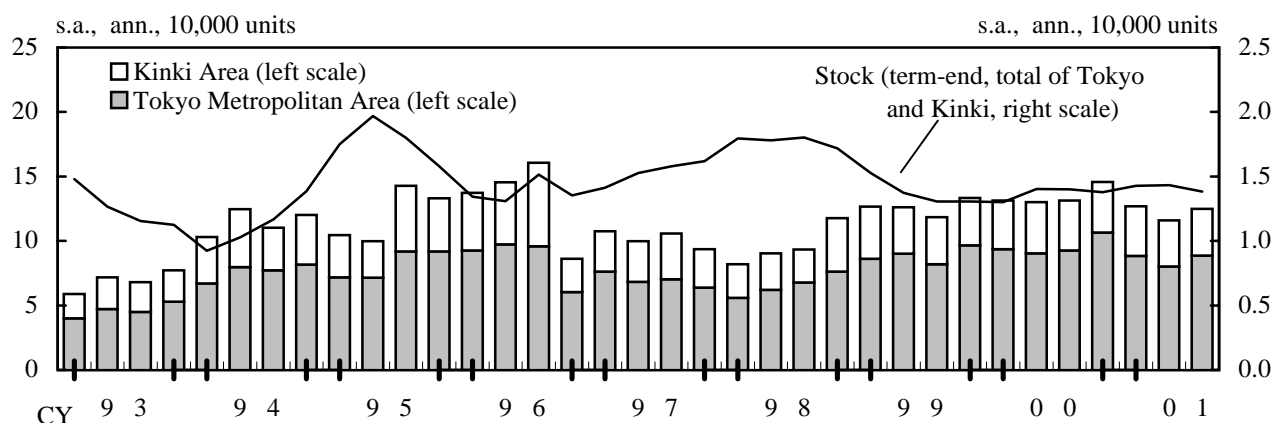
(2) Number of Applications to the Government Housing Loan Corporation (for new owner-occupied houses)



Notes: 1. The number of loan applications for the construction of private houses is divided by the number of days in the application term of each quarter.

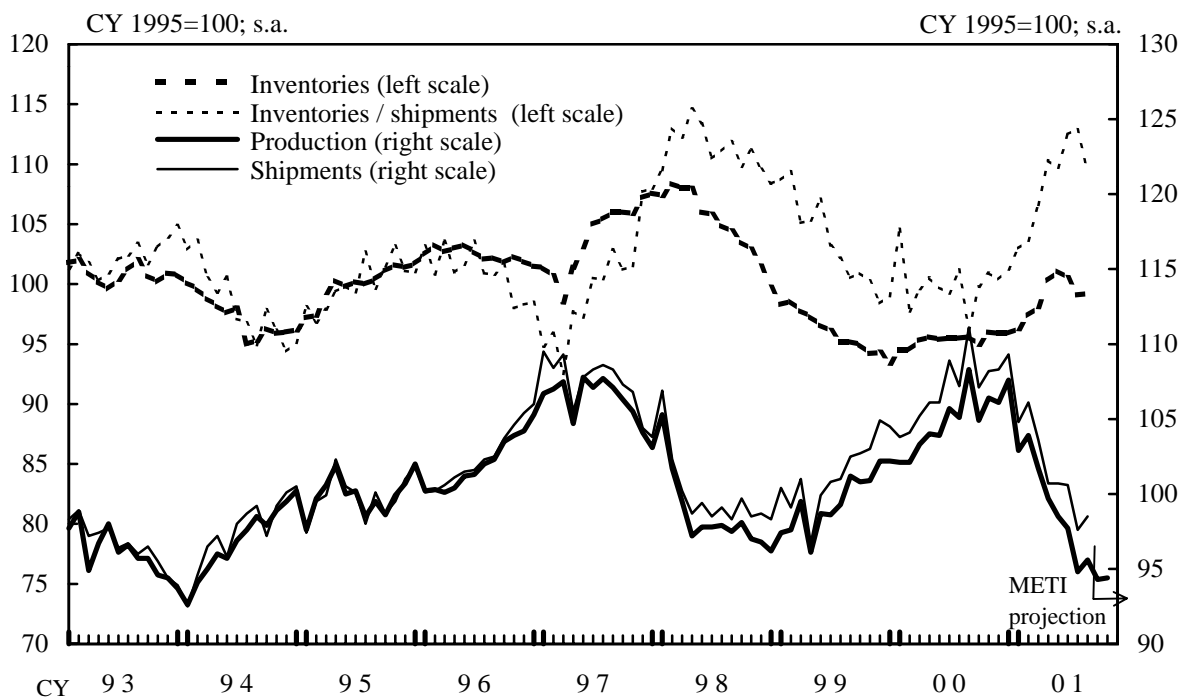
2. Figures for the number of construction starts of owner-occupied houses (private funds and public funds) for CY2001/Q3 are those of July-August average.

(3) Sales of Condominiums

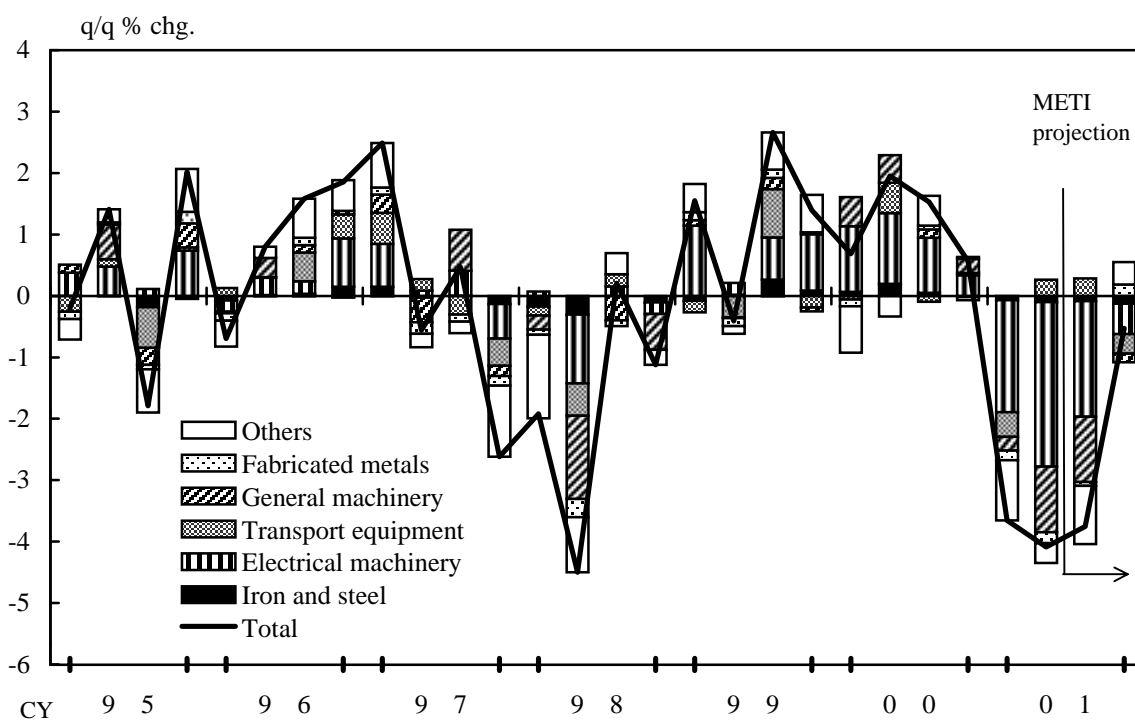


Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



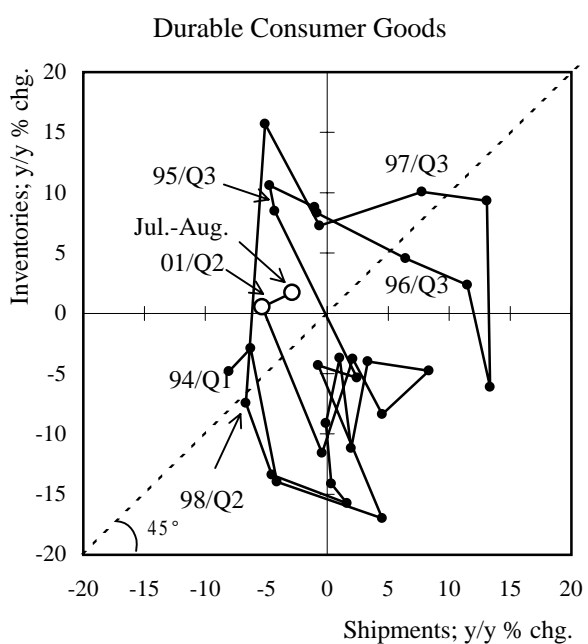
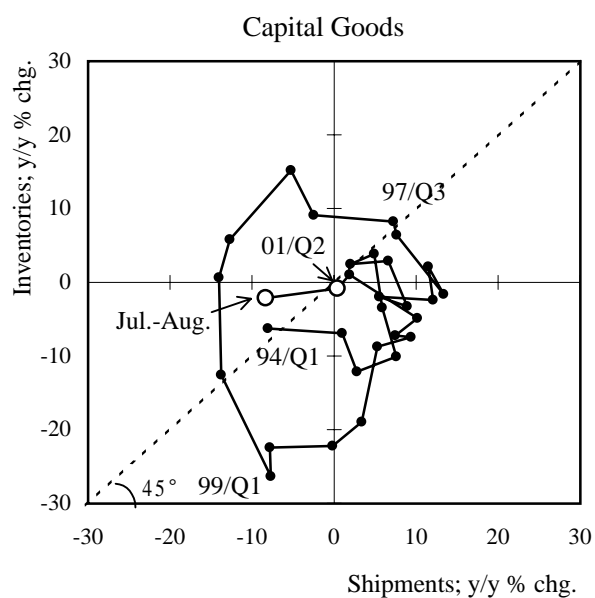
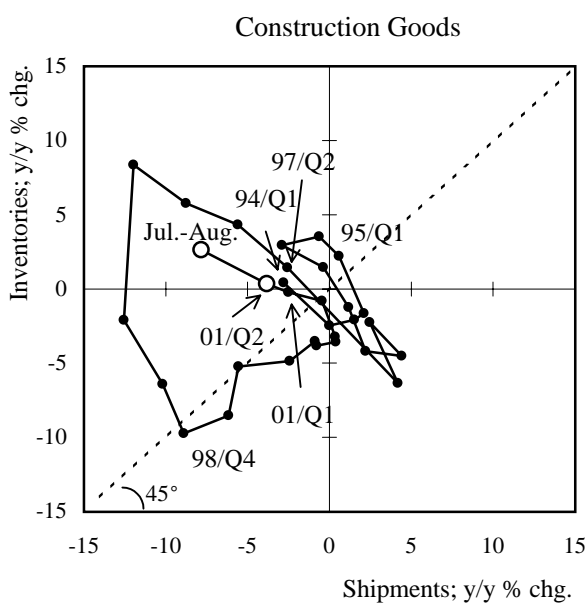
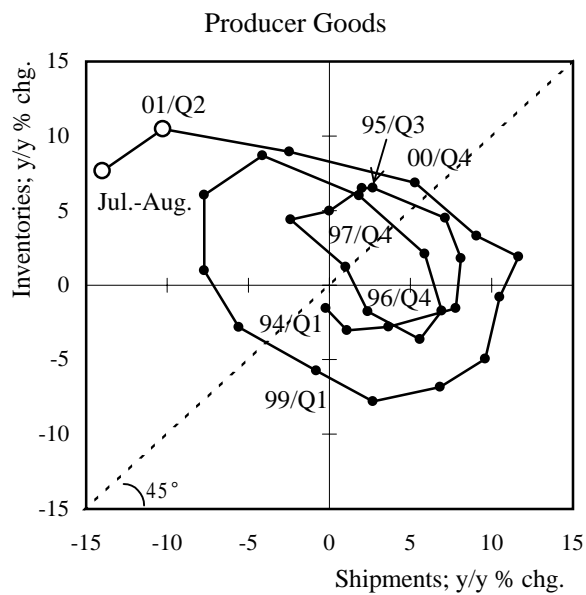
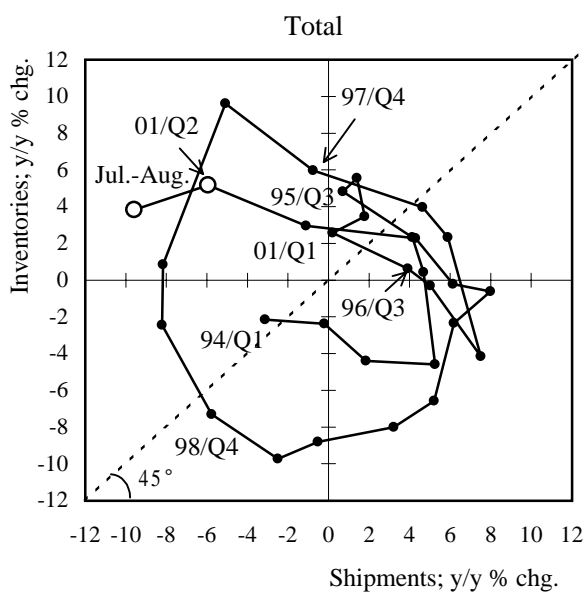
(2) Production by Industries



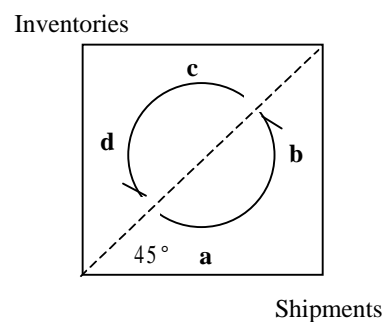
Note: Transport equipment excludes ships and rolling stock.

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

Inventory Cycle



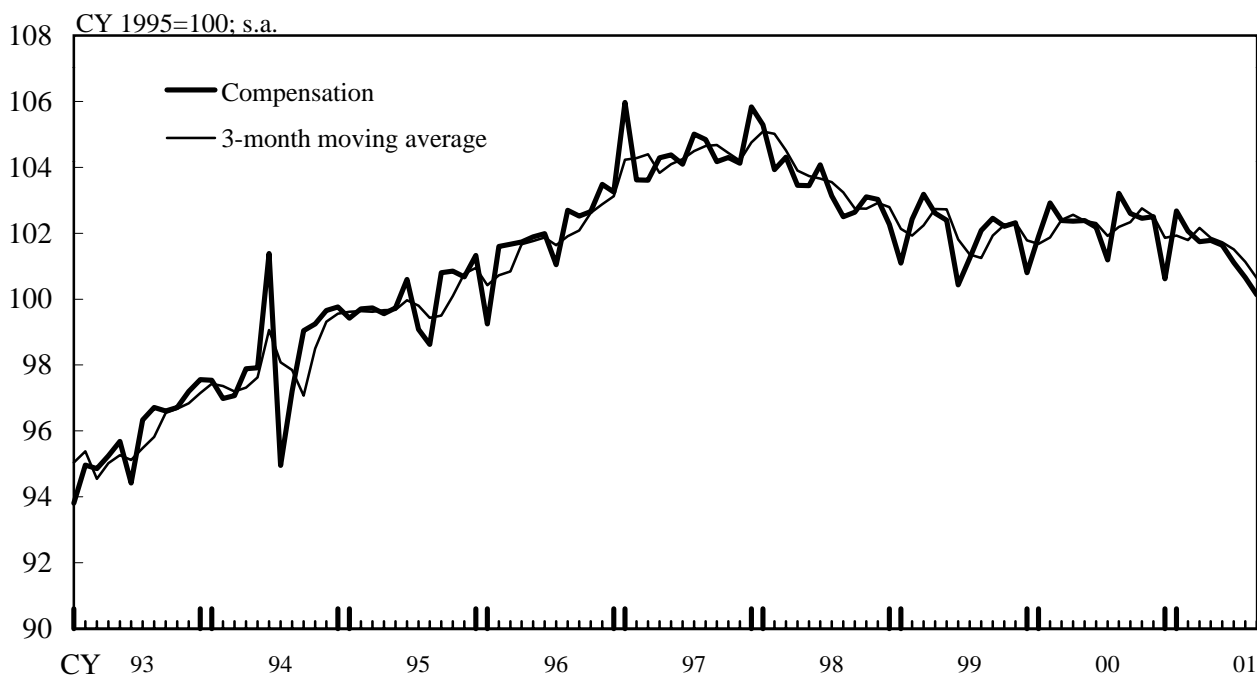
Phases in the Inventory Cycle



- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase

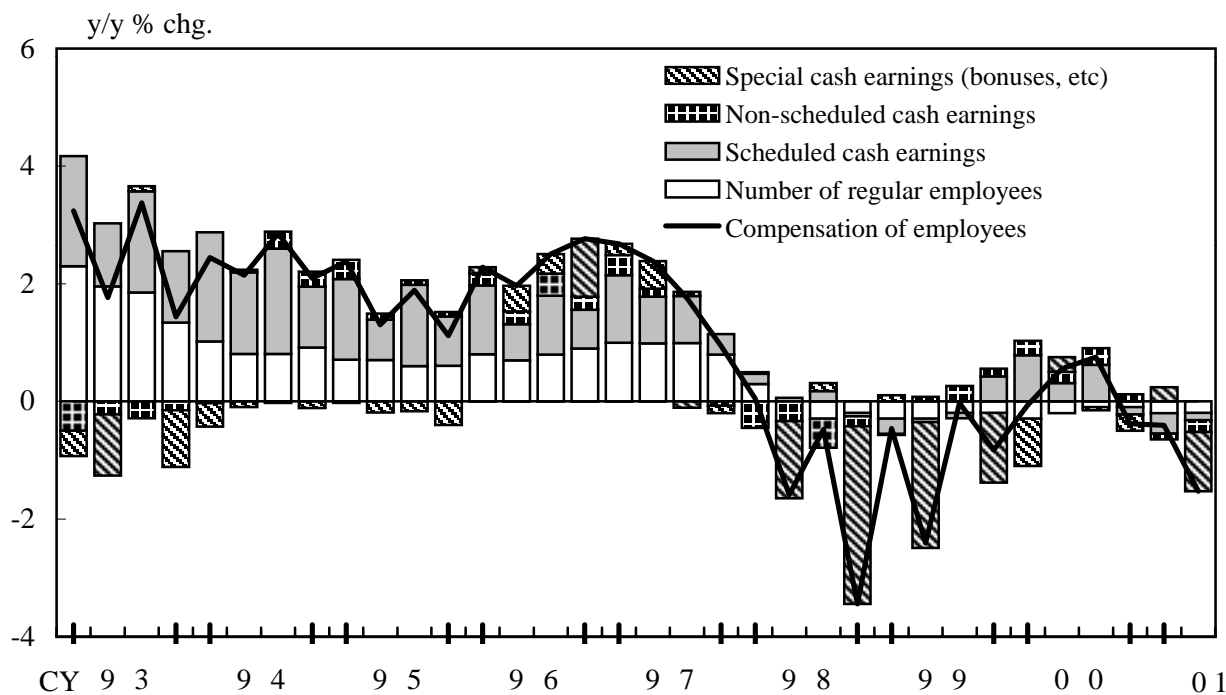
Compensation of Employees

(1) Compensation



- Notes: 1. Compensation = the index of total cash earnings \times the index of regular employees / 100 (calculated by the Bank of Japan).
 2. Seasonally adjusted by X-12-ARIMA (β version).
 3. Data for establishments with at least 5 employees. The data for Aug. 2001 are preliminary figures.

(2) Breakdown of Compensation

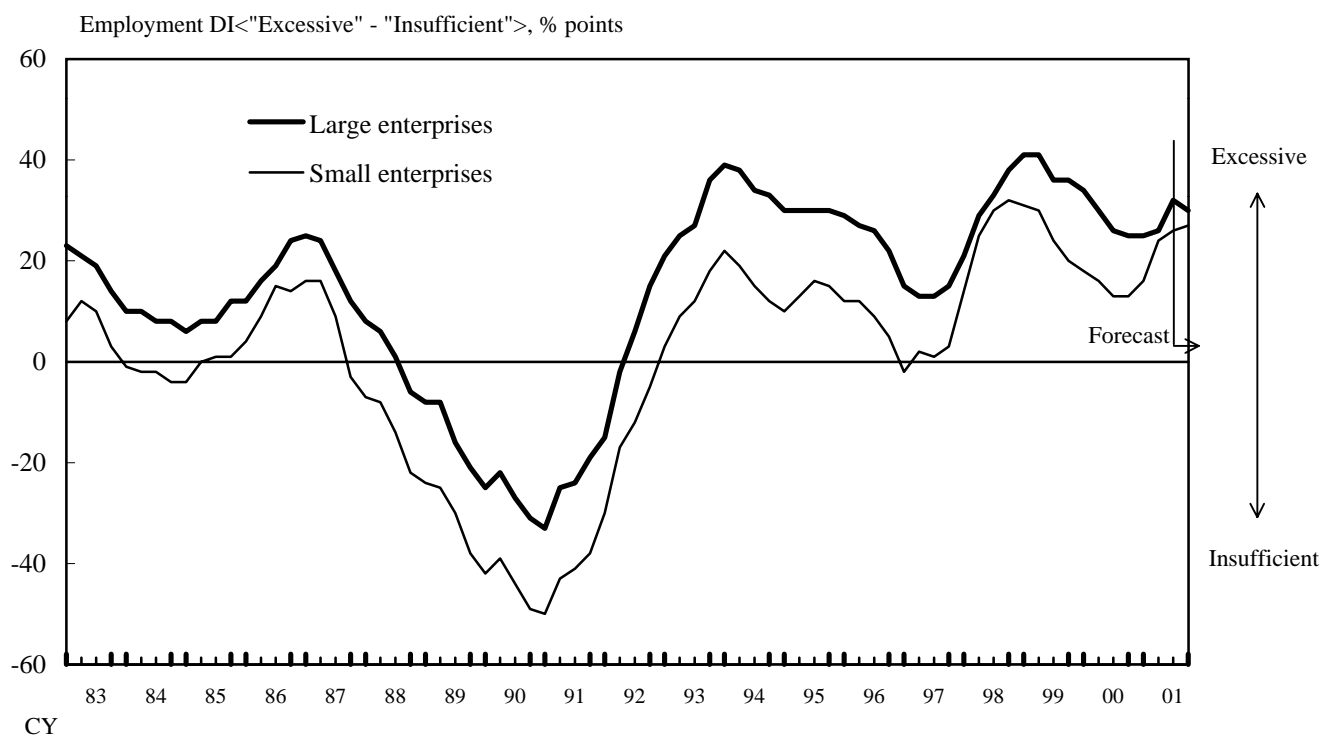


- Notes: 1. Data for establishments with at least 5 employees. The data for Aug. 2001 are preliminary figures.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.

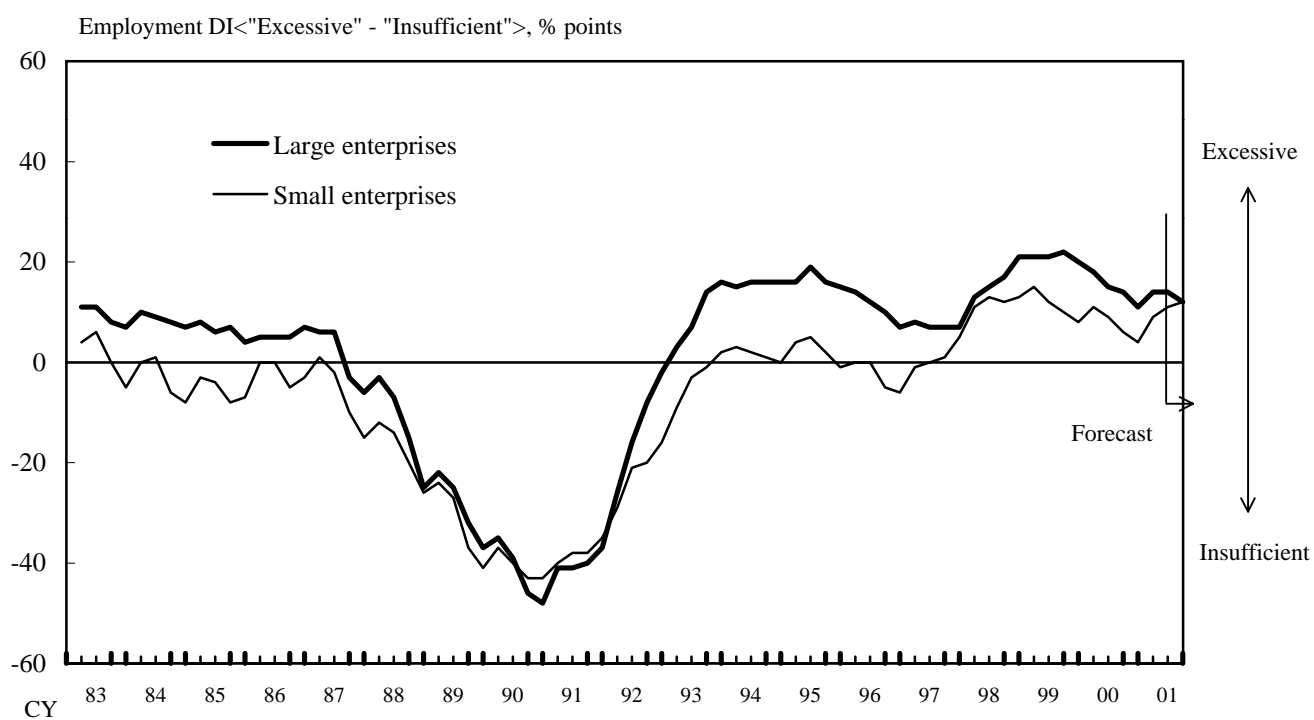
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

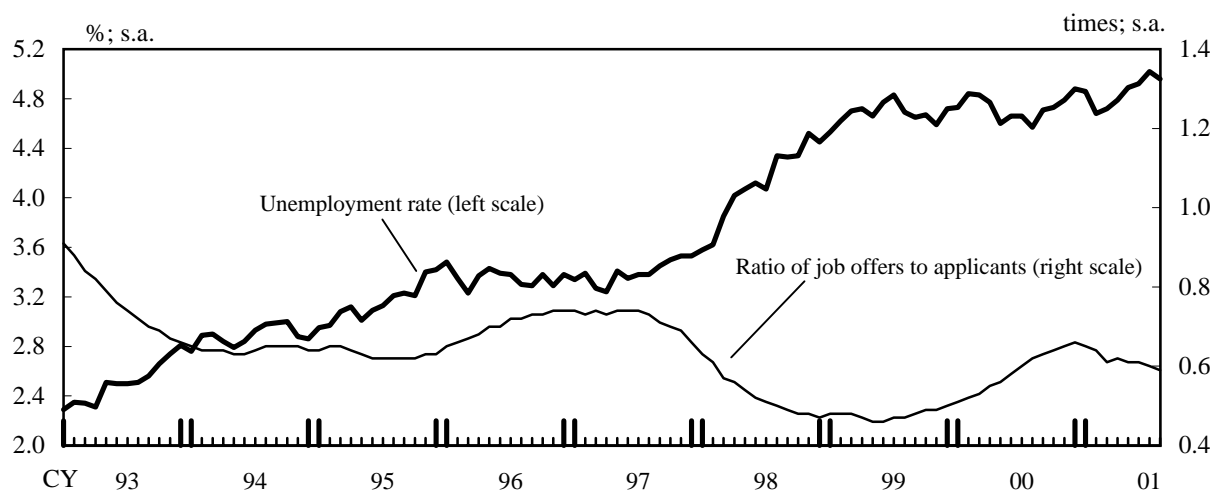
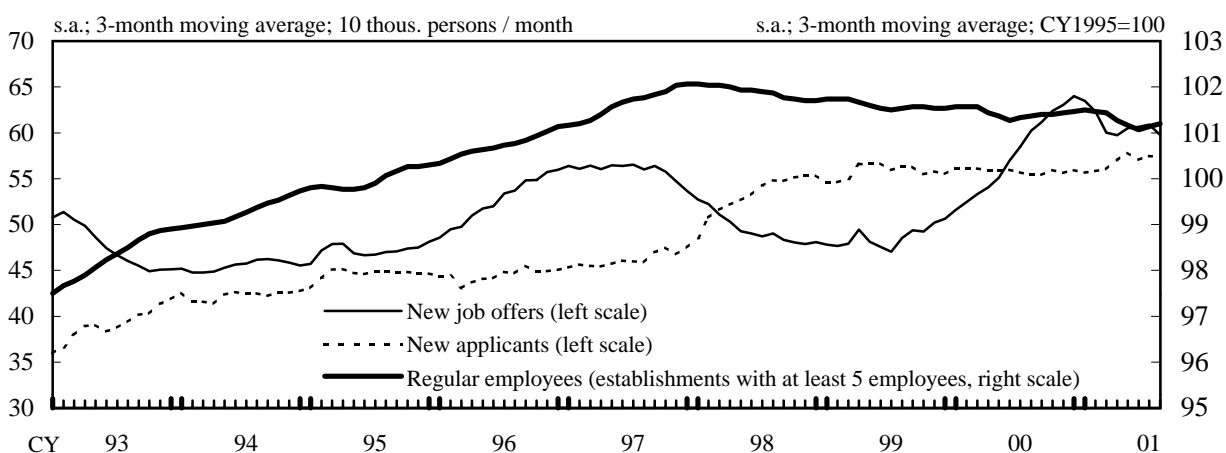
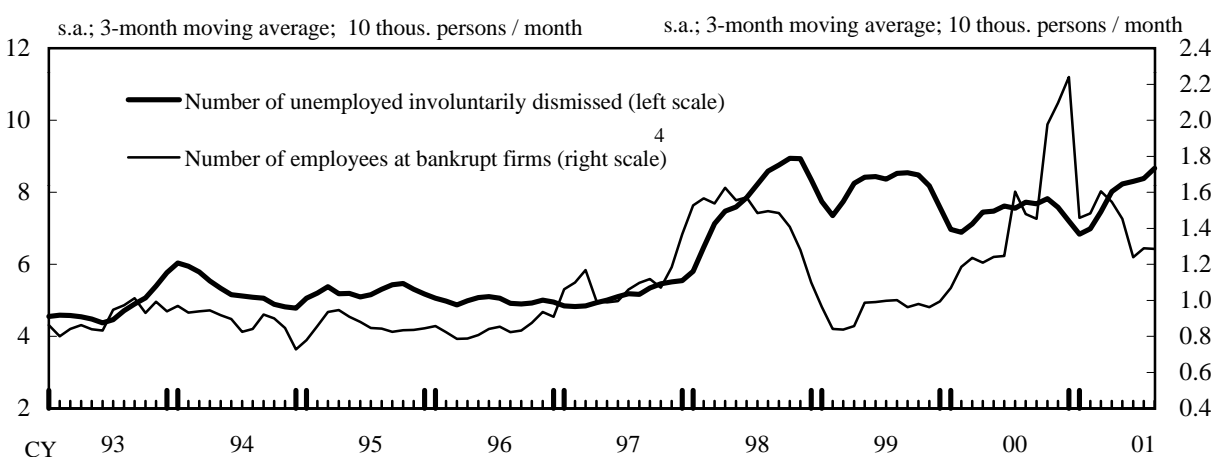


Note: Figures before December 1998 are based on the pre-revision *Tankan*, and those from March 1999 are based on the post-revision *Tankan*.

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

Labor Market

(1) Unemployment Rate and Job Offering

(2) New Job Offers, New Applicants¹ and Regular employees²(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms³

Notes: 1. Exclude jobs offered to new graduates.

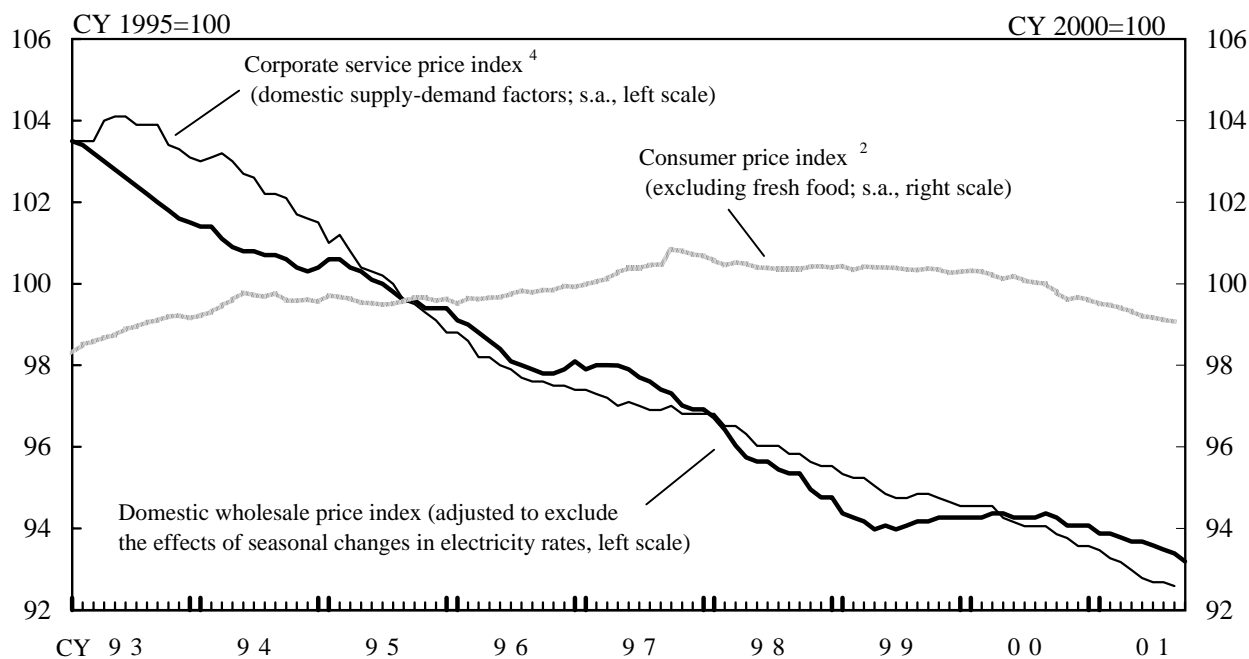
2. The data of regular employees for Aug. 2001 are preliminary figures.

3. Seasonally adjusted by X-11.

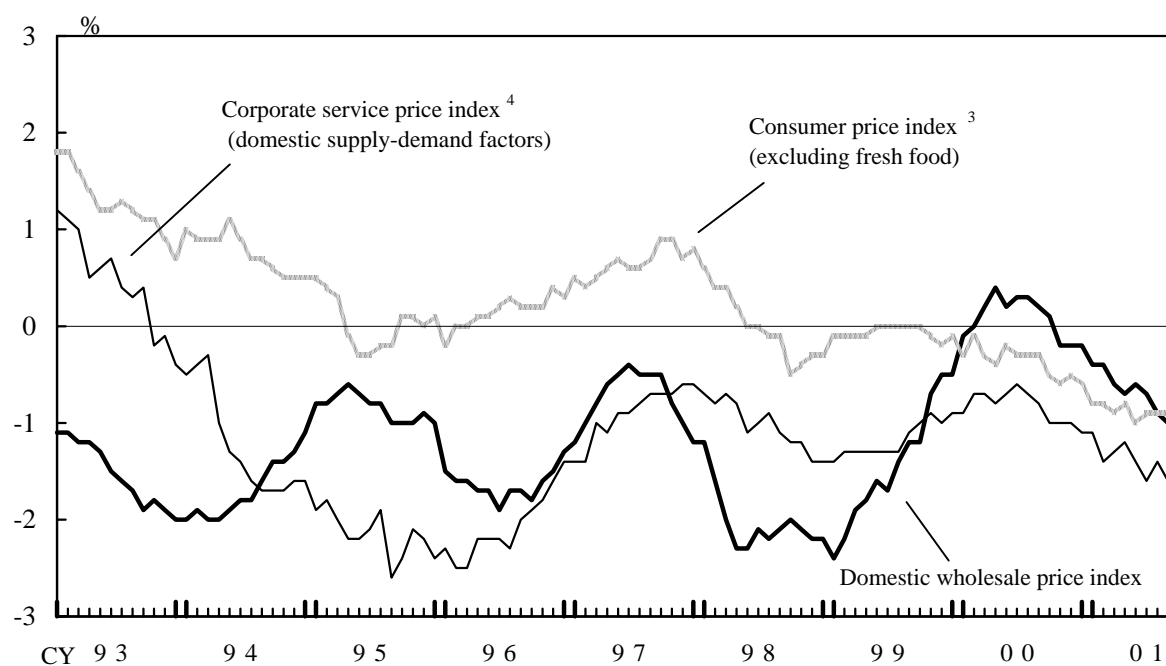
4. The data are based on a survey conducted by Teikoku Databank Ltd. Bankruptcies with liabilities of ten million yen or more.

Prices¹

(1) Level



(2) Changes from a year earlier

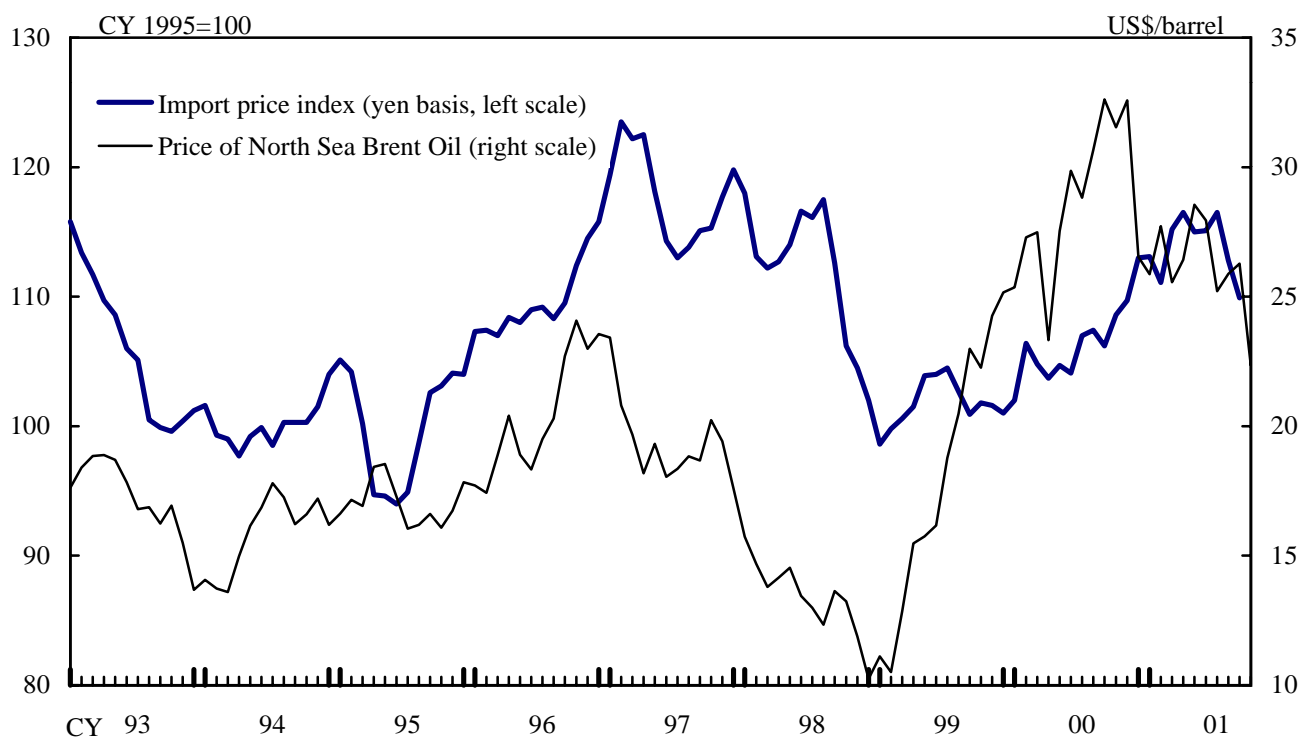


- Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Seasonally adjusted by X-12-ARIMA (β version), based on the original series excluding package tours to overseas.
3. Data before Dec. 2000 are on the 1995 base CPI.
4. See footnote 4 in Chart 24, for definition of the Corporate service price index (domestic supply-demand factors).
5. Domestic wholesale price index is revised for the period of January 1999 through August 2001.

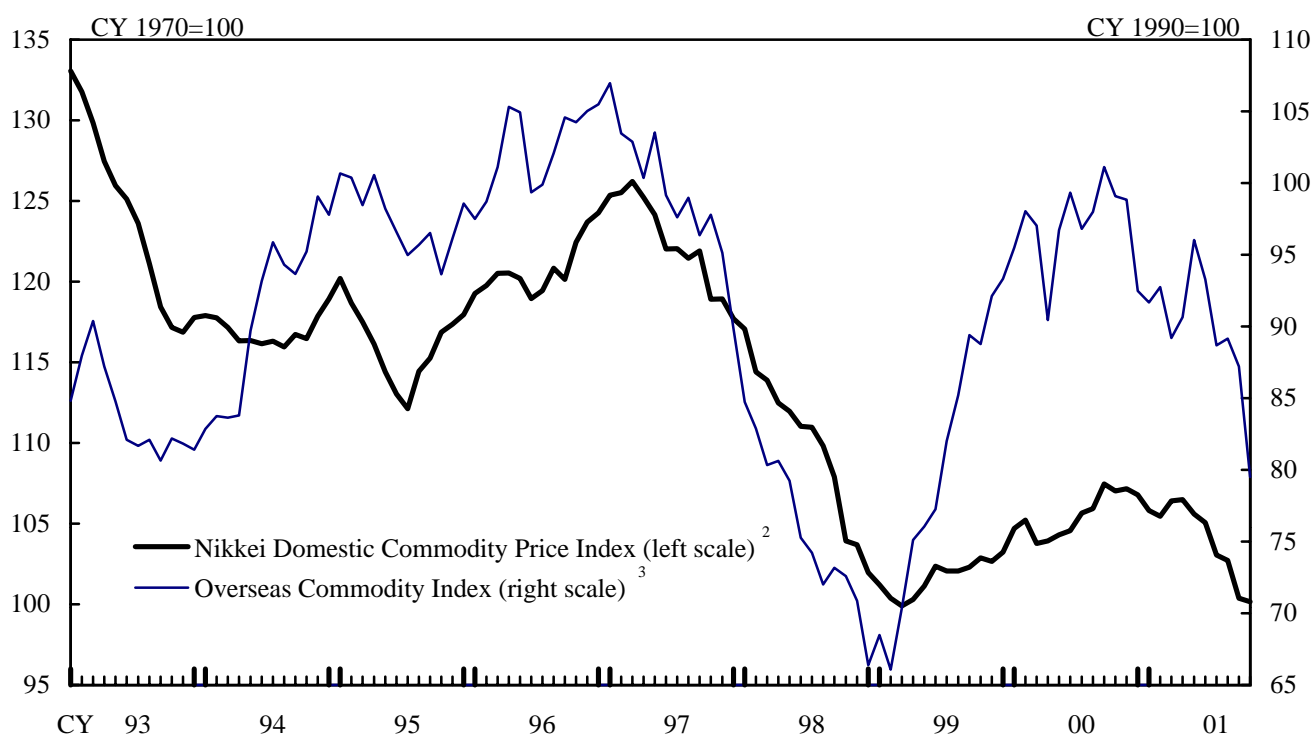
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Bank of Japan, "Wholesale Price Indexes," "Corporate Service Price Index."

Import Prices and Commodity Prices

(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Commodity Prices



Notes: 1. Data for October 2001 are October 1-10 average.

2. Data for October 2001 are as of October 5.

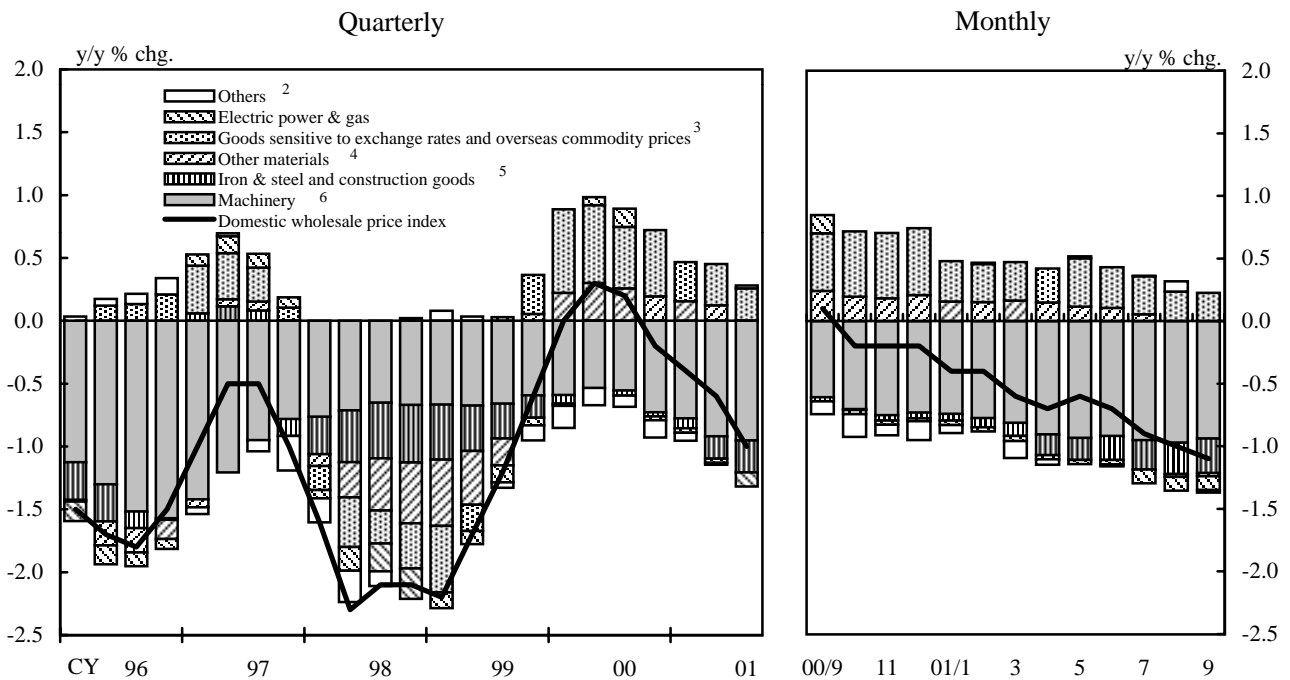
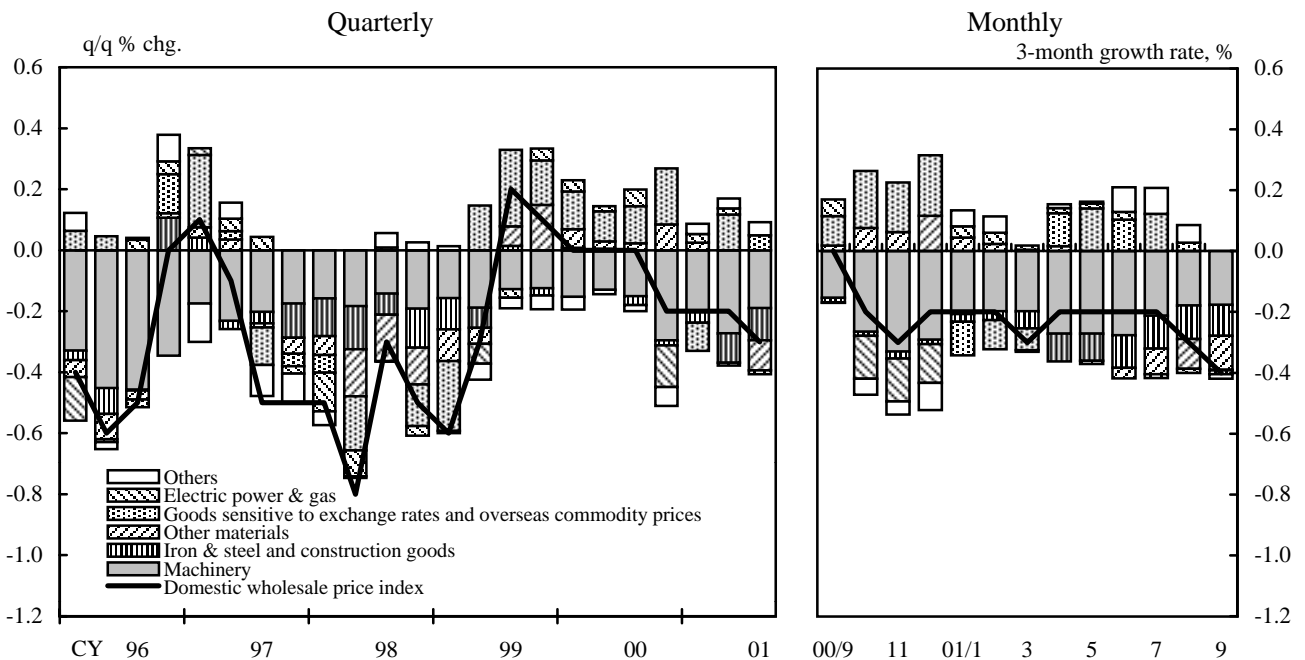
3. Calculated by the Research and Statistics Department, Bank of Japan. Data for October 2001 are October 1-10 average.

4. Import price index is revised for the period of January 1999 through August 2001.

Sources: Bank of Japan, "Wholesale Price Indexes," "Financial and Economic Statistics Monthly"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

Domestic Wholesale Price Index¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁷

Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

2. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.

3. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metals.

4. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

5. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wood products + scrap & waste.

6. Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.

7. Adjusted to exclude the effects of the summer-time (from July to September) hike in electricity rates.

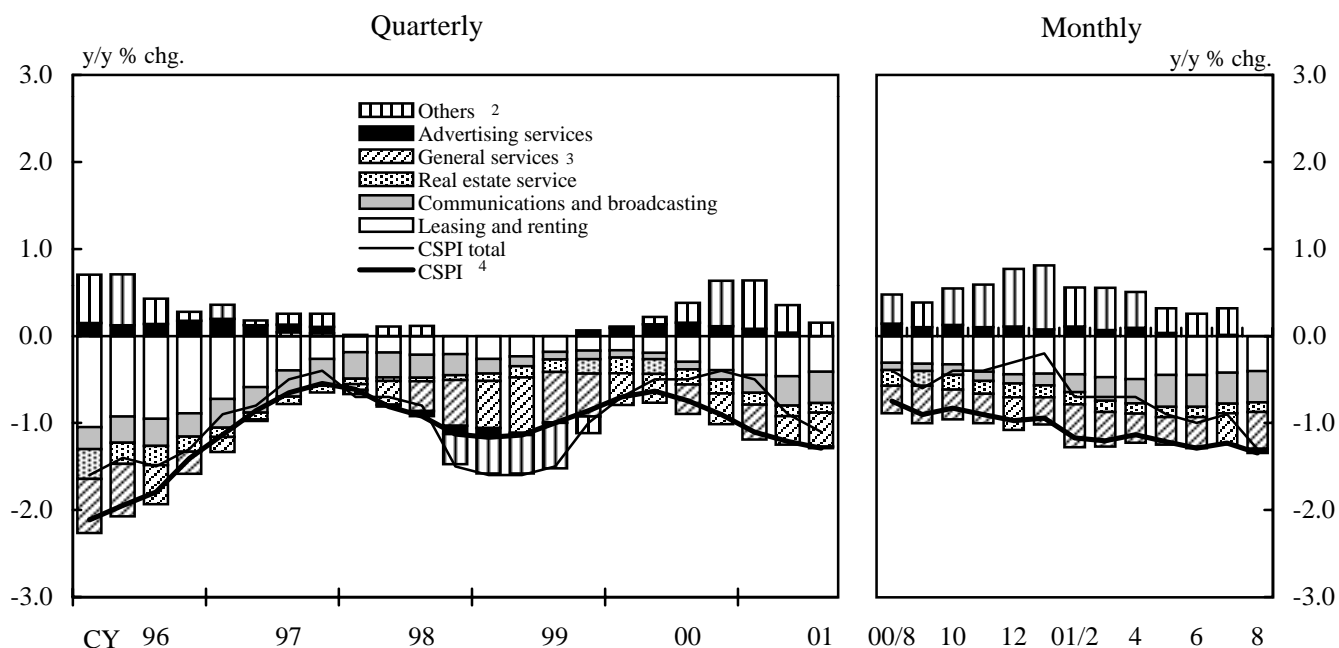
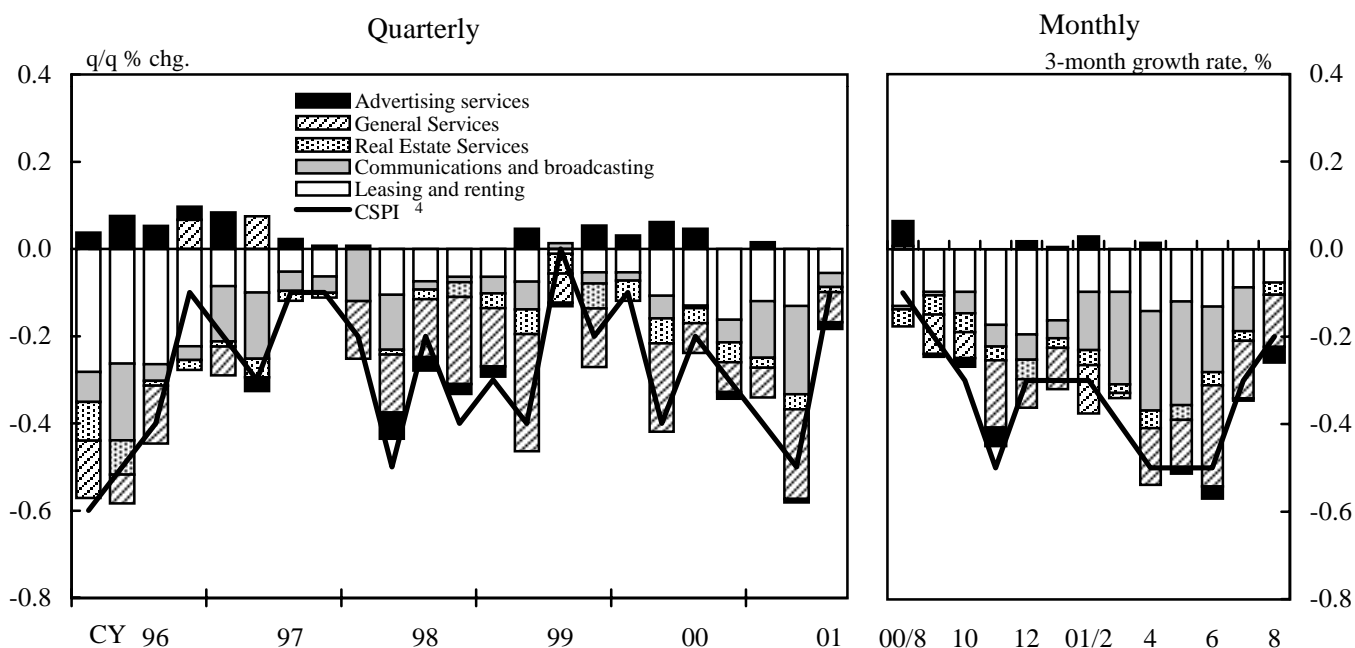
This effect causes the Domestic Wholesale Price Index to rise by about 0.2%.

8. Domestic wholesale price index is revised for the period of January 1999 through August 2001.

Source: Bank of Japan, "Wholesale Price Indexes."

Corporate Service Price Index¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁵

Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

2. Others = automobile insurance (compulsory) + railroad fares + bus fares + taxi fares + domestic air fares + tolls + postal services + sewerage disposal + ocean freight + international air freight + international air fares + securities issuance and related services (banks' procurement service for issuing debentures <excluding underwriting services>).

3. General services = finance & insurance + transportation + information services + building maintenance services + temporary worker services + machinery maintenance, etc. (excluding items in "others").

4. CSPI (domestic supply-demand factors) includes all items aside from "others" as defined above. This index mainly reflects the supply and demand conditions in the domestic private sector.

5. Television commercials in Advertising services, Sales space rental in Real estate services, and General warehousing and storage in Transportation are seasonally adjusted by X-12-ARIMA (β version).

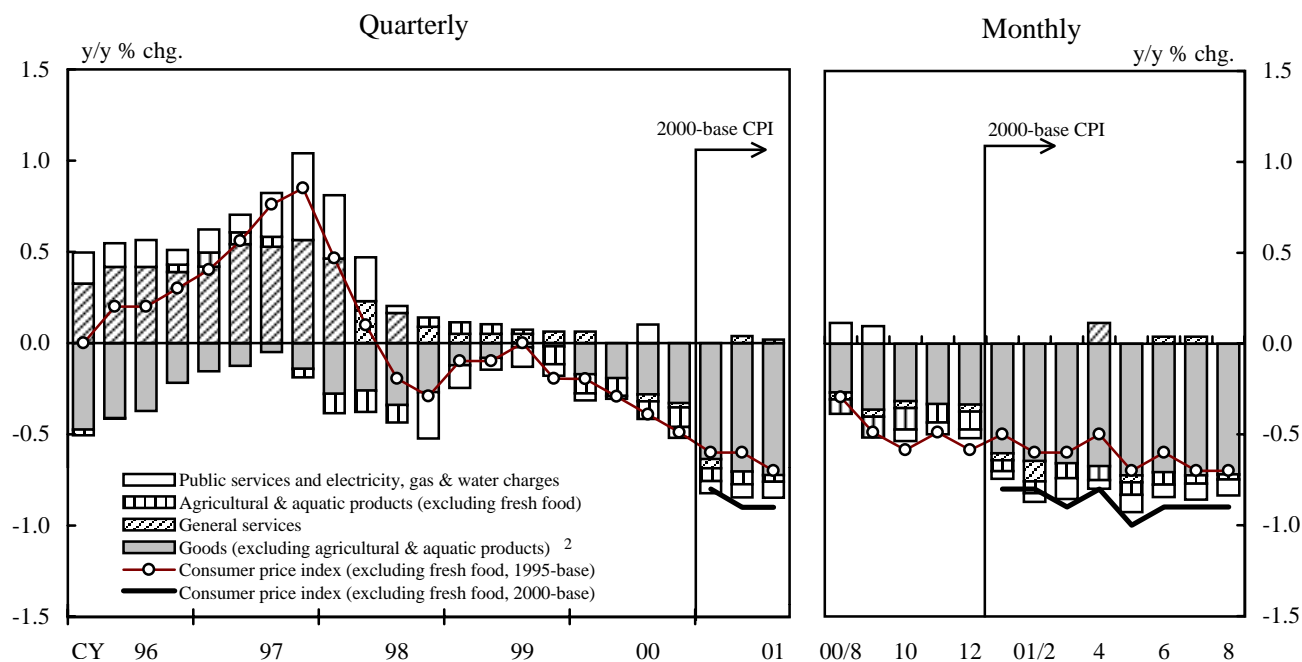
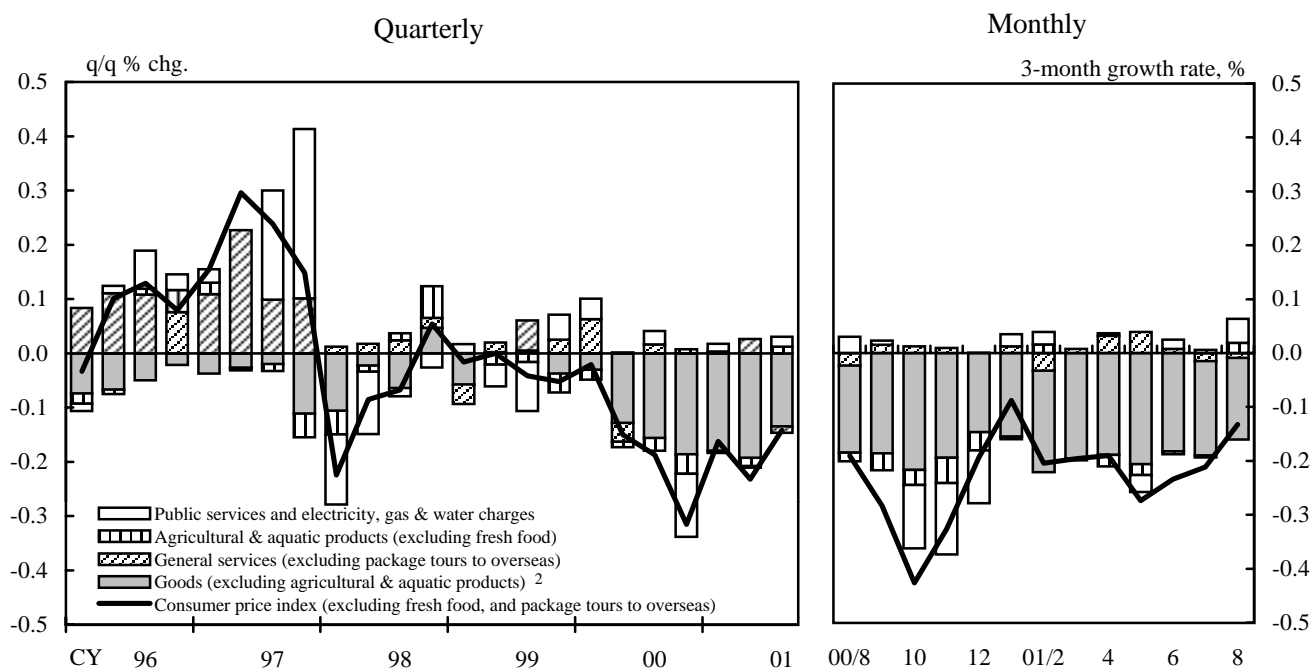
Due to seasonal adjustment every month, the series are revised retroactively every month.

6. Figures for 2001/Q3 are those of July-August average.

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

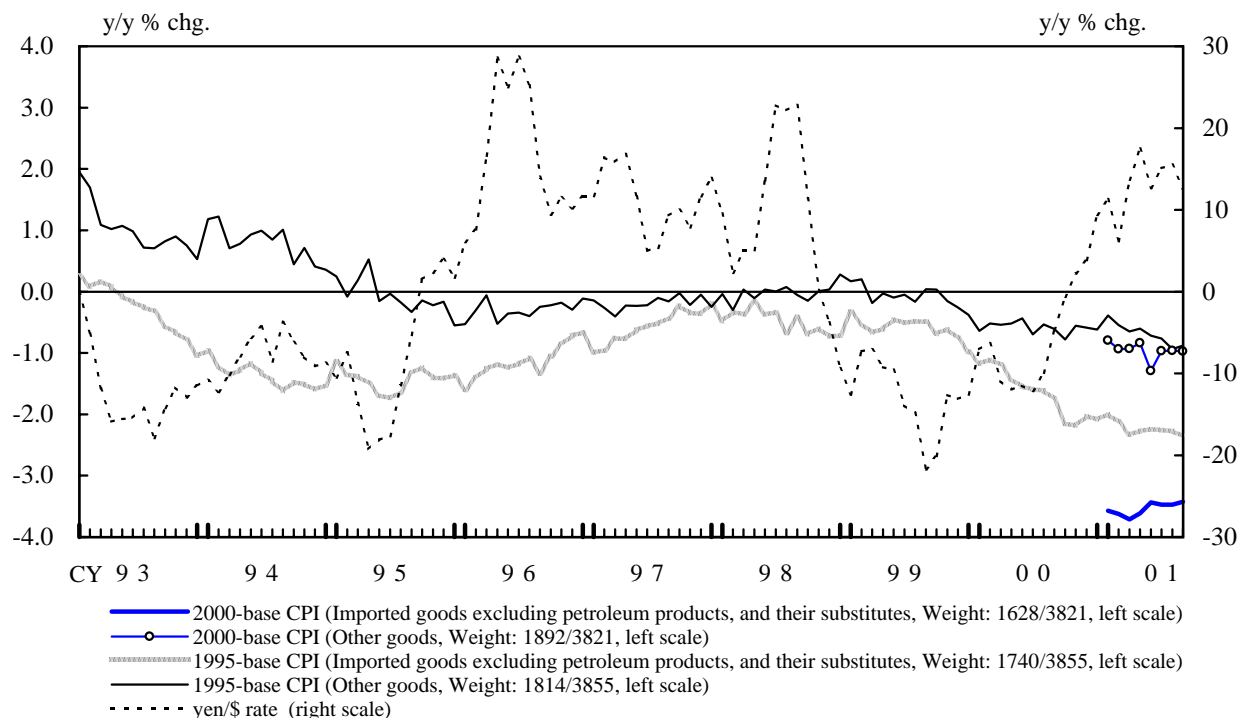
Consumer Price Index (excluding fresh food)¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier (2000-base CPI)³

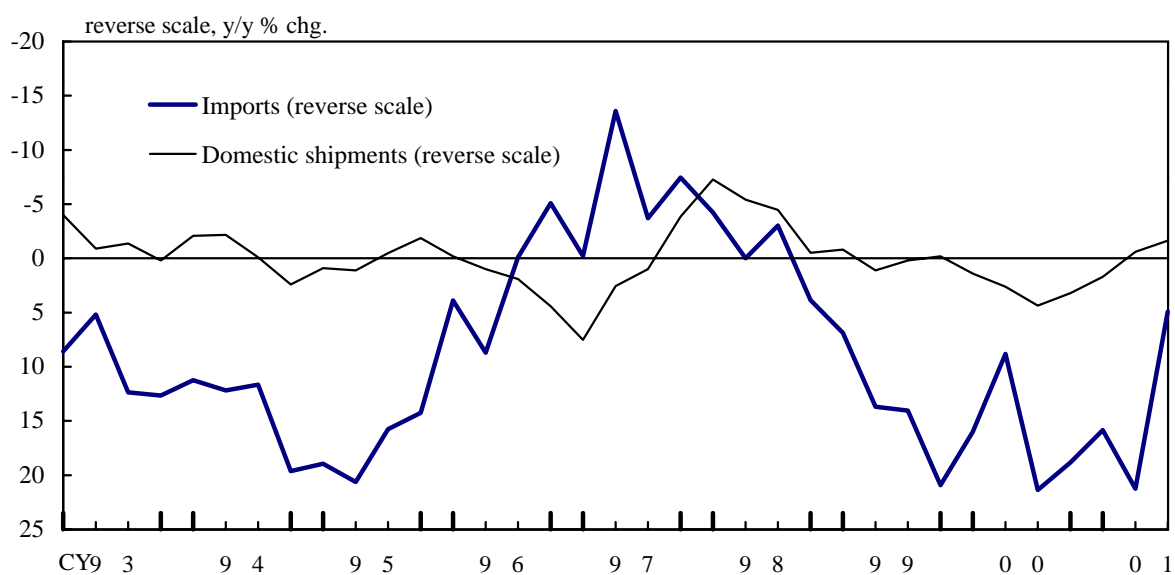
- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, however electricity, gas & water charges is excluded from goods.
3. Seasonally adjusted by X-12-ARIMA (β version). Due to seasonal adjustment every month, the series are revised retroactively every month. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.
4. Figures for 2001/Q3 are those of July-August average.

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index."

Consumer Price Index (Imported goods and their substitutes)¹(1) Comparison of imported goods and other goods in terms of CPI²

- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Imported goods (excluding petroleum products) consist of items common to both the Import Price Index and the Consumer Price Index, and their substitutes consist of items considered to be substitutable for import products but not covered by the Import Price Index.
3. Adjusted to exclude the effects of the special tobacco tax introduced in December 1998, and biscuits, prices of which were heavily affected by changes in monitored brands. Weight is shares in Goods (excluding agricultural & aquatic products).

(2) Consumer goods supply (Imports and Domestic shipments)



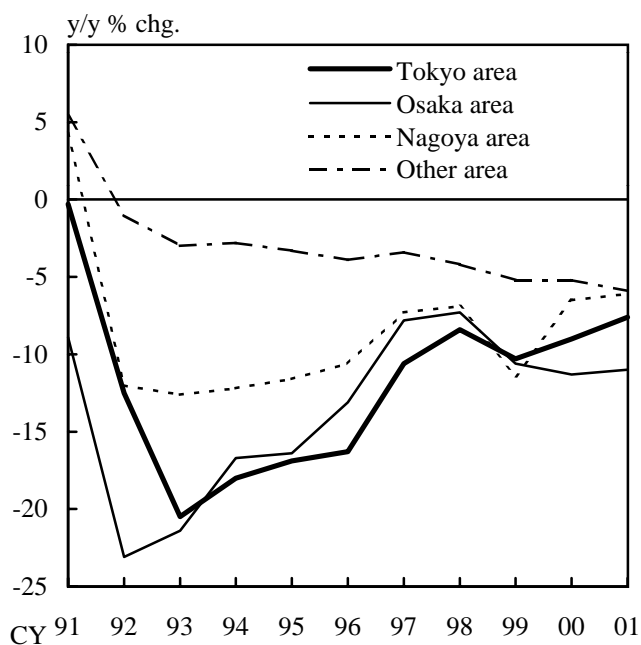
Note: See footnote Chart 13-4, for definition of the consumer goods supply.

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Bank of Japan, "Wholesale Price Indexes."

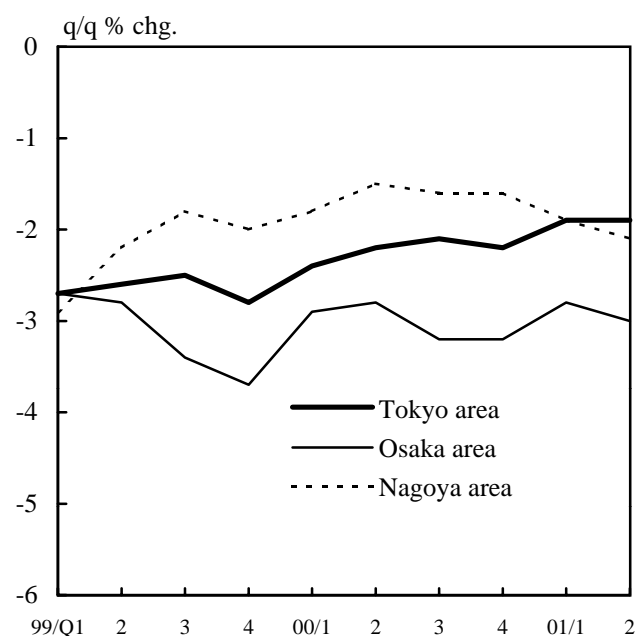
Land Prices

(1) Commercial land

(1-1) Average change (as of July 1st)

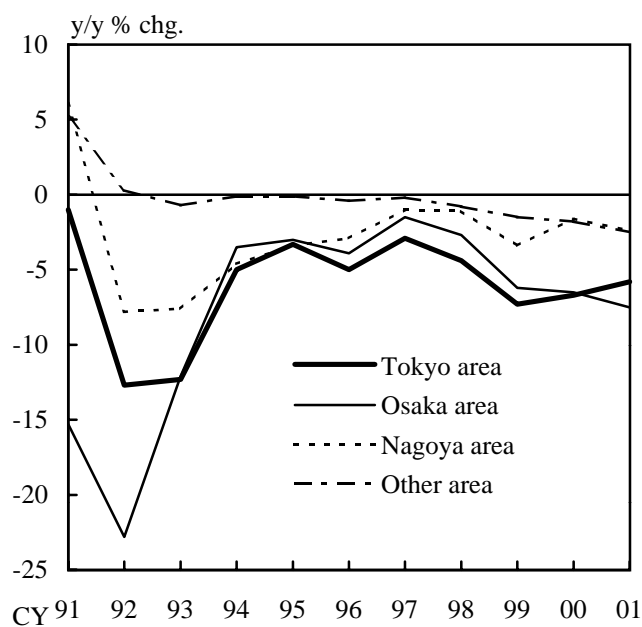


(1-2) Average change at representative locations

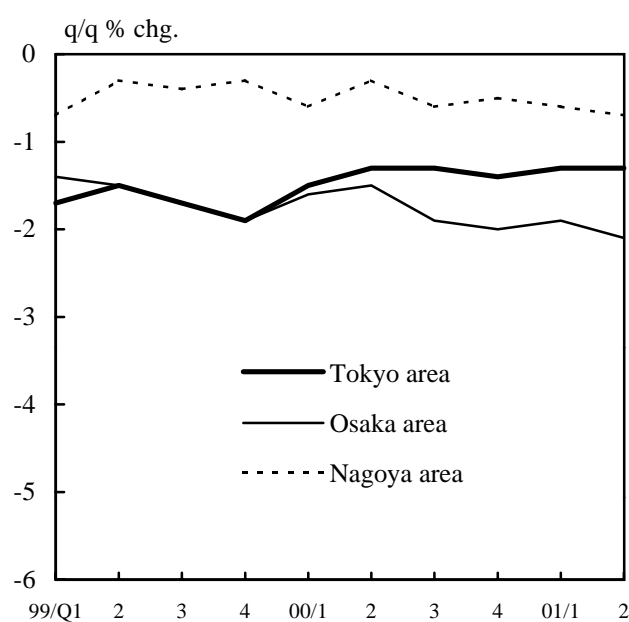


(2) Residential land

(2-1) Average change (as of July 1st)



(2-2) Average change at representative locations

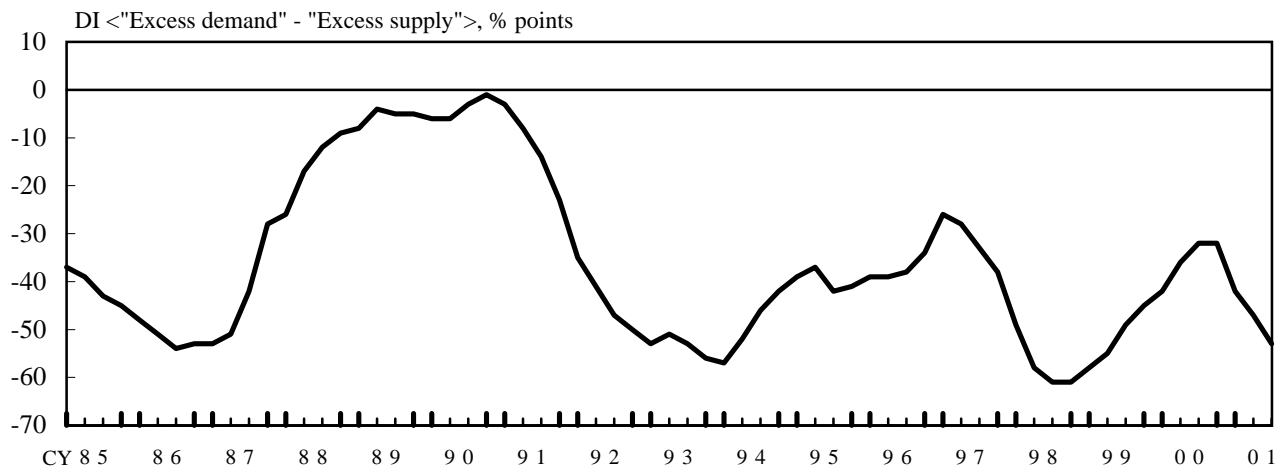
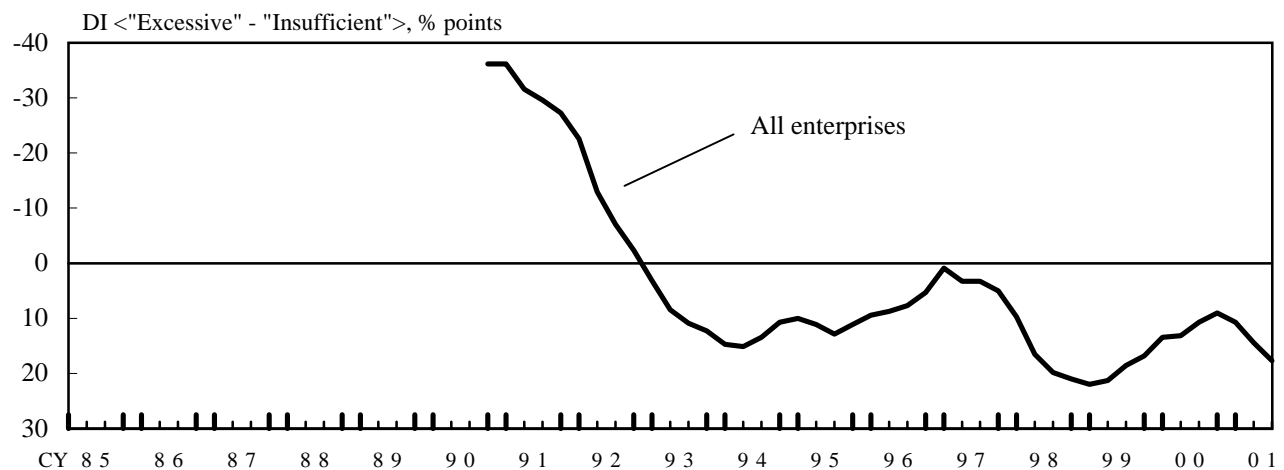


Note: "Representative locations" are the standard locations for "Publication of Land Price" and "Prefectural Land price survey," which are largely regarded as identical locations between two statistics.

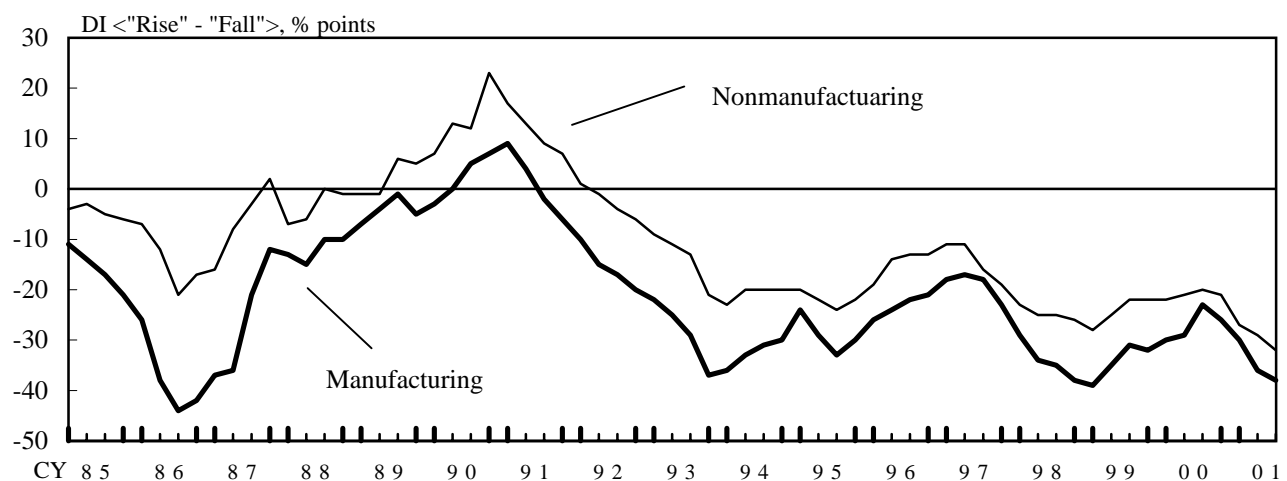
Sources: Ministry of Land, Infrastructure and Transport, "Publication of Land price,"
"Prefectural Land price survey."

Factors Contributing to the Change in Prices¹

(1) Supply and Demand Conditions for Products and services (All Enterprises, Manufacturing)

(2) Utilization of Capital and Labor²

(3) Change in Output Prices (All Enterprises)



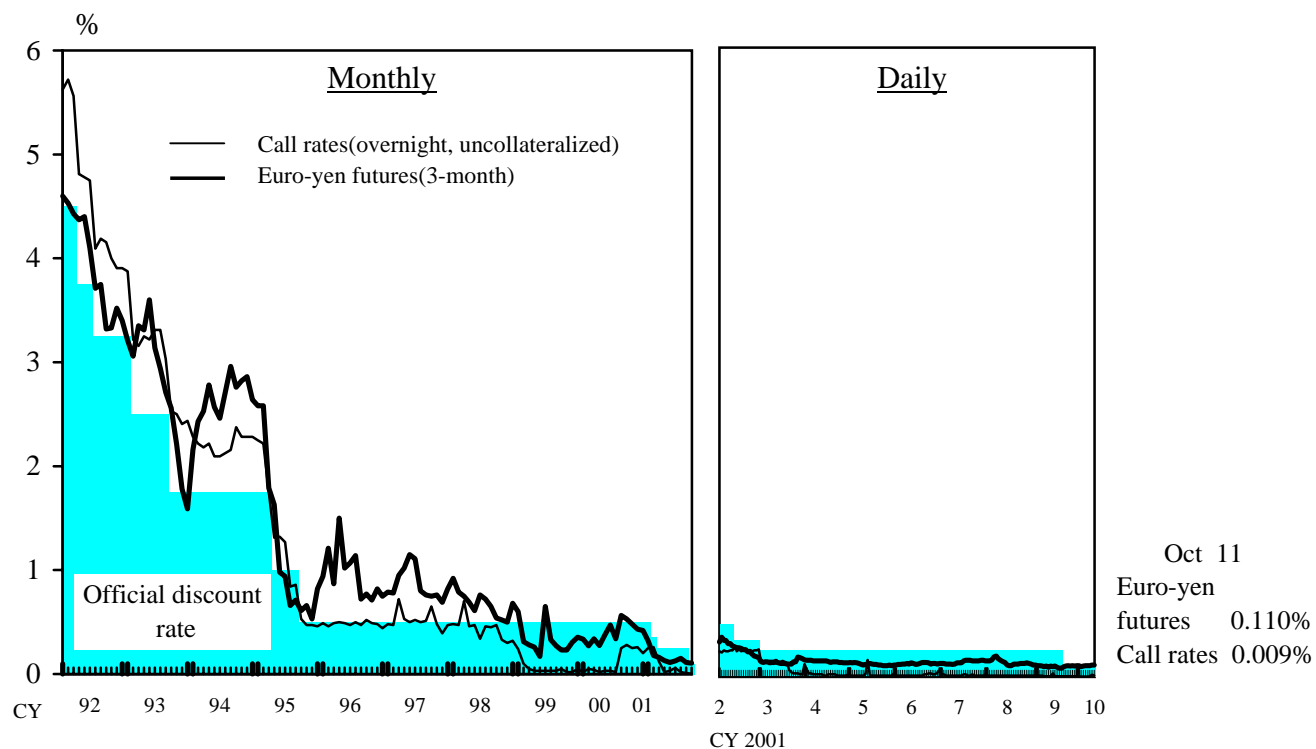
Notes: 1. Figures before December 1998 are based on the pre-revision *Tankan*, and those from March 1999 are based on the post-revision *Tankan*.

2. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1990-99 average.
Production Capacity DI and Employment DI are calculated as "Excessive" minus "Insufficient".

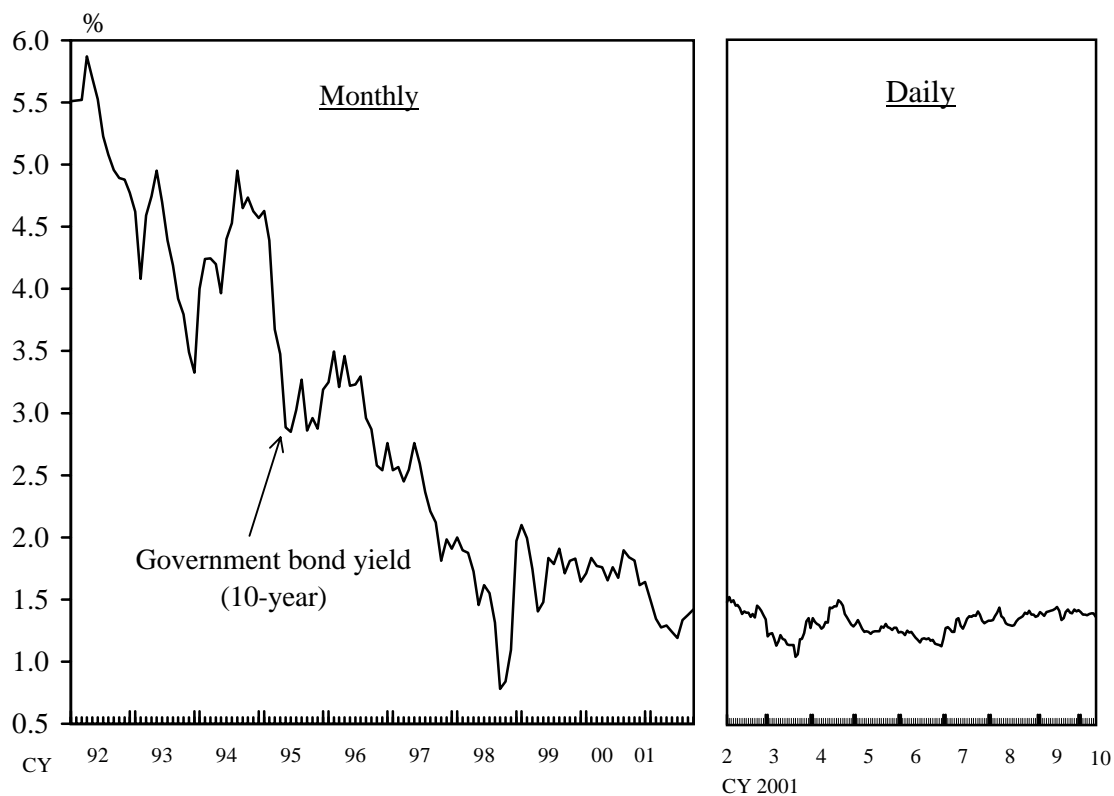
Sources: Cabinet Office, "National Accounts";
Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



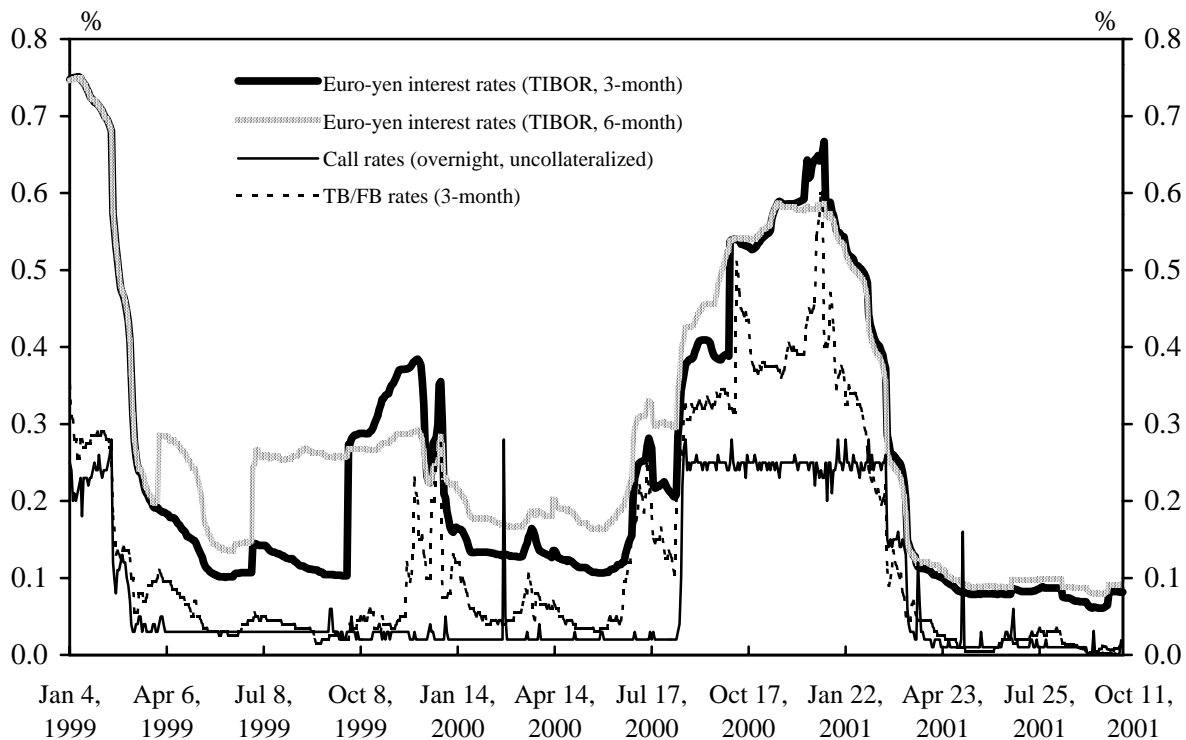
(2) Long-Term



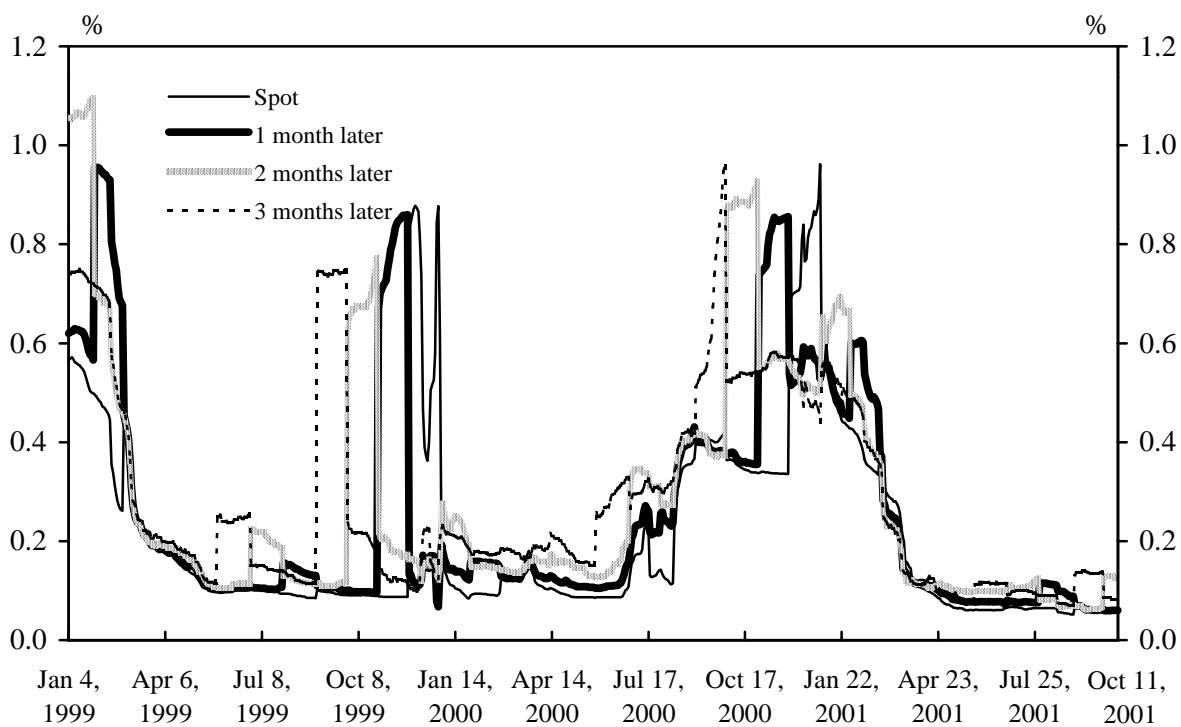
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

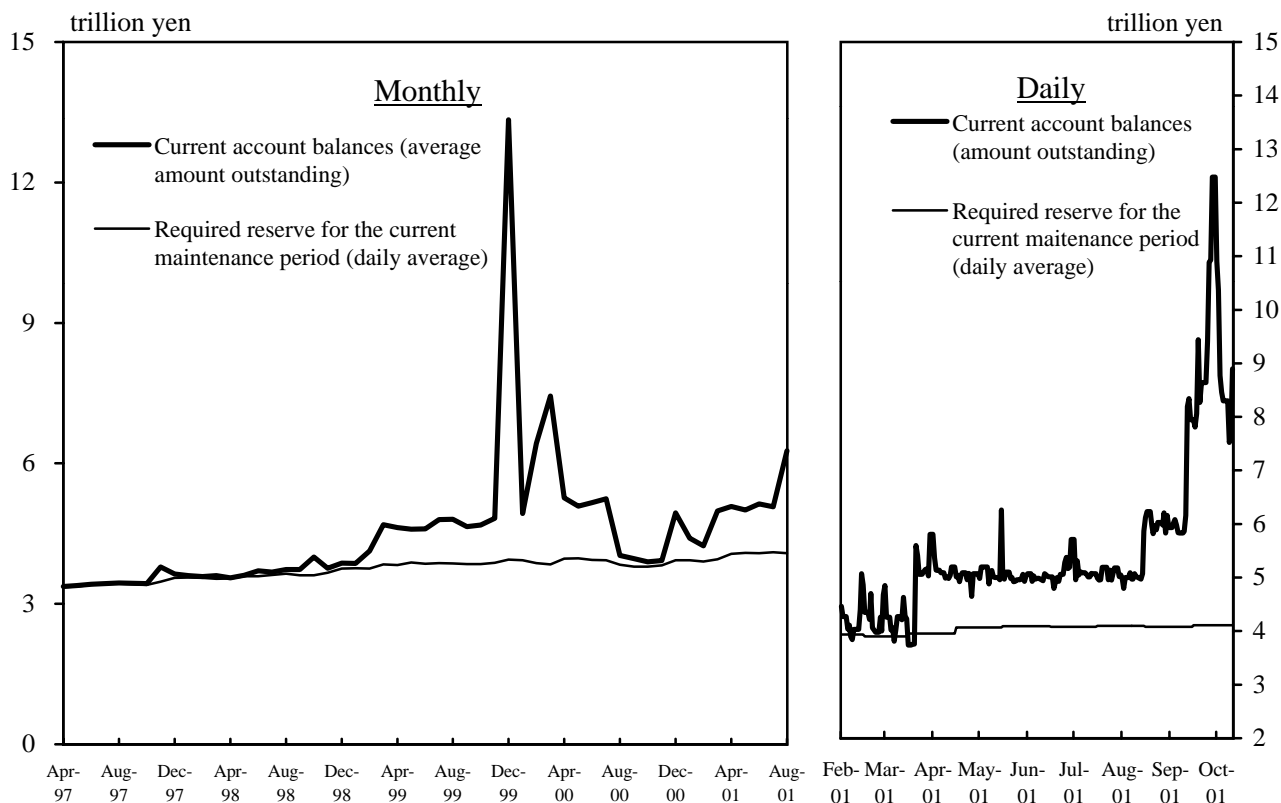


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)

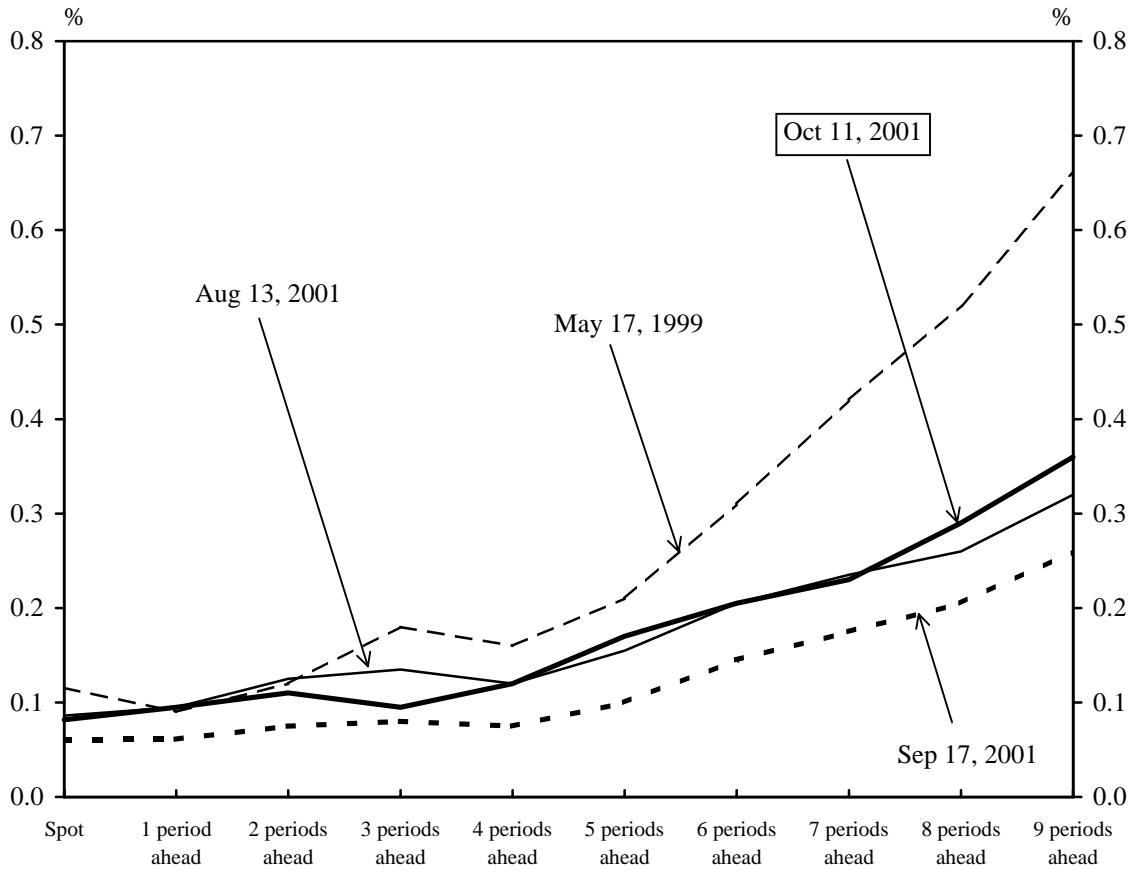


Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.

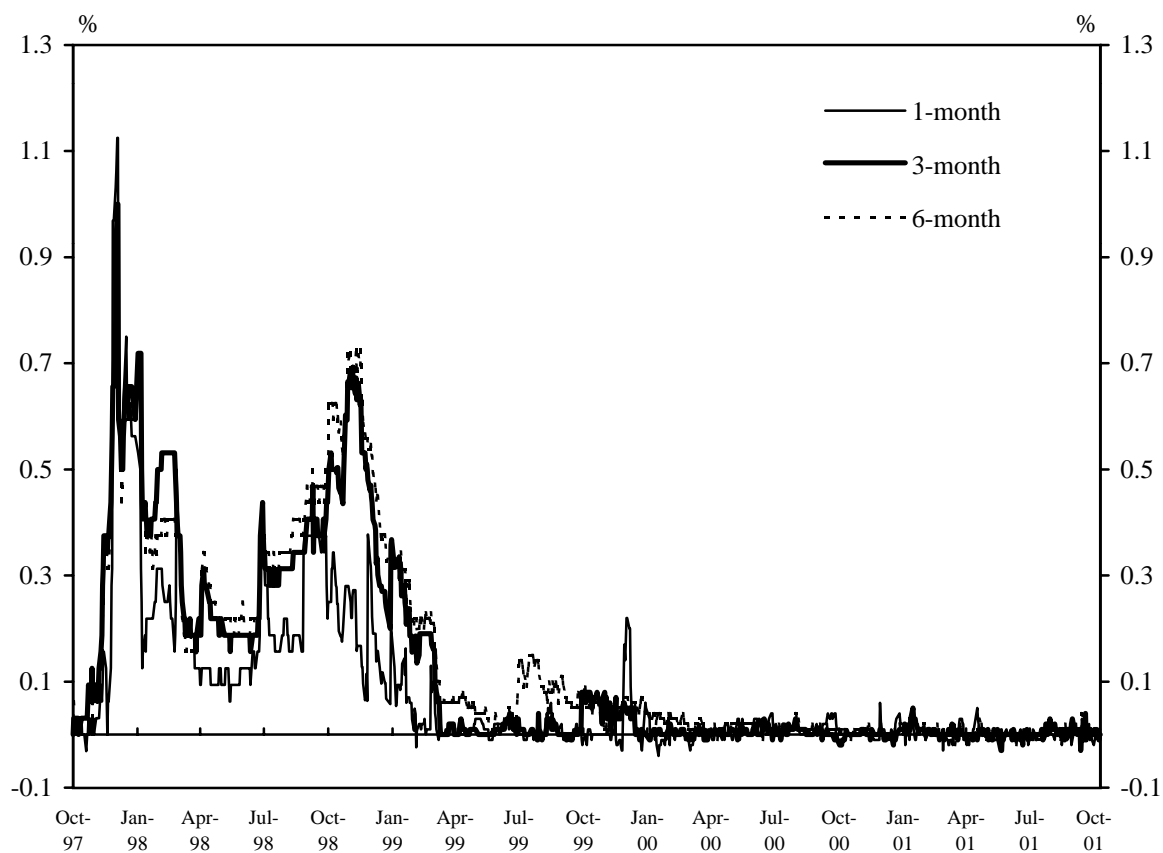
Current Account Balances at the Bank of Japan



Euro-Yen Interest Rates Futures (3-Month)



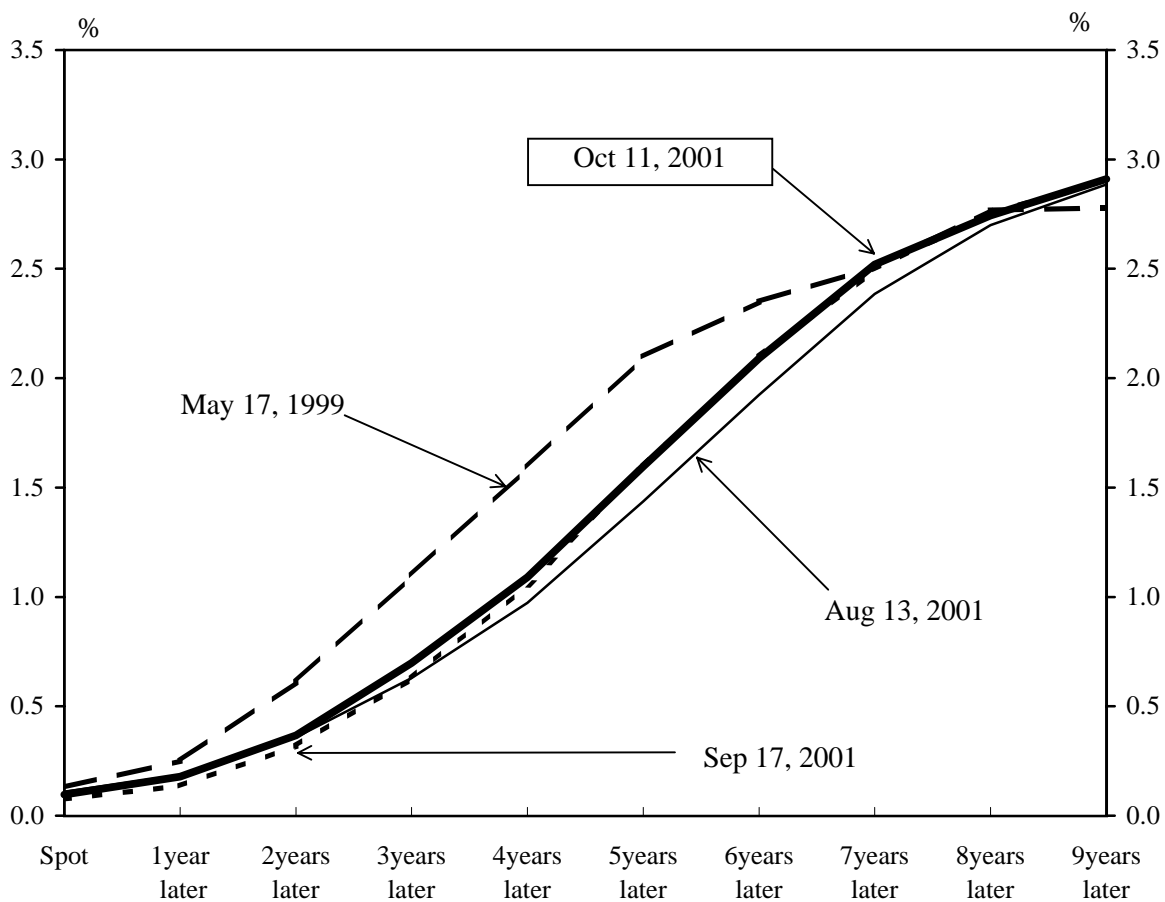
Source: Tokyo International Financial Futures Exchange.

Japan Premium in the Eurodollar Market ¹

Note: 1. Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:
Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate quoted by Barclays Bank in the Eurodollar market (London).

Source: British Bankers' Association (BBA).

Implied Forward Rates (1-year)¹

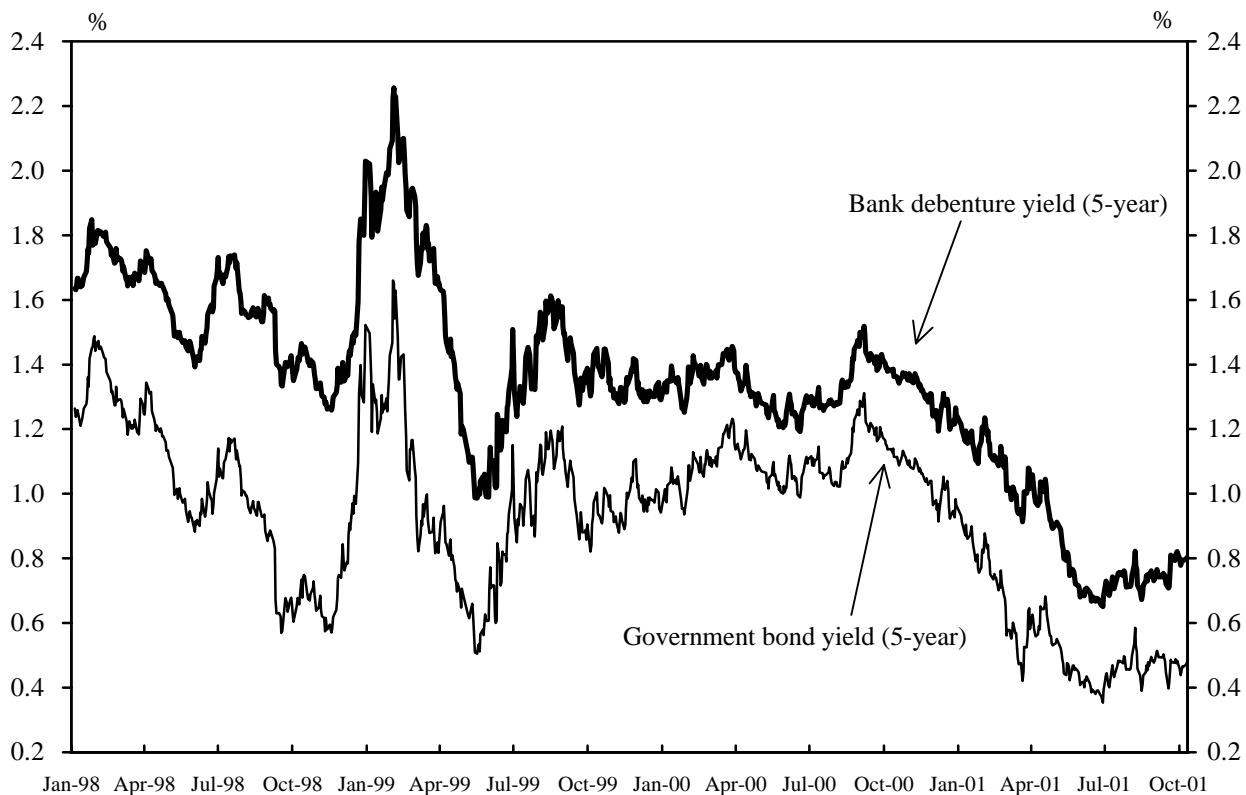


Note :Calculated from yen-yen swap rates.

Source: Kyodo News.

Yields of Bank Debentures

(1) Bond Yields



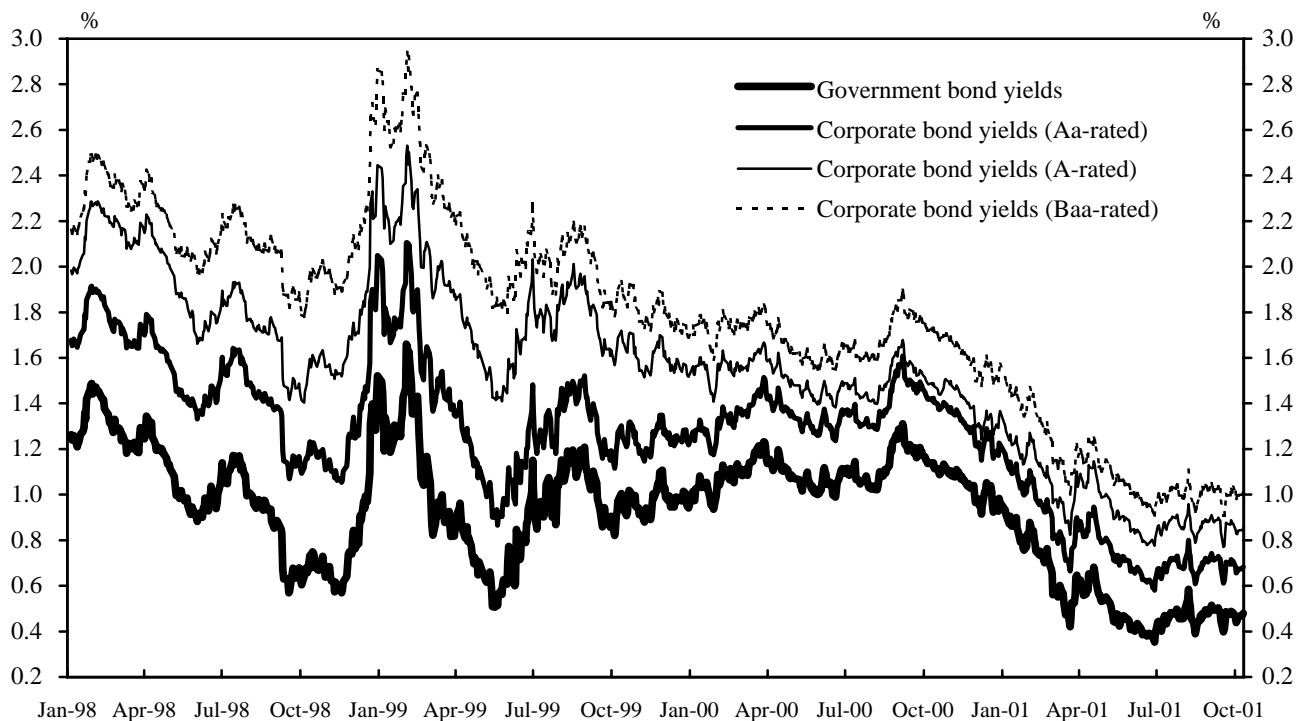
(2) Spread of Bank Debenture and Government Bond Yield



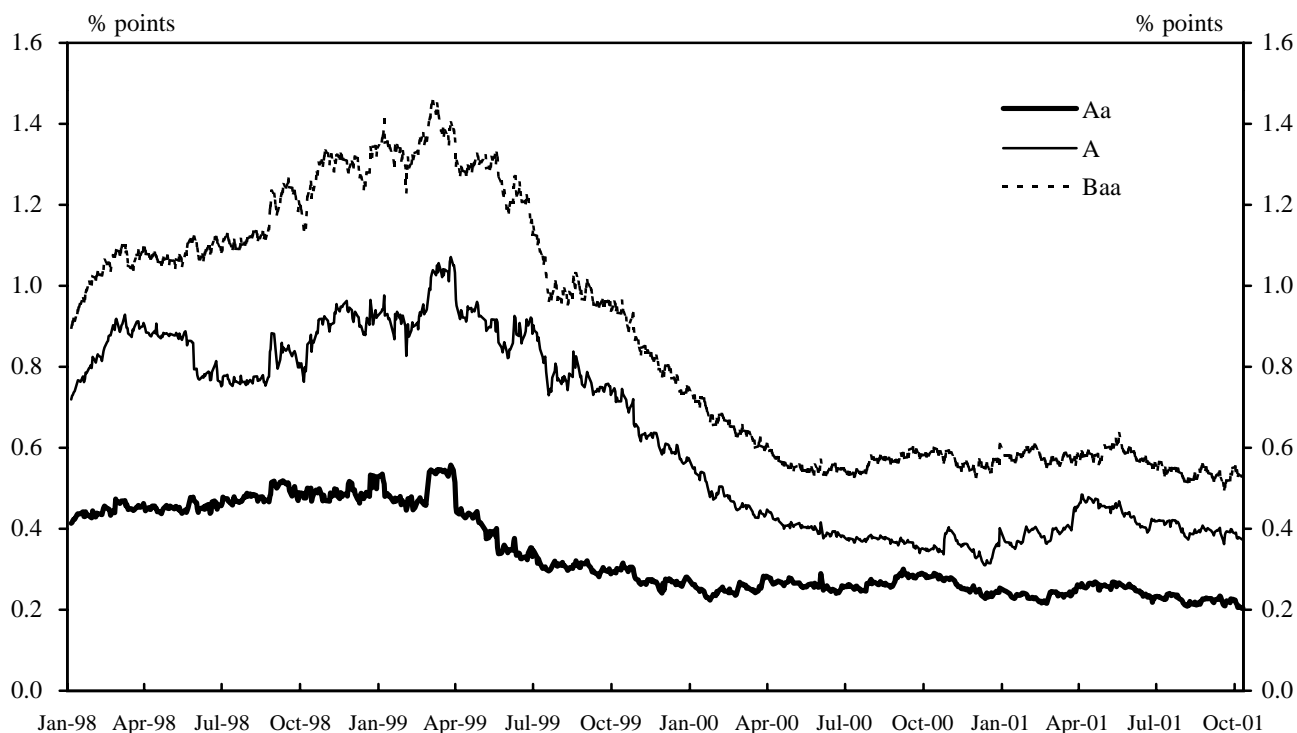
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields ¹

(1) Yields of Government and Corporate Bonds by Rating



(2) Yield Spreads of Public and Corporate Bonds



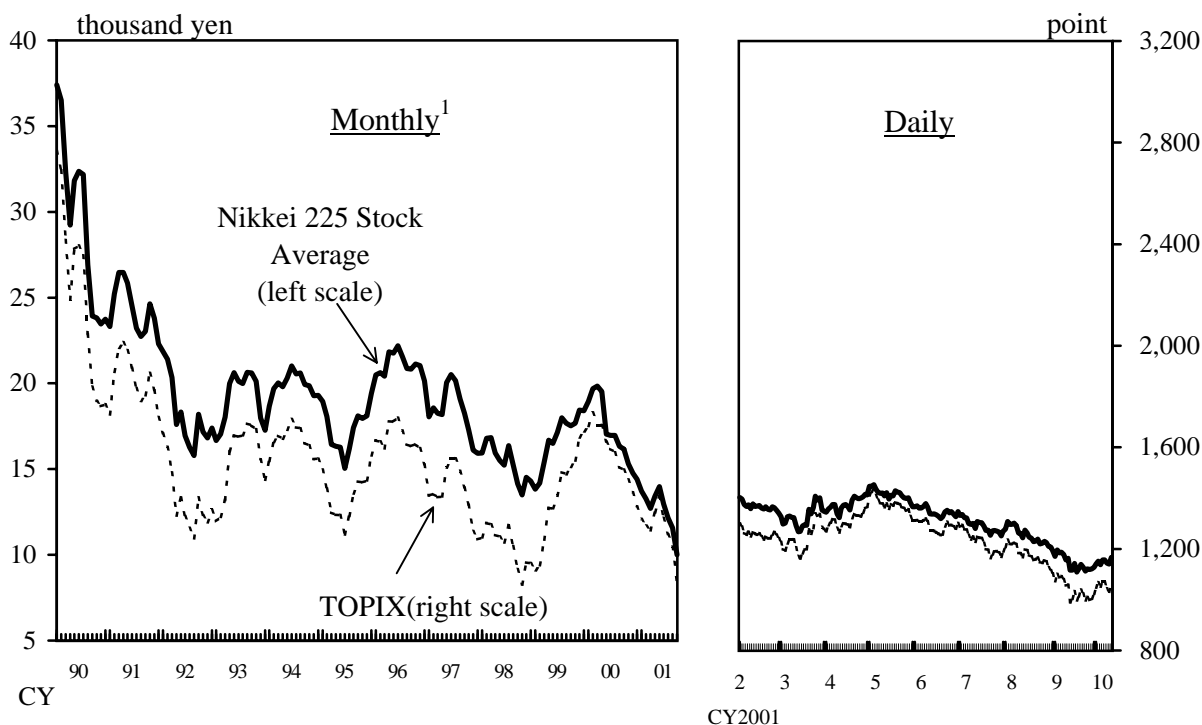
Note: 1. Yields on bonds with 5-year maturity.

The indicated ratings are of Moody's.

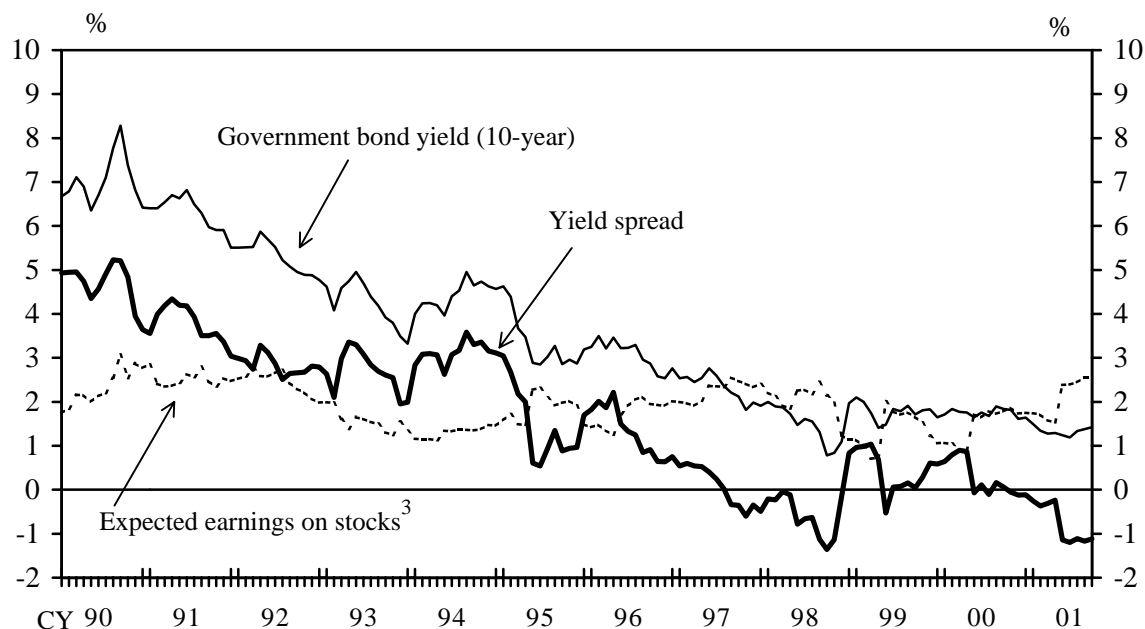
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

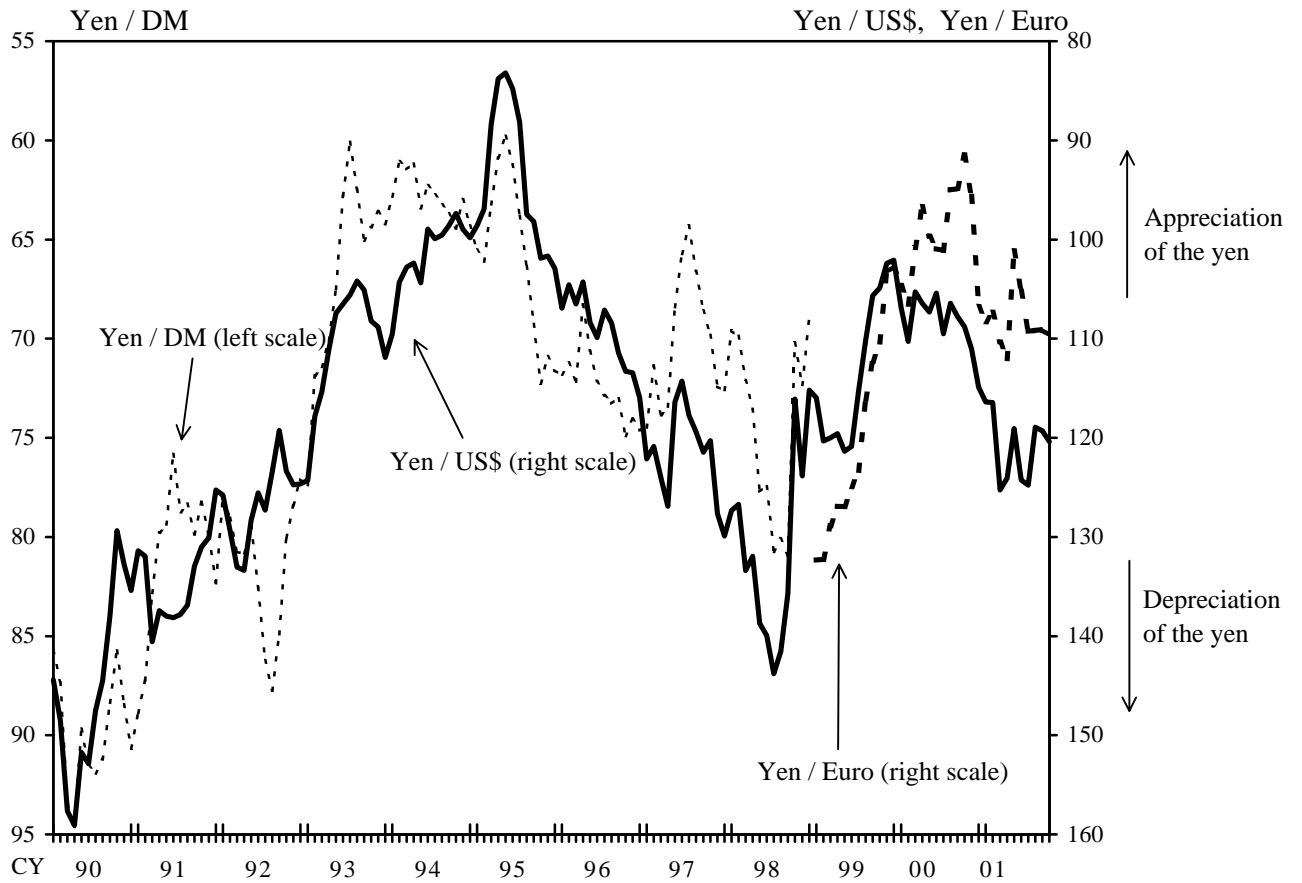
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

3. Based on stocks listed on the TSE First Section. Excludes bank stocks.

Data (unconsolidated) are calculated by the Daiwa Research Institute.

Sources: *The Nihon Keizai Shimbun* ; Daiwa Research Institute, "*Daiwa Tousei Shiryou* (Daiwa Investment Information)."

Exchange Rates ¹

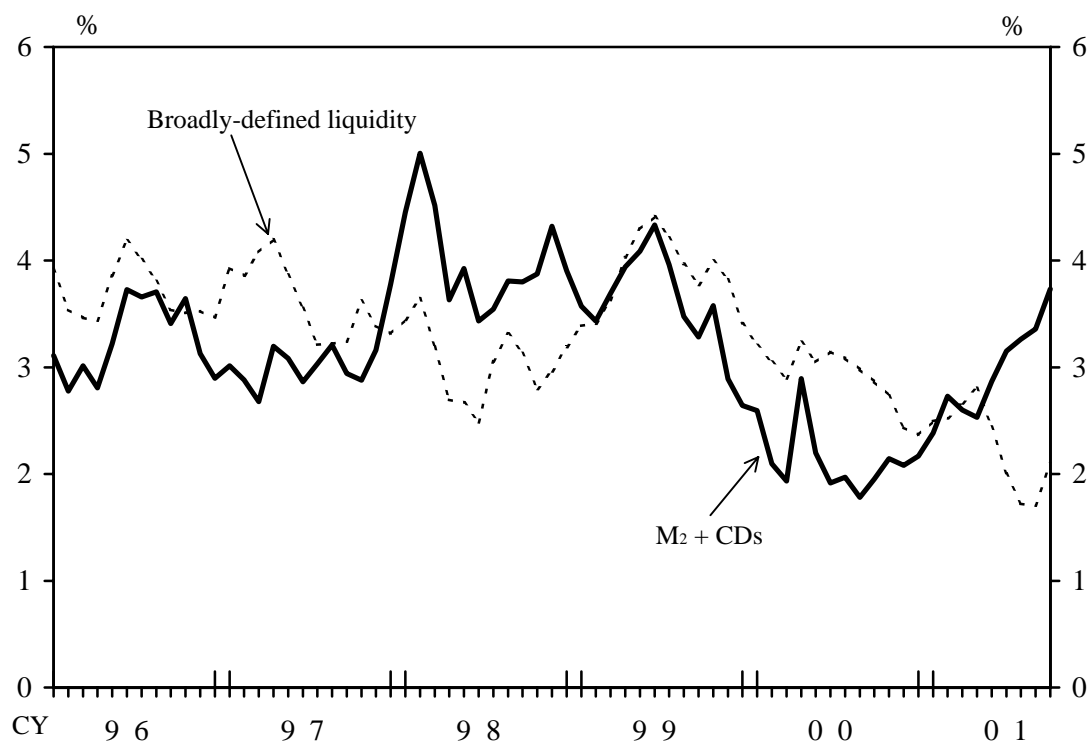


Note: 1. End of month. Data for October 2001 are as of October 11, 2001.

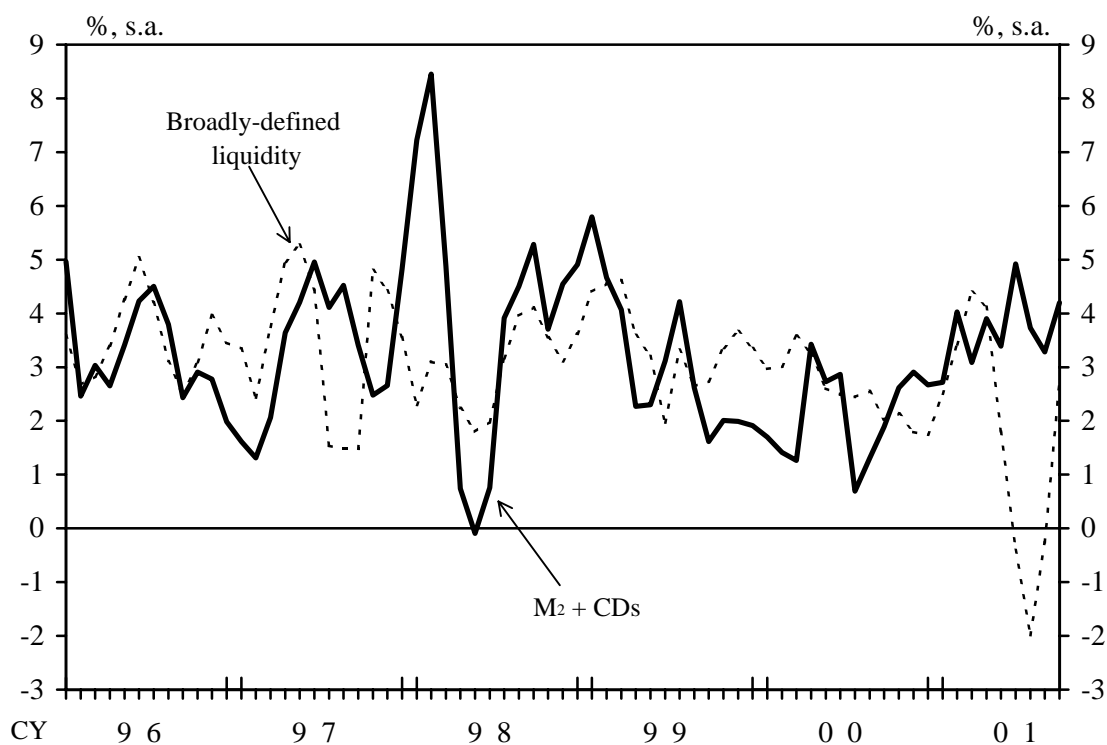
Source: Bank of Japan.

Money Stock (M₂+CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier



(2) Changes from Three Months Earlier (Annualized)

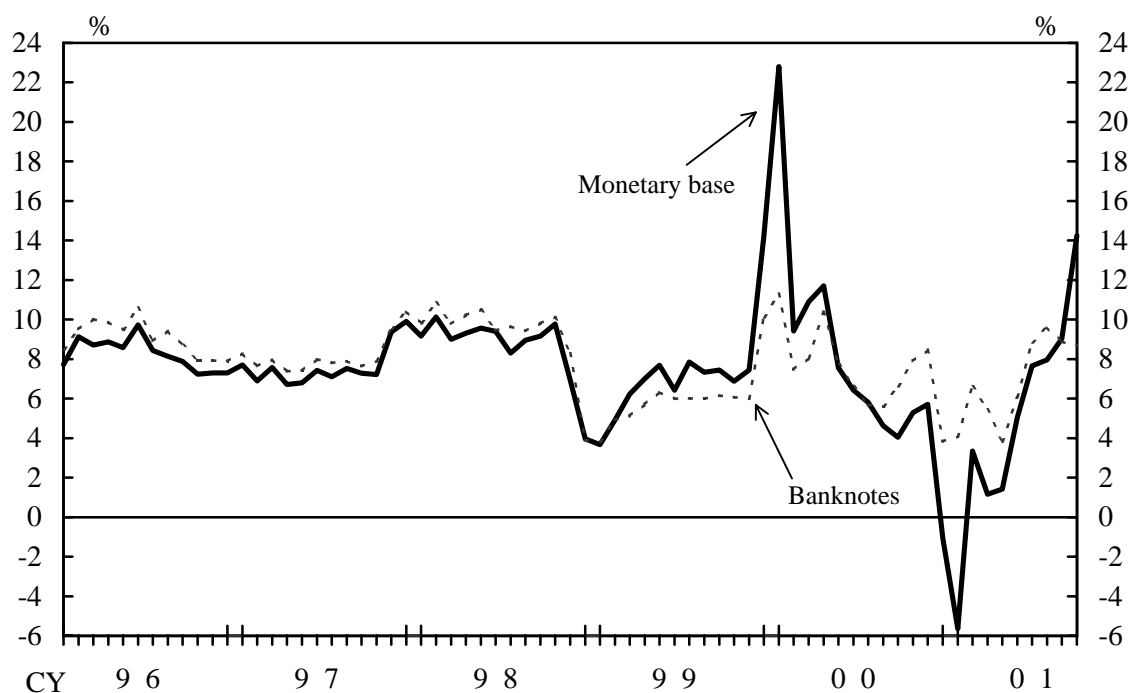


Note: Percent changes in average amounts outstanding.

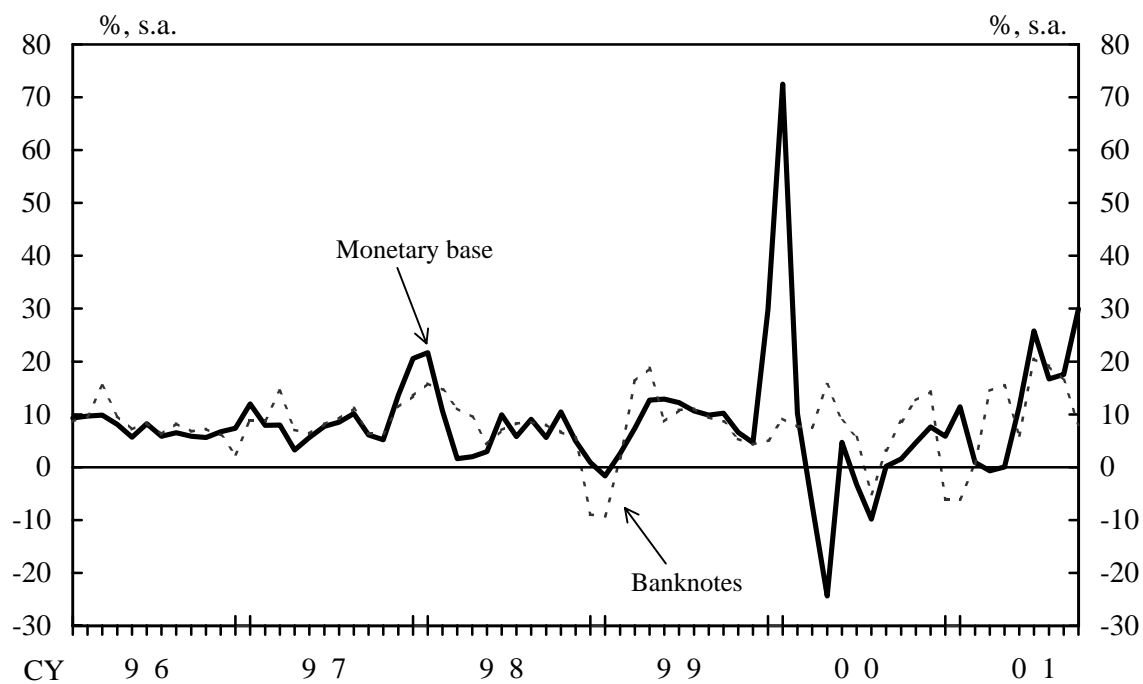
Source: Bank of Japan.

 Monetary Base

(1) Changes from a Year Earlier



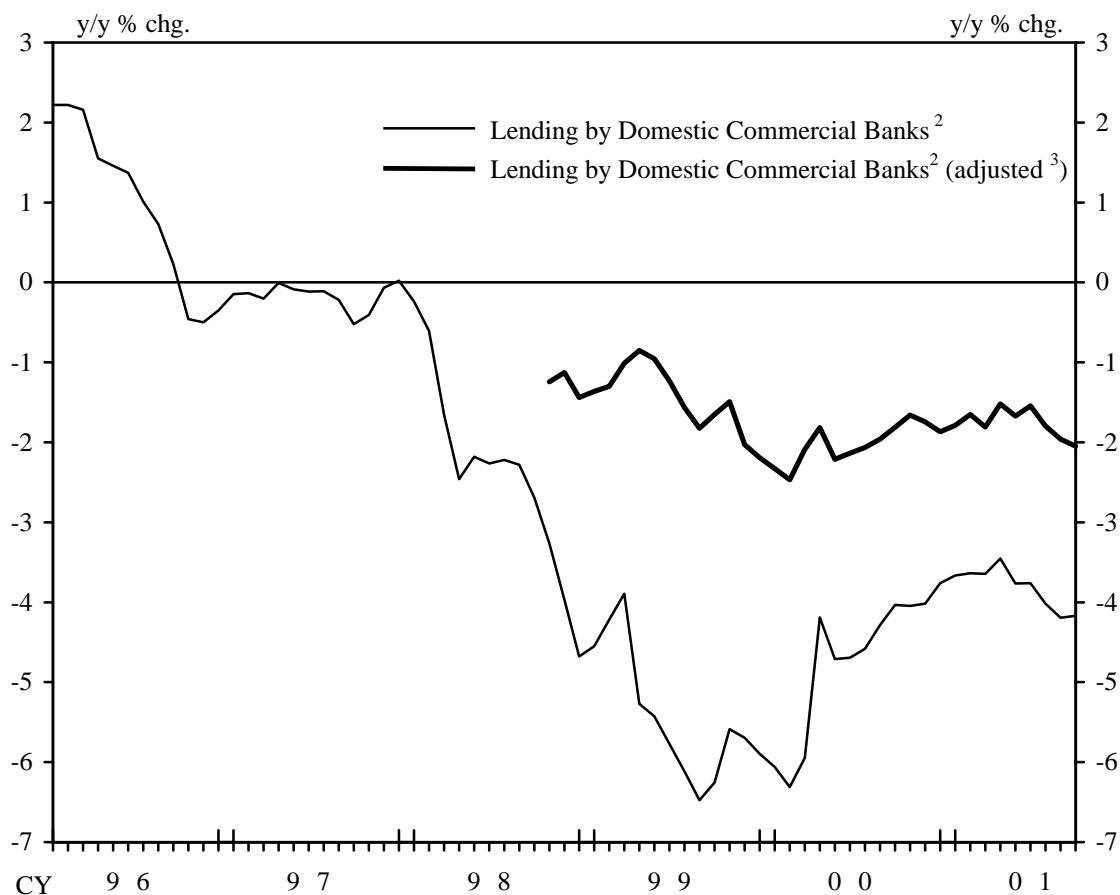
(2) Changes from Three Months Earlier (Annualized)



Note: Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

Source: Bank of Japan.

Lending by Domestic Commercial Banks ¹

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

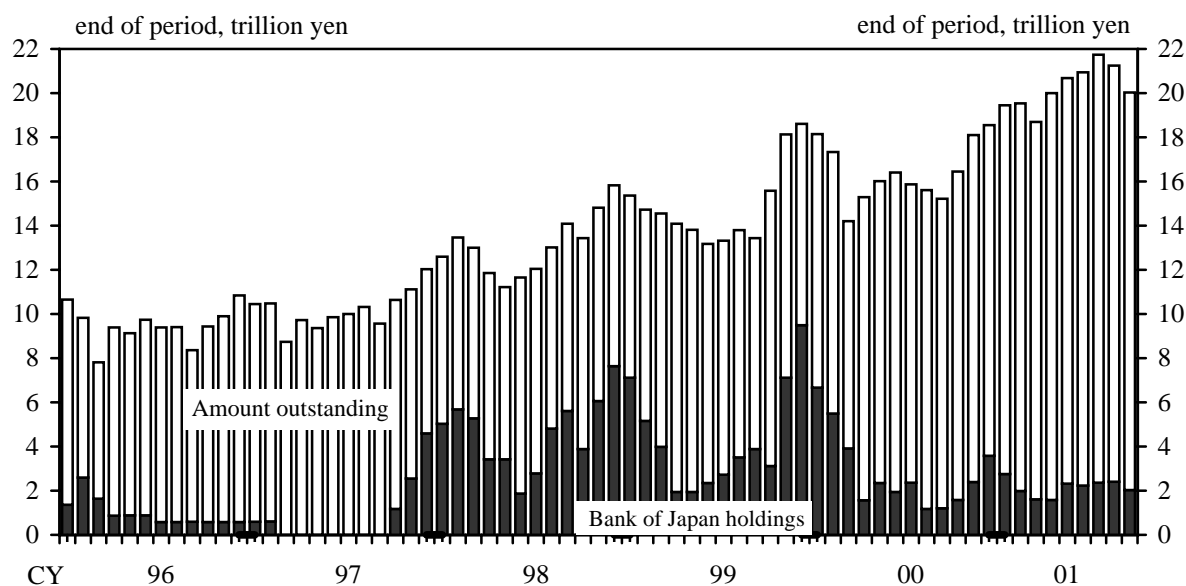
2. "Domestic commercial banks" refers to member banks of the Japanese Bankers Association, which consists of city banks, long-term credit banks, trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), the member banks of the Regional Banks Association of Japan (regional banks) and the member banks of the Second Association of Regional Banks (regional banks II).

3. Adjusted to exclude

- (1) fluctuations from the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations from 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.

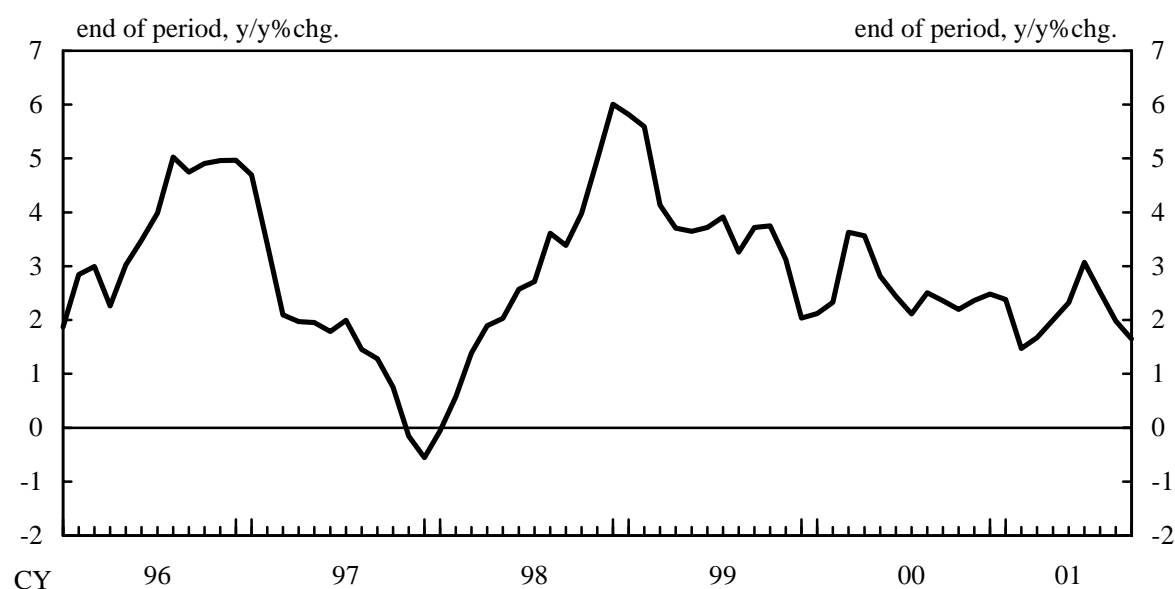
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper ¹(2) Issue Volume of Corporate Bonds ²

(100 million yen)

	2001/Q1	Q2	Q3	2001/Jul.	Aug.	Sep.
Volume	22,009	35,222	21,016	3,345	7,007	10,664
(previous year)	(24,121)	(21,627)	(25,985)	(4,437)	(10,483)	(11,065)

(3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier) ^{2,3}

Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.

Excludes those issued by banks.

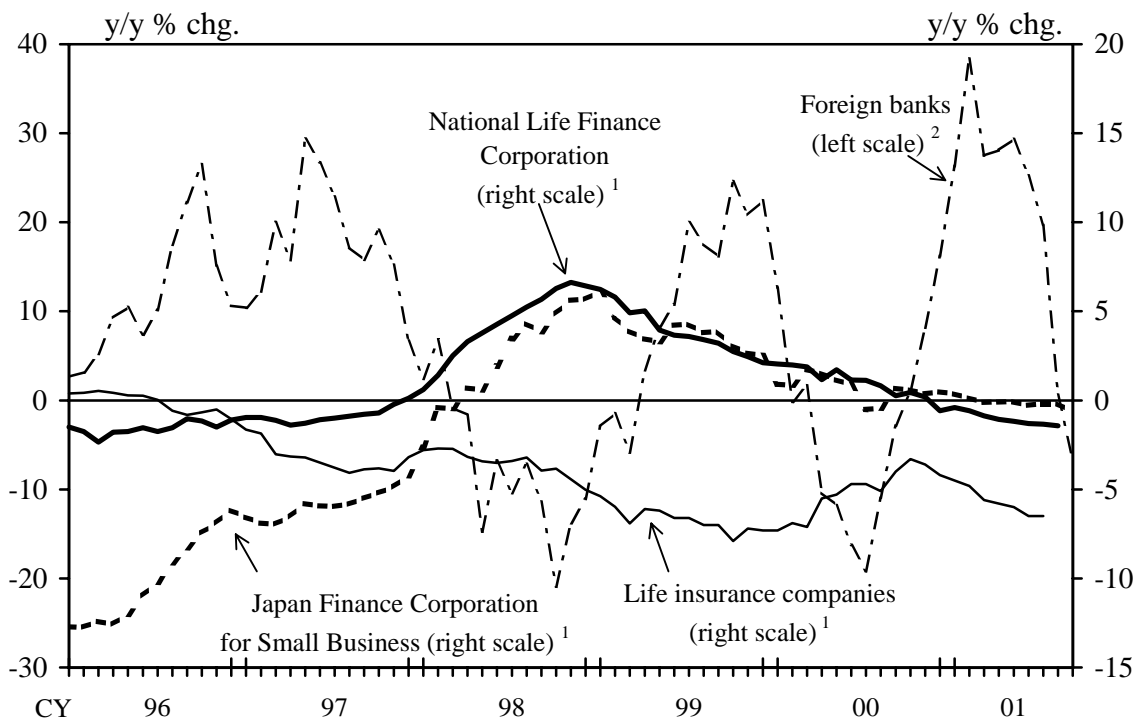
2. Includes straight bonds, convertible bonds, and bonds with warrants.

3. Estimated by the Bank of Japan.

Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Bond Review"; IN Information Center, "Funding Eye."

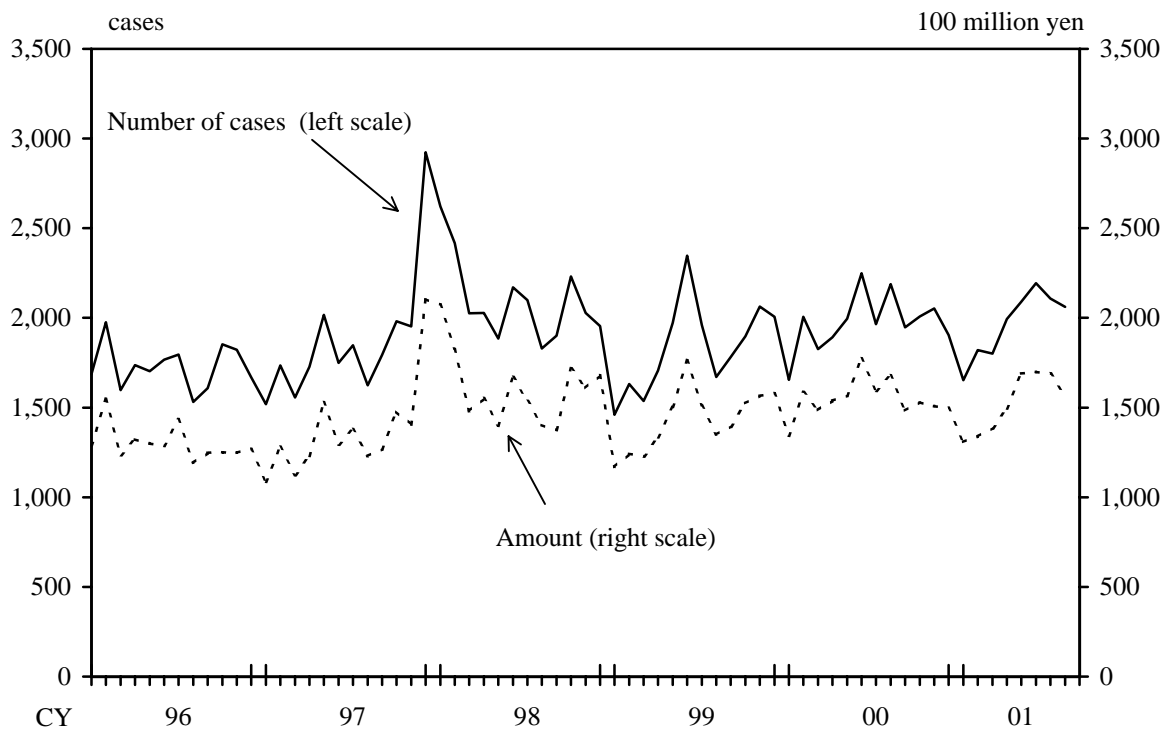
Lending by Other Financial Institutions

(1) Lending Outstanding



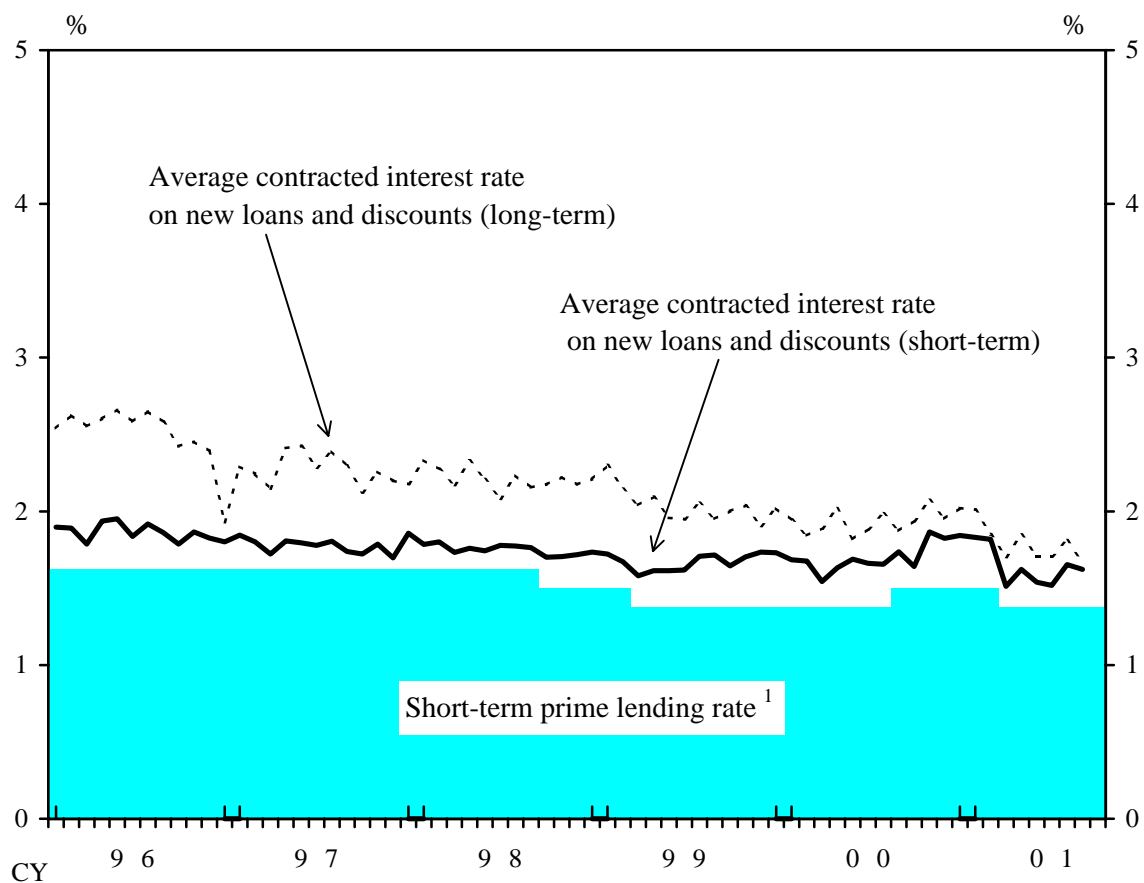
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

(2) Application for a Loan from Japan Finance Corporation for Small Business



Sources: Bank of Japan, "Financial and Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."

Lending Rates

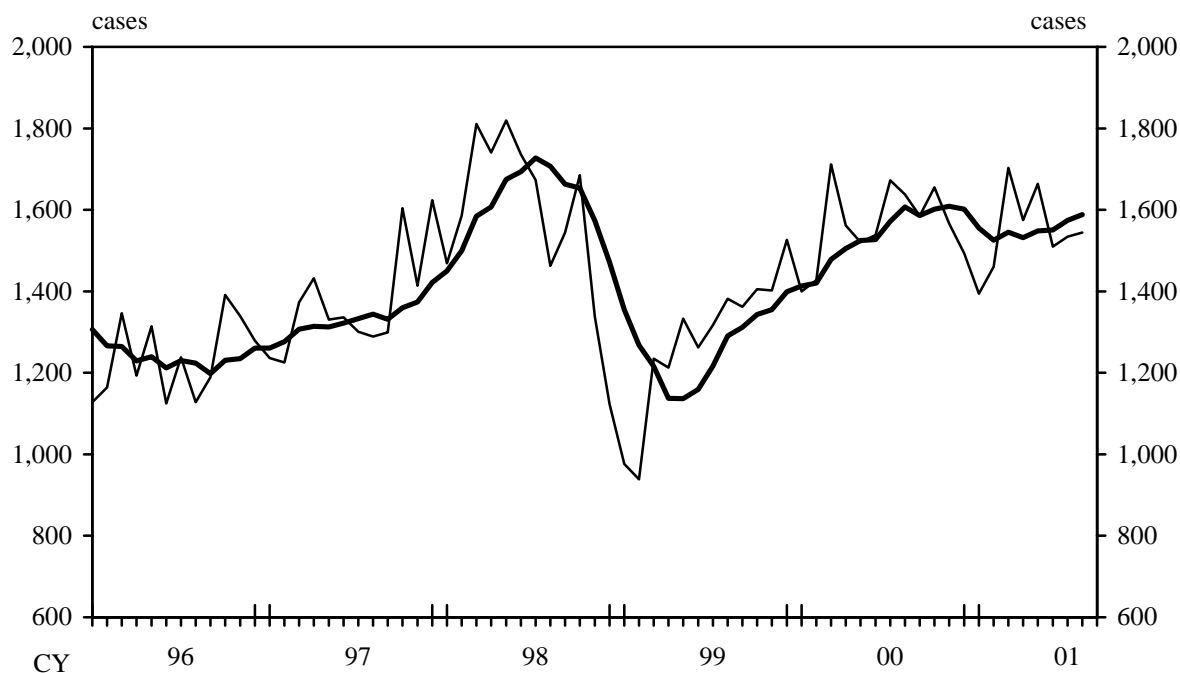


Note: 1. Data are at end of period.

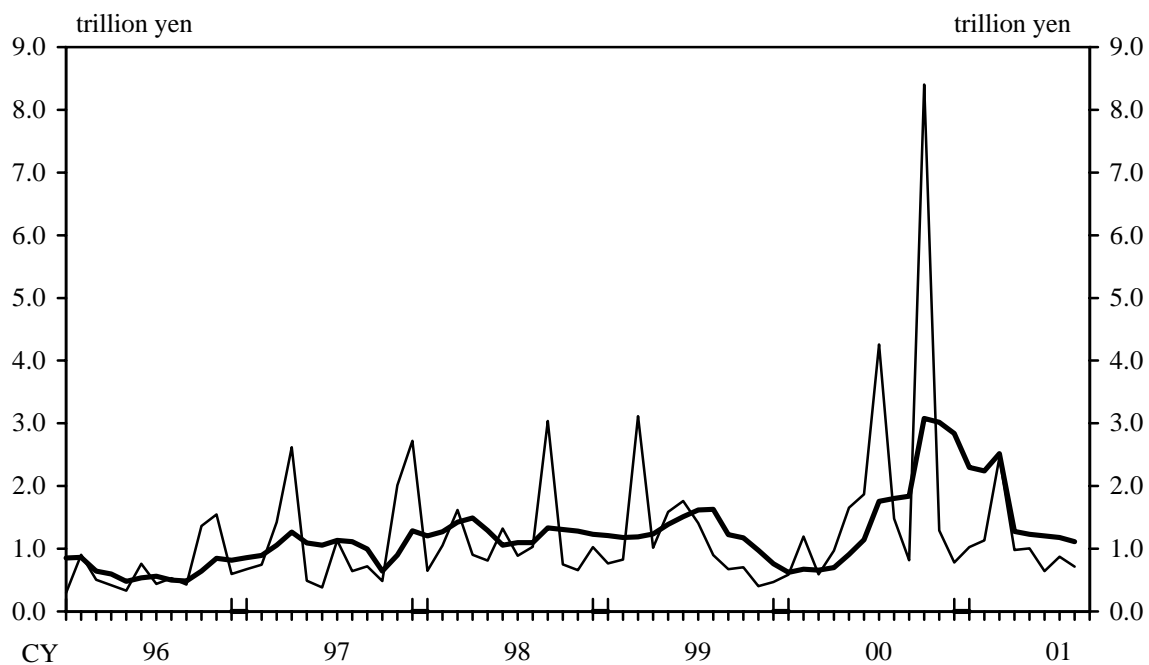
Source: Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



Note: The bold line is the six-month moving average.

Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."