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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
October 2002

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The Bank's View²

Japan's economy has stabilized as a whole, but clear signs of recovery have not yet been observed partly due to large uncertainty regarding the global economy.

With regard to final demand, while the decline in business fixed investment is coming to a halt, private consumption continues to be weak. Moreover, housing investment remains sluggish and public investment is declining. Meanwhile, exports continue to increase, albeit at a slower pace.

Industrial production, despite some deceleration, continues to rise in response to these developments in final demand and adequate reduction of excess inventory stocks. Against this background, corporate profits are recovering and business sentiment continues to improve as a whole. However, the pace of improvement in business sentiment has become gradual and the improvement for the immediate future is also expected to be small partly due to large uncertainty regarding the global economy. As for the employment situation, the overtime hours worked continue to increase and new job offers remain firm. Nevertheless, as firms are still maintaining their stance on reducing personnel expenses, household income continues to decrease noticeably with a plunge in summer bonuses. Thus, the employment and income situation of households overall remains severe.

Turning to the economic outlook, the uptrend in exports is expected to continue against the background of the moderate recovery in overseas economies, but the deceleration in the pace of increase is projected to continue toward the year-end with the impetus from overseas restocking coming to a halt. Thus, while industrial

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 10 and 11, 2002.

² The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on October 10 and 11 as the basis for monetary policy decisions.

production is also expected to follow a moderate uptrend, the pace is likely to continue decelerating for the time being.

With respect to domestic demand, public investment is projected to follow a declining trend and private consumption is likely to remain weak for some time due to the severe employment and income situation. Judging from leading indicators and the recovery in corporate profits, it will gradually become certain that the decline in business fixed investment has come to a stop. However, a distinct recovery in business fixed investment in the immediate future is unlikely due to, among other things, large uncertainty regarding overseas economies. Once the outlook for the increase in exports and production becomes more certain, domestic private demand will react to it positively.

Overall, it can be envisaged that Japan's economy will gradually form foundations for recovery as overseas economies continue the moderate recovery. However, it will take a while for the economy to show clear signs of recovery, as the increase in exports and production is expected to slow for the time being while restraining forces such as excessive labor input and debt persist. Furthermore, there is large uncertainty regarding exports such as the developments in stock prices in the United States and worldwide, the outlook for IT-related demand, and geopolitical factors and oil prices. On the domestic side, stock prices have fallen to a considerably low level. Hence, the progress in the disposal of non-performing loans of financial institutions hereafter and its effects on stock prices and the economy should be carefully monitored.

On the price front, import prices are bottoming due mainly to the rise in oil prices. Meanwhile, domestic wholesale prices have weakened, reflecting the decrease in import prices to date. Moreover, consumer prices remain on a gradual downtrend and corporate services prices continue to decline.

As for the conditions surrounding price developments, import prices are expected to start turning up. However, the balance between supply and demand is expected to keep exerting downward pressure on prices for a while amid persistently weak domestic demand, although the completion of inventory adjustment and the rise

in capacity utilization rates will support prices to some degree. Moreover, factors such as the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels will continue to restrain prices. Under these circumstances, domestic wholesale prices are projected to continue to be weak for a while, although this depends on the degree of rise in import prices. Consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. While the slower growth in imports of consumer goods is expected to alleviate the downward pressure on prices to some extent, the faster pace of decline in wages may possibly reinforce the ongoing decline in prices, especially for services prices.

As for the financial market, the outstanding balance of the current accounts at the Bank of Japan basically continues to move at around 15 trillion yen as the Bank continuously provides ample liquidity. Under these circumstances, in the short-term money markets, the overnight call rate, except for the temporary rise on September 30, continues to move at very close to zero percent. Also, longer-term interest rates remain steady at low levels.

Yields on long-term government bonds fluctuated and rose temporarily to around 1.3 percent in late-September mainly due to uncertainty over the disposal of non-performing loans by banks, but declined again thereafter and are recently moving around 1.1-1.2 percent. Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds remain virtually unchanged.

Meanwhile, stock prices have been falling again in line with a decline in U.S. and European stock prices, reflecting the ongoing selling of Japanese stocks by foreign institutional investors. Stock prices are moving around 8,500 yen recently.

In the foreign exchange market, the yen is currently being traded in the range of 122-125 yen to the U.S. dollar as the market continues to be nervous due mainly to the uncertainty regarding global economic conditions and the unstable situation in the Middle East.

With regard to corporate finance, private banks are becoming more cautious in extending loans to firms with high credit risks while they continue to be more active in

extending loans to blue-chip companies. The lending attitudes of financial institutions as perceived by firms are becoming slightly more severe. In the corporate bonds and CP markets, the issuing environment for firms with low credit ratings is still severe, but the environment for firms with high credit ratings is accommodative.

Credit demand in the private sector continues to follow a downtrend mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

Amid these developments, private banks' lending continues to decline by about 2-3 percent on a year-on-year basis. The amount outstanding of corporate bonds and CP issued is recently moving near the previous year's level.

Meanwhile, according to business surveys, the financial position of firms, particularly that of small firms, remains severe.

The monetary base continued to exhibit a high year-on-year growth rate of around 20-30 percent, although the rate has slowed slightly. The year-on-year growth rate of the money stock remained at around 3.5 percent.

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

Against the above background, the financial environment as a whole is summarized as follows. Money market conditions overall continue to be extremely easy. The money stock and the monetary base maintain high growth rates relative to that of the economic activity as a whole. However, stock prices remain unstable and long-term interest rates are showing relatively large fluctuations. In corporate finance, the fund-raising environment of firms with low credit risks is accommodative on the whole, but with regard to the firms with high credit risks the stance of investors remains severe and the lending attitudes of private banks are becoming more cautious. Hence, developments in the financial and capital markets including stock prices, the behavior of financial institutions, and the situation of corporate finance require close monitoring.

The Background

1. Japan's Economy

Public investment has been declining (Chart 3). The value of public works contracted—a metric that reflects public orders—remains sluggish owing to the decrease in the FY 2002 budget. Moreover, the turnover in public construction, reflecting the actual progress of public works, continued to be at low levels following the plunge in spring. Public investment is projected to continue declining due to the large cutbacks in public investment expenditures in the budgets of both the central and local governments for FY2002.

Real exports continue to increase (Chart 4[1]). Nevertheless, the pace of increase slowed in July-August compared to the upsurge in the second quarter when the impact from global restocking, mainly in IT-related goods, had been significant. By goods (Charts 5[2], 6[1], and 7), IT-related exports still continued their high growth in July-August, but the pace decelerated from the very rapid growth in the second quarter as the effects of restocking dissipated. In addition, the growth in exports of capital goods and parts, and intermediate goods seemed to be slowing. Exports of automobile-related goods in July-August inched down, but this drop is likely to be temporary judging from the continued strength in overseas demand, especially in the U.S. market.

Real imports rose at a higher pace than real exports in July-August, following the increase in the second quarter for the first time since the fourth quarter of 2000 on a quarter-to-quarter basis (Chart 4[1]). This upsurge in July-August was mainly due to a rush in imports of crude oil and aircraft in July, and thus is likely to be temporary. On average, real imports seemed to be following a gradual uptrend. By goods (Chart 8[2]), imports of materials including crude oil exhibited high growth in July-August and imports of intermediate goods, mainly in chemical and metal products, also increased substantially. Meanwhile, IT-related imports, which had been on a steady rise throughout the first half of this year, flattened in July-August partly due to sluggish domestic demand for personal computers (Chart 6[3]). Imports of capital goods and parts (excluding aircraft) slowed down in July-August from the rapid increase in the

second quarter, mainly in parts related to semiconductor fabrication machines and equipment.

Net exports (real exports minus real imports), in terms of the real trade balance (Chart 4[2]),³ had been soaring since around the start of this year, but inched down in July-August due to both the deceleration in exports and the acceleration in imports. The surplus of the nominal balance on goods and services also dropped somewhat in July-August.

Regarding the future environment for foreign trade, overseas economies are basically expected to stay on a gradual recovery path, with the U.S. economic condition more or less unchanged and the East Asian economy steady as a whole (Charts 9-1[2], 9-2[1], [2], and [3]). However, US stocks have been trading at a several-year low level (Chart 9-2[4]). Stocks elsewhere have also been weak. Although housing and automobiles—demand sensitive to interest rates—remain favorable, some U.S. economic indicators have shown weak signs. Under these circumstances, the growth in exports and production in the IT-related sector seemed to be decelerating in some East Asian economies. Anecdotal information obtained from Japanese firms also indicated that more firms have become cautious regarding the outlook for future exports. In addition, geopolitical tensions surrounding Iraq and their effects on oil prices continue to be uncertain factors regarding the outlook for the global economy. Hence, there is large uncertainty regarding exports.

These exporting conditions imply that exports are predicted to continue their upward trend assuming that a gradual recovery in overseas economies will continue toward next year. However, the increase in exports is projected to keep slowing until the year-end, since the effects from overseas restocking, mainly in the IT-related sector, dissipate and the recovery in overseas economies is mild.⁴ Moreover, it should be kept

³ Strictly speaking, the real trade balance presented in Chart 4(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 in GDP statistics are on an ownership-transfer basis and include trade in services.)

⁴ According to the *WSTS*' (World Semiconductor Trade Statistics) *Semiconductor Forecasts*, the increase in global shipments of semiconductors is currently slowing mainly in Asia (9.5 percent in the second quarter and 4.5 percent in July-August on a quarter-to-quarter basis). In addition, the pace of increase is projected to decelerate also in the fourth quarter (Chart 6[2]).

in mind that there is large uncertainty regarding future developments in overseas economies, as mentioned above. On the other hand, imports are expected to follow a gradual uptrend, reflecting the increase in production, but for the time being, the slower growth in production may cause imports to level off. These developments in exports and imports suggest that net exports will basically follow a rising trend hereafter, although the pace is projected to slow down substantially toward the year-end compared to the rapid increase during the first half of this year.

Business fixed investment seems to be bottoming against the background of the increase in exports and production and the recovery in corporate profits. Based on national accounts, nonresidential investment in the second quarter showed a sharp contraction in its decrease (Chart 2[2]). Shipments and aggregate supply of capital goods (excluding transport equipment), a coincident indicator of machinery investment, turned up in July-August compared to the second quarter for the first time since the third quarter of 2000 on a quarterly basis (Chart 10-1[1]).⁵

As for leading indicators, machinery orders (private demand, excluding shipbuilding and electric power equipment; Chart 10-2[1]), fell slightly in July-August in reaction to the upturn in the second quarter. On average, however, machinery orders have apparently stopped declining. On the other hand, construction starts (private, nondwelling use; Chart 10-2[2]) have been showing somewhat large fluctuations with an increase in the second quarter and a decrease in July-August, mainly in mining and manufacturing.

As for the developments of firms regarding business fixed investment in the Bank of Japan's *Tankan*—Short-term Economic Survey of Enterprises—of September 2002, firms forecasted sharp increases in their current profits for FY 2002 (Chart 11).⁶ In detail, manufacturing forecasted a profit increase of 30 percent for FY 2002 after the

⁵ Aggregate supply of capital goods indicates the domestic supply of capital goods by adding shipments of capital goods based on the *Indices of Industrial Production* and the import volume of the goods based on *Foreign Trade Statistics*.

⁶ Corporate profits in Chart 11 show that profits decreased in the first half of FY 2002, excluding small manufacturing firms, but this is because these figures are indicated on a year-on-year basis. Seasonally adjusted increase from the last half year reveal that corporate profits rose sharply in the first half of FY 2002 as profit levels plunged in the second half of FY 2001.

plunge of slightly more than 40 percent in FY 2001. Moreover, nonmanufacturing also forecasted an increase in profits for FY 2002 as opposed to a decrease in FY 2001, although the rate of increase was smaller than that of manufacturing. These profit forecasts were basically the same as those in the June *Tankan*.

Business sentiment continued to improve overall (Chart 12). However, the pace of improvement has become gradual and the improvement for the immediate future is also expected to be small partly due to the large uncertainty regarding the global economy. In particular, business sentiment of small nonmanufacturing firms seemed to have peaked at a low level without a distinct improvement.

With regard to corporate finance (Chart 13), the index of the financial position of firms has recently been flattened, but the lending attitude of financial institutions perceived by nonmanufacturing firms seemed to be worsening, albeit slightly. By size of firms, both the financial position and the lending attitude of financial institutions continued to be severer in small firms than large firms.

The business fixed investment plans for FY 2002 reported in the September *Tankan* were well below the previous fiscal year's level (Chart 14). However, judging from the fact that the level of the second half of FY 2001 had been already low, the investment plans are basically consistent with the bottoming of business fixed investment. But, investment plans of large manufacturing firms, which are projecting a substantial increase in profits, have been revised somewhat downward. This indicates that the positive transmission effects on business fixed investment from the rise in exports and production have not yet been clearly observed.

In sum, once the uptrend in exports and production becomes more definite, firms will become more confident about the recovery in profits, and this in turn is expected to gradually have a positive impact on fixed investment. However, with the perception of excess capacities persisting among firms (Chart 10-1[2]), there is large uncertainty regarding the outlook for exports and production. Thus, it seems that a distinct recovery in business fixed investment still requires more time.

Private consumption remains weak amid the severe employment and income situation of households. Most sales records in July dropped owing to the effects from typhoons, but they all improved significantly in August. On average, the underlying trend of private consumption is more or less unchanged.

In detail (Charts 15-1 and 15-2), department store sales and supermarket sales picked up in August, mainly in apparel, due to the heat wave. Sales of household electrical appliances returned to their usual uptrend. PC sales inched up in August as the prices were lowered again. The number of passenger cars sold in August-September turned up to a high level supported by sales promotions of some vehicle makers, after the slump in June-July. Also, sales of food services industries picked up in August. Outlays for travel recovered mildly in July-August after the large fall in June mainly due to the FIFA World Cup games. The indices of aggregated sales (Chart 15-3)⁷—which are comprised of many sales indicators including those mentioned above—remained close to zero percent on a year-on-year basis. Meanwhile, the level of aggregate supply of consumer goods also continued to be somewhat lower than in the previous year (Chart 15-4).

Judging from various indicators, consumer sentiment had been picking up moderately since early spring reflecting the marginal improvement in the employment situation. Recently, however, the improvement seemed to slow (Chart 16).

Reflecting the harsh employment and income situation, private consumption is likely to be lackluster for some time.

Housing investment remains sluggish (Chart 17). In detail, the investment level of owner occupied houses and built-for-sale seemed to be edging down. Housing investment is projected to remain stagnant since no supporting factors in particular can be seen under the severe employment and income situation of households.

⁷ The indices of aggregated sales are compiled by the weighted average of various sales indicators (including a few indicators for services consumption). Since each sales indicator shows different movements, the indices of aggregated sales are used to evaluate the whole trend of these sales indicators. For the detailed calculation method, see notes in Chart 15-3.

Industrial production (Chart 18[1]) remains on an upward trend in response to these developments in final demand and adequate reduction of excess inventory stocks. However, the pace of increase decelerated slightly in July-August after recording considerably high growth in the second quarter. With regard to projections for the third quarter using the September production forecast index (Chart 18[2]), production of electrical machinery, general machinery, transportation equipment (automobiles), and iron and steel are projected to increase due mainly to favorable exports. However, since the increase in the production of electrical machinery was extremely large in the second quarter, the production in the third quarter is projected to slow down significantly with overseas restocking of IT-related goods coming to a halt.

As for inventories, inventory adjustment has been completed (Chart 20). By goods, the inventory cycle has advanced the most for goods maintaining steady growth in exports, i.e., producer goods for electrical machinery (electronic parts such as semiconductors) and of other producer goods (mainly materials).

The completion of inventory adjustment suggests that industrial production is expected to follow a rising trend in the future, assuming that the outlook for overseas economies will stay on the track of gradual recovery. However, the increase in production is likely keep decelerating for the time being, since the growth in exports is predicted to slow.⁸

As for the employment and income situation, the overtime hours worked continue to increase and new job offers remain firm, assisted by the pick-up in production. However, the employment and income situation of households remains severe, with the somewhat faster pace of decline in the number of regular employees as well as the plunge in summer bonuses.

With respect to various labor-market-related indicators, the unemployment rate remained high (Chart 22-1[1]). Among the unemployed, the number of those involuntarily unemployed in particular remained at a high level after the substantial

⁸ The survey of production forecast index both show slight increases in production in September (0.4 percent on a month-to-month basis) and October (0.2 percent). According to anecdotal

increase in the latter half of last year. On a seasonally adjusted basis, the uptrend in new job offers recently seemed to be coming to a halt after the notable increase in the first half of this year (Chart 22-1[2]). The ratio of job offers to applicants has been improving, but the pace seemed to be slowing slightly. Meanwhile, the overtime hours worked continued to rise and has turned positive on a year-on-year basis (Chart 22-2[3]).

The excessiveness of employment perceived by firms in the September *Tankan* (Chart 23) showed that in manufacturing, the excessiveness receded for three quarters in a row and this was the same for nonmanufacturing which recorded an ease in excessiveness for the first time in seven quarters. However, excessiveness persists for both manufacturing and nonmanufacturing, and firms are still making efforts to reduce personnel expenses. Consequently, for instance, the *Labour Force Survey*, a survey widely covering part-time workers and temporary workers, indicated that the rate of decrease in the number of employees is contracting recently on a year-on-year basis, while the number of regular employees in the *Monthly Labour Survey* is still decreasing somewhat faster (Charts 22-2[1] and [2]).

This stance on personnel expenses affects wage developments. In fact, the rate of decline in nominal wages per employee has been accelerating (Chart 21[2]). In detail, overtime payments, which largely reflect the short-term fluctuations of economic activity, were on a recovery path. However, regular payments continued to decline both due to a rise in the ratio of part-time workers and to a restraint on the base-pay hike. The slump in summer bonuses, affected by the deterioration in corporate profits during the previous fiscal year, was larger than that of winter bonuses. Special payments (bonuses) have exerted substantial downward pressure on overall income. As corporate profits have started to recover, the rate of decline in this winter bonuses are likely to contract at least to some degree. Nevertheless, it is unlikely for firms to change their stance on reducing personnel expenses as large uncertainty regarding the recovery in profits persists. These developments in employment and wages suggest that household income is expected to continue decreasing markedly for the time being.

information from Japanese firms, they seem to be cautious about future production, mainly in IT-related goods.

2. Prices

Import prices on a yen basis are recently bottoming compared to levels three months ago due to the rise in international commodity prices including crude oil, although they had been decreasing from the depreciation of the U.S. dollar against the yen during the spring and into the summer (Chart 25).

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates)⁹ have weakened compared to levels three months ago (Chart 26). In detail, prices of some materials such as iron and steel rose due to the improvement in the supply and demand balance, but the ongoing decline in machinery prices had a larger impact on the overall domestic wholesale prices. On a year-on-year basis, the decrease in domestic wholesale prices has dropped to slightly less than 1 percent.

Corporate services prices (domestic supply-demand factors; same hereafter) continue to decline (Chart 27). Compared to those three months ago, prices for general services (car and machinery maintenance) dropped because of firms' intentions to reduce business costs. Prices for advertising, real estate services, leasing and rentals also continued a downtrend. On a year-on-year basis, the decrease in corporate services prices has more or less been slightly more than 1 percent.

Consumer prices (excluding fresh food; same hereafter) continue to decline mildly (Chart 28). The overall year-on-year rate of change basically continued to stay at slightly less than 1 percent (the year-on-year change was -0.8 in June, -0.8 percent in July, and -0.9 percent in August). In detail, the rate of decline in goods had been contracting very slowly reflecting the rise in prices of petroleum products (gasoline) and personal computers. But in July-August, this development has come to a halt. Public utility charges continued to decline on a year-on-year basis due to the reduction in electricity charges. In addition, prices of general services continued to be basically around the previous year's level.

⁹ The figures are adjusted to exclude a large seasonal fluctuation in electric power charges in order to observe the underlying changes in domestic wholesale prices. Industrial and commercial electric power consumption charges are set relatively high during July-September, when consumption increases substantially.

Imported products and their substitutes still decreased substantially on a year-on-year basis, although the rate of decline tended to contract from around the second half of last year (Chart 29[1]). This may be attributable to the yen's depreciation throughout 2000-2001 in conjunction with the decline in the prevalence of business strategies for lower pricing, compared to one or two years ago. In fact, the increase in imports of consumer goods, which had been the result of these strategies, has recently come to a halt (Chart 29[2]).

As for the domestic supply-demand conditions in terms of the September *Tankan* (Chart 30), firms perceived that conditions for products and services were improving from the progress in inventory adjustment, but the pace has recently slowed somewhat. The pace of increase was weak particularly in nonmanufacturing. The operating level of the domestic economy, measured by the weighted average of production capacity and employment conditions among firms, remained low, although it continued to rise. As for the diffusion index for the change in output prices, the rate of "fall" continued to contract among manufacturing, mainly in iron and steel, and chemicals, but the rate has started to increase slightly again in nonmanufacturing reflecting the developments in retailing.¹⁰

In the "Prefectural Land Price Survey" released in September, land prices (Chart 31) of both commercial and residential land continue to decline. The rate of decline seemed to be contracting for commercial land in the Tokyo area, but the rate for residential land has not diminished yet.

As for the conditions surrounding price developments, import prices are expected to start turning up. However, the balance between supply and demand is expected to keep exerting downward pressure on prices for a while amid persistently weak domestic demand, although the completion of inventory adjustment and the rise in capacity utilization rates will support prices to some degree. Moreover, factors such as the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels will continue to restrain prices. Under these

¹⁰ The decline in the diffusion index for the change in output prices of retailing ("rise" minus "fall"; all firms) had been improving (-34 in December, -30 in March, and -19 in June), but turned down in the September survey to -29.

circumstances, domestic wholesale prices are projected to continue to be weak for a while, although this depends on the degree of rise in import prices. Consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. While the slower growth in imports of consumer goods is expected to alleviate the downward pressure on prices to some extent, the faster pace of decline in wages may possibly reinforce the ongoing decline in prices, especially for services prices.

3. Financial Developments

(1) Financial Markets

The outstanding balance of the current accounts at the Bank of Japan is moving around 15 trillion yen, as the Bank continues to provide ample liquidity (Chart 34). Meanwhile, the outstanding balance of the current accounts rose temporary to about 18.5 trillion yen on September 30, reflecting the increase in liquidity demand as the mid-fiscal-year-end approached.

As for interest rate developments in the short-term money markets, the overnight call rate (uncollateralized; Chart 32[1]), except for the temporary rise observed on September 30, continues to hover at very close to zero percent. As for the developments in longer-term interest rates (Chart 33), three-month Euro-yen rates (TIBOR) remain steady at low levels.

The bond market has been fluctuating since mid-September, triggered by the release of the “New Initiative Toward Financial System Stability” and the unfavorable government auction of 10-year JGBs (newly issued). In these circumstances, yields on ten-year government bonds (newly issued 10-year JGB; Chart 32[2]) increased temporarily to around 1.3 percent, but declined again and are moving at around 1.1-1.2 percent as domestic institutional investors and banks bought back in response to weak stock prices in domestic and overseas markets.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 38 and 39) remain virtually unchanged.

Stock prices (Chart 40) have been declining with the decline in U.S. and European stock prices, reflecting the ongoing selling of Japanese stocks by foreign institutional investors, while investors preferred to hold off buying stocks. The Nikkei 225 Stock Average is moving around 8,500 yen recently.

In the foreign exchange market (Chart 41), the yen weakened slightly as it was sold against the US dollar by both domestic and foreign institutional investors, while the market continues to be nervous due mainly to the uncertainty regarding global economic conditions and the unstable situation in the Middle East. The yen is currently being traded in the range of 122-125 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The monetary base (currency in circulation + current account balances at the Bank of Japan) continued to exhibit high year-on-year growth rate of around 20-30 percent, although the rate has slowed slightly. (The year-on-year change was 25.1 percent in July, 26.1 percent in August, and 21.4 percent in September; Chart 42.)

The year-on-year growth rate of the money stock (M_2 + CDs) remained at around 3.5 percent. (The year-on-year change was 3.3 percent in July, 3.4 percent in August, and 3.3 percent in September; Chart 43.) M_1 continued to increase substantially, by around 30 percent from the previous year's level, reflecting the strong preference for liquid assets. (The year-on-year change was 30.7 percent in July, 31.4 percent in August, and 29.7 percent in September.) As for the fourth quarter, the year-on-year growth rate is projected to be around 3 percent as the effect of substantial inflow from investment trusts and others last year will diminish, and credit demand of private firms remains sluggish.

In terms of the ratio to nominal GDP, the monetary base remains at an extremely high level and the money stock is increasing.

Meanwhile, with regard to corporate finance, private banks are becoming more cautious in extending loans to firms with high credit risks and are charging a higher interest margin, while they continue to be more active in extending loans to blue-chip companies. The lending attitudes of financial institutions as perceived by firms are

becoming slightly more severe. In the corporate bonds and CP markets, the issuing environment for firms with low credit ratings is still severe, but the environment for firms with high credit ratings is accommodative.

Credit demand in the private sector continues to follow a downtrend 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 factors¹¹), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, continues to decline by about 2-3 percent on a year-on-year basis. (The year-on-year change was -2.5 percent in July, -2.4 percent in August, and -2.6 percent in September; Chart 44.) The amount outstanding of corporate bonds and CP issued is recently moving near the previous year's level (Chart 46).

Funding costs for firms continue to be at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations averaged, continue to be more or less unchanged (Chart 48). The long-term prime lending rate was lowered by 0.10 percent to 1.60 percent on October 10. In the capital market, both corporate bond and CP issuance rates are at low levels for firms with high credit ratings. The spread between high and low credit ratings continues to be at high levels.

Meanwhile, according to business surveys, the financial position of firms, particularly that of small firms, remains severe.

The number of corporate bankruptcies increased by 2.2 percent from the previous year's level in August (Chart 49).

¹¹ 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.

Against the above background, the financial environment as a whole is summarized as follows. Money market conditions overall continue to be extremely easy. The money stock and the monetary base maintain high growth rates relative to that of the economic activity as a whole. However, stock prices remain unstable and long-term interest rates are showing relatively large fluctuations. In corporate finance, the fund-raising environment of firms with low credit risks is accommodative on the whole, but with regard to the firms with high credit risks the stance of investors remains severe and the lending attitudes of private banks are becoming more cautious. Hence, developments in the financial and capital markets including stock prices, the behavior of financial institutions, and the situation of corporate finance require close monitoring.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2002/Q1	Q2	Q3	2002/June	July	Aug.	Sep.
Index of living expenditure level (all households)	1.7	-0.9	n.a.	2.9	-0.1	-1.9	n.a.
Sales at department stores	-0.3	-0.8	n.a.	0.6	-3.9	4.9	n.a.
Sales at supermarkets	-0.6	2.1	n.a.	-0.6	-3.1	4.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 304>	< 314>	< 319>	< 308>	< 291>	< 334>	< 331>
Sales of household electrical appliances (real, NEBA)	2.8	2.9	n.a.	-7.0	-4.3	16.3	n.a.
Outlays for travel (50 major travel agencies)	13.5	0.7	n.a.	-7.2	5.1	-1.3	n.a.
Housing starts <s.a., ann. 10,000 units>	< 118>	< 117>	<n.a.>	< 110>	< 114>	< 113>	<n.a.>
Machinery orders (from private sector ⁴)	-7.4	7.1	n.a.	2.9	1.9	-13.6	n.a.
Manufacturing	2.6	4.6	n.a.	1.2	8.3	-17.2	n.a.
Nonmanufacturing ⁴	-11.0	7.1	n.a.	4.8	-1.9	-5.1	n.a.
Construction Starts (private, nonresidential use)	-10.6	6.6	n.a.	-11.4	-7.6	1.1	n.a.
Mining & manufacturing	-12.2	10.5	n.a.	-25.5	-19.0	9.3	n.a.
Nonmanufacturing ⁵	-10.2	5.6	n.a.	-6.0	-5.7	-1.0	n.a.
Value of public works contracted	-0.4	-0.6	n.a.	0.3	-3.0	-9.0	n.a.
Real exports	4.7	7.8	n.a.	0.8	0.6	-2.9	n.a.
Real imports	-1.9	2.6	n.a.	-0.5	4.9	-5.0	n.a.
Industrial production	0.7	3.8	n.a.	-0.2	0.1	p 1.6	n.a.
Shipments	1.2	4.3	n.a.	-2.1	-0.3	p 3.3	n.a.
Inventories	-4.3	-3.0	n.a.	-1.5	0.7	p -0.9	n.a.
Inventories/shipments <s.a., CY 1995=100>	<108.9>	<101.4>	<n.a.>	<101.4>	<97.6>	<p 97.7>	<n.a.>
Real GDP	-0.0	0.6	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.6	0.2	n.a.	-0.1	0.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2002/Q1	Q2	Q3	2002/Jun.	Jul.	Aug.	Sep.
Ratio of job offers to applicants <s.a., times>	<0.51>	<0.53>	<n.a.>	<0.53>	<0.54>	<0.54>	<n.a.>
Unemployment rate <s.a., %>	<5.3>	<5.3>	<n.a.>	<5.4>	<5.4>	<5.4>	<n.a.>
Overtime working hours ⁶	-5.7	-2.2	n.a.	-1.6	0.5	p 1.5	n.a.
Number of employees	-1.1	-1.2	n.a.	-1.2	-0.2	-0.2	n.a.
Number of regular employees ⁶	-0.4	-0.5	n.a.	-0.6	-0.7	p -0.8	n.a.
Nominal wages per person ⁶	-1.9	-2.6	n.a.	-3.3	-5.4	p -3.7	n.a.
Domestic wholesale price index ⁷ <q/q % chg.> (3-month growth rate)	-1.5 <-0.3>	-1.2 <0.1>	-1.0 <-0.2>	-1.0 <0.1>	-1.2 <-0.2>	-1.0 <-0.3>	-0.9 <-0.2>
Consumer price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.1>	-0.9 <-0.3>	n.a. <n.a.>	-0.8 <-0.3>	-0.8 <-0.1>	-0.9 <-0.2>	n.a. <n.a.>
Corporate service price index ⁹ <s.a., q/q % chg.> (3-month growth rate)	-1.4 <-0.2>	-1.2 <-0.3>	n.a. <n.a.>	-1.2 <-0.4>	-1.2 <-0.3>	-1.1 <-0.2>	n.a. <n.a.>
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg.>	3.6	3.5	3.3	3.4	3.3	3.4	3.3
Number of suspension of transactions with banks	3.5	-9.4	n.a.	-14.1	2.0	-8.9	n.a.

Notes: 1. All figures in chart 1-1 except figures in angle brackets are quarter on quarter (month on month) change of seasonal adjusted data.

All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Figure with "p" indicates preliminary one.

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

4. Excludes orders of shipbuilding and orders from electric power companies.

5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.

6. Data for establishments with at least 5 regular employees.

7. Adjusts to exclude a hike of electric power charges in summer season.

8. Excludes fresh food.

9. Domestic supply-demand factors.

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 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";

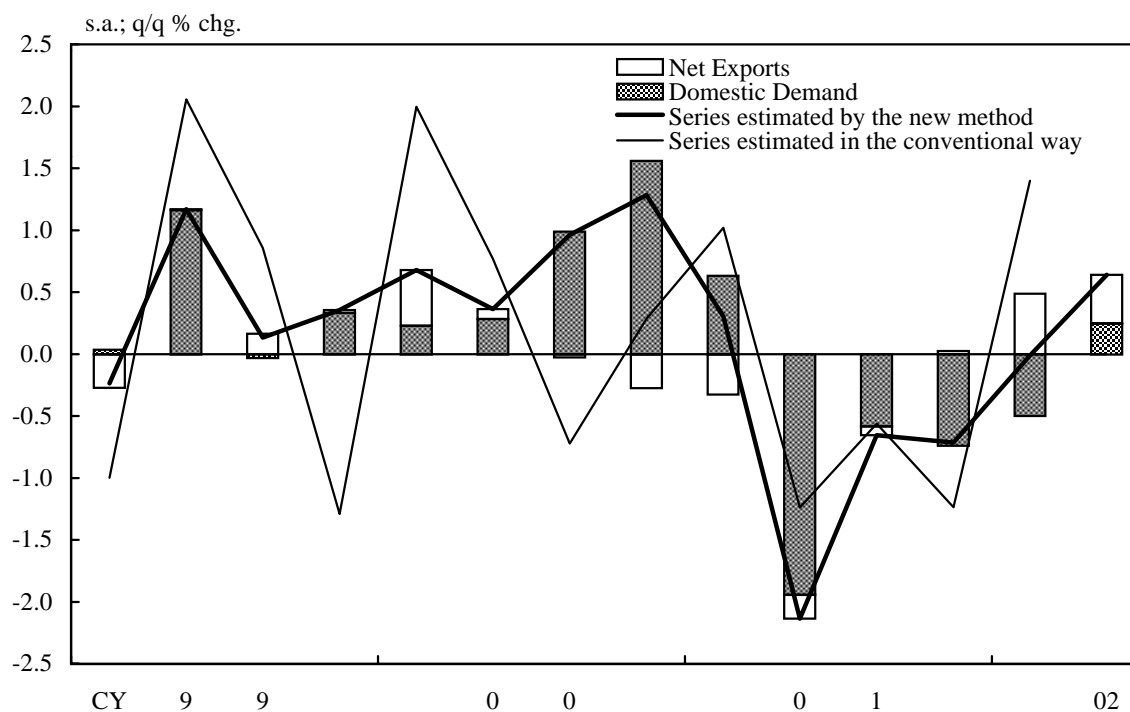
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

Bank of Japan, "Wholesale Price Indexes," "Corporate Service Price Index," "Financial and Economic Statistics Monthly";

Japanese Bankers Associations, "Suspension of Transaction with Banks."

Real GDP

(1) Changes from the previous quarter (seasonally adjusted series)



Note: The figures are composed of preliminary figures for 2001/Q2 onward, "reference series" for 1994/Q1-2001/Q1.

(2) Components

s.a.; q/q % chg.

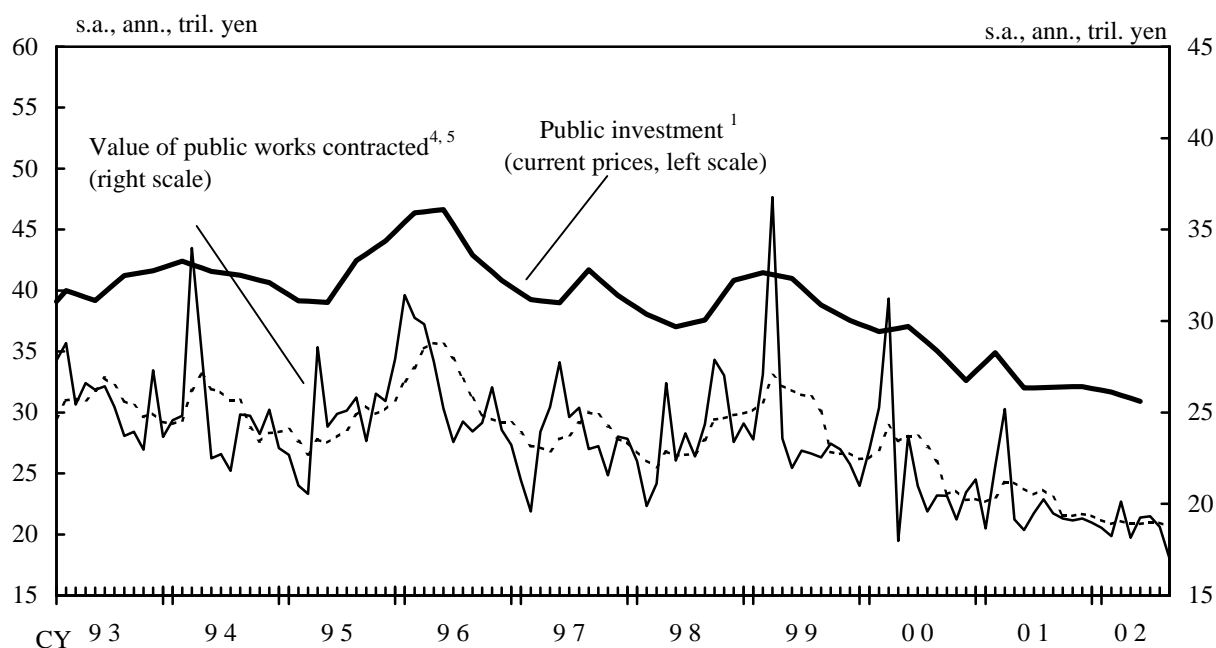
	2001			2002	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-2.1	-0.7	-0.7	-0.0	0.6
Domestic Demand	-2.0	-0.6	-0.8	-0.5	0.3
Private Consumption	-0.2	-0.1	0.1	0.5	0.3
Non-Resi. Investment	-1.9	-2.6	-4.0	-1.9	-0.4
Residential Investment	-7.4	-0.2	0.7	-2.0	-0.8
Private Inventory	(-0.8)	(-0.2)	(-0.3)	(-0.4)	(0.2)
Public Demand	-1.9	0.6	0.6	-0.0	-0.1
Public Investment	-8.5	0.8	0.2	-0.7	-1.9
Net Exports of goods and services	(-0.2)	(-0.1)	(0.0)	(0.5)	(0.4)
Exports	-4.1	-3.2	-1.7	4.8	5.7
Imports	-2.9	-3.0	-2.3	-0.0	2.6

Note: Figures shown in parentheses indicate the contributions to changes in GDP.

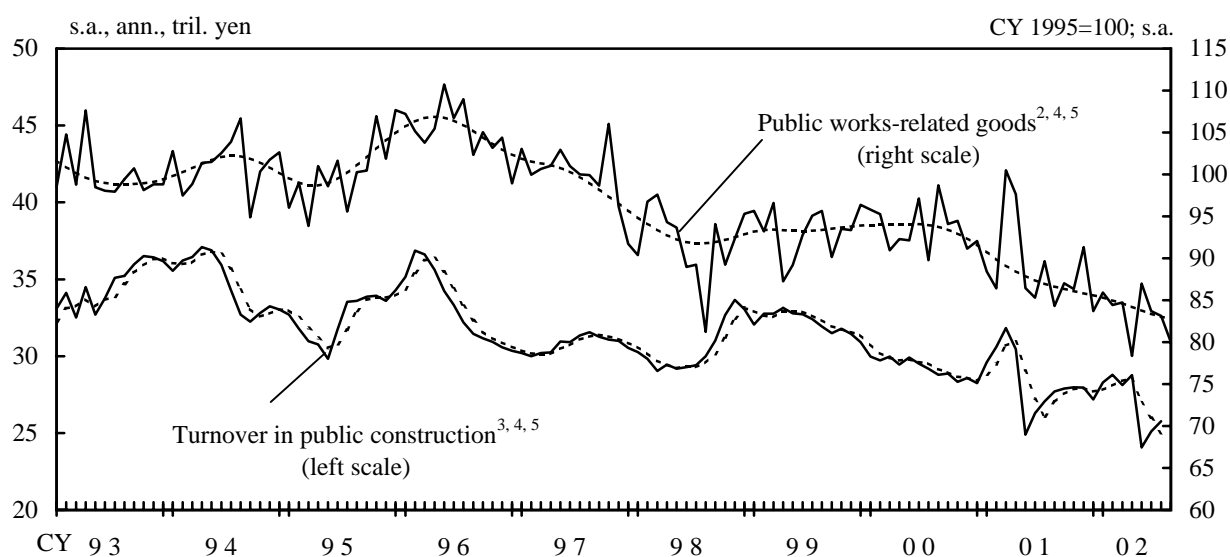
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Value of Public Works Contracted and Public Investment



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



- Notes: 1. Quarterly basis public investment is plotted at the middle month of each quarter. Public investment is based on the new estimation of Quarterly Estimates of GDP. The figures are composed of preliminary figures for 2001/Q2 onward, "reference series" for 1994/Q1-2001/Q1, and revised figures prior to 1993/Q4.
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.
3. Turnover in 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 in public construction are seasonally adjusted by X-12-ARIMA. As the figures of public works-related goods are seasonally adjusted on a monthly basis, the data are retroactively revised each month.
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 in public construction is the 3 months moving average.

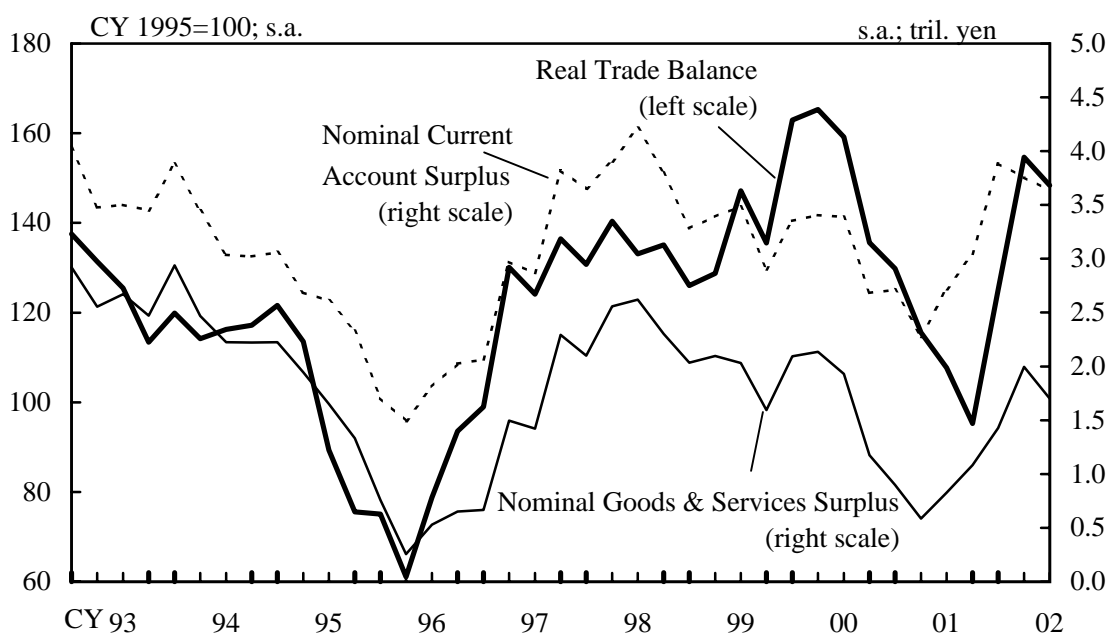
Sources: Cabinet Office, "National Accounts";
 Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";
 Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works";
 Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

 External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



- Notes: 1. Real trade balance is defined as real exports minus real imports which are indexed with base year of 1995. Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by "Export and Import Price Index."
2. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA. 2002/Q3 figures are Jul.-Aug. averages converted into quarterly amount.
3. Balance of payments data up to 1995/Q4 are old basis. 2002/Q3 figures are Jul.-Aug. averages 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."

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q3	2002 Q4	2002 Q1	Q2	Q3	2002 Jun.	Jul.	Aug.
United States	<30.0>	11.7	-8.5	-3.8	-3.7	4.4	1.5	-1.5	-2.0	1.4	-7.5
EU	<15.9>	6.4	-10.9	-6.4	-0.8	-6.2	9.8	6.7	7.5	2.1	-2.2
East Asia	<38.7>	25.7	-9.7	-3.7	-1.1	7.5	12.1	4.9	1.0	0.8	1.7
China	<7.7>	27.8	11.6	-3.5	-0.5	17.8	13.3	13.4	-2.2	6.8	5.1
NIEs	<21.7>	25.8	-15.8	-3.4	-1.8	5.8	12.1	2.4	1.7	0.4	-1.9
Korea	<6.3>	30.4	-9.1	4.9	-1.5	2.8	13.8	4.3	7.7	-3.7	1.2
Taiwan	<6.0>	22.5	-25.7	-11.1	4.3	6.7	12.4	4.6	6.5	3.0	-8.0
ASEAN4 ³	<9.3>	24.0	-8.1	-4.6	-0.1	3.3	10.8	2.9	2.4	-3.9	6.9
Thailand	<2.9>	19.0	-4.0	-0.8	-0.3	-1.5	16.2	10.4	4.9	-0.9	11.9
Real exports		14.1	-9.1	-3.9	-3.2	4.7	7.8	1.5	0.8	0.6	-2.9

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q3	2002 Q4	2002 Q1	Q2	Q3	2002 Jun.	Jul.	Aug.
Intermediate goods	<14.7>	5.3	-3.5	0.1	2.1	5.6	3.7	1.7	0.7	1.9	-4.1
Motor vehicles and their related goods	<22.1>	9.2	0.0	2.0	1.1	5.8	4.2	-0.8	-5.1	5.6	-8.4
Consumer goods ⁴	<7.3>	13.0	-6.3	-1.6	-5.8	4.5	8.6	5.1	4.2	3.3	-5.3
IT-related goods ⁵	<17.3>	25.2	-12.0	-7.5	-7.3	-5.9	17.0	9.0	3.5	1.2	4.9
Capital goods and parts ⁶	<27.5>	21.1	-14.9	-6.3	-5.0	6.2	9.2	1.9	4.0	-2.0	-1.9
Real exports		14.1	-9.1	-3.9	-3.2	4.7	7.8	1.5	0.8	0.6	-2.9

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

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

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

4. Excludes motor vehicles.

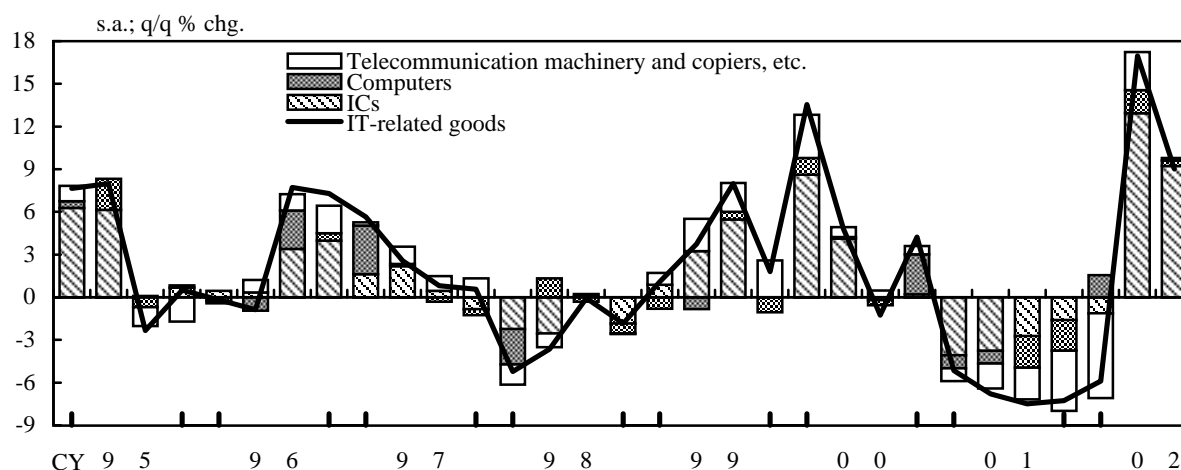
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

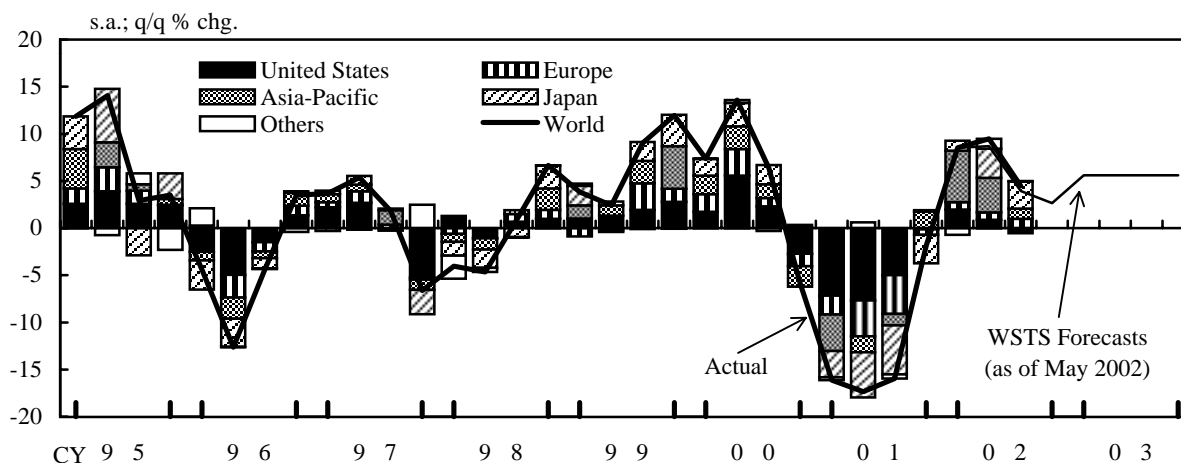
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Exports and Imports of IT-related goods

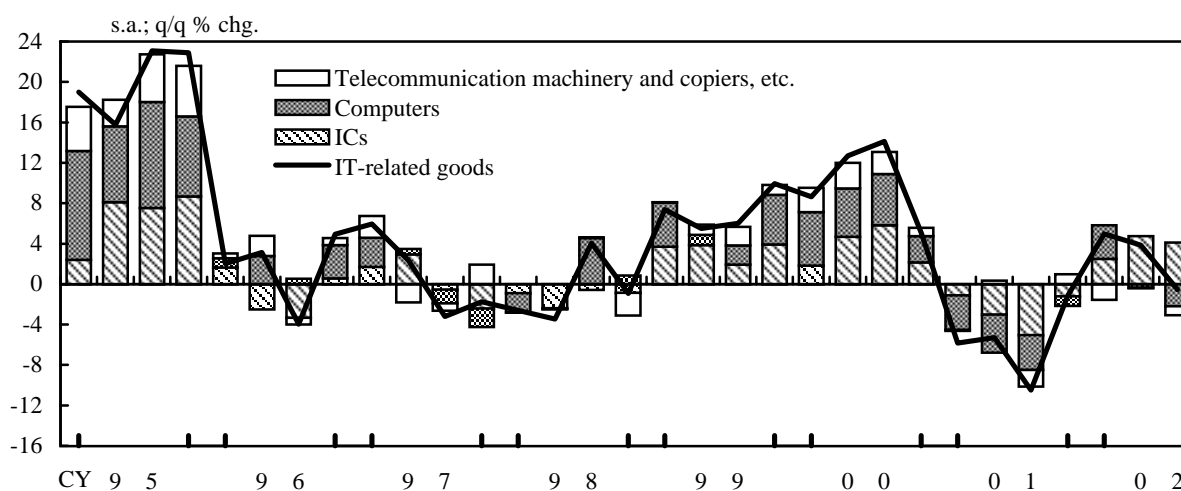
(1) Exports of IT-related goods (real, breakdown by goods)



(2) World Semiconductor Shipments (nominal, breakdown by region)



(3) Imports of IT-related goods (real, breakdown by goods)



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

2. 2002/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

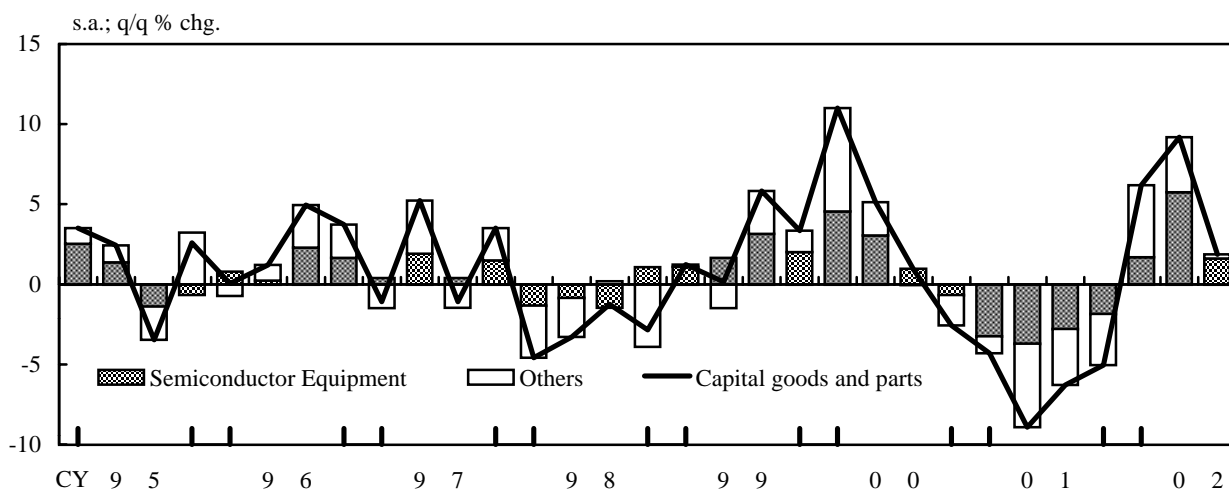
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";

Bank of Japan, "Wholesale Price Indexes";

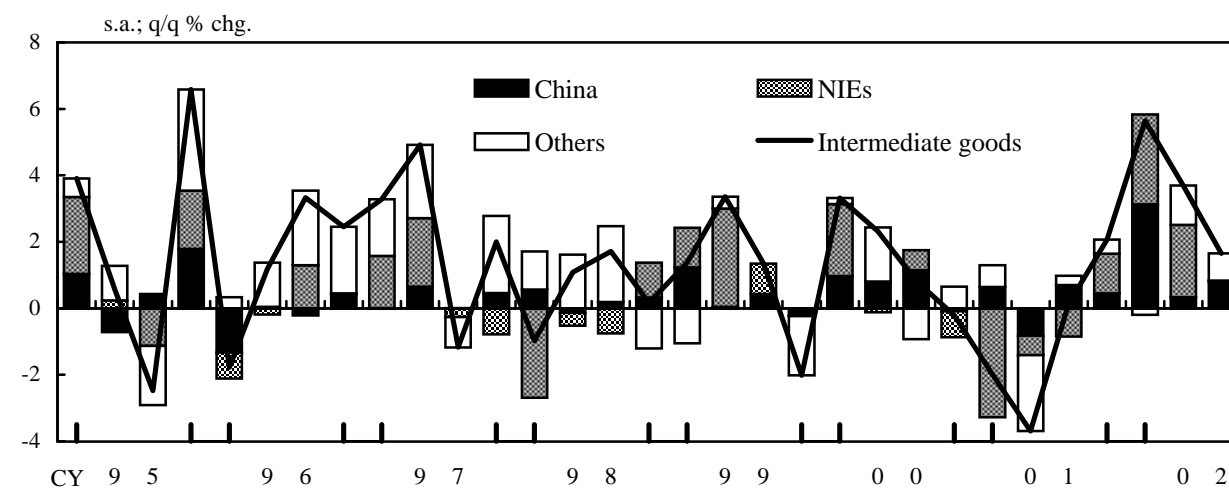
WSTS (World Semiconductor Trade Statistics), "Semiconductor Forecasts."

Real Exports breakdown by goods

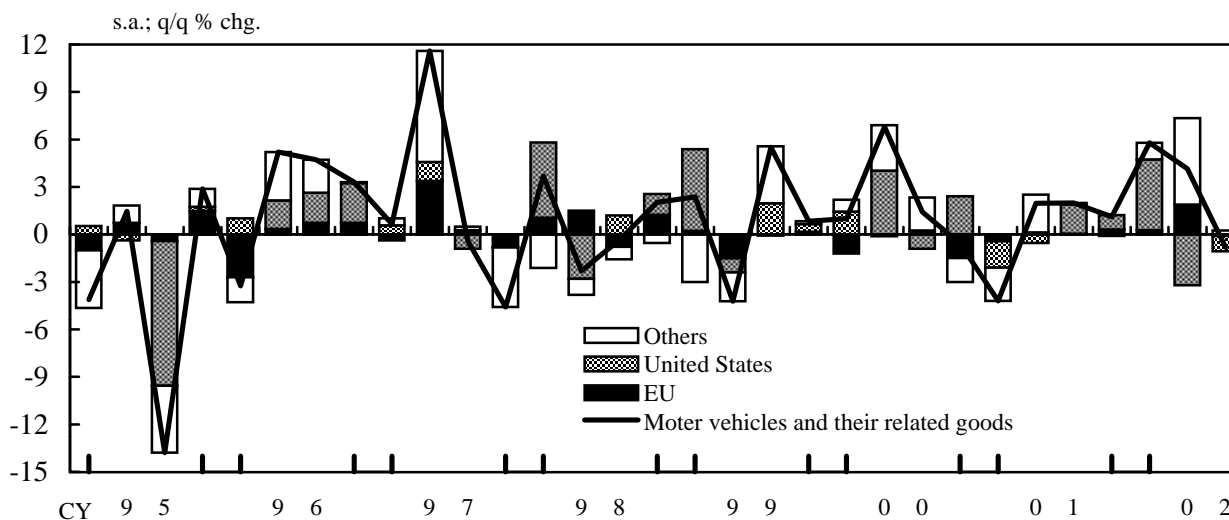
(1) Capital goods and parts



(2) Intermediate goods



(3) Motor vehicles and their related goods



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

2. 2002/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

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 2000	2001	2001 Q3	2002 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Jun.	2002 Jul.	2002 Aug.
United States	<18.1>	7.9	-4.4	-6.5	-3.0	-1.5	3.4	1.9	0.7	0.7	-3.8
EU	<12.8>	8.5	3.5	-0.6	2.6	-6.4	2.8	6.9	-0.3	11.7	-8.1
East Asia	<40.3>	25.5	1.6	-3.9	-1.0	1.5	3.7	2.6	2.3	0.6	-2.2
China	<16.6>	28.1	13.3	-0.7	4.2	1.7	3.5	2.4	2.1	2.2	-5.8
NIEs	<10.9>	28.4	-9.6	-7.6	-7.1	3.5	8.2	2.8	4.2	-0.1	-1.6
Korea	<4.9>	22.5	-7.8	-7.7	-7.0	-1.6	10.8	5.0	5.7	2.0	-3.4
Taiwan	<4.1>	43.6	-13.0	-10.6	-3.9	6.0	9.3	0.7	1.5	-2.7	-0.3
ASEAN4 ³	<12.7>	20.2	0.0	-4.3	-2.1	-0.3	0.2	2.6	0.8	-1.1	2.3
Thailand	<3.0>	19.3	6.0	-2.9	-0.4	-0.3	4.7	2.4	-1.8	1.8	-2.8
Real imports		13.3	-1.1	-3.1	-0.9	-1.9	2.6	3.7	-0.5	4.9	-5.0

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q3	2002 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Jun.	2002 Jul.	2002 Aug.
Raw materials ⁴	<26.2>	1.7	-5.1	-2.1	-2.6	-3.1	-2.2	9.1	-3.8	13.0	-4.2
Intermediate goods	<12.9>	8.2	-0.2	-3.0	-0.5	-0.5	0.9	7.4	-0.9	5.1	-1.0
Foodstuffs	<12.4>	5.3	-1.5	-1.8	5.3	-4.6	0.2	0.5	-2.0	5.0	-7.1
Consumer goods	<11.2>	21.4	5.8	-1.4	-0.2	-7.3	4.9	0.3	1.5	2.9	-7.8
IT-related goods ⁵	<14.8>	43.9	-2.4	-10.5	-1.1	5.0	3.8	-0.5	1.6	-3.1	0.3
Capital goods and parts ⁶	<11.9>	12.4	3.2	-3.6	-3.4	0.5	13.2	5.6	1.8	4.9	-7.6
excluding aircraft	<11.4>	21.5	6.0	-6.1	-1.1	-2.5	10.6	3.6	1.6	3.4	-4.1
Real imports		13.3	-1.1	-3.1	-0.9	-1.9	2.6	3.7	-0.5	4.9	-5.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q3 figures are Jul.-Aug. averages converted into quarterly amount.

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

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

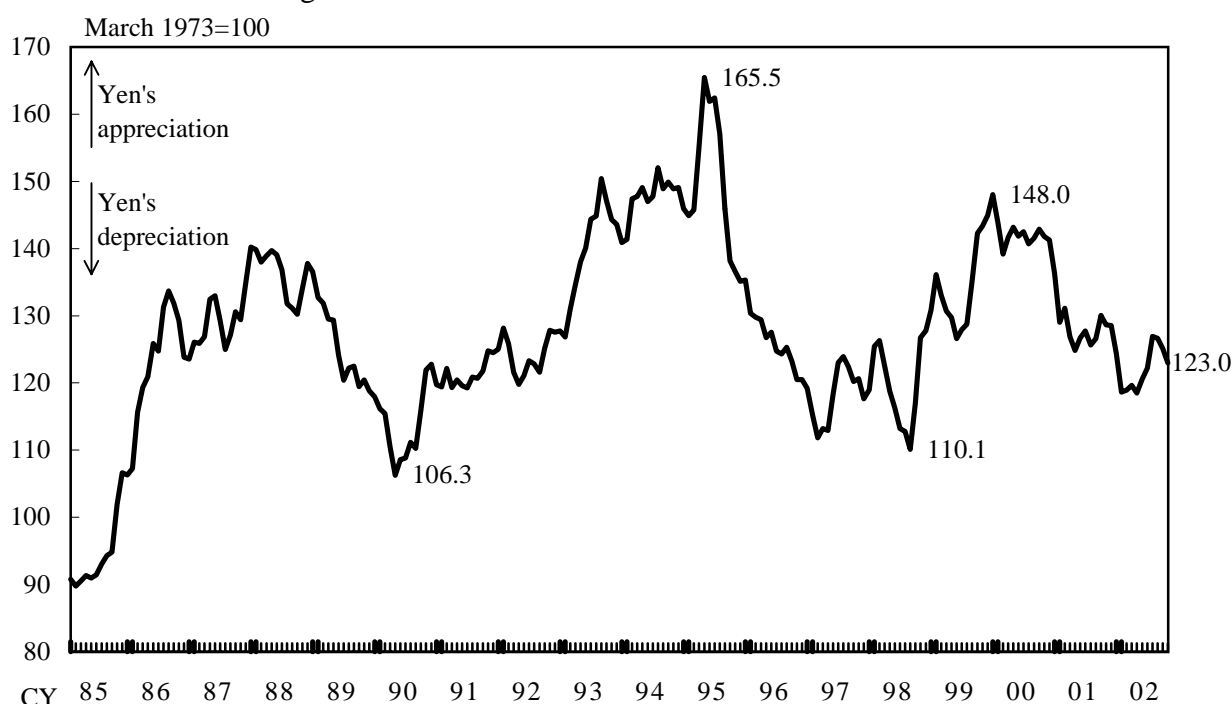
4. Raw materials are mainly composed of woods, ores and mineral fuel.

5. IT-related goods are composed of office machinery, telecommunication machinery, ICs, and medical and optical instruments.

6. Excludes IT-related goods.

Exporting Conditions (1)

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for October 2002 is the average up to October 10.
 Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (26 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

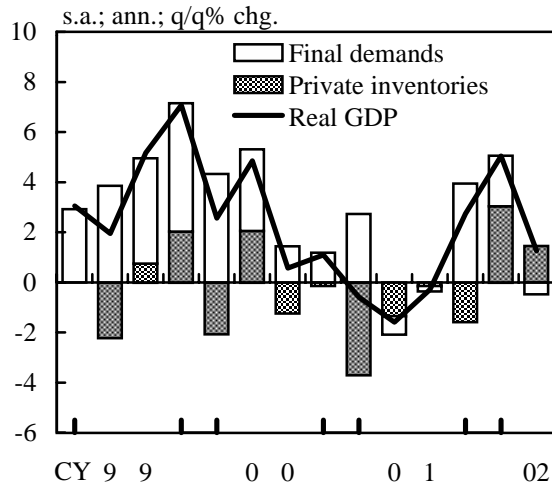
		CY99	2000	2001	2001 Q4	2002 Q1	Q2	Q3	
United States ¹		4.1	3.8	0.3	2.7	5.0	1.3	n.a.	
European Union ¹		2.8	3.4	1.5	-0.7	1.3	1.8	n.a.	
	Germany	2.0	2.9	0.6	-1.2	1.1	1.1	n.a.	
	France	3.2	4.2	1.8	-2.0	2.2	2.0	n.a.	
	United Kingdom	2.4	3.1	2.0	0.9	0.5	2.5	n.a.	
East Asia ²	China	7.1	8.0	7.3	6.6	7.6	8.0	n.a.	
	NIEs	Korea	10.9	9.3	3.0	3.7	5.8	6.3	n.a.
		Taiwan	5.4	5.9	-2.2	-1.6	1.2	4.0	n.a.
		Hong Kong	3.4	10.2	0.6	-0.9	-0.5	0.5	n.a.
		Singapore	6.9	10.3	-2.0	-6.6	-1.6	3.7	3.7
	ASEAN4	Thailand	4.4	4.6	1.8	2.1	3.9	5.1	n.a.
		Indonesia	0.8	4.9	3.3	1.6	2.2	3.5	n.a.
Malaysia		6.1	8.3	0.4	-0.5	1.1	3.8	n.a.	
Philippines		3.4	4.4	3.2	3.9	3.7	4.5	n.a.	

Notes: 1. Quarterly data of U.S. and EU are quarter-to-quarter percent changes at annual rate.

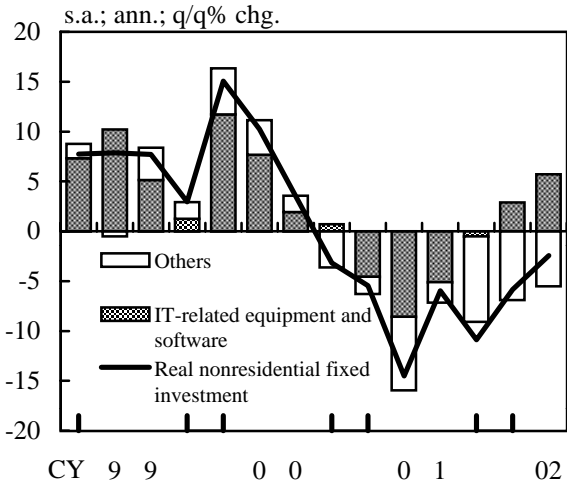
2. Quarterly data of East Asia are percent changes from a year earlier.

Exporting Conditions (2)

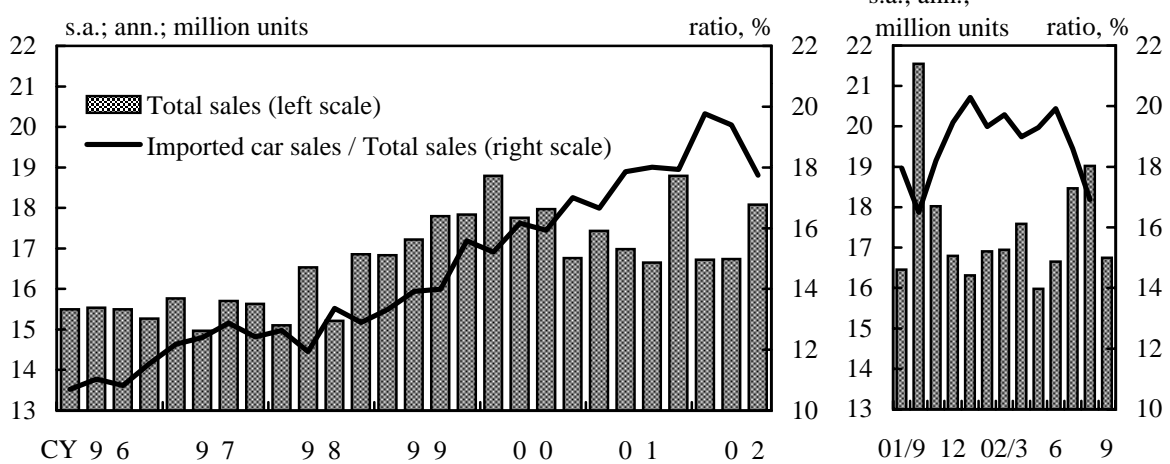
(1) U.S. Real GDP (breakdown by final demands and inventories)



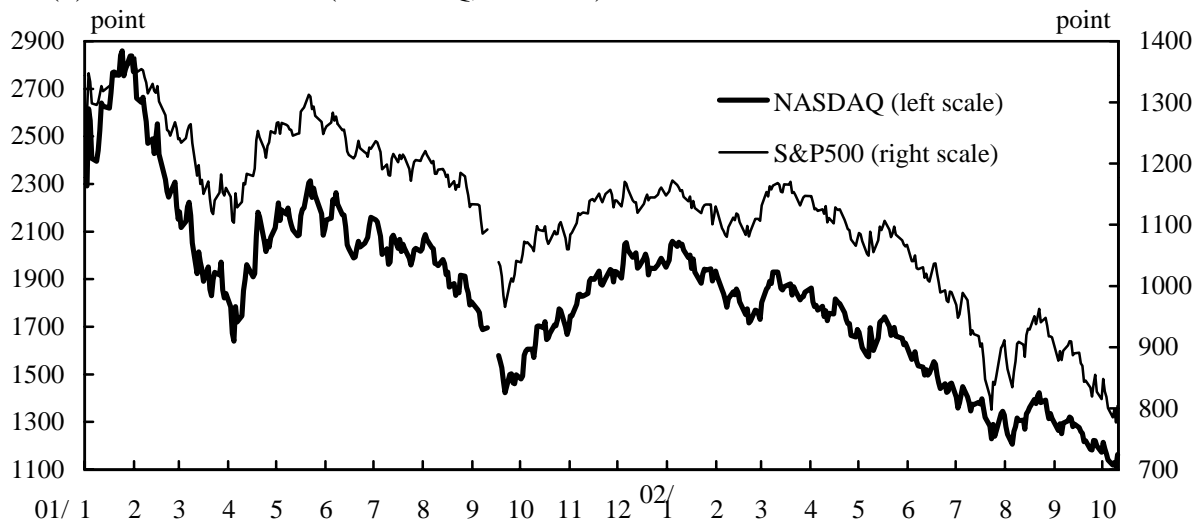
(2) U.S. Real Nonresidential Fixed Investment



(3) Sales of Automobiles in the U.S.



(4) U.S. Stock Prices (NASDAQ, S&P500)



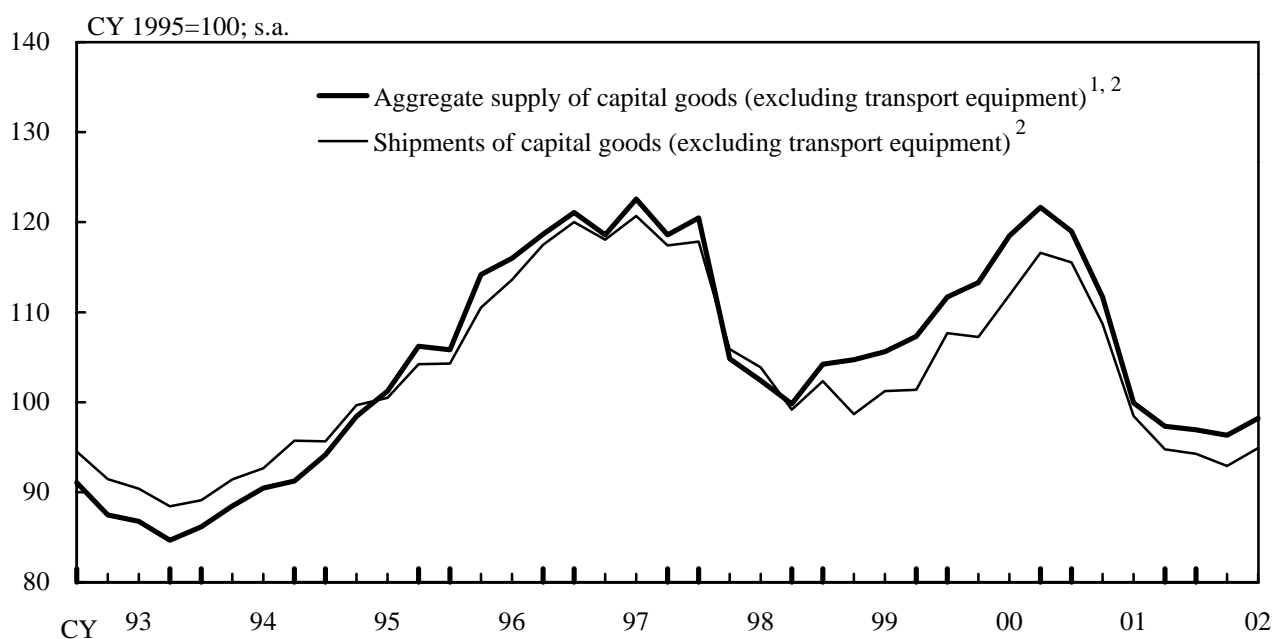
Notes: 1. "Imported car sales/Total sales of automobile" in 2002/3Q is based on Jul.-Aug. average. September figures of Automobile Sales are calculated by adding average of heavy trucks in CY 2001 (0.44mil.) to preliminary figure released by an industry association (s.a., ann., 16.31 mil.) which does not include heavy trucks.

2. Figures of U.S. stock prices in (4) are up to October 10.

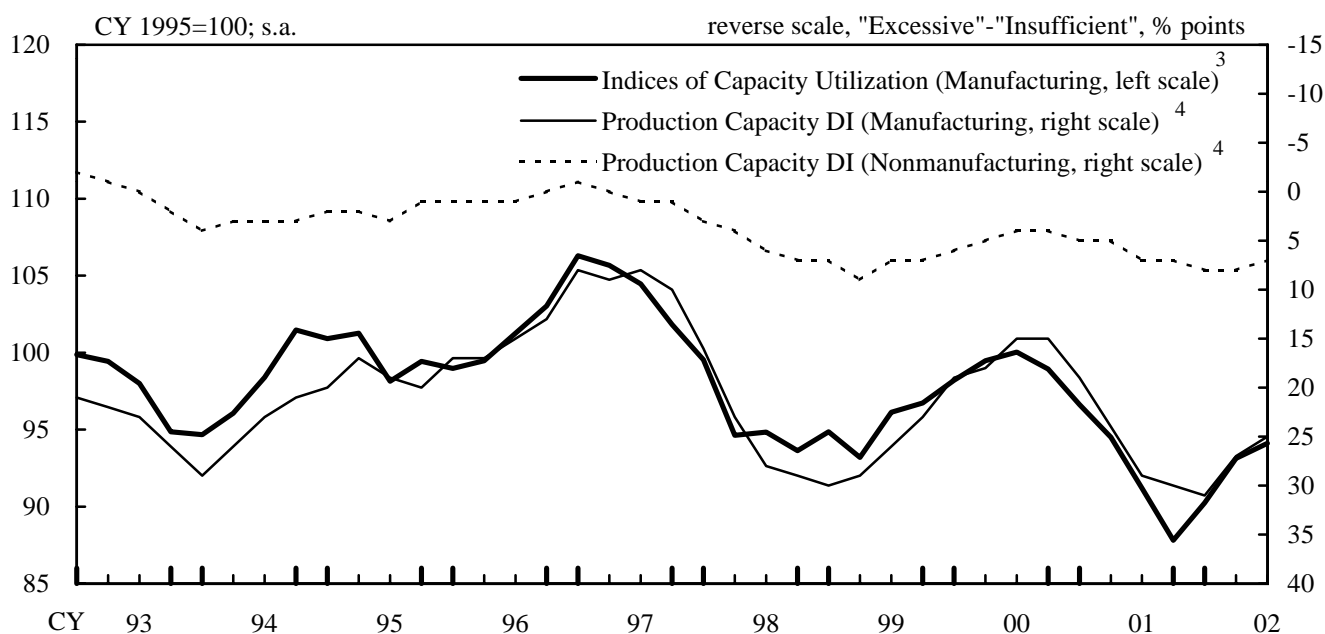
Sources: U.S. Department of Commerce, "National Income and Product Accounts", "Sales, production, imports, exports, and inventories, in units"; Reuters News Service; Bloomberg.

Indicators for Business Fixed Investment (1)

(1) Aggregate supply of capital goods (excluding transport equipment)



(2) Indices of Capacity Utilization and Production Capacity DI



Notes: 1. Aggregate supply of capital goods (excluding transport equipment) is obtained from *Indices of Industrial Domestic Shipments and Imports* released on a quarterly basis. The figure for 2002/Q3 is calculated by the Bank of Japan using shipments of capital goods in *Indices of Industrial Production* and real exports and imports of capital goods and parts (shipments of capital goods - real exports + real imports). The weights used for calculation are those of *Indices of Industrial Domestic Shipments and Imports*.

2. Figures for 2002/Q3 are averages of July and August.

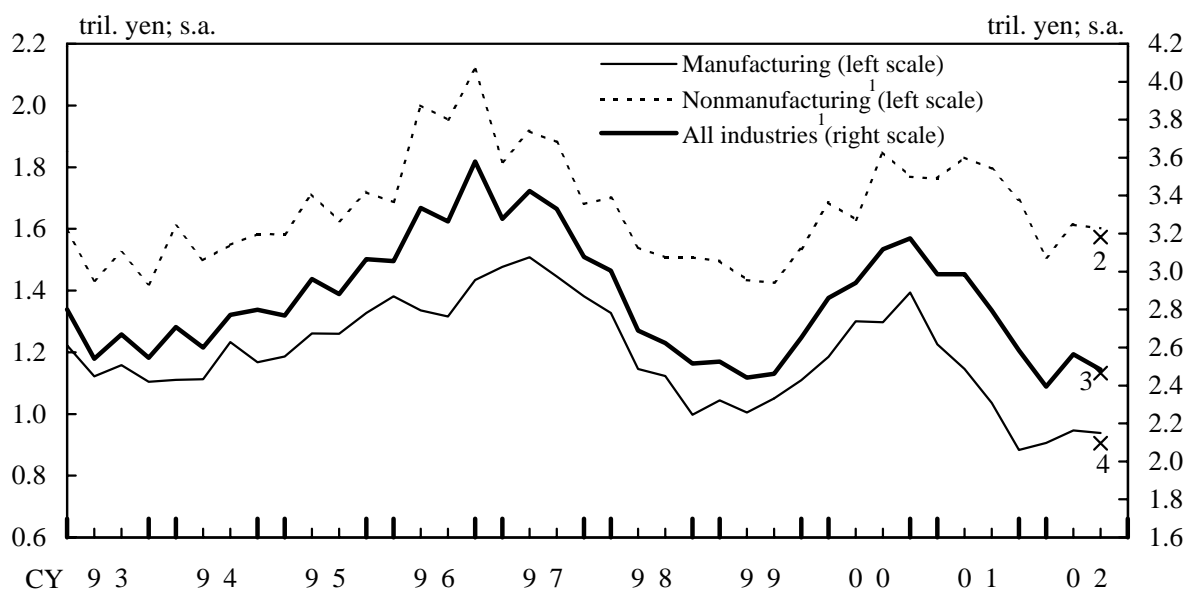
3. The figure for 2002/Q3 is that of July.

4. All enterprises.

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."

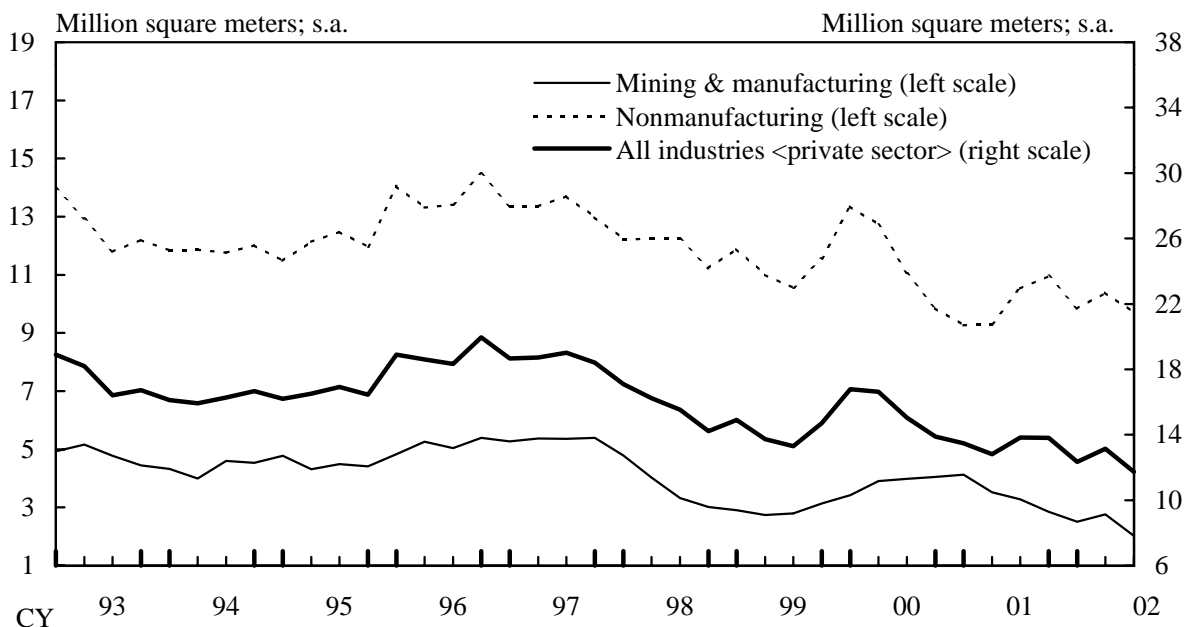
Indicators for Business Fixed Investment (2)

(1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.
 2. Forecast of nonmanufacturing industries for 2002/Q3.
 3. Forecast of all industries for 2002/Q3.
 4. Forecast of manufacturing industries for 2002/Q3.
 5. Figures for 2002/Q3 are averages of July and August in terms of quarterly amount.

(2) Construction Starts (Nonresidential)

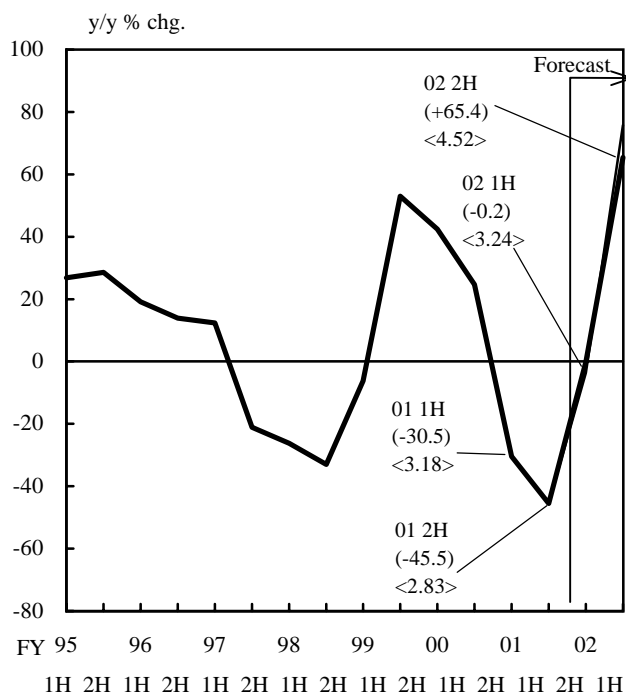


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2002/Q3 are averages of July and August in terms of quarterly amount.

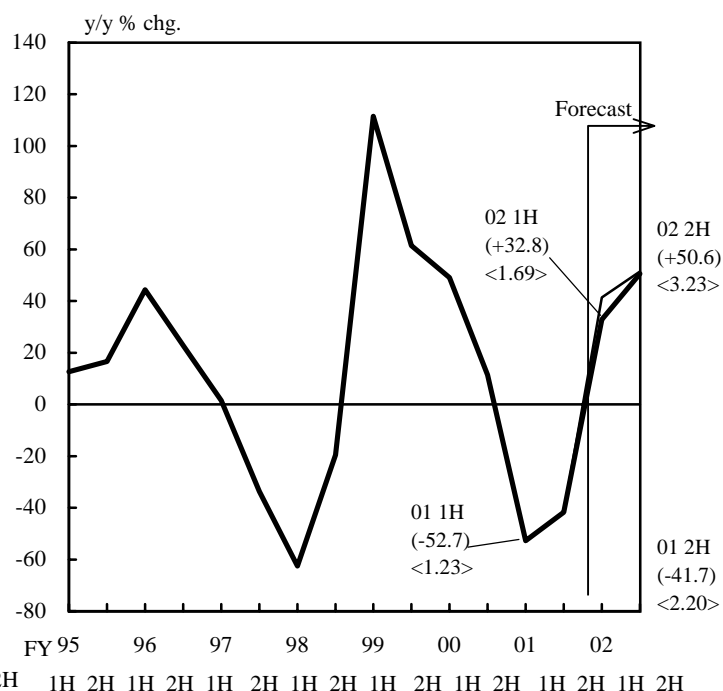
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

Current Profits

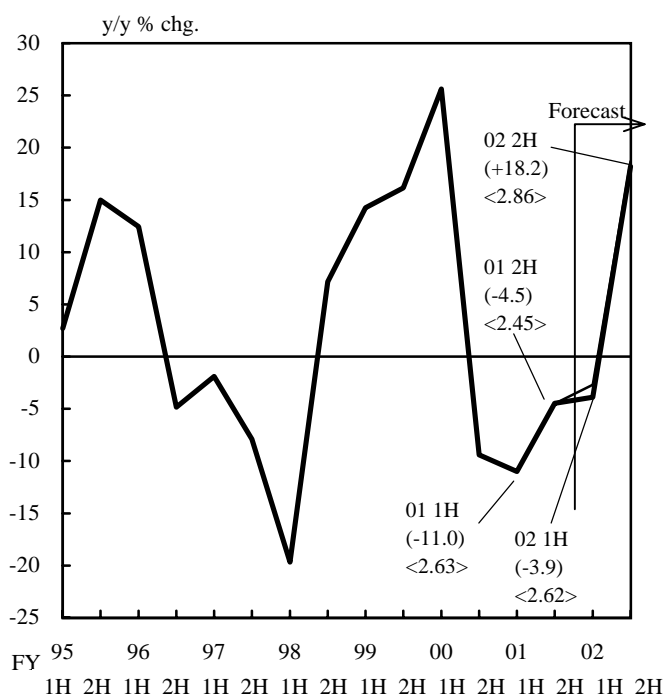
(1) Manufacturing / Large Enterprises



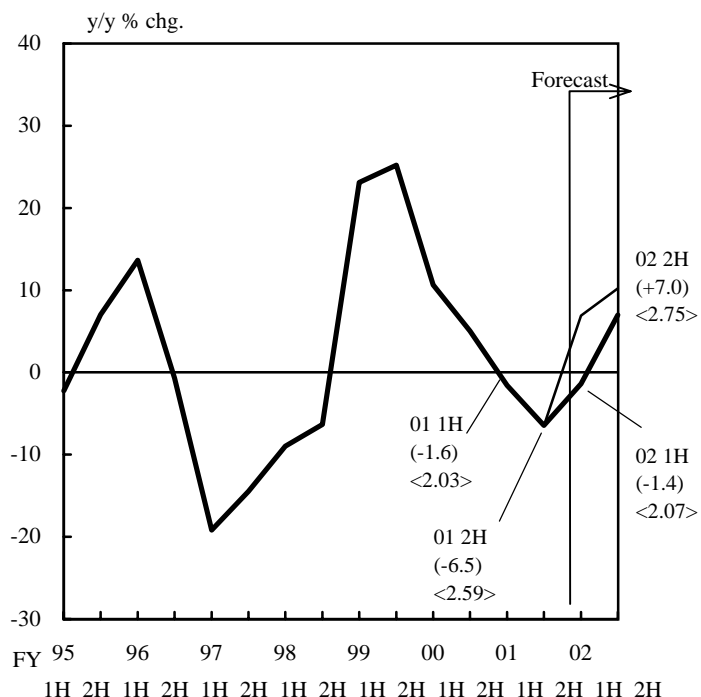
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



(4) Nonmanufacturing / Small Enterprises



Notes: 1. The thin solid line shows the figures as of the June 2002 survey.

2. Large enterprises: 1,000 employees or more

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

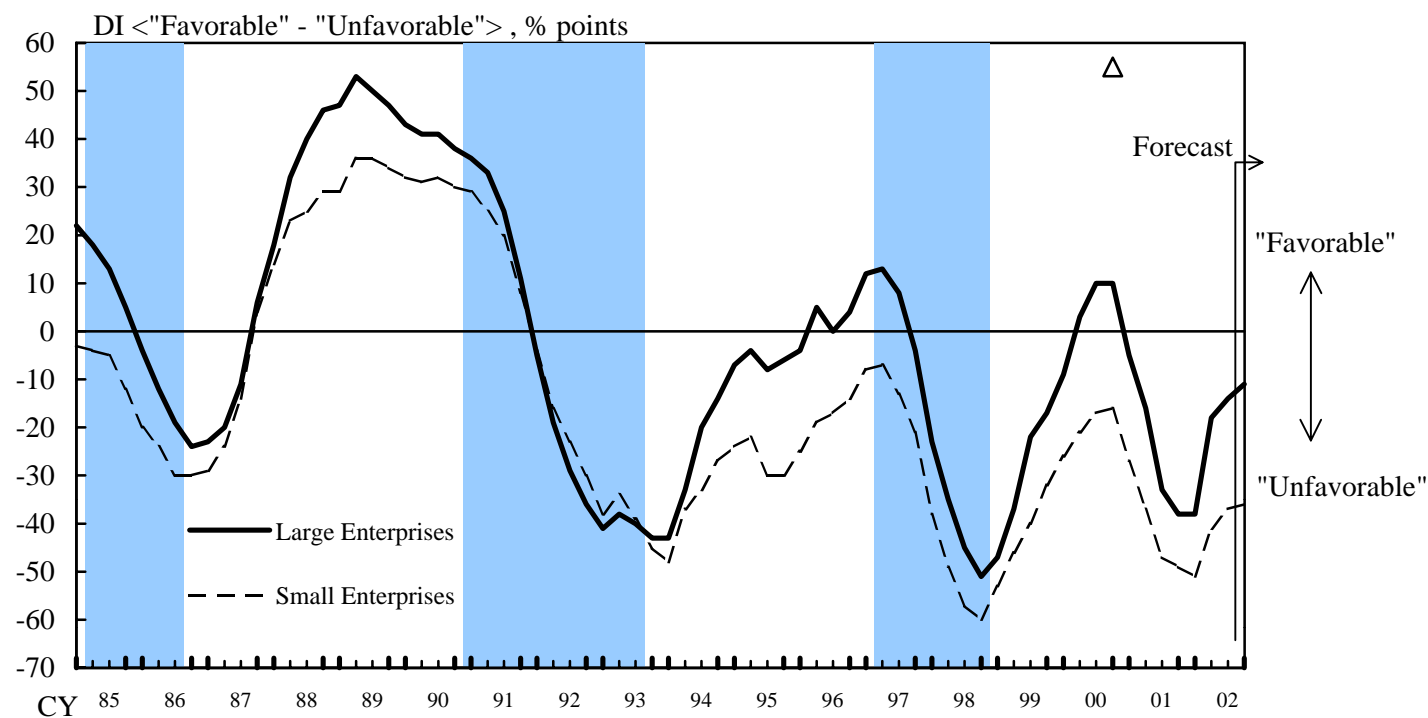
20-49 employees (for Retailing, services, and leasing),

50-299 employees (for Other industries)

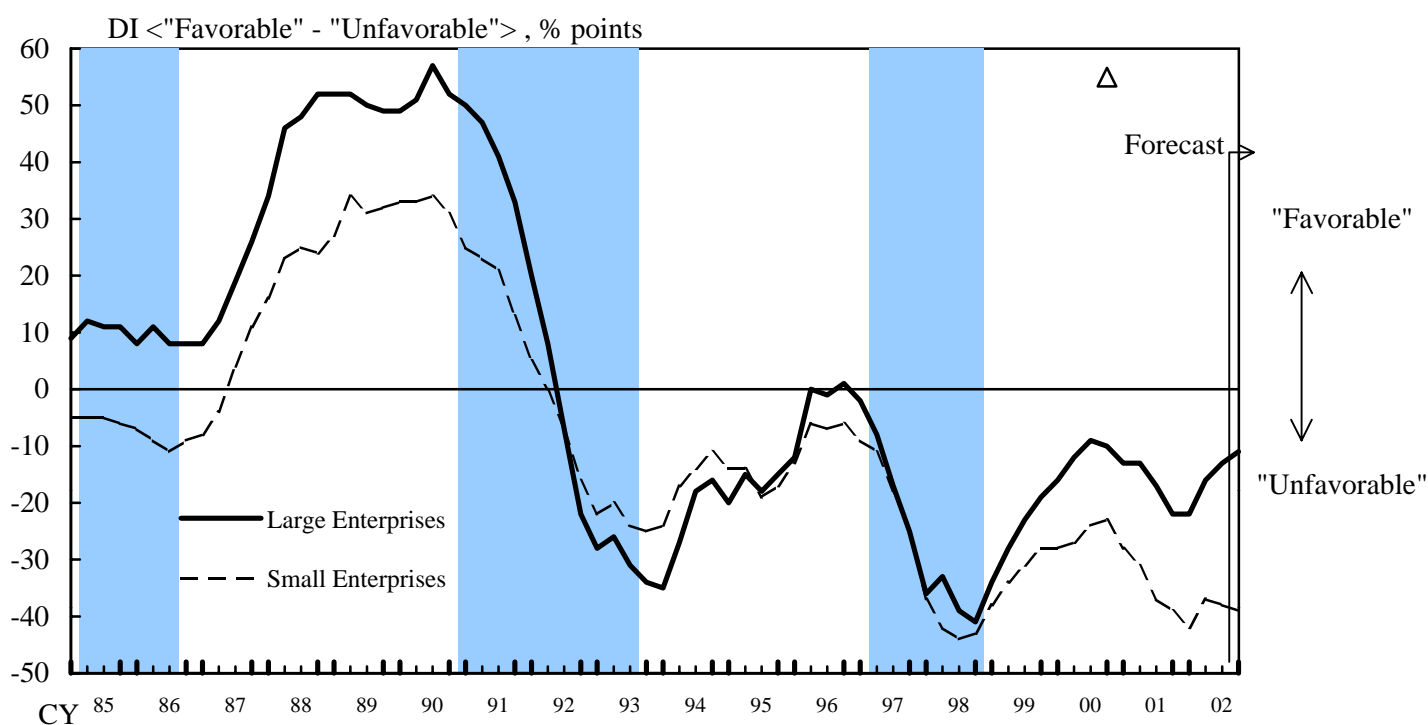
3.(): Current Profits (y/y% chg.), <>: Ratio of current profit to sales (%).

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



Notes: 1. Large enterprises: 1,000 employees or more

Small enterprises: 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),
20-49 employees (for Retailing, services, and leasing),
50-299 employees (for Other industries)

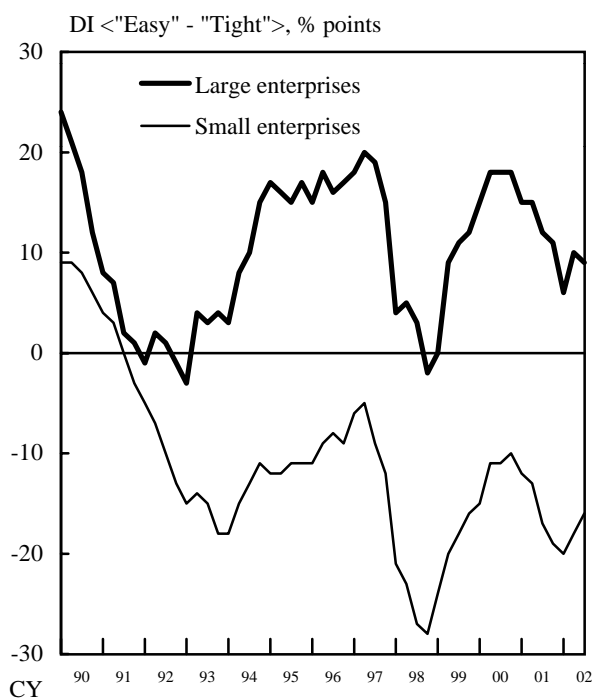
2. Shaded areas indicate recession periods. Triangle shows the last peak.

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

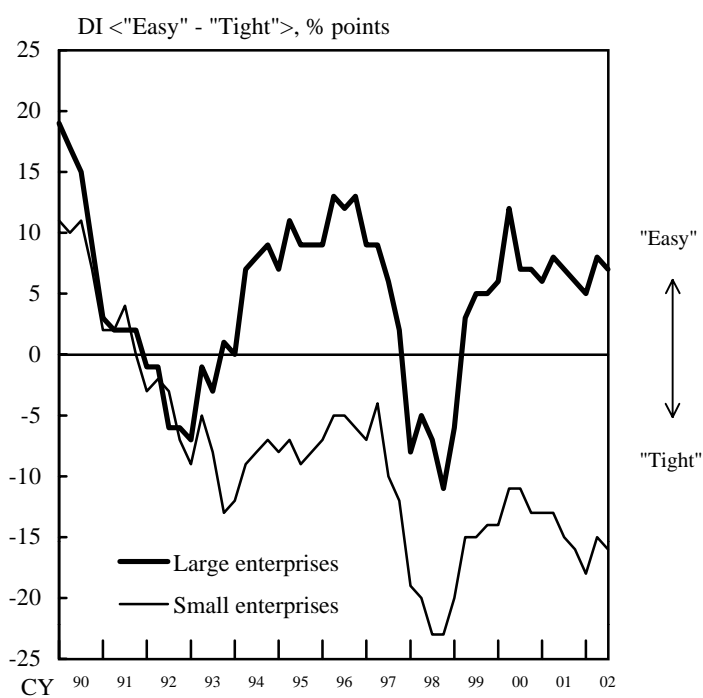
Corporate Finance-Related Indicators

(1) Financial Position

< Manufacturing >

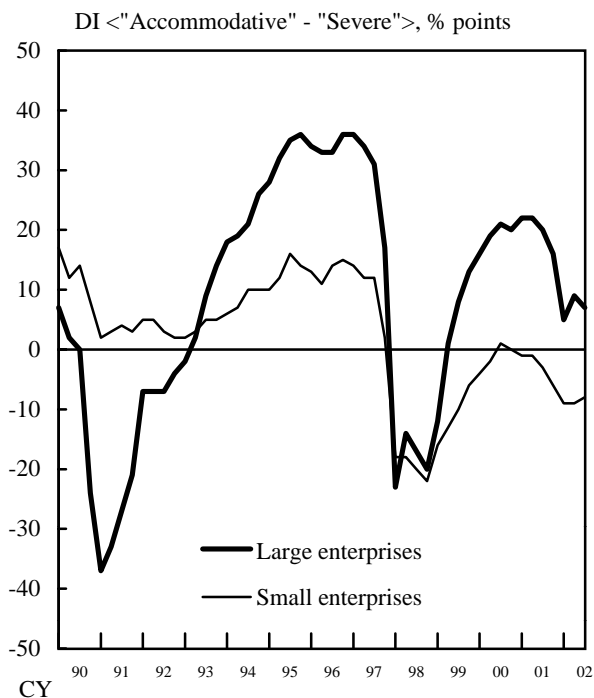


< Nonmanufacturing >

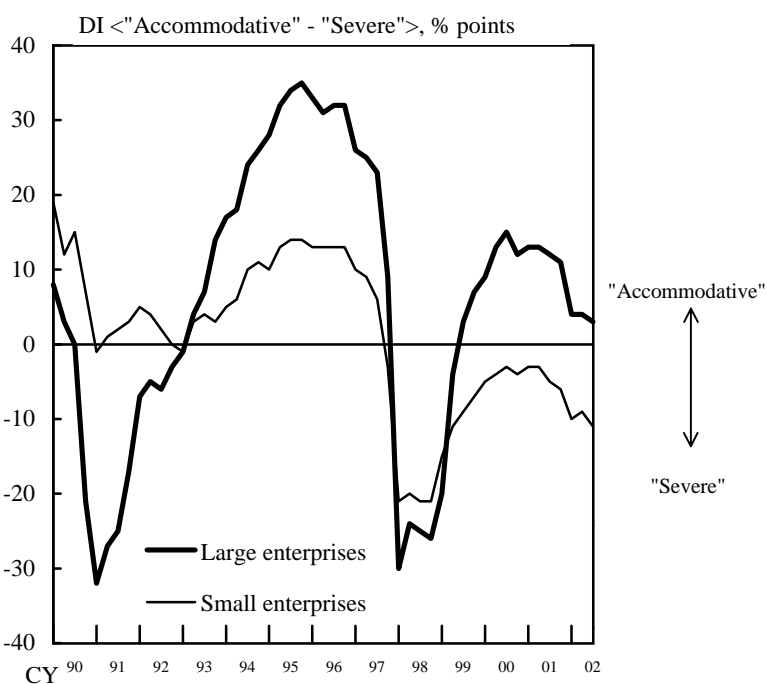


(2) Lending Attitude of Financial Institutions

< Manufacturing >



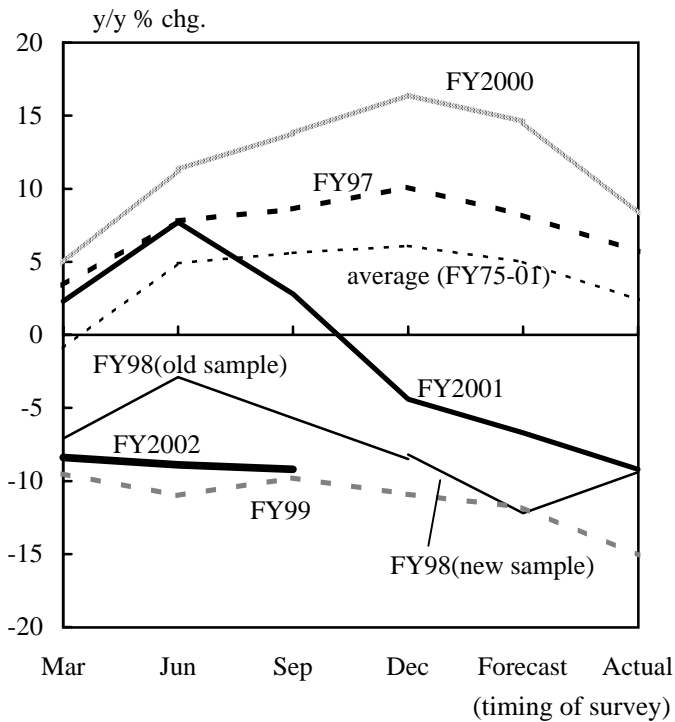
< Nonmanufacturing >



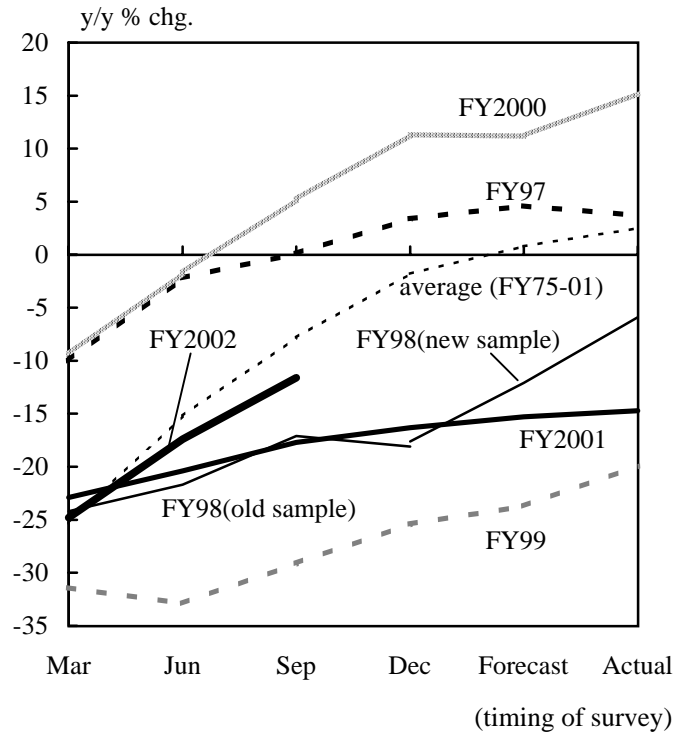
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

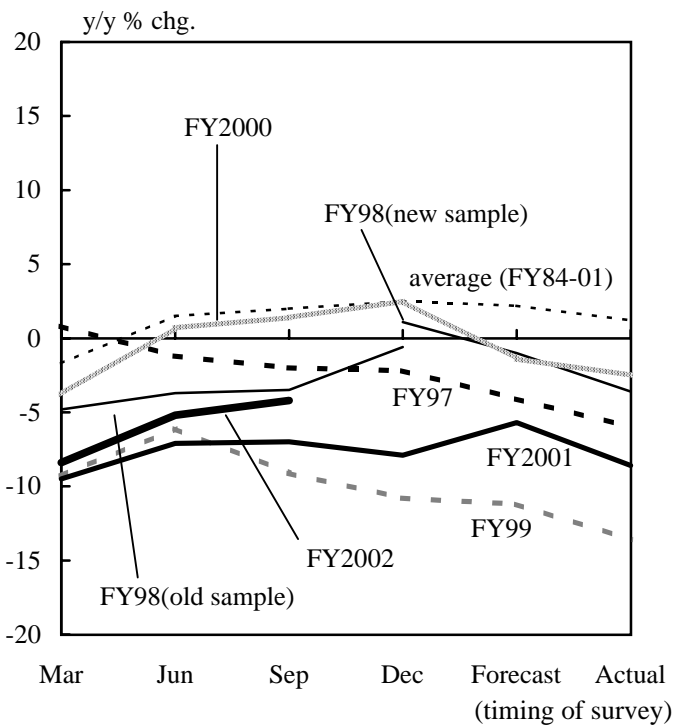
(1) Manufacturing / Large Enterprises



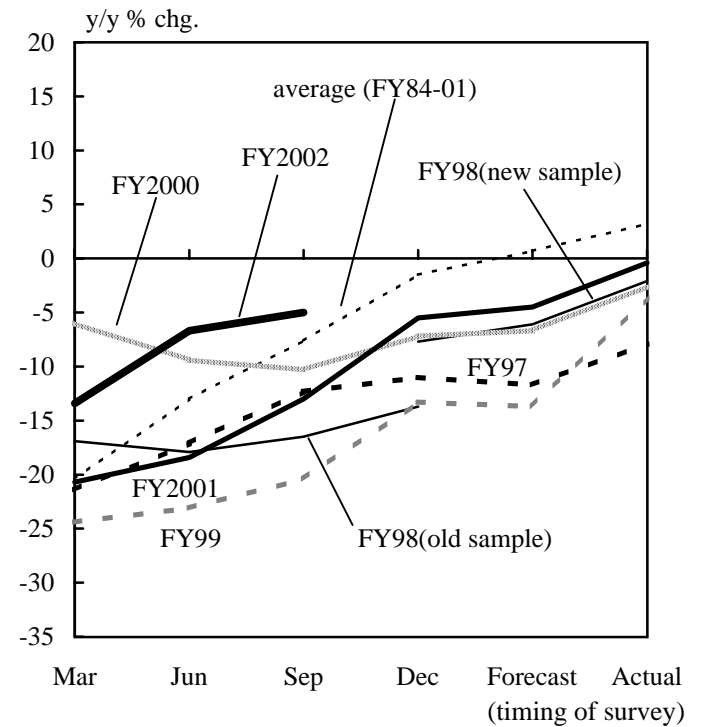
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



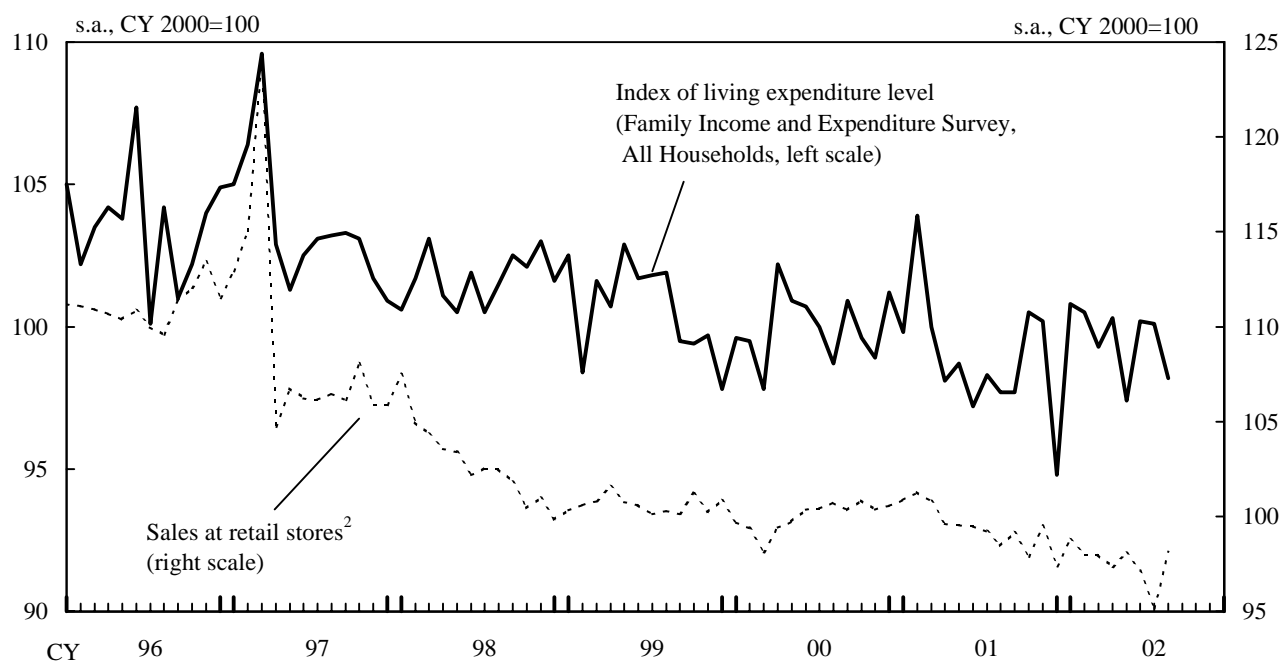
(4) Nonmanufacturing / Small Enterprises



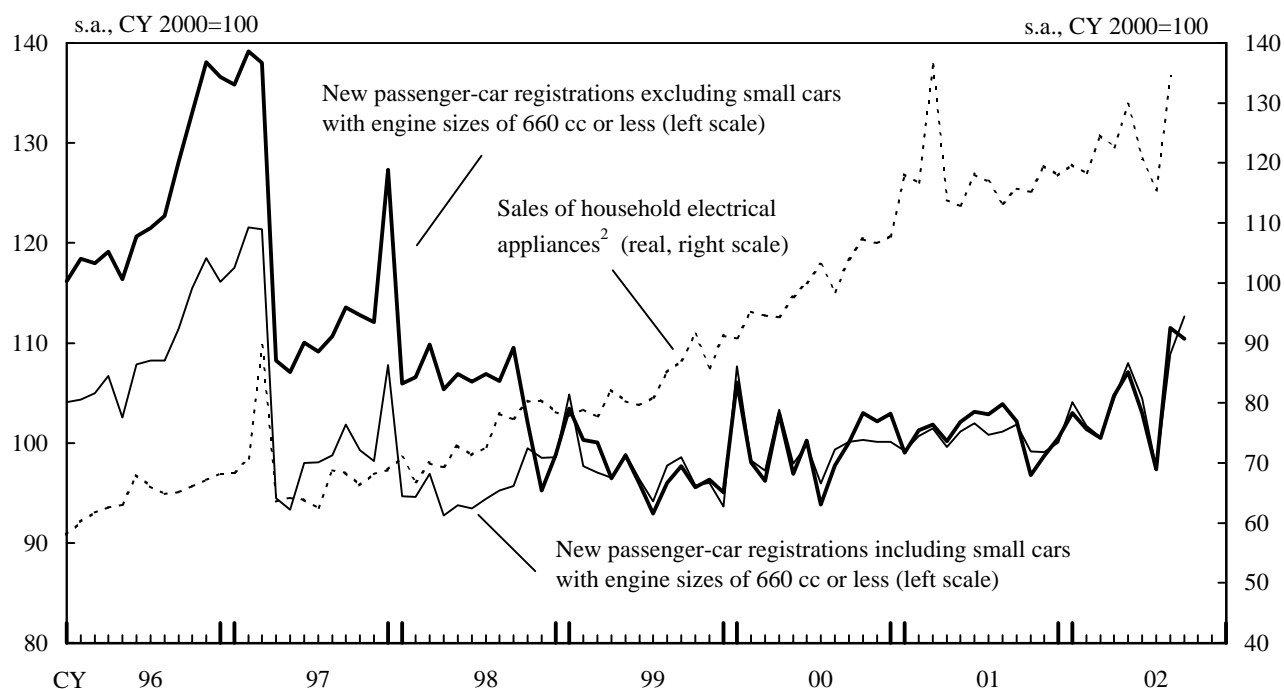
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)

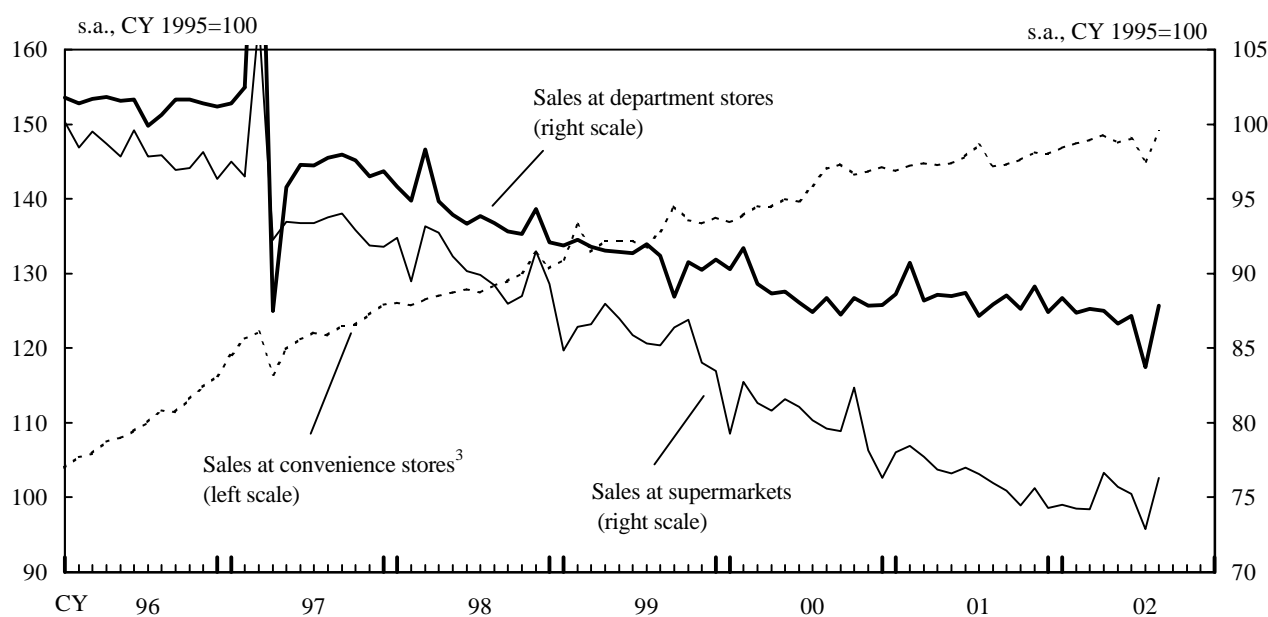
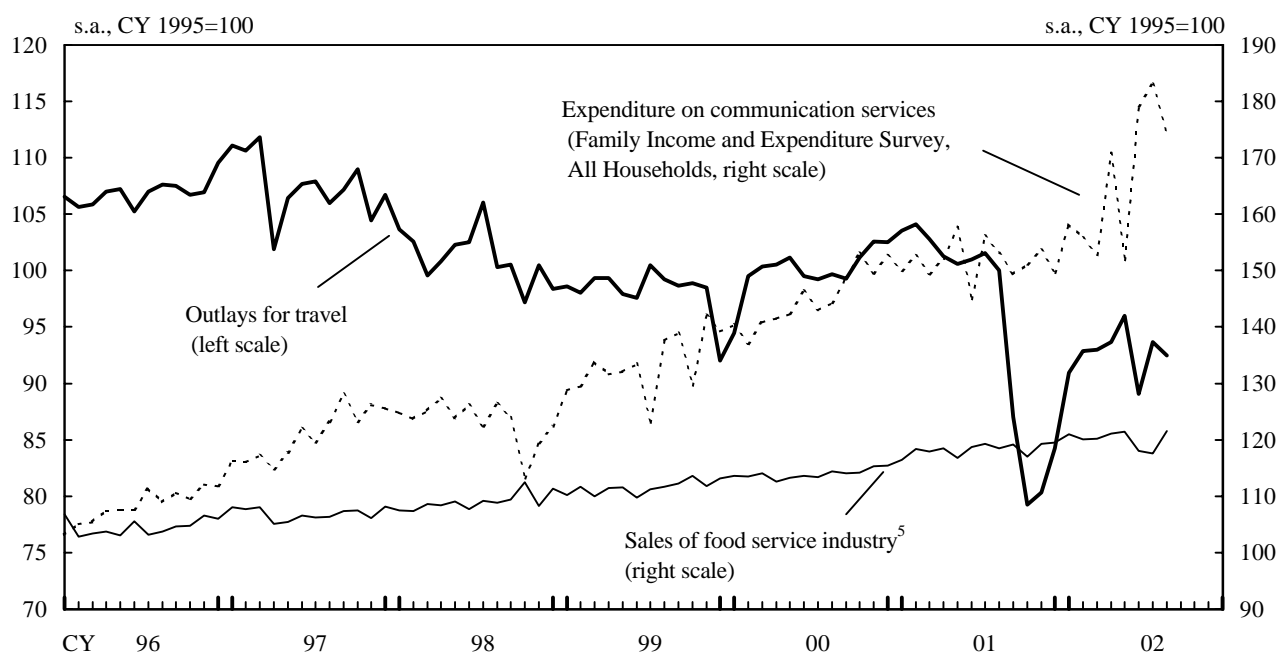


(2) Sales of Durable Goods



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

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

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

2. Adjusted to exclude the effect of the increase in the number of stores (except convenience stores). Sales at department stores, supermarkets and convenience stores are adjusted to exclude the effect of the rise in the consumption tax rate.

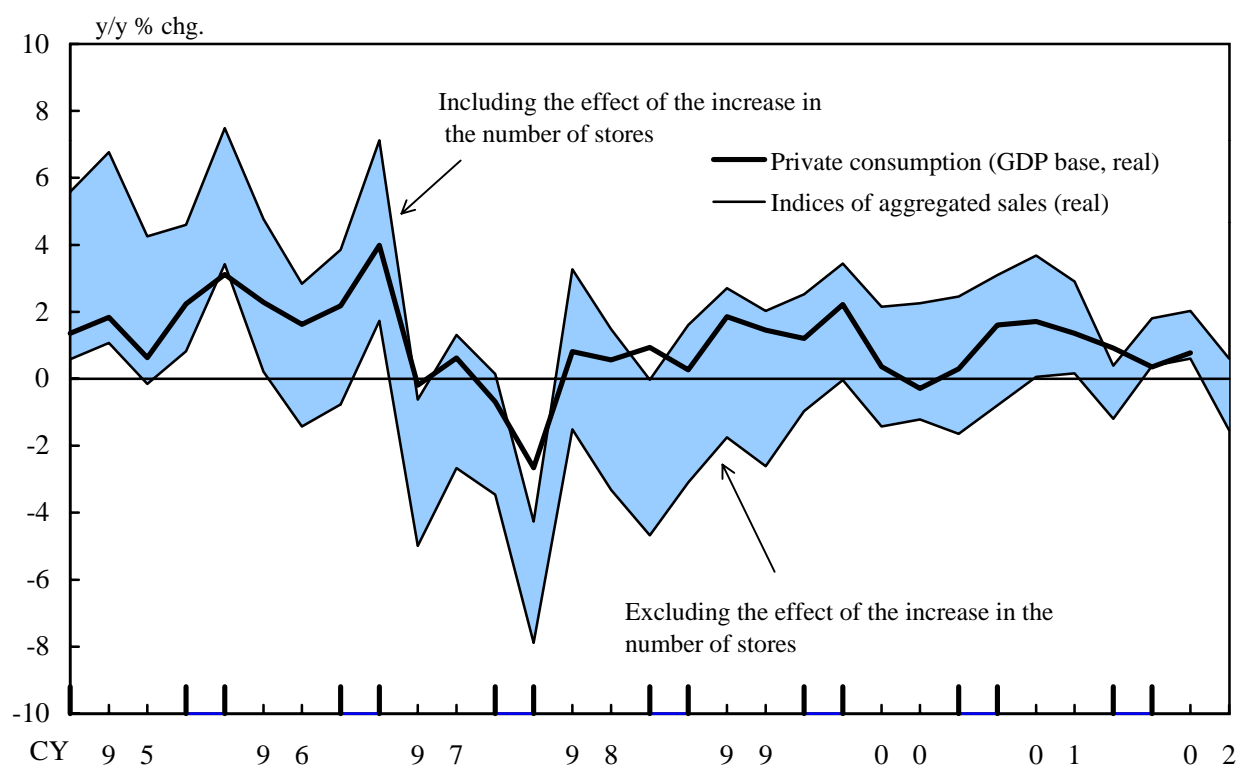
3. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan. From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

4. Outlays for travel and Sales of food service industry are adjusted to exclude the effect of the rise in the consumption tax rate.

5. Sales of food service industry are calculated using the year to year change rates of every month released by the Food service Industry Survey & Research Center based on monthly sales amounts in 1993 released by the Japan Food service Association.

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"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (The Research of Food Service Industry)."

Indicators for Private Consumption (3) - Indices of aggregated sales



- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in the *Family Income and Expenditure Survey*. These indices of aggregated sales consist of the series including and excluding the effects of the increase in the number of stores. Indices "including the effects of the increase in the number of stores" reflect the fluctuations in sales due to changes in the number of stores caused by the opening and closing down of businesses. (Indices "including the effects of the increase in the number of stores" include sales at convenience stores.) On the other hand, those "excluding the effects of the increase in the number of stores" aim to capture consumption trends only from stores of which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the consumer price index or the wholesale price index.
3. Private consumption are based on the new estimation of Quarterly Estimates of GDP. The figures are composed of preliminary figures for 2001/Q2 onward, reference series for 1994/Q1-2001/Q1.
4. 2002/Q3 figures are those of Jul.-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 Automobile Dealers Association, "Domestic Sales of Automobiles";

Japan Mini Vehicles Association, "Sales of Mini Vehicles";

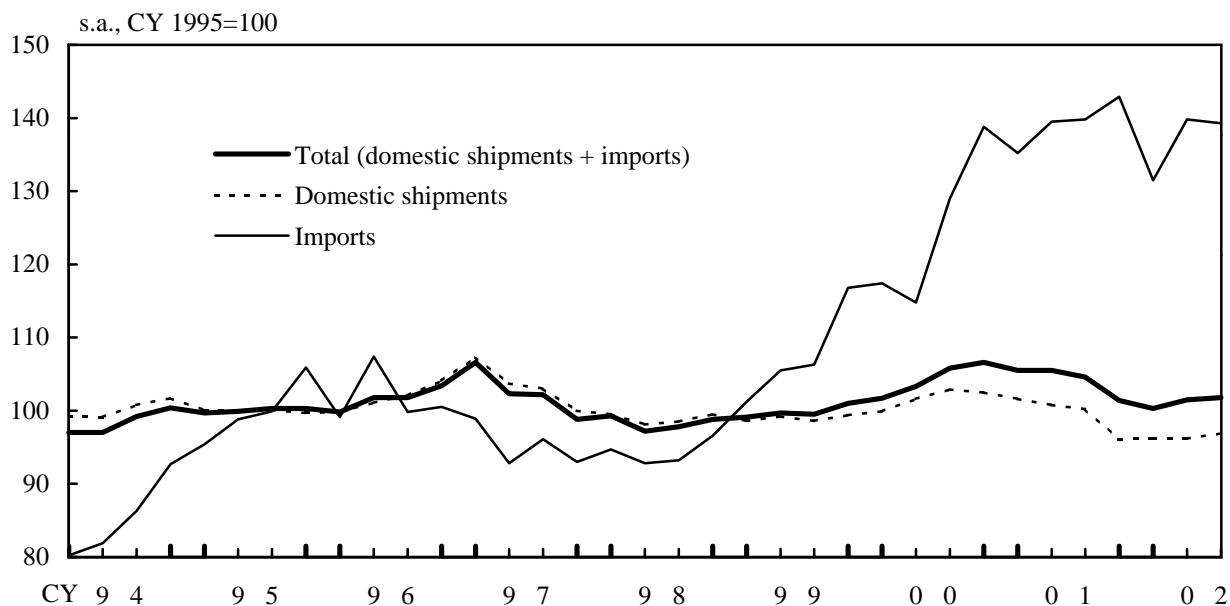
Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances";

Food Service Industry Survey & Research Center, "*Getsuji Uriage Doukou Chousa* (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "*Gaishoku Sangyou Shijou Doukou Chousa* (The Research of Food Service Industry)";

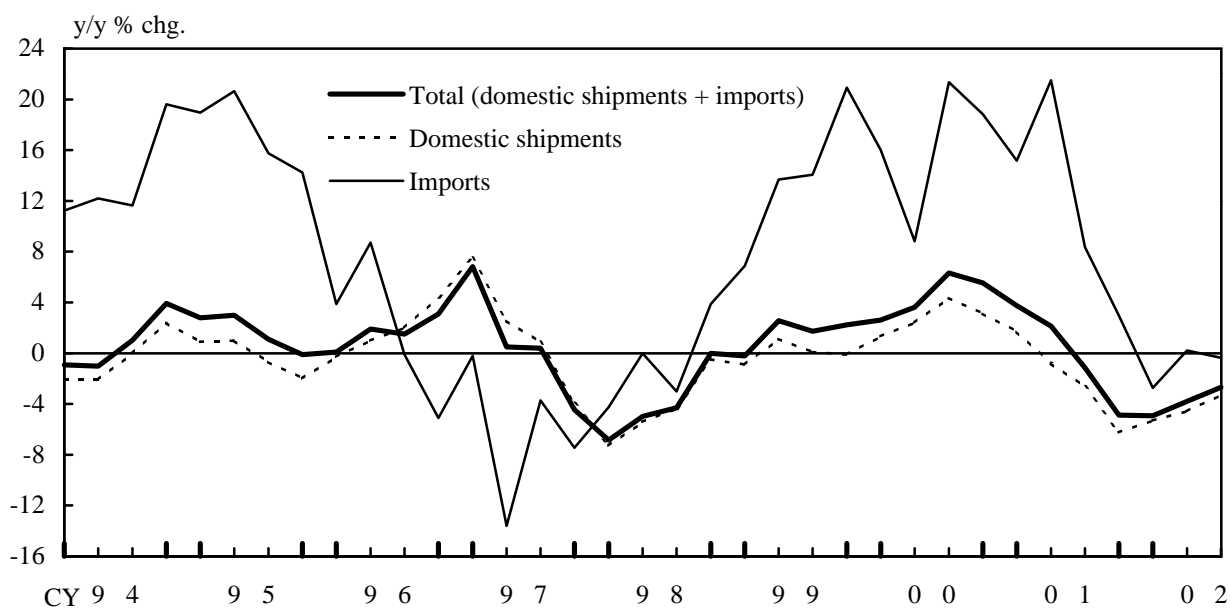
Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue."

Indicators for Private Consumption (4) - Aggregate supply of consumer goods

(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 2002/Q3 of "Domestic shipments" are calculated from quarterly changes of *Indices of Industrial Production* (excluding the effects of exports).

3. Figures for 2002/Q3 of "Imports" are calculated from quarterly changes of real imports for consumption. Real imports (consumer goods) are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles.

4. Figures for 2002/Q3 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports."

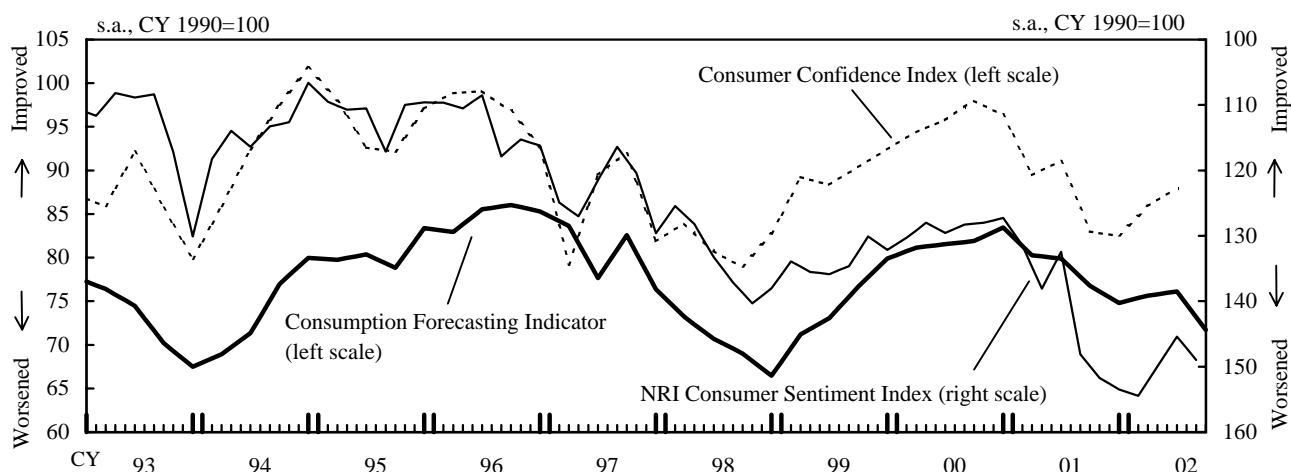
5. Year-on-year changes are calculated from seasonal adjusted series.

6. 2002/Q3 figures are those of Jul.-Aug. averages 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."

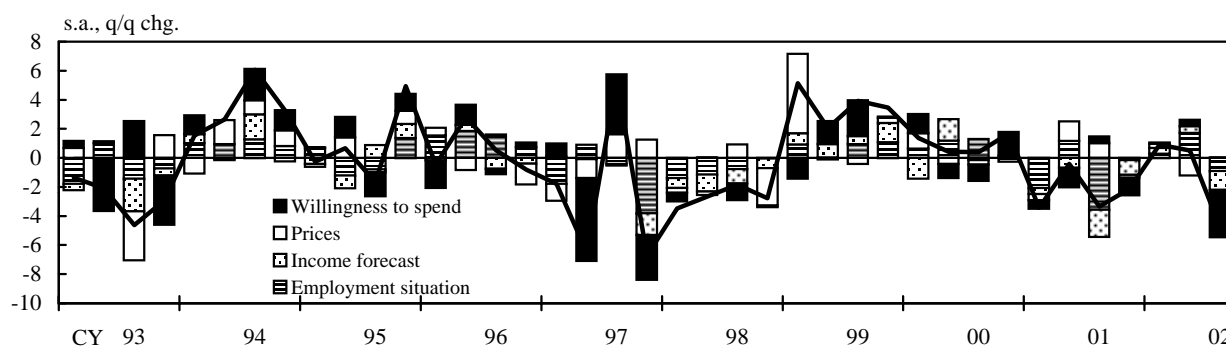
Consumer Confidence

(1) Surveys on Consumer Confidence



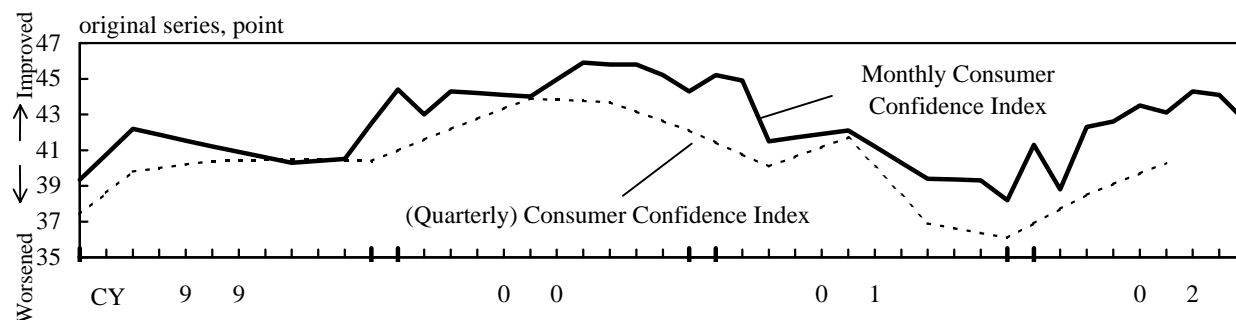
- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with 2,200 samples in a nationwide basis) are based on surveys on consumer confidence.
 3. Data are plotted at the months of each survey.
 4. "Consumer Confidence Index" is surveyed by the Cabinet Office, "Consumption Forecasting Indicator" by NIKKEI RIM, and "NRI Consumer Sentiment Index" by NRI.

(2) Contribution of Each Item in the Consumption Forecasting Indicator



- Note: The items are rearranged as below :
- Employment situation : "Easy to find jobs"
 - Prices : "Latest prices"
 - Income forecast : "Profit forecast of current company" + "Increase in income"
 - Willingness to spend : "Willingness to spend for durable goods, leisure, travel, and education"

(Reference) Monthly Consumer Confidence Survey (Tokyo)

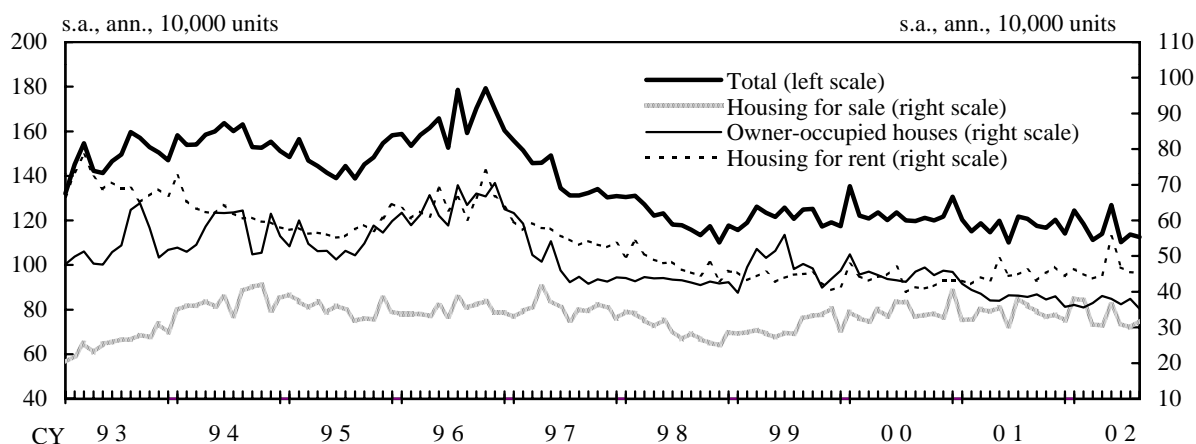


Note: *Monthly Consumer Confidence Survey* is conducted on a monthly basis for limited samples of the Tokyo district (435 households surveyed) in the quarterly Consumer Confidence Survey. The items in the monthly survey are parts of the quarterly survey. Prior to 2001, figures for the months when the survey was not conducted have been supplemented with linear interpolation.

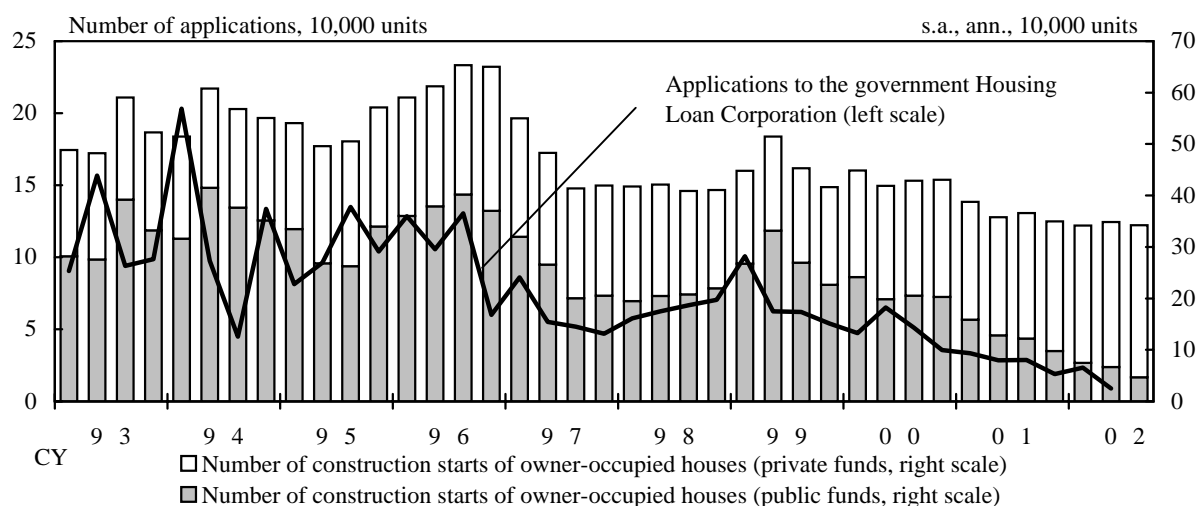
Sources: Cabinet Office, "Consumer Confidence Survey," "Monthly Consumer Confidence Survey";
 Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator";
 Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts

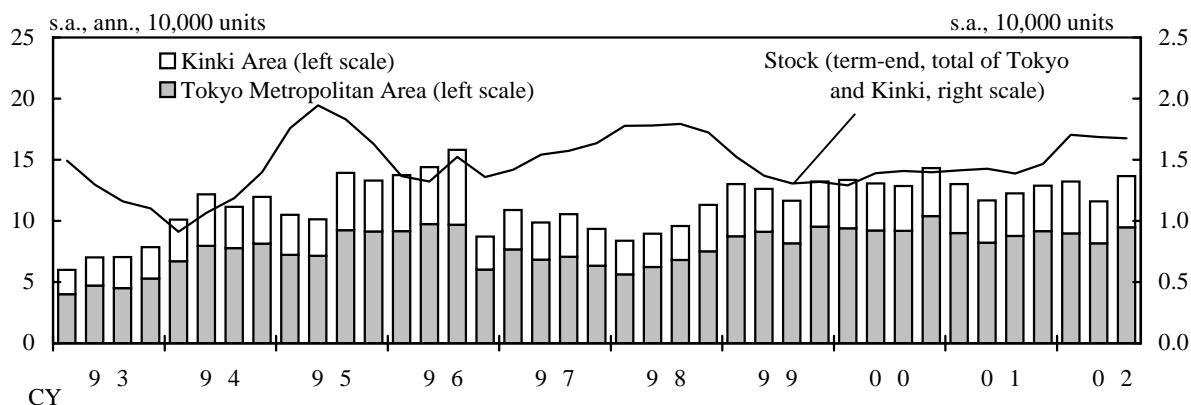


(2) Applications to the Government Housing Loan Corporation for new owner-occupied houses and Construction Starts of owner-occupied houses



- Notes: 1. The number of loan applications for the construction of private houses is allotted according to the number of days in the offering period of each quarter.
2. The number of loan applications for 2002/Q3 is not calculated until the end of the 3rd offering period in 2002 and this is not shown on this graph.
3. Figures for the number of construction starts of owner-occupied houses (private funds and public funds) for 2002/Q3 are those of July-August averages.

(3) Sales of Condominiums

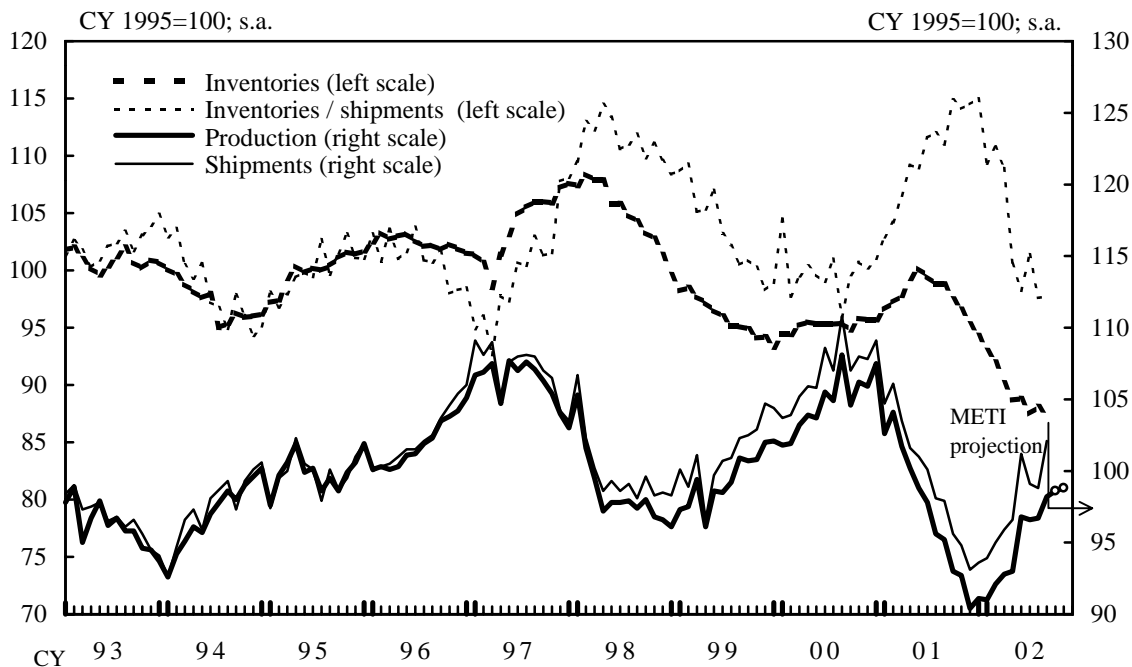


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures of total condominiums sales for 2002/Q3 are those of July-August averages.
- Term-end stocks are those of August.

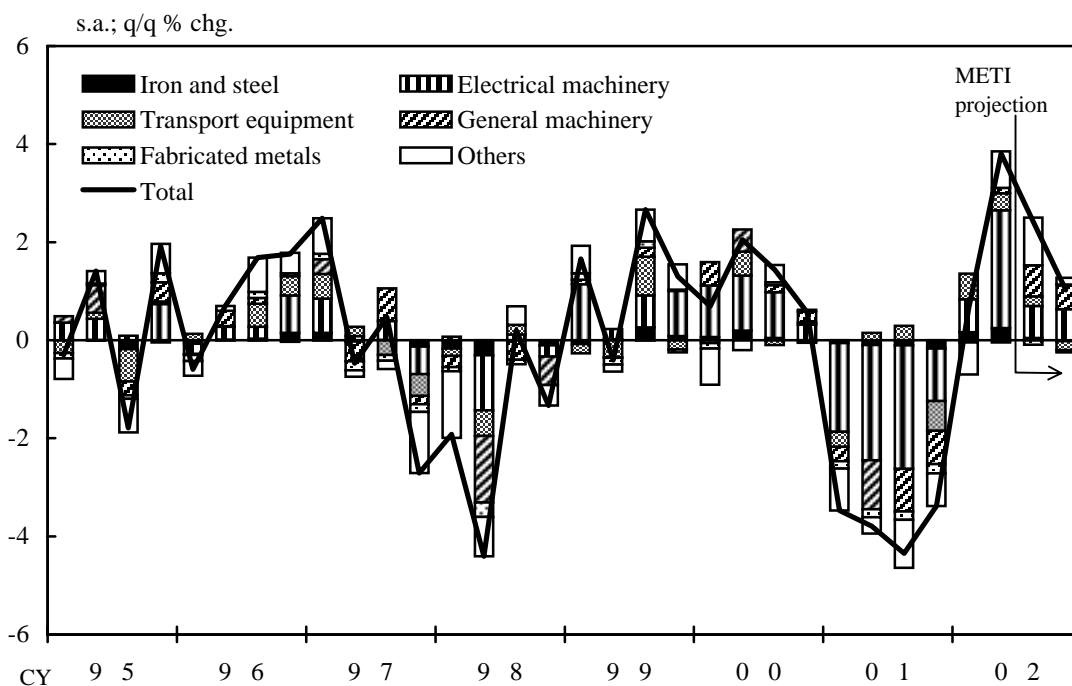
Sources: Ministry of Land, Infrastructure and Transport, "Monthly of Construction Statistics," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



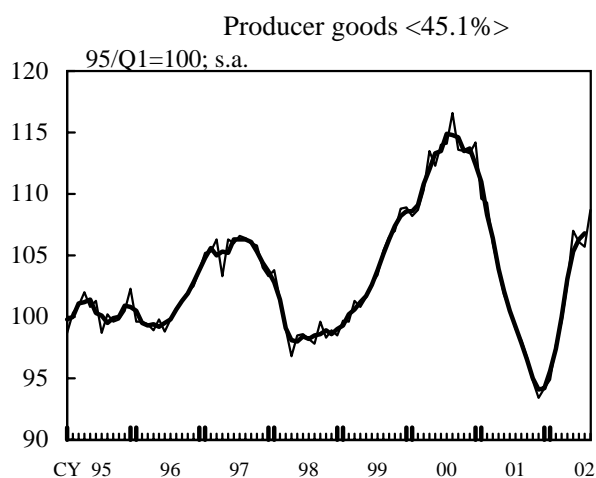
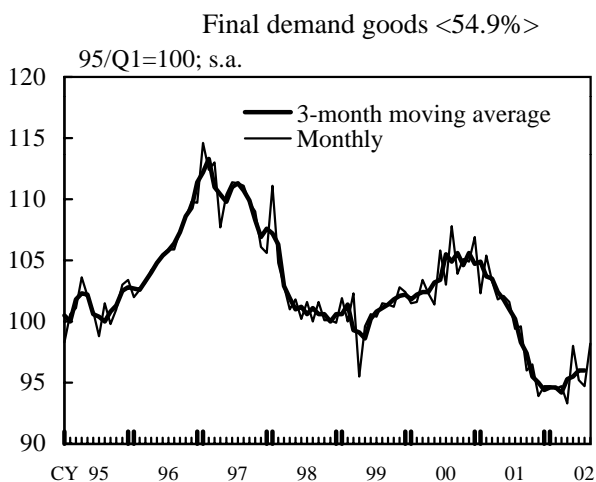
Notes: 1. Transport equipment excludes ships and rolling stock.

2. 2002/Q4 for METI projection is based on the assumption that production level in Nov. and Dec. is the same as that of October.

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

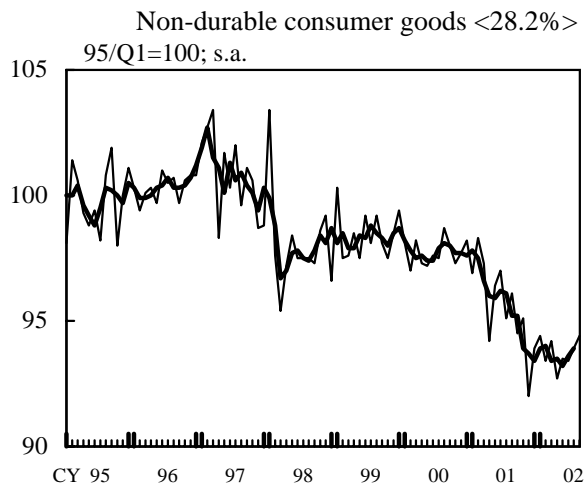
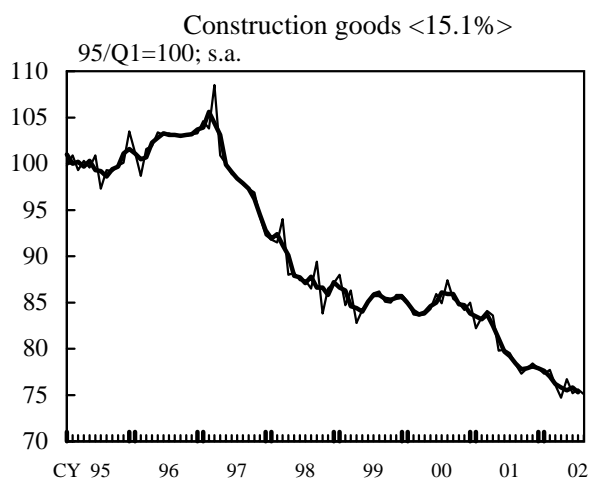
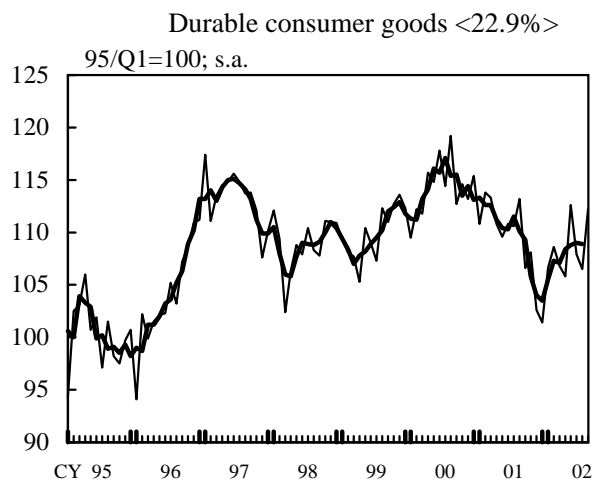
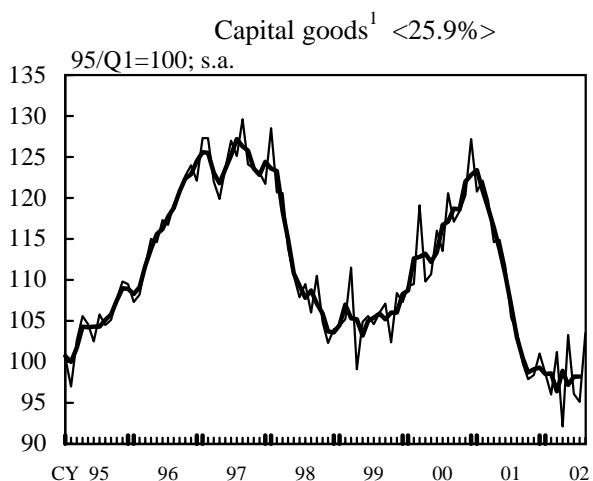
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



Note: Shares of shipments of mining and manufacturing are shown in angle brackets.

(2) Breakdown of final demand goods

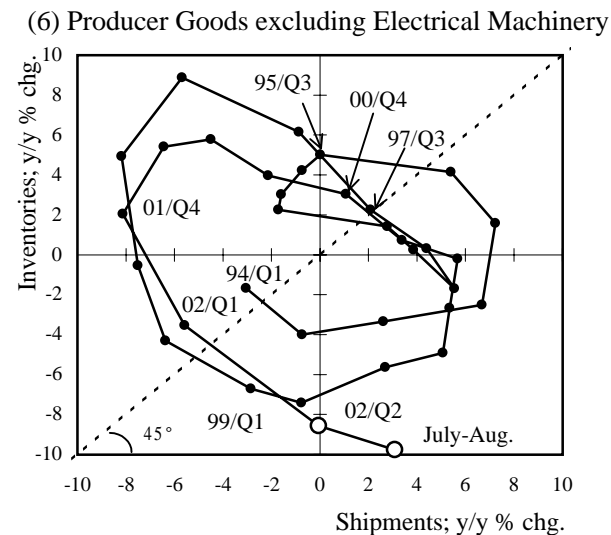
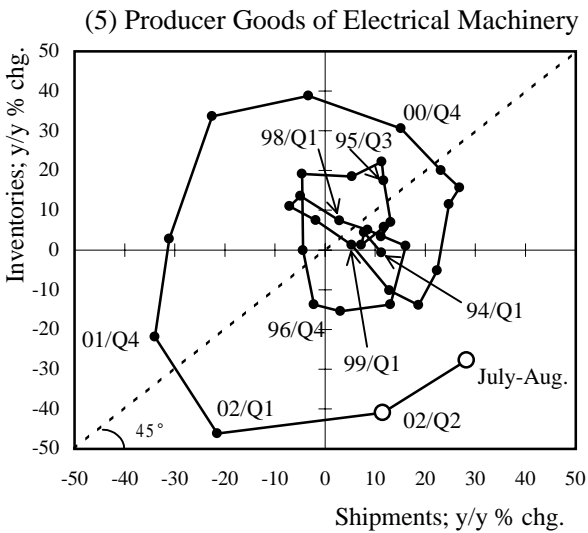
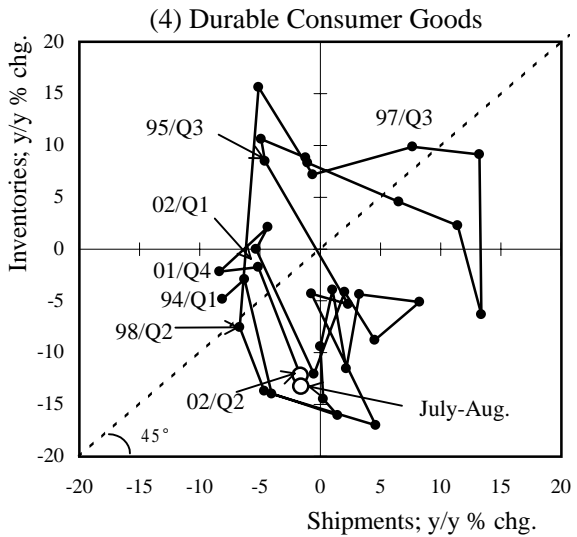
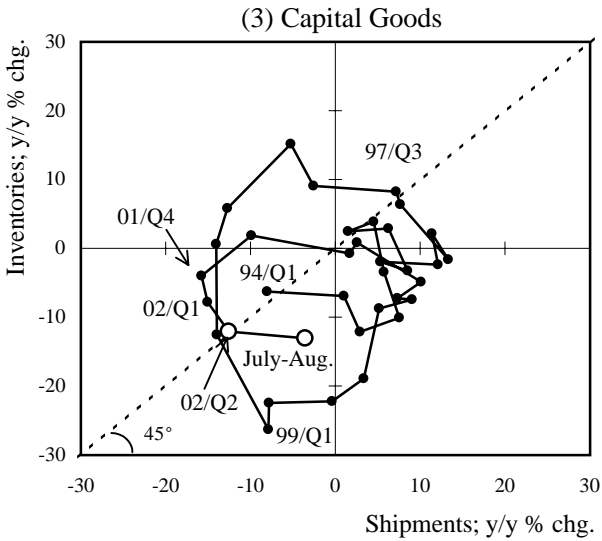
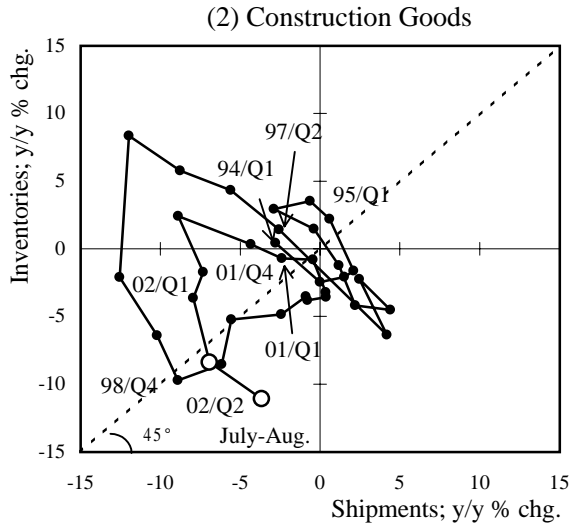
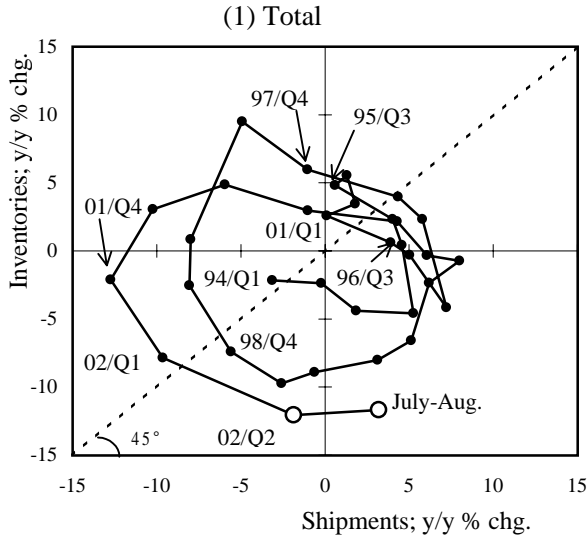


Notes: 1.Excluding transportation equipment.

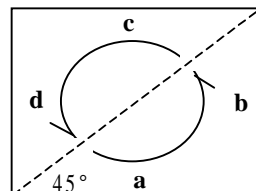
2.Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

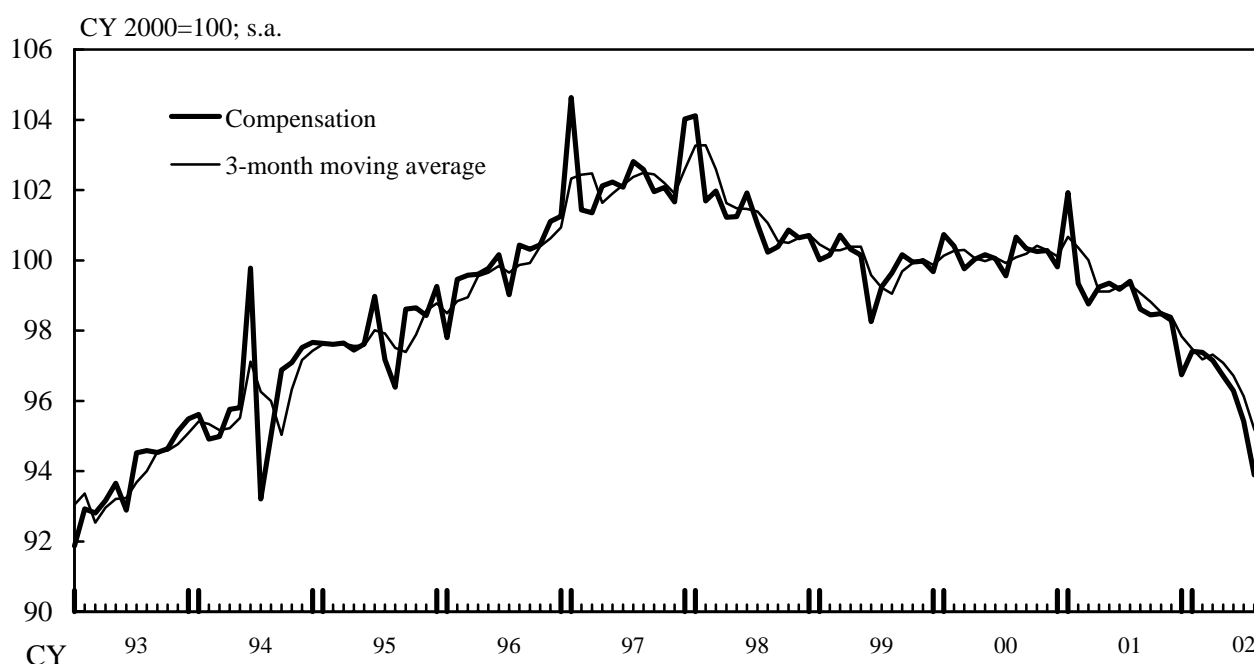


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



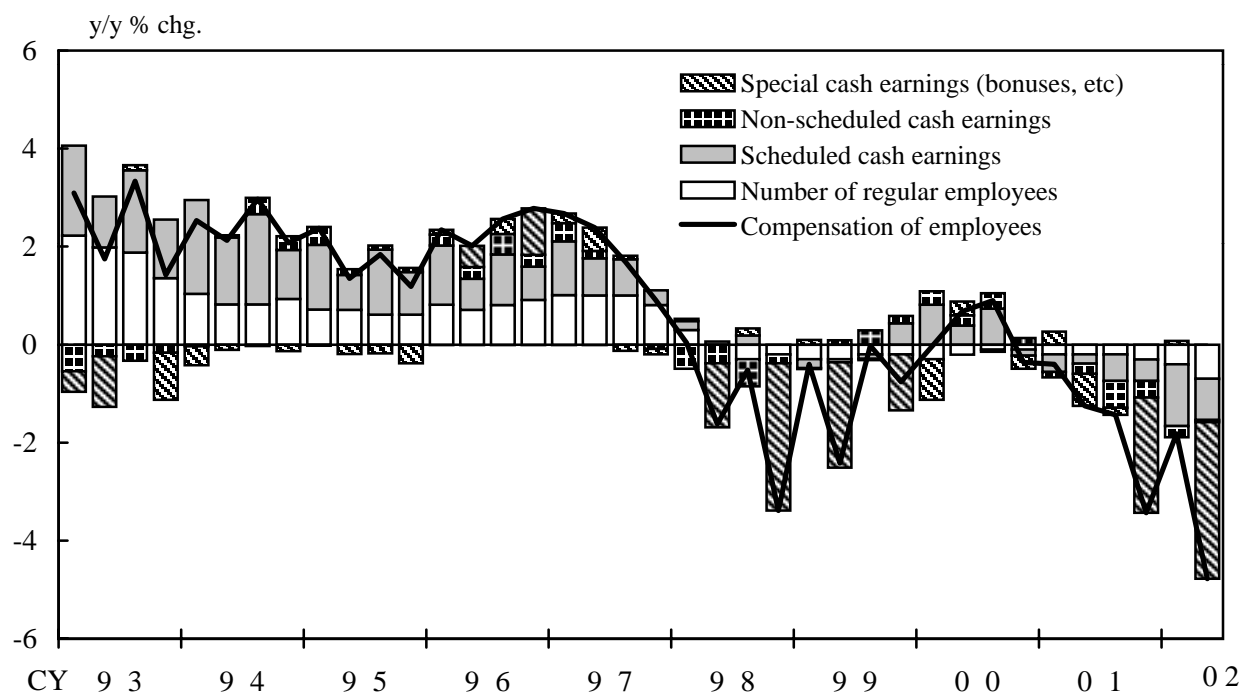
Compensation of Employees

(1) Compensation



- Notes: 1. Compensation figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.
2. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.
3. Data are for establishments with at least 5 employees. Those for August 2002 are preliminary figures.

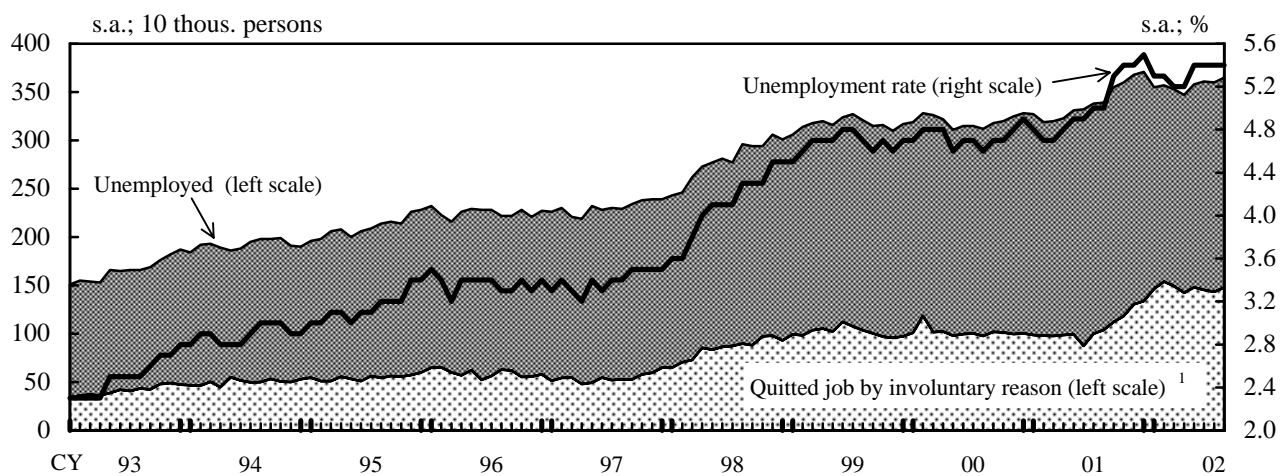
(2) Breakdown of Compensation



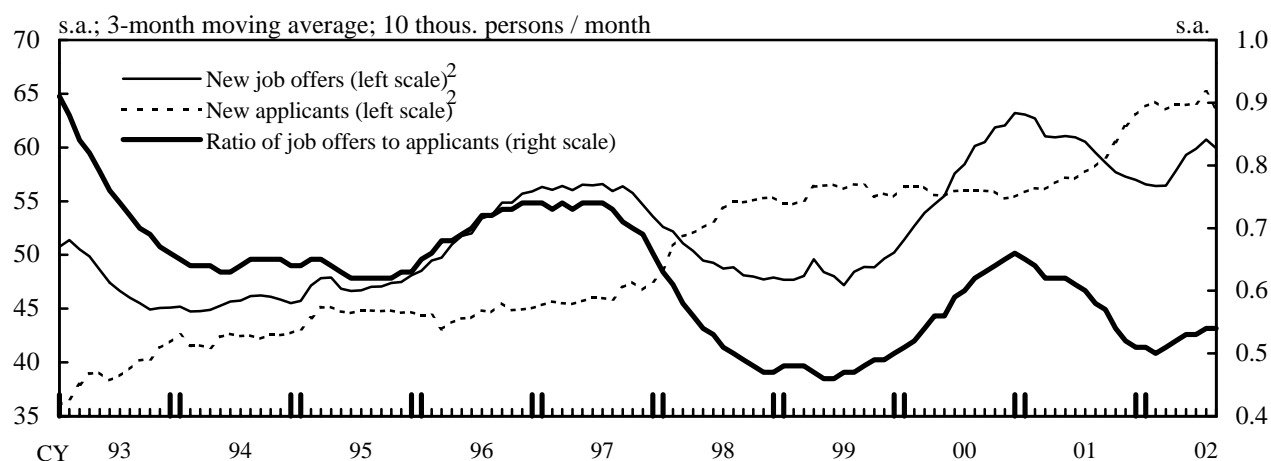
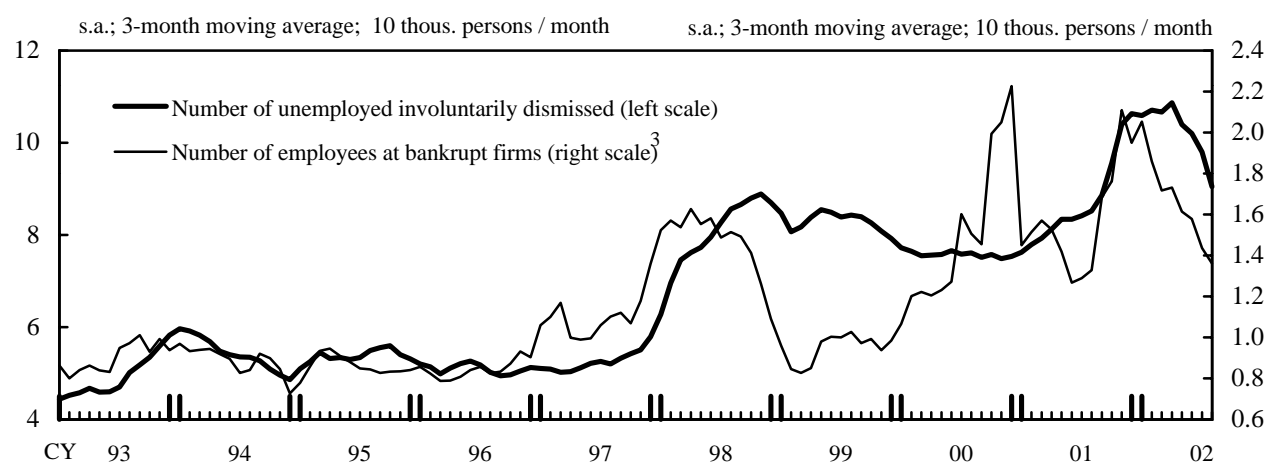
- Notes: 1. Data for establishments with at least 5 employees. Those for August 2002 are preliminary figures.
2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.

Labor Market (1)

(1) The Unemployed and Unemployment Rate



(2) Ratio of Job Offers to Applicants

(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms¹

Notes: 1. Seasonally adjusted by X-11.

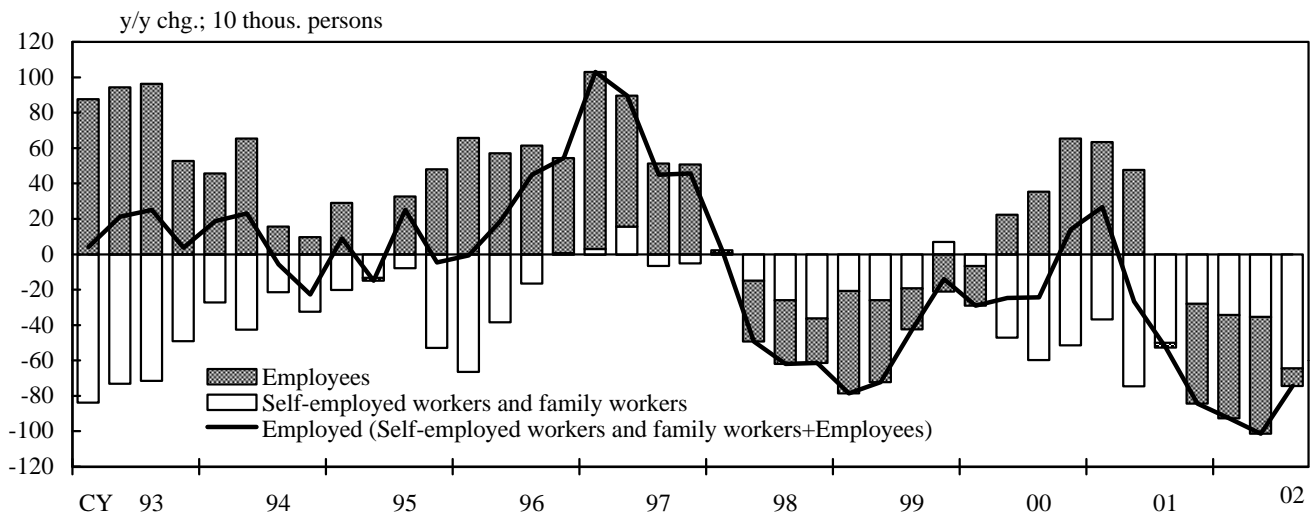
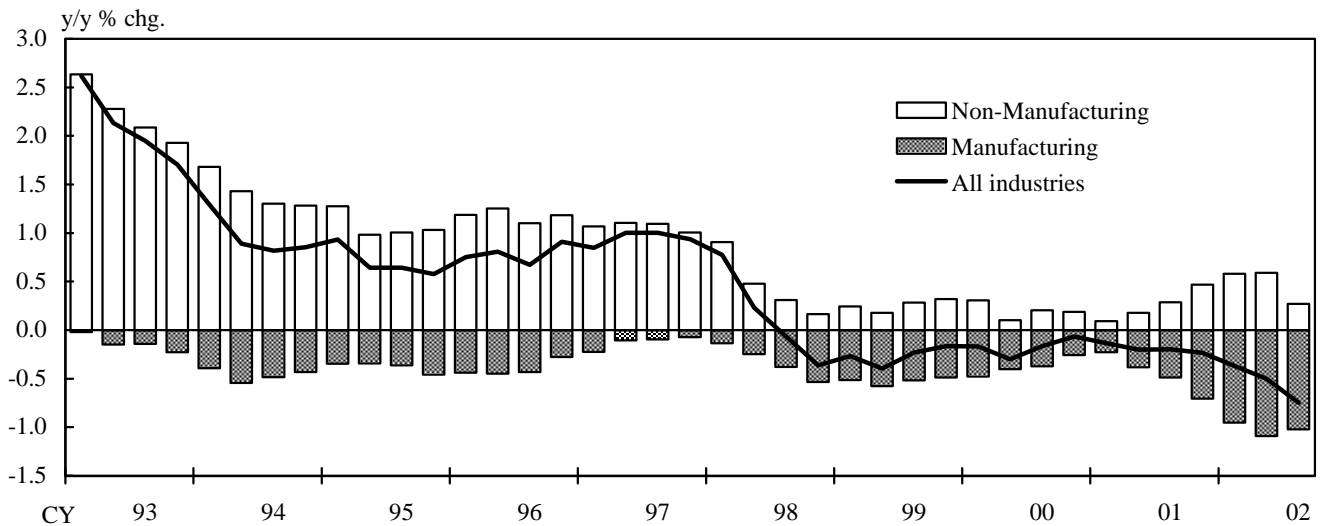
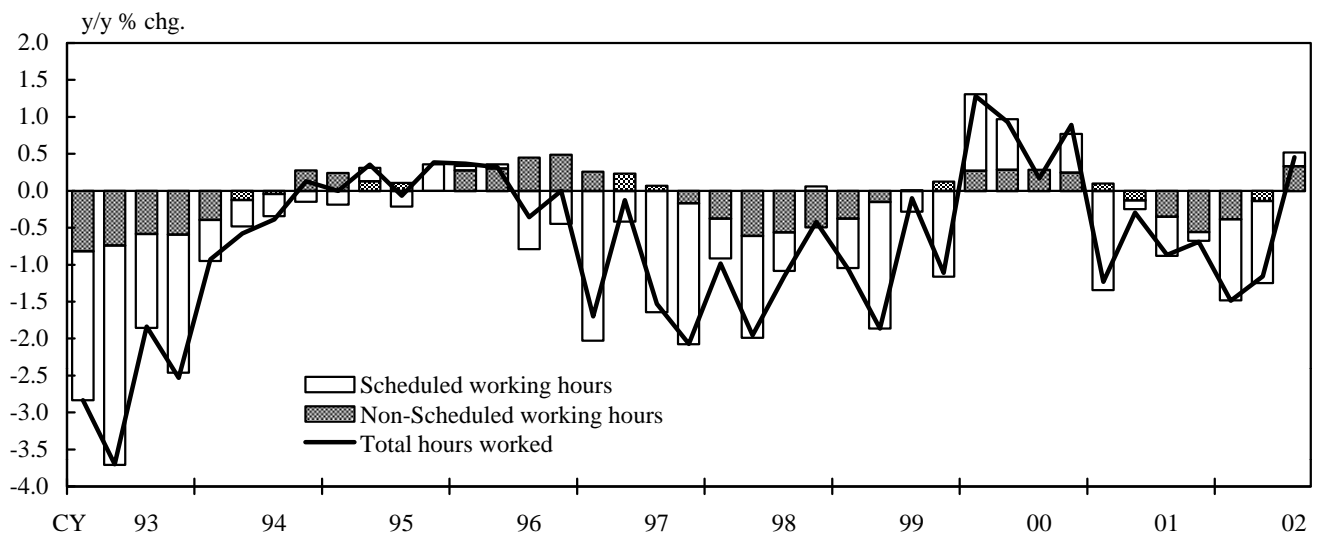
2. Not include jobs offered to new graduates, but to part-time workers.

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

Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service," "Report on Employment Insurance Service"; Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Teikoku Databank Ltd., "Japan's Business Failure."

Labor Market (2)¹

(1) The Employed (Labour Force Survey)

(2) Number of Regular Employees² (Monthly Labour Survey)(3) Actual Hours Worked² (Monthly Labour Survey)

Notes: 1. Figures for 2002/Q3 are those of the July-Aug. averages.

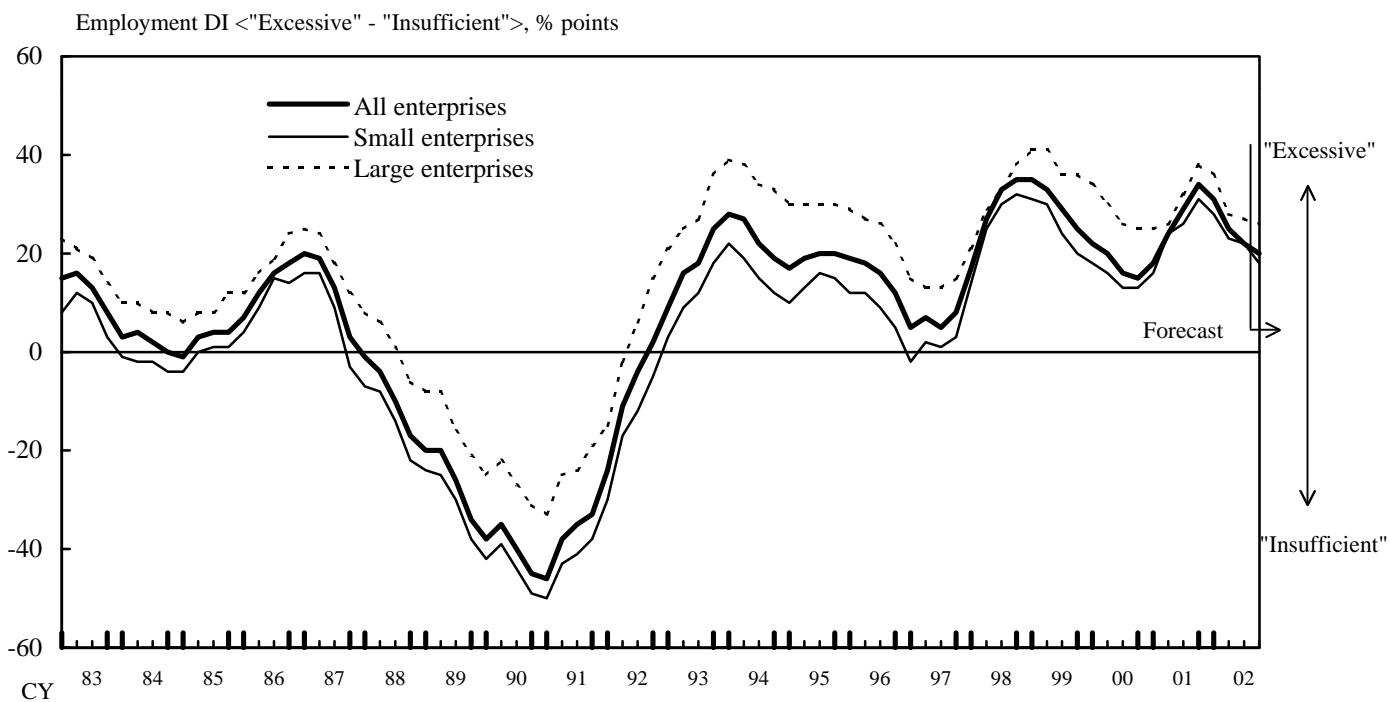
2. Data are for establishments with at least 5 employees. Those for August 2002 are preliminary figures.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey" ;

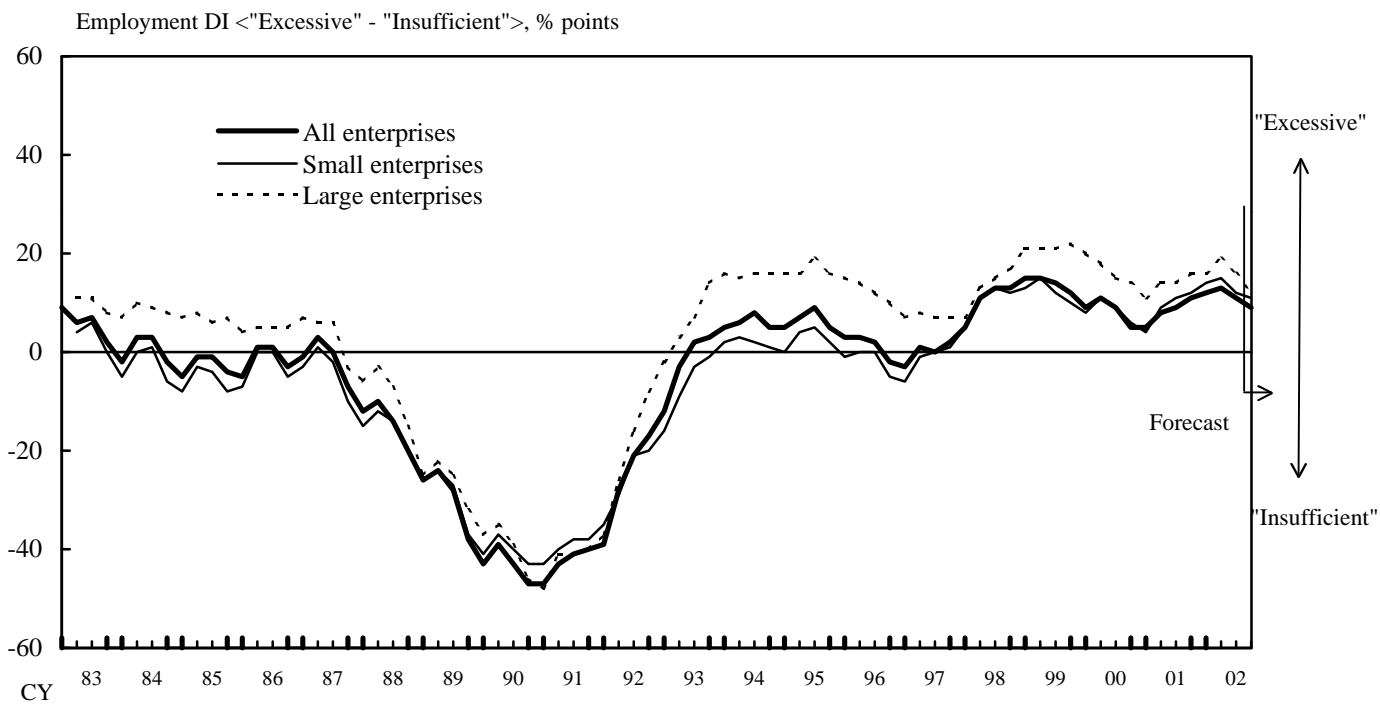
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



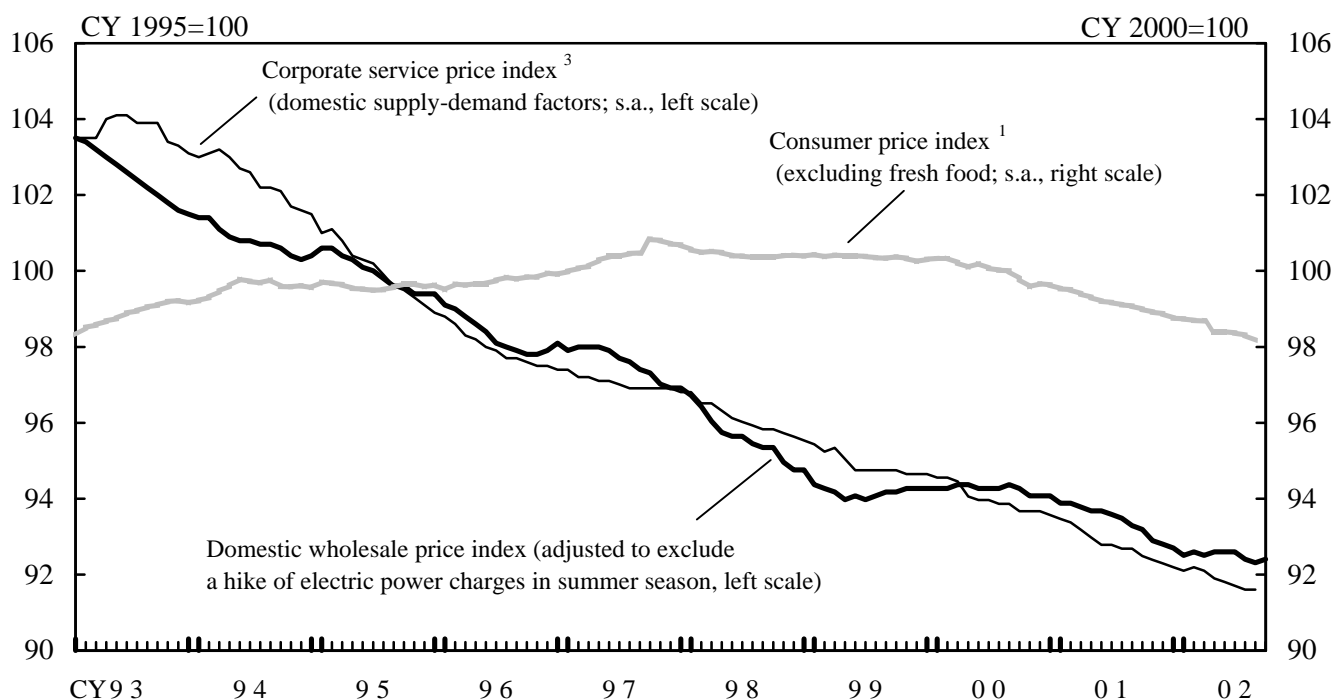
(2) Nonmanufacturing



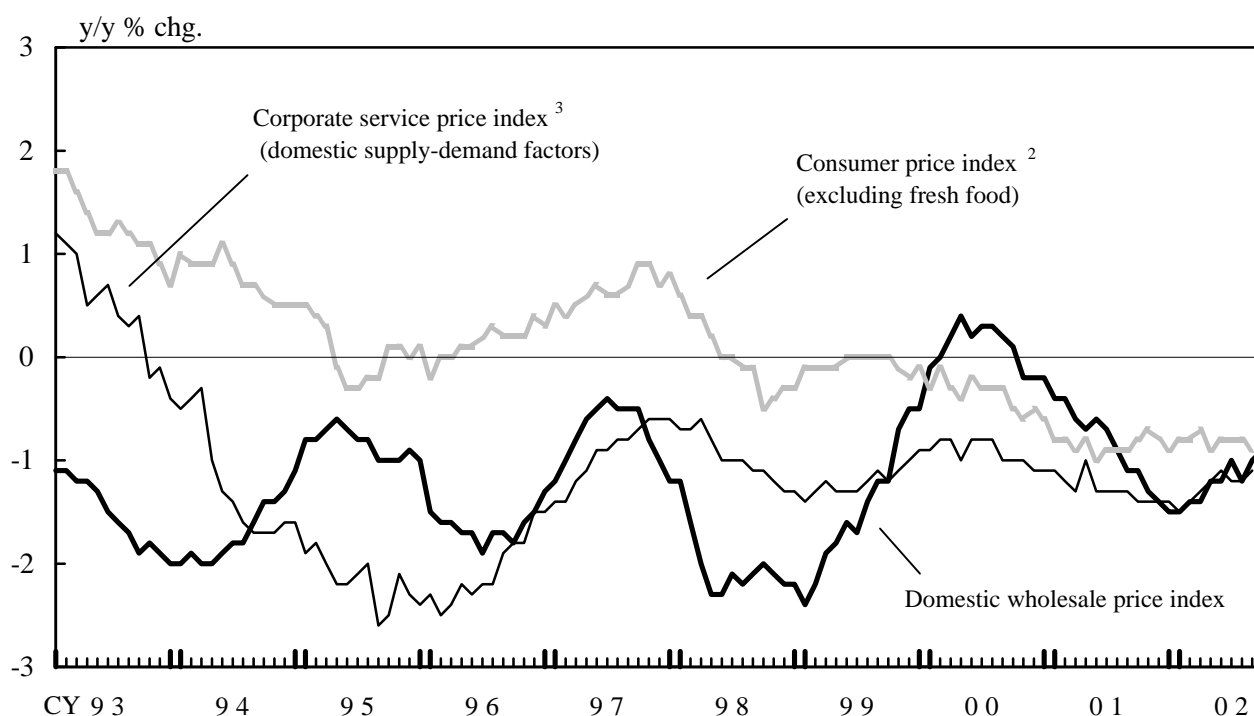
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Prices⁴

(1) Level



(2) Changes from a year earlier

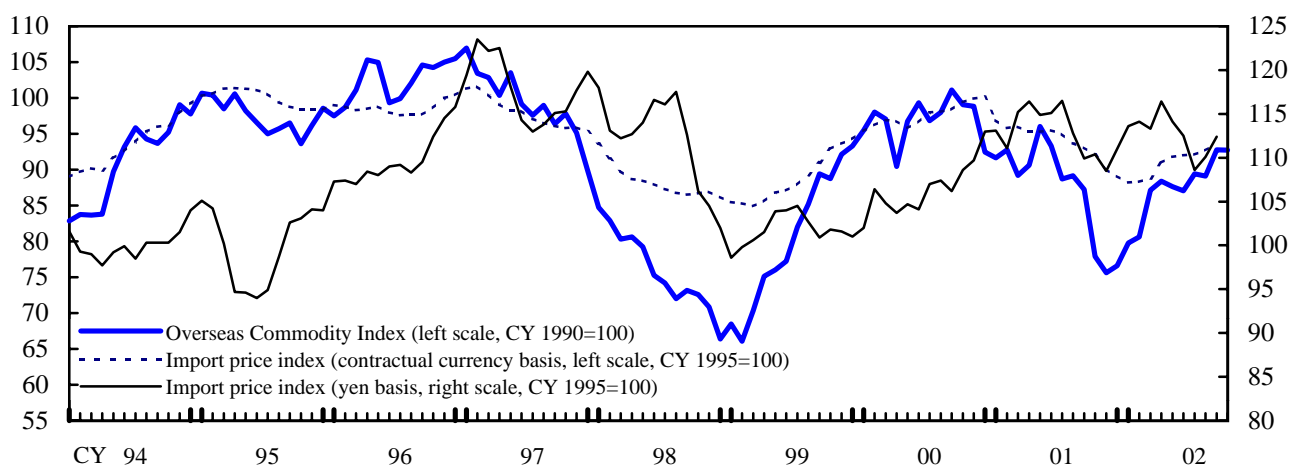


- Notes: 1. Seasonally adjusted by X-12-ARIMA, based on the original series excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.
2. Data before Dec. 2000 are on the 1995 base CPI.
3. See footnote 1 in Chart 27, for definition of the Corporate Service Price Index (domestic supply-demand factors).
4. 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.

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 International Commodity Prices

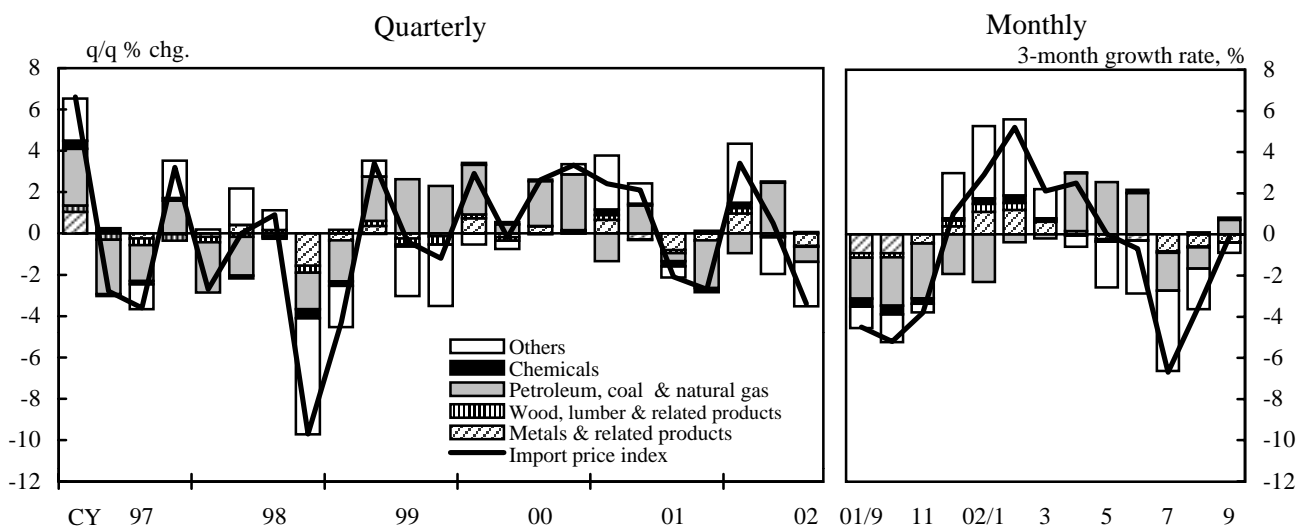
(1) Import Price Index and Overseas Commodity Index



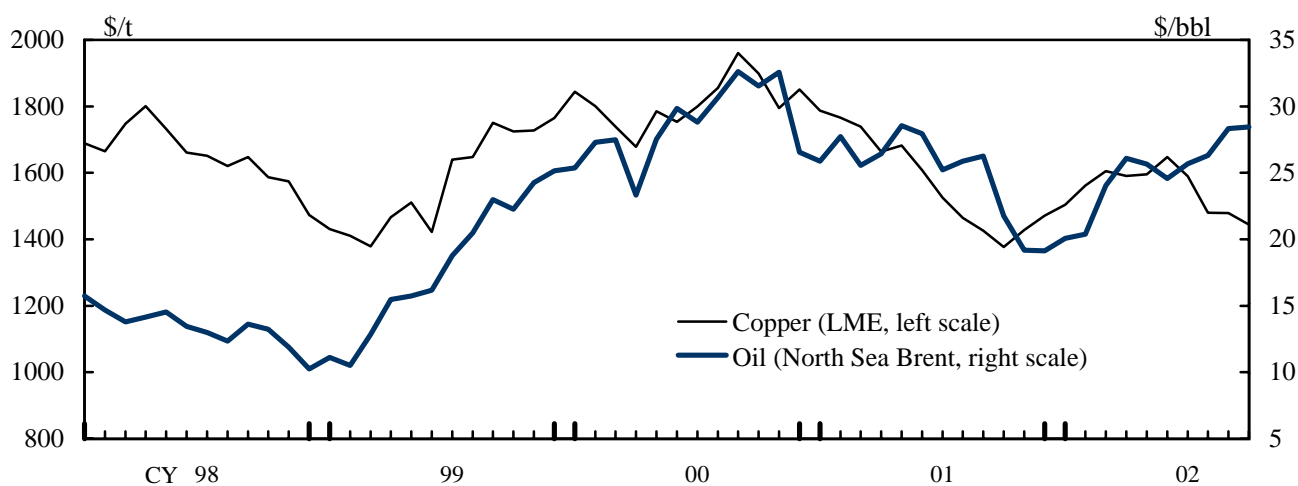
Note: Overseas Commodity Index, which is calculated by Bank of Japan, is a monthly average.

Figure for October 2002 is the average up to October 9.

(2) Import Price Index (yen basis, changes from a quarter earlier and 3 months earlier)



(3) Oil price (spot) and Copper price (futures)

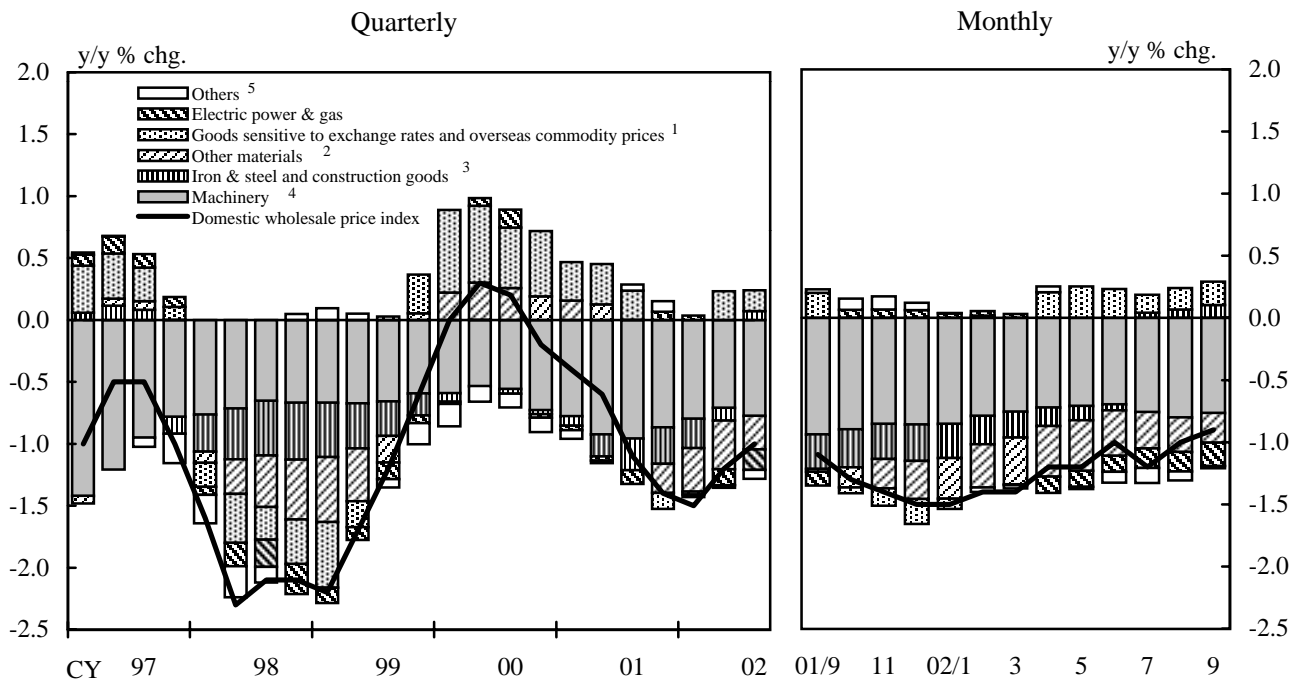
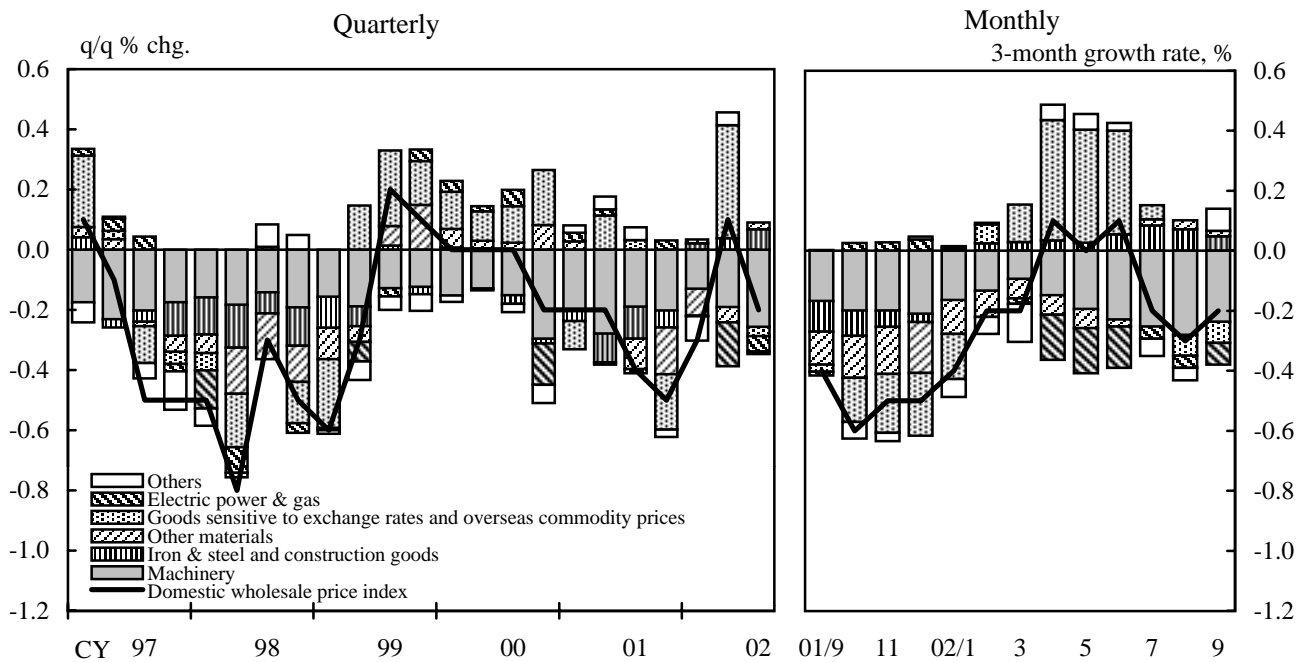


Note: Monthly averages. Figures for October 2002 are the averages up to October 9.

Sources: Bank of Japan, "Wholesale Price Indexes," "Financial and Economic Statistics Monthly," etc.

Domestic Wholesale Price Index⁷

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁶

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices; petroleum & coal products, nonferrous metals.

2. Other materials; chemicals, plastic products, textile products, pulp, paper & related products.

3. Iron & steel and construction goods; iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.

4. Machinery; electrical machinery, general machinery, transportation equipment, precision instruments.

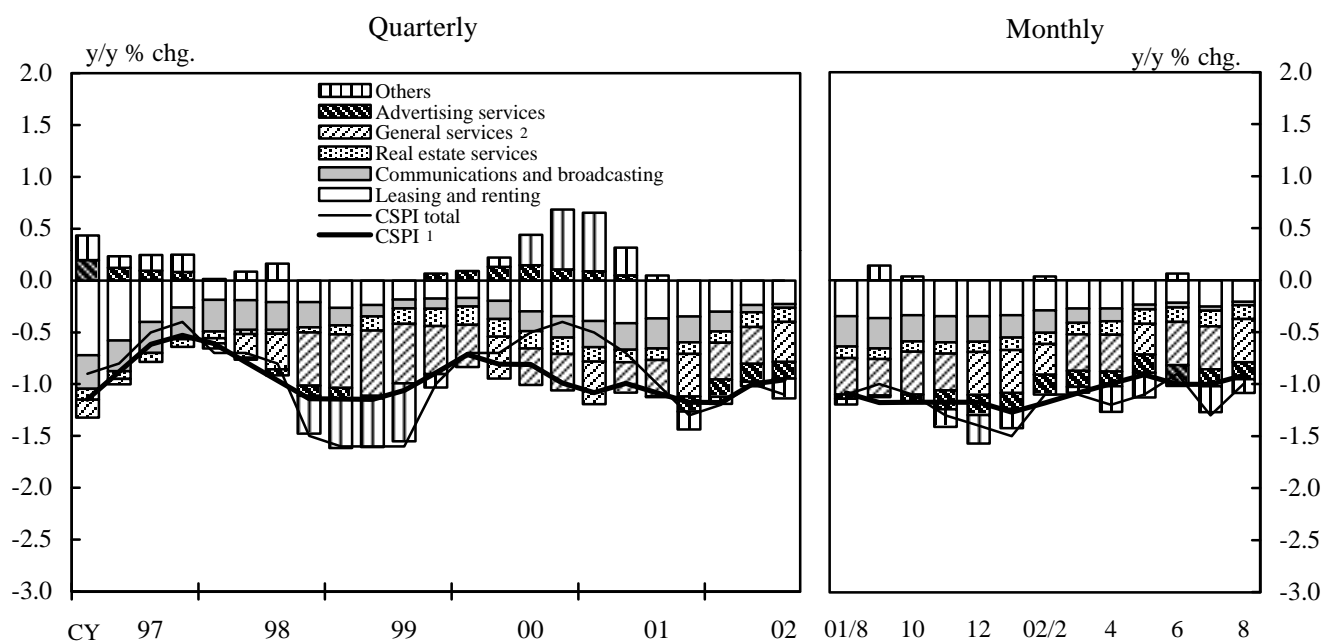
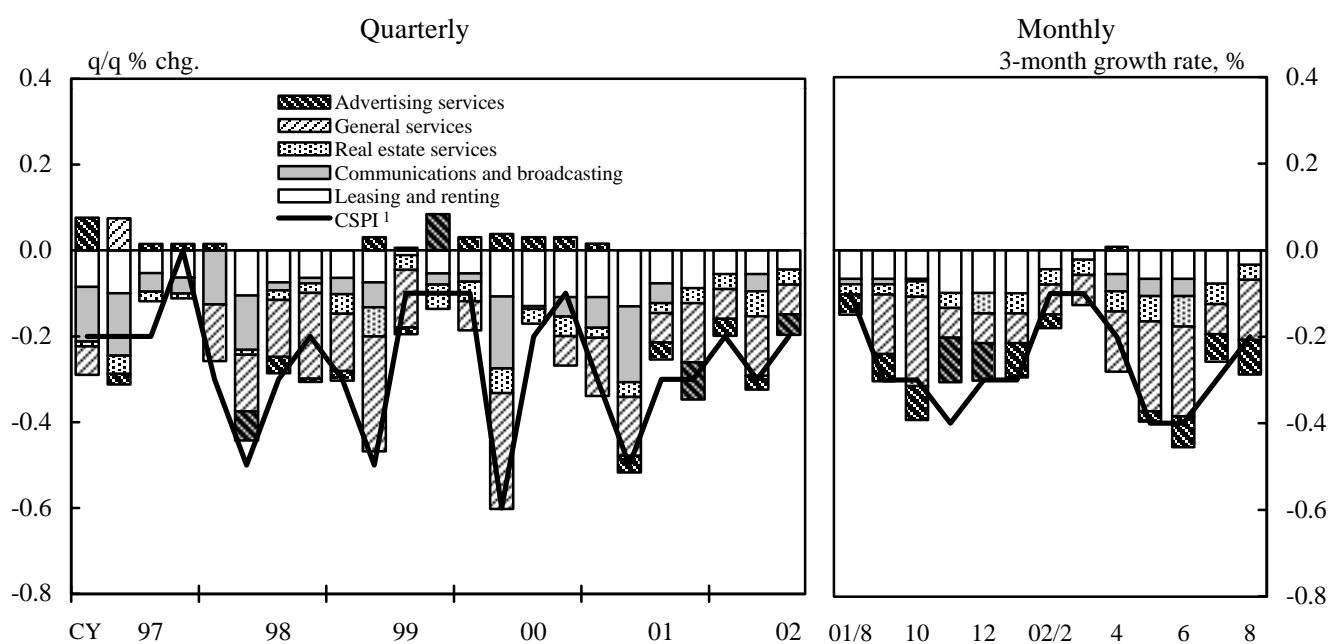
5. Others; processed foodstuffs, other manufacturing industry products, edible agricultural, livestock & aquatic products, inedible agricultural & forestry products, mining products, water.

6. Adjusted to exclude a hike of electric power charges in summer season from July to September. This effect makes the Domestic Wholesale Price Index rise by about 0.2%.

7. 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.

Corporate Service Price Index⁴

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier³

Notes: 1. CSPI (domestic supply-demand factors) includes all items except the following: (1) Regulated prices (Compulsory motor vehicle insurance, Railroad passenger transportation, Buses, Taxis, Domestic air passenger transportation, Toll roads, Postal services, Sewage disposal), (2) Overseas supply-demand factors (Ocean freight transportation, International air freight, International air passenger transportation), and (3) Securities issuance and related services (banks' procurator service for issuing debentures <excluding underwriting services>).

(3) is excluded due to its large monthly fluctuation. Thus, CSPI (domestic supply-demand factors) mainly reflects the supply and demand conditions in the domestic private sector.

2. General services include all services in Domestic supply-demand factors except Leasing and rental, Communications and broadcasting, Real estate services, and Advertising services.

3. Television commercials in Advertising services, Sales space rental in Real estate services, and General warehousing and storage in General services are seasonally adjusted by X-12-ARIMA. As the seasonally adjusted figures are recalculated each month, the series are revised retroactively every month.

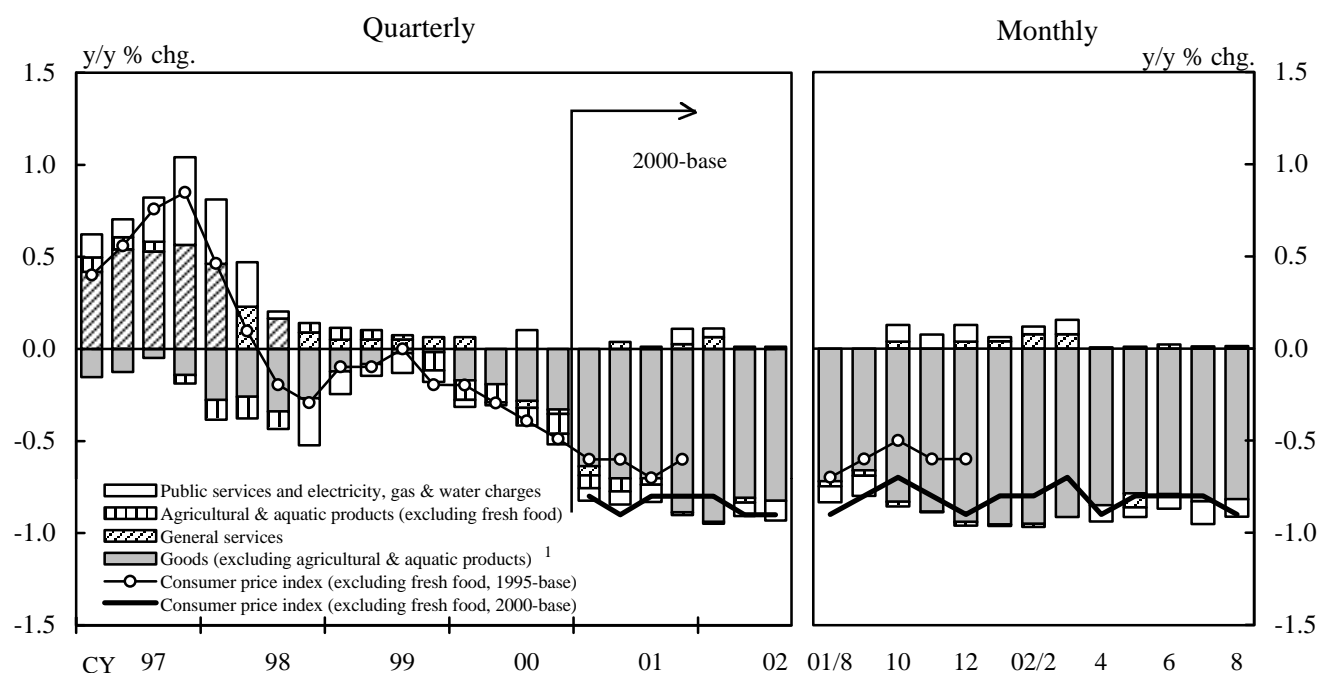
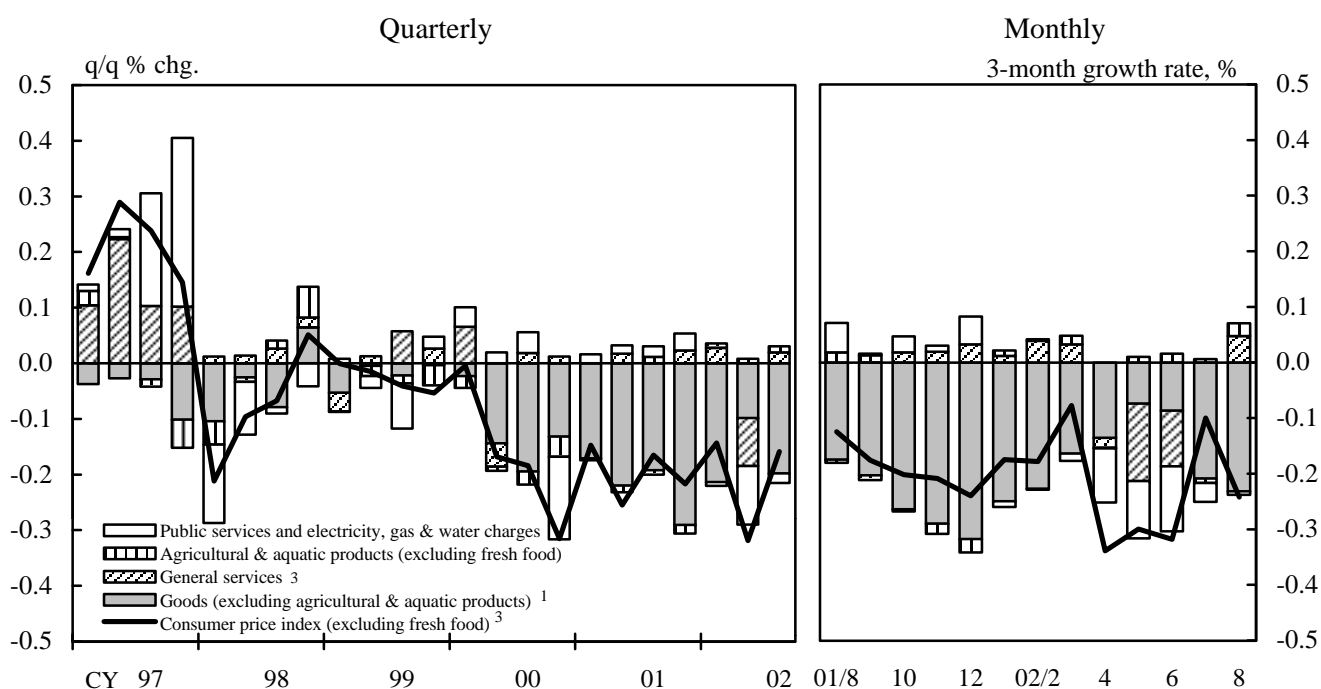
4. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

5. Figures for 2002/Q3 are those of July-August averages.

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

Consumer Price Index (excluding fresh food)⁴

(1) Changes from a year earlier

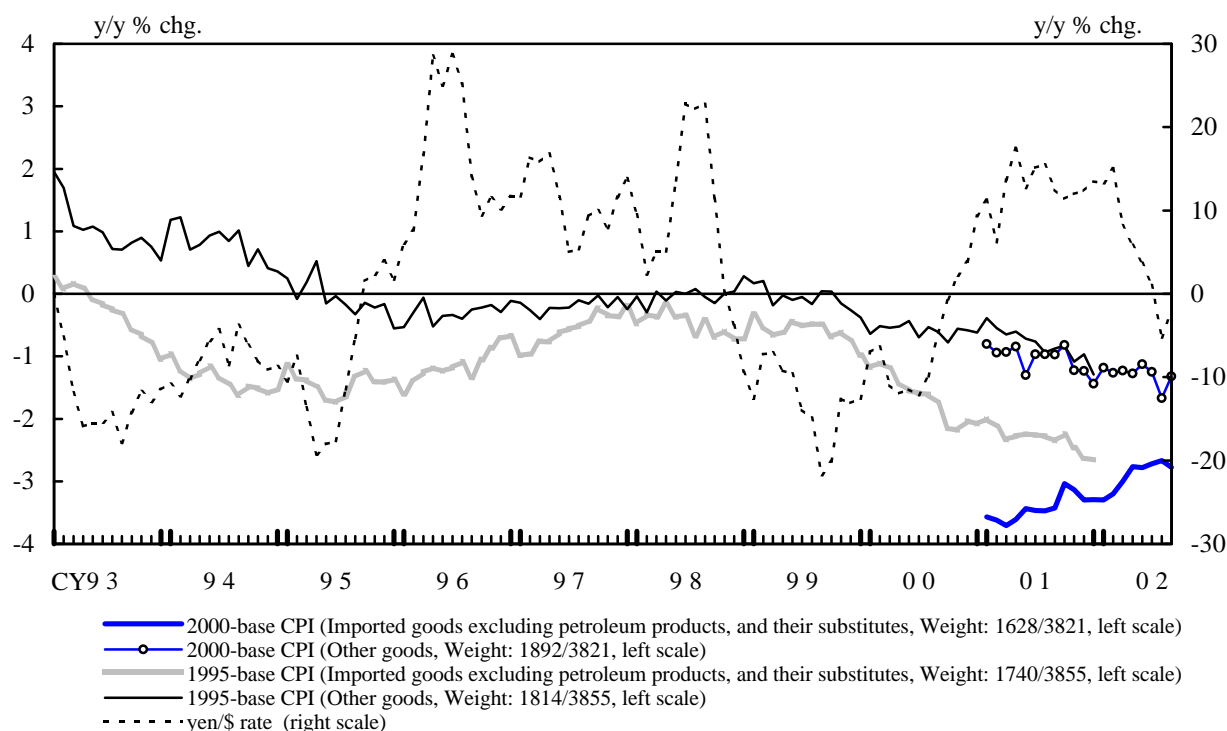
(2) Changes from a quarter earlier and 3 months earlier (2000-base CPI)²

- Notes: 1. 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.
2. Seasonally adjusted by X-12-ARIMA. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.
3. Excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.
4. 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.
5. Figures for 2002/Q3 are those of July-August averages.

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

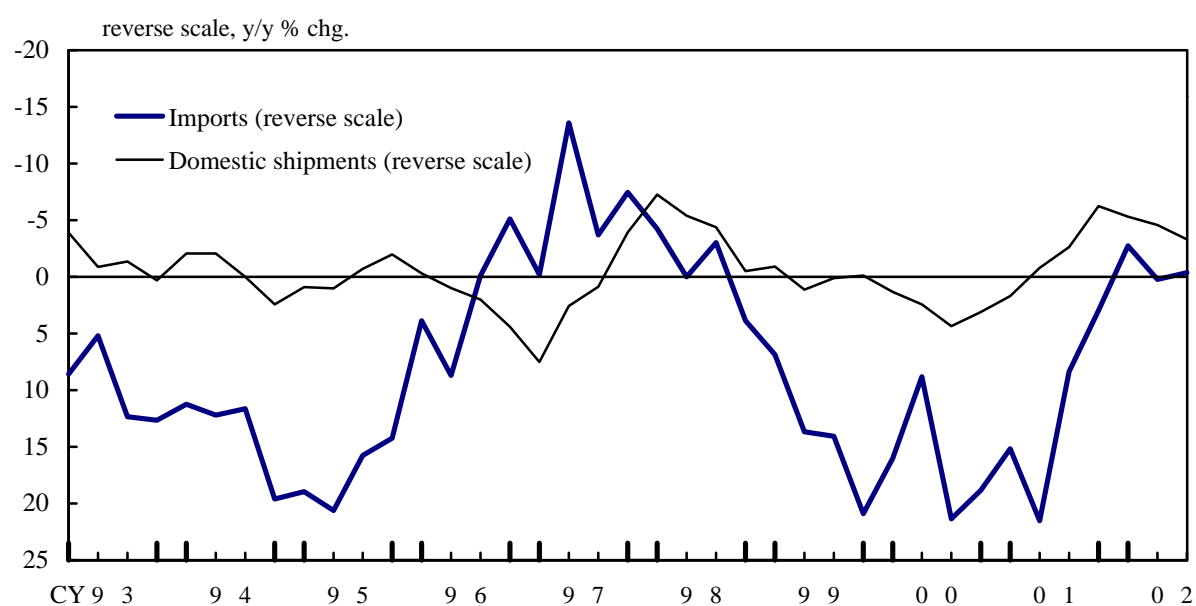
Consumer Price Index of imported goods and their substitutes

(1) Comparison of imported goods and other goods in terms of CPI



- Notes: 1. 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.
2. 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).
3. 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) Consumer goods supply (Imports and Domestic shipments)

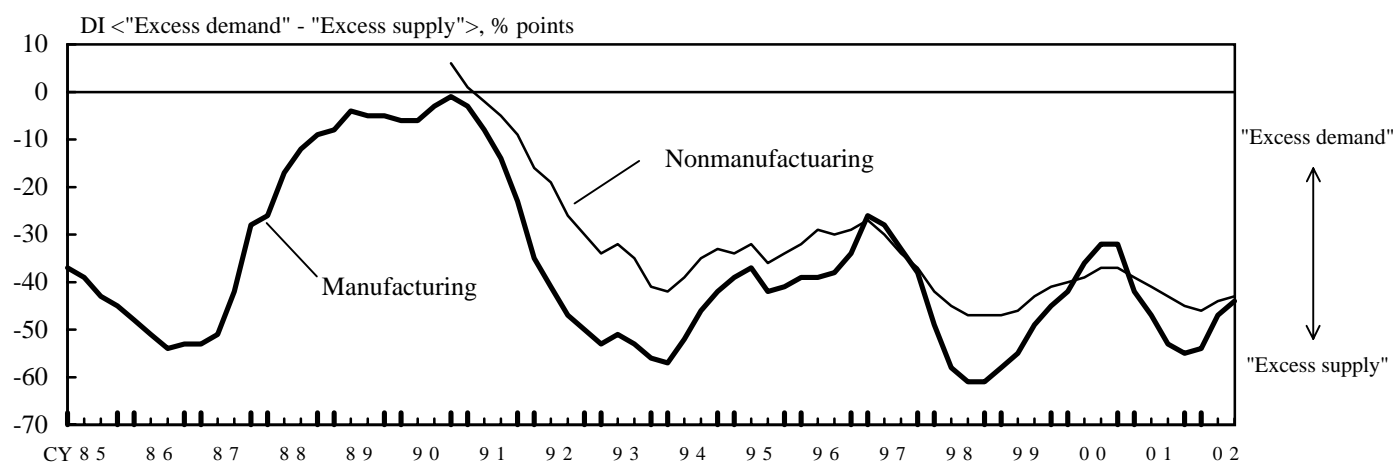


Note: See footnote Chart 15-4, for definition of the consumer goods supply.

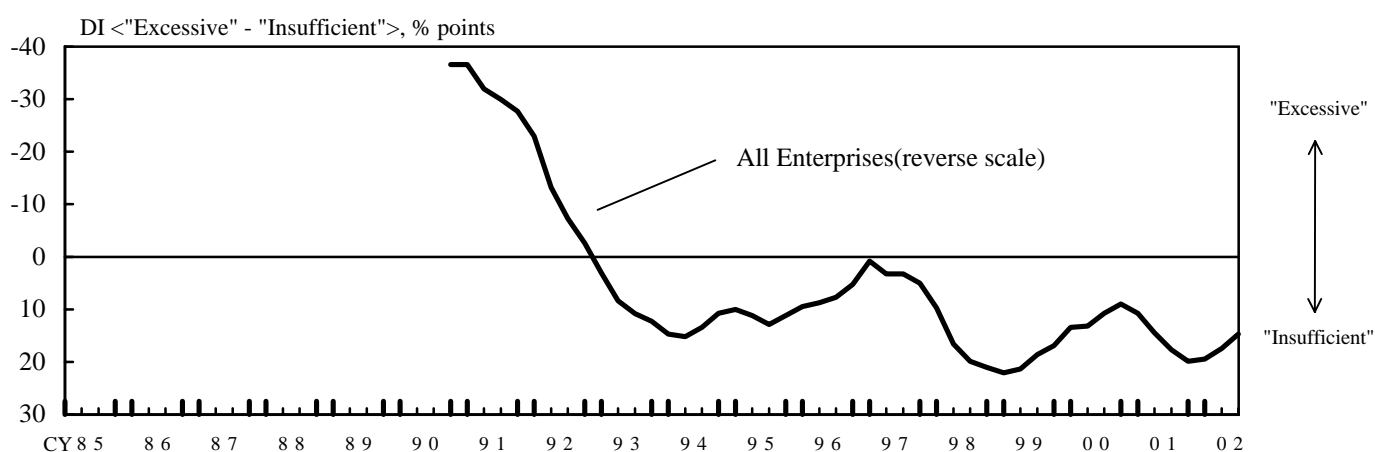
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports";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

Factors Contributing to the Change in Prices¹

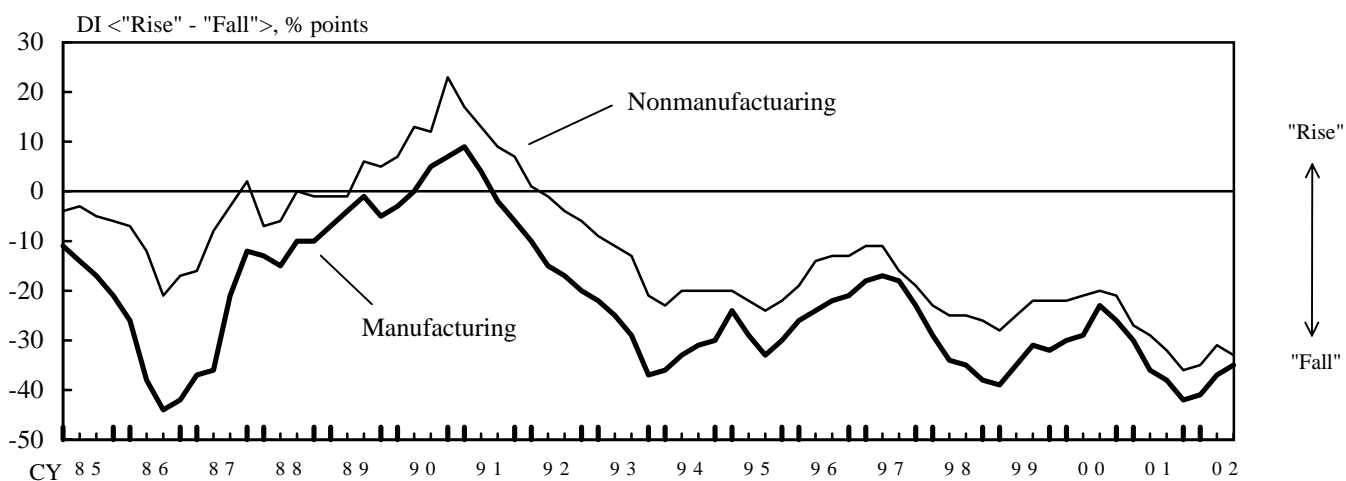
(1) Supply and Demand Conditions for Products and Services (All Enterprises)



(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 onward are based on the post-revision Tankan.

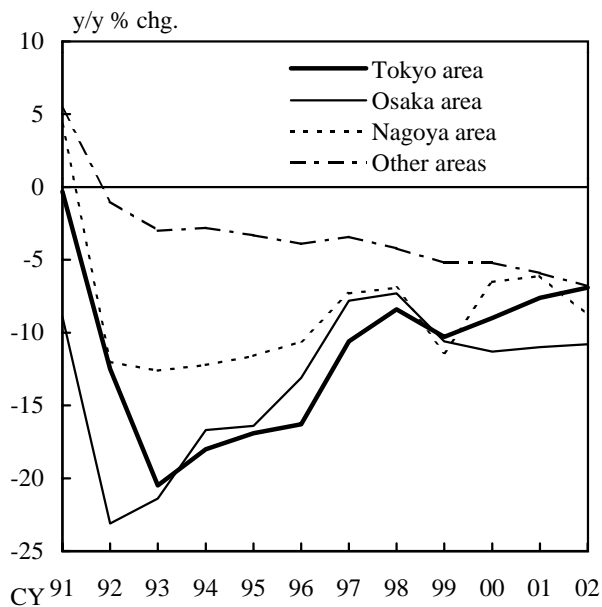
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. Labor share in national account, on 1990-2000 average, is used as the weight.

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

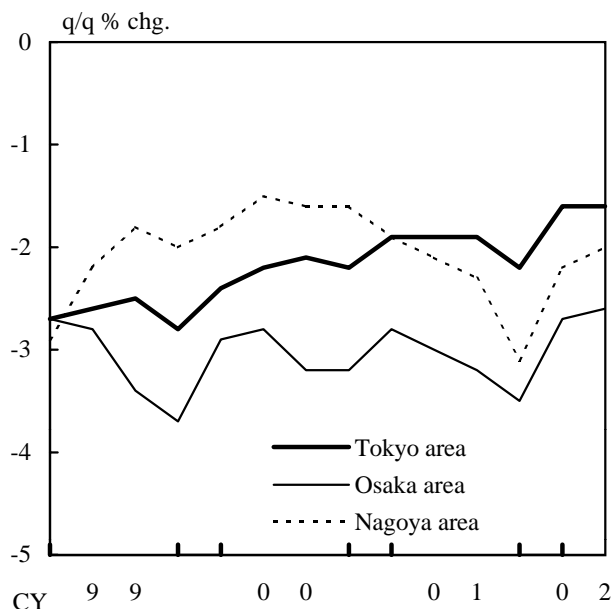
Land Prices

(1) Commercial land

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

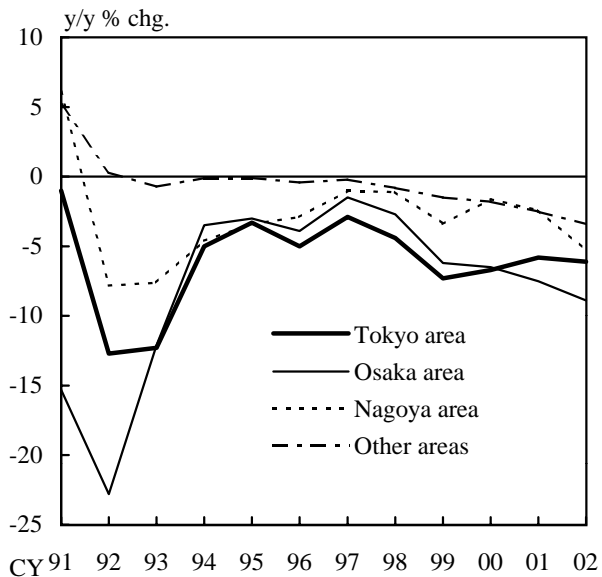


(1-2) Average change at representative locations

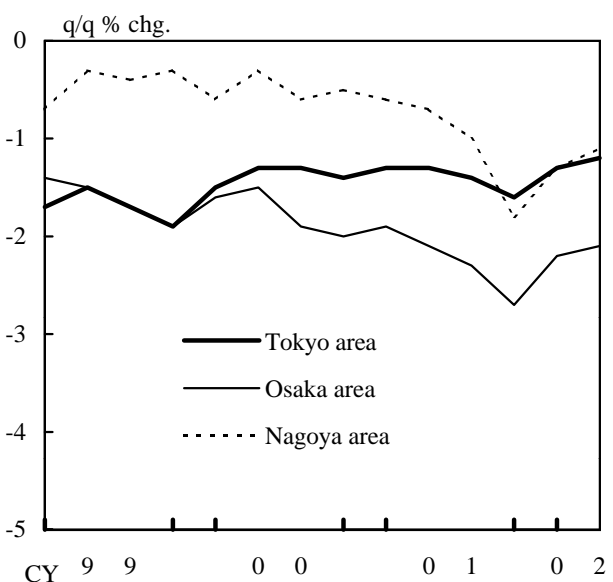


(2) Residential land

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



(2-2) Average change at representative locations

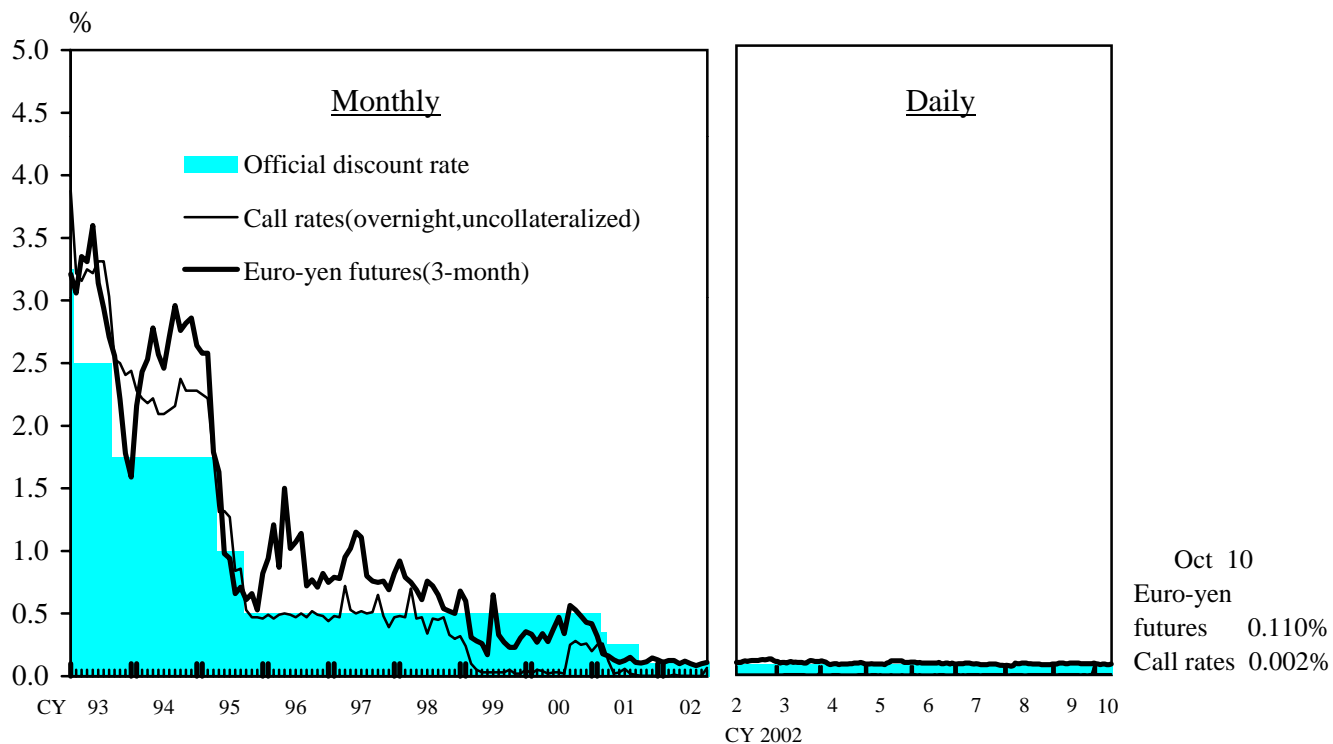


Note: *Publication of Land Price*, surveyed by the Ministry of Land, Infrastructure and Transport, shows the land prices as of January 1st. *Prefectural Land Price Survey*, surveyed by prefecture officials, shows the land prices as of July 1st. Each survey has representative locations, what is called "DAIHYO-HYOJUNCHI" or "SHITEI-KIJUNCHI," which are largely regarded as identical locations between two statistics. The prices at these representative locations are also surveyed as of April 1st and October 1st, so quarterly price changes for those locations are given continuously.

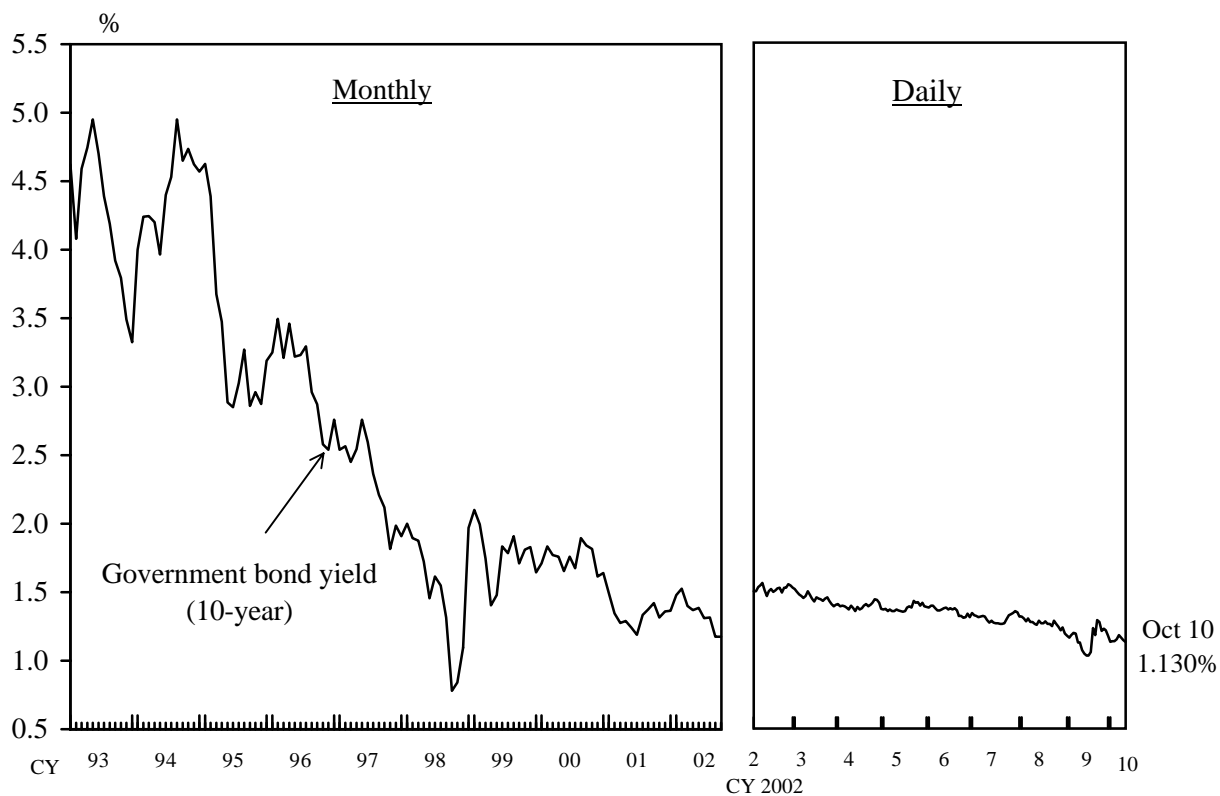
Sources: Ministry of Land, Infrastructure and Transport, "Publication of Land Price,"
"Prefectural Land Price Survey."

Interest Rates

(1) Short-Term



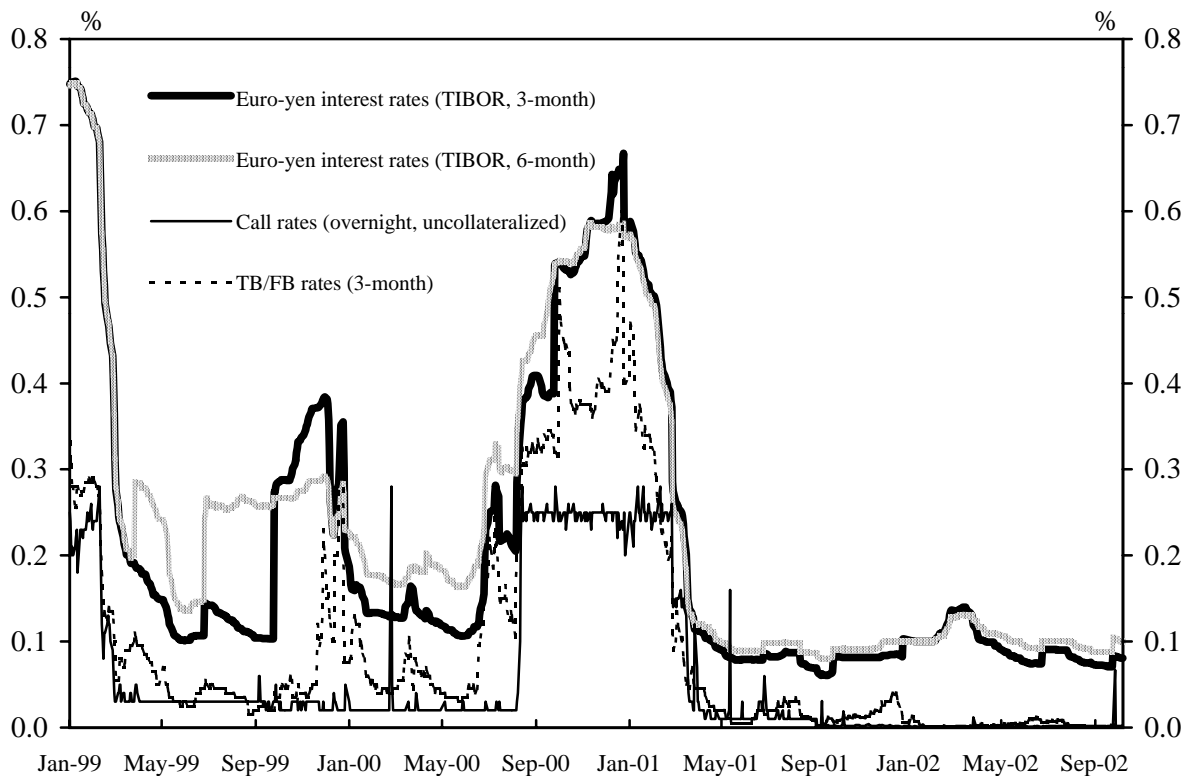
(2) Long-Term



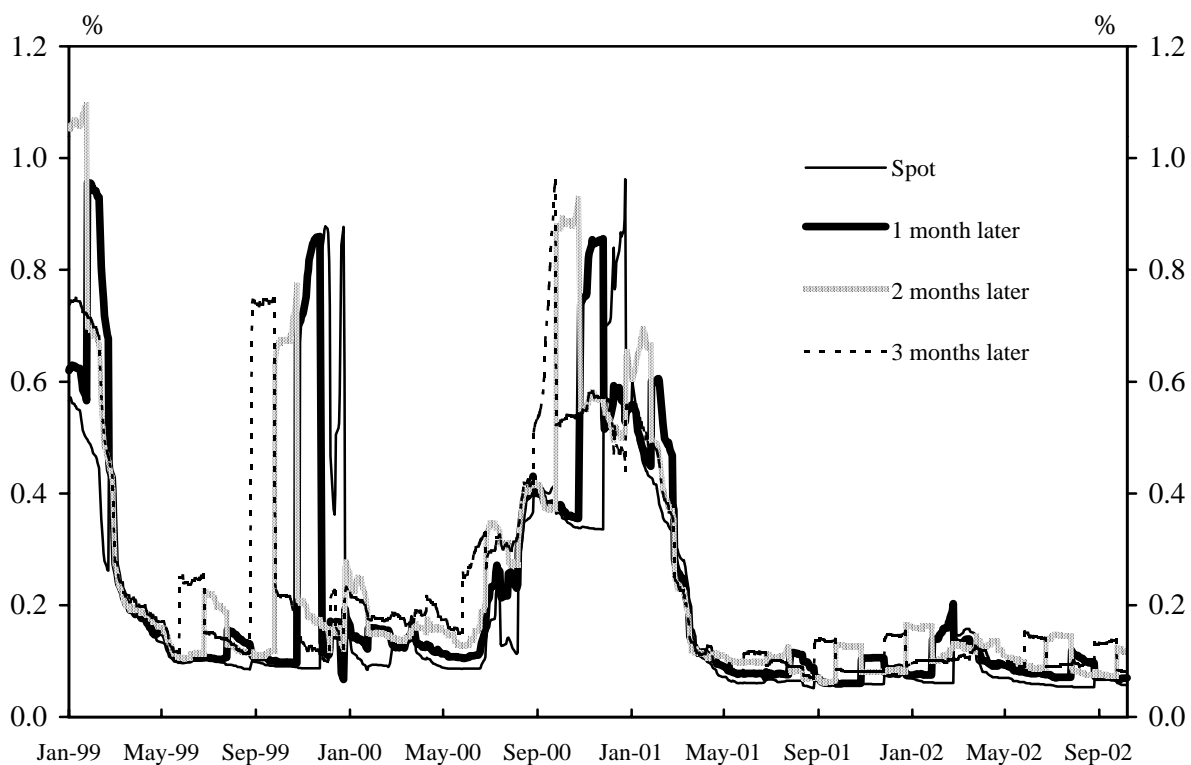
Sources: Bank of Japan; Tokyo International Financial Futures Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

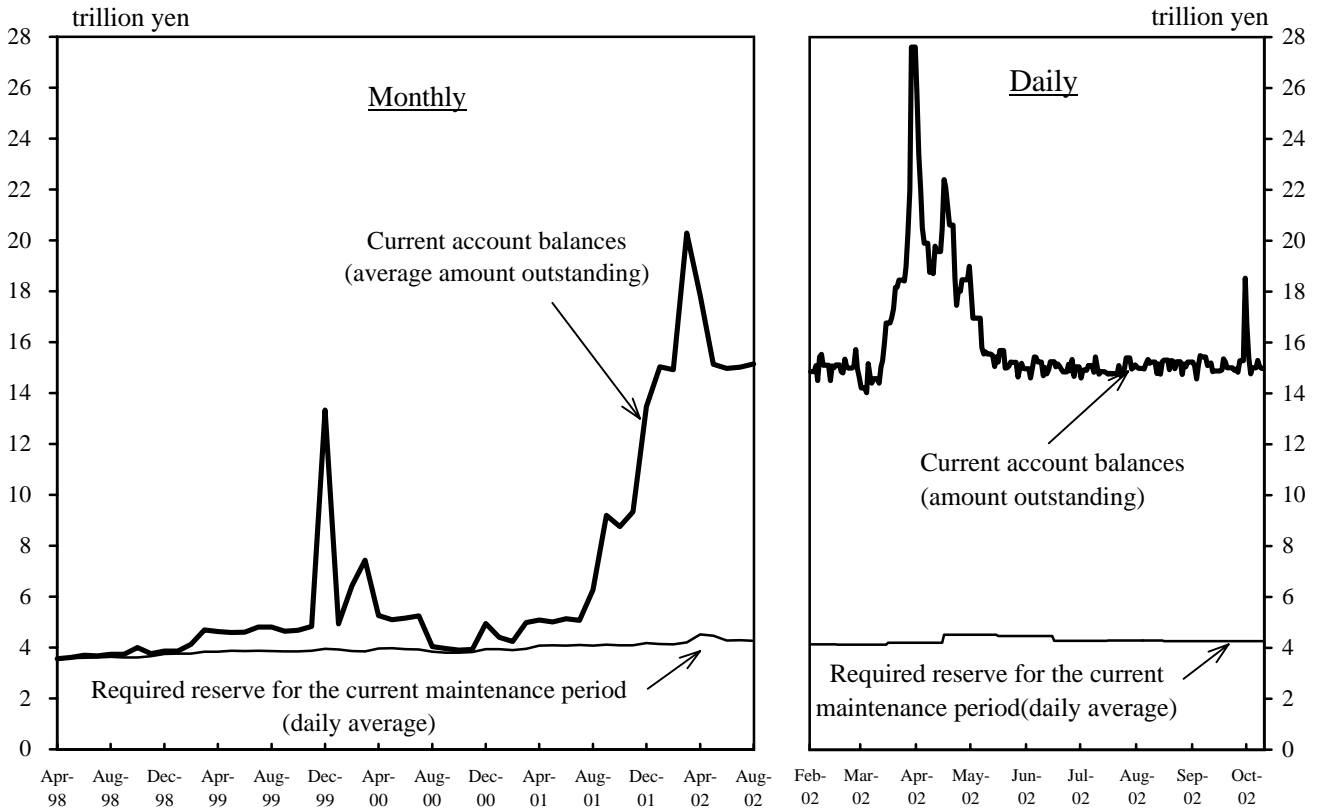


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)

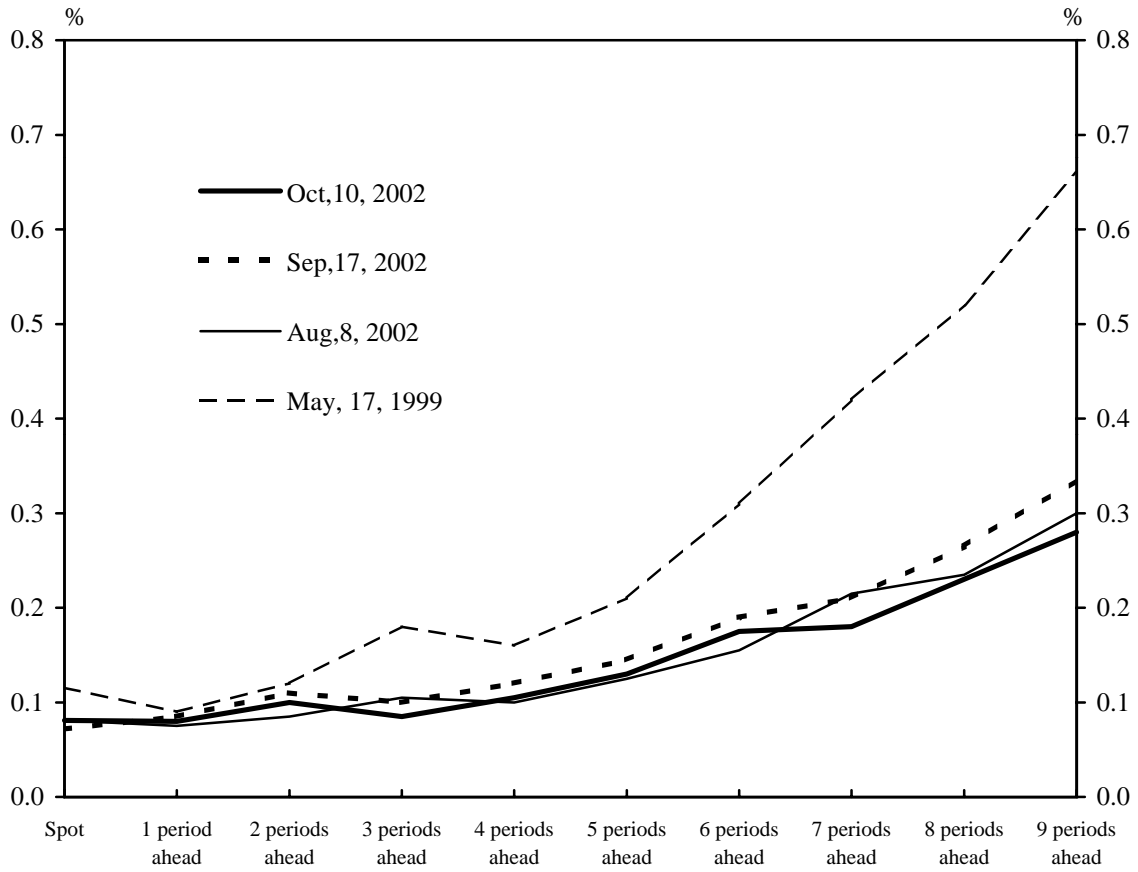


Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.

Current Account Balances at the Bank of Japan

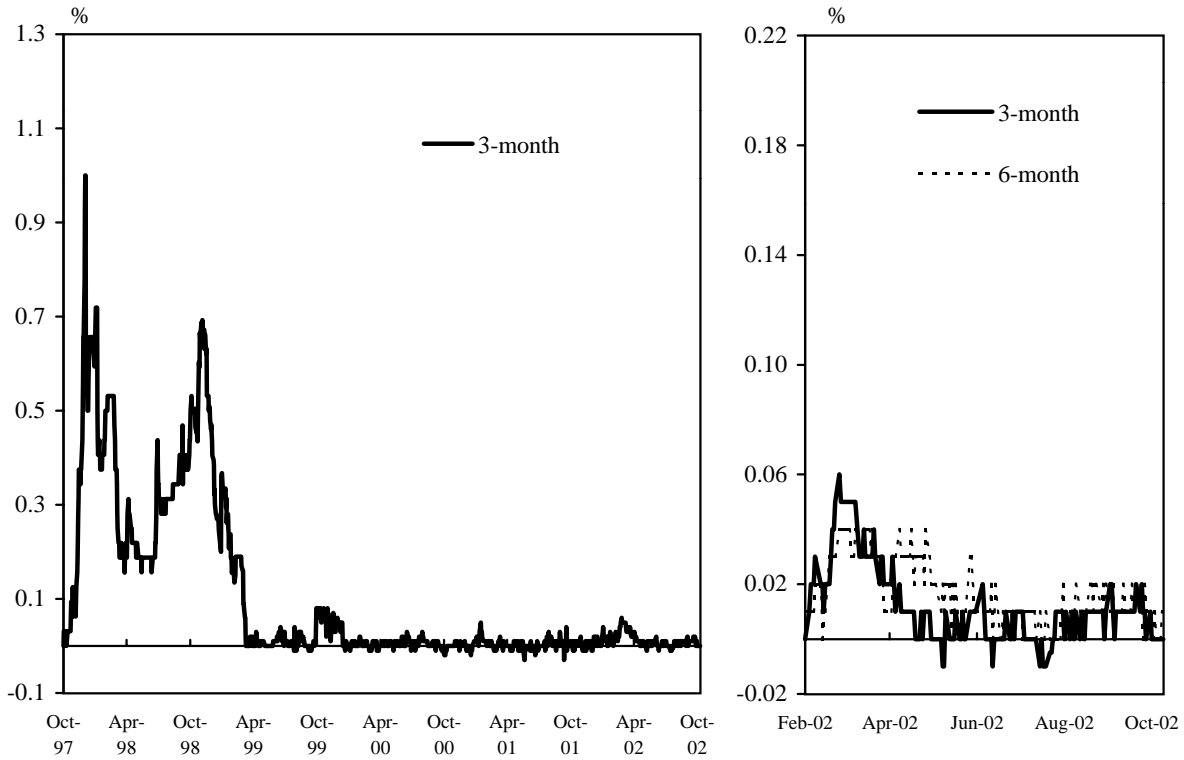


Euro-Yen Interest Rates Futures (3-Month)



Source: Tokyo International Financial Futures Exchange.

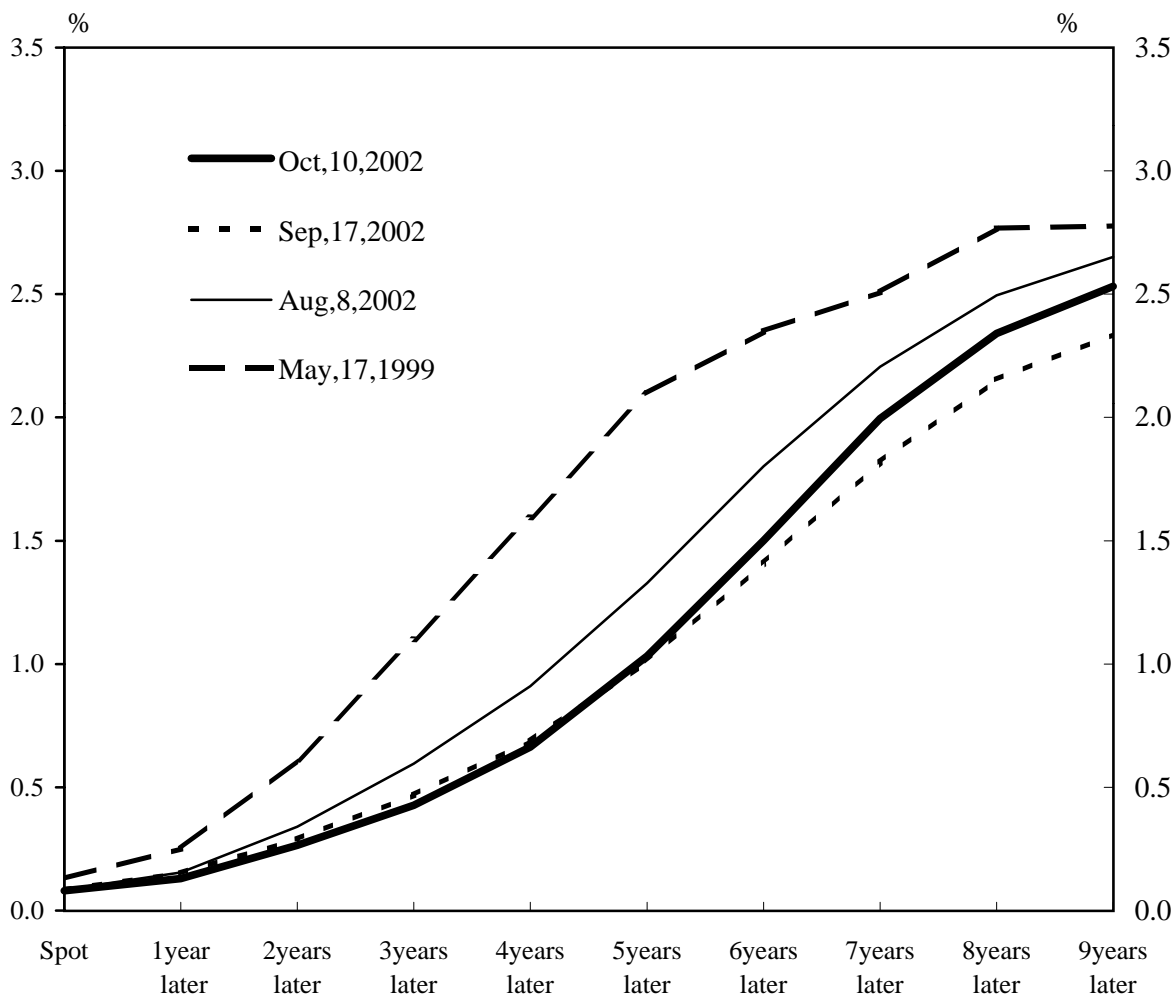
Japan Premium in the Eurodollar Market ¹



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

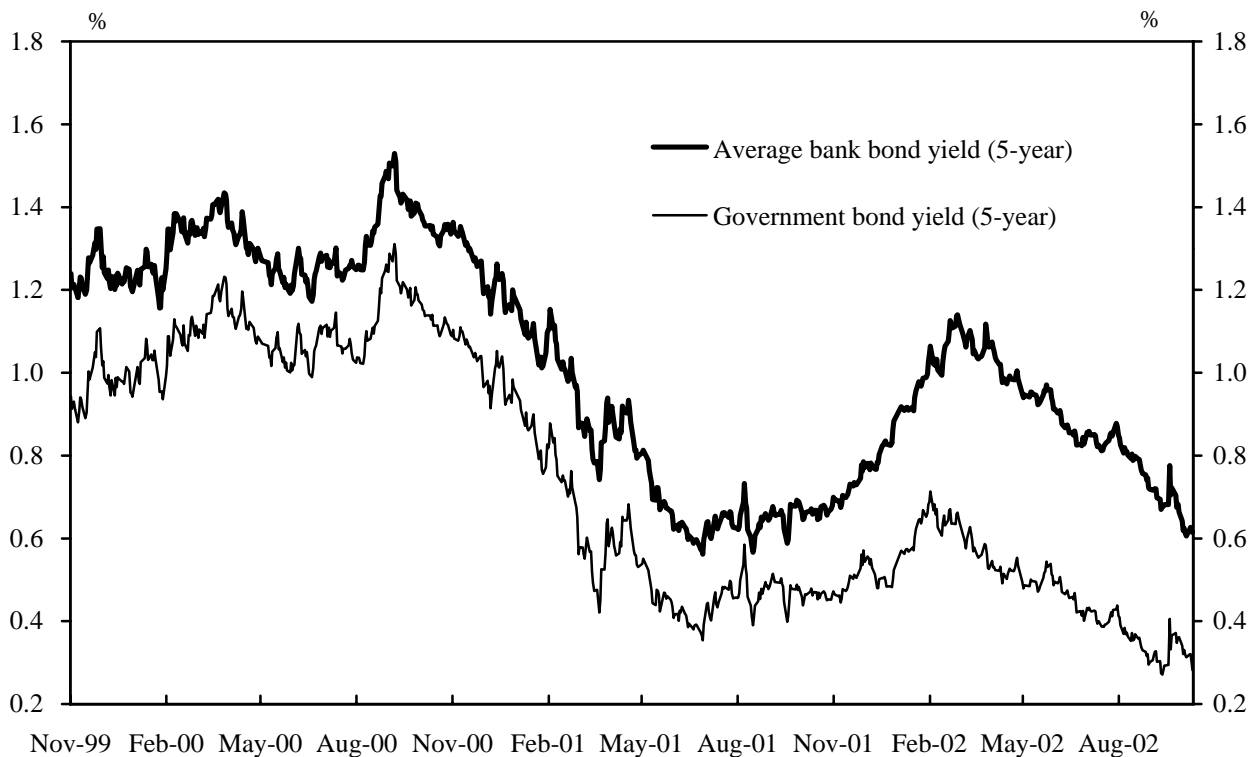


Note :Calculated from yen-yen swap rates.

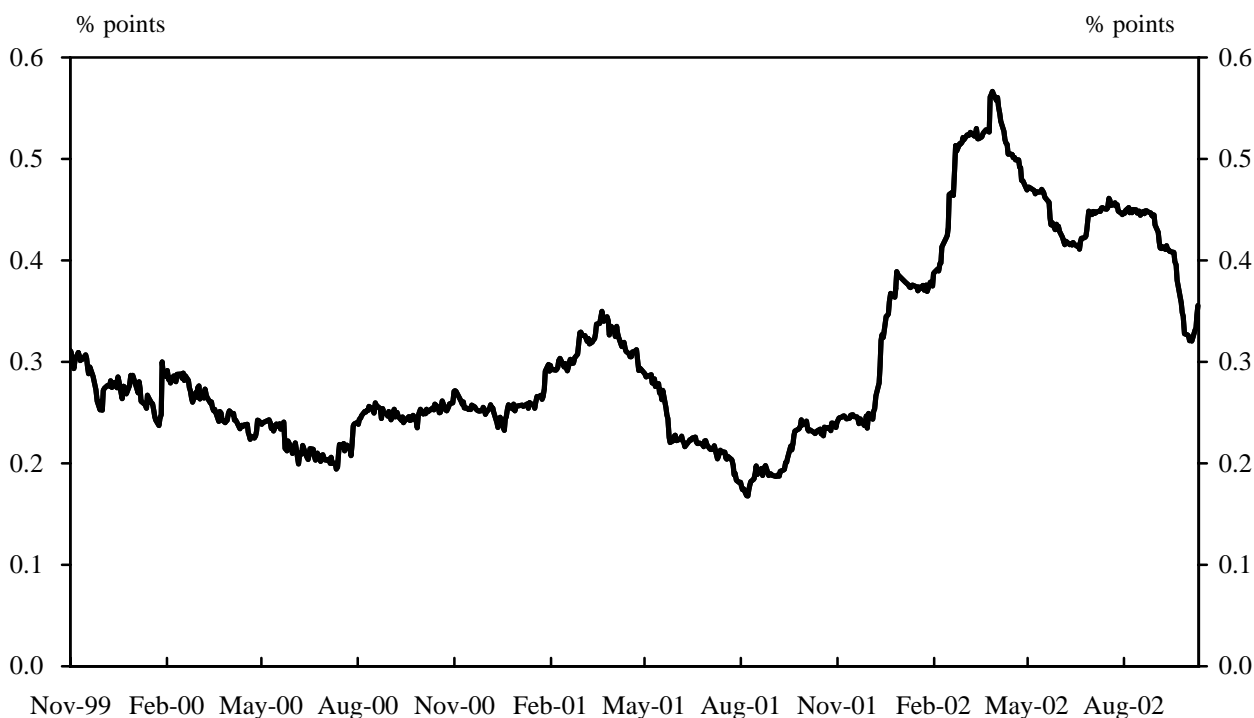
Source: Kyodo News.

Yields of Bank Bonds

(1) Bond Yields



(2) Spread of Average Bank Bond Yield and Government Bond Yield



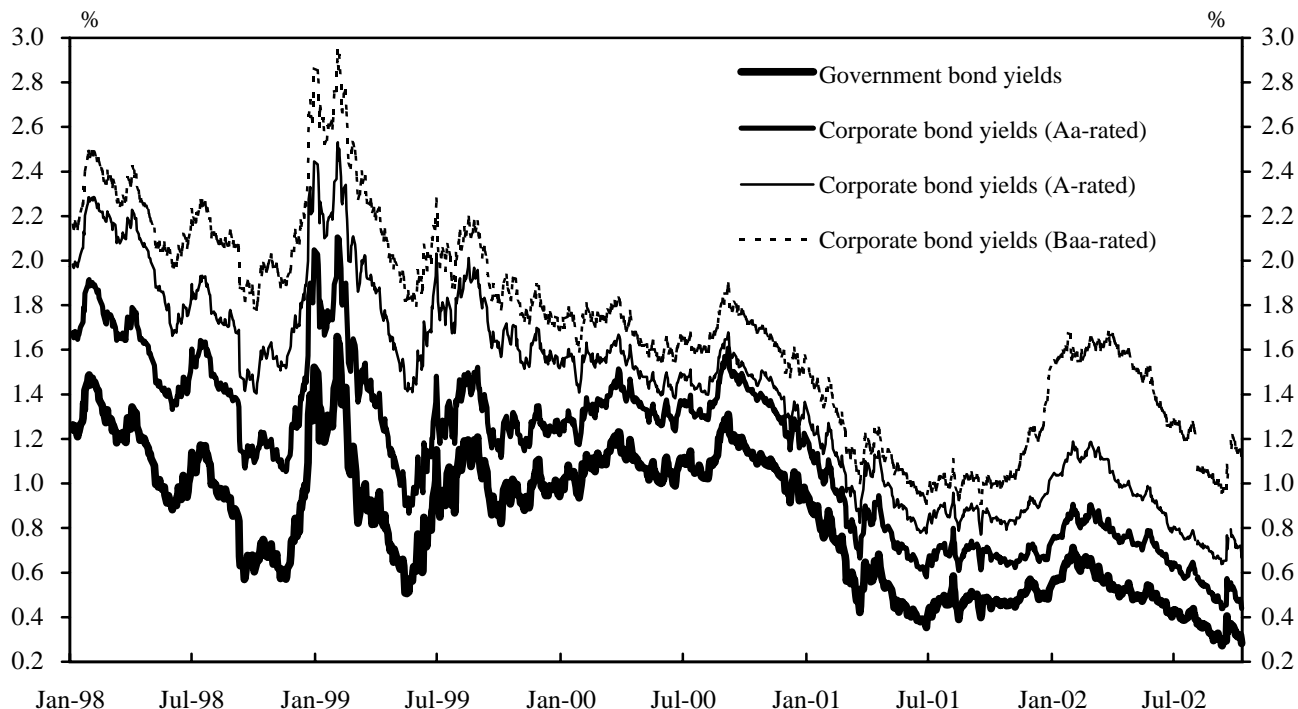
Note: 1. Yields on bonds with 5-year maturity.

2. Average bank bond yield is the average of four bank bonds.

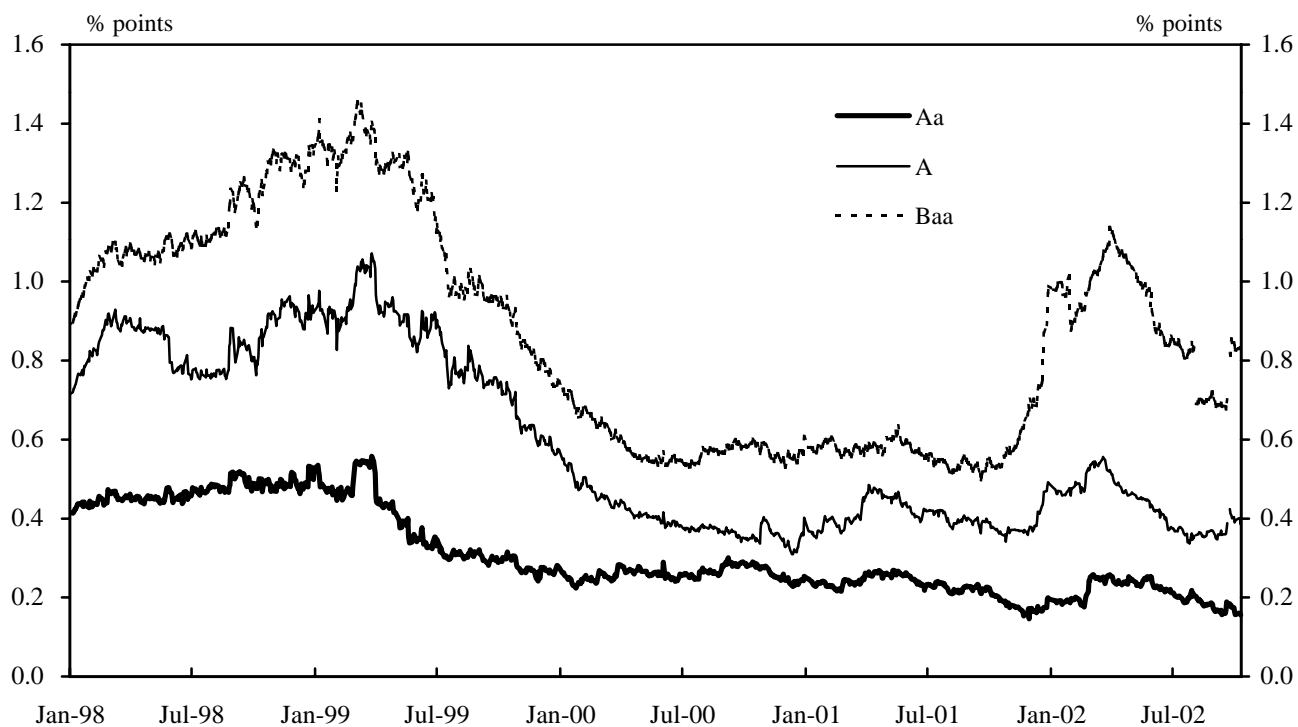
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price(Yields) Table for OTC Bond Transactions."

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.

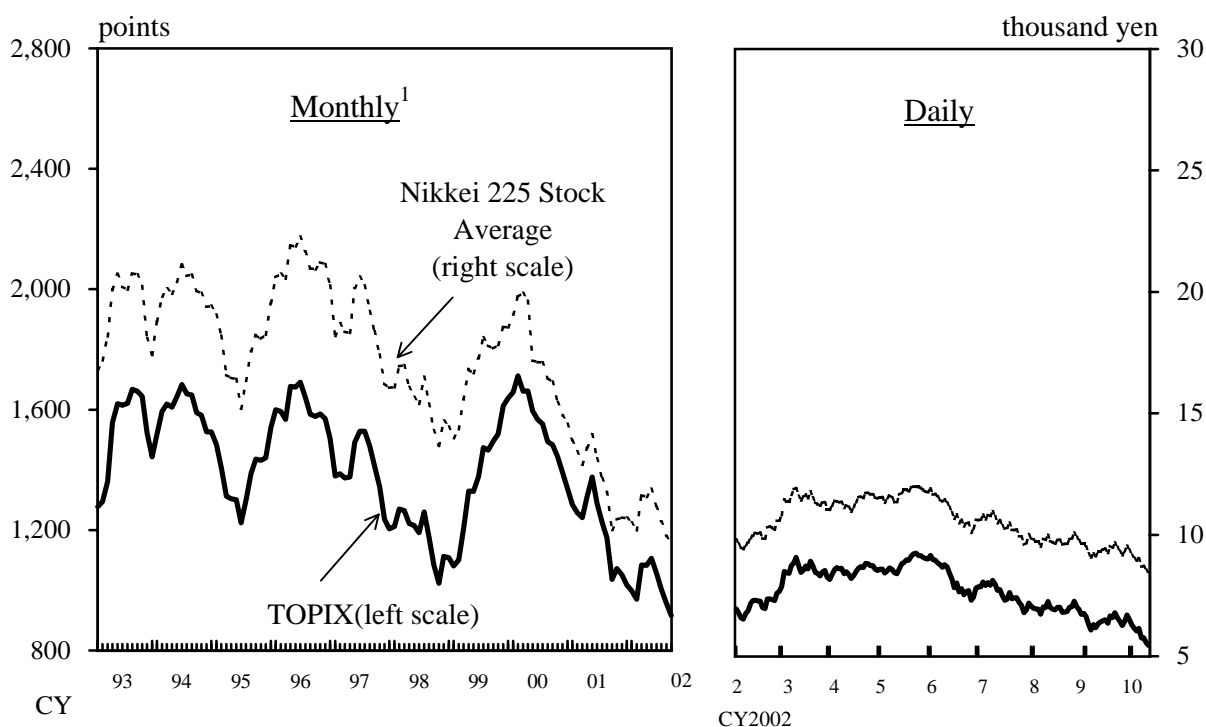
The indicated ratings are of Moody's.

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

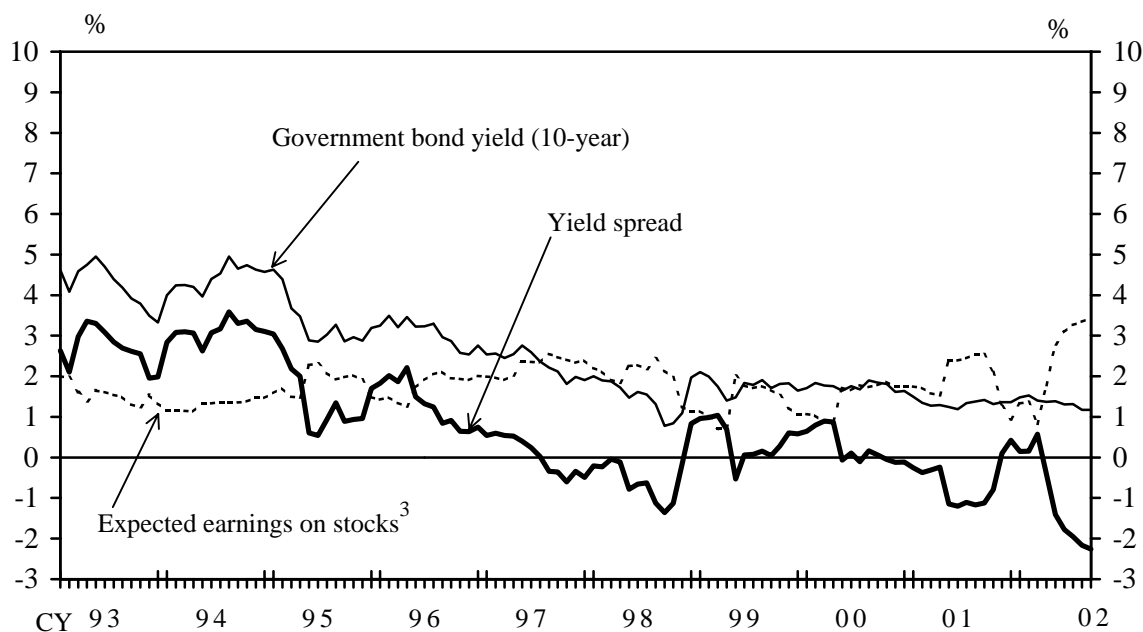
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

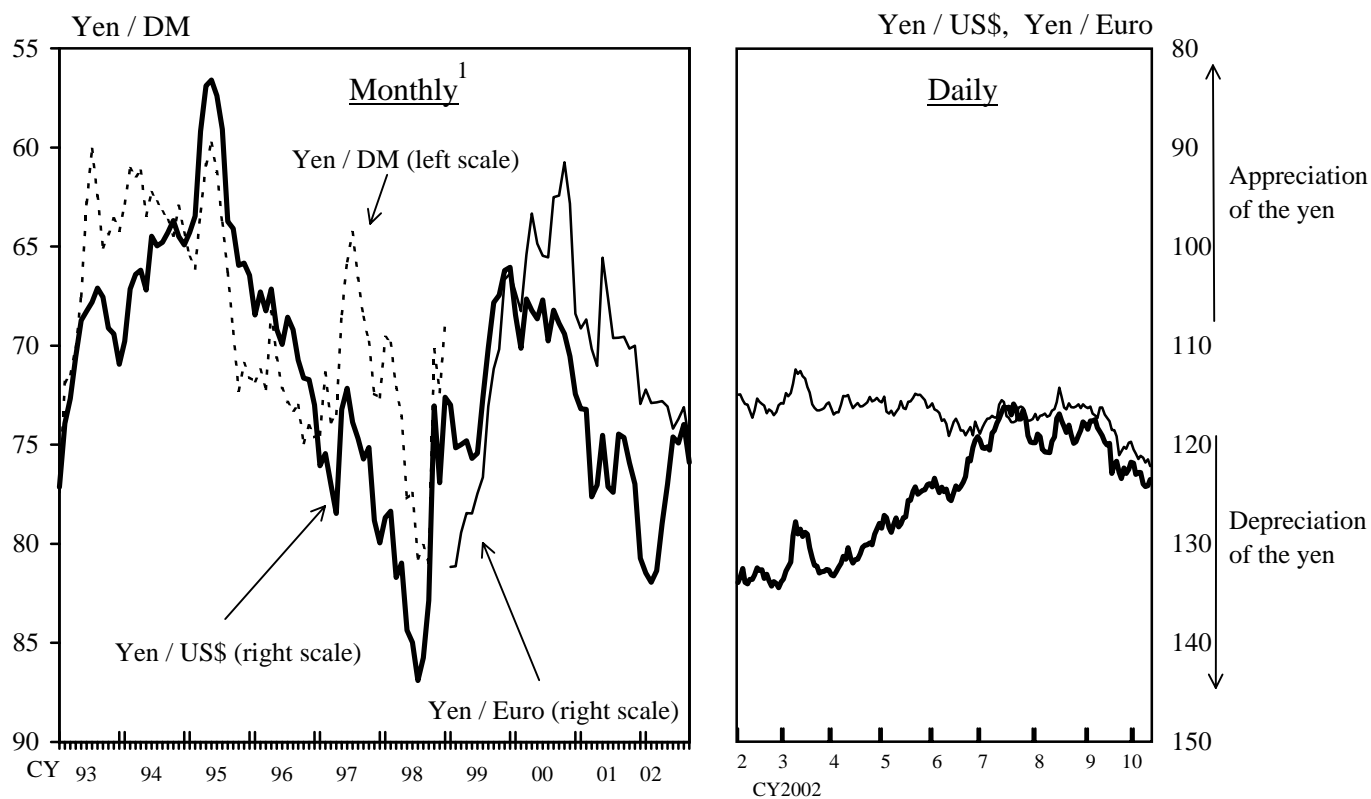
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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 Toushi Shiryou* (Daiwa Investment Information)."

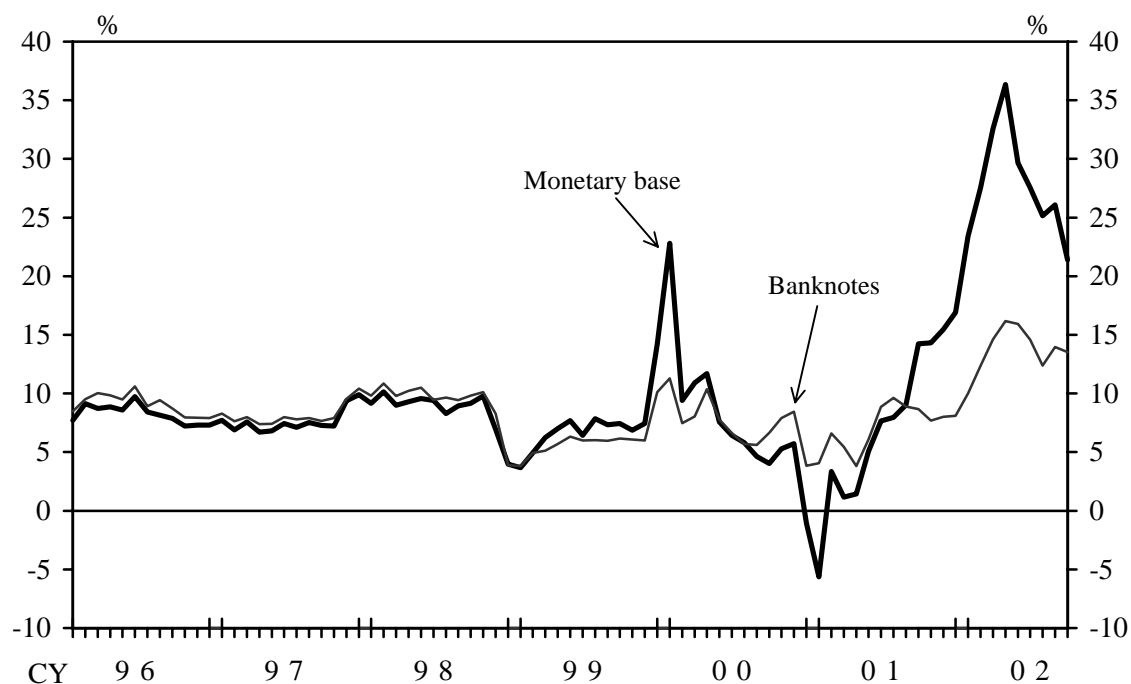
Exchange Rates



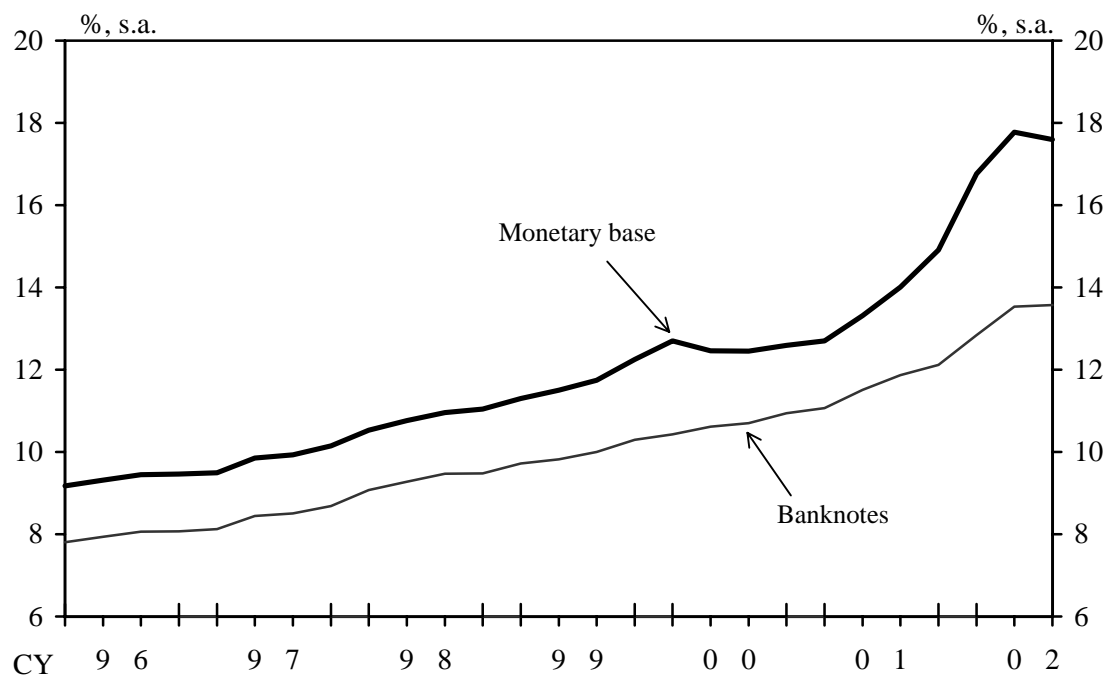
Note: 1. End of month.
 Source: Bank of Japan.

 Monetary Base

(1) Changes from a Year Earlier



(2) Ratio of Monetary Base to Nominal GDP



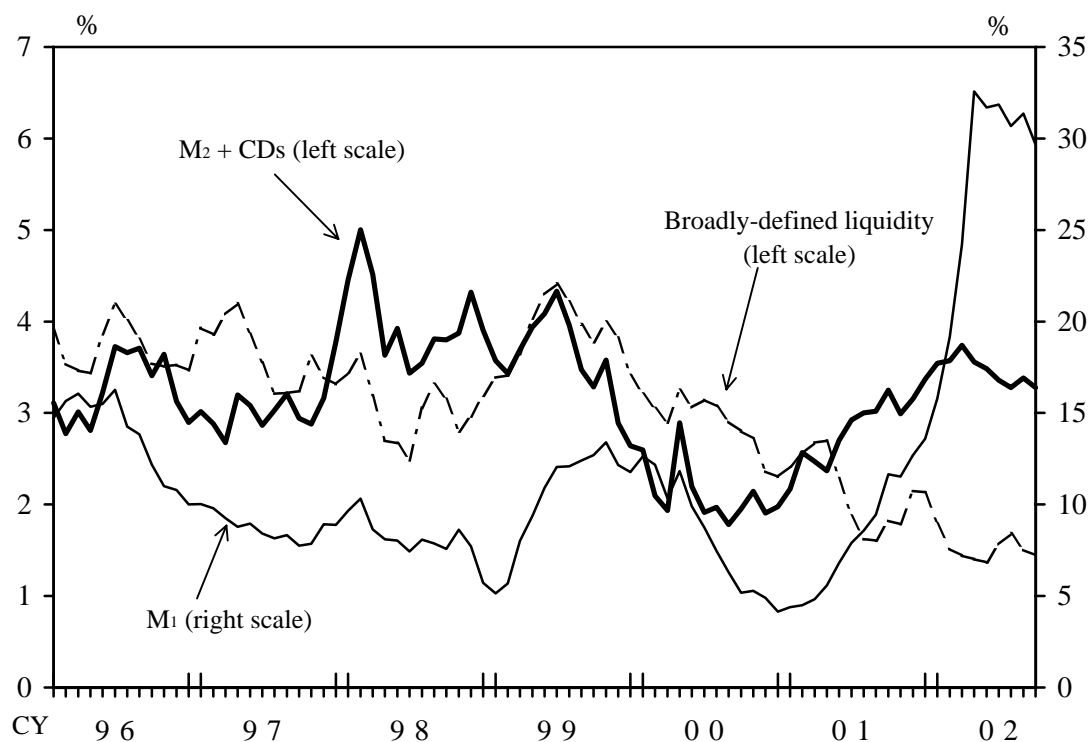
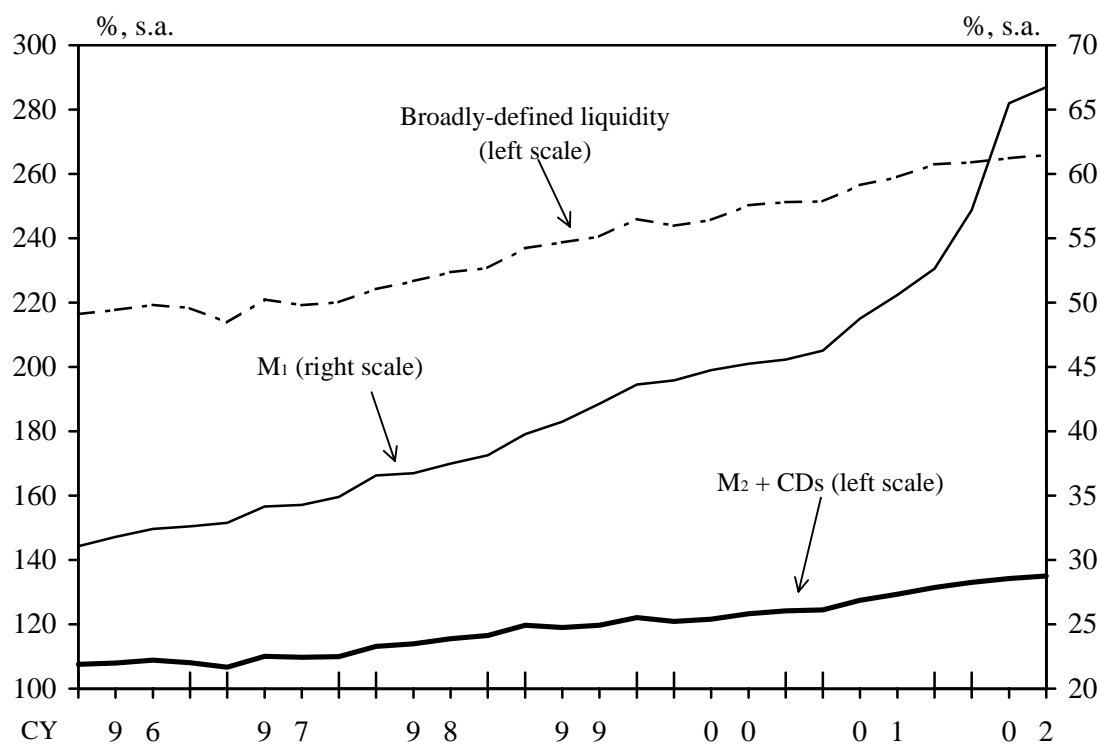
Notes: 1. Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

2. Nominal GDP in 2002/Q3 is assumed to be unchanged from the previous quarter.

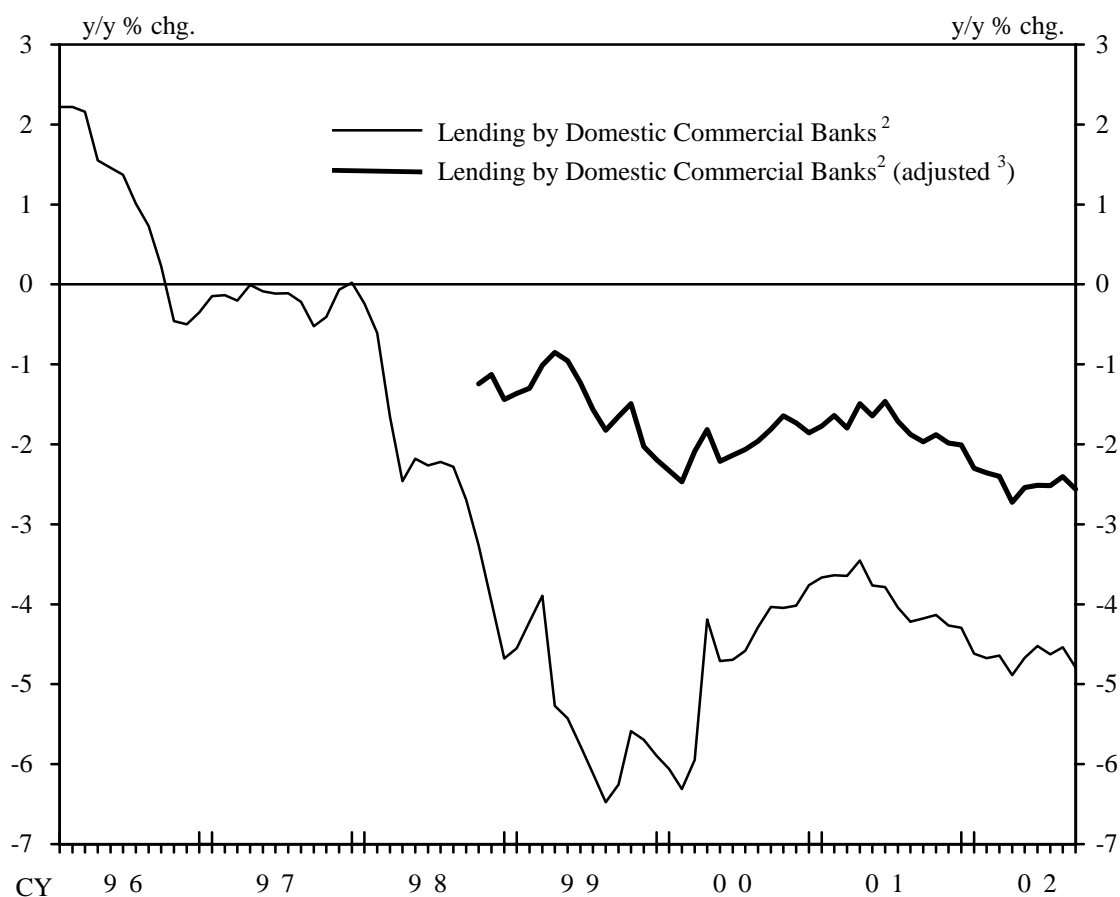
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Money Stock (M₁, M₂+CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier**(2) Ratio of Money Stock to Nominal GDP**

Note: Nominal GDP in 2002/Q3 is assumed to be unchanged from the previous quarter.

Sources: Cabinet Office, "National Accounts"; 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).

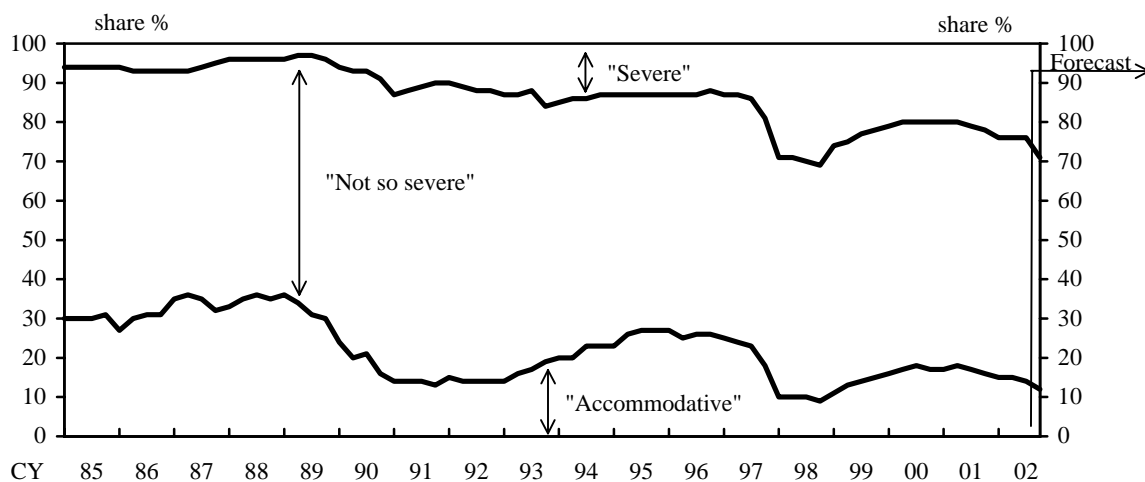
3. Adjusted to exclude

- (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.

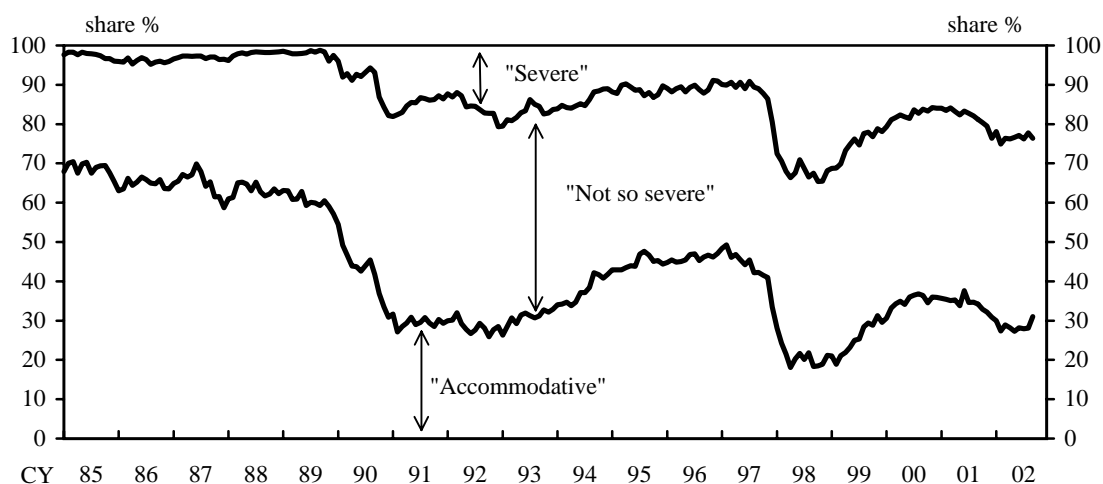
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as Perceived by Small Enterprises

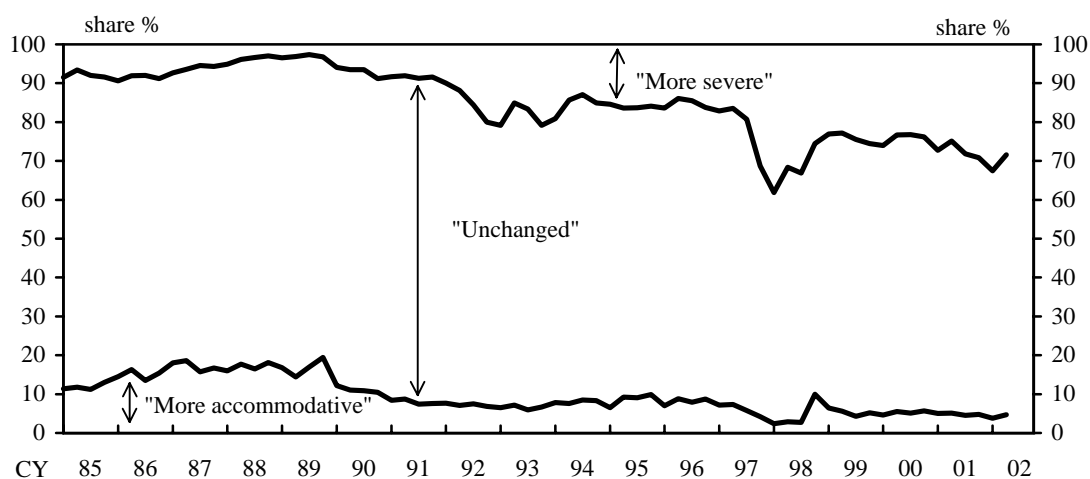
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (September, 2002)



(2) "Monthly Survey on Trends of Small Businesses" (Mid-September, 2002)

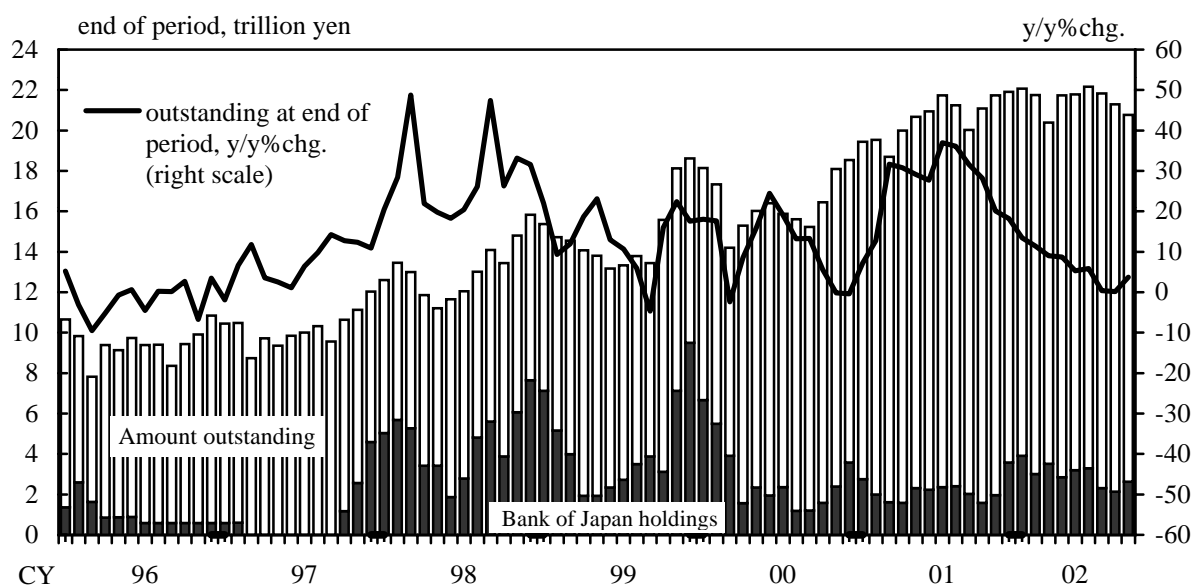


(3) "Quarterly Survey of Small Businesses in Japan" (Mid-June, 2002)



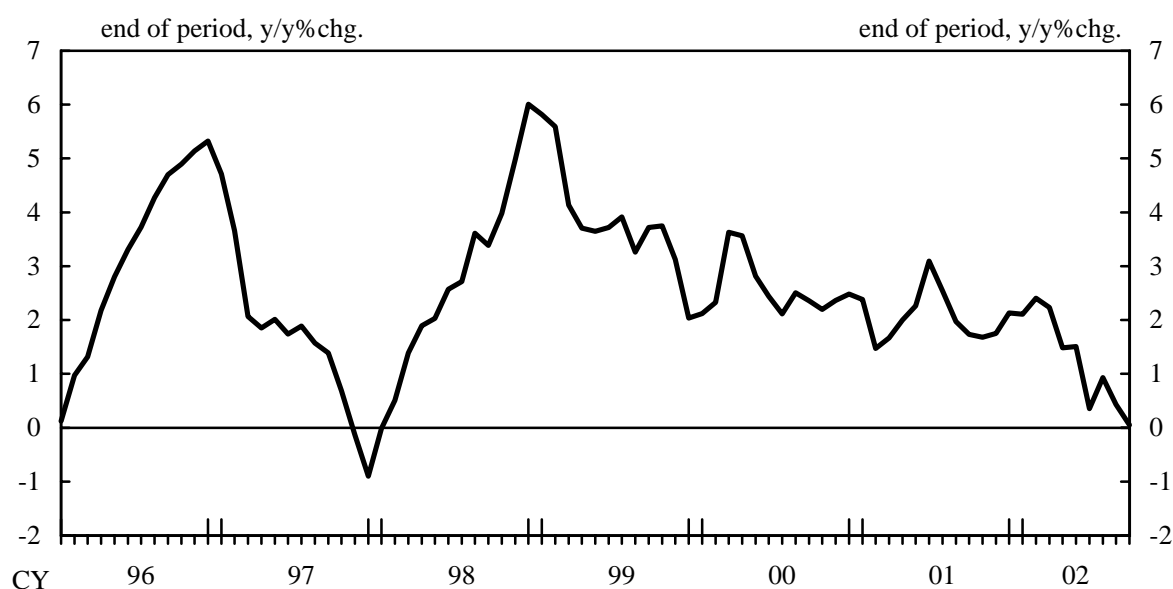
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ;
 Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses";
 National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

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)

	2002/Q1	Q2	Q3	2002/Jul.	Aug.	Sep.
Volume	27,157	27,602	26,238	9,142	4,543	12,553
(previous year)	(21,715)	(35,223)	(23,780)	(4,176)	(7,066)	(12,538)

(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.

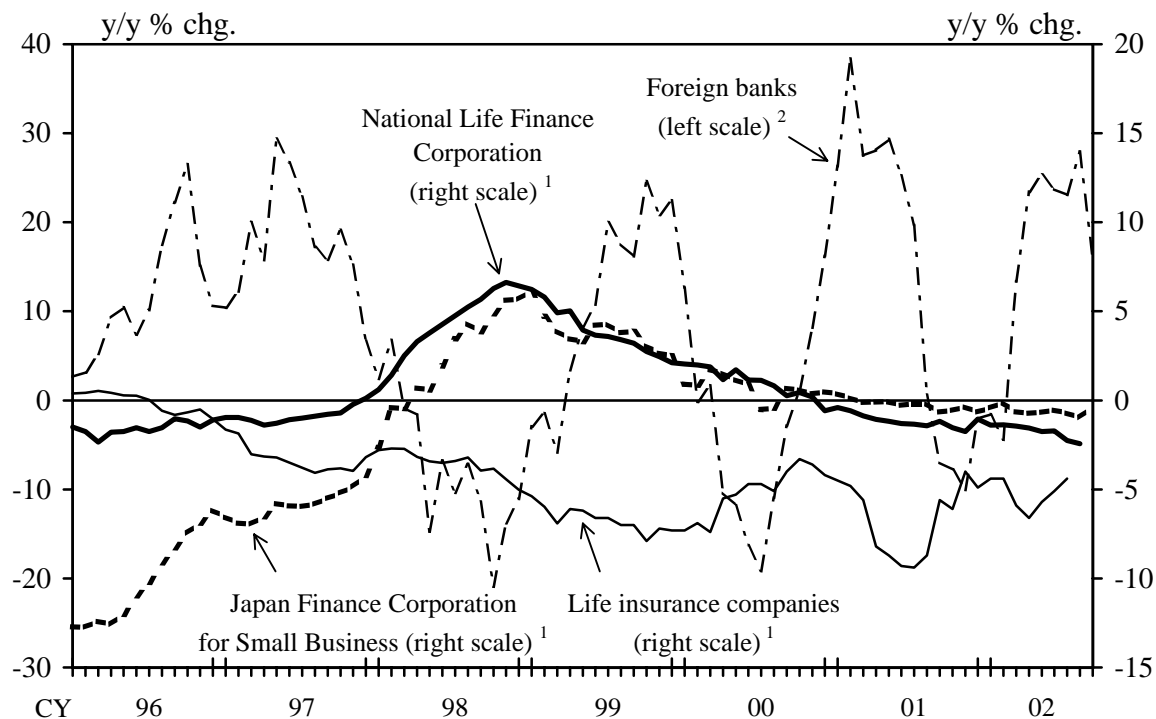
2. Includes straight bonds, convertible bonds, and bonds with warrants.

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."

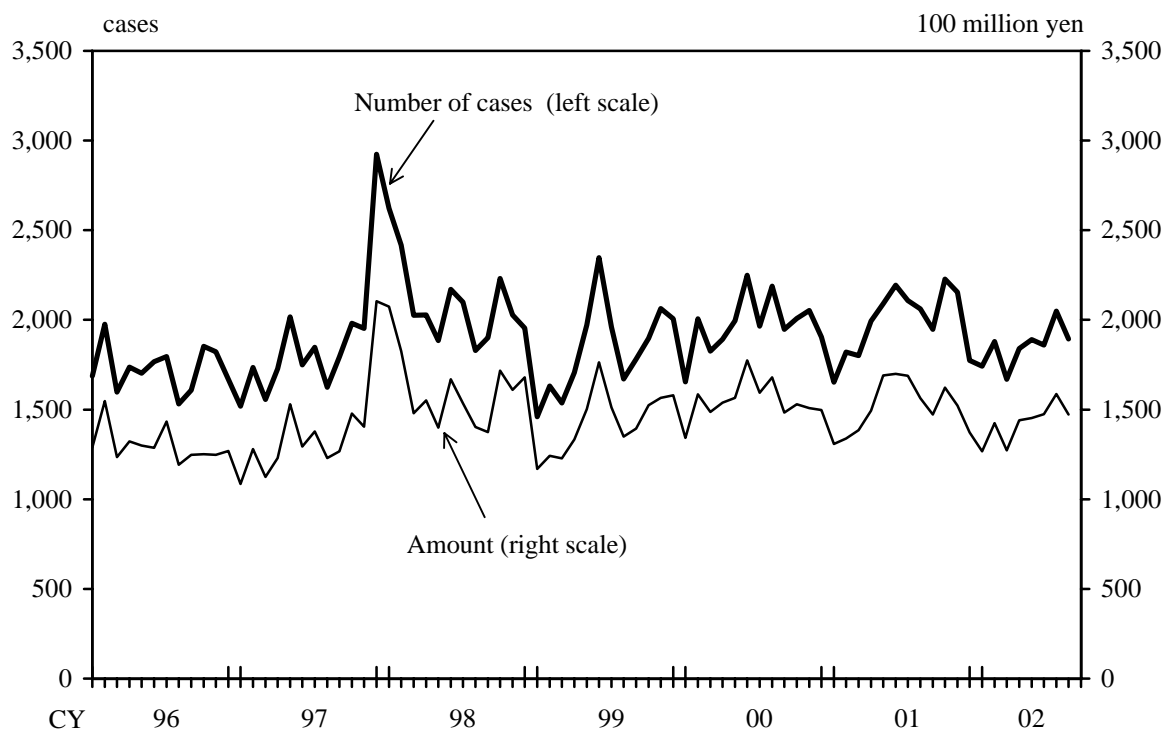
Lending by Other Financial Institutions

(1) Lending Outstanding



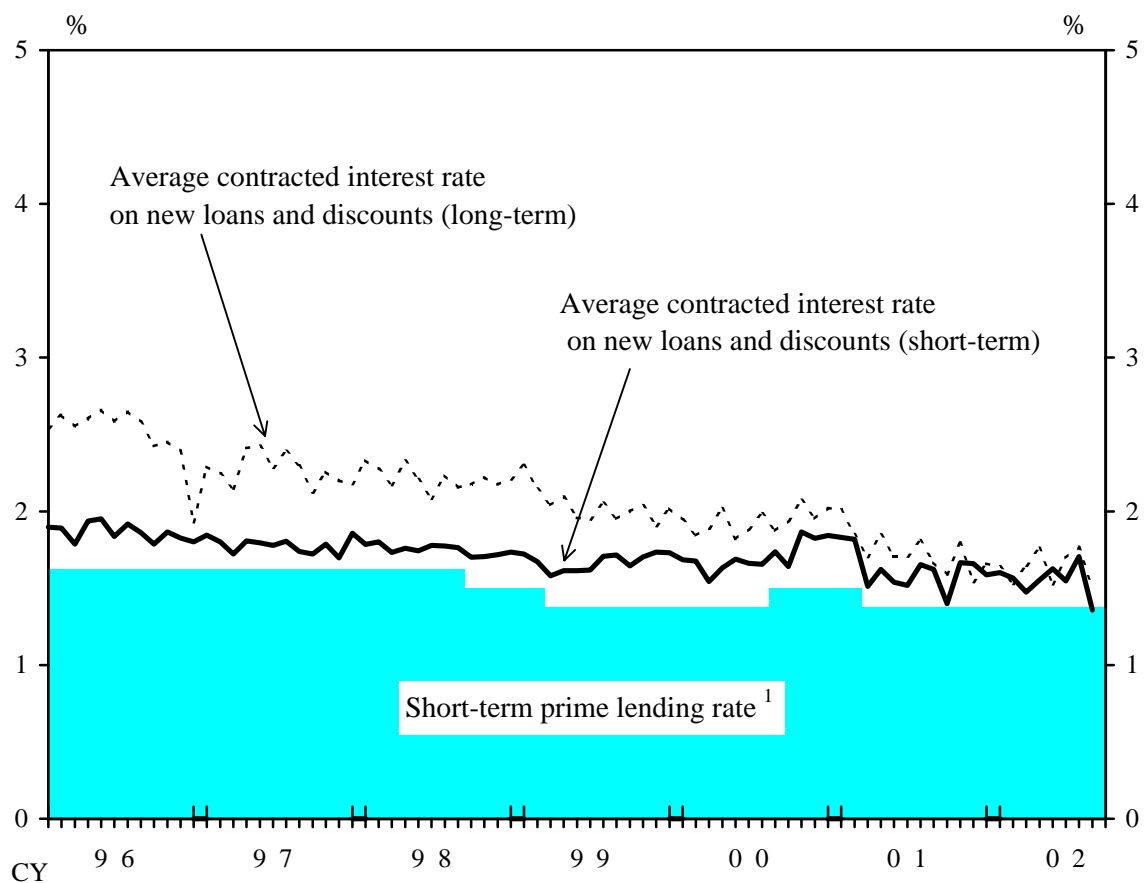
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

(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

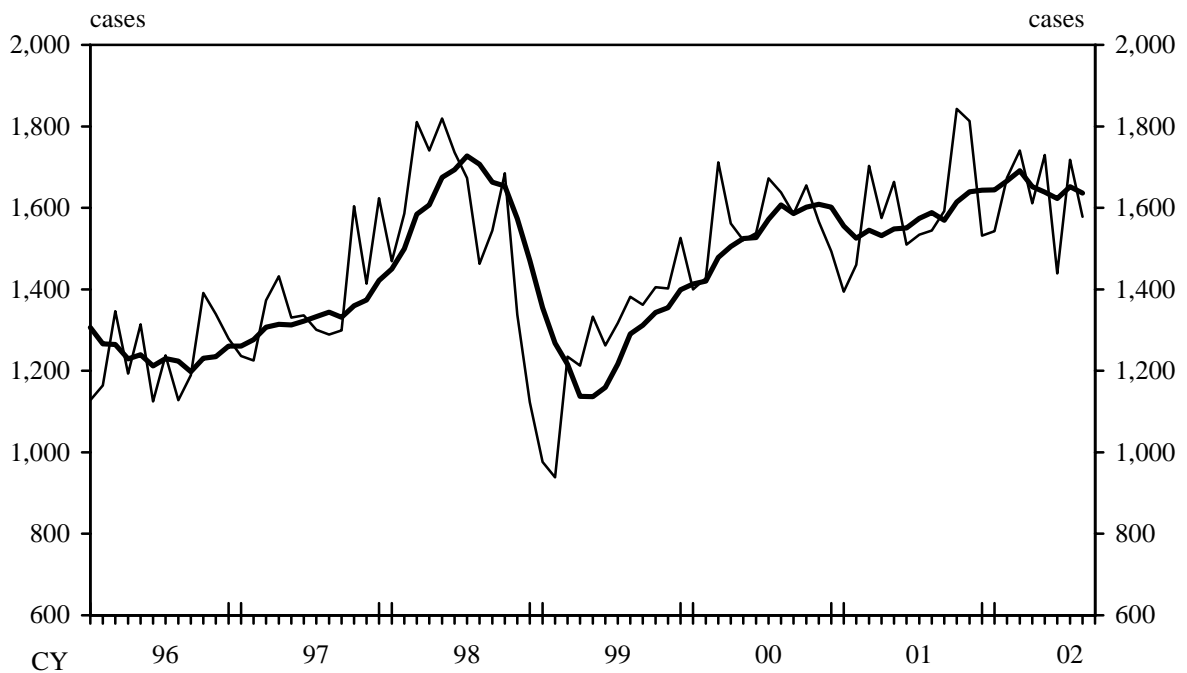


Note: 1. Data are at end of period.

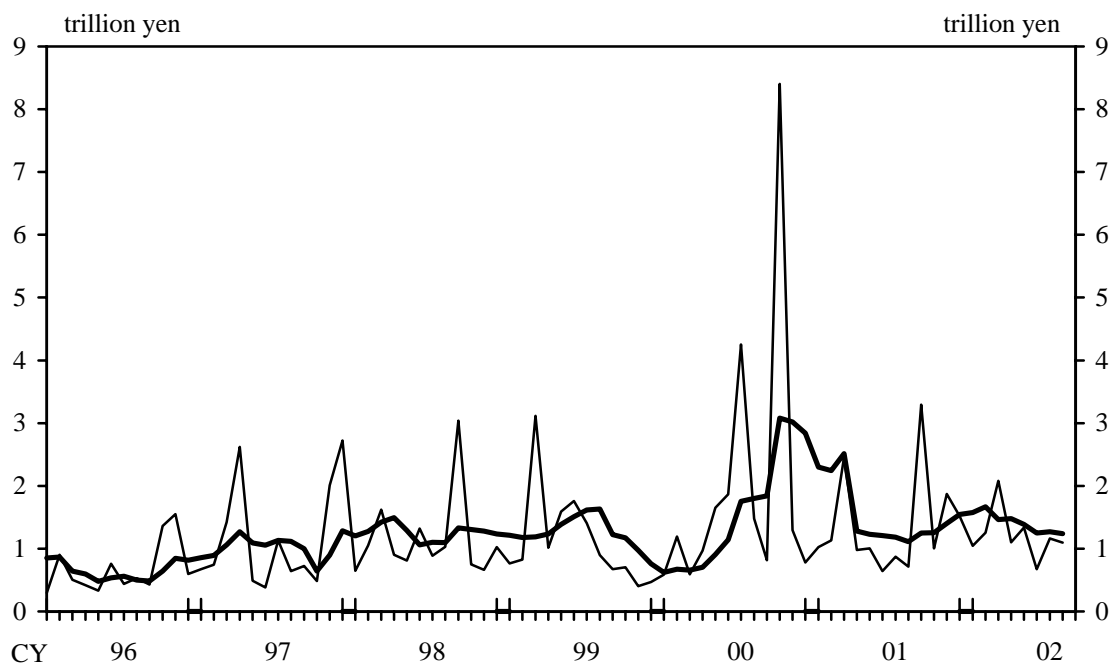
Source: Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

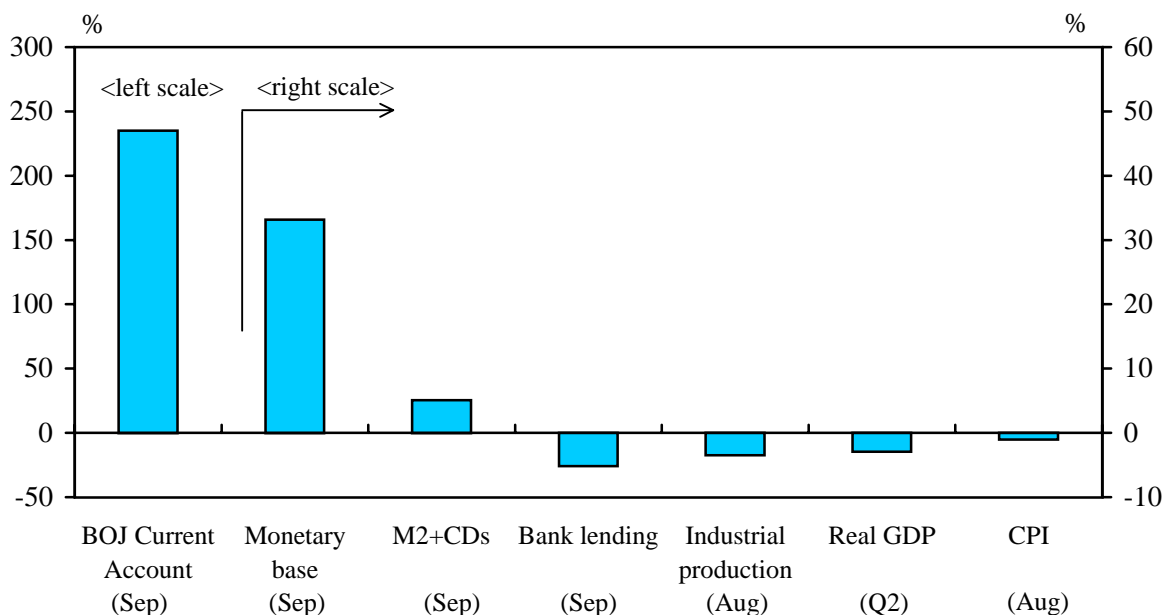


Note: The bold line is the six-month moving average.

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

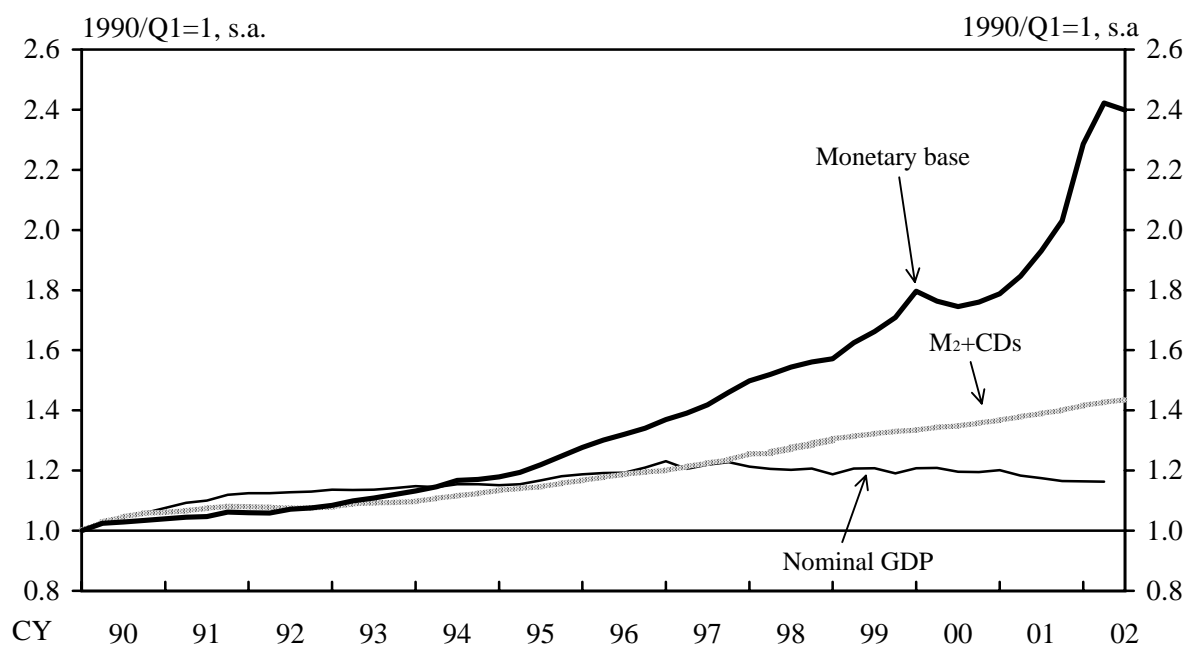
 Monetary Indicators, Economic Activity and Price Development

(1) Changes from March 2001



- Notes: 1. Figures, excluding BOJ current account balance and bank lending, are seasonally adjusted.
 2. Figure for the real GDP is compared to that in 2001/Q1.
 3. Figure for the bank lending is adjusted to exclude factors such as the liquidation of loans.
 4. Figure for the CPI excludes fresh food.

(2) Developments since 1990



Note: Figures for monetary base are adjusted for changes in reserve requirement rates.

Sources: Cabinet Office, "National Accounts"; Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production"; Bank of Japan.