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Bank of Japan

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

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Monthly Report of Recent Economic and Financial Developments¹

December 2002

The Bank's View²

Japan's economy has stabilized as a whole, but there is still substantial uncertainty toward recovery.

With regard to final demand, while the decline in business fixed investment has almost come to a halt, private consumption continues to be weak. Moreover, housing investment remains sluggish and public investment is declining. While signs of recovery are still not observed in domestic demand, exports are virtually level.

The completion of the cutbacks in inventory stocks still underpins the increase in industrial production. But the production is losing its momentum with exports leveling off. Against this background, corporate profits continue to recover, but the pace is becoming moderate. While business sentiment on the current conditions is improving gradually, firms' outlook is cautious. As for the employment situation, the overtime hours worked and new job offers are rising gradually. In addition, the number of employees, which widely covers various non-regular employees such as temporary workers, appears to have stopped declining gradually. However, as firms are still maintaining their stance on reducing personnel expenses, household income continues to decrease noticeably due to, among other factors, an ongoing decline in wages. Thus, the employment and income situation of households overall remains severe.

Turning to the economic outlook, a widely shared prospect for the overseas economy throughout next year is that it will follow a gradual recovery path. However, economic indicators in the United States and in some other regions are soft on the whole. Based on this development, the recovery in the overseas economy is likely to be

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 16 and 17, 2002.

² The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on December 16 and 17 as the basis for monetary policy decisions.

anemic at least for the time being. Therefore, exports and industrial production are expected to be more or less unchanged for the immediate future.

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. Business fixed investment is expected to be supported by the improvement in corporate profits to date, but a noticeable recovery is unlikely for the time being due to, among other things, substantial uncertainty regarding the overseas economy.

Overall, assuming that the overseas economy recovers next year even at a moderate pace, the increase in exports and production will resume sooner or later, which in turn will gradually make the foundations of Japan's economic recovery firmer. However, the economy is unlikely to show clear signs of recovery for some time, since exports and production are expected to be virtually unchanged for the time being while restraining forces such as excessive labor input and debt persist. Furthermore, the downside risk on the outlook for the U.S. and other overseas economies continues to require attention, given that there are some uncertain factors including geopolitical developments and their economic implication. On the domestic side, stock prices remain unstable. Hence, the progress in the disposal of non-performing loans and its effects on stock prices, corporate finance, and the economy, should be carefully monitored.

On the price front, import prices are on the rise reflecting the earlier firmness in oil prices and depreciation of the yen. Domestic wholesale prices turned up slightly due to the increase in import prices and the improved supply-demand balances in the materials industries, although machinery prices and electricity charges are declining. However, consumer prices remain on a gradual downtrend and corporate services prices continue to decline.

Looking at the conditions influencing price developments, import prices are projected to be firm for the time being as the effects from the rise in oil prices and the depreciation of the yen still remain. However, the overall supply-demand condition 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 corporate goods prices, the new price indicator which will replace domestic wholesale prices from December, are expected to be virtually level for a while. Consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. While the growth in imports of consumer goods has stalled and thus 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 environment, the outstanding balance of the current accounts at the Bank of Japan is recently moving at around 20 trillion yen, as the Bank provides further ample liquidity. Under these circumstances, in the short-term money markets, the overnight call rate continues to hover at very close to zero percent. Moreover, longer-term interest rates such as TB and FB rates continue to be at low levels as a whole, although the markets remain nervous reflecting weak bank stock prices.

Yields on long-term government bonds continue to move at around 1.0 percent. Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds remain virtually unchanged.

Stock prices turned up in late-November, but weakened again in December in line with a decline in U.S. and European stock prices. The Nikkei 225 Stock Average is recently moving at around 8,500 yen.

In the foreign exchange market, the yen declined until the beginning of December reflecting the improvement in some U.S. economic indicators. Thereafter, the yen rebounded as the U.S. dollar weakened again on the whole due mainly to geopolitical factors. The yen is currently traded in the range of 120-122 yen to the U.S. dollar.

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 have become slightly more severe. In the corporate bond and CP markets, the issuing environment for firms with high credit ratings is accommodative, but the environment for firms with low credit ratings is severe.

Credit demand in the private sector continues to follow a downtrend mainly because firms' business fixed investment remains sluggish 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 growth rate of the amount outstanding of corporate bonds and CP issued is on a declining trend.

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

The monetary base exhibits a high year-on-year growth rate of around 20 percent. The year-on-year growth rate of the money stock remains around 3.0-3.5 percent.

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

Against the above background, the financial developments are summarized as follows. Money market conditions as a whole continues to be extremely easy. Long-term interest rates are low. 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. In corporate finance, the fund-raising environment of firms with low credit risks is accommodative on the whole, but with regard to firms with high credit risks, the stance of investors is severe and the lending attitudes of private banks are becoming more cautious. Hence, including the effects arising from government measures to accelerate the disposal of non-performing loans and to revitalize industries

and firms, developments in the financial and capital markets, the behavior of financial institutions, and the situation of corporate finance continue to 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 follow a declining trend hereafter.³

Real exports have been virtually level (Chart 4[1]). After a substantial rise in the second quarter, when the impact from global restocking, mainly in IT-related goods, had been significant, they were more or less unchanged in the third quarter and in October. By goods (Charts 5[2], 6[1], and 7), IT-related exports increased only slightly in October, as the pace continued to edge down after the very rapid growth in the second quarter induced by the effects of restocking.⁴ In addition, intermediate goods (iron and steel, chemicals, etc.) turned down in reaction to an upsurge in the first half of this year. This decline was also due to steel makers' self-restraint, considering China's provisional safeguard to protect its steel industry.⁵ Exports of automobile-related goods dropped in October resulting from the U.S. west coast port disruptions that began at the end of September. Meanwhile, the growth in exports of consumer goods and capital goods-parts continued, although it has slowed compared to around spring.

³ The "Program to Accelerate Reforms" was decided at the Ministerial Meeting on Economic Measures on December 12. This program included the creation of safety nets such as employment measures and measures for small and medium-sized enterprises, and the encouragement of public investment promoting structural reform (national expenditure: 1.5 trillion yen; project scale: 2.6 trillion yen). These measures will underpin public investment. However, future investment is projected to follow a declining trend, though some fluctuations will occur since the initial budget for this fiscal year was reduced substantially and also the budget for the next fiscal year is likely to be restrained.

⁴ According to the *WSTS' (World Semiconductor Trade Statistics) Semiconductor Forecasts* (Chart 6[2]), global shipments of semiconductors in October decreased slightly; 0.5 percent compared to the third quarter, after the pace of increase slowed mainly in Asia (9.5 percent in the second quarter and 3.8 percent in the third quarter on a quarter-to-quarter basis). Shipments are predicted to become more or less level toward the year-end.

⁵ China's definitive safeguard measures on imports of steel took effect on November 20.

Real imports declined in October in reaction to a rather high growth in the third quarter (Chart 4[1]). By goods (Chart 8[2]), imports of materials (such as crude oil) and intermediate goods (chemical and metal products, etc.), both of which increased substantially in the third quarter, decreased in October. Imports of capital goods and parts (excluding aircraft) also dropped because the increase in exports had come to a halt. In addition, foodstuffs plunged, since imports from the United States were delayed due to the west coast shipping disruption. IT-related imports, which exhibited high growth throughout the first half of this year, continued to be level from the third quarter onward (Chart 6[3]).

Net exports (real exports minus real imports), in terms of the real trade balance (Chart 4[2]),⁶ inched down in the third quarter as exports lost their momentum and imports rose, but picked up again in October due to the decline in imports. On average, net exports have been more or less level. The surplus of the nominal balance on goods and services was also virtually level, reflecting the developments in net exports.

Regarding the outlook for the overseas economy, a widely shared prospect is that the economy will follow a gradual recovery path throughout next year. However, as for the current developments in the U.S. economy, which become the main focus when looking at overseas economies (Charts 9-2[1], [2], and [3]), there are some economic indicators showing that the economy is firm. On the other hand, business fixed investment has yet to show clear signs of recovery, and automobile sales have softened. With holiday sales having a large influence on the recovery, the uncertainty regarding the outlook continues to be significant. The European economy appeared to be decelerating, and in some East Asian economies, the growth in exports and production mainly in the IT-related sector seemed to be slowing. Anecdotal information obtained from Japanese firms also indicates that many firms are cautious regarding the outlook for future exports. In addition, there is substantial uncertainty about geopolitical tensions and their effects on overseas economies.

⁶ 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.)

Assuming that overseas economies will recover moderately next year, exports are projected to increase again at some stage. For the time being, however, they are likely to remain virtually unchanged, and the likelihood and timing of a recovery remain uncertain. Imports are expected to be level for some time, since domestic production will stay more or less unchanged. These prospects for exports and imports suggest that net exports will basically be level for the time being.

As for business fixed investment, developments in corporate profits, according to the Bank of Japan's *Tankan*—Short-term Economic Survey of Enterprises—of December 2002, confirmed that firms forecasted sharp increases in their current profits for FY 2002 (Chart 11). Compared to the September *Tankan*, although the profits of large nonmanufacturing firms were revised marginally downward, firms as a whole maintained their last forecast of the increase in current profits. However, quarterly developments in corporate profits in the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10-1[2]) suggest that even though the uptrend continued, the pace seemed to be decelerating. As mentioned later, production is expected to be level from the fourth quarter onward. Against this background, the pace of increase in corporate profits for the second half of this fiscal year is likely to slow down.

In these circumstances, business sentiment on the current conditions is improving gradually, but firms are taking a cautious view regarding their outlook (Chart 12). While business sentiment of both large and small manufacturing firms continued to pick up moderately, in nonmanufacturing, sentiment of large firms inched down, and that of small firms improved slightly.

With regard to corporate finance (Chart 13), the index of the financial position of firms was unchanged, but the lending attitude of financial institutions perceived by firms seemed to be heading for severity, although marginally, among large firms. Both the index of the financial position of firms and the lending attitudes of financial institutions continued to be more severe for small firms than for large firms.

Against this background, business fixed investment has almost stopped declining, but signs of recovery are still yet to emerge (Chart 10-1[1]). Looking at the

developments in fixed investment of manufacturing and nonmanufacturing by size (Chart 10-2), investment of large manufacturing firms was comparatively weak, even though they marked the most notable improvement in profits reflecting the increase in exports. This suggests that the recovery in business fixed investment is unlikely to materialize. Meanwhile, shipments and aggregate supply of capital goods (excluding transport equipment), a coincident indicator of machinery investment, had stopped decreasing and have remained almost unchanged thereafter (Chart 10-3[1]).⁷

As for leading indicators, machinery orders (private demand, excluding shipbuilding and electric power equipment; Chart 10-4[1]), fell slightly in the third quarter and in October after the upturn in the second quarter. This indicates a small likelihood of an early recovery in business fixed investment. Construction starts (private, nondwelling use; Chart 10-4[2]), another leading indicator, increased in October due to large redevelopment projects in the Tokyo metropolitan area, but have basically been level on the whole.

Furthermore, the business fixed investment plans for FY2002 in the December *Tankan* overall indicated a significant decline on a year-on-year basis (Chart 14). In particular, large manufacturing firms, which have projected substantial profit increases, remained reluctant toward investment; an increase in exports and production to date has not yet led to a recovery in investment.

In sum, as for the outlook for business fixed investment, the investment stances of firms are unlikely to become positive in the near future, as exports and production are projected to be more or less unchanged for some time, and excess capacities will persist among firms (Chart 10-3[2]).

Private consumption remains weak amid the severe employment and income situations of households. Overall, there is no distinct change in the underlying trend of private consumption, although various indicators show monthly fluctuations and movements in opposite directions.

⁷ 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*.

In detail (Charts 15-1 and 15-2), the number of new passenger-car registrations continued to be steady from August, supported by the introduction of new models, especially of compact cars, and the sales promotions of some manufacturers. Sales of household electrical appliances (NEBA statistics; real basis) have been fluctuating significantly since summer, but the trend remains unchanged. Sales at department stores and supermarkets decreased from the third quarter, since winter apparel sales were in a slump due to the rather high temperatures in October. However, sales seem to have picked up in November as the temperature dropped sharply. On balance, taking these climatic conditions into account, there seem to be no significant changes in the underlying trend. Sales at convenience stores continued to follow their trend to date. As for the services-related industries, sales in the food services industry have lately been below their recent uptrend. Outlays for travel were more or less unchanged. The indices of aggregated sales (Chart 15-3)⁸—which are comprised of many sales indicators, including those mentioned above—clearly turned positive in October in comparison to last year’s level when the figures dropped sharply due to the terrorist attacks in the United States and to the BSE. Meanwhile, the level of aggregate supply of consumer goods (Chart 15-4) has returned to nearly zero, up from a negative level on a year-on-year basis. This is also because of the slump last year, in addition to the recovery in passenger car sales.

Consumer sentiment had been picking up since early spring, but recently an increasing number of indicators showing that sentiment had edged down could be seen, mainly due to concern over the employment situation (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 October, construction starts of owner-occupied houses and housing for rent all remained low, although those of condominiums surged due to construction starts of extremely large condominiums in

⁸ 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 the notes in Chart 15-3.

the Tokyo metropolitan area. 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.

As for industrial production (Chart 18[1]), the completion of the cutbacks in inventory stocks still underpins the increase in production, but the production is losing its momentum as exports level off. As for recent developments by goods (Chart 19), the increase in production goods recently slowed after the upsurge during the first half of this year in line with the developments in exports. On the other hand, durable consumer goods continued a moderate recovery, reflecting the increase in domestic passenger car sales.

As for inventories, inventory adjustment had been completed, and the inventory level continued to be low (Charts 18 and 20). Anecdotal information from Japanese firms basically showed no signs of unintended inventory accumulation; it would thus appear that the current phase of the inventory cycle still supports production.

As for the outlook for industrial production, exports are likely to remain more or less level for the time being, and support from the introduction of new automobile models is projected to weaken slightly. In addition, the support from the progress in the inventory cycle is expected to edge down. Against this background, industrial production is projected to remain virtually unchanged for some time.⁹

As for the employment and income situation, the number of new job offers and overtime hours worked are rising gradually (Charts 22-1[2] and 22-2[3]). Moreover, the number of employees in the *Labour Force Survey*, which widely covers various non-regular employees such as temporary workers, appears to have stopped declining gradually (Chart 22-2[1]). However, firms are maintaining their stances on reducing personnel expenses, and the number of regular employees published in the *Monthly Labour Survey*, in which the weight of regular employees is higher, kept declining

⁹ An estimation on production in the fourth quarter revealed almost zero growth: 0.3 percent on a quarter-to-quarter basis. The figure is based on the production forecast indices of November (-0.1 percent on a month-to-month basis) and December (+0.6 percent). According to anecdotal information from Japanese firms, they seem to be overall cautious about production in the first quarter of 2003, since they currently have little confidence that exports will start recovering.

(Chart 22-2[2]). The December *Tankan* showed that firms still feel their employment to be excessive, and the pace of improvement in the “excessiveness” slowed (Chart 23). Moreover, wages continued to fall, and therefore household income was notably on the decline (Chart 21). In sum, the employment and income situations of households remain severe.

Looking at nominal wages per employee in detail (Chart 21[2]), overtime payments increased but the contribution to overall wages was small. On the other hand, regular payments continued to decline, due to both a rise in the ratio of part-time workers and to a restraint on the base-pay hike. As for winter bonuses, although the improvement in corporate profits during the first half of this fiscal year is expected to be an underpinning factor to some extent, the bonuses are projected to remain severe amid substantial uncertainty regarding the business environment for the second half of this fiscal year onward. These situations in employment and wages suggest that household income is expected to continue decreasing markedly for the time being.

Meanwhile, the unemployment rate (Chart 22-1[1]), which had been approximately 5.4 percent for five consecutive months through September, changed for the worse in October to 5.5 percent, reaching the historical peak of December 2001. The male unemployment rate in particular recorded a historical high of 5.9 percent. Among the unemployed, the number of those involuntarily unemployed remained high.

2. Prices

Import prices on a yen basis are on the rise compared to levels three months ago due to the earlier firmness in oil prices and depreciation of the yen (Chart 25).

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates)¹⁰ firmed up compared to levels three months ago (Chart 26). In detail, prices of petroleum products rose, reflecting the increase in the import prices.

¹⁰ 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.

Moreover, prices of materials such as iron and steel, chemicals, and paper-pulp rose due to the improvement in the supply and demand balance. In contrast, machinery prices continued to decline and electricity charges were also reduced.

The Wholesale Price Index will be replaced by a new index from December 2002 to “Corporate Goods Price Index¹¹” (to be released on January 17, 2003), as a result of substantial revisions in line with the changes in the base year. The new index figures, which cover up to September 2002, showed that domestic corporate goods prices marked a faster pace of decline than domestic wholesale prices by 0.1 percent to 0.3 percent compared to levels three months ago. This is because of the increase in the weight of IT-related goods (electrical machinery), whose prices have been on a declining trend.

Corporate services prices (domestic supply-demand factors; same hereafter) continue to decline (Chart 27). Compared to those three months ago, prices for general services (building maintenance) dropped because of firms’ intentions to reduce business costs; prices for real estate services (real estate rents) and communications (data transmission services) also declined. Moreover, prices of leasing and rentals continued a downtrend. On a year-on-year basis, the decrease in corporate services prices has been slightly more than one percent.

Consumer prices (excluding fresh food; same hereafter) continue to decline mildly (Chart 28). The overall year-on-year rate of change continued at slightly less than one percent (the year-on-year change remained –0.9 percent from August to October). In detail, while the rate of decline in goods contracted marginally at around

¹¹ This time, in line with the revision of the base year, the name of the Wholesale Price Index has been changed to the “Corporate Goods Price Index (CGPI)” so that this name better represents the character of the index, which is “integration of the prices of goods traded among corporations.” The index has been revised significantly in the following five aspects. It is expected to: (1) revise the items of commodities (e.g., introduction of newly selected commodities, mainly IT-related commodities); (2) update the base year of both the index and the weight calculation from 1995 to 2000; (3) comprehensively revise the items applied for the sampling method (increase the number of sample prices and introduce averaged prices); (4) expand the application of the quality adjustment econometric method (hedonic regression method); (5) introduce the chain-weighted index formula as a reference index. For details, see materials “Revision of the Wholesale Price Index (Switchover to the 2000 Base Corporate Goods Price Index <CGPI>)” and “*kigyō bukka shisu-2000nen kijyun shisu no tokuchouten* (Corporate Goods Price Index—characteristics of the 2000 base year index; available in Japanese only) released on December 9 by the Research and Statistics Department, Bank of Japan.

–2.0 percent, general services turned down after being level, and public utility charges declined somewhat faster, mainly due to the reduction in electricity charges.

As for imported products and their substitutes (Chart 29[1]), the rate of decline in these prices tended to contract rather noticeably on a year-on-year basis. This may be closely related to the decline in the prevalence of business strategies for lower pricing, compared to 2000-2001. In fact, the increase in imports of consumer goods, which had been supporting these strategies, has recently been negative on a year-on-year basis (Chart 29[2]).

As for the domestic supply-demand condition in terms of the December *Tankan* (Chart 30), firms perceived that the supply and demand conditions for products and services continued to improve from the completion of inventory adjustment, but the momentum is declining. The operating level of the domestic economy, measured by the weighted average of production capacity and employment excessiveness among firms, continued an uptrend, although the level is still low. Looking at the diffusion index for the change in output prices based with this supply and demand condition in mind, the indexes for the materials industries among manufacturing, such as iron and steel, chemicals, and pulp-paper, continued to improve, but this could not be observed in nonmanufacturing.

Looking at the conditions influencing price developments, import prices are projected to be firm for the time being as the effects from the rise in oil prices and the depreciation of the yen still remain. However, the overall supply-demand condition 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 corporate goods prices, the new price indicator which will replace domestic wholesale prices from December, are expected to be virtually level for a while. Consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. While the growth in imports of consumer goods has stalled and thus 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 recently moving at around 20 trillion yen, as the Bank provides further ample liquidity (Chart 33).

As for interest rate developments in the short-term money markets, the overnight call rate (uncollateralized; Chart 31[1]) continues to hover at very close to zero percent. Moreover, developments in longer-term interest rates, such as three-month Euro-yen rates (TIBOR) and TB and FB rates (Chart 32), continue to be at low levels as a whole, although the markets remain nervous reflecting weak bank stock prices.

In the bond market, yields on ten-year government bonds (newly issued 10-year JGB; Chart 31[2]) continue to move at around 1.0 percent as demand of banks and other institutional investors for the bonds remain strong, although concern exists that banks may sell more bonds for profit-taking toward the fiscal year-end.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 35 and 36) remain virtually unchanged. However, yield spreads between government bonds and bonds with low credit ratings remain wide as the market is still cautious about the credit risk involved.

Stock prices (Chart 37) turned up in late-November, but weakened again in December among ongoing concern over credit risks of firms with low credit ratings, in line with a decline in U.S. and European stock prices. The Nikkei 225 Stock Average is recently moving at around 8,500 yen.

In the foreign exchange market (Chart 38), the yen declined until the beginning of December reflecting the improvement in some U.S. economic indicators.

Thereafter, the yen rebounded as the U.S. dollar weakened again on the whole due mainly to geopolitical factors. The yen is currently traded in the range of 120-122 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) exhibited a high year-on-year growth rate of around 20 percent. (The year-on-year change was 21.4 percent in September, 19.8 percent in October, and 21.8 percent in November; Chart 39.)

The year-on-year growth rate of the money stock ($M_2 + \text{CDs}$) remains around 3.0- 3.5 percent. (The year-on-year change was 3.2 percent in September, 3.3 percent in October, and 3.2 percent in November; Chart 40.) 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 29.7 percent in September, 28.9 percent in October, and 28.6 percent in November.)

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 have become slightly more severe. In the corporate bond and CP markets, the issuing environment for firms with high credit ratings is accommodative, but the environment for firms with low credit ratings is severe.

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

Amid these developments, lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors¹²), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, continued to decline by about 2-3 percent on a year-on-year basis. (The year-on-year change was -2.6 percent in September, -2.6 percent in October, and -2.3 percent in November; Chart 41.) The growth rate of the amount outstanding of corporate bonds and CP issued is on a declining trend (Chart 43).

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 45). The long-term prime lending rate was raised by 0.05 percent to 1.65 percent on December 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 decreased by 20.8 percent from the previous year's level in November (Chart 46).

Against the above background, the financial developments are summarized as follows. Money market conditions as a whole continues to be extremely easy. Long-term interest rates are low. 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. In corporate finance, the fund-raising environment of firms with low credit risks is accommodative on the whole, but with regard to firms with high credit risks, the stance of investors is severe and the lending attitudes of private banks are becoming more cautious. Hence, including the effects arising from government measures to accelerate the disposal of non-performing loans and to revitalize industries

¹² 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.

and firms, developments in the financial and capital markets, the behavior of financial institutions, and the situation of corporate finance continue to require close monitoring.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2002/Q1	Q2	Q3	2002/Aug.	Sep.	Oct.	Nov.
Index of living expenditure level (all households)	1.7	-0.9	1.3	-1.9	5.3	-2.3	n.a.
Sales at department stores	-0.3	-0.8	-0.6	5.0	0.0	-3.3	n.a.
Sales at supermarkets	-0.6	2.1	-1.3	4.6	-0.8	-2.8	n.a.
New passenger-car registrations ² <s.a., ann. 10,000 units>	< 304>	< 314>	< 319>	< 334>	< 331>	< 337>	< 342>
Sales of household electrical appliances (real, NEBA)	2.8	2.9	2.2	16.3	-2.1	-1.3	n.a.
Outlays for travel (50 major travel agencies)	14.0	0.7	0.1	-1.3	0.5	1.4	n.a.
Housing starts <s.a., ann. 10,000 units>	< 118>	< 117>	< 113>	< 113>	< 111>	< 119>	<n.a.>
Machinery orders (from private sector ³)	-7.4	7.1	-1.7	-13.6	12.7	-4.1	n.a.
Manufacturing	2.6	4.6	-0.6	-17.2	11.4	10.5	n.a.
Nonmanufacturing ³	-11.0	7.1	0.1	-5.1	5.3	-12.3	n.a.
Construction Starts (private, nonresidential use)	-10.6	6.6	-6.7	1.1	13.0	9.3	n.a.
Mining & manufacturing	-12.2	10.5	-15.4	9.3	41.0	-12.1	n.a.
Nonmanufacturing ⁴	-10.2	5.6	-4.2	-1.0	8.4	14.0	n.a.
Value of public works contracted	-0.4	-0.6	-5.8	-9.0	3.3	3.4	-3.8
Real exports	4.7	7.8	0.7	-2.9	-1.1	1.3	n.a.
Real imports	-1.9	2.6	3.4	-5.0	1.4	-3.1	n.a.
Industrial production	0.7	3.8	2.2	1.4	-0.1	-0.2	n.a.
Shipments	1.2	4.3	1.8	4.0	-1.8	0.9	n.a.
Inventories	-4.3	-3.0	0.2	-0.9	0.5	0.6	n.a.
Inventories/shipments <s.a., CY 1995=100>	<108.9>	<101.4>	<100.9>	<98.1>	<100.9>	<98.0>	<n.a.>
Real GDP	0.0	0.9	0.8	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.6	0.2	0.7	0.3	0.0	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2002/Q1	Q2	Q3	2002/Aug.	Sep.	Oct.	Nov.
Ratio of job offers to applicants <s.a., times>	<0.51>	<0.53>	<0.55>	<0.54>	<0.55>	<0.56>	<n.a.>
Unemployment rate <s.a., %>	<5.3>	<5.3>	<5.4>	<5.4>	<5.4>	<5.5>	<n.a.>
Overtime working hours ⁵	-5.7	-2.2	2.7	2.6	4.9	4.7	n.a.
Number of employees	-1.1	-1.2	-0.1	-0.2	-0.0	-0.5	n.a.
Number of regular employees ⁵	-0.4	-0.5	-0.7	-0.8	-0.7	-0.8	n.a.
Nominal wages per person ⁵	-1.9	-2.6	-3.5	-3.0	-1.2	-0.5	n.a.
Domestic wholesale price index ⁶ <q/q % chg.> (3-month growth rate)	-1.5 <-0.3>	-1.2 <0.1>	-1.0 <-0.2>	-1.0 <-0.3>	-0.9 <-0.2>	-0.5 <0.0>	-0.3 <0.2>
Consumer price index ⁷ <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.1>	-0.9 <-0.3>	-0.9 <-0.2>	-0.9 <-0.2>	-0.9 <-0.3>	-0.9 <-0.3>	n.a. <n.a.>
Corporate service price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-1.6 <-0.3>	-1.2 <-0.2>	-1.2 <-0.3>	-1.2 <-0.3>	-1.1 <-0.2>	-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	3.2	3.3	3.2
Number of suspension of transactions with banks	3.5	-9.4	-7.7	-8.9	-16.0	-19.5	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.

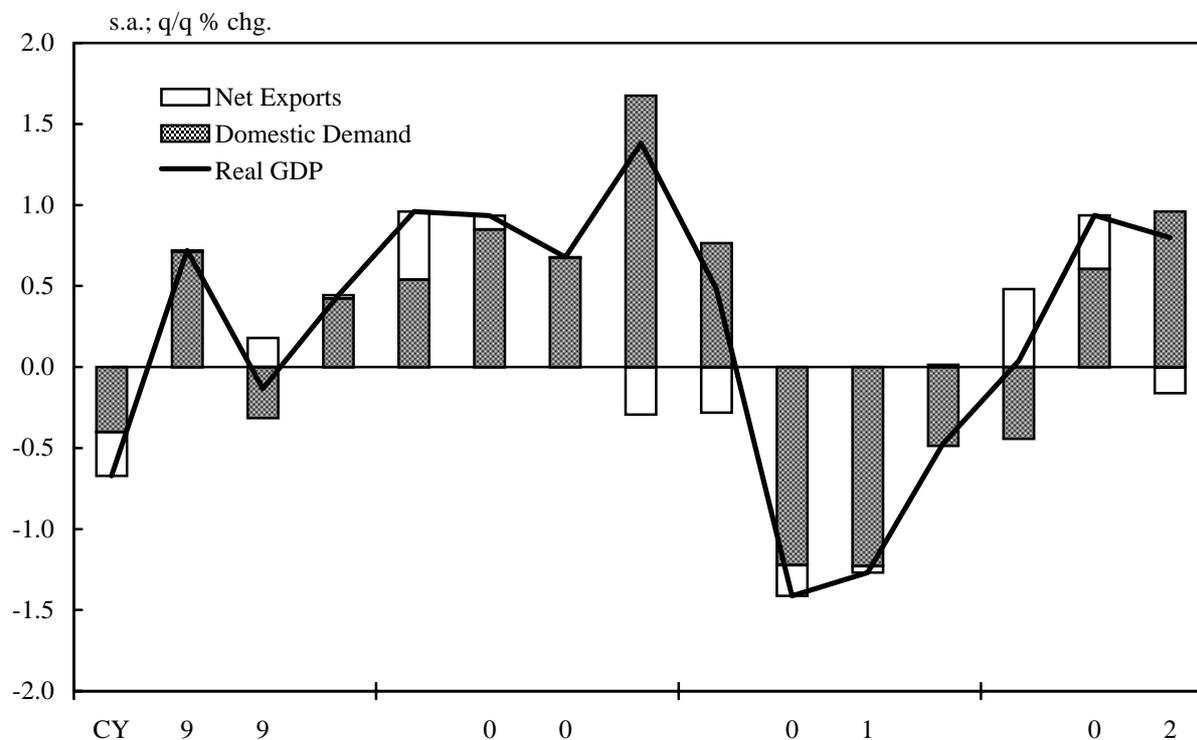
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Excludes small cars with engine sizes of 660cc or less.
3. Excludes orders of shipbuilding and orders from electric power companies.
4. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.
5. Data for establishments with at least 5 regular employees.
6. Adjusts to exclude a hike of electric power charges in summer season.
7. Excludes fresh food.
8. 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 include "reference series" for 1994/Q1-1999/Q4.

(2) Components

s.a.; q/q % chg. 1st preliminary

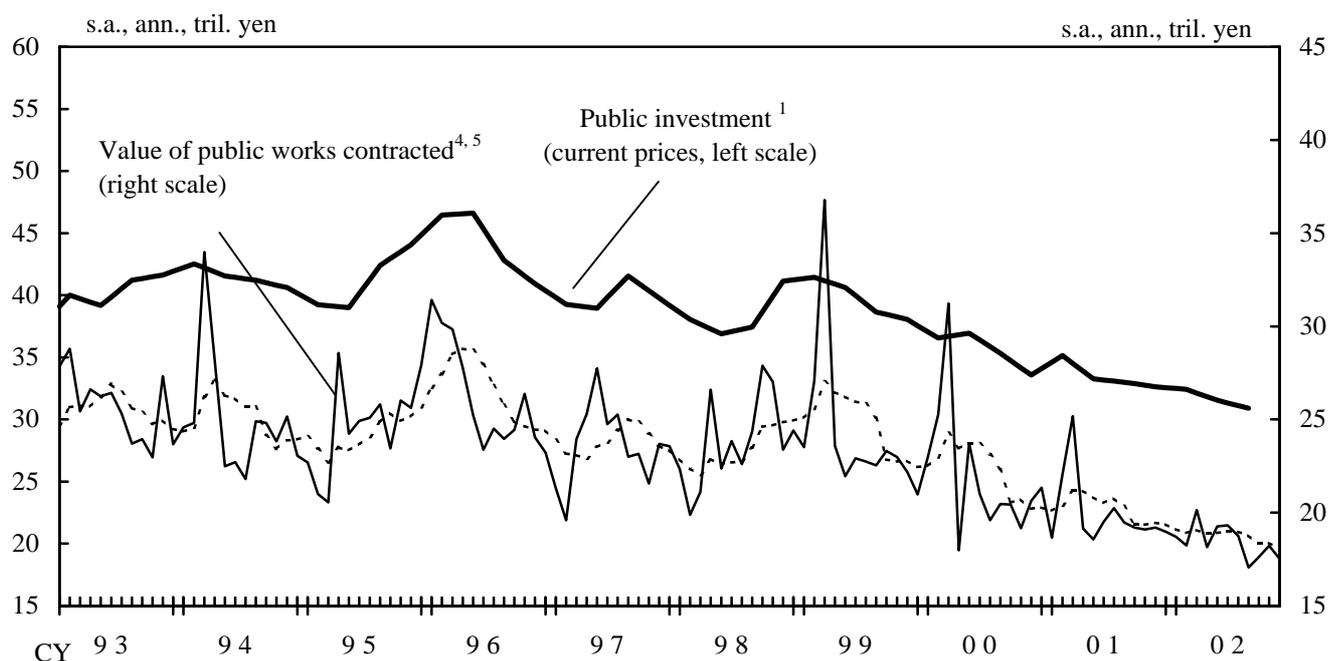
	2001		2002			2002
	Q3	Q4	Q1	Q2	Q3	Q3
Real GDP	-1.3	-0.5	0.0	0.9	0.8	0.7
Domestic Demand	-1.3	-0.5	-0.4	0.6	1.0	0.9
Private Consumption	-0.4	0.3	0.5	0.5	1.0	0.8
Non-Resi. Investment	-3.9	-3.6	-1.7	0.3	-0.5	-0.9
Residential Investment	-0.5	0.4	-2.7	-0.4	0.0	-0.2
Private Inventory	(-0.4)	(-0.1)	(-0.5)	(0.4)	(0.5)	(0.5)
Public Demand	0.4	0.1	0.6	-0.5	0.1	0.3
Public Investment	-0.3	-1.2	-0.0	-2.1	-1.5	-1.6
Net Exports of goods and services	(-0.0)	(0.0)	(0.5)	(0.3)	(-0.2)	(-0.1)
Exports	-3.1	-1.6	4.8	5.9	0.6	0.5
Imports	-3.3	-2.1	0.1	3.5	2.6	1.8

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

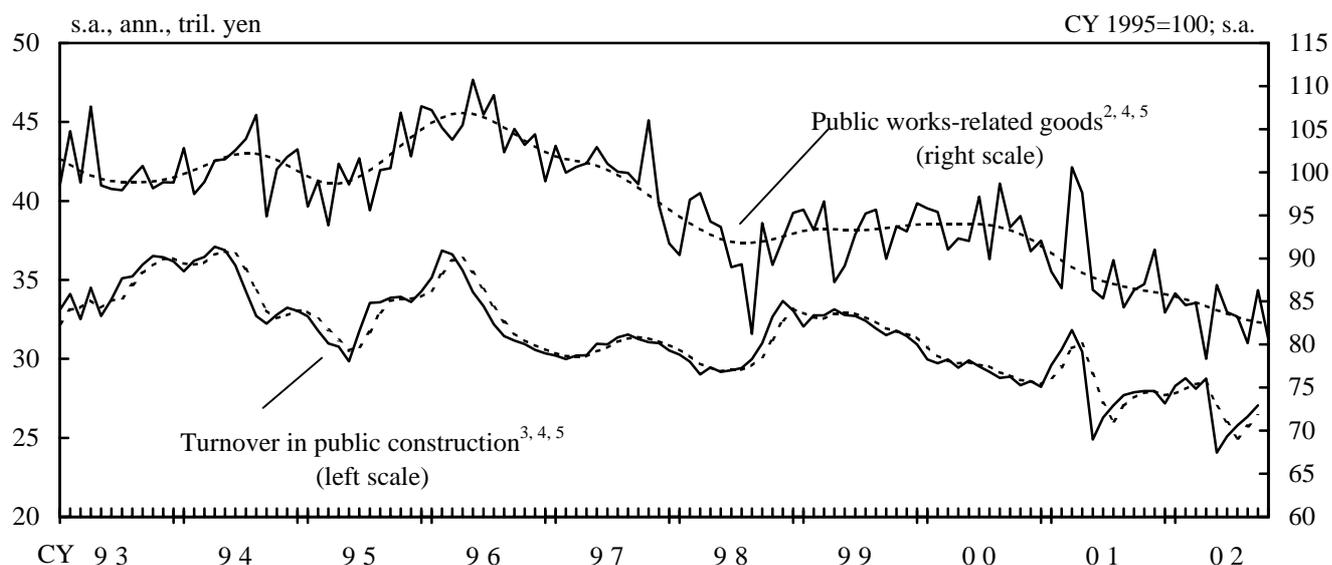
Source: Cabinet Office, "National Accounts."

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. The figures include "reference series" for 1994/Q1-1999/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.

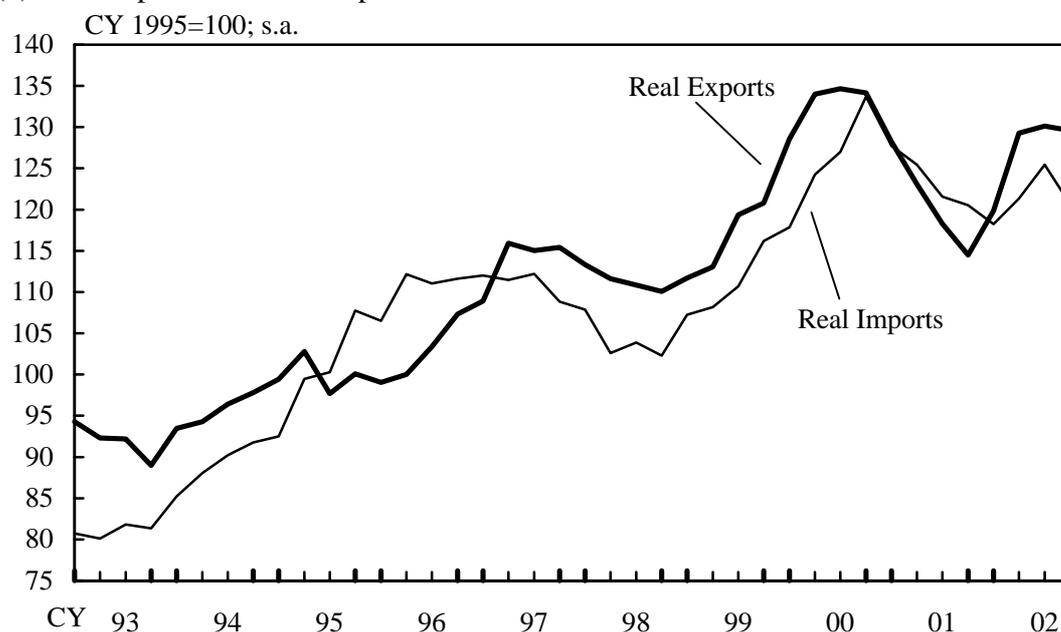
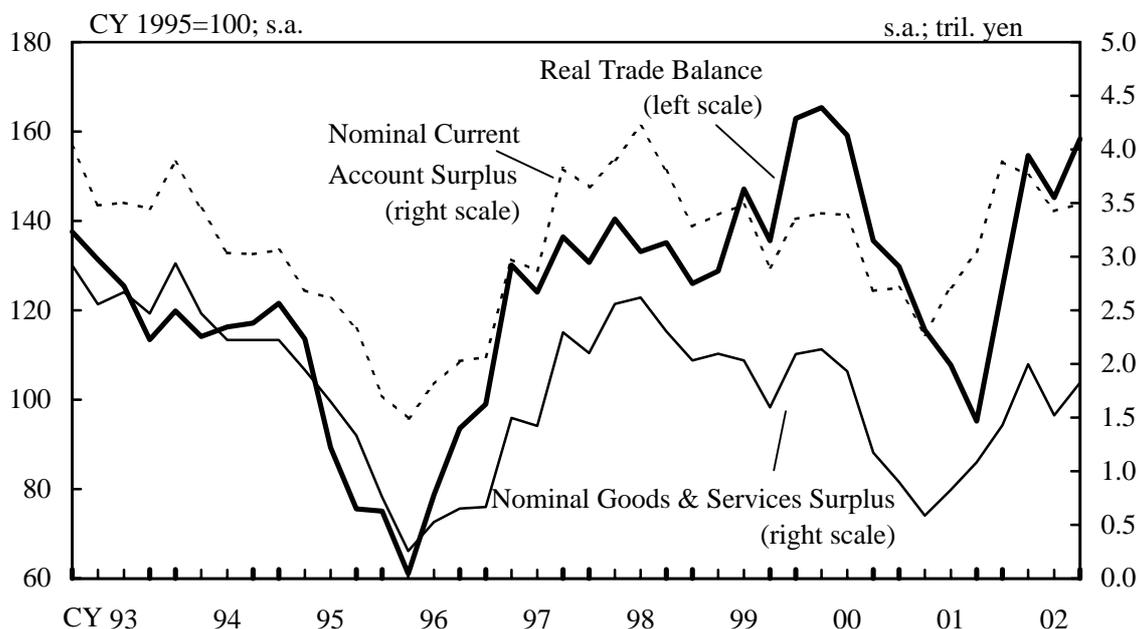
Sources: Cabinet Office, "National Accounts";

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/Q4 figures are October figures converted into quarterly amount.
3. Balance of payments data up to 1995/Q4 are old basis. 2002/Q4 figures are October figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q4	2002 Q1	Q2	Q3	Q4	2002 Aug.	Sep.	Oct.
United States	<30.0>	11.7	-8.5	-3.7	4.4	1.5	-0.6	-5.0	-7.5	6.8	-6.6
EU	<15.9>	6.4	-10.9	-0.8	-6.2	9.8	6.1	-1.5	-2.2	-0.7	-0.3
East Asia	<38.7>	25.7	-9.7	-1.1	7.5	12.1	4.3	2.0	1.7	-2.5	3.2
China	<7.7>	27.8	11.6	-0.5	17.8	13.3	11.0	3.3	5.1	-8.5	7.9
NIEs	<21.7>	25.8	-15.8	-1.8	5.8	12.1	2.9	1.0	-1.9	2.5	0.0
Korea	<6.3>	30.4	-9.1	-1.5	2.8	13.8	6.0	2.4	1.2	4.1	-0.7
Taiwan	<6.0>	22.5	-25.7	4.3	6.7	12.4	2.2	-2.9	-8.0	-2.9	2.0
ASEAN4 ³	<9.3>	24.0	-8.1	-0.1	3.3	10.8	1.4	3.0	6.9	-7.5	6.2
Thailand	<2.9>	19.0	-4.0	-0.3	-1.5	16.2	10.1	2.9	11.9	-6.2	3.6
Real exports		14.1	-9.1	-3.2	4.7	7.8	0.7	-0.4	-2.9	-1.1	1.3

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q4	2002 Q1	Q2	Q3	Q4	2002 Aug.	Sep.	Oct.
Intermediate goods	<14.7>	5.3	-3.5	2.1	5.6	3.7	0.1	-6.4	-4.1	-2.6	-3.3
Motor vehicles and their related goods	<22.1>	9.2	0.0	1.1	5.8	4.2	-0.5	-4.0	-8.4	5.6	-4.6
Consumer goods ⁴	<7.3>	13.0	-6.3	-5.8	4.5	8.6	2.2	3.4	-5.3	-5.6	9.6
IT-related goods ⁵	<17.3>	25.2	-12.0	-7.3	-5.9	17.0	8.6	1.1	4.9	-3.5	2.0
Capital goods and parts ⁶	<27.5>	21.1	-14.9	-5.0	6.2	9.2	2.4	2.9	-1.9	2.5	1.8
Real exports		14.1	-9.1	-3.2	4.7	7.8	0.7	-0.4	-2.9	-1.1	1.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q4 figures are October figures 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.

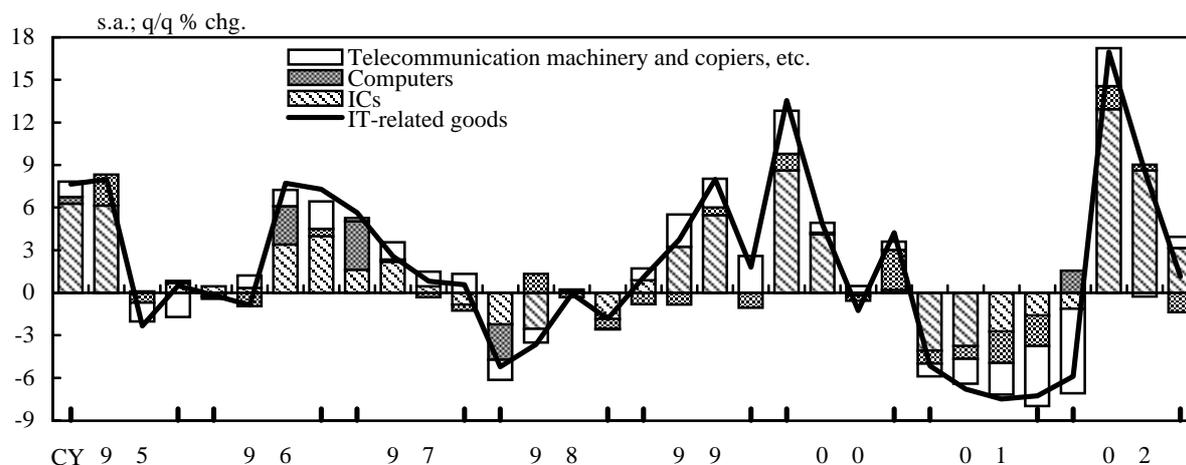
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

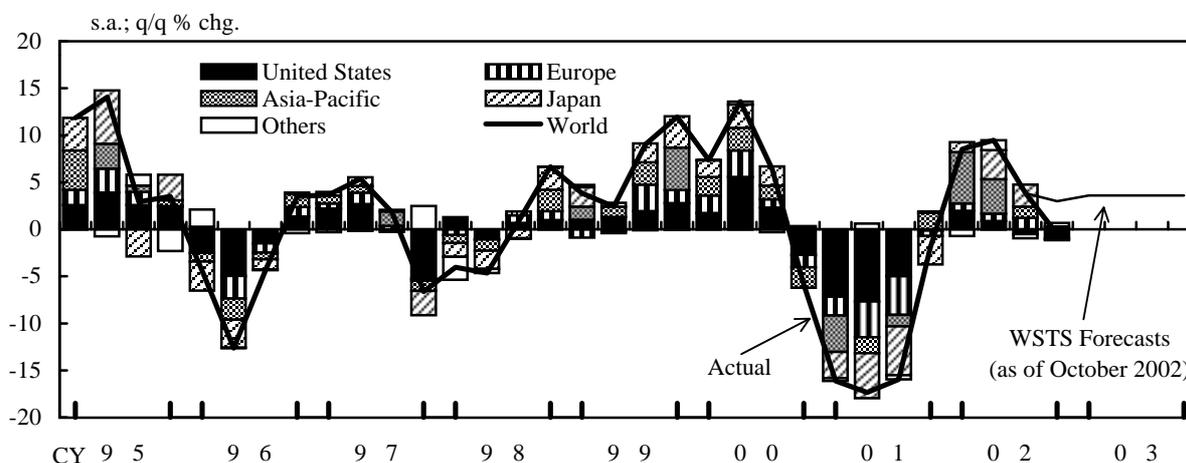
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Exports and Imports of IT-related goods

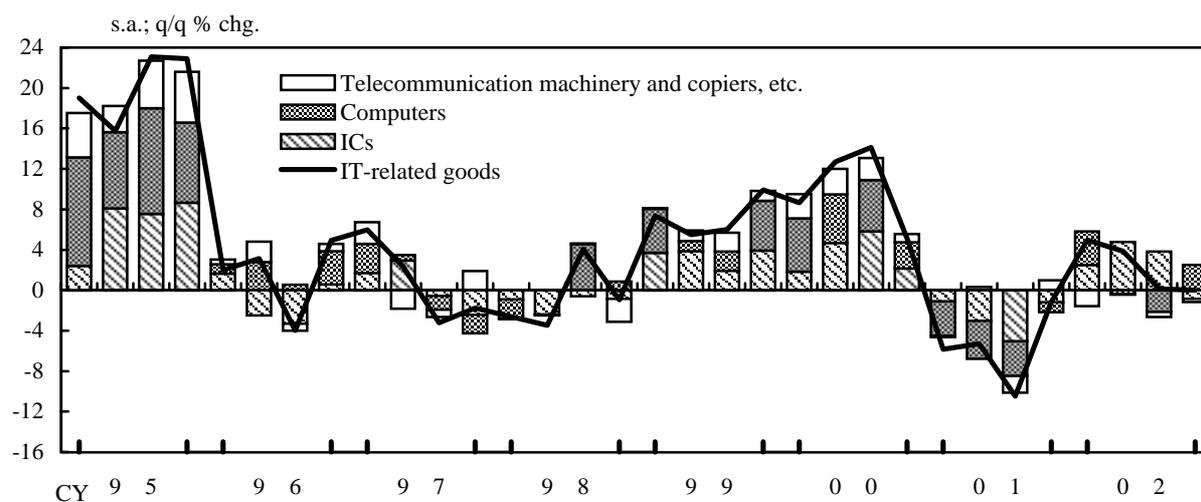
(1) Exports of IT-related goods (real, breakdown by goods)



(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/Q4 figures are October figures converted into quarterly amount.

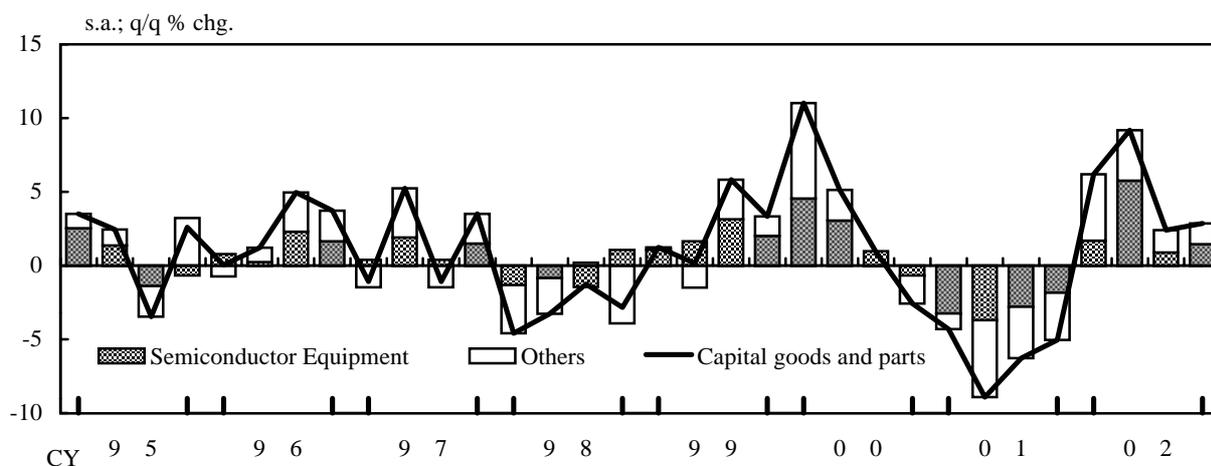
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";

Bank of Japan, "Wholesale Price Indexes";

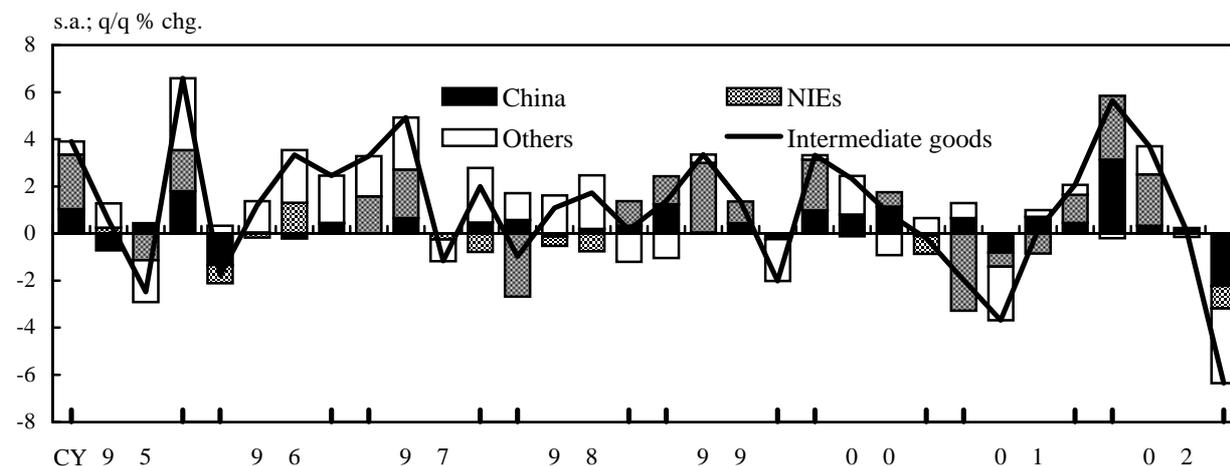
WSTS (World Semiconductor Trade Statistics), "Semiconductor Forecasts."

Real Exports breakdown by goods

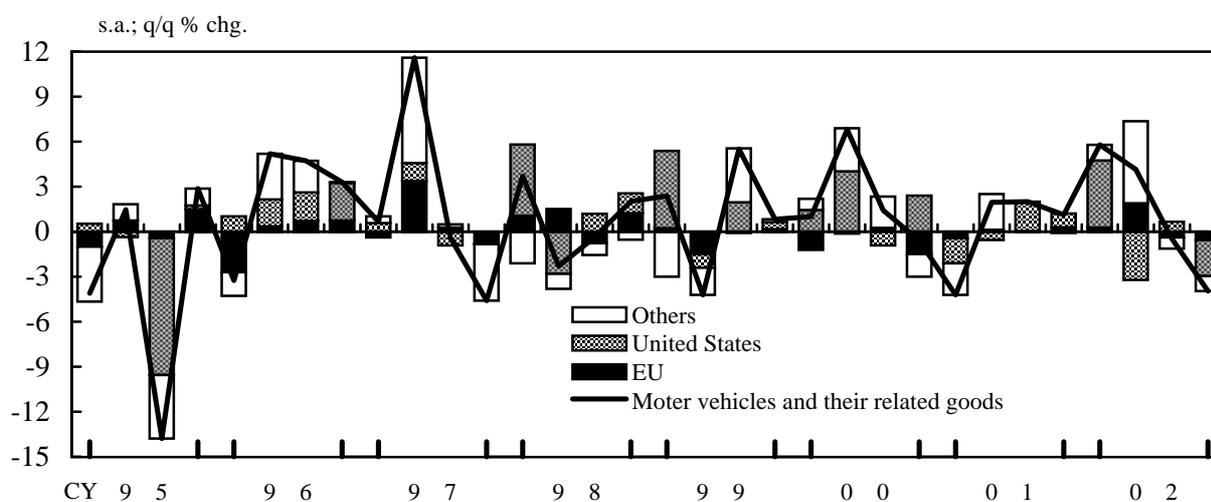
(1) Capital goods and parts



(2) Intermediate goods



(3) Motor vehicles and their related goods



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

2. 2002/Q4 figures are October figures 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 Q4	2002 Q1	Q2	Q3	Q4	2002 Aug.	Sep.	Oct.
United States	<18.1>	7.9	-4.4	-3.0	-1.5	3.4	0.9	-15.7	-3.8	-1.0	-14.0
EU	<12.8>	8.5	3.5	2.6	-6.4	2.8	6.2	-2.0	-8.1	2.4	-0.6
East Asia	<40.3>	25.5	1.6	-1.0	1.5	3.7	2.7	2.5	-2.2	1.5	2.2
China	<16.6>	28.1	13.3	4.2	1.7	3.5	1.9	3.2	-5.7	1.5	4.2
NIEs	<10.9>	28.4	-9.6	-7.1	3.5	8.2	1.5	0.3	-1.6	-3.0	2.9
Korea	<4.9>	22.5	-7.8	-7.0	-1.6	10.8	3.2	0.9	-3.3	-3.4	4.5
Taiwan	<4.1>	43.6	-13.0	-3.9	6.0	9.3	0.6	-1.6	-0.3	-0.1	-1.4
ASEAN4 ³	<12.7>	20.2	0.0	-2.1	-0.3	0.2	4.9	3.5	2.3	5.5	-0.8
Thailand	<3.0>	19.3	6.0	-0.4	-0.3	4.7	3.2	0.2	-2.7	3.8	-1.4
Real imports		13.3	-1.1	-0.9	-1.9	2.6	3.4	-3.8	-5.0	1.4	-3.1

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2000	2001	2001 Q4	2002 Q1	Q2	Q3	Q4	2002 Aug.	Sep.	Oct.
Raw materials ⁴	<26.2>	1.7	-5.1	-2.6	-3.1	-2.2	9.2	-3.0	-4.1	2.4	-3.1
Intermediate goods	<12.9>	8.2	-0.2	-0.5	-0.5	0.9	5.6	-5.2	-1.0	-4.5	-1.9
Foodstuffs	<12.4>	5.3	-1.5	5.3	-4.6	0.2	0.5	-11.7	-7.1	4.1	-11.8
Consumer goods	<11.2>	21.4	5.8	-0.2	-7.3	4.9	0.2	-0.6	-7.8	3.8	-0.4
IT-related goods ⁵	<14.8>	43.9	-2.4	-1.1	5.0	3.8	0.1	0.0	0.3	1.8	-1.3
Capital goods and parts ⁶	<11.9>	12.4	3.2	-3.4	0.5	13.2	5.6	-3.5	-7.6	4.0	-3.4
excluding aircraft	<11.4>	21.5	6.0	-1.1	-2.5	10.6	2.7	-2.3	-4.1	-0.6	-0.5
Real imports		13.3	-1.1	-0.9	-1.9	2.6	3.4	-3.8	-5.0	1.4	-3.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q4 figures are October figures 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.

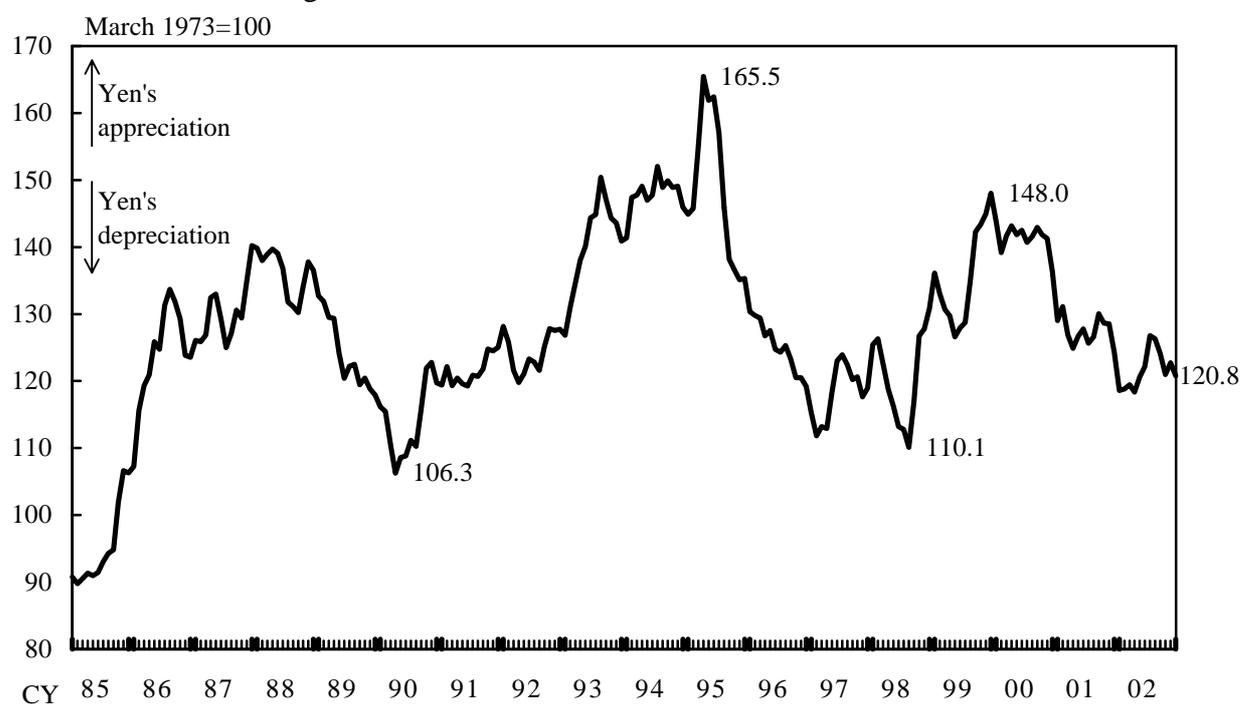
4. Raw materials are mainly composed of woods, ores and mineral fuel.

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 December 2002 is the average up to December 16.
 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

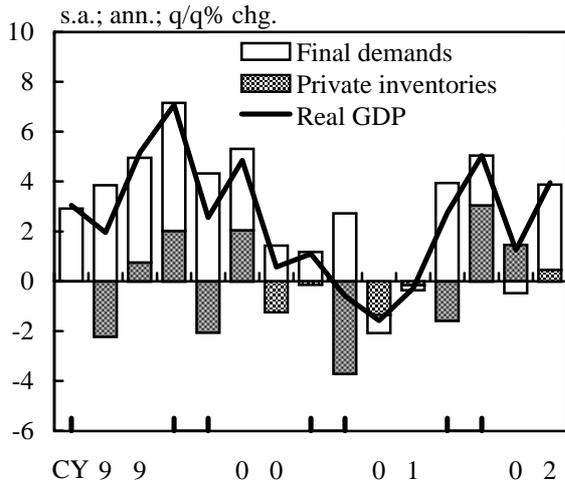
		CY99	2000	2001	2001 Q4	2002 Q1	Q2	Q3	
United States ¹		4.1	3.8	0.3	2.7	5.0	1.3	4.0	
European Union ¹		2.8	3.4	1.5	-0.7	1.5	1.5	1.5	
	Germany	2.0	2.9	0.6	-1.2	1.1	0.6	1.1	
	France	3.2	4.2	1.8	-1.6	2.4	1.7	0.9	
	United Kingdom	2.4	3.1	2.0	0.9	0.5	2.5	3.3	
East Asia ²	China	7.1	8.0	7.3	6.6	7.6	8.0	8.1	
	NIEs	Korea	10.9	9.3	3.0	3.7	5.8	6.4	5.8
		Taiwan	5.4	5.9	-2.2	-1.6	1.2	4.0	4.8
		Hong Kong	3.4	10.2	0.6	-0.9	-0.5	0.8	3.3
		Singapore	6.9	10.3	-2.0	-6.6	-1.5	3.8	3.9
	ASEAN4	Thailand	4.4	4.6	1.9	2.5	3.9	5.1	5.8
		Indonesia	0.8	4.9	3.3	1.6	2.4	3.8	3.9
Malaysia		6.1	8.3	0.4	-0.5	1.1	3.9	5.6	
Philippines		3.4	4.4	3.2	3.9	3.7	4.8	3.8	

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

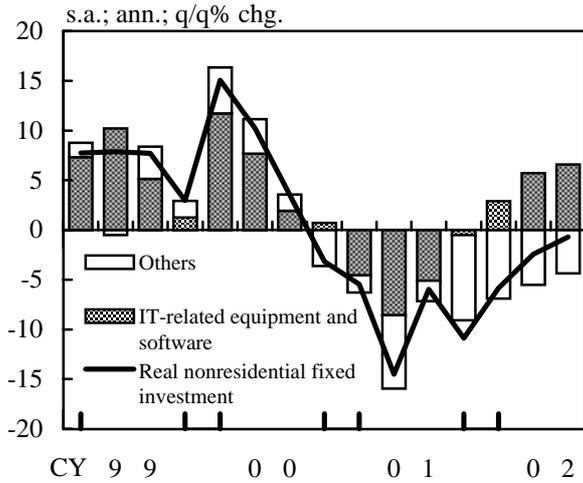
2. Quarterly data of East Asia are percent changes from a year earlier.

Exporting Conditions (2)

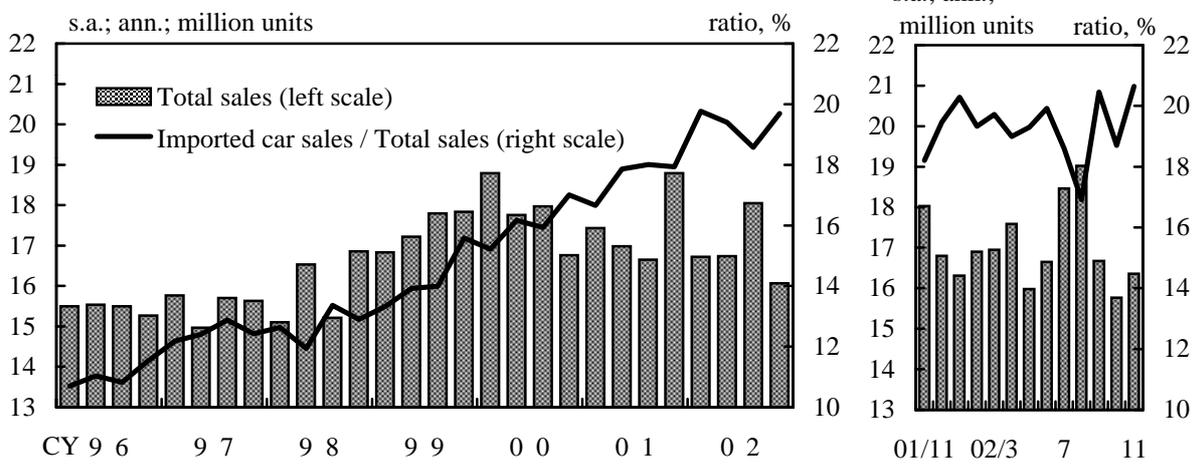
(1) U.S. Real GDP (breakdown by final demands and inventories)



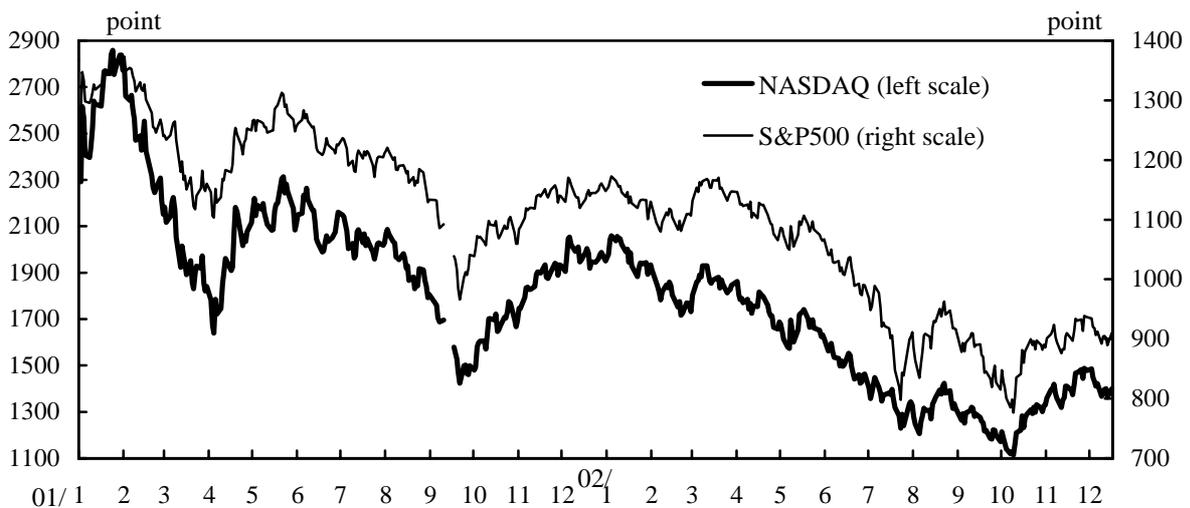
(2) U.S. Real Nonresidential Fixed Investment



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



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

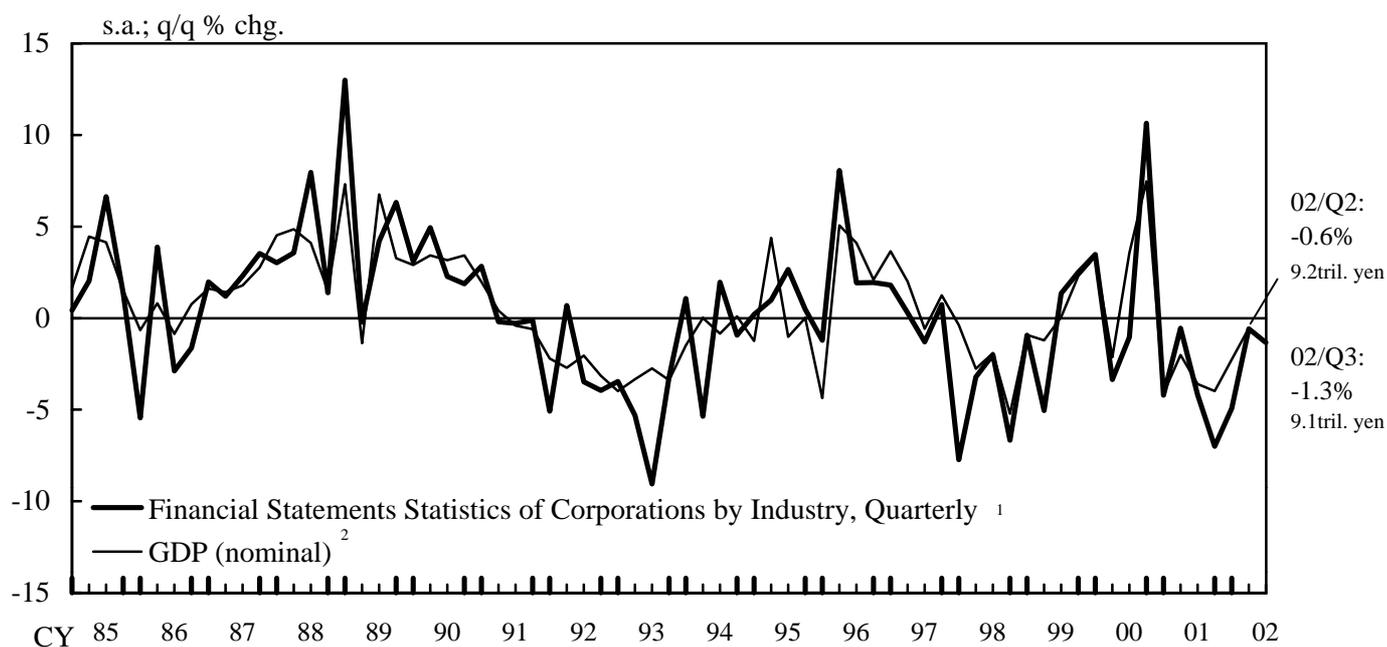
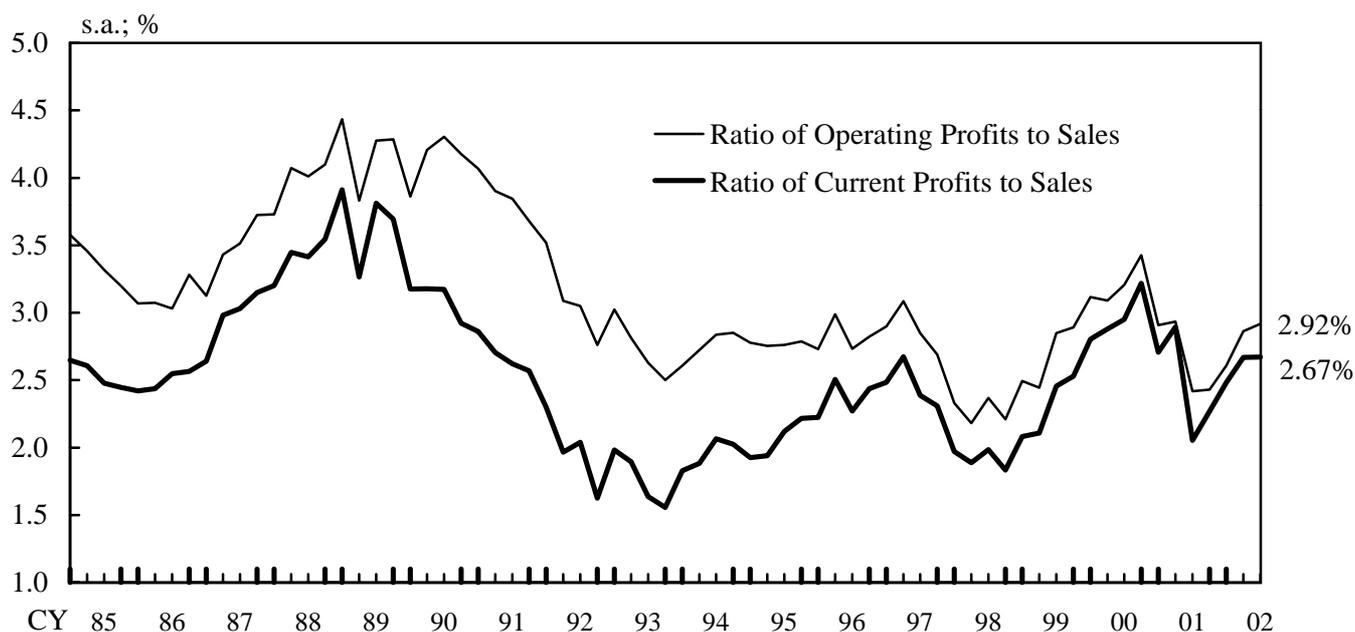


Notes: 1 Total sales of automobile in 2002/Q4 is based on Oct.-Nov. average.
2. Figures of U.S. stock prices in (4) are up to December 16.

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

Indicators for Business Fixed Investment (1)

(1) Fixed Investment

(2) Corporate Profits (Ratio of Profits to Sales)^{1,3}

Notes: 1. All enterprises excluding large enterprises of other services industry. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. The sample change comes due to (i) a change in sampling firm in each the second quarter survey, and (ii) changes in the respondent firms in every quarter.

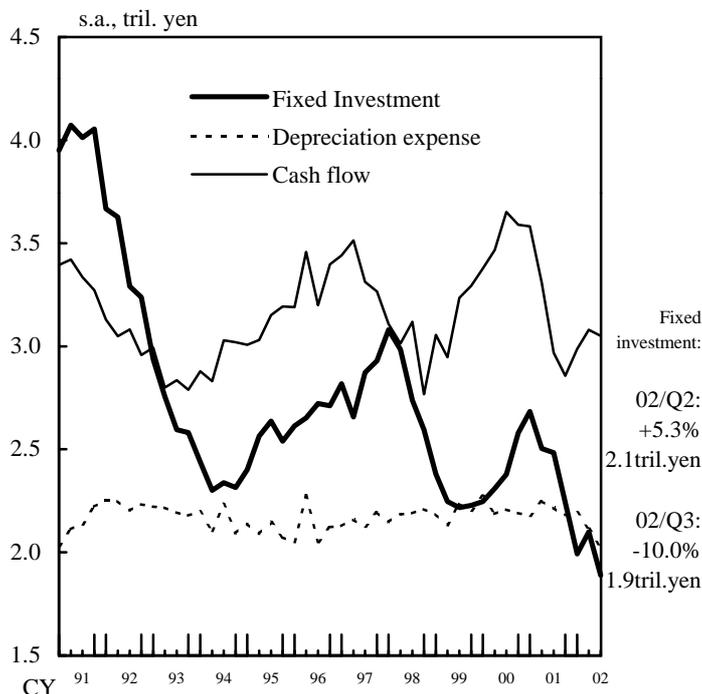
2. The Figures include "reference series" for 1994/Q2-1999/Q4.

3. *Financial Statements Statistics of Corporations by Industry, Quarterly* basis.

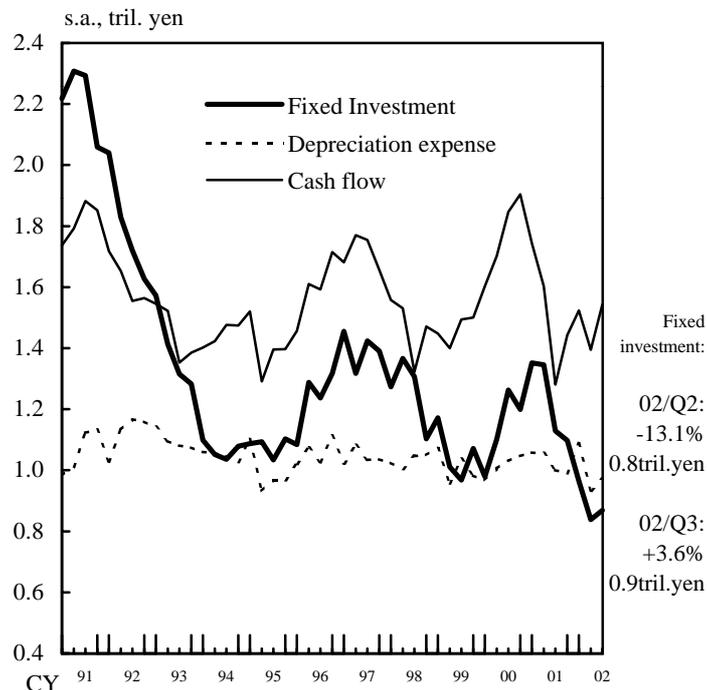
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Indicators for Business Fixed Investment (2)

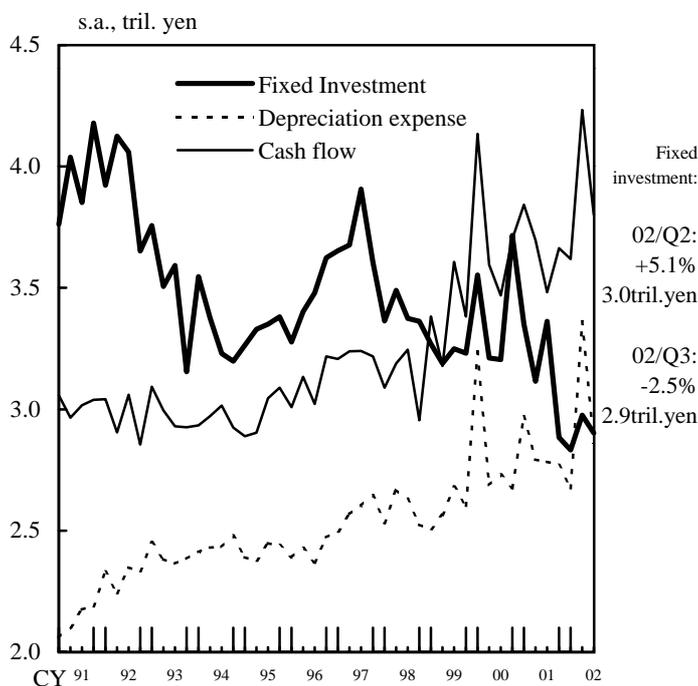
(1) Manufacturing large firms



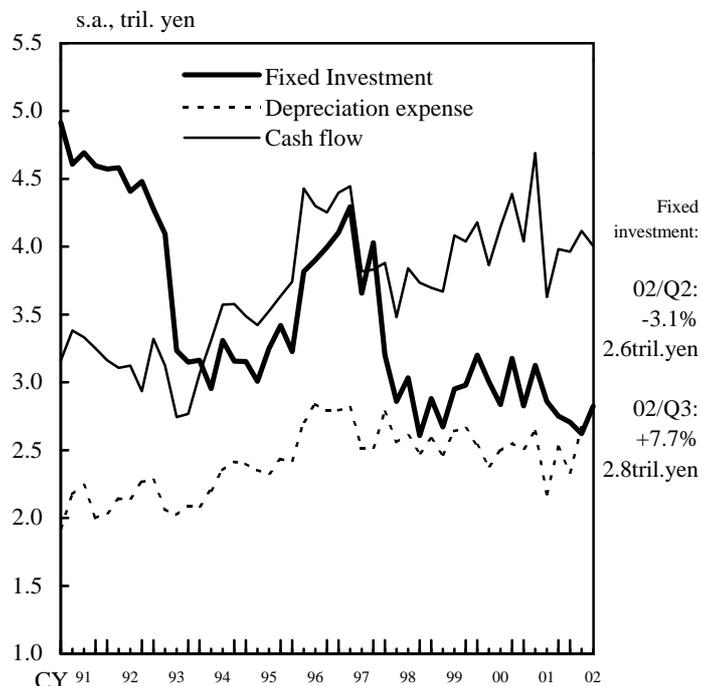
(2) Manufacturing medium and small firms



(3) Nonmanufacturing large firms



(4) Nonmanufacturing medium and small firms



Notes: 1. *Financial Statements Statistics of Corporations by Industry, Quarterly* basis.

2. Sample change adjusted (see note in chart 10-1).

3. Electric, gas and other service industries are excluded from nonmanufacturing large firms.

4. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

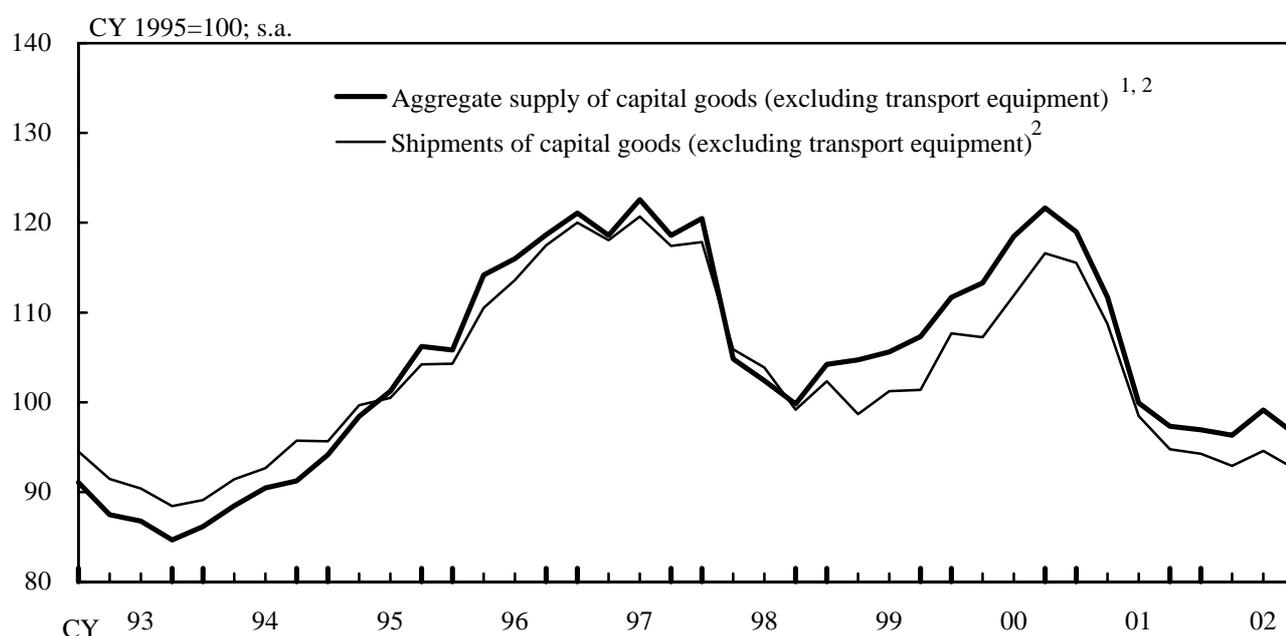
5. Cash Flow = Current profits ÷ 2 + Depreciation expense

6. Seasonally adjusted by X-11.

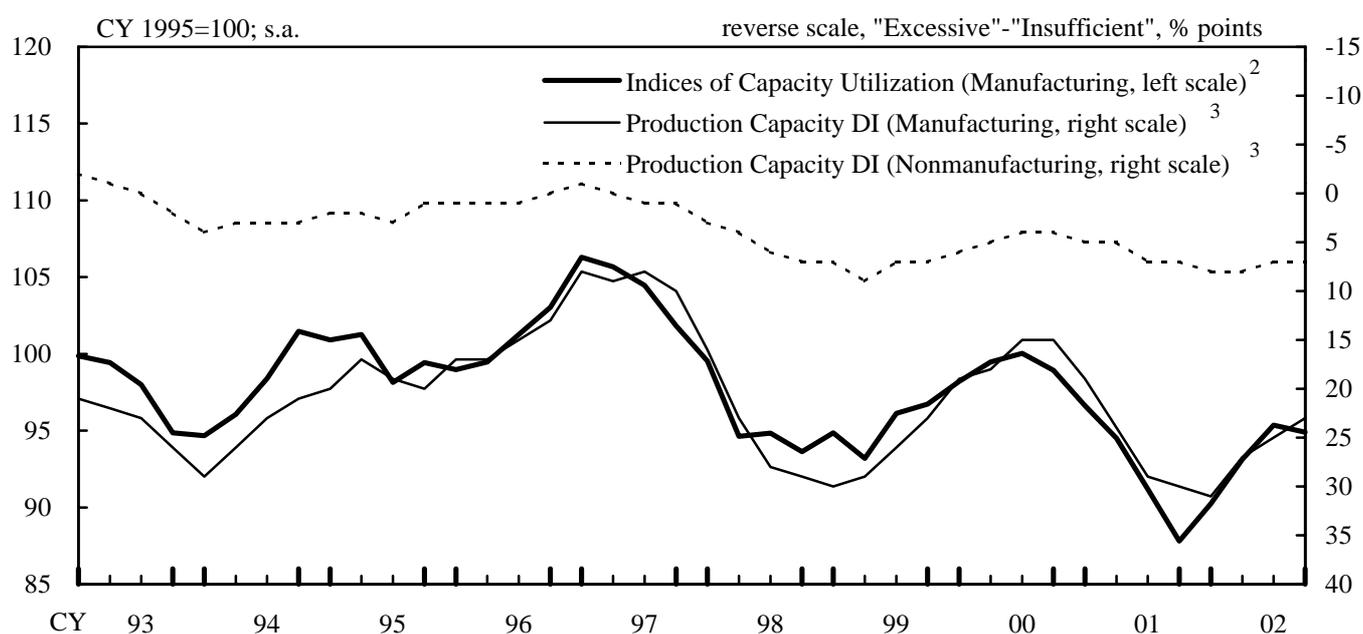
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Indicators for Business Fixed Investment (3)

(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/Q4 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*.

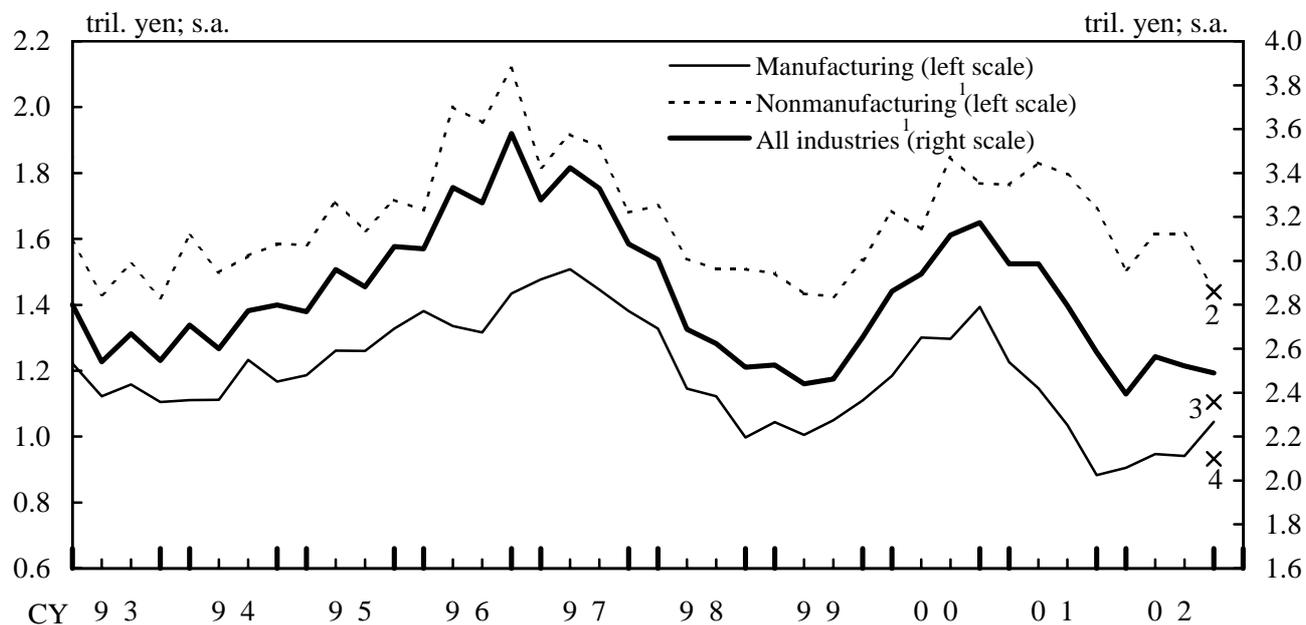
2. Figures for 2002/Q4 are those of October.

3. 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."

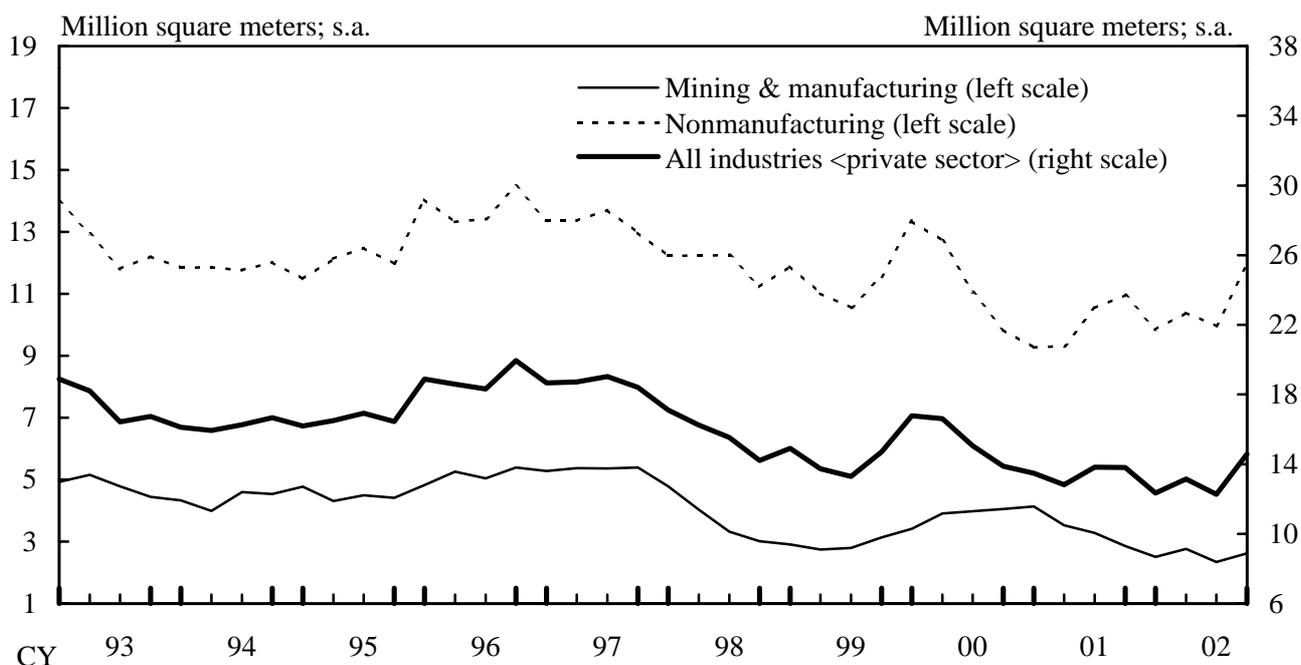
Indicators for Business Fixed Investment (4)

(1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.
 2. Forecast of nonmanufacturing industries for 2002/Q4.
 3. Forecast of all industries for 2002/Q4.
 4. Forecast of manufacturing industries for 2002/Q4.
 5. Figures for 2002/Q4 are those of October in terms of quarterly amount.

(2) Construction Starts (Nonresidential)

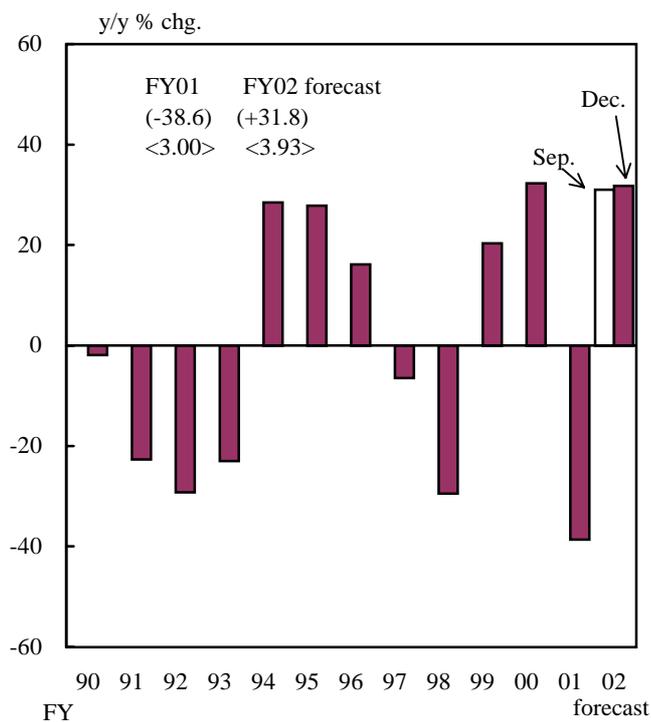


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2002/Q4 are those of October in terms of quarterly amount.

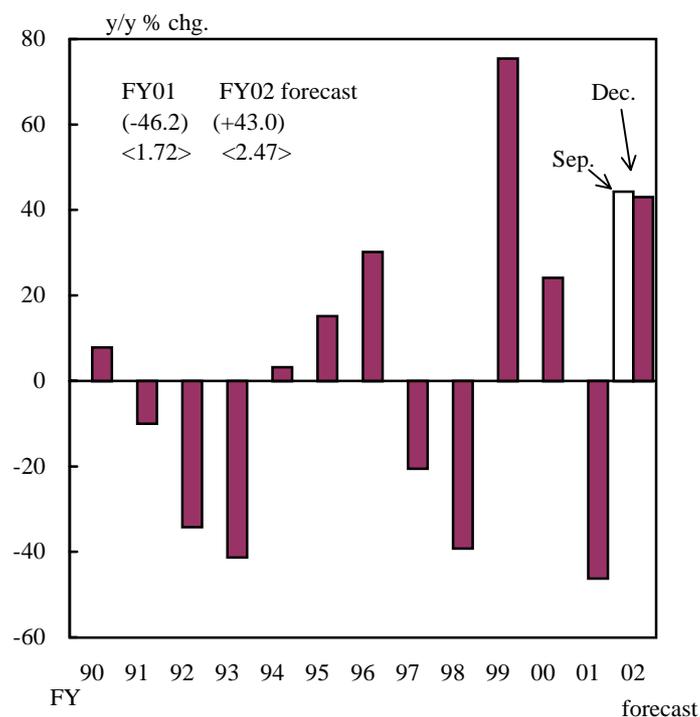
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

Current Profits

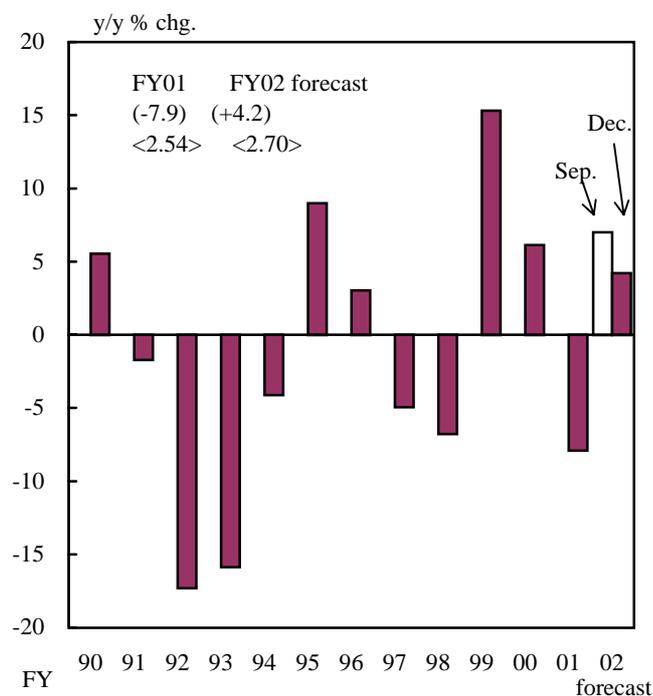
(1) Manufacturing / Large Enterprises



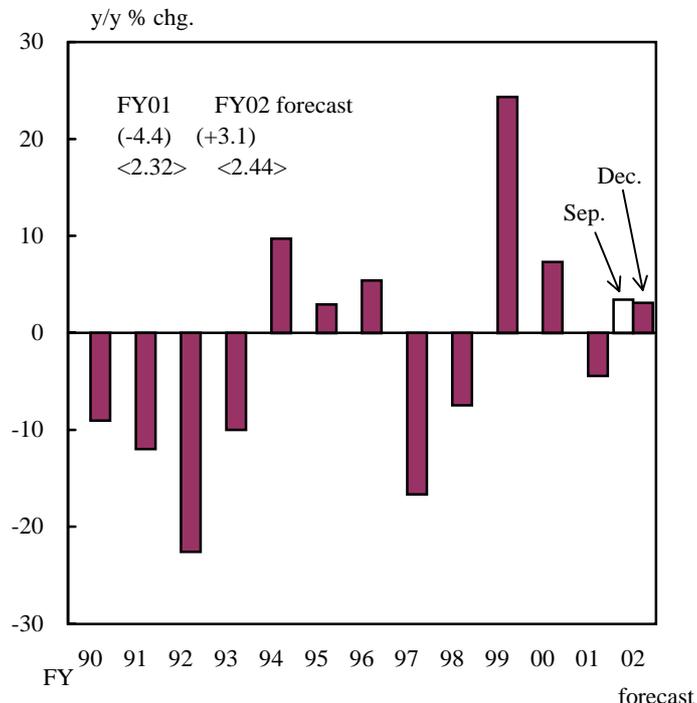
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



(4) Nonmanufacturing / Small Enterprises



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

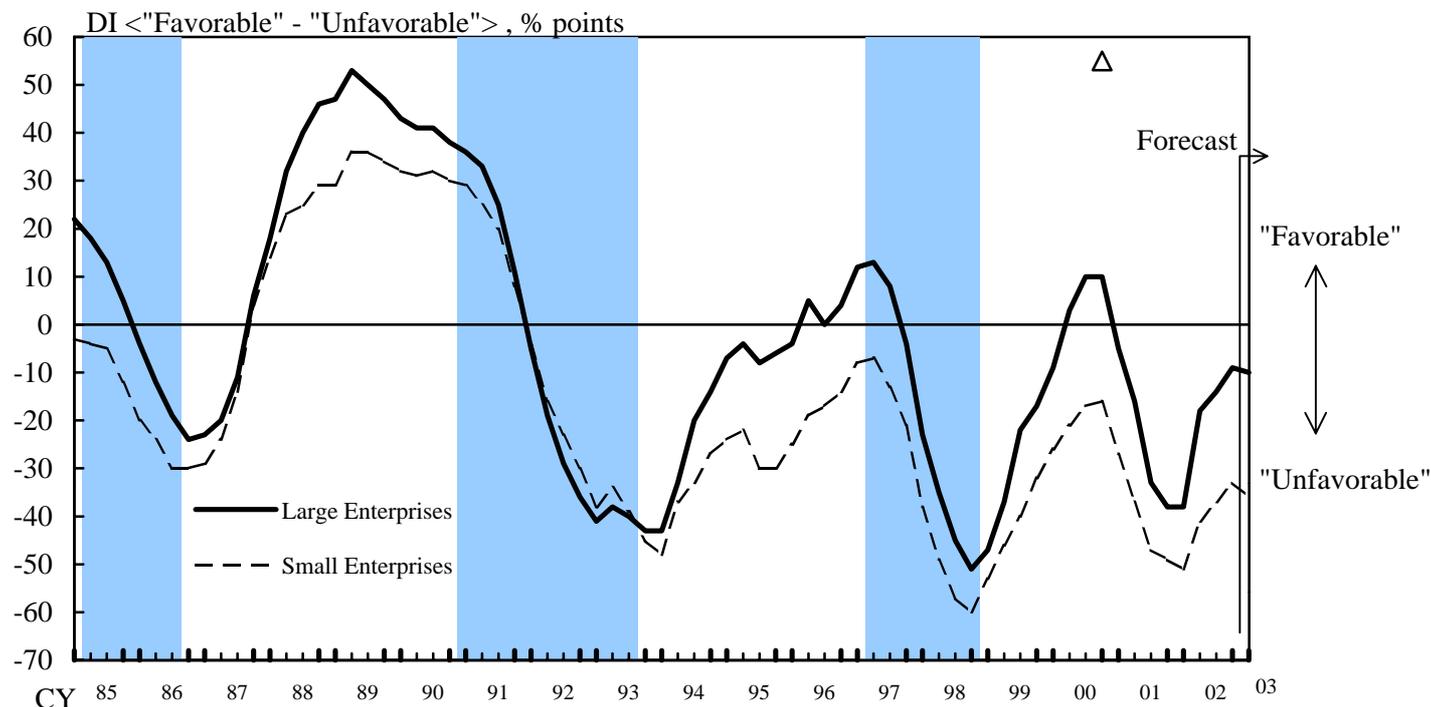
Small enterprises: 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),
20-49 employees (for Retailing, services, and leasing),
50-299 employees (for Other industries)

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

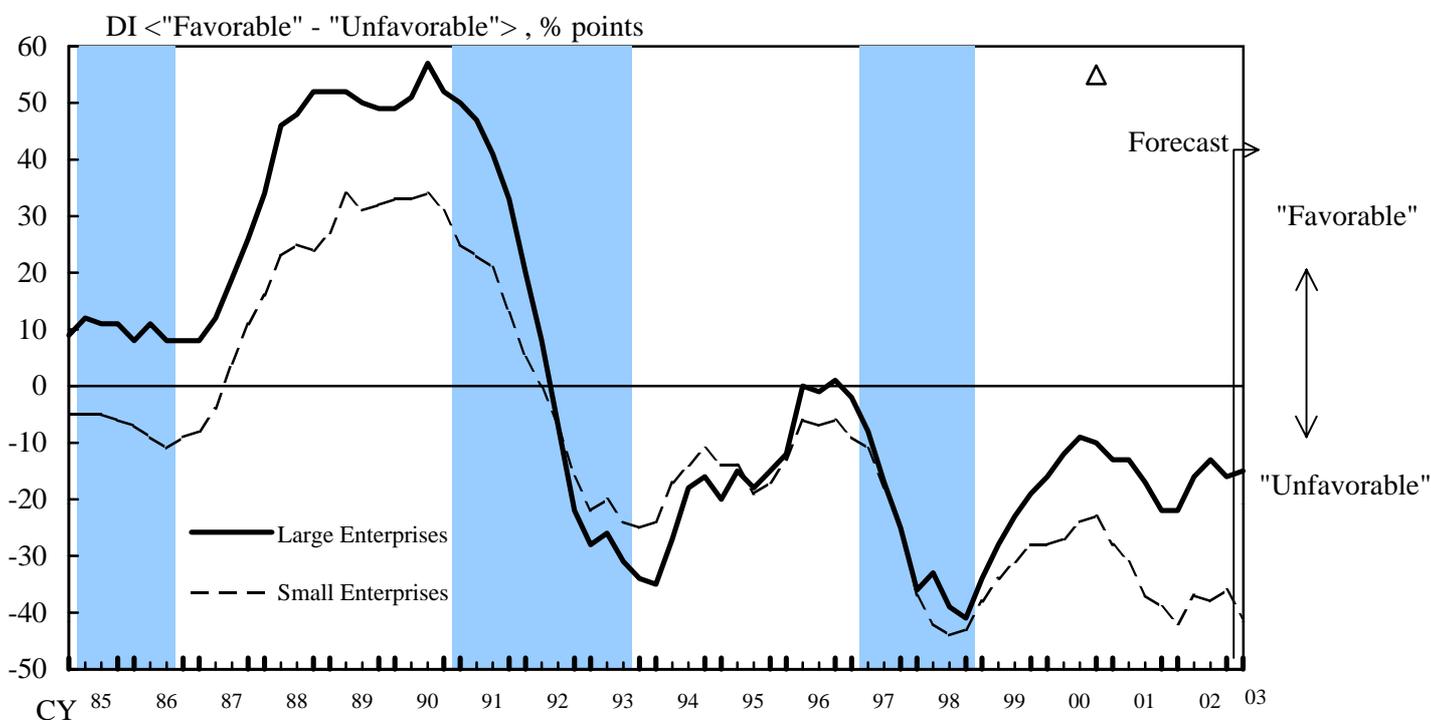
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan, December 2002."

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)

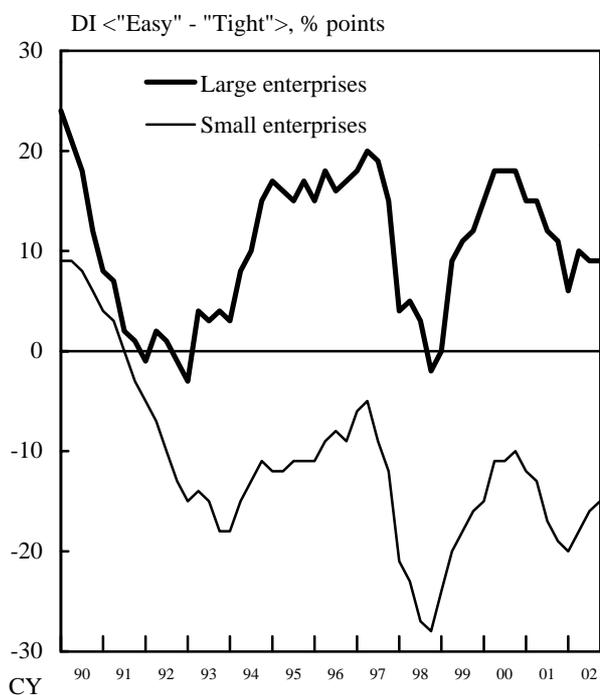
2. Shaded areas indicate recession periods. Triangle shows the last peak.

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

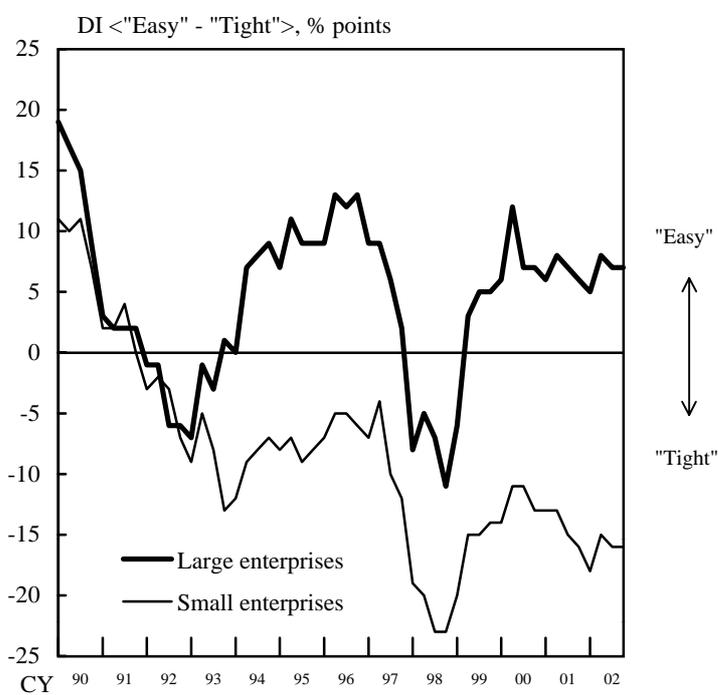
Corporate Finance-Related Indicators

(1) Financial Position

< Manufacturing >

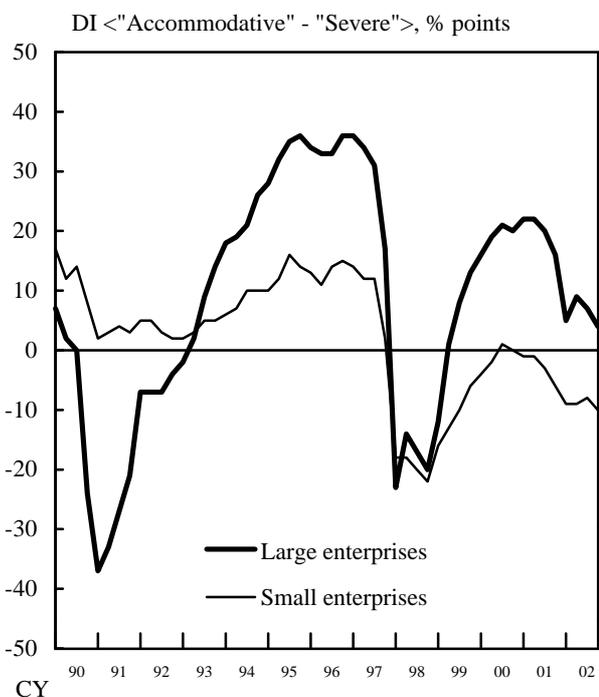


< Nonmanufacturing >

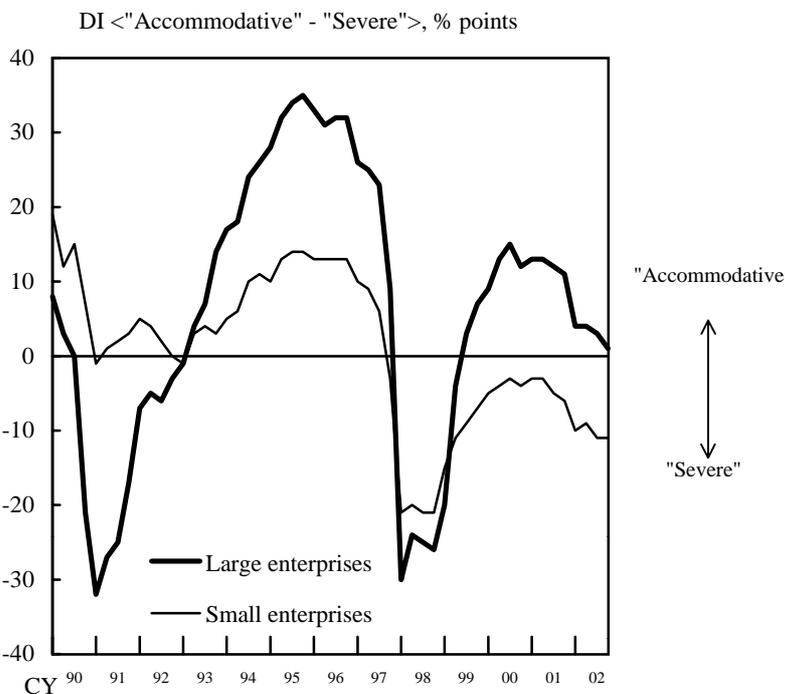


(2) Lending Attitude of Financial Institutions

< Manufacturing >



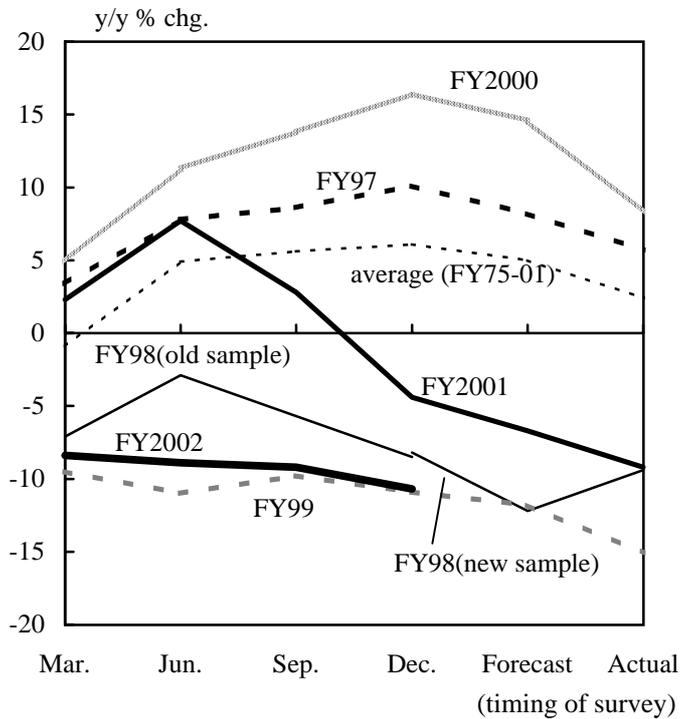
< Nonmanufacturing >



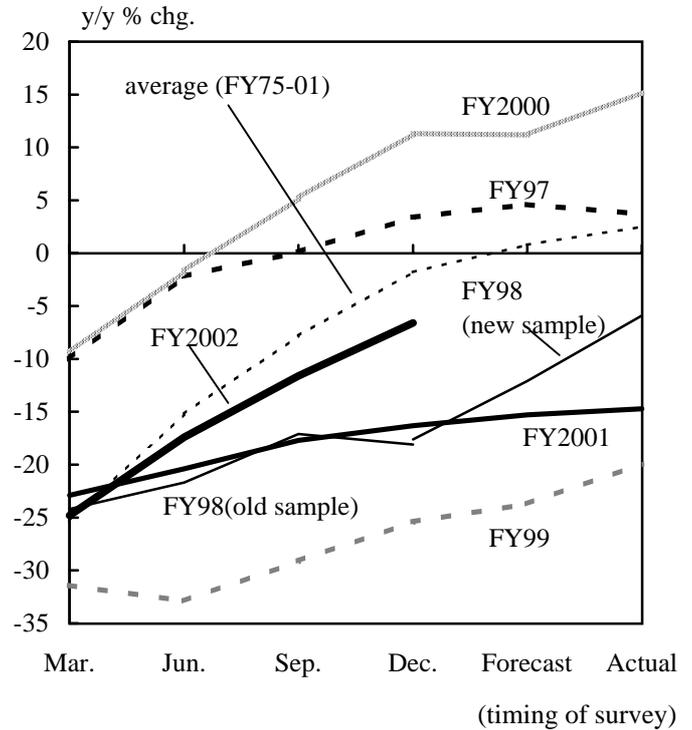
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

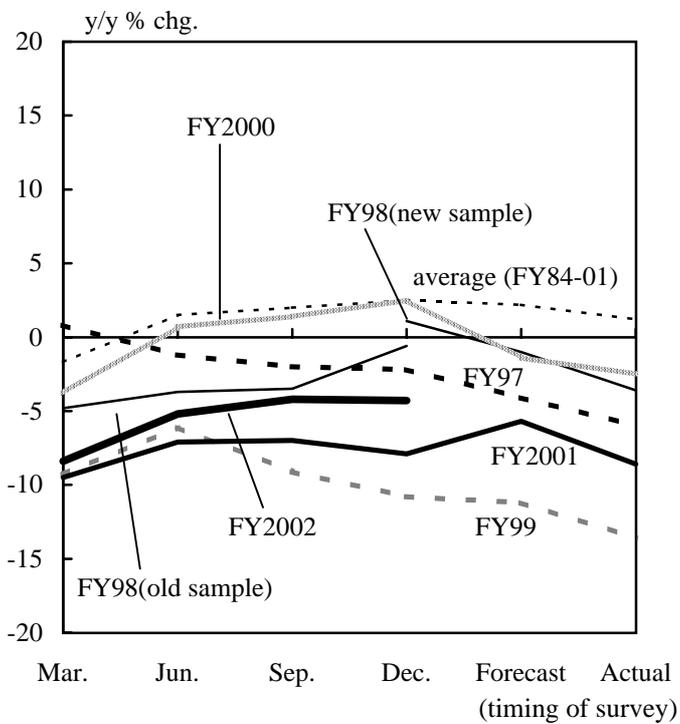
(1) Manufacturing / Large Enterprises



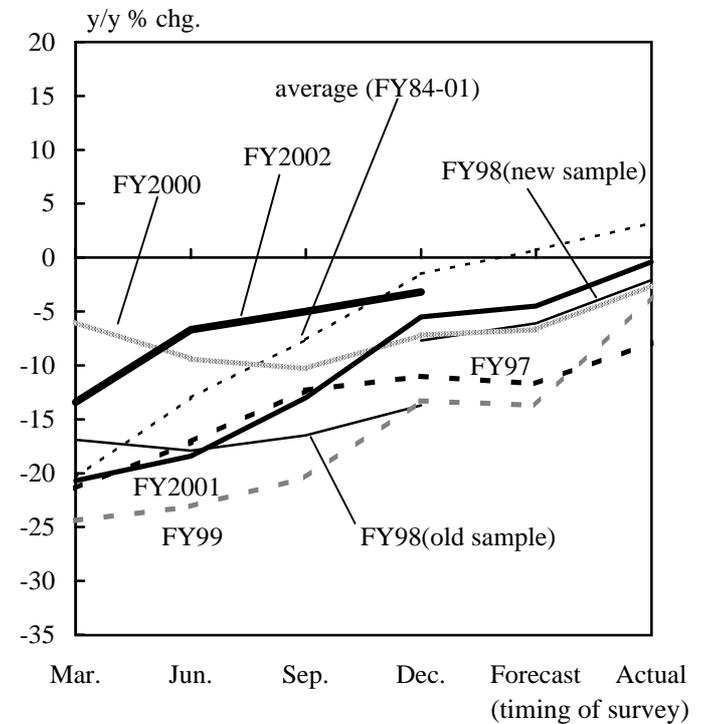
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



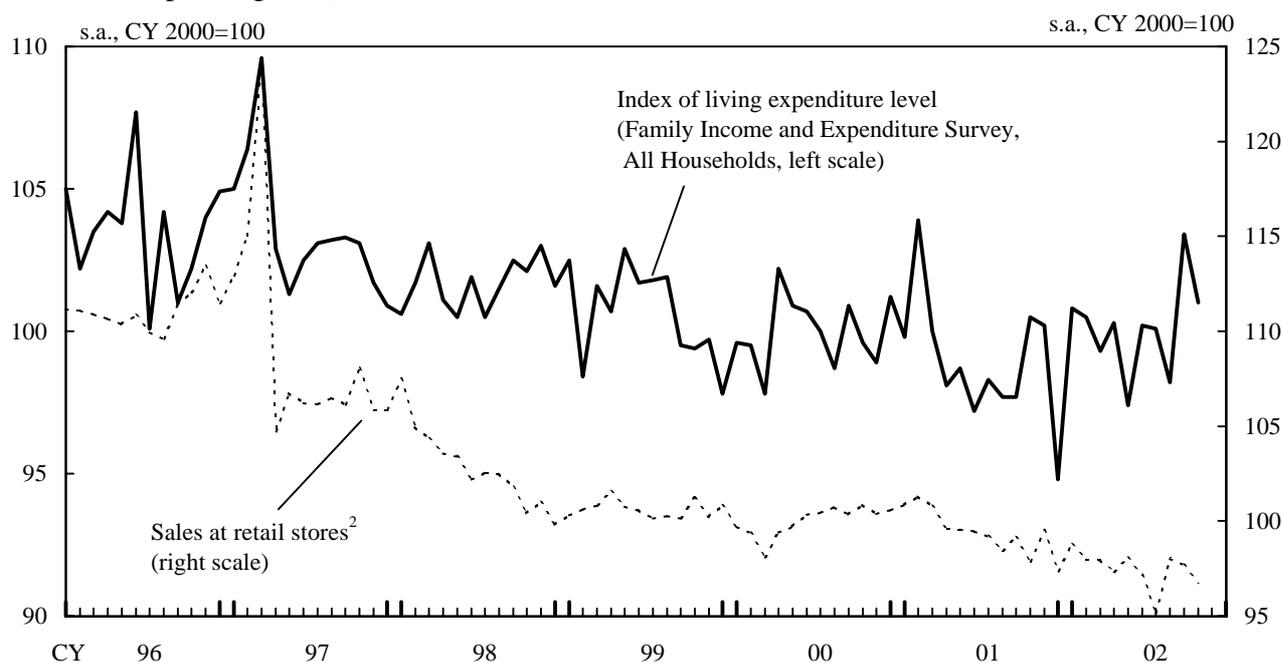
(4) Nonmanufacturing / Small Enterprises



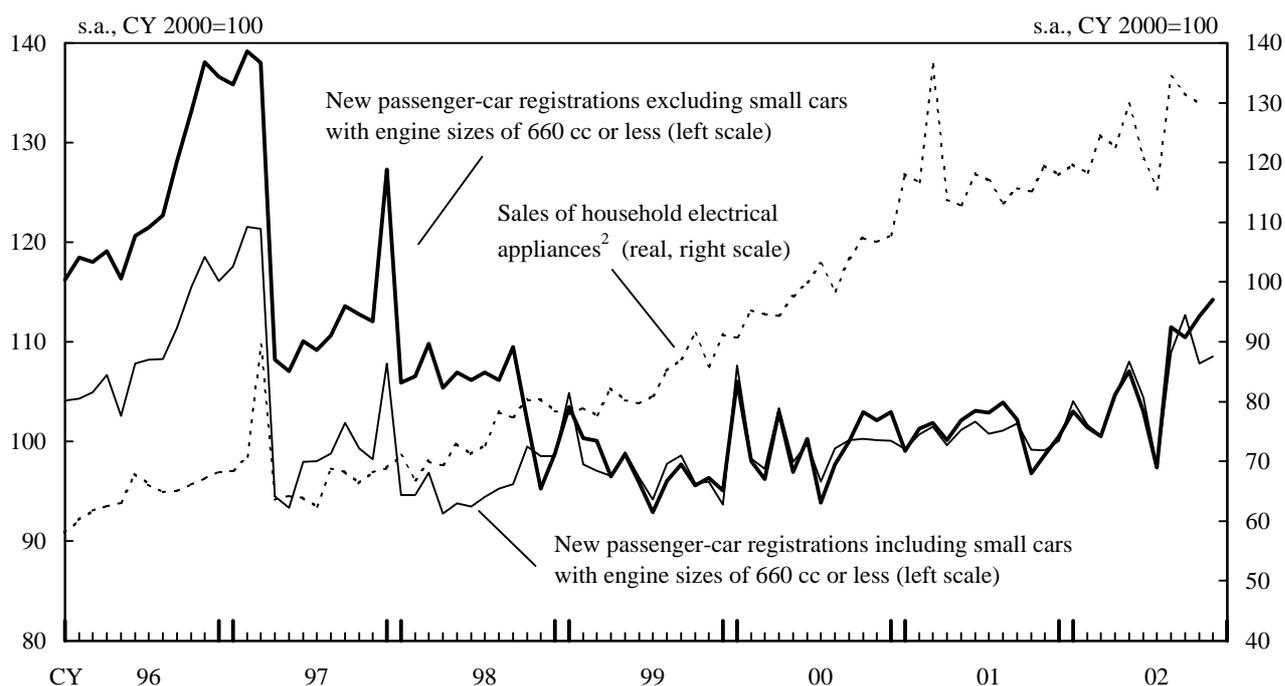
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



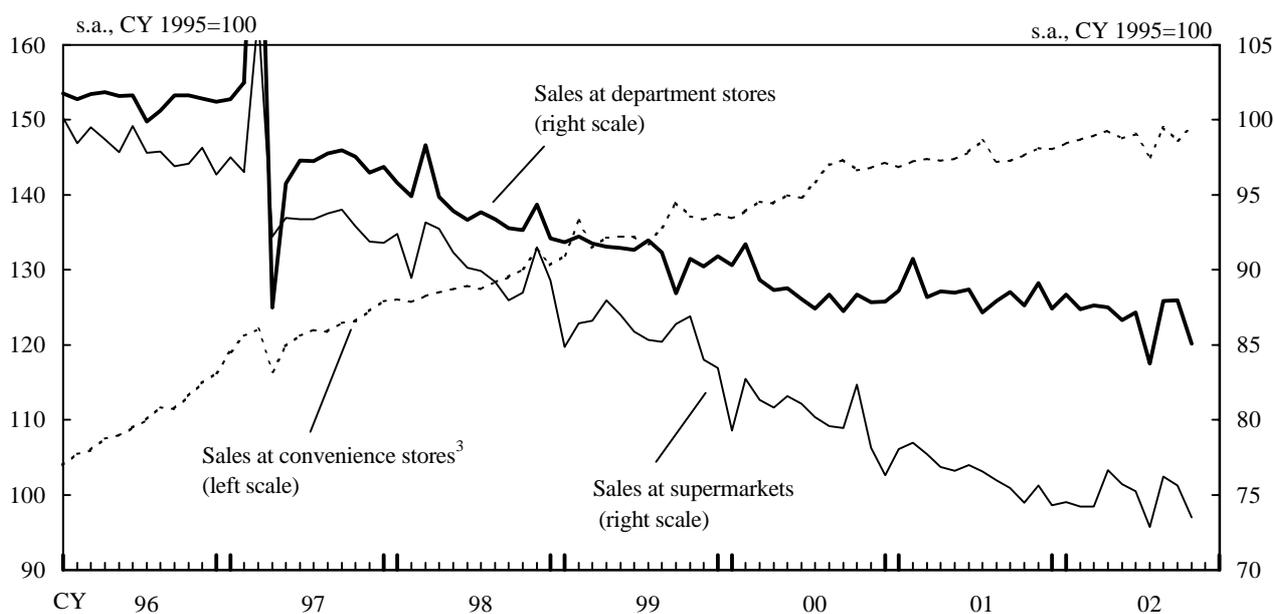
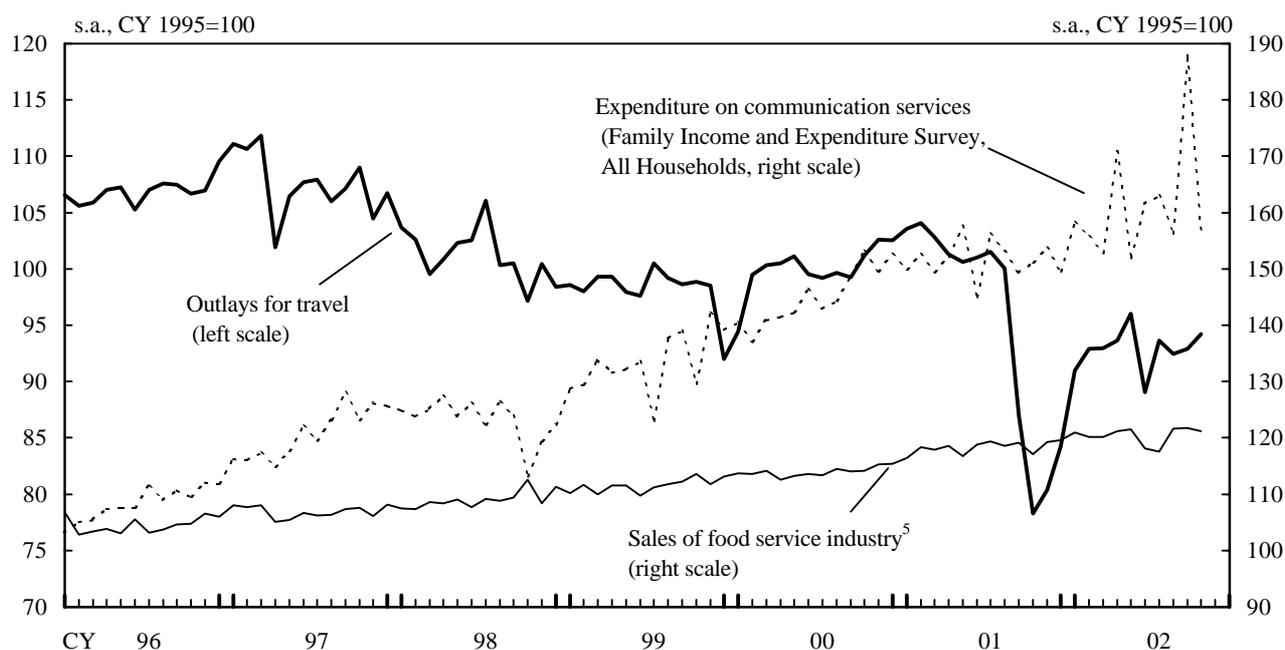
(2) Sales of Durable Goods



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.

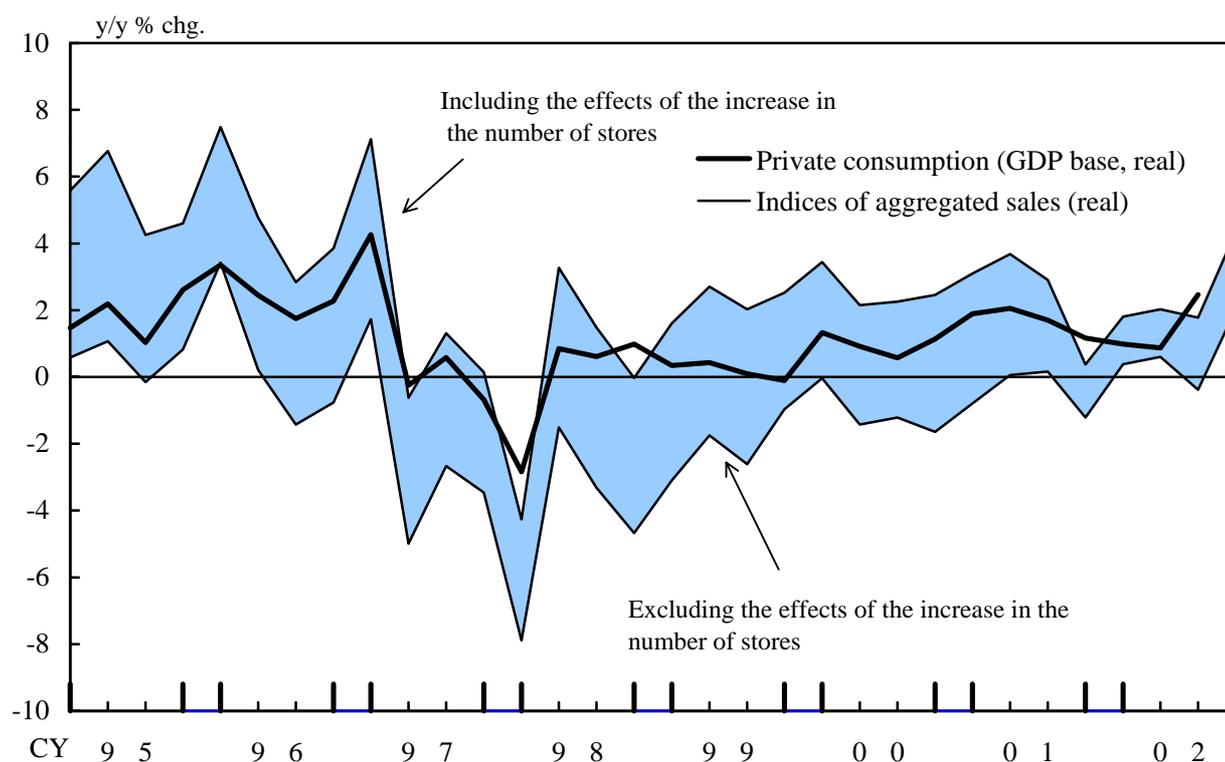
3. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan. From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

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 include "reference series" for 1994/Q1-1999/Q4.
4. 2002/Q4 figures are those of October 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";

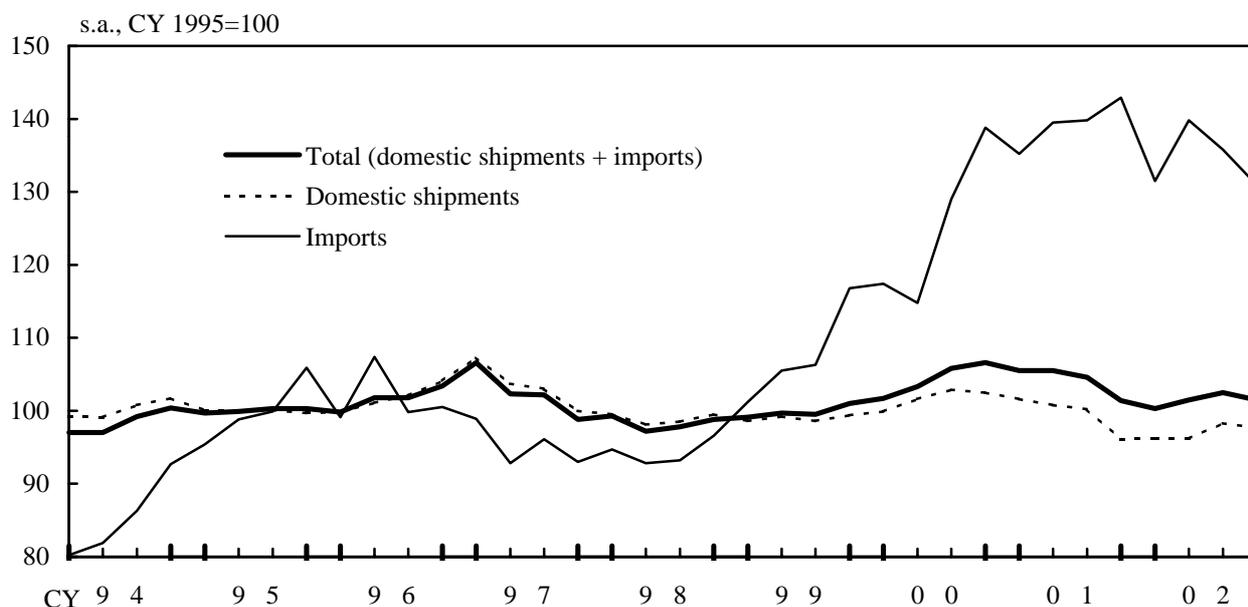
Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances";

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)";

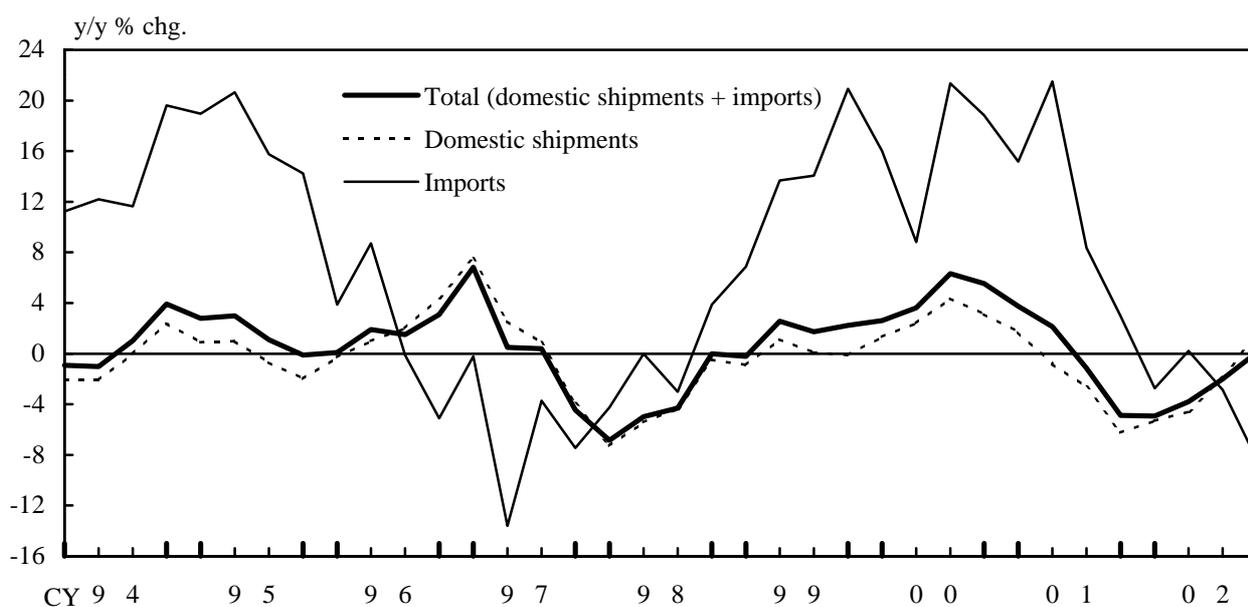
Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue."

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/Q4 of "Domestic shipments" are calculated from quarterly changes of *Indices of Industrial Production* (excluding the effects of exports).

3. Figures for 2002/Q4 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/Q4 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports."

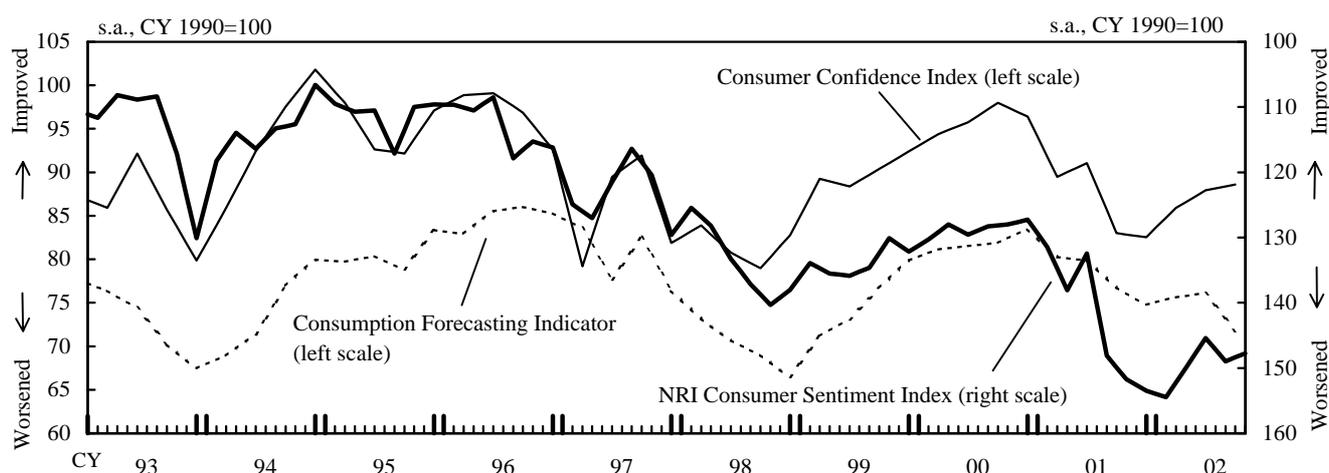
5. Year-on-year changes are calculated from seasonal adjusted series.

6. 2002/Q4 figures are those of October 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."

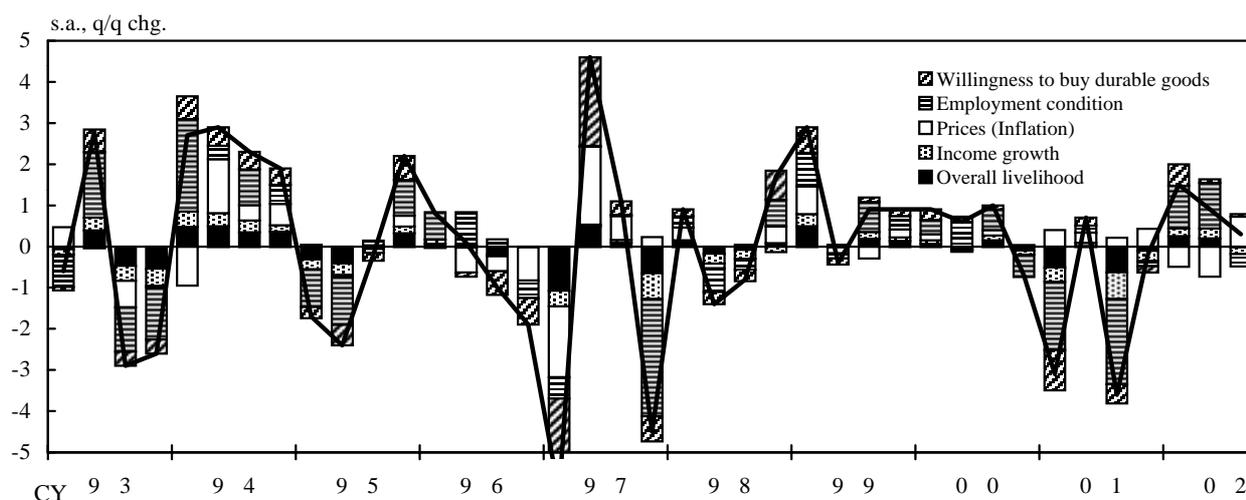
Consumer Confidence

(1) Surveys on Consumer Confidence

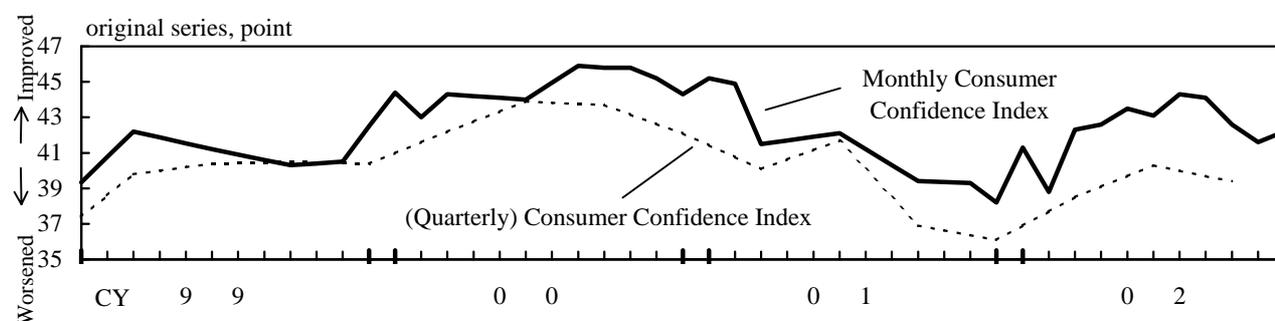


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with 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 Consumer Confidence Index



(Reference) Monthly Consumer Confidence Survey (Tokyo)

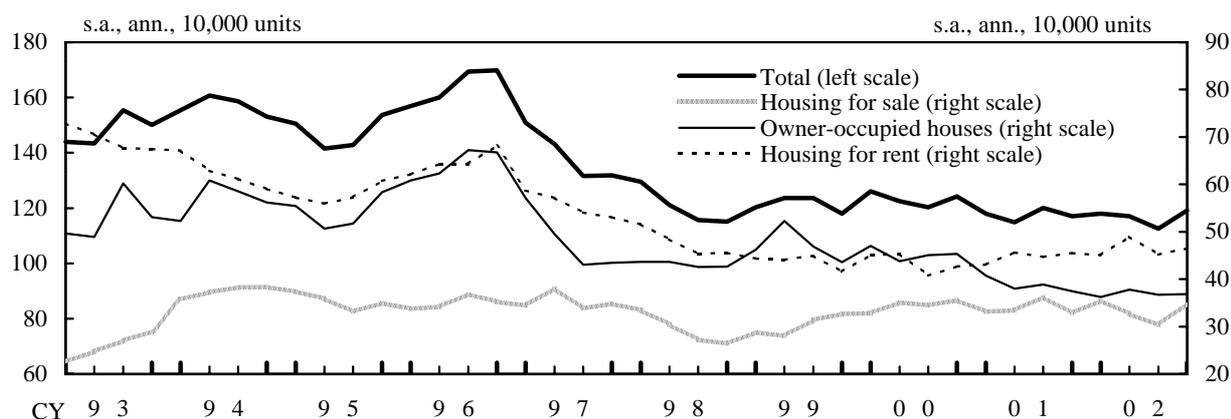


Note: *Monthly Consumer Confidence Survey* is conducted on a monthly basis for limited samples of the Tokyo district (435 households surveyed) in the quarterly Consumer Confidence Survey. The items in the monthly survey are parts of the quarterly survey. Prior to 2001, figures for the months when the 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."

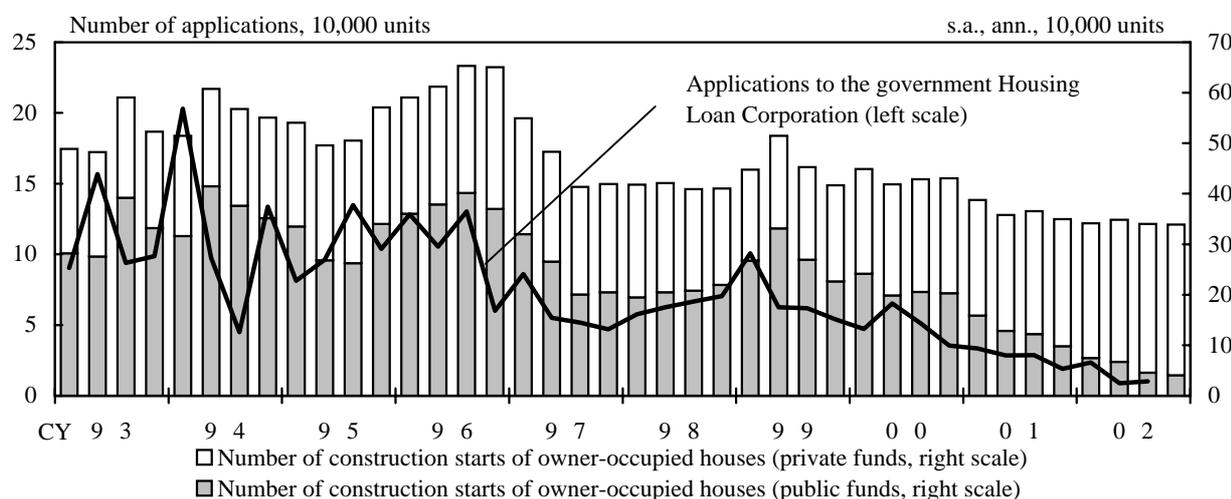
Indicators for Housing Investment

(1) Housing Starts



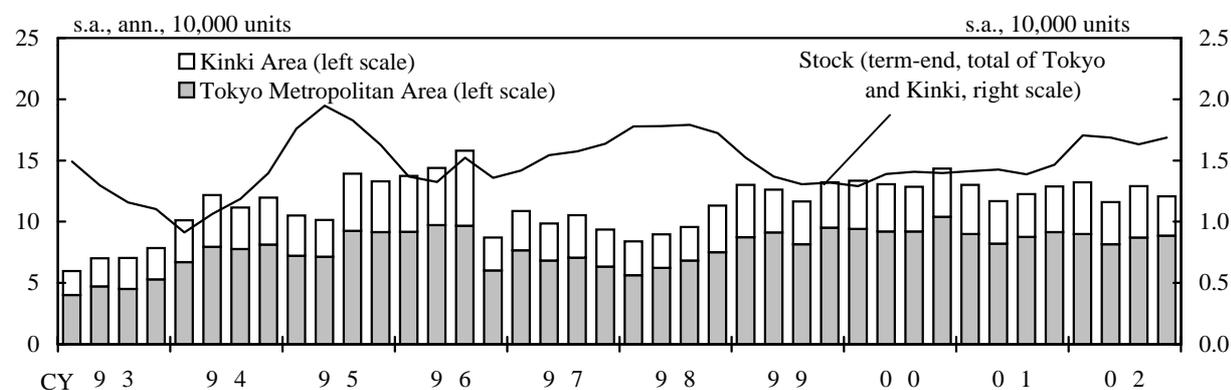
Note: Figures of 2002/Q4 are those of October.

(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/Q4 is not calculated until the end of the 4rd 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/Q4 are those of October.

(3) Sales of Condominiums

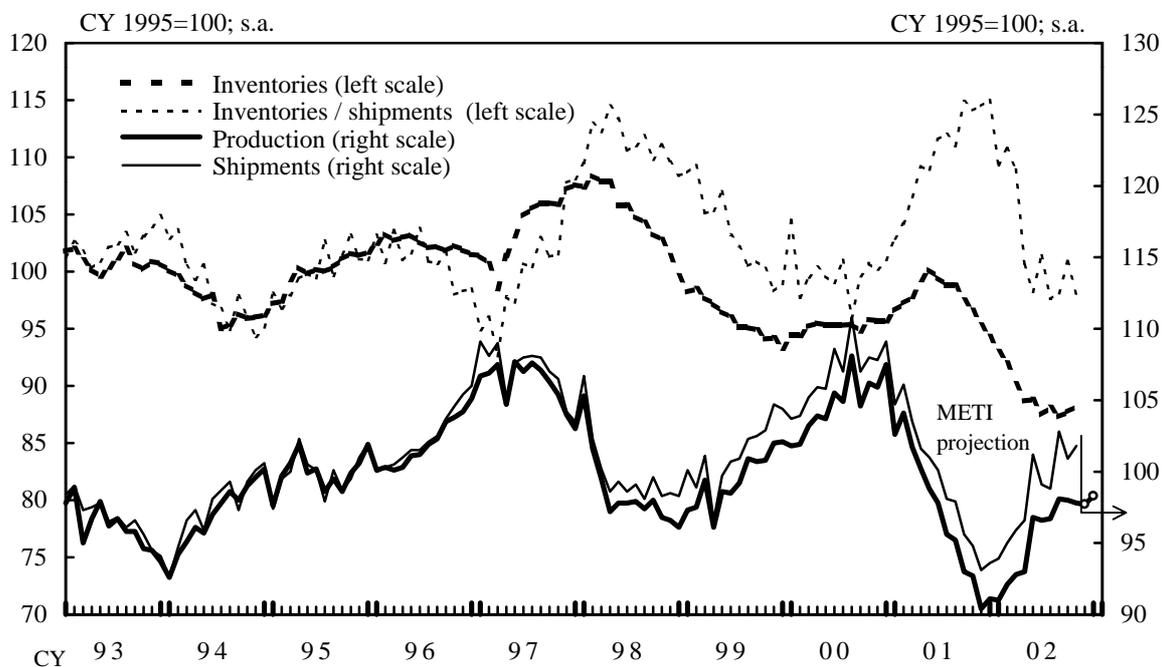


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures of total condominiums sales for 2002/Q4 are those of October-November averages.
 Term-end stocks for 2002/Q4 are those of November.

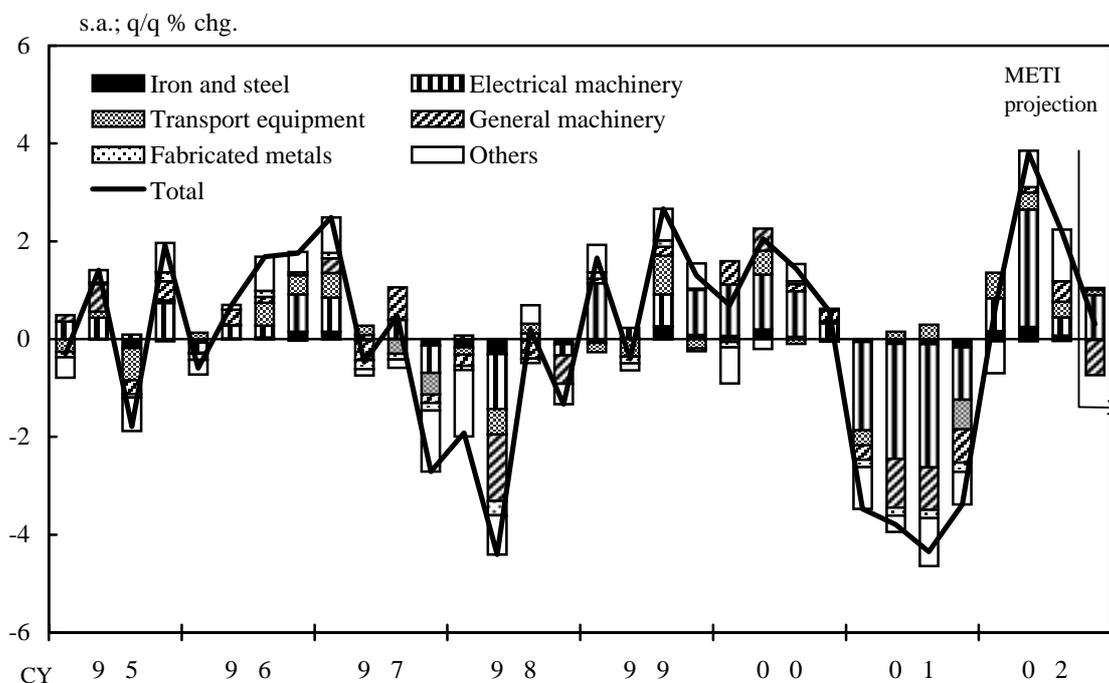
Sources: Ministry of Land, Infrastructure and Transport, "Monthly of Construction Statistics," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries

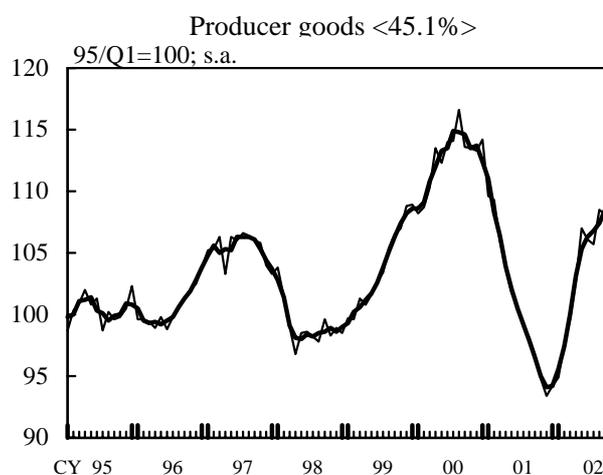
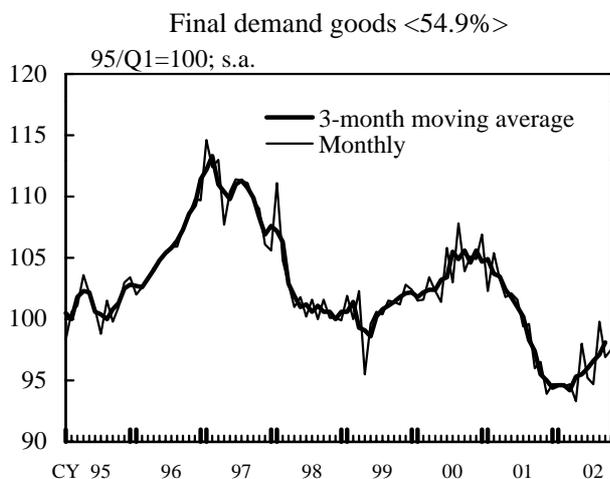


Note: Transport equipment excludes ships and rolling stock.

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

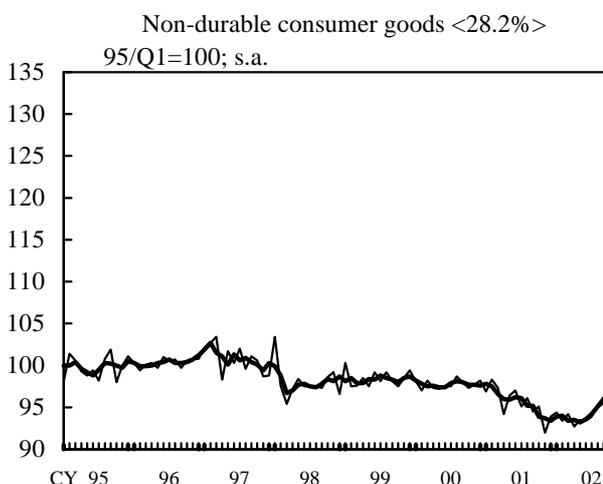
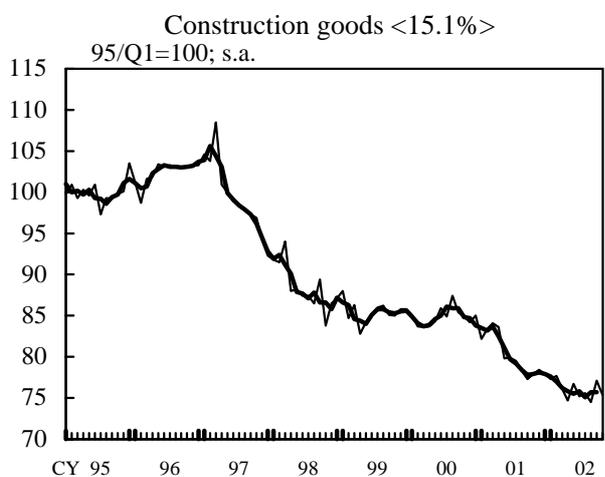
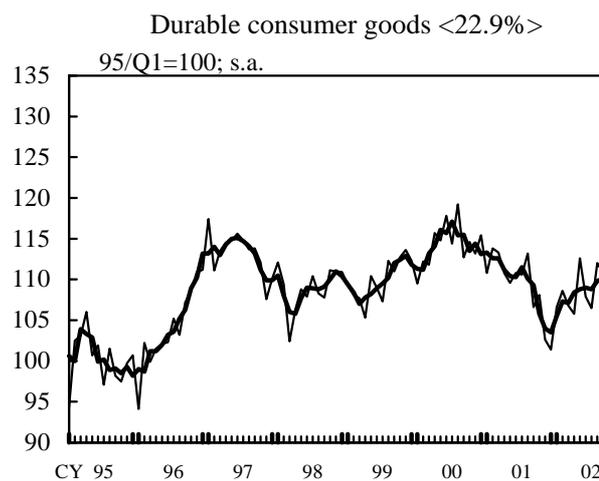
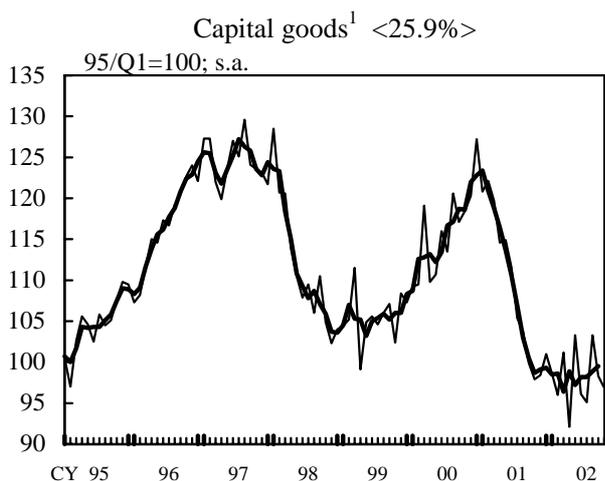
Shipments breakdown by type of goods

(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

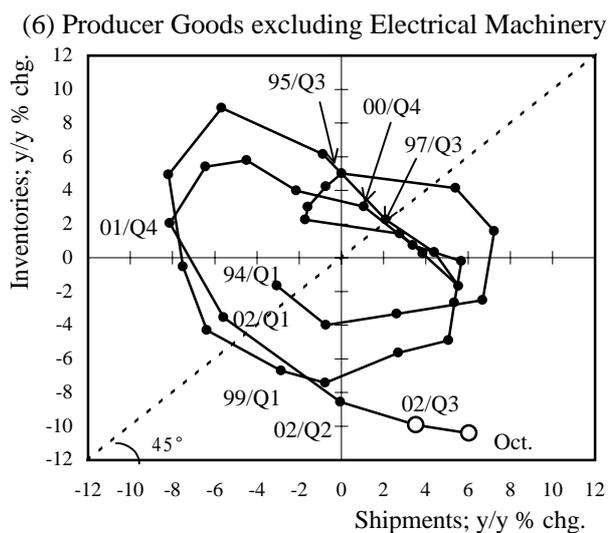
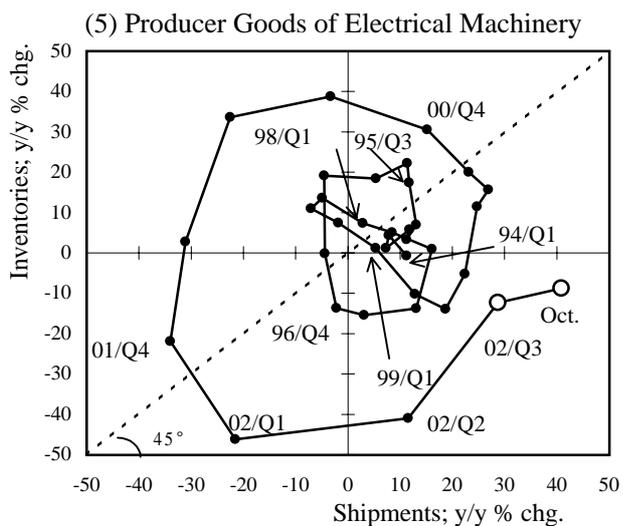
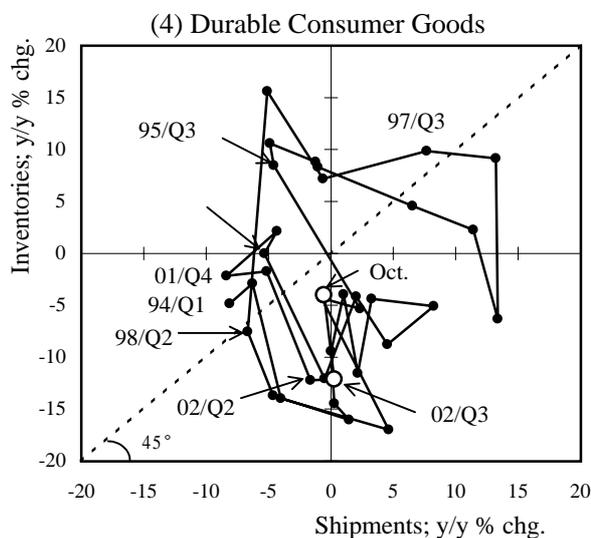
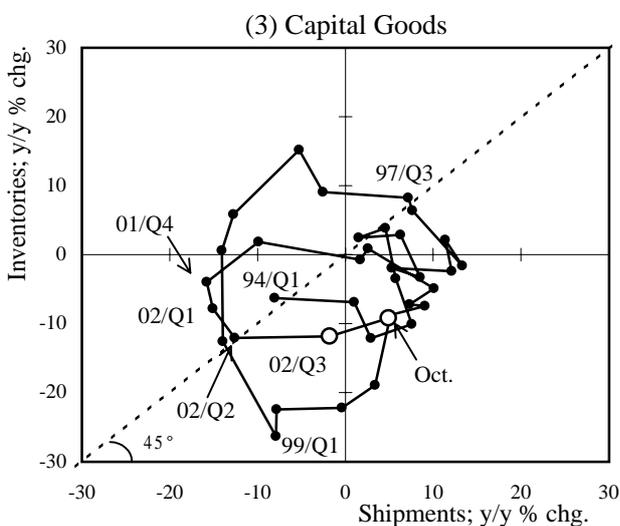
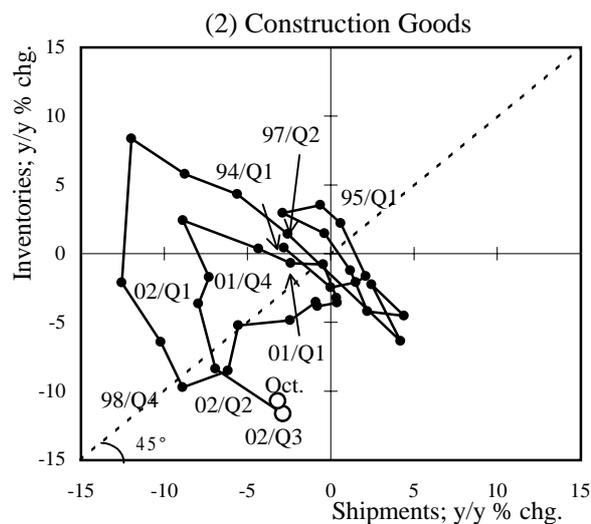
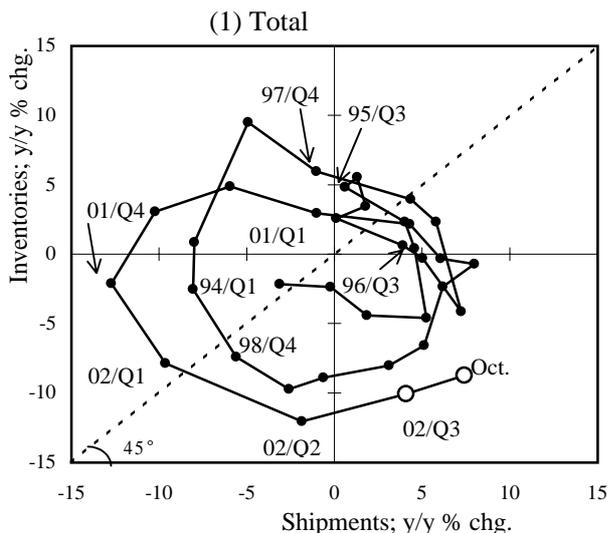


Notes: 1.Excluding transportation equipment.

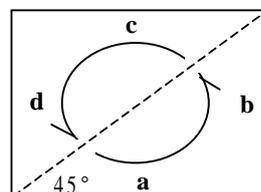
2.Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

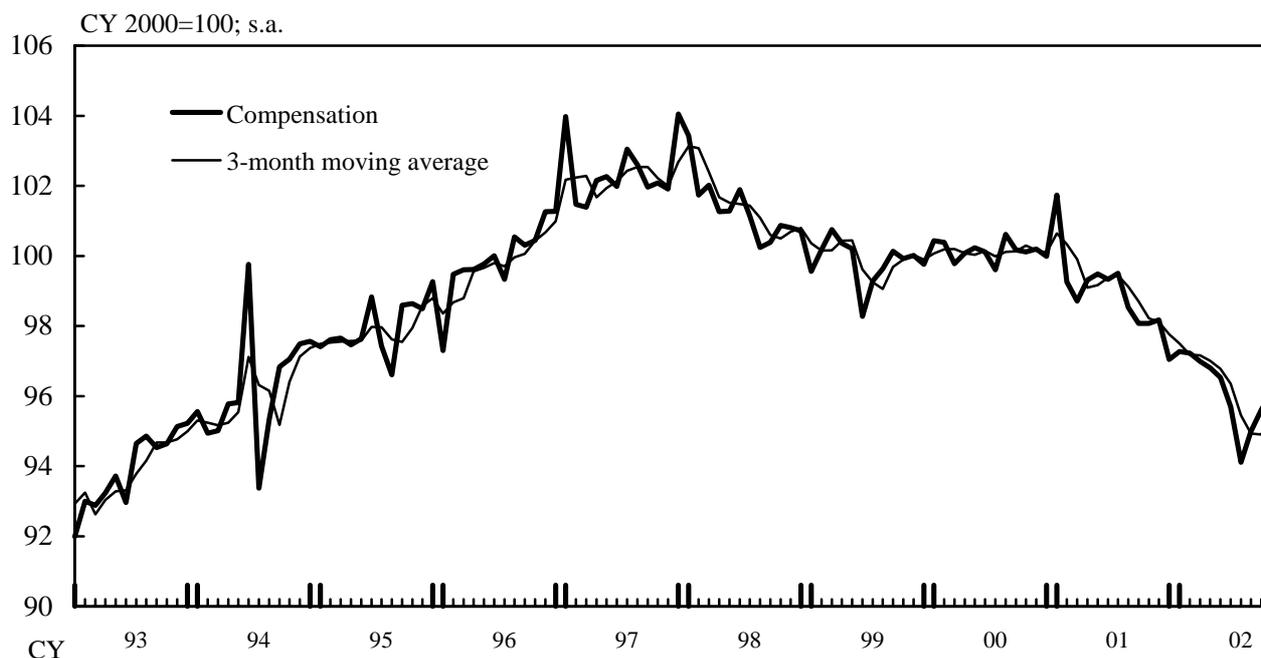


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



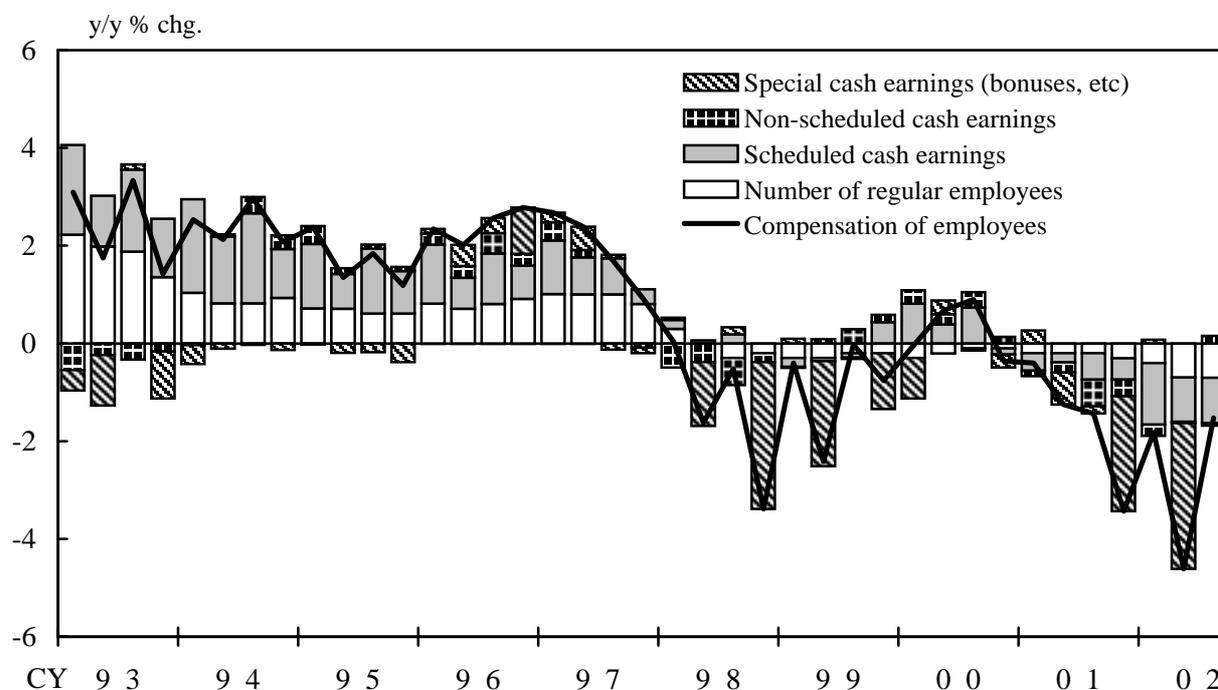
Compensation of Employees

(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.

(2) Breakdown of Compensation

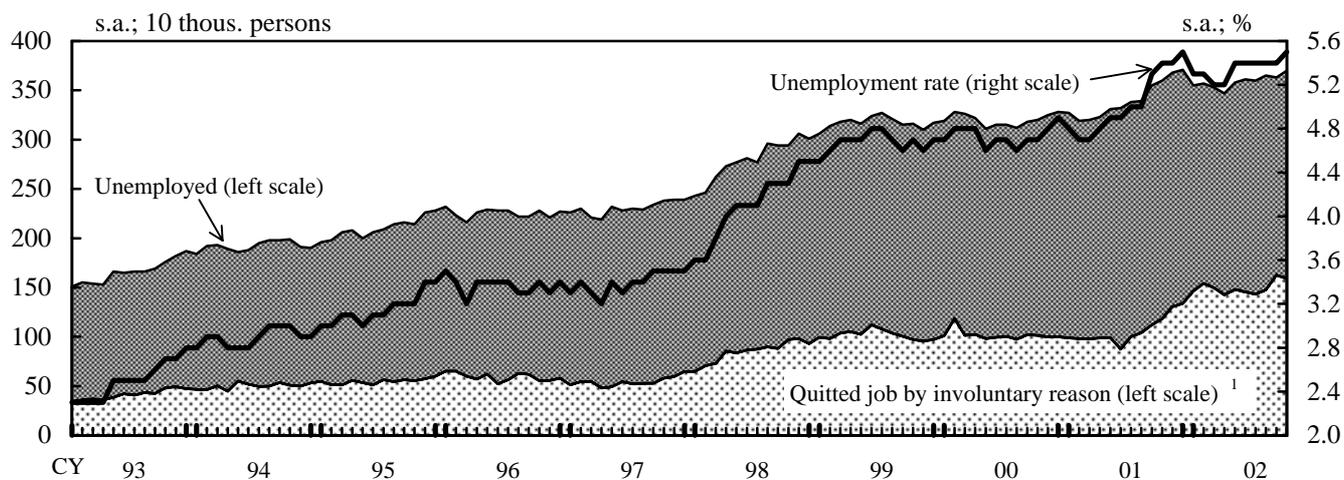


- Notes: 1. Data for establishments with at least 5 employees.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.
 3. Figures for 2002/Q3 are those of Sep.-Oct. 2002.

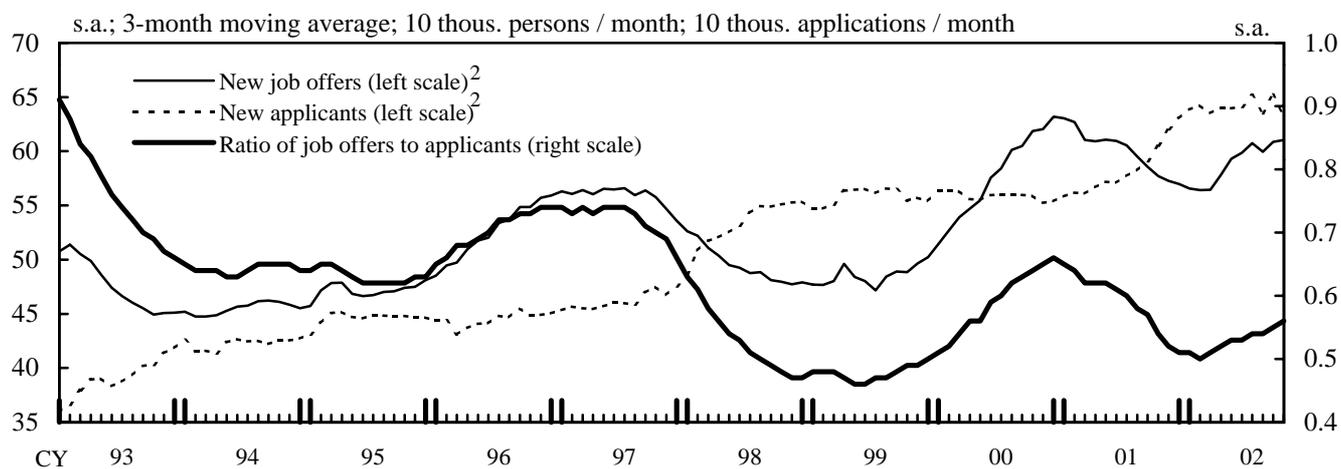
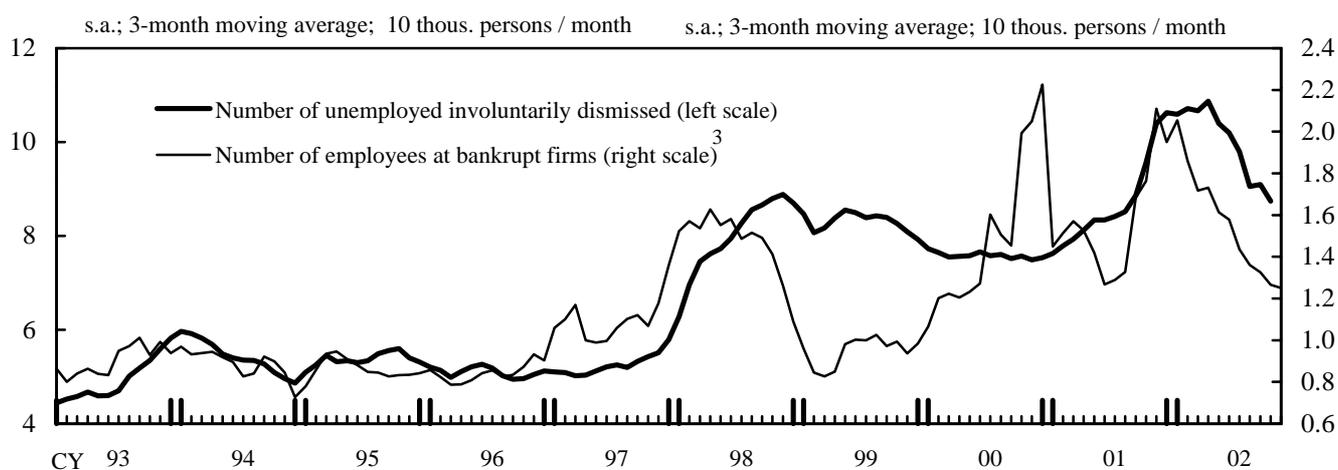
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

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.

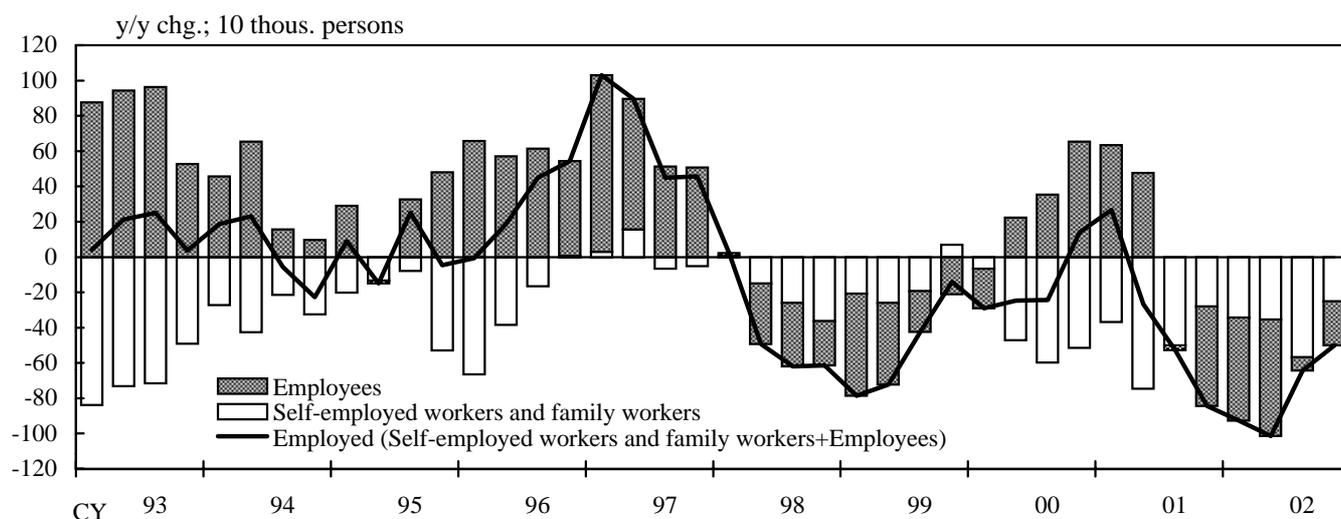
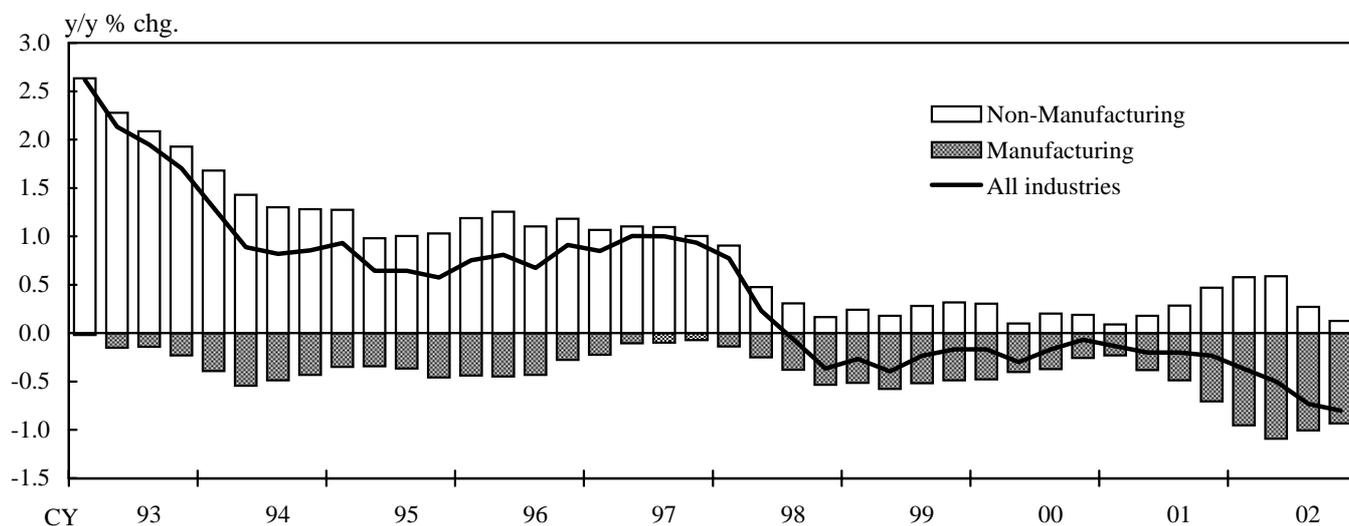
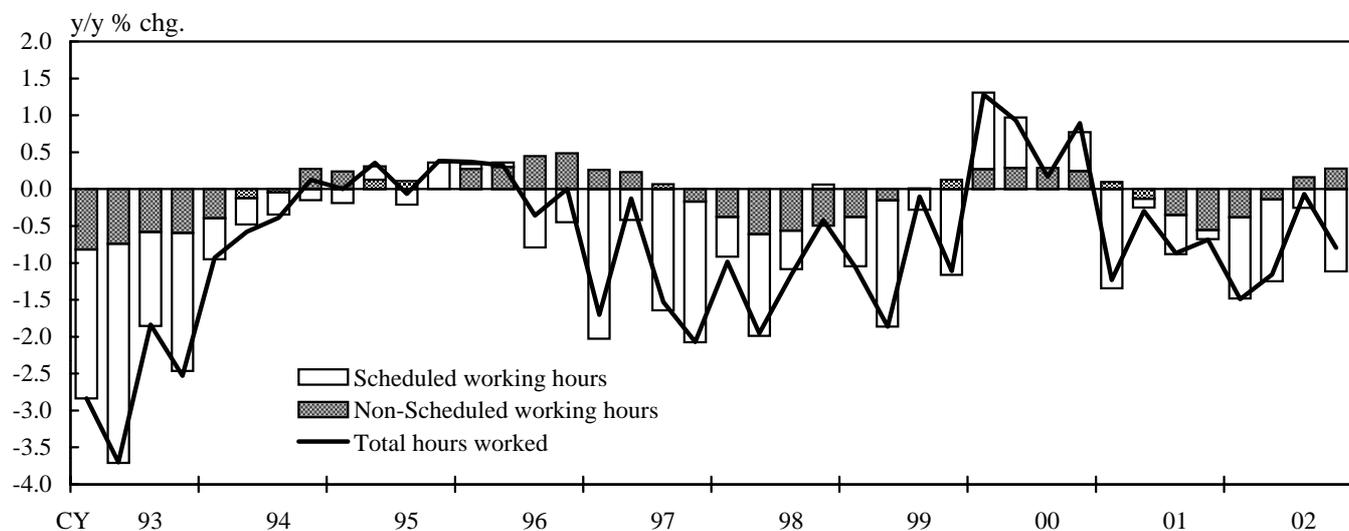
2. Not include jobs offered to new graduates, but to part-time workers.

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/Q4 are those of October.

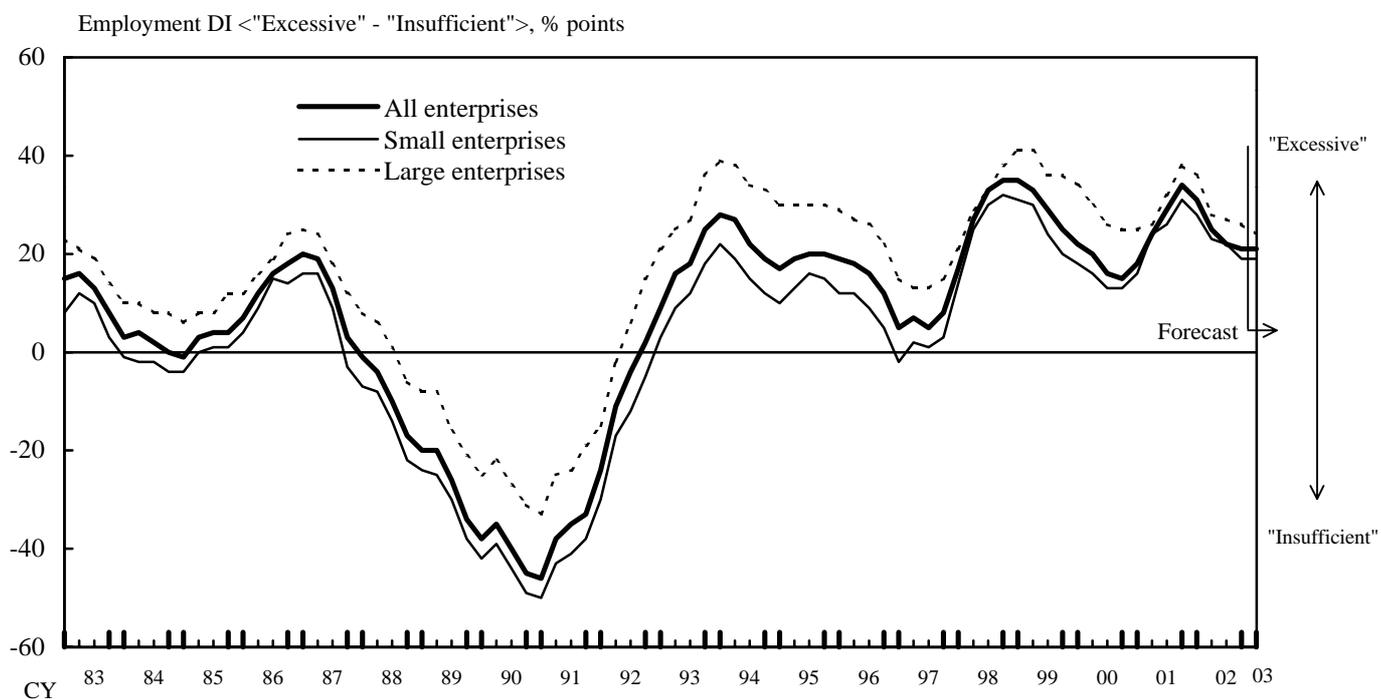
2. Data are for establishments with at least 5 employees.

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

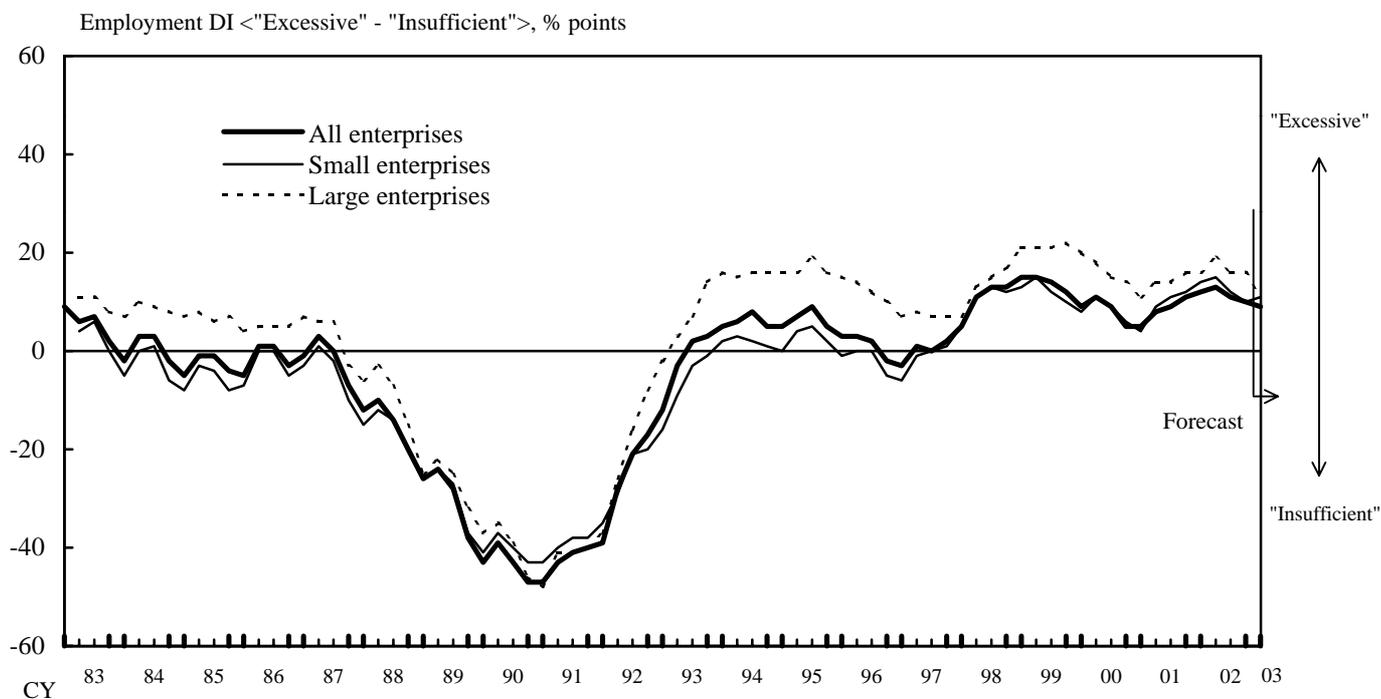
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



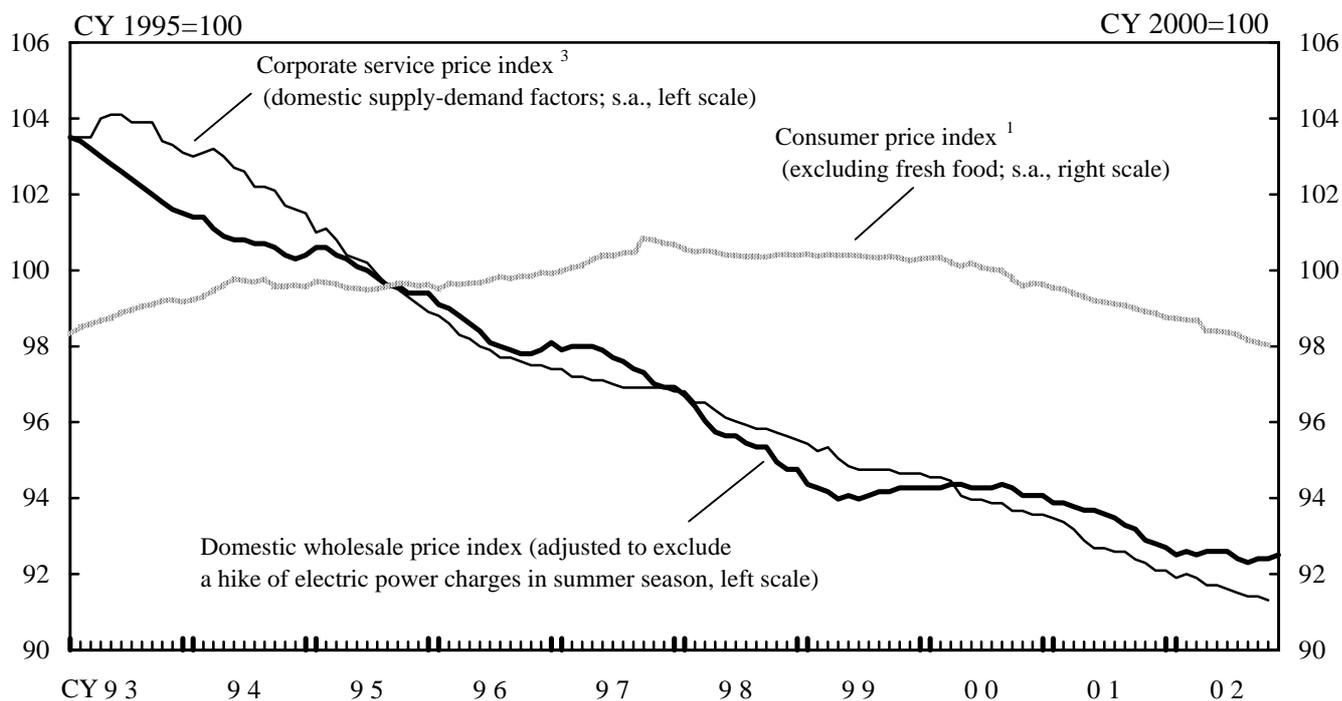
(2) Nonmanufacturing



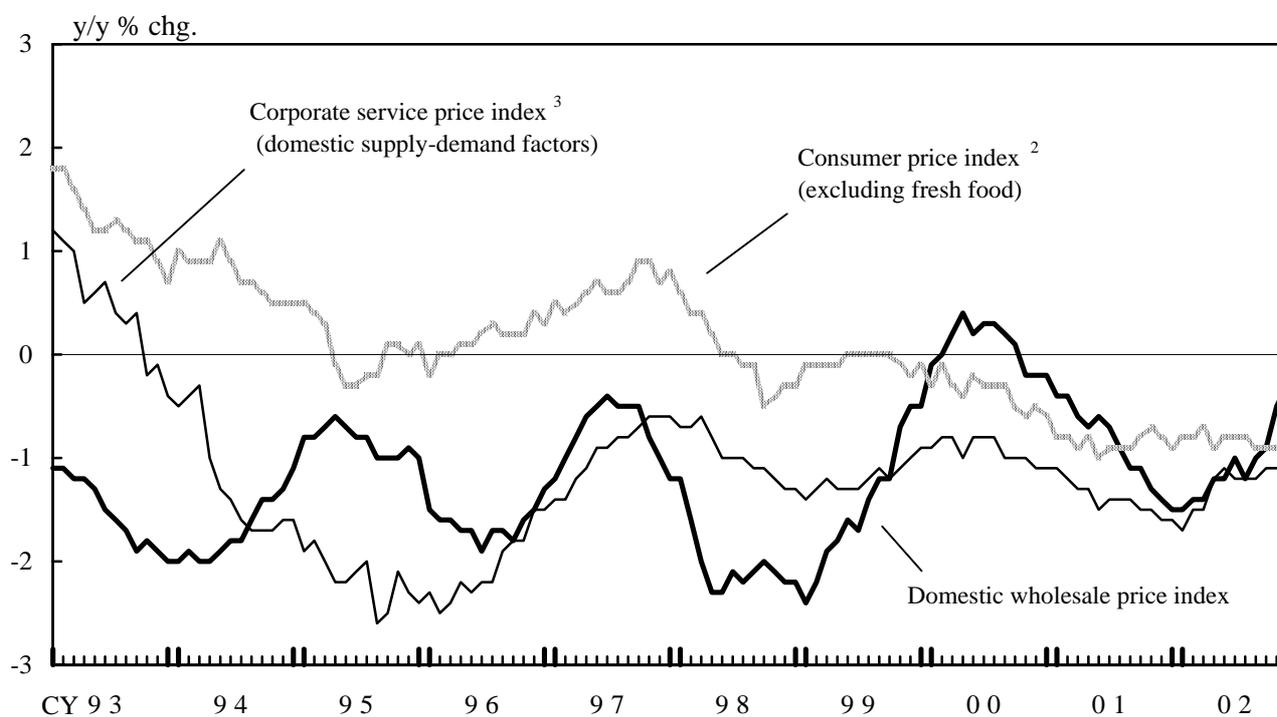
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Prices⁴

(1) Level



(2) Changes from a year earlier

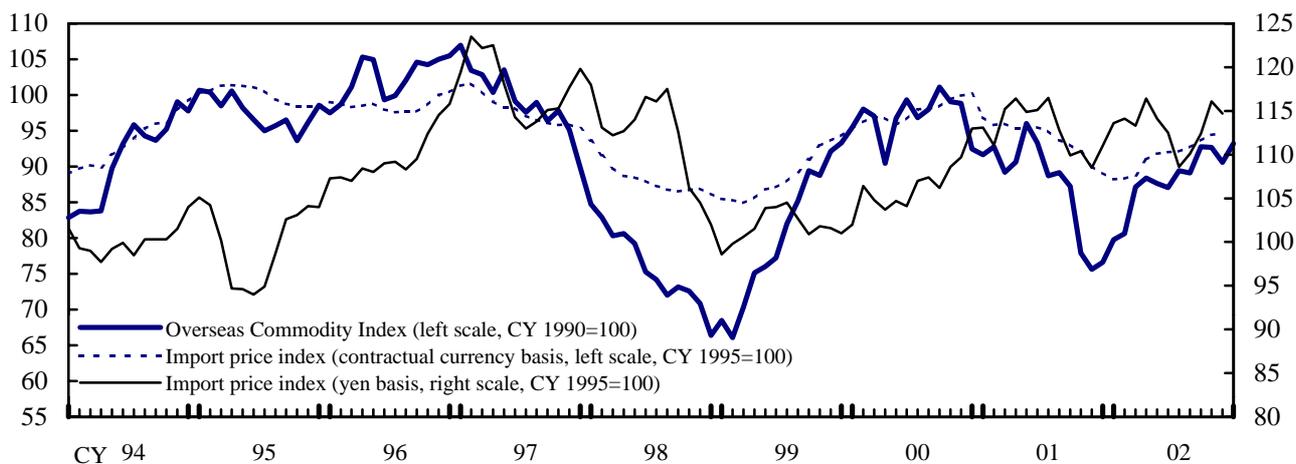


- Notes: 1. Seasonally adjusted by X-12-ARIMA, based on the original series excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.
2. Data before Dec. 2000 are 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."

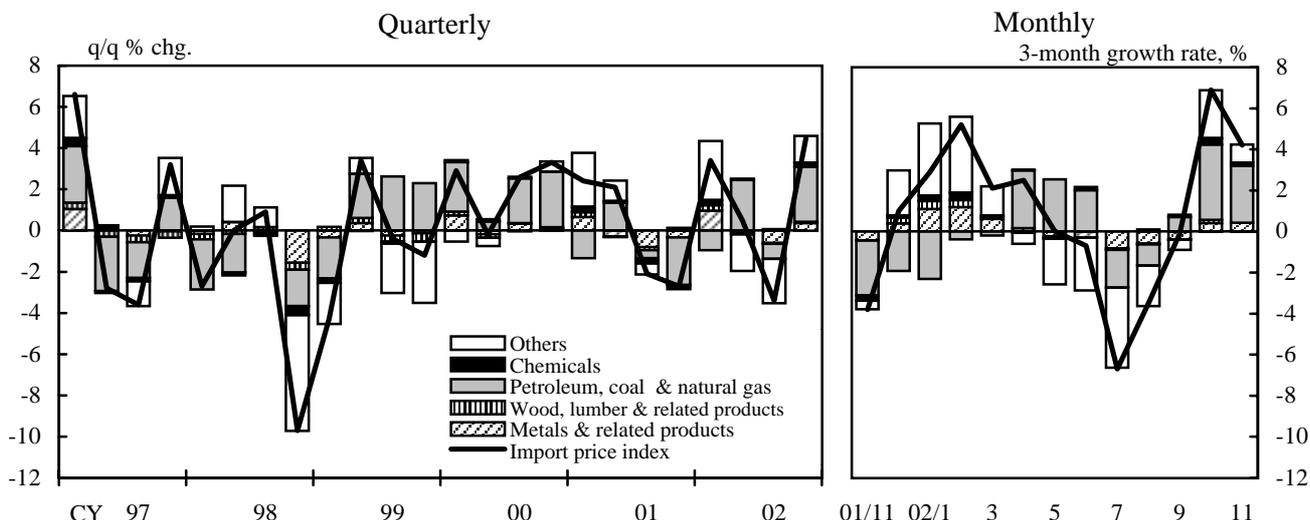
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



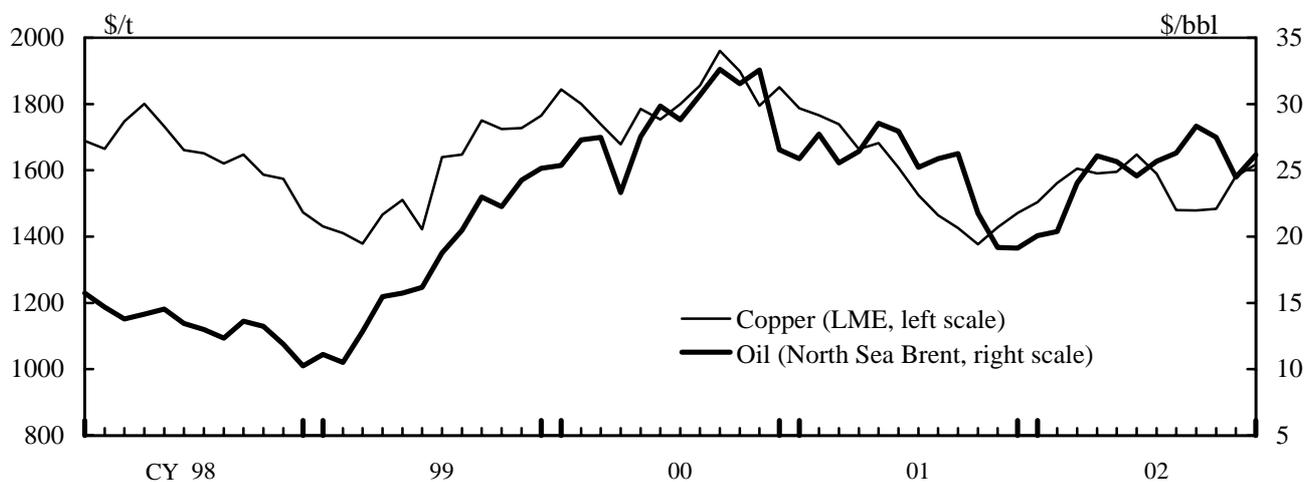
Note: Overseas Commodity Index, which is calculated by Bank of Japan, is a monthly average.
 Figure for December 2002 is the average up to December 13.

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



Note: Figures for 2002/Q4 are those of Oct.-Nov. averages.

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

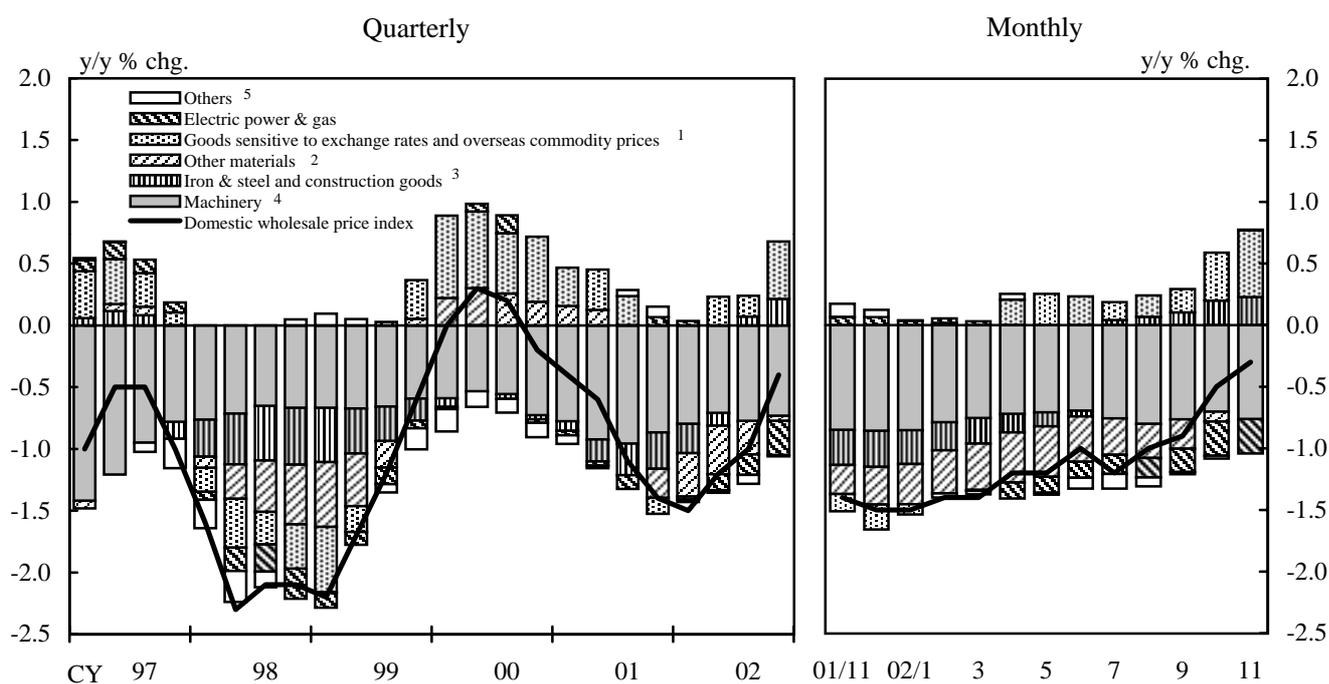
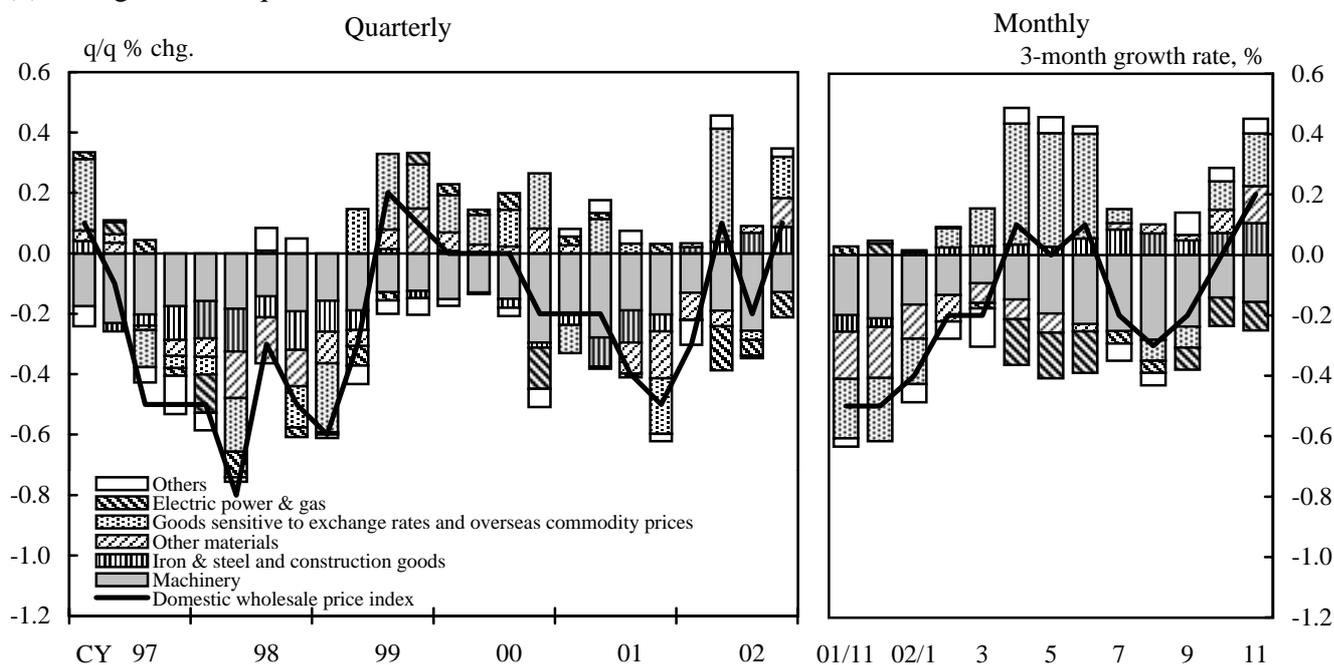


Note: Monthly averages. Figures for December 2002 are the averages up to December 13.

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%.

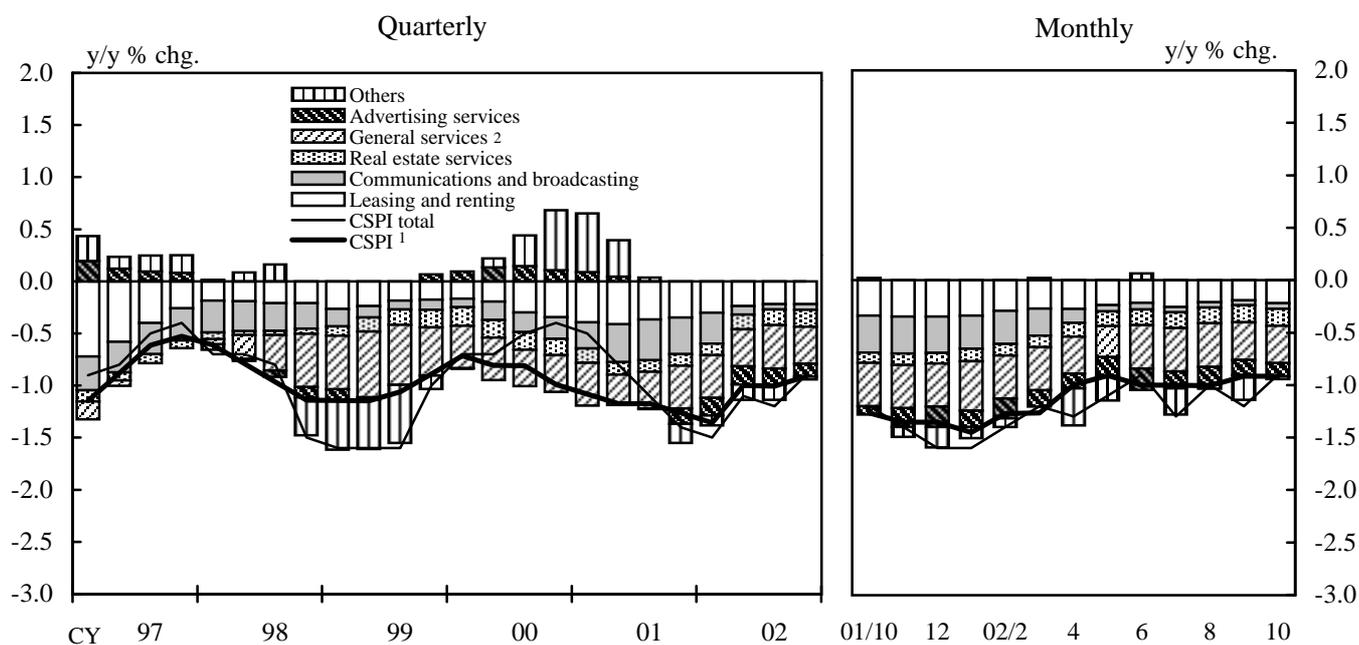
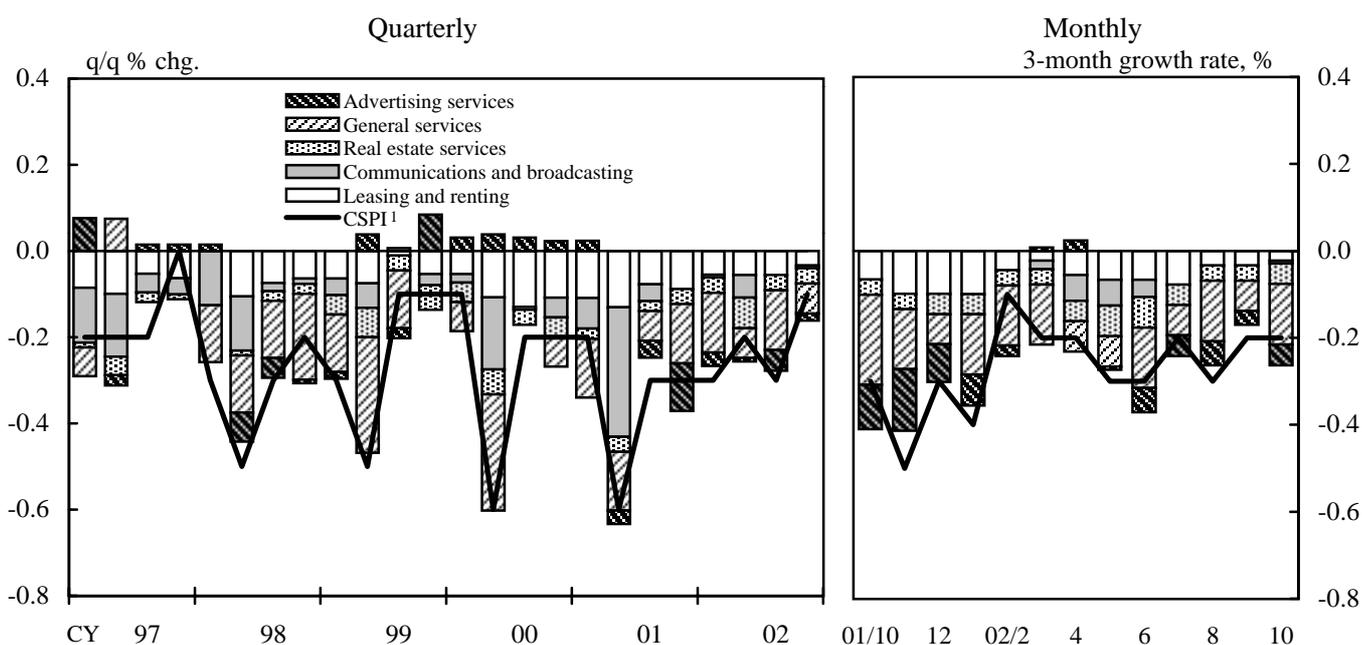
7. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

8. Figures for 2002/Q4 are those of Oct.-Nov. averages.

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

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' procurement 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.

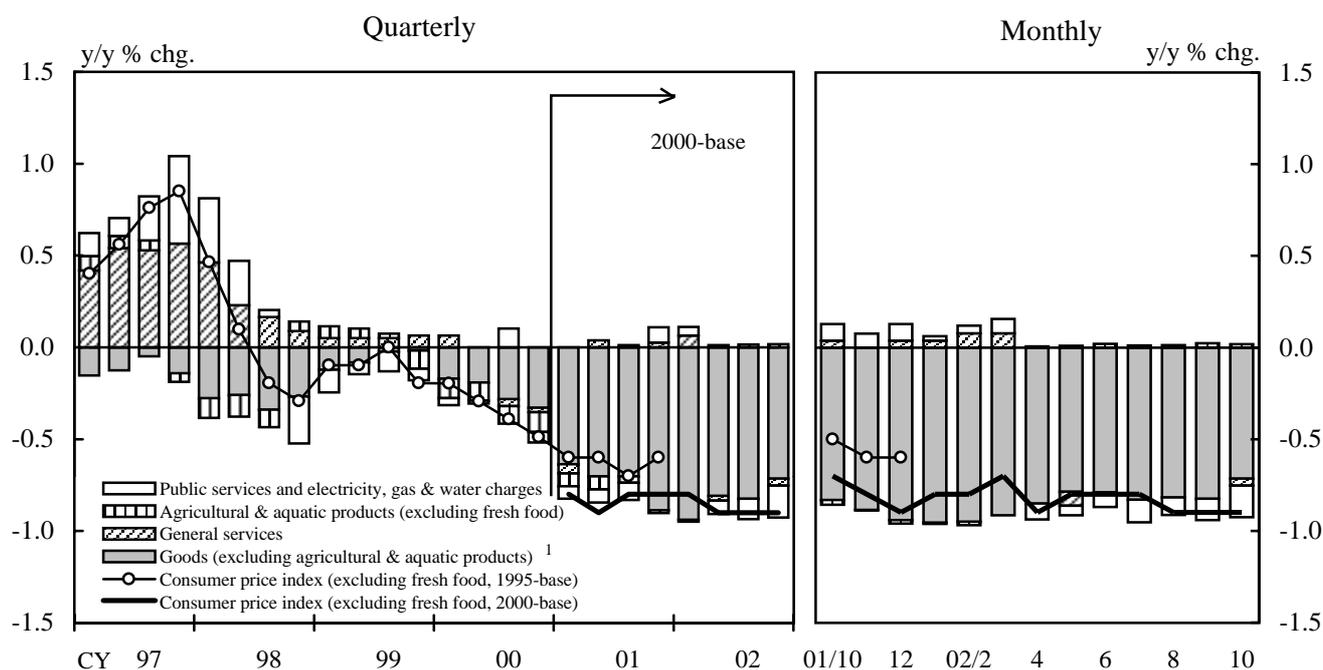
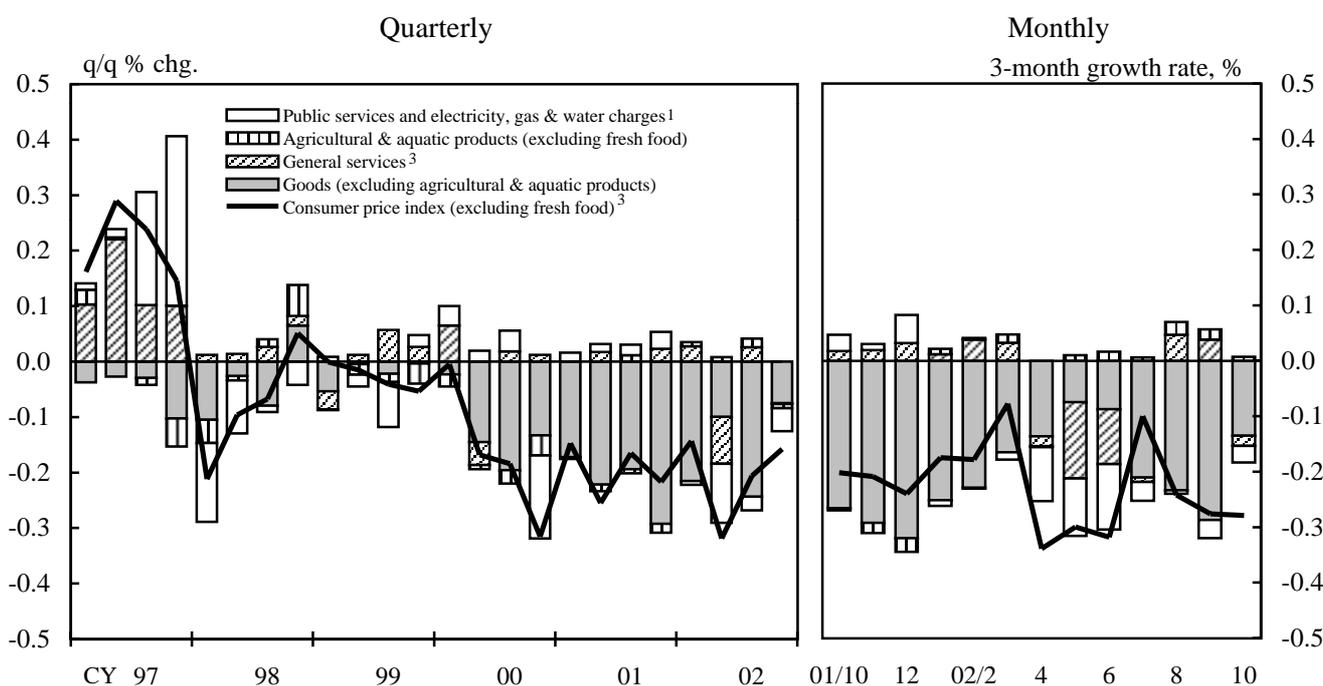
4. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

5. Figures for 2002/Q4 are those of October.

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

Consumer Price Index (excluding fresh food)⁴

(1) Changes from a year earlier

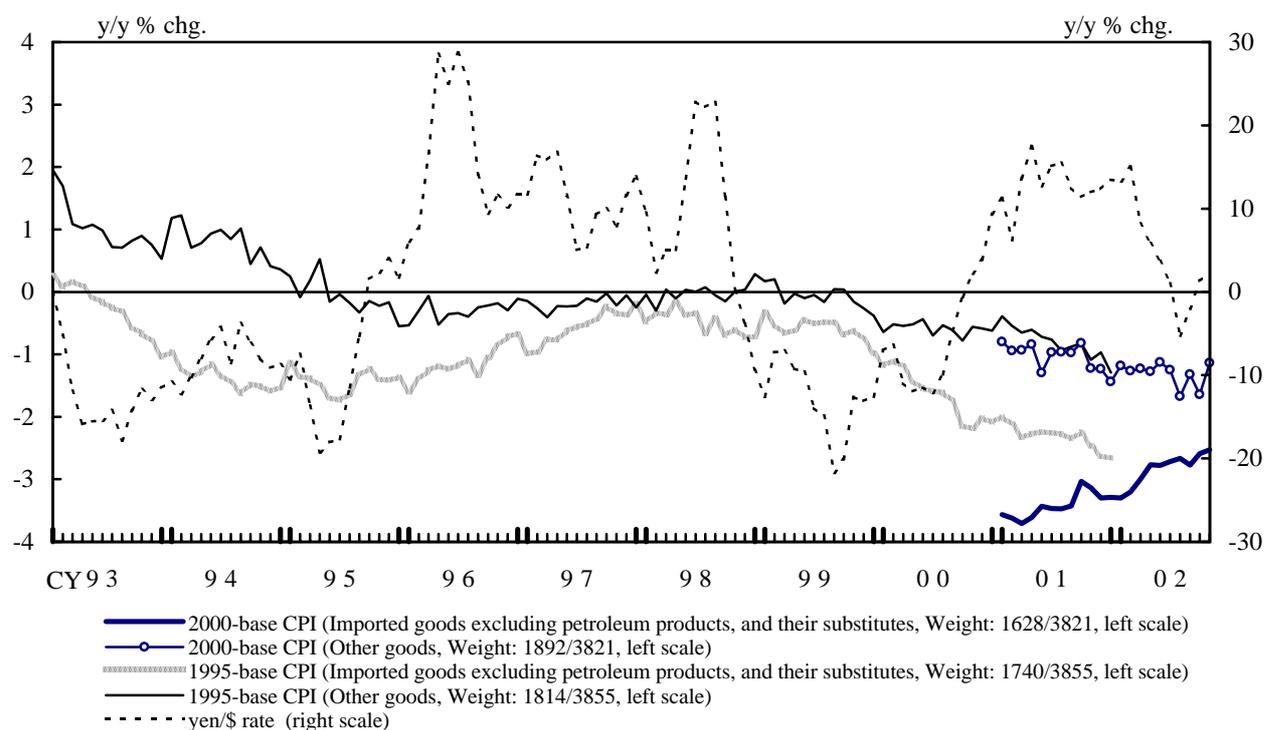
(2) Changes from a quarter earlier and 3 months earlier (2000-base CPI)²

- 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/Q4 are those of October.

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

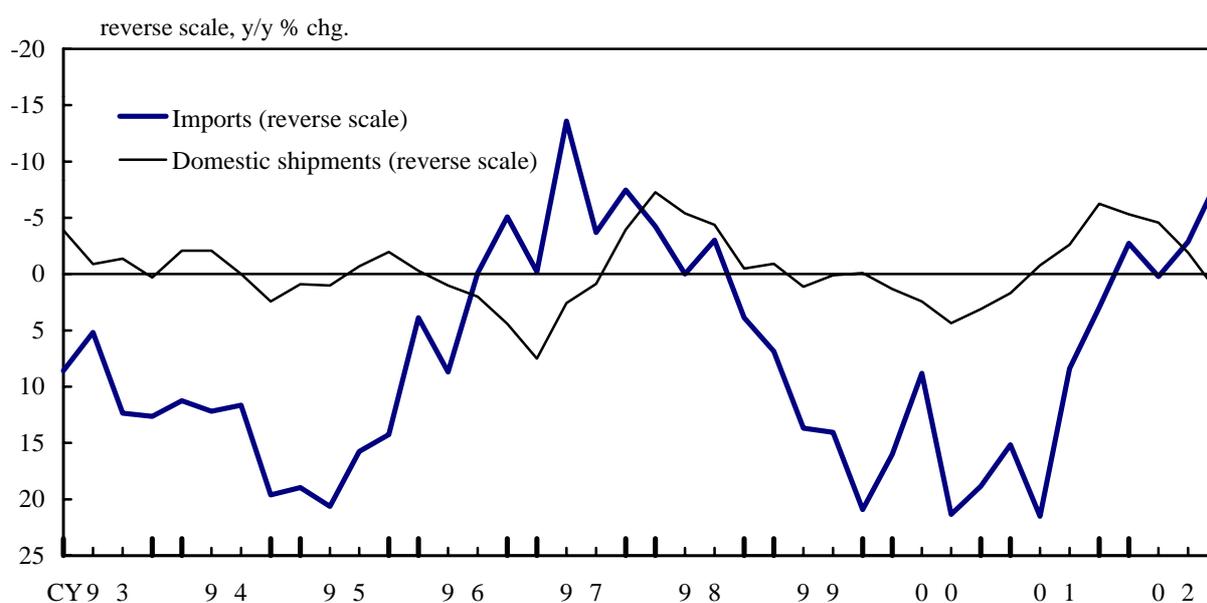
Consumer Price Index of imported goods and their substitutes

(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)

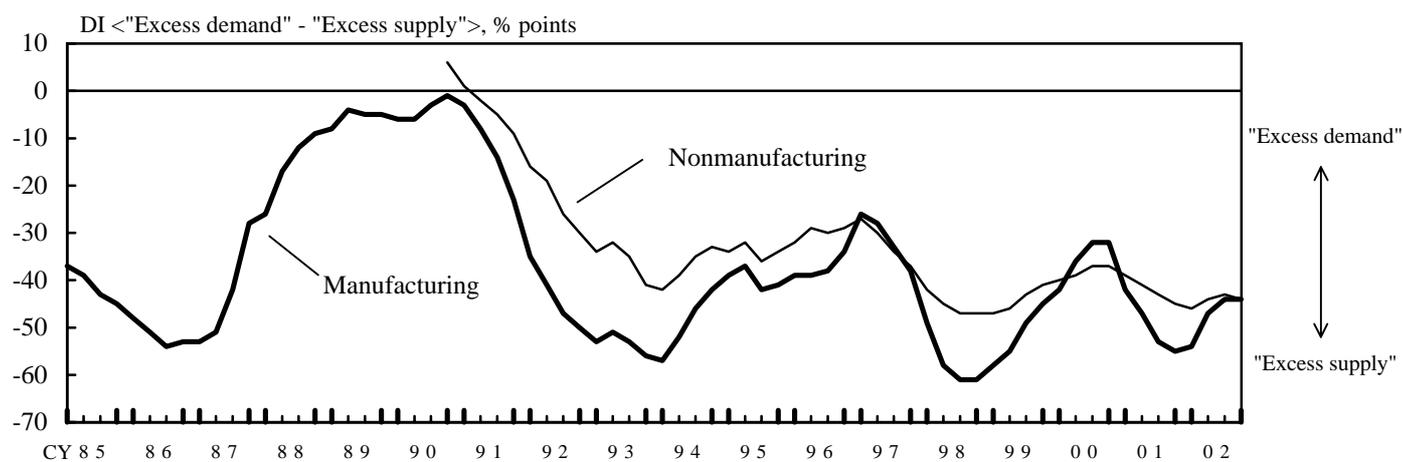
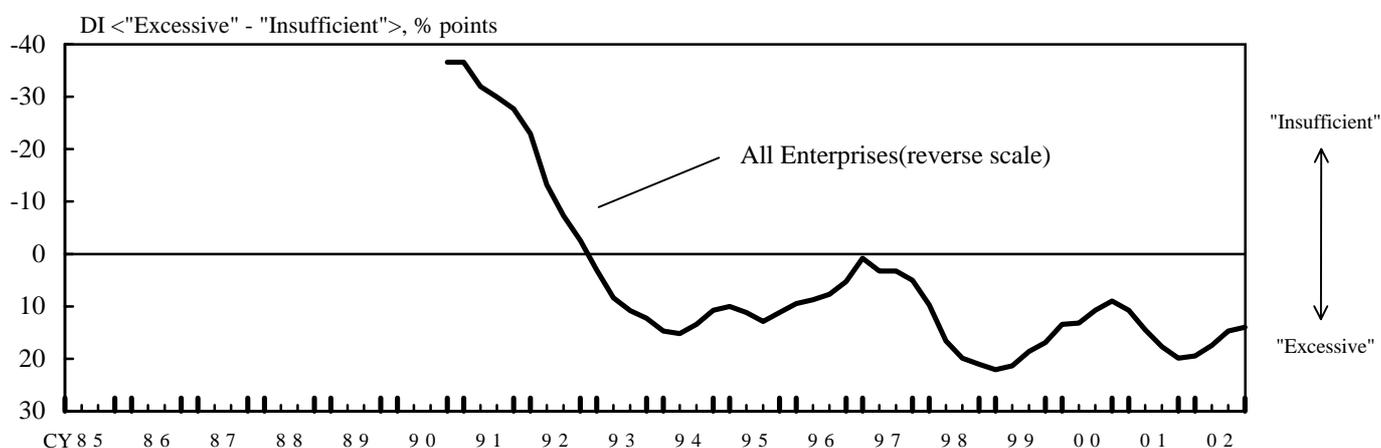


Note: See footnote Chart 15-4, for definition of the consumer goods supply.

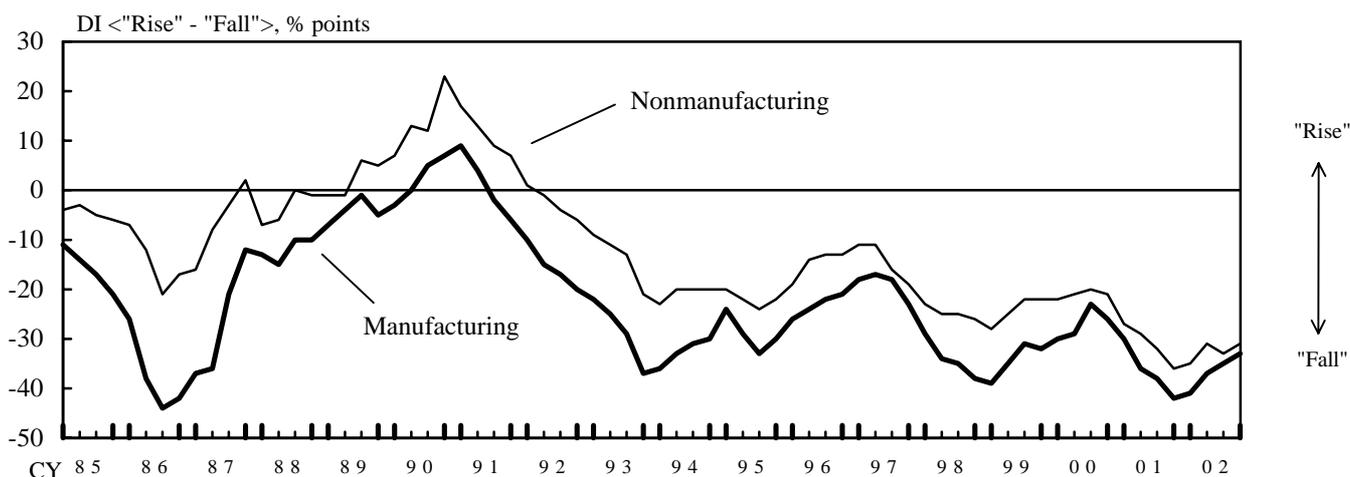
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports";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



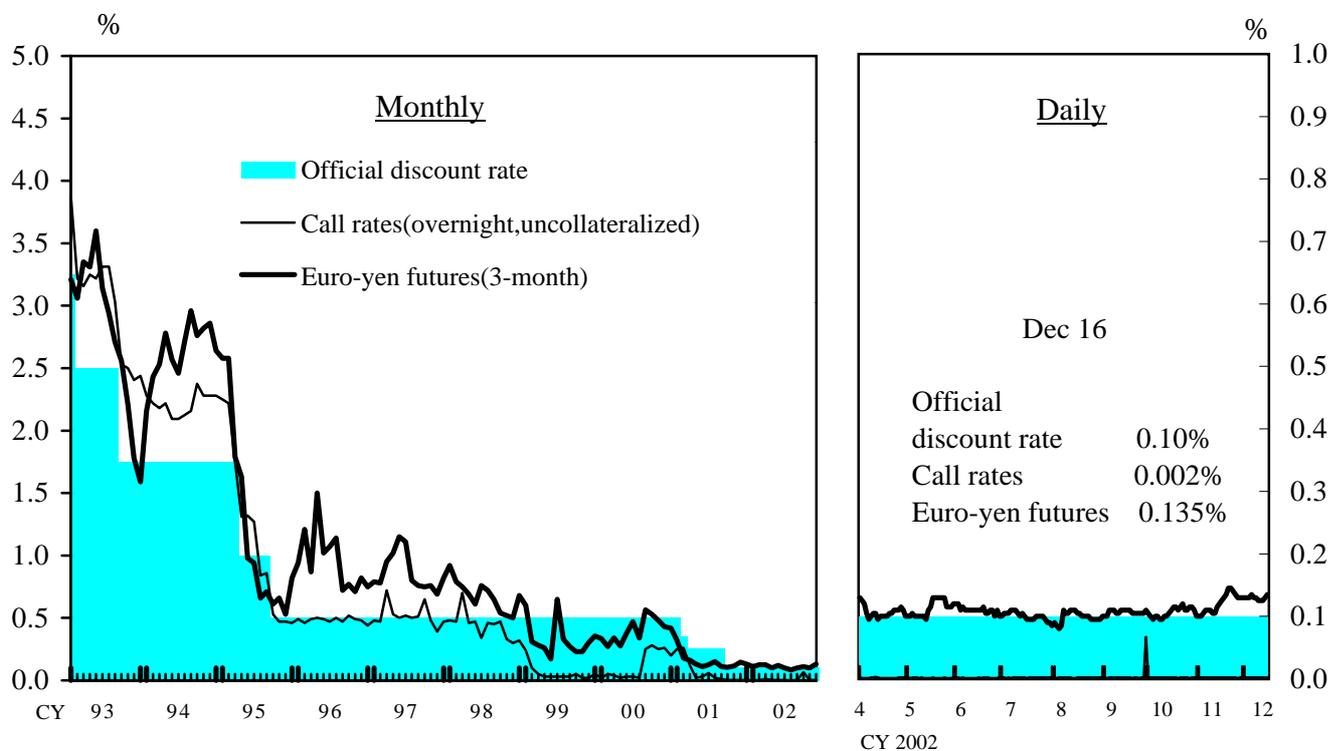
Notes: 1. Figures before December 1998 are based on the pre-revision Tankan, and those from March 1999 onward are based on the post-revision Tankan.

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.

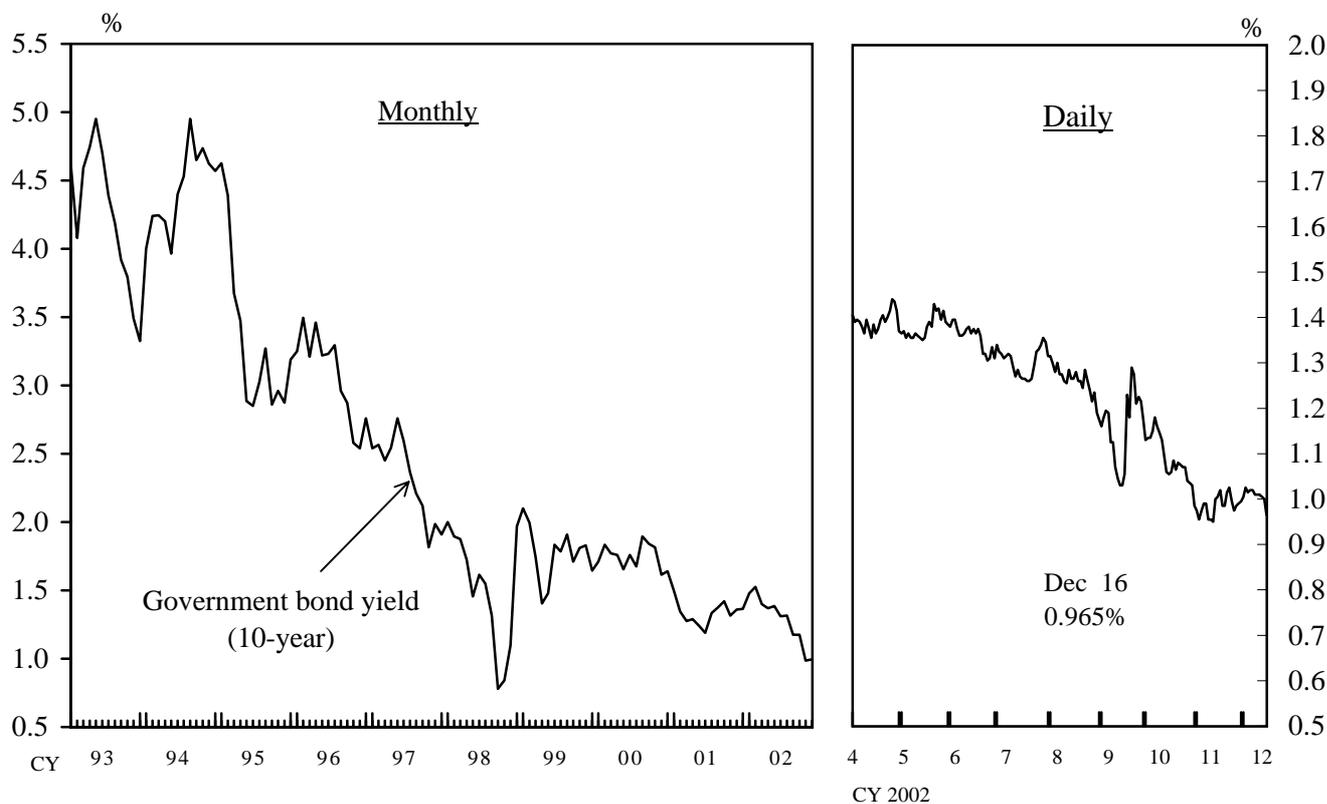
Sources: Cabinet Office, "National Accounts";
Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



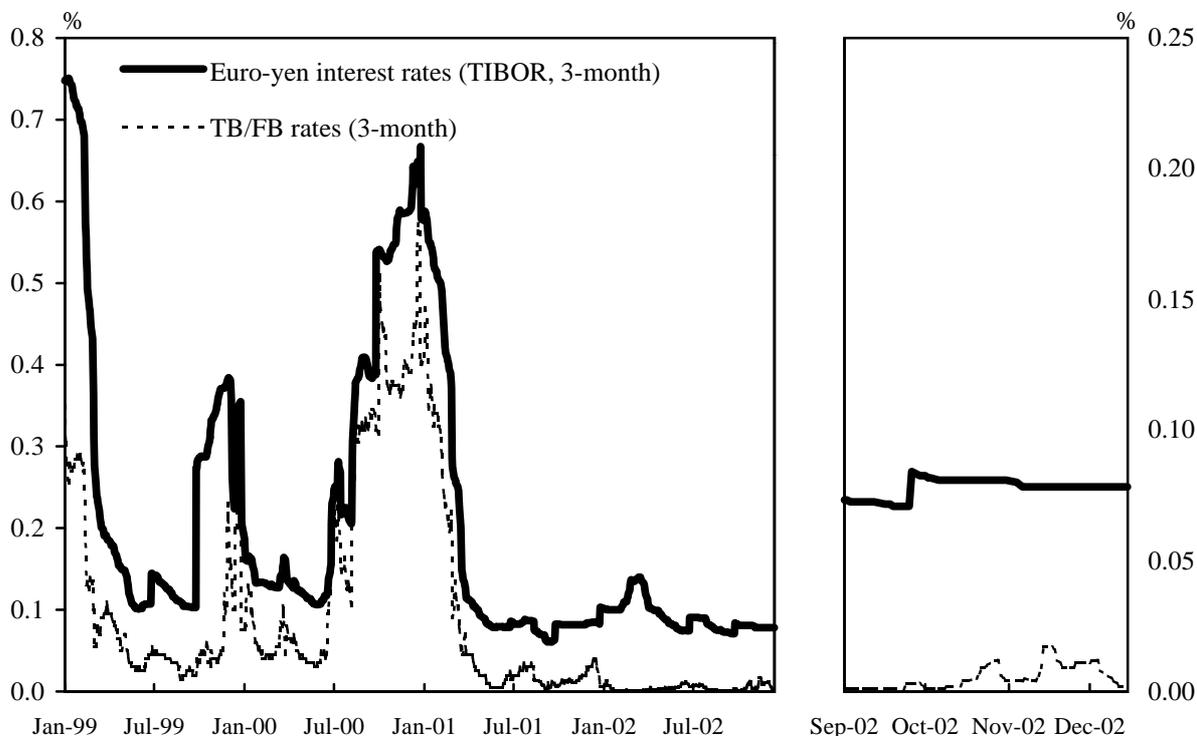
(2) Long-Term



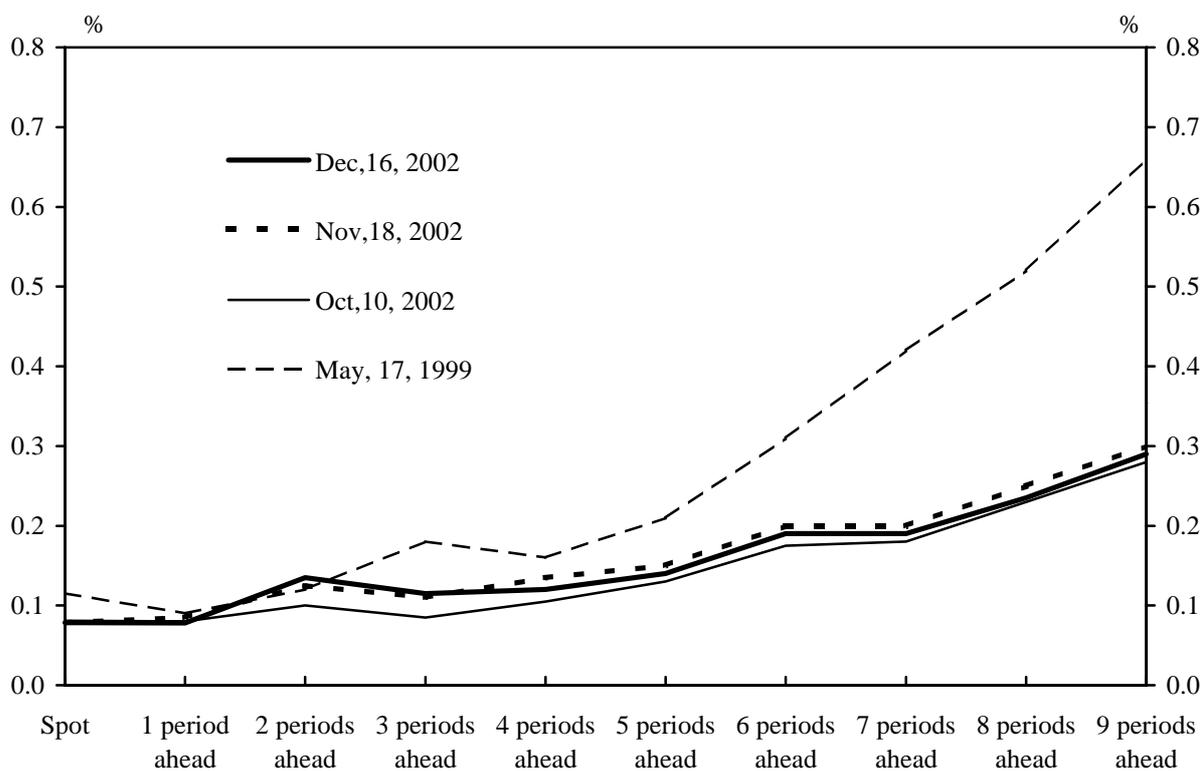
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
 Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

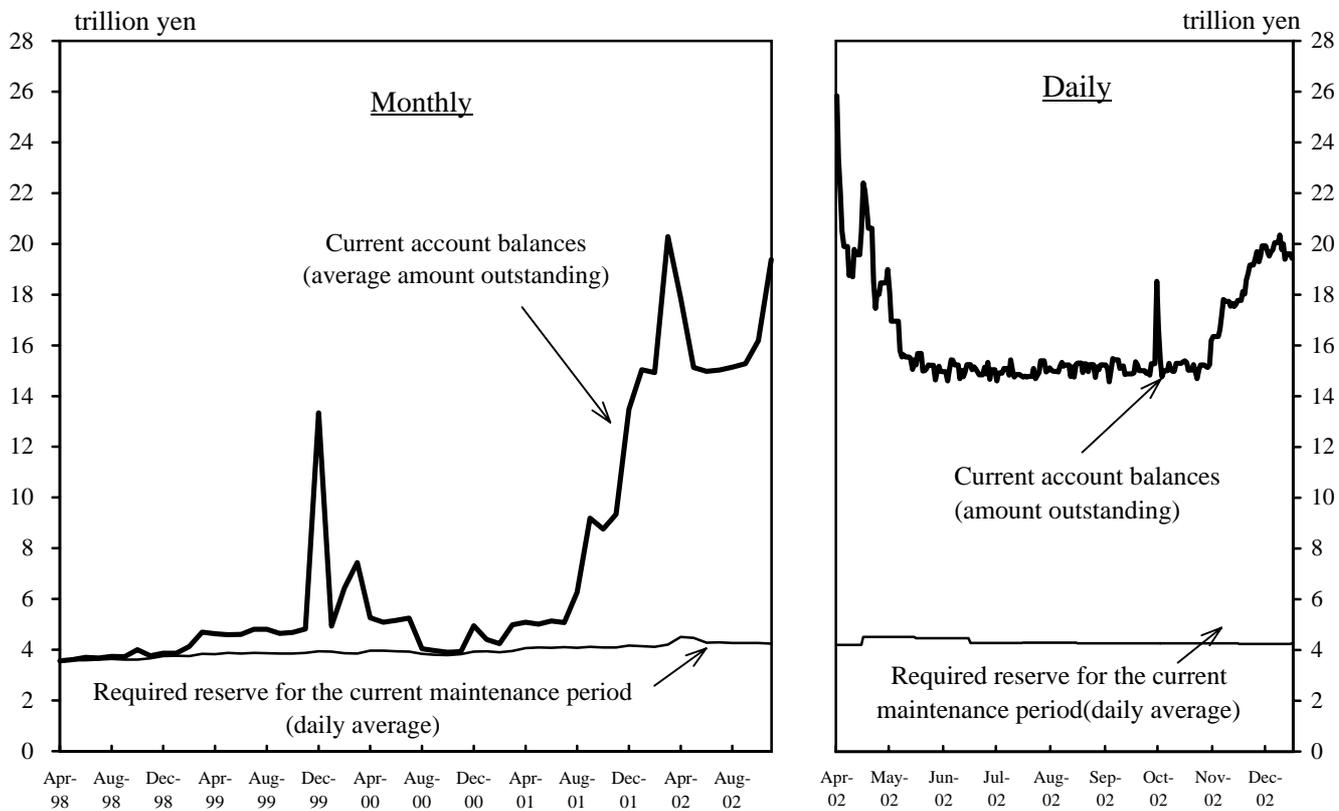


(2) Euro-Yen Interest Rates Futures (3-Month)



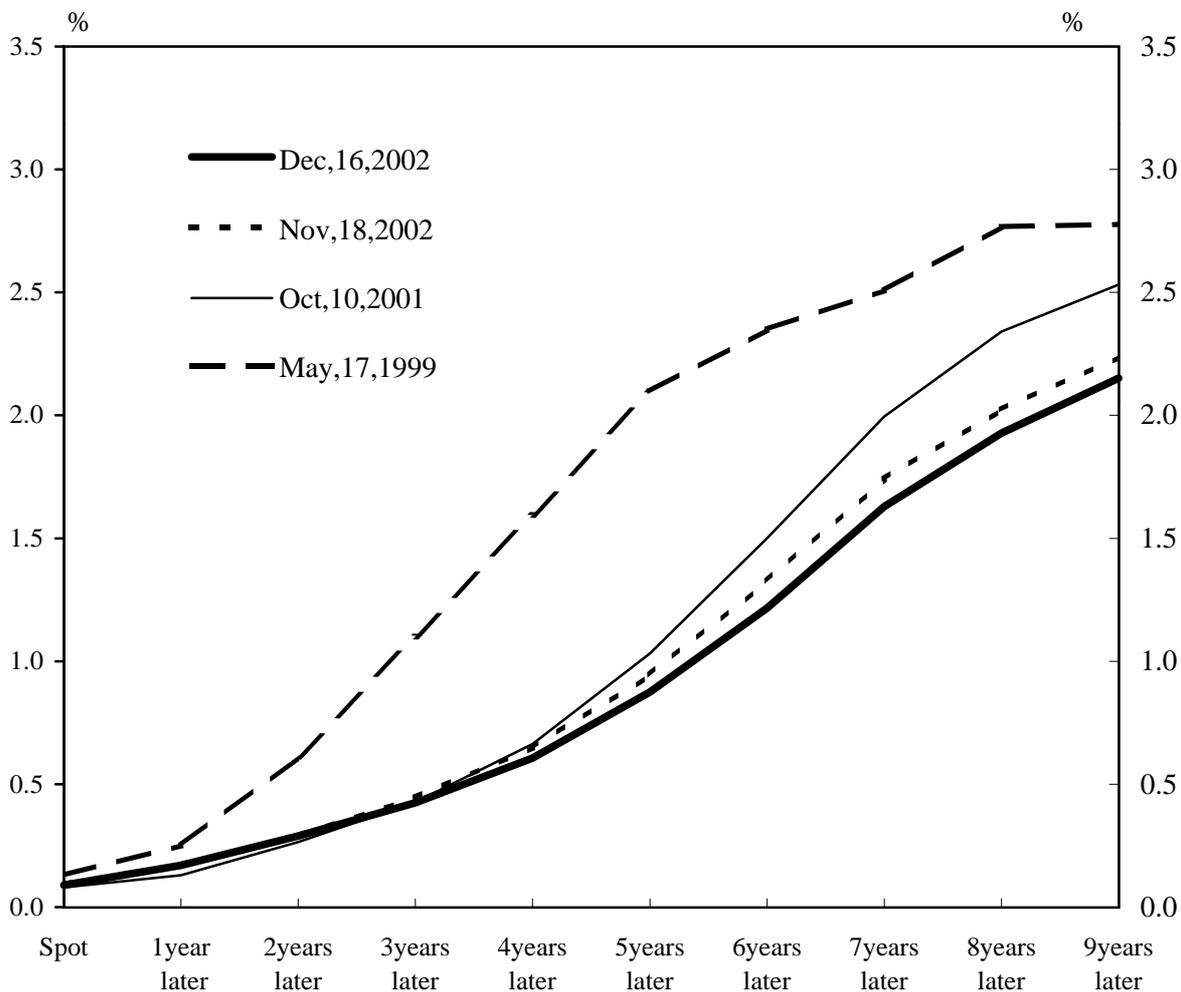
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo International Financial Futures Exchange.

Current Account Balances at the Bank of Japan



Source: Bank of Japan.

Implied Forward Rates (1-year)¹

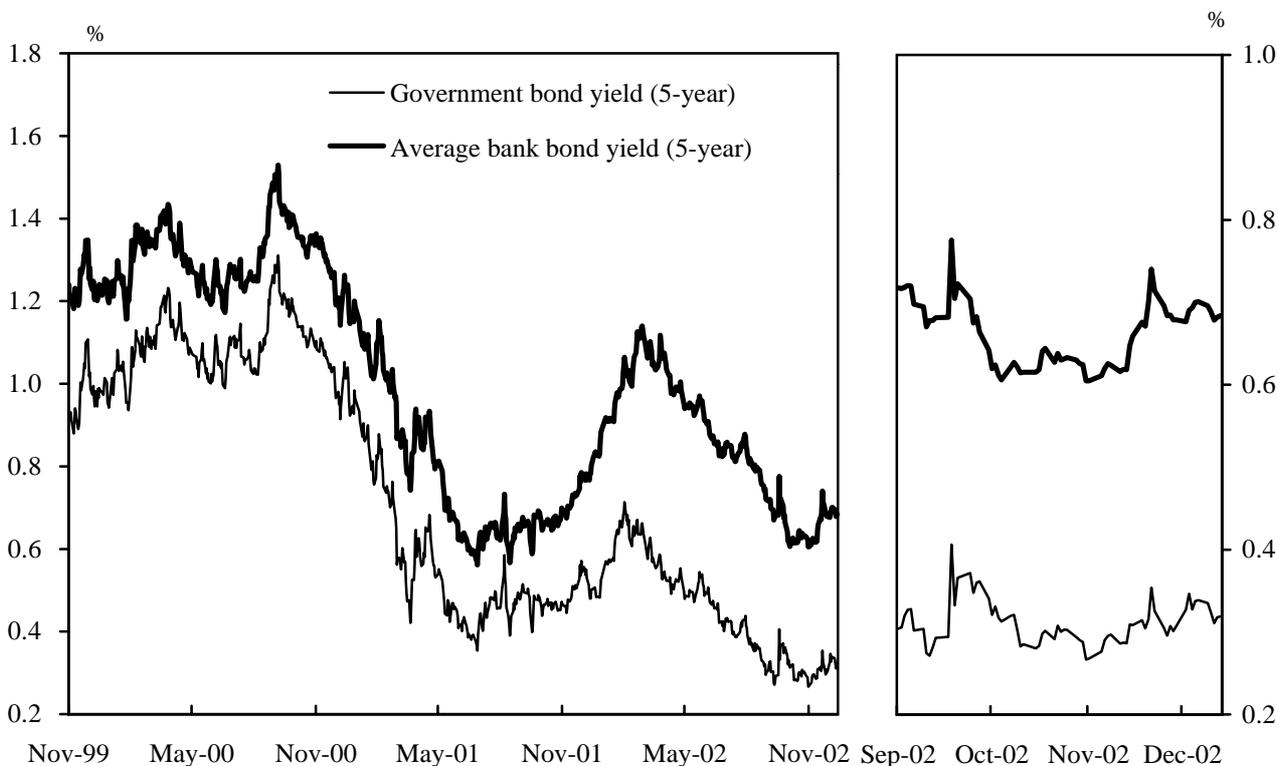


Note: 1. Calculated from yen-yen swap rates.

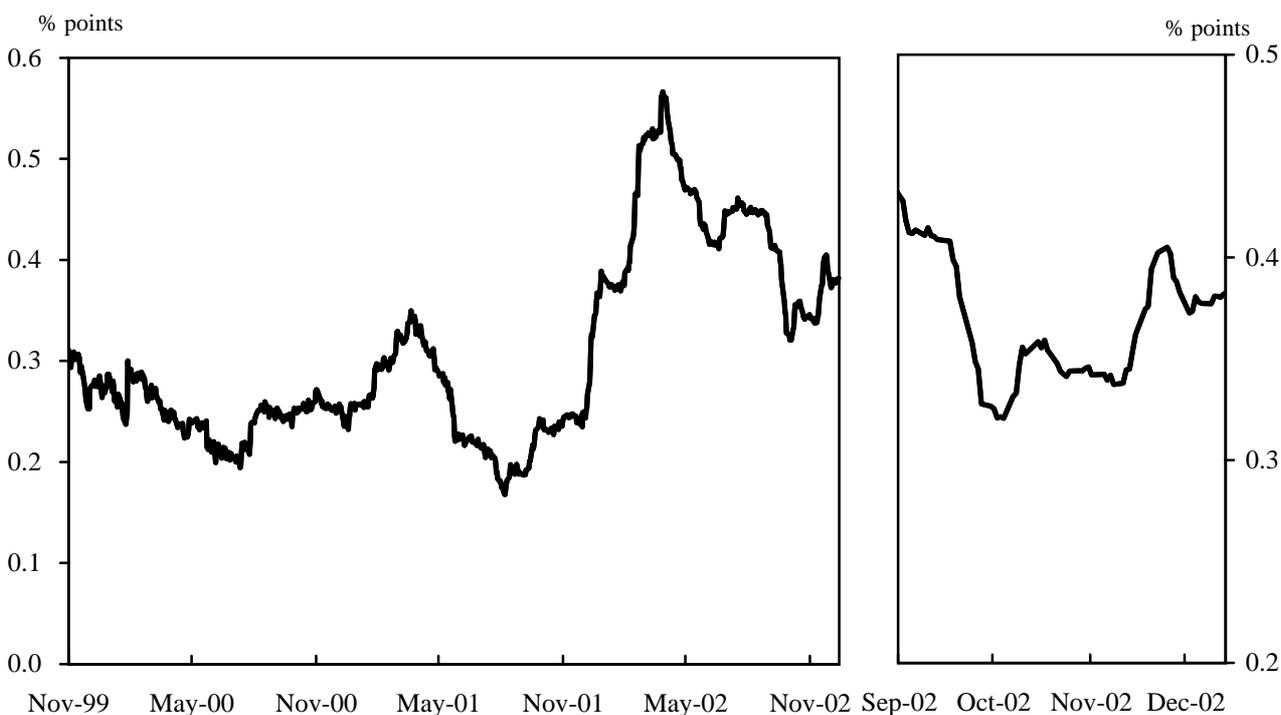
Source: Kyodo News.

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.

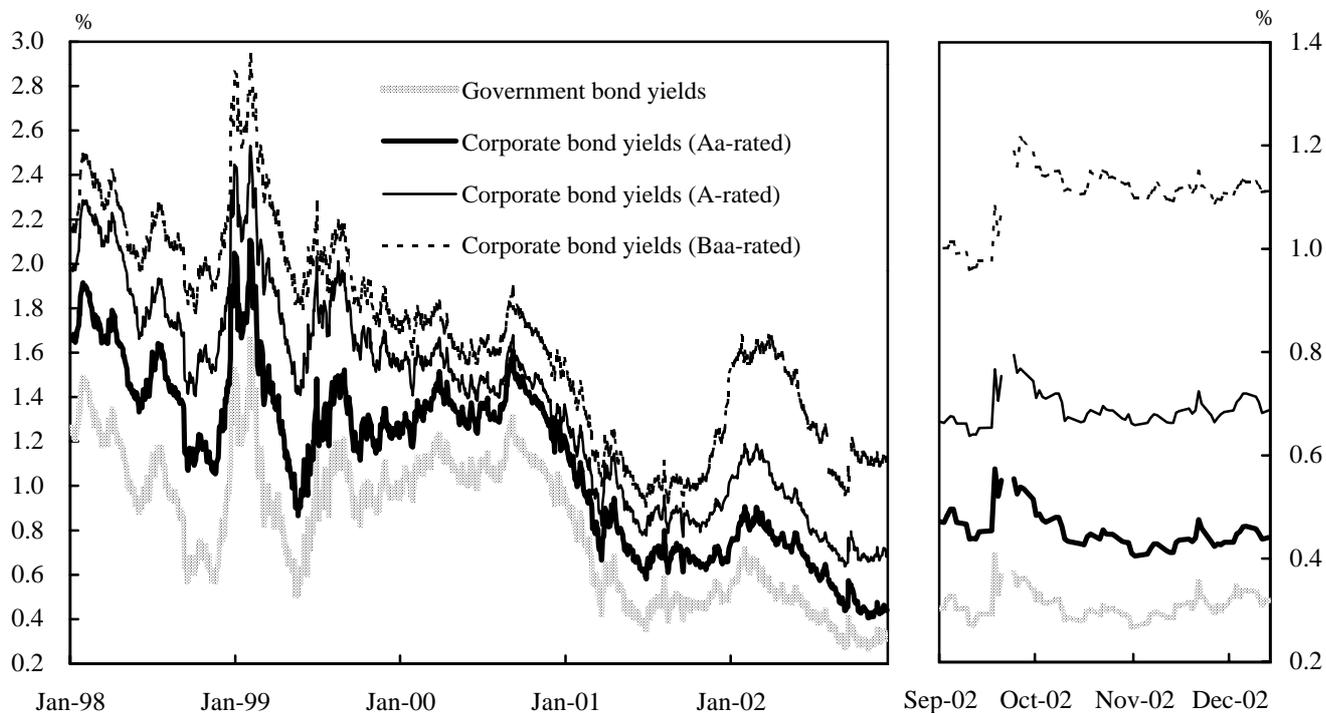
2. Average bank bond yield is the average of four bank bonds.

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

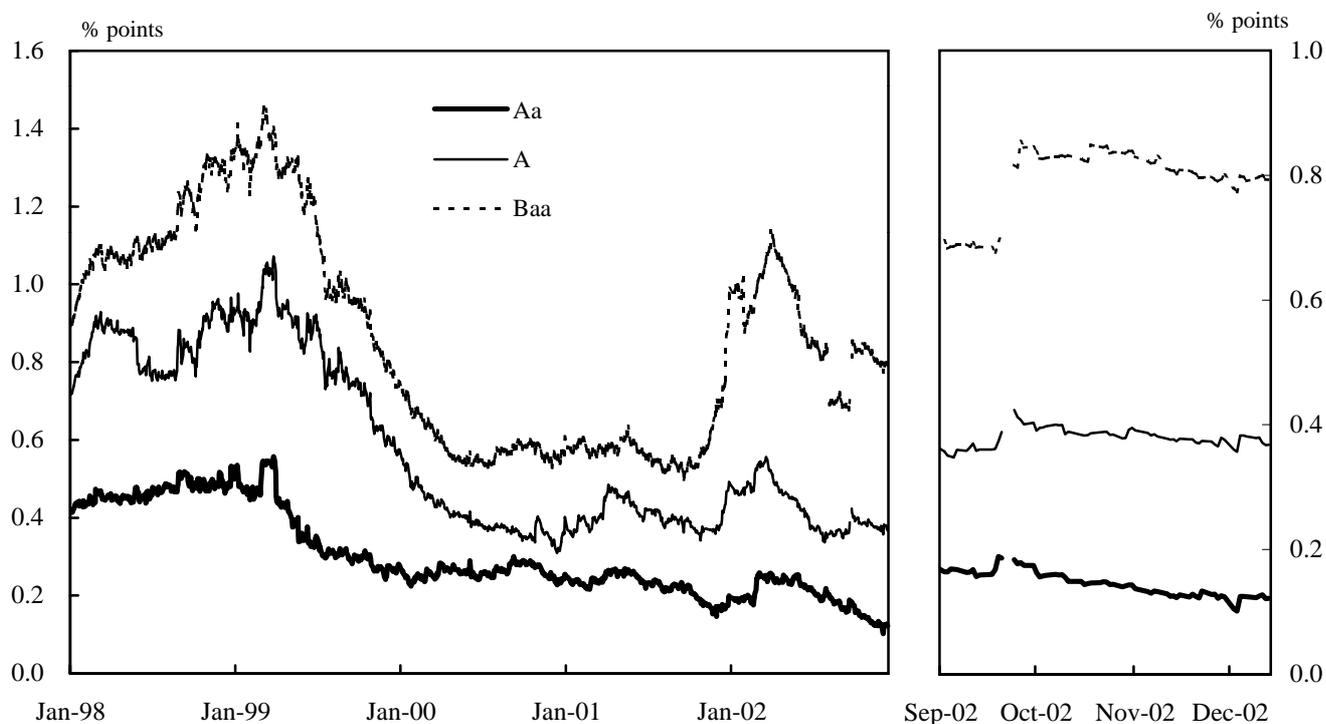
"Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds¹

(1) Bond Yields



(2) Spread of Corporate Bond Yield and Government Bond Yield



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

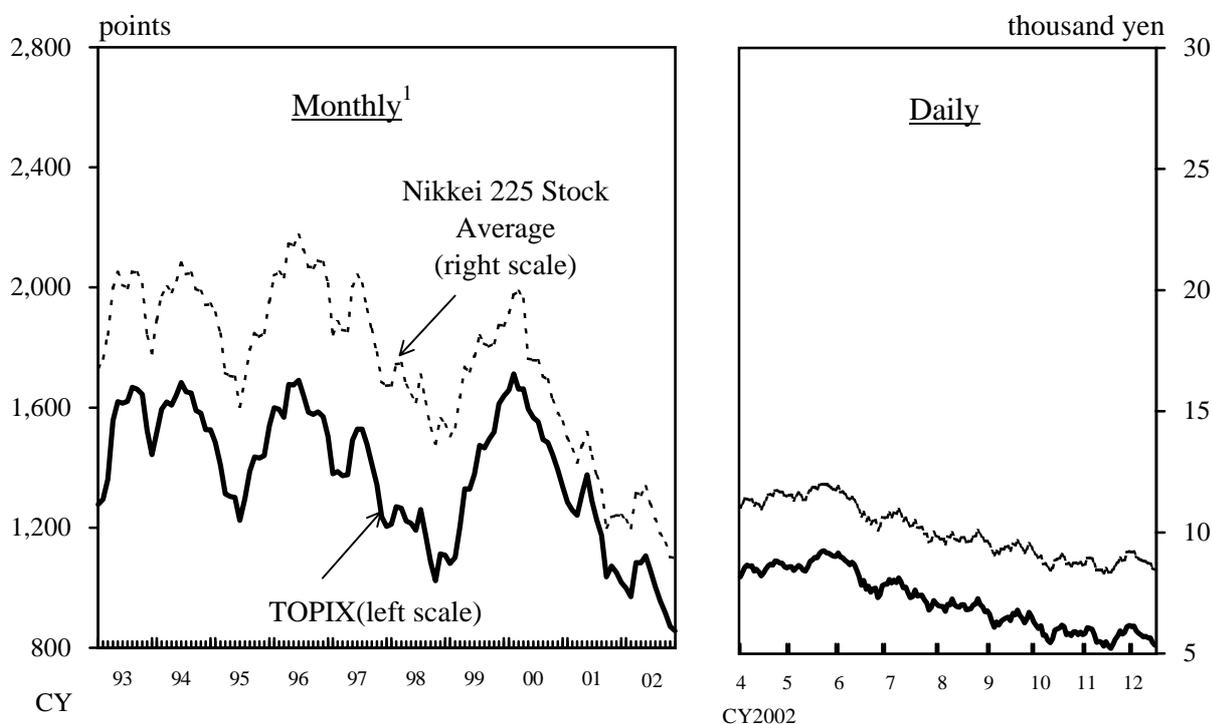
The indicated ratings are of Moody's.

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

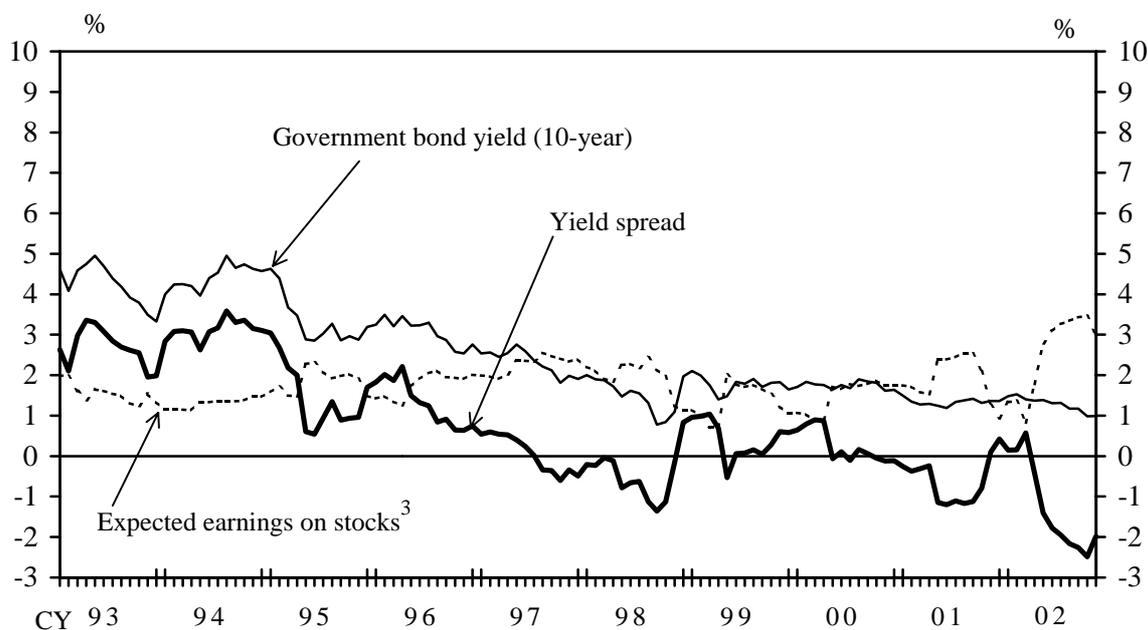
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

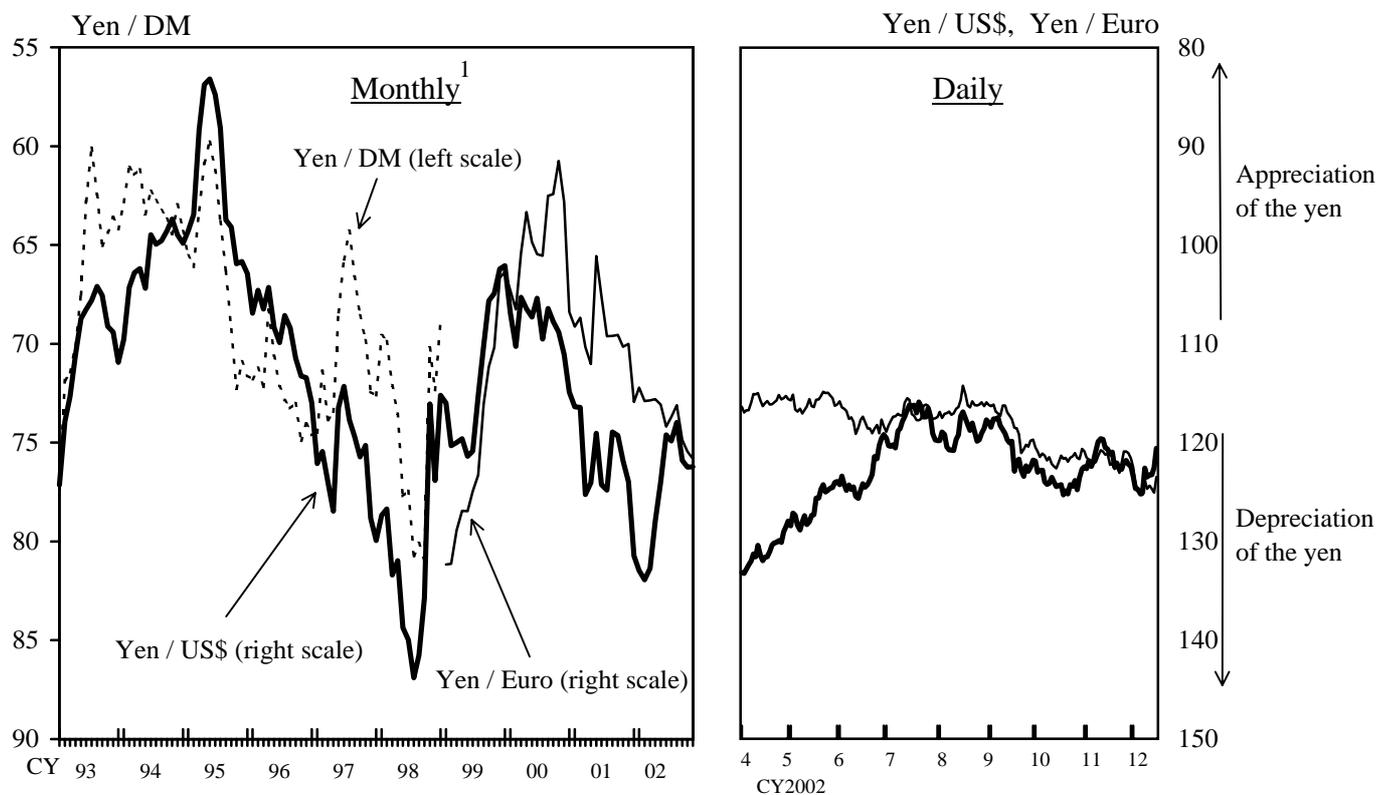
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

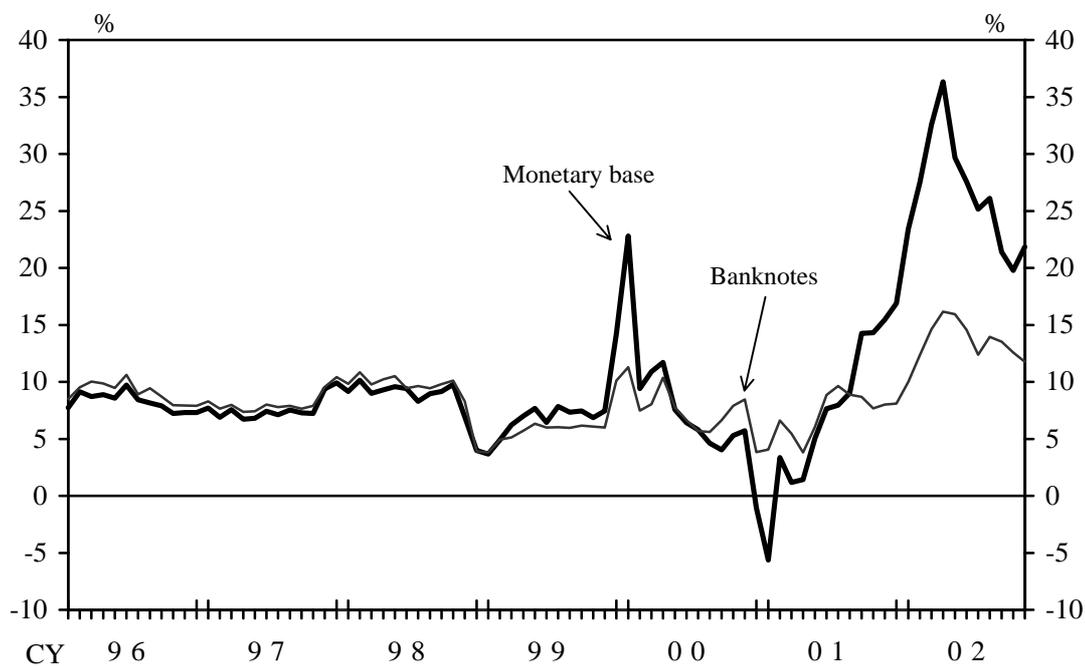
Exchange Rates



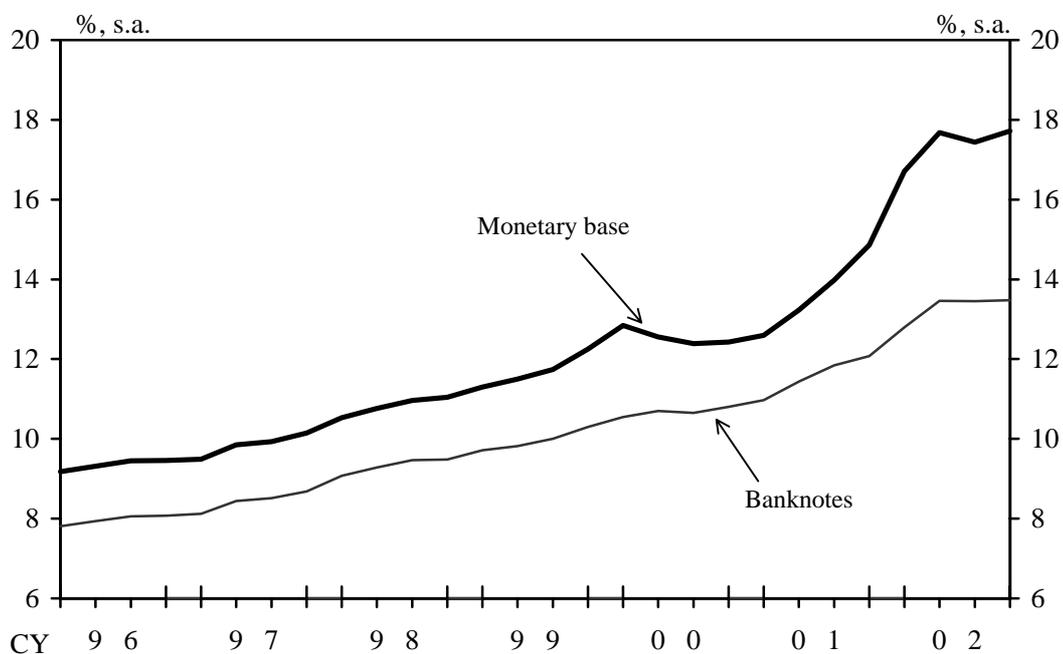
Note: 1. End of month.
 Source: Bank of Japan.

 Monetary Base

(1) Changes from a Year Earlier



(2) Ratio of Monetary Base to Nominal GDP



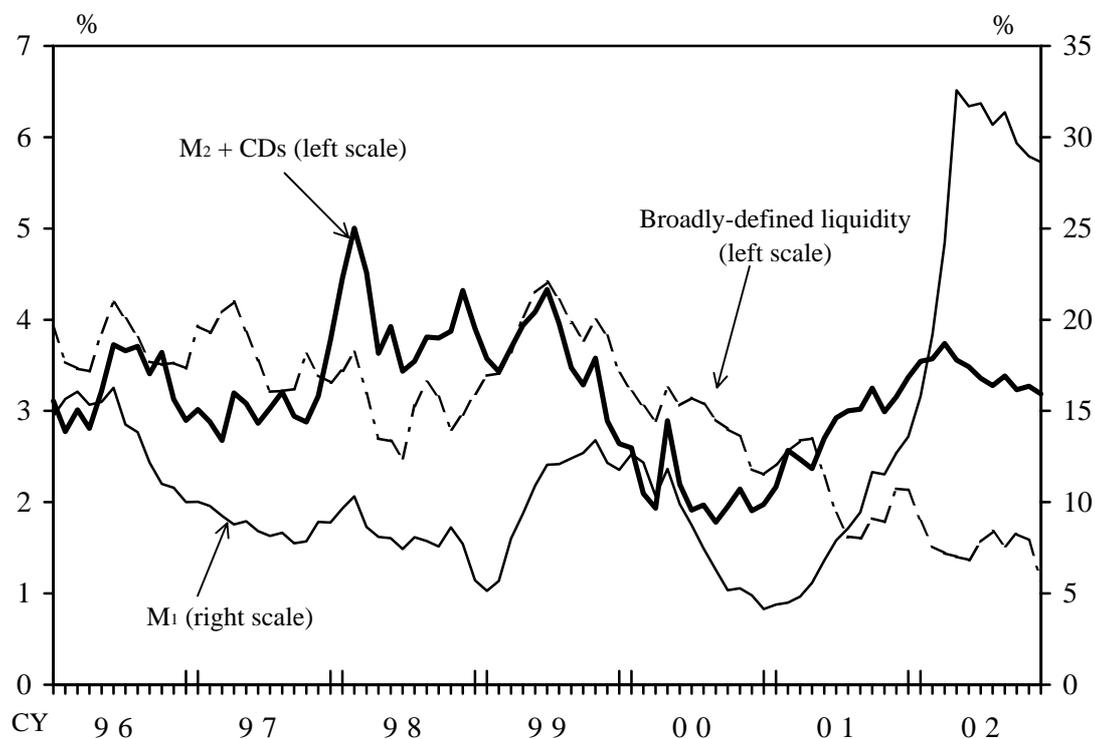
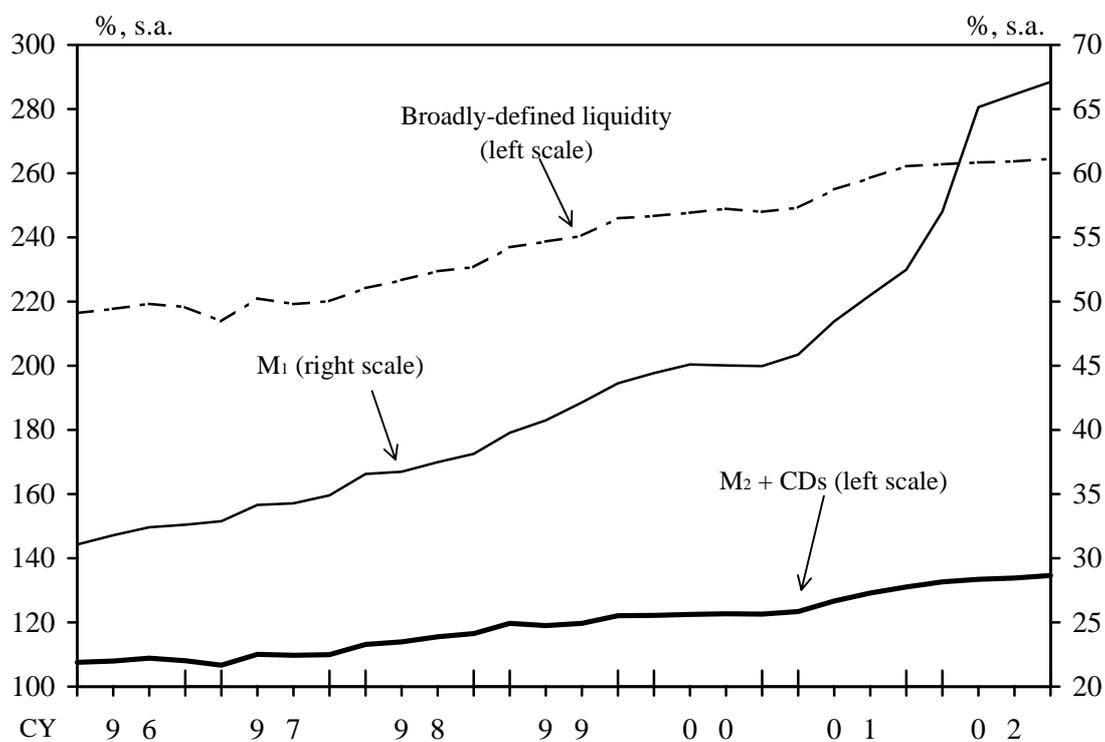
Notes: 1. Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

2. Figures for the monetary base and banknotes in 2002/Q4 are averages of October and November, and the nominal GDP in 2002/Q4 is assumed to be unchanged from the previous quarter.

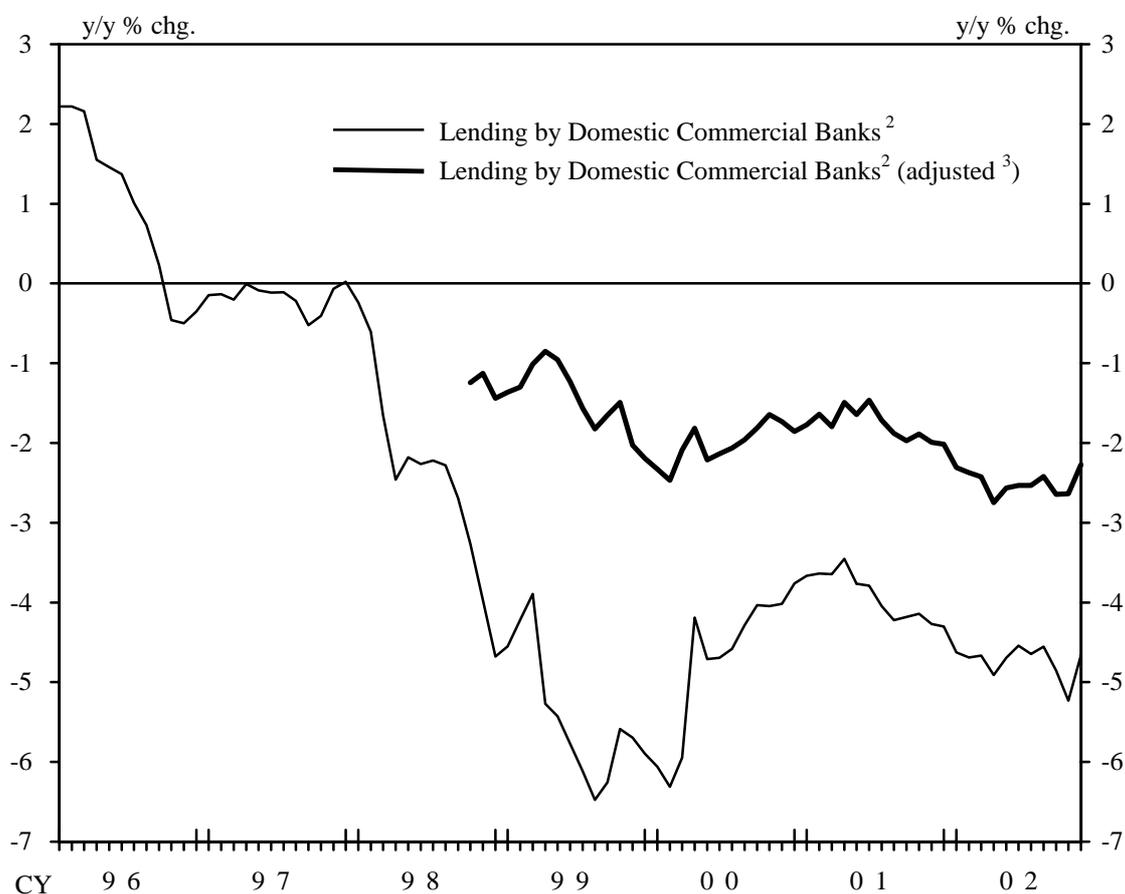
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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

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

Note: Figures for money stock in 2002/Q4 are averages of October and November, and the nominal GDP in 2002/Q4 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).

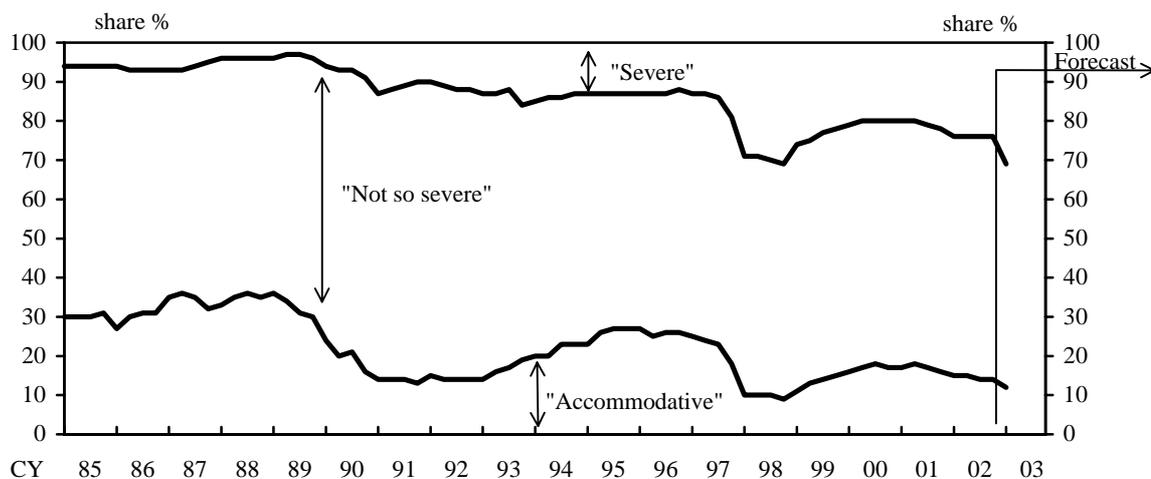
3. Adjusted to exclude

- (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

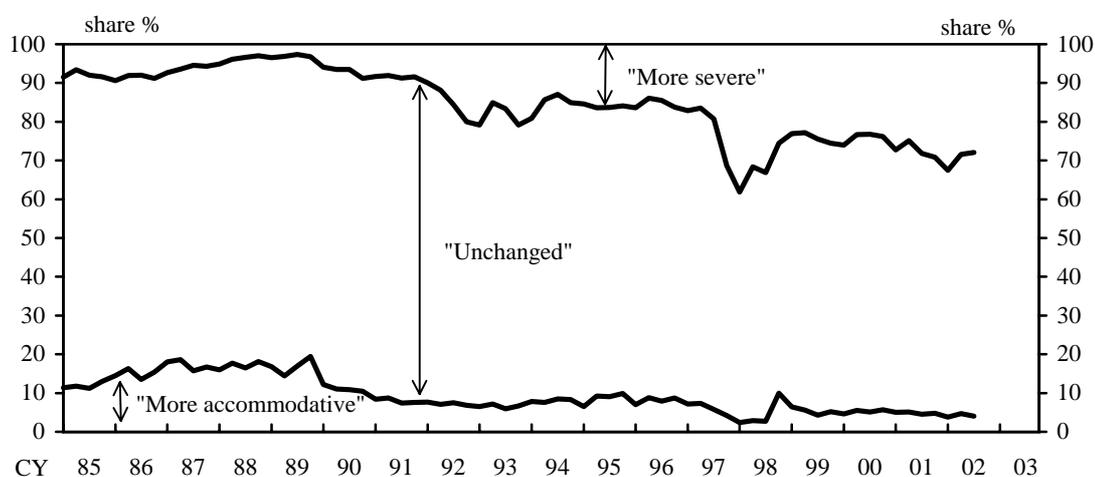
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (December, 2002)



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

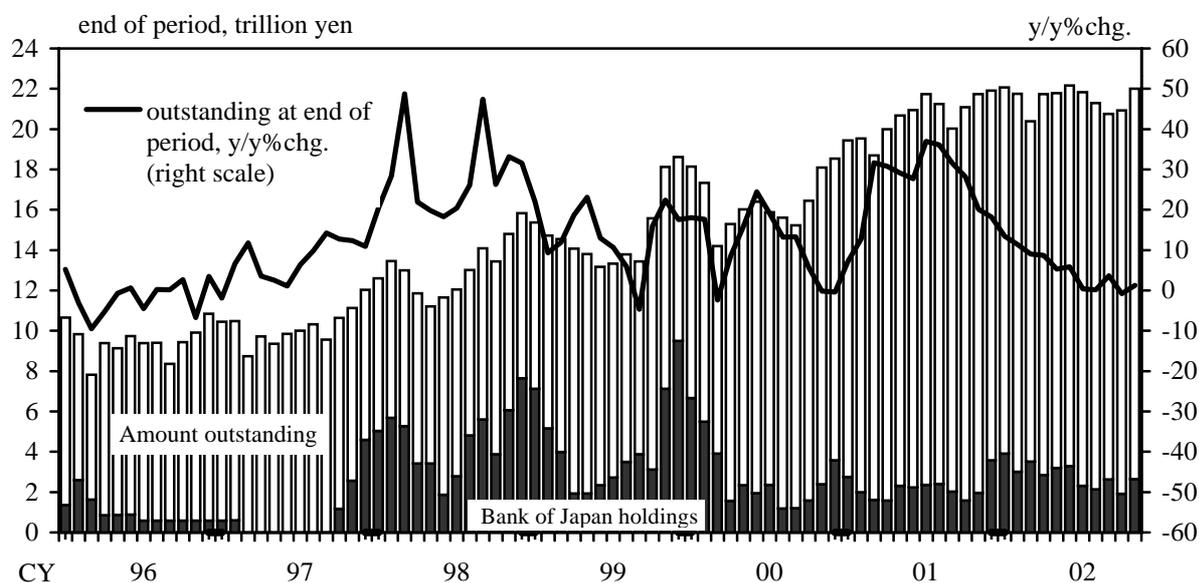


(3) "Quarterly Survey of Small Businesses in Japan" (Mid-September, 2002)



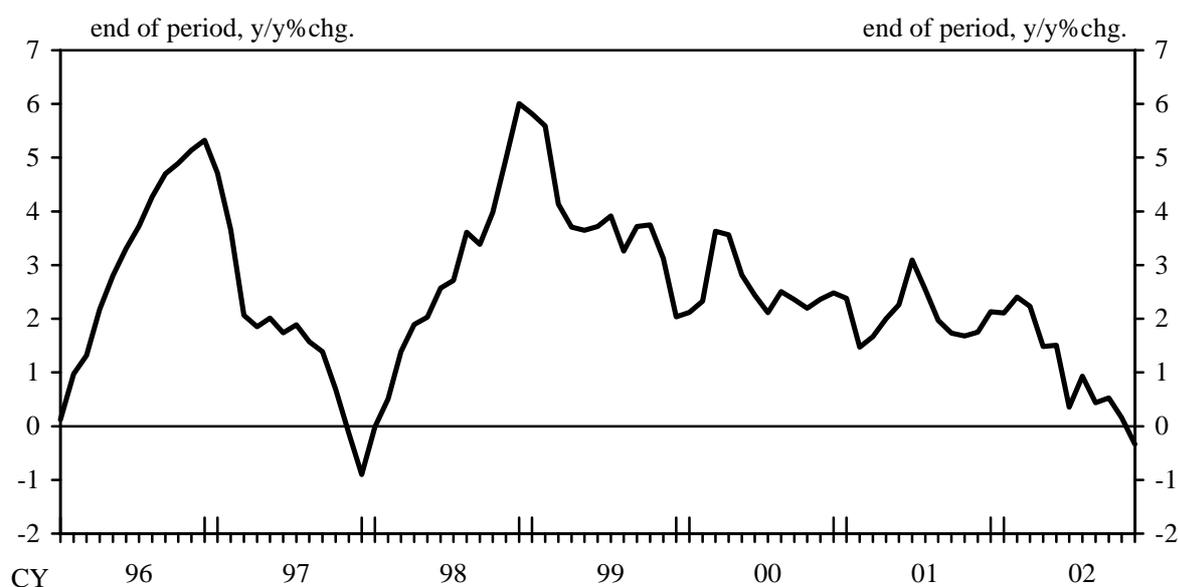
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ; Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

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/Sep.	Oct.	Nov.
Volume	27,157	27,602	27,111	13,477	5,665	7,802
(previous year)	(21,715)	(35,223)	(23,780)	(12,538)	(5,838)	(11,756)

(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.

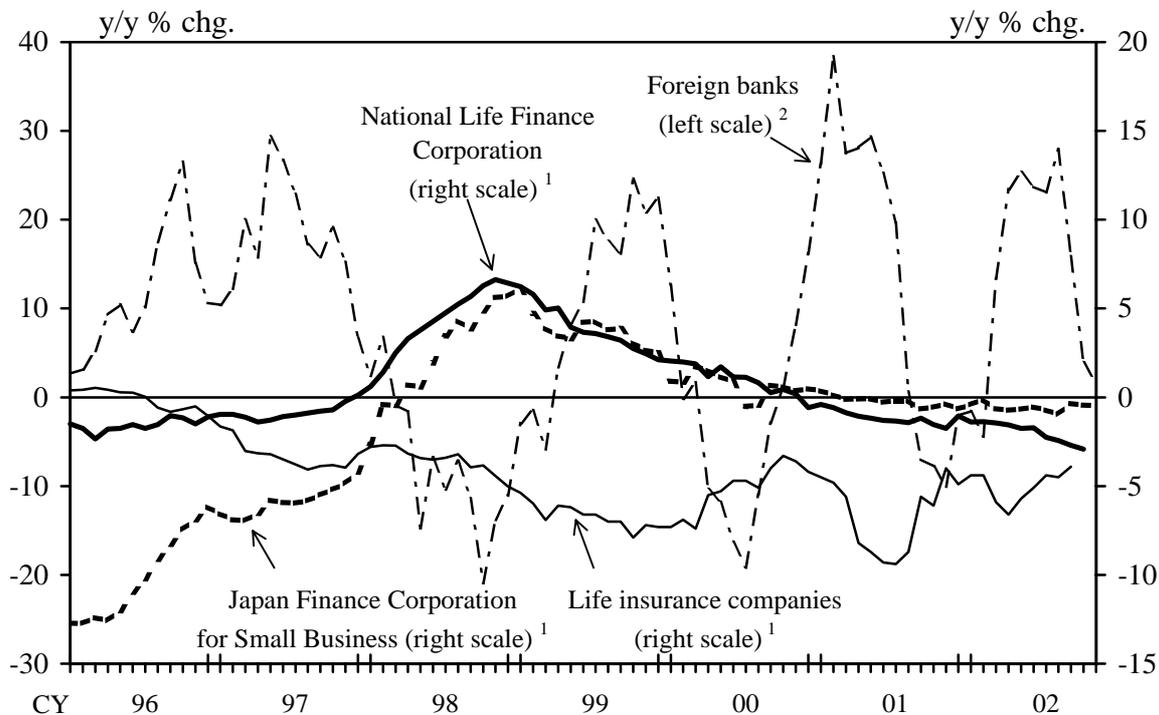
2. Includes straight bonds, convertible bonds, and bonds with warrants.

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."

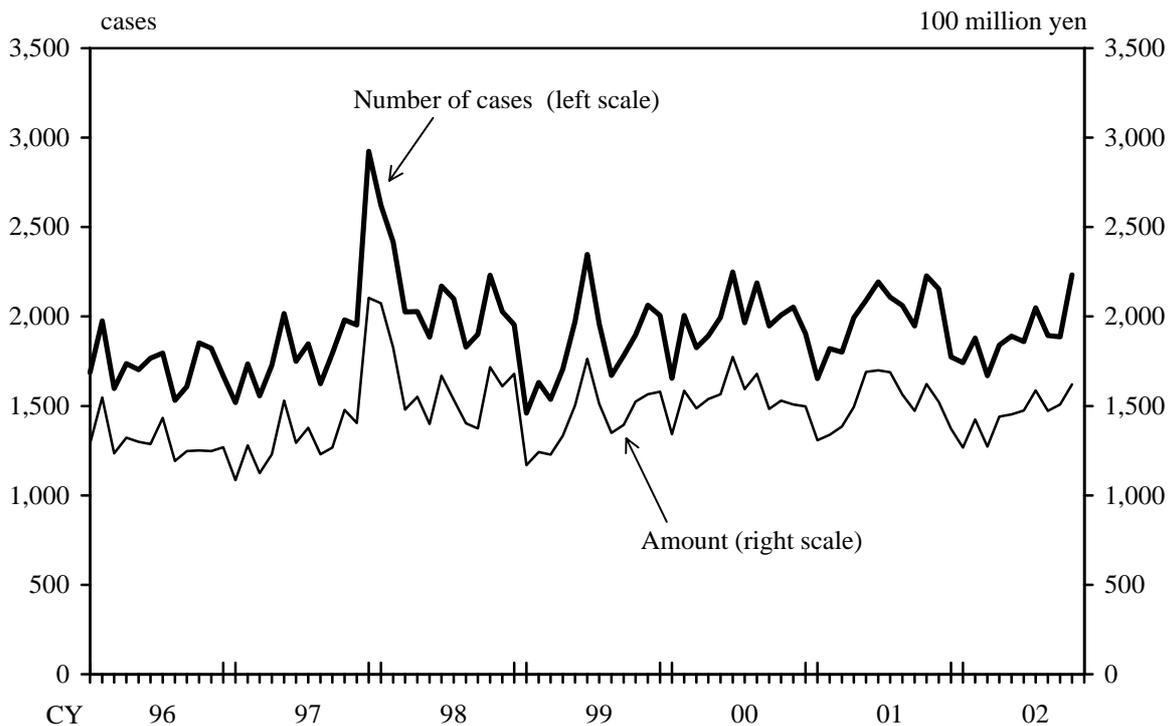
Lending by Other Financial Institutions

(1) Lending Outstanding



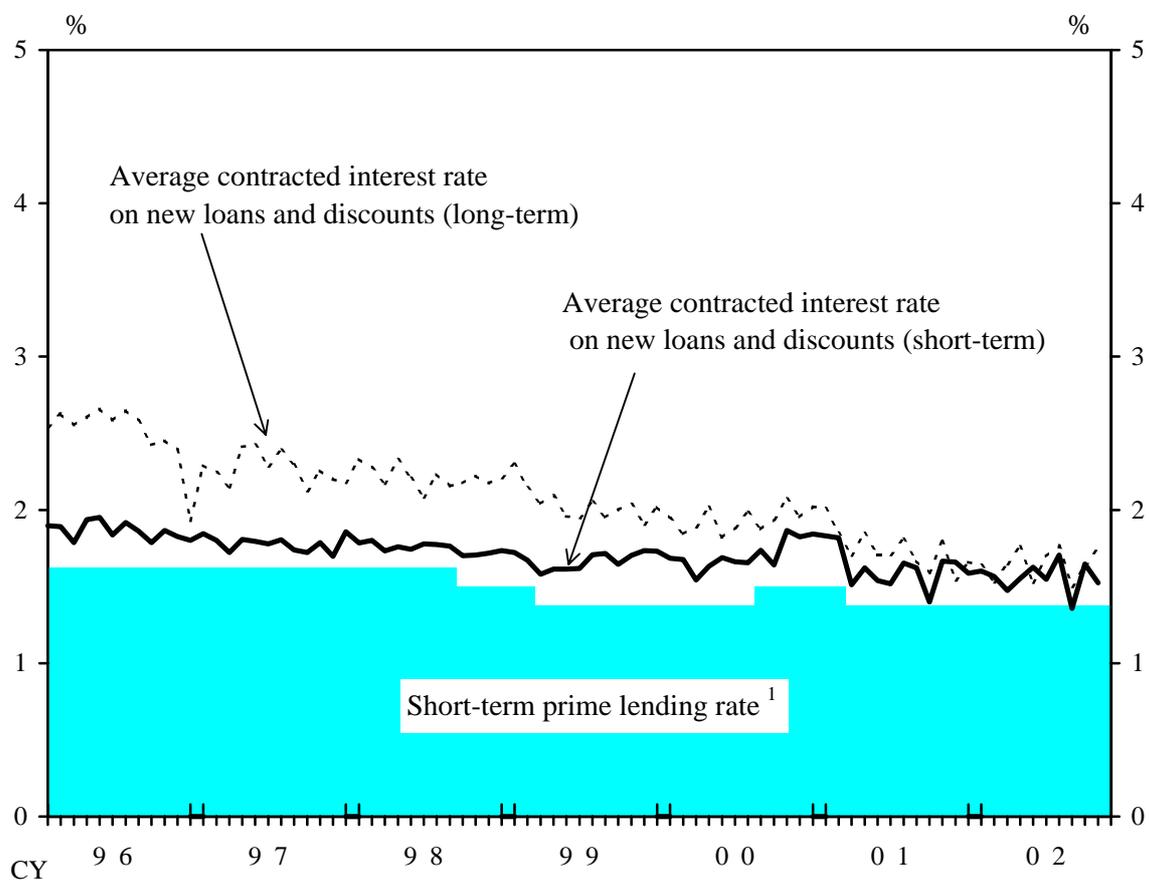
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

(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

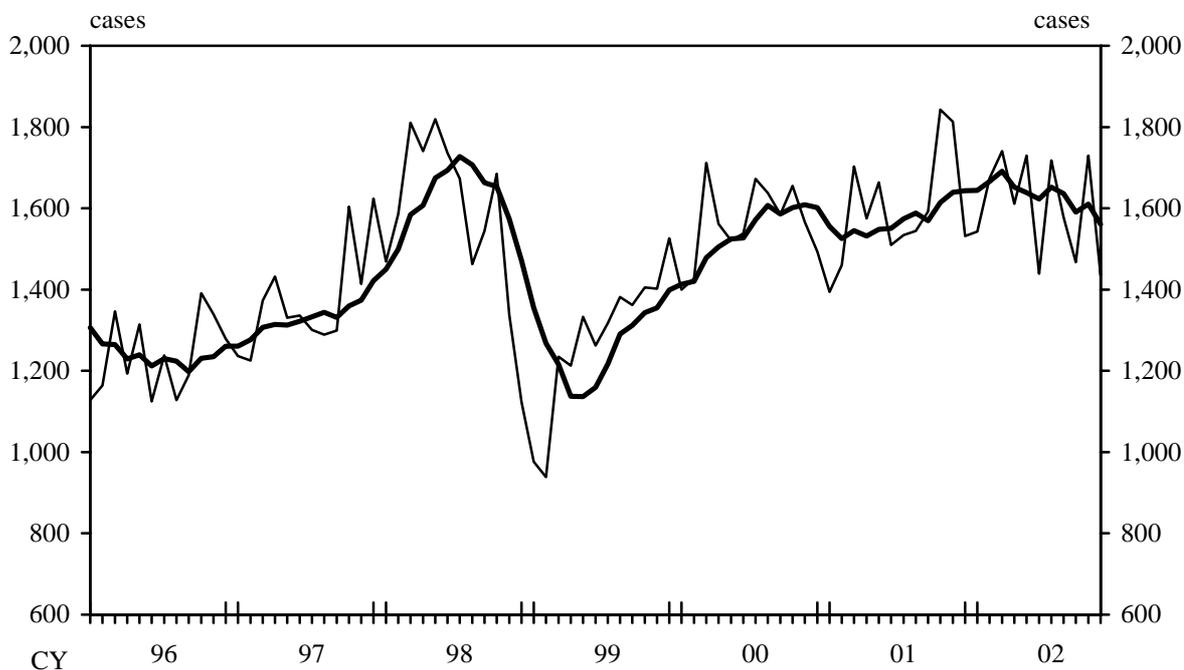


Note: 1. Data are at end of period.

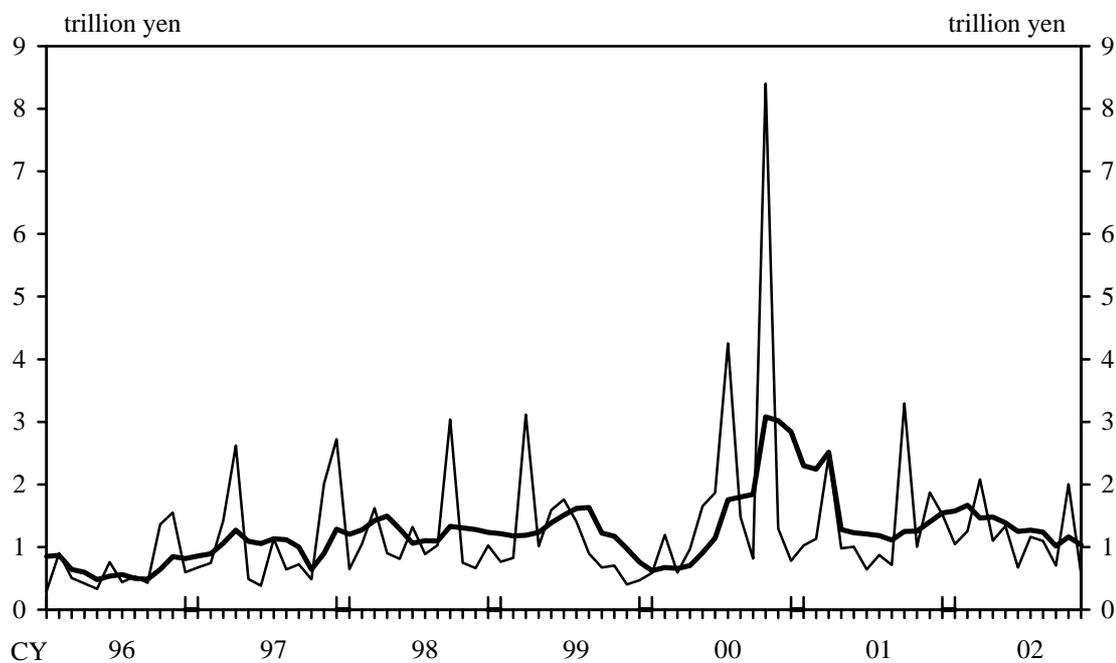
Source: Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

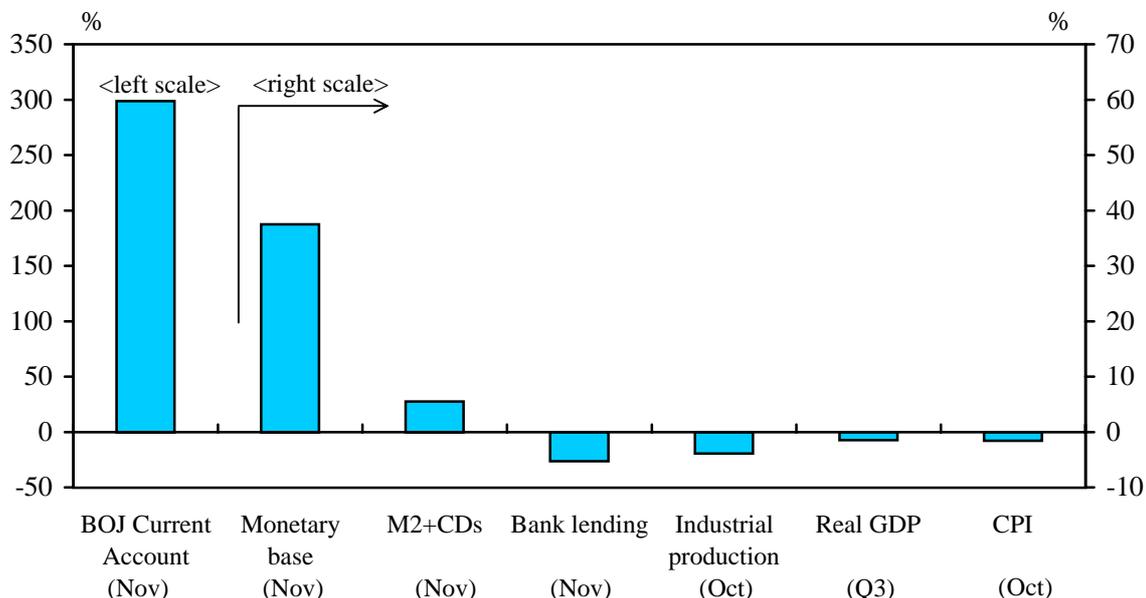


Note: The bold line is the six-month moving average.

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

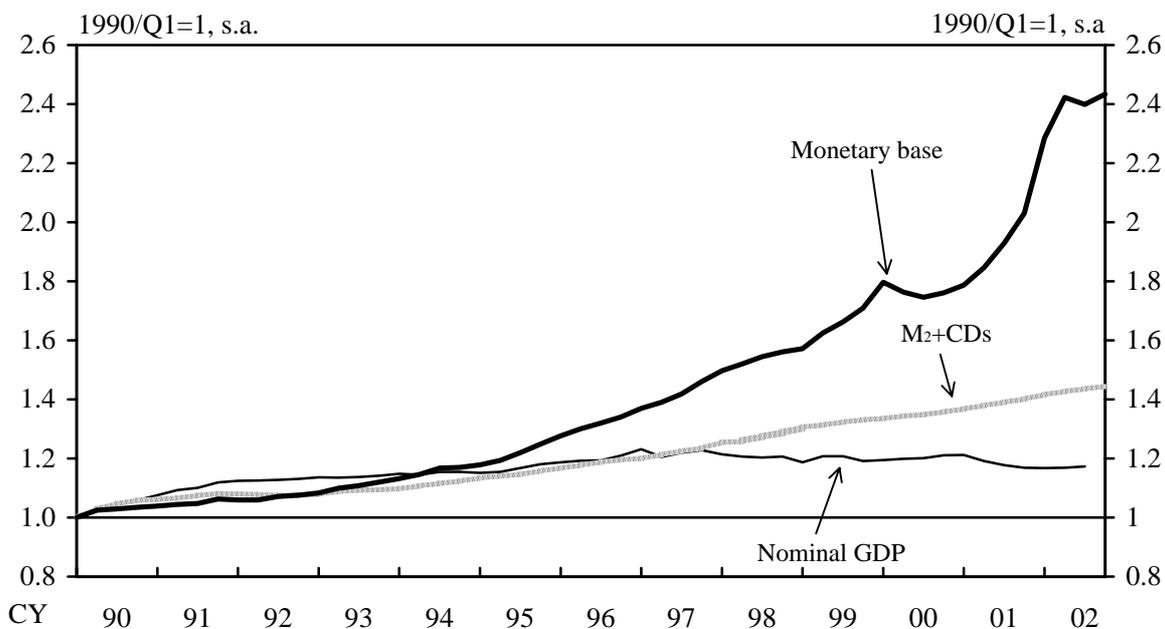
Monetary Indicators, Economic Activity and Price Development

(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



- Notes: 1. Figures for monetary base are adjusted for changes in reserve requirement rates.
- 2. Figures for monetary base and M2+CDs are averages of October and November.

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.