

July 17, 2003
Bank of Japan

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

July 2003

(English translation prepared by the Bank staff based on the Japanese original
released on July 16, 2003)

Monthly Report of Recent Economic and Financial Developments¹

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The Bank's View²

Economic activity remains virtually flat.

With regard to final demand, business fixed investment is on a gradual recovery trend, albeit showing some fluctuations. Meanwhile, private consumption continues to be weak, housing investment remains sluggish, and public investment is declining. Net exports are virtually flat.

Industrial production continues to be basically level in response to these developments in final demand. Corporate profits continue to recover, although the pace is moderating. Under these circumstances, uncertainty regarding the economic outlook is diminishing somewhat, and business sentiment is improving to some extent, mainly among large manufacturing firms. As for the employment situation, the number of employees including non-regular employees such as temporary workers has almost stopped declining. However, the increase in the overtime hours worked and new job offers has come to a halt. Firms are maintaining their stance on reducing personnel expenses, and household income still continues to decrease as wages are on a downtrend, albeit gradual. Thus the employment and income situation of households overall remains severe.

Turning to the economic outlook, a widely shared view of the prospect for overseas economies is that the growth rate, especially that of the U.S. economy, will accelerate in the second half of this year reflecting diminished geopolitical risks. For the time being, however, the pace of recovery in the U.S. economy is projected to remain very gradual. Moreover, economic activity in East Asia has decelerated somewhat, due partly to the slower growth of domestic demand in South Korea and the

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 14 and 15, 2003.

² The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on July 14 and 15, 2003 as the basis for monetary policy decisions.

epidemic of severe acute respiratory syndrome (SARS). In this situation, both exports and industrial production are projected to remain virtually flat for the time being.

With respect to domestic demand, public investment is projected to follow a declining trend, and private consumption is likely to remain weak for some time due to the severe employment and income situation. Meanwhile, the uptrend of business fixed investment is expected to become established in the period ahead, mainly in large manufacturing firms, whose investment has been thus far significantly restrained despite the recovery in their profits. However, the pace of increase in overall business investment is likely to remain modest, as long as uncertainty regarding a recovery in exports and production remains.

Overall, assuming that the growth rate of overseas economies accelerates in the second half of this year, the uptrend in exports and production will resume gradually, which in turn will initiate the momentum for an economic recovery in Japan. However, a self-sustaining recovery in domestic demand is unlikely to gain momentum for some time, since production is expected to be virtually unchanged for the time being while downward pressures such as excessive labor input and debt persist. As for the outlook for the external environment, although the downside risk has subsided slightly with the SARS epidemic coming to an end, there still continues to be substantial uncertainty about the recovery of the U.S. economy. On the domestic side, the recovery in stock prices is a positive factor. However, given the fragility of the financial system, attention should be paid to the possibility of a further upsurge in long-term interest rates and its influences.

On the price front, import prices and domestic corporate goods prices are declining, mainly reflecting crude oil prices that fell back in early spring. Corporate services prices continue a year-on-year decrease of slightly over 1 percent; the rate of decline expanded in April, as many firms reprice at the beginning of a new fiscal year. The rate of decline in consumer prices remains virtually unchanged from April, when the rate diminished due mainly to the rise in medical treatment costs in line with the reform of the medical insurance system.

Looking at the conditions influencing price developments, import prices are expected to continue declining for the immediate future, but are likely to stop declining before long since crude oil prices have recently been firm after they fell back in early spring. On the other hand, turning to the domestic side, the supply-demand balance in the macroeconomy, ongoing technological innovations in machinery, and the streamlining of distribution channels will continue to exert downward pressure on prices. In addition, the increase in domestic commodity prices has peaked out. Based on these factors, domestic corporate goods prices are likely to continue declining. Meanwhile, consumer prices are projected to continue falling at the current moderate pace on a year-on-year basis.

As for the financial environment, the outstanding balance of current accounts at the Bank of Japan is moving at around 29 trillion yen, as the Bank has been providing ample liquidity. Under these circumstances, the overnight call rate continues to move at around zero percent. Longer-term interest rates remain steady at low levels.

Yields on long-term government bonds declined further until mid-June, as investors increased their demand for the bonds. After that, the yields rose sharply partly because the bonds were sold at a profit on a large scale. Recently, they are moving at around 1.0 percent. Meanwhile, yield spreads between private bonds (bank bonds and corporate bonds) and government bonds continue to be at low levels.

Stock prices are recovering, reflecting a gradual improvement in market participants' view on the outlook for Japan's economy and foreign investors' active investment stance on Japanese stocks. The Nikkei 225 Stock Average is recently moving at the 9,500-10,000 yen level.

In the foreign exchange market, the yen depreciated toward the end of the month, due mainly to an improvement in some U.S. economic indicators. After that, the yen rebounded reflecting further investment in Japanese stocks by foreign investors, and is currently traded in the range of 117-119 yen to the U.S. dollar.

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

loans to blue-chip companies. Their lending attitudes seem to be becoming slightly more accommodative in areas such as interest margin charges. Meanwhile, the lending attitudes of financial institutions as perceived by firms are improving somewhat, although small firms continue to perceive them as severe. In the corporate bond and CP markets, the issuing environment for firms with high credit ratings continues to be favorable on the whole, although some firms seem to be taking a wait-and-see stance in the corporate bond issuance market in view of the rise in long-term interest rates.

Credit demand in the private sector continues to follow a downtrend mainly because business fixed investment is at low levels and firms are continuously reducing their debts.

Amid these developments, private banks' lending continues to decline by about 2.0-2.5 percent on a year-on-year basis. The amount outstanding of corporate bonds and CP issued is slightly above the previous year's level.

Meanwhile, according to business surveys, financial positions of firms are improving slightly, although those of small firms in particular remain severe.

The year-on-year growth rate of the monetary base rose and is around 20 percent. The year-on-year growth rate of the money stock is somewhat less than 2 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 continue to be extremely easy. Meanwhile, long-term interest rates are rising and stock prices continue to recover. The money stock and the monetary base maintain high growth rates relative to that of economic activity as a whole. In corporate finance, the fund-raising environment has not changed significantly, that is, the environment for firms, particularly with high credit risks, remains severe, although the issuing environment of corporate bonds and CP continues to be favorable, mainly for firms with low credit risks. 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—follows a downtrend. The turnover in public construction, which reflects the actual progress of public works, is also trending downward. Public investment is projected to follow a declining trend with cutbacks in public works expenditures for fiscal 2003.

Real exports (Charts 4[1] and 5) have recently been more or less flat. They had decreased marginally, by 0.8 percent, in the first quarter on a quarter-on-quarter basis (q/q hereafter)—a decline for the first time in five quarters—but then inched up by 0.4 percent in April-May from the first quarter. By region (Chart 5[1]), exports to the United States advanced slightly in April-May, mainly for consumer goods and capital goods and parts, after they had plunged in the first quarter, particularly for automobiles. On the other hand, exports to East Asia dropped in April-May after the upsurge in the first quarter. As for exports to East Asia in detail, those to the NIEs economies, which had been growing steadily to date, declined in April-May, due to the indirect effect from the slowdown in the U.S. economy, to the deceleration of domestic demand in South Korea, and probably to the epidemic of severe acute respiratory syndrome (SARS) as well. Exports to China rose only slightly in April-May in reaction to the upsurge in the first quarter.³ Concerning exports to China, there seemed to be no discernible effects from the SARS epidemic. By goods (Chart 5[2]), exports of automobile-related goods declined in April-May following the first quarter, mainly to the United States where inventory adjustment was underway (Chart 7). Exports of IT-related goods such as electronic parts and telecommunications machinery picked up in April-May (Chart 6).

Real imports (Charts 4[1] and 8) continue to be virtually flat. They had been basically unchanged, recording a q/q increase of 0.2 percent in the first quarter. They were up by 1.0 percent in April-May from the first quarter, a modest increase given that

³ Exports to China at the start of the year seem to have exhibited high growth, a pattern observable since 2002. This is because China is in the process of step-by-step tariff reductions after its accession to the WTO at the end of 2001, and each stage of reduction occurs at the beginning of the year.

imports of aircraft, which are categorized in capital goods and parts and often show large fluctuations, contributed to the increase. By goods (Chart 8[2]), imports of materials decreased in April-May. As for the crude oil that had been actively piled up in response to growing tensions over Iraq-related developments, its imports came to a halt by the end of the first quarter. On the other hand, IT-related imports continued to increase, reflecting the progress in the international division of labor between China and Japan.

Given these developments in exports and imports, net exports (real exports minus real imports), in terms of the real trade balance (Chart 4[2]),⁴ remain virtually flat. The surplus of the nominal balance on goods and services has also been flat on the whole, but is currently somewhat stronger compared to the real trade balance, reflecting factors such as the reactionary fall in crude oil prices and the diminishing deficits in travel and transportation caused by the slump in overseas travel.

As for the outlook for exports, a widely shared prospect for overseas economies is that the growth rate of the economies, especially that of the U.S. economy, will accelerate in the second half of this year, reflecting diminished geopolitical risks. In fact, in the United States, stock prices have been on a recovery trend since spring (Chart 9-2), and tax cuts are also expected to have effects. However, the decrease in employment does not seem to have stopped, and few signs exist that would indicate a distinct recovery in business fixed investment. Thus, uncertainty regarding the U.S. economic outlook remains substantial.

In addition, economic activity in East Asia has decelerated somewhat (Chart 9-1[2]), due mainly to the slower growth of domestic demand in South Korea and to the epidemic of SARS. The effects of the SARS problem on Japan's production and exports have remained very small, judged from the April-May figures. Also, the epidemic itself is reported to have been contained. Meanwhile, based on anecdotal information obtained from Japanese firms, possibilities still exist that the deceleration

⁴ Strictly speaking, the real trade balance presented in Chart 4 (2) differs from net exports in GDP statistics. The real trade balance is on a customs-clearance basis and does not include trade in services, while net exports are on an ownership-transfer basis and include trade in services. But the changes in the real trade balance are broadly in line with those of net exports.

of final demand in the East Asian economies will have some effect or other on Japanese exports, with some time lag.

In sum, exports are projected to resume an uptrend at some stage, based on the widely shared prospect that the growth rate of overseas economies will accelerate in the second half of this year. For the time being, however, exports are likely to remain virtually flat, since the pace of recovery in the U.S. economy is projected to remain very gradual and also since the temporary deceleration of the East Asian economies is expected to have some impact on exports.

As for imports, they are projected to remain virtually flat, since final demand and production (as discussed below) are expected to stay more or less unchanged. Reflecting these developments in exports and imports, net exports are projected to be virtually flat for the time being.

Business fixed investment is on a gradual recovery trend, albeit with some fluctuations, reflecting the improvement in corporate profits. Shipments of capital goods (excluding transport equipment; Chart 10-1[1]), a coincident indicator of machinery investment, picked up slightly in May, but the recent figures were somewhat weak on the surface with the substantial decline in April.⁵ On average, however, the shipments were considered to be flat or on a slight uptrend, given that the decrease in April was affected by a drop in computers and semiconductor fabrication machines and equipment, which often show large fluctuations. Machinery orders (private demand, excluding shipbuilding and electric power equipment; Chart 10-2[1]), a leading indicator of business fixed investment, rose by 1.5 percent in April-May from the first quarter, following a q/q increase of 5.8 percent in the first quarter. Meanwhile, construction starts (floor area, private, nondwelling use; Chart 10-2[2]), another leading indicator, were more or less flat.

As for the environment surrounding business fixed investment, corporate profits continue to recover, although the pace is moderating. Business plans in the

⁵ However, as for trucks, which are excluded here from shipments of capital goods, replacement demand is recently rising as emissions controls are to become stricter from October this year.

Bank of Japan's *Tankan*—Short-term Economic Survey of Enterprises—of June 2003 showed that current profits (Chart 11) were projected to increase for fiscal 2003, following the sharp rise in fiscal 2002. Business sentiment of firms (Chart 12) has improved somewhat, mainly among large manufacturing firms, reflecting diminished geopolitical risks along with a consistent recovery in corporate profits. With regard to corporate finance (Chart 13), the financial position of firms and the lending attitude of financial institutions both perceived by firms, moved toward a very gradual recovery on the whole. However, as for the levels, they remained severe for small firms.

In sum, as for the outlook for business fixed investment, the uptrend is expected to become established in the period ahead, mainly in large manufacturing firms, whose investment has been thus far significantly restrained despite the recovery in their profits. In fact, regarding business fixed investment plans for fiscal 2003 in the June *Tankan* (Chart 14), large manufacturing firms plan an increase of slightly over 10 percent from fiscal 2002, when the actual investment plunged. This degree of increase at this time of the year is substantial, a pattern also seen in fiscal 2000, when there was an IT-led recovery in investment. Meanwhile, investment plans of large nonmanufacturing firms and small firms remained almost in line with the past averages for this time of the year. Therefore, at least for now, a recovery in investment is not necessarily observed in a broad range of sectors. Firms still perceived that excess capacities persist, although gradually to a lesser extent (Chart 10-1[2]). Under these circumstances, the recovery of overall business fixed investment largely depends on the degree of further increase in investments, mainly in small manufacturing firms, which are sensitive to the cyclical momentum. In other words, the pace of increase in overall business fixed investment is likely to remain modest, as long as uncertainty regarding the recovery in exports and production remains.

Private consumption remains weak amid the severe employment and income situations of households. In detail (Charts 15-1 and 15-2), the number of new passenger-car registrations dropped sharply in the second quarter, mainly in reaction to an upsurge in the first quarter caused by a temporary rush of demand before the

environment-related taxation system was changed.⁶ Sales at department stores, supermarkets, and convenience stores all dropped in April-May, due mainly to adverse weather.⁷ Meanwhile, sales of household electrical appliances (NEBA statistics; real basis) have basically been maintaining their rising trend to date, due mainly to favorable sales of digital cameras. In addition, sales of white goods such as air conditioners, washing machines, and refrigerators increased in May, mainly for those models equipped with new functions such as antibacterial effects. Regarding services consumption, sales in the food services industry were somewhat weak. Outlays for travel in April-May dropped substantially, mainly in overseas travel, largely because the war on Iraq and the epidemic of SARS had negative effects, and also because the calendar for Japan's annual holidays in April-May (so-called Golden Week holidays) was unfavorable this year. Indices of aggregated sales (Chart 15-3)⁸—which are comprised of many sales indicators of these goods and services—seem to maintain their underlying trend to date, with the fluctuations smoothed out. As for aggregate supply of consumer goods (Chart 15-4), which comprehensively captures producers' supply of goods, the underlying trend was also unchanged.

Indicators for consumer sentiment (Chart 16) had been relatively weak as a whole until early spring. But since April, when the war on Iraq came to a de facto end and crude oil prices declined, they have been mixed, with slight improvements observed in the monthly indicator.

Private consumption is likely to be lackluster for some time, reflecting the harsh employment and income situations.

⁶ The rush of demand before March occurred because automobile-related tax relief measures targeted at low greenhouse gas emissions and fuel-efficient vehicles have been scaled down substantially from April.

⁷ For convenience stores, the decline continues also in reaction to a substantial rush of demand that had occurred before sales of high-denomination prepaid expressway cards were discontinued in February.

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 note 1 in Chart 15-3.

Housing investment remains sluggish (Chart 17) and is likely to remain stagnant, since no supporting factors in particular can be seen under the severe employment and income situations of households.

Industrial production (Chart 18[1]) has been basically flat. It declined by 0.6 percent in April-May from the first quarter, after a q/q increase of 0.3 percent in the first quarter. By simply combining the production forecast indices for June, industrial production in the second quarter is projected to rise by 0.2 percent from the previous quarter.

Inventories (Charts 18[1] and 20) were basically flat or on a very gradual declining trend. Although figures in May advanced slightly, these developments are observed only in a few industries such as electronic parts, which face favorable demand. Overall, firms are maintaining their cautious stances on production. Hence, it indicates that adjustment pressure on inventories has not accumulated, and that the risks of a vicious spiral in the inventory cycle are small unless final demand falls into a slump.

As for the outlook for industrial production, since adjustment pressure on inventories has not accumulated, production is expected to turn up gradually, assuming that the increase in exports becomes clear again in the second half of this year. At this present stage, however, uncertainty regarding the outlook for overseas economies still remains, and thus production is expected to remain virtually unchanged for the time being. Anecdotal information obtained from Japanese firms also indicates that many firms will maintain their cautious stances on production, as the timing for a recovery in exports is yet uncertain.

As for the employment and income situations, the number of employees in the *Labour Force Survey*, including non-regular employees such as temporary workers, has almost stopped declining (Chart 22-2[1]). However, the increase in the number of new job offers and overtime hours worked has come to a halt since production activity continues to be flat (Charts 22-1[2] and 22-2[3]). Moreover, since firms are maintaining their stances on reducing personnel expenses, the number of regular employees in the *Monthly Labour Survey*, in which regular employees have more share

compared to the *Labour Force Survey*, kept declining (Chart 22-2[2]). The employment conditions in the June *Tankan* (Chart 23) showed that the excessiveness of employment perceived by firms, except large manufacturing, has also stopped receding. Wages still continue to decline on the whole, although the recovery in corporate profits is gradually having a positive effect. In sum, household income continues to decline, albeit gradually, and the employment and income situations of households remain severe overall (Chart 21[1]).

Looking at nominal wages per employee on a year-on-year basis (Chart 21[2]), regular payments were basically below the previous year's level, but the rate of decline has contracted compared to that during 2002.⁹ On the other hand, overtime payments continued a slight year-on-year increase. As for bonuses this summer, those of large manufacturing firms are likely to be above the previous year's level,¹⁰ although it is difficult to give a clear prediction on whether bonuses will turn positive as a whole, including those of nonmanufacturing firms and small firms whose recovery in profits was not so profound.

Meanwhile, the unemployment rate (Chart 22-1[1]) remained unchanged at high levels, with some fluctuations. The number of those involuntarily unemployed (Chart 22-1[3]) is recently declining slightly, although it remained high.

As for the outlook, the improvement in the employment and income situations will become distinct if production resumes its uptrend and corporate profits continue to recover. However, the loose supply and demand condition in the overall labor market, as seen in the current unemployment rate, still enables firms to restrain personnel

⁹ In January 2002, the triennial sample change of the *Monthly Labour Survey* (establishments with 30 or more employees) caused the ratio of part-time workers to surge discontinuously. As the influence from this sample change disappeared, the increase in the ratio of part-time workers has become small on a year-on-year basis from January 2003. This is expected to have narrowed to some extent the year-on-year rate of decline in regular payments. Also, regular payments in May this year (preliminary figures) turned positive year-on-year due to special factors; the way the Golden Week holidays fell this year increased the number of working days and regular working hours jumped from the previous year.

¹⁰ According to the interim results (as of July 2) released by the Japan Business Federation, which cover large firms with 500 employees and over, summer bonuses of the manufacturing sector increased by 6.2 percent year-on-year.

expenses, for instance, through the rise in the ratio of part-time workers. Thus, household income is still expected to be on a gradual declining trend.

2. Prices

Import prices (on a yen basis; same hereafter) declined in both May and June compared to levels three months before, mainly reflecting crude oil prices that fell back in early spring (Chart 25).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates; same hereafter)¹¹ inched up in March and also in April compared to levels three months before, but dropped in May and June affected by the fall in crude oil prices (Chart 26). In detail, machinery prices kept on declining, and petroleum product prices turned down. In addition, the increase in prices of materials such as iron and steel has slowed.

The rate of decline in corporate services prices (domestic supply-demand factors; same hereafter) in May was about the same as in April, when the rate had expanded to slightly over 1 percent (Chart 27). The decline in general services in April basically reflected firms' intentions to reduce business costs, which were incorporated into the annual price revisions conducted in that month, but it was also affected by the substantial decrease in prices of software services due to sampling factors. In addition, prices for advertising services (TV/radio advertising), which had been increasing from around the end of last year, inched down in May.

The rate of decline in consumer prices (excluding fresh food; same hereafter) in May was about the same as in April, when the rate had narrowed marginally, reflecting the rise in medical costs due to the reform of the medical insurance system (Chart 28); the year-on-year declines of CPI from March to May were 0.6 percent, 0.4 percent, and 0.4 percent chronologically. In detail, the decline in consumer prices was for the most

¹¹ The figures are adjusted to exclude a large seasonal fluctuation in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power consumption charges are set relatively high during July-September, when consumption increases substantially.

part attributable to the developments in goods prices (excluding agricultural and aquatic products); the year-on-year changes in prices of general services continued to hover at very close to zero percent.

Looking at the conditions influencing price developments, import prices are expected to continue declining for the immediate future, but are likely to stop declining before long, since crude oil prices have recently been firm after they fell back in early spring.

On the other hand, the domestic supply-demand balance remains basically unchanged, and downward pressure on prices from this side is expected to continue. The ongoing technological innovations in machinery, and the streamlining of distribution channels will continue to exert downward pressure on prices. As for the domestic supply-demand conditions in terms of the June *Tankan* (Chart 30), the supply and demand conditions for products and services perceived by firms continued to be loose on the whole, although they recently improved slightly for manufacturing firms. The operating level in the domestic economy, measured by the weighted average of the excessiveness in both production capacity and employment perceived by firms, was virtually flat. Also, the change in output prices perceived by firms was basically unchanged, and continued a downtrend. In these circumstances, domestic commodity prices, which had been rising until around spring, have peaked out. Based on these factors, domestic corporate goods prices are likely to continue declining.

Meanwhile, consumer prices are projected to continue falling at the current moderate pace on a year-on-year basis, based on the above factors and on the fact that the import of consumer goods, which is strongly related to low-price strategies of firms, is increasing only very gradually (Chart 29).

3. Financial Developments

(1) Financial Markets

The outstanding balance of current accounts at the Bank of Japan is moving at around 29 trillion yen, as the Bank has been providing ample liquidity (Chart 33).

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 31[1]) continues to move at around zero percent. Longer-term interest rates (Chart 32) remain steady at low levels on the whole.

In the government bond market, yields on 10-year government bonds (newly issued 10-year JGB; Chart 31[2]) declined further until mid-June, as investors increased their demand for the bonds. After that, the yields rose sharply partly because the bonds were sold, on a large scale, for such reasons as profit-taking and portfolio adjustments, reflecting growing concern over the further decline in interest rates and the rise in overseas long-term interest rates. Yields on 10-year government bonds are recently moving at around 1.0 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 35 and 36) continue to be at low levels on the whole, although they have been expanding slightly since mid-June, as institutional investors took a wait-and-see stance after the increase in long-term interest rates.

Stock prices (Chart 37) are recovering, reflecting a gradual improvement in market participants' view on the outlook for Japan's economy and foreign investors' active investment stance on Japanese stocks. The Nikkei 225 Stock Average is recently moving at the 9,500-10,000 yen level.

In the foreign exchange market (Chart 38), the yen depreciated toward the end of the month, since there was an improvement in some U.S. economic indicators and since the reduction in the U.S. interest rate remained marginal compared to market projections. However, the yen rebounded reflecting further investment in Japanese stocks by foreign investors, and is currently traded in the range of 117-119 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The year-on-year growth of the monetary base (currency in circulation + current account balances at the Bank of Japan) rose and is around 20 percent, due mainly to the increase in the outstanding balance of current accounts at the Bank of Japan. (The

year-on-year change was 11.5 percent in April, 16.7 percent in May, and 20.3 percent in June; Chart 39.)

The year-on-year growth rate of the money stock ($M_2 + \text{CDs}$) is somewhat less than 2 percent. (The year-on-year change was 1.3 percent in April, 1.6 percent in May, and 1.8 percent in June; Chart 40.) As for the third quarter, the year-on-year growth rate is projected to rise slightly and be around 2 percent, as there continues to be inflow from other financial assets.

In terms of the ratio to nominal GDP, both the monetary base and the money stock are increasing.

With regard to corporate finance, private banks remain cautious in extending loans to firms with high credit risks, while they continue to be more active in extending loans to blue-chip companies. Their lending attitudes seem to be becoming slightly more accommodative in areas such as interest margin charges. Meanwhile, the lending attitudes of financial institutions as perceived by firms are improving somewhat, although small firms continue to perceive them as severe. In the corporate bond and CP markets, the issuing environment for firms with high credit ratings continues to be favorable on the whole, although some firms seem to be taking a wait-and-see stance in the corporate bond issuance market in view of the rise in long-term interest rates.

Credit demand in the private sector continues to follow a downtrend mainly because business fixed investment is at low levels and firms are 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, continues to decline by about 2.0-2.5 percent on a year-on-year basis. (The year-on-year change was -2.2 percent in April, -2.2 percent in May, and -2.4 percent in June;

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.

Chart 41.) The amount outstanding of corporate bonds and CP issued is slightly above the previous year's level (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, are more or less unchanged (Chart 45). The long-term prime lending rate was raised by 0.35 percent to 1.60 percent on July 10. In the capital market, both corporate bond and CP issuance rates are at low levels for firms with high credit ratings.

Meanwhile, according to business surveys, financial positions of firms are improving slightly, although those of small firms in particular remain severe.

The number of corporate bankruptcies in June declined by 4.0 percent year-on-year, to 1,381 cases (Chart 46).

Against the above background, the financial developments are summarized as follows. Money market conditions continue to be extremely easy. Meanwhile, long-term interest rates are rising and stock prices continue to recover. The money stock and the monetary base maintain high growth rates relative to that of economic activity as a whole. In corporate finance, the fund-raising environment has not changed significantly, that is, the environment for firms, particularly with high credit risks, remains severe, although the issuing environment of corporate bonds and CP continues to be favorable, mainly for firms with low credit risks. 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/Q4	2003/Q1	Q2	2003/Mar.	Apr.	May	Jun.
Index of living expenditure level (all households)	-1.9	-0.7	n.a.	-1.0	1.2	-1.6	n.a.
Sales at department stores	-0.7	-0.3	n.a.	-0.3	-2.4	1.1	n.a.
Sales at supermarkets	-0.9	-0.7	n.a.	-0.2	-2.0	1.2	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	<326>	<335>	<306>	<341>	<283>	<331>	<303>
Sales of household electrical appliances (real, NEBA)	2.6	4.5	n.a.	3.0	-0.5	3.5	n.a.
Outlays for travel (50 major travel agencies)	0.3	-3.4	n.a.	-3.8	-17.0	3.0	n.a.
Housing starts <s.a., ann. 10,000 units>	<114>	<115>	<n.a.>	<110>	<116>	<117>	<n.a.>
Machinery orders (from private sector ⁴)	-0.1	5.8	n.a.	3.8	-1.8	6.5	n.a.
Manufacturing	2.7	5.4	n.a.	-0.6	1.2	15.9	n.a.
Nonmanufacturing ⁴	-2.3	5.1	n.a.	2.4	0.5	0.4	n.a.
Construction Starts (private, nondwelling use)	5.6	-2.2	n.a.	1.0	2.4	2.9	n.a.
Mining & manufacturing	14.6	-4.9	n.a.	-2.2	-14.9	8.9	n.a.
Nonmanufacturing ⁵	2.8	-0.3	n.a.	2.3	5.3	-0.4	n.a.
Value of public works contracted	-0.7	-3.1	n.a.	1.1	-6.0	-1.9	n.a.
Real exports	4.5	-0.8	n.a.	-3.0	-0.1	3.3	n.a.
Real imports	2.2	0.2	n.a.	0.8	0.2	1.8	n.a.
Industrial production	0.4	0.3	n.a.	0.1	-1.5	2.6	n.a.
Shipments	0.8	0.5	n.a.	-2.4	1.1	1.8	n.a.
Inventories	-0.2	-1.5	n.a.	-0.5	-0.1	0.4	n.a.
Inventory Ratio <s.a., CY 2000=100>	<99.4>	<99.9>	<n.a.>	<99.9>	<98.1>	<96.9>	<n.a.>
Real GDP	0.4	0.1	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.3	0.6	n.a.	0.8	-0.5	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2002/Q4	2003/Q1	Q2	2003/Mar.	Apr.	May	Jun.
Ratio of job offers to applicants <s.a., times>	<0.57>	<0.60>	<n.a.>	<0.60>	<0.60>	<0.61>	<n.a.>
Unemployment rate <s.a., %>	<5.4>	<5.4>	<n.a.>	<5.4>	<5.4>	<5.4>	<n.a.>
Overtime working hours ⁶	5.9	6.5	n.a.	6.2	4.0	p 5.5	n.a.
Number of employees	-0.4	-0.1	n.a.	0.1	-0.1	0.6	n.a.
Number of regular employees ⁶	-0.8	-0.6	n.a.	-0.6	-0.8	p -0.7	n.a.
Nominal wages per person ⁶	-1.7	-0.7	n.a.	-1.1	-0.6	p 0.5	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	-1.3 <-0.2>	-0.9 <0.0>	p -0.9 <p -0.2>	-0.8 <0.1>	-0.8 <0.1>	-1.0 <-0.4>	p -1.0 <p -0.5>
Consumer price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.2>	-0.7 <-0.1>	n.a. <n.a.>	-0.6 <-0.1>	-0.4 <0.1>	-0.4 <0.1>	n.a. <n.a.>
Corporate service price index ⁹ <s.a., q/q % chg.> (3-month growth rate)	-1.0 <-0.2>	-0.9 <-0.2>	n.a. <n.a.>	-0.7 <-0.2>	-1.2 <-0.5>	-1.2 <-0.5>	n.a. <n.a.>
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg.>	2.9	1.9	1.6	1.7	1.3	1.6	1.8
Number of suspension of transactions with banks	-17.9	-21.7	n.a.	-17.2	-13.3	-18.4	n.a.

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

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

2. Figure with "p" indicates preliminary one.

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

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

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

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

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

8. Excludes fresh food.

9. Domestic supply-demand factors.

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

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

Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"

"Indices of Tertiary Industry Activity";

Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

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

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

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

Cabinet Office, "Machinery Orders Statistics," "National Accounts";

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

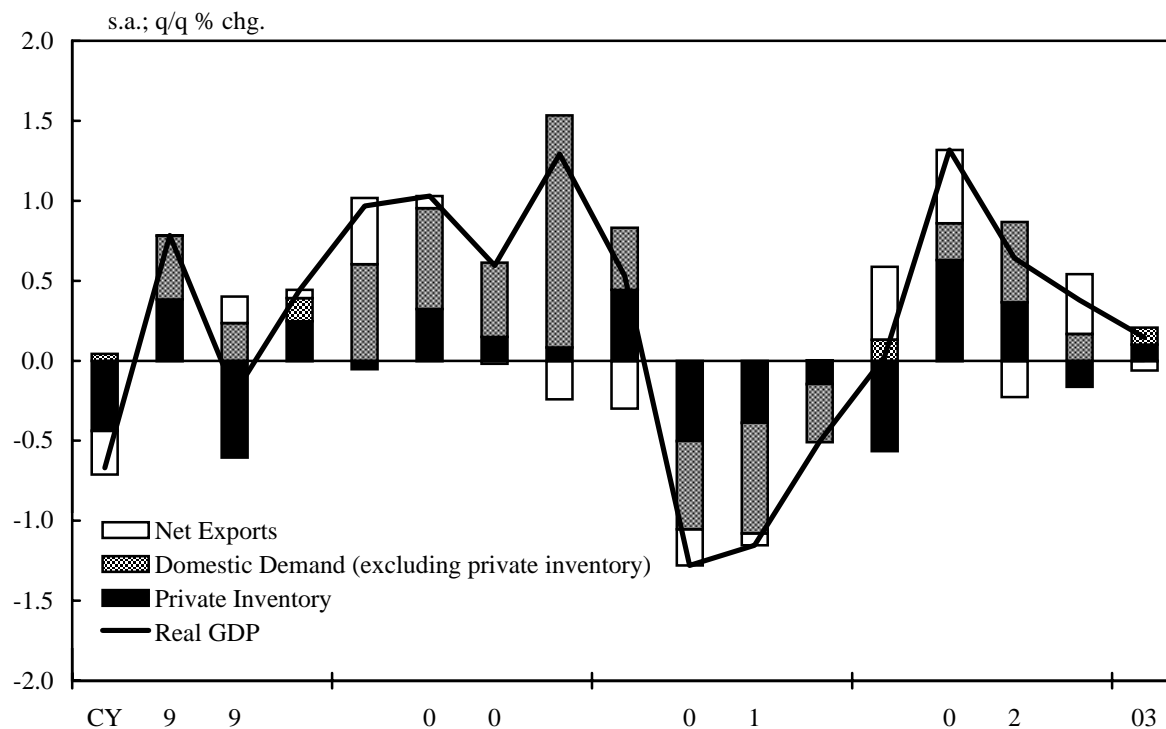
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

Bank of Japan, "Corporate Goods Price Index," "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.

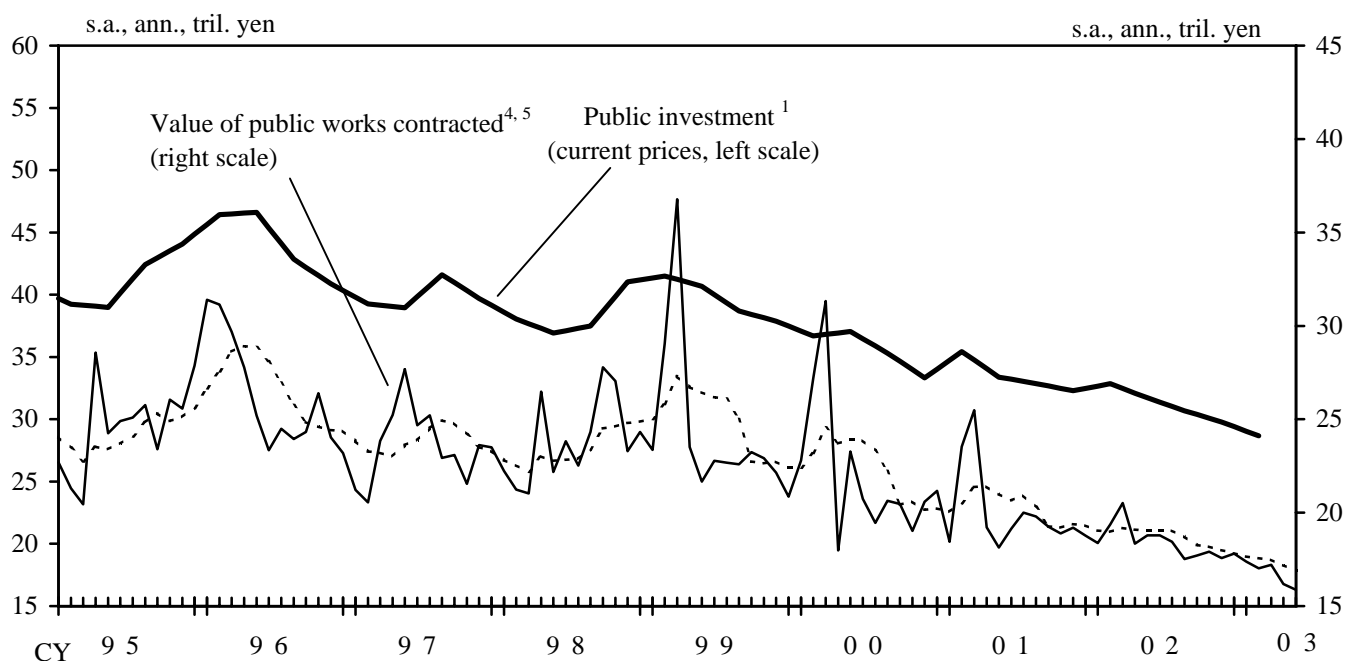
	2002				2003
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.0	1.3	0.6	0.4	0.1
Domestic Demand	-0.4	0.9	0.9	0.0	0.2
Private Consumption	0.5	0.3	0.6	-0.0	0.2
Non-Resi. Investment	-1.6	1.3	1.3	2.5	0.7
Residential Investment	-2.5	-0.2	0.1	-1.0	-1.2
Private Inventory	(-0.6)	(0.6)	(0.4)	(-0.2)	(0.1)
Public Demand	0.9	-0.7	-0.2	-0.7	-0.3
Public Investment	2.2	-2.9	-2.8	-2.5	-3.2
Net Exports of goods and services	(0.5)	(0.5)	(-0.2)	(0.4)	(-0.1)
Exports	5.5	6.8	0.0	4.4	-0.4
Imports	1.2	3.2	2.7	1.4	0.1
Nominal GDP	0.2	0.0	0.2	-0.5	-0.4

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

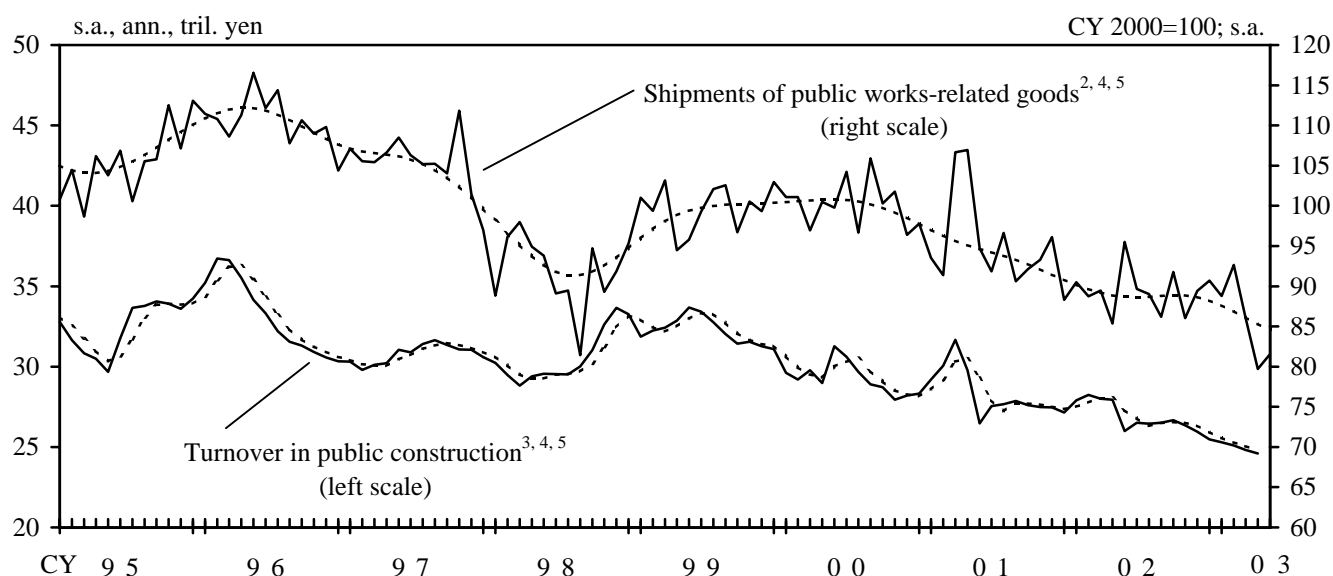
Source: Cabinet Office, "National Accounts."

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 figures of public investment are plotted at the middle month of each quarter. The figures include "reference series" for 1995/Q1-1999/Q4.
2. "Public works-related goods" is the weighted average of asphalt, concrete products for roads, bridges, and cement. The weights are based on 2000-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. The figures of 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 shipments of public works-related goods are seasonally adjusted on a monthly basis, the figures are retroactively revised each month.
5. As for the dotted lines, the line for value of public works contracted is the 6-month 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-month moving average.

Sources: Cabinet Office, "National Accounts";

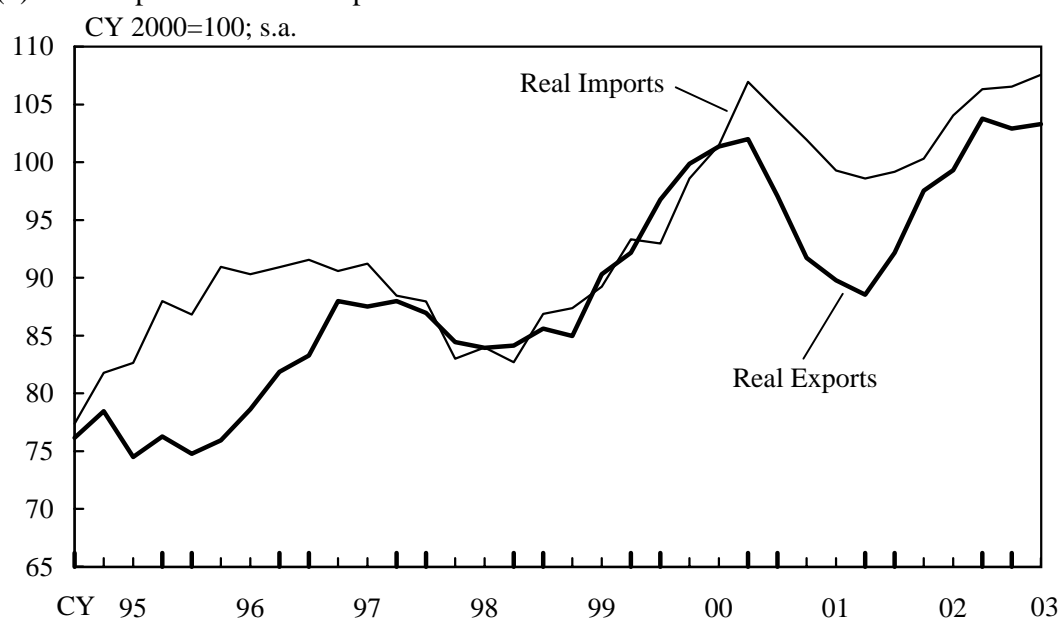
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";

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

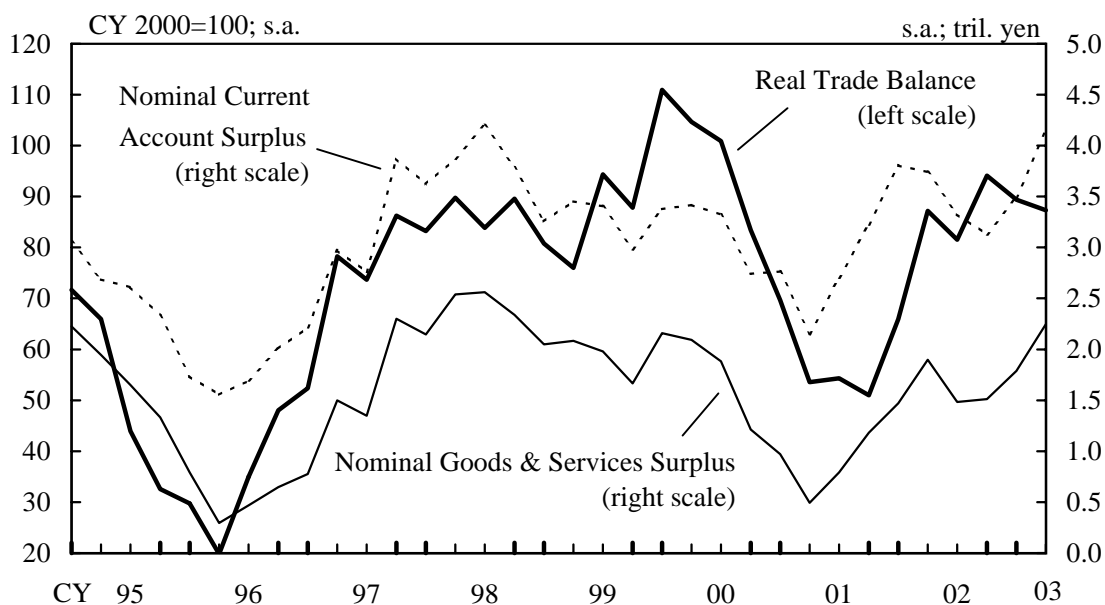
Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

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, indexed with base year of 2000. Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by the "Export and Import Price Index."
2. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA. 2003/Q2 figures are Apr.- May averages converted into quarterly amount.
3. Balance of payments data up to 1995/Q4 are from old basis. 2003/Q2 figures are Apr.- May averages converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2001	2002	2002 Q2	Q3	Q4	2003 Q1	Q2	2003 Mar.	Apr.	May
United States	<28.5>	-7.7	1.4	1.8	-0.1	3.4	-9.9	2.2	3.7	-1.7	7.4
EU	<14.7>	-10.1	-0.0	7.8	4.8	1.4	6.3	-0.3	1.3	-2.2	3.5
East Asia	<41.5>	-9.0	17.5	10.9	3.8	3.4	7.9	-2.5	-5.2	-1.6	3.3
China	<9.6>	12.4	35.5	11.8	10.2	3.3	21.7	1.1	-13.2	4.8	4.6
NIEs	<22.7>	-15.2	14.4	11.4	2.4	4.4	4.5	-5.7	-4.1	-6.1	3.9
Korea	<6.9>	-8.4	19.1	13.6	4.3	6.2	7.7	-8.7	-7.0	-5.7	1.2
Taiwan	<6.3>	-25.3	14.6	11.3	2.4	2.1	4.9	-6.3	0.3	-7.5	2.3
ASEAN4 ³	<9.3>	-7.8	10.2	9.1	1.1	1.0	2.1	0.9	2.8	1.8	0.4
Thailand	<3.2>	-3.6	16.5	14.4	8.0	4.0	0.2	2.3	5.0	-2.3	10.4
Real exports		-8.6	7.2	5.8	1.8	4.5	-0.8	0.4	-3.0	-0.1	3.3

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2001	2002	2002 Q2	Q3	Q4	2003 Q1	Q2	2003 Mar.	Apr.	May
Intermediate goods	<15.3>	-3.2	8.8	3.0	0.9	-2.4	4.3	1.7	-2.3	1.4	2.3
Motor vehicles and their related goods	<24.3>	-1.8	12.7	3.6	0.1	5.0	-1.3	-5.5	1.5	-6.4	5.0
Consumer goods ⁴	<7.1>	-4.8	7.9	5.5	1.0	10.6	0.4	2.3	2.2	-0.6	1.9
IT-related goods ⁵	<14.8>	-10.5	0.3	14.2	6.0	3.0	-3.9	3.5	-1.7	0.7	4.6
Capital goods and parts ⁶	<27.3>	-14.6	7.8	8.3	3.8	5.2	1.9	1.3	-5.4	2.1	2.9
Real exports		-8.6	7.2	5.8	1.8	4.5	-0.8	0.4	-3.0	-0.1	3.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2003/Q2 figures are Apr. - May averages converted into quarterly amount.

2. Shares of each region and goods in 2002 are shown in angle brackets.

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

4. Excludes motor vehicles.

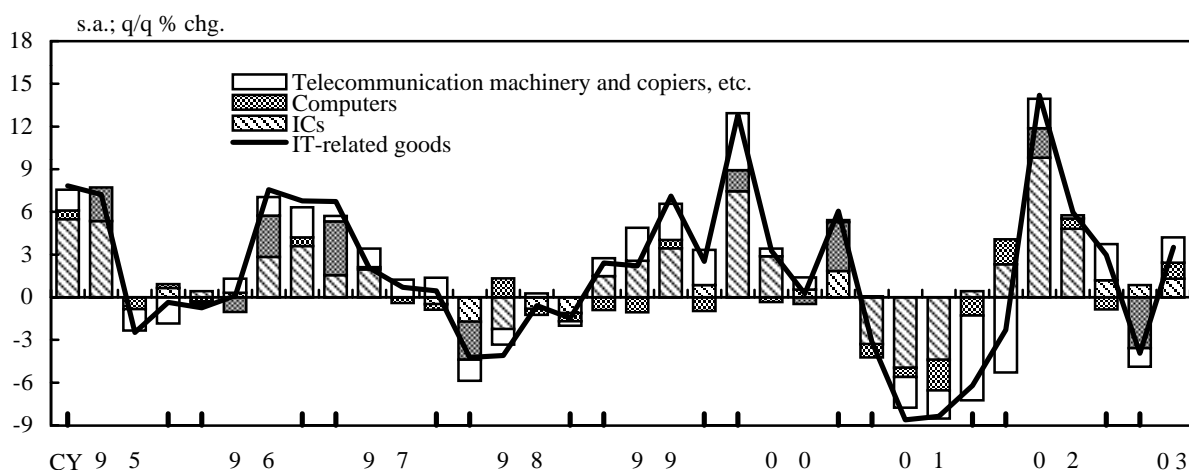
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

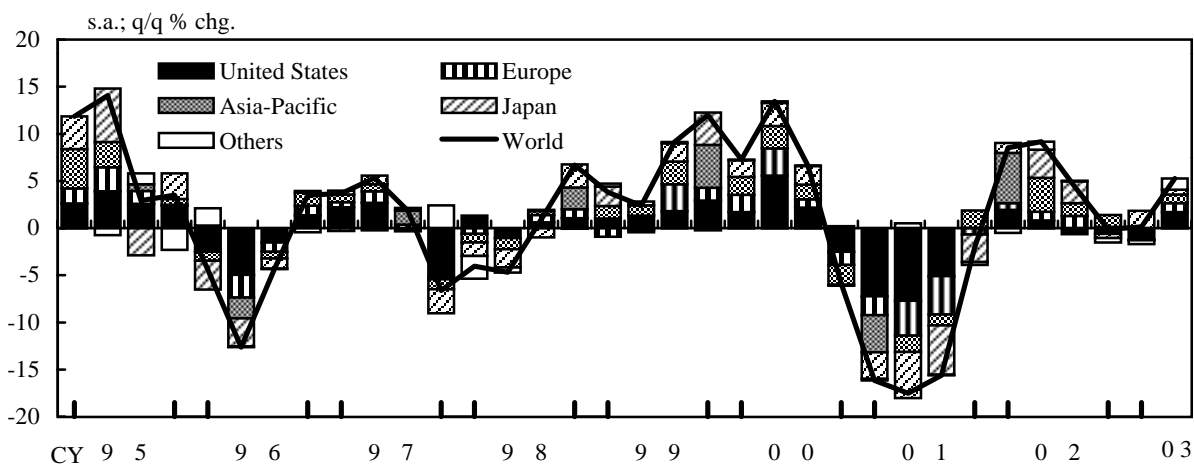
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

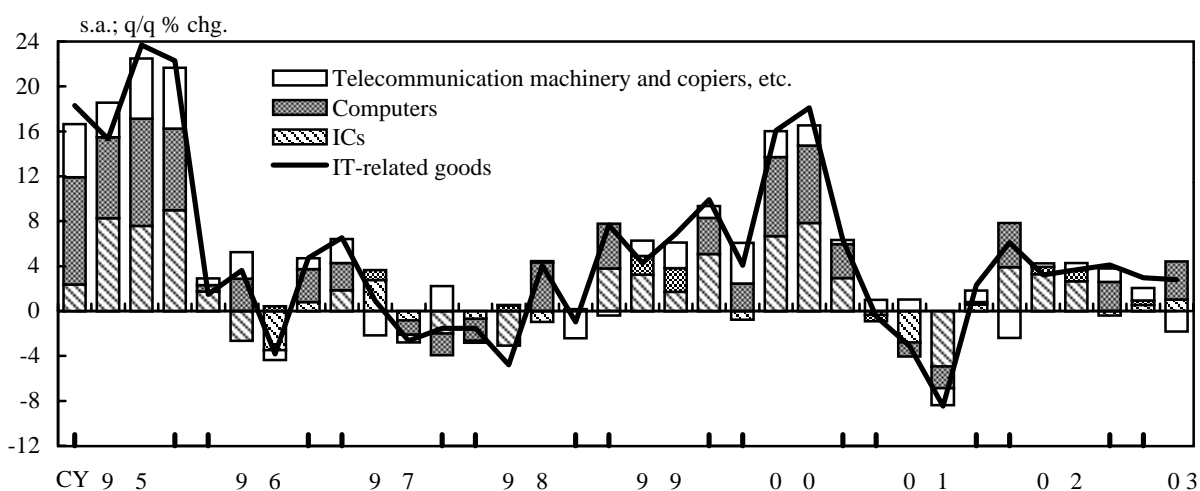
(1) Exports of IT-related goods (real, breakdown by goods)



(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.

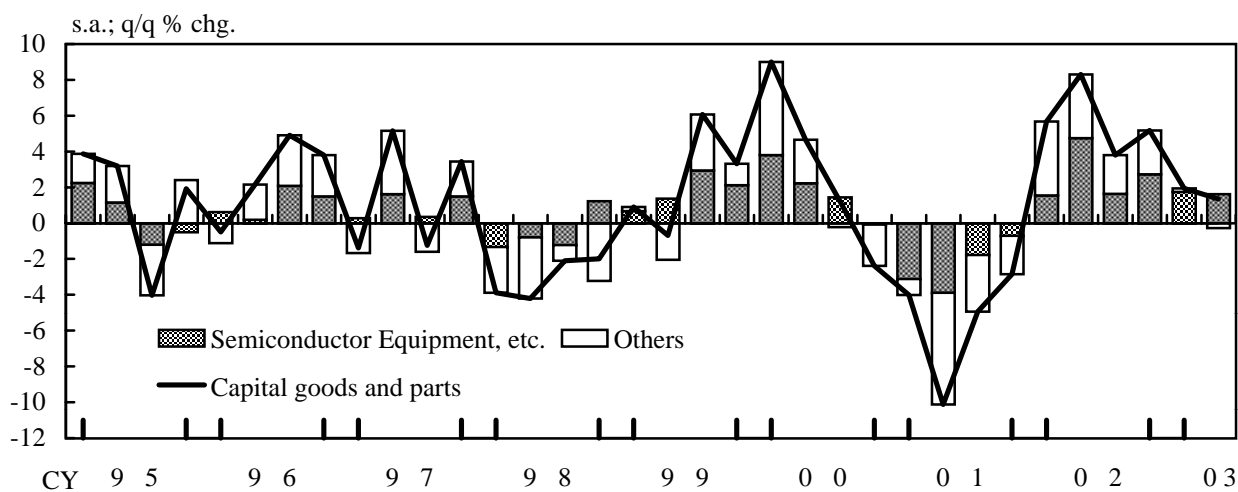
2. 2003/Q2 figures are Apr.-May averages converted into quarterly amount.

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

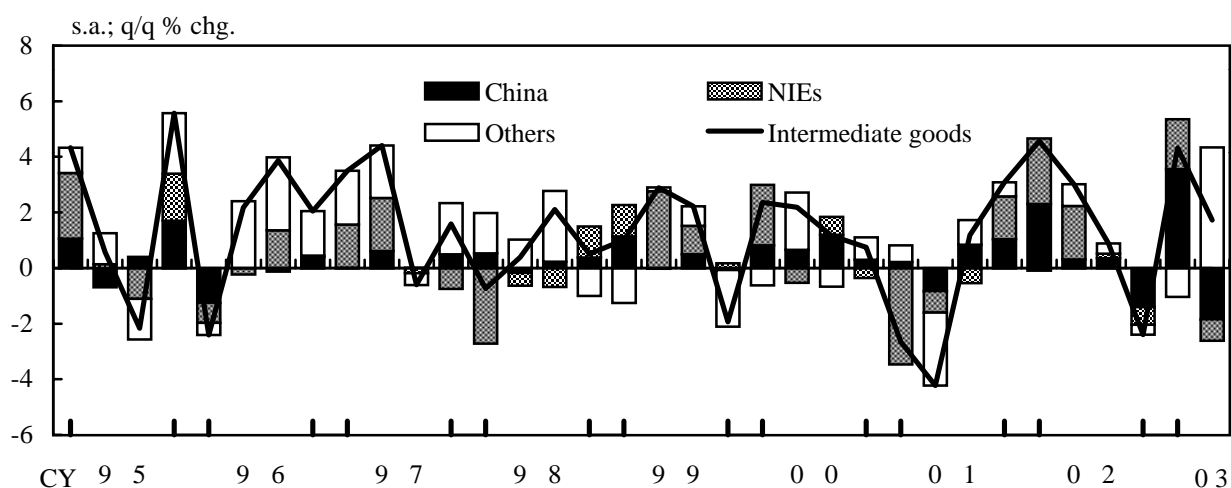
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics.)

Real Exports breakdown by goods

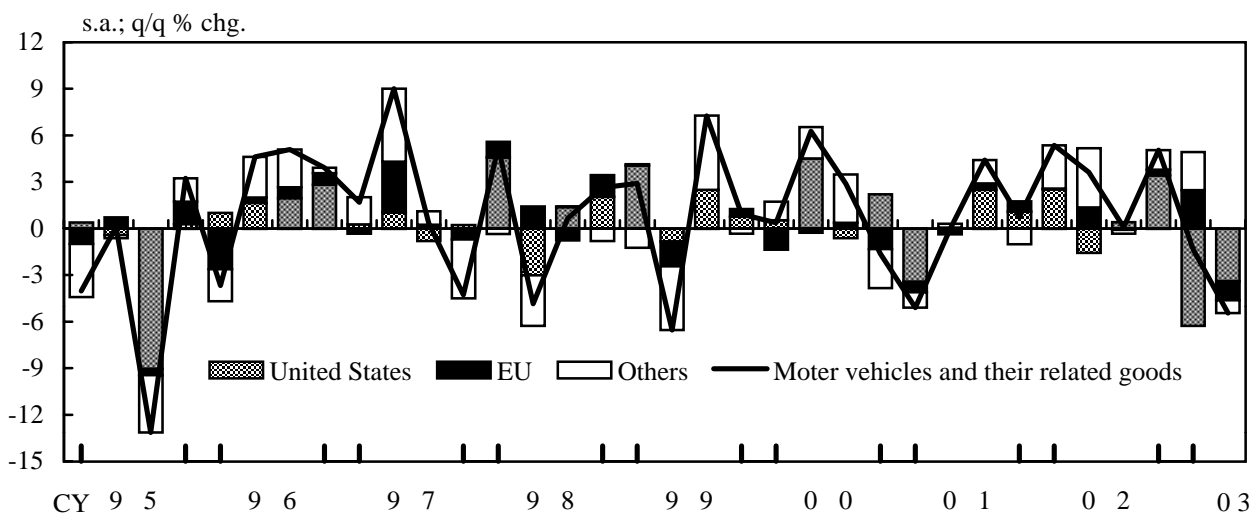
(1) Capital goods and parts



(2) Intermediate goods



(3) Motor vehicles and their related goods



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

2. 2003/Q2 figures are Apr.-May averages converted into quarterly amount.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Imports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2001	2002	2002 Q2	Q3	Q4	2003 Q1	Q2	2003 Mar.	Apr.	May
United States	<17.1>	-0.6	-3.8	1.0	1.6	-4.5	-2.8	6.0	-2.8	12.0	-0.6
EU	<13.0>	6.1	2.3	2.0	5.7	1.5	-1.6	1.8	-0.2	-1.1	6.6
East Asia	<41.4>	6.1	6.4	2.8	3.6	5.7	0.7	3.6	3.4	2.8	0.7
China	<18.3>	16.5	13.9	3.8	3.9	8.3	3.9	3.8	8.8	-0.7	0.8
NIEs	<10.5>	-3.3	1.8	6.2	2.5	2.1	-2.0	2.0	1.6	5.1	0.3
Korea	<4.6>	-3.2	-1.5	8.0	3.7	2.8	-0.0	2.2	-0.3	4.7	4.0
Taiwan	<4.0>	-5.1	5.5	6.8	2.1	-0.2	-2.8	1.3	-6.5	10.5	-3.1
ASEAN4 ³	<12.6>	3.6	1.5	-1.0	4.3	5.3	-1.4	4.6	-2.5	6.3	0.8
Thailand	<3.1>	10.4	7.6	3.9	4.7	5.0	-1.5	2.4	-2.2	1.0	1.9
Real imports		1.2	1.2	1.1	3.7	2.2	0.2	1.0	0.8	0.2	1.8

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2001	2002	2002 Q2	Q3	Q4	2003 Q1	Q2	2003 Mar.	Apr.	May
Raw materials ⁴	<25.3>	-4.1	-2.7	-2.9	6.0	4.0	4.0	-0.9	-3.8	-4.9	9.4
Intermediate goods	<13.0>	-1.1	1.4	1.1	4.4	-0.1	1.0	-2.0	3.3	-3.0	0.8
Foodstuffs	<12.5>	-0.0	-2.5	-1.5	1.2	-3.3	-1.0	-1.1	0.2	0.1	0.6
Consumer goods	<11.0>	7.9	-0.9	3.8	0.9	5.5	-3.8	1.6	5.2	-1.8	2.6
IT-related goods ⁵	<14.4>	9.6	7.8	3.2	3.7	4.1	3.0	2.8	0.9	4.7	1.0
Capital goods and parts ⁶	<12.9>	10.6	11.5	8.6	6.2	1.4	-2.2	12.9	7.8	10.4	-0.9
excluding aircraft	<11.8>	13.9	8.3	7.5	4.1	5.3	0.3	4.5	15.7	-5.1	7.3
Real imports		1.2	1.2	1.1	3.7	2.2	0.2	1.0	0.8	0.2	1.8

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2003/Q2 figures are Apr. - May averages converted into quarterly amount.

2. Shares of each region and goods in 2002 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.

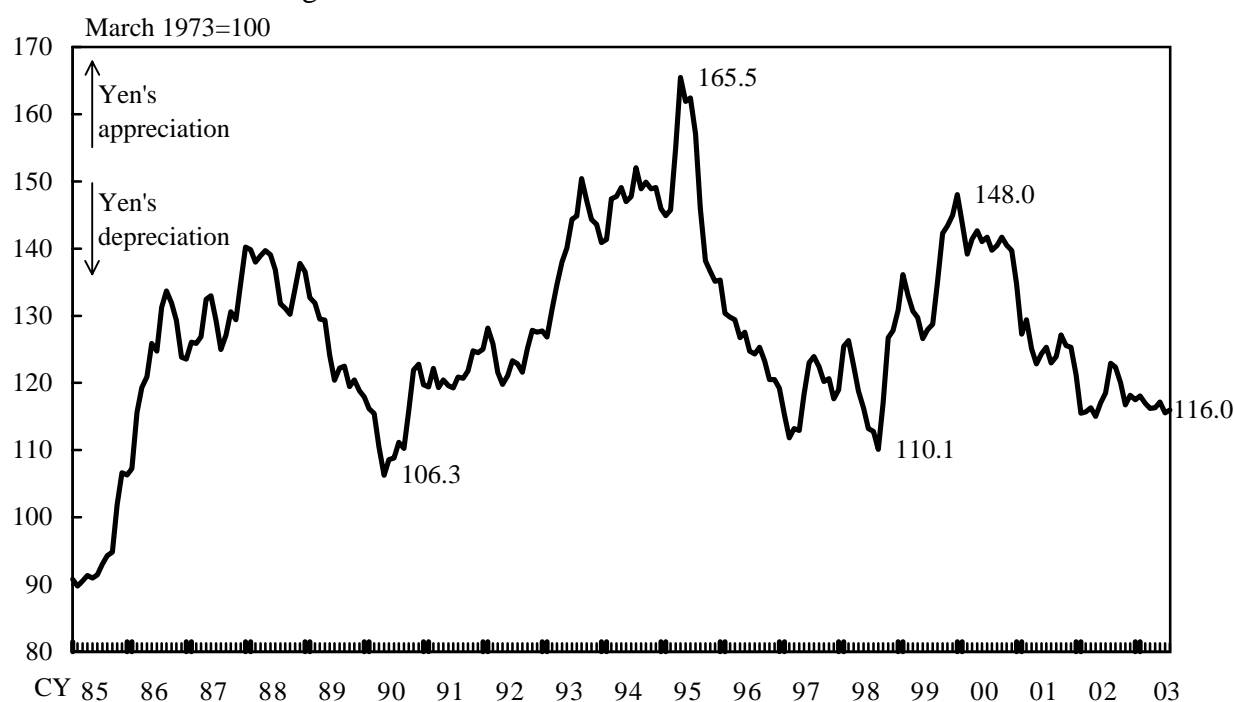
5. IT-related goods are composed of office machinery, telecommunication machinery, ICs, and medical and optical instruments.

6. Excludes IT-related goods.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

External Environment (1)

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for July 2003 is the average up to July 14.

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.

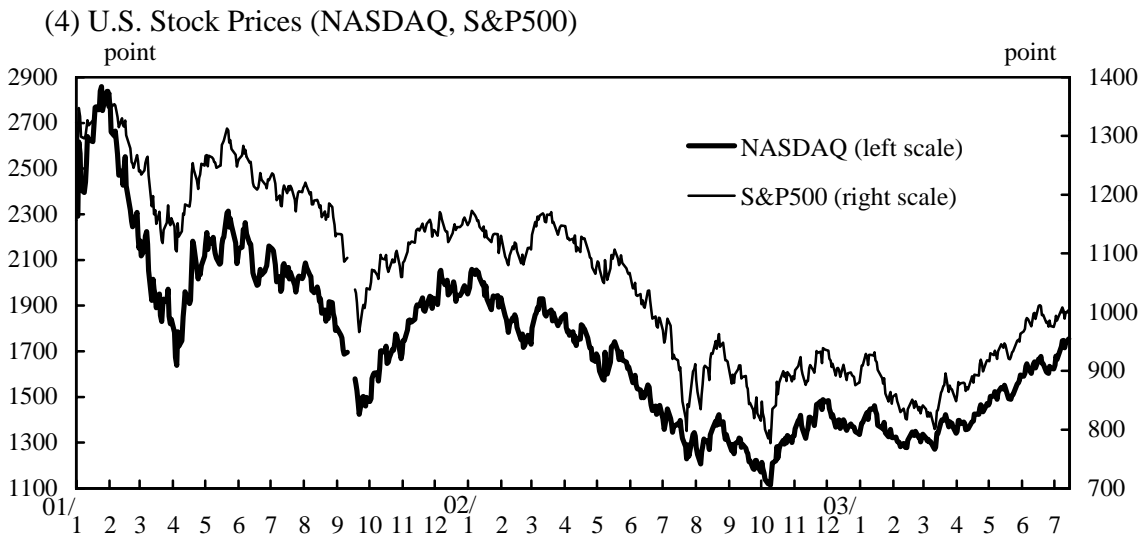
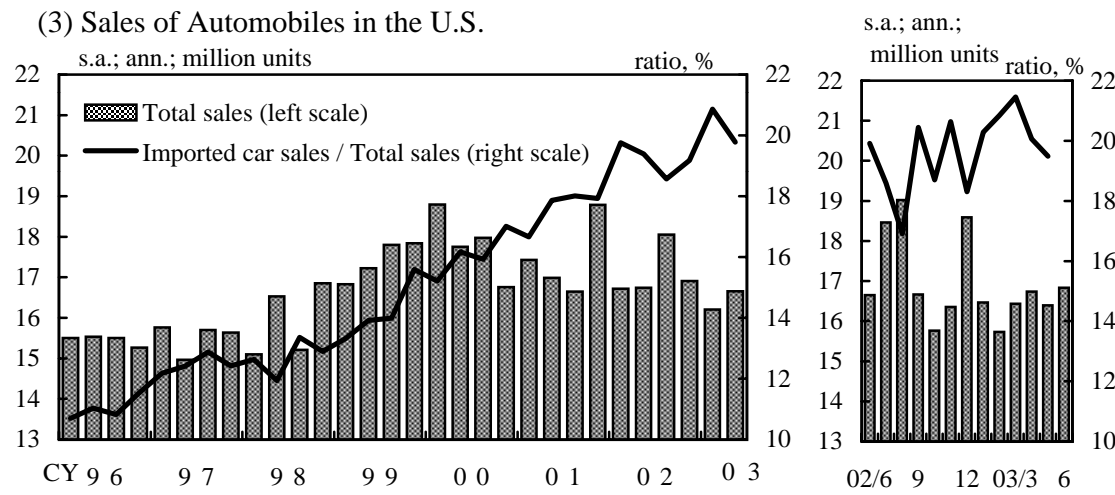
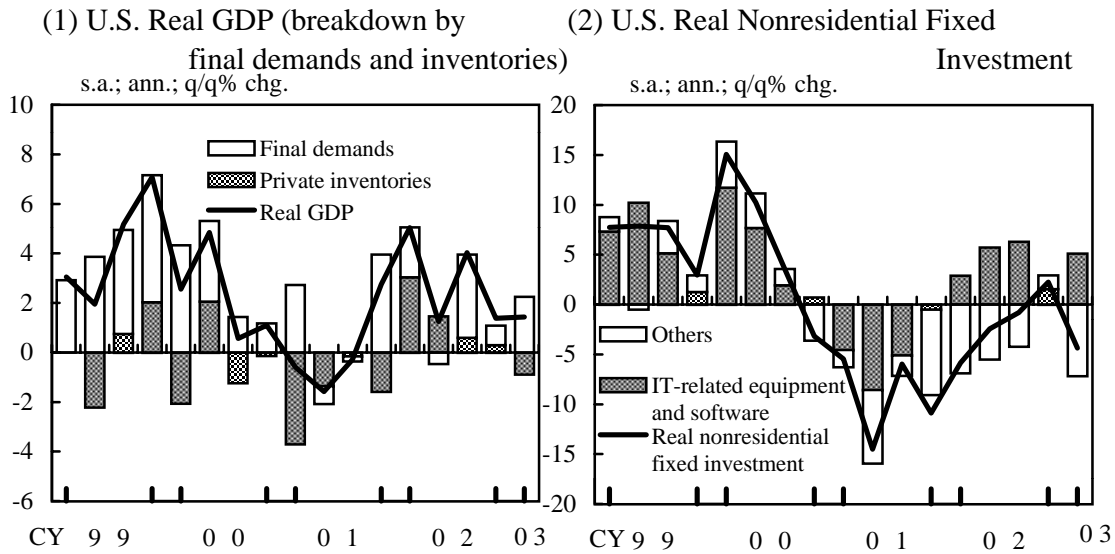
(2) Real GDP Growth Rates in Overseas Economies

		CY2000	2001	2002	2002 Q3	Q4	2003 Q1	Q2	
United States ¹		3.8	0.3	2.4	4.0	1.4	1.4	n.a.	
European Union ¹		3.5	1.6	1.0	1.6	0.5	0.2	n.a.	
	Germany	2.9	0.6	0.2	1.2	-0.1	-0.9	n.a.	
	France	4.2	2.1	1.2	1.2	-0.2	1.1	n.a.	
	United Kingdom	3.1	2.1	1.9	3.7	2.0	0.4	n.a.	
East Asia ²	China	8.0	7.3	8.0	8.1	8.1	9.9	n.a.	
	NIEs	Korea	9.3	3.1	6.3	5.8	6.8	3.7	n.a.
		Taiwan	5.9	-2.2	3.5	4.8	4.2	3.2	n.a.
		Hong Kong	10.2	0.5	2.3	3.4	5.1	4.5	n.a.
		Singapore	9.4	-2.4	2.2	3.8	3.0	1.6	-4.3
	ASEAN4	Thailand	4.6	1.9	5.3	5.8	6.2	6.7	n.a.
		Indonesia	4.9	3.4	3.7	4.3	3.8	3.4	n.a.
Malaysia		8.5	0.3	4.1	5.8	5.4	4.0	n.a.	
Philippines		4.4	4.5	4.4	3.8	5.8	4.5	n.a.	

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

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

External Environment (2)



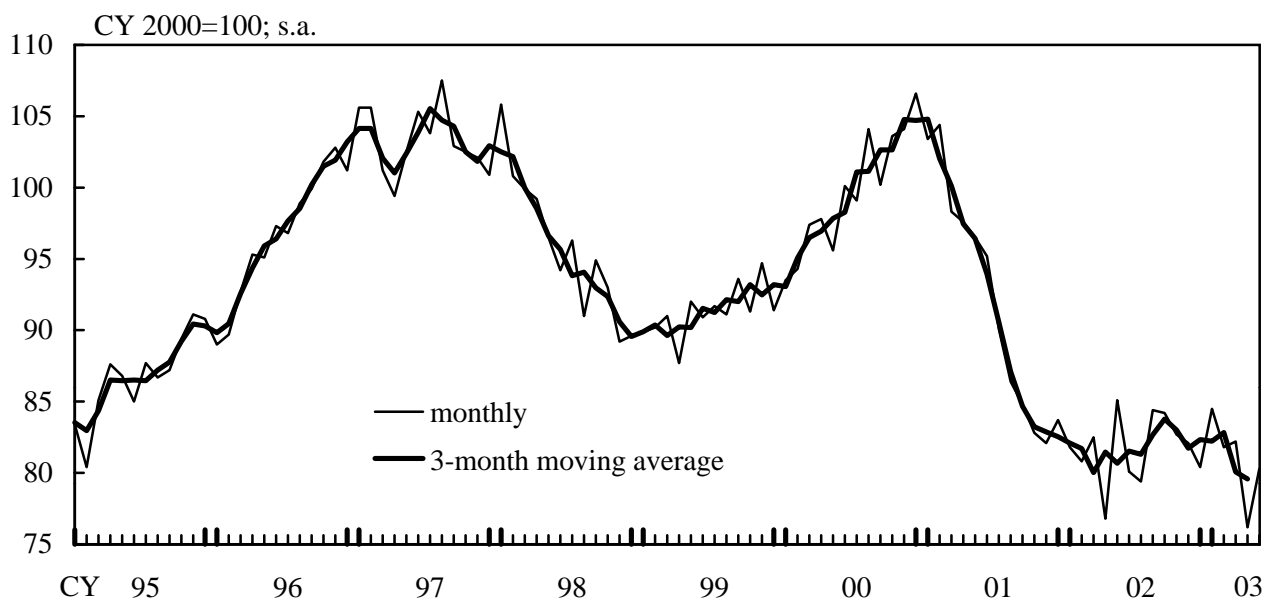
Notes: 1. "Imported car sales/ Total sales" in 2003/Q2 is based on Apr.-May average in (3). June figures of Automobile Sales are calculated by adding average of heavy trucks in CY 2002 (0.4mil.) to preliminary figure released by an industry association (s.a., ann., 16.43 mil.) which does not include heavy trucks.

2. Figures of U.S. stock prices in (4) are up to July 14.

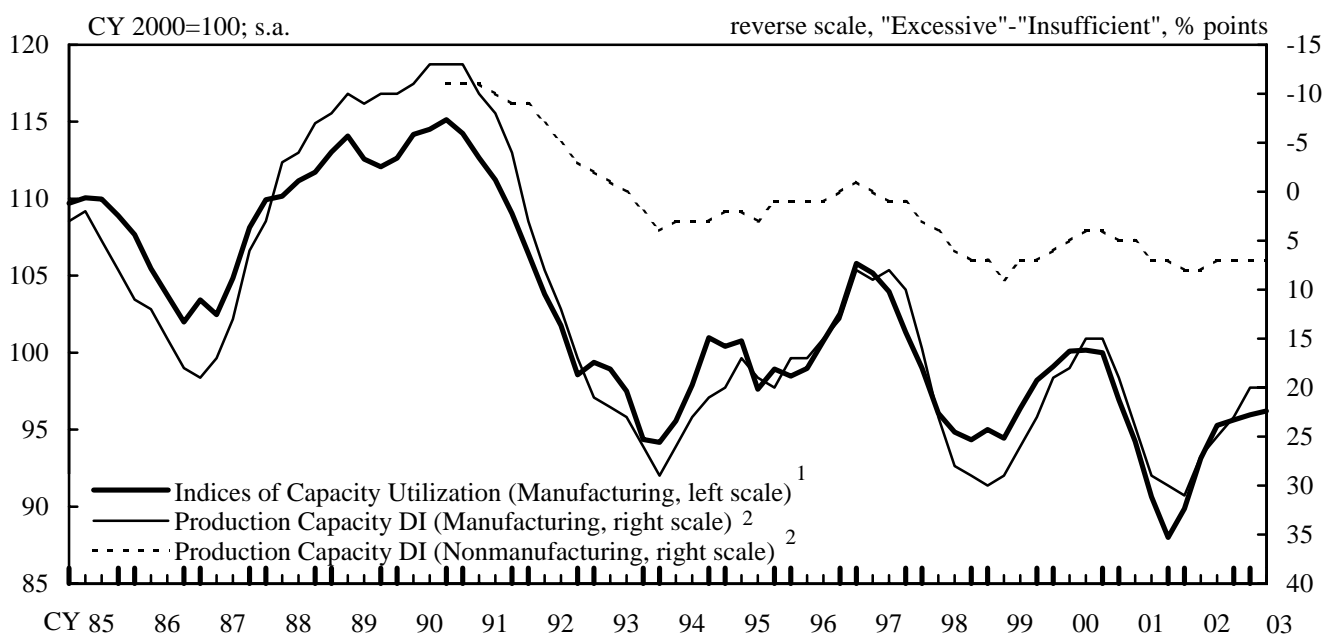
Sources: U.S. Department of Commerce, "National Income and Product Accounts," "Sales, production, imports, exports, and inventories, in units"; Reuters News Service; Bloomberg.

Indicators for Business Fixed Investment (1)

(1) Shipments of capital goods (excluding transport equipment)



(2) Indices of Capacity Utilization and Production Capacity DI



Notes: 1. The figure for 2003/Q2 is average of April and May.

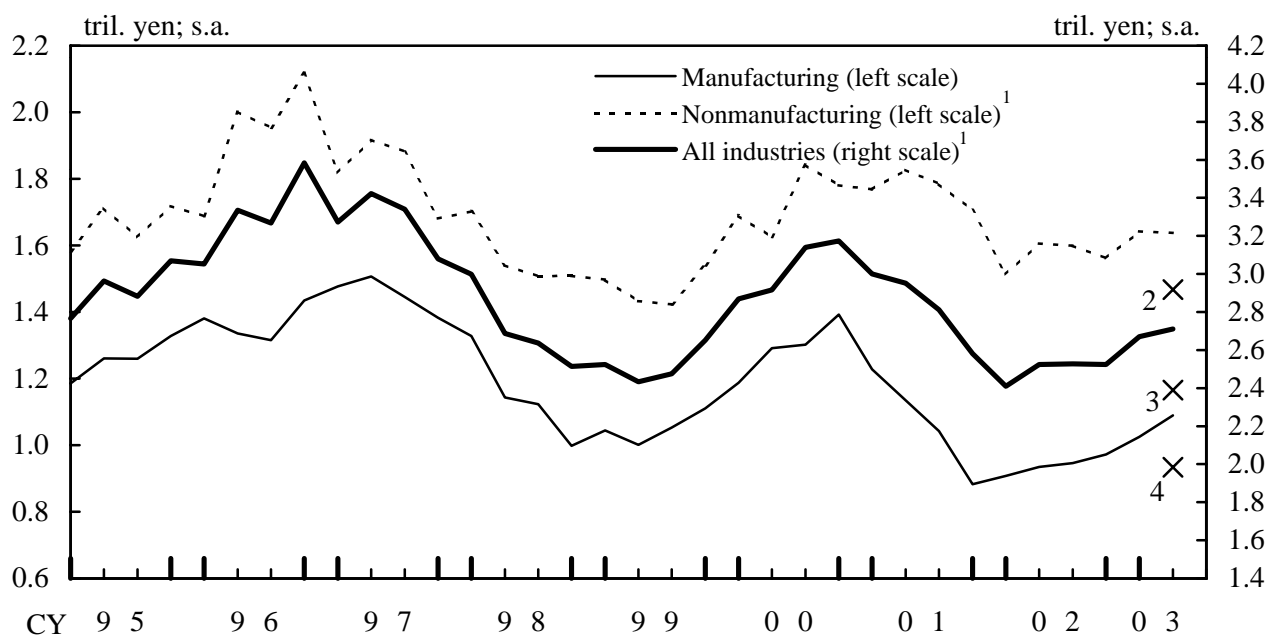
2. Production Capacity DI are those of all enterprises.

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

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

Indicators for Business Fixed Investment (2)

(1) Machinery Orders



Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

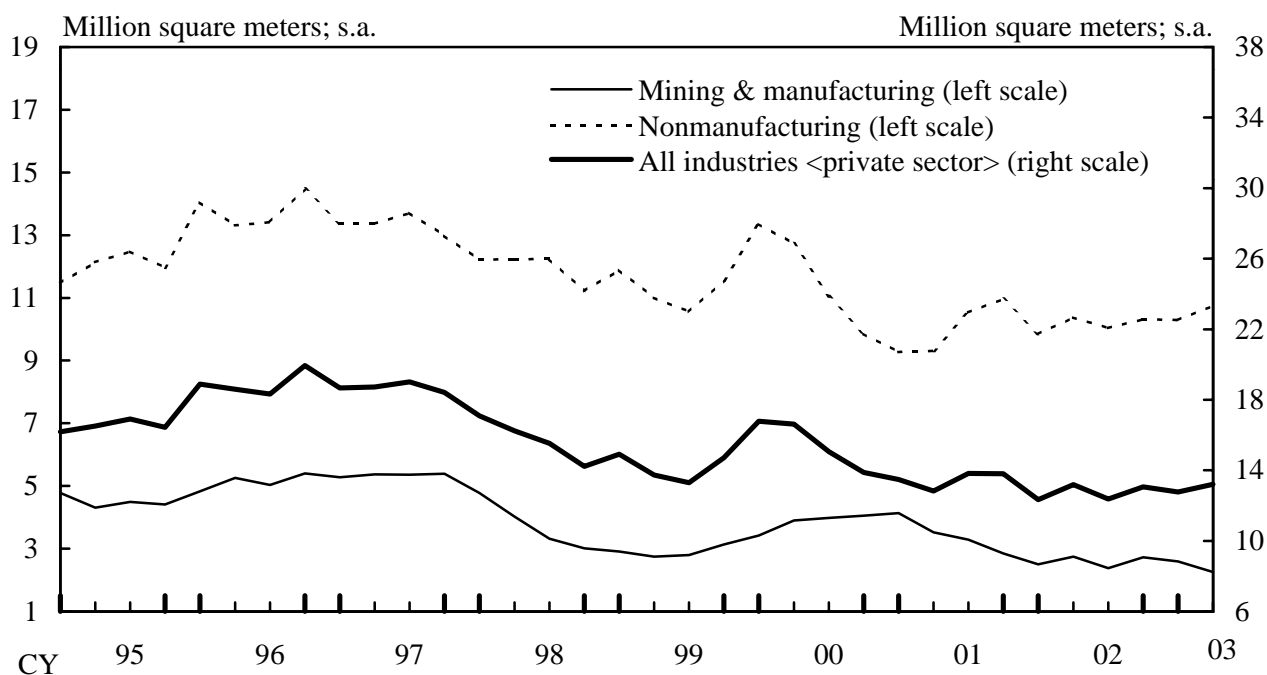
2. Forecast of nonmanufacturing industries for 2003/Q2.

3. Forecast of all industries for 2003/Q2.

4. Forecast of manufacturing industries for 2003/Q2.

5. Figures for 2003/Q2 are averages of April and May in terms of quarterly amount.

(2) Construction Starts (floor area, private, nondwelling use)



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

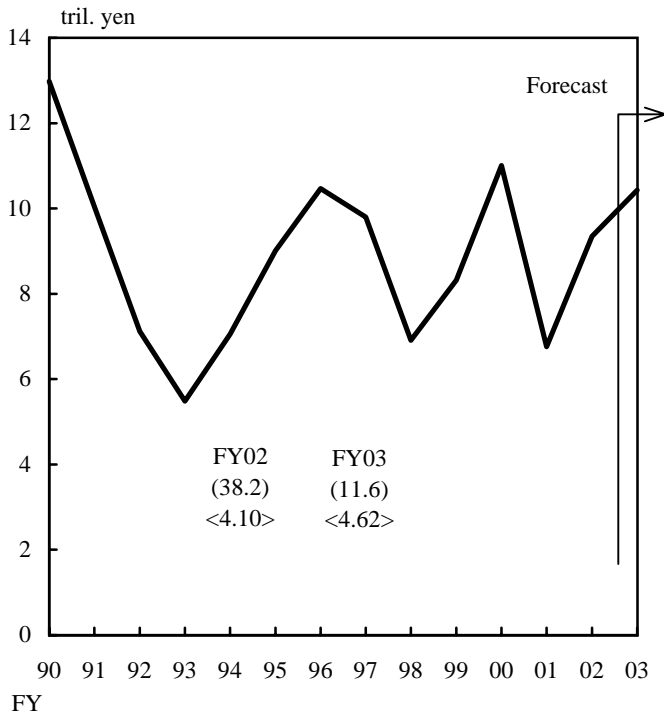
2. Figures for 2003/Q2 are averages of April and May in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

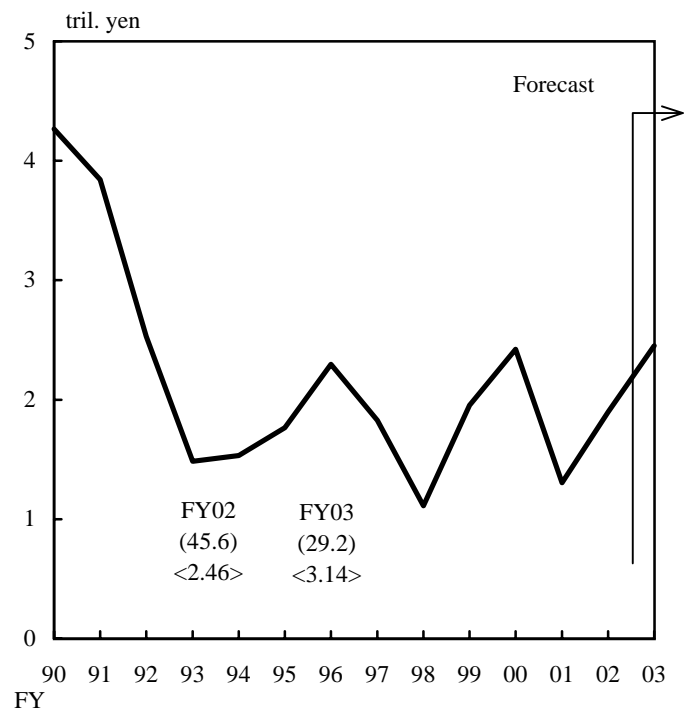
Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

Current Profits

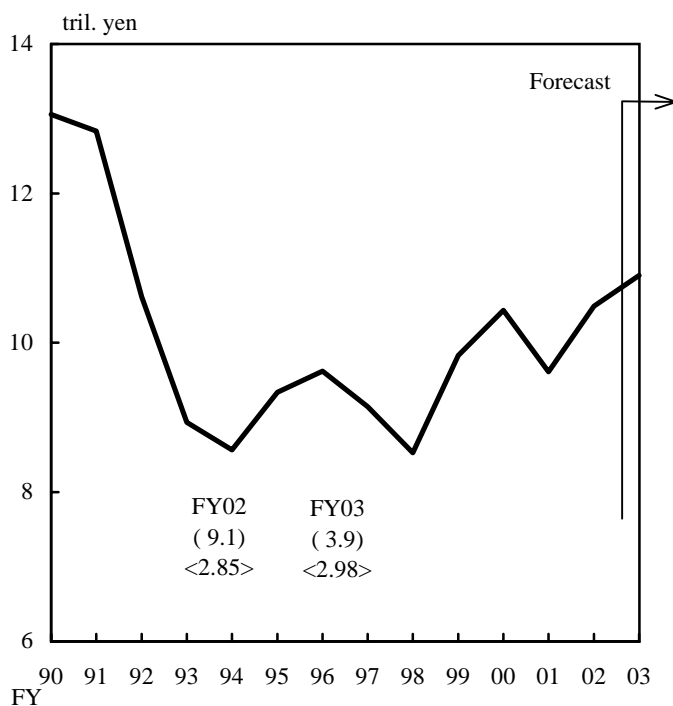
(1) Manufacturing Large Enterprises



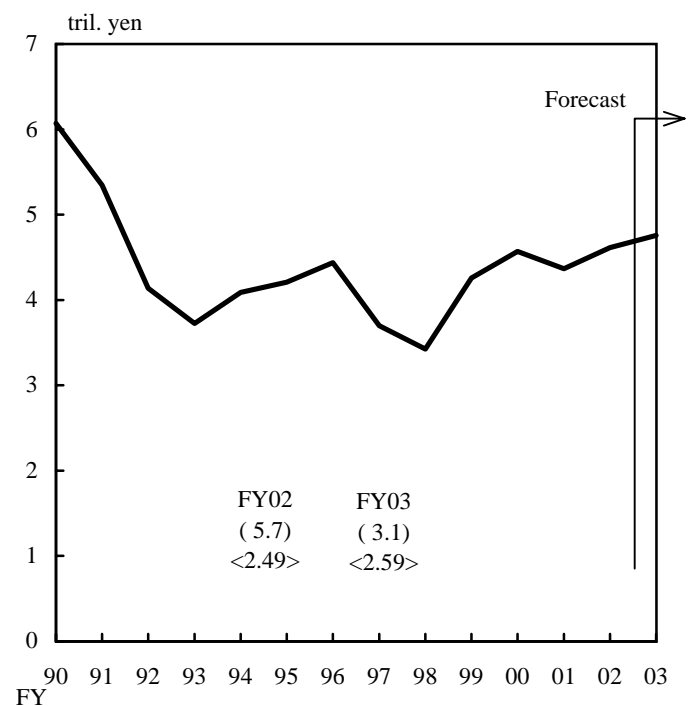
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



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

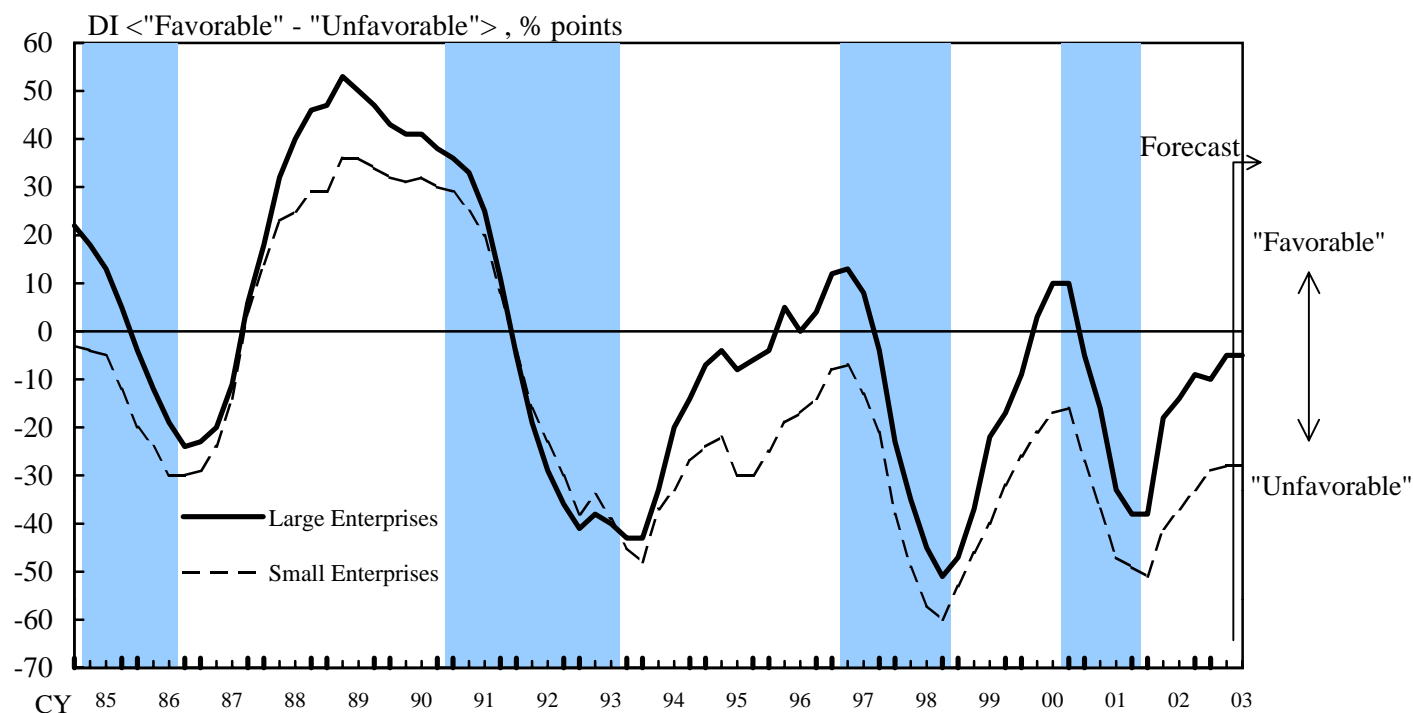
Small enterprises: 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),
20-49 employees (for Retailing, services, and leasing),
50-299 employees (for Other industries)

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

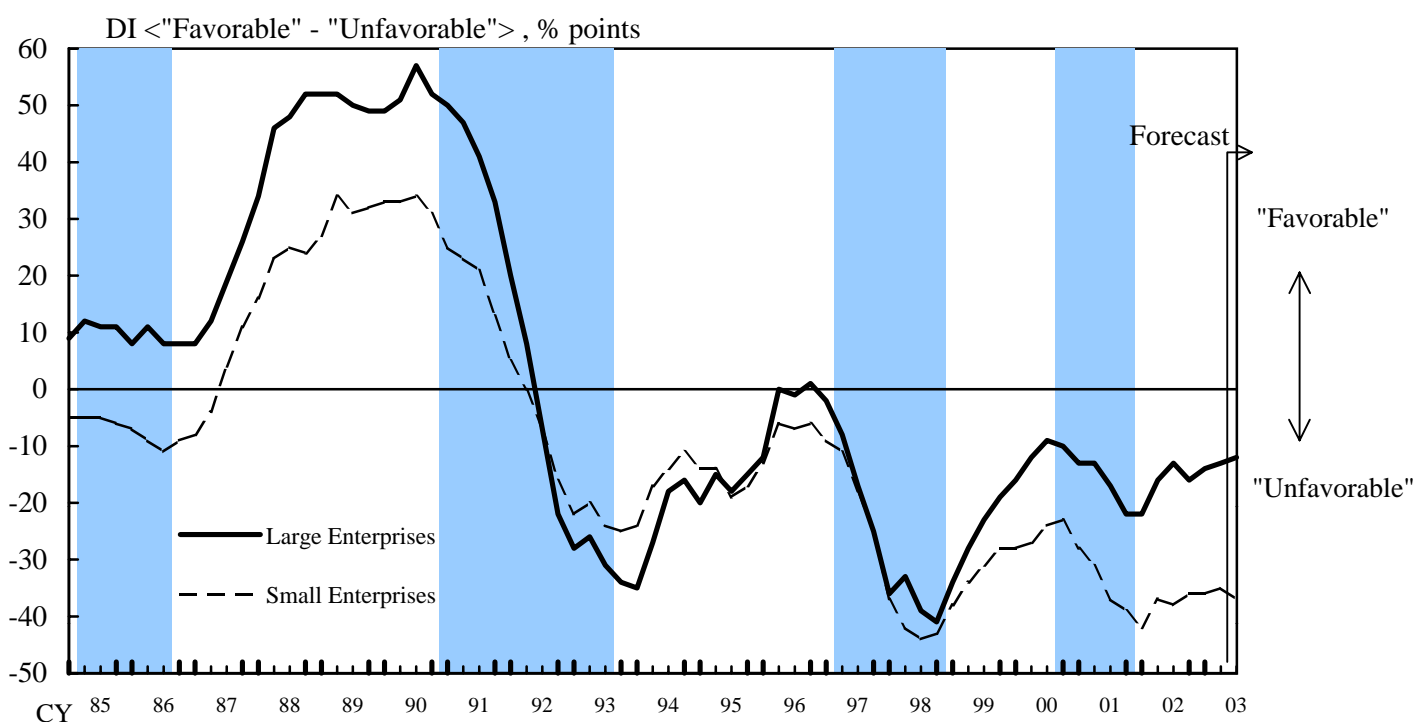
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan, June 2003."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



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

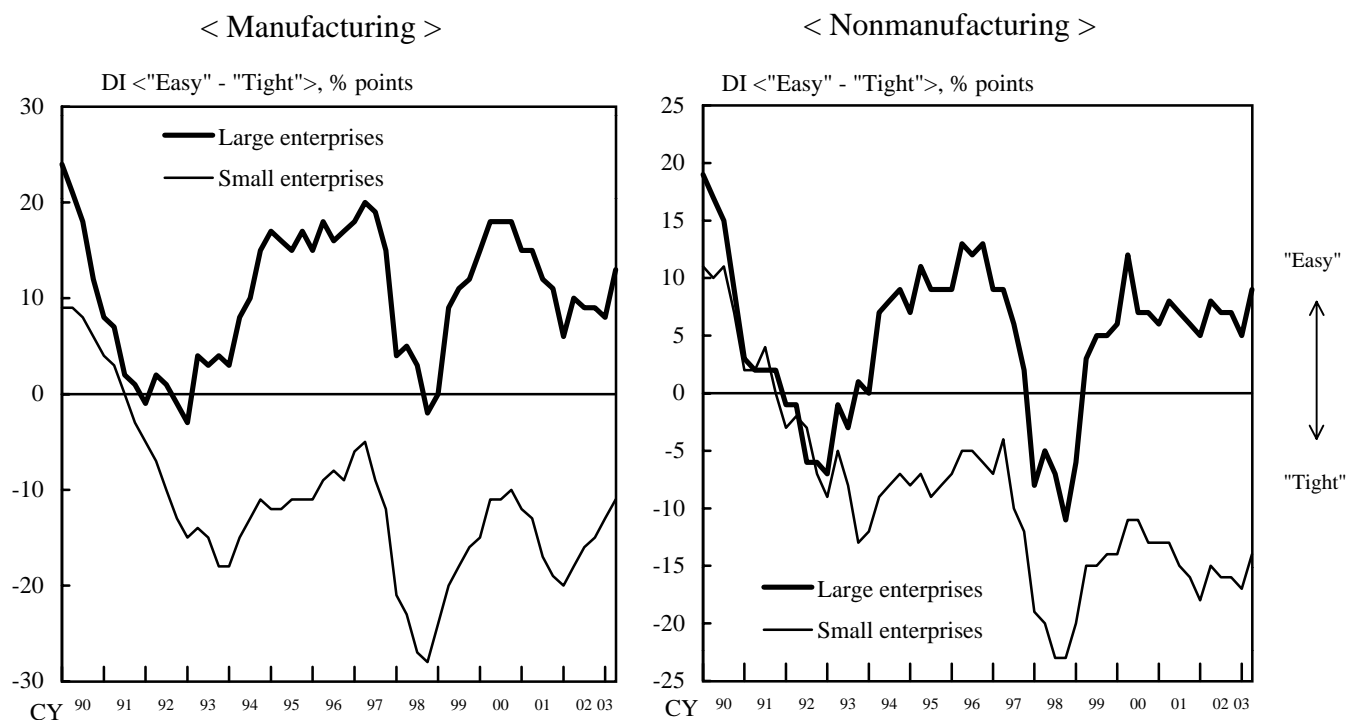
Small enterprises: 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling), 20-49 employees (for Retailing, services, and leasing), 50-299 employees (for Other industries)

2. Shaded areas indicate recession periods.

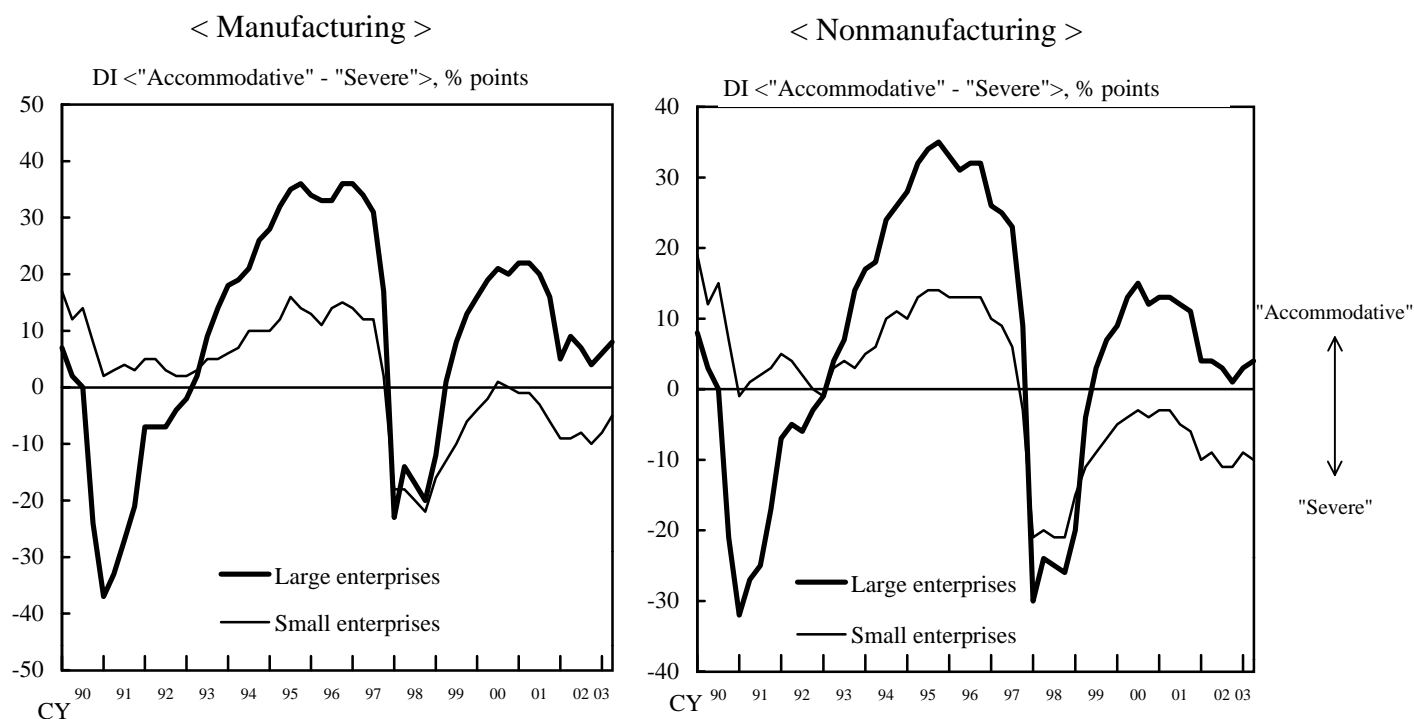
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Corporate Finance-Related Indicators

(1) Financial Position



(2) Lending Attitude of Financial Institutions

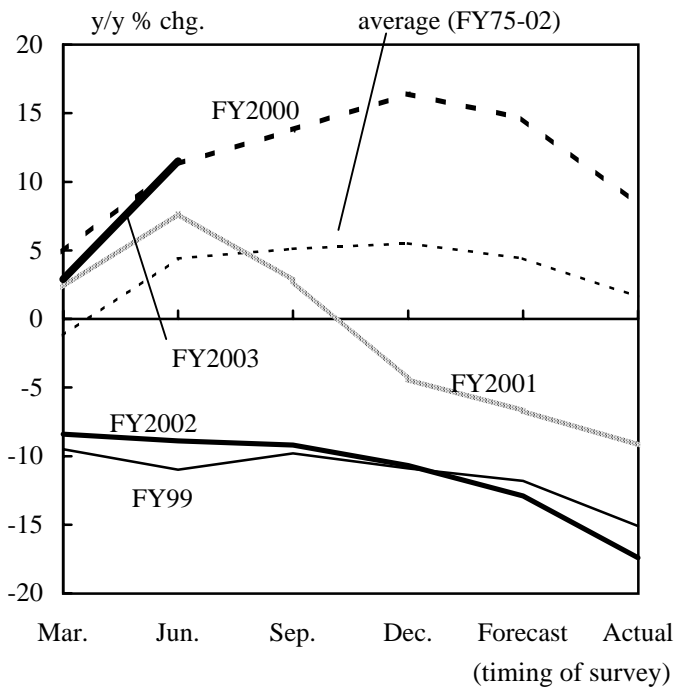


Note: Large enterprises: 1,000 employees or more
 Small enterprises: 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),
 20-49 employees (for Retailing, services, and leasing),
 50-299 employees (for Other industries)

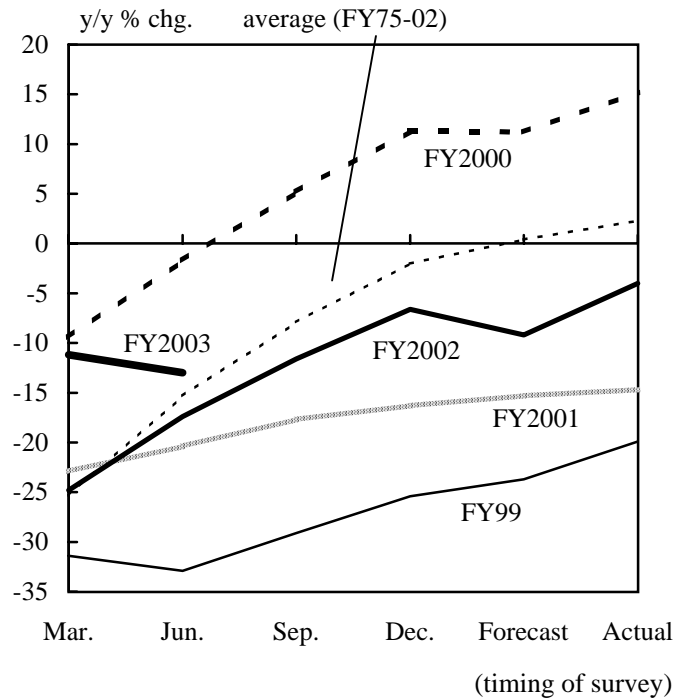
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

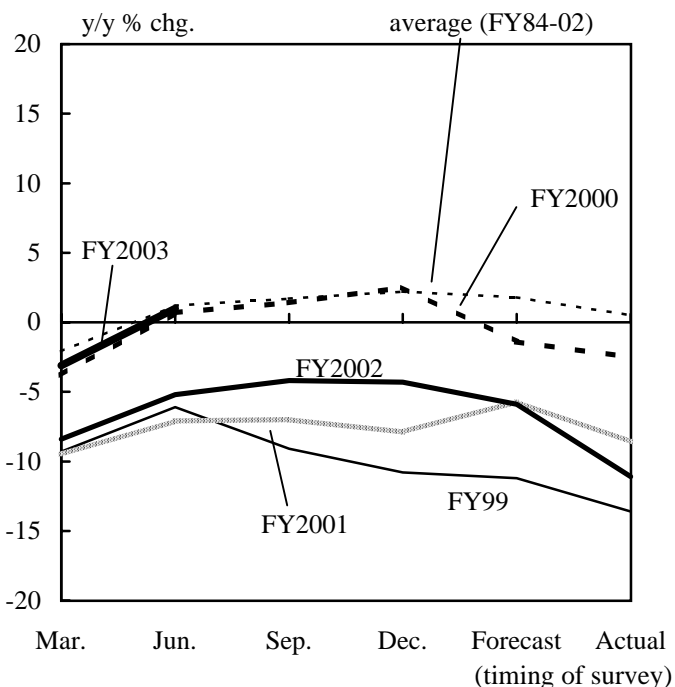
(1) Manufacturing Large Enterprises



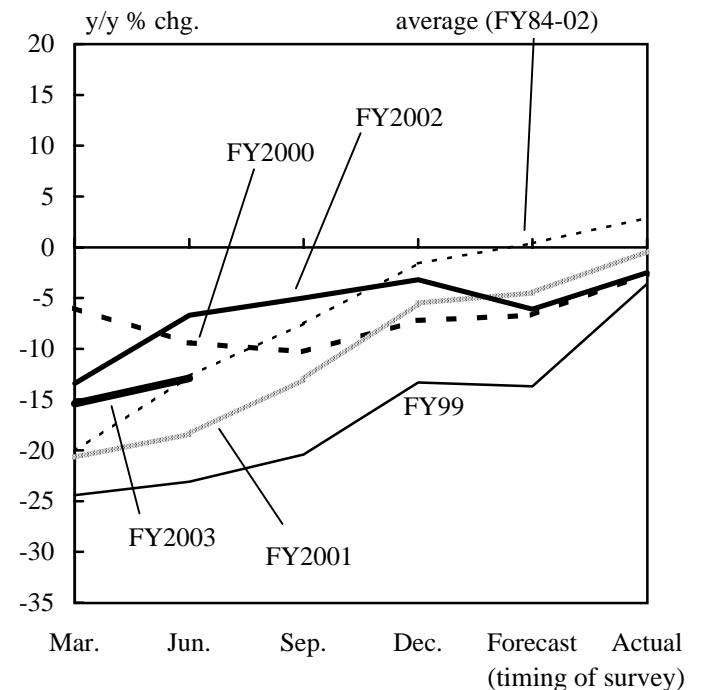
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



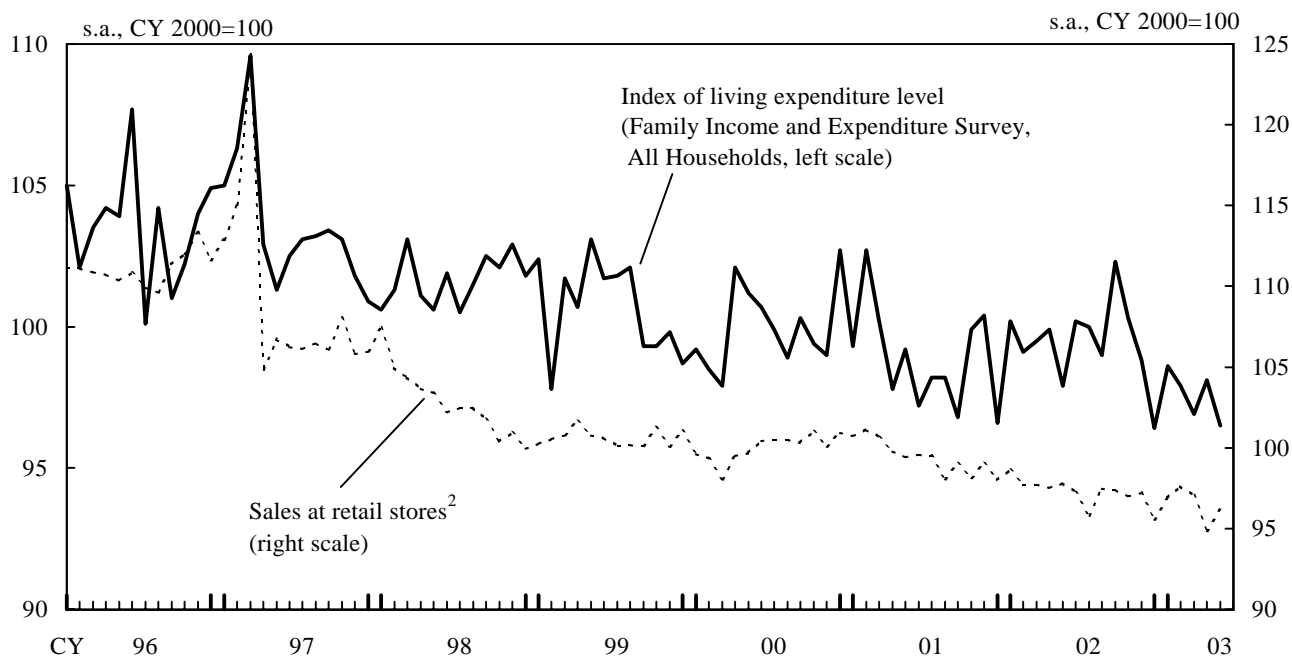
Note: Large enterprises: 1,000 employees or more

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)

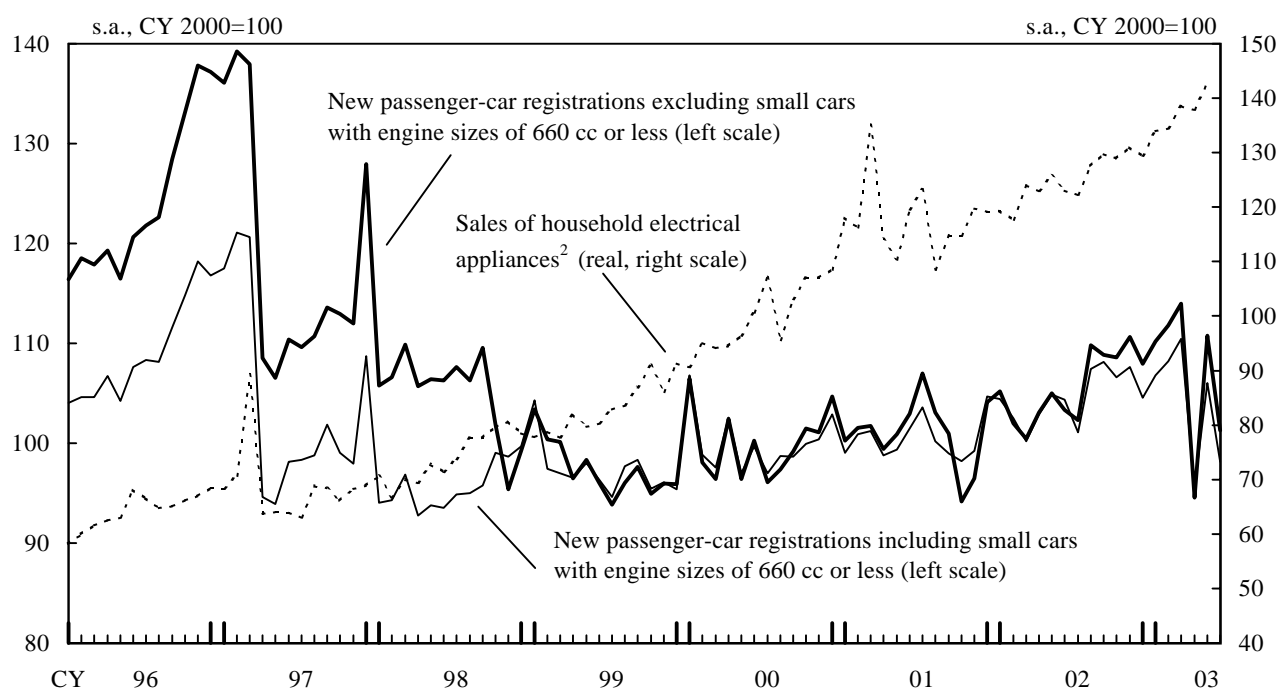
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



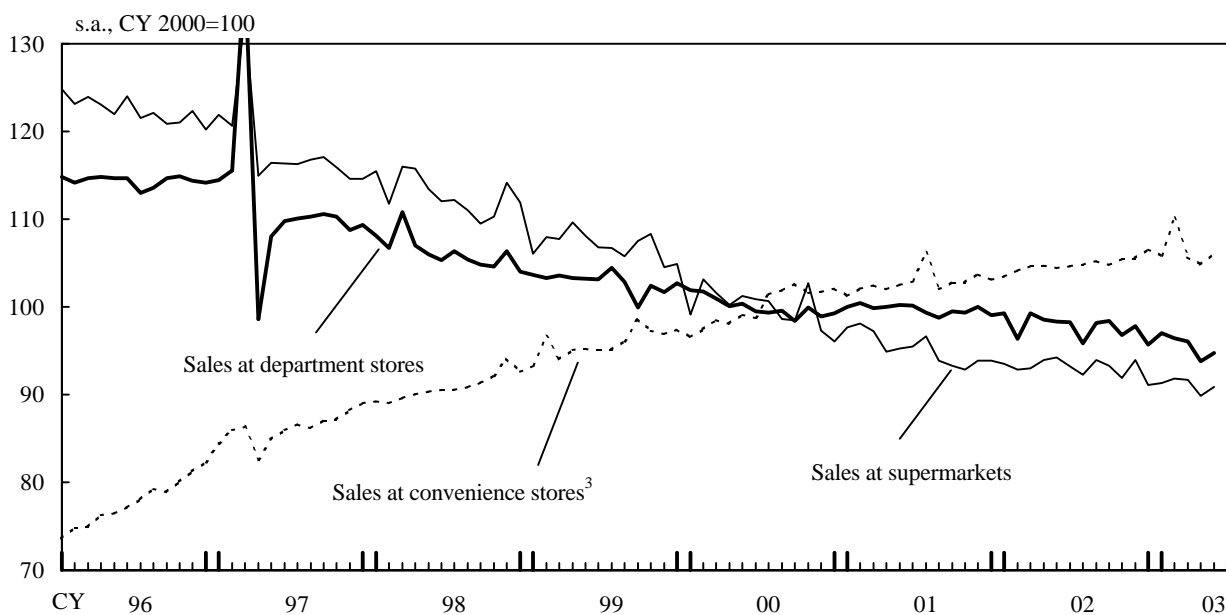
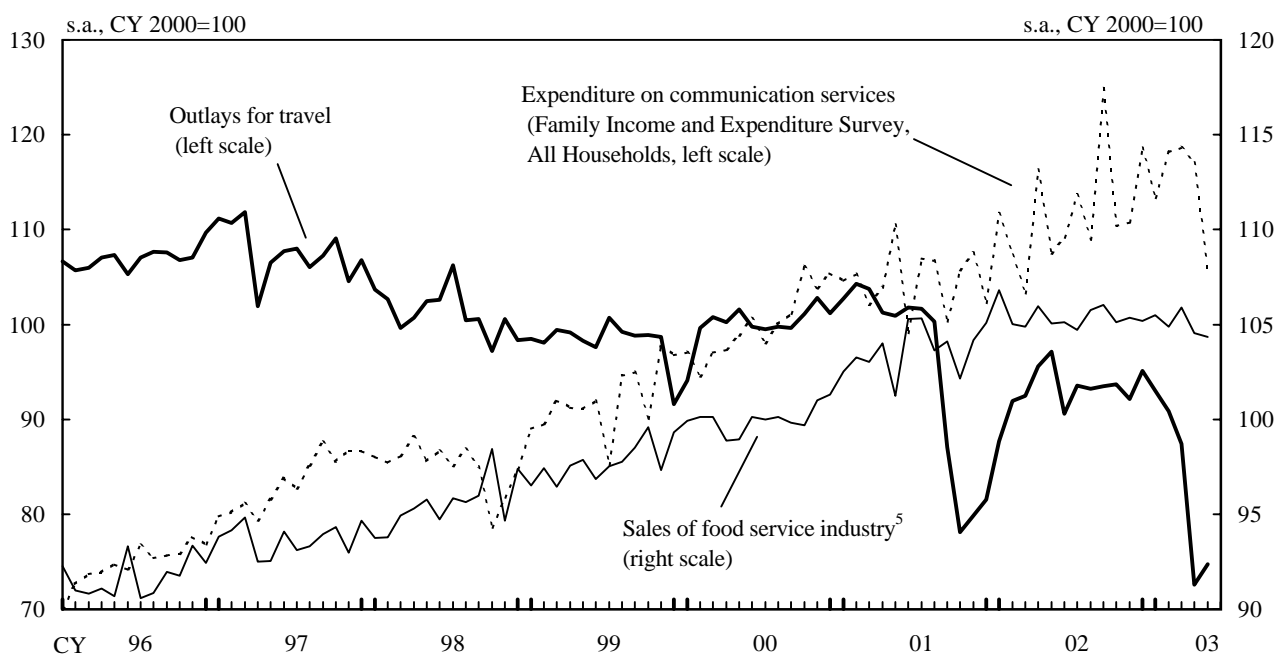
(2) Sales of Durable Goods



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 at Retail Stores (nominal)²(4) Consumption of Services (nominal)⁴

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.

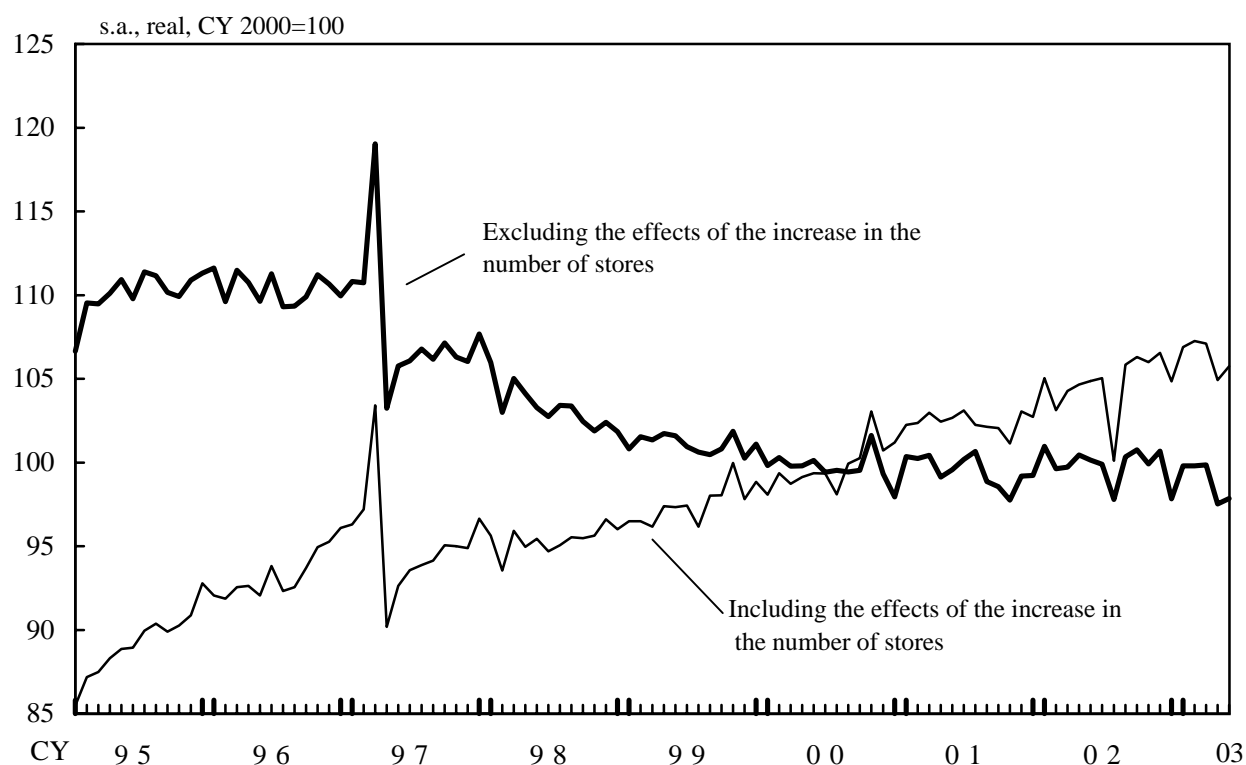
3. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan. From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

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 Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

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

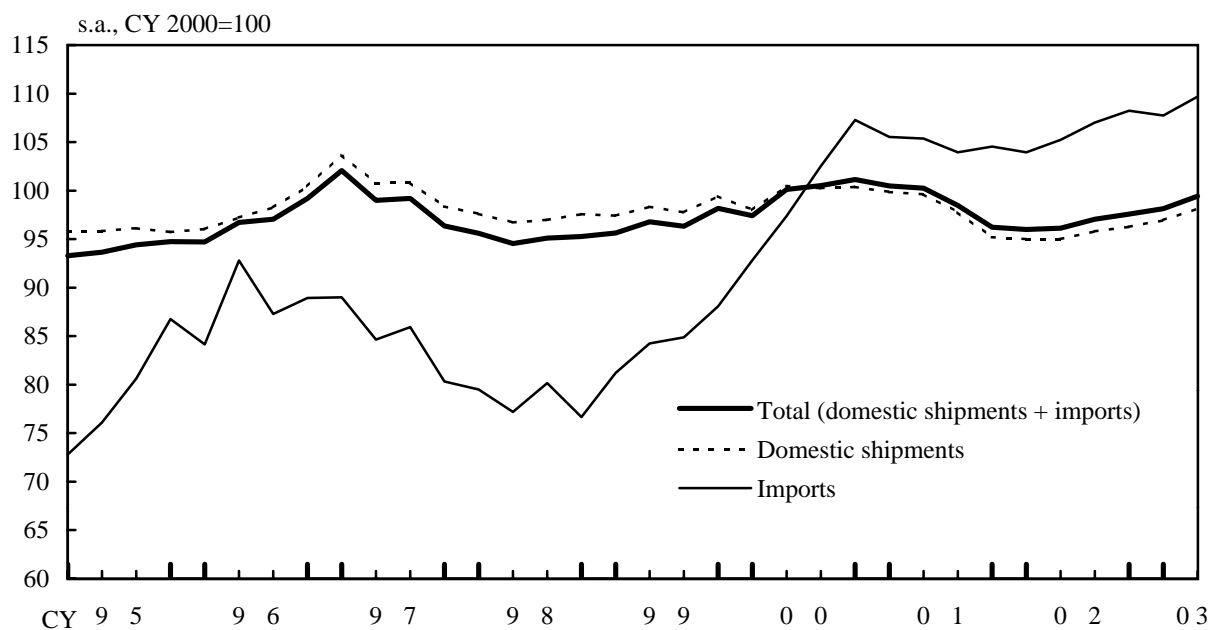


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in 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 price indices.
3. Seasonally adjusted by X-12-ARIMA.

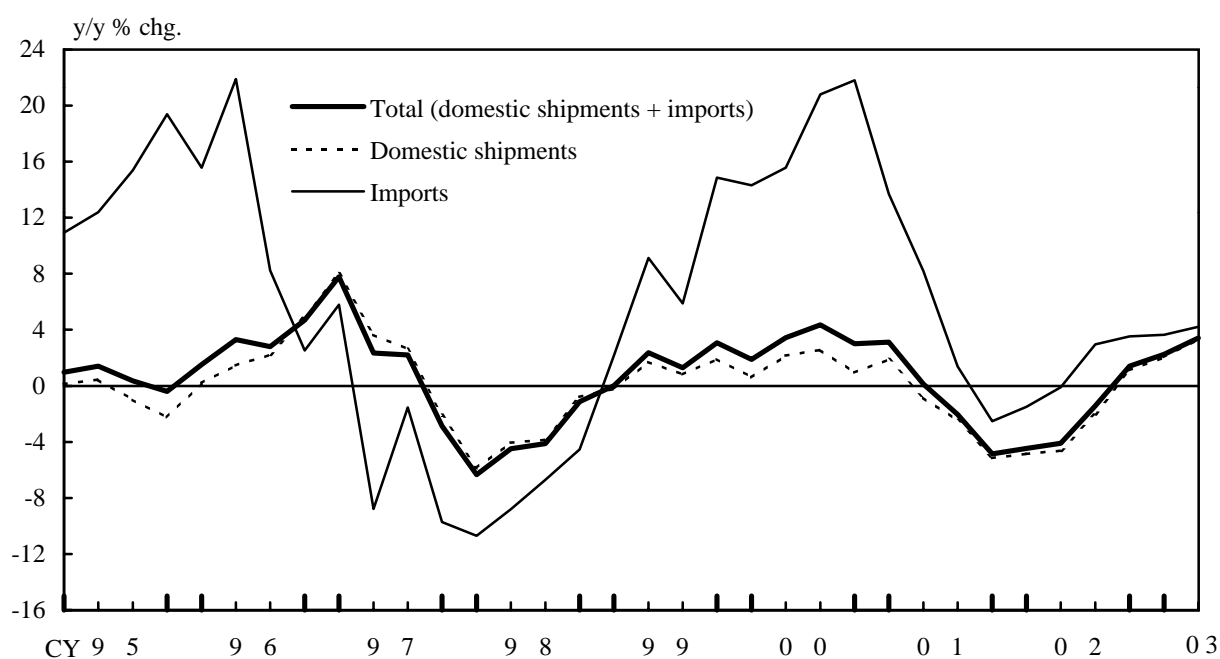
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index,"
 "Monthly Report on the Family Income and Expenditure Survey";
 Bank of Japan, "Wholesale Price Indexes";
 Japan Automobile 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

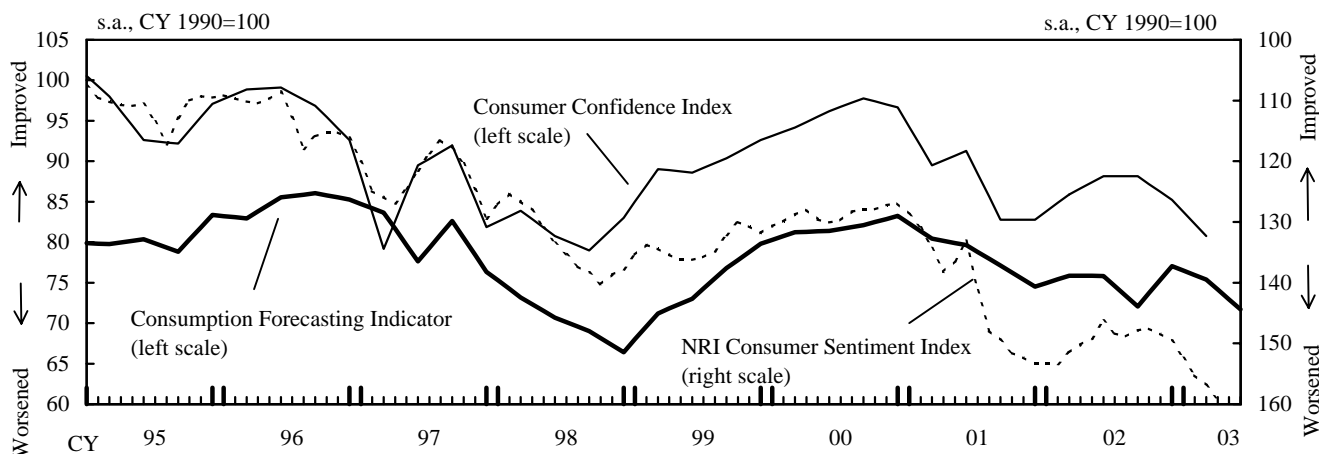


- Notes: 1. Aggregate supply of consumer goods is calculated by the Bank of Japan using shipments of consumer goods in *Indices of Industrial Production* and real exports and imports of consumer goods. The weights used for calculation are those of *Indices of Industrial Domestic Shipments and Imports*.
2. Figures of "Imports" are calculated from real imports of consumer goods. Real imports (consumer goods) are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles.
3. Year-on-year changes are calculated from seasonally adjusted series.
4. 2003/Q2 figures are those of Apr.-May averages in terms of quarterly amount.

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

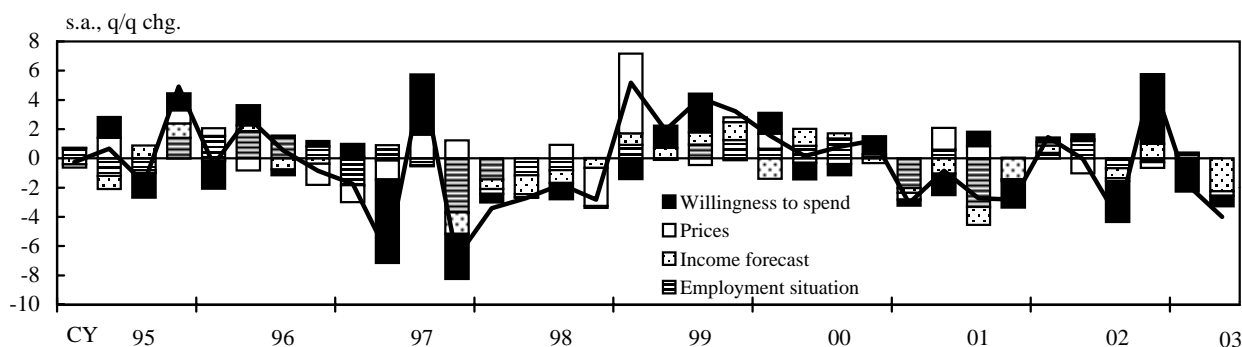
Consumer Confidence

(1) Surveys on Consumer Confidence



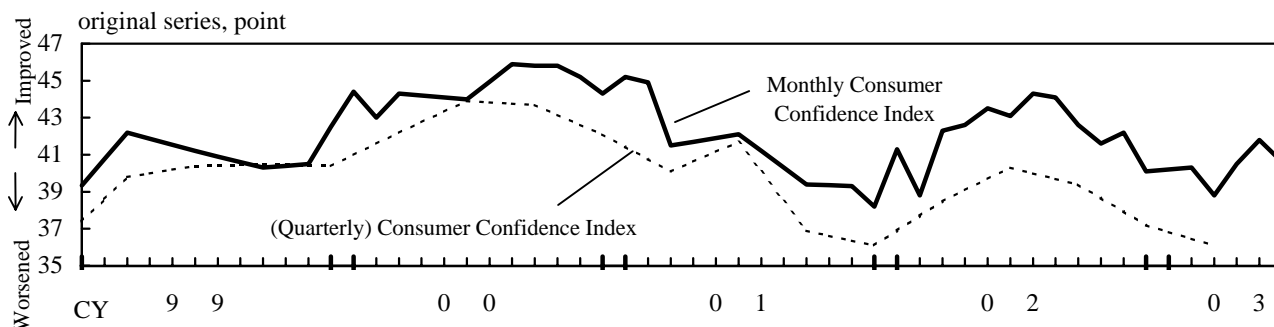
- Notes:
1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with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

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



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

(Reference) Monthly Consumer Confidence Survey (Tokyo)

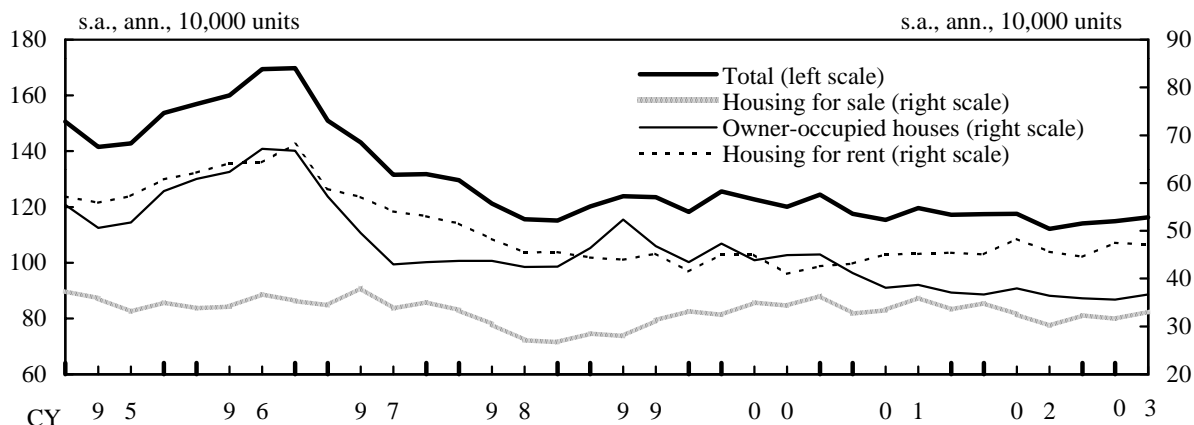


Note: *Monthly Consumer Confidence Survey* is conducted on a monthly basis for limited samples of the Tokyo district (435 households surveyed) in the quarterly Consumer Confidence Survey. The items in the monthly survey are parts of the quarterly survey. Prior to 2001, figures for the months when the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

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

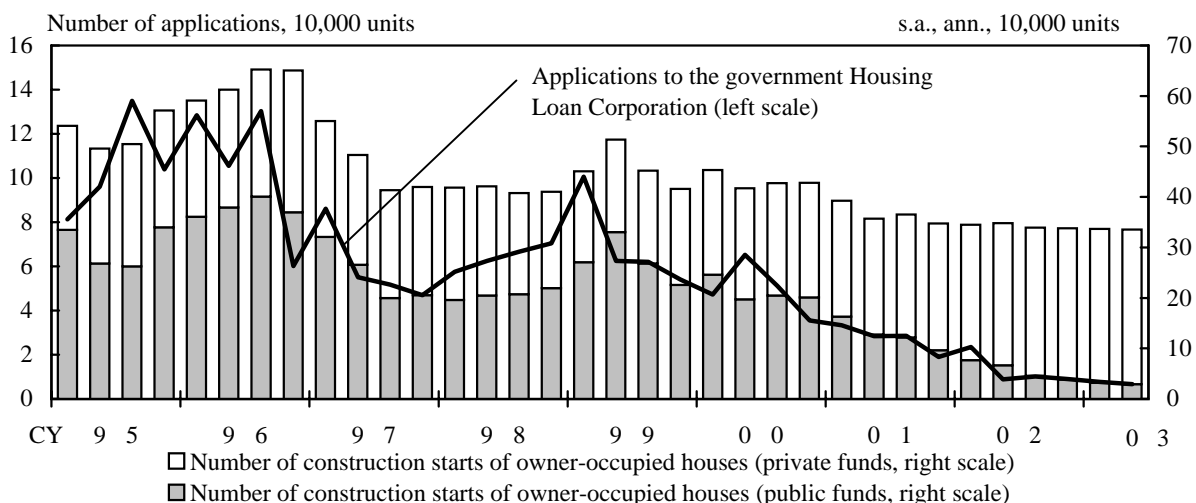
Indicators for Housing Investment

(1) Housing Starts



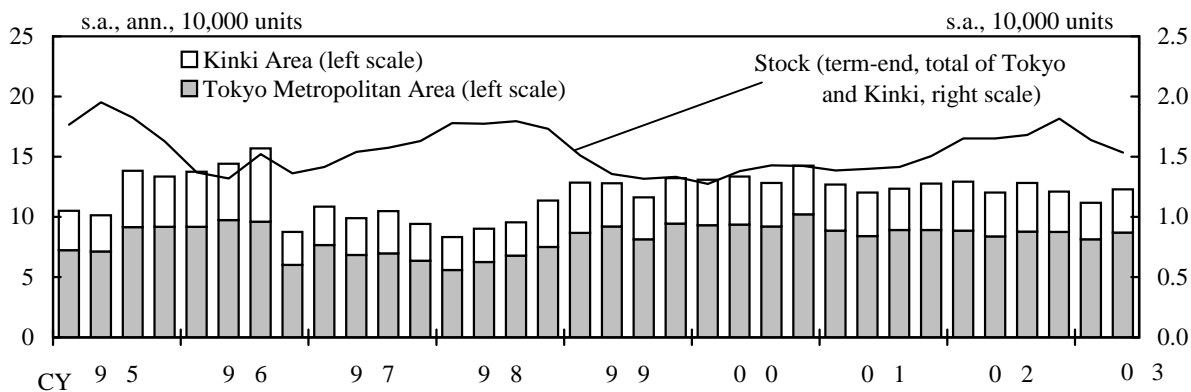
Note: Figures of 2003/Q2 are those of April-May averages.

(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. Figures for the number of construction starts of owner-occupied houses (private funds and public funds) for 2003/Q2 are those of April-May averages.

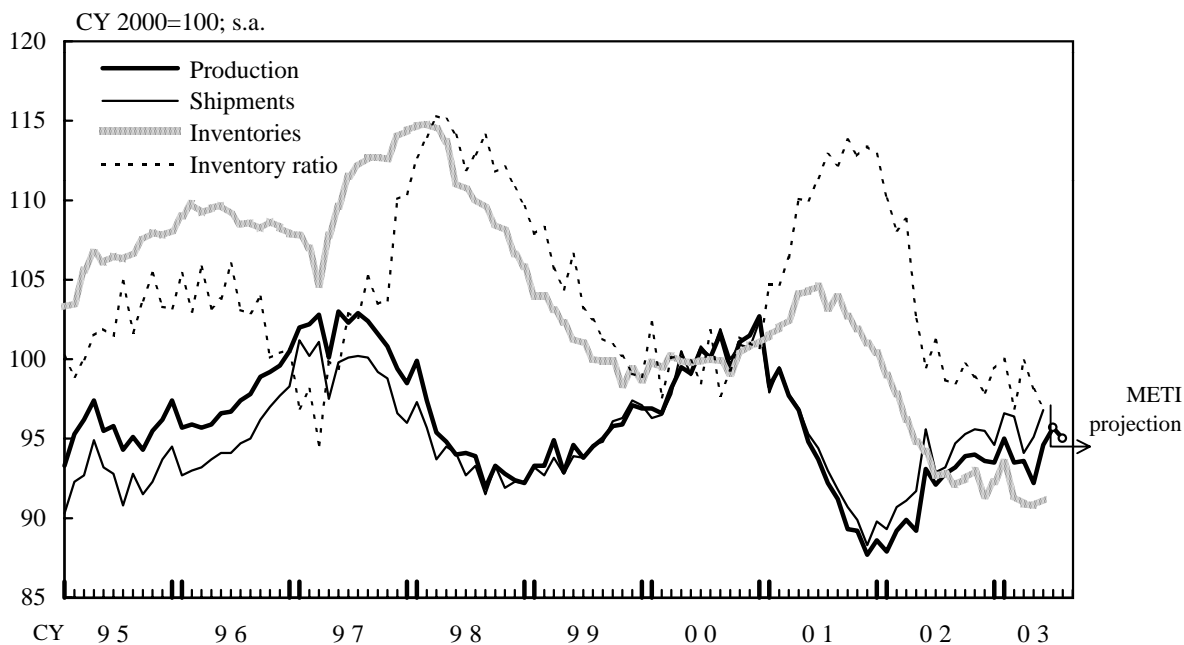
(3) Sales of Condominiums



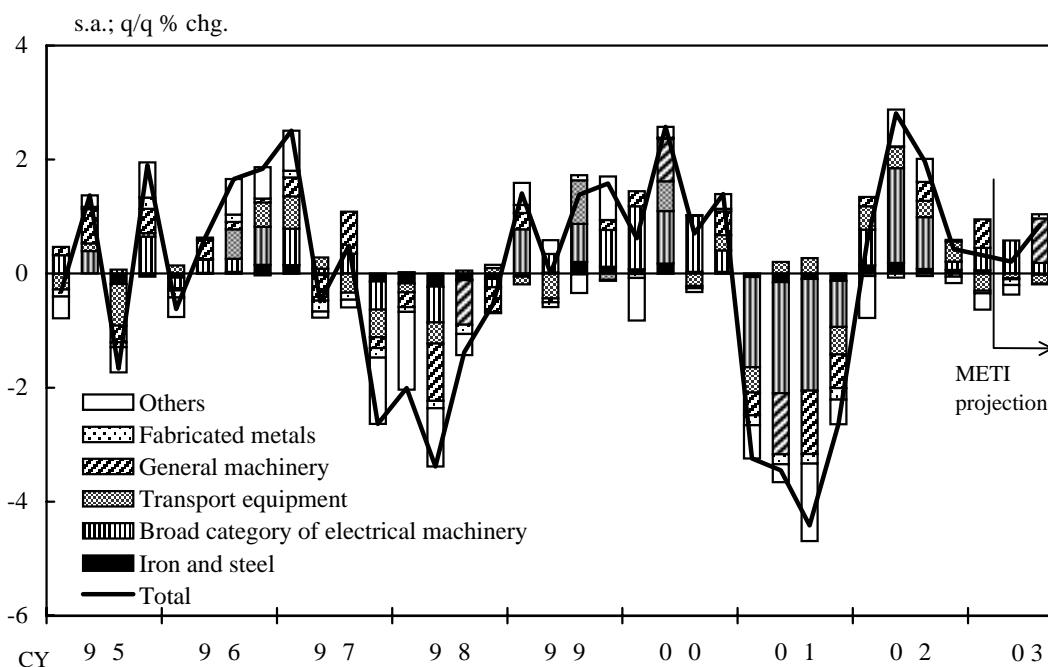
Note: Seasonally adjusted by X-12-ARIMA.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries

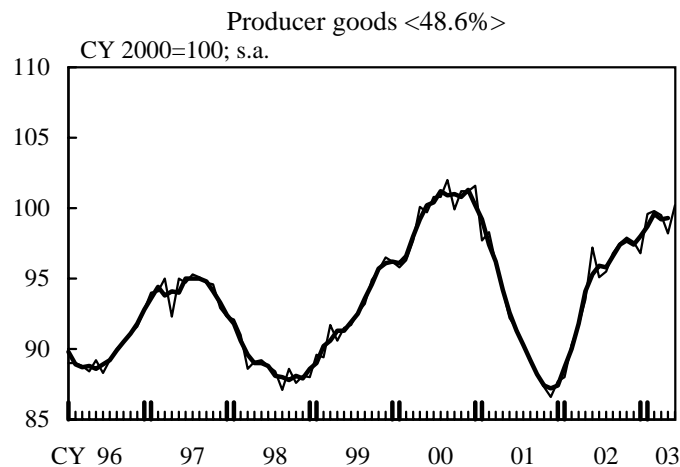
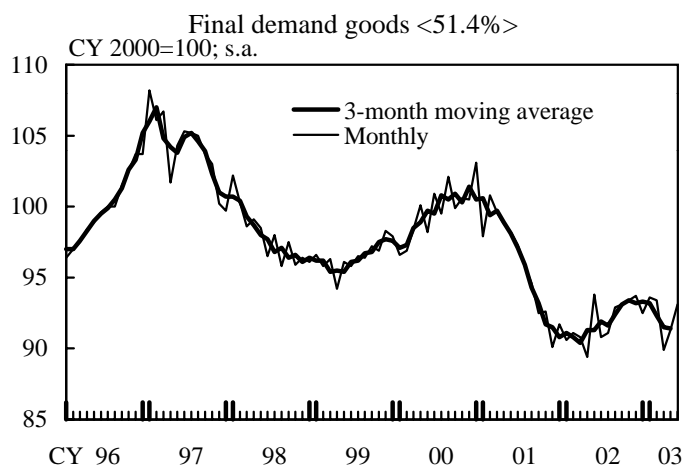


- Notes: 1. Transport equipment excludes ships and rolling stock.
 "Broad category of electrical machinery" is the weighted sum of "electrical machinery", "information and communication electronics equipment" and "electronic parts and devices."
 2. 2003/Q3 for METI projection is based on the assumption that production level in Aug. and Sept. is the same as that of July.

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

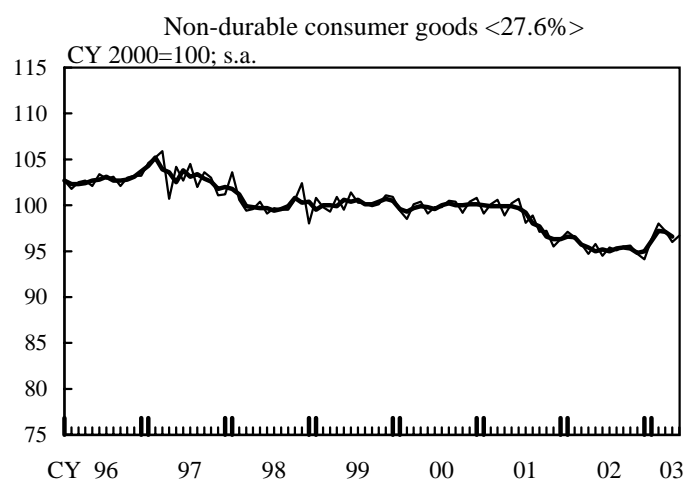
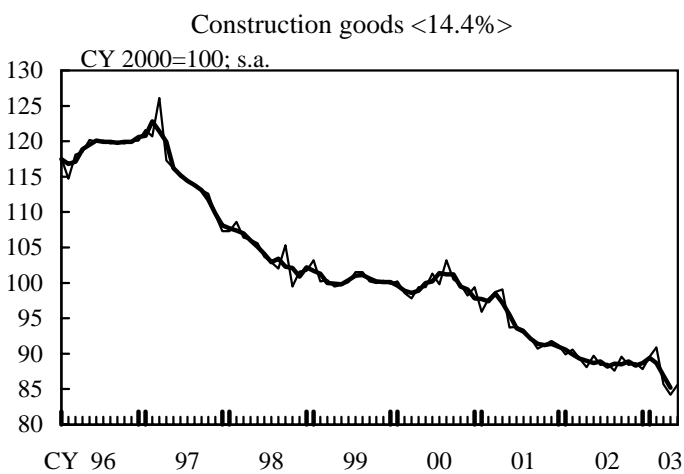
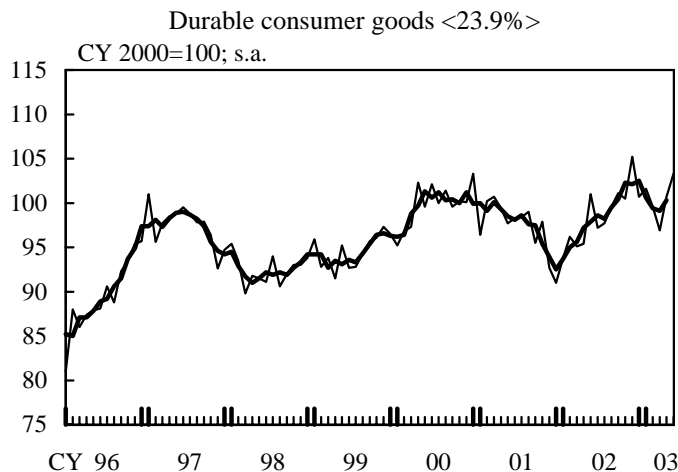
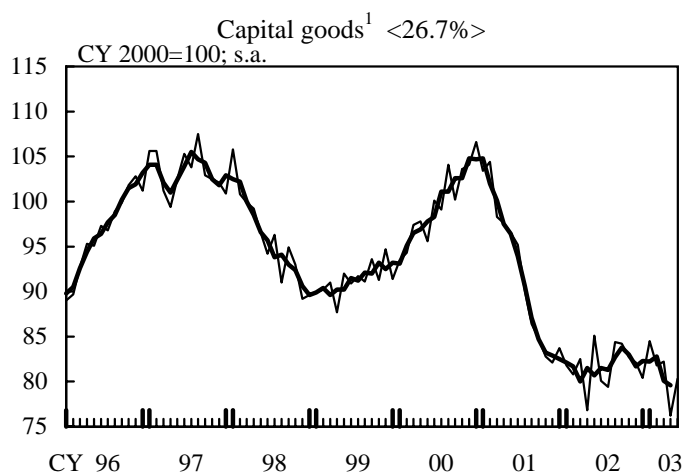
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



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

(2) Breakdown of final demand goods

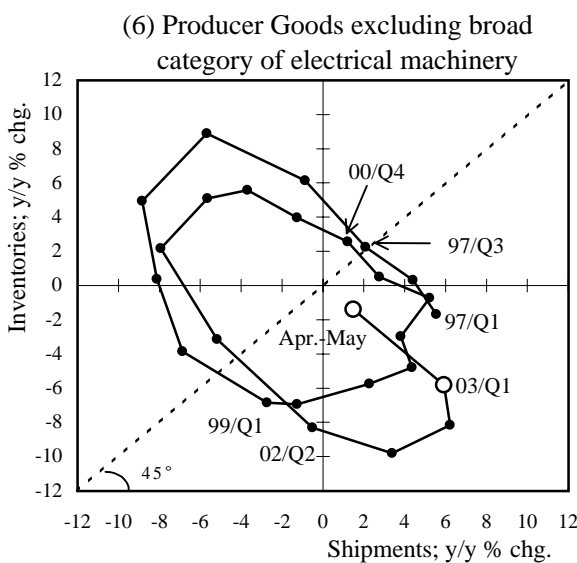
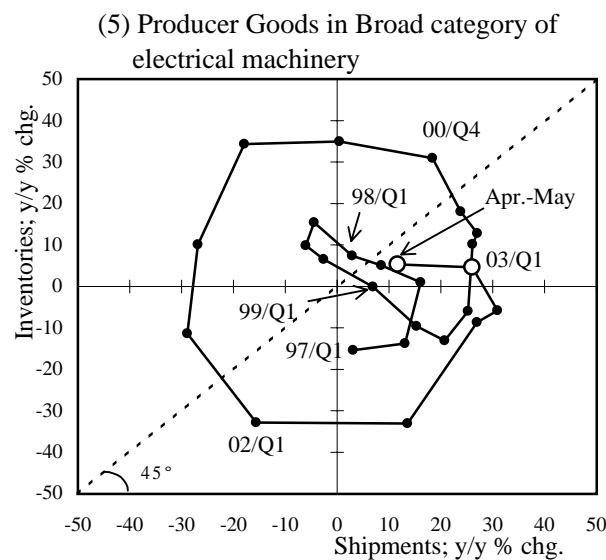
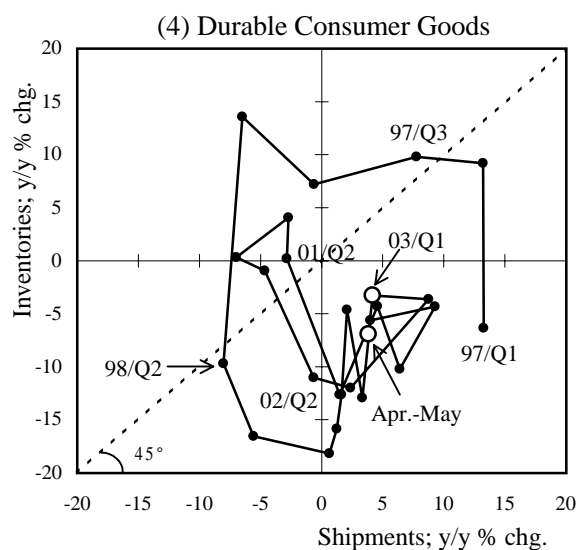
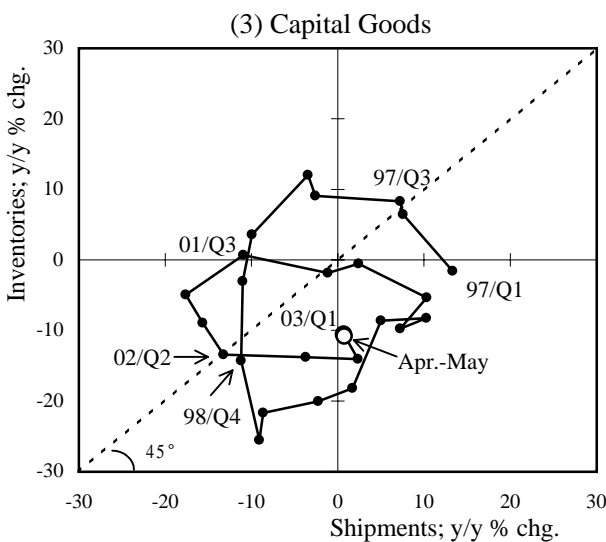
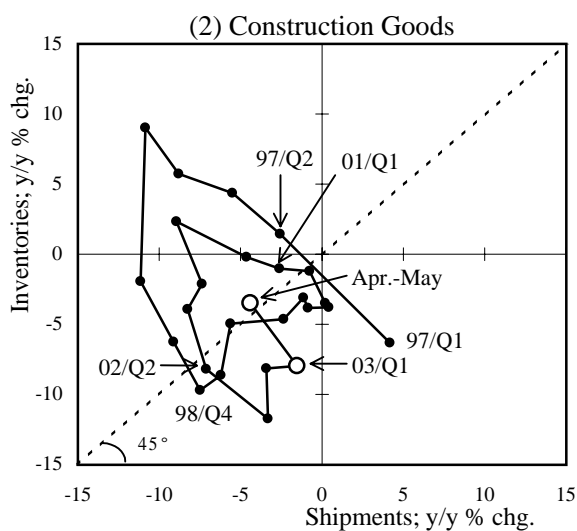
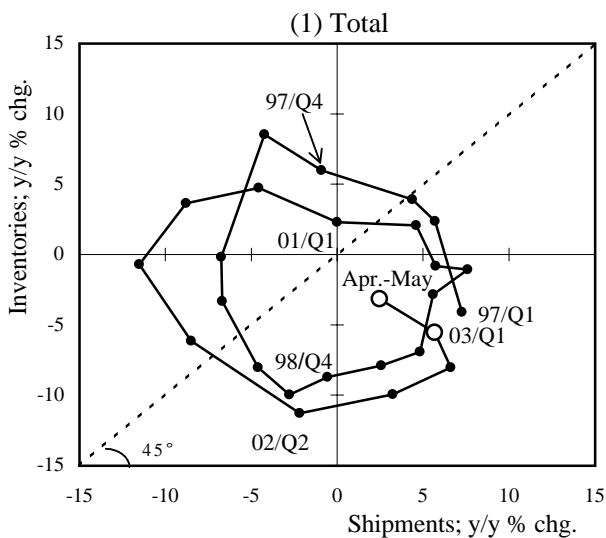


Notes: 1. Excluding transportation equipment.

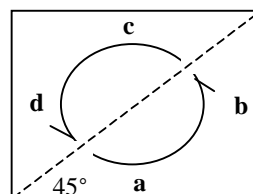
2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

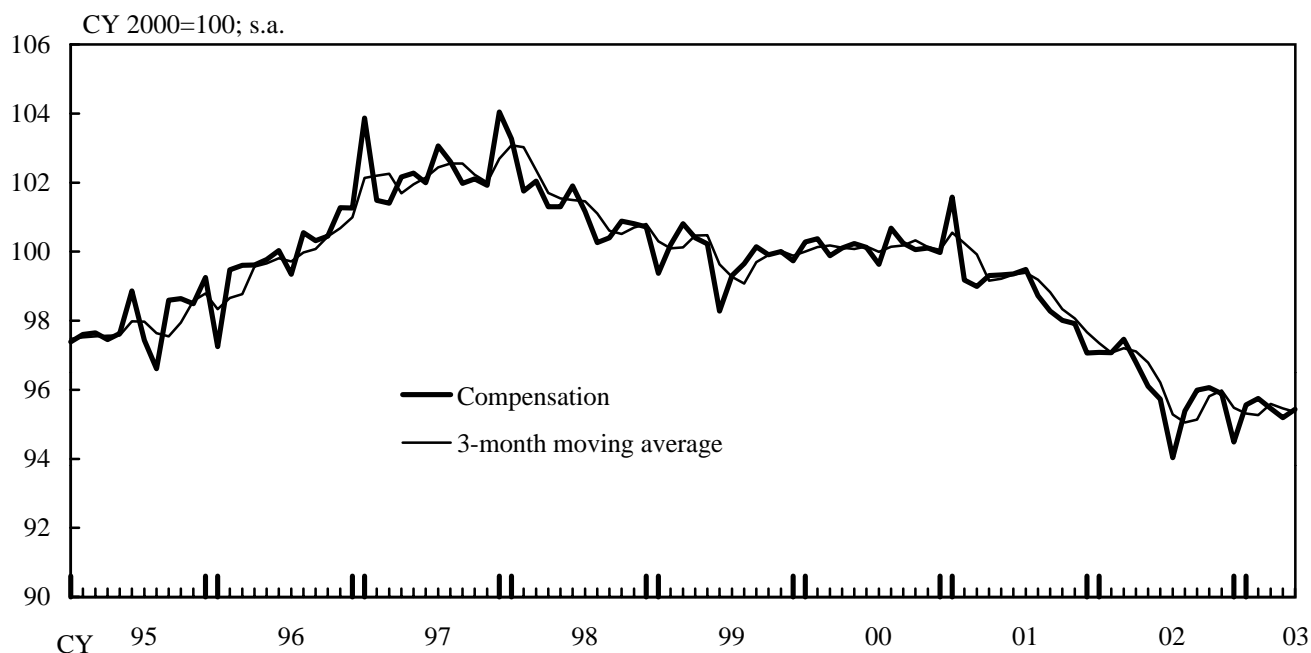


a Shipment recovery phase
 b Intended inventory accumulation phase
 c Unintended inventory accumulation phase
 d Inventory adjustment phase



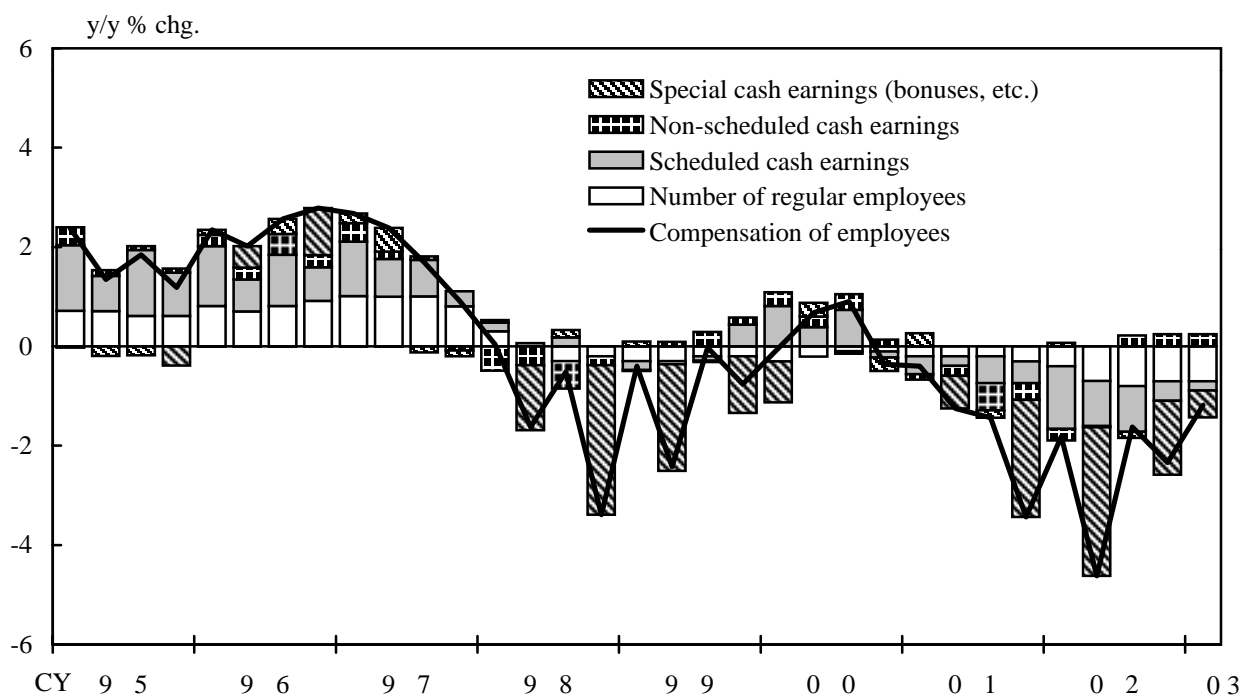
Compensation of Employees

(1) Compensation



- Notes: 1. Compensation figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.
2. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.
3. Data are for establishments with at least 5 employees. Those for May 2003 are preliminary figures.

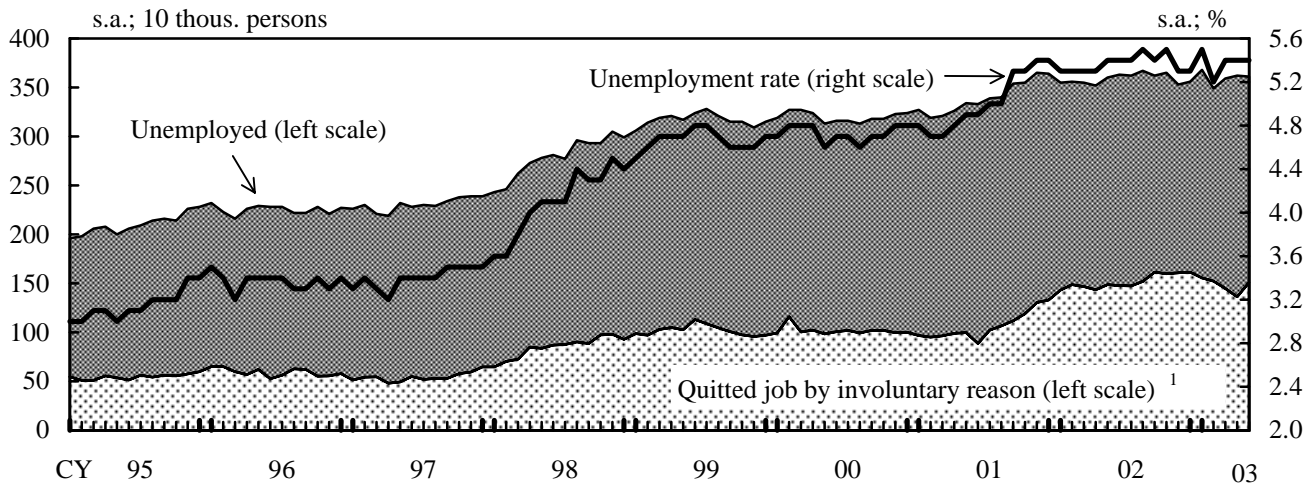
(2) Breakdown of Compensation



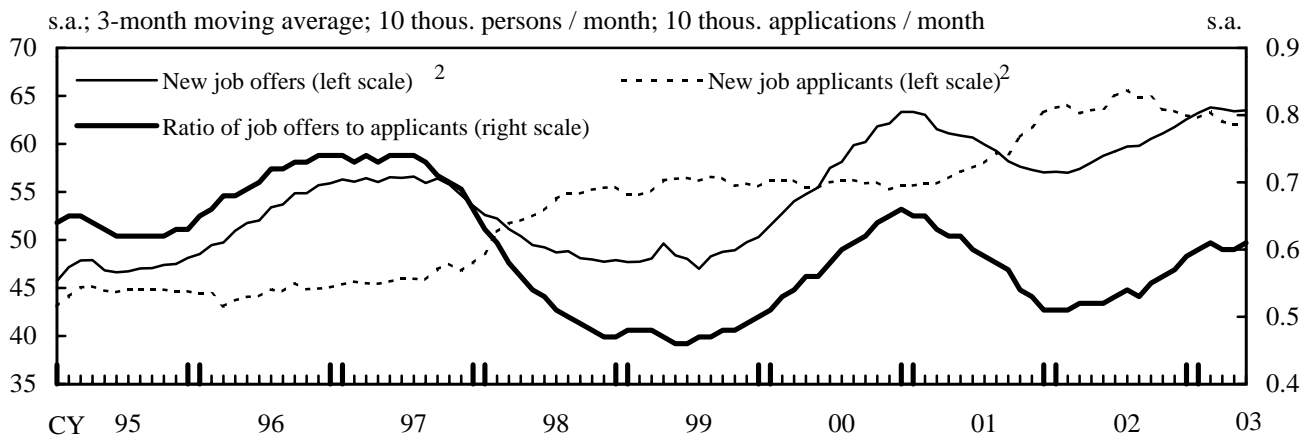
- Notes: 1. Data are for establishments with at least 5 employees. Those for May 2003 are preliminary figures.
2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.

Labor Market (1)

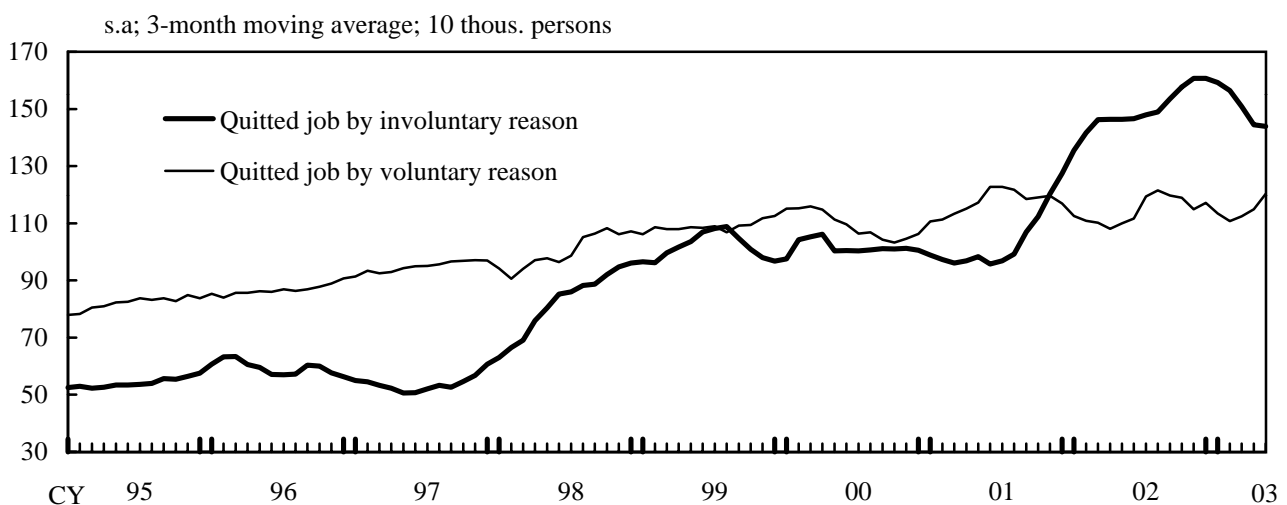
(1) The Unemployed and Unemployment Rate



(2) Ratio of Job Offers to Applicants



(3) Breakdown of the Unemployed¹

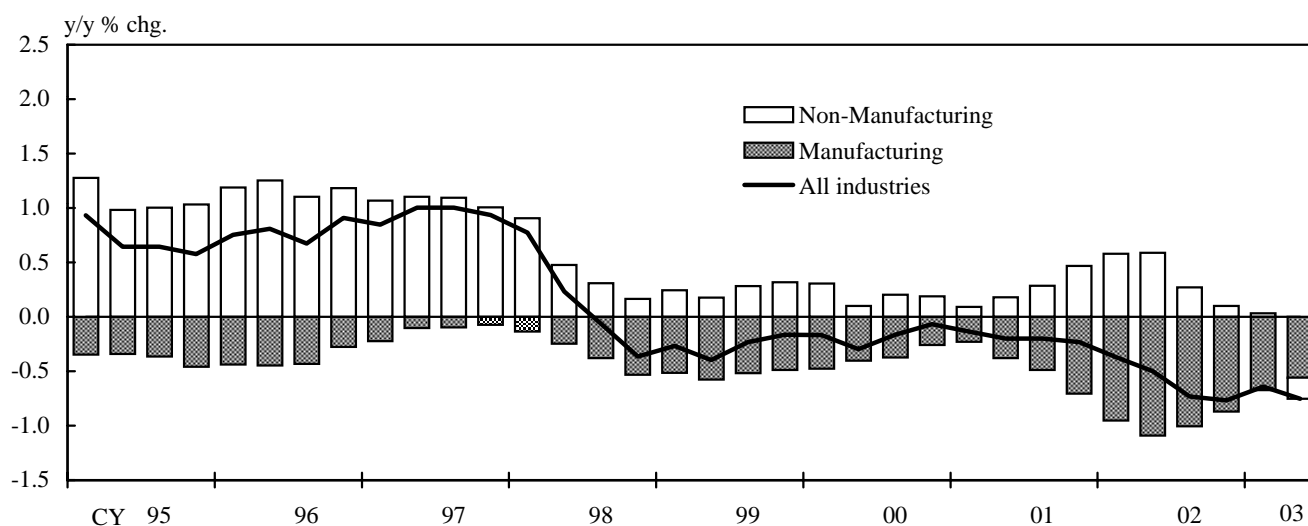
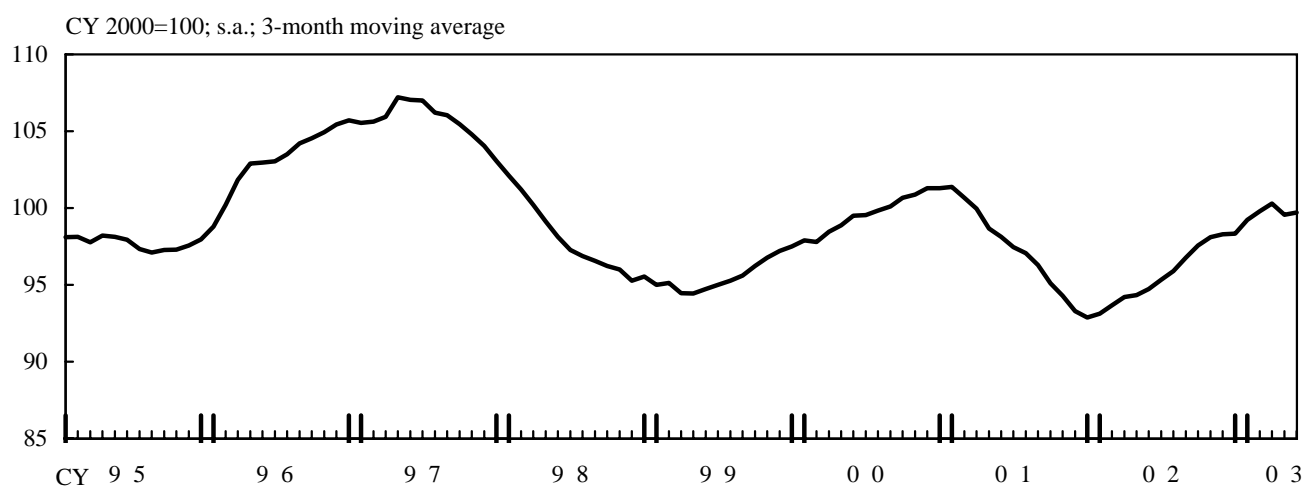


Notes: 1. Seasonally adjusted by X-11.

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

Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service,"
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Labor Market (2)

(1) The Employed¹ (Labour Force Survey)(2) Number of Regular Employees^{1,2} (Monthly Labour Survey)(3) Non-scheduled Hours Worked² (Monthly Labour Survey)

Notes: 1. Figures for 2003/Q2 are those of the Apr.-May averages.

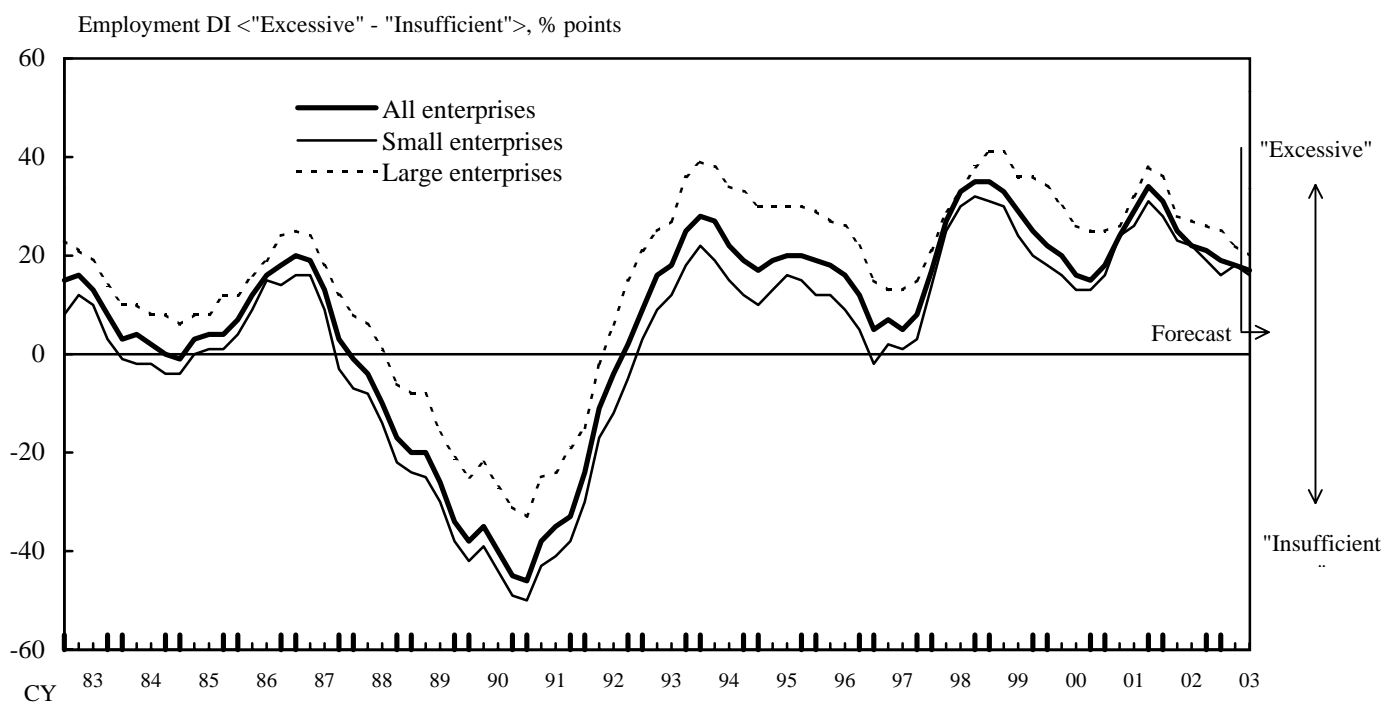
2. Data are for establishments with at least 5 employees. Those for May 2003 are preliminary figures.

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

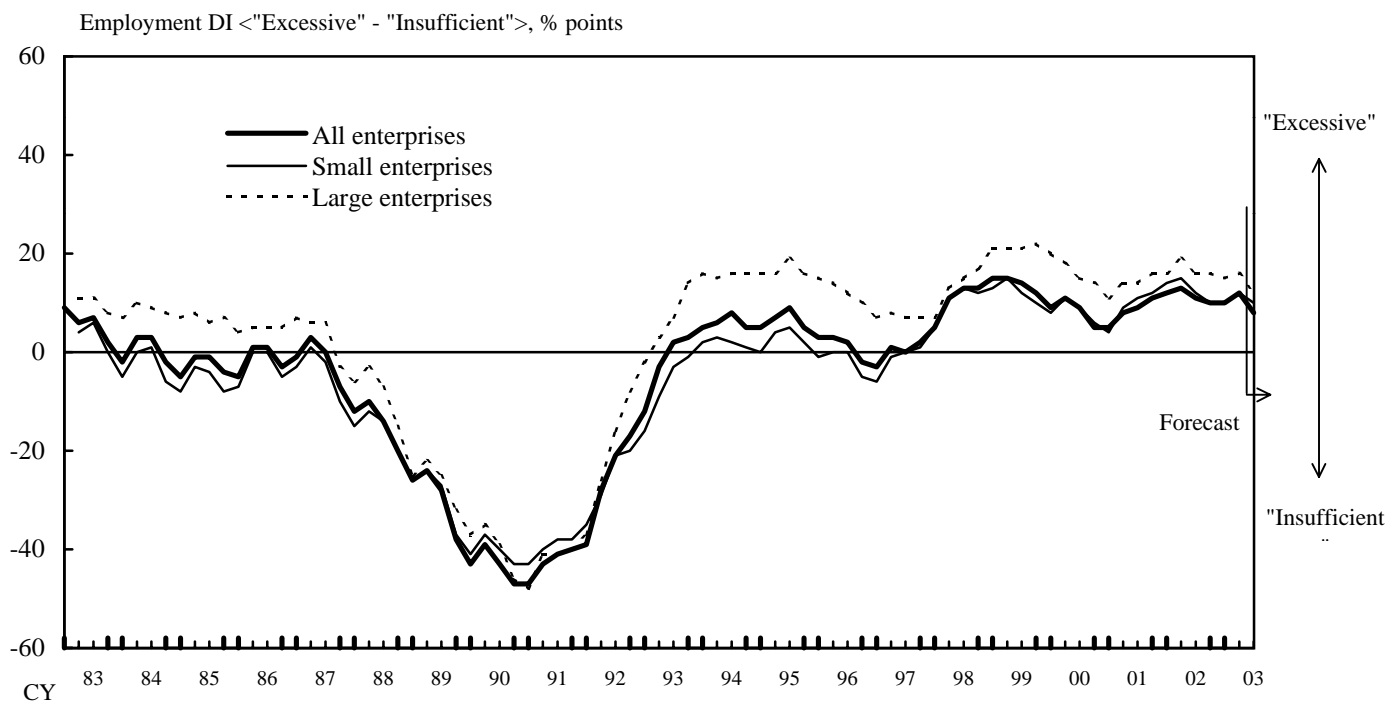
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



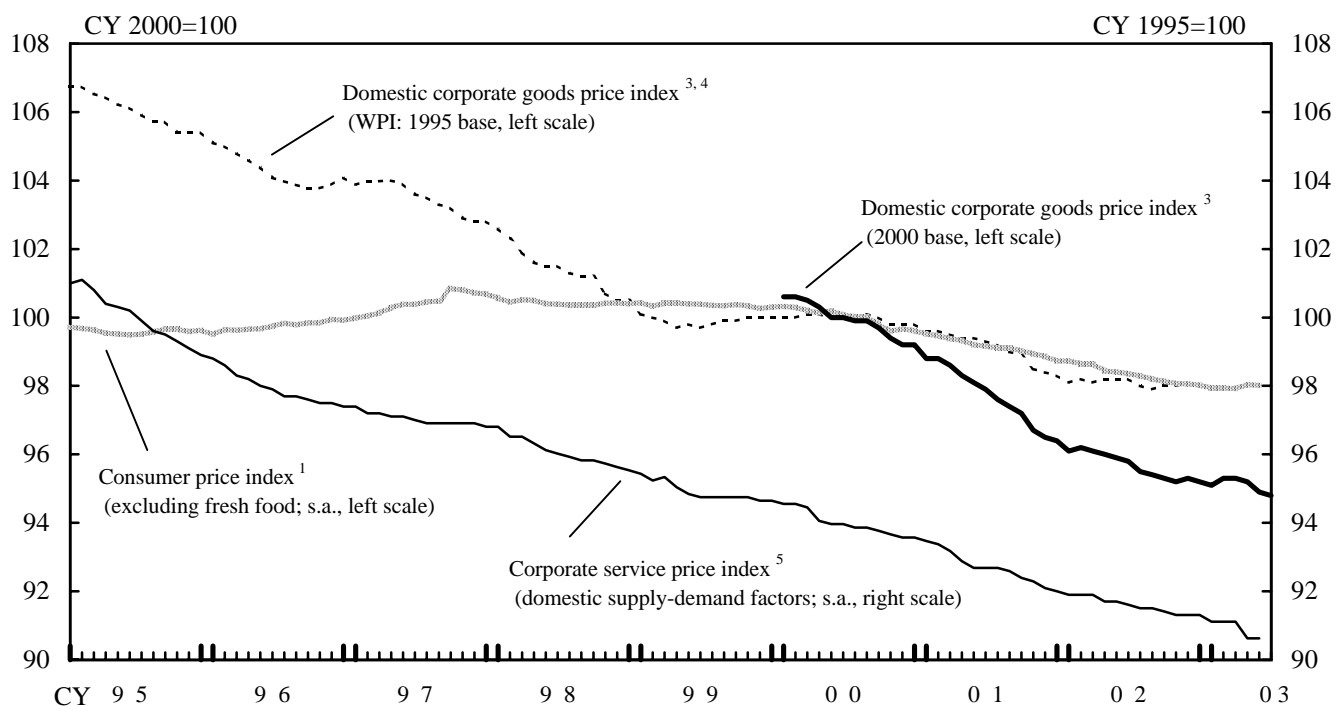
(2) Nonmanufacturing



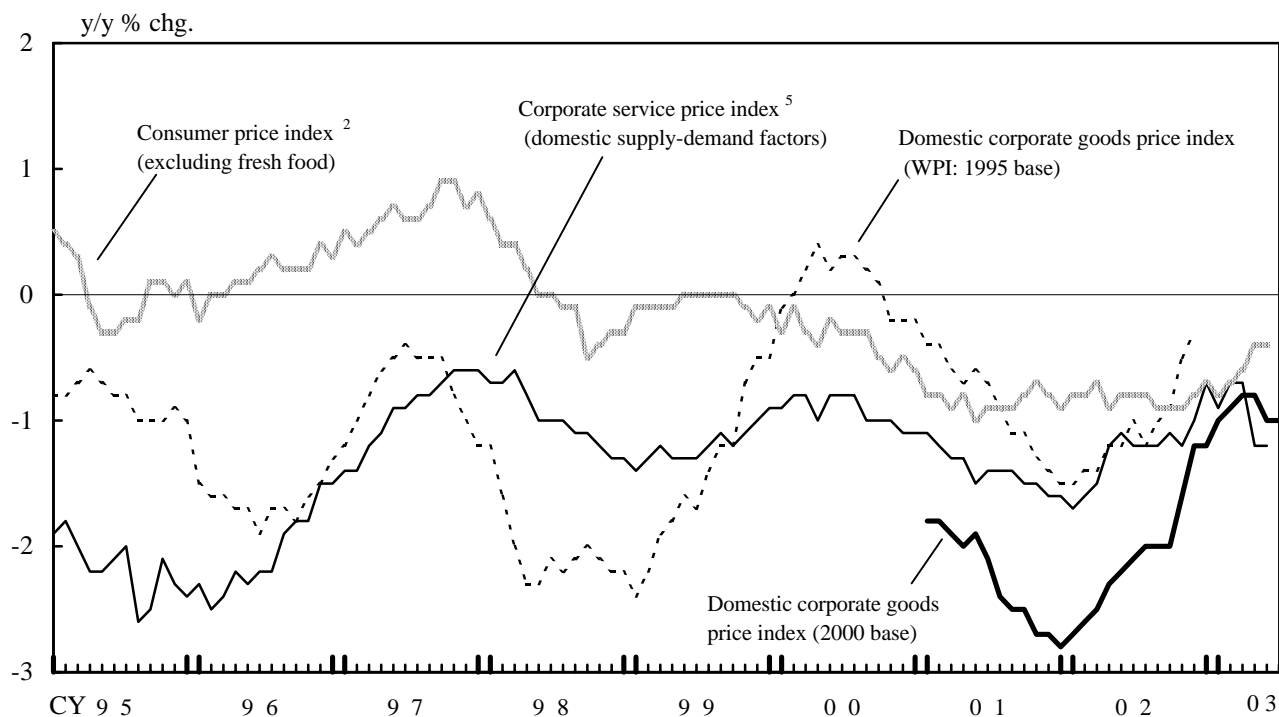
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Prices⁶

(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. Adjusted to exclude a hike of electric power charges in summer season.

4. The 1995 base WPI shown in the level graph has been adjusted so that its 2000 average may equal 100.

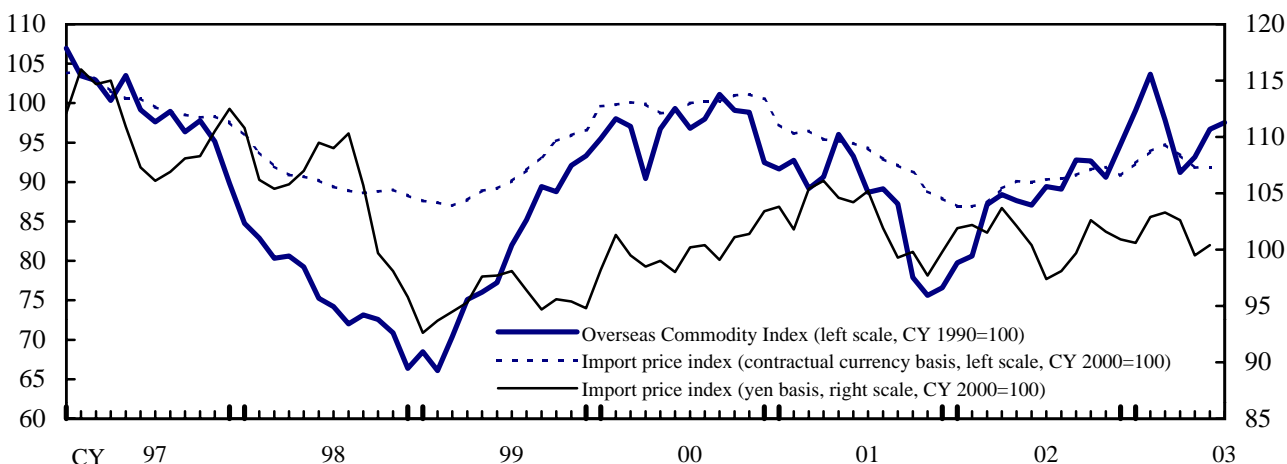
5. See footnote 1 in Chart 27, for definition of the Corporate Service Price Index (domestic supply-demand factors).

6. 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, "Corporate Goods Price Index," "Wholesale Price Indexes," "Corporate Service Price Index."

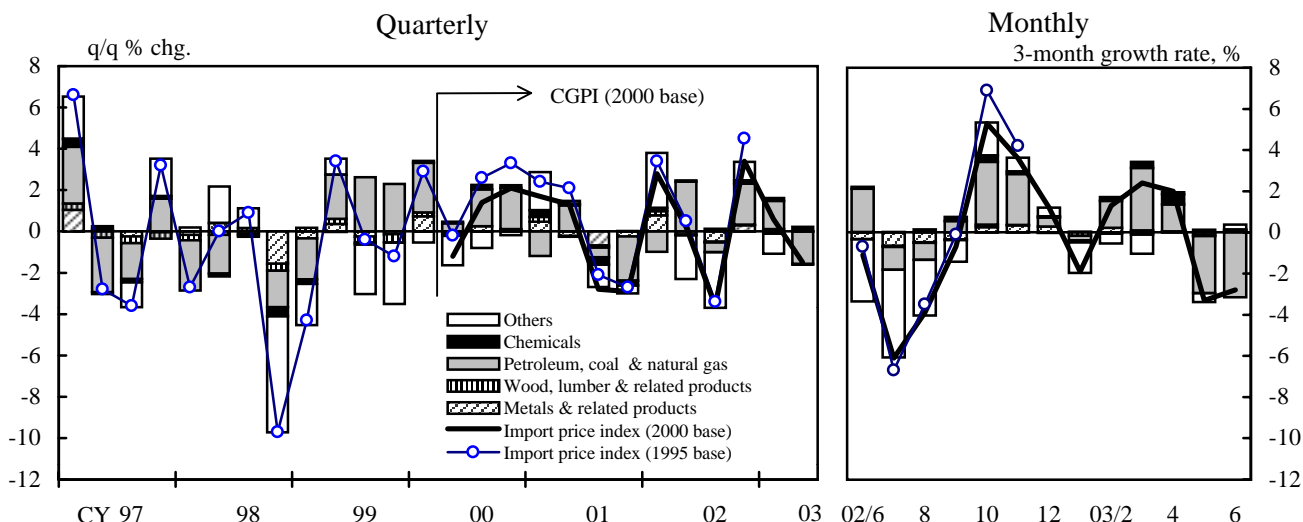
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



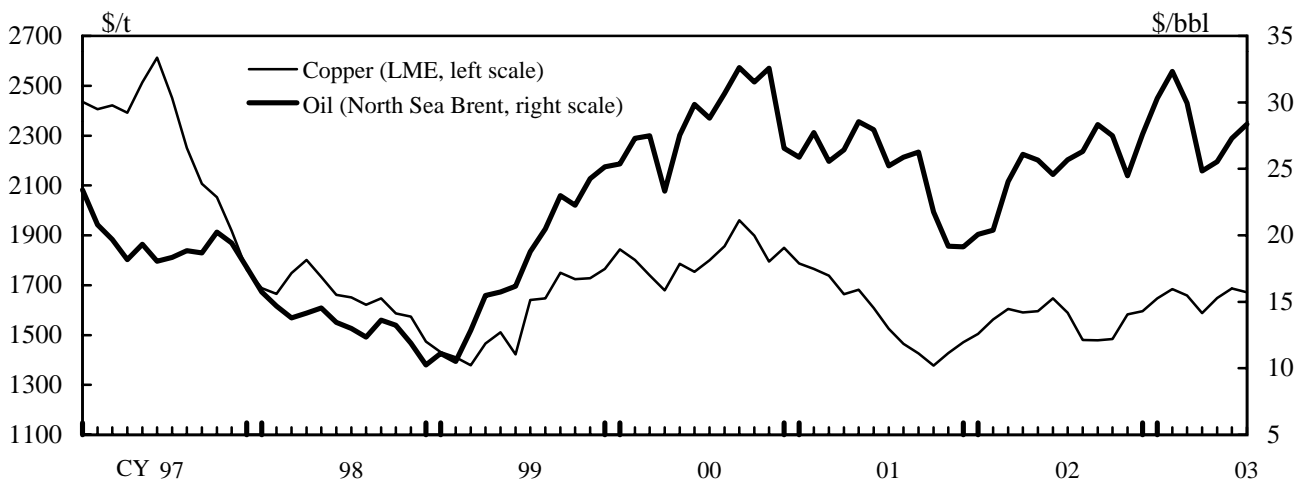
Note: Overseas Commodity Index, which is calculated by Bank of Japan, is a monthly average.
Figure for July 2003 is the average up to July 11.

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



Note: 1995 base figure for 2002/Q4 is Oct.-Nov. average.

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

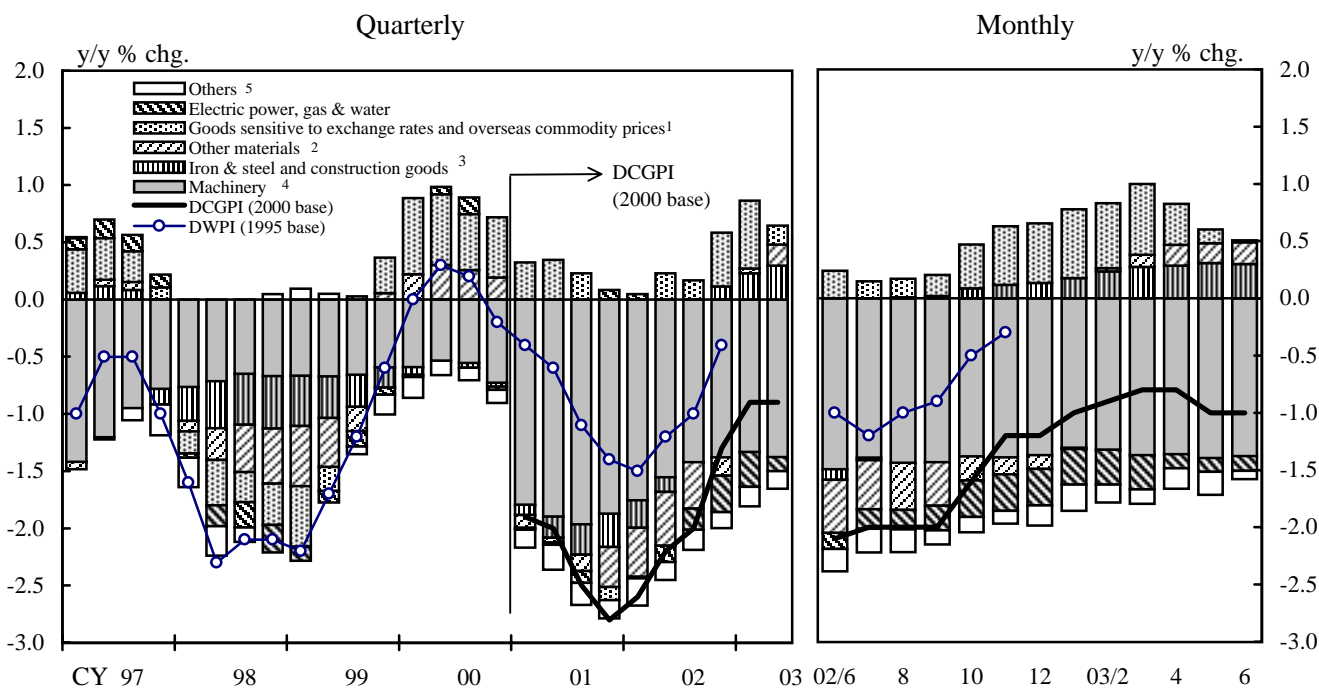
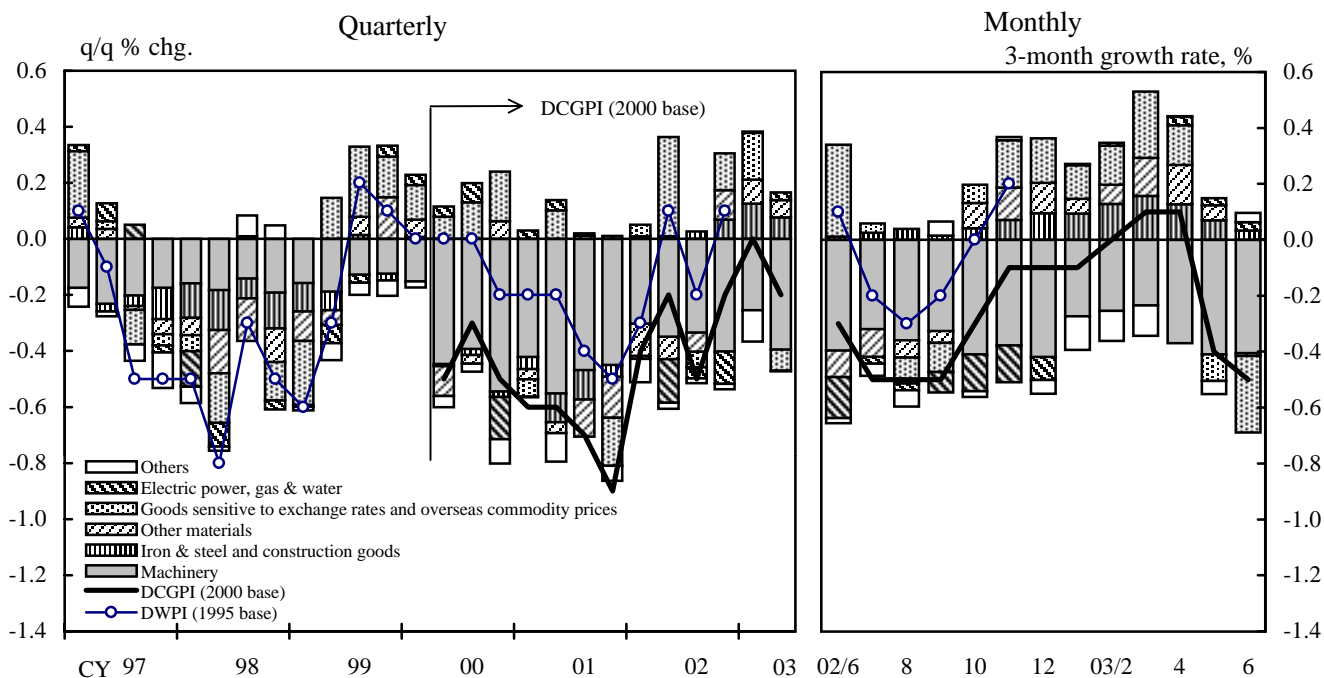


Note: Monthly averages. Figures for July 2003 are the averages up to July 11.

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

Domestic Corporate Goods Price Index⁷

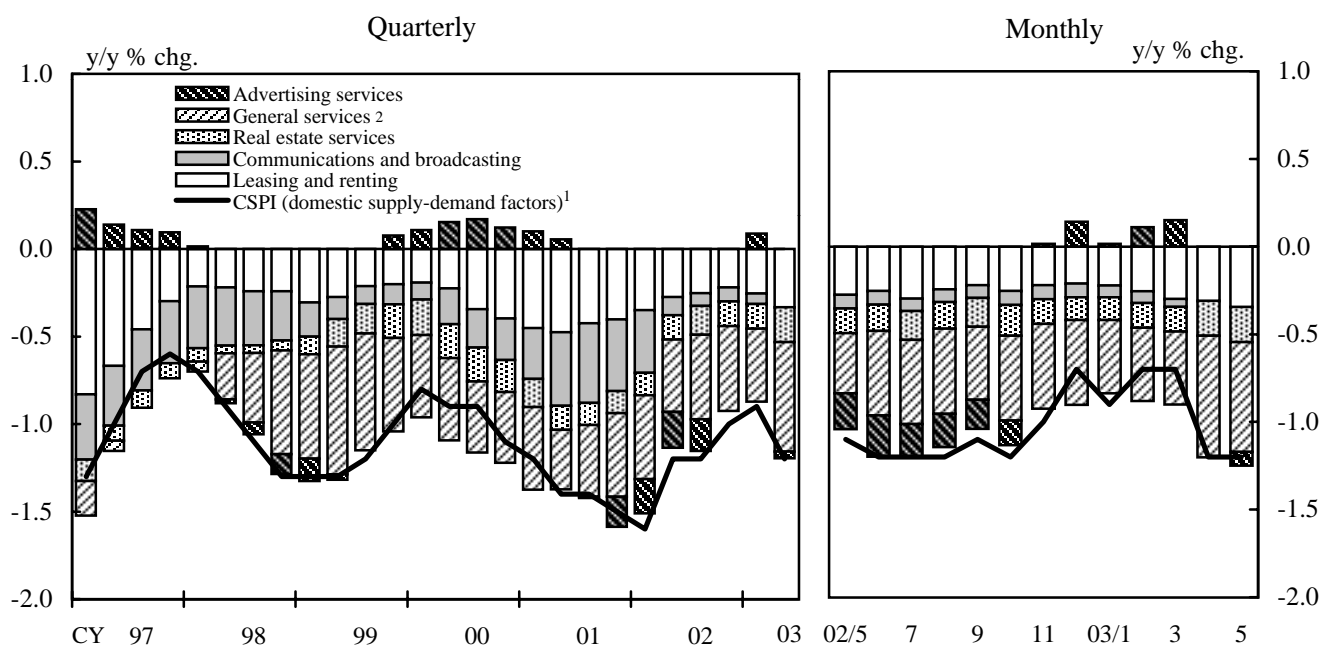
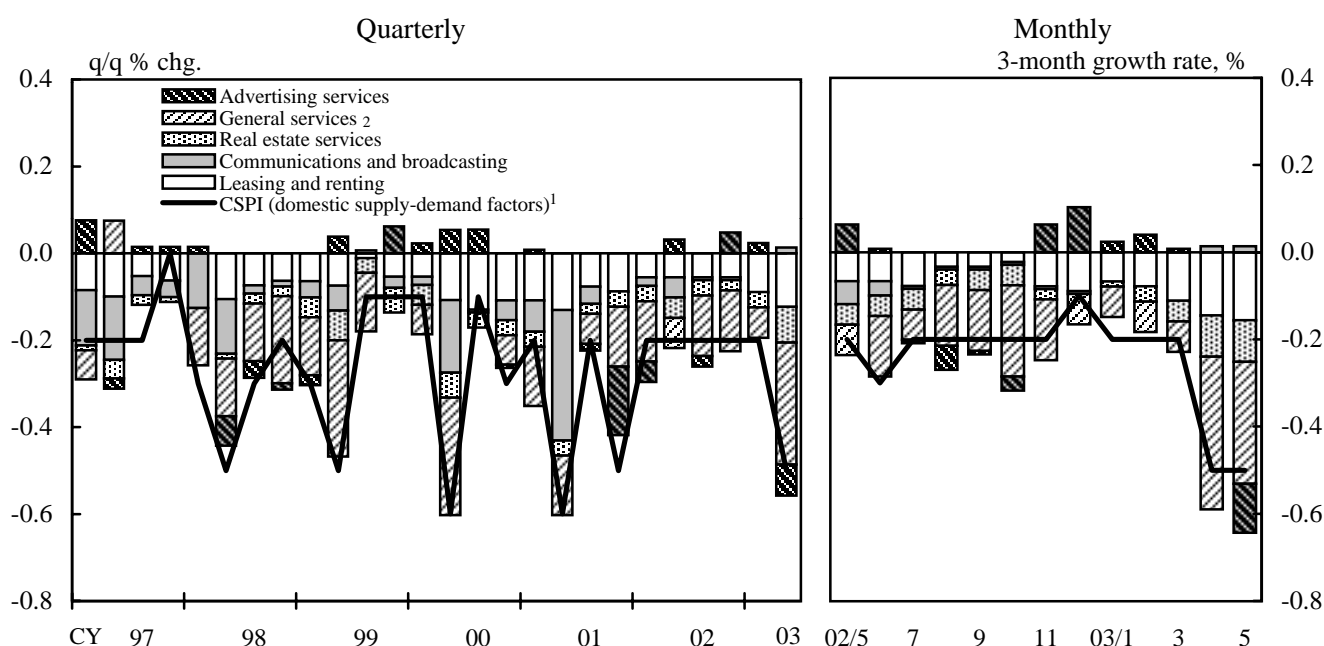
(1) Changes from a year earlier

(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, agricultural, forestry & fishery products, mining products.
 6. Adjusted to exclude a hike of electric power charges in summer season from July to September.
This effect makes the Domestic Corporate Goods 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. 1995 base figures for 2002/Q4 are those of Oct.-Nov. averages.

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.

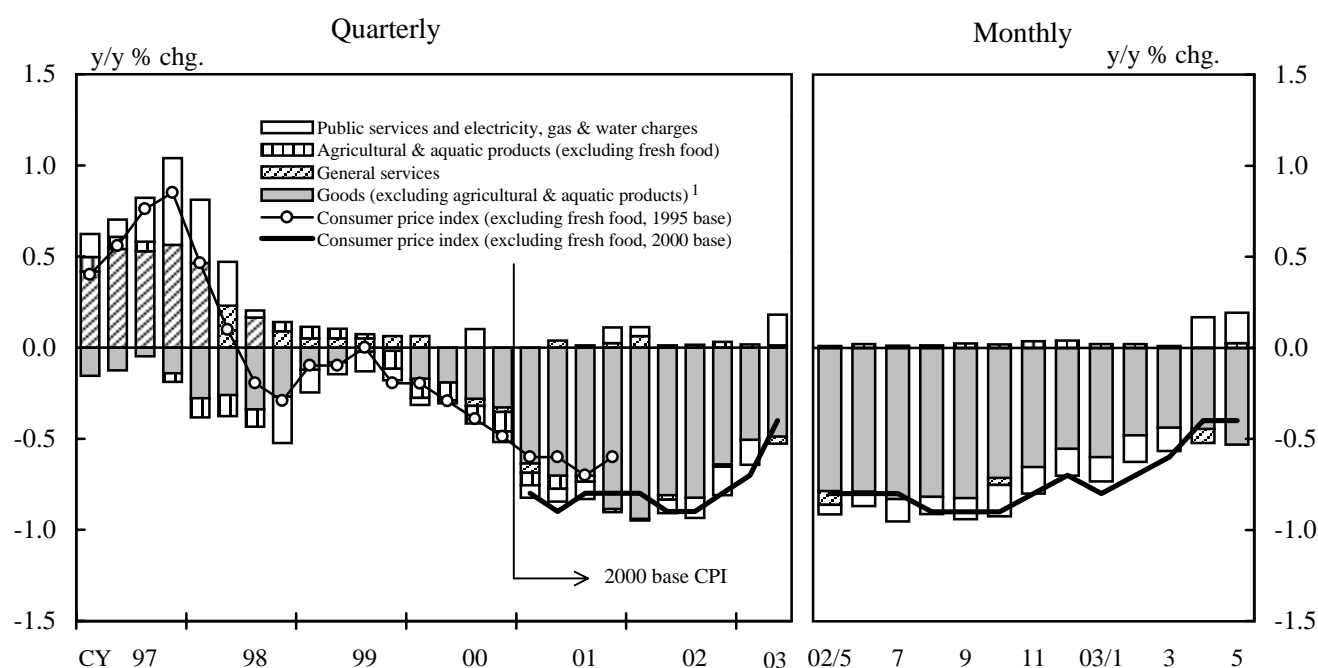
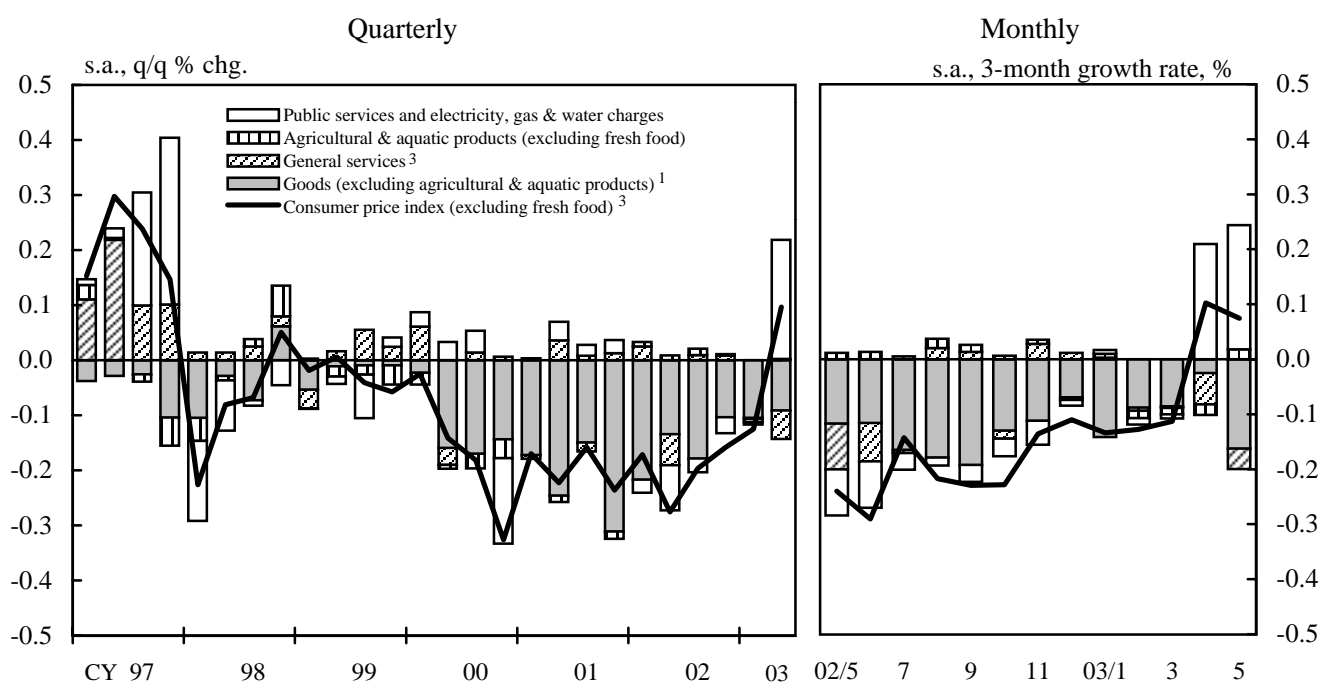
4. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

5. Figures for 2003/Q2 are those of April-May averages.

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

Consumer Price Index (excluding fresh food)⁴

(1) Changes from a year earlier

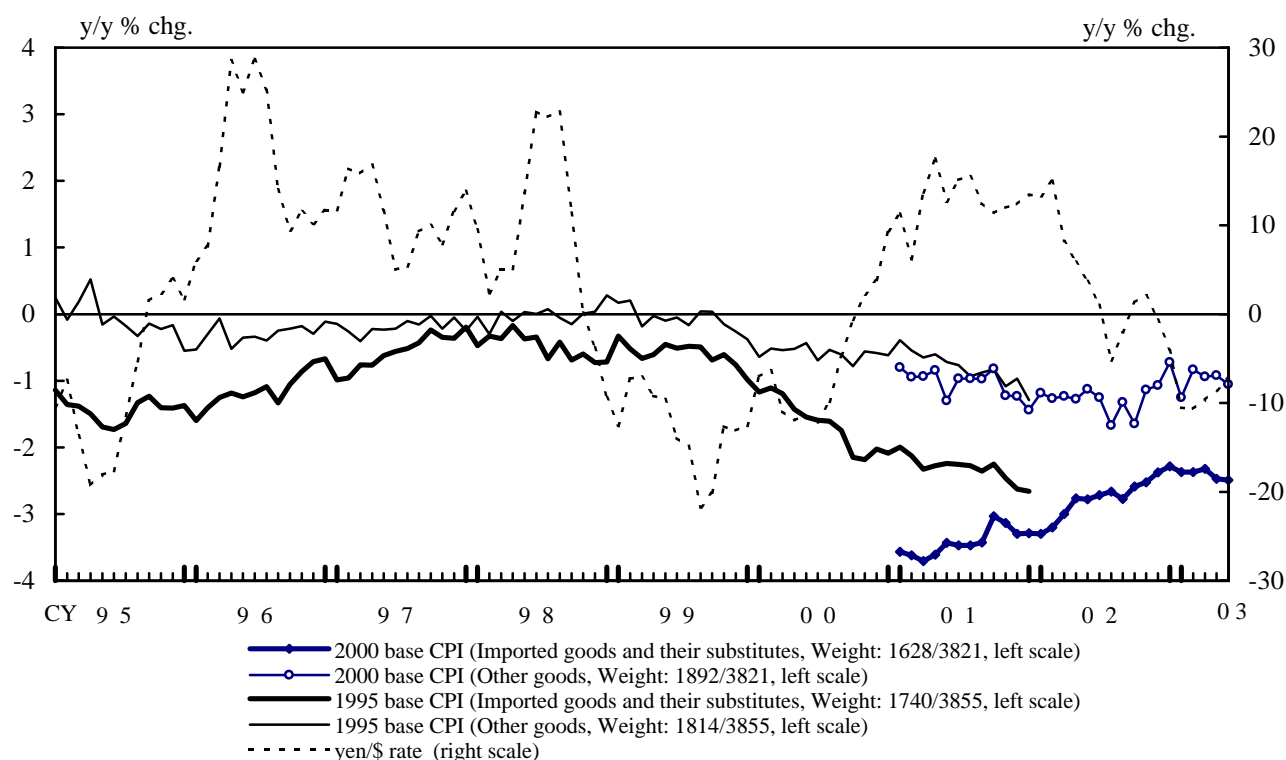
(2) Changes from a quarter earlier and 3 months earlier (2000 base CPI)²

- Notes: 1. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, however electricity, gas & water charges is excluded from goods.
2. Seasonally adjusted by X-12-ARIMA. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.
3. Excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.
4. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
5. Figures for 2003/Q2 are those of April-May averages.

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

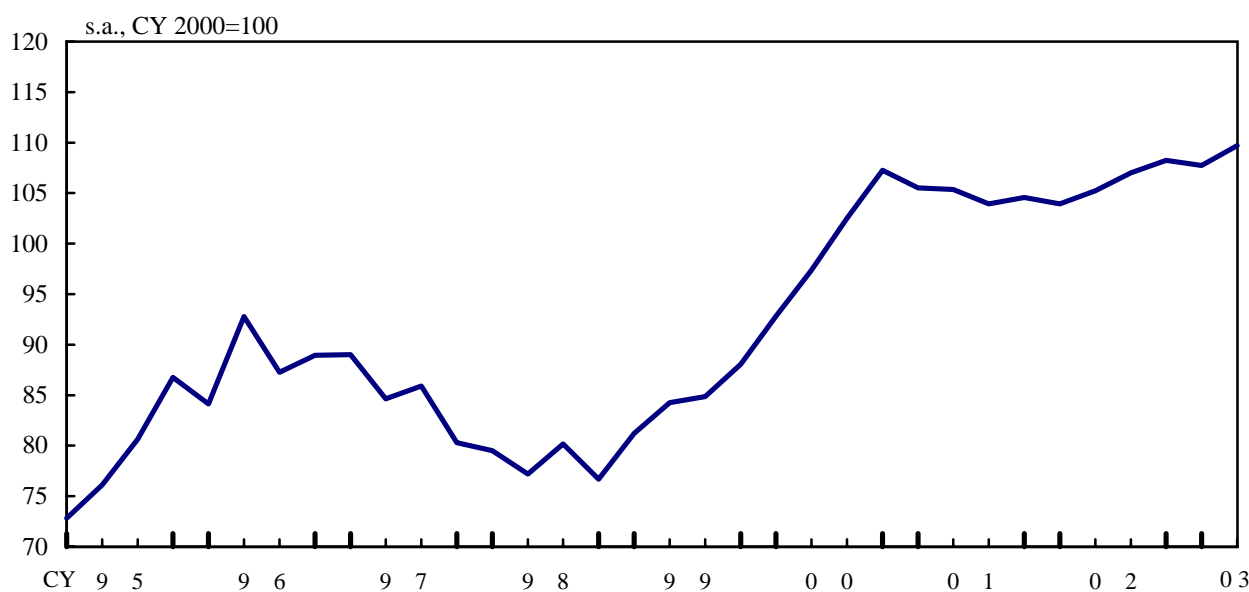
Consumer Prices of imported goods and their substitutes

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



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

(2) Real imports (consumer goods)

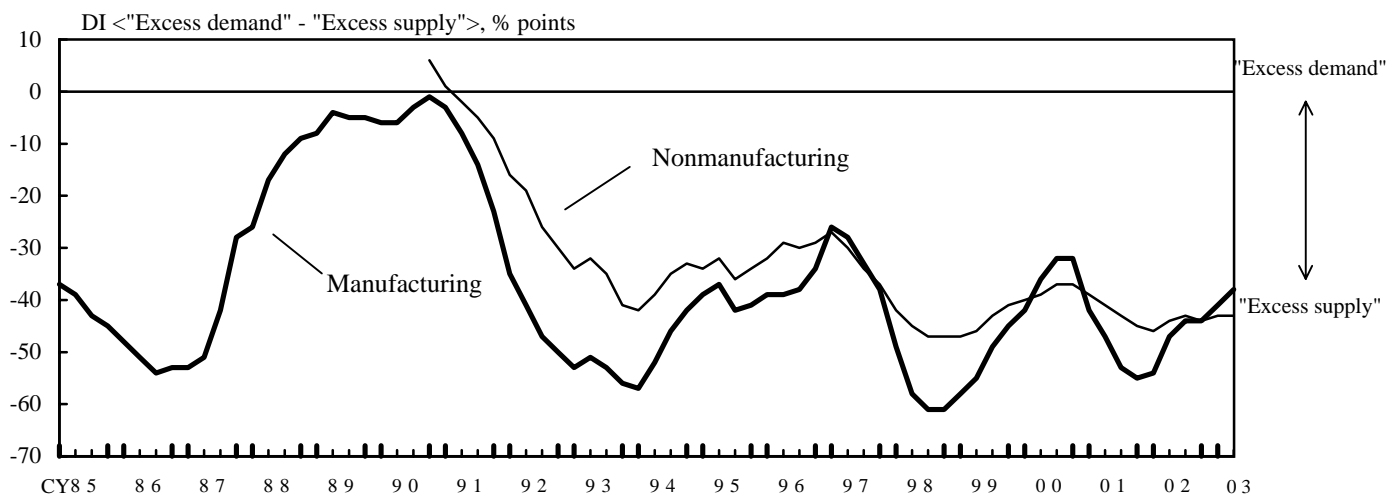


- Notes: 1. Real imports (consumer goods), which are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles, are calculated from the Trade Statistics as an index with the 2000 average equal to 100.
 2. 2003/Q2 figures are those of April-May averages at a quarterly rate.

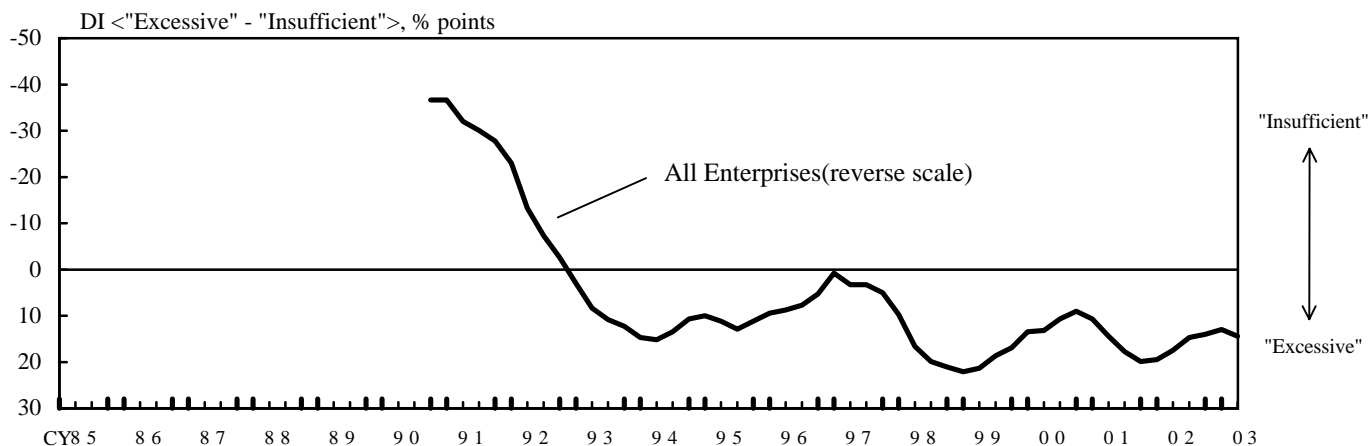
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index";
 Ministry of Finance, "The Summary Report on Trade of Japan";
 Bank of Japan, "Corporate Goods Price Index."

Domestic Supply and Demand Conditions

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

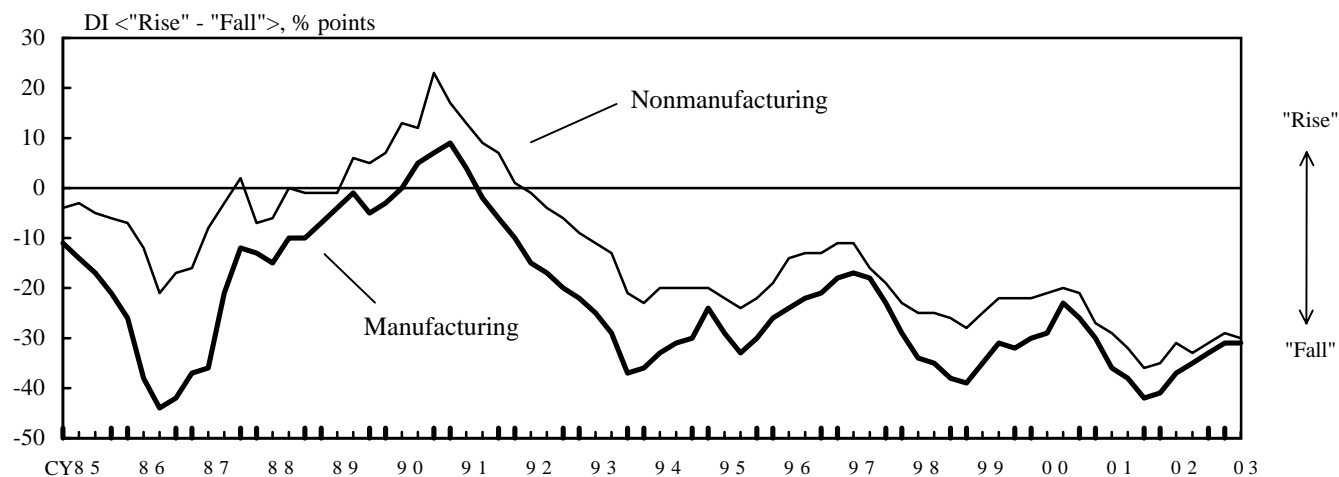


(2) Utilization of Capital and Labor



Note: Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. Labor share in national account, 1990-2001 average, is used as the weight.

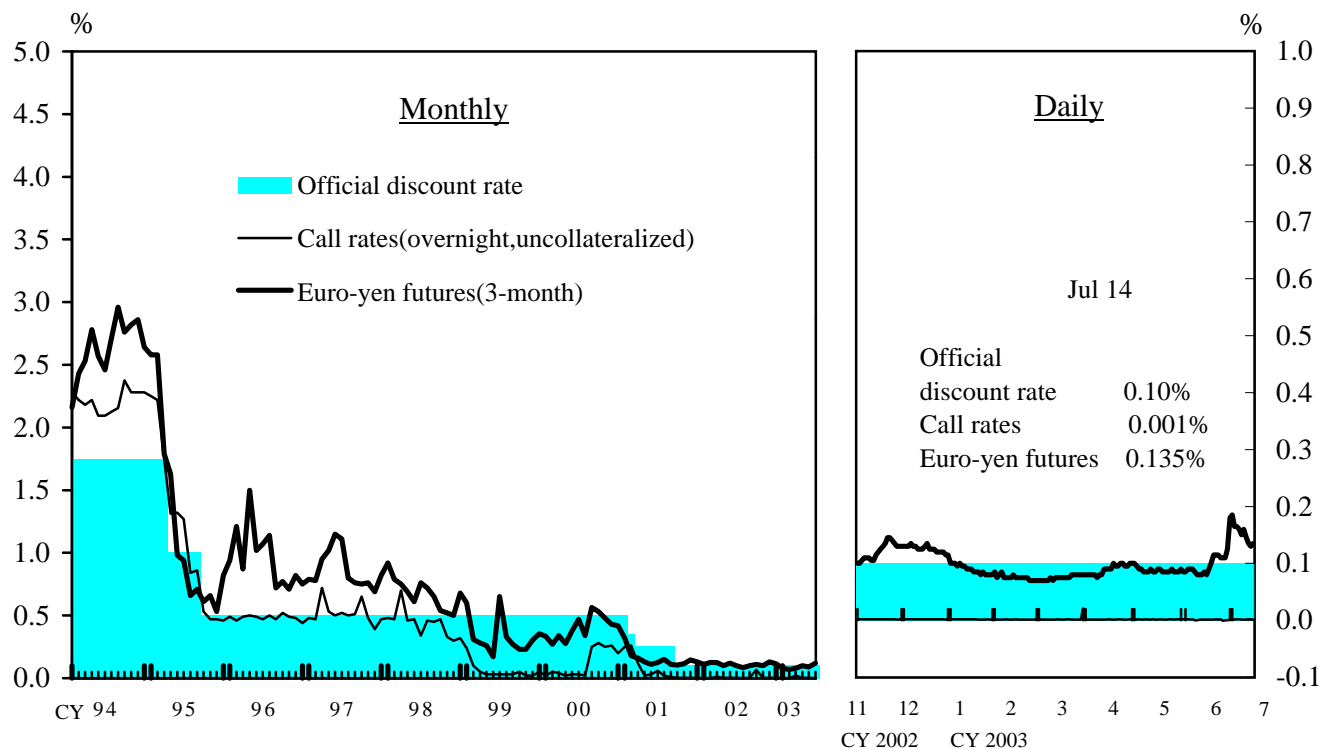
(3) Change in Output Prices (All Enterprises)



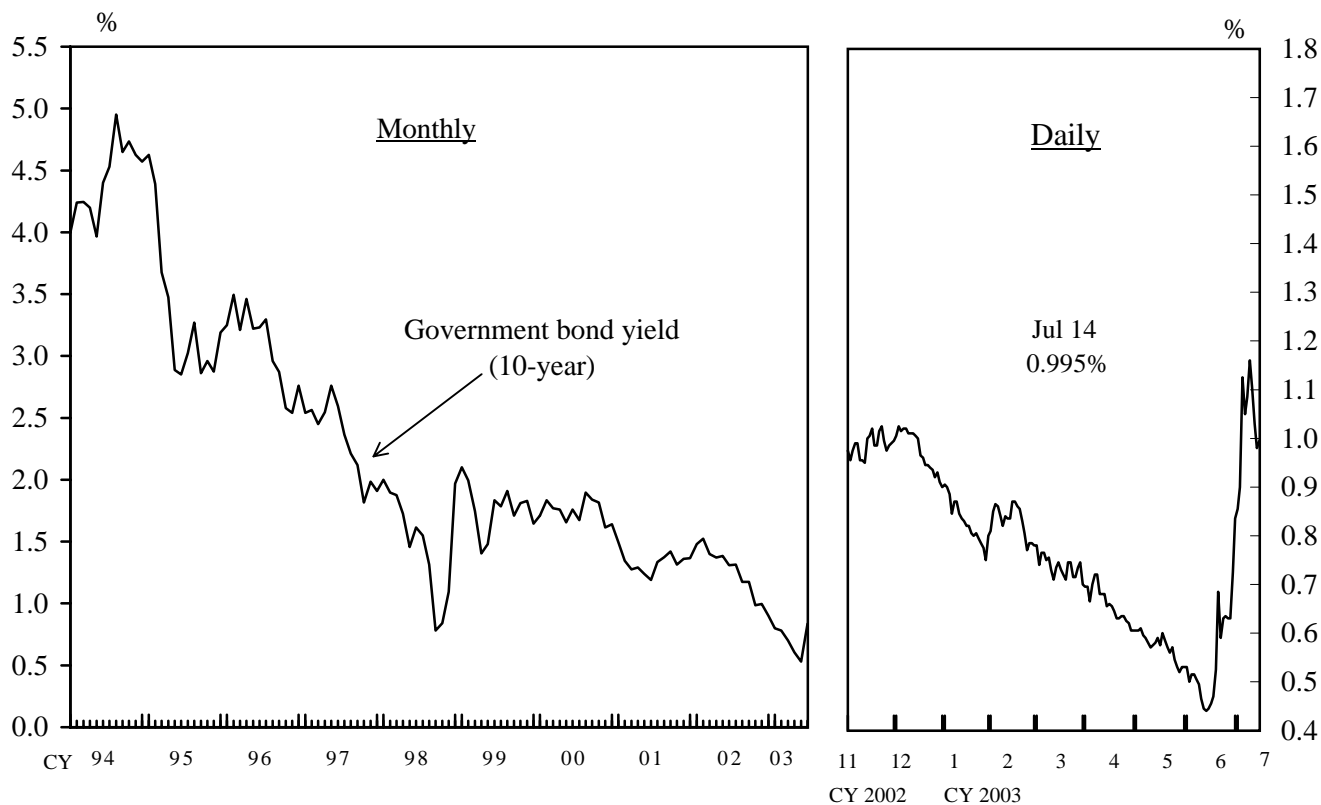
Sources: Cabinet Office, "National Accounts";
Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



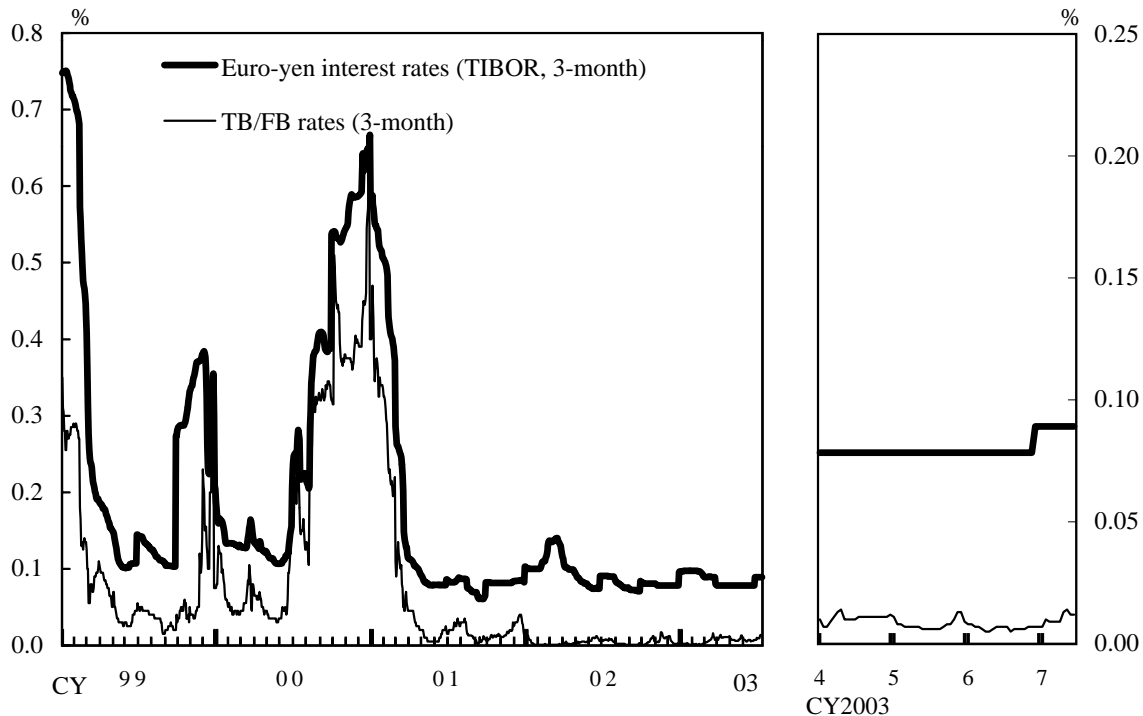
(2) Long-Term



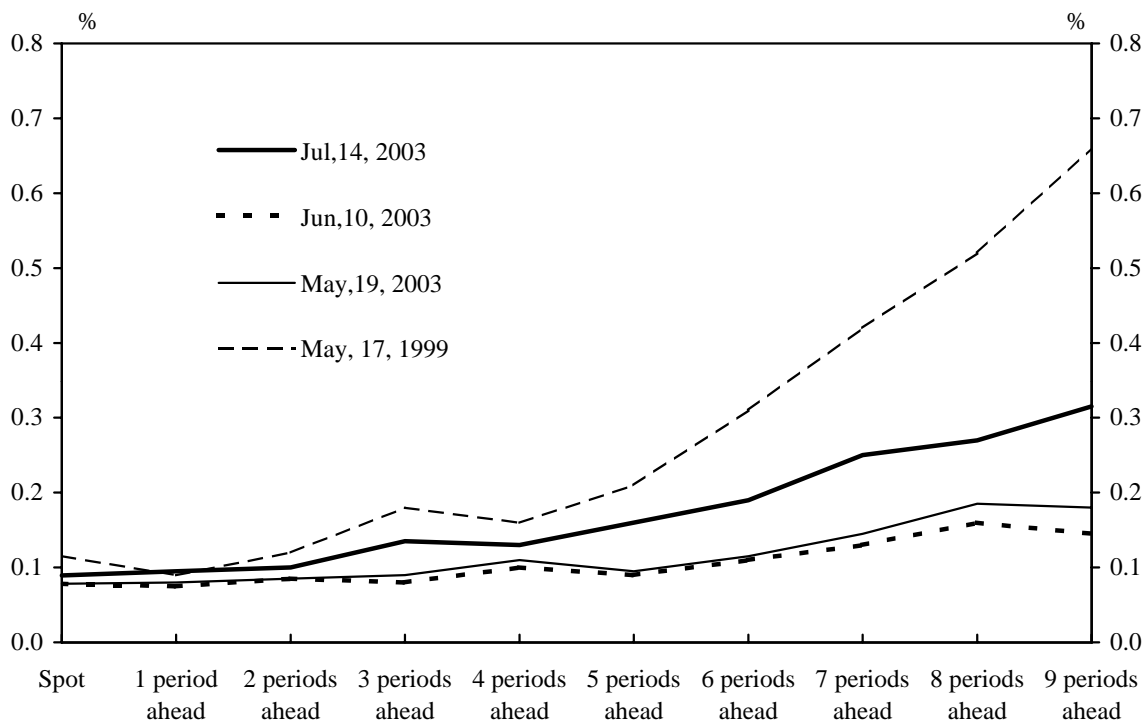
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



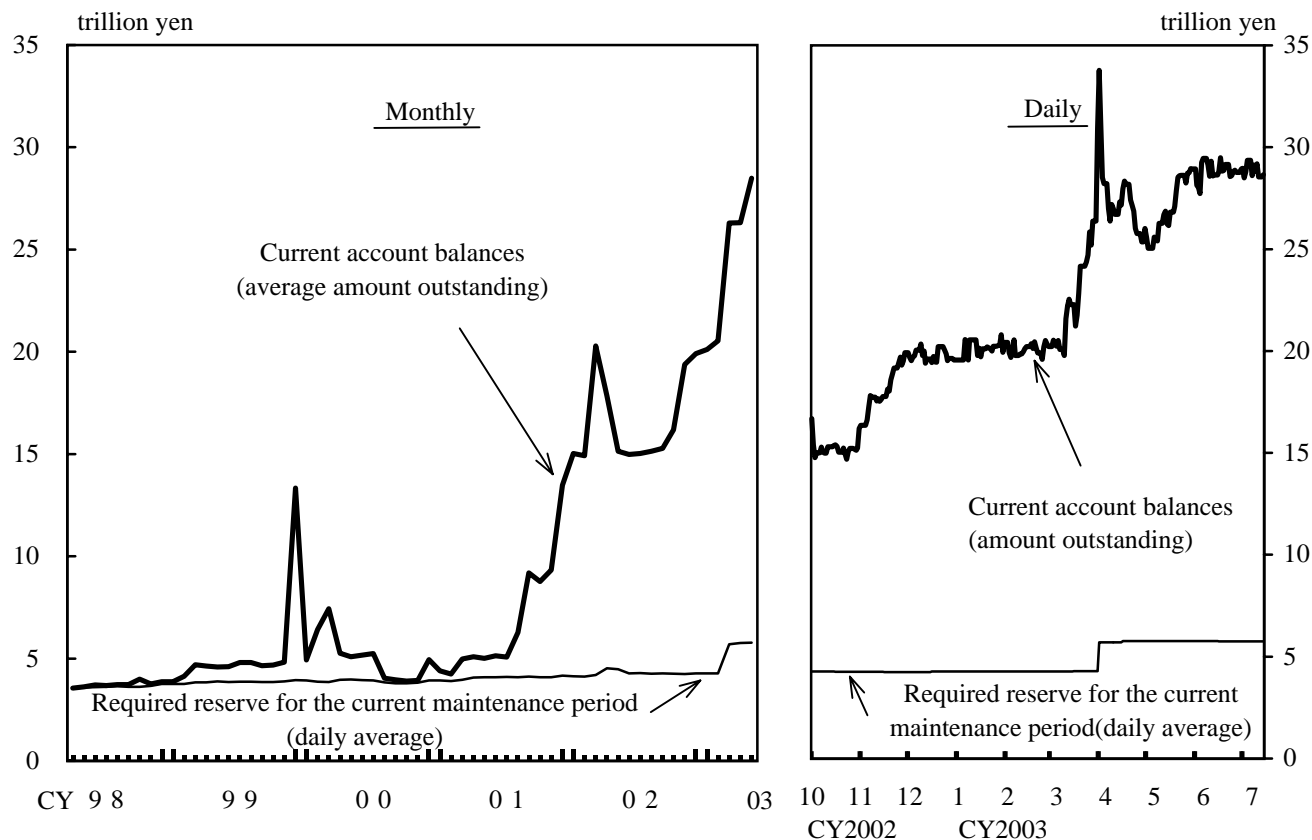
(2) Euro-Yen Interest Rates Futures (3-Month) ¹



Note: 1. Contract months in the figure (2) exclude "serial months," the months other than March, June, September and December.

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

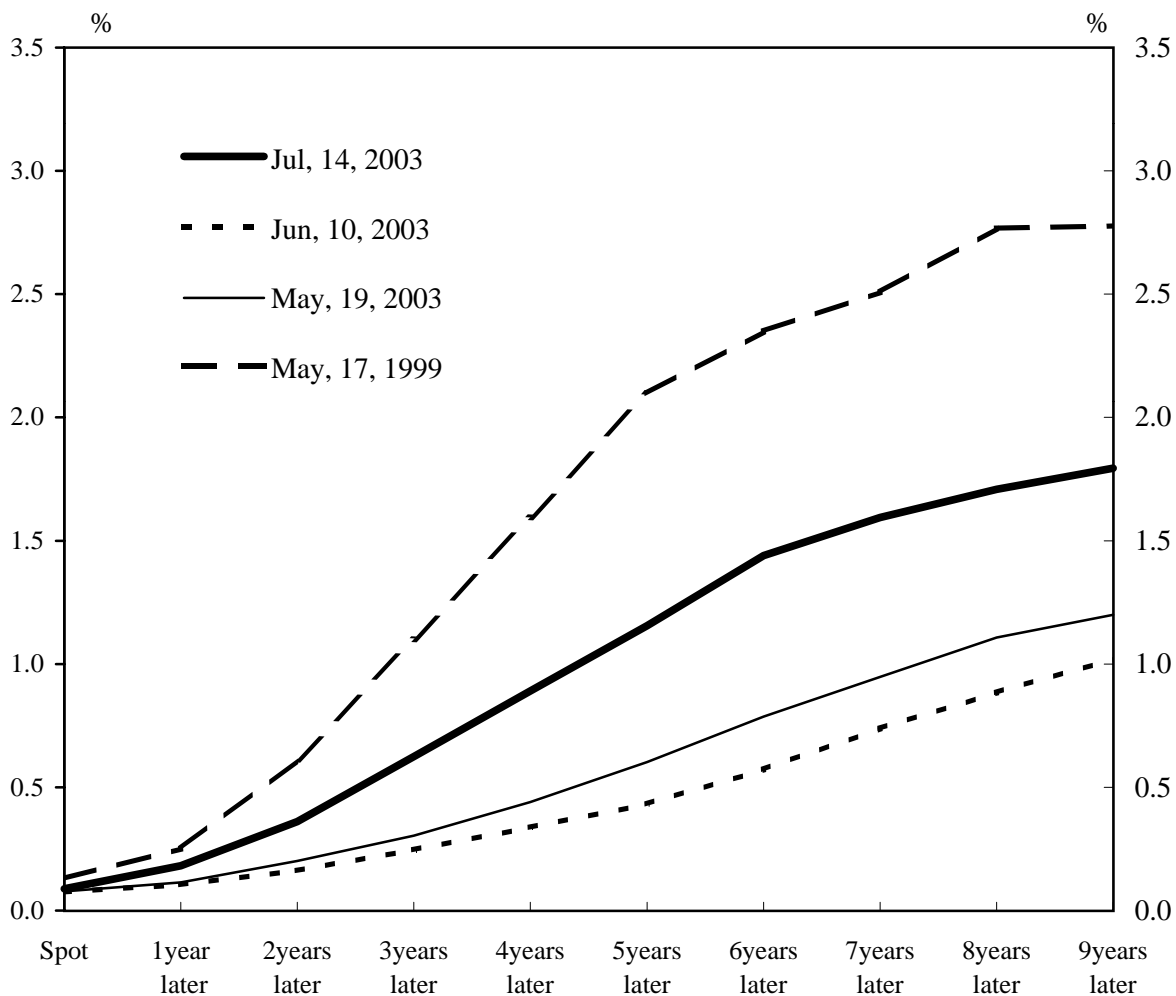
Current Account Balances at the Bank of Japan ¹



Note: 1. From April 2003, the figures for current account balances and required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

Implied Forward Rates (1-year) ¹

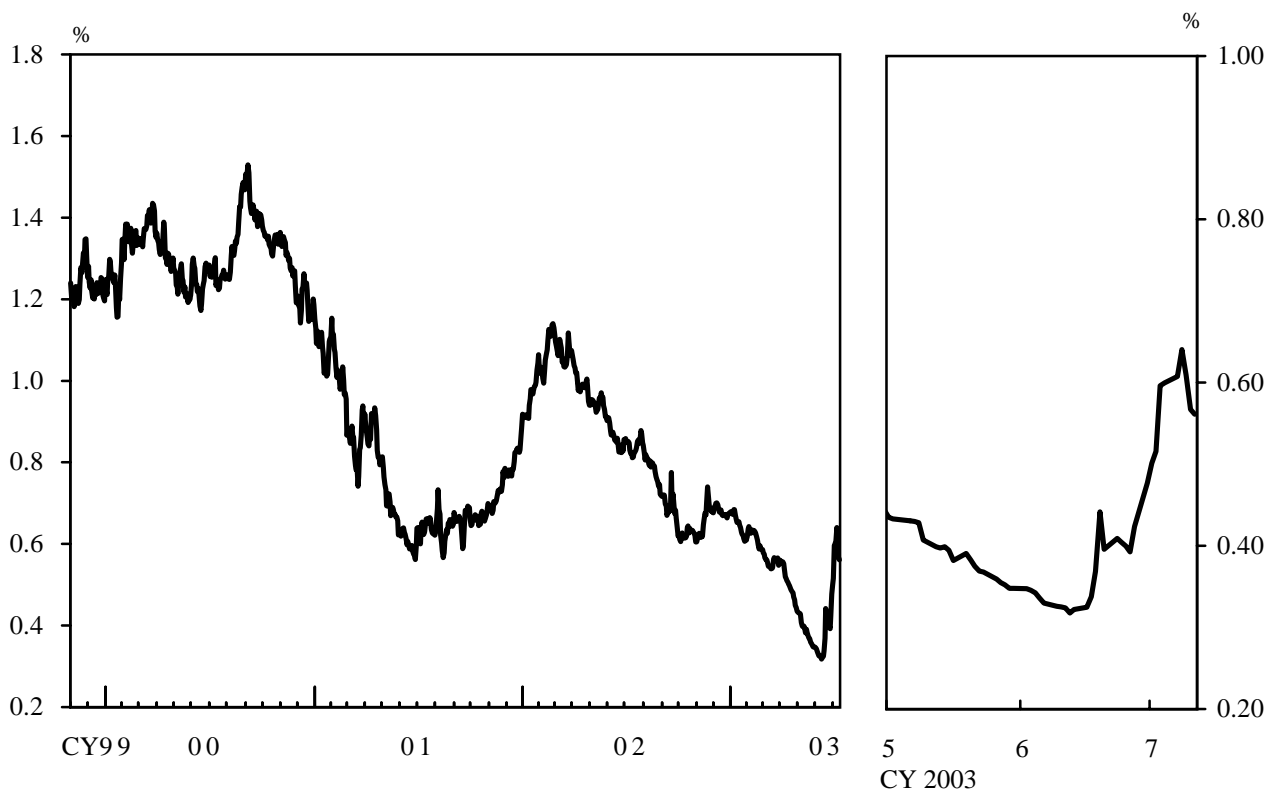


Note: 1. Calculated from yen-yen swap rates.

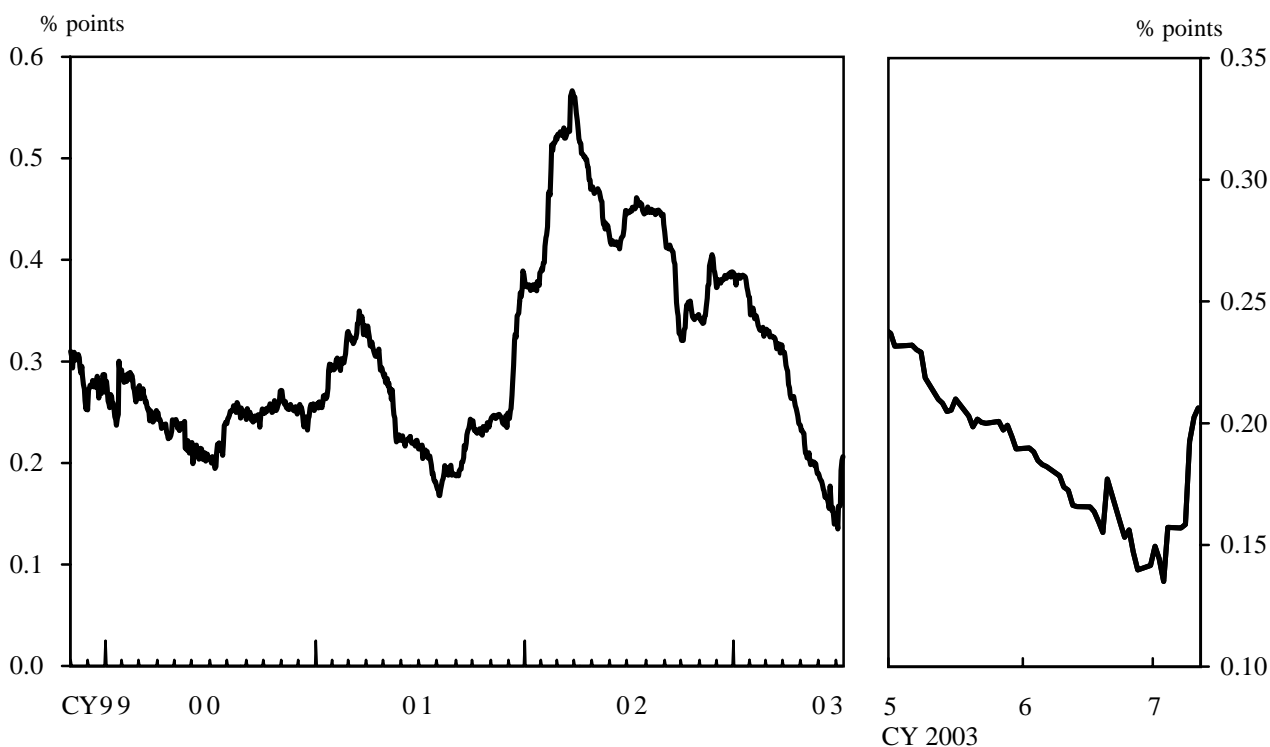
Source: Kyodo News.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



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

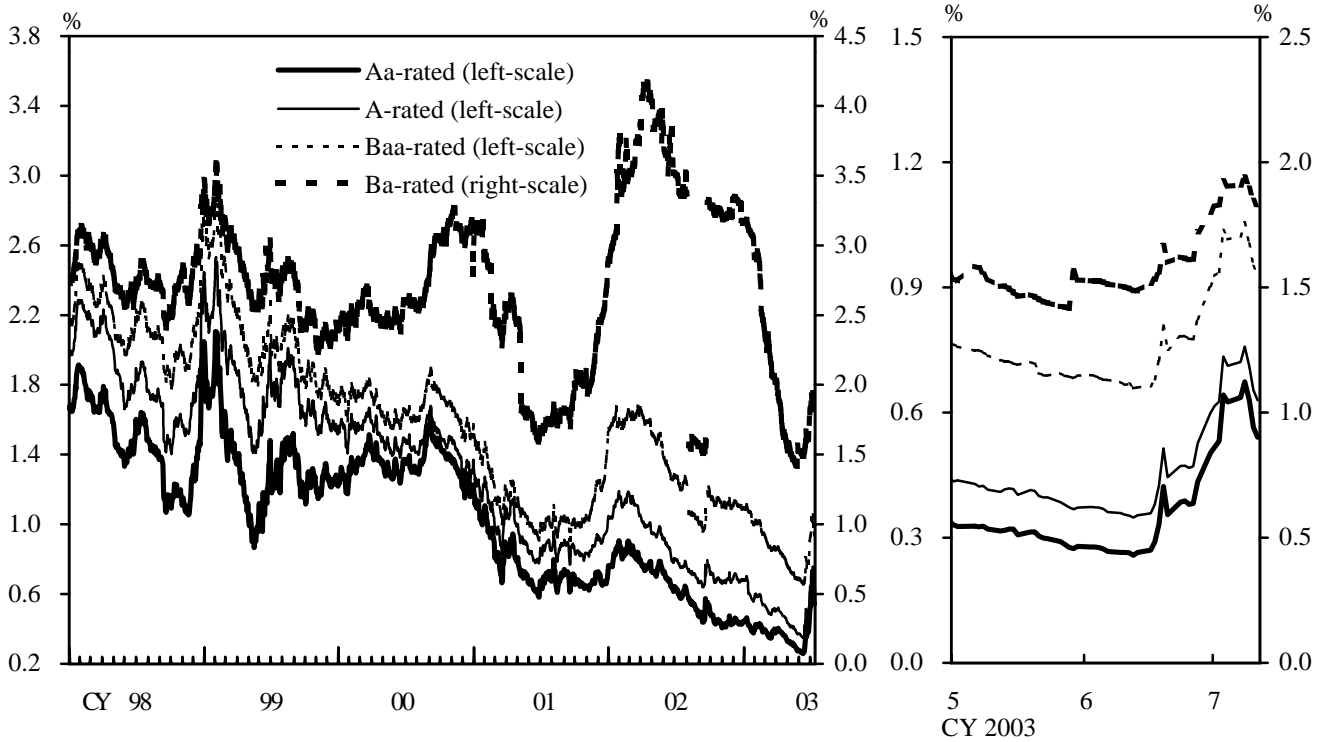
2. Average bank bond yield is the average of four bank bonds.

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

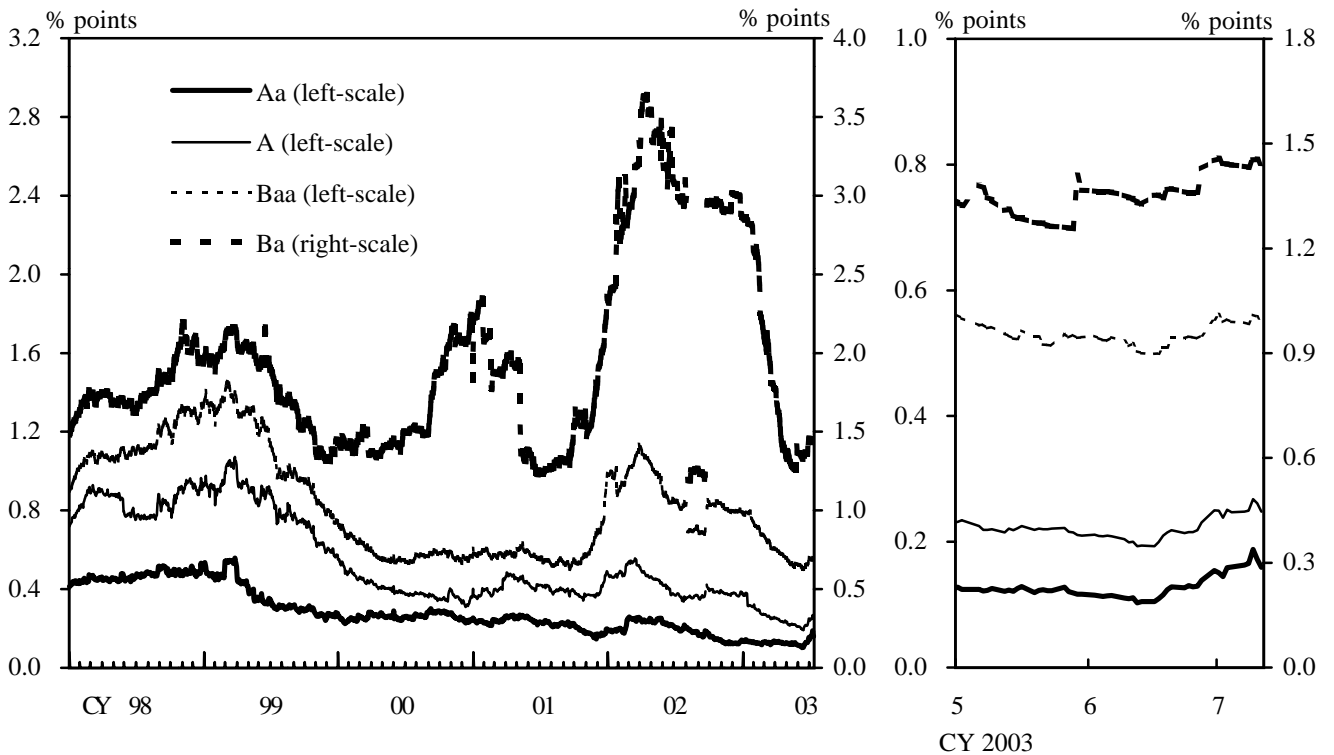
"Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds¹

(1) Corporate Bond Yields



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



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

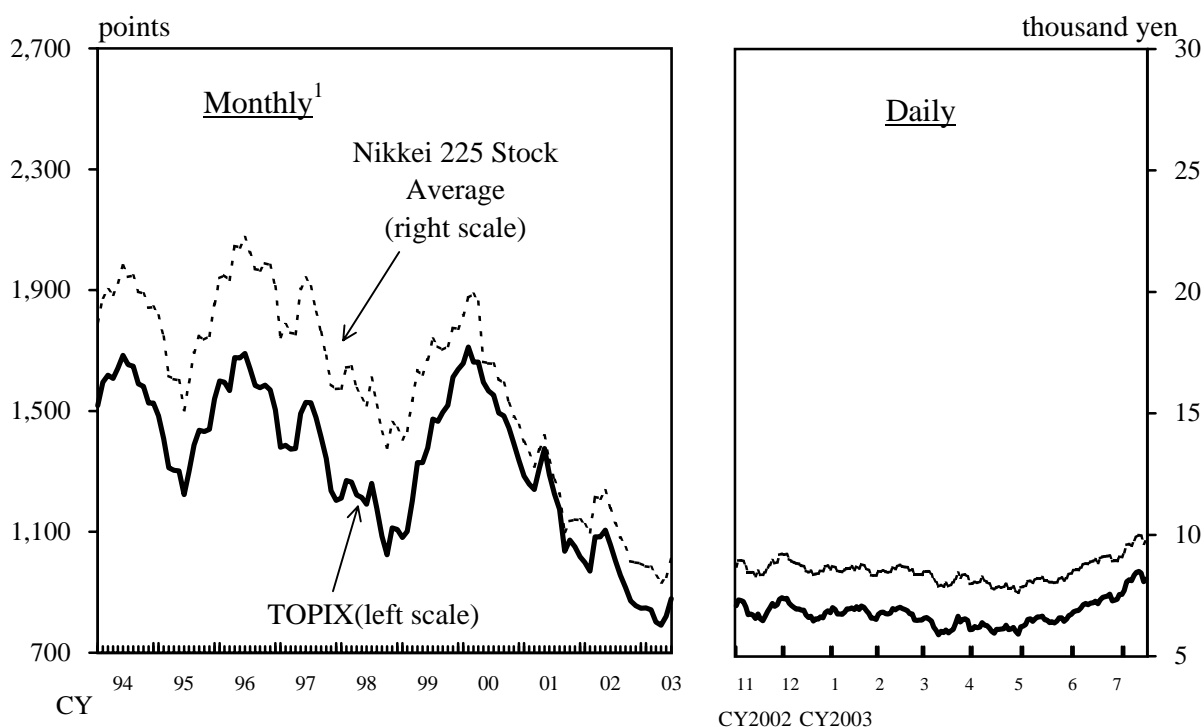
The indicated ratings are of Moody's.

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

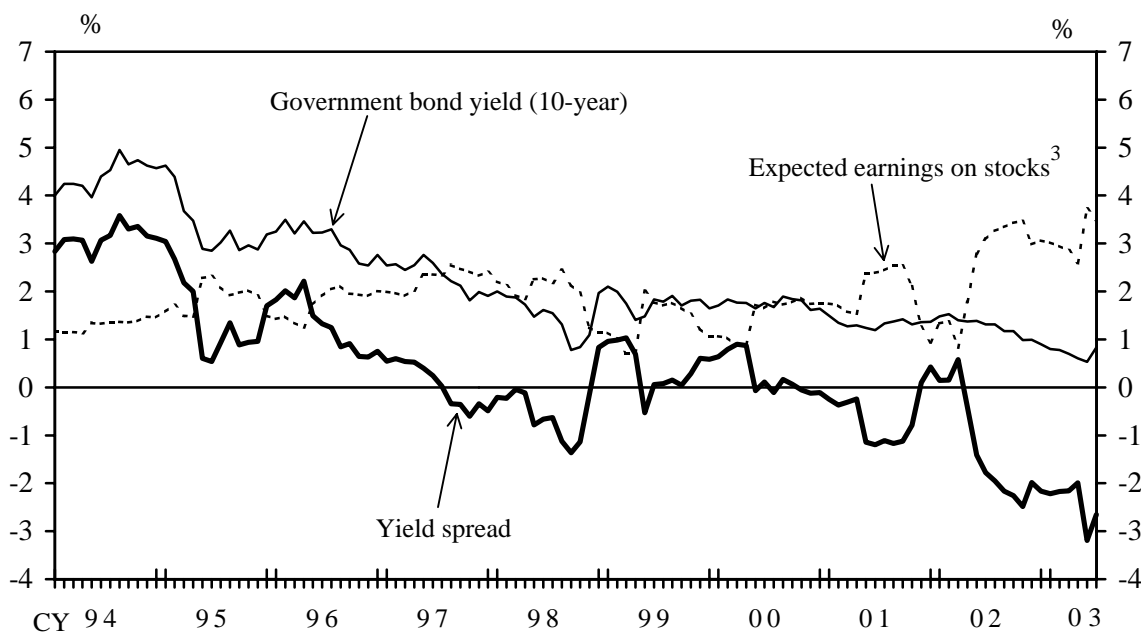
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

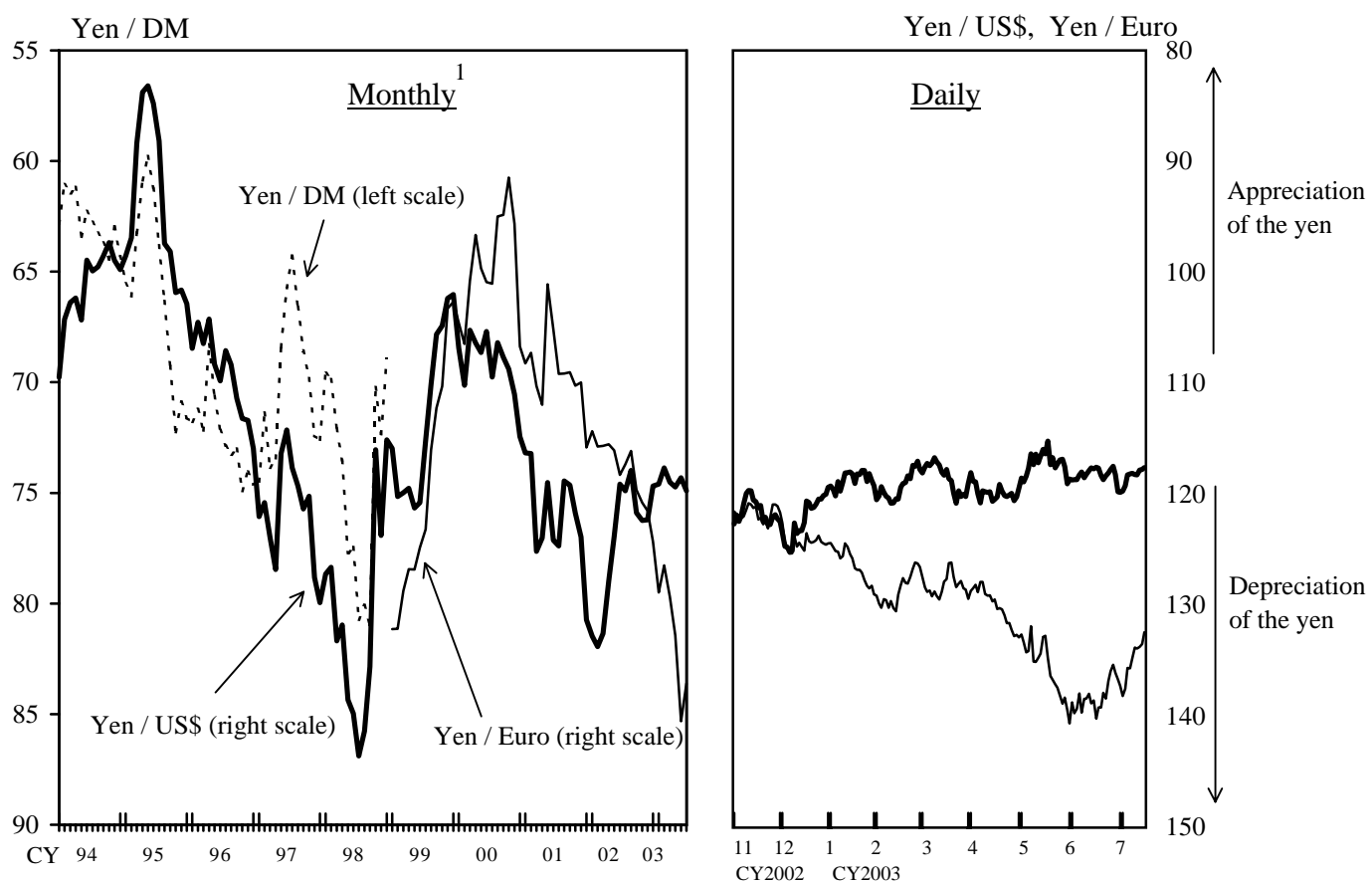
Yield spread = government bond yields - expected earnings on stocks,
where expected earnings on stocks = 1/expected price earnings ratio.

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

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

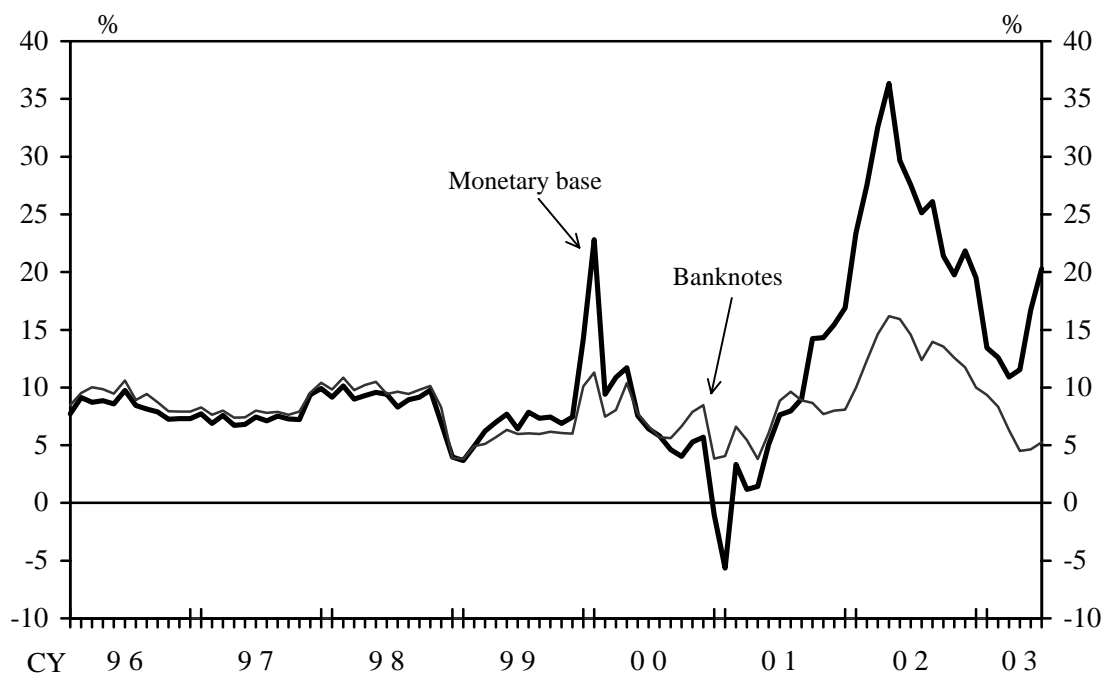
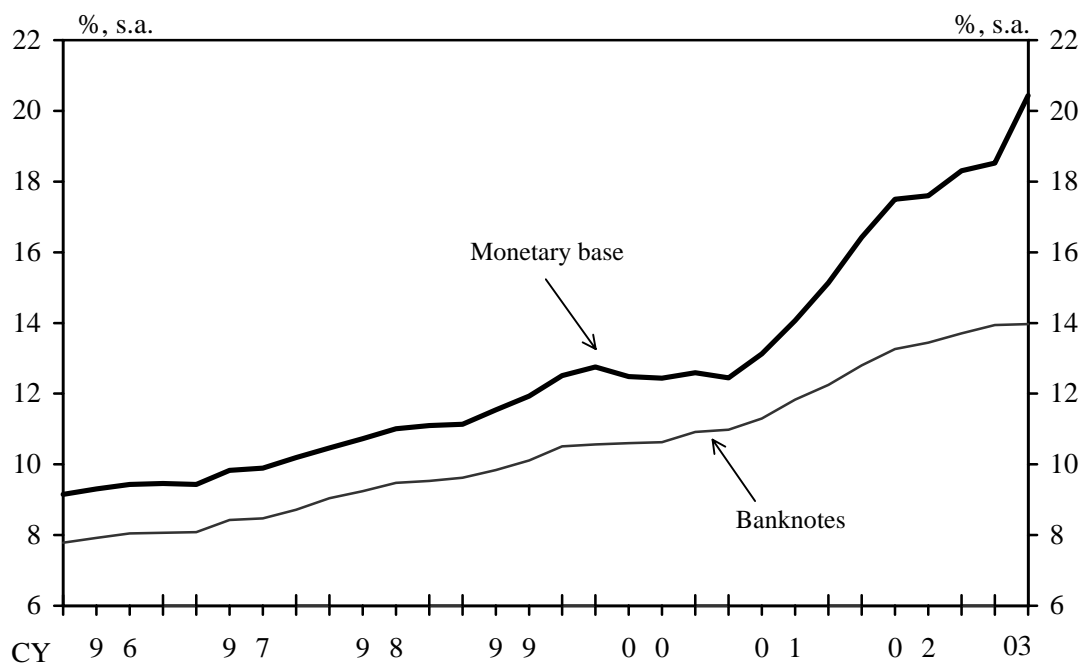
Sources: *The Nihon Keizai Shimbun* ; Daiwa Research Institute, "*Daiwa Tousei Shiryou* (Daiwa Investment Information)."

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**

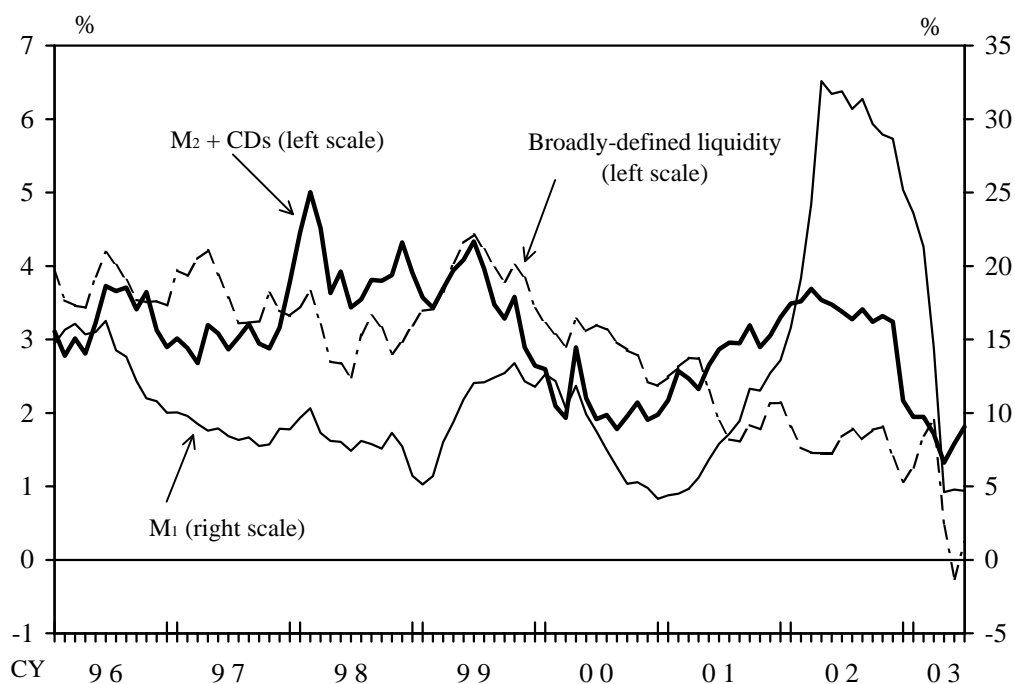
Notes: 1. Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

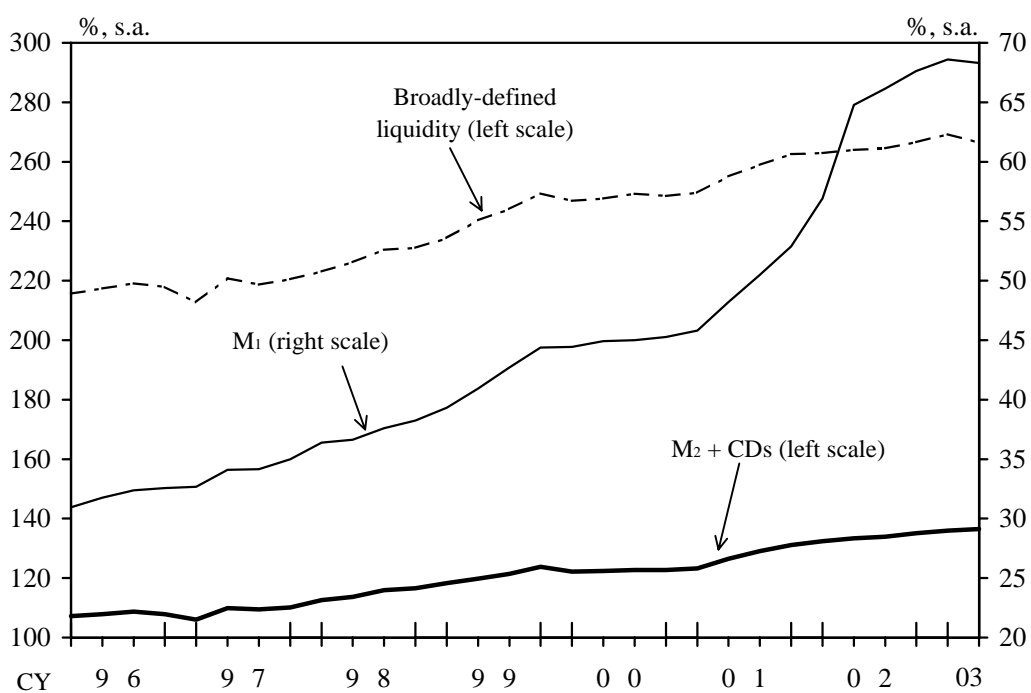
2. Figures for the nominal GDP in 2003/Q2 is assumed to be unchanged from the previous quarter.

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

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

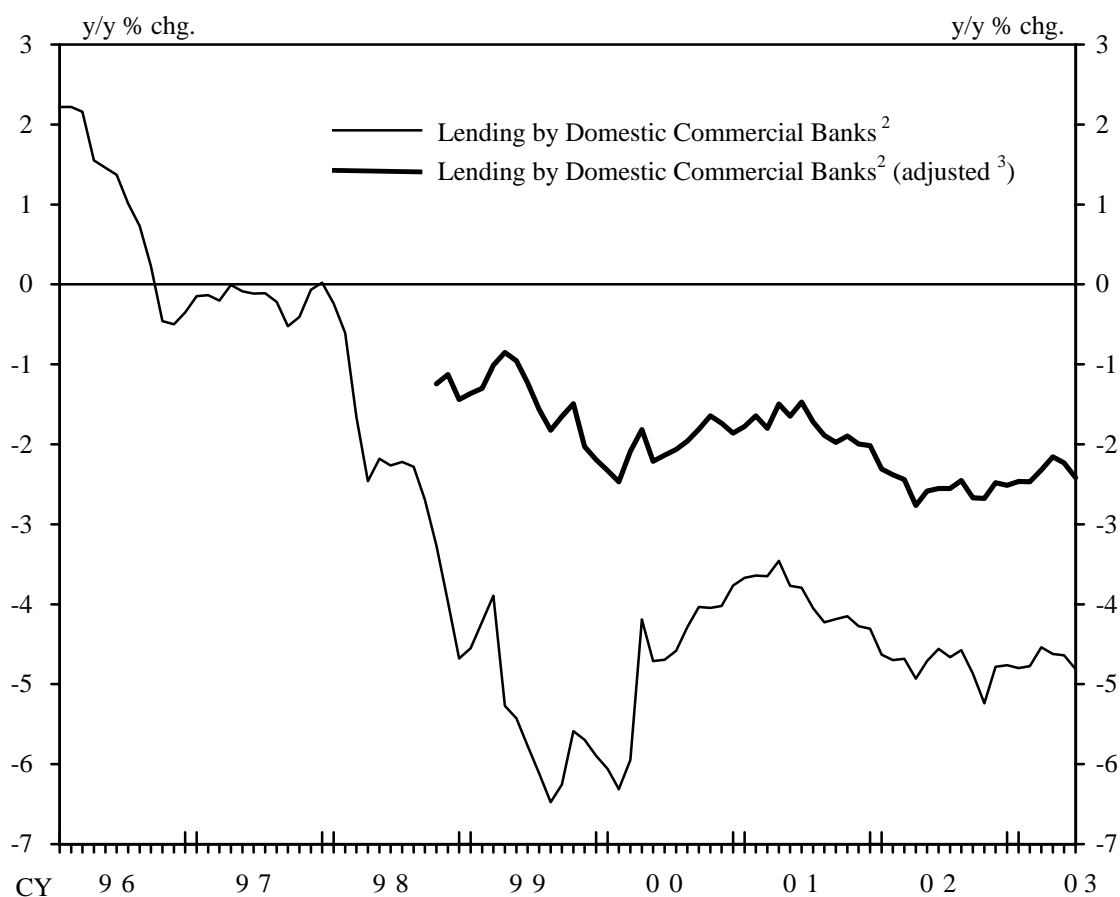
(1) Changes from a Year Earlier

Note: In April 2003, the Postal Life Welfare Corporation was dissolved and its assets were transferred to the Japan Post. Accordingly, its financial assets were excluded from the Money Stock. Changes of the Broadly-defined Liquidity from a year earlier adjusted for the exclusion is 2.4% in June 2003.

(2) Ratio of Money Stock to Nominal GDP

Note: Figures for the nominal GDP in 2003/Q2 is assumed to be unchanged from 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).

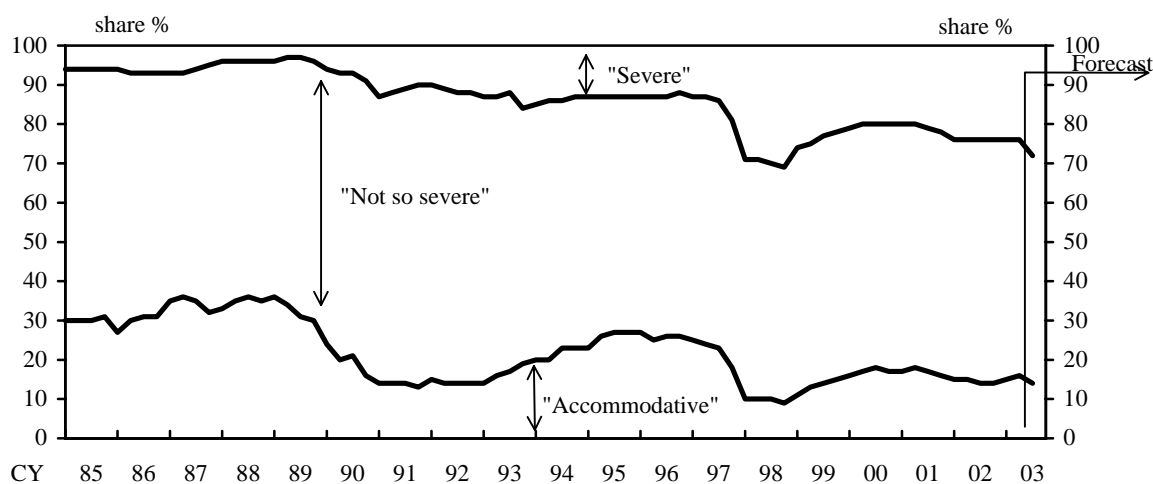
3. Adjusted to exclude

- (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

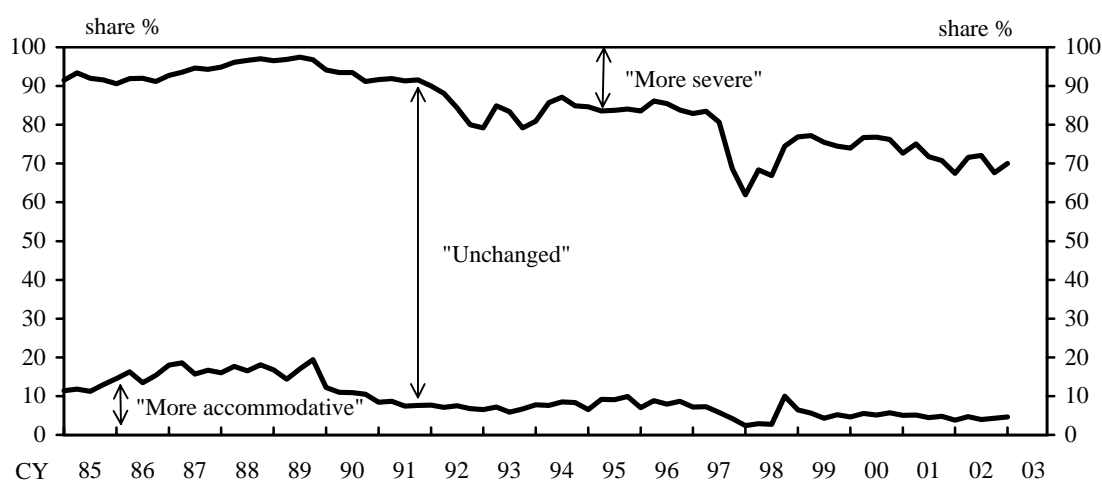
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (June, 2003)



(2) "Monthly Survey of Small Businesses in Japan" (Mid-June, 2003)

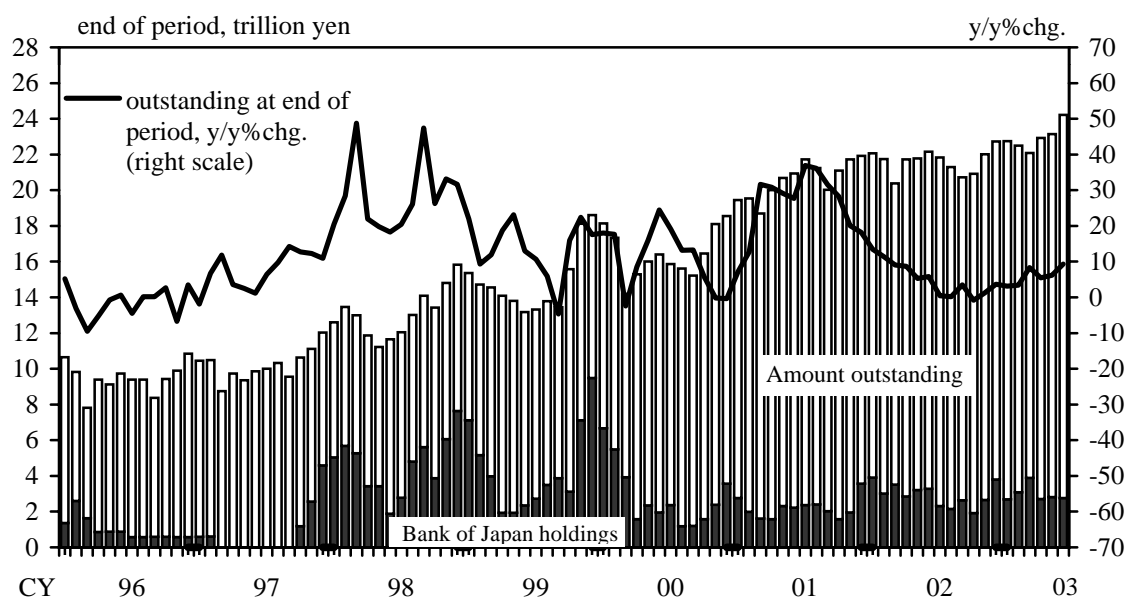


(3) "Quarterly Survey of Small Businesses in Japan" (Mid-March, 2003)



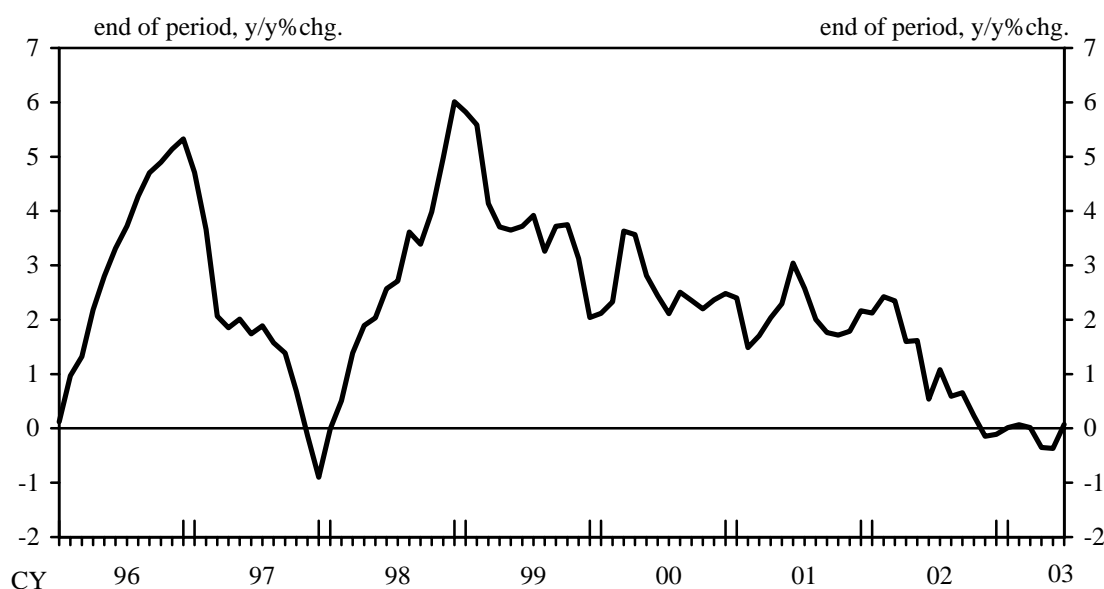
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small Business, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

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/Q4	2003/Q1	Q2	2003/Apr.	May	Jun.
Volume	27,521	31,861	28,007	6,212	9,402	12,393
(previous year)	(31,811)	(28,284)	(27,604)	(5,407)	(10,004)	(12,193)

(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.

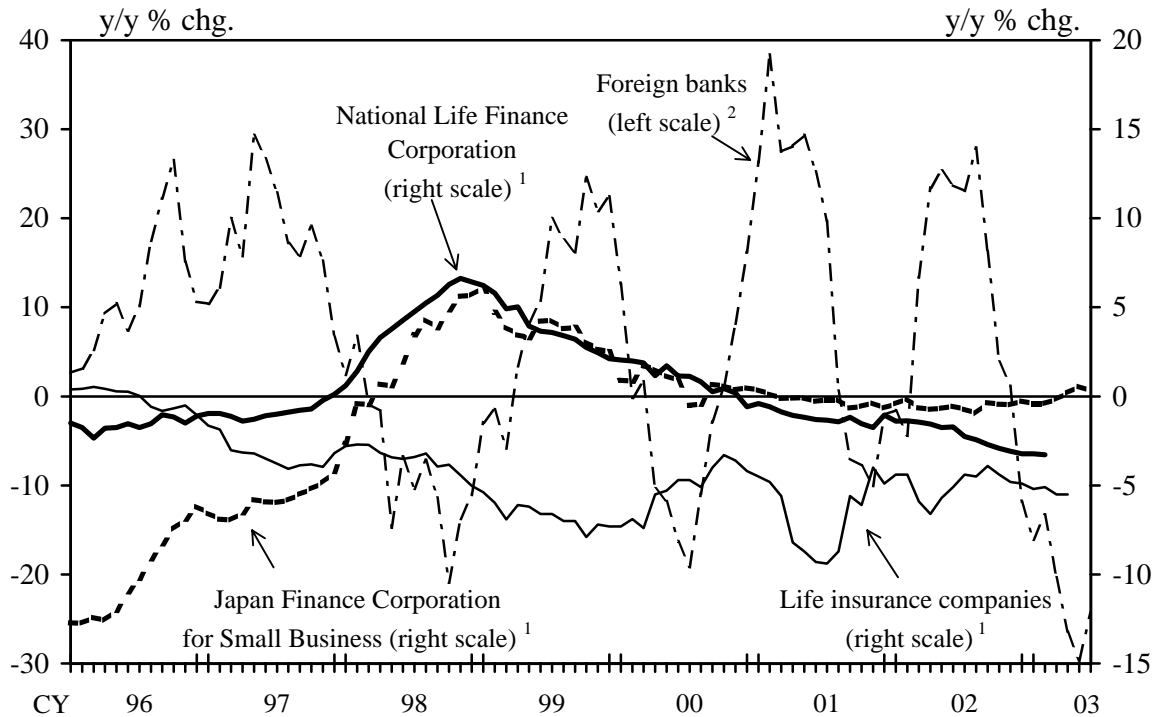
2. Includes straight bonds, convertible bonds, and bonds with warrants.

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."

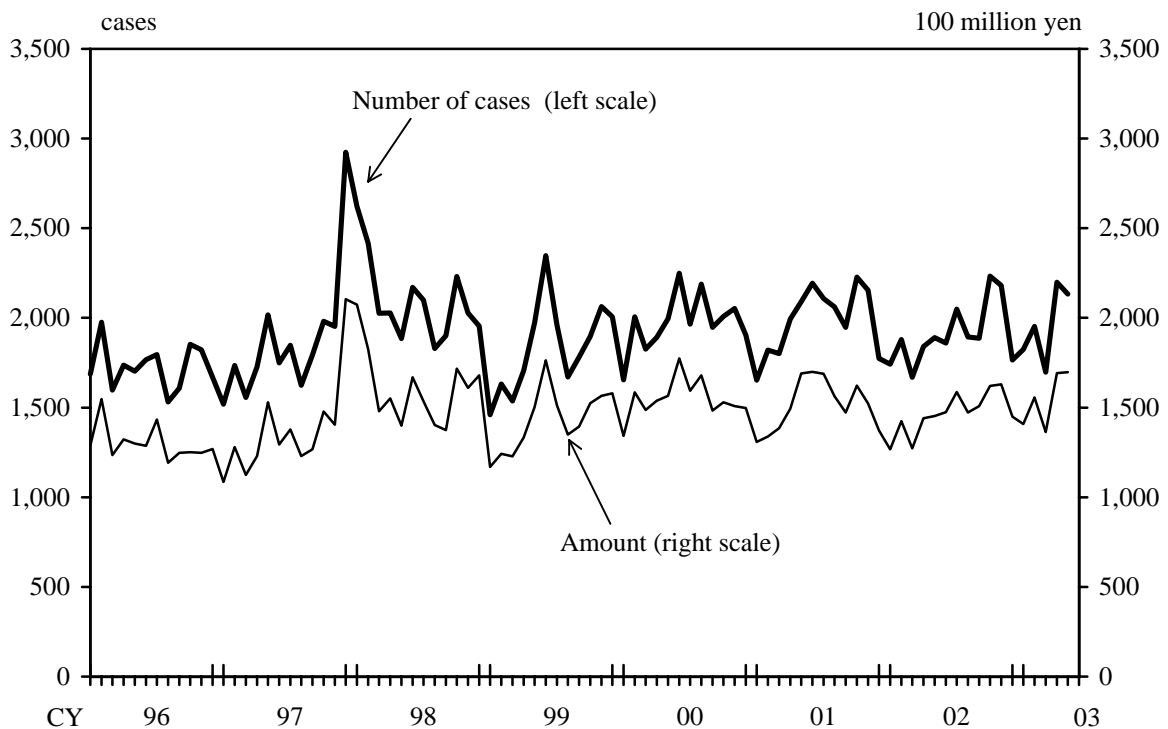
Lending by Other Financial Institutions

(1) Lending Outstanding



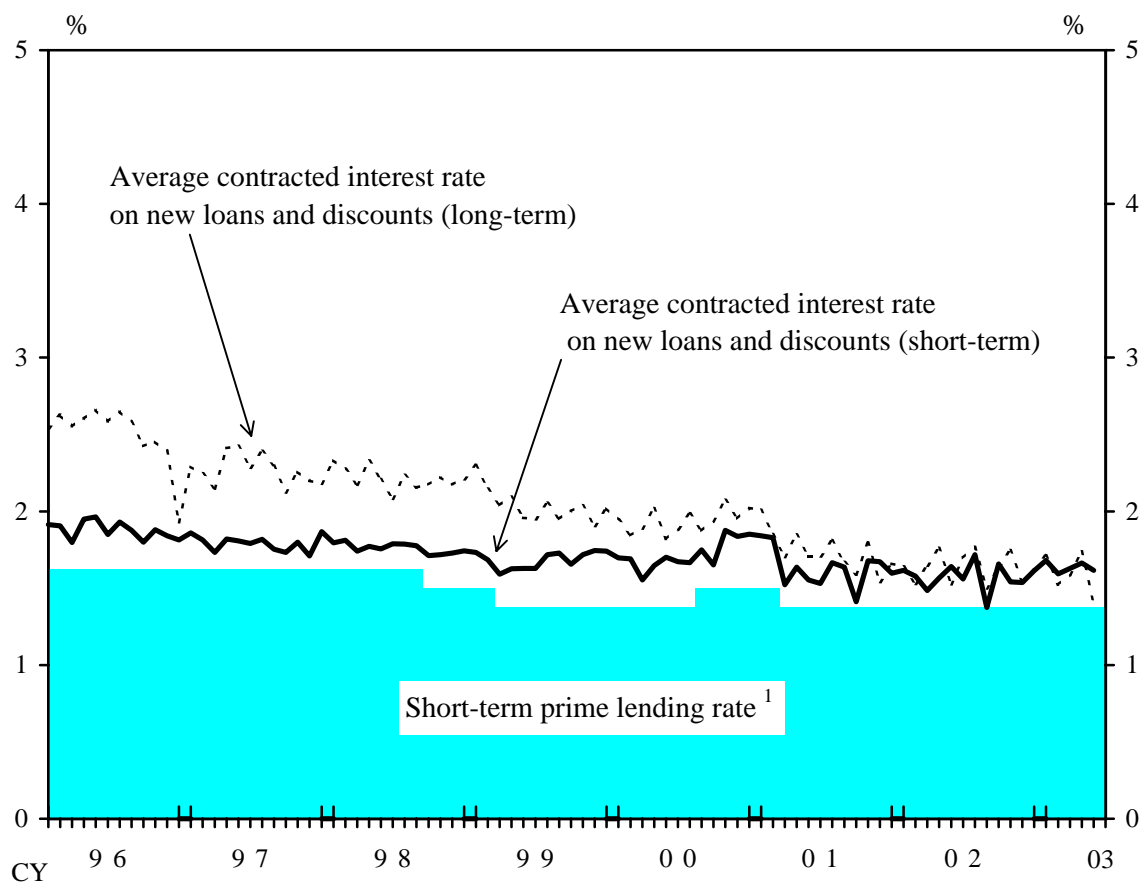
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

(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

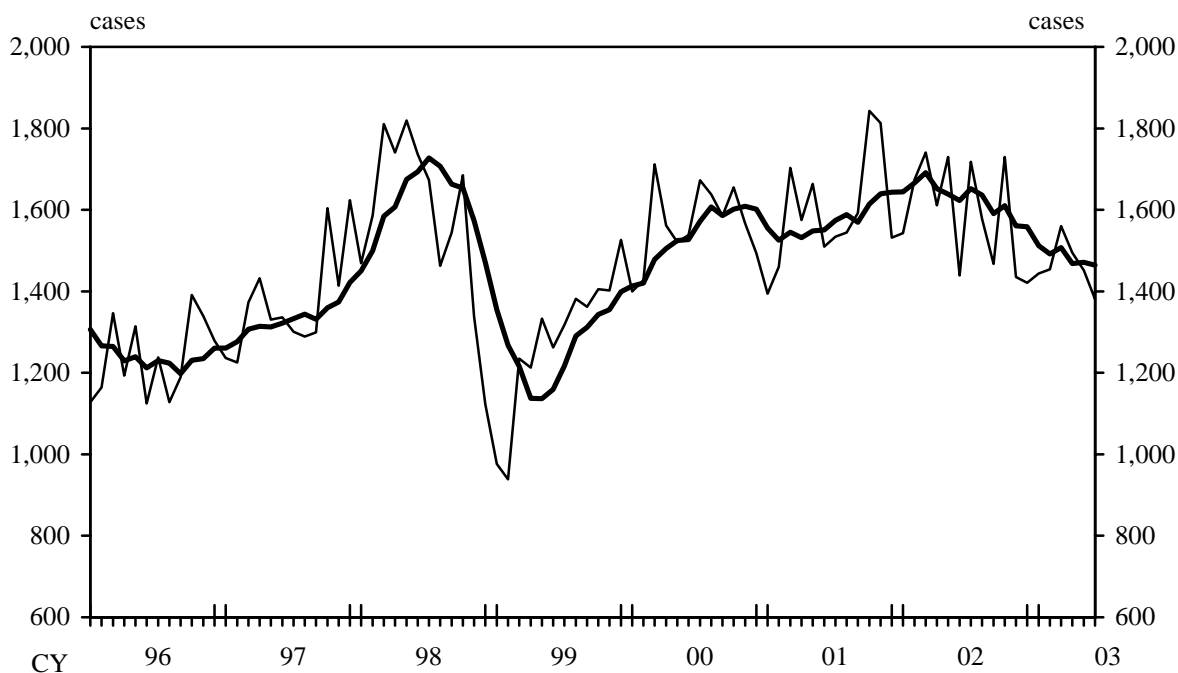


Note: 1. Data are at end of period.

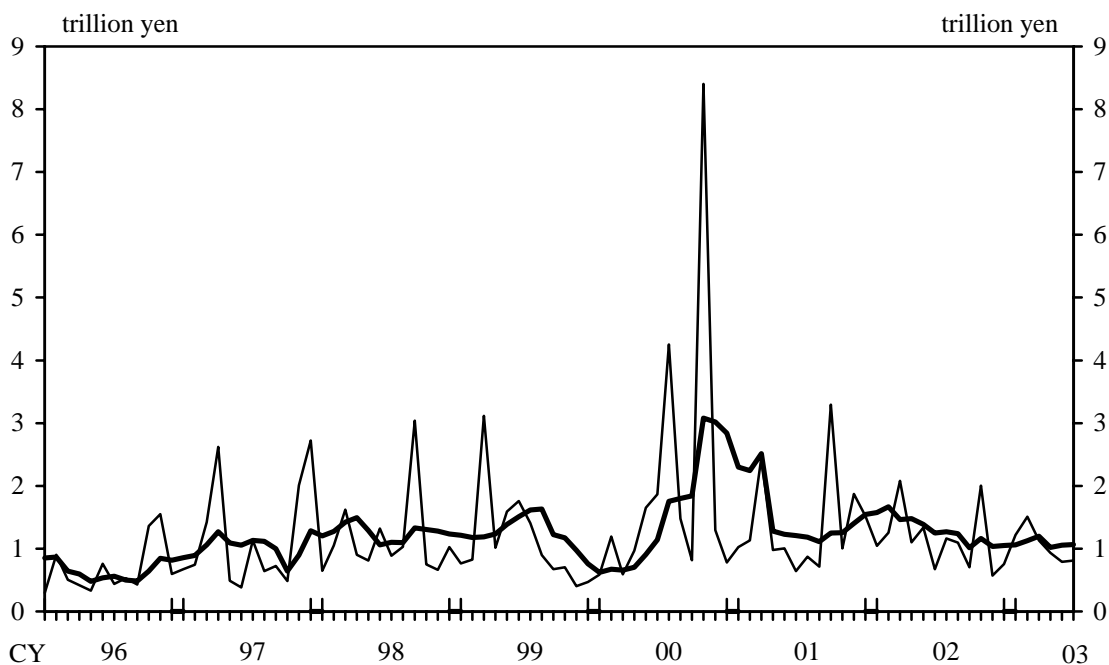
Source: Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

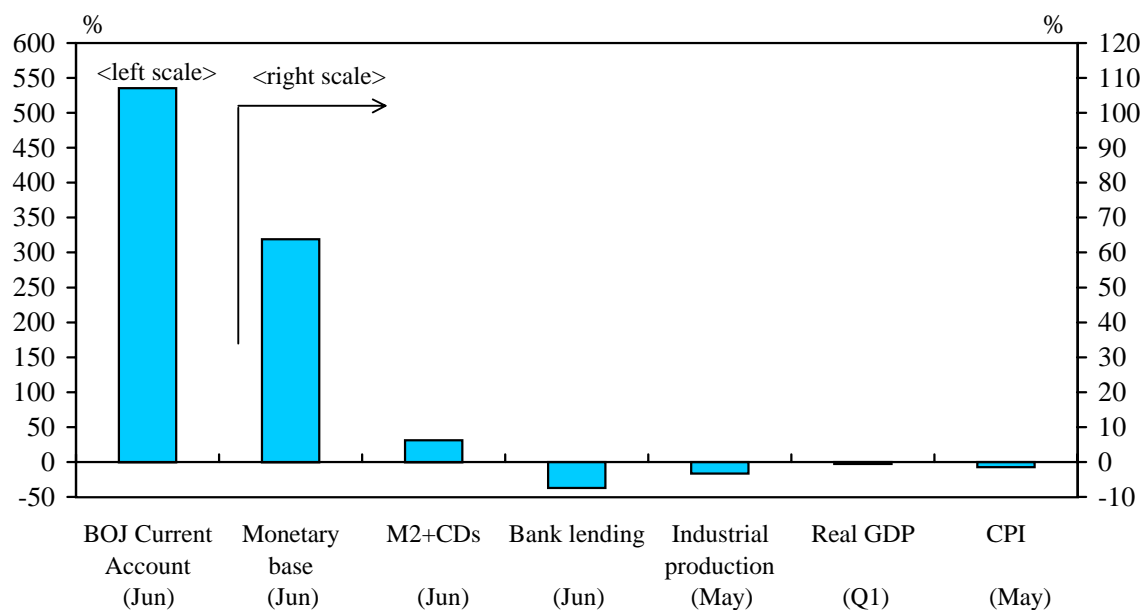


Note: Bold lines are the six-month moving average.

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

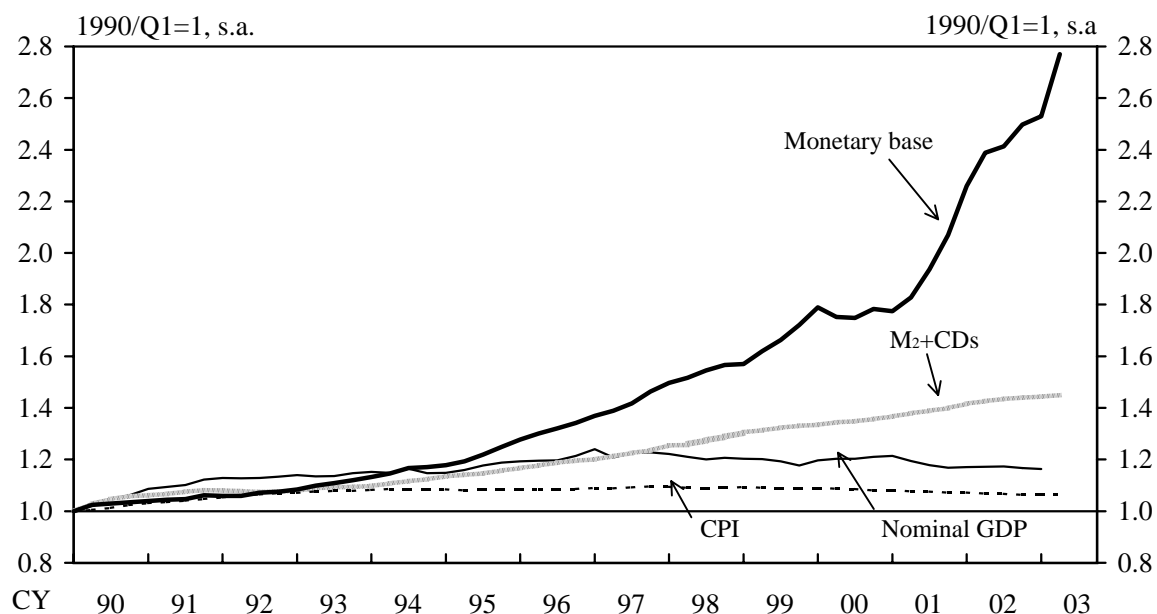
 Monetary Indicators, Economic Activity and Price Development

(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 CPI exclude fresh food and effects of the change in the consumption tax rate.
 3. Figure for CPI in 2003/Q2 is that of Apr.-May average.

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.