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Bank of Japan

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

June 2004

(English translation prepared by the Bank's staff based on the Japanese original  
released on June 16, 2004)

# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

June 2004

## The Bank's View<sup>2</sup>

Japan's economy continues to recover, and the increases in production and corporate profits are exerting positive effects on employment.

Exports and business fixed investment continue to increase, and industrial production has also been increasing consistently. Under these circumstances, the employment situation has been improving and the decline in household income is coming to a halt. Private consumption continues to show some positive movements. Meanwhile, housing investment has been nearly flat and public investment has been declining.

Japan's economy is expected to continue to recover, gathering stronger momentum.

Overseas economies are projected to continue growing relatively fast. Based on this projection, it is likely that final demand, particularly exports and business fixed investment, will continue recovering, and that production will also continue increasing. The impact of excessive debt in the corporate sector and other structural factors on corporate activity has been weakening. Although firms are still restraining their labor costs, the positive effects of the increases in production and corporate profits on household income are expected to become visible. Public investment, meanwhile, is projected to be on a downtrend.

On the price front, domestic corporate goods prices have been rising, due to the strengthening of commodity prices at home and abroad and to the improvement in supply and demand conditions. Consumer prices (excluding fresh food) have been declining slightly on a year-on-year basis.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 14 and 15, 2004.

<sup>2</sup> The Bank's view was determined by the Policy Board at the Monetary Policy Meeting held on June 14 and 15, 2004.

Domestic corporate goods prices are expected to continue increasing for some time, partly due to the rise in crude oil prices. On the other hand, supply and demand conditions will remain loose for the time being, although they are improving. Under these circumstances, consumer prices are basically projected to continue falling slightly on a year-on-year basis.

As for the financial environment, the environment for corporate finance is becoming more accommodative on the whole, although it remains severe for firms with high credit risks. The issuing environment for CP and corporate bonds is favorable on the whole. Also, the lending attitude of private banks is becoming more accommodative. The lending attitude of financial institutions as perceived by firms continues to improve. The pace of decline in credit demand in the private sector is becoming somewhat moderate. Under these circumstances, the amount outstanding of CP and corporate bonds issued continues to be above the previous year's level, and the rate of decline in lending by private banks has been diminishing slightly. As growth of banknotes in circulation is on a downtrend mainly due to decreasing anxieties about the financial system, the year-on-year growth rate of the monetary base is at the 7.0-8.0 percent level. The year-on-year growth rate of the money stock is at the 2.0 percent level. As for developments in financial markets, money market conditions continue to be extremely easy, as the Bank of Japan continues to provide ample liquidity. In the foreign exchange and capital markets, the yen's exchange rate against the U.S. dollar, long-term interest rates, and stock prices have risen from last month.

## **The Background**

### **1. Japan's Economy**

Public investment has been declining (Chart 3). The value of public works contracted—a measure that reflects public orders—is on a downtrend. The amount of public construction completed, which reflects the actual progress of public works, is also trending downward. Public investment is projected to continue declining, since the initial budget for fiscal 2004 has been reduced considerably.

Real exports continued to increase, reflecting the expansion of overseas economies, particularly in the United States and East Asia (Charts 4[1] and 5); they rose 4.1 percent in the first quarter on a quarter-on-quarter basis and 2.0 percent in April from the first quarter.

By region (Chart 5[1]), exports to East Asia increased only slightly in April from the first quarter, in reaction to the upsurge in the previous periods. Meanwhile, exports to the United States and to the EU dropped, but those to other regions such as Central and South America continued to rise. Among exports to East Asia, which comprises a large weight in total exports, those to the NIEs increased, albeit slightly. On the other hand, exports to China dropped slightly in April, in reaction to the rapid increase in the first quarter partly due to the lowering of tariffs there.<sup>3</sup> Exports to ASEAN also declined somewhat in April, after they marked high growth in the first quarter from spot exports of ships (included in “capital goods and parts”).

By goods (Chart 5[2]), exports of capital goods and parts, including semiconductor fabrication machines and equipment, and those of IT-related goods, continued to increase, although the pace slowed compared to the first quarter (Charts 6[1] and 7[1]). Also, exports of consumer goods (such as digital home appliances) continued to increase steadily. On the other hand, exports of intermediate goods (chemicals and iron and steel) fell back in April, after they continued to increase considerably until the first quarter (Chart 6[2]). Meanwhile, exports of

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<sup>3</sup> Exports to China tend to exhibit high growth at the beginning of the year. This is because China is in the process of step-by-step tariff reductions in the wake of its accession to the WTO at the end of 2001; each stage of reduction occurs at the beginning of the year.

automobile-related goods remained more or less flat with the fluctuations smoothed out, as the expansion in global demand was basically offset against the transfers of production plants to overseas locations (Chart 6[3]).

Real imports continued to increase with the recovery in the domestic economy, although the pace has been milder compared to exports (Charts 4[1] and 8). By goods (Chart 8[2]), imports of IT-related goods and those of capital goods and parts (excluding aircraft) continued to increase steadily, reflecting the rise in production and the international division of labor between Japan and East Asia. On the other hand, imports of consumer goods dropped in April.

Given these developments in exports and imports, net exports have been increasing substantially in terms of the real trade balance (Chart 4[2]). On the other hand, the surplus of the nominal balance on goods and services has shrunk just recently, since deficits in travel and transportation have expanded reflecting the recovery in overseas travel.

Exports are expected to continue increasing, since overseas economies are projected to continue growing relatively fast, particularly in the United States and East Asia (Chart 9-1[2]). The U.S. economy is likely to continue growing relatively quickly for the time being, since private consumption and business fixed investment continue to be solid and a recovery in employment is also becoming visible (Chart 9-2). The East Asian economies, moreover, are expected to continue growing, led by China's economy. However, high crude oil prices and measures taken to cool the overheating economy in China require close scrutiny in terms of their effects on the future global economy.

Imports are expected to trend upward, mainly in IT-related goods, capital goods and parts, and consumer goods, since the domestic economy is projected to continue recovering.

Business fixed investment continued to increase. Fixed investment on a real GDP basis continued to increase in the first quarter, after the high growth in the fourth quarter (Chart 2). Fixed investment in nominal terms continued a steady uptrend on

average; it increased only slightly in the first quarter, in reaction to the sharp rise in the fourth quarter<sup>4</sup> (Chart 10[1]). By industry and size (Chart 11), investment by small and medium-sized manufacturing firms, which jumped in the fourth quarter, maintained a high level in the first quarter. Investment by small and medium-sized nonmanufacturing firms has recently increased, mainly in services industries which tend to fluctuate largely. Meanwhile, investment by large manufacturing firms rose only slightly compared to their annual projections for fiscal 2003, such as those shown in the *Tankan* survey. This suggests that a sizable amount of investment has been delayed and will be implemented in fiscal 2004. Investment by large nonmanufacturing firms lacked hints of recovery as a whole, although some industries, such as the retail industry, have been on an uptrend.

As for monthly indicators, shipments of capital goods (excluding transport equipment) have been increasing, particularly in semiconductor fabrication machines and equipment (Chart 12-1[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of business fixed investment—surged in April after they dropped in the first quarter (Chart 12-2[1]). As for the April figures, orders from manufacturing firms increased significantly partly due to large orders of industrial machinery, while those from nonmanufacturing firms were flat. Construction starts (floor area, private, nondwelling use)—another leading indicator—fell back only slightly in April, after they rose sharply in the first quarter, bolstered partly by the increased starts of some large-scale redevelopment projects (Chart 12-2[2]). On average, construction starts have been trending up, mainly in the mining and manufacturing, wholesale and retail trade, and transportation sectors.

Looking at developments in corporate profits as part of the environment surrounding business fixed investment,<sup>5</sup> the ratio of current profits to sales continued to improve steadily, and the recovery in corporate profits has been spreading across the nonmanufacturing sector and small firms (Chart 10[2]).

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<sup>4</sup> Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*.

<sup>5</sup> Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*.

The increase in business fixed investment is expected to continue, particularly for manufacturing firms, since domestic as well as external demand and corporate profits are projected to increase. Meanwhile, the impact of excessive debt in the corporate sector and other structural factors on corporate activity has been weakening.

Private consumption continued to show some positive movements. With regard to individual indicators (Charts 13-1 and 13-2), the number of new passenger-car registrations was nearly flat with the fluctuations smoothed out; it dropped in April-May, in reaction to the high growth in the first quarter, partly reflecting strong sales of new models. Sales of household electrical appliances (NEBA statistics; in real terms) continued a steady uptrend, particularly in digital home appliances (flat panel TVs, DVD recorders, and digital cameras) and PCs. Sales at department stores and supermarkets have recently been nearly flat. Meanwhile, sales at convenience stores have been on a gradual uptrend. As for services consumption, sales in the food services industry were nearly flat with the fluctuations smoothed out. Outlays for travel decreased in the first quarter, and then recovered remarkably in April. This recovery was seen mainly in overseas travel, which was boosted partly by calendar factors during Japan's annual holidays from late April to early May (the so-called Golden Week holidays).

Looking at indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,<sup>6</sup> the indices including the effects of the increase in the number of stores (including sales at convenience stores) were on a gradual uptrend, while those excluding the effects of the increase in the number of stores (excluding sales at convenience stores) continued to be more or less flat (Chart 13-3). Moreover, aggregate supply of consumer goods (Chart 13-4), which comprehensively captures producers' supply of goods, decreased in the first quarter,

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<sup>6</sup> The indices of aggregated sales are the weighted average of major sales indicators, with the weights based on the consumption spending of households. Each sales indicator is deflated by consumer prices. The indices are convenient in the sense that the trend of these sales indicators can be observed in a single series. However, the coverage of services consumption is narrow, and the indices do not necessarily incorporate all sales channels of goods. Also, note that outlays for travel in April are not incorporated here, since they were released after the release of the indices.

but increased in April from the first quarter. Furthermore, according to the *Family Income and Expenditure Survey*, which captures private consumption from the demand side, the index of living expenditure level (all households; in real terms) posted a sharp rise in April, despite large monthly fluctuations (Chart 13-1[1]).

Indicators for consumer sentiment continue to be on a recovery trend (Chart 14). The consumer confidence index (original series) has recently been improving successively; in May, it recorded the highest level since September 1991.

Private consumption is projected to recover gradually, as the effects of the increases in production and corporate profits on household income are expected to become visible.

As for housing investment, housing starts have been nearly flat with the fluctuations smoothed out; they marked a relatively high level of around 1.2 million units at annual rates in the first quarter, mainly in housing for rent and for sale in the Tokyo metropolitan area, but fell back in April (Chart 15[1]). Housing investment is projected to remain more or less flat.

Industrial production slowed its pace of increase in the first quarter, but registered high growth again in April (Chart 16[1]). Shipments of a wide range of goods, such as producer goods (electronic parts), capital goods (including semiconductor fabrication machines and equipment), and durable consumer goods (digital home appliances) have been on an uptrend, with the fluctuations smoothed out (Chart 17).

Meanwhile, inventories have been nearly flat as a whole, although various goods are showing different movements (Chart 16[1]). The chart of the inventory cycle shows that production of materials industries such as “construction goods” and “producer goods excluding a broad category of electrical machinery” was somewhat restrained, and that inventories have been declining recently (Chart 18). On the other hand, the intended accumulation of inventories for “producer goods in a broad category of electrical machinery” (electronic parts) has become clear. In these areas, adjustment pressures on inventories are unlikely to be intensified immediately, judged



from strong domestic and external demand. Nevertheless, the supply and demand conditions in these areas require close monitoring for the time being, taking into account that production capacity has been increasing. The increase in inventories for “capital goods” and “durable consumer goods” may have been caused merely by monthly fluctuations, as these inventories seem to have been waiting to be shipped overseas.

Production is expected to continue increasing, reflecting the recovery in domestic and external demand. Judged from the production forecast index, production will increase substantially in the second quarter.<sup>7</sup> Also, based on anecdotal information, firms are projected to increase their production steadily, particularly in general machinery (such as semiconductor fabrication machines and equipment), electrical machinery, and electronic parts.

As for the employment and income situations, various indicators reflecting labor market conditions have been on an uptrend. Under this situation, the uptrend in the number of employees is gradually becoming visible, and the decline in household income is coming to a halt (Chart 19[1]).

In the labor market, overtime hours worked have been above the peak of the previous recovery periods (Chart 20-2[3]). The number of new job offers continued to increase, particularly in the services industry, including temporary employment services and similar businesses (Charts 20-1[2] and [3]). The ratio of job offers to applicants has been improving on average (Chart 20-1[1]), although it has recently leveled off after the sharp rise toward the end of last year. Moreover, the unemployment rate has been on a gradual downtrend (Chart 20-1[1]).

The number of employees in the *Labour Force Survey* exhibited high year-on-year growth in April for the first time in three years (Chart 20-2[1]). Although these figures tend to fluctuate significantly, the uptrend is gradually becoming clear. Also, the decline in the number of regular employees in the

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<sup>7</sup> By simply combining the forecast indices for May (an increase of 3.5 percent from the previous month) and June (a decrease of 1.5 percent from the previous month), production for the second quarter is projected to increase substantially by 4.4 percent from the previous quarter (Chart 16[2]).

*Monthly Labour Survey* is coming to a halt on average; the statistics registered a fairly large increase in April on a year-on-year basis, which was partly due to the low level last April (Chart 20-2[2]).

Regarding wages on a year-on-year basis (Chart 19[2]), overtime payments continued to increase. Regular payments are still on a downtrend in terms of the average per person, mainly due to the rise in the ratio of part-time workers, although the rate of decline has narrowed from some time ago. Meanwhile, special cash earnings increased in April, after they decreased substantially in March, due to the reduction in fiscal-year end bonuses of public employees.

Firms are expected to continue restraining their labor costs through the extensive use of part-time workers and outsourcing. However, further increases in production and corporate profits, whose levels have already been high, are expected to exert positive effects more visibly on household income.

## **2. Prices**

The rate of increase in import prices (on a yen basis; same hereafter) compared to levels three months before accelerated in May, reflecting the rise in international commodity prices, including crude oil prices, and the depreciation of the yen during the month (Chart 22).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates; same hereafter)<sup>8</sup> have been rising compared to levels three months before<sup>9</sup> (Chart 23). In detail, prices of petroleum products, nonferrous metals, and iron and steel related products rose markedly, reflecting the strengthening

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<sup>8</sup> The figures are adjusted to exclude a large seasonal fluctuation in electric power charges in order 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.

<sup>9</sup> Domestic corporate goods prices registered an increase of 1.1 percent on a year-on-year basis, the highest growth since July 1991 with the effects of the consumption tax hike excluded (Chart 21[2]). In recent periods, the pace of year-on-year increase has been faster than the pace of increase compared to levels three months before. This is because the year-on-year rates of decline in domestic corporate goods prices were expanding for the same period last year.

of commodity prices at home and abroad. In these areas, the effects from the rise in materials prices on intermediate goods prices are becoming noticeable, assisted by the improvement in supply and demand conditions. Meanwhile, the impact from materials prices on final goods prices is still limited. However, the rate of decline in final goods prices has been diminishing, particularly in capital goods, in which demand such as exports and business fixed investment has been recovering. Rice prices, which had been rising since last fall, have fallen back.

Corporate services prices (domestic supply-demand factors; same hereafter) continued their year-on-year decline of around 1 percent, mainly in leasing and renting, real estate services, and general services such as car maintenance and building maintenance (Chart 24). The rate of decline in April diminished, largely due to factors in the previous year; software development (included in “general services”) dropped sharply last April, partly from sampling factors. Nevertheless, the improvement in supply and demand conditions this year was reflected in prices of some services such as machinery maintenance.

The year-on-year rate of decline in consumer prices (excluding fresh food; same hereafter) expanded marginally; consumer prices registered declines of 0.1 percent in March and 0.2 percent in April on a year-on-year basis (Chart 25). This was because medical costs, which had risen last April, stopped exerting upward pressure on a year-on-year basis this April since one year passed.

Looking at land prices in the Urban Land Price Index (Chart 27), the rate of decline has been narrowing in the six major cities. On a nationwide basis, however, land prices have continued to decrease at almost the same pace as before.

Domestic corporate goods prices are likely to continue increasing for some time, partly due to the recent rise in crude oil prices. With respect to consumer prices, prices of petroleum-related products, such as gasoline, are likely to start increasing soon on a year-on-year basis, reflecting the rise in crude oil prices. Meanwhile, supply and demand conditions in the macroeconomy are expected to remain loose for the time being, although they are improving. Under these circumstances, firms are expected to offset the increased cost of materials by

increasing their productivity and by restraining their labor costs. Hence, the impact of the rise in international commodity prices on consumer goods as a whole is expected to be relatively small. Based on these considerations, consumer prices are basically projected to continue falling slightly on a year-on-year basis.

### **3. Financial Developments**

#### **(1) Financial Markets**

The outstanding balance of current accounts at the Bank of Japan has been moving at around 31-34 trillion yen, as the Bank continues to provide ample liquidity (Chart 30).

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 28[1]) has been moving at around zero percent. Interest rates on term instruments (Chart 29[1]) have been steady at low levels on the whole. Under these circumstances, interest rates on Euroyen futures (Chart 29[2]) have been rising.

In the government bond market, yields on 10-year government bonds (newly issued 10-year JGB; Chart 28[2]) have recently climbed to around 1.8 percent, reflecting the rise in Japanese stock prices, and an improvement in business sentiment in view of domestic and overseas economic indicators.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 32 and 33) remain essentially unchanged on the whole, disregarding the fluctuations associated with the constituent changes of bonds with low credit ratings.

Stock prices (Chart 34) rose, reflecting a series of economic indicators that showed evidence for a recovery of the domestic economy, and a rebound in U.S. stock prices. The Nikkei 225 Stock Average is moving around 11,500 yen.

In the foreign exchange market (Chart 35), the yen rose, mainly due to investment in Japanese stocks by foreign investors. The yen is being traded in the range of 108-111 yen to the U.S. dollar.

## **(2) Corporate Finance and Monetary Aggregates**

As for credit demand in the private sector, the pace of decline is becoming somewhat moderate, since corporate activity has recovered, as seen in the increase in business fixed investment, while firms continue to reduce their debts.

Regarding credit supply, the lending attitude of private banks is becoming more accommodative on the whole, although they remain cautious about extending loans to firms with high credit risks. The lending attitude of financial institutions as perceived by firms continues to improve (Chart 36).

Lending rates have recently dropped somewhat, as they 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, has been falling slightly (Chart 37). The long-term prime lending rate was raised by 0.20 percent, to 1.90 percent, on June 10.

The rate of decline in lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors<sup>10</sup>), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, has been diminishing slightly. (The year-on-year change was -1.6 percent in March, -1.8 percent in April, and -1.3 percent in May; Chart 38.)

In the corporate bond and CP markets, the issuing environment continues to be favorable on the whole. Corporate bond issuance rates have been virtually flat, and the issuance spreads remain steady. CP issuance rates continue to be at low levels. The year-on-year growth rate of the amount outstanding of CP and corporate bonds issued rose slightly; it is currently at the 2.0-3.0 percent level. (The year-on-year

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<sup>10</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

change was 1.5 percent in March, 1.9 percent in April, and 2.6 percent in May; Chart 40.)

According to business surveys, the financial positions of firms continue to improve.

The growth of banknotes in circulation is on a downtrend, due mainly to decreasing anxieties about the financial system. The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan) rose slightly and is at the 7.0-8.0 percent level. (The year-on-year change was 11.9 percent in March, 6.6 percent in April, and 7.4 percent in May; Chart 41.)

The year-on-year growth rate of the money stock ( $M_2$  + CDs) has recently been rising slightly; it was at the 2.0 percent level in May. (The year-on-year change was 1.7 percent in March, 1.9 percent in April, and 2.0 percent in May; Chart 42.)

The number of corporate bankruptcies continues its downtrend; it declined by 25.0 percent year-on-year in May, to 1,089 cases (Chart 43).

## Charts

Chart 1	Main Economic Indicators
Chart 2	Real GDP
Chart 3	Public Investment
Chart 4	External Balance
Chart 5	Real Exports
Chart 6	Real Exports breakdown by goods
Chart 7	Exports and Imports of IT-related goods
Chart 8	Real Imports
Chart 9	Environment for Exports
Chart 10	Business Fixed Investment and Corporate Profits
Chart 11	Business Fixed Investment
Chart 12	Indicators for Business Fixed Investment
Chart 13	Indicators for Private Consumption
Chart 14	Consumer Confidence
Chart 15	Indicators for Housing Investment
Chart 16	Production, Shipments, and Inventories
Chart 17	Shipments breakdown by type of goods
Chart 18	Inventory Cycle
Chart 19	Compensation of Employees
Chart 20	Labor Market
Chart 21	Prices
Chart 22	Import Prices and International Commodity Prices
Chart 23	Domestic Corporate Goods Price Index
Chart 24	Corporate Service Price Index
Chart 25	Consumer Price Index (excluding fresh food)
Chart 26	Consumer Prices of imported goods and their substitutes
Chart 27	Urban Land Price Index
Chart 28	Interest Rates
Chart 29	Short-Term Money Market Rates
Chart 30	Current Account Balances at the Bank of Japan
Chart 31	Implied Forward Rates (1-year)
Chart 32	Yields of Bank Bonds
Chart 33	Yields of Corporate Bonds
Chart 34	Stock Prices
Chart 35	Exchange Rates
Chart 36	Lending Attitude of Financial Institutions as Perceived by Small Enterprises
Chart 37	Lending Rates
Chart 38	Lending by Domestic Commercial Banks
Chart 39	Lending by Other Financial Institutions
Chart 40	Private-Sector Fund-Raising in the Capital Markets
Chart 41	Monetary Base
Chart 42	Money Stock (M1, M2+CDs, Broadly-Defined Liquidity)
Chart 43	Corporate Bankruptcies
Chart 44	Monetary Indicators, Economic Activity and Price Development

## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2003/Q3	Q4	2004/Q1	2004/Feb.	Mar.	Apr.	May
Index of living expenditure level (all households)	-0.1	-0.1	0.5	-0.8	-1.6	5.8	n.a.
Sales at department stores	-0.4	-0.3	-0.5	-0.3	-1.0	1.0	n.a.
Sales at supermarkets	-2.0	0.1	-0.7	0.2	-0.7	-1.6	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	<338>	<332>	<347>	<346>	<331>	<319>	<320>
Sales of household electrical appliances (real, NEBA)	4.4	2.0	2.7	0.7	-3.5	5.9	n.a.
Outlays for travel (50 major travel agencies)	11.0	4.7	-2.8	-1.7	-0.3	7.8	n.a.
Housing starts <s.a., ann. 10,000 units>	<112>	<117>	<121>	<117>	<120>	<112>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	-1.0	8.5	-5.6	2.8	-3.2	11.8	n.a.
Manufacturing	0.0	9.8	-3.6	1.1	-4.5	30.6	n.a.
Nonmanufacturing <sup>4</sup>	-1.4	7.4	-7.7	4.6	-3.2	0.2	n.a.
Construction Starts (private, nondwelling use)	3.5	-2.7	17.9	3.3	12.9	-11.4	n.a.
Mining & manufacturing	1.4	17.0	2.7	13.4	-6.3	38.4	n.a.
Nonmanufacturing <sup>5</sup>	3.6	-5.6	21.5	1.7	17.0	-22.4	n.a.
Value of public works contracted	-2.1	-8.3	-6.4	-0.0	-12.5	23.1	n.a.
Real exports	3.4	6.4	4.1	-1.7	0.5	2.3	n.a.
Real imports	1.3	1.6	2.6	-5.3	7.9	-2.6	n.a.
Industrial production	1.0	3.9	0.5	-3.8	0.6	3.5	n.a.
Shipments	0.8	4.0	0.0	-4.5	0.1	4.0	n.a.
Inventories	0.4	-1.2	0.2	0.7	0.3	1.4	n.a.
Inventory Ratio <s.a., CY 2000=100>	<97.1>	<93.9>	<94.0>	<95.3>	<94.0>	<95.0>	<n.a.>
Real GDP	0.7	1.8	1.5	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.0	1.6	-0.2	-3.5	1.1	n.a.	n.a.



## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2003/Q3	Q4	2004/Q1	2004/Feb.	Mar.	Apr.	May
Ratio of job offers to applicants <s.a., times>	<0.64>	<0.73>	<0.77>	<0.77>	<0.77>	<0.77>	<n.a.>
Unemployment rate <s.a., %>	<5.2>	<5.1>	<4.9>	<5.0>	<4.7>	<4.7>	<n.a.>
Overtime working hours <sup>6</sup>	3.6	4.7	3.3	3.0	2.9	p 4.0	n.a.
Number of employees	-0.2	0.3	0.4	0.5	0.3	1.1	n.a.
Number of regular employees <sup>6</sup>	-0.5	-0.3	-0.1	-0.1	-0.1	p 0.4	n.a.
Nominal wages per person <sup>6</sup>	-1.7	-1.3	-1.7	-0.4	-2.9	p 0.3	n.a.
Domestic corporate goods price index <sup>7</sup> <q/q % chg.> (3-month growth rate)	-0.7 <-0.2>	-0.4 <0.1>	0.1 <0.5>	0.0 <0.5>	0.2 <0.6>	0.6 <0.7>	p 1.1 <p 0.5>
Consumer price index <sup>8</sup> <s.a., q/q % chg.> (3-month growth rate)	-0.1 <0.0>	0.0 <-0.0>	0.0 <-0.1>	0.0 <-0.0>	-0.1 <-0.1>	-0.2 <0.0>	n.a. <n.a.>
Corporate service price index <sup>9</sup> <s.a., q/q % chg.> (3-month growth rate)	-1.1 <-0.2>	-1.2 <-0.2>	-1.2 <-0.2>	-1.3 <-0.3>	-1.2 <-0.1>	-0.9 <-0.2>	n.a. <n.a.>
Money Stock (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	1.8	1.5	1.7	1.7	1.7	1.9	2.0
Number of suspension of transactions with banks	-28.9	-29.0	-24.4	-30.1	-26.7	-24.5	n.a.

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

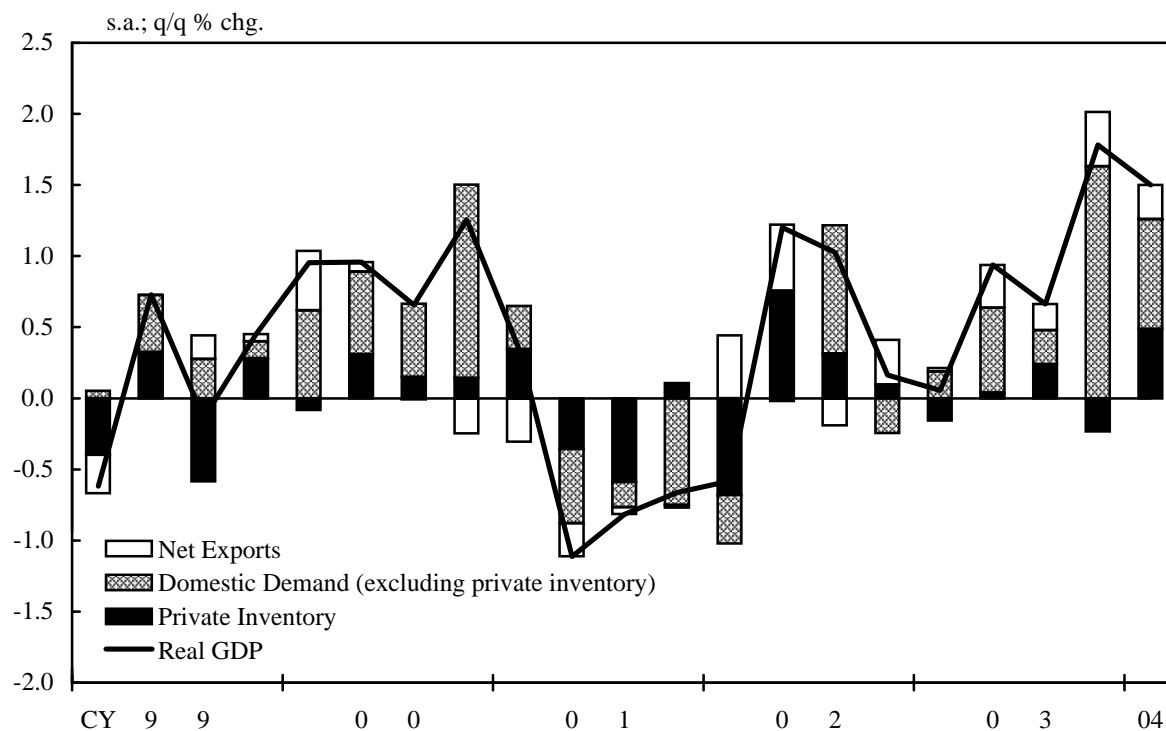
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. 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," "Statistics on Building Construction Starts"; Ministry of Finance, "The Summary Report on Trade of Japan"; Cabinet Office, "Machinery Orders Statistics," "National Accounts"; East Japan Construction Surety etc., "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)



## (2) Components

s.a.; q/q % chg.

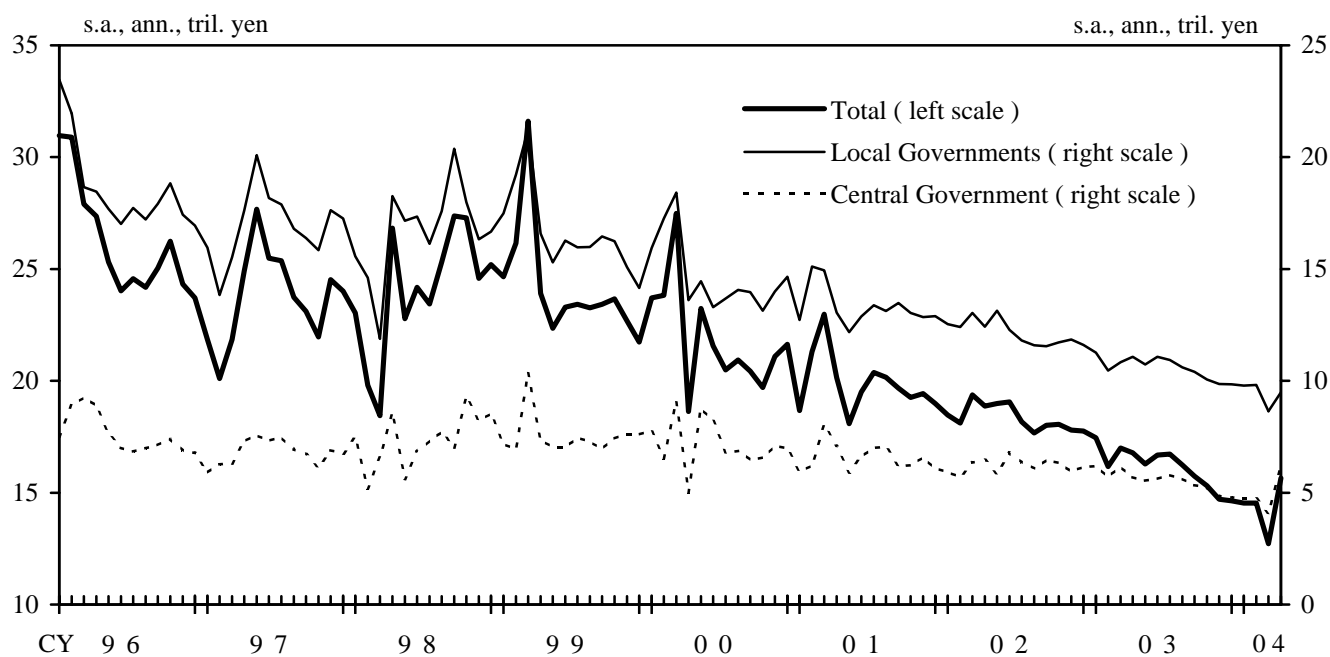
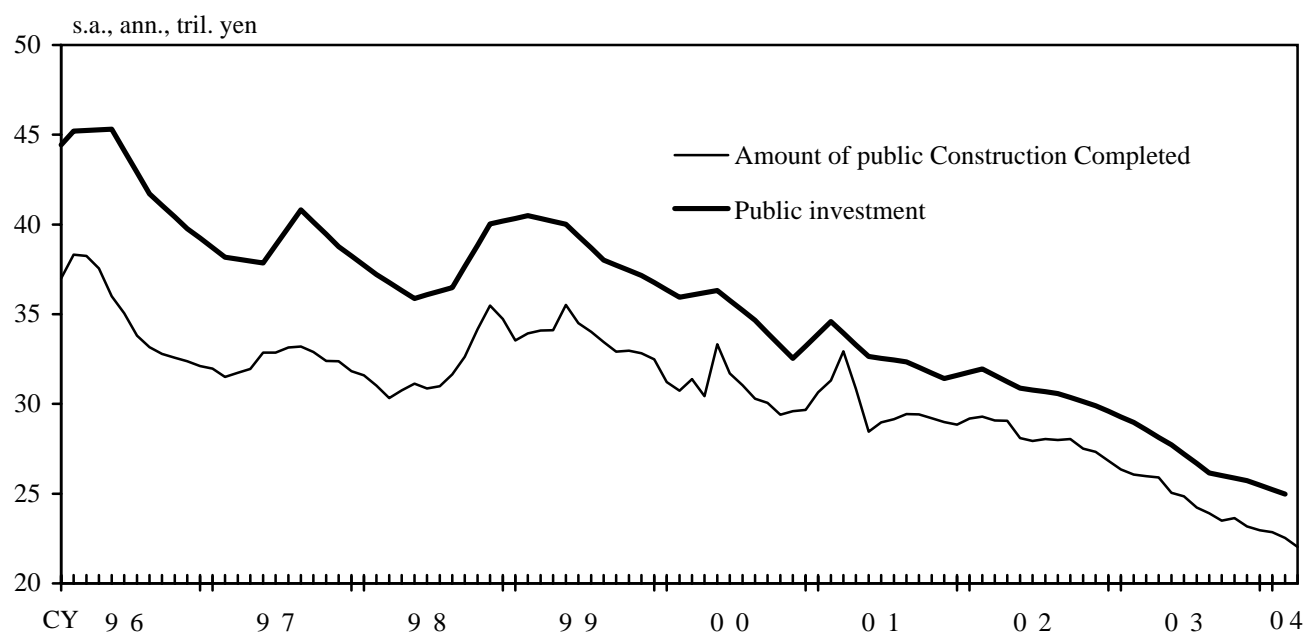
	2003				2004
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.1	0.9	0.7	1.8	1.5
Domestic Demand	0.0	0.7	0.5	1.4	1.3
Private Consumption	-0.1	0.2	0.6	1.0	1.0
Non-Resi. Investment	2.3	4.7	0.0	6.7	1.7
Residential Investment	-1.2	-0.2	3.2	-0.9	0.6
Private Inventory	(-0.2)	( 0.0)	( 0.2)	(-0.2)	( 0.5)
Public Demand	-0.4	-1.2	-1.0	-0.1	-0.4
Public Investment	-2.3	-4.0	-5.4	-1.3	-2.9
Net Exports of goods and services	( 0.0)	( 0.3)	( 0.2)	( 0.4)	( 0.2)
Exports	0.7	1.8	3.5	5.1	3.9
Imports	0.6	-1.0	2.6	2.6	2.8
Nominal GDP	-0.7	0.5	0.2	0.7	1.0

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

(2) Amount of Public Construction Completed<sup>2,3</sup> and Public Investment

Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

2. Amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works." The figures until March 2002 are retroactively calculated with year-to-year growth rates on the former basis.

3. The figures of value of public works contracted and amount of public construction completed are seasonally adjusted by X-12-ARIMA.

Sources: Cabinet Office, "National Accounts";

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

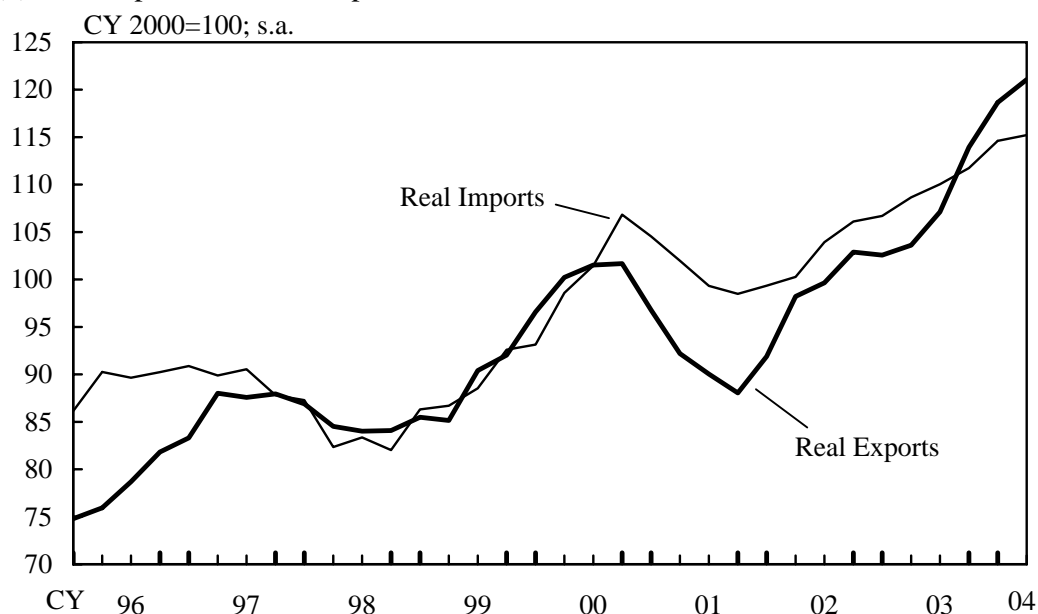
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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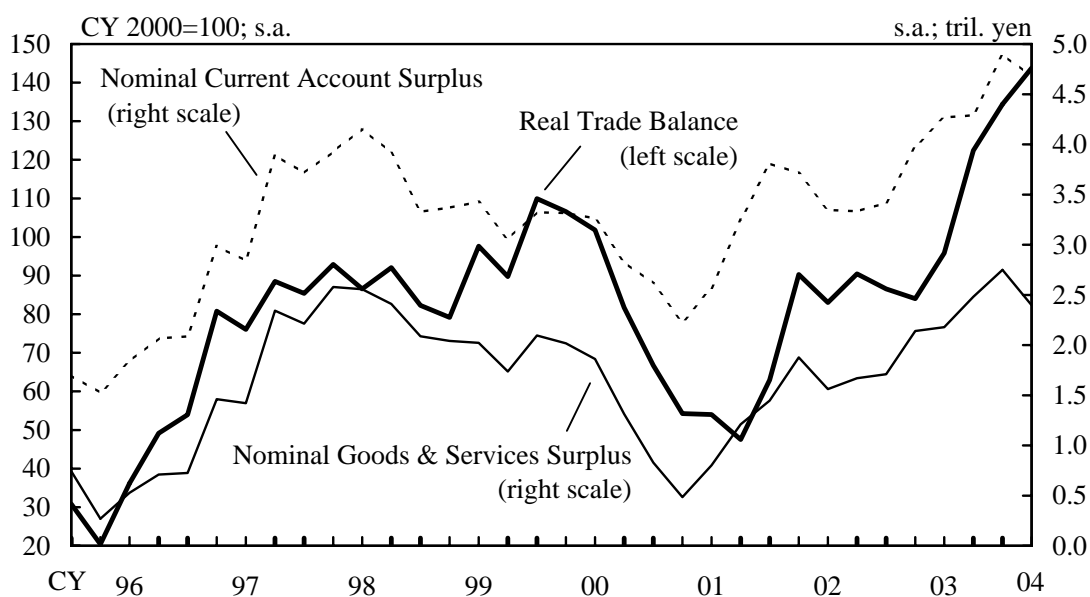
 External Balance
 

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## (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." 2004/Q2 figures are Apr. figures converted into quarterly amount.

2. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA. 2004/Q2 figures are Apr. figures 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 <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q2	Q3	2004 Q4	2004 Q1	Q2	2004 Feb.	Mar.	Apr.
United States	<24.6>	1.4	-6.2	0.5	-1.4	2.6	2.7	-0.5	2.1	2.6	-2.8
EU	<15.3>	-0.0	13.9	1.6	1.7	3.9	9.8	-4.9	-3.4	3.4	-5.9
East Asia	<44.9>	17.5	19.9	-1.0	7.1	8.4	8.8	0.6	-0.3	-4.8	4.1
China	<12.2>	35.5	41.1	2.3	9.2	5.3	11.0	-0.6	0.1	-10.3	7.0
NIEs	<23.5>	14.4	15.7	-3.3	7.4	12.1	8.1	1.9	2.5	-3.9	3.7
Korea	<7.4>	19.1	19.2	-5.3	8.5	9.2	13.2	-2.0	-0.6	-2.2	-0.4
Taiwan	<6.6>	14.6	16.1	-3.4	9.3	17.0	5.8	2.4	8.5	-4.9	3.1
ASEAN4 <sup>3</sup>	<9.2>	10.2	9.1	0.7	4.1	3.5	7.7	-1.2	-7.6	0.3	1.4
Thailand	<3.4>	16.5	18.3	3.0	6.5	5.5	7.4	2.5	-1.9	-3.5	5.6
Real exports		7.2	8.9	1.0	3.4	6.4	4.1	2.0	-1.7	0.5	2.3

## (2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q2	Q3	2004 Q4	2004 Q1	Q2	2004 Feb.	Mar.	Apr.
Intermediate goods	<15.6>	8.8	5.6	0.6	0.9	4.0	6.0	-2.8	-12.7	0.8	1.4
Motor vehicles and their related goods	<23.7>	12.7	1.3	-3.6	0.3	5.9	-1.5	1.3	-1.9	5.4	-1.5
Consumer goods <sup>4</sup>	<7.0>	7.9	14.9	2.7	0.7	9.4	6.2	5.8	0.9	4.2	2.7
IT-related goods <sup>5</sup>	<14.1>	0.3	12.9	3.4	7.4	4.7	5.6	2.1	-2.8	1.5	2.0
Capital goods and parts <sup>6</sup>	<28.6>	7.8	17.1	2.3	6.4	6.3	7.3	5.6	2.3	-2.9	6.9
Real exports		7.2	8.9	1.0	3.4	6.4	4.1	2.0	-1.7	0.5	2.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q2 figures are Apr. figures converted into quarterly amount.

2. Shares of each region and goods in 2003 are shown in angle brackets.

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

4. Excludes motor vehicles.

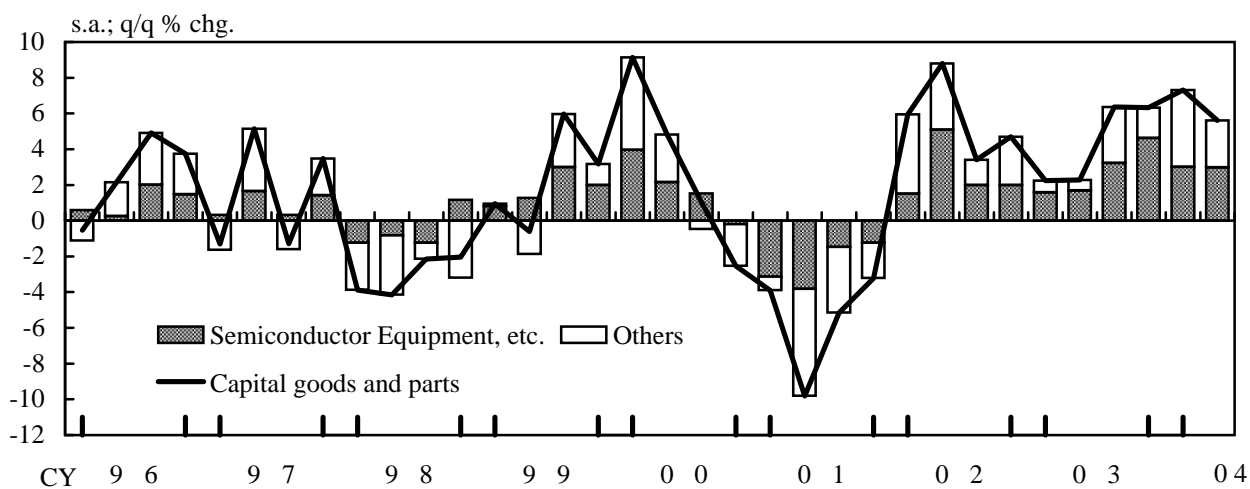
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

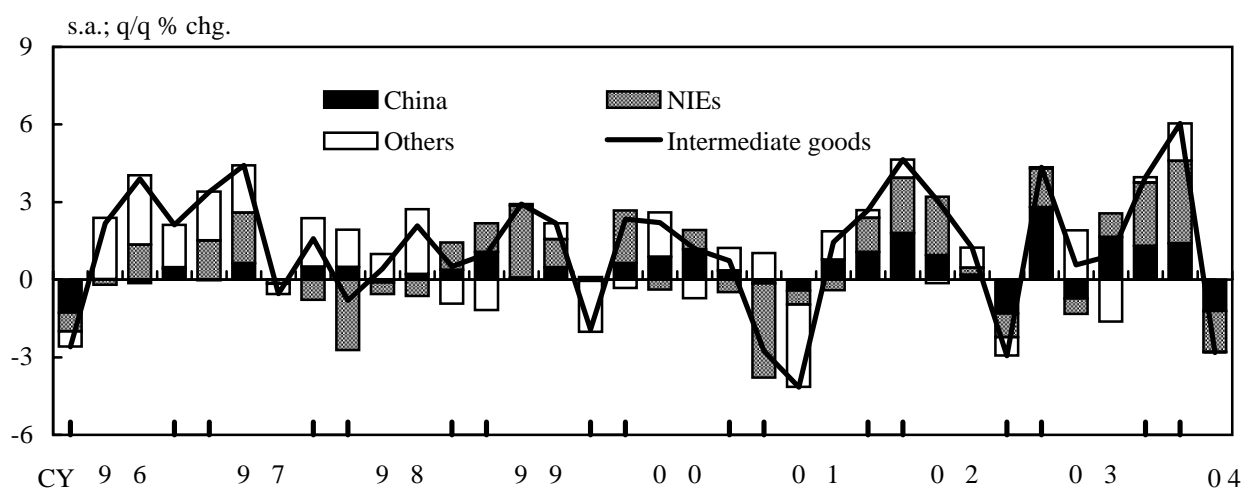
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Real Exports breakdown by goods

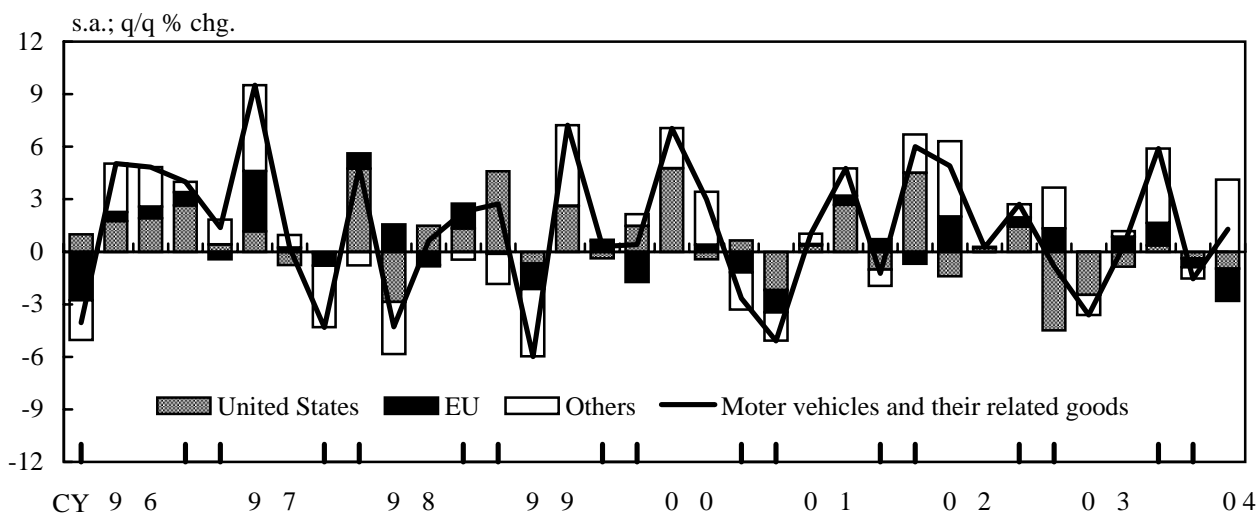
(1) Capital goods and parts (real, breakdown by goods)



(2) Intermediate goods (real, breakdown by region)



(3) Motor vehicles and their related goods (real, breakdown by region)



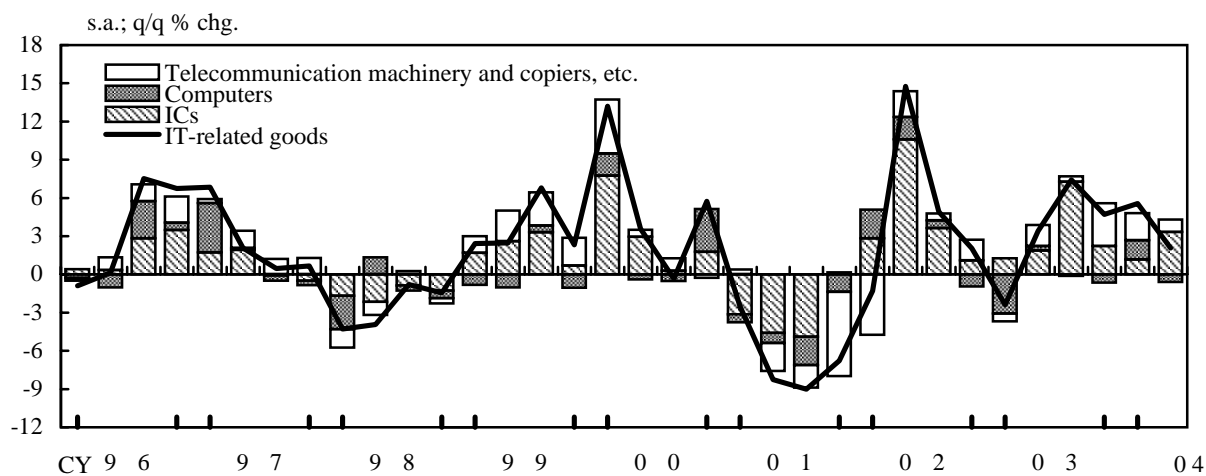
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2004/Q2 figures are Apr. figures converted into quarterly amount.

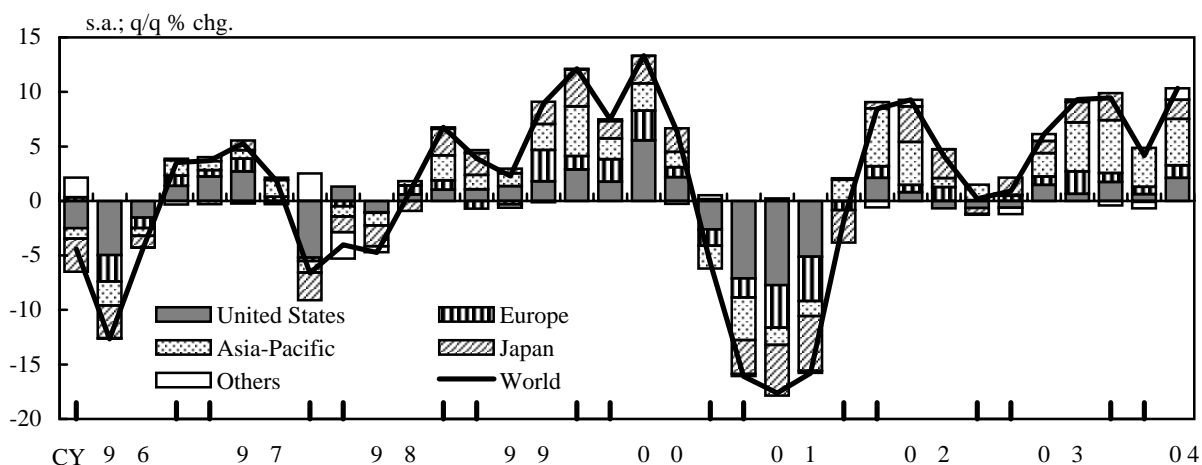
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Exports and Imports of IT-related goods

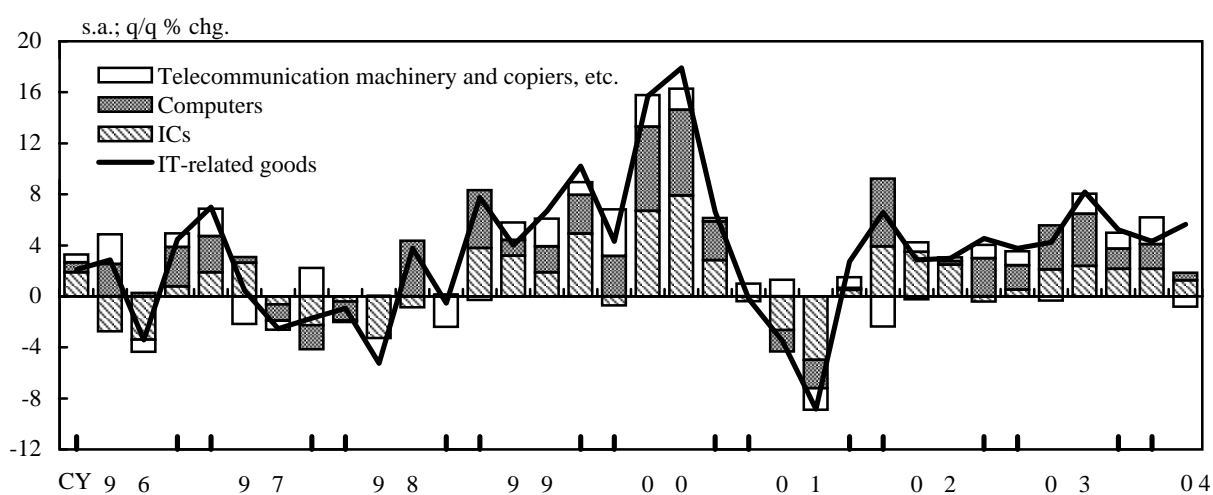
## (1) Exports of IT-related goods (real, breakdown by goods)



## (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. 2004/Q2 figures are Apr. figures 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 Imports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q2	Q3	Q4	2004 Q1	Q2	2004 Feb.	Mar.	Apr.
United States	<15.4>	-3.9	-1.6	4.5	-1.4	1.3	-3.6	6.0	-2.4	4.5	3.8
EU	<12.8>	2.3	6.4	2.6	1.3	3.1	6.8	-5.3	0.6	-0.0	-5.5
East Asia	<42.4>	6.4	14.6	4.5	3.9	3.6	4.7	-0.3	-0.8	4.3	-2.8
China	<19.7>	13.8	21.9	5.1	5.2	3.5	6.7	-1.5	-2.8	13.9	-8.7
NIEs	<10.2>	1.8	9.8	3.2	6.0	5.5	4.8	1.2	6.2	-4.0	2.0
Korea	<4.7>	-1.5	13.1	4.2	3.1	7.8	9.4	-0.2	11.8	-3.5	-1.4
Taiwan	<3.7>	5.4	7.1	2.7	8.4	2.2	3.3	3.4	0.8	-5.8	7.3
ASEAN4 <sup>3</sup>	<12.5>	1.5	9.0	4.9	0.5	2.1	1.5	0.2	-3.6	-2.5	3.2
Thailand	<3.1>	7.6	11.5	2.2	4.6	3.4	2.3	1.2	-4.7	-1.9	4.2
Real imports		1.1	6.8	1.8	1.3	1.6	2.6	0.5	-5.3	7.9	-2.6

## (2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q2	Q3	Q4	2004 Q1	Q2	2004 Feb.	Mar.	Apr.
Raw materials <sup>4</sup>	<27.1>	-2.7	6.0	-0.5	-3.0	-3.4	3.3	2.3	-5.8	2.7	2.6
Intermediate goods	<13.4>	1.4	4.5	-0.1	2.5	1.0	3.3	-3.5	-2.4	7.1	-7.1
Foodstuffs	<11.5>	-2.5	-4.2	-1.4	-0.6	0.2	-0.0	1.0	-0.1	3.5	-1.3
Consumer goods	<10.8>	-0.9	8.0	2.6	3.7	6.3	0.7	-4.0	-9.4	14.1	-9.0
IT-related goods <sup>5</sup>	<14.0>	7.8	19.3	4.2	8.2	5.2	4.3	5.6	-0.8	0.7	5.4
Capital goods and parts <sup>6</sup>	<13.0>	11.5	14.3	10.8	-1.7	6.5	3.0	5.6	-11.5	26.7	-5.6
excluding aircraft	<11.9>	8.3	14.3	3.7	1.5	4.8	7.8	3.2	-3.2	2.1	2.8
Real imports		1.1	6.8	1.8	1.3	1.6	2.6	0.5	-5.3	7.9	-2.6

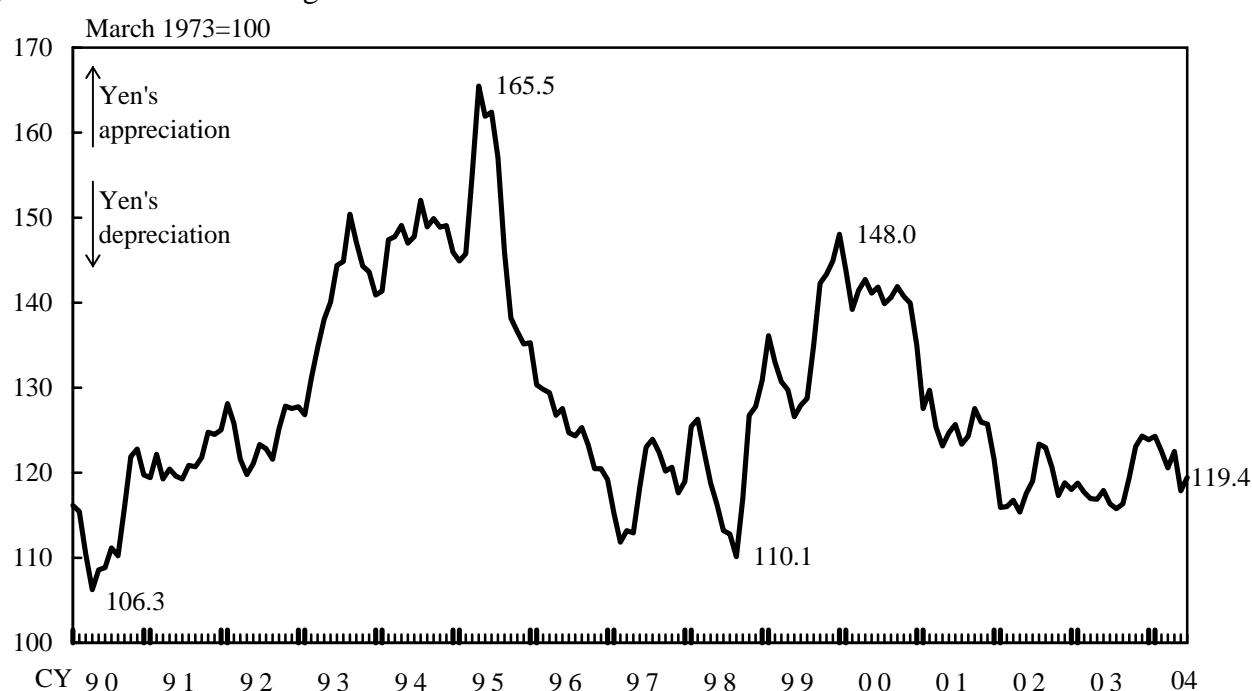
- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q2 figures are Apr. figures converted into quarterly amount.  
2. Shares of each region and goods in 2003 are shown in angle brackets.  
3. Data for four members: Thailand, Malaysia, the Philippines, and Indonesia.  
4. Raw materials are mainly composed 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."



## Environment for Exports (1)

### (1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for June 2004 is the average up to June 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.

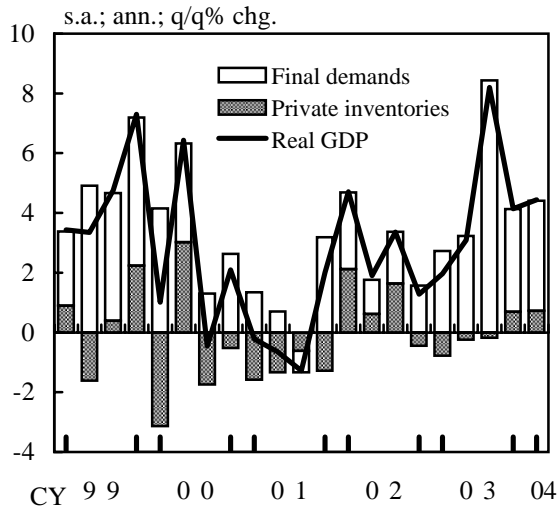
### (2) Real GDP Growth Rates in Overseas Economies

		CY2001	2002	2003	2003 Q2	Q3	Q4	2004 Q1	
United States <sup>1</sup>		0.5	2.2	3.1	3.1	8.2	4.1	4.4	
European Union <sup>1</sup> (15 countries)		1.6	1.0	0.7	0.1	1.9	1.9	2.3	
Germany		0.8	0.2	-0.1	-0.7	0.8	1.1	1.8	
France		2.1	1.1	0.5	-1.2	2.4	2.5	3.1	
United Kingdom		2.1	1.6	2.2	2.4	3.4	3.7	2.5	
East Asia <sup>2</sup>	China	7.5	8.0	9.1	6.7	9.6	9.9	9.8	
	NIEs	Korea	3.8	7.0	3.1	2.2	2.4	3.9	5.3
		Taiwan	-2.2	3.6	3.2	-0.1	4.2	5.2	6.3
		Hong Kong	0.5	1.9	3.7	-0.6	4.0	4.9	6.8
		Singapore	-1.9	2.2	1.1	-3.9	1.7	4.9	7.5
	ASEAN4	Thailand	2.1	5.4	6.8	5.8	6.6	7.8	6.5
		Indonesia	3.8	4.3	4.5	4.8	3.7	4.1	4.5
Malaysia		0.3	4.1	5.3	4.6	5.3	6.6	7.6	
Philippines		3.0	3.1	4.7	4.2	4.8	5.0	6.4	

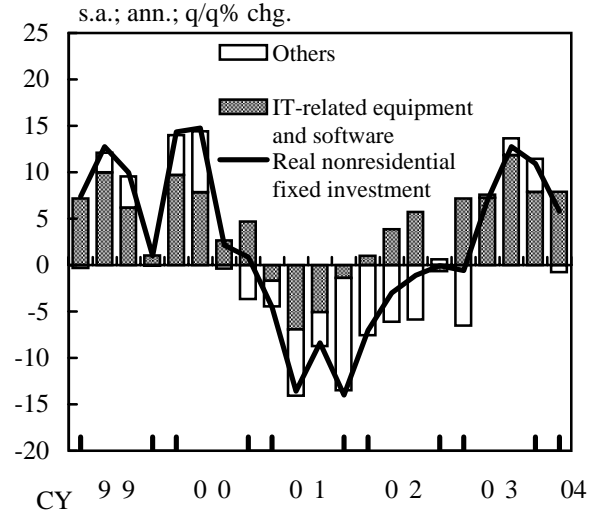
Notes: 1. Quarterly data of U.S. and EU are quarter-to-quarter percent changes at annual rate.  
2. Quarterly data of East Asia are percent changes from a year earlier.

Environment for Exports (2)

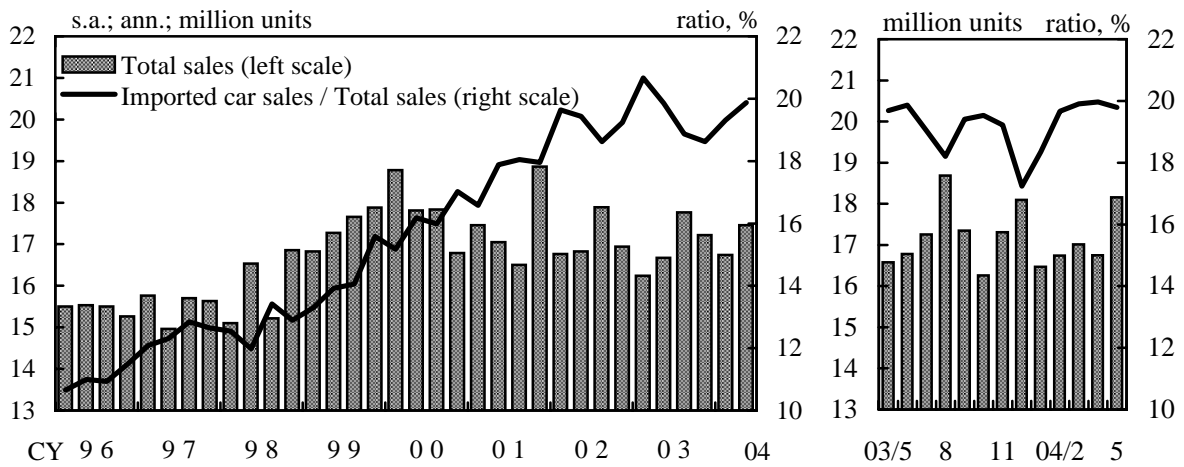
(1) U.S. Real GDP (breakdown by final demands and inventories)



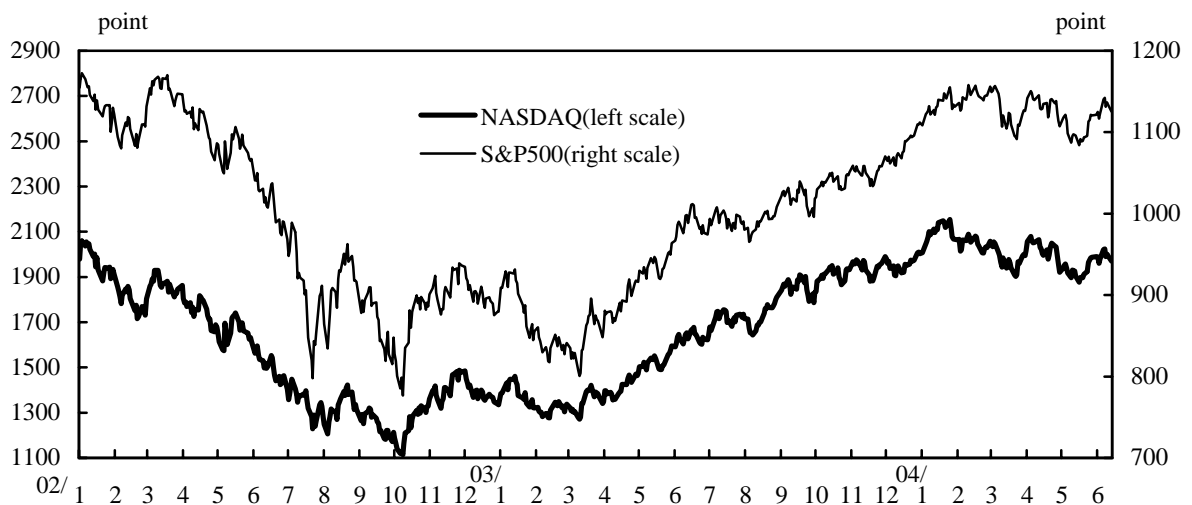
(2) U.S. Real Nonresidential Fixed Investment



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



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

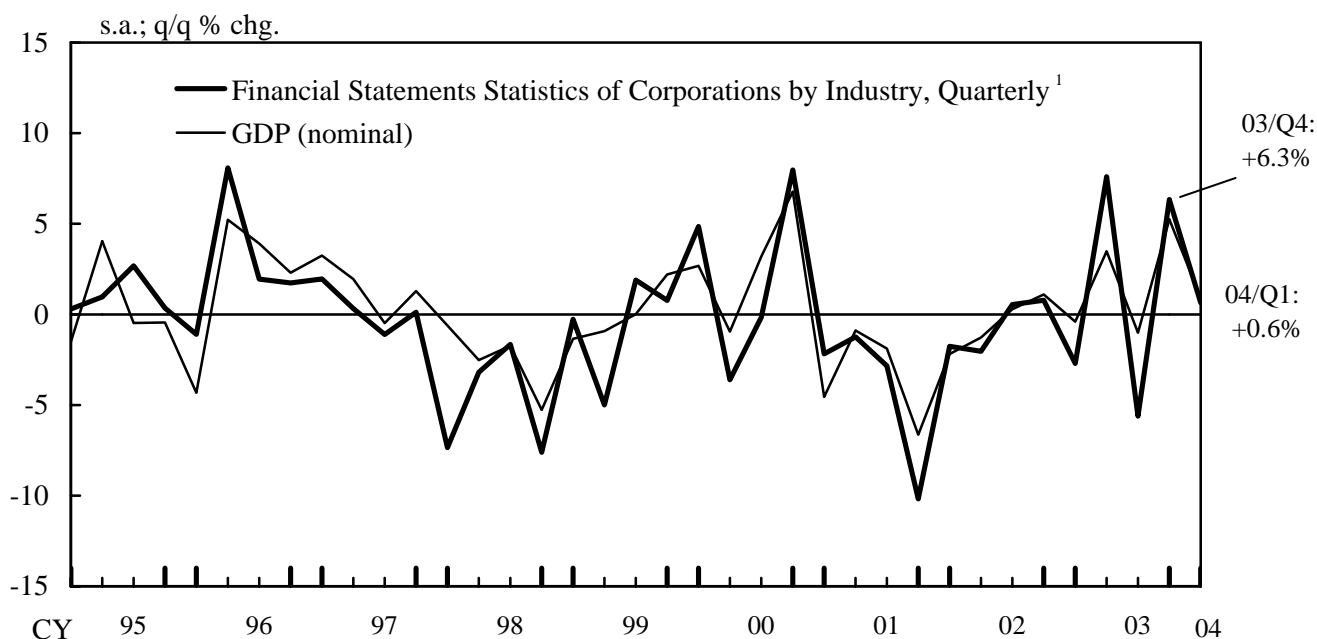


Notes: 1. Figures for 2004/Q2 are based on Apr.-May averages in (3).  
 2. Figures of U.S. stock prices in (4) are up to June 14 .

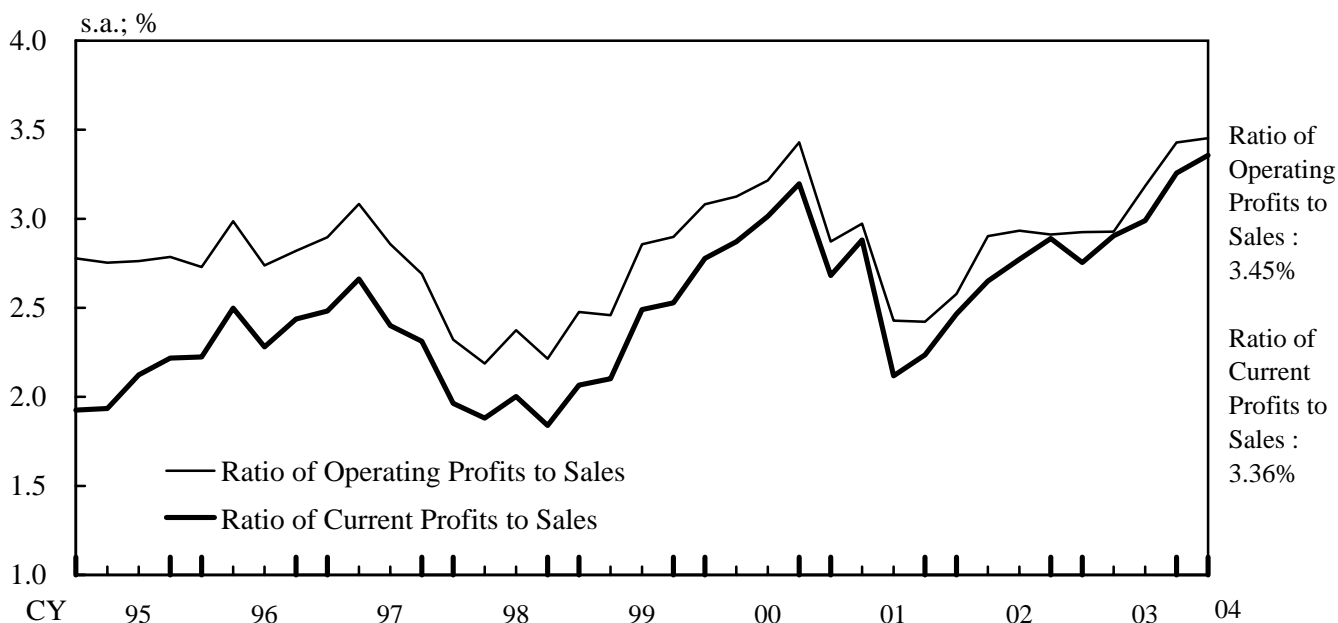
Sources: U.S. Department of Commerce, "National Income and Product Accounts," "Sales, production, imports, exports, and inventories, in units"; Bloomberg.

## Business Fixed Investment and Corporate Profits

### (1) Fixed Investment



### (2) Corporate Profits (Ratio of Profits to Sales)<sup>1,2</sup>



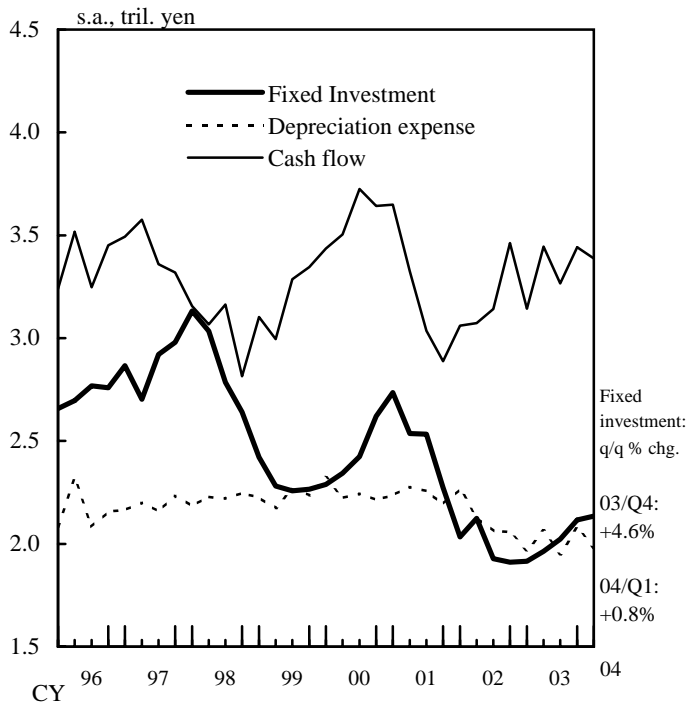
Notes: 1. All enterprises excluding large enterprises of other services industry. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the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

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

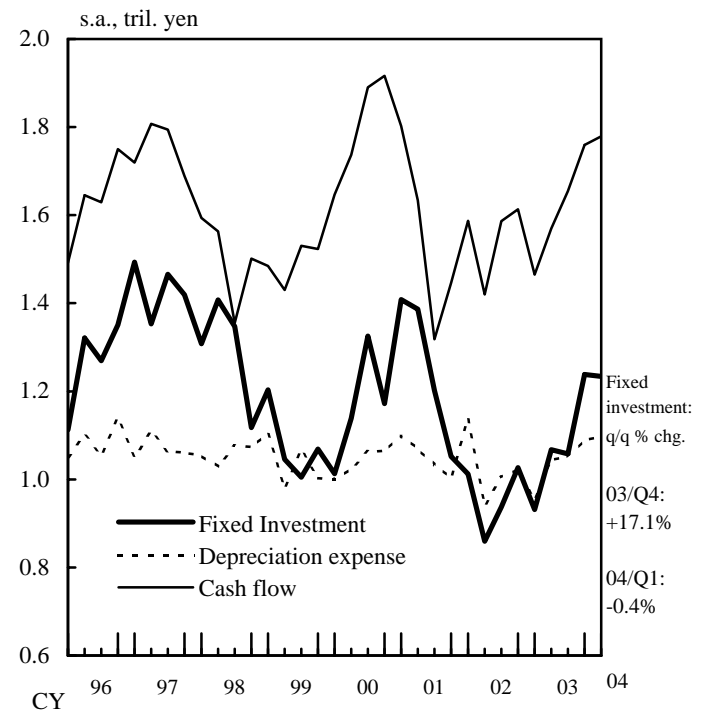
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

## Business Fixed Investment

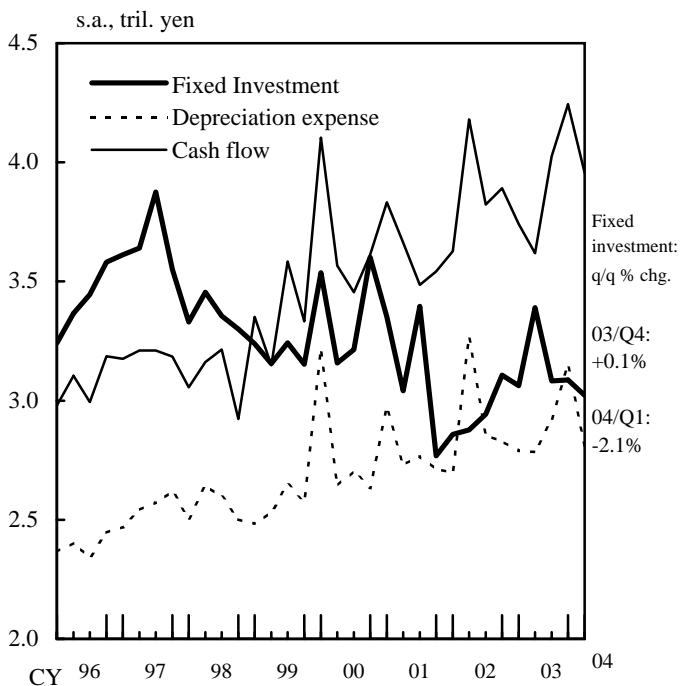
(1) Large manufacturing firms



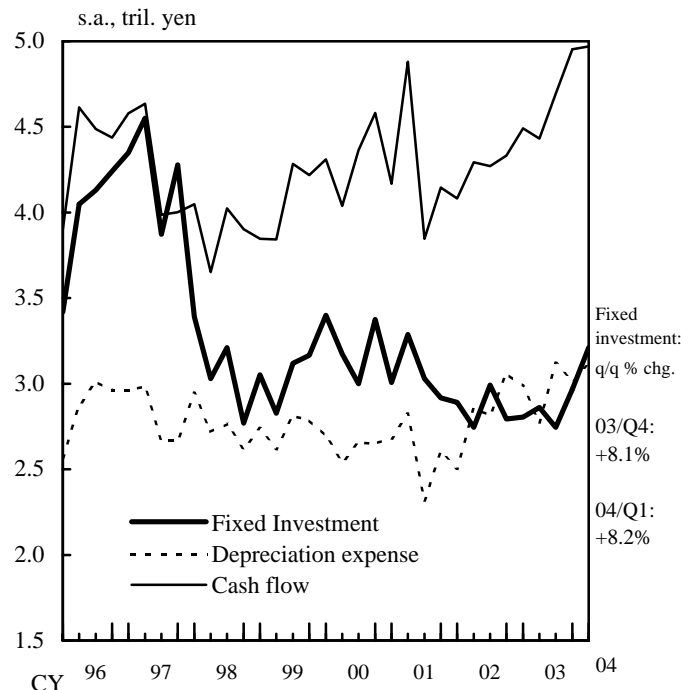
(2) Medium-sized and small manufacturing firms



(3) Large nonmanufacturing firms



(4) Medium-sized and small nonmanufacturing firms



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

2. Sample change adjusted.

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

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

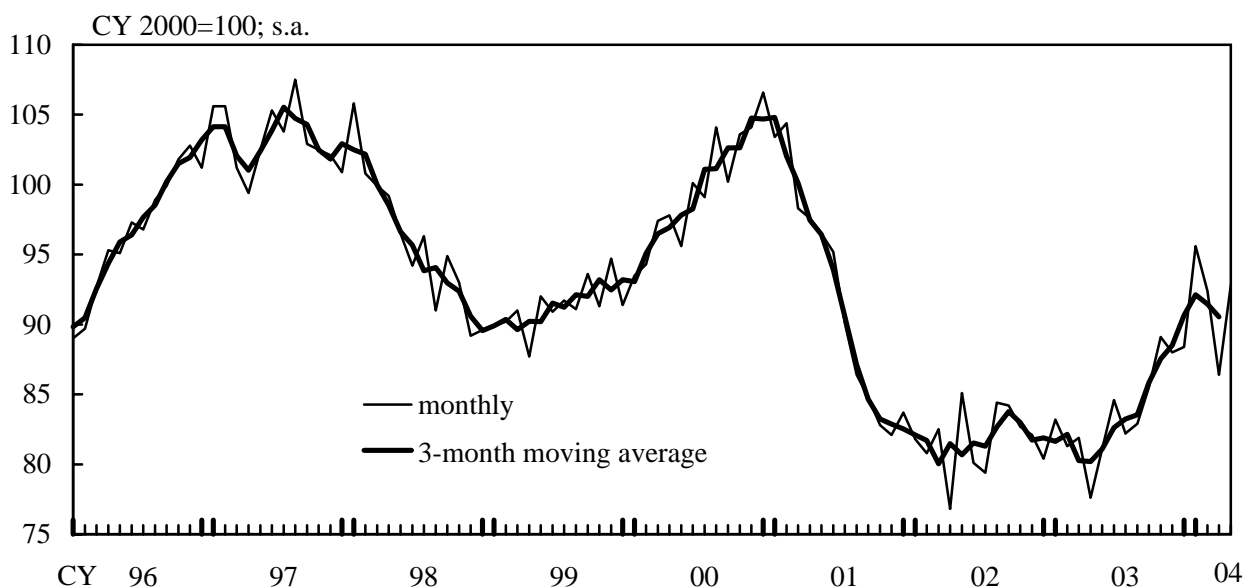
5. Cash Flow = Current profits / 2 + Depreciation expense

6. Seasonally adjusted by X-11.

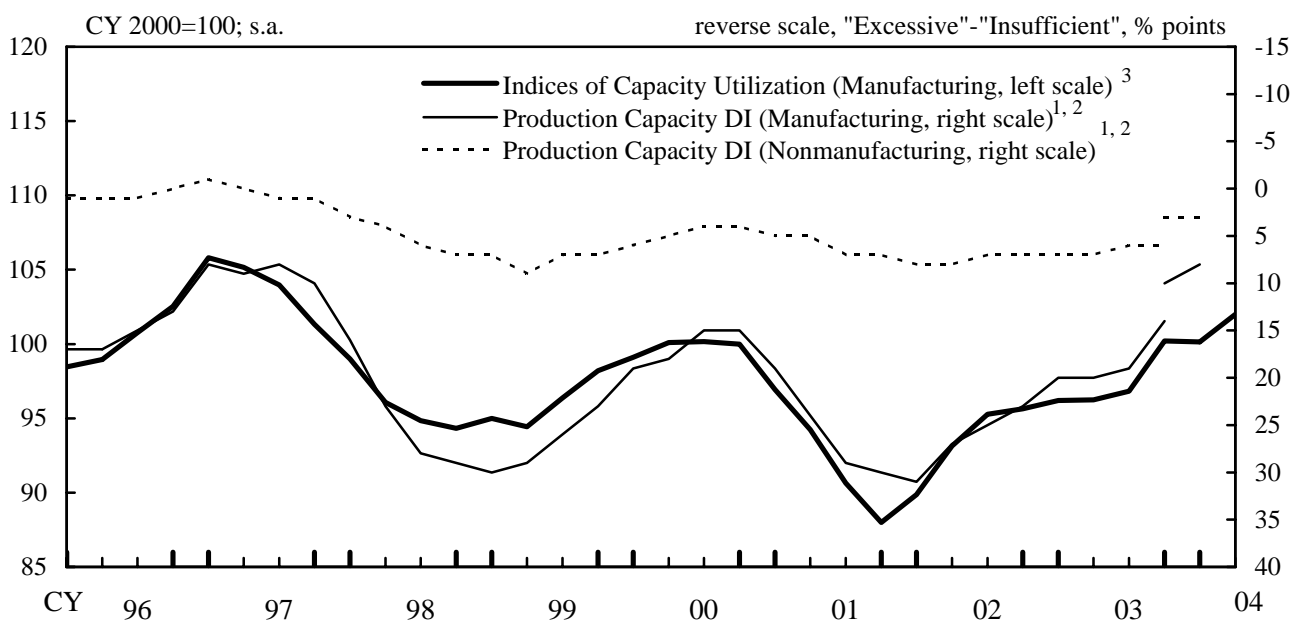
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

## Indicators for Business Fixed Investment (1)

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



## (2) Indices of Capacity Utilization and Production Capacity DI



Notes: 1. Production Capacity DIs are those of all enterprises.

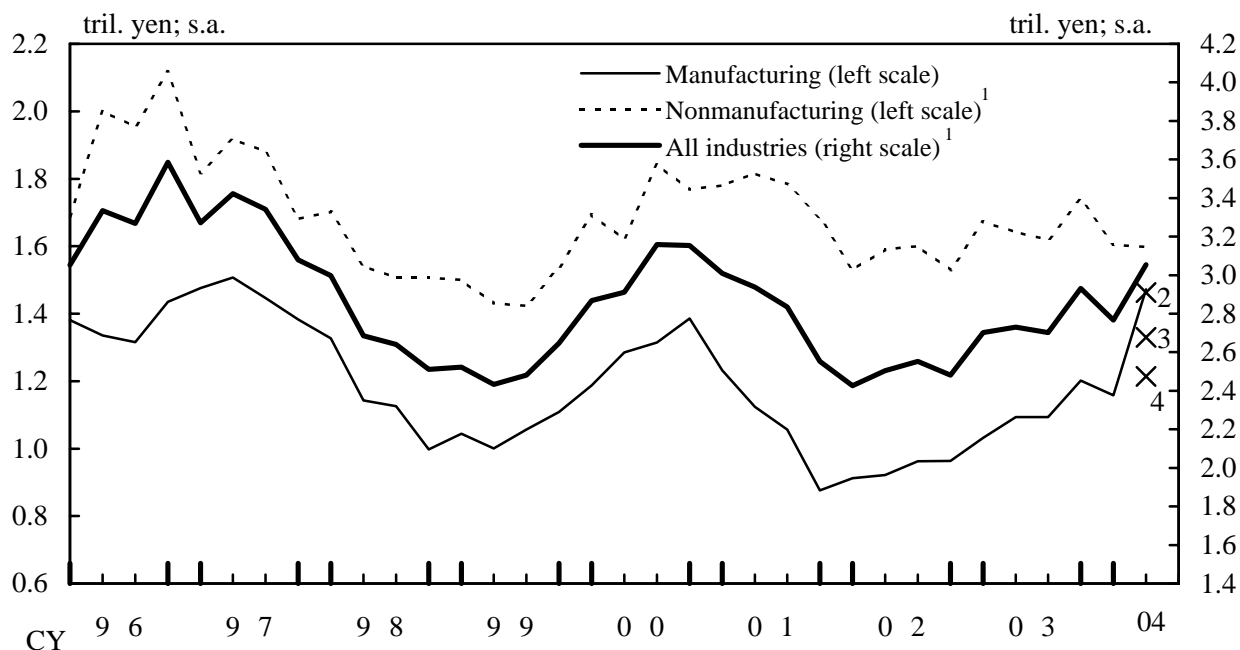
2. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

3. The figure for 2004/Q2 is as of April.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production";  
Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

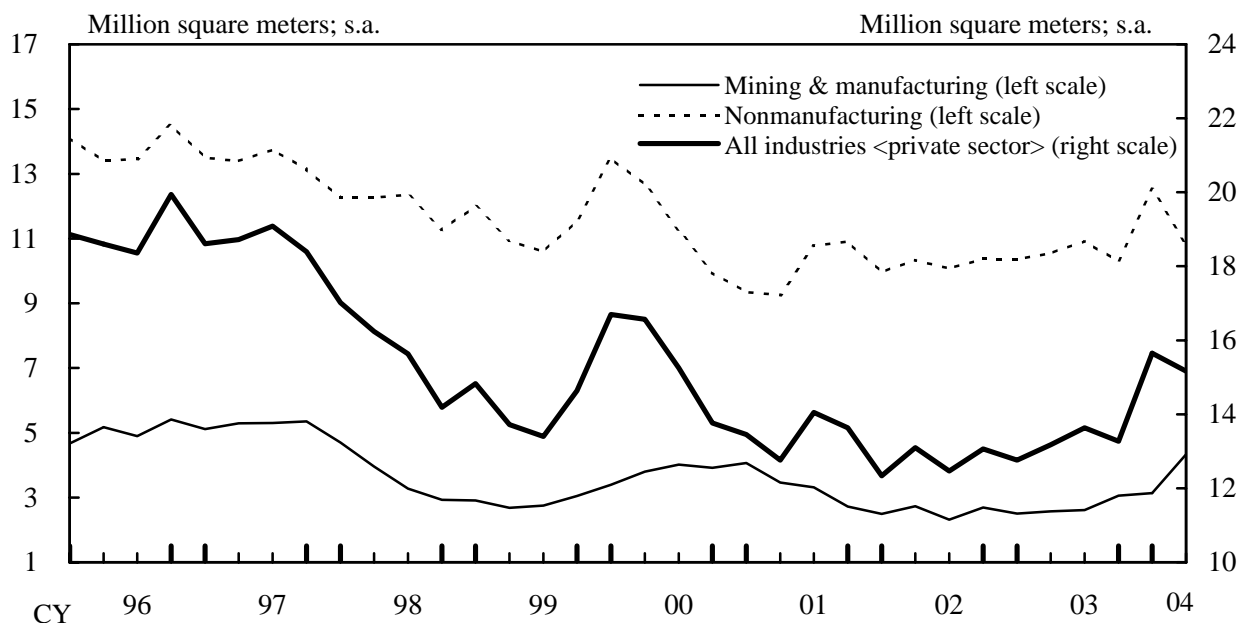
## Indicators for Business Fixed Investment (2)

## (1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.  
 2. Forecast of nonmanufacturing industries for 2004/Q2.  
 3. Forecast of all industries for 2004/Q2.  
 4. Forecast of manufacturing industries for 2004/Q2.  
 5. Figures for 2004/Q2 are those of April in terms of quarterly amount.

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

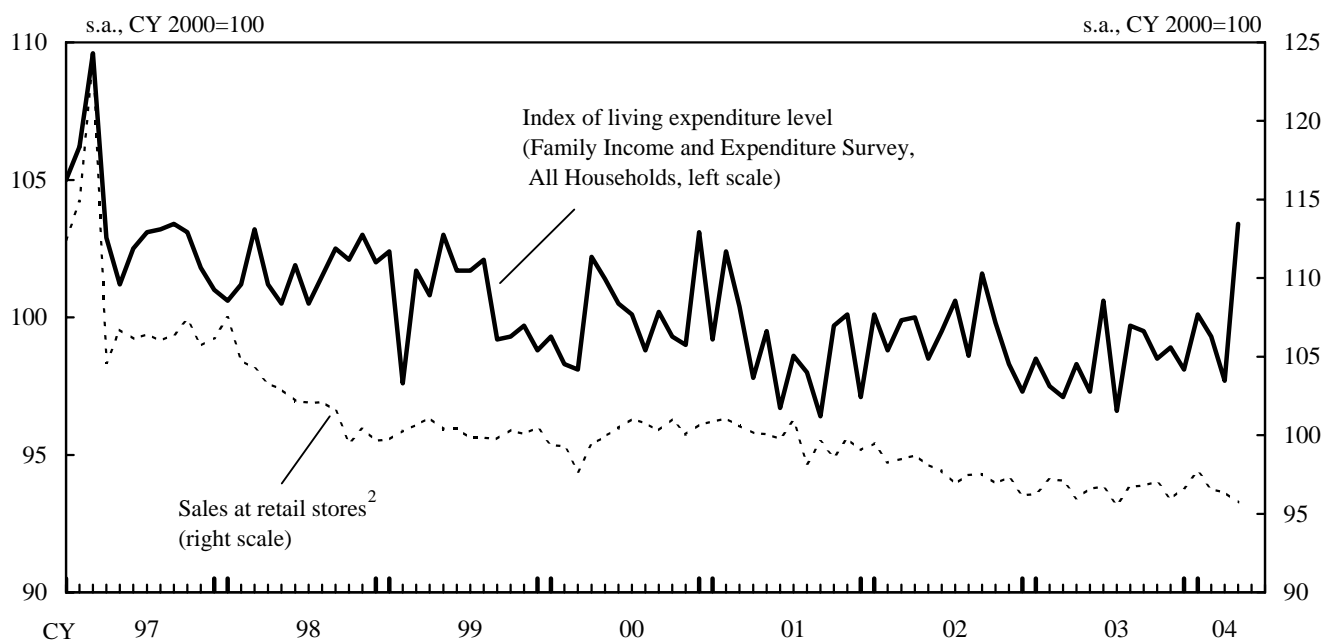


- Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2004/Q2 are those of April in terms of quarterly amount.  
 3. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for Newspaper Publishing and Publishing Business was changed from Mining and Manufacturing to Nonmanufacturing. Accordingly, the data up to fiscal year 2002 were adjusted by using a link coefficient.

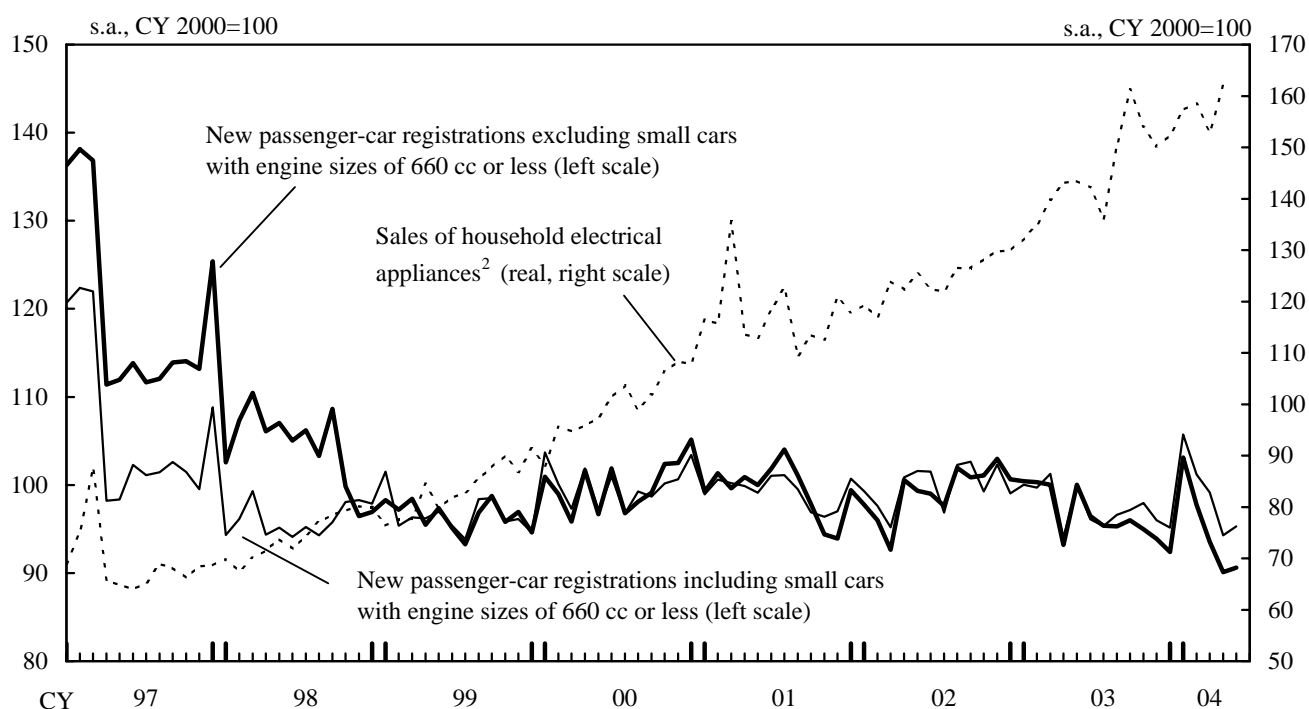
Sources: Cabinet Office, "Machinery Orders Statistics";  
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

# Indicators for Private Consumption<sup>1</sup> (1)

## (1) Household Spending (real)



## (2) Sales of Durable Goods

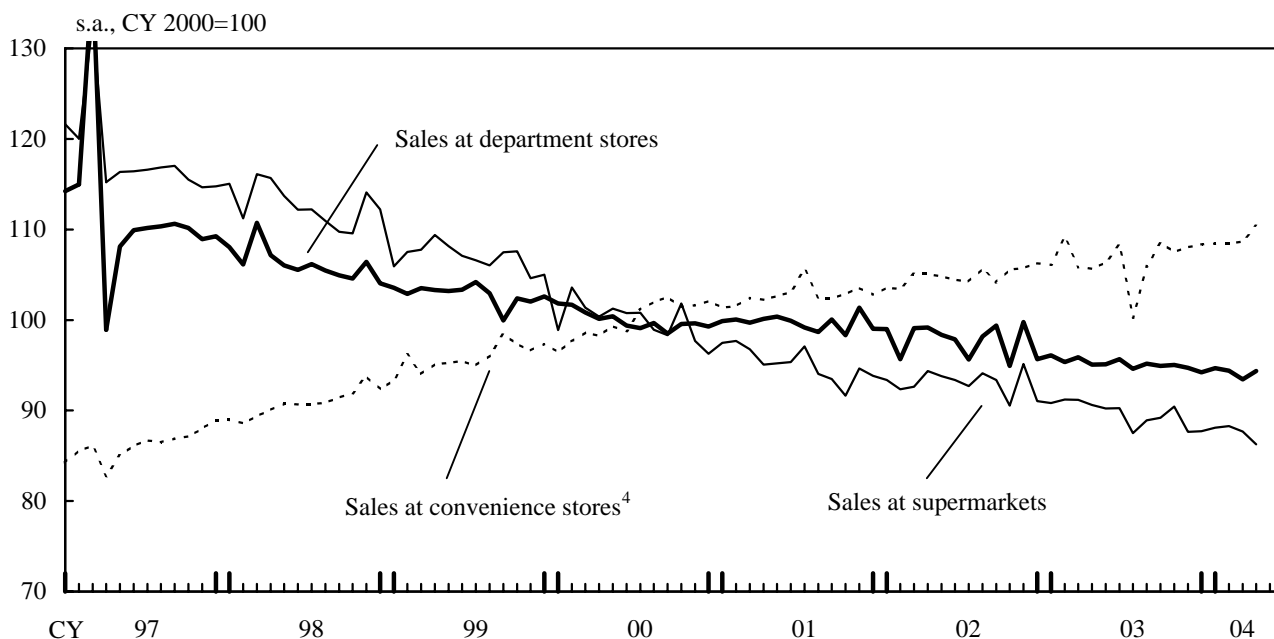


- Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.
2. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). 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).

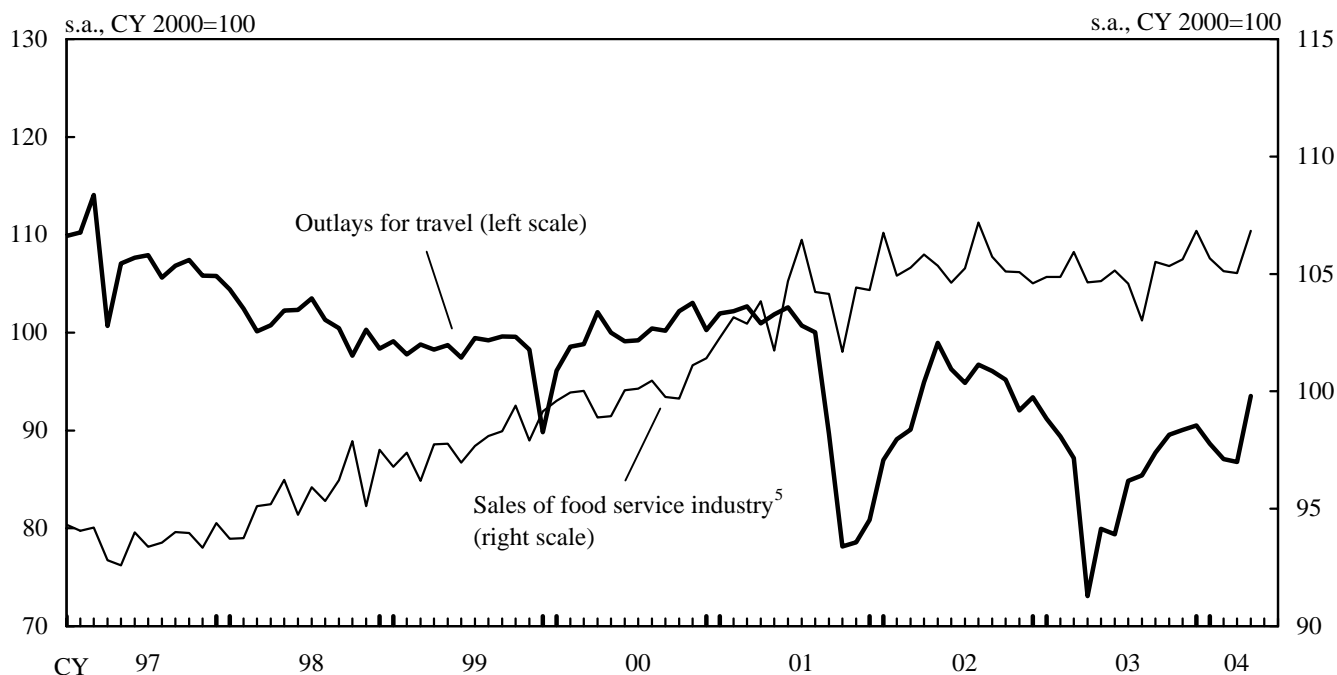
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; 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 Consumption<sup>1, 2</sup> (2)

### (3) Sales at Retail Stores (nominal)<sup>3</sup>



### (4) Consumption of Services (nominal)



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

2. Adjusted to exclude the effect of the rise in the consumption tax rate.

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

4. 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.

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

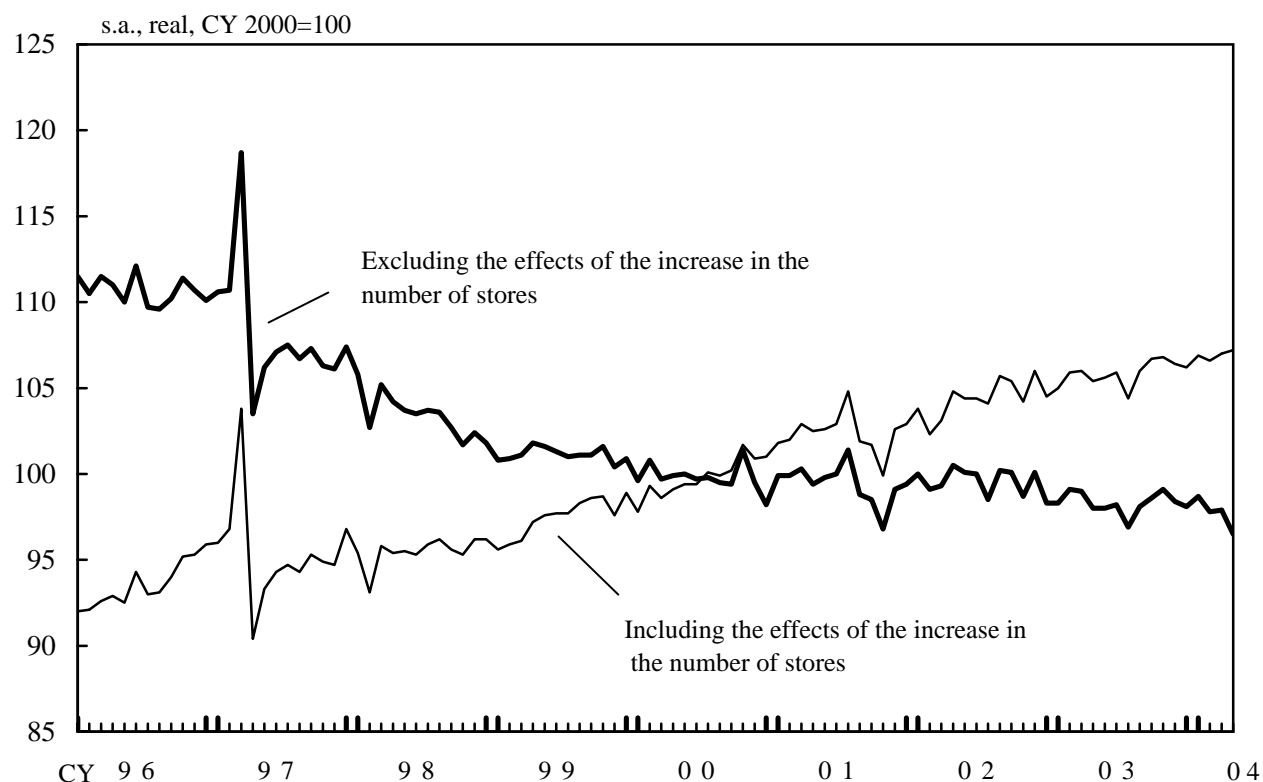
Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue";

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

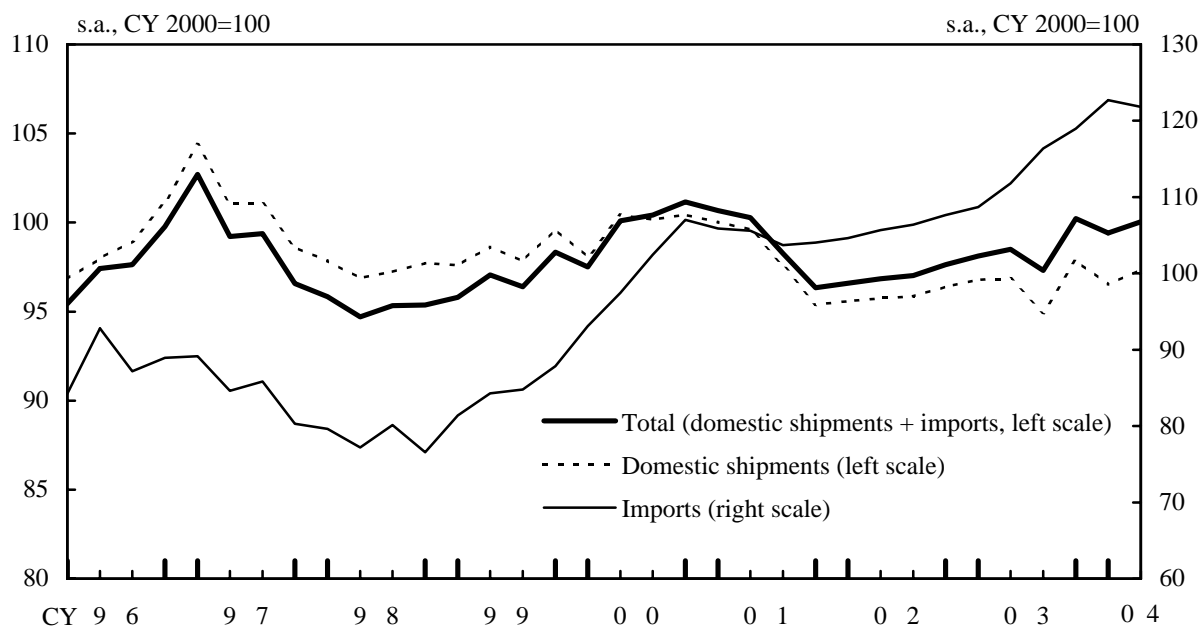


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in 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.
4. *Outlays for travel* are not included in the Indices for April 2004.

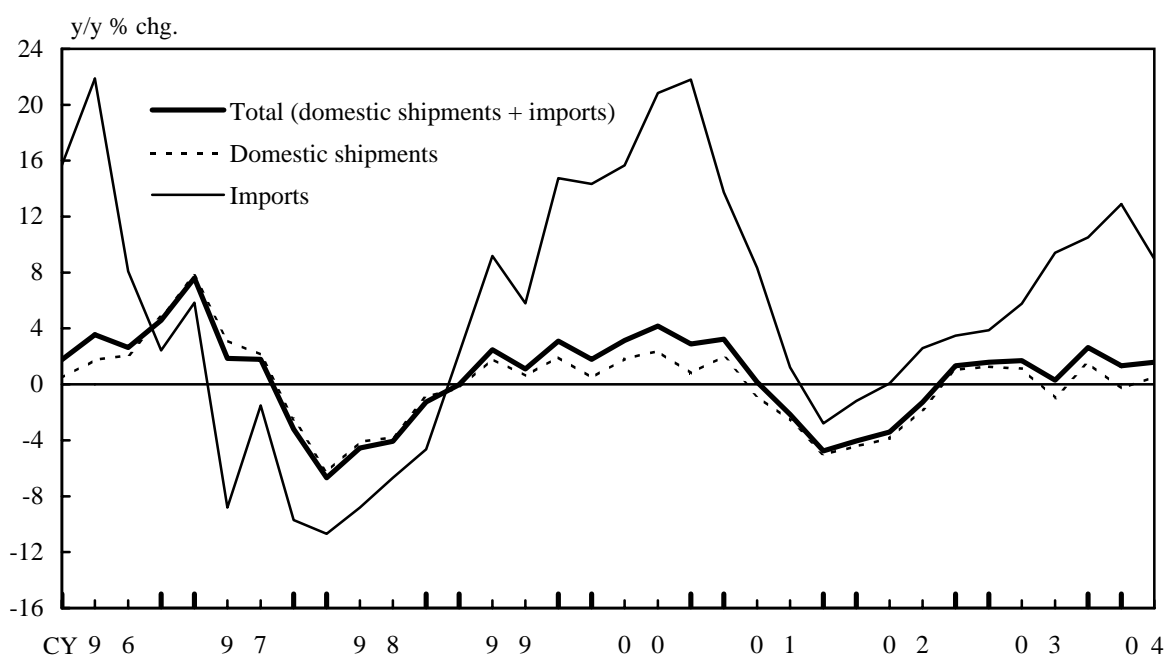
Source: Bank of Japan, "Indices of Aggregated Sales."

## 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.

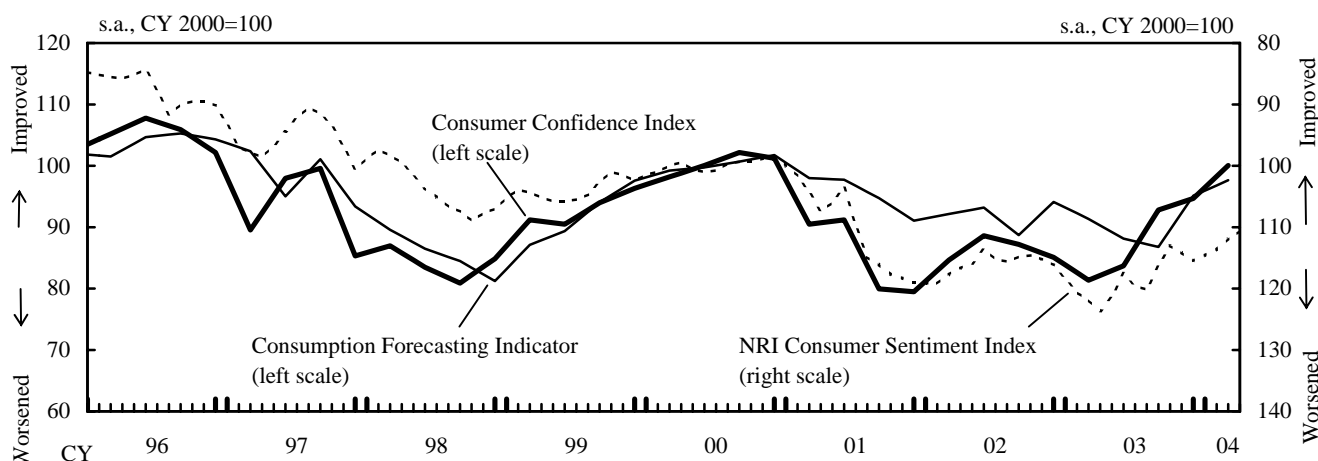
3. Year-on-year changes are calculated from seasonally adjusted series.

4. 2004/Q2 figures are those of April 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."

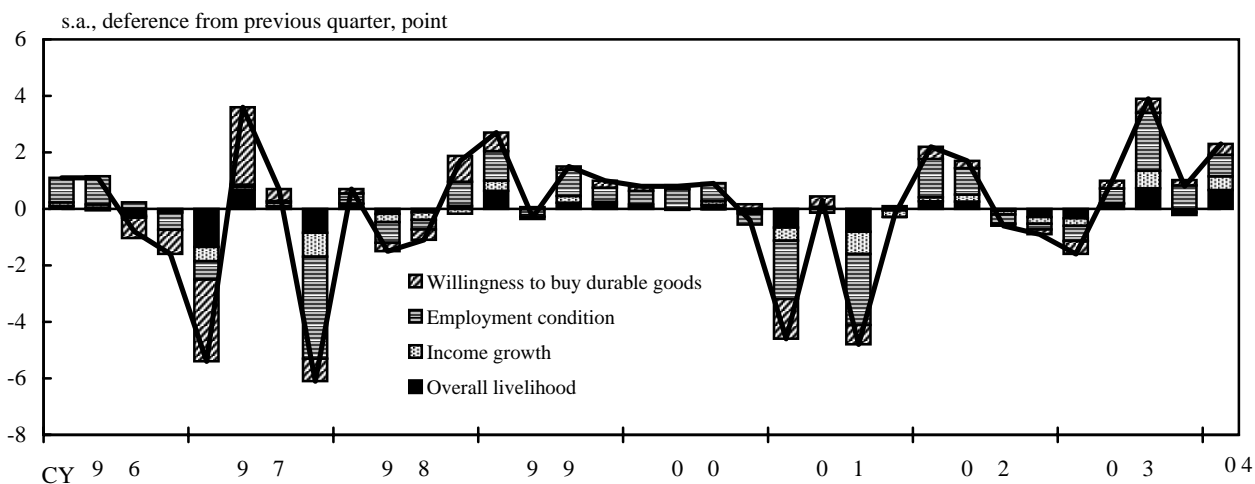
# Consumer Confidence

## (1) Surveys on Consumer Confidence

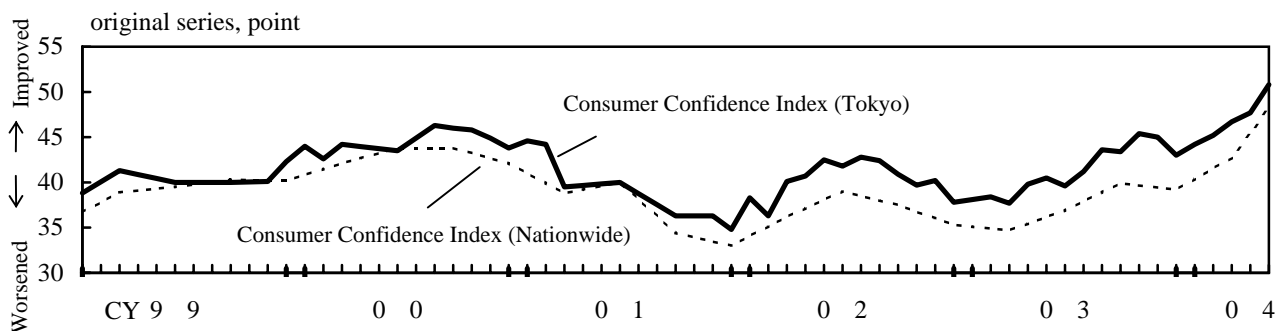


- Notes:
1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
  2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with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



## (Reference) Consumer Confidence Survey (Monthly)

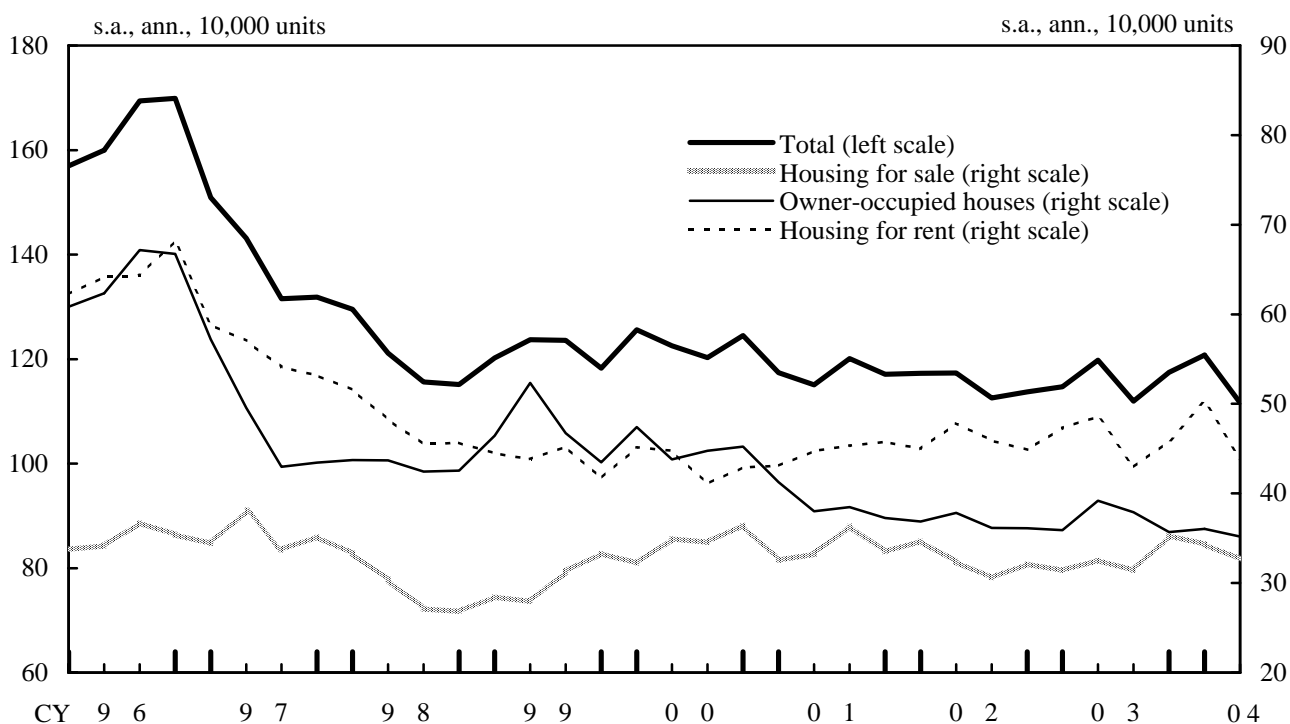


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation prior to March 2004.

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

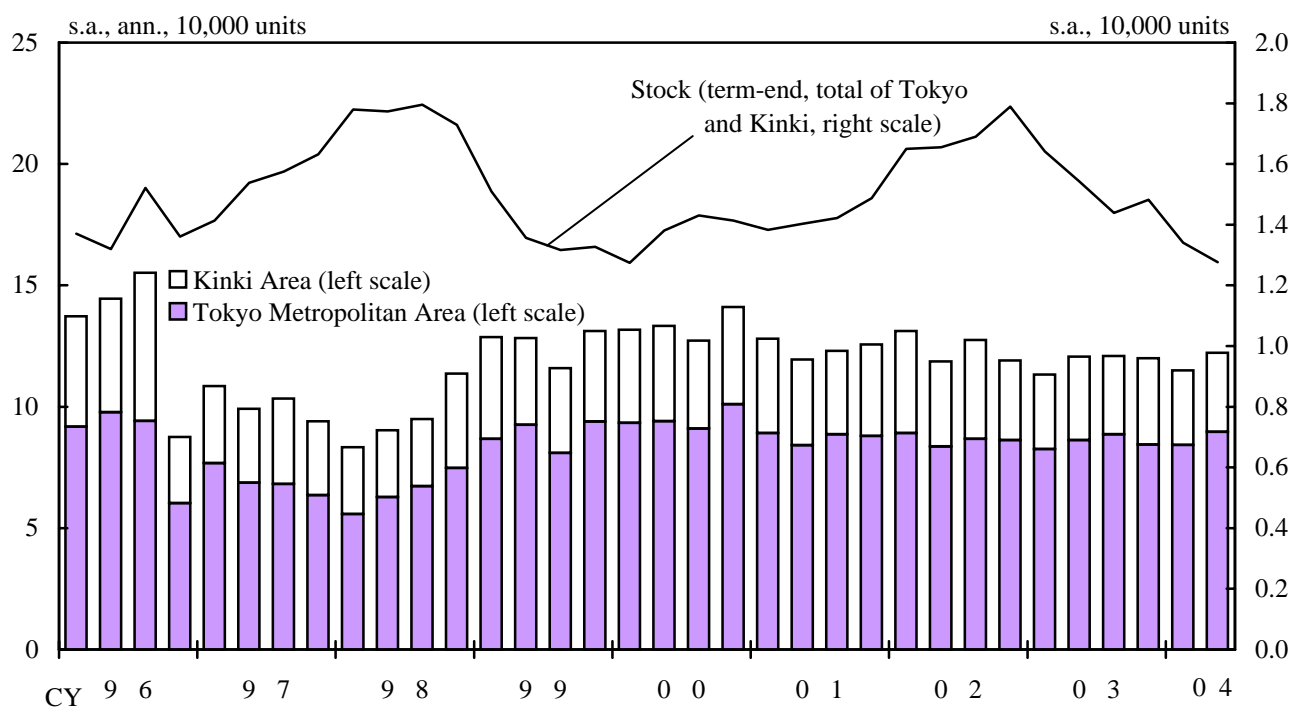
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2004/Q2 are those of April.

(2) Sales of Condominiums

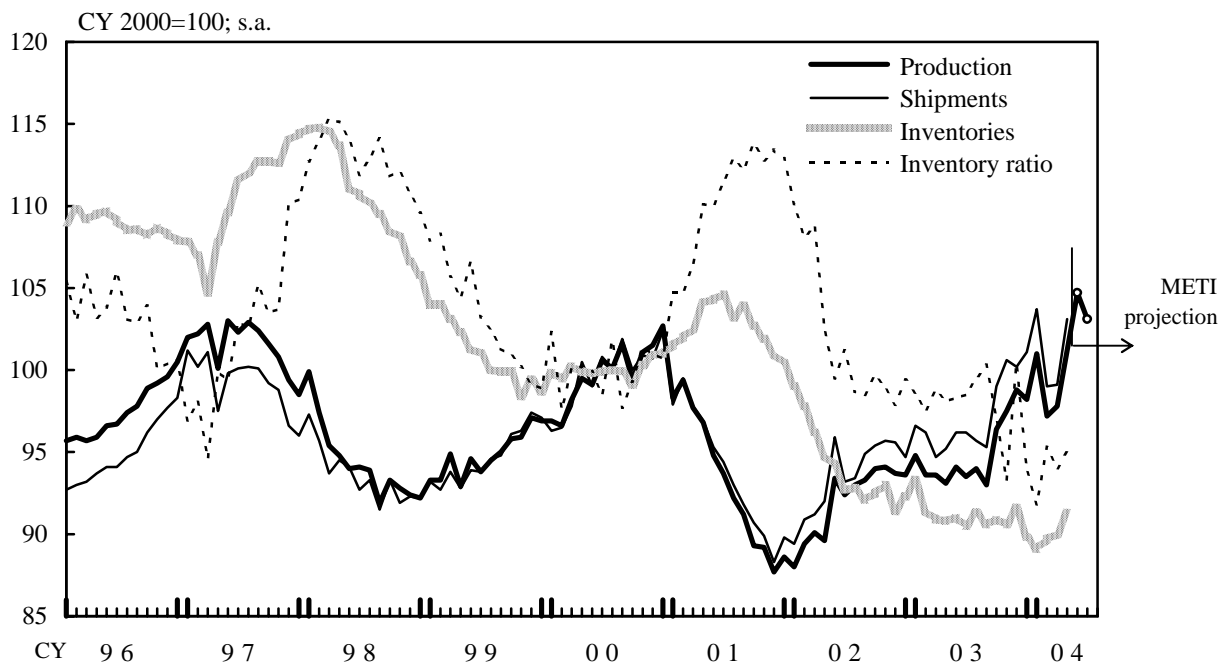


Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2004/Q2 are those of April.

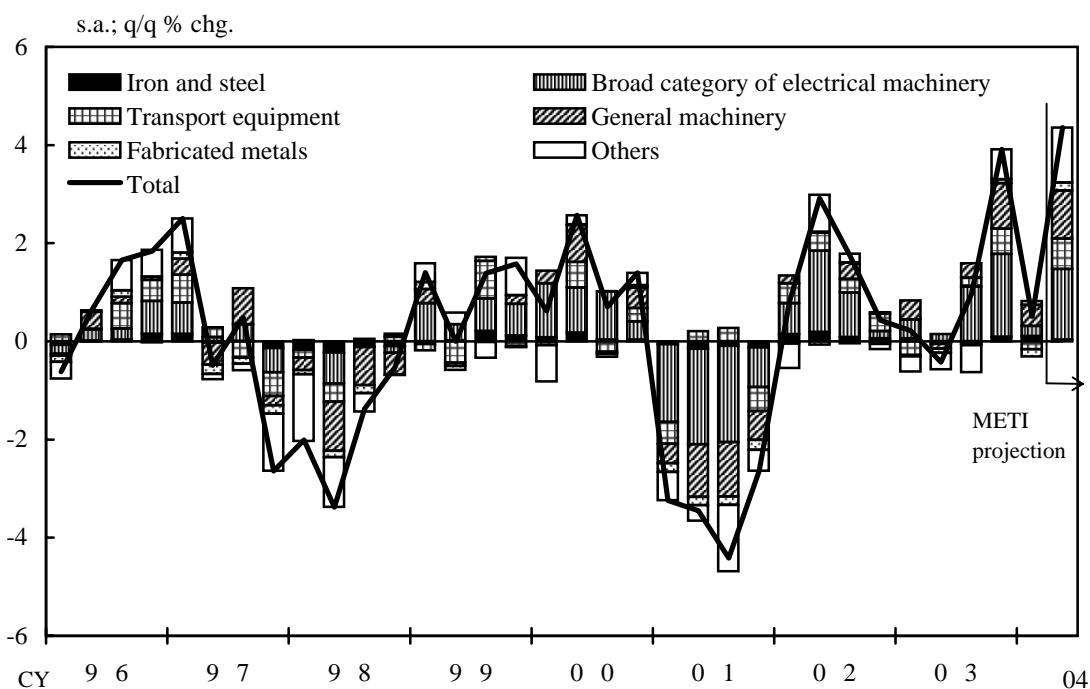
Sources: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



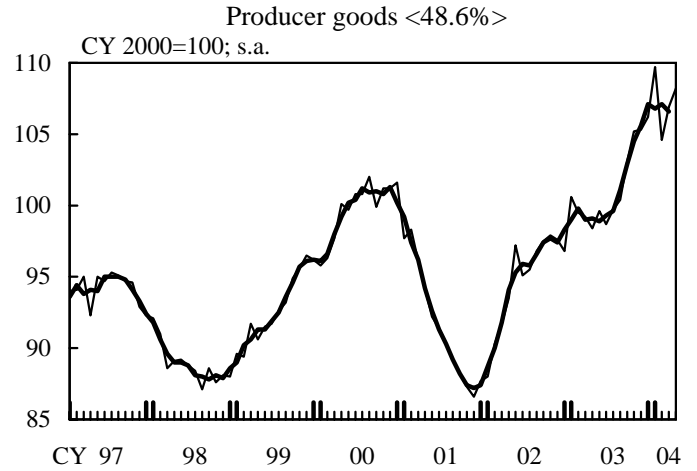
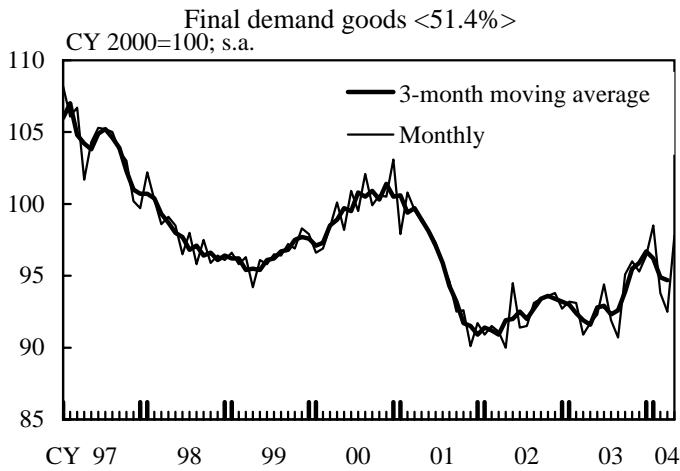
Note: Transport equipment excludes ships and rolling stock.

"Broad category of electrical machinery" is the weighted sum of "electrical machinery", "information and communication electronics equipment" and "electronic parts and devices."

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

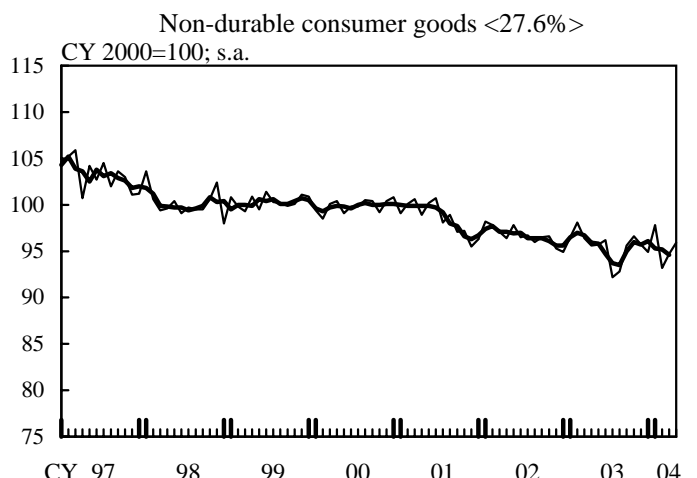
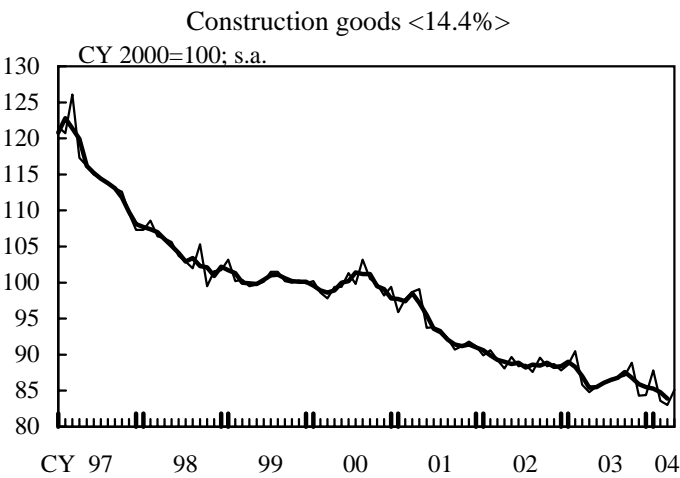
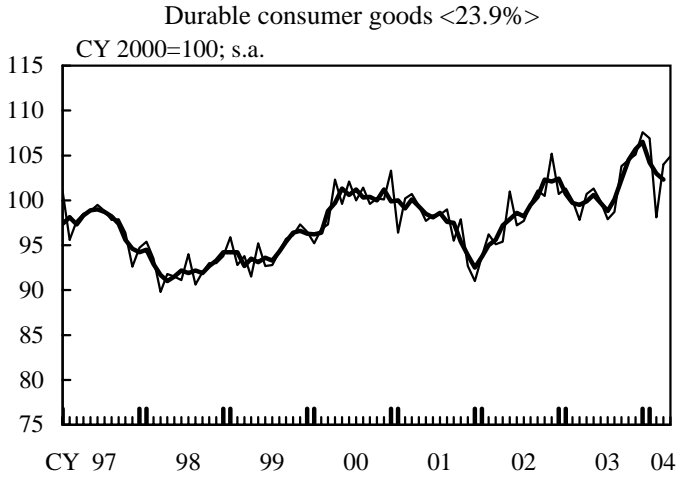
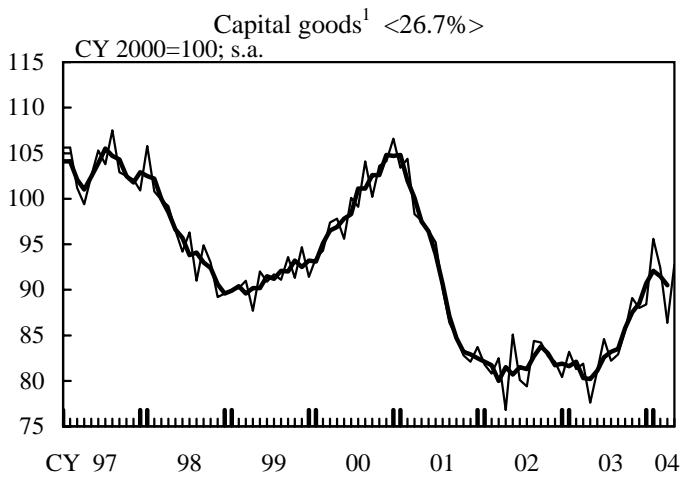
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



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

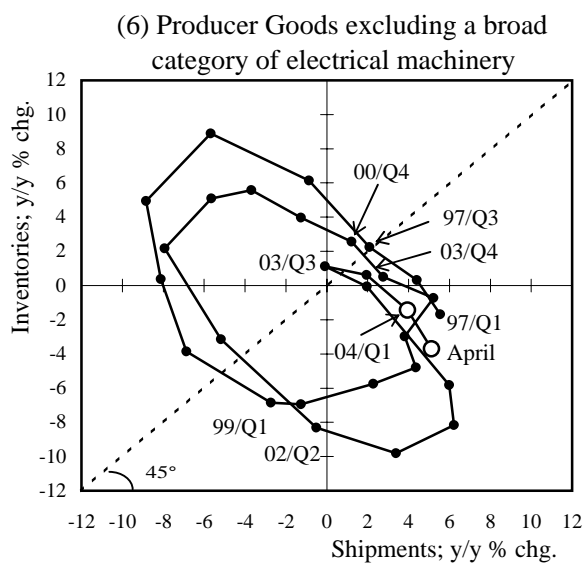
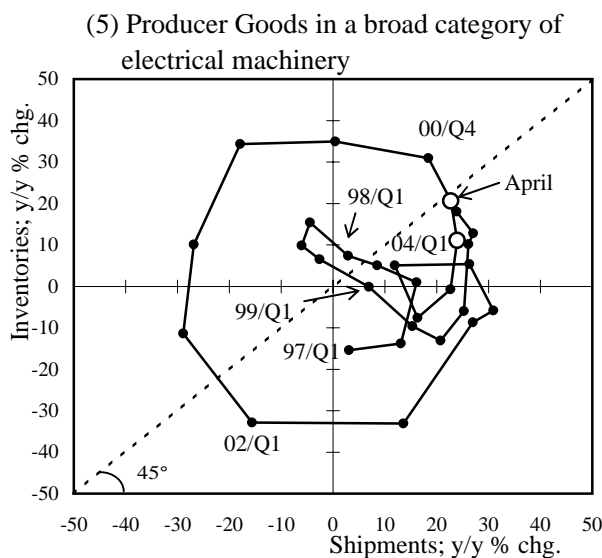
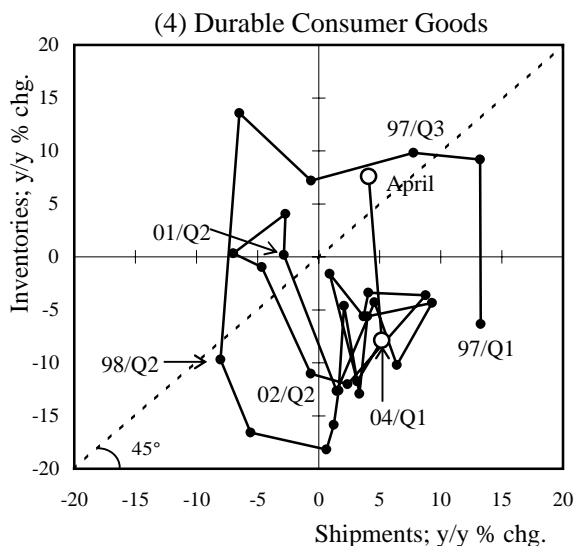
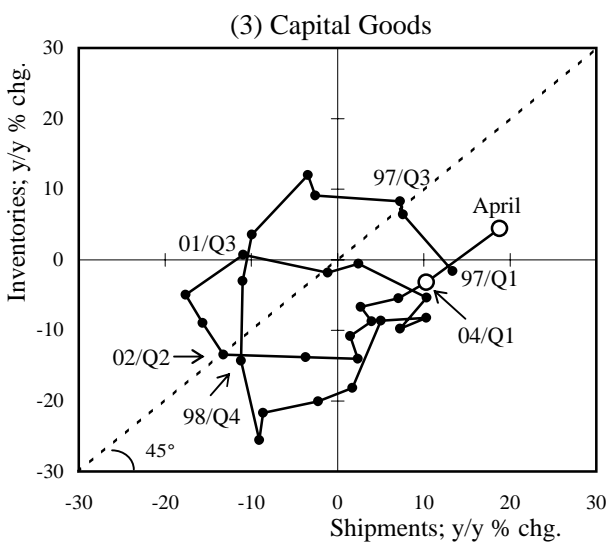
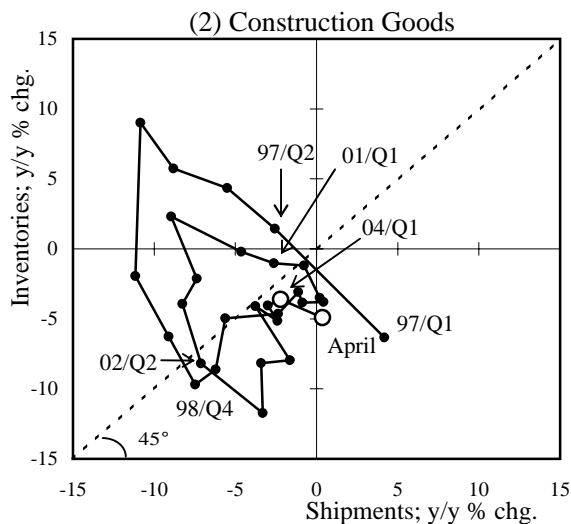
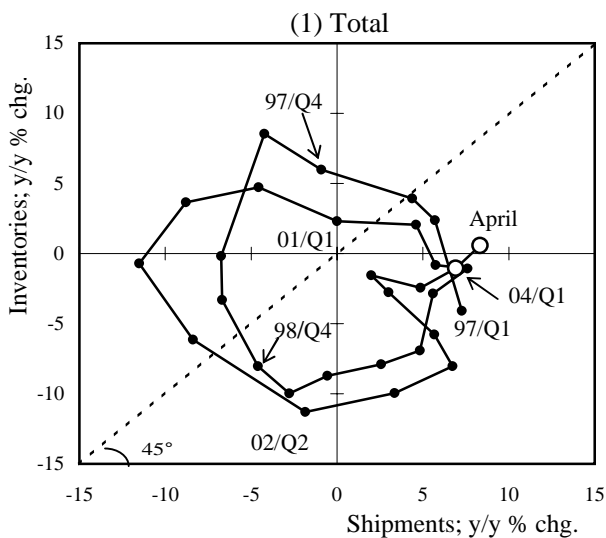
(2) Breakdown of final demand goods



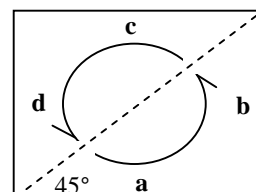
Notes: 1. Excluding transportation equipment.  
2. Shares of shipments of final demand goods are shown in angle brackets.

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

# Inventory Cycle

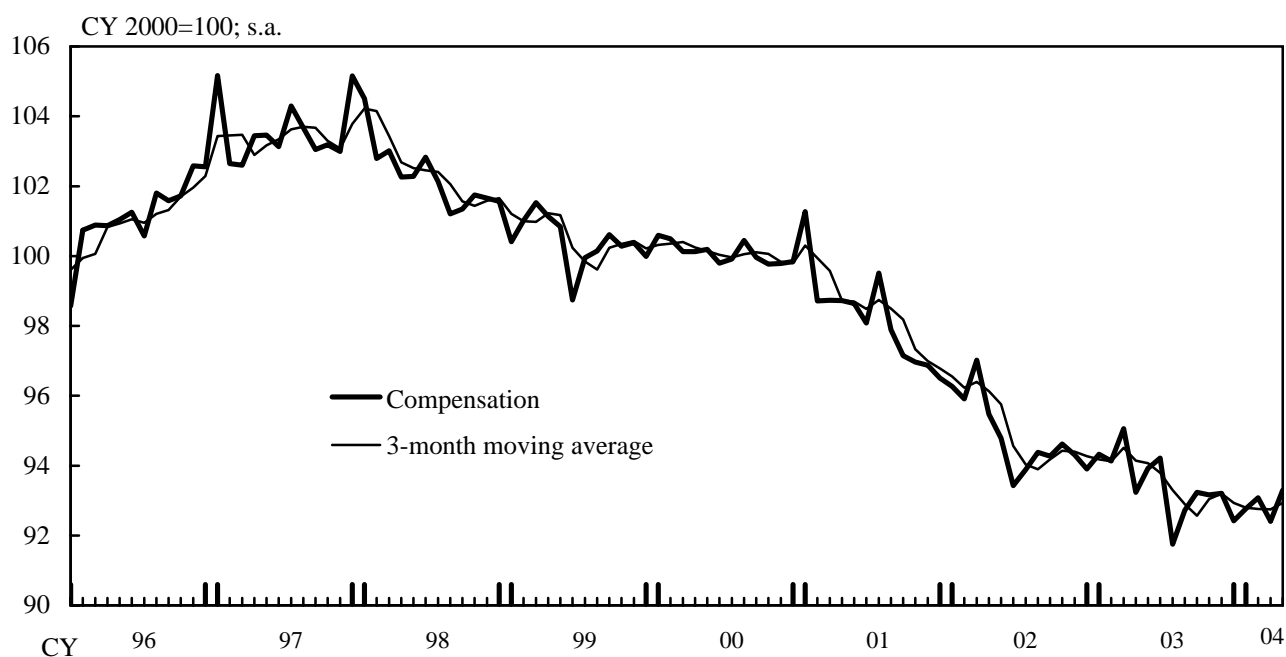


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



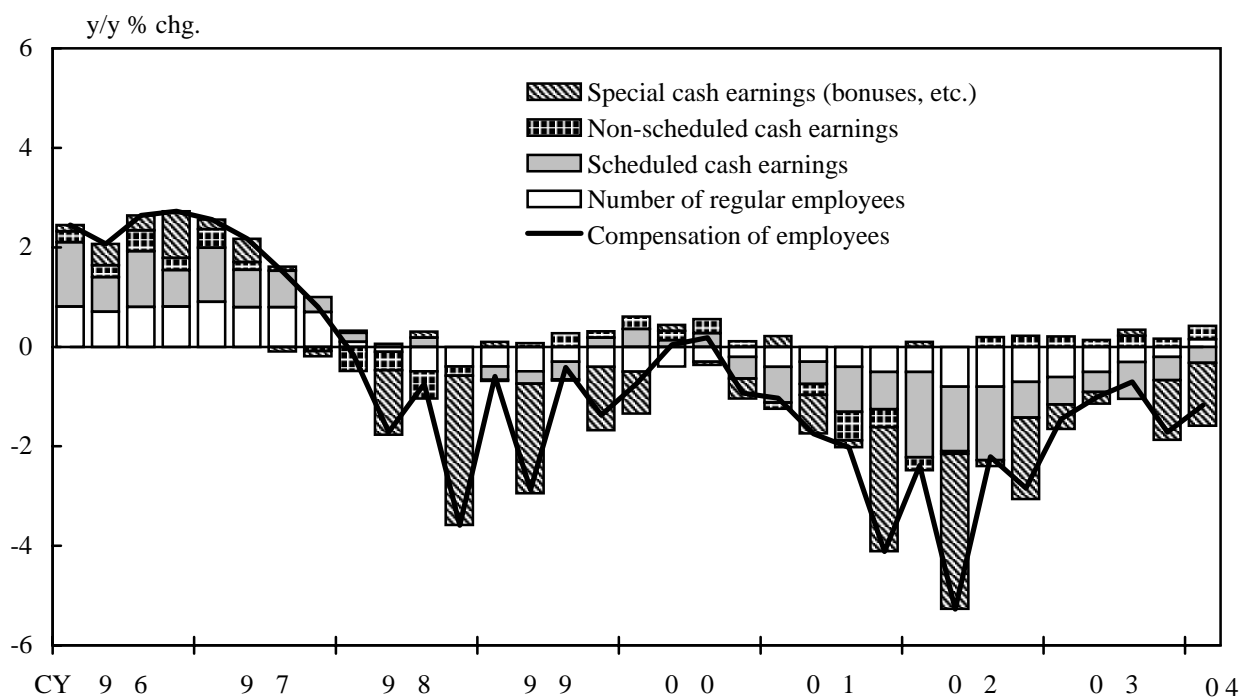
## Compensation of Employees

### (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 April 2004 are preliminary figures.

### (2) Breakdown of Compensation

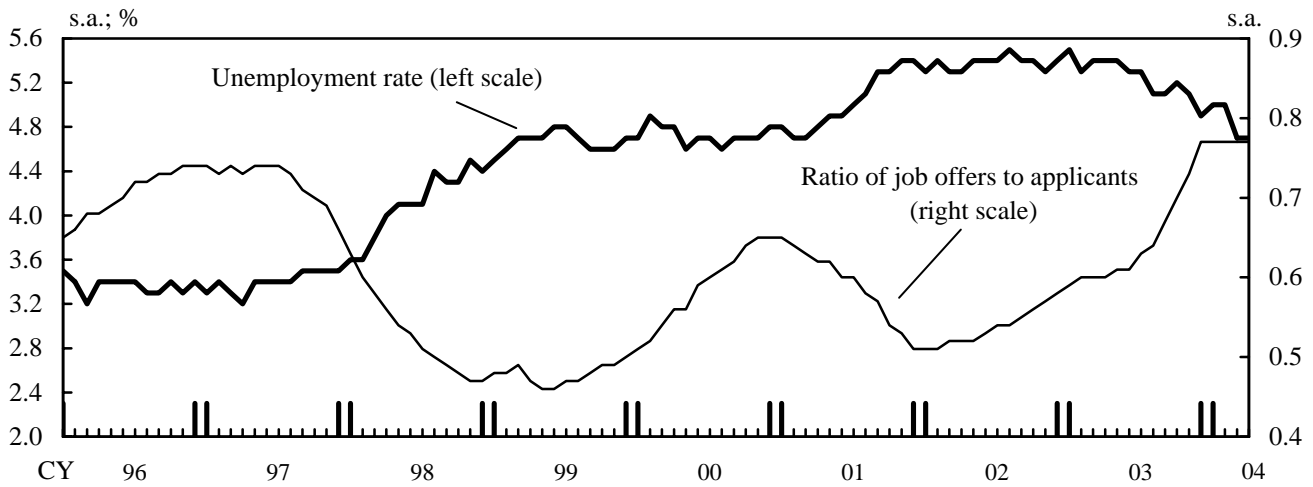


- Notes: 1. Data are for establishments with at least 5 employees. Those for April 2004 are preliminary figures.  
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.  
 3. Figures for 2004/Q1 are those of March- April averages.

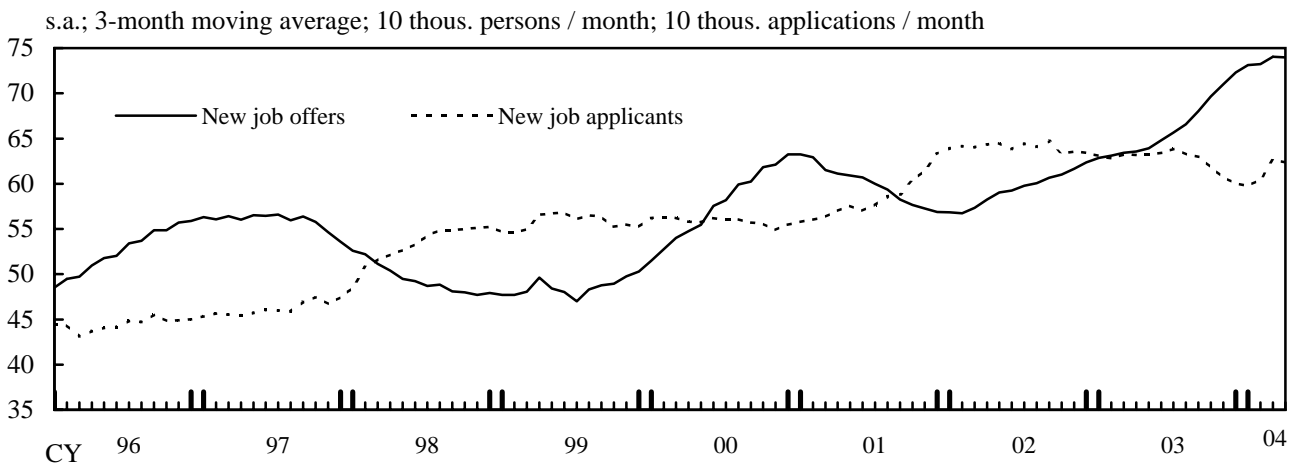


Labor Market (1)

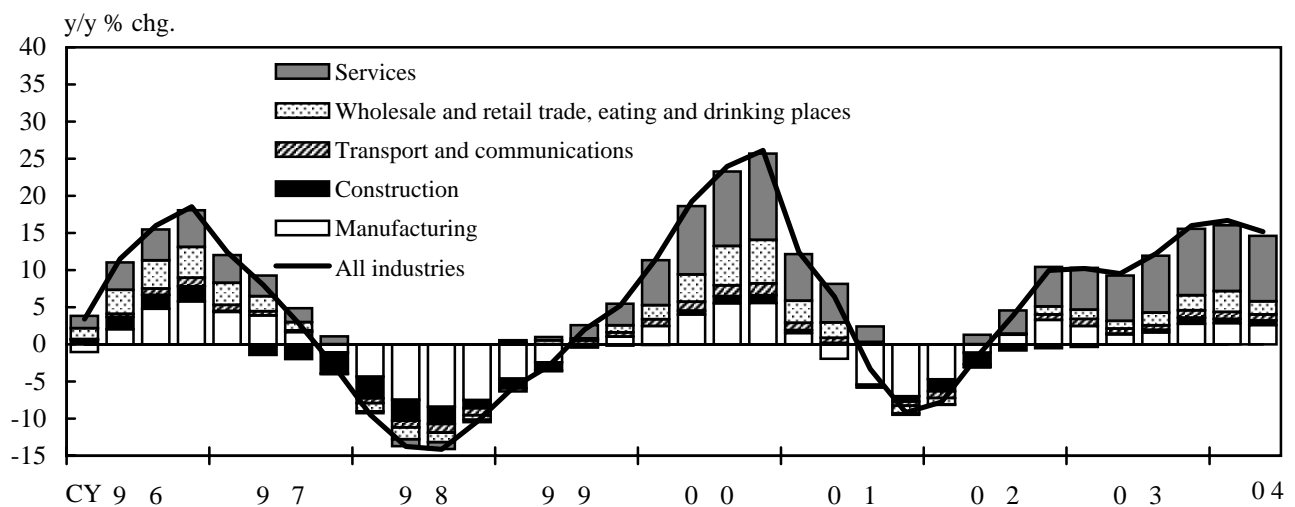
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New job offers and New job applicants<sup>1</sup>



(3) Breakdown of New job offers<sup>1,2</sup>



Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

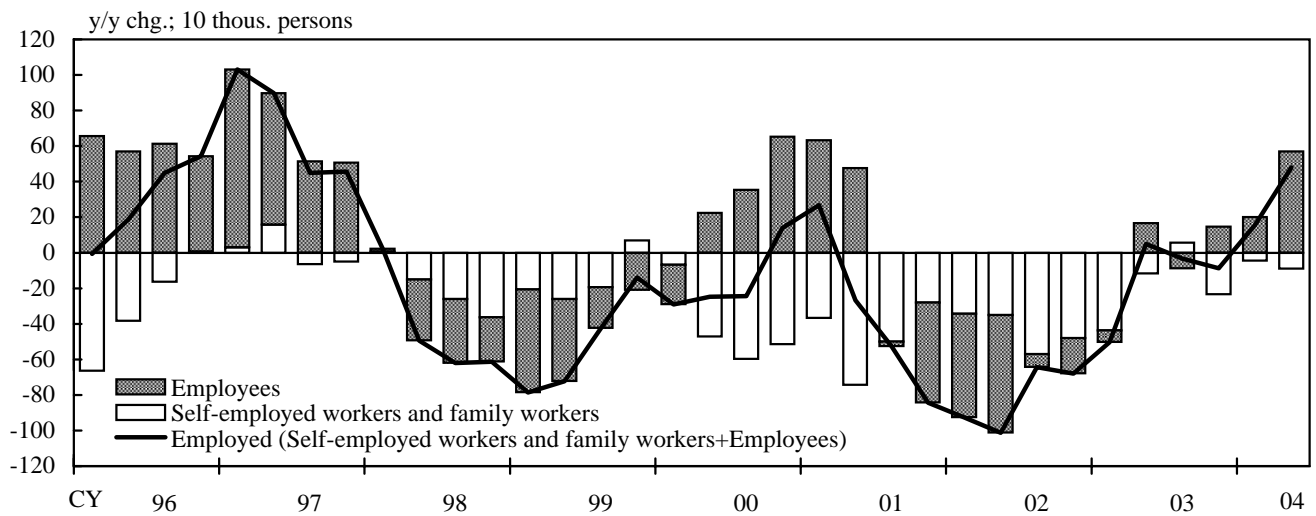
2. Figures for 2004/Q2 are those of April.

Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service,"

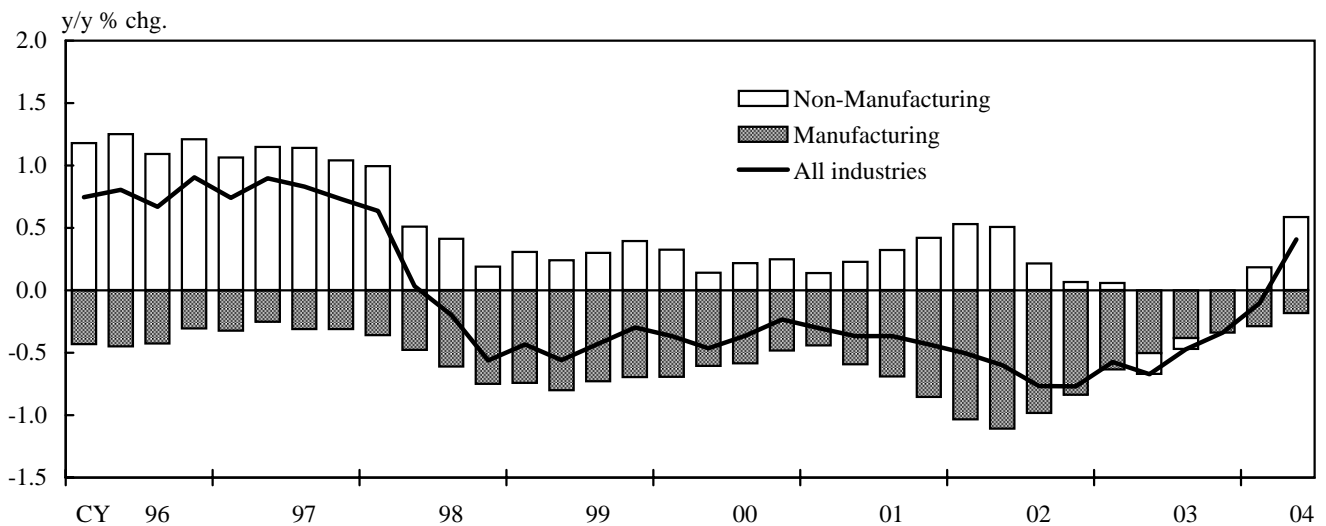
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Labor Market (2)

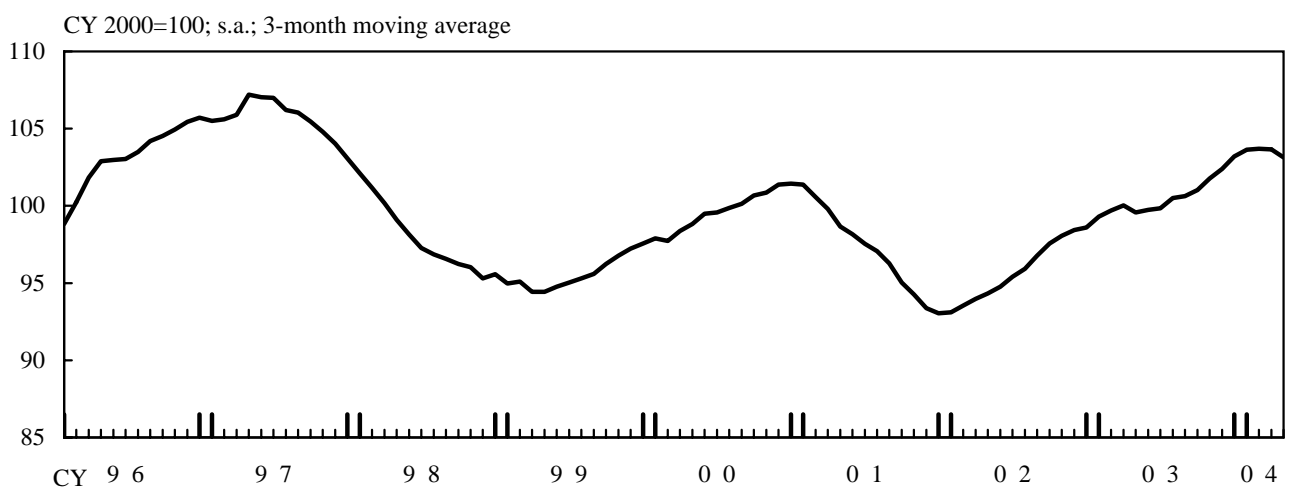
(1) The Employed<sup>1</sup> (Labour Force Survey)



(2) Number of Regular Employees<sup>1,2</sup> (Monthly Labour Survey)



(3) Non-scheduled Hours Worked<sup>1,2</sup> (Monthly Labour Survey)



Notes: 1. Figures for 2004/Q2 are those of April.

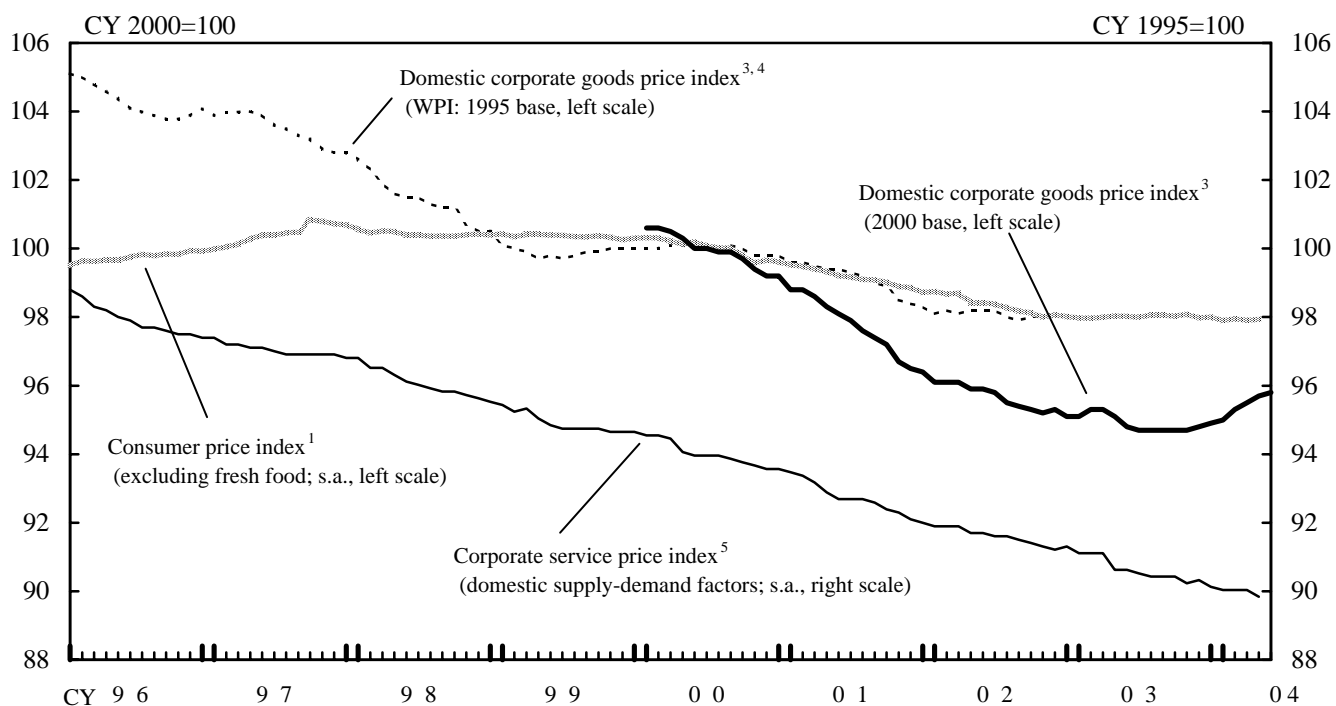
2. Data are for establishments with at least 5 employees. Those for April 2004 are preliminary figures.

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

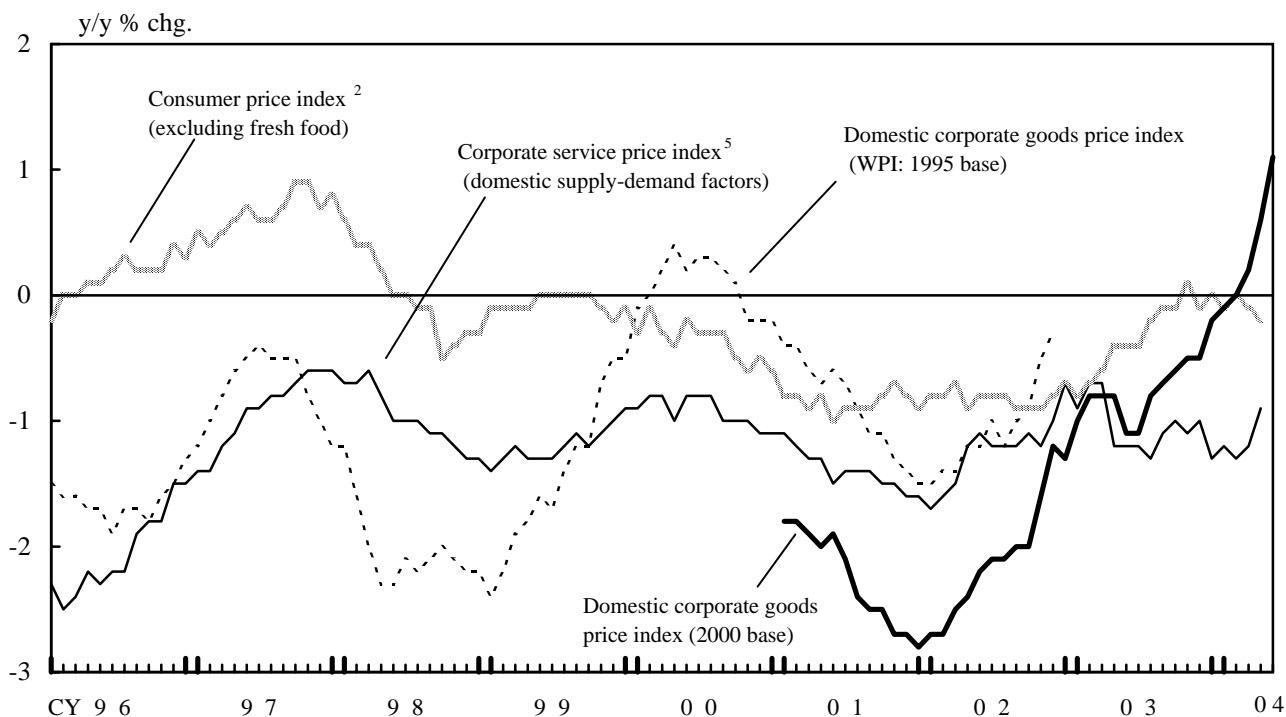
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Prices<sup>6</sup>

## (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 up to 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.

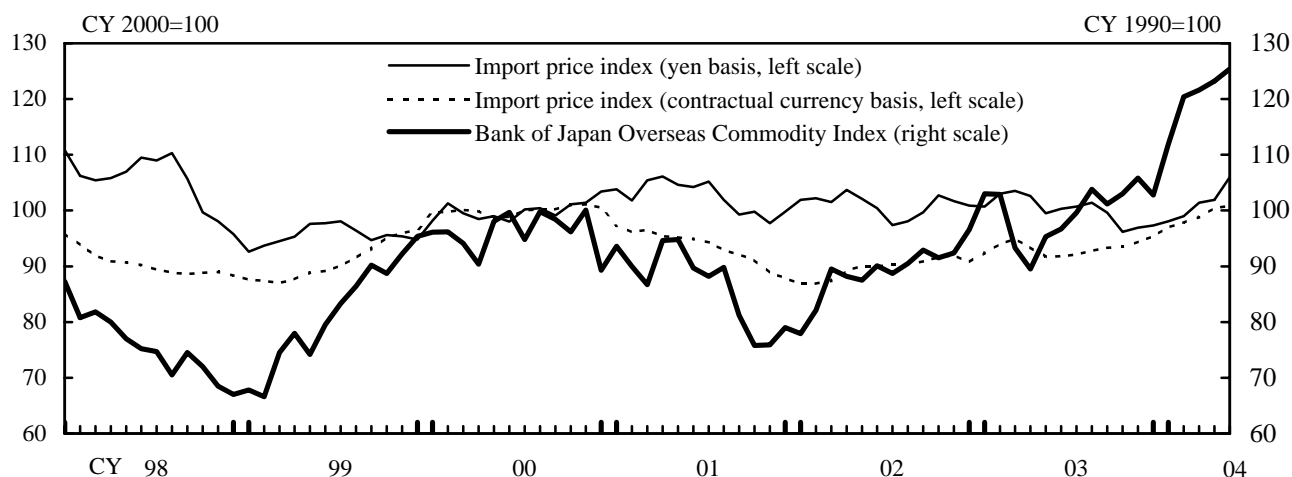
5. See footnote 1 in Chart 24, for definition of the Corporate Service Price Index (domestic supply-demand factors).

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."

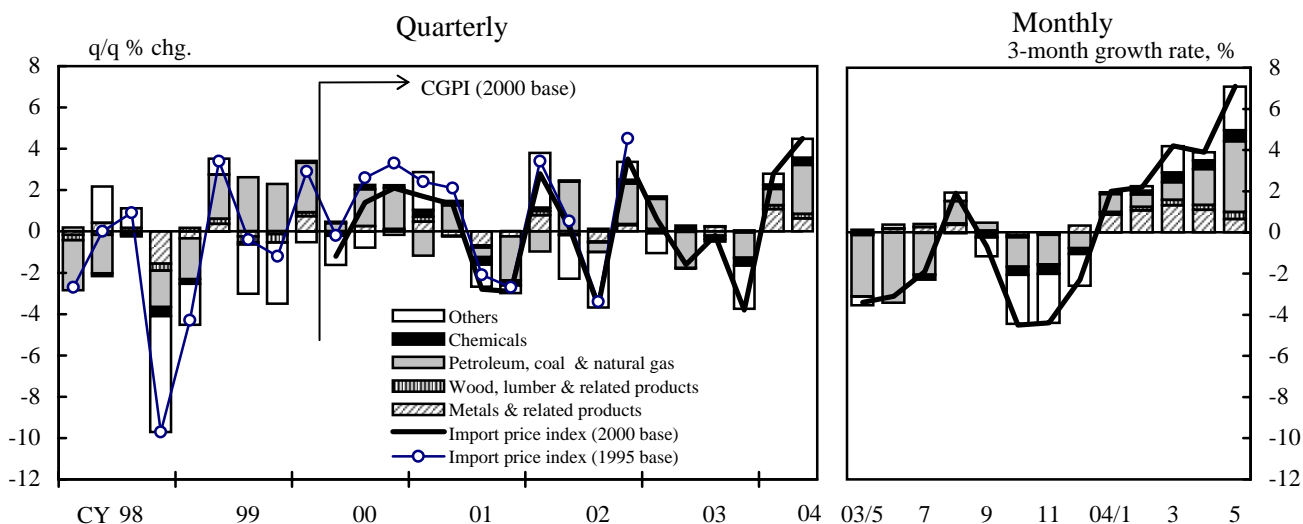
## Import Prices and International Commodity Prices

### (1) Import Price Index and Overseas Commodity Index



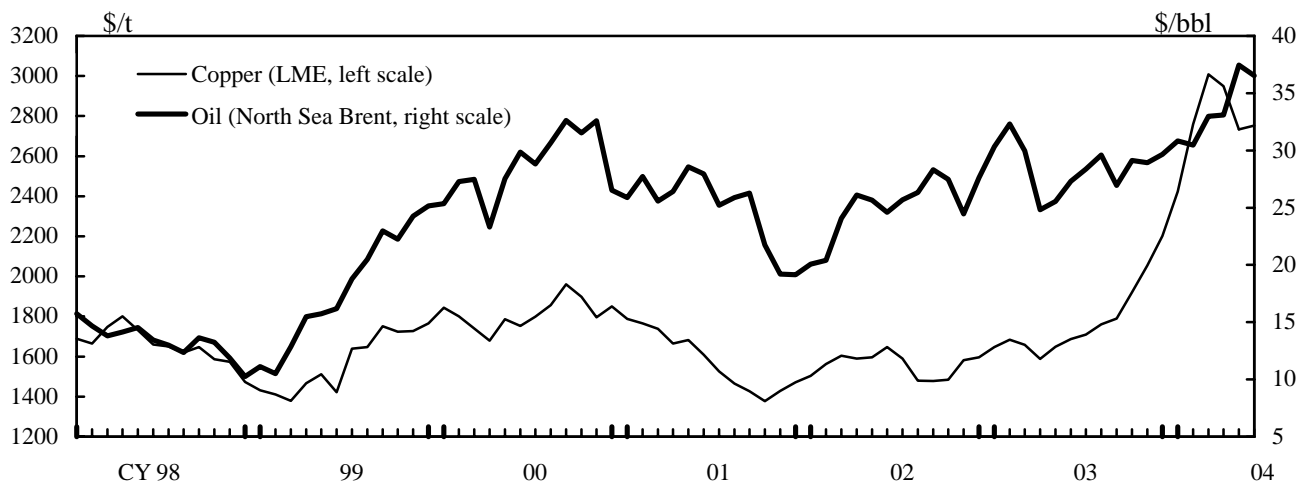
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: Figures for 2004/Q2 are those of April-May averages.  
1995 base figure for 2002/Q4 is Oct.-Nov. average.

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

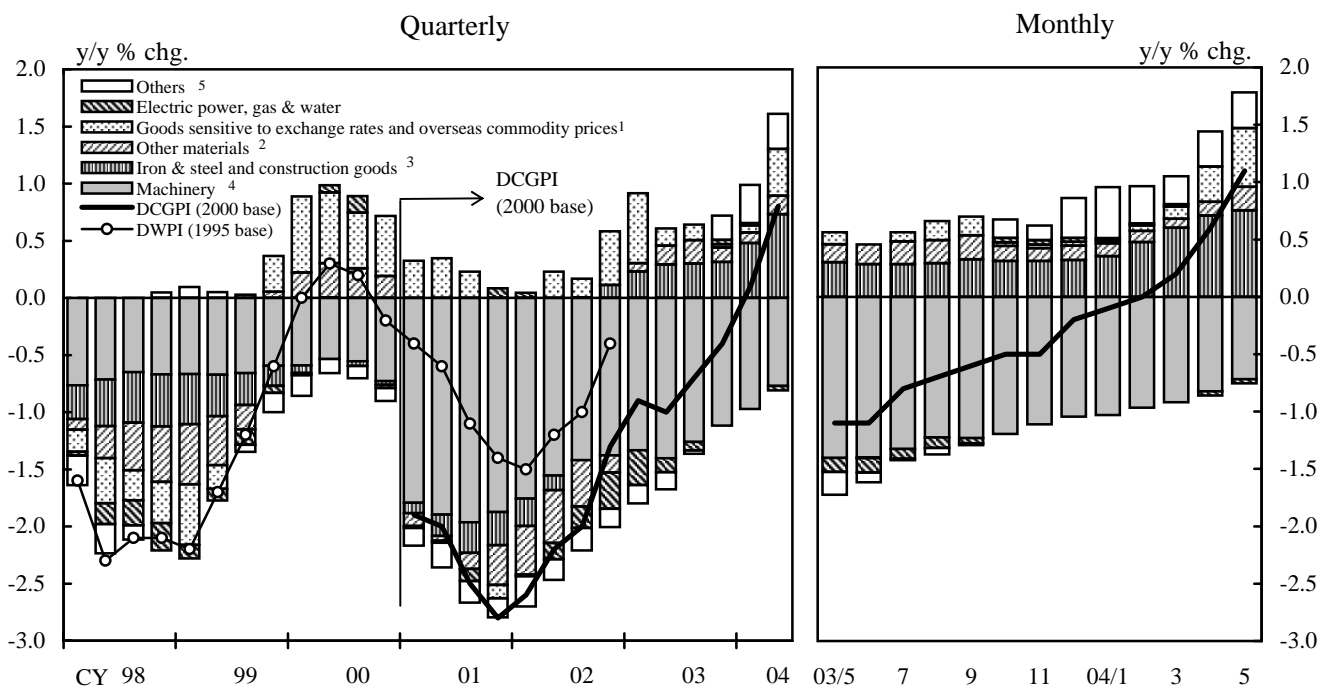


Note: Monthly averages. Figures for June 2004 are the averages up to June 11.

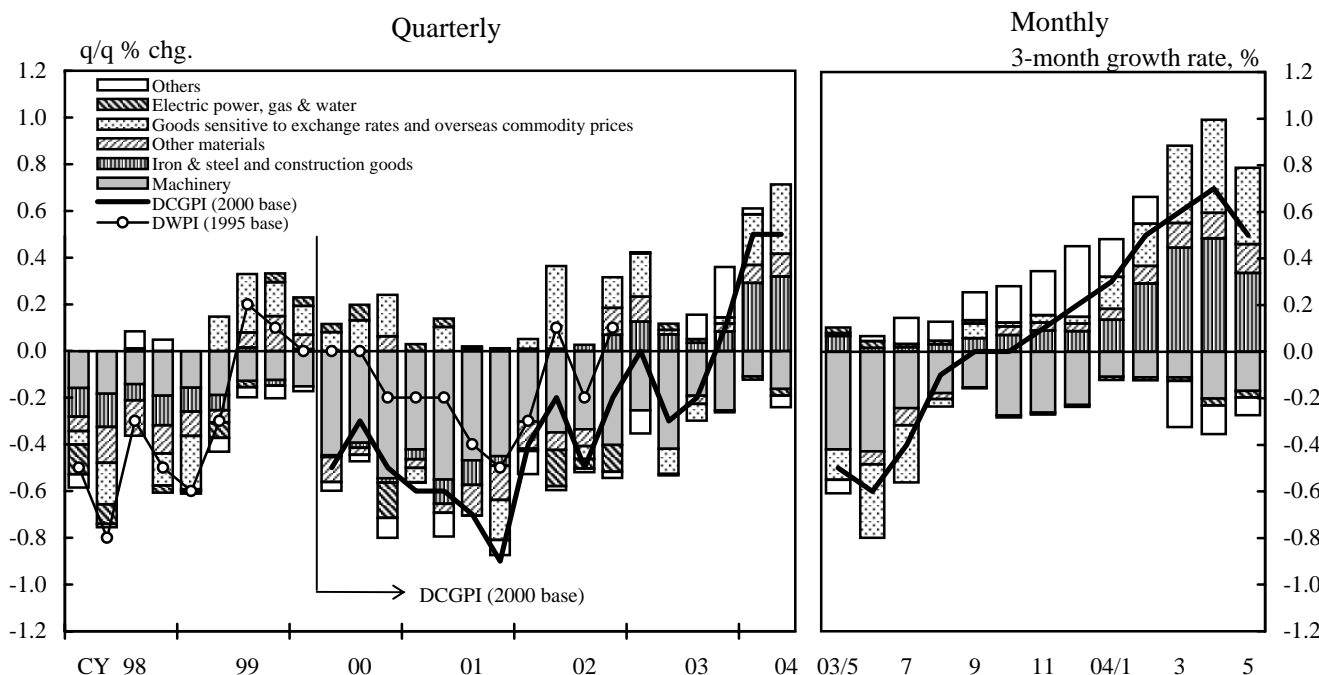
Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Bank of Japan Overseas Commodity Index," etc.

# Domestic Corporate Goods Price Index<sup>7</sup>

## (1) Changes from a year earlier



## (2) Changes from a quarter earlier and 3 months earlier<sup>6</sup>

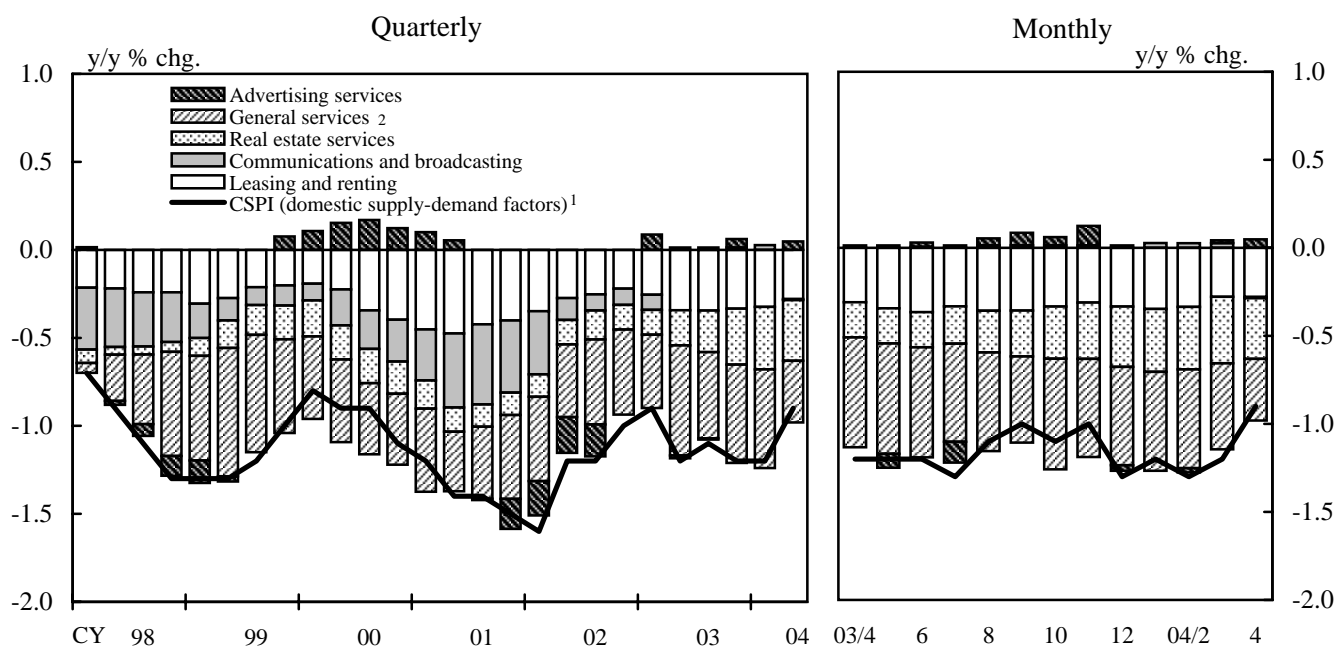
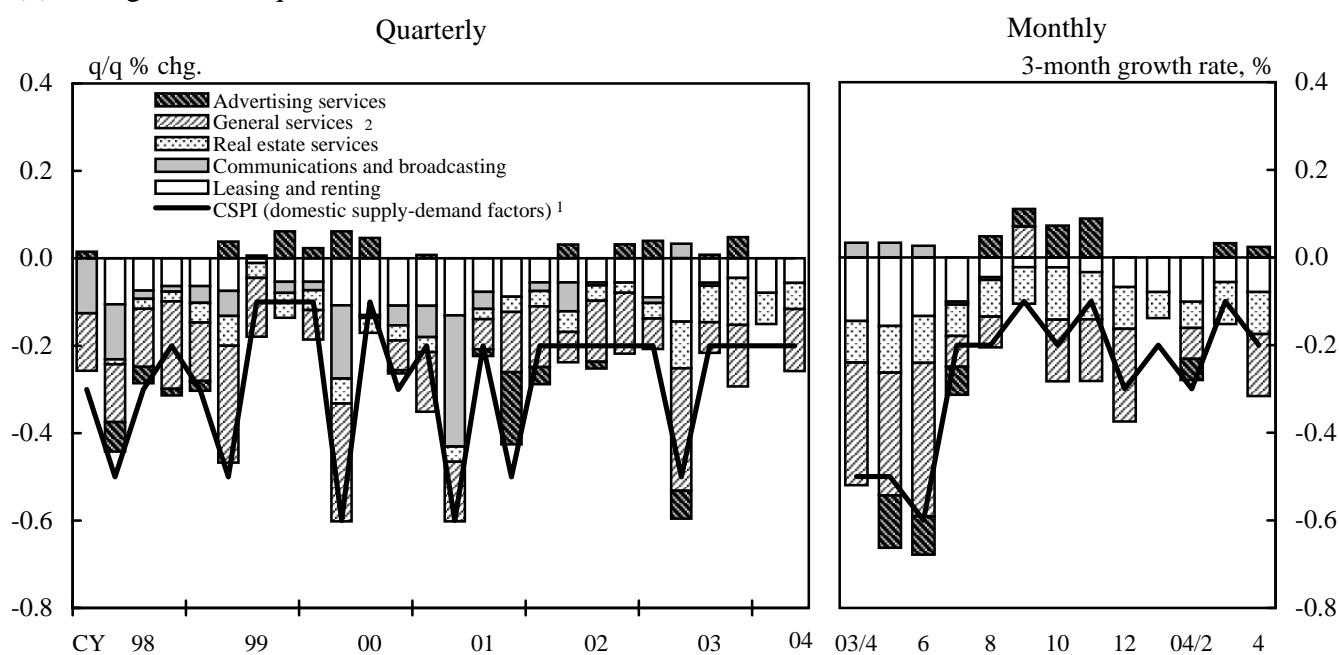


- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices; petroleum & coal products, nonferrous metals.  
 2. Other materials; chemicals, plastic products, textile products, pulp, paper & related products.  
 3. Iron & steel and construction goods; iron & steel, metal products, ceramics, 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 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.  
 8. Figures for 2004/Q2 are those of April-May averages.  
 1995 base figures for 2002/Q4 are those of Oct.-Nov. averages.

Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes."

Corporate Service Price Index<sup>4</sup>

## (1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier<sup>3</sup>

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.

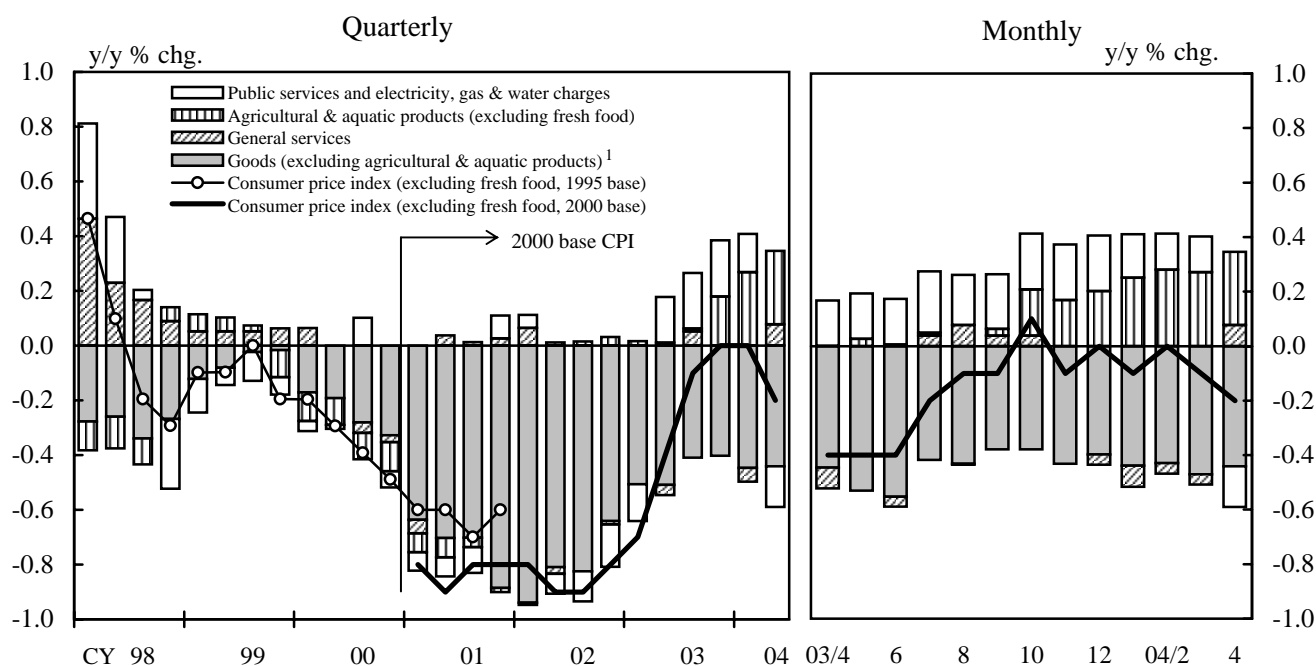
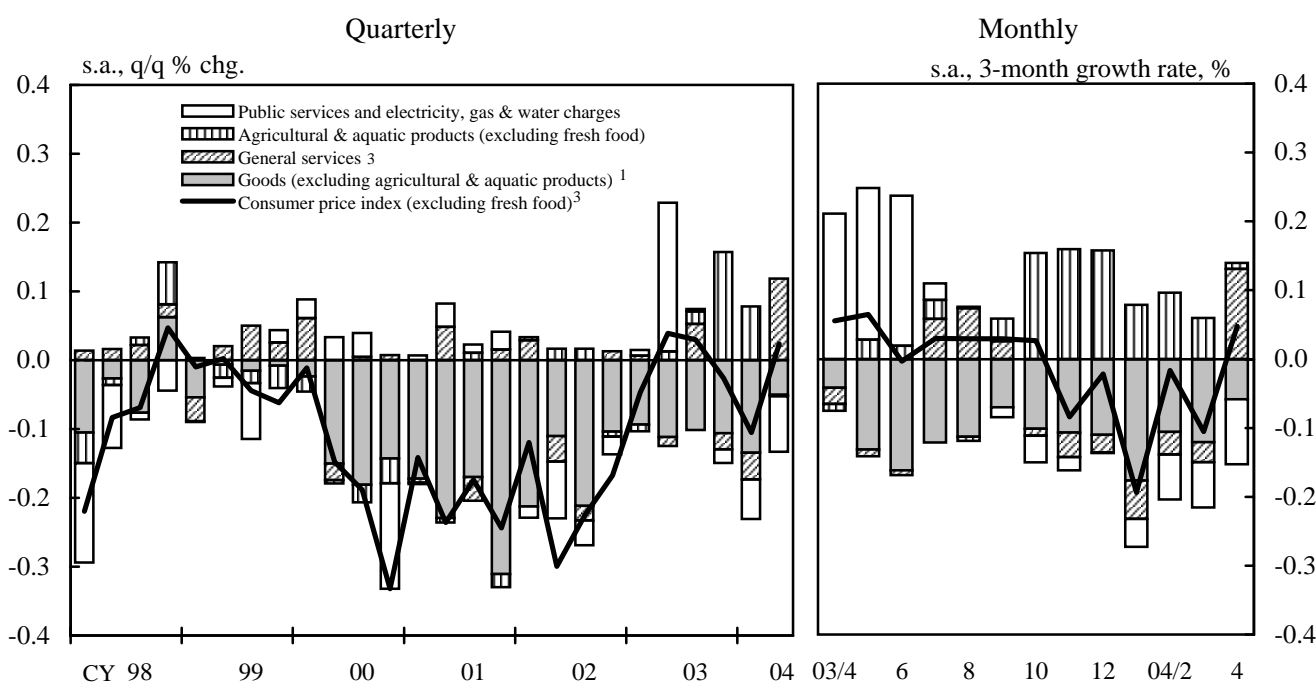
3. Television commercials in Advertising services, Sales space rental in Real estate services, and General warehousing and storage in General services are seasonally adjusted by X-12-ARIMA. As the seasonally adjusted figures are recalculated each month, the series are revised retroactively every month.

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

5. Figures for 2004/Q2 are those of April.

Consumer Price Index (excluding fresh food)<sup>4</sup>

## (1) Changes from a year earlier

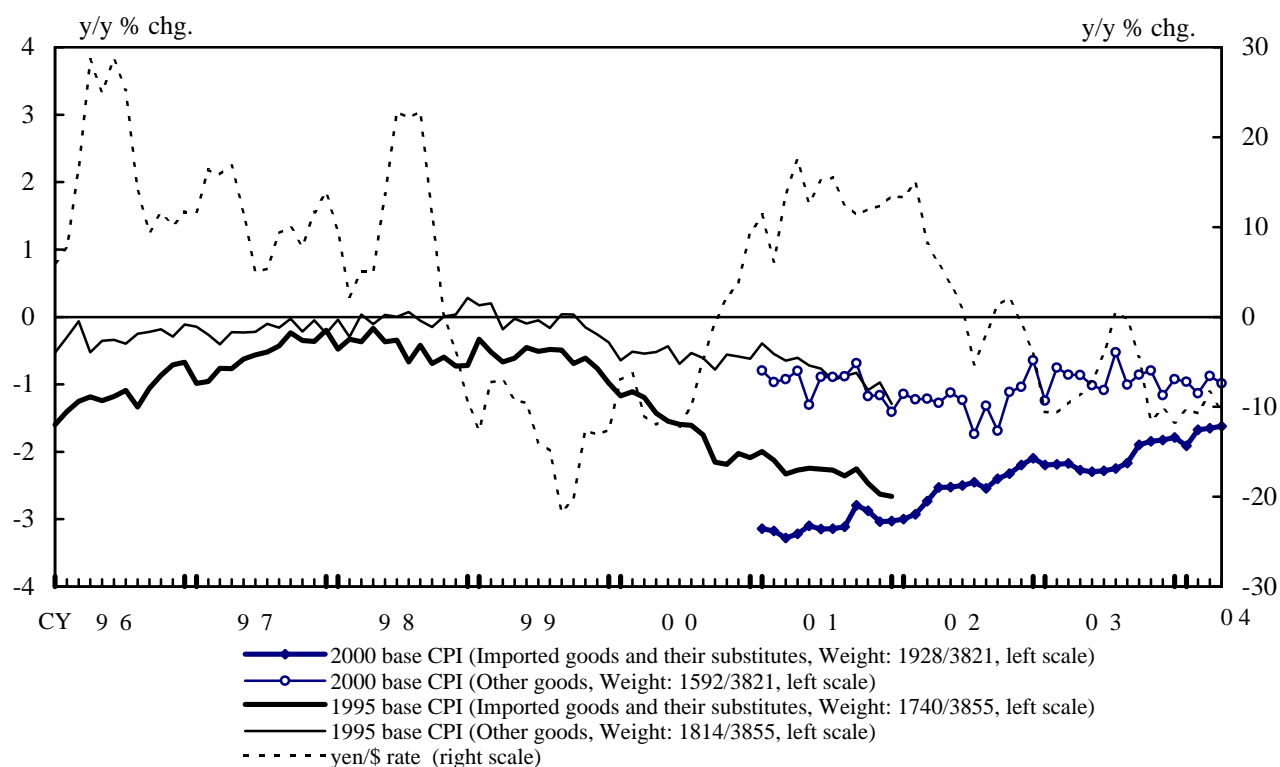
(2) Changes from a quarter earlier and 3 months earlier (2000 base CPI)<sup>2</sup>

- 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 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.  
 5. Figures for 2004/Q2 are those of April.

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 tobacco tax increases in Dec. 1998 and Jul. 2003, 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 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. 2004/Q2 figure is April 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."

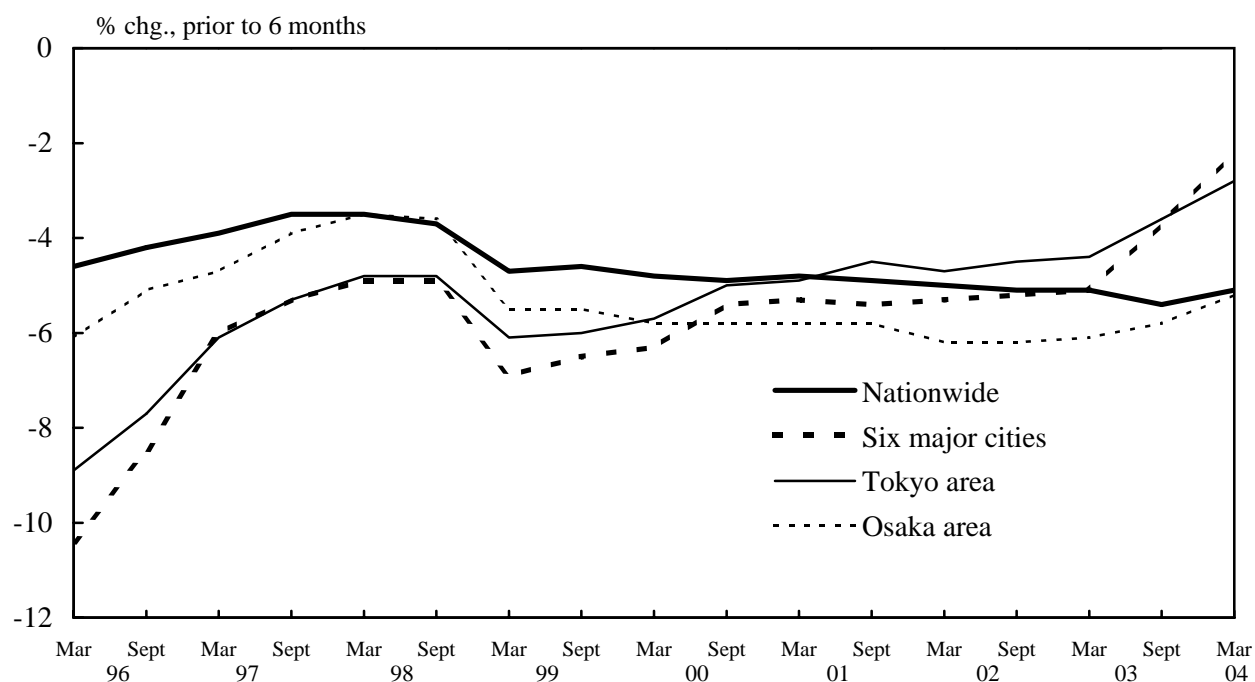


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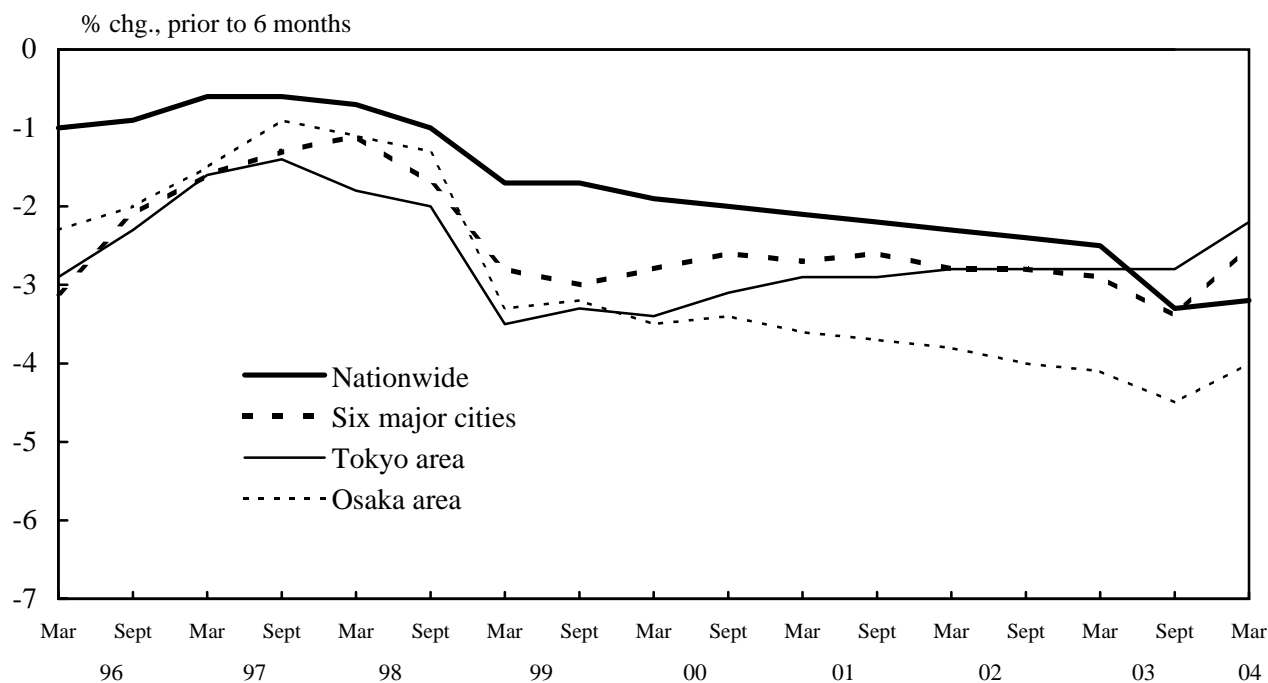
 Urban Land Price Index
 

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## (1) Commercial land



## (2) Residential land



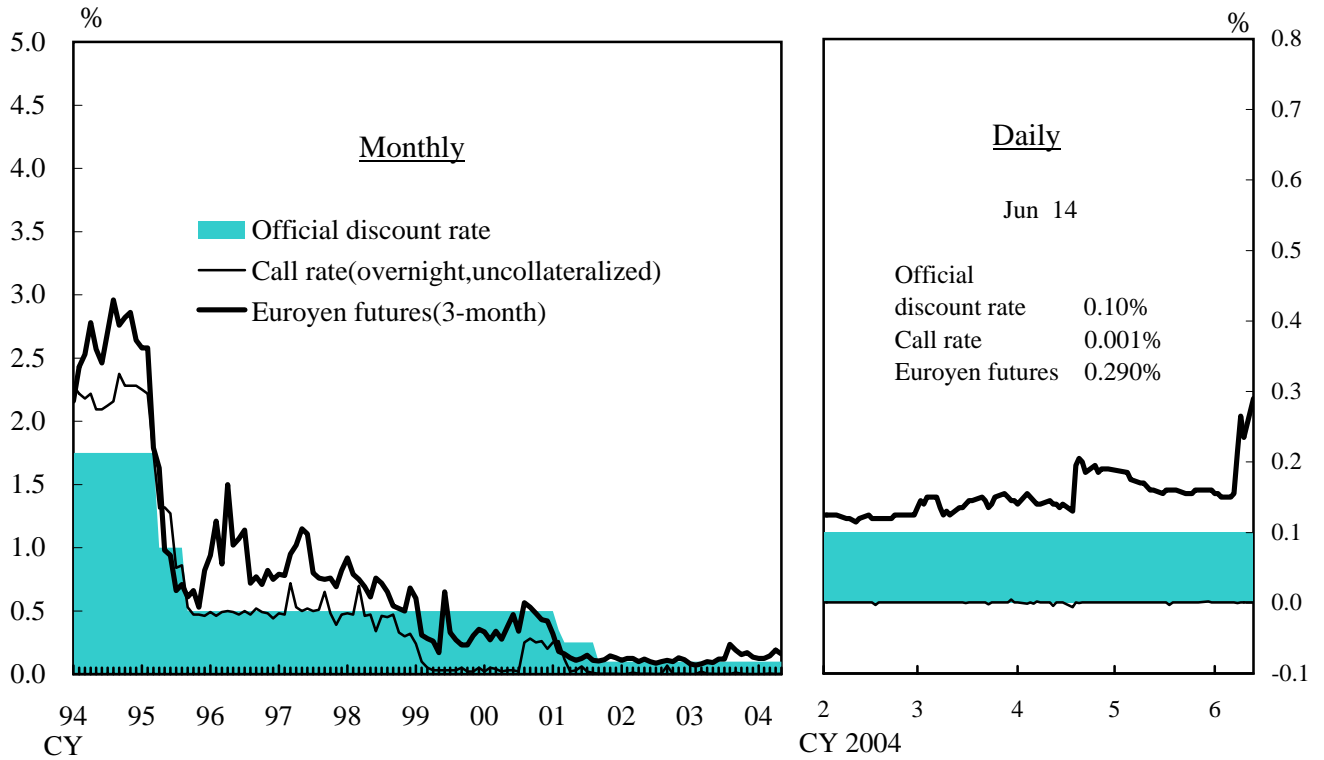
Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.

2. Six major cities include Tokyo (23 wards only), Yokohama, Nagoya, Kyoto, Osaka and Kobe.

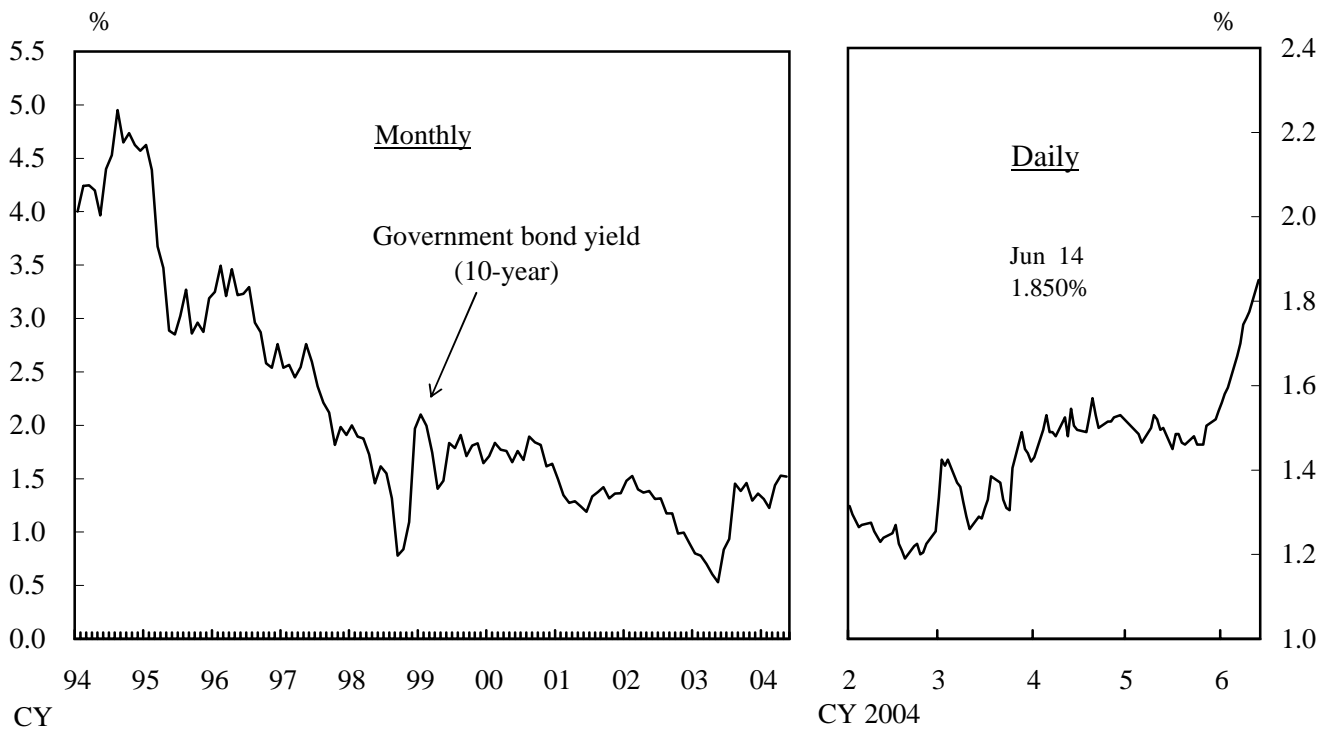
Source: Japan Real Estate Institute, "Urban Land Price Index."

Interest Rates

(1) Short-Term



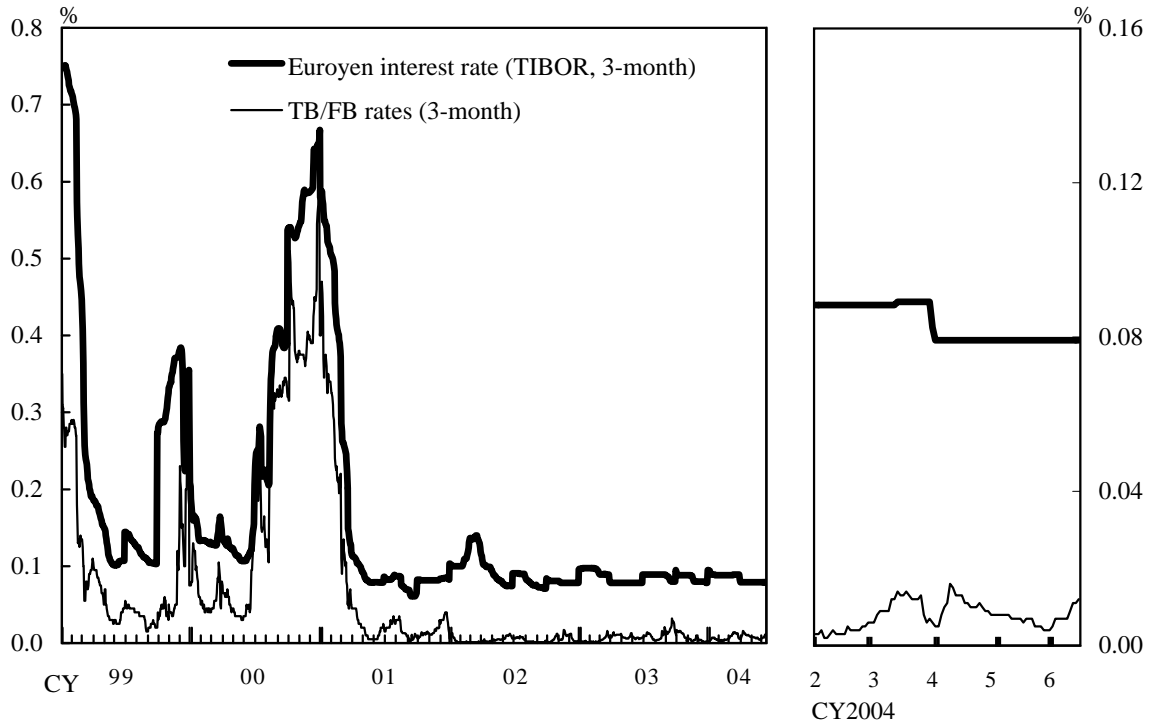
(2) Long-Term



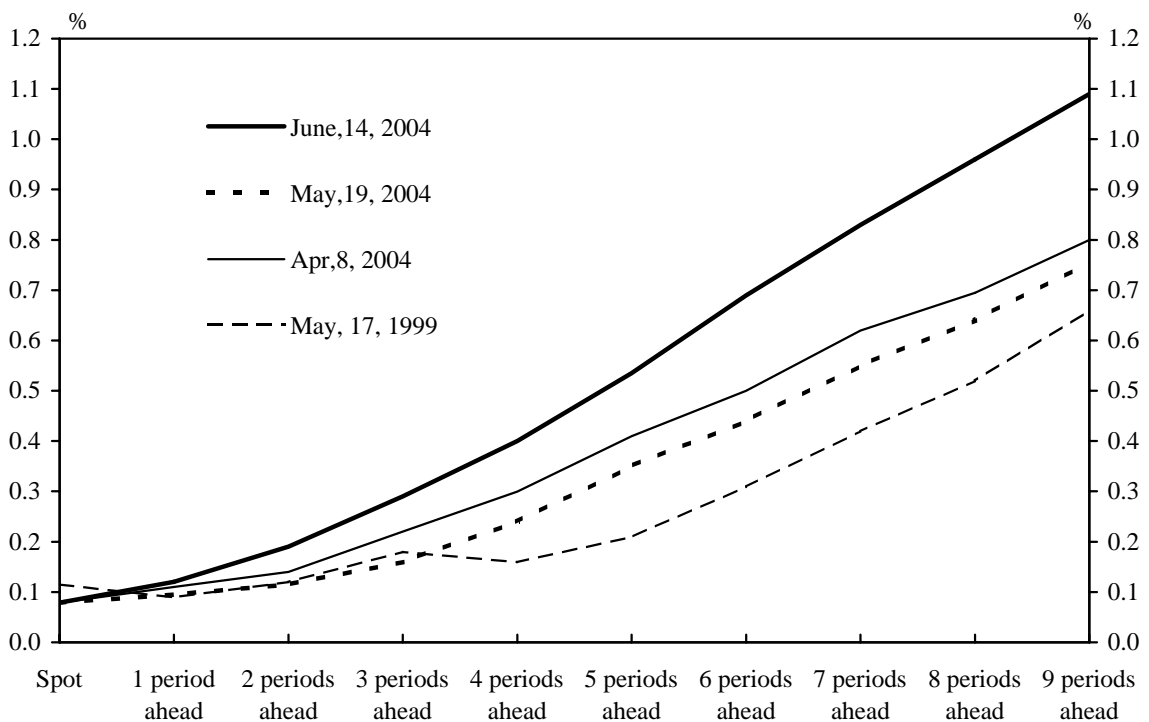
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;  
 Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



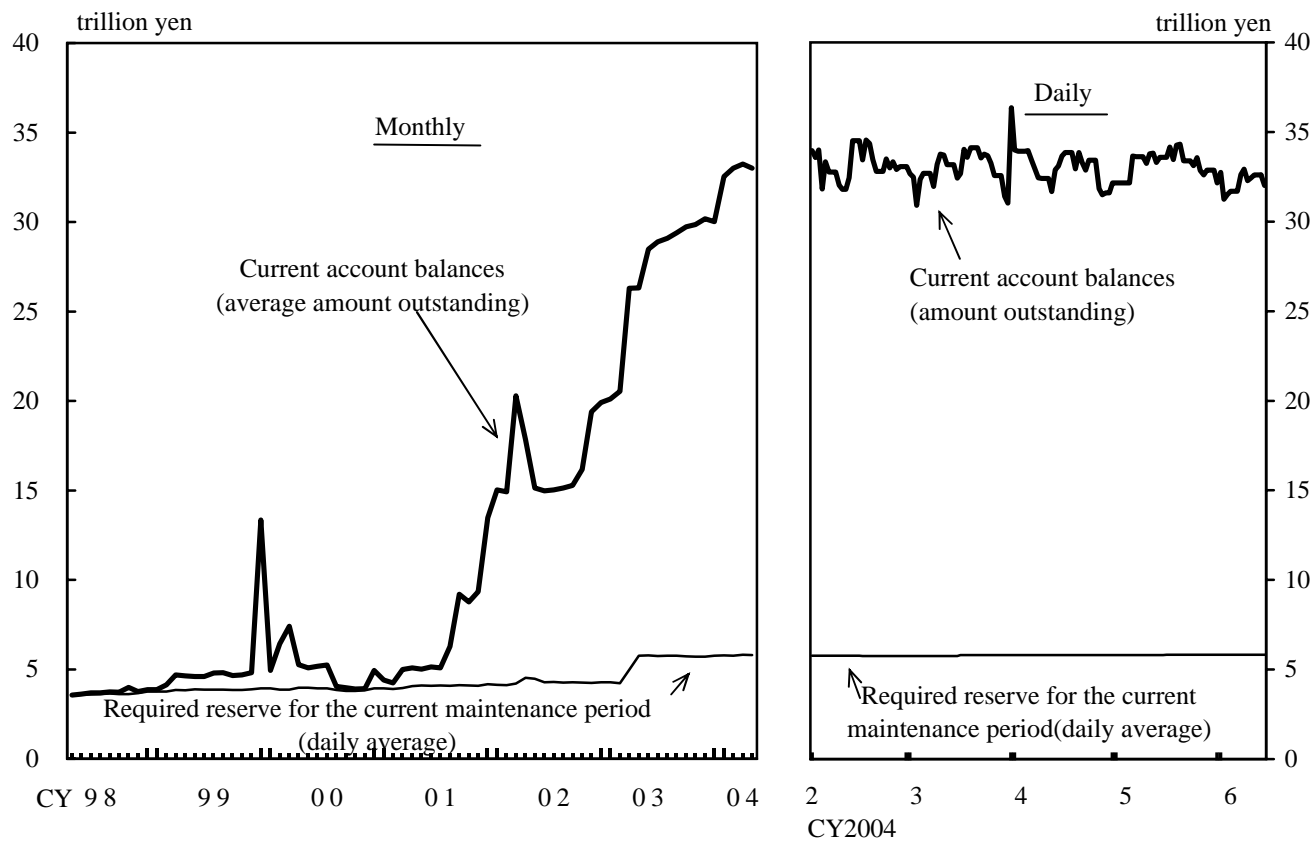
(2) Euroyen Interest Rates Futures (3-Month) <sup>1</sup>



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

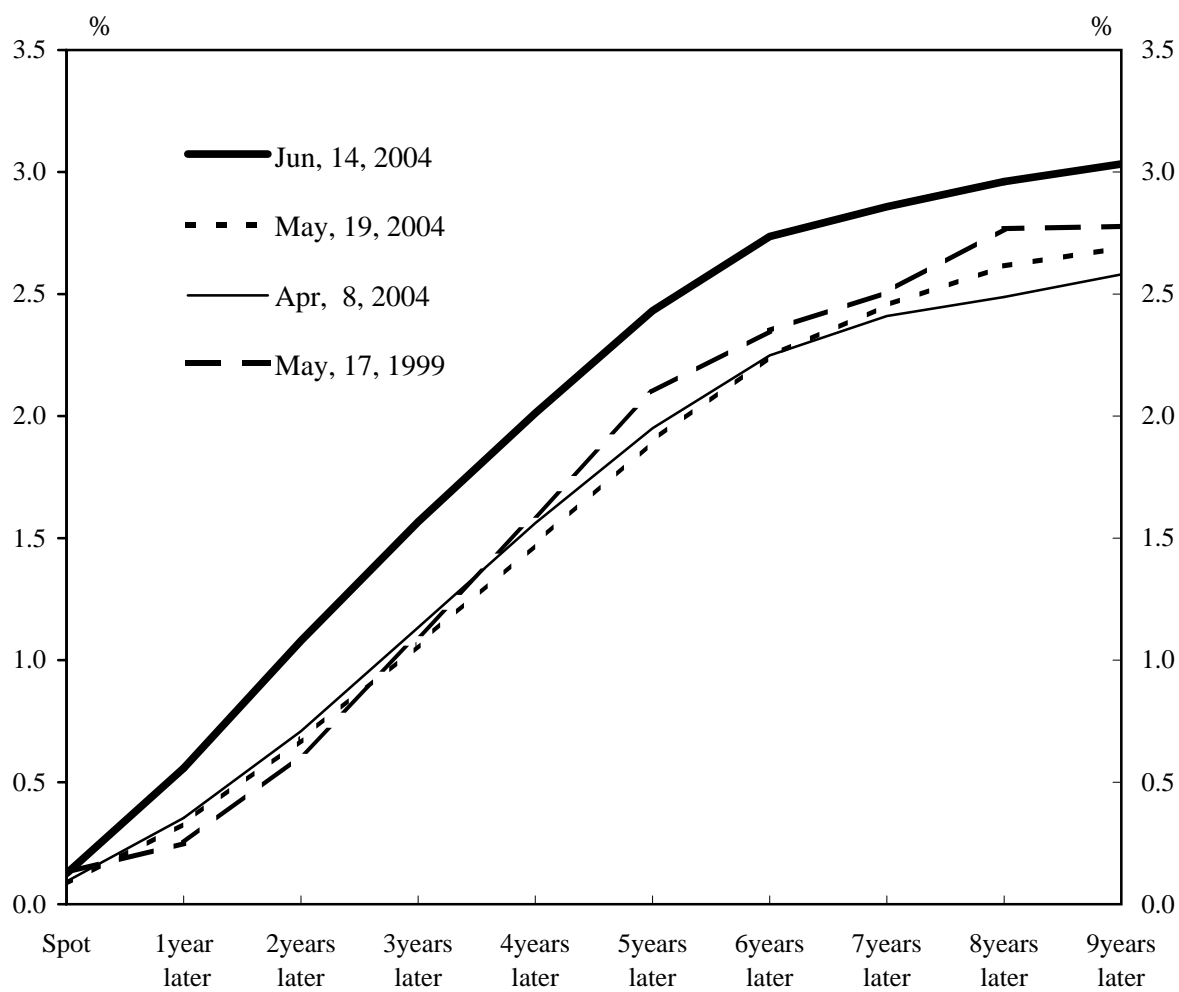
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo International Financial Futures Exchange.

Current Account Balances at the Bank of Japan <sup>1</sup>



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.

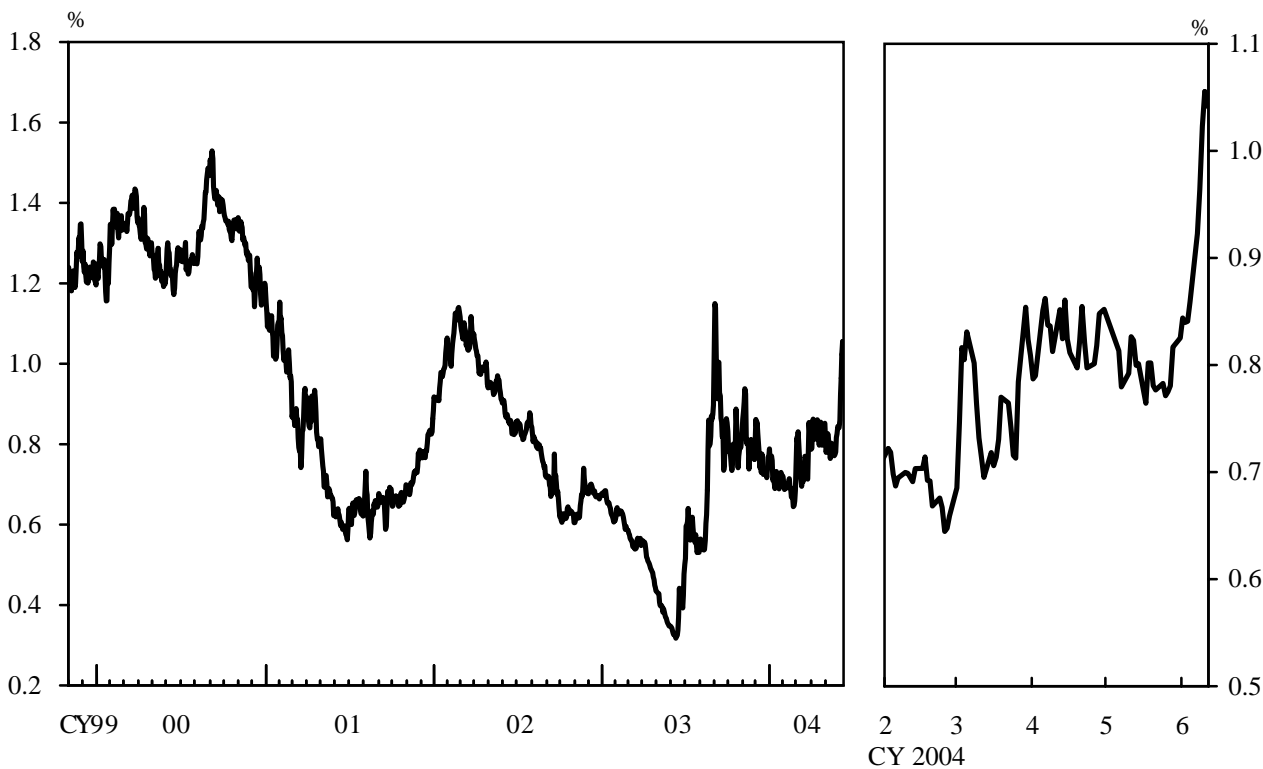
Implied Forward Rates (1-year)<sup>1</sup>

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

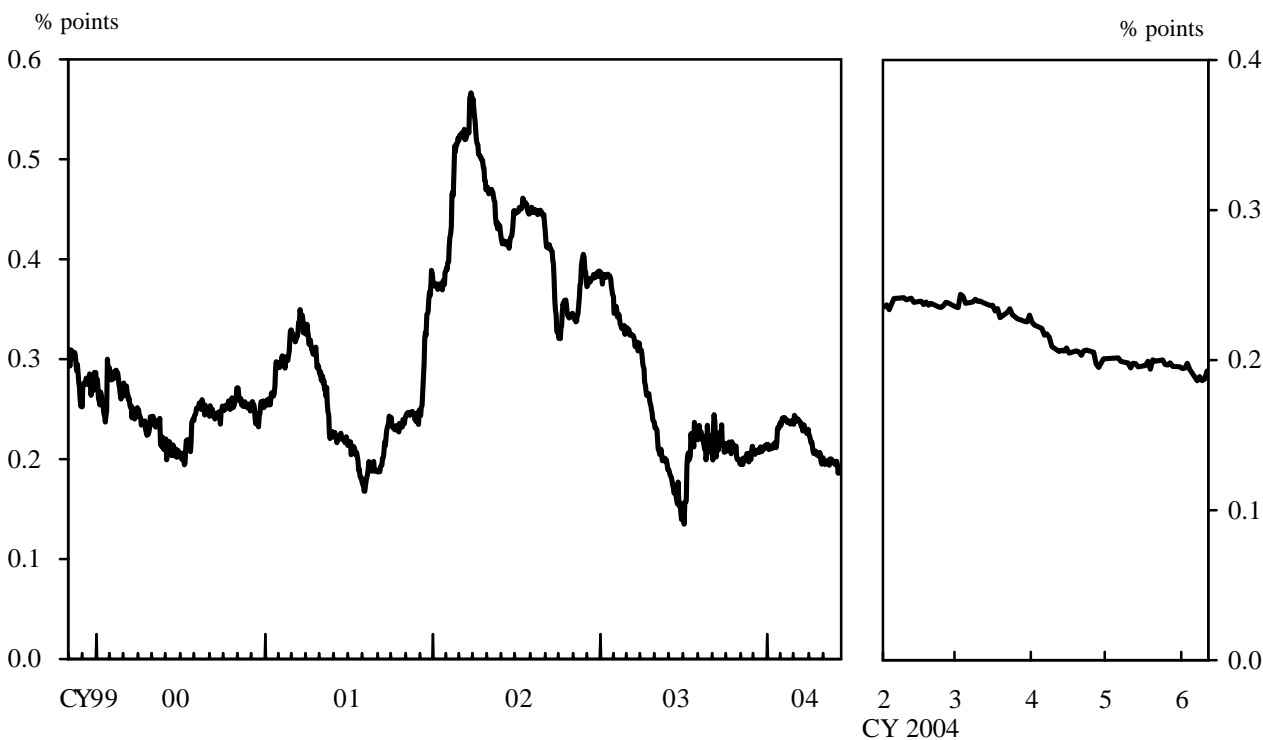
Source: Kyodo News.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



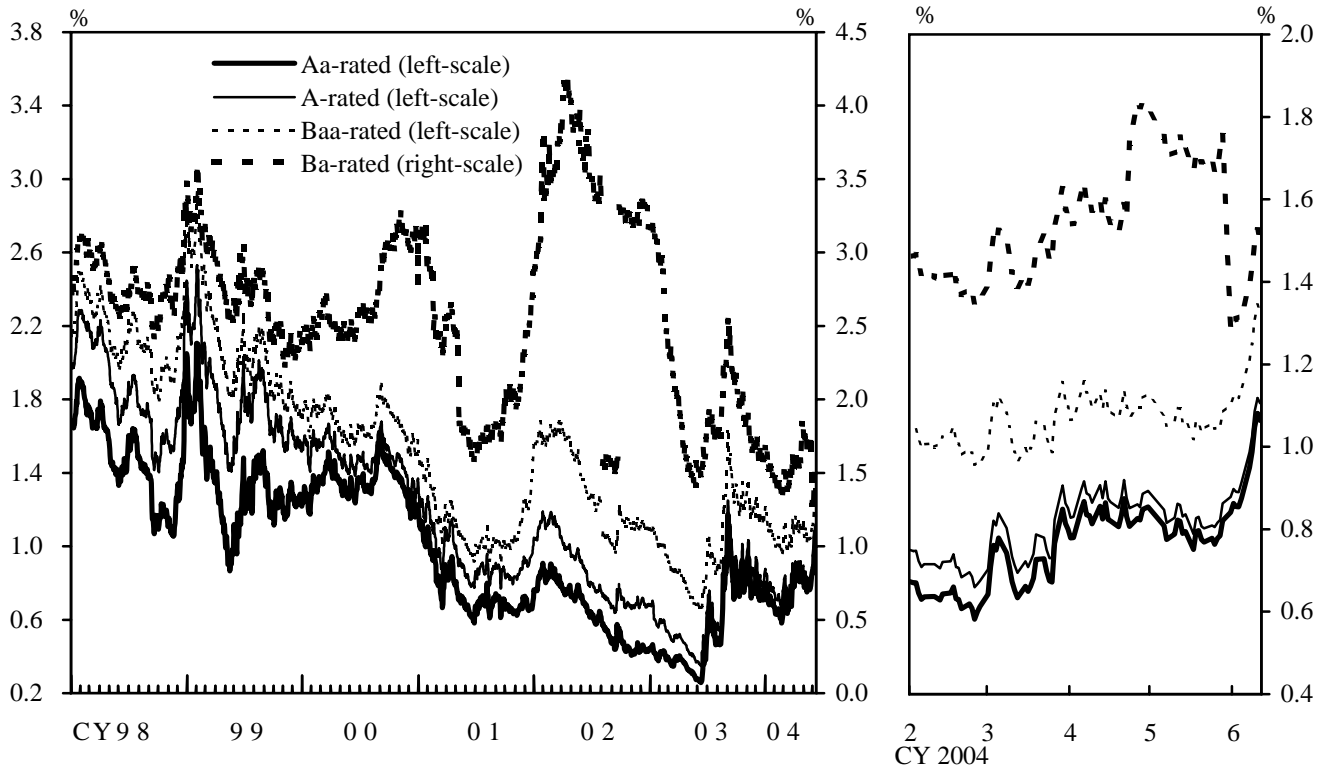
Notes: 1. Yields on bonds with 5-year maturity.

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

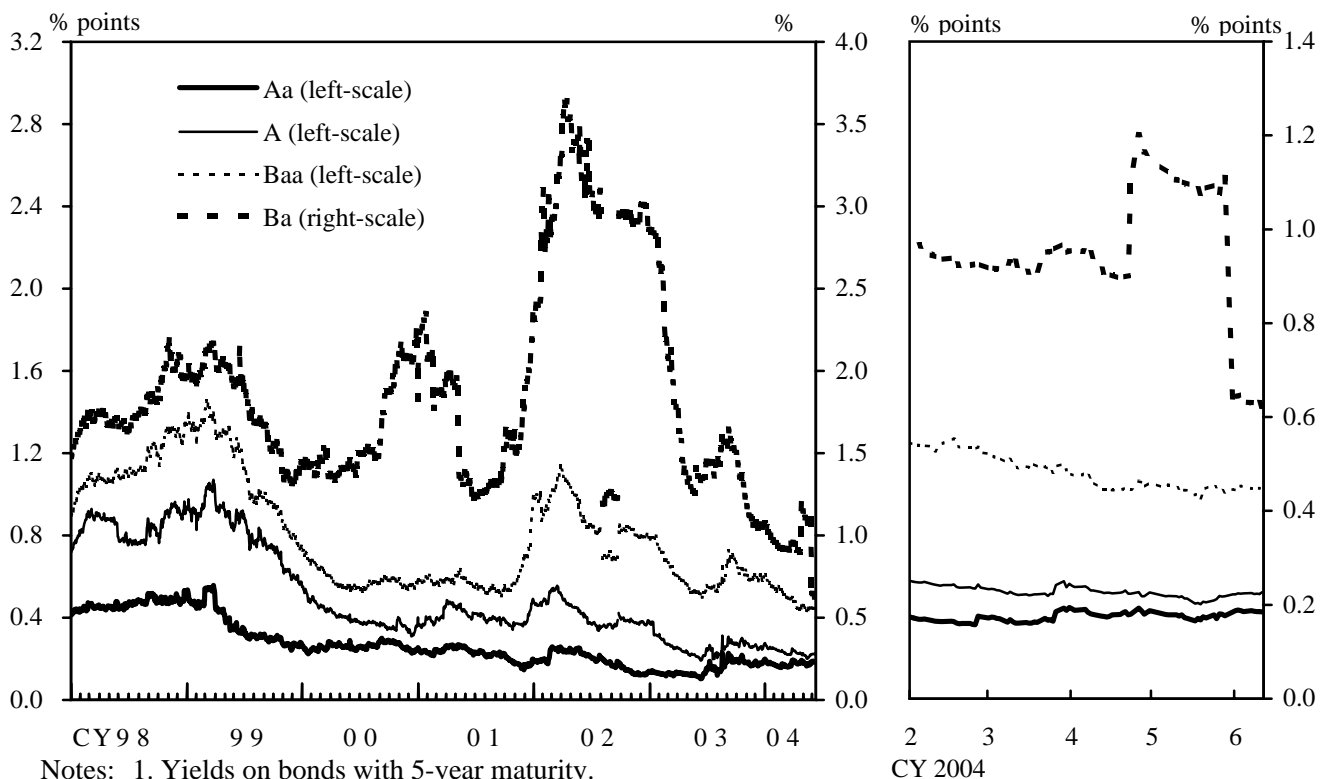
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."  
 "Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds <sup>1</sup>

(1) Corporate Bond Yields



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



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

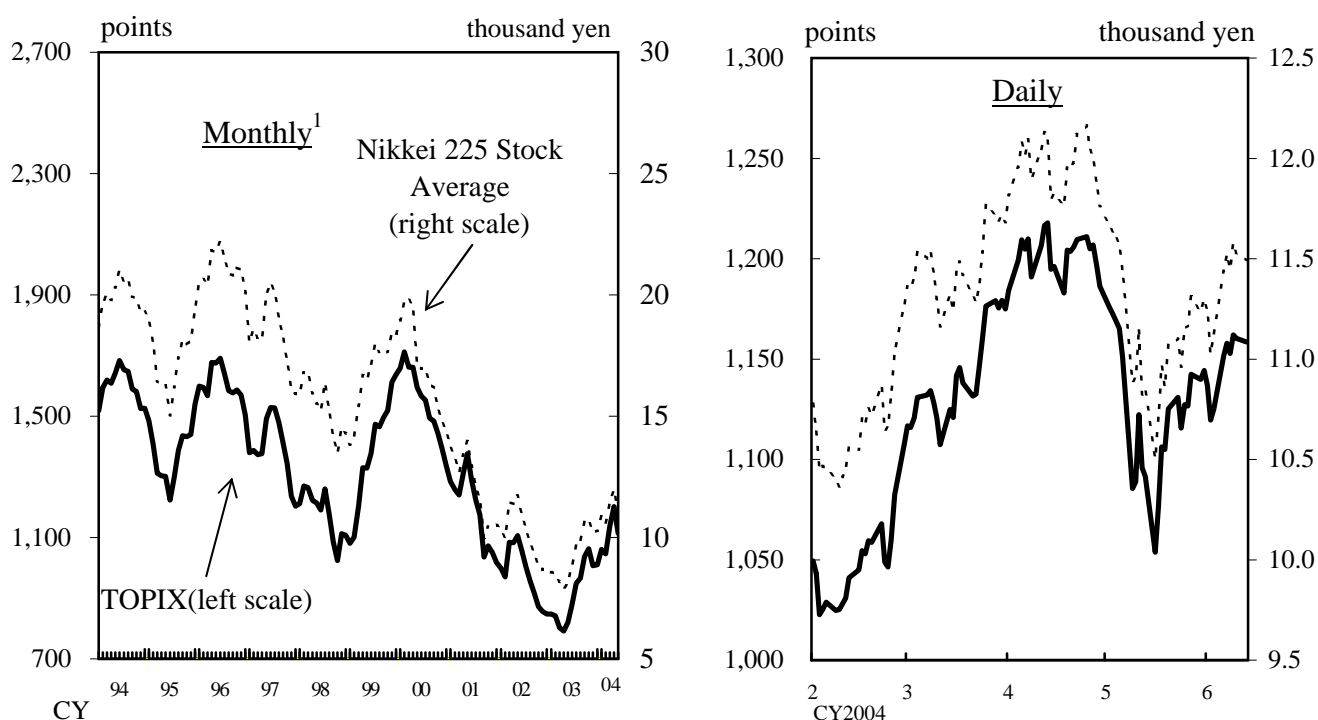
2. The indicated ratings are of Moody's.

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

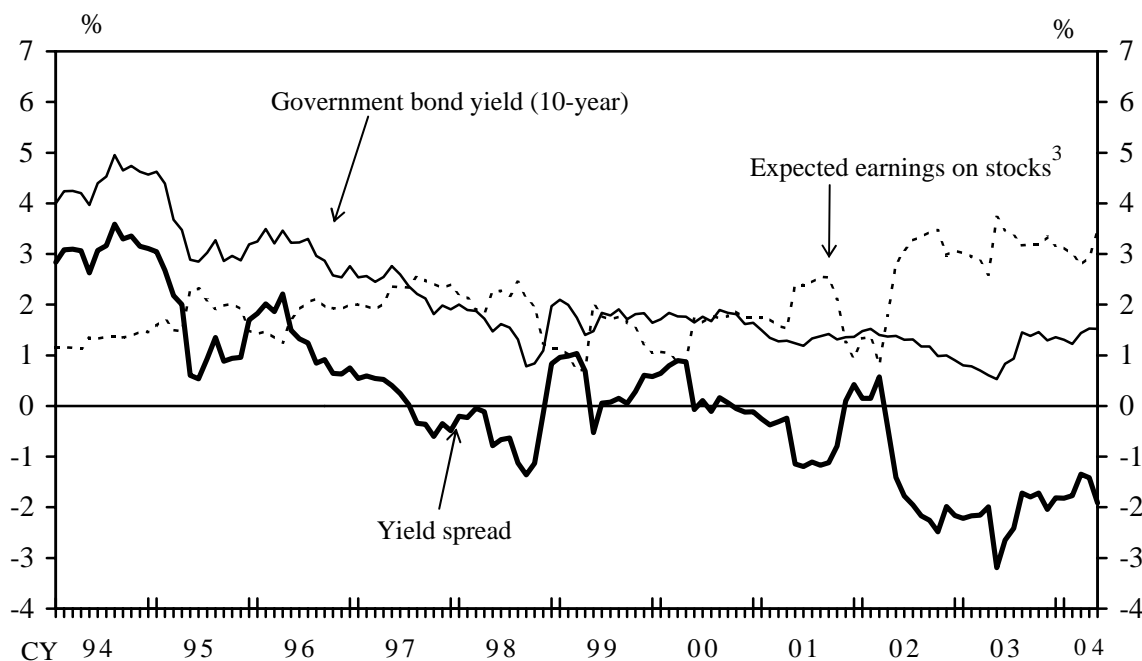
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread<sup>2</sup>



Notes: 1. Data are monthly averages.

2. Data are at end of period.

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

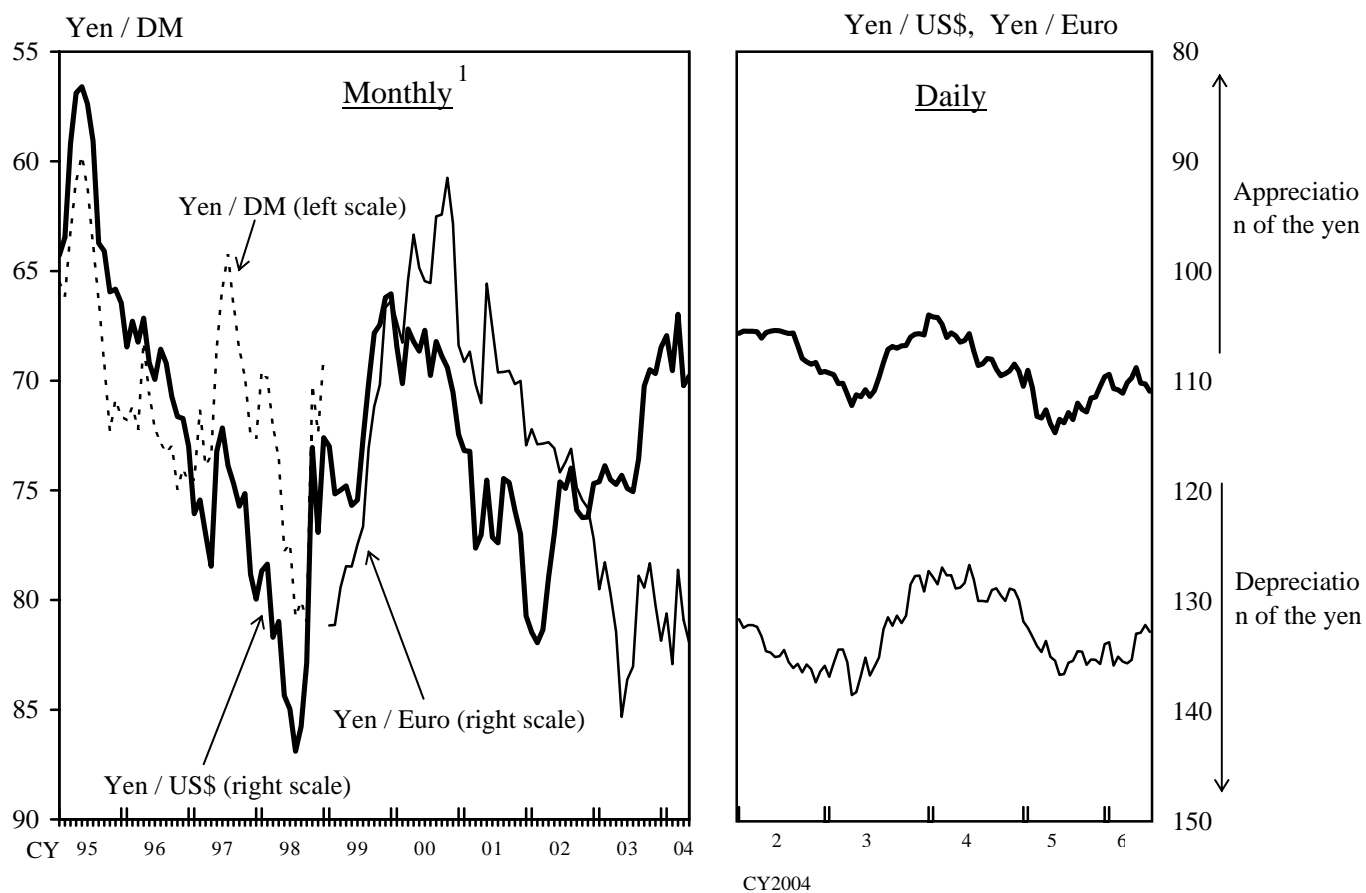
3. Based on stocks listed on the TSE First Section. Excludes bank stocks.

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

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



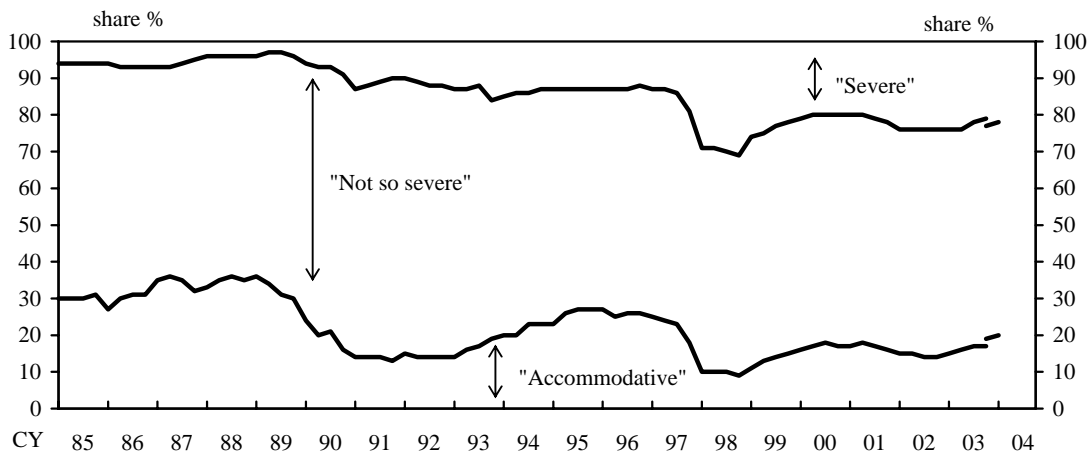
Exchange Rates



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

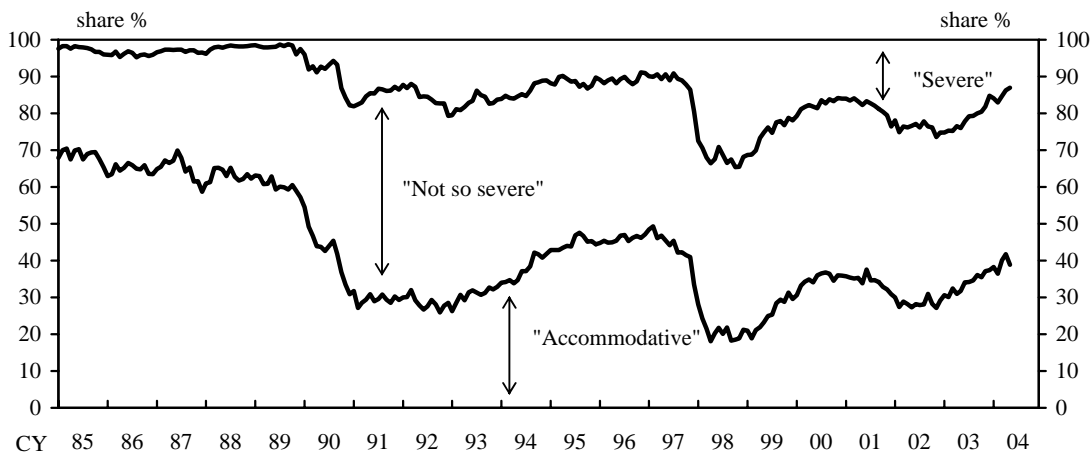
Lending Attitude of Financial Institutions as Perceived by Small Enterprises

(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 2004)

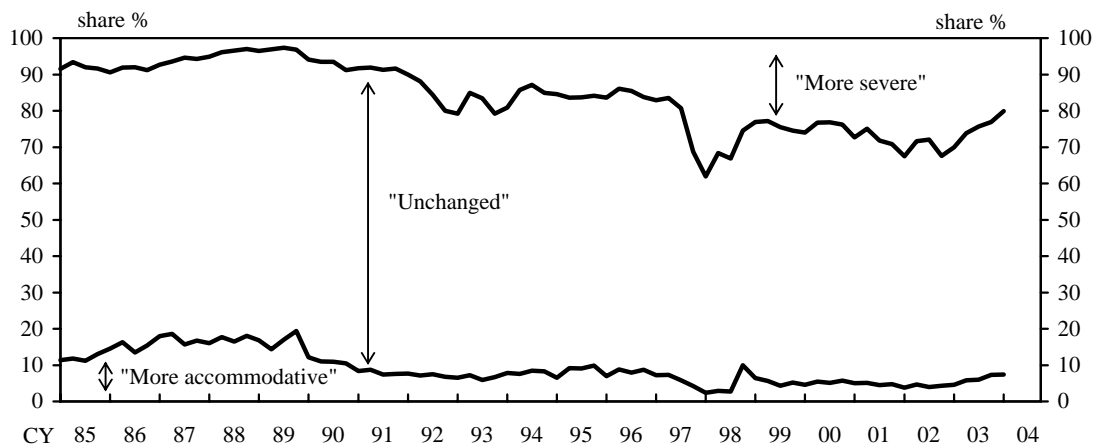


Note: The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

(2) "Monthly Survey of Small Businesses in Japan" (Mid-May, 2004)

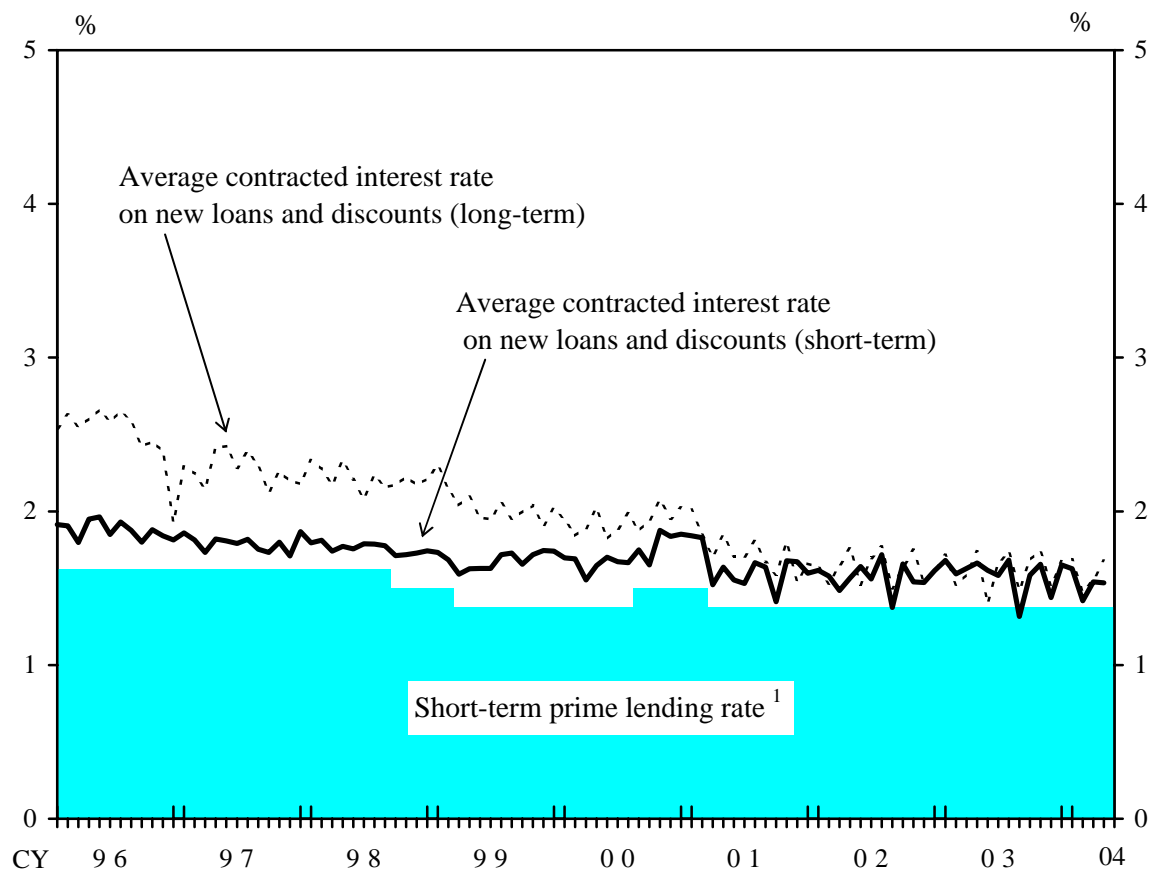


(3) "Quarterly Survey of Small Businesses in Japan" (March 10, 2004)



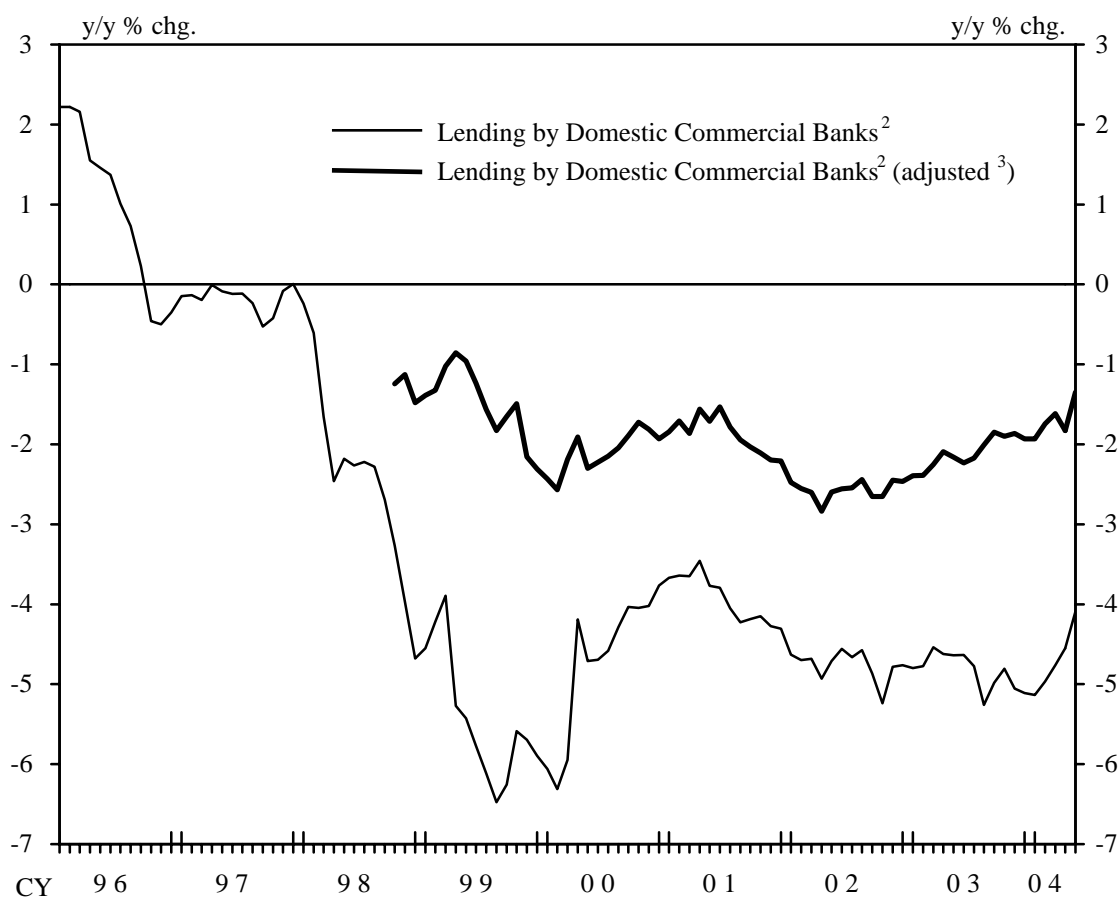
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ;  
 Japan Finance Corporation for Small Business, "Monthly Survey of Small Businesses in Japan";  
 National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Domestic Commercial Banks <sup>1</sup>

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).

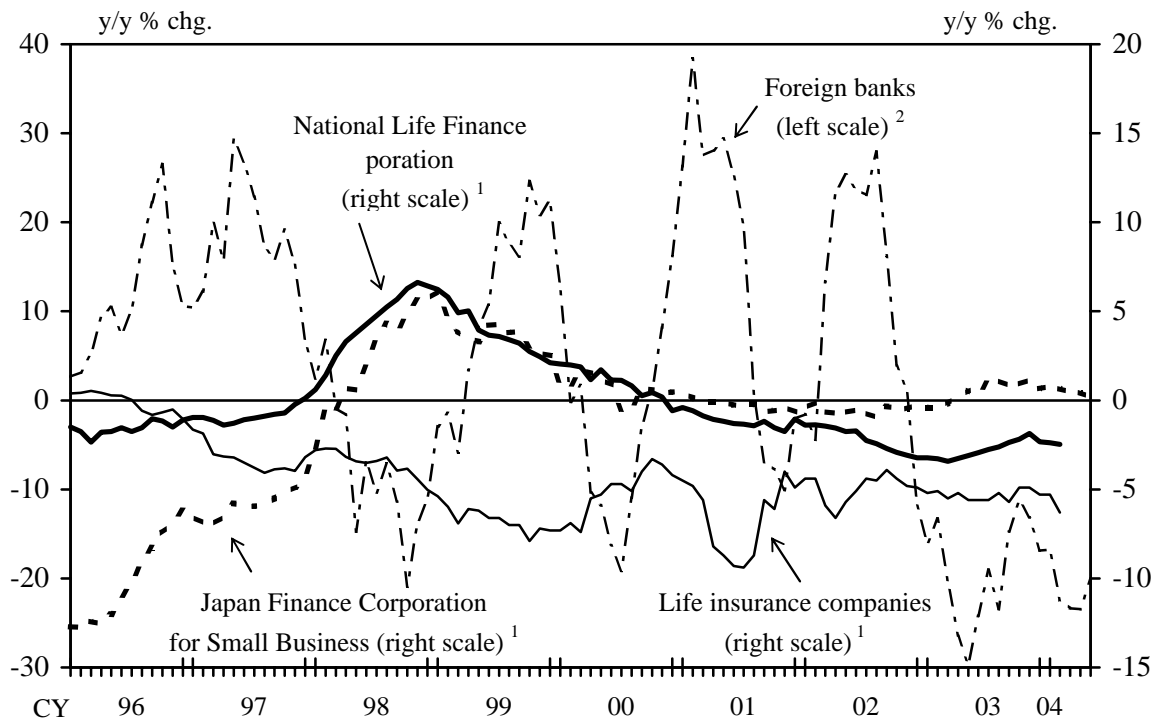
3. Adjusted to exclude

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

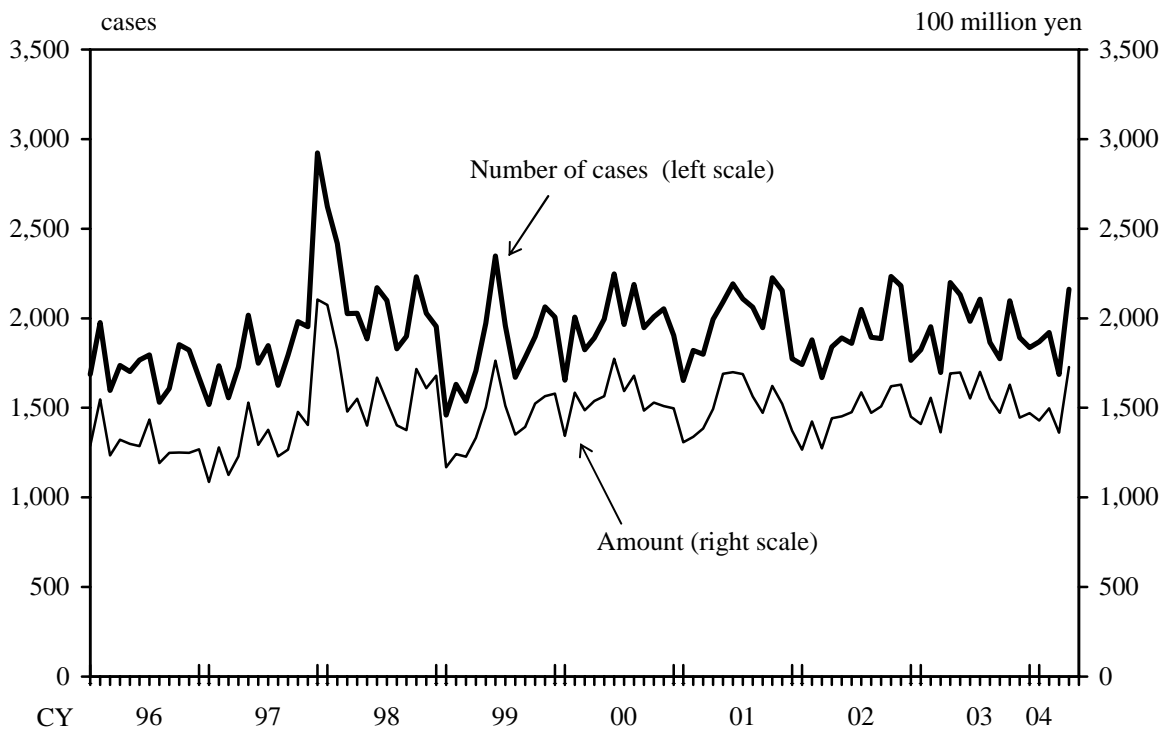
Lending by Other Financial Institutions

(1) Lending Outstanding



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

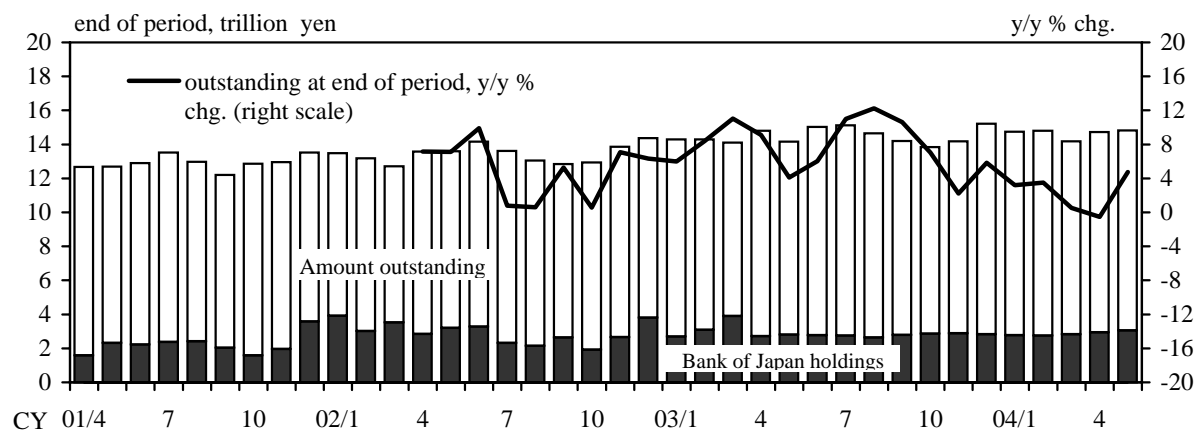
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

## Private-Sector Fund-Raising in the Capital Markets

## (1) Amount Outstanding of Commercial Paper



- Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.  
2. Excludes those issued by banks.

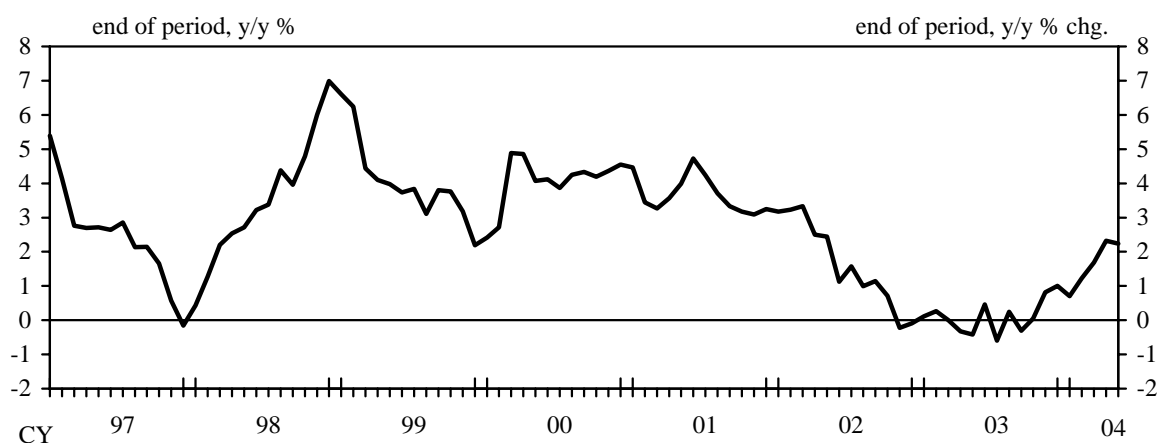
## (2) Issue Volume of Corporate Bonds

(100 million yen)

	2003/Q3	Q4	2004/Q1	2004/Mar.	Apr.	May
Volume	29,380	29,431	30,278	18,810	6,238	7,147
(previous year)	(28,505)	(27,520)	(31,849)	(16,158)	(6,229)	(10,096)

- Notes: 1. Corporate bonds are defined as the sum of the following categories: straight bonds, convertible bonds, and bonds with warrants issued in domestic and overseas markets, as well as ABSs issued in the domestic market.  
2. Straight bonds issued by banks are excluded from domestically issued straight bonds.  
3. The figure as of the latest month is a preliminary one, using an estimate for the amount outstanding of the domestically issued private placement bonds.

## (3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier)



Note: Percentage changes from the previous year of the amount outstanding of corporate bonds are estimated figures. Procedures of the estimation are summarized as follows:

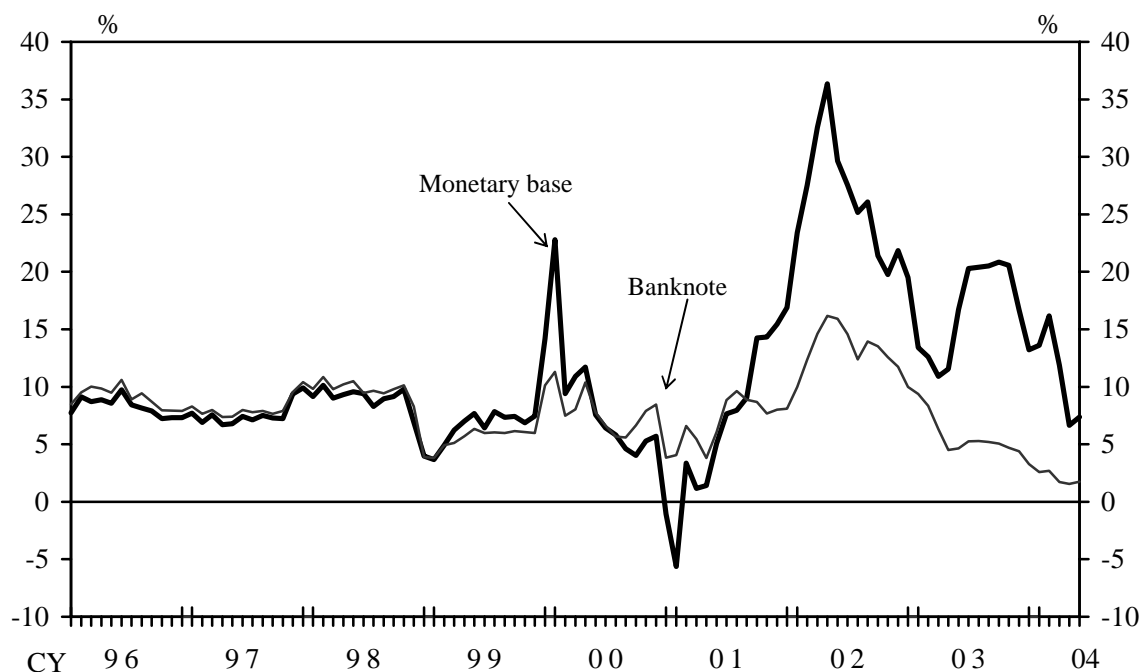
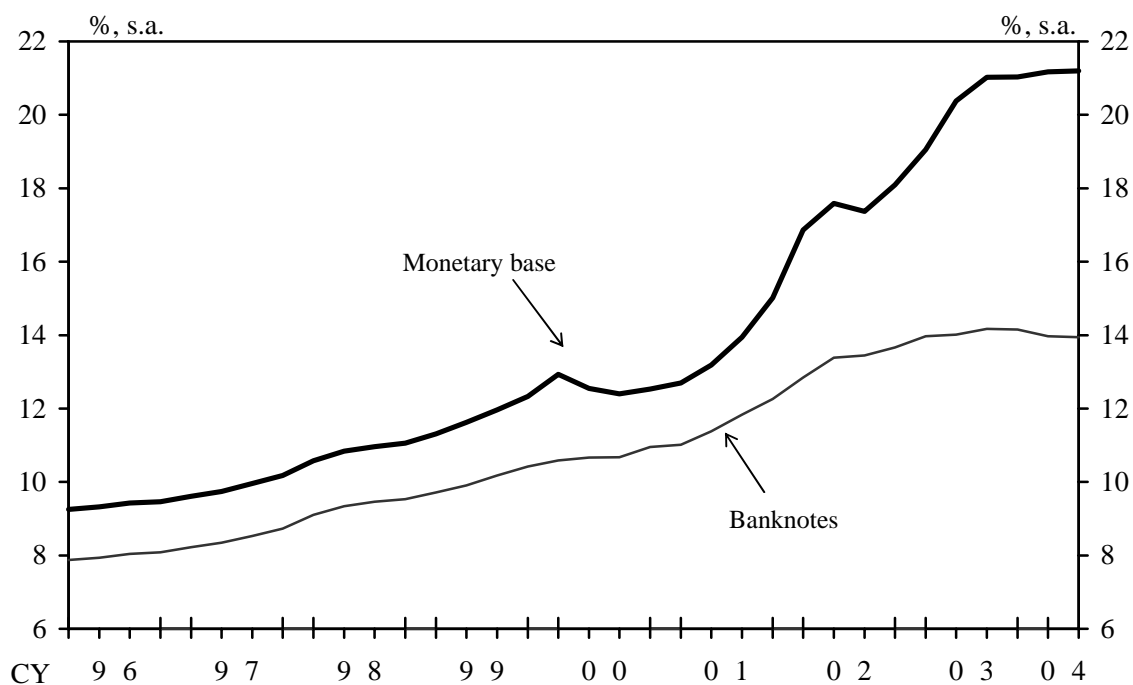
- (1) The sum of straight bonds, convertible bonds, bonds with warrants, and ABSs issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) In calculating the percentage changes from the previous year of the amount outstanding of corporate bonds, the following adjustment is made for the treatment of convertible bonds that have been converted into shares.  
Percentage changes from the previous year of the amount outstanding of corporate bonds  
= (The amount outstanding of corporate bonds as of this month + The sum of conversion amount over the last 12 months) / The amount outstanding of corporate bonds as of the same month in the previous year
- (4) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

Sources: Bank of Japan, "Principal Figures of Financial Institutions," "Balance of Payments Monthly"; Japan Securities Dealers Association, "New Issue Volume- Redemption of Bonds," "Bond Issuance Abroad by Japanese," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

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**Monetary Base**


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**(1) Changes from a Year Earlier****(2) Ratio of Monetary Base to Nominal GDP**

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

Data for currency in circulation include holdings of financial institutions.

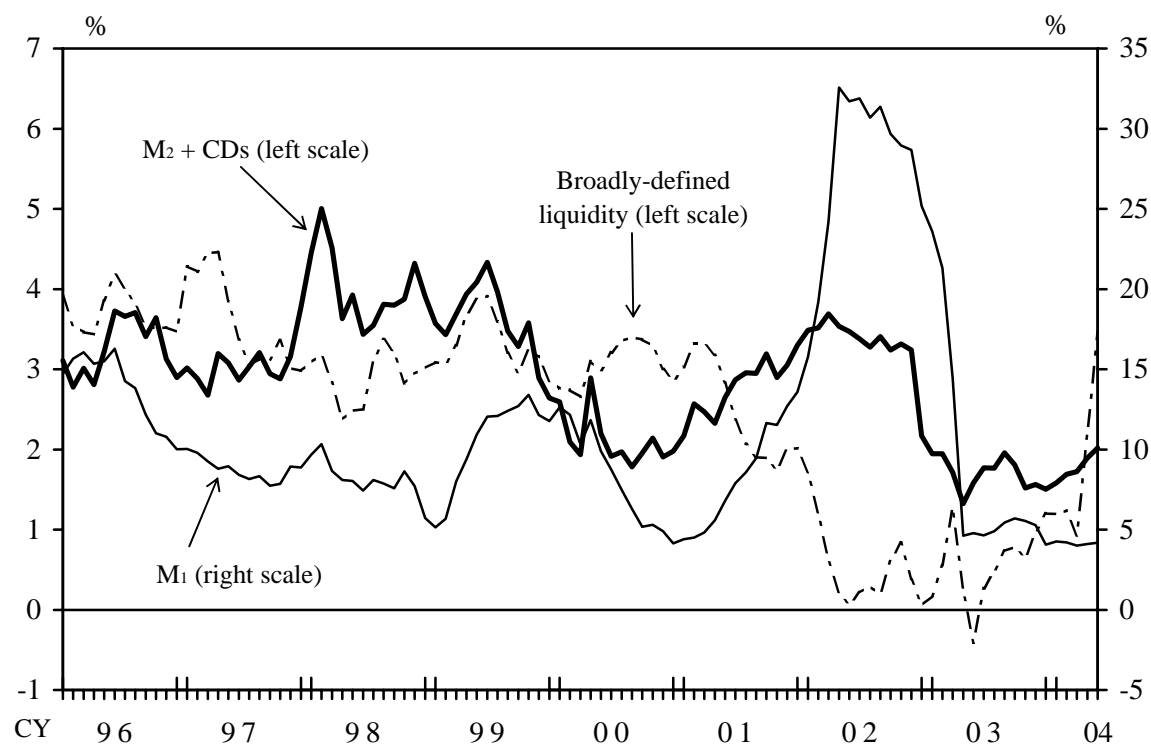
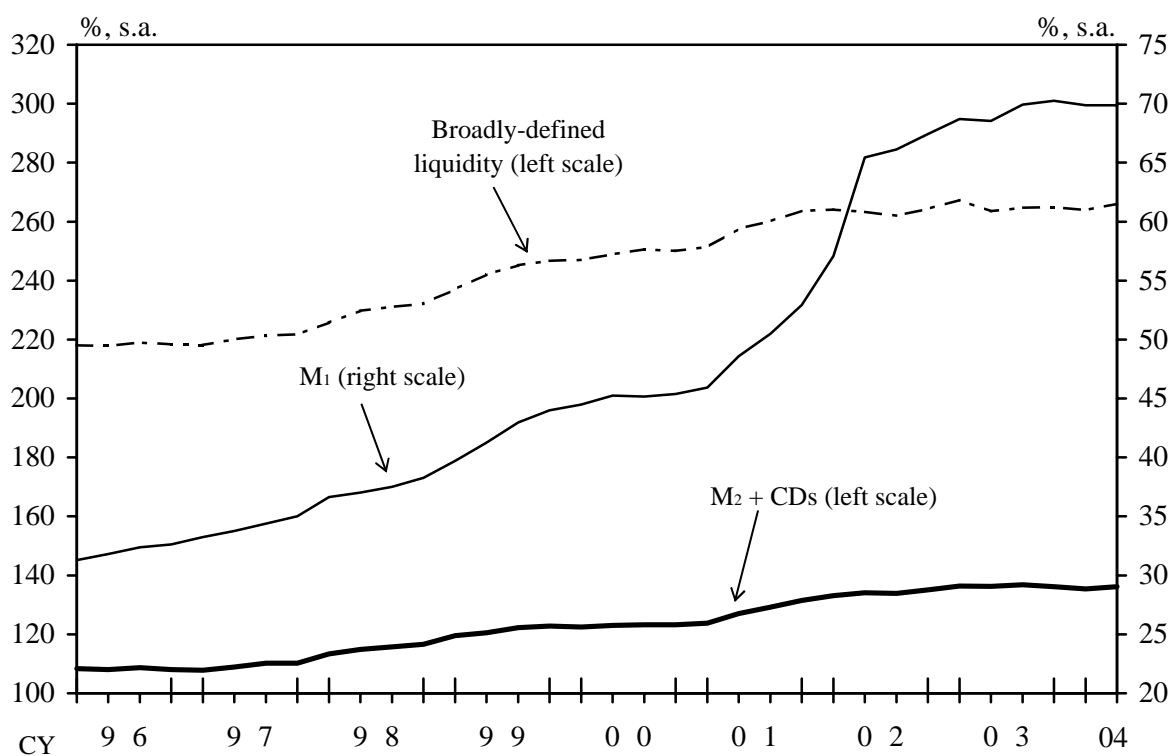
2. Figures for the monetary base and banknotes in 2004/Q2 are those of Apr.-May averages, and the nominal GDP in 2004/Q2 is assumed to be unchanged from the previous quarter.

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

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**Money Stock (M<sub>1</sub>, M<sub>2</sub>+CDs, Broadly-Defined Liquidity)**


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

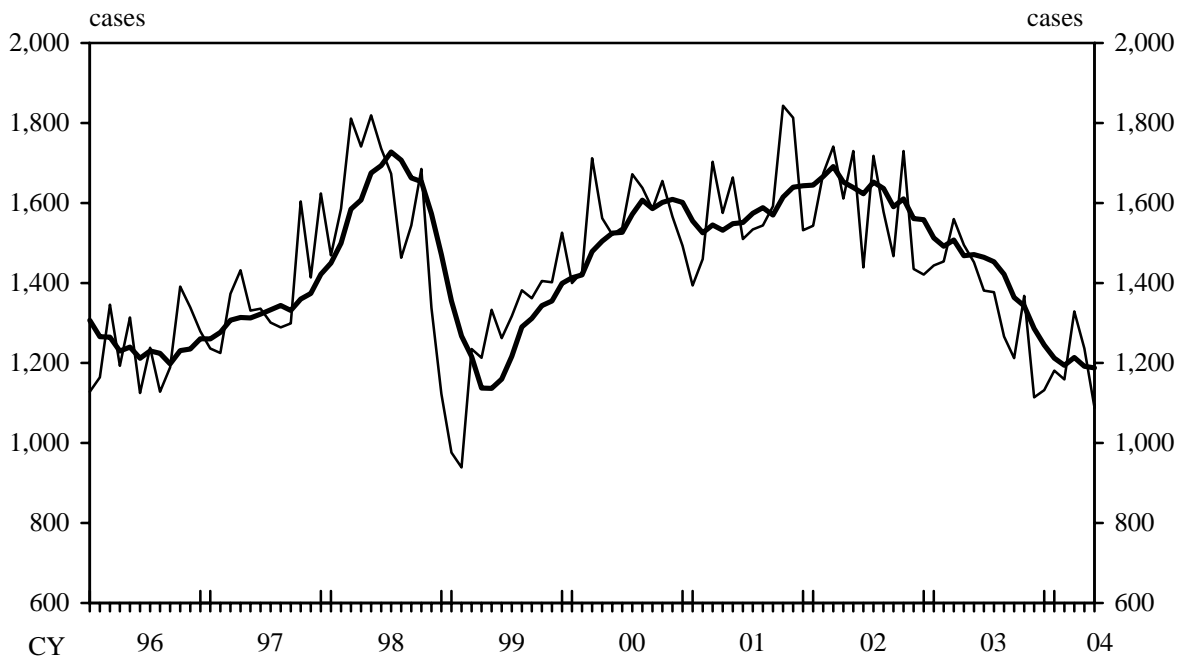
Note: Figures for money stock in 2004/Q2 are those of Apr.-May averages, and the nominal GDP in 2004/Q2 is assumed to be unchanged from the previous quarter.

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

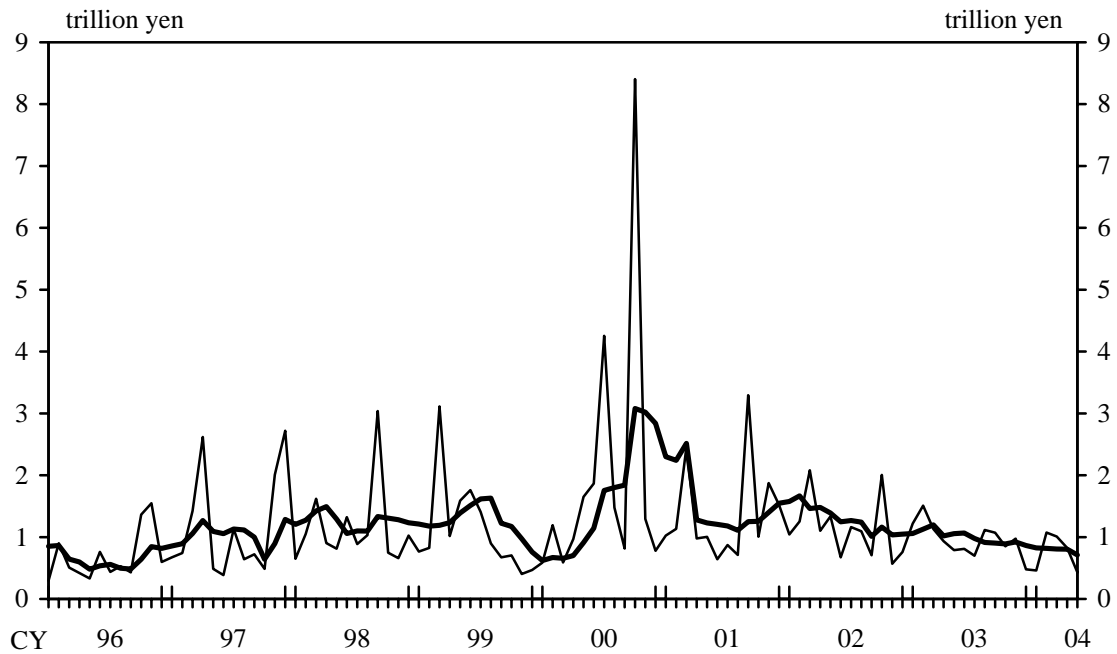


Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

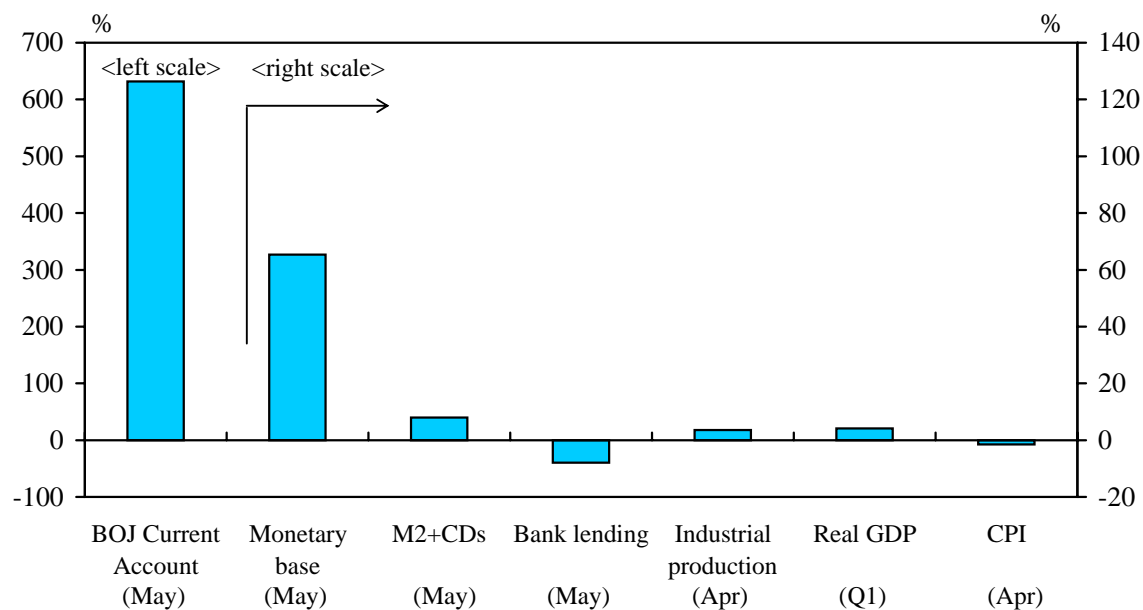
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."

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 Monetary Indicators, Economic Activity and Price Development
 

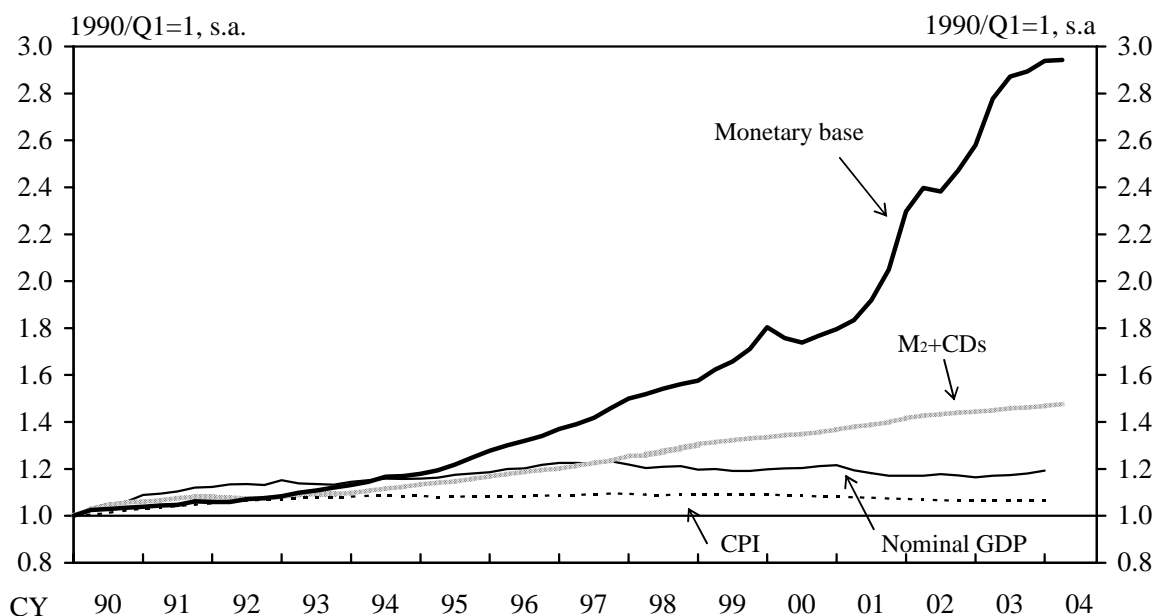
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## (1) Changes from March 2001



- 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. Figures for Monetary base and M2+CDs in 2004/Q2 are those of Apr.-May averages.

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.