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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
September 2006

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Monthly Report of Recent Economic and Financial Developments¹

September 2006

The Bank's View²

Japan's economy is expanding moderately.

Exports have continued to increase, while public investment has been on a downtrend. Business fixed investment has continued to increase against the background of high corporate profits. Household income has also continued rising moderately. In this situation, private consumption has been on an increasing trend. Housing investment has been increasing moderately with some fluctuations. With the rise in demand both at home and abroad, production has also been increasing.

Japan's economy is expected to continue expanding moderately.

Exports are expected to continue rising against the background of the expansion of overseas economies. Domestic private demand is likely to continue increasing against the background of high corporate profits and the moderate rise in household income. In light of these increases in demand both at home and abroad, production is also expected to follow an increasing trend. Public investment, meanwhile, is projected to remain on a downtrend.

On the price front, domestic corporate goods prices have continued to increase, mainly reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been on a positive trend.

Domestic corporate goods prices are expected to continue increasing for the time being, mainly due to the effects of the rise in international commodity prices.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 7 and 8, 2006.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on September 7 and 8, 2006.

The year-on-year rate of change in consumer prices is projected to continue to follow a positive trend, as the output gap continues to be positive.

As for the financial environment, the environment for corporate finance is accommodative. The issuing environment for CP and corporate bonds is favorable. Also, the lending attitude of private banks has continued to be accommodative. Credit demand in the private sector has started increasing. Under these circumstances, the amount outstanding of lending by private banks has been increasing. The amount outstanding of CP and corporate bonds issued is around the previous year's level. Funding costs for firms have risen slightly. Meanwhile, the year-on-year rate of change in the money stock is at the 0.0-1.0 percent level. As for developments in financial markets, in the money markets, the overnight call rate has been moving at around 0.25 percent, and interest rates on term instruments have been around the same level as last month. In the foreign exchange and capital markets, long-term interest rates have fallen compared with last month, while the yen's exchange rate against the U.S. dollar and stock prices have been around the same level as last month.

The Background

1. Economic Developments

Public investment has been on a downtrend (Chart 4). The amount of public construction completed—which reflects the progress of public works—has continued its declining trend. On the other hand, the value of public works contracted—a measure that reflects public orders—has recently been showing large fluctuations but, on average, it has been on a downtrend. Public investment is expected to remain on a downtrend due to tight national and local fiscal conditions.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6). Exports increased by 1.3 percent in the second quarter compared to the previous quarter and by 2.2 percent in July compared to the second quarter.

As for real exports by destination (Chart 6[1]), exports to the United States have continued to rise as a whole, although those of automobile-related goods have recently been flat. Moreover, exports to the EU have continued their solid increases. Exports to East Asia have been on an uptrend, mainly in capital goods and parts. Those of IT-related goods, which had decreased in the second quarter, were flat in July (Chart 9). Meanwhile, exports to other regions (such as the Middle East, Mexico, and Russia) continued to register relatively high growth as a trend, albeit with some fluctuations, chiefly in capital goods and parts, and automobile-related goods. By goods (Chart 6[2]), exports of capital goods and parts have remained on a solid upward trend, bolstered by favorable overseas demand (Chart 7[2]). Exports of automobile-related goods were flat for those to the United States, but they continued to increase as a whole, albeit with a slight deceleration (Chart 7[1]). On the other hand, exports of IT-related goods had been slightly weak in the second quarter, as partial production adjustments have been occurring mainly in East Asia, but they started to increase again in July compared to the second quarter (Chart 8[1]). Meanwhile, those of consumer goods rose again in the second quarter and also in July, after having inched down in the first quarter.

Real imports have been on a gradual uptrend against the background of the rise in domestic demand (Charts 5[1] and 11). Although imports dropped in July

compared to the second quarter, this seems to be only a temporary fluctuation as imports follow an uptrend. By goods, imports of capital goods and parts (excluding aircraft) have maintained their solid increasing trend. Growth in imports of IT-related goods, as observed in exports, slowed temporarily in the second quarter, but has recently stepped up again. Meanwhile, imports of foodstuffs, which fluctuate substantially, and of consumer goods have recently been relatively weak.

The surplus of net exports in terms of the real trade balance has continued its upward trend (Chart 5[2]). On the other hand, the surplus of the nominal balance on goods and services has been declining, dampened largely by higher import prices of raw materials.

Exports are expected to continue to rise, as overseas economies overall continue to expand (Chart 10[2]). Looking at the environment surrounding exports, although U.S. economic growth has moderated due mainly to the lagged effects of increases in interest rates, the economy is most likely to avoid further deceleration and manage a soft landing. As for the East Asian economies, the Chinese economy is expected to maintain its high economic growth, and the NIEs and ASEAN economies are projected to expand at a moderate pace as a whole, despite some negative impacts from the rise in oil prices. Economic expansion is also expected to continue in the EU and other regions. Regarding exports of IT-related goods, demand for personal computers seems to be somewhat sluggish, but favorable demand has continued for those such as digital home appliances. In addition, market prices of liquid crystal panels, which had softened from increases in supply, seem to have bottomed. Hence, exports of IT-related goods are expected to continue increasing as a trend. Meanwhile, in the foreign exchange market, the yen has remained at significantly low levels in terms of the real effective exchange rate, which incorporates differentials in the inflation rates between home and abroad (Chart 10[1]).

Imports are projected to continue their gradual uptrend, fueled by the increase in domestic demand.

Business fixed investment has continued to increase. On a GDP basis (the first preliminary figures), fixed investment was more or less flat in the fourth quarter,

but it posted high growth in the first and second quarters (Chart 3). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms has continued to trend up firmly on average, although it has been showing large fluctuations; it was flat in the second quarter, after having surged in the first quarter (Chart 12[1]). By industry and size (Chart 13), investment by small, medium, and large-sized manufacturing firms has increased somewhat rapidly. As for nonmanufacturing firms, investment by large firms has been on an increasing trend, and for small and medium-sized firms, it has been generally solid with some fluctuations. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—rose noticeably in the second quarter and also in July compared to the second quarter, after having declined temporarily in the first quarter (Chart 14[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—continued their steady uptrend on average (Chart 15[1]); they were almost flat in the first quarter, but registered relatively high growth in the second quarter both in manufacturing and nonmanufacturing.³ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have stayed on an upward trend, albeit with some fluctuations (Chart 15[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales has continued to be high on the whole, although effects of the rise in the cost of raw materials have been observed in small and medium-sized firms (Chart 12[2]).

Business fixed investment is expected to continue increasing, since the expansion in domestic and external demand and the high level of corporate profits are likely to be maintained.

Private consumption has been on an increasing trend. On a GDP basis, private consumption continued its modest but steady increase (Chart 3). Looking at

³ Meanwhile, forecasts for the third quarter show that orders are projected to continue increasing, mainly in orders from manufacturing.

individual indicators on consumption (Charts 16 and 17), sales at department stores were virtually flat in July, as sales of apparel picked up assisted mainly by clearance sales; the unfavorable weather nationwide somewhat slowed sales in the second quarter, mainly in apparel. By contrast, supermarket sales dipped again in July, although they advanced in the second quarter mainly in food and beverages, due chiefly to the rise in prices of fresh food caused by the unfavorable weather. Meanwhile, sales at convenience stores continued to be essentially flat on average, although they have recently been affected substantially by large ups and downs in demand for tobacco in reaction to the tax rise. As for sales of household electrical appliances, those of digital home appliances, such as flat panel TVs and digital cameras, have been on an uptrend, although sales of personal computers seem to be somewhat weak. The number of new passenger-car registrations, excluding mini-vehicles, has recently shown weakness. In contrast, the number of registrations of mini-vehicles has maintained its uptrend, supported by their high cost-performance and by the introduction of new models. As for services consumption, sales in the food service industry have been on a steady uptrend, particularly in restaurants and bars. Outlays for travel have been firm, mainly in overseas travel.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of goods and services mentioned above,⁴ were essentially flat overall in the second quarter, as declines in retail-related indicators due to the weather condition were partially offset by increases in service-related indicators, but they were slightly weak in July as a whole (Chart 18). Moreover, the aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—was more or less flat in the second quarter compared to the first quarter, after having jumped in the first quarter, largely in durable goods, but marked a relatively sharp decline in July (Chart 19). Meanwhile, 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) has recently been somewhat weak, caused particularly by sample factors (Chart 16[1]).

⁴ The indices of aggregated sales are the weighted average of each sales indicator. Since the base year for the consumer price index which is used as a deflator has been updated as explained hereafter, the indices of aggregated sales were also revised in conjunction with this update. Outlays for travel in July were not released at the time when these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for July were at the same level as those in June.

Indicators for consumer sentiment overall have been at favorable levels (Chart 20).

Private consumption is likely to continue to increase steadily, with the gradual increase in household income.

As for housing investment, housing starts have been increasing moderately with some fluctuations (Chart 21[1]). In detail, while starts of owner-occupied housing have been almost flat, starts of housing for rent have been on an increasing trend. Starts of housing for sale have also continued to rise as a trend, although they have fluctuated substantially, depending on the number of large-scale starts. Looking ahead, housing investment is likely to remain on a moderate increasing trend, against the background of the rise in household income, favorable financial conditions, and the growing awareness that land prices have bottomed.

Industrial production has continued to increase against the background of the growth in domestic and external demand. Production was flat in July compared to the second quarter, after having risen by 0.9 percent in the second quarter on a quarter-on-quarter basis (Chart 22). By industry, production of electronic parts and devices dropped marginally in the second quarter, but rebounded albeit slightly in July. On the other hand, production of general machinery (such as water tube boilers) and transport equipment (such as rolling stocks) fell, mainly in items which tend to fluctuate substantially.⁵

Shipments have also continued to increase as a trend. By goods (Chart 23), shipments of producer goods have picked up slightly overall, since those of electronic parts and devices increased again in July after having declined in the second quarter. Shipments of capital goods have been on a rising trend with large fluctuations. As for consumer goods, shipments of durable goods have been on an uptrend, chiefly in automobiles for exports and digital home appliances, but they dropped in July, mainly

⁵ Looking at the movements in the forecast index series, the actual result for July of an increase of 1.3 percent on a month-on-month basis was marginally weaker compared with the forecast as of last month (an increase of 2.2 percent on a month-on-month basis). The discrepancy between the movements in the forecast index series and the main series (a decline of 0.9 percent on a month-on-month basis) has possibly been caused by the differences in their coverage.

in cellular telephones. Shipments of nondurable goods also declined somewhat sharply in July.⁶

Inventories have been more or less in balance with shipments. The inventory cycle (Chart 24) showed that, in the industrial sector as a whole, the shipment-inventory balance (the year-on-year rate of change in shipments minus that in inventories) has continued its improving trend, with the balance being more or less in a favorable condition. By goods, the shipment-inventory balance in producer goods, excluding electronic parts and devices, has been improving, assisted by the progress in inventory adjustments of iron and steel. On the other hand, in electronic parts and devices, the year-on-year rate of increase in shipments had been exceeding that in inventories since the third quarter of last year, but they have recently been almost balanced; furthermore, this situation was reversed slightly in June and July for two consecutive months. These developments seem to have been affected not only by the unintended inventory accumulation, but also by the intended inventory accumulation in anticipation of new products. Considering also that the environment surrounding exports in this sector has been showing signs of improvement, as mentioned above, it is unlikely that inventory adjustments will become widespread. Nevertheless, future developments in the shipment-inventory balance still need careful monitoring.

As for the outlook, production is expected to follow an increasing trend, reflecting the rise in domestic and external demand. Anecdotal information suggests that production in the third quarter is likely to increase further.⁷

As for the employment and income situations, household income has continued rising moderately, as various indicators for labor market conditions have continued their tightening trend (Chart 25).

⁶ The rise in June and the fall in July are likely to have been affected by large ups and downs in demand for tobacco in reaction to the tax rise.

⁷ Production in the third quarter, based on the production forecast index for August and September, is calculated to increase by 2.3 percent on a quarter-on-quarter basis.

In the labor market, overtime hours worked have remained on a moderate upward trend at a high level (Chart 27[3]). The number of new job offers continued its year-on-year increase, albeit at a somewhat slower pace (Chart 26[3]). Under these circumstances, the ratio of job offers to applicants has trended up at a moderate pace; it recorded 1.09 in July (Chart 26[1]). The unemployment rate followed a gradual downtrend, albeit with monthly fluctuations (Chart 26[1]).

In terms of employment (Chart 27[1]), the number of employees in the *Labour Force Survey*, which tends to show relatively large monthly fluctuations due partly to sample factors, has recently been showing a solid increase of 1.0-2.0 percent on a year-on-year basis on average. On the other hand, growth in the number of regular employees in the *Monthly Labour Survey*, which is more stable, has gathered pace since April, from around 0.5 percent on a year-on-year basis to around 1.0 percent. In detail, the year-on-year rate of growth in full-time employees has accelerated, supported by an increase in the hiring of new graduates.

Regarding wages on a year-on-year basis, regular payments have been moving at around zero percent on a year-on-year basis,⁸ while overtime payments have continued to rise moderately. Special payments have maintained an increasing trend, supported by favorable corporate profits, with special payments in June-July (July based on provisional figures)—which represent slightly over 90 percent of summer bonuses—marking an increase of 1.3 percent on a year-on-year basis.⁹ In this light, nominal wages per worker have gradually increased further (Chart 25[2]).

Looking ahead, the gradual increase in household income is likely to continue, because firms are becoming more aware of the shortage of labor, and corporate profits are expected to remain high.

⁸ Some discontinuous declines observed in the regular payments of small establishments since January this year suggest that the relatively weak regular payments have been affected by the sample changes conducted in January. Nevertheless, along with these technical factors, this weakness is also possibly affected by downward pressure on wages per employee exerted from the active hiring of new graduates. It may also reflect firms' persistence with labor cost restraints.

⁹ According to survey results released by the *Nihon Keizai Shimbun*, Inc. (final results as of July 4: 831 firms) and survey results released by the Japan Business Federation (final results as of July 20: 196 firms), summer bonuses this year are expected to rise again on a year-on-year basis, although at a slower pace compared to the bonuses of last summer and winter, which rose by 2.1 percent and 2.9 percent, respectively.

2. Prices

Import prices (on a yen basis, same hereafter, compared to levels three months before) have been rising, due to the rise in international commodity prices (Chart 29).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter, compared to levels three months before)¹⁰ have continued to increase, mainly reflecting the rise in international commodity prices (Chart 30). In detail, prices of nonferrous metals have continued to exhibit relatively high growth, and prices of petroleum and coal products have continued to climb, boosted by the rise in crude oil prices. Prices of iron and steel-related products and construction-related products have also increased across a wide range of items, such as scrap and waste products, iron and steel products, metal products, and lumber and wood products. The rate of increase in prices of other materials has accelerated overall, since prices of chemical products and plastic products rose, reflecting higher crude oil prices, while the effects from the decline in prices of prescription drugs have dissipated. Meanwhile, machinery prices have been declining marginally. Also, effects from the rise in the tobacco tax were observed in July. By stages of demand, prices of raw materials and intermediate goods have risen further, but final goods prices have stayed almost unchanged overall, since prices of durable consumer goods fell, while those of gasoline increased.¹¹

Corporate services prices (excluding external factors, same hereafter) have continued to decline marginally on a year-on-year basis (Chart 31).¹² As for recent developments, the year-on-year rates of change in prices of real estate services (office space rental) and leasing and rental have been on an improving trend, while prices of

¹⁰ 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 charges are set relatively high during July-September, when consumption increases substantially.

¹¹ Final goods prices (domestic goods), compared to levels three months before, turned somewhat positive in July (from a decline of 0.2 percent in June to an increase of 0.2 percent in July), as the effects from the reduction in prices of prescription drugs dissipated and the tobacco tax was raised.

¹² “Excluding external factors” means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

advertising services have recently been rather weak. Furthermore, prices of other services have not shown notable changes since the start of this fiscal year, as firms have maintained their stance on reducing business expenses.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been on a positive trend (Chart 32).¹³ The 2005-base index showed that consumer prices rose by 0.2 percent on a year-on-year basis in both June and July for two consecutive months. Looking at developments in the past few months in more detail, the rate of increase in prices of goods has expanded slightly on the whole; while petroleum products (such as gasoline) have continued to show a relatively large contribution to price increases reflecting high crude oil prices, other items have followed a moderate improving trend. By contrast, services prices inched down overall, since mobile telephone charges were lowered,¹⁴ although prices of rent and eating out have been somewhat positive on a year-on-year basis.

Domestic corporate goods prices are expected to continue increasing for the time being, mainly due to the effects of the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to continue to follow a positive trend, as the output gap continues to be positive.

¹³ The base year of the consumer price index was updated from the 2000 base year to the 2005 base year and the year-on-year figures from the start of this year were retroactively revised. From January to June on average, the year-on-year changes in consumer prices of all items excluding fresh food were revised downward by around 0.5 percentage points. This decline reflects the following factors: (1) Since the CPI is calculated as the fixed base-year Laspeyres index, items whose prices fall rapidly (such as PCs) tend to have lesser impacts on the total index, as time passes away from the base year. Hence, the update of the base year has a resetting effect regarding this point; (2) some of the newly adopted items (such as flat panel TVs) exhibit large declines in prices; and (3) in some existing items (such as mobile telephone charges), the calculation method seems to have been revised. The size of the downward revision has been considerably larger than what had been generally expected in advance (0.2-0.3 percent, about the same magnitude as when the index was updated to the 2000 base year). This discrepancy seems to be largely attributable to factor (3).

¹⁴ As for mobile telephone charges (classified in “other services” in Chart 32), the weight rose nearly threefold after the update (a weight of 1/10,000 to consumer prices of all items; 74 on the 2000 base year, and 208 on the 2005 base year). Moreover, the rate of decrease has been substantially larger on a year-on-year basis from a decline of 0.7 percent on the 2000 base year to a decline of 6.6 percent on the 2005 base year.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 33[1]) has been moving at around 0.25 percent. Regarding interest rates on term instruments (Chart 34[1]), FB rates (3-month) and the Euroyen interest rate (TIBOR, 3-month) have been more or less flat. Under these circumstances, interest rates on Euroyen futures fell, mainly in distant contracts (Chart 34[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 33 [2]) have recently fallen to around 1.70 percent, reflecting the prospects of a change in monetary policy in Japan.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 37 and 38) have been more or less flat on the whole.

Stock prices (Chart 39) have been fluctuating, reflecting the corporate earnings and economic indicators in Japan and the U.S. The Nikkei 225 Stock Average is moving at around 16,000 yen.

In the foreign exchange market (Chart 40), the yen has been fluctuating in view of the interest rate differential between Japan and abroad. The yen is being traded in the range of 115-117 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has started increasing, since firms' operating funds and outlays for business fixed investment continue to increase, while the economy is expanding moderately.

Regarding credit supply, the lending attitude of private banks has continued to be accommodative. The lending attitude of financial institutions as perceived by firms, including small firms, has been improving (Chart 41).

Lending rates have recently risen slightly, although they have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts inched up in July for both short-term and long-term rates (Chart 42). The long-term prime lending rate was lowered by 0.2 percent to 2.3 percent on September 8.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹⁵) has been increasing. (The year-on-year change was 2.6 percent in June, 2.9 percent in July, and 2.7 percent in August; Chart 43.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have been basically around the same levels as last month. Issuance spreads remain low, having been around last month's levels. CP issuance rates have been also around last month's levels and continue to be low. The amount outstanding of CP and corporate bonds issued is around the previous year's level. (The year-on-year change was -0.3 percent in June, -0.0 percent in July, and -0.1 percent in August; Chart 44.)

According to business surveys, the financial positions of firms have been on an improving trend.

The year-on-year rate of change in the money stock ($M_2 + \text{CDs}$) is at the 0.0-1.0 percent level. (The year-on-year change was 1.2 percent in June, 0.5 percent in July, and 0.5 percent in August; Chart 45.)

The number of corporate bankruptcies increased by 2.6 percent year-on-year in July, to 1,051 cases (Chart 46).

¹⁵ 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.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

| | 2005/Q4 | 2006/Q1 | Q2 | 2006/May | Jun. | Jul. | Aug. |
|---|---------|---------|--------|----------|--------|-----------|--------|
| Index of living expenditure level ⁹ (all households) | 0.7 | -1.2 | 0.1 | 1.2 | -0.7 | -1.9 | n.a. |
| Sales at department stores | 0.4 | 0.2 | -1.8 | 1.1 | -1.9 | p 0.9 | n.a. |
| Sales at supermarkets | 0.2 | -1.4 | 0.8 | 1.2 | 0.2 | p -1.4 | n.a. |
| New passenger-car registrations ³ <s.a., ann. 10,000 units> | < 320> | < 336> | < 311> | < 302> | < 309> | < 296> | < 308> |
| Sales of household electrical appliances ⁹ (real, Current Survey of Commerce) | 5.0 | 4.7 | -0.6 | 1.4 | -1.5 | p 2.0 | n.a. |
| Outlays for travel (50 major travel agencies) | 0.9 | 0.6 | 2.3 | 1.7 | -3.1 | n.a. | n.a. |
| Housing starts <s.a., ann. 10,000 units> | < 125> | < 127> | < 130> | < 129> | < 128> | < 121> | <n.a.> |
| Machinery orders (from private sector ⁴) | 2.8 | -0.4 | 8.9 | -2.1 | 8.5 | n.a. | n.a. |
| Manufacturing | 0.6 | 0.9 | 8.9 | -5.5 | 25.6 | n.a. | n.a. |
| Nonmanufacturing ⁴ | 4.5 | -1.8 | 10.0 | 0.2 | -3.6 | n.a. | n.a. |
| Construction Starts (private, nondwelling use) | 9.3 | 0.9 | 0.2 | 0.1 | -10.3 | 5.6 | n.a. |
| Mining & manufacturing | 5.1 | 6.0 | 11.6 | 1.4 | -15.5 | 22.2 | n.a. |
| Nonmanufacturing ⁵ | 8.2 | 0.5 | -1.4 | -5.8 | -9.4 | -0.7 | n.a. |
| Value of public works contracted | -4.5 | -6.2 | -0.0 | 9.0 | -10.6 | 10.9 | n.a. |
| Real exports | 2.9 | 3.4 | 1.3 | 2.7 | -1.4 | 2.3 | n.a. |
| Real imports | 0.2 | 2.4 | 0.2 | -3.9 | 0.1 | -0.7 | n.a. |
| Industrial production | 2.8 | 0.6 | 0.9 | -1.3 | 2.1 | p -0.9 | n.a. |
| Shipments | 2.3 | 0.1 | 2.1 | -1.4 | 1.3 | p -0.6 | n.a. |
| Inventories | 0.2 | 0.7 | -1.1 | -1.5 | 0.6 | p -1.0 | n.a. |
| Inventory Ratio <s.a., CY 2000 = 100> | <101.4> | <100.6> | <97.0> | <98.1> | <97.0> | <p 101.4> | <n.a.> |
| Real GDP | 1.1 | 0.7 | 0.2 | n.a. | n.a. | n.a. | n.a. |
| Index of all industry activity | 1.1 | 0.4 | 0.7 | -0.1 | 0.1 | n.a. | n.a. |

Main Economic Indicators (2)

y/y % chg.¹

| | 2005/Q4 | 2006/Q1 | Q2 | 2006/May | Jun. | Jul. | Aug. |
|--|--------------|--------------|--------------|--------------|--------------|------------------|----------------|
| Ratio of job offers to applicants <s.a., times> | <1.00> | <1.03> | <1.06> | <1.07> | <1.08> | <1.09> | <n.a.> |
| Unemployment rate <s.a., %> | <4.5> | <4.2> | <4.1> | <4.0> | <4.2> | <4.1> | <n.a.> |
| Overtime working hours ⁶ | 1.6 | 2.2 | 2.9 | 3.0 | 2.9 | p 2.9 | n.a. |
| Number of employees | 1.2 | 2.1 | 1.5 | 1.4 | 1.9 | 1.3 | n.a. |
| Number of regular employees ⁶ | 0.5 | 0.5 | 1.0 | 1.0 | 1.0 | p 1.1 | n.a. |
| Nominal wages per person ⁶ | 1.1 | 0.3 | 0.6 | 0.5 | 1.0 | p -0.1 | n.a. |
| Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate) | 2.2 <0.8> | 2.8 <0.5> | 3.1 <1.1> | 3.3 <1.2> | 3.4 <1.2> | p 3.4 <p 1.2> | n.a. <n.a.> |
| Consumer price index ⁸ | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | n.a. |
| Corporate service price index | -0.4 | -0.1 | -0.3 | -0.2 | -0.2 | p -0.1 | n.a. |
| Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.> | 2.0 | 1.7 | 1.4 | 1.3 | 1.2 | 0.5 | p 0.5 |
| Number of corporate bankruptcies <cases> | <1,145> | <1,116> | <1,094> | <1,083> | <1,111> | <1,051> | <n.a.> |

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

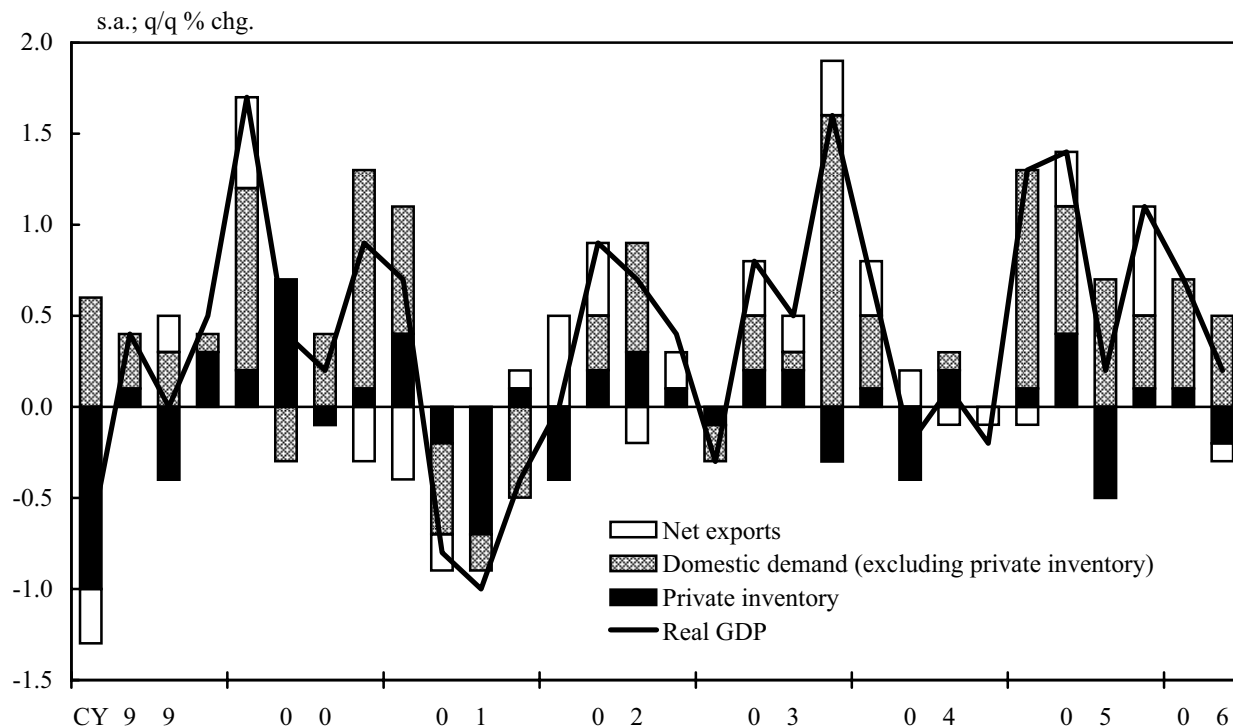
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

2. Figure with "p" indicates preliminary data.
3. Excludes small cars with engine sizes of 660 cc 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 five regular employees.
7. Adjusts to exclude a hike of electric power charges in summer season.
8. Excludes fresh food. Data have been revised to the 2005 base. Figure for 2005/Q4, however, remains on the 2000 base.
9. Data have been retroactively revised.

Sources: Ministry of Internal Affairs and Communications, "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 All Industry Activity";
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
 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," "Money Stock";
 Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."

Real GDP

(1) Changes from the Previous Quarter (Seasonally Adjusted Series)



(2) Components

s.a.; q/q % chg.

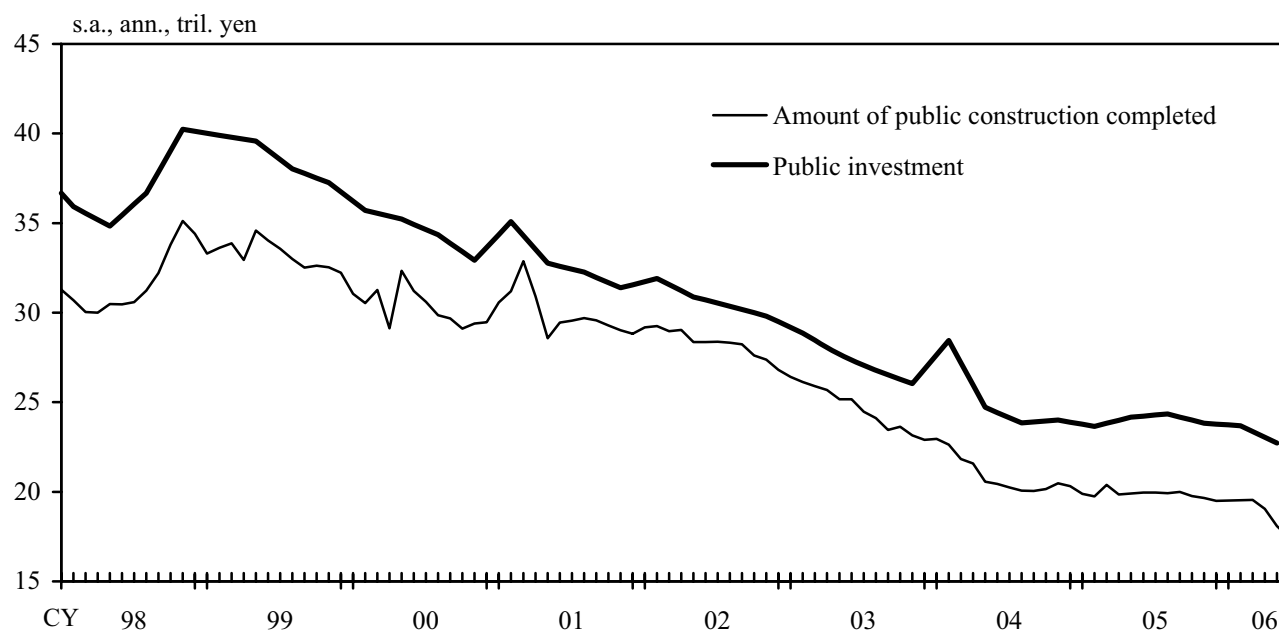
| | 2005 | | | 2006 | |
|-----------------------------------|--------|--------|--------|--------|--------|
| | Q2 | Q3 | Q4 | Q1 | Q2 |
| Real GDP | 1.4 | 0.2 | 1.1 | 0.7 | 0.2 |
| Domestic demand | 1.1 | 0.2 | 0.5 | 0.7 | 0.3 |
| Private consumption | 0.7 | 0.4 | 0.6 | 0.2 | 0.5 |
| Non-Resi. investment | 1.9 | 1.8 | 0.3 | 3.3 | 3.8 |
| Residential investment | -1.5 | 1.9 | 1.8 | 0.7 | -2.7 |
| Private inventory | (0.4) | (-0.5) | (0.1) | (0.1) | (-0.2) |
| Public demand | 0.6 | 0.2 | -0.4 | -0.1 | -1.1 |
| Public investment | 1.4 | 0.3 | -2.7 | -0.6 | -4.6 |
| Net exports of goods and services | (0.3) | (0.0) | (0.6) | (0.0) | (-0.1) |
| Exports | 3.6 | 3.1 | 3.8 | 2.2 | 0.9 |
| Imports | 1.9 | 3.3 | -0.6 | 2.5 | 1.8 |
| Nominal GDP | 1.0 | -0.1 | 0.7 | 0.4 | 0.3 |

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

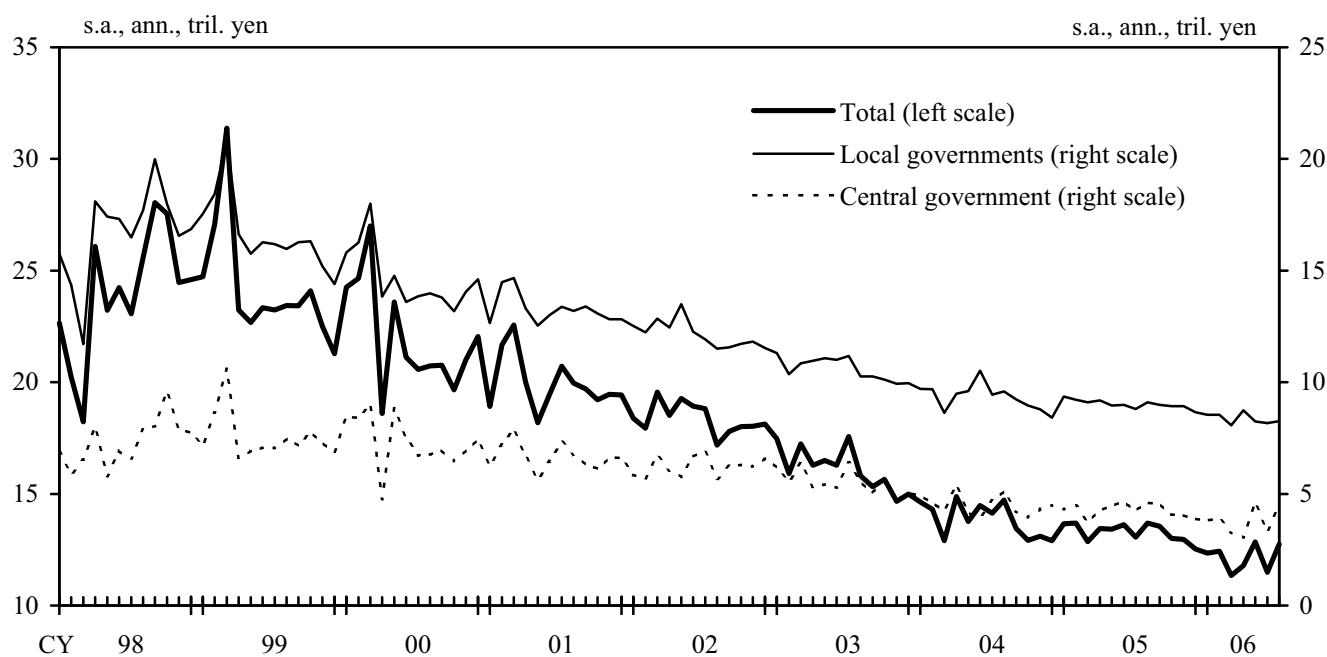
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



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 2000 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.

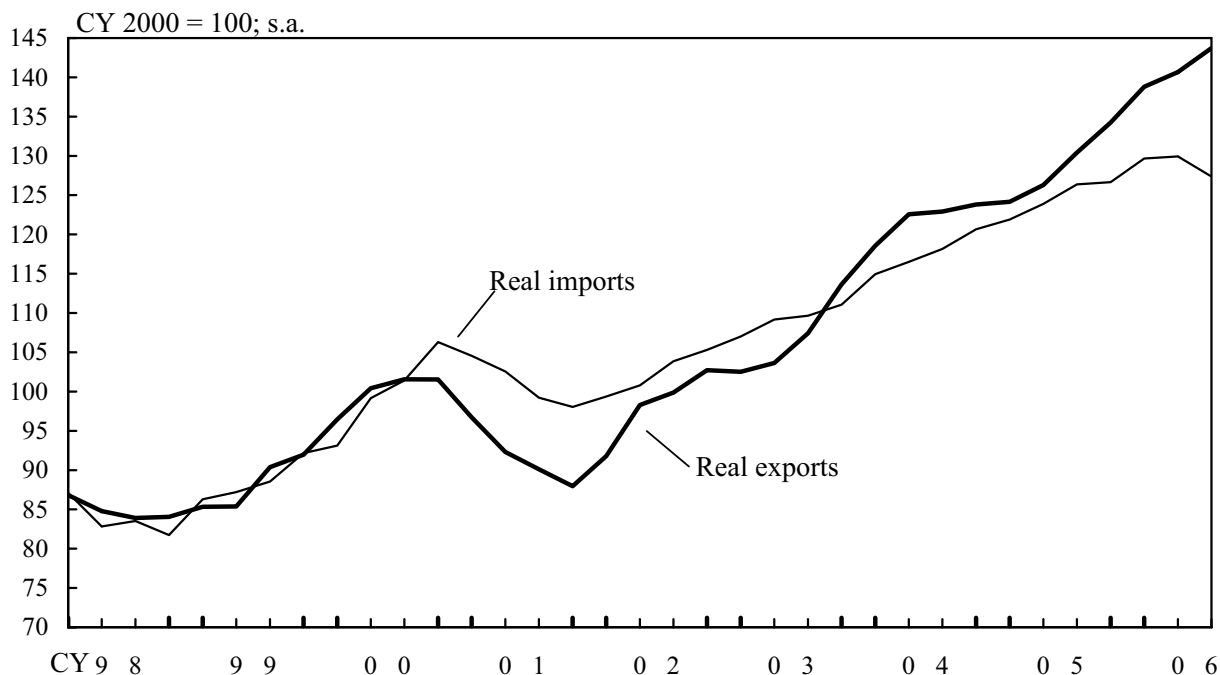
Sources: Cabinet Office, "National Accounts";

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

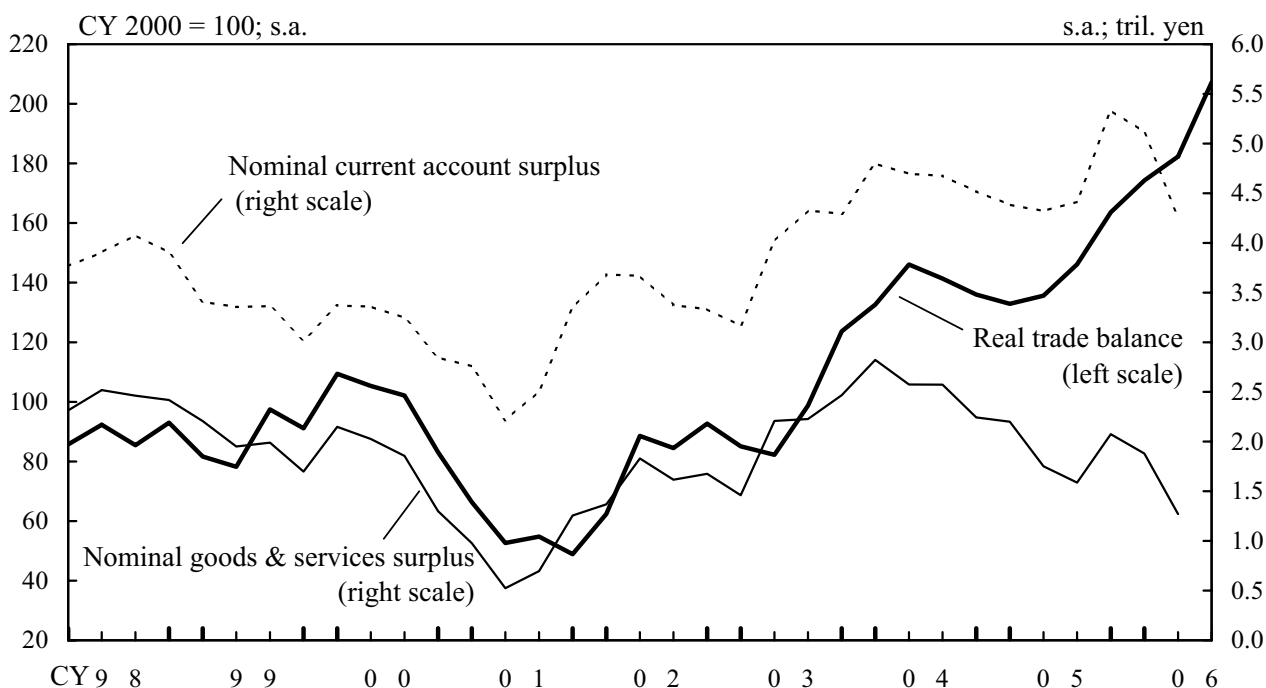
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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. 2006/Q3 figures are July figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

| | | y/y % chg. | | s.a.; q/q % chg. | | | | | s.a.; m/m % chg. | | |
|---------------------|--------|------------|------|------------------|------------|------------|------|------|------------------|------|------|
| | | CY 2004 | 2005 | 2005 Q3 | 2006 Q4 | 2006 Q1 | Q2 | Q3 | 2006 May | Jun. | Jul. |
| United States | <22.5> | 6.8 | 7.3 | 0.8 | 4.4 | 3.4 | 1.7 | 1.6 | 2.8 | -8.3 | 6.7 |
| EU | <14.7> | 18.7 | 3.4 | 2.2 | 2.5 | 1.2 | 5.6 | 2.8 | 4.2 | -0.1 | 1.5 |
| East Asia | <46.7> | 19.1 | 6.2 | 4.4 | 1.8 | 3.5 | 0.3 | 1.9 | 1.0 | 2.6 | -0.1 |
| China | <13.5> | 22.2 | 9.7 | 10.1 | 4.7 | 4.7 | 2.9 | 1.5 | 0.3 | 4.6 | -1.6 |
| NIEs | <24.3> | 20.3 | 5.0 | 3.4 | 0.6 | 3.4 | 0.2 | 0.6 | 0.6 | 3.1 | -1.6 |
| Korea | <7.8> | 19.1 | 4.5 | 5.7 | 3.1 | 1.4 | 2.8 | -1.7 | 2.0 | -4.6 | 0.8 |
| Taiwan | <7.3> | 26.9 | 4.4 | -2.2 | -3.3 | 9.5 | -1.4 | 2.4 | -0.8 | 7.2 | -1.9 |
| ASEAN4 ³ | <9.0> | 12.3 | 4.4 | -0.4 | 1.0 | 1.9 | -3.6 | 6.4 | 3.5 | -2.1 | 6.7 |
| Thailand | <3.8> | 18.7 | 10.0 | 0.9 | 1.3 | 2.1 | -1.7 | 8.5 | -3.0 | 0.1 | 9.5 |
| Others | <16.0> | 14.4 | 11.6 | 5.6 | 4.7 | 7.7 | 0.8 | 6.6 | 6.2 | -5.6 | 8.6 |
| Real exports | | 14.5 | 5.4 | 3.3 | 2.9 | 3.4 | 1.3 | 2.2 | 2.7 | -1.4 | 2.3 |

(2) Breakdown by Goods

| | | y/y % chg. | | s.a.; q/q % chg. | | | | | s.a.; m/m % chg. | | |
|--|--------|------------|------|------------------|------------|------------|------|-----|------------------|------|------|
| | | CY 2004 | 2005 | 2005 Q3 | 2006 Q4 | 2006 Q1 | Q2 | Q3 | 2006 May | Jun. | Jul. |
| Intermediate goods | <17.3> | 5.5 | 1.8 | 2.6 | 1.9 | 4.7 | -2.0 | 0.3 | -1.6 | 2.1 | -0.6 |
| Motor vehicles and their related goods | <22.7> | 8.3 | 8.2 | 0.8 | 4.1 | 5.4 | 1.7 | 0.7 | 5.7 | -5.5 | 2.7 |
| Consumer goods ⁴ | <5.6> | 14.9 | 5.5 | 4.7 | 2.6 | -2.3 | 4.1 | 1.1 | 10.0 | -6.9 | 2.8 |
| IT-related goods ⁵ | <12.5> | 17.3 | 5.4 | 3.8 | 3.4 | 1.2 | -1.0 | 2.9 | -1.5 | -0.7 | 4.0 |
| Capital goods and parts ⁶ | <29.5> | 23.5 | 7.2 | 3.4 | 3.1 | 4.7 | 1.5 | 4.1 | 4.8 | -1.6 | 3.6 |
| Real exports | | 14.5 | 5.4 | 3.3 | 2.9 | 3.4 | 1.3 | 2.2 | 2.7 | -1.4 | 2.3 |

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July figures converted into quarterly amount.

2. Shares of each region and goods in 2005 are shown in angle brackets.

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

4. Excludes motor vehicles.

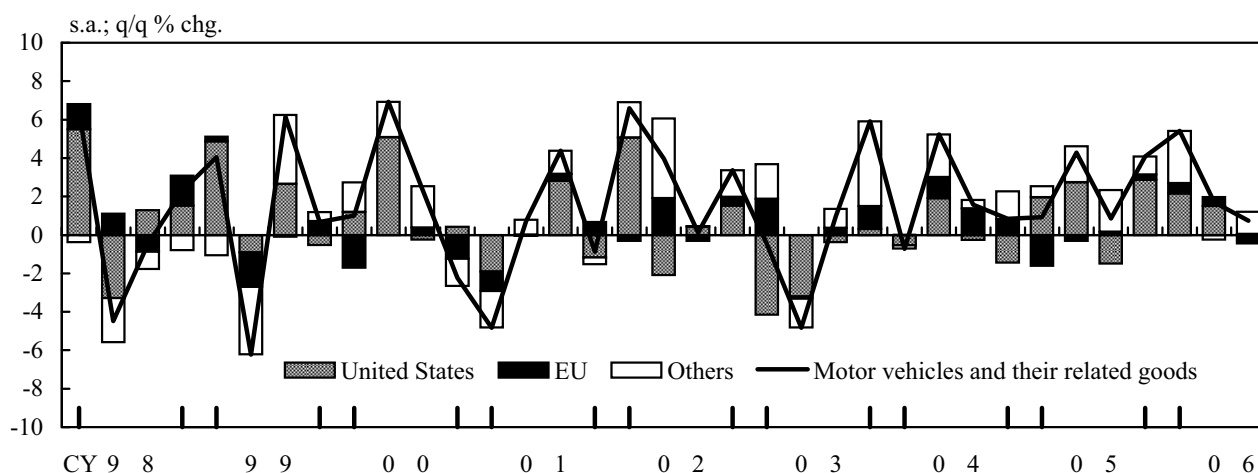
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

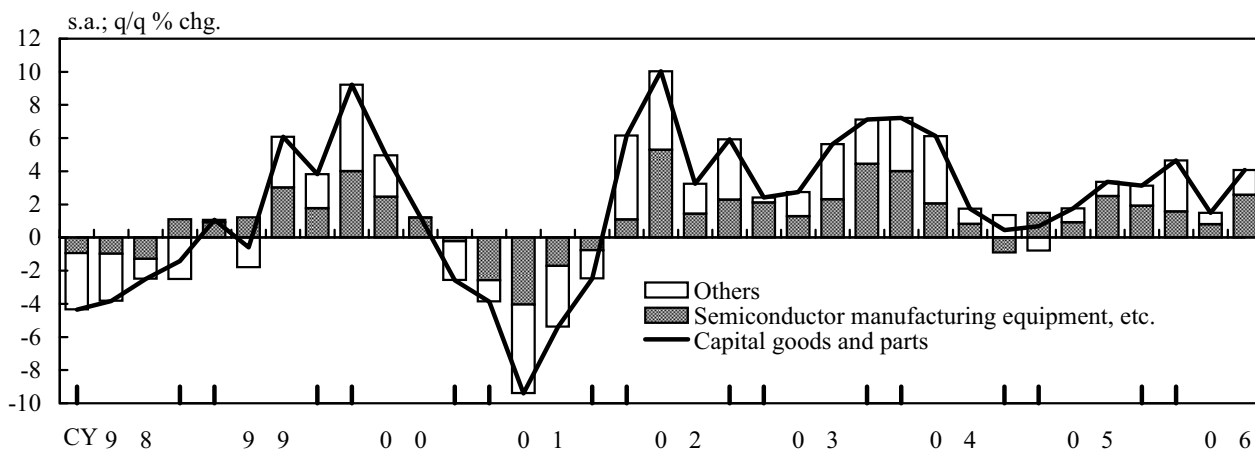
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

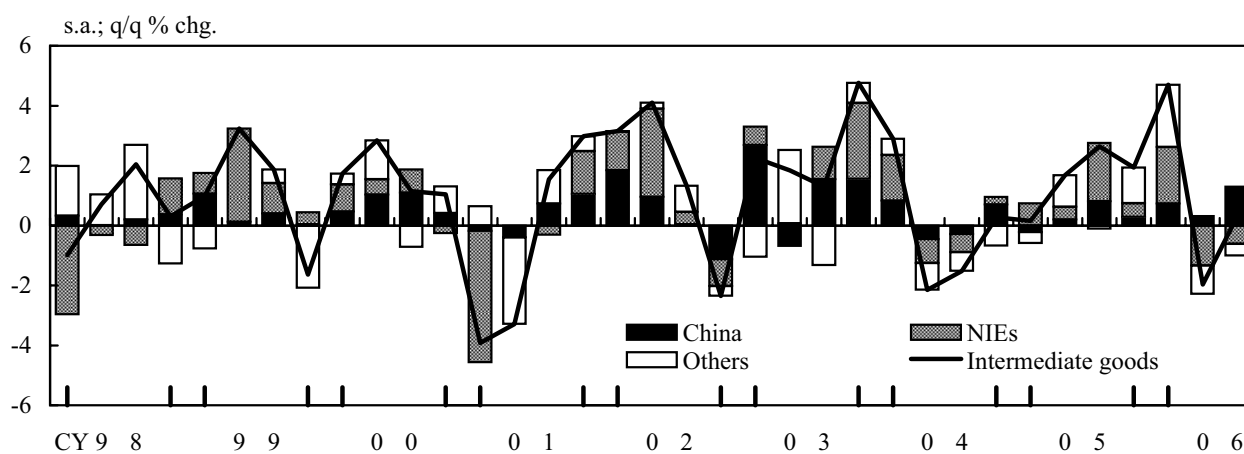
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



(2) Capital Goods and Parts (Real, Breakdown by Goods)



(3) Intermediate Goods (Real, Breakdown by Region)

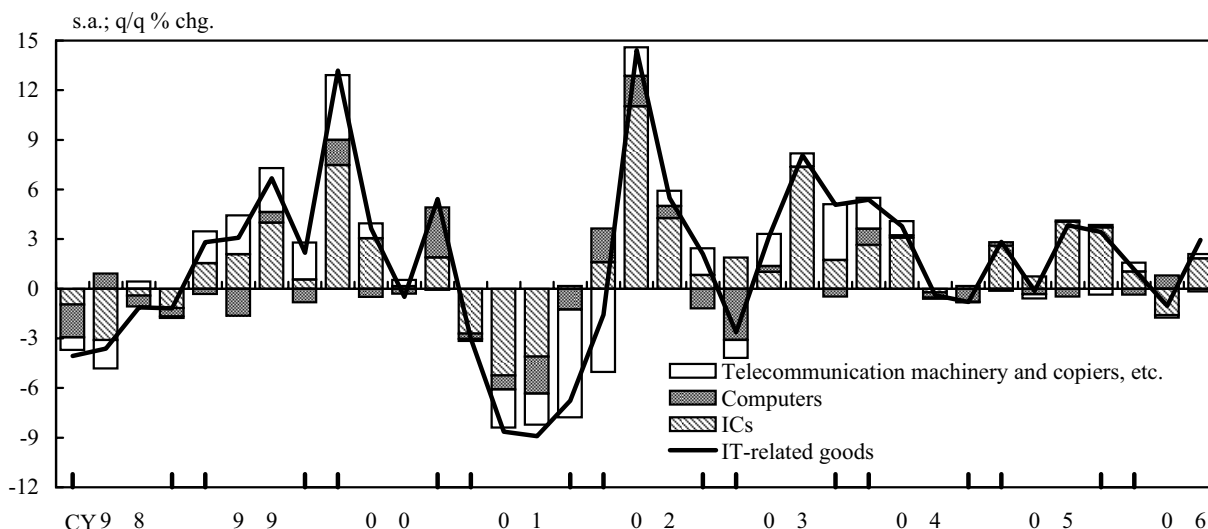


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July figures converted into quarterly amount.

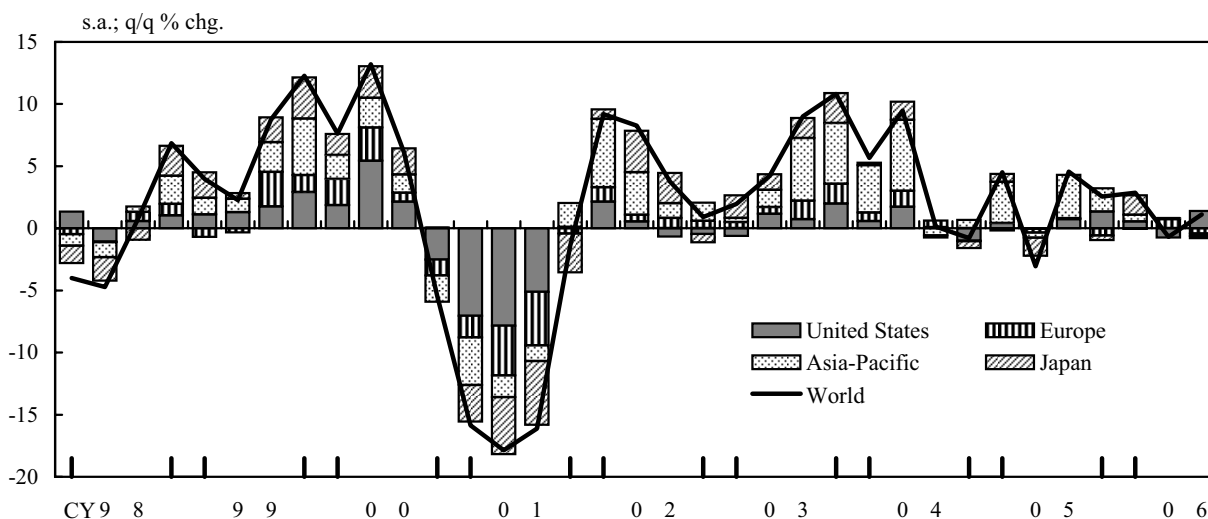
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

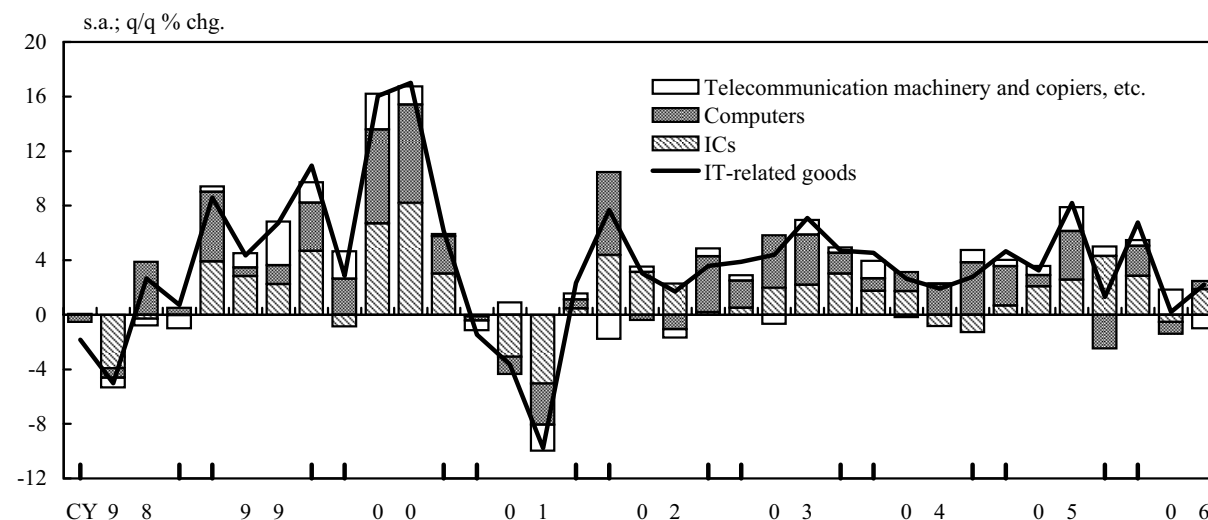
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(2) World Semiconductor Shipments (Nominal, Breakdown by Region)



(3) Imports of IT-Related Goods (Real, Breakdown by Goods)

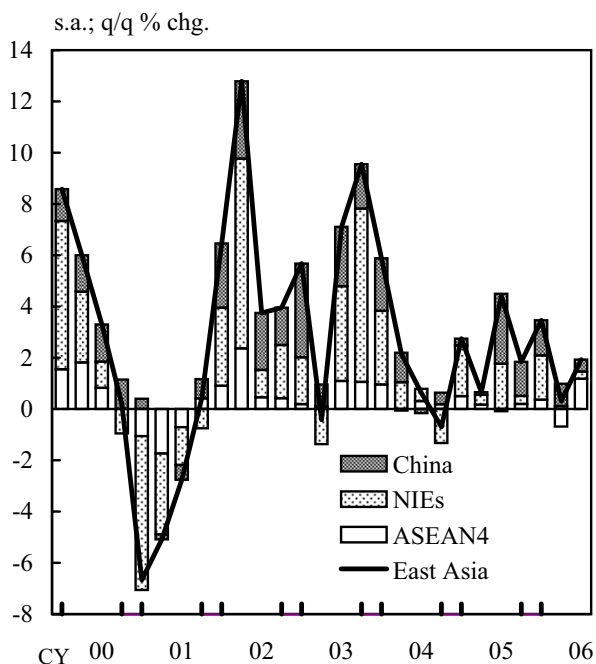


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July figures converted into quarterly amount.

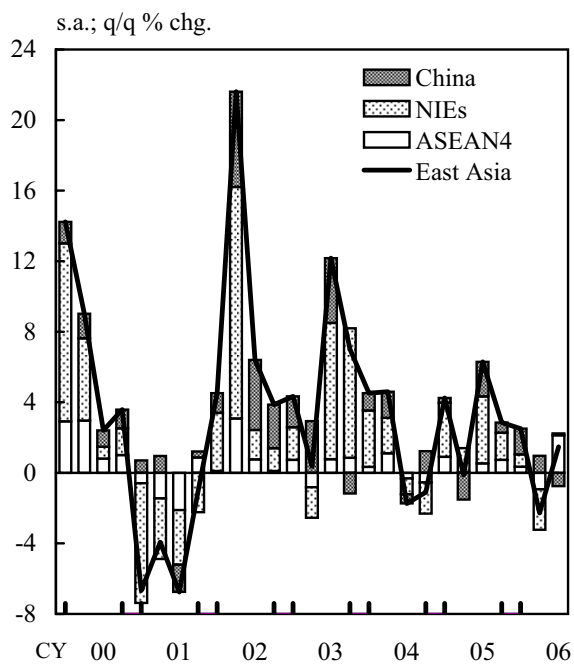
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

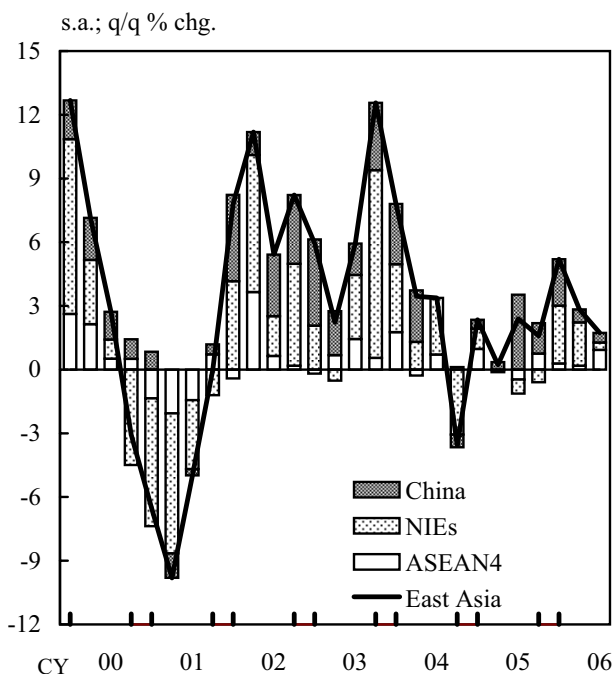
(1) All Goods (Real, Breakdown by Region)



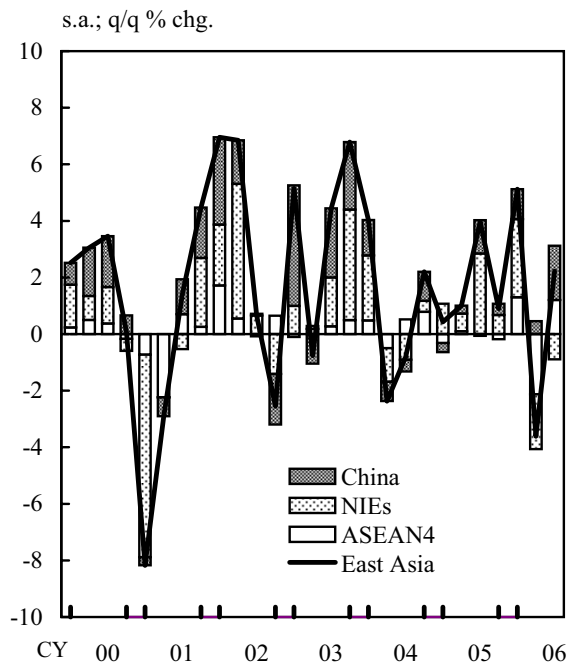
(2) IT-Related Goods (Real, Breakdown by Region)



(3) Capital Goods and Parts (Including Semiconductor Manufacturing Equipment, Real, Breakdown by Region)



(4) Intermediate Goods (Real, Breakdown by Region)

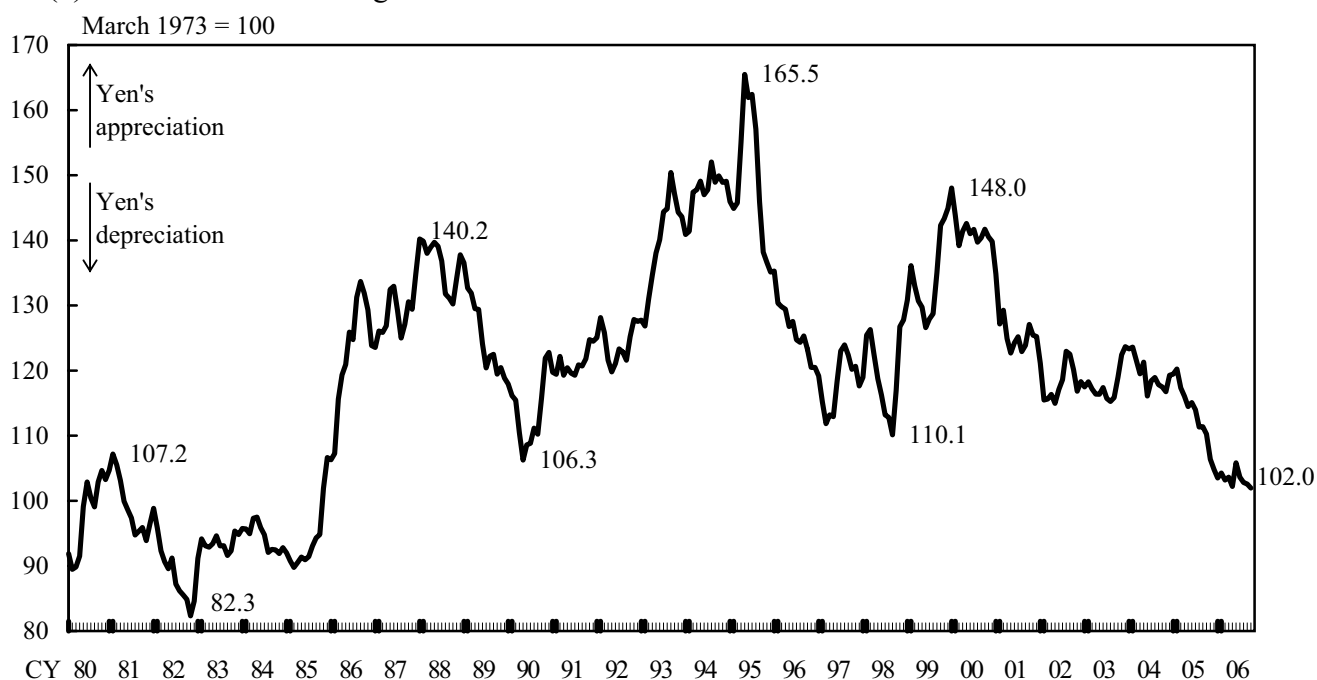


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July figures converted into quarterly amount.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for September 2006 is the average up to September 7.
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

| | | CY2003 | 2004 | 2005 | 2005 Q3 | Q4 | 2006 Q1 | Q2 | |
|-----------------------------|----------------|-----------|------|------|------------|-----|------------|------|-----|
| United States ¹ | | 2.5 | 3.9 | 3.2 | 4.2 | 1.8 | 5.6 | 2.9 | |
| European Union ¹ | | 1.3 | 2.3 | 1.7 | 2.6 | 1.6 | 2.8 | 3.5 | |
| | Germany | -0.2 | 0.8 | 1.1 | 2.1 | 1.1 | 2.7 | 3.6 | |
| | France | 1.1 | 2.0 | 1.2 | 2.7 | 0.9 | 2.0 | 4.7 | |
| | United Kingdom | 2.7 | 3.3 | 1.9 | 1.6 | 2.7 | 3.0 | 3.1 | |
| East Asia ² | China | 10.0 | 10.1 | 10.2 | 9.8 | 9.9 | 10.3 | 11.3 | |
| | NIEs | Korea | 3.1 | 4.7 | 4.0 | 4.5 | 5.3 | 6.1 | 5.3 |
| | | Taiwan | 3.4 | 6.1 | 4.0 | 4.2 | 6.4 | 4.9 | 4.6 |
| | | Hong Kong | 3.2 | 8.6 | 7.3 | 8.2 | 7.5 | 8.0 | 5.2 |
| | | Singapore | 2.9 | 8.7 | 6.4 | 7.6 | 8.7 | 10.8 | 8.1 |
| | ASEAN4 | Thailand | 7.0 | 6.2 | 4.5 | 5.4 | 4.7 | 6.1 | 4.9 |
| | | Indonesia | 4.8 | 5.1 | 5.6 | 5.6 | 4.9 | 4.7 | 5.2 |
| | | Malaysia | 5.5 | 7.2 | 5.2 | 5.3 | 5.2 | 5.5 | 5.9 |
| Philippines | | 4.9 | 6.2 | 5.0 | 4.8 | 5.3 | 5.7 | 5.5 | |

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.

Real Imports ¹

(1) Breakdown by Region

| | | y/y % chg. | | s.a.; q/q % chg. | | | | | s.a.; m/m % chg. | | |
|---------------------|--------|------------|------|------------------|------------|------------|------|------|------------------|------|------|
| | | CY 2004 | 2005 | 2005 Q3 | 2006 Q4 | 2006 Q1 | Q2 | Q3 | 2006 May | Jun. | Jul. |
| United States | <12.4> | 0.4 | 3.6 | 4.7 | -0.1 | 4.1 | -3.1 | -0.9 | 6.3 | -4.1 | -0.0 |
| EU | <11.4> | 9.6 | 2.1 | -1.1 | -0.7 | 1.6 | 0.0 | -1.9 | -0.2 | -0.7 | -1.4 |
| East Asia | <42.3> | 14.7 | 11.2 | 3.0 | 1.8 | 4.1 | 0.6 | -0.8 | -8.9 | -0.2 | 2.6 |
| China | <21.0> | 20.9 | 18.8 | 2.8 | 1.8 | 4.9 | 0.7 | -1.5 | -11.8 | -1.5 | 3.9 |
| NIEs | <9.8> | 12.8 | 9.3 | 7.1 | 4.0 | 4.0 | 1.2 | -0.8 | -2.0 | -1.1 | 0.6 |
| Korea | <4.7> | 14.5 | 8.3 | 5.9 | 7.5 | -1.2 | 3.4 | -1.5 | -3.2 | 6.5 | -4.5 |
| Taiwan | <3.5> | 12.0 | 11.0 | 12.3 | 0.3 | 8.2 | -0.5 | 2.1 | -4.0 | -6.4 | 8.3 |
| ASEAN4 ³ | <11.4> | 7.1 | 0.2 | -0.6 | -0.4 | 2.7 | -0.2 | 0.8 | -9.7 | 3.6 | 1.9 |
| Thailand | <3.0> | 14.3 | 12.8 | 2.0 | 2.0 | 1.2 | 3.5 | -3.4 | -5.7 | 3.8 | -3.9 |
| Others | <34.0> | 4.7 | 1.8 | 1.2 | 2.0 | -2.0 | 4.1 | -5.3 | -10.1 | 3.6 | -4.0 |
| Real imports | | 8.1 | 5.4 | 2.0 | 0.2 | 2.4 | 0.2 | -2.0 | -3.9 | 0.1 | -0.7 |

(2) Breakdown by Goods

| | | y/y % chg. | | s.a.; q/q % chg. | | | | | s.a.; m/m % chg. | | |
|--------------------------------------|--------|------------|------|------------------|------------|------------|------|------|------------------|------|------|
| | | CY 2004 | 2005 | 2005 Q3 | 2006 Q4 | 2006 Q1 | Q2 | Q3 | 2006 May | Jun. | Jul. |
| Raw materials ⁴ | <31.7> | 1.3 | -3.9 | 1.4 | -0.6 | 0.5 | 2.8 | -2.3 | -13.3 | 2.7 | 0.9 |
| Intermediate goods | <14.0> | 8.7 | 4.6 | 0.3 | 0.6 | 0.4 | 2.0 | -4.5 | -3.1 | 3.0 | -5.4 |
| Foodstuffs | <9.8> | 0.4 | 2.6 | -0.9 | -3.1 | 2.5 | -2.9 | -5.7 | -2.0 | 1.5 | -5.9 |
| Consumer goods ⁵ | <9.9> | 12.5 | 8.7 | -3.0 | 3.0 | 1.4 | -2.4 | -1.5 | -7.3 | -3.3 | 3.4 |
| IT-related goods ⁶ | <12.5> | 17.6 | 15.4 | 8.2 | 1.3 | 6.8 | 0.2 | 2.2 | -10.6 | -0.6 | 6.7 |
| Capital goods and parts ⁷ | <12.1> | 17.4 | 13.6 | 7.2 | 2.0 | 7.2 | -0.2 | 0.5 | 8.5 | -6.2 | 2.1 |
| Excluding aircraft | <11.2> | 19.2 | 13.7 | 5.0 | 3.8 | 5.6 | 3.5 | 1.7 | -5.2 | 1.6 | 2.5 |
| Real imports | | 8.1 | 5.4 | 2.0 | 0.2 | 2.4 | 0.2 | -2.0 | -3.9 | 0.1 | -0.7 |

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July figures converted into quarterly amount.

2. Shares of each region and goods in 2005 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.

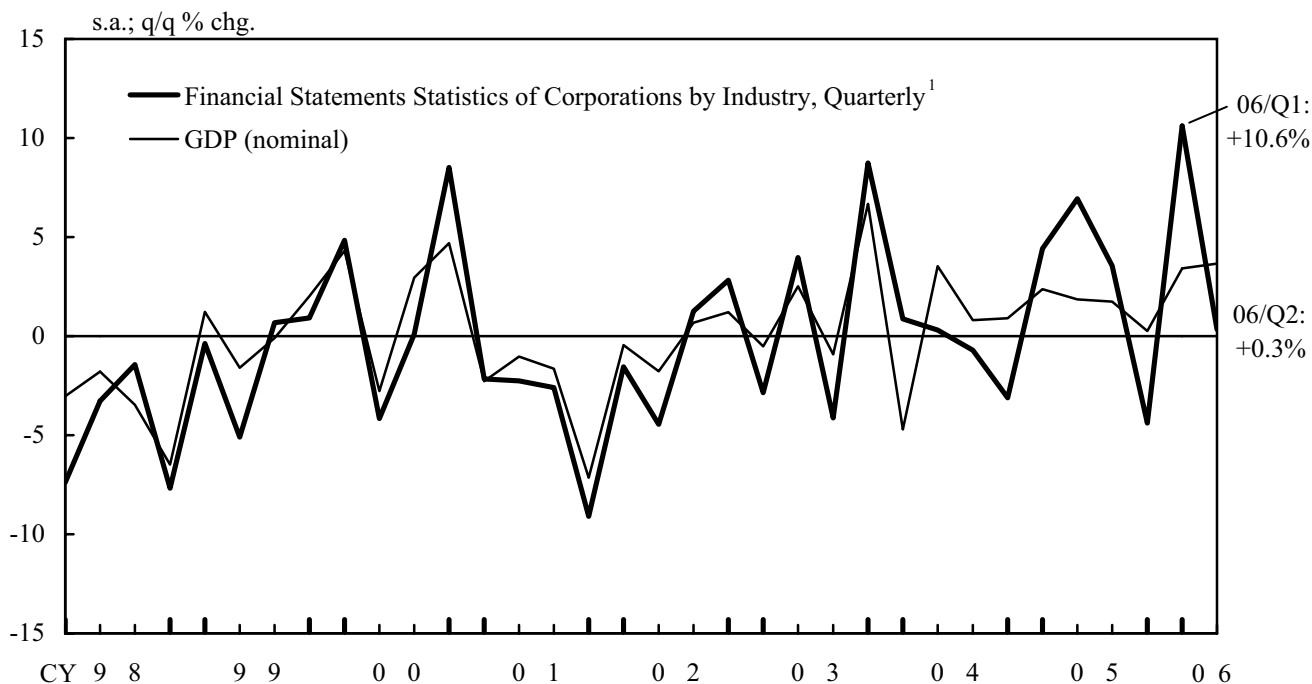
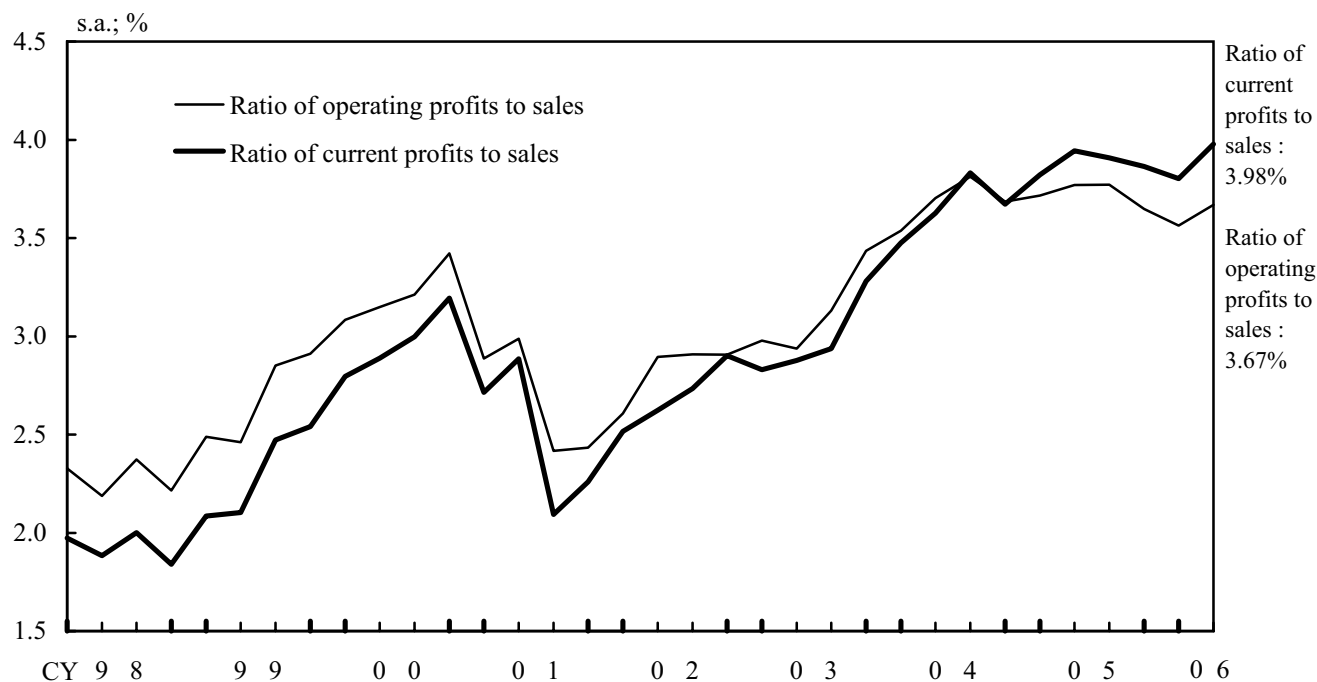
5. Excludes foodstuffs.

6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

Business Fixed Investment and Corporate Profits

(1) Fixed Investment

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

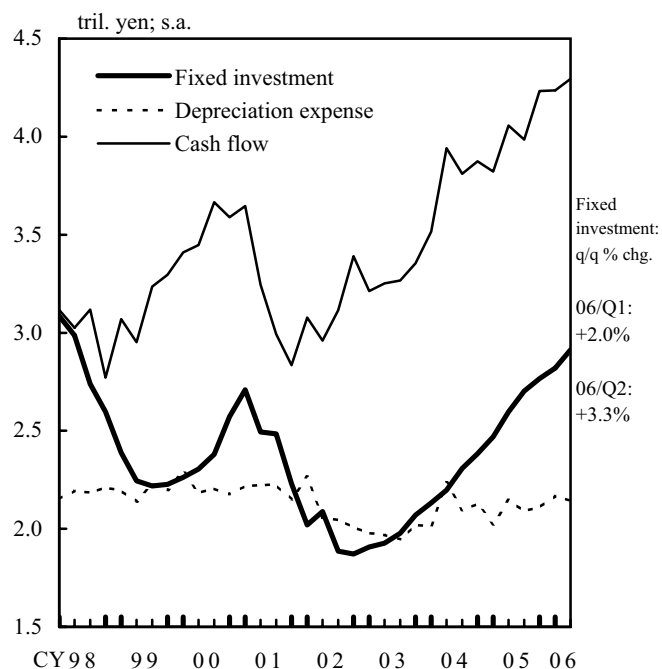
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references.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

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

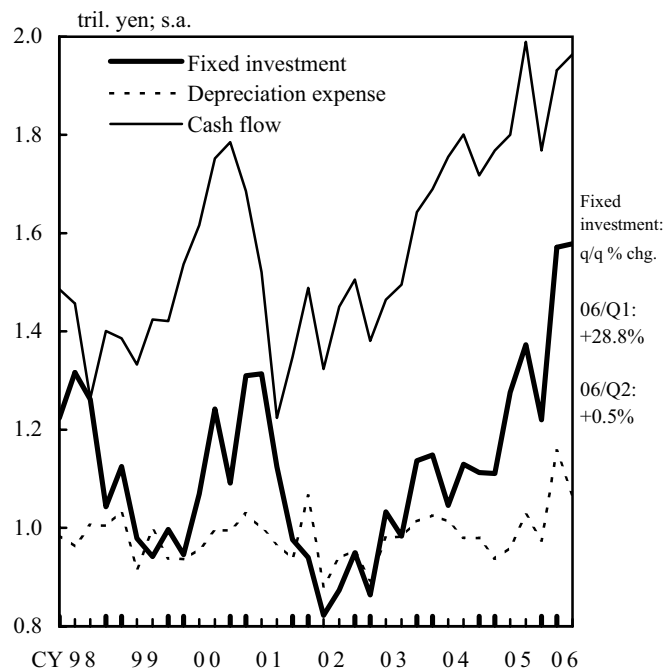
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

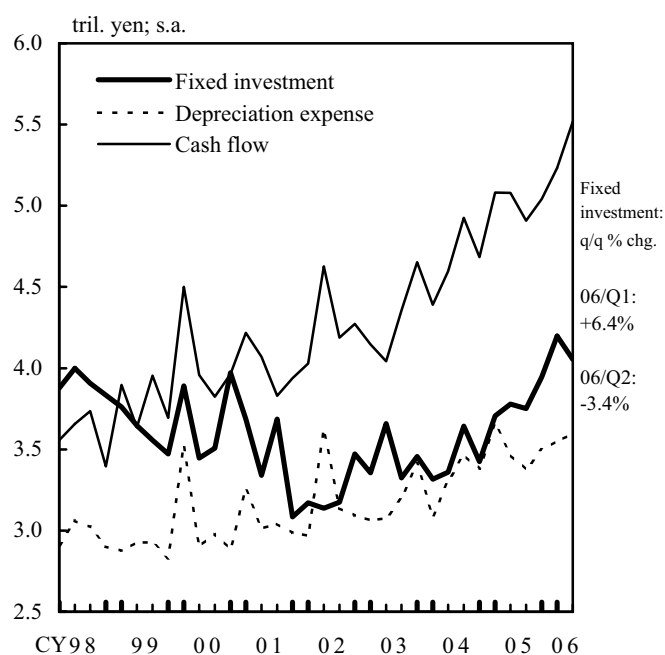
(1) Large Manufacturing Firms



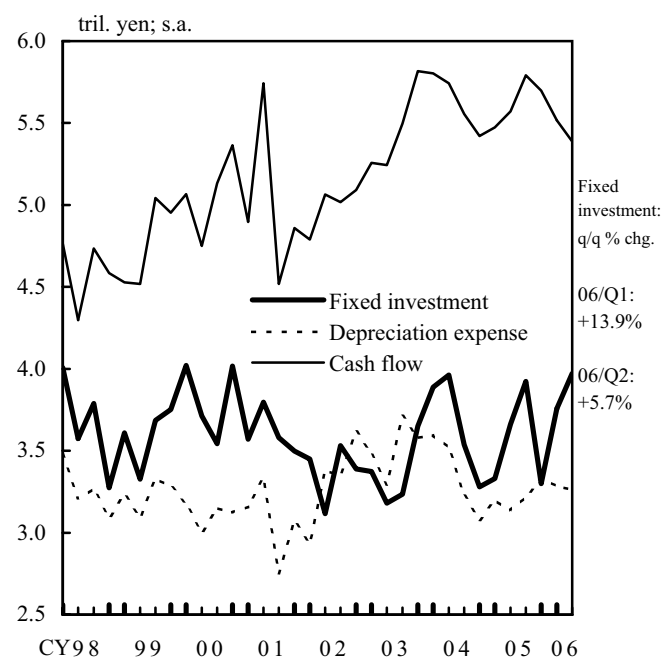
(2) Medium-Sized and Small Manufacturing Firms



(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 (see note of Chart 12).

3. Electric and gas are excluded from large nonmanufacturing firms.

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

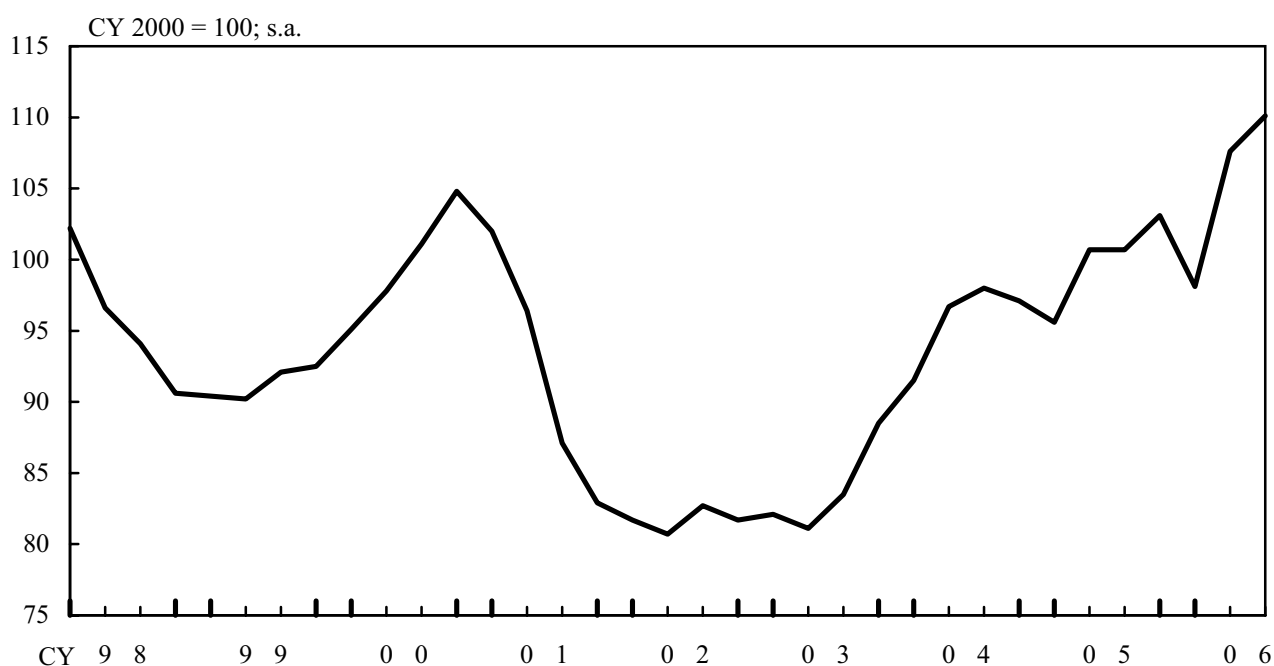
5. Cash flow = current profits / 2 + depreciation expense.

6. Seasonally adjusted by X-11.

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

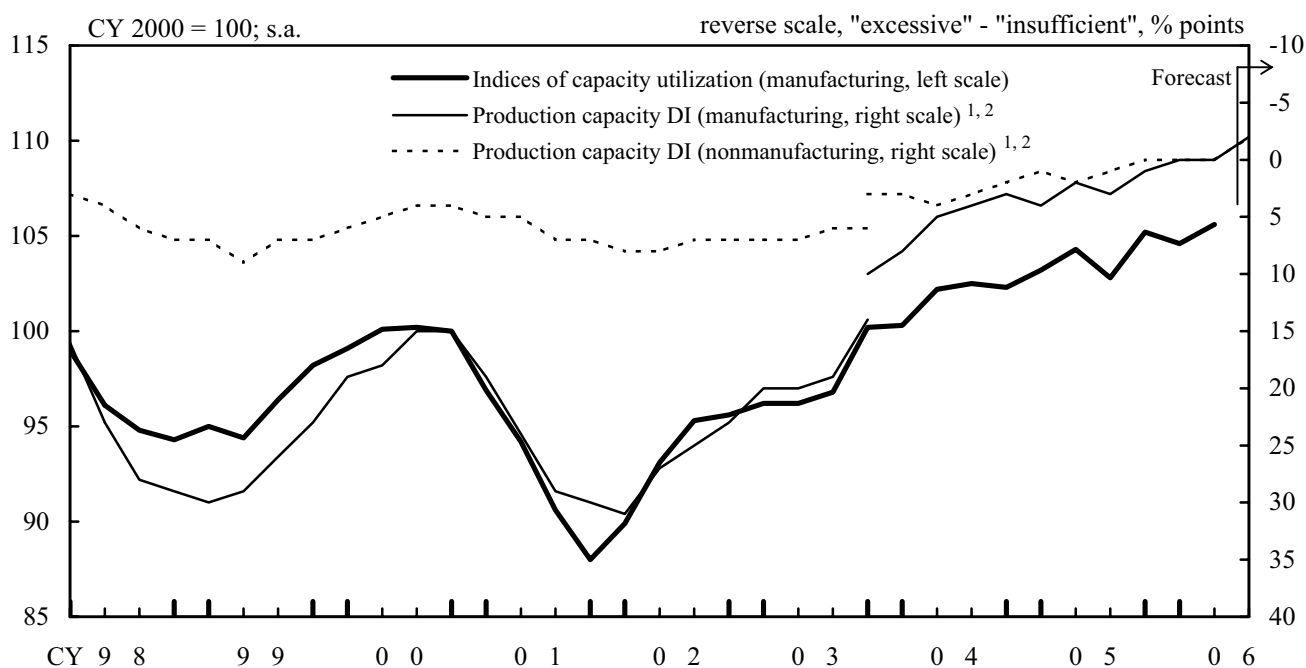
Coincident Indicators for Business Fixed Investment

(1) Shipments of Capital Goods (Excluding Transport Equipment)



Note: The figure for 2006/Q3 is as of July.

(2) Indices of Capacity Utilization and Production Capacity DI



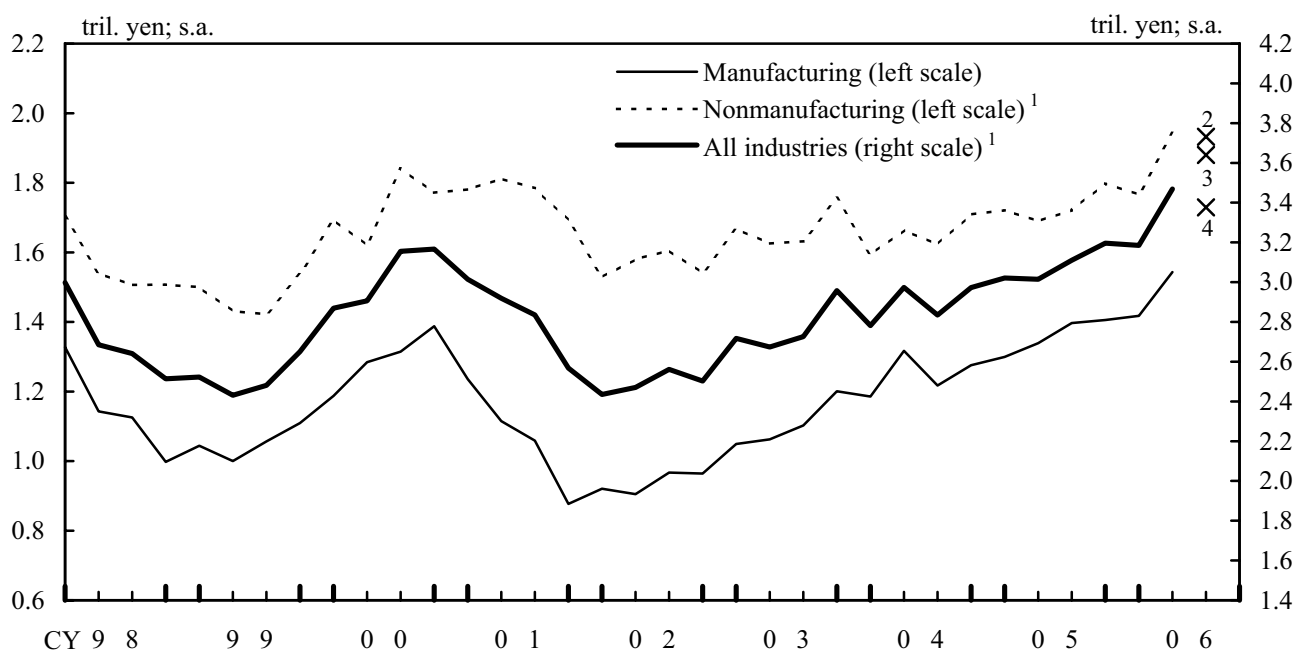
Notes: 1. Production capacity DIs are those of all enterprises.

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.

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



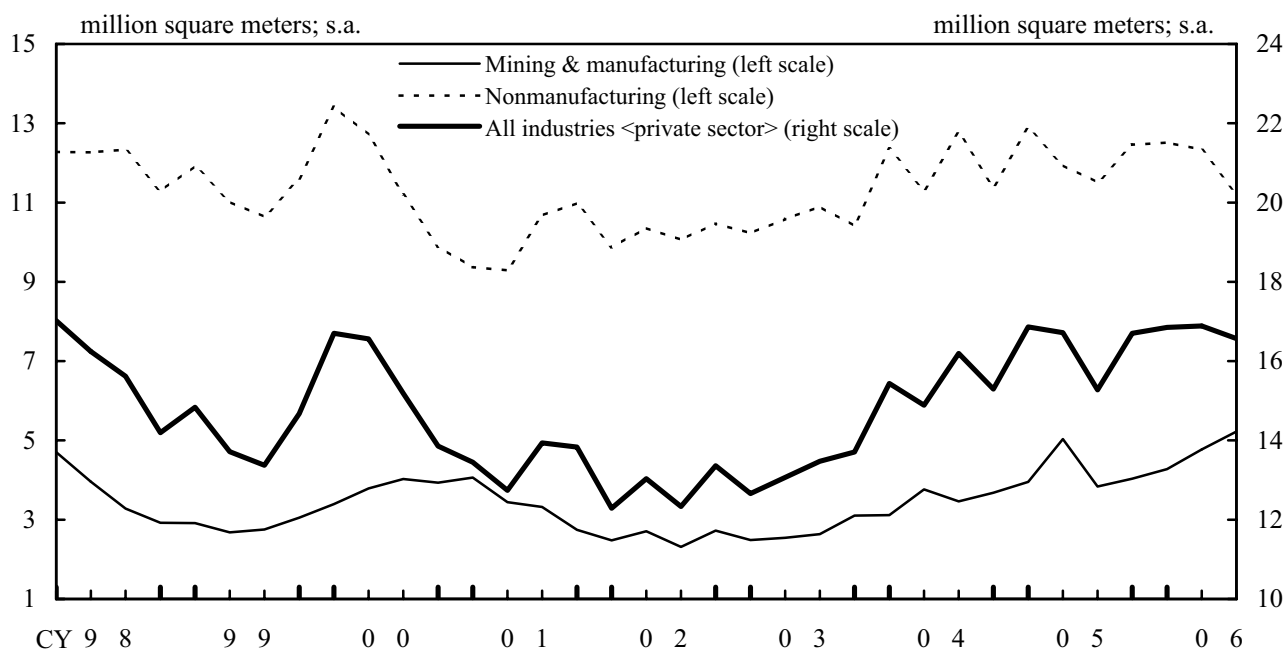
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2006/Q3.

3. Forecast of all industries for 2006/Q3.

4. Forecast of manufacturing industries for 2006/Q3.

(2) Construction Starts (Floor Area, Private, Nondwelling Use)



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

2. 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 FY 2002 were adjusted by using a link coefficient.

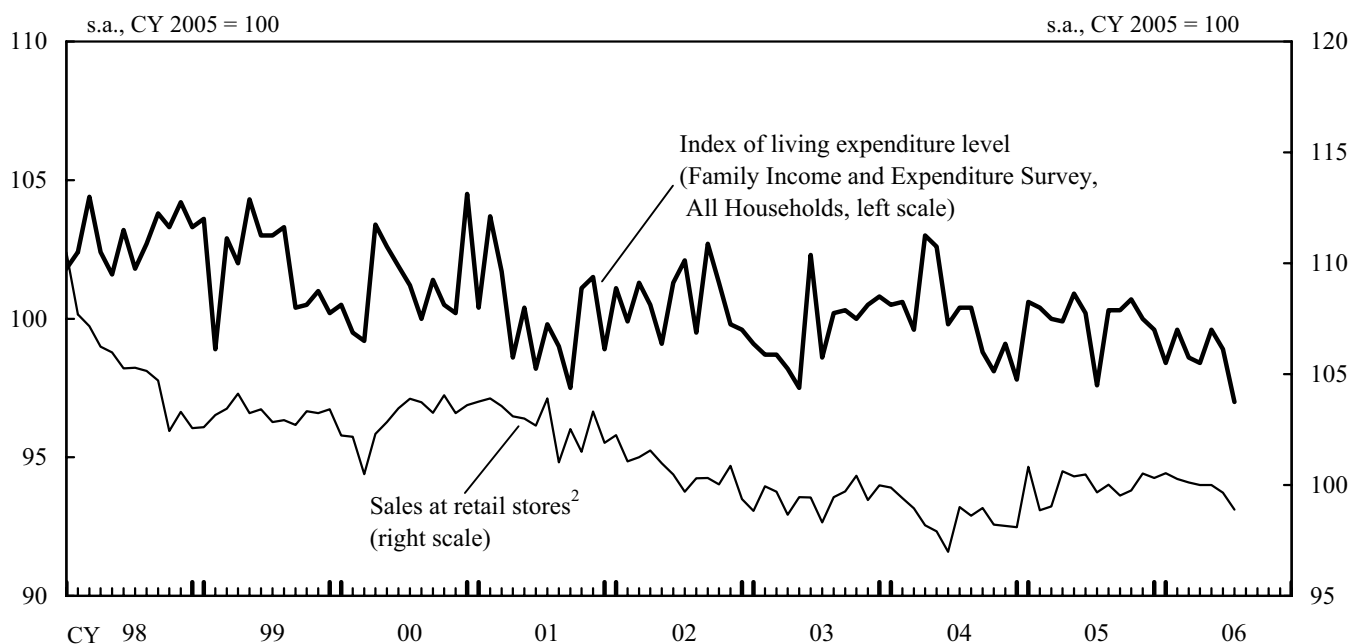
3. Figures for 2006/Q3 are those of July in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

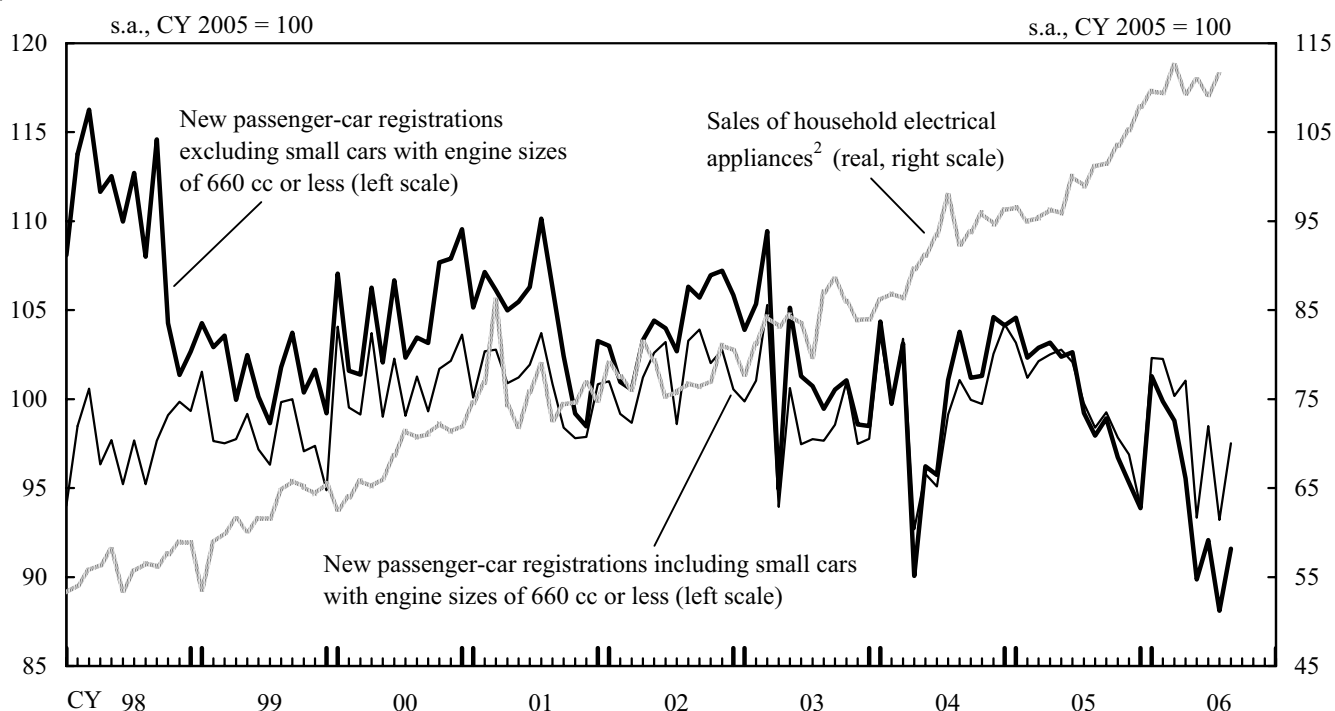
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption¹ (1)

(1) Household Spending (Real)



(2) Sales of Durable Goods

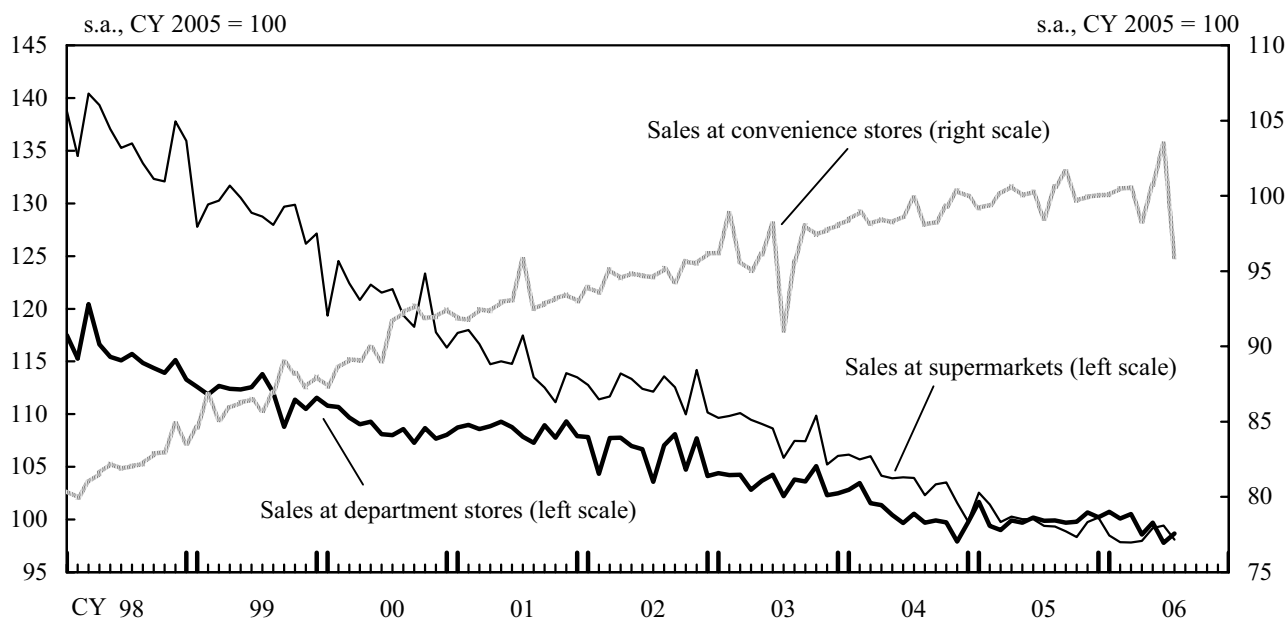


- Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications. The data have been retroactively revised.
2. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). Sales of household electrical appliances are calculated as follows; the sales of household machinery retail stores in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the wholesale price index and the corporate goods price index for personal computers before 1999 and PC printers before 2002). Sales at retail stores and sales of household electrical appliances have been retroactively revised reflecting the base revision of CPI.

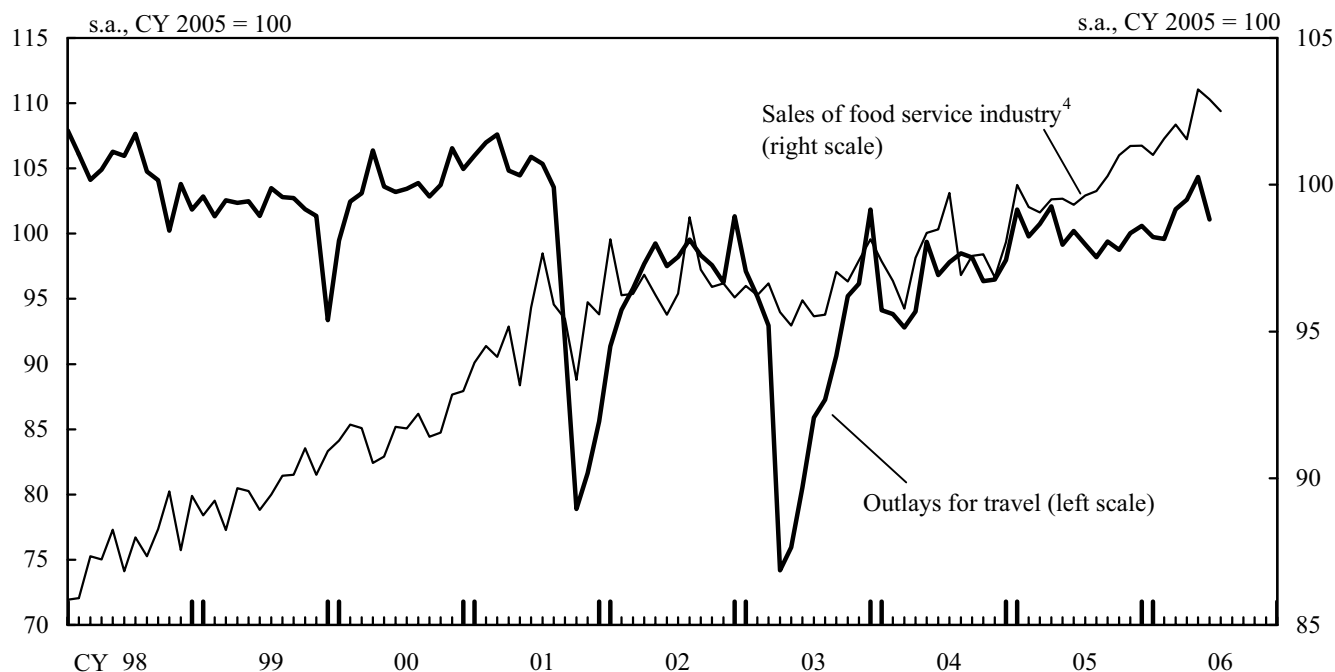
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles Association, "Sales of Mini Vehicles"; Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index."

Indicators for Private Consumption^{1, 2} (2)

(3) Sales at Retail Stores (Nominal)³



(4) Consumption of Services (Nominal)



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

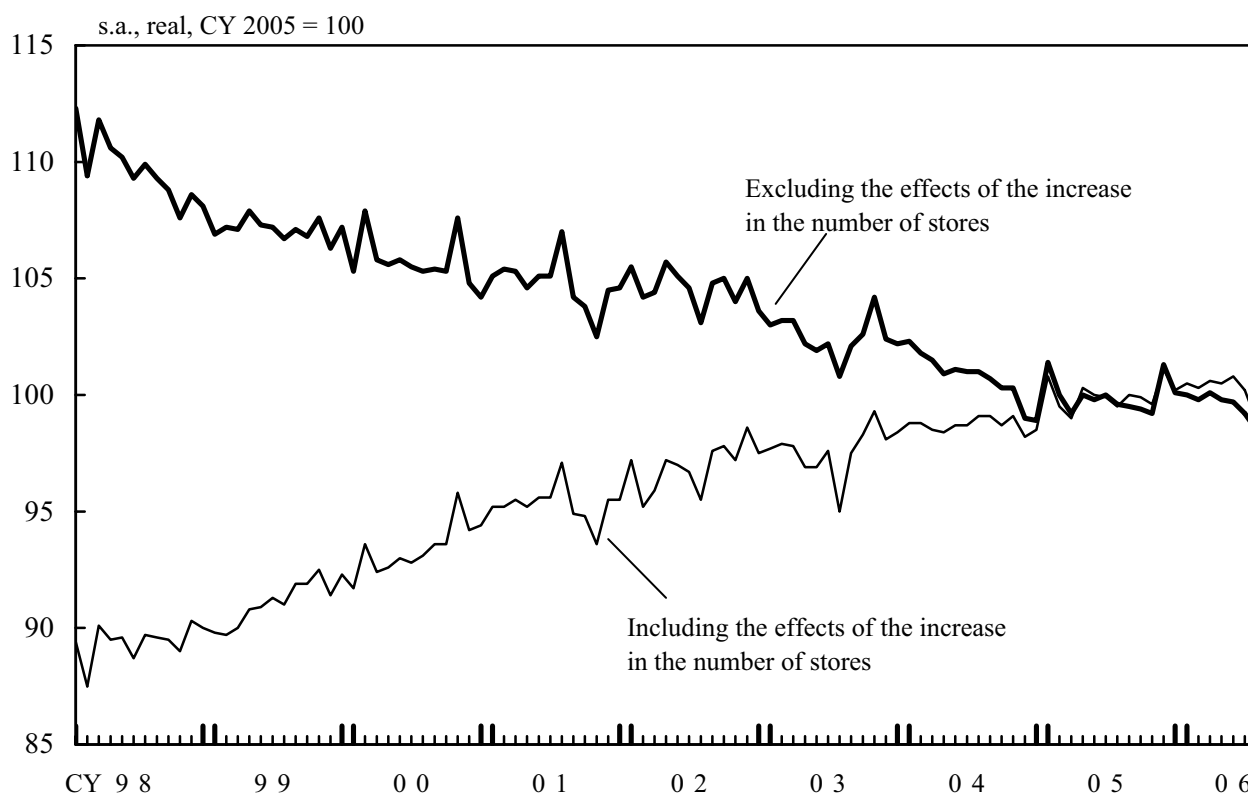
2. Adjusted to exclude the effect of the rise in the consumption tax rate.

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

4. Sales of food service industry are calculated using the year-on-year rates of change 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)."

Indices of Aggregated Sales

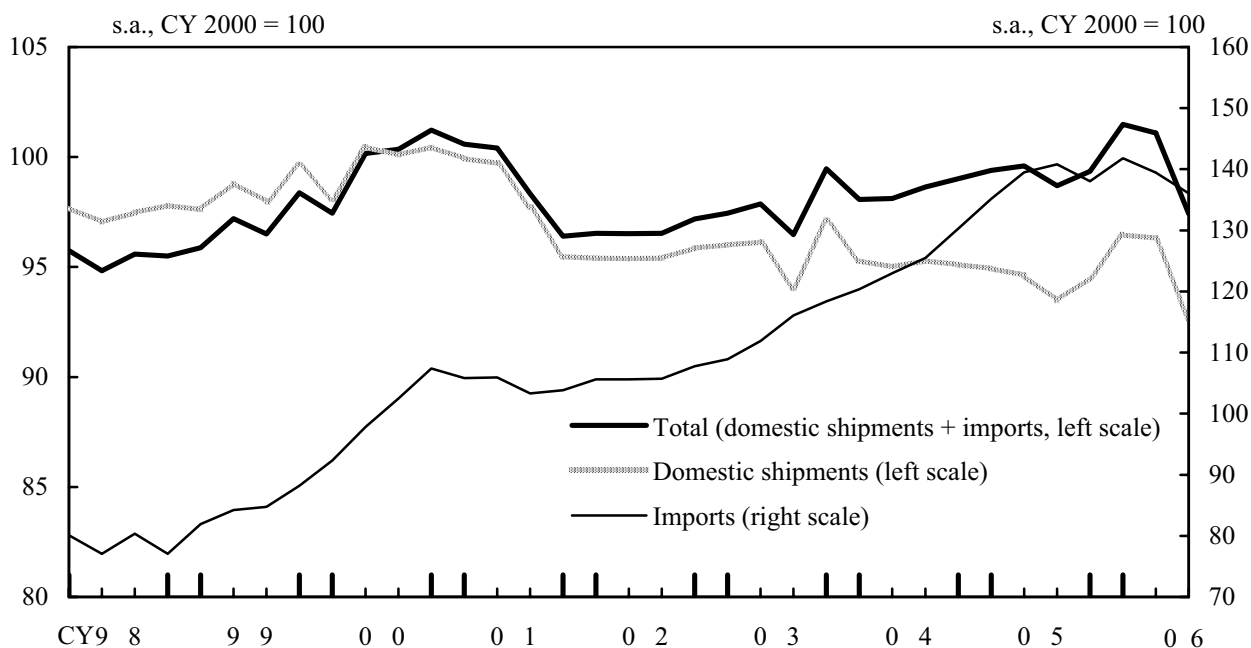


- Notes: 1. Indices of aggregated sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in 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 for 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. Indices of aggregated sales have been retroactively revised reflecting revision of deflators.

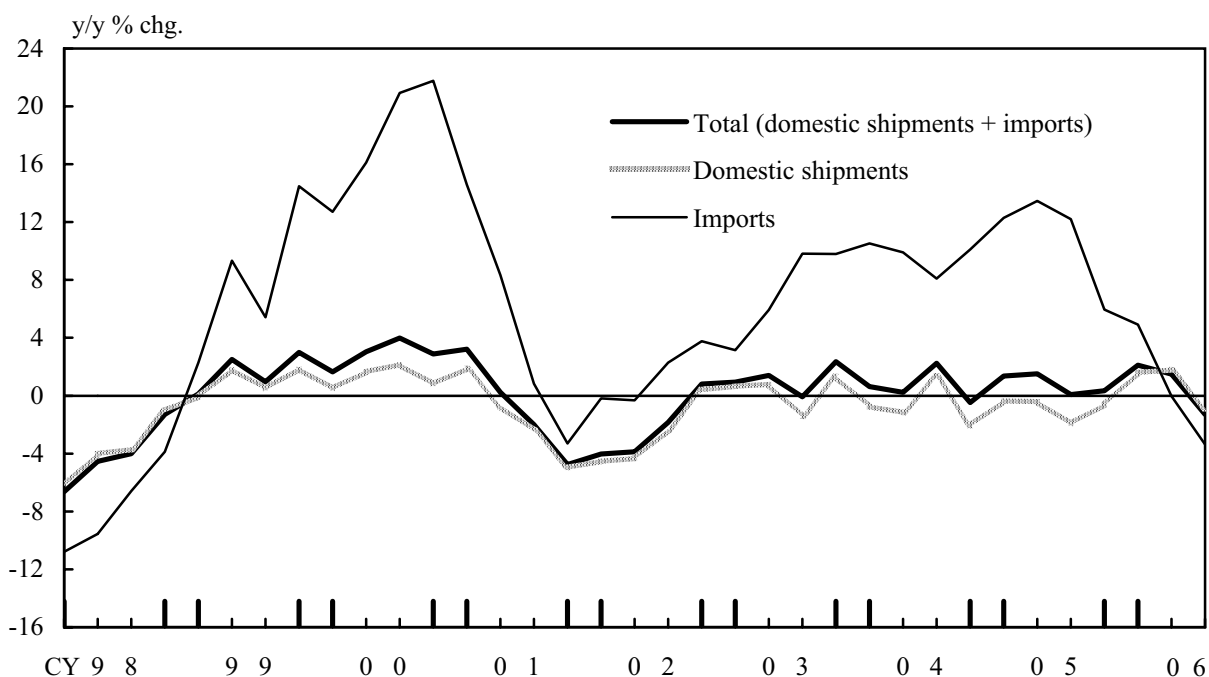
Source: Bank of Japan, "Indices of Aggregated Sales."

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 of consumer goods; motor vehicles, computers and the parts, parts of audio and visual apparatus, foodstuffs, textile, and clothing and accessories.

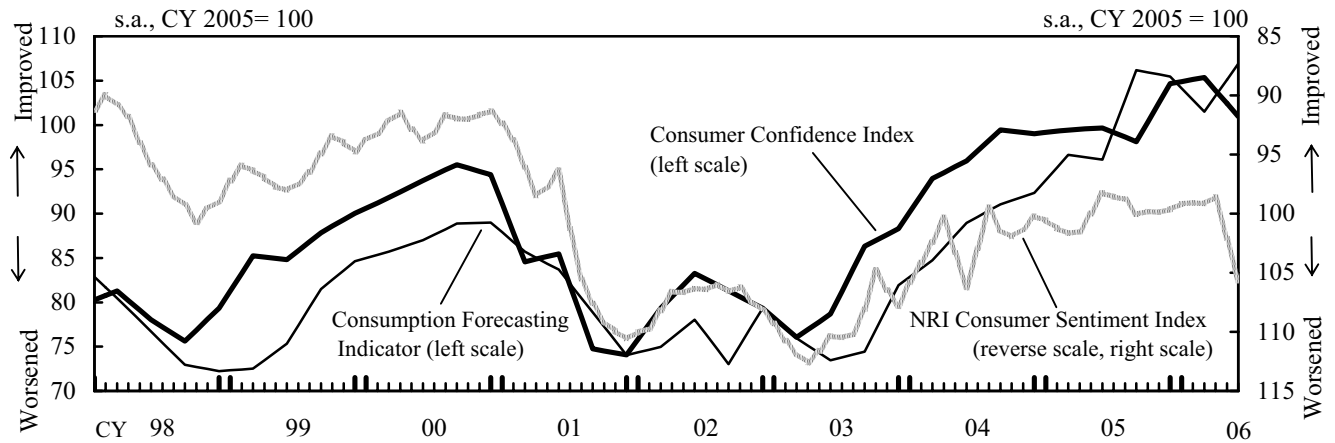
3. Year-on-year rates of change are calculated from seasonally adjusted series.

4. Data for 2006/Q3 figures are those of July 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."

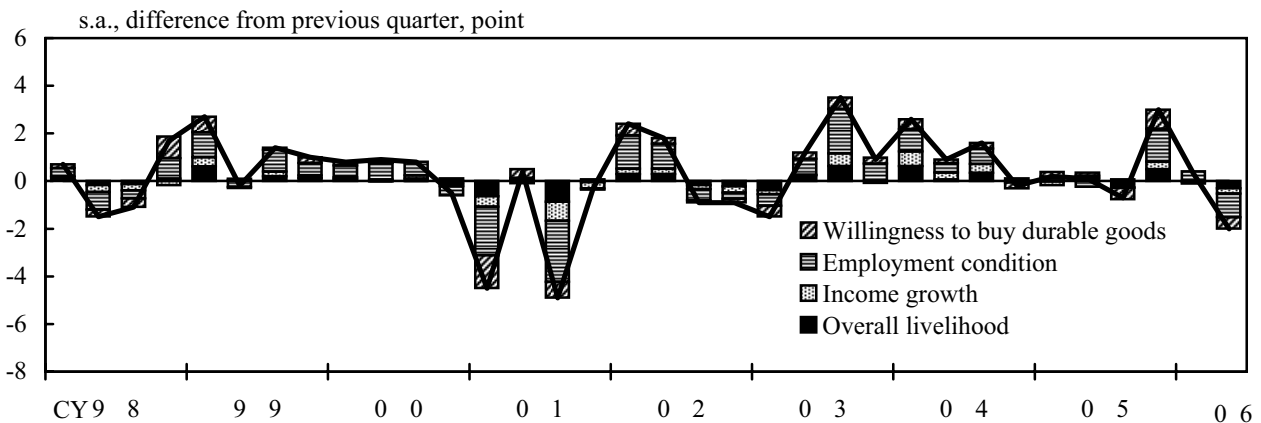
Consumer Confidence

(1) Surveys on Consumer Confidence

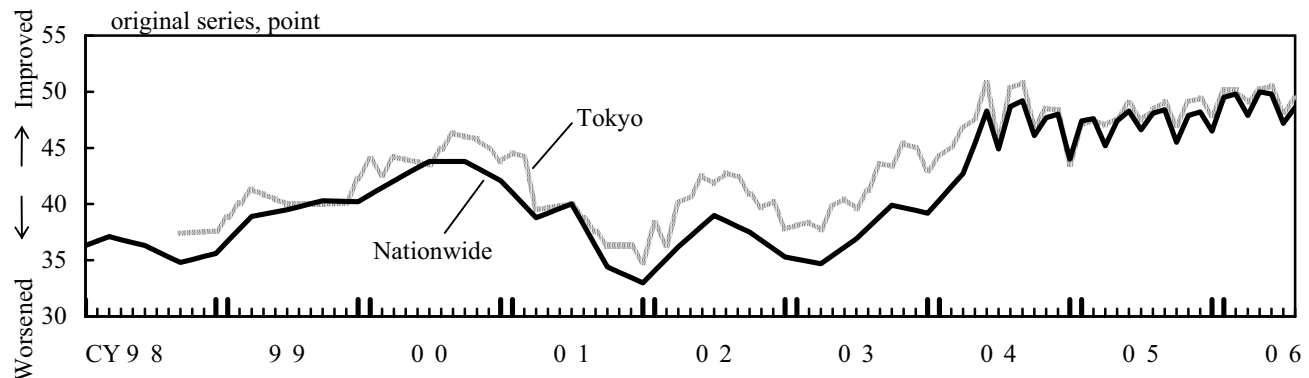


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office. "Consumption Forecasting Indicator" is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 2,400 samples in a nationwide basis) are based on surveys on consumer confidence.
3. Data are plotted at the months of each survey.

(2) Contribution of Each Item in the Consumer Confidence Index



(3) Consumer Confidence Index (Monthly)

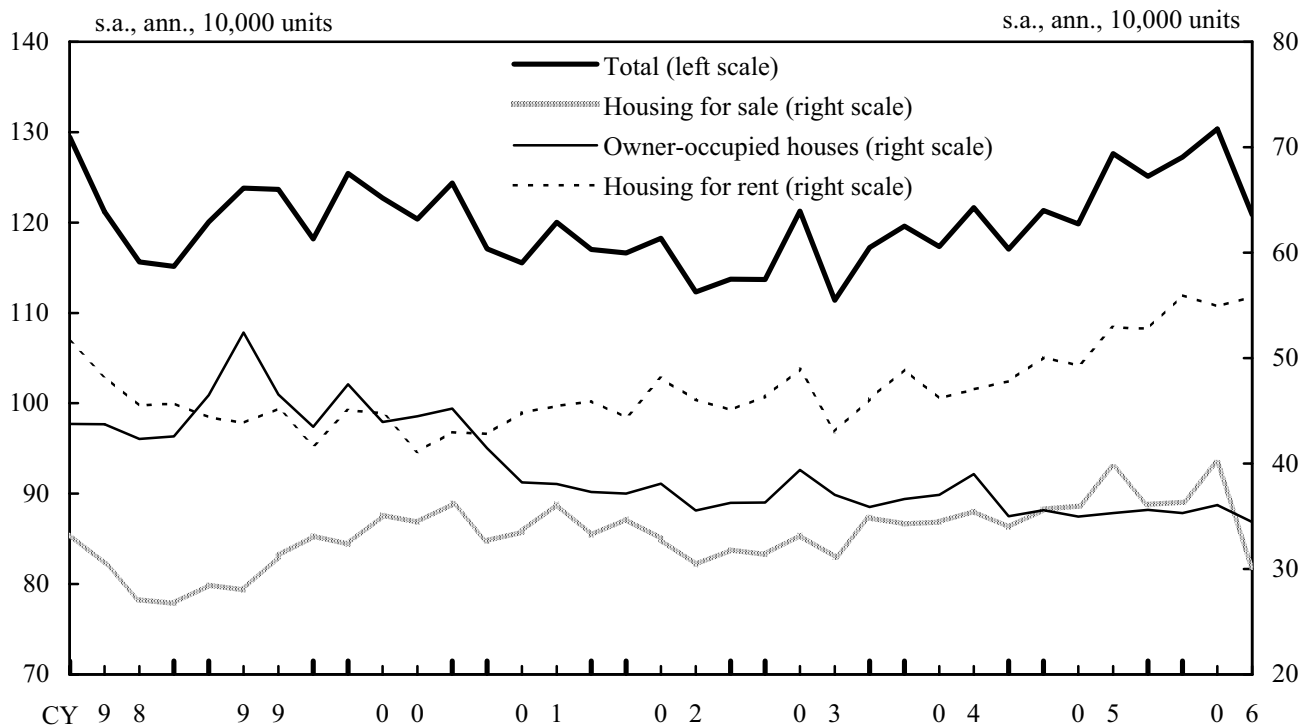


Note: From September 1998 to October 2001, figures of "Monthly Consumer Confidence Index (Tokyo)" when the survey was not conducted were supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" were also plotted at the surveyed months and supplemented with linear 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."

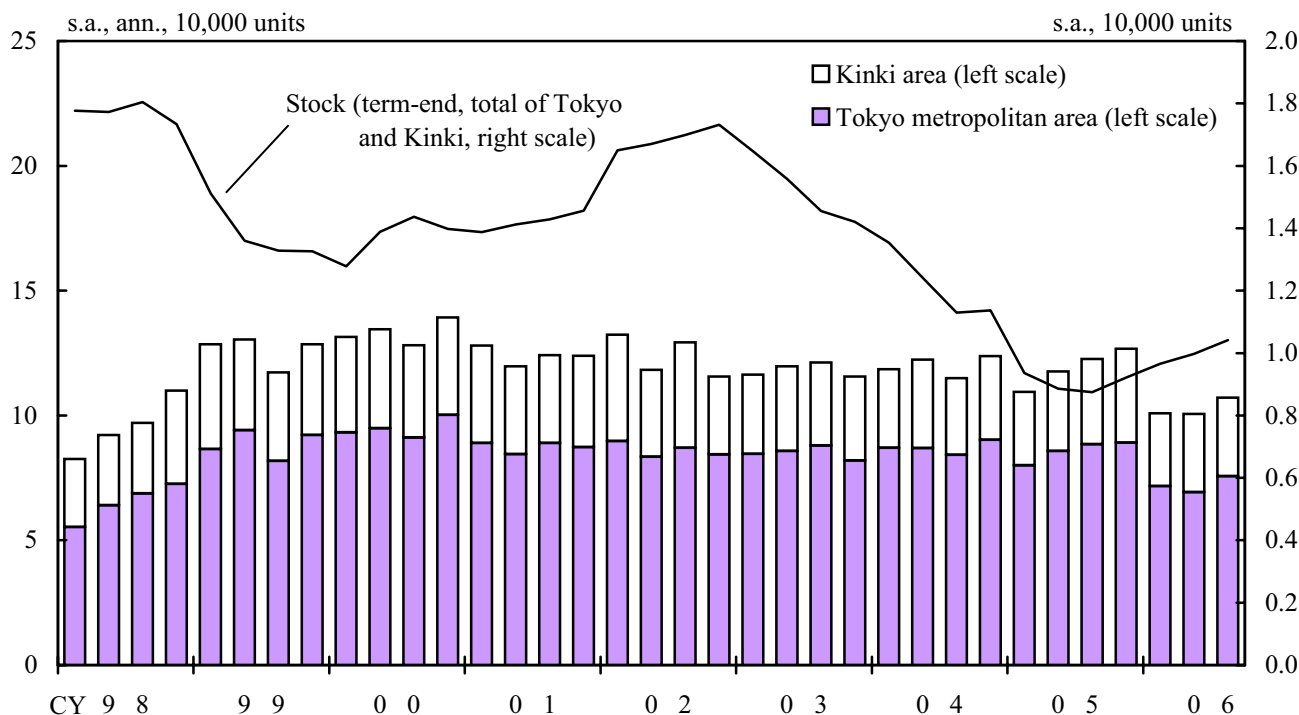
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2006/Q3 are those of July.

(2) Sales of Apartments



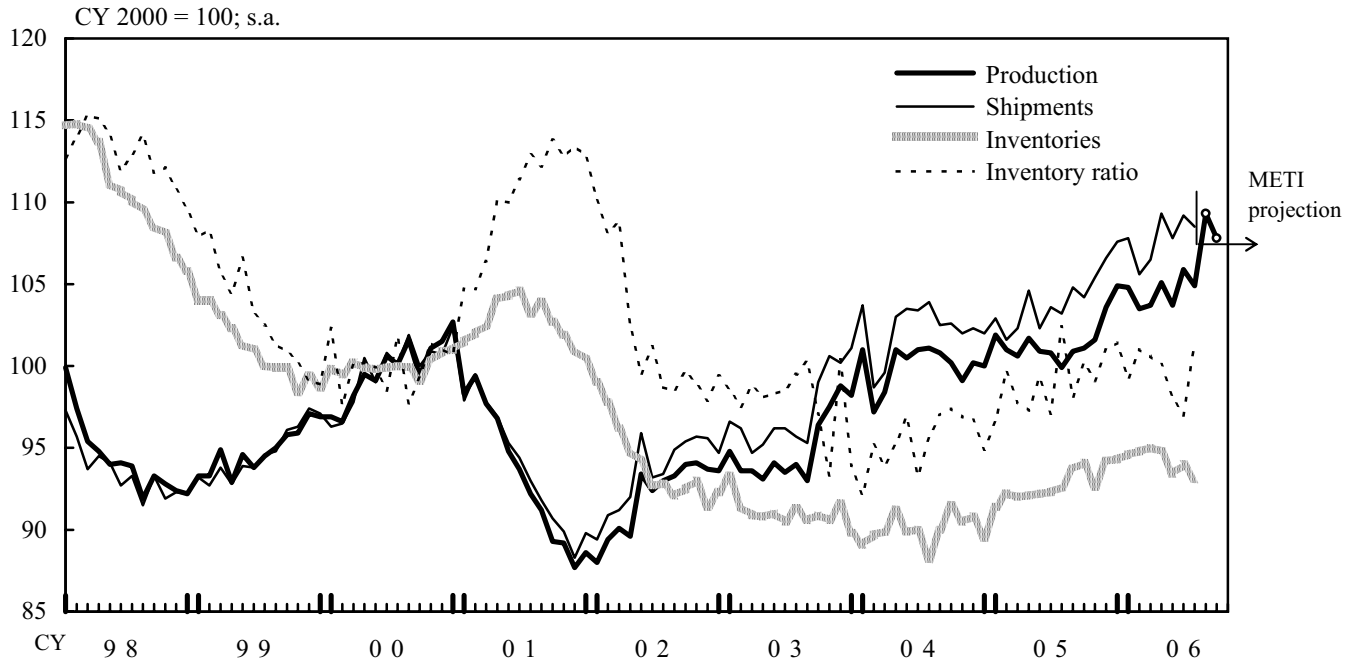
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Figures for 2006/Q3 are those of July.

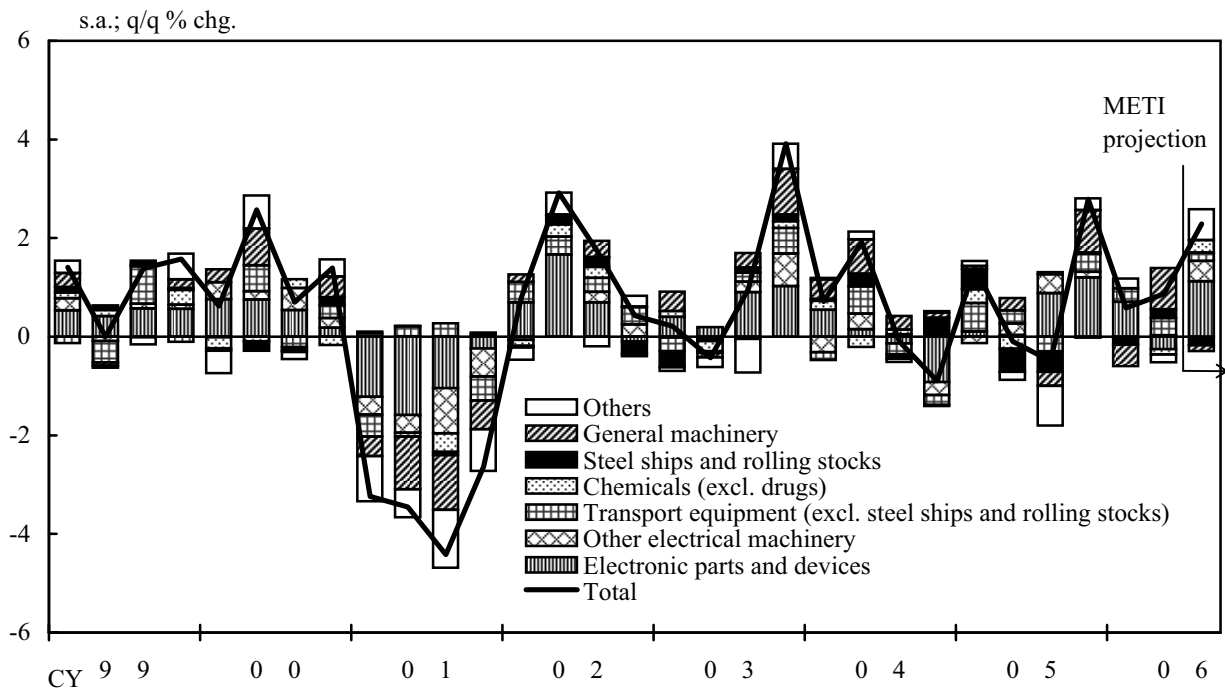
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

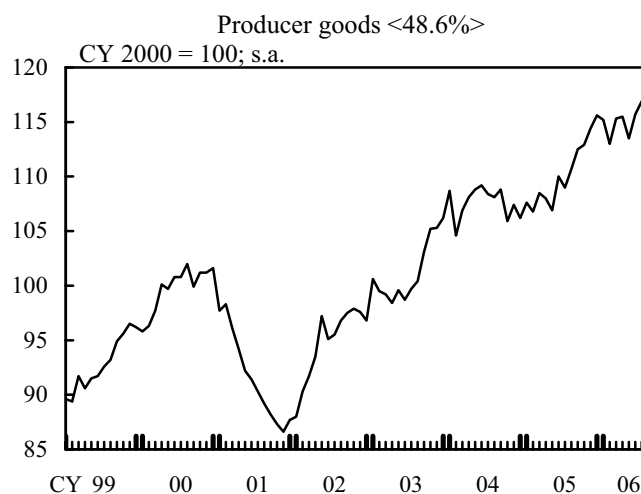
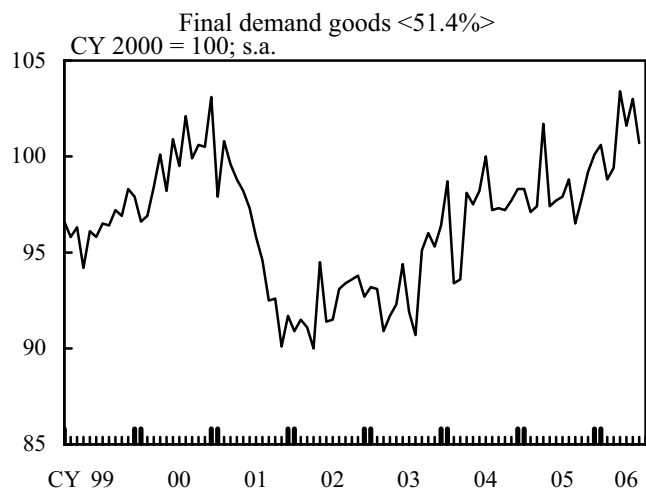


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

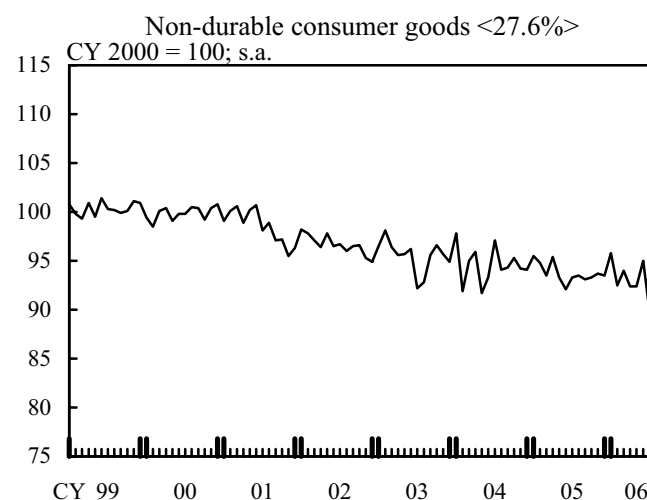
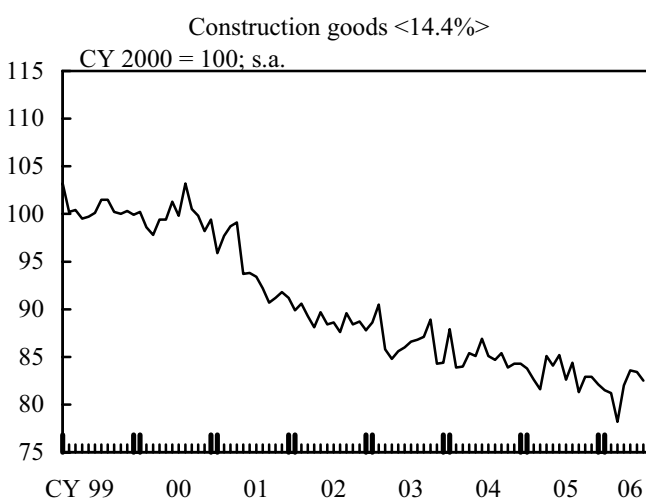
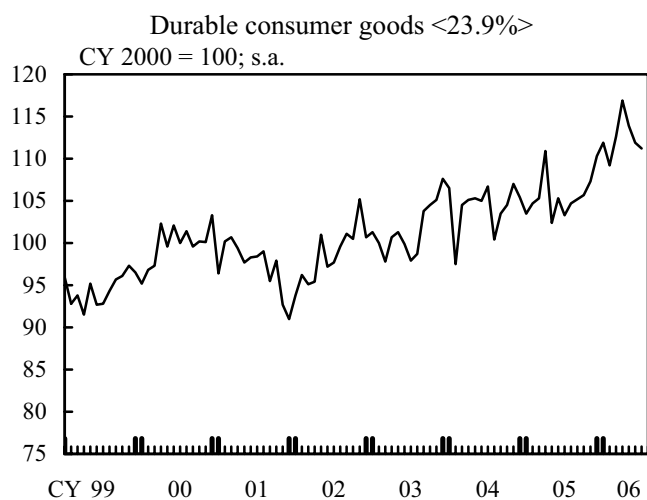
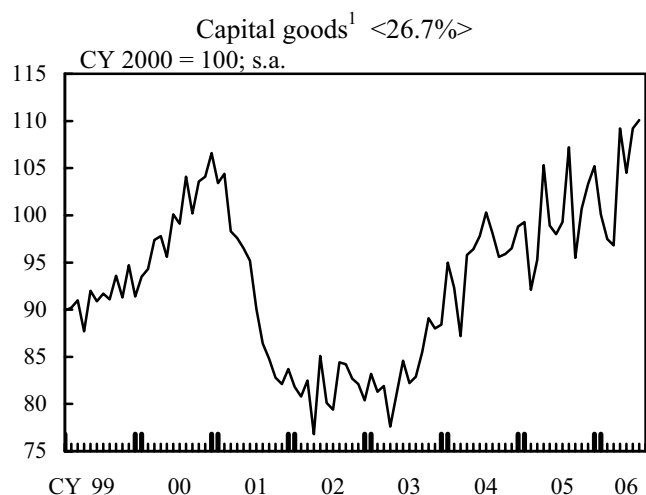
Shipments Breakdown by Type of Goods

(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



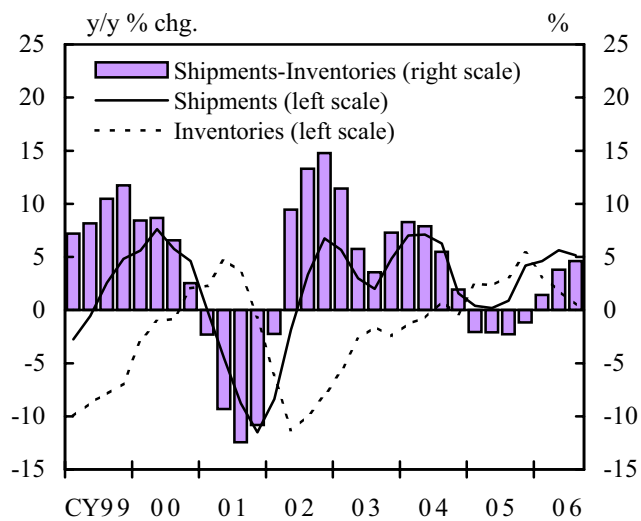
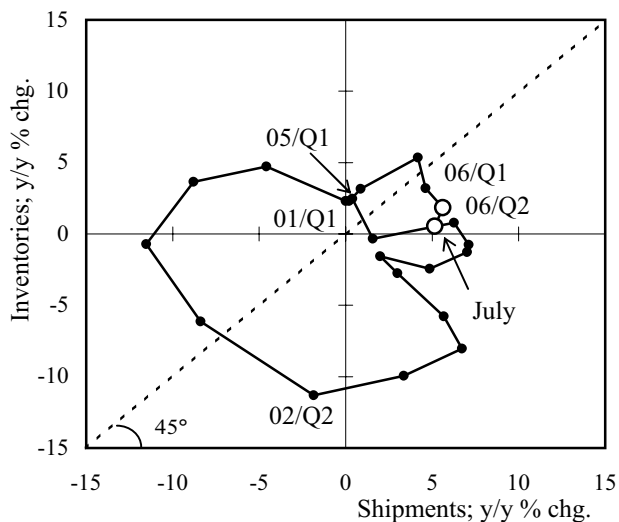
Notes: 1. Excluding transport equipment.

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

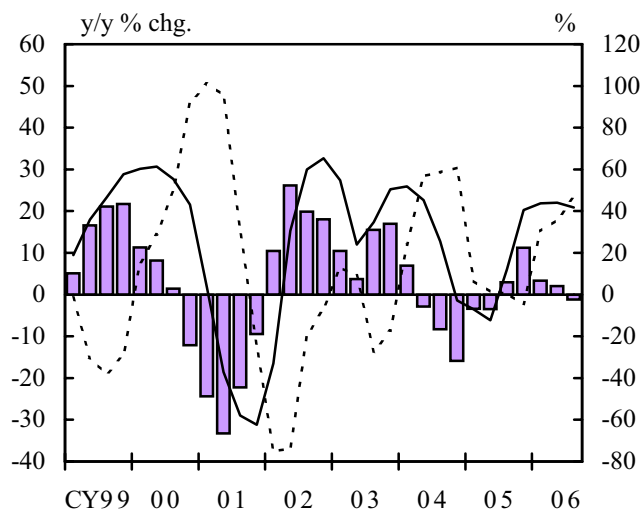
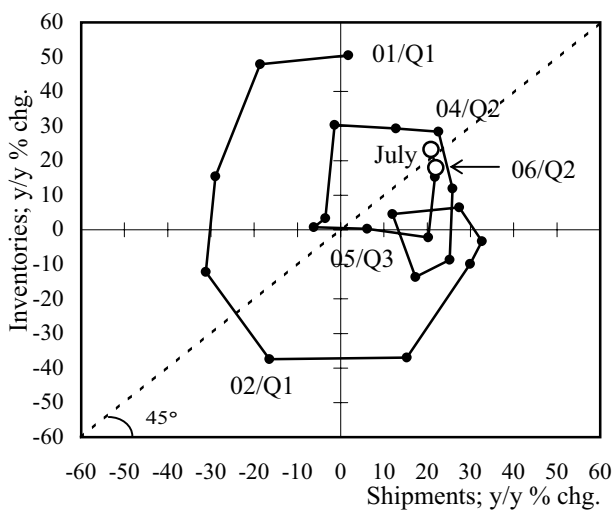
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

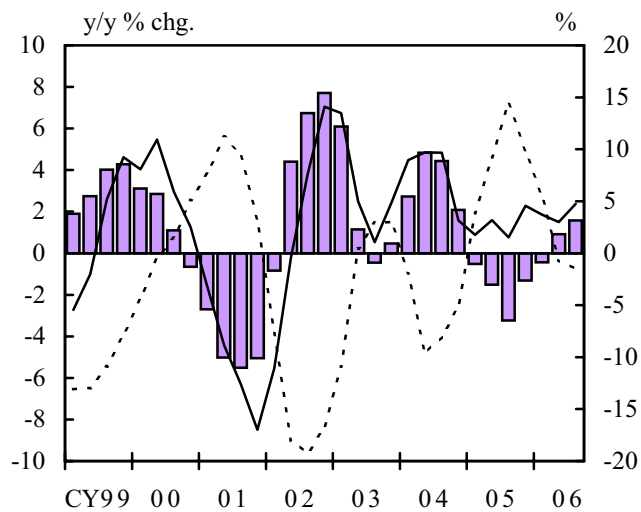
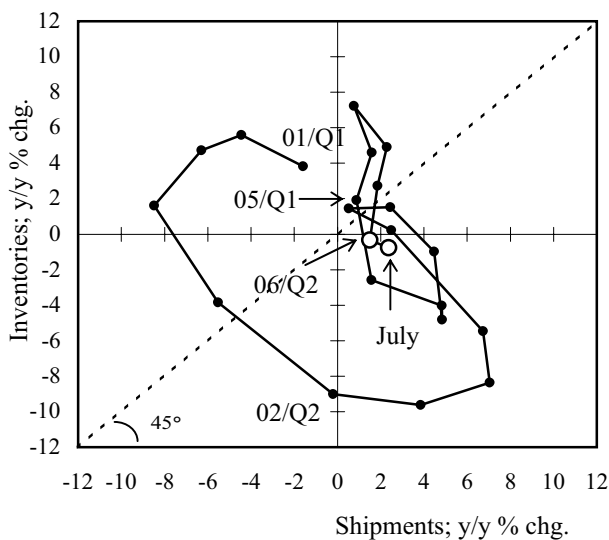
(1) Total



(2) Electronic Parts and Devices



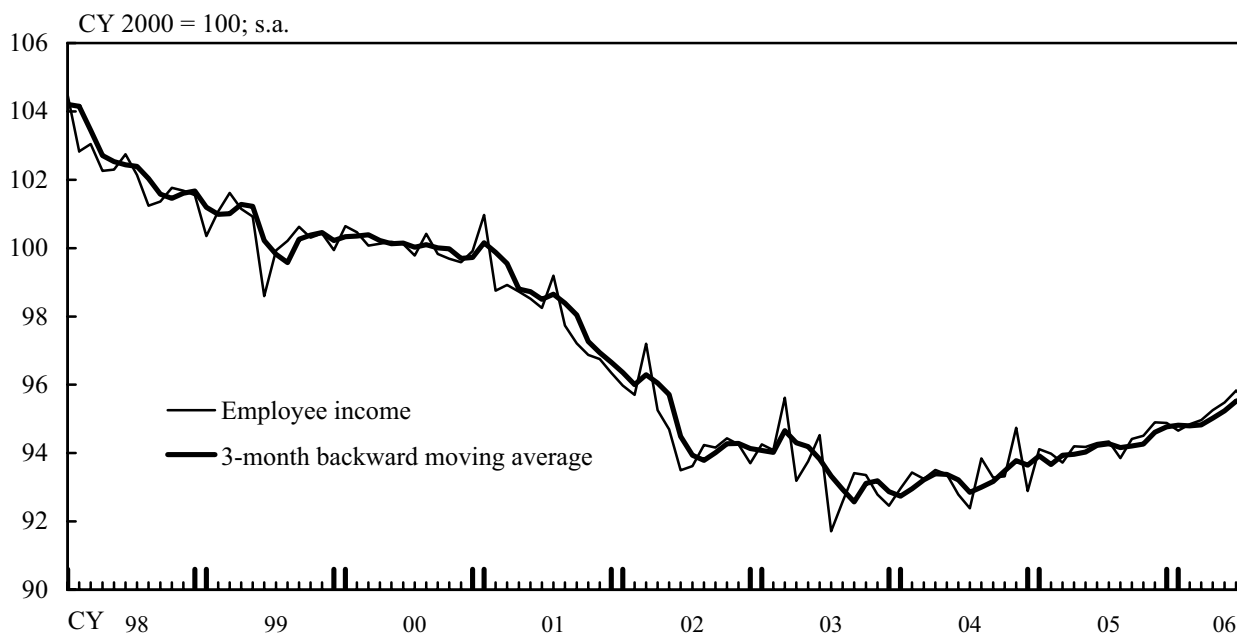
(3) Producer Goods Excluding Electronic Parts and Devices



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

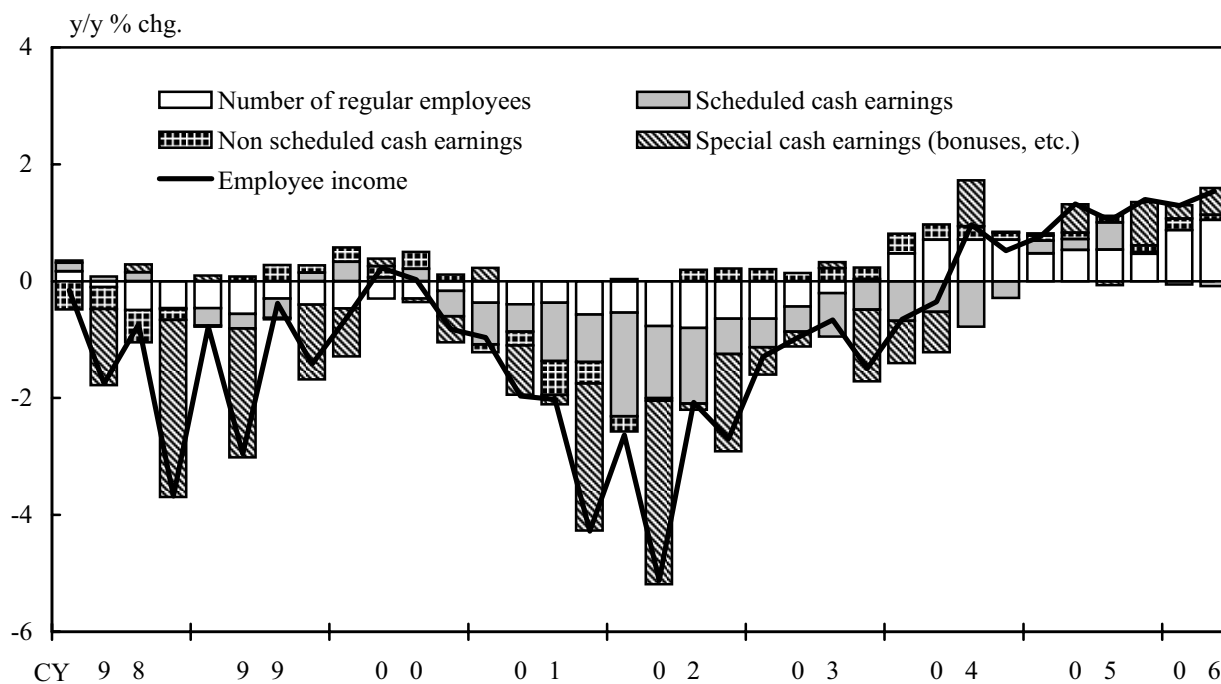
Employee Income

(1) Employee Income



- Notes: 1. Employee income's 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 five employees.

(2) Breakdown of Employee Income

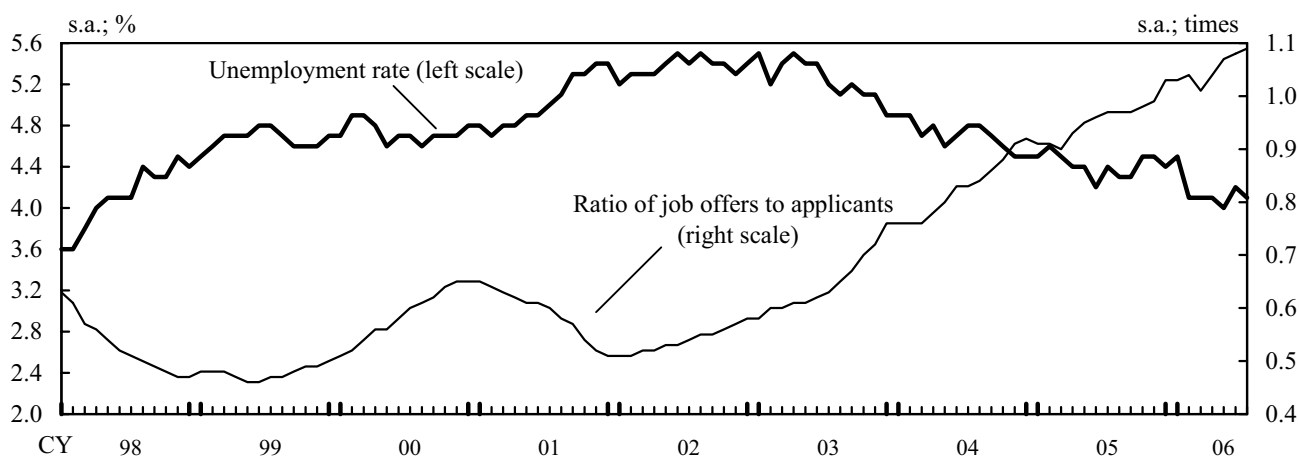
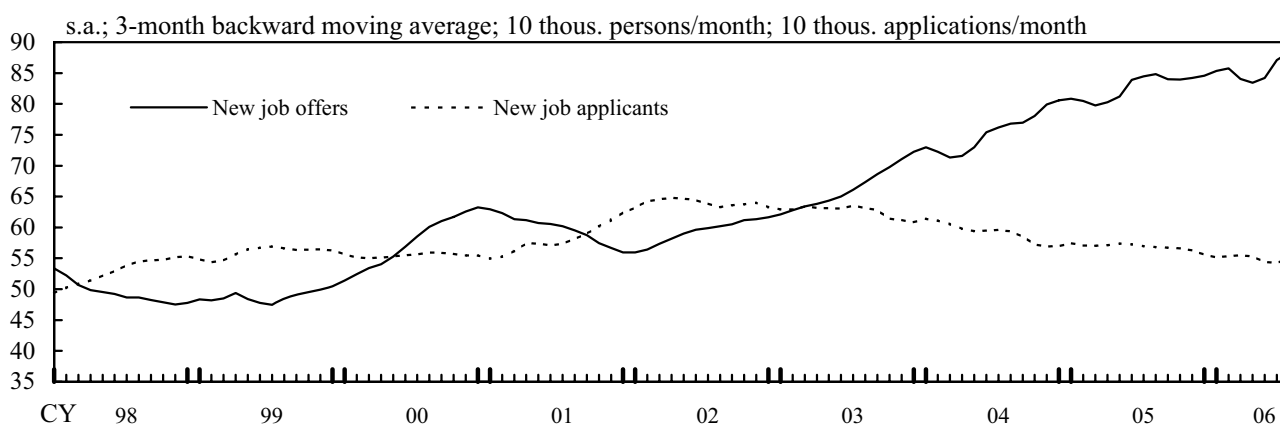
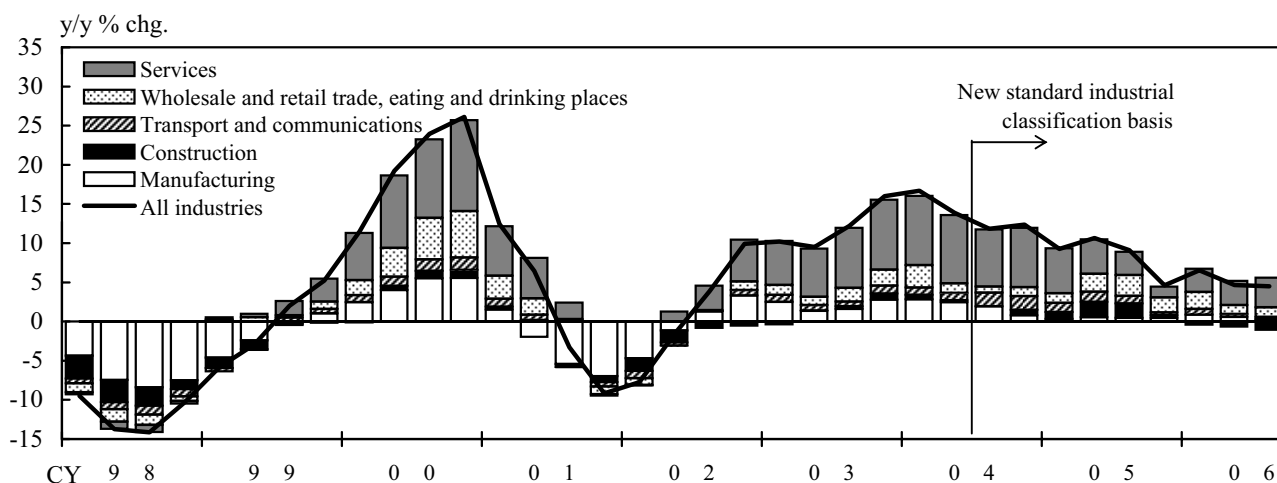


- Notes: 1. Data are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
3. Figures for 2006/Q2 are those of June-July averages.

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

Labor Market (1)

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

(2) New Job Offers and New Job Applicants¹(3) Breakdown of New Job Offers^{1,2,3}

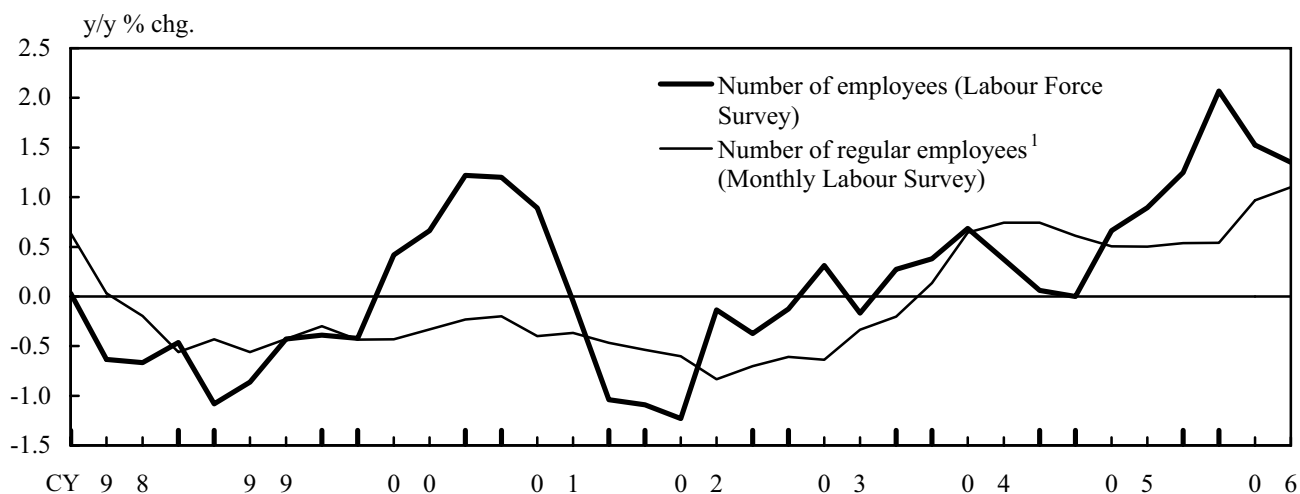
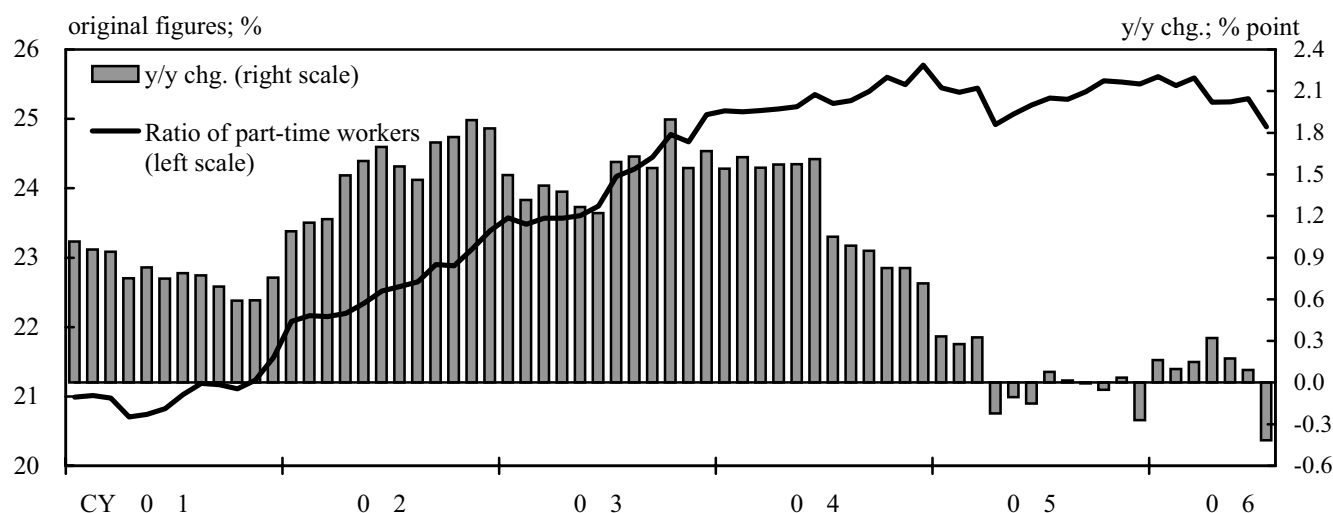
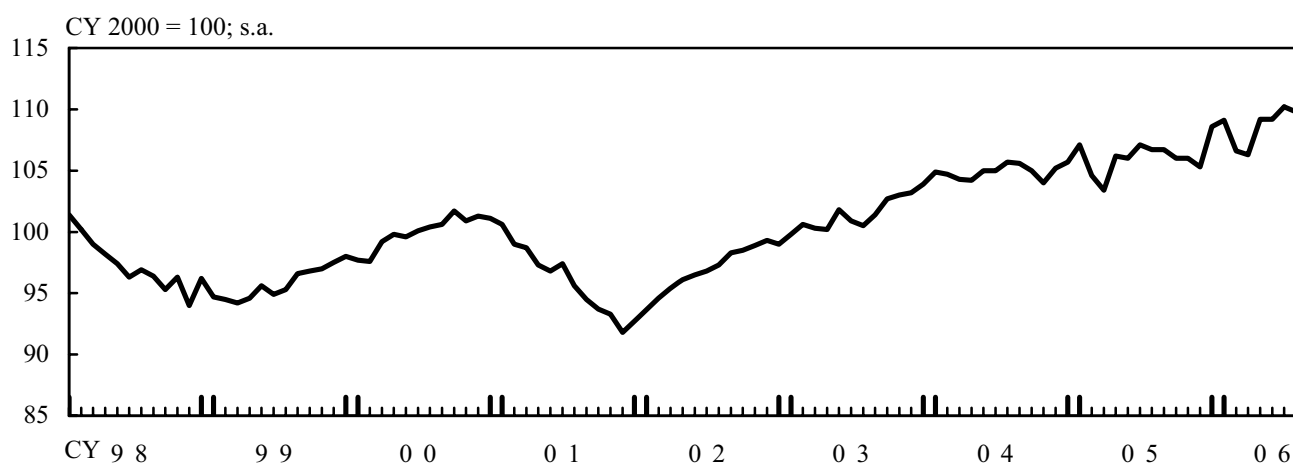
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum of "electricity and gas," "information and communications" and "transport." "Wholesale and retail trade, eating and drinking places" are the sum of "wholesale and retail trade" and "eating and drinking places, accommodations." "Services" are the sum of "medical, health care and welfare," "education, learning support," "compound services" and "services (not elsewhere classified)."

3. Figures for 2006/Q3 are those of July.

Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

(1) Number of Employees³(2) Ratio of Part-Time Workers^{1,2} (Monthly Labour Survey)(3) Non Scheduled Hours Worked¹ (Monthly Labour Survey)

Notes: 1. Data are for establishments with at least five employees.

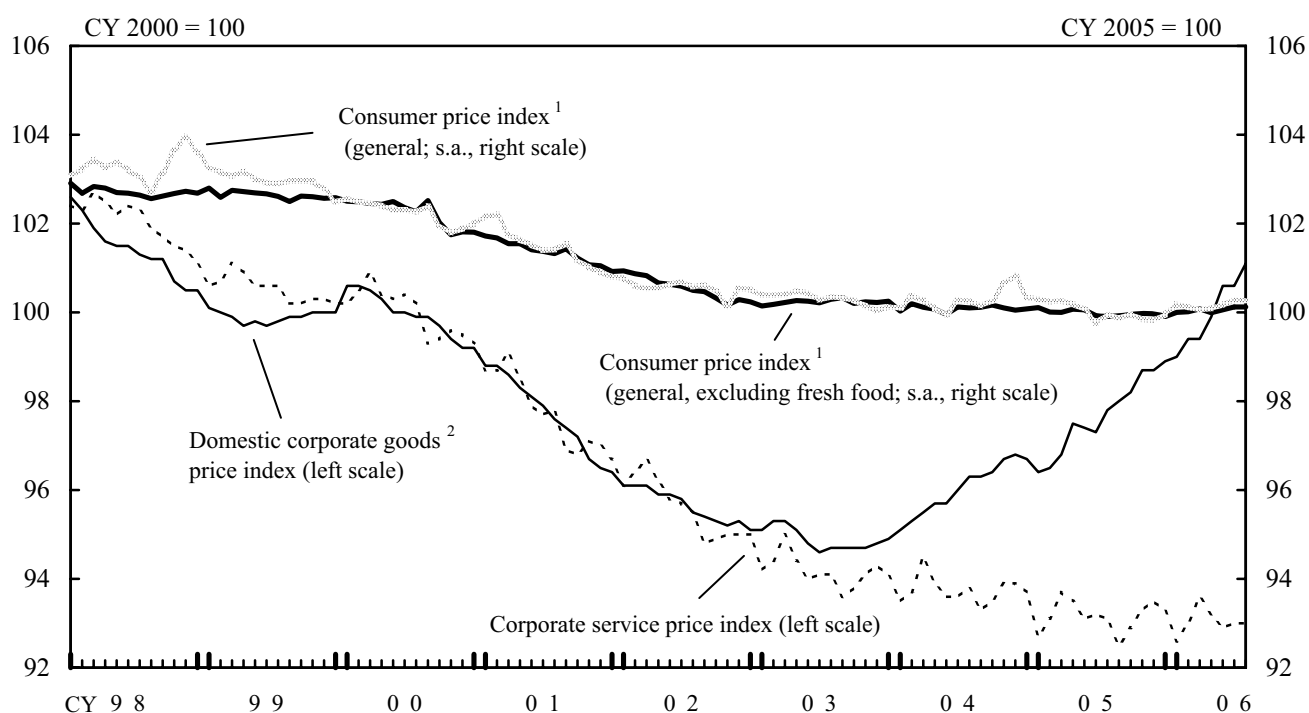
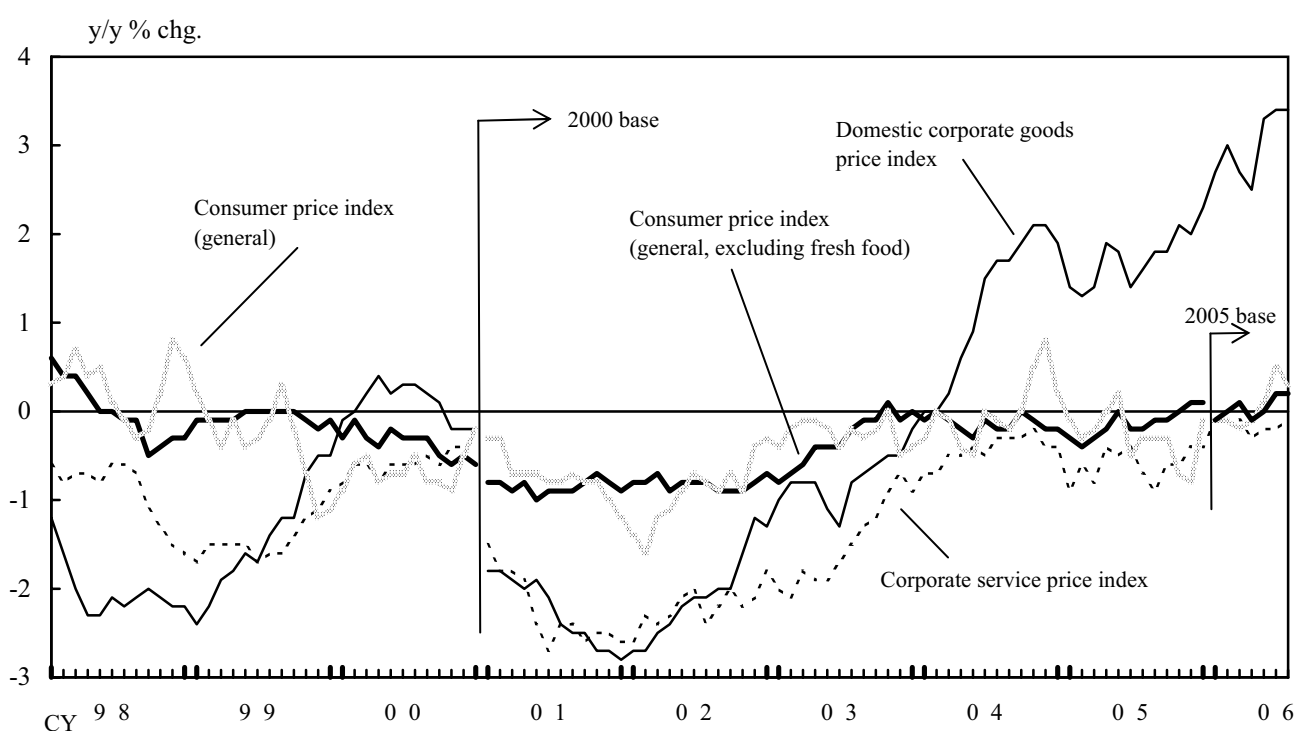
2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.

3. Figures for 2006/Q3 are those of July.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices³

(1) Level

(2) Changes from a Year Earlier³

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

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

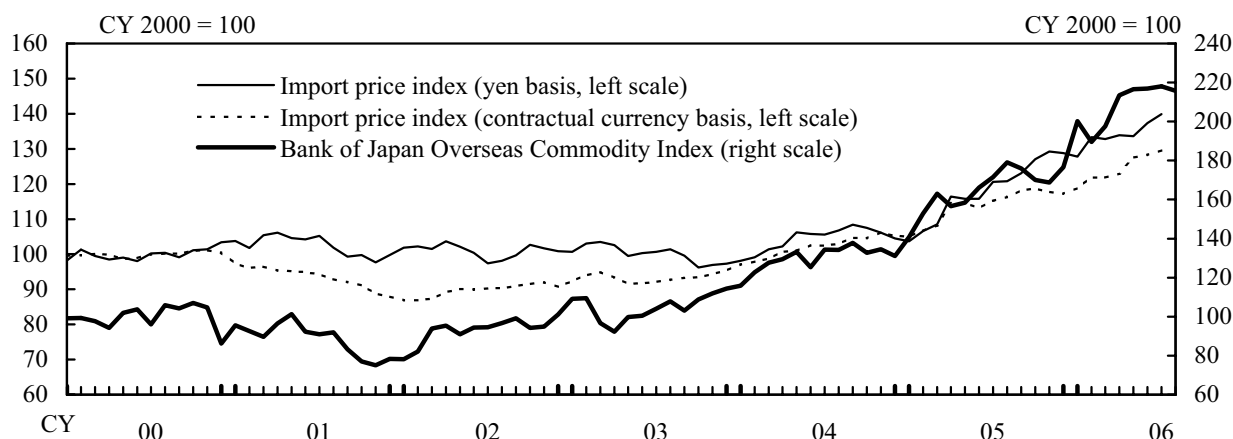
3. The base year of CPI has been switched from the 2000 base to the 2005 base. Figures up to CY 2000 are on the 1995 base and are adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";

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

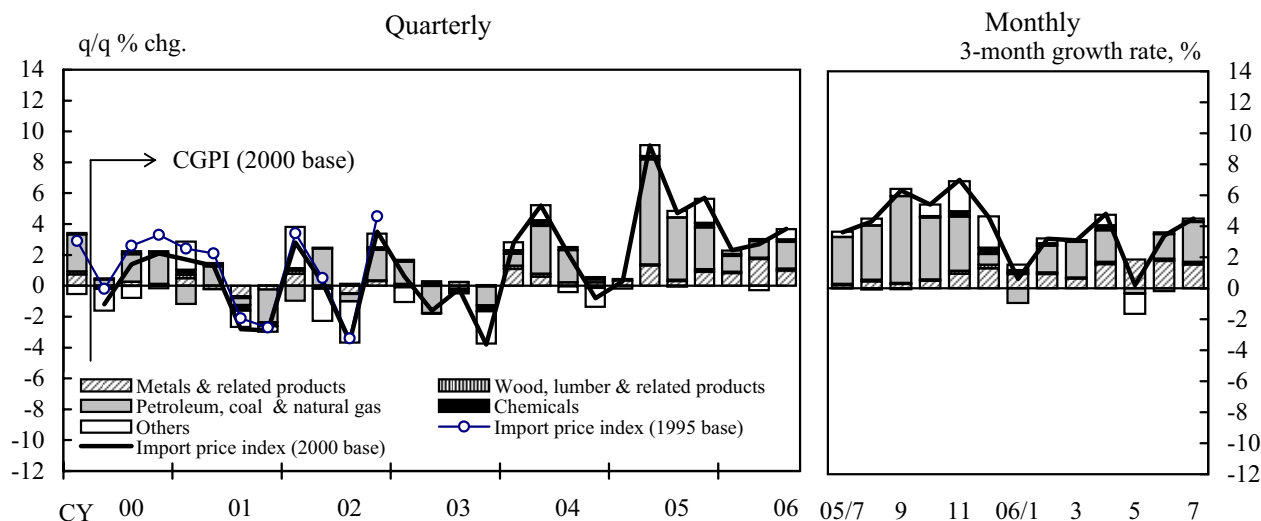
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



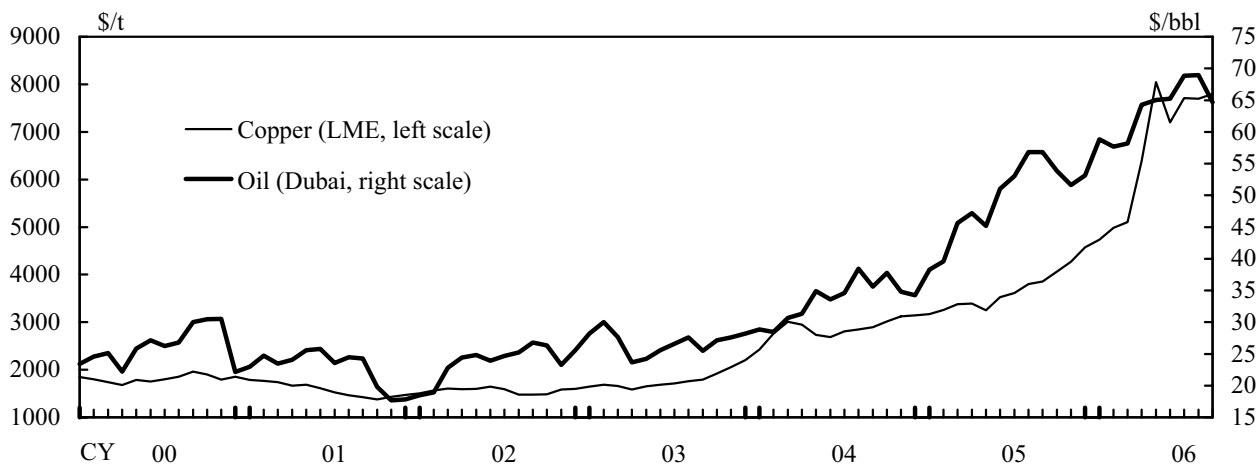
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Note: Figures for 2006/Q3 are those of July. 1995 base figure for 2002/Q4 is October-November average.

(3) Oil Price and Copper Price

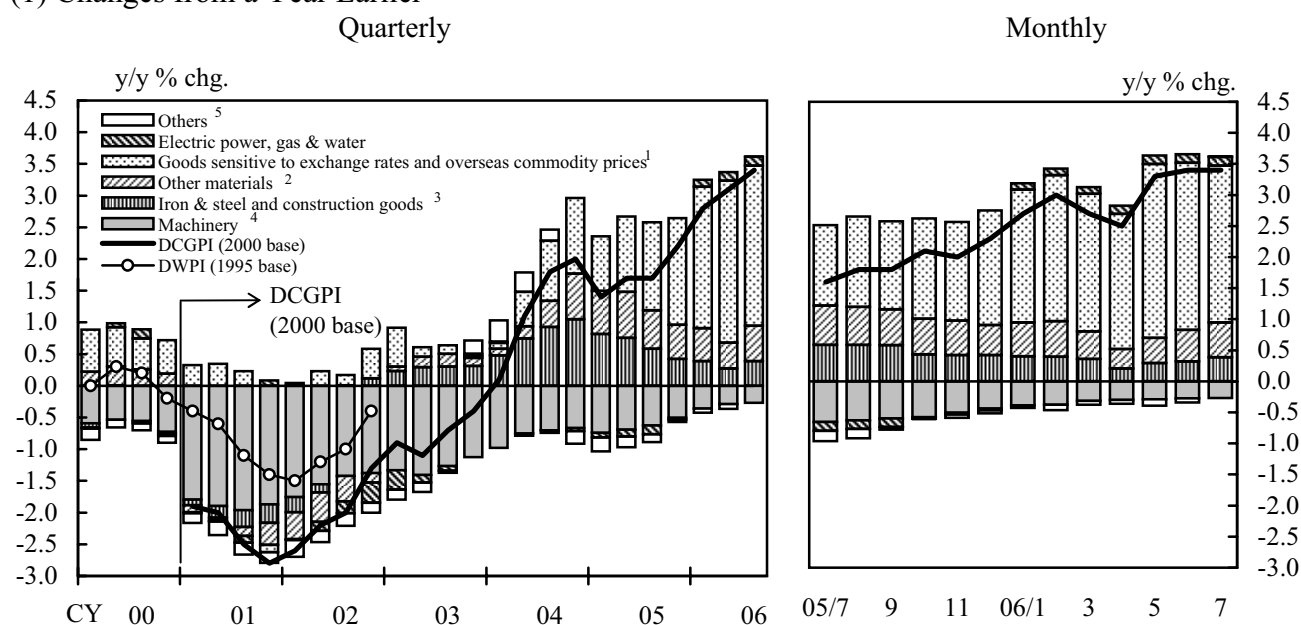
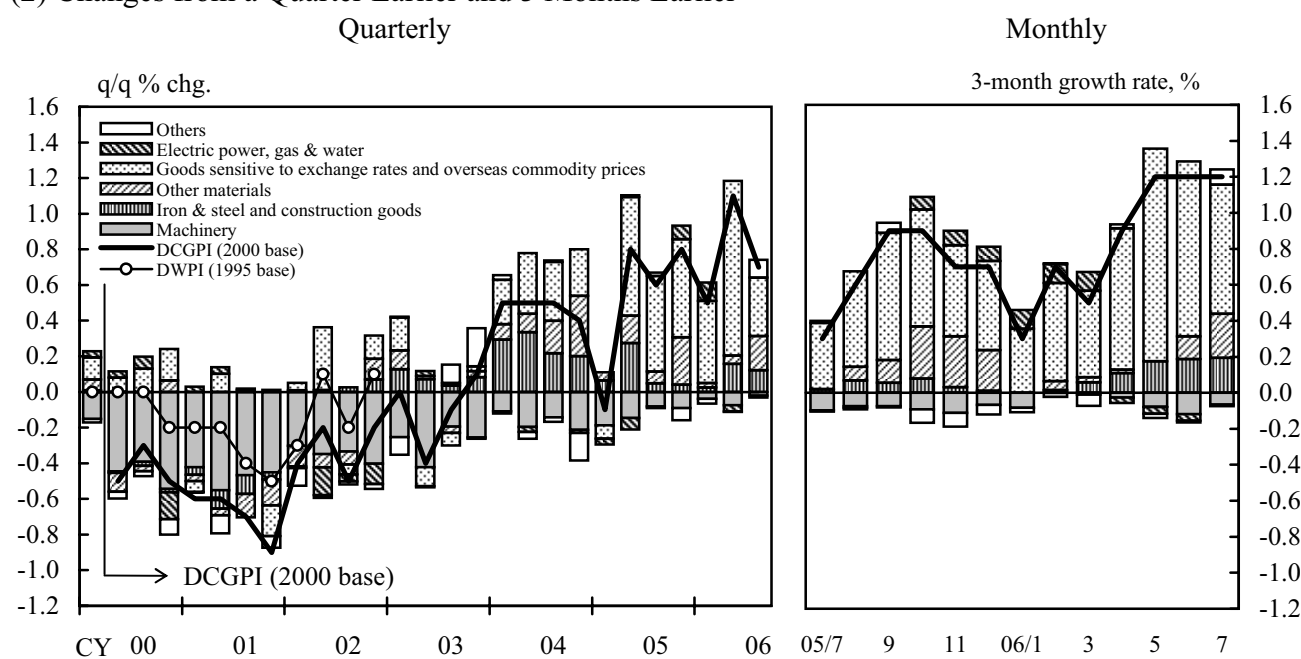


Note: Monthly averages. Figures for September 2006 are the averages up to September 7.

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

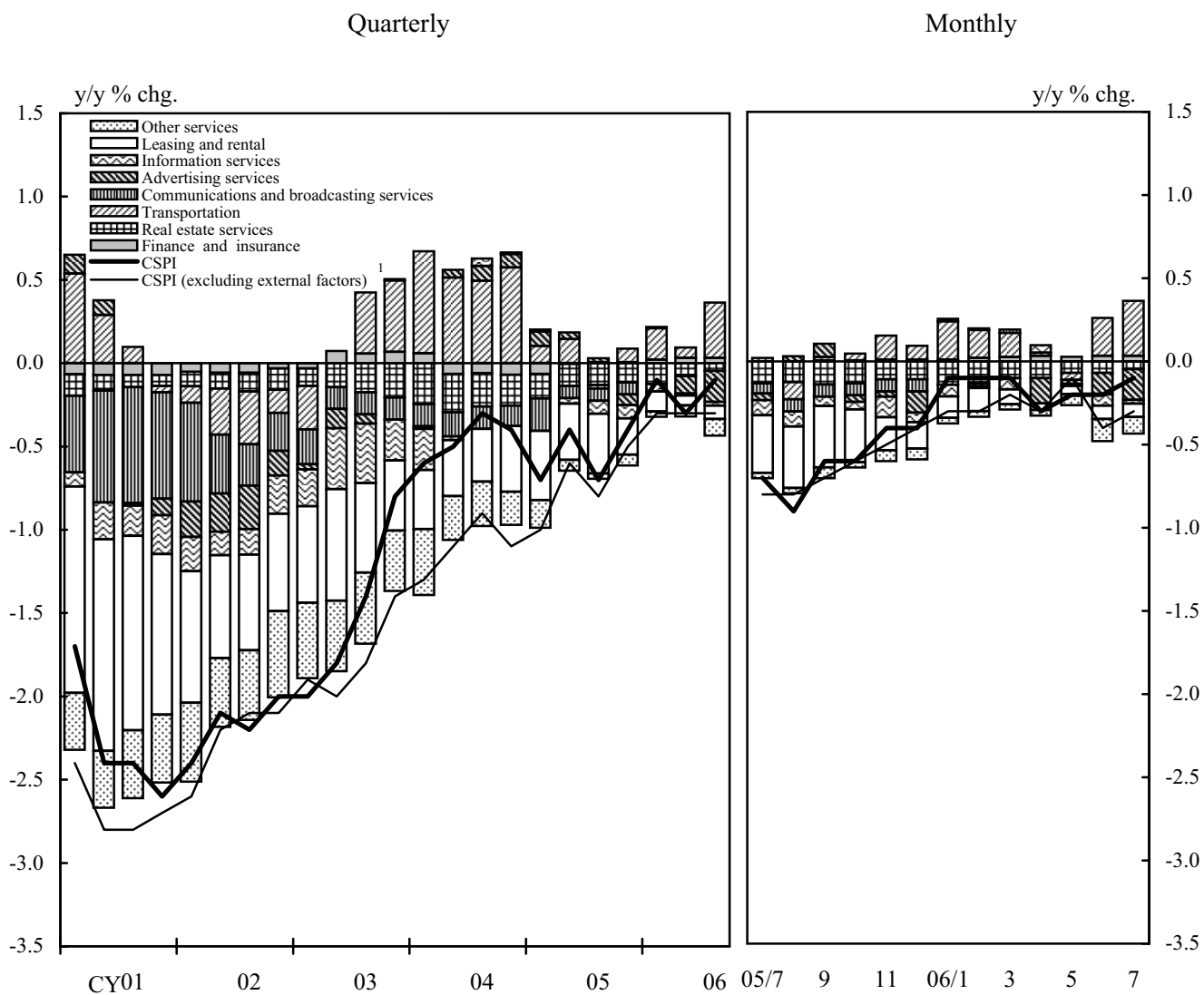
Domestic Corporate Goods Price Index⁷

(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. Figures for 2006/Q3 are those of July. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index

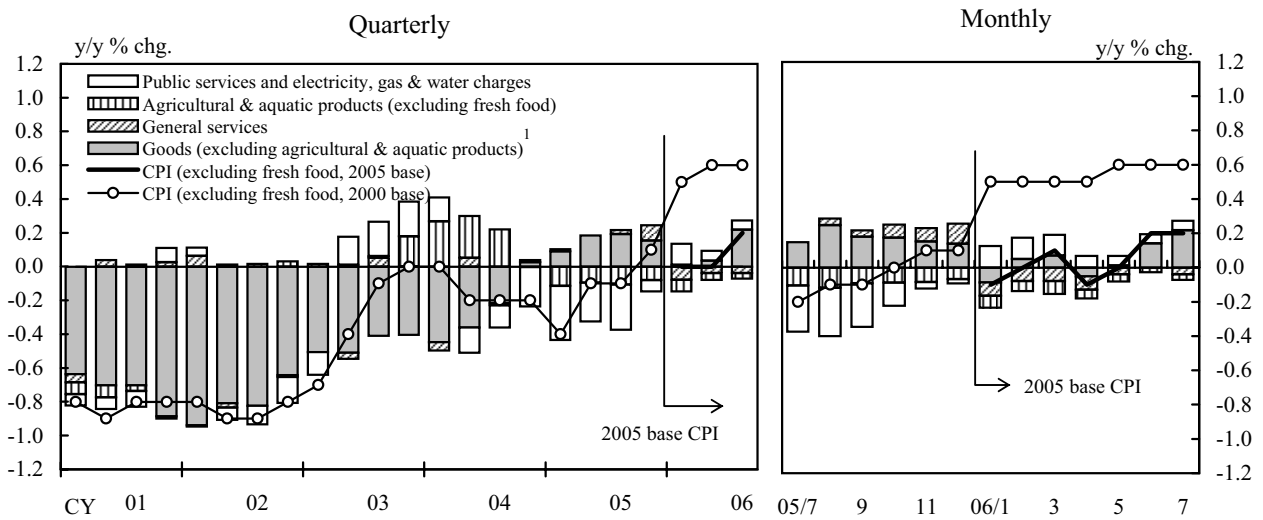


Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures for 2006/Q3 are those of July.

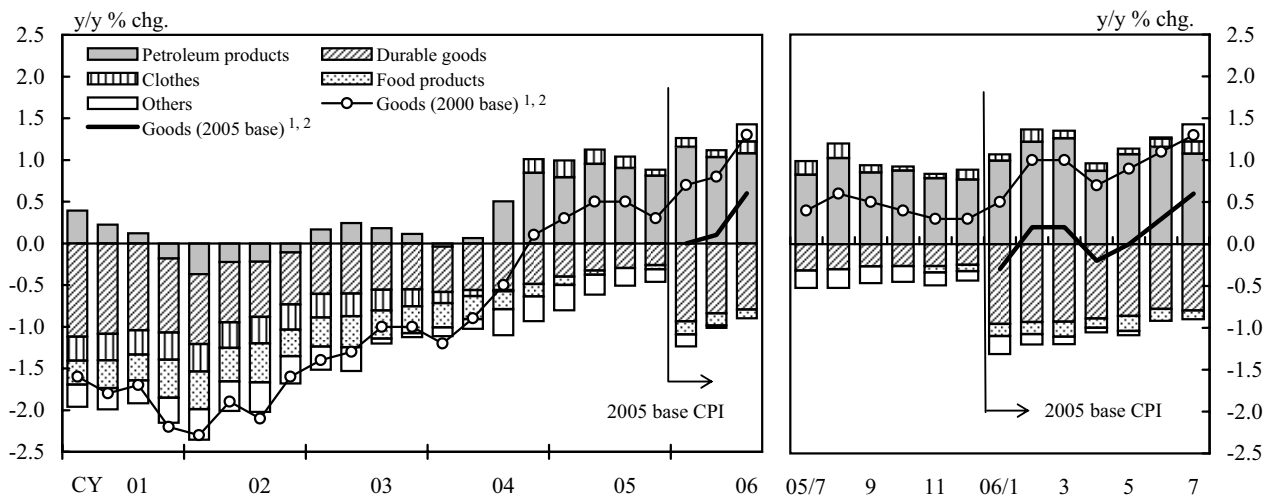
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

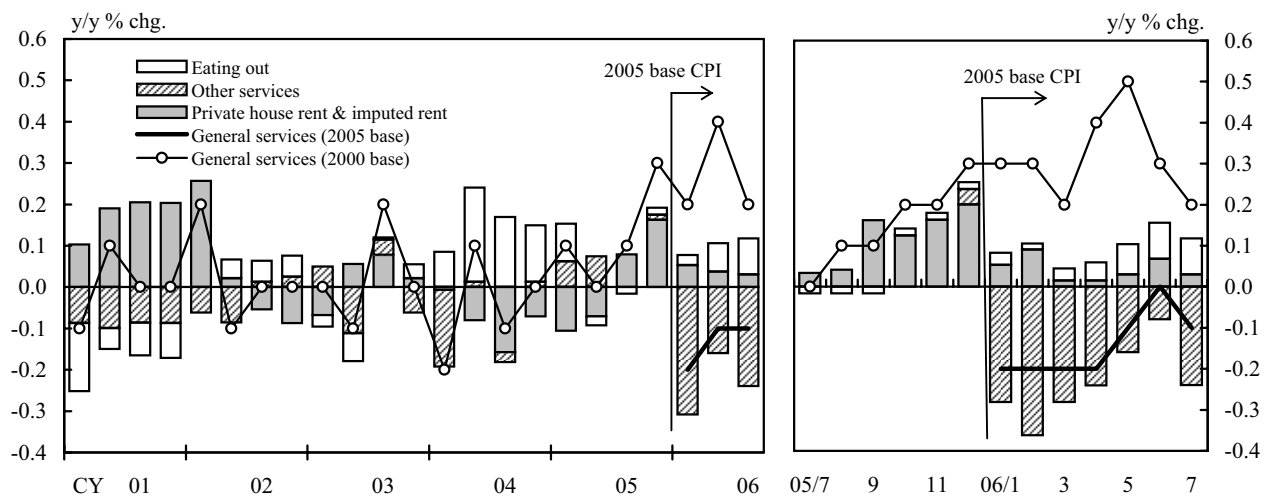
(1) Consumer Price Index (Excluding Fresh Food)



(2) Goods (Excluding Agricultural & Aquatic Products)¹



(3) General Services

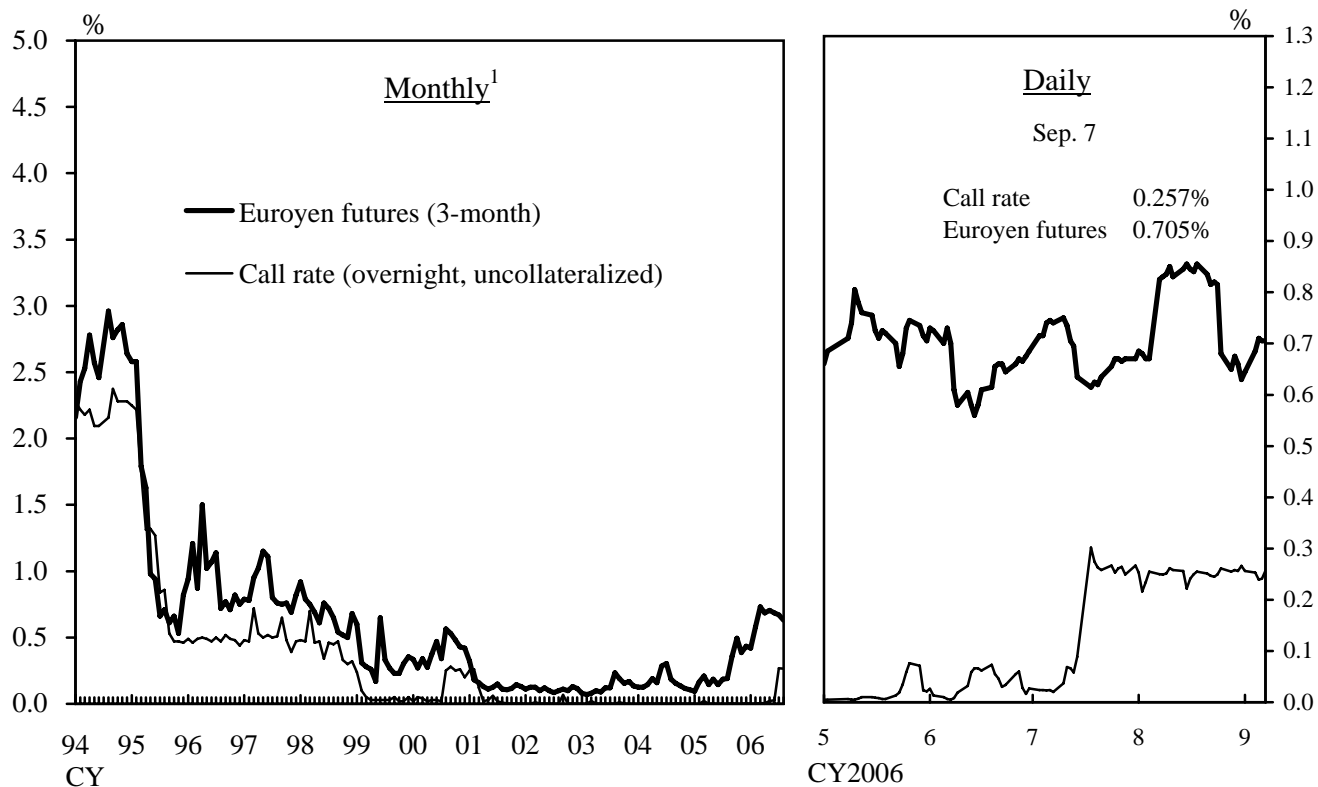


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Figures for 2006/Q3 are those of July.
 4. The base year of CPI has been switched from the 2000 base to the 2005 base.

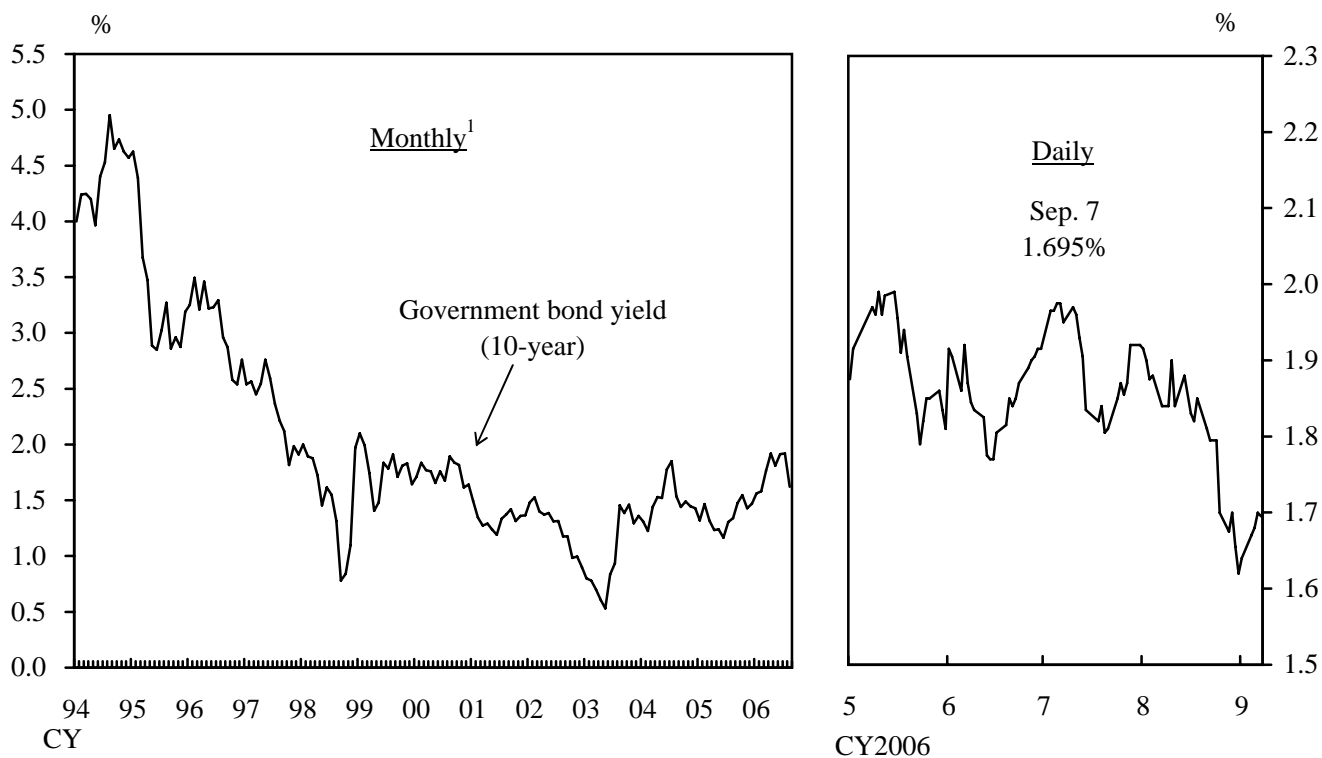
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

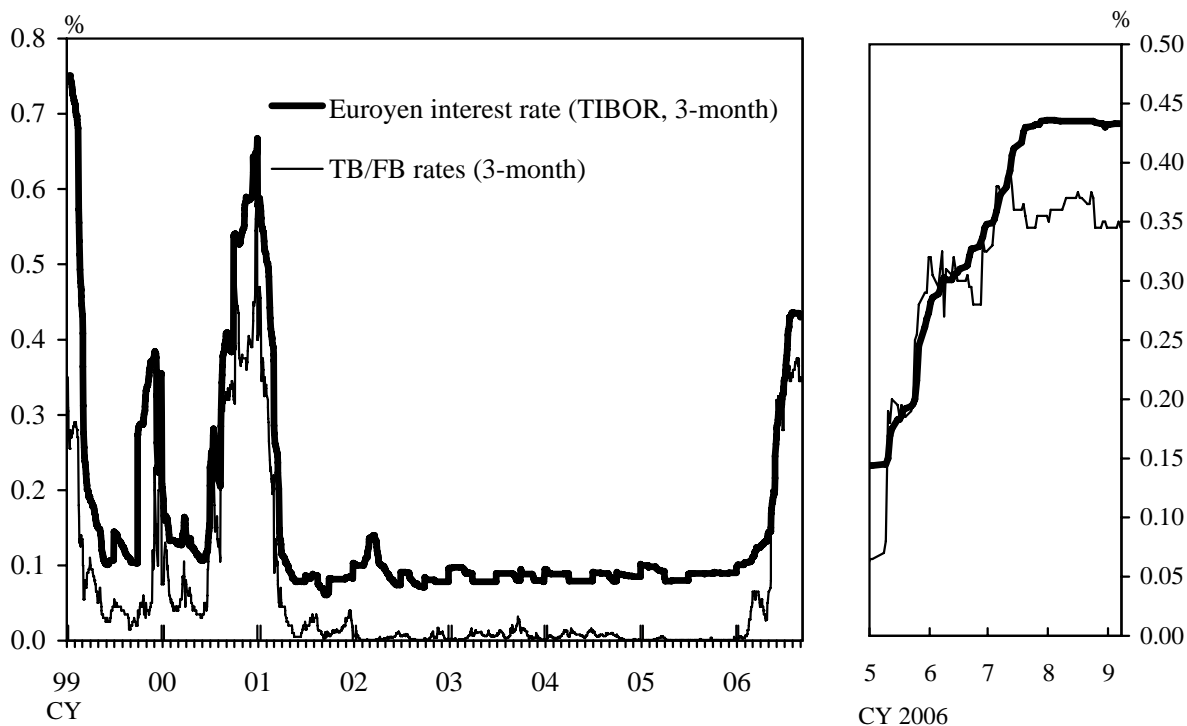


Note: 1. End of month.

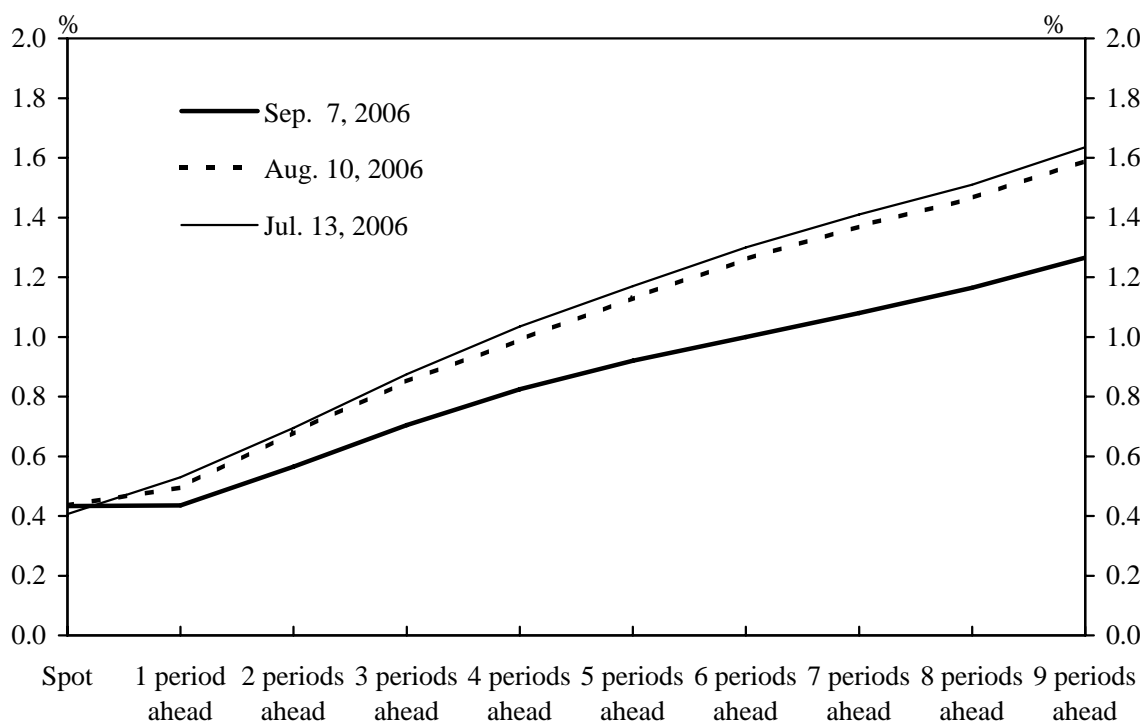
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



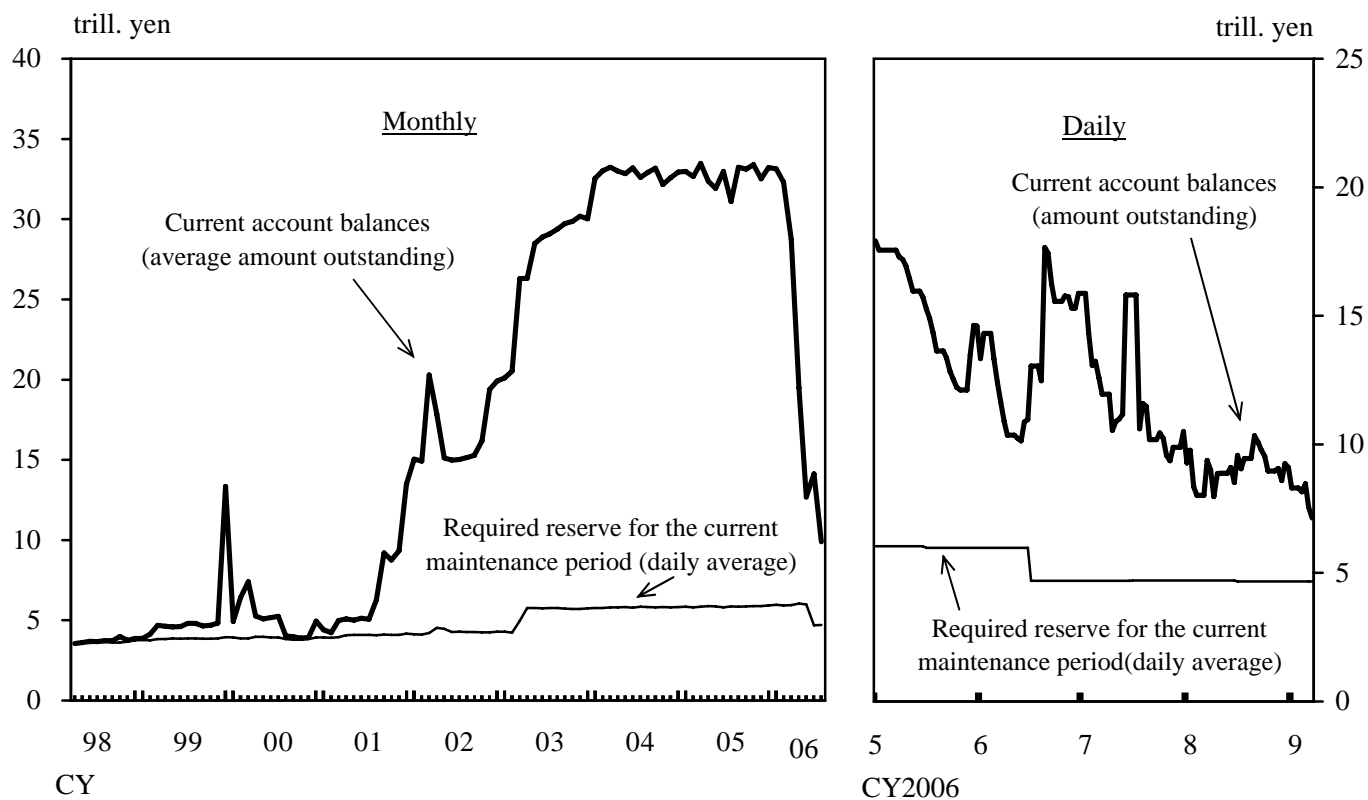
(2) Euroyen Interest Rates Futures (3-Month) ¹



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 Financial Exchange.

 Current Account Balances at the Bank of Japan

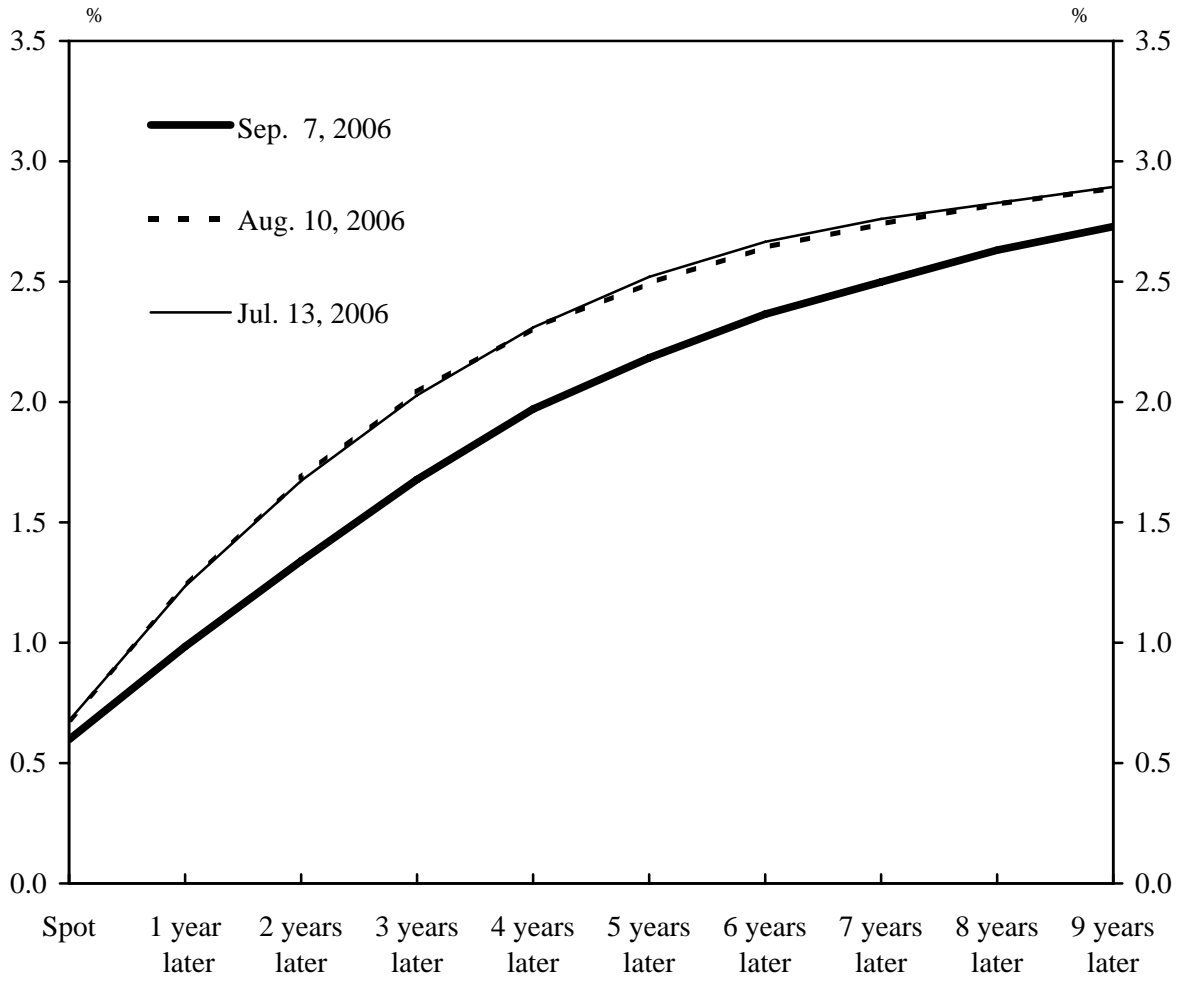


Note: From April 2003, the figures for current account balances include the deposit of the Japan Post.

From April 1, 2003 to June 15, 2006, the figures for required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

Implied Forward Rates (1-Year)

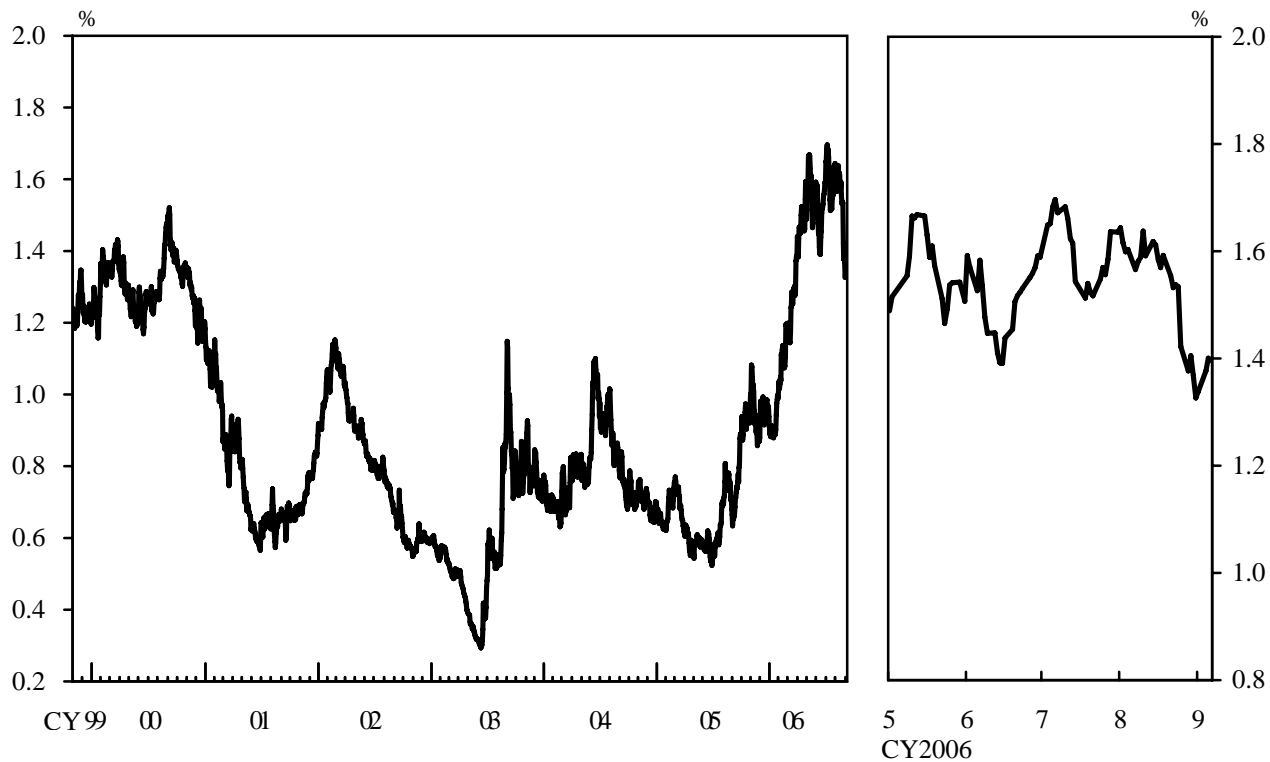


Note: Calculated from yen-yen swap rates.

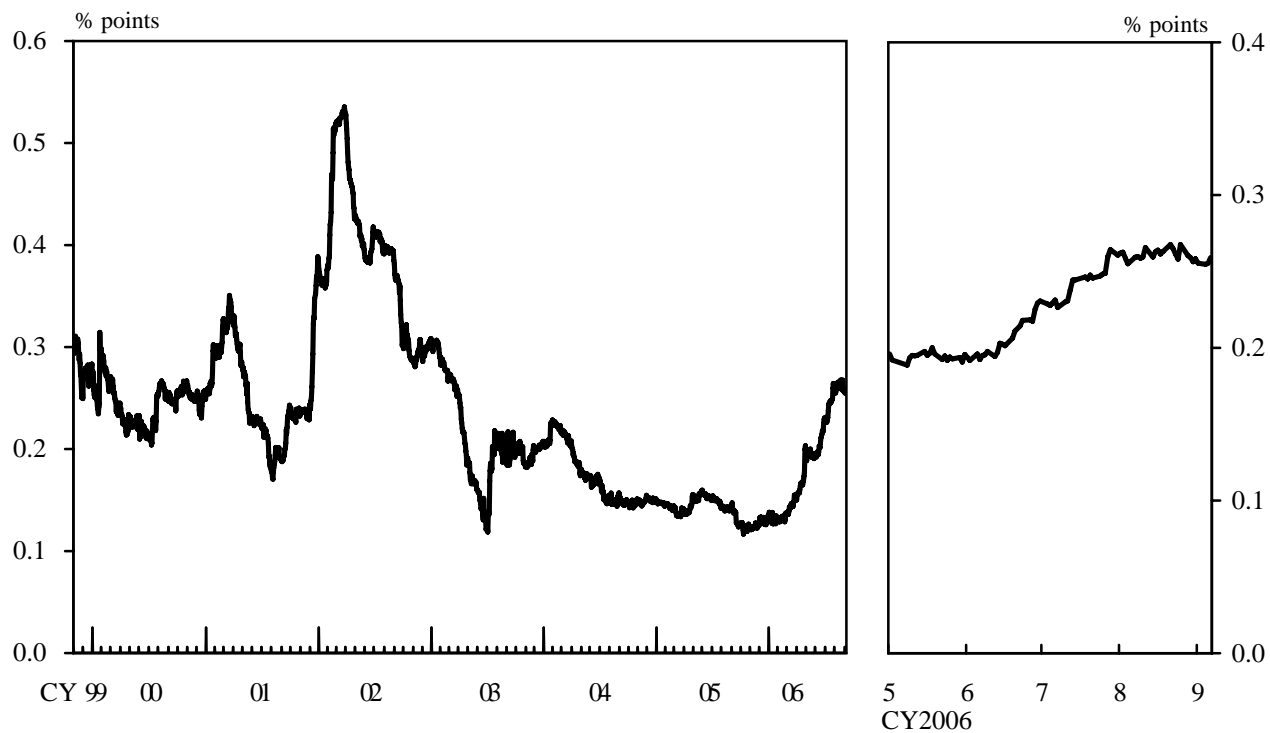
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



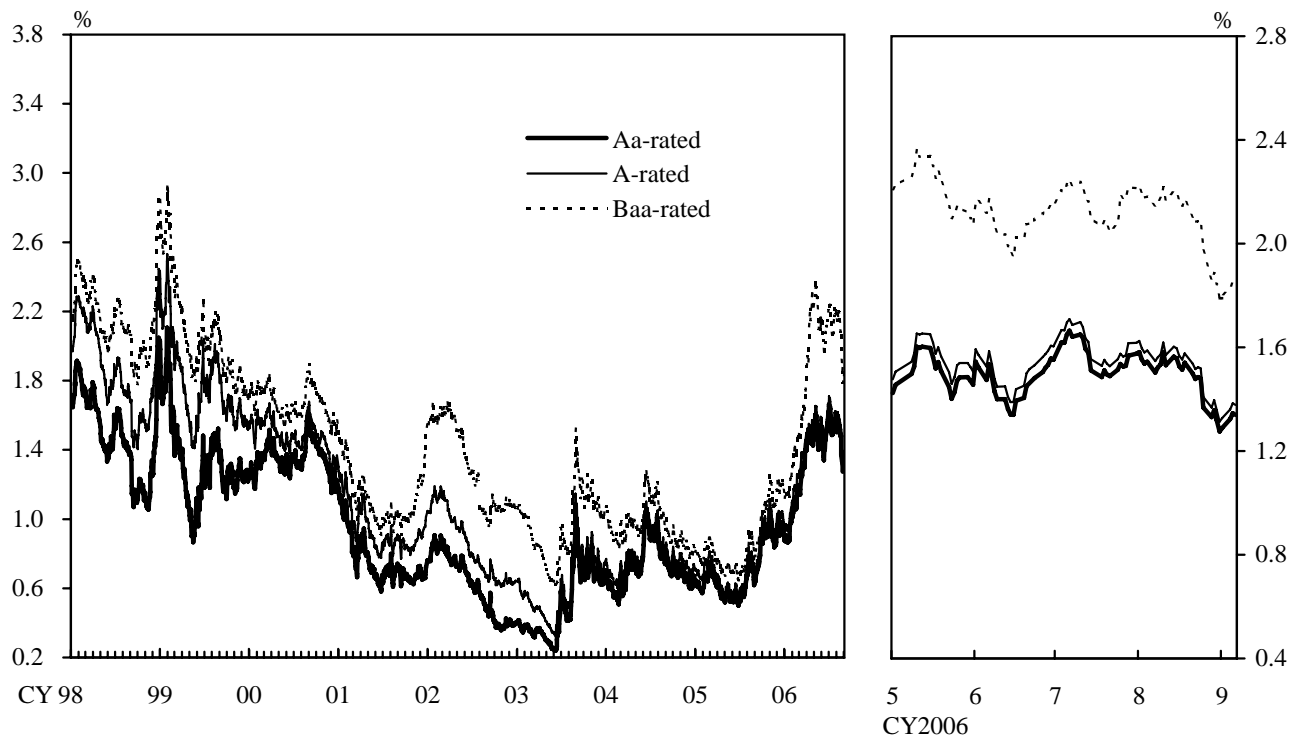
Notes: 1. Yields on bonds with 5-year maturity.

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

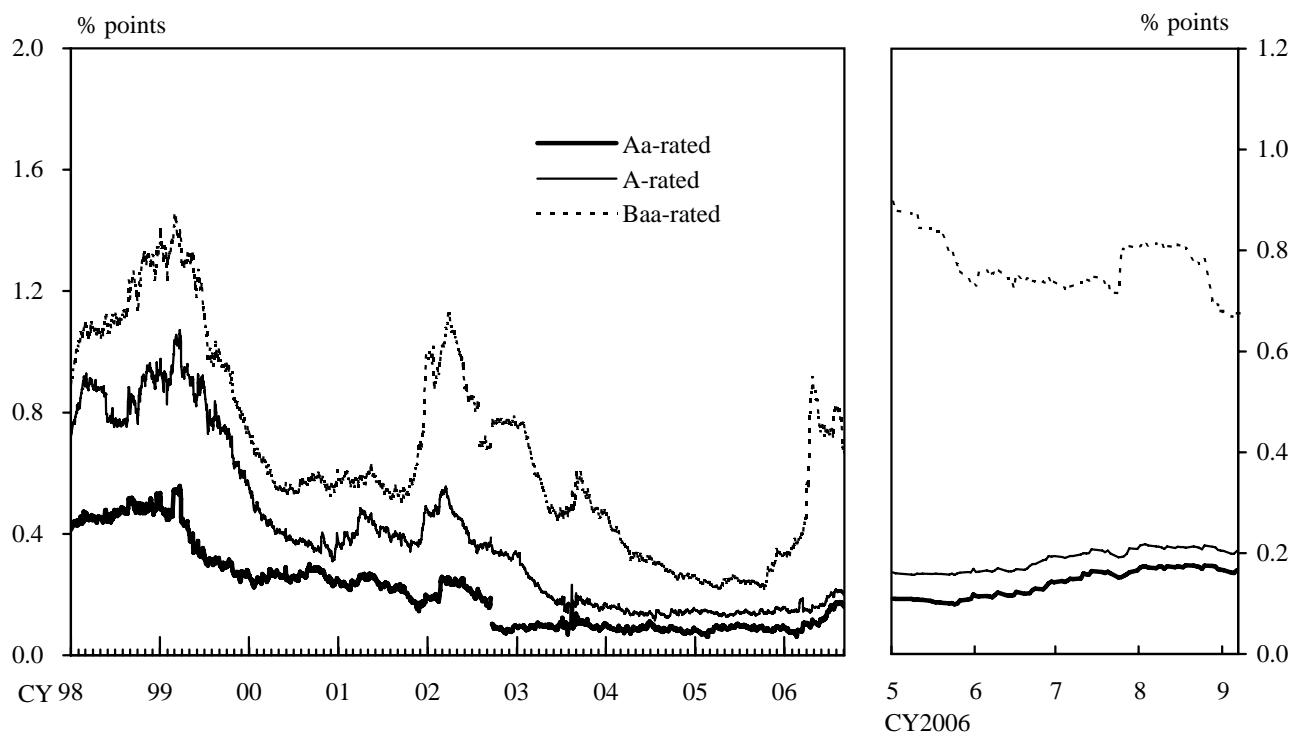
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
 "Reference Price (Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds

(1) Corporate Bond Yields



(2) Spreads of Corporate Bond Yields over Government Bond Yields



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

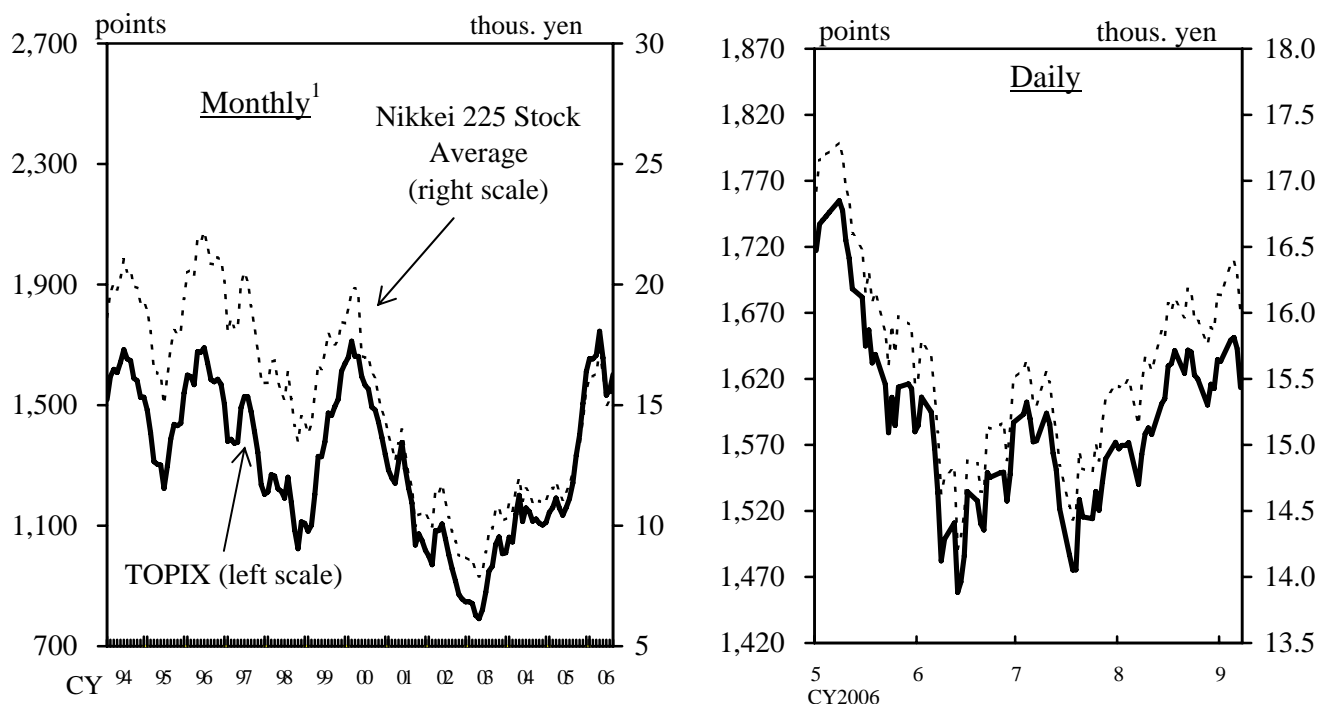
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

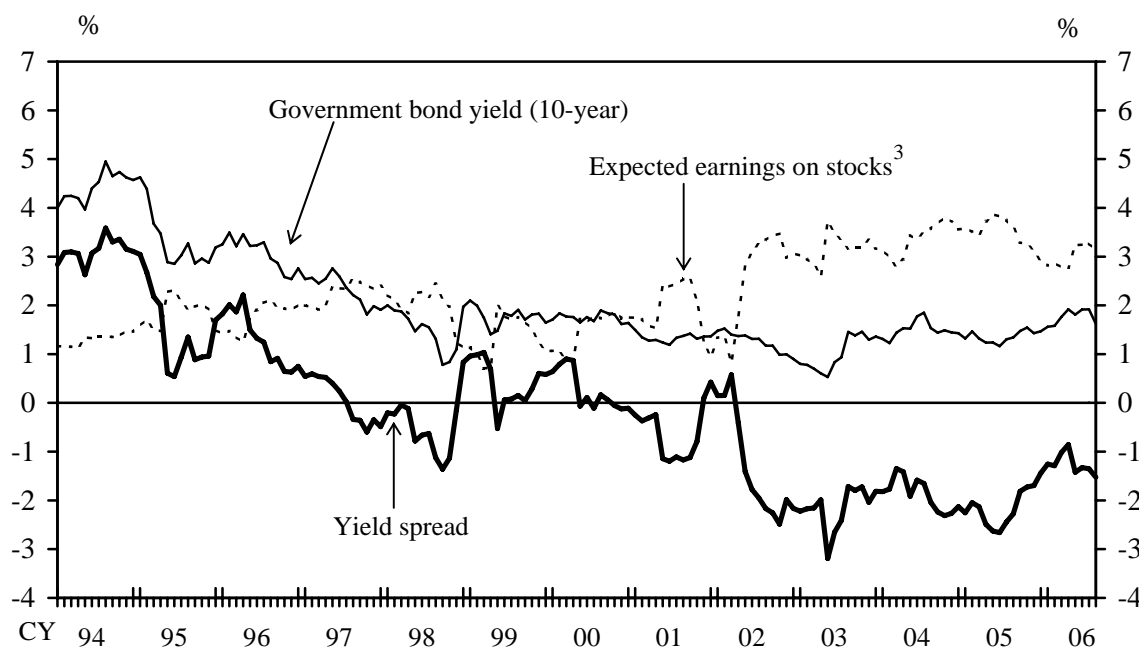
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

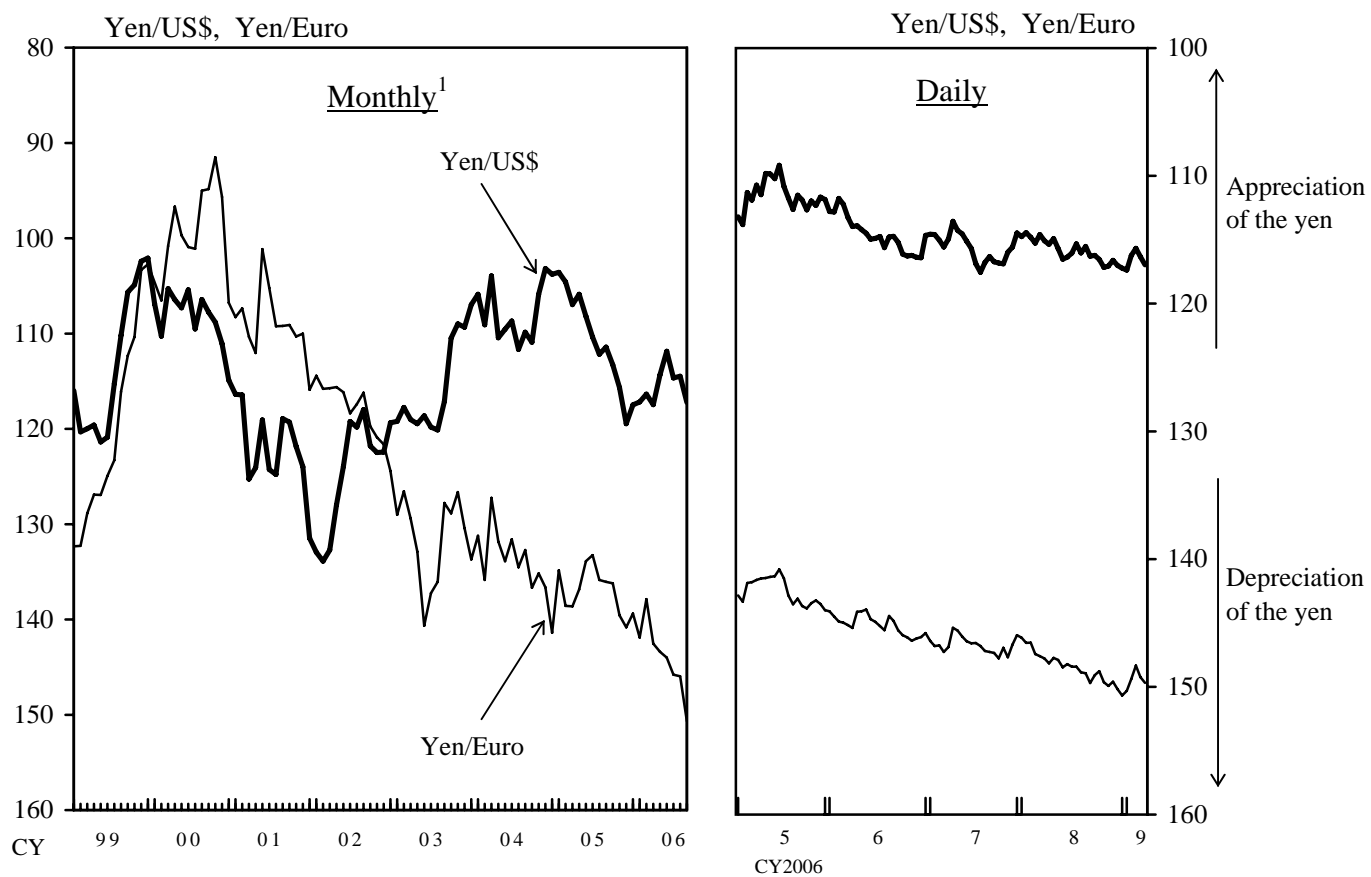
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

Exchange Rates

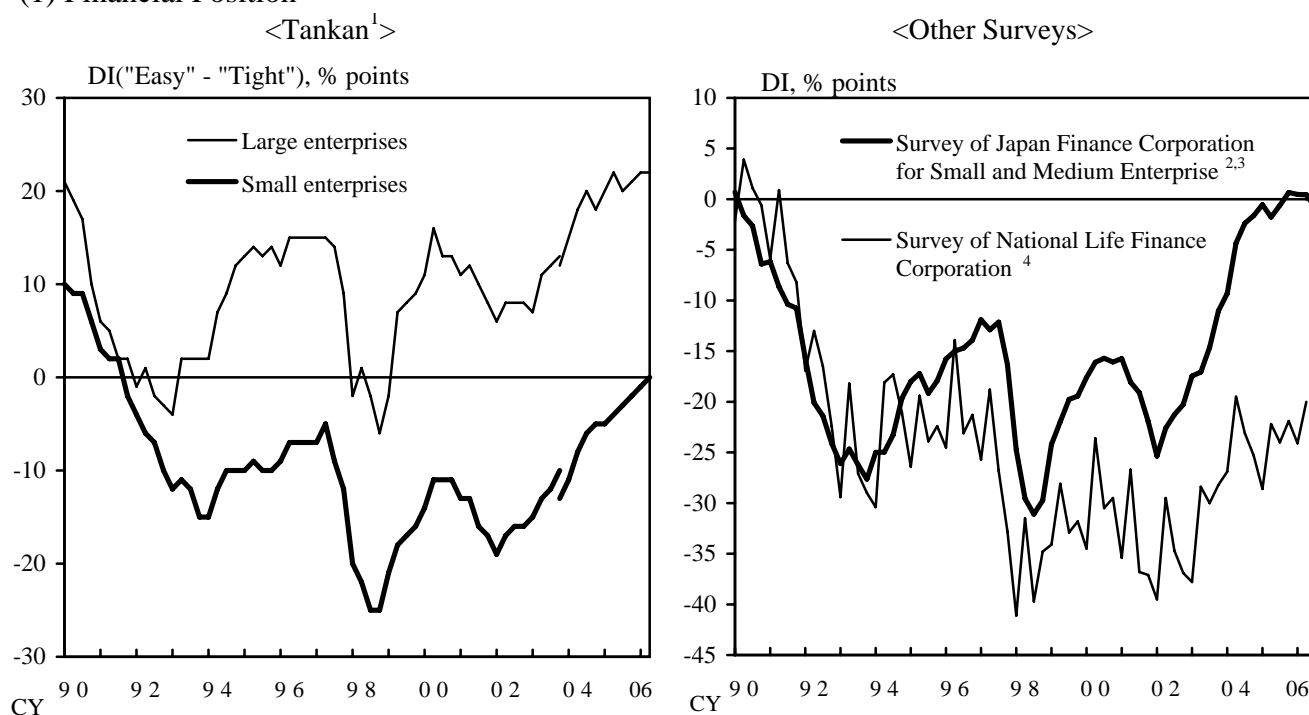


Note: 1. End of month.

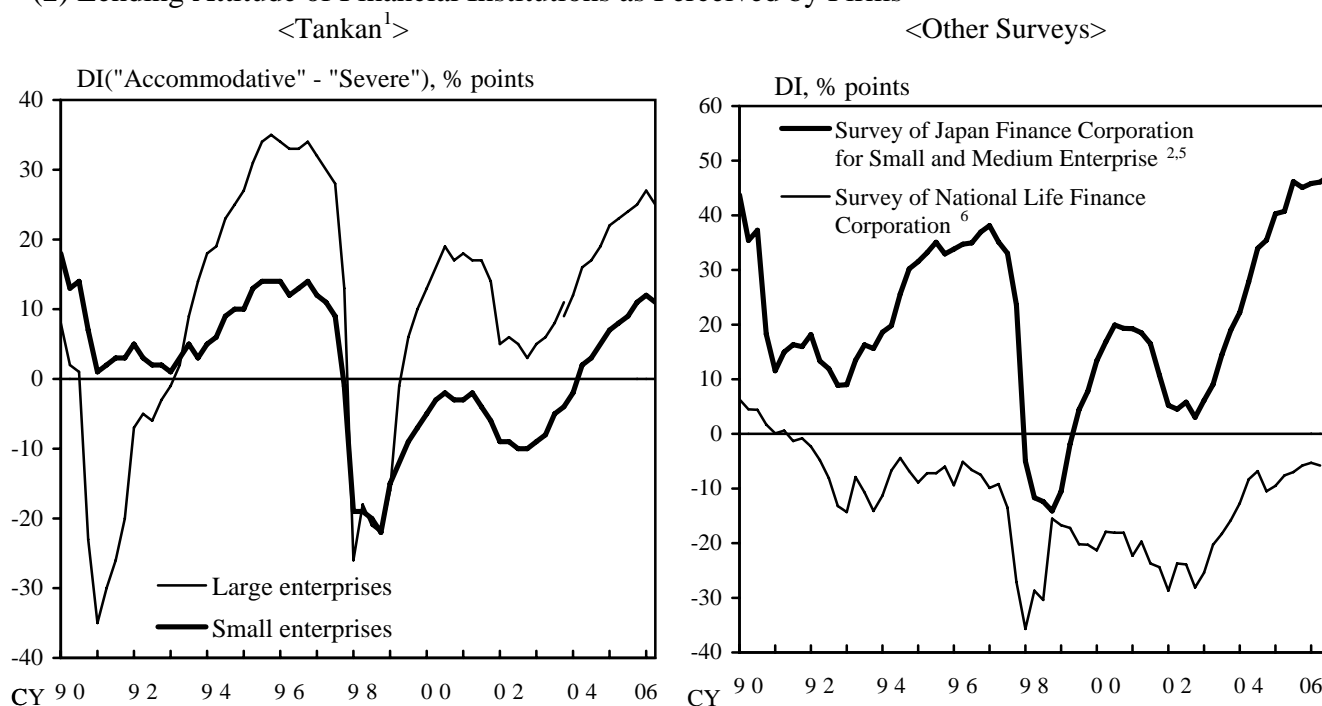
Source: Bank of Japan.

Corporate Finance-Related Indicators

(1) Financial Position



(2) Lending Attitude of Financial Institutions as Perceived by Firms



Notes: 1. Data of the *Tankan* are based on all industries. 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. Figures are quarterly averages of monthly data. Figures for 2006/Q3 are those of Jul.-Aug. averages.

3. DI of "Easy" - "Tight."

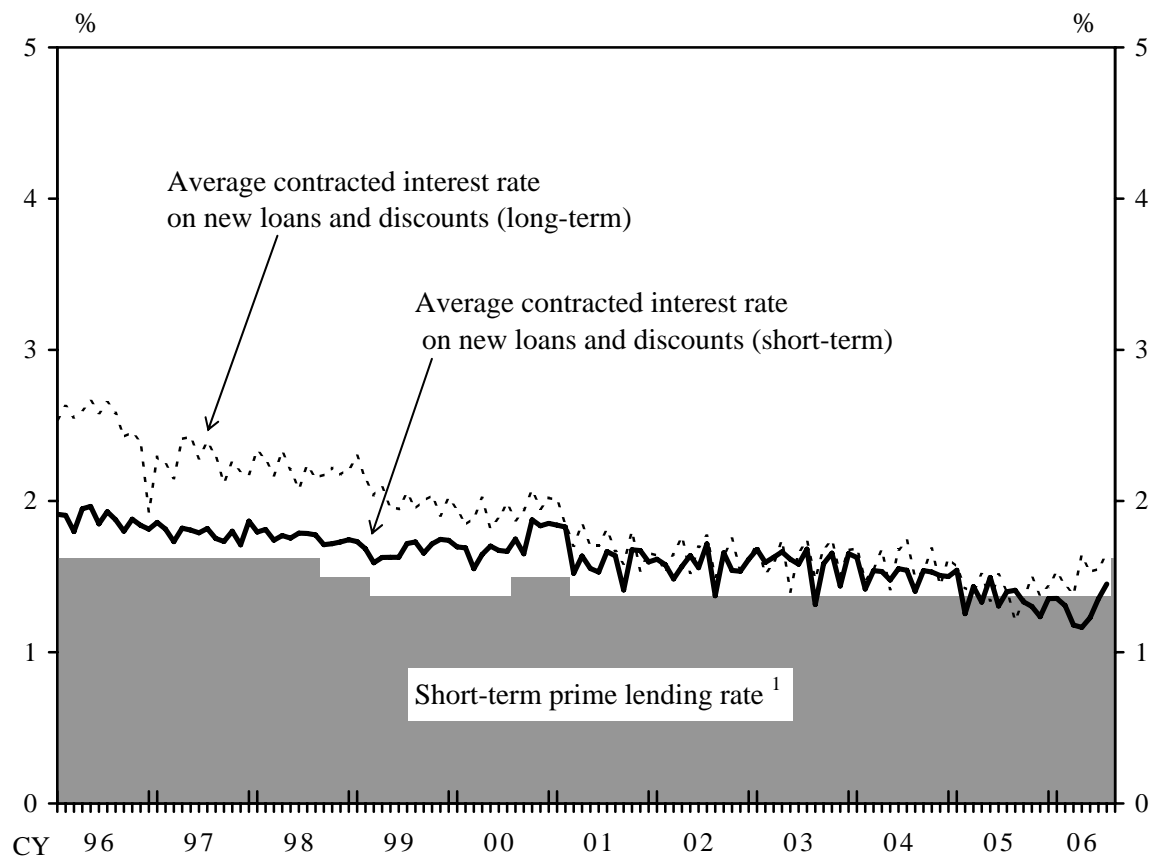
4. DI of "Easier" - "Tighter."

5. DI of "Accommodative" - "Severe."

6. DI of "More accommodative" - "More severe."

Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small and Medium Enterprise, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Lending Rates

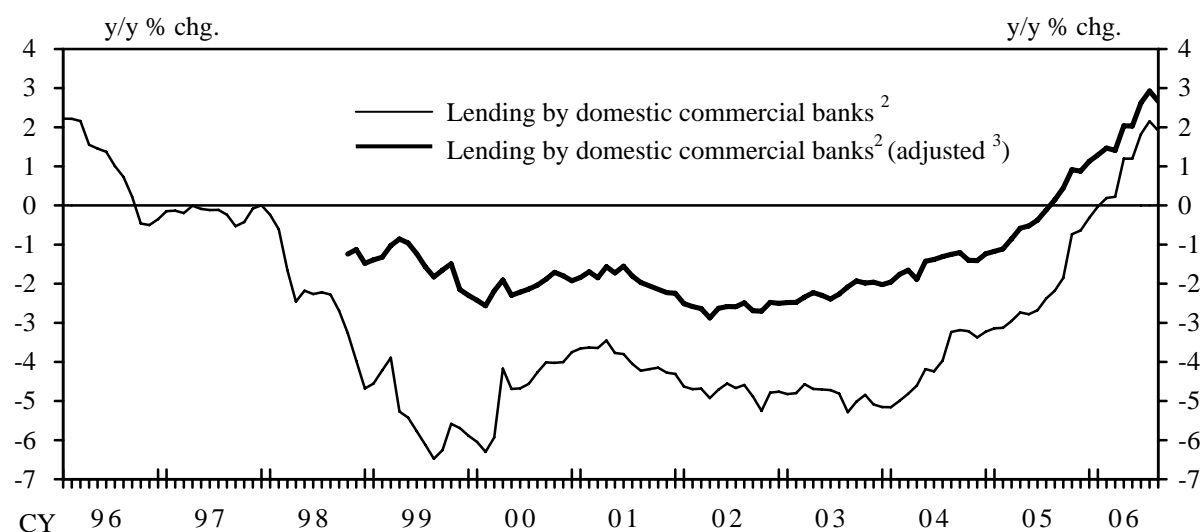


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



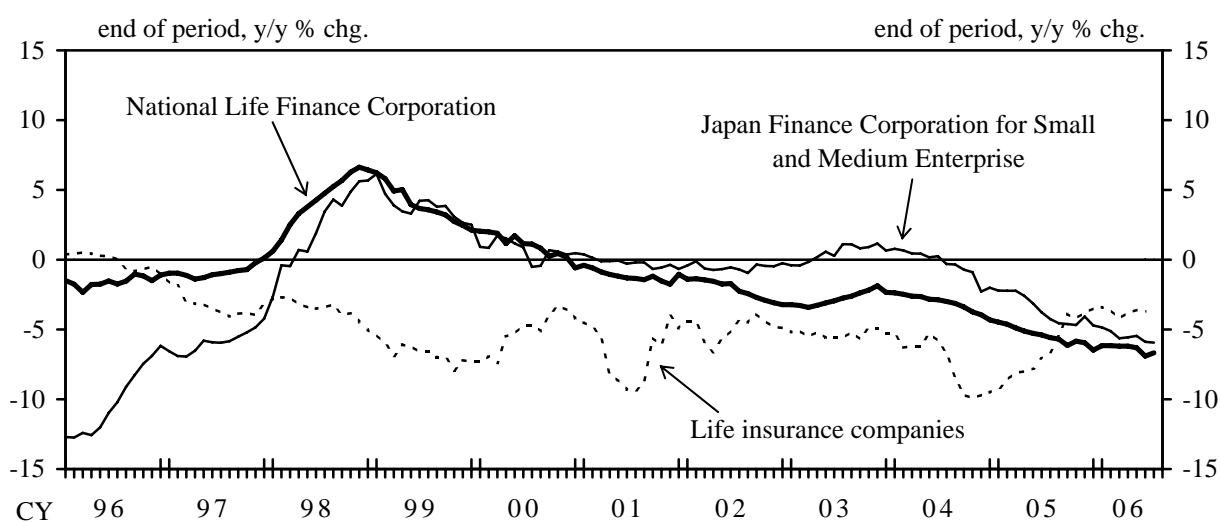
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to city banks, regional banks, and 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.

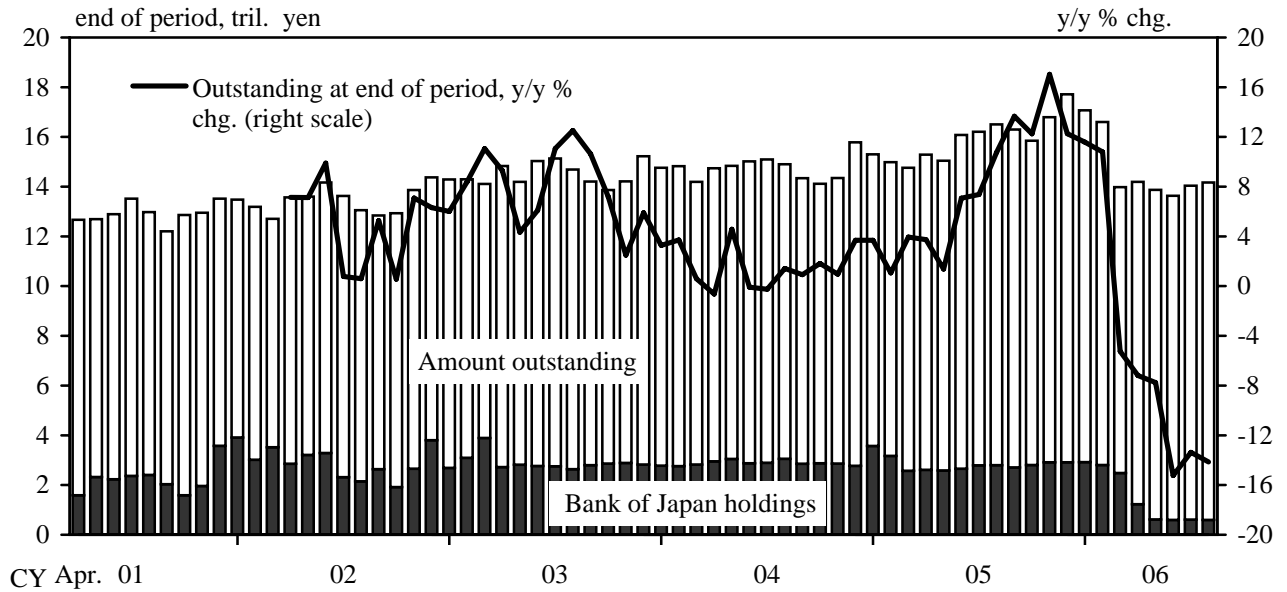
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

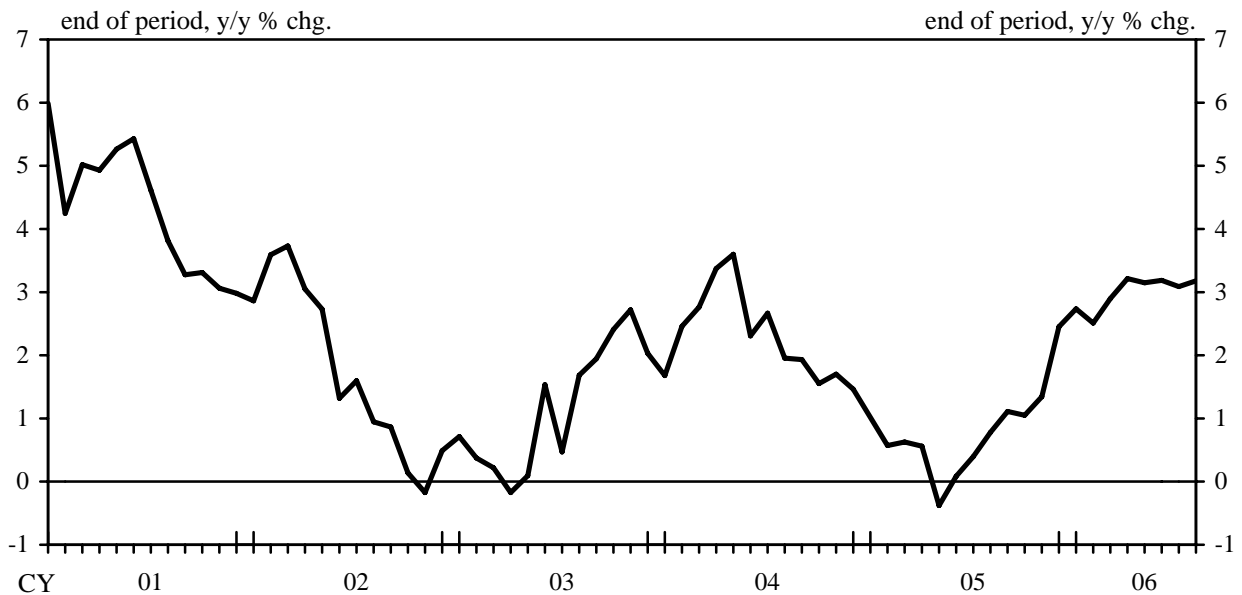
Private-Sector Fund-Raising in the Capital Markets

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



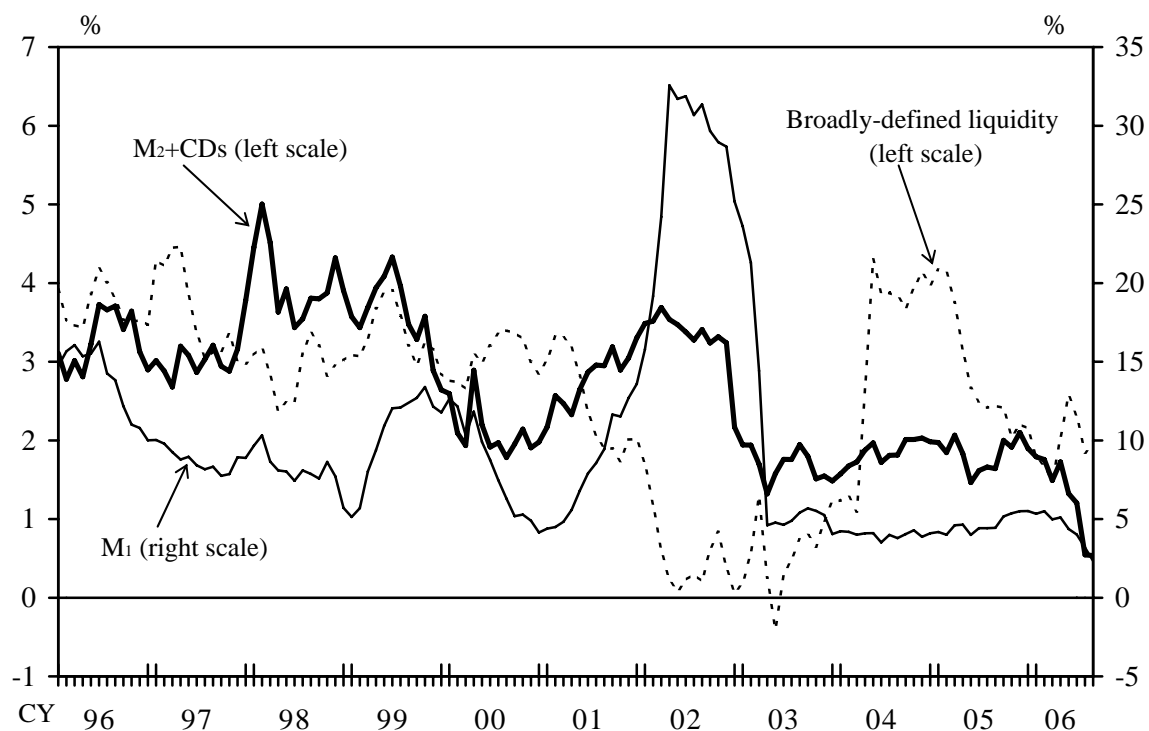
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

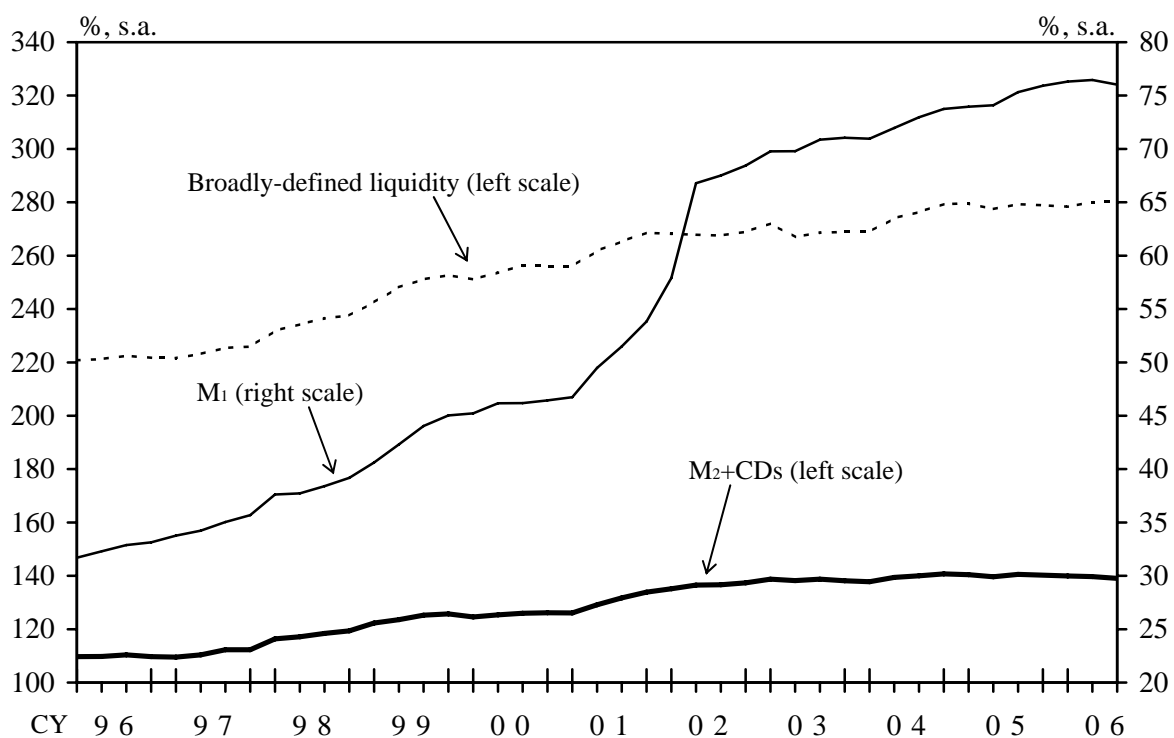
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

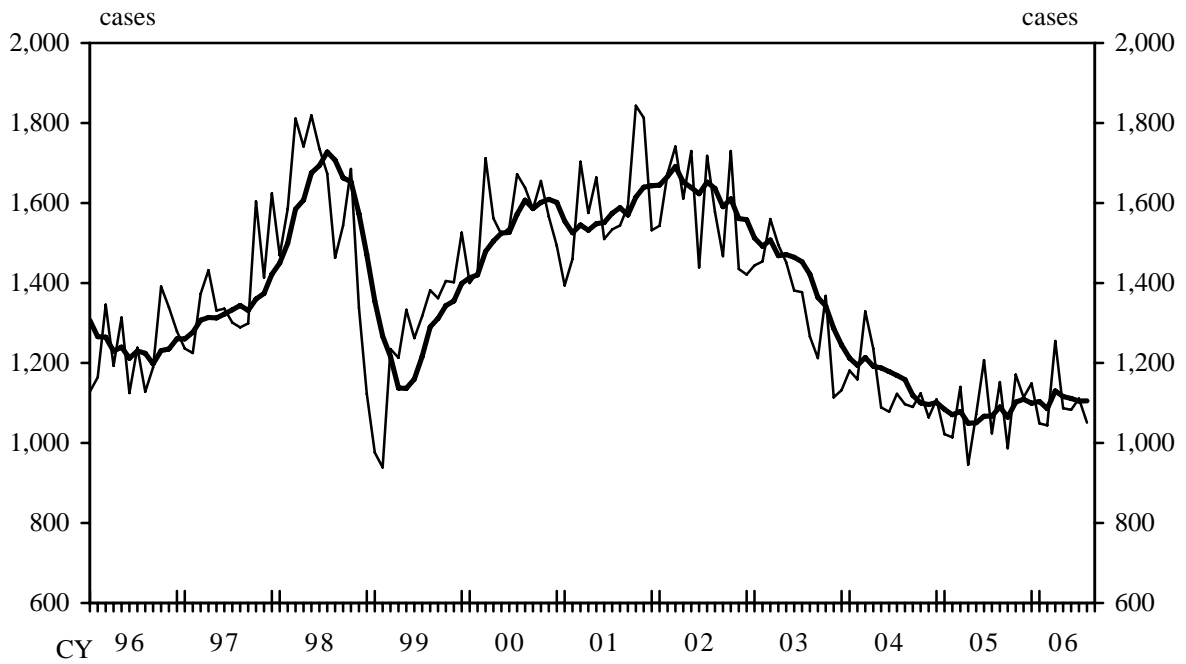


Note: Figures for money stock in 2006/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2006/Q3 is assumed to be unchanged from the previous quarter.

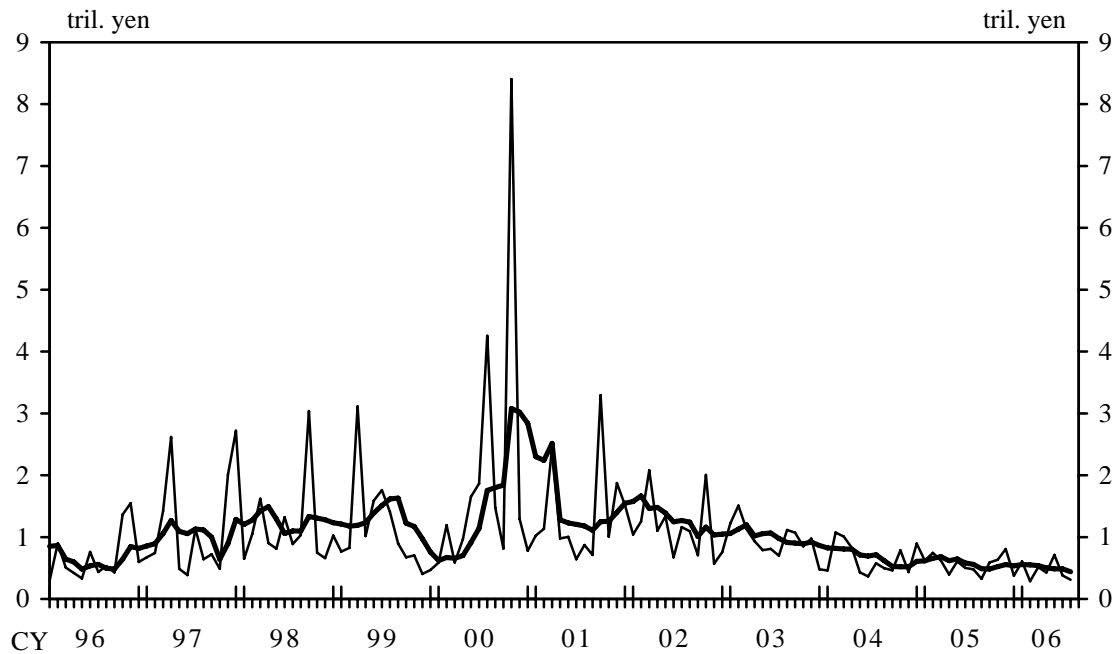
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."