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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
July 2007

(English translation prepared by the Bank's staff based on the Japanese original released on July 13, 2007)

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Monthly Report of Recent Economic and Financial Developments¹

July 2007

The Bank's View²

Japan's economy is expanding moderately.

Public investment has been declining as a trend, although it has been flat lately. Meanwhile, exports have continued to increase, and business fixed investment has also continued to increase against the background of high corporate profits and generally favorable business sentiment. Household income has continued rising moderately, and in this situation, private consumption has been firm. Housing investment has been more or less flat. With the rise in demand both at home and abroad, production has continued to be on an increasing trend, although it has been flat most recently.

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, the three-month rate of change in domestic corporate goods prices has been positive, mainly due to the rise in international commodity prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been around zero percent.

Domestic corporate goods prices are expected to continue increasing in the immediate future, primarily reflecting 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 July 11 and 12, 2007.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on July 11 and 12, 2007.

The year-on-year rate of change in consumer prices is expected to be around zero percent in the short run. From a longer-term perspective, however, it 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 attitudes of private banks have continued to be accommodative. Credit demand in the private sector has been increasing. Under these circumstances, the amount outstanding of lending by private banks has been increasing moderately. The amount outstanding of CP and corporate bonds issued has been above 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 in the range of 1.0-2.0 percent. As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.5 percent, and interest rates on term instruments have been around the same level as last month. 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 been around the same level as last month.

Japan's economy is expected to evolve broadly in line with the outlook presented in the *Outlook for Economic Activity and Prices* (the Outlook Report) released in April. As for prices, the rate of increase in domestic corporate goods prices in fiscal 2007 is expected to turn out higher than the projection in the Outlook Report, mainly due to the rise in international commodity prices, while the projection for fiscal 2008 remains broadly the same. Meanwhile, consumer prices in both fiscal 2007 and 2008 are expected to evolve broadly in line with the projection in the Outlook Report.

The Background

1. Economic Developments

Public investment has been declining as a trend, although it has been flat lately (Chart 4). Looking at monthly indicators, both the value of public works contracted—a measure that reflects public orders—and the amount of public construction completed—which reflects the progress of public works—have been more or less flat since around the middle of fiscal 2006 (Chart 4). Public investment is expected to continue declining as a trend due to tight national and local fiscal conditions, even though it will be essentially flat for the time being.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6); they dropped by 1.0 percent in April-May from the first quarter. This decline, however, is largely in reaction to the relatively high quarter-on-quarter growth of 3.0 percent in the first quarter.

As for real exports by destination (Chart 6[1]), exports to the United States were affected by the economic slowdown, and remained somewhat weak, primarily in automobile-related goods; they marked a sizeable drop in April-May compared with the first quarter. On the other hand, exports to the EU have continued their solid increases. Exports to East Asia have been trending upward on average, although they fell back in April-May compared with the first quarter, when they registered high growth (Chart 9). Meanwhile, exports to other regions (such as the Middle East, Mexico, and Russia) have been registering high growth, albeit with some fluctuations, chiefly in capital goods and parts and in automobile-related goods. By goods (Chart 6[2]), exports of automobile-related goods have been on an uptrend as a whole, with some fluctuations. While exports to the United States have dropped, those to Europe and other regions have continued to increase (Chart 7[1]). Exports of IT-related goods have continued to increase as a trend, with global demand generally steady, although they seem to have retreated lately from their high growth, mainly to China, in the latter half of last fiscal year (Charts 8[1] and 9[2]).³ Exports of capital goods

³ The large increase in exports of IT-related goods to China in the fourth and first quarters was possibly attributable to exports of parts and components used for new game consoles, the assembly of which had started in China (Chart 9[2]). In fact, import data showed that, in response to this rise in exports of parts and components, imports of finished game consoles from

and parts have continued to increase, albeit with some fluctuations, thanks to favorable demand from many parts of the world (Chart 7[2]). Moreover, exports of intermediate goods have been on a gradual uptrend, mainly in high value-added goods used for IT-related goods and automobiles (Chart 7[3]). Exports of consumer goods have also been on a moderate uptrend, mainly in digital home appliances, with the fluctuations smoothed out.

Real imports have been more or less level, despite the expansion of the domestic economy; they have been affected by the increase in import prices due to the rise in international commodity prices and by the depreciation of the yen (Charts 5[1] and 11). Real imports inched up, by 0.4 percent, in the first quarter on a quarter-on-quarter basis, but then dropped marginally, by 0.4 percent, in April-May compared with the first quarter. The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued their increasing trend, albeit at a slightly slower pace. On the other hand, imports of consumer goods and foodstuffs have been sluggish as a trend from the rise in prices of imported goods caused by the yen's depreciation. Imports of raw materials and intermediate goods have continued to be weak, since firms have cut back on imports of raw materials in response to the rising trend in import prices. Meanwhile, those of IT-related goods have been rising as a trend, although they have been somewhat weak since the end of last year; they were affected by the deterioration in the domestic shipment-inventory balance (Chart 8[3]).

The surplus of net exports in terms of the real trade balance has continued its upward trend, which reflects the aforementioned movements in imports and exports (Chart 5[2]). The surplus of the nominal balance on goods and services expanded considerably in the second half of last fiscal year, but it has recently been almost level, partly affected by the rise in crude oil prices.

China have increased since the end of last year. Imports of game consoles fall outside the categorization by goods shown in Chart 11(2).

Exports are expected to continue to rise, due in part to the yen's depreciation, as overseas economies overall continue to expand (Chart 10[2]).⁴ As for the environment surrounding exports, in the United States, uncertainty regarding the outlook for housing investment persists, but with private consumption remaining firm, the economy is most likely to manage a gradual soft landing. As for the East Asian economies, the Chinese economy is expected to maintain its high growth, and the NIEs and ASEAN economies are also projected to continue to expand at a moderate pace on the whole. Economic expansion is also expected to continue in the EU and other regions. Regarding the environment surrounding exports of IT-related goods, global demand for products, particularly in digital home appliances, has continued to be steady, and global semiconductor shipments have also continued to advance as a trend, albeit with fluctuations (Chart 8[2]).⁵ 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 be more or less flat for the time being, since the effects of the rise in import prices remain.

Business fixed investment has continued to increase. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—have continued their increasing trend on average, but at a reduced pace (Chart 12[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—have recently been more or less flat, at high levels, with some fluctuations (Chart 13[1]). Construction starts (floor area, private, nondwelling

⁴ In the June *Tankan*, forecasts of exports for fiscal 2007 of large manufacturing firms were revised noticeably upward from the March *Tankan*; solid growth of 3.7 percent is projected on a year-on-year basis at this current stage, even with the assumption of the yen's exchange rate at 114.4 yen per U.S. dollar for fiscal 2007, which is slightly stronger than its recent level.

⁵ Global semiconductor shipments also dropped in April-May from the first quarter, when they declined on a quarter-on-quarter basis. These declines, however, seem to be largely attributable to the drop in market prices during those times, mainly in DRAM, rather than a decrease in quantity.

use)—a leading indicator of construction investment—have also continued to be essentially flat at high levels (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. In the June *Tankan*, current profits for fiscal 2006 were revised upward from the March survey; profits of large firms were up by slightly more than 10 percent and those of small firms registered 5-10 percent growth, both resulting in an increase for the fifth consecutive year. Also for fiscal 2007, profits are expected to remain at a high level overall, although some effects from the rise in material prices have been observed (Chart 14). In these circumstances, business sentiment in the June *Tankan* has remained generally favorable, despite some cautiousness among small firms (Chart 15).

Business fixed investment is projected to continue increasing, since the expansion in domestic and external demand and the high levels of corporate profits are likely to be maintained. According to the June *Tankan* (Chart 16), business fixed investment for fiscal 2007 of both large manufacturing and large nonmanufacturing firms is projected to increase steadily, albeit at a slightly slower pace, after having registered relatively high growth in fiscal 2006. As for small manufacturing firms, the year-on-year rate of change in investment for fiscal 2007 is currently projected to be somewhat weak. Nevertheless, given that this is in comparison with fiscal 2006, when investment resulted in extremely high growth, and that they have been revised firmly upward from the March survey,⁶ their investment stance is considered to be solid. On the other hand, investment plans of small nonmanufacturing firms for fiscal 2007 lack strength, at least at this current stage, after investment in fiscal 2006 has turned out to register only a small positive.⁷

⁶ As for the business fixed investment plans for fiscal 2007 of small manufacturing firms, the revision rate marked an increase of 8.6 percent compared with the March *Tankan*.

⁷ Based on “software and fixed investment excluding land purchasing expenses,” a concept similar to the GDP, business fixed investment of all industries and enterprises for fiscal 2007 was projected to increase by 6.3 percent, indicating that investment will continue to increase solidly despite at a slightly slower rate than in fiscal 2006 (an increase of 7.6 percent for projections as of last June and 7.9 percent for actual results).

Private consumption has been firm. Looking at individual indicators on consumption (Charts 17 and 18), sales at department stores and supermarkets were relatively weak in March-April, particularly in spring apparel, due in part to the somewhat low temperatures, but rose in May, mainly in summer apparel, spurred by favorable weather conditions. Sales at convenience stores have been more or less flat of late. As for sales of household electrical appliances, sales of digital home appliances such as flat panel TVs and digital cameras have continued to be strong. Those of cellular phones and game consoles have also increased, aided by the introduction of new products. Sales of personal computers still appear to be lackluster, although they have picked up slightly since the end of January with the introduction of a new operating system. Meanwhile, the number of new passenger-car registrations has remained on a downtrend, chiefly in small-sized passenger cars.⁸ As for services consumption, sales in the food service industry have continued to trend upward. Outlays for travel have also been firm on average.

The *Indices of Aggregated Sales* (in real terms), which are comprised of major sales indicators of goods and services mentioned above,⁹ advanced in the fourth and first quarters on a quarter-on-quarter basis, but they were more or less level in April-May compared with the first quarter (Chart 19[1]). The aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—has been on a moderate uptrend, albeit with some fluctuations, although it remained generally flat in April-May (Chart 19[2]). Meanwhile, according to the *Family Income and Expenditure Survey*—which captures private consumption from the demand side—the index of living expenditure level (two-or-more-person households, in real terms) was almost flat in April-May compared with the first quarter, after having risen in the fourth and first quarters (Chart 17[1]). Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms), which

⁸ Sales of mini-vehicles had been increasing until last year supported by their high cost-performance, but have recently shown some signs of leveling off.

⁹ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in May were not released at the time these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally-adjusted figures for May were at the same level as those for April.

covers more households than the *Family Income and Expenditure Survey* does, has been on a gradual uptrend since around the end of 2004 (Chart 17[1]).¹⁰

Indicators for consumer sentiment overall have been at favorable levels, with some variations, depending on the indicators (Chart 20).

Private consumption is expected to follow a gradual uptrend, with the gradual increase in household income.

As for housing investment, housing starts have been more or less flat lately (Chart 21[1]). In detail, starts of housing for rent, which had been previously increasing moderately, have recently been more or less flat. Starts of housing for sale have also been level lately, with fluctuations caused by the ups and downs in the number of large-scale starts. Meanwhile, starts of owner-occupied housing, which had been mostly flat, have recently been relatively weak. Looking ahead, housing investment is expected to be firm, against the background of the rise in household income and favorable financial conditions.

Industrial production has been on an increasing trend against the background of the growth in domestic and external demand, although it has been flat most recently. Production registered high growth of 2.2 percent in the fourth quarter last year on a quarter-on-quarter basis, but then dropped, by 1.3 percent, in the first quarter, and remained flat in April-May with a decline of 0.3 percent compared with the first quarter (Chart 22).¹¹ As for recent developments by industry, production of general machinery has followed an uptrend on average, with firms having substantial unfilled orders on hand. Production of transport equipment has been almost flat, despite sluggish domestic sales, as exports have retained momentum. Meanwhile, that of electronic parts and devices has remained essentially level since the start of this year, due partly to the high level of domestic inventories. On the other hand,

¹⁰ In the *Family Income and Expenditure Survey*, the number of samples is about 8,000 households, while that of the *Survey of Household Economy* is about 30,000.

¹¹ Production in the second quarter, simply calculated from the production forecast index of June, posts a 0.3 percent increase on a quarter-on-quarter basis.

production of information and communication electronics equipment has appeared to increase, primarily in new products of digital home appliances.

Shipments have also been increasing as a trend. By goods (Chart 23), shipments of capital goods have been on an uptrend, although at a slightly slower pace. As for consumer goods, while shipments of nondurable goods have been on a downtrend, those of durable goods have been increasing as a trend, chiefly in automobiles for exports and digital home appliances. In response to these movements in final demand goods, shipments of producer goods have been on an uptrend overall, and those of electronic parts and devices, which had been sluggish since the end of last year, seem to have picked up lately.

Inventories have been more or less in balance with shipments in the industrial sector as a whole, although in electronic parts and devices they have remained at a high level relative to 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 been more or less favorable. By goods, inventories of producer goods excluding electronic parts and devices (such as iron and steel) have remained relatively low, while shipments rose persistently. Inventories of capital goods (excluding transport equipment) have risen, chiefly in construction machinery, although this appears to be of temporary nature in view of strong exports to regions other than the United States. On the other hand, in electronic parts and devices, the year-on-year rate of increase in inventories has still continued to clearly exceed that in shipments; it has been affected by the build-ups of new products and by the increase in production capacity with new production lines having come into operation. Global IT-related demand remains solid overall, and market prices of semiconductors have been showing signs of bottoming. Moreover, the June *Tankan* shows that the DI of inventory level of finished goods and merchandise of the electrical machinery sector has improved marginally from the March survey.¹² Under these circumstances, the shipment-inventory balance of

¹² The DI of inventory level of finished goods and merchandise (diffusion index of “excessive or somewhat excessive” minus “insufficient or somewhat insufficient”) of the electrical machinery sector (all enterprises) stood at +20 in the June *Tankan*, an improvement, albeit a small one, from the +22 recorded in both the December and March surveys.

electronic parts and devices is expected to gradually head for an improvement. However, because the pace of increase in the supply capacity tends to be rapid for this sector, future developments, including those in global supply-demand conditions, continue to require close monitoring.

As for the outlook, production is expected to follow an increasing trend, reflecting the rise in domestic and external demand, with overall inventories being more or less in balance with shipments. Anecdotal information also suggests that production in the third quarter will step up.¹³

As for the employment and income situations, household income has continued rising moderately, supported by the increase in the number of employees, since labor market conditions have continued their tightening trend (Charts 25[2] and [3]).

In the labor market, overtime hours worked have been essentially flat, at a high level (Chart 27[3]). The ratio of job offers to applicants has been at a high level, above 1.00.¹⁴ The unemployment rate has followed a gradual downtrend (Chart 26).¹⁵ Meanwhile, the employment conditions DI in the *Tankan* shows that firms are generally facing a greater labor shortage; it also indicates that this shortage will extend on into the future (Chart 28).¹⁶

¹³ Although the information is based on a single month, the production forecast index of July is calculated to increase by 2.9 percent compared with the second quarter.

¹⁴ The year-on-year changes in job offers have turned to a decline since last autumn, due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring the overstatement in the number of job offers; however, it has recently shown signs of picking up

¹⁵ The unemployment rate (seasonally adjusted) was 3.8 percent in April and May, marking below 4.0 percent for the first time since March 1998 (3.8 percent).

¹⁶ Recently in the June *Tankan*, the perception of a labor shortage has receded temporarily for both large and small firms. For small firms, this is considered to be a seasonal fluctuation that occurs just after new graduates are hired, as has often been observed in the June *Tankan* for the past few years. Moreover, for large firms, this movement was possibly affected by the active rehiring of baby-boomers and the hiring of new graduates. In any case, the outlook of both large and small firms shows that the shortage will expand and firms' perception of an increased labor shortage is considered to remain unchanged.

In terms of employment (Chart 27[1]), the number of employees in the *Labour Force Survey*—which tends to show relatively large monthly fluctuations—has recently been showing, on average, a solid increase of about 1.0 percent on a year-on-year basis. On the other hand, growth in the number of regular employees in the *Monthly Labour Survey*, which is more stable, has gathered pace from more active hiring, and is recently marking an increase of around 1.5 percent on a year-on-year basis. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, while full-time employees have continued to increase steadily at around 1.0 percent, the growth in part-time employees has accelerated since around the end of last year, resulting in a year-on-year rise in the ratio of part-time employees (Charts 27[1] and [2]).

Nominal wages per employee have recently been essentially level (Chart 25[1]). Regular payments have been somewhat weak lately, since firms have persisted in labor cost restraints; they have been held down by the retirement of the high-wage earning baby-boomers and by an increase in hiring of relatively low-wage earning new graduates.¹⁷ In contrast, overtime payments have continued to trend up mildly, although their pace has recently decelerated slightly. Special payments have been increasing as a trend, supported by favorable corporate profits.¹⁸

¹⁷ With regard to the demographic composition in more detail, the retirement of baby-boomers started to increase in the second half of last year. To compensate for the loss of the labor force, an increasing number of new graduates has been hired, and some workers of the baby-boom generation themselves have been rehired at lower compensation. A combination of these factors seems to have exerted downward pressure on year-on-year changes in wages. Recently, the ratio of part-time workers (their wages per person are lower) has turned to a year-on-year increase, and increasingly more part-timers are working only short hours. These increases are possibly attributable to: (1) the aforementioned rehiring of baby-boomers with reduced working hours and days, and (2) the hiring of the elderly and women through various forms of employment aimed at easing the labor shortage. In terms of labor supply, there has been a rise in the labor force participation rate of men age 55-64, including the baby-boom generation, and of women. Furthermore, by industry, education and learning support—which comprises many local government employees—has contributed significantly to the weakness in overall wages, and has been affected by the wage reduction of local government employees.

¹⁸ According to survey results released by the *Nihon Keizai Shimbun, Inc.* (interim results as of April 26; 247 firms), the Japan Business Federation (second preliminary results as of June 27; 142 firms), and The Institute of Labor Administration (results as of April 18; 165 firms), summer bonuses this year are projected to continue rising firmly on a year-on-year basis (the year-on-year increases are 3.1 percent, 2.9 percent, and 2.2 percent, respectively).

Looking ahead, the gradual increase in household income is likely to continue because firms are becoming more aware of the shortage of labor and because corporate profits are expected to remain high.¹⁹

2. Prices

Import prices (on a yen basis, same hereafter; the three-month rate of change) have been increasing, due mainly to the rise in international commodity prices (Chart 30). Looking at recent developments in international commodity prices in more detail, crude oil prices dropped sharply toward the start of this year, but have increased, mainly due to increasing concerns over geopolitical risks and the tightening supply-demand balance of gasoline in the United States. Prices of nonferrous metals have been high on the whole, albeit with fluctuations.²⁰

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)²¹ has been positive, mainly due to the rise in international commodity prices (Chart 31). The pace of increase has recently been somewhat fast,²² partly because the increases in prices of raw materials and of energy to date appear to have been passed on to prices of a broad range of goods. In detail, prices of petroleum and coal products and of nonferrous metals have exhibited particularly high growth lately, in response to the rise in international commodity prices (both are categorized as “goods sensitive to

¹⁹ In the June *Tankan*, the number of new graduates hired (all industries and enterprises) for fiscal 2007 is projected to mark high growth of 8.0 percent. Moreover, the projection for fiscal 2008 also shows an increase of 3.5 percent. Although this was slightly below the growth projected for fiscal 2007 at the same time last year (+4.5 percent), it is still relatively high for this time of year.

²⁰ Meanwhile, domestic commodity prices have been rising, in response to the tightening of supply-demand conditions and to developments in international commodity prices and the foreign exchange market.

²¹ 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.

²² The pace of increase was especially somewhat fast in April and May, driven partly by movements to pass on price increases in line with the start of the new fiscal year. (The month-on-month change was 0.9 percent in April, 0.5 percent in May, and 0.1 percent in June.)

exchange rates and overseas commodity prices” in the chart). Changes in prices of chemical products (categorized as “other materials” in the chart) have moved up, mainly due to the rise in crude oil prices. Prices of iron and steel-related products and of construction-related products have continued to increase across a wide range of items, as a result of high material costs and the tightening of supply-demand conditions. Meanwhile, machinery prices had been declining marginally as a trend, but they have recently been essentially level. By stages of demand, prices of raw materials and of intermediate goods have been increasing in response to developments in international commodity prices. Final goods prices have also moved up lately, albeit marginally, mainly due to the rise in gasoline prices.

The year-on-year rate of change in corporate services prices (excluding external factors, same hereafter) has improved mildly; it has recently been somewhat positive (Chart 32).²³ The year-on-year changes in prices, excluding external factors, increased by 0.2 percent in April-May following an increase of 0.2 percent in the first quarter.²⁴ Looking at recent developments by category, the year-on-year changes in prices of “other services” have been somewhat positive; improvements in supply-demand conditions as well as cost increases such as labor costs have led to an increase in these prices at the beginning of the new fiscal year in April. Prices of real estate services have continued to edge up, assisted by the rise in office space rental against the background of improved supply-demand conditions of office spaces in the Tokyo metropolitan area. Moreover, prices of information services have recently increased somewhat. On the other hand, prices of advertising services have remained somewhat weak, since firms have continued to be cautious about increasing advertisement placements.

²³ “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.

²⁴ All items including external factors have been increasing at a faster pace, since oceangoing ship chartering services surged in response to increased cargo movements around the world. The rate of increase in corporate services prices of all items expanded in May to post a year-on-year increase of 1.4 percent, partly affected by the yen’s depreciation compared with a year ago. Disregarding the effects from the rise in the consumption tax, it was the largest year-on-year increase since July 1992 (a year-on-year increase of 1.4 percent).

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been around zero percent (Chart 33). Looking at developments in the past few months in more detail, the year-on-year changes in prices of goods overall have been posting a slight negative; although a range of items has followed a moderate improving trend, petroleum products (such as gasoline) have recently been moving around zero percent, and durable consumer goods have continued to fall. In the meantime, services prices have been moving around zero percent overall; mobile telephone charges have been falling (categorized as “other services” in the chart), and housing rents have remained somewhat weak, although prices of eating out have continued to increase moderately.

With regard to domestic supply and demand conditions in the June *Tankan* (Chart 34), the weighted average DI in both production capacity and employment conditions as perceived by firms shows that the shortage has been expanding mildly, albeit with some fluctuations, since excess production capacity has been dispelled and the labor shortage has persisted. The supply and demand conditions DI for the manufacturing sector has maintained a relatively high level, although it has edged down of late; that for the nonmanufacturing sector has followed a gradual improving trend. In this situation, the decline in the output prices DI has been diminishing moderately.

Domestic corporate goods prices are expected to continue increasing in the immediate future, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is expected to be around zero percent in the short run. From a longer-term perspective, however, it is projected to continue to follow a positive trend, as the output gap continues to be positive.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 35[1]) has been at around 0.5 percent. Regarding interest rates on term instruments (Chart 36[1]), the Euroyen interest rate (TIBOR,

3-month) and FB rate (3-month) have been more or less flat. Under these circumstances, interest rates on Euroyen futures have been essentially unchanged on the whole (Chart 36[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 35 [2]) have fluctuated, mainly in view of interest rate movements in the United States. They have recently been moving at around 1.90 percent.

Yield spreads between corporate bonds and government bonds (Chart 38) have been more or less flat on the whole, although spreads for firms with low credit ratings have expanded slightly, reflecting the widening spreads in the U.S. credit market.

Stock prices (Chart 39) have fluctuated, mainly in view of U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 18,000-18,500 yen.

In the foreign exchange market (Chart 40), the yen has fluctuated, mainly in view of U.S. stock prices. The yen is being traded in the range of 121-124 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has been 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 attitudes of private banks have continued to be accommodative. The lending attitudes of financial institutions as perceived by firms, including small firms, have been accommodative (Chart 41).

Lending rates have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have risen moderately (Chart 42). The long-term prime lending rate was raised by 0.10 percent on July 10 to 2.55 percent.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors²⁵) has continued to increase moderately. (The year-on-year change was 1.9 percent in April, 1.8 percent in May, and 1.6 percent in June; Chart 43.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have increased, in response to the rise in medium- to long-term rates from late May through June. Meanwhile, issuance spreads have continued to be low. CP issuance rates have been around the same levels as last month. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. (The year-on-year change was -0.0 percent in April, 1.4 percent in May, and 2.7 percent in June; Chart 44.)

According to business surveys, the financial positions of firms have continued to be favorable (Chart 41).

The year-on-year rate of change in the money stock ($M_2 + \text{CDs}$) is in the range of 1.0-2.0 percent. (The year-on-year change was 1.1 percent in April, 1.5 percent in May, and 1.8 percent in June; Chart 45.)

The number of corporate bankruptcies increased by 6.7 percent year-on-year in June, to 1,185 cases (Chart 46).

²⁵ 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

	2006/Q4	2007/Q1	Q2	2007/Mar.	Apr.	May	Jun.
Index of living expenditure level (two-or-more-person households)	2.7	0.5	n.a.	-0.7	0.3	-0.2	n.a.
Sales at department stores	-0.4	0.2	n.a.	-2.6	0.8	p 0.8	n.a.
Sales at supermarkets	-1.0	-0.0	n.a.	-0.2	-0.8	p 1.1	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 304>	< 291>	< 288>	< 286>	< 285>	< 291>	< 286>
Sales of household electrical appliances (real, Current Survey of Commerce)	3.0	6.6	n.a.	0.7	-2.1	p 0.6	n.a.
Outlays for travel	0.8	1.3	n.a.	0.5	-2.7	0.8	n.a.
Housing starts <s.a., ann. 10,000 units>	< 131>	< 125>	<n.a.>	< 130>	< 129>	< 115>	<n.a.>
Machinery orders (from private sector ⁴)	0.3	-0.7	n.a.	-4.5	2.2	5.9	n.a.
Manufacturing	-2.8	-1.4	n.a.	-7.5	-1.3	15.3	n.a.
Nonmanufacturing ⁴	4.0	-1.1	n.a.	-2.5	5.9	-1.8	n.a.
Construction Starts (private, nondwelling use)	0.6	-6.6	n.a.	-19.0	16.6	21.4	n.a.
Mining & manufacturing	-13.9	-9.1	n.a.	-12.5	10.4	19.0	n.a.
Nonmanufacturing ⁵	4.3	-5.0	n.a.	-20.3	23.1	20.2	n.a.
Value of public works contracted	1.9	-2.2	n.a.	3.0	-2.2	1.7	n.a.
Real exports	1.0	3.0	n.a.	1.9	-3.0	2.8	n.a.
Real imports	-0.5	0.4	n.a.	-8.0	-0.4	6.5	n.a.
Industrial production	2.2	-1.3	n.a.	-0.3	-0.2	p -0.4	n.a.
Shipments	1.5	-0.5	n.a.	-1.1	1.0	p 0.1	n.a.
Inventories	3.8	-2.0	n.a.	-0.4	0.4	p -0.3	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 100.7>	< 101.0>	<n.a.>	< 101.0>	< 101.0>	<p 98.0>	<n.a.>
Real GDP	1.3	0.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.8	-0.1	n.a.	-1.2	1.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2006/Q4	2007/Q1	Q2	2007/Mar.	Apr.	May	Jun.
Ratio of job offers to applicants <s.a., times>	< 1.07>	< 1.05>	<n.a.>	< 1.03>	< 1.05>	< 1.06>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	<n.a.>	< 4.0>	< 3.8>	< 3.8>	<n.a.>
Overtime working hours ⁶	2.5	1.9	n.a.	2.7	0.7	p 1.0	n.a.
Number of employees	1.1	1.0	n.a.	1.1	1.6	0.9	n.a.
Number of regular employees ⁶	1.4	1.6	n.a.	1.5	1.6	p 1.7	n.a.
Nominal wages per person ⁶	0.0	-0.7	n.a.	-0.1	-0.2	p -0.6	n.a.
Domestic corporate goods price index ⁷ <q/q % chg., 3-month rate of change>	2.6	1.9	p 2.3	2.0	2.3	2.2	p 2.3
	<-0.1>	<-0.2>	<p 1.5>	< 0.0>	< 1.2>	< 1.7>	<p 1.5>
Consumer price index ⁸	0.1	-0.1	n.a.	-0.3	-0.1	-0.1	n.a.
Corporate service price index	0.1	0.5	n.a.	0.6	1.0	p 1.4	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	0.7	1.0	p 1.5	1.1	1.1	1.5	p 1.8
Number of corporate bankruptcies <cases>	<1,122>	<1,147>	<1,205>	<1,247>	<1,121>	<1,310>	<1,185>

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

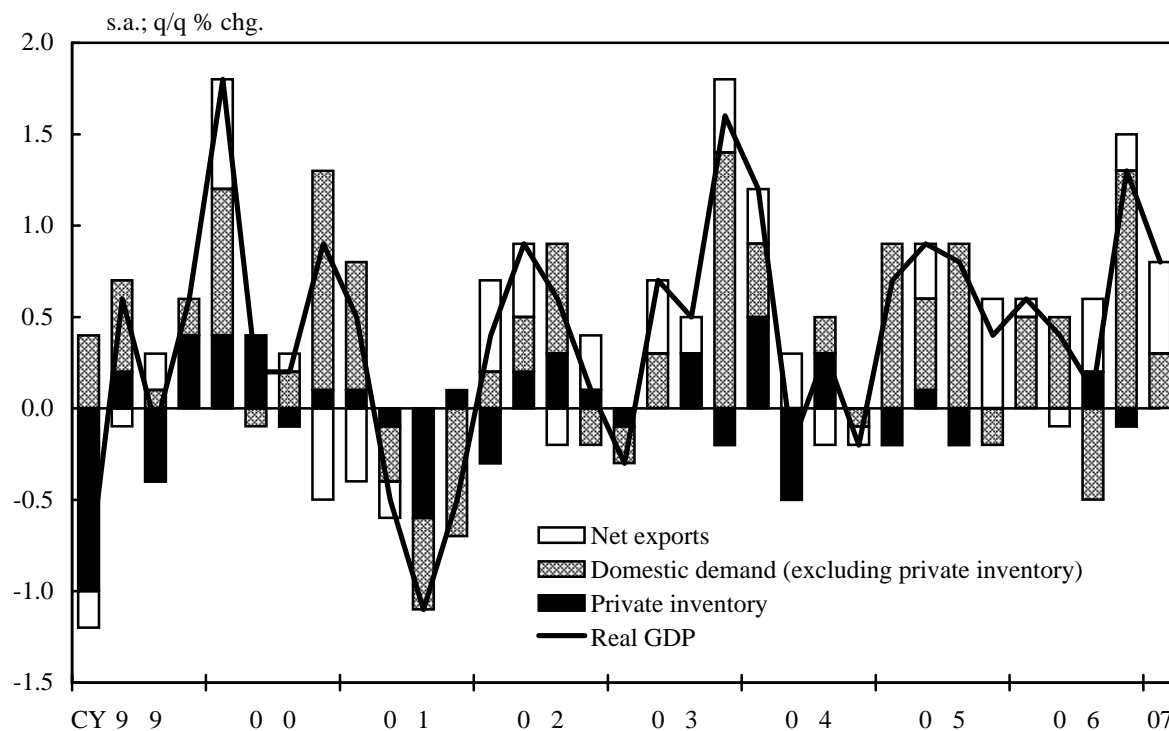
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

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.

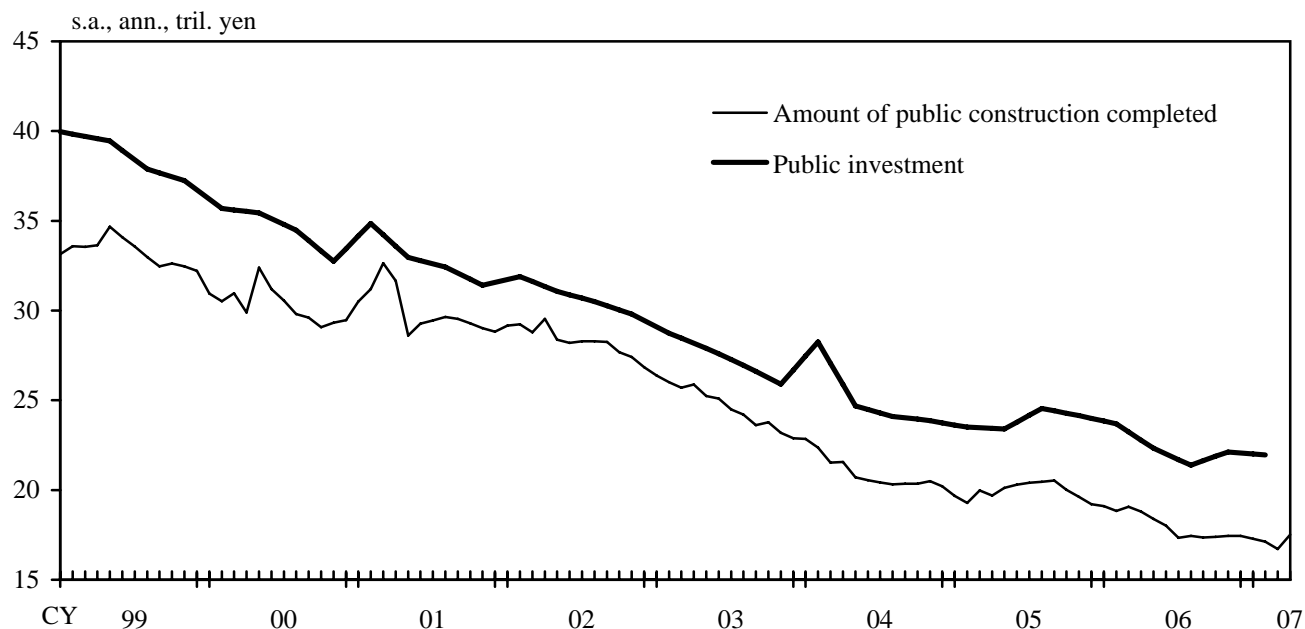
	2006				2007
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.6	0.4	0.1	1.3	0.8
Domestic demand	0.5	0.5	-0.3	1.2	0.3
Private consumption	-0.1	0.6	-1.0	1.1	0.8
Non-Resi. investment	4.0	2.9	1.1	2.7	0.3
Residential investment	0.9	-1.9	-0.3	2.2	-0.5
Private inventory	(0.0)	(-0.0)	(0.2)	(-0.1)	(-0.0)
Public demand	-0.5	-0.8	-0.4	0.8	-0.4
Public investment	-2.1	-6.2	-4.7	3.7	-1.2
Net exports of goods and services	(0.1)	(-0.1)	(0.4)	(0.2)	(0.5)
Exports	2.2	0.8	2.3	0.8	3.3
Imports	2.0	1.3	-0.4	-0.2	0.4
Nominal GDP	0.3	0.3	-0.1	1.4	0.5

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

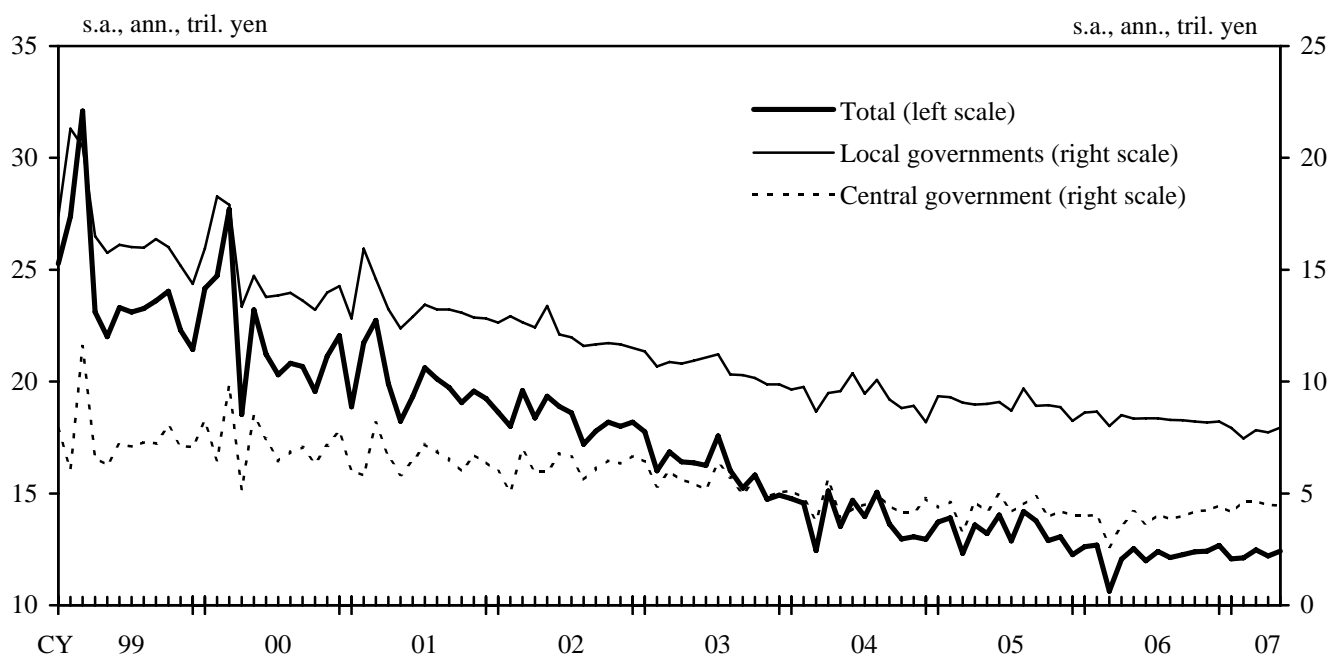
Source: Cabinet Office, "National Accounts."

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.

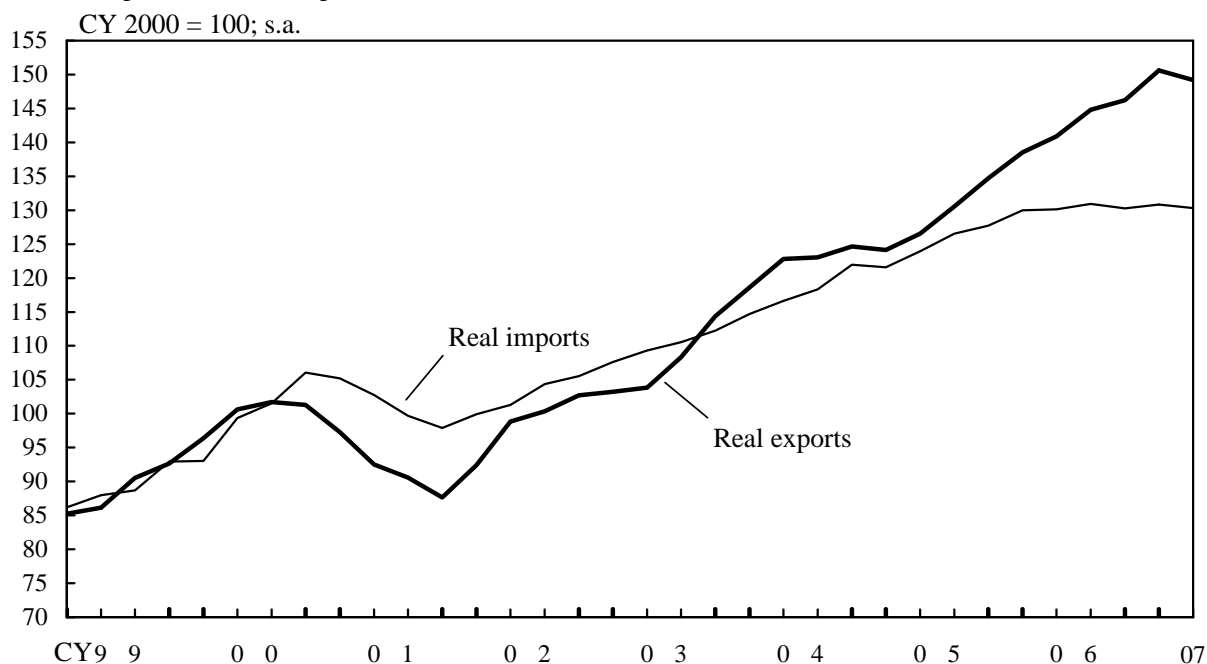
Sources: Cabinet Office, "National Accounts";

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

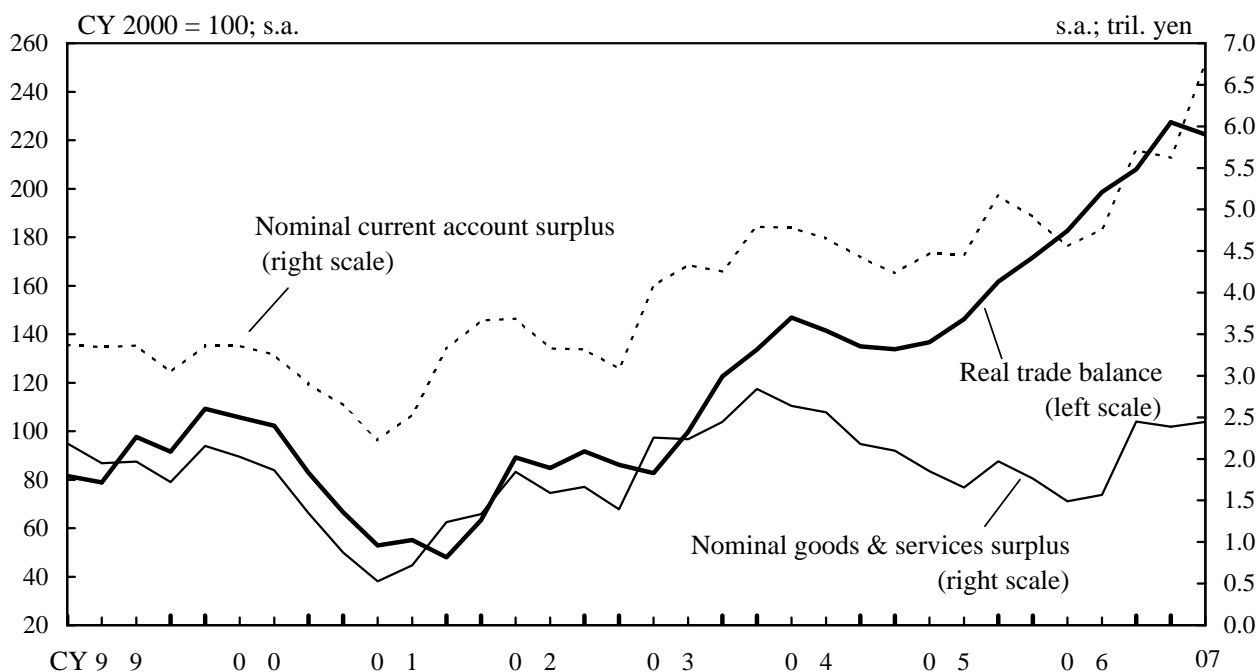
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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. Figures are seasonally adjusted by X-12-ARIMA.

3. 2007/Q2 figures are April-May averages 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."

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY		2006			2007		2007		
		2005	2006	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May
United States	<22.5>	7.3	10.3	1.6	2.1	-0.7	-0.9	-4.5	-1.9	-4.3	0.7
EU	<14.5>	3.3	10.3	4.7	2.1	0.9	3.7	1.6	-1.4	1.8	-0.3
East Asia	<45.7>	6.1	9.1	0.6	2.7	2.3	4.3	-1.8	4.3	-3.9	2.6
China	<14.3>	9.6	20.1	3.0	5.1	6.6	5.5	-4.5	8.1	-8.7	7.1
NIEs	<23.2>	5.0	5.7	0.0	0.5	0.2	3.9	-1.2	3.5	-2.3	0.9
Korea	<7.8>	4.5	7.7	2.6	-1.7	1.2	5.1	-0.9	-0.6	2.7	-6.0
Taiwan	<6.8>	4.4	3.7	-1.0	-1.1	-3.5	0.1	0.9	6.5	0.9	-2.6
ASEAN4 ³	<8.1>	4.4	2.8	-1.6	4.9	0.9	3.6	1.3	0.2	0.4	-0.4
Thailand	<3.5>	10.0	5.2	-1.1	4.4	0.5	3.8	1.3	-1.8	1.3	-0.7
Others	<17.3>	11.5	19.5	2.6	4.2	2.4	4.4	3.1	1.9	-1.5	6.8
Real exports		5.3	10.5	1.7	2.8	1.0	3.0	-1.0	1.9	-3.0	2.8

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY		2006			2007		2007		
		2005	2006	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May
Intermediate goods	<17.9>	1.8	6.4	-1.1	0.4	0.5	1.9	0.3	-0.3	-0.3	1.7
Motor vehicles and their related goods	<23.4>	8.2	13.6	2.8	1.3	4.0	2.7	-0.4	1.3	-4.1	5.4
Consumer goods ⁴	<5.0>	5.2	7.1	4.7	0.4	0.4	-3.0	5.1	7.1	2.7	-2.4
IT-related goods ⁵	<11.5>	5.4	7.7	0.8	2.5	5.1	5.5	-3.5	-2.5	-0.2	-2.0
Capital goods and parts ⁶	<29.4>	7.1	12.4	2.3	4.0	-1.1	3.0	-1.6	3.0	-2.1	-0.1
Real exports		5.3	10.5	1.7	2.8	1.0	3.0	-1.0	1.9	-3.0	2.8

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q2 figures are April-May averages converted into quarterly amount.

2. Shares of each region and goods in 2006 are shown in angle brackets.

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

4. Excludes motor vehicles.

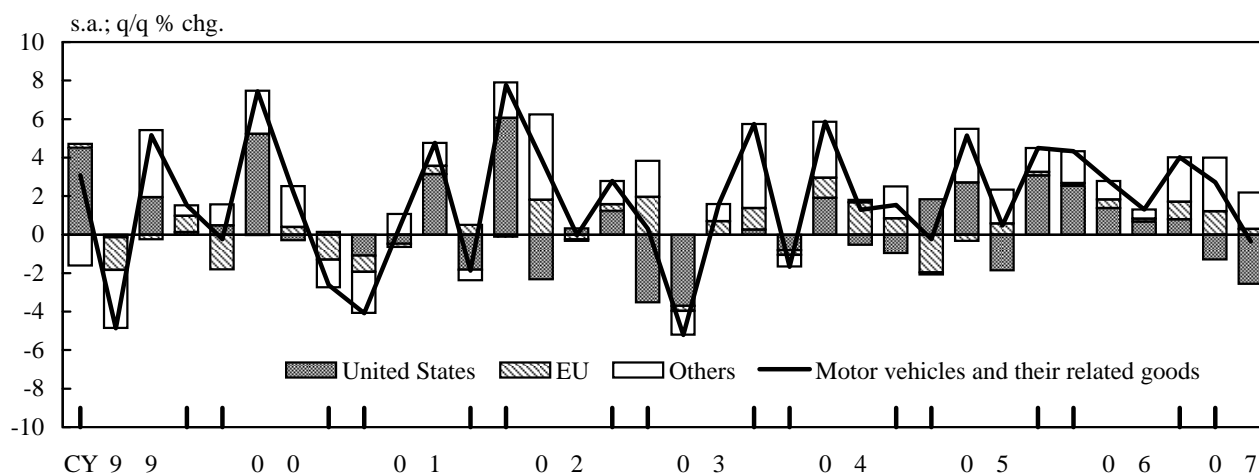
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

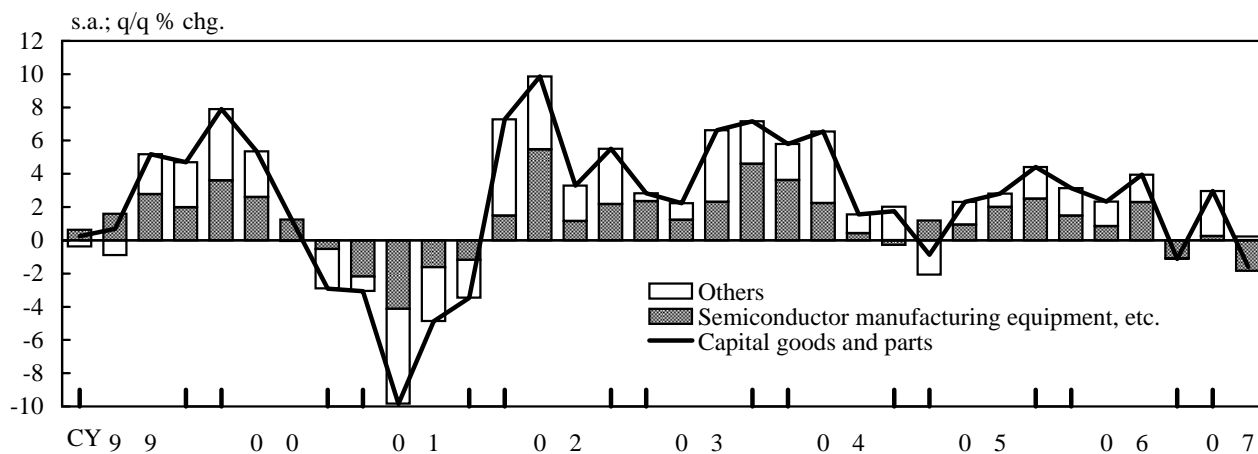
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

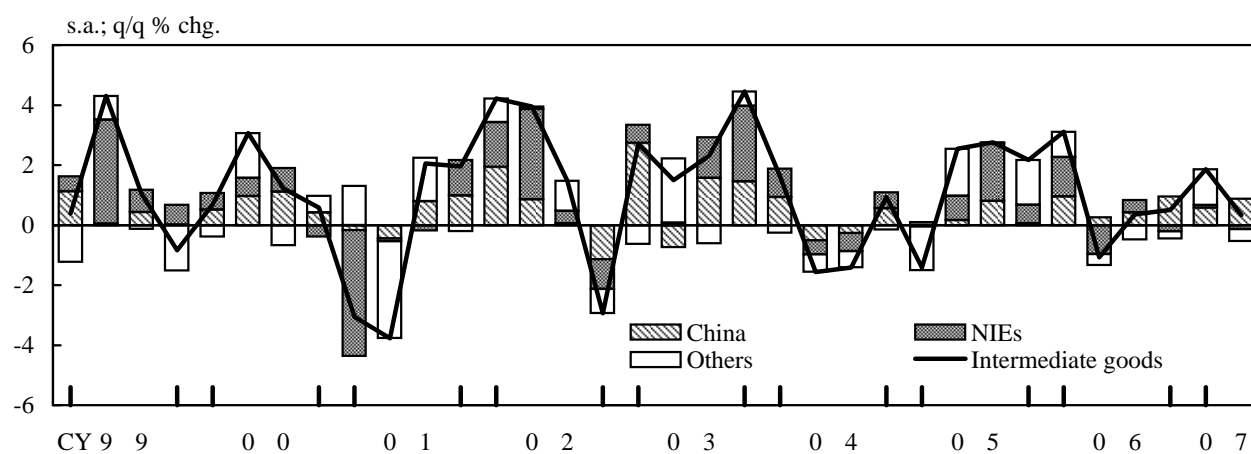
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



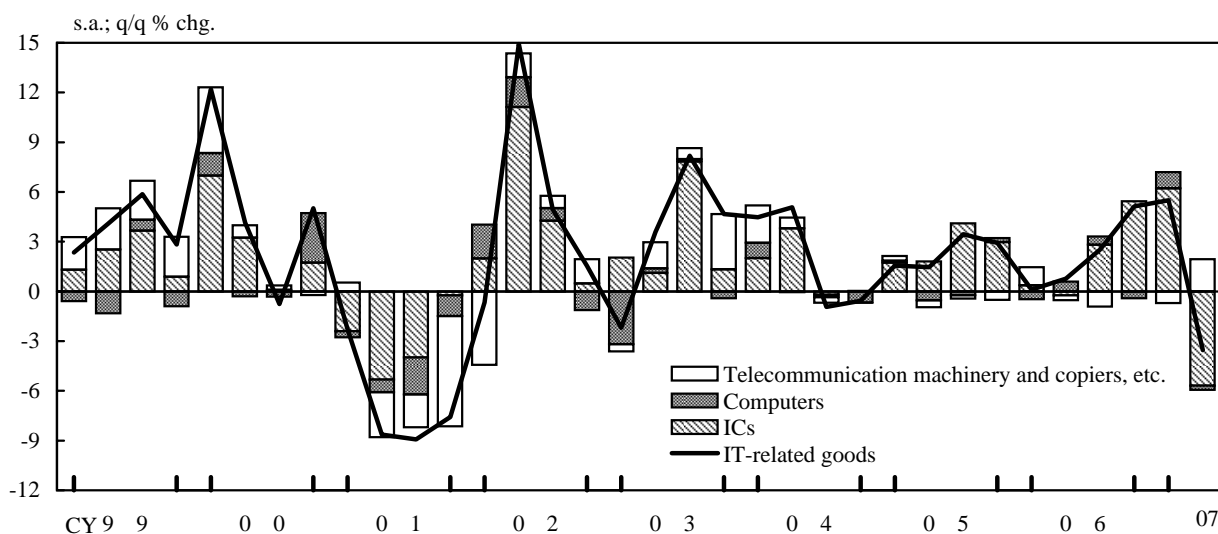
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q2 figures are April-May averages converted into quarterly amount.

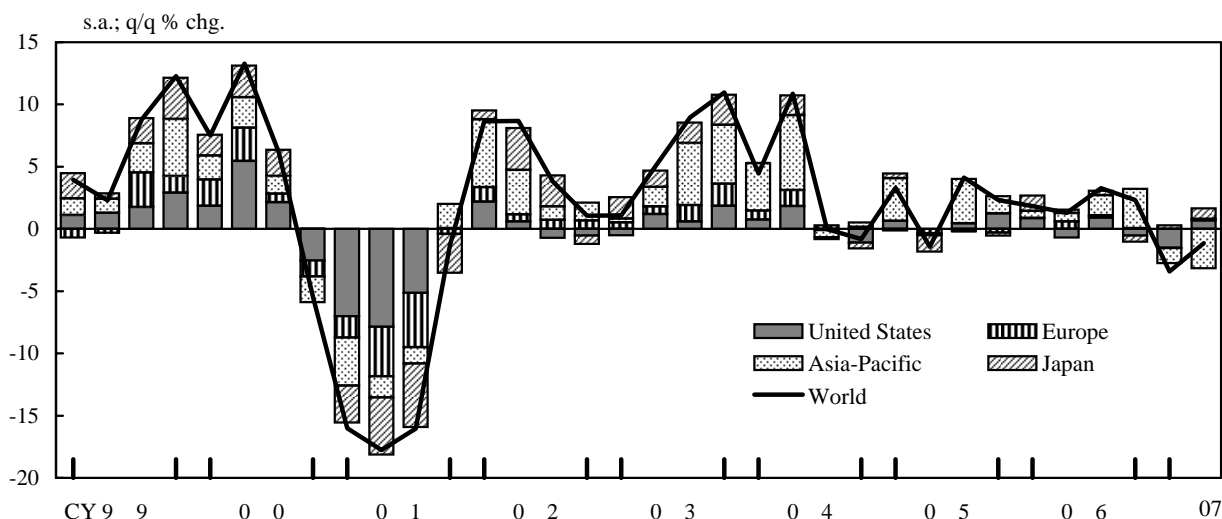
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

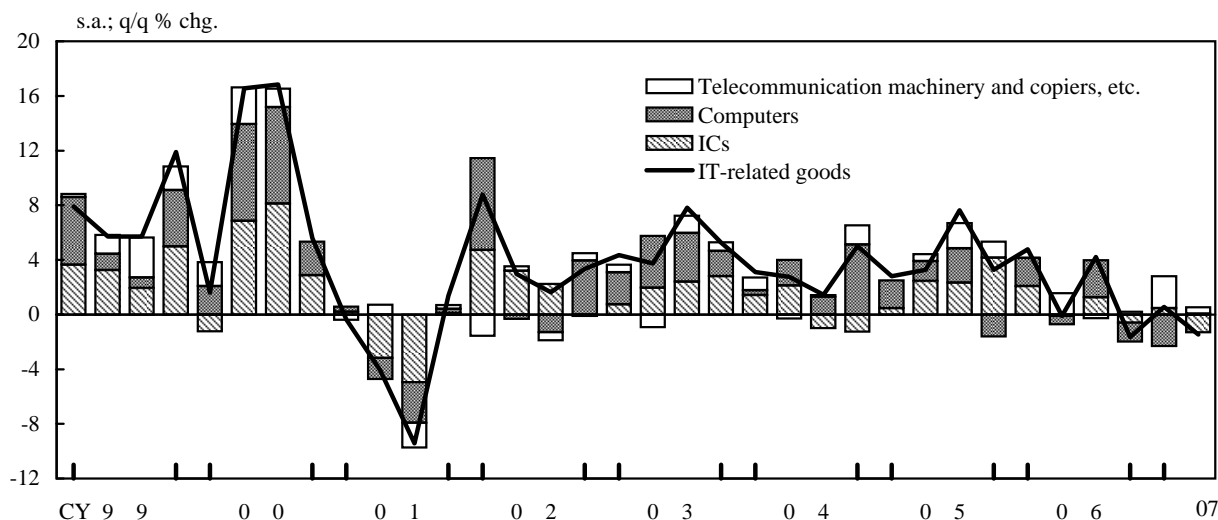
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

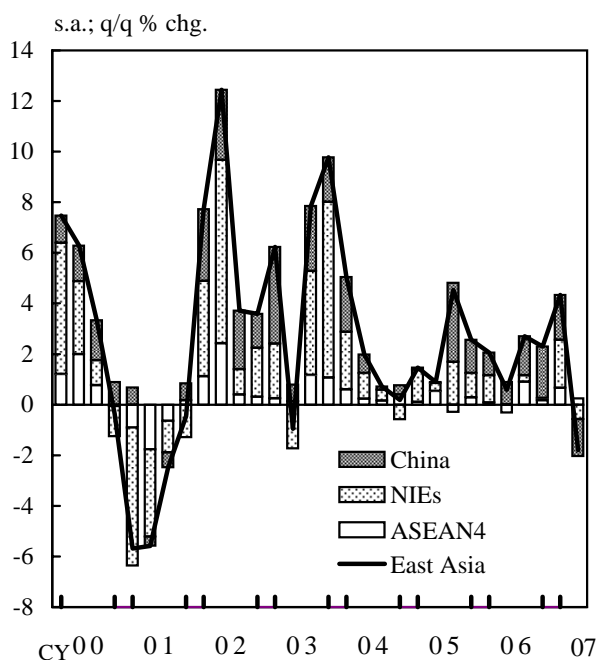
2. 2007/Q2 figures are April-May averages converted into quarterly amount.

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

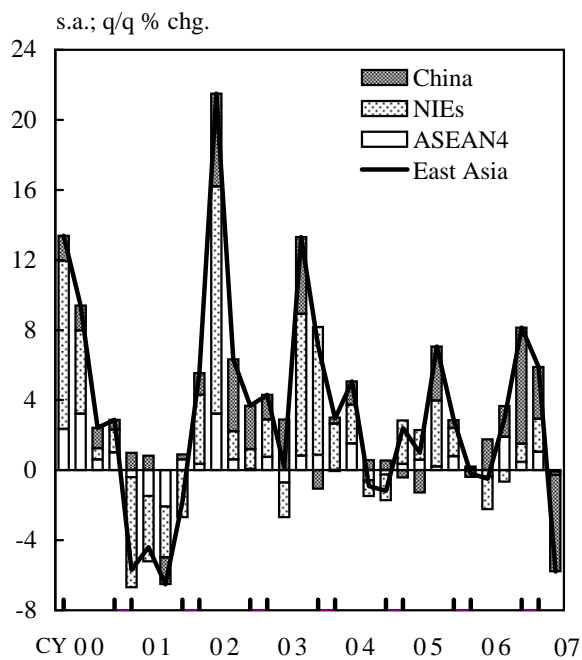
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

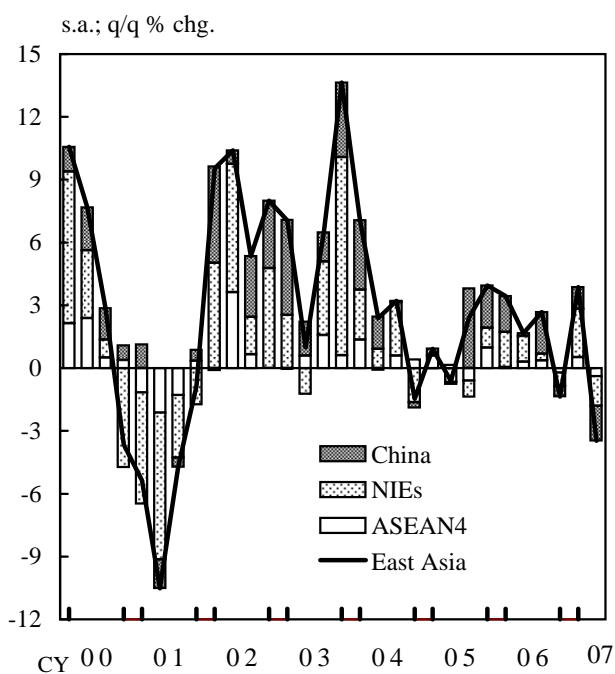
(1) All Goods (Real, Breakdown by Region)



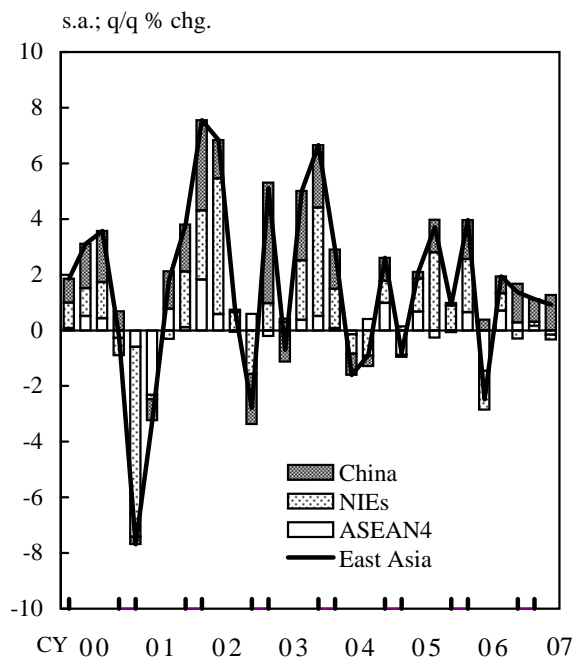
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



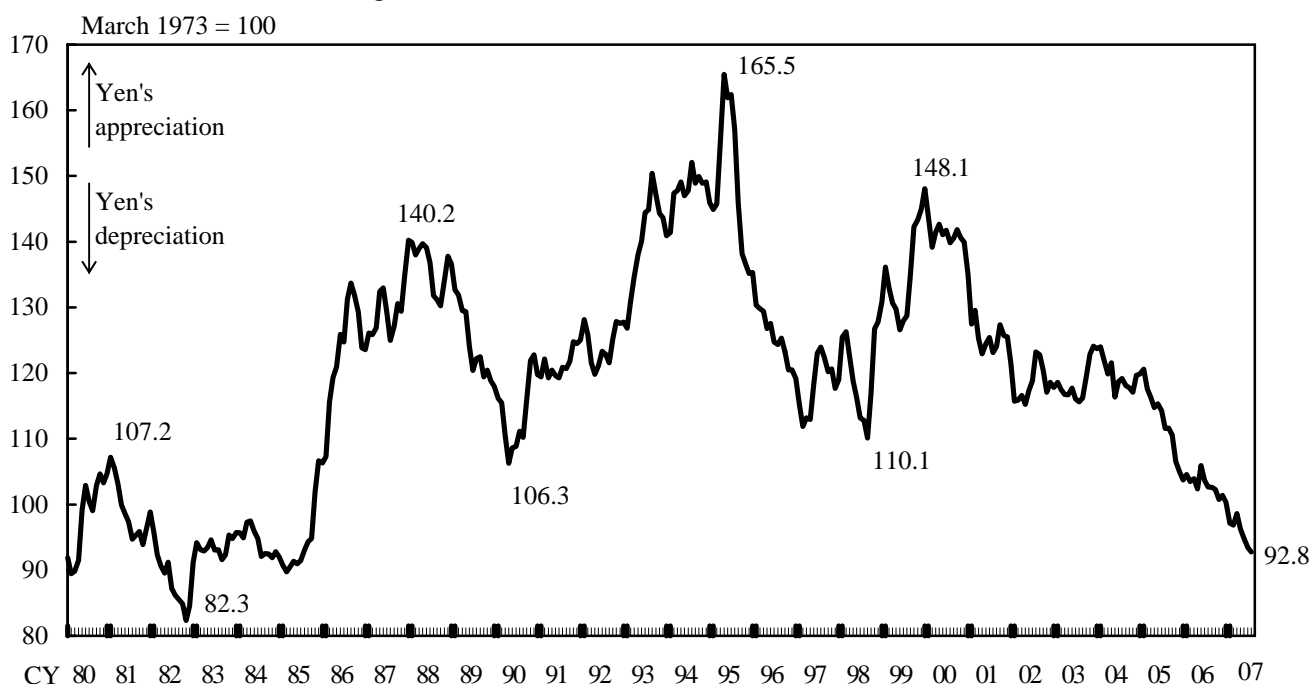
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q2 figures are April-May averages converted into quarterly amount.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for July 2007 is the average up to July 11.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (27 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY2004	2005	2006	2006 Q3	Q4	2007 Q1	Q2	
United States ¹		3.9	3.2	3.3	2.0	2.5	0.7	n.a.	
European Union ¹		2.3	1.9	3.1	2.7	3.5	2.6	n.a.	
	Germany	0.8	1.1	3.0	3.3	4.0	2.1	n.a.	
	France	2.3	1.7	2.2	0.2	1.6	2.2	n.a.	
	United Kingdom	3.3	1.8	2.8	2.8	3.3	2.8	n.a.	
East Asia ²	China		10.1	10.4	10.7	10.6	10.4	11.1	n.a.
	NIEs	Korea	4.7	4.2	5.0	4.8	4.0	4.0	n.a.
		Taiwan	6.2	4.1	4.7	5.1	4.0	4.2	n.a.
		Hong Kong	8.6	7.5	6.9	6.8	7.3	5.6	n.a.
		Singapore	8.8	6.6	7.9	7.0	6.6	6.4	8.2
	ASEAN4	Thailand	6.3	4.5	5.0	4.7	4.3	4.3	n.a.
		Indonesia	5.0	5.7	5.5	5.9	6.1	6.0	n.a.
		Malaysia	6.8	5.0	5.9	6.0	5.7	5.3	n.a.
Philippines		6.4	4.9	5.4	5.1	5.5	6.9	n.a.	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Mar.	Apr.	May
United States	<11.7>	3.6	6.6	-3.6	4.5	-2.4	-2.2	3.4	0.6	0.9	6.1
EU	<10.3>	2.1	1.4	-0.1	-0.4	-0.2	1.7	2.5	8.2	-8.2	8.9
East Asia	<41.4>	11.2	9.5	1.1	2.3	1.8	0.1	-2.0	-15.0	3.2	4.0
China	<20.5>	18.8	11.2	1.9	3.1	2.2	1.4	-0.9	-24.9	12.0	3.0
NIEs	<9.8>	9.3	12.7	0.4	1.5	-0.2	-1.6	-5.8	-1.9	-7.1	3.9
Korea	<4.7>	8.3	11.4	2.7	1.3	-1.6	-1.7	-2.4	1.2	-7.4	9.6
Taiwan	<3.5>	11.0	16.9	0.2	4.2	2.3	-3.3	-10.9	-1.7	-8.5	-2.5
ASEAN4 ³	<11.1>	0.2	3.4	0.0	1.5	3.1	-1.0	-0.5	-3.9	-3.2	6.3
Thailand	<2.9>	12.8	7.1	2.9	0.7	2.0	1.7	-1.6	4.6	-6.0	-0.1
Others	<36.5>	1.8	2.5	2.6	-1.7	-2.3	1.3	-3.5	0.5	-7.6	6.8
Real imports		5.4	4.4	0.1	0.6	-0.5	0.4	-0.4	-8.0	-0.4	6.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Mar.	Apr.	May
Raw materials ⁴	<34.7>	-3.9	1.0	2.4	-2.2	-2.0	0.9	-2.5	1.4	-8.5	8.0
Intermediate goods	<14.0>	4.6	2.3	1.3	-0.4	-1.4	0.5	0.1	-4.3	-3.3	8.0
Foodstuffs	<8.5>	2.6	-3.3	-2.4	-2.3	1.7	0.4	-5.2	-6.0	-5.7	6.3
Consumer goods ⁵	<8.8>	8.6	2.6	-1.2	0.1	1.9	-5.1	5.7	-24.7	17.9	4.3
IT-related goods ⁶	<12.0>	15.4	14.1	-0.1	4.2	-1.6	0.6	-1.5	-6.8	1.5	0.2
Capital goods and parts ⁷	<12.4>	13.6	16.9	2.2	4.9	1.3	1.7	2.1	-8.0	2.5	8.3
Excluding aircraft	<11.5>	13.7	18.0	4.5	2.9	1.8	0.3	3.2	-6.7	3.6	3.6
Real imports		5.4	4.4	0.1	0.6	-0.5	0.4	-0.4	-8.0	-0.4	6.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q2 figures are April-May averages converted into quarterly amount.

2. Shares of each region and goods in 2006 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.

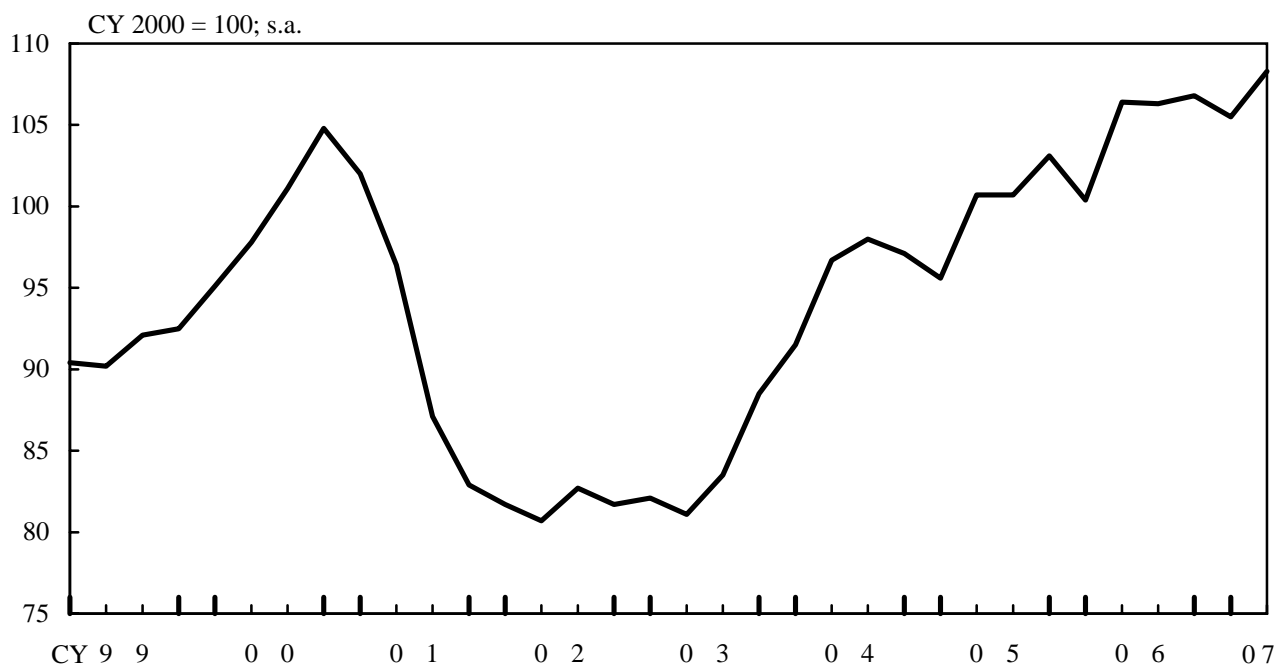
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

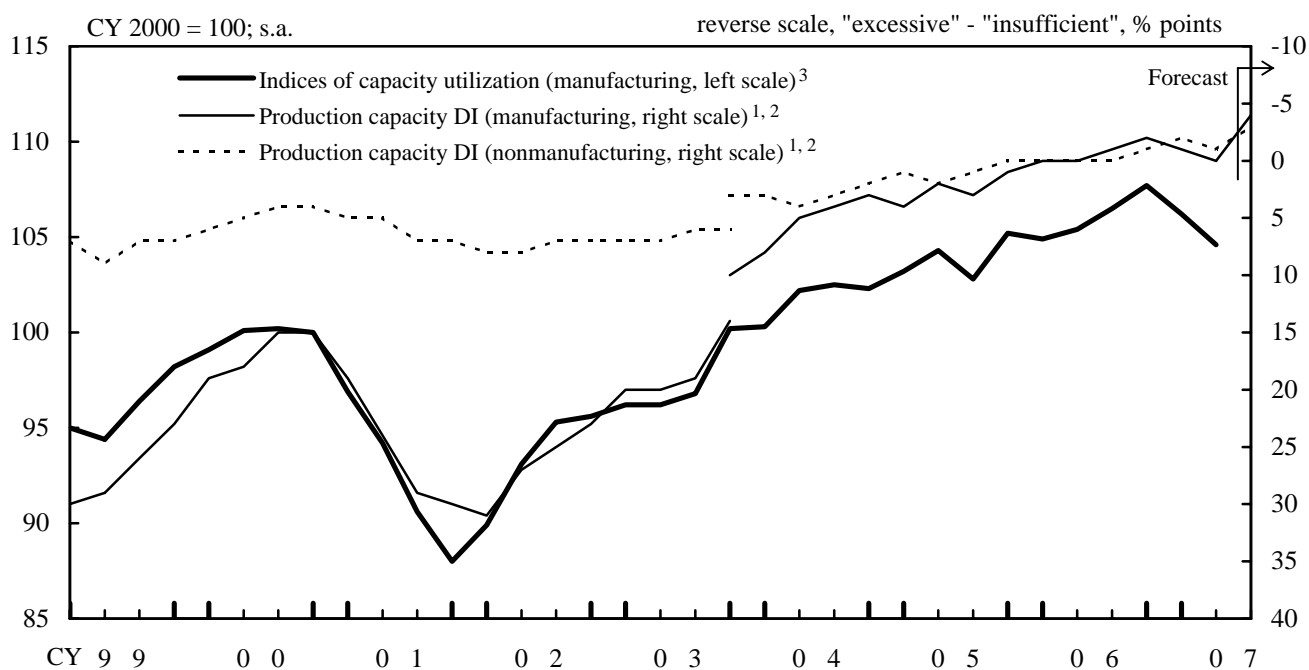
Coincident Indicators for Business Fixed Investment

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



Note: The figure for 2007/Q2 is as of April-May average.

(2) Indices of Capacity Utilization and Production Capacity DI



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

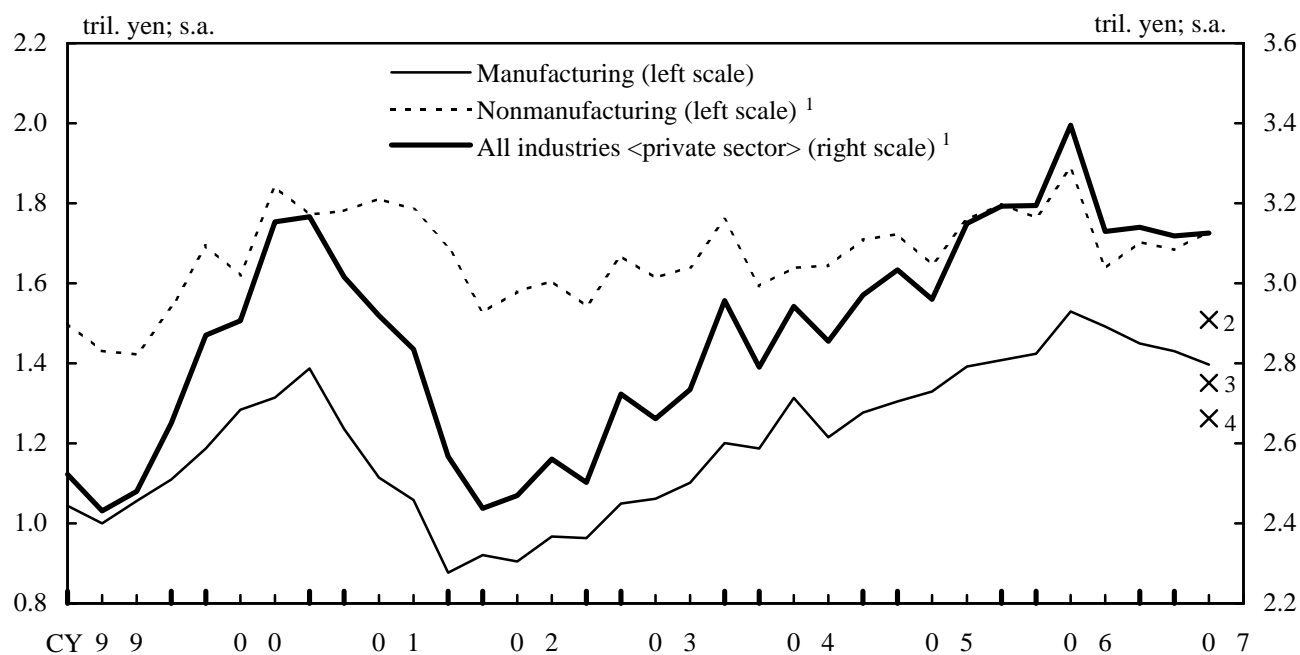
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/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."

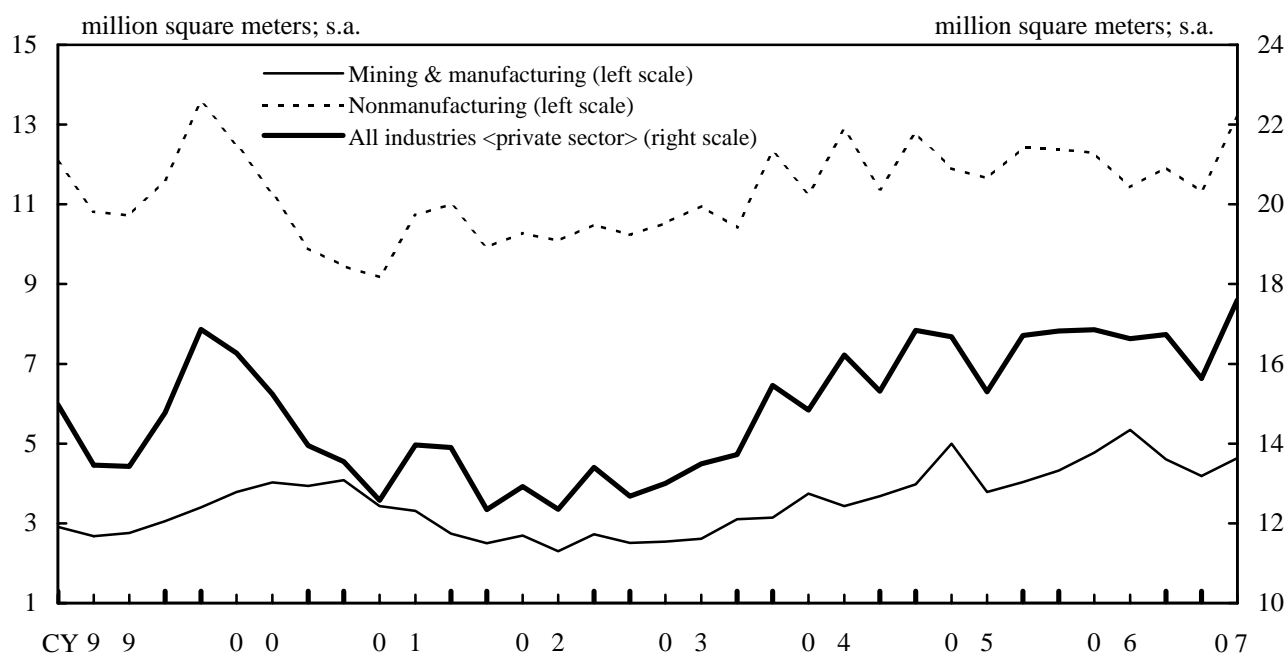
Leading Indicators for Business Fixed Investment

(1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.
 2. Forecast of nonmanufacturing industries for 2007/Q2.
 3. Forecast of all industries <private sector> for 2007/Q2.
 4. Forecast of manufacturing industries for 2007/Q2.
 5. Figures for 2007/Q2 are averages of April-May in terms of quarterly amount.

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

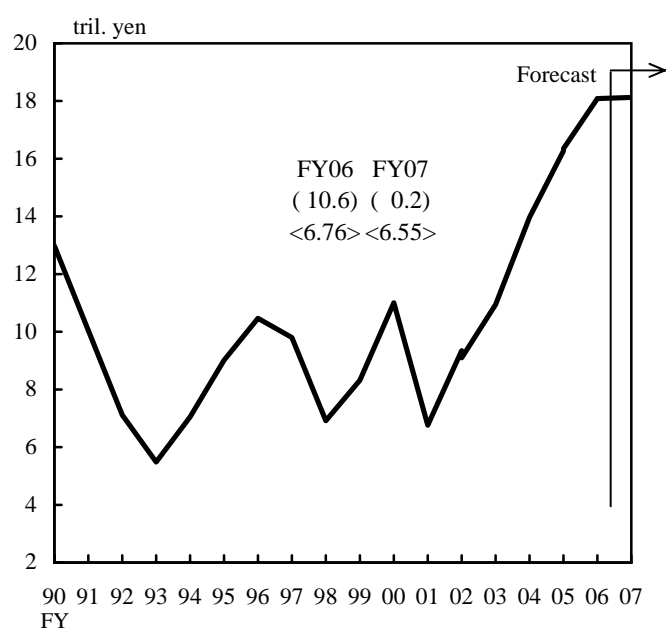


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.
 3. Figures for 2007/Q2 are averages of April-May in terms of quarterly amount.

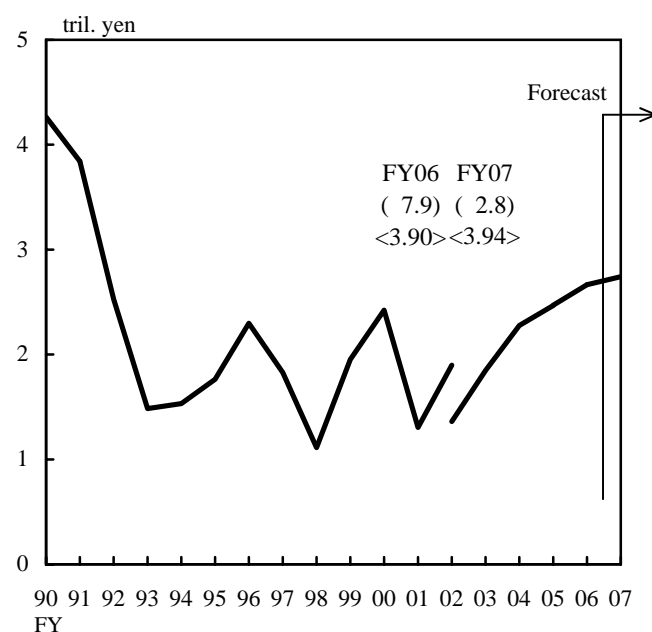
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

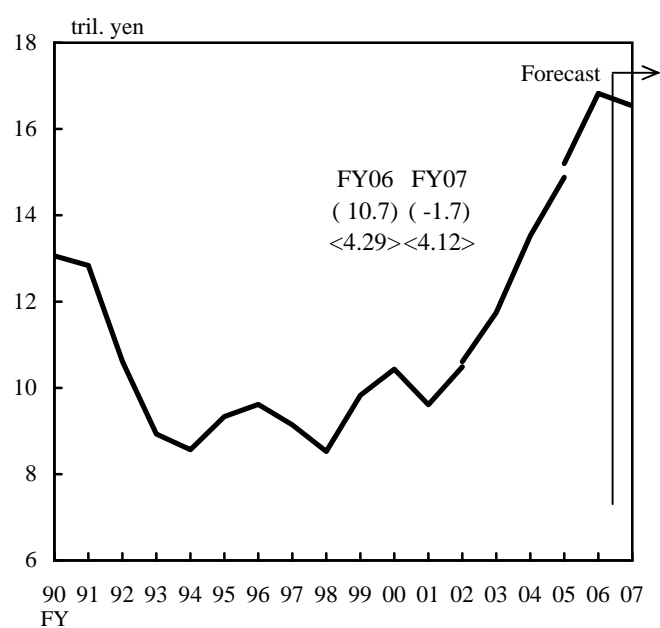
(1) Manufacturing Large Enterprises



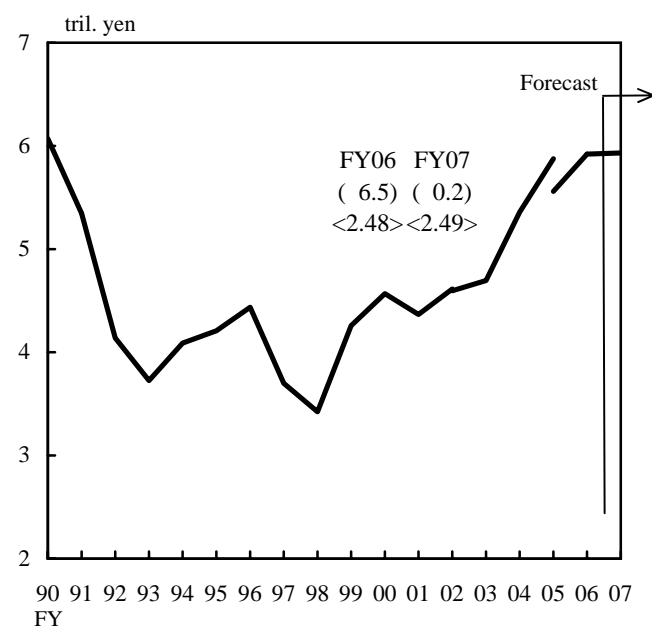
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



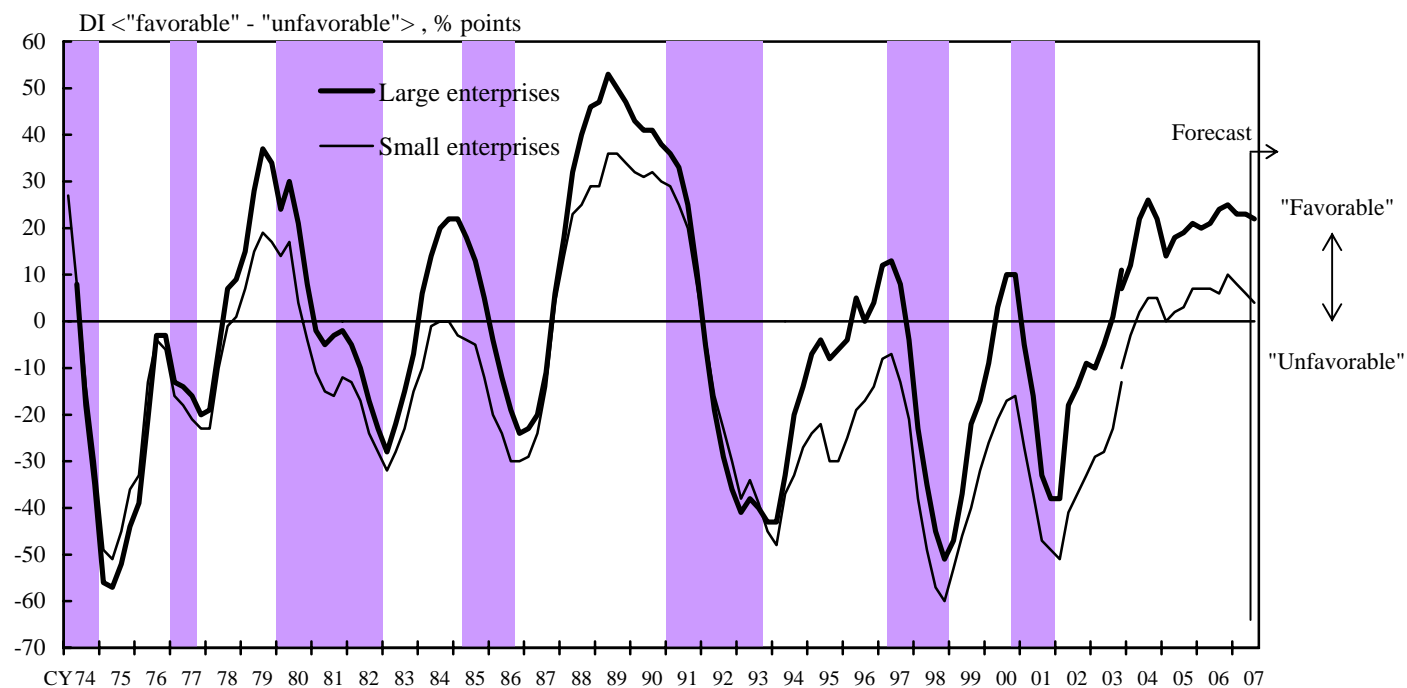
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

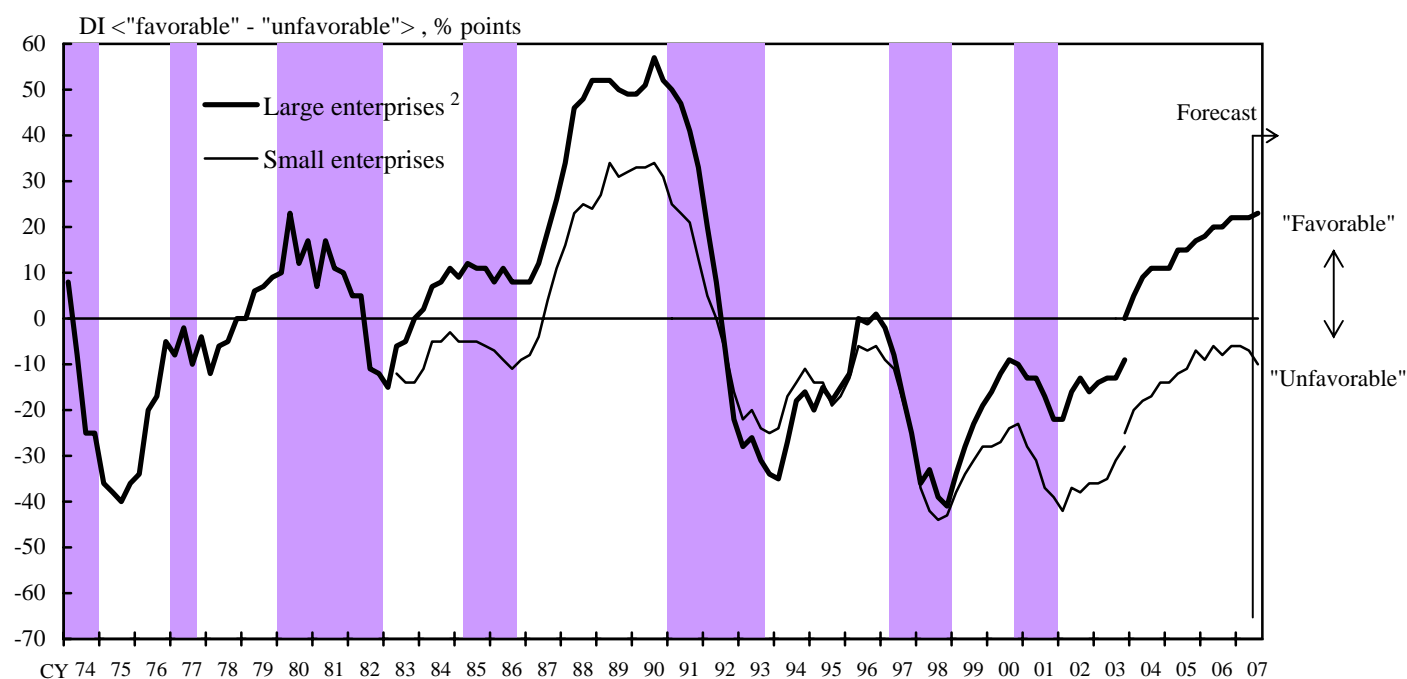
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



Notes: 1. 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.

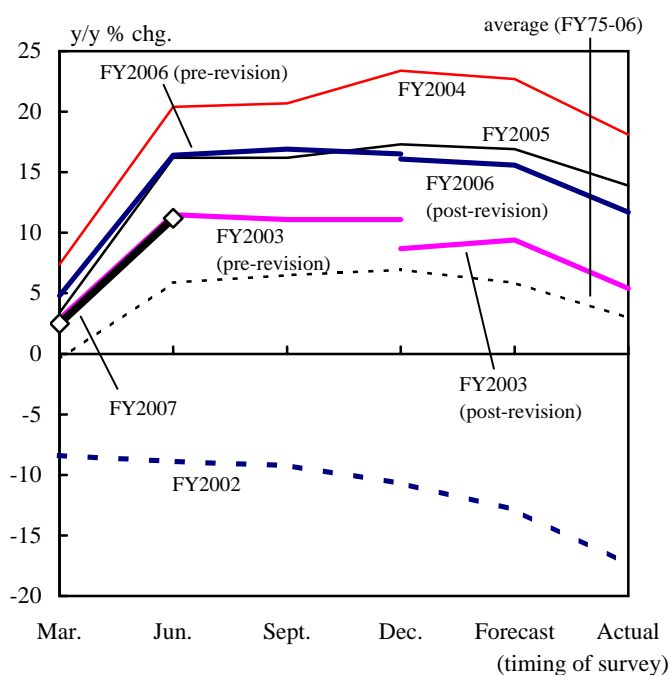
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

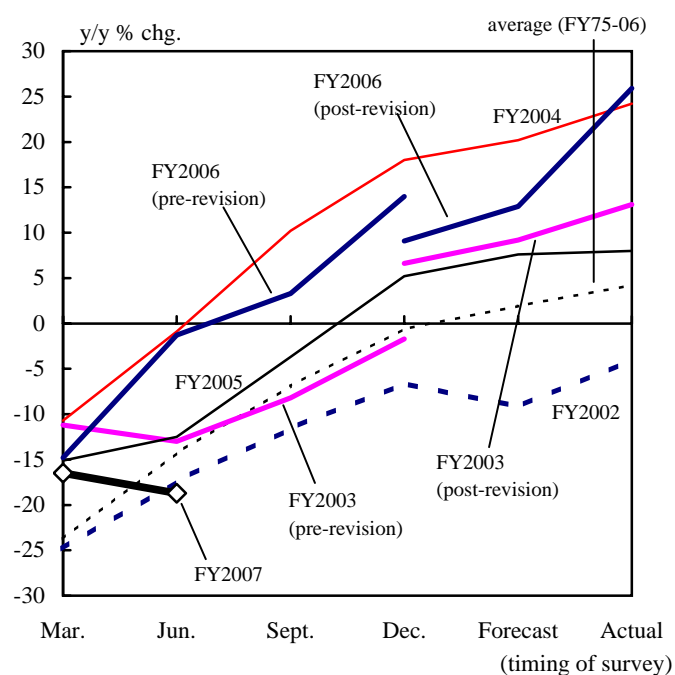
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

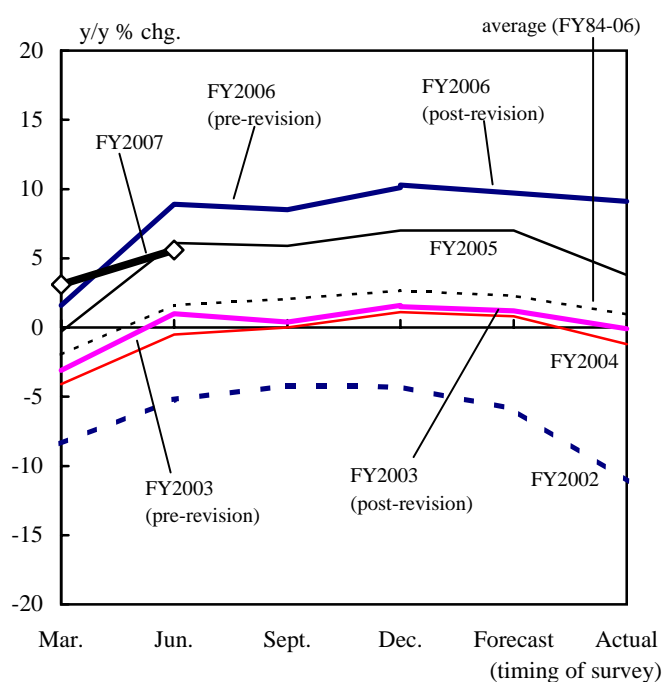
(1) Manufacturing Large Enterprises



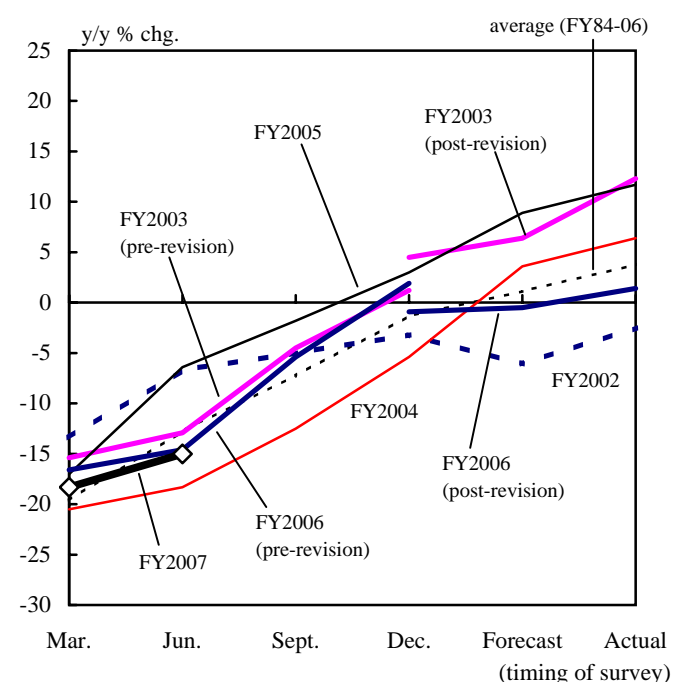
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



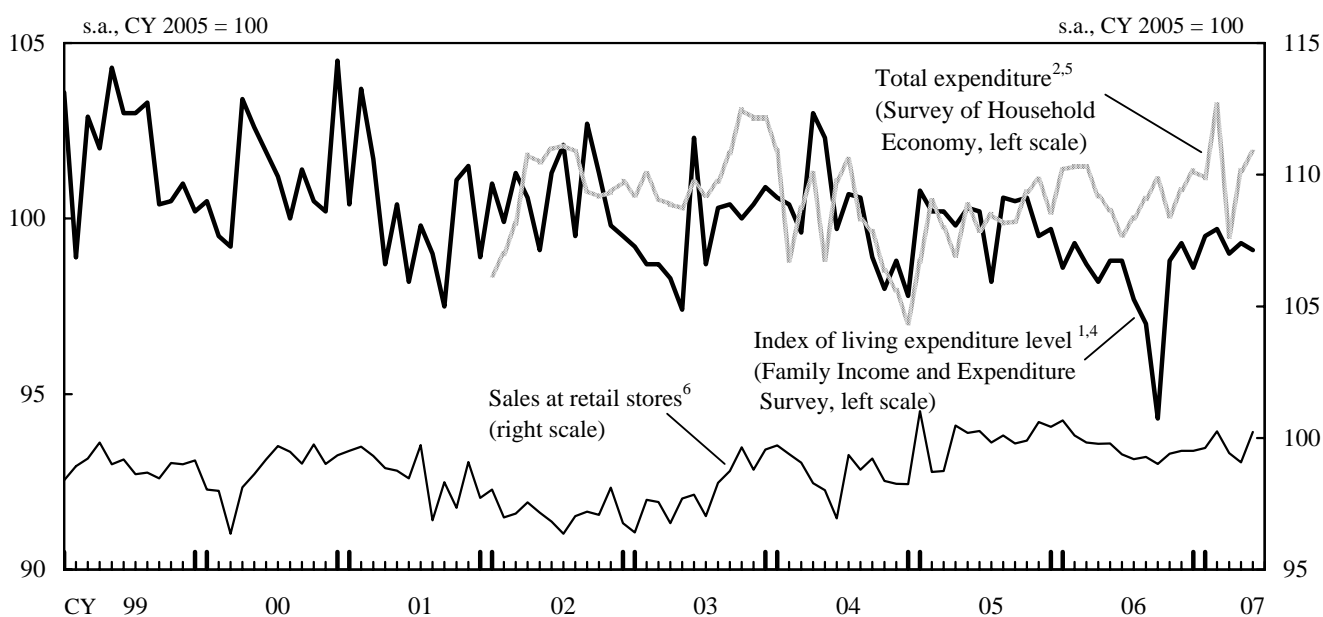
Notes: 1. Includes land purchasing expenses and excludes software investment.

2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

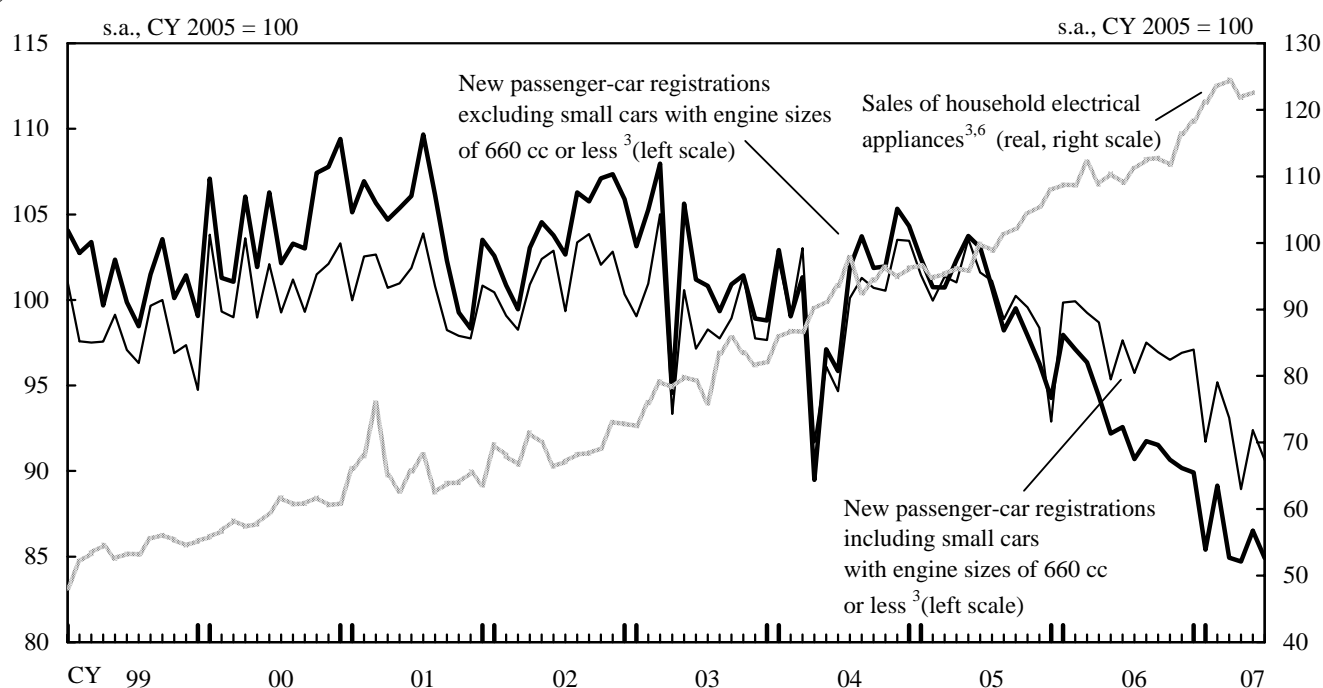
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Household Spending (Real)



(2) Sales of Durable Goods



Notes: 1. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

2. Total expenditure is seasonally adjusted by X-11.

3. All the other indicators are seasonally adjusted by X-12-ARIMA.

4. Index of living expenditure level is based on two-or-more-person households excluding agricultural, forestry, and fisheries households.

5. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.

6. 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).

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

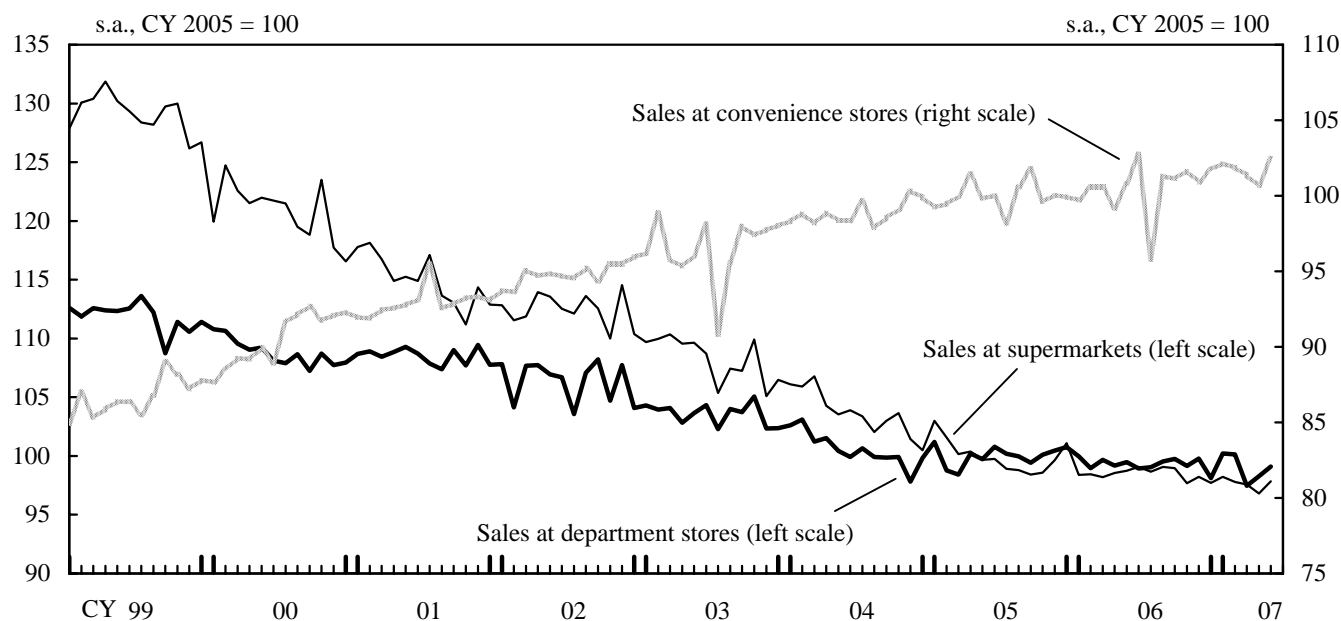
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";

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

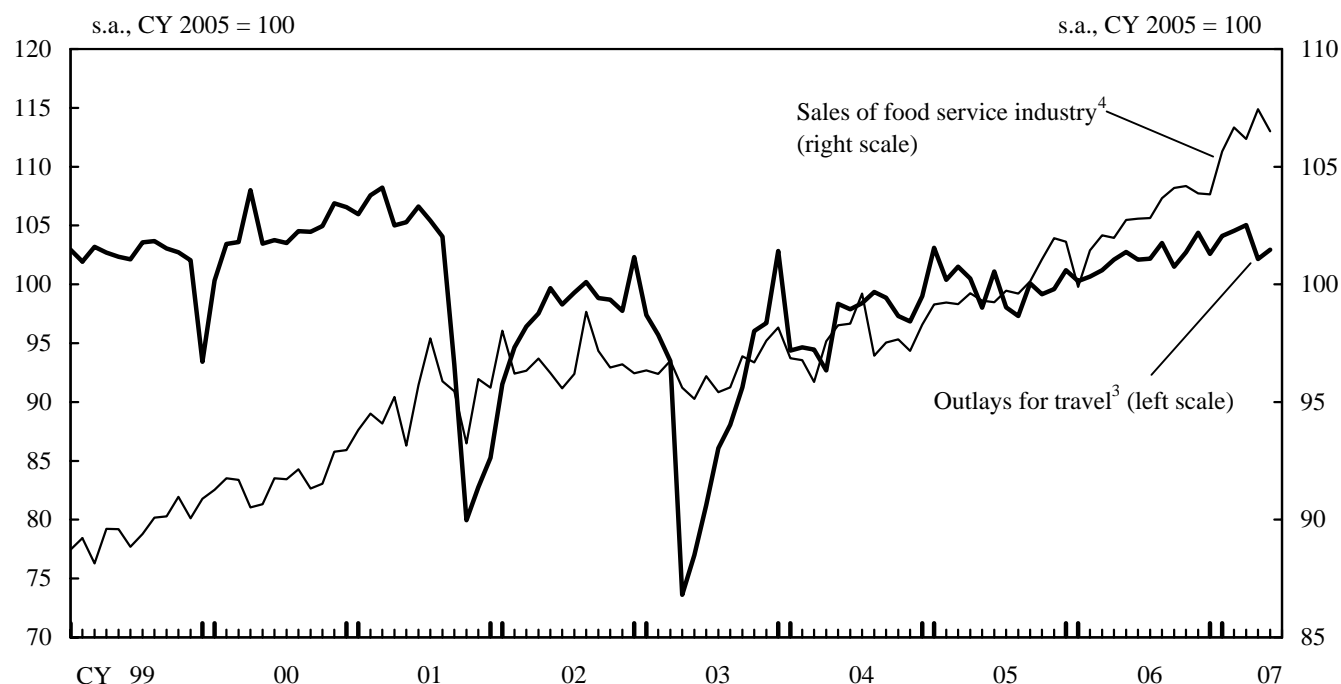
Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index";

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

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

Indicators for Private Consumption¹ (2)(3) Sales at Retail Stores (Nominal)²

(4) Consumption of Services (Nominal)



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

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

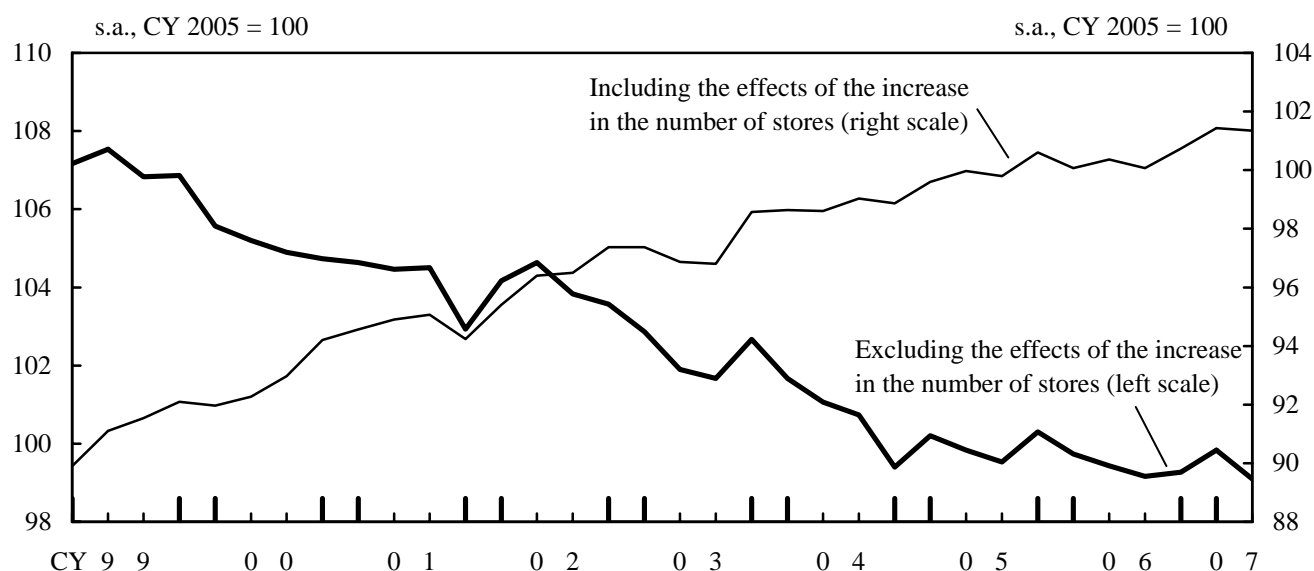
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

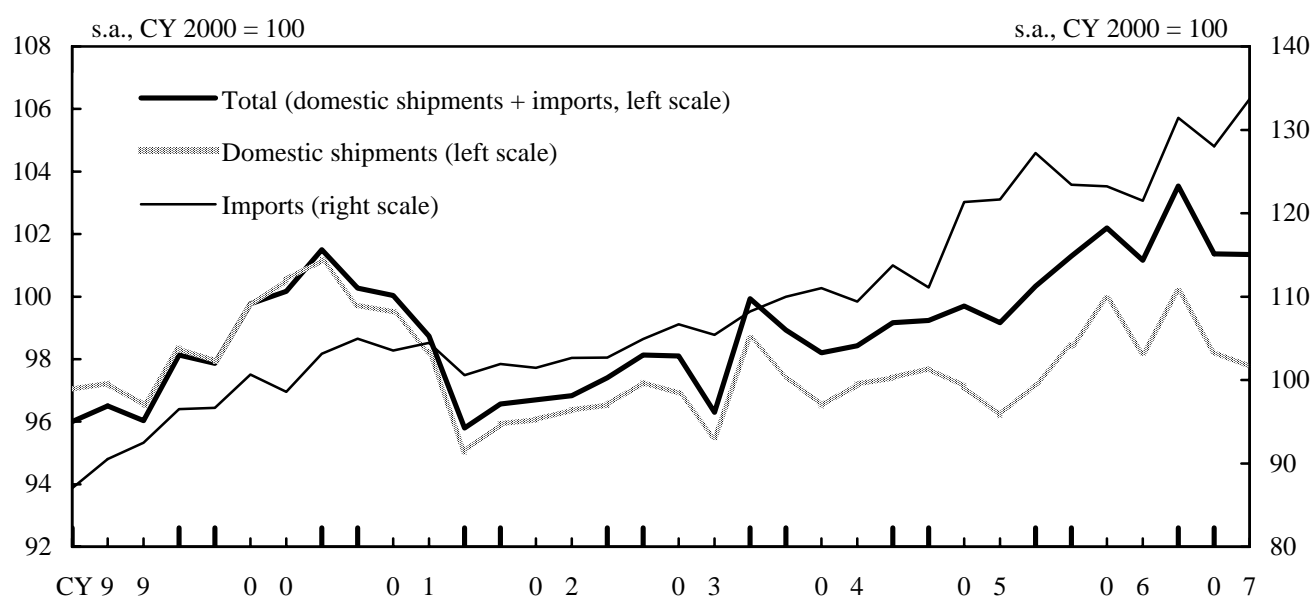
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- Notes: 1. The 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. Data for 2007/Q2 figures are those of April-May averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

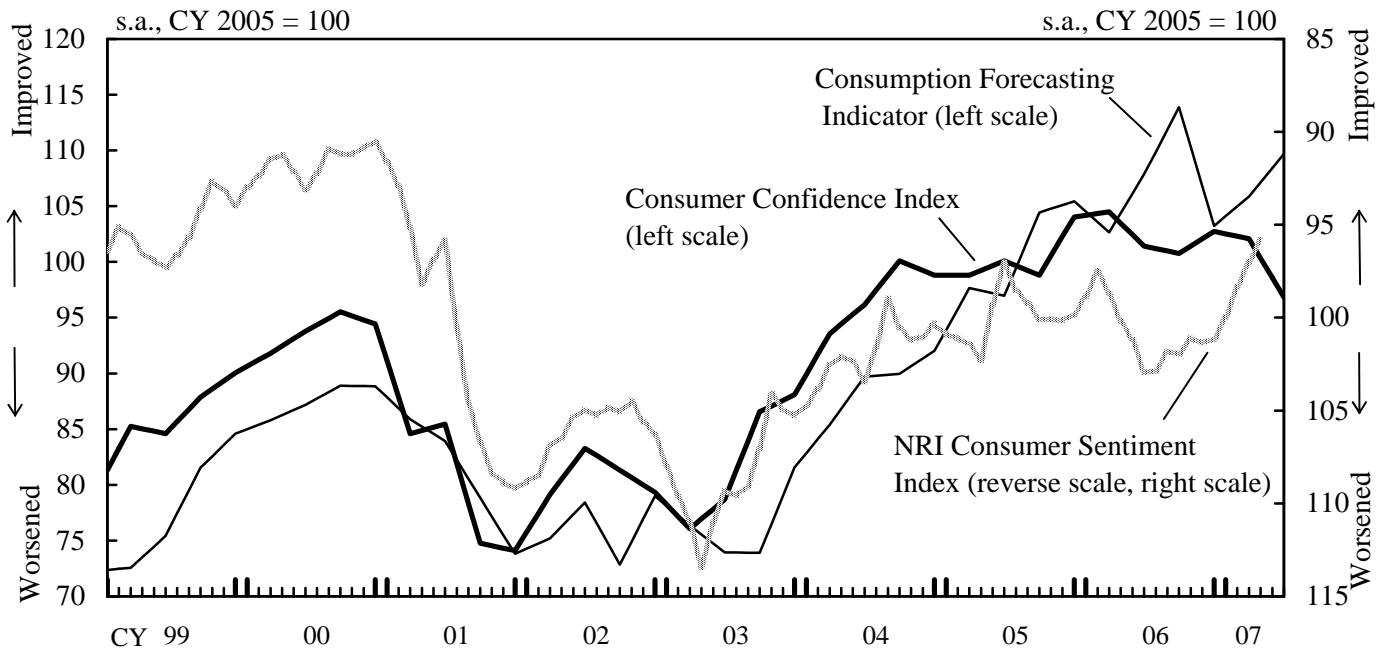


Note: Data for 2007/Q2 figures are those of April-May averages in terms of quarterly amount.

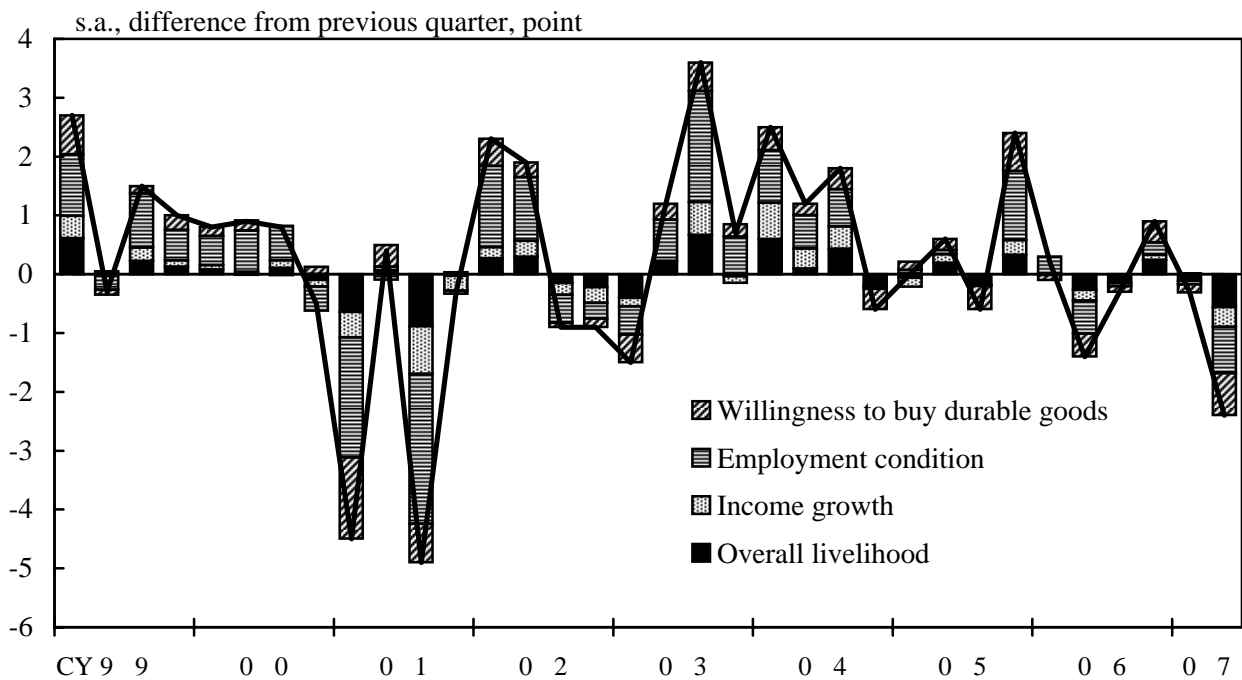
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

(1) Surveys on Consumer Confidence



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

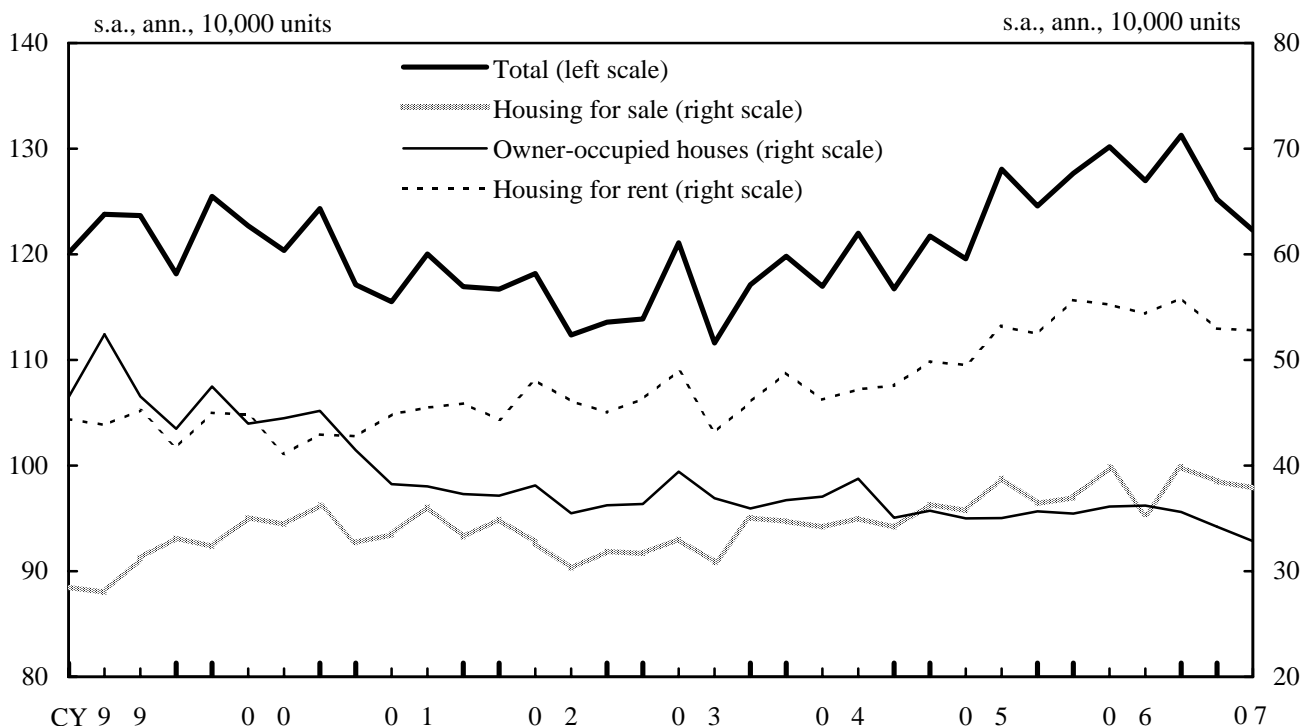


- Notes: 1. Seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
3. Data are plotted at the months of each survey.
4. The sample design of the Consumer Confidence Survey has been changed in July 2007.

Sources: Cabinet Office, "Consumer Confidence Survey"; Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

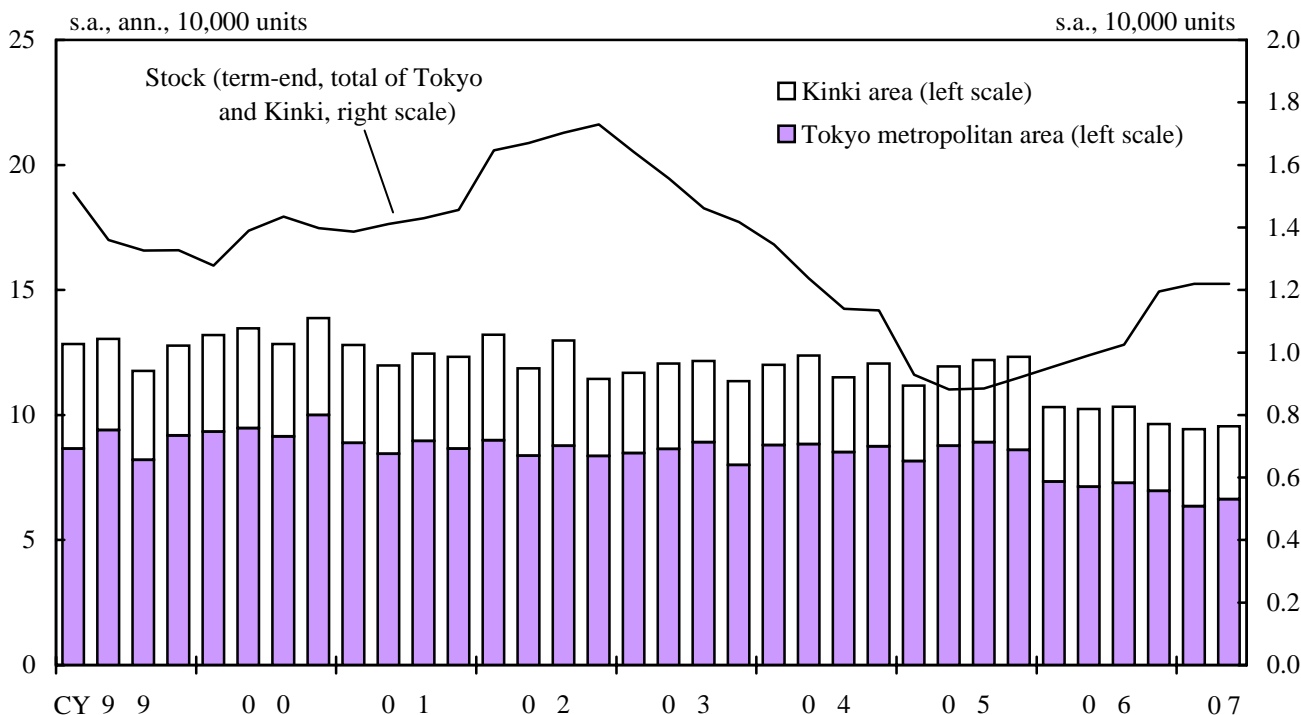
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2007/Q2 are those of April-May averages.

(2) Sales of Apartments



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

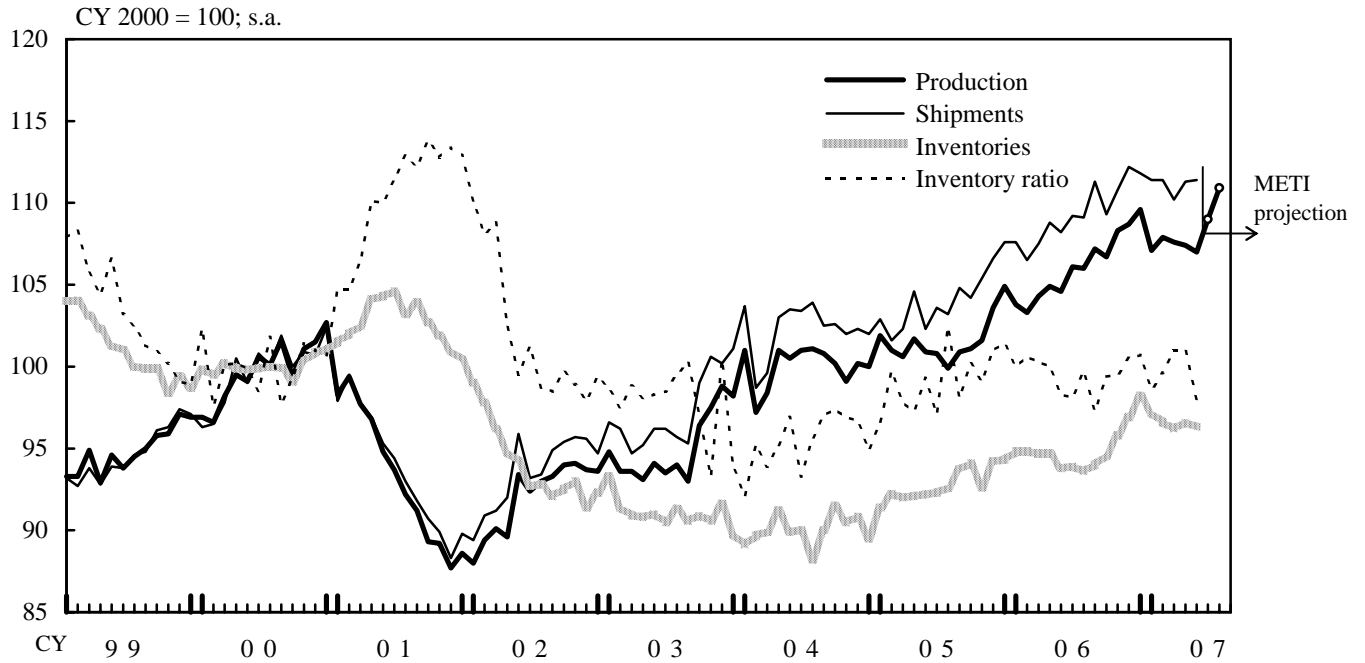
2. Figures of total apartments sales for 2007/Q2 are those of April-May averages.

Term-end stocks for 2007/Q2 are those of May.

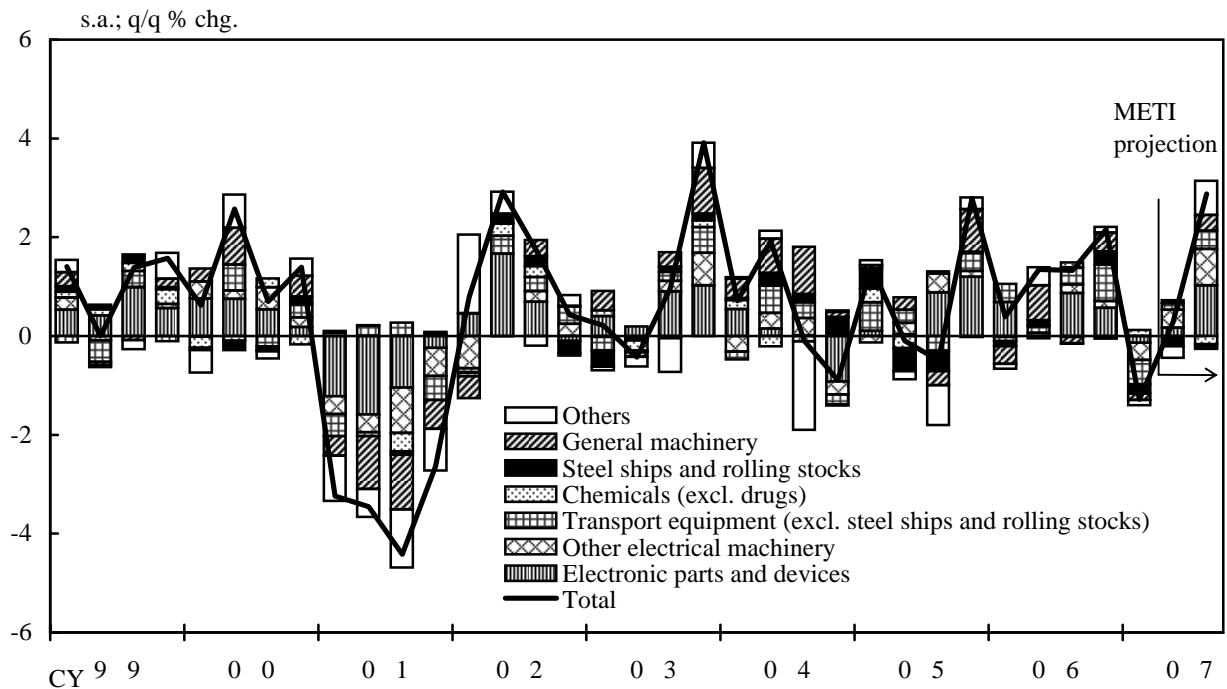
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries



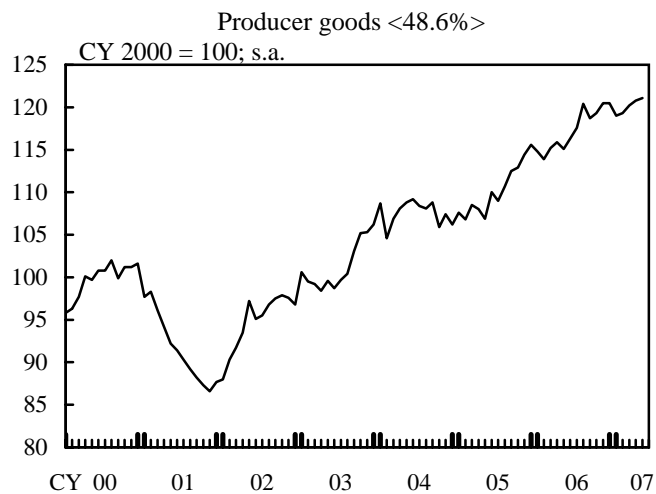
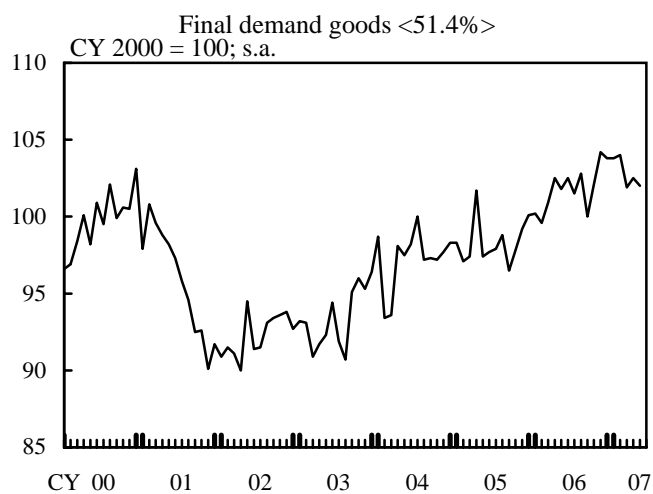
Notes:1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

- 2007/Q2 figures are based on the actual levels in April and May, and the METI projection level in June. 2007/Q3 figures are based on the assumption that each production level in August and September is the same as that of July.

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

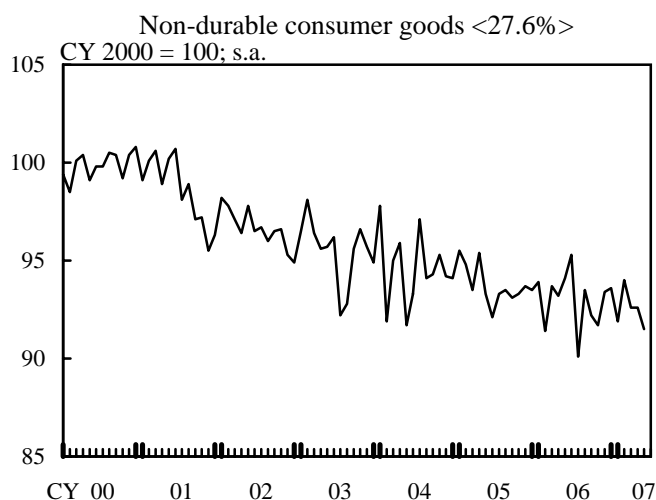
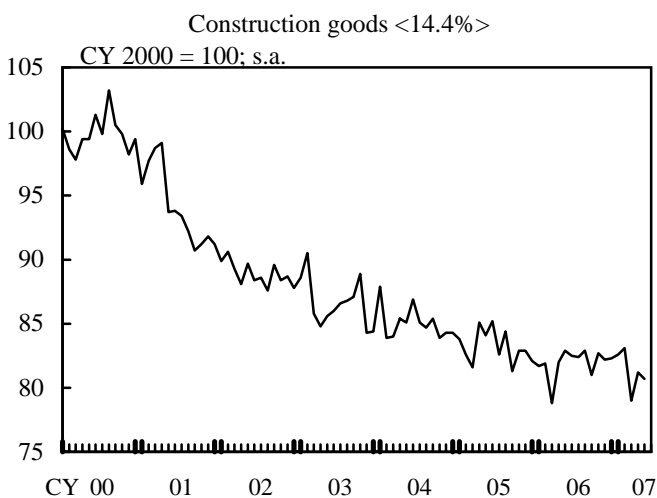
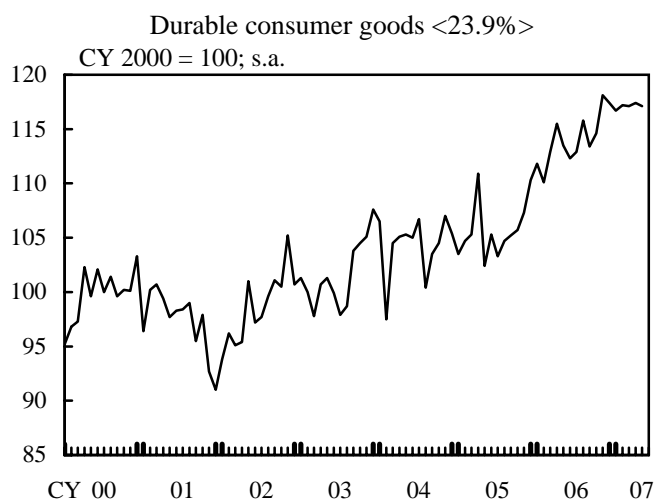
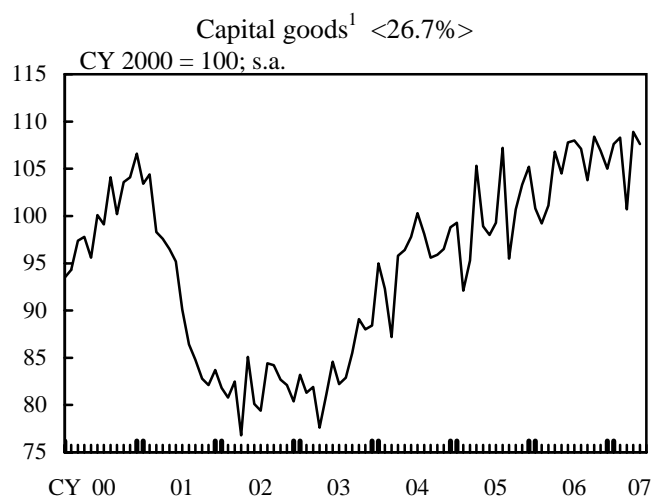
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods



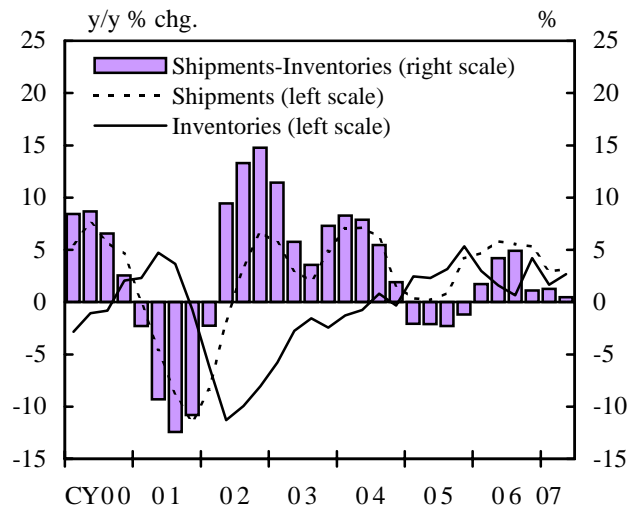
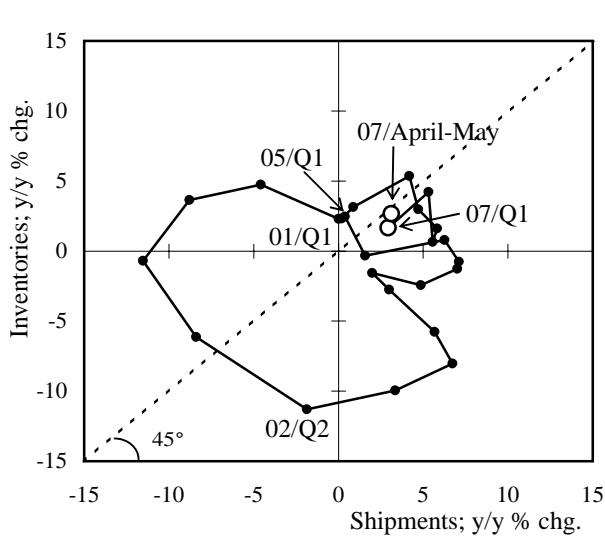
Notes: 1. Excluding transport equipment.

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

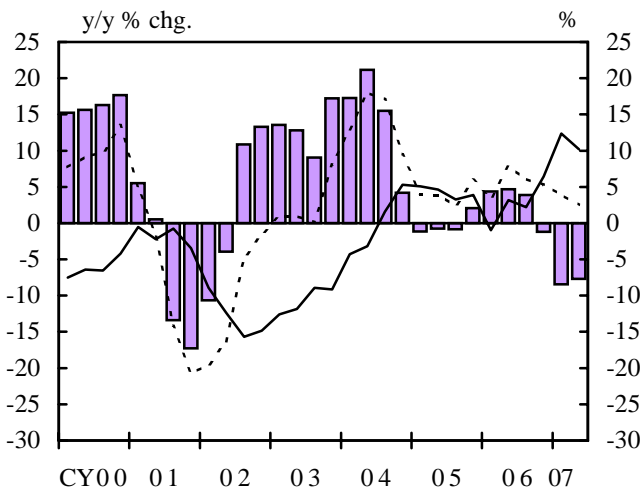
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

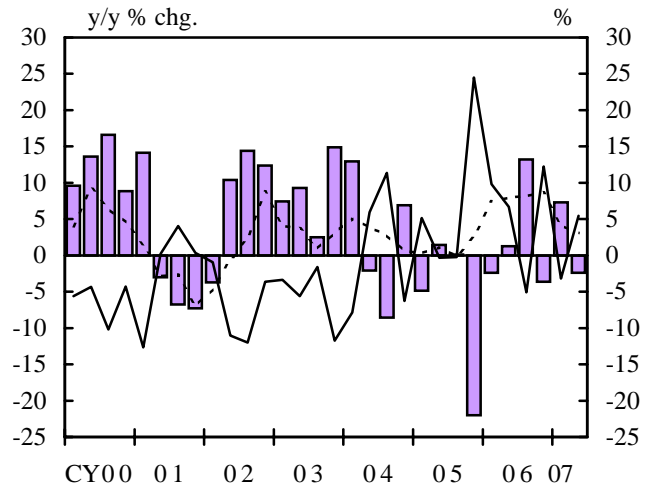
(1) Total



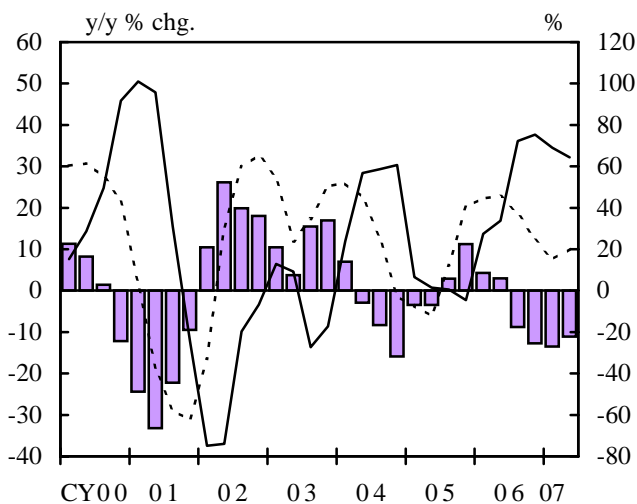
(2) Capital Goods (Excluding Transport Equipment)



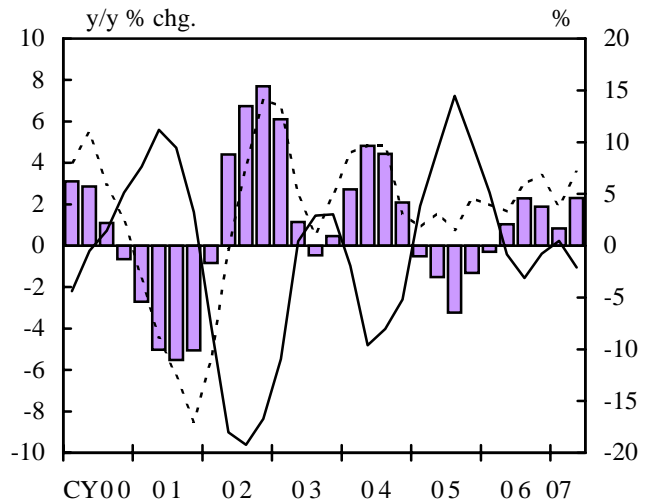
(3) Durable Consumer Goods



(4) Electronic Parts and Devices



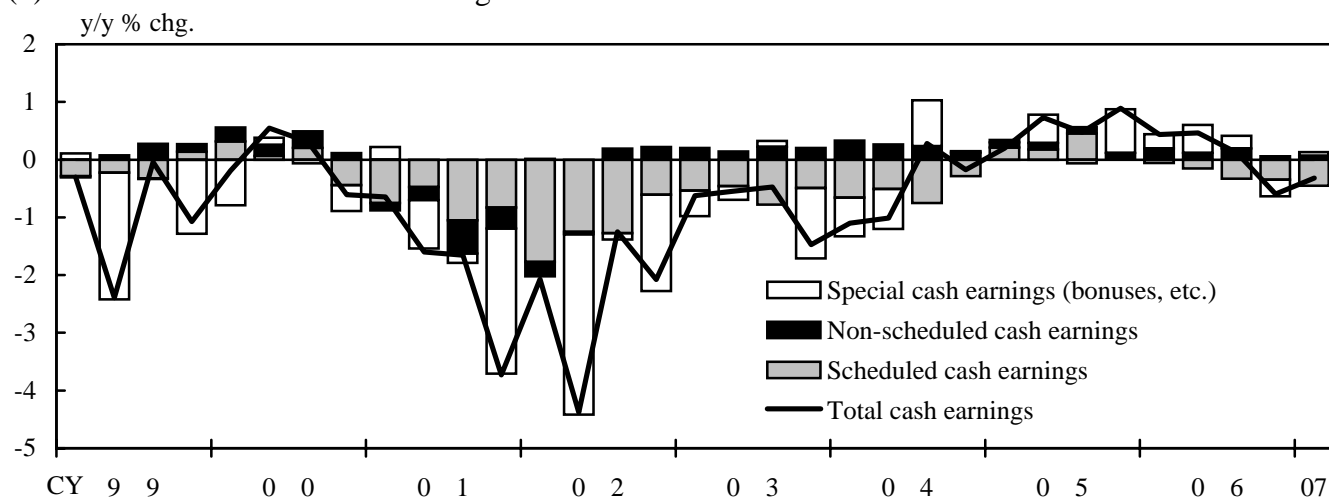
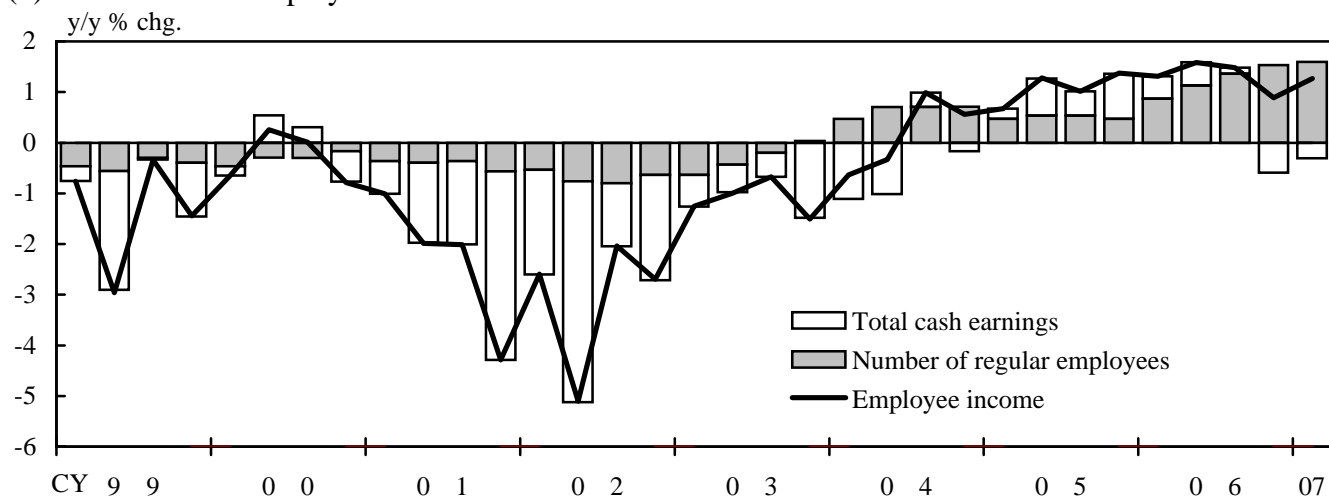
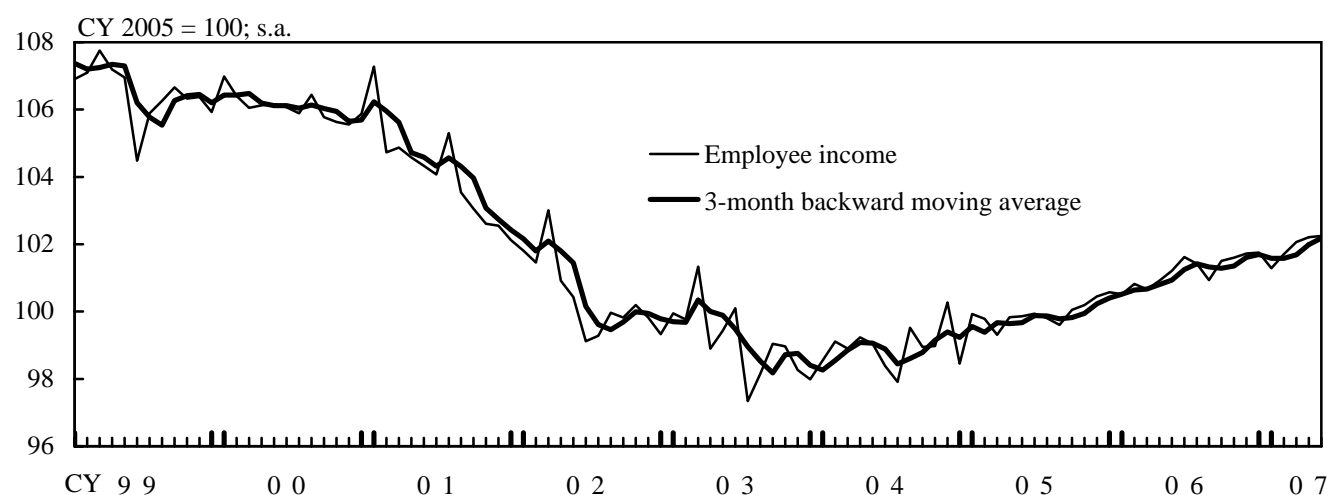
(5) Producer Goods Excluding Electronic Parts and Devices



Note: Figures of Shipments for 2007/Q2 are those of April-May averages.
Inventories for 2007/Q2 are those of May.

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

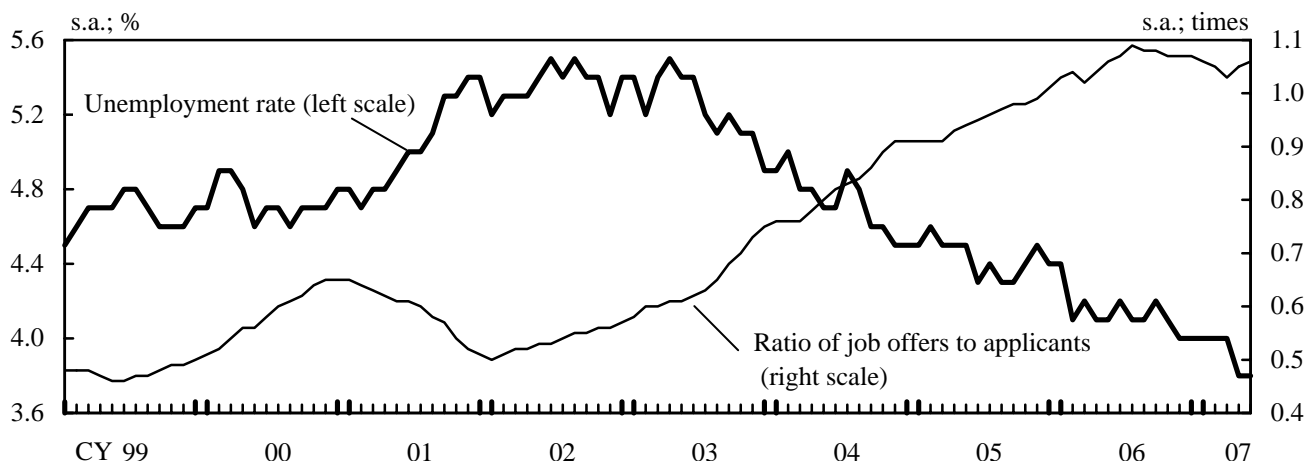
Employee Income

(1) Breakdown of Total Cash Earnings^{1,2}(2) Breakdown of Employee Income^{1,2}(3) Employee Income^{1,3,4}

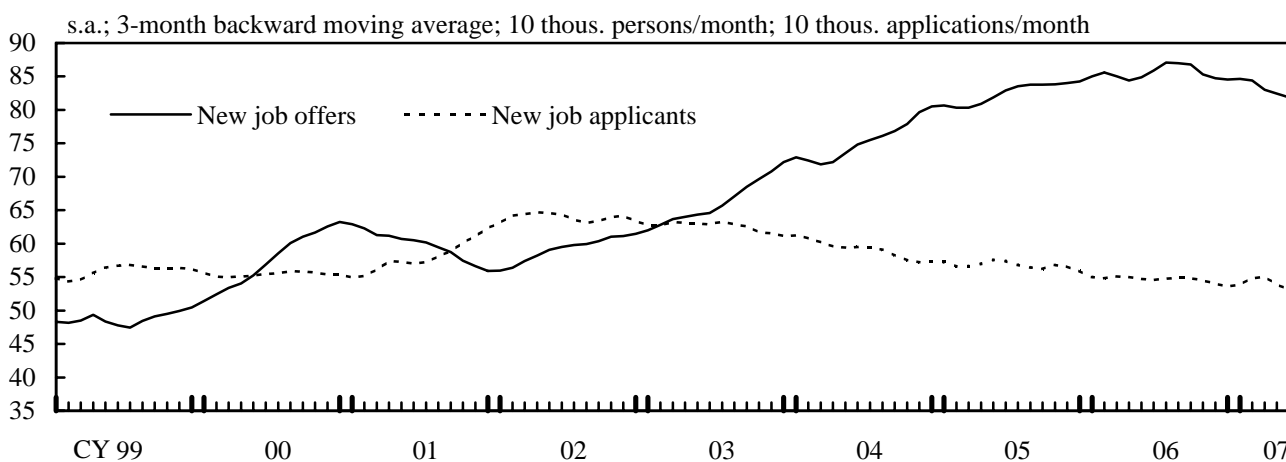
- Notes: 1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.
 4. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.

Labor Market (1)

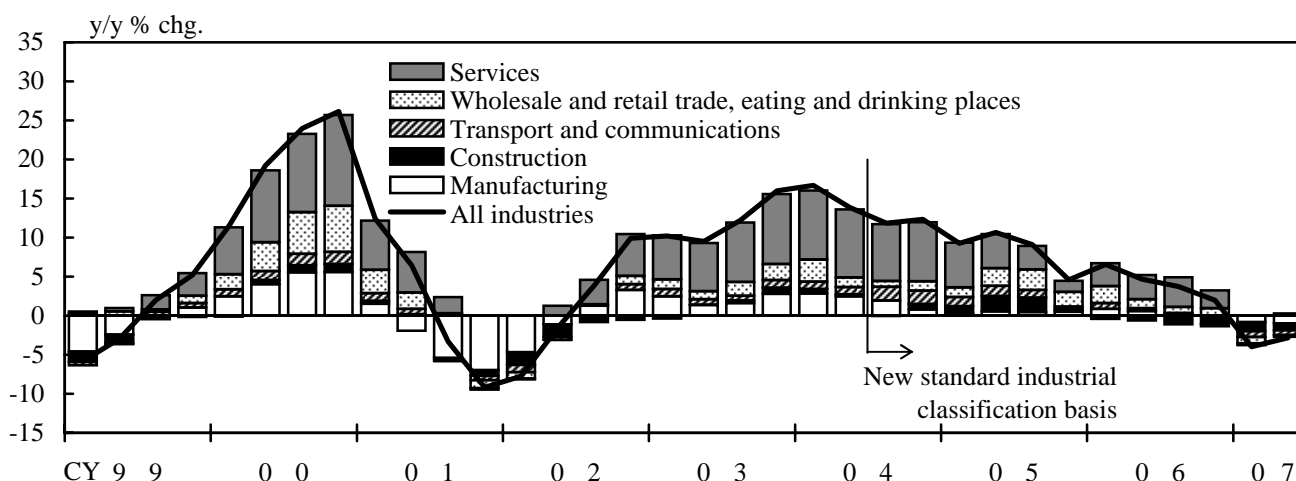
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



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

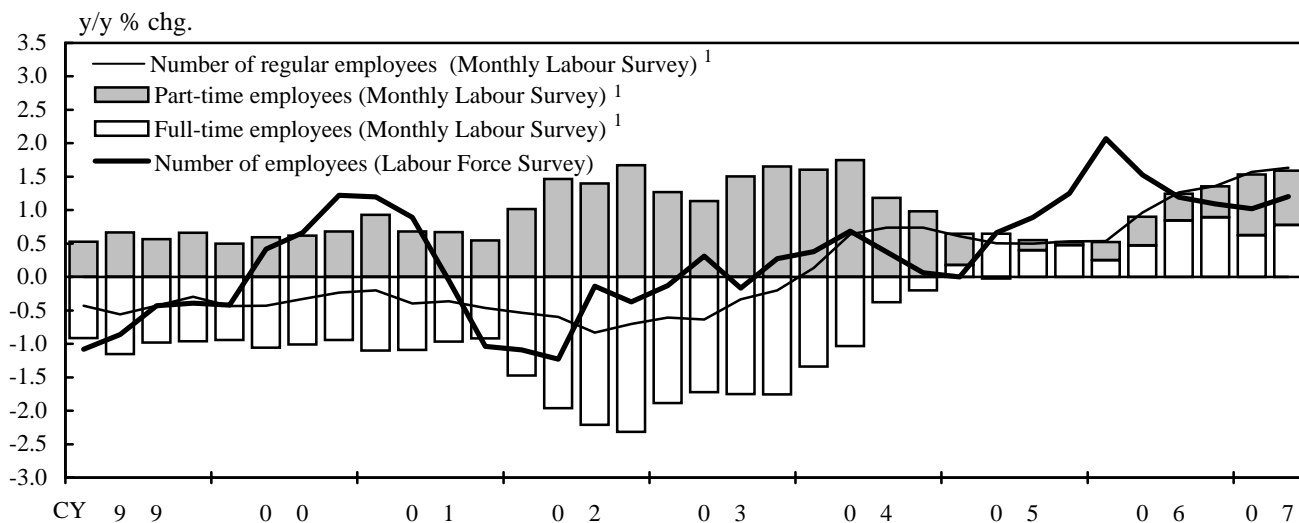


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation 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 2007/Q2 are those of April-May averages.

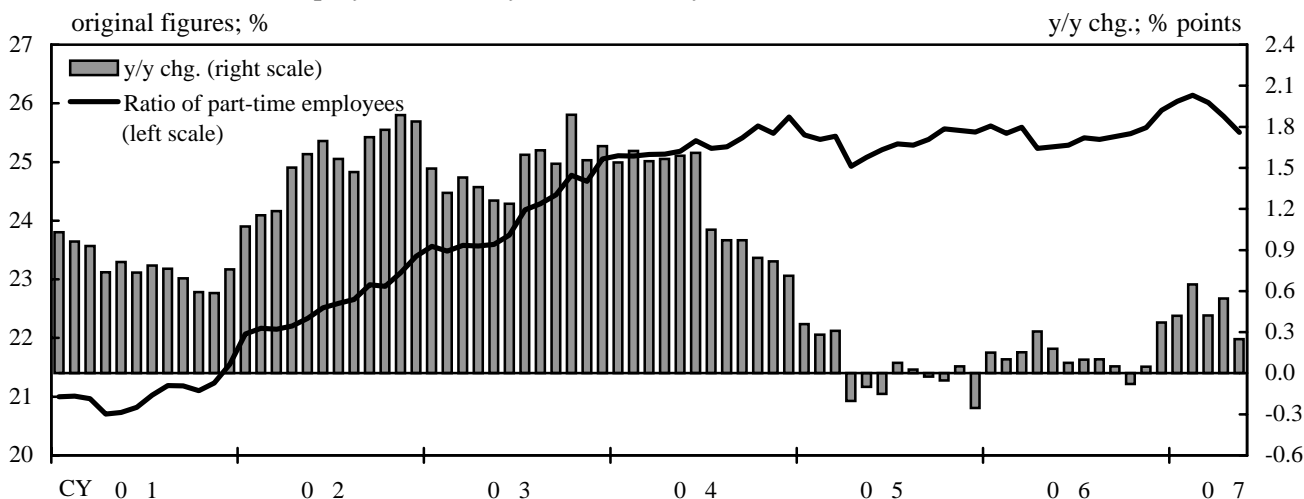
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

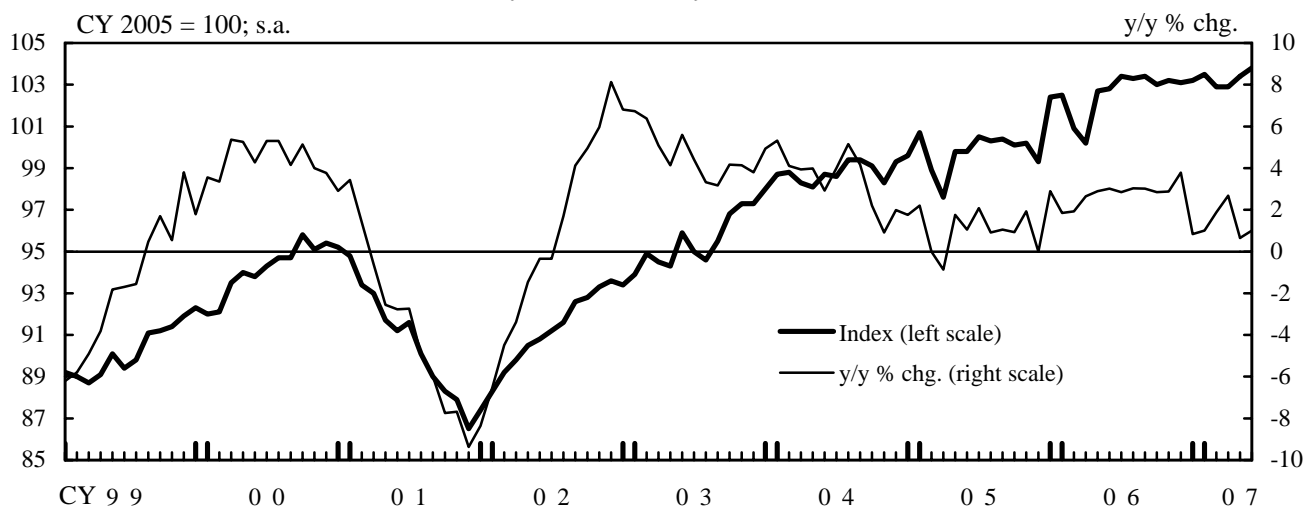
(1) Number of Employees³



(2) Ratio of Part-Time Employees (Monthly Labour Survey)^{1,2}



(3) Non Scheduled Hours Worked (Monthly Labour Survey)¹



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

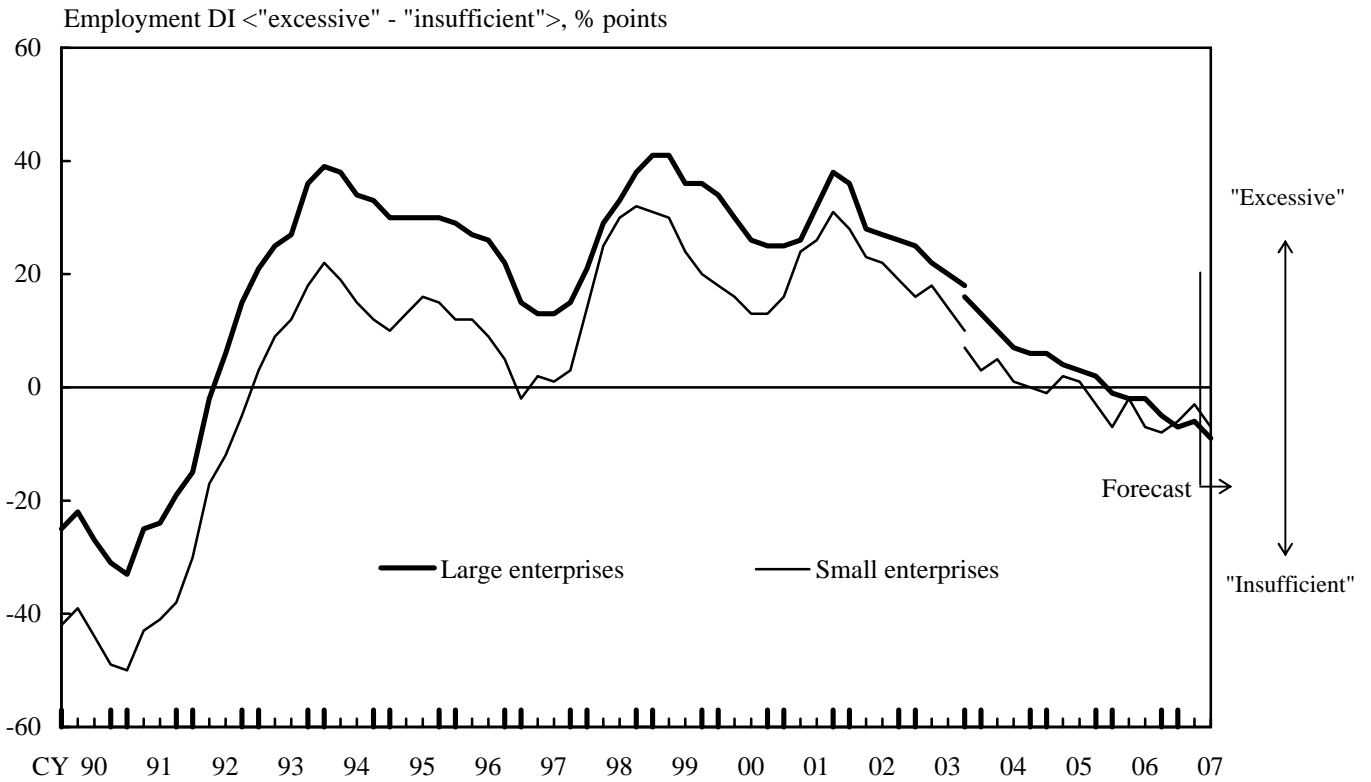
2. Ratio of part-time employees is calculated as number of part-time employees divided by number of regular employees times 100.

3. Figures for 2007/Q2 are those of April-May averages.

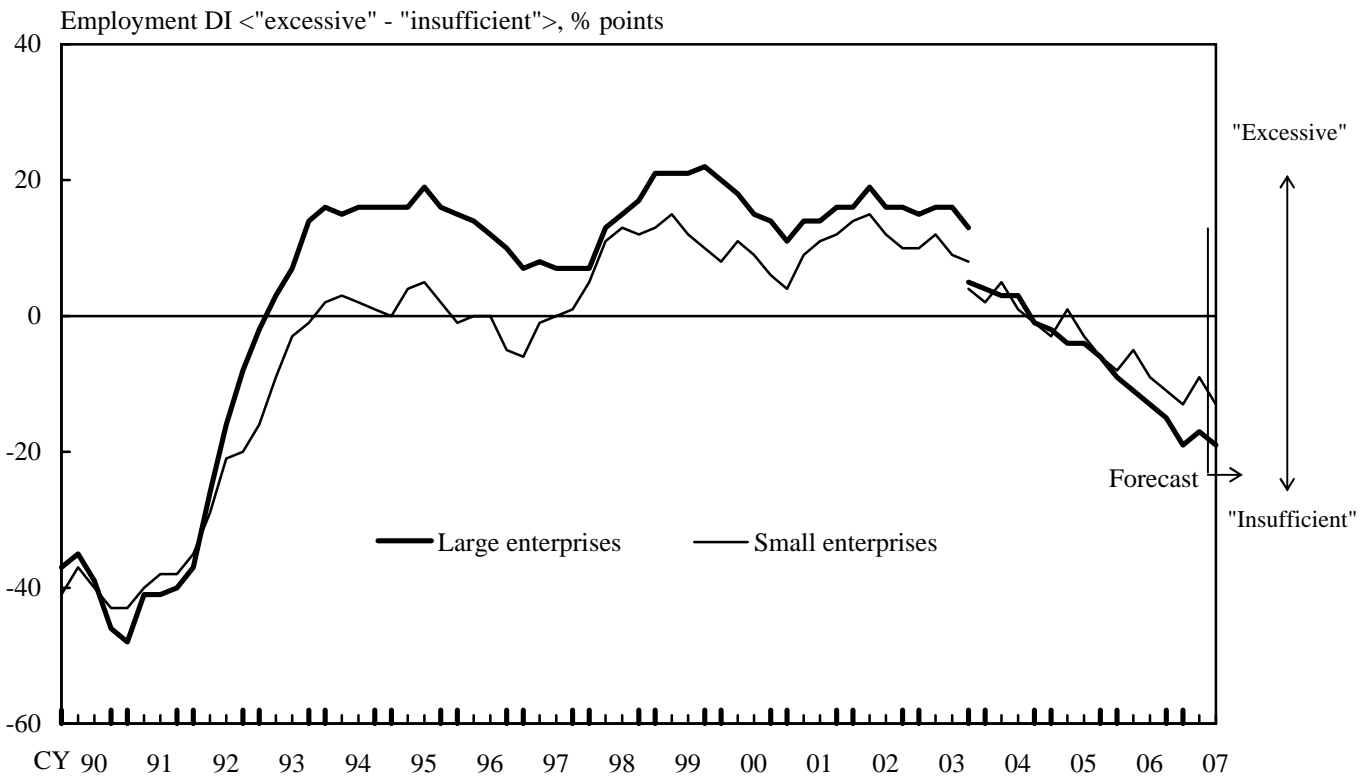
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

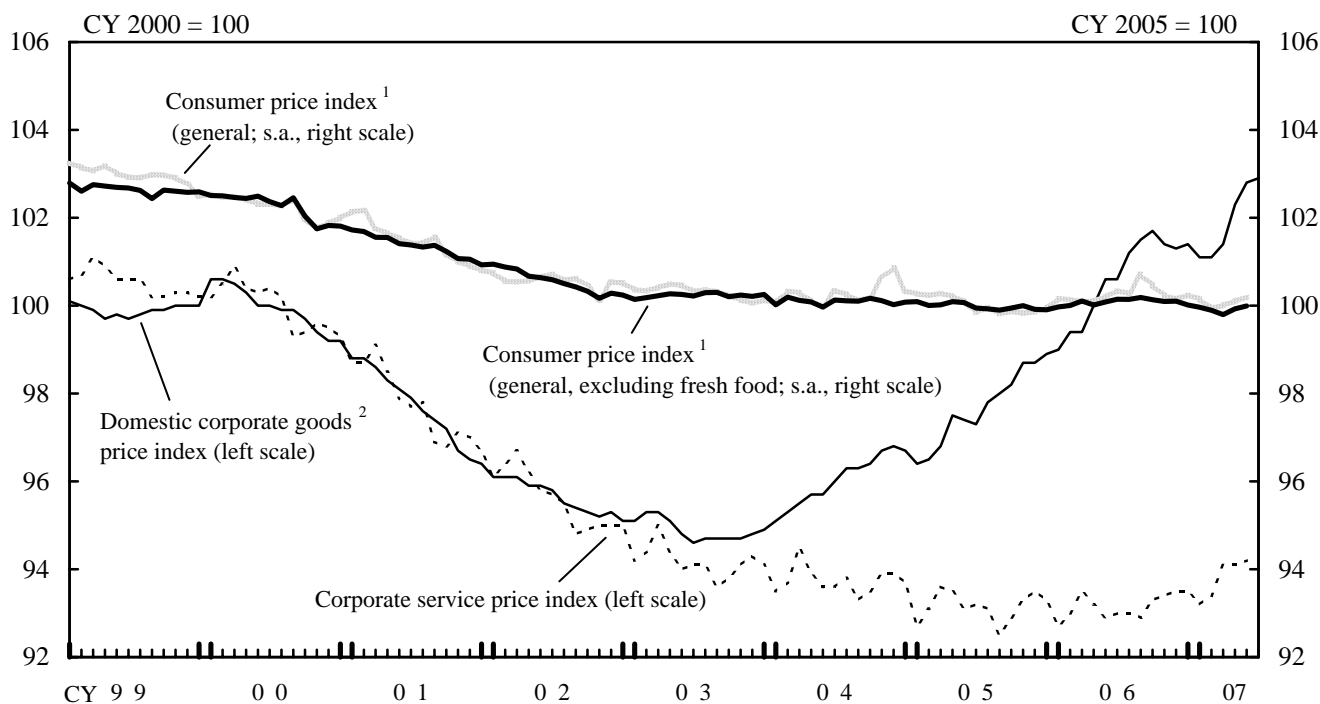


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

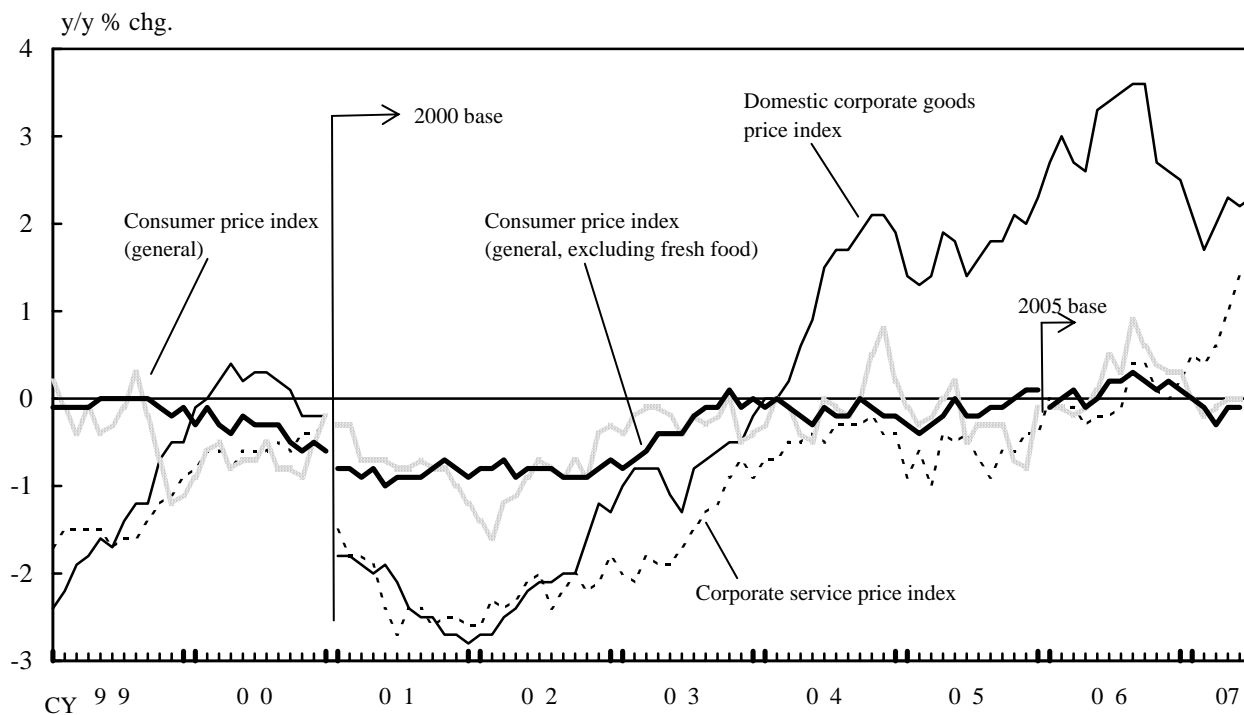
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

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.

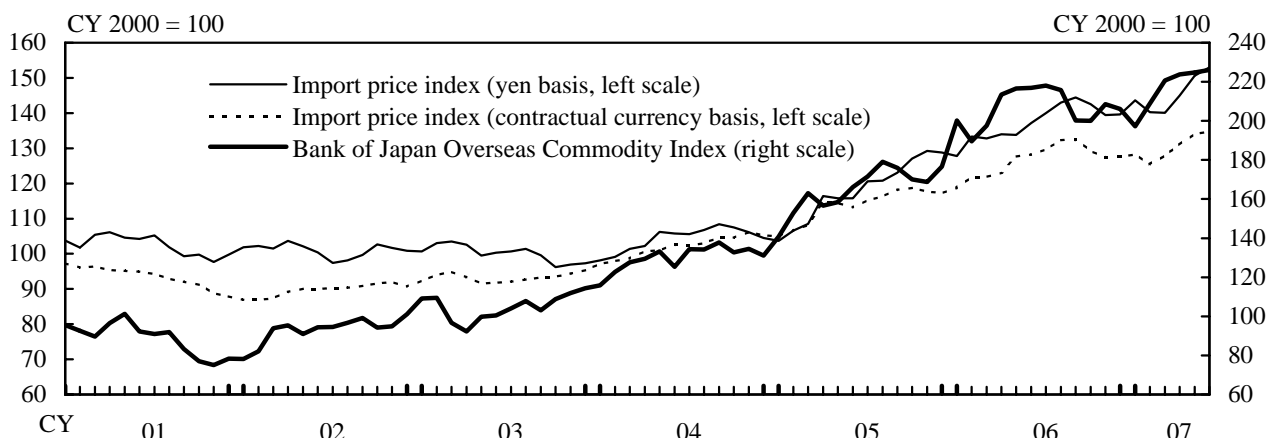
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

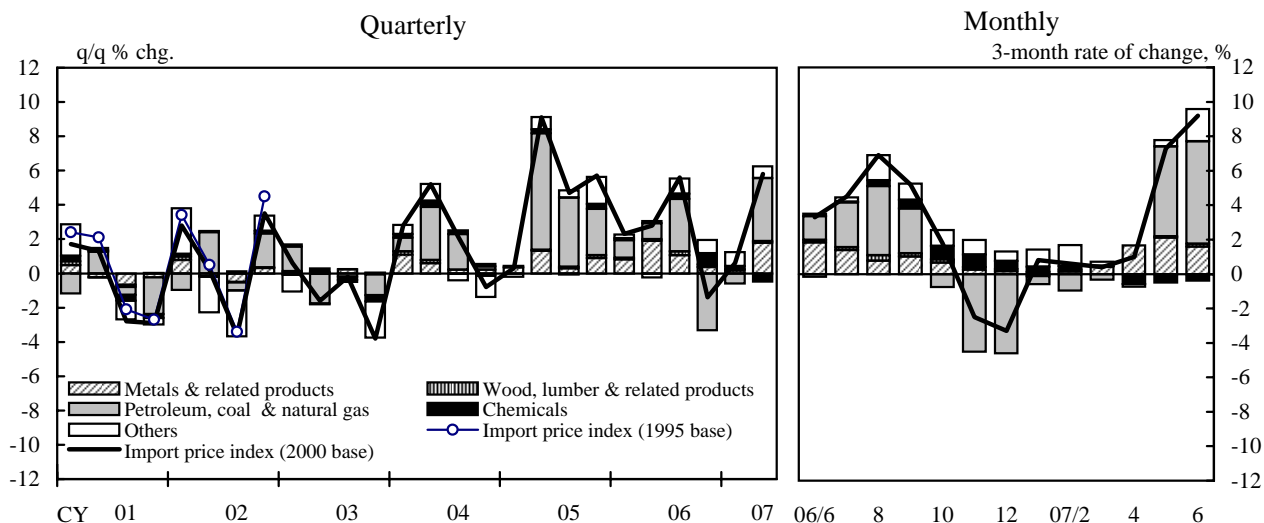
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



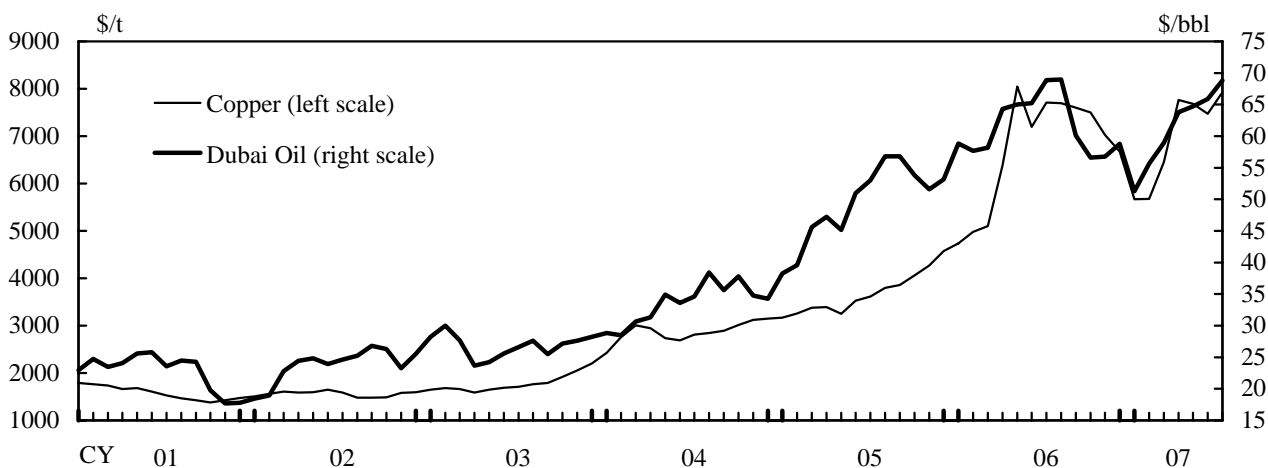
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: 1995 base figure for 2002/Q4 is October-November average.

(3) Oil Price and Copper Price

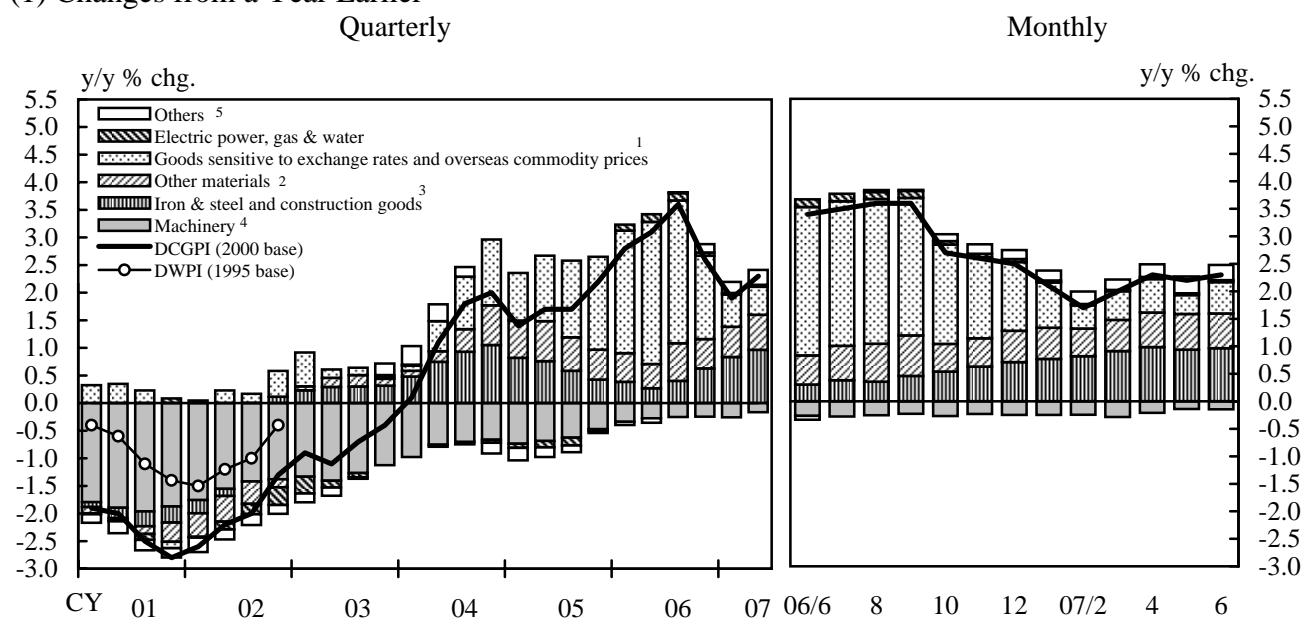
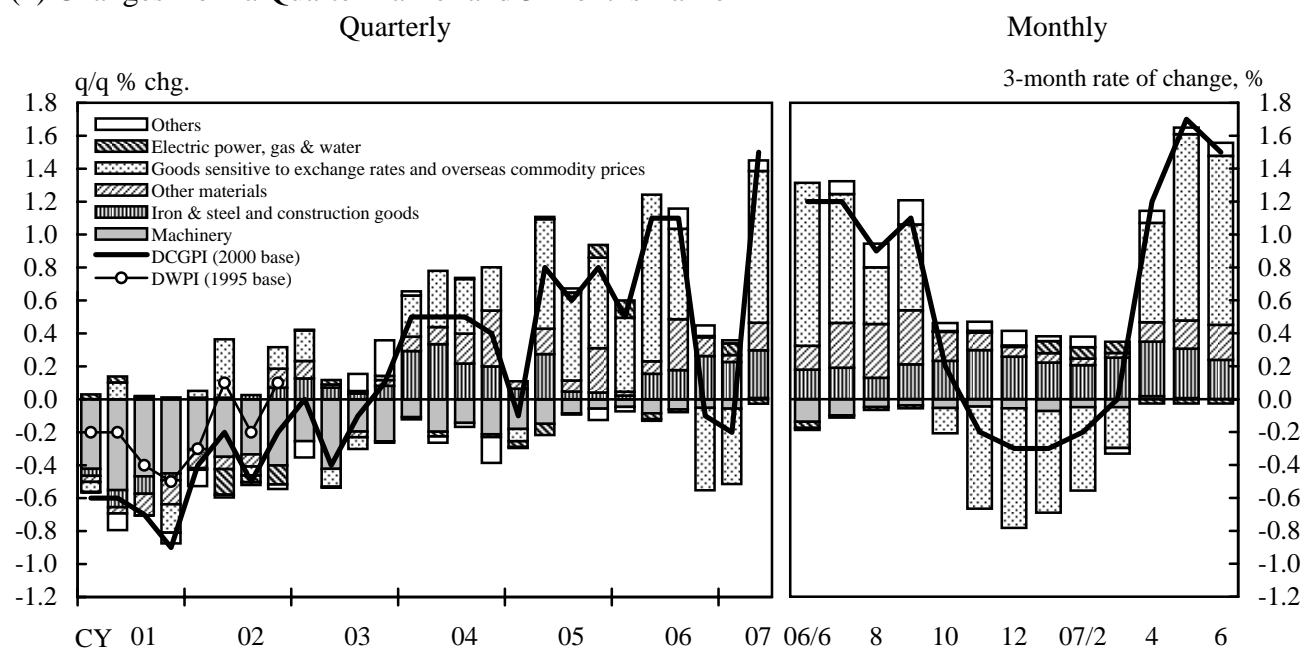


Note: Monthly averages. Figures for July 2007 are the averages up to July 11.

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.

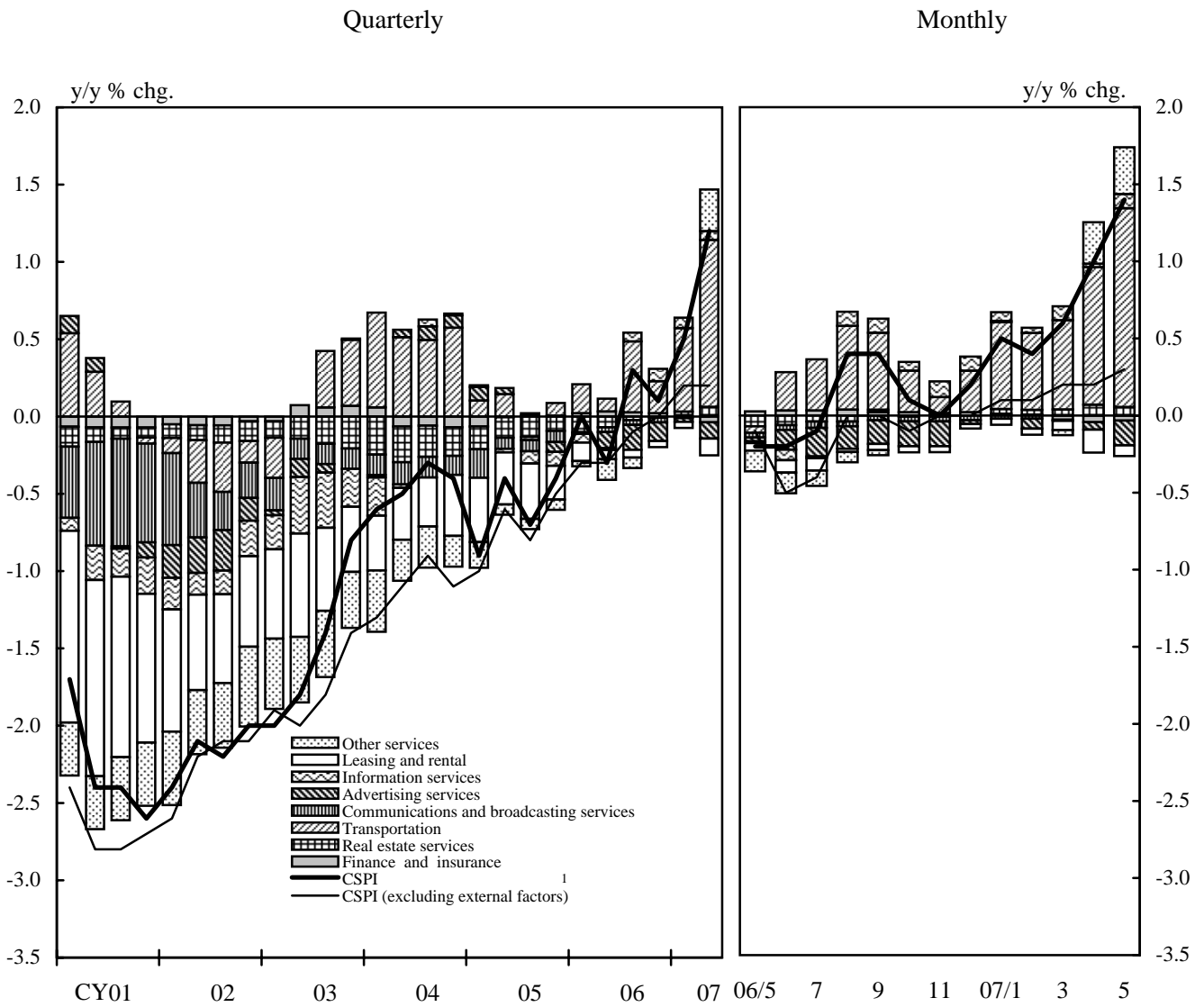
4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.

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. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index

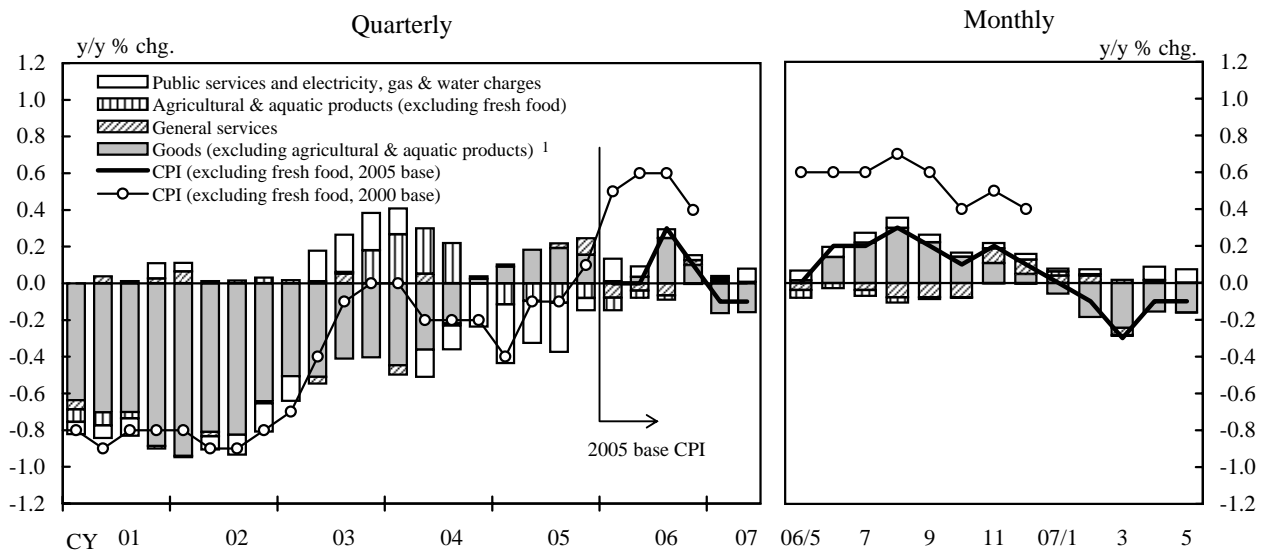


Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures for 2007/Q2 are April-May averages.

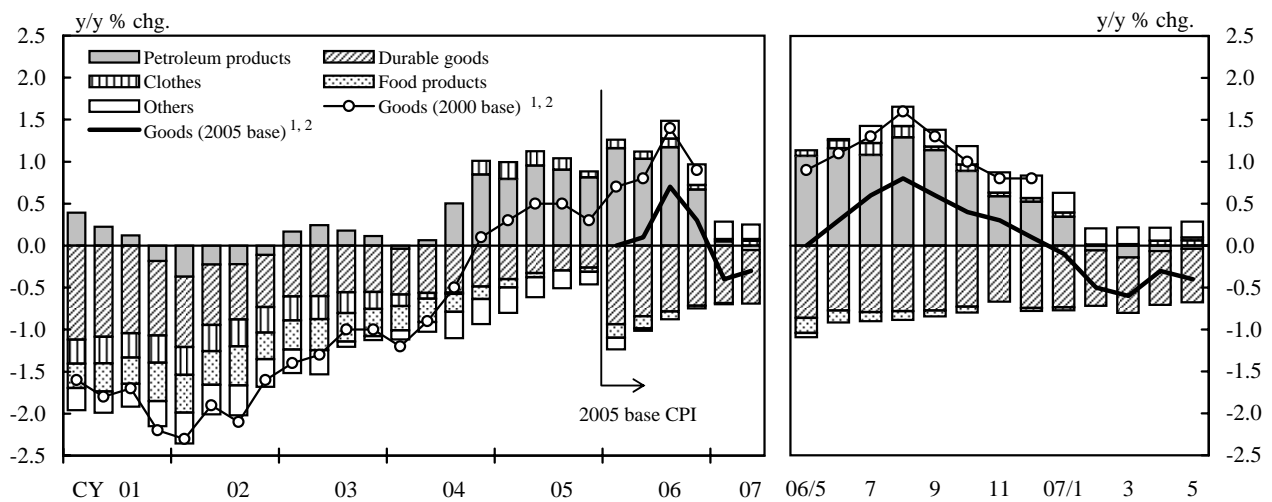
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

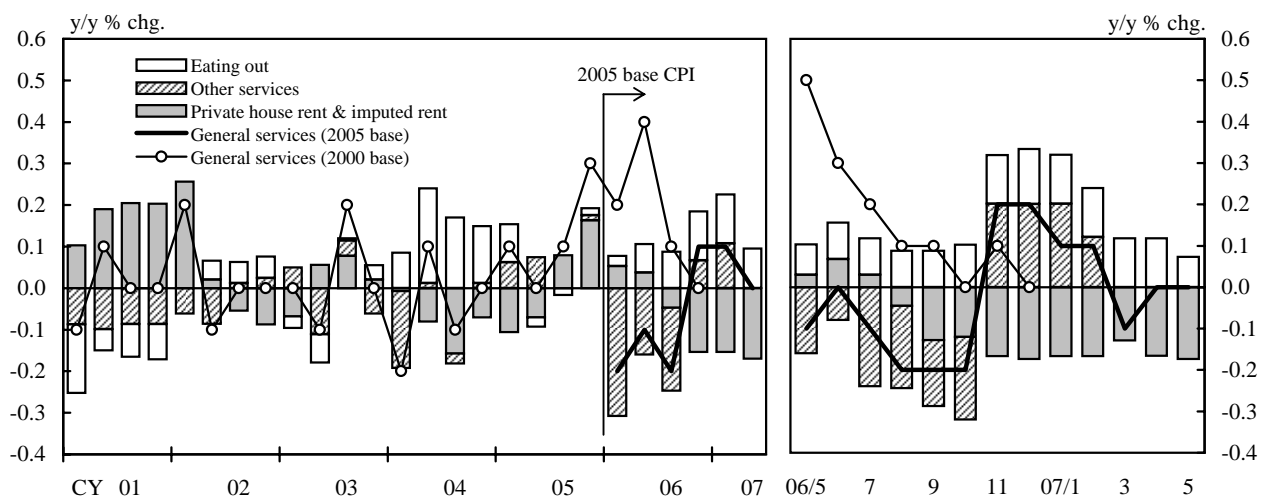
(1) Consumer Price Index (Excluding Fresh Food)



(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.

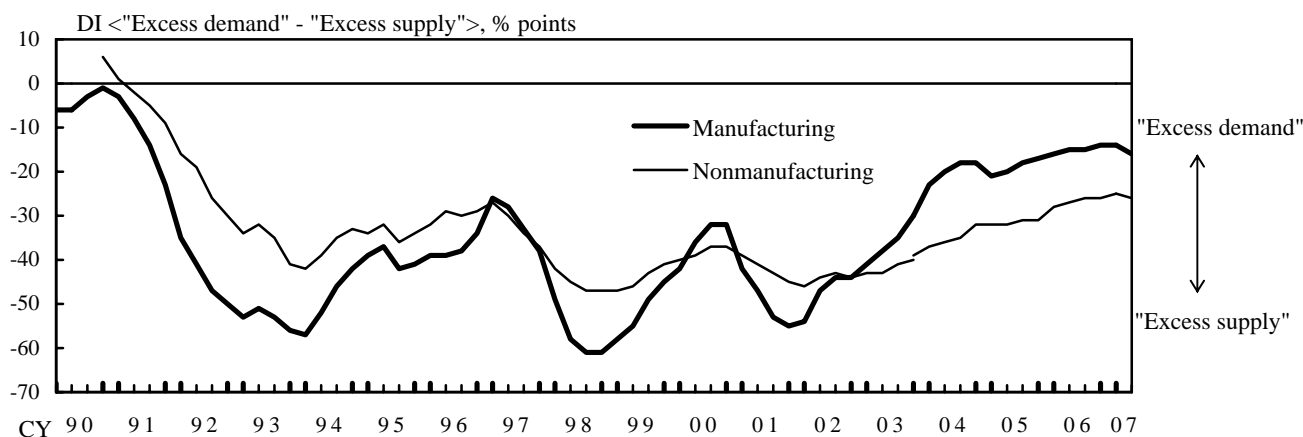
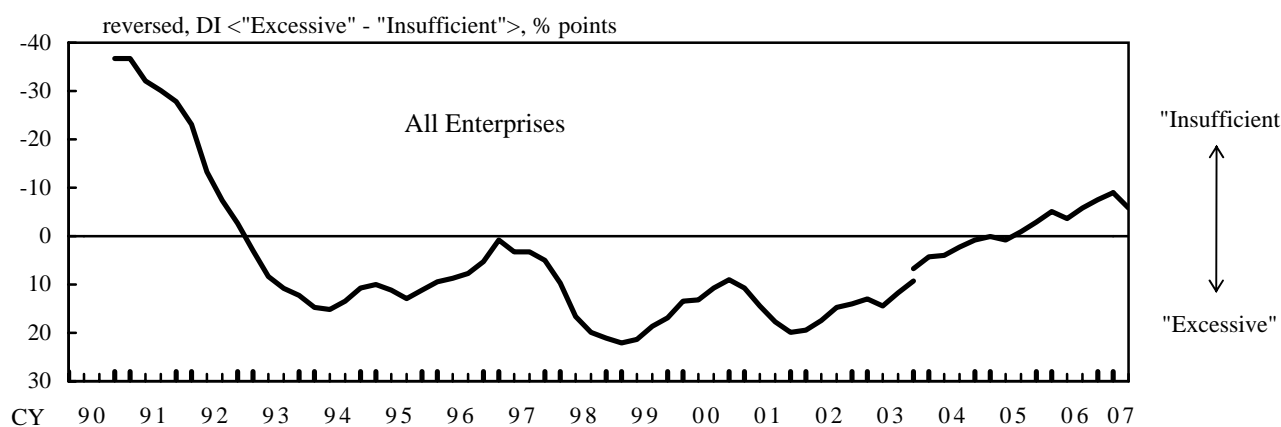
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q2 are April-May averages.

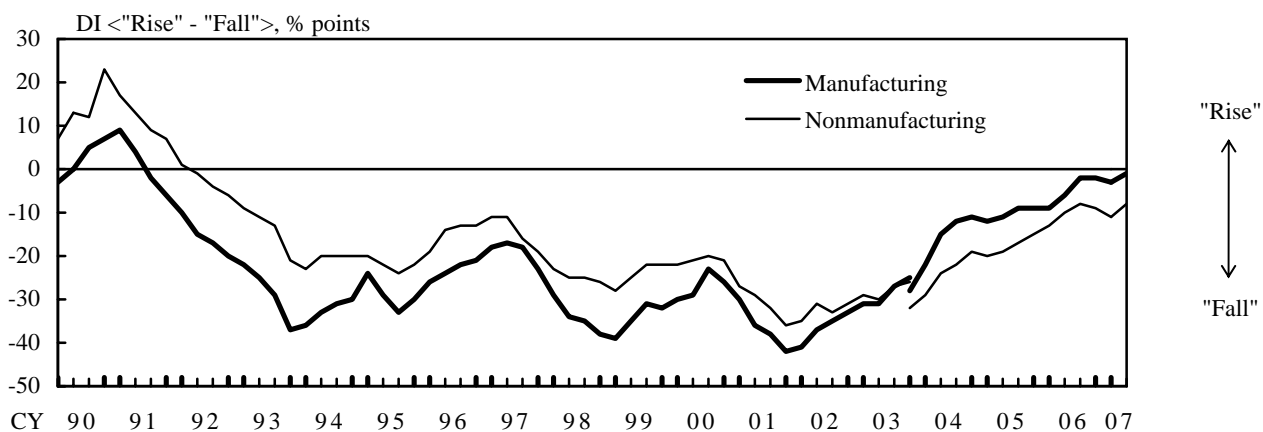
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

(2) Utilization of Capital and Labor²

(3) Change in Output Prices (All Enterprises)



Notes: 1. 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.

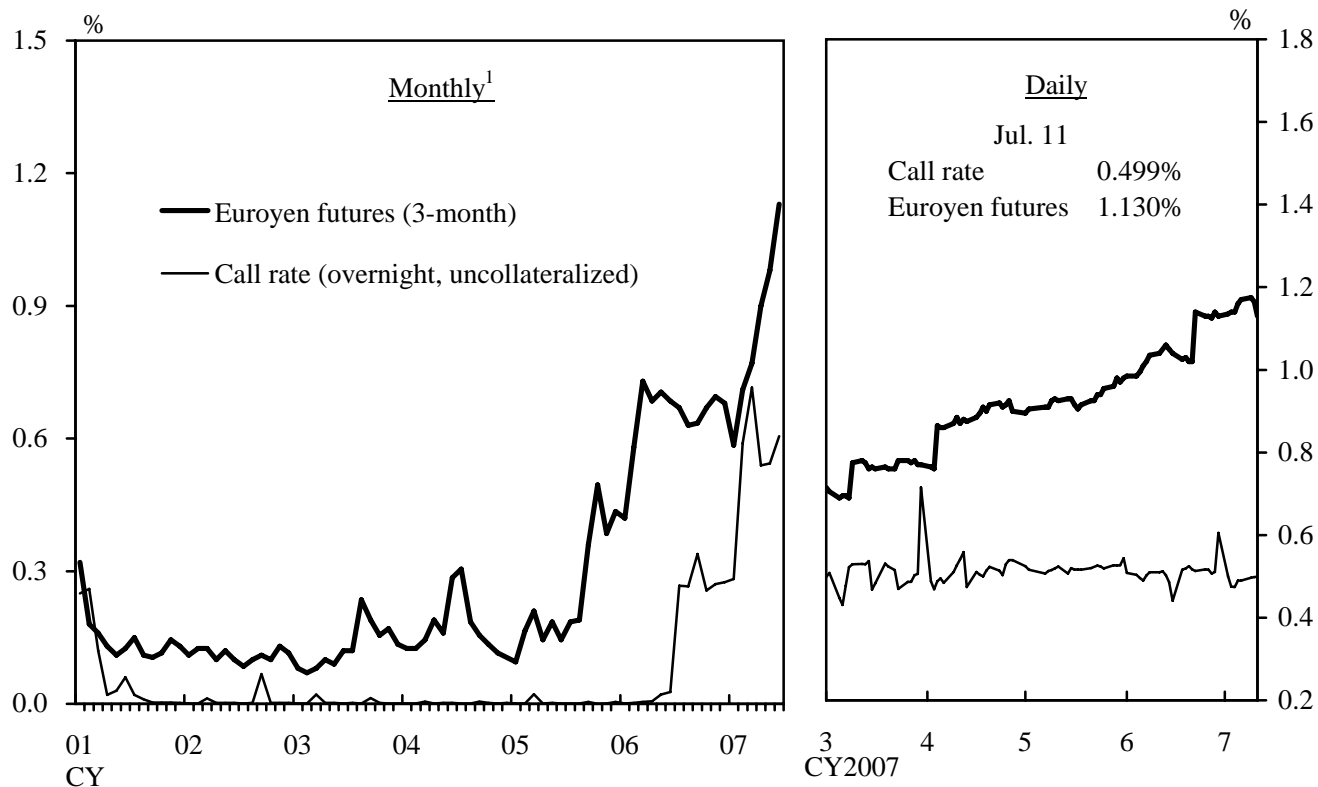
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2005 averages of capital and labor shares in national accounts are used as the weight.

Sources: Cabinet Office, "National Accounts";

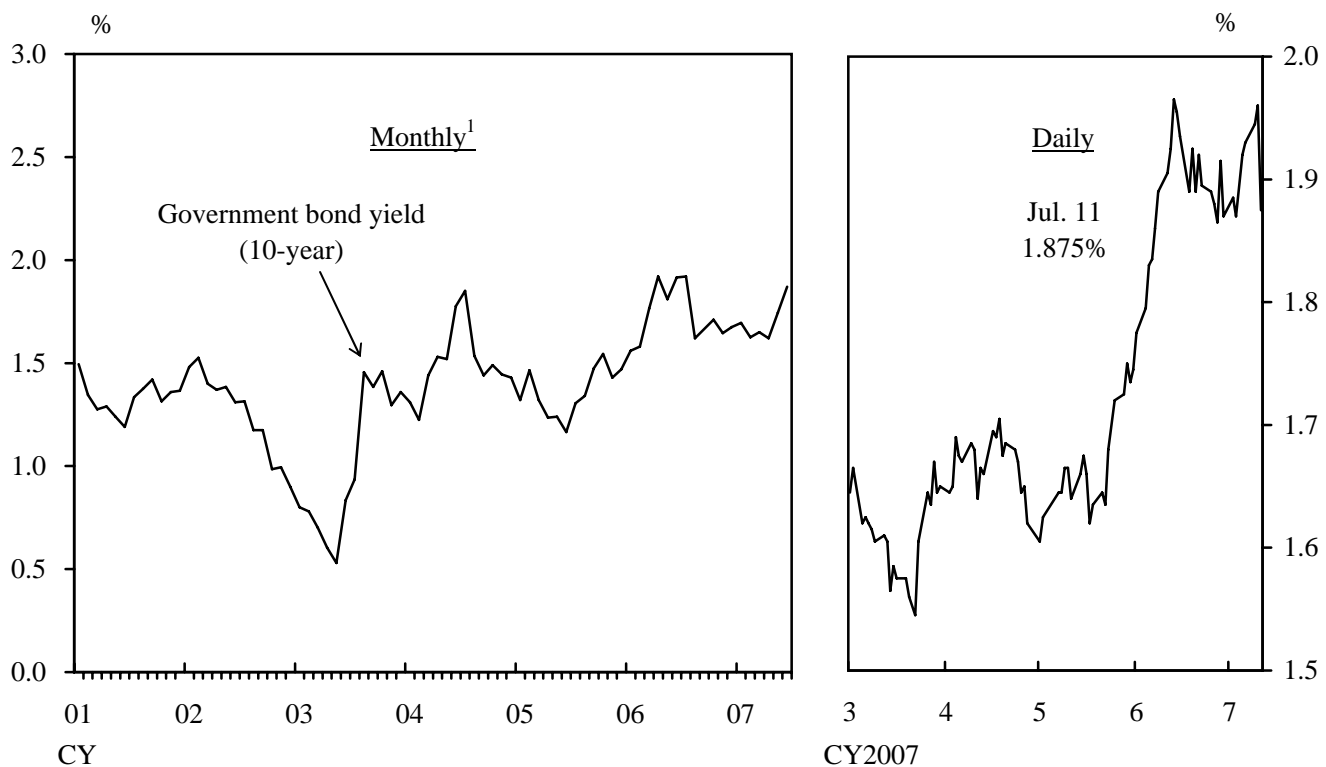
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



(2) Long-Term

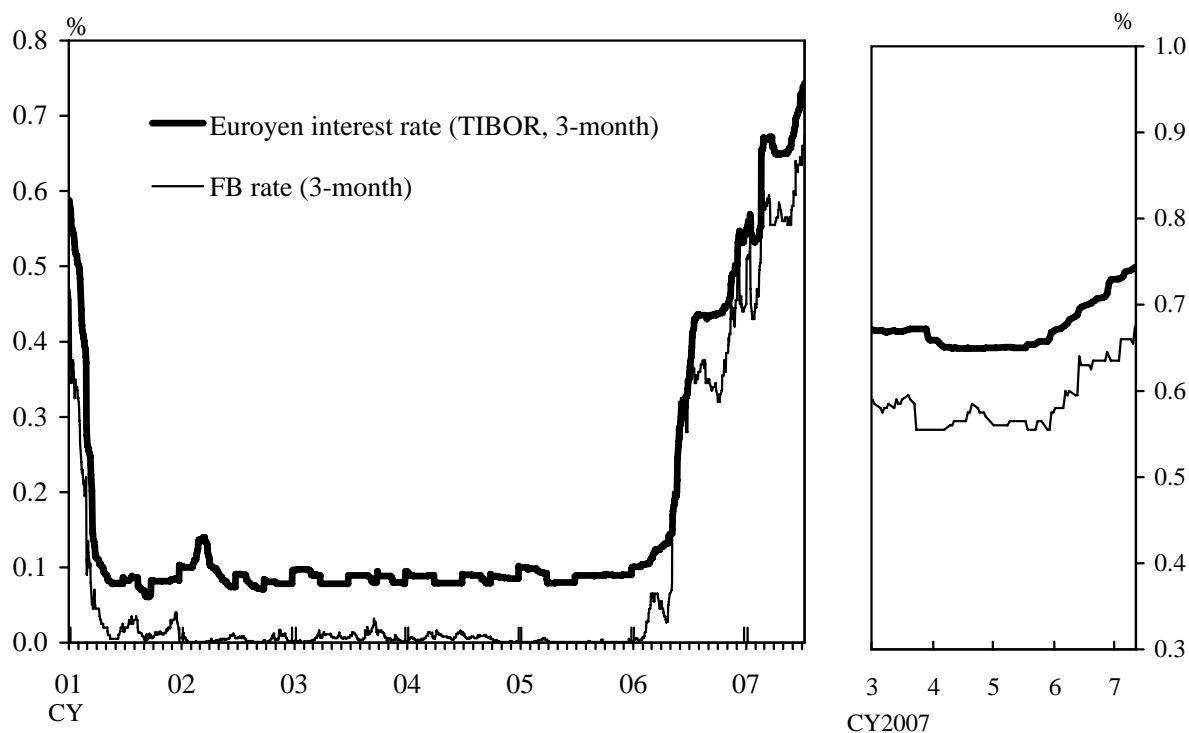


Note: 1. End of month.

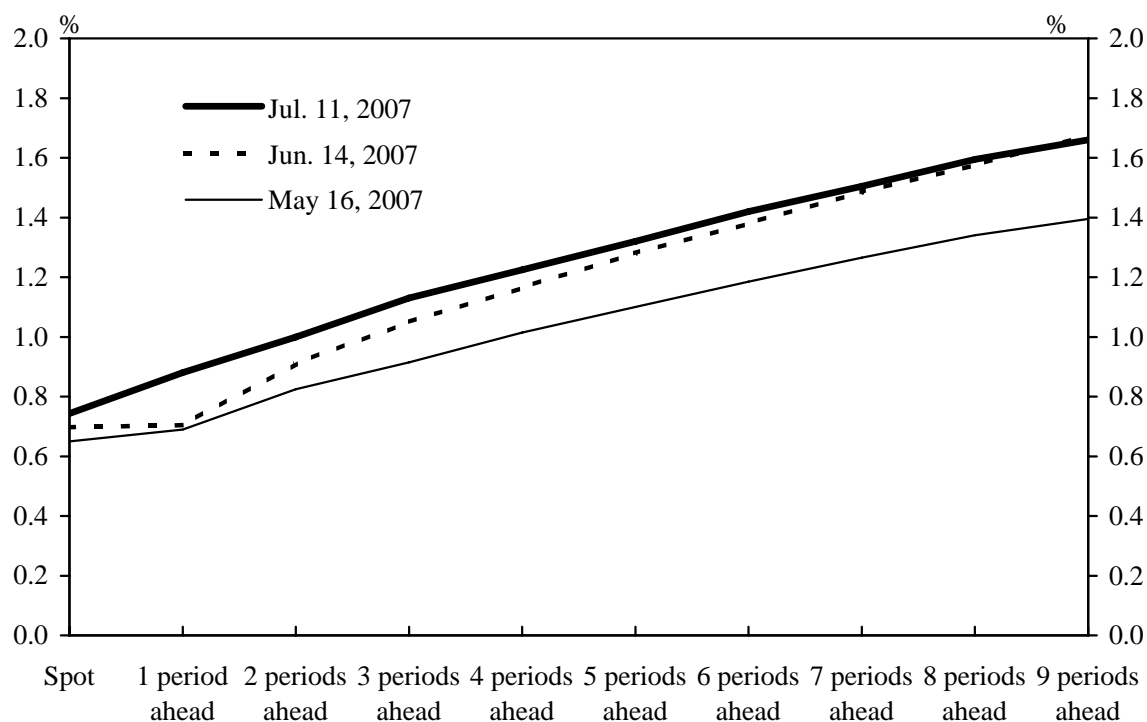
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



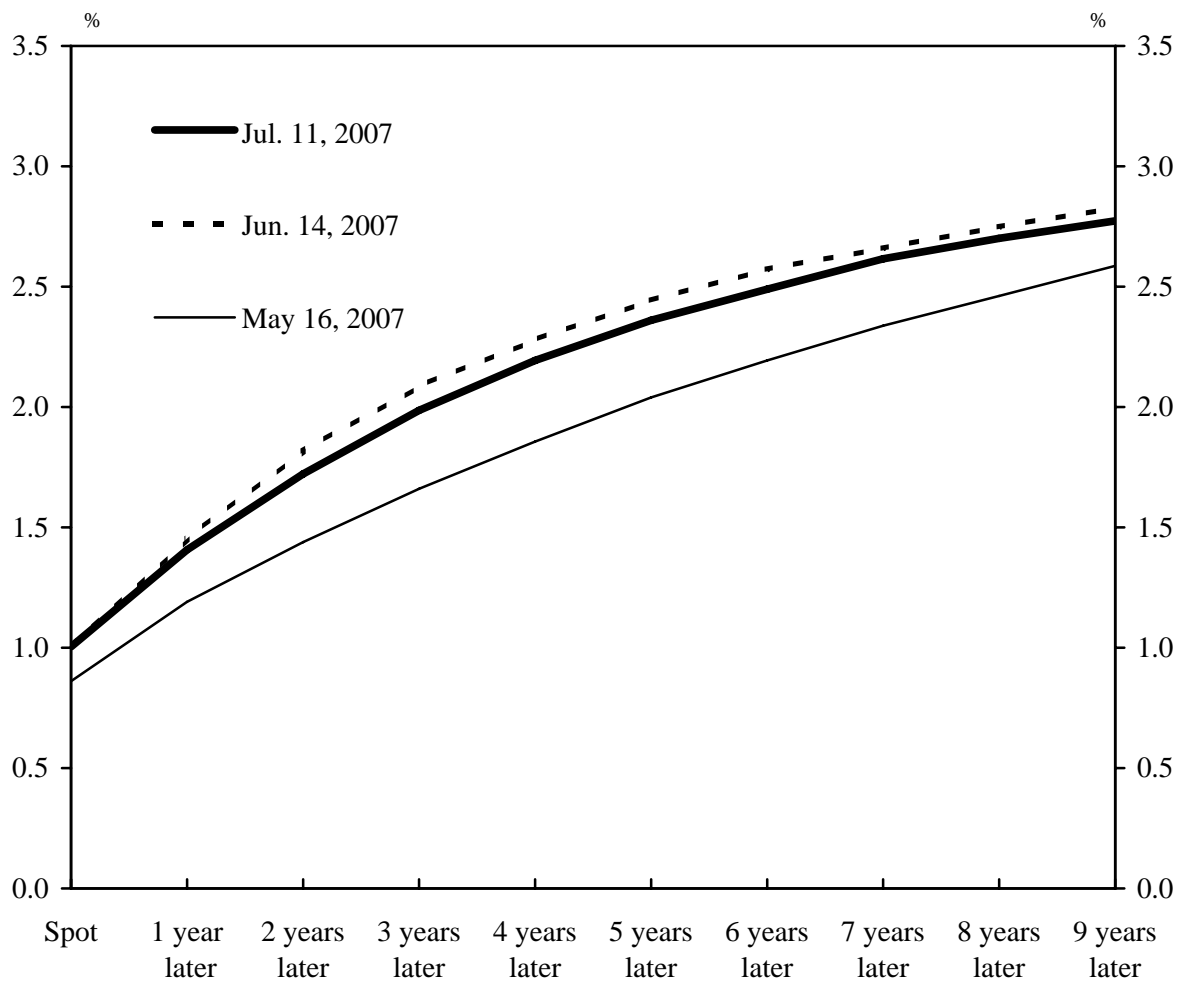
(2) Euroyen Interest Rates Futures (3-Month) ¹



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.

Implied Forward Rates (1-Year)

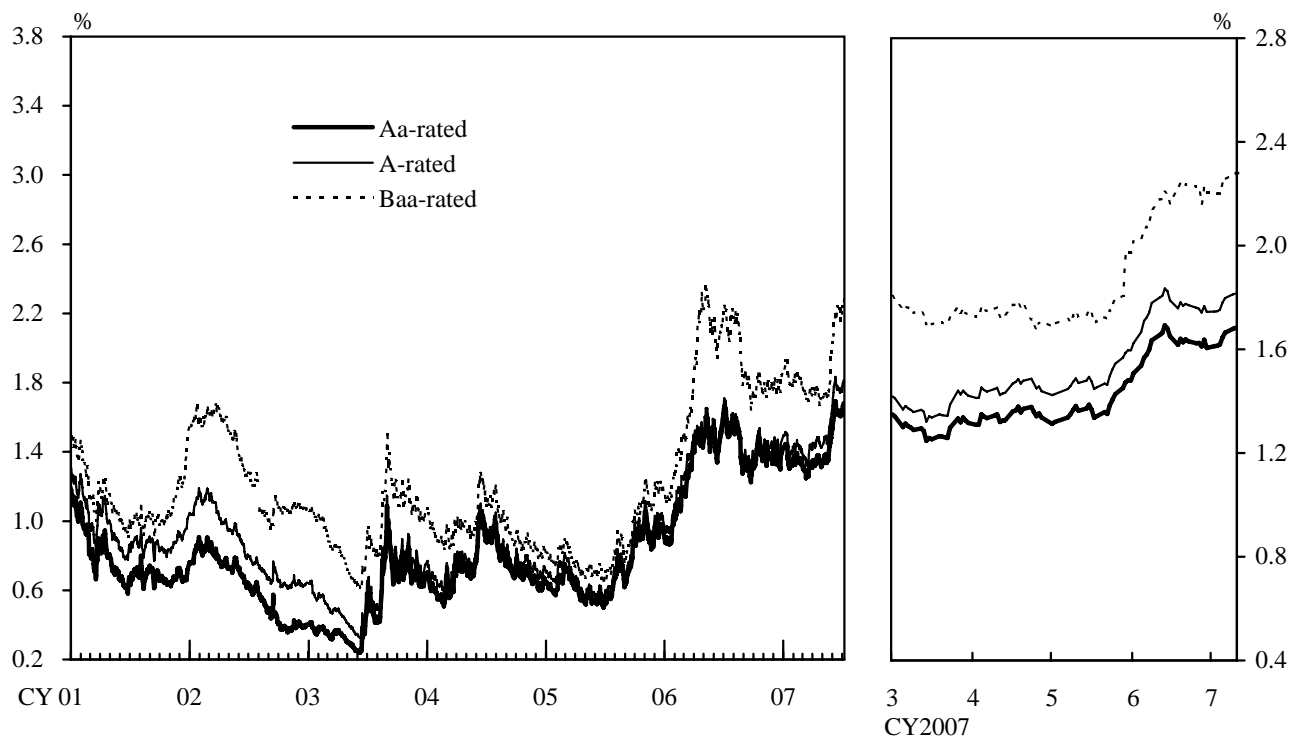


Note: Calculated from yen-yen swap rates.

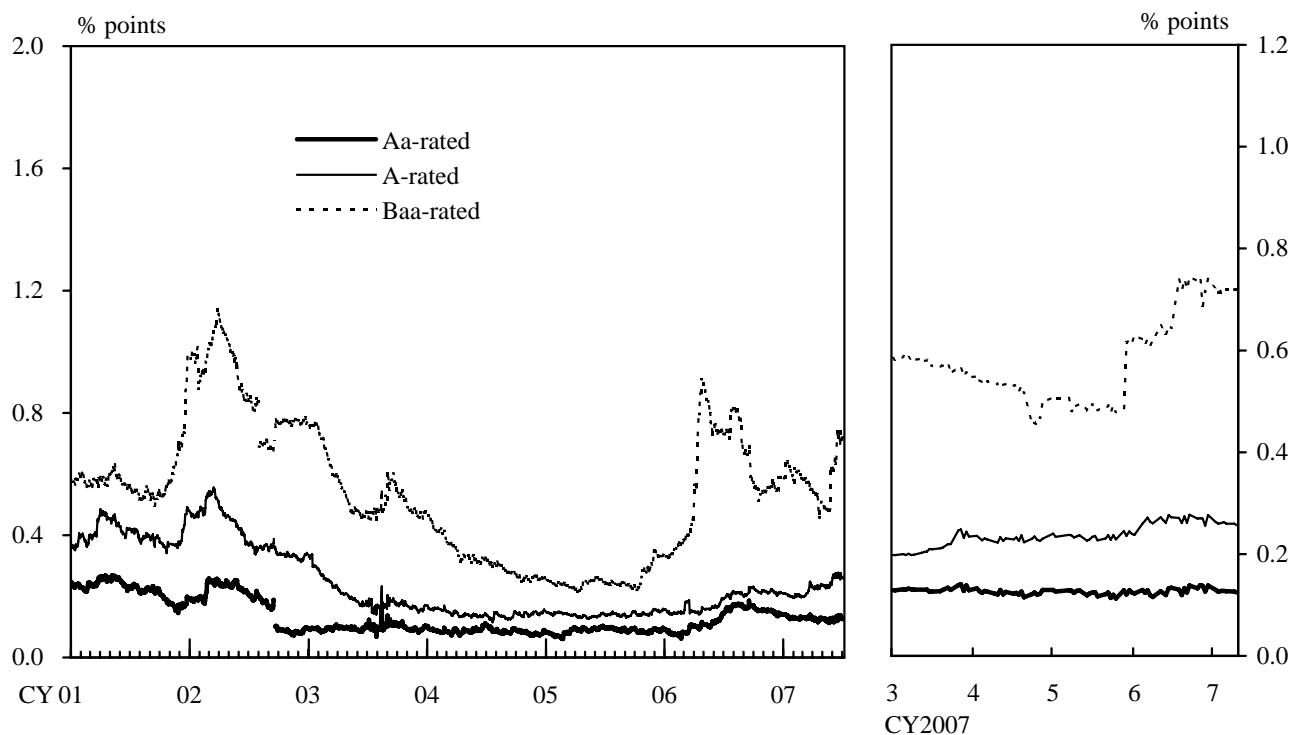
Source: Reuters.

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.

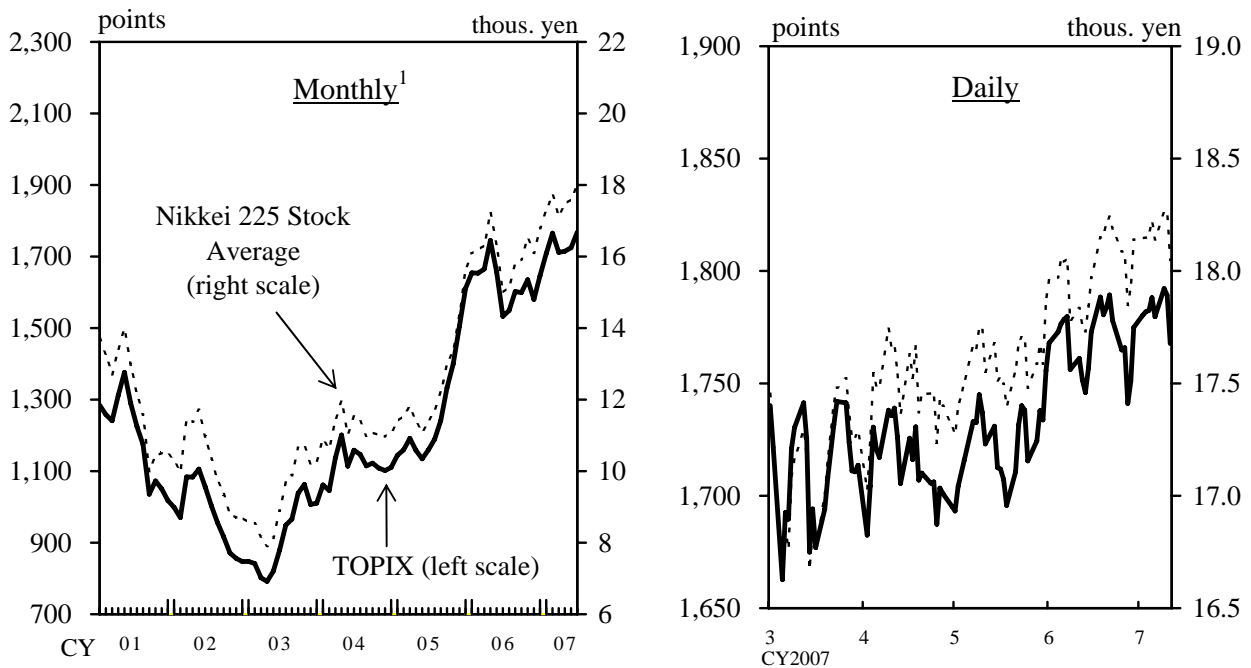
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

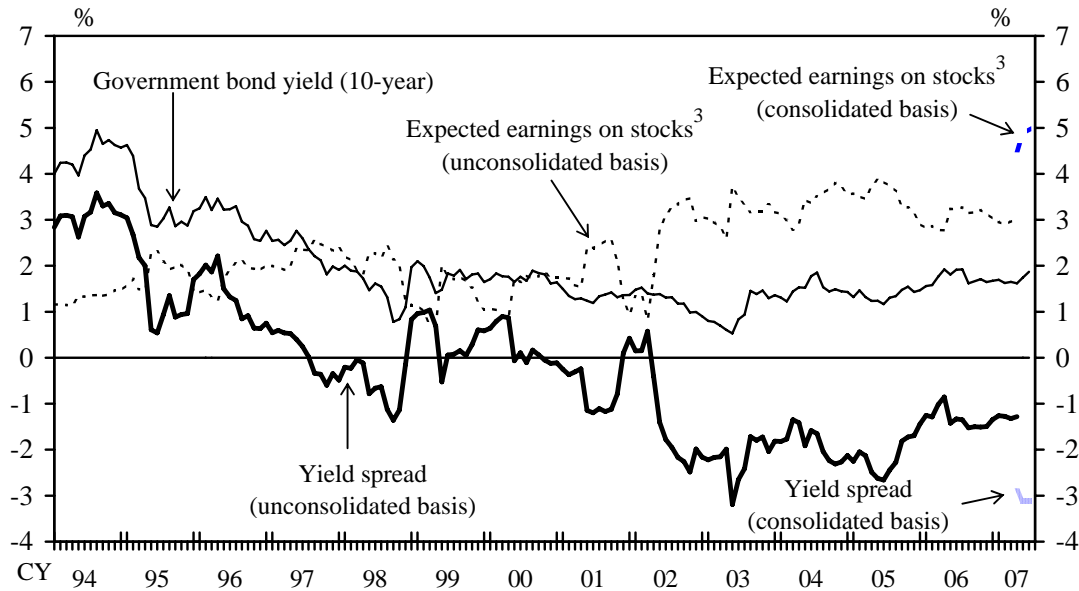
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



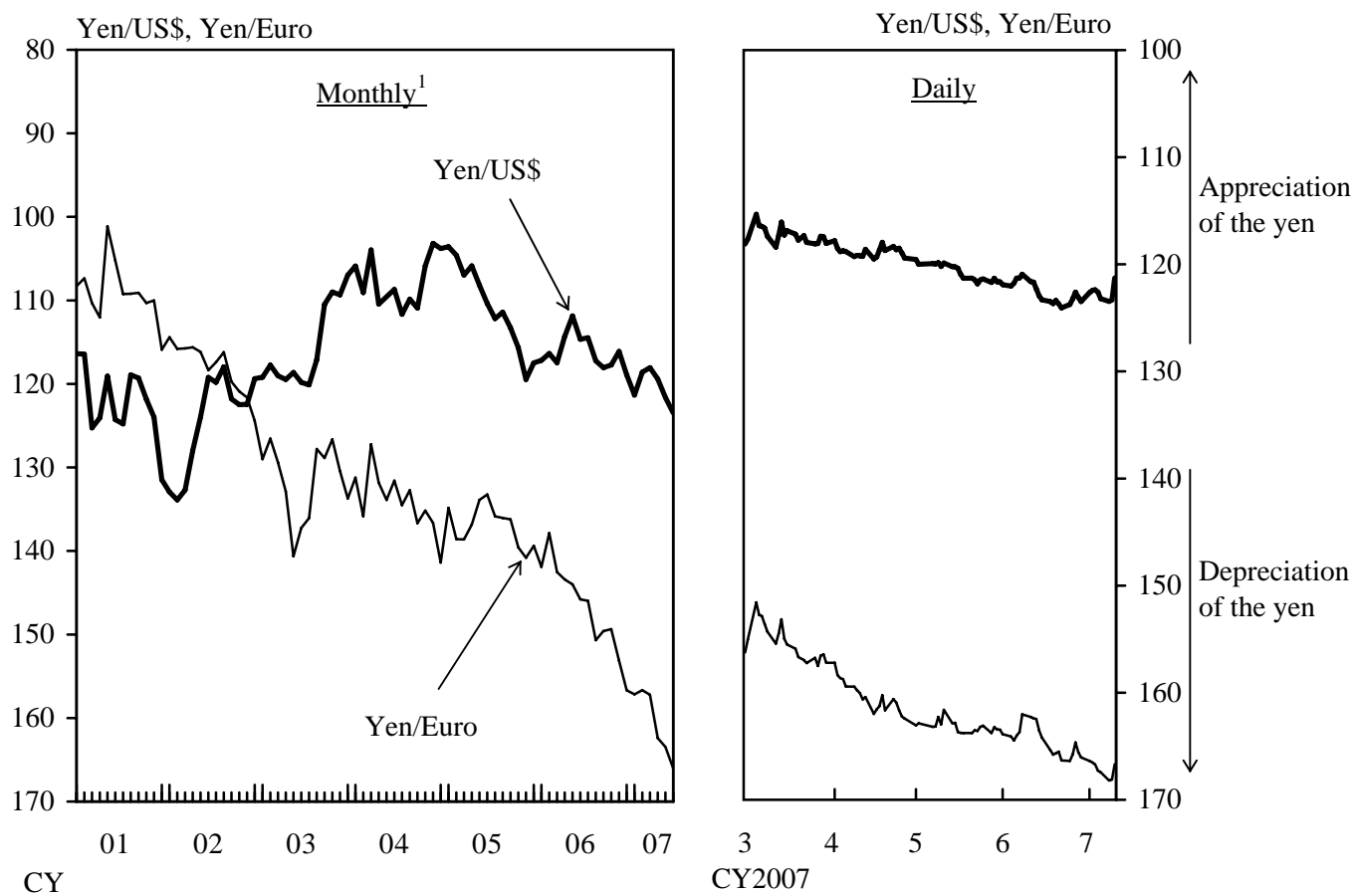
(2) Yield Spread ^{2,4}



- Notes: 1. Data are monthly averages.
- 2. 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 are calculated by Daiwa Institute of Research.
- 4. Data are at end of period. Figures except for the government bond yield are on an unconsolidated basis up to April 2007, and on a consolidated basis from April 2007.

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

Exchange Rates

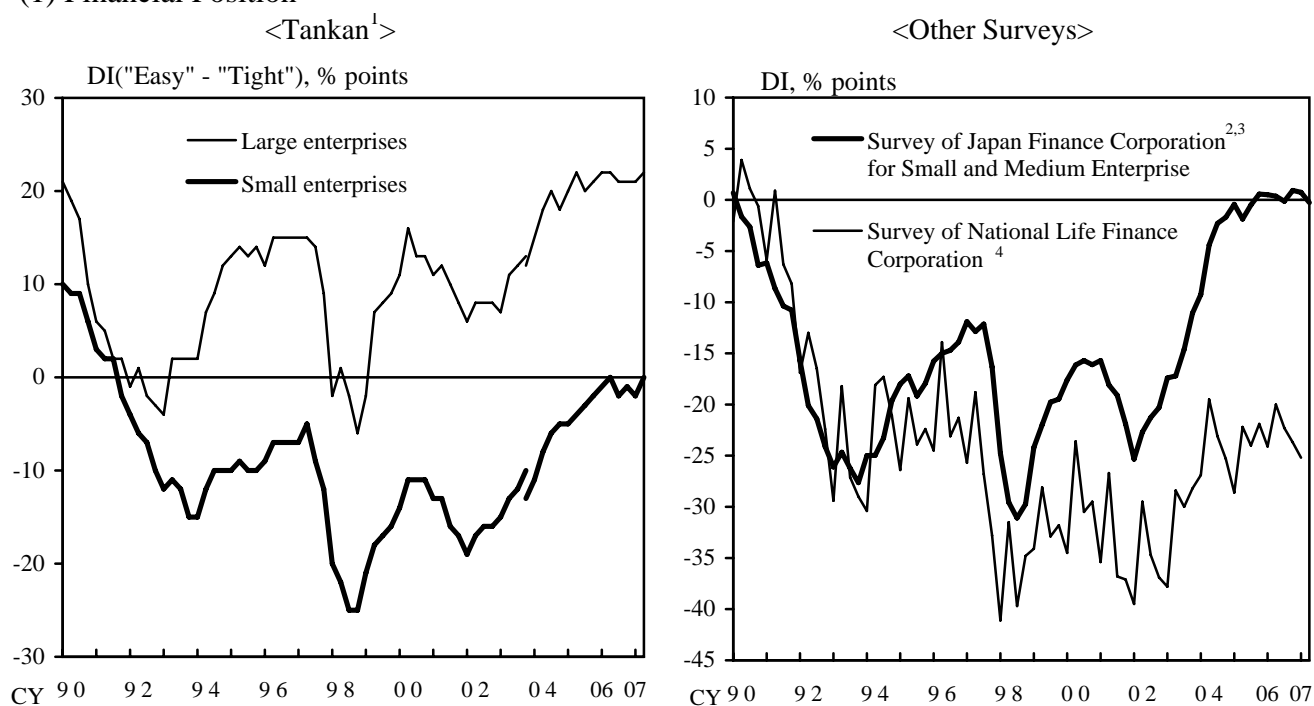


Note: 1. End of month.

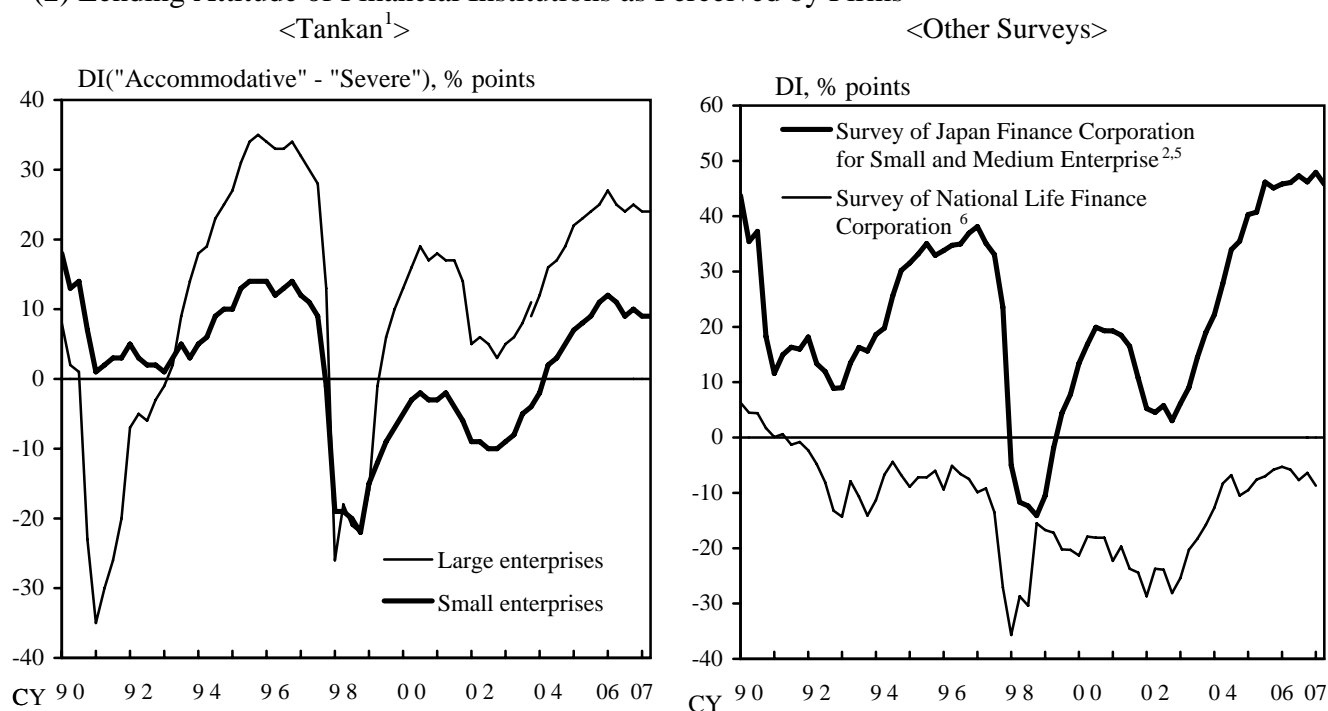
Source: Bank of Japan.

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.

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

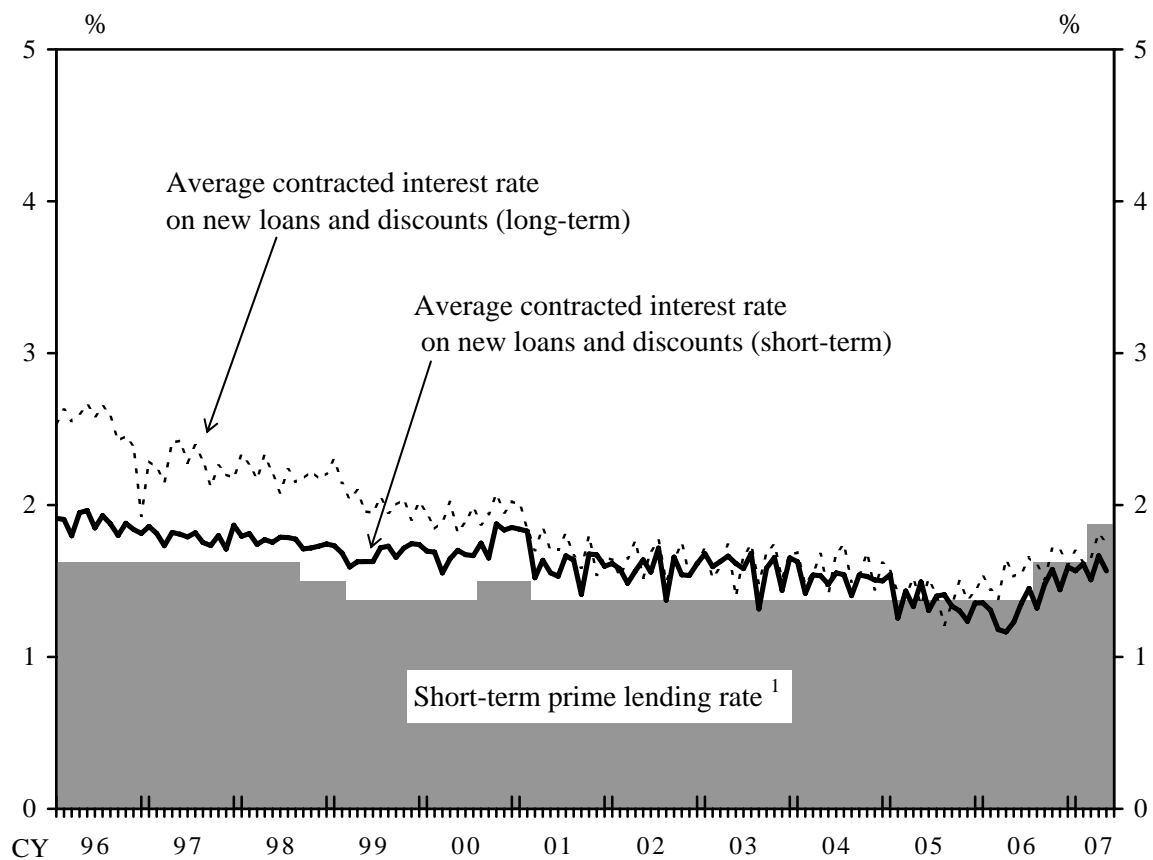
4. DI of "Easier" - "Tighter."

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."

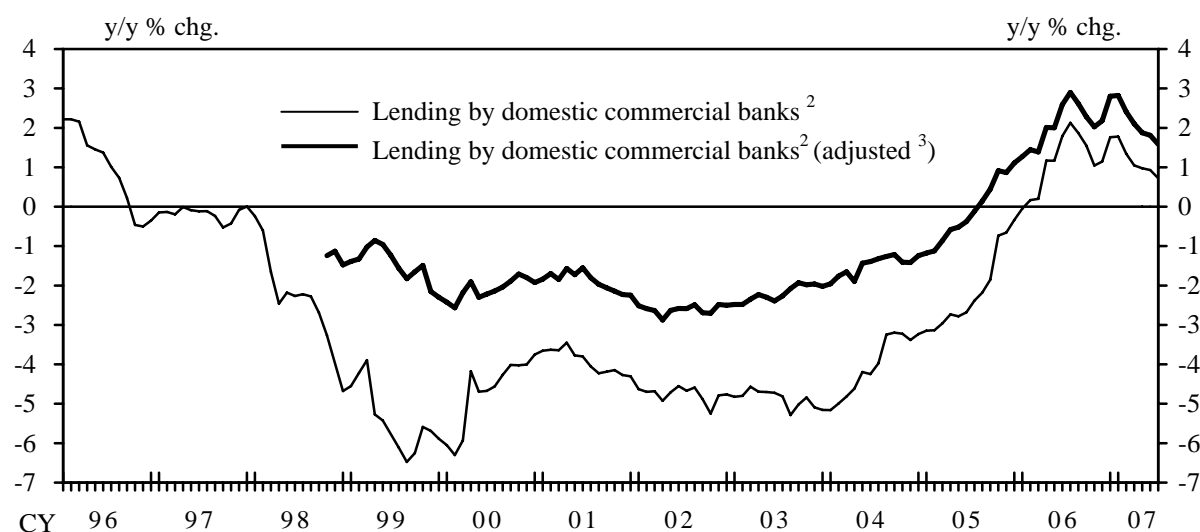
Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹

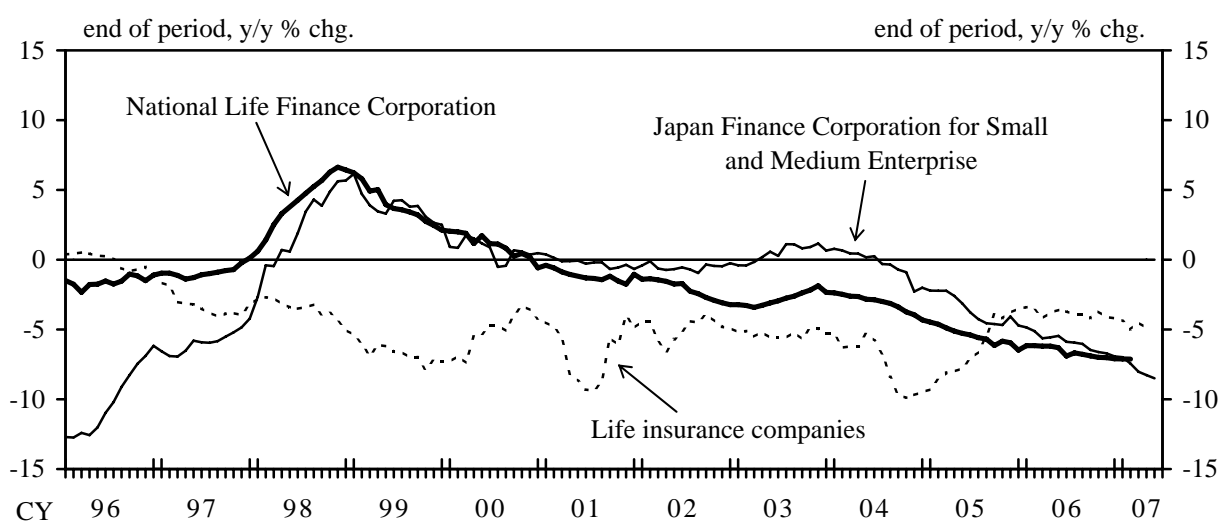
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

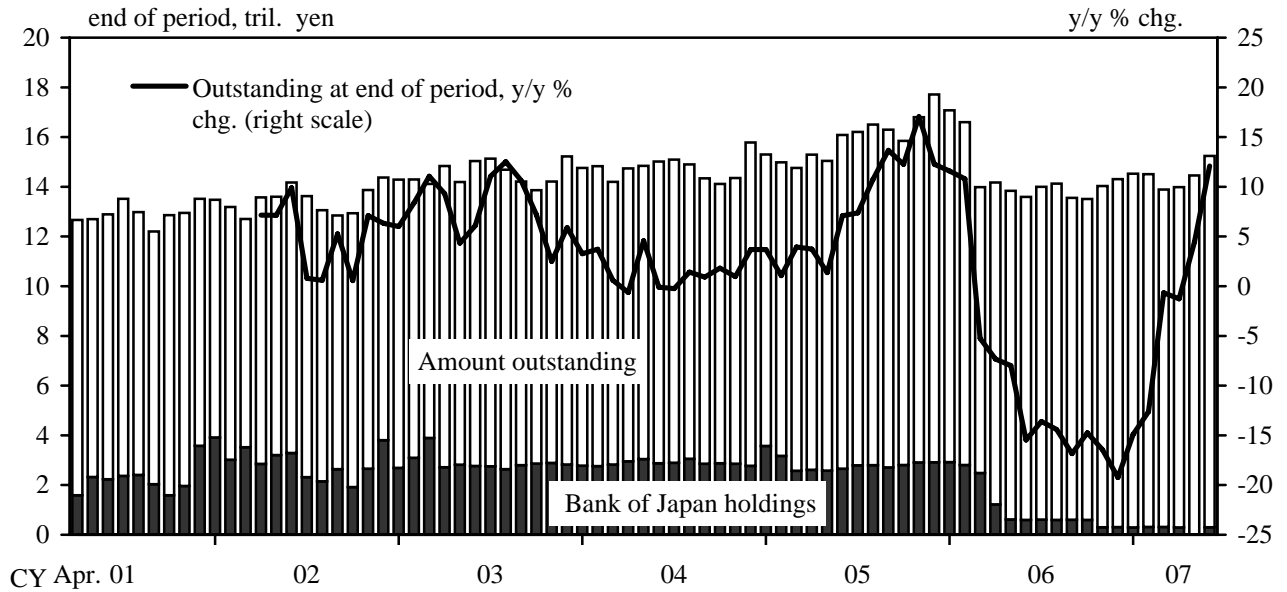
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

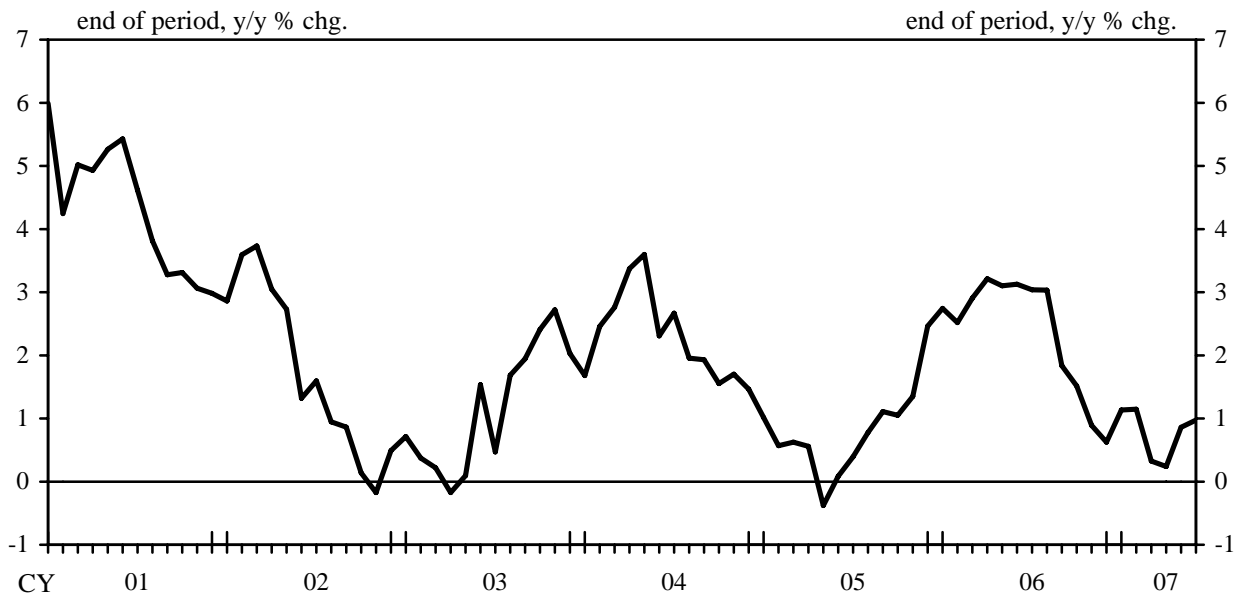
Private-Sector Fund-Raising in the Capital Markets

(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)



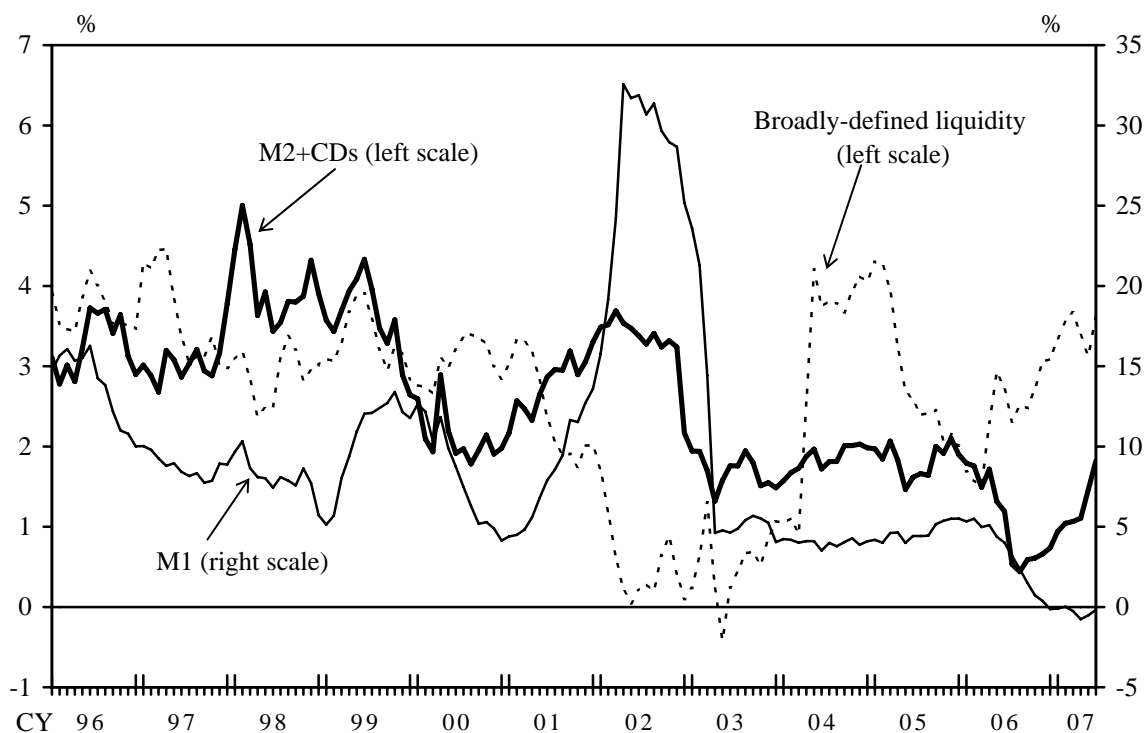
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

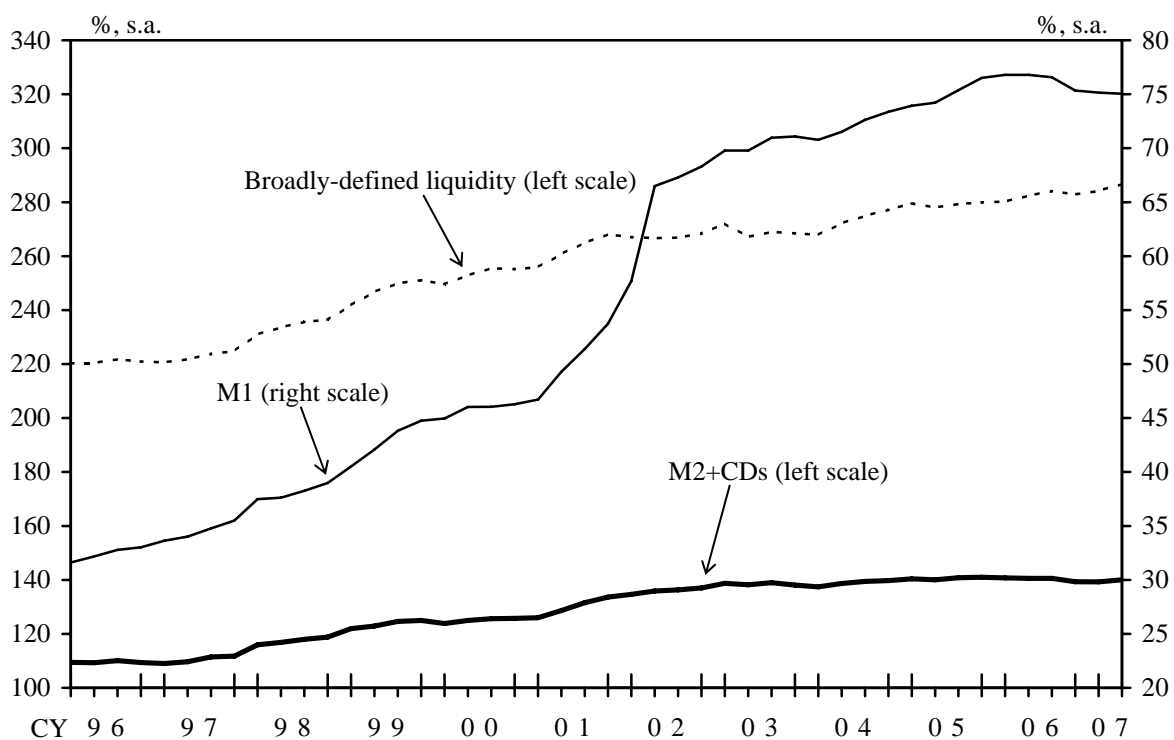
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

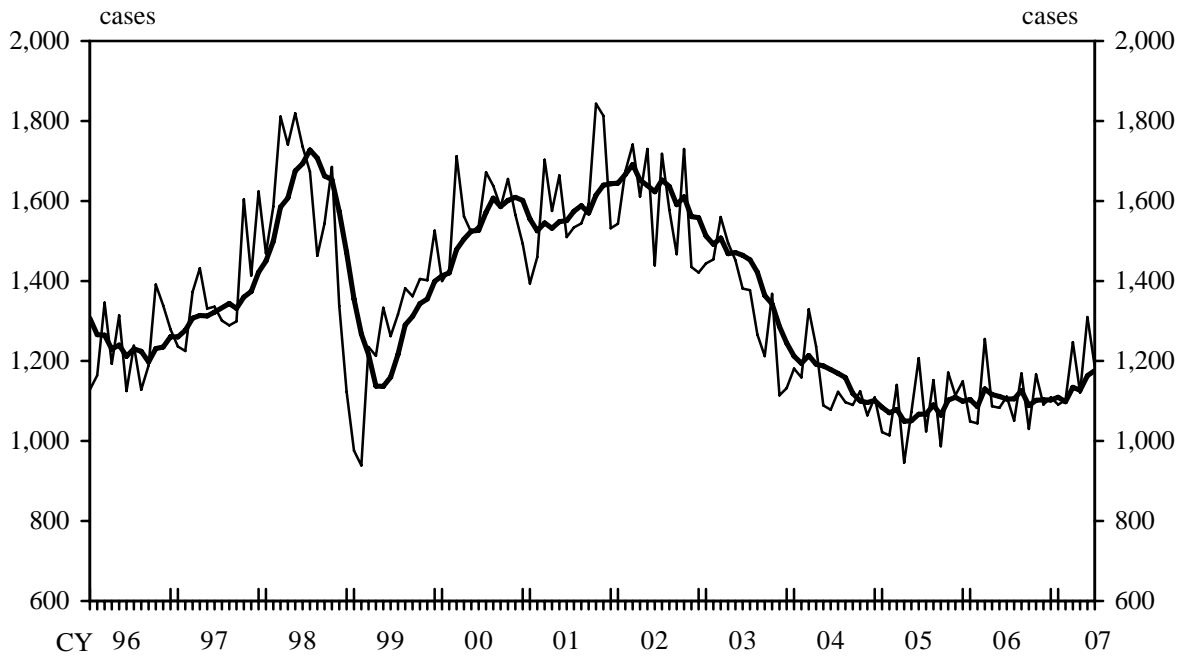


Note: Figure for the nominal GDP in 2007/Q2 is assumed to be unchanged from the previous quarter.

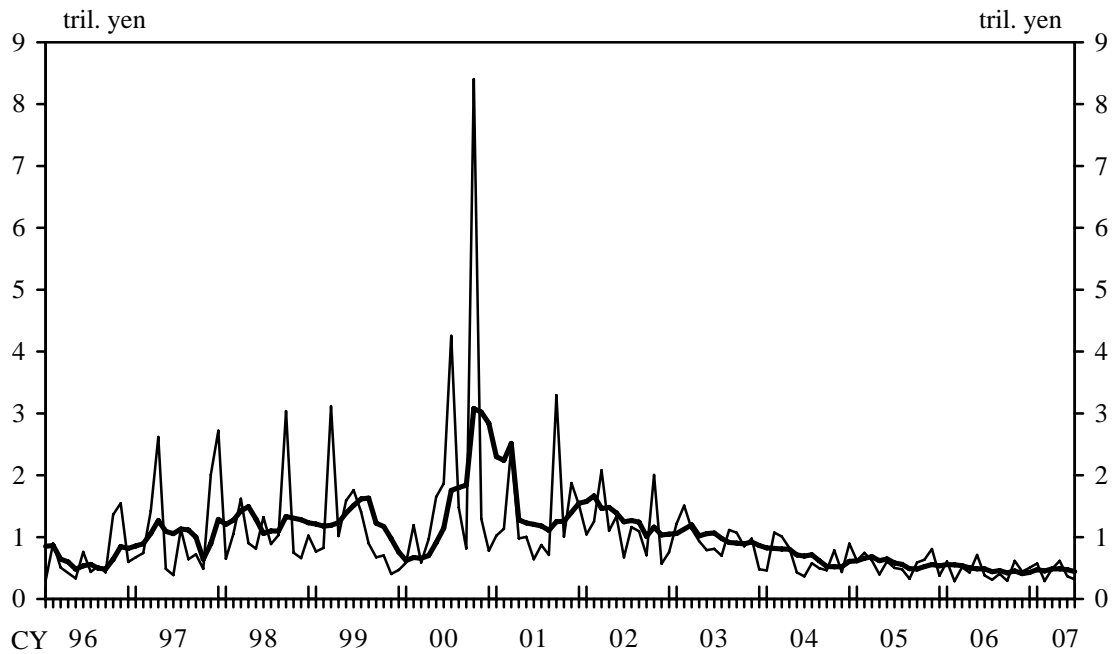
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."

 Forecasts in the *Outlook for Economic Activity and Prices* released in April 2007

Forecasts of the Majority of Policy Board Members^{1,2} for Fiscal 2007 and Fiscal 2008

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2007	+2.0 to +2.1 [+2.1]	+0.7 to +0.8 [+0.7]	0.0 to +0.2 [+0.1]
Forecasts made in October 2006	+1.9 to +2.4 [+2.1]	+1.1 to +1.5 [+1.2]	+0.4 to +0.5 [+0.5]
Fiscal 2008	+2.0 to +2.3 [+2.1]	+0.8 to +1.0 [+1.0]	+0.4 to +0.6 [+0.5]

Notes: 1. Figures in brackets indicate forecast medians.

2. Individual Policy Board members make the above forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.

¹ The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely the figure to which he or she attaches the highest probability. These forecasts are then shown as a range, with the highest and lowest figures excluded. It should be noted that the range does not indicate the forecast errors.

² The forecasts of all Policy Board members may be summarized as follows.

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2007	+1.9 to +2.5	+0.5 to +1.5	-0.1 to +0.2
Forecasts made in October 2006	+1.8 to +2.6	+1.0 to +1.7	+0.4 to +0.6
Fiscal 2008	+1.9 to +2.4	+0.7 to +1.2	+0.3 to +0.6