

August 27, 2007  
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original released on August 24, 2007)

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

## August 2007

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

Japan's economy is expanding moderately.

Public investment has been sluggish. Meanwhile, exports have continued to increase, and business fixed investment has also continued to increase against the background of high corporate profits. 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 be 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. The year-on-year rate of change in consumer prices is expected to be around zero

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on August 22 and 23, 2007.

<sup>2</sup> The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on August 22 and 23, 2007.

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. Credit demand in the private sector has been more or less flat lately. However, the issuing environment for CP and corporate bonds has been favorable, and the lending attitudes of private banks have continued to be accommodative. Under these circumstances, the amount outstanding of lending by private banks has been increasing moderately, and 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 around 2 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, against the backdrop of increased global uncertainties stemming from the subprime mortgage problem in the United States, long-term interest rates and stock prices have fallen compared with last month. Meanwhile, the yen's exchange rate against the U.S. dollar has risen.

## **The Background**

### **1. Economic Developments**

Public investment has been sluggish (Chart 4). Looking at monthly indicators, the value of public works contracted—a measure that reflects public orders—has been more or less flat at low levels, since around the middle of fiscal 2006. The amount of public construction completed—which reflects the progress of public works—inched up most recently, but it has been almost level on average. On a GDP basis (the first preliminary figures), real public investment rose temporarily in the fourth quarter last year, but then dropped marginally in the first and second quarters (Chart 3). 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 were more or less flat in the second quarter by posting a decline of 0.4 percent on a quarter-on-quarter basis, in reaction to the relatively high growth in the first quarter, but increased again by 2.3 percent in July compared with the second quarter.

As for real exports by destination (Chart 6[1]), exports to the United States were affected by the economic slowdown, and had remained somewhat weak, primarily in automobile-related goods; however, they rose in July compared with the second quarter, chiefly in capital goods and parts. On the other hand, exports to the EU have continued their solid increases. Exports to East Asia fell back slightly in the second quarter from the first quarter, when they registered high growth, but they have been trending upward on average since they rose again in July compared with the second quarter (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 increasing trend as a whole, assisted mainly by the rise in those to other regions, while exports to the United States have been relatively weak (Chart 7[1]). Exports of IT-related goods showed a sizeable drop in the second quarter, in reaction to their

high growth, mainly to China, in the latter half of last fiscal year,<sup>3</sup> but they have continued to trend upward, with global demand generally steady, as exports resumed their increase in July compared with the second quarter (Charts 8[1] and 9[2]). Exports of capital goods 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 to date (Charts 5[1] and 11). Real imports increased, by 3.6 percent, in July alone compared with the second quarter, after having continued to be more or less flat until the second quarter on a quarter-on-quarter basis. The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued their increasing trend. On the other hand, imports of consumer goods and foodstuffs have been sluggish as a trend mainly from the rise in prices of imported goods caused by the depreciation of the yen to date. Imports of raw materials and intermediate goods have continued to be weak, albeit with some fluctuations, 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 had been somewhat weak since the end of last year, affected mainly by the deterioration in the domestic shipment-inventory balance. Recently, however, they have been showing some signs of improvement (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

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<sup>3</sup> 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 China have increased since the end of last year. Imports of game consoles fall outside the categorization by goods shown in Chart 11(2).

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.<sup>4</sup>

Exports are expected to continue to rise, due in part to the yen's depreciation from a somewhat longer-term perspective, as overseas economies overall continue to expand (Chart 10[2]).

As for the environment surrounding exports, in the United States, housing investment continues to decline, and somewhat increased uncertainties have arisen over the outlook stemming from the subprime mortgage problem. With production as well as employment and income situations remaining firm, however, 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 for digital home appliances, has continued to be steady, and commodity prices such as semiconductors—which had been soft a while ago—also seem to have bounced back recently.<sup>5</sup> 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, for the time being, are projected to be more or less flat, since the effects of the rise in import prices remain.

Business fixed investment has continued to increase. On a GDP basis (the first preliminary figures), real business fixed investment in the second quarter

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<sup>4</sup> Meanwhile, the current account balance has continued to trend upward, supported mainly by the rise in the income balance. It reached 5.1 percent of nominal GDP in the second quarter, breaking the previous record of 4.6 percent in the second quarter of 1986 (Chart 5[2]).

<sup>5</sup> Global semiconductor shipments dropped in the second quarter on a quarter-on-quarter basis, following the decline in the first quarter (Chart 8[2]). Shipments, however, appear to be on an increasing trend, as the decline seems to be largely attributable to the drop in market prices during those times, mainly in DRAM, rather than a decrease in quantity.

increased for the sixth consecutive quarter, although the pace of increase has decelerated somewhat from a while ago (Chart 3). 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 somewhat reduced pace (Chart 12[1]). Machinery orders (private demand, excluding orders of 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]).<sup>6</sup> Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have also been essentially flat at high levels on average, although they have recently shown sharp increases (Chart 13[2]).<sup>7</sup>

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.

Private consumption has been firm. On a GDP basis (the first preliminary figures), real private consumption continued to step up in the second quarter, albeit marginally, after having marked relatively high growth in the fourth and first quarters (Chart 3). Looking at individual indicators on consumption (Charts 14 and 15), sales at department stores were relatively weak in March-April, particularly in spring apparel, due in part to the somewhat low temperatures, but rose in May-June, mainly in summer apparel, spurred by favorable weather conditions.<sup>8</sup> On the other hand,

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<sup>6</sup> By industry, orders from electrical machinery have declined somewhat noticeably of late, possibly in reaction to production adjustment in this sector since the end of last year. With various surveys showing positive business fixed investment plans for fiscal 2007 and the supply-demand conditions of electronic parts gradually heading for improvement, machinery orders from this sector are also expected to pick up at some stage. Meanwhile, forecasts for the third quarter show that orders are projected to increase somewhat for both manufacturing and nonmanufacturing firms (the quarter-on-quarter increase stands at 3.7 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

<sup>7</sup> The recent rise in construction starts may possibly be caused by a rush in demand just before the revised Building Standard Law took effect (the revision, which came into effect on June 20, has resulted in a more stringent review of an application for a building permit from a viewpoint of building standard).

<sup>8</sup> Sales at department stores (statistics released by the Ministry of Economy, Trade and Industry; Chart 15) recorded a particularly strong increase in June, aided by summer clearance sales; sales started on June 30 at many stores due in part to calendar factors. According to statistics of sales



sales at supermarkets have been somewhat lackluster. Sales at convenience stores have been more or less flat lately. 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 had been lackluster even with the introduction of a new operating system at the end of January. Recently, however, they appear to have started showing some signs of picking up. Meanwhile, the number of new passenger-car registrations has been on a downtrend, chiefly in small-sized passenger cars.<sup>9</sup> 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,<sup>10</sup> advanced in the fourth and first quarters on a quarter-on-quarter basis, but they were more or less level in the second quarter (Chart 16[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 essentially level in the second quarter (Chart 16[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 the second quarter, after having risen in the fourth and first quarters (Chart 14[1]). Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms), which covers more households than

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at department stores released by the Japan Department Stores Association, sales in July fell back substantially, but they appear to be solid with these fluctuations smoothed out.

<sup>9</sup> 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.

<sup>10</sup> The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in June 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 June were at the same level as those for May.

the *Family Income and Expenditure Survey* does, has been on a gradual uptrend since around the end of 2004 (Chart 14[1]).<sup>11</sup>

Consumer sentiment has generally been at favorable levels, although some indicators have shown slight deterioration most recently (Chart 17).

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 18[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 continued to be 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 the second quarter with an increase of 0.2 percent (Chart 19). 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 information and communication electronics equipment has increased, primarily in new products of digital home appliances. Production of transport equipment has been almost flat since exports have retained momentum, while domestic sales have slipped. 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.

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<sup>11</sup> 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.

Shipments have also continued their uptrend. By goods (Chart 20), 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 on an increasing 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 high levels relative to shipments. The inventory cycle (Chart 21) 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) had risen, chiefly in construction machinery, but have recently started to turn down, assisted by generally solid exports. On the other hand, in electronic parts and devices, the inventory level has remained relatively high. While final goods manufacturers continue to introduce new products at a good pace, shipments have started to pick up and market prices for semiconductors have rebounded, showing that supply-demand conditions have been moving for the better. Under these circumstances, it appears that the current inventory situation has restrained production to a lesser degree. 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.<sup>12</sup>

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<sup>12</sup> Production in the third quarter, based on the production forecast index for July and August (on the assumption that the September figure is unchanged from the previous month), is calculated to

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 22[2] and [3]).

In the labor market, overtime hours worked have been essentially flat, at high levels (Chart 24[3]). The ratio of job offers to applicants has been at a high level, above 1.00.<sup>13</sup> The unemployment rate has followed a gradual downtrend (Chart 23).<sup>14</sup>

In terms of employment (Chart 24[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 has recently marked increases in the range of 1.5-2.0 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 24[1] and [2]).

Nominal wages per employee have been essentially level (Chart 22[1]). Regular payments have been somewhat weak, since firms have persisted in labor cost

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post a significant increase of 5.9 percent on a quarter-on-quarter basis. However, since the August increase is particularly large in the forecast index, the above assumption that the September figure remains unchanged from this high level in August is not very plausible. Moreover, the production forecast index available at this current stage is based on information available as of July 10 and does not incorporate any effects of the Niigata-ken Chuetsu-oki Earthquake. There are also differences in the coverage of the original series and the forecast index. In sum, the pace of increase in production in the third quarter is likely to be quite moderate compared to the above calculation.

<sup>13</sup> New job offers have been declining 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; the decline, however, recently seems to be coming to a halt.

<sup>14</sup> The unemployment rate (seasonally adjusted) was 3.8 percent in April and May, and 3.7 percent in June, marking below 4.0 percent for the first time since around the spring of 1998.

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.<sup>15</sup> In contrast, overtime payments have continued to trend up mildly, although their pace has decelerated slightly. Special payments seem to be increasing as a trend, supported by favorable corporate profits, although those in June—which represent almost 60 percent of summer bonuses—were slightly weak.<sup>16</sup>

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.

## 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 26). Looking at recent developments in international commodity prices in more detail, crude oil prices have been high, mainly due to concerns over geopolitical risks and to the tightening supply-demand balance of gasoline in the United States, but they

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<sup>15</sup> 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.

<sup>16</sup> According to survey results covering large firms released by the *Nihon Keizai Shimbun, Inc.* (final results as of July 3; 790 firms), the Japan Business Federation (final results as of July 18; 183 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 2.5 percent, 3.0 percent, and 2.2 percent, respectively). In contrast, the *Monthly Labour Survey* shows that special payments in June dropped by 1.6 percent on a year-on-year basis; the decline was notably large for small establishments (establishments with 5-29 employees).

have recently fallen slightly. Prices of nonferrous metals have remained high, although they have eased back slightly of late.<sup>17</sup>

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>18</sup> has been positive, mainly due to the rise in international commodity prices (Chart 27). In detail, prices of petroleum and coal products and of nonferrous metals have continued to increase, in response to international commodity prices (both are categorized as “goods sensitive to exchange rates and overseas commodity prices” in the chart). Prices of chemical products (categorized as “other materials” in the chart) and of “iron and steel and construction goods” have continued to increase mildly across a wide range of items, as a result of high material costs and the tightening of supply-demand conditions. Meanwhile, machinery prices have been declining marginally. 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 been on a positive trend lately (Chart 28).<sup>19</sup> The year-on-year changes in prices, excluding external factors, stood at 0.3 percent in the second quarter, following an increase of 0.2 percent in the first quarter.<sup>20</sup> Looking at recent developments by category, the year-on-year

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<sup>17</sup> Meanwhile, domestic commodity prices have been high on the whole, in response to the tightening of supply-demand conditions and to developments in international commodity prices.

<sup>18</sup> 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.

<sup>19</sup> “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.

<sup>20</sup> 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. Corporate services prices of all items posted a year-on-year increase of 1.4 percent in May and June. 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).

changes in prices of “other services” have been 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 increased lately. On the other hand, prices of advertising services have remained somewhat weak, since firms have continued to be cautious about increasing advertisement placements.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been around zero percent (Chart 29). 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.<sup>21</sup>

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.

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<sup>21</sup> Among services prices, those of “other services” dropped in June. This was mainly in reaction to the jump in “package tours to overseas” in the same month last year buoyed by the FIFA World Cup games.

### **3. Financial Developments**

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

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 30[1]) has been at around 0.5 percent on the whole, although it has shown temporary fluctuations. Regarding interest rates on term instruments (Chart 31[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 edged down, mainly in distant contracts (Chart 31[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 30 [2]) have dropped, mainly in response to long-term interest rate movements in the United States and Europe. They have recently been moving at around 1.60 percent.

Yield spreads between corporate bonds and government bonds (Chart 33) have expanded, given the widening spreads in the U.S. and European credit markets.

Stock prices (Chart 34) have fallen, mainly in response to the drop in global stock prices. The Nikkei 225 Stock Average is moving at around 16,000 yen.

In the foreign exchange market (Chart 35), the yen has risen due to a certain risk reassessment in global markets. The yen is being traded in the range of 112-116 yen to the U.S. dollar.

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

Credit demand in the private sector has been more or less flat lately. Ample cash flow has slowed the increase in corporate demand for external funds. Some weakness has been observed in, for example, consumer finance companies.

Regarding credit supply, the lending attitudes of private banks have remained accommodative. Including small and medium enterprises, firms have perceived the lending attitudes of financial institutions as accommodative (Chart 36).



Lending rates have been at extremely low levels on the whole, although the average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have risen gradually (Chart 37).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, adjusted for extraordinary factors,<sup>22</sup> grew by 1.1 percent in July, on a year-on-year basis, compared to 1.6 percent in June and 1.8 percent in May (Chart 38).

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have been around the same levels as last month. Issuance spreads have also remained low at around the previous year's level. CP issuance rates have moved almost sideways since last month. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. It increased by 3.4 percent in July, on a year-on-year basis, after 2.7 percent in June and 1.5 percent in May (Chart 39).

According to business surveys, the financial positions of firms have continued to be favorable (Chart 36).

Money stock (M<sub>2</sub> + CDs) has increased by around 2 percent annually. Its July reading was 2.0 percent on a year-on-year basis after 1.9 percent in June and 1.5 percent in May (Chart 40).

The number of corporate bankruptcies was up by 15.6 percent in July compared to the year-ago level, to 1,215 cases (Chart 41).

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<sup>22</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

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## Main Economic Indicators (1)

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

	2006/Q4	2007/Q1	Q2	2007/Apr.	May	Jun.	Jul.
Index of living expenditure level (two-or-more-person households)	2.7	0.5	-0.4	0.3	-0.2	-0.5	n.a.
Sales at department stores	-0.4	0.2	1.0	0.8	0.8	4.4	n.a.
Sales at supermarkets	-1.0	-0.0	-0.7	-0.8	1.2	-1.1	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 304>	< 291>	< 288>	< 285>	< 291>	< 286>	< 280>
Sales of household electrical appliances (real, Current Survey of Commerce)	3.0	6.6	-0.7	-2.1	0.3	0.1	n.a.
Outlays for travel	0.8	1.3	-1.5	-2.7	0.8	0.9	n.a.
Housing starts <s.a., ann. 10,000 units>	< 131>	< 125>	< 127>	< 129>	< 115>	< 135>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	0.3	-0.7	-2.4	2.2	5.9	-10.4	n.a.
Manufacturing	-2.8	-1.4	-4.0	-1.3	15.3	-11.4	n.a.
Nonmanufacturing <sup>4</sup>	4.0	-1.1	0.1	5.9	-1.8	-6.5	n.a.
Construction Starts (private, nondwelling use)	0.6	-6.6	24.5	16.6	21.4	20.0	n.a.
Mining & manufacturing	-13.9	-9.1	20.0	10.4	19.0	15.1	n.a.
Nonmanufacturing <sup>5</sup>	4.3	-5.0	29.0	23.1	20.2	21.0	n.a.
Value of public works contracted	1.9	-2.2	-0.7	-2.2	1.7	-5.1	-1.1
Real exports	1.0	3.0	-0.4	-3.0	2.8	0.6	p 1.0
Real imports	-0.5	0.4	0.5	-0.6	6.7	-0.0	p 1.4
Industrial production	2.2	-1.3	0.2	-0.2	-0.3	1.3	n.a.
Shipments	1.5	-0.5	0.7	1.0	0.2	1.1	n.a.
Inventories	3.8	-2.0	-0.3	0.4	-0.4	-0.3	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 100.7>	< 101.0>	< 100.5>	< 101.0>	< 97.9>	< 100.5>	<n.a.>
Real GDP	1.3	0.8	0.1	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.8	-0.1	0.6	1.2	-0.3	0.2	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2006/Q4	2007/Q1	Q2	2007/Apr.	May	Jun.	Jul.
Ratio of job offers to applicants <s.a., times>	< 1.07>	< 1.05>	< 1.06>	< 1.05>	< 1.06>	< 1.07>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	< 3.8>	< 3.8>	< 3.8>	< 3.7>	<n.a.>
Overtime working hours <sup>6</sup>	2.5	1.9	0.6	0.7	1.0	0.0	n.a.
Number of employees	1.1	1.0	1.1	1.6	0.9	0.9	n.a.
Number of regular employees <sup>6</sup>	1.4	1.6	1.7	1.6	1.7	1.8	n.a.
Nominal wages per person <sup>6</sup>	0.0	-0.7	-0.6	-0.2	-0.2	-0.9	n.a.
Domestic corporate goods price index <sup>7</sup> <q/q % chg., 3-month rate of change>	2.6	1.9	2.3	2.3	2.2	2.3	p 2.1
	<-0.1>	<-0.2>	< 1.5>	< 1.2>	< 1.7>	< 1.5>	<p 1.0>
Consumer price index <sup>8</sup>	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	n.a.
Corporate service price index	0.1	0.5	p 1.3	1.0	1.4	p 1.4	n.a.
Money Stock (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	0.7	1.0	1.5	1.1	1.5	1.9	p 2.0
Number of corporate bankruptcies <cases>	<1,122>	<1,147>	<1,205>	<1,121>	<1,310>	<1,185>	<1,215>

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

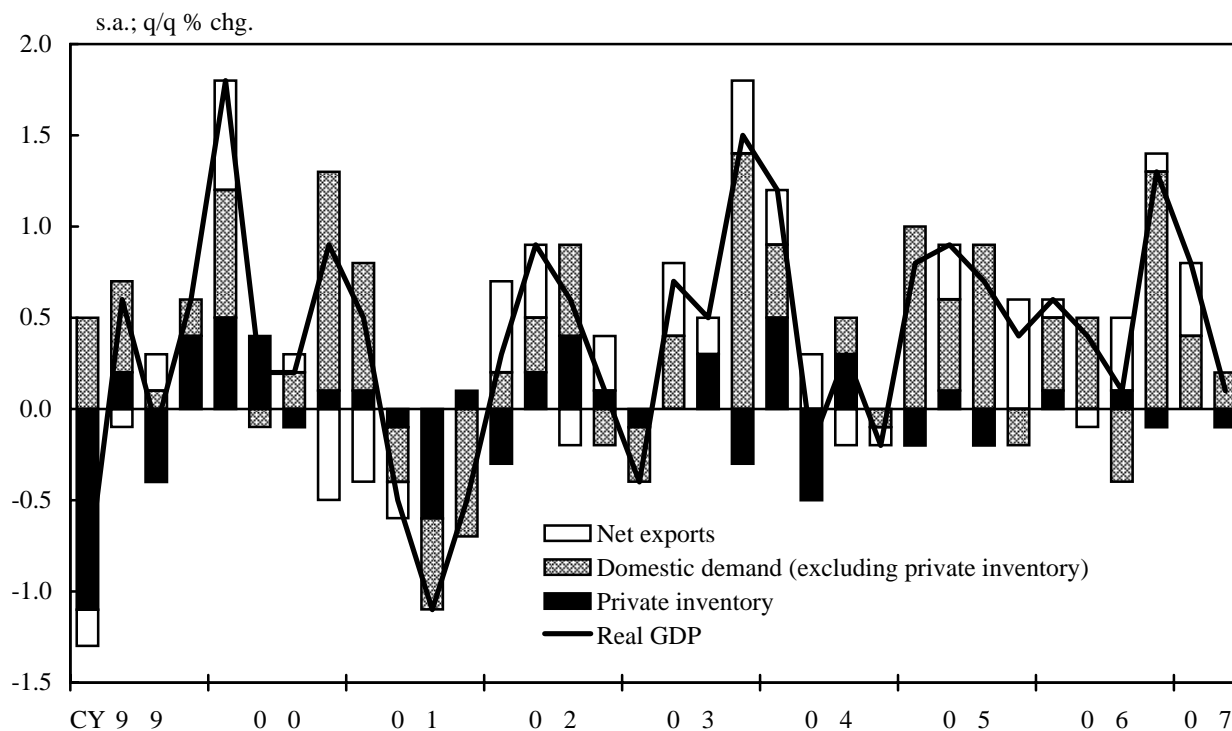
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

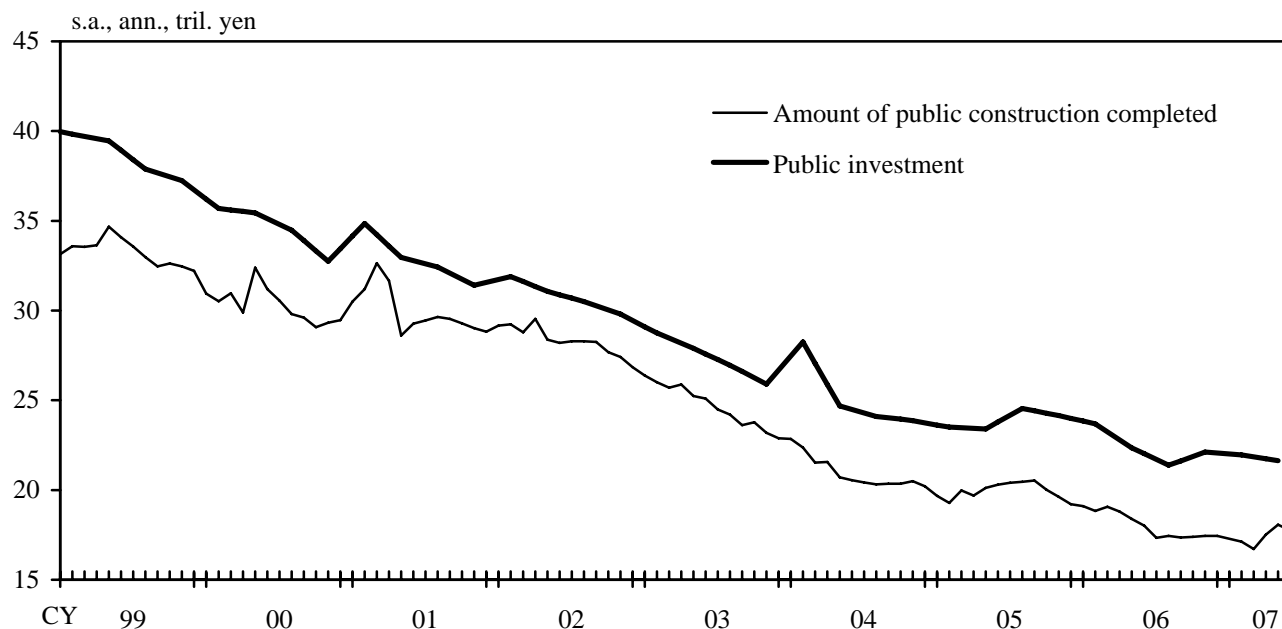
	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Real GDP	0.4	0.1	1.3	0.8	0.1
Domestic demand	0.5	-0.3	1.2	0.4	0.1
Private consumption	0.4	-0.9	1.1	0.8	0.4
Non-Resi. investment	2.9	1.1	2.8	0.3	1.2
Residential investment	-1.5	0.1	1.7	-0.8	-3.5
Private inventory	( 0.0)	( 0.1)	(-0.1)	(-0.0)	(-0.1)
Public demand	-0.6	-0.5	0.8	-0.5	-0.1
Public investment	-5.9	-4.9	3.7	-1.3	-2.1
Net exports of goods and services	(-0.1)	( 0.4)	( 0.1)	( 0.4)	( 0.0)
Exports	0.7	2.2	0.9	3.4	0.9
Imports	1.3	-0.4	-0.1	0.9	0.8
Nominal GDP	0.2	-0.1	1.4	0.4	0.3

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

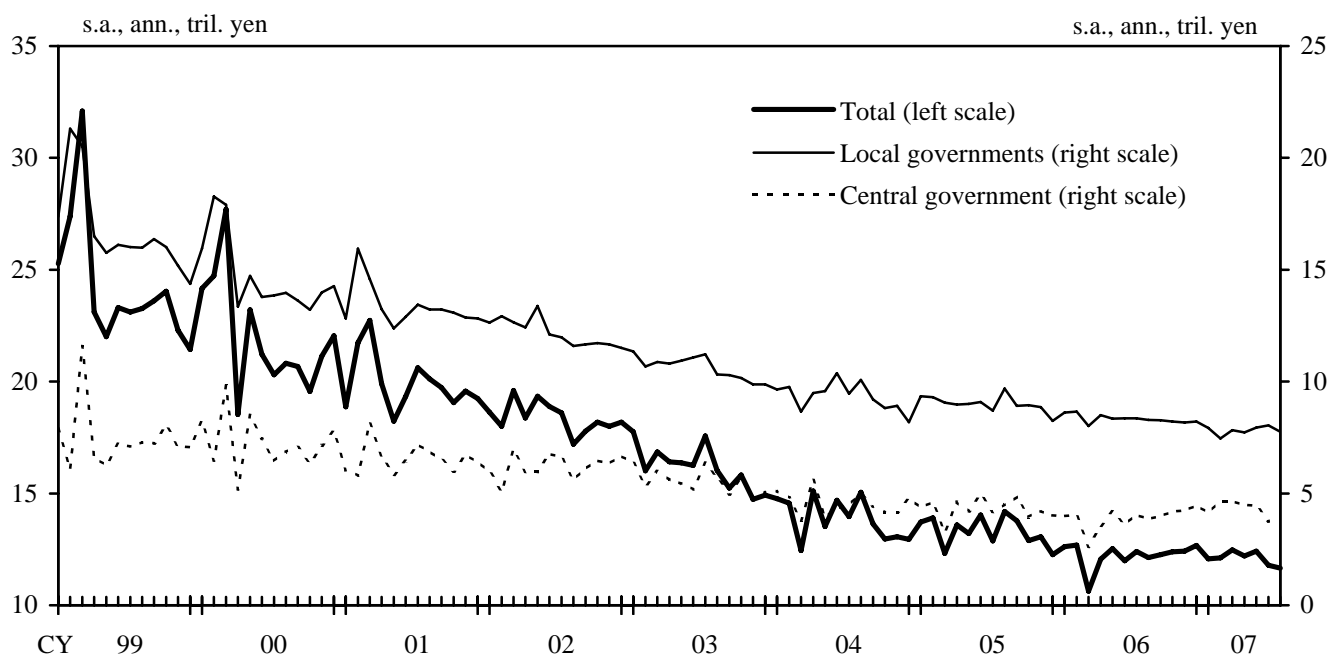
Source: Cabinet Office, "National Accounts."

## 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.

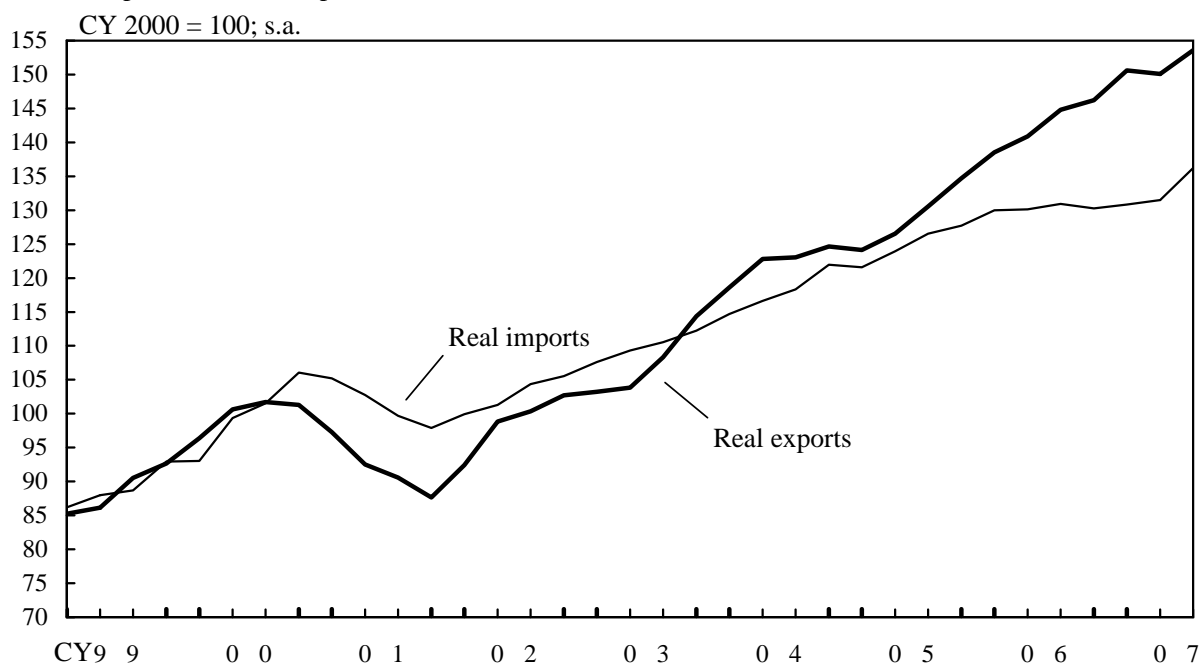
Sources: Cabinet Office, "National Accounts";

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

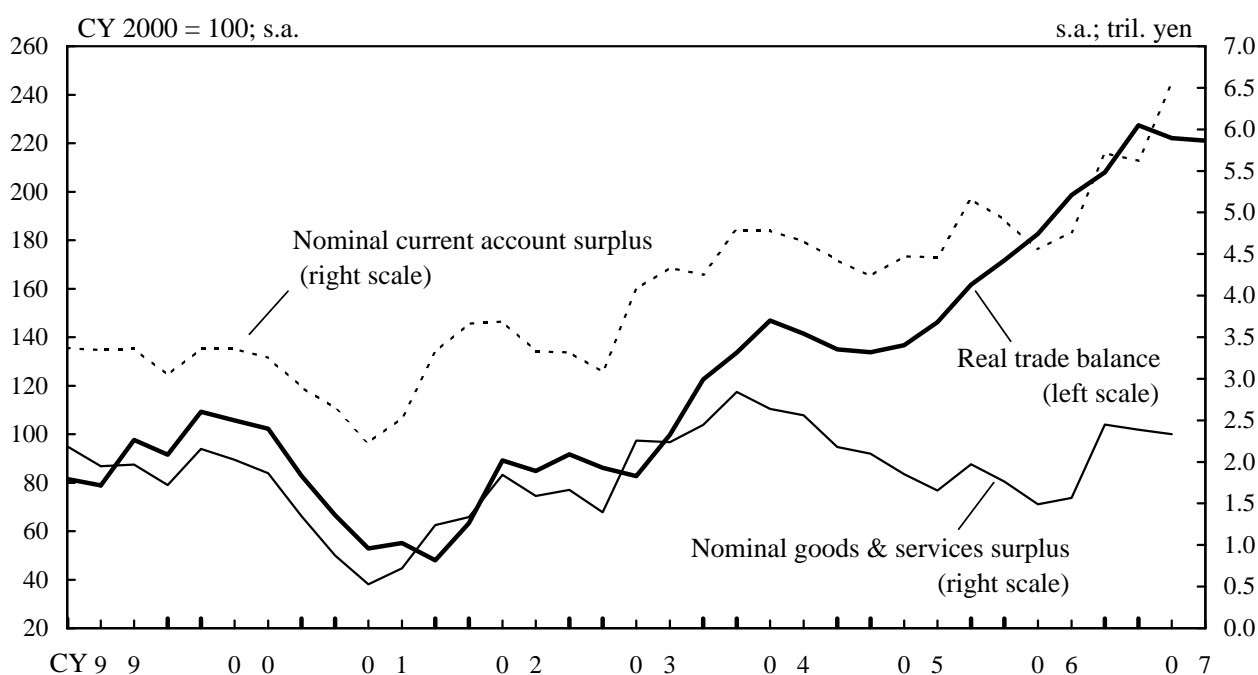
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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

3. 2007/Q3 figures for Real exports/imports and the real trade balance 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."

Real Exports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2007 Q4	2007 Q1	Q2	Q3	2007 May	Jun.	Jul.
United States	<22.5>	7.3	10.3	2.1	-0.7	-0.9	-3.7	2.6	0.7	2.4	0.7
EU	<14.5>	3.3	10.3	2.1	0.9	3.7	2.3	3.2	-0.3	2.2	1.8
East Asia	<45.7>	6.1	9.1	2.7	2.3	4.3	-1.3	0.9	2.7	0.1	-0.1
China	<14.3>	9.6	20.1	5.1	6.6	5.5	-2.9	2.3	7.1	1.5	-0.9
NIEs	<23.2>	5.0	5.7	0.5	0.2	3.9	-1.6	0.4	1.0	-1.7	1.3
Korea	<7.8>	4.5	7.7	-1.7	1.2	5.1	-2.5	-3.2	-6.0	-1.6	-0.1
Taiwan	<6.8>	4.4	3.7	-1.1	-3.5	0.1	1.6	2.7	-2.5	3.4	1.3
ASEAN <sup>4</sup>	<8.1>	4.4	2.8	4.9	0.9	3.6	2.2	-0.4	-0.3	2.7	-2.0
Thailand	<3.5>	10.0	5.2	4.4	0.5	3.8	0.8	0.8	-0.6	-1.4	1.9
Others	<17.3>	11.5	19.5	4.2	2.4	4.4	4.1	3.3	6.8	-0.4	1.3
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	2.3	2.8	0.6	1.0

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2007 Q4	2007 Q1	Q2	Q3	2007 May	Jun.	Jul.
Intermediate goods	<17.9>	1.8	6.4	0.4	0.5	1.8	0.1	3.0	1.4	-1.0	3.1
Motor vehicles and their related goods	<23.4>	8.2	13.6	1.3	4.0	2.7	1.0	-0.4	5.4	1.4	-3.0
Consumer goods <sup>4</sup>	<5.0>	5.2	7.1	0.4	0.4	-3.0	5.4	0.5	-2.2	1.7	0.1
IT-related goods <sup>5</sup>	<11.5>	5.4	7.7	2.5	5.1	5.5	-4.0	3.3	-1.6	-1.1	4.7
Capital goods and parts <sup>6</sup>	<29.4>	7.1	12.4	4.0	-1.1	3.0	0.2	2.2	-0.1	5.5	-1.4
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	2.3	2.8	0.6	1.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q3 figures are July figures 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.

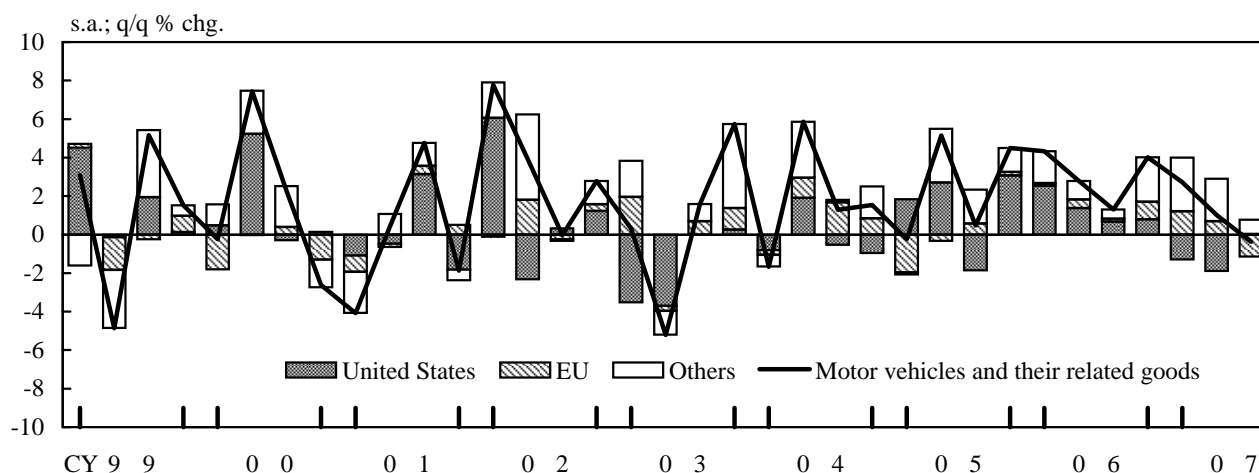
6. Excludes IT-related goods, power generating machinery and parts of motor vehicles.

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

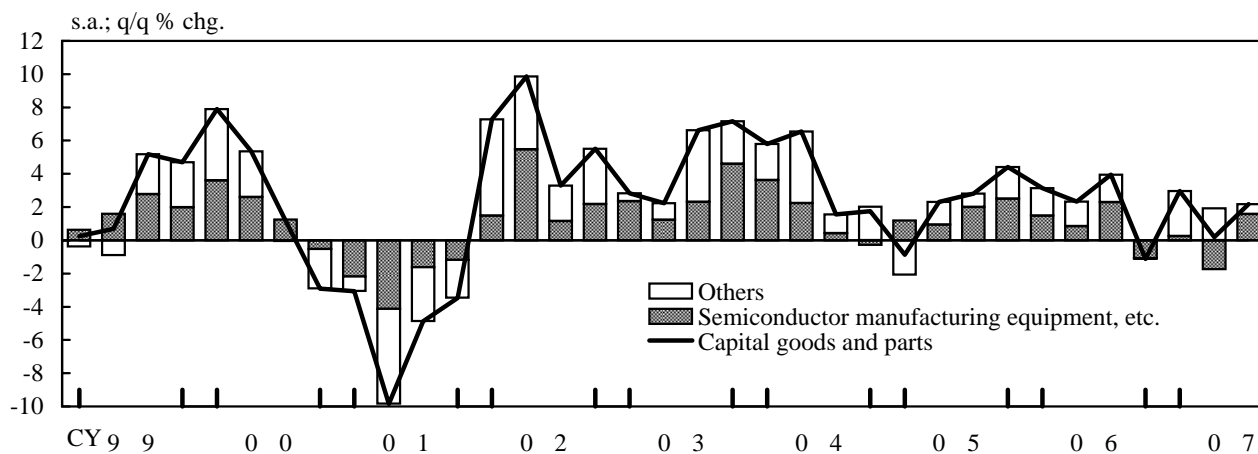


Real Exports Breakdown by Goods

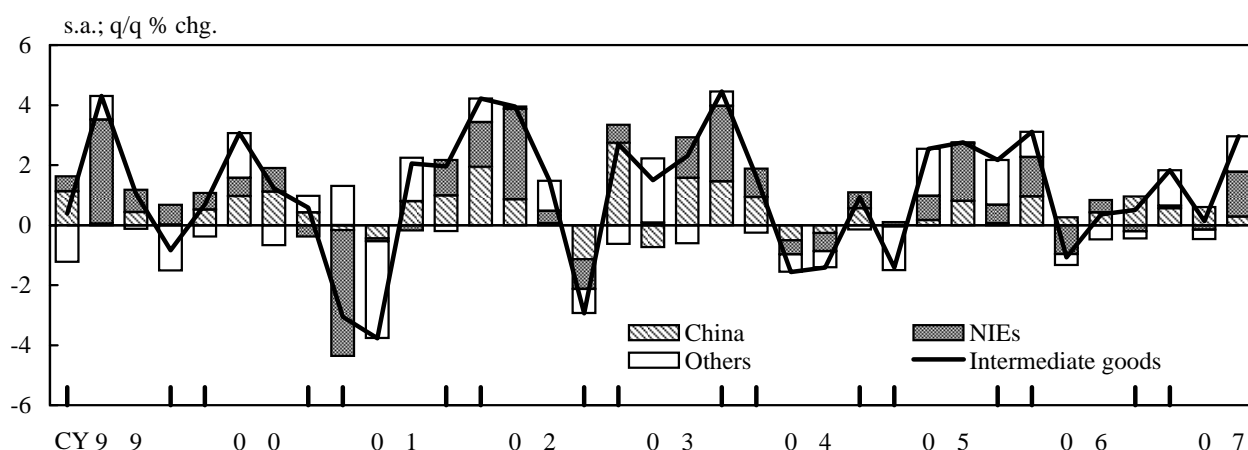
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



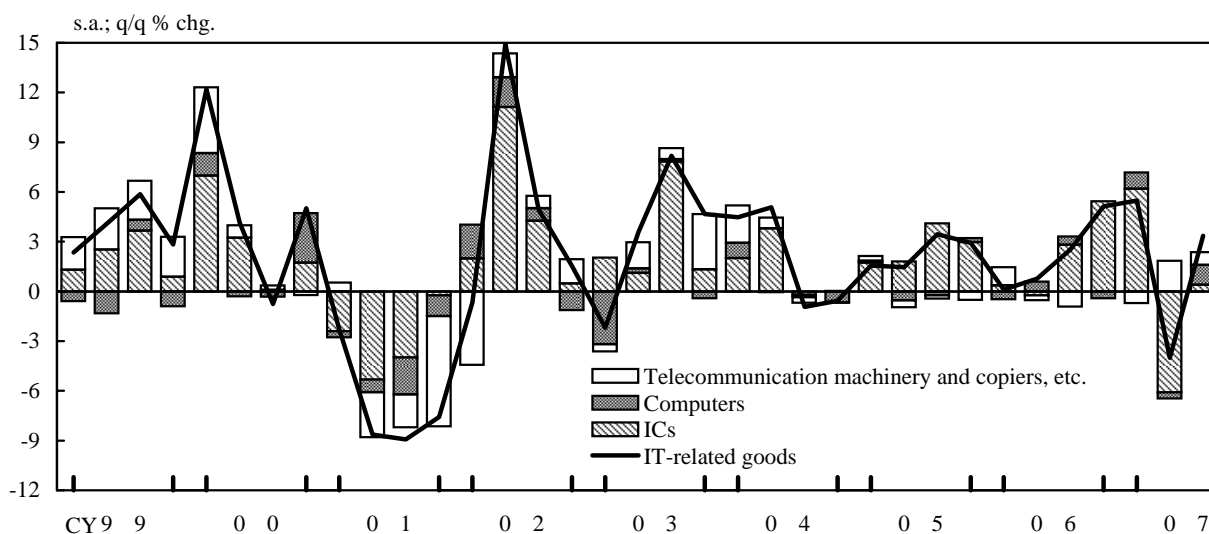
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q3 figures are July figures converted into quarterly amount.

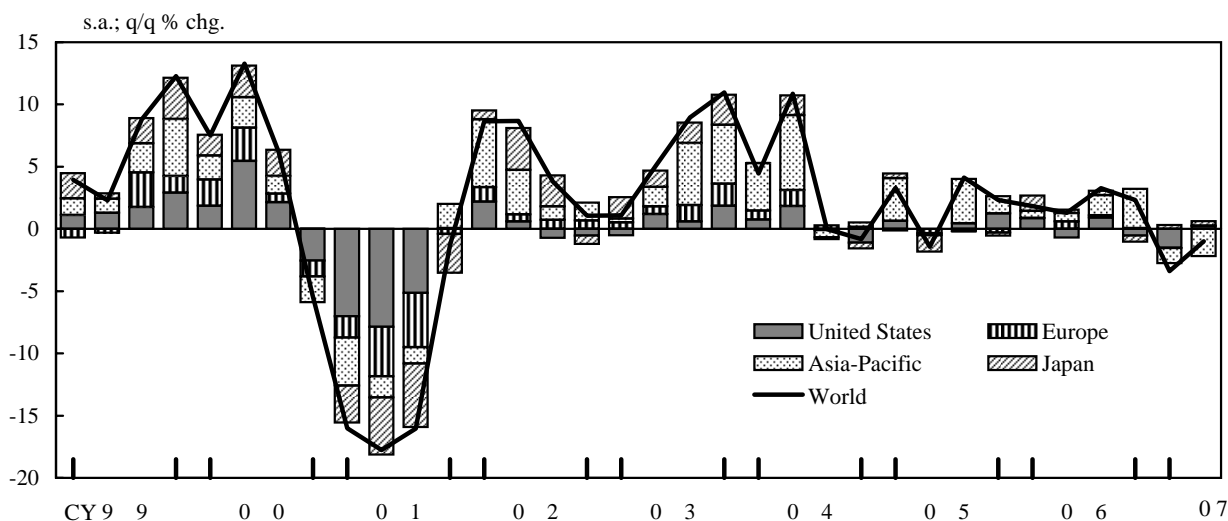
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

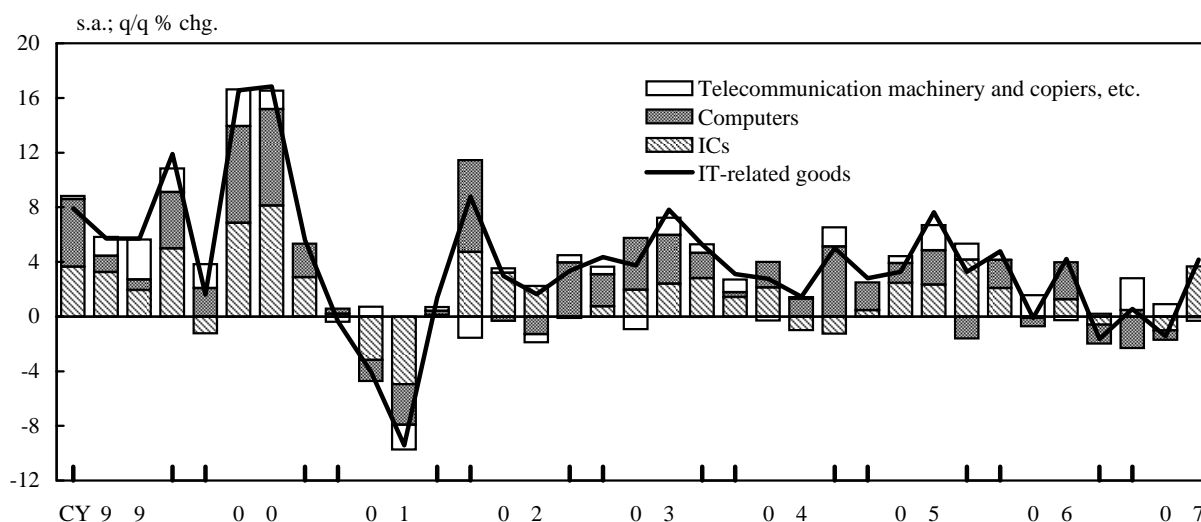
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

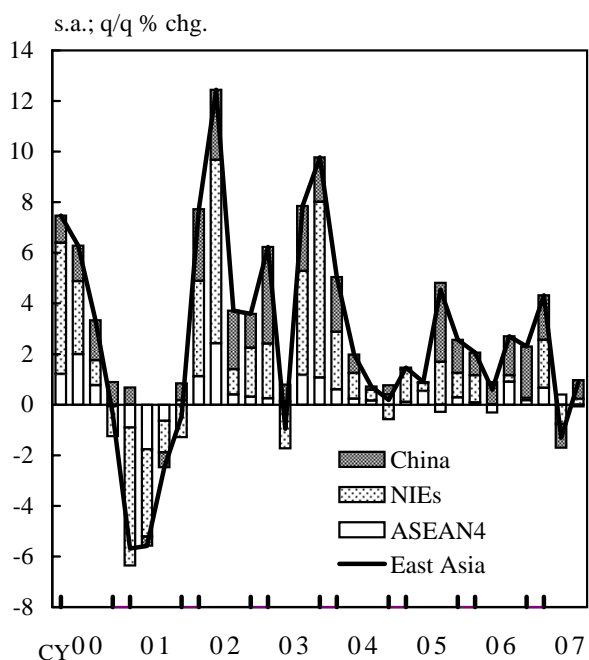
2. 2007/Q3 figures are July figures converted into quarterly amount.

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

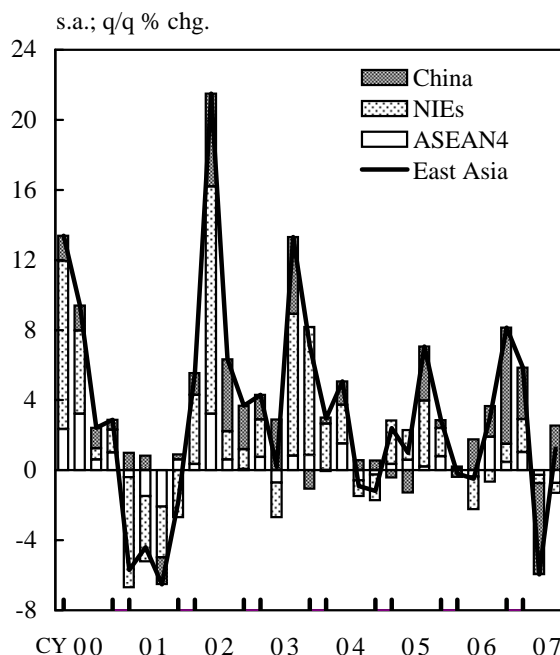
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

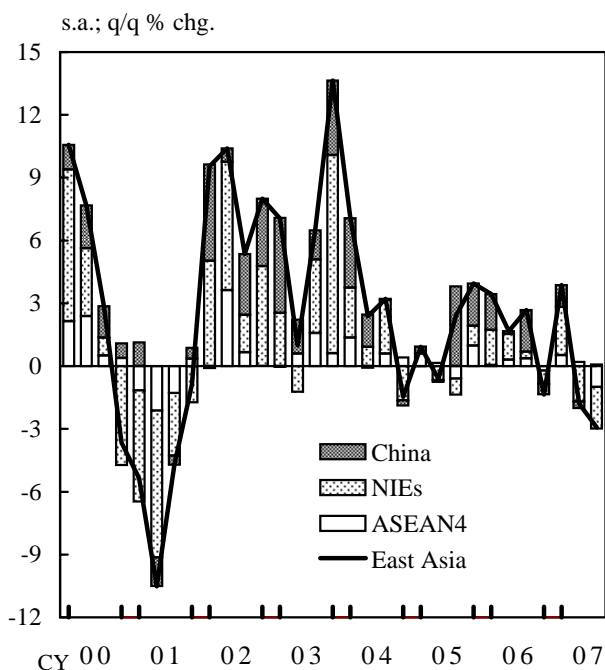
(1) All Goods (Real, Breakdown by Region)



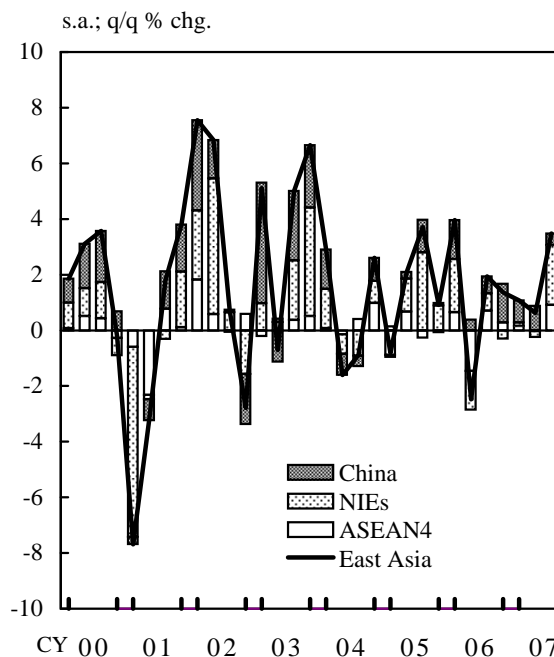
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



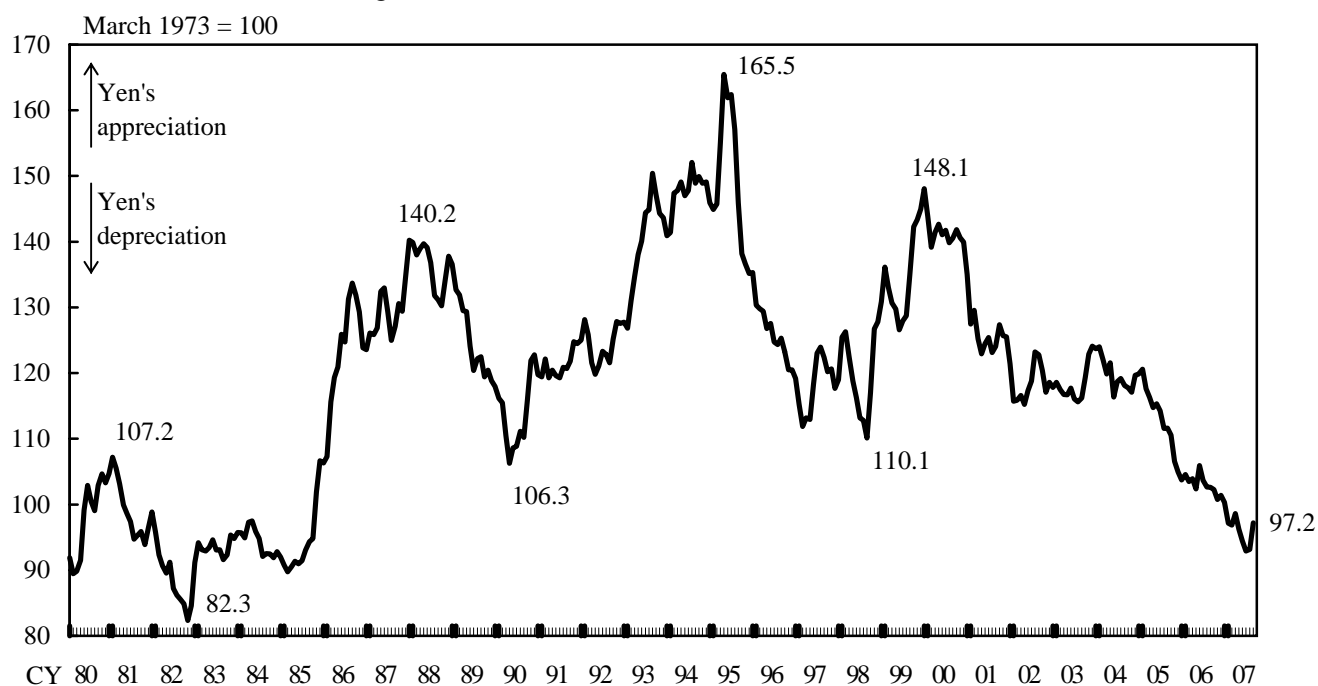
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/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 August 2007 is the average up to August 22.

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 <sup>1</sup>		3.6	3.1	2.9	1.1	2.1	0.6	3.4	
European Union <sup>1</sup>		2.3	1.9	3.1	2.7	3.6	3.0	1.8	
	Germany	0.6	1.0	3.1	3.0	4.0	2.2	1.0	
	France	2.3	1.7	2.2	0.3	1.5	2.2	1.3	
	United Kingdom	3.3	1.8	2.8	2.8	3.3	2.8	3.2	
East Asia <sup>2</sup>	China	10.1	10.4	11.1	10.6	10.4	11.1	11.9	
	NIEs	Korea	4.7	4.2	5.0	4.8	4.0	4.0	4.9
		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	5.7	6.9
		Singapore	8.8	6.6	7.9	7.0	6.6	6.4	8.6
	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	6.3
		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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 May	2007 Jun.	2007 Jul.
United States	<11.7>	3.6	6.6	4.5	-2.4	-2.2	1.7	-2.2	6.3	-7.7	1.2
EU	<10.3>	2.1	1.4	-0.4	-0.2	1.7	3.8	5.6	9.0	-0.3	2.9
East Asia	<41.4>	11.2	9.5	2.3	1.8	0.1	-0.8	3.9	4.2	1.5	1.6
China	<20.5>	18.8	11.2	3.1	2.2	1.4	0.5	2.4	3.2	2.8	-0.5
NIEs	<9.8>	9.3	12.7	1.5	-0.2	-1.6	-4.5	3.8	4.2	1.8	1.2
Korea	<4.7>	8.3	11.4	1.3	-1.6	-1.7	1.3	5.2	9.8	6.4	-2.0
Taiwan	<3.5>	11.0	16.9	4.2	2.3	-3.3	-10.3	3.2	-2.2	2.9	2.0
ASEAN4 <sup>3</sup>	<11.1>	0.2	3.4	1.5	3.1	-1.0	-0.0	7.4	6.5	-1.7	6.4
Thailand	<2.9>	12.8	7.1	0.7	2.0	1.7	-1.6	9.9	0.0	-0.0	9.9
Others	<36.5>	1.8	2.5	-1.7	-2.3	1.3	-1.0	4.0	6.7	4.5	-1.1
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	3.6	6.7	-0.0	1.4

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 May	2007 Jun.	2007 Jul.
Raw materials <sup>4</sup>	<34.7>	-3.9	1.0	-2.2	-2.0	0.9	-0.3	5.1	7.9	3.1	0.5
Intermediate goods	<14.0>	4.6	2.3	-0.4	-1.4	0.5	1.9	3.7	7.8	1.7	0.0
Foodstuffs	<8.5>	2.6	-3.3	-2.3	1.7	0.4	-4.3	-2.3	6.1	0.1	-4.3
Consumer goods <sup>5</sup>	<8.8>	8.6	2.6	0.1	1.9	-5.1	5.5	1.5	4.3	-2.8	2.0
IT-related goods <sup>6</sup>	<12.0>	15.4	14.1	4.2	-1.6	0.6	-1.4	4.2	0.5	-0.6	4.4
Capital goods and parts <sup>7</sup>	<12.4>	13.6	16.9	4.9	1.3	1.7	1.7	4.6	8.7	-4.5	4.9
Excluding aircraft	<11.5>	13.7	18.0	2.9	1.8	0.3	3.1	6.0	4.0	-1.4	5.7
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	3.6	6.7	-0.0	1.4

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q3 figures are July figures 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.

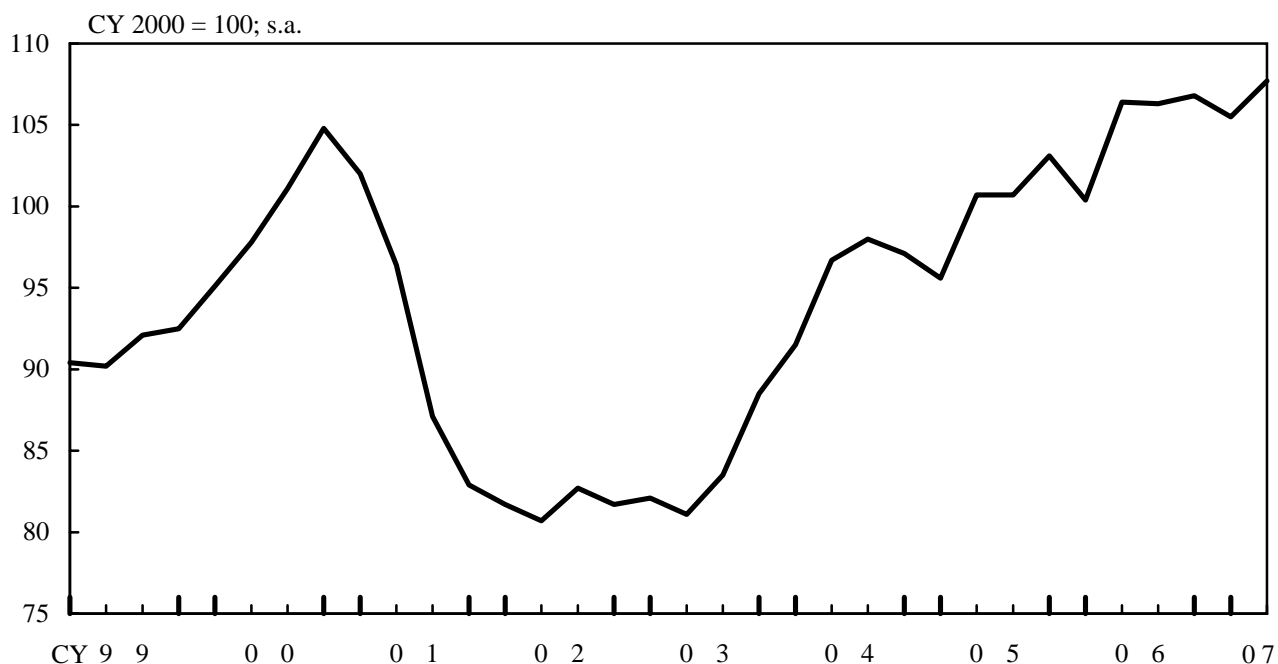
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

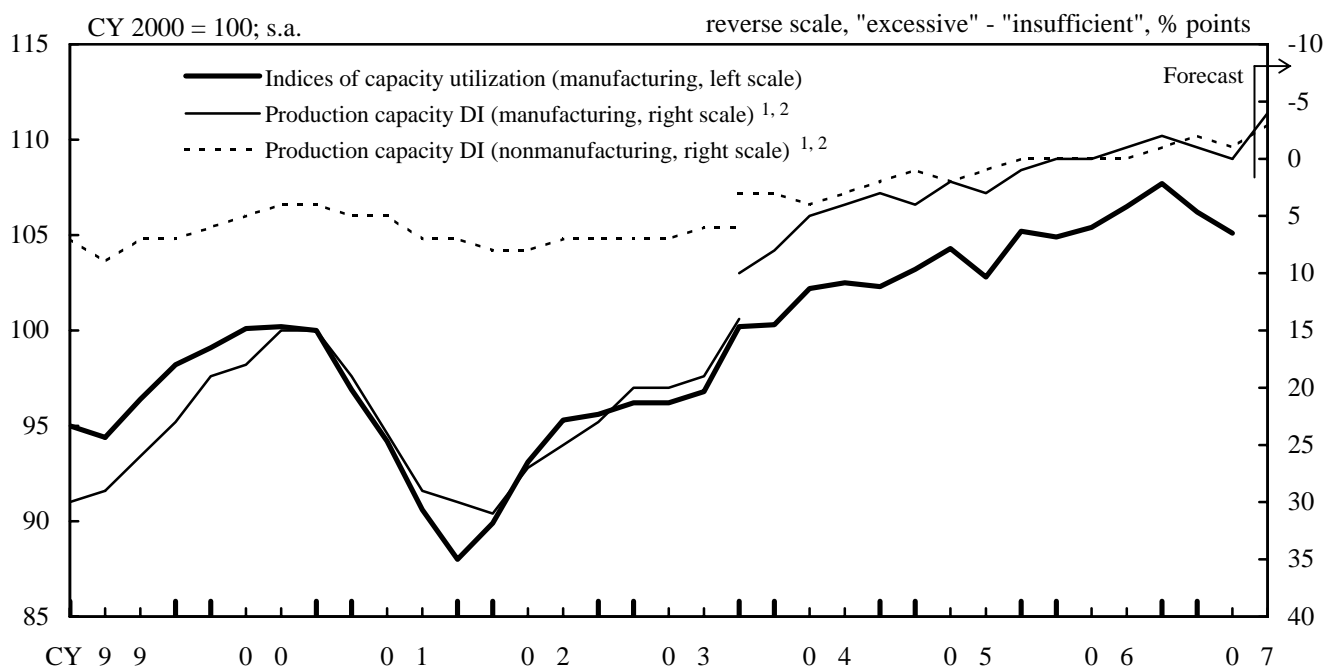
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Coincident Indicators for Business Fixed Investment

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



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



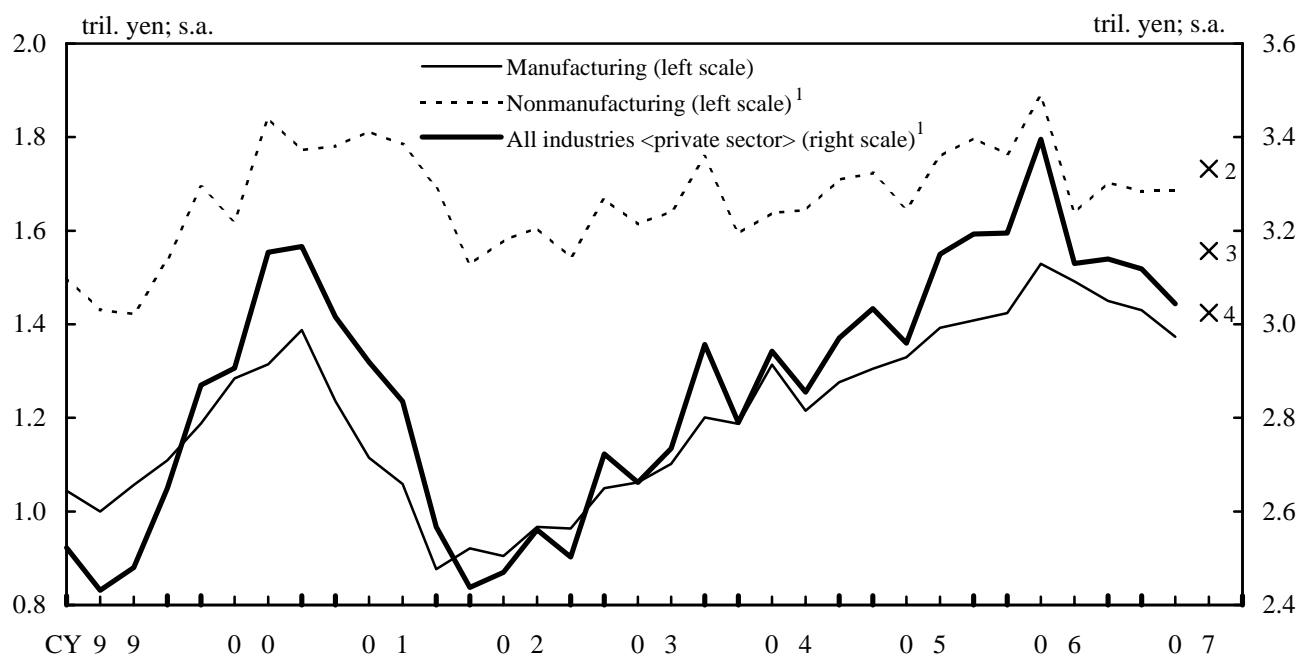
Notes: 1. Production capacity DIs are those of all enterprises.

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



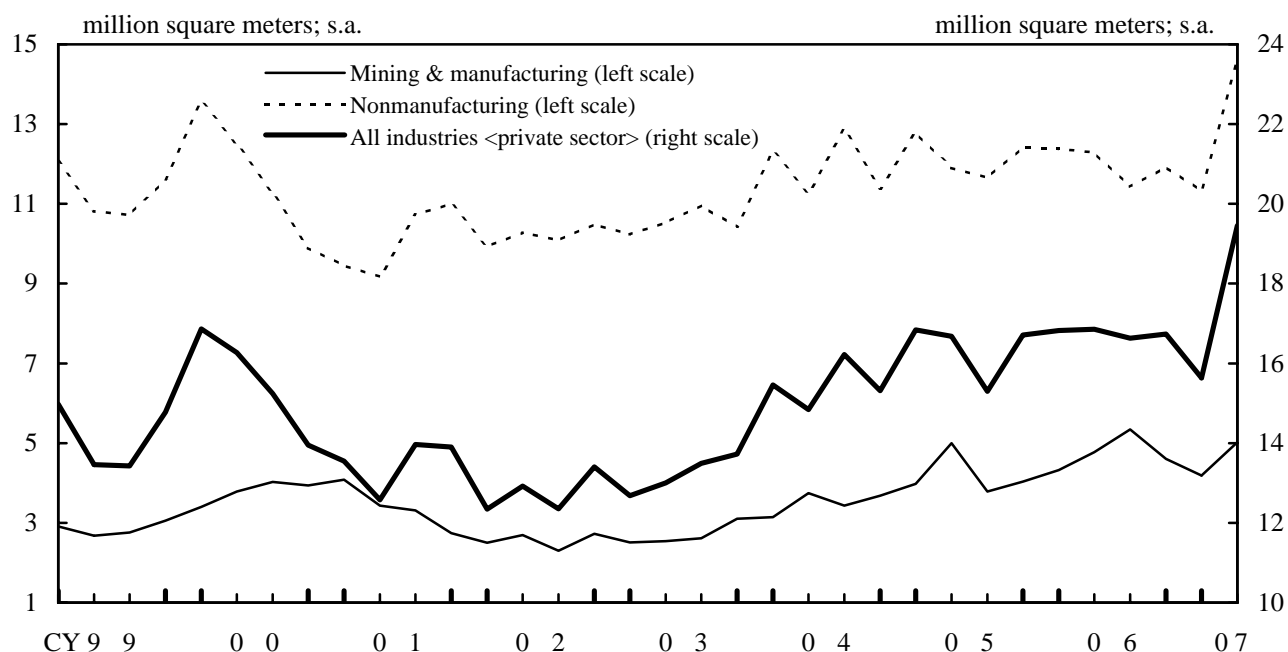
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2007/Q3.

3. Forecast of all industries <private sector> for 2007/Q3.

4. Forecast of manufacturing industries for 2007/Q3.

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



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

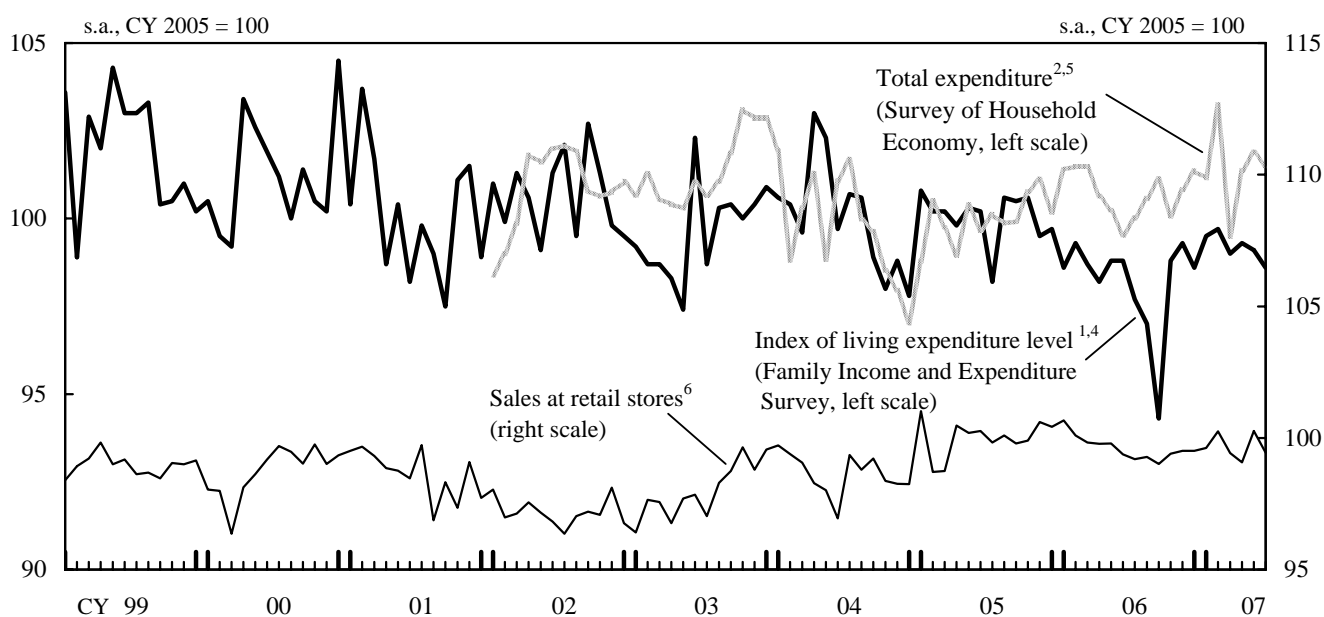
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

Sources: Cabinet Office, "Machinery Orders Statistics";

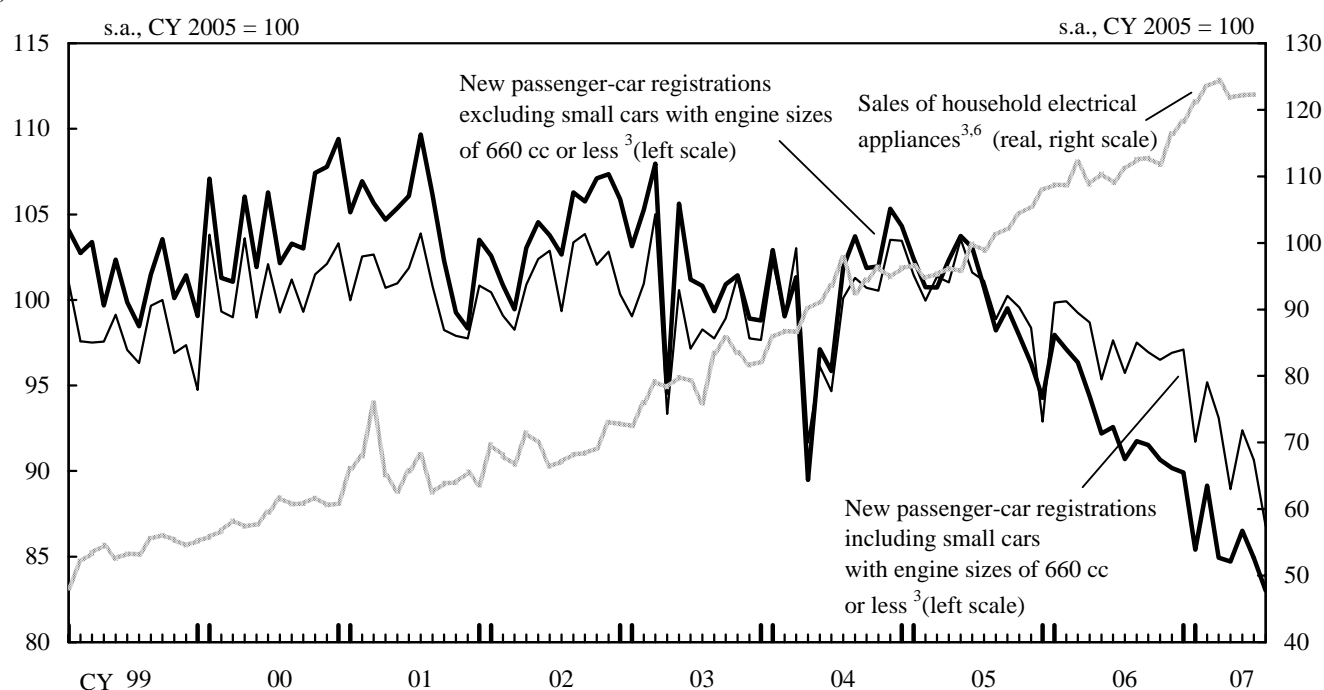
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

## 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";

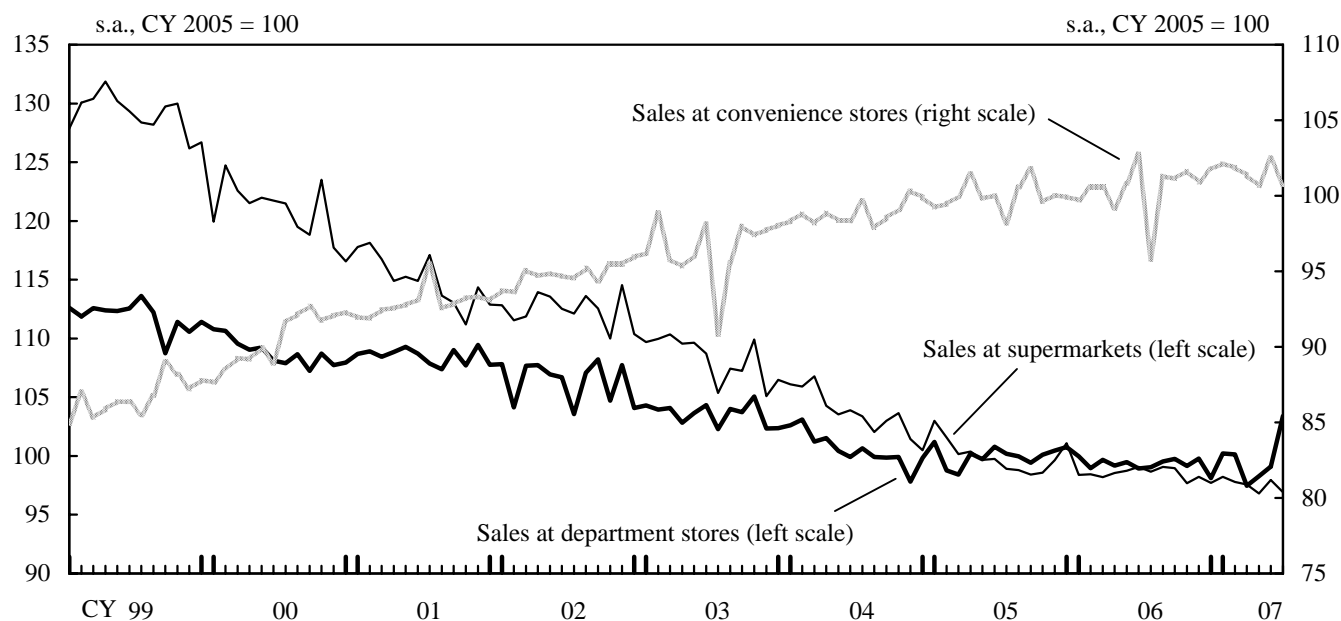
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

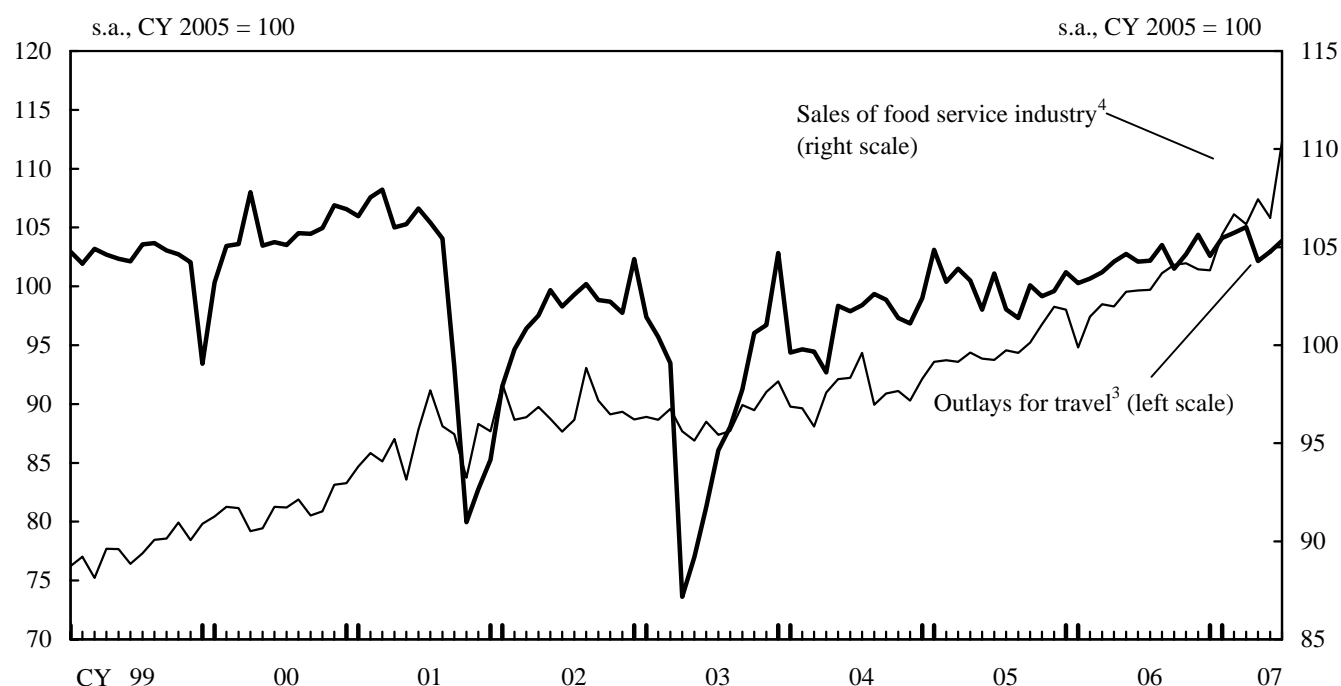
Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

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



Indicators for Private Consumption<sup>1</sup> (2)(3) Sales at Retail Stores (Nominal)<sup>2</sup>

## (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).

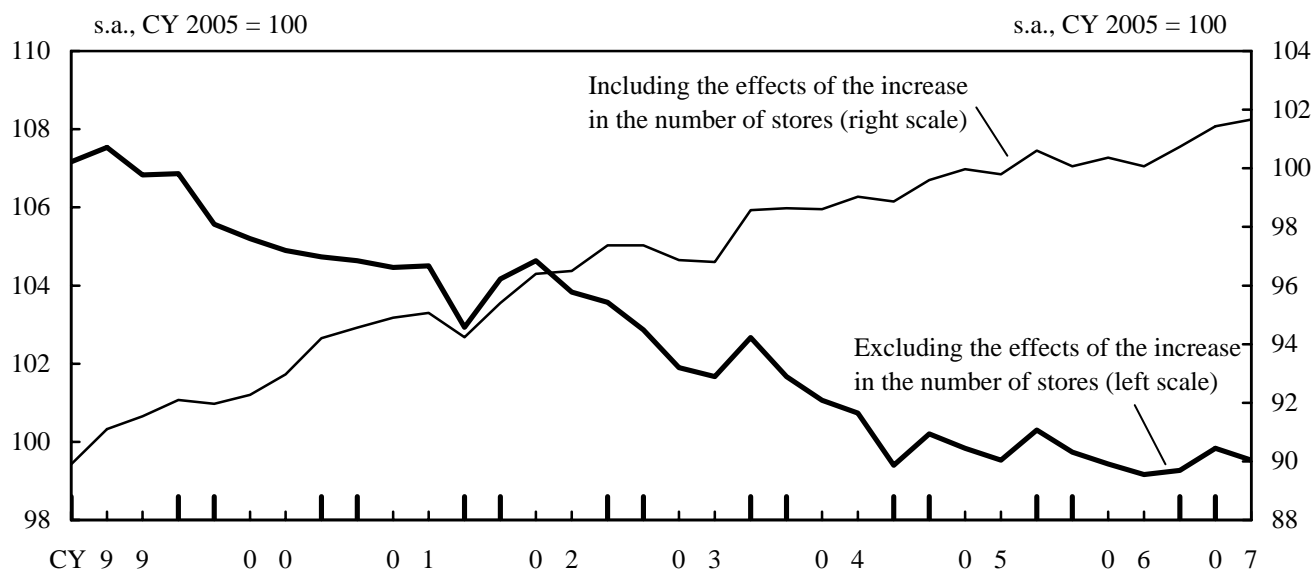
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

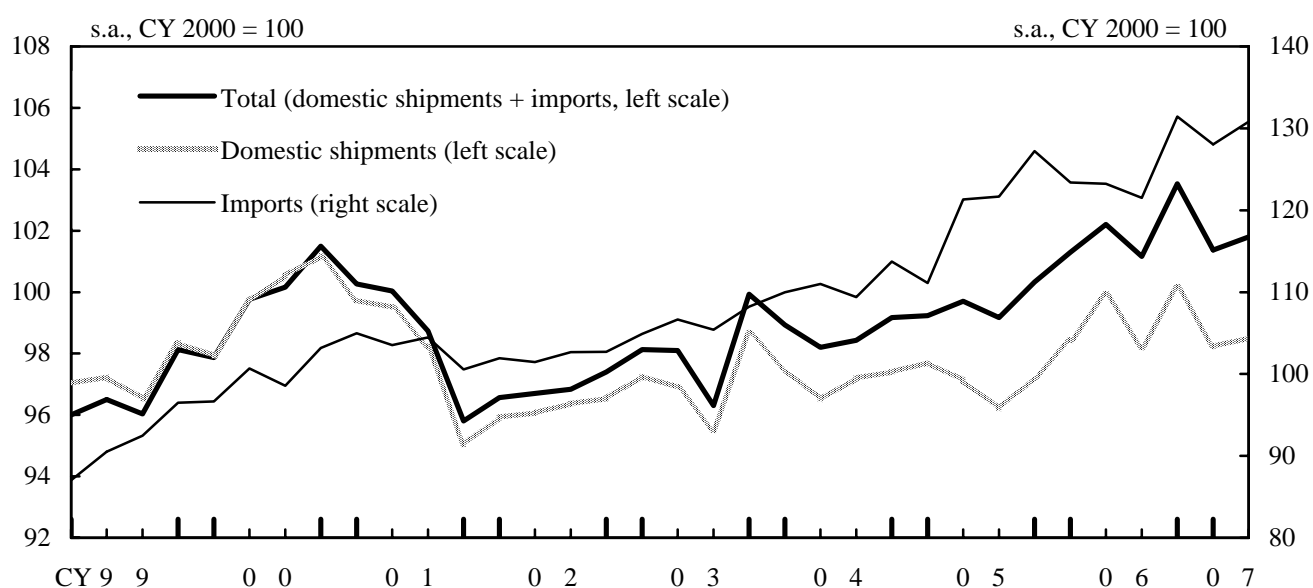
## Indicators for Private Consumption (3)

## (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.

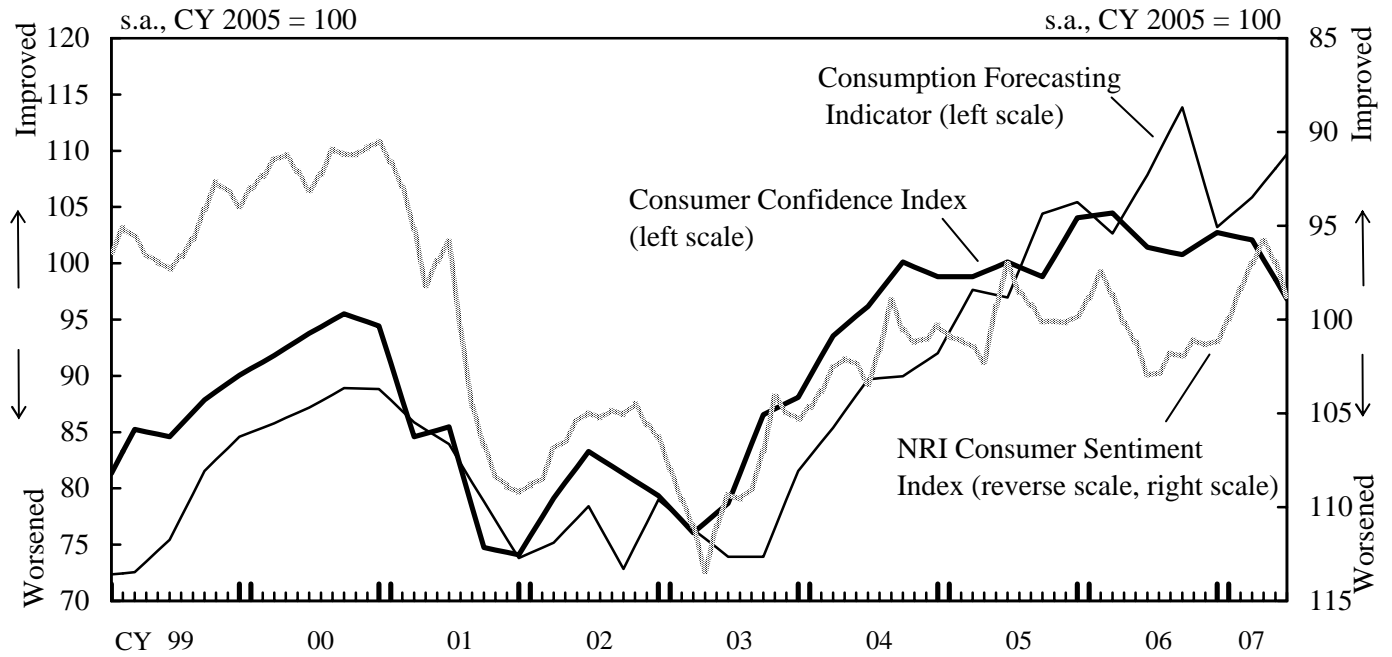
## (2) Aggregate Supply of Consumer Goods



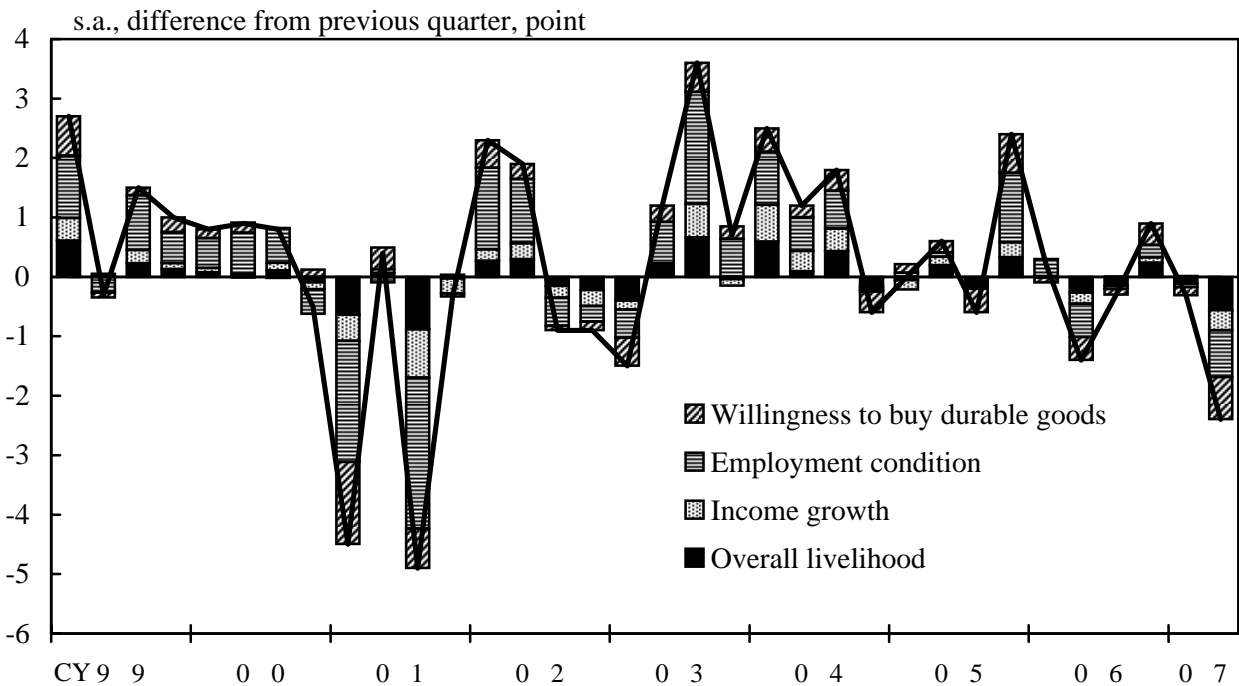
Sources: Bank of Japan, "Indices of Aggregated Sales";  
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

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.

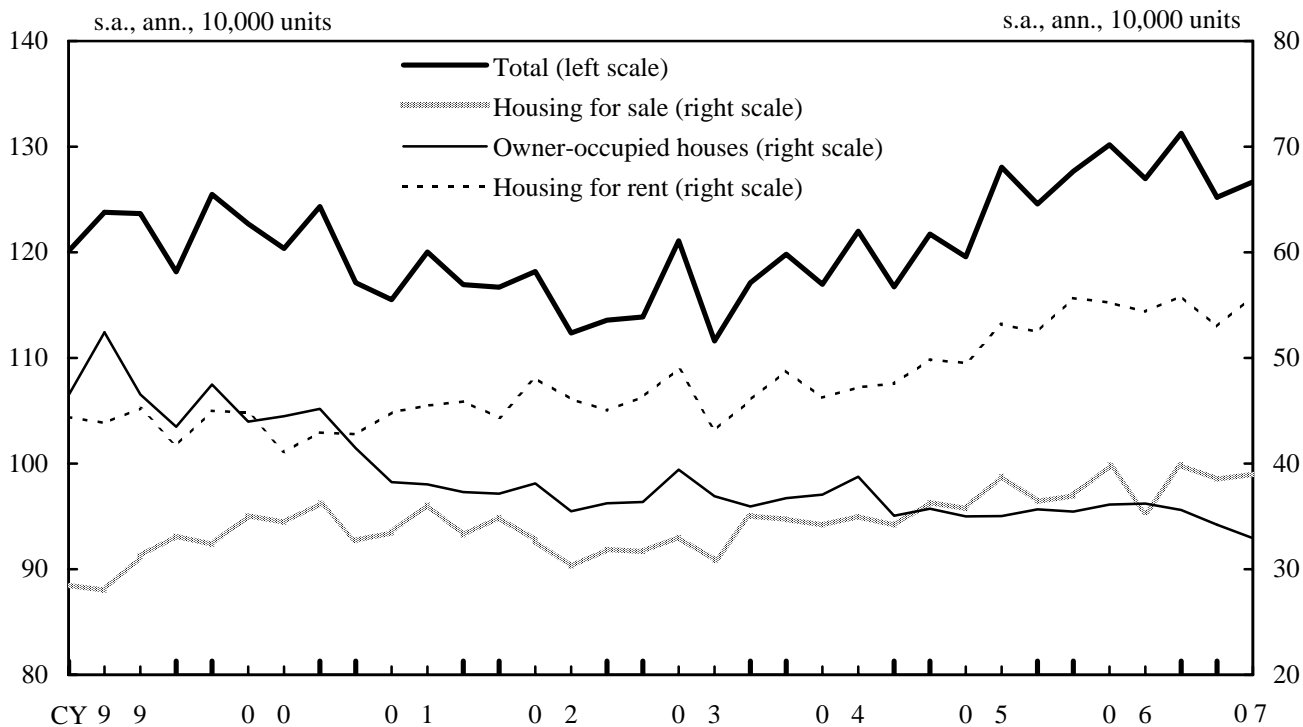
2. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

3. Data are plotted at the months of each survey.

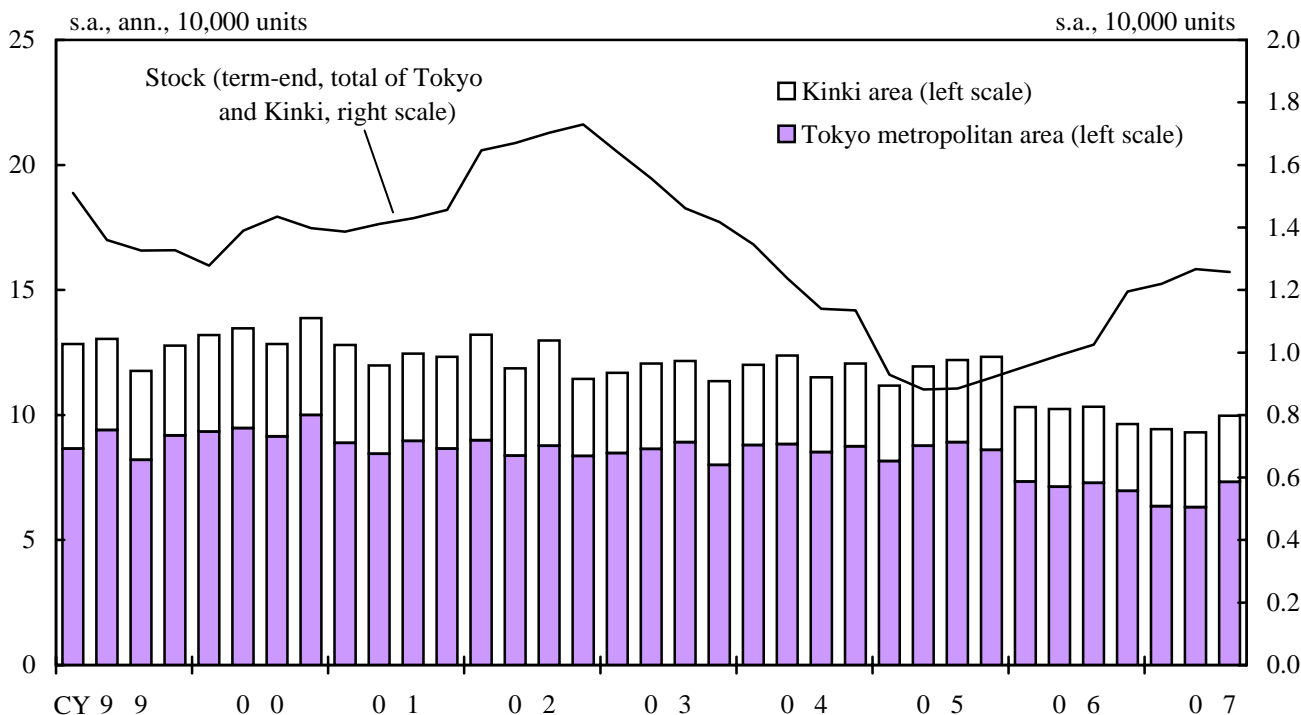
Sources: Cabinet Office, "Consumer Confidence Survey"; Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Apartments

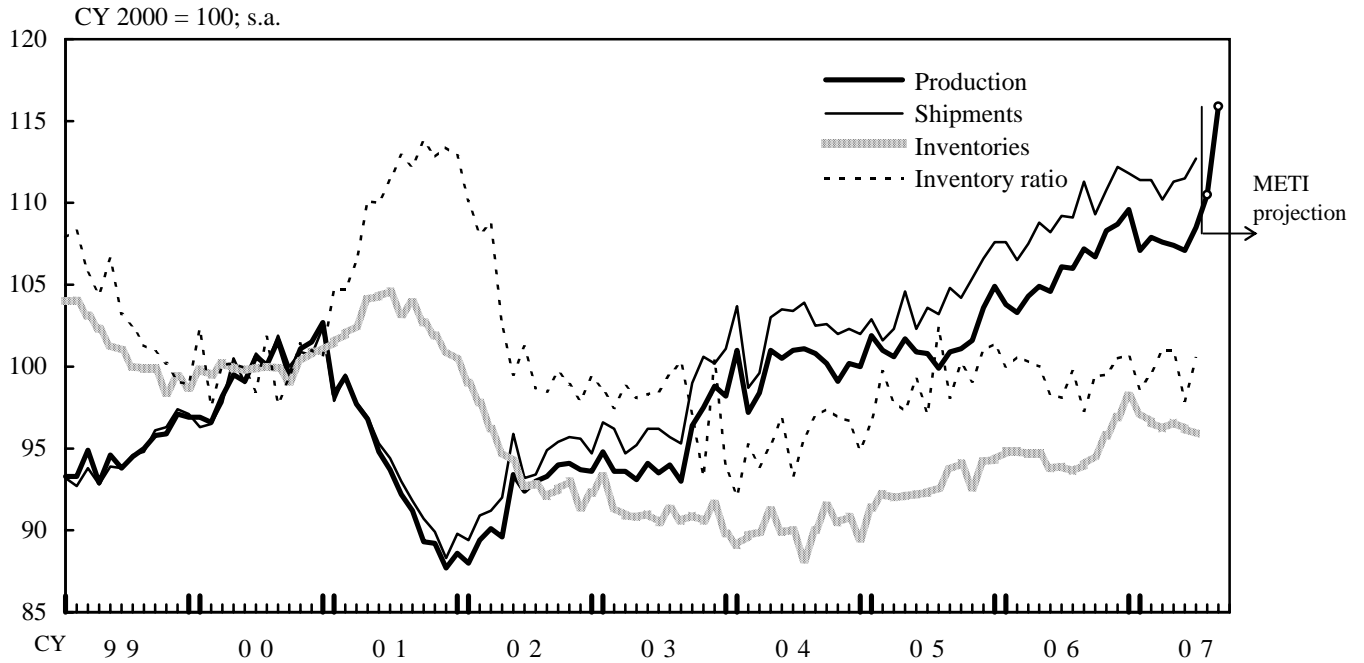


Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2007/Q3 are those of July.

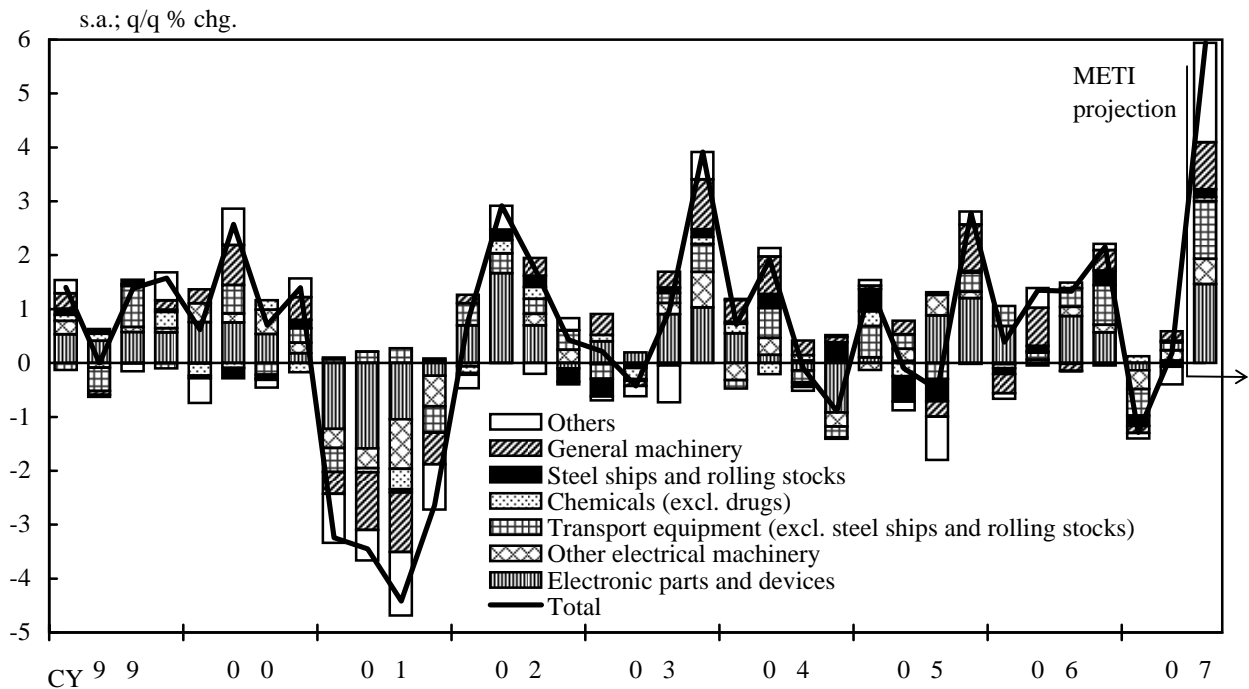
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

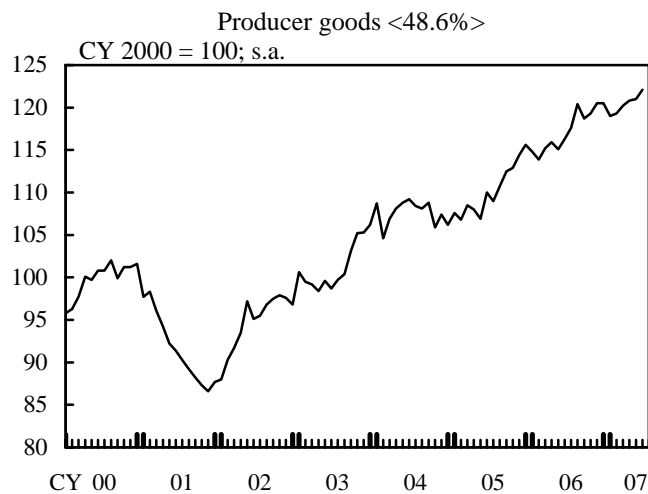
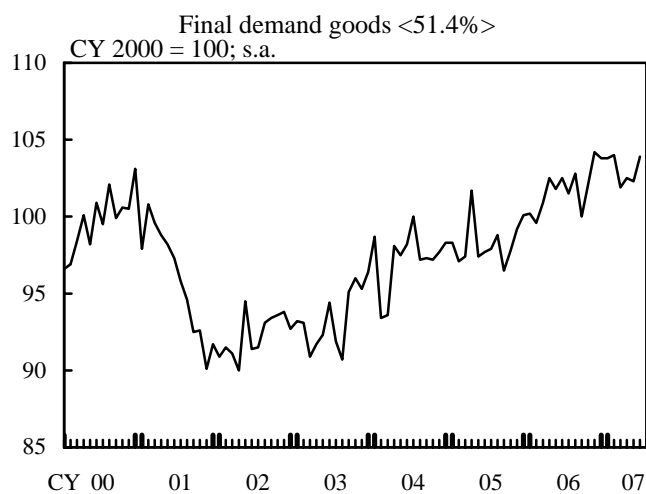


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."  
 2. 2007/Q3 figures are based on the assumption that production level in September is the same as that of August.

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

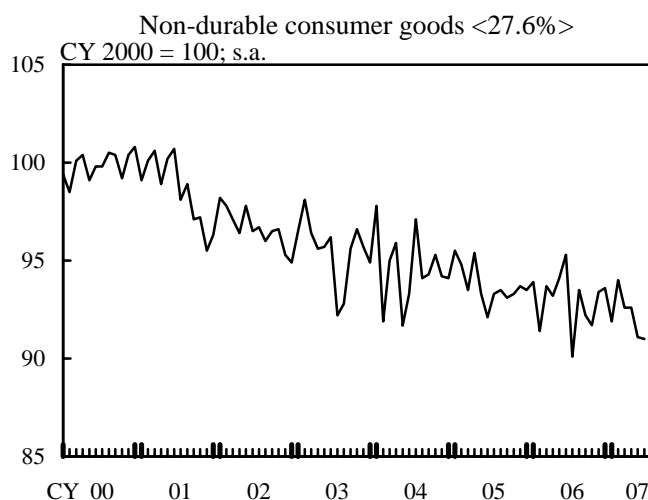
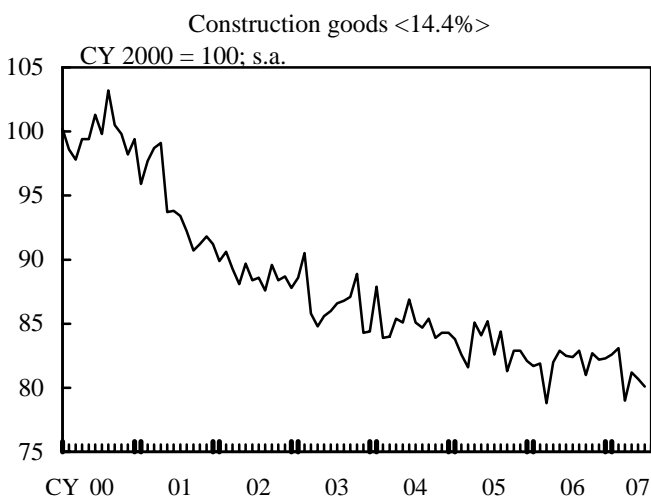
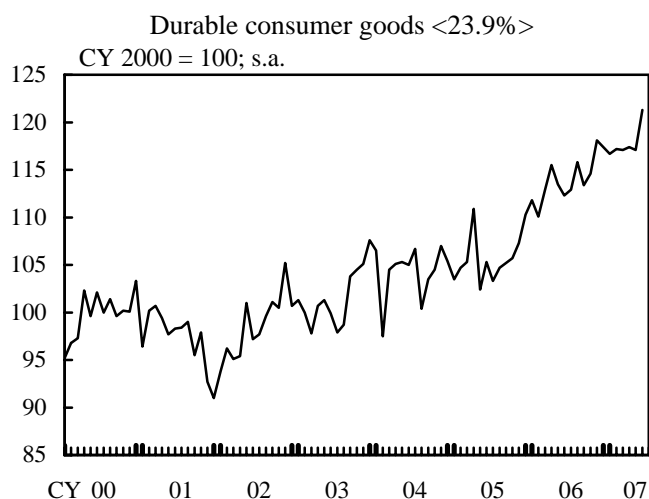
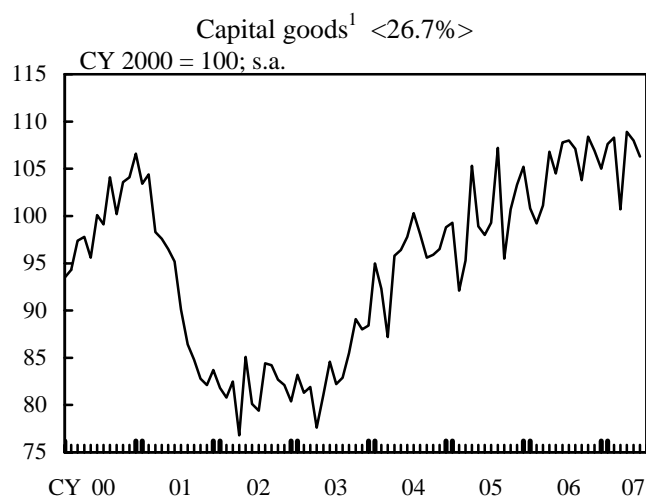
## Shipments Breakdown by Type of Goods

### (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



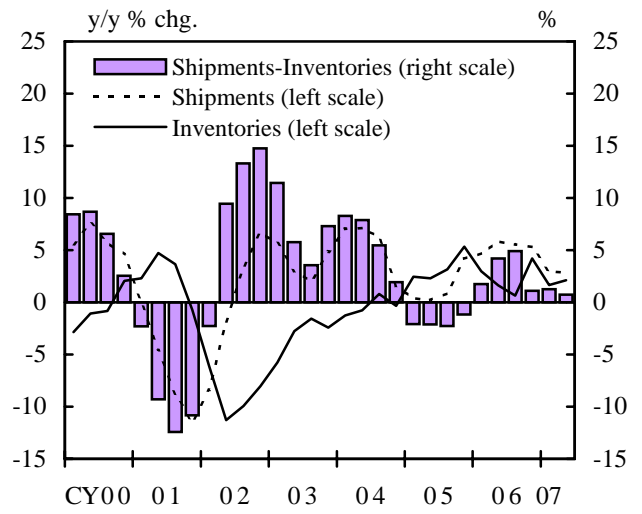
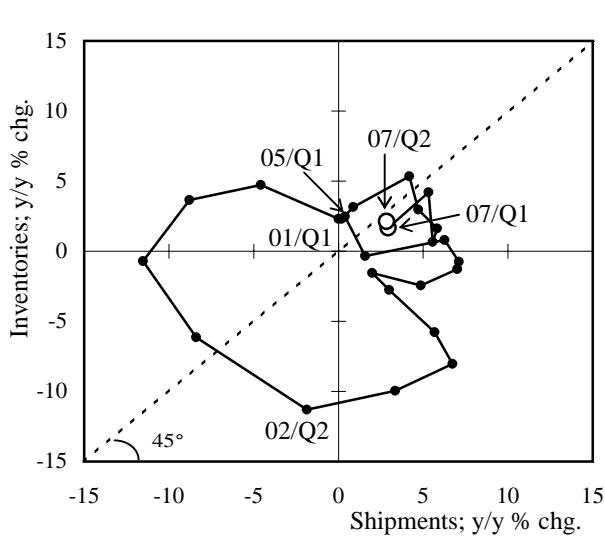
Notes: 1. Excluding transport equipment.

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

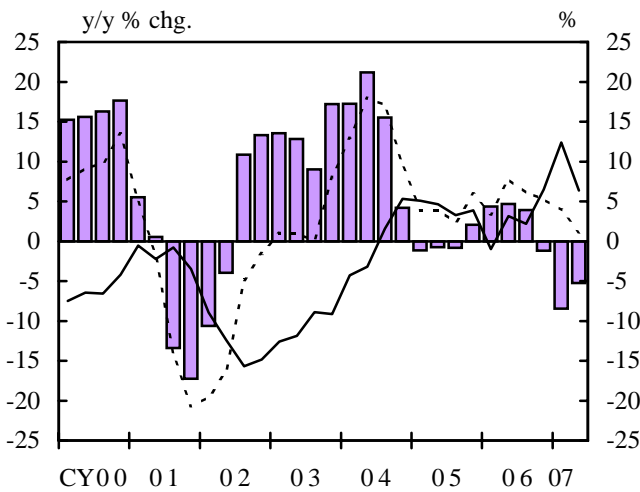
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

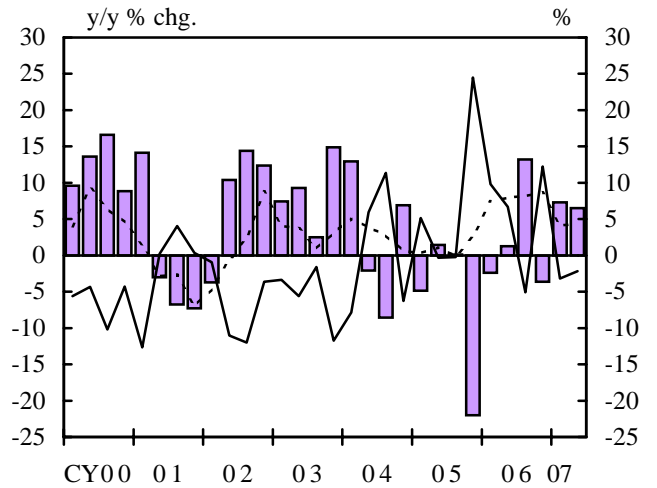
(1) Total



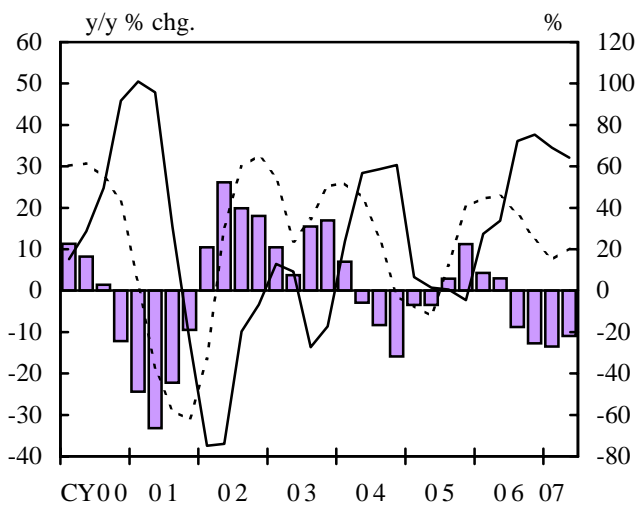
(2) Capital Goods (Excluding Transport Equipment)



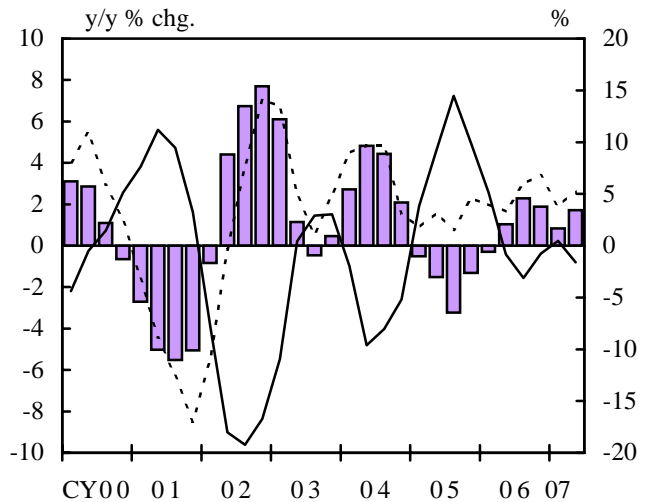
(3) Durable Consumer Goods



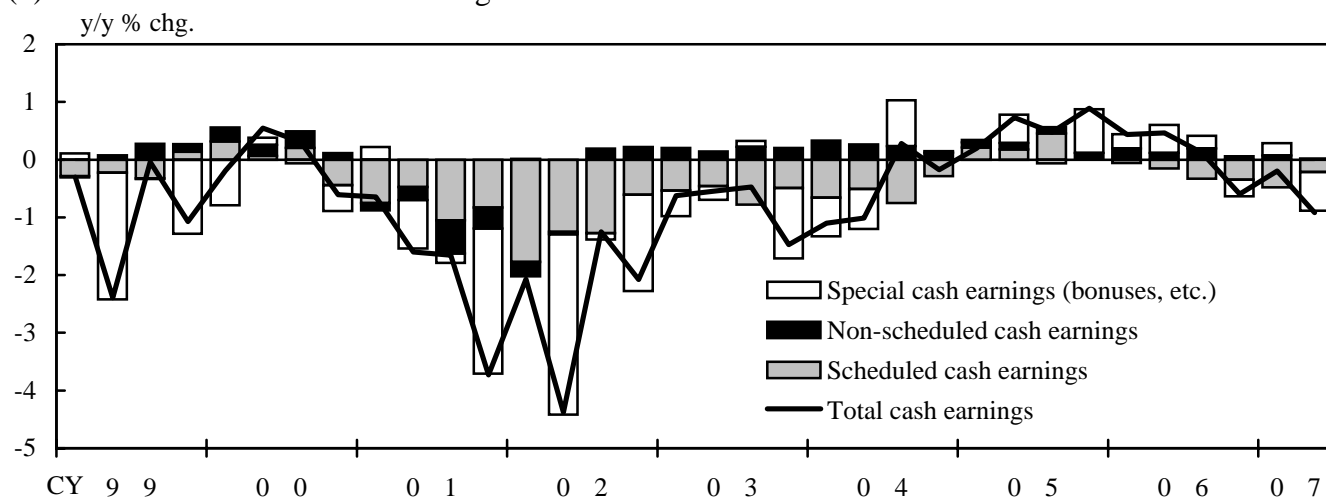
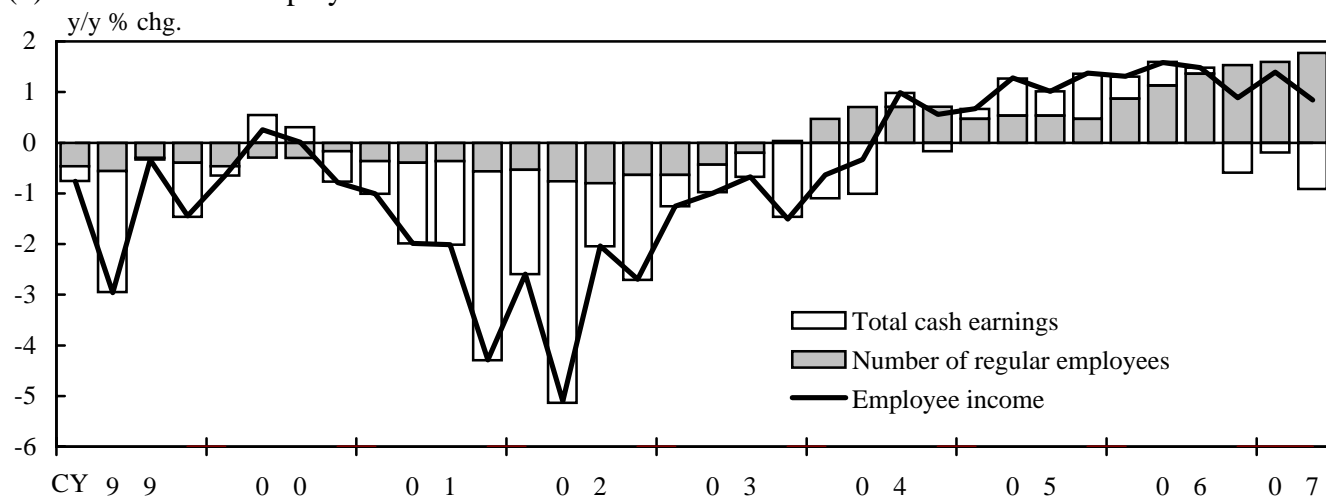
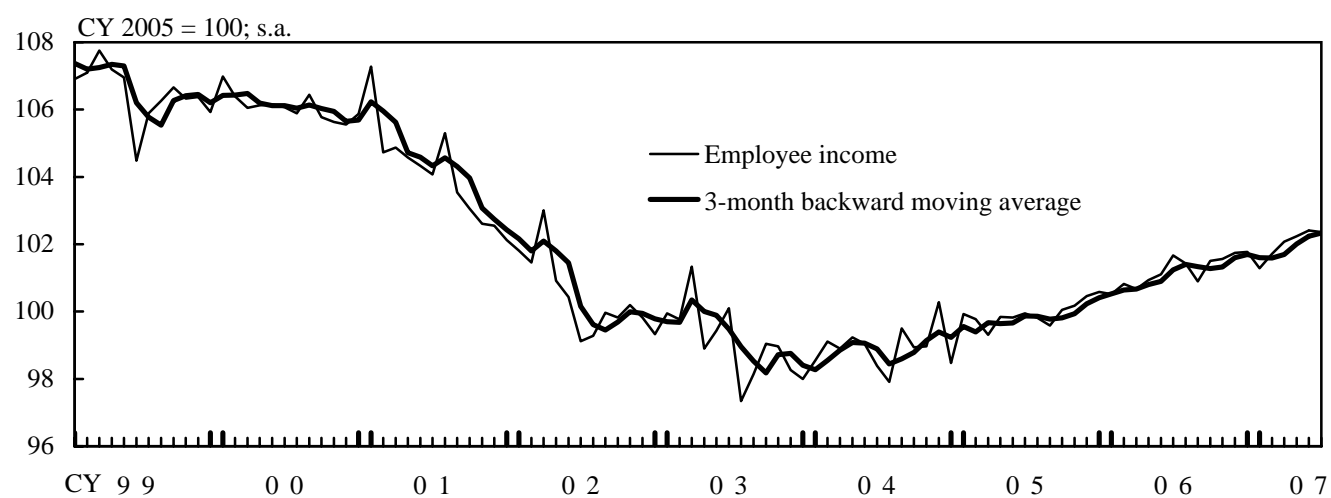
(4) Electronic Parts and Devices



(5) Producer Goods Excluding Electronic Parts and Devices



## Employee Income

(1) Breakdown of Total Cash Earnings<sup>1,2,5</sup>(2) Breakdown of Employee Income<sup>1,2,5</sup>(3) Employee Income<sup>1,3,4</sup>

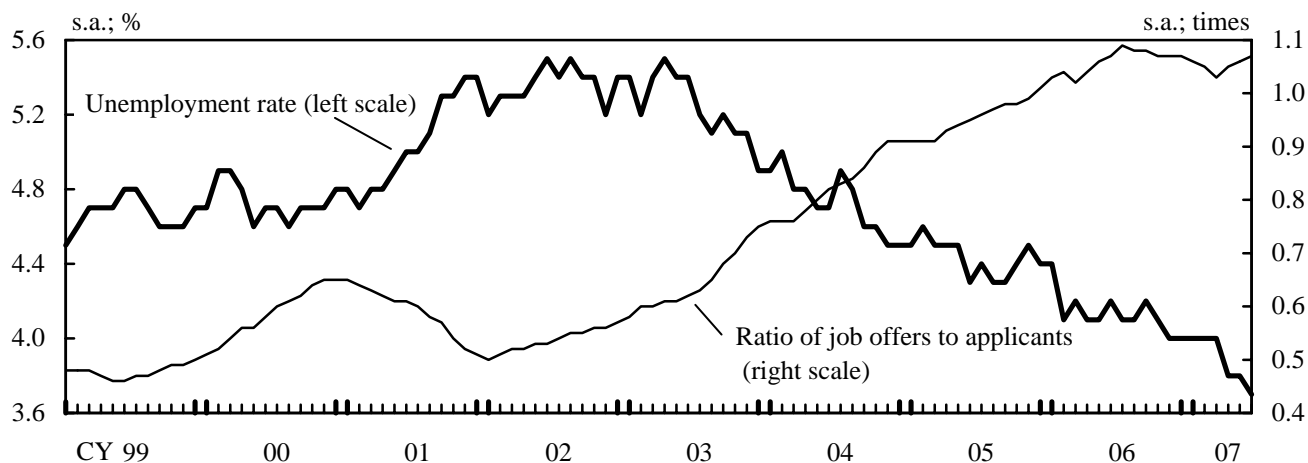
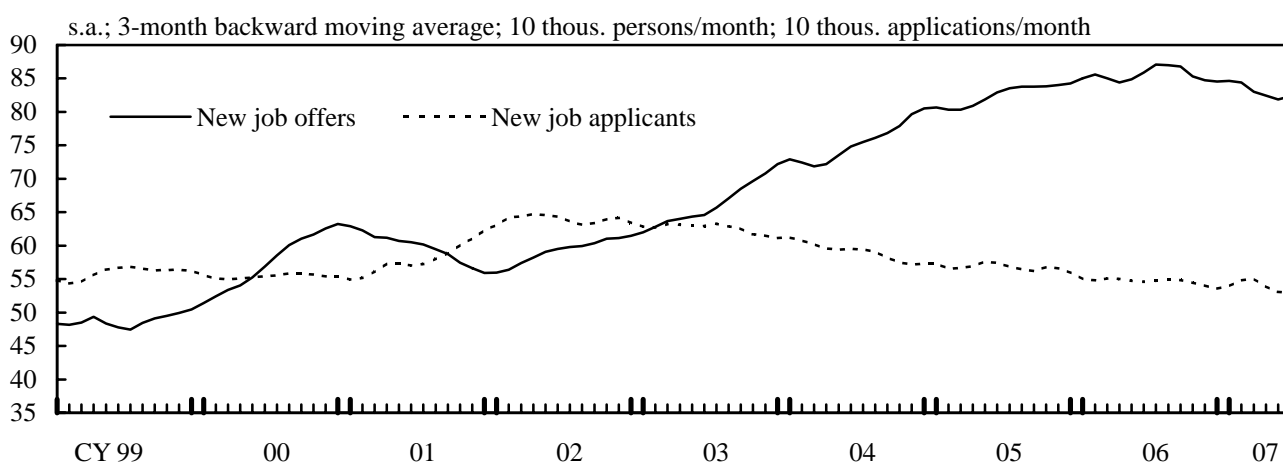
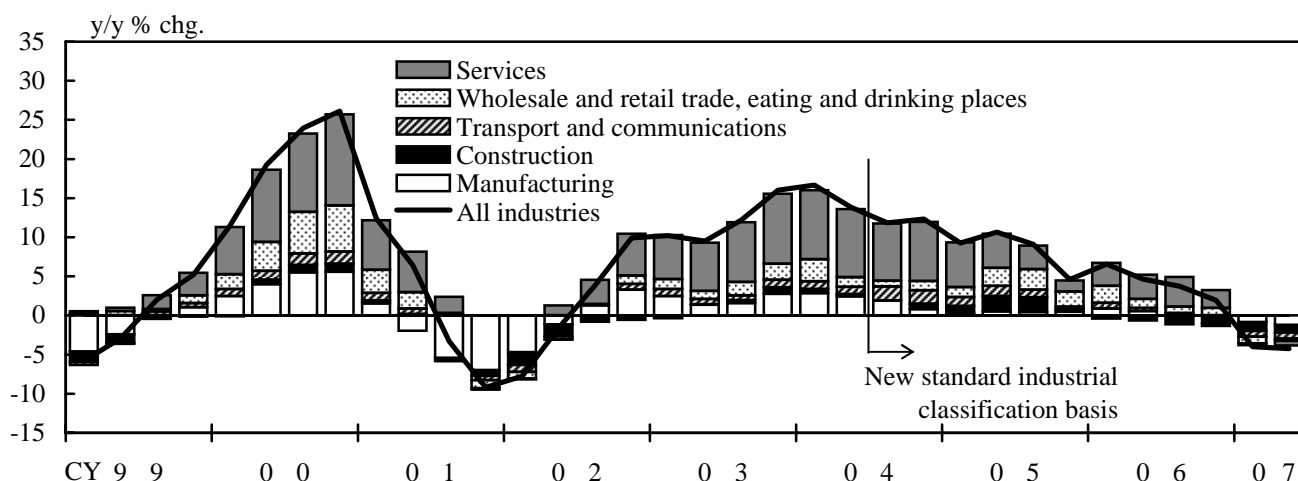
- Notes: 1. Data are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 3. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.  
 4. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.  
 5. Figures for 2007/Q2 are those of June.

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 Applicants<sup>1</sup>(3) Breakdown of New Job Offers<sup>1,2</sup>

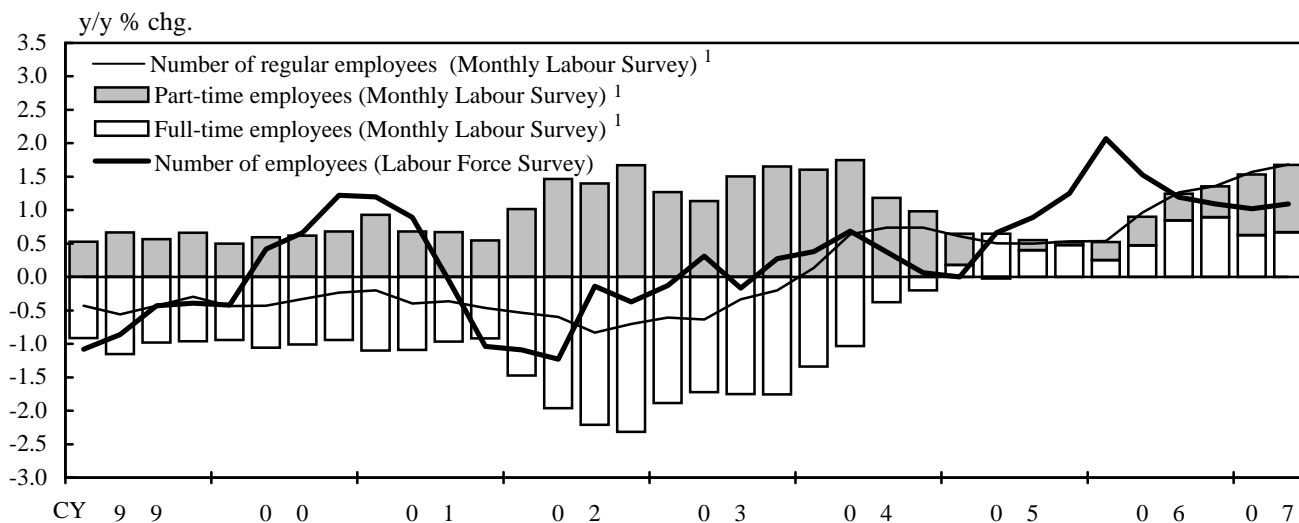
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

2. Figures 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)."

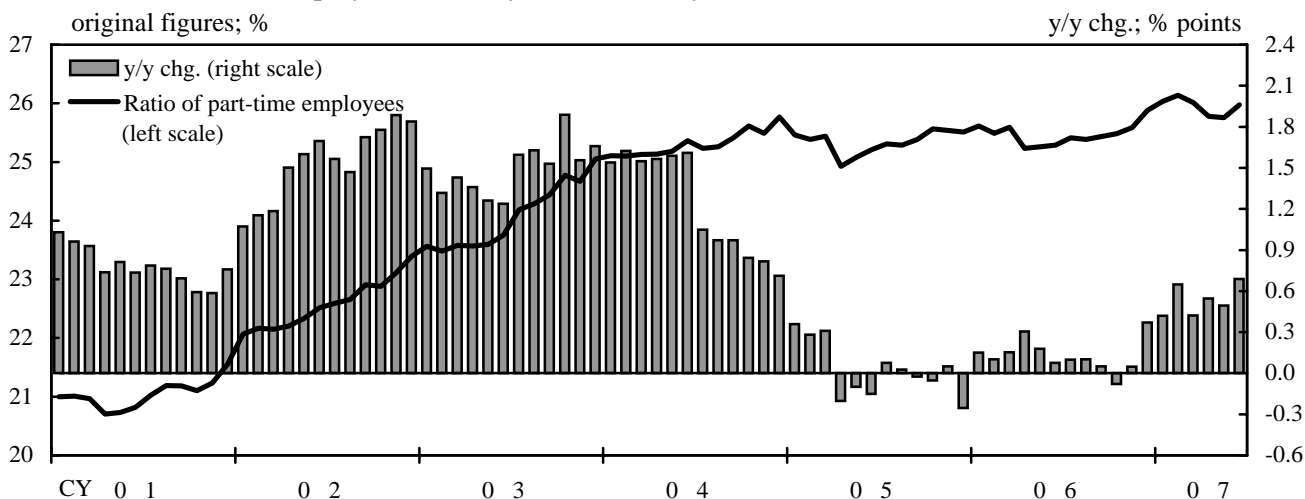
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

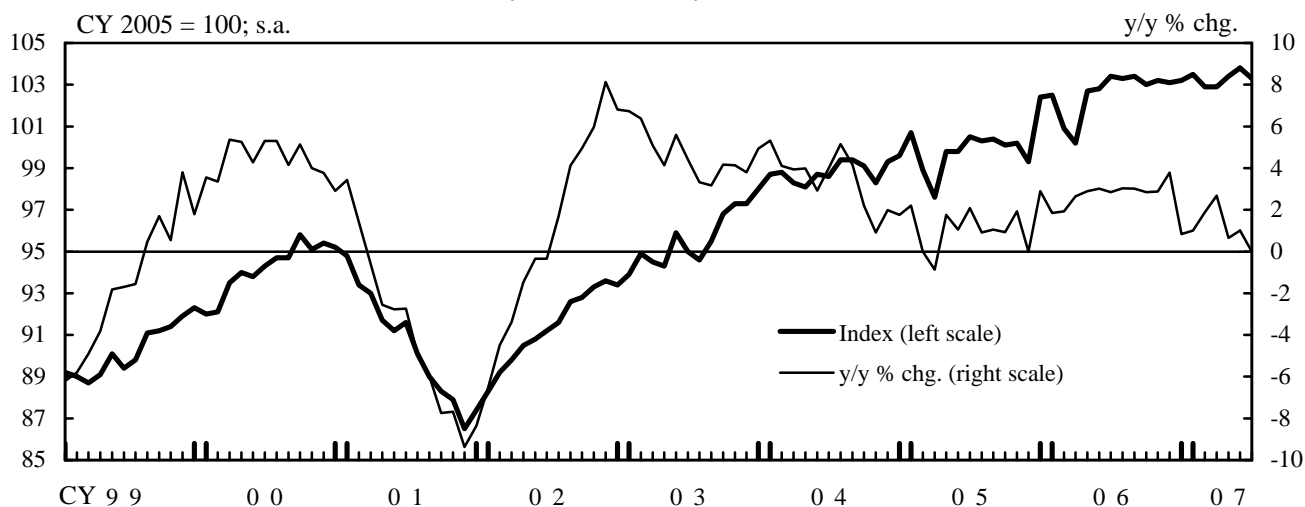
(1) Number of Employees



(2) Ratio of Part-Time Employees (Monthly Labour Survey)<sup>1,2</sup>



(3) Non Scheduled Hours Worked (Monthly Labour Survey)<sup>1</sup>



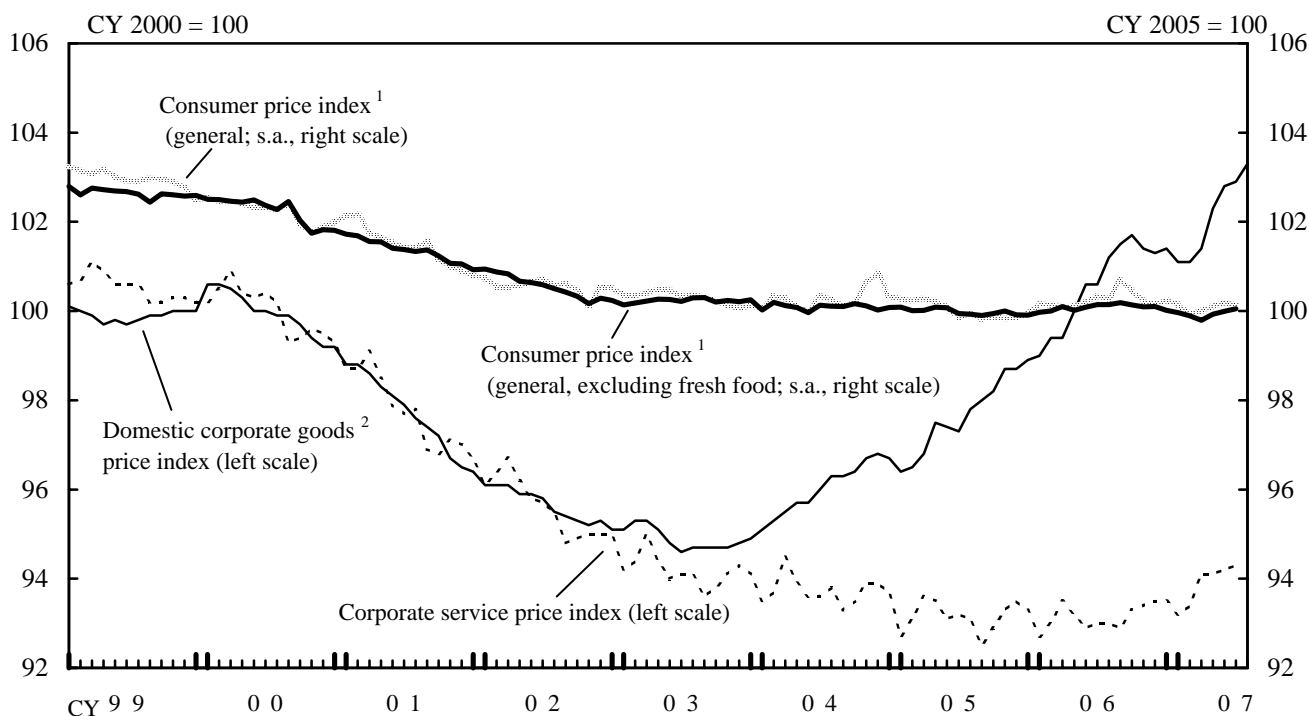
Notes: 1. Data are for establishments with at least five employees.

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

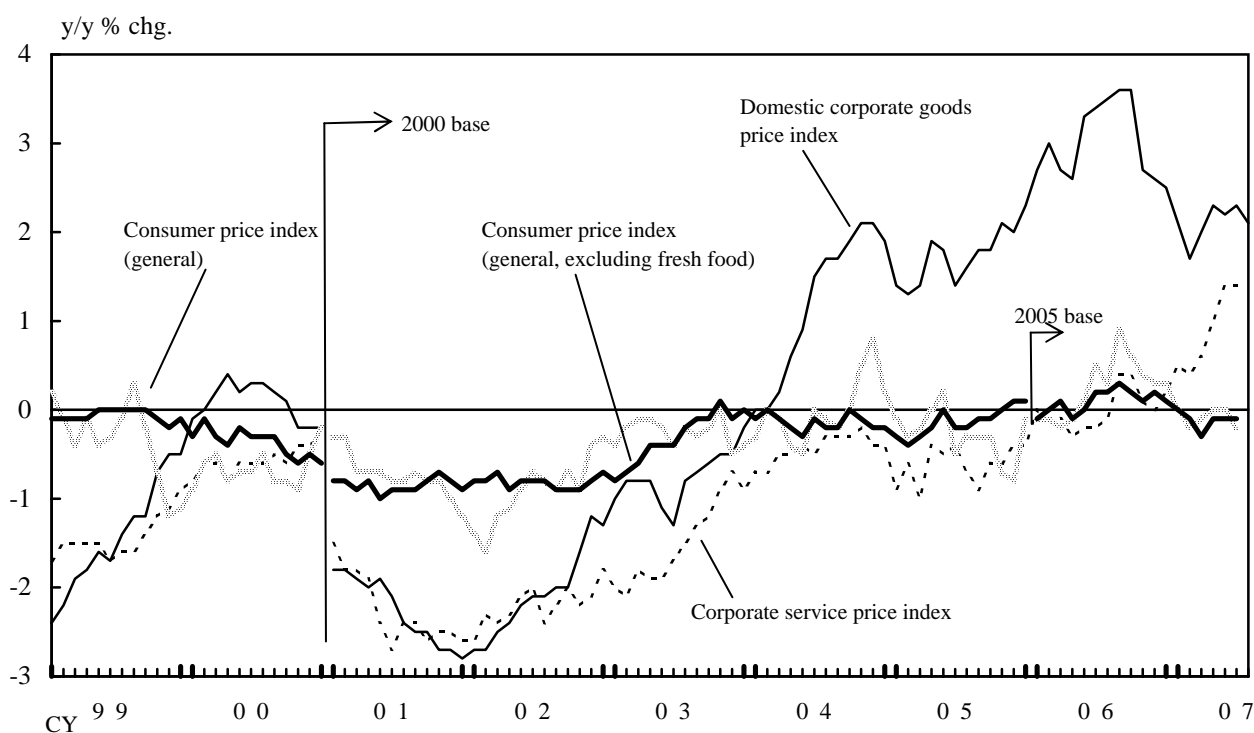
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices<sup>3</sup>

(1) Level



(2) Changes from a Year Earlier<sup>3</sup>



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

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

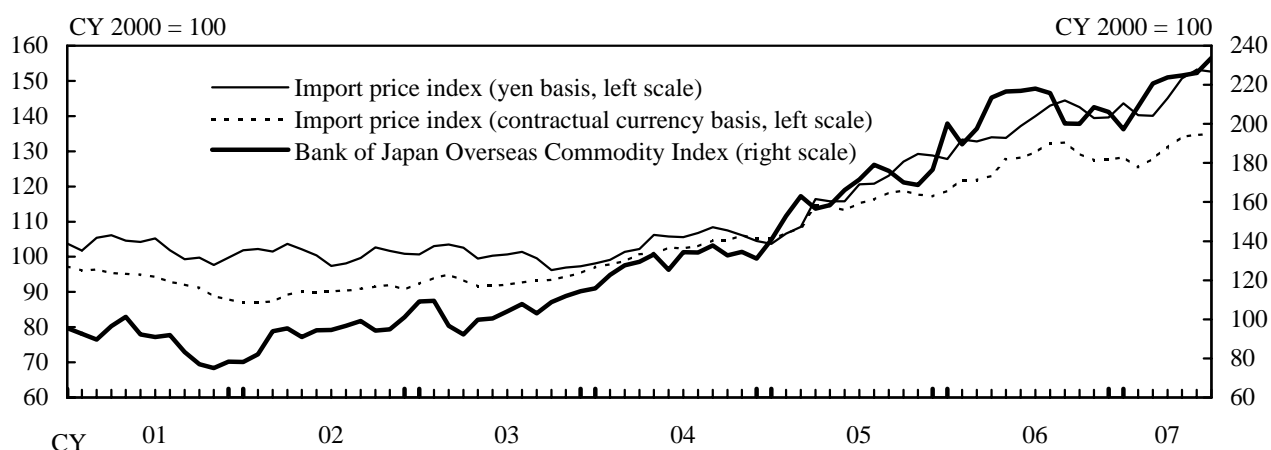
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

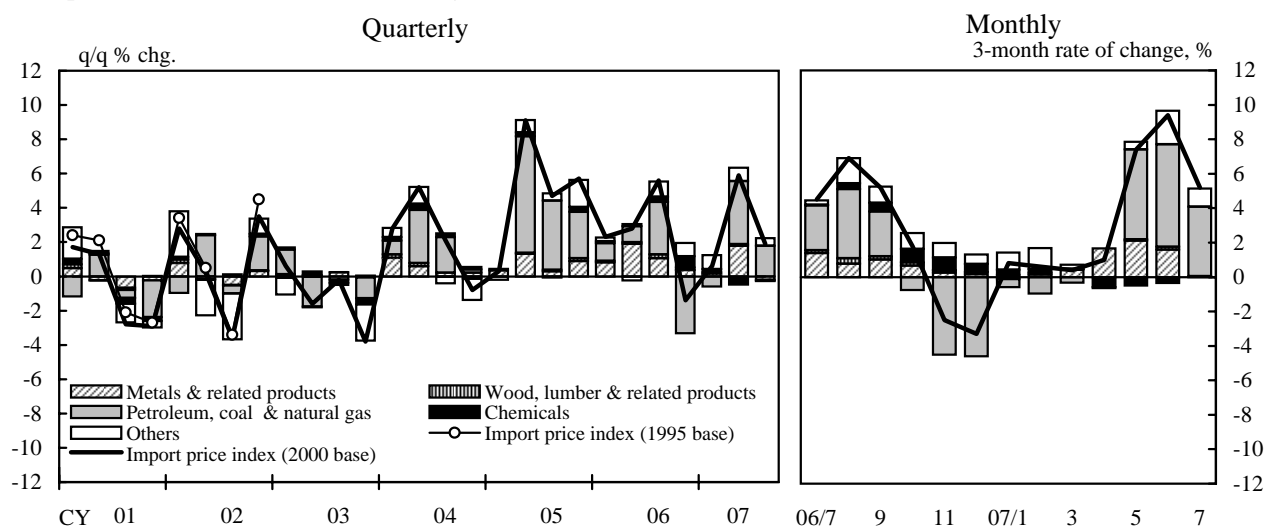
## Import Prices and International Commodity Prices

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



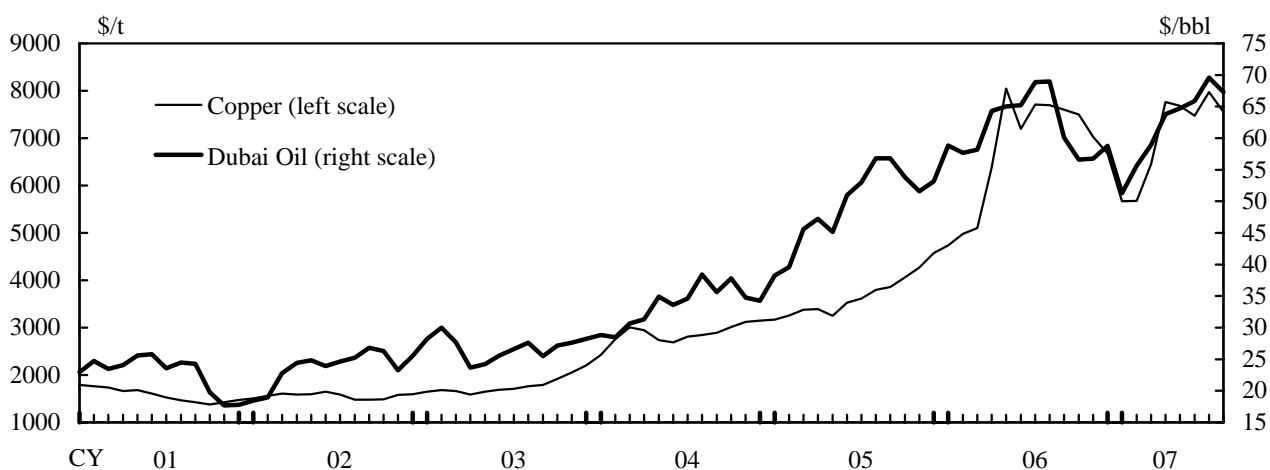
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: Figures for 2007/Q3 are those of July. 1995 base figure for 2002/Q4 is October-November average.

### (3) Oil Price and Copper Price

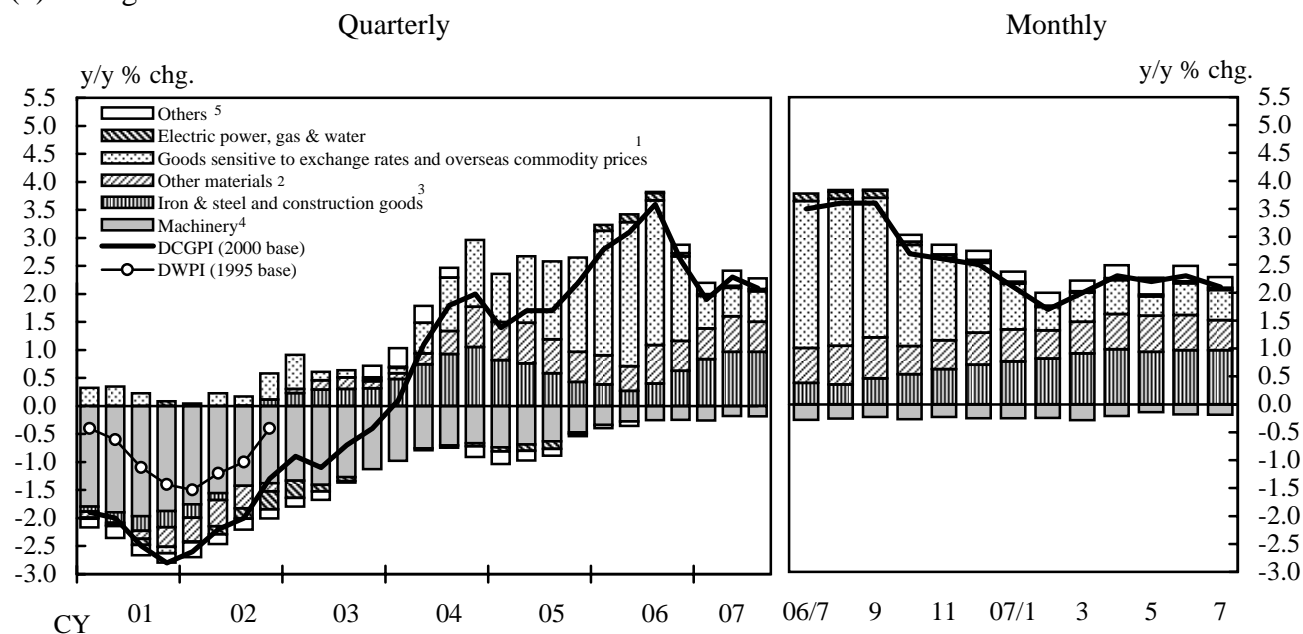
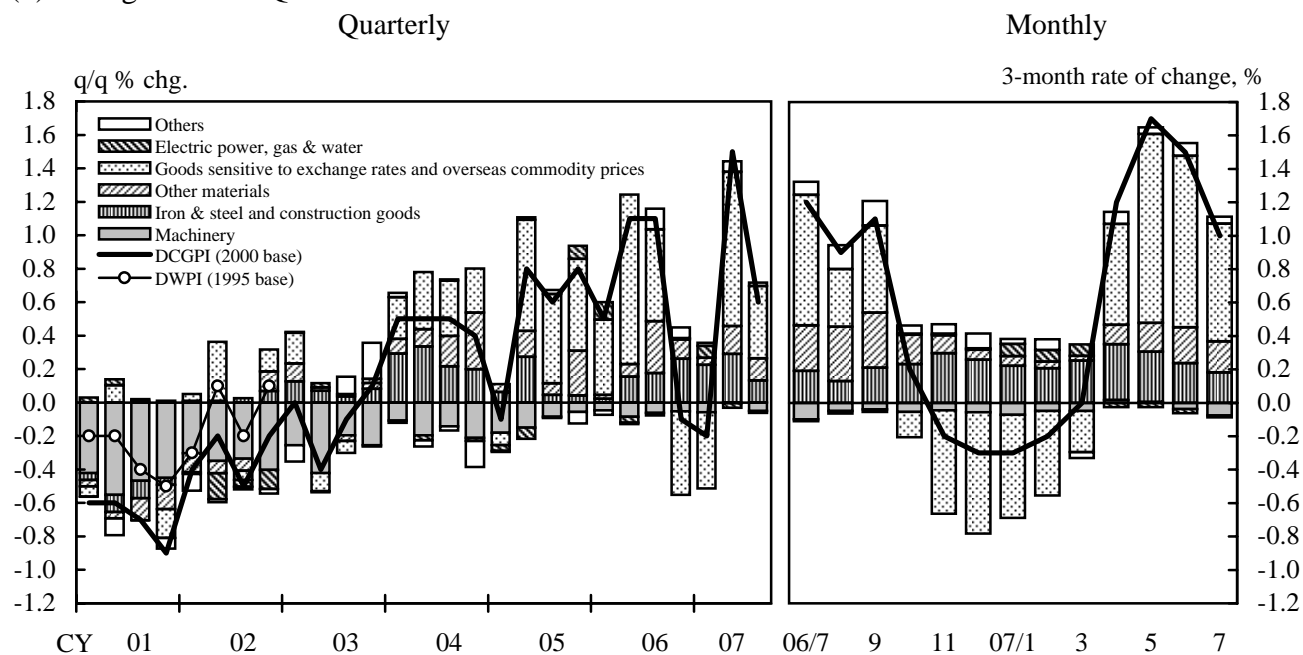


Note: Monthly averages. Figures for August 2007 are the averages up to August 22.

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

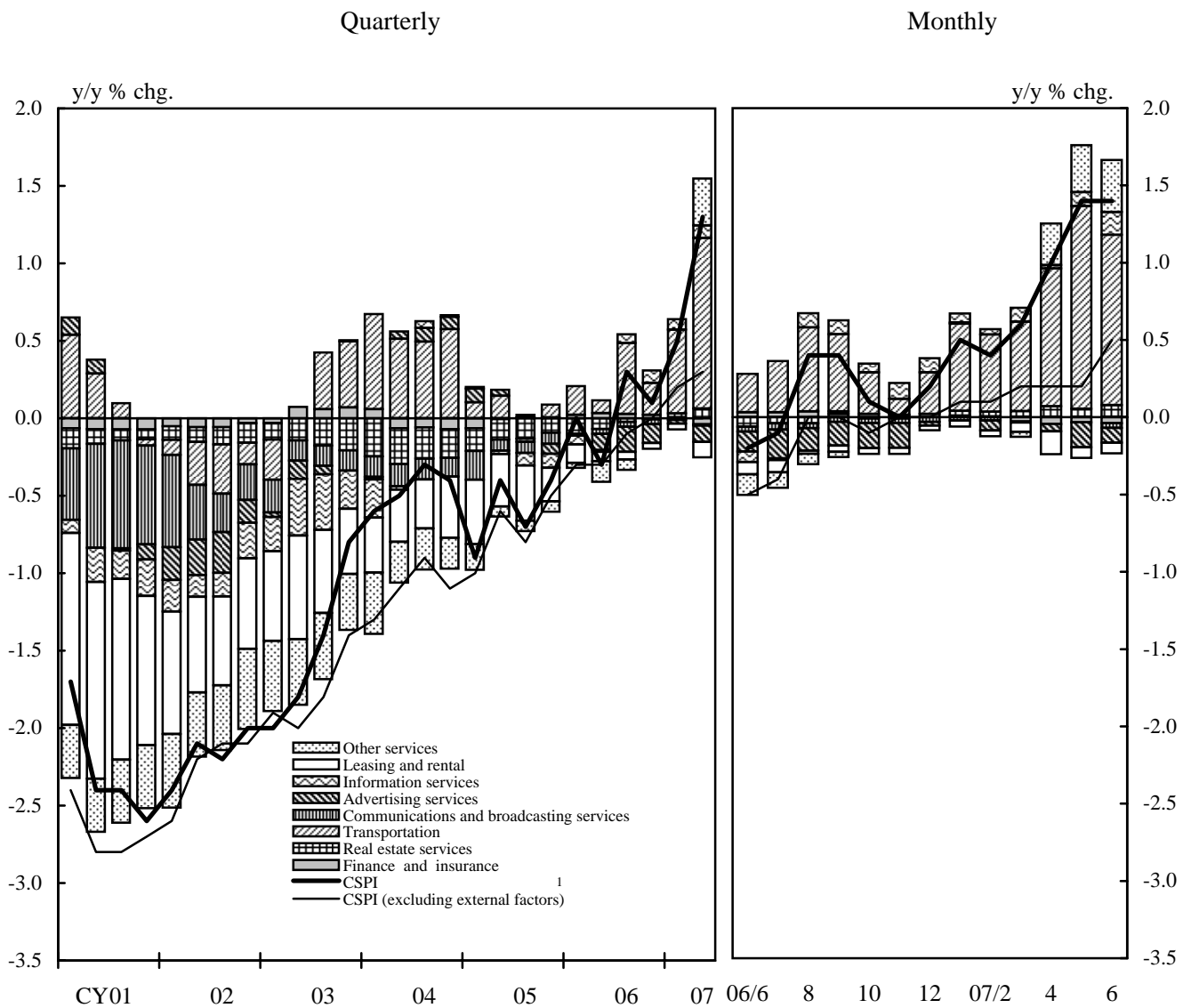
Domestic Corporate Goods Price Index<sup>7</sup>

## (1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier<sup>6</sup>

- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.
2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.
4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.
6. Adjusted to exclude a hike of electric power charges in summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
7. Figures for 2007/Q3 are those of July. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index

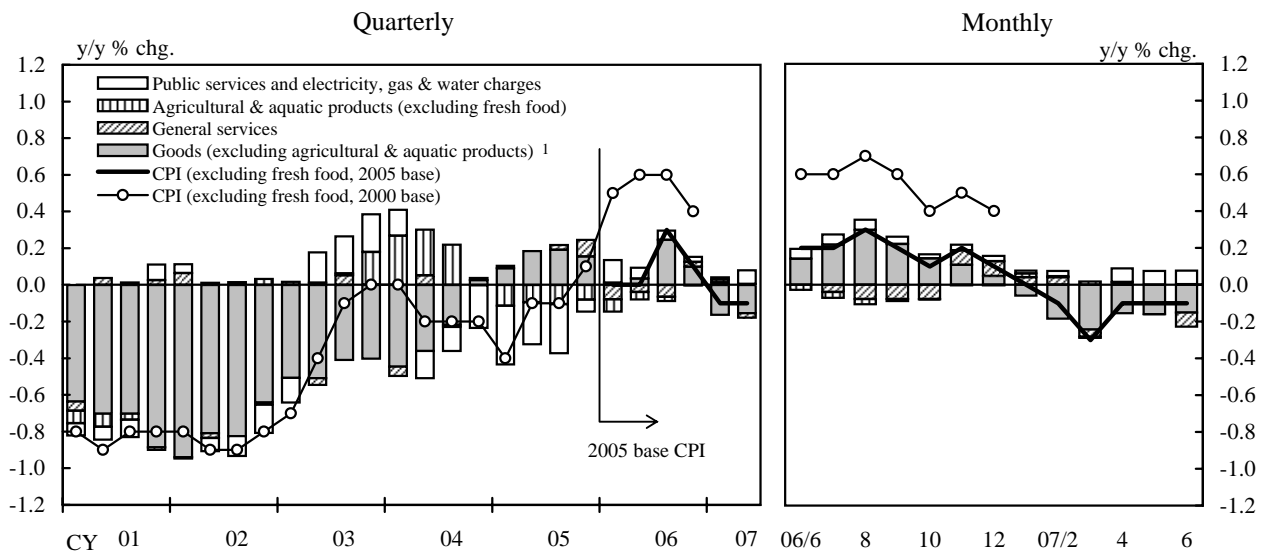


Note: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

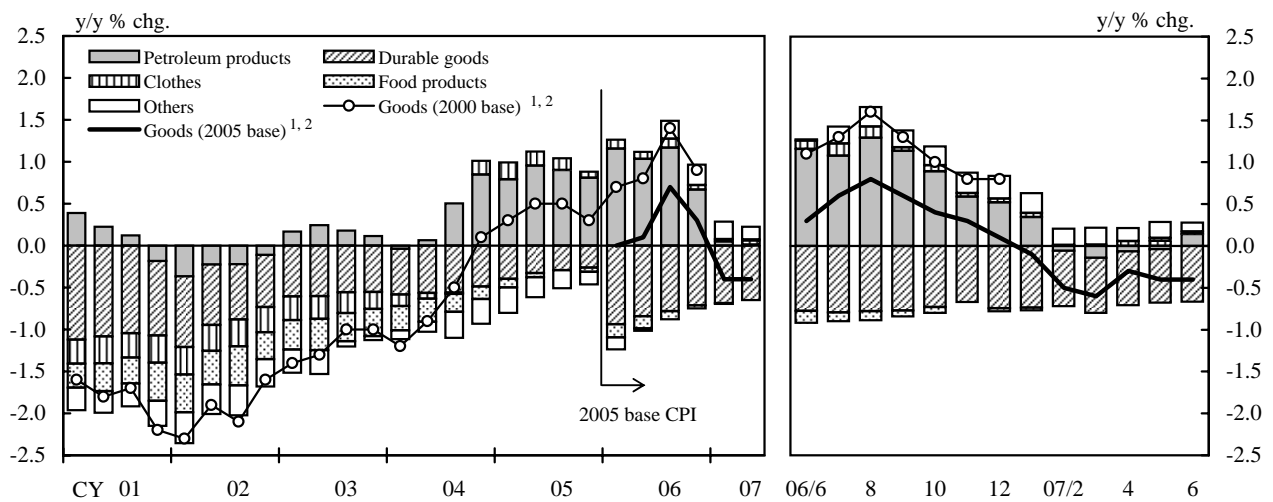
Source: Bank of Japan, "Corporate Service Price Index."

# Consumer Price Index (Excluding Fresh Food)

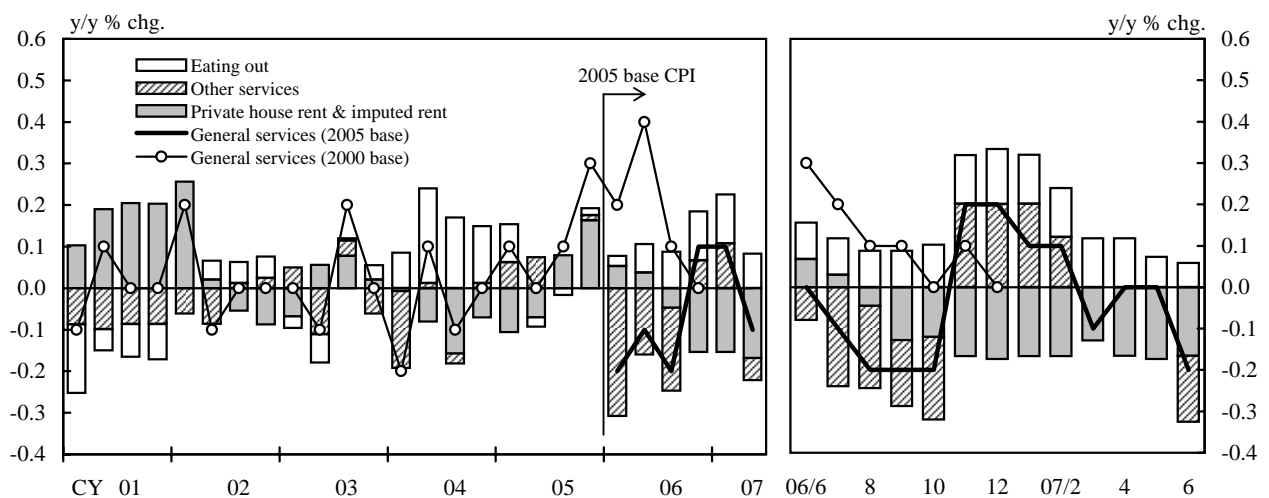
## (1) Consumer Price Index (Excluding Fresh Food)



## (2) Goods (Excluding Agricultural & Aquatic Products)<sup>1</sup>



## (3) General Services

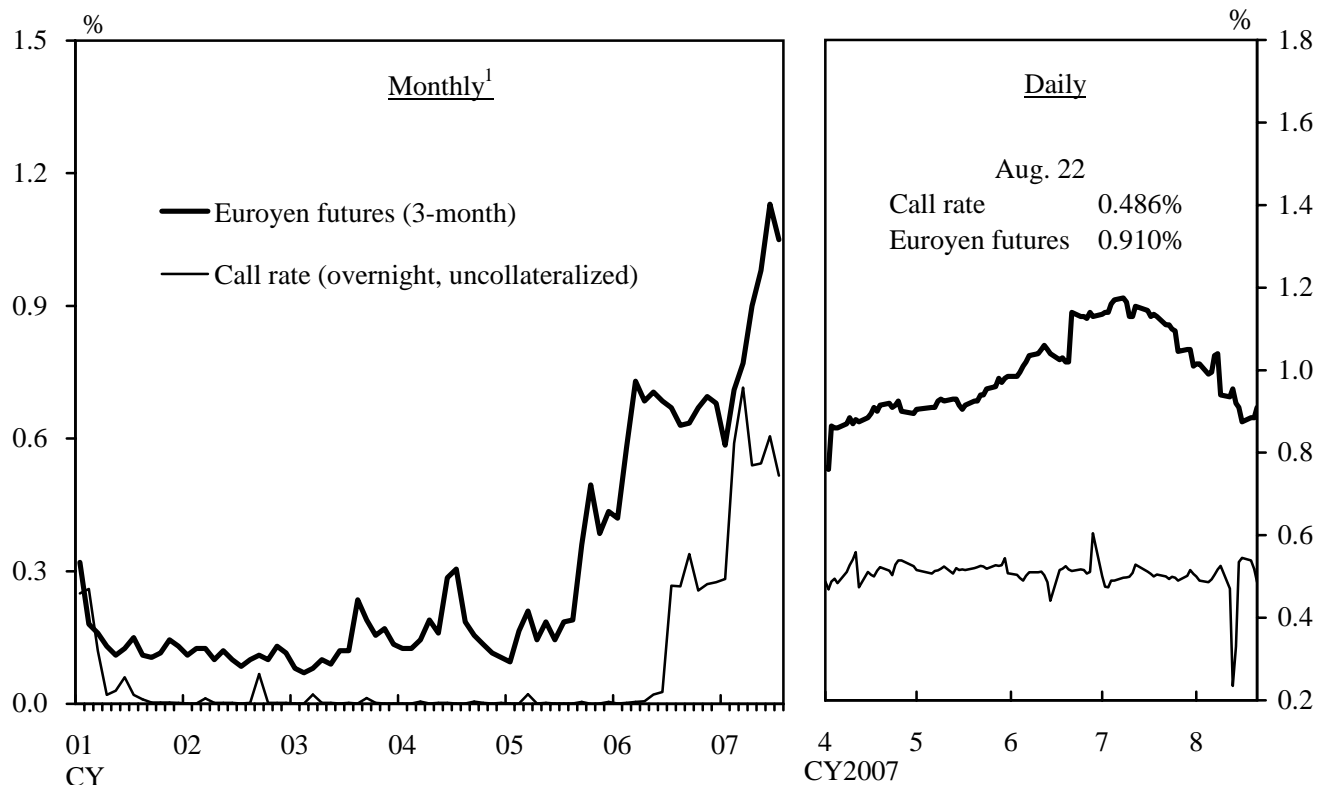


Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.  
 2. Excluding agricultural & aquatic products.

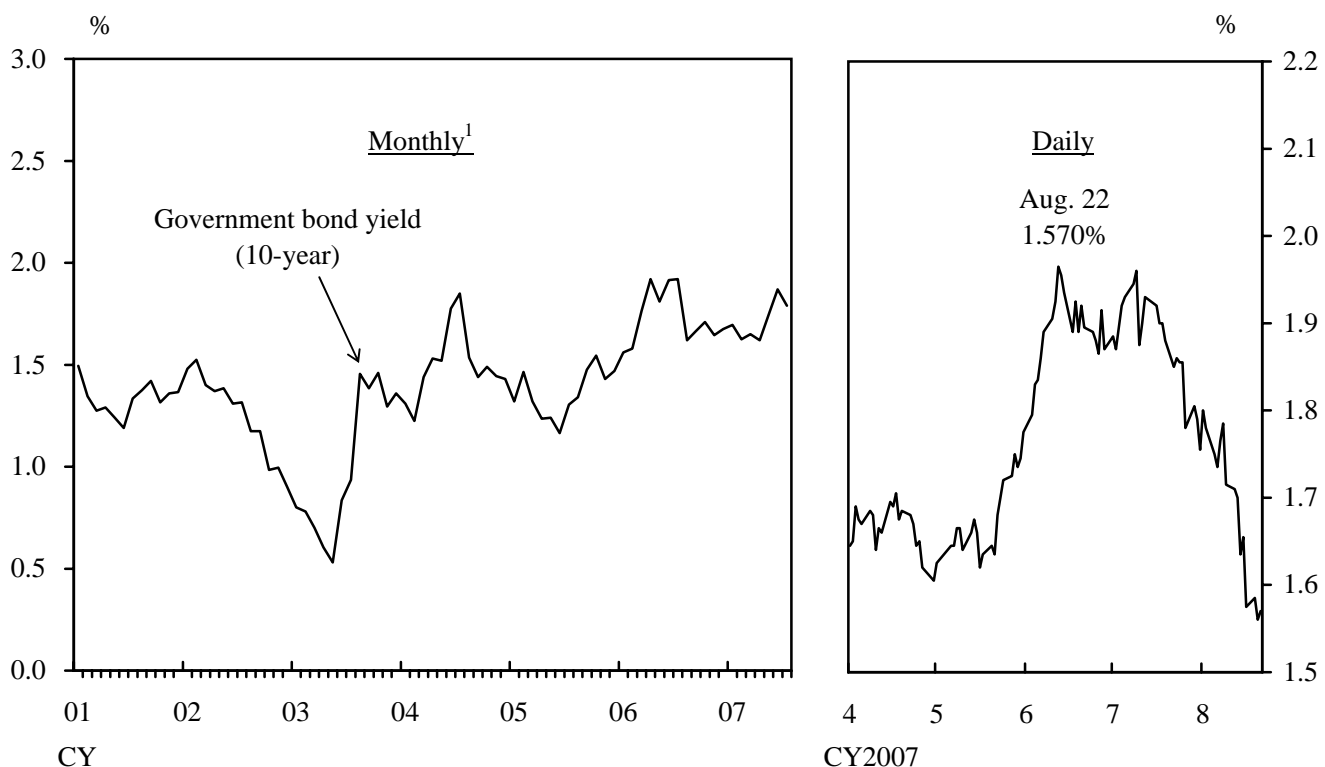
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term



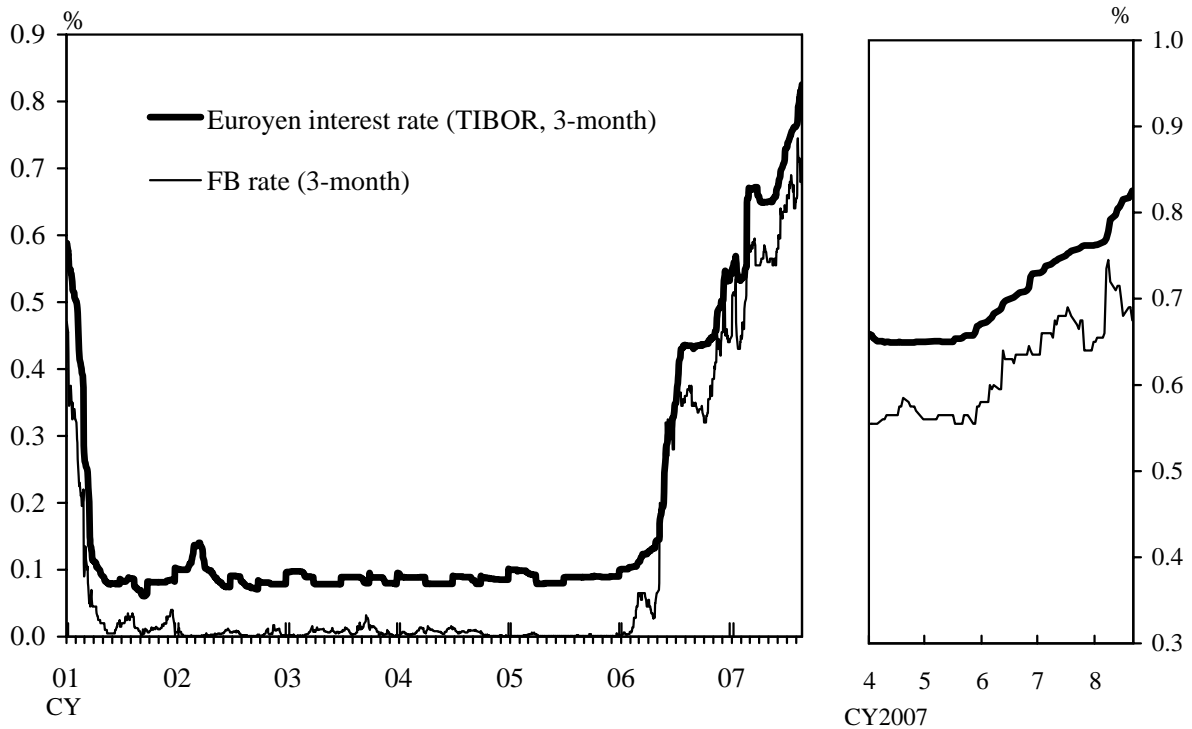
Note: 1. End of month.

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

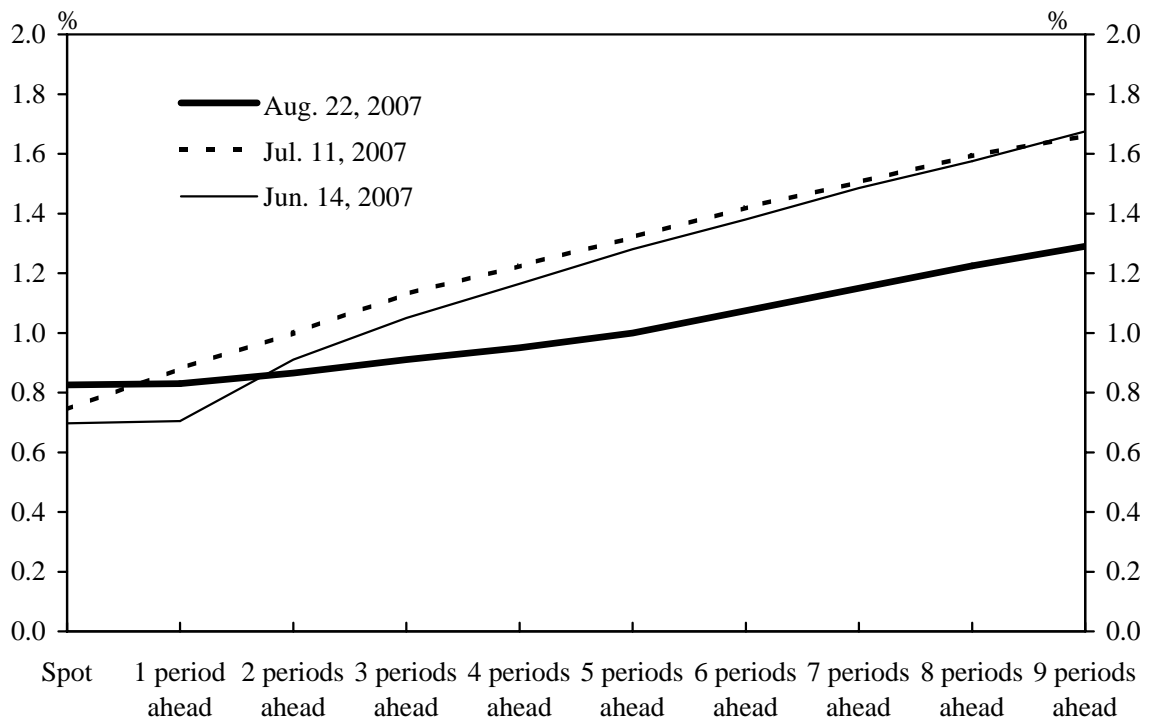


Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



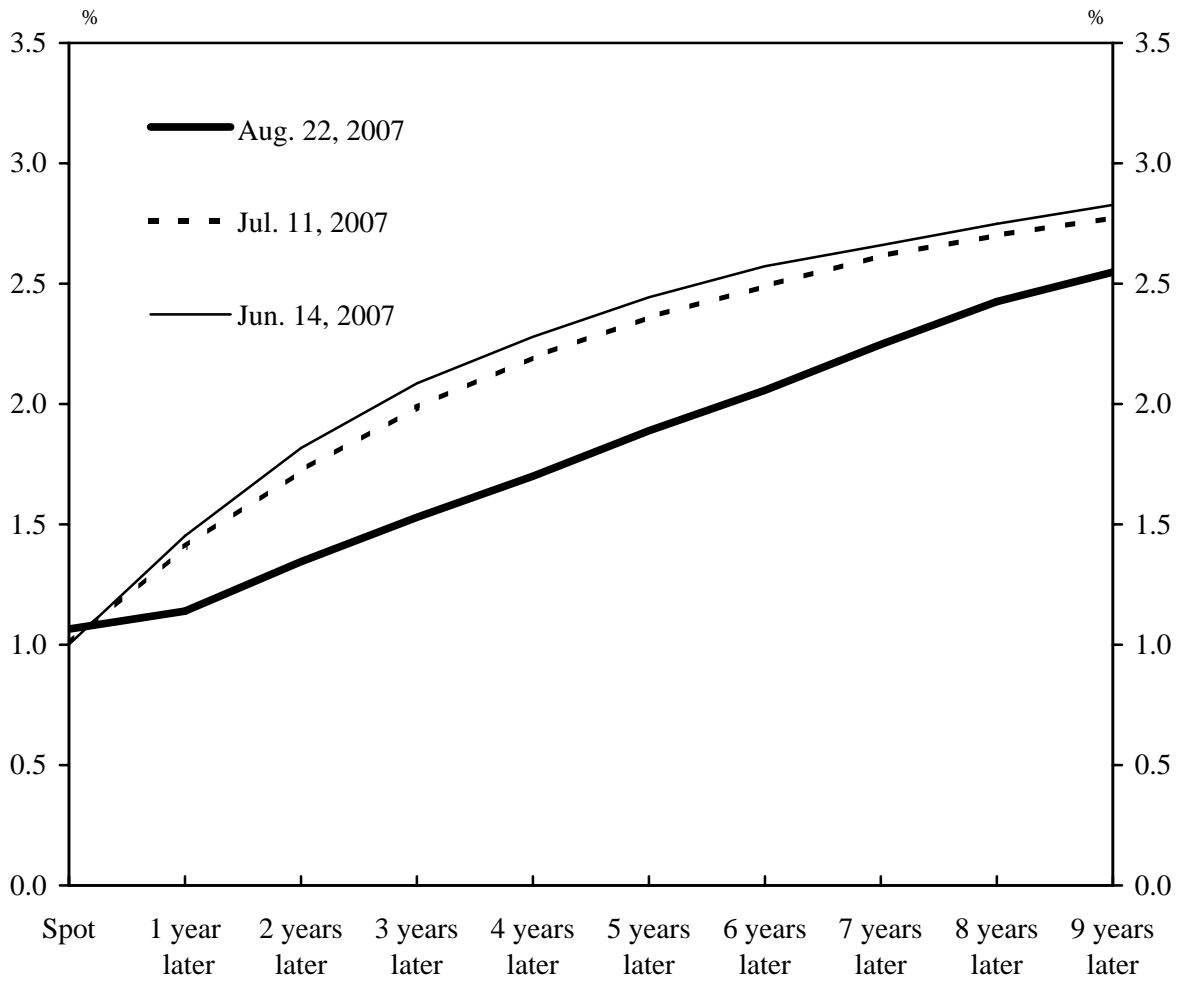
(2) Euroyen Interest Rates Futures (3-Month) <sup>1</sup>



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

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

Implied Forward Rates (1-Year)

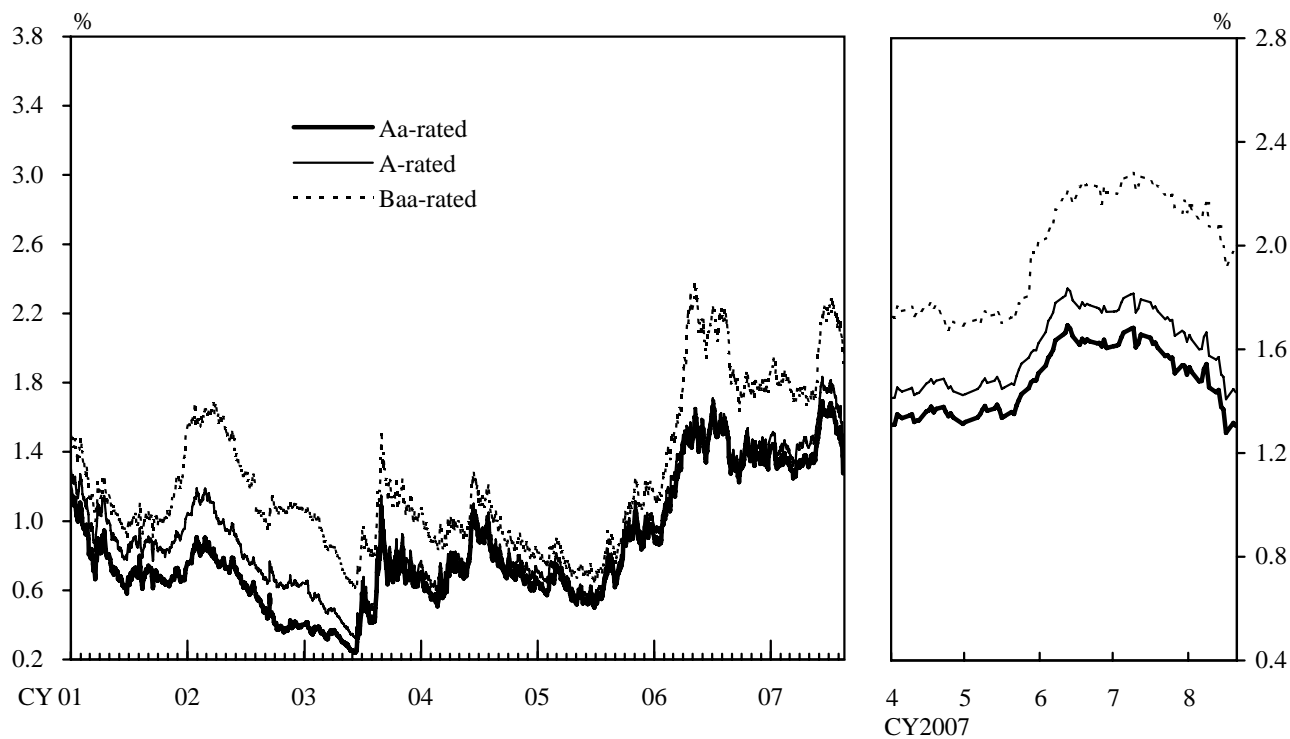


Note: Calculated from yen-yen swap rates.

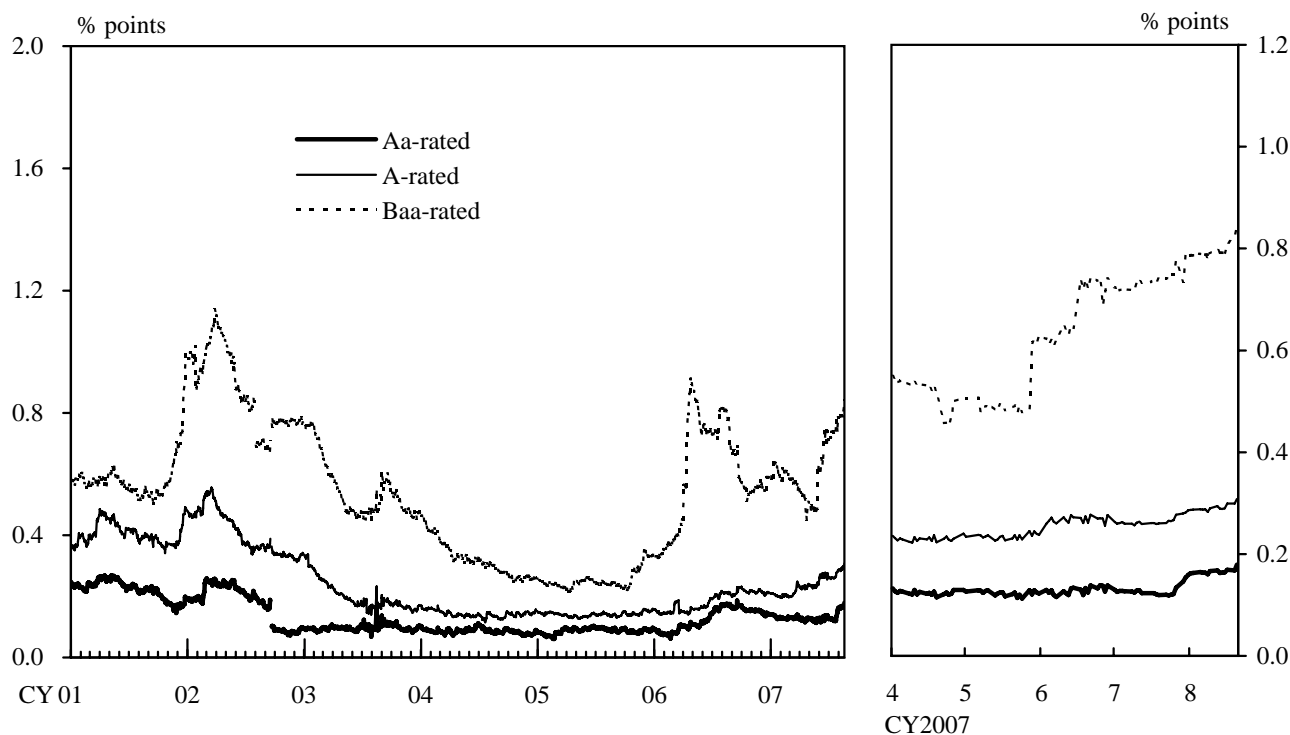
Source: Reuters.

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.

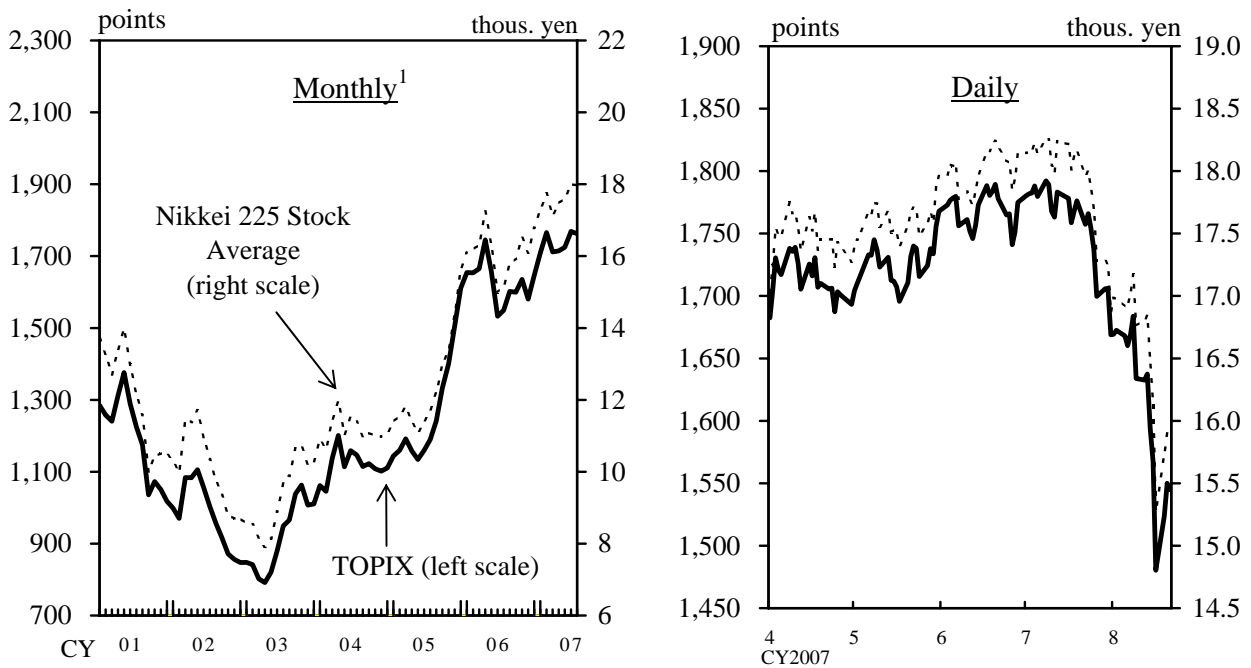
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

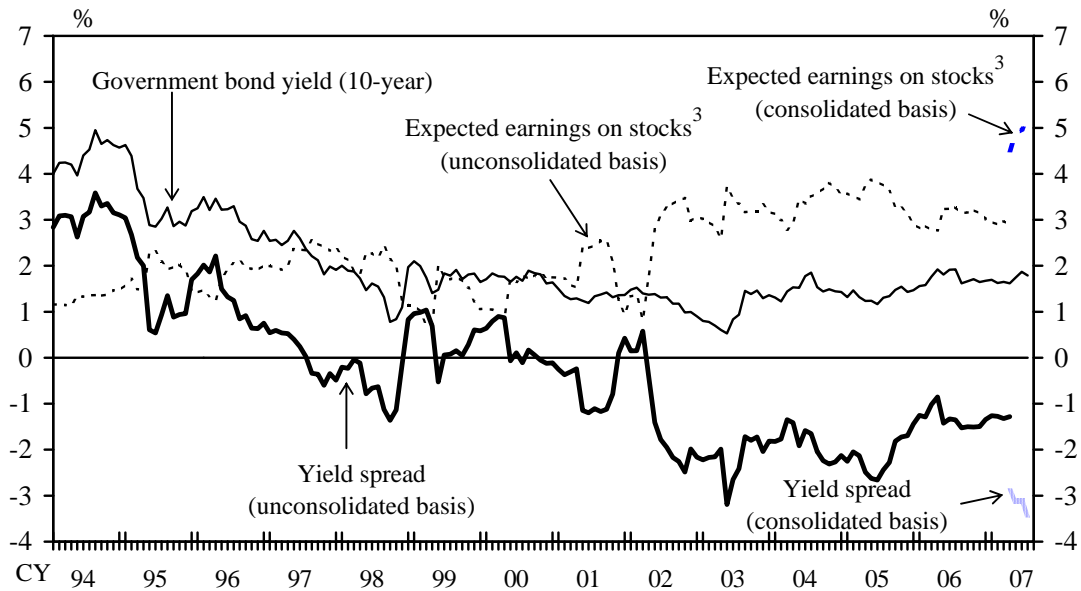
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."  
"Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread <sup>2,4</sup>



Notes: 1. Data are monthly averages.

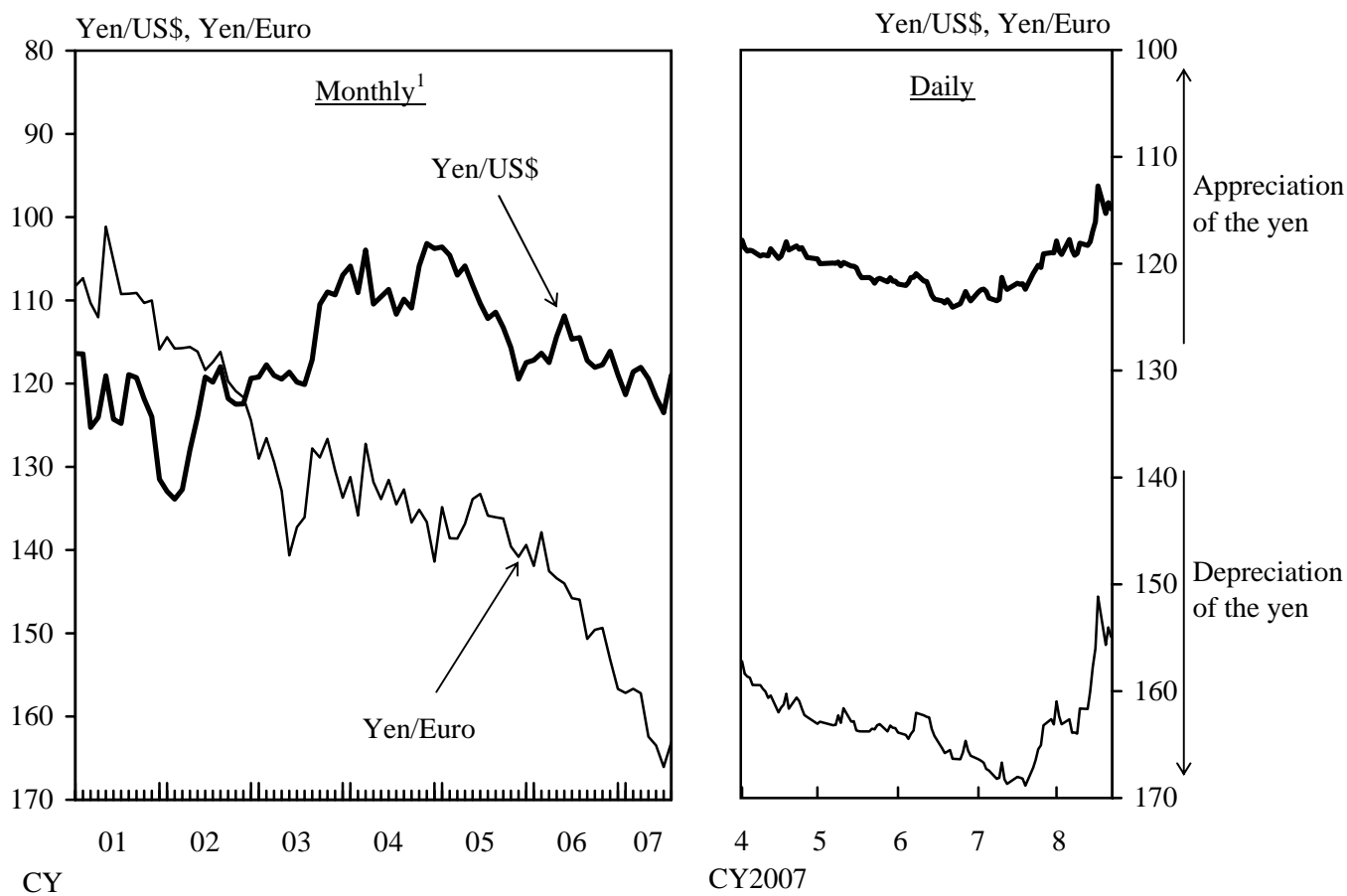
2. Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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 Shiryō* (Daiwa Investment Information)."

## Exchange Rates

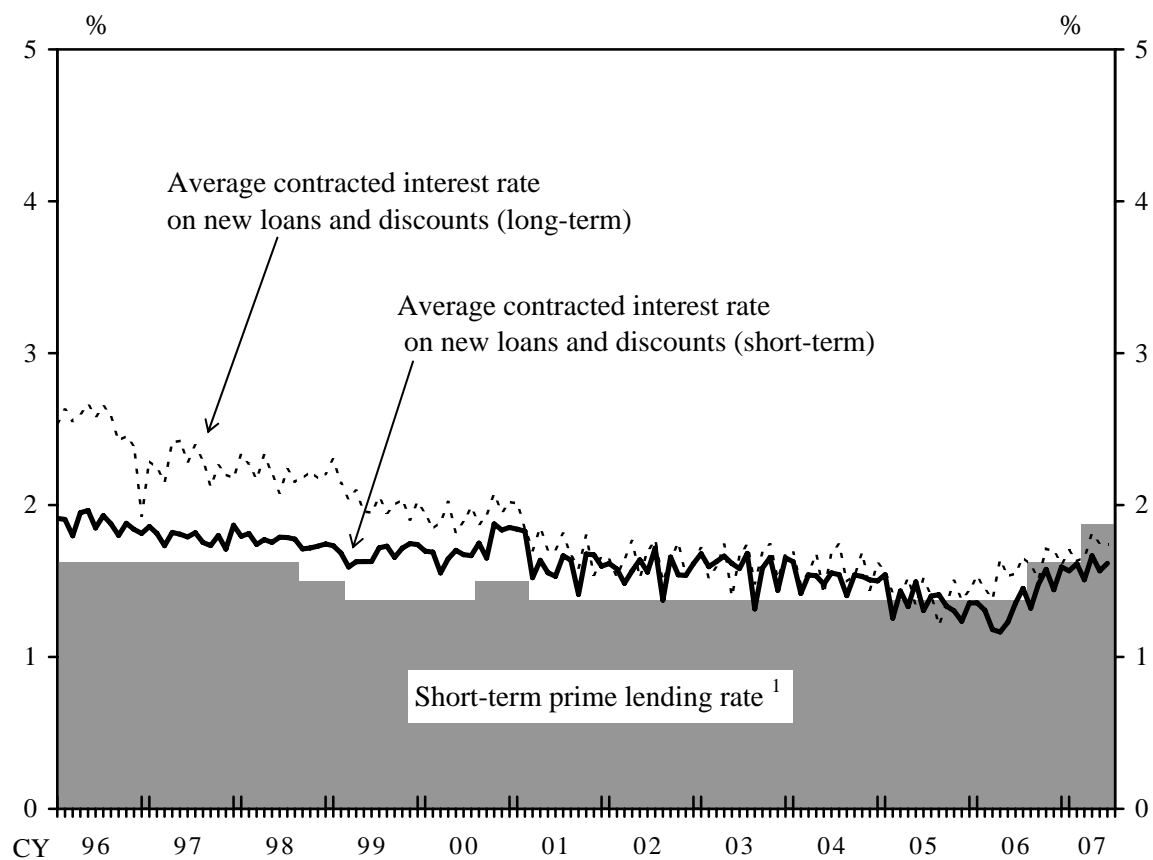


Note: 1. End of month.

Source: Bank of Japan.



## Lending Rates

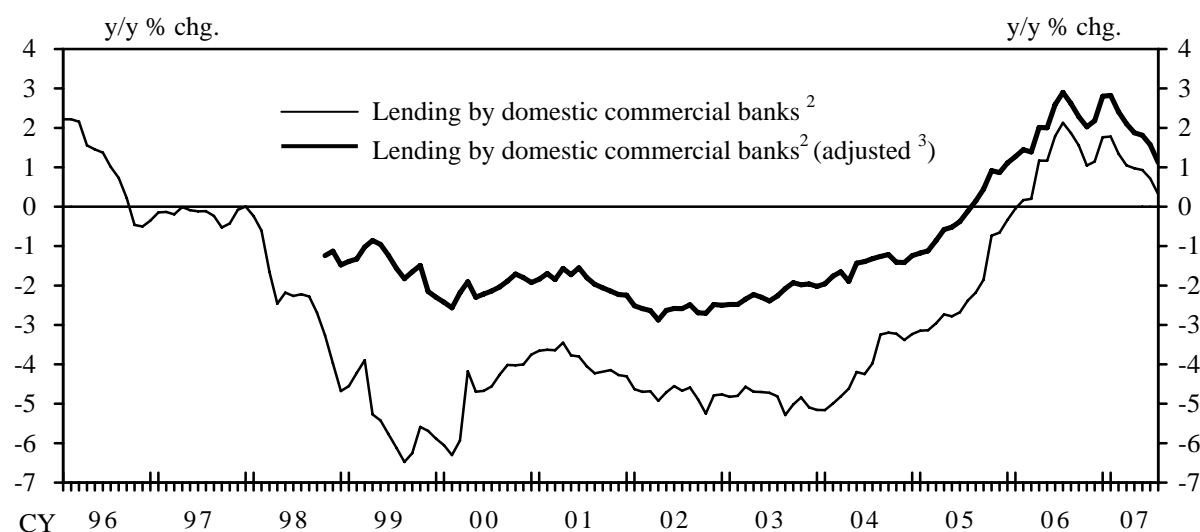


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

### (1) Lending by Domestic Commercial Banks<sup>1</sup>



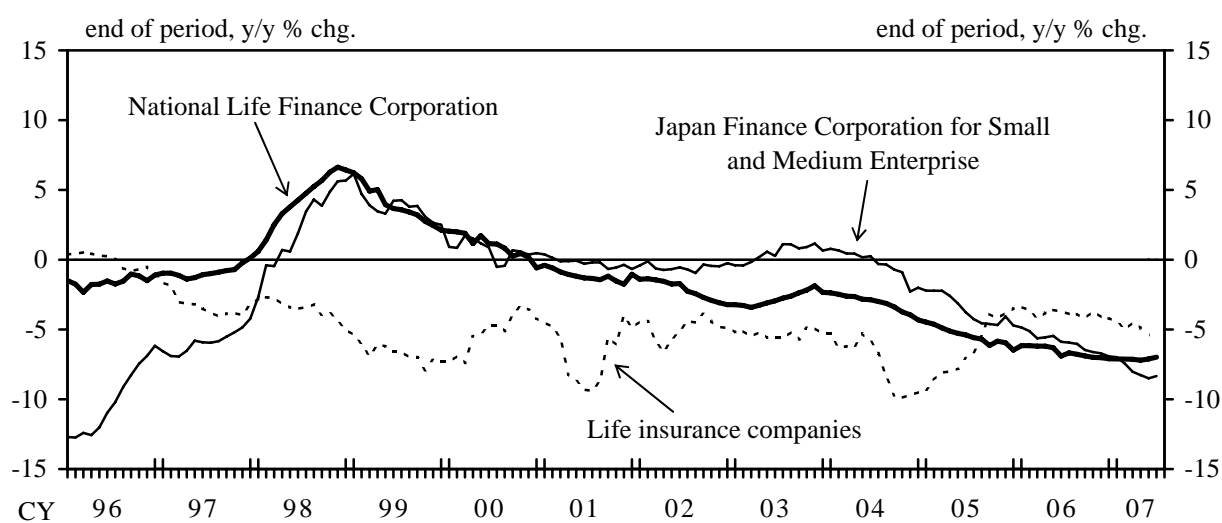
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to 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

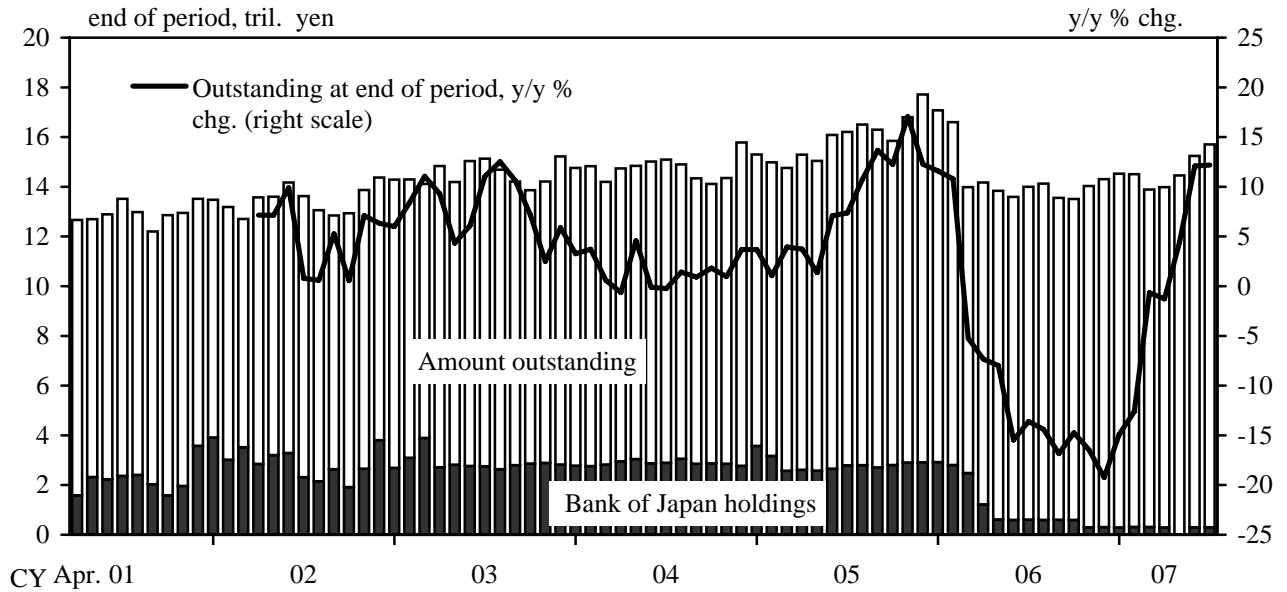


Source: Bank of Japan.



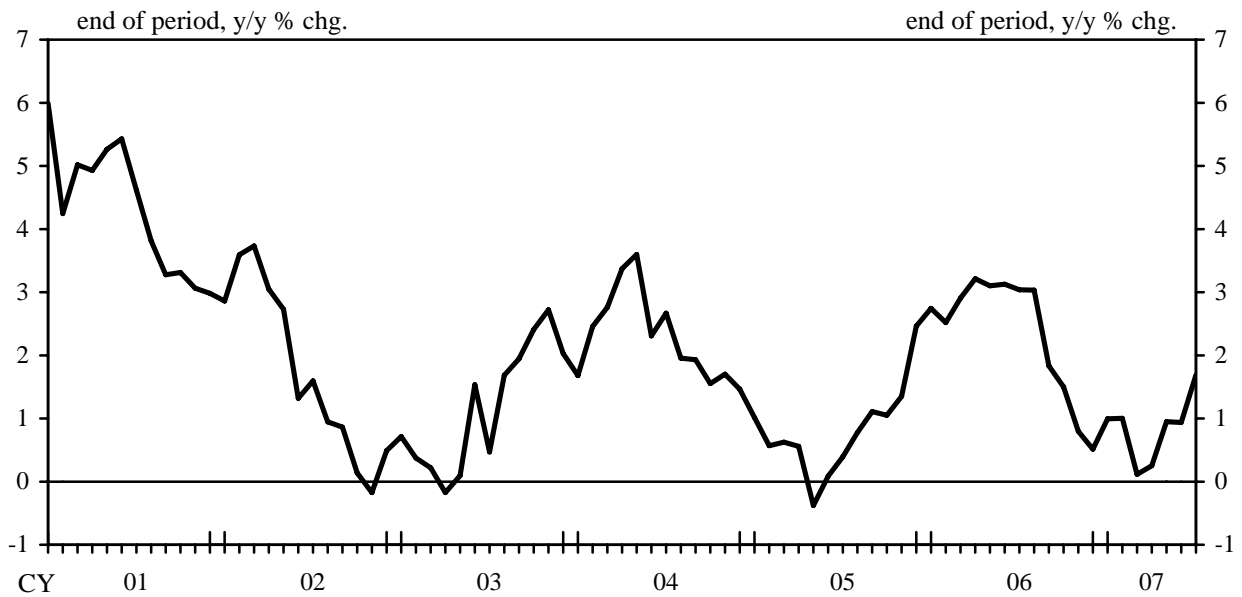
Private-Sector Fund-Raising in the Capital Markets

(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)

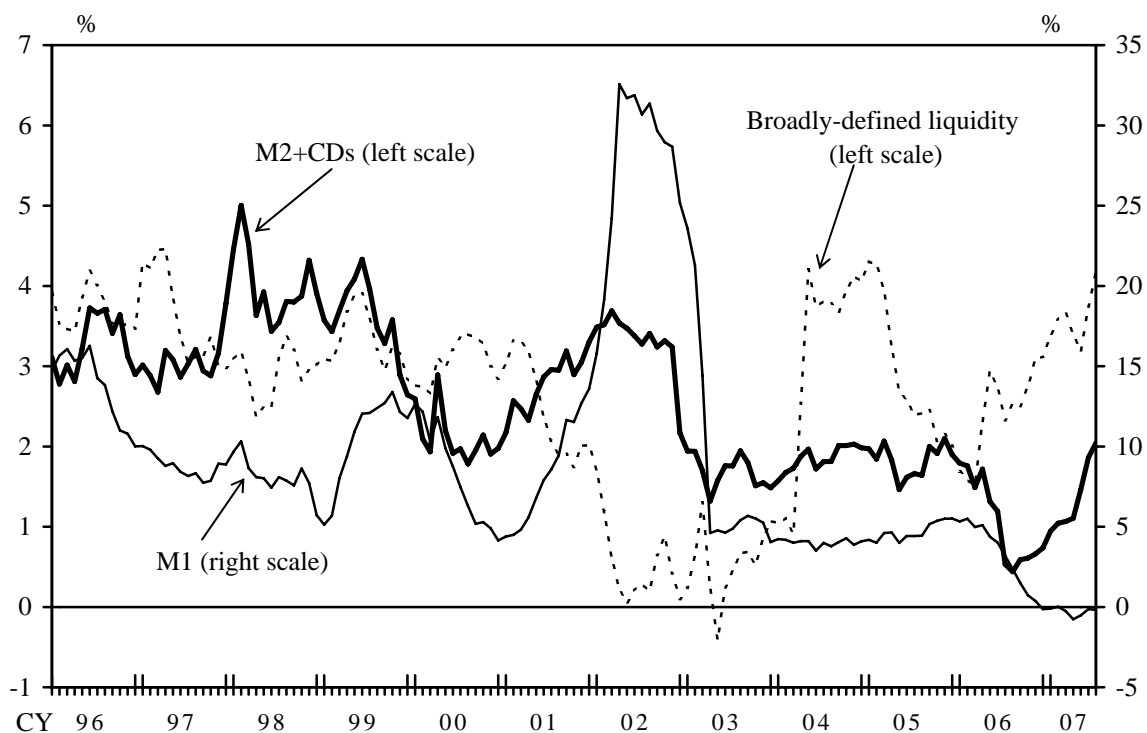


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:  
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.  
 (2) Bonds issued by banks are included.  
 (3) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

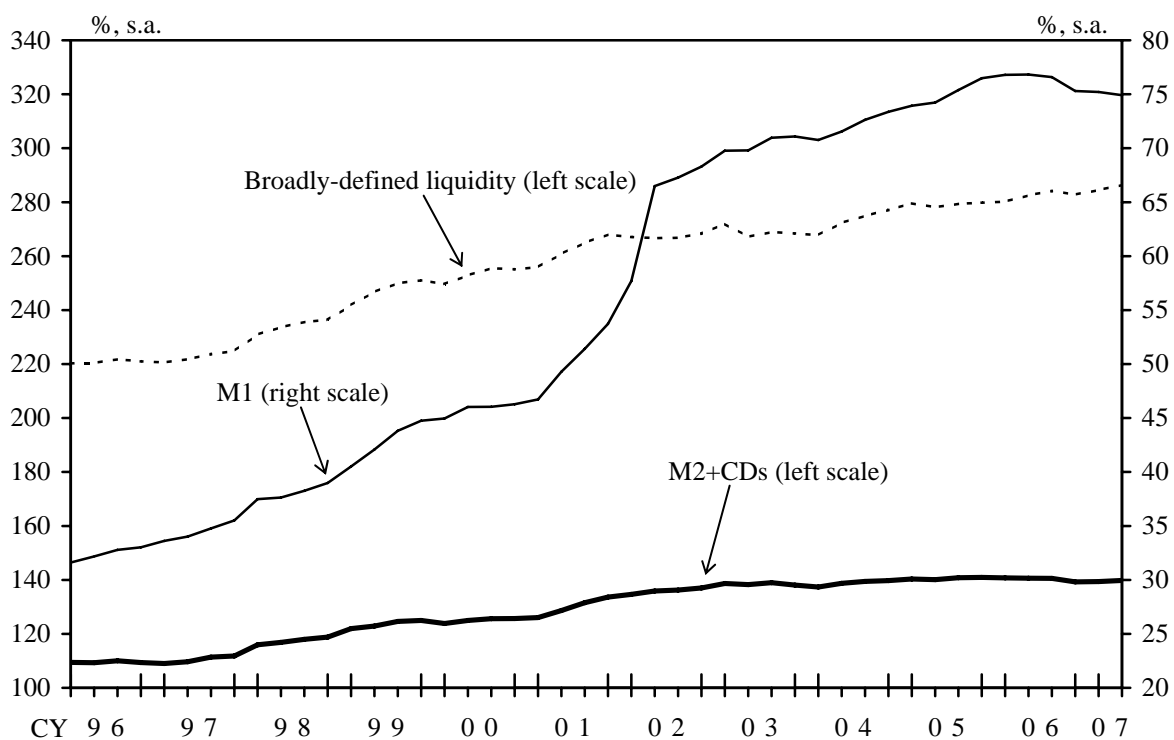
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



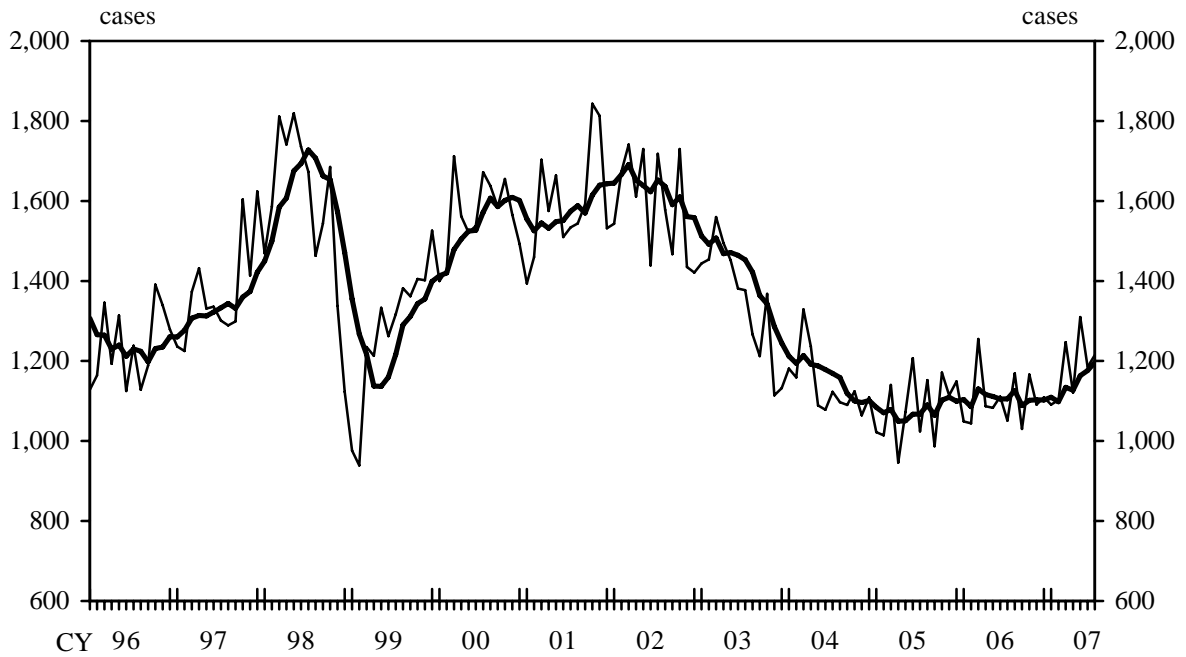
(2) Ratio of Money Stock to Nominal GDP



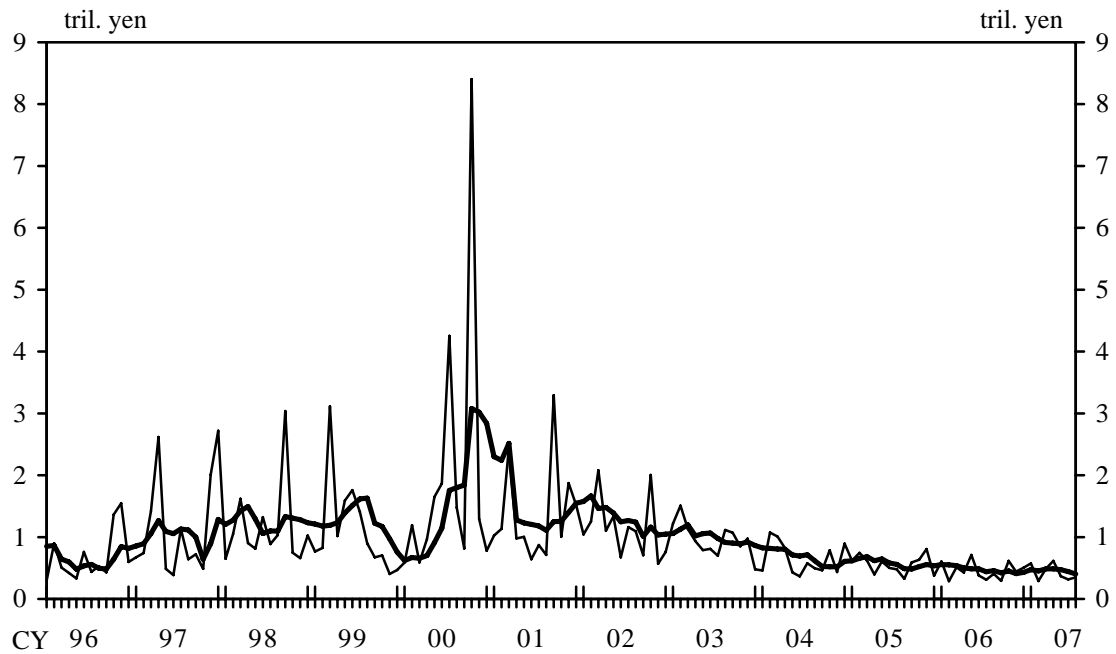
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."