

September 21, 2007
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original
released on September 20, 2007)

Please contact the Bank of Japan at the address below in advance to request permission when reproducing or copying the content of this document for commercial purposes.

Secretariat of the Policy Board, Bank of Japan
C.P.O. Box 203, Tokyo 100-8630, Japan

Please credit the source when quoting, reproducing, or copying the content of this document.

Monthly Report of Recent Economic and Financial Developments¹

September 2007

The Bank's View²

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 trend upward against the background of high corporate profits. Housing investment has fallen lately. Private consumption, however, has been firm in a situation where household income has continued rising moderately. 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 as a whole. 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 likely to continue increasing for the time being, although the pace of increase is expected to slow. The year-on-year rate of change in consumer prices is expected to be around zero percent in the short run.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 18 and 19, 2007.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on September 18 and 19, 2007.

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 fallen compared with 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.

The Background

1. Economic Developments

Public investment has been sluggish (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, at low levels, since around the middle of fiscal 2006. On a GDP basis (the second 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). On a quarterly basis, they remained more or less flat in the second quarter, in reaction to the high growth in the first quarter, but increased again by 2.4 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, but 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 exports to other regions, while those 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,³ but resumed their increase in July compared with the second quarter (Charts 8[1] and 9[2]).⁴ 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 3.7 percent, in July alone compared with the second quarter, after being 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 because of the rise in prices of imported goods caused by the depreciation of the yen to date. Imports of raw materials and intermediate goods have been almost flat, albeit with some fluctuations, since firms have cut back on imports of raw materials in response to the trend of rising import prices. Imports of IT-related goods, meanwhile, 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

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

⁴ With the recent upturn in global semiconductor shipments and imports of IT-related goods—which had been relatively weak since the start of the year—assisted by generally steady global demand, IT-related trade is likely to have resumed its expansionary trend.

(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 peaked out, partly affected by the rise in crude oil prices.

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

As for the environment surrounding exports, in the United States the downside risks stemming from the subprime mortgage problem has increased as adjustments in the housing market continue. At this stage, however, even though the pace of growth may slow, the economy is most likely to manage a gradual soft landing, avoiding a downturn. In the EU, the economy is expected to continue expanding moderately, albeit with some deceleration. As for East Asia, 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. Other regions are also expected to maintain relatively high economic growth. Regarding the environment surrounding exports of IT-related goods, global demand for products, particularly for digital home appliances, has continued to be steady, commodity prices such as semiconductors—which had been soft a while ago—have bounced back, and global semiconductor shipments have also turned up (Chart 8[2]).⁵ Meanwhile, in the foreign exchange market, the yen has appreciated slightly from a while ago, but from a long-term perspective, it 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 expected to follow an uptrend—albeit very moderately—assisted by the rise in domestic demand and production, while the effects of the rise in import prices persist.

⁵ Global semiconductor shipments fell in the first and second quarters on a quarter-on-quarter basis, affected mainly by the drop in market prices, mainly in DRAM, but they increased markedly in July compared with the second quarter.

Business fixed investment has continued to trend upward. On a GDP basis (the second preliminary figures), real business fixed investment has been on an increasing trend on average, although investment in the second quarter was revised downward from the first preliminary figures, resulting in a quarter-on-quarter decrease (Chart 3). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms registered rather high growth during the final quarter of 2006 and the first quarter of 2007, but reversed these gains in the second quarter; it has continued to trend upward with these fluctuations smoothed out (Chart 12[1]). By industry and size (Chart 13), investment by small, medium-sized, and large manufacturing firms has continued to increase as a trend, albeit with some fluctuations. As for the nonmanufacturing sector, investment by large firms has been on an uptrend, while that by small and medium-sized firms has been essentially flat. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—have continued to increase in July compared with the second quarter, following the quarter-on-quarter increase in the second quarter (Chart 14[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—surged in July compared with the second quarter, after having marked a quarter-on-quarter decline in the second quarter. With these fluctuations smoothed out, they have recently been more or less flat, at high levels (Chart 15[1]).⁶ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—had remained essentially flat at high levels, but they rose substantially in the second quarter, and then retreated sharply in July (Chart 15[2]).⁷

⁶ By industry, orders from electrical machinery had declined somewhat noticeably until the second quarter, due in part to production adjustment in electronic parts since the end of last year, but they stepped up in July with the improvement in the supply-demand conditions of electronic parts. 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).

⁷ These fluctuations were largely attributable to a rush in demand just before the revised Building Standard Law took effect and the fall in reaction to this (the revision, which came into effect on June 20, has resulted in a more stringent review of applications for building permits from the viewpoint of building standards).

Looking at the environment surrounding business fixed investment, corporate profits have been high. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 12[2]), the ratio of current profits to sales has remained high on the whole,⁸ although that of small and medium-sized firms was somewhat lackluster compared to large firms, partly affected by the rise in prices of raw materials.

Business fixed investment is projected to trend upward, 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 second 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 16 and 17), sales at department stores were firm, with fluctuations caused by weather factors and the timing of sales smoothed out.⁹ On the other hand, sales at supermarkets have been somewhat lackluster. Sales at convenience stores have been more or less flat, although they dipped in July due to adverse weather. 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—which had continued to be lackluster—have started to pick up lately. Meanwhile, the number of new passenger-car registrations has continued its declining trend, chiefly in small-sized passenger cars; it dropped sharply, especially in July, partly due to the decline in shipments caused by the Niigata-ken Chuetsu-oki Earthquake. In August, however, it increased noticeably for the first time in a long while, supported mainly by the carry-over from the previous month and by strong sales of new models. As for services consumption, sales in the food service industry

⁸ Based on all enterprises, the ratio of current profits to sales stood at 4.3 percent in the second quarter, surpassing the previous peak of 4.1 percent in the third quarter of 2006.

⁹ Sales at department stores jumped in June, aided by the early start of summer clearance sales and by favorable weather conditions, but dropped significantly in July in reaction to the early start of these sales and from the adverse weather.

have continued to trend upward, albeit with large fluctuations caused by weather factors. Outlays for travel have also been firm on average.

Both the *Indices of Aggregated Sales* (in real terms) —which are comprised of major sales indicators of goods and services mentioned above¹⁰—and the aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—have been firm as a trend, although they declined in July due to temporary factors such as adverse weather and the earthquake (Charts 18[1] and [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) also dropped in July (Chart 16[1]). Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms)—which covers more households than the *Family Income and Expenditure Survey* does—has remained firm on the whole, although it inched downward in July (Chart 16[1]).¹¹

Consumer sentiment has generally been at favorable levels, although some indicators have shown slight deterioration most recently (Chart 19).

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

As for housing investment, housing starts have recently dropped sharply, affected by the enforcement of the revised Building Standard Law (Chart 20[1]).¹² In detail, starts of housing for rent, housing for sale, and owner-occupied housing have all plunged lately. Looking ahead, housing investment is expected to be

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

¹¹ 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.

¹² According to the revised Building Standard Law—which took effect on June 20—a more stringent review of applications for building permits has been introduced, and the procedure has also changed significantly. It has been pointed out that construction starts were delayed since those related to the construction business were not fully prepared for these changes to the system.

sluggish, since the effects from the revised Building Standard Law will persist for the time being. From a somewhat longer-term perspective, however, it will regain its firmness, 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 dropped, by 1.3 percent, in the first quarter, and remained flat in the second quarter with an increase of 0.2 percent, but then rose only marginally, by 0.4 percent, in July compared with the second quarter, affected partly by the Niigata-ken Chuetsu-oki Earthquake (Chart 21). 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 digital home appliances. Production of transport equipment had been almost flat with the rise in exports offsetting the decline in domestic sales, but it dropped substantially in July because the Niigata-ken Chuetsu-oki Earthquake temporarily halted the supply of parts. Meanwhile, that of electronic parts and devices—which had remained essentially level since the start of this year, due partly to the high level of domestic inventories—has recently shown signs of picking up.

Shipments have also continued their uptrend. By goods (Chart 22), shipments of capital goods have been on an uptrend. As for consumer goods, while shipments of nondurable goods have been on a downtrend, those of durable goods have continued to increase as a trend—chiefly in digital home appliances and automobiles for exports—although they showed a sizeable drop in July due to the earthquake. 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, have recently resumed their increase. Meanwhile, shipments of construction goods have been somewhat weak lately; they have been affected partly by the decrease in the number of housing starts, while public investment continues to be sluggish.

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 somewhat high levels relative to shipments. The inventory cycle (Chart 23) 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 they have turned down, assisted by generally solid exports. On the other hand, in electronic parts and devices, the inventory level has remained somewhat relatively high. While final goods manufacturers continue to introduce new products at a good pace, shipments have increased and market prices for semiconductors have rebounded, showing that supply-demand conditions have been improving. Under these circumstances, 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.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 24[2] and [3]).

¹³ Production in the third quarter—based on the production forecast index for August and September—is calculated to post an increase of 4.1 percent on a quarter-on-quarter basis. However, taking account of the differences in the coverage of the original series and the forecast index, the pace of increase in production in the third quarter is likely to be moderate compared to the above calculation.

In the labor market, overtime hours worked have been essentially flat, at high levels (Chart 26[3]). The ratio of job offers to applicants has been at a high level, above 1.00.¹⁴ The unemployment rate has followed a downtrend (Chart 25).¹⁵

In terms of employment (Chart 26[1]), the number of employees in the *Labour Force Survey* has marked an increase of about 1.0 percent on a year-on-year basis and that of regular employees in the *Monthly Labour Survey* has been in the range of 1.5-2.0 percent; they have both continued to increase steadily. 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 26[1] and [2]).

Nominal wages per employee have recently been somewhat lackluster (Chart 24[1]). Regular payments have been somewhat weak, 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.¹⁶ In contrast, overtime payments have continued to trend up mildly, although their pace has decelerated slightly. Special payments seem to be moving

¹⁴ 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 pace of decrease, however, has recently moderated.

¹⁵ The unemployment rate (seasonally adjusted) was 3.6 percent in July, the lowest level since February 1998.

¹⁶ 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.

Both the rise in the ratio of part-time workers—whose wage levels are low—and the increasing number of part-timers working only short hours has pushed wages per person downward. These movements 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 fact, the labor force participation rates of men age 55-64—including the baby-boom generation—and a wide range of women seem to have trended upward.

Furthermore, by industry, "education and learning support"—which comprises many local government employees—had a significant impact on the weakness in overall wages, except recently.

up as a trend, supported by favorable corporate profits, although those in June and July—which represent over 90 percent of summer bonuses—were relatively weak.¹⁷

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 recently fallen slightly, due mainly to the appreciation of the yen (Chart 28). 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. Prices of nonferrous metals have remained high on the whole, albeit with some fluctuations.¹⁸

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁹ has been positive, mainly due to the rise in international commodity prices (Chart 29). In detail, prices of petroleum and coal products have continued to move up, in response to developments in international commodity prices, but those of nonferrous

¹⁷ Special payments in June-July in the *Monthly Labour Survey* registered a year-on-year decline of 3.1 percent. This was mainly because: (1) the average was pushed downward largely by factors such as the retirement of the baby-boom generation and the rise in the ratio of part-time workers. It was also possibly affected by: (2) industry-specific movements such as "Medical, Health Care and Welfare" and "Transport" working as large contributors to the decline, and "Finance and Insurance"—which grew somewhat substantially last year—peaking out. At the same time, from a somewhat longer-term perspective, it is likely that (3) bonuses within small and medium-sized firms have continued to be restrained since these firms are relatively susceptible to effects such as of globalization, fiscal reform, and the rise in prices of raw materials.

¹⁸ Meanwhile, domestic commodity prices have also been high on the whole, in response to the tightening of supply-demand conditions and to developments in international commodity prices, although they have eased back slightly in some items reflecting developments in the foreign exchange rate.

¹⁹ 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.

metals have dropped marginally (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) have continued to increase mildly, as a result of high material costs and of the tightening of supply-demand conditions. Those of "iron and steel and construction goods" have continued to rise, but at a slower pace. 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 30).²⁰ The year-on-year changes in prices, excluding external factors, stood at 0.7 percent in July, following an increase of 0.3 percent in the second quarter.²¹ Looking at recent developments by category, the year-on-year changes in prices of "other services" have continued to be positive, reflecting improvements in supply-demand conditions as well as cost increases such as labor costs since the start of this fiscal year. Prices of real estate services have expanded their rate of increase gradually, 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, the rate of increase in prices of information services has also expanded recently. 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 31). Looking at developments in the past few months in more detail, the year-on-year changes in prices of goods

²⁰ "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.

²¹ 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 1.6 percent in July; it was the largest year-on-year increase since June 1992 (a year-on-year increase of 1.7 percent).

overall have been posting a slight negative; although a range of items has followed a moderate improving trend, petroleum products (such as gasoline) have 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.

Domestic corporate goods prices are likely to continue increasing for the time being, although the pace of increase is expected to slow. 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 32[1]) has been at around 0.5 percent. Regarding interest rates on term instruments (Chart 33[1]), the Euroyen interest rate (TIBOR, 3-month) has been more or less flat, while the FB rate (3-month) has fallen. Interest rates on Euroyen futures have been essentially unchanged on the whole (Chart 33[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 32 [2]) dropped temporarily, but then increased, mainly in response to long-term interest rate movements in the United States and Europe. They have recently been moving in the range of 1.55-1.60 percent.

Yield spreads between corporate bonds and government bonds (Chart 35) have been more or less flat on the whole.

Stock prices (Chart 36) have fluctuated, mainly in view of U.S. stock prices and foreign exchange rates. The Nikkei 225 Stock Average is moving at around 16,000 yen.

In the foreign exchange market (Chart 37), the yen appreciated temporarily, primarily in response to some U.S. economic indicators. It later fell, in response to the prospects of U.S. monetary policy. The yen is being traded in the range of 114-117 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, private banks have remained accommodative in their loan provision. Including small and medium enterprises, firms have perceived the lending attitudes of financial institutions as accommodative (Chart 38).

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 39).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,²² grew by 1.3 percent in August, on a year-on-year basis, compared to 1.2 percent in July and 1.6 percent in June (Chart 40).

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. CP issuance rates have fallen since late August, after having risen toward mid-August. The amount outstanding of CP and corporate bonds issued has been

²² 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.

above the previous year's level. It increased by 2.3 percent in August, on a year-on-year basis, after 3.3 percent in July and 2.7 percent in June (Chart 41).

According to business surveys, the financial positions of firms have continued to be favorable (Chart 38).

The money stock ($M_2 + \text{CDs}$) has increased by around 2 percent annually. Its August reading was 1.8 percent on a year-on-year basis after 2.0 percent in July and 1.9 percent in June (Chart 42).

The number of corporate bankruptcies was up by 2.9 percent in August compared to the year-ago level, to 1,203 cases (Chart 43).

Charts

Chart 1	Main Economic Indicators (1)	Chart 27	Prices
Chart 2	Main Economic Indicators (2)	Chart 28	Import Prices and International Commodity Prices
Chart 3	Real GDP	Chart 29	Domestic Corporate Goods Price Index
Chart 4	Public Investment	Chart 30	Corporate Service Price Index
Chart 5	External Balance	Chart 31	Consumer Price Index (Excluding Fresh Food)
Chart 6	Real Exports	Chart 32	Interest Rates
Chart 7	Real Exports Breakdown by Goods	Chart 33	Short-Term Money Market Rates
Chart 8	Exports and Imports of IT-Related Goods	Chart 34	Implied Forward Rates (1-Year)
Chart 9	Real Exports to East Asia	Chart 35	Yields of Corporate Bonds
Chart 10	Real Effective Exchange Rate and Overseas Economies	Chart 36	Stock Prices
Chart 11	Real Imports	Chart 37	Exchange Rates
Chart 12	Business Fixed Investment and Corporate Profits	Chart 38	Corporate Finance-Related Indicators
Chart 13	Business Fixed Investment by Industry and Size	Chart 39	Lending Rates
Chart 14	Coincident Indicators for Business Fixed Investment	Chart 40	Lending by Financial Institutions
Chart 15	Leading Indicators for Business Fixed Investment	Chart 41	Private-Sector Fund-Raising in the Capital Markets
Chart 16	Indicators for Private Consumption (1)	Chart 42	Money Stock
Chart 17	Indicators for Private Consumption (2)	Chart 43	Corporate Bankruptcies
Chart 18	Indicators for Private Consumption (3)		
Chart 19	Consumer Confidence		
Chart 20	Indicators for Housing Investment		
Chart 21	Production, Shipments, and Inventories		
Chart 22	Shipments Breakdown by Type of Goods		
Chart 23	Inventory Cycle		
Chart 24	Employee Income		
Chart 25	Labor Market (1)		
Chart 26	Labor Market (2)		

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2006/Q4	2007/Q1	Q2	2007/May	Jun.	Jul.	Aug.
Index of living expenditure level (two-or-more-person households)	2.7	0.5	-0.4	-0.2	-0.5	-0.8	n.a.
Sales at department stores	-0.4	0.2	1.0	0.8	4.4	-7.7	n.a.
Sales at supermarkets	-1.0	-0.0	-0.7	1.2	-1.1	-1.6	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 304>	< 291>	< 288>	< 291>	< 286>	< 280>	< 308>
Sales of household electrical appliances (real, Current Survey of Commerce)	3.0	6.6	-0.7	0.3	0.1	-1.1	n.a.
Outlays for travel	0.8	1.3	-1.5	0.8	0.9	-3.9	n.a.
Housing starts <s.a., ann. 10,000 units>	< 131>	< 125>	< 127>	< 115>	< 135>	< 95>	<n.a.>
Machinery orders (from private sector ⁴)	0.3	-0.7	-2.4	5.9	-10.4	17.0	n.a.
Manufacturing	-2.8	-1.4	-4.0	15.3	-11.4	10.8	n.a.
Nonmanufacturing ⁴	4.0	-1.1	0.1	-1.8	-6.5	19.4	n.a.
Construction Starts (private, nondwelling use)	0.6	-6.6	24.5	21.4	20.0	-43.7	n.a.
Mining & manufacturing	-13.9	-9.1	20.0	19.0	15.1	-38.4	n.a.
Nonmanufacturing ⁵	4.3	-5.0	29.0	20.2	21.0	-45.4	n.a.
Value of public works contracted	1.9	-2.2	-0.7	1.7	-5.1	-1.1	-0.5
Real exports	1.0	3.0	-0.4	2.8	0.6	1.0	n.a.
Real imports	-0.5	0.4	0.5	6.7	0.0	1.5	n.a.
Industrial production	2.2	-1.3	0.2	-0.3	1.3	-0.4	n.a.
Shipments	1.5	-0.5	0.7	0.2	1.1	-1.2	n.a.
Inventories	3.8	-2.0	-0.3	-0.4	-0.3	-0.1	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 100.7>	< 101.0>	< 100.5>	< 97.9>	< 100.5>	< 99.1>	<n.a.>
Real GDP	1.4	0.7	-0.3	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.8	-0.1	0.6	-0.3	0.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2006/Q4	2007/Q1	Q2	2007/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 1.07>	< 1.05>	< 1.06>	< 1.06>	< 1.07>	< 1.07>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	< 3.8>	< 3.8>	< 3.7>	< 3.6>	<n.a.>
Overtime working hours ⁶	2.5	1.9	0.6	1.0	0.0	-0.1	n.a.
Number of employees	1.1	1.0	1.1	0.9	0.9	1.0	n.a.
Number of regular employees ⁶	1.4	1.6	1.7	1.7	1.8	1.7	n.a.
Nominal wages per person ⁶	0.0	-0.7	-0.6	-0.2	-0.9	-1.7	n.a.
Domestic corporate goods price index ⁷ <q/q % chg., 3-month rate of change>	2.6	1.9	2.3	2.2	2.3	2.2	p 1.9
	<-0.1>	<-0.2>	< 1.5>	< 1.7>	< 1.5>	< 1.1>	<p 0.6>
Consumer price index ⁸	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	n.a.
Corporate service price index	0.1	0.5	1.4	1.4	1.5	p 1.6	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	0.7	1.0	1.5	1.5	1.9	2.0	p 1.8
Number of corporate bankruptcies <cases>	<1,122>	<1,147>	<1,205>	<1,310>	<1,185>	<1,215>	<1,203>

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

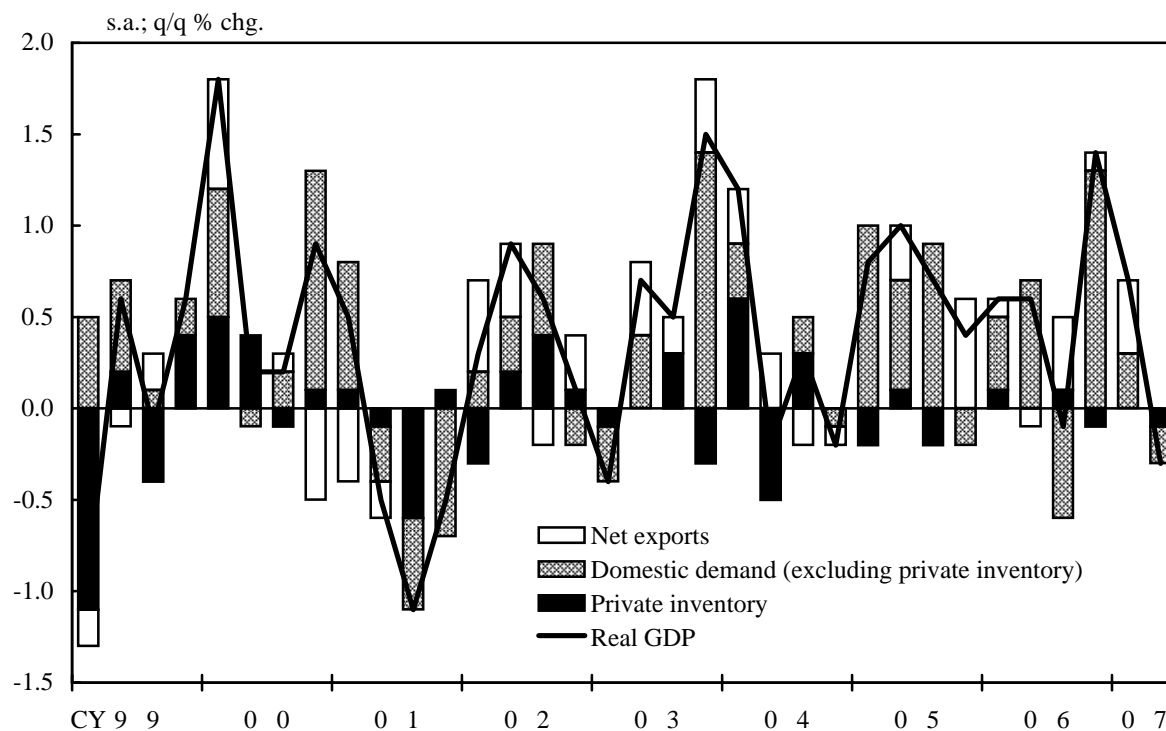
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

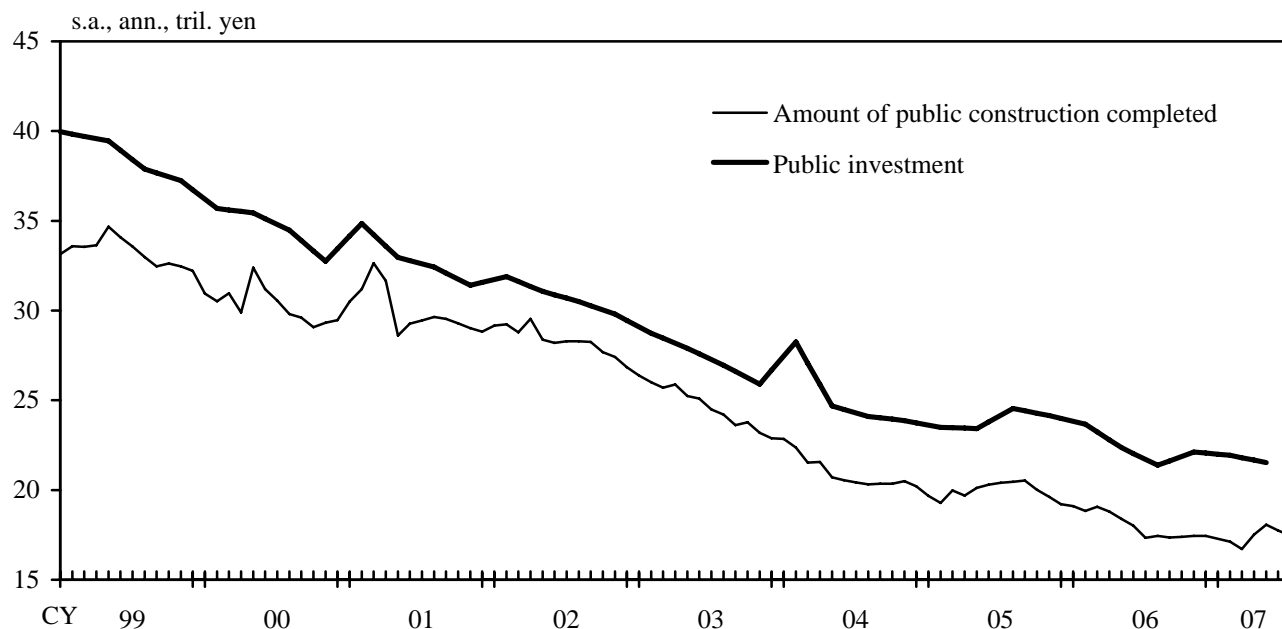
	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Real GDP	0.6	-0.1	1.4	0.7	-0.3
Domestic demand	0.7	-0.5	1.2	0.3	-0.3
Private consumption	0.4	-0.9	1.1	0.8	0.3
Non-Resi. investment	4.2	-0.1	3.0	-0.2	-1.2
Residential investment	-1.5	0.1	1.7	-0.8	-3.4
Private inventory	(-0.0)	(0.1)	(-0.1)	(0.0)	(-0.1)
Public demand	-0.6	-0.5	0.8	-0.4	-0.2
Public investment	-5.9	-5.0	3.7	-1.2	-2.6
Net exports of goods and services	(-0.1)	(0.4)	(0.1)	(0.4)	(0.0)
Exports	0.8	2.2	0.9	3.4	0.8
Imports	1.3	-0.4	-0.1	0.9	0.6
Nominal GDP	0.4	-0.2	1.4	0.4	-0.2

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

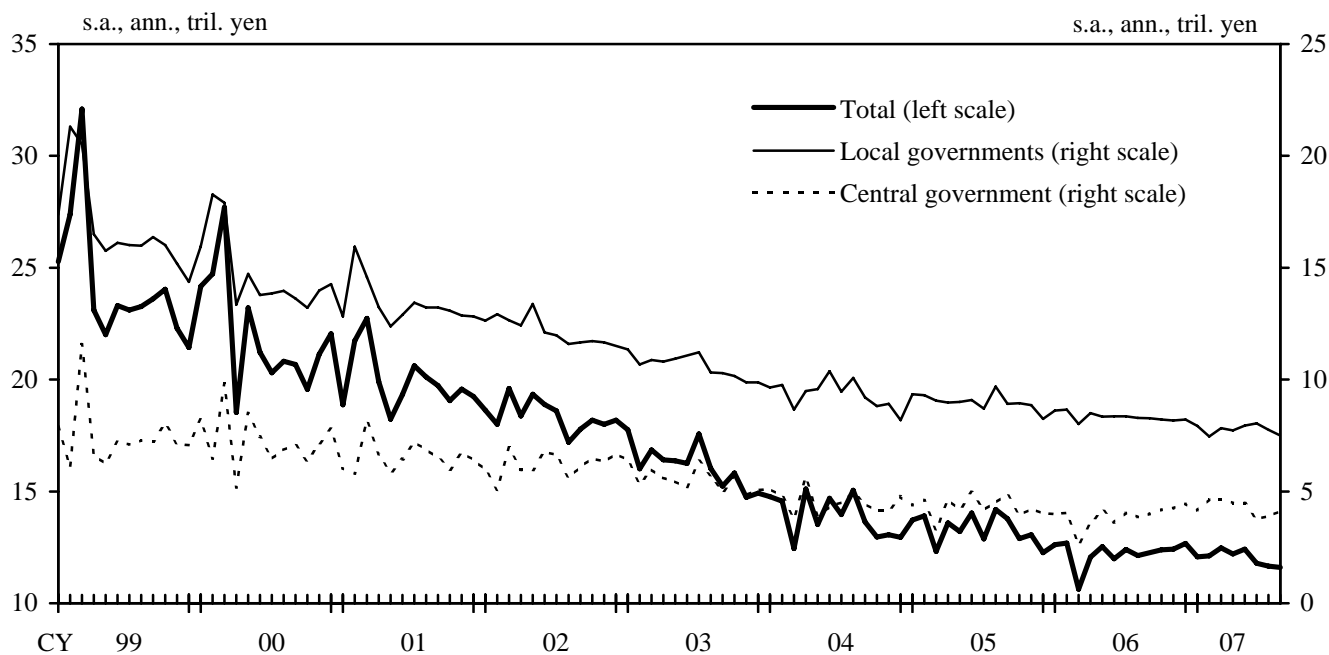
Source: Cabinet Office, "National Accounts."

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.

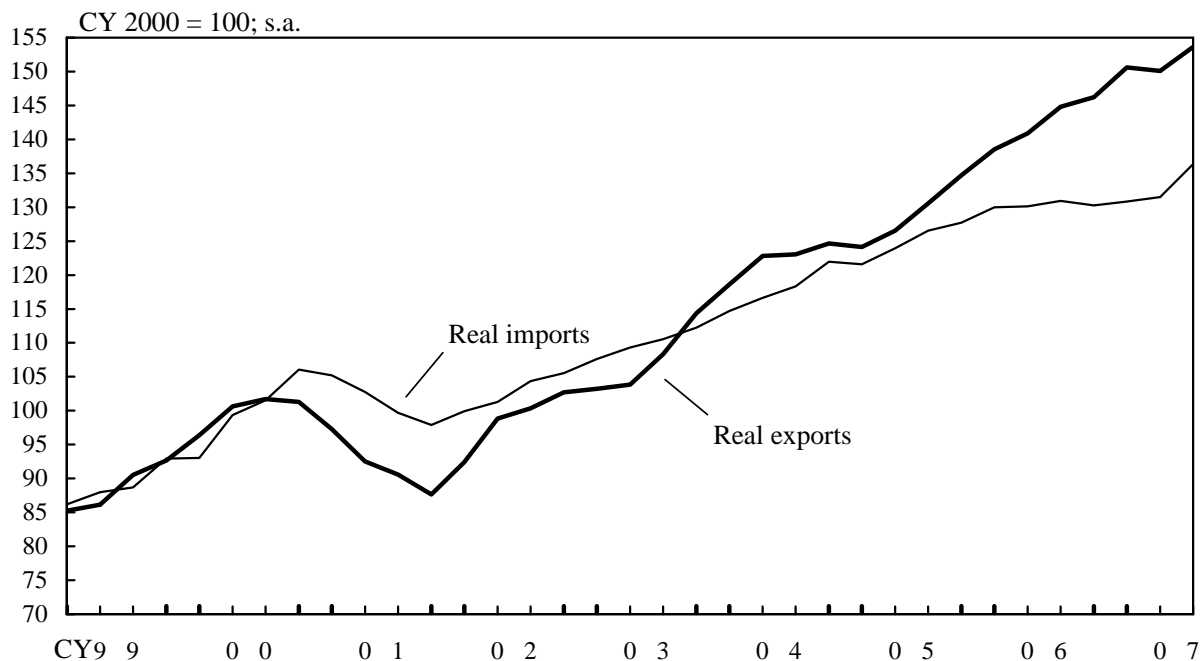
Sources: Cabinet Office, "National Accounts";

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

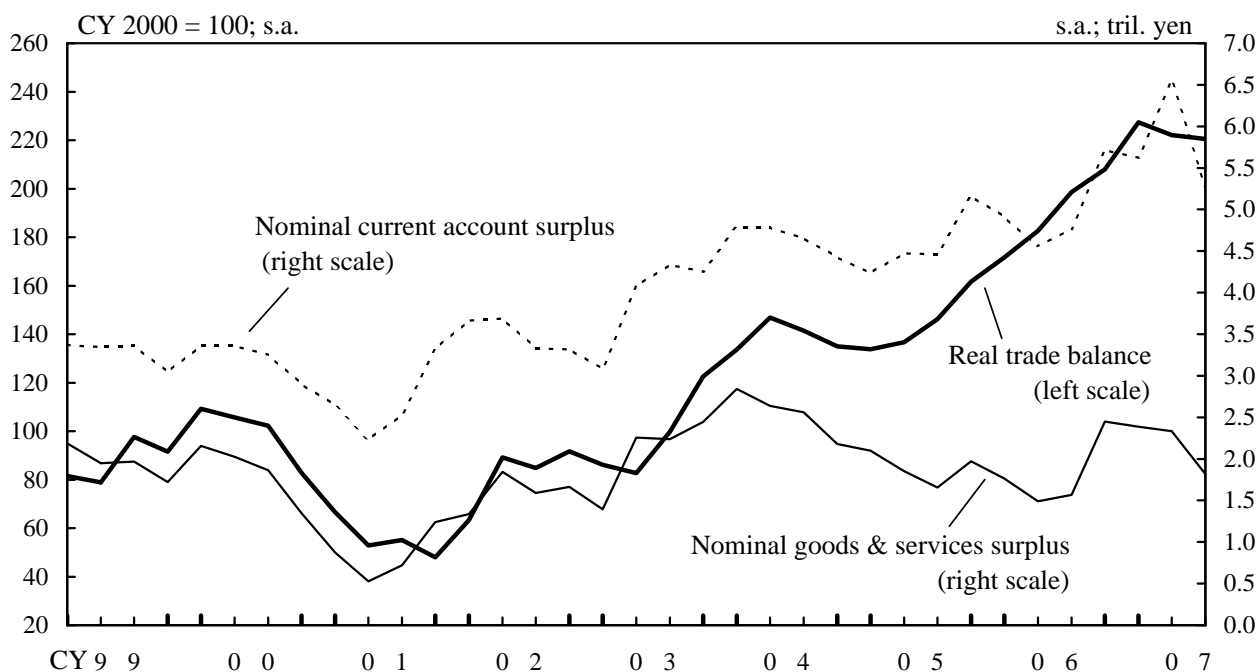
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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 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 ¹

(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	1.2	2.7	0.1	0.3
China	<14.3>	9.6	20.1	5.1	6.6	5.5	-2.9	2.4	7.1	1.5	-0.9
NIEs	<23.2>	5.0	5.7	0.5	0.2	3.9	-1.6	0.5	1.0	-1.7	1.3
Korea	<7.8>	4.5	7.7	-1.7	1.2	5.1	-2.5	-3.1	-6.0	-1.6	0.0
Taiwan	<6.8>	4.4	3.7	-1.1	-3.5	0.1	1.6	2.6	-2.5	3.4	1.2
ASEAN ⁴	<8.1>	4.4	2.8	4.9	0.9	3.6	2.2	1.2	-0.3	2.7	-0.4
Thailand	<3.5>	10.0	5.2	4.4	0.5	3.8	0.8	0.1	-0.6	-1.4	1.2
Others	<17.3>	11.5	19.5	4.2	2.4	4.4	4.1	2.2	6.8	-0.4	0.3
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	2.4	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	2.9	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 ⁴	<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 ⁵	<11.5>	5.4	7.7	2.5	5.1	5.5	-4.0	3.4	-1.6	-1.1	4.7
Capital goods and parts ⁶	<29.4>	7.1	12.4	4.0	-1.1	3.0	0.2	2.2	-0.1	5.5	-1.3
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	2.4	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.

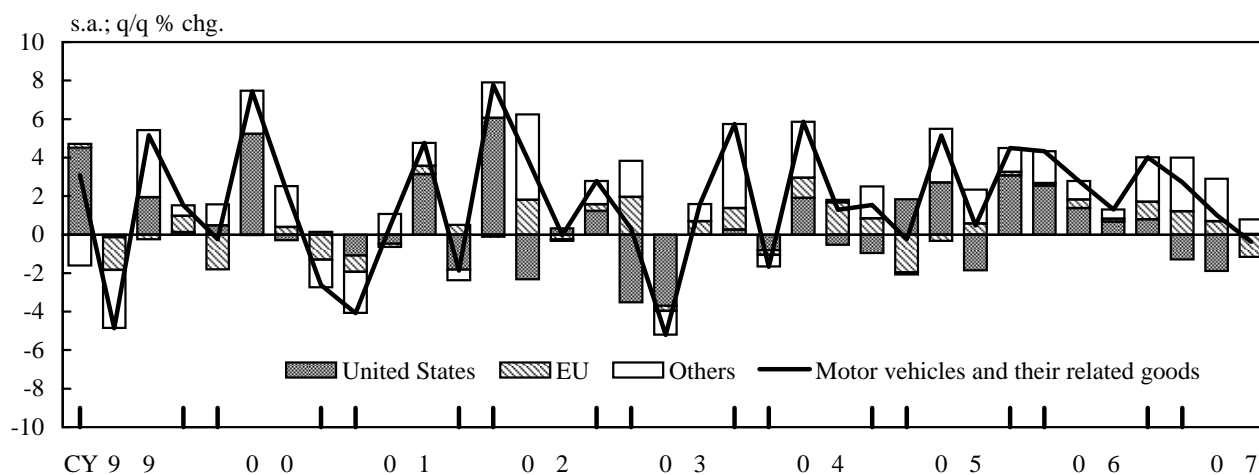
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

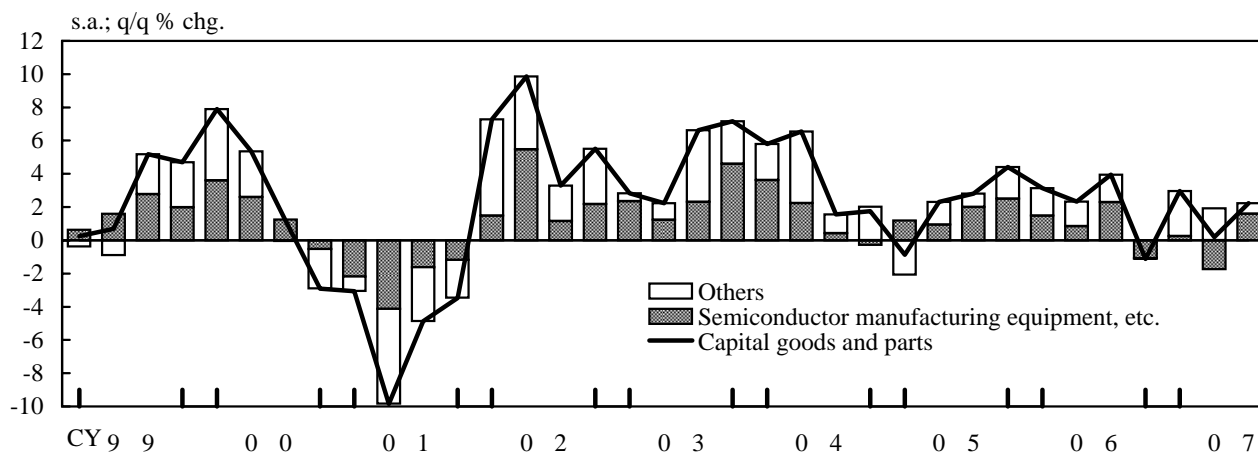
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

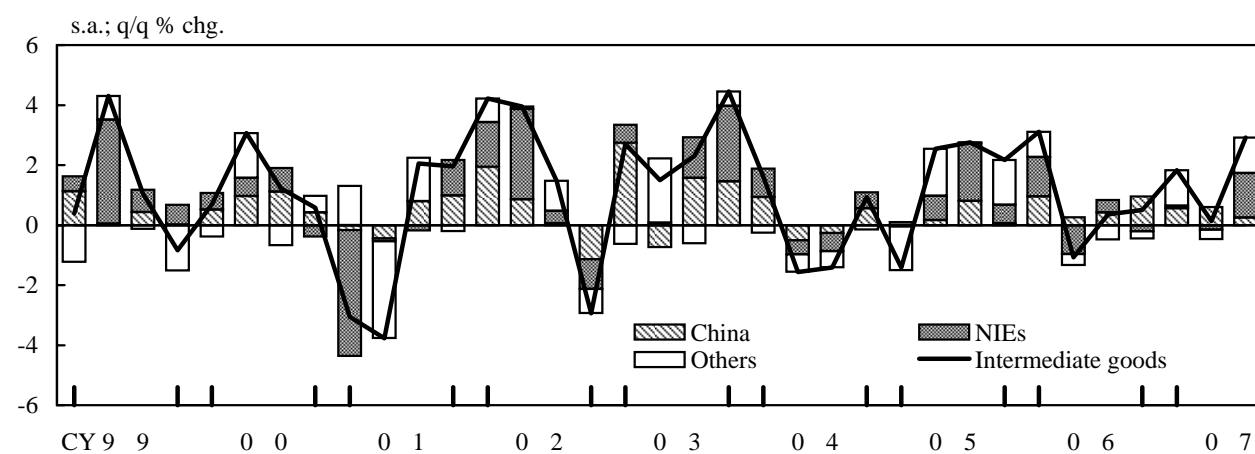
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



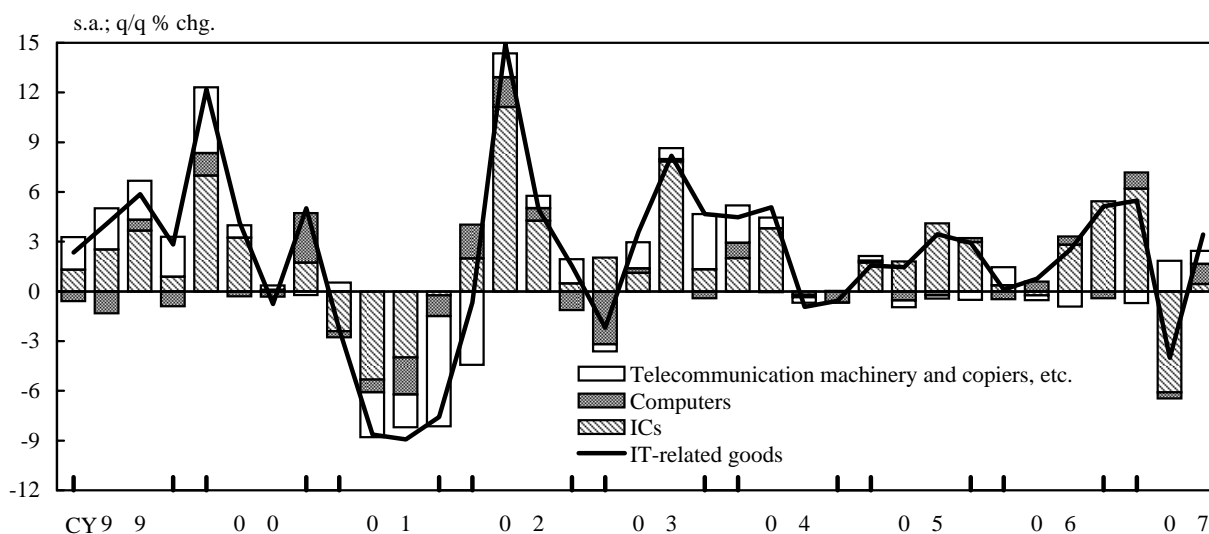
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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

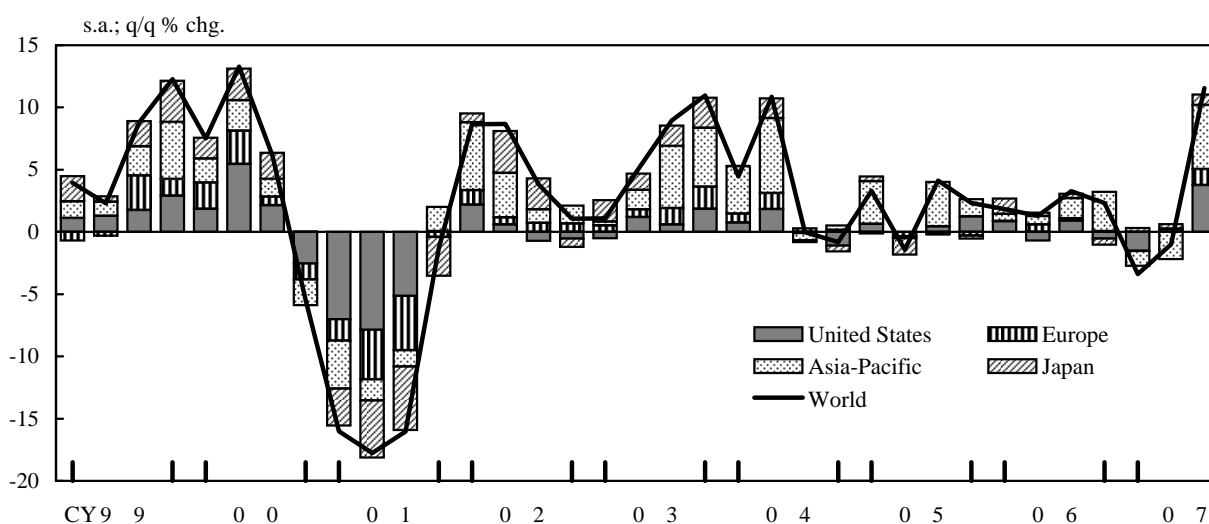
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

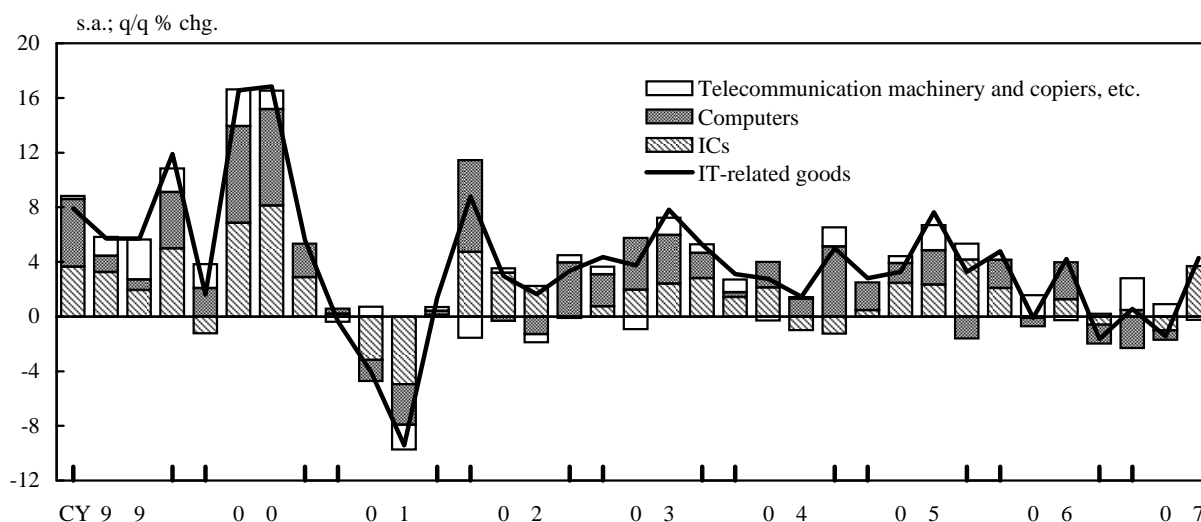
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

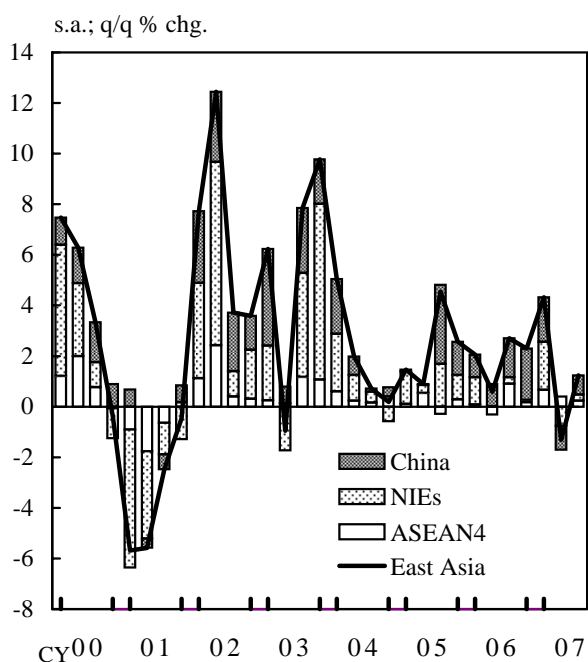
2. 2007/Q3 figures are July figures converted into quarterly amount.

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

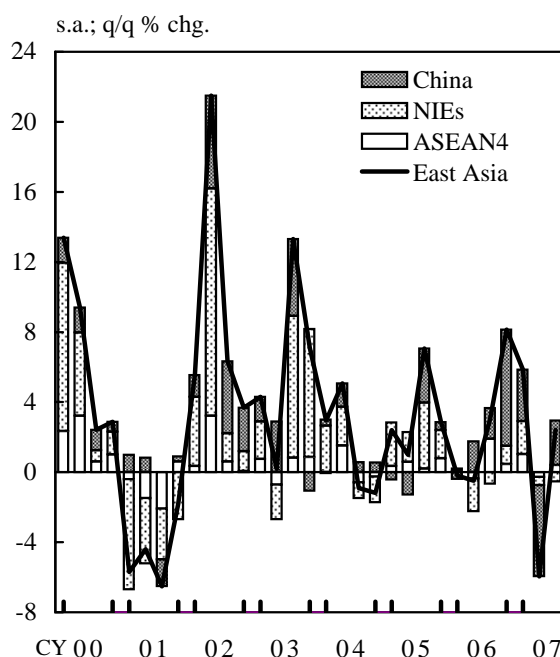
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

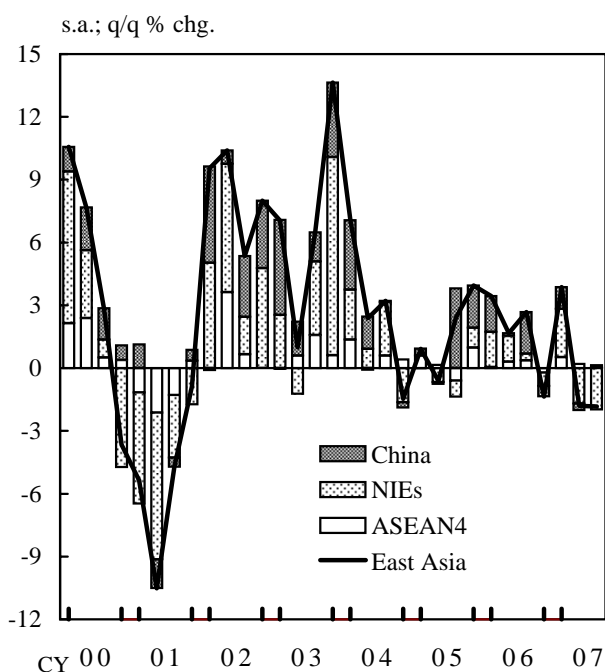
(1) All Goods (Real, Breakdown by Region)



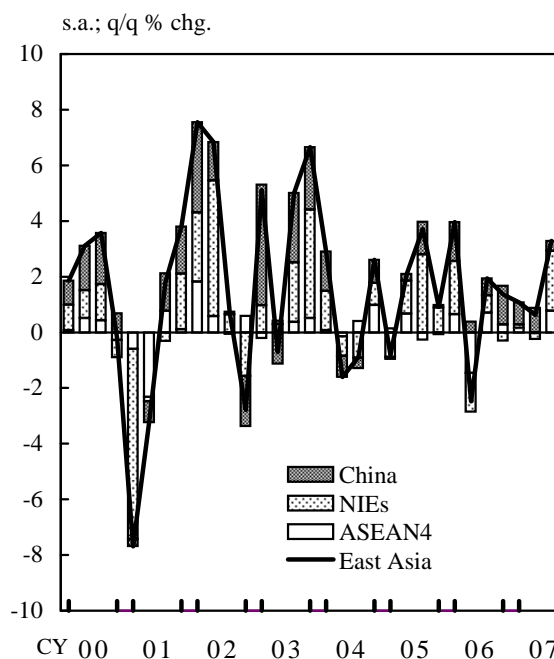
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



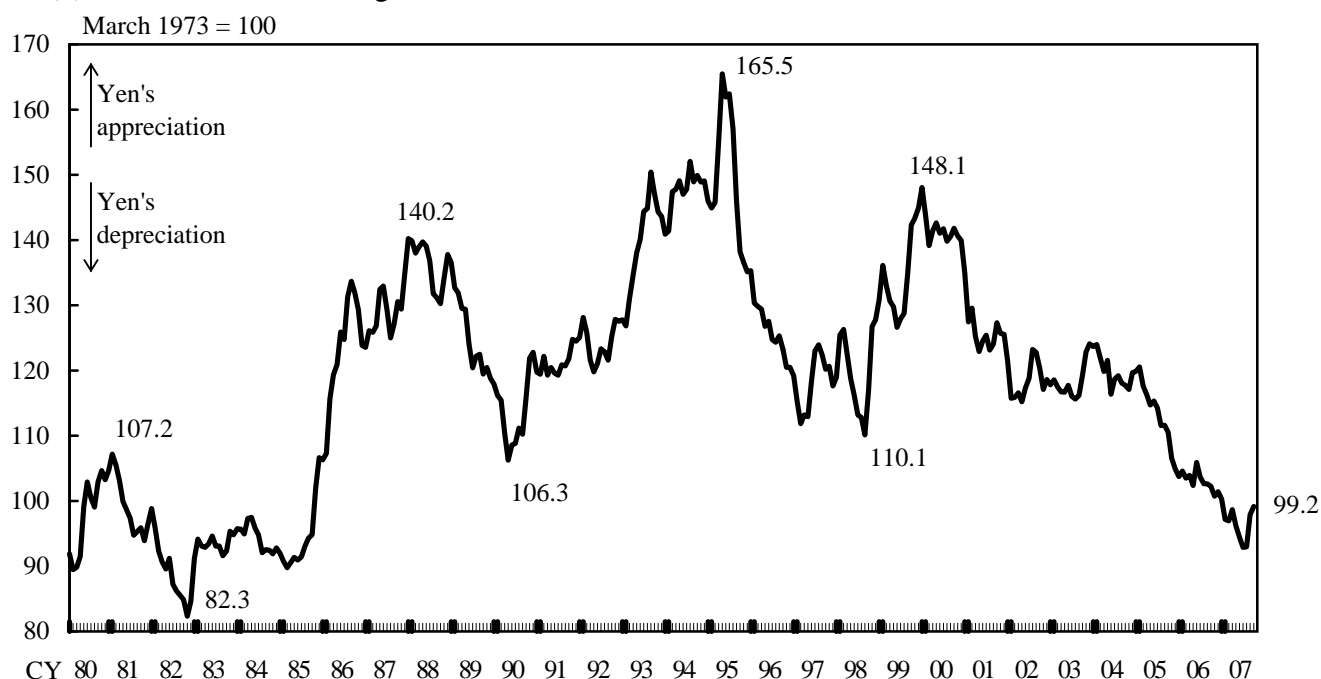
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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 September 2007 is the average up to September 18.
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		3.6	3.1	2.9	1.1	2.1	0.6	4.0	
European Union ¹		2.3	1.9	3.1	2.6	3.6	2.9	1.9	
	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	3.4	
East Asia ²	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	5.0
		Taiwan	6.2	4.1	4.7	5.1	4.0	4.2	5.1
		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	4.2	4.4
		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	5.5	5.7
Philippines		6.4	4.9	5.4	5.1	5.5	7.1	7.5	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2006 Q4	2007			2007 May	Jun.	Jul.
United States	<11.7>	3.6	6.6	4.5	-2.4	-2.2	1.7	-1.8	6.3	-7.7	1.5
EU	<10.3>	2.1	1.4	-0.4	-0.2	1.7	3.8	6.0	9.0	-0.3	3.3
East Asia	<41.4>	11.2	9.5	2.3	1.8	0.1	-0.8	3.8	4.2	1.5	1.4
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	3.9	4.2	1.8	1.2
Korea	<4.7>	8.3	11.4	1.3	-1.6	-1.7	1.3	5.1	9.8	6.4	-2.1
Taiwan	<3.5>	11.0	16.9	4.2	2.3	-3.3	-10.3	4.3	-2.2	2.9	3.1
ASEAN4 ³	<11.1>	0.2	3.4	1.5	3.1	-1.0	0.0	6.6	6.5	-1.6	5.5
Thailand	<2.9>	12.8	7.1	0.7	2.0	1.7	-1.6	4.3	0.0	0.0	4.2
Others	<36.5>	1.8	2.5	-1.7	-2.3	1.3	-1.0	4.5	6.7	4.6	-0.6
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	3.7	6.7	0.0	1.5

(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			2007 May	Jun.	Jul.
Raw materials ⁴	<34.7>	-3.9	1.0	-2.2	-2.0	0.9	-0.2	5.0	7.9	3.2	0.4
Intermediate goods	<14.0>	4.6	2.3	-0.4	-1.4	0.5	1.9	3.7	7.8	1.7	0.1
Foodstuffs	<8.5>	2.6	-3.3	-2.3	1.7	0.4	-4.3	-2.2	6.1	0.1	-4.1
Consumer goods ⁵	<8.8>	8.6	2.6	0.1	1.9	-5.1	5.5	1.5	4.3	-2.7	2.0
IT-related goods ⁶	<12.0>	15.4	14.1	4.2	-1.6	0.6	-1.4	4.3	0.5	-0.6	4.5
Capital goods and parts ⁷	<12.4>	13.6	16.9	4.9	1.3	1.7	1.7	4.9	8.7	-4.4	5.2
Excluding aircraft	<11.5>	13.7	18.0	2.9	1.8	0.3	3.1	6.4	4.0	-1.3	6.0
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	3.7	6.7	0.0	1.5

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.

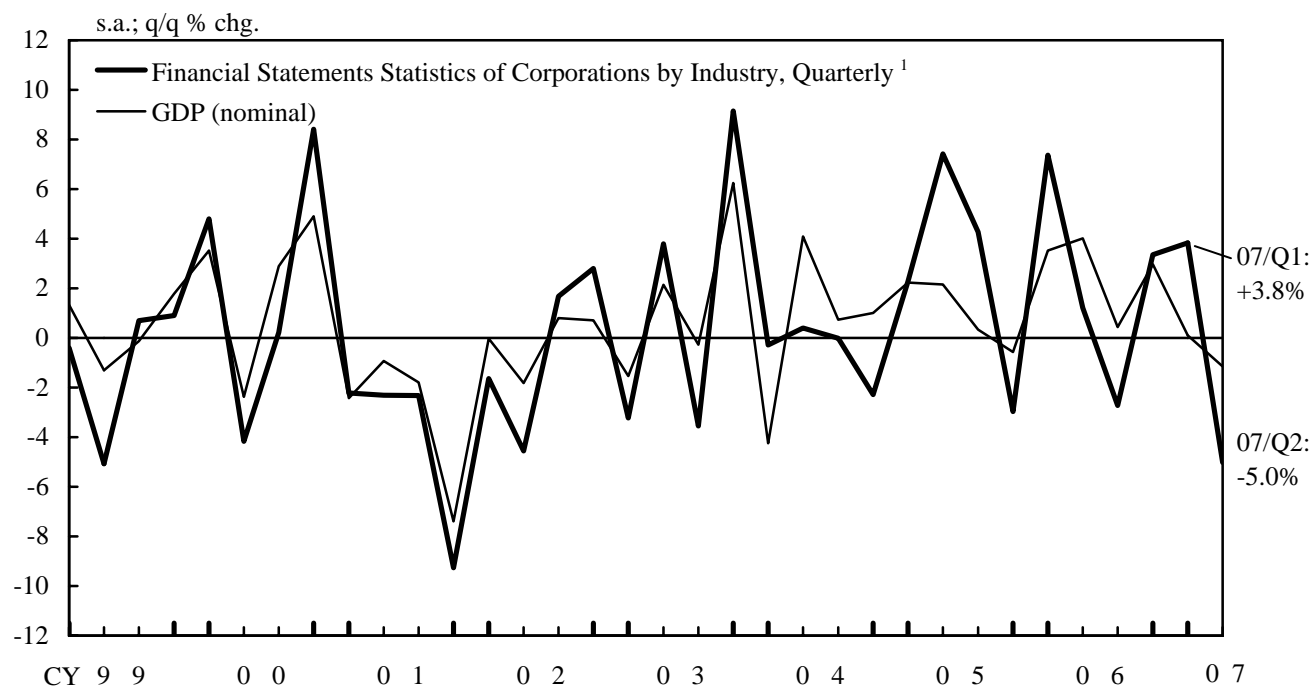
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

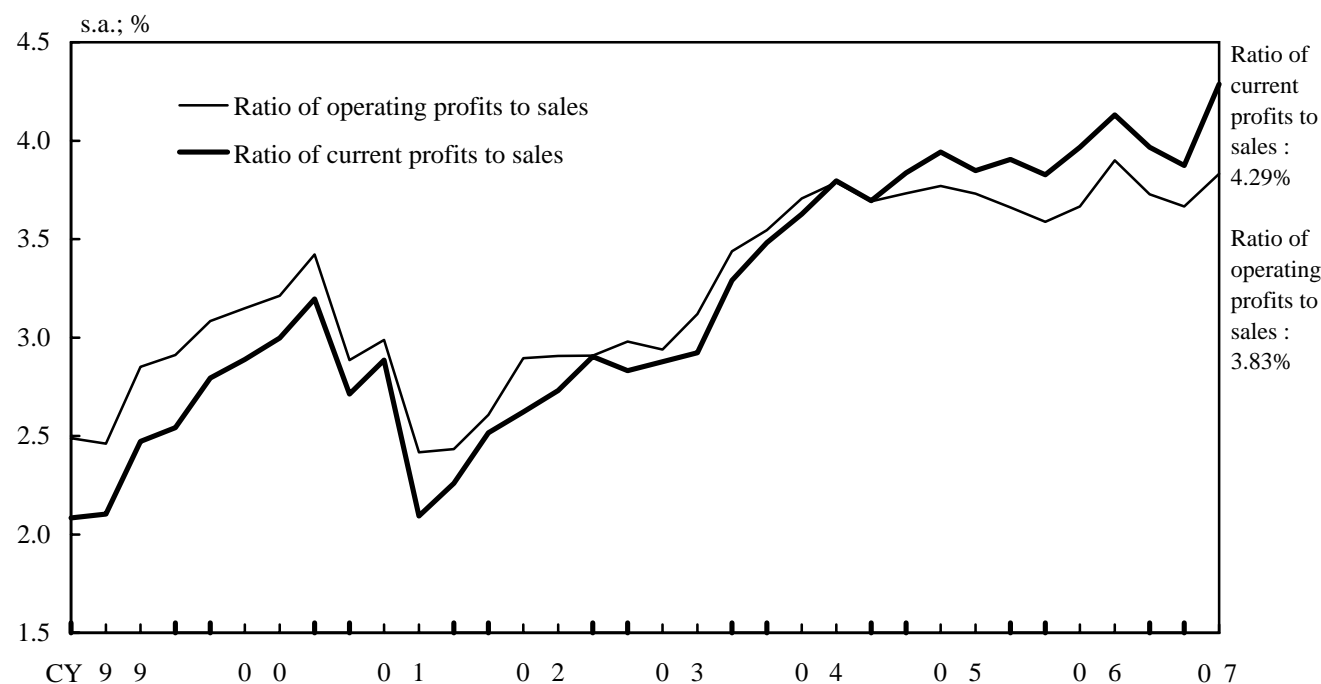
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Fixed Investment



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



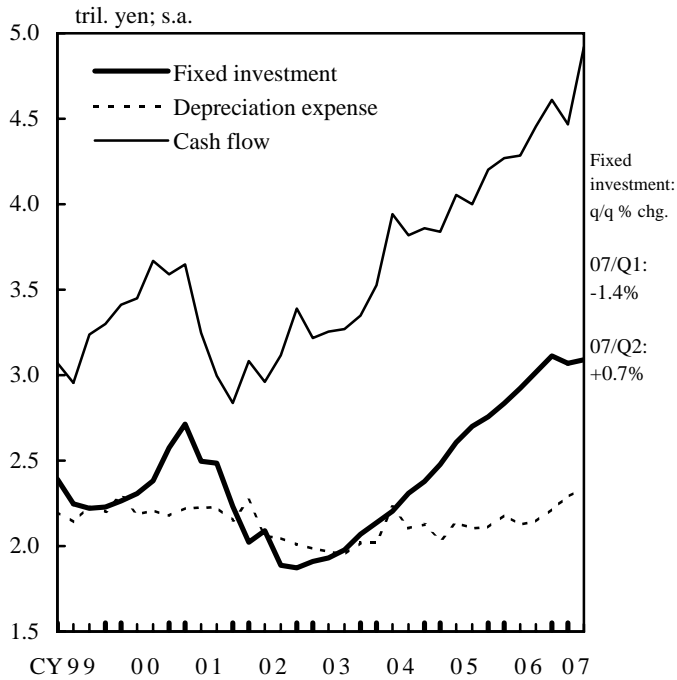
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references.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

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

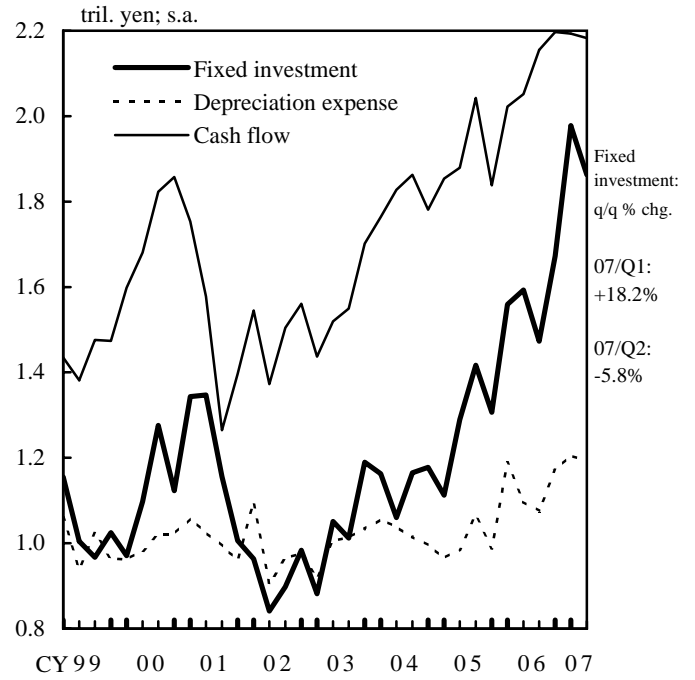
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

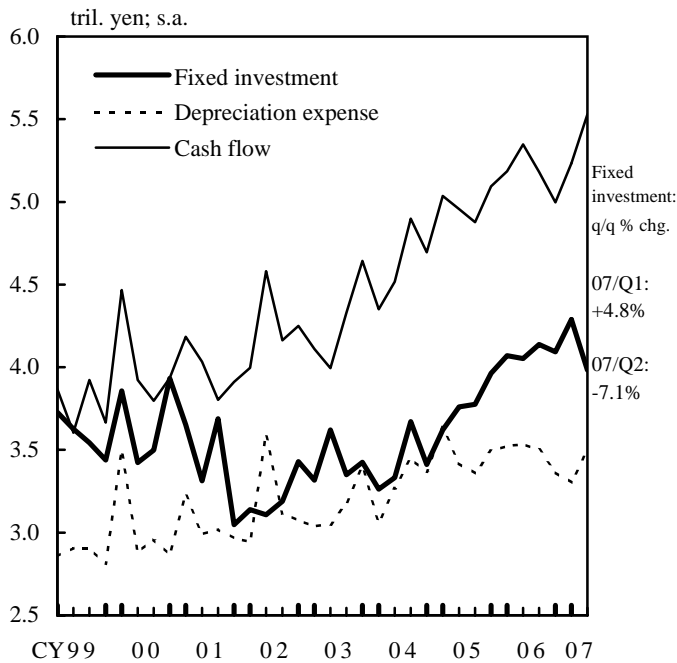
(1) Large Manufacturing Firms



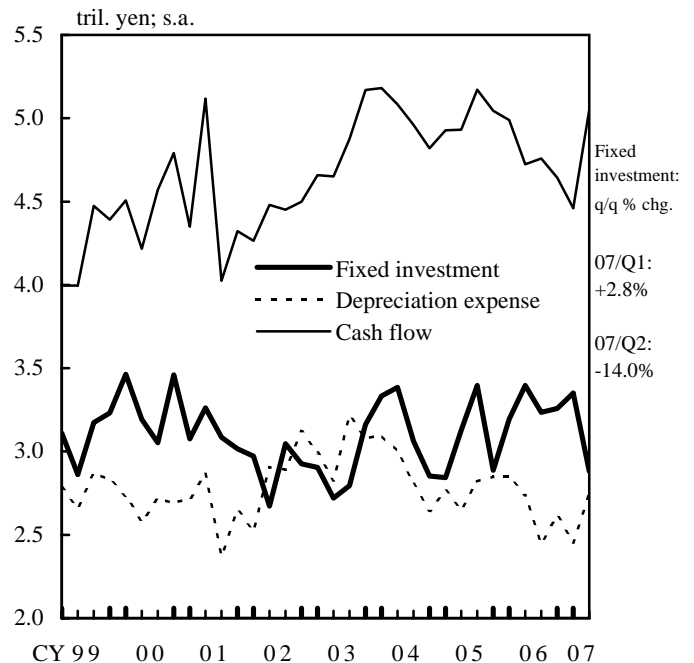
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

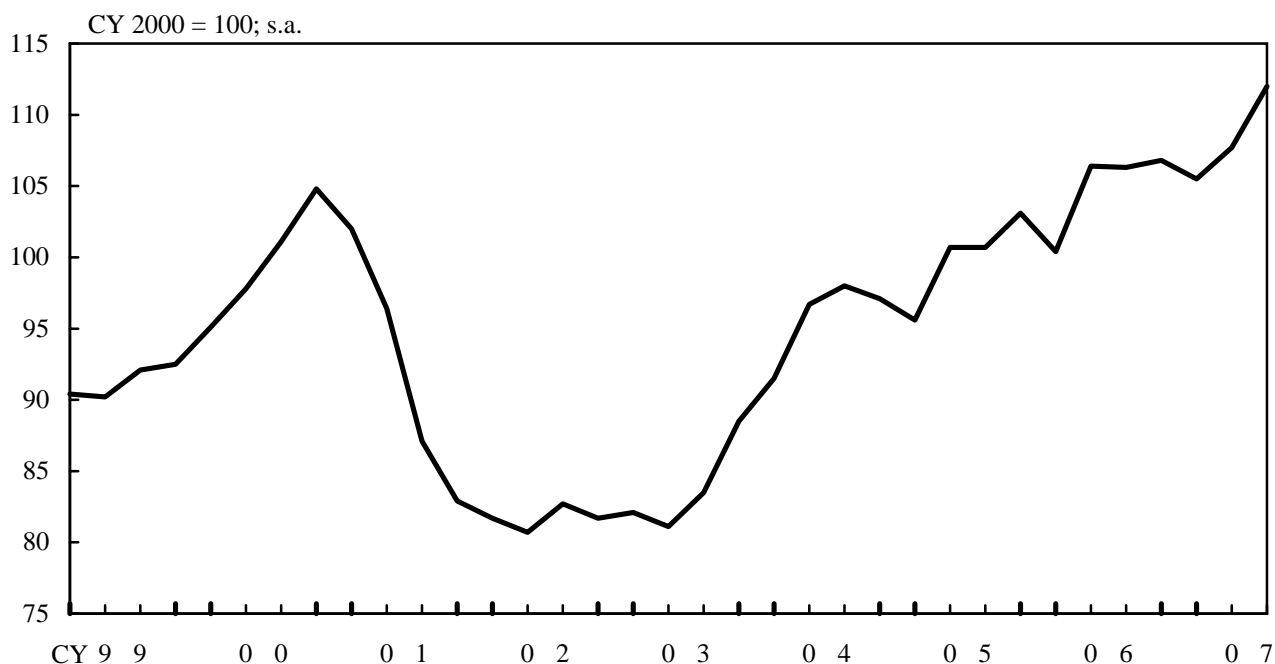


- Notes: 1. On a "Financial Statements Statistics of Corporations by Industry, Quarterly" basis.
 2. Sample change is adjusted (see note of Chart 12).
 3. Electric and gas are excluded from large nonmanufacturing firms.
 4. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.
 5. Cash flow = current profits / 2 + depreciation expense.
 6. Seasonally adjusted by X-11.

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

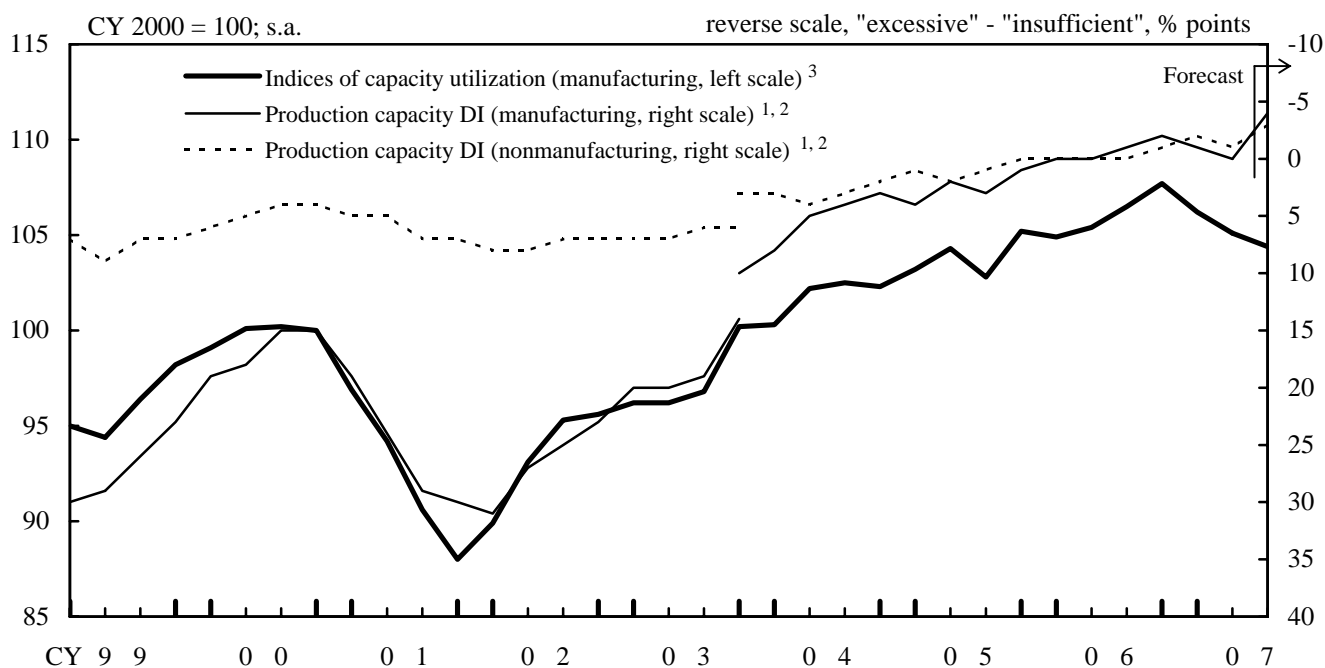
Coincident Indicators for Business Fixed Investment

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



Note: The figure for 2007/Q3 is as of July.

(2) Indices of Capacity Utilization and Production Capacity DI



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

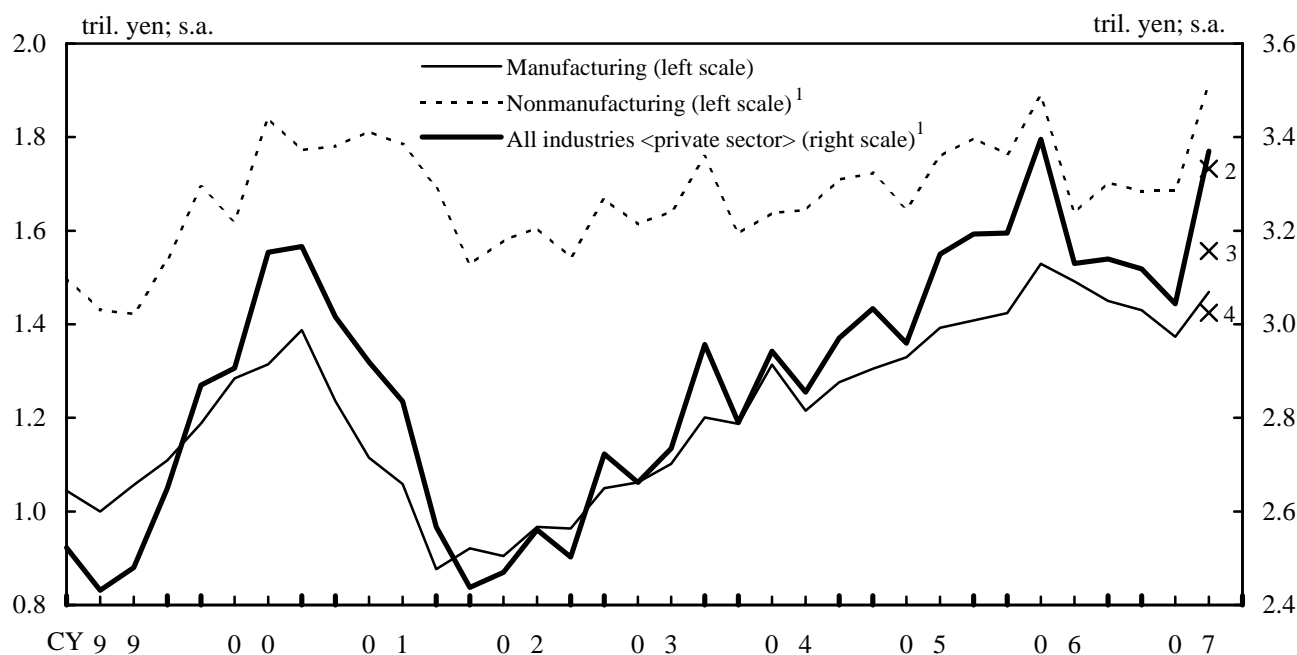
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/Q3 is as of July.

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.

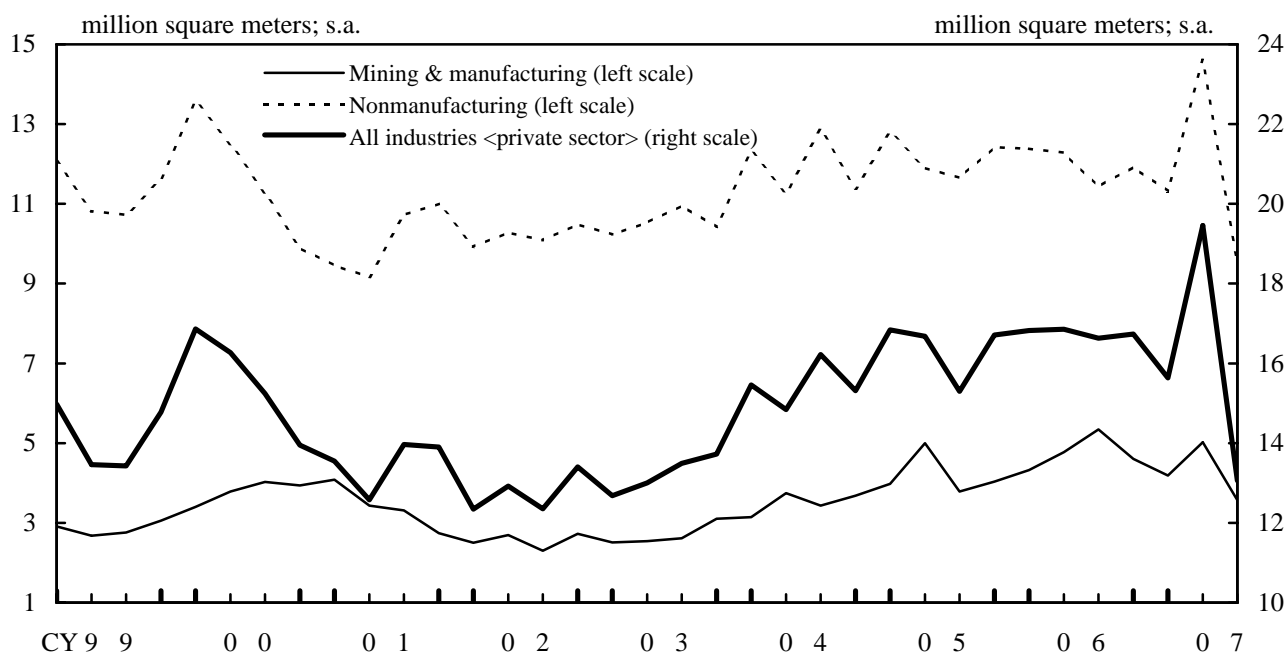
2. Forecast of nonmanufacturing industries for 2007/Q3.

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

4. Forecast of manufacturing industries for 2007/Q3.

5. Figures for 2007/Q3 are those of July 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.

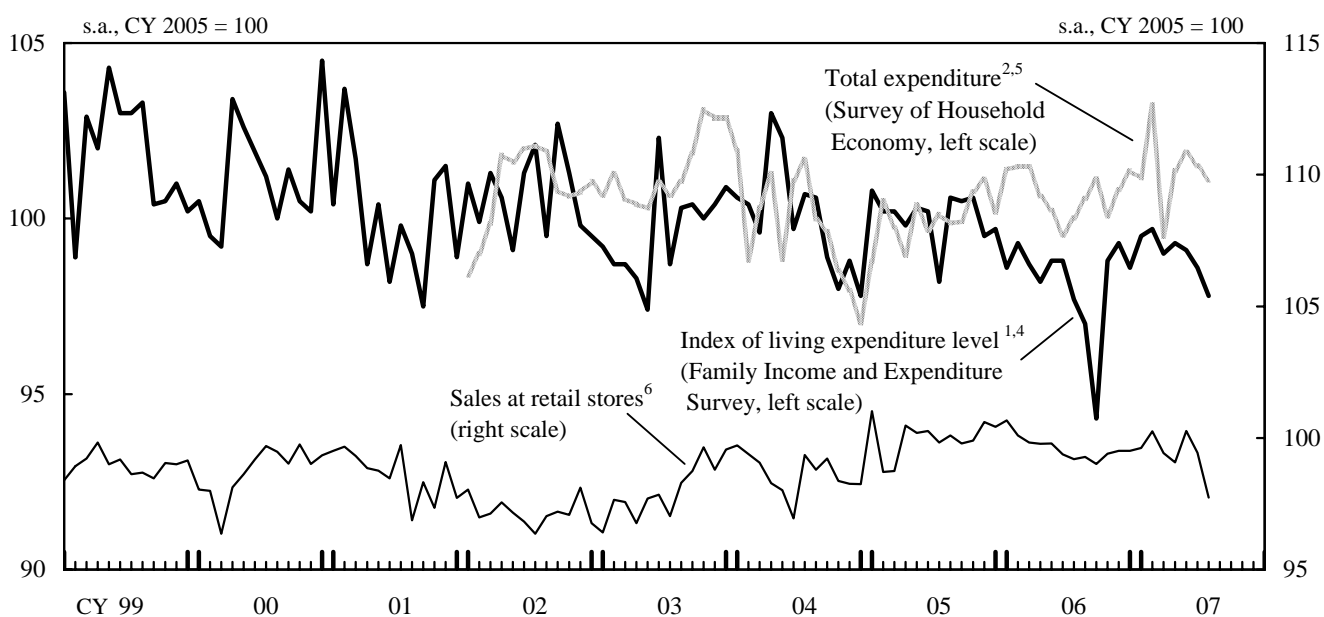
3. Figures for 2007/Q3 are those of July in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

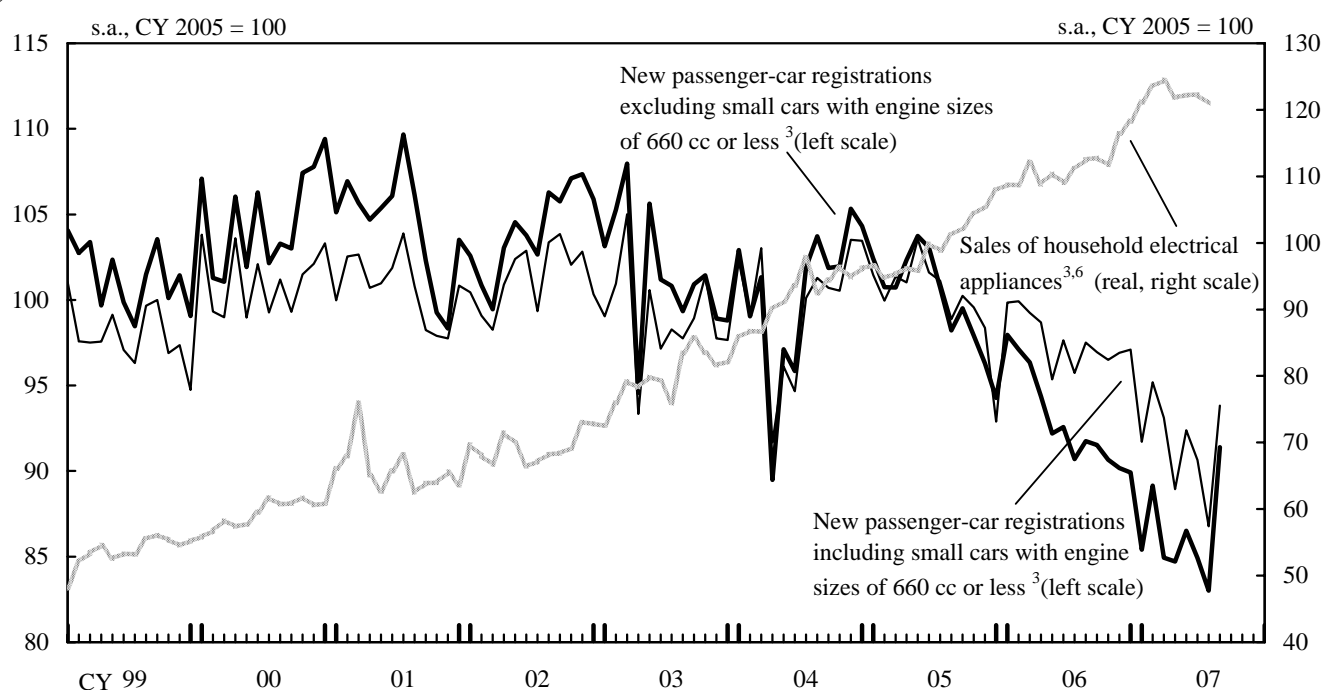
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private 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).

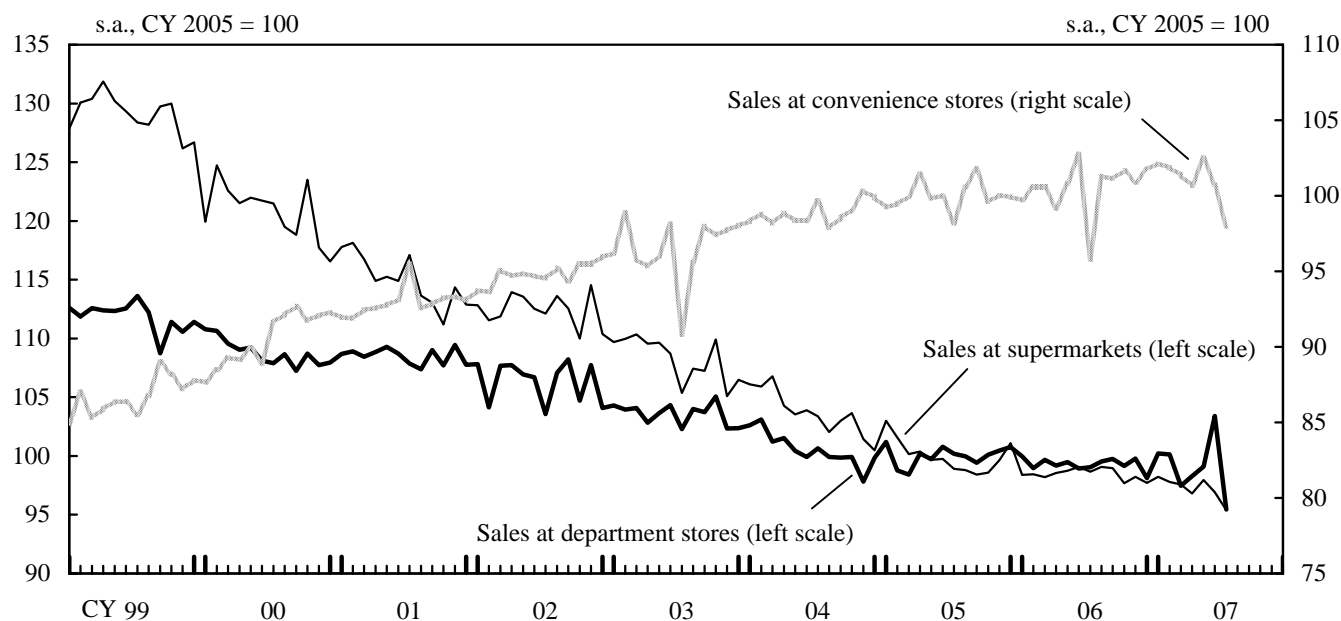
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";

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

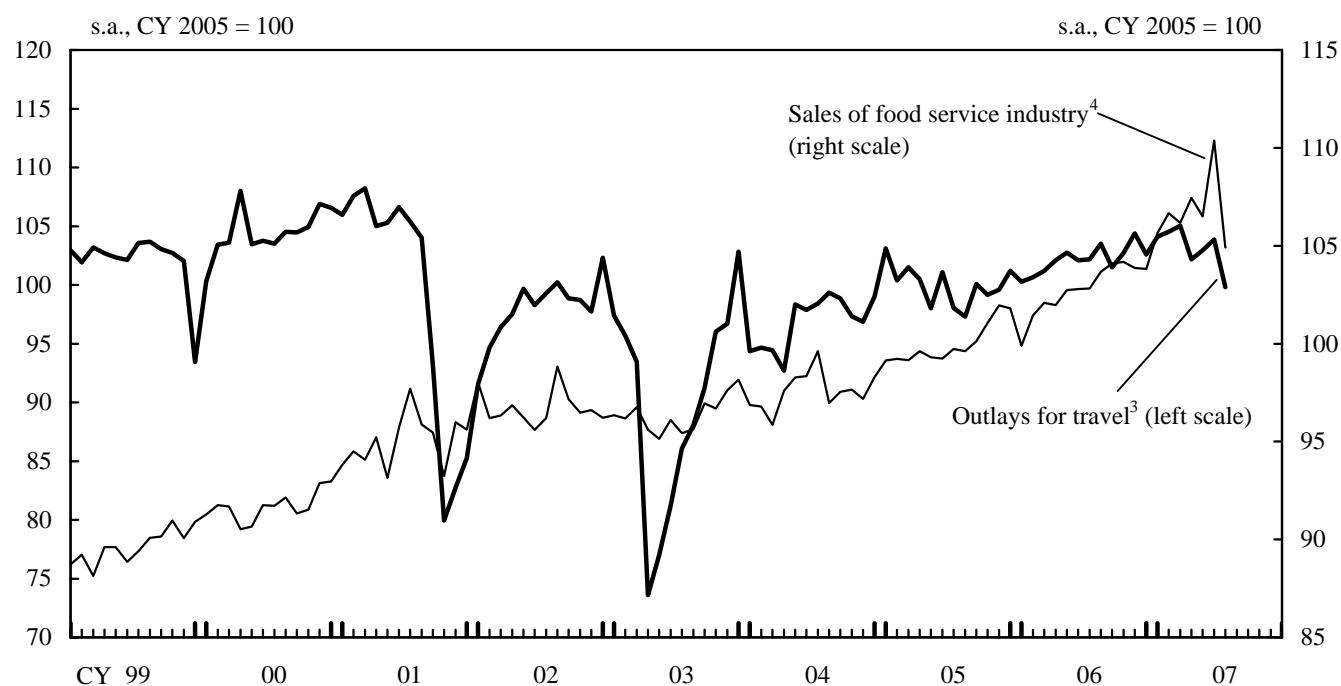
Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index";

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).

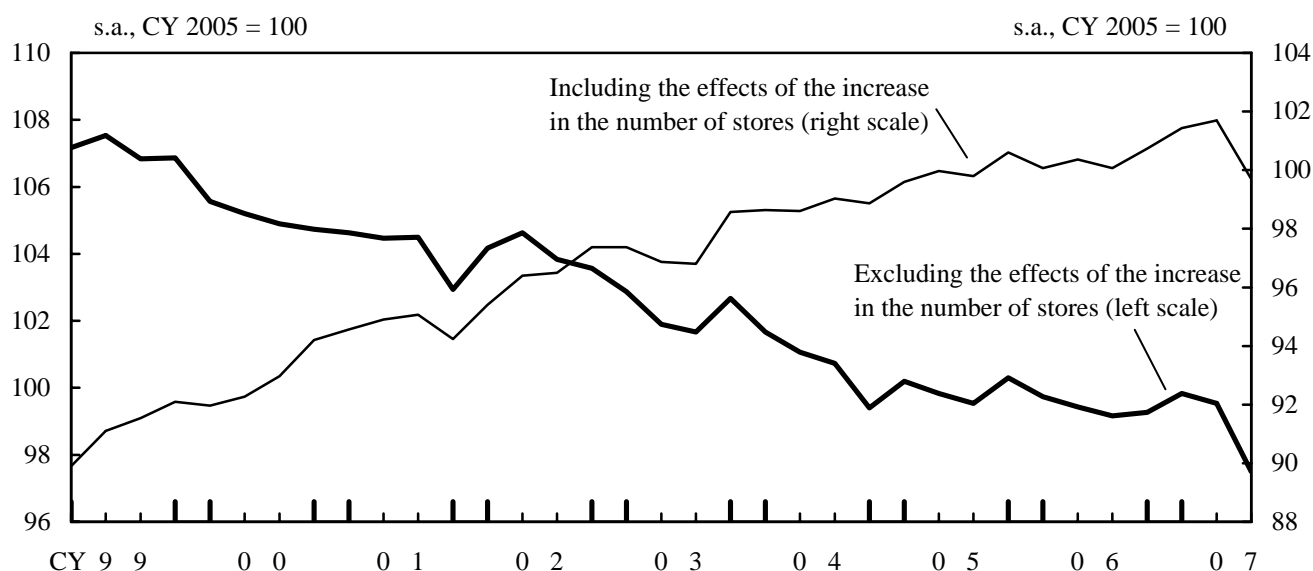
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

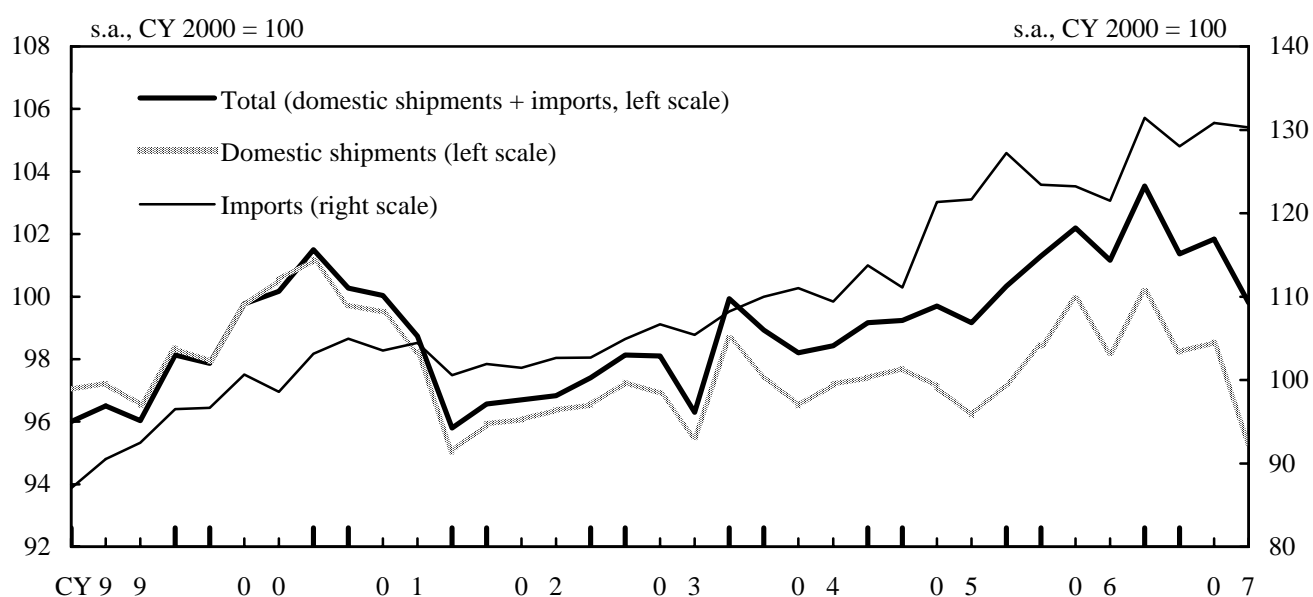
Indicators for Private Consumption (3)

(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/Q3 figures are those of July in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

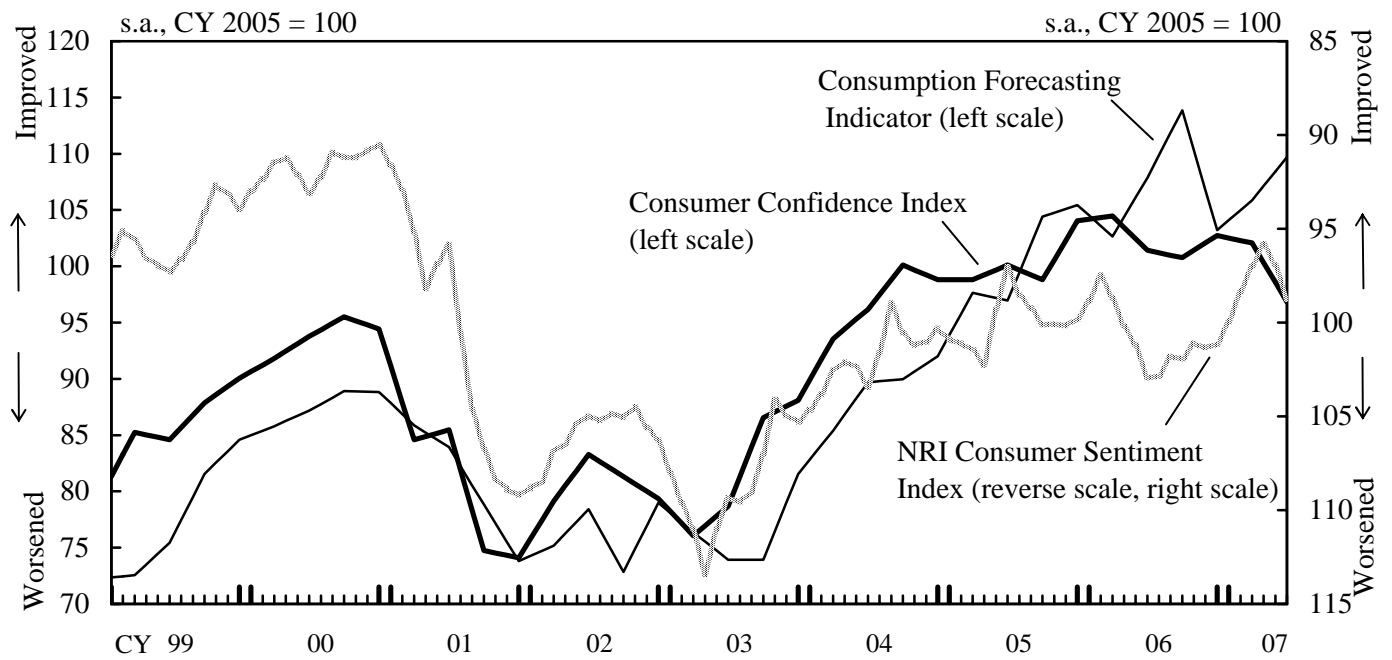


Note: Data for 2007/Q3 figures are those of July in terms of quarterly amount.

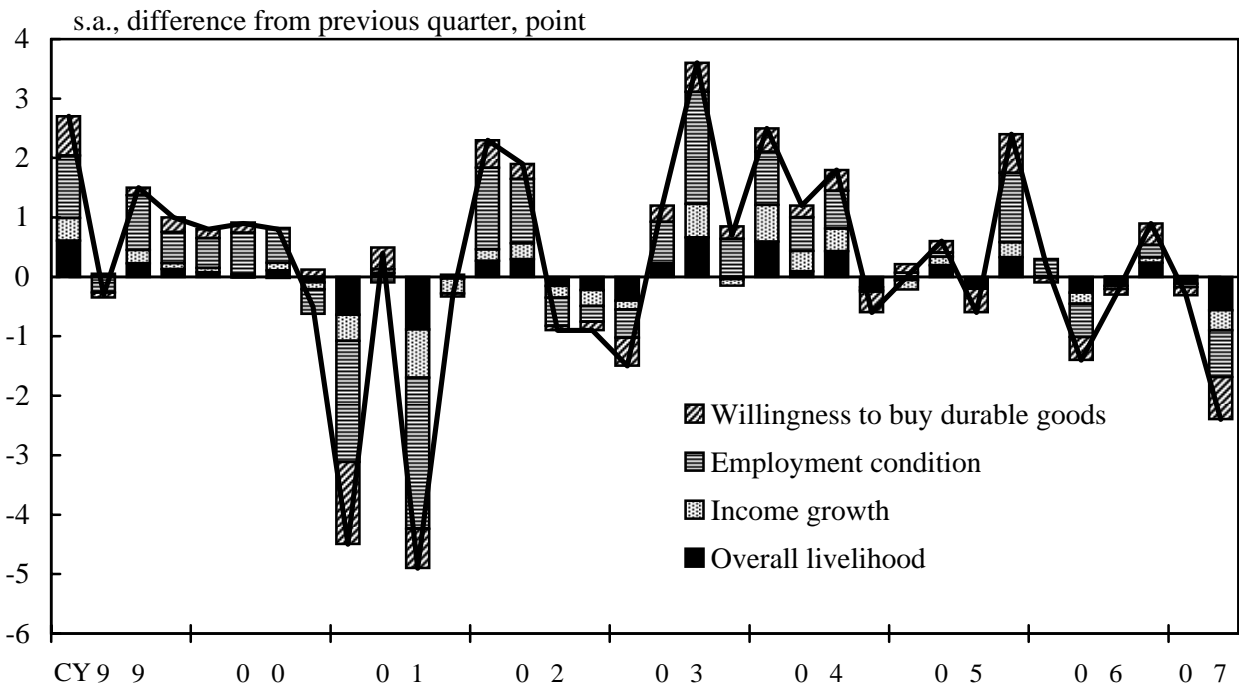
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

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.

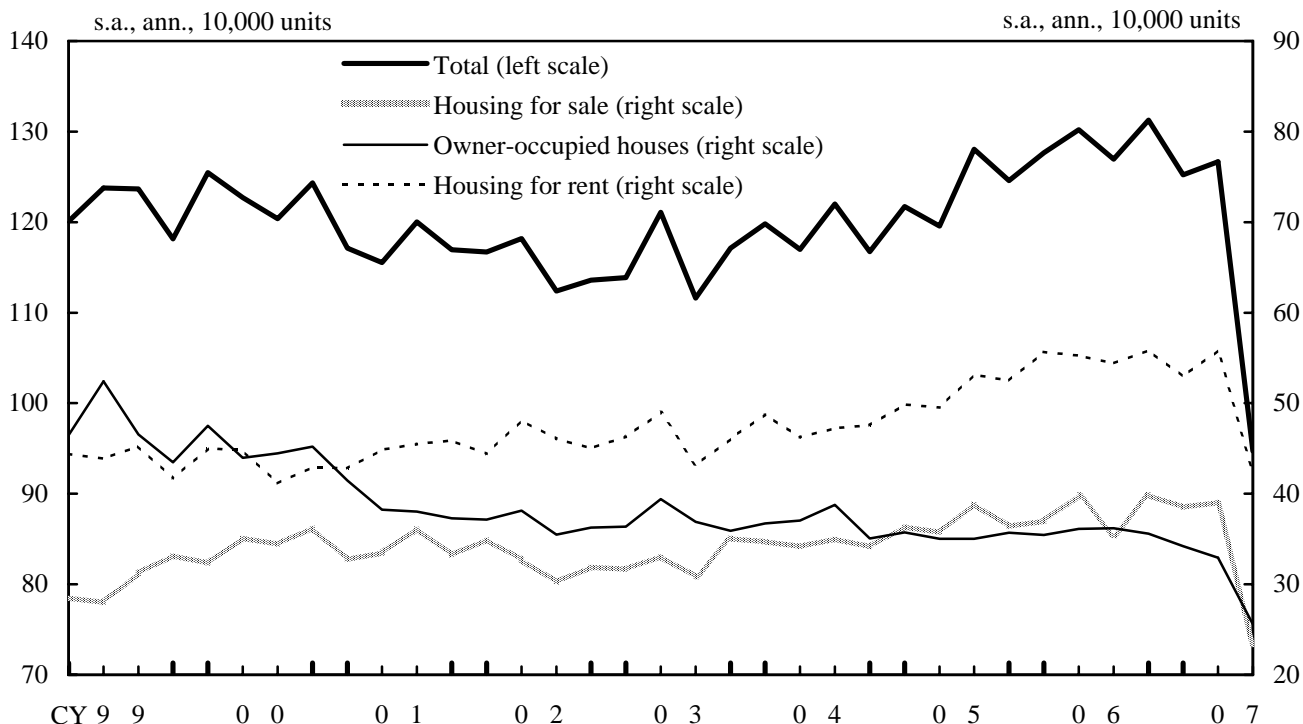
2. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

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

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

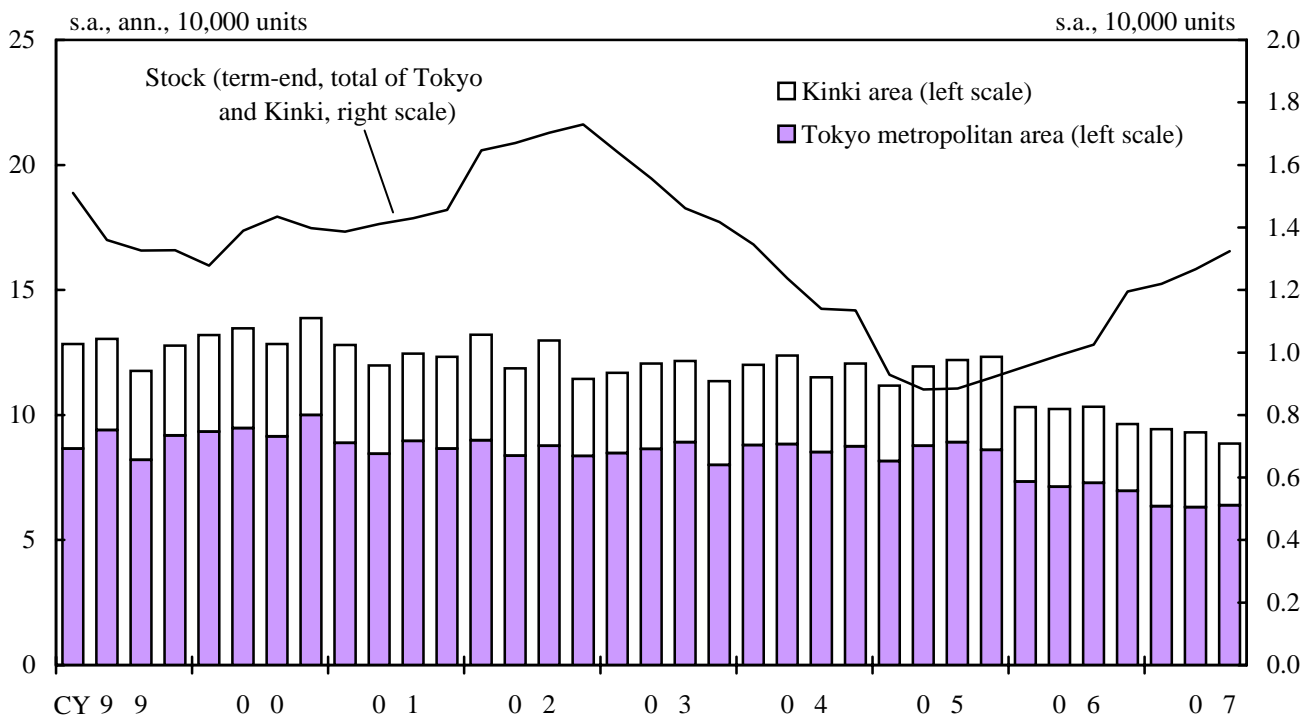
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2007/Q3 are those of July.

(2) Sales of Apartments



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

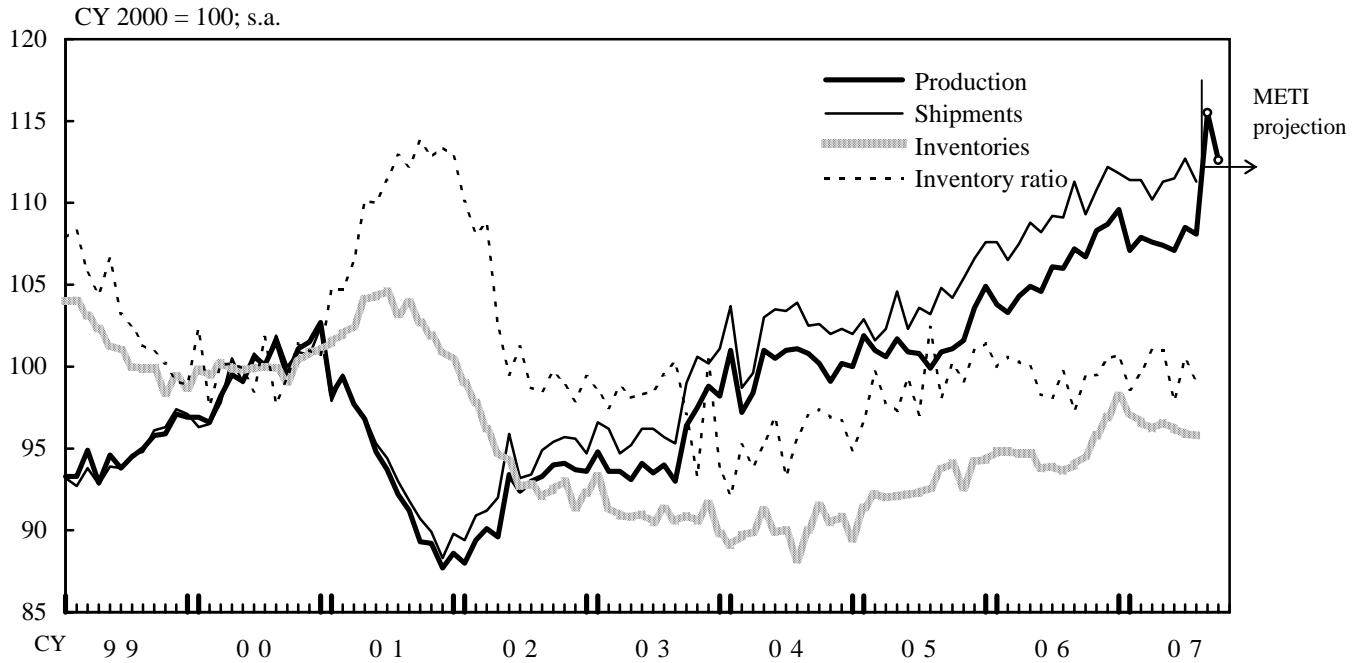
2. Figures of total apartments sales for 2007/Q3 are those of July-August averages.

Term-end stocks for 2007/Q3 are those of August.

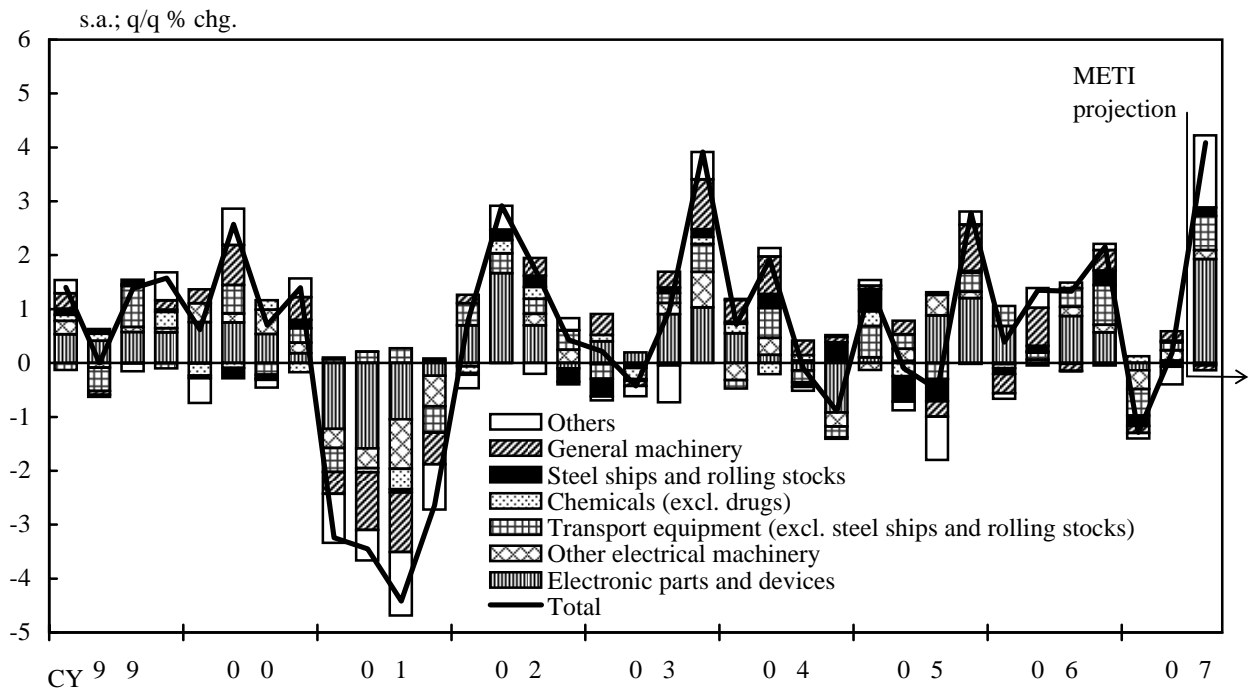
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

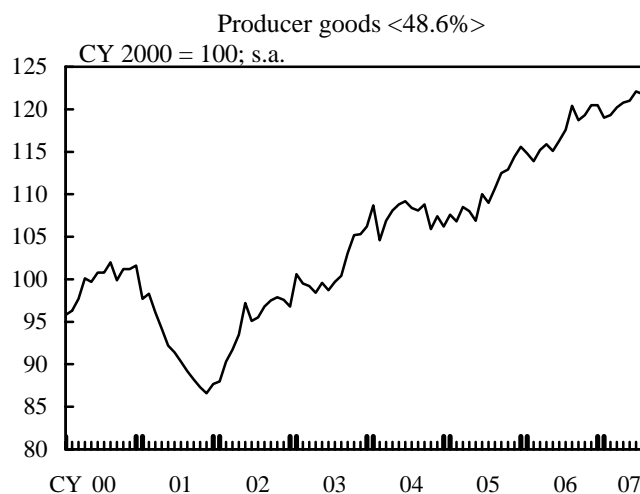
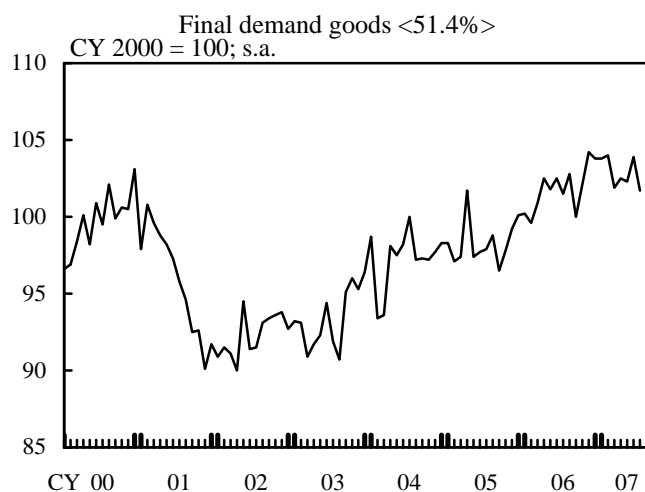


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

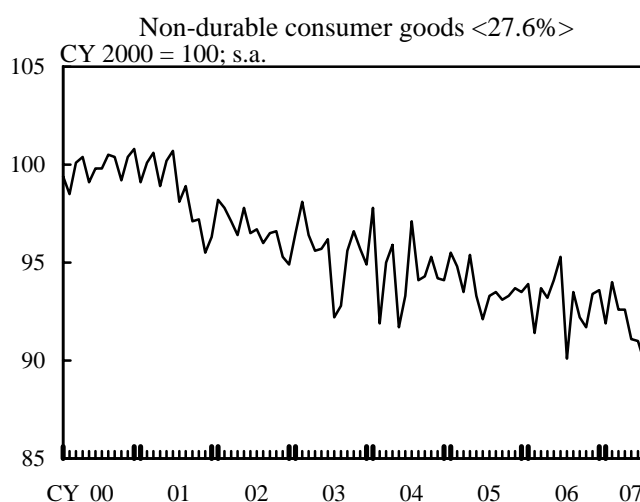
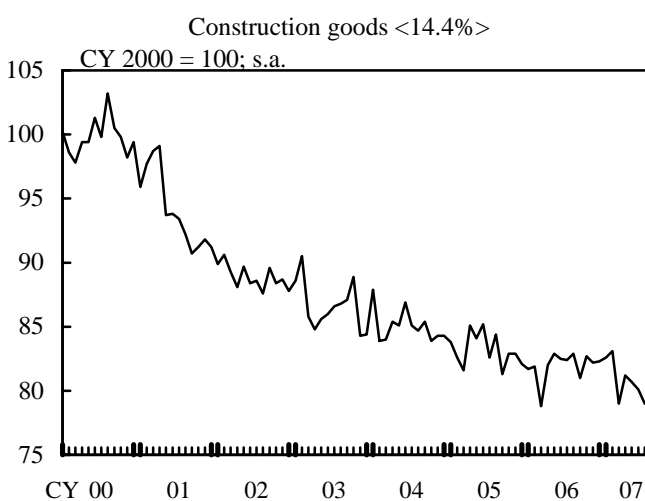
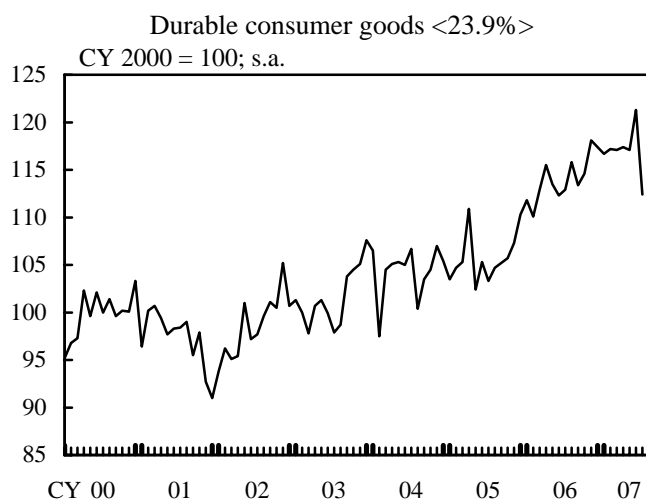
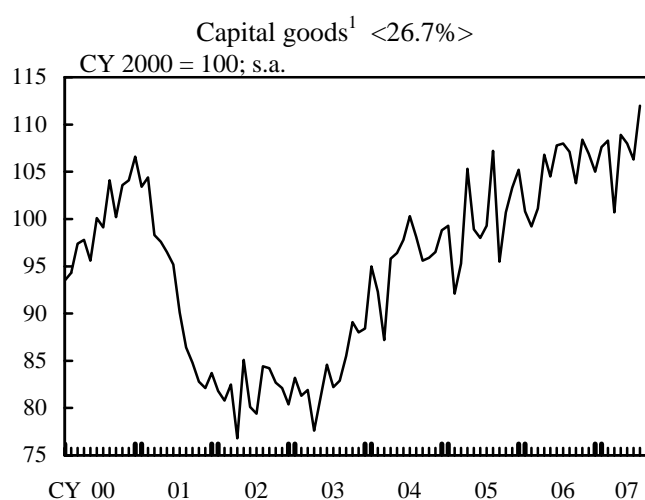
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods



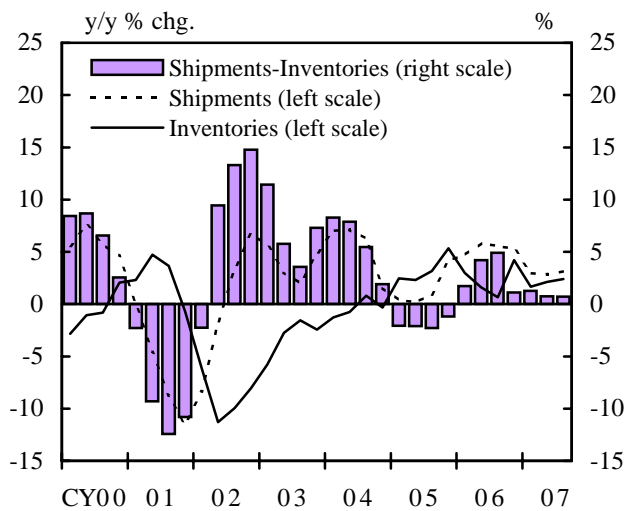
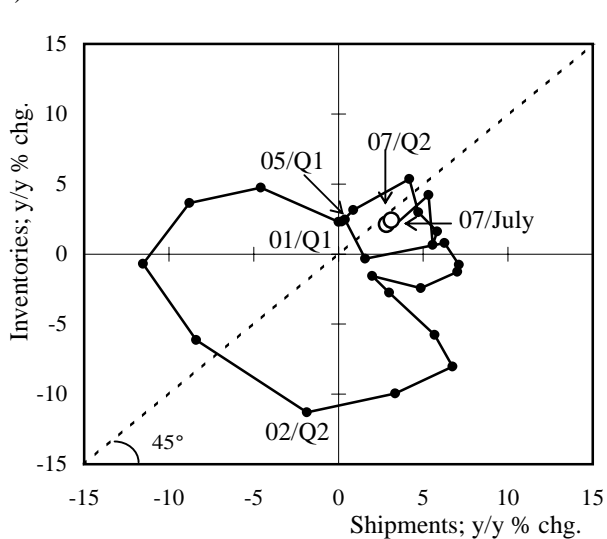
Notes: 1. Excluding transport equipment.

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

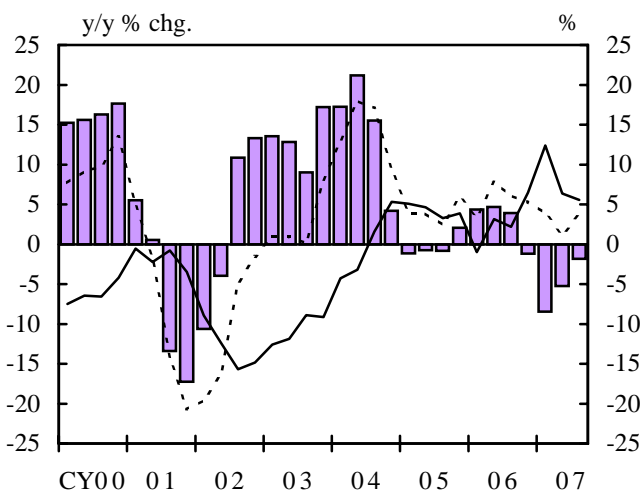
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

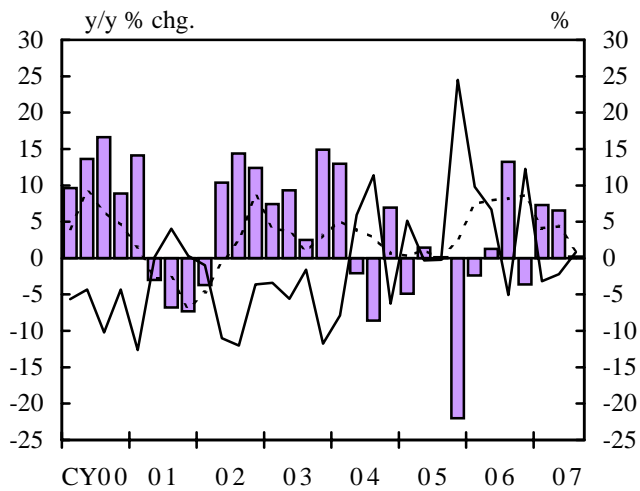
(1) Total



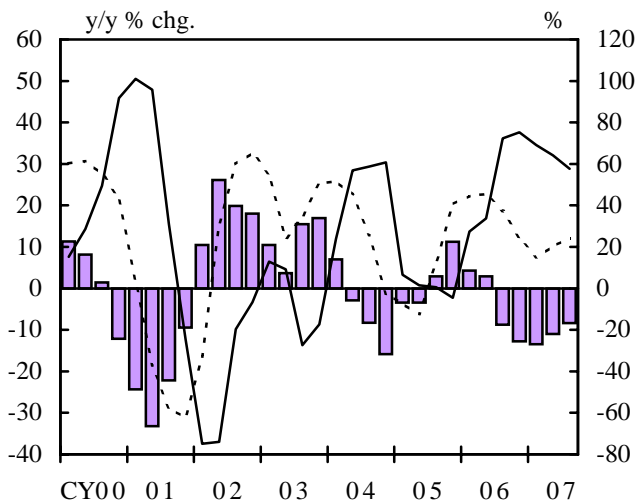
(2) Capital Goods (Excluding Transport Equipment)



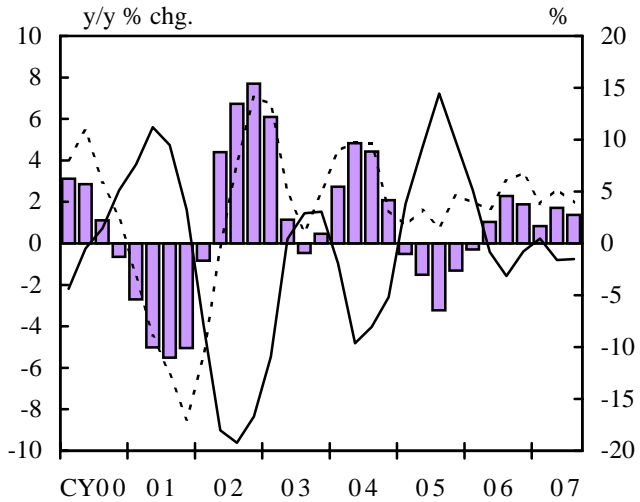
(3) Durable Consumer Goods



(4) Electronic Parts and Devices



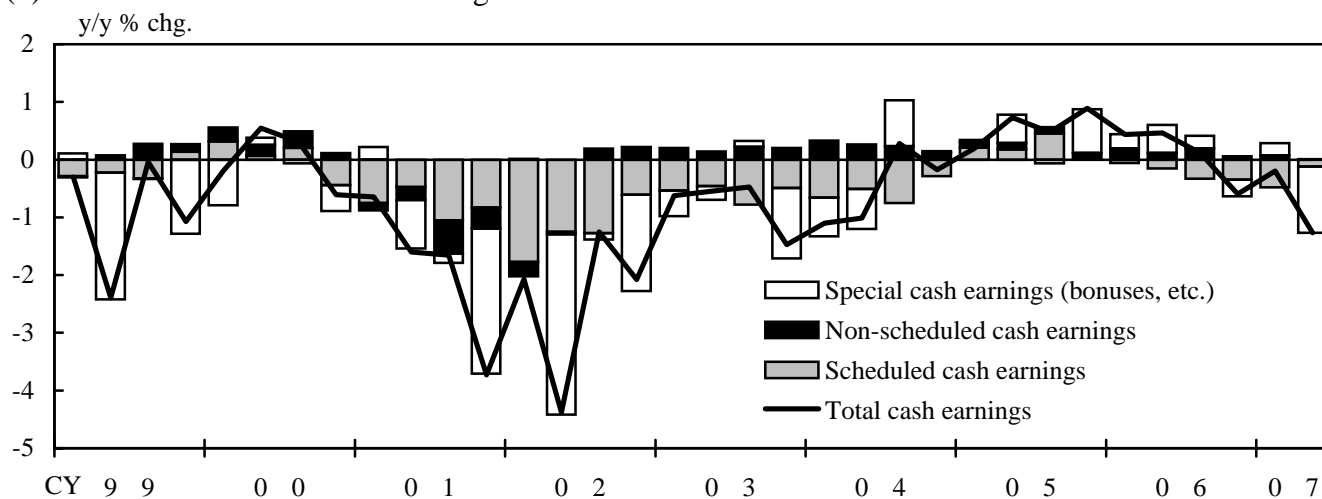
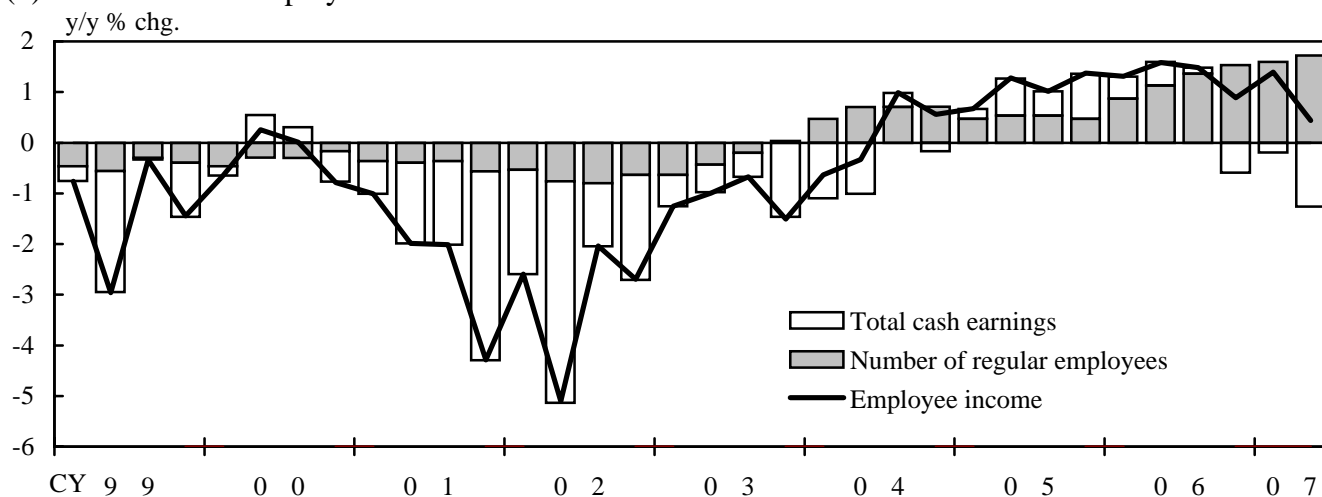
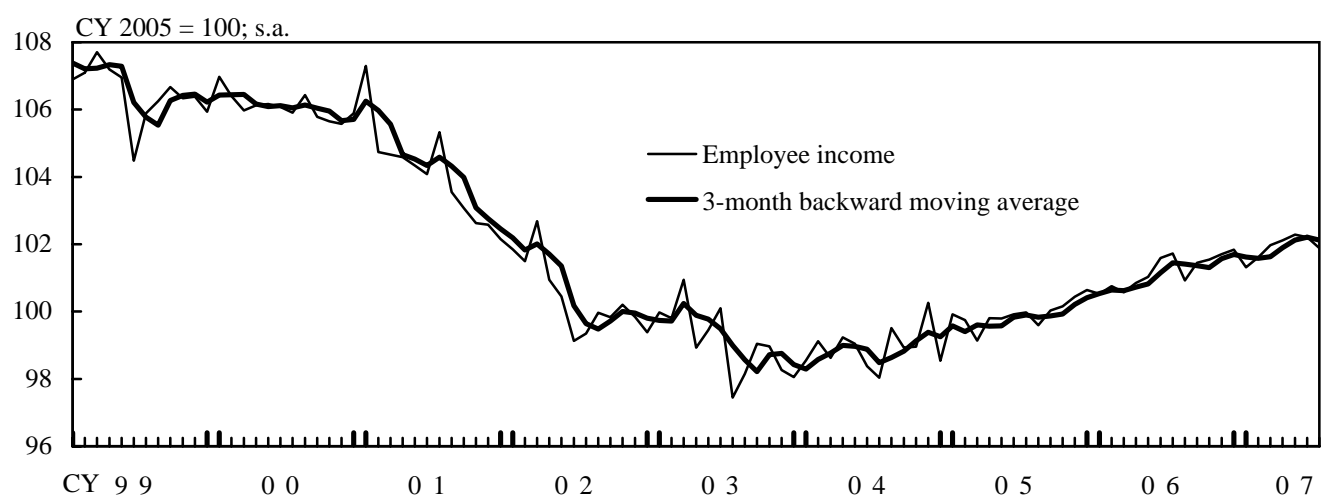
(5) Producer Goods Excluding Electronic Parts and Devices



Note: Figures for 2007/Q3 are those of July.

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

Employee Income

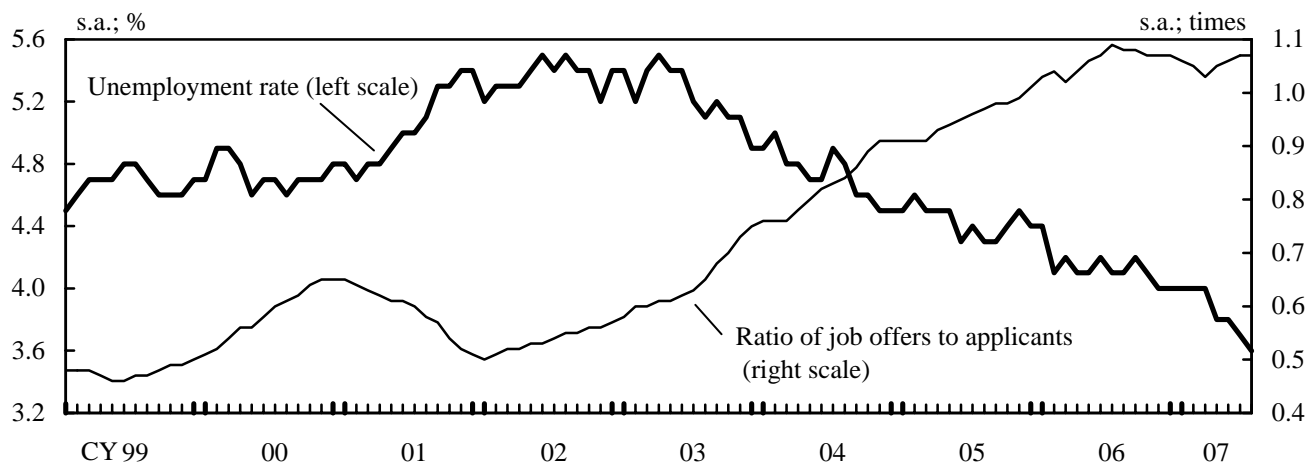
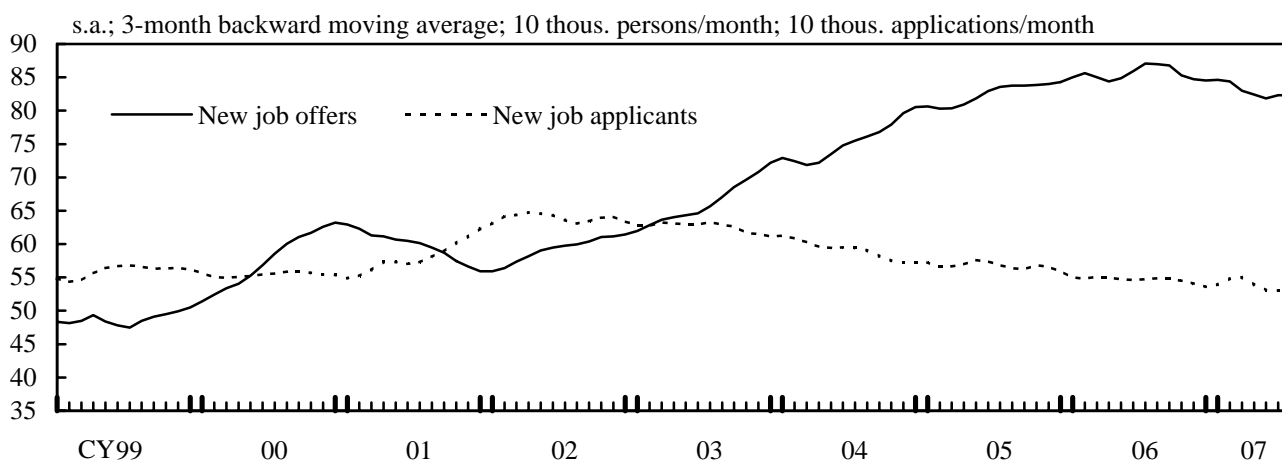
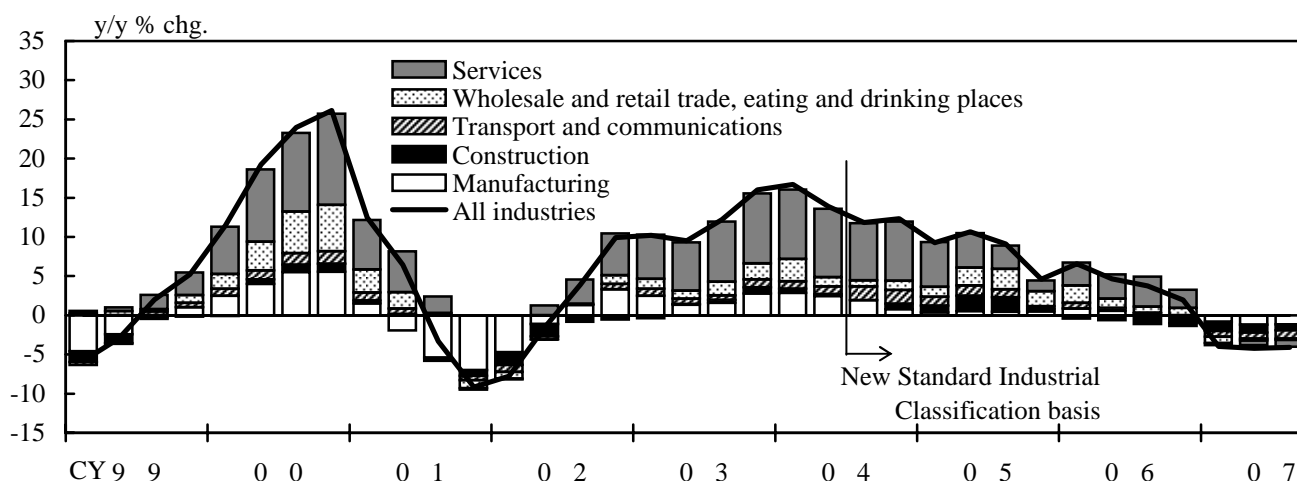
(1) Breakdown of Total Cash Earnings^{1,2,5}(2) Breakdown of Employee Income^{1,2,5}(3) Employee Income^{1,3,4}

- 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.
 5. Figures for 2007/Q2 are those of June-July averages.

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

Labor Market (1)

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

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

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

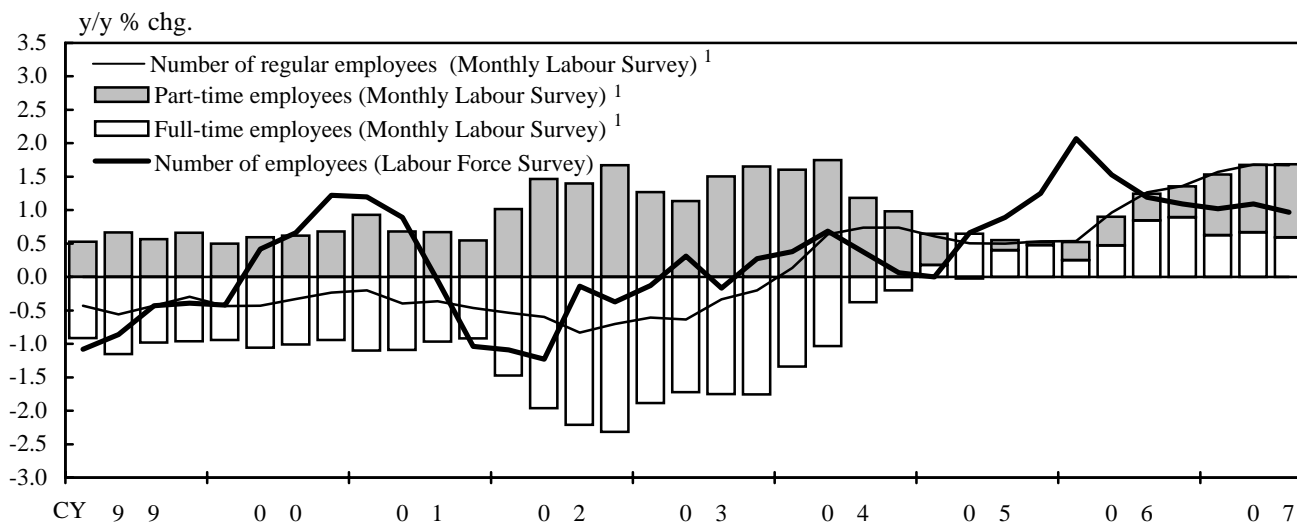
2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum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

3. Figures for 2007/Q3 are those of July.

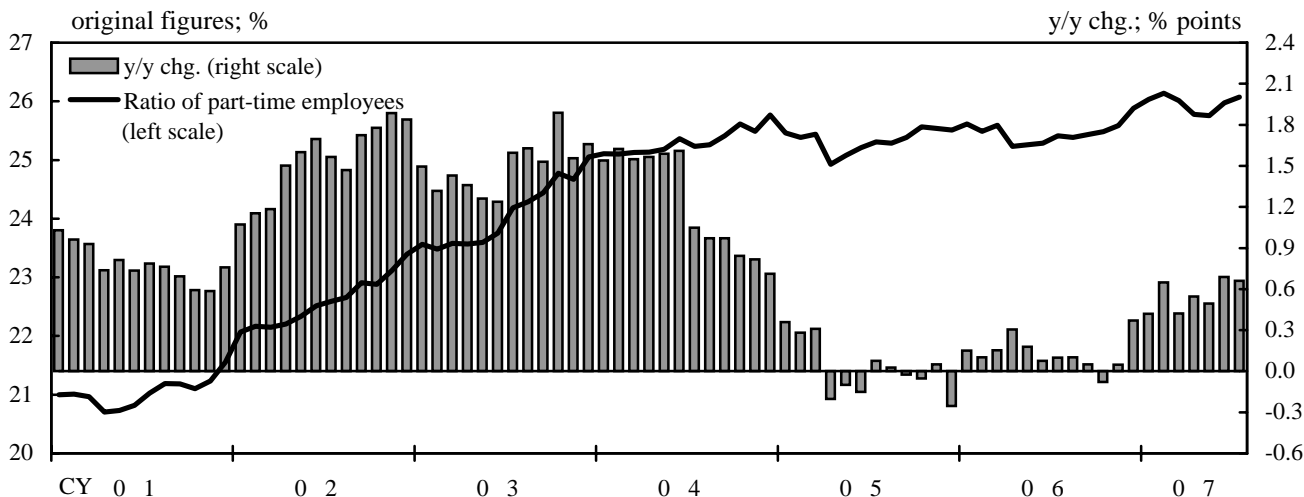
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

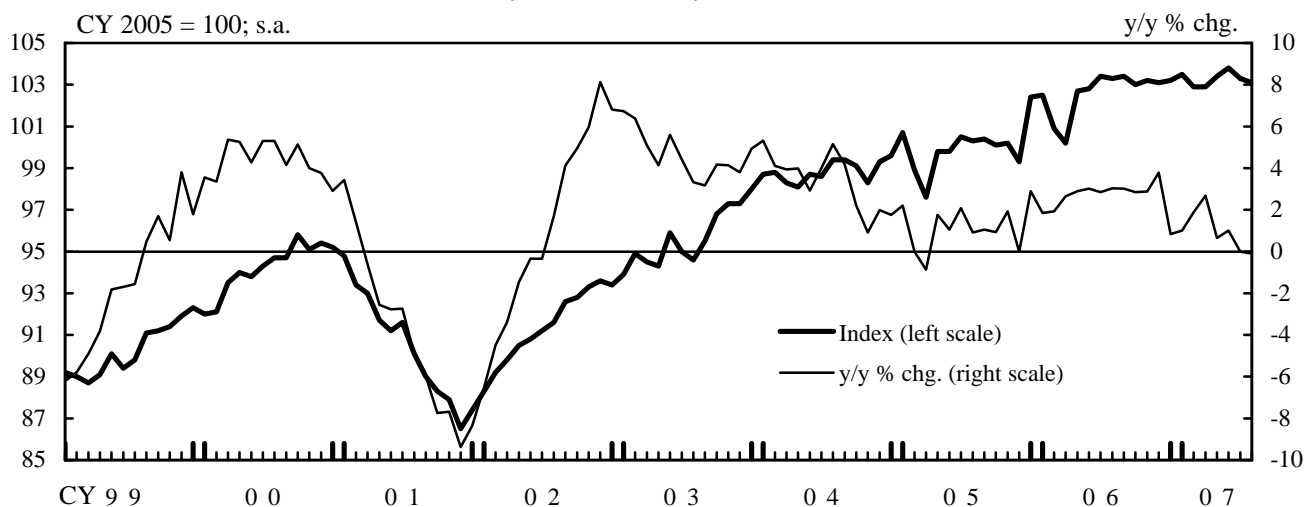
(1) Number of Employees³



(2) Ratio of Part-Time 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.

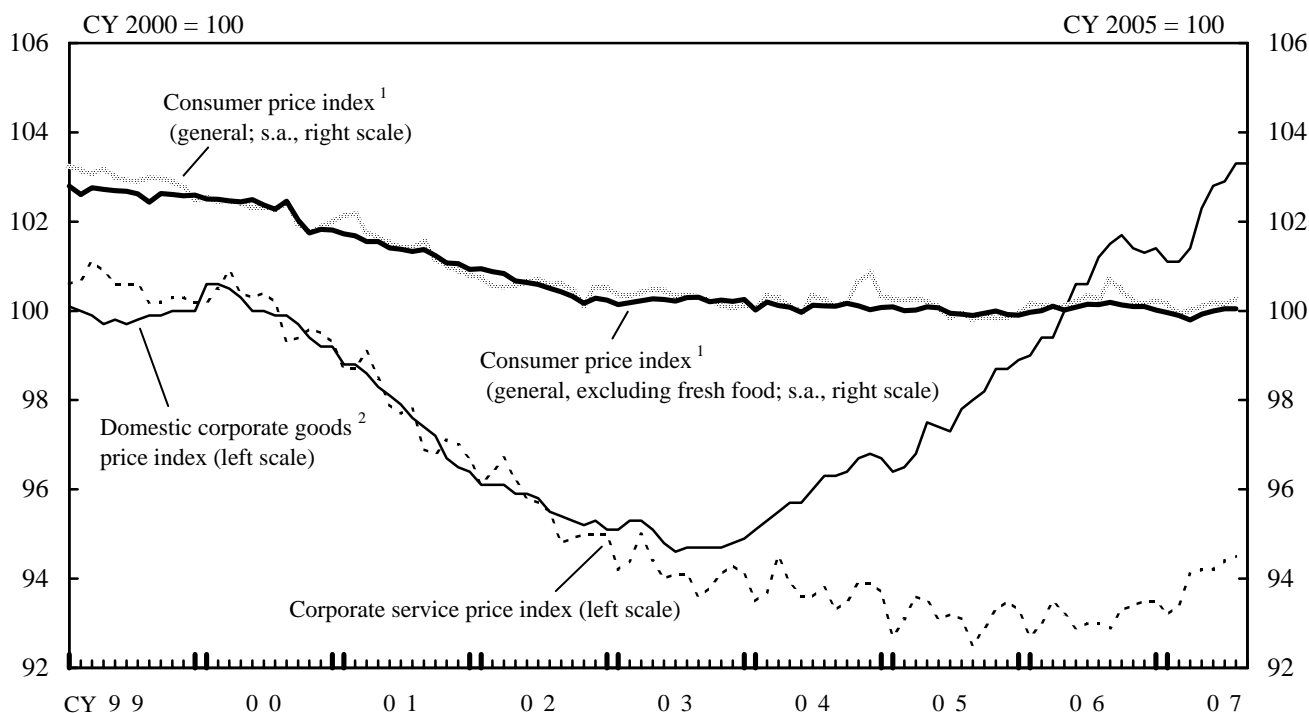
2. Ratio of part-time employees is calculated as number of part-time employees divided by number of regular employees times 100.

3. Figures for 2007/Q3 are those of July.

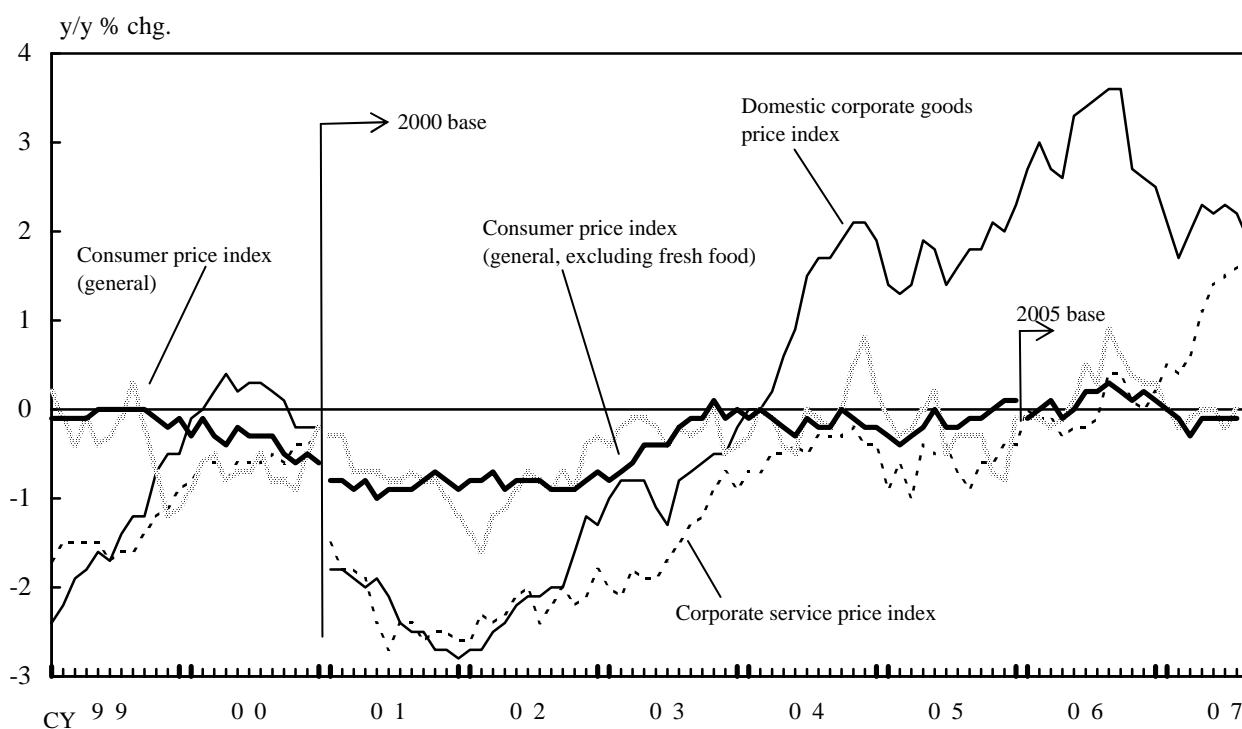
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices³

(1) Level



(2) Changes from a Year Earlier³



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

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

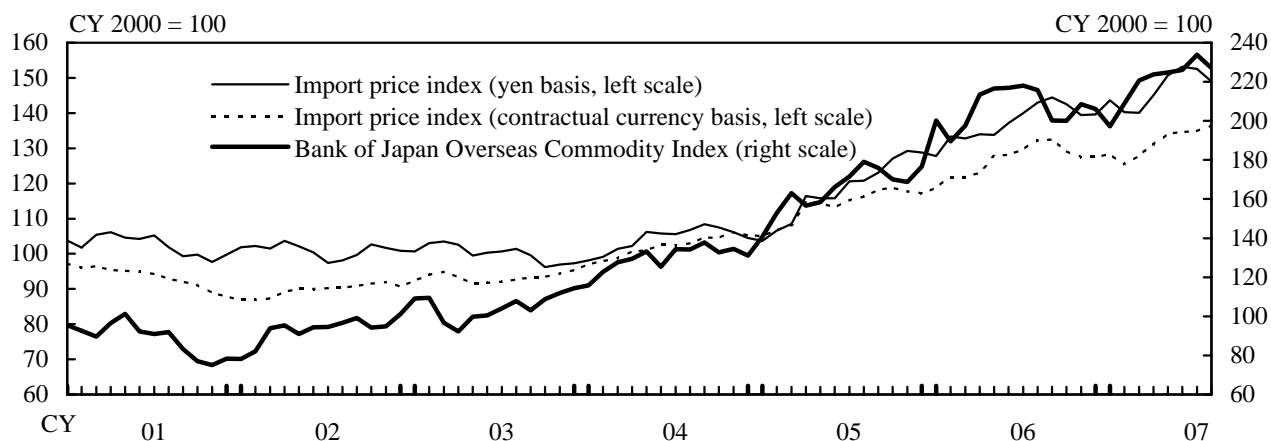
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

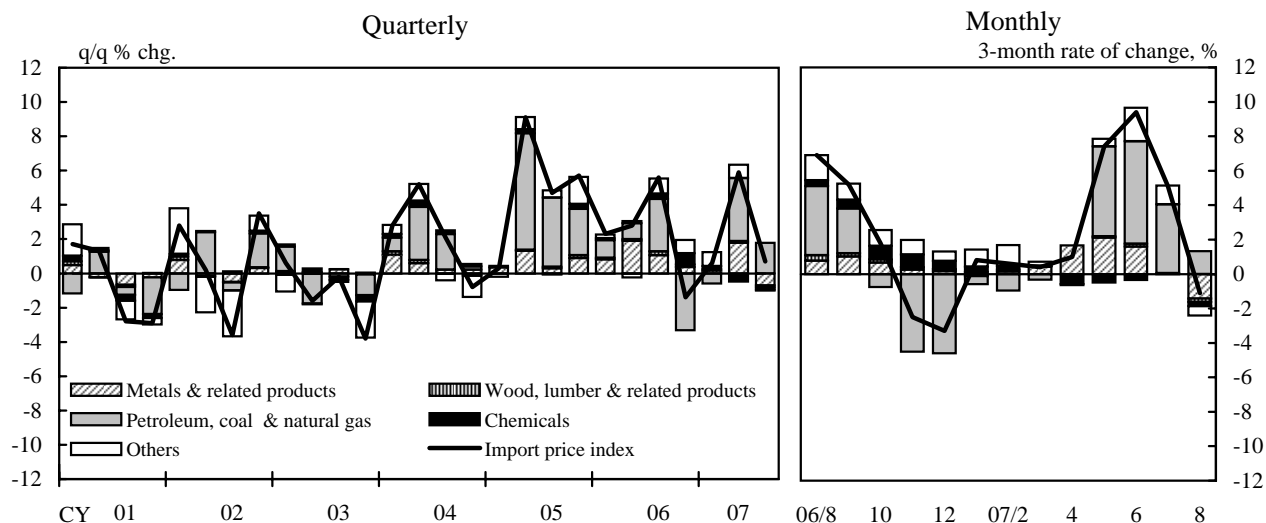
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



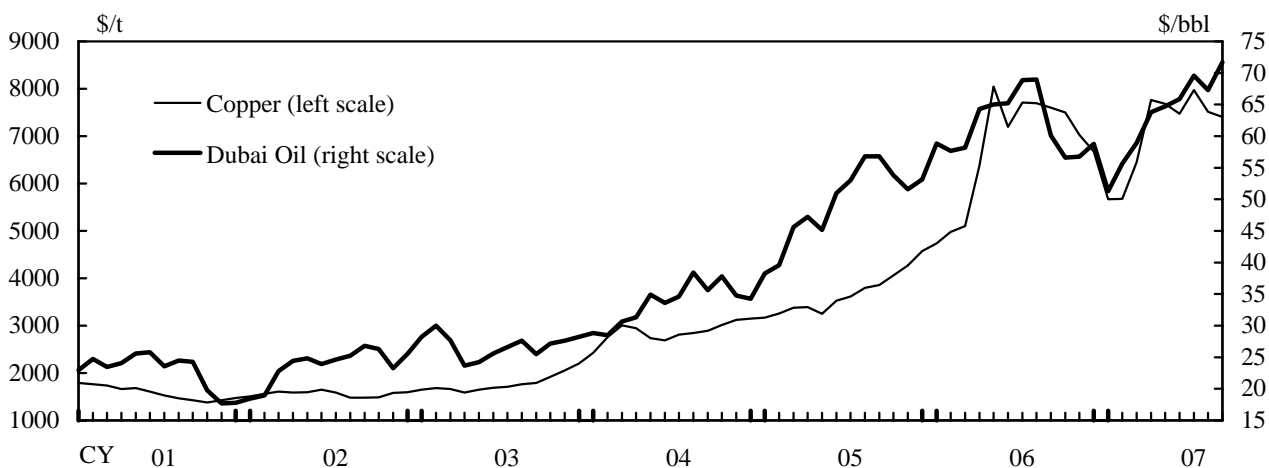
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: Figures for 2007/Q3 are July-August averages.

(3) Oil Price and Copper Price

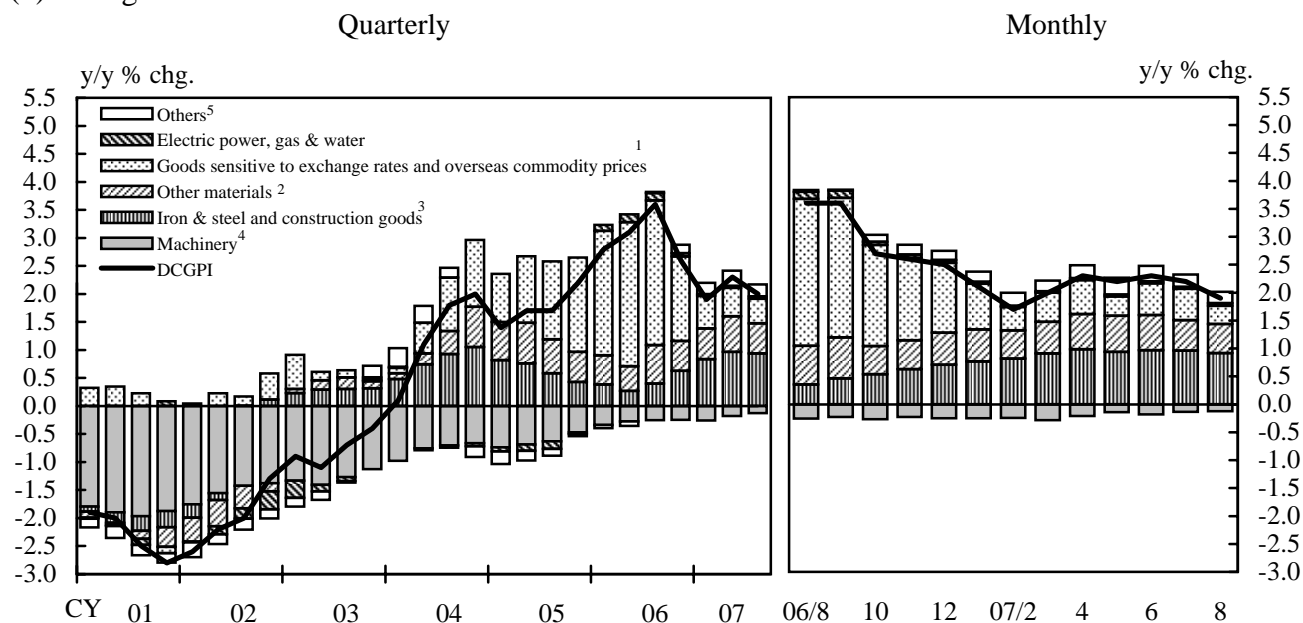
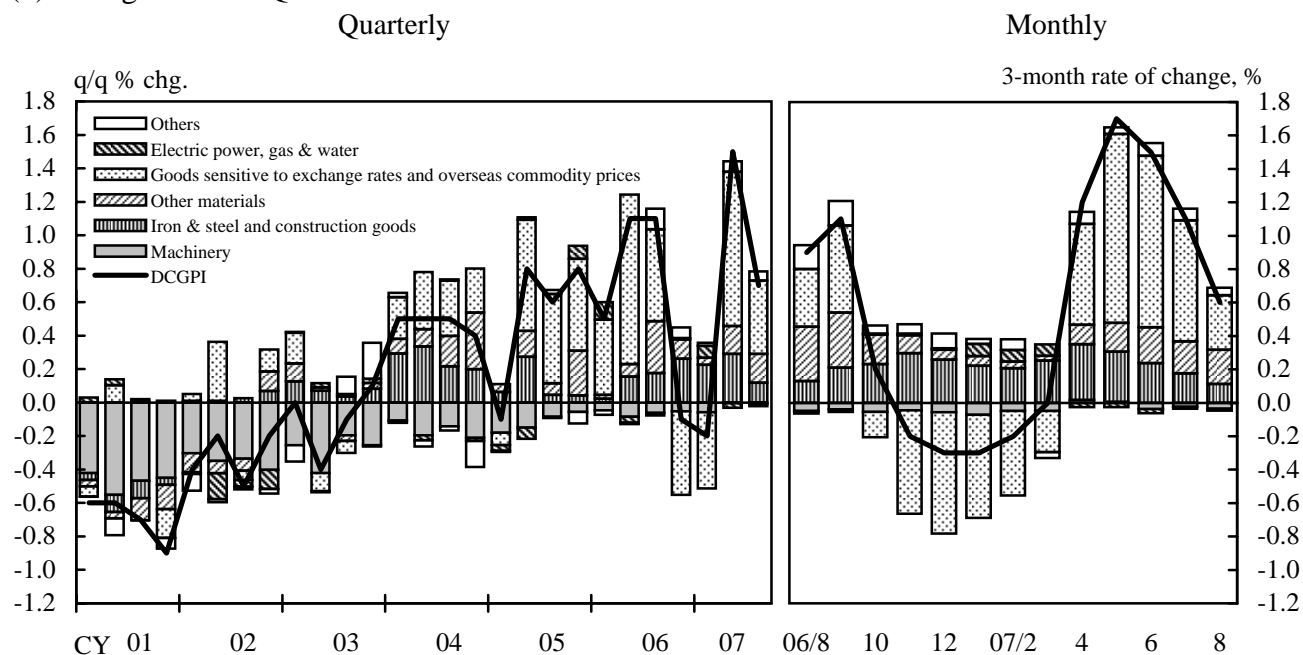


Note: Monthly averages. Figures for September 2007 are the averages up to September 18.

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

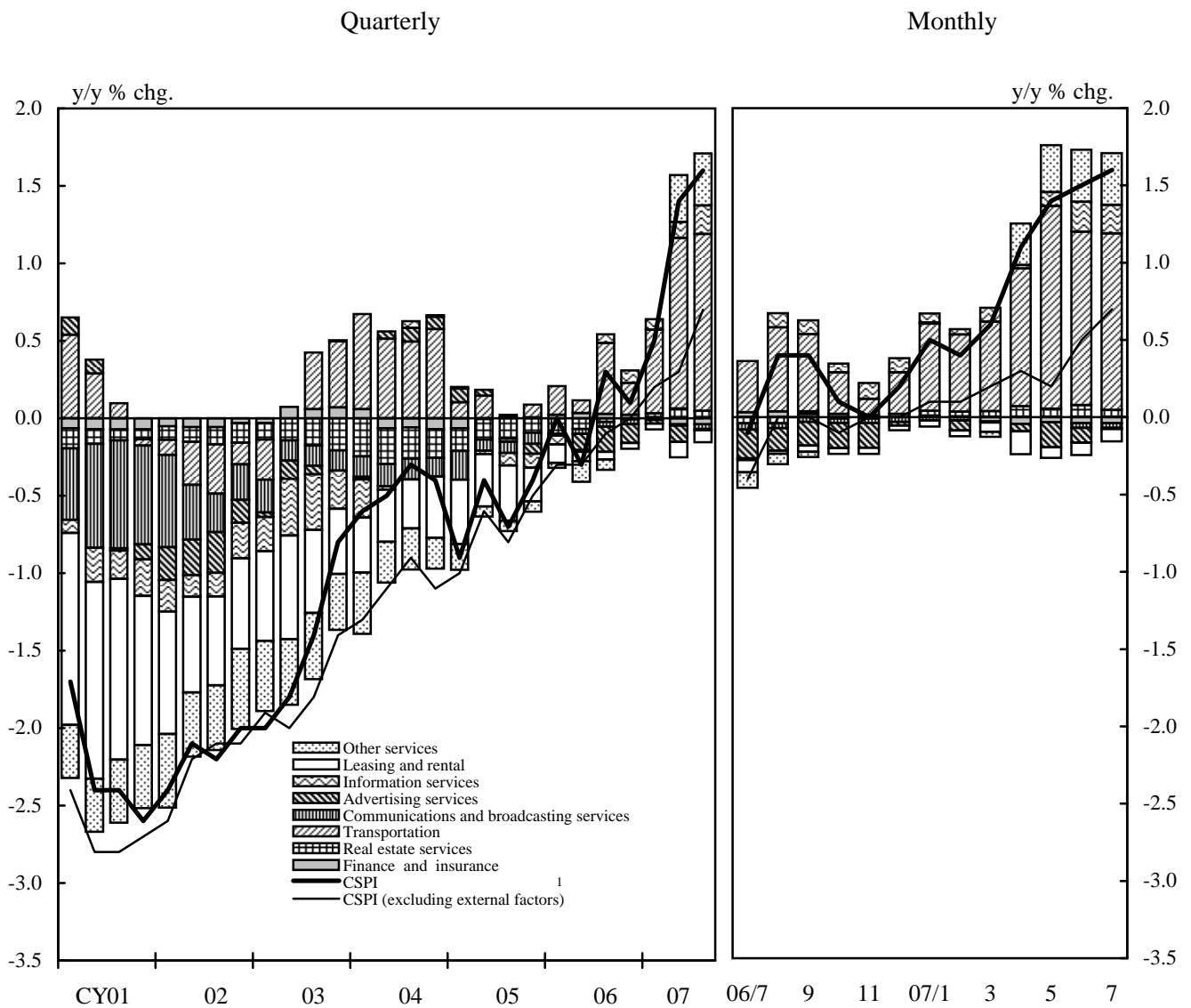
Domestic Corporate Goods Price Index⁷

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

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

Corporate Service Price Index



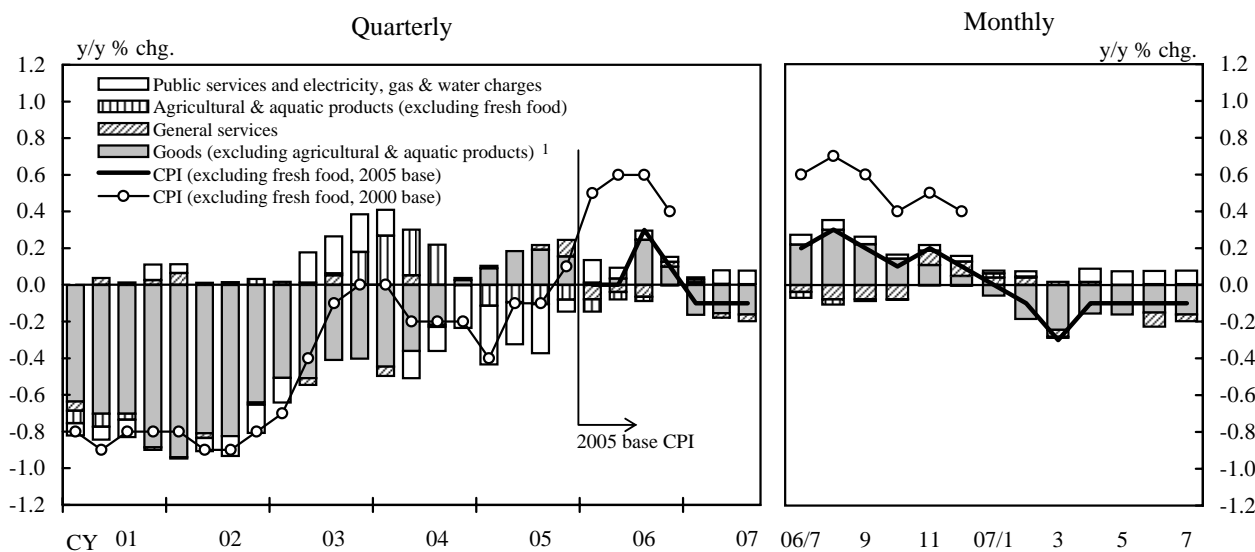
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2007/Q3 are those of July.

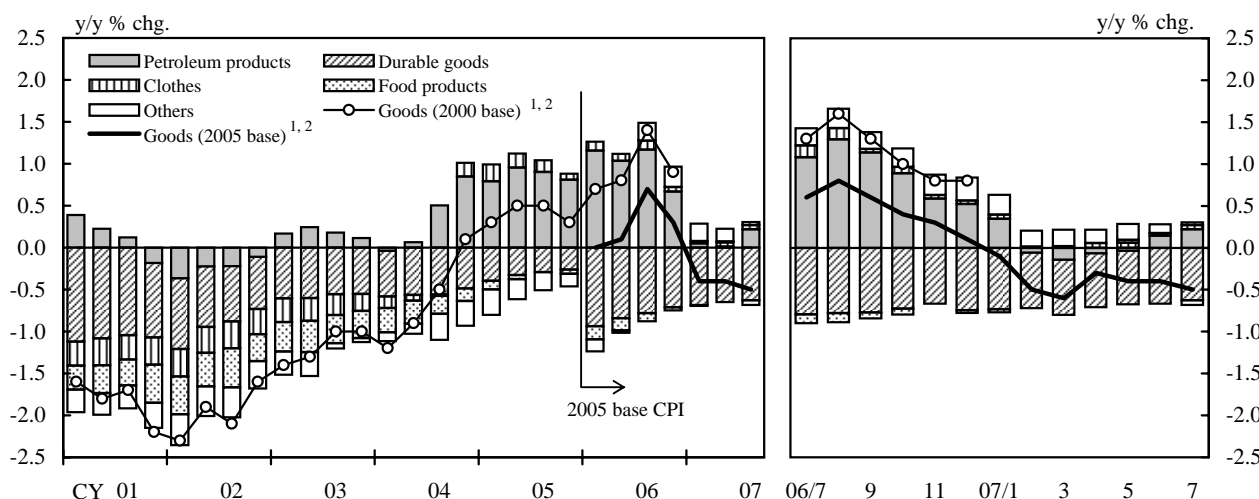
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

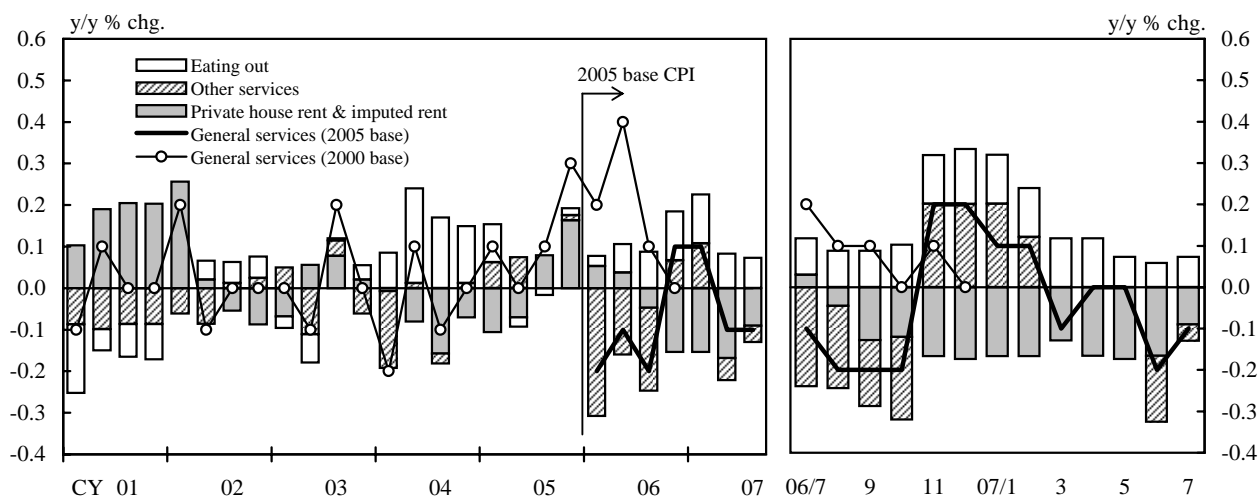
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



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

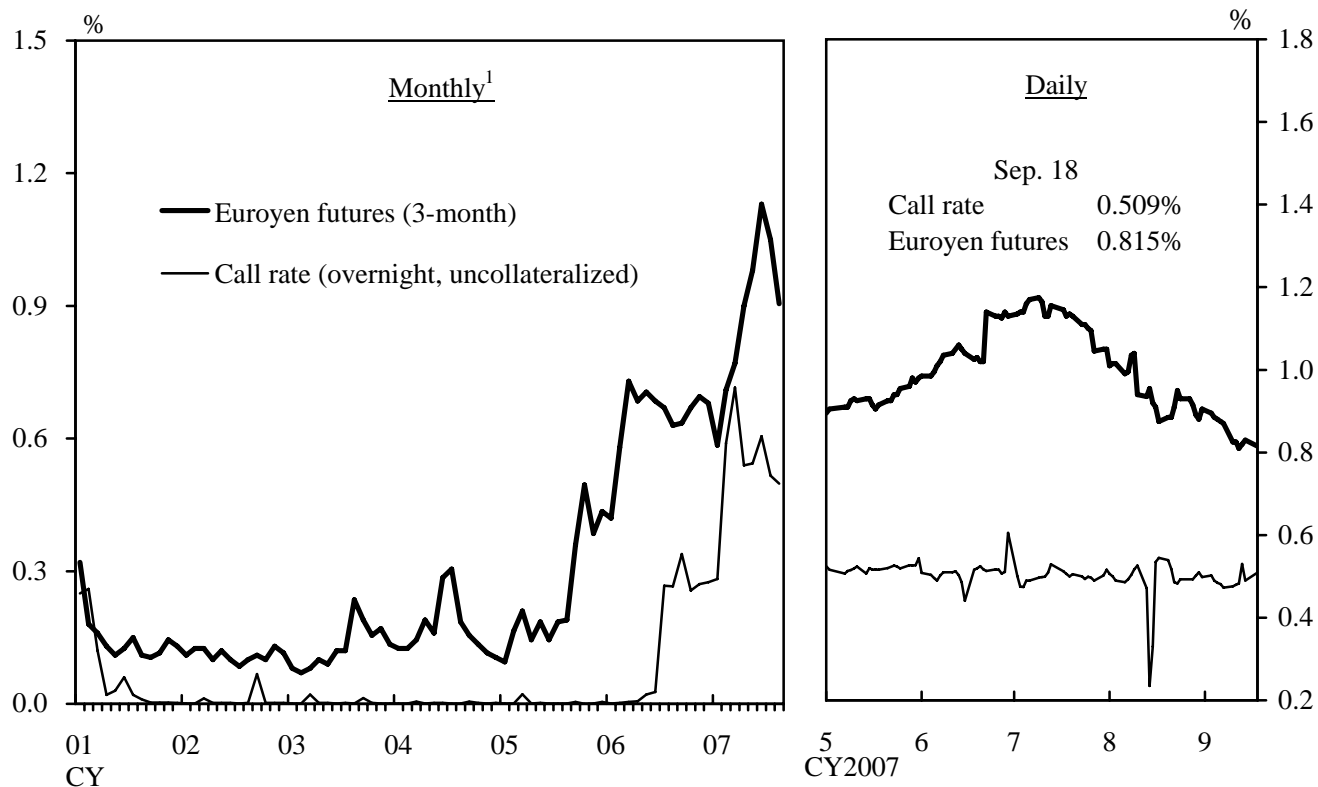
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q3 are those of July.

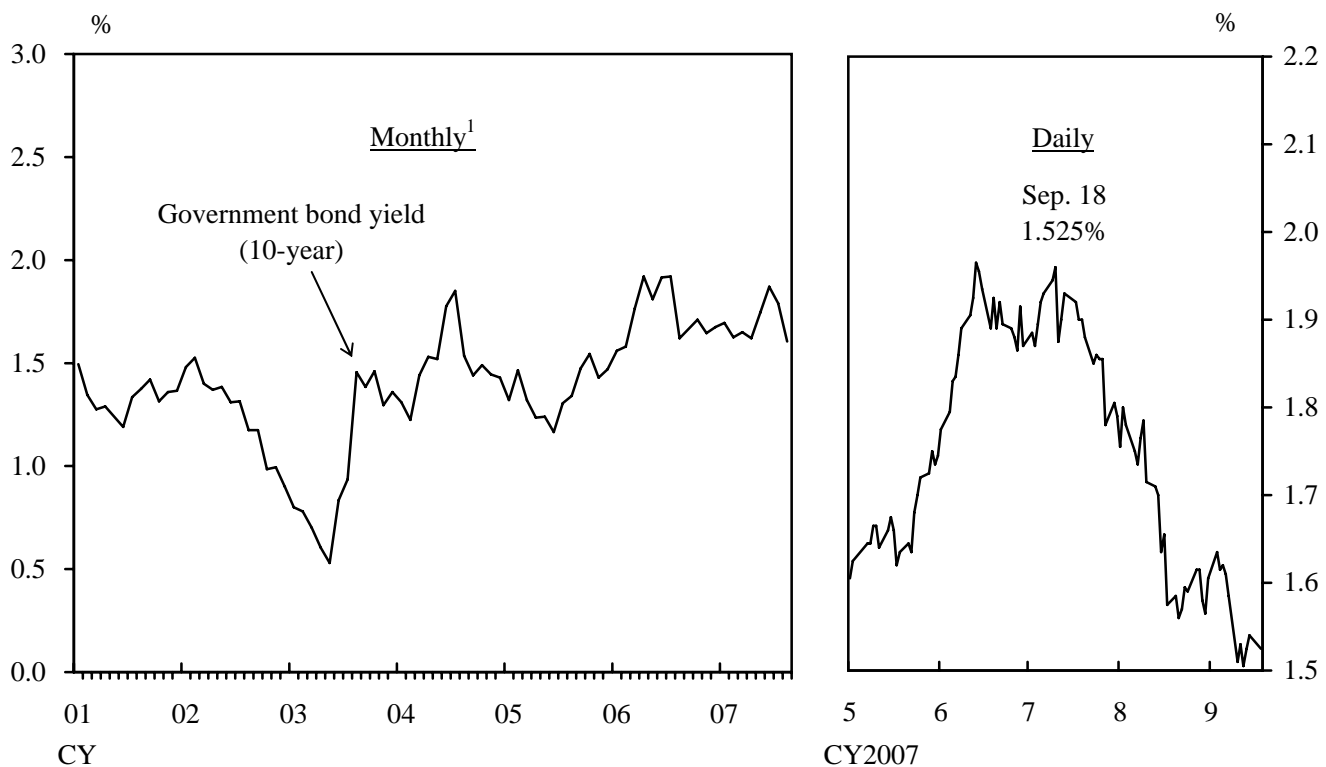
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

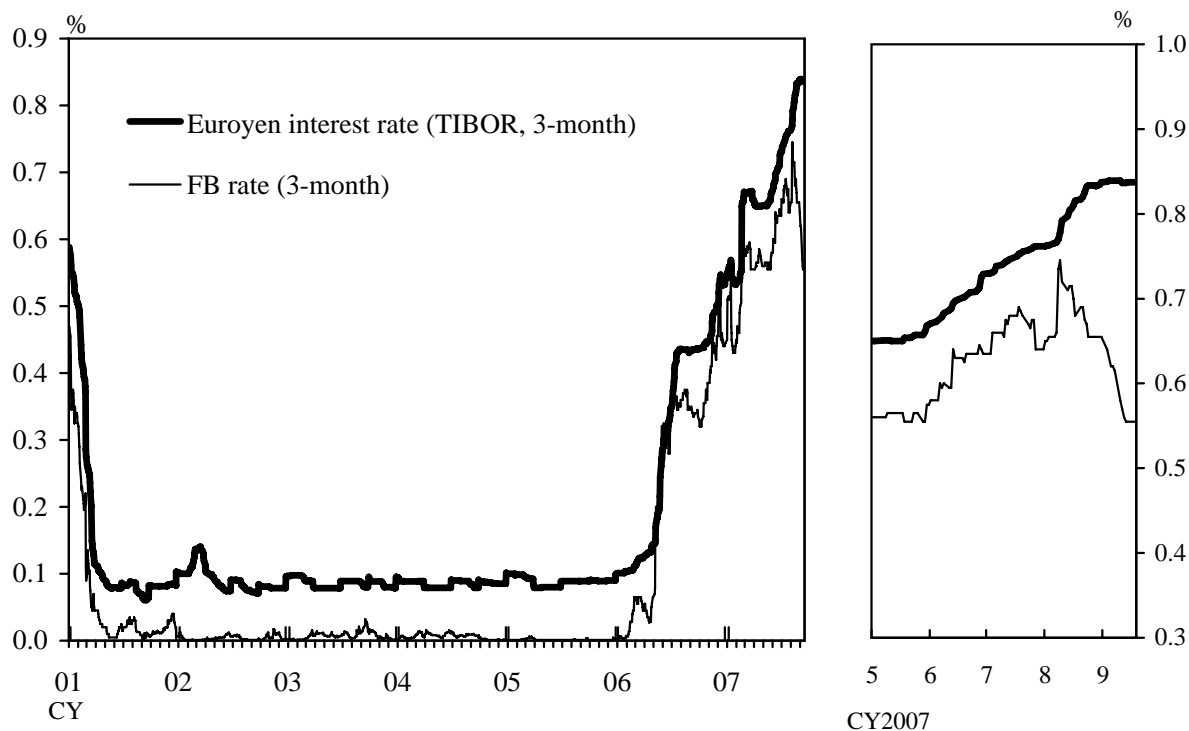


Note: 1. End of month.

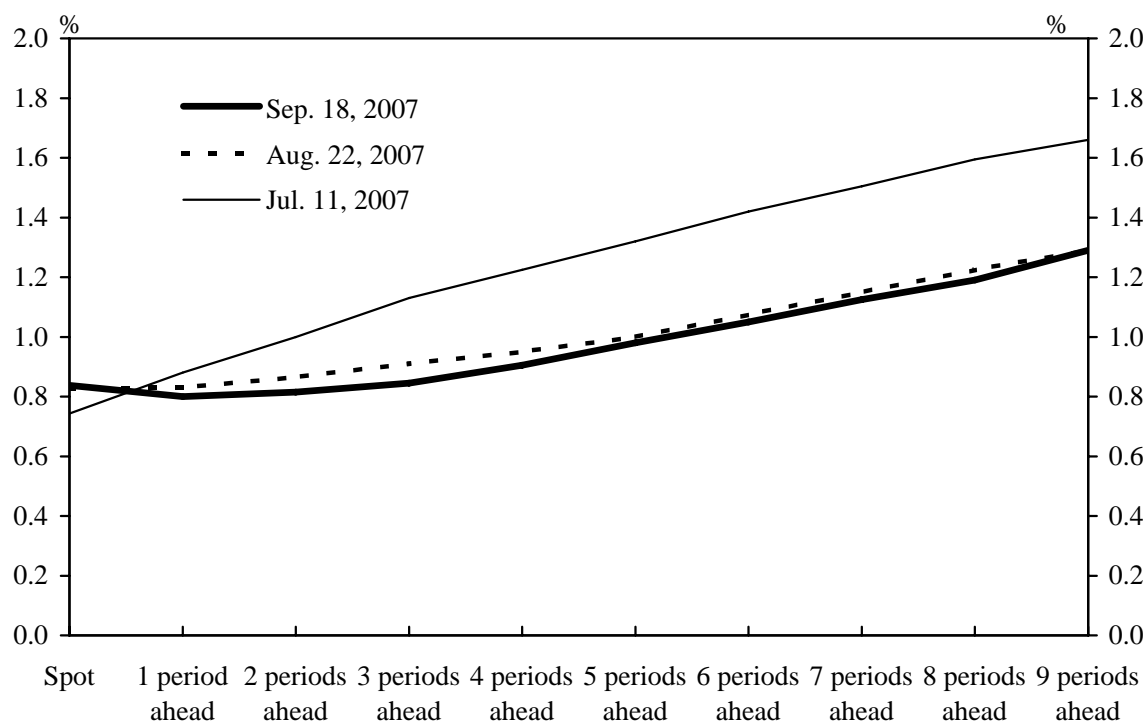
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



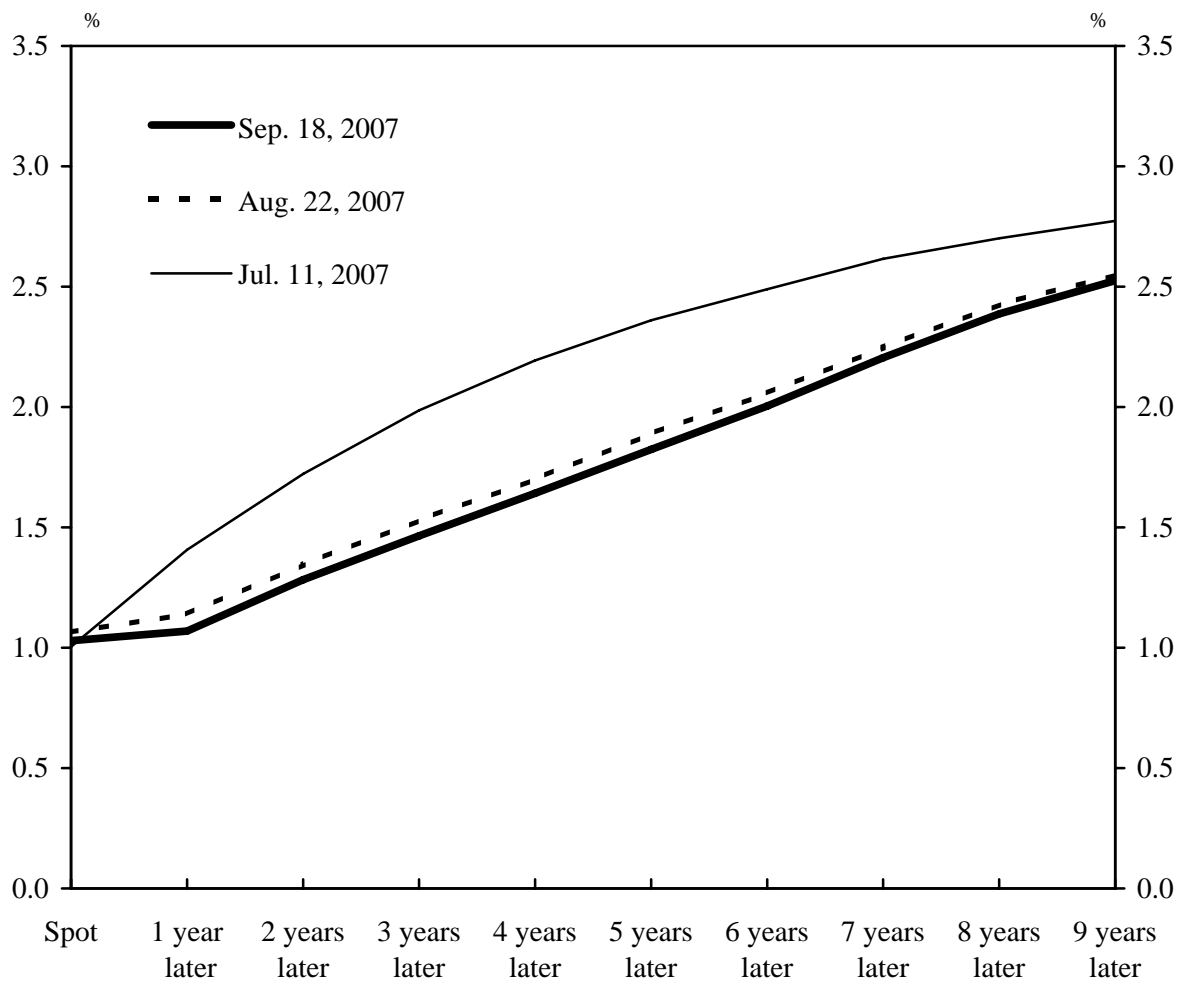
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

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

Implied Forward Rates (1-Year)

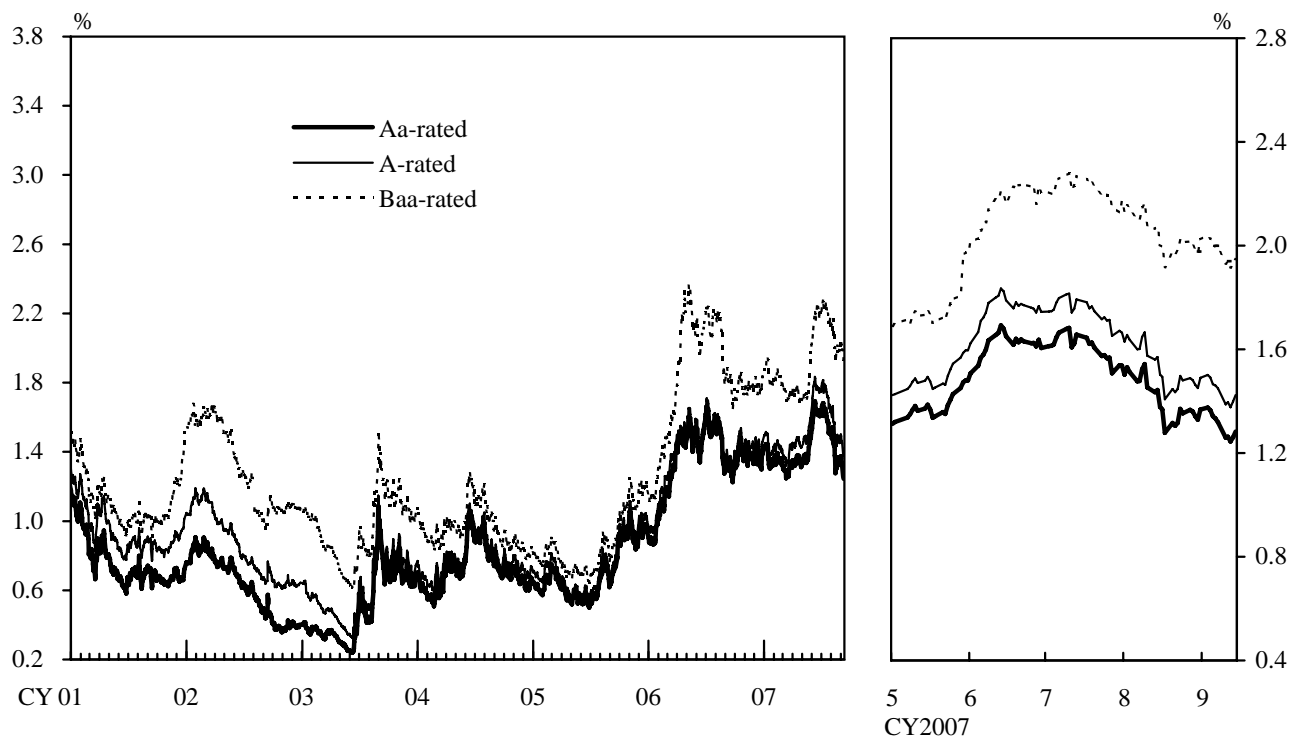


Note: Calculated from yen-yen swap rates.

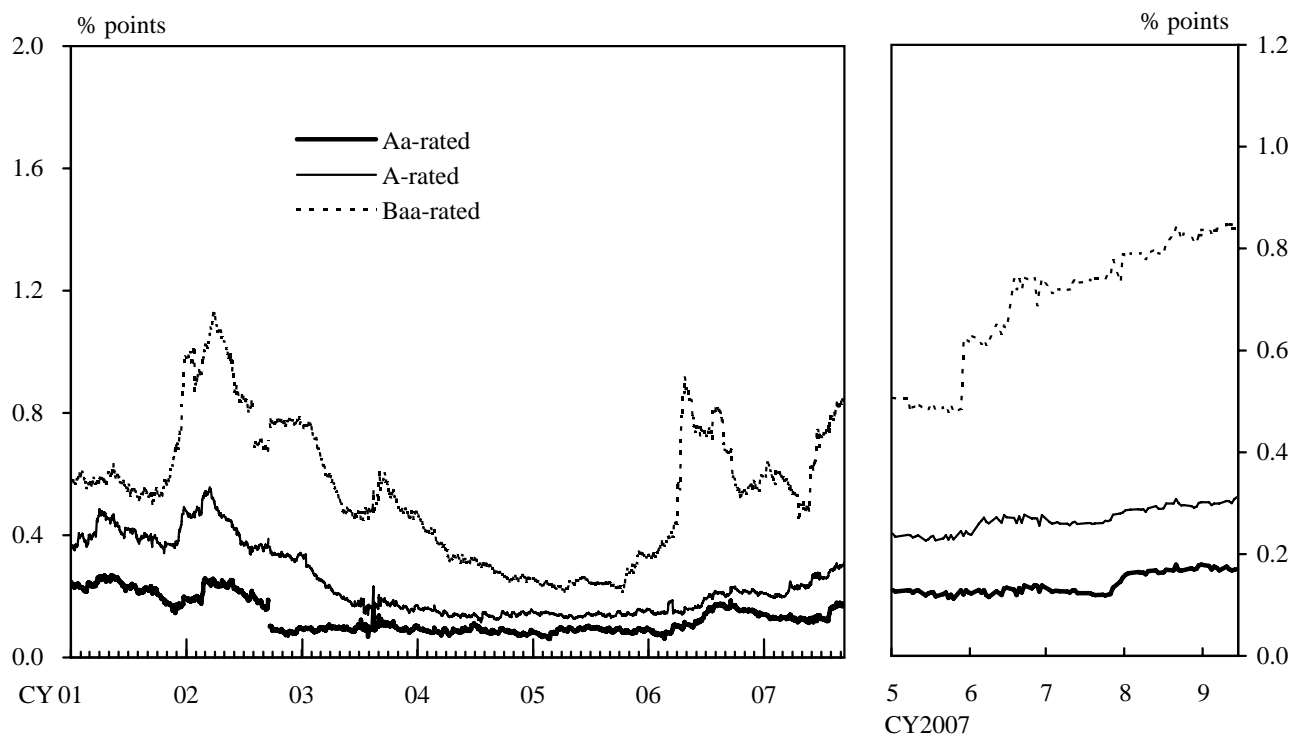
Source: Reuters.

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.

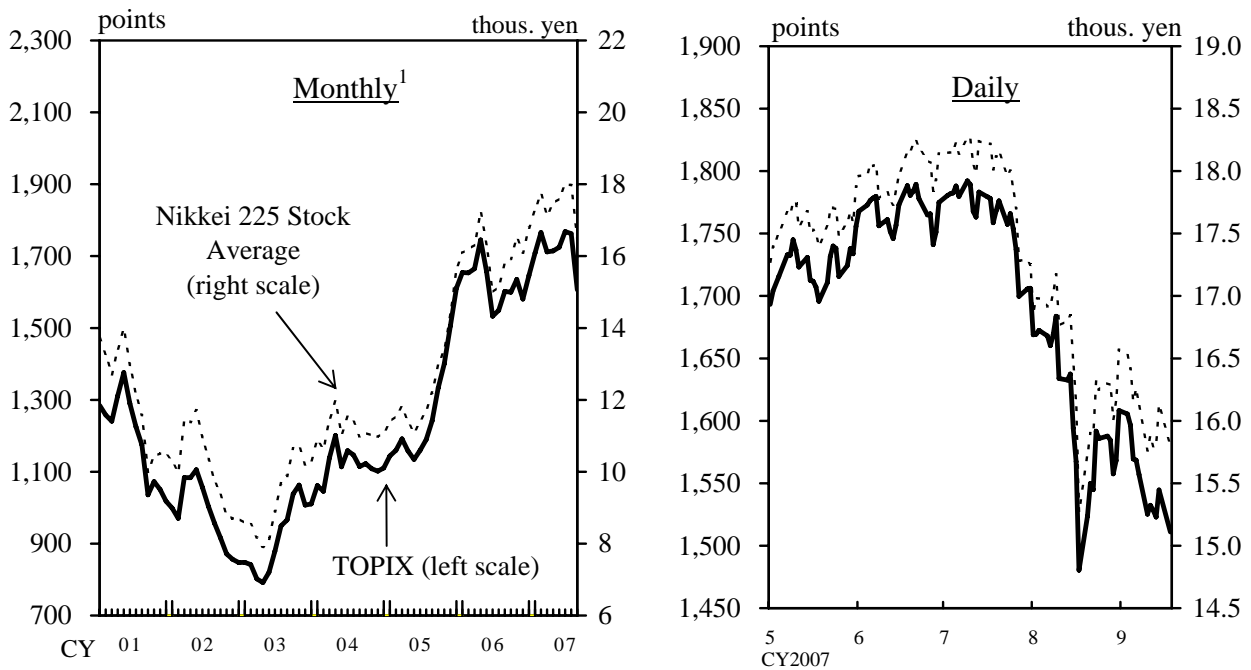
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

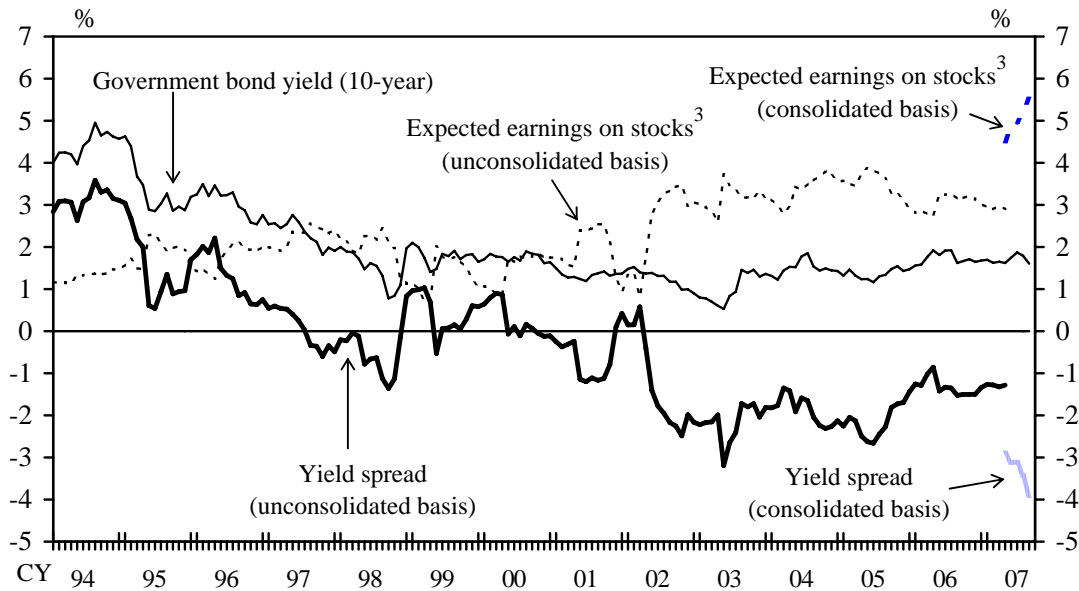
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ^{2,4}



Notes: 1. Data are monthly averages.

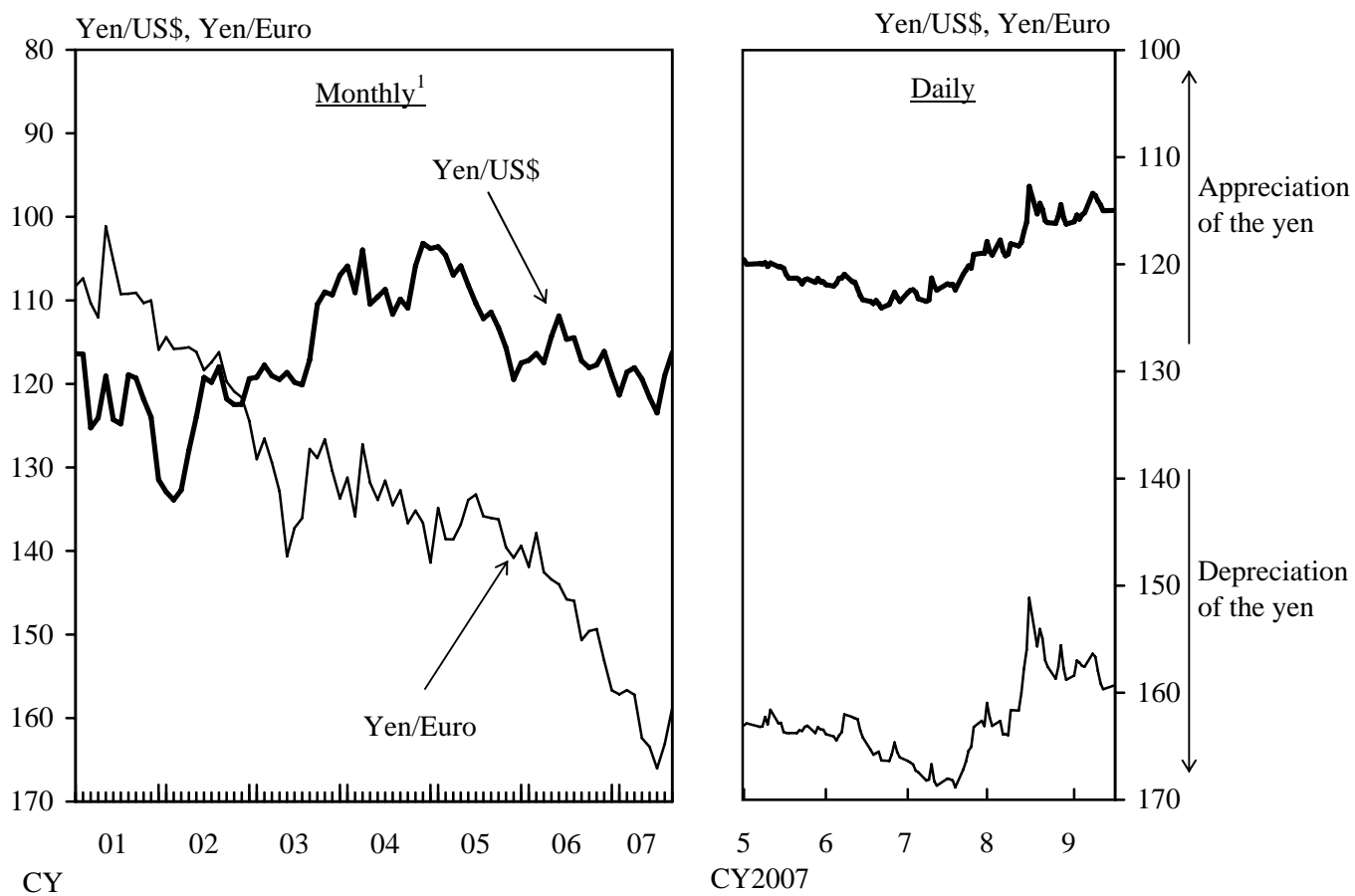
2. Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

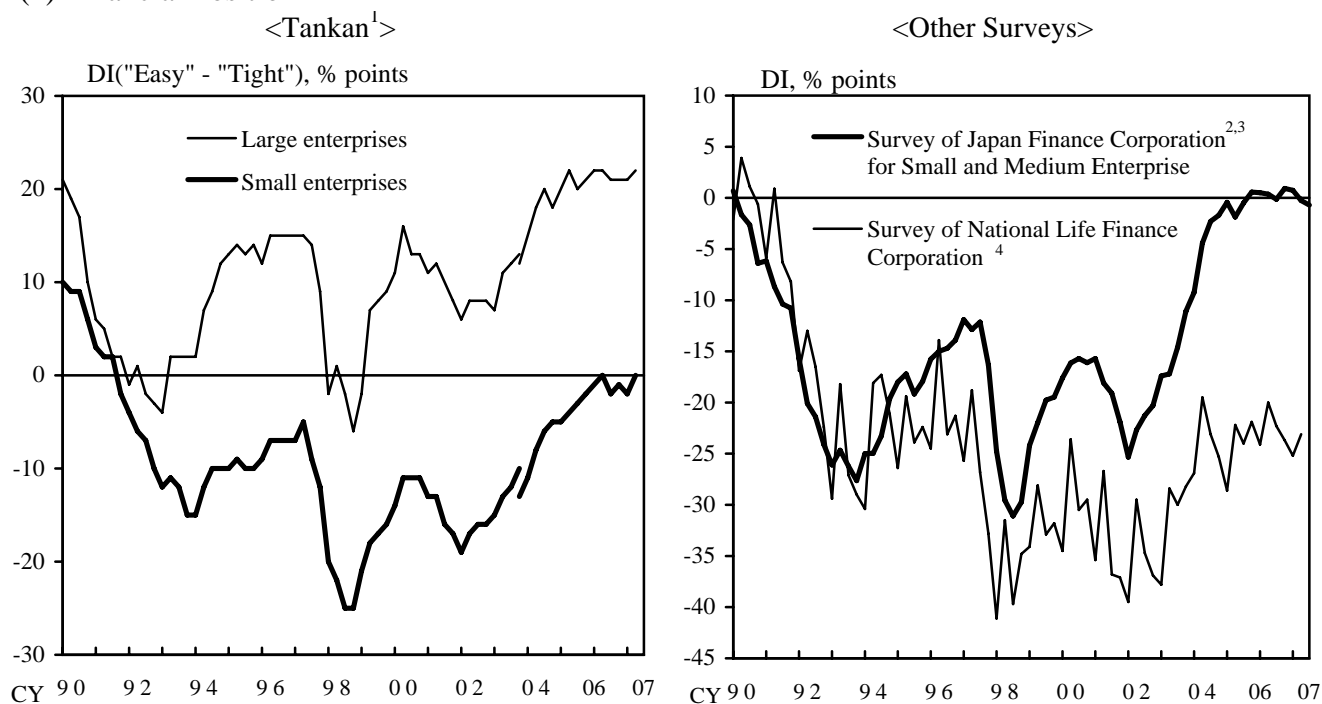


Note: 1. End of month.

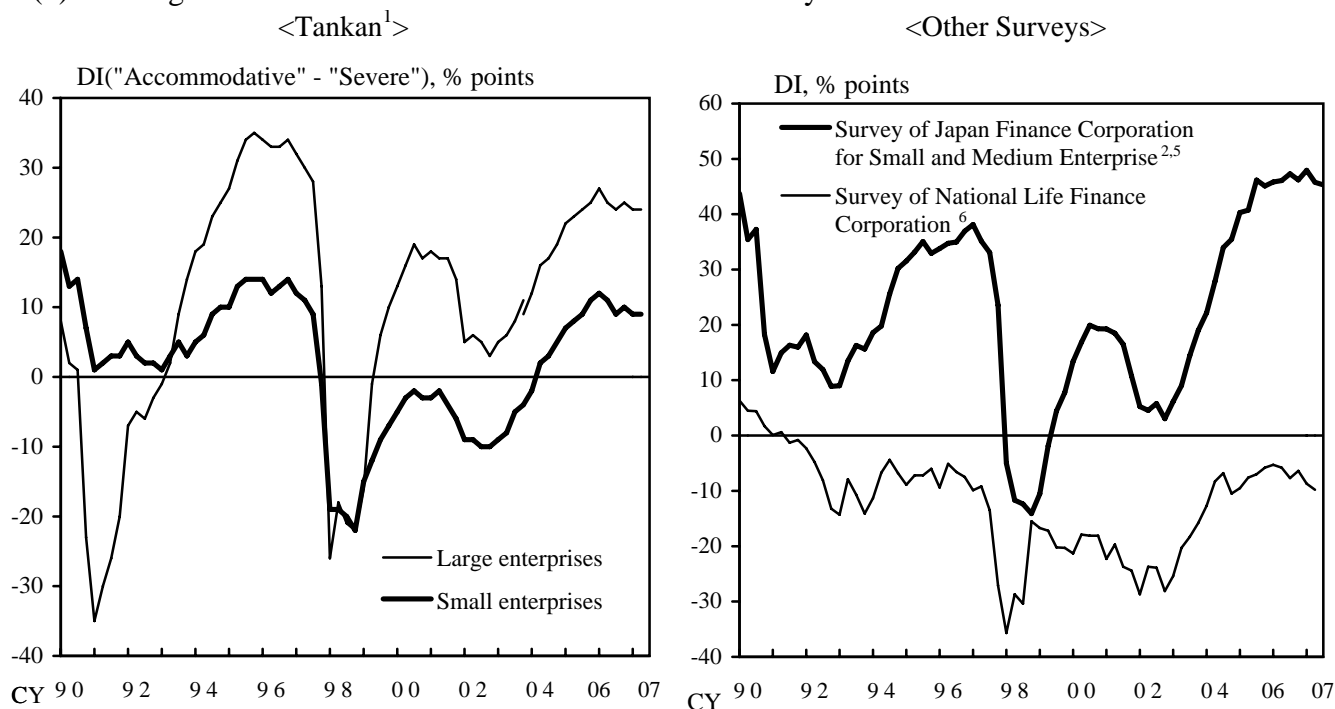
Source: Bank of Japan.

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. Figures for 2007/Q3 are those of Jul.-Aug. averages.

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

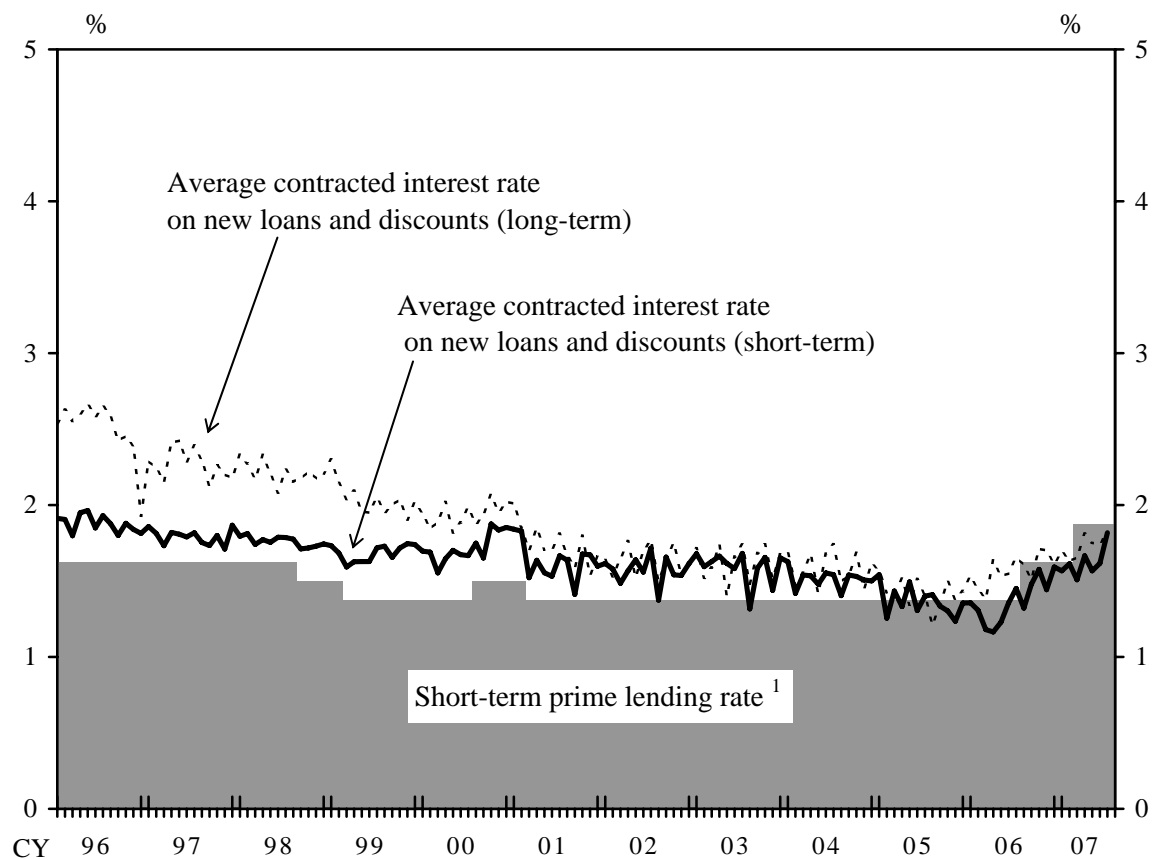
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

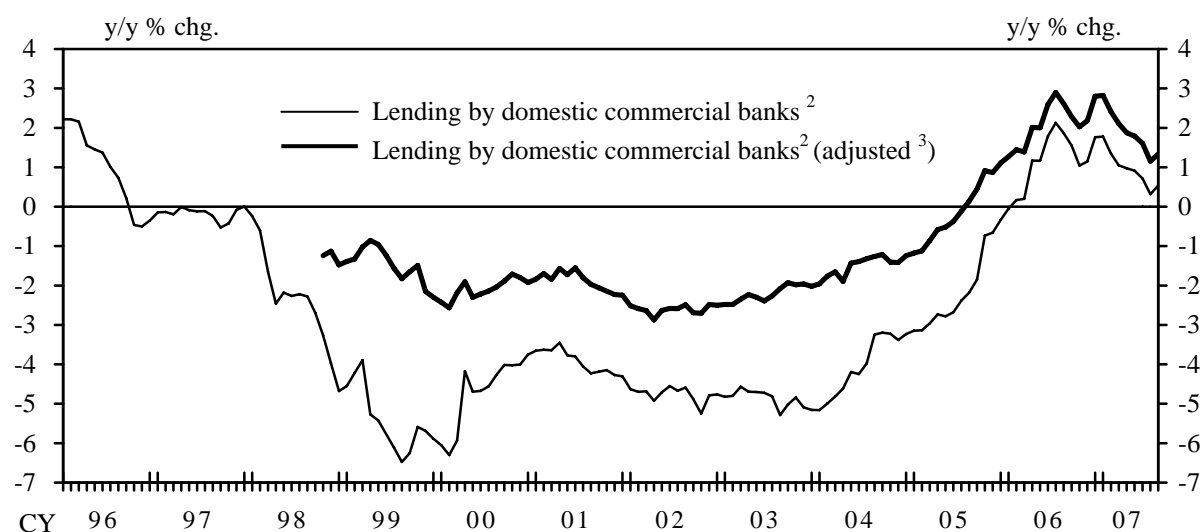


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



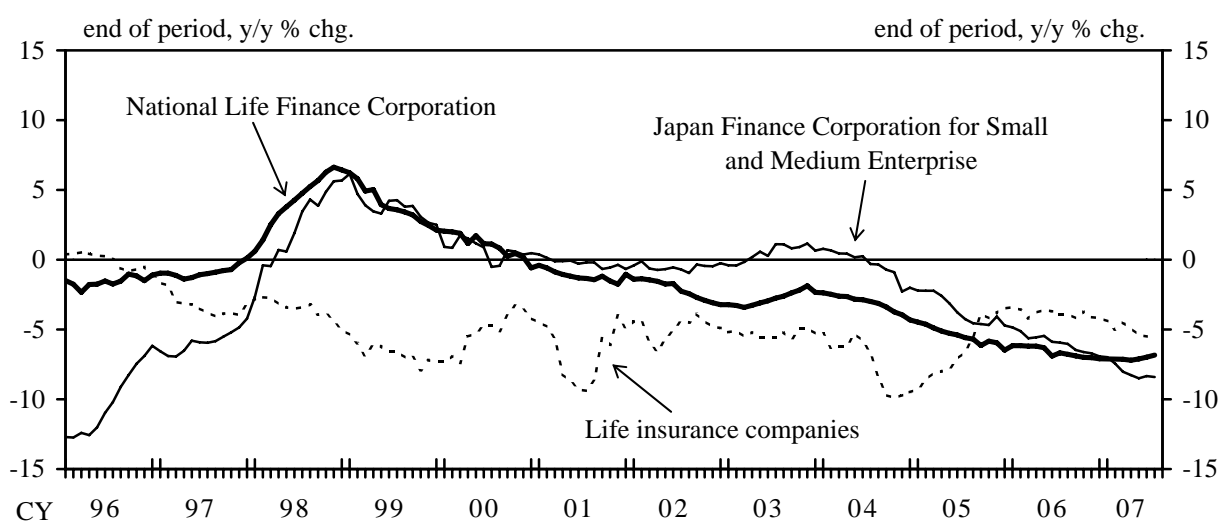
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

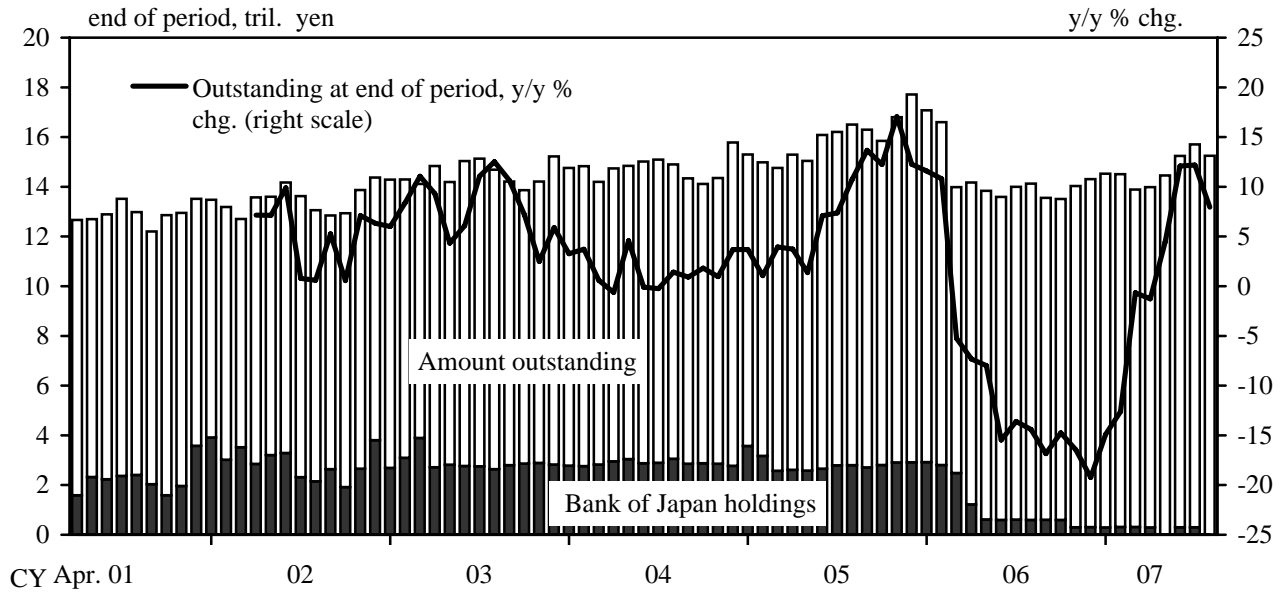
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

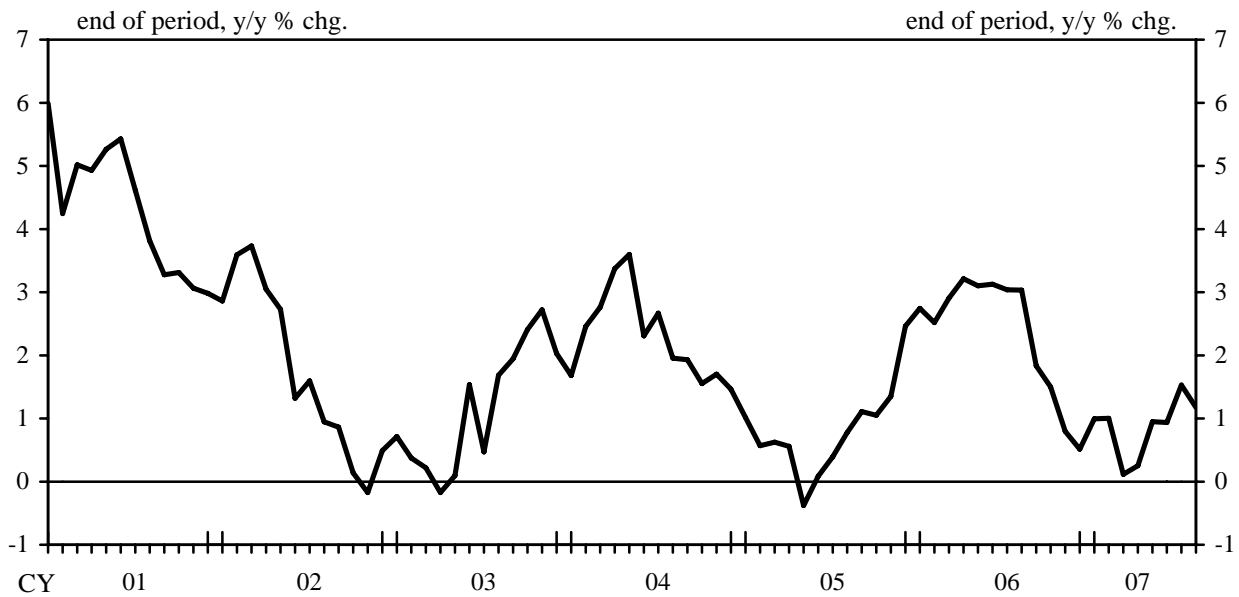
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

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



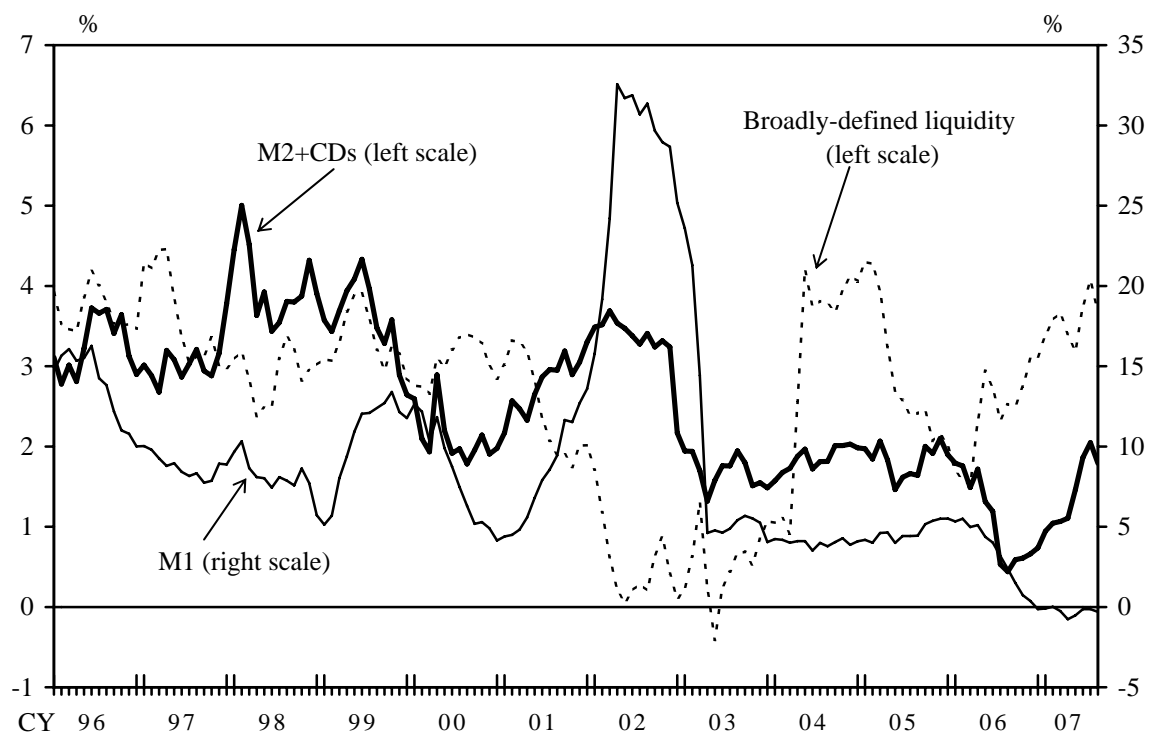
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

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

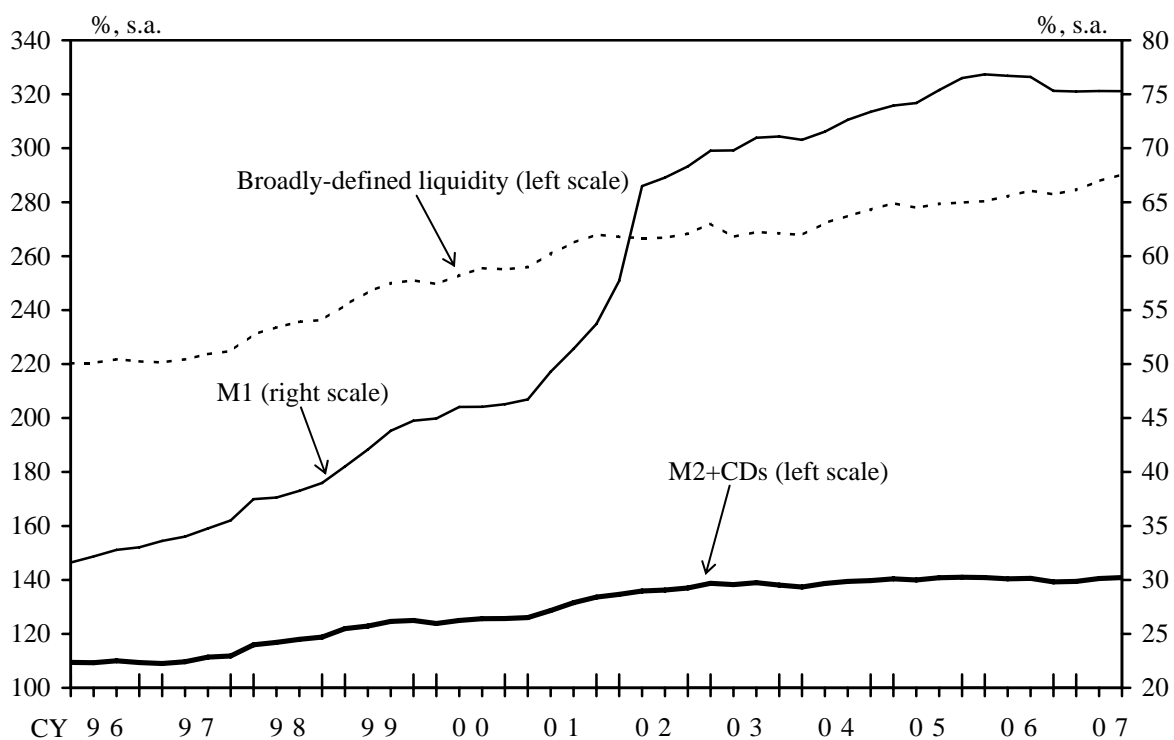
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

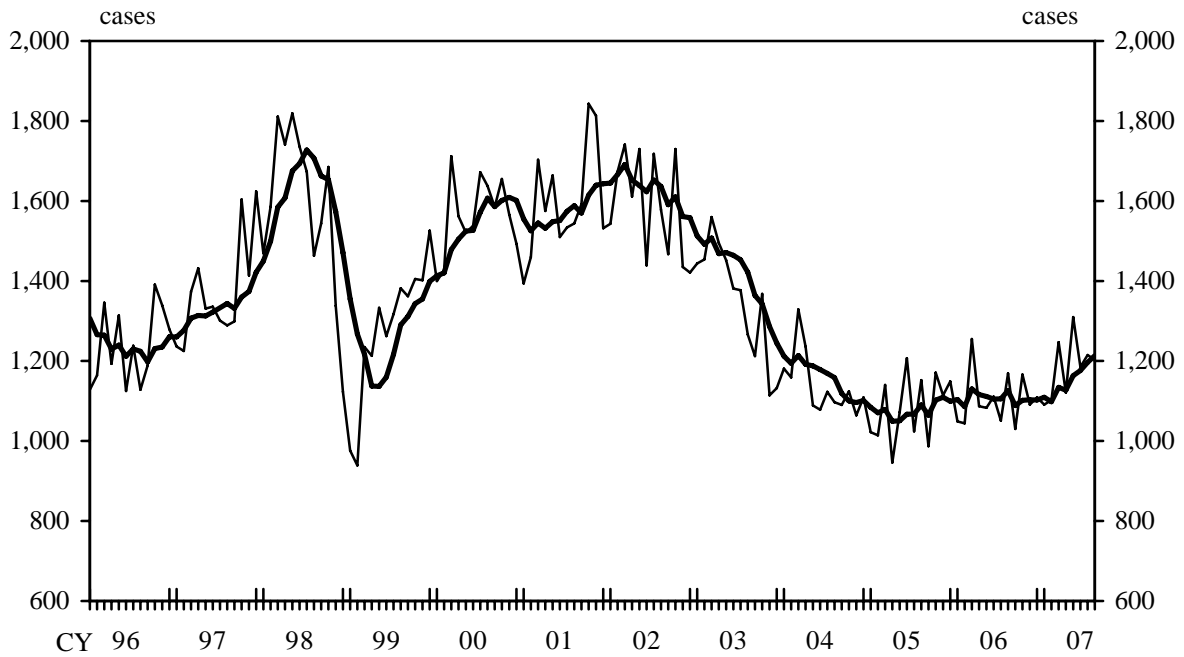


Note: Figures for money stock in 2007/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2007/Q3 is assumed to be unchanged from the previous quarter.

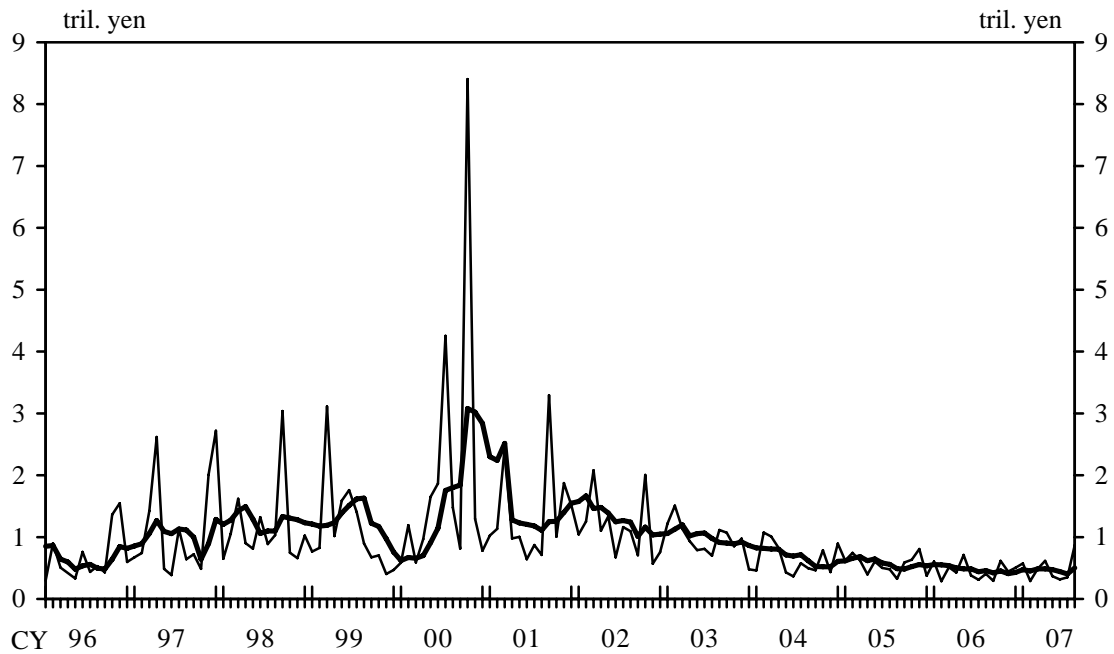
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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