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Bank of Japan

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

October 2007

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Monthly Report of Recent Economic and Financial Developments¹

October 2007

The Bank's View²

Japan's economy is expanding moderately.

Public investment has been sluggish. Meanwhile, exports have continued to increase. Corporate profits have been high, and business sentiment has remained generally favorable although it has become cautious in some sectors. Under these circumstances, business fixed investment has also continued to trend upward. 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.

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

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 10 and 11, 2007.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on October 10 and 11, 2007.

change in consumer prices is expected to be around zero percent in the short run. From a longer-term perspective, however, it is projected to continue to follow a positive trend, as the output gap continues to be positive.

As for the financial environment, the environment for corporate finance is accommodative. Credit demand in the private sector has been more or less flat. 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, long-term interest rates and stock prices have risen compared with last month, while the yen has depreciated against the U.S. dollar compared with 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. 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 remained more or less flat in the second quarter, in reaction to the high growth in the first quarter, but rose substantially in July-August—by 6.1 percent—compared with the second quarter.

As for real exports by destination (Chart 6[1]), exports to the United States had remained somewhat weak since the end of last year, primarily in automobile-related goods, but rose in July-August in many goods compared with the second quarter. 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 have been steadily trending upward on average since they surged again in July-August 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, chiefly in capital goods and parts and in automobile-related goods.

By goods (Chart 6[2]), exports of automobile-related goods have continued their solid increases, supported mainly by the high growth in exports to other regions, despite some fluctuations in those to the United States (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, but rose significantly again in July-August compared with the second quarter (Charts 8[1] and

9[2]).³ Exports of capital goods and parts have been on an increasing trend, thanks to favorable demand from many parts of the world (Chart 7[2]). 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 followed a moderate uptrend, mainly in digital home appliances, with the fluctuations smoothed out.

Real imports have been on a gradual uptrend, assisted by the rise in domestic demand and production, despite downward pressure from the increase in import prices (Charts 5[1] and 11). Real imports increased, by 2.5 percent, in July-August compared with the second quarter, after being more or less flat until the second quarter. The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued their increasing trend, reflecting the uptrend in domestic business fixed investment. Imports of IT-related goods had been somewhat weak since the end of last year, but they have recently turned upward in response to the improvement in the domestic shipment-inventory balance (Chart 8[3]). Imports of consumer goods have also risen lately, chiefly in imports of automobiles from the EU and those of audio and visual apparatus from the NIEs and ASEAN economies. Meanwhile, imports of foodstuffs have continued to be sluggish, mainly due to the rise in import prices. Imports of raw materials and intermediate goods have recently accelerated slightly, but as a trend they have remained almost flat or have edged up only slightly, since firms have been making efforts to cut back on imports of raw materials in response to the trend of rising import prices.

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

³ 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 seems that IT-related trade has resumed its expansionary trend.

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]).⁴

As for the environment surrounding exports, in the United States the downside risks stemming from the subprime mortgage problem have 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 continue their economic expansion. Regarding the environment surrounding exports of IT-related goods, global demand for products—particularly for digital home appliances—has continued to be steady, and global semiconductor shipments have also turned up recently (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 a moderate uptrend, assisted by the expansion of the domestic economy.

Business fixed investment has continued to trend upward. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a

⁴ The DI of overseas supply and demand conditions for products of large manufacturing firms in the September *Tankan* indicates that the perception of these firms has remained mostly unchanged; they expect favorable supply and demand conditions to continue. Forecasts of exports for the first half of fiscal 2007 were revised considerably upward compared with the June *Tankan*, to growth of 8.1 percent. Those for the second half of fiscal 2007 were also revised upward, albeit marginally, to a steady growth of 3.5 percent. This seems to indicate that firms continue to face solid foreign demand.

⁵ The DI of overseas supply and demand conditions for products of the electrical machinery sector (large firms) in the September *Tankan* shows that excess demand has been observed recently and that firms are projecting demand to become somewhat more excessive in the near future.

coincident indicator of machinery investment—have continued to increase in July-August compared with the second quarter, following the quarter-on-quarter increase in the second quarter (Chart 12[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—rose in July-August 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 13[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-August (Chart 13[2]).⁷

Looking at the environment surrounding business fixed investment, corporate profits have been high. In the September *Tankan* (Chart 14), current profits of large firms for fiscal 2007 were revised slightly upward from the June *Tankan*, primarily in the manufacturing sector; they are projected to be about the same or somewhat higher than the level of fiscal 2006 when they recorded a historical high as a result of large profit increases. On the other hand, current profits among small firms are projected to remain at high levels—similar to those of fiscal 2006—although the projections were revised somewhat downward from the June *Tankan* affected mainly by the rise in prices of raw materials. In these circumstances, business sentiment in the September *Tankan* has remained generally favorable, mainly in large manufacturing firms, although the sentiment has become somewhat cautious among small firms in which it deteriorated slightly following the previous quarter (Chart 15).

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. According to the September *Tankan* (Chart 16), the business fixed investment plan of large firms for fiscal 2007 was revised slightly upward from the

⁶ 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 to 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).

June *Tankan*; it marked a solid year-on-year-increase of 8.7 percent, albeit with some deceleration relative to the plan at the same time in fiscal 2006. Meanwhile, the plan of small firms was somewhat weak compared to past averages, even though it has been revised upward from the June *Tankan*.⁸

Private consumption has been firm. Looking at individual indicators on consumption (Charts 17 and 18), sales at department stores were firm, despite fluctuations caused by weather factors.⁹ On the other hand, sales at supermarkets have been somewhat lackluster. Sales at convenience stores have been more or less flat on average, although they have been fluctuating sharply due to weather factors. 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 been on an increasing trend, aided by the introduction of new products. Sales of personal computers—which had continued to be lackluster—have been picking up lately. Meanwhile, the number of new passenger-car registrations—which had continued to trend downward—has picked up since August, supported mainly by strong sales of new models.¹⁰ As for services consumption, sales in the food service industry have continued to trend upward, albeit with large fluctuations caused by weather factors. Outlays for travel have also been firm on average.

⁸ Based on "software and fixed investment excluding land purchasing expenses," which is close to the concept of GDP (value added), business fixed investment of all industries and enterprises for fiscal 2007 was projected to rise by 6.8 percent compared with the previous year. This figure shows that investment will maintain a solid increase, though at a slightly slower rate than in fiscal 2006 (an increase of 8.7 percent for projections as of last September and 7.9 percent for actual results).

⁹ Sales at department stores jumped in June, especially in summer apparel, aided by favorable weather conditions and by the early start of clearance sales, but reversed these gains in July in reaction to these sales coupled with the adverse weather such as the typhoon during the three-day weekend. However, they picked up in August from favorable weather conditions.

¹⁰ The steep rise in the number of new passenger-car registrations in August is also attributed to the carry-over from July when it dropped sharply due to the decline in shipments caused by the Niigata-ken Chuetsu-oki Earthquake. On balance, however, it marked a quarter-on-quarter increase in the third quarter for the first time in a while, boosted by the apparent effects of the introduction of new models.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above¹¹—have been firm as a trend, although they inched downward in July-August compared with the second quarter (Chart 19[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been trending up mildly, mainly in durable consumer goods, albeit with some fluctuations (Chart 19[2]). Meanwhile, both the index of living expenditure level (two-or-more-person households, in real terms) in the *Family Income and Expenditure Survey*—which captures private consumption from the demand side—and 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—declined in July-August (Chart 17[1]).¹²

Consumer sentiment has generally been at favorable levels, although some indicators have shown slight deterioration most recently (Chart 20).

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

As for housing investment, housing starts have recently dropped sharply, affected by the enforcement of the revised Building Standard Law (Chart 21[1]).¹³ 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 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

¹¹ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in August 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 August were at the same level as those for July.

¹² 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.

¹³ 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.

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. 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, by 2.1 percent, in July-August compared with the second quarter (Chart 22).¹⁴ 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. The upswing in transport equipment was supported by the recent pickup in domestic sales and by favorable exports. Meanwhile, production of electronic parts and devices—which had remained essentially level since the start of this year—has resumed its solid increase, as both domestic and external demand have regained firmness and the restraint on production from domestic inventories has abated.

Shipments have also continued their uptrend. By goods (Chart 23), shipments of capital goods have been on an uptrend in light of steady demand at home and abroad. As for consumer goods, shipments of nondurable goods have recently picked up slightly; those of durable goods have also increased, chiefly in digital home appliances and automobiles for exports. 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 solid increase. Meanwhile, shipments of construction goods have been somewhat weak lately, affected partly by the decrease in 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. The inventory cycle (Chart 24) shows 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,

¹⁴ Production in the third quarter, based on the production forecast index for September (a decrease of 0.8 percent on a month-on-month basis), is calculated to post an increase of 2.4 percent on a quarter-on-quarter basis.

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 almost dropped to satisfactory levels, assisted by generally solid exports. On the other hand, in electronic parts and devices, inventory levels have remained somewhat relatively high; while final goods manufacturers continue to introduce new products at a good pace, shipments have turned upward and the shipment-inventory balance has improved steadily. 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 will continue to increase in the fourth quarter.¹⁵

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

In the labor market, overtime hours worked have been essentially flat, at high levels (Chart 27[3]). The ratio of job offers to applicants has been at a high level, above 1.00,¹⁶ and the unemployment rate has followed a downtrend (Chart 26). Meanwhile, the employment conditions DI in the *Tankan* shows that the labor shortage among firms has been expanding moderately (Chart 28).

¹⁵ Based on a single month's information, the production forecast index of October is calculated to increase by 4.6 percent compared with the third quarter (the index of September is based on the forecast index).

¹⁶ New job offers have been declining at a very modest pace since last autumn, due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring overstatements in the number of job offers.

In terms of employment (Chart 27[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 27[1] and [2]).

Nominal wages per employee have recently been somewhat lackluster (Chart 25[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.¹⁷ In contrast, overtime payments have continued to trend up mildly, although their pace has decelerated slightly. Special payments seem to be moving up as a trend, supported by favorable corporate profits, although summer bonuses this year were relatively weak.¹⁸

¹⁷ 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 have 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.

¹⁸ Special payments in June-August in the *Monthly Labour Survey* registered a year-on-year decline of 2.8 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 globalization, fiscal reform, and the rise in prices of raw materials.

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 30). 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 petroleum products in the United States. Prices of nonferrous metals have remained high on the whole, albeit with some fluctuations.¹⁹

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)²⁰ has been positive, mainly due to the rise in international commodity prices (Chart 31). 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 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. Machinery prices, meanwhile, 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

¹⁹ Meanwhile, domestic commodity prices have also been high, in response to the tightening of supply-demand conditions and to developments in international commodity prices.

²⁰ 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.

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 been on a positive trend (Chart 32).²¹ The year-on-year changes in prices, excluding external factors, stood at 0.3 percent in both the second quarter and July-August.²² Looking at recent developments by category, the year-on-year changes in prices of "other services" have been positive since the start of this fiscal year, reflecting improvements in supply-demand conditions as well as cost increases such as labor costs. Moreover, both the prices of real estate services—assisted by the rise in office space rental against the background of improved supply-demand conditions of office spaces in the Tokyo metropolitan area—and of information services—due to tightening supply-demand conditions as a result of active software investment by firms—have continued to move up. 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 33). Looking at developments in the past few months in more detail, the year-on-year changes in prices of goods overall have been posting a slight negative; although a range of items has followed a moderate improving trend, petroleum products (such as gasoline) have 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, partly since mobile telephone charges have been falling (categorized as "other services" in the chart) and housing rents have been somewhat weak, although prices of "eating out" have continued to increase moderately.

²¹ "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.

²² The price index excluding external factors was revised downward in July, mainly in mobile telecommunications services (down to an increase of 0.4 percent from that of 0.7 percent on a year-on-year basis).

All items including external factors have continued to increase at around 1 percent on a year-on-year basis or at a slightly faster pace, since oceangoing ship chartering services surged in response to increased cargo movements around the world.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 34), the weighted average DI in both production capacity and employment conditions as perceived by firms shows that the shortage has remained marginal, since excess production capacity has been dispelled and the labor shortage has persisted. The supply and demand conditions DI has also remained favorable overall both in the manufacturing and nonmanufacturing sectors. In this environment, the decline in the output prices DI has also become marginal to a considerable degree compared with some time ago.

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.

With respect to developments in land prices (in terms of the Prefectural Land Price Survey as of July; Chart 35), both commercial and residential land prices expanded their rate of increase in the three metropolitan areas, including Tokyo. On the other hand, in other areas, land prices have been falling, although the rate of decline has been narrowing mildly.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 36[1]) has been at around 0.5 percent. Regarding interest rates on term instruments (Chart 37[1]), the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have been more or less flat on the whole. Interest rates on Euroyen futures have inched up, mainly in distant contracts (Chart 37[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 36 [2]) have increased, mainly in response to long-term interest rate movements in the United States and Europe. They have recently been moving at around 1.7 percent.

Yield spreads between corporate bonds and government bonds (Chart 39) have been more or less flat on the whole, excluding the widening of spreads for some industries.

Stock prices (Chart 40) have risen, mainly in response to the rise in U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 17,000-17,500 yen.

In the foreign exchange market (Chart 41), the yen has been essentially level, since both the yen and U.S. dollar have been weak against major currencies. The yen has depreciated recently and is being traded in the range of 116-118 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has been more or less flat. 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 42).

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 43).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,²³ grew by 1.4 percent in September on a year-on-year basis, compared to 1.3 percent in August and 1.2 percent in July (Chart 44).

²³ 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.

In the corporate bond and CP markets, the issuing environment continues to be favorable. Although the issuance spreads of both CP and corporate bonds have widened slightly, the issuance rates alone have been around the same levels as last month since government bond yields—on which these rates are based—have decreased. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. It increased by 2.8 percent in September, on a year-on-year basis, after 2.1 percent in August and 3.3 percent in July (Chart 45).

According to business surveys, the financial positions of firms have continued to be favorable (Chart 42).

The money stock ($M_2 + \text{CDs}$) has increased by around 2 percent annually. Its September reading was 1.7 percent on a year-on-year basis, following 1.8 percent in August and 2.0 percent in July (Chart 46).

The number of corporate bankruptcies was up by 2.9 percent in August compared to the year-ago level, to 1,203 cases (Chart 47).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q1	Q2	Q3	2007/Jun.	Jul.	Aug.	Sep.
Index of living expenditure level (two-or-more-person households)	0.5	-0.4	n.a.	-0.5	-0.8	0.3	n.a.
Sales at department stores	0.2	1.0	n.a.	4.4	-7.7	p 5.0	n.a.
Sales at supermarkets	-0.0	-0.7	n.a.	-1.1	-1.6	p 3.0	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 291>	< 288>	< 297>	< 286>	< 280>	< 308>	< 302>
Sales of household electrical appliances (real, Current Survey of Commerce)	6.6	-0.7	n.a.	0.1	-1.1	p 8.8	n.a.
Outlays for travel	1.3	-1.5	n.a.	0.9	-3.9	6.3	n.a.
Housing starts <s.a., ann. 10,000 units>	< 125>	< 127>	<n.a.>	< 135>	< 95>	< 73>	<n.a.>
Machinery orders (from private sector ⁴)	-0.7	-2.4	n.a.	-10.4	17.0	-7.7	n.a.
Manufacturing	-1.4	-4.0	n.a.	-11.4	10.8	-8.6	n.a.
Nonmanufacturing ⁴	-1.1	0.1	n.a.	-6.5	19.4	-7.6	n.a.
Construction Starts (private, nondwelling use)	-6.6	24.5	n.a.	20.0	-43.7	-24.8	n.a.
Mining & manufacturing	-9.1	20.0	n.a.	15.1	-38.4	-26.8	n.a.
Nonmanufacturing ⁵	-5.0	29.0	n.a.	21.0	-45.4	-22.7	n.a.
Value of public works contracted	-2.2	-0.7	n.a.	-5.1	-1.1	-0.5	n.a.
Real exports	3.0	-0.4	n.a.	0.5	1.3	6.9	n.a.
Real imports	0.4	0.5	n.a.	0.0	1.6	-2.5	n.a.
Industrial production	-1.3	0.2	n.a.	1.3	-0.4	p 3.4	n.a.
Shipments	-0.5	0.7	n.a.	1.1	-1.2	p 4.3	n.a.
Inventories	-2.0	-0.3	n.a.	-0.3	-0.1	p 0.3	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 101.0>	< 100.5>	<n.a.>	< 100.5>	< 99.1>	<p 98.1>	<n.a.>
Real GDP	0.7	-0.3	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.6	n.a.	0.2	-0.4	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q1	Q2	Q3	2007/Jun.	Jul.	Aug.	Sep.
Ratio of job offers to applicants <s.a., times>	< 1.05>	< 1.06>	<n.a.>	< 1.07>	< 1.07>	< 1.06>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 3.8>	<n.a.>	< 3.7>	< 3.6>	< 3.8>	<n.a.>
Overtime working hours ⁶	1.9	0.6	n.a.	0.0	-0.1	p 0.1	n.a.
Number of employees	1.0	1.1	n.a.	0.9	1.0	1.1	n.a.
Number of regular employees ⁶	1.6	1.7	n.a.	1.8	1.7	p 1.6	n.a.
Nominal wages per person ⁶	-0.7	-0.6	n.a.	-0.9	-1.7	p 0.1	n.a.
Domestic corporate goods price index ⁷ <q/q % chg., 3-month rate of change>	1.9	2.3	n.a.	2.3	2.2	p 1.9	n.a.
	<-0.2>	< 1.5>	<n.a.>	< 1.5>	< 1.1>	<p 0.6>	<n.a.>
Consumer price index ⁸	-0.1	-0.1	n.a.	-0.1	-0.1	-0.1	n.a.
Corporate service price index	0.5	1.4	n.a.	1.5	1.4	p 1.0	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.0	1.5	p 1.9	1.9	2.0	1.8	p 1.7
Number of corporate bankruptcies <cases>	<1,147>	<1,205>	<n.a.>	<1,185>	<1,215>	<1,203>	<n.a.>

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

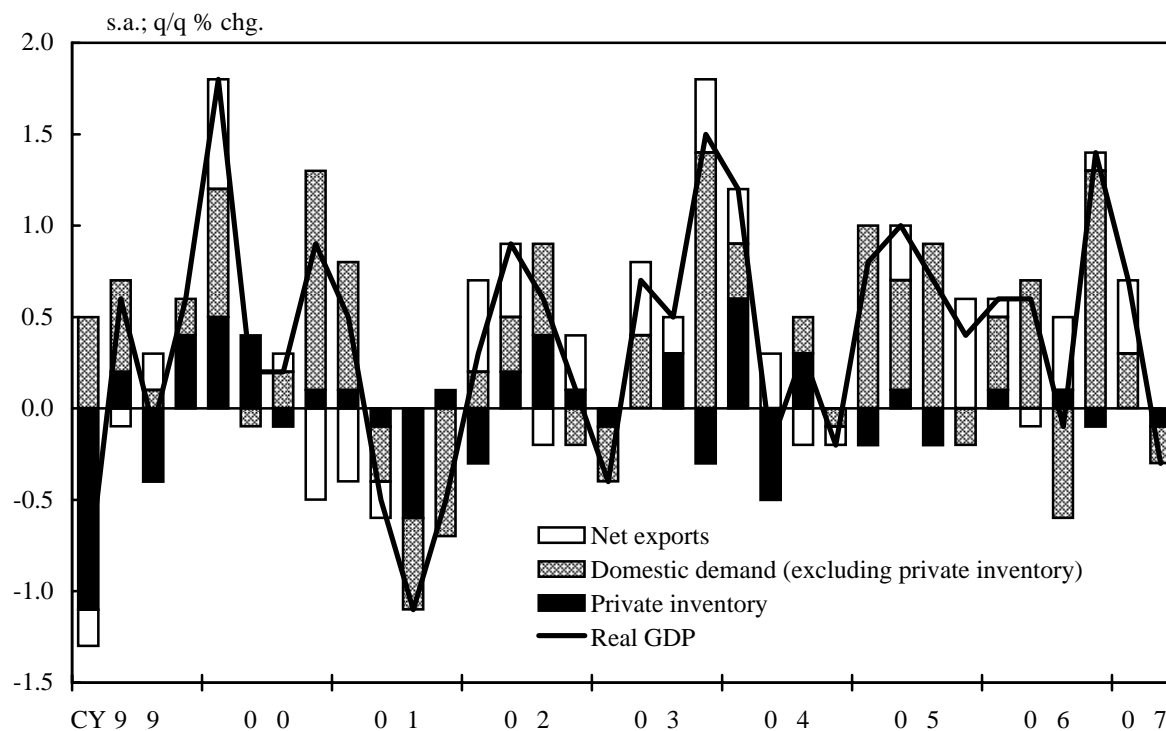
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

2. Figure with "p" indicates preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Excludes orders of shipbuilding and orders from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusts to exclude a hike of electric power charges in summer season.
8. Excludes fresh food.

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.

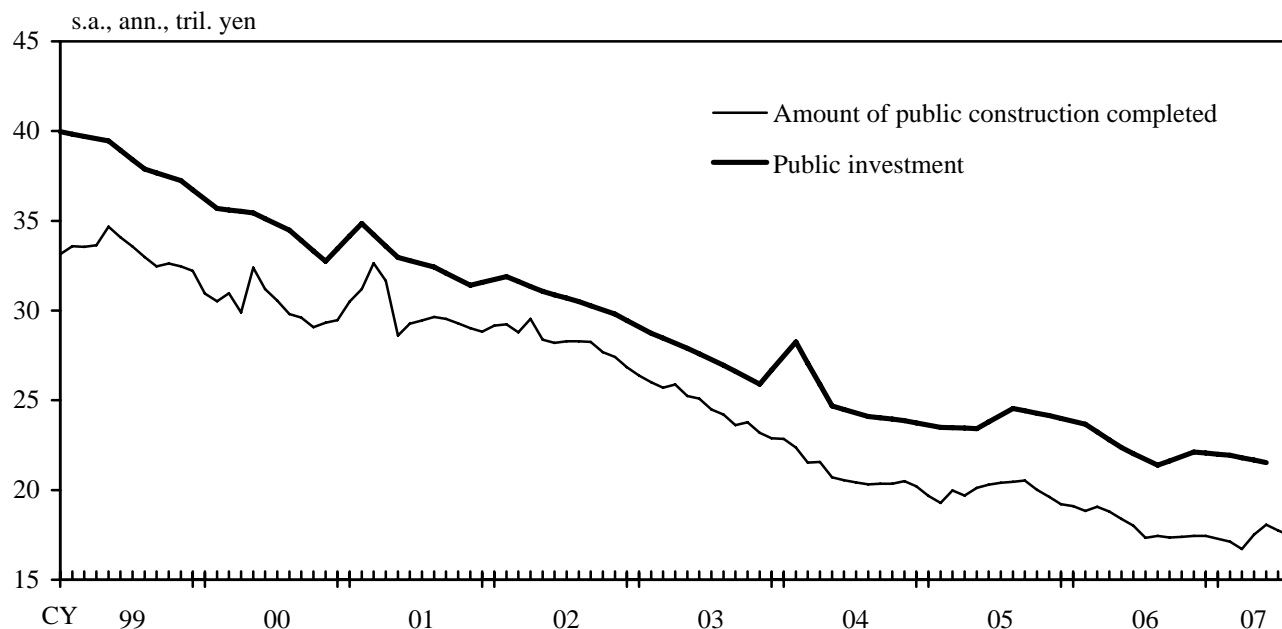
	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Real GDP	0.6	-0.1	1.4	0.7	-0.3
Domestic demand	0.7	-0.5	1.2	0.3	-0.3
Private consumption	0.4	-0.9	1.1	0.8	0.3
Non-Resi. investment	4.2	-0.1	3.0	-0.2	-1.2
Residential investment	-1.5	0.1	1.7	-0.8	-3.4
Private inventory	(-0.0)	(0.1)	(-0.1)	(0.0)	(-0.1)
Public demand	-0.6	-0.5	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.

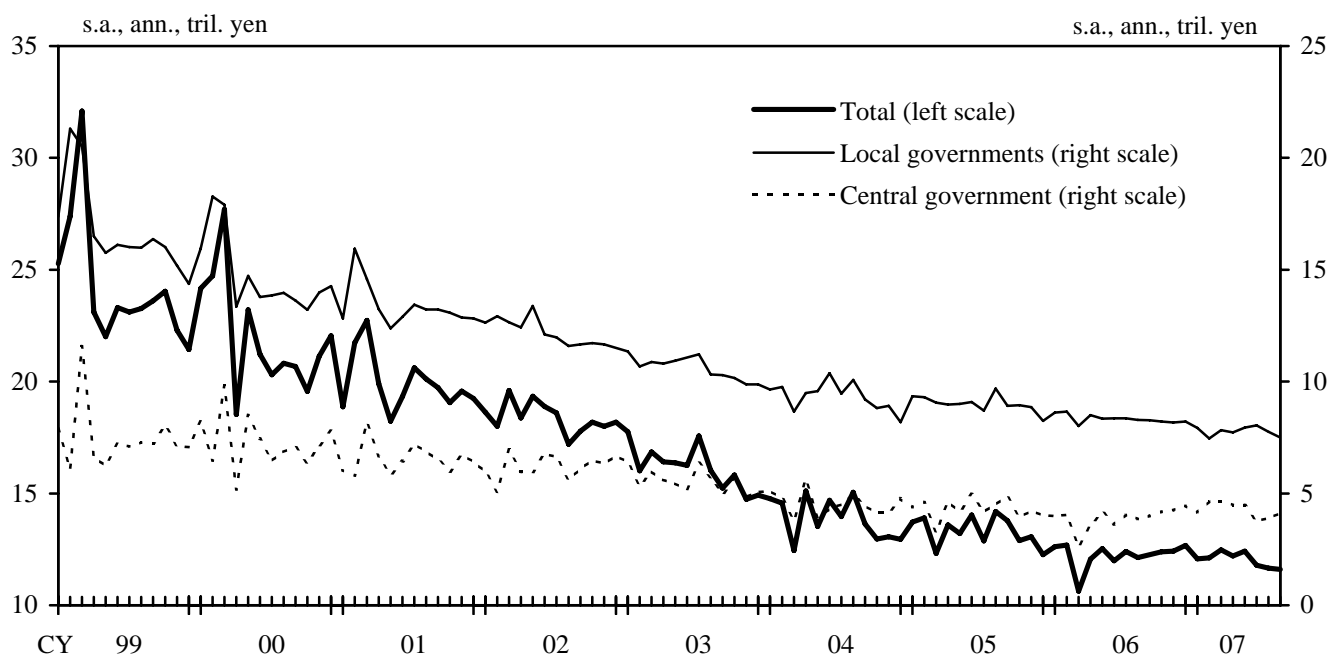
Source: Cabinet Office, "National Accounts."

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

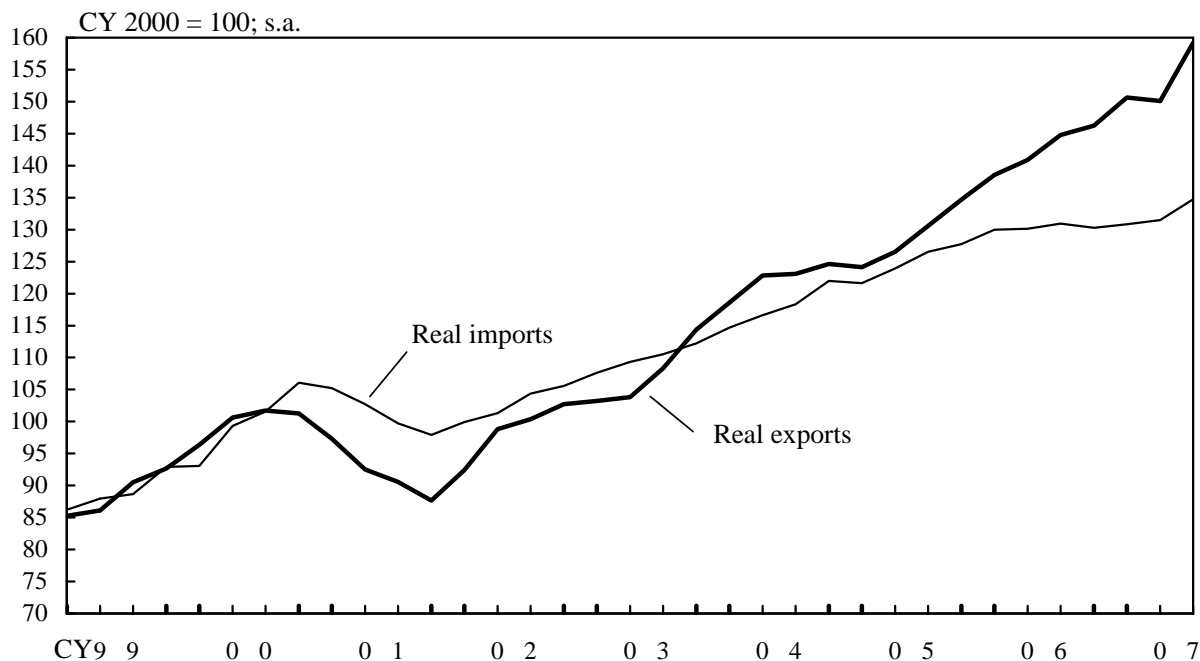
Sources: Cabinet Office, "National Accounts";

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

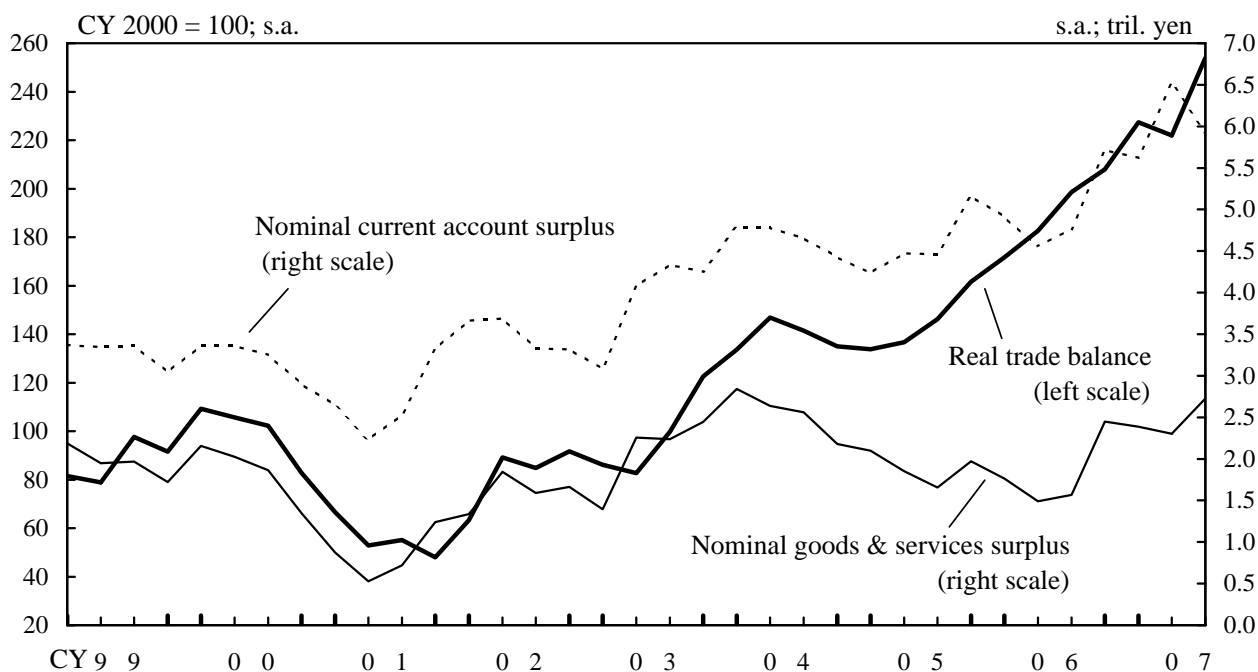
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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-August averages converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Jun.	2007 Jul.	2007 Aug.
United States	<22.5>	7.3	10.3	2.1	-0.7	-0.9	-3.7	6.8	2.4	1.1	7.6
EU	<14.5>	3.3	10.3	2.1	0.9	3.7	2.3	5.4	2.2	2.1	3.7
East Asia	<45.7>	6.1	9.1	2.7	2.3	4.3	-1.3	5.1	0.1	0.4	7.4
China	<14.3>	9.6	20.1	5.1	6.6	5.5	-2.9	8.1	1.4	-0.7	10.9
NIEs	<23.2>	5.0	5.7	0.5	0.2	3.9	-1.6	3.6	-1.8	1.5	5.9
Korea	<7.8>	4.5	7.7	-1.7	1.2	5.1	-2.5	-0.1	-1.6	0.2	5.9
Taiwan	<6.8>	4.4	3.7	-1.1	-3.5	0.1	1.6	6.0	3.4	1.4	6.3
ASEAN ⁴	<8.1>	4.4	2.8	4.9	0.9	3.6	2.2	4.0	2.6	-0.2	5.2
Thailand	<3.5>	10.0	5.2	4.4	0.5	3.8	0.8	3.3	-1.4	1.4	6.0
Others	<17.3>	11.5	19.5	4.2	2.4	4.4	4.1	7.1	-0.4	0.6	8.9
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	6.1	0.5	1.3	6.9

(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 Jun.	2007 Jul.	2007 Aug.
Intermediate goods	<17.9>	1.8	6.4	0.4	0.5	1.8	0.1	5.5	-1.0	3.2	4.8
Motor vehicles and their related goods	<23.4>	8.2	13.6	1.3	4.0	2.7	1.0	6.8	1.4	-2.4	13.1
Consumer goods ⁴	<5.0>	5.2	7.1	0.4	0.4	-3.0	5.4	2.1	1.7	0.1	3.1
IT-related goods ⁵	<11.5>	5.4	7.7	2.5	5.1	5.5	-4.0	5.2	-1.2	4.9	3.3
Capital goods and parts ⁶	<29.4>	7.1	12.4	4.0	-1.1	3.0	0.2	4.4	5.5	-1.1	3.8
Real exports		5.3	10.5	2.8	1.0	3.0	-0.4	6.1	0.5	1.3	6.9

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q3 figures are July-August averages converted into quarterly amount.

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

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

4. Excludes motor vehicles.

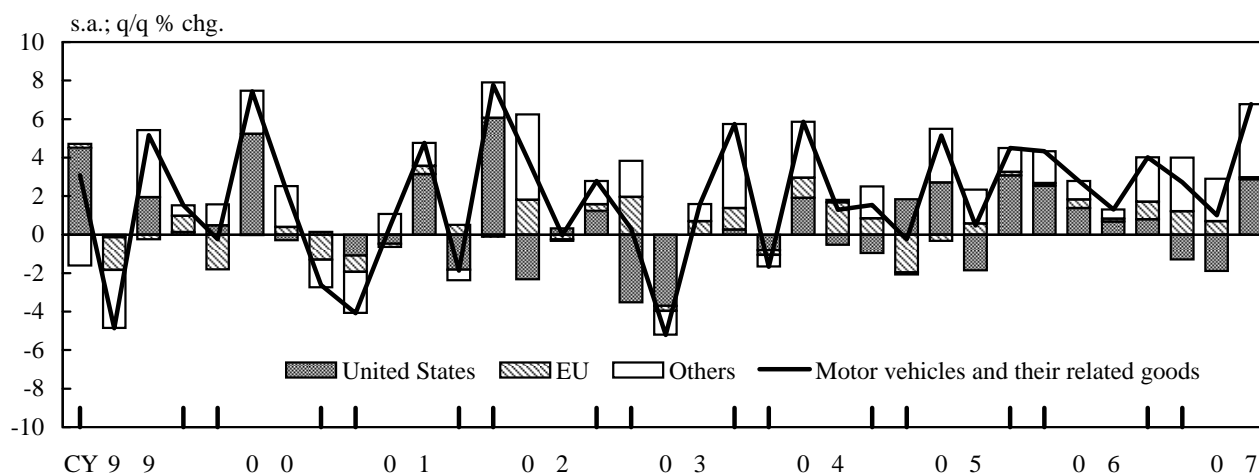
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

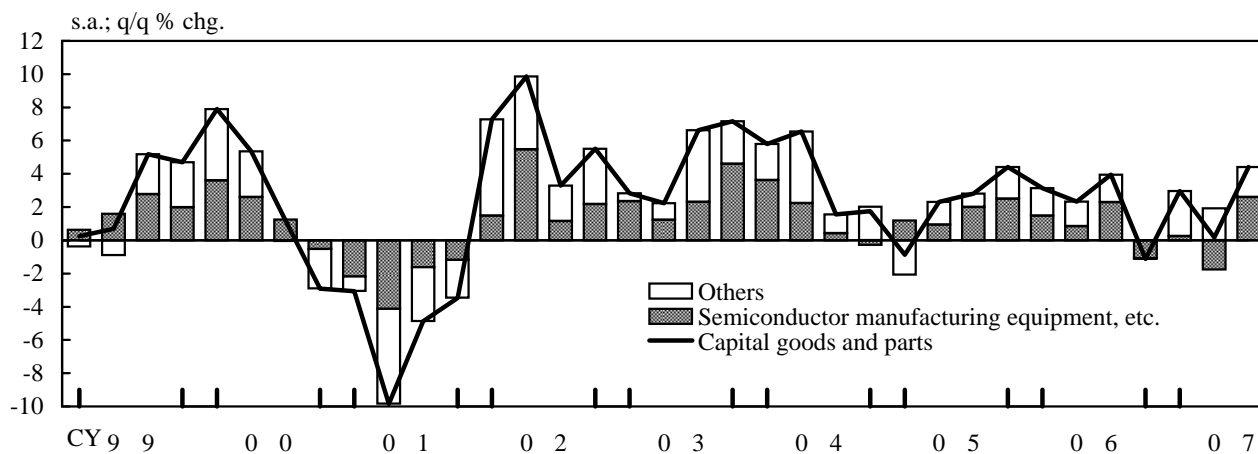
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

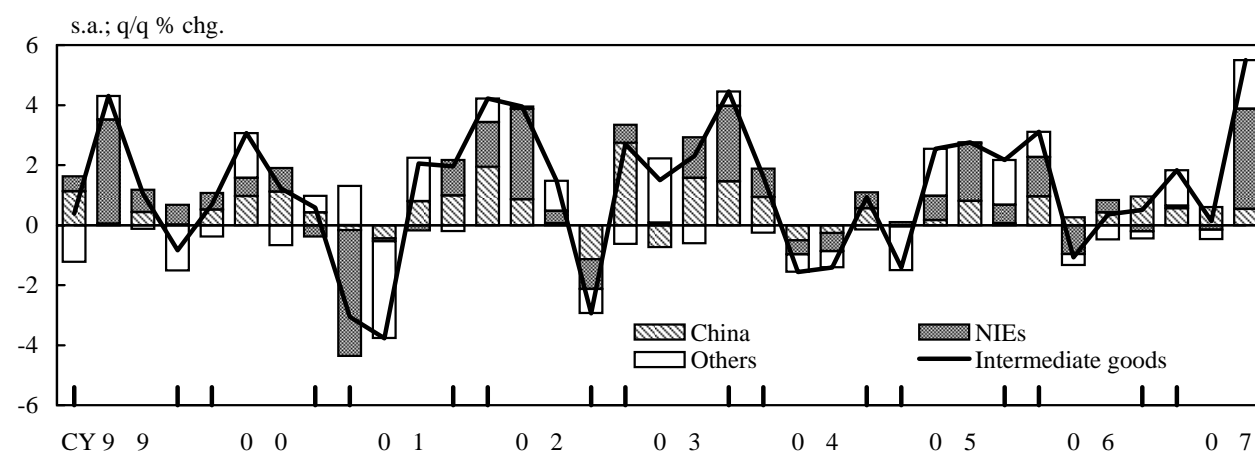
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



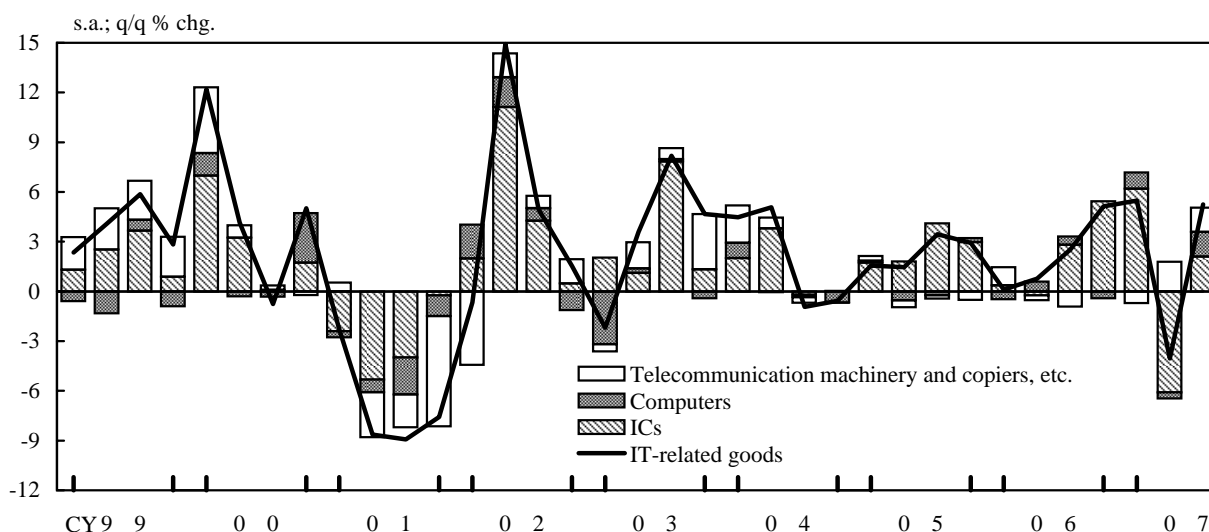
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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

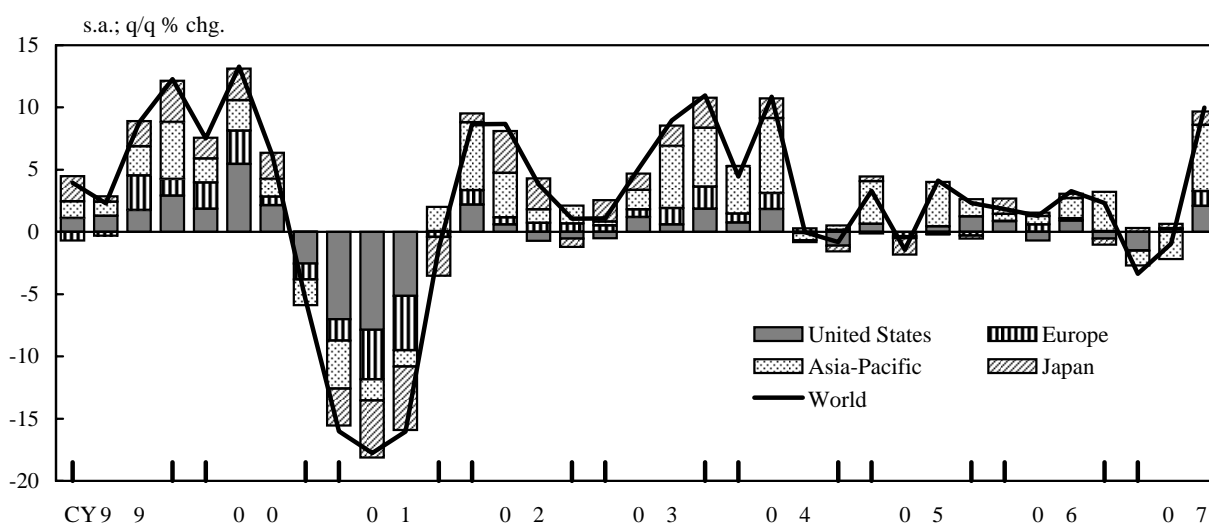
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

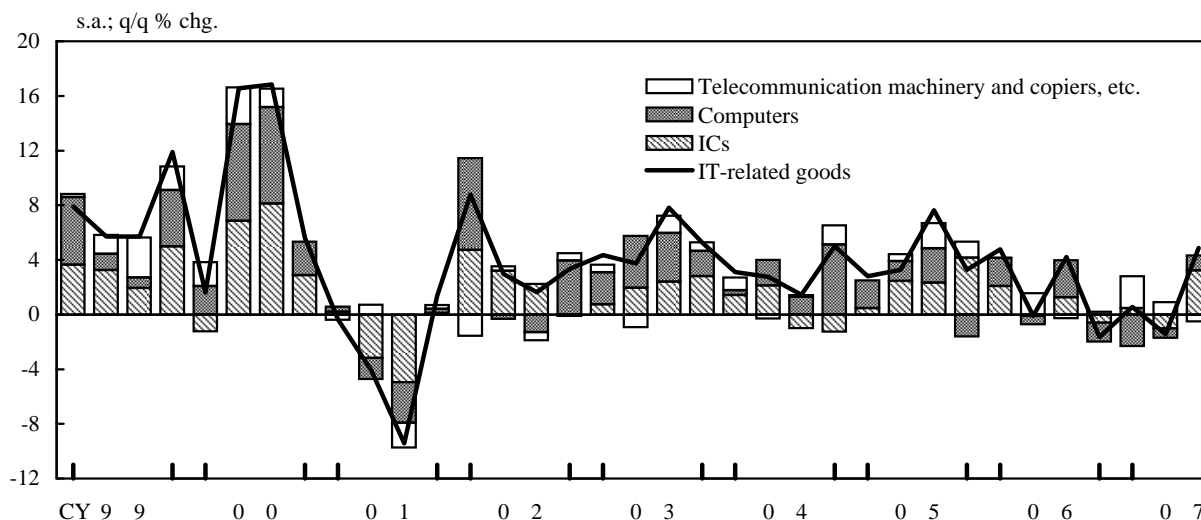
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

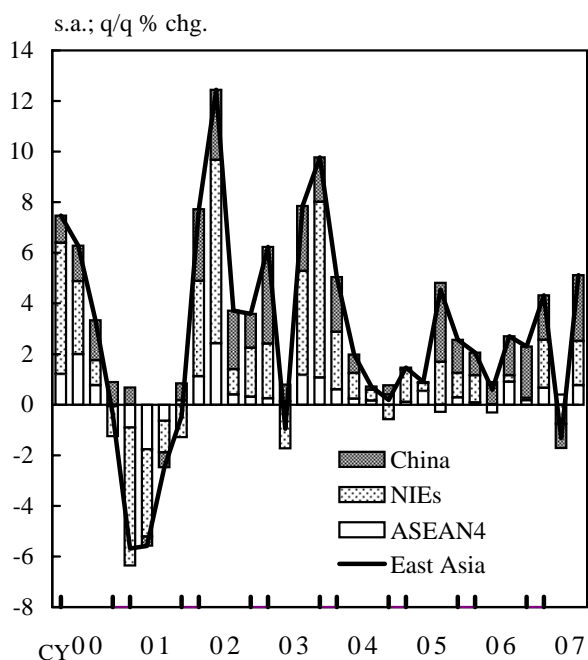
2. 2007/Q3 figures are July-August averages converted into quarterly amount.

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

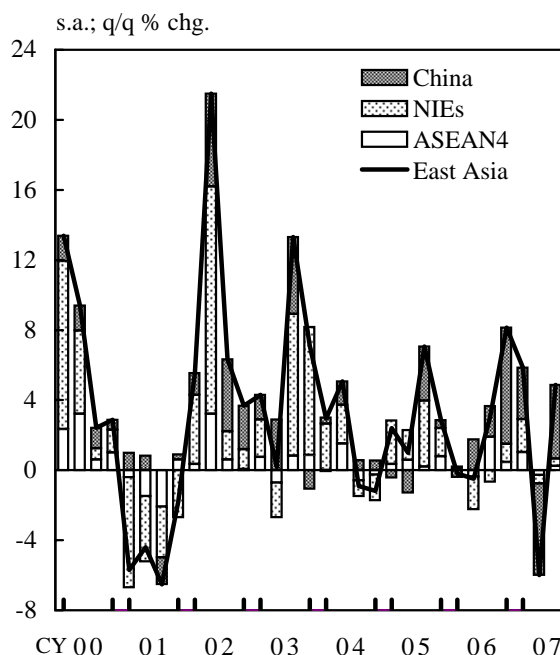
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

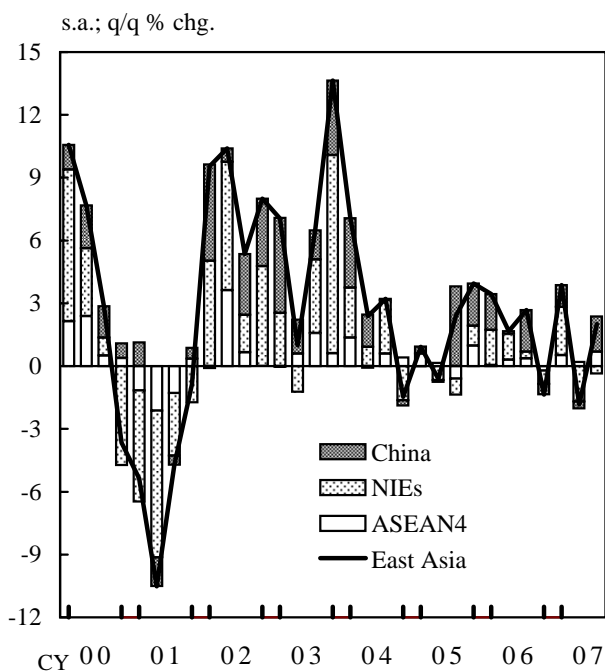
(1) All Goods (Real, Breakdown by Region)



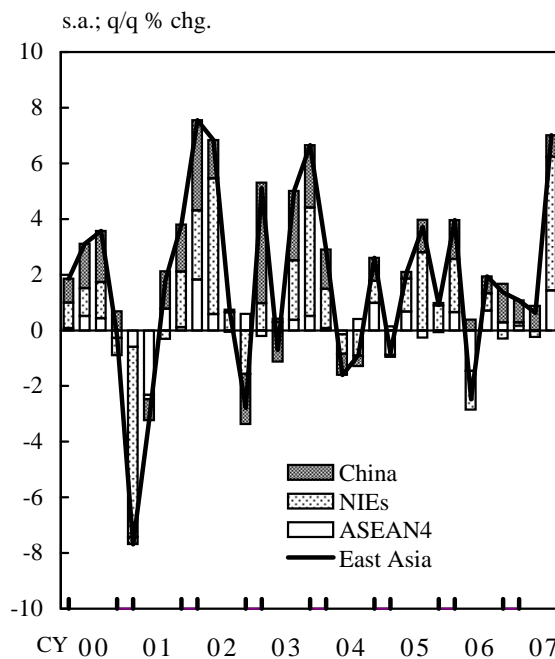
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



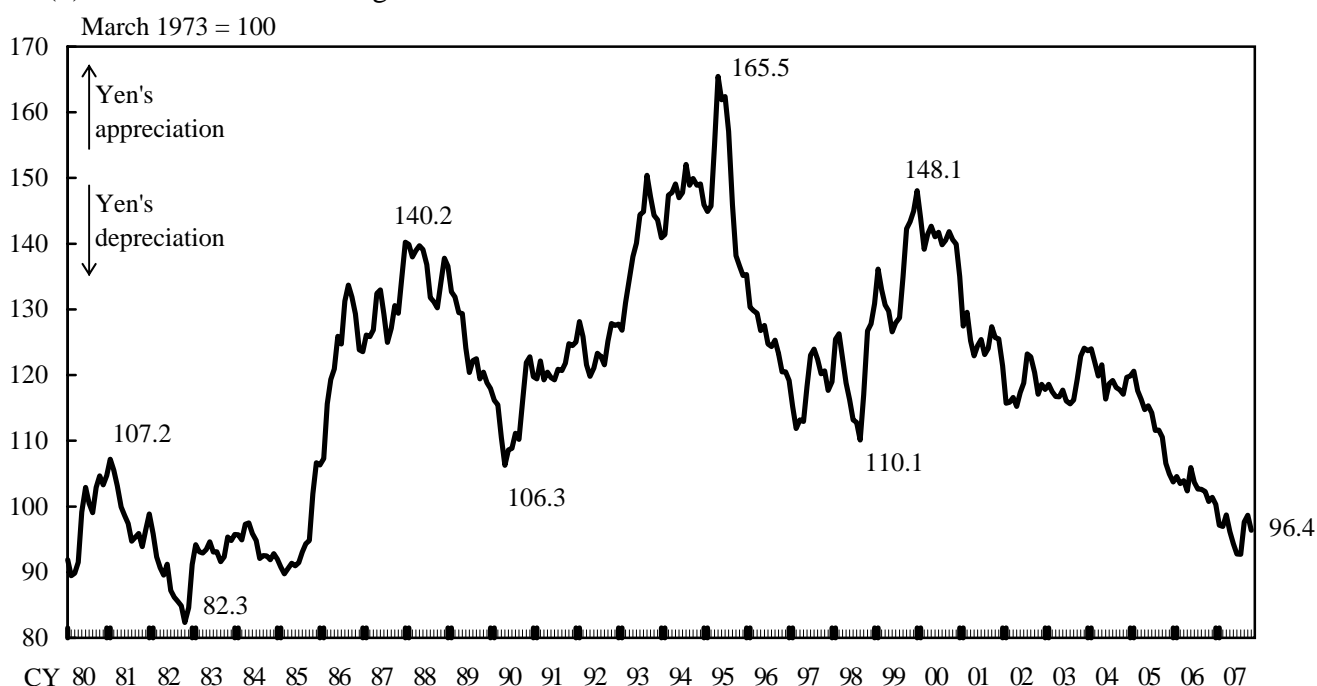
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for October 2007 is the average up to October 10.

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 Q4	2007 Q1	Q2	Q3	
United States ¹		3.6	3.1	2.9	2.1	0.6	3.8	n.a.	
European Union ¹		2.3	1.9	3.1	3.6	2.9	1.9	n.a.	
	Germany	0.6	1.0	3.1	4.0	2.2	1.0	n.a.	
	France	2.3	1.7	2.2	1.6	2.3	1.2	n.a.	
	United Kingdom	3.3	1.8	2.8	3.3	3.2	3.3	n.a.	
East Asia ²	China	10.1	10.4	11.1	10.4	11.1	11.9	n.a.	
	NIEs	Korea	4.7	4.2	5.0	4.0	4.0	5.0	n.a.
		Taiwan	6.2	4.1	4.7	4.0	4.2	5.1	n.a.
		Hong Kong	8.6	7.5	6.9	7.3	5.7	6.9	n.a.
		Singapore	8.8	6.6	7.9	6.6	6.5	8.7	9.4
	ASEAN4	Thailand	6.3	4.5	5.0	4.3	4.2	4.4	n.a.
		Indonesia	5.0	5.7	5.5	6.1	6.0	6.3	n.a.
		Malaysia	6.8	5.0	5.9	5.7	5.5	5.7	n.a.
Philippines		6.4	4.9	5.4	5.5	7.1	7.5	n.a.	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q3	2006 Q4	2007			2007		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
United States	<11.7>	3.6	6.6	4.5	-2.4	-2.2	1.7	-2.0	-7.7	1.5	-0.3
EU	<10.3>	2.1	1.4	-0.4	-0.2	1.7	3.8	5.2	-0.3	3.2	-1.3
East Asia	<41.4>	11.2	9.5	2.3	1.8	0.1	-0.8	2.7	1.5	1.4	-2.2
China	<20.5>	18.8	11.2	3.1	2.2	1.4	0.5	1.9	2.8	-0.5	-1.1
NIEs	<9.8>	9.3	12.7	1.5	-0.2	-1.6	-4.5	4.8	1.8	1.1	2.0
Korea	<4.7>	8.3	11.4	1.3	-1.6	-1.7	1.3	4.9	6.4	-2.1	-0.2
Taiwan	<3.5>	11.0	16.9	4.2	2.3	-3.3	-10.3	6.7	2.9	2.9	4.9
ASEAN4 ³	<11.1>	0.2	3.4	1.5	3.1	-1.0	0.0	2.5	-1.6	5.8	-8.2
Thailand	<2.9>	12.8	7.1	0.7	2.0	1.7	-1.6	3.5	0.0	4.3	-1.5
Others	<36.5>	1.8	2.5	-1.7	-2.3	1.3	-1.0	4.9	4.6	-0.6	0.6
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	2.5	0.0	1.6	-2.5

(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		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
Raw materials ⁴	<34.7>	-3.9	1.0	-2.2	-2.0	0.9	-0.2	3.9	3.2	0.7	-2.7
Intermediate goods	<14.0>	4.6	2.3	-0.4	-1.4	0.5	1.9	3.9	1.7	0.1	0.3
Foodstuffs	<8.5>	2.6	-3.3	-2.3	1.7	0.4	-4.3	0.3	0.1	-4.3	5.4
Consumer goods ⁵	<8.8>	8.6	2.6	0.1	1.9	-5.1	5.5	1.2	-2.7	1.9	-0.5
IT-related goods ⁶	<12.0>	15.4	14.1	4.2	-1.6	0.6	-1.4	4.9	-0.6	4.4	1.3
Capital goods and parts ⁷	<12.4>	13.6	16.9	4.9	1.3	1.7	1.7	2.2	-4.4	5.3	-5.4
Excluding aircraft	<11.5>	13.7	18.0	2.9	1.8	0.3	3.1	5.2	-1.3	6.1	-2.4
Real imports		5.4	4.4	0.6	-0.5	0.4	0.5	2.5	0.0	1.6	-2.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q3 figures are July-August averages converted into quarterly amount.

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

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

4. Raw materials are mainly composed of woods, ores and mineral fuel.

5. Excludes foodstuffs.

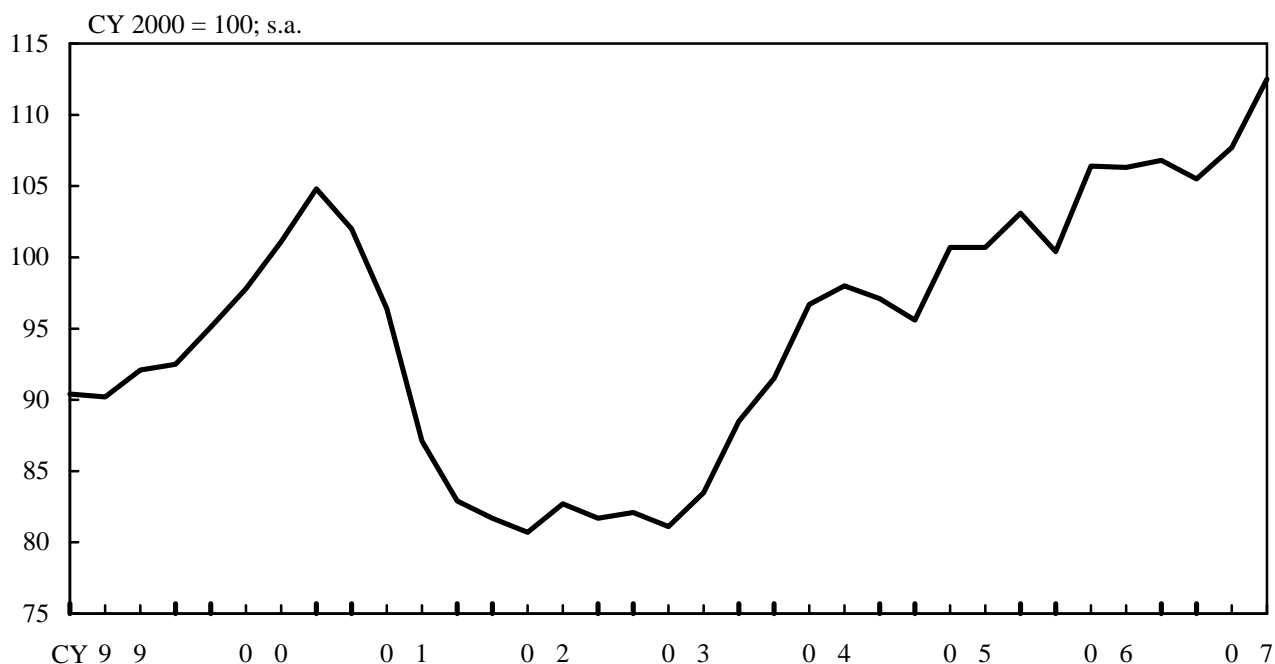
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

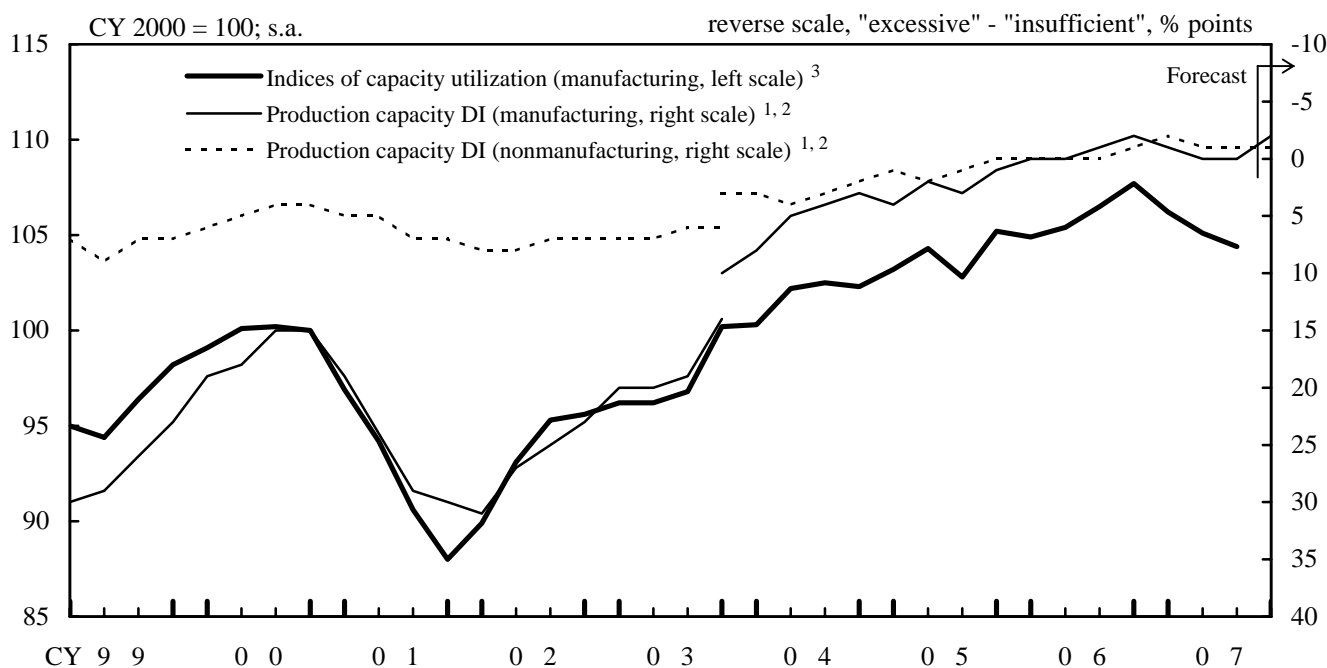
Coincident Indicators for Business Fixed Investment

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



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

(2) Indices of Capacity Utilization and Production Capacity DI



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

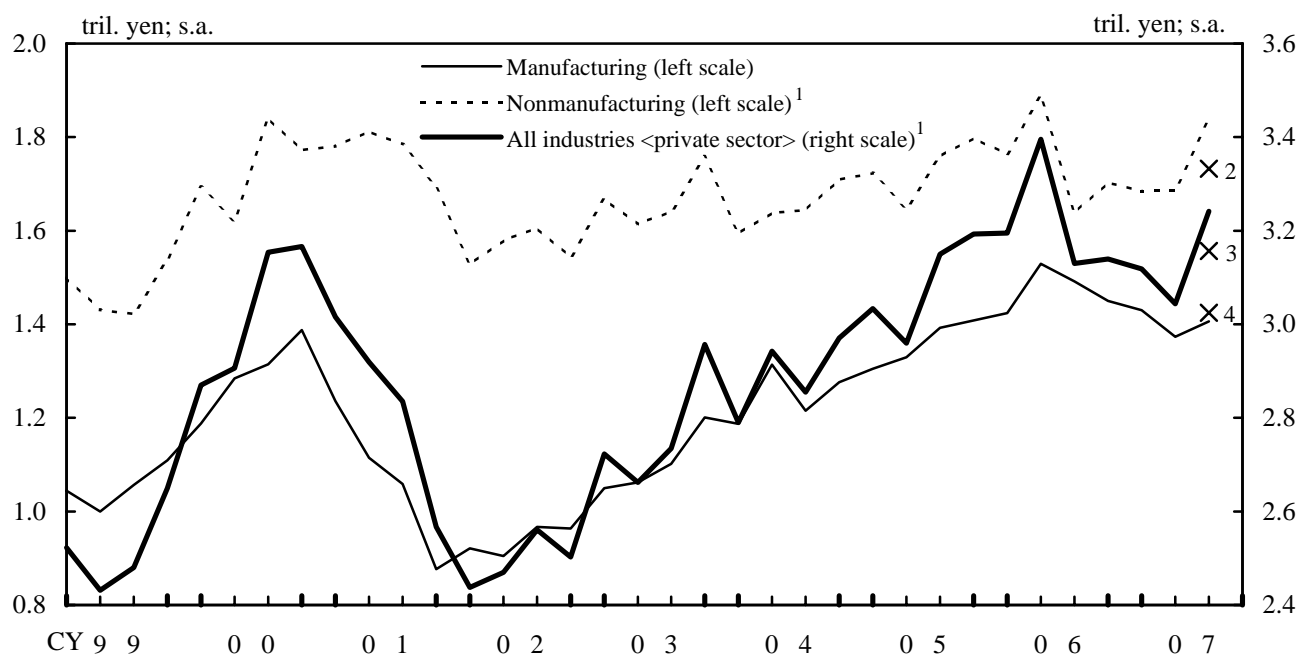
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/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.

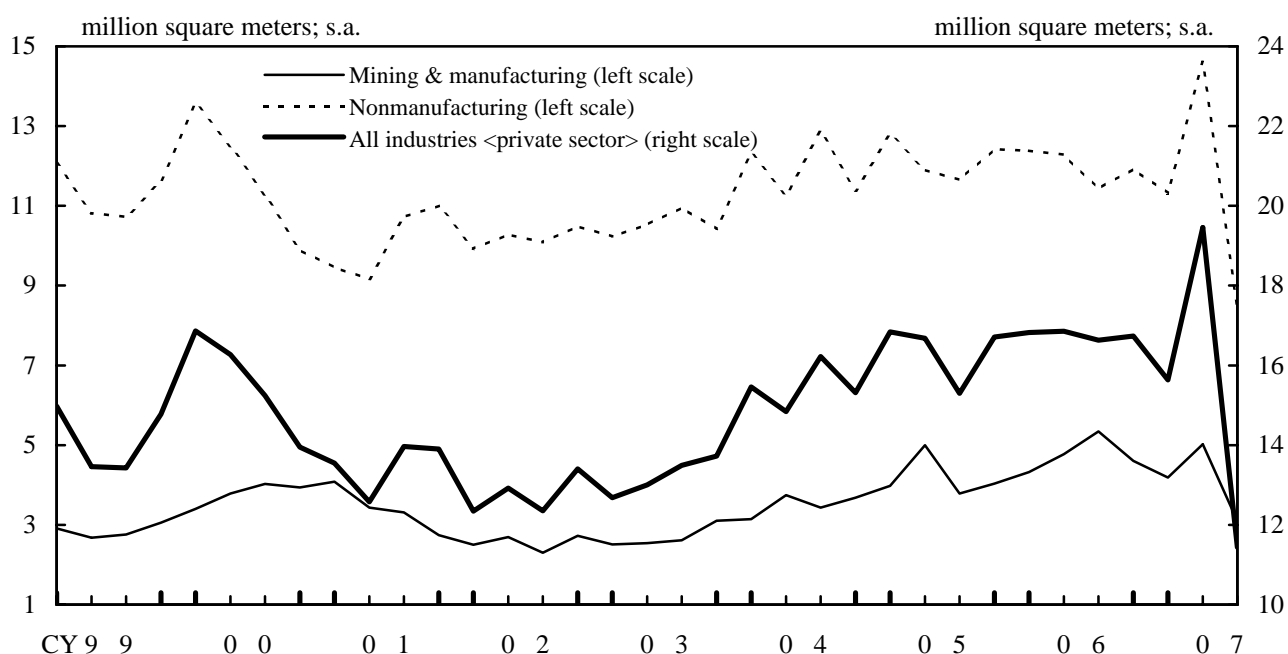
2. Forecast of nonmanufacturing industries for 2007/Q3.

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

4. Forecast of manufacturing industries for 2007/Q3.

5. Figures for 2007/Q3 are averages of July-August 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.

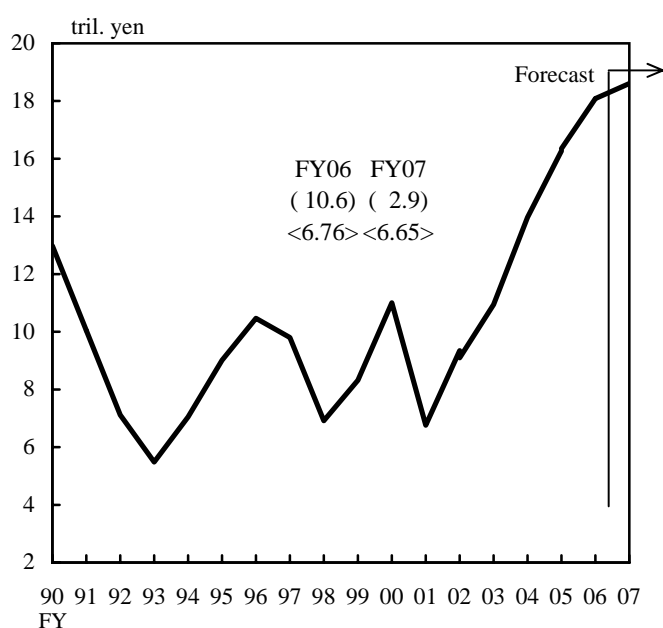
3. Figures for 2007/Q3 are averages of July-August in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

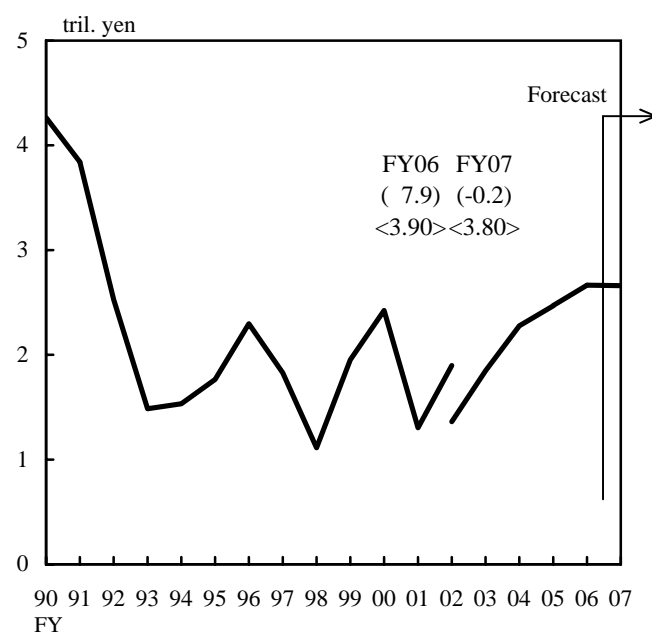
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

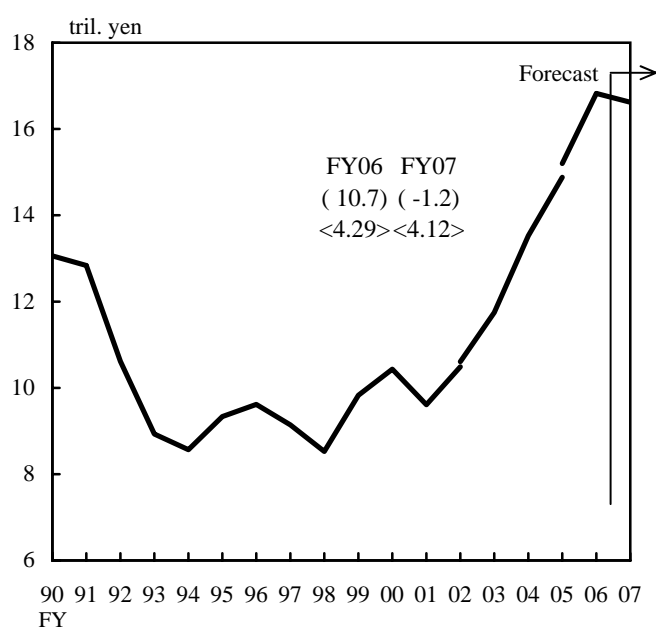
(1) Manufacturing Large Enterprises



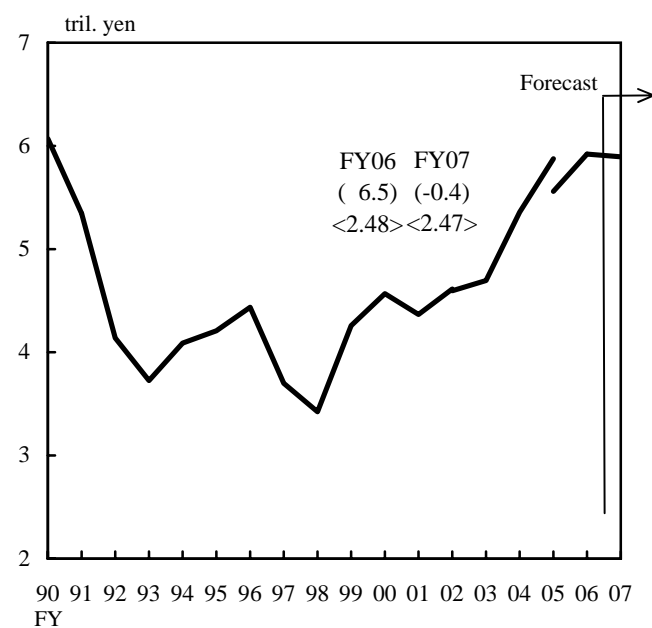
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



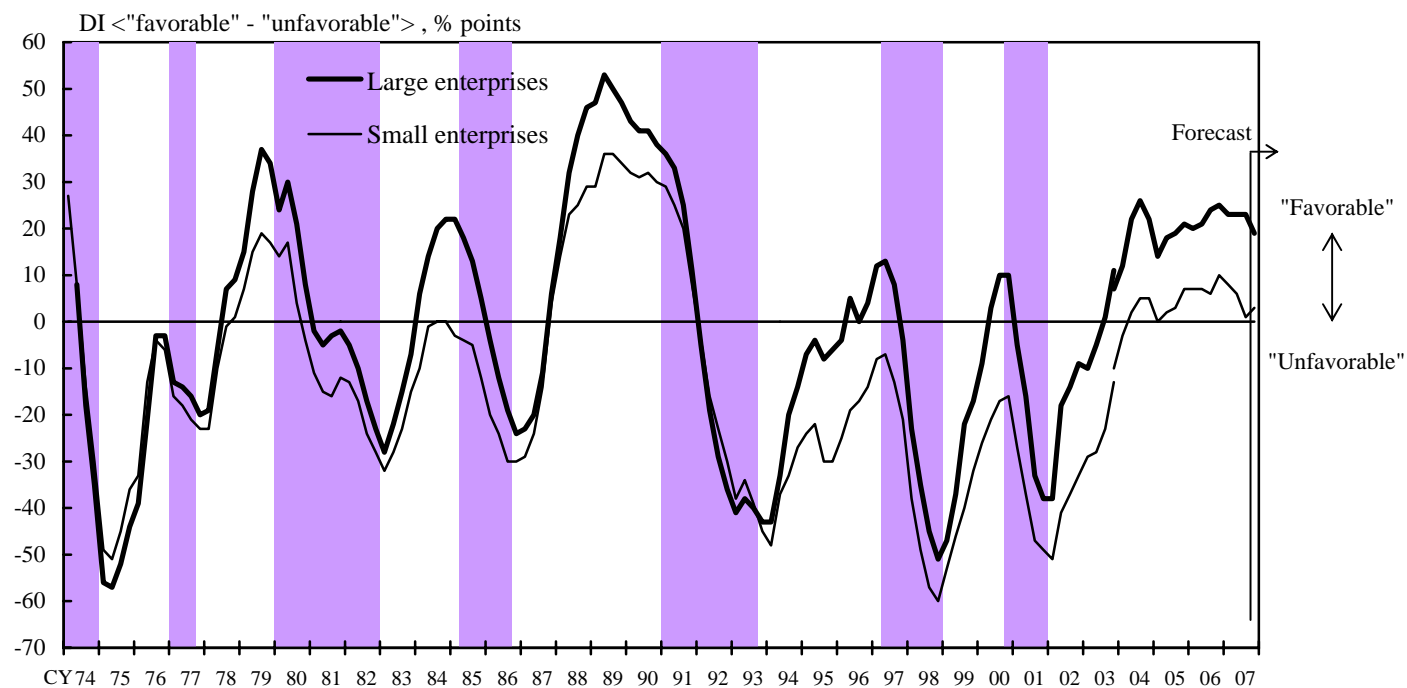
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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

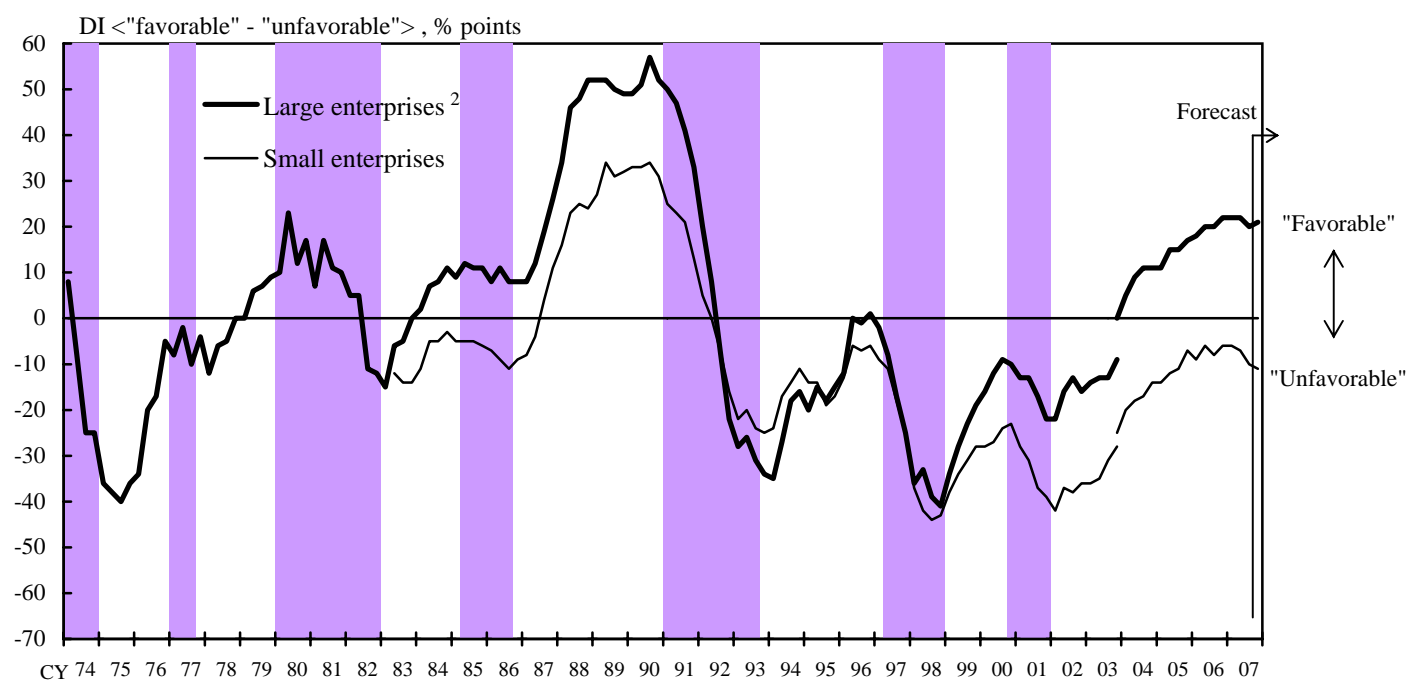
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



Notes: 1. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

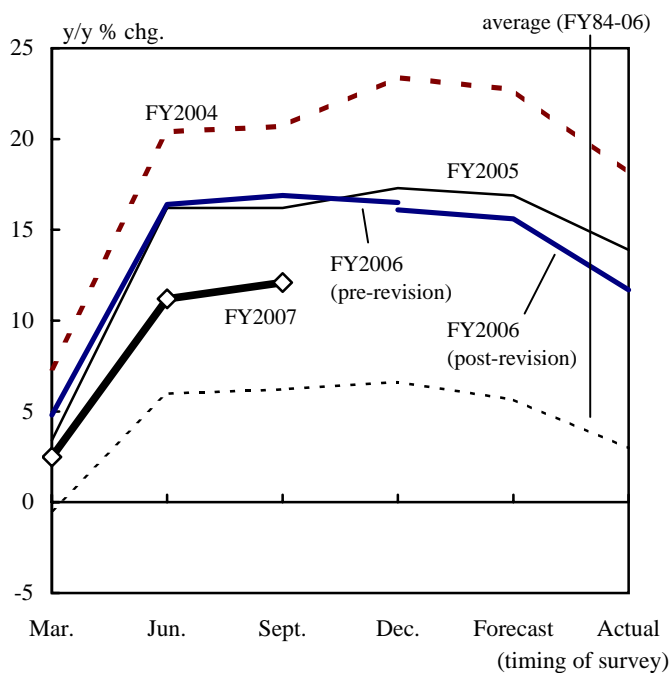
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

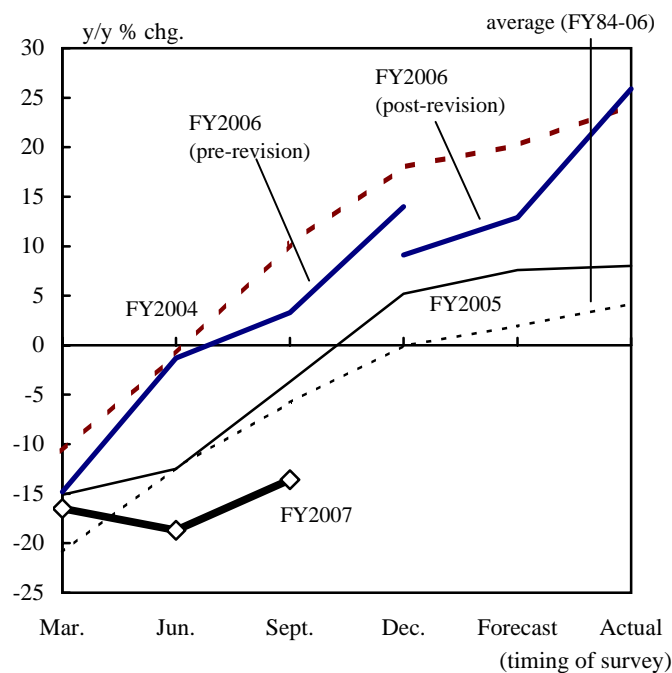
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

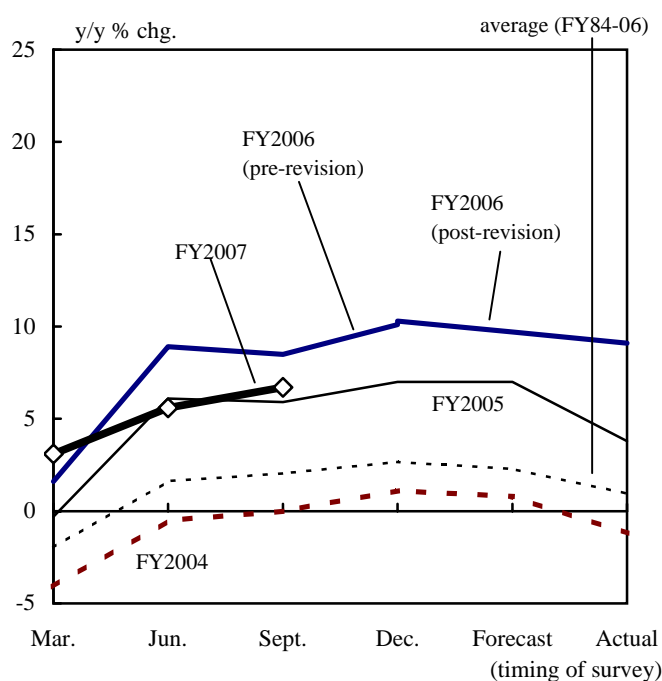
(1) Manufacturing Large Enterprises



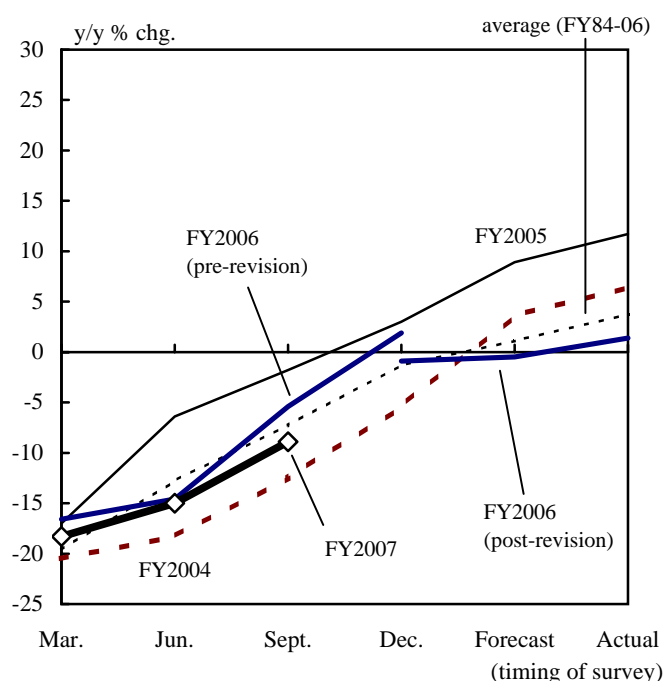
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



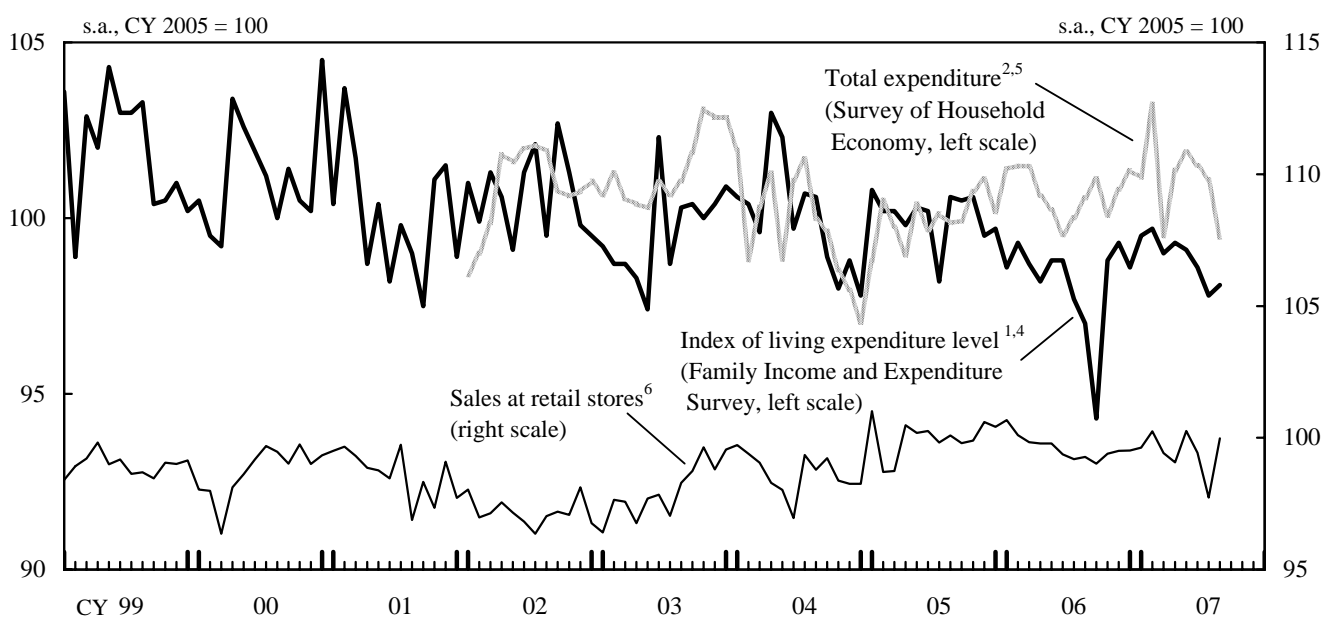
Notes: 1. Includes land purchasing expenses and excludes software investment.

2. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with this timing.

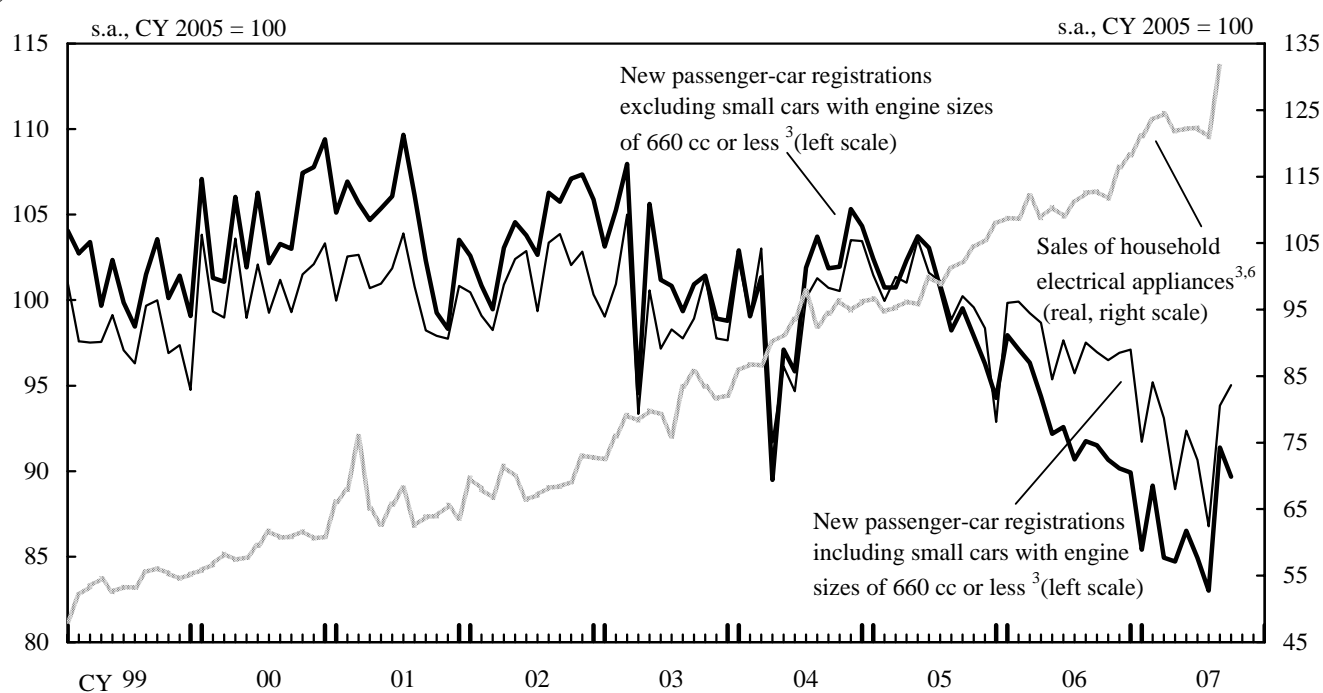
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

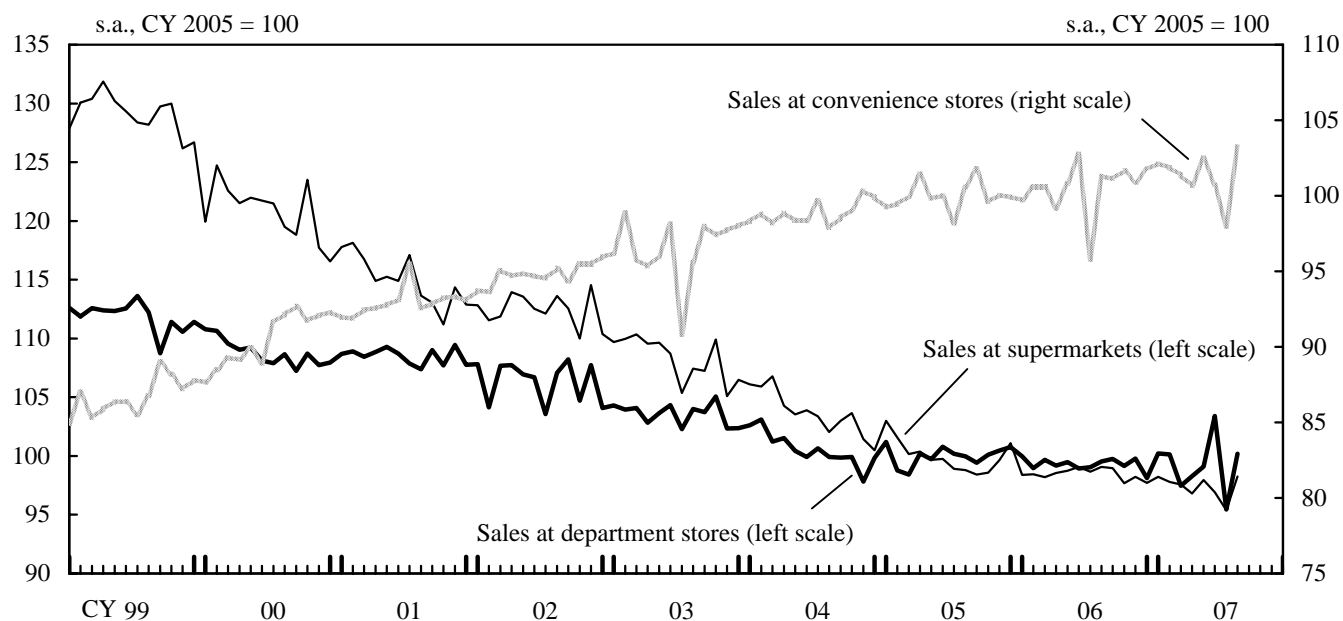


(2) Sales of Durable Goods

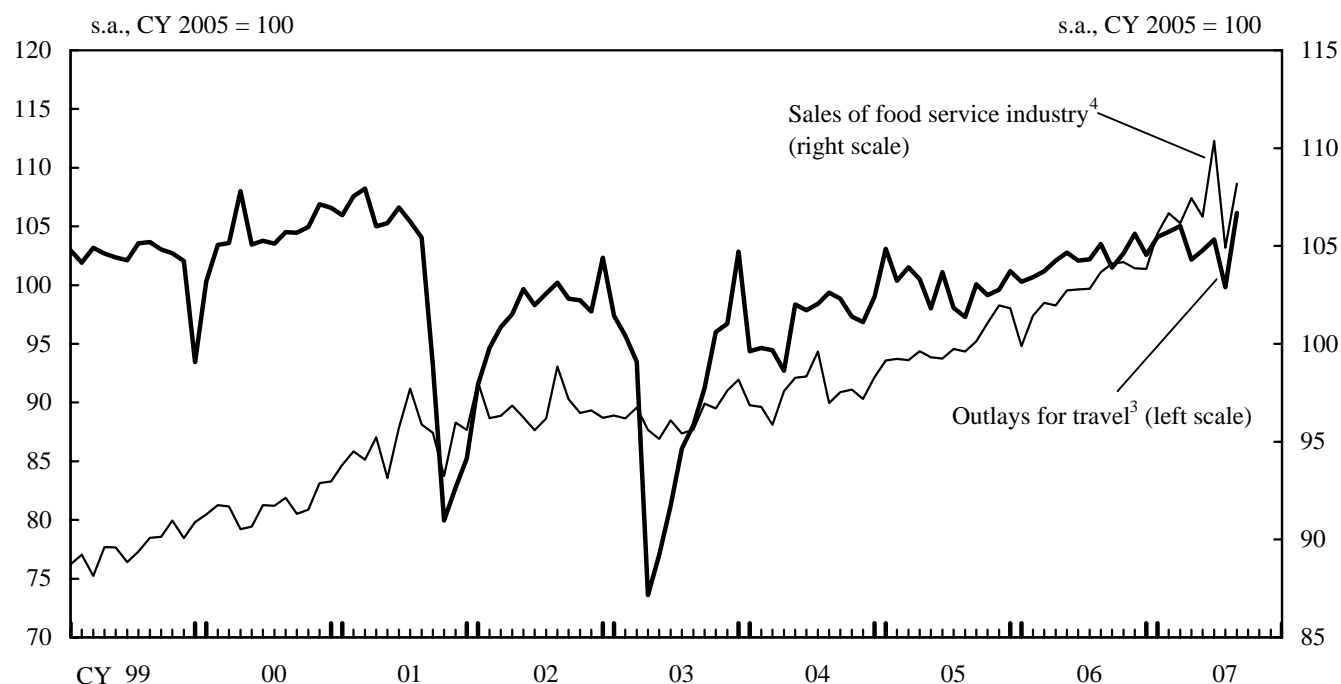


- Notes: 1. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of living expenditure level is based on two-or-more-person households excluding agricultural, forestry, and fisheries households.
 5. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.
 6. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). Sales of household electrical appliances are calculated as follows; the sales of household machinery retail stores in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the wholesale price index and the corporate goods price index for personal computers before 1999 and PC printers before 2002).

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

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

(4) Consumption of Services (Nominal)



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

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

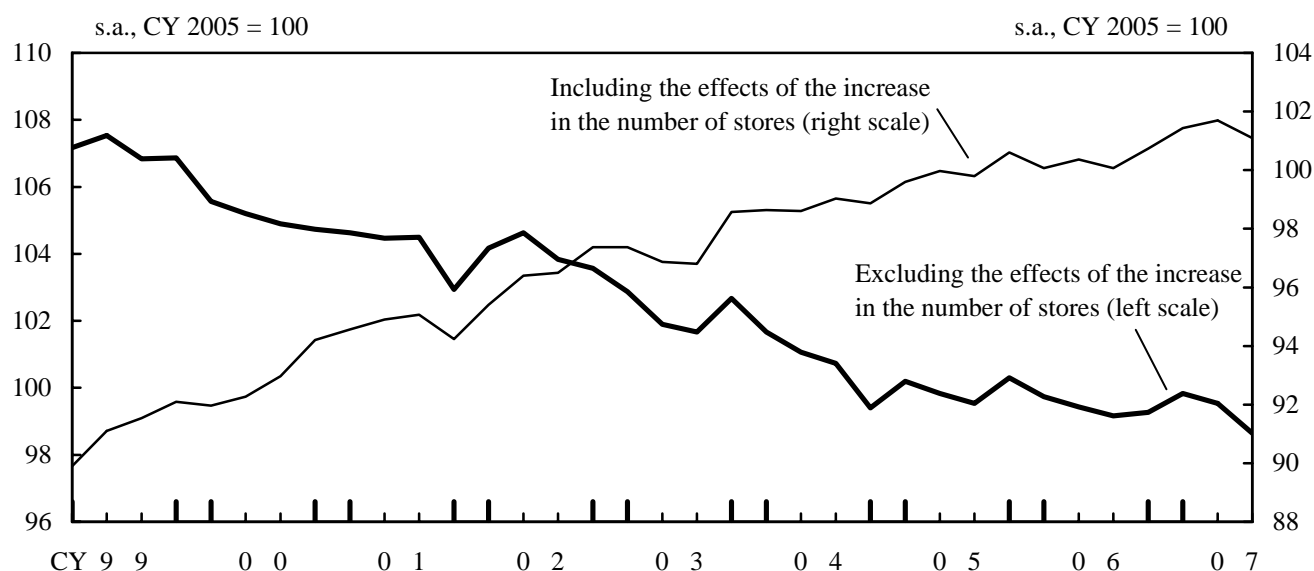
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

4. Sales of food service industry are calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (The Research of Food Service Industry)."

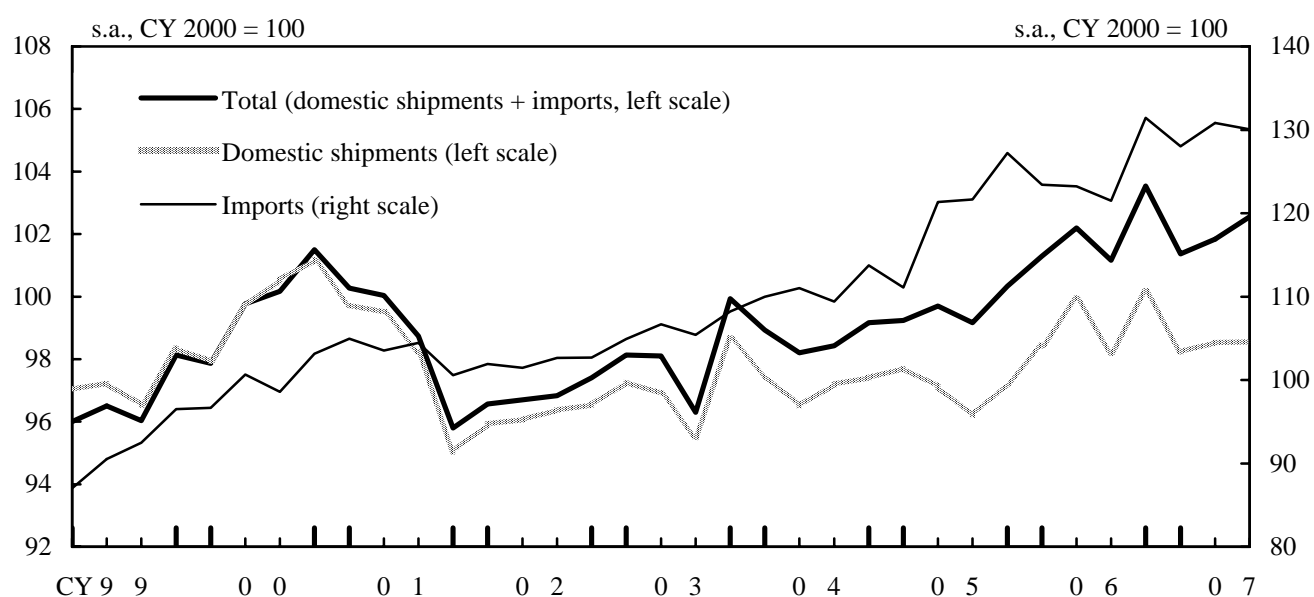
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- Notes: 1. The Indices of Aggregated Sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in the family income and expenditure survey. These indices of aggregated sales consist of the series including and excluding the effects of the increase in the number of stores. Indices "including the effects of the increase in the number of stores" reflect the fluctuations in sales due to changes in the number of stores caused by the opening and closing down of businesses (indices "including the effects of the increase in the number of stores" include sales at convenience stores). On the other hand, those "excluding the effects of the increase in the number of stores" aim to capture consumption trends only from stores for which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the price indices.
3. Seasonally adjusted by X-12-ARIMA.
4. Data for 2007/Q3 figures are those of July-Aug. averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

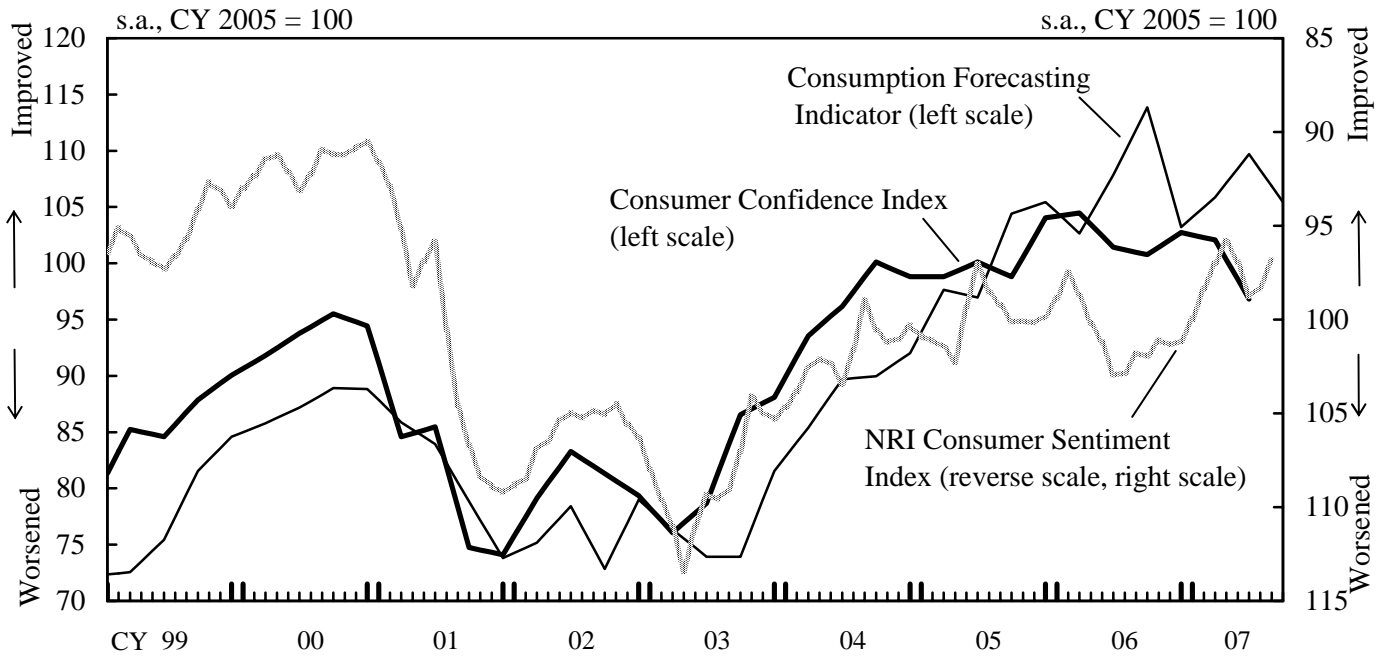


Note: Data for 2007/Q3 figures are those of July-Aug. averages in terms of quarterly amount.

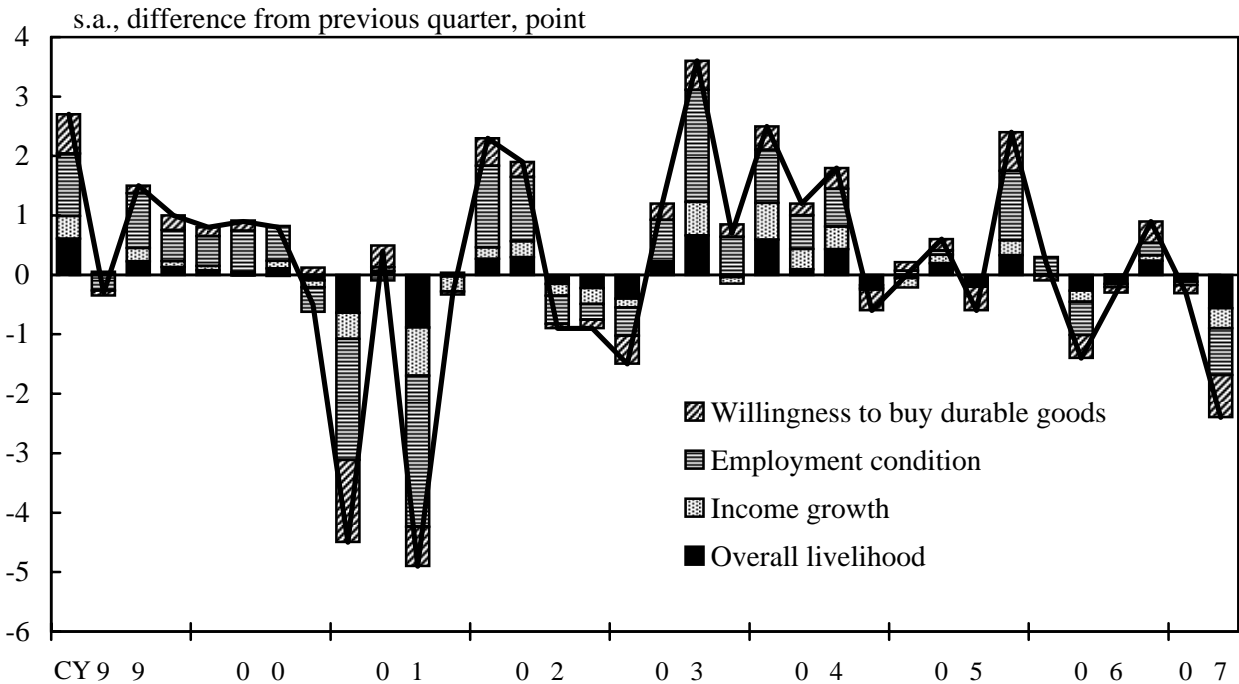
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

(1) Surveys on Consumer Confidence



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



Notes: 1. Seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.

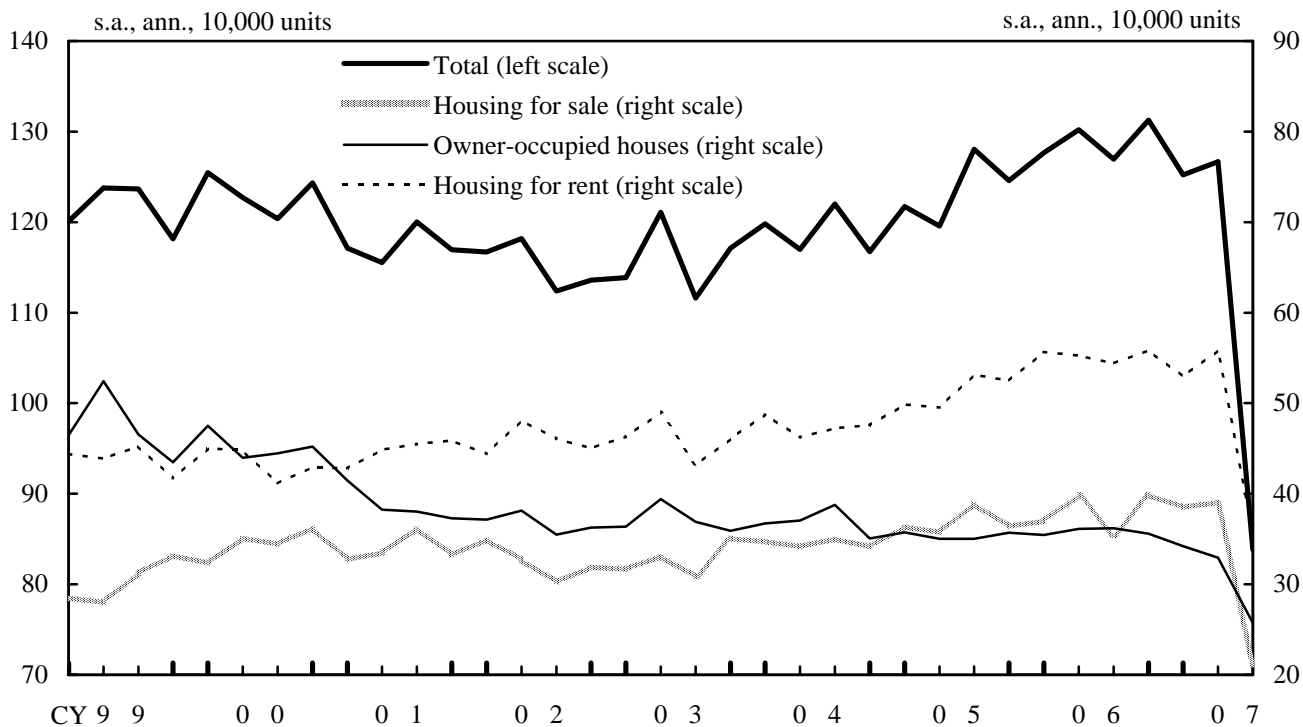
2. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

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

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

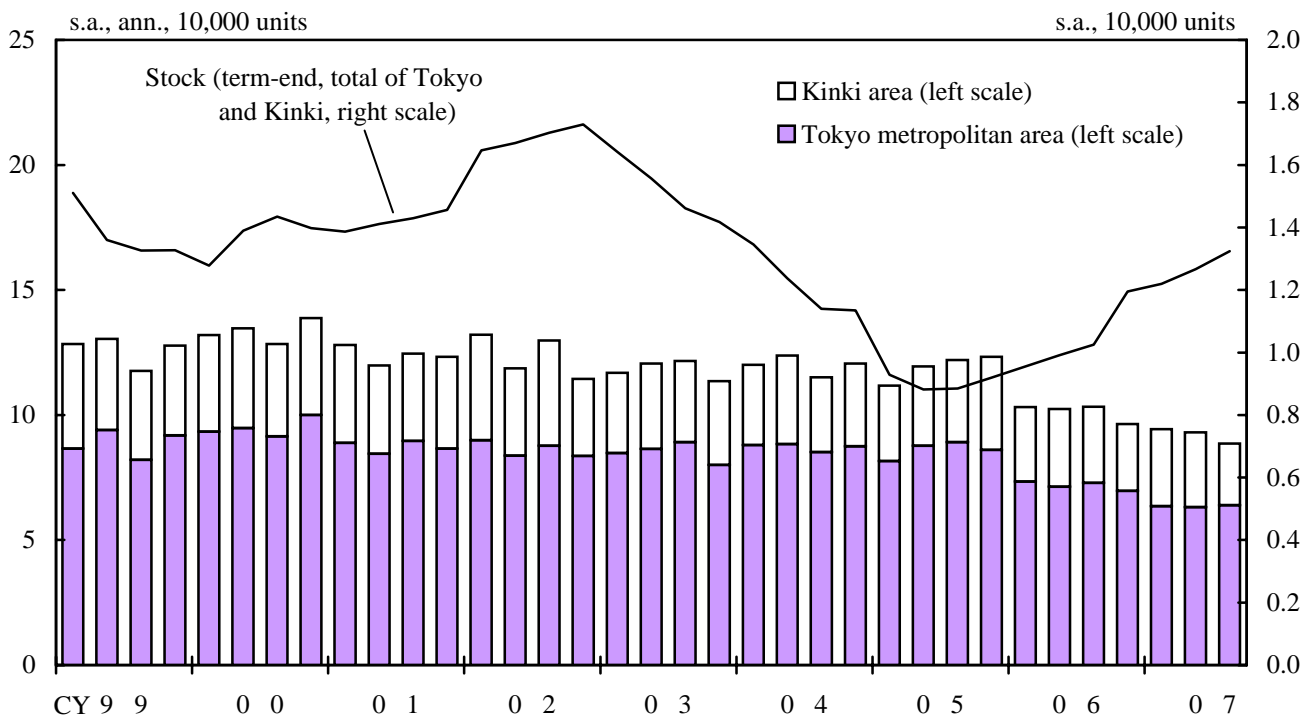
Indicators for Housing Investment

(1) Housing Starts



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

(2) Sales of Apartments



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

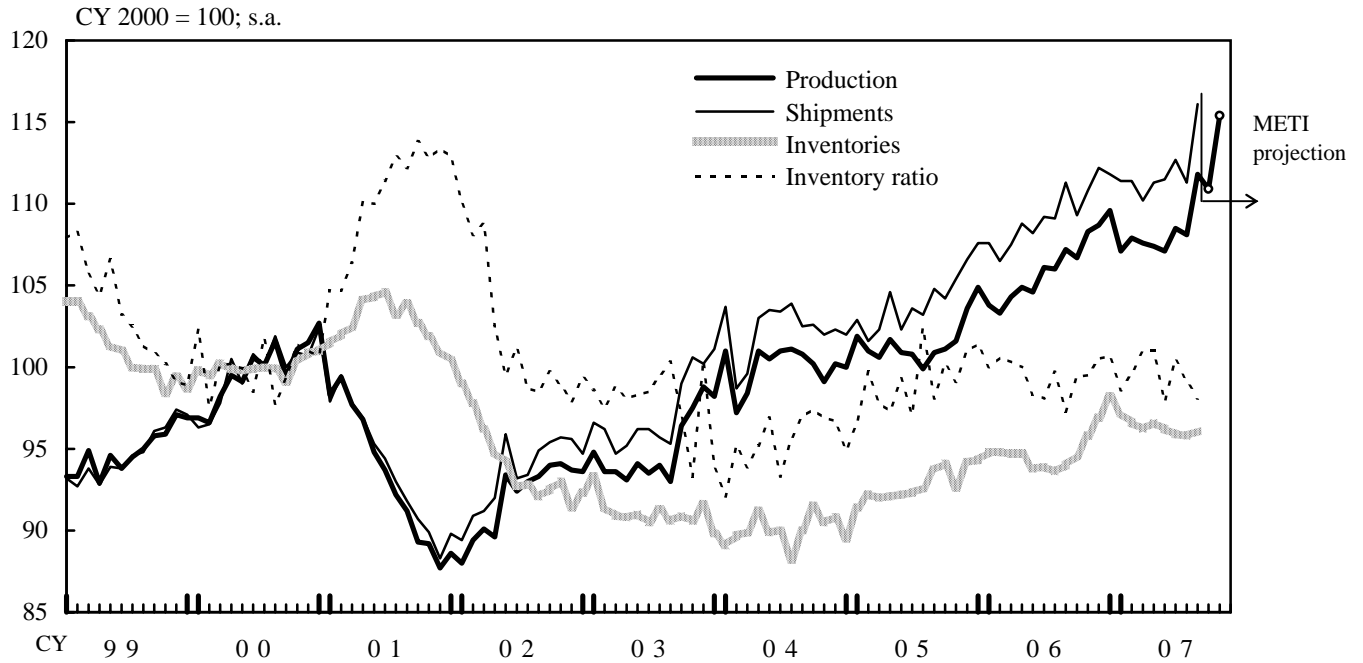
2. Figures of total apartments sales for 2007/Q3 are those of July-August averages.

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

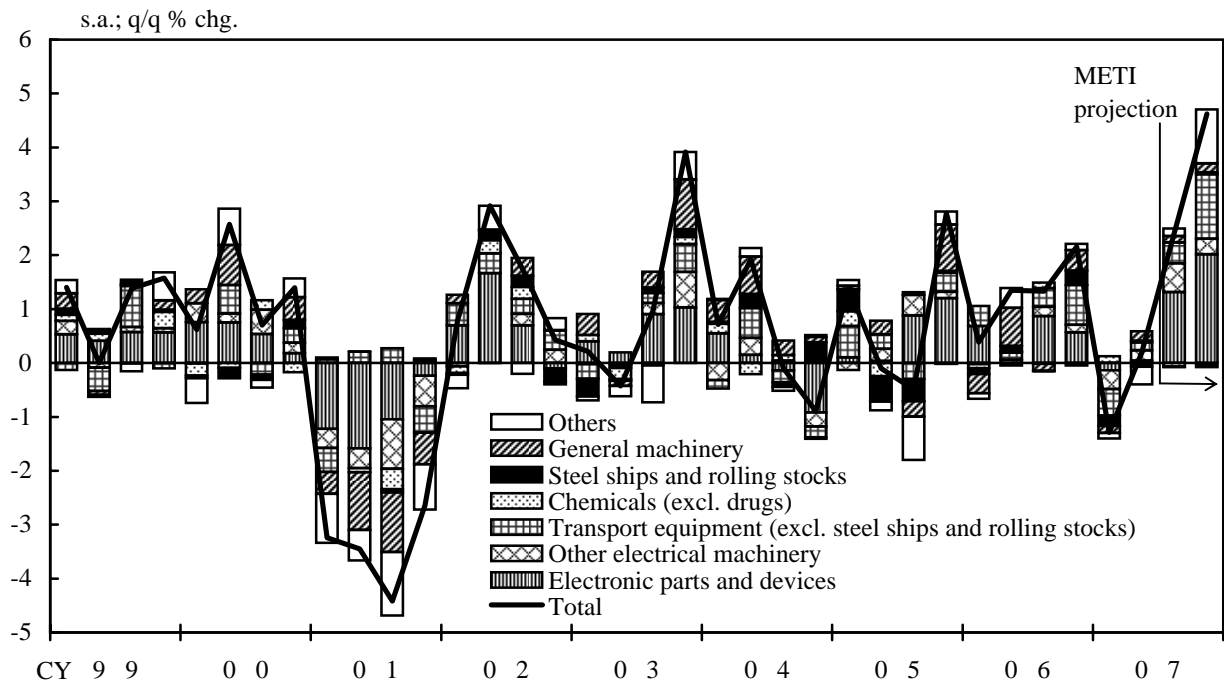
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries



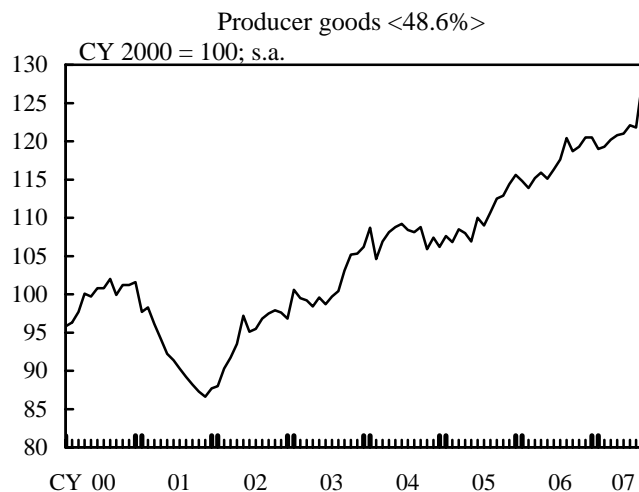
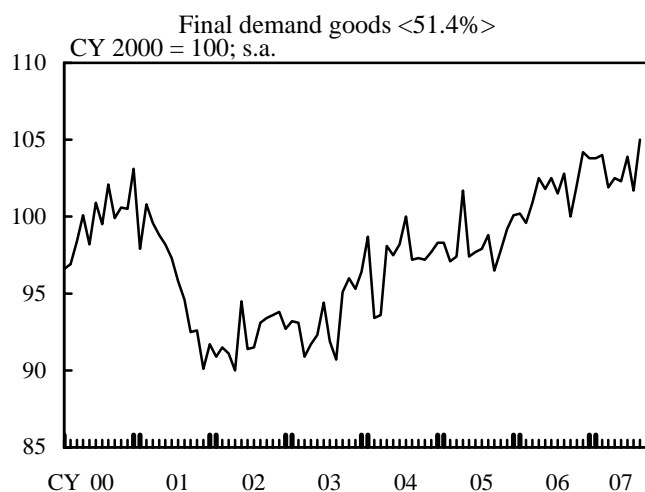
Notes:1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

- 2007/Q3 figures are based on the actual levels in July and August, and the METI projection level in September. 2007/Q4 figures are based on the assumption that each production level in November and December is the same as that of October.

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

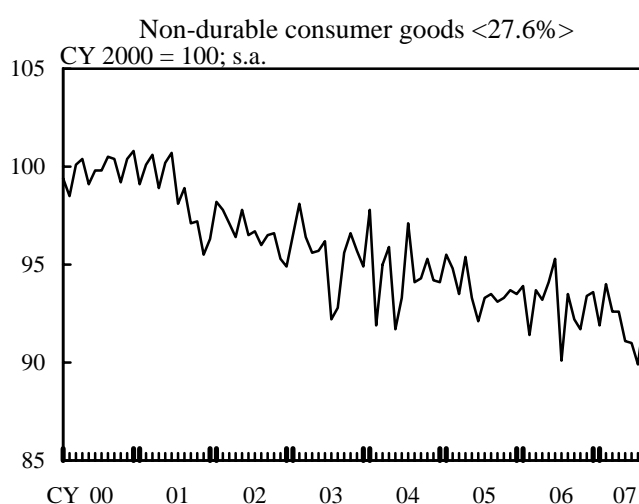
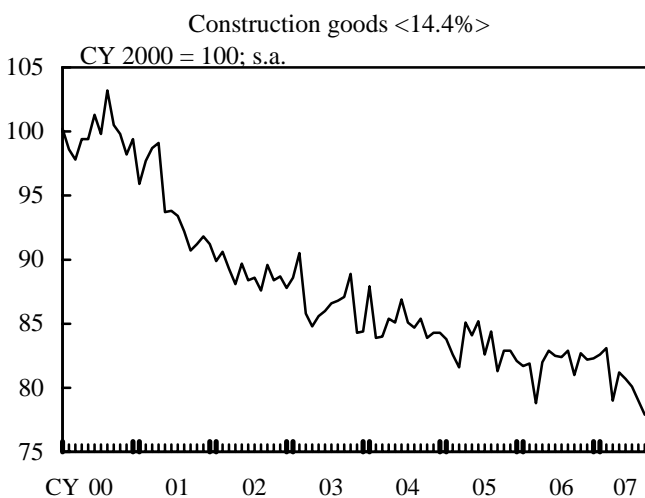
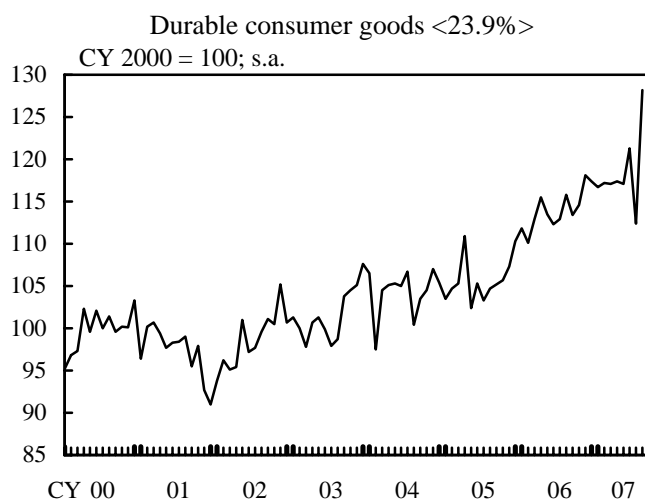
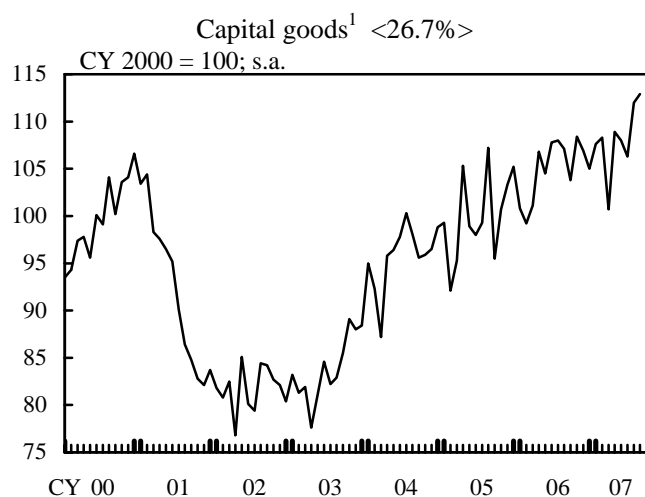
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods



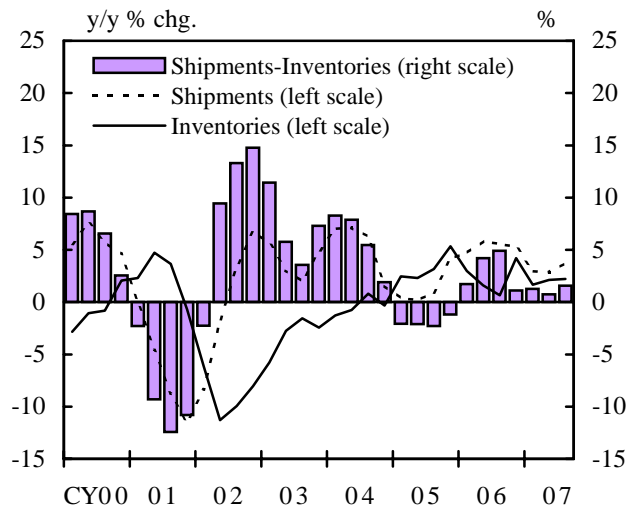
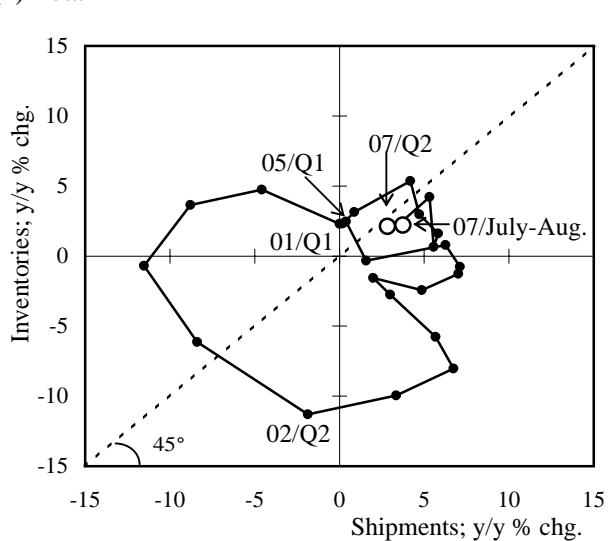
Notes: 1. Excluding transport equipment.

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

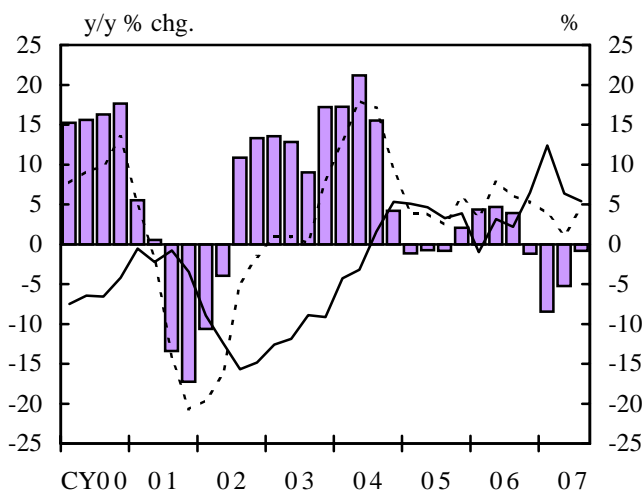
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

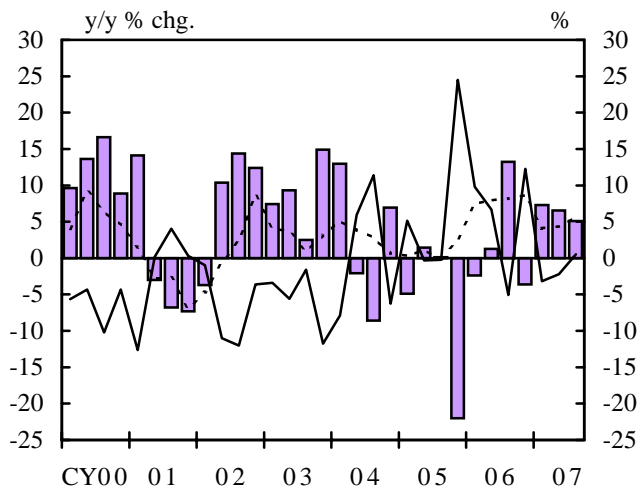
(1) Total



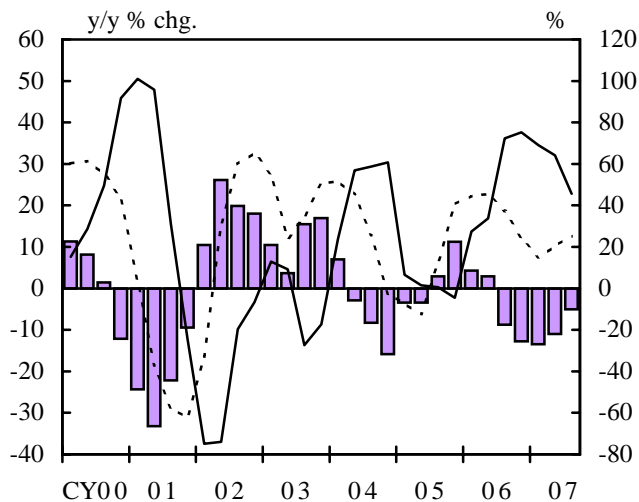
(2) Capital Goods (Excluding Transport Equipment)



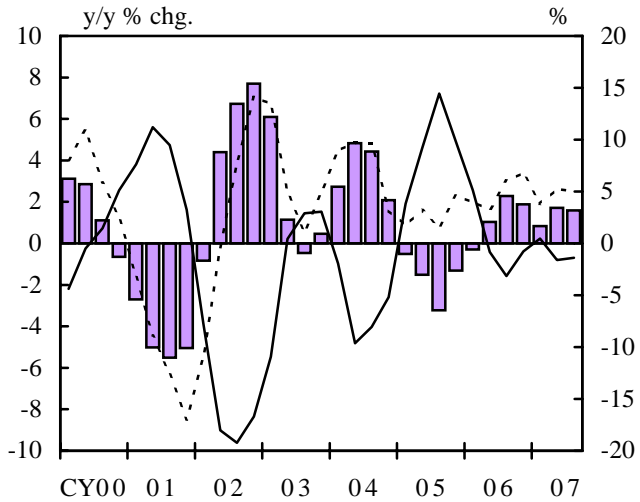
(3) Durable Consumer Goods



(4) Electronic Parts and Devices



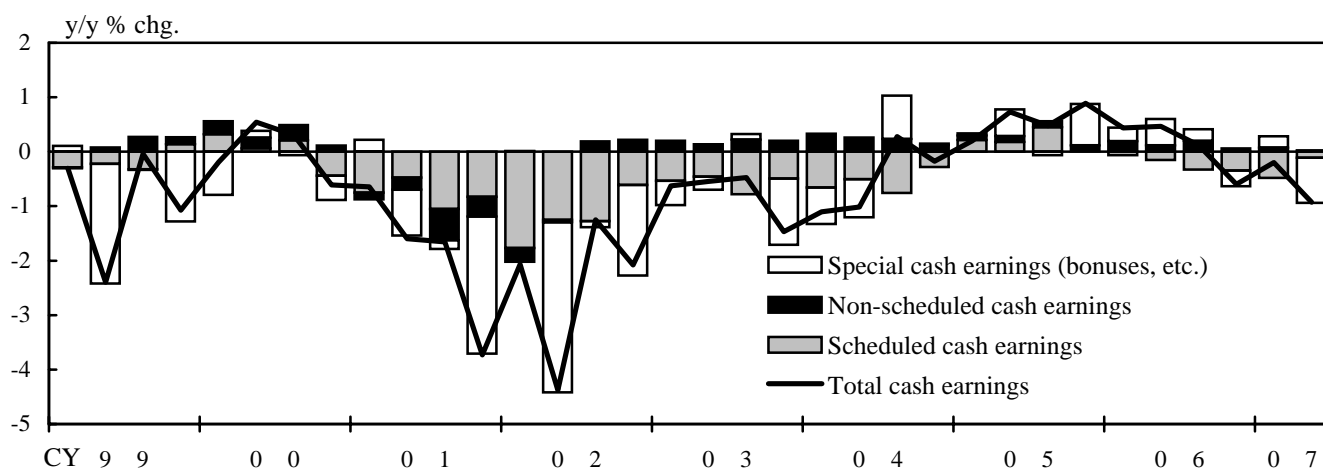
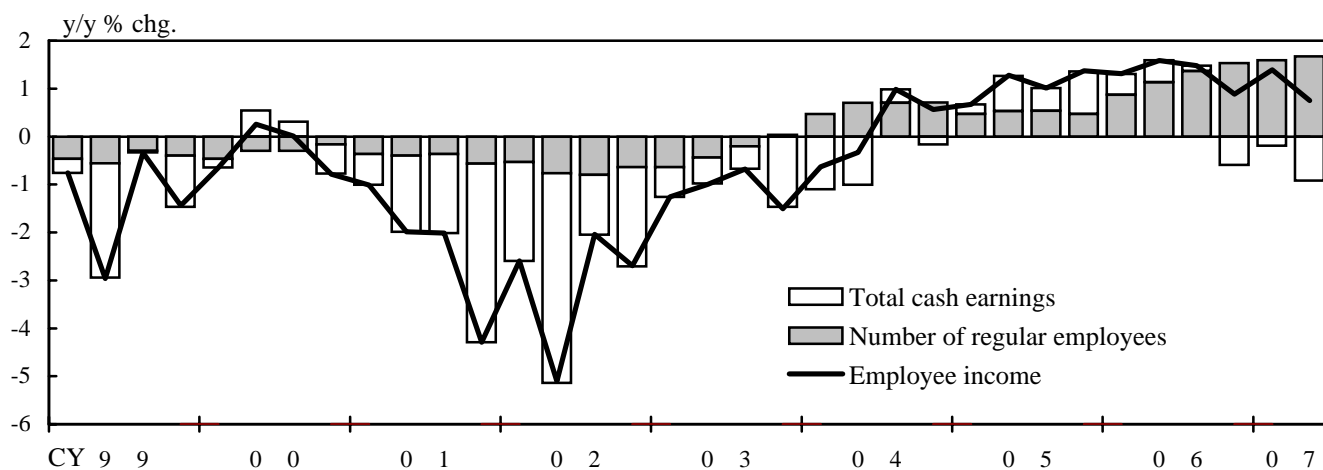
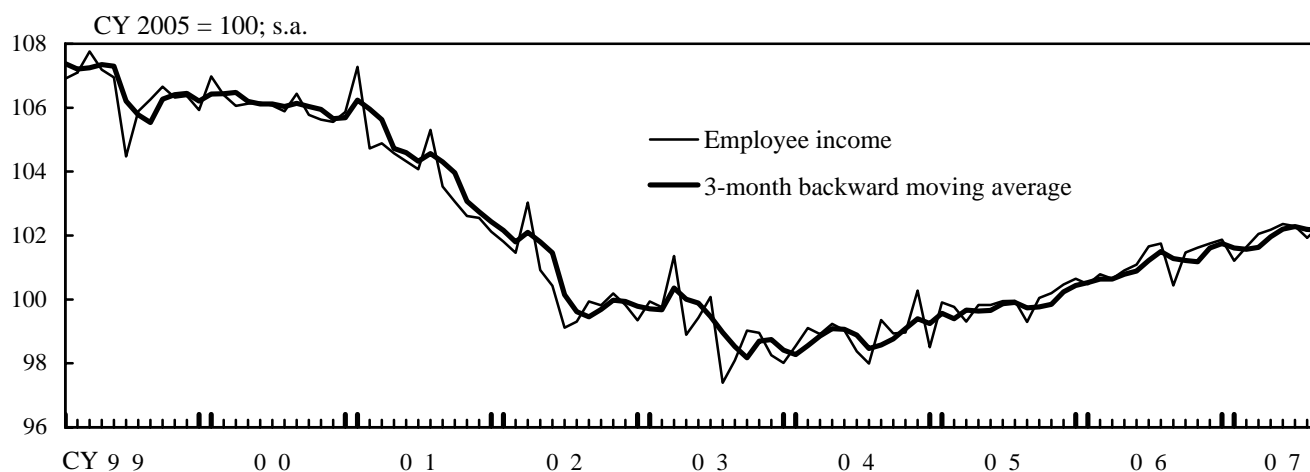
(5) Producer Goods Excluding Electronic Parts and Devices



Note: Figures of Shipments for 2007/Q3 are those of July-August averages.
 Inventories for 2007/Q3 are those of August.

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

Employee Income

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

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

2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

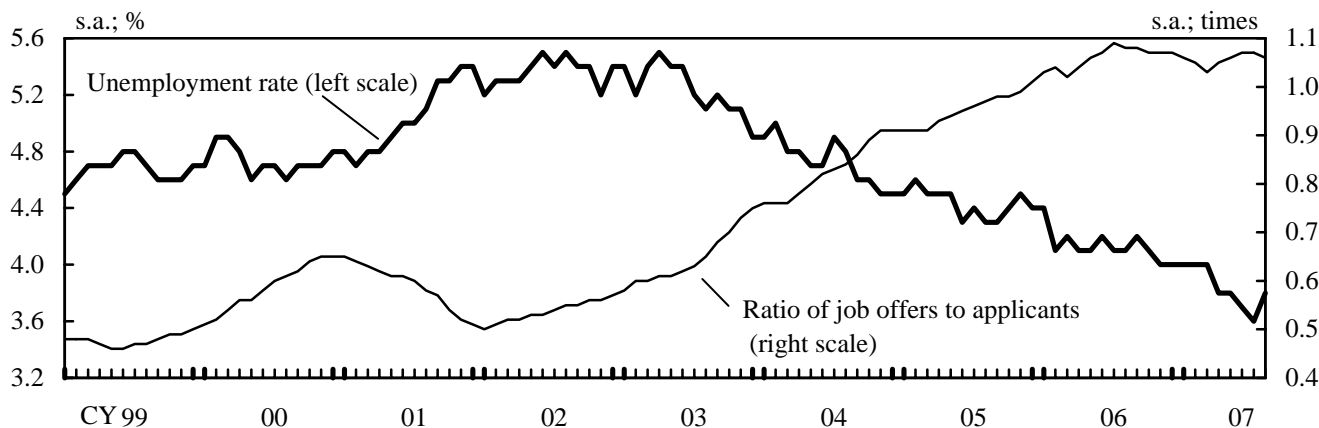
3. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.

4. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.

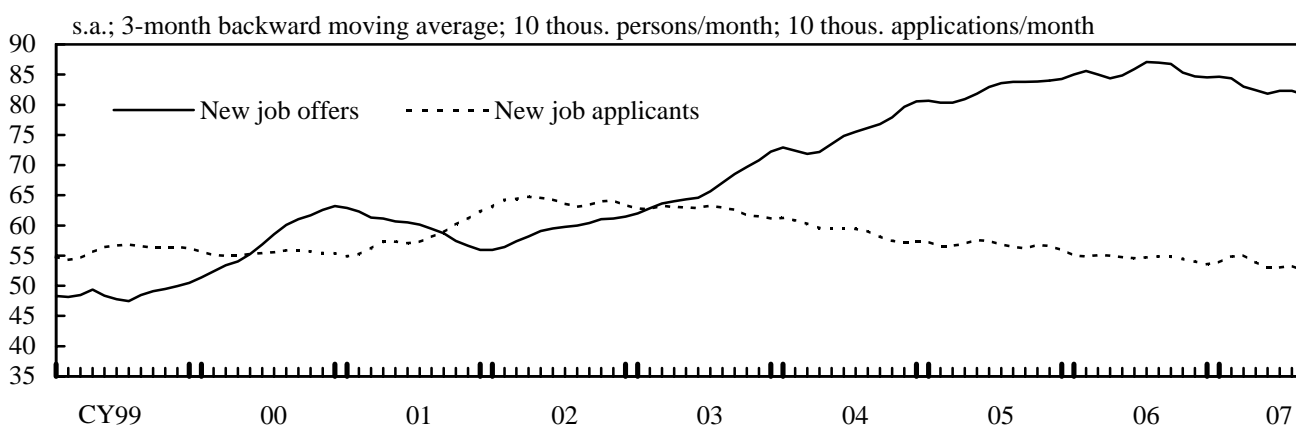
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

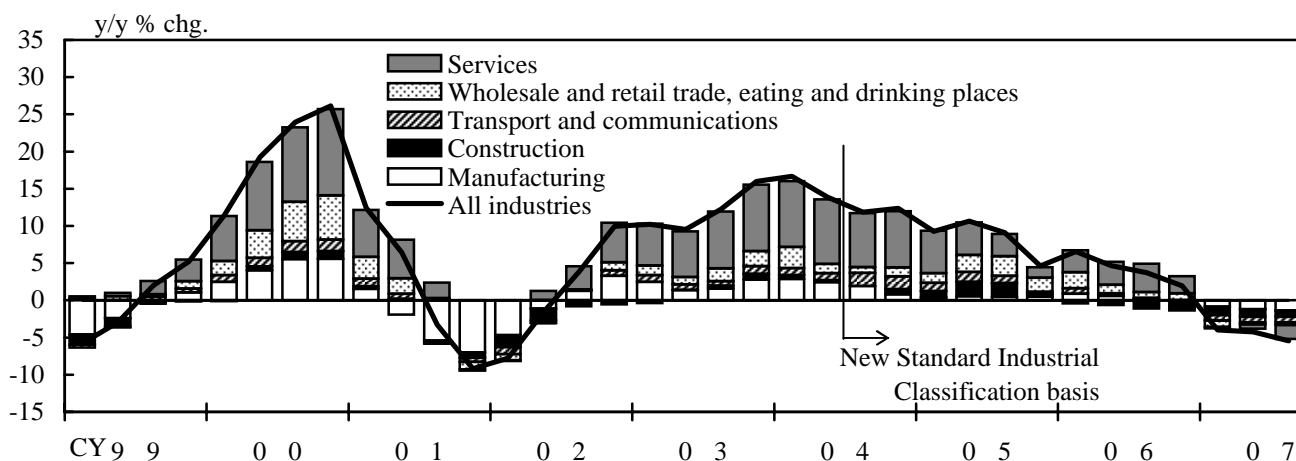
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



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

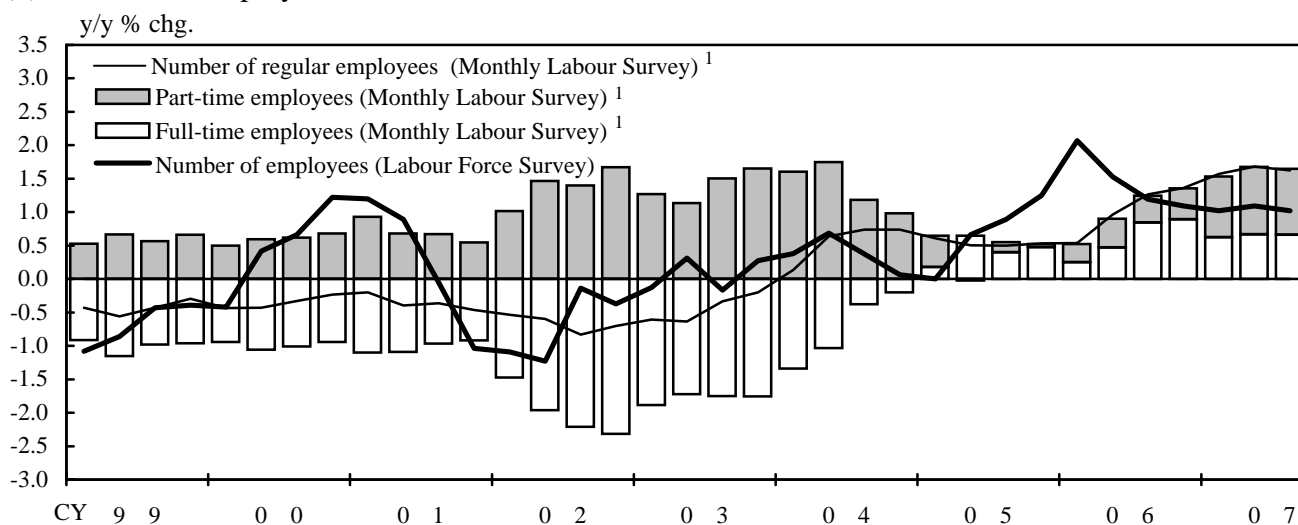


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation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

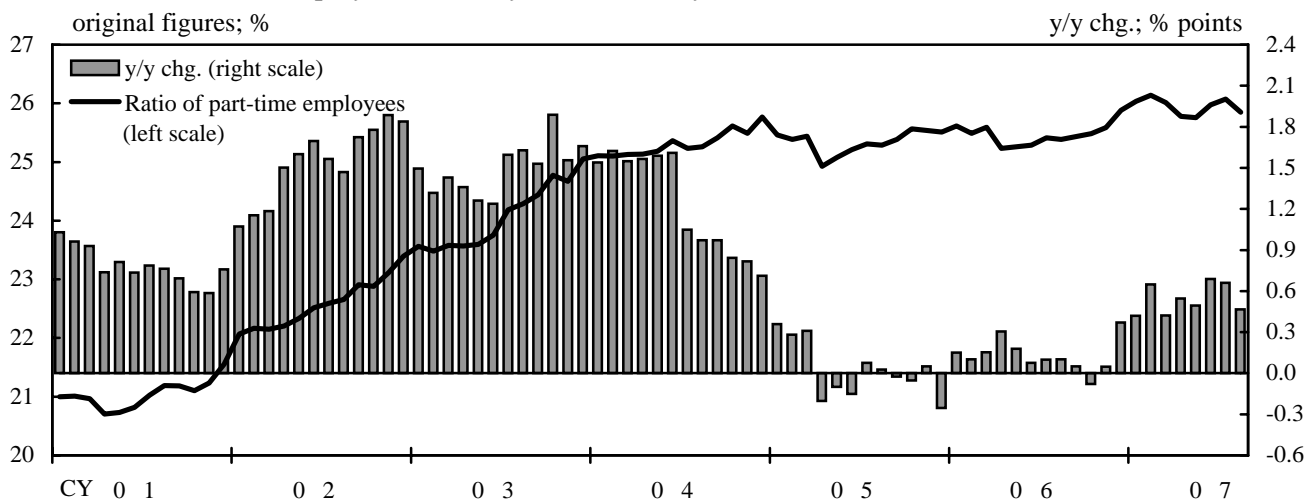
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

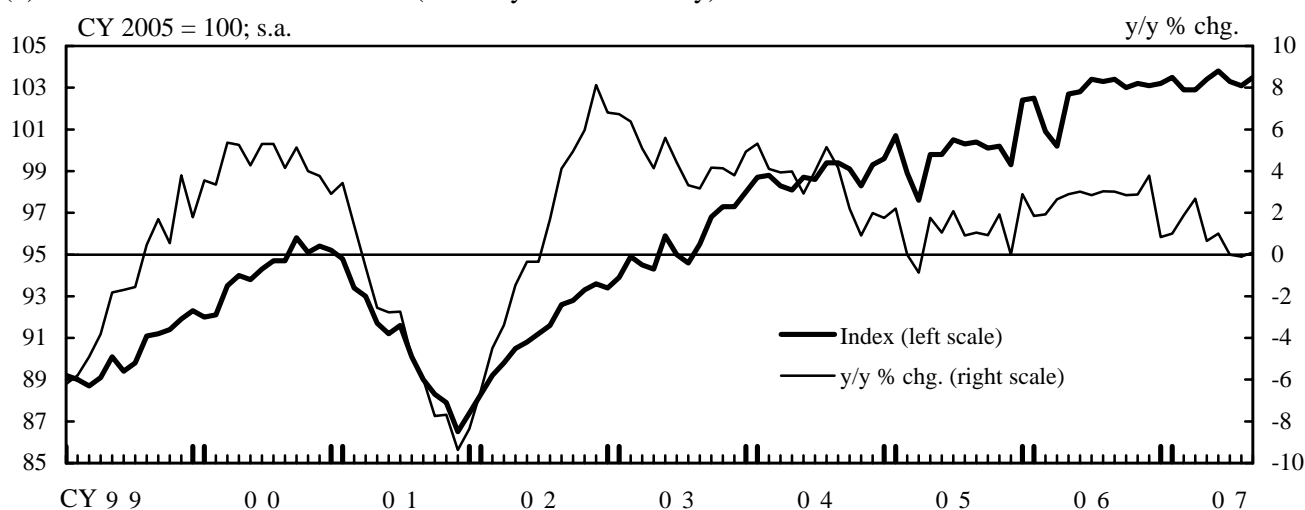
(1) Number of Employees³



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



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



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

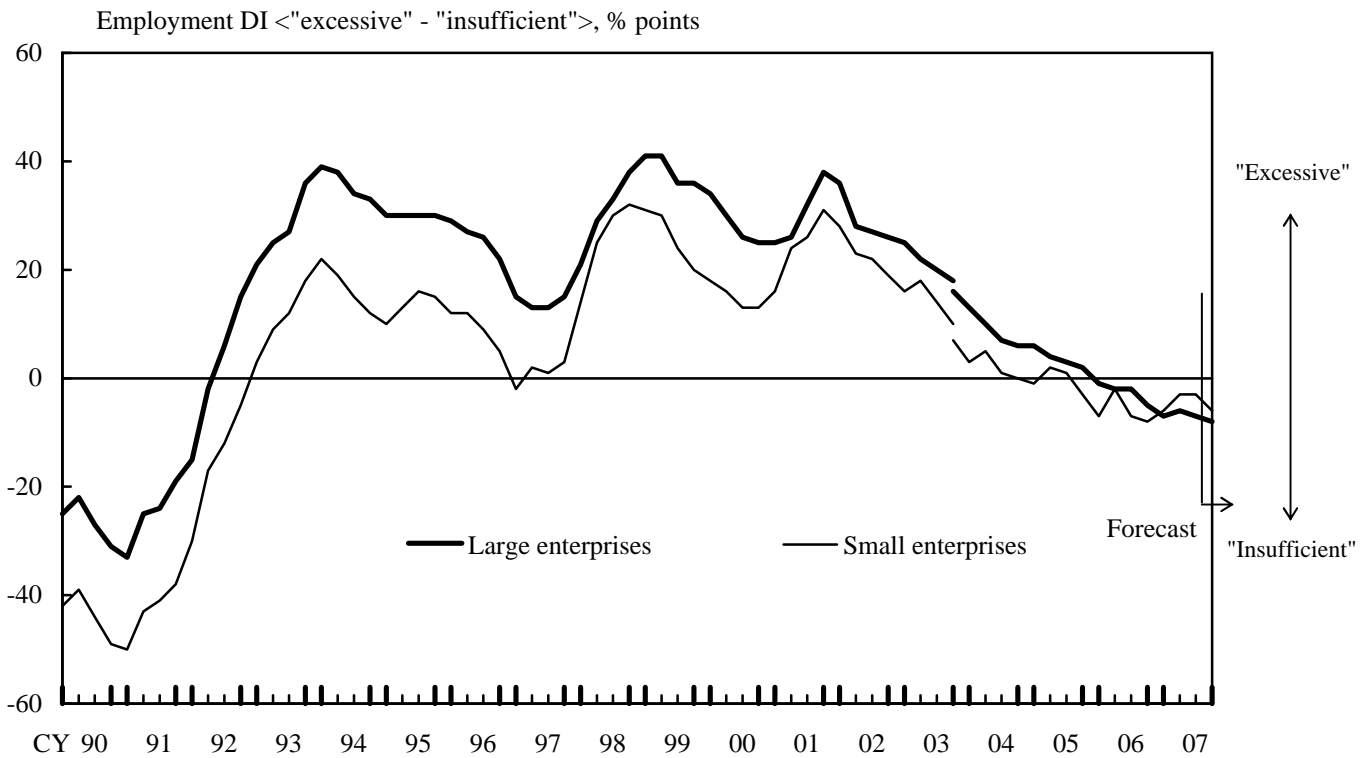
2. Ratio of part-time employees is calculated as number of part-time employees divided by number of regular employees times 100.

3. Figures for 2007/Q3 are those of July-August averages.

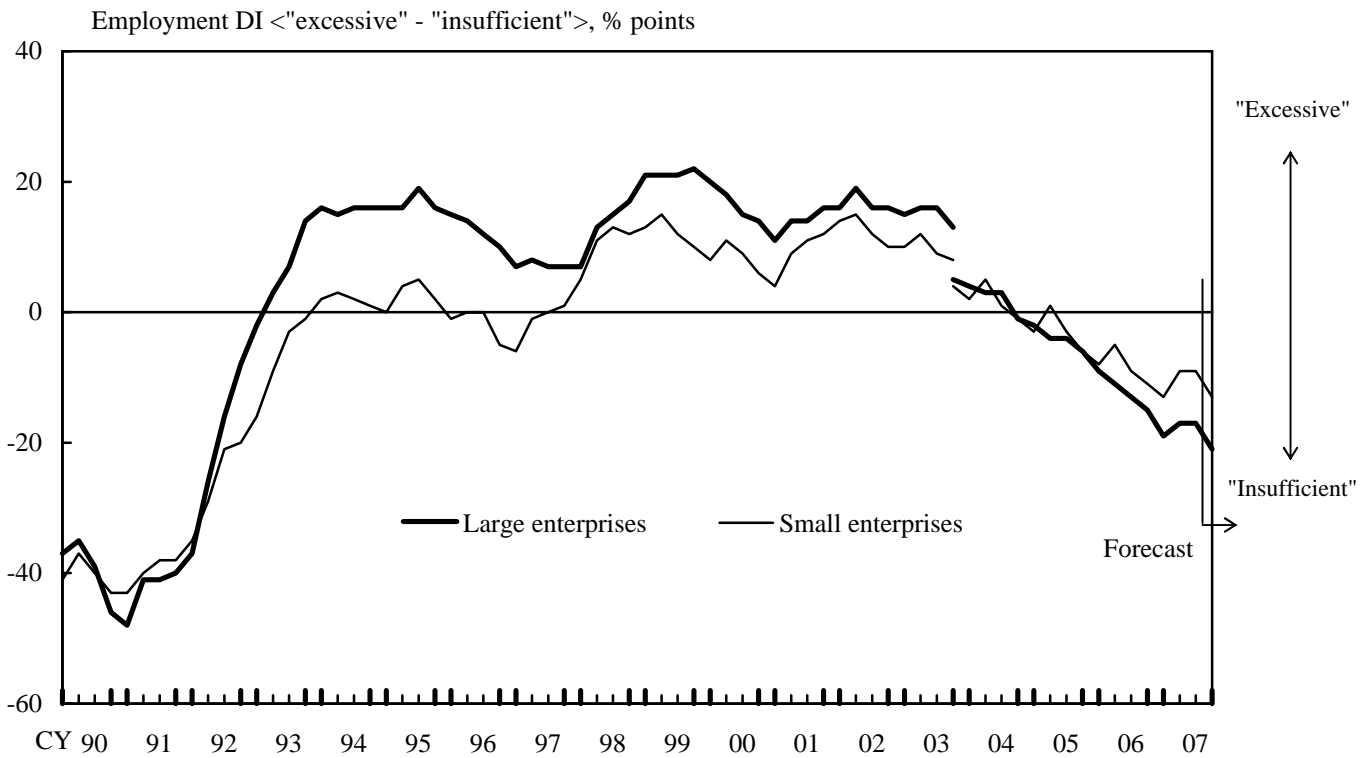
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

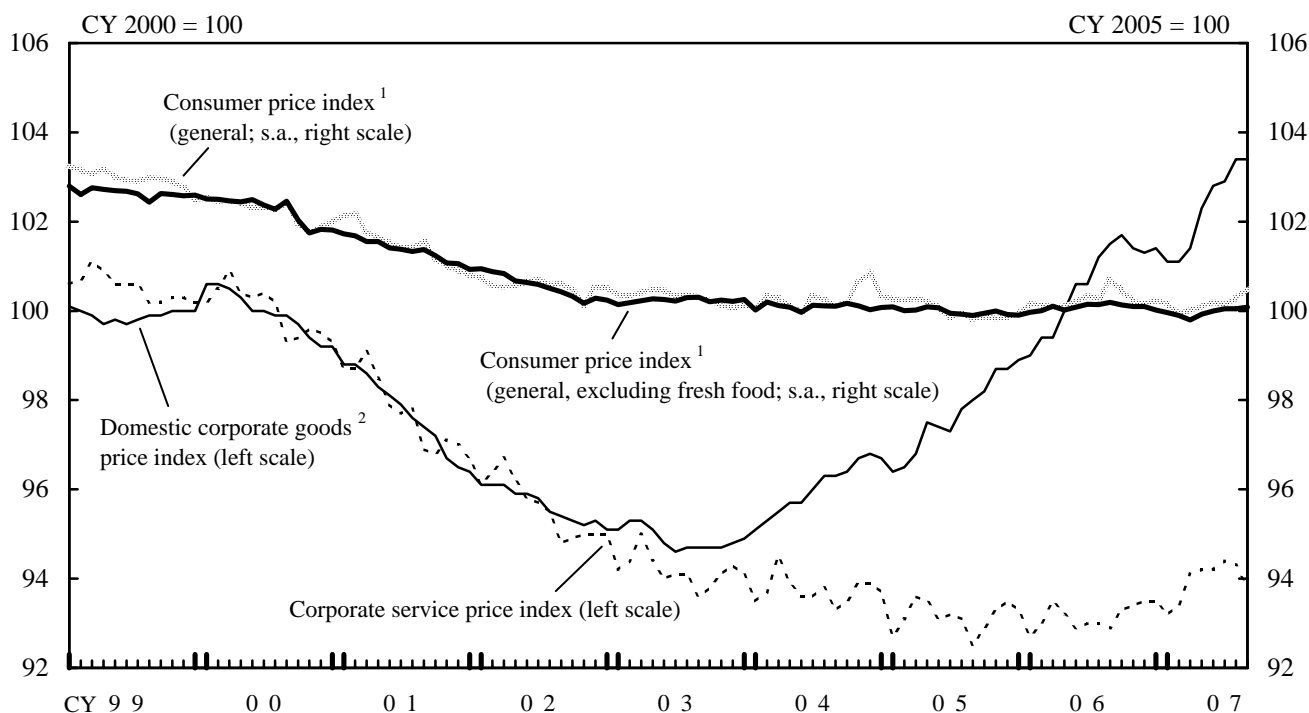


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

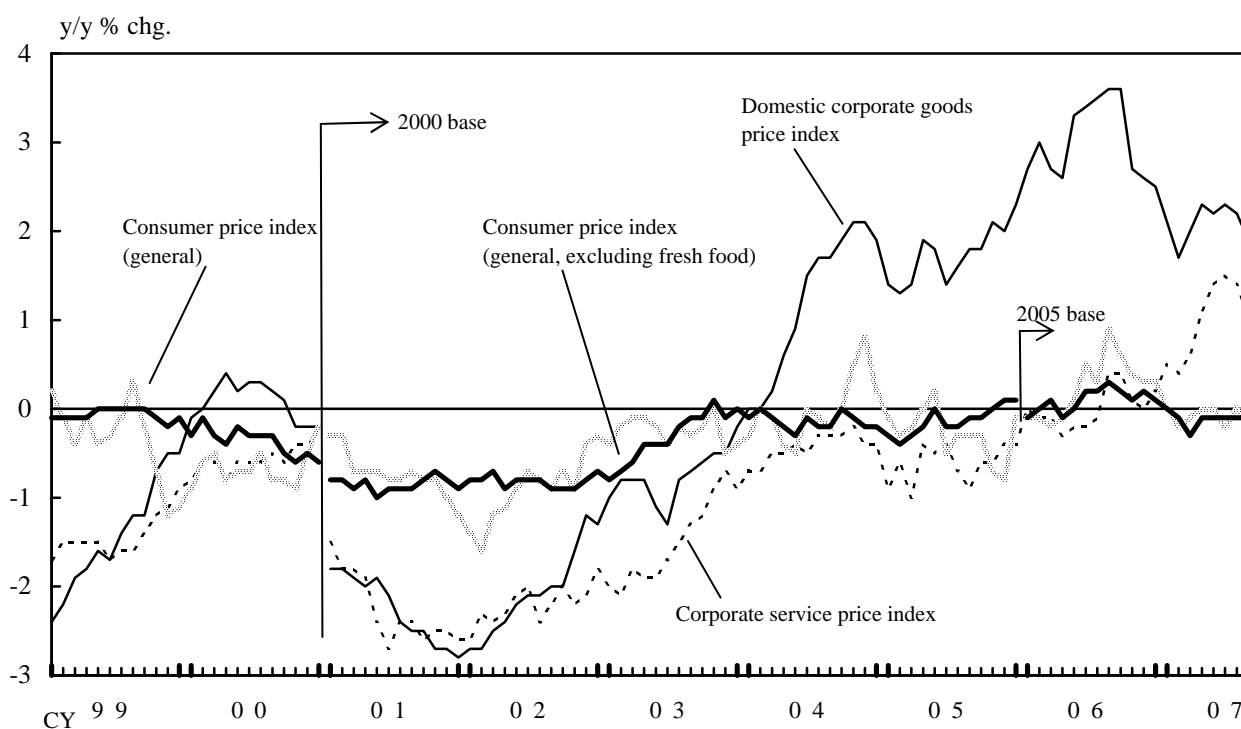
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Prices³

(1) Level



(2) Changes from a Year Earlier³



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

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

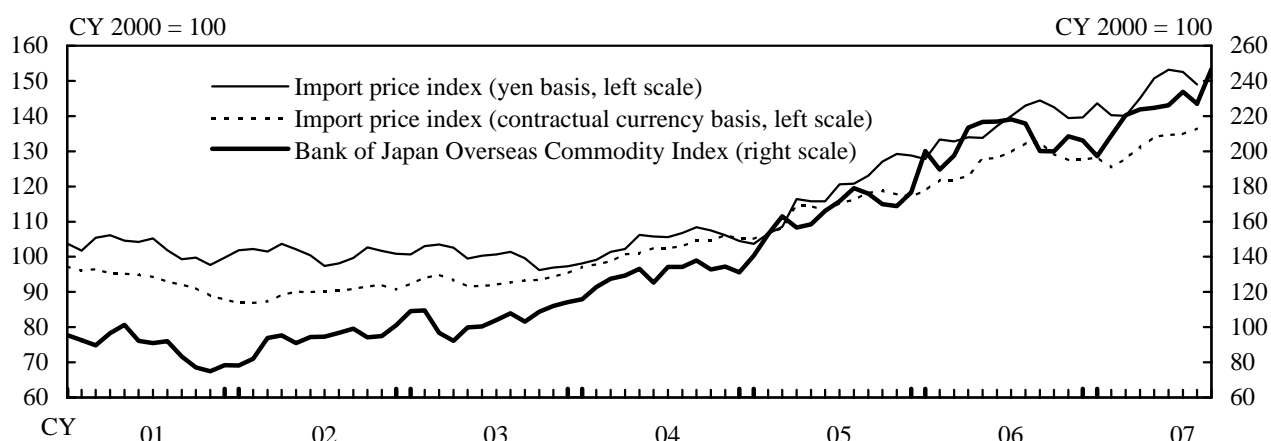
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

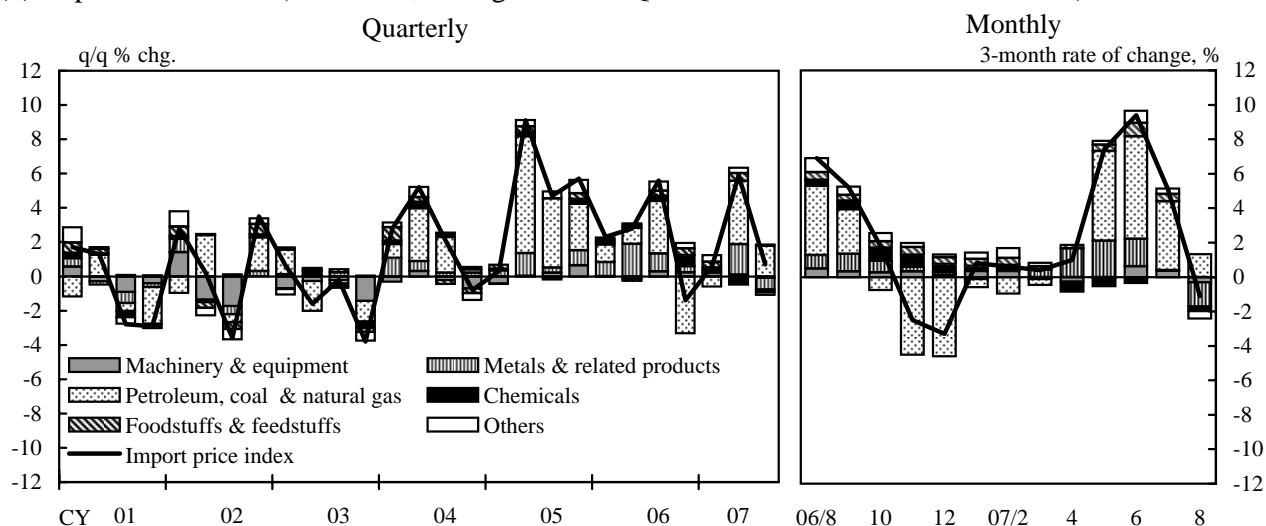
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



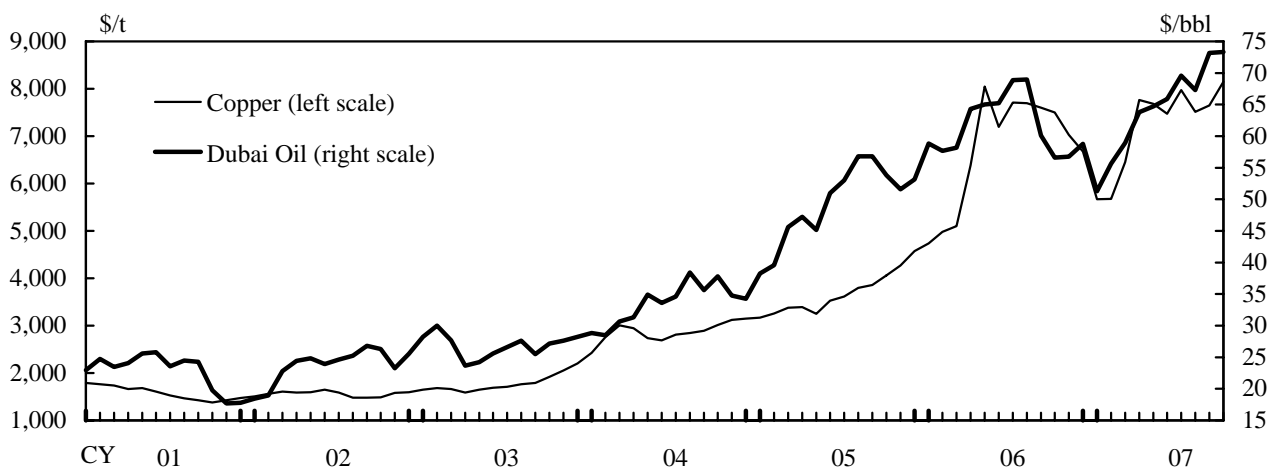
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



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

(3) Oil Price and Copper Price

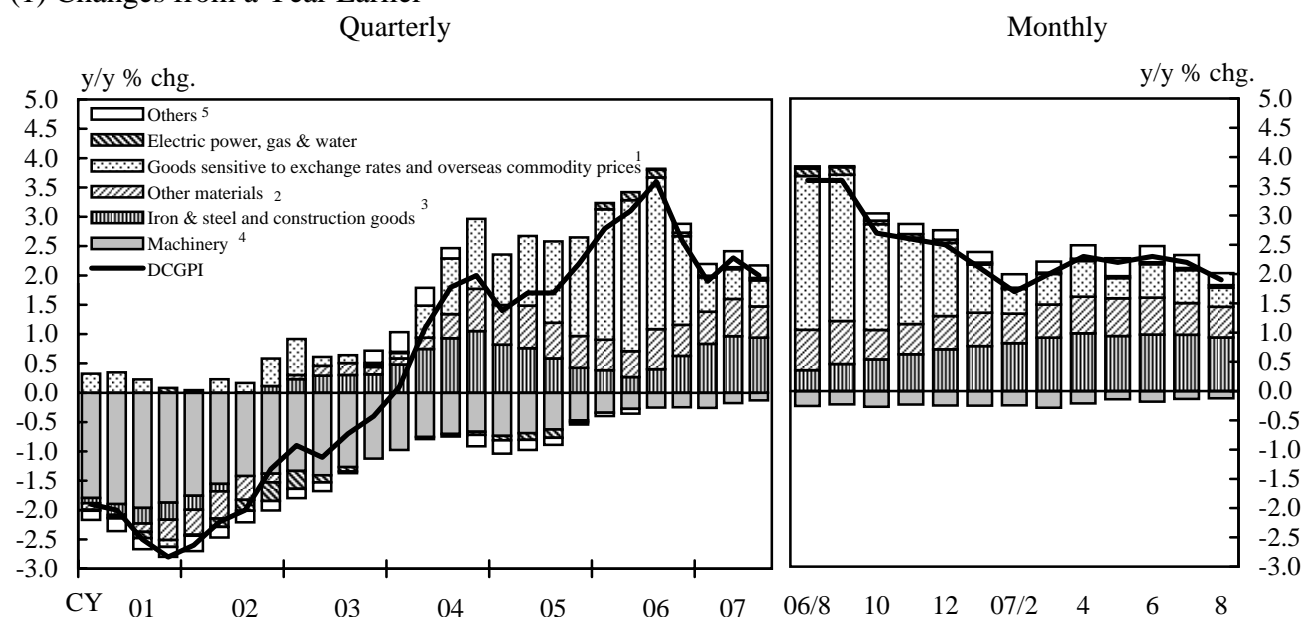
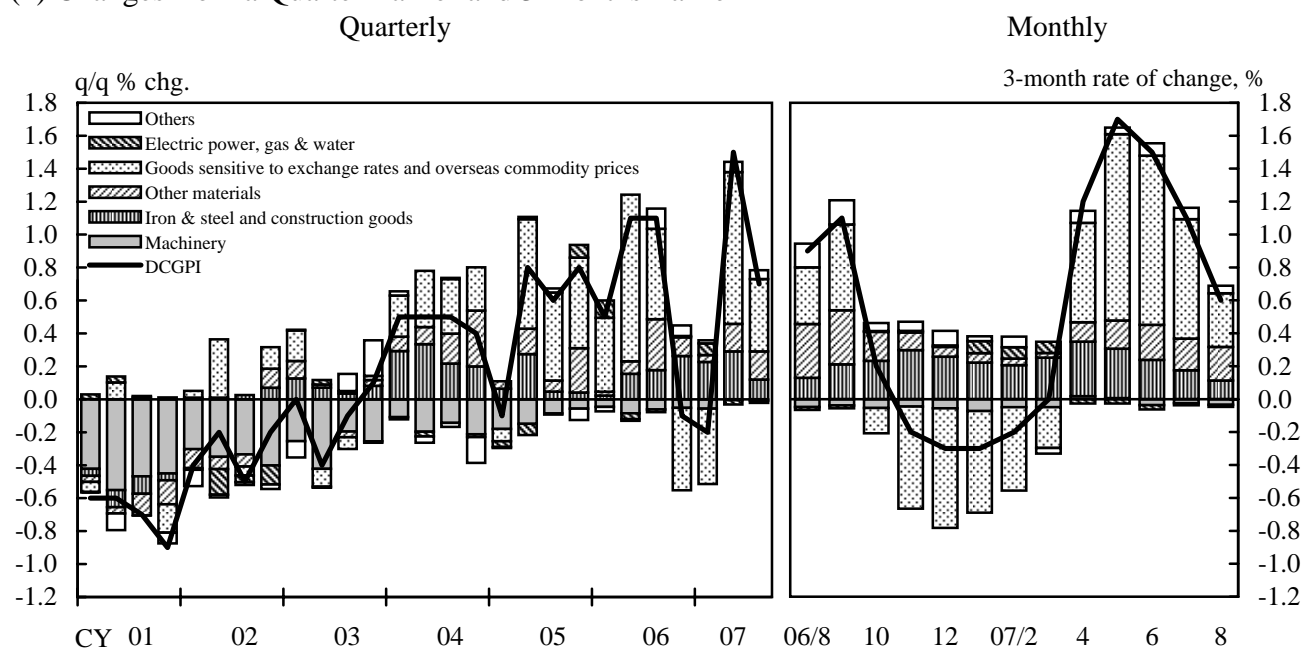


Note: Monthly averages. Figures for October 2007 are the averages up to October 10.

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.

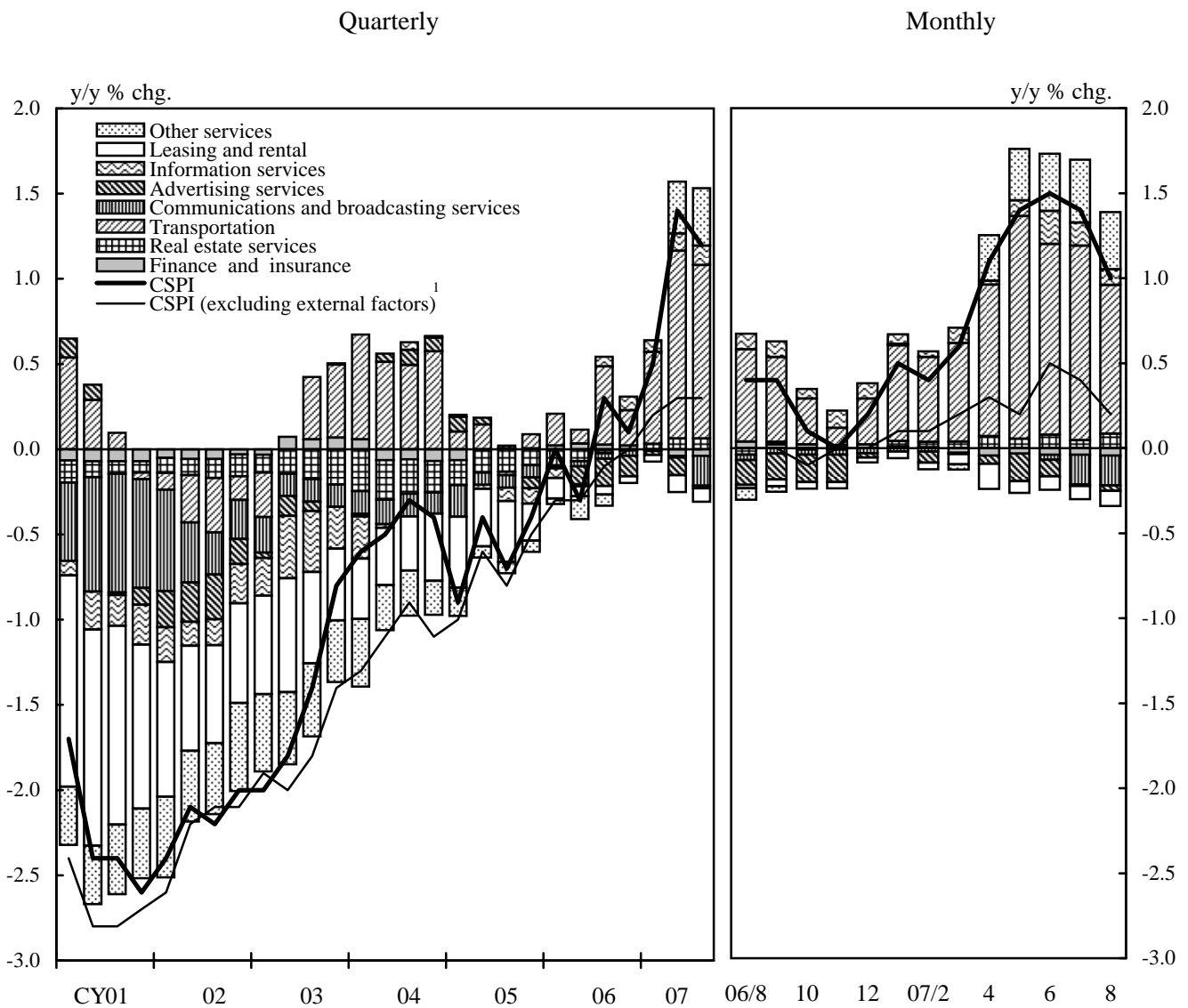
4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.

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



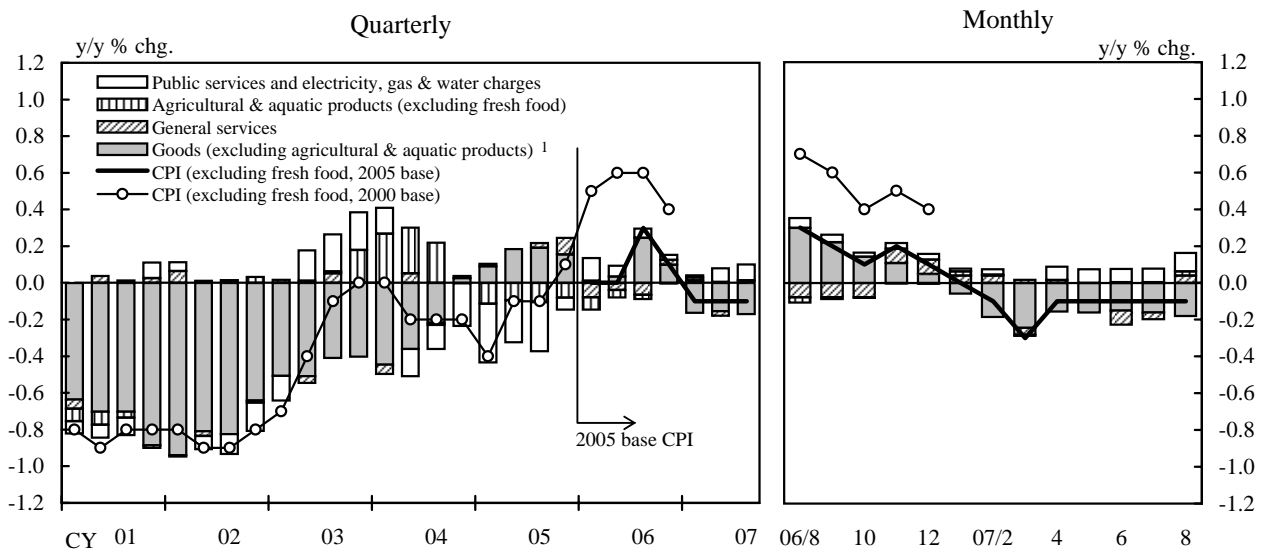
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2007/Q3 are July-August averages.

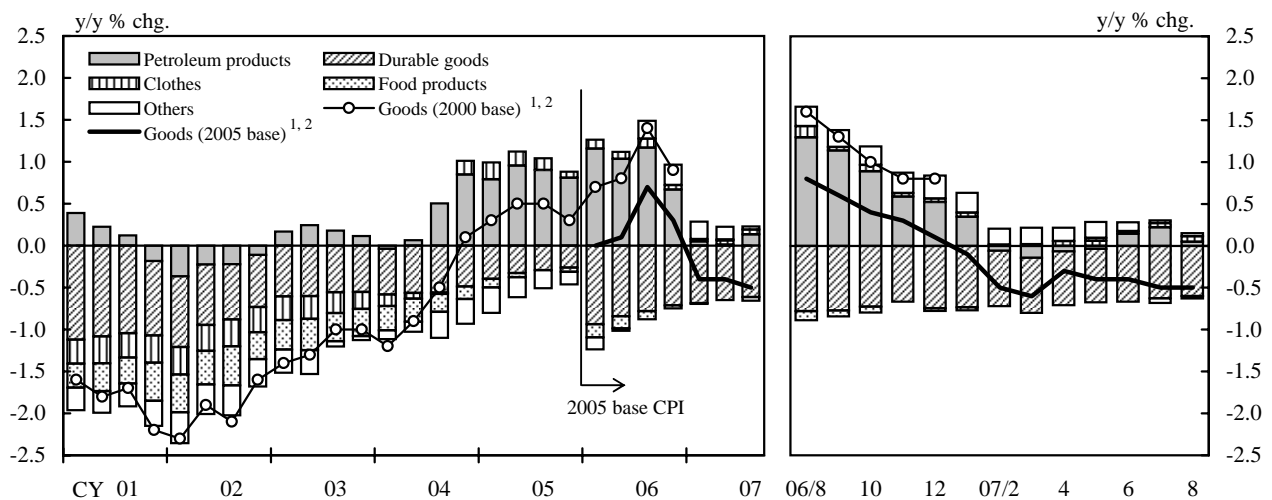
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

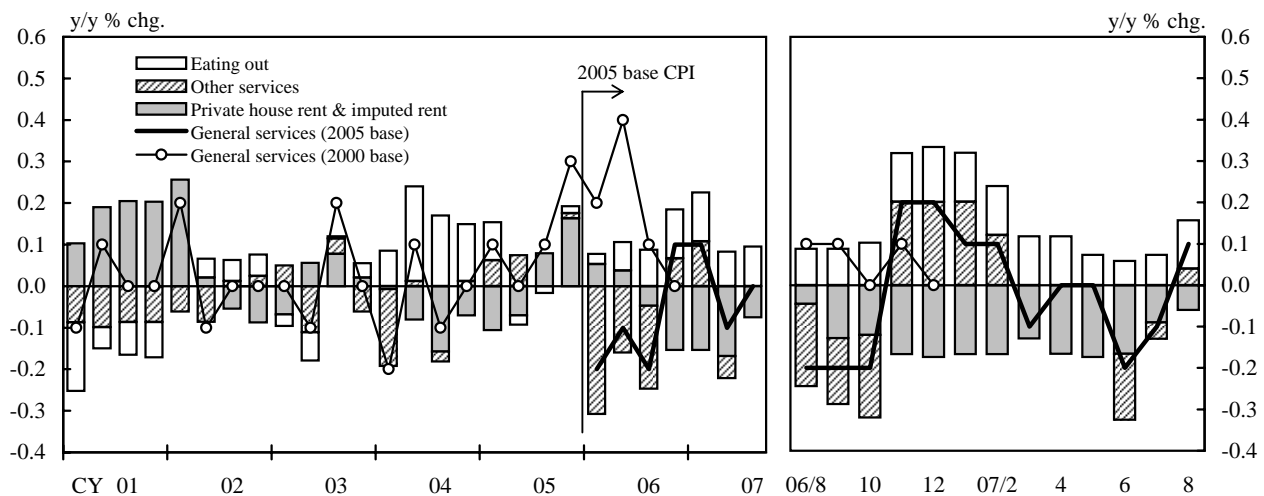
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



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

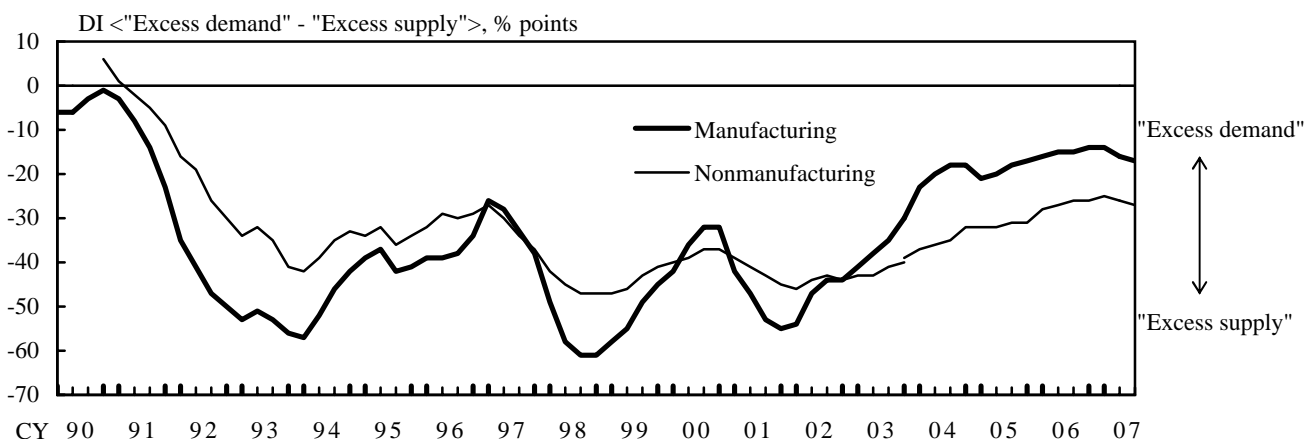
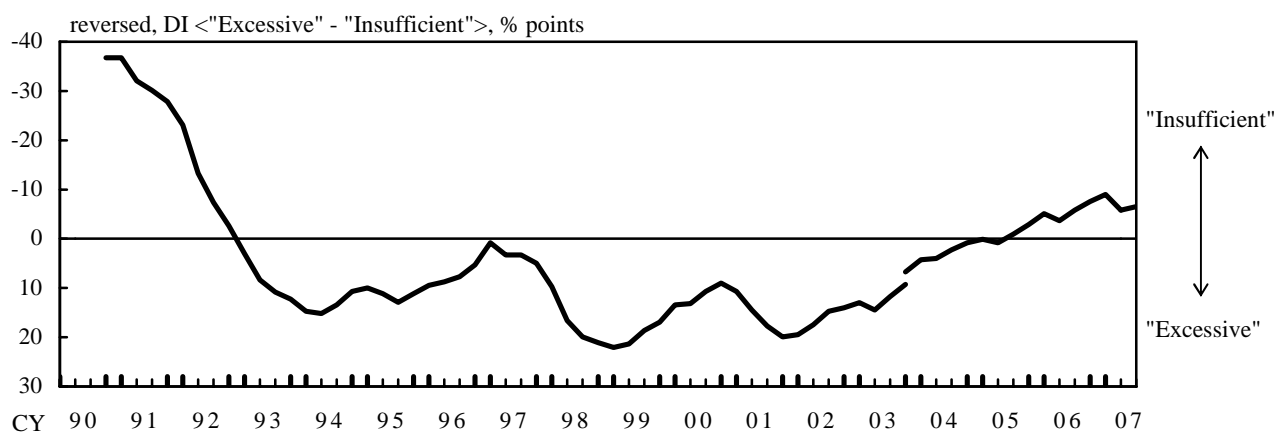
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q3 are July-August averages.

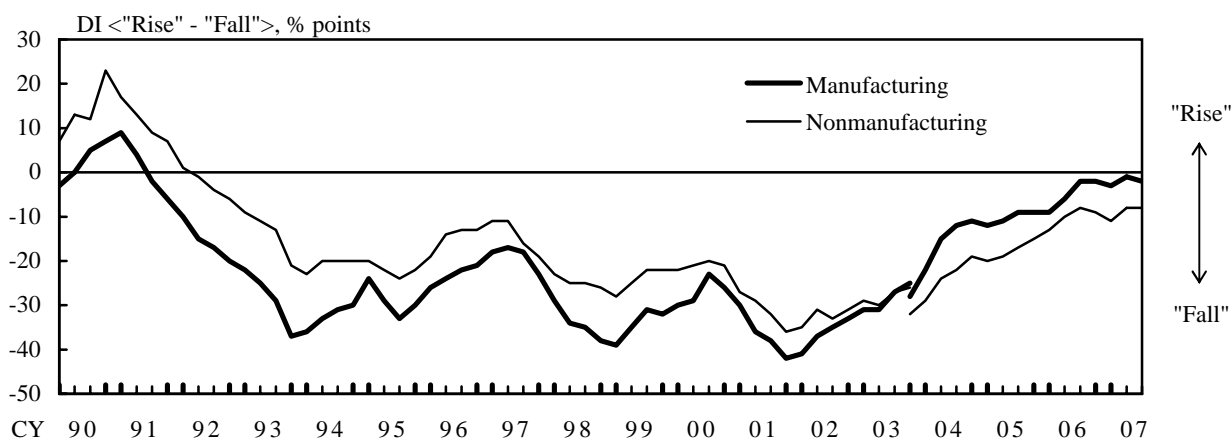
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

(2) Utilization of Capital and Labor² (All Enterprises)

(3) Change in Output Prices (All Enterprises)



Notes: 1. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

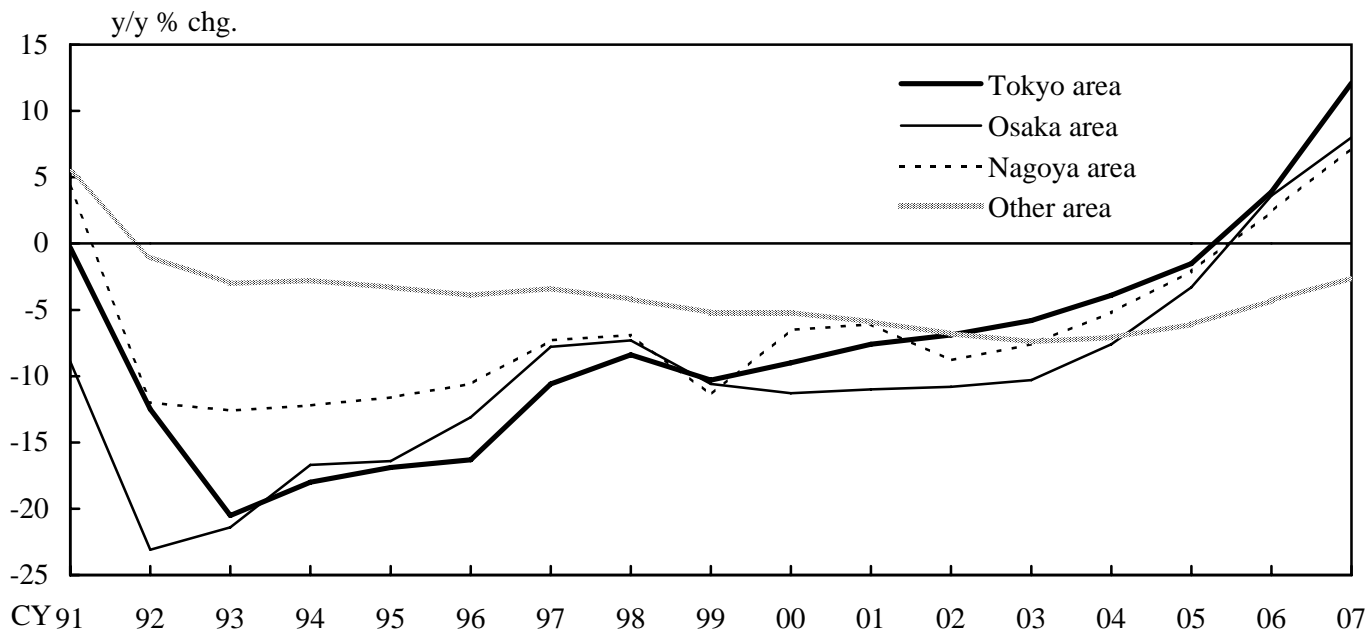
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2005 averages of capital and labor shares in national accounts are used as the weight.

Sources: Cabinet Office, "National Accounts";

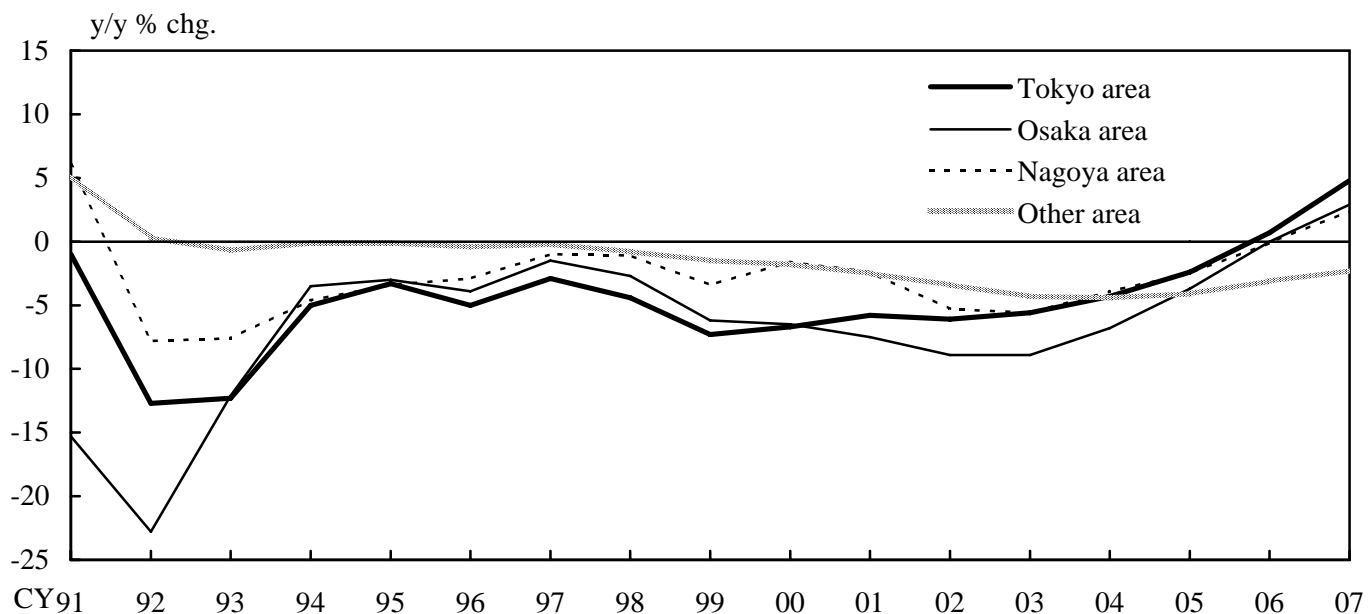
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan."

Land Prices

(1) Commercial land (Average change <as of July 1st>)



(2) Residential land (Average change <as of July 1st>)

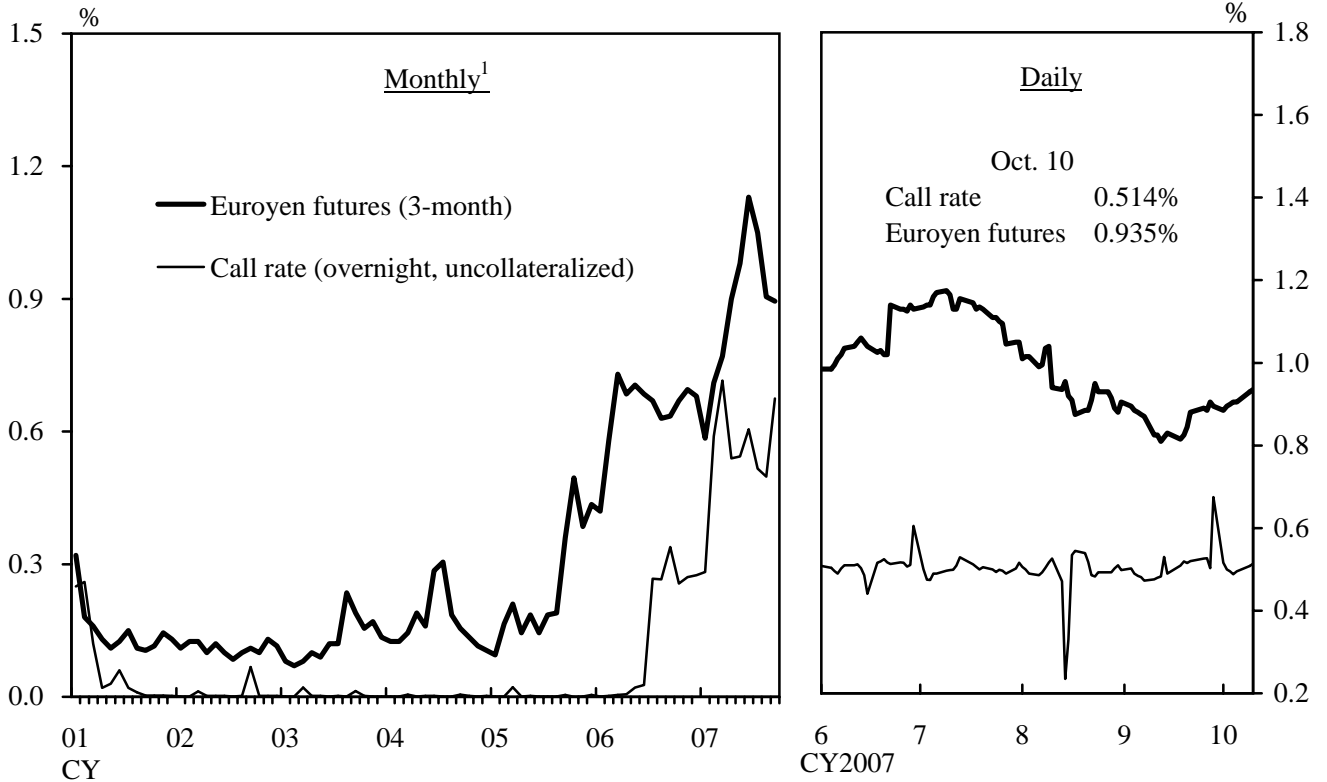


Note: Prefectural Land Price Survey, surveyed by prefecture officials, shows the land prices as of July 1st.

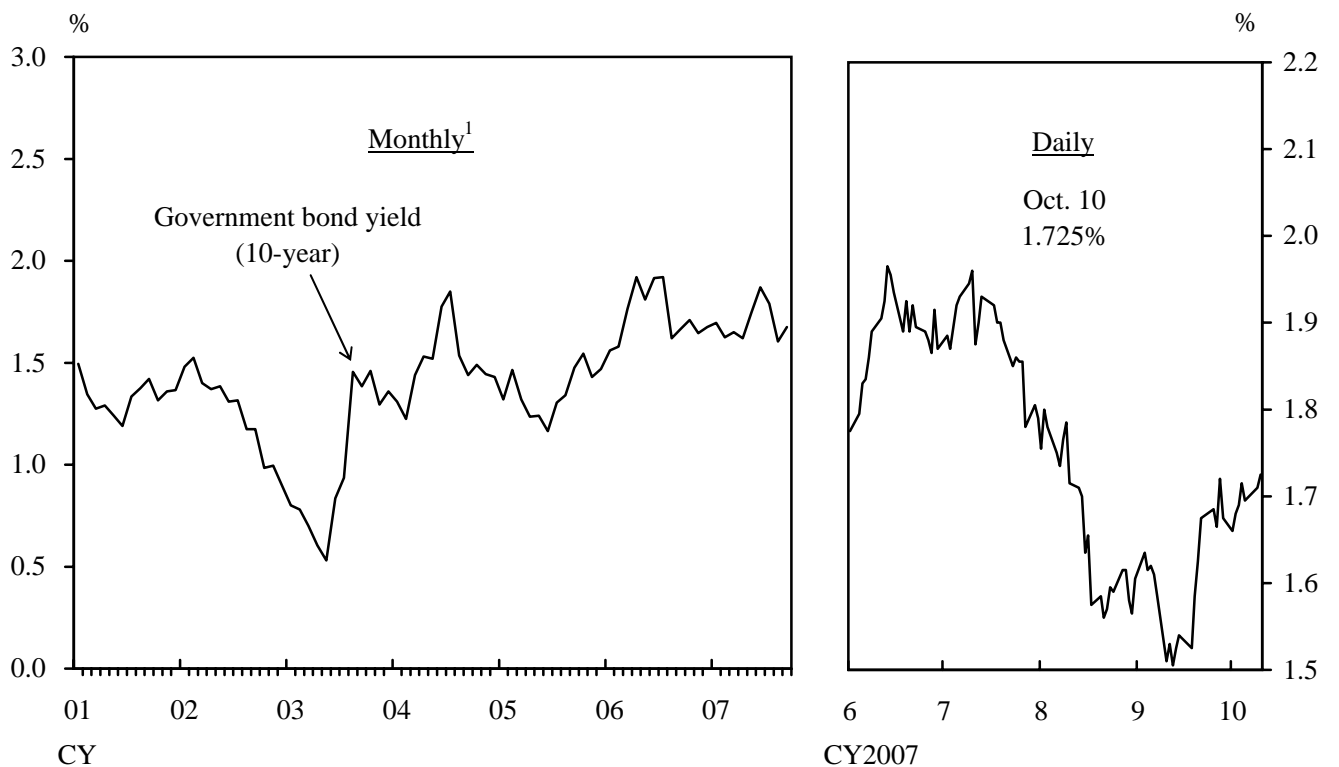
Source: Ministry of Land, Infrastructure and Transport, "Prefectural Land Price Survey."

Interest Rates

(1) Short-Term



(2) Long-Term

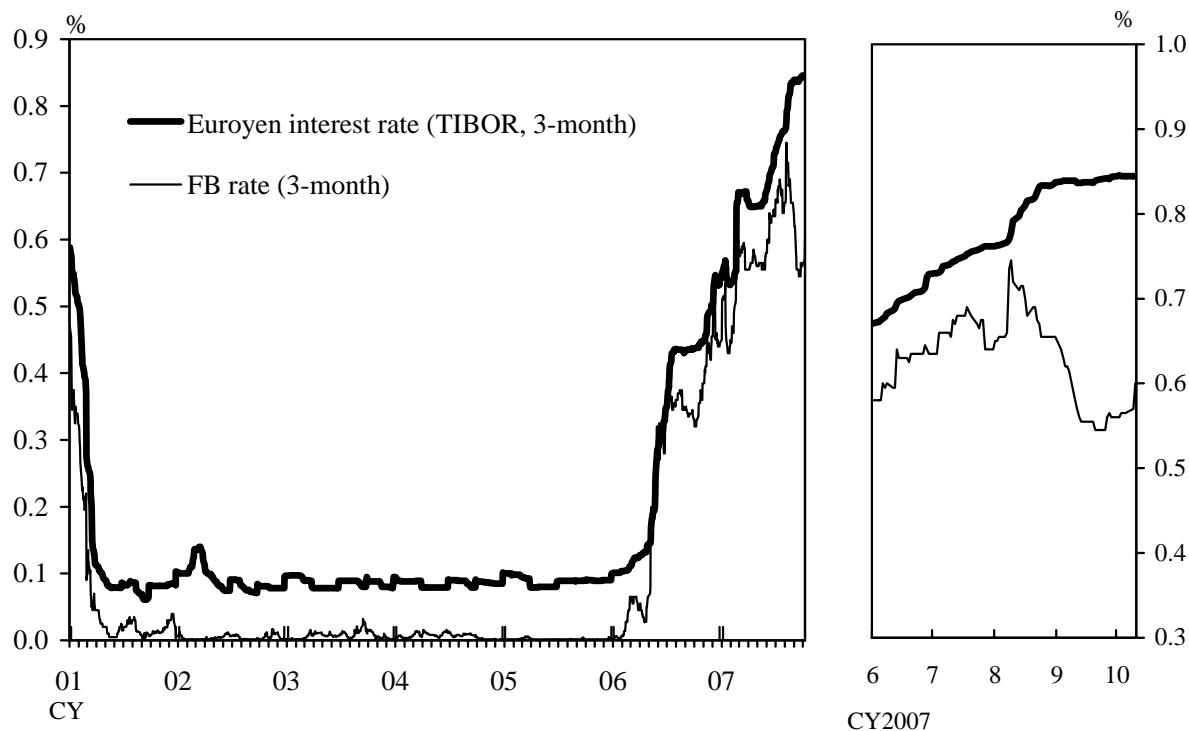


Note: 1. End of month.

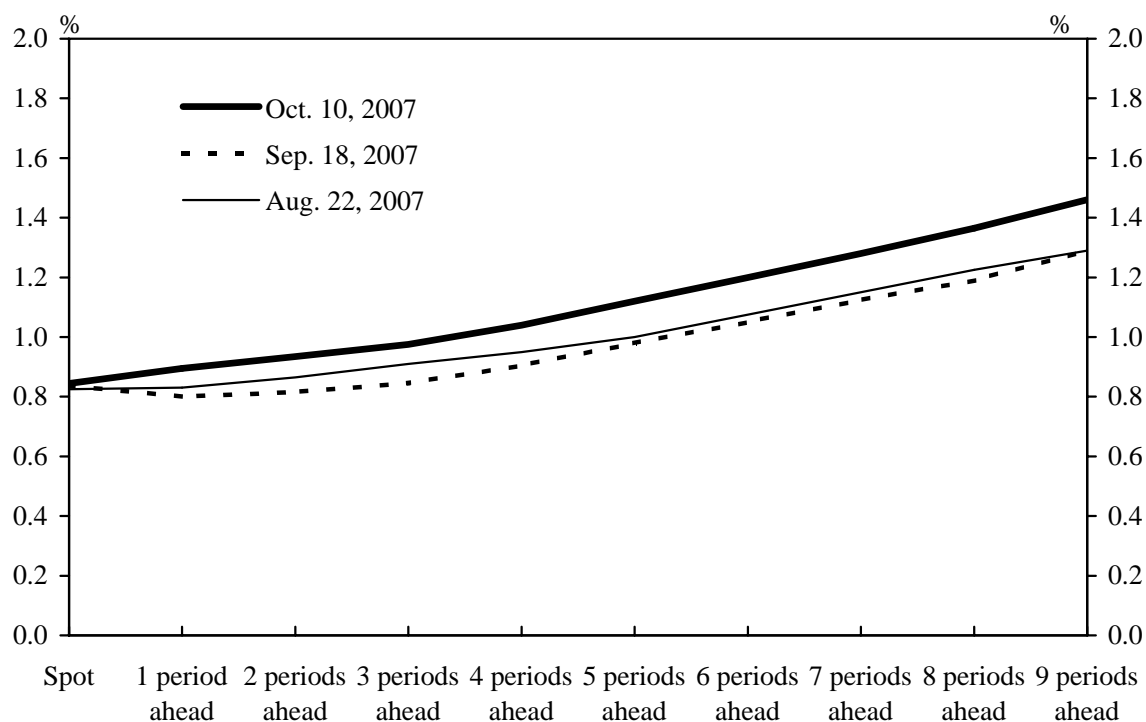
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



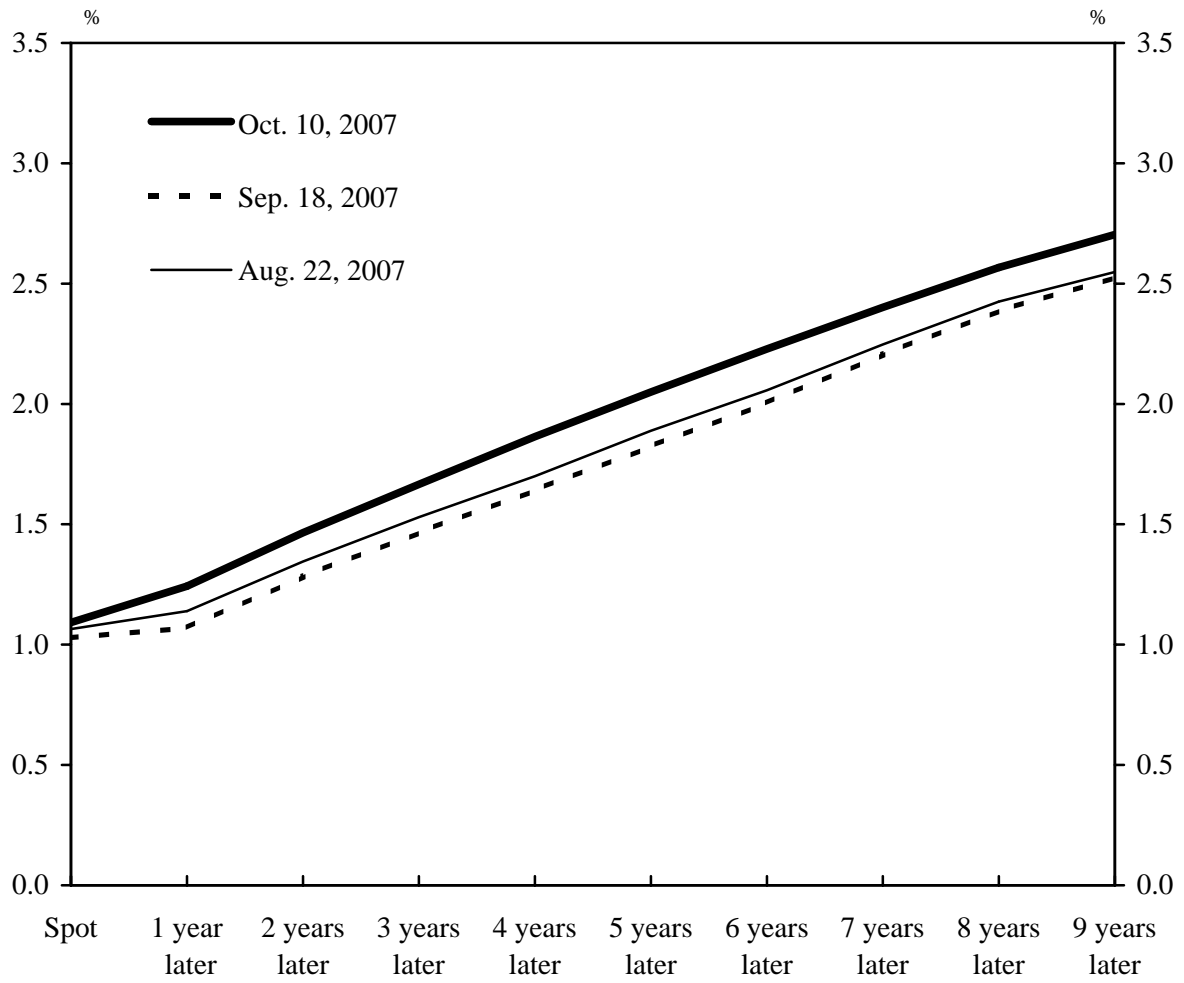
(2) Euroyen Interest Rates Futures (3-Month) ¹



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)

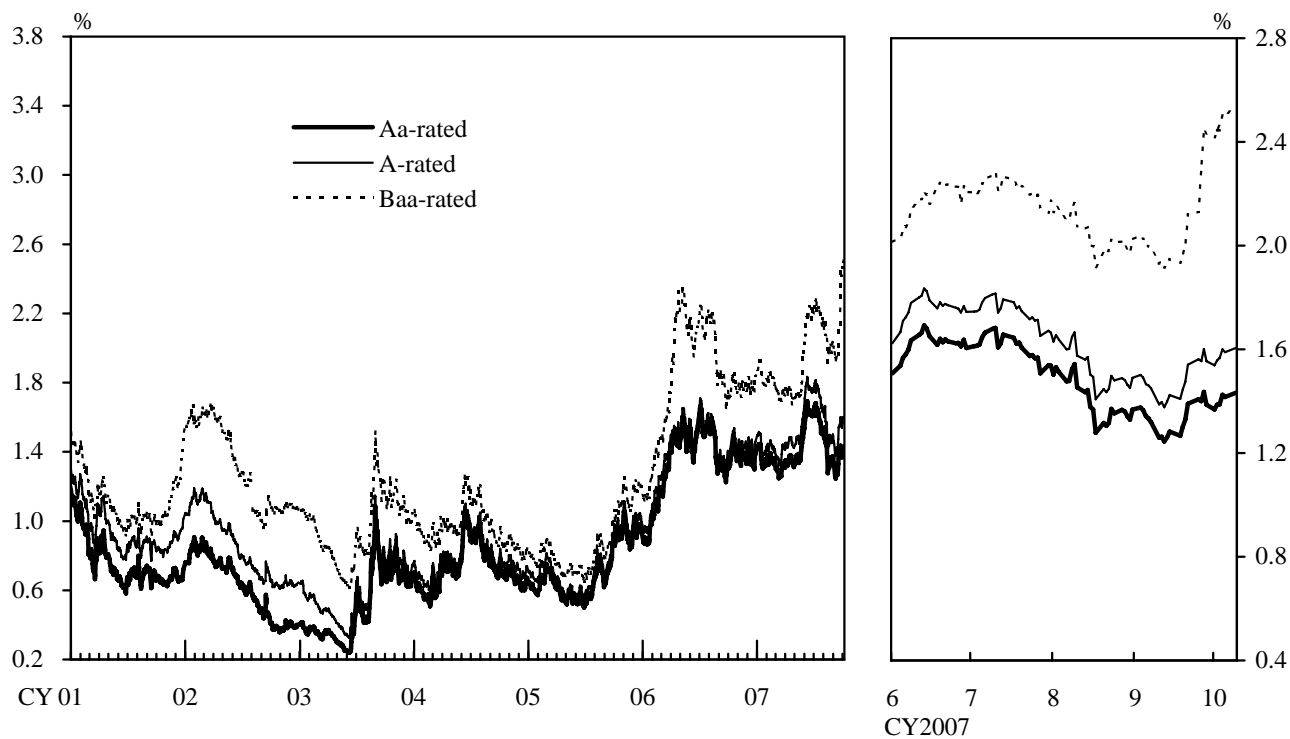


Note: Calculated from yen-yen swap rates.

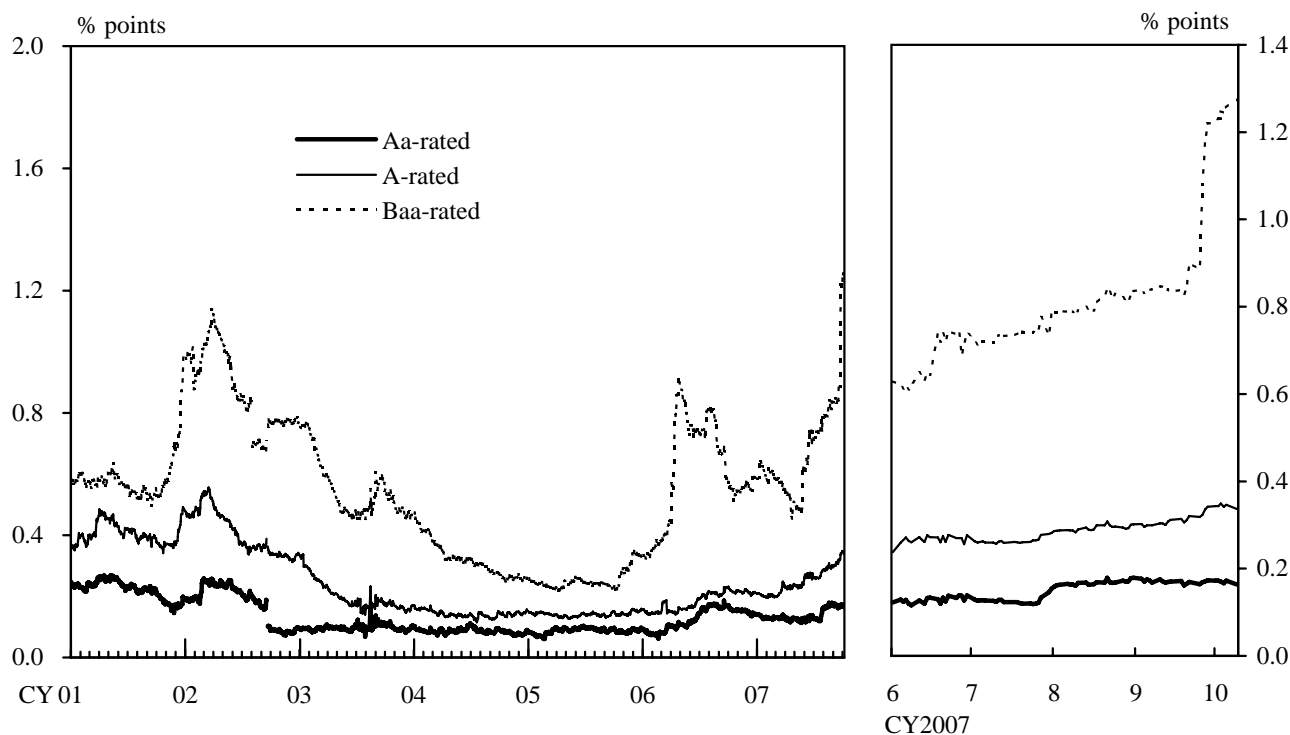
Source: Reuters.

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.

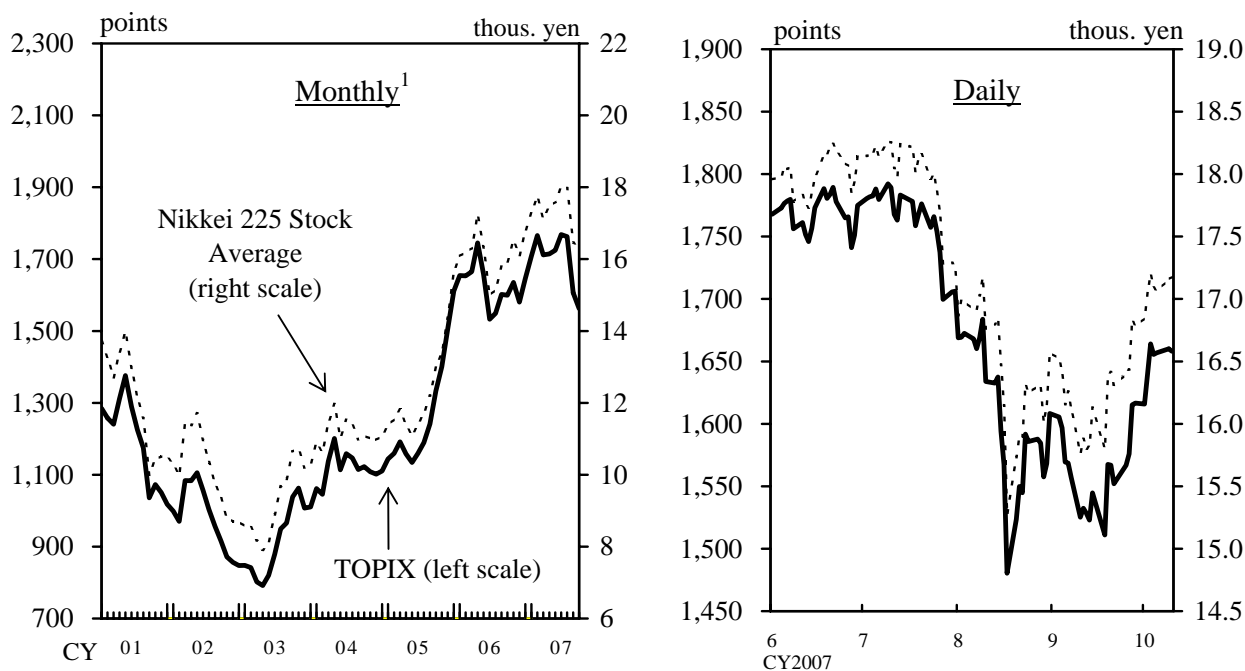
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

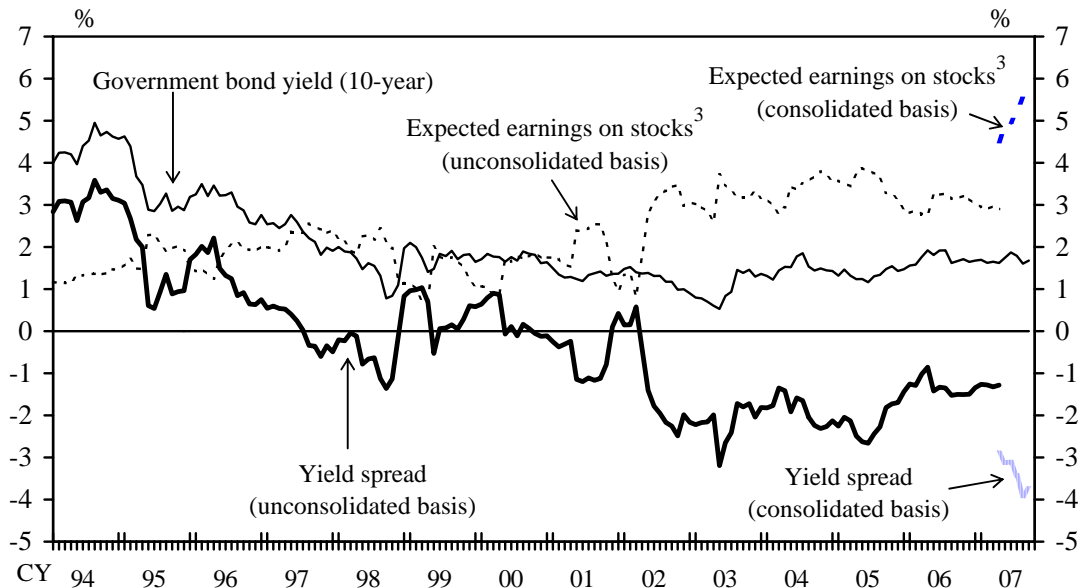
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



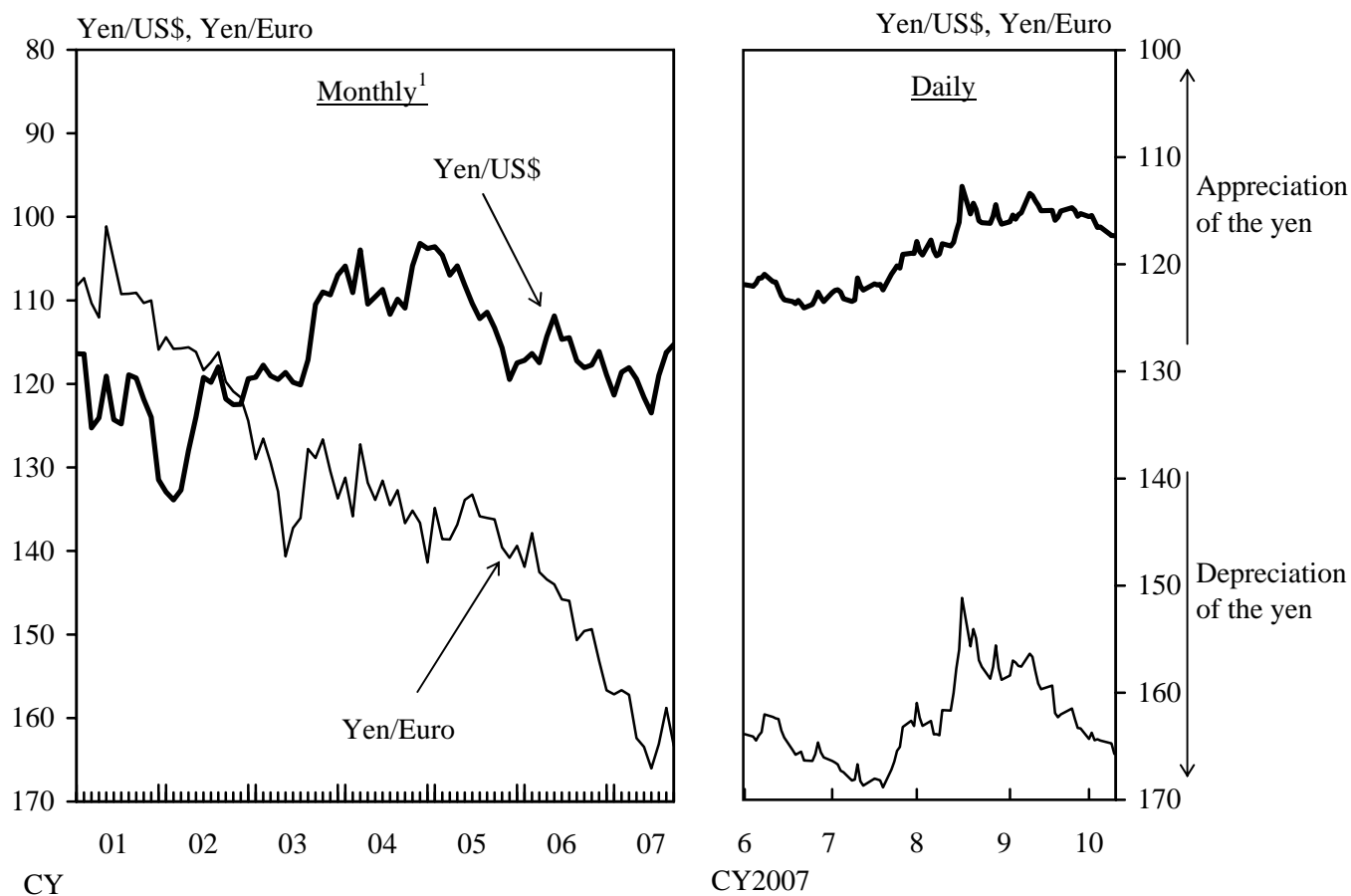
(2) Yield Spread ^{2,4}



- 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)."

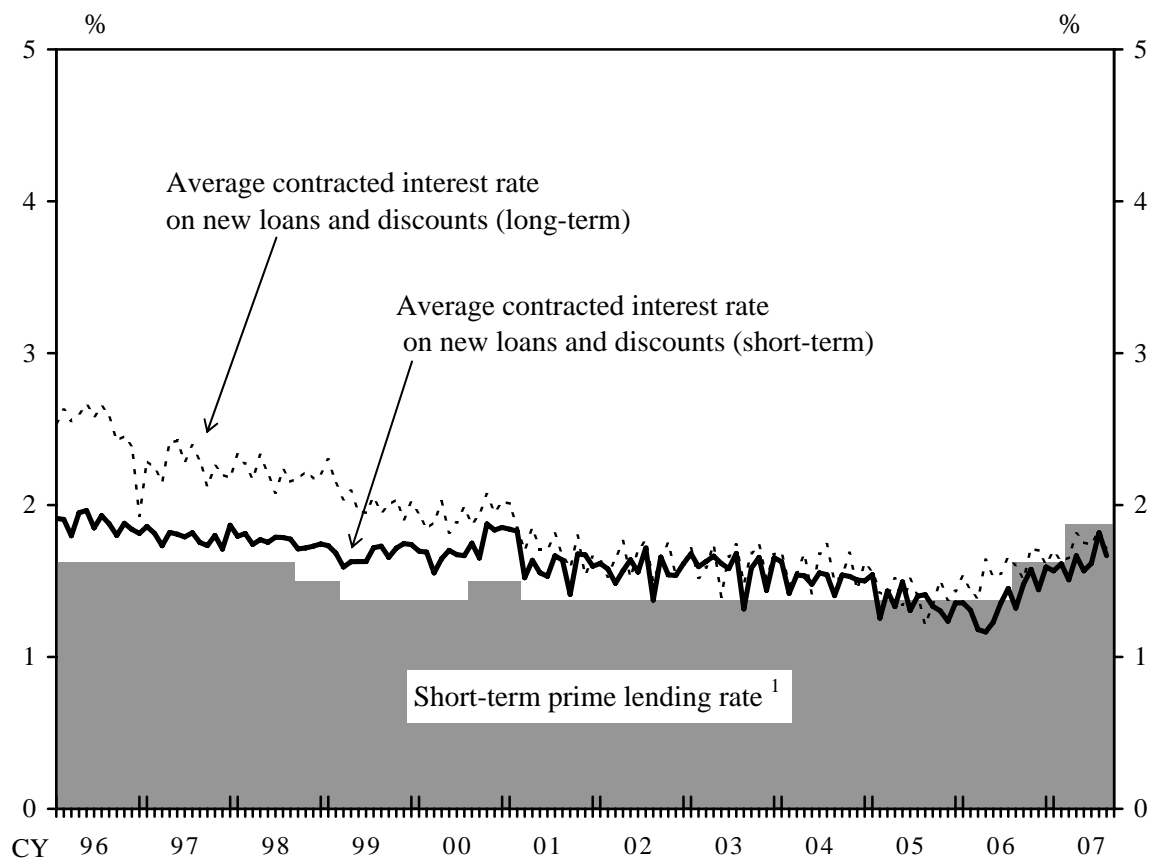
Exchange Rates



Note: 1. End of month.

Source: Bank of Japan.

Lending Rates

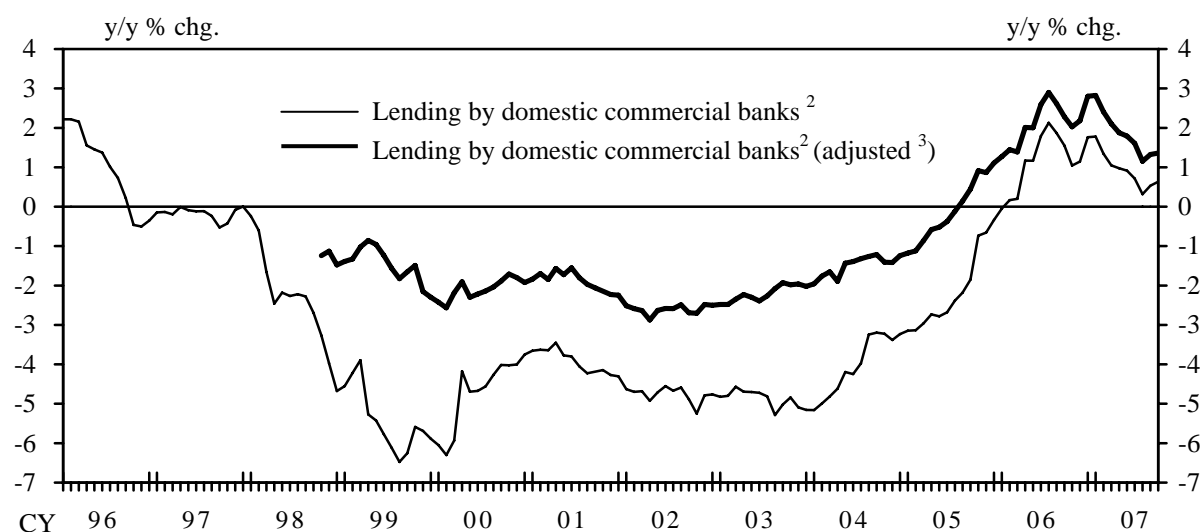


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



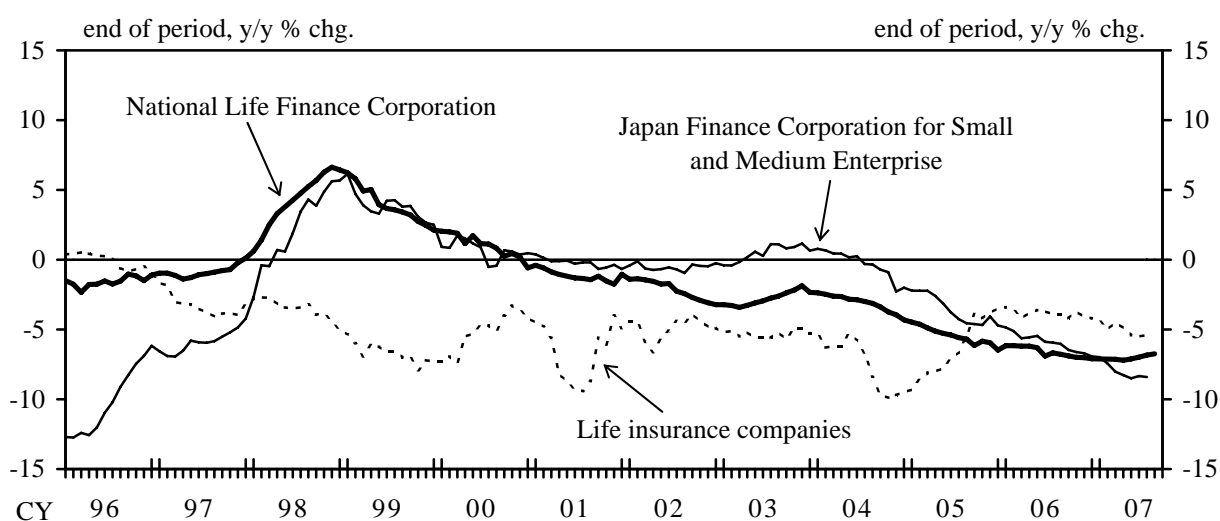
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

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

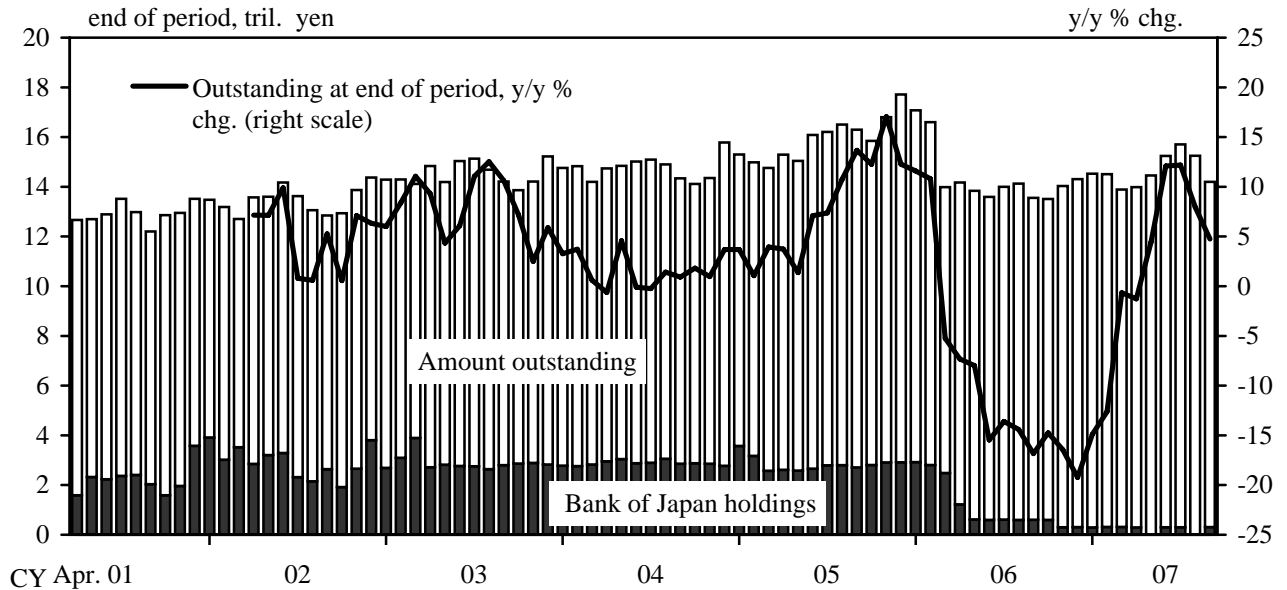
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

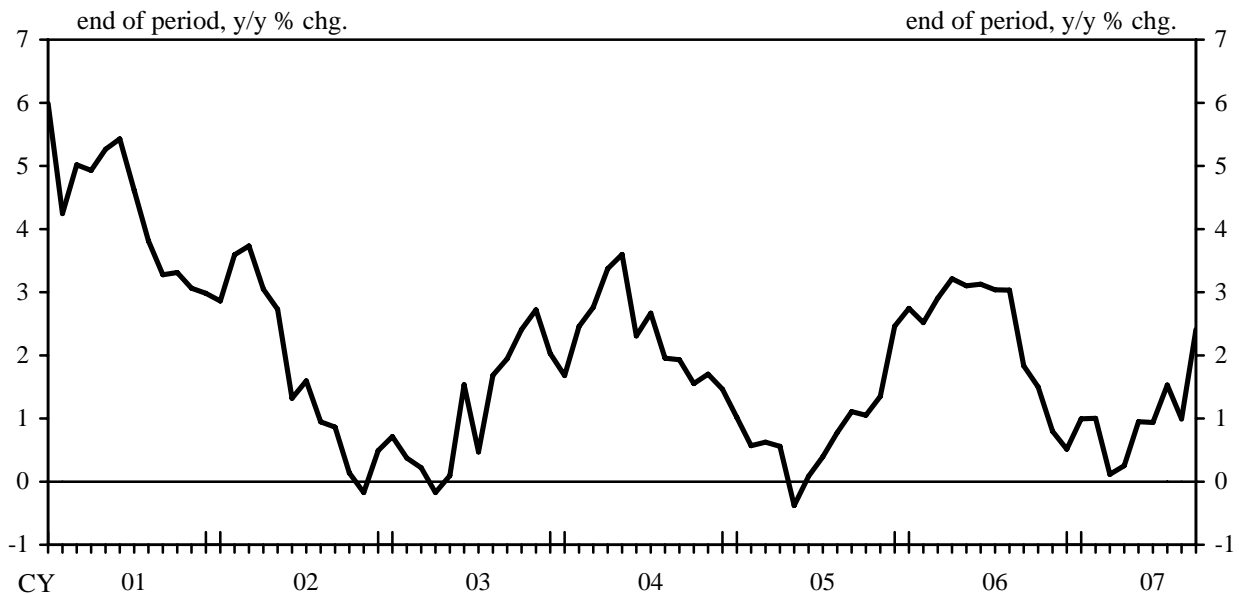
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

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



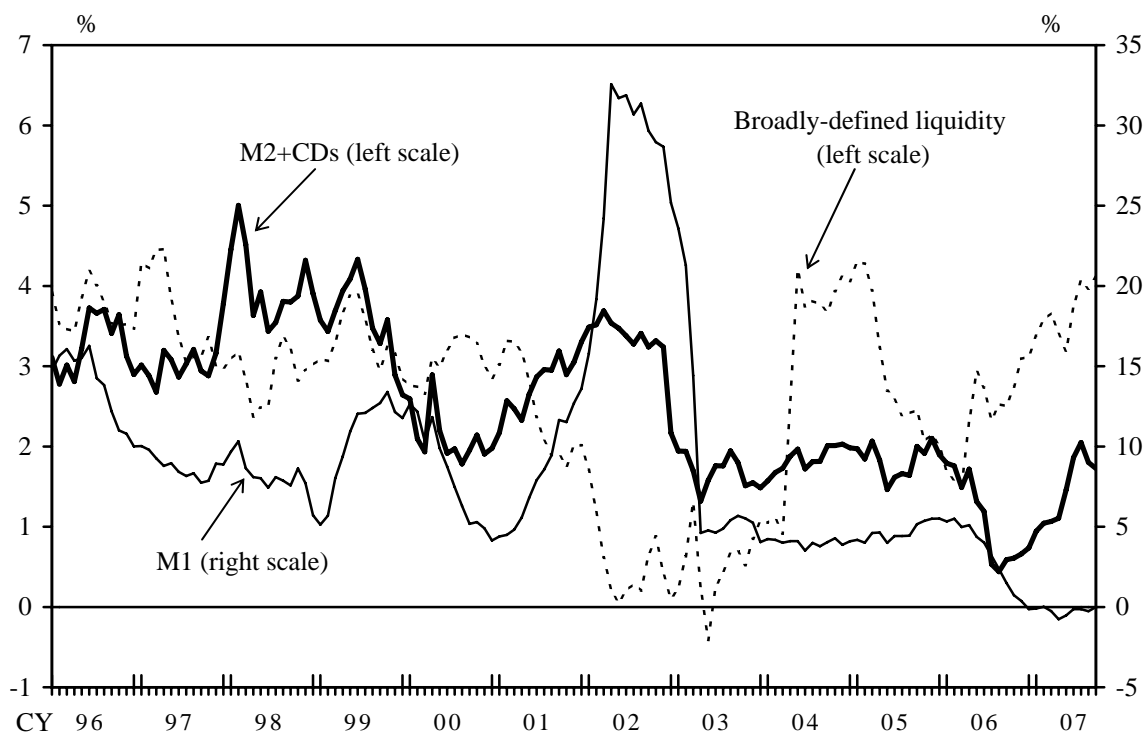
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

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

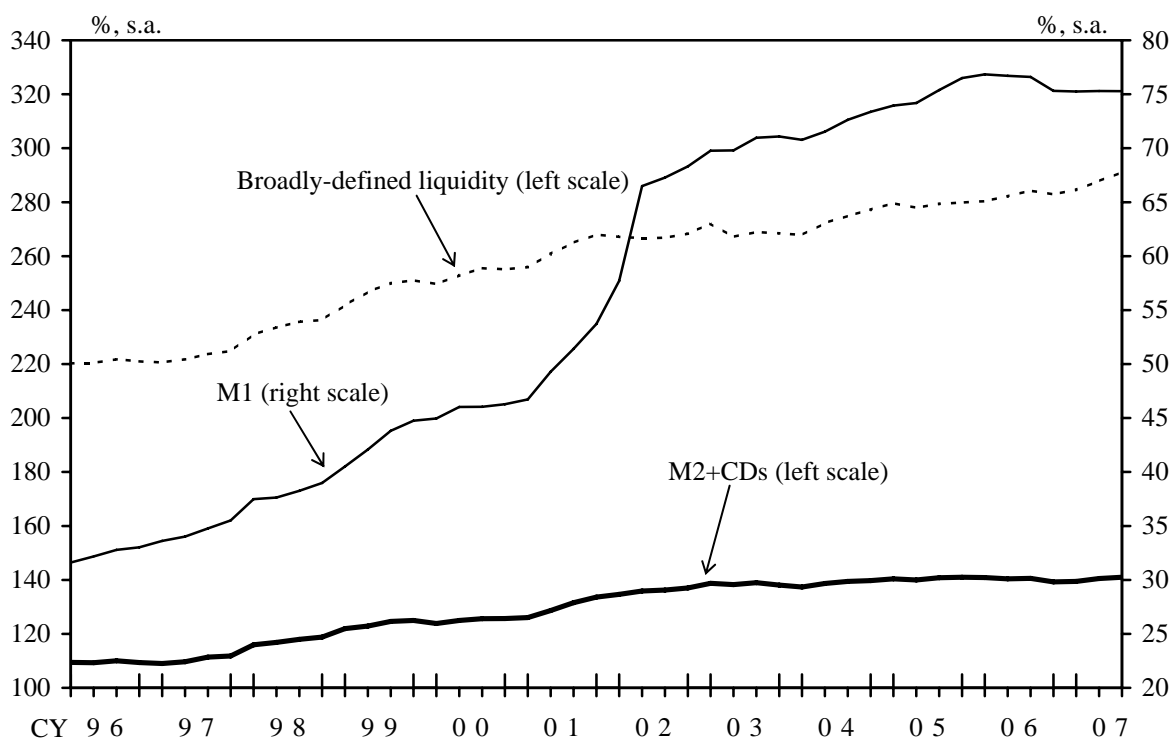
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

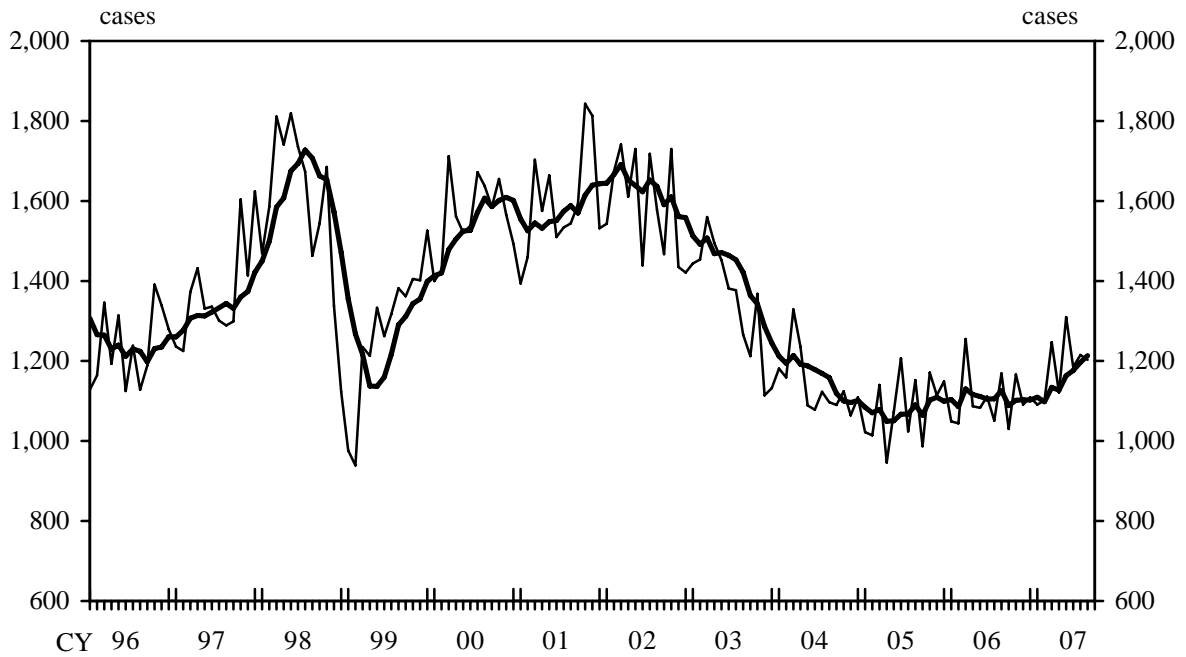


Note: Figure for the nominal GDP in 2007/Q3 is assumed to be unchanged from the previous quarter.

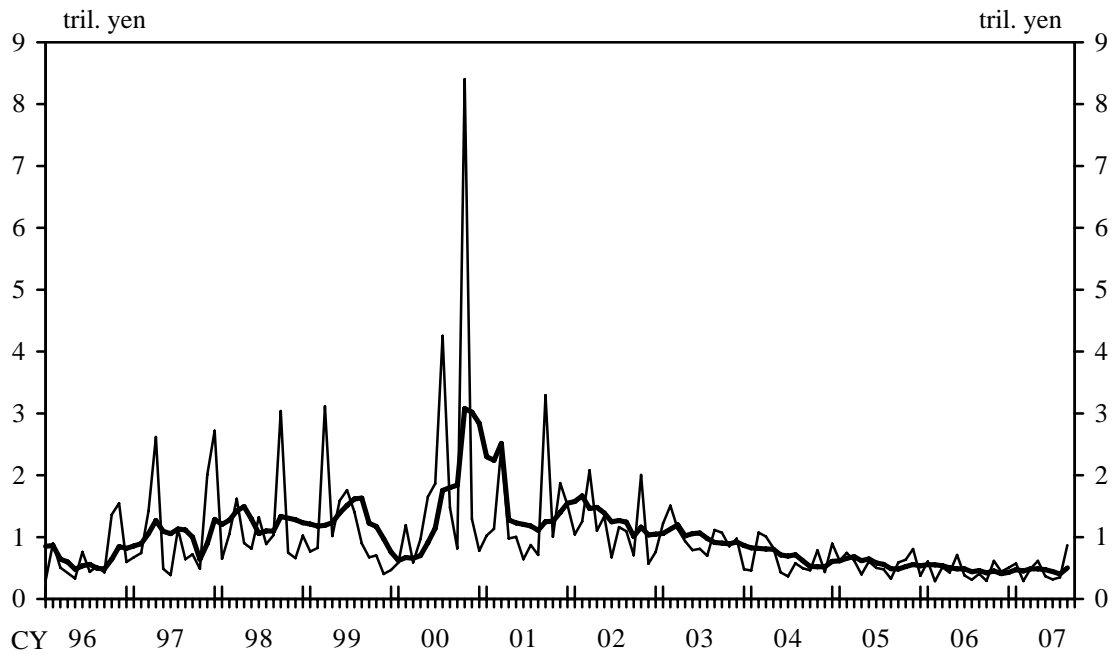
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."