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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
March 2008

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The Bank's View²

Japan's economy is expanding moderately as a trend, although the pace of growth has been slowing mainly due to the drop in housing investment and the effects of high energy and materials prices.

Exports have continued to increase. Business fixed investment has also continued to trend upward, as corporate profits have remained high although they are leveling off. Private consumption has been firm in a situation where household income has continued rising moderately. Meanwhile, public investment has been sluggish. Housing investment has remained at a low level, although there have been signs of recovery. With these developments in demand both at home and abroad, production has been more or less flat lately, partly in reaction to the relatively large increase in the second half of last year.

Japan's economy is expected to continue expanding moderately, although the pace of growth is likely to slow for the time being.

Exports are expected to continue rising, as overseas economies are likely to expand although at a slower pace. Business fixed investment and private consumption are likely to follow an uptrend against the background of generally high corporate profits and the moderate rise in household income. Housing investment is expected to recover gradually, although it is likely to remain sluggish for the time being. In light of these developments in demand both at home and abroad, production is expected to increase, after being more or less flat in the short run. Public investment, meanwhile, is projected to be on a downtrend. Due attention should continue to be paid to factors such as uncertainties regarding future

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on March 6 and 7, 2008.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on March 6 and 7, 2008.

developments in overseas economies and global financial markets, as well as the effects of high energy and materials prices.

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 increase in consumer prices (excluding fresh food) has been rising since around the end of last year, due to the increase in prices of petroleum products and food products.

Domestic corporate goods prices are likely to continue increasing for the time being, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run.

As for the financial environment, the environment for corporate finance is accommodative. Credit demand in the private sector has been more or less flat. The issuing environment for CP and corporate bonds has been favorable as a whole, although issuance spreads on those issued by firms with low credit ratings have expanded slightly. 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 been more or less unchanged. 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, the yen has appreciated against the U.S. dollar compared with last month, while long-term interest rates and stock prices have fallen compared with last month.

The Background

1. Economic Developments

Public investment has been sluggish (Chart 4). Looking at monthly indicators, the amount of public construction completed—which reflects the progress of public works—declined in the third quarter on a quarter-on-quarter basis, and fell also in the fourth quarter. The value of public works contracted—a measure that reflects public orders—registered a sizeable decline in the third quarter on a quarter-on-quarter basis, then inched up in the fourth quarter, but fell again, albeit marginally, in January compared with the fourth quarter. Public investment is projected to be on a downtrend due to tight national and local fiscal conditions.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6). They rose substantially, by 5.2 percent, in January compared with the fourth quarter, after having exhibited high growth throughout the second half of last year.

As for real exports by destination (Chart 6[1]), exports to the United States rose in January compared with the fourth quarter after having marked a quarter-on-quarter decline in the fourth quarter. As a trend, however, they have remained relatively weak since around the end of 2006. By contrast, exports to the EU and East Asia rose in the fourth quarter and continued to increase in January compared with the fourth quarter.³ Exports to other regions (such as the Middle East, Latin America, and Russia) have remained high, mainly in automobile-related goods to the Middle East.

By goods (Chart 6[2]), exports of automobile-related goods have continued their solid increases, mainly due to the high growth in exports to other regions. Exports of capital goods and parts have continued to trend upward, to a wide range of regions, despite fluctuations in those to the United States. Exports of IT-related goods have risen moderately, assisted by steady global IT-related demand (Chart 7[1]). Exports of intermediate goods have also been on an uptrend, mainly in high

³ Exports to East Asia tend to rise considerably just before the Luna New Year's day in China and other countries. The fact that February 7 was the Luna New Year's day seems to have placed some upward pressure on exports in January.

value-added goods used for IT-related goods and automobiles. Exports of consumer goods have been on an uptrend, mainly in digital home appliances, albeit with somewhat large fluctuations.

Real imports have been more or less flat (Charts 5[1] and 9). Real imports decreased by 0.6 percent in the fourth quarter on a quarter-on-quarter basis, but then increased by 1.3 percent in January compared with the fourth quarter.

The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued to be on an increasing trend, reflecting the uptrend in domestic business fixed investment. Imports of IT-related goods have been trending upward since around the middle of last year when domestic inventory adjustments were completed (Chart 7[3]). Imports of raw materials and intermediate goods have remained more or less flat on average, since firms have cut back on imports of materials in response to the trend of rising import prices. Imports of foodstuffs and consumer goods have been on a declining trend, mainly due to the rise in import prices.

Net exports in terms of the real trade balance have continued to be on an upward trend, reflecting the aforementioned movements in imports and exports (Chart 5[2]). The surplus of the nominal balance on goods and services has expanded only modestly assisted by the rise in crude oil prices.

Exports are expected to continue rising, as overseas economies are likely to expand although at a slower pace (Chart 8[2]).

As for the environment surrounding exports, in the United States, the economy seems to be slowing down further as adjustments in the housing market have continued to protract, financial institutions have taken tighter lending stances, and indicators related to employment as well as consumption have shown relatively weak movements. In the EU, the economy has also started to slow down mildly. In China and other regions, however, the economies are likely to maintain their high growth as a whole. The NIEs and ASEAN economies are also expected to continue expanding moderately, although the pace of growth is likely to slow. Regarding the

environment surrounding exports of IT-related goods, global demand—particularly that for digital home appliances—seems to have continued to expand. Meanwhile, in the foreign exchange market, the yen has appreciated slightly since summer last year, 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 8[1]).

Imports are expected to follow a moderate uptrend, albeit with some sluggishness for the time being, reflecting developments in the domestic economy.

Business fixed investment has continued to trend upward. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms was flat in the fourth quarter after having exhibited relatively high growth in the third quarter (Chart 10). By industry and size (Chart 11), investment by large manufacturing firms has been at a high level, although the pace of increase has slowed down somewhat. Investment by small and medium-sized manufacturing firms fell back in the second and third quarters from the upsurge toward the first quarter last year, but it picked up slightly in the fourth quarter. Investment by large nonmanufacturing firms has fluctuated significantly: it rose in the third quarter but retreated sharply in the fourth quarter. Investment by small and medium-sized nonmanufacturing firms has been essentially level on average. Looking at monthly indicators, the aggregate supply of capital goods and shipments of capital goods—which are coincident indicators of machinery investment—have continued to be on an upward trend, albeit with somewhat large fluctuations (Chart 12[1]).⁴ Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—declined in the second quarter, but bounced back in the third quarter and increased marginally in the fourth quarter. With these fluctuations

⁴ The "aggregate supply of capital goods" in January is yet to be released. Looking at "shipments of capital goods," which include exports and exclude imports, shipments have continued to trend upward on balance even though they dropped in January, chiefly in boilers and power units.

smoothed out, they have been more or less flat, at high levels (Chart 13[1]).⁵ Meanwhile, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—fell sharply in the third quarter due to the enforcement of the revised Building Standard Law.⁶ Thereafter, they picked up somewhat in the fourth quarter, aided by large-scale construction starts in the manufacturing and retailing sectors, and increased in January, albeit marginally, compared with the fourth quarter (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have remained high, although they are leveling off. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales has remained relatively high, although it dropped in the third and fourth quarters mainly due to high materials prices, after having recorded a historical high in the second quarter.

Business fixed investment is projected to trend upward, since the increasing trend in domestic and external demand and the generally high levels of corporate profits are likely to be maintained.

Private consumption has been firm. Looking at individual indicators on consumption (Charts 14 and 15), sales at department stores and supermarkets have been essentially level on average. Sales at convenience stores have also been more or less flat. Sales of household electrical appliances have continued to trend upward, assisted by strong sales of digital home appliances such as flat panel TVs and of game consoles. The number of new passenger-car registrations has picked up moderately since summer last year with fluctuations smoothed out, supported mainly by the rapid introduction of new models. As for services consumption, outlays for travel have

⁵ Forecasts for the first quarter show that orders are projected to continue increasing (the quarter-on-quarter increase stands at 3.5 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

⁶ According to the revised Building Standard Law—which took effect on June 20, 2007—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—including housing starts, mentioned below—were delayed, since those related to the construction business were not fully prepared for these changes to the system.

been firm on average. Sales in the food service industry have also been firm on the whole, although they have lost momentum compared to a while ago.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above⁷—have been firm (Chart 16[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been trending up mildly, mainly due to favorable conditions for durable consumer goods, albeit with some fluctuations (Chart 16[2]). Meanwhile, looking at private consumption from the demand side, the index of living expenditure level (two-or-more-person households, in real terms) in the *Family Income and Expenditure Survey* registered a quarter-on-quarter decline in the third quarter, and then picked up in the fourth quarter; it also increased in January compared with the fourth quarter. Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms) fell in the third and fourth quarters on a quarter-on-quarter basis, and then picked up in January compared with the fourth quarter (Chart 14[1]).⁸

Consumer sentiment has become cautious as a whole, due to the rise in prices of petroleum products and food as well as to the weakness in stock prices (Chart 17).

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

Housing investment has remained at a low level, although there have been signs of recovery. In terms of the number of housing starts (Chart 18[1])—a leading indicator—movements toward recovery have gradually become distinct. Looking at the number of housing starts in detail according to the type of housing, owner-occupied housing—consisting mostly of small-scale properties—has been almost flat, after having regained its level prior to the enforcement of the revised

⁷ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in January 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 January were at the same level as those for December.

⁸ 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.

Building Standard Law last fall. Housing for sale and housing for rent have continued to pick up, but the level of construction starts of housing for sale in particular has still been well below the level prior to the enforcement of the revised Law. Looking ahead, housing investment is expected to recover gradually, although it is likely to remain sluggish for the time being, since the effects from the enforcement of the revised Law will persist. From a somewhat longer-term perspective, it will regain its firmness, against the background of the rise in household income and favorable financial conditions. Nevertheless, taking the softness in sales of condominiums into consideration, there is large uncertainty regarding the degree of recovery in housing investment.

Industrial production has been more or less flat lately, partly in reaction to the relatively large increase in the second half of last year. Production rose firmly for two quarters in a row by marking an increase of 2.2 percent and 1.3 percent in the third and fourth quarters respectively on a quarter-on-quarter basis, and then dropped by 1.5 percent in January compared with the fourth quarter (Chart 19). As for developments in January by industry, production of electronic parts and devices fell back from the sharp rise in the second half of last year that took place after the completion of inventory adjustments. Production of transport equipment decreased, mainly because the ramped-up production of automobiles that was required to recover the loss caused by the earthquakes has come to an end. Moreover, production of general machinery fell, mainly due to the drop in boilers and power units which tend to fluctuate substantially.

Shipments rose by 2.1 percent in the third quarter and by 2.0 percent in the fourth quarter on a quarter-on-quarter basis, and then fell by 0.5 percent in January compared with the fourth quarter. They have been more or less flat lately, although their movements since the fourth quarter have been somewhat stronger than production. Looking at the trend by goods (Chart 20), shipments of capital goods (excluding transport equipment) have been on an uptrend, albeit with some fluctuations, in light of steady demand at home and abroad. On the other hand, as for consumer goods, shipments of nondurable goods have trended downward, whereas those of durable goods have been on the rise chiefly in digital home appliances and automobiles. In response to these movements in final demand goods and to the

increase in exports, shipments of producer goods have been on an increasing trend, but they have been relatively weak lately, notably in electronic parts and devices. Meanwhile, shipments of construction goods had registered a marked decline since the middle of last year—affected by the ongoing sluggishness in public investment and by the revised Building Standard Law—but they have recently stopped declining.

Inventories have been essentially in balance with shipments. The inventory cycle (Chart 21) 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, inventories of producer goods excluding electronic parts and devices (such as iron and steel) have remained relatively low, while shipments have risen persistently. In durable consumer goods, inventories have been almost in balance with shipments. As for capital goods (excluding transport equipment), although inventories have remained at somewhat high levels, the shipment-inventory balance has improved as a trend, assisted by generally steady demand both at home and abroad. In electronic parts and devices, the shipment-inventory balance has been favorable, as inventories have been on a downtrend on a year-on-year basis. However, because the pace of increase in the supply capacity tends to be rapid for this sector and because there is growing uncertainty about overseas economies, especially that of the United States, future developments in the supply-demand balance at home and abroad continue to require close monitoring. As for construction goods, inventory adjustment pressures have continued to be strong.

As for the outlook, production is expected to increase, after being more or less flat in the short run, in light of developments in demand both at home and abroad. The production forecast index and anecdotal information also suggest that production is likely to be flat or decrease somewhat in the first quarter on a quarter-on-quarter basis.⁹

⁹ Production in the first quarter—based on the production forecast index for February and March—is calculated to decrease, somewhat substantially, by 2.5 percent on a quarter-on-quarter basis. However, certain latitude should be allowed for this calculation, primarily because fluctuations caused by discontinuity are likely to occur when combining the forecast index and original series due to the differences in their coverage and weights.

As for the employment and income situations, household income has continued rising moderately, supported by the increase in the number of employees, while the labor shortage continues to exist (Charts 22[2] and [3]).

In the labor market, overtime hours worked have been virtually flat at high levels (Chart 24[3]). The ratio of job offers to applicants has been at a relatively high level, although it has recently inched downward (Chart 23[1]).¹⁰ The unemployment rate has been marking a level slightly below 4 percent on average (Chart 23[1]).

In terms of employment (Chart 24[1]), the year-on-year growth rate in the number of employees in the *Labour Force Survey* has generally been moving at around 1.0 percent, but the growth rate dropped slightly in January. The year-on-year growth rate in the number of regular employees in the *Monthly Labour Survey* has recently been moving at around 2.0 percent. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, while both full-time and part-time employees have continued to increase, the growth in part-time employees, in particular, has accelerated since around the end of 2006, resulting in a rise in the ratio of part-time employees from the previous year (Charts 24[1] and [2]).

Nominal wages per employee have remained somewhat lackluster (Chart 22[1]). The year-on-year rate of change in regular payments has stayed slightly positive, since they have been held down by the retirement of the high-wage-earning baby-boomers and by an increase in the hiring of relatively low-wage-earning new graduates under a situation in which firms have persisted in labor cost restraints.¹¹

¹⁰ New job offers have been on a downtrend since autumn 2006, largely due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring overstatements in the number of job offers. Nevertheless, the number of job advertisements listed in the media of the private sector has been increasing steadily (Chart 23[3]).

¹¹ The retirement of baby-boomers has started to increase since the second half of 2006. 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 per person. However, with the rise in the number of retiring baby-boomers coming to a halt, negative contributions to wages are expected to become smaller.

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

As for overtime payments, although they have remained on a moderate upward trend, the pace of increase has slowed lately. Meanwhile, winter bonuses (special payments in November-January) continued to decline following the decrease in summer bonuses (special payments in June-August).¹²

Looking ahead, the gradual increase in household income is likely to continue because the labor shortage will persist and corporate profits are expected to remain generally high.

2. Prices

Import prices (on a yen basis; the three-month rate of change) have increased, mainly due to the rise in crude oil prices, although the pace of increase slowed in January primarily due to the yen's appreciation (Chart 26). Looking at recent developments in international commodity prices in more detail, crude oil prices have continued to be strong partly due to the influx of speculative funds. Prices of crops such as wheat have also continued to increase, due to the ongoing rise in global demand such as that for alternative energy sources and to the adverse weather in major production centers. Prices of nonferrous metals had been softening since fall last year, due to concerns over a slowdown in the U.S. economy, but they have recently rebounded. Meanwhile, domestic commodity prices have been high, reflecting developments in international commodity prices.

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.

¹² Winter bonuses (special payments in November-January) in the *Monthly Labour Survey* dropped by 2.8 percent on a year-on-year basis; they posted a sizeable decline even compared to that of summer bonuses (a decline of 2.4 percent in special payments for June-August). This weakness was possibly attributable to: (1) downward pressure caused by the retirement of the baby-boom generation and by the rise in the ratio of part-time workers on special payments was larger than that on regular payments and (2) sluggish profits induced by the rise in materials prices forced small and medium-sized firms to restrain bonuses somewhat strongly.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹³ has been positive, mainly due to the rise in international commodity prices (Chart 27). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have been on the rise due to the upsurge in prices of petroleum and coal products. Prices of "other materials" have continued to increase mildly, notably in prices of chemical products and plastic products, mainly as a result of high material costs to date. Prices of "others" have edged up, aided by the rise in prices of processed foodstuffs. Prices of "iron and steel and construction goods" have climbed moderately due to the rise in prices of scrap and waste. Prices of "electric power, gas and water" have also increased. Meanwhile, prices of "machinery" have been flat lately. Looking at domestic demand products as a whole including imports, prices of raw materials and of intermediate goods have risen, mainly in petroleum-related products. Final goods prices have been flat lately as a whole, since prices of domestic products have risen reflecting movements in prices of petroleum products and processed foodstuffs while prices of imports have fallen.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁴ has been moving around zero percent recently (Chart 28).¹⁵ Looking at recent developments by category, the year-on-year changes in prices of "other services" have been positive since spring last year, reflecting improvements in supply-demand conditions as well as increases in costs such as labor costs. Moreover, prices of real estate services have continued to move up, assisted by the rise in office space rental against the background of improved supply-demand conditions of office spaces in the Tokyo metropolitan area. Prices of information

¹³ 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.

¹⁴ "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.

¹⁵ All items, including external factors, had continued to increase at a pace slightly faster than 1 percent on a year-on-year basis since April last year, but the growth rate has recently slowed somewhat. This is largely attributable to the moderation in oceangoing ship chartering services and ocean freight transportation in reaction to the upsurge caused by the rapid tightening of supply-demand conditions in shipping capacity last year.

services have continued to increase as a trend, albeit with some fluctuations, due to tightening supply-demand conditions as a result of active software investment by firms. On the other hand, prices of advertising services have been somewhat weak, since firms have been cautious about increasing advertisement placements. Meanwhile, prices of communications and broadcasting services have continued to fall, due to the reduction in cellular phone services charges. Prices of leasing and rental have also been declining, affected by the drop in prices of office automation equipment leasing.

The year-on-year rate of increase in consumer prices (excluding fresh food, same hereafter) has been rising since around the end of last year, due to the increase in prices of petroleum products and food products (Chart 29). Looking at recent developments in more detail, prices of goods have increased at a faster pace on a year-on-year basis, chiefly in petroleum products and food products. Services prices have climbed at a modest pace, partly due to the increase in prices of services related to domestic duties, along with the ongoing moderate rise in prices of "eating out."

Domestic corporate goods prices are likely to continue increasing for the time being, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized) has been at around 0.5 percent (Chart 30[1]). Regarding interest rates on term instruments, the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have been more or less flat on the whole (Chart 31[1]). Interest rates on Euroyen futures have been essentially flat on the whole, despite temporary increases (Chart 31[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) had been more or less flat, but they have recently dropped to around 1.35 percent, mainly in response to developments in long-term interest rates in the United States and Europe (Chart 30[2]).

Yield spreads between corporate bonds and government bonds have been more or less flat on the whole, although the widening of spreads has been observed for some industries (Chart 33).

Stock prices have remained weak in response to unstable U.S. and European stock price movements. The Nikkei 225 Stock Average is moving at around 13,000 yen (Chart 34).

In the foreign exchange market, the yen's exchange rate against the U.S. dollar had been more or less level, but it has appreciated sharply from the end of February through early March, mainly due to growing concerns over an economic slowdown in the United States. The yen is currently being traded at around 103 yen to the U.S. dollar (Chart 35).

(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.

Regarding credit supply, private banks have remained accommodative in their loan provision. Related DIs of business surveys, which have been at their mid-1990s levels, indicate that firms have perceived the lending attitudes of financial institutions as accommodative. Nevertheless, those of small and medium enterprises have become slightly less accommodative (Chart 36).

Lending rates have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have been more or less unchanged (Chart 37).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,¹⁶ grew by 1.1 percent in January on a year-on-year basis, compared to 0.8 percent in December and 1.3 percent in November (Chart 38).

In the corporate bond and CP markets, the issuing environment continues to be favorable as a whole. Issuance spreads on corporate bonds and CP issued by firms with low credit ratings have expanded slightly, while they have remained tight chiefly for firms with high credit ratings. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. It increased by 3.9 percent in January, on a year-on-year basis, compared to 3.8 percent in December and 4.5 percent in November (Chart 39).

According to business surveys, the financial positions of firms have continued to be favorable as a whole, although those of small and medium enterprises have deteriorated slightly (Chart 36).

The money stock ($M_2 + \text{CDs}$) has increased by around 2 percent annually. Its January reading was 2.1 percent on a year-on-year basis, following 2.1 percent in December and 2.0 percent in November (Chart 40).

The number of corporate bankruptcies was up by 7.6 percent in January compared to the year-ago level, to 1,174 cases (Chart 41).

¹⁶ The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q2	Q3	Q4	2007/Nov.	Dec.	2008/Jan.	Feb.
Index of living expenditure level (two-or-more-person households)	-0.3	-0.7	1.0	-0.9	1.9	2.4	n.a.
Sales at department stores	1.0	-3.0	1.3	1.3	-3.2	p 1.3	n.a.
Sales at supermarkets	-0.7	-0.8	1.1	2.0	-2.1	p -0.8	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 292>	< 295>	< 300>	< 304>	< 293>	< 317>	< 289>
Sales of household electrical appliances (real, Current Survey of Commerce)	-0.7	4.5	2.2	3.9	2.0	p 2.9	n.a.
Outlays for travel	-1.5	1.5	0.7	5.3	1.2	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 125>	< 81>	< 95>	< 96>	< 105>	< 119>	<n.a.>
Machinery orders (from private sector ⁴)	-2.4	2.5	0.9	-2.8	-3.2	n.a.	n.a.
Manufacturing	-4.0	2.7	6.8	-1.7	-7.8	n.a.	n.a.
Nonmanufacturing ⁴	0.1	1.6	-2.7	3.1	-5.2	n.a.	n.a.
Construction Starts (private, nondwelling use)	24.5	-48.0	39.1	60.5	10.3	-16.0	n.a.
Mining & manufacturing	20.0	-49.8	44.1	-15.4	22.0	-23.5	n.a.
Nonmanufacturing ⁵	29.0	-47.4	34.3	104.2	6.9	-12.4	n.a.
Value of public works contracted	-0.7	-4.8	2.5	1.5	7.2	-5.4	n.a.
Real exports	-0.4	6.0	1.6	1.8	-0.1	4.6	n.a.
Real imports	0.5	1.8	-0.6	1.9	-0.1	0.7	n.a.
Industrial production	0.2	2.2	1.3	-1.6	1.4	p -2.0	n.a.
Shipments	0.7	2.1	2.0	-1.7	1.6	p -0.9	n.a.
Inventories	-0.3	1.3	2.0	1.7	-0.4	p -1.3	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 100.5>	< 103.8>	< 102.3>	< 100.9>	< 102.3>	<p 98.2>	<n.a.>
Real GDP	-0.4	0.3	0.9	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.6	-0.1	0.1	-0.5	-0.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q2	Q3	Q4	2007/Oct.	Nov.	Dec.	2008/Jan.
Ratio of job offers to applicants <s.a., times>	< 1.06>	< 1.05>	< 1.00>	< 1.02>	< 1.00>	< 0.98>	< 0.98>
Unemployment rate <s.a., %>	< 3.8>	< 3.8>	< 3.8>	< 3.9>	< 3.8>	< 3.8>	< 3.8>
Overtime working hours ⁶	0.6	0.4	0.2	0.9	-0.2	-0.2	p -1.9
Number of employees	1.1	0.8	0.9	0.4	1.2	1.1	0.5
Number of regular employees ⁶	1.7	1.7	2.0	1.7	2.2	2.0	p 1.9
Nominal wages per person ⁶	-0.6	-0.6	-0.9	-0.1	0.1	-1.7	p 1.0
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	1.7 < 1.1>	1.6 < 0.7>	2.3 < 0.7>	2.0 < 0.4>	2.4 < 0.7>	2.6 < 1.1>	p 3.0 <p 0.8>
Consumer price index ⁸	-0.1	-0.1	0.5	0.1	0.4	0.8	0.8
Corporate service price index	1.3	1.3	1.4	1.4	1.4	1.5	p 0.8
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.5	1.9	2.0	1.9	2.0	2.1	p 2.1
Number of corporate bankruptcies <cases>	<1,205>	<1,155>	<1,190>	<1,260>	<1,213>	<1,097>	<1,174>

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

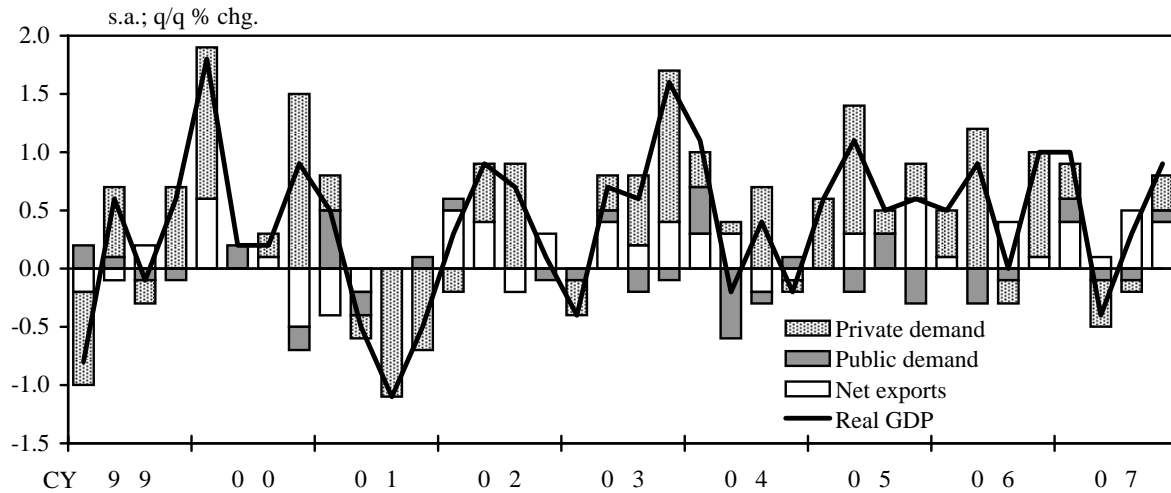
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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, "Orders Received for Machinery," "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 and Indexes of Business Conditions

(1) Real GDP

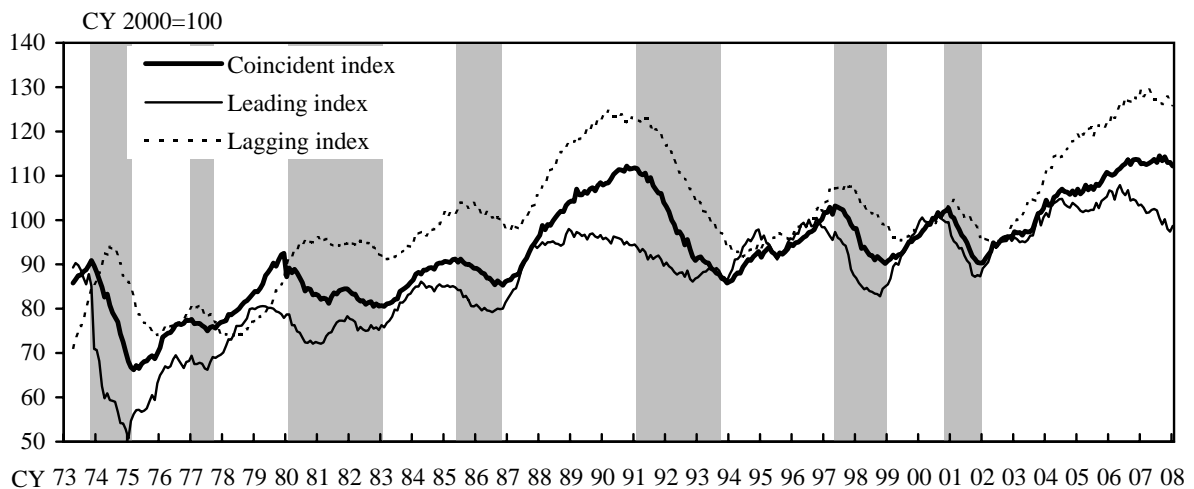


(2) Components

	s.a.; q/q % chg.				
	2006	2007			
	Q4	Q1	Q2	Q3	Q4
Real GDP	1.0	1.0	-0.4	0.3	0.9
Domestic demand	0.9	0.5	-0.5	-0.2	0.5
Private demand	0.9	0.3	-0.4	-0.1	0.3
Private consumption	0.6	0.4	0.1	0.1	0.1
Non-Resi. investment	0.2	-0.0	-0.2	0.2	0.5
Residential investment	0.1	-0.0	-0.2	-0.3	-0.3
Private inventory	-0.0	0.0	-0.1	-0.1	0.1
Public demand	0.0	0.2	-0.1	-0.1	0.1
Public investment	0.1	0.2	-0.2	-0.1	-0.0
Net exports of goods and services	0.1	0.4	0.1	0.5	0.4
Exports	0.1	0.6	0.2	0.5	0.5
Imports	-0.0	-0.1	-0.1	0.0	-0.1
Nominal GDP	1.1	0.7	-0.5	0.1	0.3

Note: Figures of components in real GDP indicate contributions to changes in GDP.

(3) Indexes of Business Conditions (Composite Indexes)

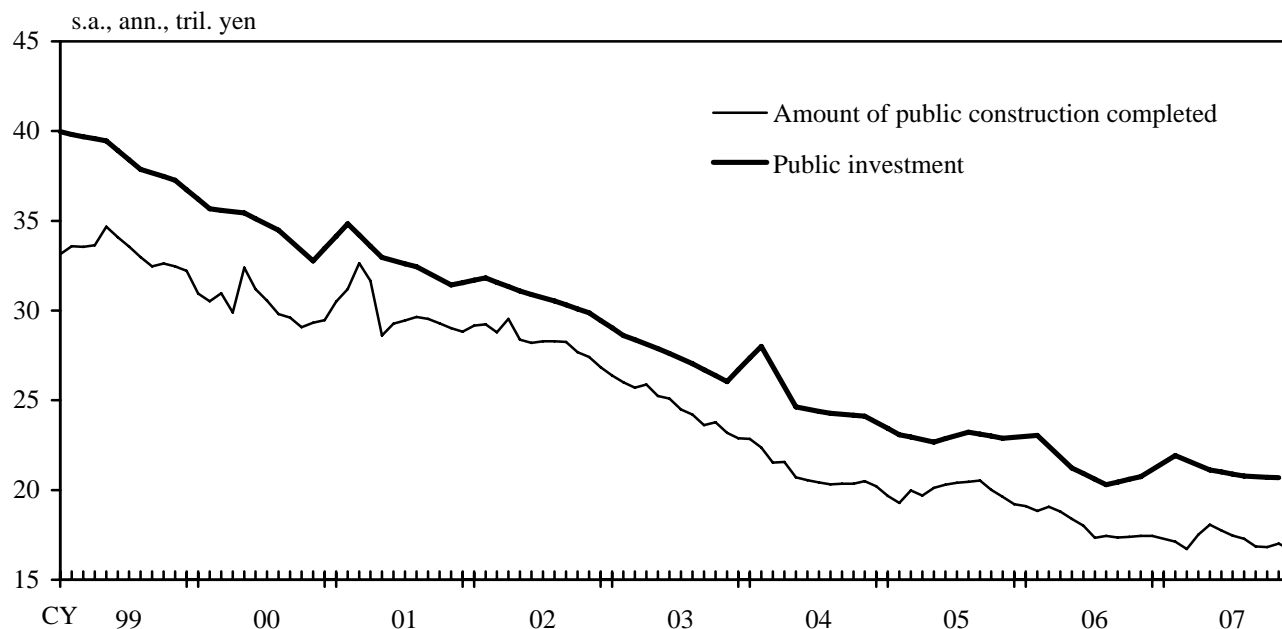


Note: Shaded areas indicate recession periods.

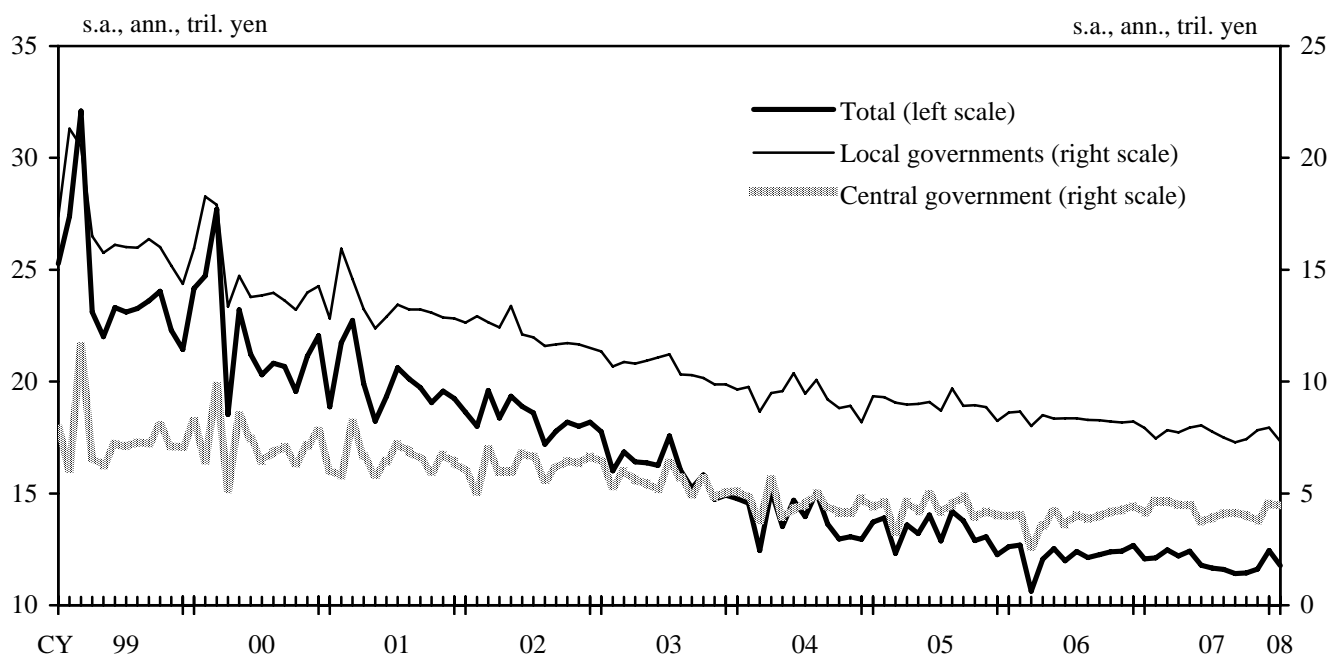
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

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.

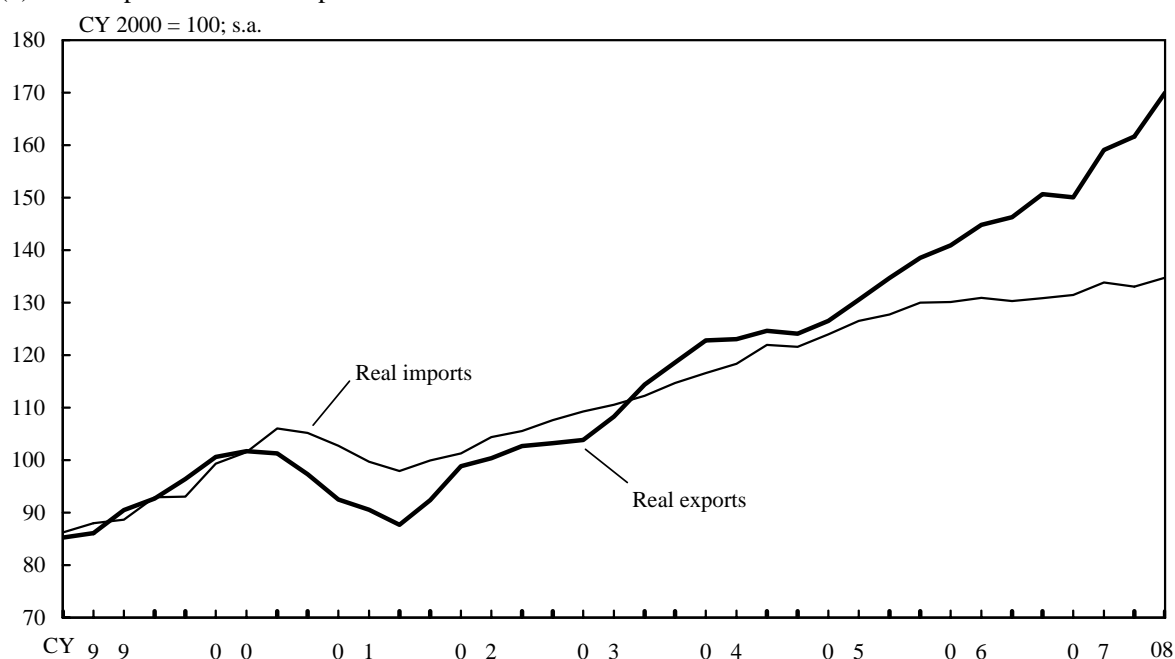
Sources: Cabinet Office, "National Accounts";

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

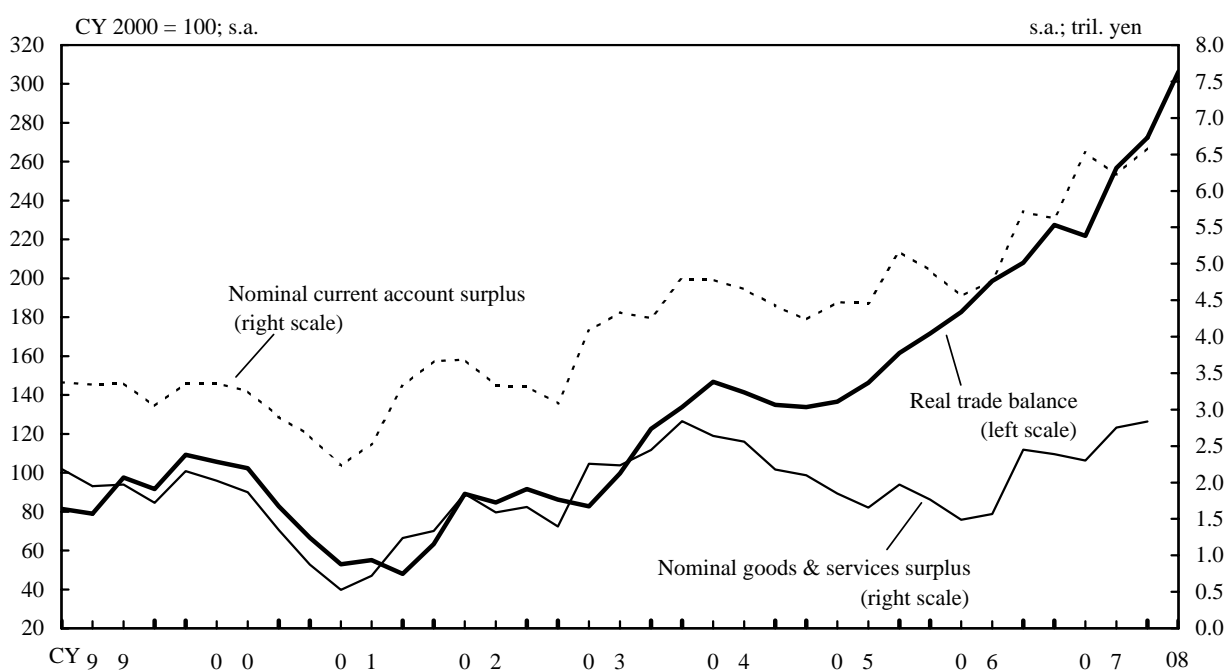
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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." On and after November 2007, deflators are calculated by extending the 2000 base deflators using monthly changes of the 2005 base deflators. All the deflators regarding real exports/imports are similarly calculated in the following charts.
2. Figures are seasonally adjusted by X-12-ARIMA.
3. 2008/Q1 figures for Real exports/imports and the real trade balance are January 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 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Nov.	Dec.	2008 Jan.
United States	<20.1>	10.3	-1.0	-0.9	-3.7	5.4	-1.7	1.6	-1.8	4.0	-0.4
EU	<14.8>	10.3	12.0	3.7	2.3	6.8	1.5	3.3	-6.3	0.7	5.1
East Asia	<46.0>	9.1	9.7	4.3	-1.4	5.6	2.3	6.2	4.9	-1.8	5.8
China	<15.3>	20.1	16.8	5.5	-3.0	10.1	0.7	5.8	0.9	-4.8	9.1
NIEs	<22.4>	5.7	4.4	3.9	-1.6	2.9	1.8	7.8	7.6	-2.6	7.1
Korea	<7.6>	7.7	5.0	5.1	-2.5	0.2	6.5	2.8	2.8	-4.8	5.3
Taiwan	<6.3>	3.7	-0.8	0.1	1.6	5.8	-4.7	19.1	13.5	-0.2	14.6
ASEAN ⁴	<8.3>	2.8	12.1	3.6	2.1	4.7	6.4	2.7	5.6	5.2	-2.4
Thailand	<3.6>	5.2	9.6	3.8	0.8	5.1	1.8	7.6	5.8	0.0	5.6
Others	<19.1>	19.5	19.2	4.4	4.1	6.3	9.9	4.2	6.3	-4.0	4.9
Real exports		10.5	8.6	3.0	-0.4	6.0	1.6	5.2	1.8	-0.1	4.6

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Nov.	Dec.	2008 Jan.
Intermediate goods	<18.4>	6.4	5.5	1.9	-0.0	6.2	1.9	0.6	-2.0	1.7	0.2
Motor vehicles and their related goods	<24.1>	13.6	12.9	2.7	1.0	5.8	7.7	4.7	0.7	3.0	2.3
Consumer goods ⁴	<4.5>	7.1	4.9	-3.0	5.4	5.0	-0.9	2.4	5.2	-3.4	3.1
IT-related goods ⁵	<11.0>	7.7	10.7	5.5	-4.0	6.2	0.8	0.9	-1.9	2.6	-0.2
Capital goods and parts ⁶	<28.4>	12.4	6.6	2.9	0.2	3.7	1.8	4.4	3.6	-0.1	3.2
Real exports		10.5	8.6	3.0	-0.4	6.0	1.6	5.2	1.8	-0.1	4.6

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q1 figures are January figures converted into quarterly amount.

2. Shares of each region and goods in 2007 are shown in angle brackets.

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

4. Excludes motor vehicles.

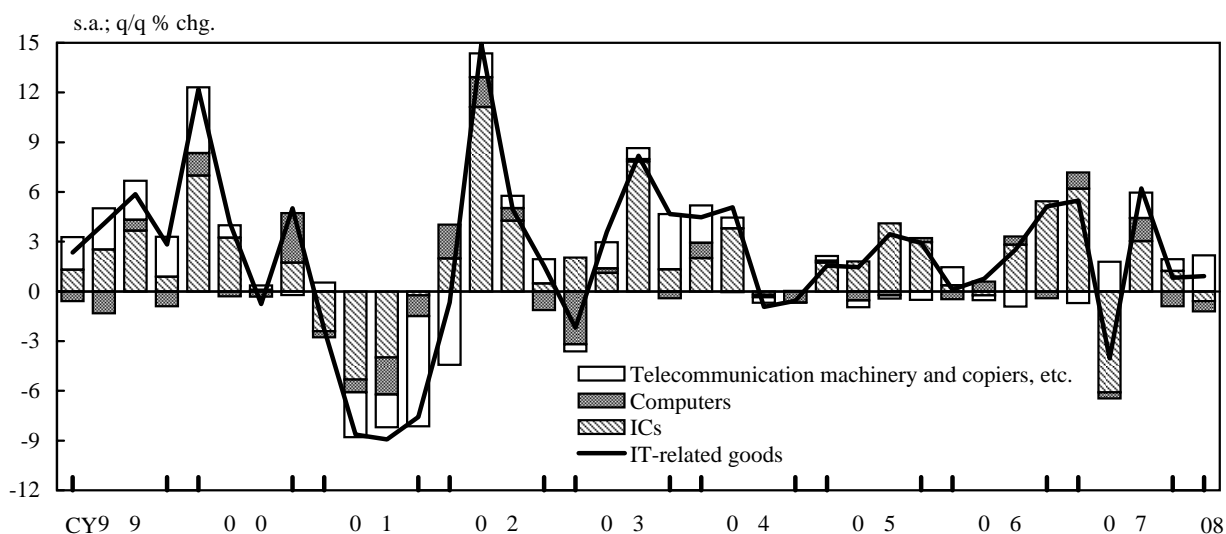
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

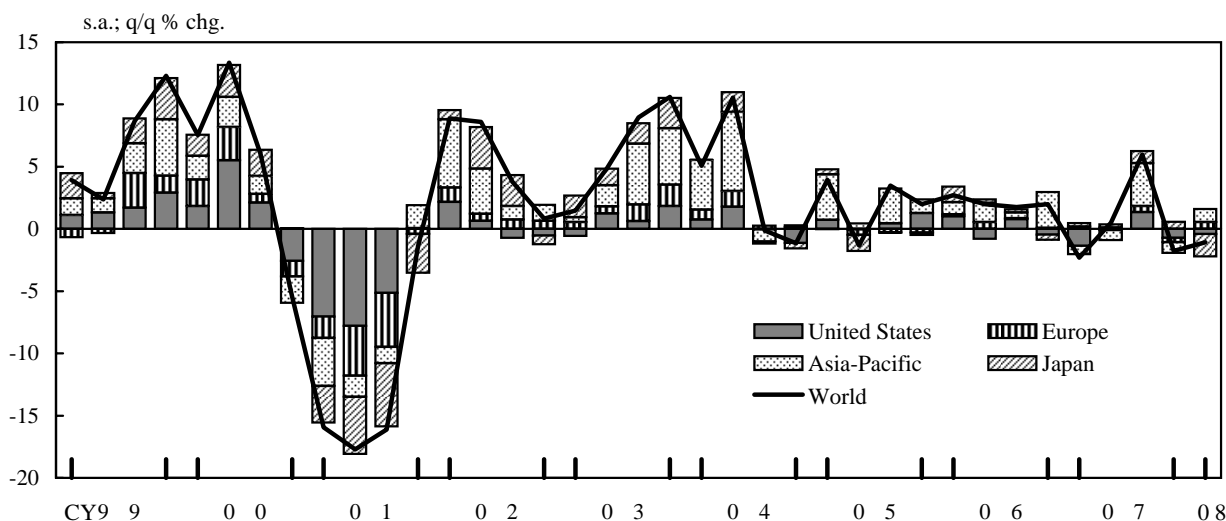
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

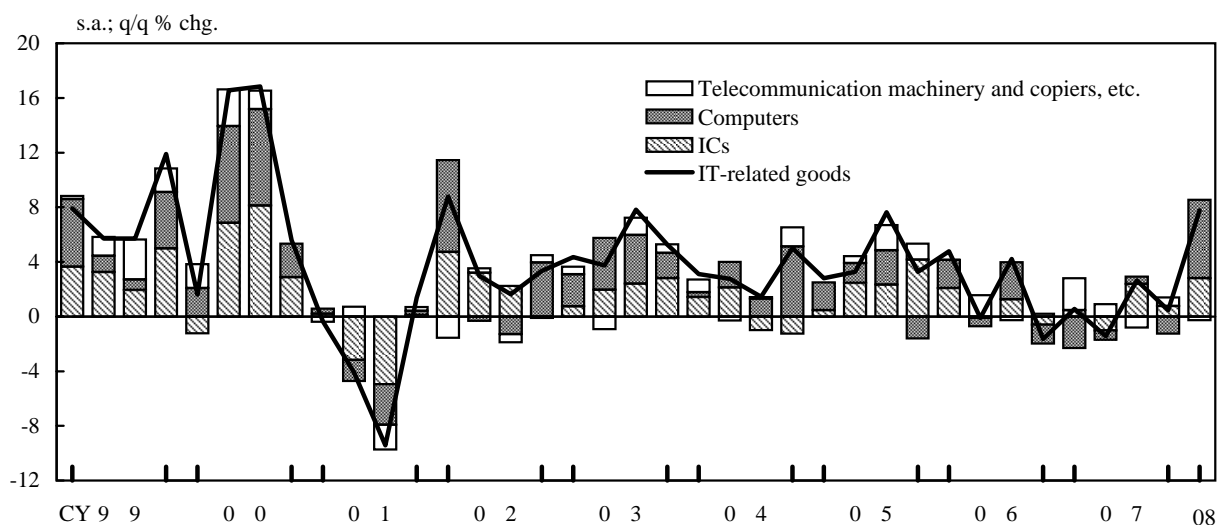
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

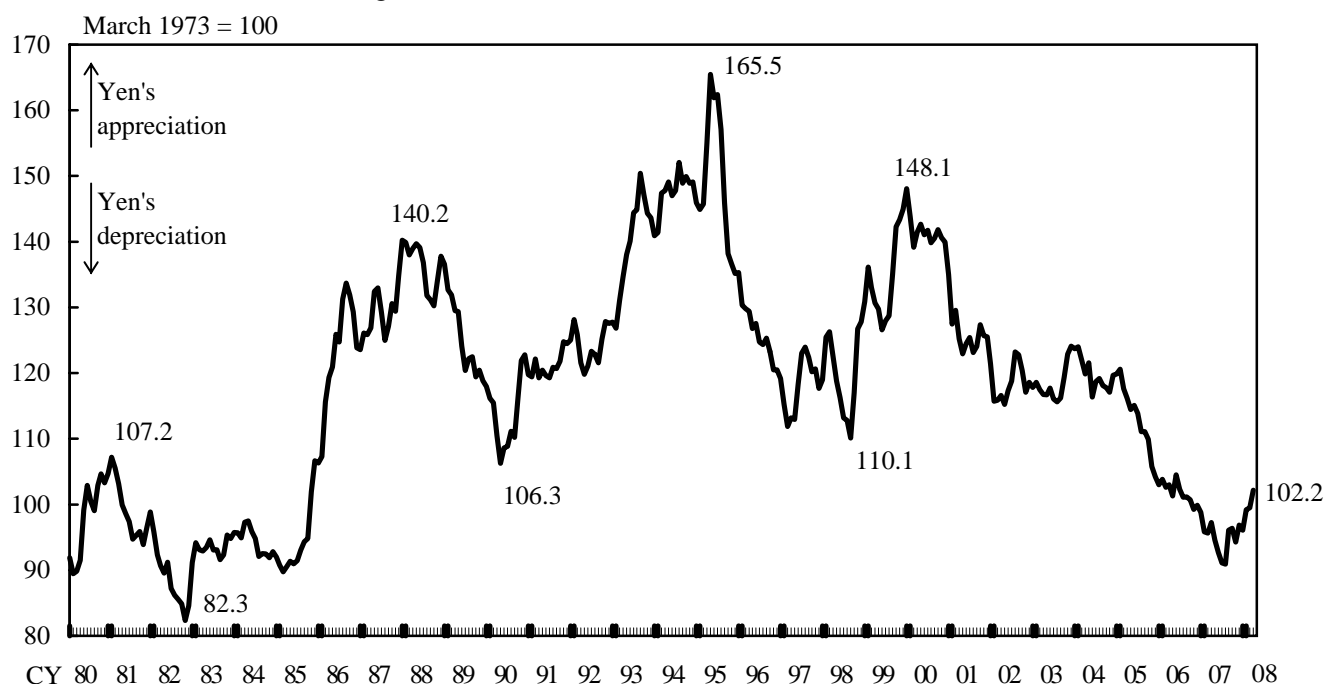
2. 2008/Q1 figures are January figures converted into quarterly amount.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for March 2008 is the average up to March 6.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (29 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY2005	2006	2007	2007 Q1	Q2	Q3	Q4	
United States ¹		3.1	2.9	2.2	0.6	3.8	4.9	0.6	
European Union ¹		1.9	3.1	2.9	3.3	1.7	3.2	2.0	
	Germany	1.0	3.1	2.6	2.6	0.7	2.7	1.1	
	France	1.7	2.2	1.9	2.3	1.4	3.2	1.4	
	United Kingdom	1.8	2.9	3.1	3.1	3.2	3.0	2.3	
East Asia ²	China	10.4	11.1	11.4	11.1	11.9	11.5	11.2	
	NIEs	Korea	4.2	5.0	4.9	4.0	5.0	5.2	5.5
		Taiwan	4.2	4.9	5.7	4.2	5.2	6.9	6.4
		Hong Kong	7.1	7.0	6.3	5.5	6.4	6.3	6.7
		Singapore	7.3	8.2	7.7	7.0	9.1	9.5	5.4
	ASEAN4	Thailand	4.5	5.1	4.8	4.2	4.3	4.8	5.7
		Indonesia	5.7	5.5	6.3	6.1	6.4	6.5	6.3
		Malaysia	5.0	5.9	6.3	5.5	5.8	6.6	7.3
Philippines		4.9	5.4	7.3	7.1	7.5	7.4	7.4	

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 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Nov.	Dec.	2008 Jan.
United States	<11.4>	6.6	-2.2	-2.2	1.7	-2.4	2.8	1.0	-3.0	-4.8	5.5
EU	<10.5>	1.4	5.1	1.6	3.7	4.0	-3.9	0.2	2.4	-0.9	0.0
East Asia	<40.9>	9.5	3.1	0.1	-0.8	2.1	0.4	3.2	0.8	5.1	-0.4
China	<20.6>	11.2	6.0	1.4	0.6	1.5	0.8	3.3	0.0	6.1	-0.6
NIEs	<8.9>	12.7	-2.7	-1.6	-4.5	3.6	-0.2	3.2	2.5	1.0	1.7
Korea	<4.4>	11.4	0.6	-1.7	1.3	2.2	1.9	5.4	5.9	-4.8	6.9
Taiwan	<3.2>	16.9	-4.6	-3.3	-10.3	7.9	-3.1	1.2	0.6	8.7	-4.4
ASEAN4 ³	<11.4>	3.4	3.0	-0.9	-0.0	1.8	-0.1	3.1	1.0	7.0	-1.7
Thailand	<2.9>	7.1	4.2	1.7	-1.6	2.3	0.6	0.8	-0.8	10.3	-5.2
Others	<37.3>	2.5	-0.5	1.4	-1.2	3.5	-2.0	1.8	4.2	1.5	-0.5
Real imports		4.4	1.4	0.4	0.5	1.8	-0.6	1.3	1.9	-0.1	0.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Nov.	Dec.	2008 Jan.
Raw materials ⁴	<35.4>	1.0	-0.1	1.0	-0.5	3.5	-1.3	-2.9	5.5	-0.5	-4.3
Intermediate goods	<14.7>	2.3	1.6	0.4	1.8	3.4	-2.8	0.4	-2.3	4.0	-1.4
Foodstuffs	<8.2>	-3.3	-5.7	0.5	-4.4	-0.8	-7.1	0.0	0.3	2.4	-1.7
Consumer goods ⁵	<8.1>	2.6	-1.5	-5.1	5.5	-0.0	-3.1	-0.9	2.6	-4.0	1.0
IT-related goods ⁶	<11.3>	14.1	1.4	0.6	-1.4	2.6	0.5	7.8	4.8	4.5	3.1
Capital goods and parts ⁷	<12.8>	16.9	9.7	1.8	1.7	2.9	3.6	7.9	1.1	-0.2	7.7
Excluding aircraft	<11.8>	18.0	9.5	0.4	3.1	4.4	1.5	2.4	3.2	2.4	-0.2
Real imports		4.4	1.4	0.4	0.5	1.8	-0.6	1.3	1.9	-0.1	0.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q1 figures are January figures converted into quarterly amount.

2. Shares of each region and goods in 2007 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.

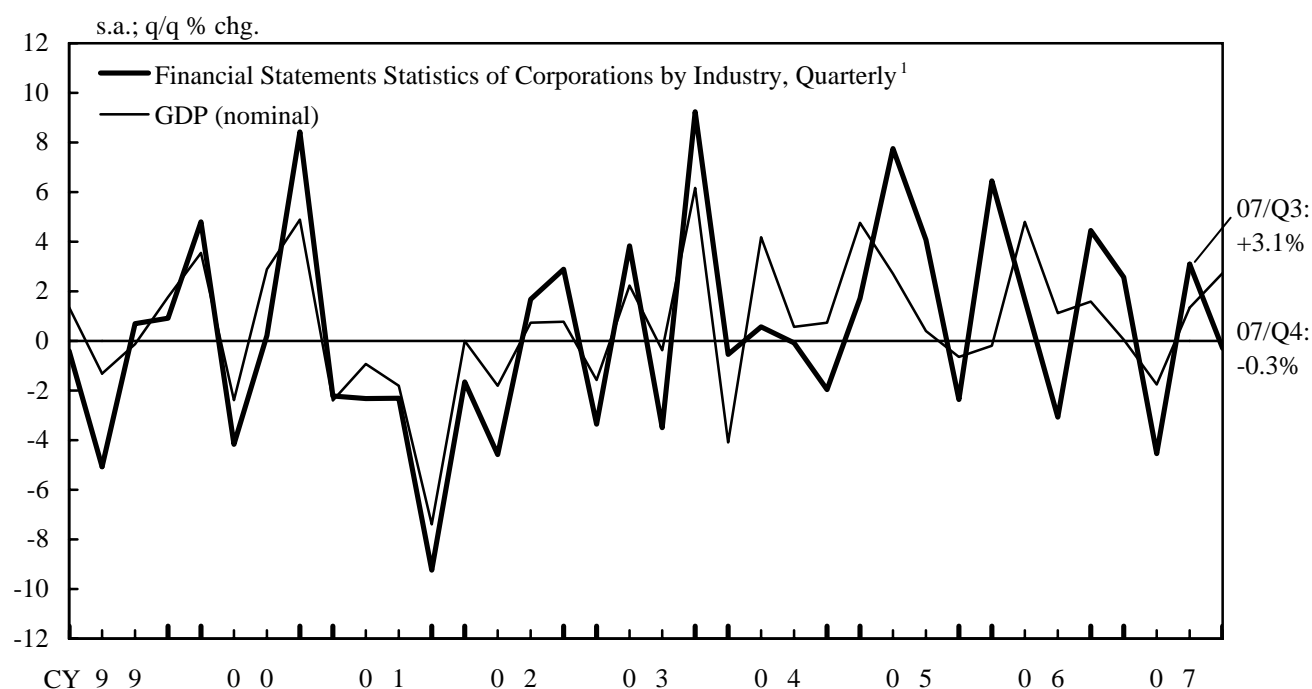
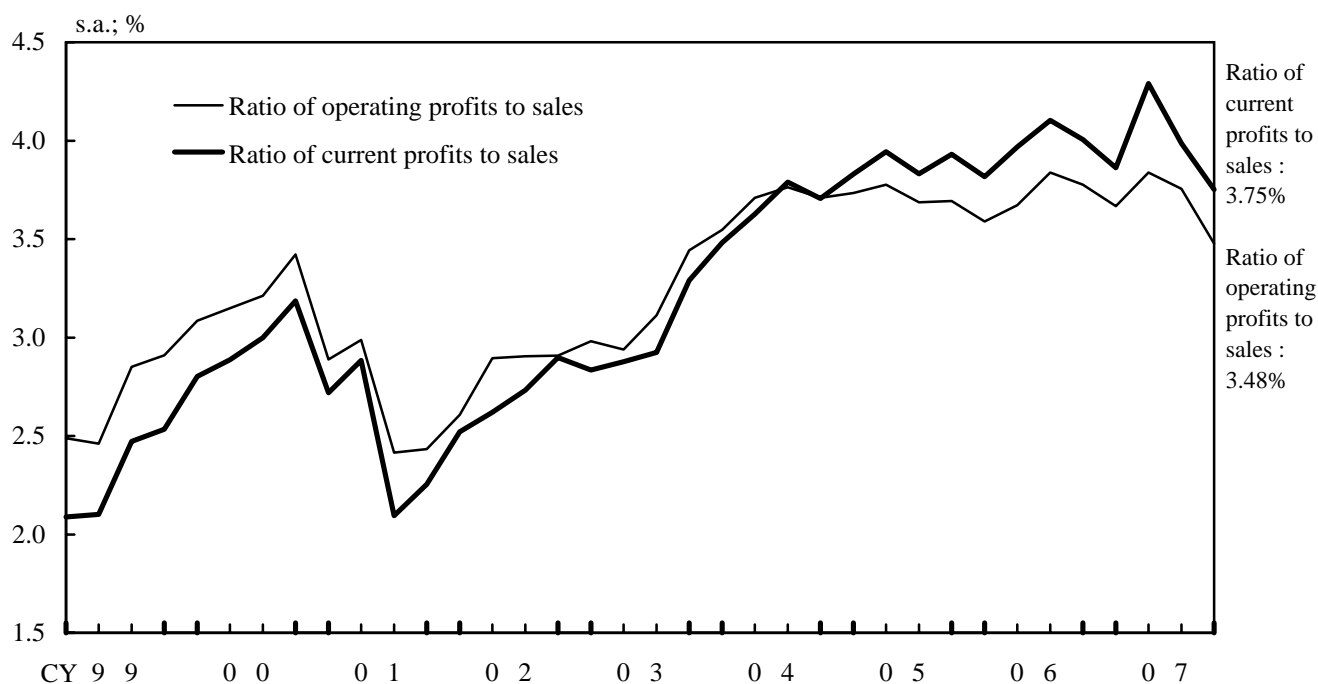
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

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}

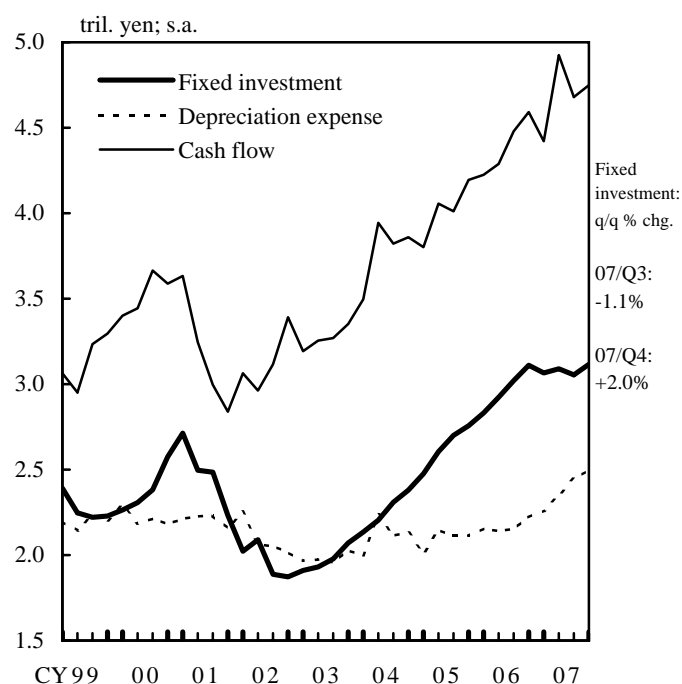
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. 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.

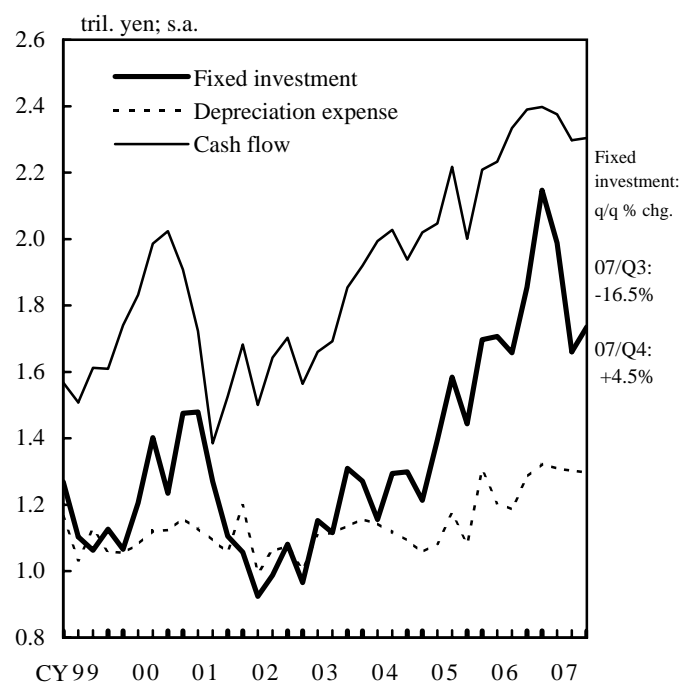
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

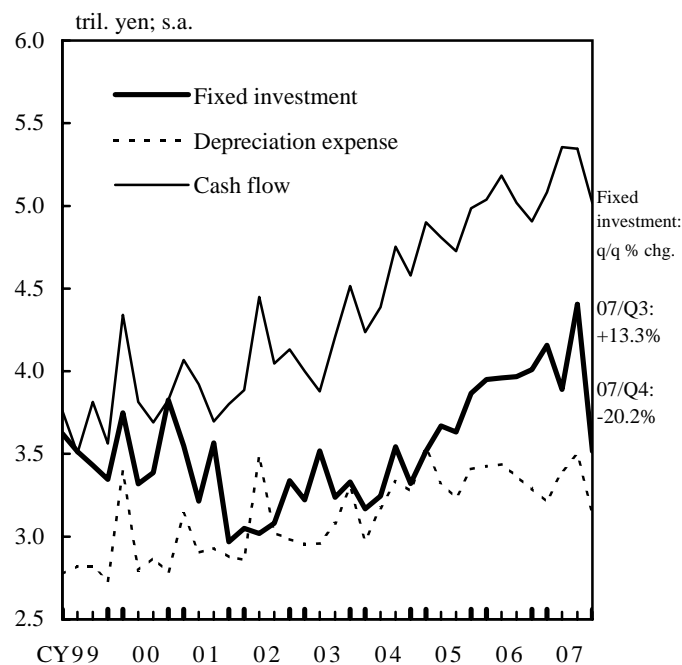
(1) Large Manufacturing Firms



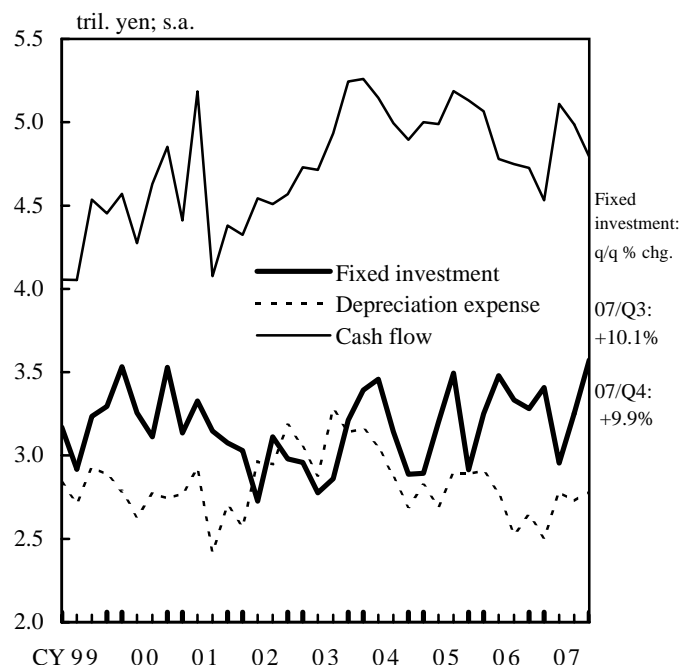
(2) Medium-Sized and Small Manufacturing Firms



(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 10).

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.

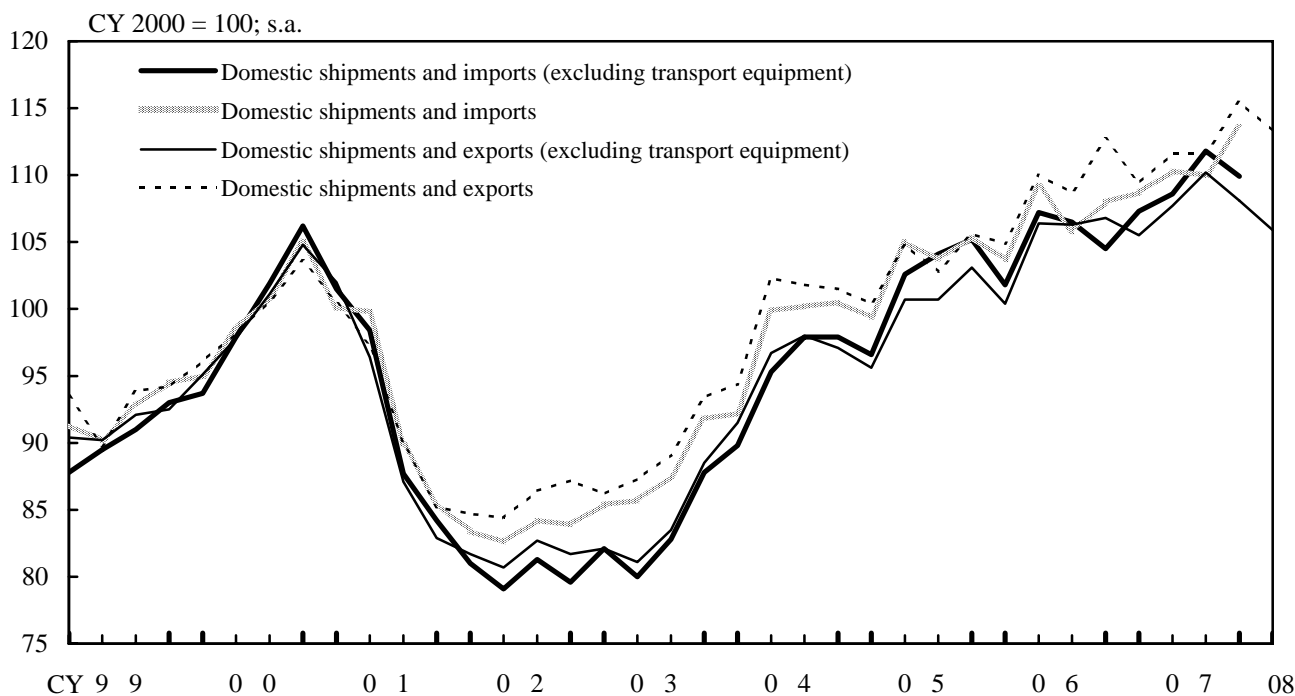
5. Cash flow = current profits / 2 + depreciation expense.

6. Seasonally adjusted by X-11.

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

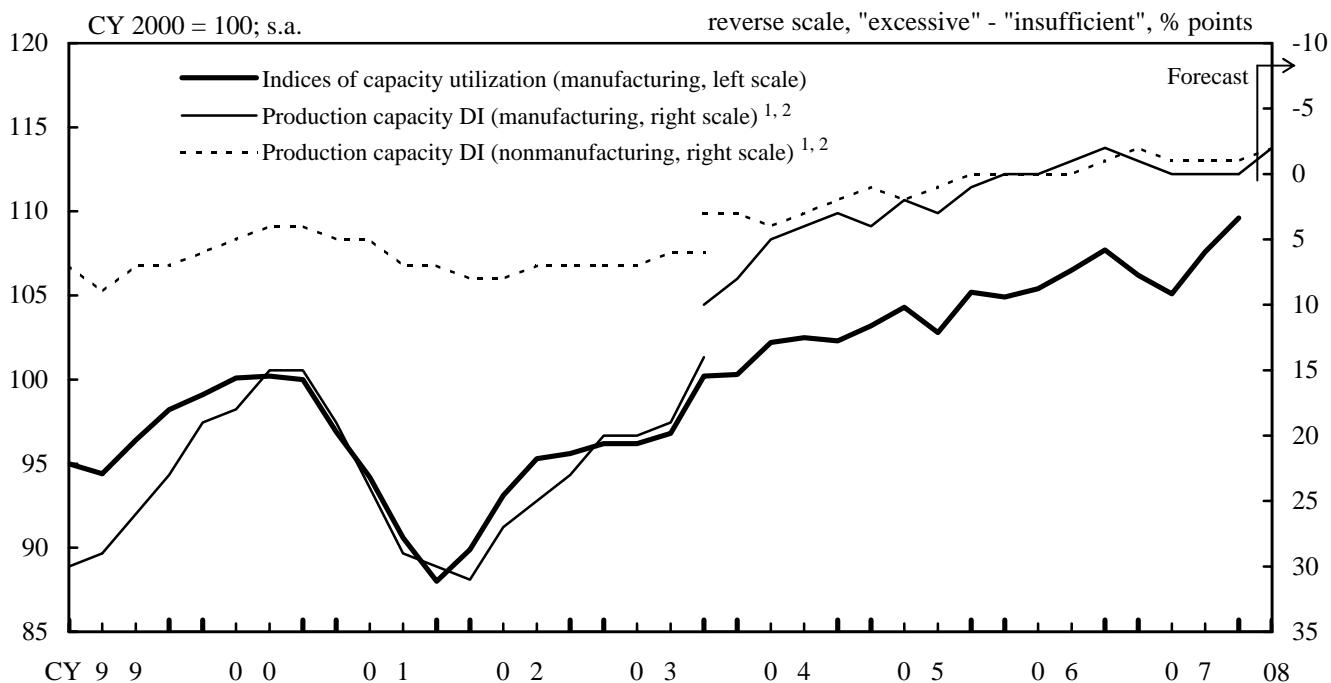
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for Domestic shipments and exports for 2008/Q1 are those of January.

(2) Indices of Capacity Utilization and Production Capacity DI



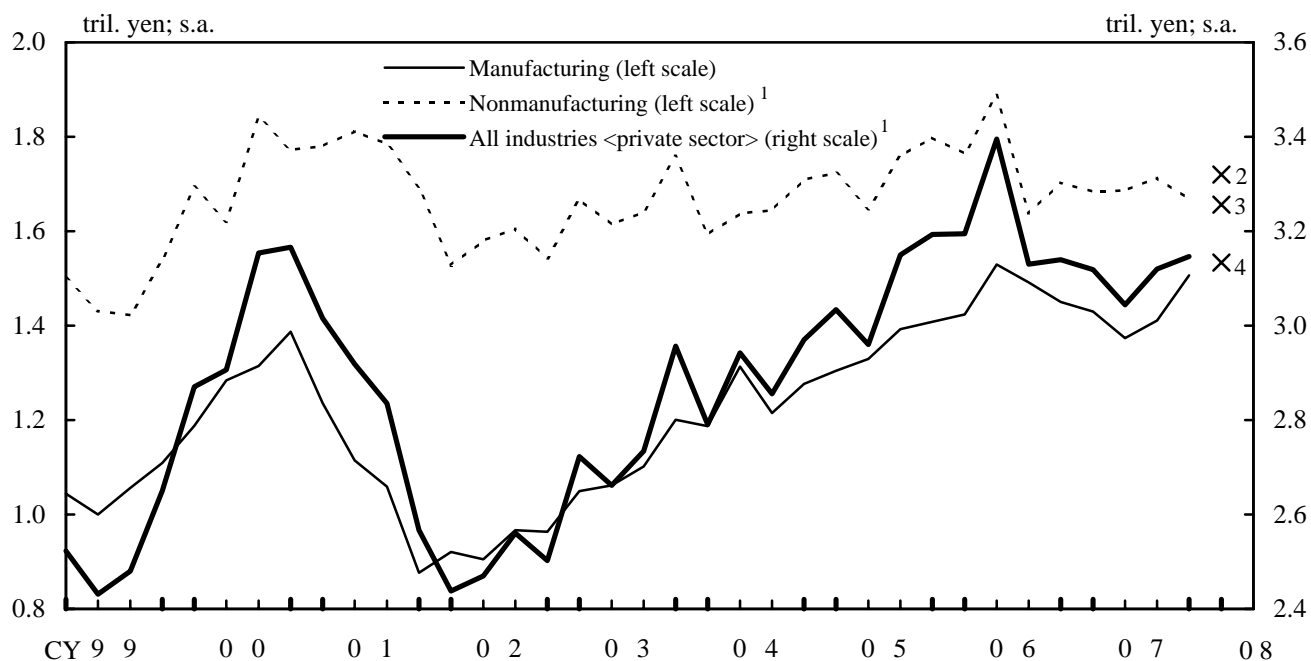
Notes: 1. Production capacity DIs are those of all enterprises.

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

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



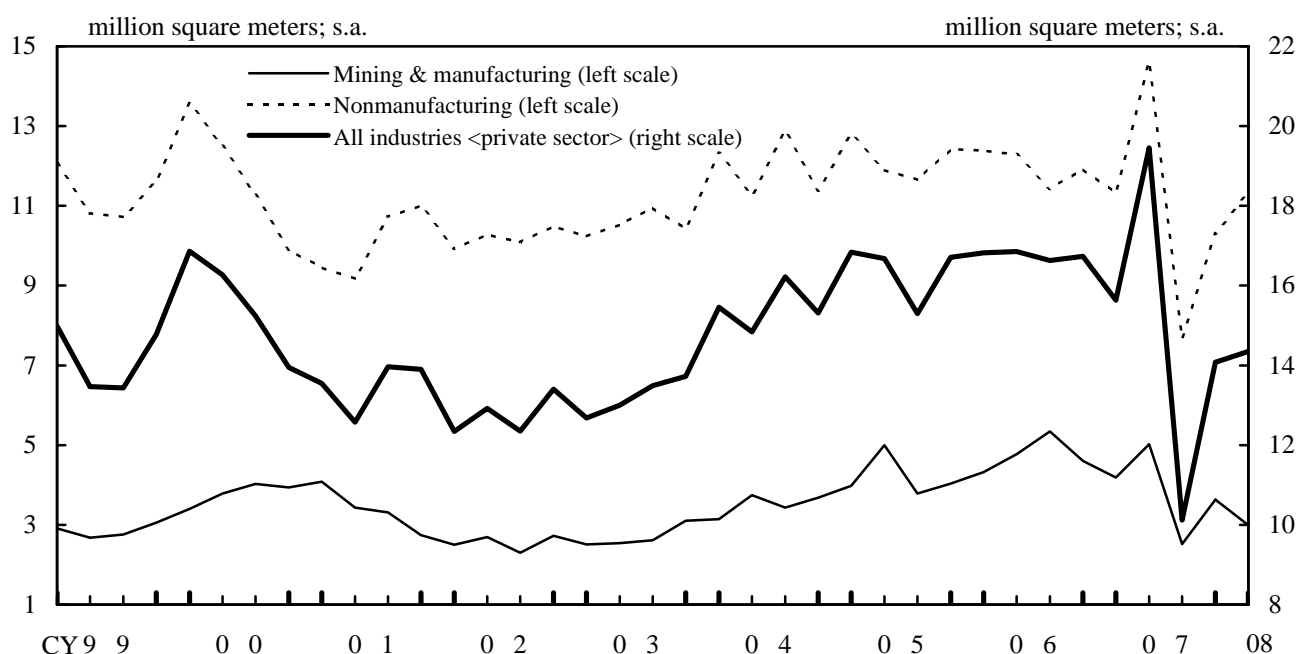
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2008/Q1.

3. Forecast of all industries <private sector> for 2008/Q1.

4. Forecast of manufacturing industries for 2008/Q1.

(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.

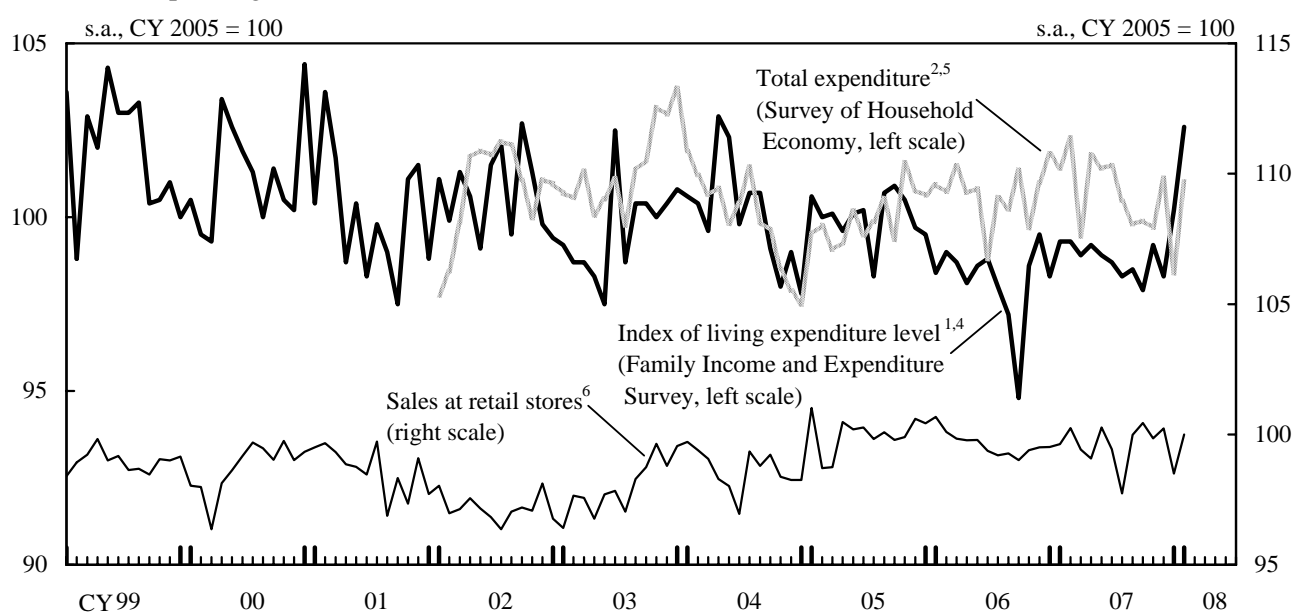
3. Figures for 2008/Q1 are those of January in terms of quarterly amount.

Sources: Cabinet Office, "Orders Received for Machinery";

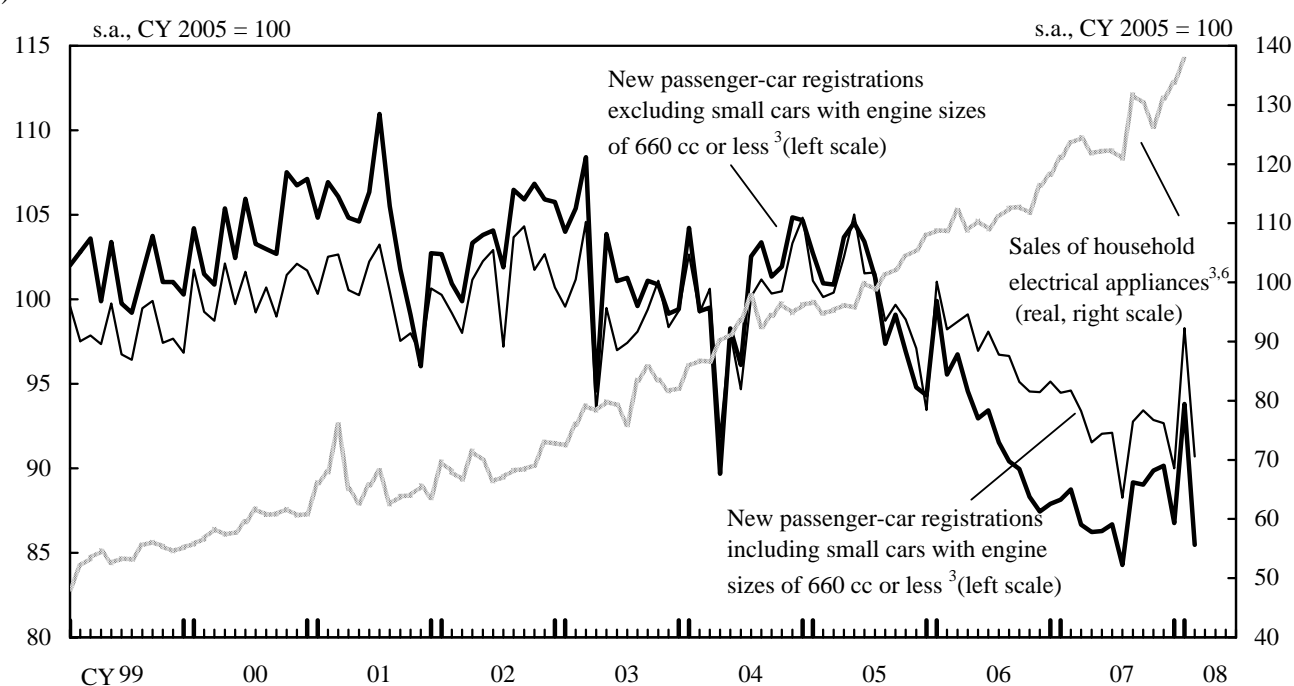
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

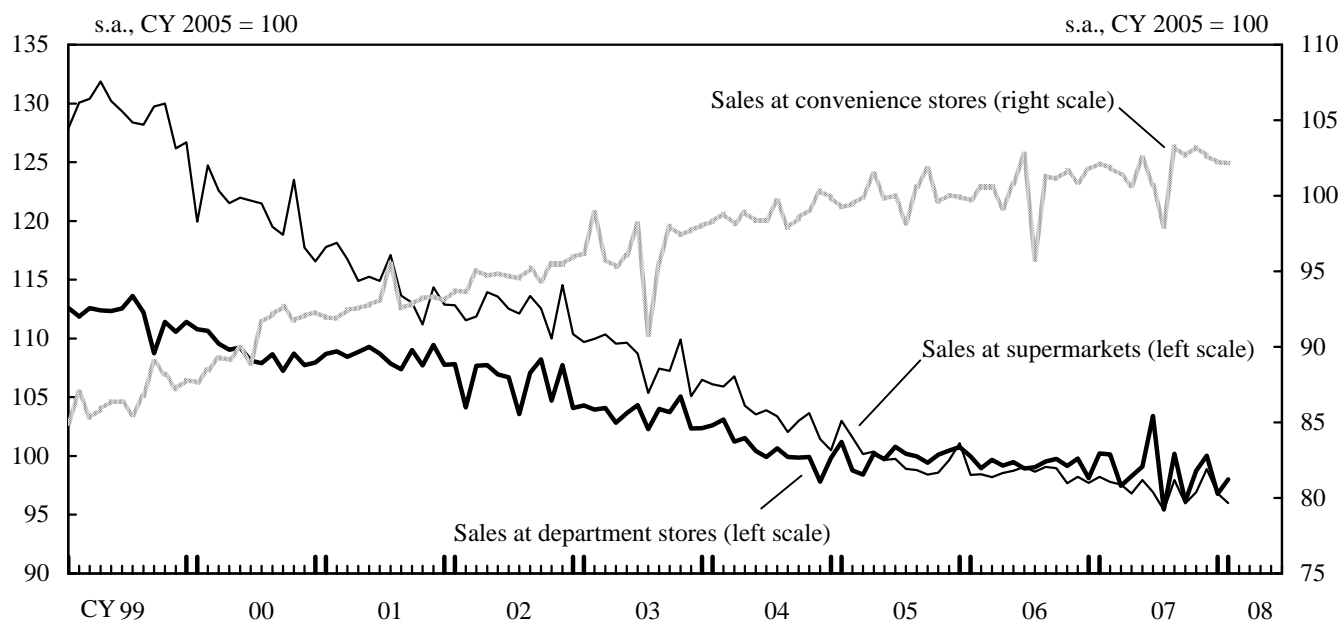


(2) Sales of Durable Goods

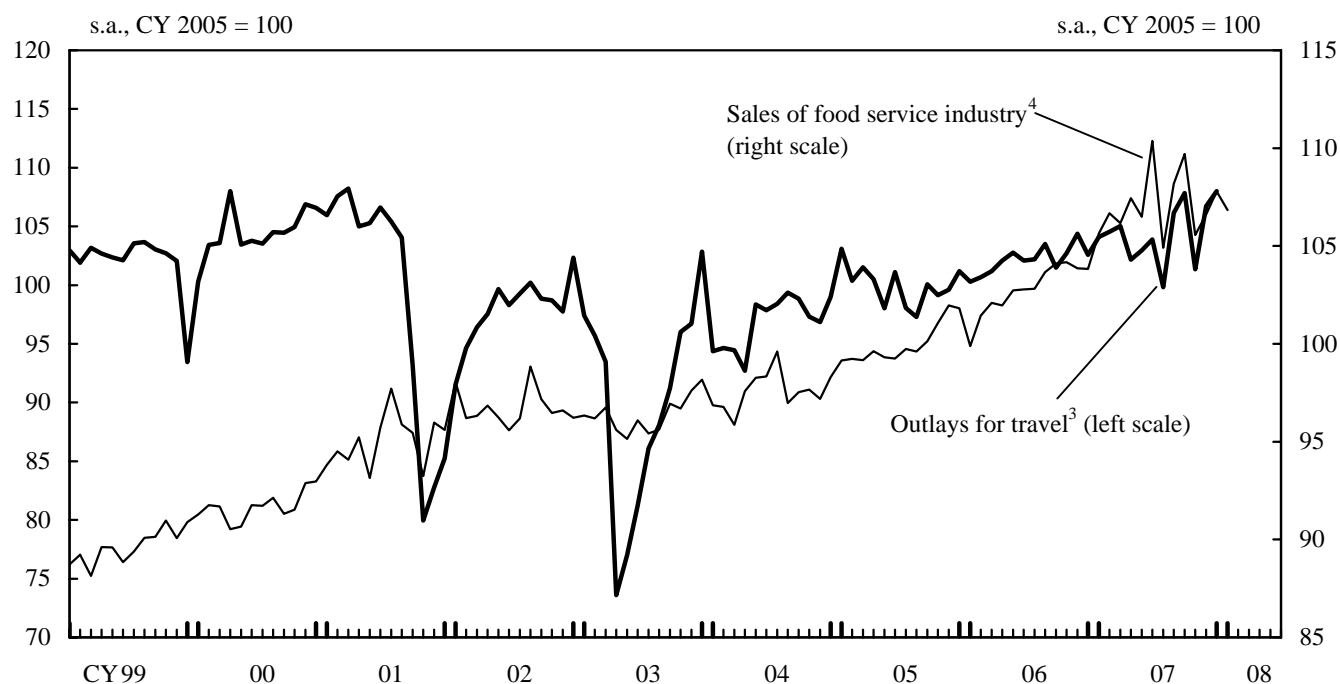


- Notes: 1. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of living expenditure level is based on two-or-more-person 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)(1) Sales at Retail Stores (Nominal)²

(2) 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).

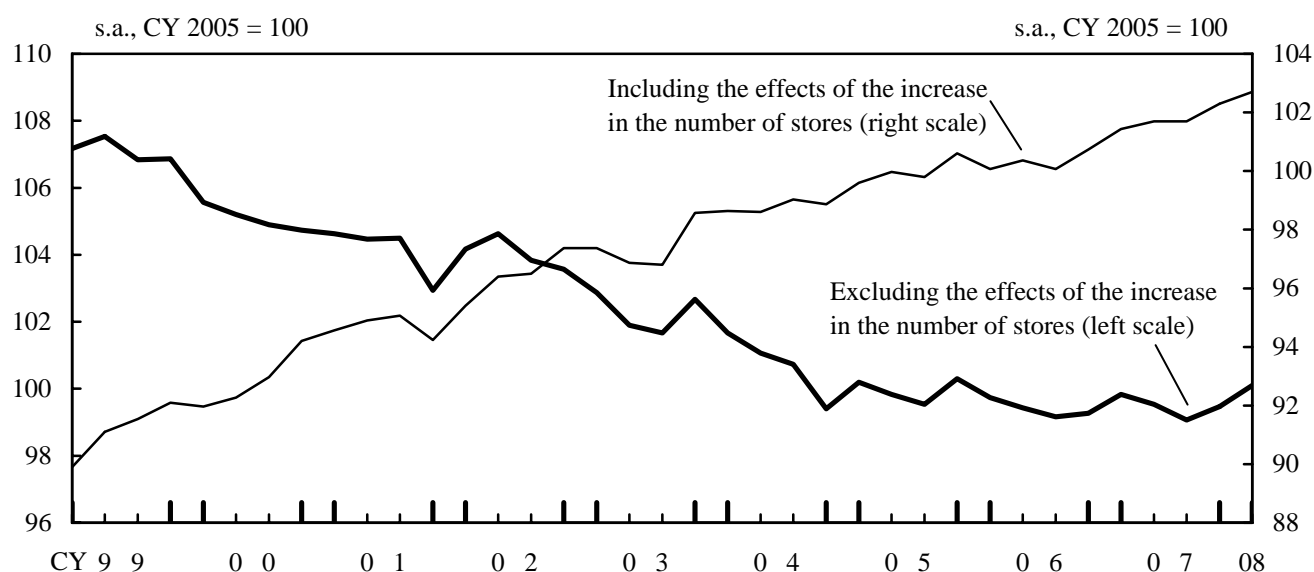
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

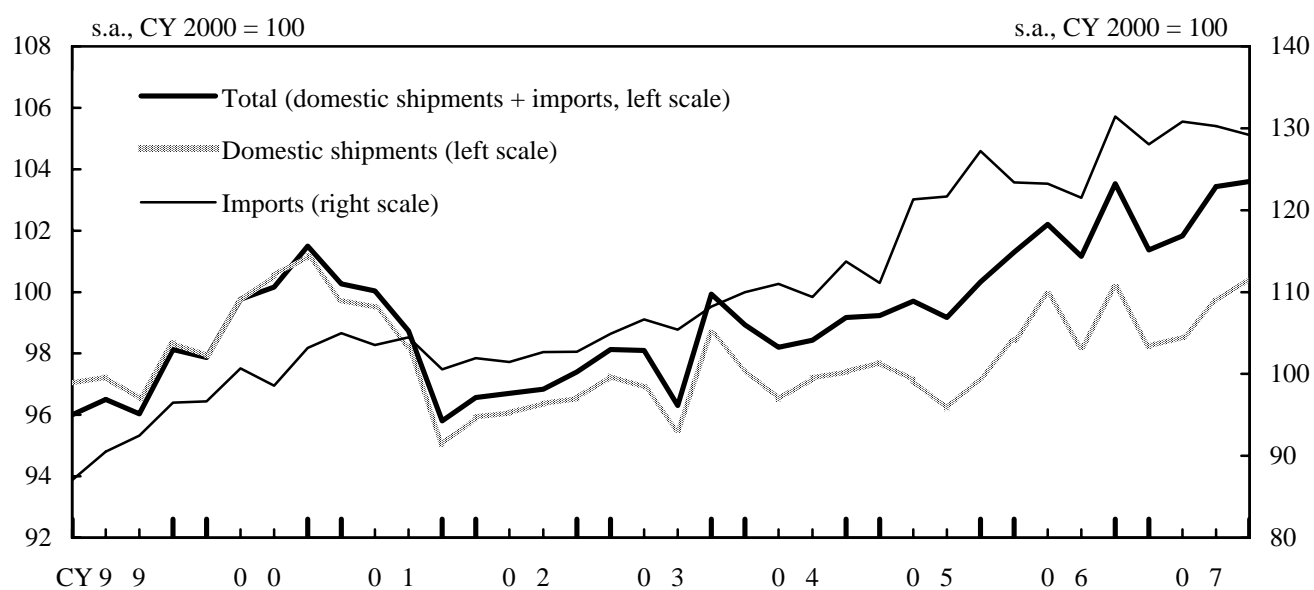
Indicators for Private Consumption (3)

(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 2008/Q1 figures are those of January in terms of quarterly amount.

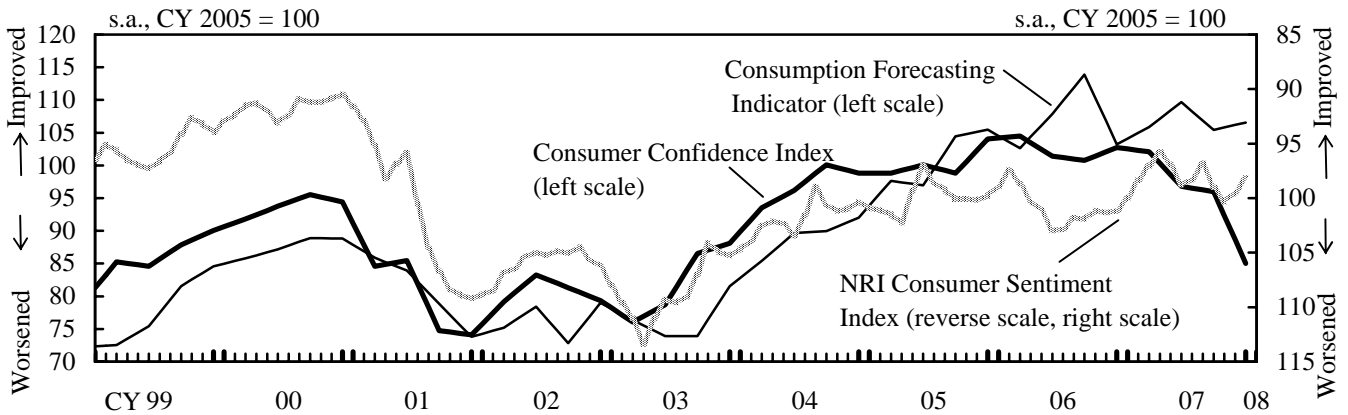
(2) Aggregate Supply of Consumer Goods



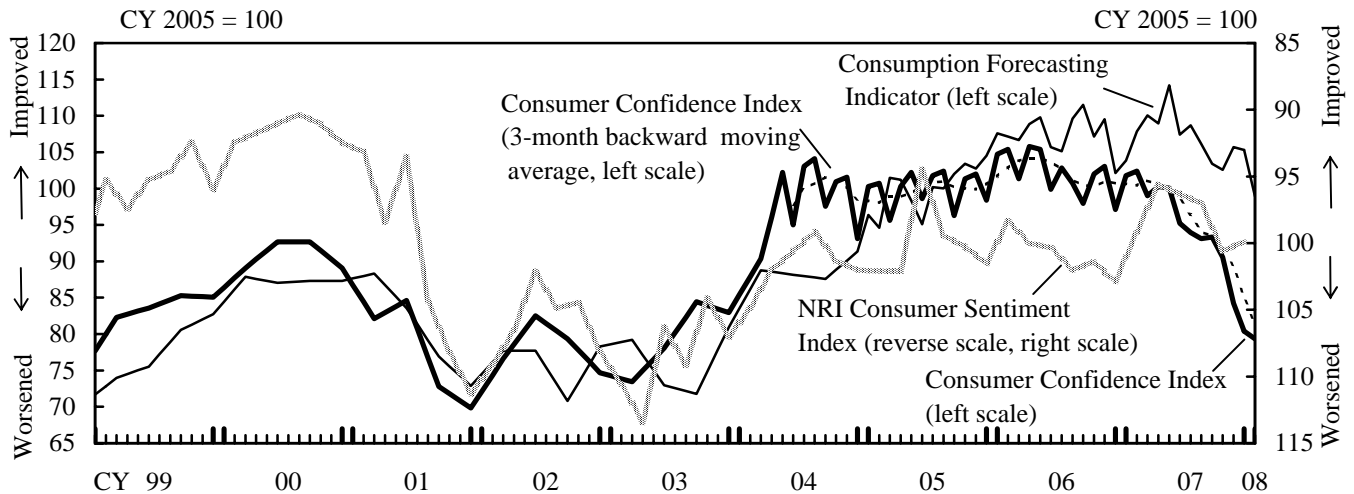
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

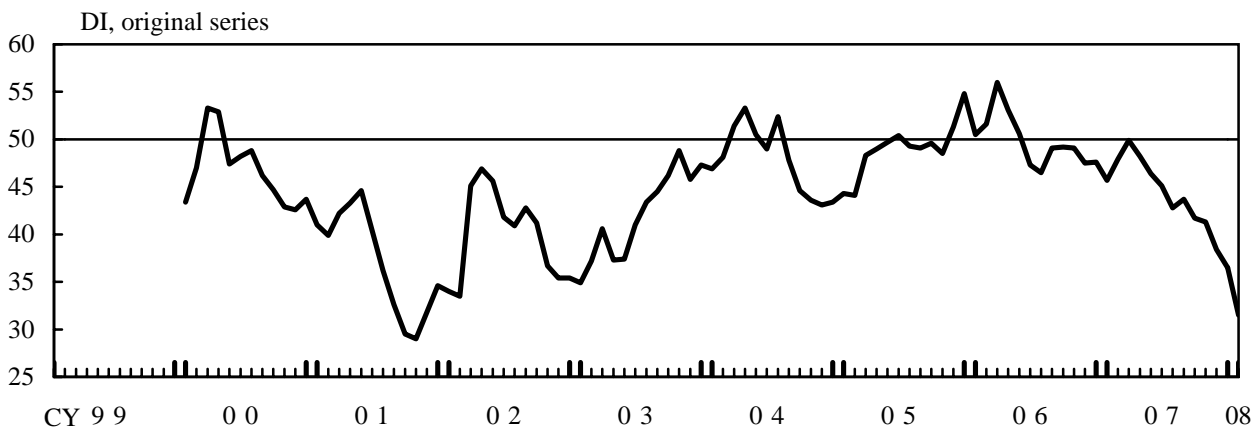
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity, Current Conditions)



- Notes: 1. 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.
- 2. Figures are plotted for each surveyed months and the data for intervening months are linearly interpolated.
- 3. (1) is 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.

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

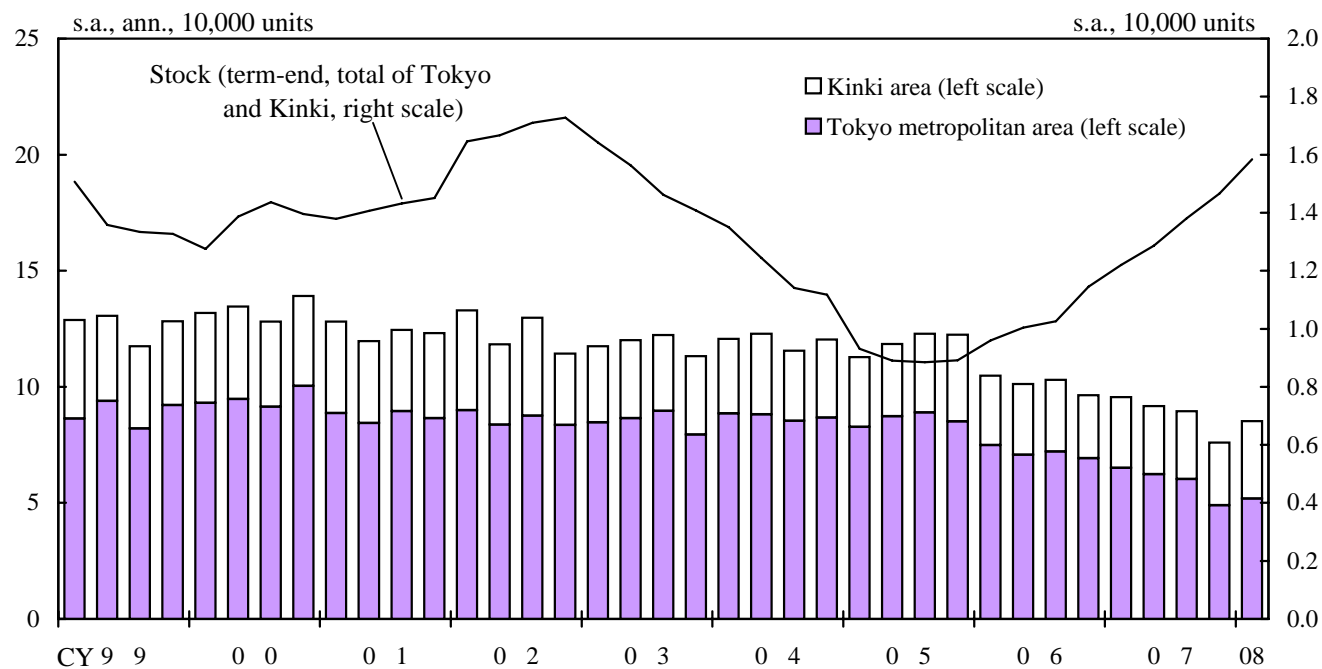
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2008/Q1 are those of January.

(2) Sales of Apartments

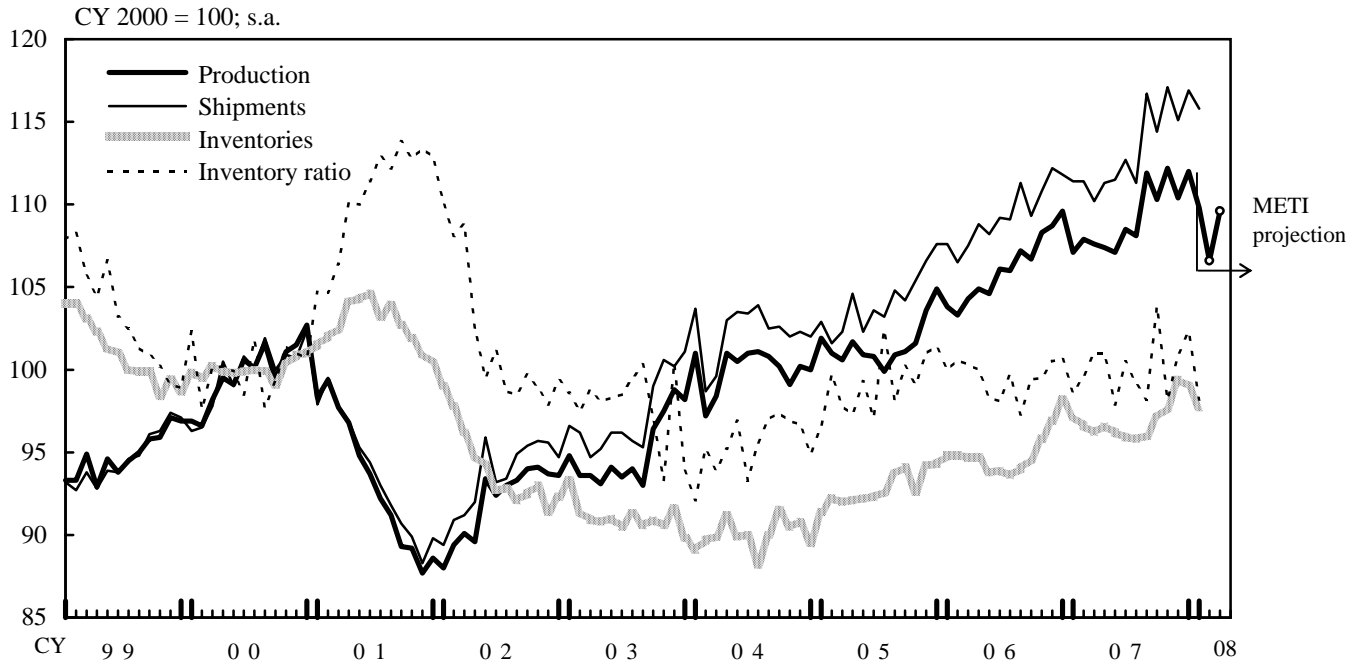


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2008/Q1 are those of January.

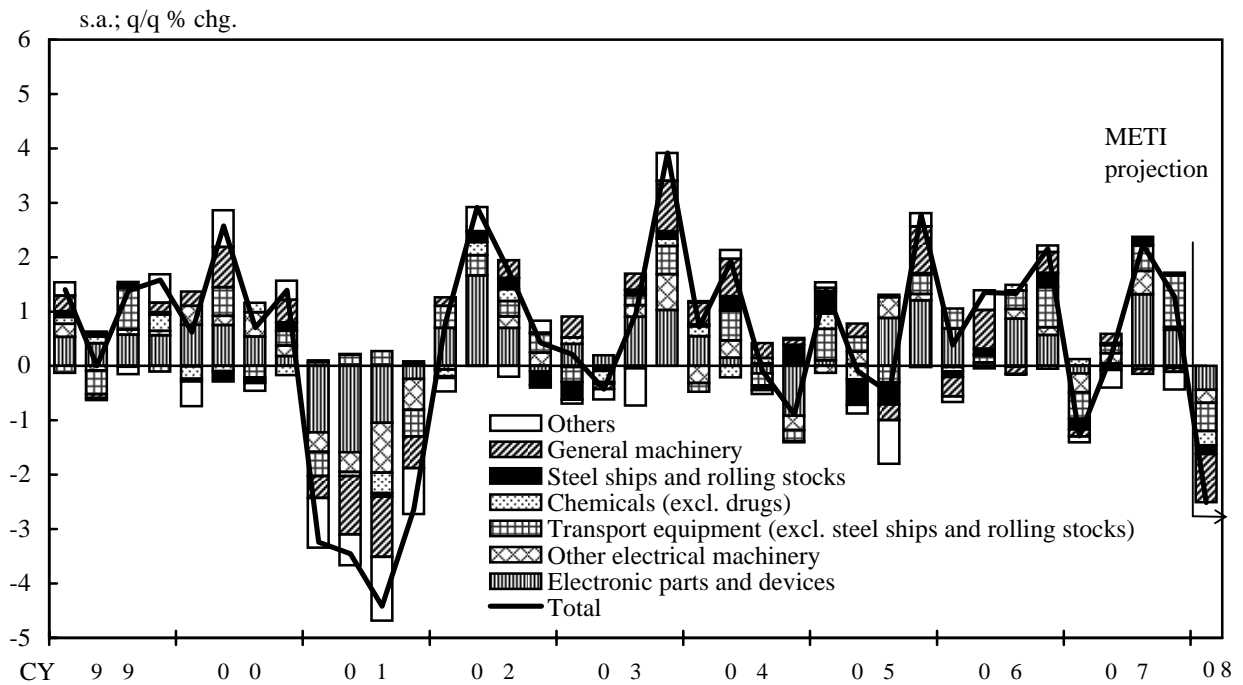
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

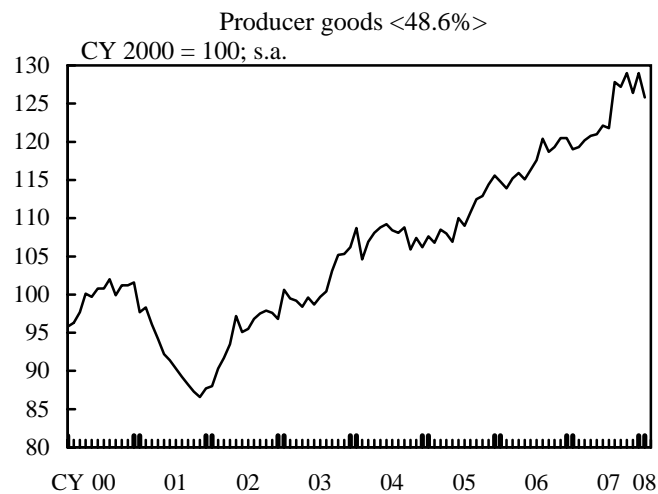
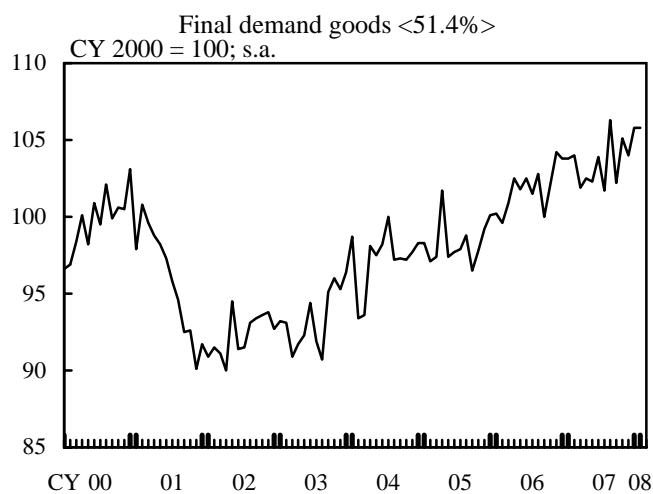


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

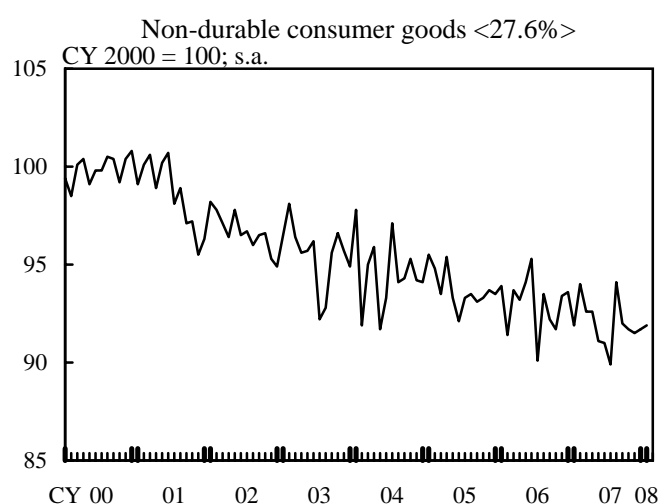
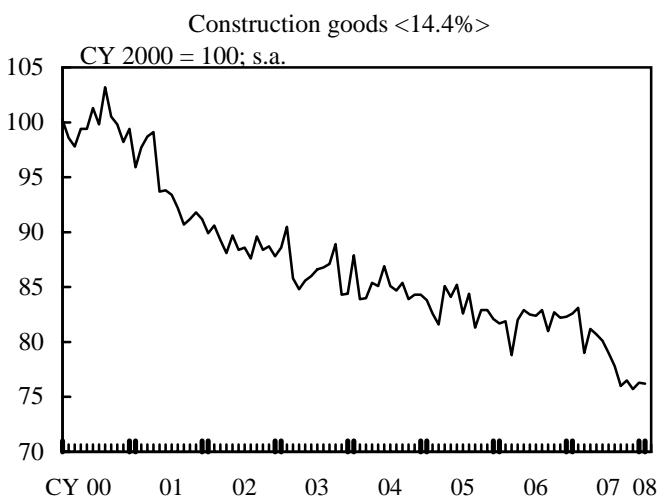
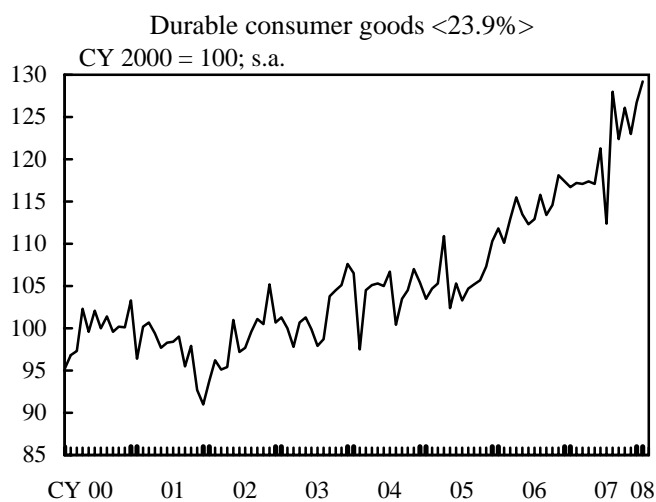
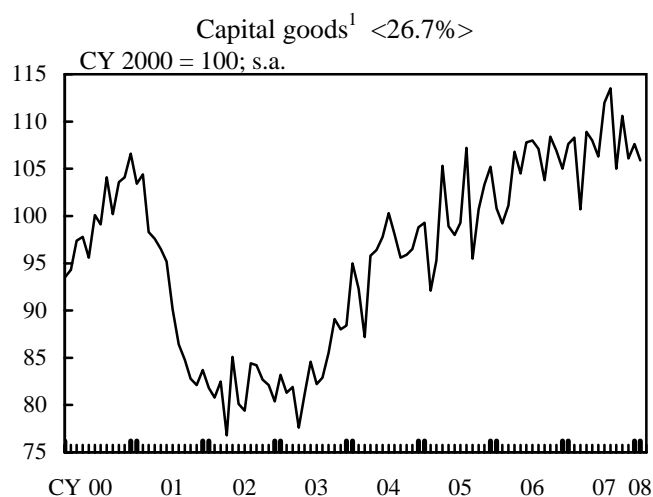
Shipments Breakdown by Type of Goods

(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

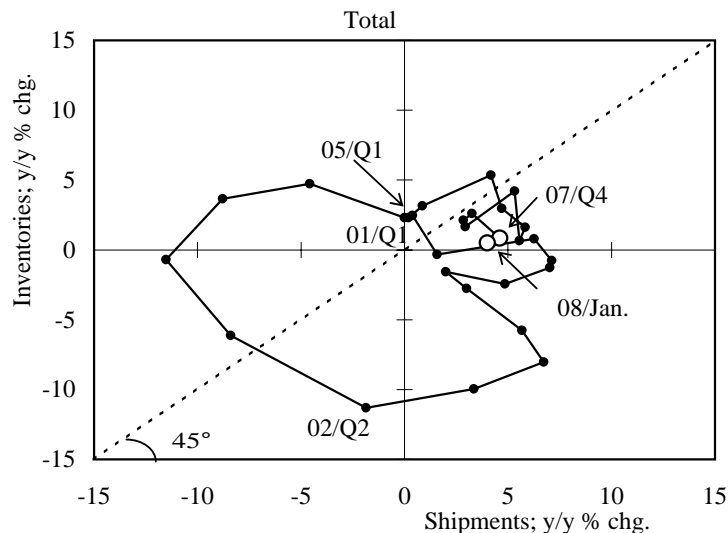


Notes: 1. Excluding transport equipment.

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

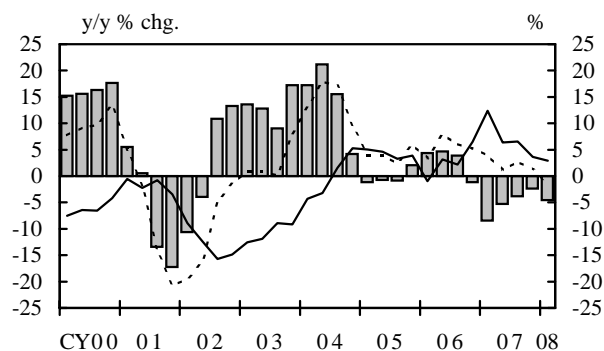
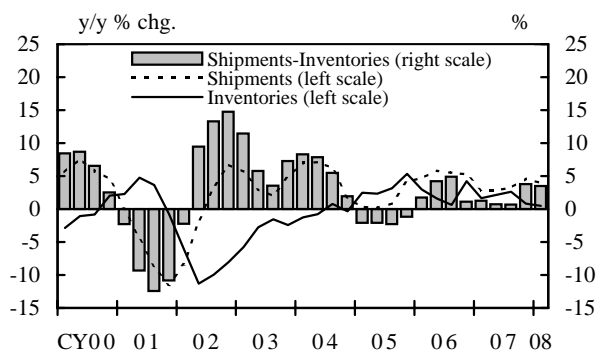
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



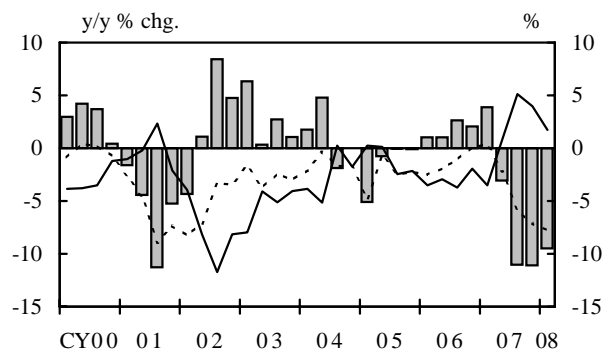
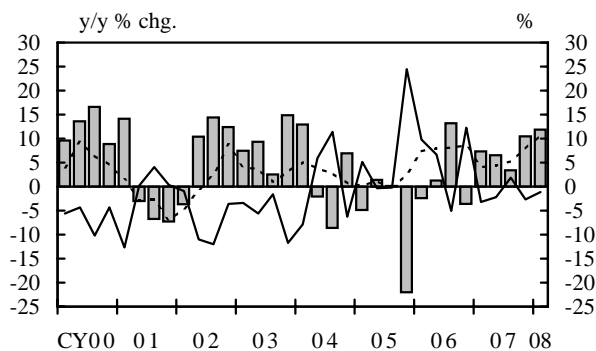
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



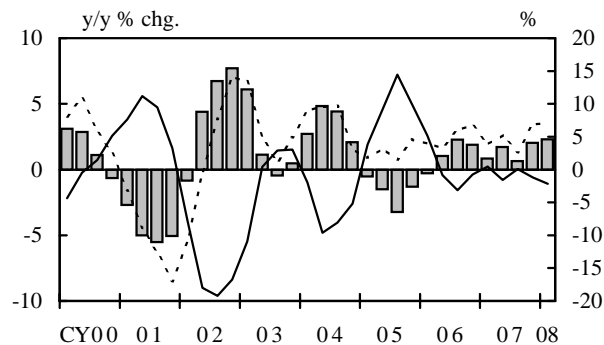
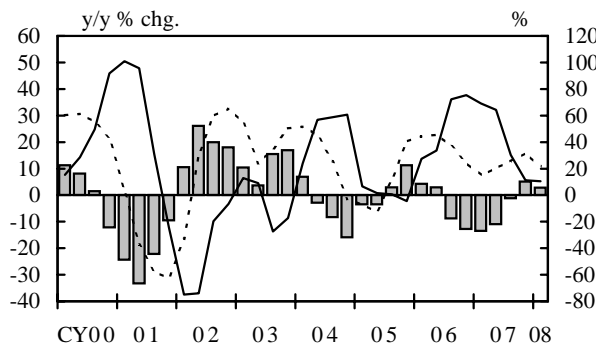
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

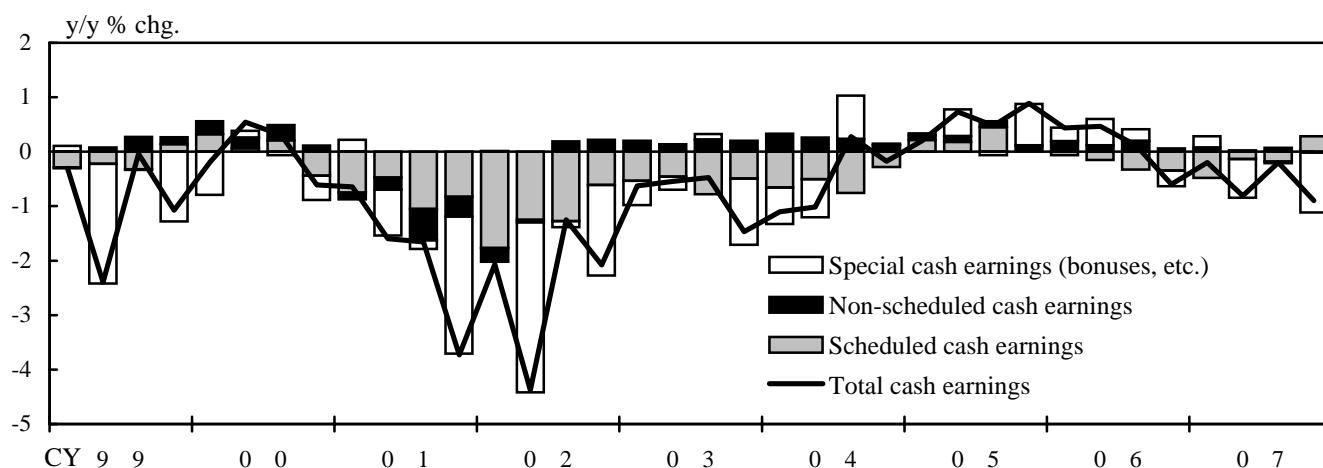
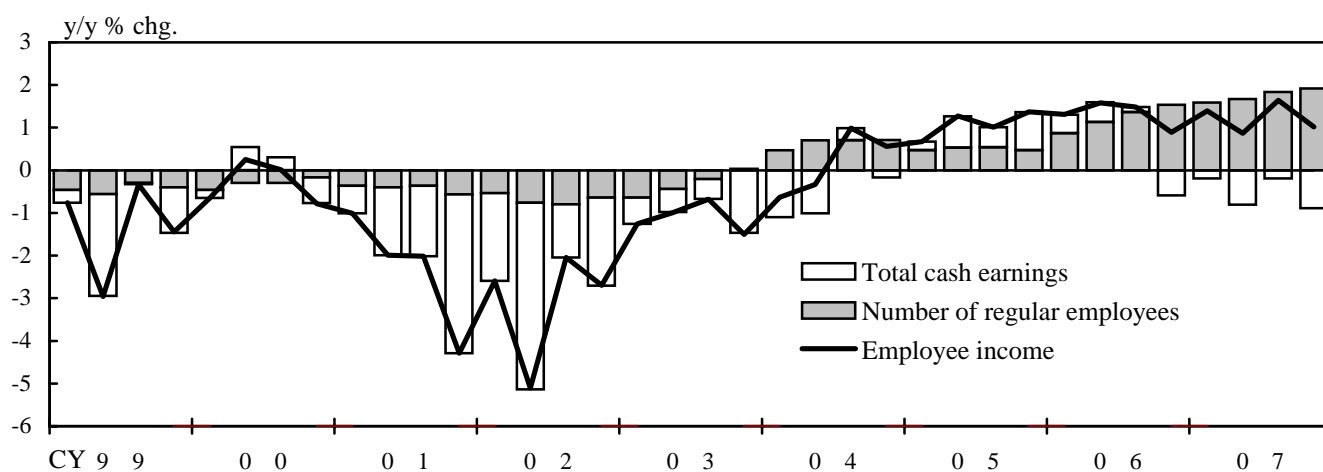
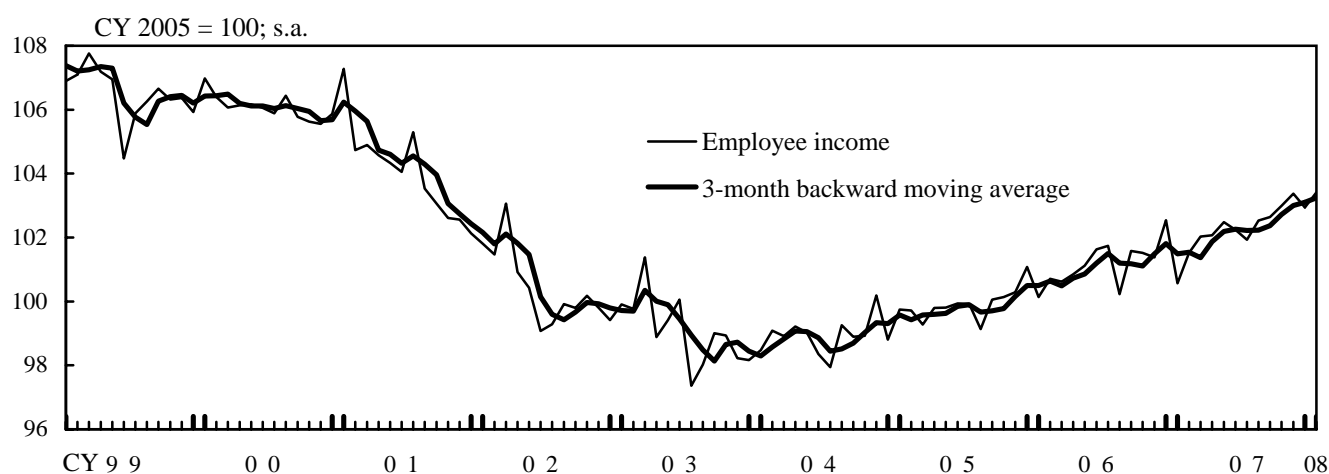
(6) Producer Goods Excluding Electronic Parts and Devices



Note: Figures for 2008/Q1 are those of January.

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

Employee Income

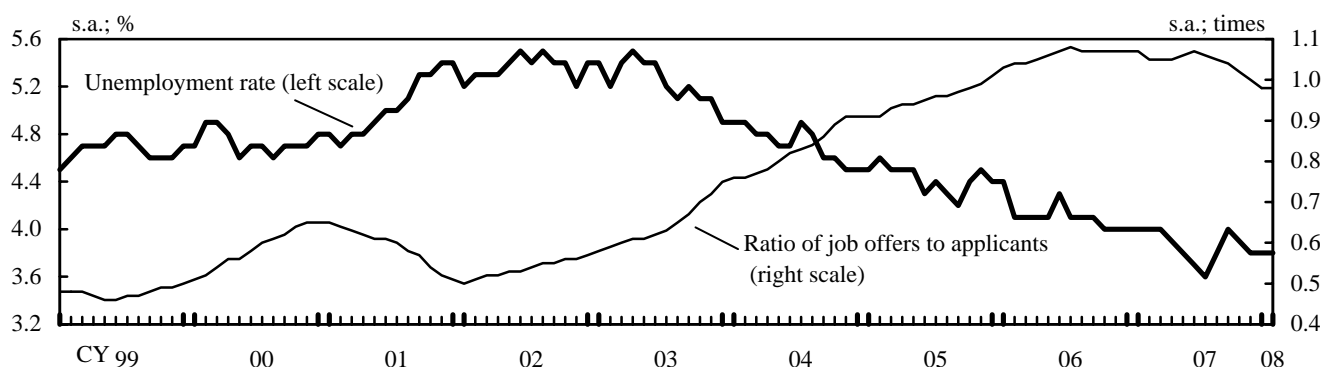
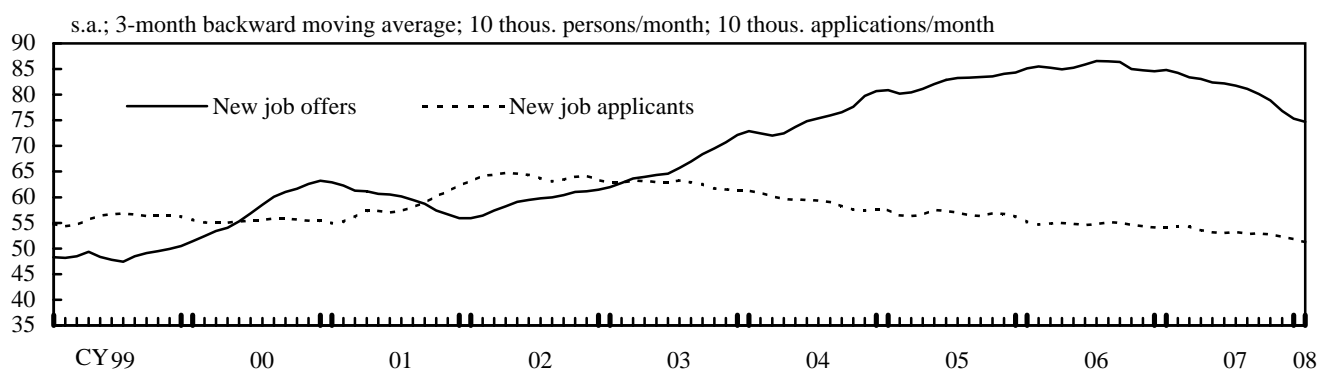
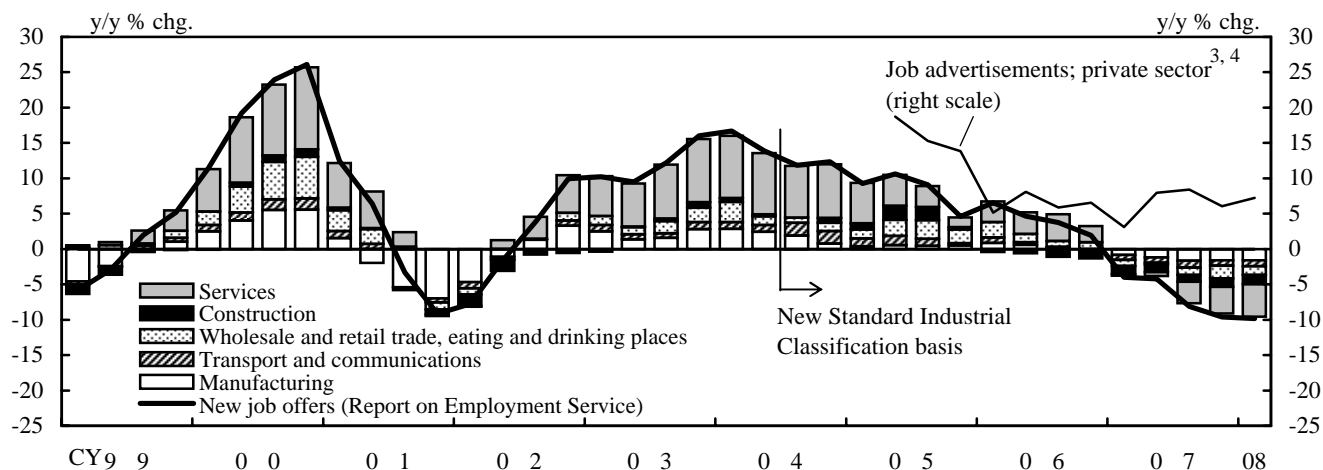
(1) Breakdown of Total Cash Earnings^{1,2,5}(2) Breakdown of Employee Income^{1,2,5}(3) Employee Income^{1,3,4}

- 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/Q4 are those of December 2007 - January 2008 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 Job Offers^{1,2,5}

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 are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.

4. The y/y % changes in job advertisements for 2005/Q2-2006/Q1, 2006/Q2-2007/Q1 and 2007/Q2-2008/Q1 are calculated on the basis of 45, 64 and 66 companies, respectively.

5. Figures for 2008/Q1 are those of January.

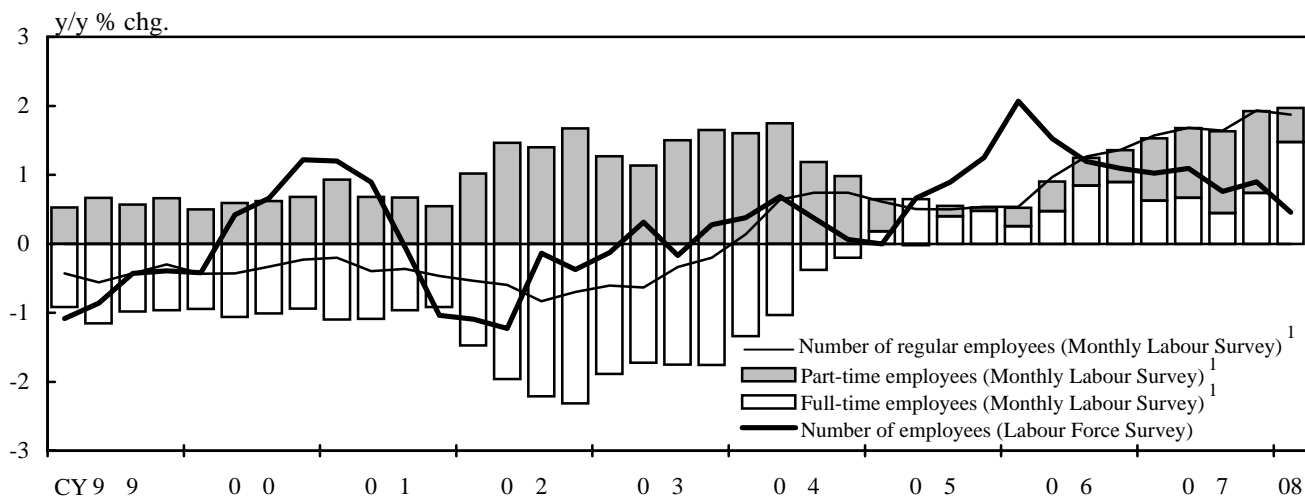
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

Ministry of Internal Affairs and Communications, "Labour Force Survey";

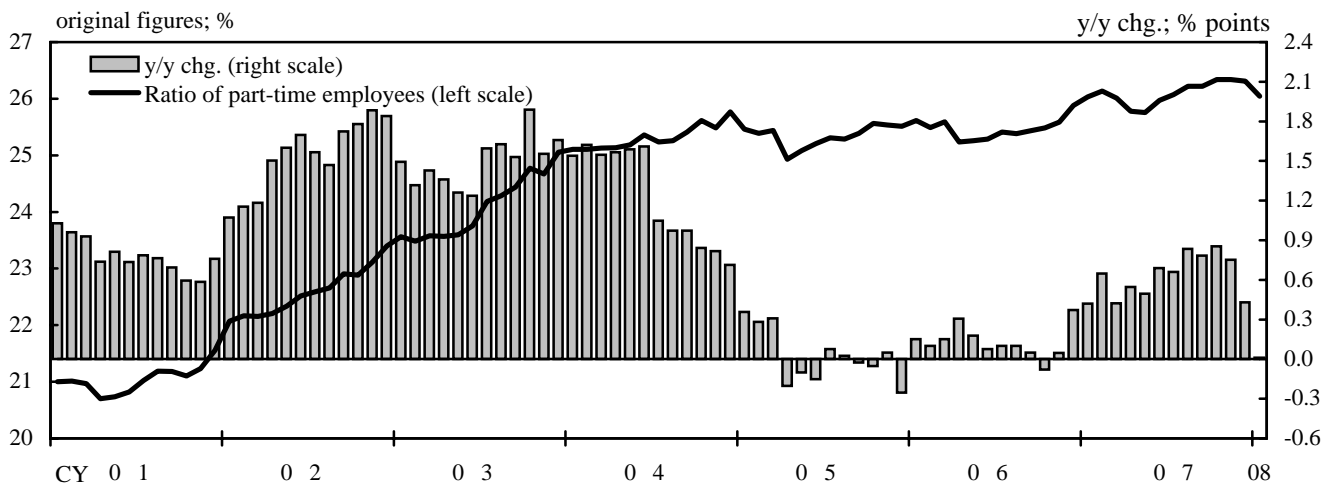
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

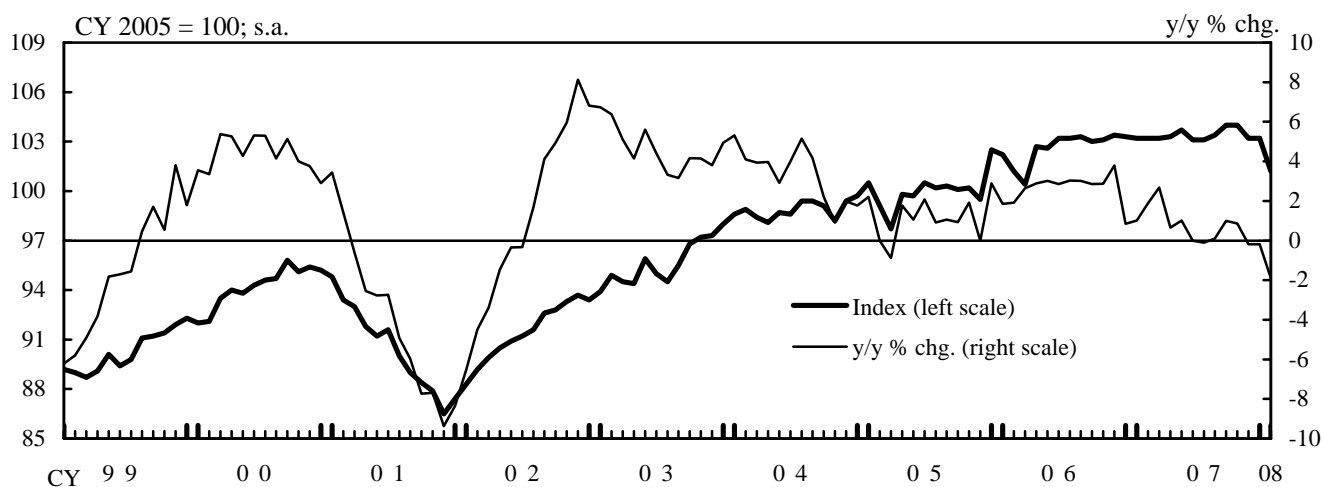
(1) Number of Employees³



(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.

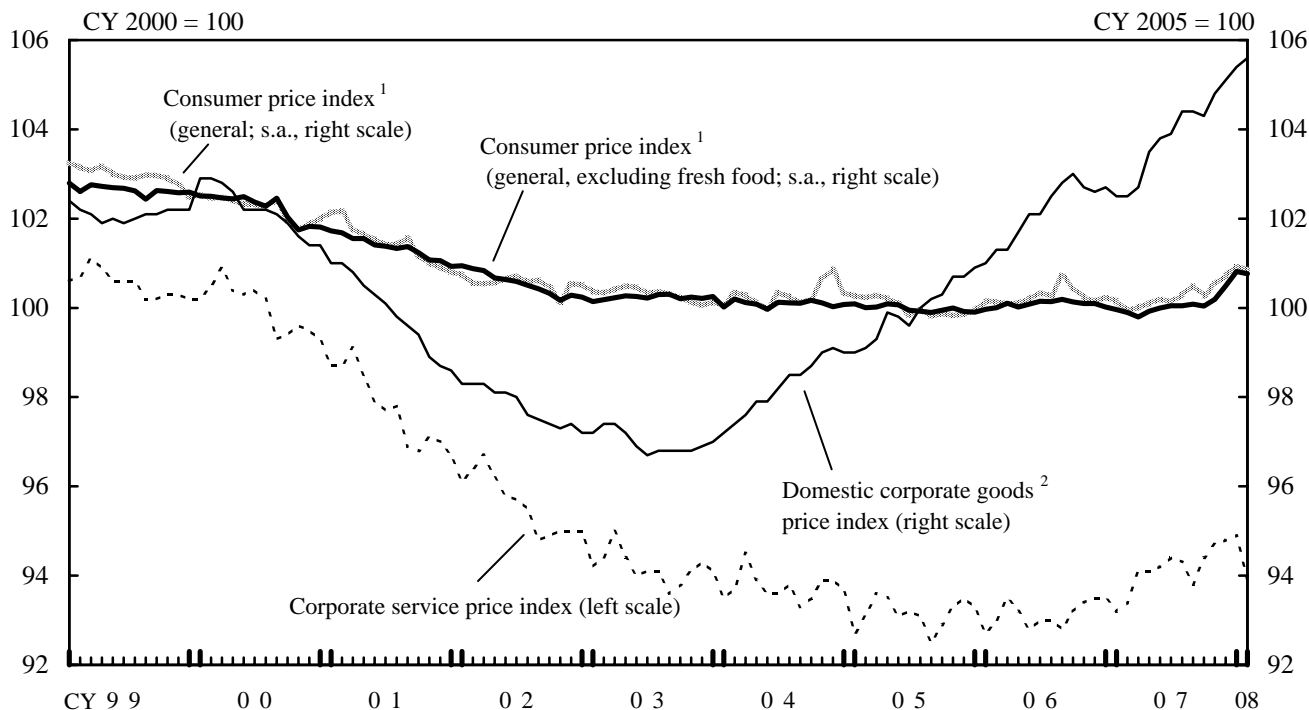
2. Ratio of part-time employees is calculated as number of part-time employees divided by number of regular employees times 100.

3. Figures for 2008/Q1 are those of January.

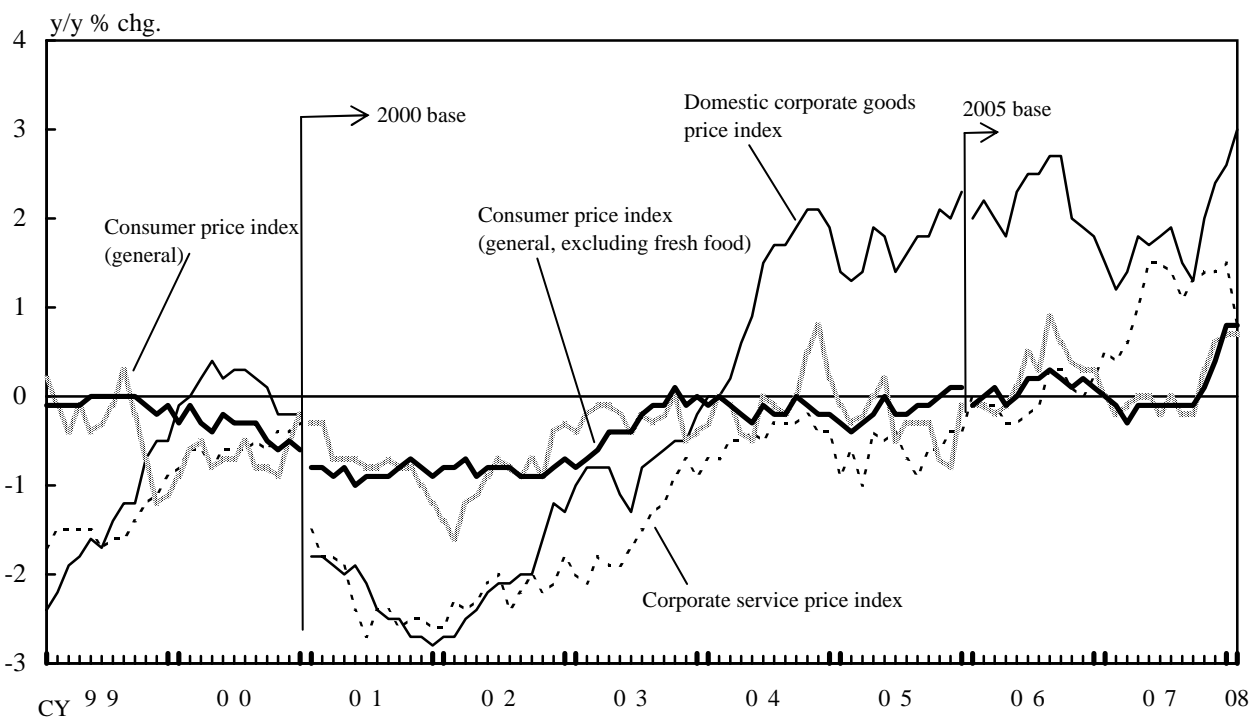
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

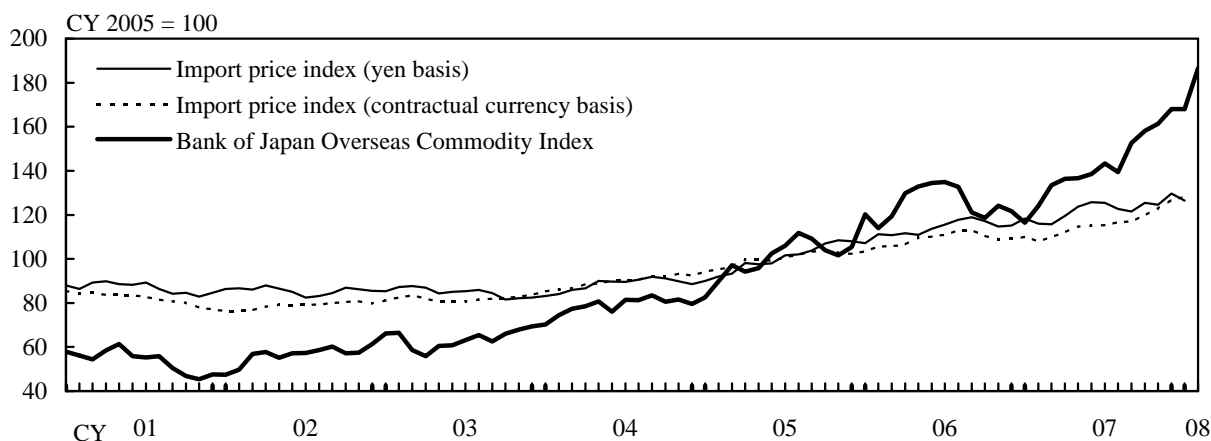
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

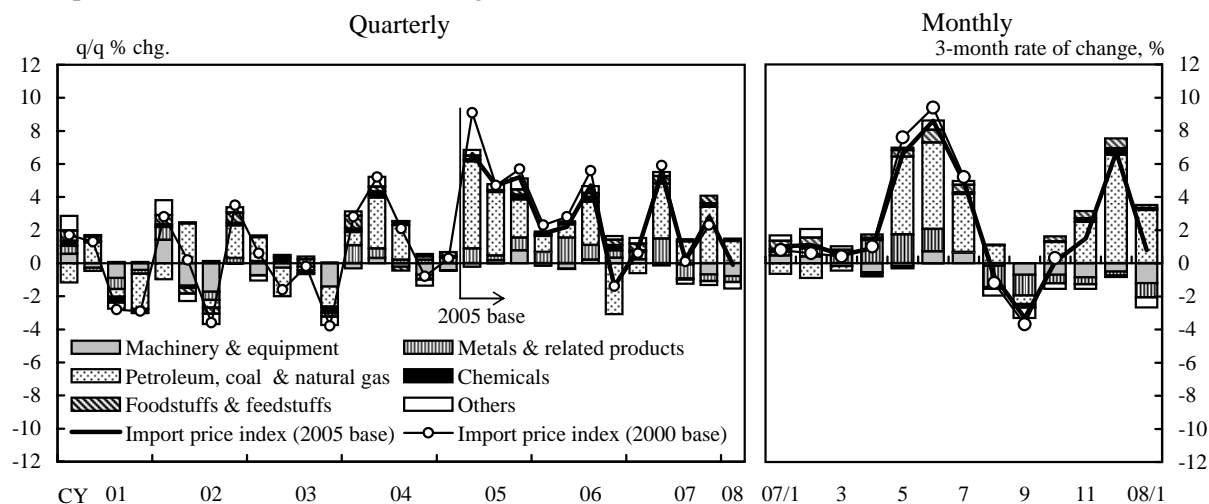
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



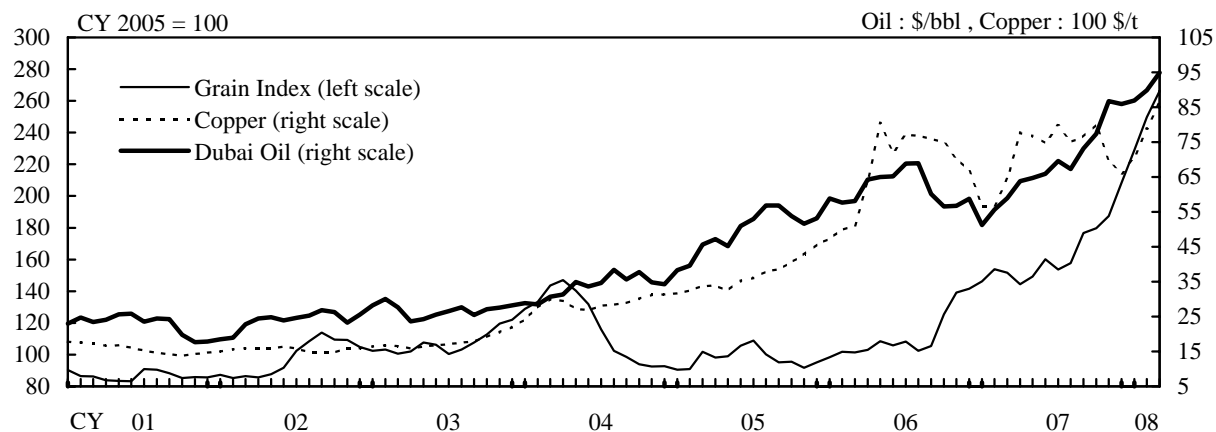
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments
 2. Figures for 2008/Q1 are those of January. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

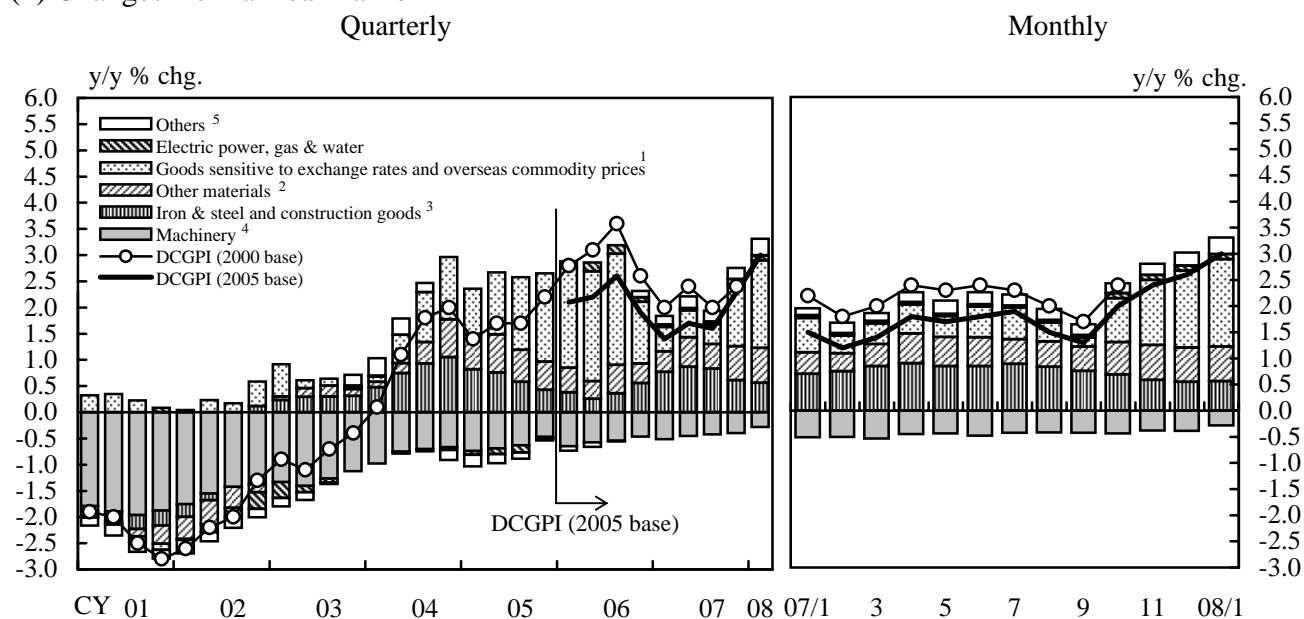
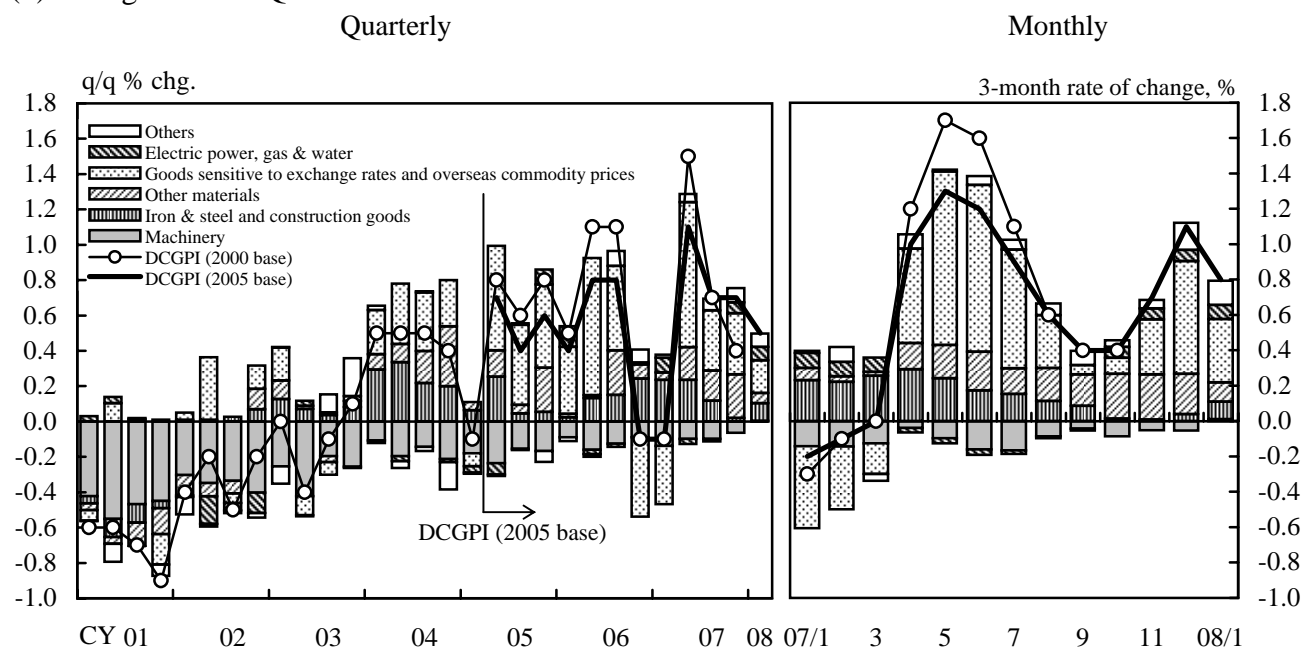


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for March 2008 are the averages up to March 6.

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

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.

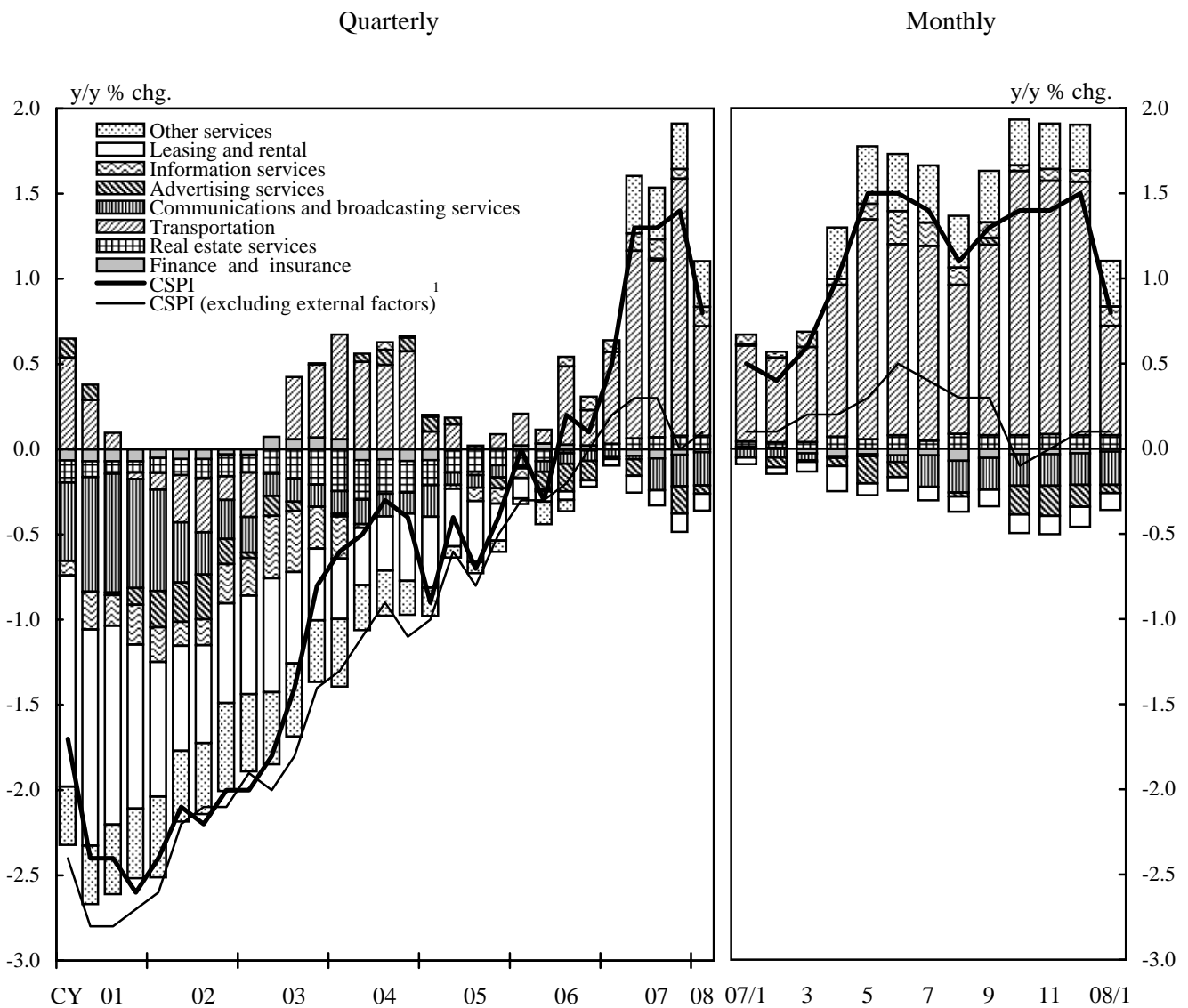
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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 2008/Q1 are those of January. 2000 base figures for 2007/Q4 are those of October.

Corporate Service Price Index



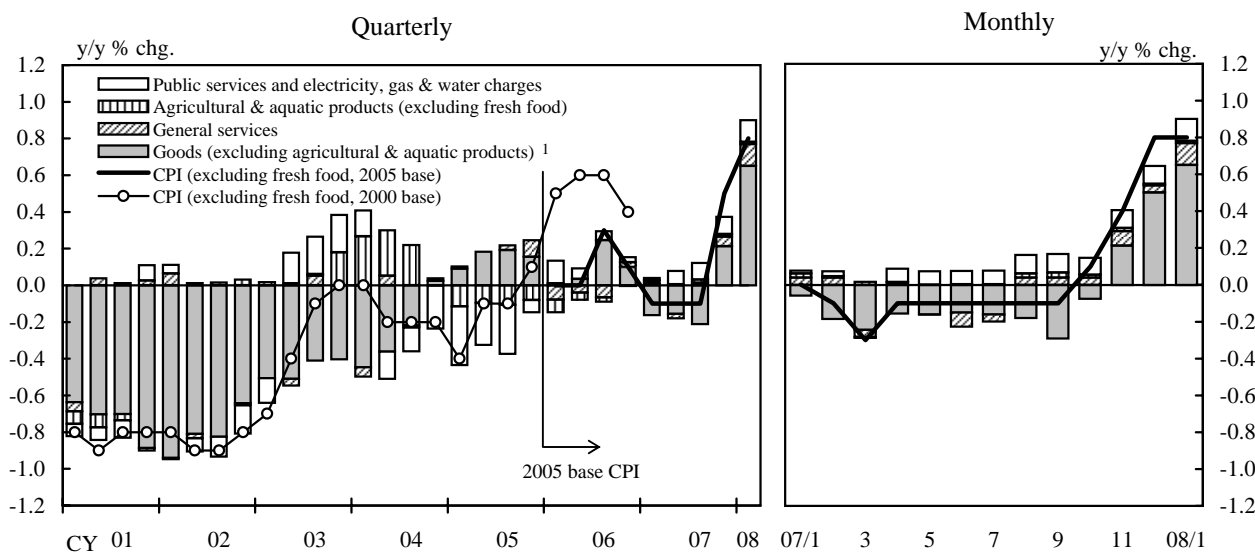
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2008/Q1 are those of January.

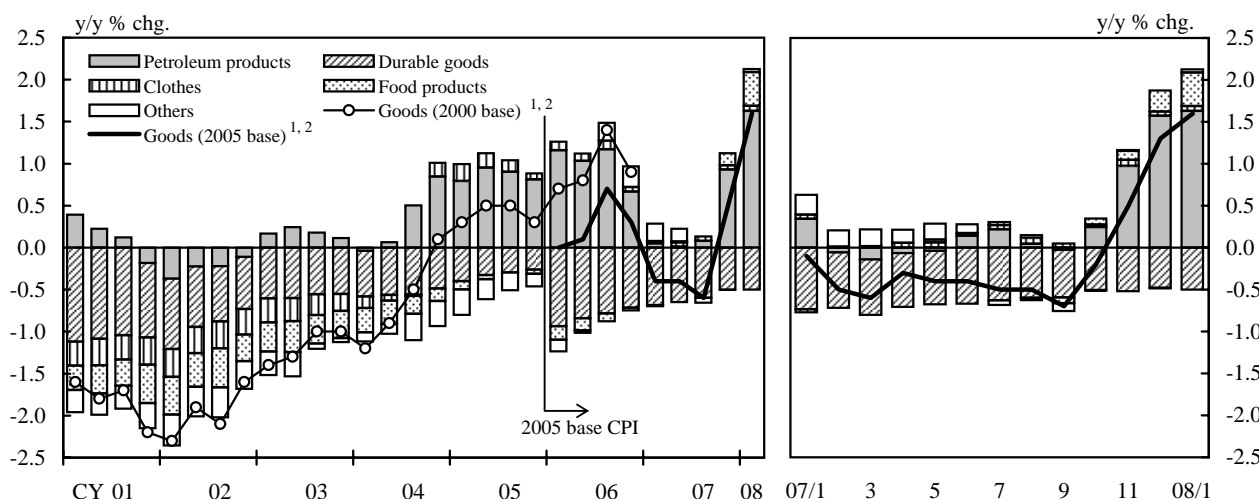
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

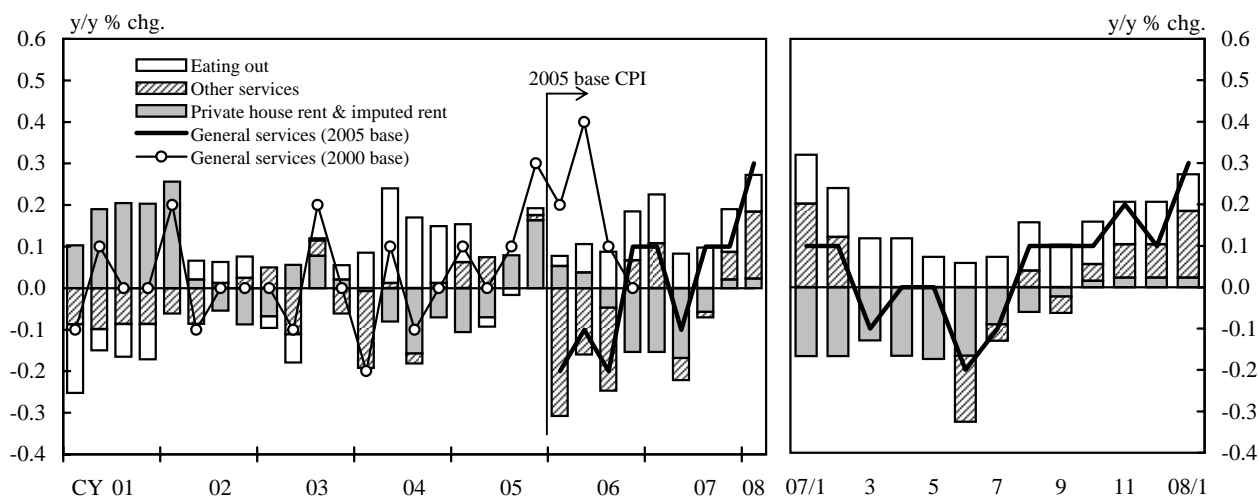
(1) Consumer Price Index (Excluding Fresh Food)



(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.

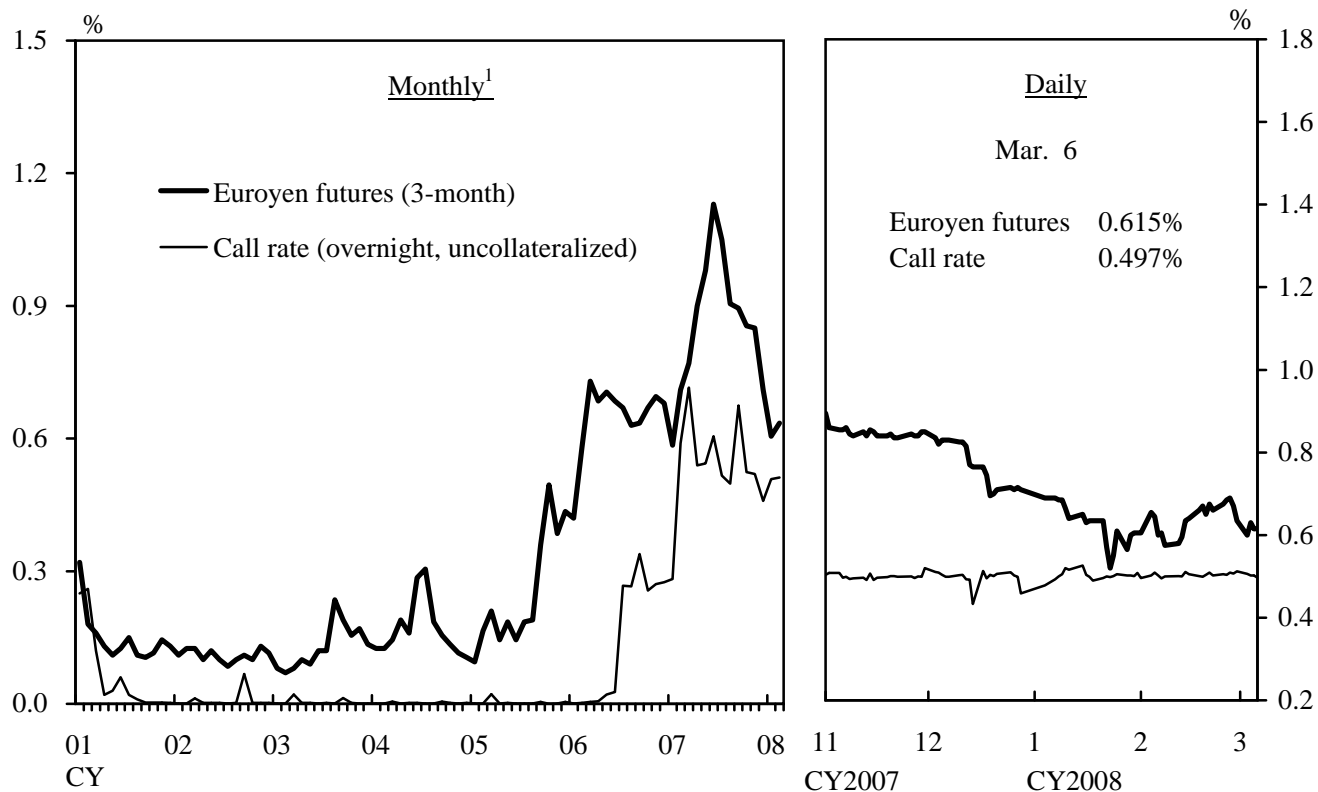
2. Excluding agricultural & aquatic products.

3. Figures for 2008/Q1 are those of January.

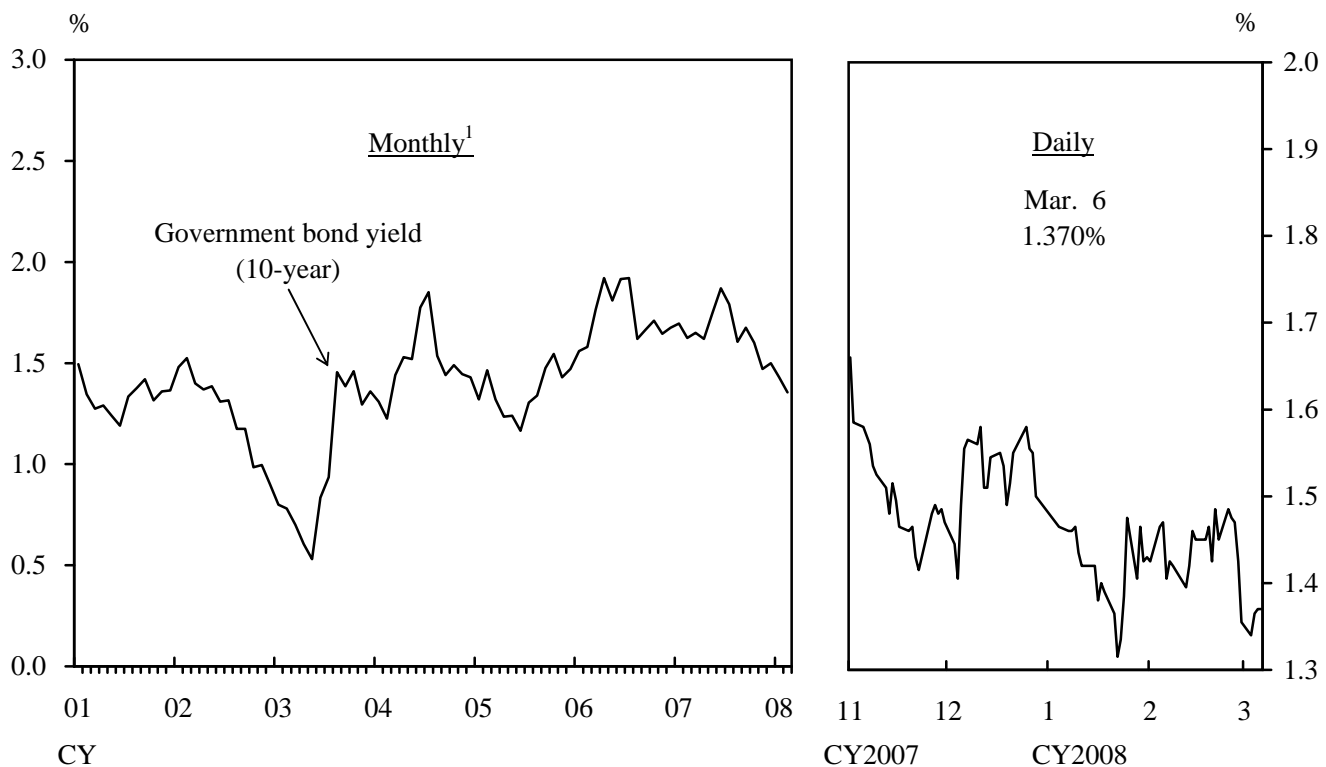
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

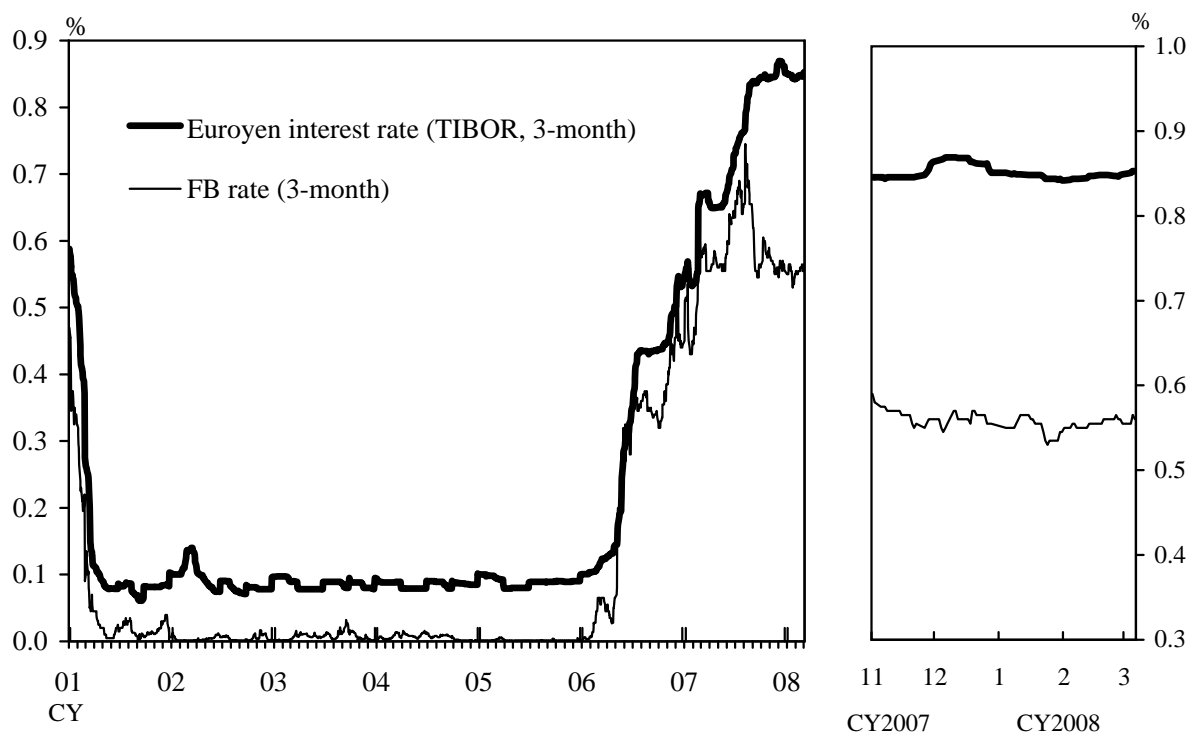


Note: 1. End of month.

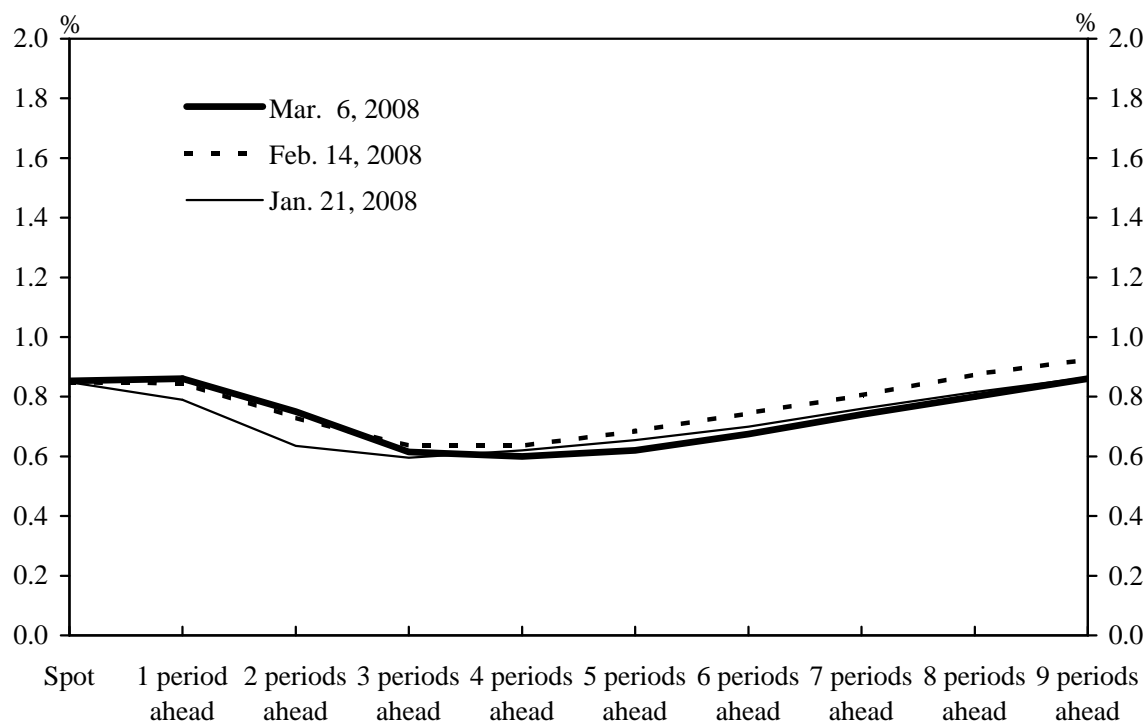
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



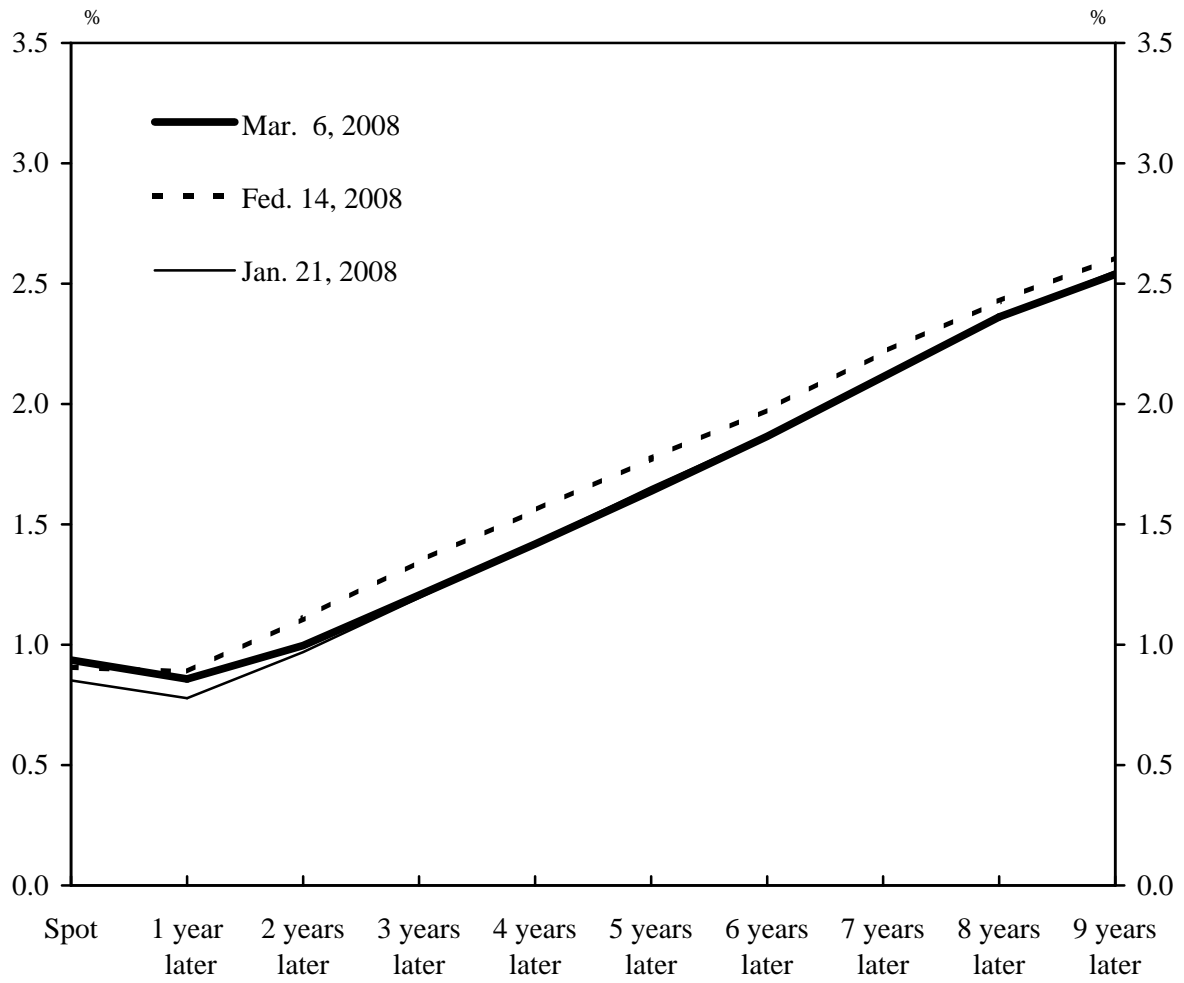
(2) Euroyen Interest Rates Futures (3-Month) ¹



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)

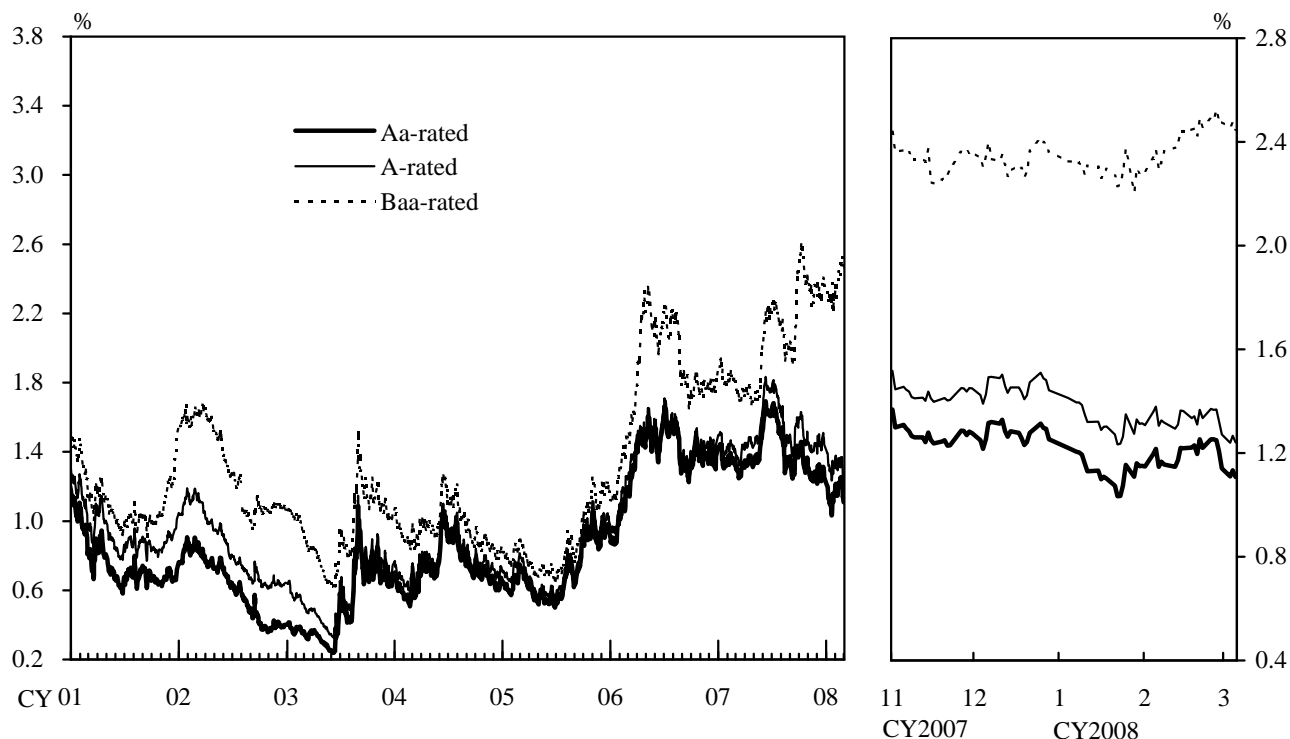


Note: Calculated from yen-yen swap rates.

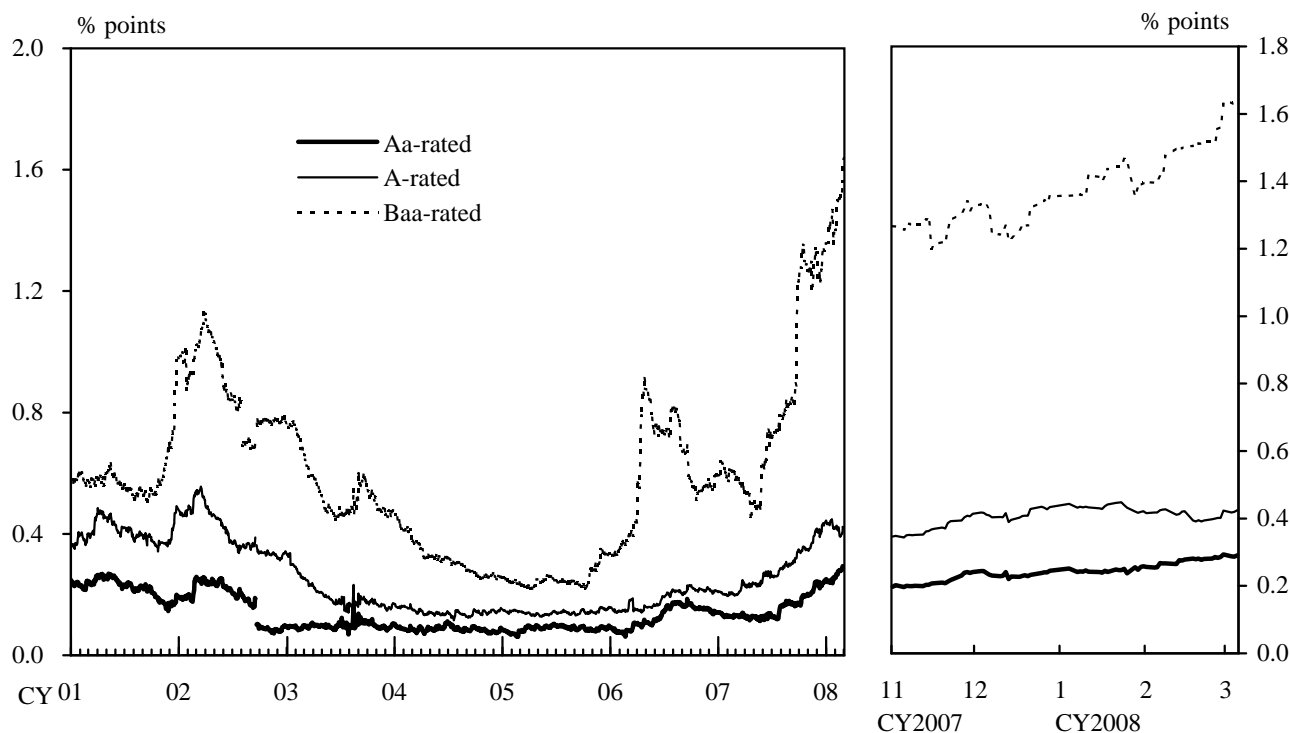
Source: Reuters.

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.

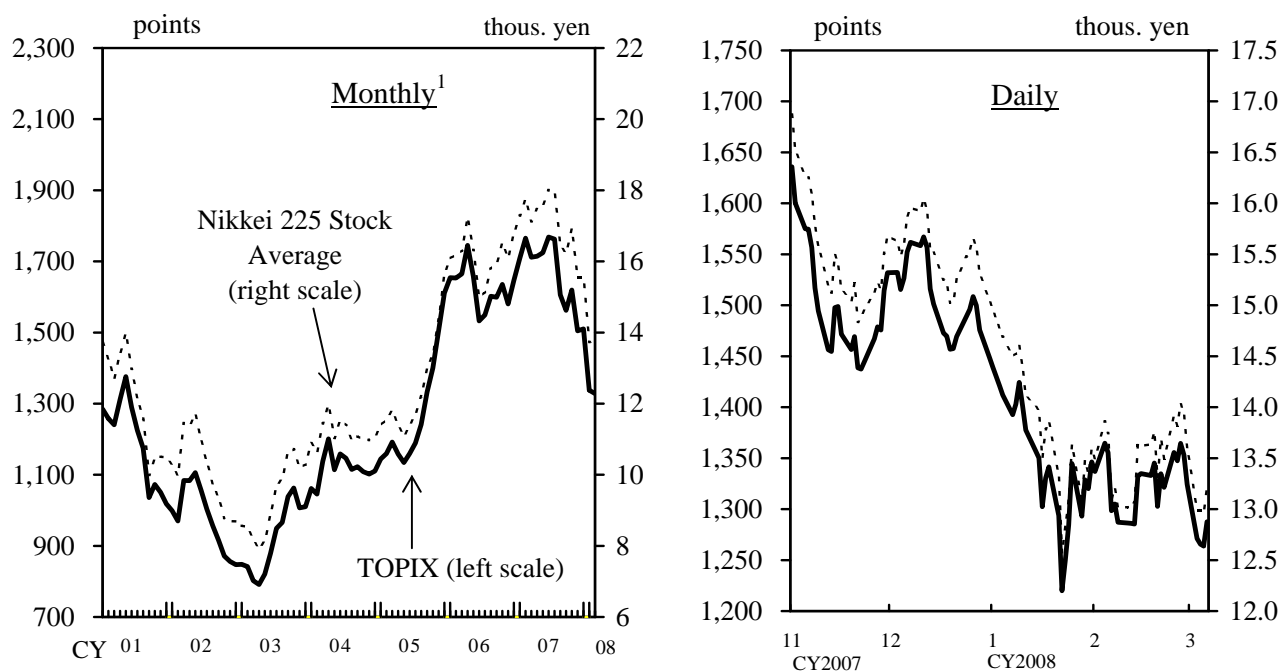
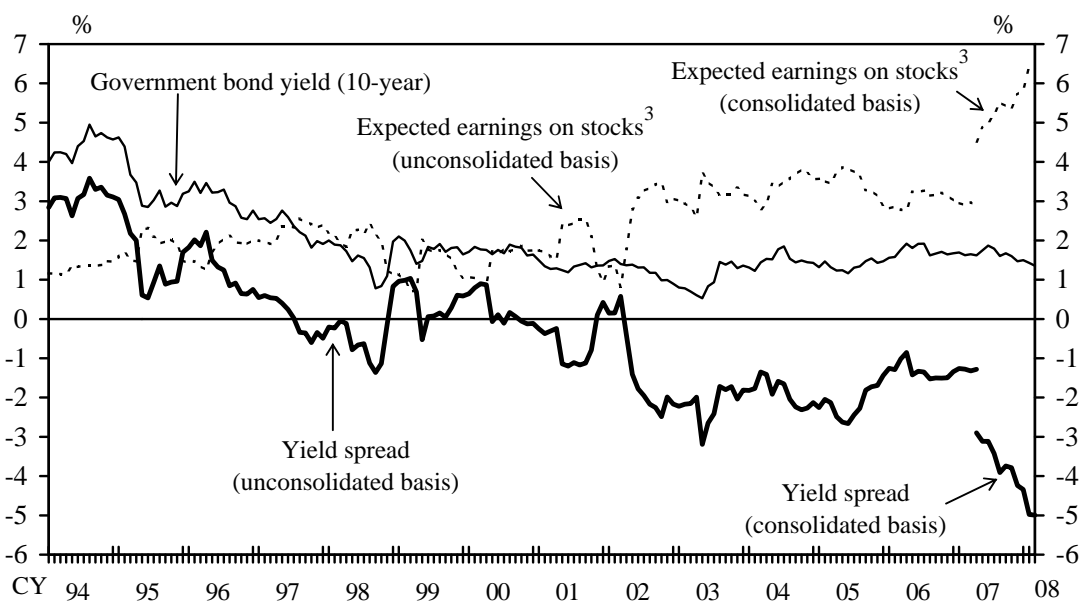
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

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.

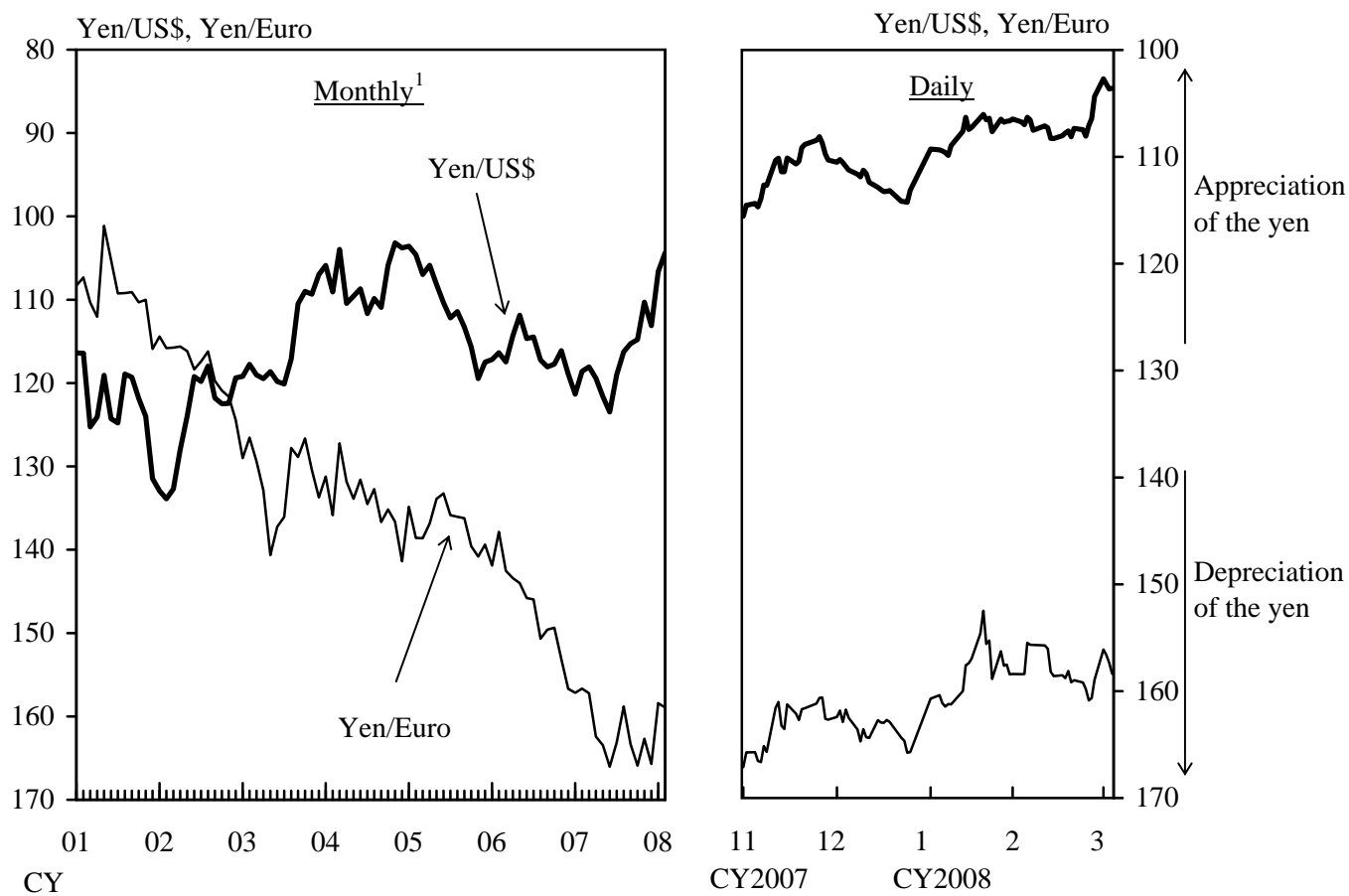
2. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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



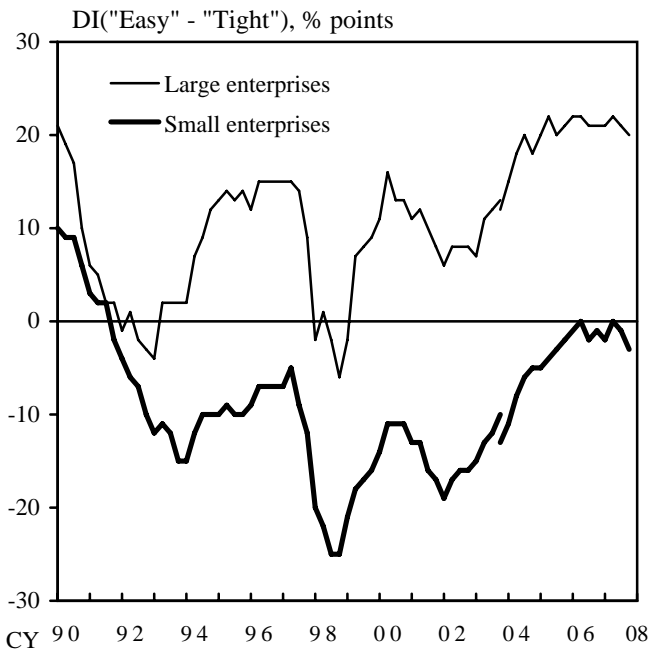
Note: 1. End of month.

Source: Bank of Japan.

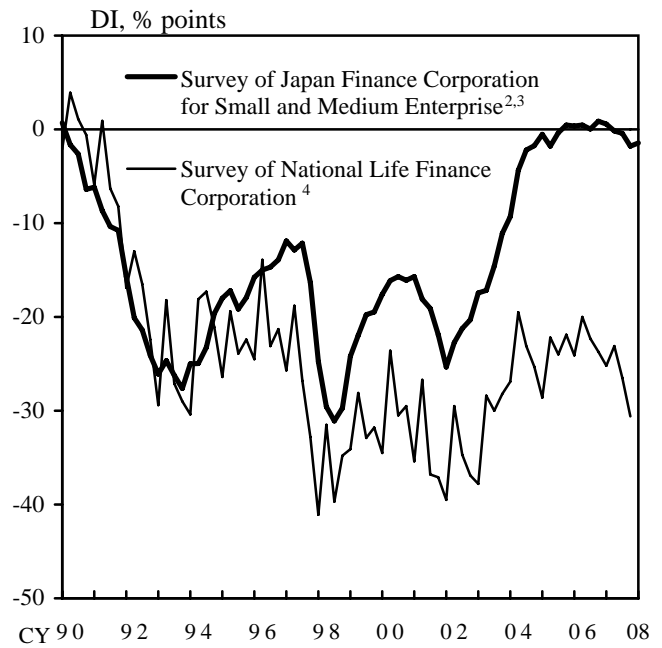
Corporate Finance-Related Indicators

(1) Financial Position

<Tankan¹>

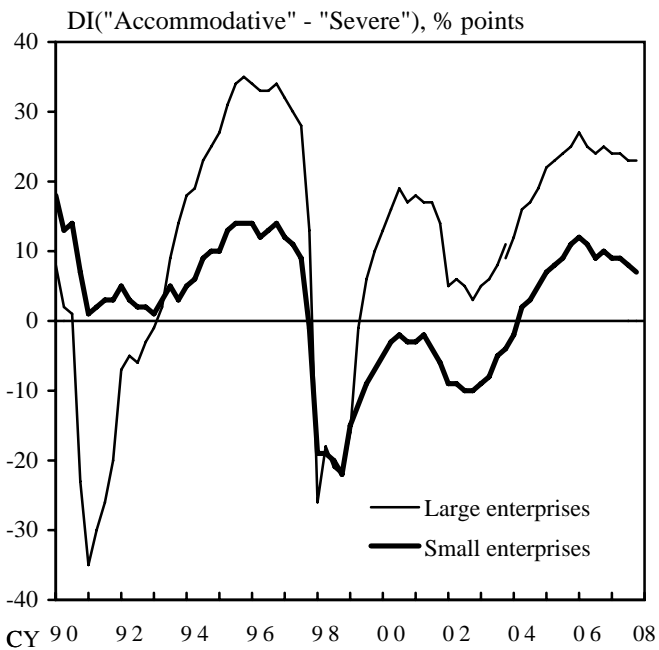


<Other Surveys>

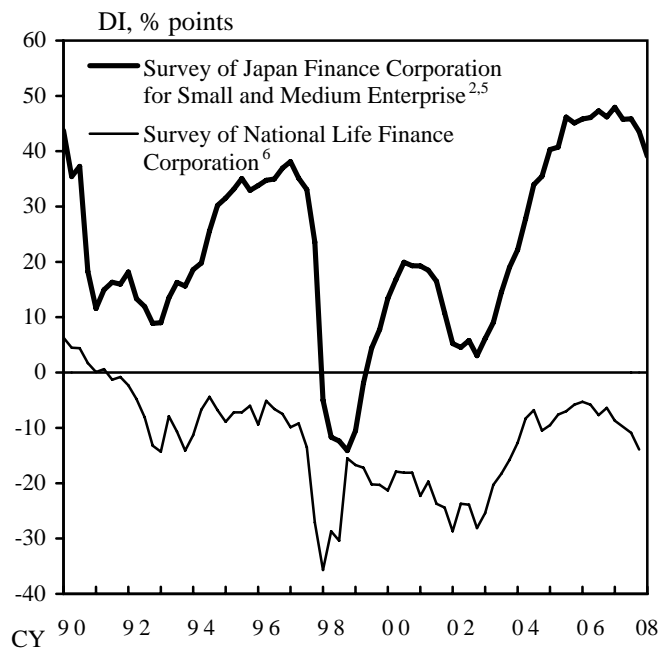


(2) Lending Attitude of Financial Institutions as Perceived by Firms

<Tankan¹>



<Other Surveys>



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 2008/Q1 are those of Jan.-Feb. averages.

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

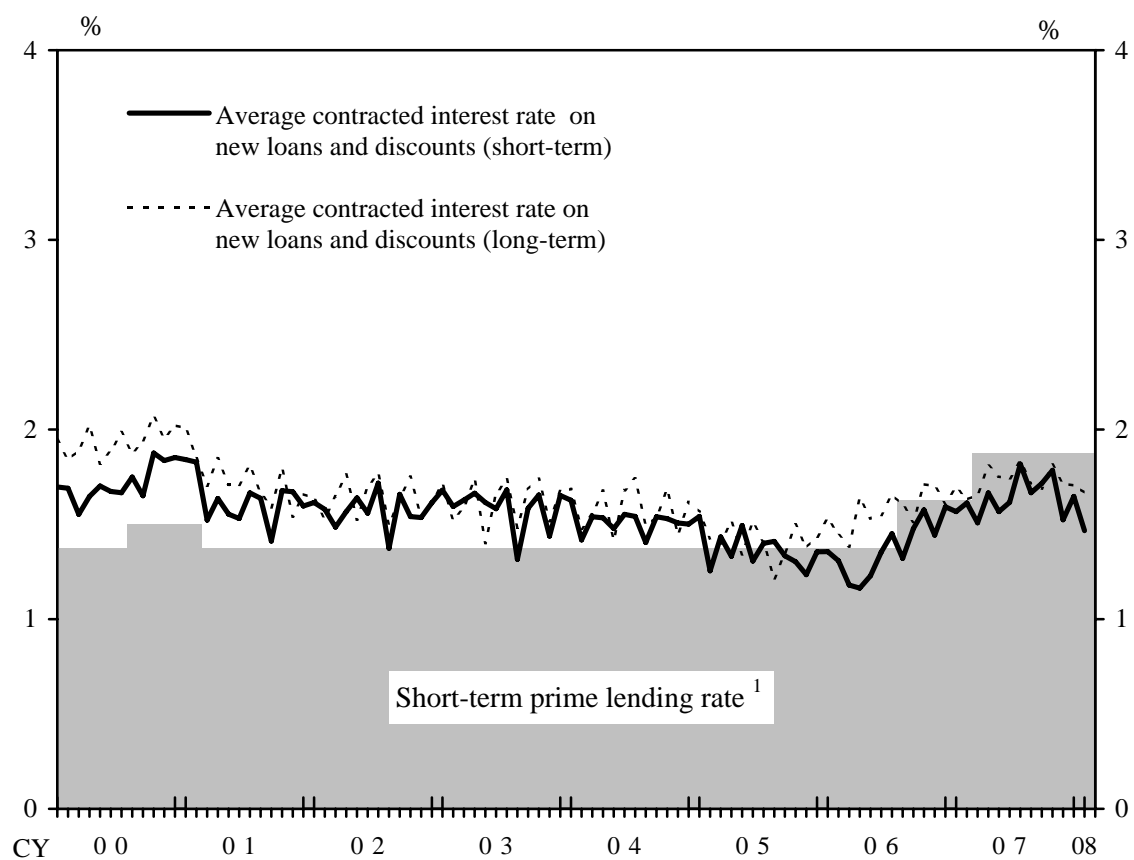
4. DI of "Easier" - "Tighter."

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

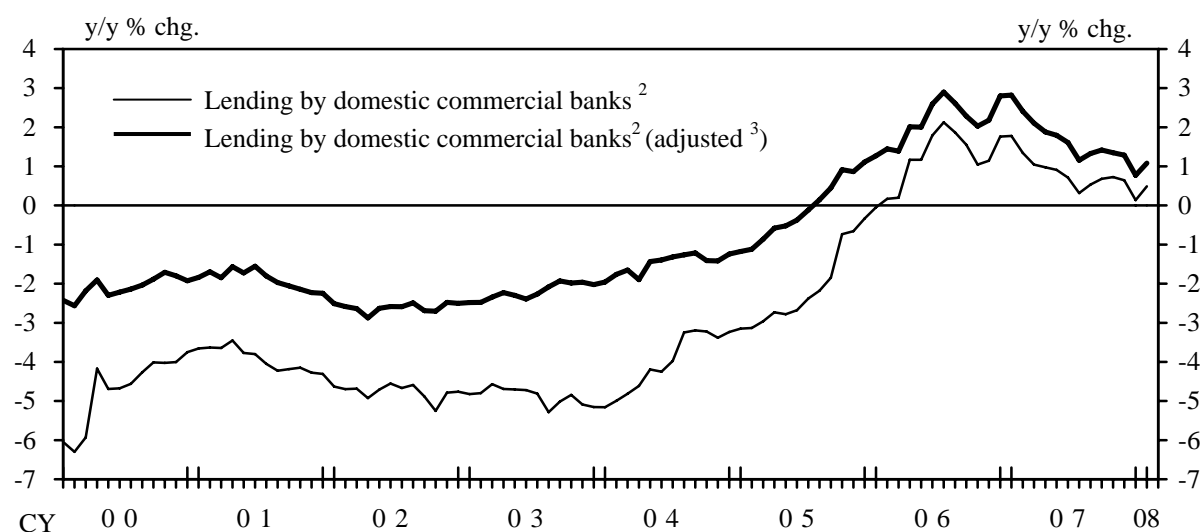


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



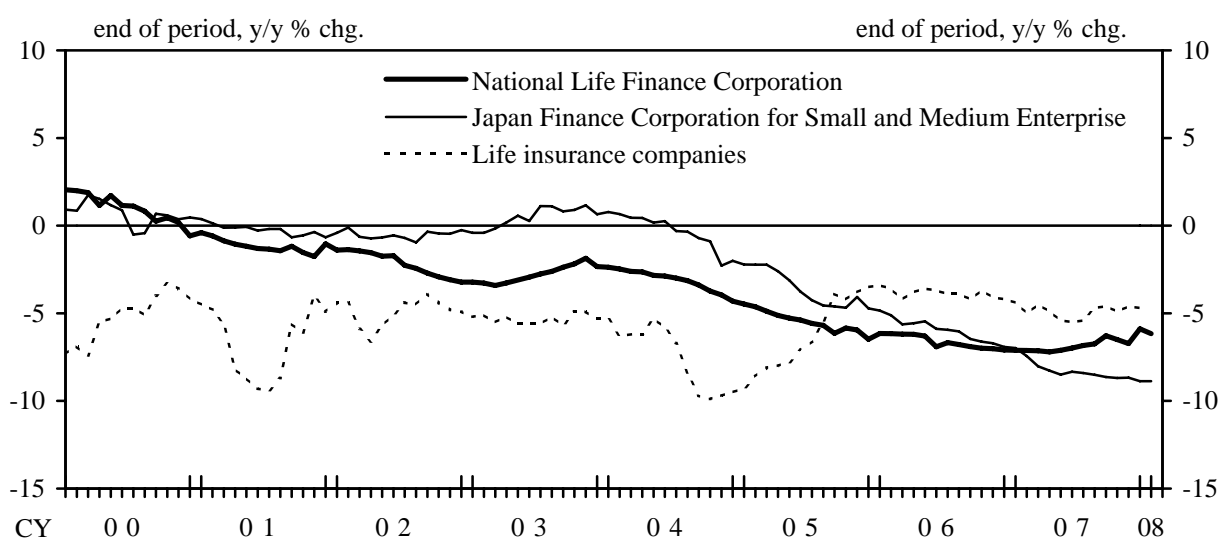
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

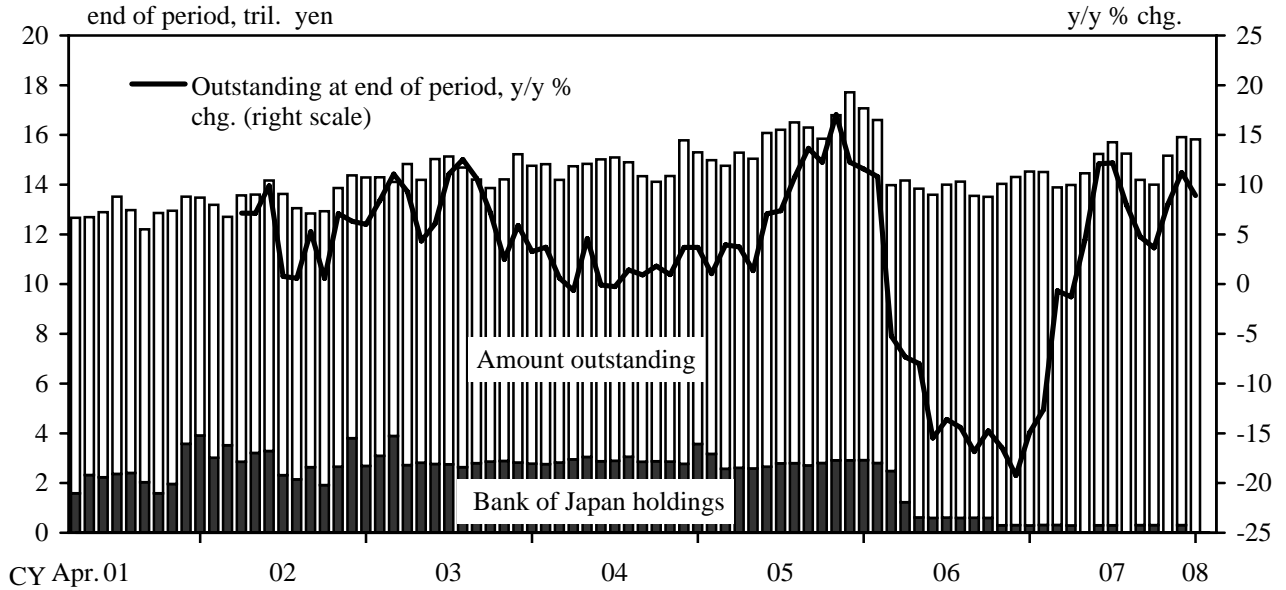
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

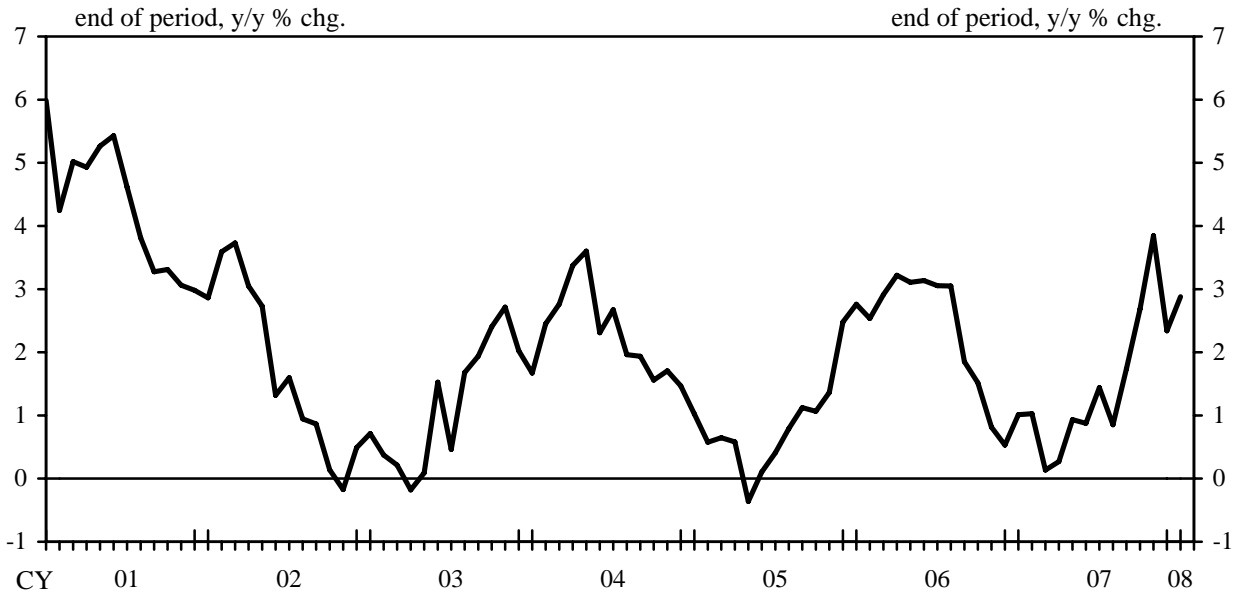
Private-Sector Fund-Raising in the Capital Markets

(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)

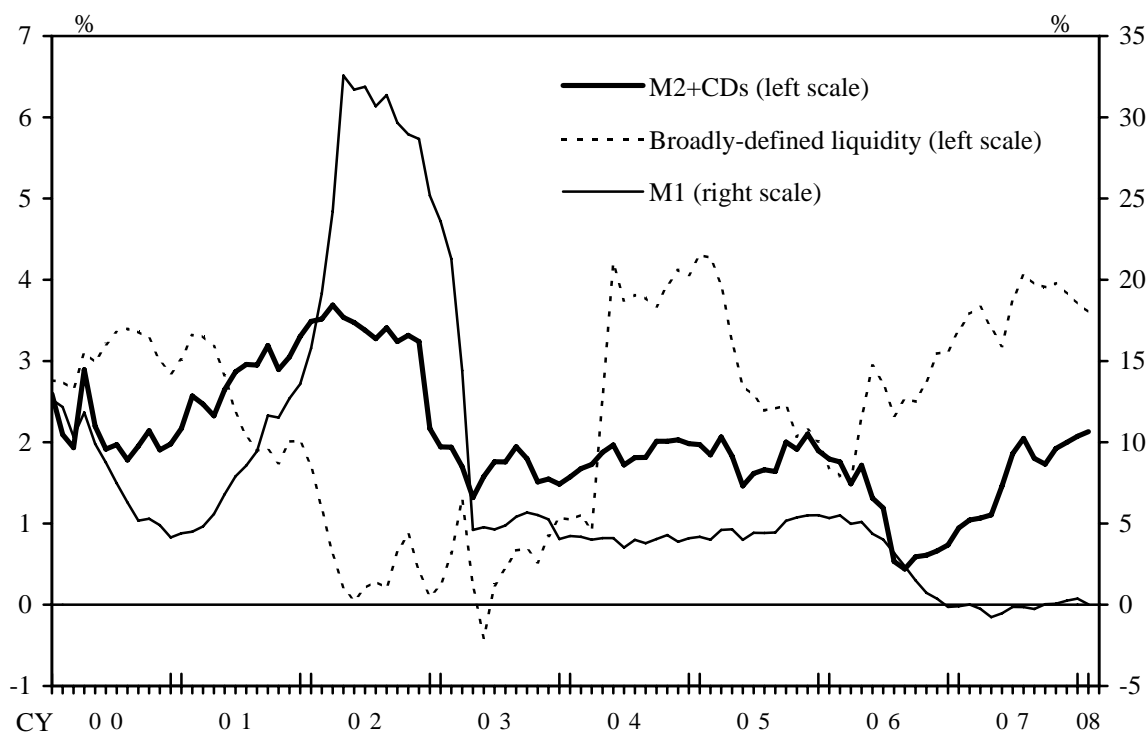


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

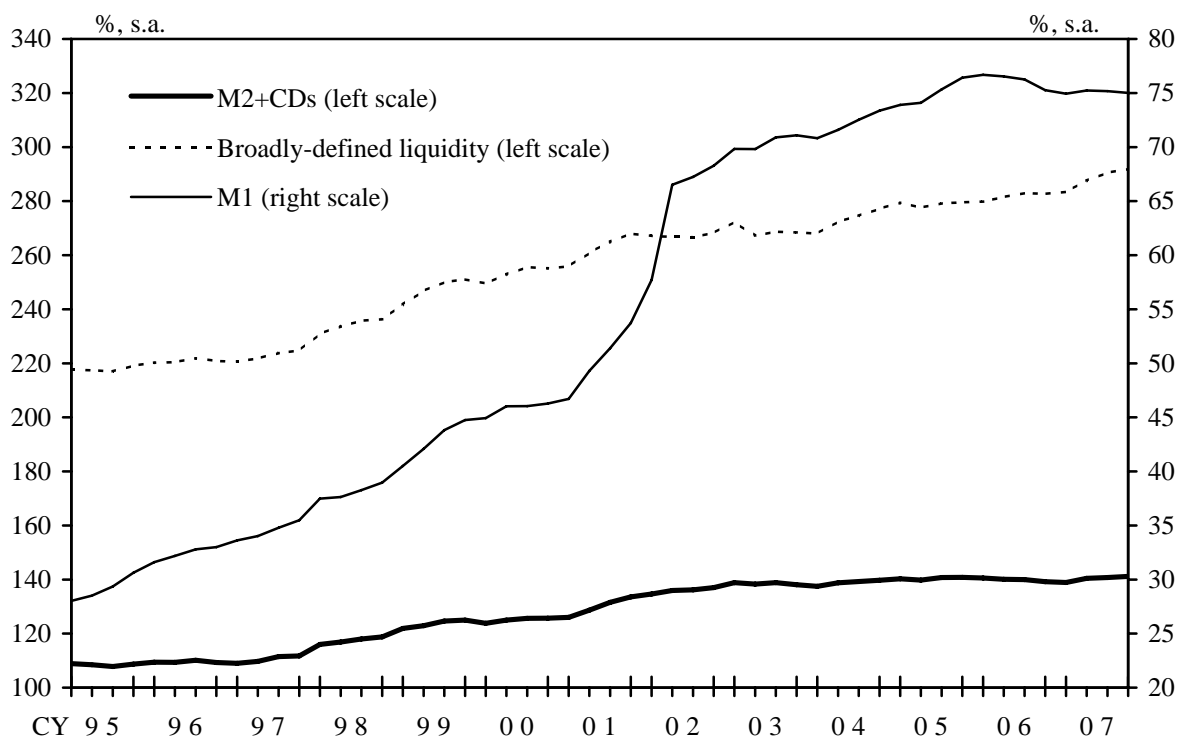
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



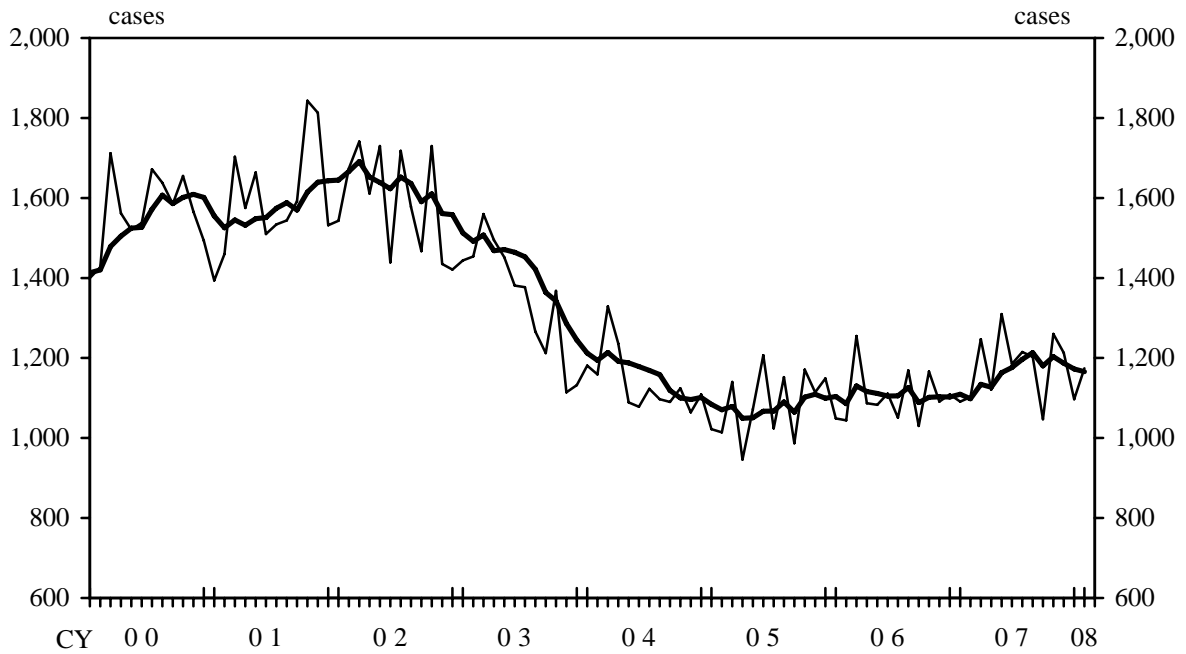
(2) Ratio of Money Stock to Nominal GDP



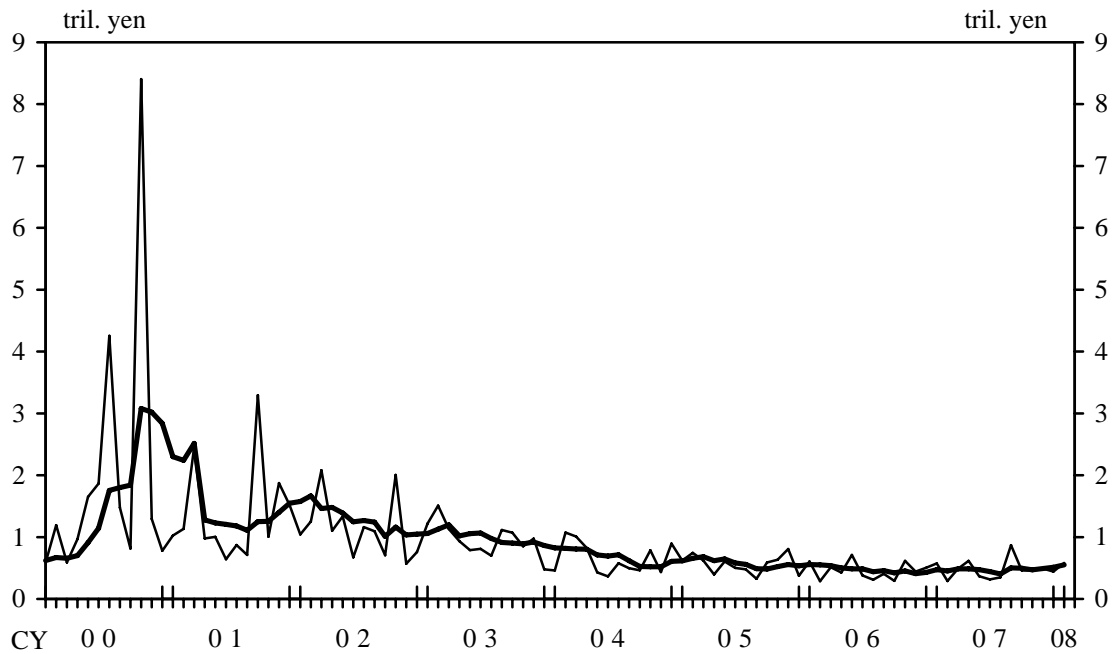
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."