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Bank of Japan

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

June 2009

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Monthly Report of Recent Economic and Financial Developments¹

June 2009

Summary

Japan's economic conditions, after deteriorating significantly, have begun to stop worsening.

Business fixed investment has declined substantially, reflecting the significant deterioration in corporate profits. Private consumption has weakened and housing investment has decreased, as the employment and income situation has become increasingly severe. On the other hand, exports and production have begun to turn upward, after falling substantially. Public investment, meanwhile, has increased.

In the coming months, Japan's economy is likely to show clearer evidence of leveling out over time.

Domestic private demand is likely to continue weakening with corporate profits and firms' funding conditions remaining severe and a worsening employment and income situation. On the other hand, exports and production are expected to continue recovering, mainly due to progress in inventory adjustments both at home and abroad. Public investment, meanwhile, is expected to continue increasing.

On the price front, the three-month rate of change in domestic corporate goods prices has continued to be slightly below 0 percent due to the earlier fall in international commodity prices and the easing of supply-demand conditions for products. The year-on-year rate of change in consumer prices (excluding fresh food) has declined to around 0 percent, mainly reflecting the declines in the prices of petroleum products and the stabilization of food prices.

Domestic corporate goods prices are likely to continue decreasing gradually for the time being, as supply-demand conditions for products are likely to remain slack. The year-on-year rate of change in consumer prices is expected to become

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 15 and 16, 2009.

negative, mainly due to the declines in the prices of petroleum products and the stabilization of food prices and also to increasing slackness in supply and demand conditions in the overall economy.

The weighted average of the overnight call rate has been at around 0.1 percent, and interest rates on term instruments have remained more or less unchanged. Meanwhile, yields on long-term government bonds and stock prices have risen compared with last month, while the yen has depreciated against the U.S. dollar.

Financial conditions in Japan have generally remained tight, although there have been signs of improvement.

The overnight call rate has remained at an extremely low level. Firms' funding costs have further declined, mainly due to declines in issuance rates on CP and corporate bonds. However, the stimulative effects from low interest rates have been limited given the low level of economic activity and corporate profits. The amount outstanding of bank lending, especially to large firms, has continued to increase at a relatively fast pace, although the pace of increase is somewhat slower than at the end of last year. Funding conditions for CP and corporate bonds have improved further: the decline in issuance of CP has mainly reflected a weakening of firms' demand for additional liquidity, and an increasing number of firms have been issuing corporate bonds. However, issuance of corporate bonds by firms with low credit ratings has remained subdued. Many firms have continued to see their financial positions as weak and lending attitudes of financial institutions as severe, although there are indications that firms' financial conditions in terms of these perspectives have stopped tightening. Meanwhile, the year-on-year rate of change in the money stock has been at around 2.5 percent.

1. Economic Developments

Public investment has increased. Looking at monthly indicators (Chart 5), the amount of public construction completed—which reflects the progress of public works—decreased marginally in the fourth quarter, on a quarter-on-quarter basis, and then increased marginally in the first quarter. On the other hand, the value of public works contracted—a measure that reflects public orders—turned to a marginal increase in the first quarter, and then increased substantially in April-May compared with the first quarter. This development was influenced by the implementation of the supplementary budget of fiscal 2008.

Public investment is expected to continue increasing due to the implementation of various economic measures.

Real exports had been decreasing substantially since last fall, mainly due to the deterioration in overseas economic conditions, but they have recently begun to turn upward, mainly due to the waning of adjustment pressures on local inventories (Charts 6[1] and 7). Exports marked record decreases in the fourth and first quarters (14.6 percent and 28.8 percent), on a quarter-on-quarter basis, and then increased by 6.5 percent in April compared with the first quarter.² Looking at monthly developments, exports were essentially flat in March and increased markedly in April, after their pace of decline moderated considerably in February; they decreased in January and February by 17.5 percent and 3.6 percent, and increased in March and April by 0.1 percent and 7.7 percent. These developments seem to have been influenced by the progress in inventory adjustments abroad, mainly in motor vehicles and electronic parts and devices, with the implementation of various policy measures in many countries.

By destination (Chart 7[1]), exports to many countries and regions have increased in April compared with the first quarter. On a monthly basis, exports to East Asia, especially to China, increased for three months in a row, and those to the United States also increased for two consecutive months, in response to the good progress made in adjusting local inventories of motor vehicles. As for the EU and

² The previous largest rate of decline on a quarter-on-quarter basis was 6.1 percent, recorded in the third quarter of 1995.

other regions (such as the Middle East, Latin America, and Russia), recovery in exports to these regions had been sluggish, but exports increased in April.³

By goods (Chart 7[2]), exports of goods other than capital goods and parts either increased or were flat in April compared with the first quarter. On a monthly basis, exports of IT-related goods increased noticeably for three consecutive months, and those of intermediate goods (such as chemicals) also increased for two months in a row, mainly to East Asia. Exports of motor vehicles and their related goods, which marked the largest decrease in the first quarter, were essentially flat in April compared with the first quarter.

Real imports have been leveling out, mainly because production has begun to turn upward (Charts 6[1] and 9). Real imports in the first quarter decreased substantially, by 17.9 percent, on a quarter-on-quarter basis, as domestic demand and production showed substantial drops. However, looking at monthly developments, real imports remained essentially flat in March and April; on a month-on-month basis, they marked an increase of 0.5 percent in April, following an increase of 1.5 percent in March.

Looking at developments in April compared with the first quarter by goods (Chart 9[2]), imports of IT-related goods turned to an increase, and consumer goods were essentially flat. Imports of raw materials, intermediate goods, capital goods and parts (excluding aircraft), and foodstuffs, however, continued to decrease.

Net exports, in terms of the real trade balance, have recently turned upward due to the aforementioned developments in imports and exports, after having decreased substantially (Chart 6[2]). A deficit in the nominal balance on goods and services was recorded in the fourth and first quarters, in response to the substantial deterioration in the real trade balance. However, the balance returned to a surplus—though a marginal one—in April.

³ The increase in exports to the EU seems to have been influenced by policies implemented in France (since December 2008), Germany (since January 2009), Italy (since February 2009), and the U.K. (since May 2009) to prompt consumers into trading in their old cars.

Exports are expected to continue recovering, mainly due to progress in local inventory adjustments. According to anecdotes from firms, exports are projected to continue increasing toward the third quarter.

As for the environment surrounding exports, overseas economies have begun to stop worsening (Chart 8[2]). In the United States and Europe, economic conditions have continued to deteriorate amid severe financial conditions, but the pace of deterioration has moderated compared to a while ago, reflecting the progress in inventory adjustments and improvement in the sentiment of firms and households. In China, domestic demand has strengthened, mainly due to effects of fiscal policies, and in East Asia, the amount of data indicating that economies have stopped worsening has increased. Economic conditions are expected to stop worsening and turn upward on a global scale, as fiscal and monetary policies continue to exert positive effects. However, attention needs to be paid to the risk of the negative synergy between the financial markets and the real economies worsening again, since ample time is required for adjusting the great excesses. Meanwhile, in the foreign exchange market, the yen has appreciated by over 20 percent compared to around the middle of 2007, in terms of the real effective exchange rate—which incorporates differentials in the inflation rates between home and abroad—although it has been depreciating recently (Chart 8[1]).

Imports are expected to remain more or less flat or to increase marginally for the time being, as the domestic economy gradually shows clearer evidence of leveling out over time.

Business fixed investment has declined substantially. On a GDP basis, real business fixed investment declined for four consecutive quarters toward the first quarter, and the pace of decline accelerated in each quarter (Chart 3). According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[1]), business fixed investment in nominal terms declined for four consecutive quarters, since the second quarter of 2008. By industry (Chart 11), in the manufacturing industry, investment by large and small firms has declined substantially, following the fourth quarter. In the nonmanufacturing industry, investment by small firms declined substantially, whereas that by large firms

remained relatively steady.⁴ Looking at monthly indicators, the aggregate supply of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—decreased substantially (Chart 12[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—has been decreasing since the second quarter of last year, and it also decreased in April compared with the first quarter (Chart 13[1]). By industry, the manufacturing industry was essentially flat in April compared with the first quarter, after having dropped substantially. On the other hand, the nonmanufacturing industry increased in the first quarter, mainly in investment related to infrastructure, but then decreased in April compared with the first quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—was essentially flat in the first quarter, and then decreased significantly in April compared with the first quarter. In detail, in the nonmanufacturing industry, investment increased temporarily in the first quarter, notably in real estate buildings and wholesale and retail trade buildings, and then decreased substantially in April. In the manufacturing industry, investment decreased substantially in April, following the first quarter (Chart 13[2]).⁵

Looking at the environment surrounding business fixed investment, corporate profits have decreased substantially. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), in the first quarter, the seasonally adjusted ratio of current profits to sales of all industries and company sizes registered 1.34 percent, which was below the previous bottom (1.57 percent) marked

⁴ "Leasing etc."—whose accounting method has been changed—should be ignored when looking at the trend in 2008 as a whole. Most leased property in finance lease transactions had been booked as fixed assets (business fixed investment) on the lessor's side (leasing companies) and treated off the balance sheet on the lessee's side (firms). However, with the new accounting standard for lease transactions, which has been applied from the business year starting on April 1, 2008, leased property is booked as liquid assets on the lessor's side and as fixed assets on the lessee's side. Since the difference is the side on which business fixed investment is counted, the aggregate amount of business fixed investment will basically be unaffected, but there are effects of special exemptions. That is, in cases in which the lessee is a small firm or in which the price of the leased property is low, lessees do not have to change their accounting procedures. Therefore, as a whole, only the negative impact of leasing companies remains.

⁵ Since last fall, the number of construction starts recognized in the statistics did not decline immediately because of a time lag, even though the business environment deteriorated rapidly. However, there also might have been cases in which construction starts were recognized in the statistics but actual constructions were on hold.

in the fourth quarter of 1993; it was the lowest level recorded since the second quarter of 1985, the point from which seasonally adjusted data are available. By industry and company size, in the manufacturing industry, the ratio of current profits to sales of small firms turned negative just as the ratio of large firms did in the previous quarter. As for the nonmanufacturing industry, the ratio of large firms showed a slight recovery, mainly in response to the drop in material prices, but that of small firms continued to decline, following the previous quarter.⁶

Business fixed investment is likely to continue declining for the time being, reflecting the severe conditions in corporate profits and firms' funding and the strong sense of excessive capacity.⁷

Private consumption has weakened, as the employment and income situation has become increasingly severe. On a GDP basis, real private consumption decreased in the fourth and first quarters, after being more or less flat in the third quarter (Chart 3). Looking at individual indicators of consumption (Charts 14 and 15), sales at department stores continued to decrease significantly due to the deceleration in food, in addition to a slump in sales of apparel and high-end products that reflect the further curtail on purchases by consumers. However, they increased marginally in April on a month-on-month basis. Sales at supermarkets were relatively weak in general, but the drop was marginal as sales were underpinned by the contribution of low pricing strategies. On the other hand, sales at convenience stores continued to be more or less flat. As for durable consumer goods, sales of household electrical appliances in real terms registered a high growth rate in the first quarter, mainly reflecting price declines, but the pace of growth became sluggish in

⁶ According to a survey by the *Nihon Keizai Shimbun, Inc.* on the fiscal 2008 statements of listed firms (1,738 firms excluding financial firms and firms listed in markets for venture businesses; on a consolidated basis), current profits registered a year-on-year decline of 63.9 percent, and the final profit and loss marked a deficit for the first time in seven years, since fiscal 2001, reflecting the expansion in restructuring expenses and valuation losses on shareholdings. As for fiscal 2009, current profits are projected to continue declining by 8.4 percent, on a year-on-year basis.

⁷ According to the business fixed investment survey (1,475 firms excluding financial firms; on a consolidated basis; as of April 27) by the *Nihon Keizai Shimbun, Inc.*, business fixed investment of all industries in fiscal 2009 (plan) declined for the second consecutive year, following fiscal 2008 (projection), marking a year-on-year decline of 15.9 percent. The pace of decline was the largest ever since the survey was first conducted in 1973.

April compared with the first quarter.⁸ The number of new passenger-car registrations dropped sharply toward the first quarter, on a year-on-year basis, and then the pace of decrease moderated slightly in April-May, mainly due to effects of the reduction in automobile taxes.⁹ As for services consumption, outlays for travel dropped evidently, mainly due to the deterioration in the employment and income situation. Sales in the food service industry were sluggish, albeit with fluctuations.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above—have become noticeably weak since last fall, but have been essentially flat recently (Chart 16[1]).¹⁰ The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—decreased substantially in the first quarter, and then increased marginally in April compared with the first quarter (Chart 16[2]), reflecting developments in durable goods consumption (automobiles). Looking at statistics on the demand side, as for the index of consumption expenditure level (in real terms) in the *Family Income and Expenditure Survey*, the index on an "excluding housing, automobiles, money gifts, and remittance" basis—which is mostly limited to items used for estimating GDP—increased in the first quarter, after having decreased for three consecutive quarters through the fourth quarter, mainly due to the increase in items with large fluctuations such as education; the index was essentially flat in April

⁸ The eco-point system, which is part of the "Countermeasures to Address the Economic Crisis" (of April 10), began on May 15, and ends at the end of March 2010. Under this system, when consumers purchase household electrical appliances with an energy efficiency higher than a certain level, part of the original prices are returned to them in the form of "eco-points." According to anecdotes from firms, there were signs of restrained purchasing until the launch of the system (middle of May), but positive effects have been seen since the system started.

⁹ According to the fiscal 2009 tax reform, during fiscal 2009 to 2011, the automobile acquisition tax and automobile weight tax will be either exempted or reduced for eco-friendly cars. Usually, the automobile acquisition tax is imposed on the price of the car at the time of purchase, and the automobile weight tax is imposed at the time of purchase and automobile inspection, on the weight of the car. However, from April, these taxes have been exempted for electric, fuel cell, and hybrid cars; normal gasoline cars are also subject to tax reduction, but the amount of reduction depends on their level of energy efficiency. Also, with the approval of the supplementary budget on May 29, a measure to promote the purchasing of eco-friendly cars—which is included in the "Countermeasures to Address the Economic Crisis"—has started; subsidies are granted to cars that have been purchased since April 10.

¹⁰ The *Indices of Aggregated Sales* are the weighted averages of individual sales indicators. "Outlays for travel" in April was not released at the time these indices were compiled, and hence was incorporated into the indices under the assumption that the seasonally adjusted figure for April was at the same level as that for March.

compared with the first quarter.¹¹ Total expenditure in the *Survey of Household Economy* (in real terms) also increased in the first quarter, and then increased marginally in April compared with the first quarter (Chart 14[1]).

Meanwhile, indicators related to consumer sentiment have continued to remain at extremely low levels, but they have recently recovered slightly due to various demand-boosting policy measures and to the decline in retail prices (Chart 17).

Private consumption is likely to remain relatively weak for the time being, as the employment and income situation becomes increasingly severe, although it is expected to be underpinned by the positive effects of various policy measures and price declines.

Housing investment has decreased. On a GDP basis, real housing investment turned to a decrease in the first quarter, although it had been increasing in the third and fourth quarters (Chart 3). The number of housing starts (Chart 18[1])—a leading indicator of housing investment—marked an annual rate of 904,000 units in the first quarter, and then registered an annual rate of 779,000 units in April.¹² It has dropped significantly since last fall, as the employment and income situation has become increasingly severe and the financial environment surrounding the real estate-related sector has further deteriorated.

Looking ahead, housing investment is expected to continue decreasing for the time being, considering the number of housing starts.

Industrial production has decreased substantially since last fall, but has begun to turn upward, mainly due to the waning of adjustment pressures on inventories both at home and abroad. Production increased for two consecutive months, registering

¹¹ Items in the index are not completely limited to those used for estimating GDP. For example, education is not used for estimating GDP.

¹² 779,000 units is the lowest level since the start of the present statistics (in 1965), with the exception of August and September 2007, when the number of housing starts dropped largely due to effects of the enforcement of the revised Building Standard Law.

an increase of 5.9 percent on a month-on-month basis in April.¹³ On a quarterly basis, production dropped by 11.3 percent in the fourth quarter and by 22.1 percent in the first quarter, and then increased by a marginal 3.5 percent in April compared with the first quarter (Chart 19). By industry, production in electronic parts and devices and chemicals (excluding drugs) increased in response to progress in inventory adjustments, and production in other electrical machinery has leveled out. On the other hand, general machinery and iron and steel continued to decrease. The former reflected global reduction in business investment, and the latter reflected sluggish inventory adjustments.

Shipments also decreased substantially, marking a decrease of 11.0 percent in the fourth quarter and 21.0 percent in the first quarter, but they increased by a marginal 1.9 percent in April compared with the first quarter. By goods (Chart 20), shipments of capital goods and construction goods remained on a downtrend. On the other hand, shipments of producer goods increased, notably in electronic parts and devices, after having fallen sharply since last fall. Also, shipments of durable consumer goods became essentially flat, after having dropped largely since last fall. Meanwhile, shipments of non-durable consumer goods have remained more or less flat.

Inventories have continued to decrease due to the substantial fall in production, and adjustment pressures on inventories have started to wane (Chart 21). Looking at the shipment-inventory balance by goods, adjustment pressures on inventories have remained strong for capital goods (excluding transport equipment), construction goods, and other producer goods (such as iron and steel), reflecting the substantial decrease in shipments. On the other hand, for electronic parts and devices and other producer goods (such as chemicals), inventory adjustment pressures have been weakening, partly because shipments have turned upward. As for durable consumer goods, good progress has been made in adjusting local inventories, a development not reflected in this statistics.

¹³ An increase of 5.9 percent on a month-on-month basis is the largest rate of increase after March 1953 (7.9 percent), since the start of the present statistics (in 1953).

As for the outlook, production is expected to continue recovering, mainly due to progress in inventory adjustments both at home and abroad. According to anecdotes from firms, production plans for the second and third quarters seem to have been revised definitively upward since the previous month.

The employment and income situation has become increasingly severe, with the labor market easing substantially and employee income decreasing noticeably (Chart 22[3]).

In the labor market, overtime hours worked have decreased substantially, notably in the manufacturing industry (Chart 24[3]). The ratio of job offers to applicants has continued to decline (Chart 23[1]). The unemployment rate has risen noticeably of late; it registered 5.0 percent in April.

In terms of employment (Chart 24[1]), the year-on-year growth rate of the number of employees in the *Labour Force Survey* had been around 0 percent, but lately it has been showing a considerably evident downtrend.¹⁴ As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year growth rate has continued to fall after having peaked near the end of 2007, and the growth rate of the manufacturing industry has decreased at a faster pace. The ratio of part-time employees has been rising moderately (Chart 24[2]).

The pace of decline in the year-on-year growth rate of nominal wages per employee moderated slightly in April, after declining significantly in March. There has been a strong downward pressure on wages, however, with corporate profits decreasing substantially, and the pace of the year-on-year decline in the growth rate seems to have been expanding (Chart 22[1]). In detail, overtime payments and special payments have declined at a much faster pace, and regular payments have

¹⁴ The decline in the number of employees has still remained marginal compared with the drop in economic activities. This can be attributed to factors such as efforts to maintain employment through the use of the Employment Adjustment Subsidy—whose conditions to grant subsidies have been eased as part of an economic measure—and a large decline in hours worked per employee, which reflects a decrease in the number of operating days and an increase in the number of short-time part-time workers. The number of applications for the subsidy in April rose sharply to 2.53 million employees, which is just below 5.0 percent of all employees.

fallen noticeably below the previous year's level, mainly reflecting the decrease in the number of operating days, especially in the manufacturing industry.

Employee income has decreased at a faster pace on a year-on-year basis, reflecting the aforementioned developments in employment and wages (Chart 22[3]).

Looking ahead, employee income is likely to continue decreasing for the time being due to lagged effects of the earlier substantial decrease in corporate profits and production.

2. Prices

Import prices (on a yen basis; the three-month rate of change) have risen gradually, mainly reflecting the depreciation of the yen and the rebound in international commodity prices (Chart 26). The rising trend in international commodity prices has recently become stronger, after having dropped substantially since last summer. Domestic commodity prices have been more or less flat as a whole as domestic supply-demand conditions have remained slack, while international commodity prices have risen.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁵ has continued to be slightly below 0 percent due to the earlier fall in international commodity prices and the easing in supply-demand conditions for products (Chart 27). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have risen, following the previous month, reflecting price developments of petroleum and coal products and of nonferrous metals. The pace of decline in prices of "other materials" and "others" has moderated respectively. The former has reflected price developments of chemicals and related products, and the latter has reflected those of other manufacturing industry products and of agriculture, forestry and fishery products. On the other hand, prices of "iron and steel and construction

¹⁵ The figures are adjusted to exclude large seasonal fluctuations 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 electric power consumption increases substantially.

goods" have continued to decline as prices of iron and steel have continued to fall, although there have been signs of leveling out of scrap and waste prices. Prices of "machinery" have continued to decline marginally, as prices of general equipment have fallen at a faster pace. Meanwhile, prices of "electric power, gas and water" have declined at a faster pace, reflecting price developments of electric power charges. Looking at domestic demand products as a whole, including imports, prices of products, especially for those that are imported, have begun to stop declining due to effects of the depreciation of the yen and to the rebound in international commodity prices. Prices of intermediate goods, however, have still continued to decline.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁶ has lately been marginally negative (Chart 28), mainly reflecting cost cutting among firms.¹⁷ Looking at recent developments by category, the year-on-year rate of decrease in prices of advertising services has continued to be a large negative as firms have been cautious about placing advertisements. Prices of information services have also continued to be negative since firms have tightened the reins on their software investment. The increasing trend in prices of leasing and rental has reached a plateau recently due to the decline in machinery prices. The pace of increase in prices of real estate services has been moderating as effects of the previous year's price increase in office rental have diminished, in addition to the drop in sales space rental caused by the decrease in sales. The pace of increase in prices of "other services" has shown a diminishing trend in response to cost cutting among firms. Meanwhile, the pace of decline in prices of finance and insurance has moderated as effects of last year's reduction in premiums of compulsory motor vehicle insurance have fallen off.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has declined to around 0 percent, mainly reflecting the declines in the prices of petroleum products and the stabilization of food prices (Chart 29). Looking at recent developments in detail, the negative contribution of prices of goods

¹⁶ "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.

¹⁷ "All items including external factors"—mainly ocean freight transportation—has continued to decrease significantly on a year-on-year basis.

moderated temporarily in April, influenced by last year's temporary expiration of the provisional extra taxes. However, prices of goods seem to have been declining at a much faster pace as a whole, with prices of petroleum products declining at a faster pace and those of food products increasing at a moderated pace. The pace of increase in prices of general services has shown a diminishing trend as a whole, mainly because prices of package tours to overseas have turned negative and because the pace of increase in "eating out" has moderated. Public utility charges—mainly electricity charges and city gas charges—have continued to increase.

Domestic corporate goods prices are likely to continue decreasing gradually for the time being, as supply-demand conditions for products are likely to remain slack. The year-on-year rate of change in consumer prices is expected to become negative, mainly due to the declines in the prices of petroleum products and the stabilization of food prices and also to increasing slackness in supply and demand conditions in the overall economy.

3. Financial Developments

(1) Financial Markets

Japan's money markets have continued to be nervous, although upward pressures on interest rates have been moderating, partly due to the Bank of Japan's provision of sufficient funds. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 30[1]). Regarding interest rates on term instruments, the T-Bill rate (3-month) has been stable due to increased investment from banks, although market concerns have continued over worsening supply-demand conditions caused by an increase in issue size. The Euroyen interest rate (3-month) has declined gradually, partly due to the expansion of funds-supplying measures taken by the Bank of Japan, but it has still remained at a high level relative to OIS rates, which mainly reflect expectations about future policy interest rates (Chart 31[1]). Interest rates on Euroyen futures have suggested that term funding rates may remain more or less flat for the time being (Chart 30[2]). In U.S. dollar funding, liquidity conditions have been improving, but they have still remained tight, a condition that reflects the uncertainty about future business conditions of U.S. and European financial institutions (Chart 31).

Yields on 10-year government bonds (newly issued 10-year JGB) have shown marginal changes compared to those in the United States and Europe, and have risen gradually reflecting both expectations for economic activity to bottom out and outlook for an increased issue size of JGBs. They have been moving at around 1.50 percent (Chart 32).

Yield spreads between corporate bonds and government bonds have been narrowing for those with high credit ratings, due to improvements in supply-demand conditions. Spreads for those with low credit ratings and those of some industries, however, have remained wide, reflecting the selective stance among investors toward bond issues for investment (Chart 33).

Stock prices have been bullish, in line with U.S. stock prices, which have risen due to expectations for economic activity to bottom out and to a revision of the exceedingly pessimistic view on the stability of the financial system. The Nikkei 225 Stock Average has been moving at around 10,000 yen (Chart 34).

In the foreign exchange market, the yen has fluctuated against the U.S. dollar, mainly in response to U.S. economic indicators. The yen rose to the 93-94 yen level against the outlook for the expansion of U.S. fiscal deficits, but it then fell reflecting increasing expectations for U.S. economic activity to bottom out. The yen has recently been traded in the range of 96-99 yen (Chart 35).

(2) Corporate Finance and Monetary Aggregates

Funding costs have further declined, mainly due to declines in issuance rates on CP and corporate bonds, against the background that the overnight call rate remains at an extremely low level. Issuance rates on CP have continued to decline in response to various policy measures—the average issuance rate on three-month CP with ratings of A-1 or higher was 0.39 percent in May, following 0.45 percent in April. Issuance rates on corporate bonds have declined because of the narrowing of their issuance spreads, especially for firms with high credit ratings. The average contracted interest rates on new loans and discounts have been on a declining trend (Chart 37).

Funding of the private sector has increased compared with the previous year, despite the decline in firms' demand for working capital, since firms have maintained levels of liquidity that they increased during the previous months. Lending by private banks has continued to increase at a relatively fast pace, although the current pace of increase is somewhat slower than it was at the end of last year (Chart 38). Although the amount outstanding of CP issued has decreased partly because many firms, especially large firms, have already secured sufficient liquidity, the amount outstanding of corporate bonds issued has been above the previous year's level (Chart 39).

Despite the increase in funding of the private sector, firms with low credit ratings and those in some industries have continued to face difficulties in issuing corporate bonds. Many firms have continued to see their financial positions as weak and lending attitudes of financial institutions as severe, although there are indications that firms' financial conditions in terms of these perspectives have stopped tightening (Chart 36). Although the number of corporate bankruptcies had been high, it decreased in May (Chart 41).

The money stock (M2) has been at around 2.5 percent, year-on-year. Its May reading was 2.7 percent on a year-on-year basis, which was the same as that in the previous month (Chart 40).¹⁸

¹⁸ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been in the range of 1-2 percent. Its May reading was 1.8 percent, following 1.7 percent in April. Broadly-defined liquidity has exceeded the previous year's level. It increased by 0.1 percent, year-on-year, in April and May.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q3	Q4	2009/Q1	2009/Feb.	Mar.	Apr.	May
Index of consumption expenditure level (two-or-more-person households)	-0.4	-0.3	1.0	0.3	0.1	-1.0	n.a.
Sales at department stores	-2.1	-3.1	-3.9	-0.5	-4.0	1.2	n.a.
Sales at supermarkets	-0.2	-1.3	-1.3	-0.9	0.3	-0.6	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 277>	< 249>	< 213>	< 213>	< 204>	< 218>	< 250>
Sales of household electrical appliances (real, Current Survey of Commerce)	5.8	-0.0	7.1	-1.1	3.2	-0.7	n.a.
Outlays for travel	-1.8	-2.5	-5.0	-0.5	-1.6	-6.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 110>	< 101>	< 90>	< 87>	< 89>	< 78>	<n.a.>
Machinery orders (from private sector ⁴)	-8.9	-15.1	-9.9	0.6	-1.3	-5.4	n.a.
Manufacturing	-10.9	-22.4	-31.1	-3.1	21.8	-9.4	n.a.
Nonmanufacturing ⁴	-8.6	-10.0	4.9	2.4	-3.1	-8.8	n.a.
Construction Starts (private, nondwelling use)	2.2	-10.6	-1.1	-9.1	-11.4	-27.3	n.a.
Mining & manufacturing	8.6	-0.2	-25.8	-7.4	1.3	-32.5	n.a.
Nonmanufacturing ⁵	-1.6	-8.9	7.5	-9.6	-14.6	-24.8	n.a.
Value of public works contracted	4.6	-1.4	3.7	1.0	2.6	11.8	-10.9
Real exports	1.0	-14.6	-28.8	-3.6	0.1	7.7	n.a.
Real imports	1.7	0.7	-17.9	-14.5	1.5	0.5	n.a.
Industrial production	-3.2	-11.3	-22.1	-9.4	1.6	5.9	n.a.
Shipments	-3.0	-11.0	-21.0	-6.1	1.5	3.0	n.a.
Inventories	1.4	1.9	-9.0	-4.2	-3.6	-2.7	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 109.3>	< 132.1>	< 150.1>	< 158.5>	< 150.1>	< 143.0>	<n.a.>
Real GDP	-0.7	-3.6	-3.8	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.8	-3.4	-6.4	-2.3	-2.4	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q3	Q4	2009/Q1	2009/Feb.	Mar.	Apr.	May
Ratio of job offers to applicants <s.a., times>	< 0.85>	< 0.76>	< 0.59>	< 0.59>	< 0.52>	< 0.46>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.0>	< 4.5>	< 4.4>	< 4.8>	< 5.0>	<n.a.>
Overtime working hours ⁶	-1.1	-6.6	-19.7	-21.7	-22.7	p -19.7	n.a.
Number of employees	0.1	0.0	-0.3	0.0	-0.9	-1.3	n.a.
Number of regular employees ⁶	1.4	1.0	0.6	0.5	0.5	p 0.4	n.a.
Nominal wages per person ⁶	-0.4	-1.2	-3.0	-2.4	-3.9	p -2.5	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	7.3 < 2.9>	2.6 <-3.8>	-1.8 <-3.2>	-1.8 <-3.0>	-2.5 <-2.2>	-4.0 <-1.2>	p -5.4 <p -1.2>
Consumer price index ⁸	2.3	1.0	-0.1	0.0	-0.1	-0.1	n.a.
Corporate services price index	1.1	-2.1	-2.4	-2.6	-2.1	p -2.4	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.2	1.8	2.1	2.1	2.2	2.7	p 2.7
Number of corporate bankruptcies <cases per month>	<1,345>	<1,356>	<1,405>	<1,318>	<1,537>	<1,329>	<1,203>

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

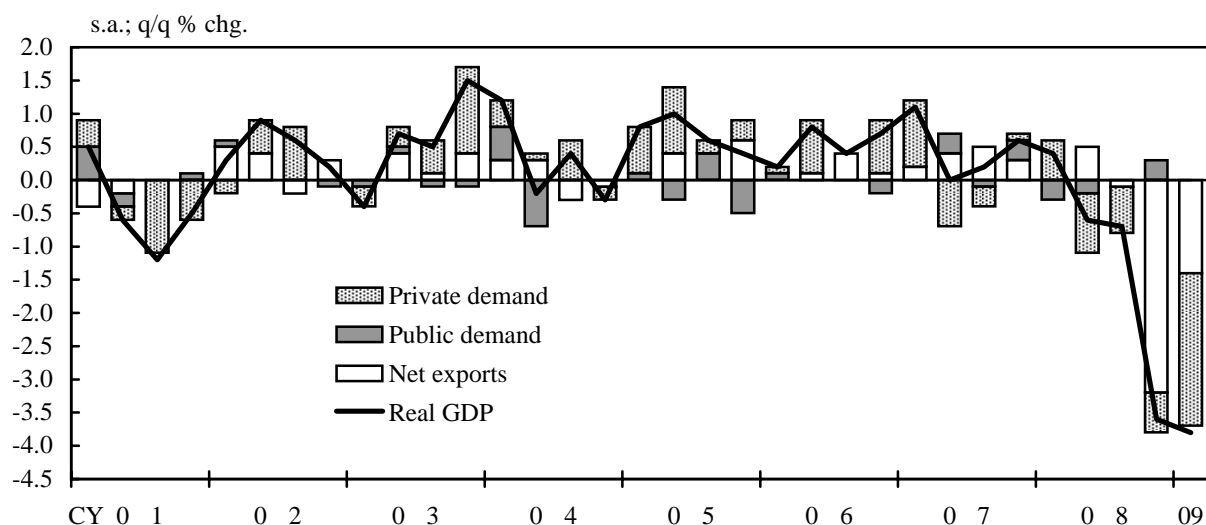
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

2. Figures with "p" indicate 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. Adjusted to exclude a hike in electric power charges during the 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";
 Japan Tourism Agency, "Major Travel Agents' Revenue";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts";
 Ministry of Finance, "Trade Statistics";
 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 Services 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



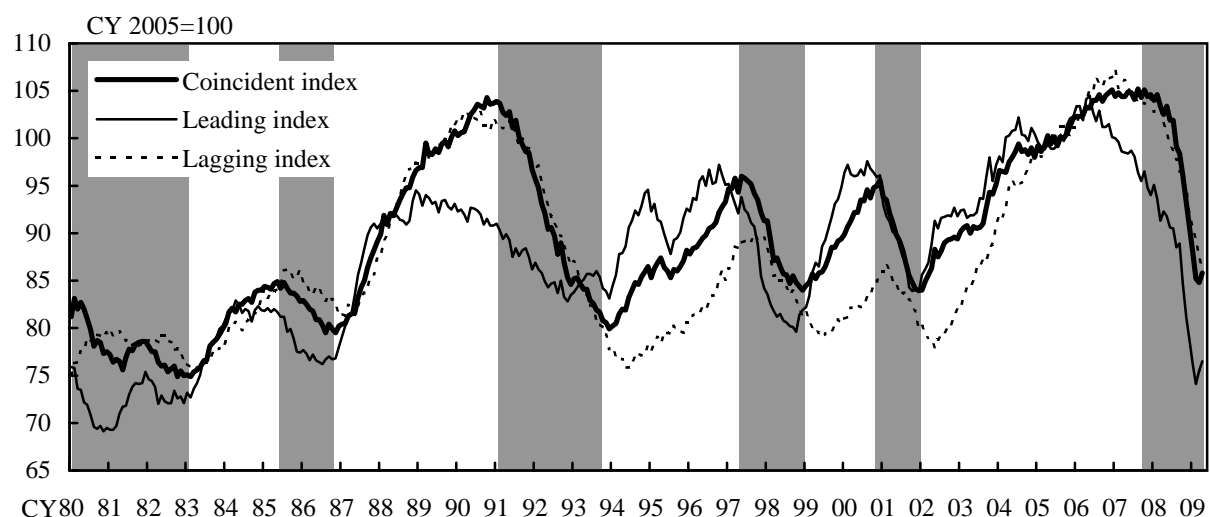
(2) Components

s.a.; q/q % chg.

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.4	-0.6	-0.7	-3.6	-3.8
Domestic demand	0.3	-1.1	-0.7	-0.3	-2.3
Private demand	0.6	-0.9	-0.7	-0.6	-2.3
Private consumption	0.8	-0.5	0.1	-0.4	-0.6
Non-Resi. investment	0.2	-0.5	-0.7	-1.0	-1.3
Residential investment	0.1	-0.1	0.1	0.2	-0.2
Private inventory	-0.5	0.1	-0.2	0.7	-0.2
Public demand	-0.3	-0.2	-0.0	0.3	0.0
Public investment	-0.2	-0.0	0.0	-0.0	0.0
Net exports of goods and services	0.0	0.5	-0.1	-3.2	-1.4
Exports	0.4	-0.2	0.2	-2.8	-4.2
Imports	-0.4	0.7	-0.2	-0.5	2.7
Nominal GDP	1.0	-1.8	-1.7	-1.3	-2.7

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

(3) Indexes of Business Conditions (Composite Indexes)

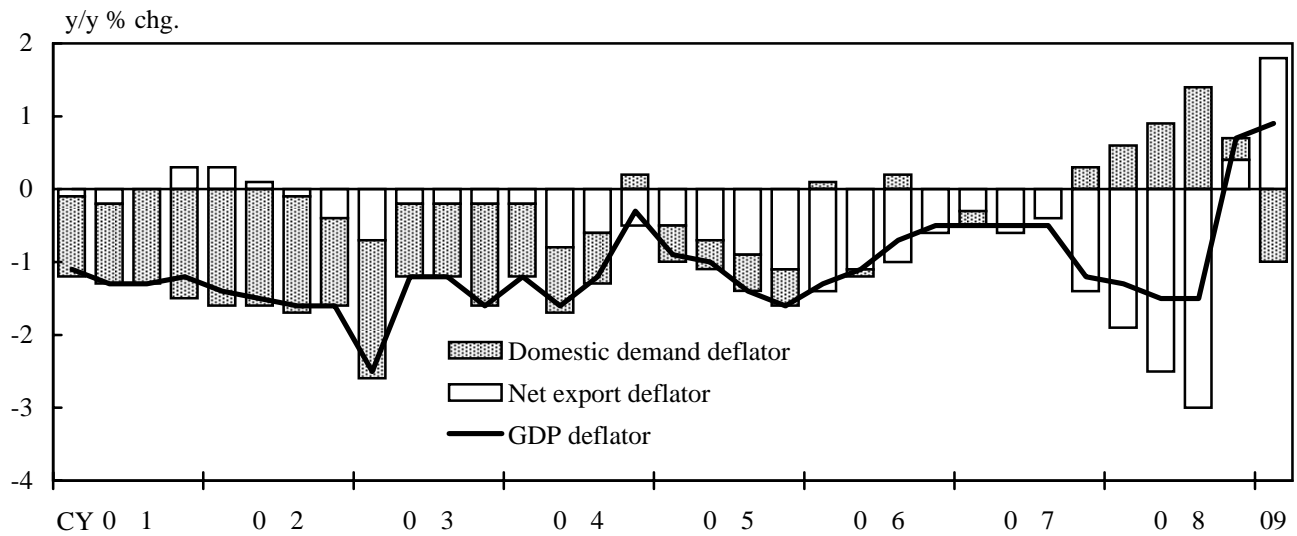


Note: Shaded areas indicate recession periods.

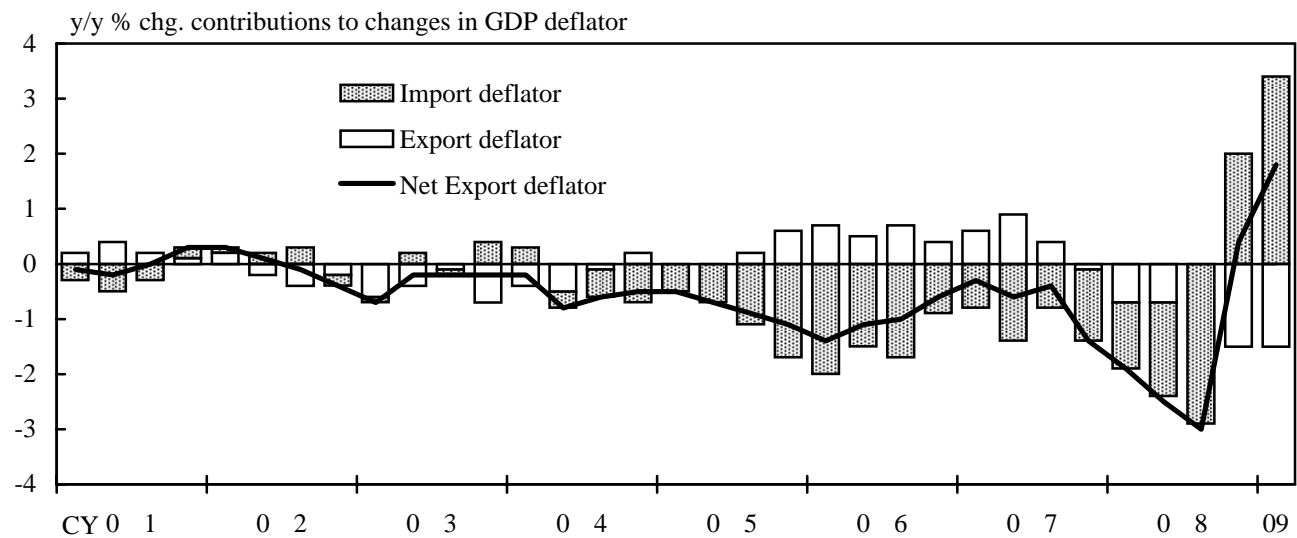
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

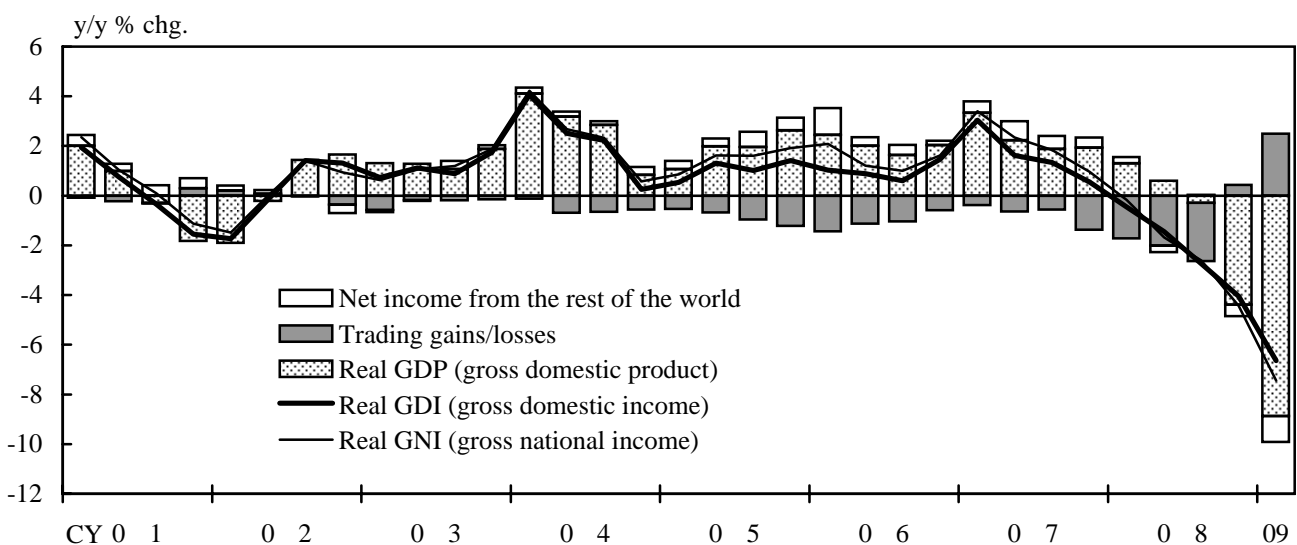
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



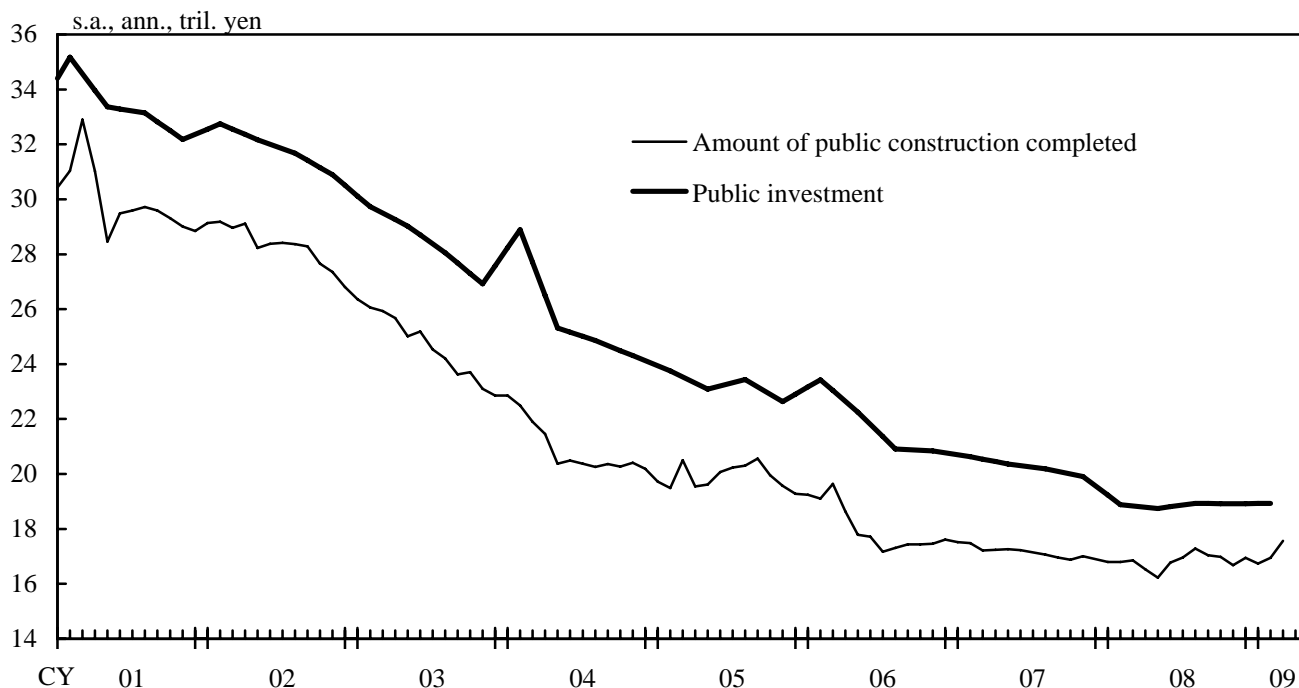
Note: Figures of components indicate contributions to changes in real GNI.

Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

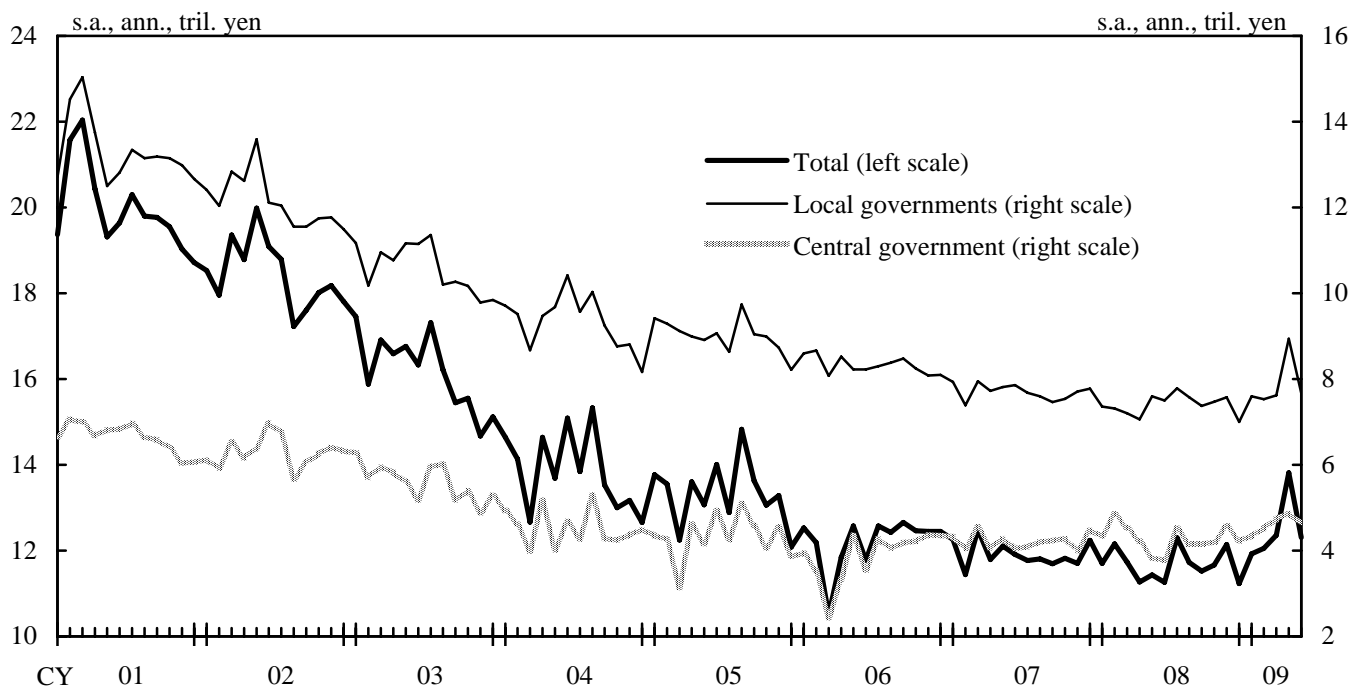
Source: Cabinet Office, "National Accounts."

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."

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

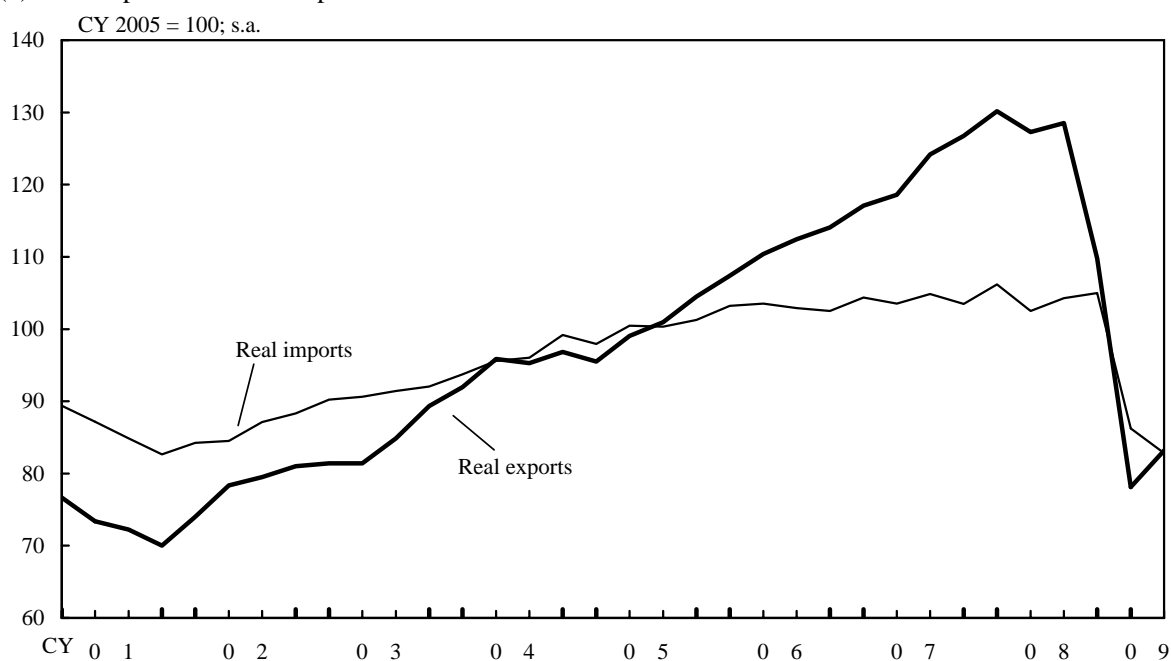
Sources: Cabinet Office, "National Accounts";

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

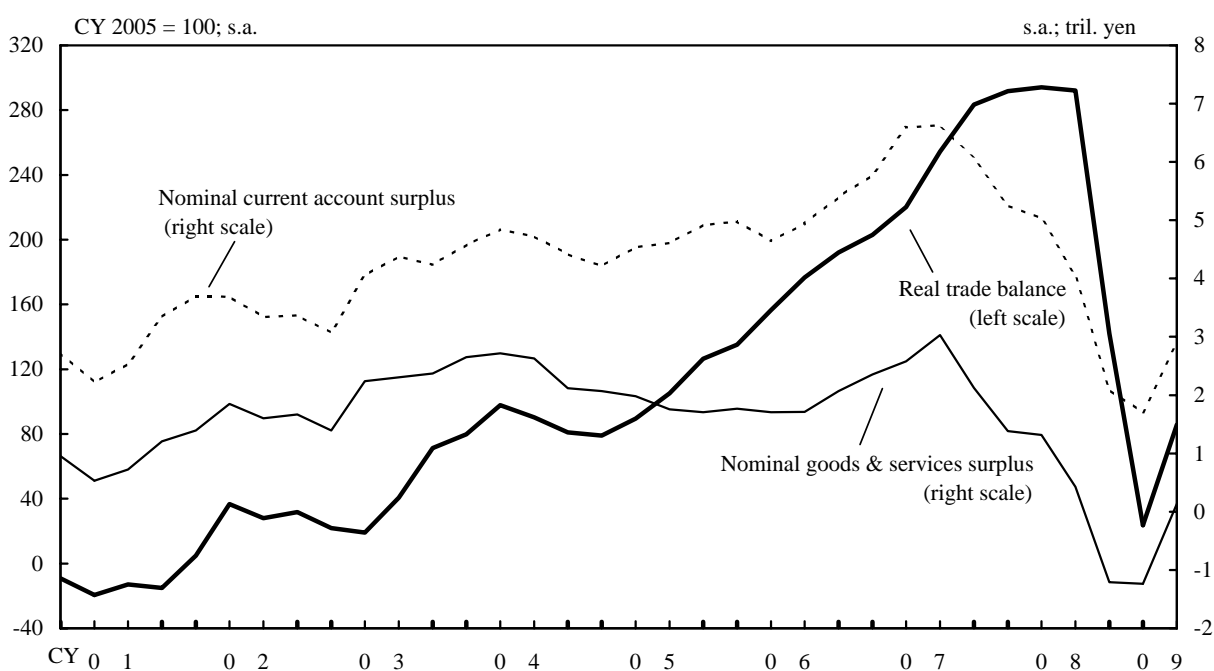
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

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 2005. 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. 2009/Q2 figures are April figures converted into quarterly amount.

Sources: Ministry of Finance, "Trade Statistics";
 Ministry of Finance and Bank of Japan, "Balance of Payments";
 Bank of Japan, "Corporate Goods Price Index."

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Feb.	Mar.	Apr.
United States	<17.5>	-1.2	-8.9	-7.2	-4.9	-9.0	-35.6	1.2	-7.4	5.5	0.2
EU	<14.1>	13.0	-0.1	-7.8	-2.8	-17.2	-27.0	1.8	-12.0	-10.0	14.5
East Asia	<46.8>	9.9	3.3	-2.5	-0.4	-15.6	-22.2	12.0	3.7	1.0	9.9
China	<16.0>	16.8	6.7	-0.0	-1.3	-14.8	-17.1	15.8	6.8	0.9	12.7
NIEs	<22.1>	5.2	-0.1	-4.8	0.8	-18.4	-22.4	14.2	8.5	-1.2	12.1
Korea	<7.6>	5.3	-0.3	-4.8	2.2	-21.6	-13.5	9.5	4.3	0.4	7.7
Taiwan	<5.9>	0.0	-4.4	-9.0	-2.5	-21.9	-19.7	14.4	9.0	5.9	7.1
ASEAN ⁴	<8.8>	11.4	6.3	-1.1	-1.5	-9.9	-30.7	-1.8	-13.7	8.3	-2.0
Thailand	<3.8>	9.8	4.9	-5.4	1.2	-6.6	-36.1	0.6	-12.8	-1.7	6.7
Others	<21.5>	20.4	16.1	-0.9	1.9	-7.9	-30.6	-6.2	-13.5	-9.6	5.8
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.8	6.5	-3.6	0.1	7.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Feb.	Mar.	Apr.
Intermediate goods	<18.9>	5.3	0.3	-4.4	0.8	-8.2	-16.4	12.3	-1.7	10.5	5.8
Motor vehicles and their related goods	<23.8>	13.2	3.2	-3.7	-1.4	-14.5	-50.5	0.9	-11.7	-0.3	5.6
Consumer goods ⁴	<4.1>	6.4	3.5	0.9	-4.4	-12.1	-26.9	9.9	1.0	-5.6	13.8
IT-related goods ⁵	<10.2>	12.2	0.7	2.7	-0.3	-20.8	-25.9	26.3	6.3	5.0	19.9
Capital goods and parts ⁶	<28.3>	8.0	5.2	-0.7	-1.0	-9.9	-26.4	-1.7	-1.7	-8.7	5.1
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.8	6.5	-3.6	0.1	7.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q2 figures are April figures converted into quarterly amount.

2. Shares of each region and goods in 2008 are shown in angle brackets.

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

4. Excludes motor vehicles.

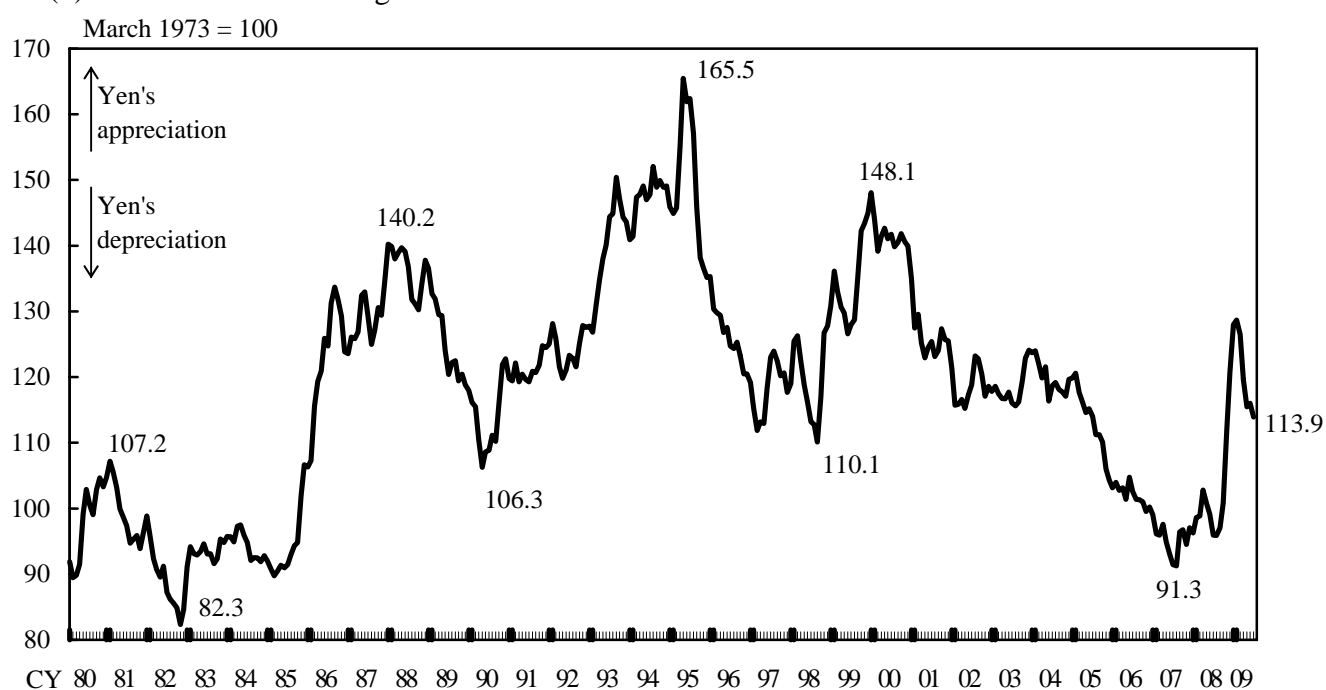
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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

Sources: Ministry of Finance, "Trade Statistics"; 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 June 2009 is the average up to June 15.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (30 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY2006	2007	2008	2008 Q2	Q3	Q4	2009 Q1	
United States ¹		2.8	2.0	1.1	2.8	-0.5	-6.3	-5.7	
European Union ¹		3.1	2.9	0.9	-0.6	-1.5	-6.7	-9.1	
	Germany	3.0	2.5	1.3	-2.0	-2.1	-8.6	-14.4	
	France	2.4	2.3	0.3	-1.6	-0.7	-5.7	-4.7	
	United Kingdom	2.8	3.0	0.7	-0.1	-2.8	-6.1	-7.3	
East Asia ²	China	11.6	13.0	9.0	10.1	9.0	6.8	6.1	
	NIEs	Korea	5.2	5.1	2.2	4.3	3.1	-3.4	-4.2
		Taiwan	4.8	5.7	0.1	4.6	-1.0	-8.6	-10.2
		Hong Kong	7.0	6.4	2.4	4.1	1.5	-2.6	-7.8
		Singapore	8.4	7.8	1.1	2.5	0.0	-4.2	-10.1
	ASEAN4	Thailand	5.2	4.9	2.6	5.3	3.9	-4.2	-7.1
		Indonesia	5.5	6.3	6.1	6.4	6.4	5.2	4.4
		Malaysia	5.8	6.2	4.6	6.6	4.8	0.1	-6.2
Philippines		5.3	7.1	3.8	4.2	4.6	2.9	0.4	

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

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 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Feb.	Mar.	Apr.
United States	<10.2>	-1.5	-2.6	-4.6	1.1	-2.7	-14.4	-6.7	-1.6	-1.0	-5.6
EU	<9.2>	4.0	-3.0	-0.3	-3.4	-2.3	-10.4	-9.5	-12.5	-5.8	-1.2
East Asia	<37.9>	3.1	2.3	-2.3	1.1	-0.2	-17.6	-1.5	-17.2	5.8	1.3
China	<18.8>	5.7	4.3	-0.7	3.1	-1.2	-15.1	-2.6	-23.5	14.9	-2.3
NIEs	<8.0>	-3.8	-1.2	-4.1	-0.9	-6.3	-20.6	4.6	-3.2	-6.8	10.9
Korea	<3.9>	-3.3	-5.4	-9.5	-1.1	-6.6	-20.5	-1.2	0.4	-6.9	3.5
Taiwan	<2.9>	-3.0	3.5	1.2	0.2	-6.4	-22.0	4.4	-11.3	-4.7	12.5
ASEAN4 ³	<11.1>	4.5	1.1	-3.9	-1.5	7.5	-20.6	-3.9	-13.5	-1.7	2.3
Thailand	<2.7>	4.4	2.3	-3.6	2.5	-1.9	-21.8	-0.2	-8.1	-6.1	7.3
Others	<42.7>	0.2	2.0	-4.1	2.0	3.2	-18.8	-4.7	-14.0	-5.3	4.3
Real imports		0.7	0.2	-3.5	1.7	0.7	-17.9	-4.0	-14.5	1.5	0.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Feb.	Mar.	Apr.
Raw materials ⁴	<42.0>	0.7	1.0	-5.9	1.9	4.4	-20.3	-5.7	-14.3	-5.8	3.7
Intermediate goods	<14.1>	2.0	1.7	1.9	0.9	4.3	-19.1	-6.2	-21.3	-0.8	2.8
Foodstuffs	<7.9>	-9.6	-3.6	0.6	2.0	11.3	-2.9	-6.3	-2.1	-2.7	-3.9
Consumer goods ⁵	<6.9>	-0.1	-2.7	-1.4	0.6	-2.7	-16.2	-0.3	-29.9	25.1	-2.3
IT-related goods ⁶	<9.5>	4.2	4.3	-1.5	1.0	-7.9	-17.2	12.8	-6.2	0.9	14.6
Capital goods and parts ⁷	<11.2>	8.5	2.8	-3.0	0.6	-9.2	-18.7	-10.6	-11.5	-2.0	-5.5
Excluding aircraft	<10.5>	7.9	3.6	0.4	-2.4	-4.5	-23.7	-7.6	-19.5	1.0	-0.8
Real imports		0.7	0.2	-3.5	1.7	0.7	-17.9	-4.0	-14.5	1.5	0.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q2 figures are April figures converted into quarterly amount.

2. Shares of each region and goods in 2008 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

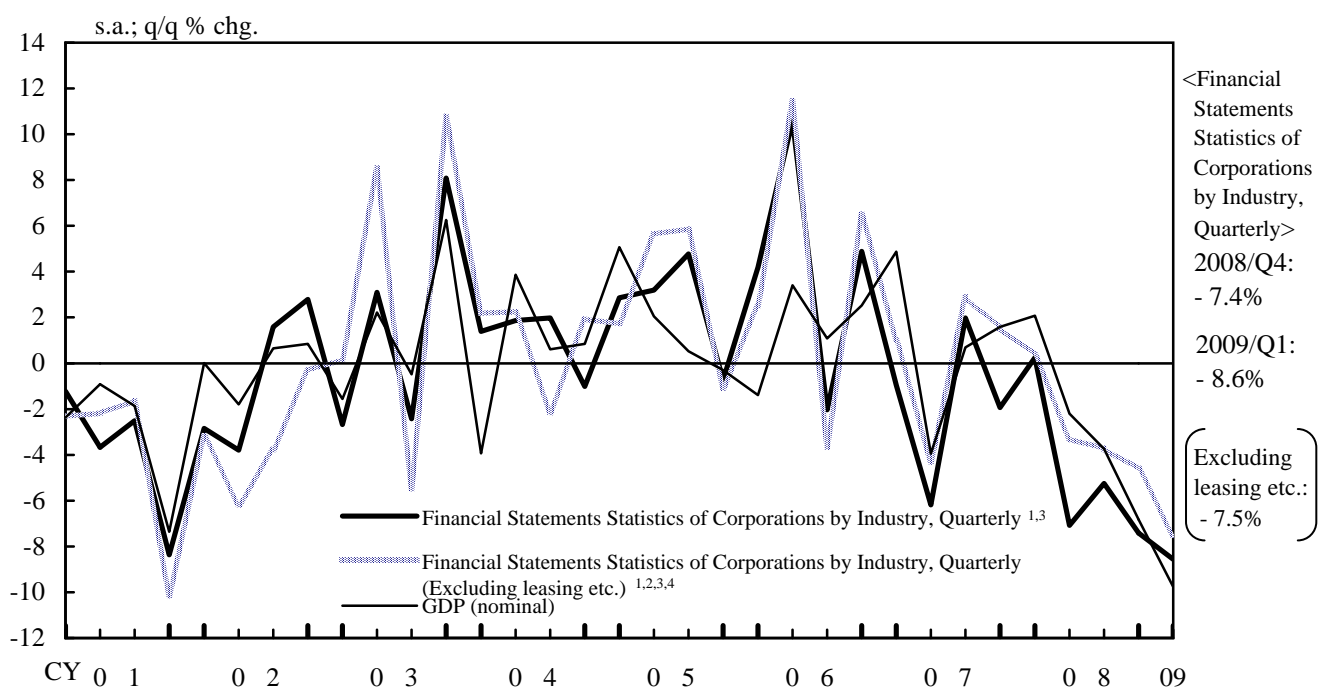
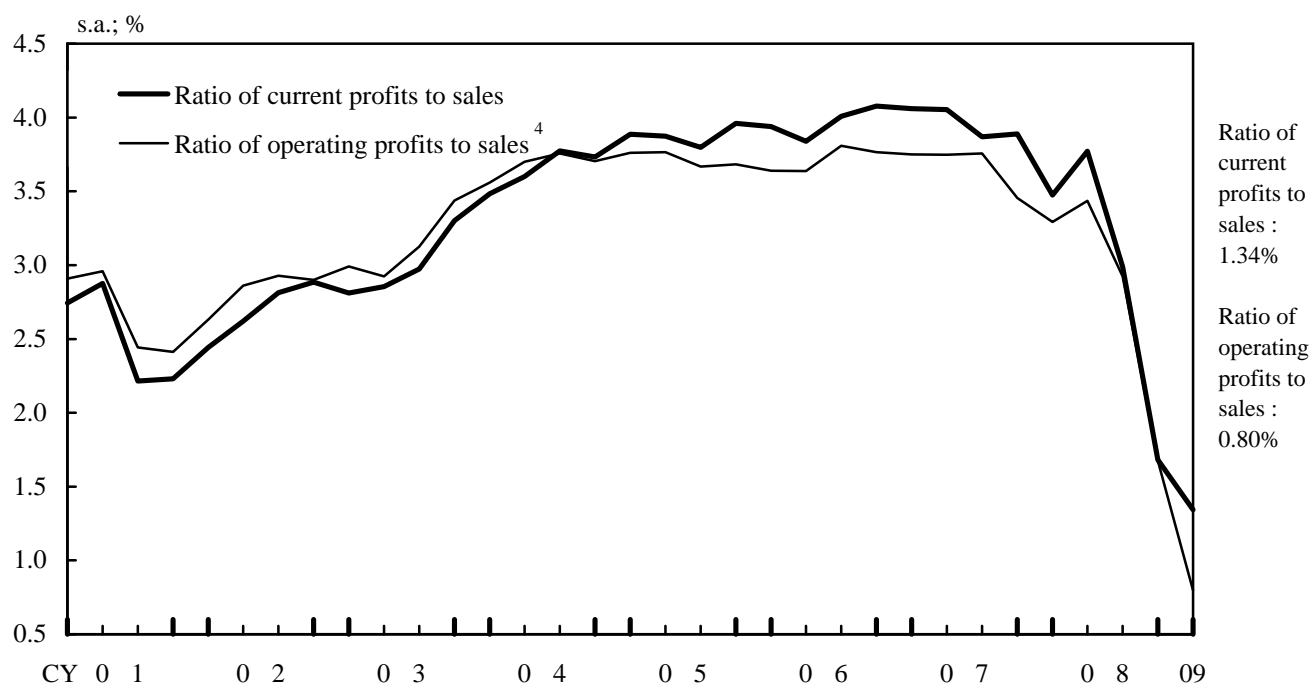
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment

(2) Corporate Profits (Ratio of Profits to Sales)^{1,3}

Notes: 1. All enterprises excluding Finance and Insurance.

2. Up to 2004/1Q, excluding business services. From 2004/2Q, excluding leasing, miscellaneous rental and leasing goods, advertising, and miscellaneous business services.

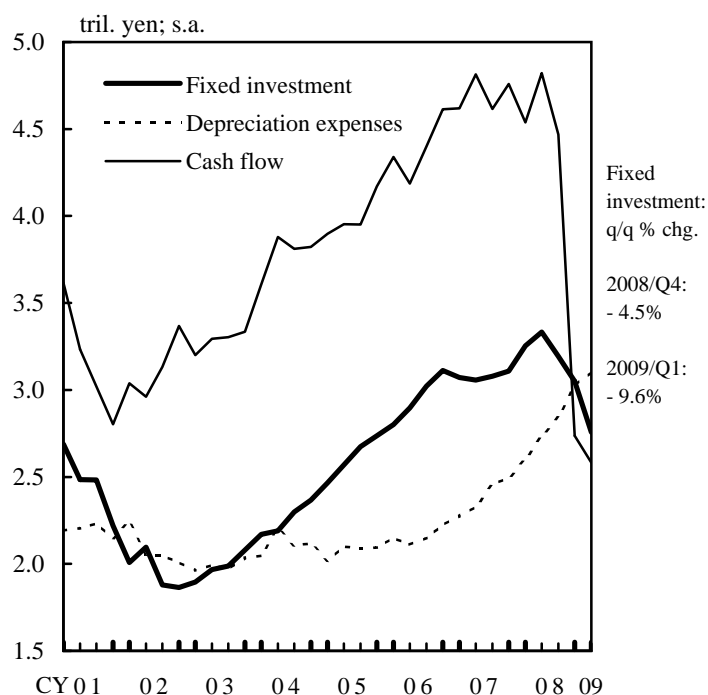
3. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

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

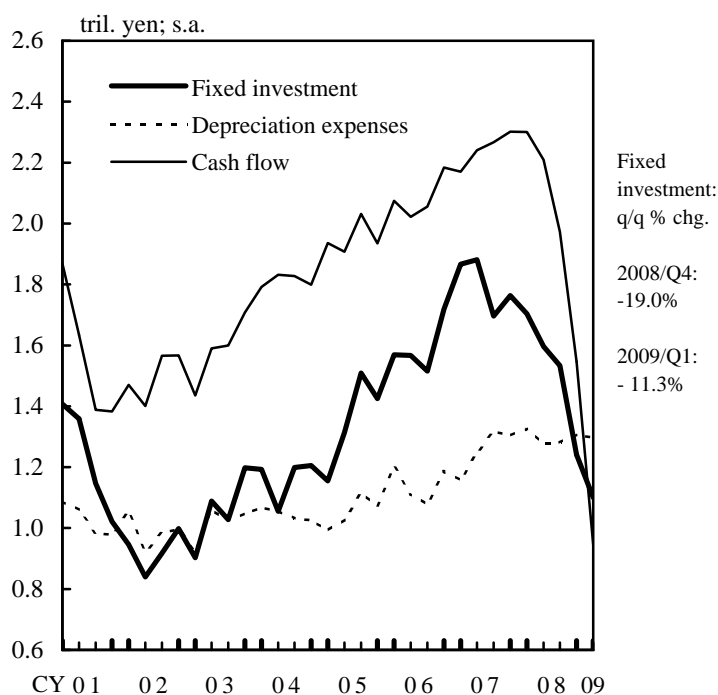
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

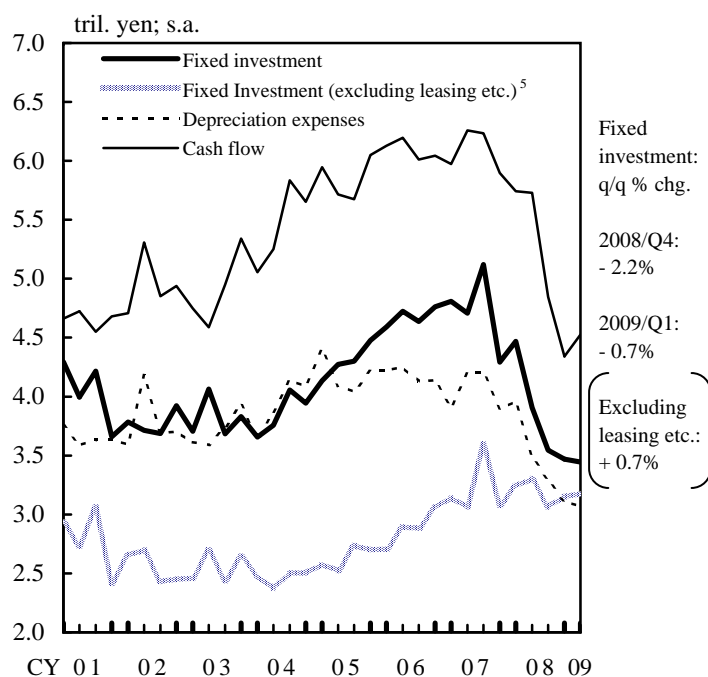
(1) Large Manufacturing Firms



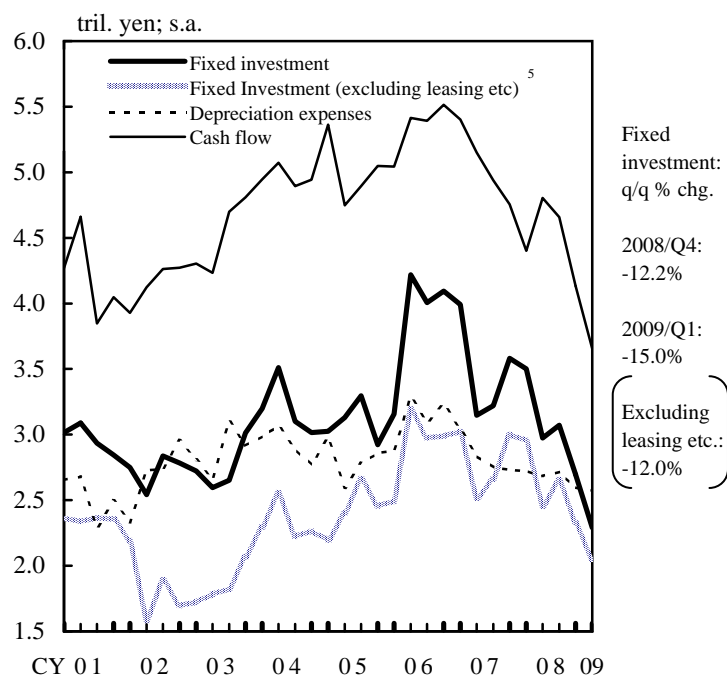
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



Notes: 1. "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.

2. Cash flow = current profits / 2 + depreciation expenses.

3. Seasonally adjusted by X-11.

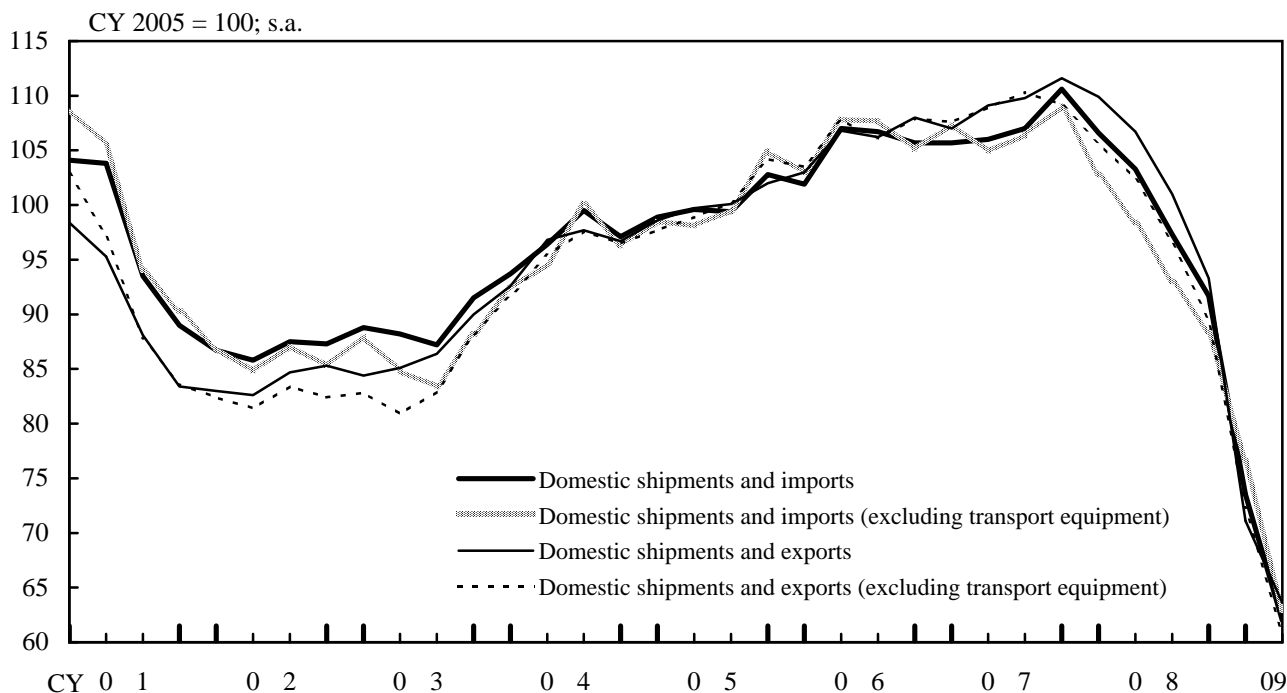
4. Excluding Finance and Insurance.

5. Up to 2004/1Q, excluding business services. From 2004/2Q, excluding leasing, miscellaneous rental and leasing goods, advertising, and miscellaneous business services.

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

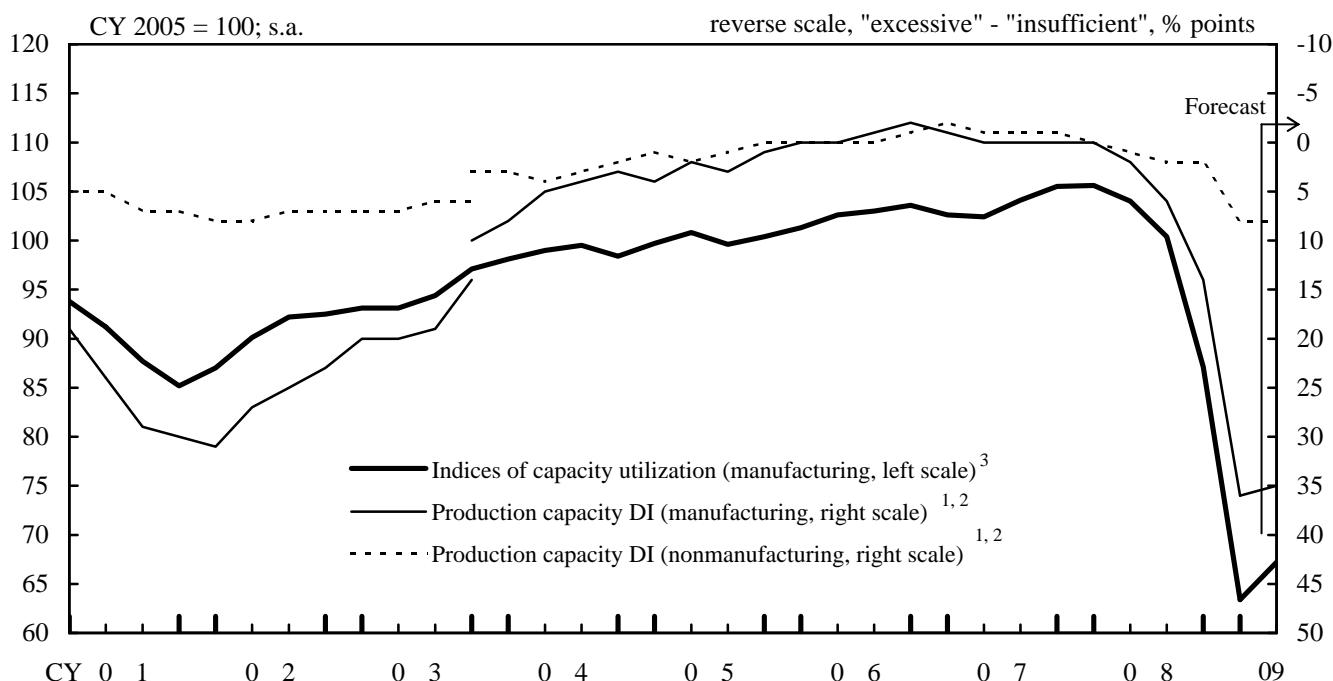
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2009/Q2 are those of April.

(2) Indices of Capacity Utilization and Production Capacity DI



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

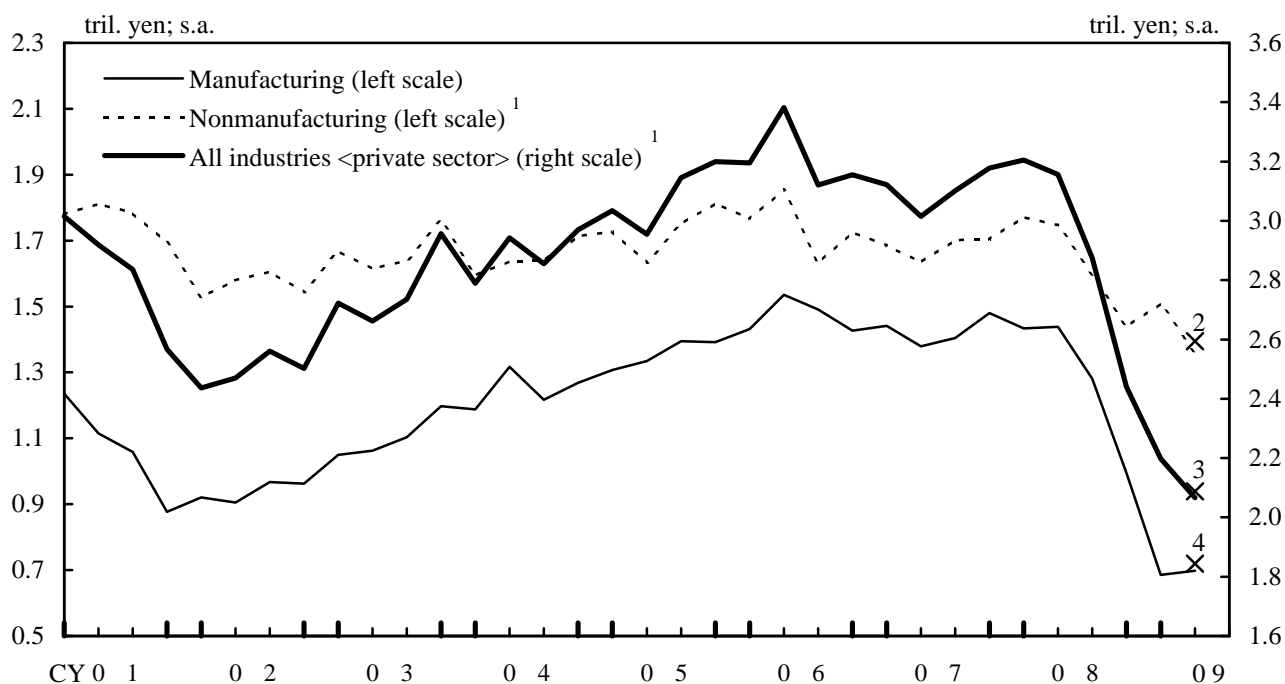
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2009/Q2 is April.

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.

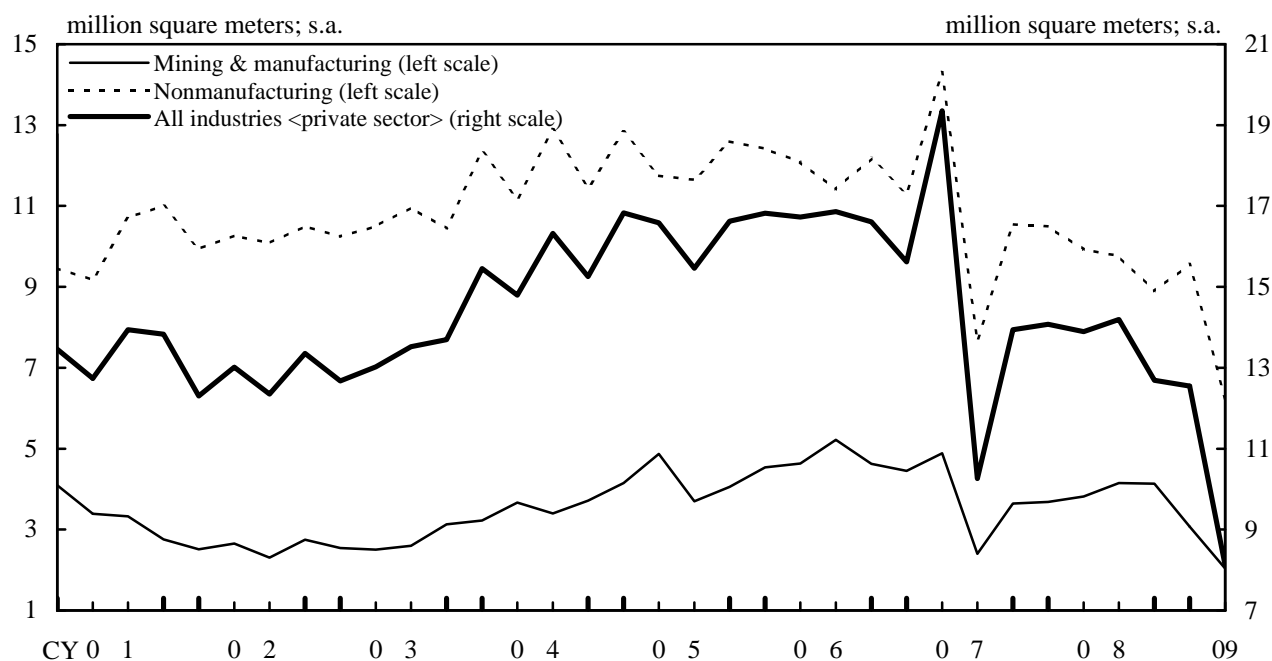
2. Forecast of nonmanufacturing industries for 2009/Q2.

3. Forecast of all industries <private sector> for 2009/Q2.

4. Forecast of manufacturing industries for 2009/Q2.

5. Figures for 2009/Q2 are those of April in terms of quarterly amount.

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



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

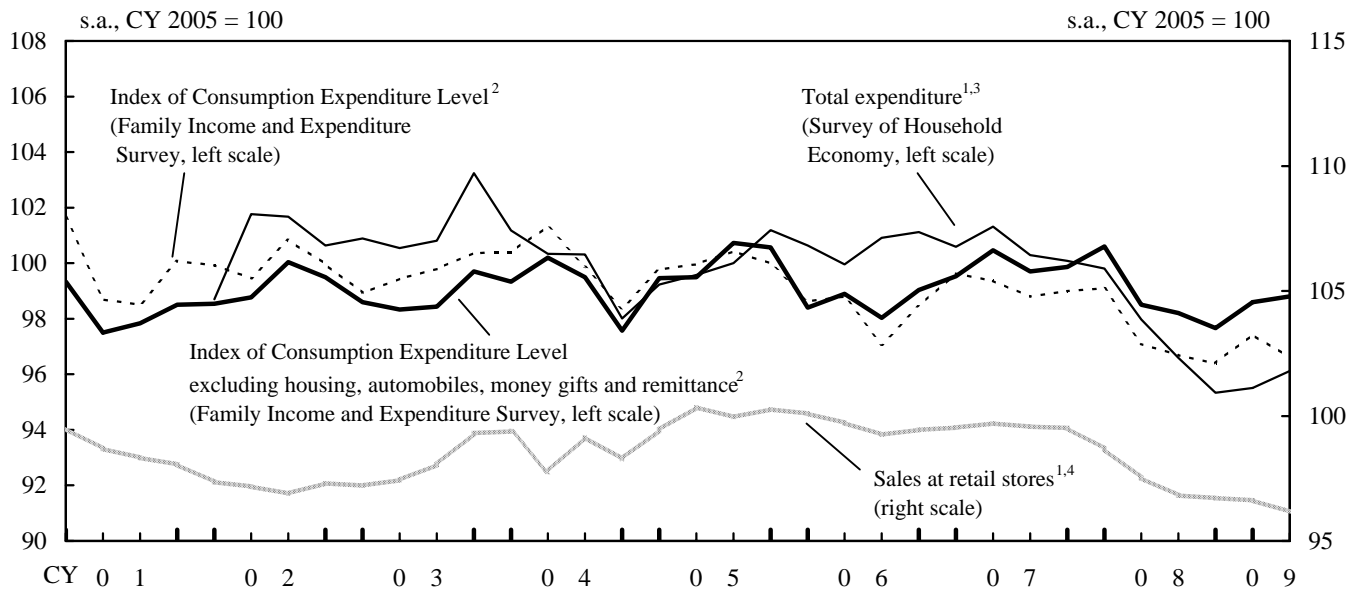
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

3. Figures for 2009/Q2 are those of April in terms of quarterly amount.

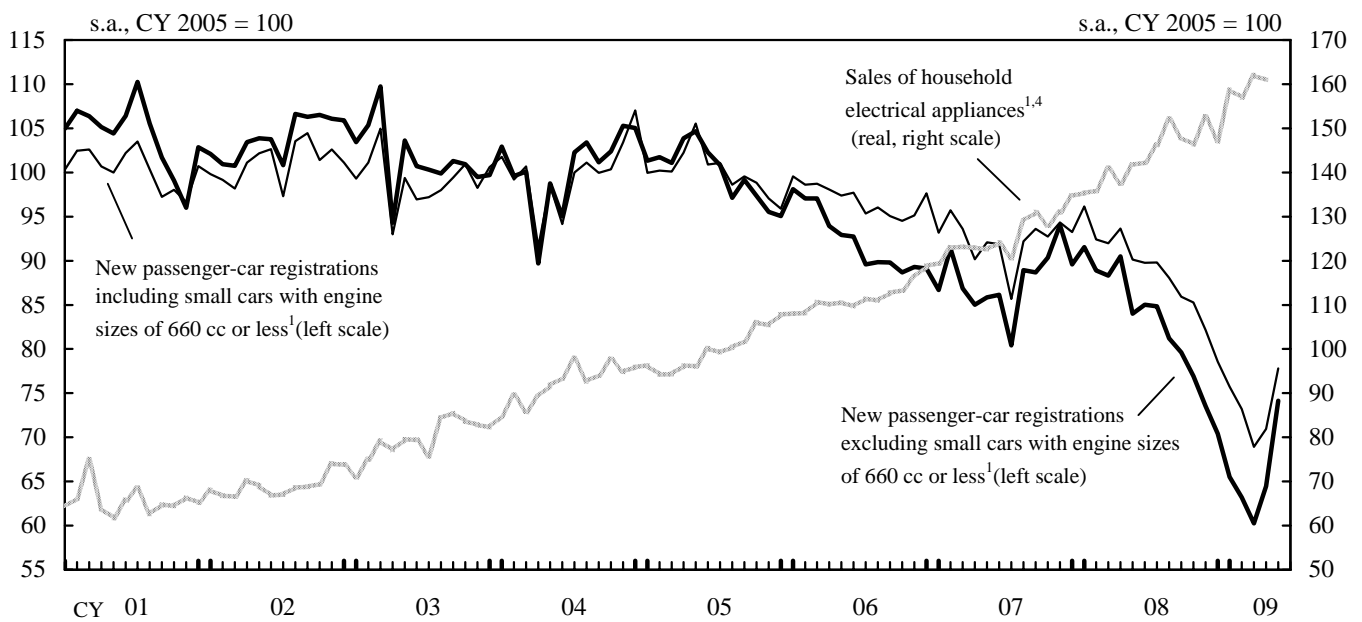
Sources: Cabinet Office, "Orders Received for Machinery";

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

Indicators for Private Consumption (1)

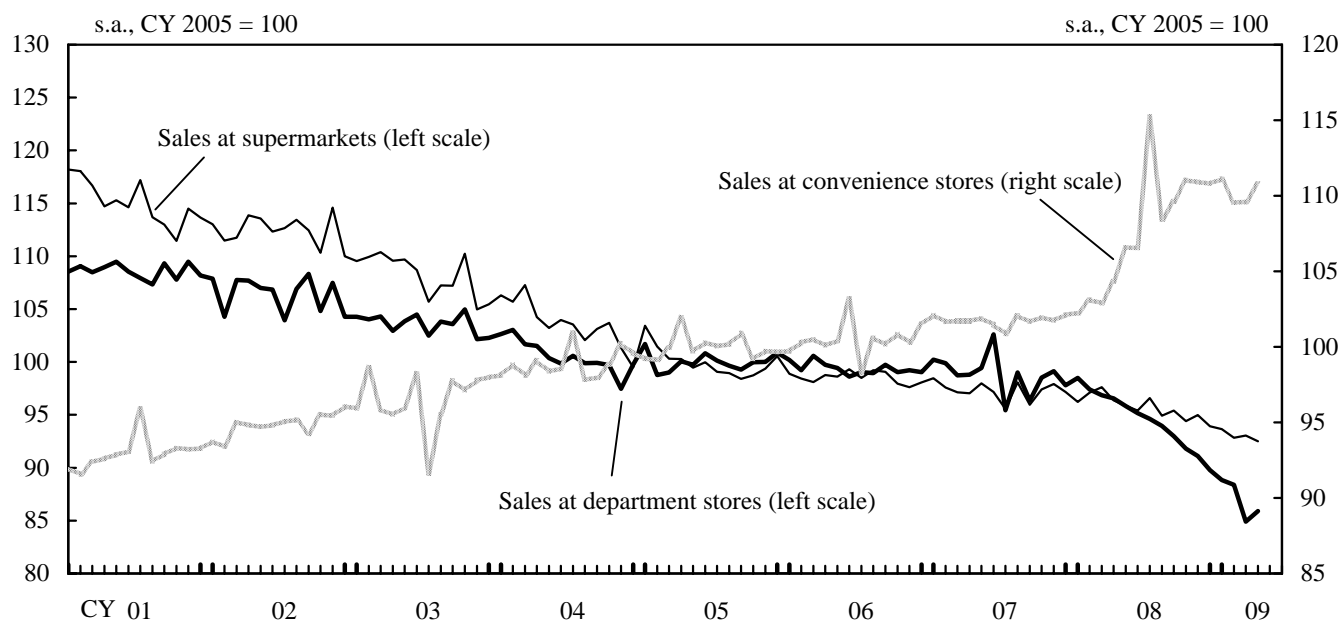
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

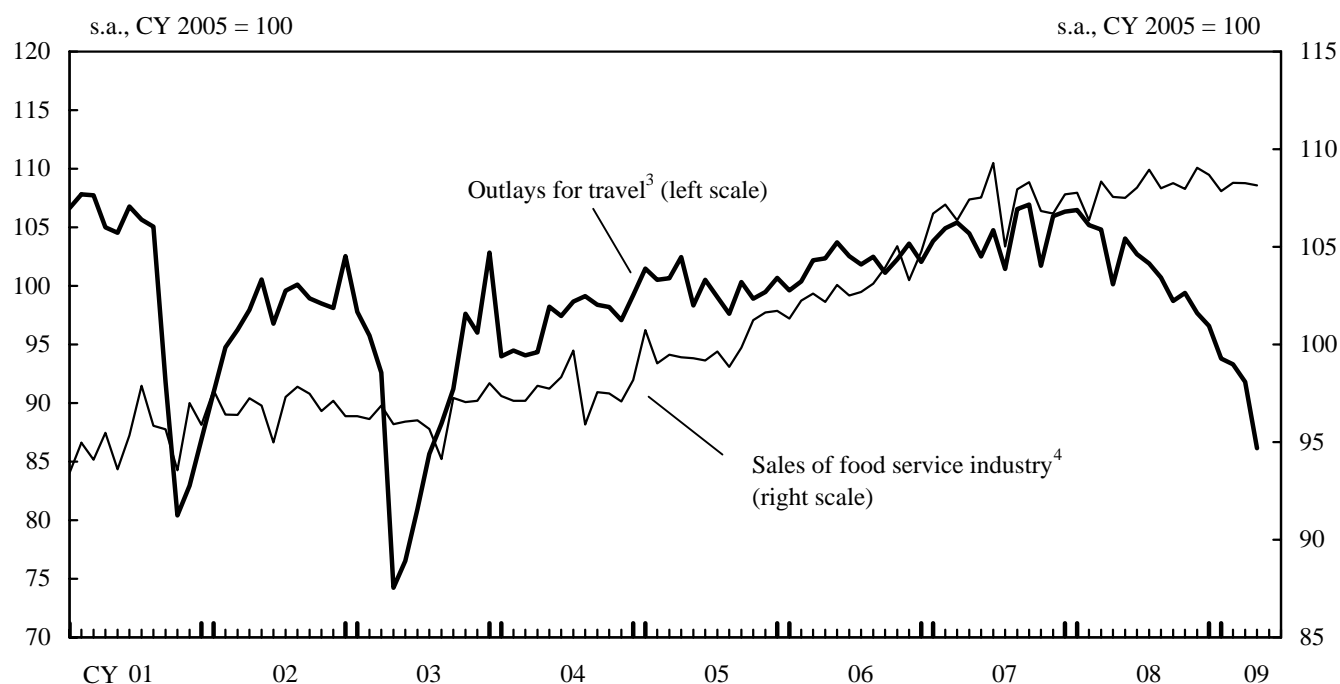


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household by number of household members and age group of household head.
3. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.
4. 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: indices of retail sales of machinery and equipment in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the corporate goods price index for PC printers before 2002).
5. Figures for 2009/Q2 are those of April in terms of quarterly amount.

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, "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 effects 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";

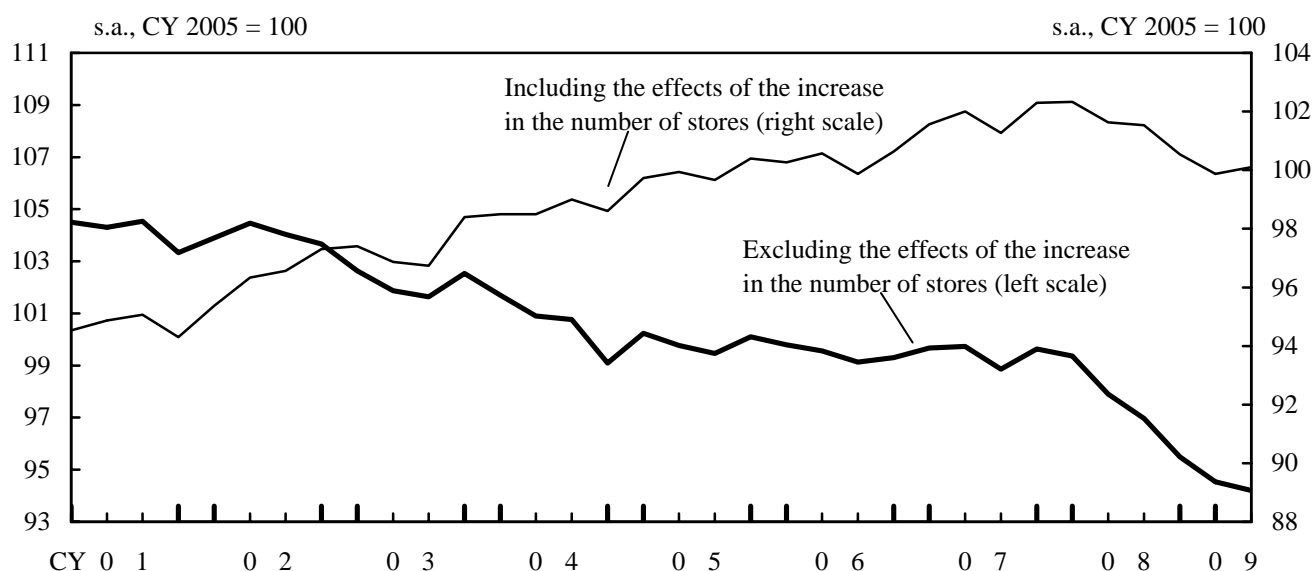
Japan Tourism Agency, "Major Travel Agents' Revenue";

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

(Research on the Food Service Industry)."

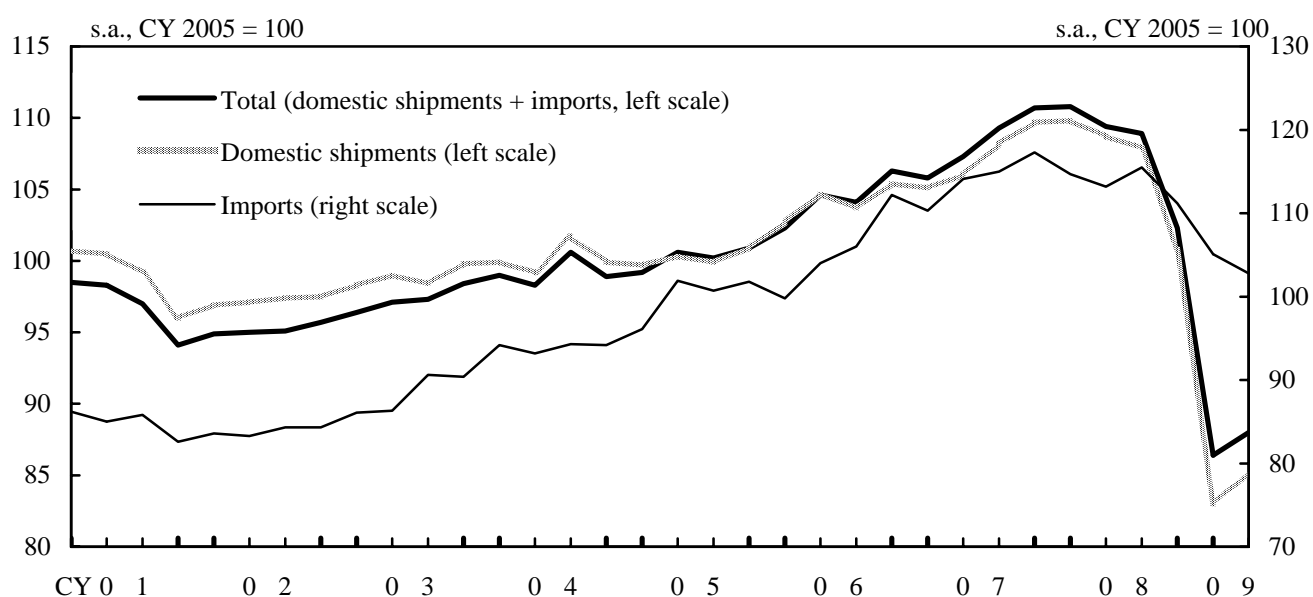
Indicators for Private Consumption (3)

(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 2009/Q2 figures are those of April in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

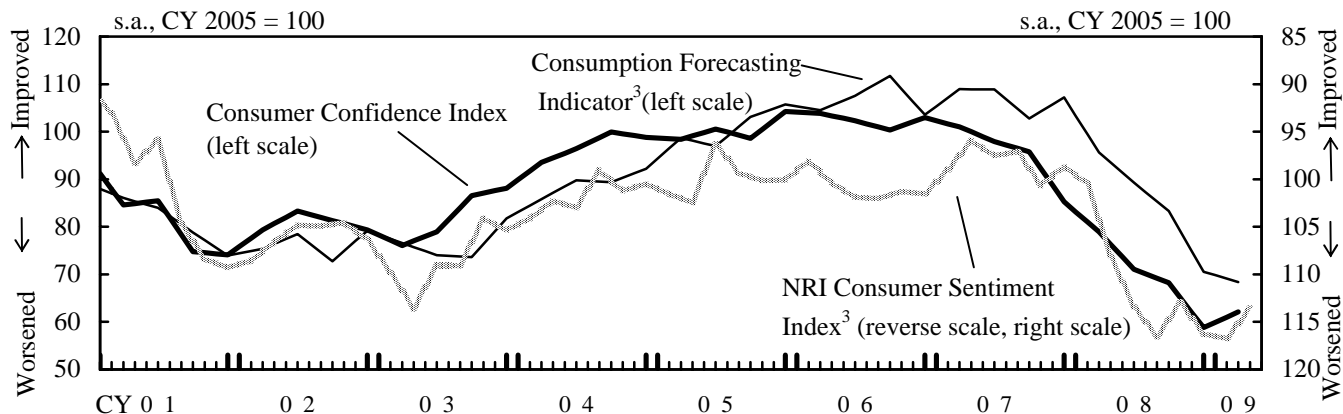


Note: Data for 2009/Q2 figures are those of April in terms of quarterly amount.

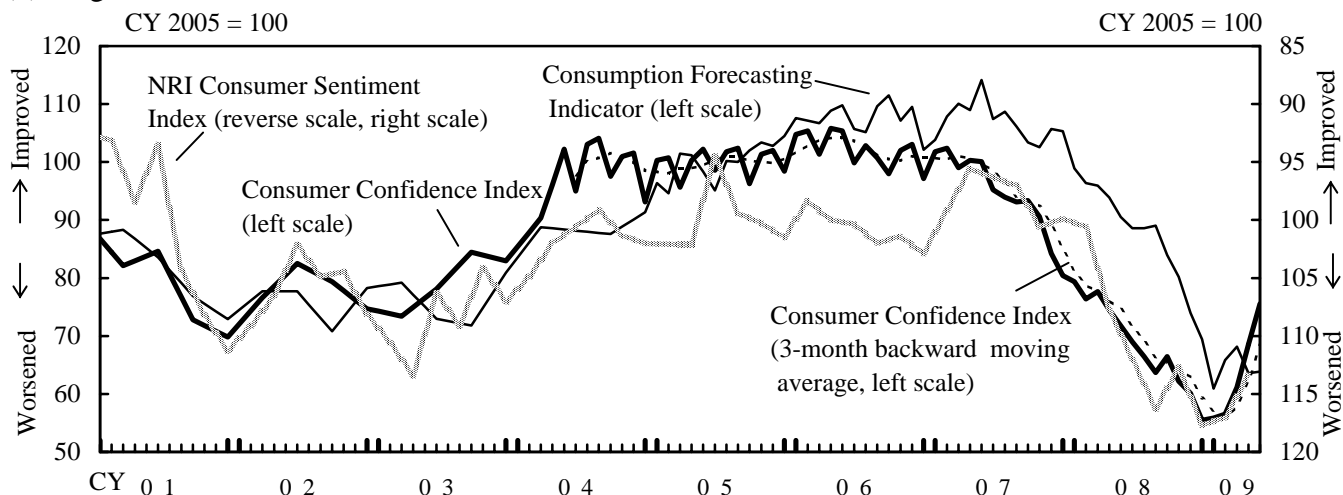
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

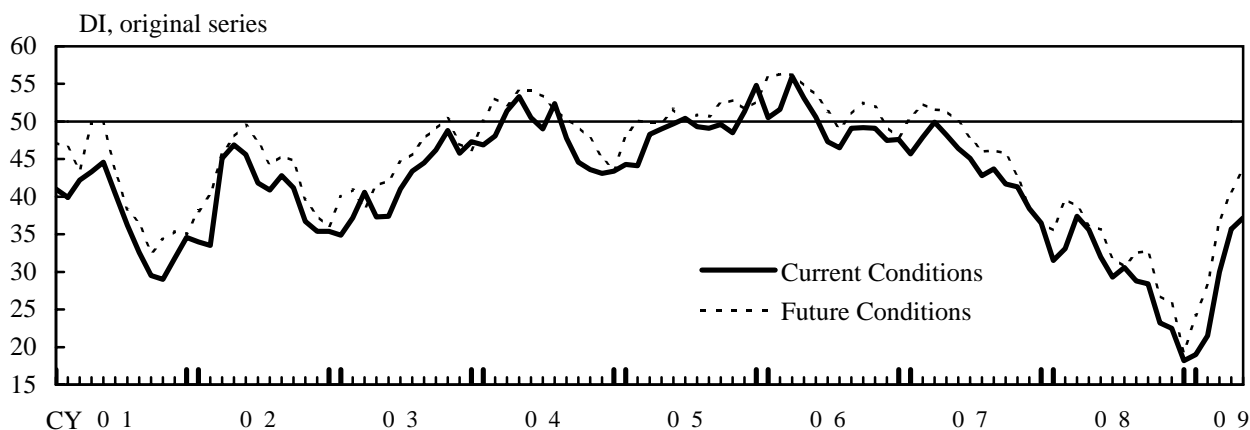
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

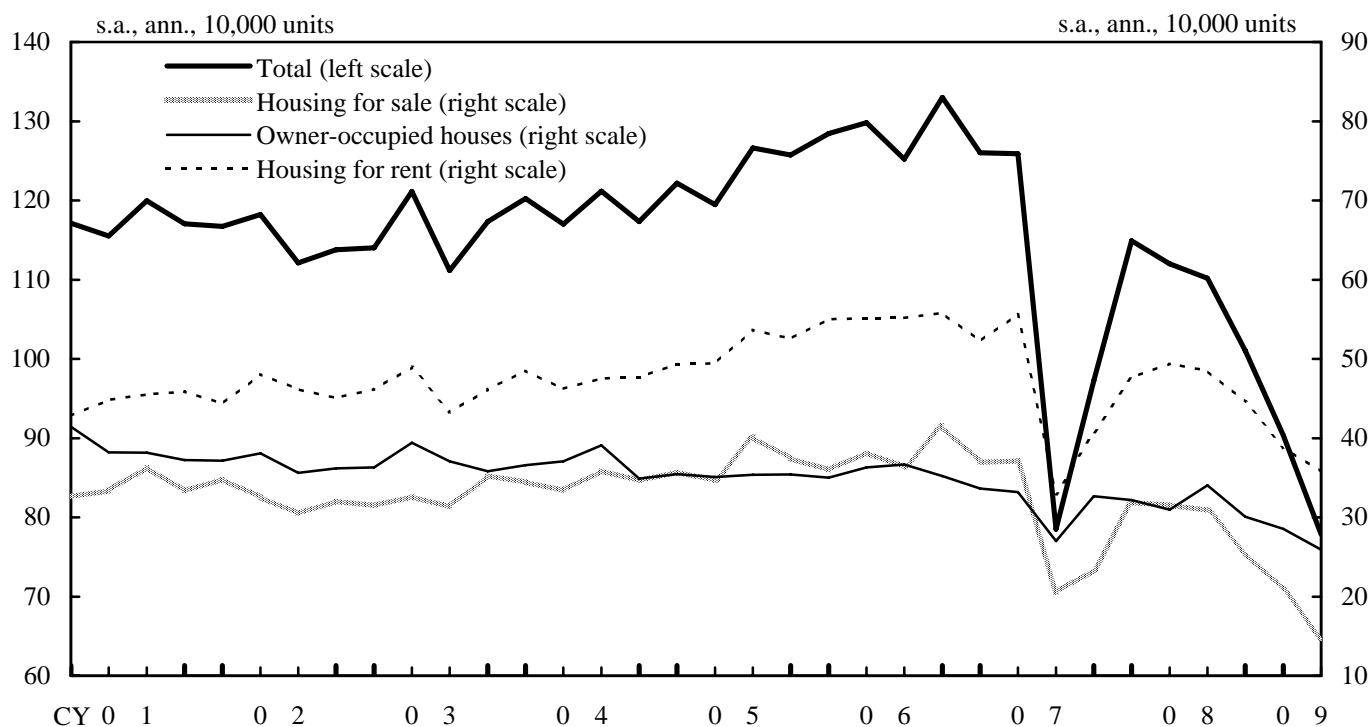


- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures are plotted for each surveyed months and the data for intervening months are linearly interpolated.
3. Figures are seasonally adjusted by X-12-ARIMA. 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."

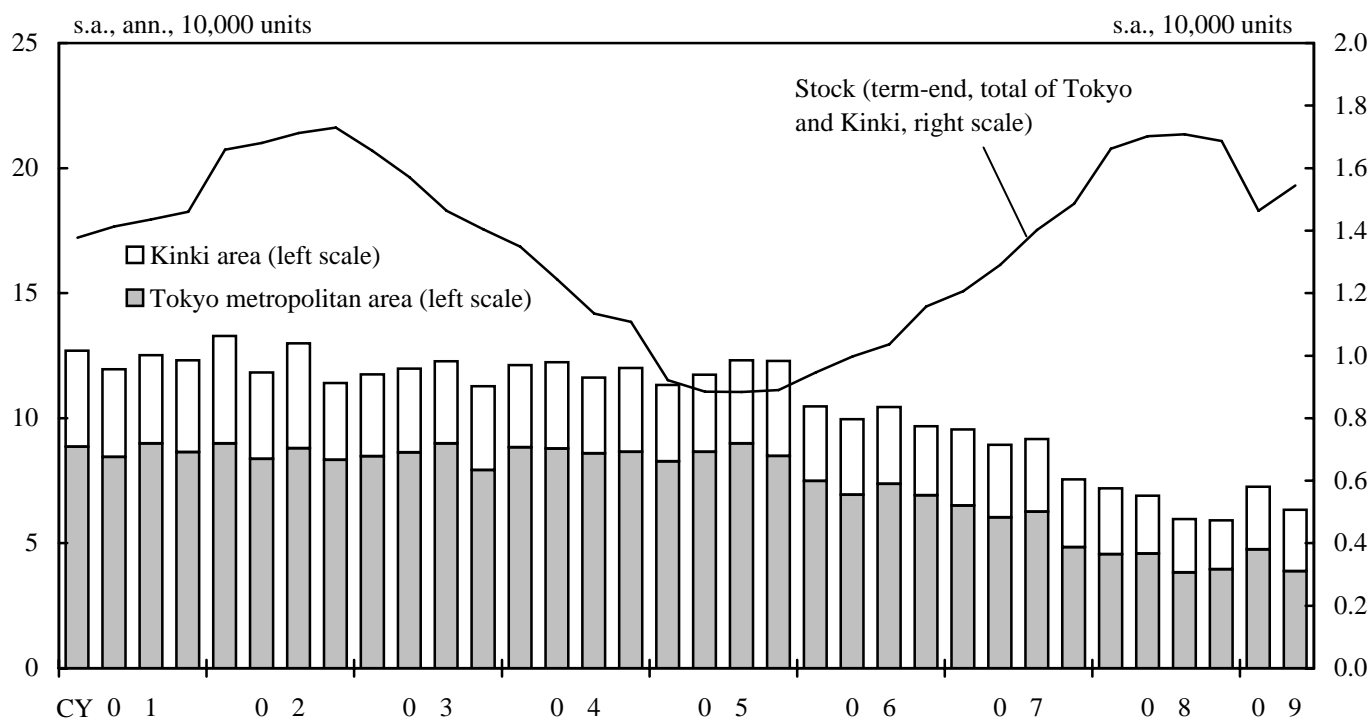
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2009/Q2 are those of April.

(2) Sales of Apartments

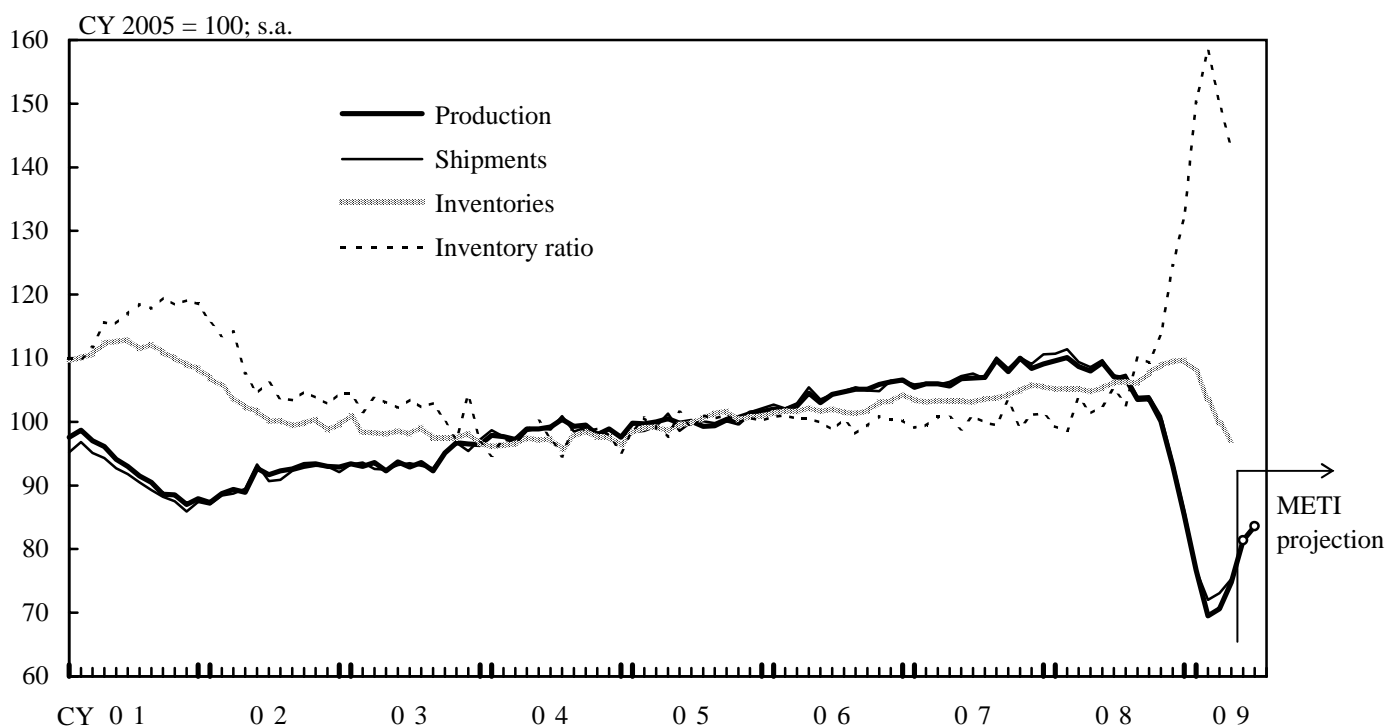


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2009/Q2 are those of April.

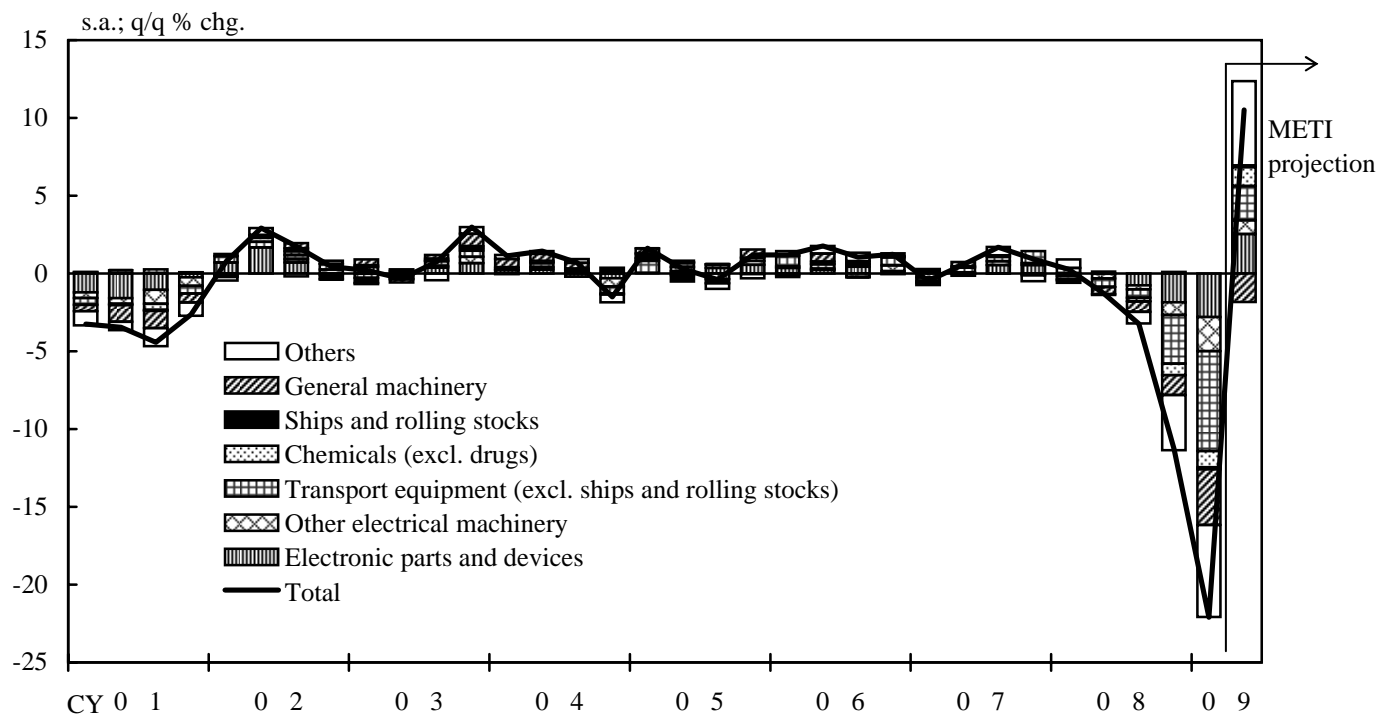
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

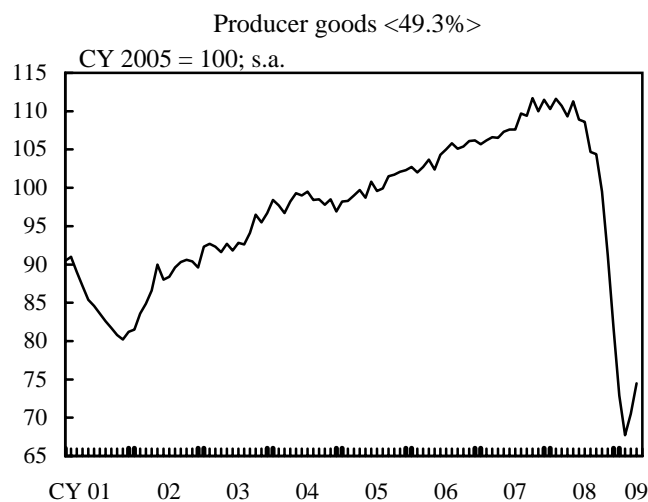
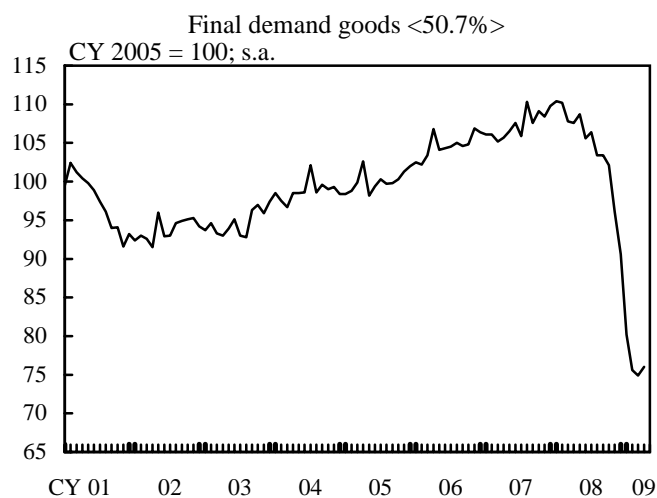


- Notes:
- "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 - Figures up to 2003/Q1 are on the 2000 base.
 - 2009/Q2 figures are based on the actual production level in April, and the METI projection of May and June.

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

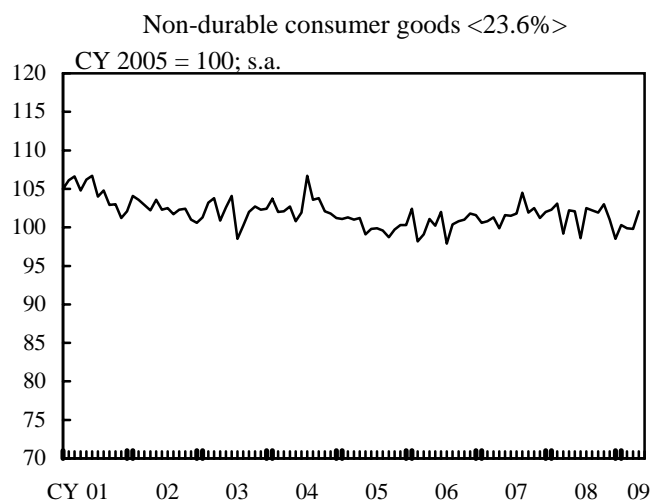
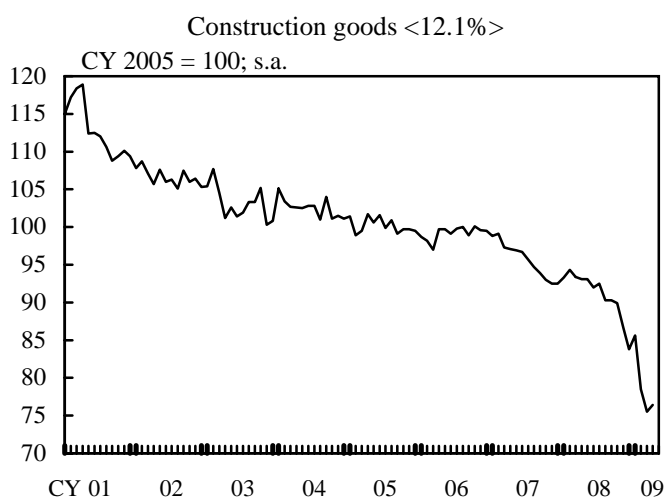
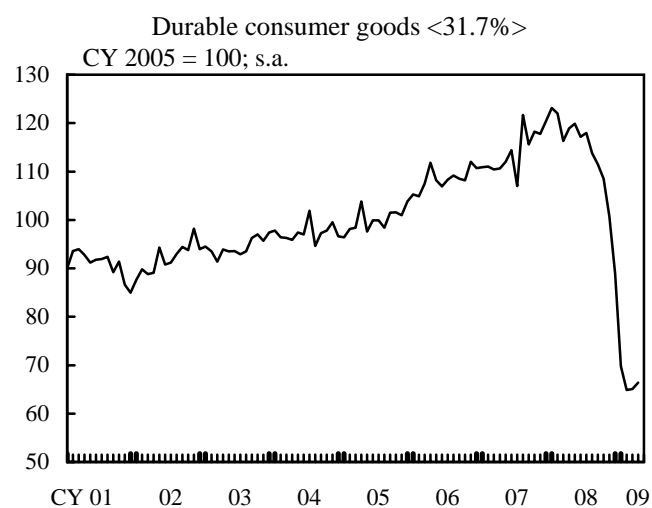
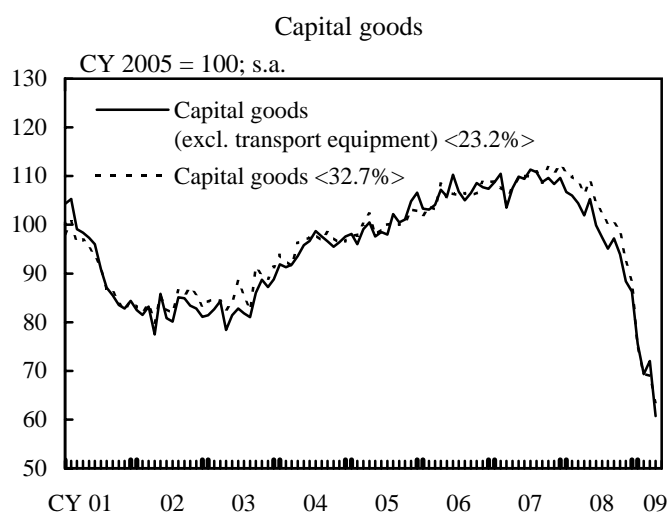
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

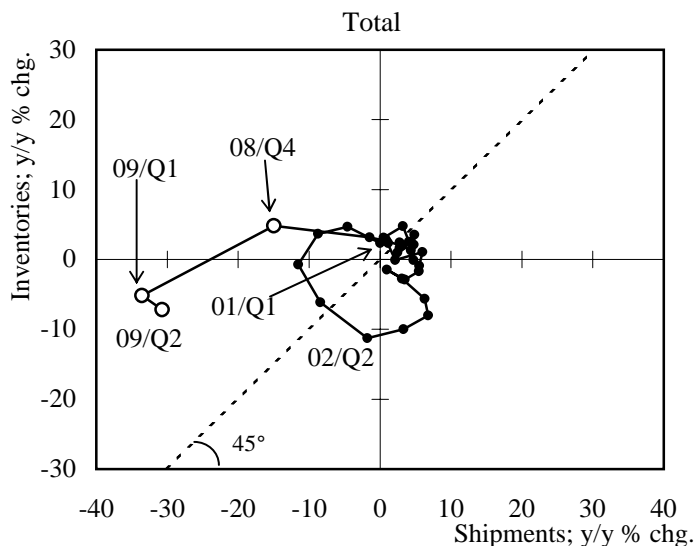
(2) Breakdown of Final Demand Goods



Note: Figures in angle brackets show the shares among shipments of final demand goods.

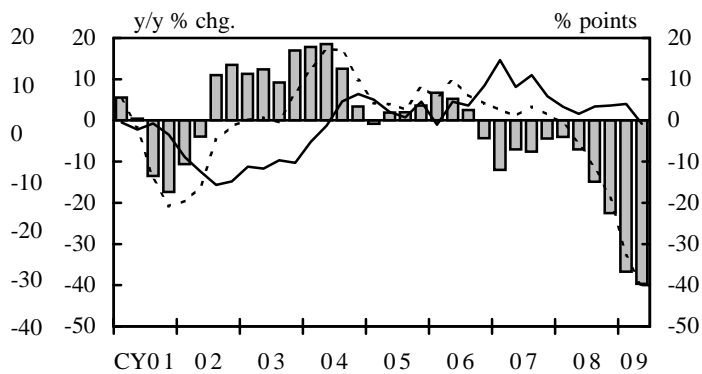
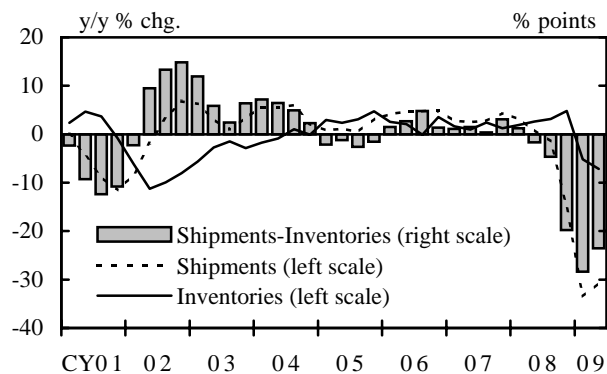
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



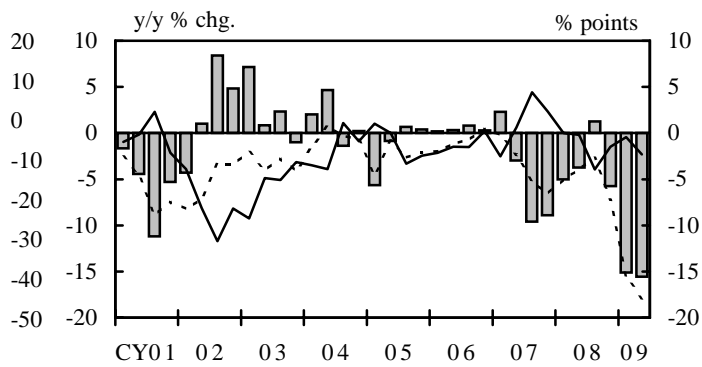
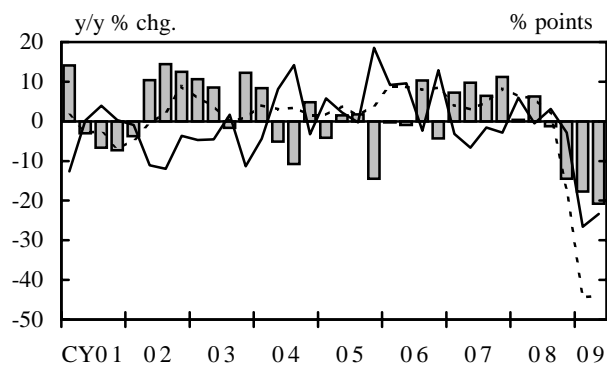
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



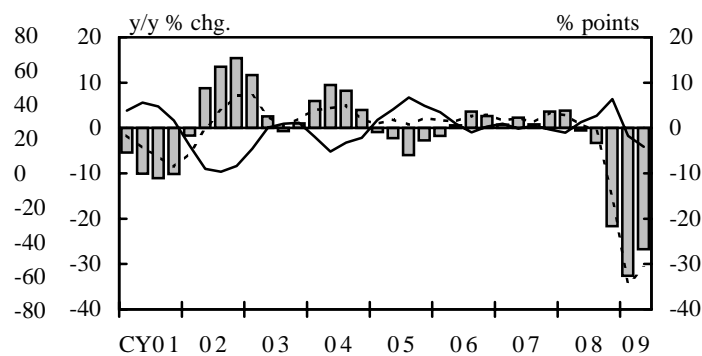
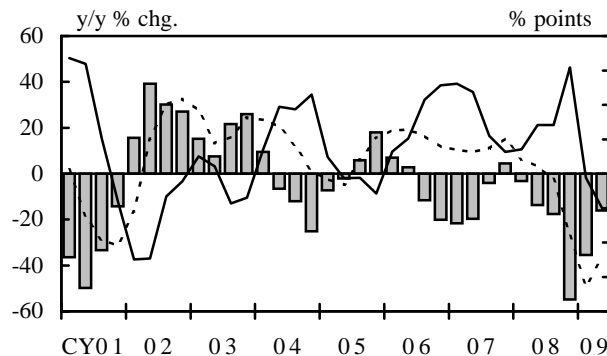
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

(6) Producer Goods Excluding Electronic Parts and Devices

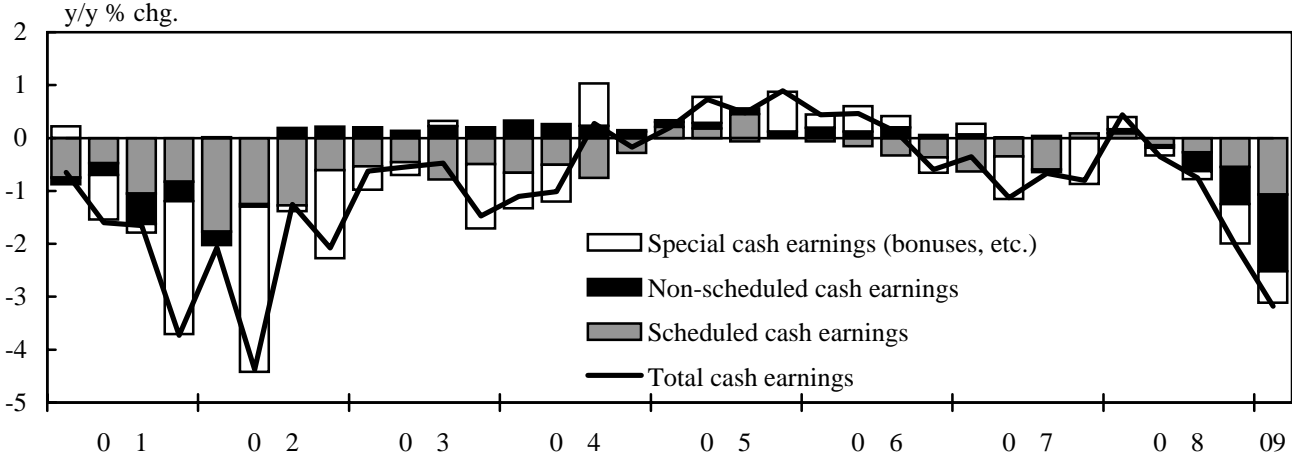


Note: Figures for 2009/Q2 are those of April.

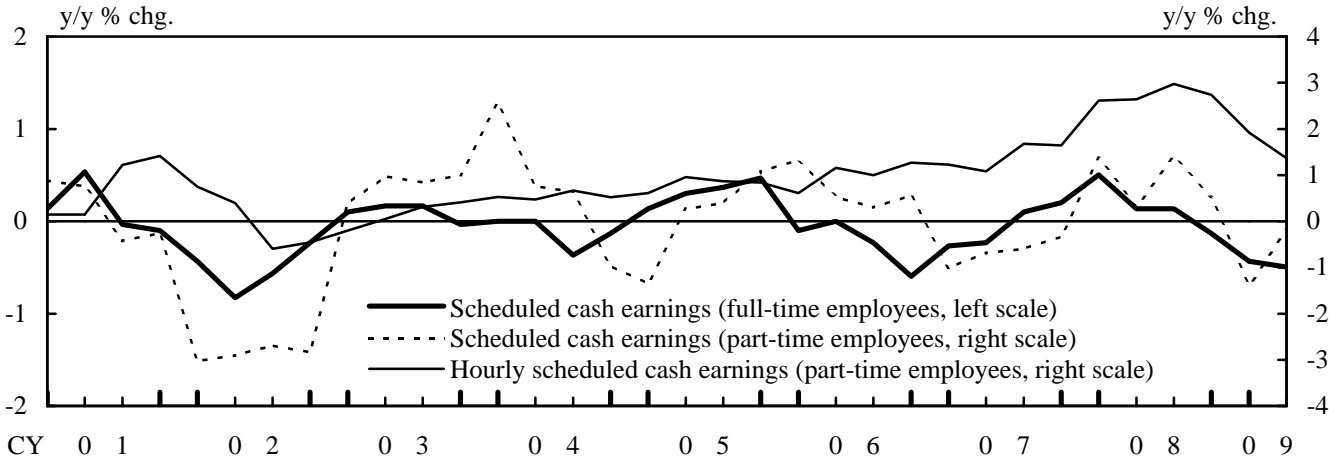
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

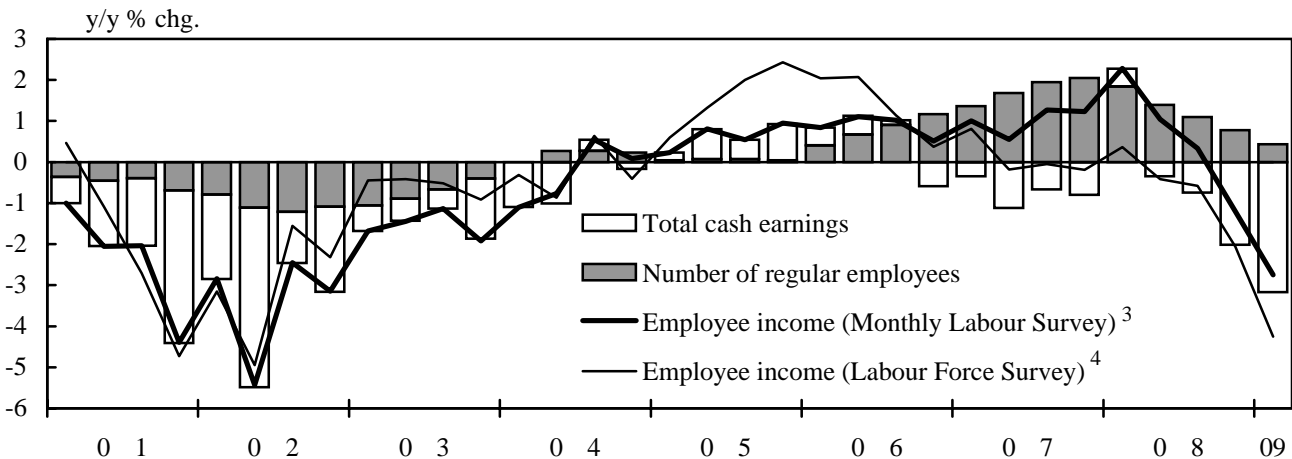
(1) Breakdown of Total Cash Earnings^{1,2,5}



(2) Scheduled Cash Earnings^{1,6}



(3) Breakdown of Employee Income^{1,2,5}

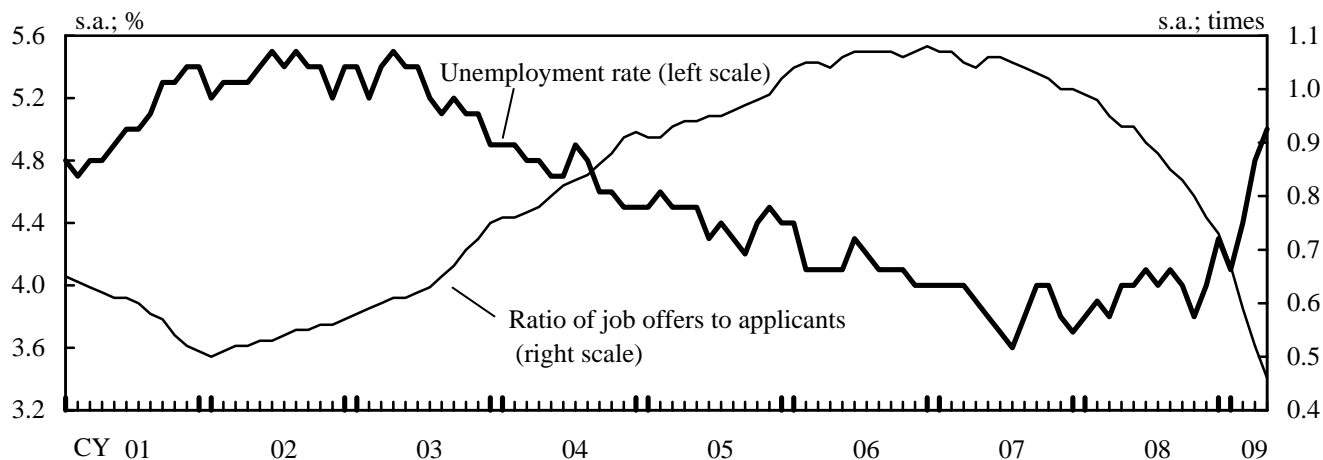


Notes: 1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).
 4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).
 5. Figures for 2009/Q1 are those of March-April averages.
 6. Figures for 2009/Q2 are those of April.

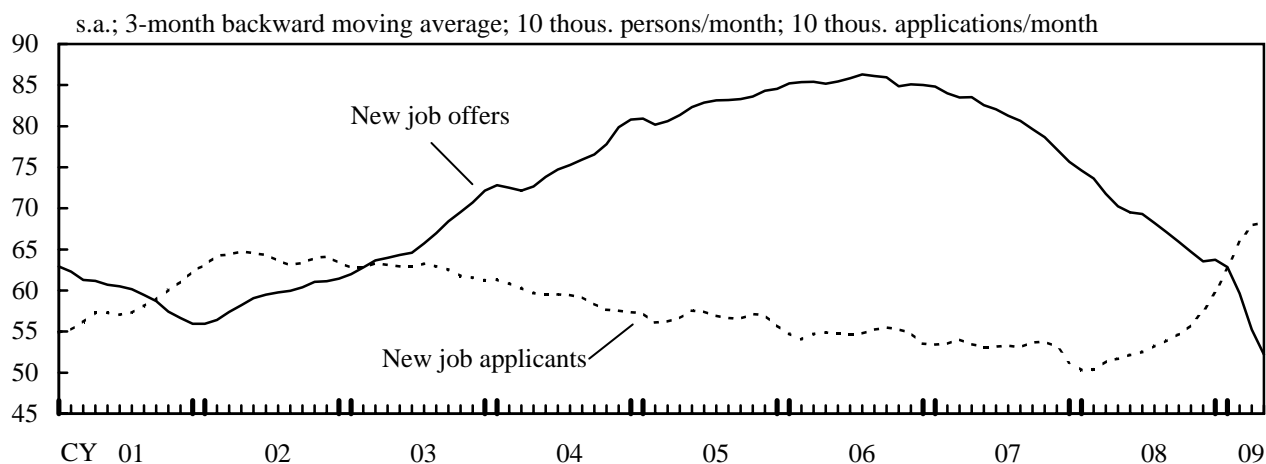
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (1)

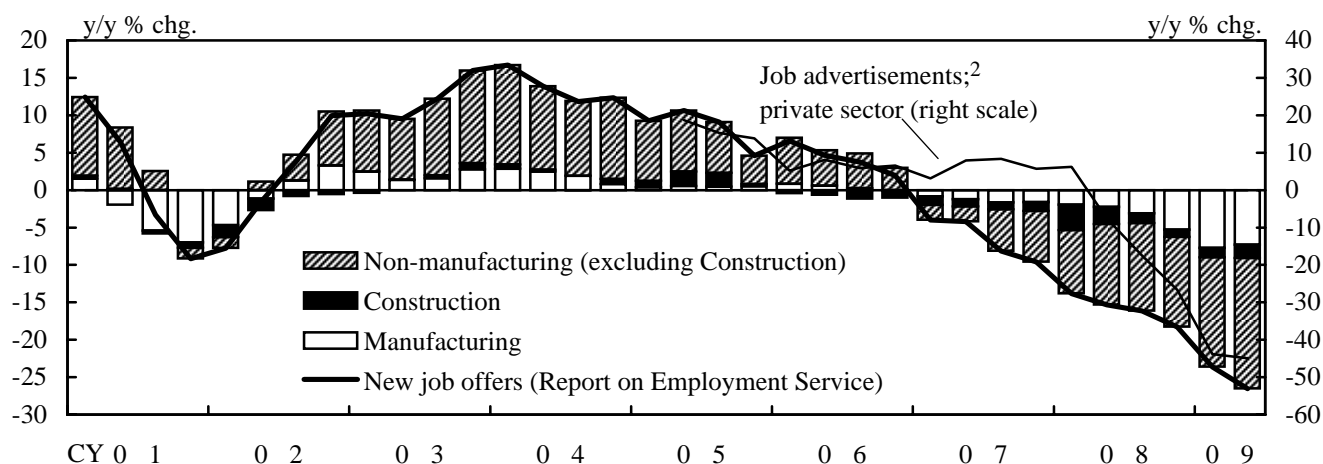
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



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

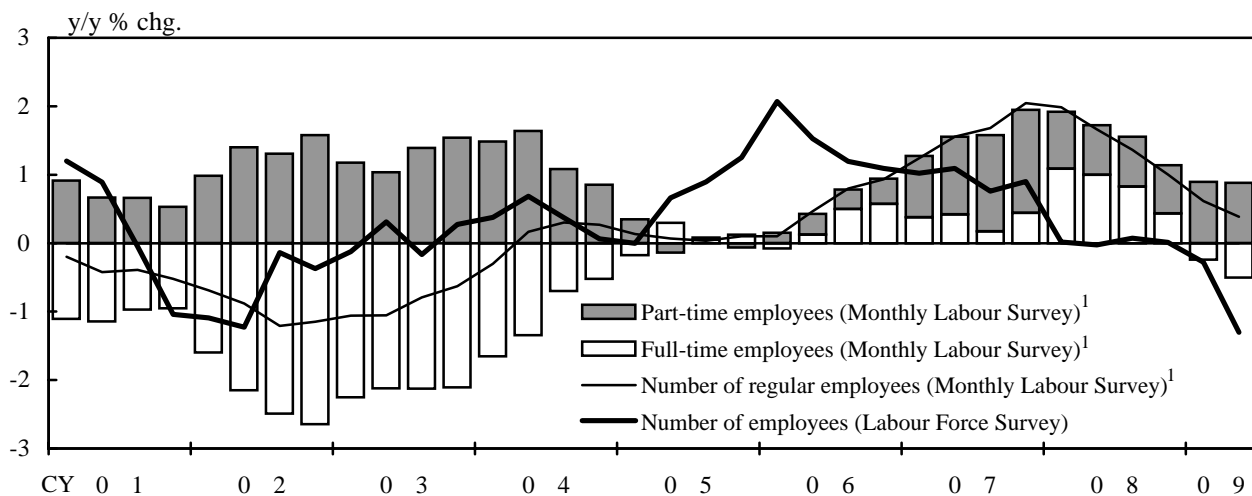


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
- 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.
- 3. Figures for 2009/Q2 are those of April.

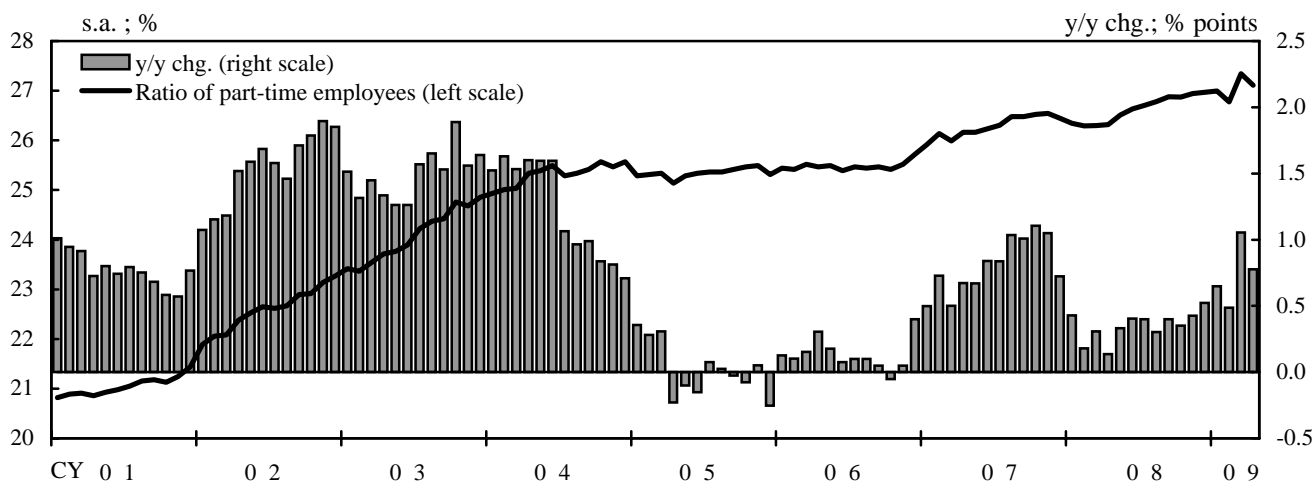
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

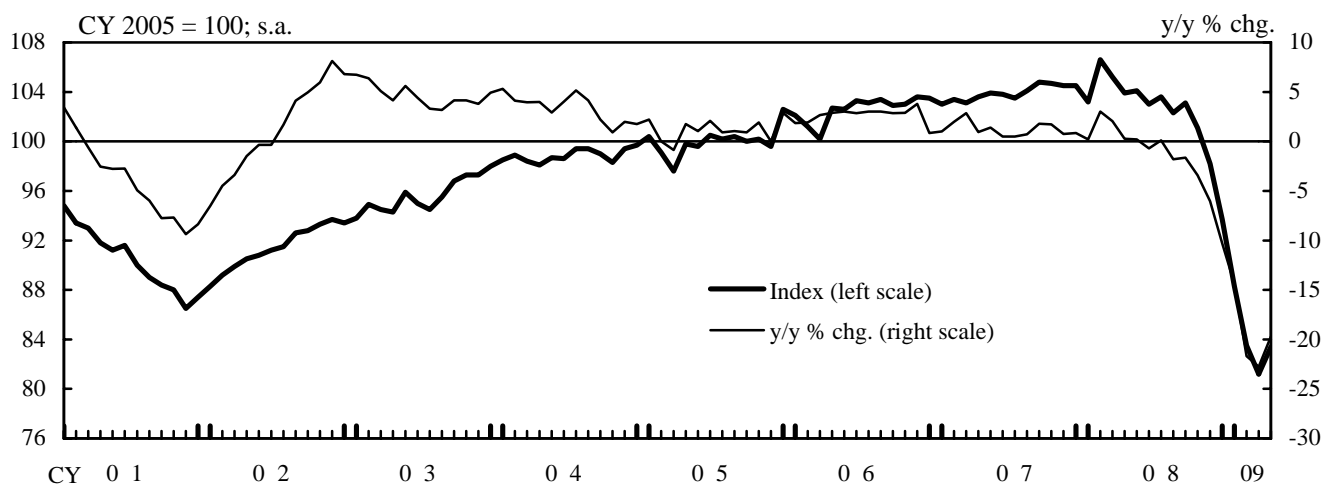
(1) Number of Employees³



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



(3) Non Scheduled Hours Worked¹



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

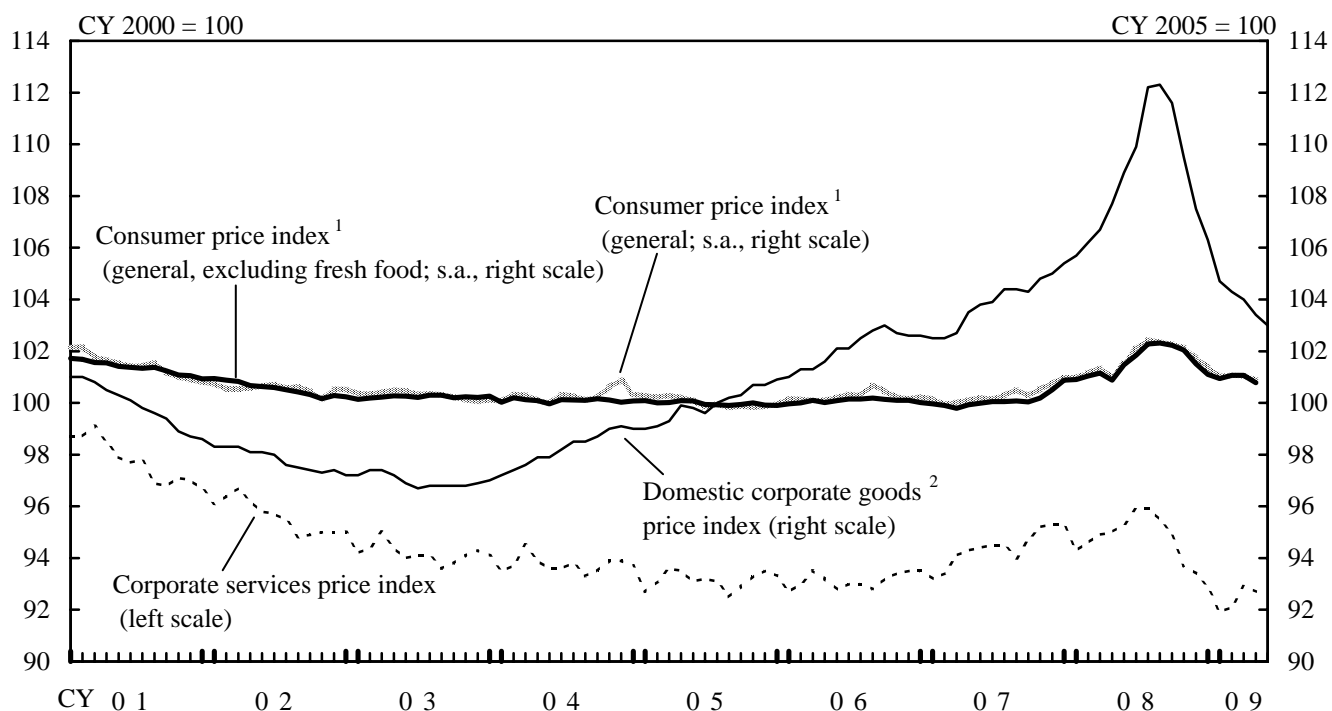
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2009/Q2 are those of April.

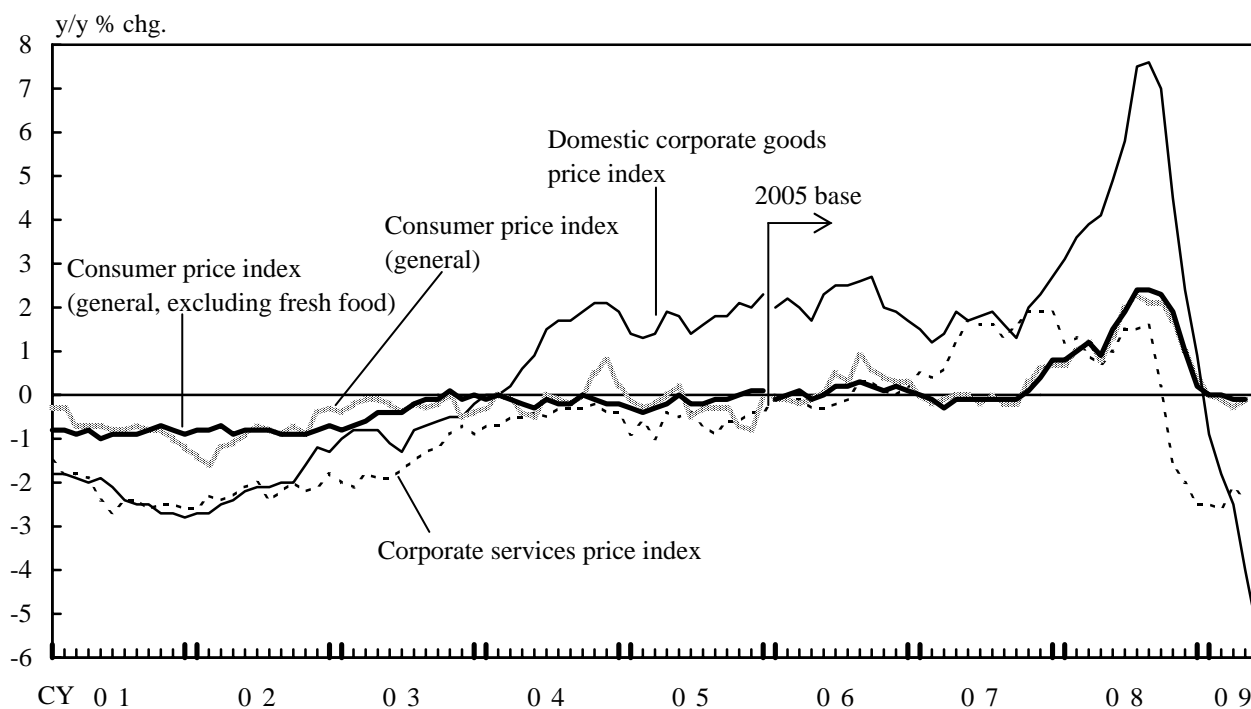
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier³



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

2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

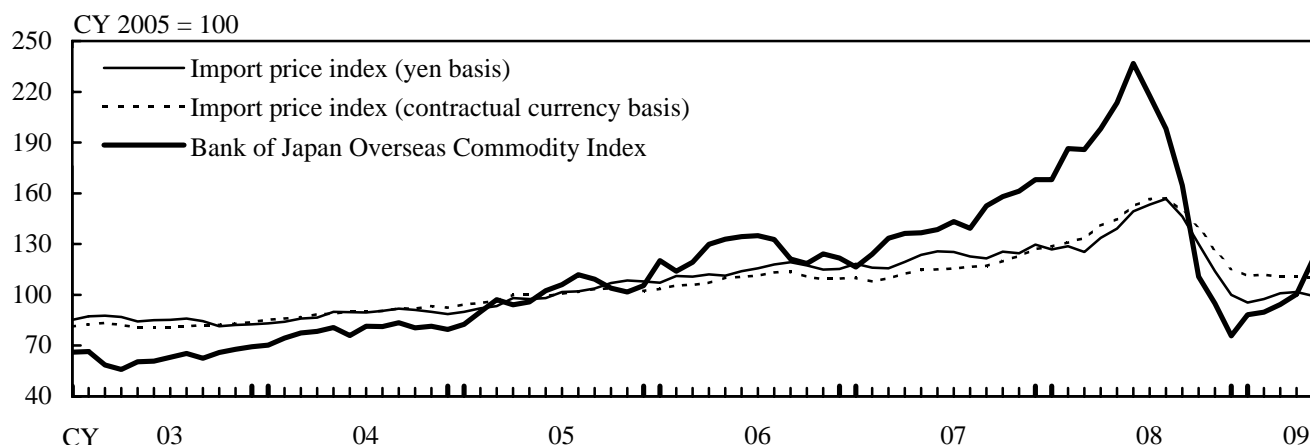
3. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

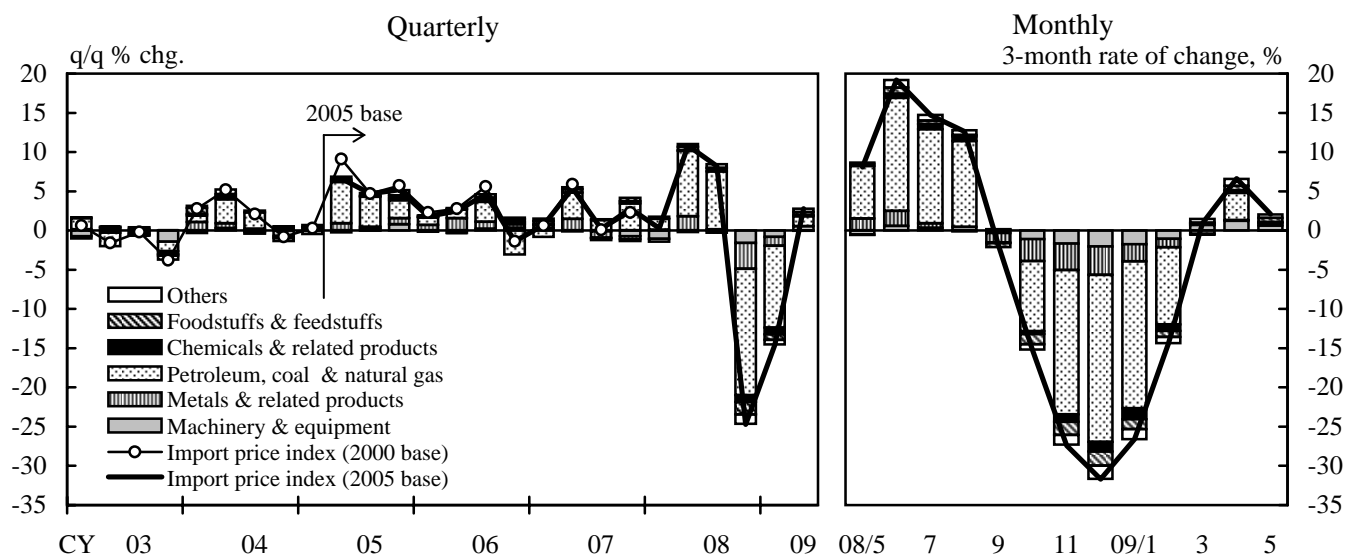
Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



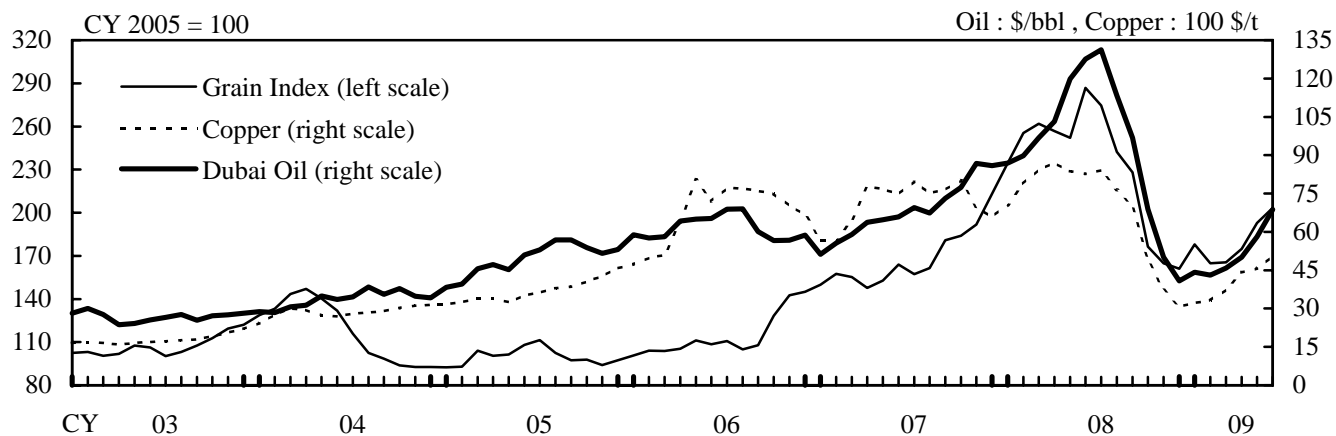
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments.

2. Figures for 2009/Q2 are April-May averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices



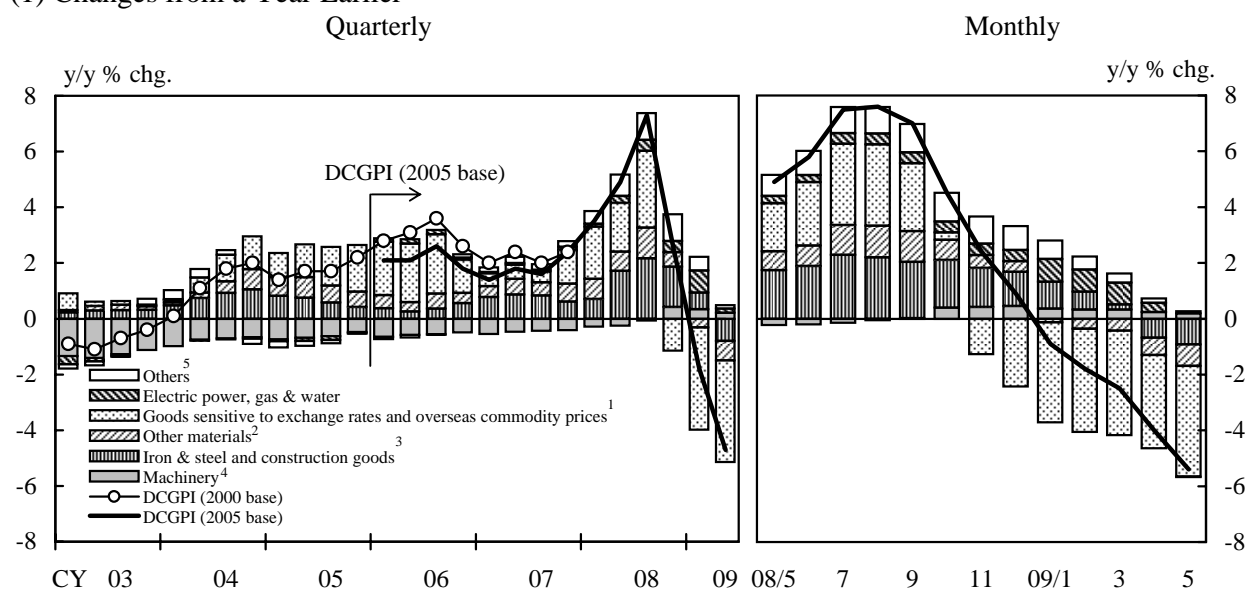
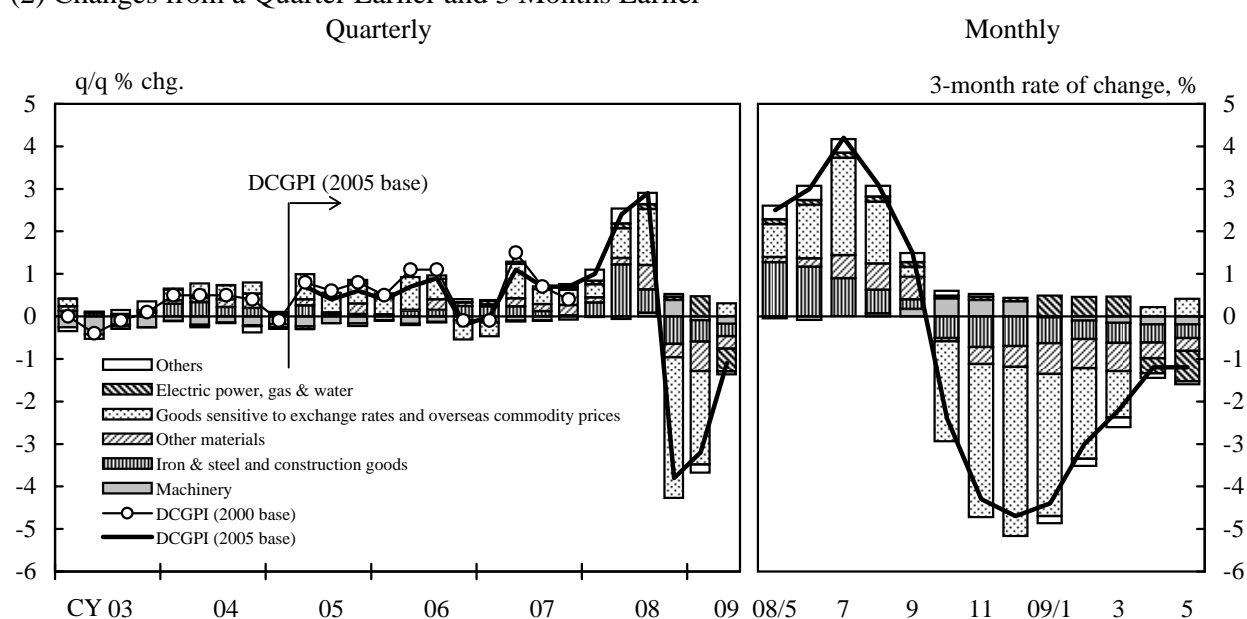
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for June 2009 are the averages up to June 15.

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

Domestic Corporate Goods Price Index⁷

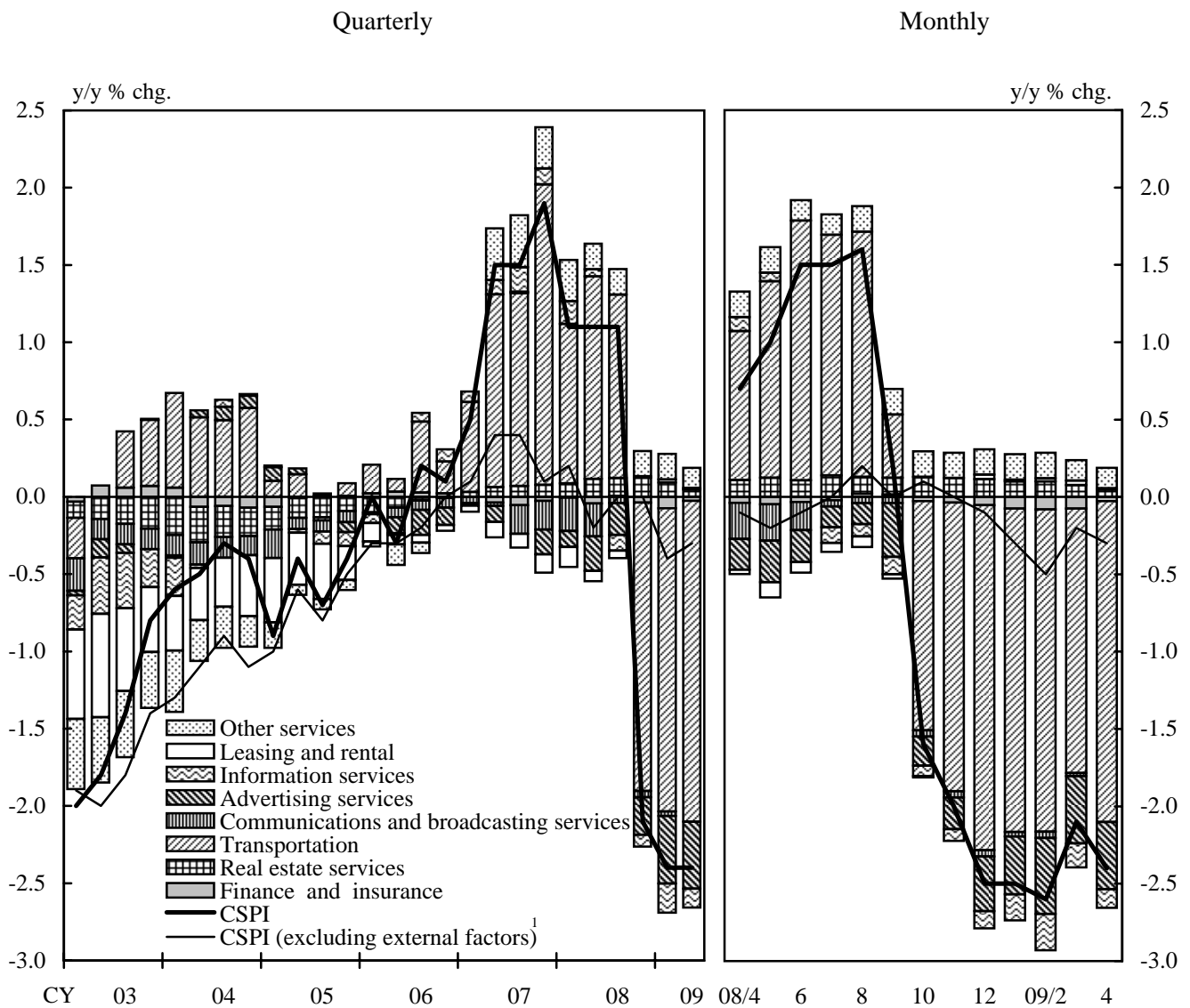
(1) Changes from a Year Earlier

(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 & related products, 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 & equipment, information & communications equipment, electronic components & devices, general machinery & equipment, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agriculture, forestry & fishery products, minerals.
6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
7. Figures for 2009/Q2 are April-May averages. Figures for 2007/Q4 on the 2000 base are those of October.

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

Corporate Services Price Index

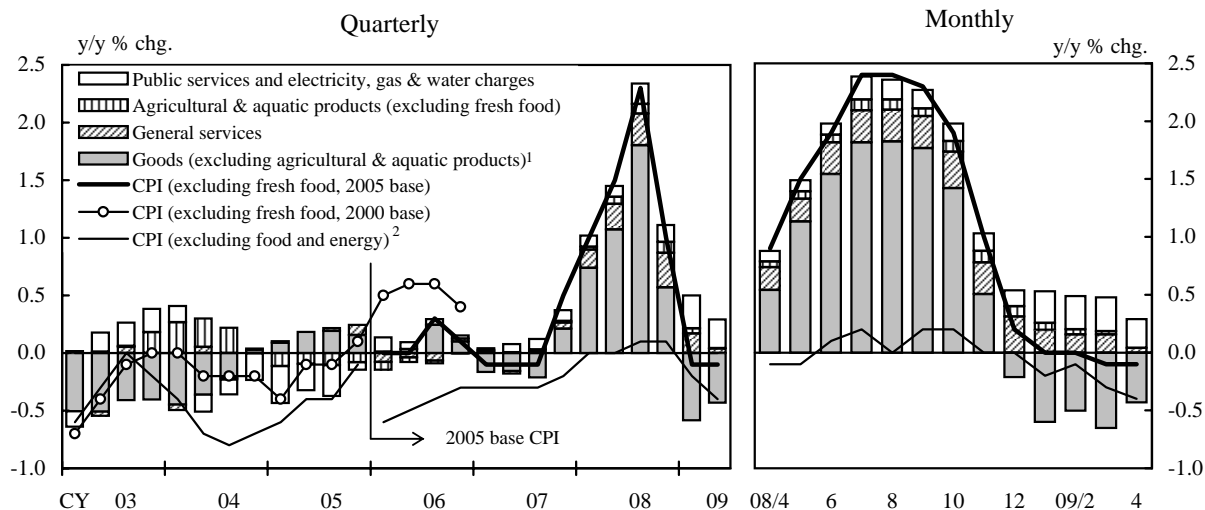


- Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures of components indicate contributions to changes in CSPI.
 3. Figures for 2009/Q2 are those of April.

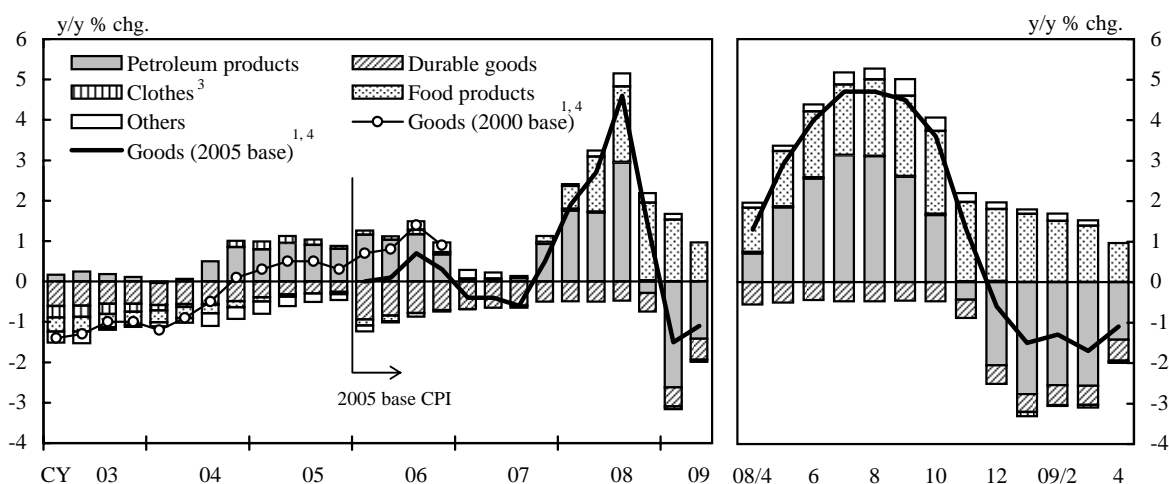
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

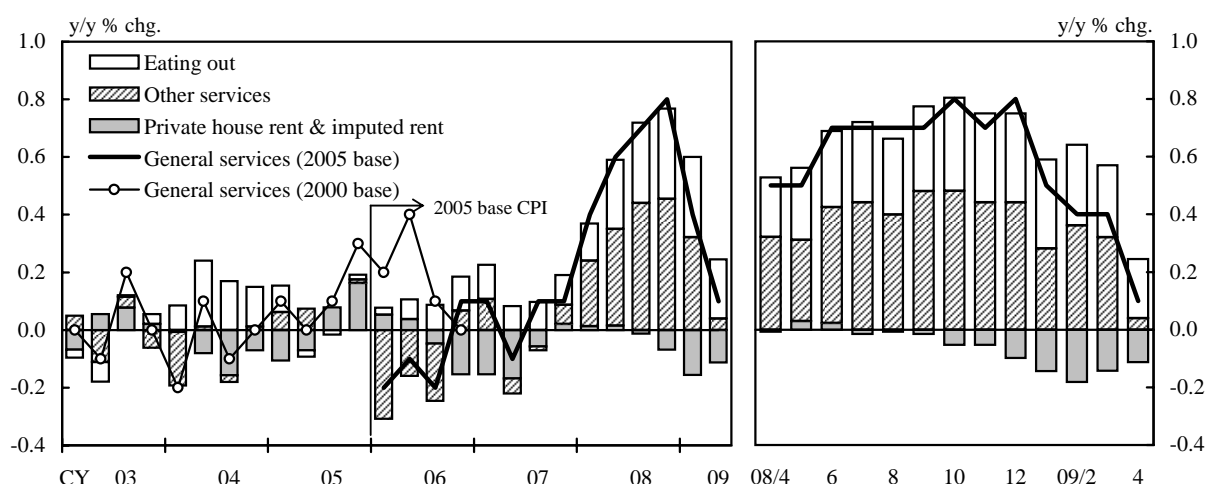
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

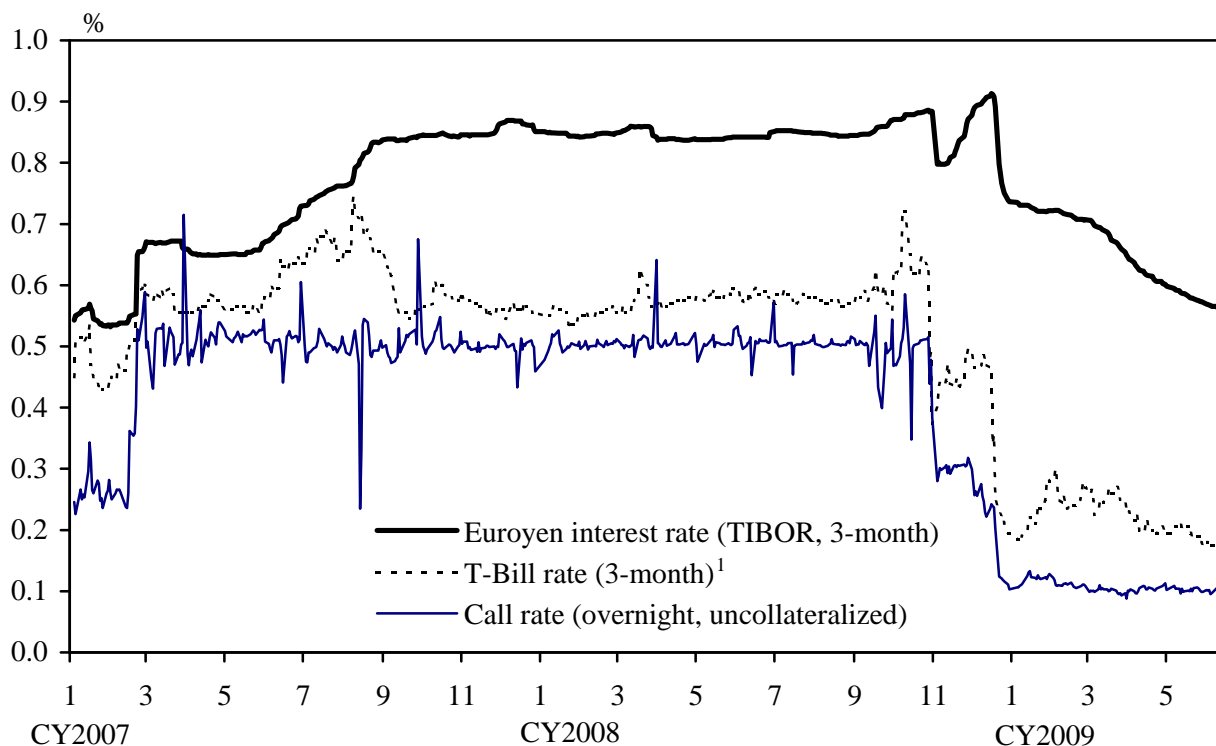


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.
 3. Including shirts, sweaters & underwear.
 4. Excluding agricultural & aquatic products.
 5. Figures for 2009/Q2 are those of April.

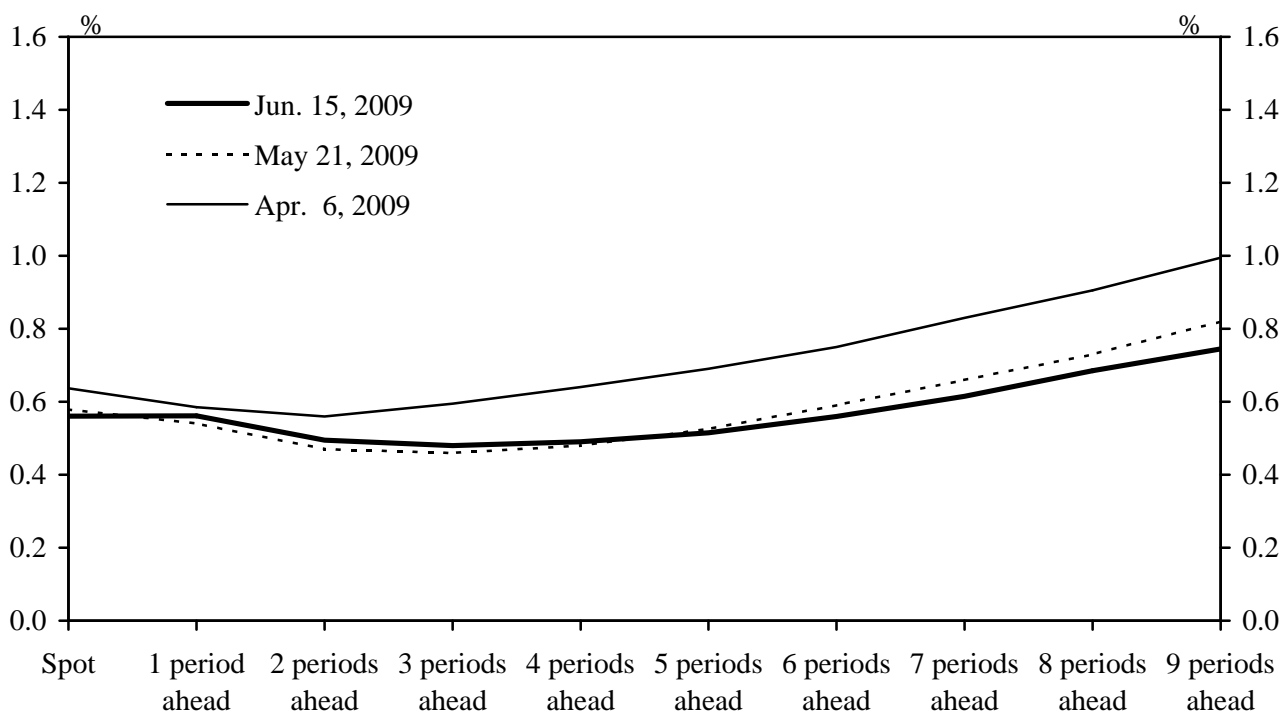
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



(2) Euroyen Interest Rate Futures (3-Month)²



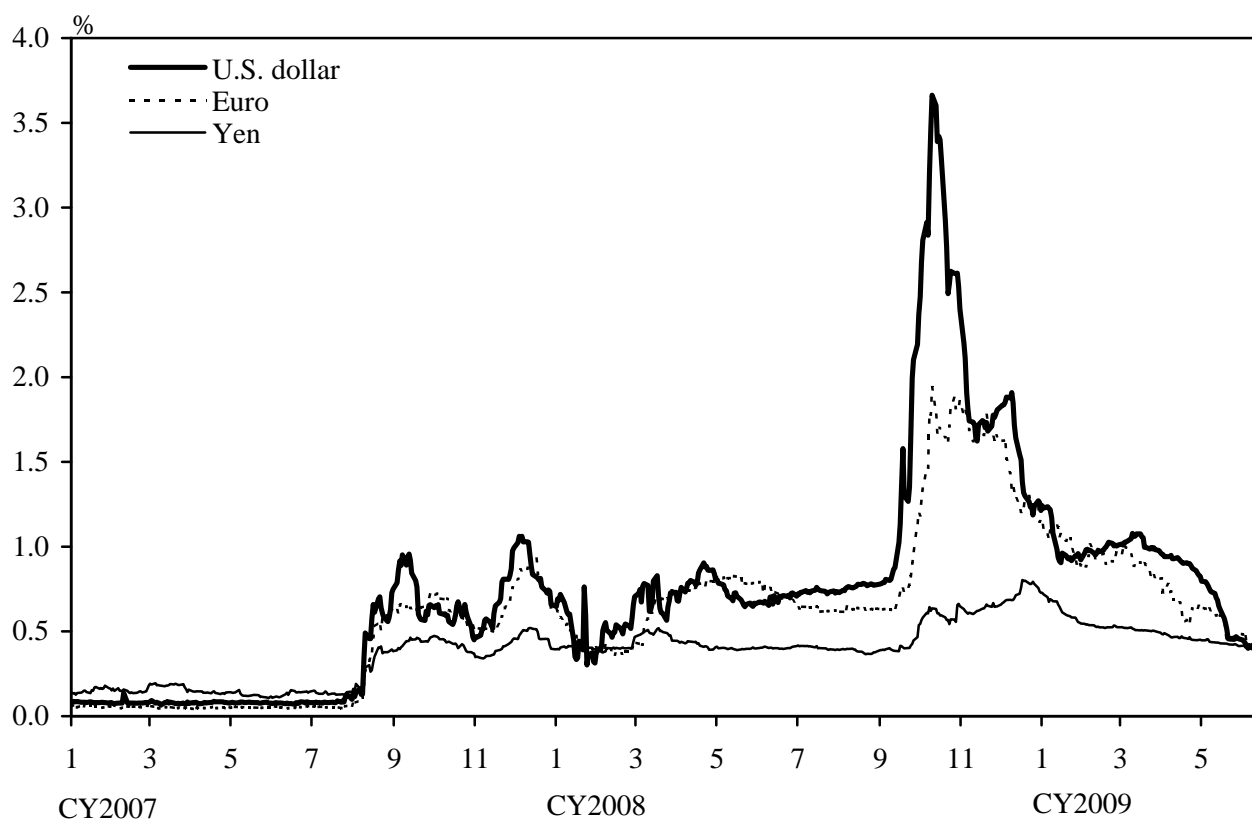
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

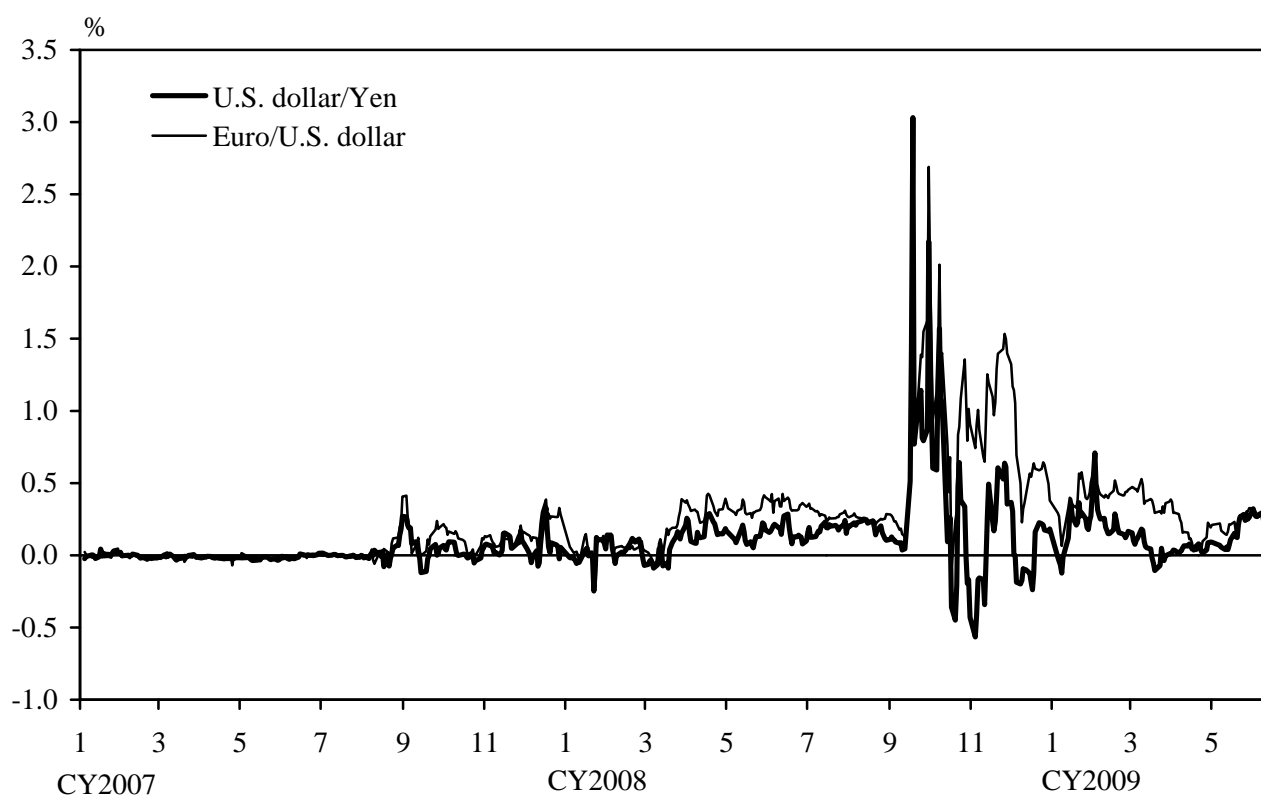
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

(1) LIBOR-OIS spreads (3-Month)

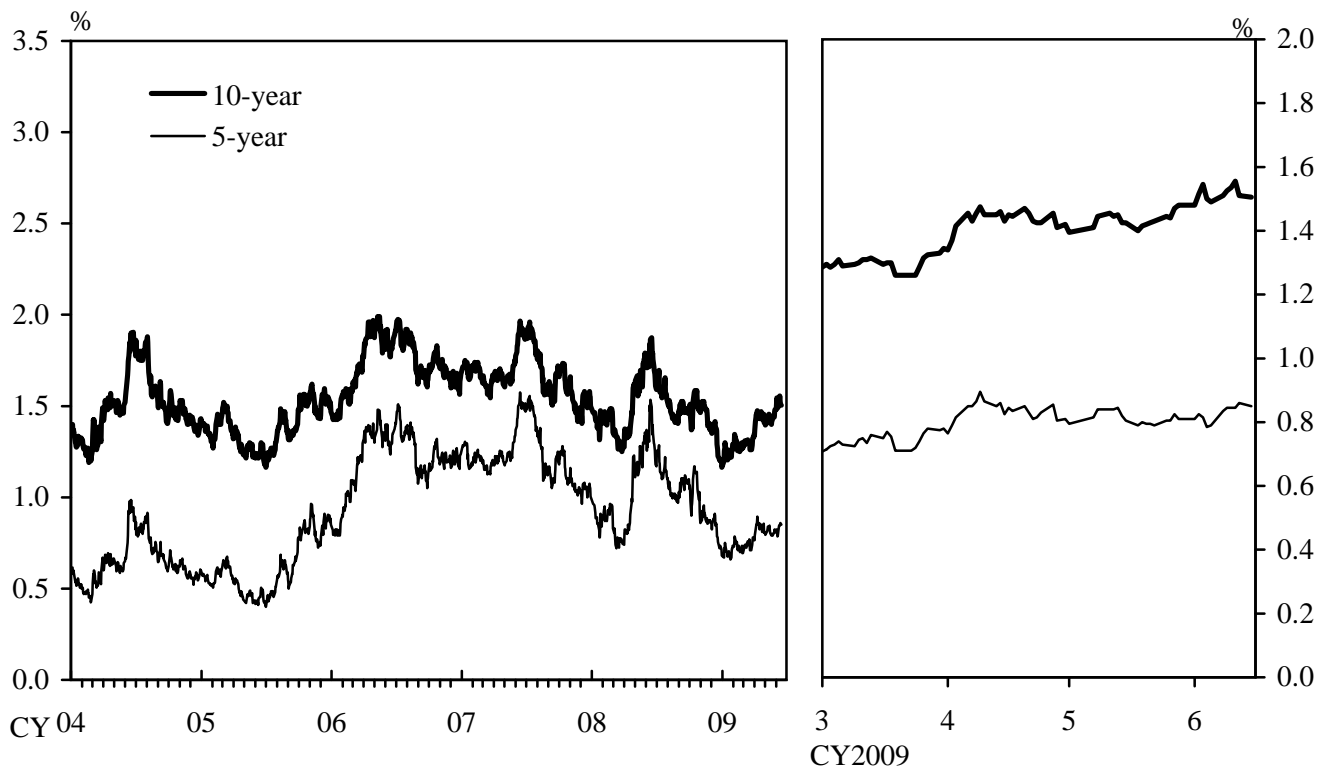


(2) FX swap implied dollar rate - LIBOR spreads (3-Month)

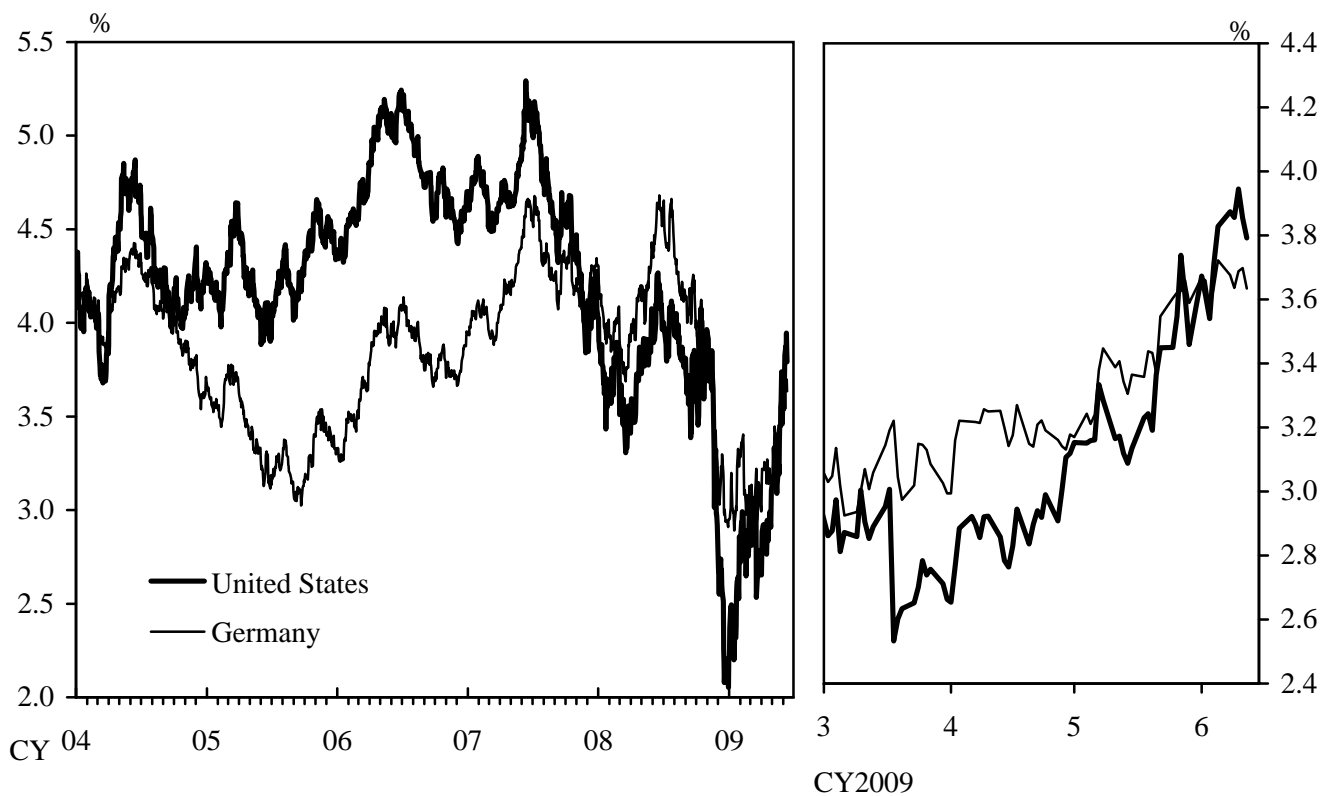


Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



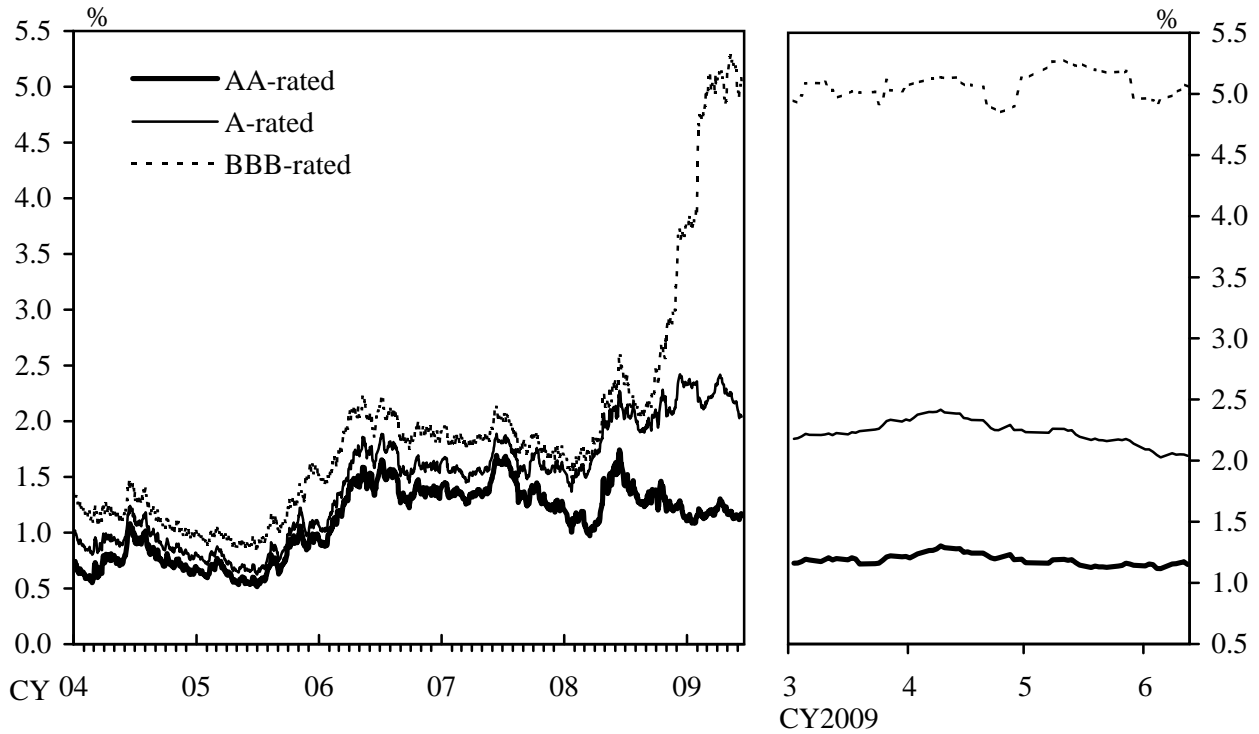
(2) Overseas Government Bond Yields (10-Year)



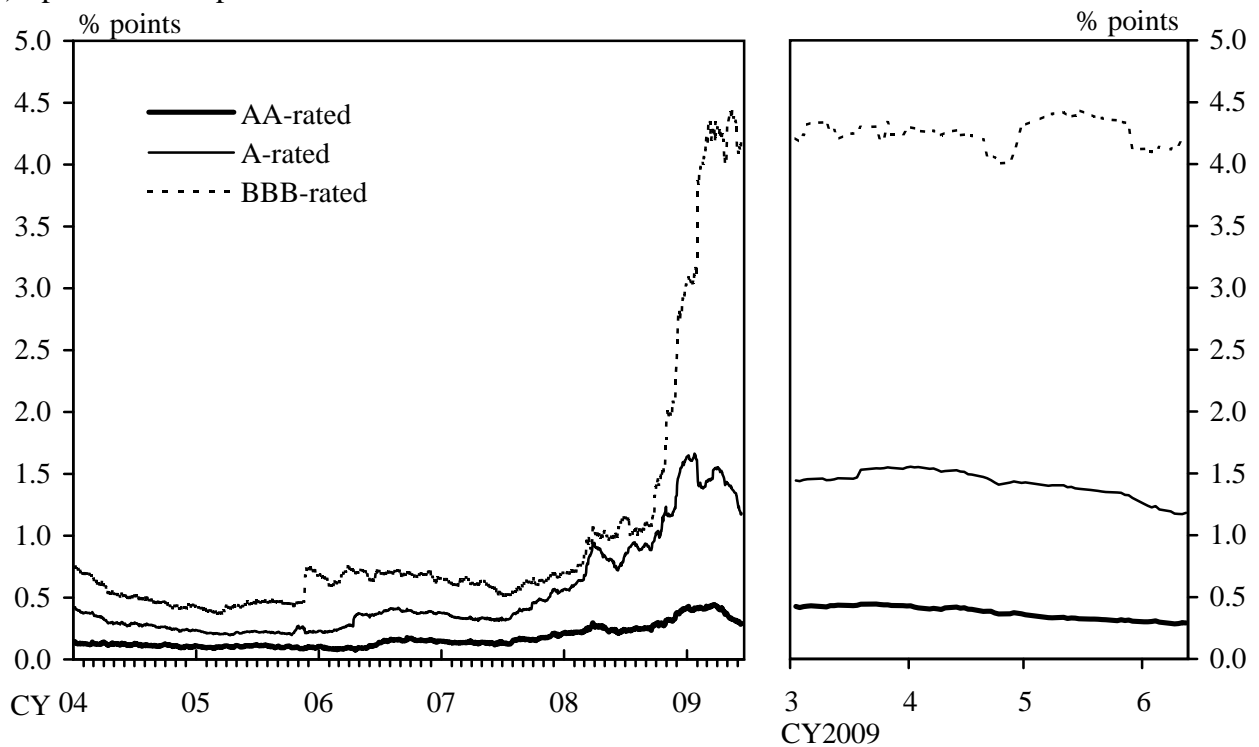
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields^{1,2}



(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



Notes: 1. Yields on bonds with 5-year maturity.

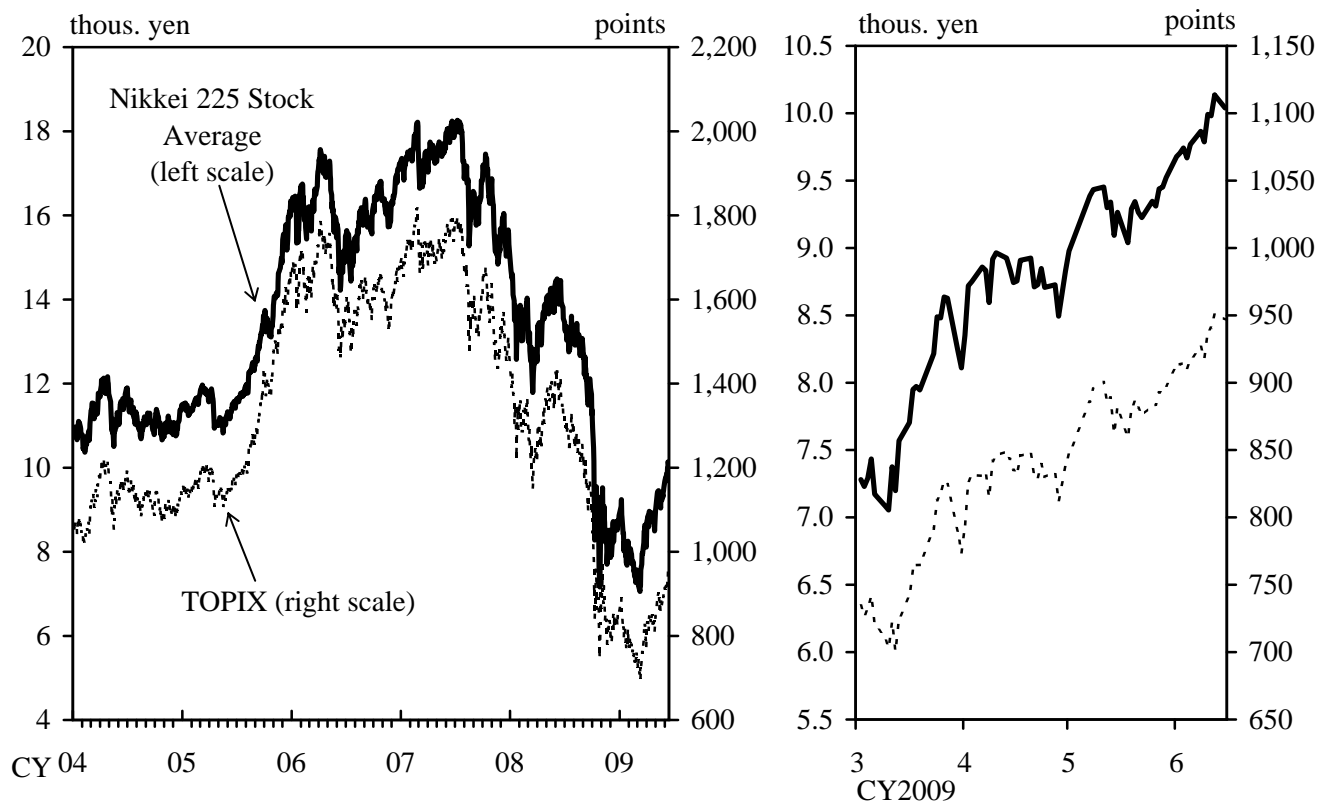
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

2. The indicated ratings are of Rating and Investment Information, Inc.

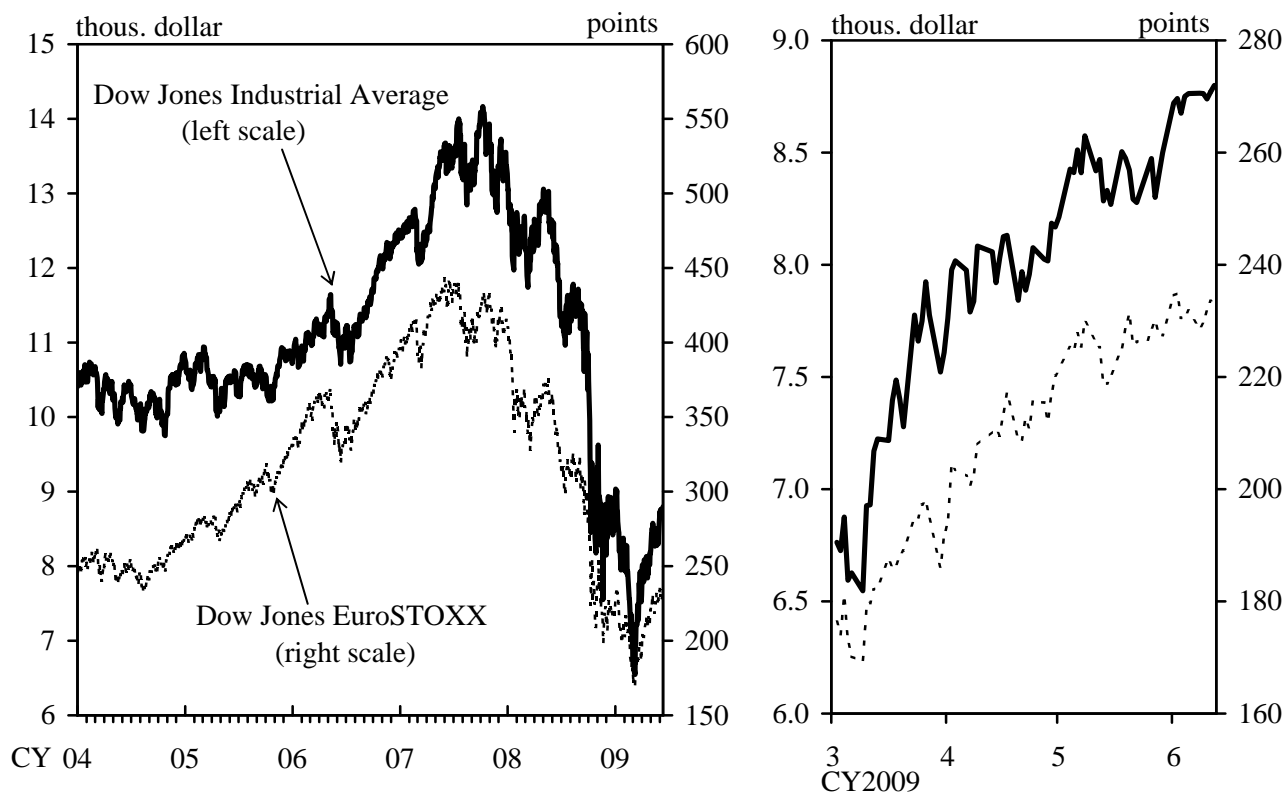
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



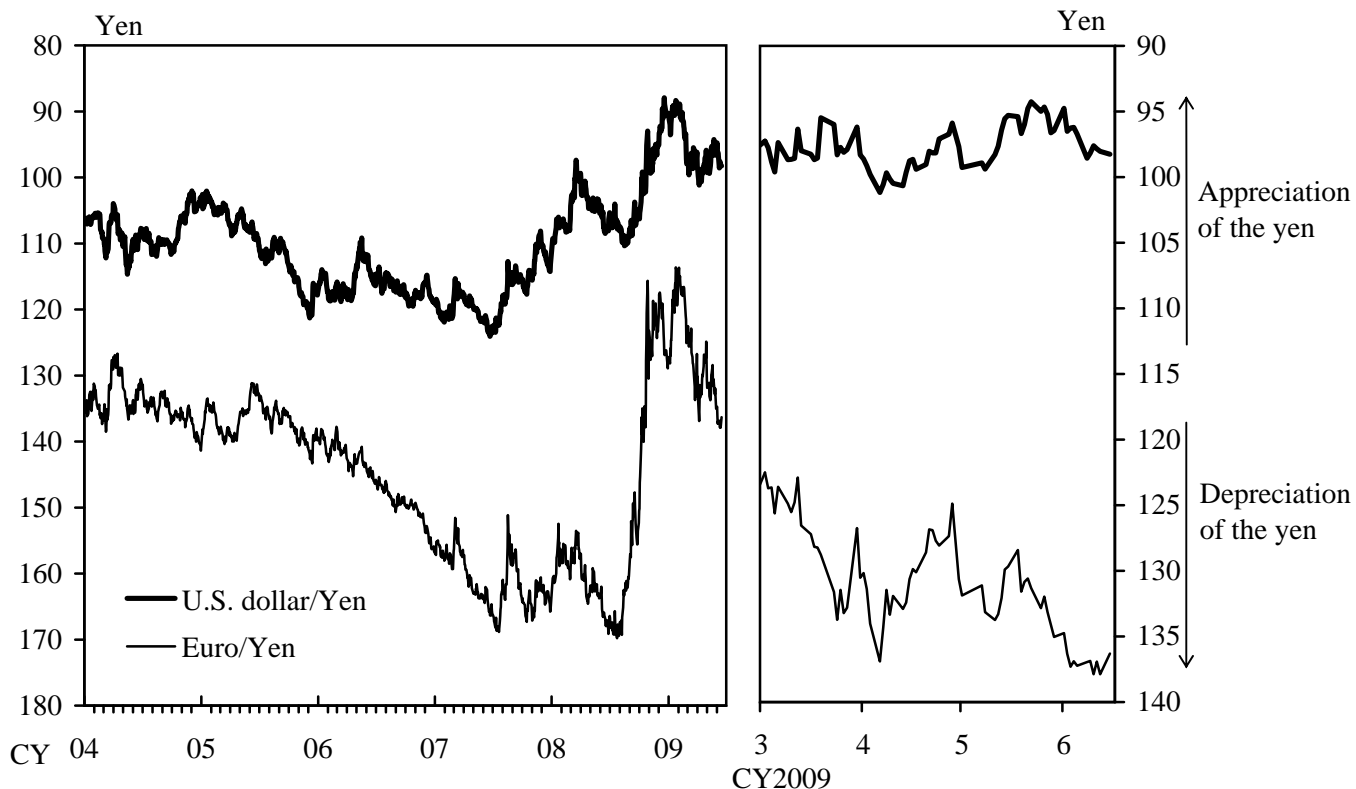
(2) Overseas Stock Prices



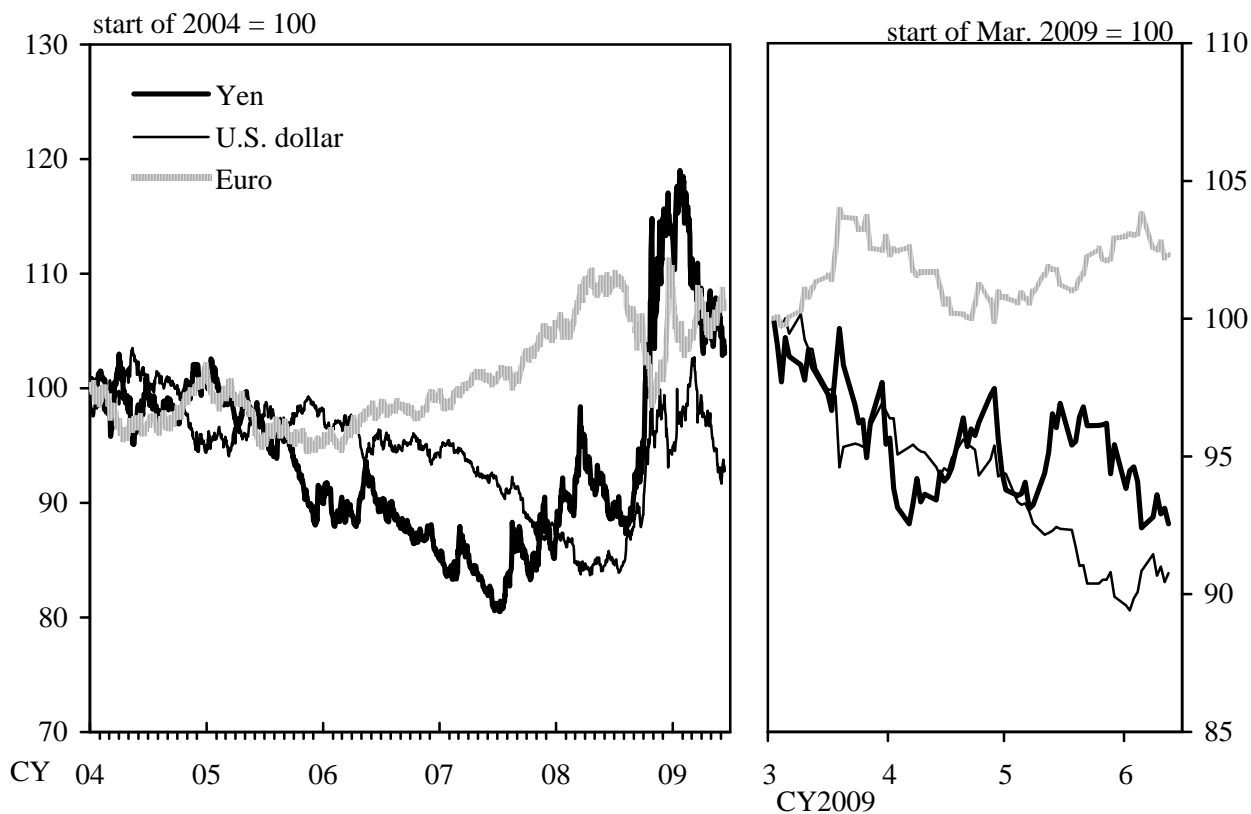
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



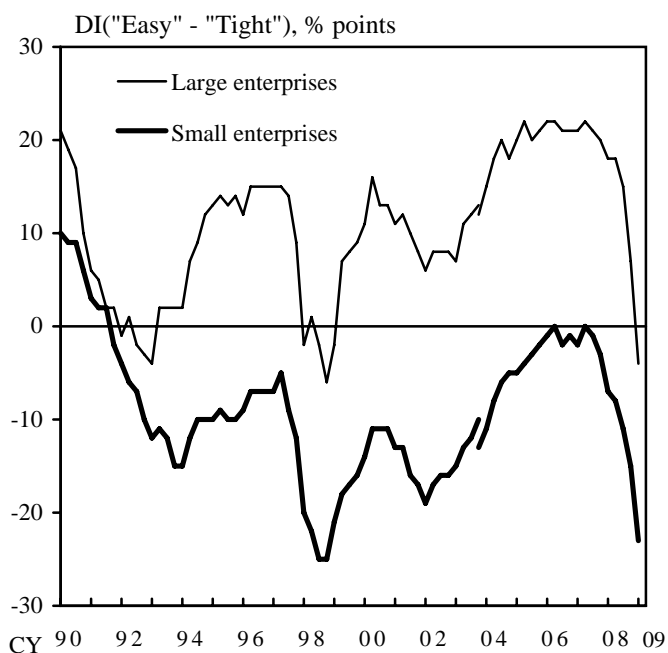
(2) Nominal Effective Exchange Rates



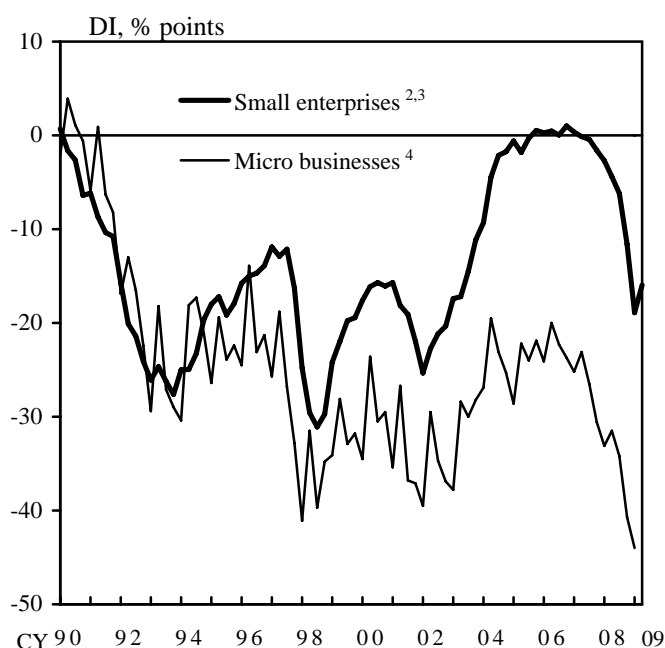
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

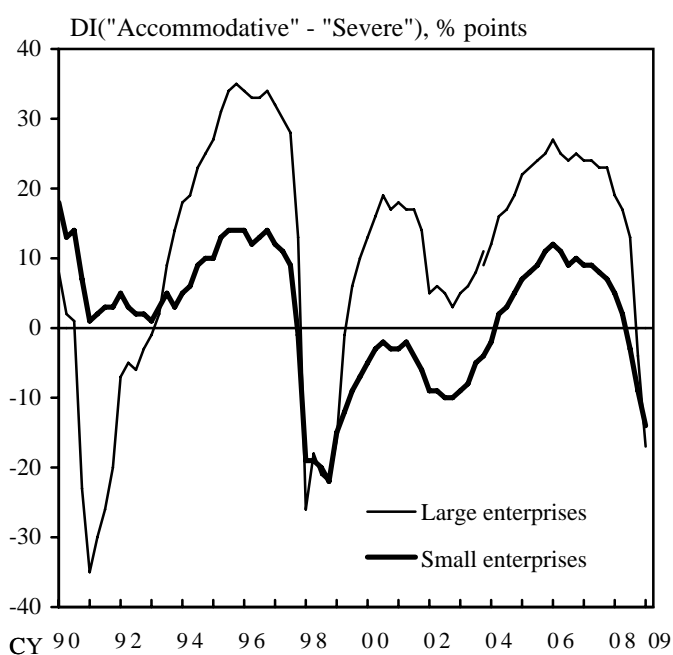
(1) Financial Position

<Tankan¹>

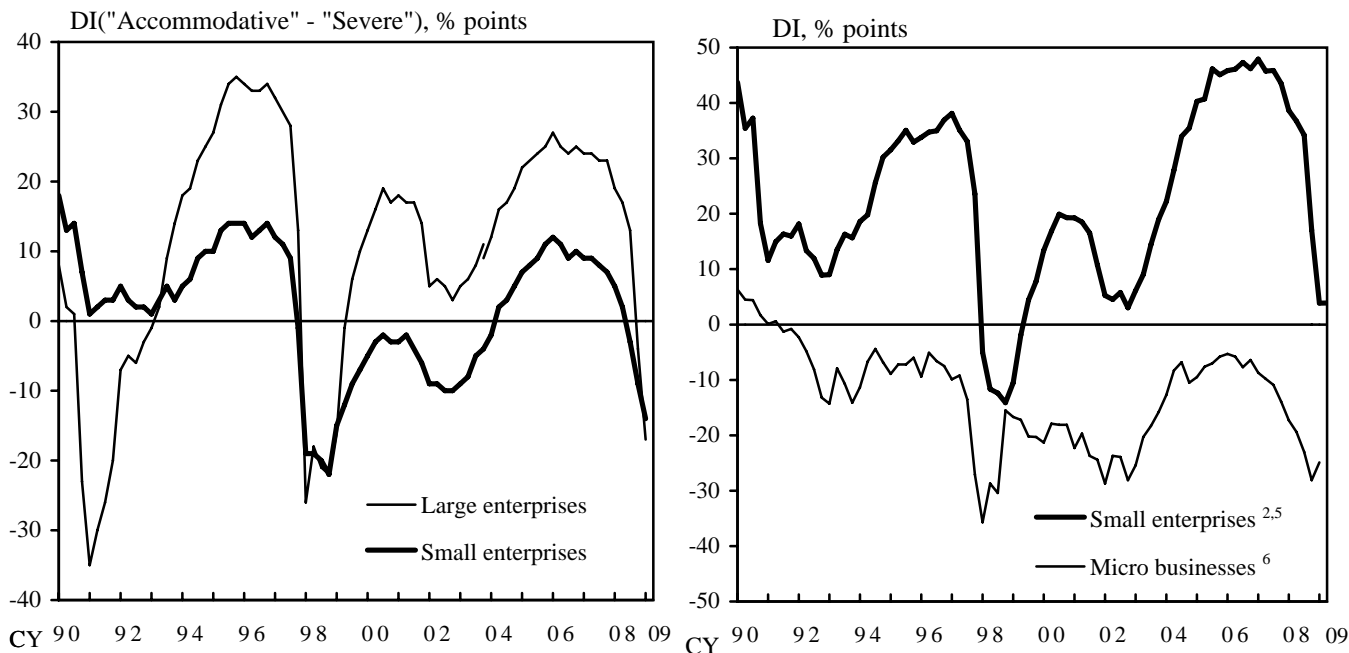
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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 2009/Q2 are those of Apr.-May averages.

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

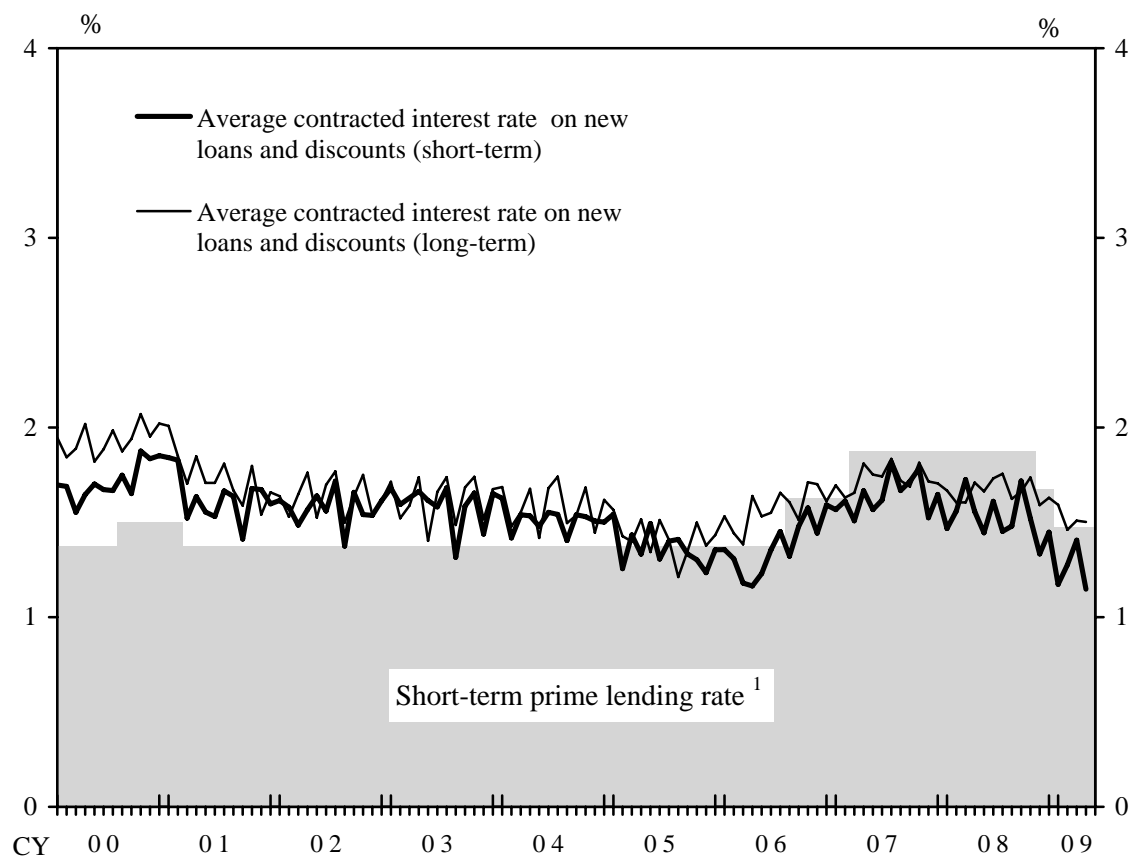
4. DI of "Easier" - "Tighter."

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, "Monthly Survey of Small Businesses in Japan," "Quarterly Survey of Small Businesses in Japan (for micro businesses)."

Lending Rates

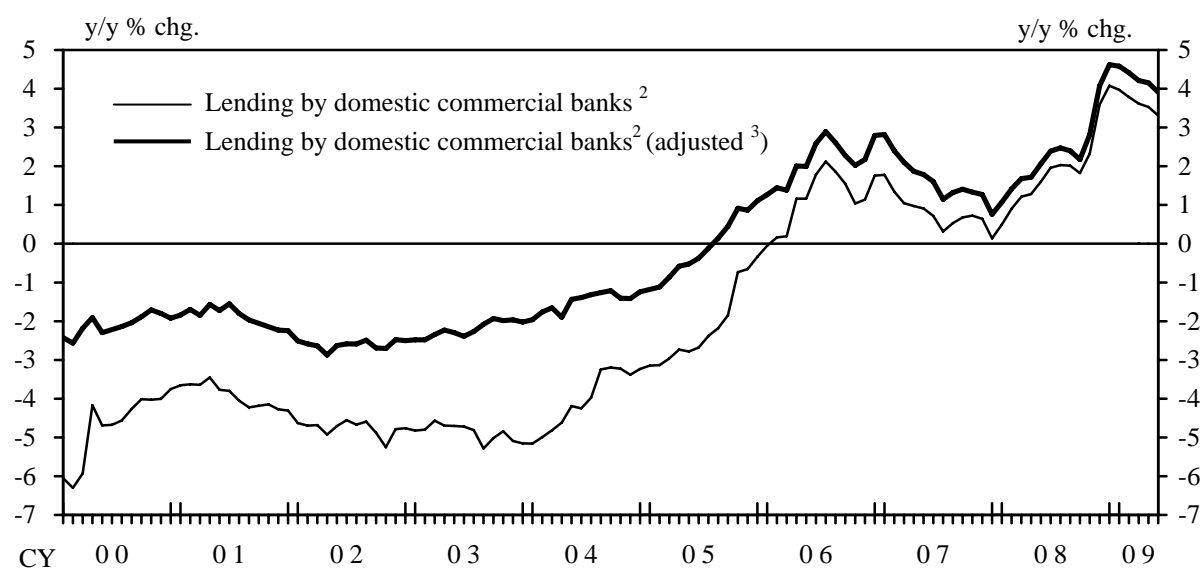


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



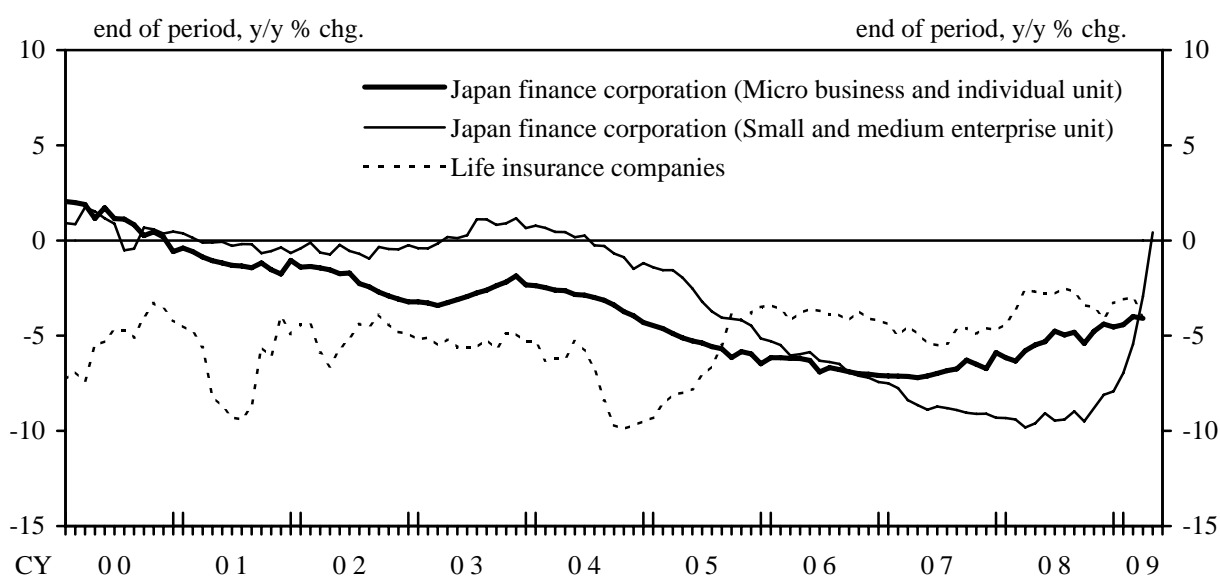
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

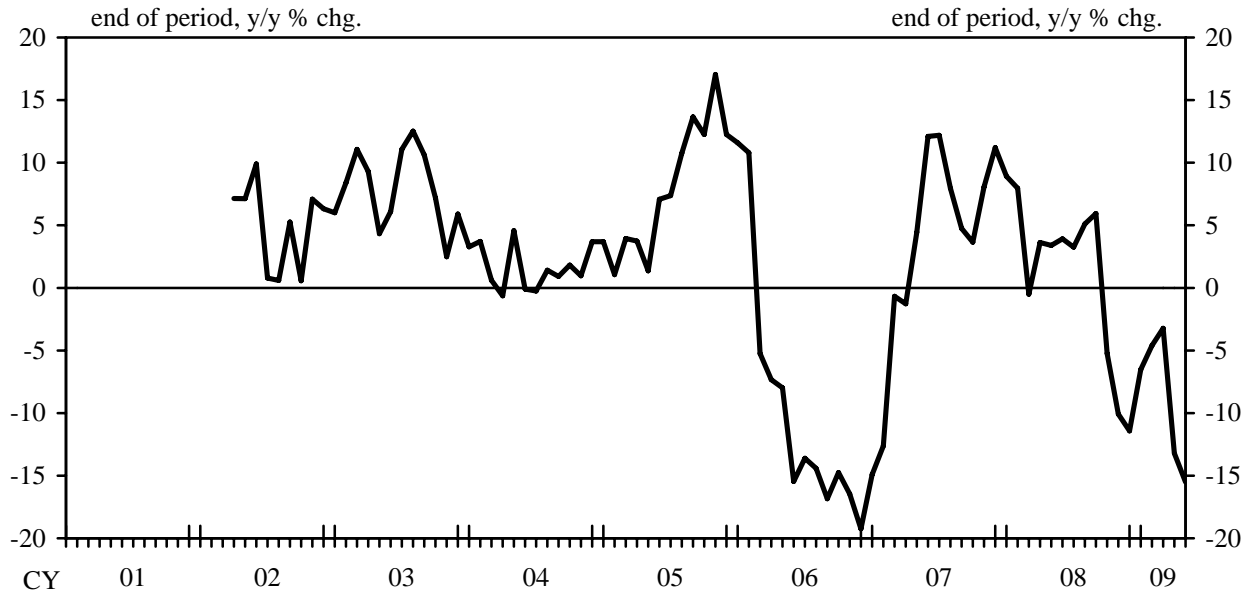


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

Sources: Bank of Japan; Japan Finance Corporation; The Life Insurance Association of Japan.

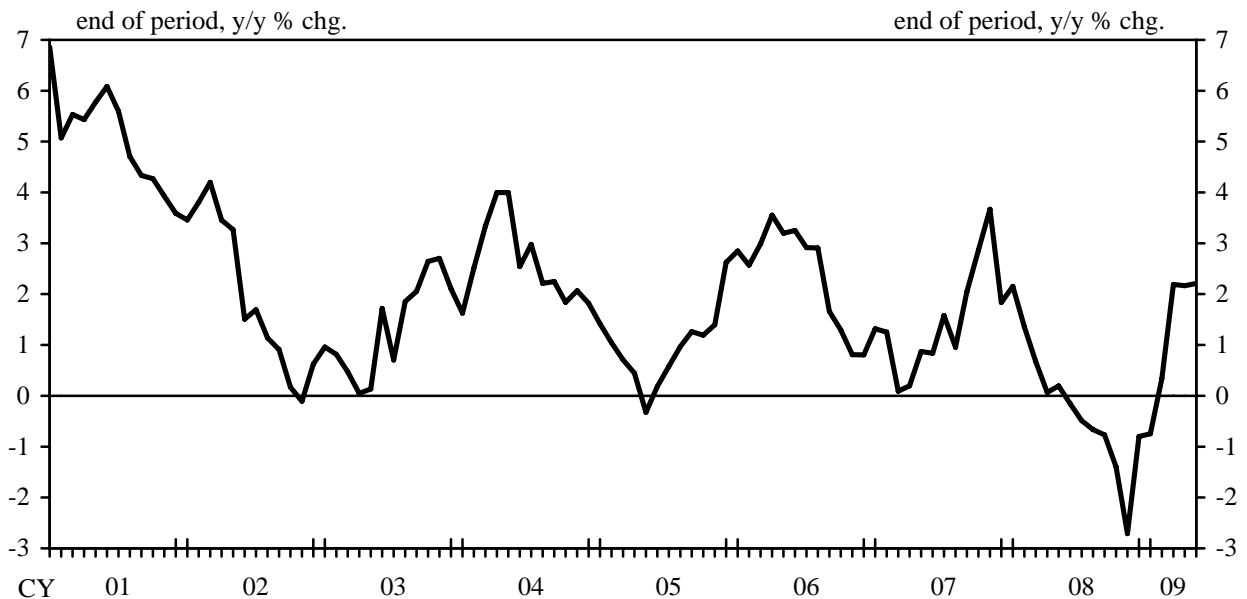
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures up to March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



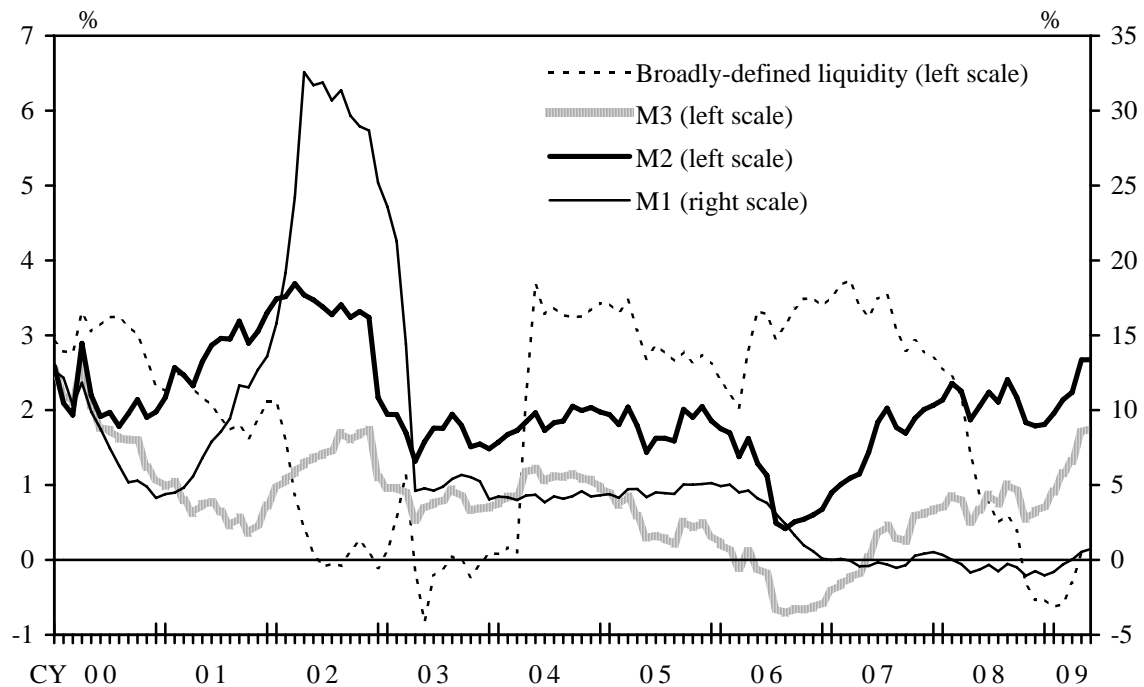
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

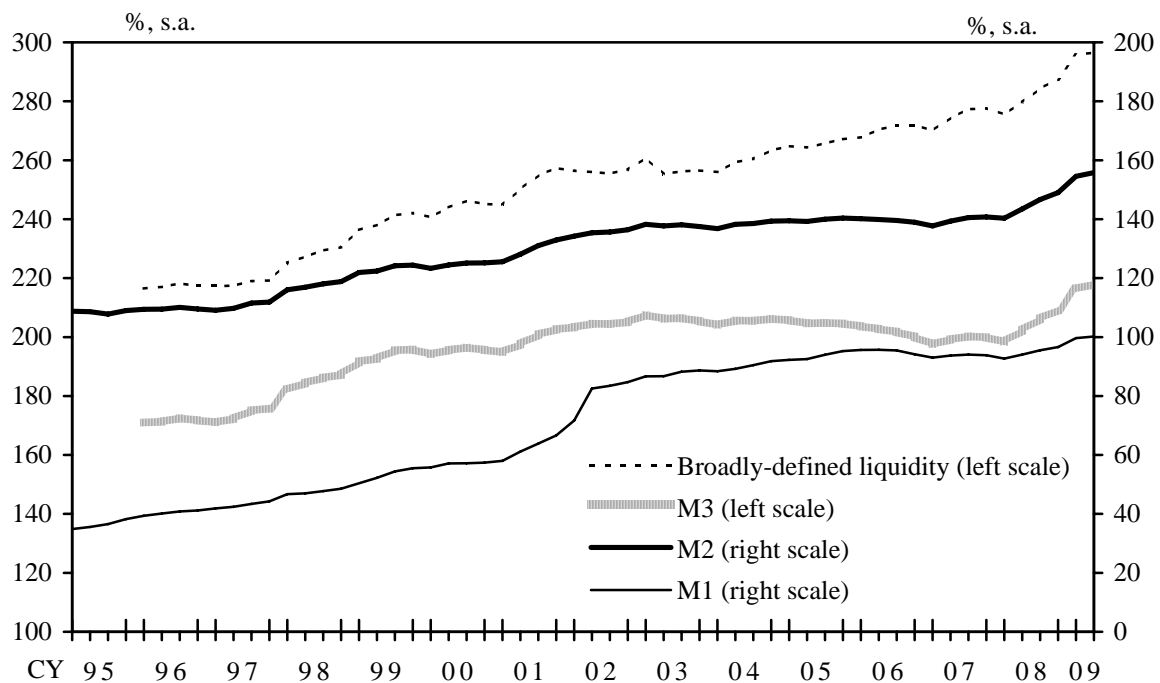
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds";
 I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

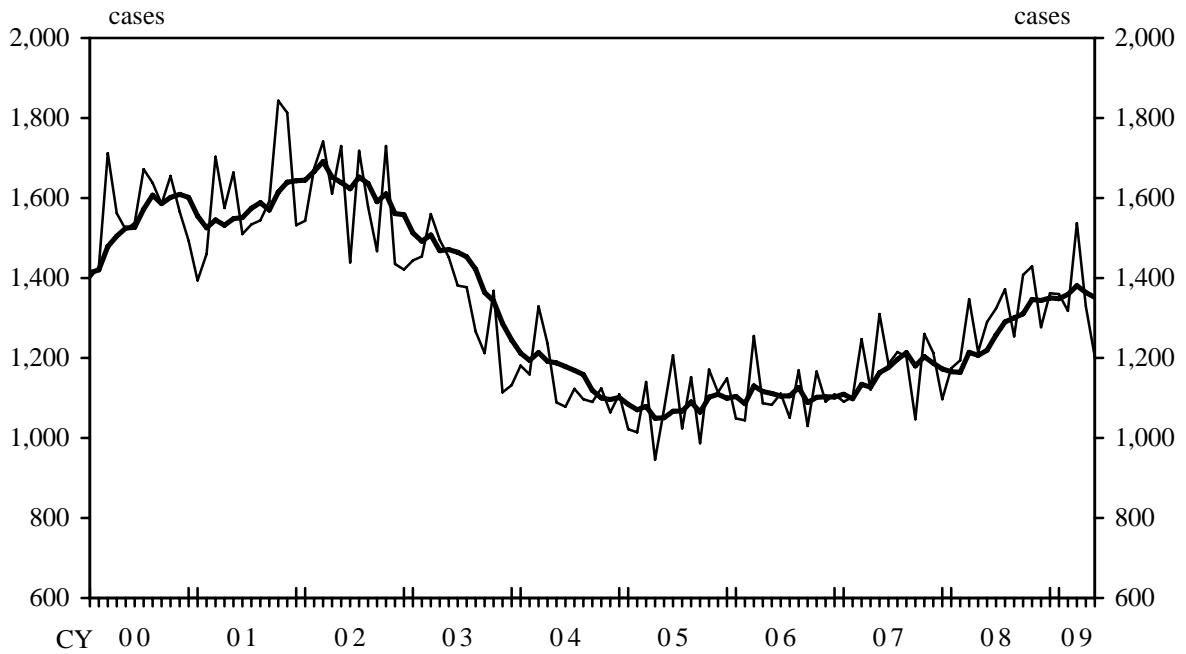


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
4. Figures for money stock in 2009/Q2 are those of Apr.-May averages, and nominal GDP in 2009/Q2 is assumed to be unchanged from the previous quarter.

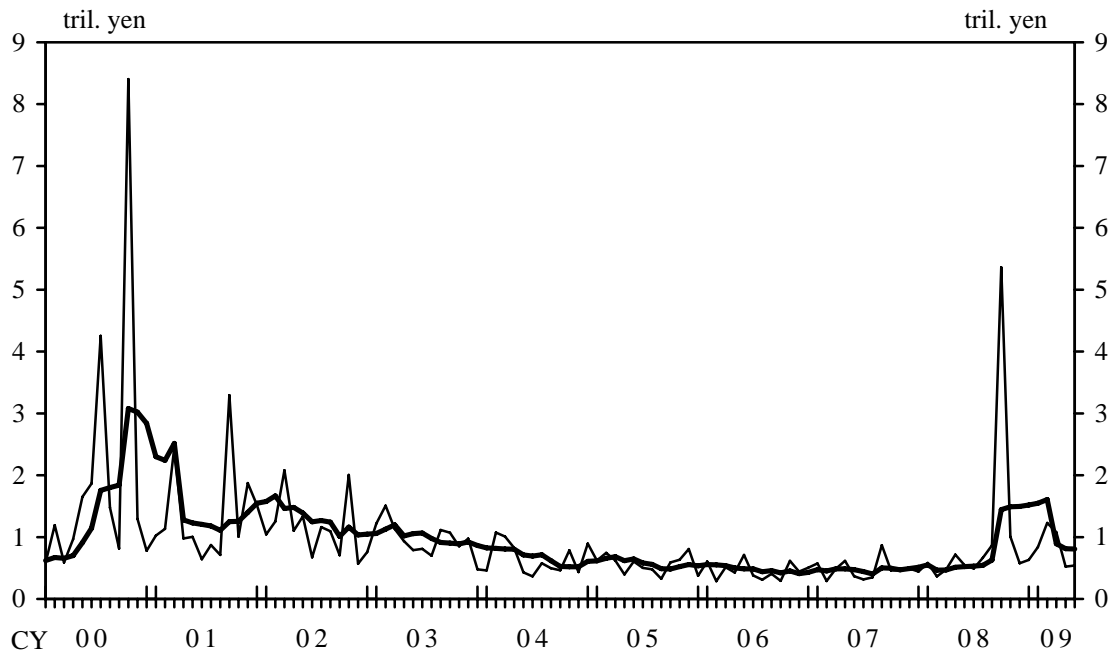
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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