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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
July 2009

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Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economic conditions have stopped worsening.

Public investment has increased. Exports and production have picked up, after falling substantially. Under these circumstances, business sentiment, especially of large manufacturing firms, has stopped deteriorating. On the other hand, business fixed investment has declined substantially, mainly reflecting weak corporate profits. Private consumption has remained generally weak and housing investment has decreased amid the worsening employment and income situation.

Japan's economic conditions are likely to turn upward over time.

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

On the price front, the three-month rate of change in domestic corporate goods prices has continued to be slightly below 0 percent, mainly due to the easing of supply and demand conditions for products. The year-on-year rate of change in consumer prices (excluding fresh food) has turned negative, mainly due to the prices of petroleum products lower than the high levels of a year earlier, in addition to the ongoing substantial slack in the overall economy.

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

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 14 and 15, 2009.

accelerating for the time being, mainly due to the prices of petroleum products lower than the high levels of a year earlier.

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, compared with last month, the yen has appreciated against the U.S. dollar, while yields on long-term government bonds and stock prices have declined.

Financial conditions, while remaining generally tight, have continued to show signs of improvement.

The overnight call rate has remained at an extremely low level. Firms' funding costs have further declined due to decreases in issuance rates on CP and corporate bonds and bank lending rates. 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 has slowed. Issuing 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 working capital, 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. Under these circumstances, although many firms have continued to see their financial positions as weak and lending attitudes of financial institutions as severe, financial conditions in these regards have improved somewhat for both large and small firms. 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 value of public works contracted—a measure that reflects public orders—turned to a marginal increase in the first quarter compared with the fourth quarter on a quarter-on-quarter basis, 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. The amount of public construction completed—which reflects the progress of public works—increased marginally in the first quarter, and then increased largely in April compared with the first quarter.

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 picked up, mainly due to the waning of adjustment pressures on local inventories (Charts 6[1] and 7). Exports decreased substantially in the fourth and first quarters, by 14.6 and 28.8 percent respectively, on a quarter-on-quarter basis, but then increased by nearly 10 percent (9.4 percent) in April-May compared with the first quarter. Looking at monthly developments, exports increased markedly in April-May. 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 all countries and regions excluding "other regions" increased in April-May compared with the first quarter. On a monthly basis, exports to East Asia, especially to China, increased for four consecutive months; those to the United States and the EU also increased for three and two consecutive months, respectively.² Meanwhile, recovery in exports to

² The increase in exports to the EU seems to have been influenced by policies implemented in France (December 2008 to December 2009), Germany (January to December 2009), Italy (February to December 2009), and the U.K. (May 2009 to March 2010) to prompt consumers into trading in their old cars ("scrap incentives"). A similar policy will be implemented in the United States from the beginning of July to the beginning of November. According to the policy, car owners will be granted subsidies of 3,500 or 4,500 U.S. dollars when they trade in their old cars for a new one that meets certain energy efficiency standards.

"other regions" (such as the Middle East, Latin America, and Russia) was sluggish; they increased in April but decreased again in May.

By goods (Chart 7[2]), exports of goods other than capital goods and parts increased in April-May compared with the first quarter. On a monthly basis, exports of IT-related goods increased noticeably for four consecutive months, and those of intermediate goods (such as chemicals) also increased for three months in a row, mainly to East Asia. Exports of motor vehicles and their related goods turned to an increase in April and increased by 20 percent in May compared with the previous month, reflecting the good progress made in local inventory adjustments of motor vehicles.

Real imports have stopped declining, mainly because production has picked up (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 dropped substantially. However, the pace of decrease in imports moderated noticeably in April-May, marking a decrease of 3.0 percent compared with the first quarter. Looking at monthly developments, imports have continued to increase marginally since March.

Looking at imports in April-May compared with the first quarter by goods (Chart 9[2]), those 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 increased due to the aforementioned developments in imports and exports, after decreasing 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 in April-May, although marginally.

Exports are expected to continue recovering, mainly due to progress in local inventory adjustments. According to the DI for overseas supply and demand

conditions for products in the June *Tankan*, deterioration of large manufacturing firms moderated slightly; the net "excess demand" was -54 % points in March; -43 % points in June; -34 % points for the September forecast.

As for the environment surrounding exports, overseas economies have stopped worsening in general (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, reflecting the progress in inventory adjustments and the improvement in business and household sentiments. In China, domestic demand has become stronger, mainly due to effects of fiscal policies; in East Asia, there has been an increase in the amount of data indicating that economies have stopped worsening. 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 a considerable amount of time seems to be required to adjust for significant excesses. Meanwhile, in the foreign exchange market, in terms of the real effective exchange rate—which incorporates differentials in the inflation rates between home and abroad—the yen appreciated substantially toward the beginning of the year, but has depreciated slightly since then (Chart 8[1]).

Imports are expected to turn to a gradual increase, as domestic economic conditions turn upward over time.

Business fixed investment has declined substantially. 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 10[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 also decreased in April-May compared with the first quarter (Chart 11[1]). By industry, investment in the manufacturing industry increased in April-May compared with the first quarter, after dropping substantially. On the other hand, in the nonmanufacturing industry, investment increased in the first quarter, mainly in

infrastructure-related investment, but decreased in April-May 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, but decreased significantly in April-May 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, but then decreased substantially in April-May. In the manufacturing industry, investment decreased substantially in April-May, following the first quarter (Chart 11[2]). However, these sudden decreases seem to have appeared in response to the lagged recognition in the statistics since the end of last year, of the actual fall in the number of construction starts.

Looking at the environment surrounding business fixed investment, corporate profits have dropped substantially. According to business plans in the June *Tankan* (all industries and enterprises), current profits in fiscal 2008 decreased at a much faster pace, marking a decrease of 42.5 percent on a year-on-year basis, after turning to a decrease in fiscal 2007; profits were forecast to continue decreasing in fiscal 2009.³ In detail, current profits were forecast to continue decreasing regardless of industry or firm size, with the exception of small nonmanufacturing firms, which were forecast to become essentially flat (Chart 12).

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 excess capacity. According to fiscal 2009 business fixed investment plans (excluding software investment and including land purchasing expenses) in the June *Tankan* (Chart 14), plans of large firms were revised downward, by 9.4 percent on a year-on-year basis, compared with the previous survey. In detail, in manufacturing, the pace of decline in investment accelerated; in nonmanufacturing, the level of investment was projected to be similar to the previous year in light of infrastructure-related investment plans. As for investment plans of small firms, plans were hardly

³ Figures were revised largely downward compared with the March *Tankan*, but this was not because firms' profit plans suddenly deteriorated rapidly. Rather, the revision was largely influenced by the fact that firms were not able to revise their plans downward in time for the March *Tankan*. This is also the case for business fixed investment plans, as explained later on.

revised upward, which is an unusual movement for the survey conducted at this point of time; they marked a considerably large year-on-year decline of 36.6 percent.⁴

Private consumption has remained generally weak, although there have been some signs of picking up, with the support of effects of various measures and price declines (Charts 15 and 16). Sales at department stores continued to decrease significantly in response to the deceleration in food, in addition to a slump in sales of apparel and high-end products that reflects the further curtail on purchases by consumers. Under these circumstances, sales weakened further in May, partly due to the new strain of influenza. Sales at supermarkets were relatively weak in general, but the drop was marginal, since sales were underpinned by the contribution of low pricing strategies. Sales at convenience stores remained more or less flat. As for durable consumer goods, sales of household electrical appliances (in real terms) increased in April-May, after marking a high growth rate in the first quarter, mainly due to price declines.⁵ The number of new passenger-car registrations dropped sharply toward the first quarter on a year-on-year basis, but the pace of decrease moderated in the second quarter, mainly due to effects of the reduction in automobile taxes.⁶ As for services consumption, outlays for travel dropped evidently, mainly due to effects of the deterioration in the employment and income situation. Sales in the food service industry were sluggish, albeit with fluctuations.

⁴ Based on "software and fixed investment excluding land purchasing expenses"—a concept similar to GDP—business fixed investment of all industries and enterprises (including financial institutions) for fiscal 2009 was projected to decline by 12.2 percent on a year-on-year basis.

⁵ 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 sales of products that apply to the system, especially flat panel televisions that are adapted to terrestrial digital broadcasting, seem to have increased considerably since the system started.

⁶ 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, based 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, as a measure to promote the purchasing of eco-friendly cars—a measure included in the "Countermeasures to Address the Economic Crisis"—subsidies are granted to eco-friendly cars purchased since April 10.

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 17[1]).⁷ The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—decreased substantially in the first quarter, and then increased in April-May compared with the first quarter (Chart 17[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—was essentially flat in April-May compared with the first quarter.⁸ On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms) increased noticeably in April-May compared with the first quarter, mainly due to an increase in household electrical appliances (Chart 15[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 18).

Private consumption is likely to remain generally weak amid the worsening employment and income situation.

Housing investment has decreased. The number of housing starts (Chart 19[1])—a leading indicator of housing investment—marked an annual rate of 904,000 units in the first quarter, but then registered an annual rate of 768,000 units in April-May. 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.

⁷ The *Indices of Aggregated Sales* are the weighted averages of individual sales indicators. "Outlays for travel" in May 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 May was at the same level as that for April.

⁸ Items in the index are not completely limited to those used for estimating GDP. For example, education is not used for estimating GDP.

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 picked up recently, mainly due to the waning of adjustment pressures on inventories both at home and abroad. Production increased for three consecutive months; it registered an increase of 5.7 percent on a month-on-month basis in May. On a quarterly basis, production dropped by 11.3 percent in the fourth quarter and by 22.1 percent in the first quarter, but then increased by 6.5 percent in April-May compared with the first quarter (Chart 20). By industry, production has increased in a wide range of industries, notably in electronic parts and devices and transportation equipment, reflecting the progress in inventory adjustments. However, production in general machinery has continued to decrease due to the global reduction in business fixed investment.

Shipments have also decreased substantially; they marked a decrease of 11.0 percent in the fourth quarter and 21.0 percent in the first quarter, but increased by 4.3 percent in April-May compared with the first quarter. By goods (Chart 21), shipments of durable consumer goods and producer goods have increased noticeably, after dropping largely since last fall. On the other hand, shipments of capital goods have continued to decrease, and those of construction goods have remained sluggish after decreasing substantially. Meanwhile, shipments of non-durable consumer goods have remained more or less flat.

Inventories have continued to decrease in response to the substantial fall in production, and adjustment pressures on inventories have started to wane (Chart 22). Looking at the shipment-inventory balance by goods, adjustment pressures on inventories have still remained strong for capital goods (excluding transport equipment) and construction goods, reflecting the substantial decrease in shipments. On the other hand, for electronic parts and devices, inventory adjustment pressures have decreased largely, partly because shipments have picked up; inventories of other producer goods (such as chemicals and iron and steel) have also improved gradually as a whole. As for durable consumer goods, good progress has been made in local inventory adjustments, a development not reflected in this statistics.

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 third quarter seem to have been revised upward from plans of the previous month.

The employment and income situation has become increasingly severe, with the labor market easing substantially and employee income decreasing noticeably.

In the labor market, overtime hours worked have begun to stop declining after a substantial decrease, notably in the manufacturing industry (Chart 24[3]). Looking at the employment conditions DI in the June *Tankan*, the size of the net "excessive employment" in large manufacturing firms has recently moderated slightly, while that in small manufacturing and nonmanufacturing firms expanded slightly; looking ahead, the net "excessive employment" was forecast to moderate for both kinds of firms (Chart 25). The ratio of job offers to applicants has continued to decline (Chart 23[1]).⁹ The unemployment rate has risen noticeably of late; it registered 5.2 percent in May.

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 until February, but it marked a decline of 1.8 percent in May on a year-on-year basis, indicating that the downtrend has become considerably evident.¹⁰ As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year growth rate continued to fall after peaking near the end of 2007, and the pace of decline in the manufacturing industry accelerated. The ratio of part-time employees has risen gradually (Chart 24[2]).

⁹ With the decline in May, the ratio of job offers to applicants marked a decline for 12 consecutive months; it recorded 0.44 times, which was below the previous lowest-ever (0.46 times marked in May and June 1999).

¹⁰ 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 rose sharply toward April; it decreased slightly in May, but still marked 2.34 million employees, which is over 4.0 percent of all employees.

The pace of decline in the year-on-year growth rate of nominal wages per employee has accelerated; the rate in April-May marked a decrease of 2.8 percent (Chart 26[1]). In detail, overtime payments and special payments declined at a much faster pace, and regular payments fell clearly below last 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 26[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 at a slower pace, and have become essentially flat (Chart 28). International commodity prices have been more or less flat recently. Domestic commodity prices have been more or less flat as a whole as domestic supply and demand conditions have remained slack, while they have been pushed up by the rise in international commodity prices of the past.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹¹ has continued to be slightly below 0 percent, mainly due to the easing of supply and demand conditions for products (Chart 29). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" rose for three consecutive months, reflecting price developments of petroleum and coal products and of nonferrous metals. Prices of "iron and steel and construction goods" and "other materials" have continued to decline. Prices of "machinery" and "others" have continued to decline

¹¹ 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.

marginally. The former has declined mainly in electrical appliances and the latter has declined mainly in processed foodstuffs. 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 raw materials and final products have been flat, but those of intermediate goods have still continued to decline, reflecting price developments of goods such as iron and steel.

The year-on-year rate of change in corporate services prices (excluding external factors)¹² has continued to be marginally negative, mainly reflecting cost cutting among firms (Chart 30).¹³ In detail, the pace of decline in prices of advertising services has accelerated on a year-on-year basis, since firms have been cautious about placing advertisements. The rate of change in prices of leasing and rental has recently turned negative due to the decline in leasing rates and machinery prices.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has turned negative, mainly due to the prices of petroleum products lower than the high levels of a year earlier, in addition to the ongoing substantial slack in the overall economy (Chart 31).¹⁴ Looking at the recent trend in detail, the pace of decline in prices of goods has continued to accelerate, mainly because prices of petroleum products have declined at a faster pace and because prices of food products have increased at a moderated pace. The pace of increase in prices of general services has recently turned negative as a whole, mainly because prices of package tours to overseas have turned negative and because the pace of increase in "eating out" and services related to domestic duties has moderated. The pace of increase of

¹² "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.

¹³ "All items including external factors" has continued to decrease significantly on a year-on-year basis, mainly in ocean freight transportation.

¹⁴ In May, consumer prices (excluding fresh food) declined by 1.1 percent on a year-on-year basis, which was the largest decline since 1971, from which point comparable data exist.

public utility charges—mainly electricity charges and city gas charges—has moderated due to the reduction of electricity charges.¹⁵

With regard to domestic supply and demand conditions in the June *Tankan* (Chart 32), the net "excess supply" of the supply and demand conditions DI for products and services continued to mark a substantial increase, although the size of increase moderated slightly, notably in manufacturing. According to forecasts, the weighted average of the production capacity DI and employment conditions DI is expected to recover slightly in the September survey, after the net "excessive" expanded to around the bottom of the past economic slowdown after six consecutive quarters of deterioration. In this circumstance, the net "fall" of the output prices DI continued to expand significantly.

Domestic corporate goods prices are likely to continue decreasing gradually for the time being, as supply and demand conditions for products are likely to remain slack. The year-on-year decline in consumer prices is expected to continue accelerating for the time being, mainly due to the prices of petroleum products lower than the high levels of a year earlier.

3. Financial Developments

(1) Financial Markets

Japan's money markets have continued to be nervous, although upward pressures on interest rates have diminished, mainly due to the Bank of Japan's provision of sufficient funds. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 33[1]). Regarding interest rates on term instruments, the T-Bill rate (3-month) has declined to the range of 0.10-0.15 percent 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

¹⁵ The Fuel Cost Adjustment System has been revised in May to reflect changes in fuel prices more quickly. The system was originally designed to automatically adjust monthly electricity fees based on fluctuations in fuel prices for crude oil, liquefied natural gas (LNG), and coal. Before, three-month average fuel prices were applied to electricity fees for two quarters ahead (for example, the average fuel price for January to March is applied to the fuel-cost adjusted unit price for July to September). Under the new system, the average fuel price for the previous three to five months is applied to monthly electricity fees (for example, the average fuel price for December to February is applied to the fuel-cost adjusted unit price for May).

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 34[1]). Interest rates on Euroyen futures have suggested that term funding rates may remain more or less flat for the time being (Chart 33[2]). In U.S. dollar funding, the LIBOR-OIS spread for the U.S. dollar has narrowed to the same level as that for the Japanese yen (Chart 34).

Yields on 10-year government bonds (newly issued 10-year JGB) have fell back since domestic investors—who restrained from increasing their positions under expectations that yields would rise due to the increase in the issue size of JGBs—have started to increase their positions in response to the fall in overseas long-term interest rates. The yields have recently declined to around 1.30 percent, partly because of stronger perceptions of excess cash among banks (Chart 35).

Yield spreads between corporate bonds and government bonds have begun to stop narrowing for those with high credit ratings. This has mainly been influenced by weakening supply-demand conditions of corporate bonds, due to the rush to issue new bonds, although investment demand has remained firm. 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 36).

Stock prices continued to rise 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. Since last month, however, the bullish movement has come to a halt, partly due to the lack of economic indicators implying the economic recovery. The Nikkei 225 Stock Average has been weak; it is recently moving in the range of 9,000-9,500 yen (Chart 37).

In the foreign exchange market, the yen has recently risen to around 93 yen against the U.S. dollar, because expectations for the economic recovery have weakened somewhat partly in response to the U.S. labor statistics that were weaker than market forecasts (Chart 38).

(2) Corporate Finance and Monetary Aggregates

Funding costs have further declined due to decreases in issuance rates on CP and corporate bonds and bank lending rates, 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 0.29 percent in June, following 0.39 percent in May. 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 40).

Funding of the private sector has increased compared with the previous year, despite the decline in firms' demand for working capital and business fixed investment funds, 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 pace of increase has slowed (Chart 41). The amount outstanding of CP issued has decreased partly because of a weakening of firms' demand for additional liquidity and working capital. The amount outstanding of corporate bonds issued—although firms with low credit ratings and those in some industries have continued to face difficulties in issuing corporate bonds—has been above the previous year's level (Chart 42).

Under these circumstances, although many firms have continued to see their financial positions as weak and lending attitudes of financial institutions as severe, financial conditions in these regards have improved somewhat for both large and small firms (Chart 39). The number of corporate bankruptcies has been more or less flat on average (Chart 44).

The money stock (M2) has been at around 2.5 percent, year-on-year. Its June reading was 2.5 percent on a year-on-year basis, following 2.7 percent in May (Chart 43).¹⁶

¹⁶ 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 June reading was 1.7 percent, following 1.8 percent in May. Broadly-defined liquidity has been below the previous year's level. It declined by 0.2 percent in June, year-on-year, following a decline of 0.1 percent in May.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q4	2009/Q1	Q2	2009/Mar.	Apr.	May	Jun.
Index of consumption expenditure level (two-or-more-person households)	-0.3	1.0	n.a.	0.1	-1.0	0.5	n.a.
Sales at department stores	-3.1	-3.9	n.a.	-4.0	1.2	-3.0	n.a.
Sales at supermarkets	-1.3	-1.3	n.a.	0.3	-0.6	-0.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 249>	< 213>	< 241>	< 204>	< 218>	< 250>	< 255>
Sales of household electrical appliances (real, Current Survey of Commerce)	-0.0	7.1	n.a.	3.2	-0.7	4.3	n.a.
Outlays for travel	-2.5	-5.0	n.a.	-1.6	-6.2	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 101>	< 90>	<n.a.>	< 89>	< 78>	< 76>	<n.a.>
Machinery orders (from private sector ⁴)	-15.1	-9.9	n.a.	-1.3	-5.4	-3.0	n.a.
Manufacturing	-22.4	-31.1	n.a.	21.8	-9.4	5.4	n.a.
Nonmanufacturing ⁴	-10.0	4.9	n.a.	-3.1	-8.8	-6.9	n.a.
Construction Starts (private, nondwelling use)	-10.6	-1.1	n.a.	-11.4	-27.3	-9.6	n.a.
Mining & manufacturing	-0.2	-25.8	n.a.	1.3	-32.5	-29.0	n.a.
Nonmanufacturing ⁵	-8.9	7.5	n.a.	-14.6	-24.8	-8.7	n.a.
Value of public works contracted	-1.4	3.7	n.a.	2.6	11.8	-10.9	n.a.
Real exports	-14.6	-28.8	n.a.	0.1	7.9	5.1	n.a.
Real imports	0.7	-17.9	n.a.	1.5	0.4	2.2	n.a.
Industrial production	-11.3	-22.1	n.a.	1.6	5.9	5.7	n.a.
Shipments	-11.0	-21.0	n.a.	1.5	3.0	4.8	n.a.
Inventories	1.9	-9.0	n.a.	-3.6	-2.7	-0.7	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 132.1>	< 150.1>	<n.a.>	< 150.1>	< 143.0>	< 143.1>	<n.a.>
Real GDP	-3.6	-3.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity ⁹	-2.7	-6.2	n.a.	-1.8	2.6	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q4	2009/Q1	Q2	2009/Mar.	Apr.	May	Jun.
Ratio of job offers to applicants <s.a., times>	< 0.76>	< 0.59>	<n.a.>	< 0.52>	< 0.46>	< 0.44>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.5>	<n.a.>	< 4.8>	< 5.0>	< 5.2>	<n.a.>
Overtime working hours ⁶	-6.6	-19.7	n.a.	-22.7	-18.9	p -19.4	n.a.
Number of employees	0.0	-0.3	n.a.	-0.9	-1.3	-1.8	n.a.
Number of regular employees ⁶	1.0	0.6	n.a.	0.5	0.3	p -0.2	n.a.
Nominal wages per person ⁶	-1.2	-3.0	n.a.	-3.9	-2.7	p -2.9	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	2.6 <-3.8>	-1.8 <-3.2>	p -5.3 <p -1.2>	-2.5 <-2.2>	-4.0 <-1.2>	-5.5 <-1.3>	p -6.6 <p -1.3>
Consumer price index ⁸	1.0	-0.1	n.a.	-0.1	-0.1	-1.1	n.a.
Corporate services price index	-2.1	-2.4	n.a.	-2.1	-2.4	p -3.0	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	1.8	2.1	p 2.6	2.2	2.7	2.7	p 2.5
Number of corporate bankruptcies <cases per month>	<1,356>	<1,405>	<1,318>	<1,537>	<1,329>	<1,203>	<1,422>

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

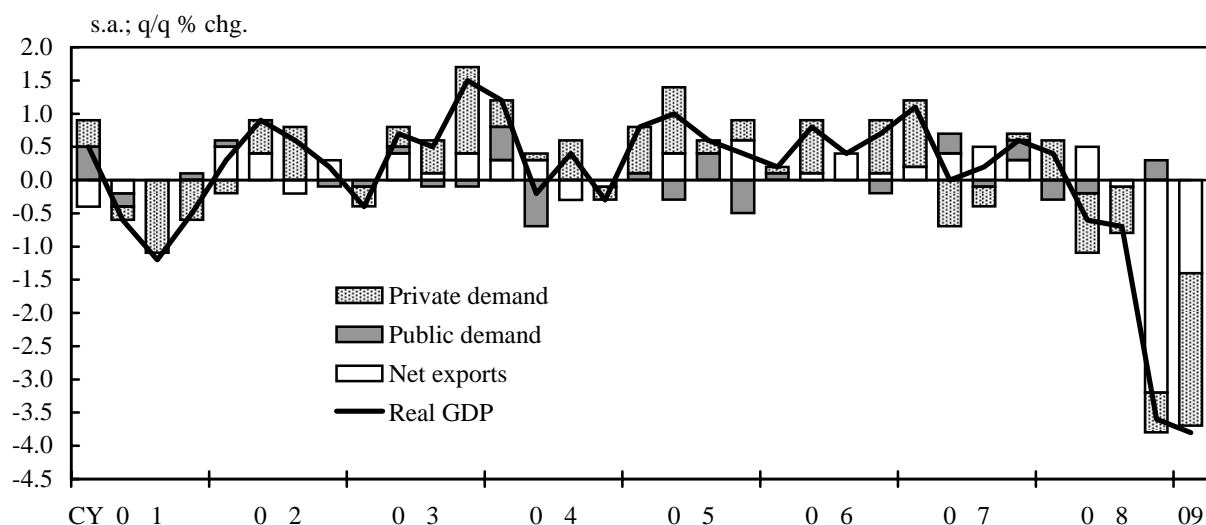
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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.
9. Data have been revised to the 2005 base.

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



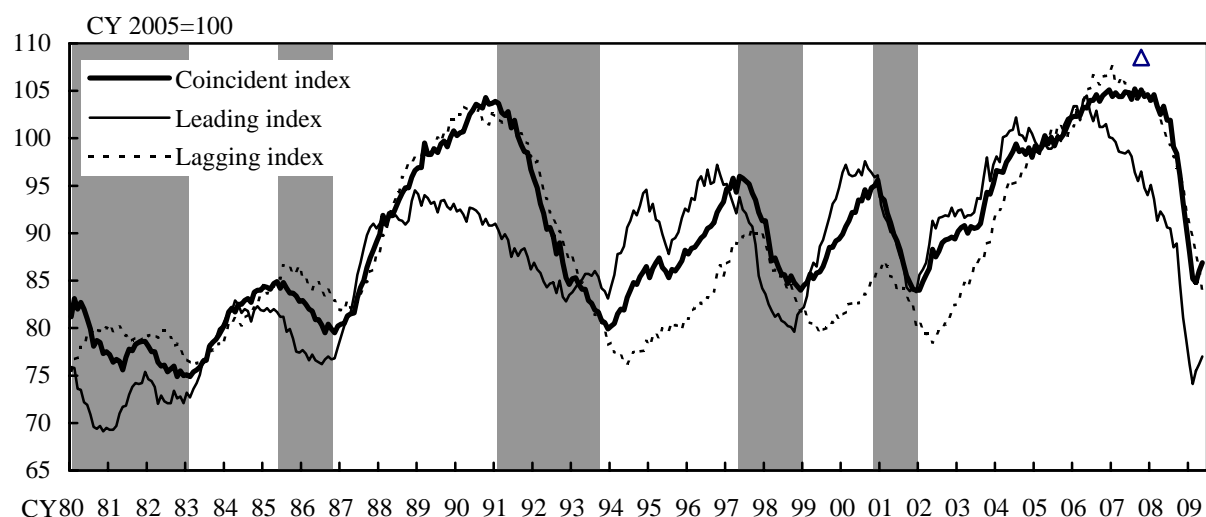
(2) Components

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)

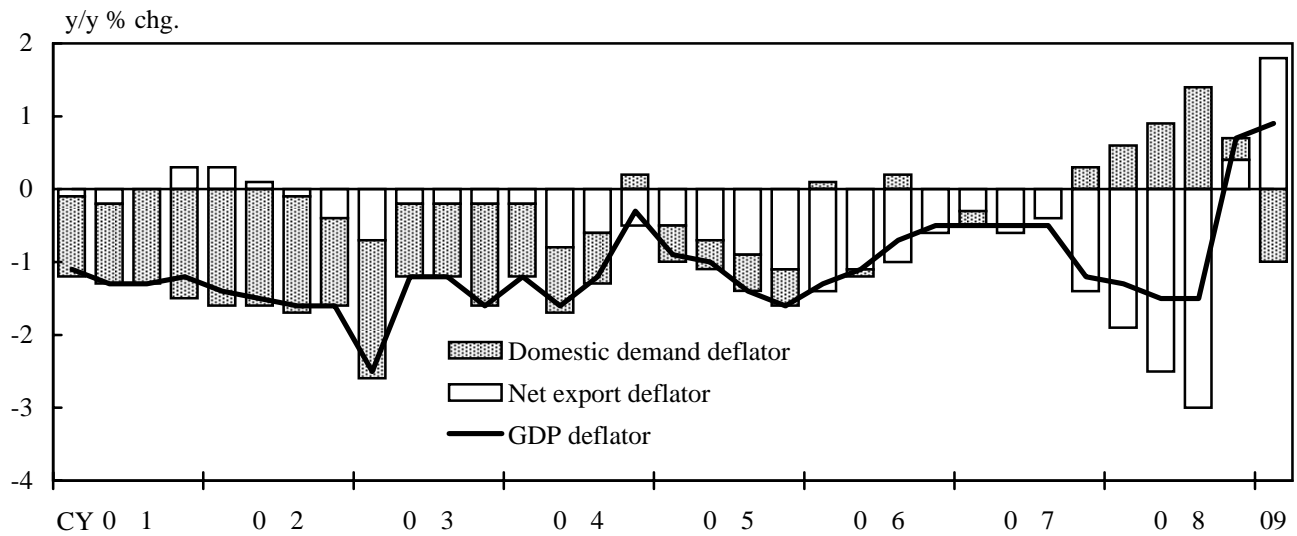


Note: Shaded areas indicate recession periods. Triangle shows the last peak.

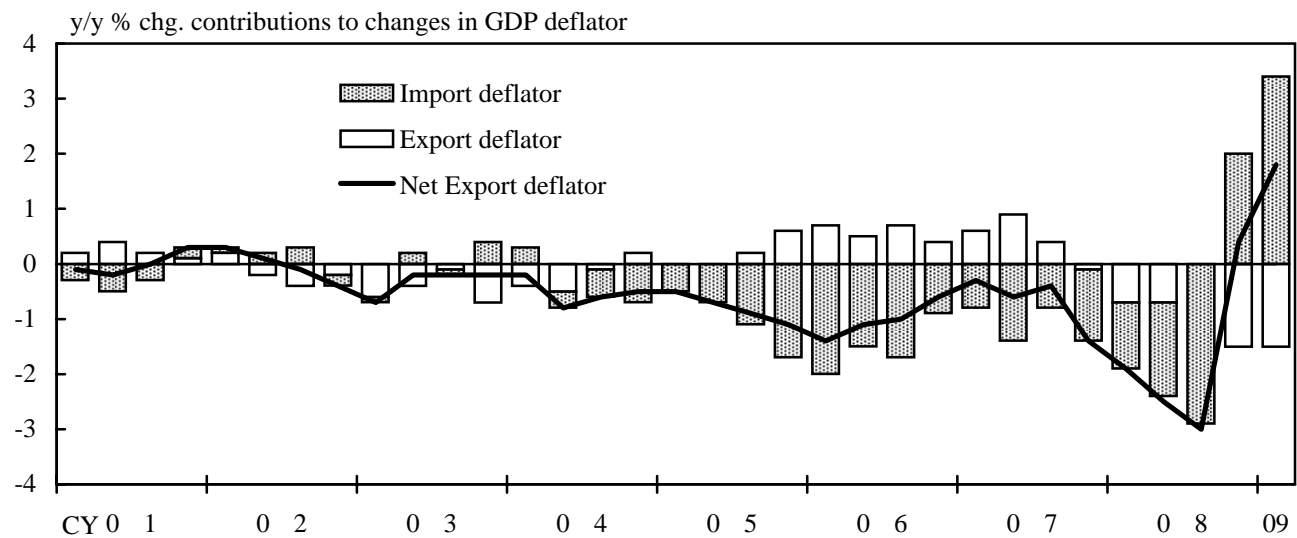
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

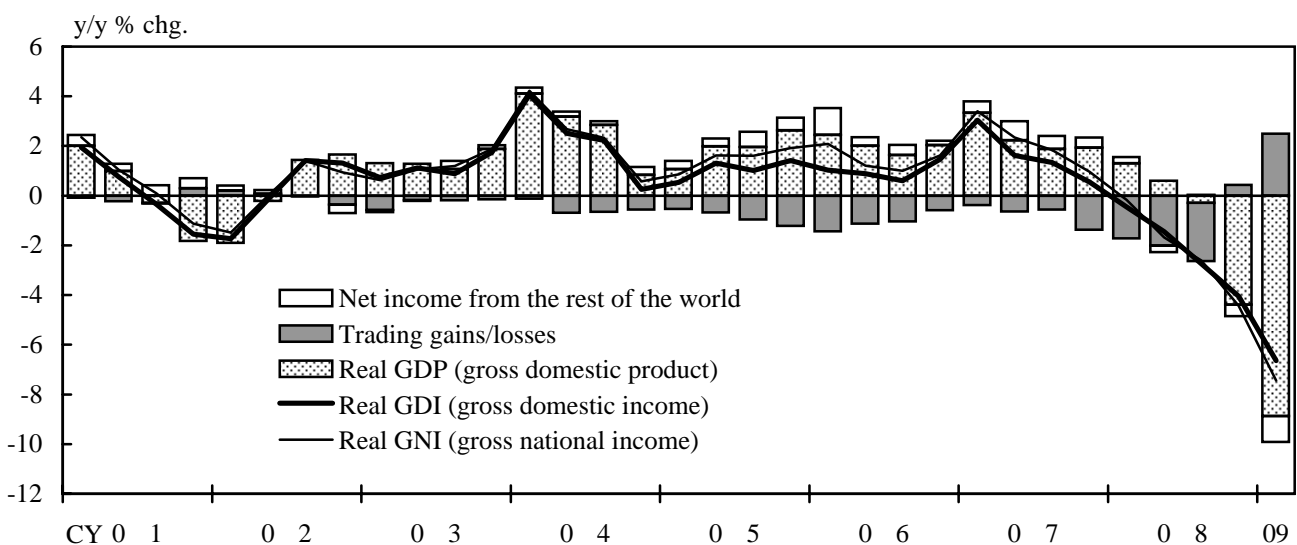
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



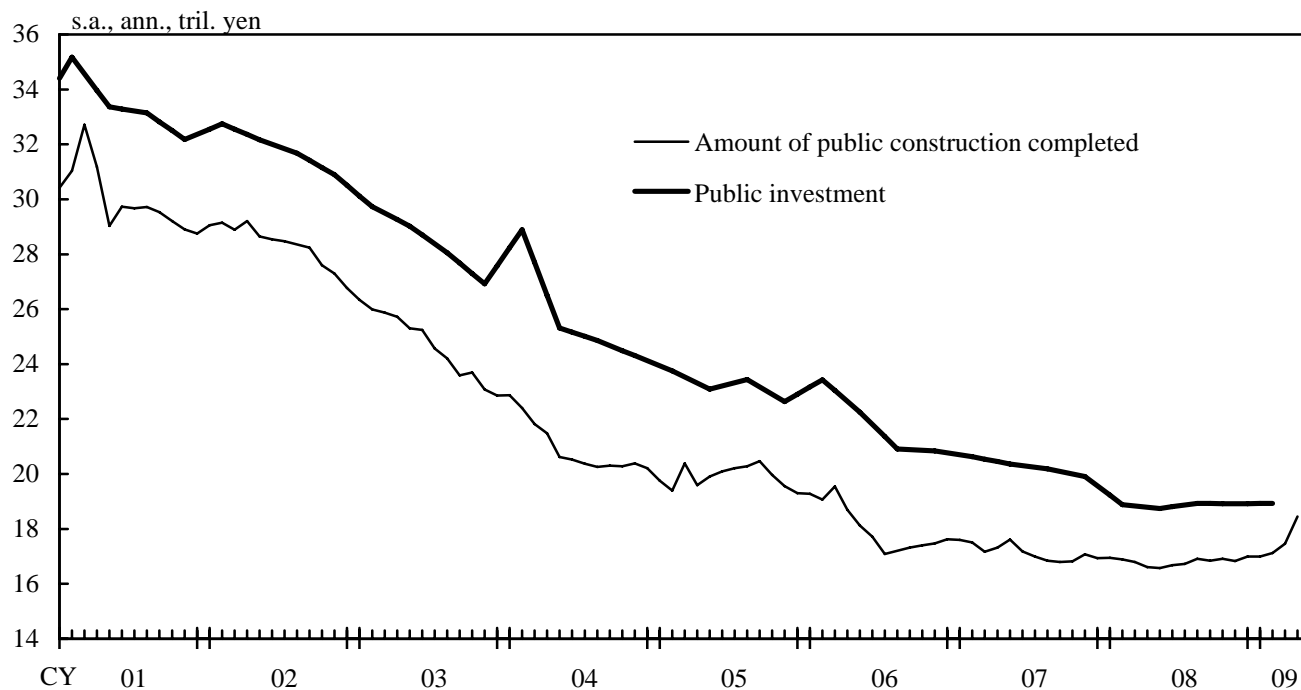
Note: Figures of components indicate contributions to changes in real GNI.

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

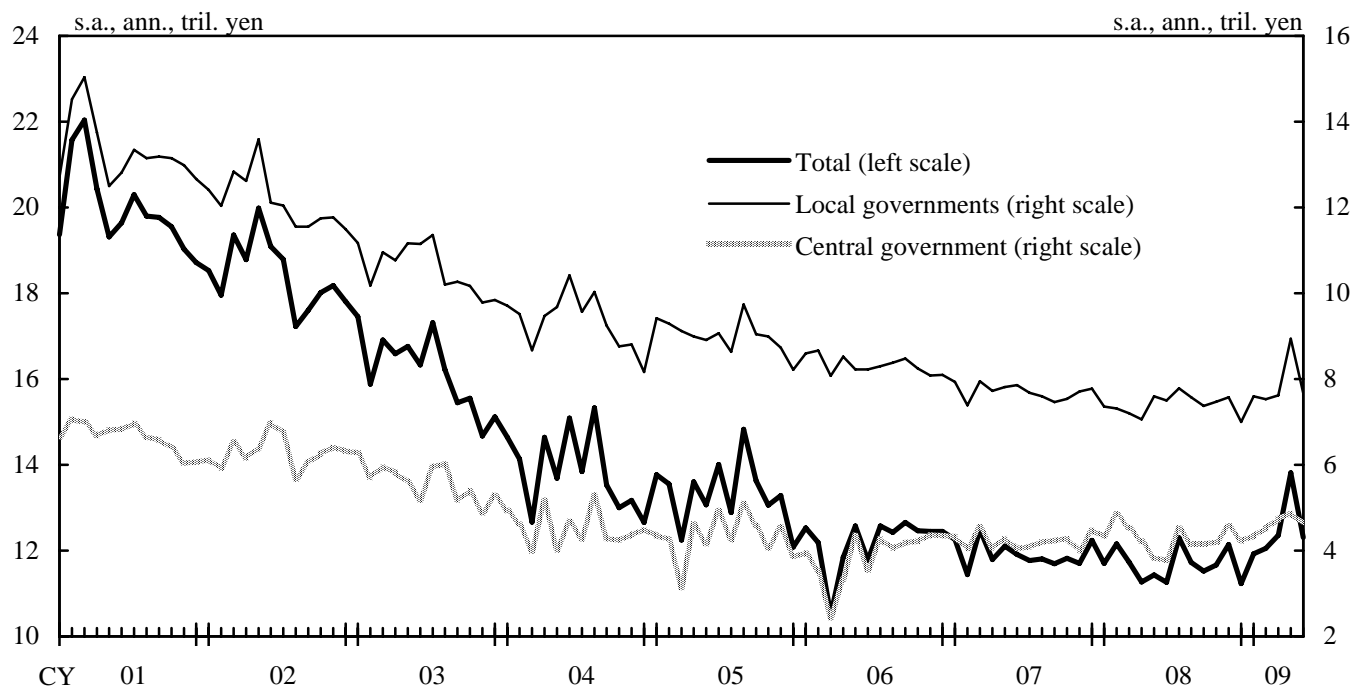
Source: Cabinet Office, "National Accounts."

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.

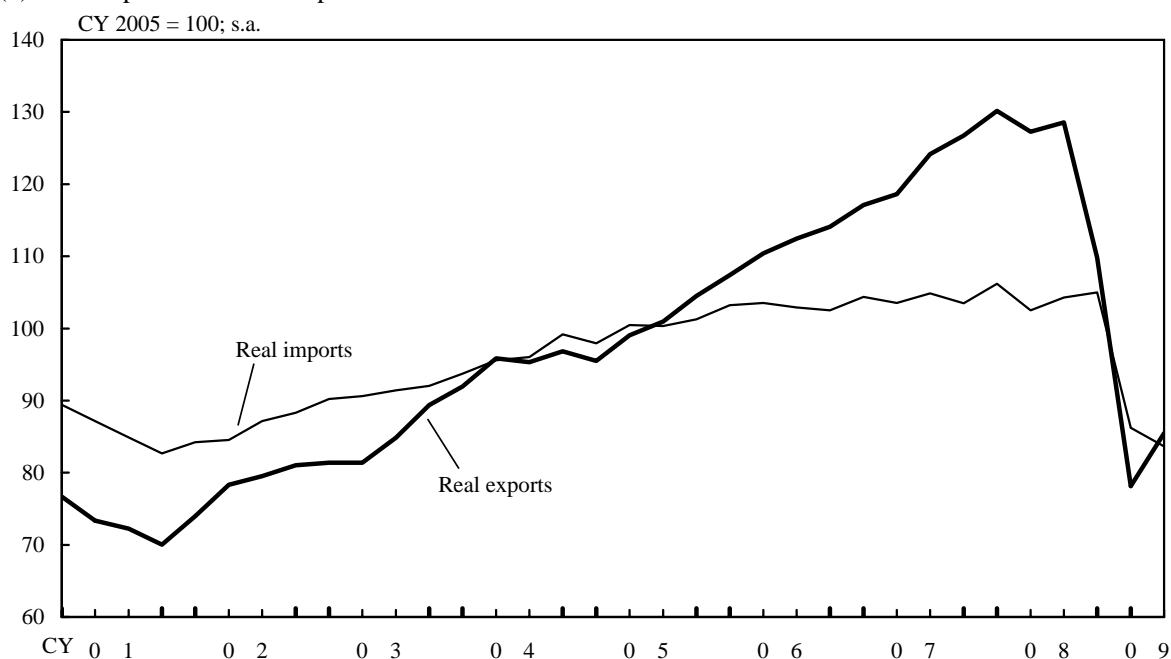
Sources: Cabinet Office, "National Accounts";

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

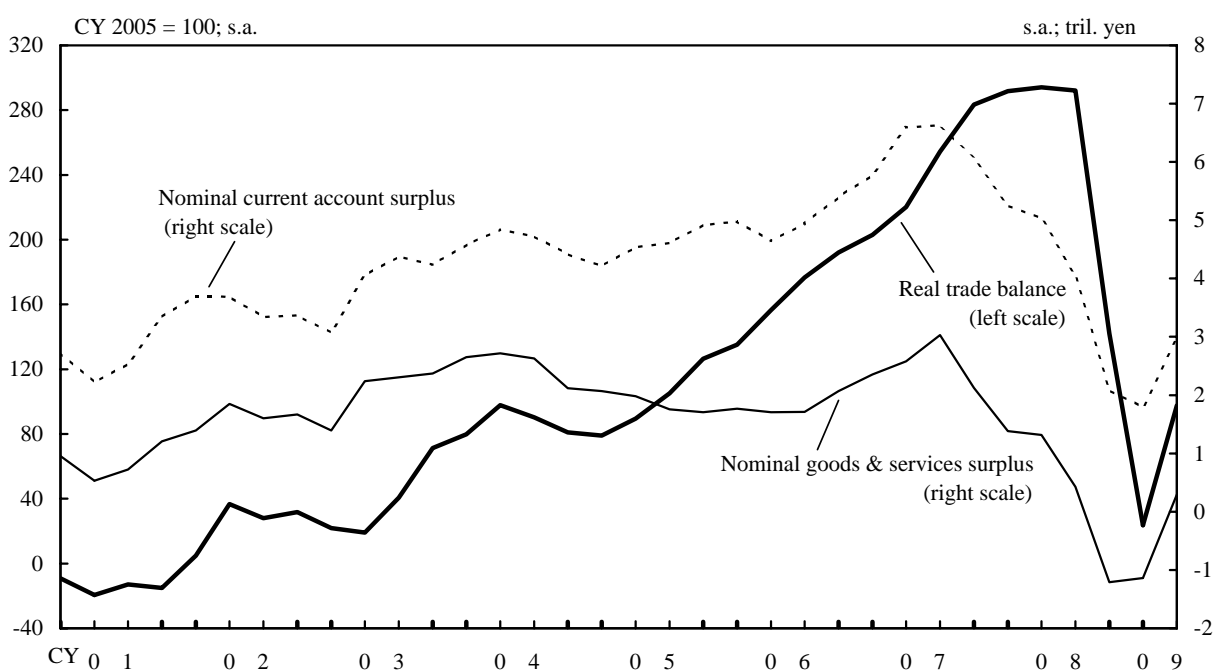
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

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-May averages 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 Mar.	Apr.	May
United States	<17.5>	-1.2	-8.9	-7.2	-4.9	-9.0	-35.6	7.1	5.5	0.4	11.4
EU	<14.1>	13.0	-0.1	-7.8	-2.8	-17.2	-27.0	3.7	-10.0	14.8	3.1
East Asia	<46.8>	9.9	3.3	-2.5	-0.4	-15.6	-22.2	15.7	1.0	10.3	5.9
China	<16.0>	16.8	6.7	-0.0	-1.3	-14.8	-17.1	17.9	0.9	13.0	3.1
NIEs	<22.1>	5.2	-0.1	-4.8	0.8	-18.4	-22.4	17.1	-1.2	12.5	4.5
Korea	<7.6>	5.3	-0.3	-4.8	2.2	-21.6	-13.5	10.9	0.4	8.1	1.9
Taiwan	<5.9>	0.0	-4.4	-9.0	-2.5	-21.9	-19.7	19.6	5.9	7.4	8.6
ASEAN ⁴	<8.8>	11.4	6.3	-1.1	-1.5	-9.9	-30.7	7.0	8.3	-1.7	17.4
Thailand	<3.8>	9.8	4.9	-5.4	1.2	-6.6	-36.1	6.5	-1.7	7.0	11.1
Others	<21.5>	20.4	16.1	-0.9	1.9	-7.9	-30.6	-8.0	-9.6	6.0	-4.2
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.8	9.4	0.1	7.9	5.1

(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 Mar.	Apr.	May
Intermediate goods	<18.9>	5.3	0.3	-4.4	0.8	-8.2	-16.4	15.3	10.5	6.3	4.2
Motor vehicles and their related goods	<23.8>	13.2	3.2	-3.7	-1.4	-14.5	-50.5	11.8	-0.3	5.7	21.3
Consumer goods ⁴	<4.1>	6.4	3.5	0.9	-4.4	-12.1	-26.9	9.9	-5.6	14.7	-1.6
IT-related goods ⁵	<10.2>	12.2	0.7	2.7	-0.3	-20.8	-25.9	30.4	5.0	20.3	5.8
Capital goods and parts ⁶	<28.3>	8.0	5.2	-0.7	-1.0	-9.9	-26.4	-1.1	-8.7	5.4	0.8
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.8	9.4	0.1	7.9	5.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q2 figures are April-May averages 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.

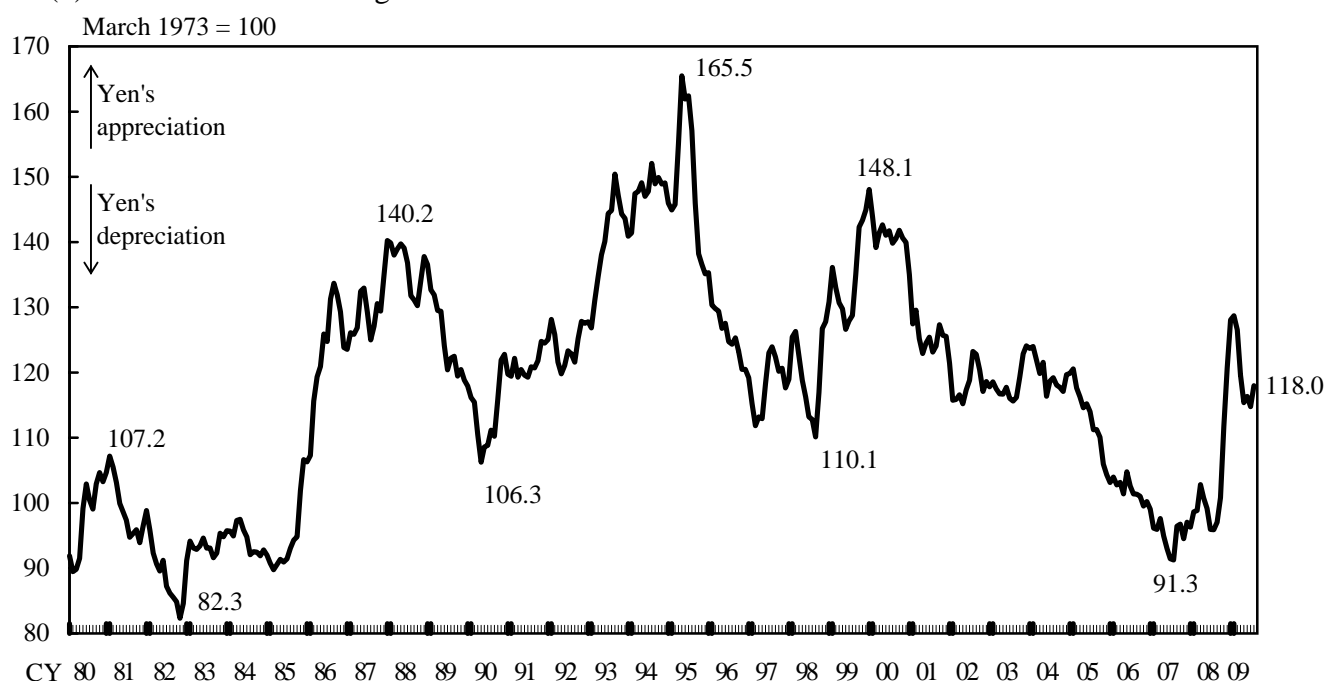
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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 July 2009 is the average up to July 14.

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 Q3	Q4	2009 Q1	Q2	
United States ¹		2.8	2.0	1.1	-0.5	-6.3	-5.5	n.a.	
European Union ¹		3.2	2.8	0.9	-1.6	-7.0	-9.2	n.a.	
	Germany	3.0	2.5	1.3	-2.1	-8.6	-14.4	n.a.	
	France	2.4	2.3	0.3	-0.8	-5.7	-4.8	n.a.	
	United Kingdom	2.6	2.7	0.7	-2.9	-7.0	-9.3	n.a.	
East Asia ²	China	11.6	13.0	9.0	9.0	6.8	6.1	n.a.	
	NIEs	Korea	5.2	5.1	2.2	3.1	-3.4	-4.2	n.a.
		Taiwan	4.8	5.7	0.1	-1.0	-8.6	-10.2	n.a.
		Hong Kong	7.0	6.4	2.4	1.5	-2.6	-7.8	n.a.
		Singapore	8.4	7.8	1.1	0.0	-4.2	-9.6	-3.7
	ASEAN4	Thailand	5.2	4.9	2.6	3.9	-4.2	-7.1	n.a.
		Indonesia	5.5	6.3	6.1	6.4	5.2	4.4	n.a.
		Malaysia	5.8	6.2	4.6	4.8	0.1	-6.2	n.a.
Philippines		5.3	7.1	3.8	4.6	2.9	0.4	n.a.	

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 Mar.	Apr.	May
United States	<10.2>	-1.5	-2.6	-4.6	1.1	-2.7	-14.4	-9.5	-1.0	-5.7	-5.6
EU	<9.2>	4.0	-3.0	-0.3	-3.4	-2.3	-10.4	-5.2	-5.8	-1.5	10.3
East Asia	<37.9>	3.1	2.3	-2.3	1.1	-0.2	-17.6	-0.5	5.8	1.2	2.3
China	<18.8>	5.7	4.3	-0.7	3.1	-1.2	-15.1	-1.5	14.9	-2.4	2.5
NIEs	<8.0>	-3.8	-1.2	-4.1	-0.9	-6.3	-20.6	7.1	-6.8	10.8	5.0
Korea	<3.9>	-3.3	-5.4	-9.5	-1.1	-6.6	-20.5	3.3	-6.9	3.4	9.4
Taiwan	<2.9>	-3.0	3.5	1.2	0.2	-6.4	-22.0	10.5	-4.7	12.5	11.5
ASEAN4 ³	<11.1>	4.5	1.1	-3.9	-1.5	7.5	-20.6	-4.1	-1.7	2.3	-0.4
Thailand	<2.7>	4.4	2.3	-3.6	2.5	-1.9	-21.8	-0.5	-6.1	7.2	-0.4
Others	<42.7>	0.2	2.0	-4.1	2.0	3.2	-18.8	-3.1	-5.3	4.3	3.1
Real imports		0.7	0.2	-3.5	1.7	0.7	-17.9	-3.0	1.5	0.4	2.2

(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 Mar.	Apr.	May
Raw materials ⁴	<42.0>	0.7	1.0	-5.9	1.9	4.4	-20.3	-4.8	-5.8	3.8	1.7
Intermediate goods	<14.1>	2.0	1.7	1.9	0.9	4.3	-19.1	-9.7	-0.8	2.3	-6.4
Foodstuffs	<7.9>	-9.6	-3.6	0.6	2.0	11.3	-2.9	-5.7	-2.7	-3.8	1.1
Consumer goods ⁵	<6.9>	-0.1	-2.7	-1.4	0.6	-2.7	-16.2	1.7	25.1	-2.1	3.6
IT-related goods ⁶	<9.5>	4.2	4.3	-1.5	1.0	-7.9	-17.2	12.7	0.9	14.4	-0.0
Capital goods and parts ⁷	<11.2>	8.5	2.8	-3.0	0.6	-9.2	-18.7	-8.2	-2.0	-5.5	5.5
Excluding aircraft	<10.5>	7.9	3.6	0.4	-2.4	-4.5	-23.7	-2.9	1.0	-0.9	10.3
Real imports		0.7	0.2	-3.5	1.7	0.7	-17.9	-3.0	1.5	0.4	2.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q2 figures are April-May averages 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.

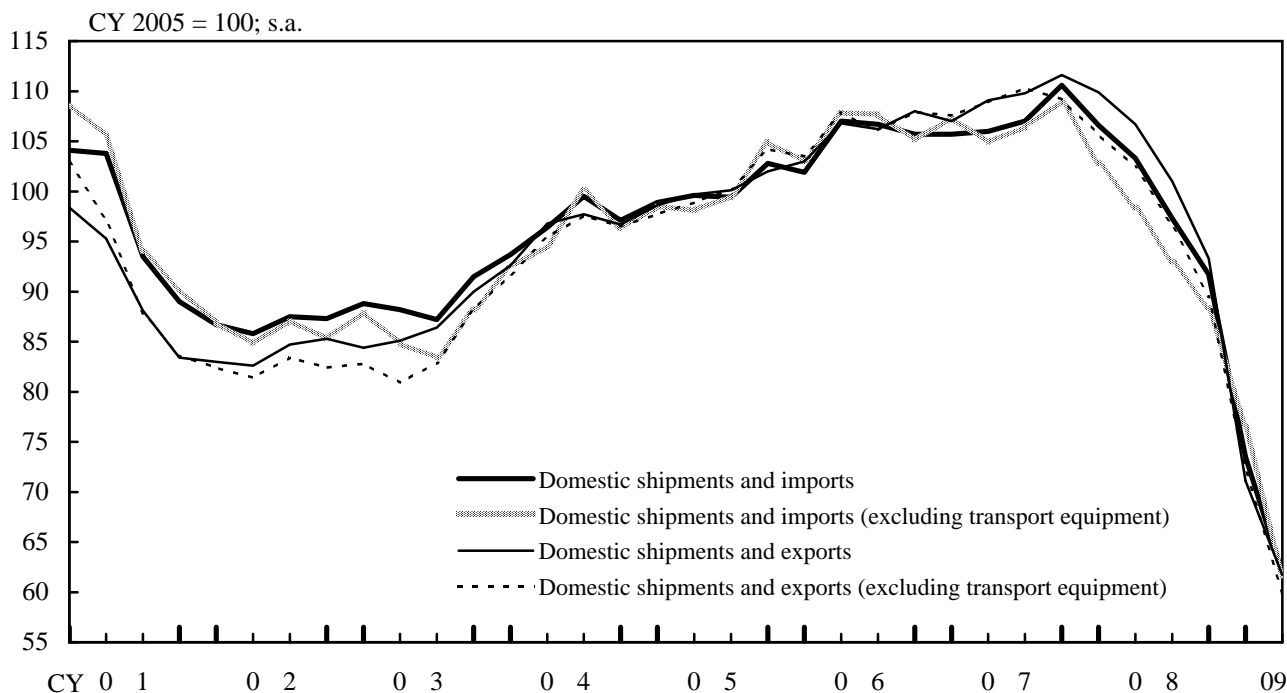
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

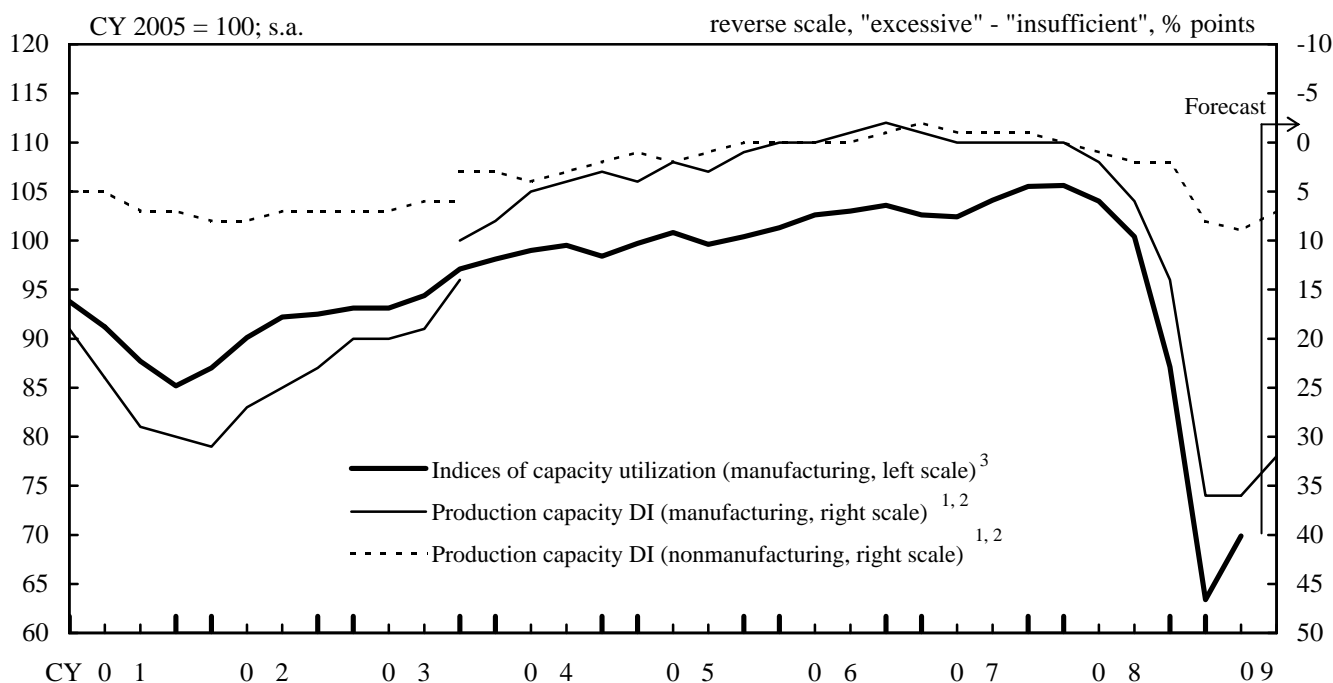
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



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

(2) Indices of Capacity Utilization and Production Capacity DI



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

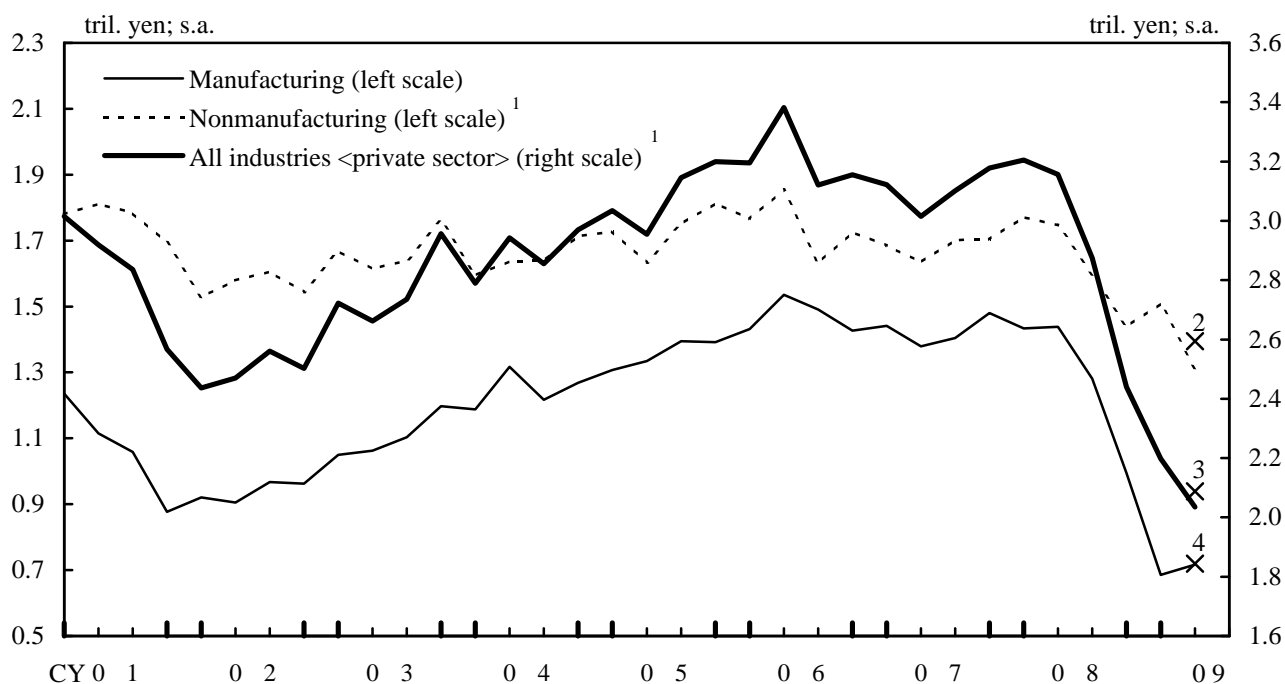
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2009/Q2 is April-May average.

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."

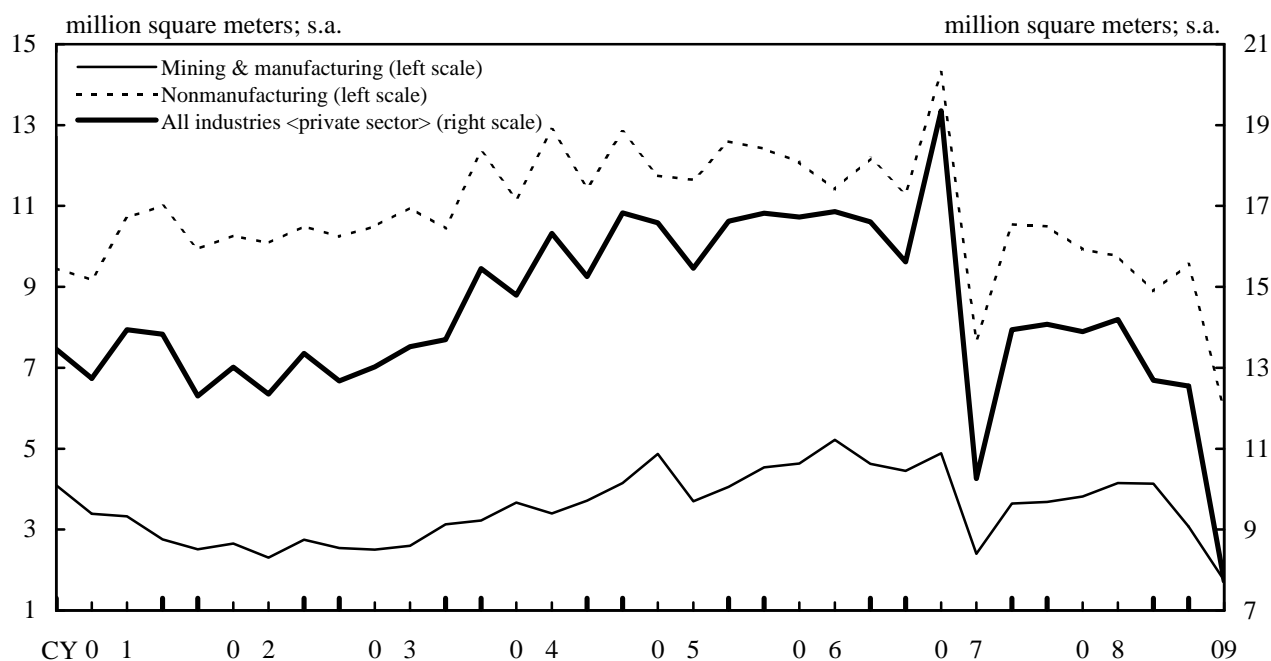
Leading Indicators for Business Fixed Investment

(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 averages of April-May in terms of quarterly amount.

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

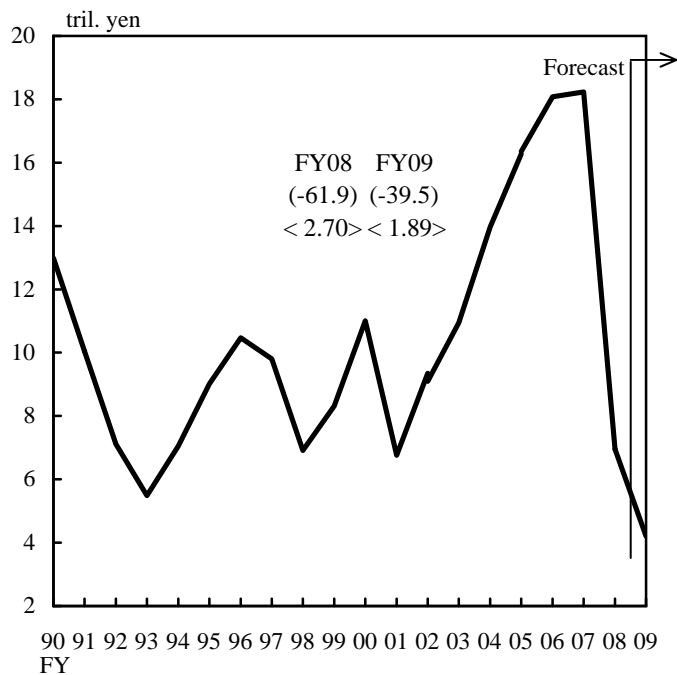


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.
 3. Figures for 2009/Q2 are averages of April-May in terms of quarterly amount.

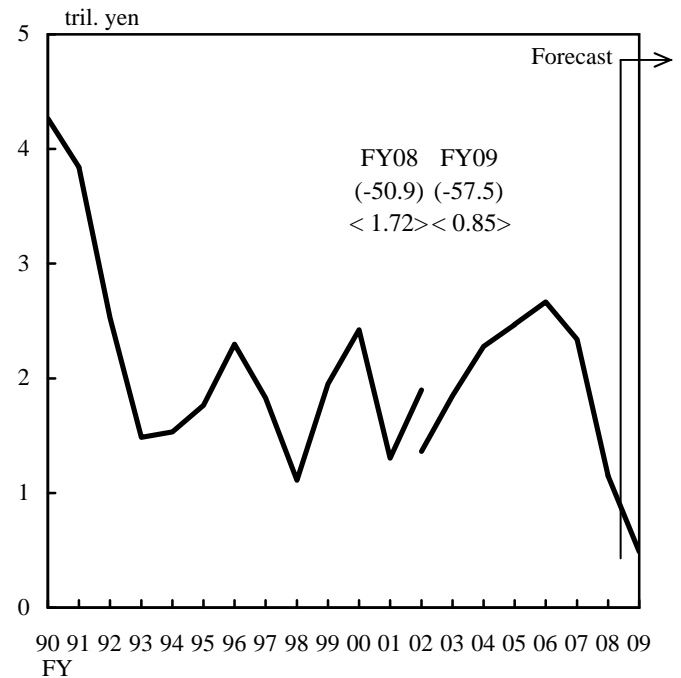
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

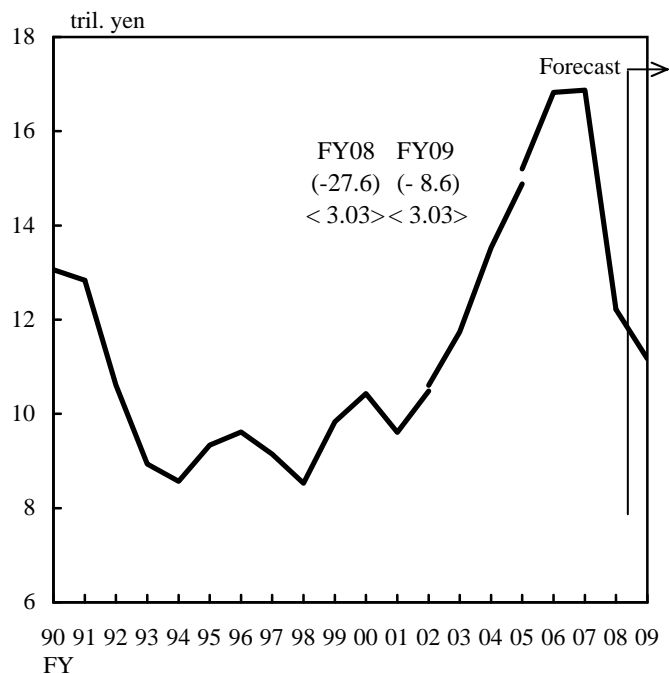
(1) Large Manufacturing Enterprises



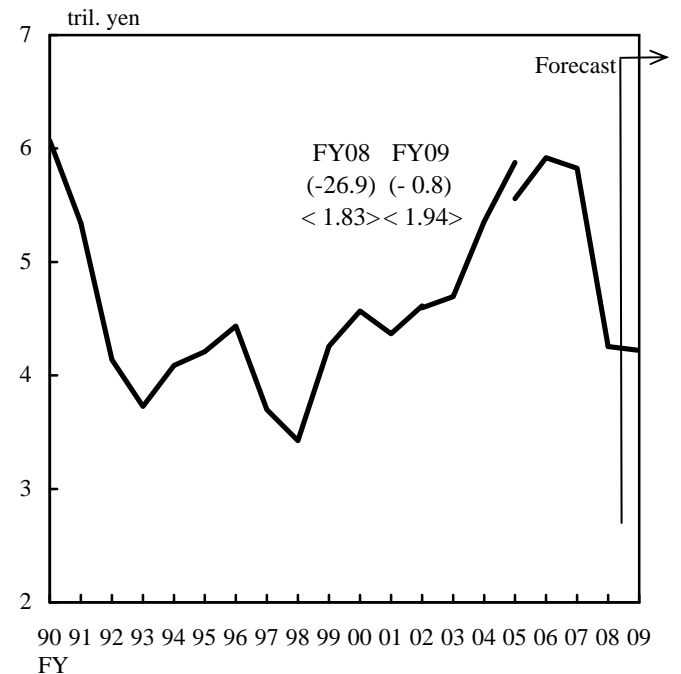
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



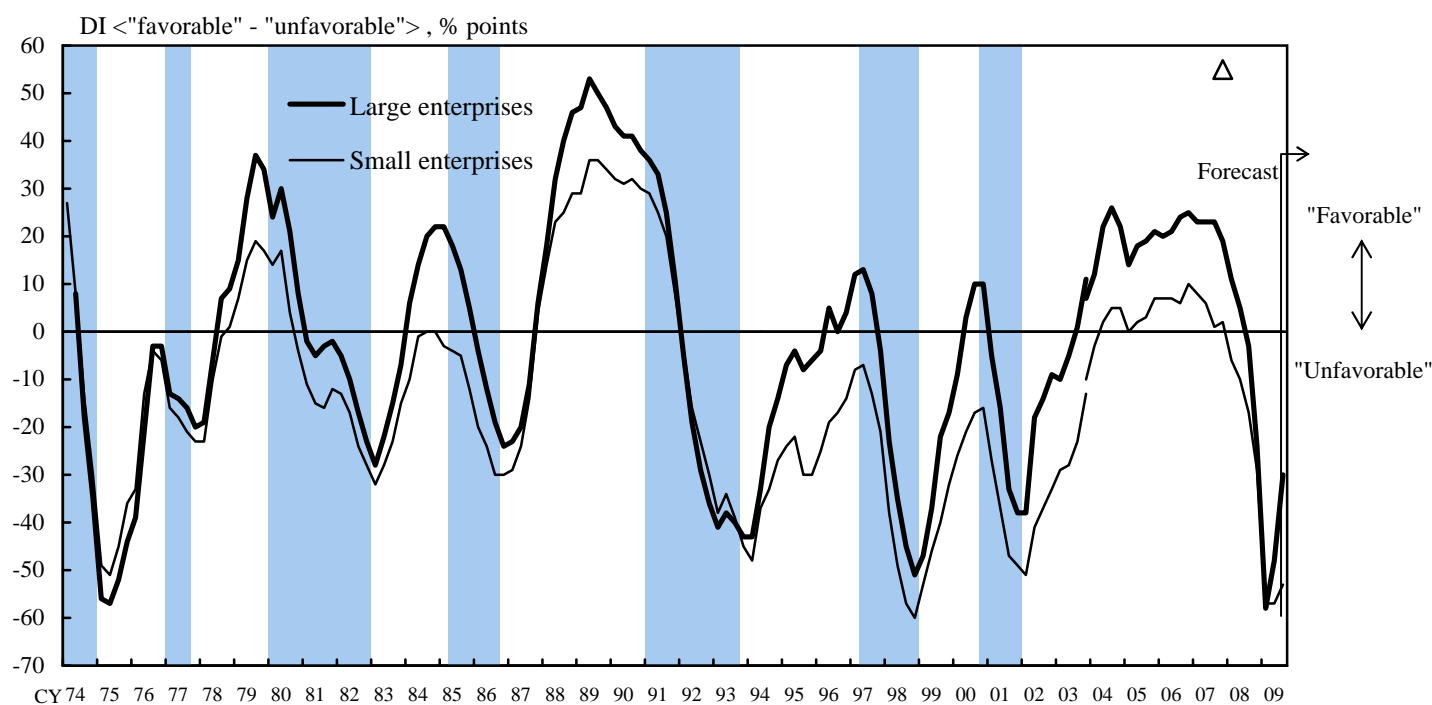
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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

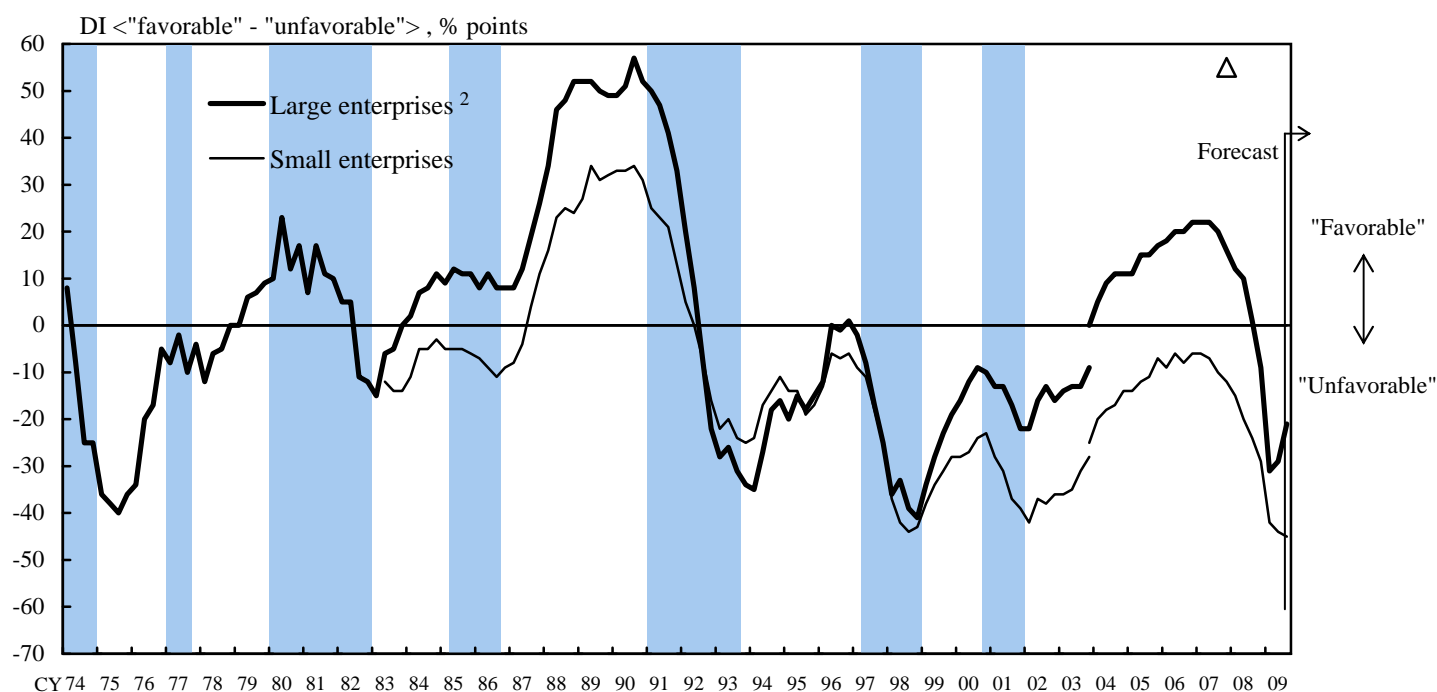
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



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

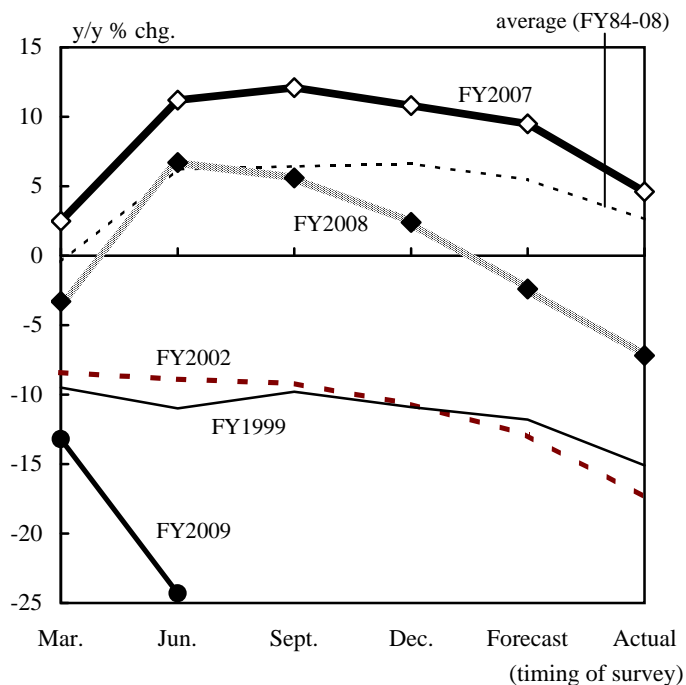
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods. Triangle shows the last peak.

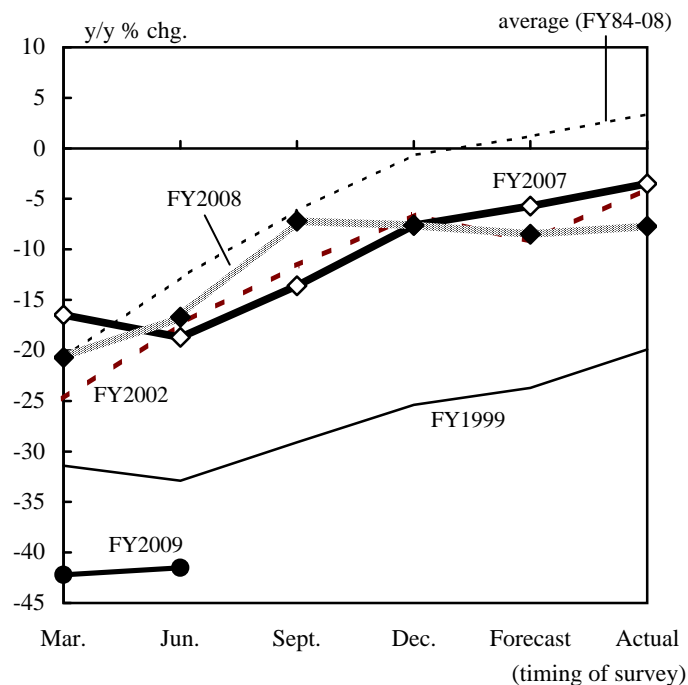
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

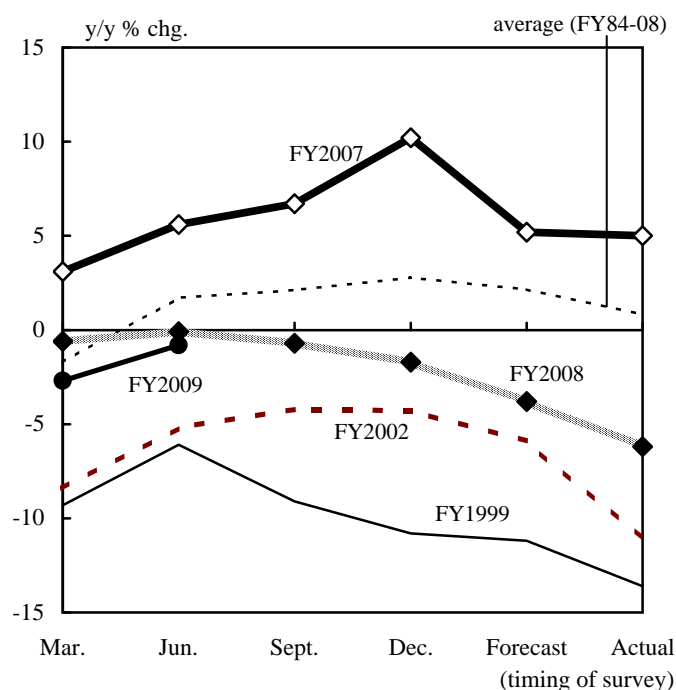
(1) Large Manufacturing Enterprises



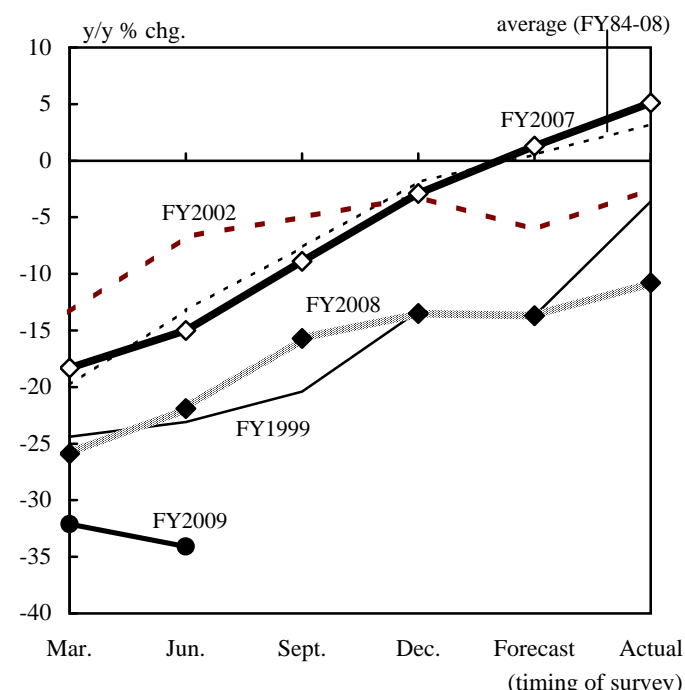
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



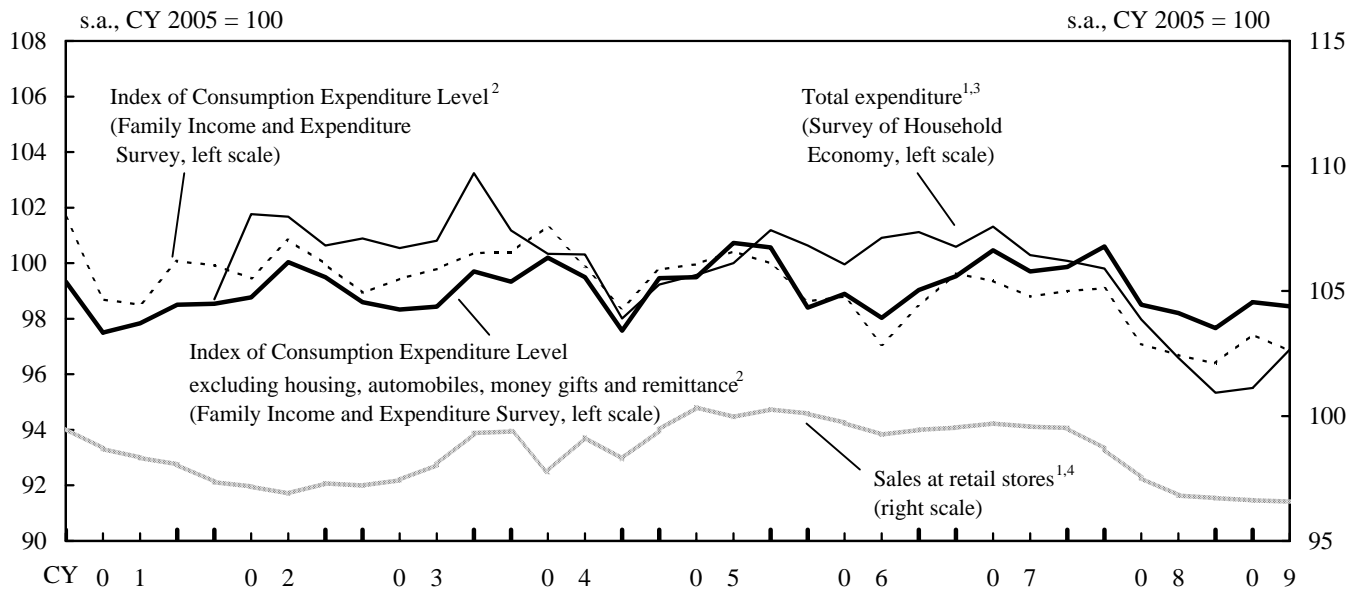
(4) Small Nonmanufacturing Enterprises



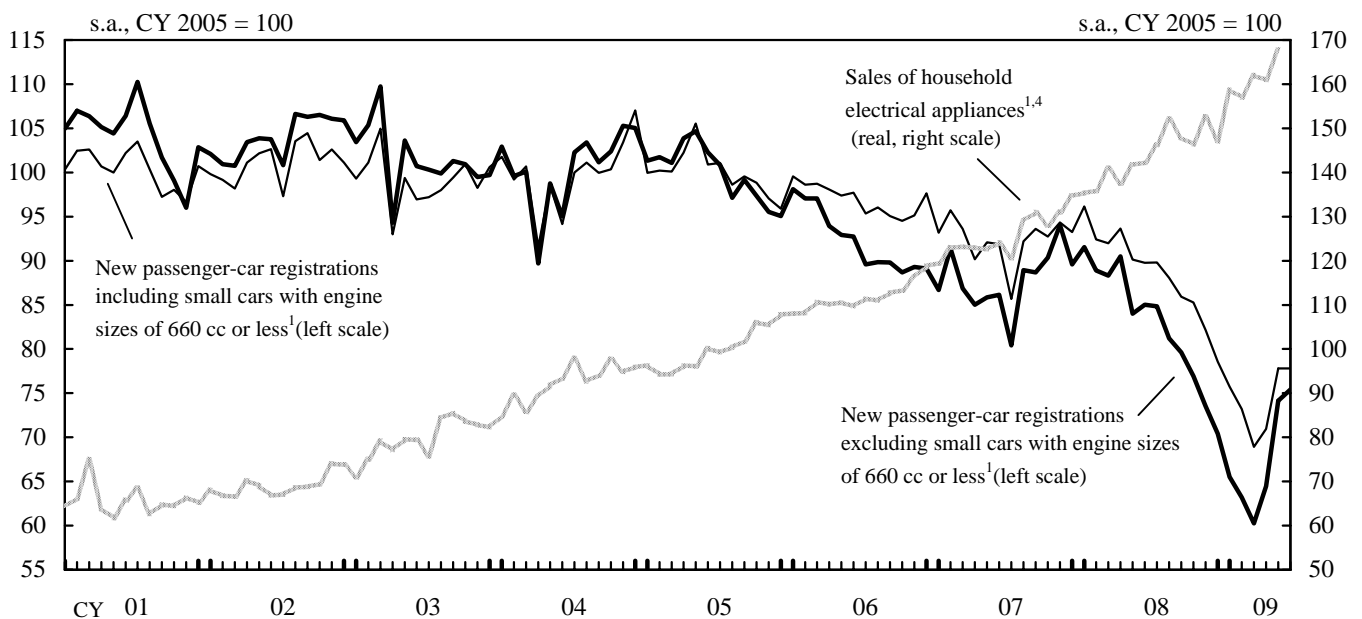
Note: Includes land purchasing expenses and excludes software investment.

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

Indicators for Private Consumption (1)

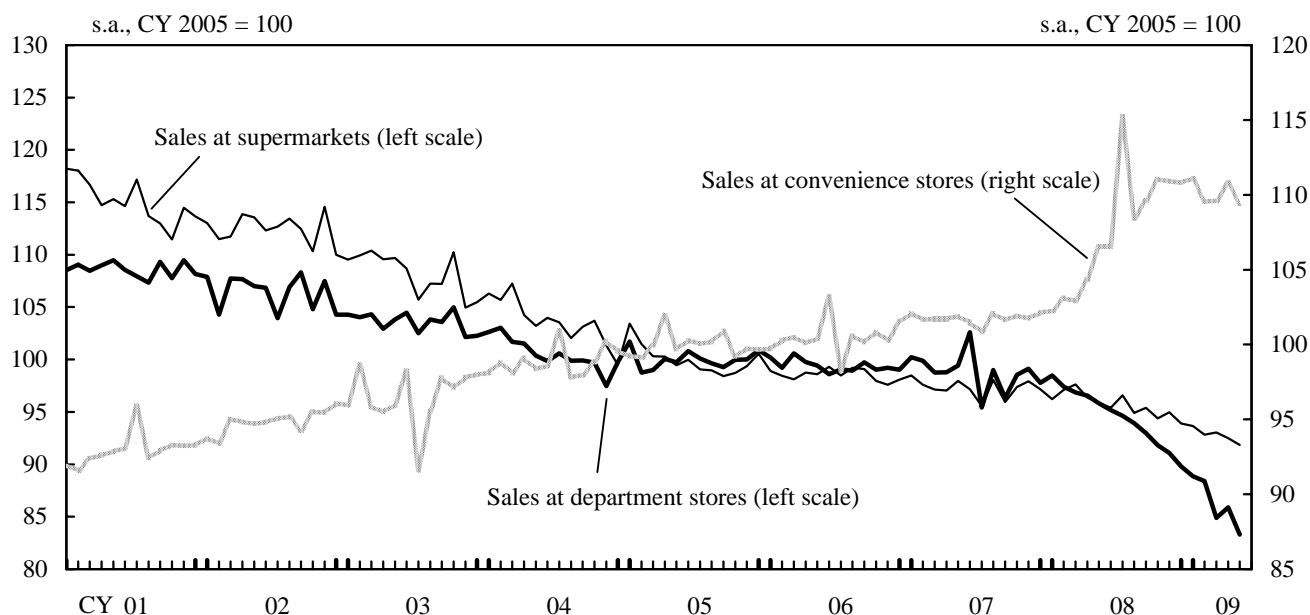
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

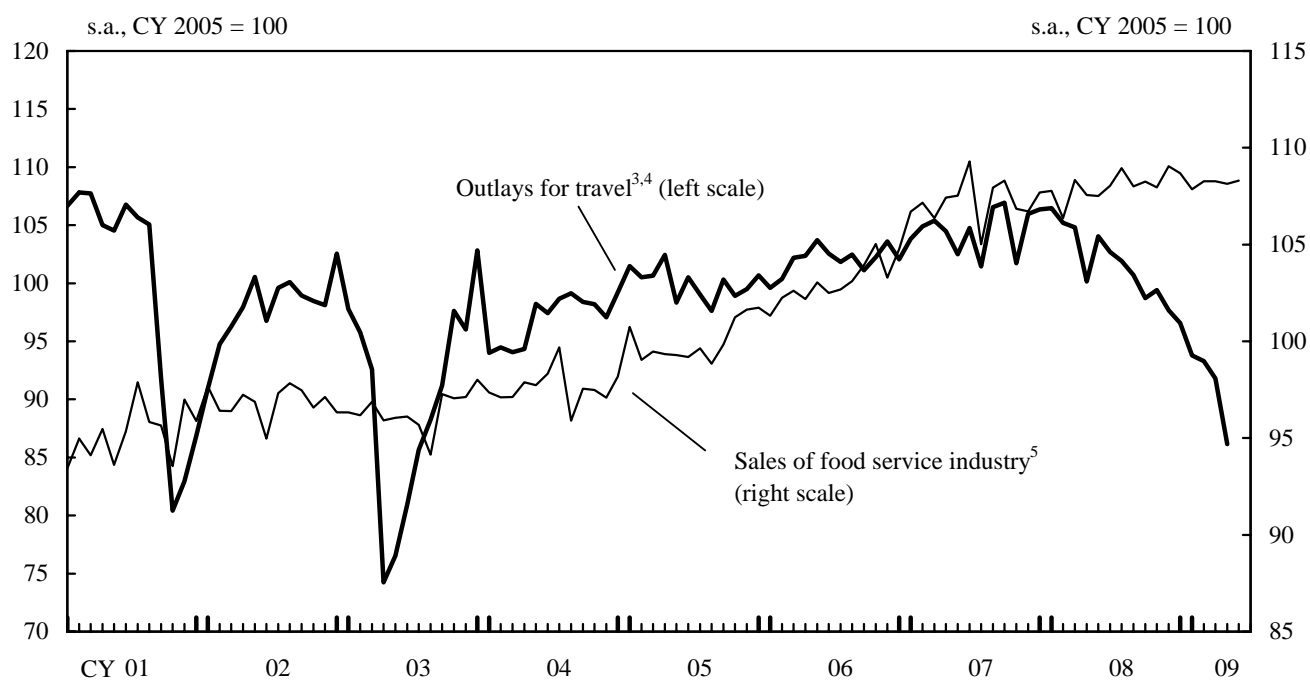


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household 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-May averages 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. Excluding those by foreign travelers.

4. 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.

5. 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";

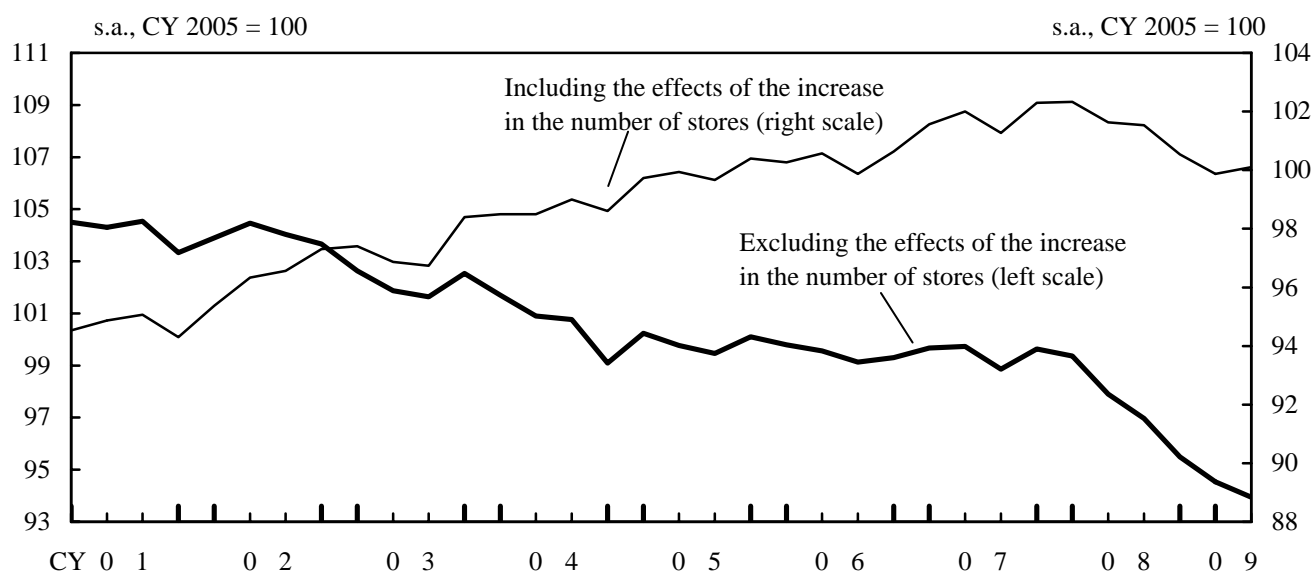
Japan Tourism Agency, "Major Travel Agents' Revenue";

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)."

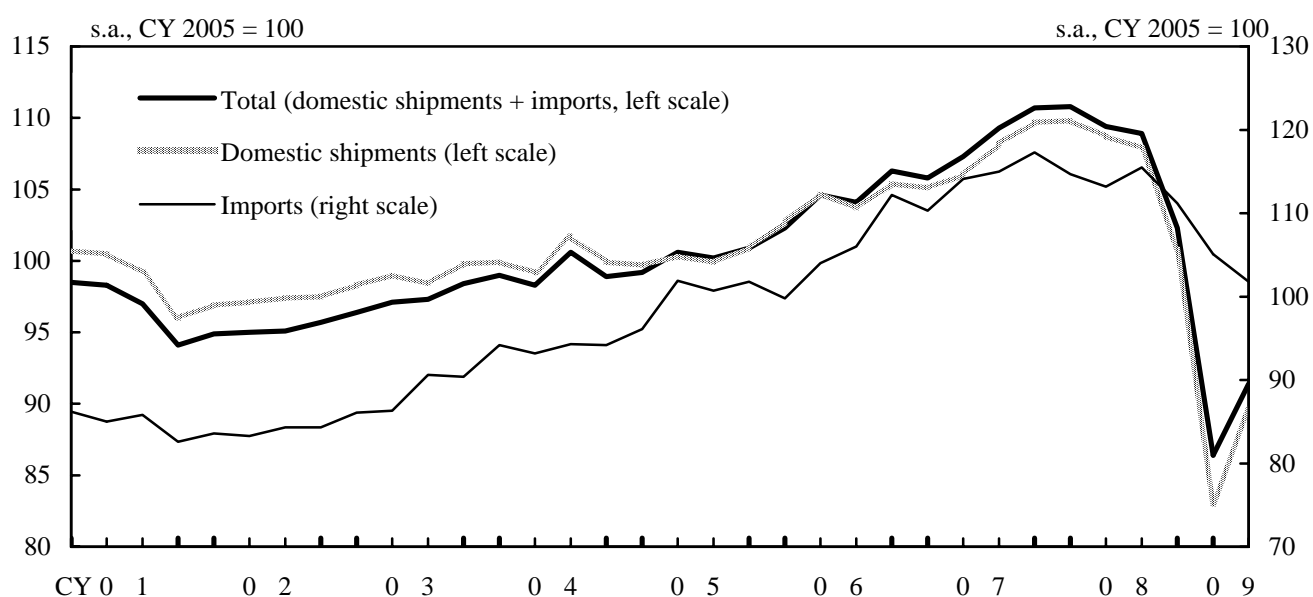
Indicators for Private Consumption (3)

(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 indexes.
3. Seasonally adjusted by X-12-ARIMA.
4. Data for 2009/Q2 figures are those of April-May averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

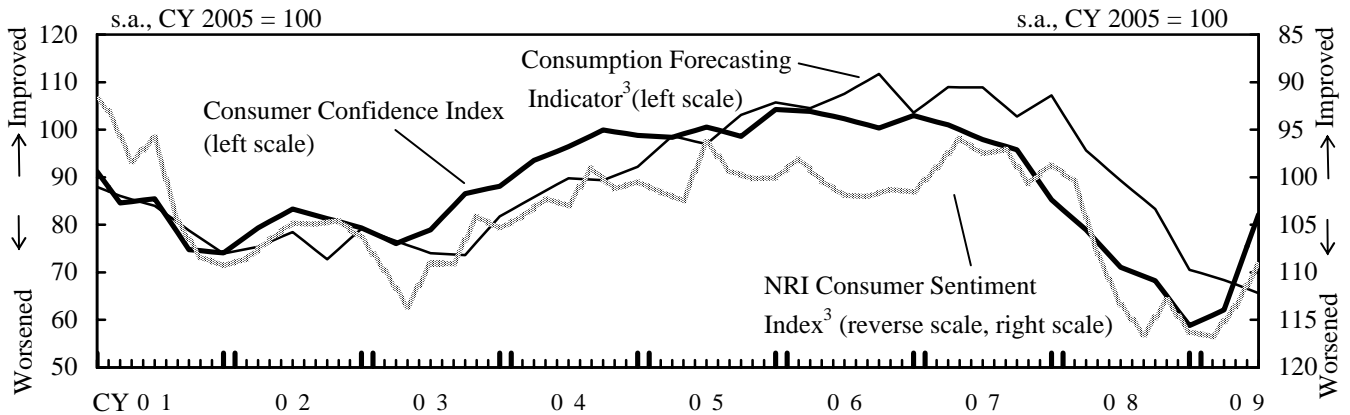


Note: Data for 2009/Q2 figures are those of April-May averages in terms of quarterly amount.

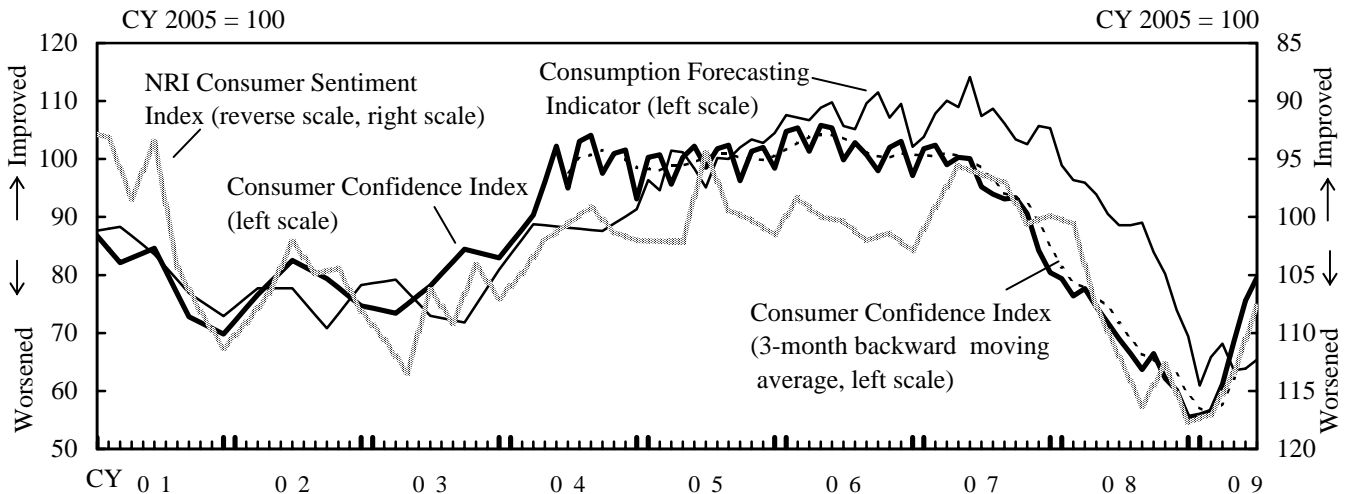
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

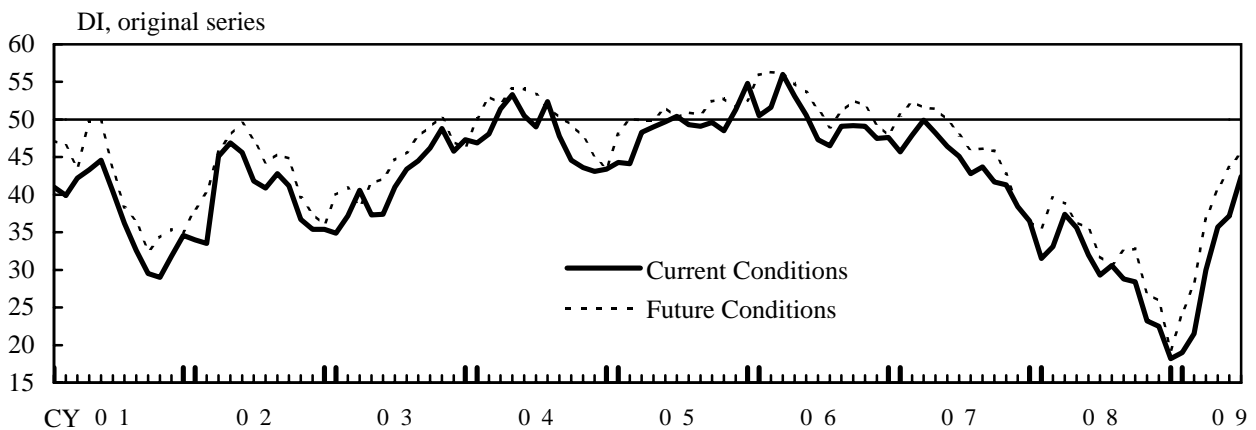
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

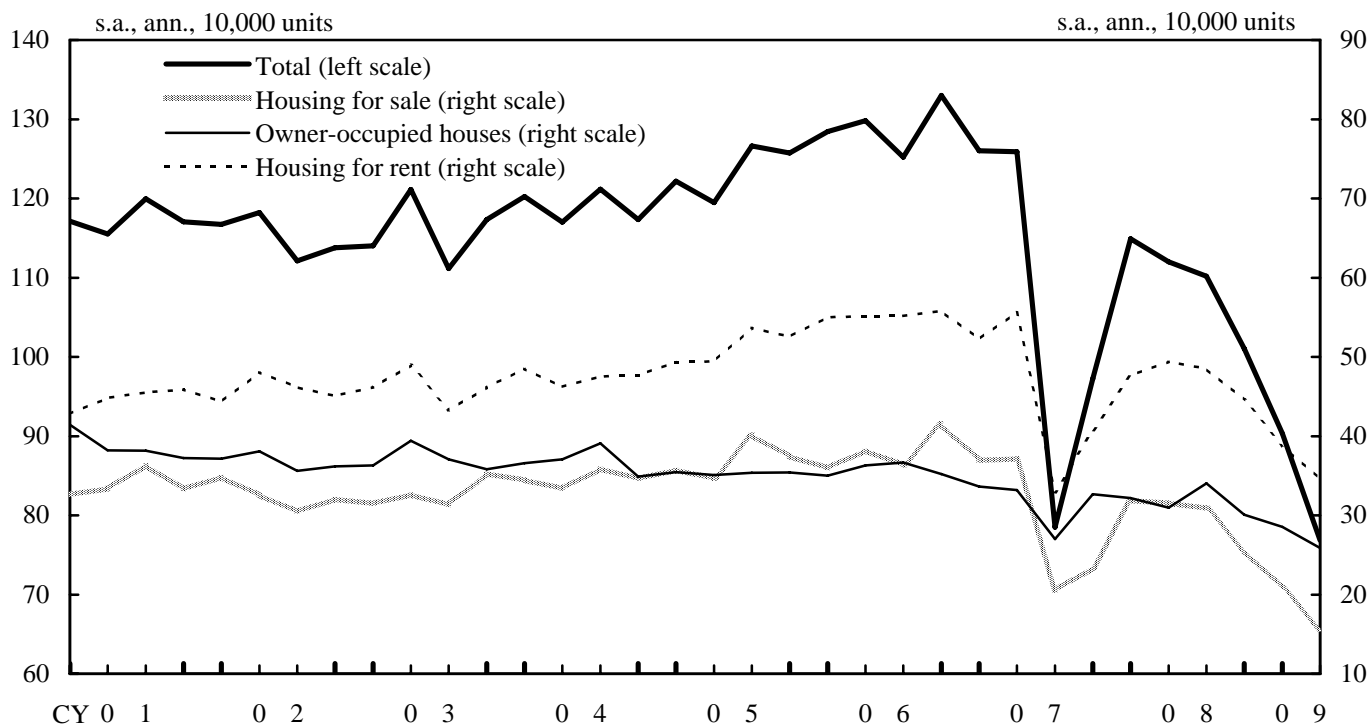


- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures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

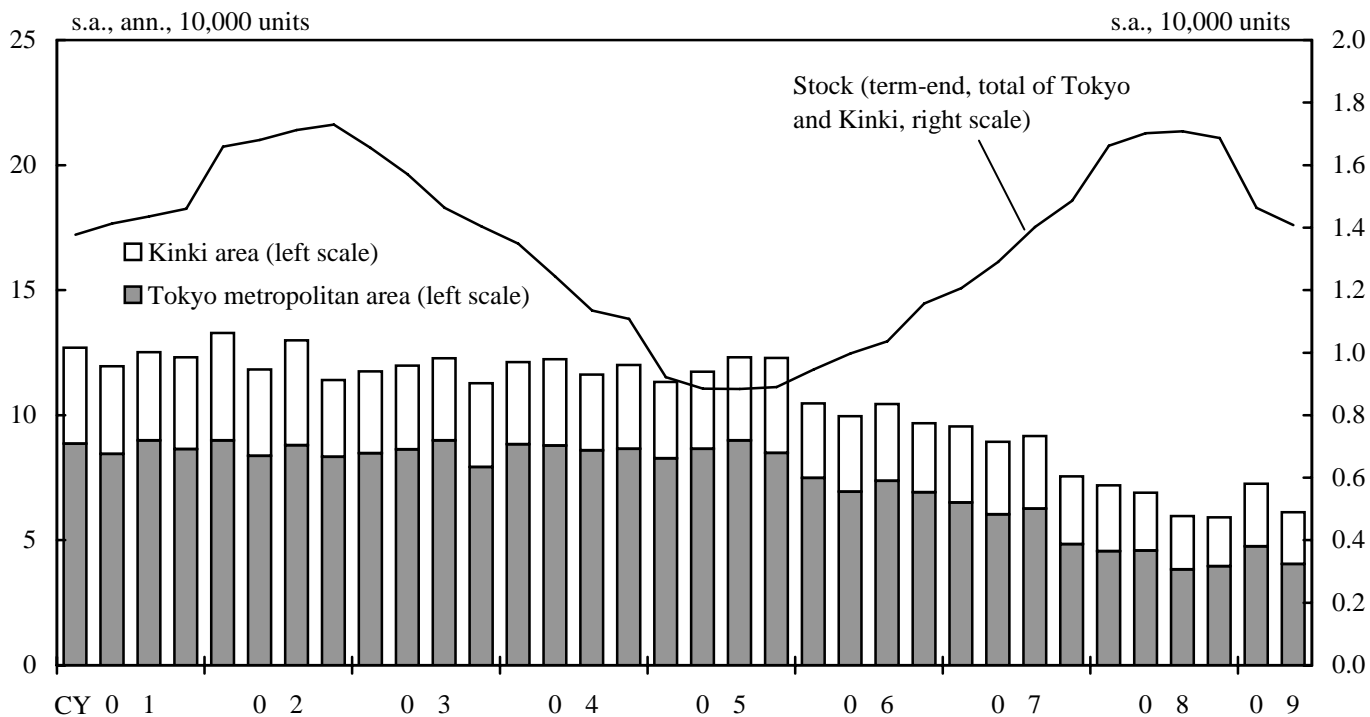
Indicators for Housing Investment

(1) Housing Starts



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

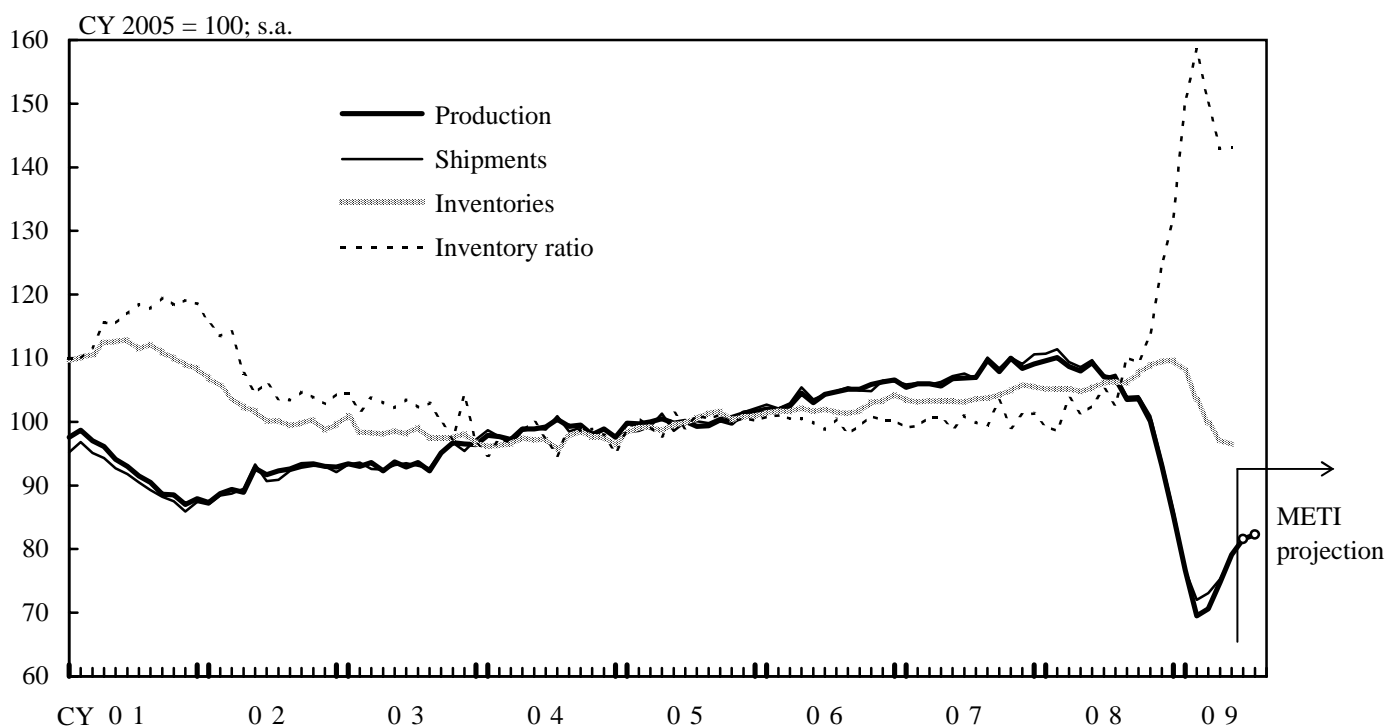
(2) Sales of Apartments



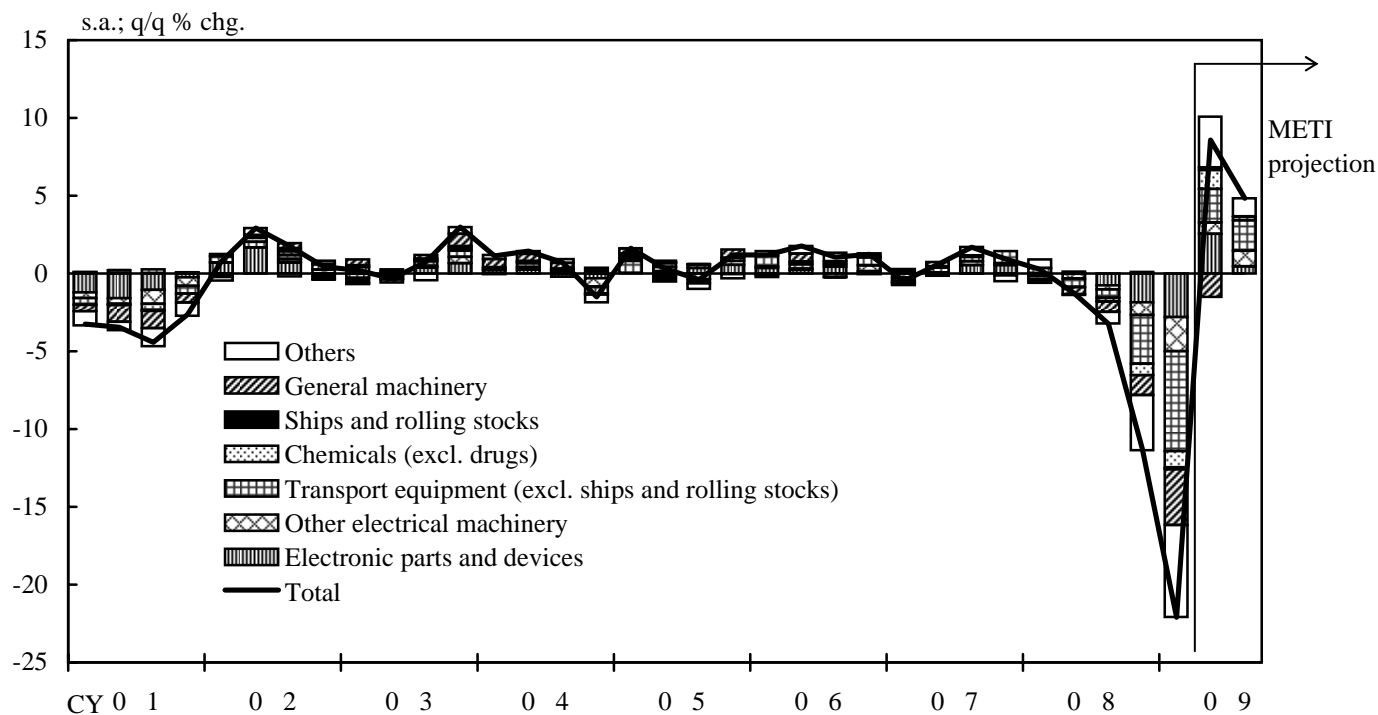
Note: Seasonally adjusted by X-12-ARIMA.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry



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

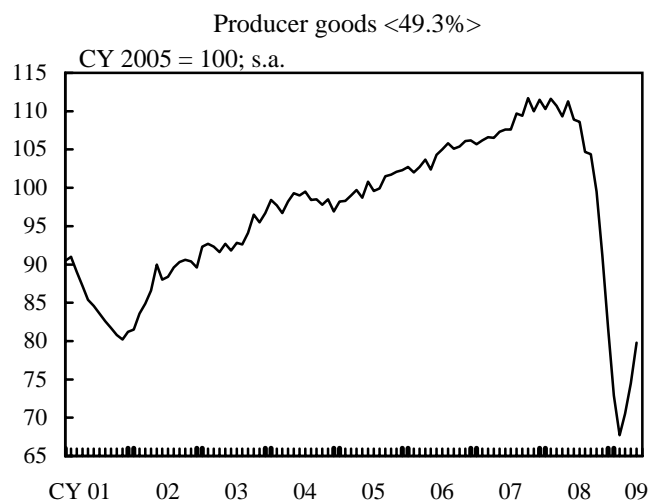
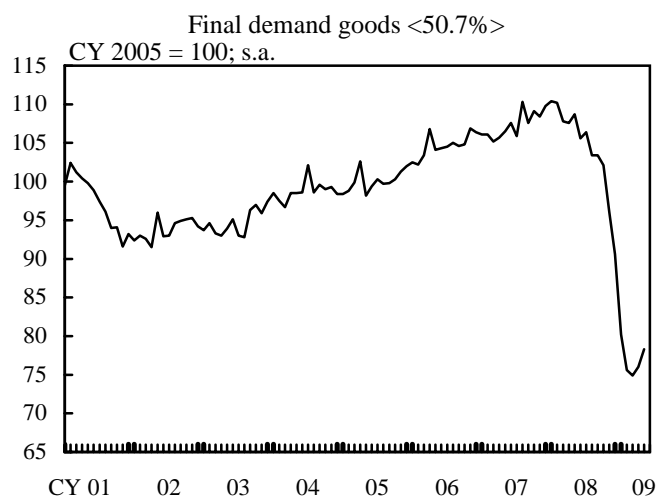
2. Figures up to 2003/Q1 are on the 2000 base.

3. 2009/Q2 figures are based on the actual production levels in April and May, and the METI projection of June. 2009/Q3 figures are based on the assumption that each production level in August and September is the same as that of July.

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

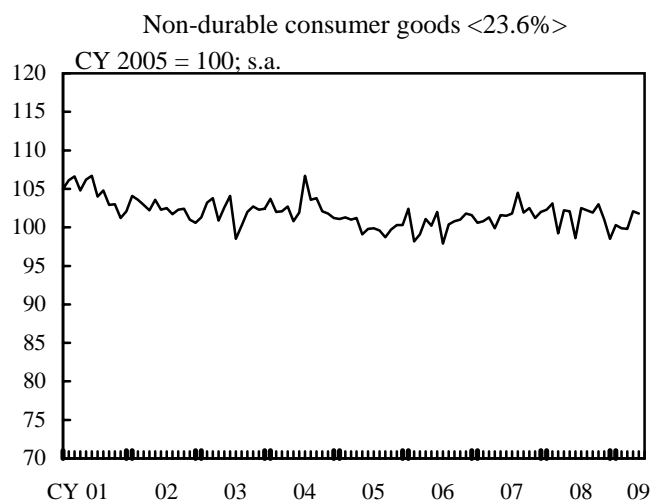
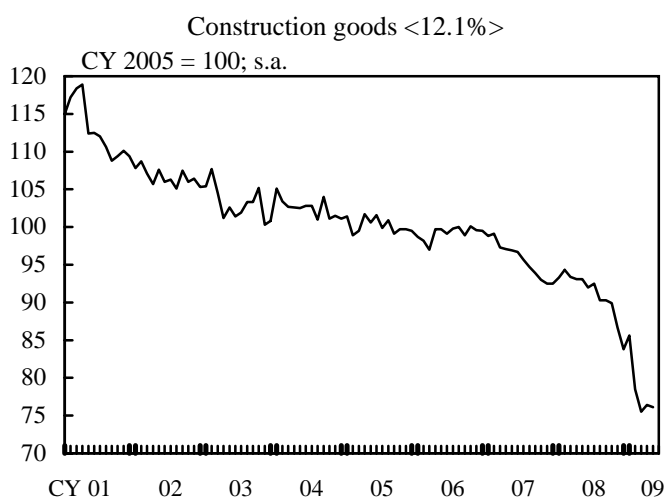
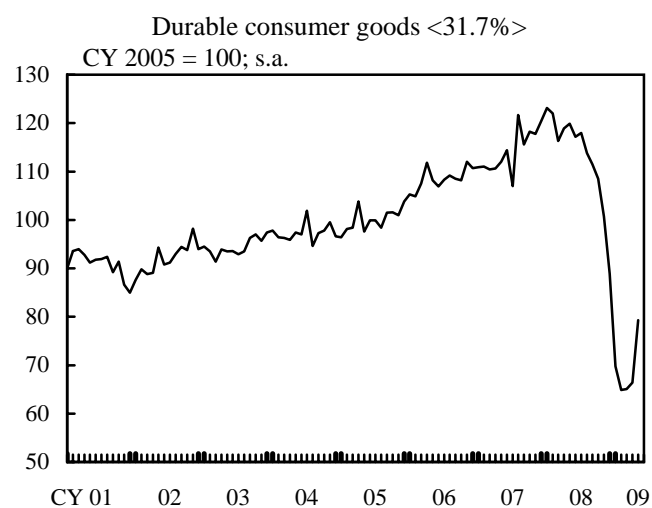
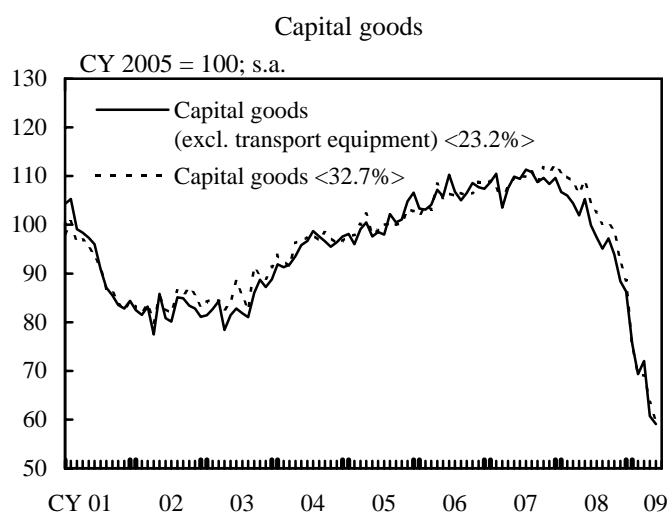
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

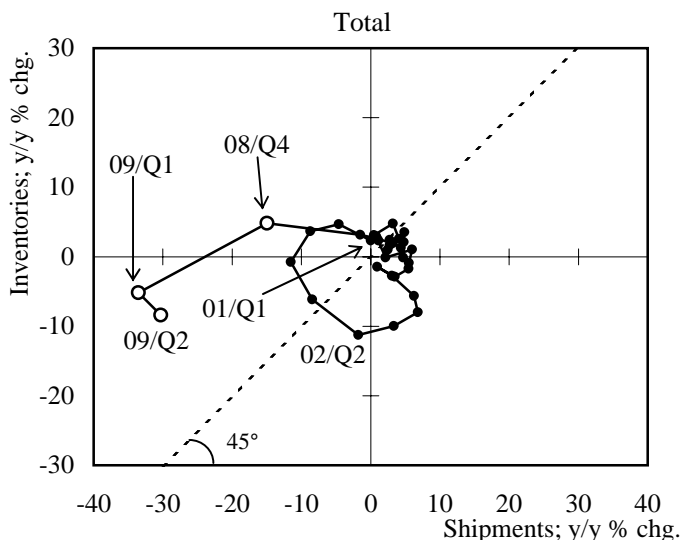
(2) Breakdown of Final Demand Goods



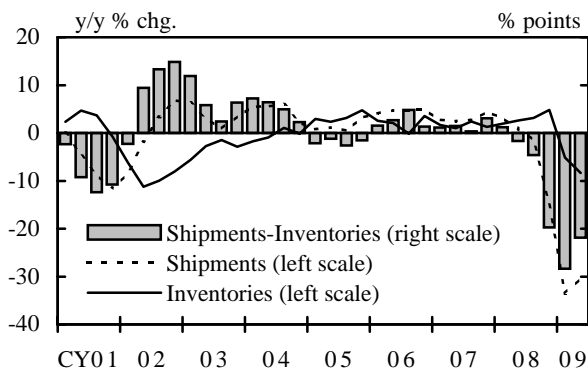
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

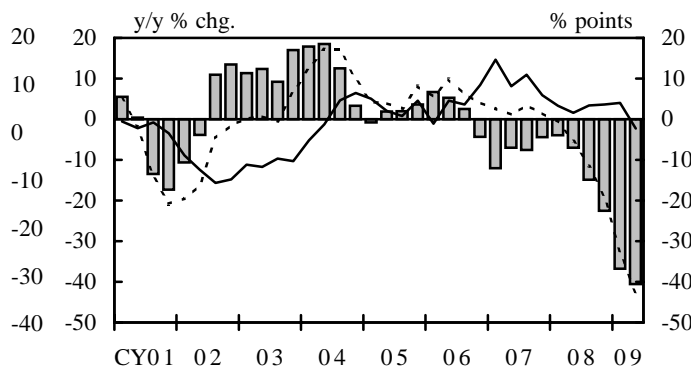
Inventory Cycle



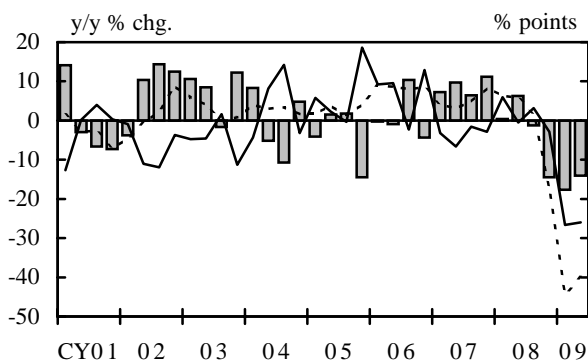
(1) Total



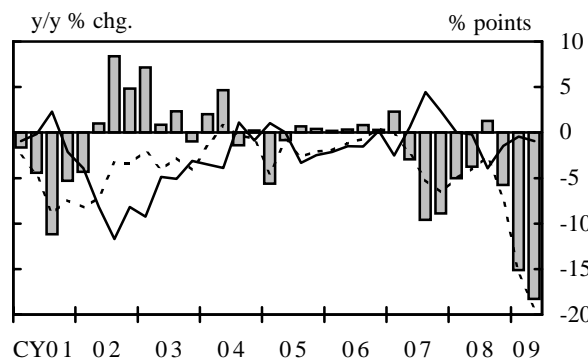
(2) Capital Goods (Excluding Transport Equipment)



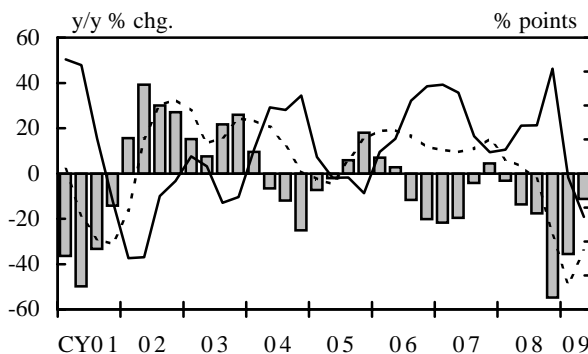
(3) Durable Consumer Goods



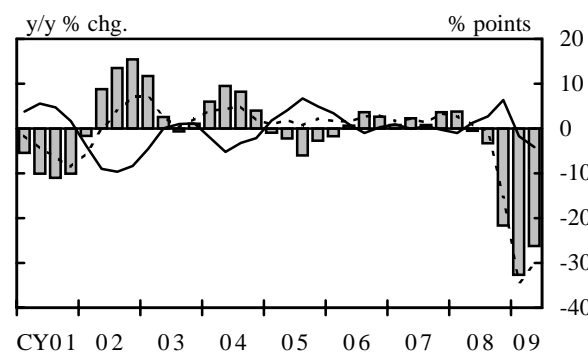
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices

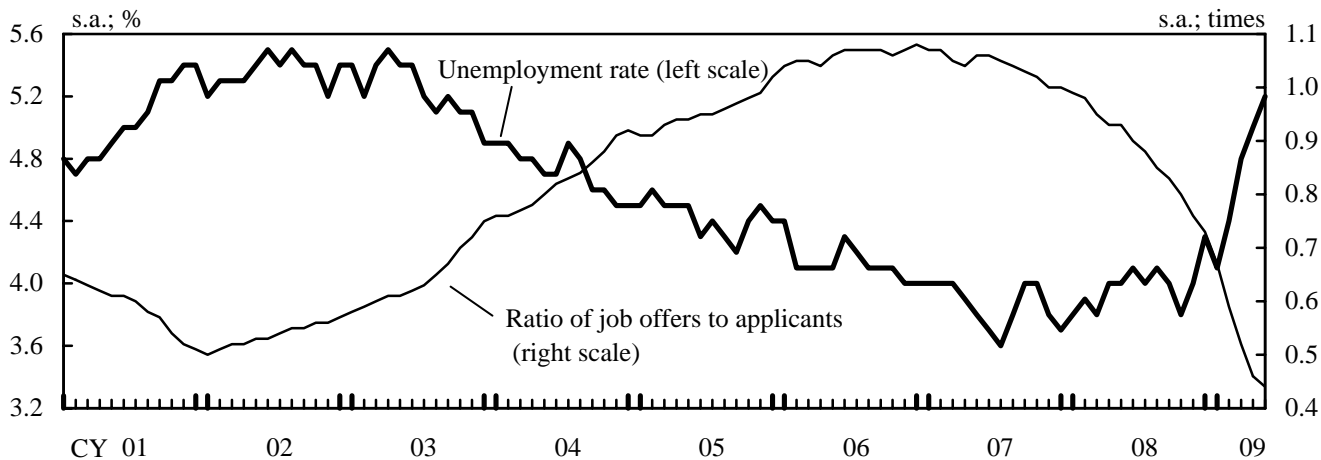


Note: Figures of Shipments for 2009/Q2 are those of April-May averages.
Inventories for 2009/Q2 are those of May.

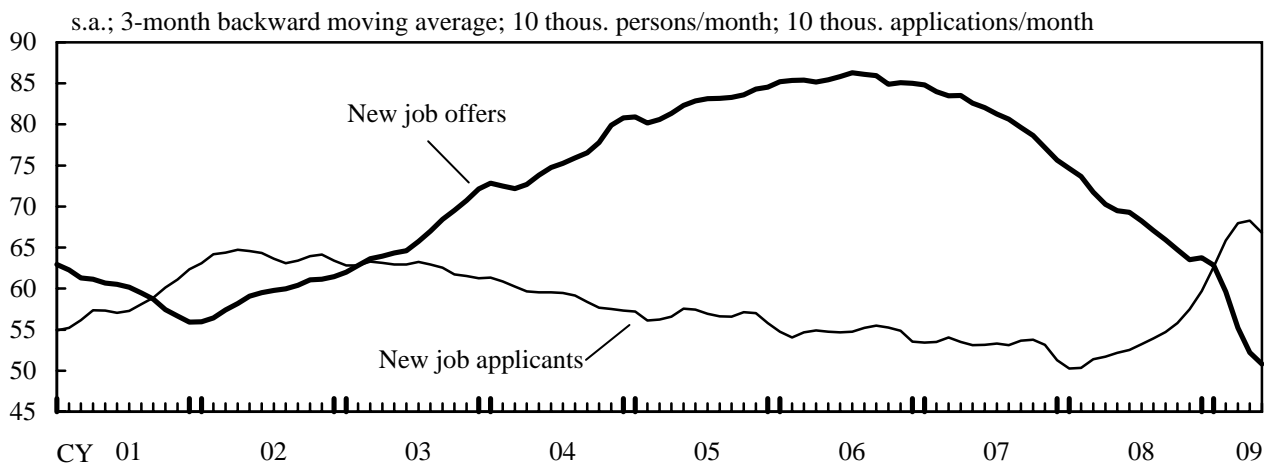
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market (1)

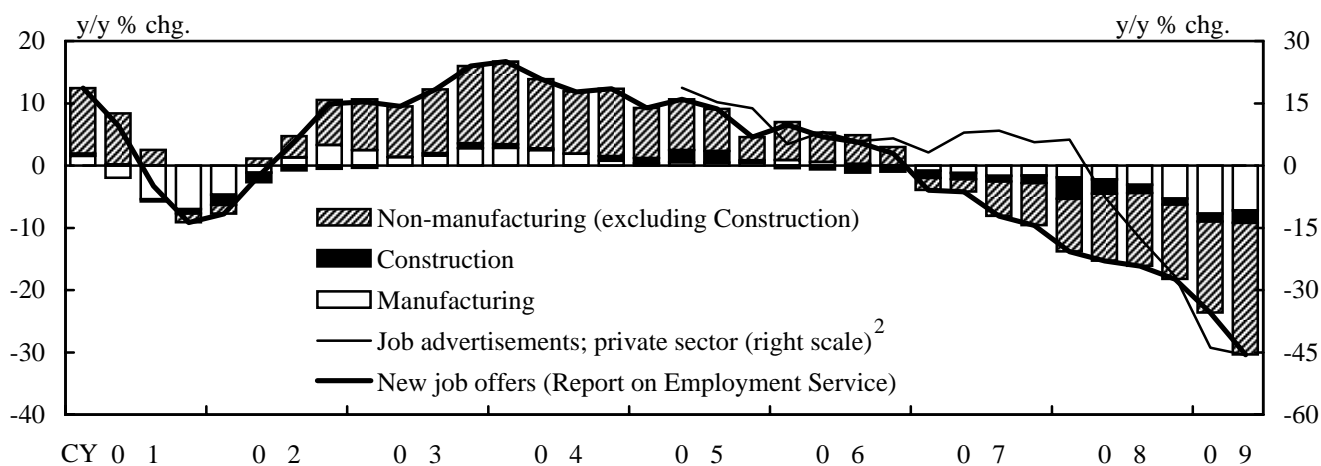
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



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

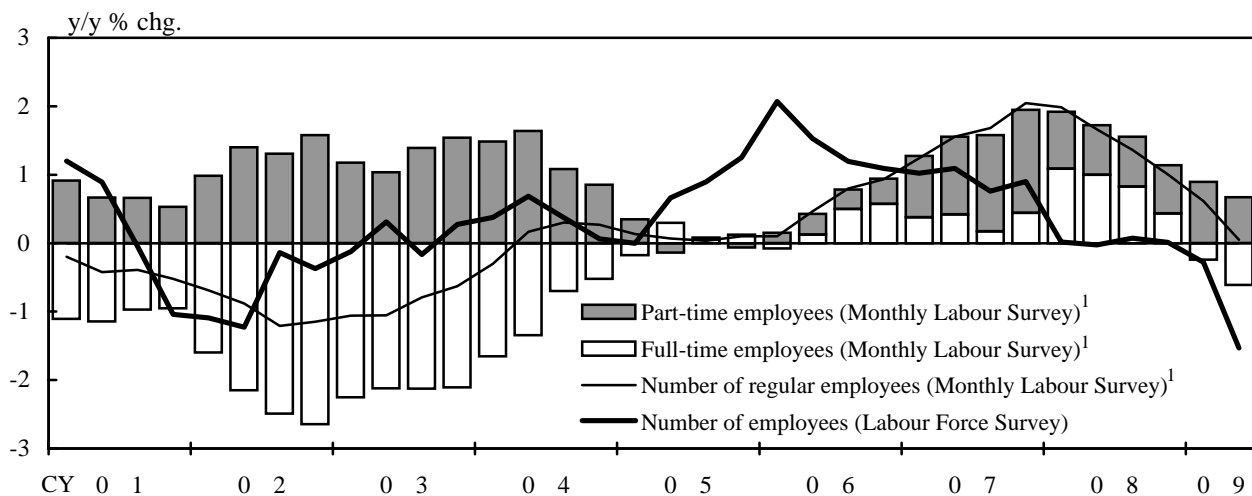


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
- 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.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

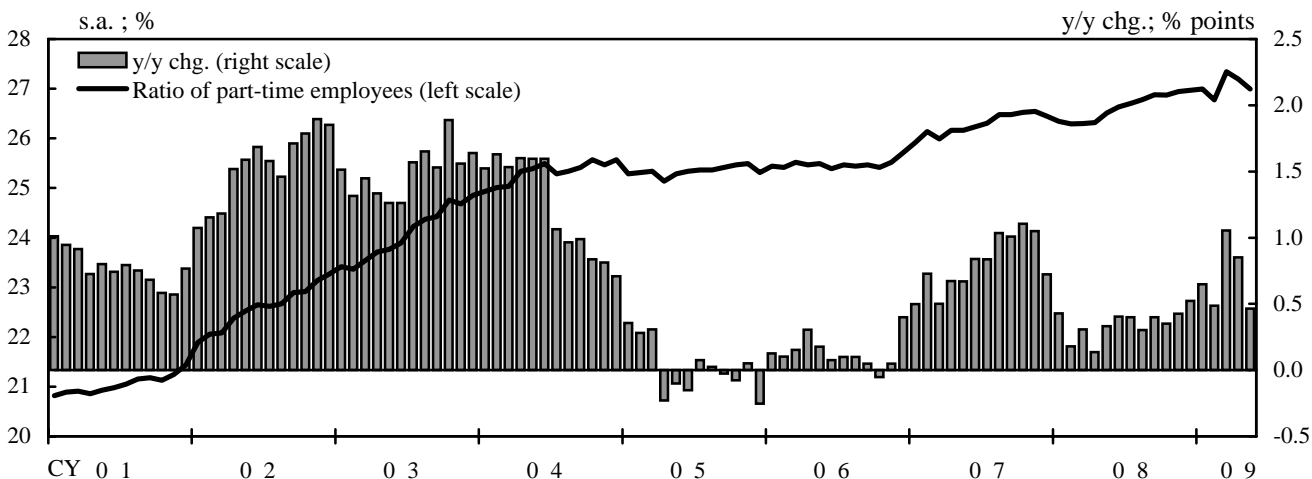
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

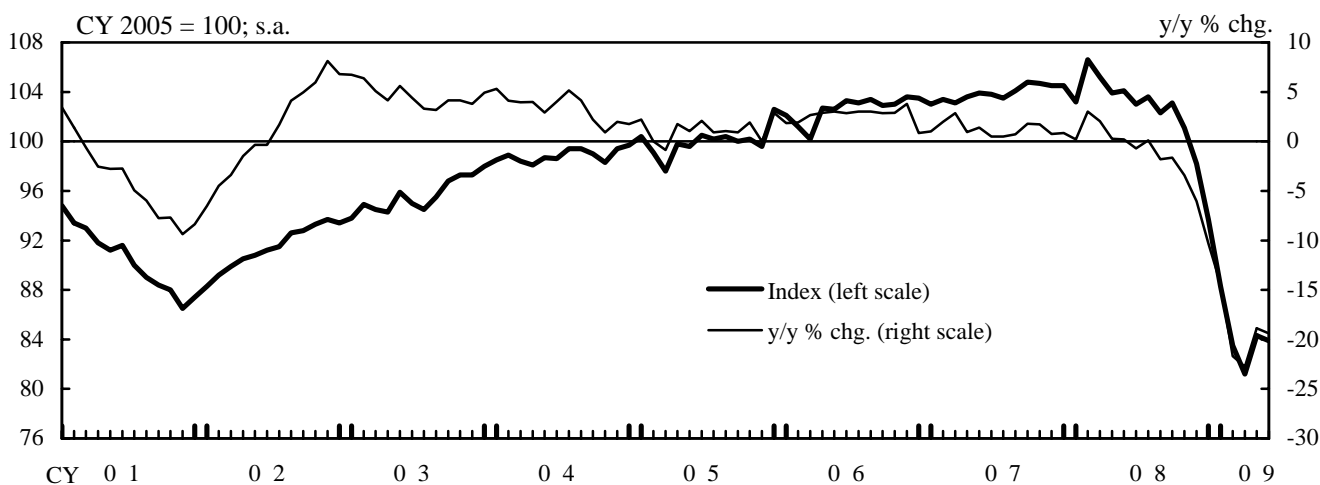
(1) Number of Employees³



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



(3) Non Scheduled Hours Worked¹



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

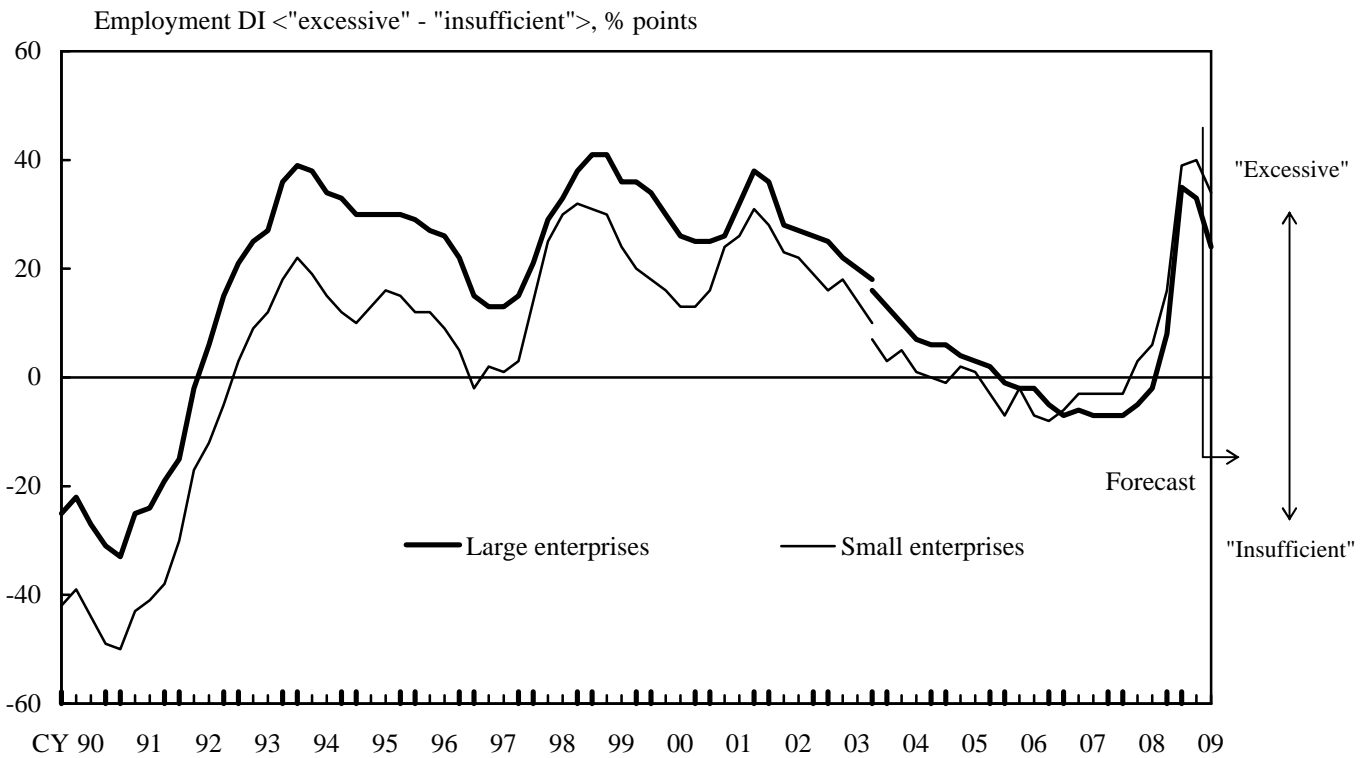
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2009/Q2 are those of April-May averages.

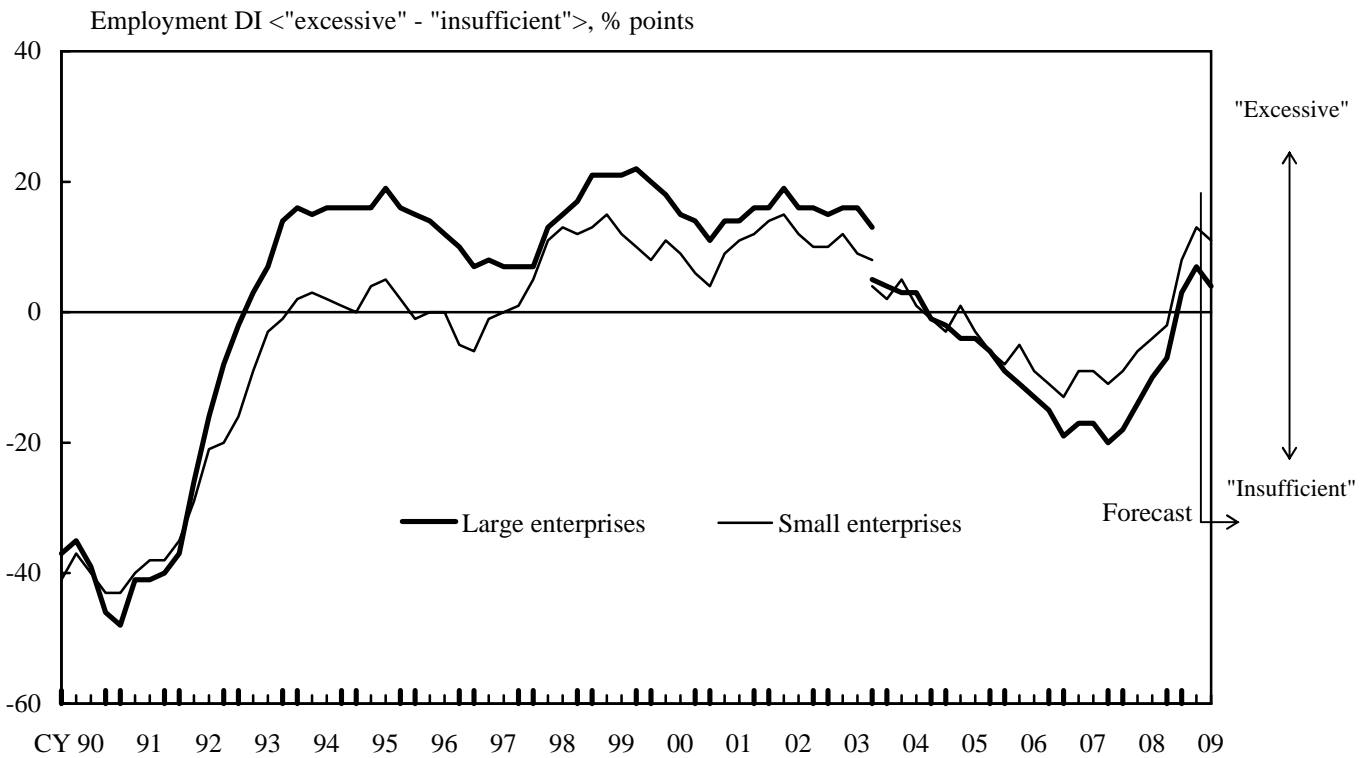
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

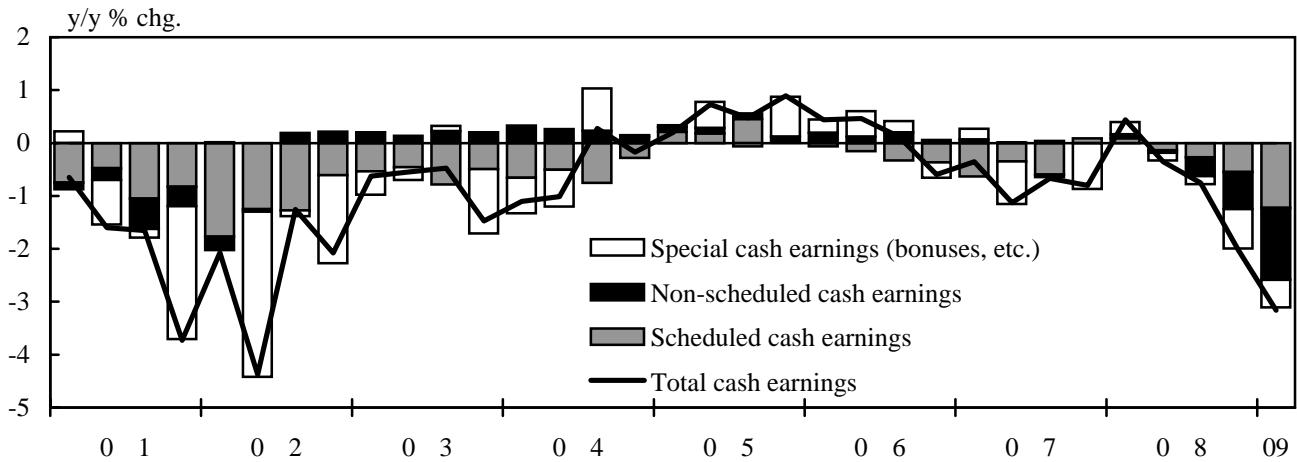


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

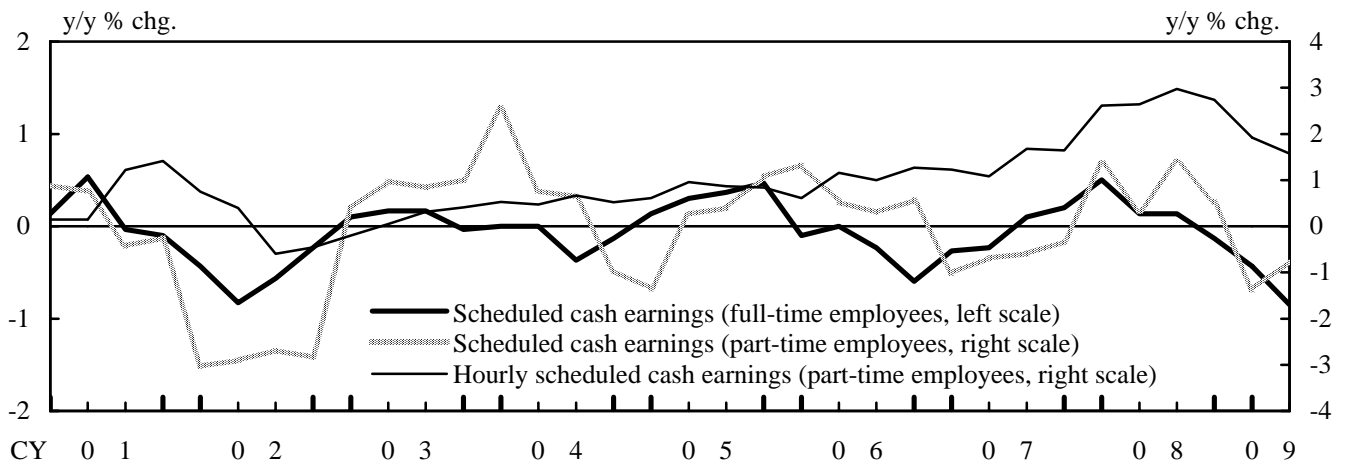
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Employee Income

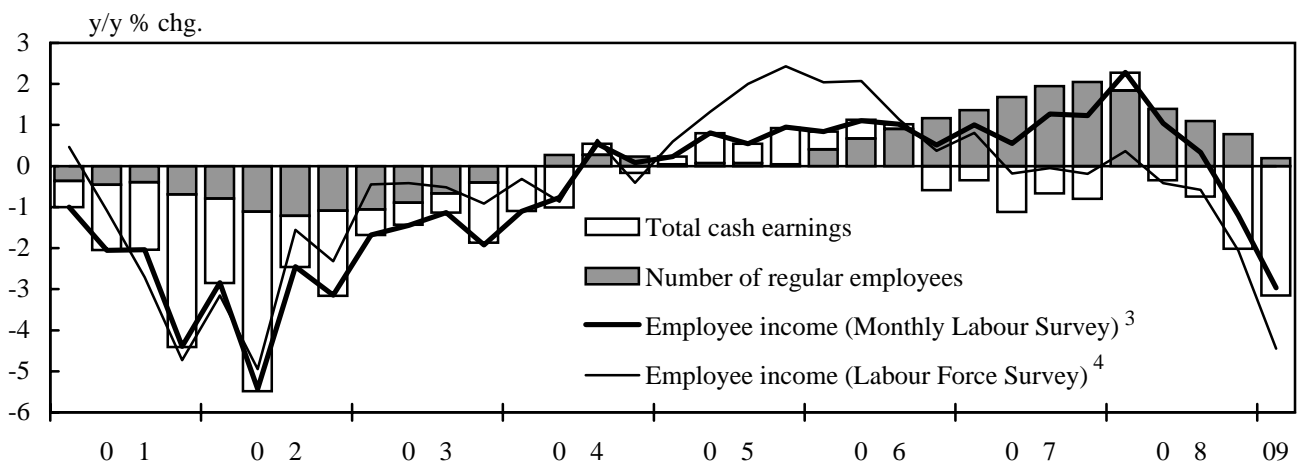
(1) Breakdown of Total Cash Earnings^{1,2}



(2) Scheduled Cash Earnings^{1,5}



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

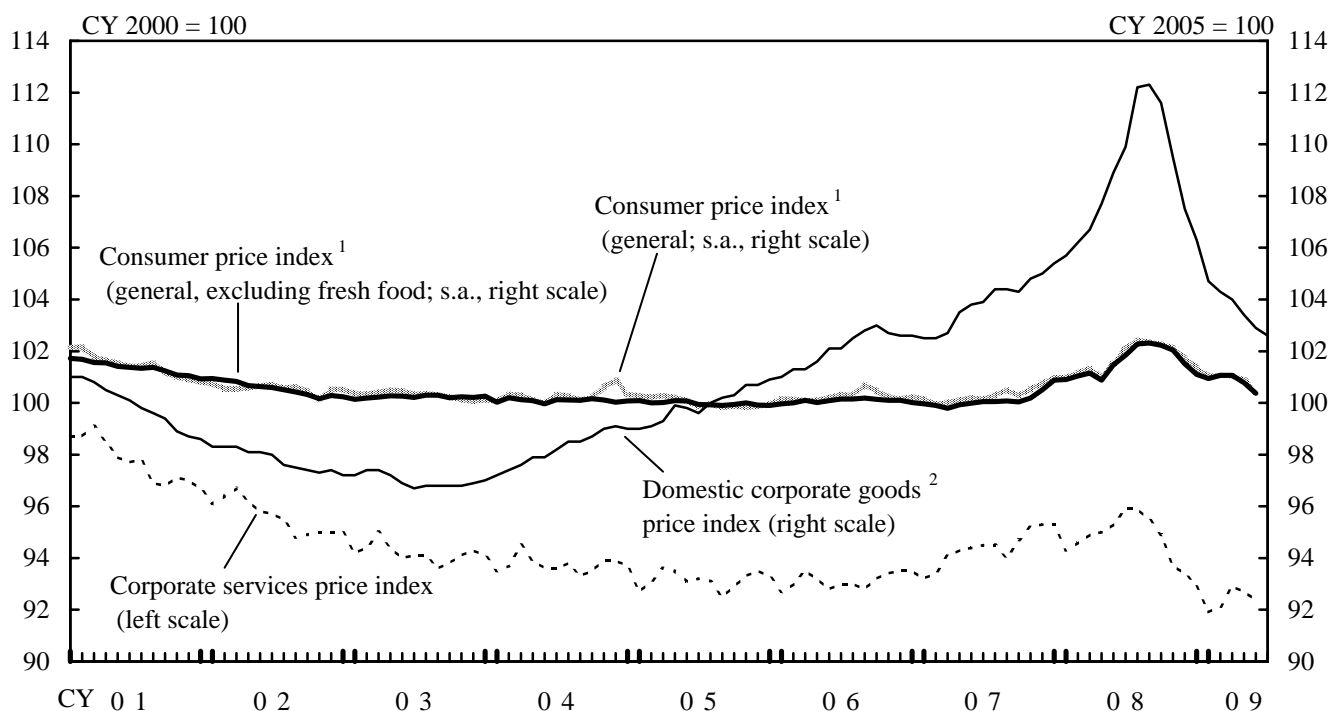


- Notes: 1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).
 4. Calculated as the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

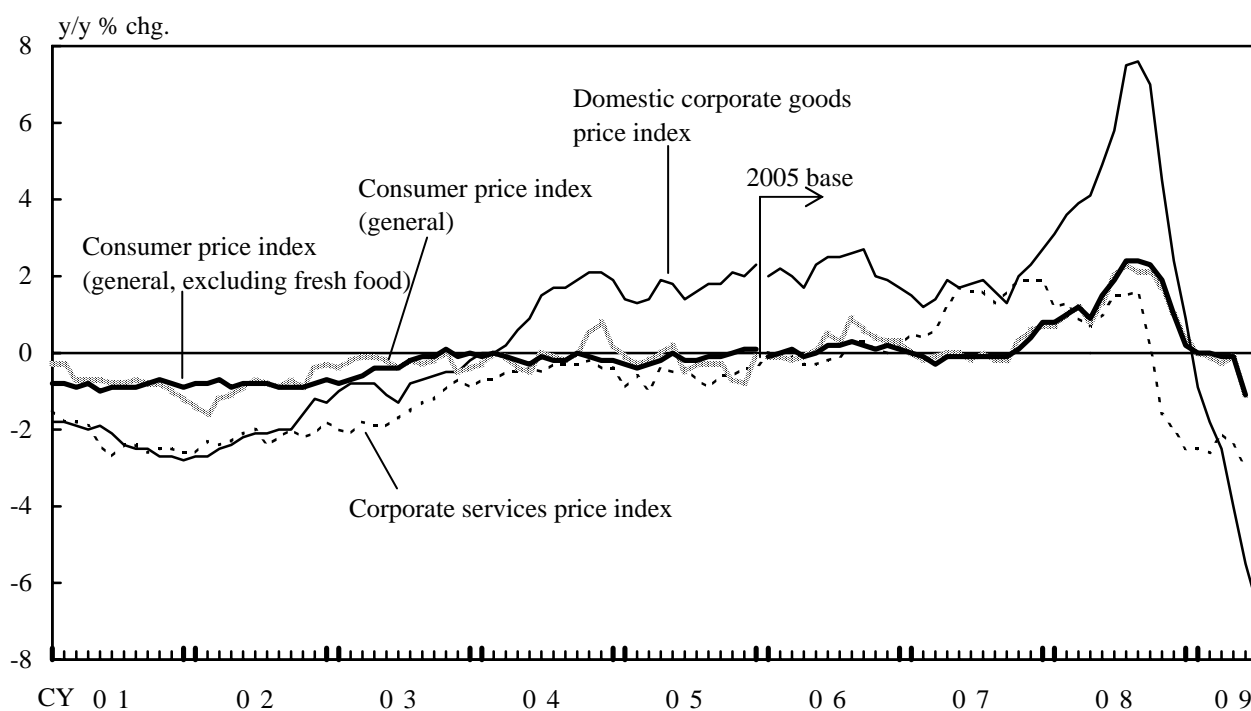
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

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.

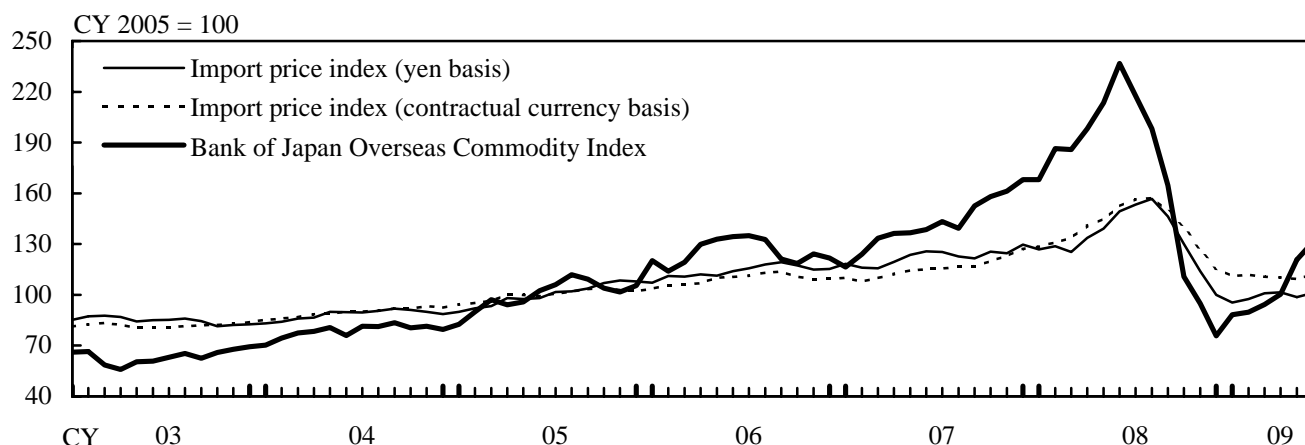
3. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

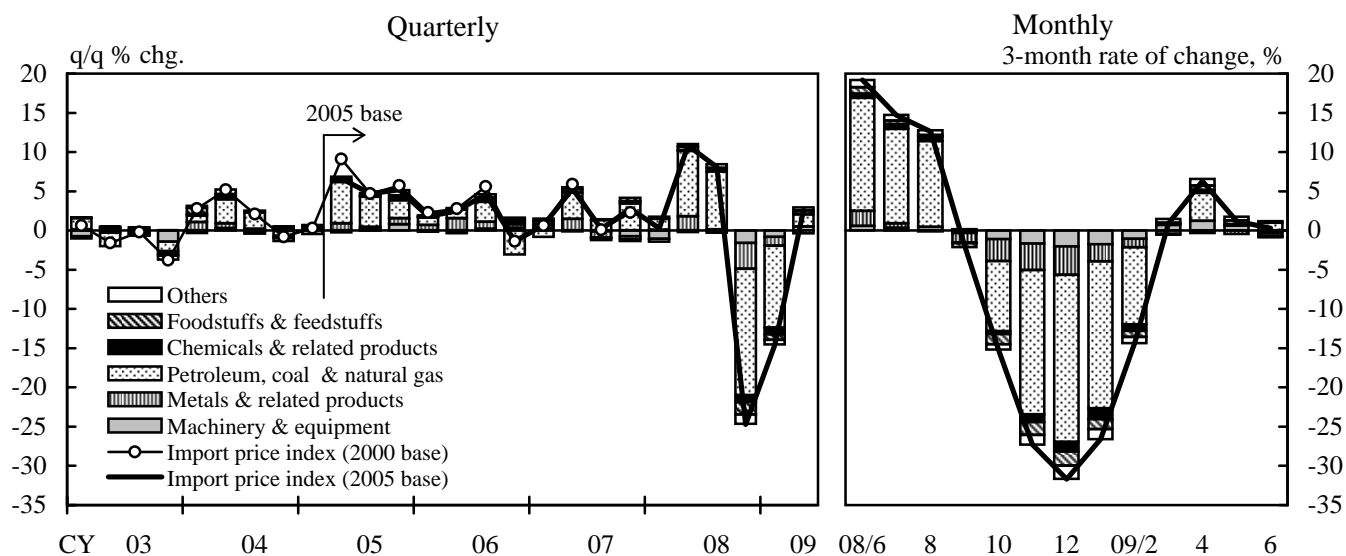
Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



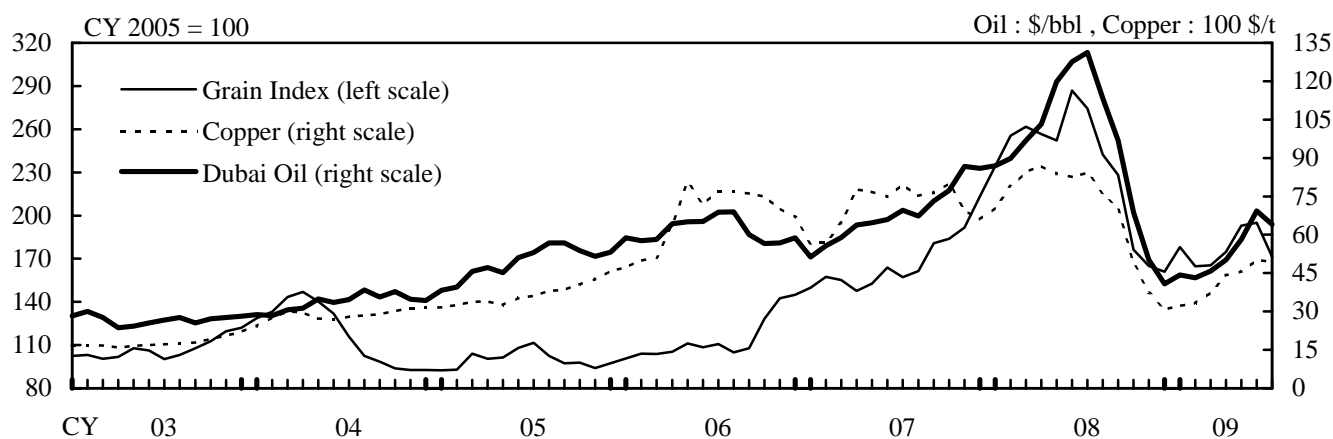
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

2. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices



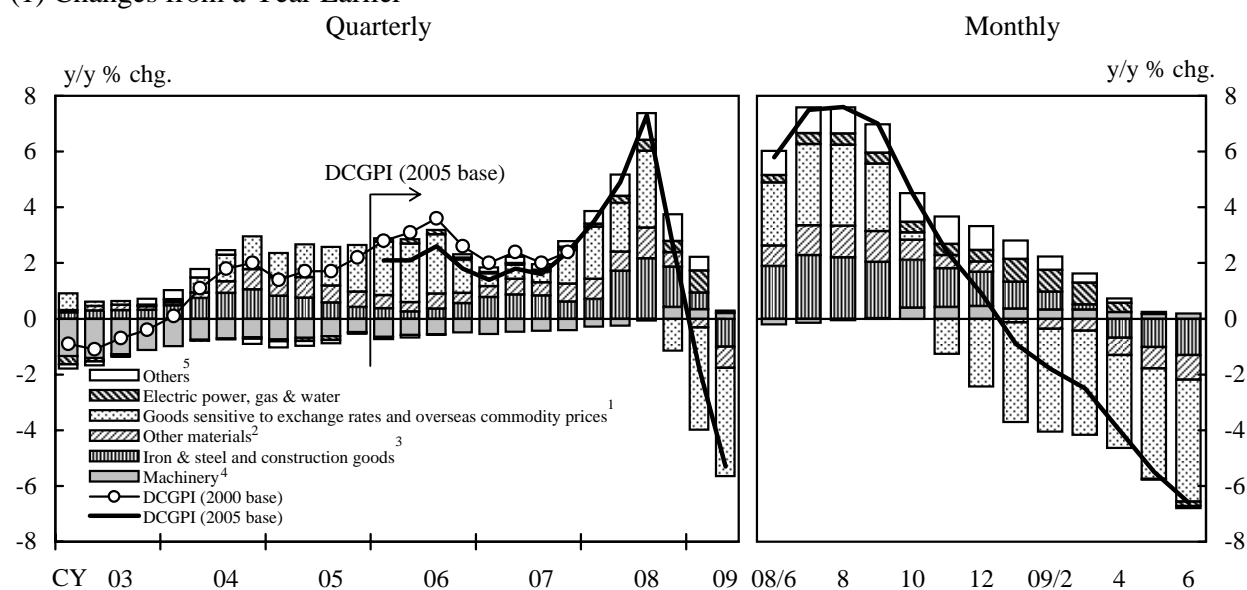
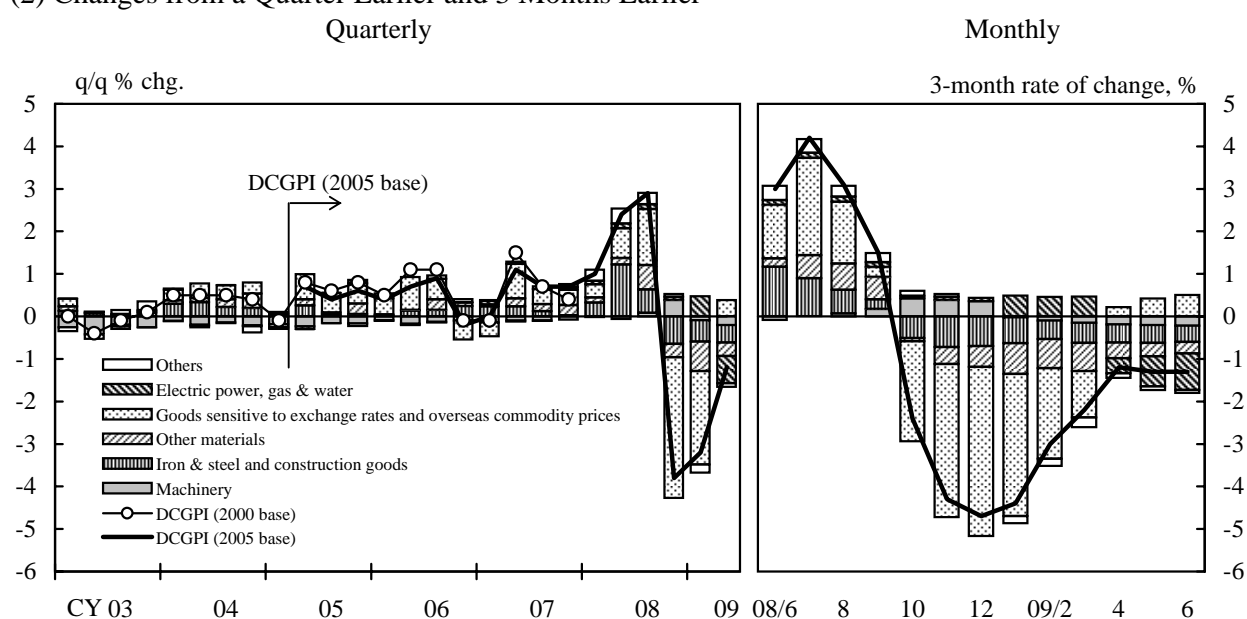
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for July 2009 are the averages up to July 14.

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

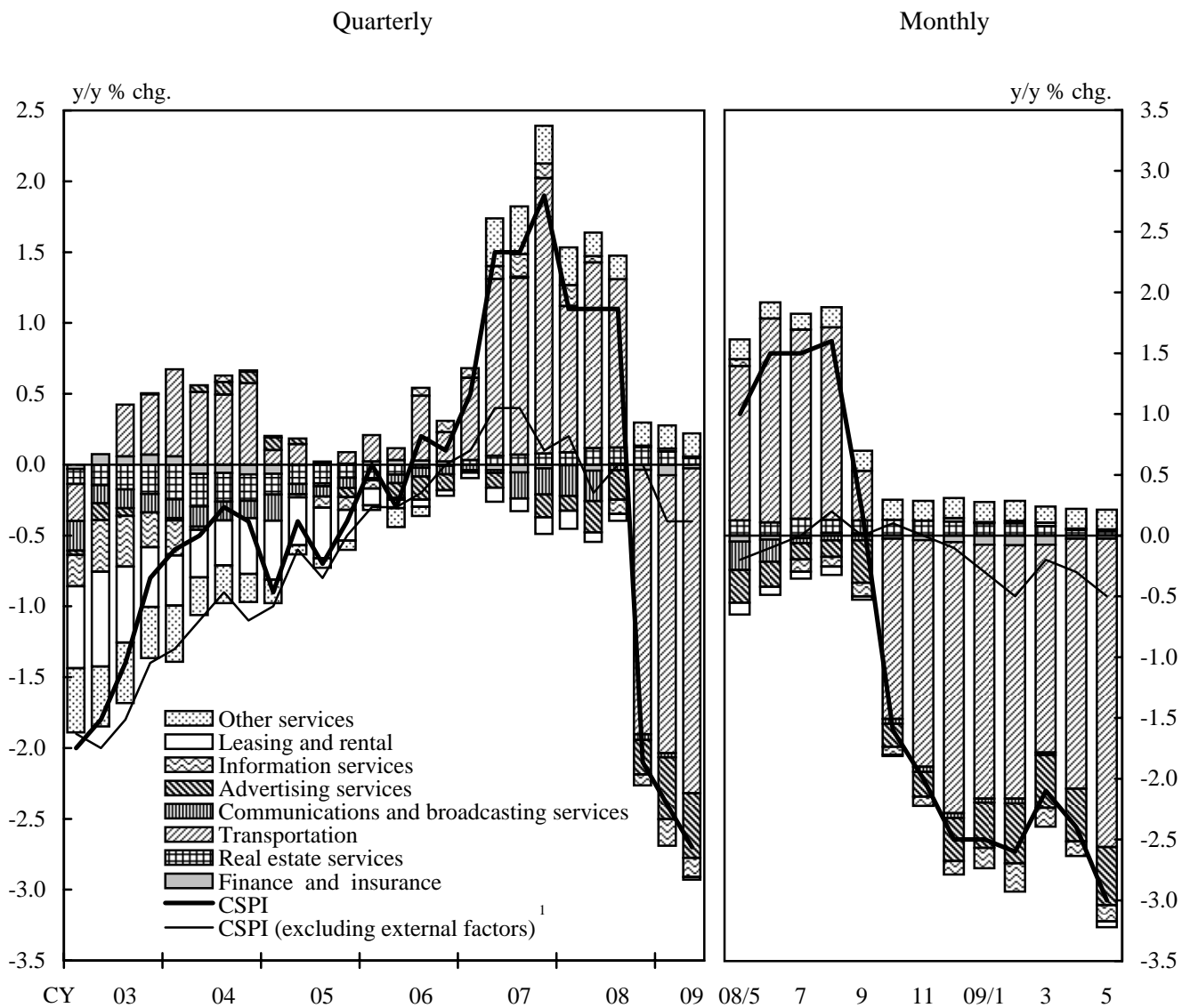
Domestic Corporate Goods Price Index⁷

(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 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index

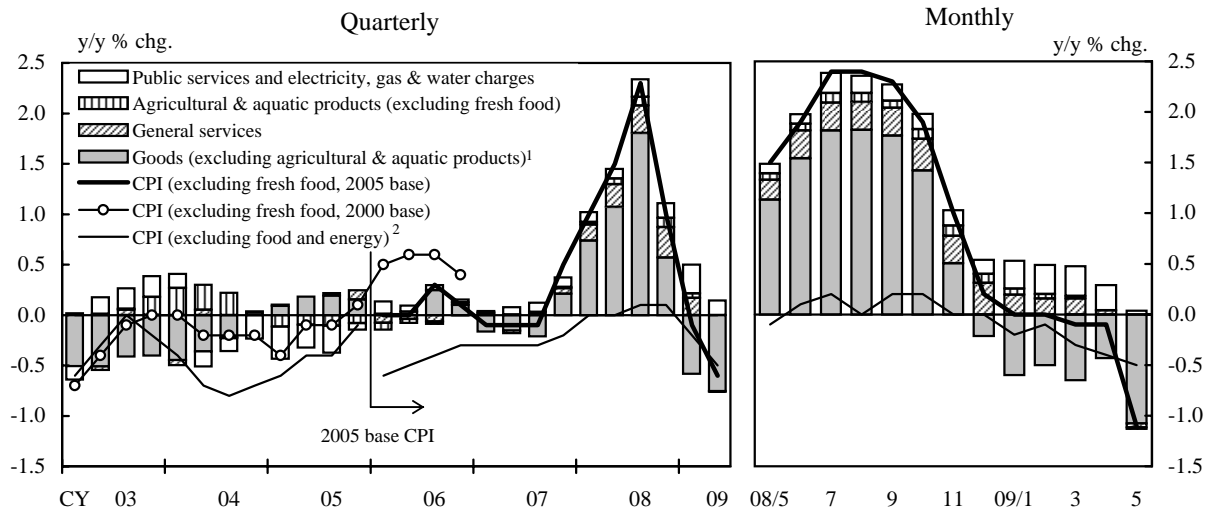


- Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures of components indicate contributions to changes in CSPI.
 3. Figures for 2009/Q2 are April-May averages.

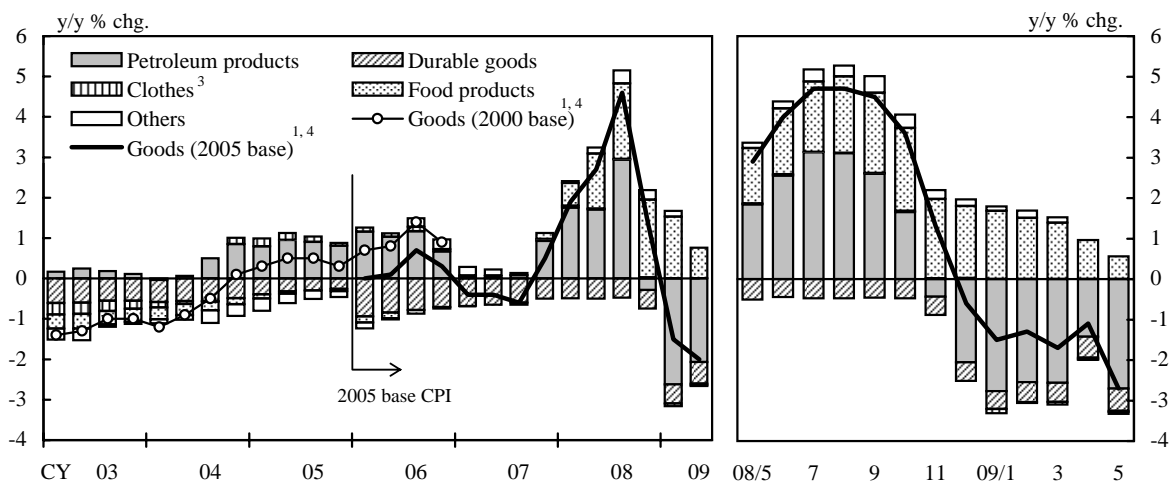
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

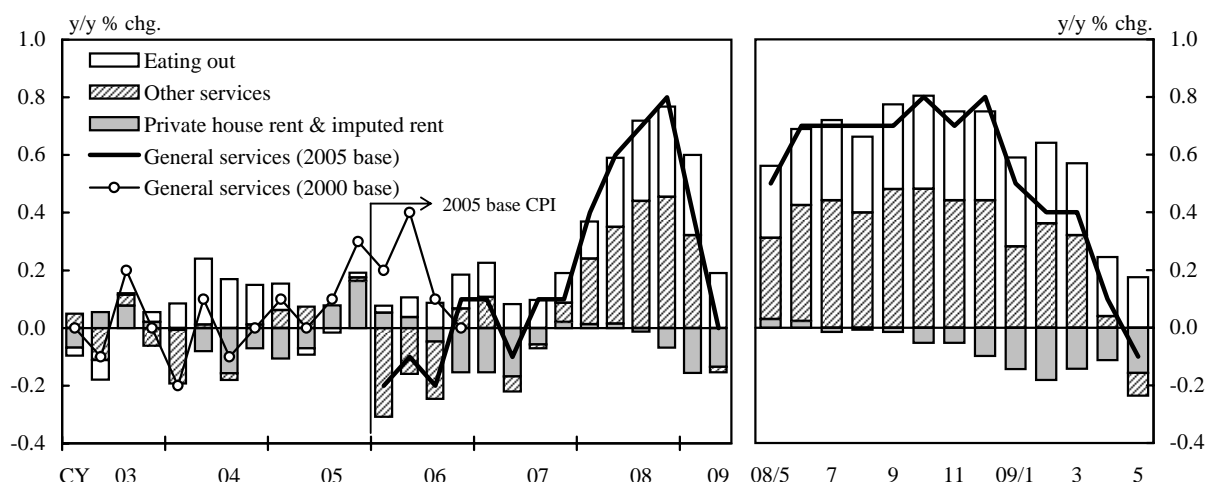
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

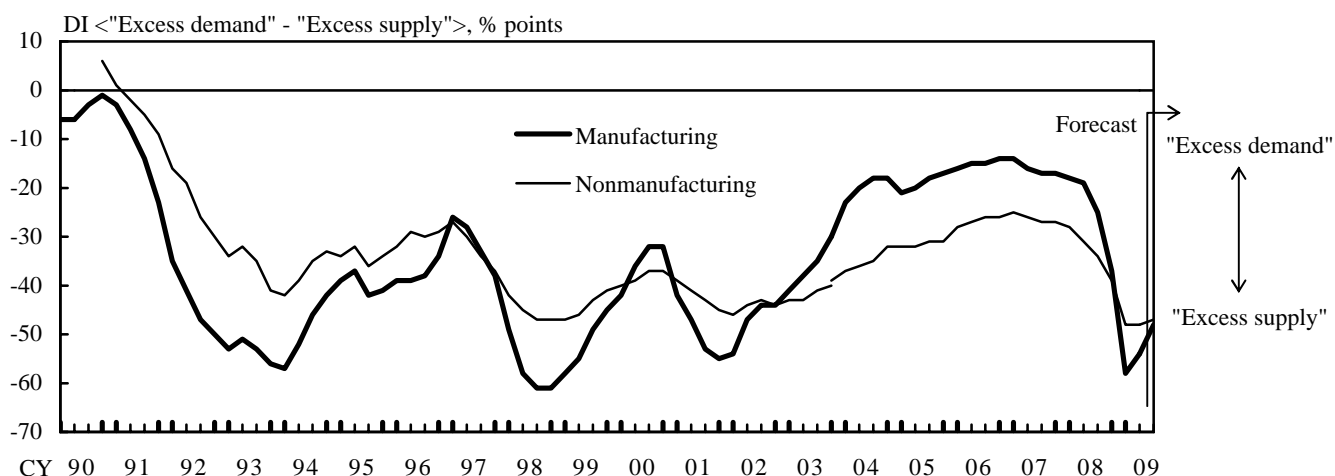
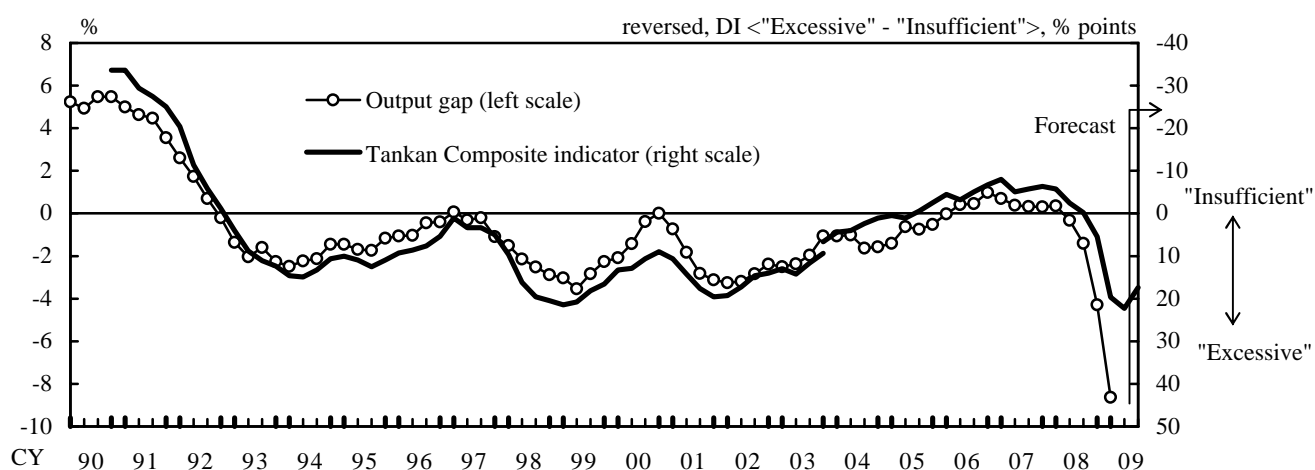


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied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

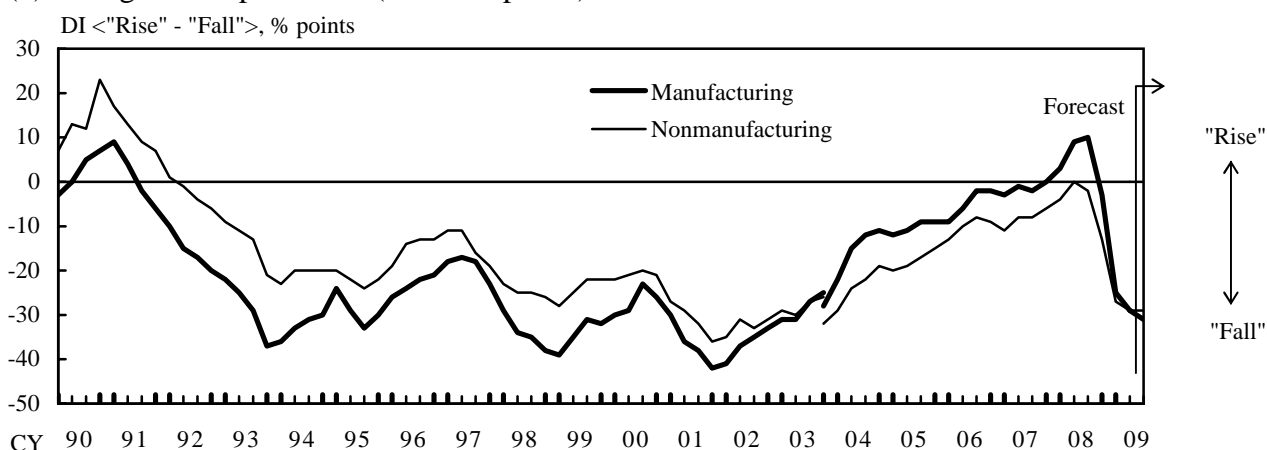
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

(2) *Tankan* Composite Indicator² (All Enterprises) and Output Gap³

(3) Change in Output Prices (All Enterprises)



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

2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2007 averages of capital and labor shares in national accounts are used as the weight.

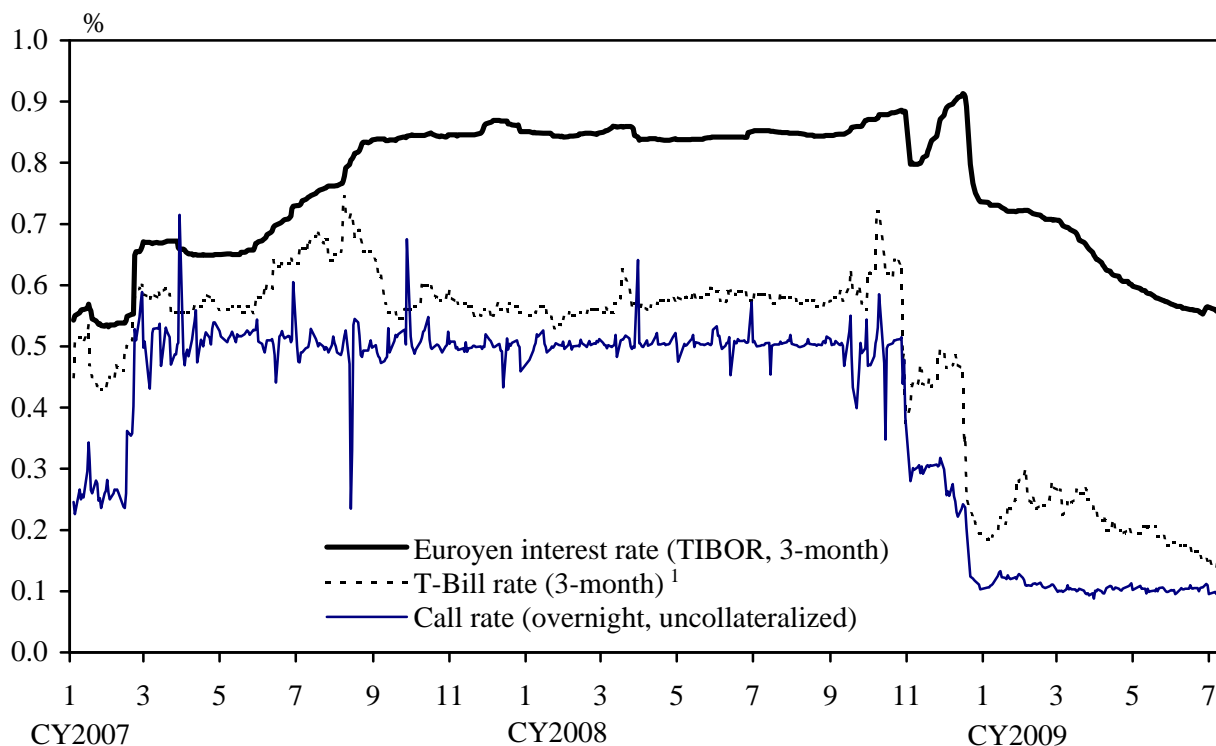
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

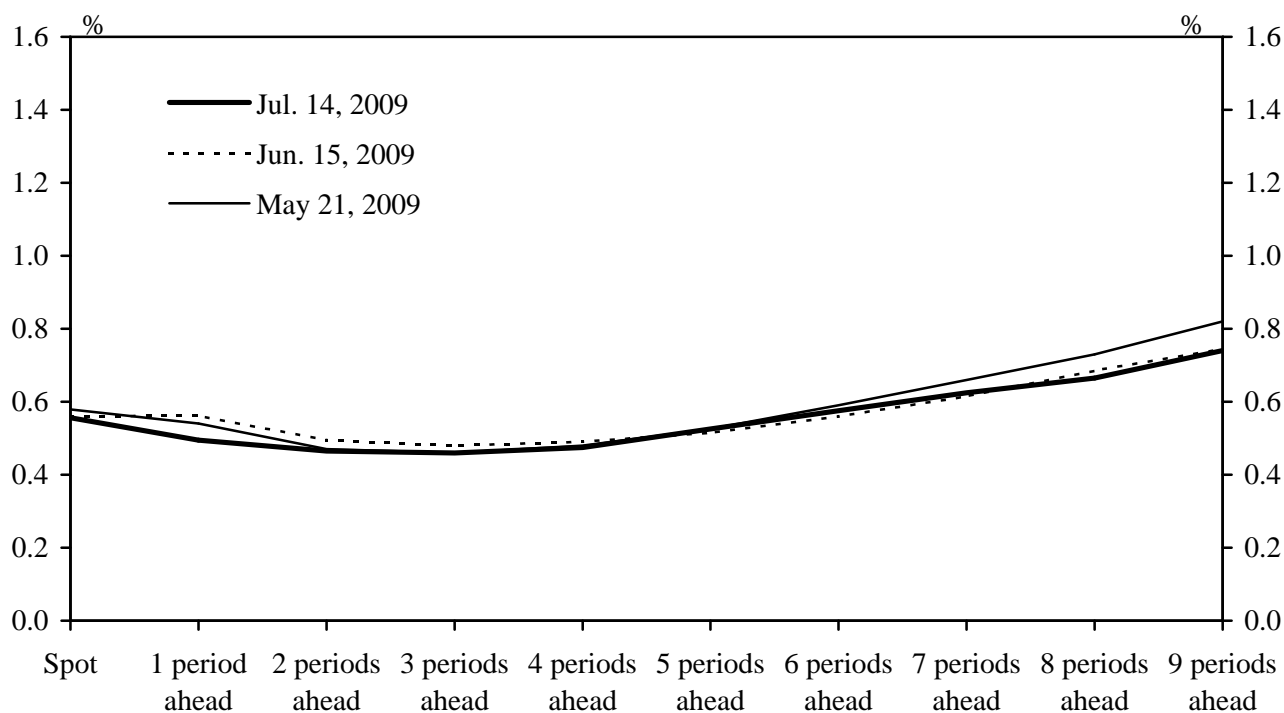
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



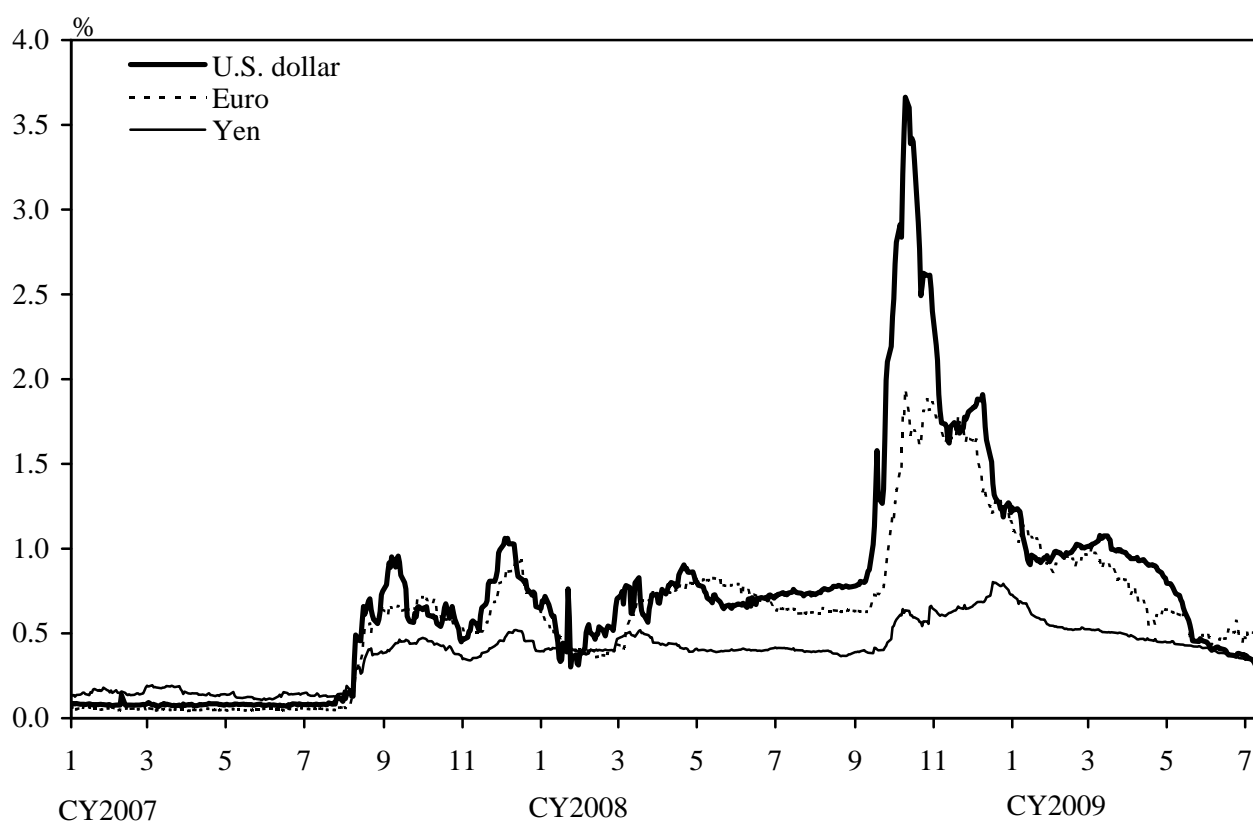
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

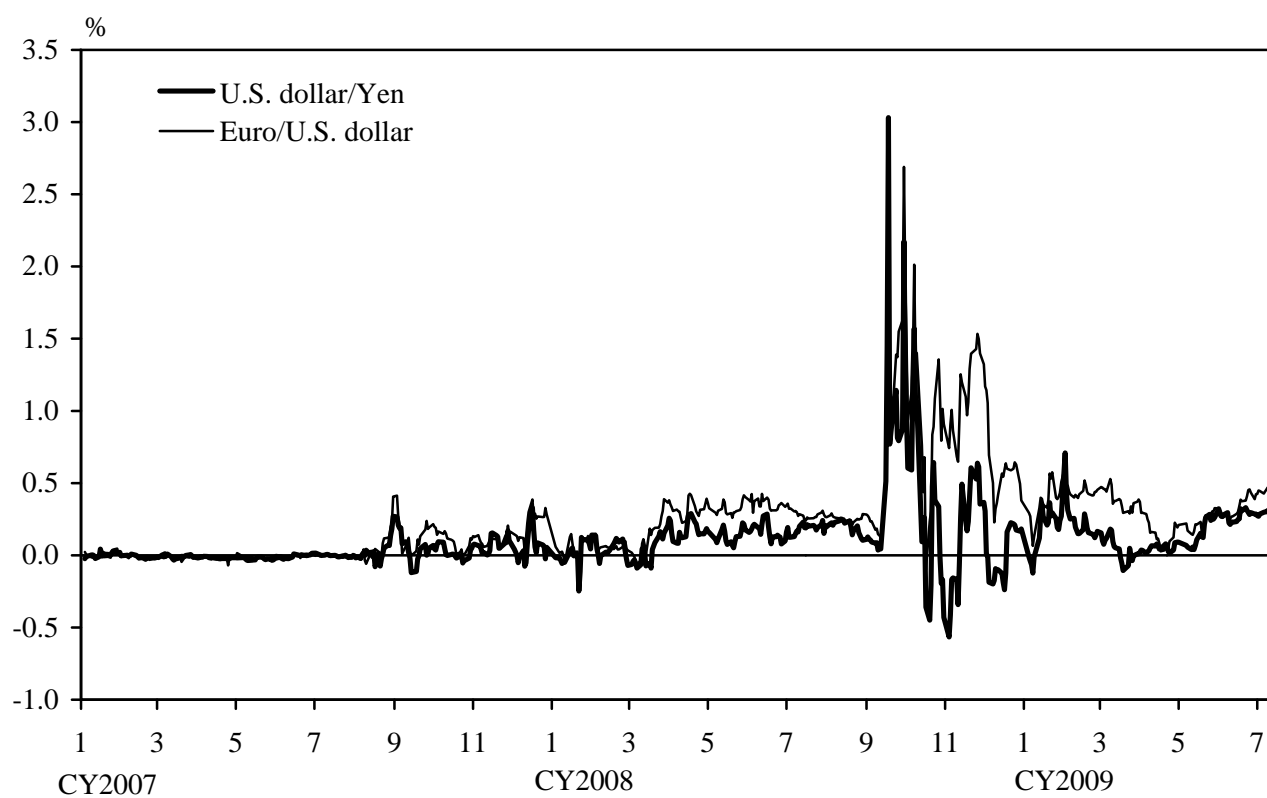
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



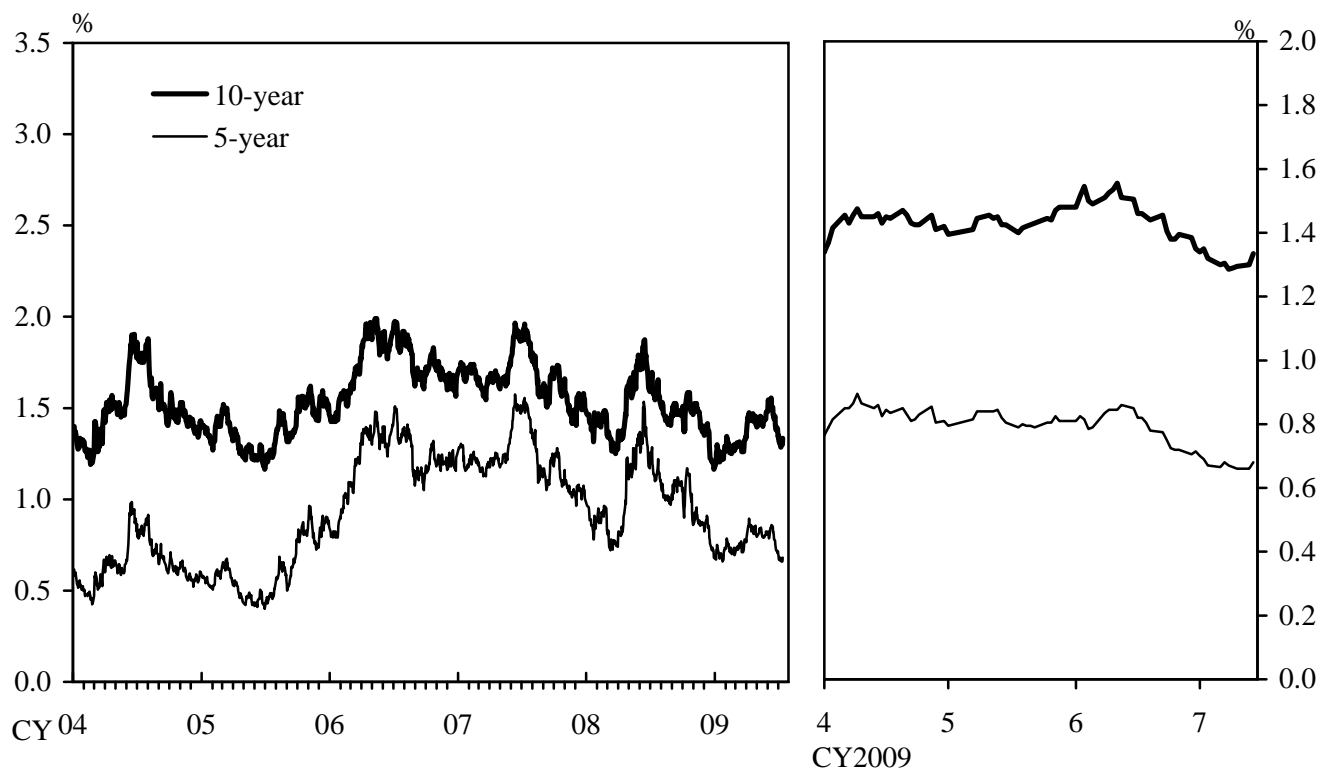
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



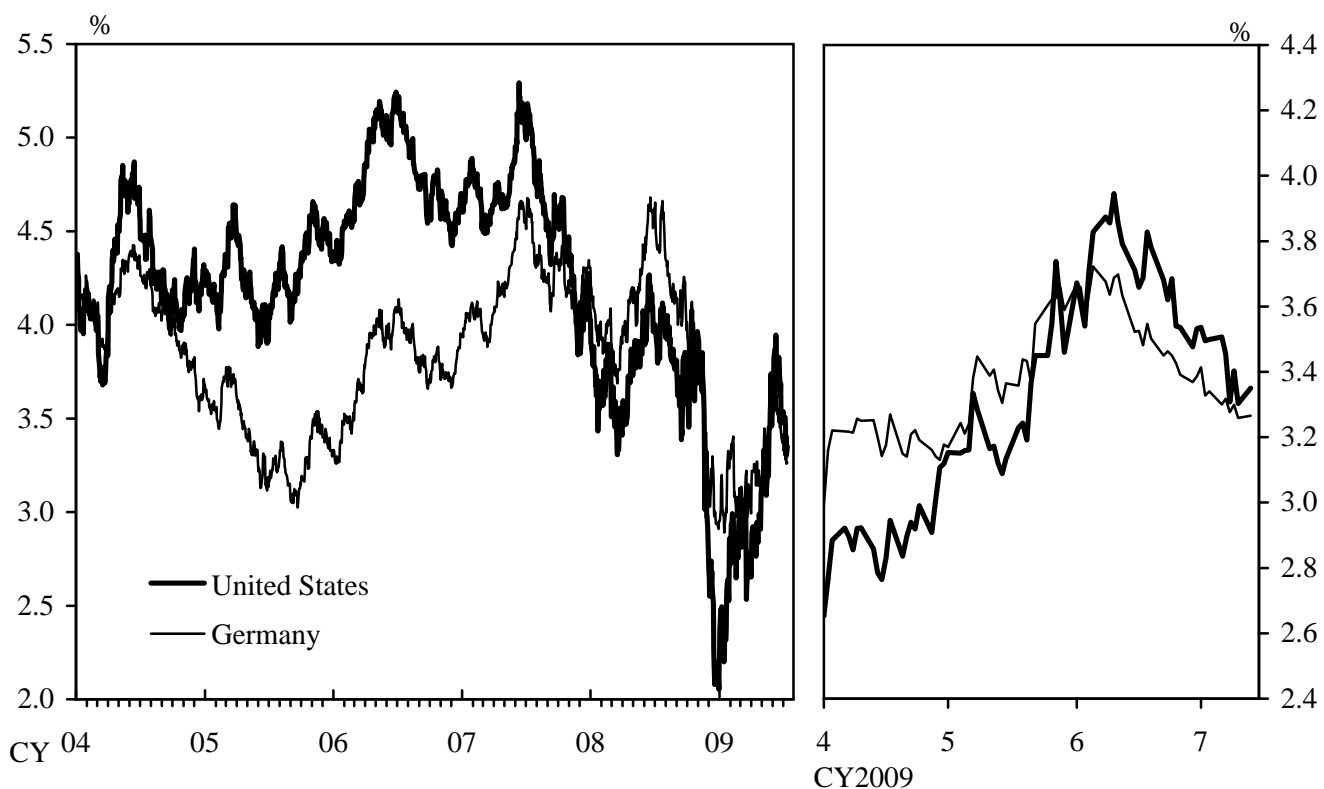
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



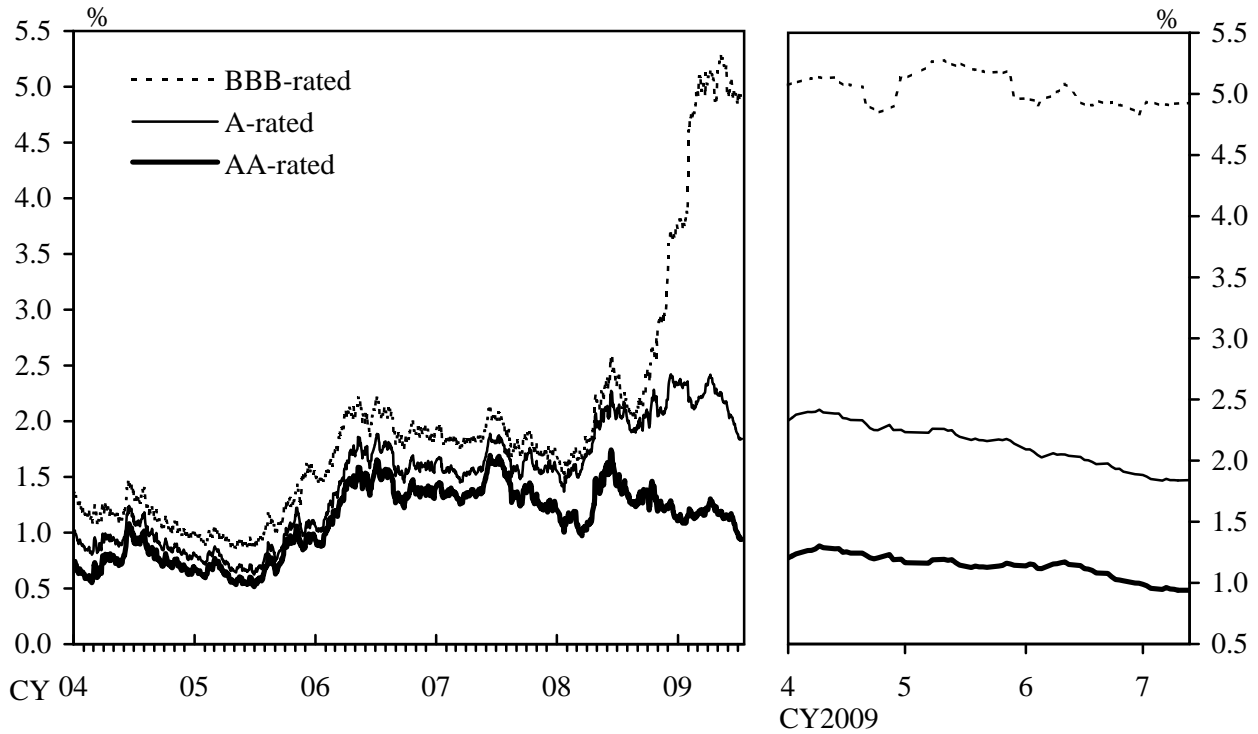
(2) Overseas Government Bond Yields (10-Year)



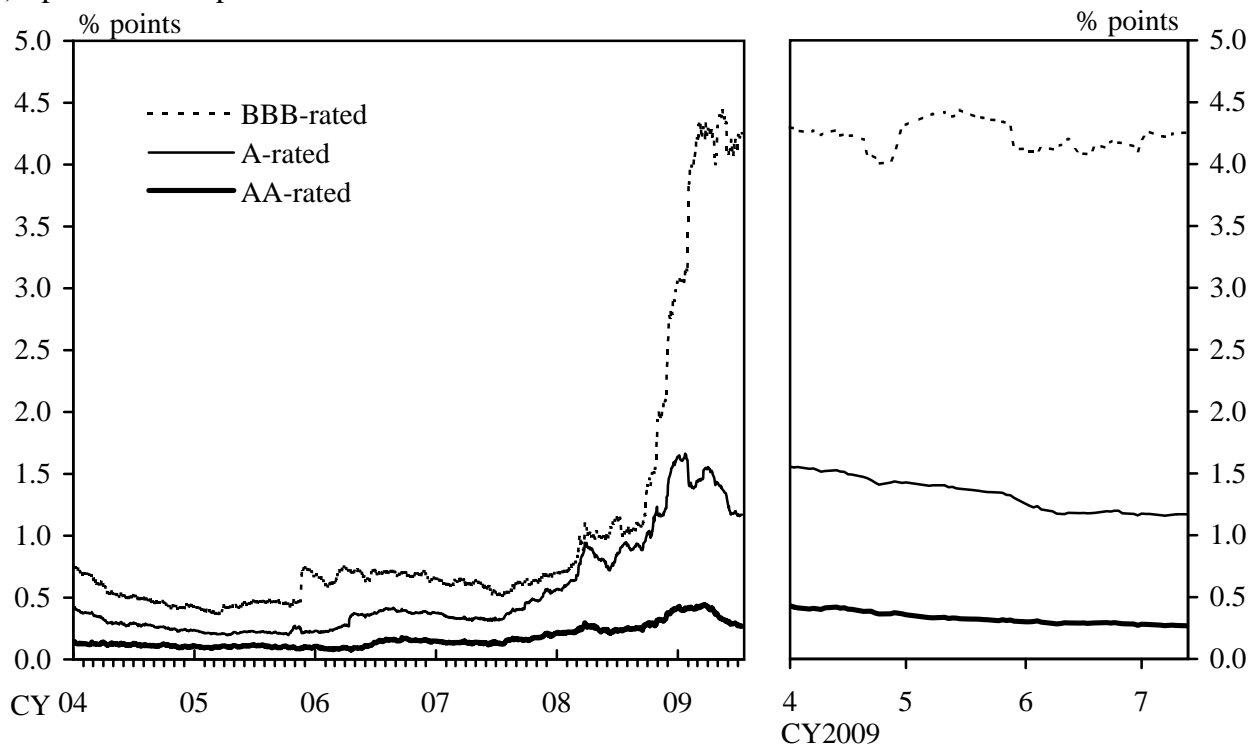
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

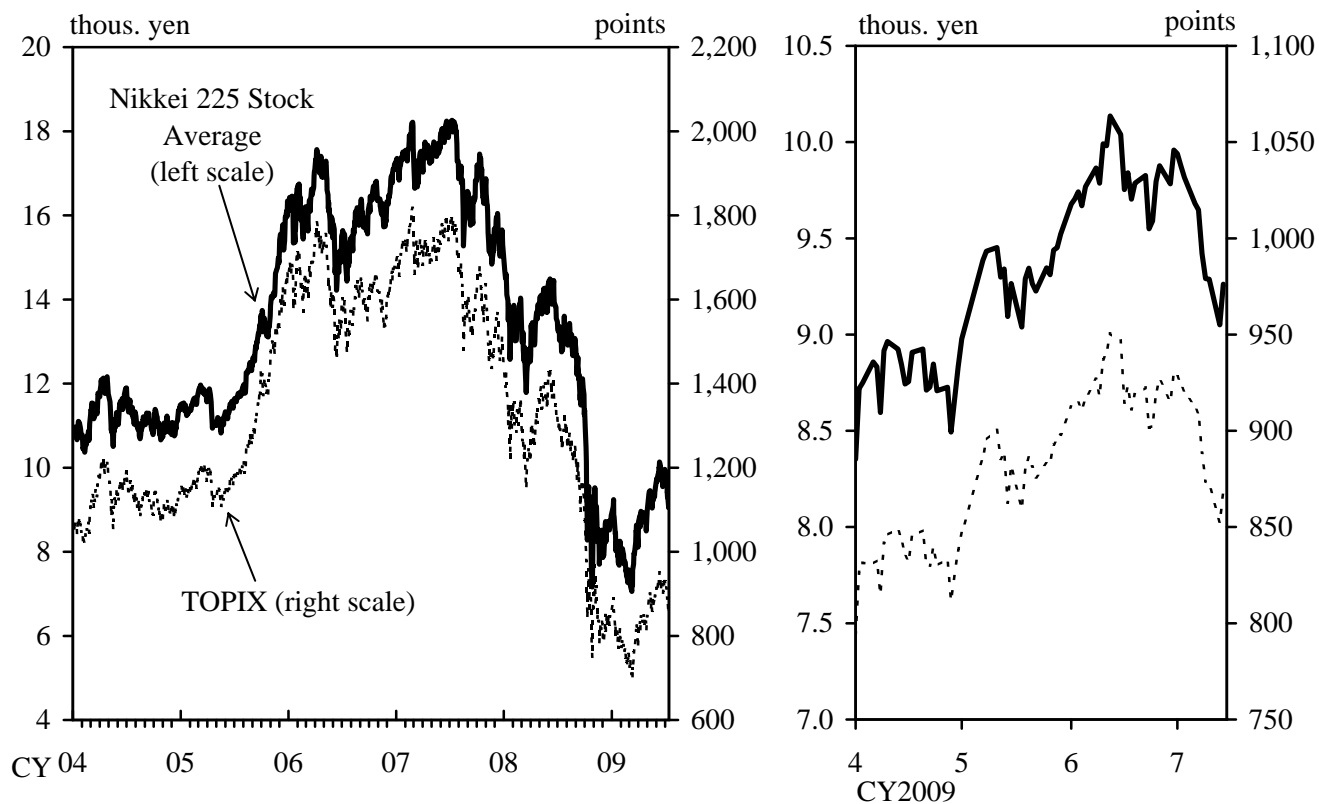
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

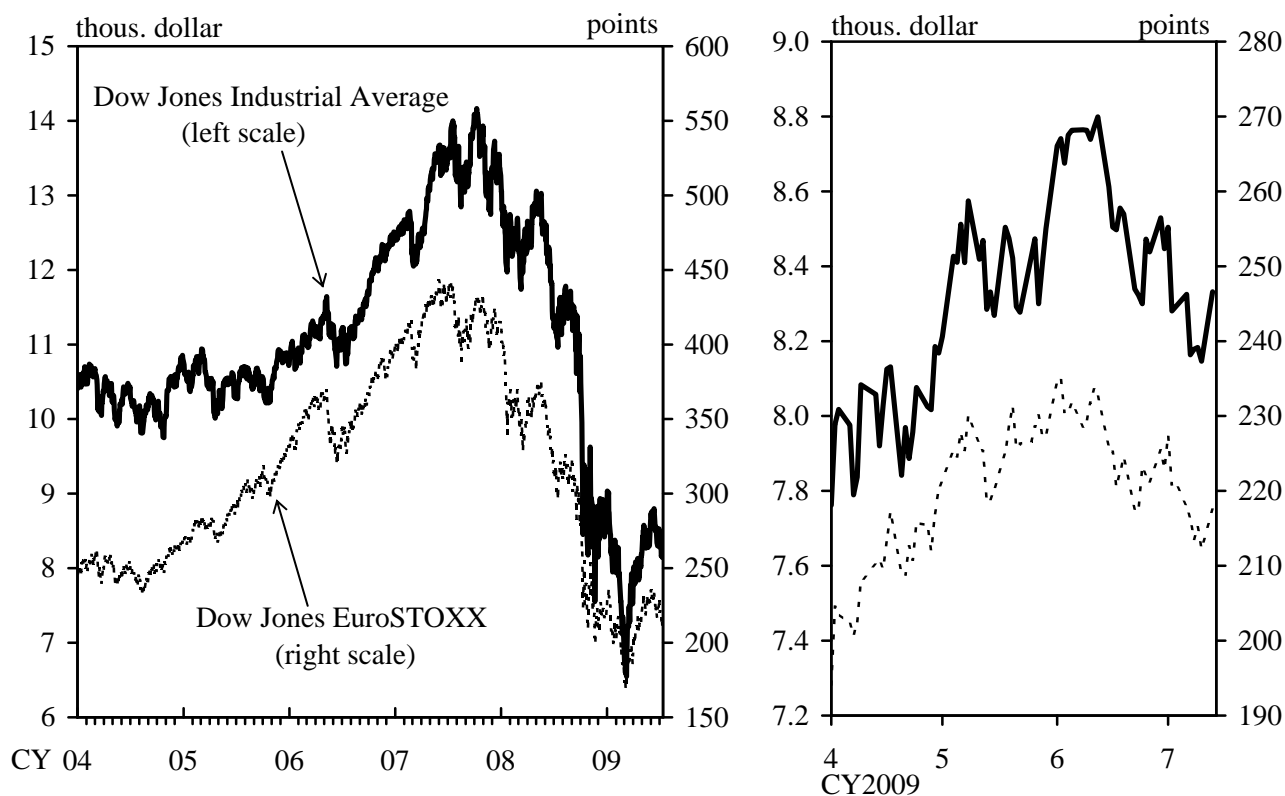
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



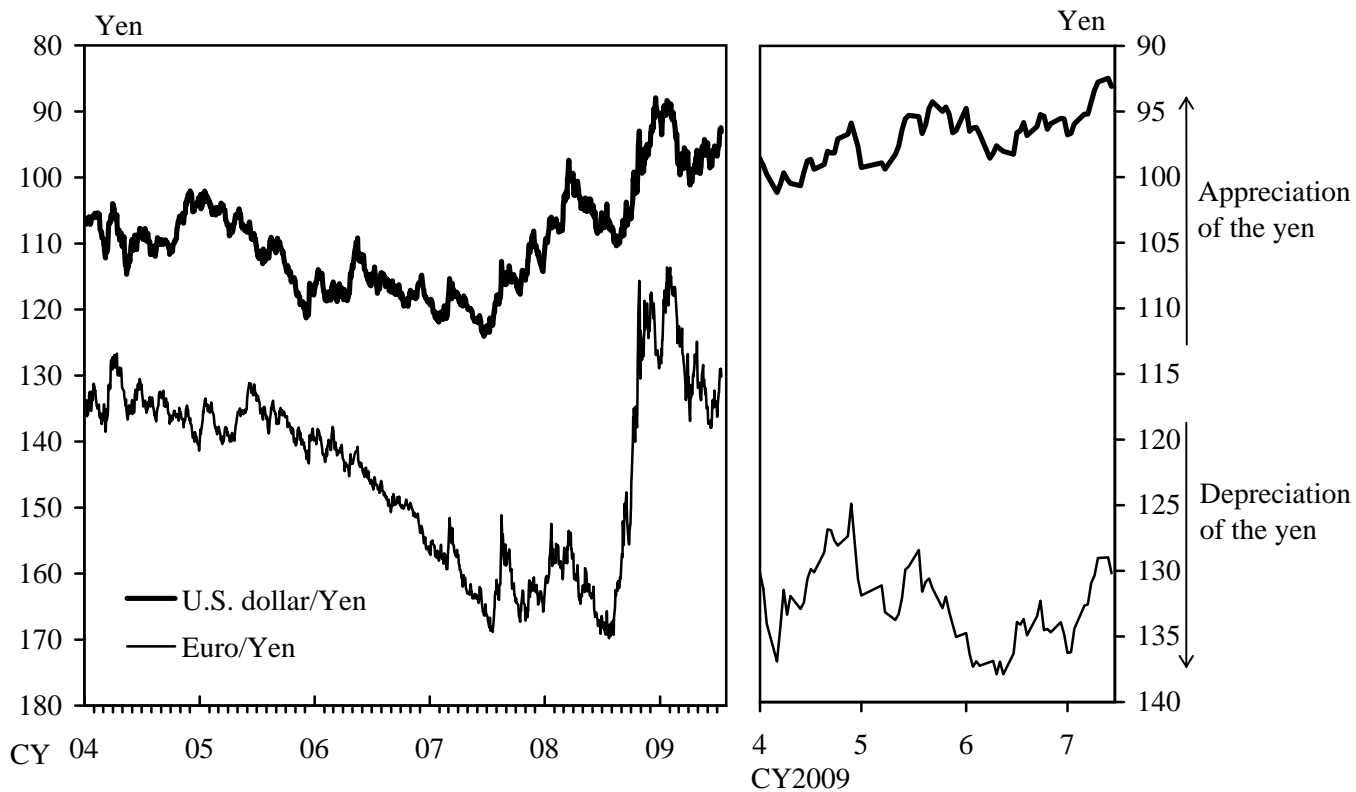
(2) Overseas Stock Prices



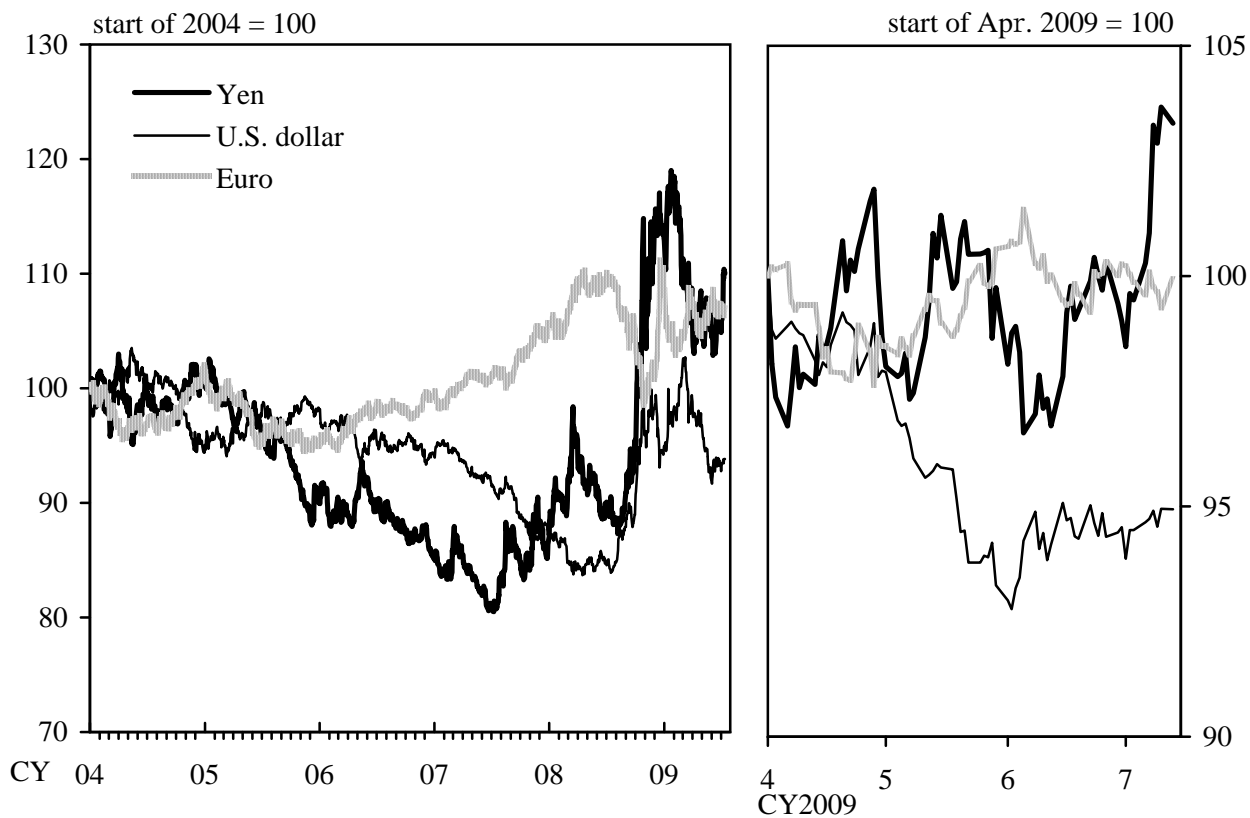
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



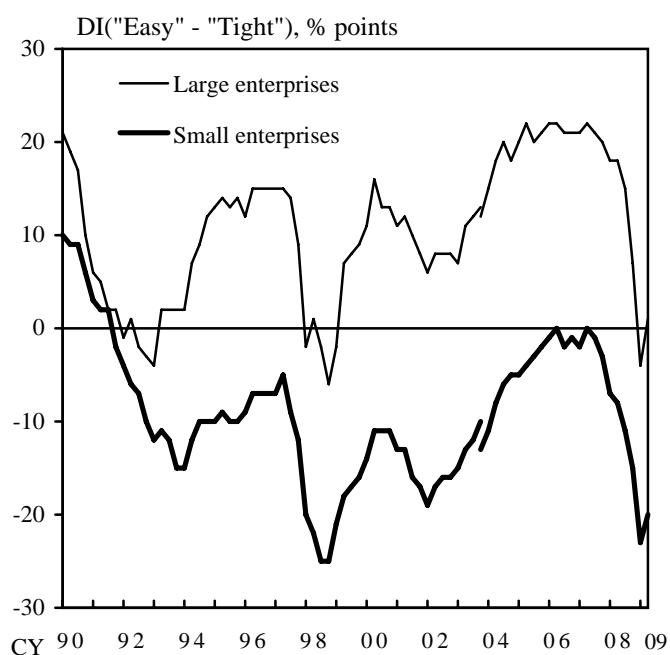
(2) Nominal Effective Exchange Rates



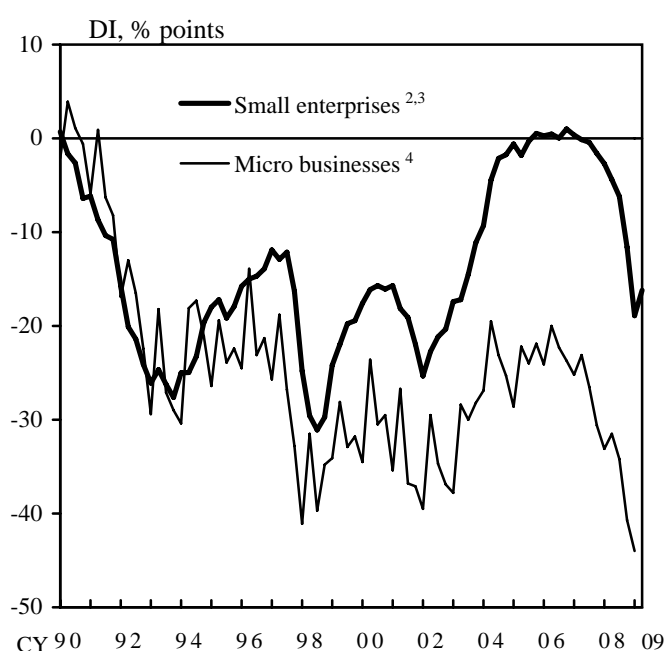
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

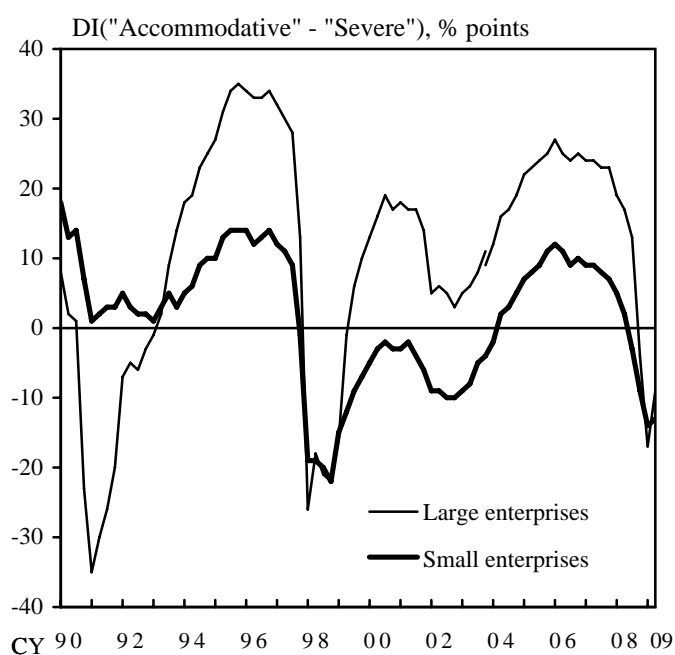
(1) Financial Position

<Tankan¹>

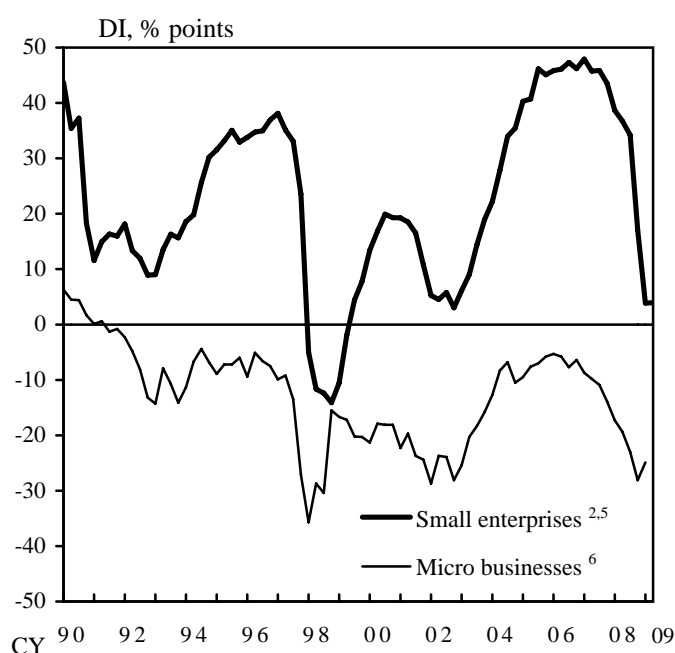
<Japan Finance Corporation Survey>



(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.

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

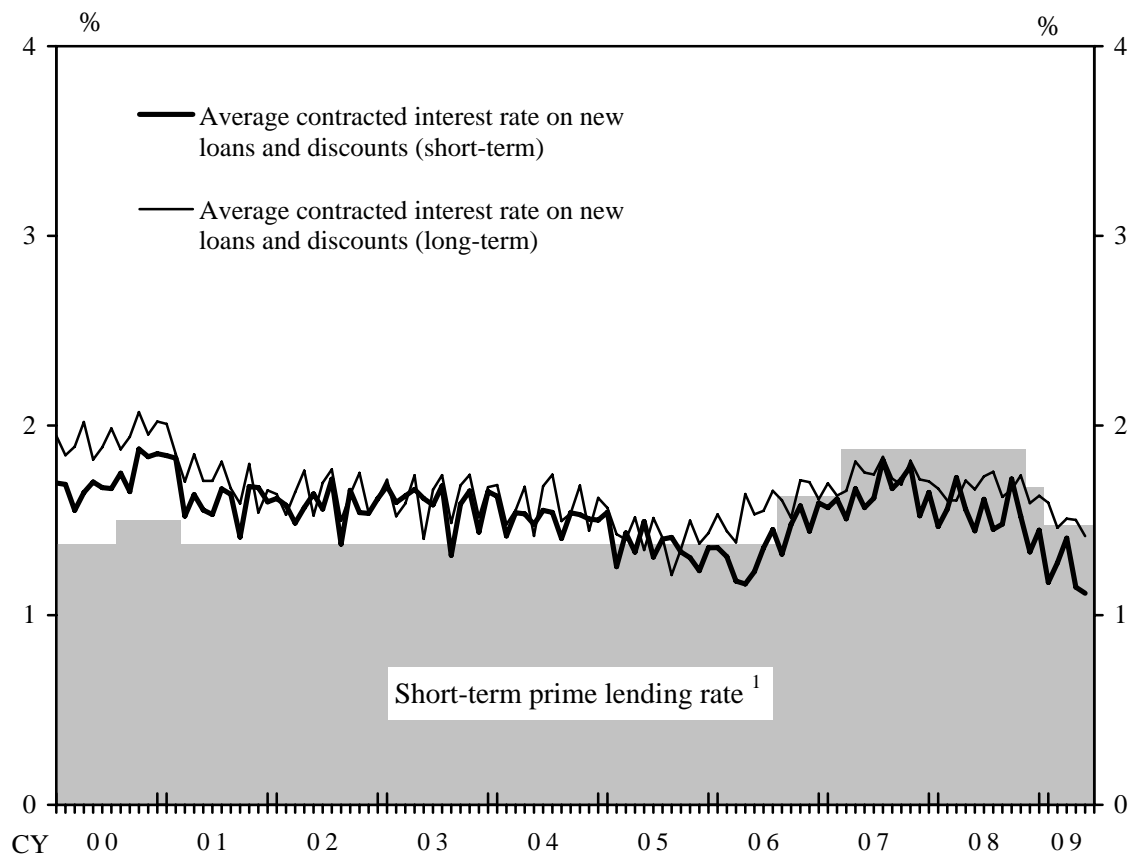
4. DI of "Easier" - "Tighter."

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

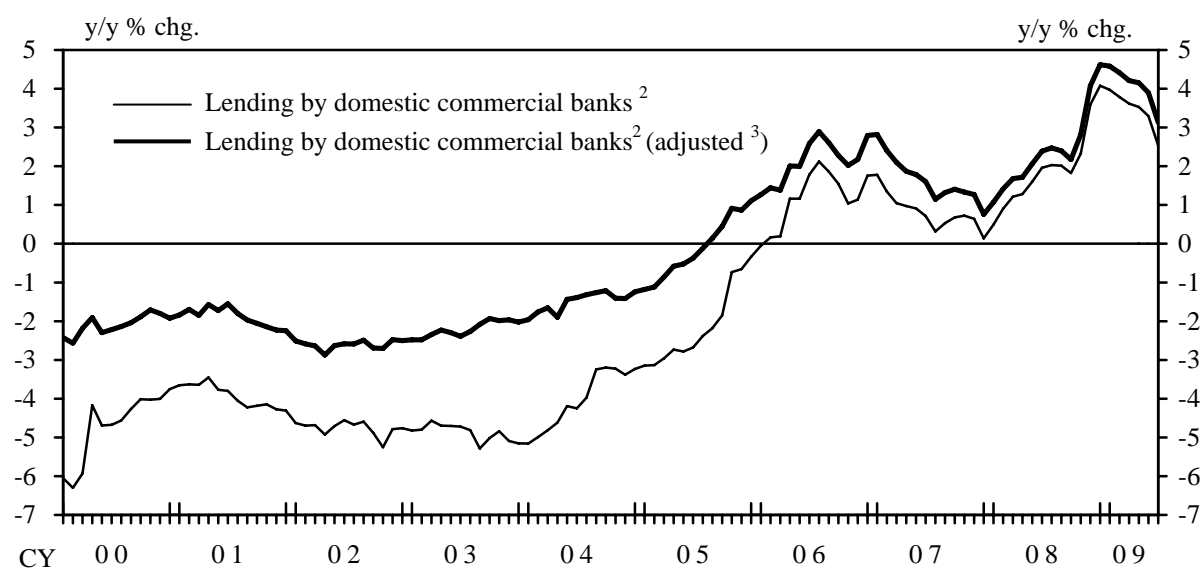


Note: 1. Data are at end of period.

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,

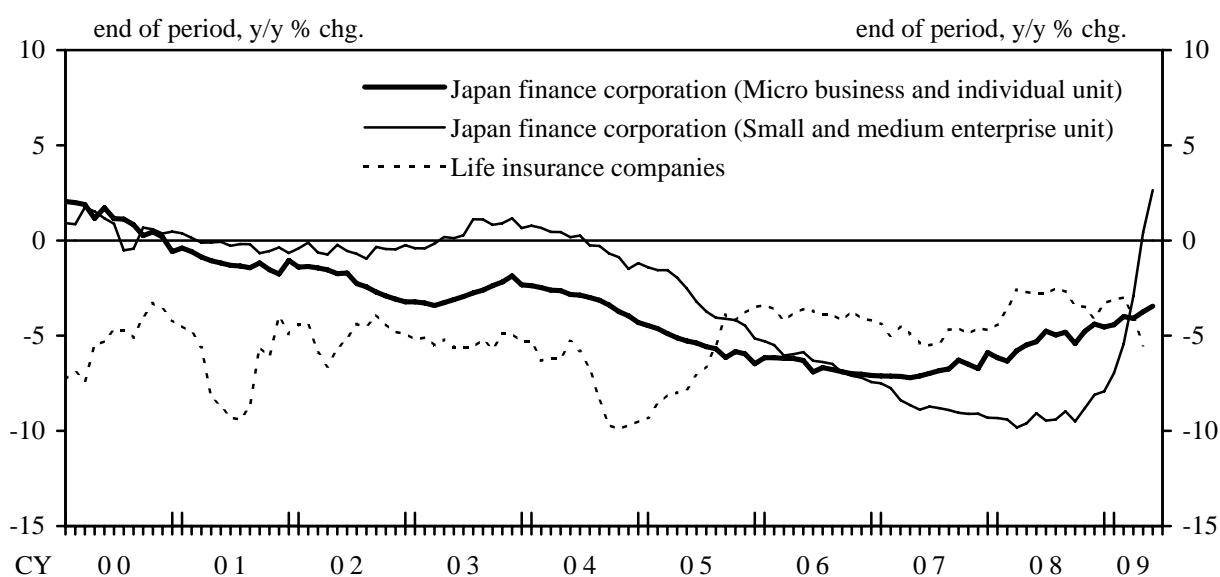
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,

(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

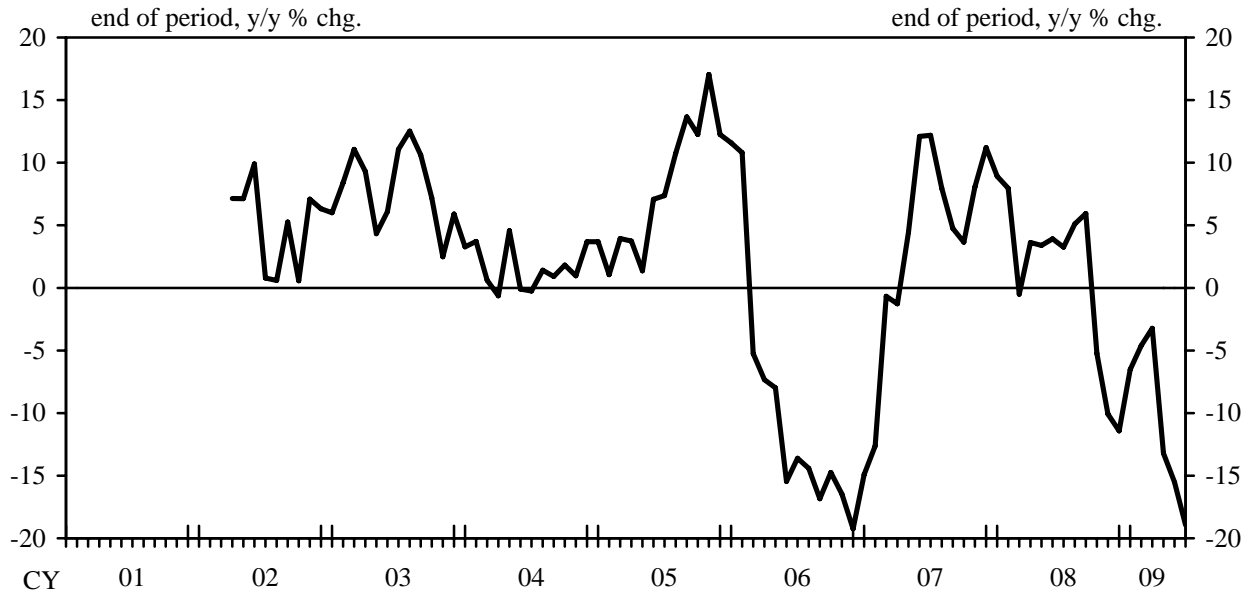


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

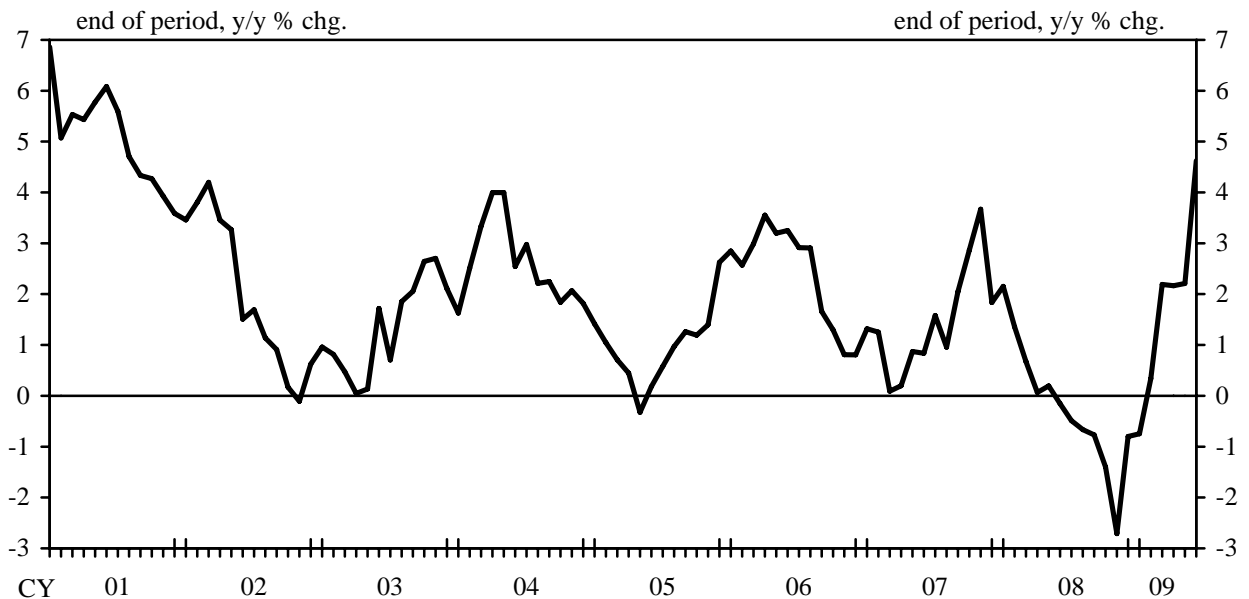
 Private-Sector Fund-Raising in the Capital Markets

(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



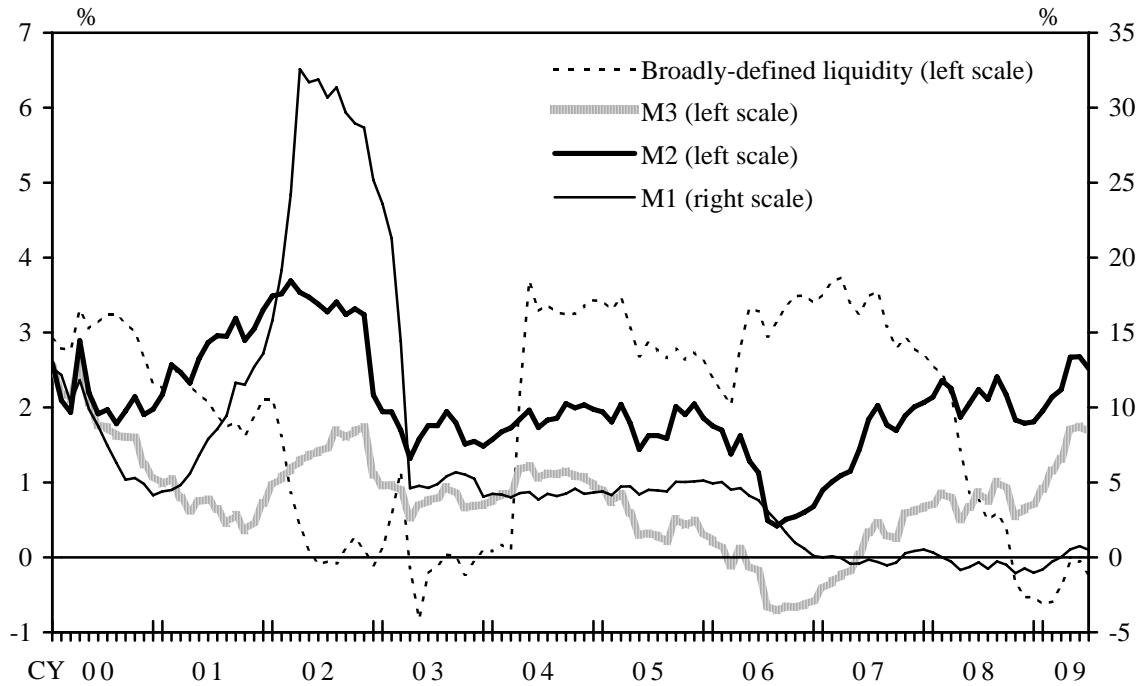
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

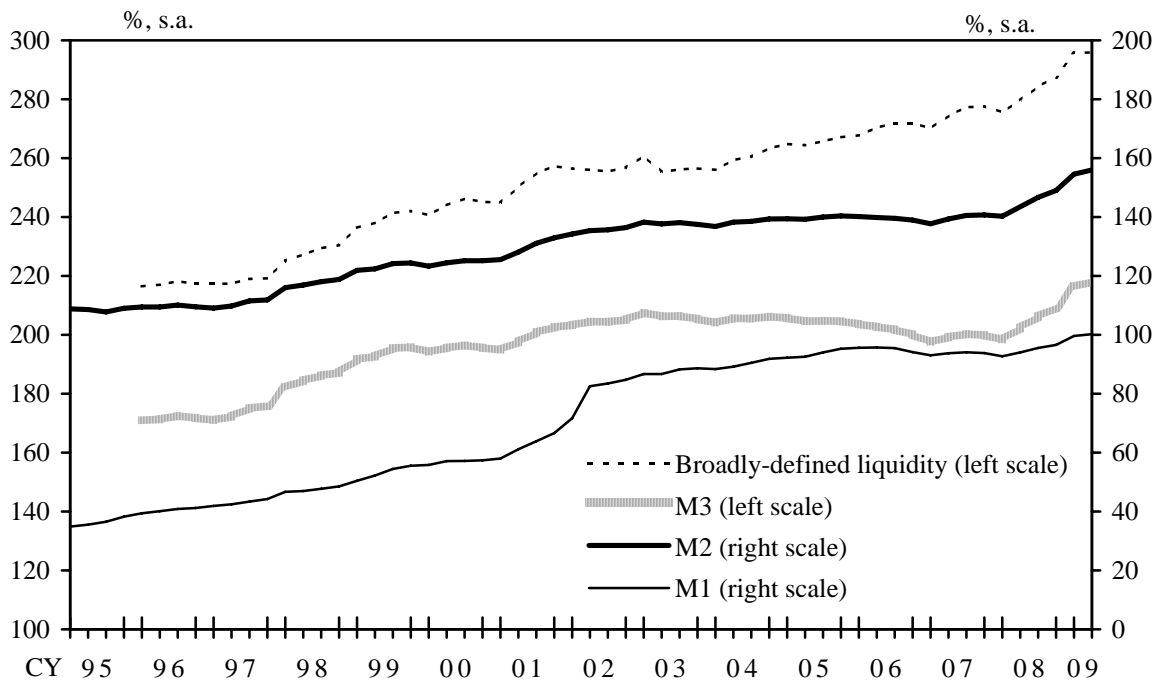
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



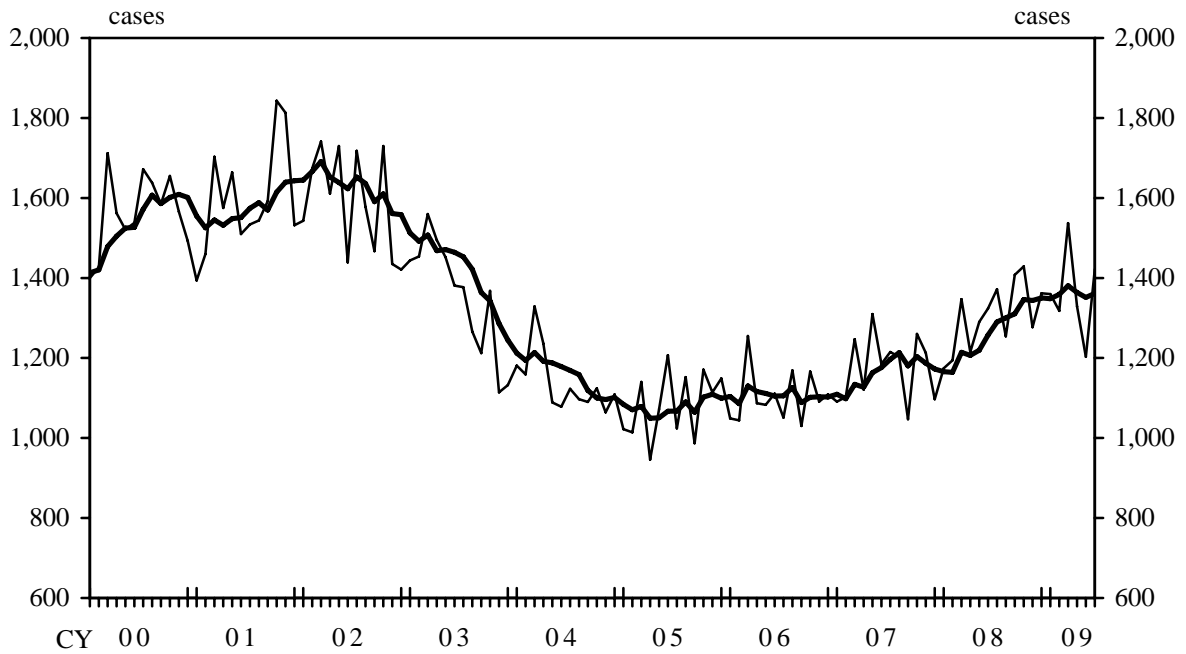
(2) Ratio of Money Stock to Nominal GDP



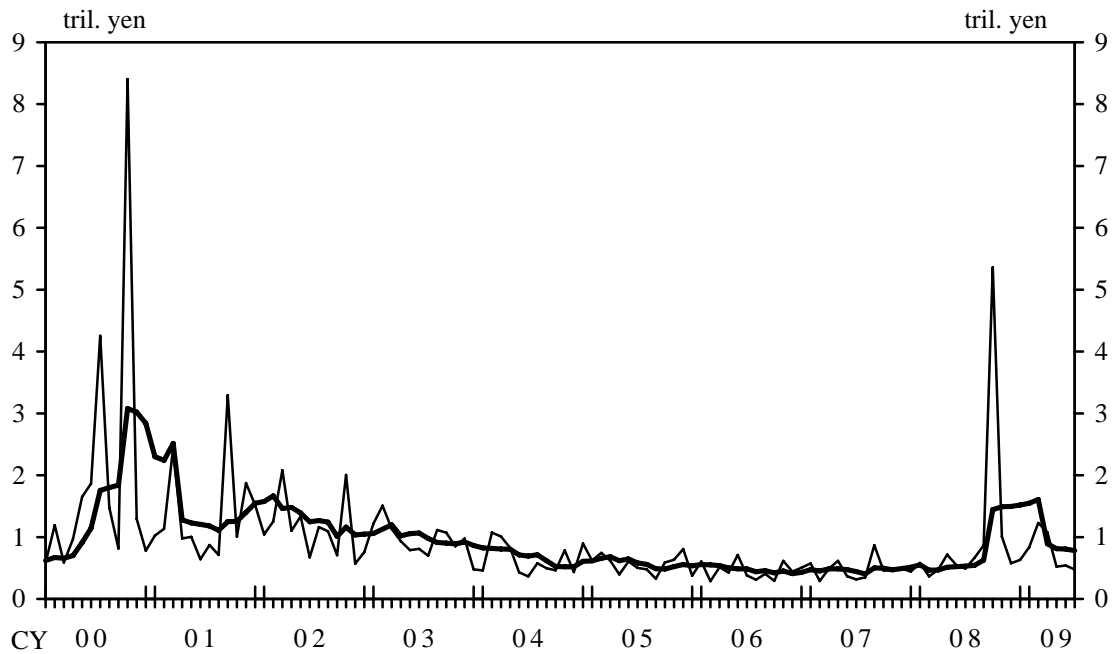
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures 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. The figure for nominal GDP in 2009/Q2 is assumed to be unchanged from the previous quarter.

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)."