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Bank of Japan

**Monthly Report of  
Recent Economic and Financial Developments**  
December 2001

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# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

December 2001

## The Bank's View<sup>2</sup>

Japan's economy is deteriorating broadly, as private consumption is weakening in addition to a decline in exports and business fixed investment.

With regard to final demand, net exports (real exports minus real imports) continue to decline and business fixed investment is also decreasing. Housing investment remains sluggish and public investment is on a downward trend. Moreover, private consumption is weakening recently.

Industrial production continues to decline considerably, reflecting these developments in final demand and the still strong excessiveness in inventories mainly in materials. Corporate profits are falling and business sentiment keeps on worsening. The weakness in household income is becoming noticeable amid the decrease in the hours worked and the rise in unemployment, and consumer confidence is becoming cautious.

Turning to the outlook, as for exporting conditions, inventory adjustments in IT-related goods worldwide are showing steady progress, and this has strengthened the view that adjustments will be mostly completed by around next spring. However, as final demand of IT-related goods still remains stagnant, a distinct recovery in exports of the sector is unlikely for the time being. Moreover, the world economy has decelerated further since the terrorist attacks of September 11, and there is considerable uncertainty about future economic developments especially for the U.S. Therefore, such concern still exists that downward pressure may be exerted on Japan's exports and production once again depending on the developments in overseas economies such as the U.S.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 18 and 19, 2001.

<sup>2</sup> The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on December 18 and 19 as the basis for monetary policy decisions.

Meanwhile, with respect to domestic demand, business fixed investment is expected to follow a downward trend amid the fall in corporate profits. Private consumption will also continue to be weak along with deteriorating employment and income conditions and the more cautious consumer sentiment. Government spending is basically projected to follow a downward trend while domestic private demand generally weakens on top of the uncertainty about exporting conditions. Consequently, it may take quite a while for economic activity as a whole to stop declining, even though the decrease in industrial production may moderate somewhat in line with the progress in inventory adjustments such as of IT-related goods.

Overall, Japan's economy will inevitably continue to deteriorate for a while. In this situation, continuous attention should be paid to the risk of a negative impact on the economy induced by developments in foreign and domestic financial markets.

With regard to prices, import prices continue to decline reflecting the softening of international commodity prices. Domestic wholesale prices are declining faster from the effects of the fall in crude oil prices in addition to the continuous decreases in prices of electrical machinery and materials. Consumer prices are weakening owing mainly to the decline in prices of imported products and their substitutes. Corporate service prices continue to decrease.

As for the conditions surrounding price developments, crude oil prices remain weak. Also, as the economy will continue to deteriorate, the balance between supply and demand in the domestic market will increasingly exert downward pressure on prices. Furthermore, in addition to the declining trend of machinery prices caused by technological innovations, the decreases in the prices of goods and services reflecting deregulation and the streamlining of distribution channels will continue to restrain price developments. Overall, prices are expected to follow a gradual declining trend for the time being. Moreover, given the high degree of uncertainty regarding future economic developments, the possibility that weak demand will further intensify downward pressure on prices warrants careful monitoring.

In the financial market, the overnight call rate is moving around zero percent as the Bank of Japan provided ample liquidity to the money market by aiming at maintaining the current account balances held at the Bank at above 6 trillion yen.

Interest rates on term instruments basically continue to be level. The Japan premium remains negligible.

Yields on long-term government bonds are virtually flat, and are mainly moving around 1.35 percent recently. As for the yield spreads between private bonds (bank debentures and corporate bonds) and government bonds, while spreads between bonds with relatively high credit ratings and government bonds remain mostly unchanged, those between bonds with low credit ratings and government bonds continue to expand slightly.

Stock prices are weakening recently.

In the foreign exchange market, the yen is currently being traded in the range of 127 -129 yen to the U.S. dollar, moving around the lowest level for this year.

With regard to corporate finance, private banks appear to be more cautious in extending loans to firms with high credit risks while they continue to be more active in extending loans to blue-chip companies. The lending attitudes of financial institutions as perceived by firms are becoming more cautious. In corporate bonds and CP markets, the fund-raising conditions continue to be generally favorable particularly for firms with high credit ratings, although the issuing environment for those with low credit ratings is deteriorating.

Credit demand in the private sector is declining faster mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

Amid these developments, private banks' lending continues to decline at about 2 percent on a year-on-year basis. As for the amount outstanding of corporate bonds issued, the year-on-year growth rate has been slowing due to a decrease in the

issuance of corporate bonds with low credit ratings. The year-on-year growth rate of the amount outstanding of CP issued is declining recently, although the amount is still well above the previous year's level.

The growth rate of money stock ( $M_2 + \text{CDs}$ ) in November increased slightly from the previous month owing to a rise in demand deposits.

Funding costs for firms continue to be at extremely low levels on the whole, although market funding costs for some firms are rising.

Overall, the recent financial environment remains extremely easy in terms of money market conditions and interest rate levels. However, the fund-raising conditions of firms with high credit risks, especially of small firms, are becoming severe as private banks and investors are becoming more cautious in taking credit risks against the background of a growing number of corporate bankruptcies. Hence, the developments in the behavior of financial institutions and corporate financing need closer monitoring.

## The Background

### 1. Japan's Economy

Public investment is on a downward trend. The value of public works contracted—a metric that reflects orders—has been at low levels, albeit some fluctuations, and the actual implementation of those works has also been decreasing (Chart 2). Public investment is basically expected to follow a declining trend.<sup>3</sup>

Real exports are on a downward trend, reflecting not only a slowdown in overseas economies but also sluggish demand for IT-related goods (Charts 3[1] and 4). Real exports in October were almost flat vis-à-vis the level in the third quarter due mainly to the increase in automobile-related exports to the U.S. Meanwhile, exports of IT-related goods (telecommunications machinery and photo-copiers, and computers) and capital goods and parts (semiconductor fabrication machines and equipment, and industrial machinery) continued to decrease considerably.

Real imports are also on a declining trend while exports and production keep on decreasing (Charts 3[1] and 5). Real imports in October increased slightly compared to those in the third quarter, which recorded a substantial decline. By type of goods, although imports of textile products from China surged, those of IT-related goods such as PCs remained at low levels in October following the drop in the third quarter.

Net exports (real exports minus real imports), in terms of the real trade balance,<sup>4</sup> decreased somewhat slowly in the third quarter as a result of the drop in real imports, but expanded slightly in October once again (Chart 3[2]).

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<sup>3</sup> As the first supplementary budget for this fiscal year passed on November 16 puts emphasis on employment measures, the spending on public investment, excluding expenditure related to natural disaster relief, is limited. Thereafter, the government has launched the compilation of the second supplementary budget mainly composed of expenditures related to public works and facilities. The passage and materialization of this budget would underpin public investment, but the government, at the same time, has already decided to reduce 10 percent of public-investment-related-expenditures for the initial budget for fiscal 2002. Judged from available information at this stage, public investment is basically expected to follow a declining trend even though it may rise temporarily at some phases.

<sup>4</sup> Strictly speaking, the real trade balance presented in Chart 3[2] differs from net exports on a GDP basis, but the changes in the real trade balance are broadly in line with those of net exports. (The real trade balance is on a customs-clearance basis and does not include trade in services,

Regarding the future environment for foreign trade, the real effective exchange rate of the yen is depreciating recently (Chart 6-1[1]). As for overseas economies, the synchronized deceleration in the U.S., East Asian, and European economies has intensified further after the terrorist attacks of September 11, and many countries such as the U.S. recorded negative growth in the third quarter (Chart 6-1[2]).

With regard to factors affecting Japan's exports, since inventory adjustments in IT-related goods worldwide from the start of this year are progressing gradually (Chart 6-2), the view that the adjustments will be mostly completed by around next spring has become dominant. Therefore, downward pressure on exports from this aspect is expected to be alleviated in the future. However, since final demand of IT-related goods still remains stagnant, a distinct recovery in exports of these goods is unlikely for the time being. As for the circumstances surrounding exports other than the IT-related sector (Chart 6-3), while U.S. private consumption is weakening mainly from the deterioration in employment conditions, there is a concern that sales of automobiles in the U.S. will drop in reaction to the upsurge in October-November sales due to the zero-percent financing campaigns.<sup>5</sup> Moreover, business fixed investment in the U.S. continued to decline for IT-related equipment as well as other equipment. Under this environment, the decline in exports is inevitable for the time being; there exist even such risks that the downtrend may persist or even intensify depending on the economic developments in the U.S.

Imports are also projected to follow a downward trend due to weakening domestic demand, while exports and production are projected to continue declining for the time being. In these circumstances, net exports are expected to keep on decreasing for a while.<sup>6</sup>

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while net exports of GDP statistics are on an ownership-transfer basis and include trade in services.)

<sup>5</sup> Sales of automobiles in the U.S. (Chart 6-3[2]), which had been following a mild downtrend, remained high in November (annualized rate of 18.26 million cars) after a conspicuous increase in October (21.62 million cars) owing to the most aggressive promotion ever done by U.S. vehicle makers such as the zero-percent financing since the terrorist attacks.

<sup>6</sup> The surplus of the nominal balance on goods and services (Chart 3[2]), which had been on a declining trend since the start of 2000, is projected to expand for a while, due not only to the remarkable decrease in the number of people leaving for overseas since the terrorist attacks, but also to the fall in crude oil prices.

Business fixed investment continues to decrease, particularly in manufacturing, while corporate profits and the capacity utilization rate keep on declining. As for investment-related indicators (Chart 7), business fixed investment, according to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, decreased slightly in the third quarter following the first and second quarters. Aggregate supply of capital goods<sup>7</sup> (excluding transport equipment)—which basically moves simultaneously with machinery investment—continued to decline. Among leading indicators, machinery orders (private demand, excluding shipbuilding and electric power equipment) plunged in October compared to the third quarter. By industry, nonmanufacturing, which had been relatively firm, dropped in October in addition to the continuous decline in manufacturing. Meanwhile, construction starts (nonresidential) followed a downtrend since the start of the previous fiscal year but are recently increasing somewhat mainly due to some large-scale constructions related to redevelopment projects and public utility (such as electricity and transportation) in nonmanufacturing.

With regard to the environment surrounding business fixed investment based on the Bank of Japan's *Tankan—Short-term Economic Survey of Enterprises*—of December 2001, both manufacturing and nonmanufacturing firms made large downward revisions for their current profit projections in the second half of this fiscal year compared to the September *Tankan*, and this resulted in the significant decrease in profits for fiscal 2001 overall (Chart 8). The worsening of profits was notable particularly in manufacturing regardless of the scale of firm or whether firms belong to the basic materials or processing industry. Under these projections, business sentiment of firms is worsening further as a whole with some variation depending on industries (Chart 9). As for corporate finance, the fall in corporate profits is gradually affecting the financial position especially of manufacturing firms. In addition, while the lending attitude of financial institutions perceived by firms still

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<sup>7</sup> In the *Indices of Industrial Domestic Shipments and Imports*, the aggregate supply by goods is shown by adding domestic shipments based on *Indices of Industrial Production* and the import volume based on *Foreign Trade Statistics*. Charts 7-1(1) and 12-4 each shows the developments in aggregate supply of capital goods (excluding transport equipment) and consumer goods. Figures for the fourth quarter of 2001 (October) are calculated by the Bank of Japan using indices of industrial shipments and real imports and exports.



significantly differ according to the scale of firm, the severity of corporate financing for small firms is intensifying somewhat in general (Chart 10).

Turning to the outlook, business fixed investment is expected to follow a declining trend while the fall in corporate profits is accentuated, judged from investment plans and the weakness in leading indicators. According to business fixed investment plans for fiscal 2001 reported in the December *Tankan* (Chart 11), the investment plans of manufacturing firms recorded larger declines compared to that of the September *Tankan* as those of large firms especially in the processing industry, such as electrical machinery, were revised substantially downward. Meanwhile, plans of nonmanufacturing firms were revised upward particularly in small firms. Therefore, investment plans of all industries were basically the same as those of the September *Tankan* (year-to-year percent change: -5.7 percent).

Private consumption is weakening recently, reflecting the increasingly harsh employment and income conditions (Chart 12). With regard to sales indicators, sales of department stores remained firm, particularly for accessories and foodstuffs, with some fluctuations. On the other hand, sales of chain stores dropped in October mainly for clothes while they continued to be sluggish. Sales of household electrical appliances remained weak mostly due to stagnant sales of personal computers. In addition, passenger car sales, which had been increasing with the introduction of new models, turned to decline recently. Moreover, outlays for travel plunged as individuals continued to refrain from travelling overseas after the terrorist attacks in the U.S. Reflecting the developments in those indicators, indices of aggregated sales<sup>8</sup> turned to be below those of a year ago. Moreover, the level of aggregate supply of consumer goods continued to be below that of the previous year since domestic shipments were stagnant in addition to the modest increase in imports. Meanwhile, according to the latest consumer survey (Chart 13[1]), consumers were becoming more cautious due to the deterioration in employment conditions. Private

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<sup>8</sup> While various sales indicators show different movements, the indices of aggregated sales are compiled by adding the weights of various sales indicators (including a few services consumption) to grasp the consumption trend from the supply side. For the detailed calculation method, see notes in Chart 12-3.

consumption will continue to be lackluster, mainly reflecting employment and income conditions.

Housing investment remains sluggish (Chart 14[1]). Construction starts fell in October compared to the third quarter due to the drop in construction starts of built for sale, which has a tendency to fluctuate, while those of owner-occupied houses remained low (Chart 14[2]). Housing investment is likely to remain sluggish for the time being amid the increasingly severe employment and income conditions of households, even though construction starts of large condominiums are expected to contribute as an underpinning factor.<sup>9</sup>

Reflecting these developments in final demand, industrial production continues to decline considerably due mainly to the ongoing inventory adjustments especially in materials (Chart 15). With regard to inventories (Chart 16), as inventory adjustments seemed to be in progress along with large production cutbacks, those of electronic parts among production goods declined noticeably. Moreover, the further accumulation of inventories of other production goods such as iron and steel has stopped, although the inventory levels still remain high. However, a strong excessiveness persists while the inventory ratio continued to be high against the background of sluggish final demand. Industrial production is expected to follow a declining trend for some time, based on the projections for weak exports and domestic demand, even though the pace of decline is likely to moderate somewhat in line with the progress in inventory adjustments of IT-related goods and materials.<sup>10</sup>

As for employment and income conditions, with the economy deteriorating broadly, the supply-demand condition in the labor market is easing further, particularly in manufacturing, and household income is weakening more evidently

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<sup>9</sup> Construction starts of built for sale are underpinned by the more or less high-level sales of condominiums, especially in the Tokyo metropolitan area (Chart 14[3]).

<sup>10</sup> According to the survey of production forecasts (-0.1 percent in November and +0.8 percent in December on a month-to-month basis), production in the fourth quarter is projected to diminish by a slight 2.3 percent on a quarter-to-quarter basis compared to the rate of decline of around 4 percent from the start of this year. As for projections by industry (Chart 15[2]), transport equipment, which was on a rising trend, is projected to fall back and furthermore iron and steel are to undergo substantial production cutbacks. On the other hand, the rate of decline in electrical machinery is expected to slow considerably.

(Chart 17). Among labor-market-related indicators (Charts 18 and 19), the December *Tankan* indicated that the excessiveness of employment perceived by firms increased further, mainly in manufacturing. The unemployment rate rose considerably. Moreover, the ratio of job offers to applicants kept on declining, since the number of job seekers recently surged while that of job offers continued to decrease mainly in manufacturing. The number of regular employees (on a Monthly Labour Survey basis at establishments with five employees or more) was basically unchanged.

Meanwhile, as for nominal wages per employee, both overtime and regular payments kept on declining, mainly reflecting the decrease in the hours worked (Chart 17[2]). Compensation of employees is projected to follow a downtrend for the time being while the economy will continue to deteriorate.

## **2. Prices**

Import prices on a yen basis decreased compared to levels three months earlier reflecting the softening of international commodity prices such as in nonferrous metals and crude oil (Chart 21).

Domestic wholesale prices are declining faster due mainly to the fall in crude oil prices. In November, domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates<sup>11</sup>) continued to mark a larger decline compared to levels three months earlier (Chart 22). This was because prices of petroleum products dropped reflecting the fall in crude oil prices, while prices of machinery (electrical machinery) and materials such as chemical and pulp, paper and related products kept decreasing.

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<sup>11</sup> Industrial and commercial electric power consumption charges are set relatively high during July-September, when the consumption volume increases substantially. To view the underlying changes in domestic wholesale prices, adjustments are made to exclude such factors that result in a large seasonal fluctuation.

Corporate service prices are decreasing. In October, corporate service prices (domestic supply-demand factors<sup>12</sup>) declined compared to levels three months earlier (Chart 23). The decrease was mainly because prices of transportation (road freight transportation and packing for freight) and temporary employment services were lowered, in addition to the continued reduction in charges for leasing reflecting the price decline in IT-related equipment, and the continuous decline in prices for advertising services.

Consumer prices are weakening. In October, consumer prices (excluding fresh food) declined compared to levels three months earlier mainly due to the decreases in prices of clothes, reflecting the increases in imports of inexpensive consumer goods (Charts 24 and 25). The overall year-to-year rate of decline in October (excluding fresh food) diminished slightly compared to the previous month owing to the rise in electricity charges in addition to the contraction of the year-to-year decrease for personal computers. (The year-to-year change was -0.9 percent in August, -0.8 percent in September, and -0.7 percent in October.<sup>13</sup>)

Regarding the conditions surrounding price developments, crude oil prices remain weak (Chart 21[1]). Also, as the economy will continue to deteriorate, the balance between supply and demand in the domestic market will increasingly exert downward pressure on prices (Chart 26). Furthermore, in addition to the declining trend of machinery prices caused by technological innovations, the decreases in prices of goods and services reflecting deregulation and the streamlining of distribution channels will continue to restrain price developments. Overall, prices are expected to follow a gradual declining trend for the time being.

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<sup>12</sup> Corporate service prices (domestic supply-demand factors) only include items whose monthly price changes primarily reflect changes in domestic private demand. Specifically, items with the following properties are removed from the overall CSPI: (1) regulated fees, (2) overseas factors, and (3) fees with a large monthly fluctuation that do not necessarily reflect short-term changes in supply-demand trends. For the detailed calculation, see the note in Chart 23.

<sup>13</sup> Consumer prices including fresh food in October were basically the same as those excluding fresh food. (The year-to-year change was -0.7 percent in August, -0.8 percent in September, and -0.8 percent in October.)

### **3. Financial Developments**

#### **(1) Financial Markets**

As for interest rate developments in short-term money markets (Charts 27[1] and 28), the overnight call rate (uncollateralized) is moving around zero percent as the Bank of Japan provided ample liquidity to the money market by aiming at maintaining the current account balances held at the Bank at above 6 trillion yen (Chart 29).

As for interest rates on term instruments (Chart 28), three-month Euro-yen rates (TIBOR) continue to be basically level. The Japan premium (Chart 31) remains negligible.

Yields on ten-year government bonds (newly issued; Chart 27[2]) rose somewhat temporarily as market participants view that the amount of government bond issuance in the market has increased and the credit ratings of Japanese government bonds were lowered, but are virtually flat and mainly moving around 1.35 percent recently. As for the yield spreads between government and private bonds (bank debentures and corporate bonds; Charts 33 and 34), while spreads between bonds with relatively high credit ratings and government bonds remain mostly unchanged, those between bonds with low credit ratings and government bonds are expanding slightly due to the more cautious views of investors toward taking credit risks.

Stock prices (Chart 35[1]) are weakening recently. This is because while stock prices are supported by the rise in expectations toward the economic recovery of the U.S. and the depreciation of the yen, the credit risks of firms with poor business performance have become evident.

In the foreign exchange market (Chart 36), the yen is currently being traded in the range of 127-129 yen to the U.S. dollar, moving around the lowest level for this year, reflecting market anxieties about corporate bankruptcies and the degrading of Japanese government bonds.

## (2) Monetary Aggregates and Corporate Finance

The growth rate of money stock ( $M_2$  + CDs; Chart 37) in November increased slightly from the previous month owing to a rise in demand deposits. (The year-on-year change was 3.3 percent in September, 3.0 percent in October, and 3.2 percent in November.)

The year-on-year growth rate of monetary base (currency in circulation + current account balances at the Bank of Japan; Chart 38) continues to be high at around 14-15 percent mainly due to a large increase in the current account balances at the Bank of Japan. (The year-on-year change was 14.2 percent in September, 14.3 percent in October, and 15.5 percent in November.)

As for the lending attitudes of private financial institutions, financial institutions appear to be more cautious in extending loans to firms with high credit risks, while they continue to be more active in extending loans to blue-chip companies. The lending attitudes of financial institutions as perceived by firms are becoming more cautious. In corporate bonds and CP markets, the fund-raising conditions continue to be generally favorable particularly for firms with high credit ratings, although the issuing environment for those with low credit ratings is deteriorating.

Credit demand in the private sector is declining faster mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

Amid these developments, lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors;<sup>14</sup> Chart 39), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, continues to decline at about 2 percent on a year-on-year basis. (The year-on-year change was -2.0 percent in September, -1.9 percent in October, and -2.0 percent in November.) As for the amount outstanding of corporate bonds issued

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<sup>14</sup> The figures are adjusted for (1) fluctuations from the liquidation of loans, (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates, and (3) fluctuations from loan write-offs.

(Chart 40), the year-on-year growth rate has been slowing due to a decrease in the issuance of corporate bonds with low credit ratings. The year-on-year growth rate of the amount outstanding of CP issued is declining recently, although the amount is still well above the previous year's level.

Funding costs for firms continue to be at extremely low levels on the whole, although market funding costs for some firms are rising. The average contracted interest rates on new loans and discounts (Chart 42) continue to be more or less unchanged. The long-term prime lending rate was raised by 0.2 percent to 1.85 percent on December 11. In the capital market, corporate bond issuance rates are basically flat. CP issuance rates continue to be at extremely low levels as a whole.

In November, the number of corporate bankruptcies (Chart 43) remained high, exceeding 1,800 cases.

Overall, the recent financial environment remains extremely easy in terms of money market conditions and interest rate levels. However, the fund-raising conditions of firms with high credit risks, especially of small firms, are becoming severe as private banks and investors are becoming more cautious in taking credit risks against the background of a growing number of corporate bankruptcies. Hence, the developments in the behavior of financial institutions and corporate financing need closer monitoring.

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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2001/Q1	Q2	Q3	2001/August	September	October	November
Index of living expenditure level (all households)	1.0	-3.2	-0.7	-1.1	-0.1	4.1	n.a.
Sales at department stores	0.4	0.8	-1.2	1.7	2.5	-3.2	n.a.
Sales at chain stores	-0.1	-2.6	-1.1	-1.1	-1.1	-3.4	n.a.
New passenger-car registrations <sup>2</sup> <s.a., ann. 10,000 units>	< 301>	< 303>	< 317>	< 323>	< 307>	< 278>	< 283>
Sales of household electrical appliances (real, NEBA)	13.0	-7.4	0.4	-5.8	4.9	-2.0	n.a.
Outlays for travel (50 major travel agencies)	0.6	-1.2	-3.1	1.2	-16.1	-8.5	n.a.
Housing starts <s.a., ann. 10,000 units>	< 118>	< 115>	< 121>	< 122>	< 118>	< 115>	<n.a.>
Machinery orders (from private sector <sup>3</sup> )	-7.0	1.1	-5.7	8.7	-13.2	-10.1	n.a.
Manufacturing	-12.8	-6.6	-9.7	8.0	-18.4	-8.7	n.a.
Nonmanufacturing <sup>3</sup>	-2.8	5.7	-1.4	14.0	-15.6	-9.4	n.a.
Construction Starts (private, nonresidential use)	-5.6	-7.2	11.6	-1.9	1.7	5.4	n.a.
Mining & manufacturing	9.0	-18.5	-6.9	2.1	-9.3	4.1	n.a.
Nonmanufacturing <sup>4</sup>	-9.4	-1.1	18.4	-9.4	4.8	7.9	n.a.
Value of public works contracted	10.7	-17.2	5.7	-3.4	-1.7	-0.5	1.3
Real exports	-4.6	-4.9	-4.0	6.5	-4.3	1.7	n.a.
Real imports	-3.3	-1.5	-4.7	-1.1	-6.9	8.2	n.a.
Industrial production	-3.7	-4.1	-4.3	0.8	-2.9	-0.2	n.a.
Shipments	-3.5	-3.9	-3.6	0.9	-3.2	-0.5	n.a.
Inventories	2.3	2.4	-2.4	0.3	-1.3	-1.3	n.a.
Inventories/shipments <s.a., 1995=100>	<106.6>	<112.5>	<116.6>	<110.0>	<116.6>	<114.2>	<n.a.>
Real GDP	1.0	-1.2	-0.5	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.9	-1.9	-1.7	-0.2	-0.8	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2001/Q1	Q2	Q3	2001/August	September	October	November
Ratio of job offers to applicants <s.a., times>	<0.63>	<0.61>	<0.59>	<0.59>	<0.57>	<0.55>	<n.a.>
Unemployment rate <s.a., %>	<4.75>	<4.87>	<5.09>	<4.96>	<5.30>	<5.36>	<n.a.>
Overtime working hours <sup>5</sup>	0.7	-2.8	-6.2	-5.3	-8.1	-8.1	n.a.
Number of employees	1.2	0.9	0.0	0.3	-1.0	-1.2	n.a.
Number of regular employees <sup>5</sup>	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	n.a.
Nominal wages per person <sup>5</sup>	0.1	-0.4	-1.2	-2.0	-1.2	-1.2	n.a.
Domestic wholesale price index <q/q % chg.> (3-month growth rate)	-0.4 <-0.2>	-0.6 <-0.2>	-1.0 <-0.3>	-1.0 <-0.3>	-1.1 <-0.4>	-1.1 <-0.5>	-1.4 <-0.6>
Consumer price index <sup>6</sup> <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.2>	-0.9 <-0.2>	-0.8 <-0.2>	-0.9 <-0.1>	-0.8 <-0.2>	-0.7 <-0.2>	n.a. <n.a.>
Corporate service price index <sup>7</sup> <s.a., q/q % chg.> (3-month growth rate)	-1.4 <-0.3>	-1.3 <-0.5>	-1.4 <-0.2>	-1.5 <-0.1>	-1.5 <-0.3>	-1.5 <-0.4>	n.a. <n.a.>
Monetary aggregates (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	2.4	2.7	3.1	3.0	3.3	3.0	3.2
Number of suspension of transactions with banks	-9.0	-3.4	-8.5	-10.3	-4.8	16.7	1.9

Notes: 1. Excludes the cases indicated inside angle brackets in the index section.

2. Excludes small cars with engine sizes of 660cc or less.

3. Excludes ships and demand from electric power companies.

4. Nonmanufacturing = commerce + services + agriculture & fisheries + public utilities industries, etc.

5. Data for establishments with at least five regular employees.

6. Excludes fresh food.

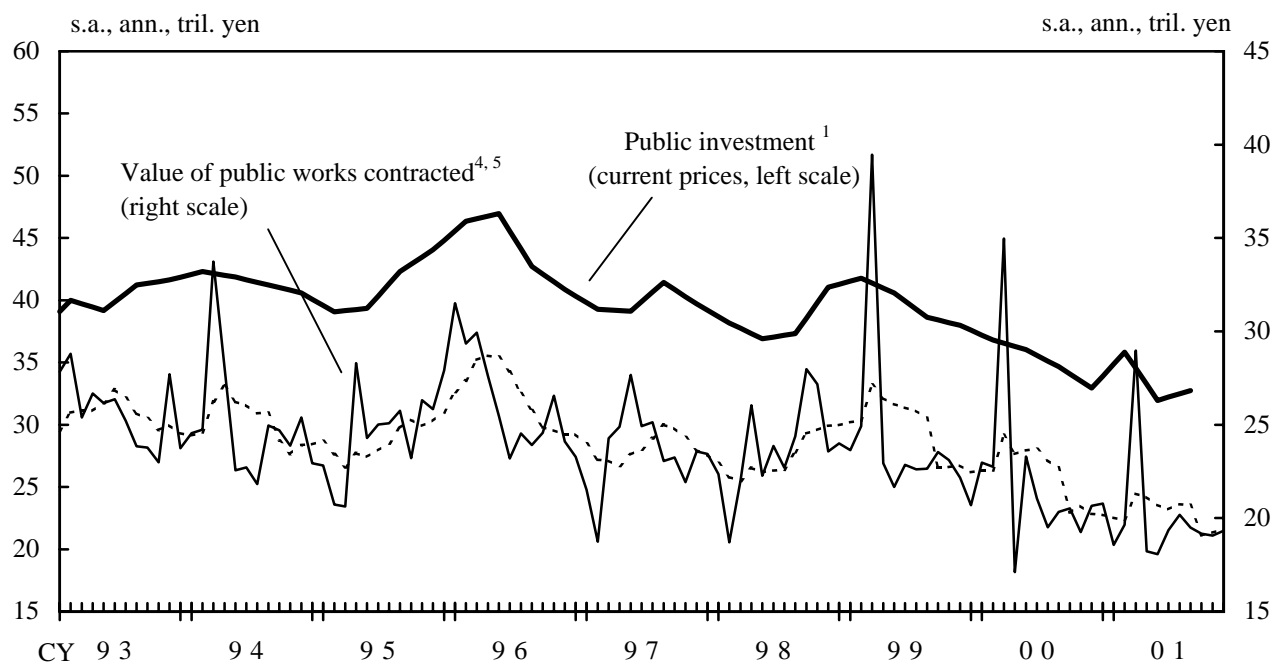
7. Domestic supply-demand factors.

8. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

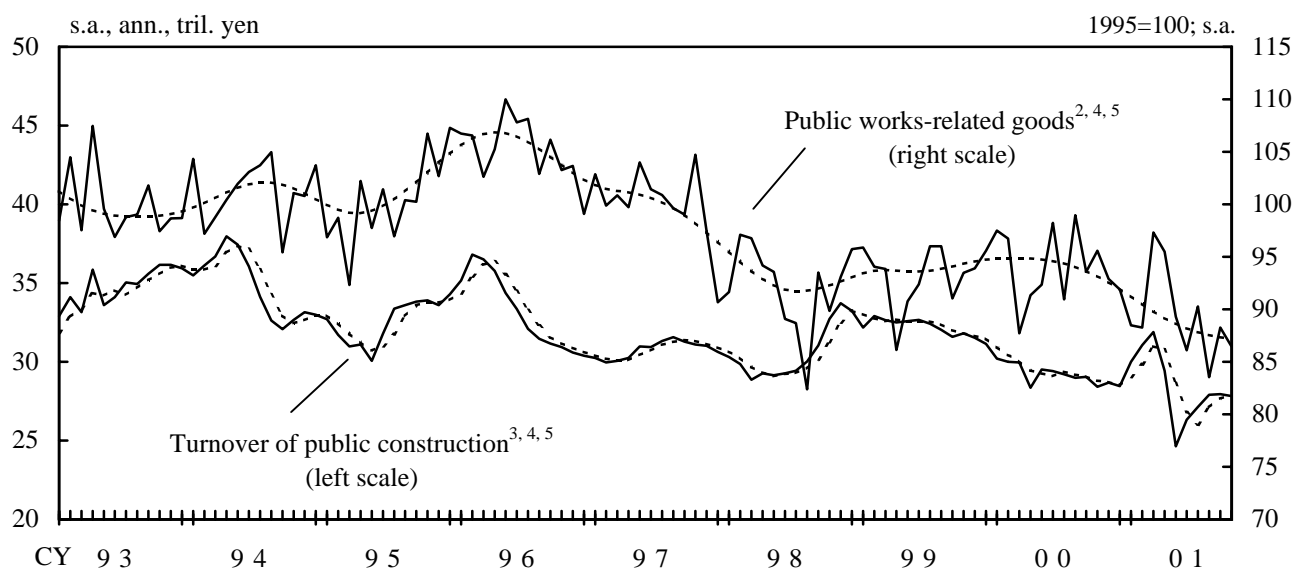
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices of Tertiary Industry Activity"; Japan Chain Stores Association, "Sales at Chain Stores"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue," "Monthly of Construction Statistics"; Ministry of Finance, "The Summary Report on Trade of Japan"; Cabinet Office, "Machinery Orders Statistics," "National Accounts"; Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics"; Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey"; Bank of Japan, "Wholesale Price Indexes," "Corporate Service Price Index," "Financial and Economic Statistics Monthly"; Japanese Bankers Associations, "Suspension of Transaction with Banks."

## Public Investment

## (1) Value of Public Works Contracted and Public Investment



## (2) Shipments of Public Works-related Goods and Turnover of Public Construction



Notes: 1. Quarterly basis public investment is plotted at the middle month of each quarter.

2. Public works-related goods are weighted average of asphalt, concrete products for roads, bridges, and cement, where weights are based on 1995-basis IIP (shipment). Shipments of these goods also include those to the private sector.

3. Turnover of public construction is based on the public sector table in the "Integrated Statistics on Construction Works."

4. Value of public works contracted, public works-related goods, and turnover of public construction are seasonally adjusted by X-12-ARIMA ( $\beta$  version). As the figures of value of public works contracted and public works-related goods are seasonally adjusted on a monthly basis, the data are retroactively revised each month. Seasonal factors of turnover of public construction are calculated by using data until March 2001, and are fixed for FY2001.

5. Among the dotted lines, the line for value of public works contracted is the 6 months moving average, the line for public works-related goods is the trend cycle factor, and the line for turnover of public construction is the 3 months moving average.

Sources: Cabinet Office, "National Accounts";

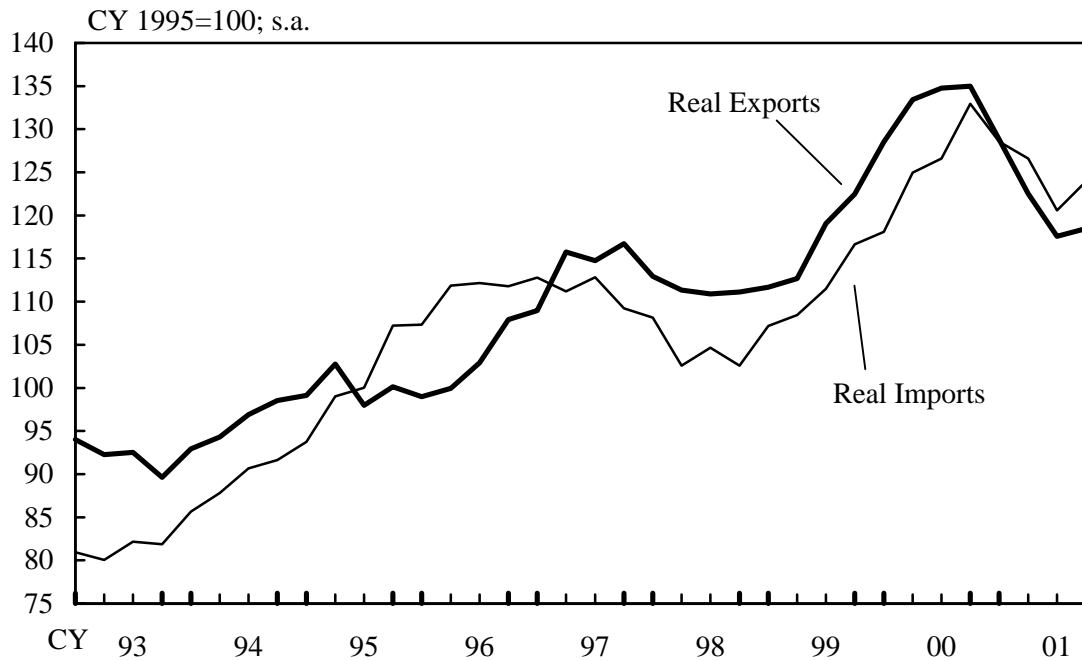
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";

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

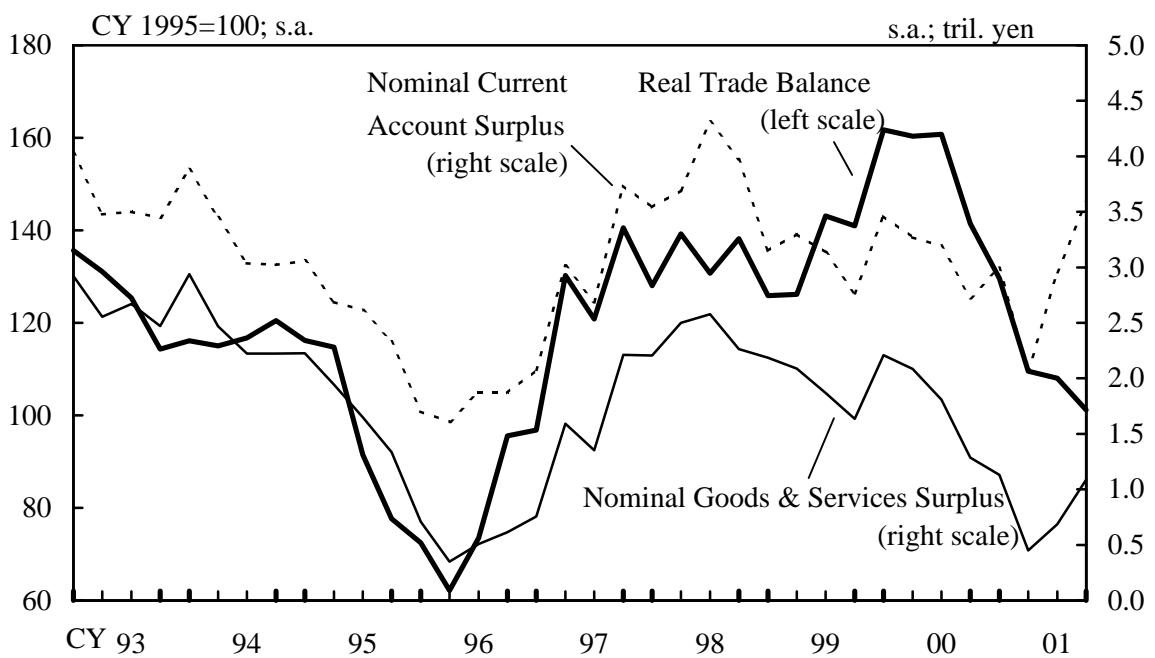
Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



Notes: 1. Real exports/imports and the real trade balance are seasonally adjusted by X-11.  
 2. 2001/Q4 figures are October figures converted into quarterly amount.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan";  
 Bank of Japan, "Balance of Payments Monthly," "Wholesale Price Indexes."

Real Exports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q4	2001 Q1	Q2	Q3	Q4	2001 Aug.	Sep.	Oct.
United States	<29.7>	4.6	11.7	6.0	-6.6	-6.7	-3.0	0.3	6.8	-10.2	5.4
EU	<16.3>	0.8	6.4	-2.2	1.3	-10.1	-6.4	1.0	11.7	-2.0	-1.3
East Asia	<39.7>	12.0	25.7	-1.7	-4.3	-5.8	-4.1	-1.2	9.1	-4.9	-0.7
China	<6.3>	12.3	27.8	1.3	10.2	-5.4	-2.0	3.6	14.5	-12.9	8.8
NIEs	<23.9>	11.2	25.8	-2.3	-9.4	-6.3	-3.5	-3.0	7.7	-2.4	-3.8
Taiwan	<7.5>	7.8	22.5	-9.2	-16.5	-3.2	-12.1	1.7	3.1	3.9	-1.9
Korea	<6.4>	43.8	30.4	-0.8	-5.4	-8.3	7.1	-1.1	6.6	1.6	-4.2
ASEAN4 <sup>3</sup>	<9.5>	13.6	24.0	-2.3	-1.7	-5.0	-6.8	-0.8	8.2	-4.1	-0.6
Thailand	<2.8>	15.3	19.0	1.6	-5.1	-4.7	-0.9	1.4	7.2	-0.9	-0.2
Real exports		4.5	14.1	0.2	-4.6	-4.9	-4.0	0.8	6.5	-4.3	1.7

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q4	2001 Q1	Q2	Q3	Q4	2001 Aug.	Sep.	Oct.
Intermediate goods	<14.1>	5.3	5.3	0.8	-1.8	-4.8	-0.8	5.6	6.7	-0.2	3.5
Motor vehicles and their related goods	<20.2>	2.8	9.2	-1.1	-7.8	3.5	5.2	2.2	10.4	-7.7	4.5
Consumer goods <sup>4</sup>	<7.0>	5.0	13.0	2.6	-6.0	-0.4	-2.7	-2.9	0.5	5.0	-6.1
IT-related goods <sup>5</sup>	<18.8>	6.4	25.2	5.9	-5.7	-6.4	-9.5	-5.1	5.4	-4.7	-3.7
Capital goods and parts <sup>6</sup>	<29.7>	1.8	21.1	-3.3	-3.2	-10.2	-6.9	-4.5	6.3	-3.3	-4.3
Real exports		4.5	14.1	0.2	-4.6	-4.9	-4.0	0.8	6.5	-4.3	1.7

Notes: 1. Seasonally adjusted by X-11. 2001/Q4 figures are October figures converted into quarterly amount.

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

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

4. Excluding motor vehicles.

5. IT-related goods = automatic data processing machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

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

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Real Imports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q4	2001 Q1	Q2	Q3	Q4	2001 Aug.	Sep.	Oct.
United States	<19.0>	-2.9	7.9	4.8	-5.5	-0.3	-9.8	3.6	-3.7	-4.8	8.5
EU	<12.3>	5.8	8.5	4.4	2.2	-4.7	-1.3	6.2	-1.2	-2.5	8.5
East Asia	<39.6>	15.8	25.5	6.6	-1.1	-3.9	-5.6	4.1	-0.7	-9.7	11.8
China	<14.5>	11.9	28.1	10.1	5.2	-1.2	-4.2	7.7	1.4	-7.8	13.3
NIEs	<12.2>	24.2	28.4	4.4	-5.2	-9.7	-7.5	-2.1	-1.7	-13.9	9.1
Taiwan	<4.7>	25.6	43.6	8.1	-7.6	-12.7	-12.6	4.7	0.7	-15.8	17.5
Korea	<5.4>	30.8	22.5	2.4	-2.6	-7.2	-7.3	-0.4	-3.1	-9.6	7.8
ASEAN4 <sup>3</sup>	<12.8>	12.6	20.2	5.0	-3.8	-1.4	-5.5	5.1	-2.3	-8.3	12.3
Thailand	<2.8>	5.5	19.3	8.9	-4.1	4.3	-6.0	3.9	5.3	-8.8	8.6
Real imports		6.1	13.3	5.0	-3.3	-1.5	-4.7	2.8	-1.1	-6.9	8.2

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 99	2000	2000 Q4	2001 Q1	Q2	Q3	Q4	2001 Aug.	Sep.	Oct.
Raw materials <sup>4</sup>	<26.8>	2.7	1.7	0.6	-1.7	-2.1	-3.0	0.9	1.2	-8.3	6.6
Intermediate goods	<13.0>	3.6	8.2	5.7	0.3	-3.8	-3.9	2.1	-0.5	-7.4	7.7
Foodstuffs	<12.1>	2.8	5.3	2.4	-2.3	-1.1	-3.3	6.8	-5.2	-1.2	9.7
Consumer goods	<10.5>	8.2	21.4	9.3	-2.7	1.3	-2.9	8.2	3.5	-6.3	11.8
IT-related goods <sup>5</sup>	<16.1>	18.7	43.9	7.3	-5.0	-6.1	-13.0	1.5	-7.3	-4.6	7.5
Capital goods and parts <sup>6</sup>	<11.5>	5.1	12.4	7.6	-3.7	-0.3	-4.4	3.2	3.4	-8.4	8.3
excluding aircraft		4.4	21.5	8.9	0.5	-0.9	-7.2	3.2	0.8	-13.5	13.7
Real imports		6.1	13.3	5.0	-3.3	-1.5	-4.7	2.8	-1.1	-6.9	8.2

Notes: 1. Seasonally adjusted by X-11. 2001/Q4 figures are October figures converted into quarterly amount.

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

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

4. Raw materials = woods + ores + mineral fuel, etc.

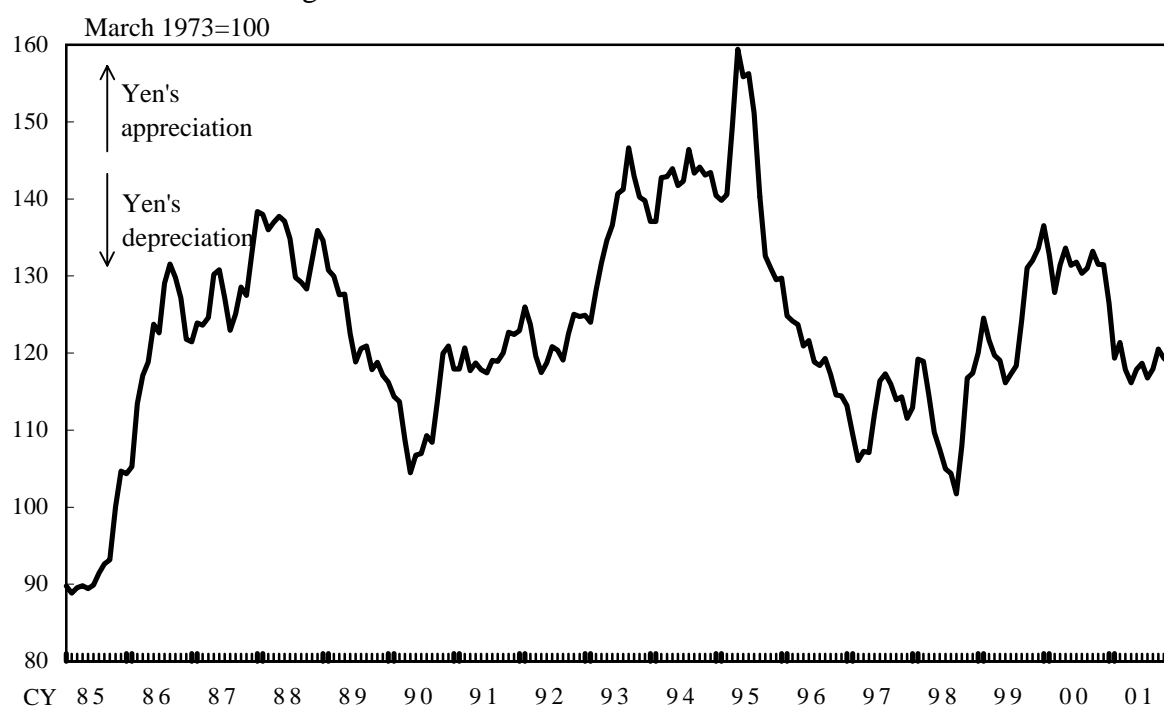
5. IT-related goods = office machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

6. Excluding IT-related goods.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

## Exporting Conditions (1)

## (1) Real Effective Exchange Rate



Note: Monthly average. The figure for December 2001 is the average of December 1-18. Calculated by the Bank of Japan. Figures are the index of weighted average of the yen's real exchange rates versus 25 major currencies which are calculated from exchange rates and price indexes of the respective countries.

## (2) Real GDP Growth Rates in Overseas Economies

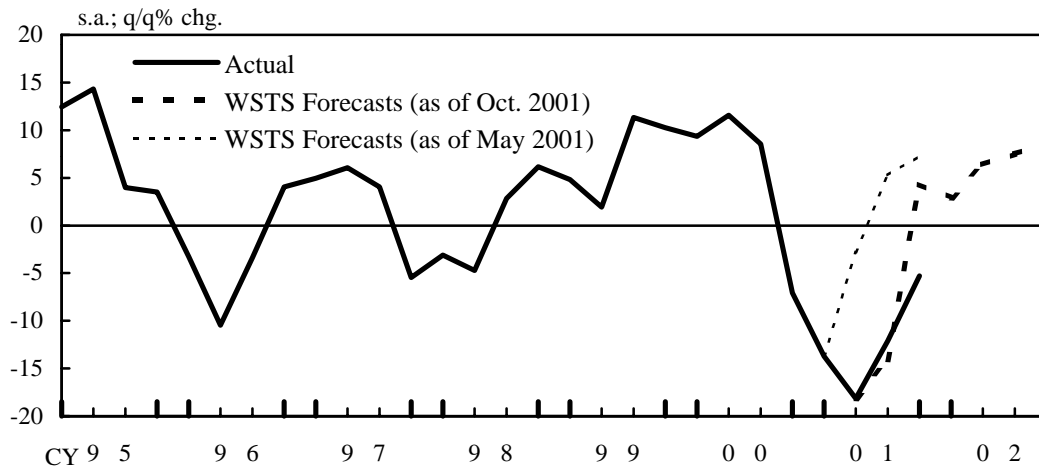
		CY98	99	2000	2000 Q4	2001 Q1	Q2	Q3	
United States <sup>1</sup>		4.3	4.1	4.1	1.9	1.3	0.3	-1.1	
European Union <sup>1</sup>		2.9	2.6	3.3	2.3	2.0	0.5	0.7	
	Germany	2.0	1.8	3.0	0.6	1.6	-0.1	-0.6	
	France	3.5	3.0	3.5	3.5	1.8	0.9	1.9	
	United Kingdom	3.0	2.1	2.9	2.0	2.6	1.8	2.0	
East Asia <sup>2</sup>	China	7.8	7.1	8.0	(Jan-Dec) 8.0	8.1	(Jan-Jun) 7.9	(Jan-Sep) 7.6	
	NIEs	Korea	-6.7	10.9	8.8	4.6	3.7	2.7	1.8
		Taiwan	4.6	5.4	5.9	3.8	0.9	-2.4	-4.2
		Hong Kong	-5.3	3.0	10.5	7.0	2.2	0.8	-0.3
		Singapore	0.1	5.9	9.9	11.0	4.8	-0.5	-5.6
	ASEAN4	Thailand	-10.8	4.2	4.4	3.2	1.8	1.9	1.5
		Indonesia	-13.1	0.8	4.8	5.2	3.1	3.3	3.5
Malaysia		-7.4	6.1	8.3	6.3	3.1	0.5	-1.3	
Philippines		-0.6	3.4	4.0	3.8	3.2	3.2	2.9	

Notes: 1. Quarterly data are quarter-to-quarter percent changes.

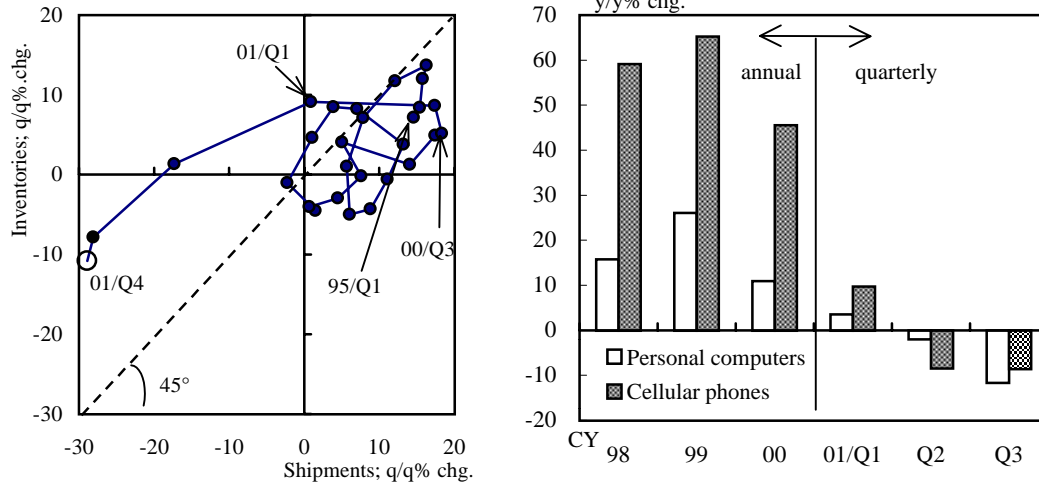
2. Quarterly data are percent changes from a year earlier.

Exporting Conditions (2)

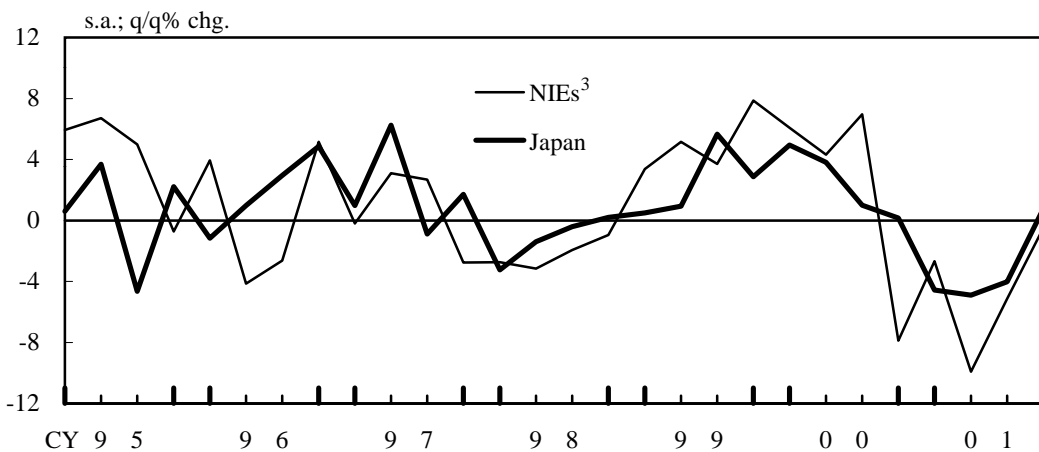
(1) World Semiconductor Shipments <sup>1</sup>



(2) Inventory Cycle for U.S. Computers and Electronic Products <sup>2</sup>      (3) World Shipments of Personal Computers and Cellular Phones



(4) Exports - Japan and NIEs



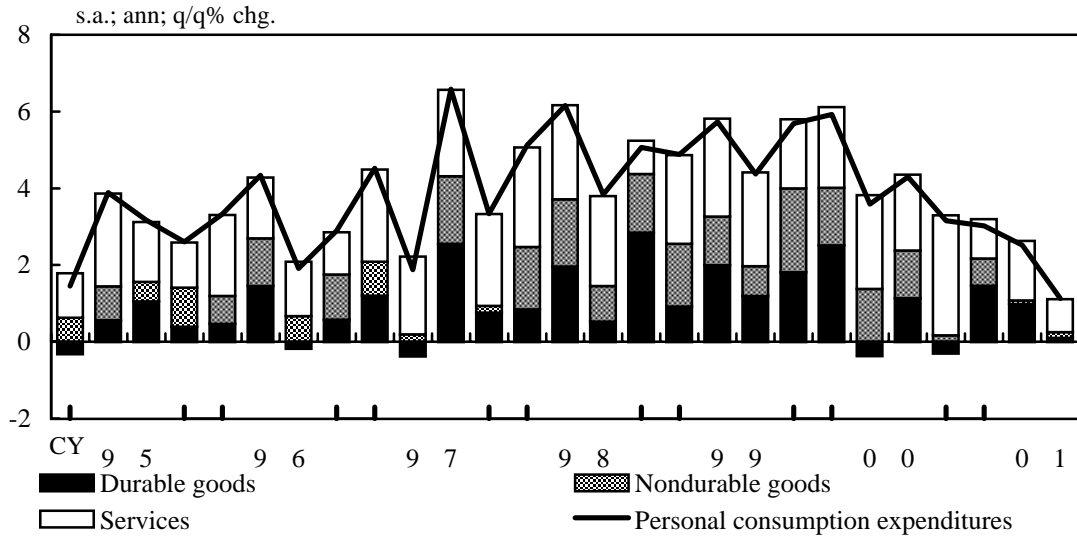
- Notes: 1. Actual figures are on a real basis deflated by U.S. PPI electronic devices. Forecasts are on a nominal basis. 2001/Q4 figures are October figures converted into quarterly amount.  
 2. A way of reading figure (2) is shown in Chart 16.  
 3. NIEs exports are the weighted sum of Korea, Taiwan, and Singapore where weights come from real GDP. NIEs exports are in nominal (U.S. dollar) terms. 2001/Q4 figures are Oct.-Nov. averages converted into quarterly amount.  
 4. Data for (1), (2), and (4) are seasonally adjusted by X-11.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes"; WSTS (World Semiconductor Trade Statistics), "Semiconductor Forecasts"; CEIC Data Company; Gartner Group Press Releases; IDC Press Releases.

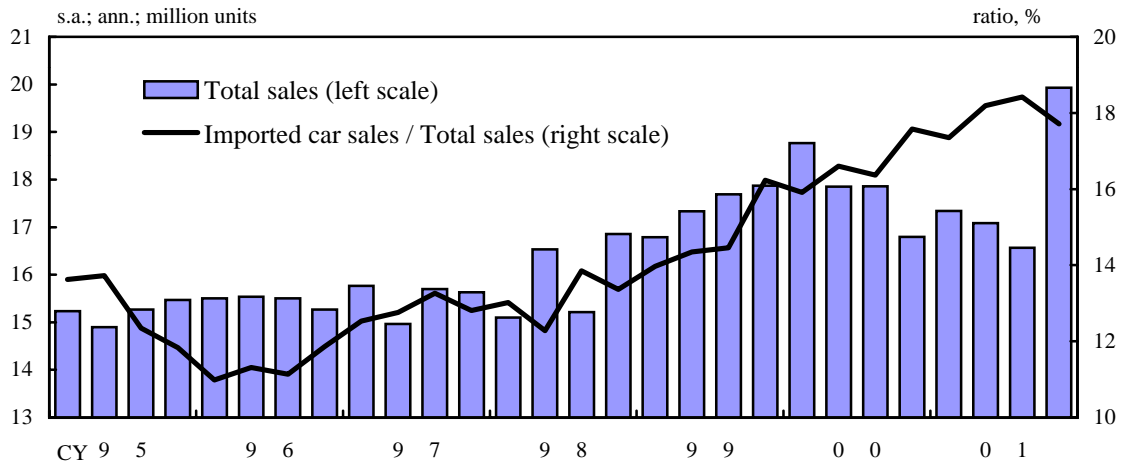


Exporting Conditions (3)

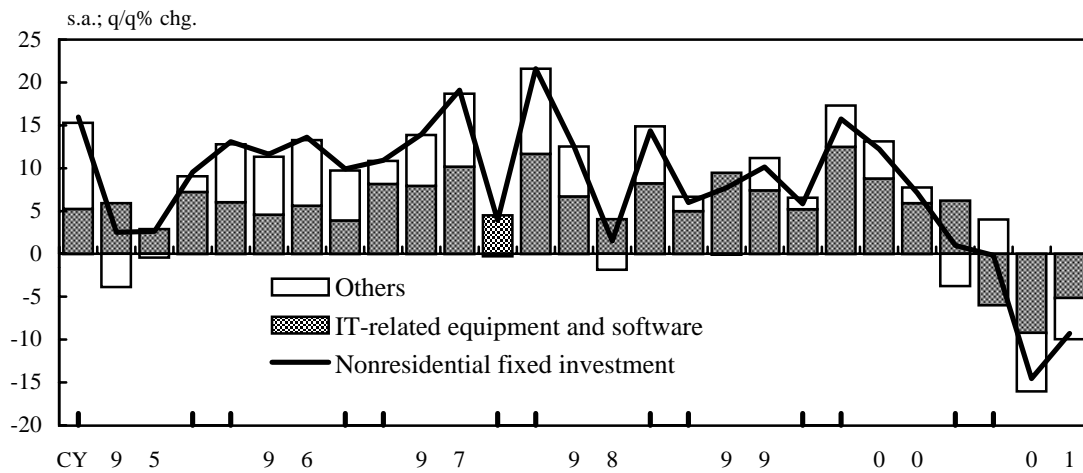
(1) U.S. Personal Consumption Expenditures



(2) Sales of Automobiles in the U.S.



(3) U.S. Nonresidential Fixed Investment

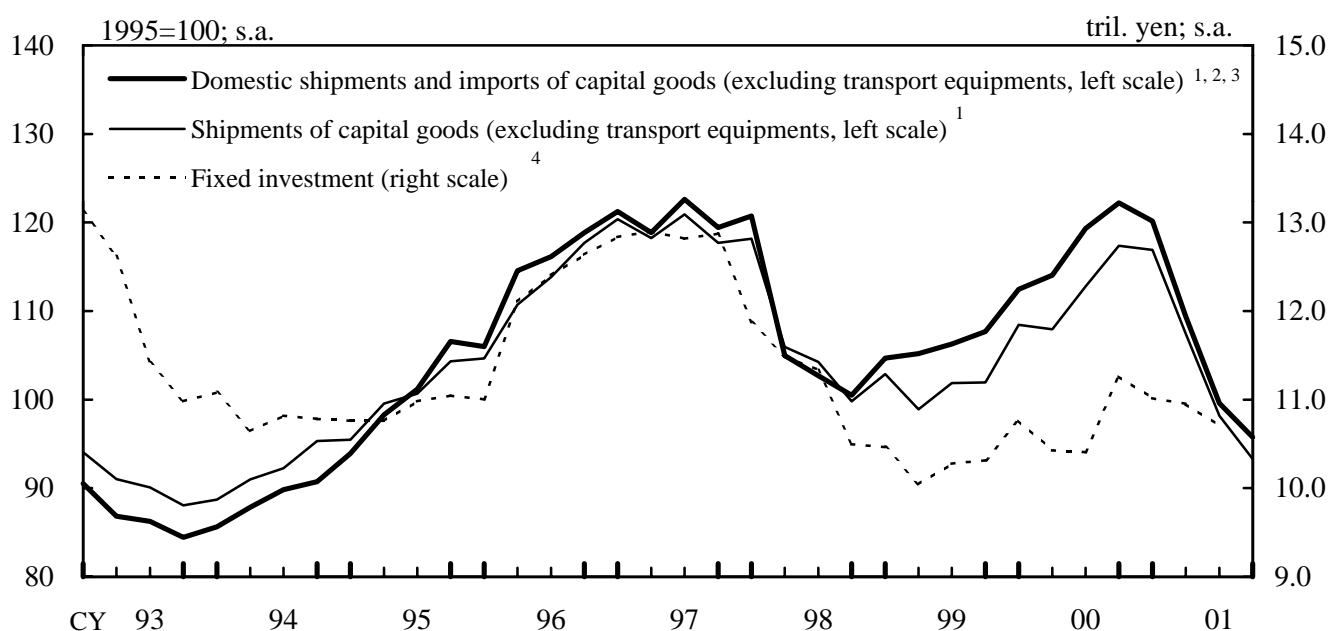


Note: For figure (2), 2001/Q4 figures are Oct.-Nov. averages.

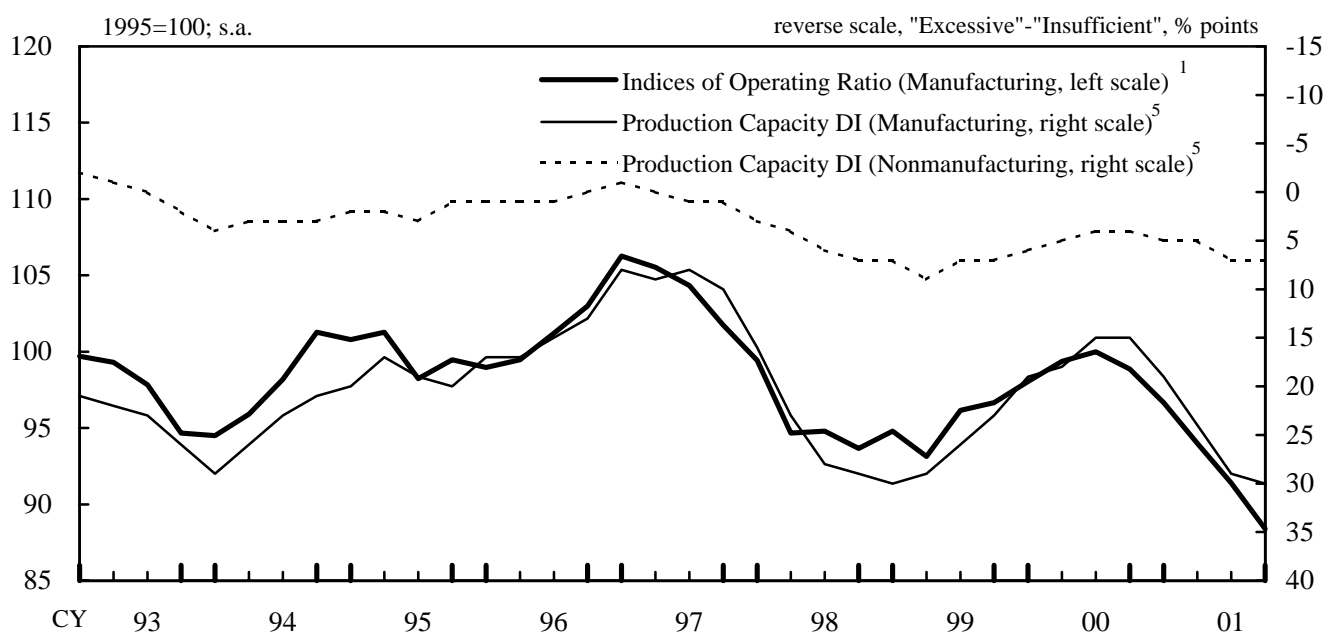
Sources: U.S. Department of Commerce, "National Income and Product Accounts"; WEFA; CEIC Data Company.

## Indicators for Business Fixed Investment (1)

## (1) Fixed investment and Domestic shipments and imports of capital goods (excluding transport equipments)



## (2) Indices of Operating Ratio and Production Capacity DI



Notes:1. Figures for 2001/Q4 are those of October.

2. The figure for 2001/Q4 of "Domestic shipments" is calculated using Indices of Industrial Production and real exports (see chart 5).

3. The figure for 2001/Q4 of "Domestic shipments and imports of capital goods (excluding transport equipments)" is calculated from the weighted average of the quarterly changes in "Imports" based on real imports and "Domestic shipments."

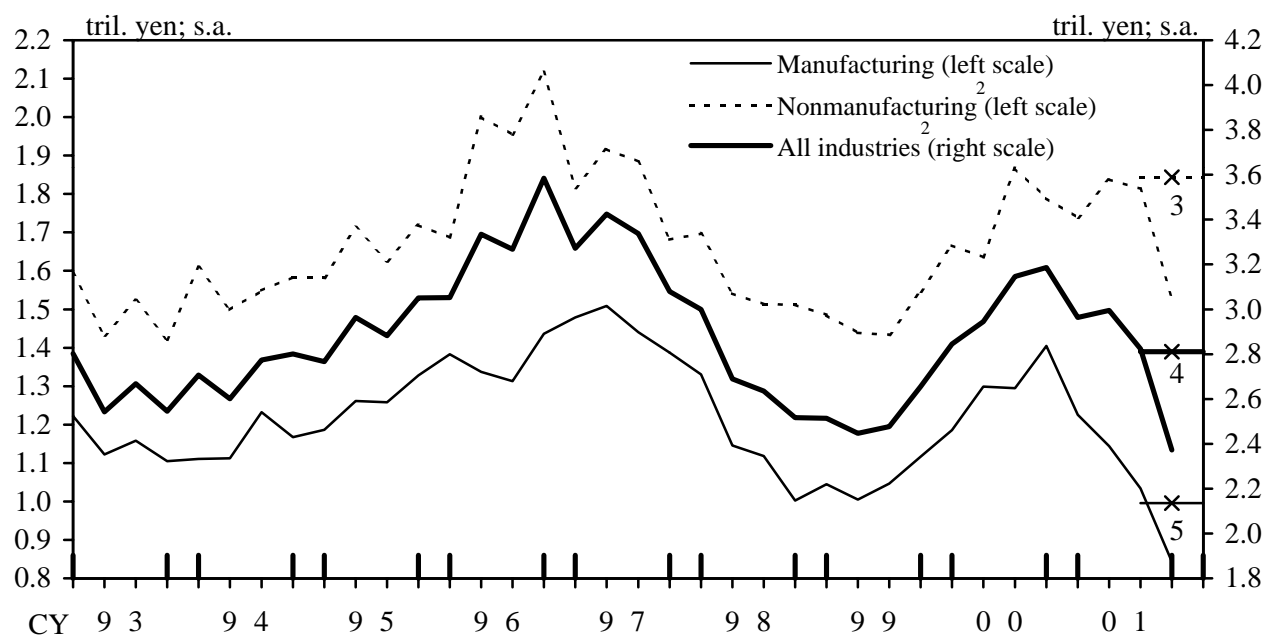
4. Investment in plant and equipment. All enterprises (i) excluding large enterprises of other services industry and (ii) adjusting sample change.

5. All enterprises.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Ministry of Finance, "The Summary Report on Trade of Japan," "Financial Statements Statistics of Corporations by Industry, Quarterly"; Bank of Japan, "Wholesale Price Indexes," "Tankan Short-term Economic Survey of Enterprises in Japan."

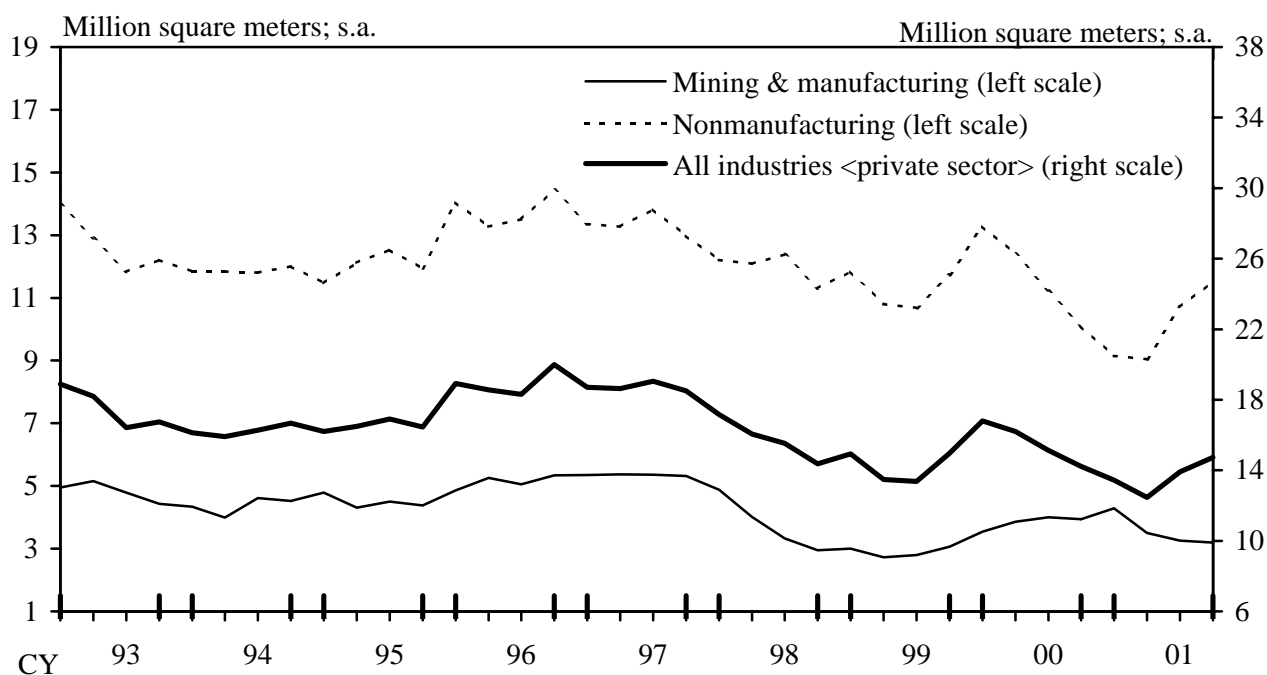
## Indicators for Business Fixed Investment (2)

## (1) Machinery Orders



- Notes: 1. Figures for 2001/Q4 are those of October in terms of quarterly amount.  
 2. Excludes orders from electric power companies and shipbuilding orders.  
 3. Forecast of nonmanufacturing industries for 2001/Q4.  
 4. Forecast of all industries for 2001/Q4.  
 5. Forecast of manufacturing industries for 2001/Q4.

## (2) Construction Starts (Nonresidential)

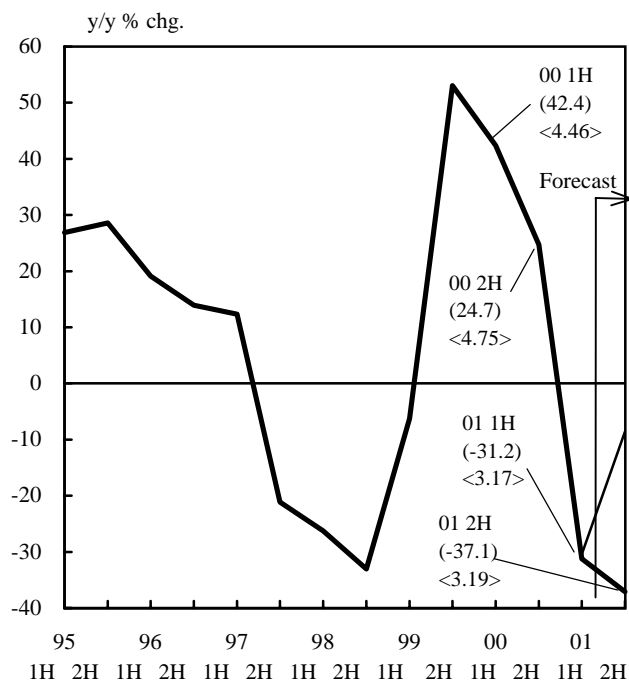


- Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).  
 2. Figures for 2001/Q4 are those of October in terms of quarterly amount.

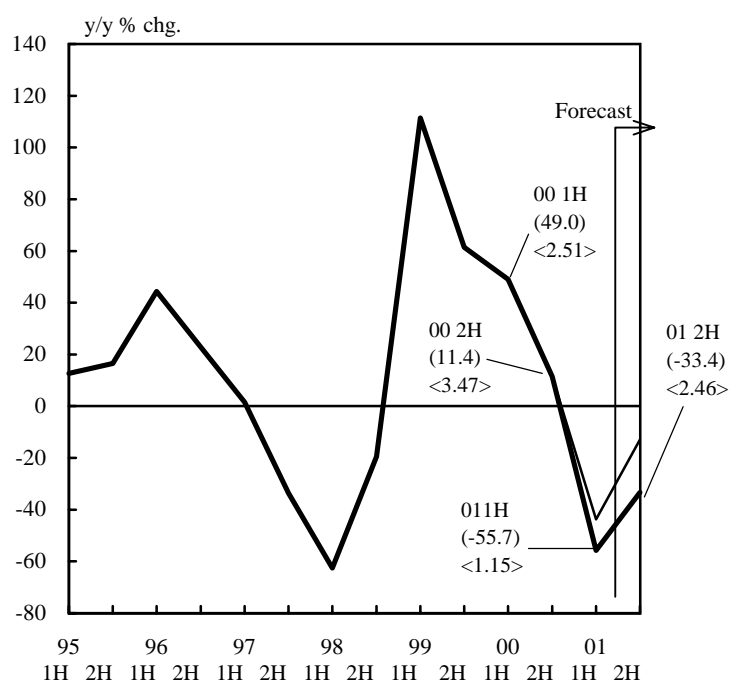
Sources: Cabinet Office, "Machinery Orders Statistics";  
 Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

## Recurring Profit

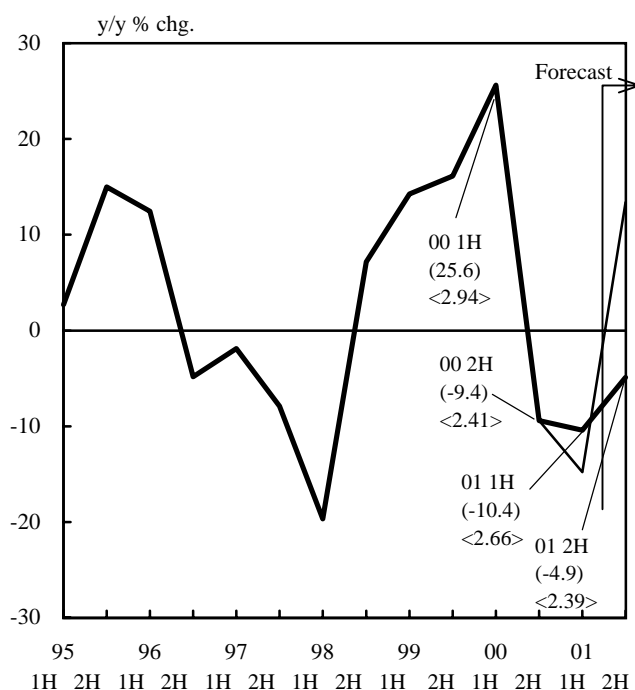
(1) Manufacturing / Large Enterprises



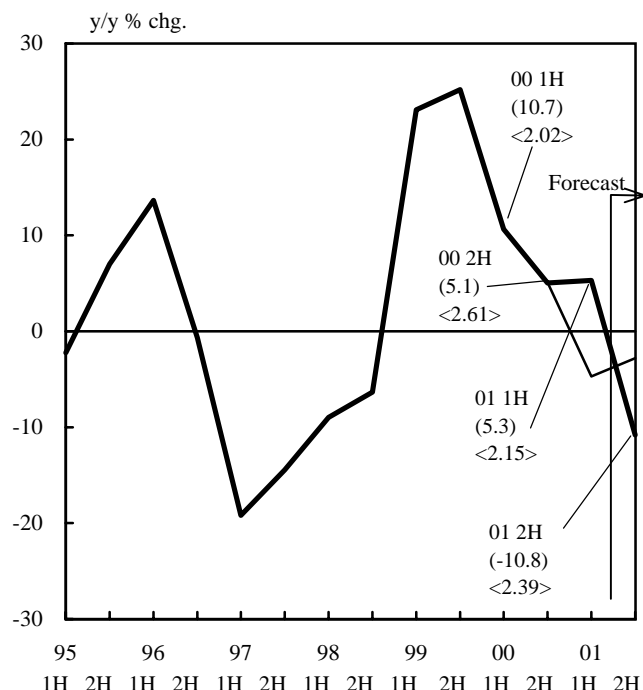
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



(4) Nonmanufacturing / Small Enterprises



Notes: 1. The thin solid line shows the figures as of the September 2001 survey.

2. Large enterprises: 1,000 employees or more

Small enterprises: 50-299 employees (Manufacturing), 20-99 employees (Wholesaling),

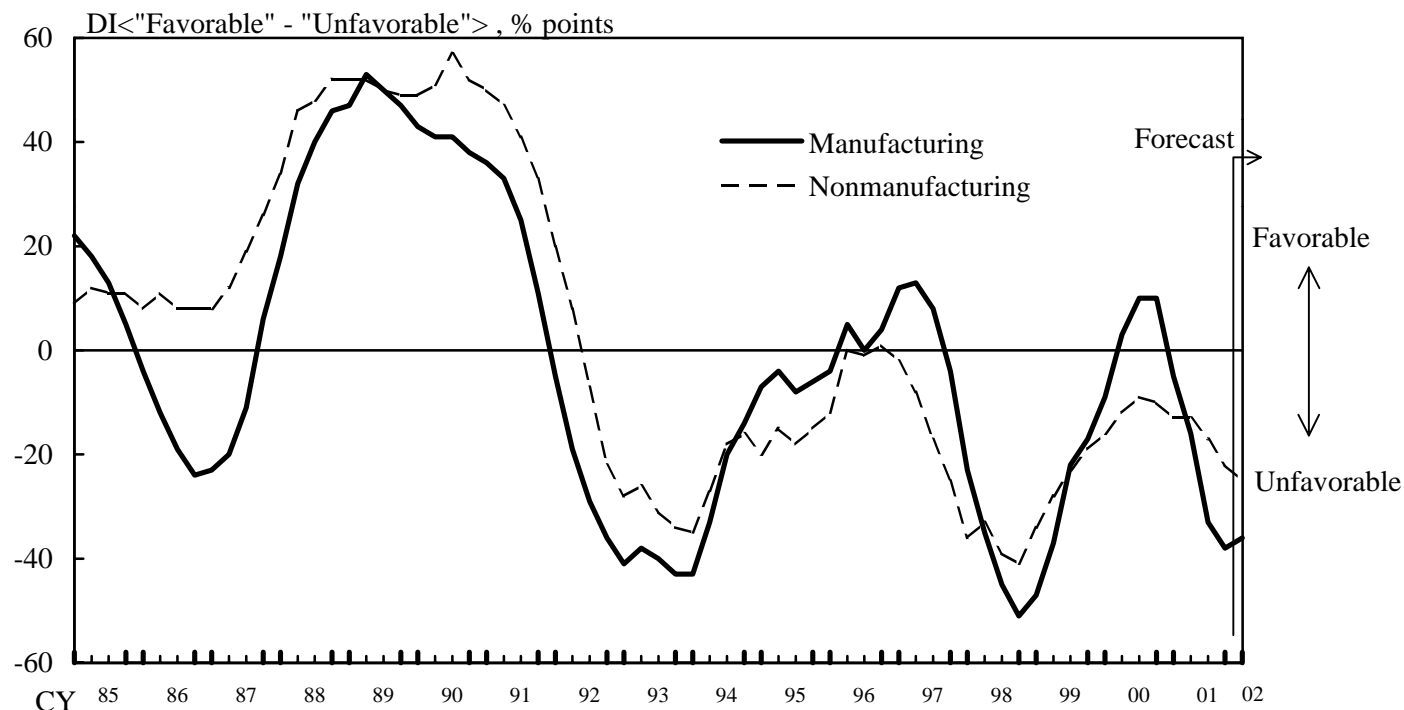
20-49 employees (Retailing, services, and leasing), 50-299 employees (Other industries)

3.(.): Recurring Profits (y/y % chg.), < >: Ratio of recurring profit to sales (%).

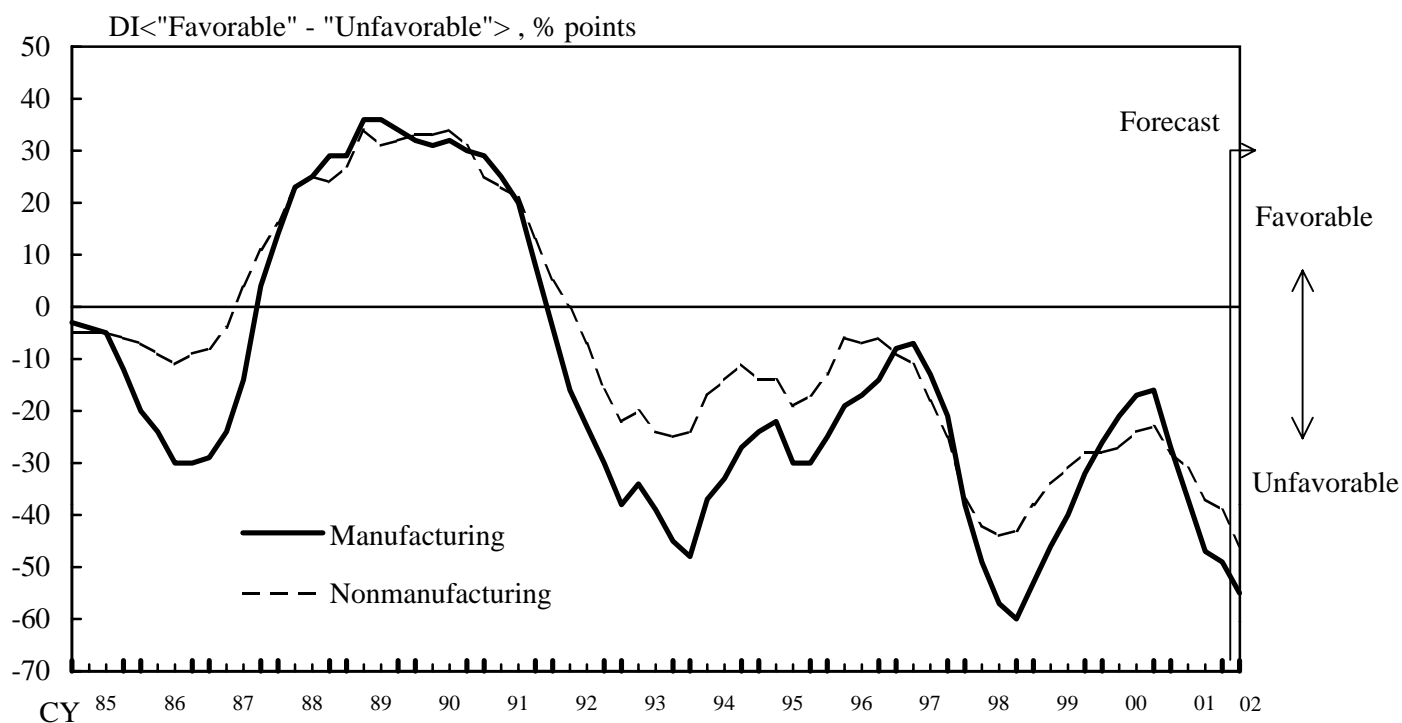
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Large Enterprises



(2) Small Enterprises



Note: Large enterprises: 1,000 employees or more

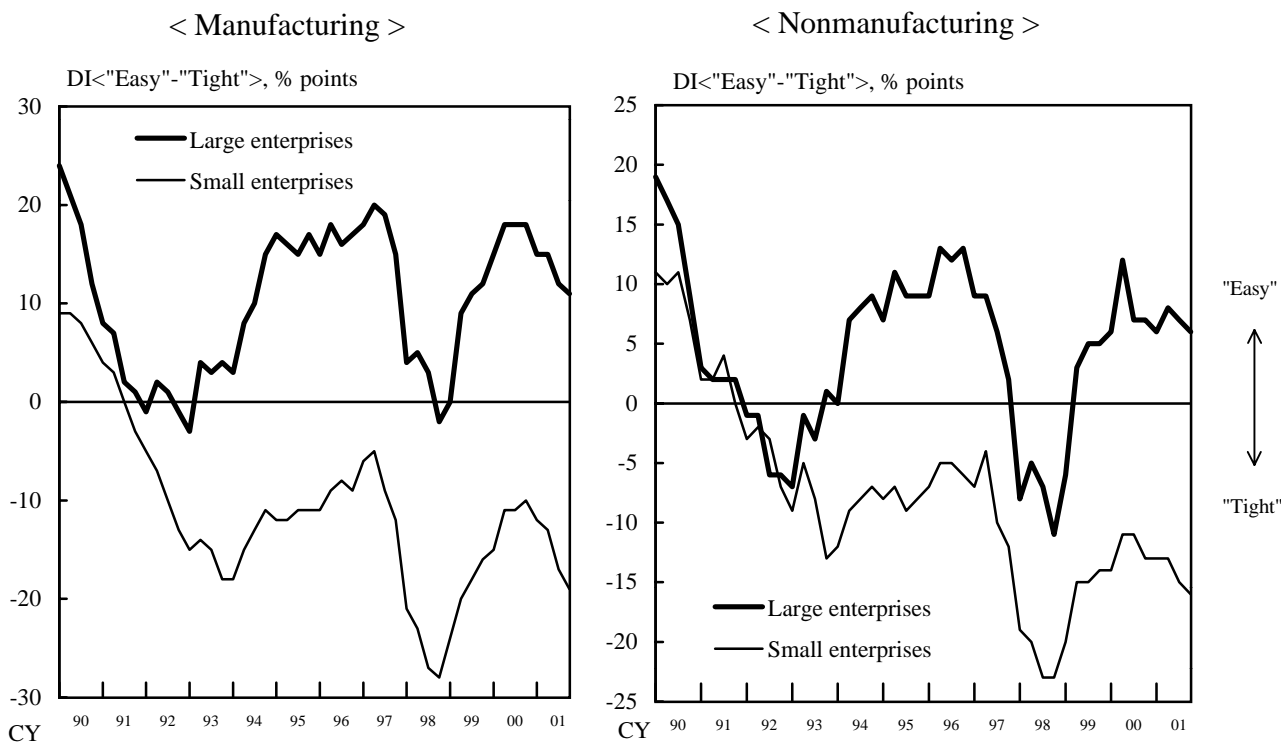
Small enterprises: 50-299 employees (Manufacturing), 20-99 employees (Wholesaling),

20-49 employees (Retailing, services, and leasing), 50-299 employees (Other industries)

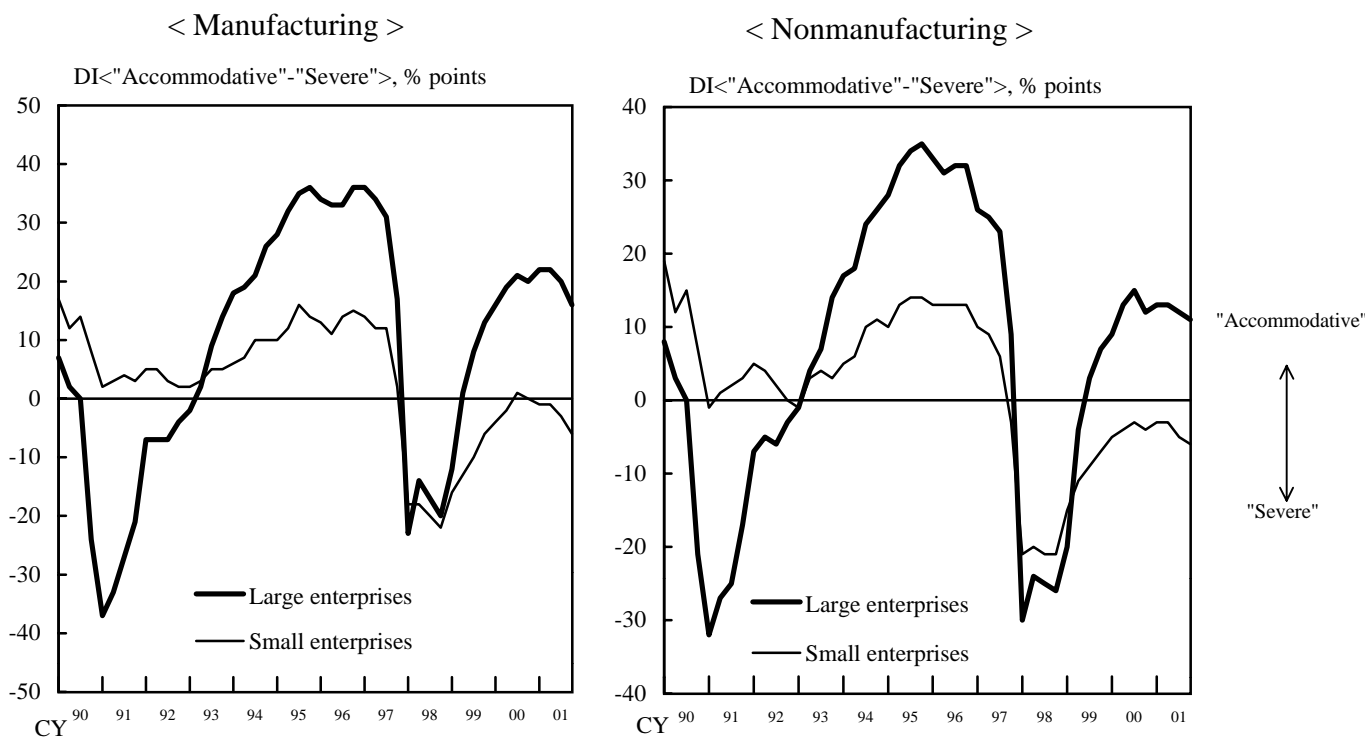
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Corporate Finance-Related Indicators

(1) Financial Position



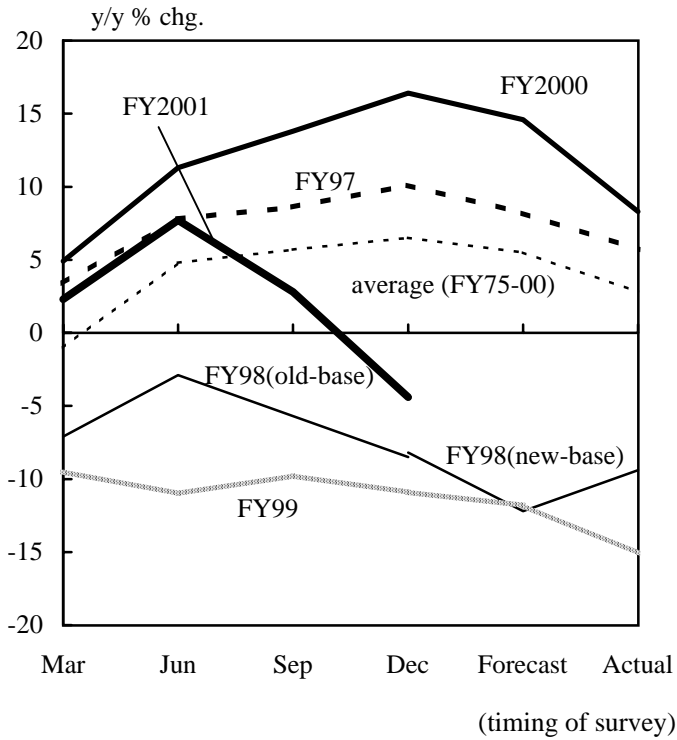
(2) Lending Attitude of Financial Institutions



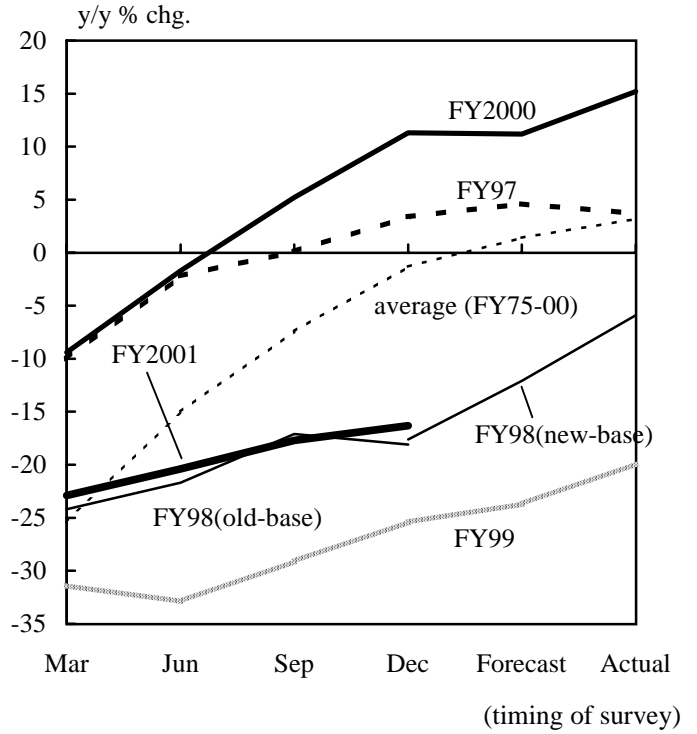
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

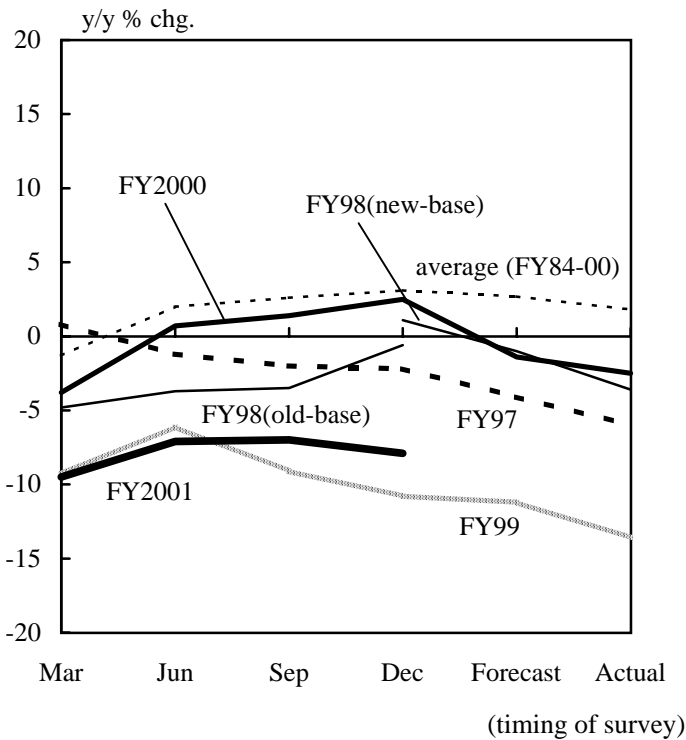
(1) Manufacturing / Large Enterprises



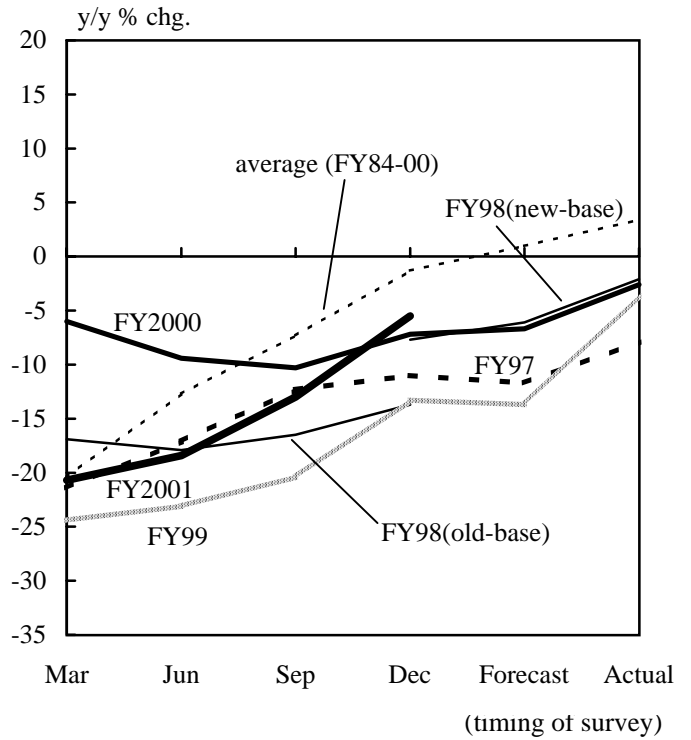
(2) Manufacturing / Small Enterprises



(3) Nonmanufacturing / Large Enterprises



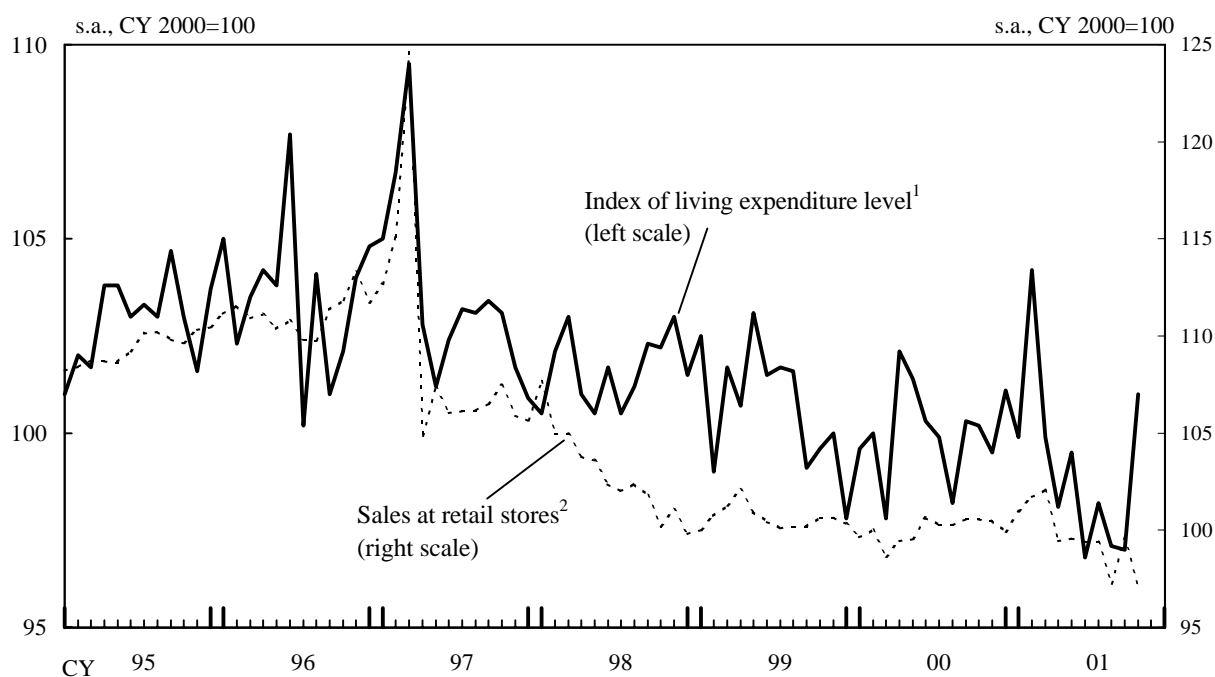
(4) Nonmanufacturing / Small Enterprises



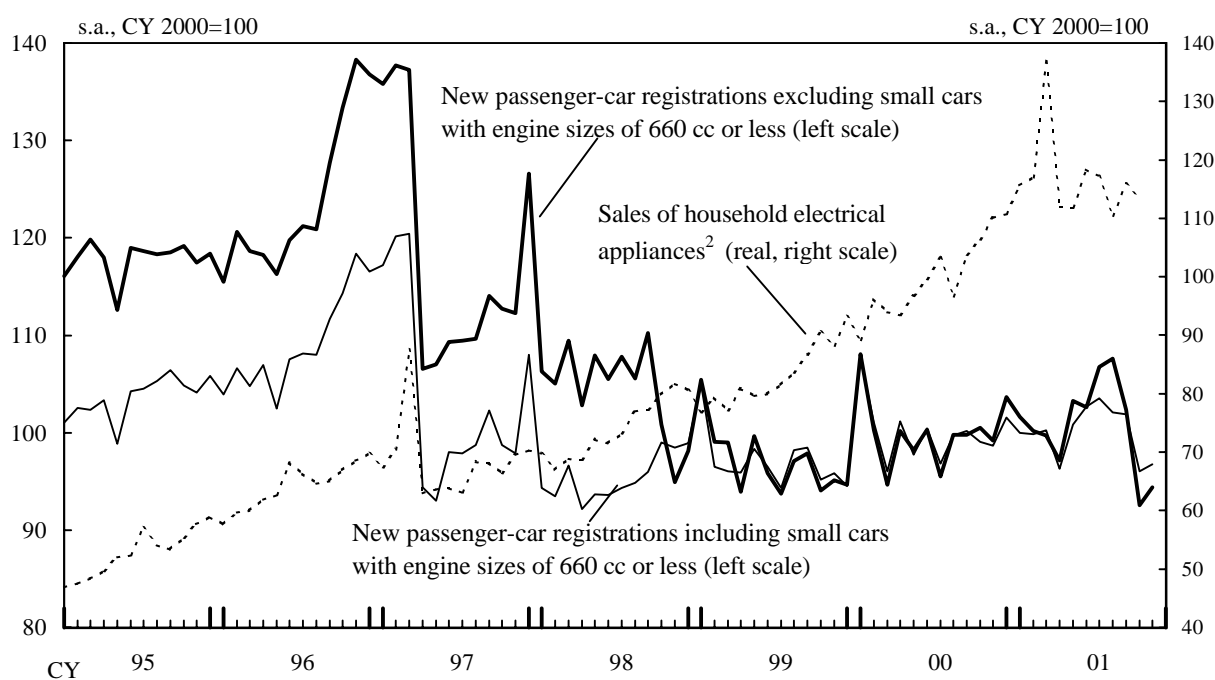
Source: Bank of Japan, "Tankan Short-term Economic Survey of Enterprises in Japan."

Private Consumption<sup>1</sup> (1)

## (1) Household Spending



## (2) Sales of Durable Goods

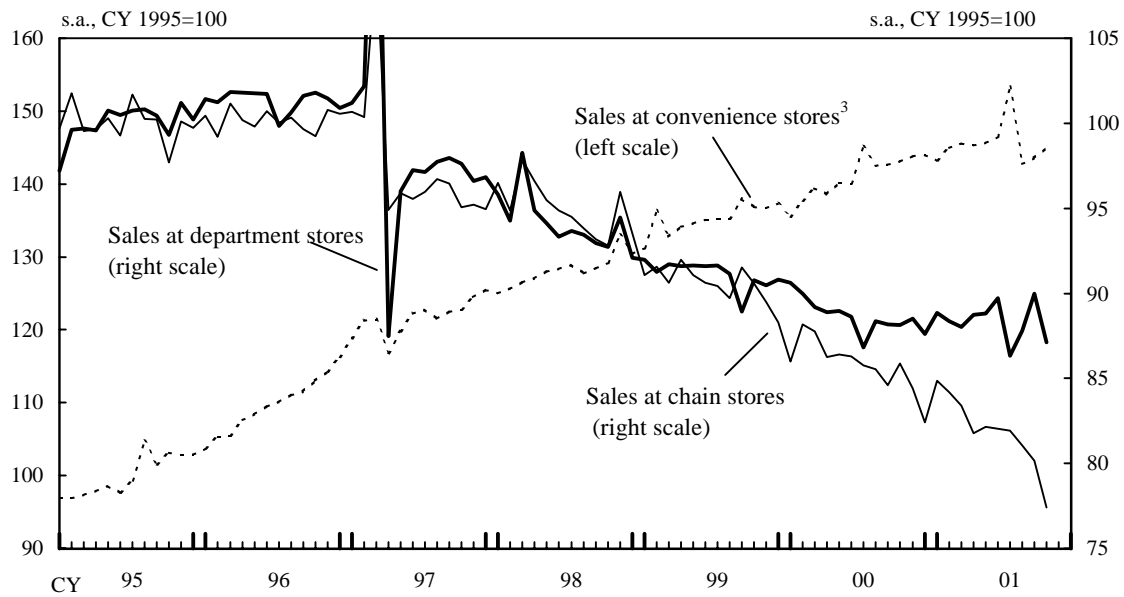
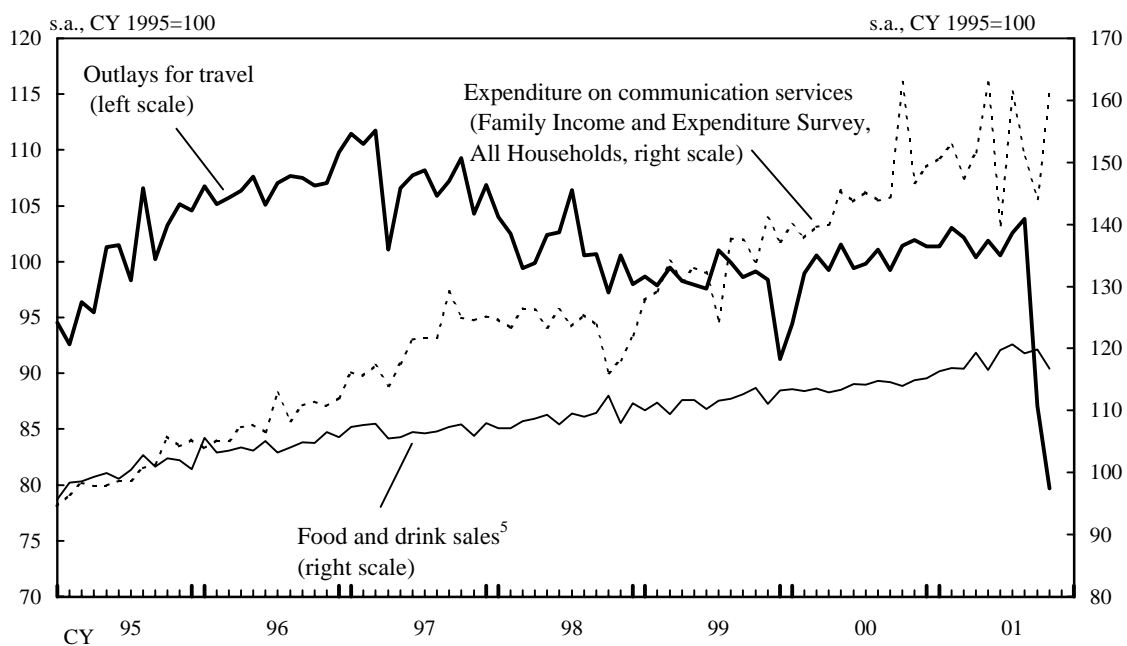


Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  version). Index of living expenditure level is seasonally adjusted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.

2. Sales at retail stores are deflated by the consumer price index for goods. Sales of household electrical appliances are the sum of its components deflated by the consumer price index (or the wholesale price index for personal computers before 1999).

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles Association, "Sales of Mini Vehicles"; Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances"; Bank of Japan, "Wholesale Price Indexes."



Private Consumption<sup>1</sup> (2)(3) Sales of Retail Stores<sup>2</sup>(4) Consumption of Services<sup>4</sup>

Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).

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

Sales at department stores and sales at chain stores are adjusted to exclude the effect of the rise in the consumption tax rate.

3. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan.

From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

4. Outlays for travel and sales of food and drink are adjusted to exclude the effect of the rise in the consumption tax rate.

5. For food and drink sales, figures are calculated by the Bank of Japan using both the Japan Foodservice Association's y/y data and the 1993 data of the Foodservice Industry Survey & Research Center as a bench mark.

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications,

"Monthly Report on the Family Income and Expenditure Survey,";

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

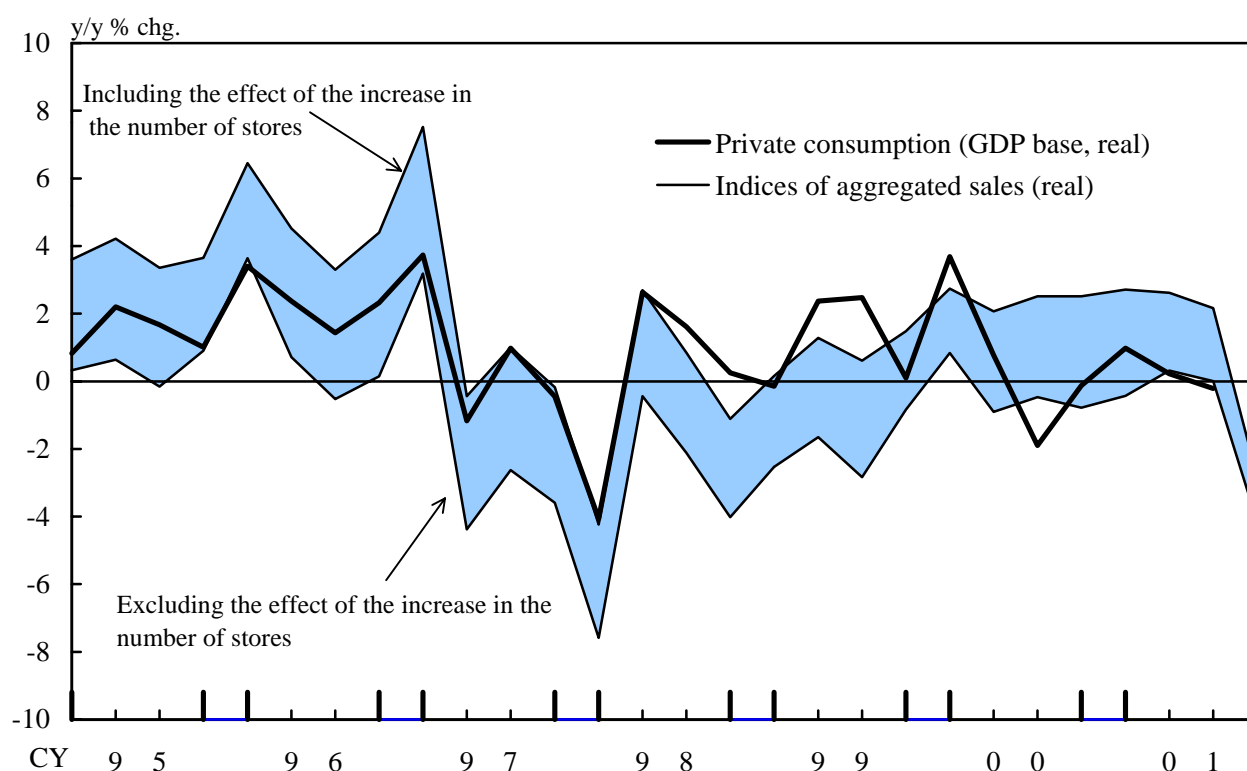
Japan Chain Stores Association, "Sales at Chain Stores";

Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue";

Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales";

Japan Foodservice Association, "The Research of Food and Drink Markets."

## Private Consumption (3)

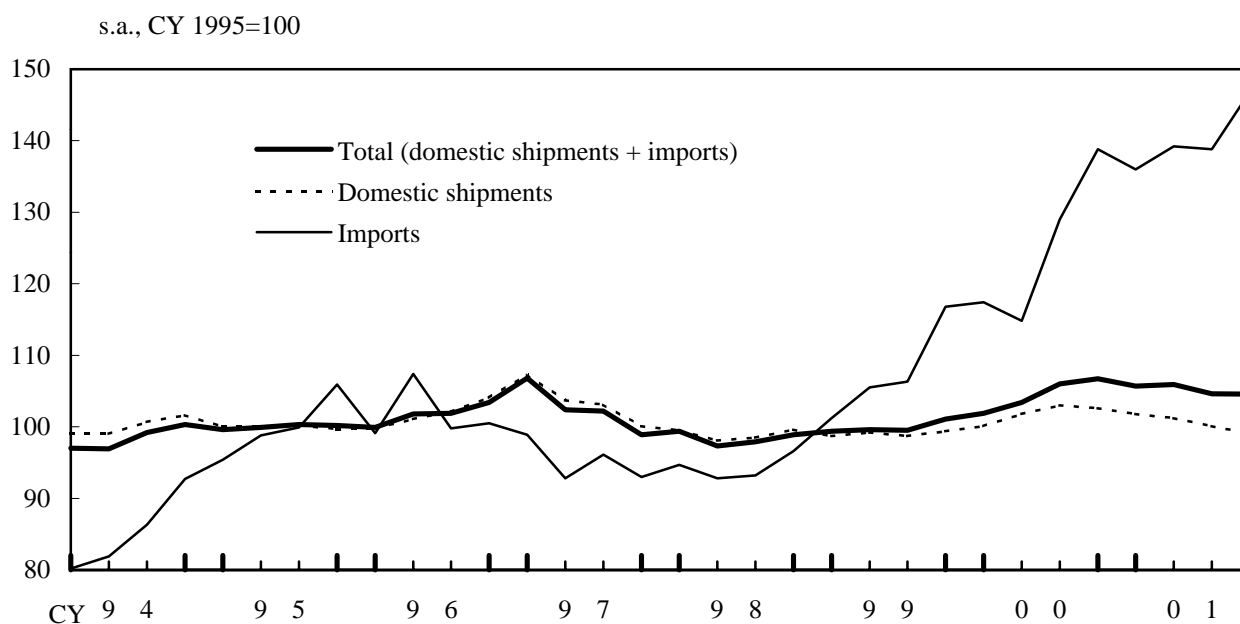


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *Sales at chain stores*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Food and drink sales*, where the weights come from the *Family Income and Expenditure Survey*. *Sales at convenience stores* (until March 1997 surveyed by the Bank of Japan) are also taken into account for the index and include the effect of the increase in the number of stores. Sales indicators in nominal terms are deflated by the corresponding items of the consumer price index or the wholesale price index.
2. Indices of aggregated sales consist of the series including and excluding the effect of the increase in the number of stores. The former, which tries to cover development of private consumption to the widest extent possible, includes sales at newly opened stores, which may arise from the fresh demand they create or from demand shifted from existing stores. In contrast, the latter shows ongoing development of consumption at existing stores by excluding sales at new stores. It is supposed that the truth (i.e., actual development of consumption) is somewhere between the former wide-coverage series and the latter narrow-coverage series, which is shown by the shaded area between the two series.
3. 2001/Q4 figures are those of October converted to a quarterly basis.

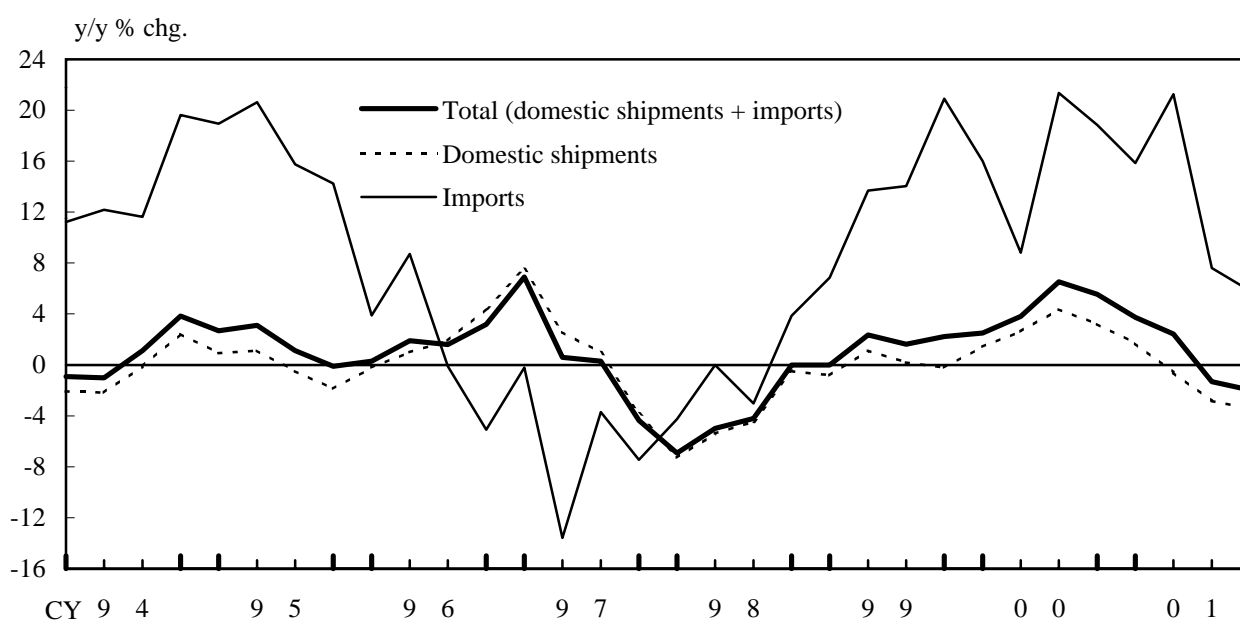
Sources: Cabinet Office, "National Accounts";  
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce";  
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index,"  
 "Monthly Report on the Family Income and Expenditure Survey";  
 Bank of Japan, "Wholesale Price Indexes";  
 Japan Chain Stores Association, "Sales at Chain Stores";  
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";  
 Japan Mini Vehicles Association, "Sales of Mini Vehicles";  
 Nippon Electric Big-Stores Association (NEBA), "Sales of Electrical Appliances";  
 Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales";  
 Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue";  
 Japan Foodservice Association, "The Research of Food and Drink Markets."

## Private Consumption (4) - Estimation of consumer goods supply

## (1) Level



## (2) Changes from a year earlier

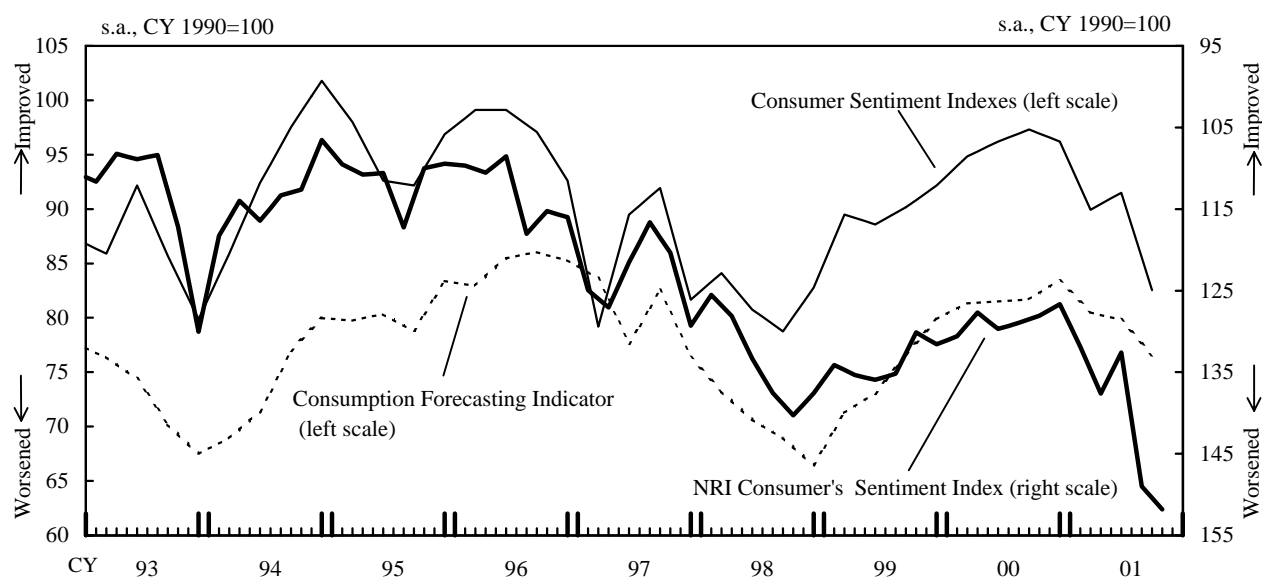


- Notes: 1. "Domestic shipments" and "Imports" are components of "consumer goods" in the *Indices of Industrial Domestic Shipments and Imports*. (The definition for "consumer goods" is the same as that in the *Indices of Industrial Production*.)
2. Figures for 2001/Q4 of "Domestic shipments" are calculated from quarterly changes of *Indices of Industrial Production* (excluding the effects of exports).
3. Figures for 2001/Q4 of "Imports" are calculated from quarterly changes of real imports.  
Real imports (consumer goods) = motor vehicles + audio and visual apparatus + office machinery + foodstuffs + textiles.
4. Figures for 2001/Q4 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports".
5. Year-on-year changes are calculated from seasonal adjusted series.
6. 2001/Q4 figures are those of October in terms of quarterly amount.

Sources: Ministry of Economy Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

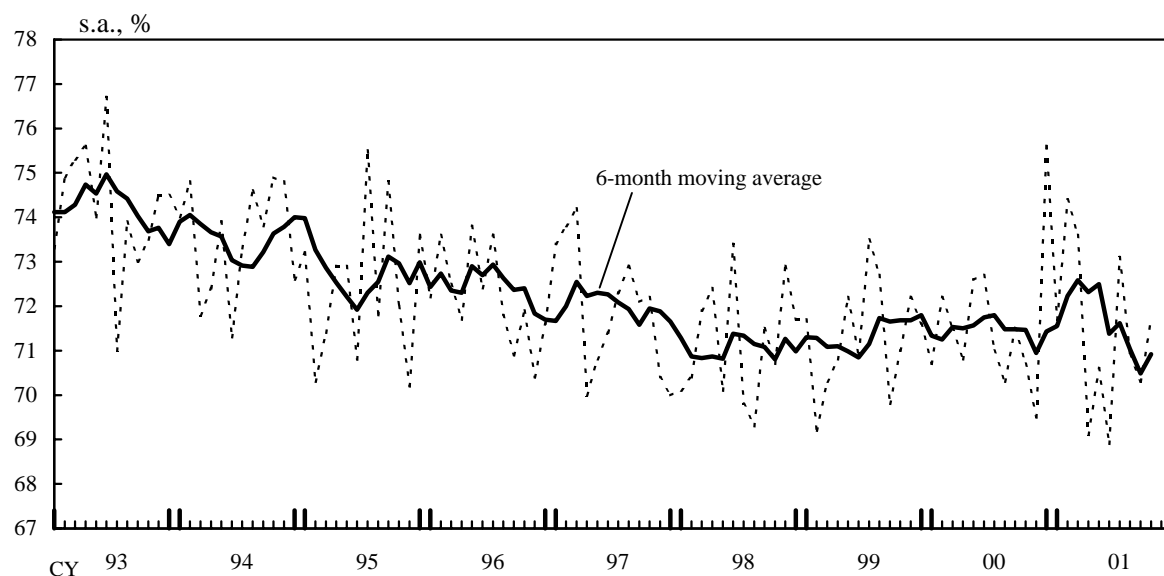
## Consumer Confidence and Propensity to Consume

### (1) Surveys on Consumer Confidence



- Notes: 1. Seasonally adjusted by X-11. "Consumer Sentiment Indexes" is seasonally adjusted by the Cabinet Office.
2. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.
3. Data are plotted at the months of each survey.
4. "Consumer Sentiment Indexes" is surveyed by the Cabinet Office, "Consumption Forecasting Indicator" by NIKKEI RIM, and "NRI Consumer's Sentiment Index" by NRI.

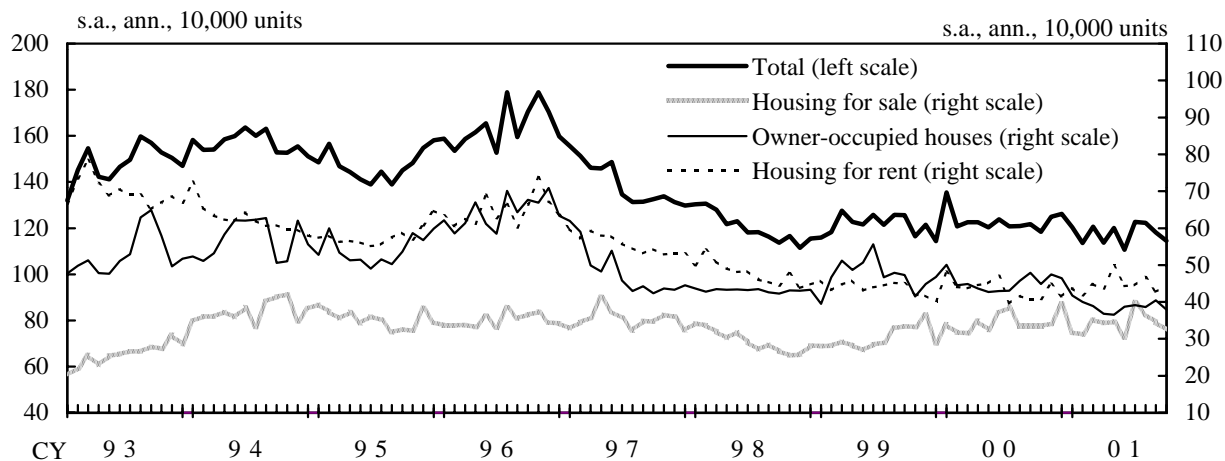
### (2) Propensity to Consume (Family Income and Expenditure Survey)



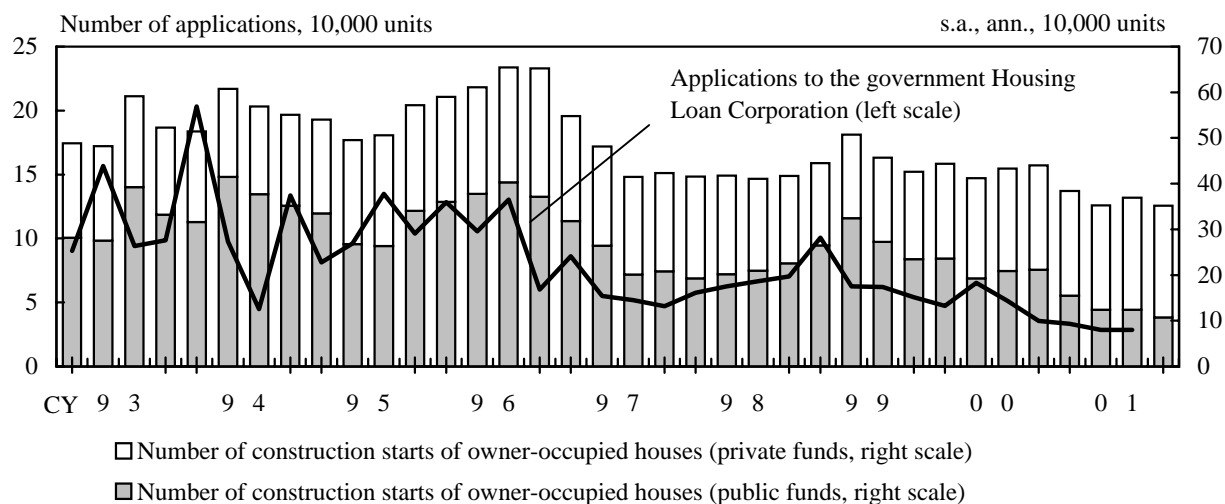
Sources: Cabinet Office, "Consumer Behavior Survey";  
 Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator";  
 Ministry of Public Management, Home Affairs, Posts and Telecommunications,  
 "Monthly Report on the Family Income and Expenditure Survey";  
 Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts

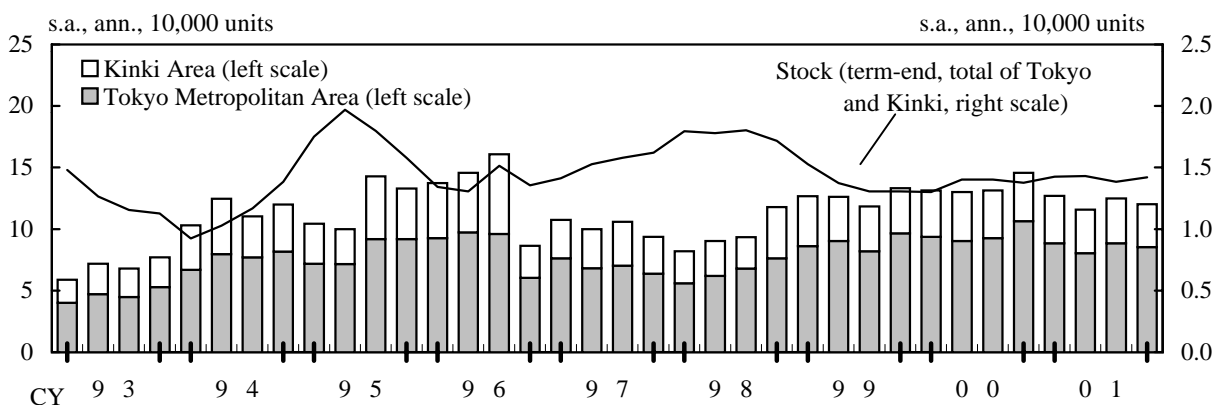


(2) Number of Applications to the Government Housing Loan Corporation  
(for new owner-occupied houses)



Notes: 1. The number of loan applications for the construction of private houses is divided by the number of days in the application term of each quarter.  
 2. Figures for the number of construction starts of owner-occupied houses (private funds and public funds) for CY2001/Q4 are those of October.

(3) Sales of Condominiums

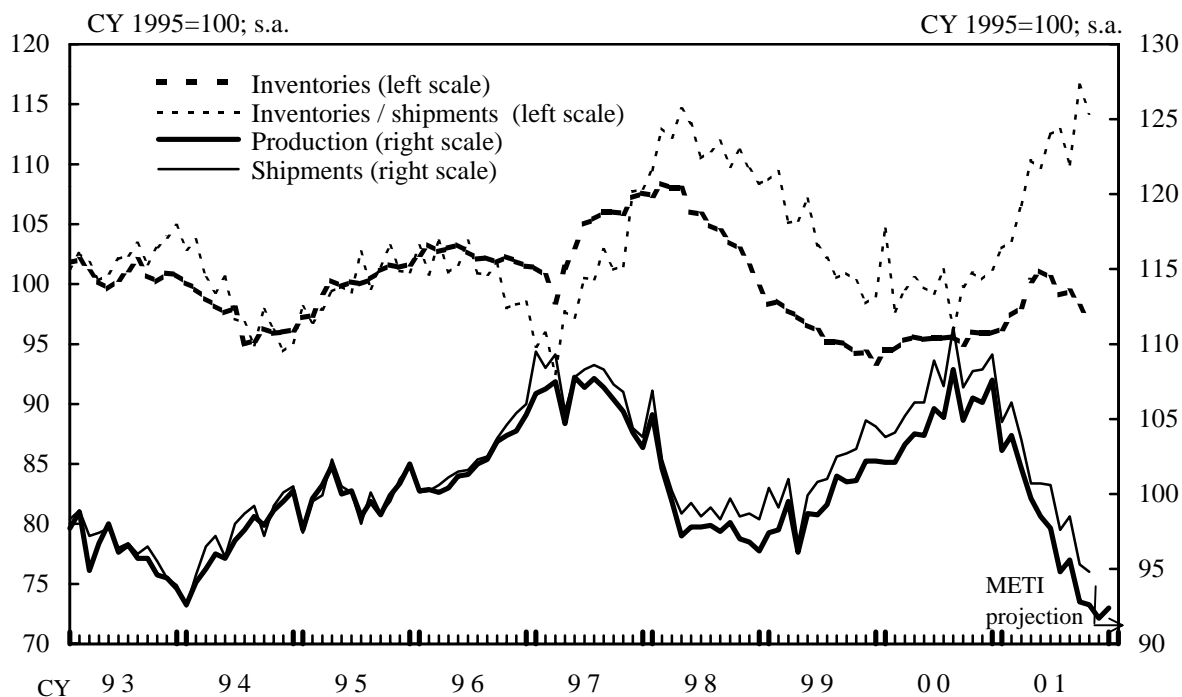


Note: Figures of total condominiums sales for CY2001/Q4 are those of October-November averages.  
 Term-end stocks are those of November.

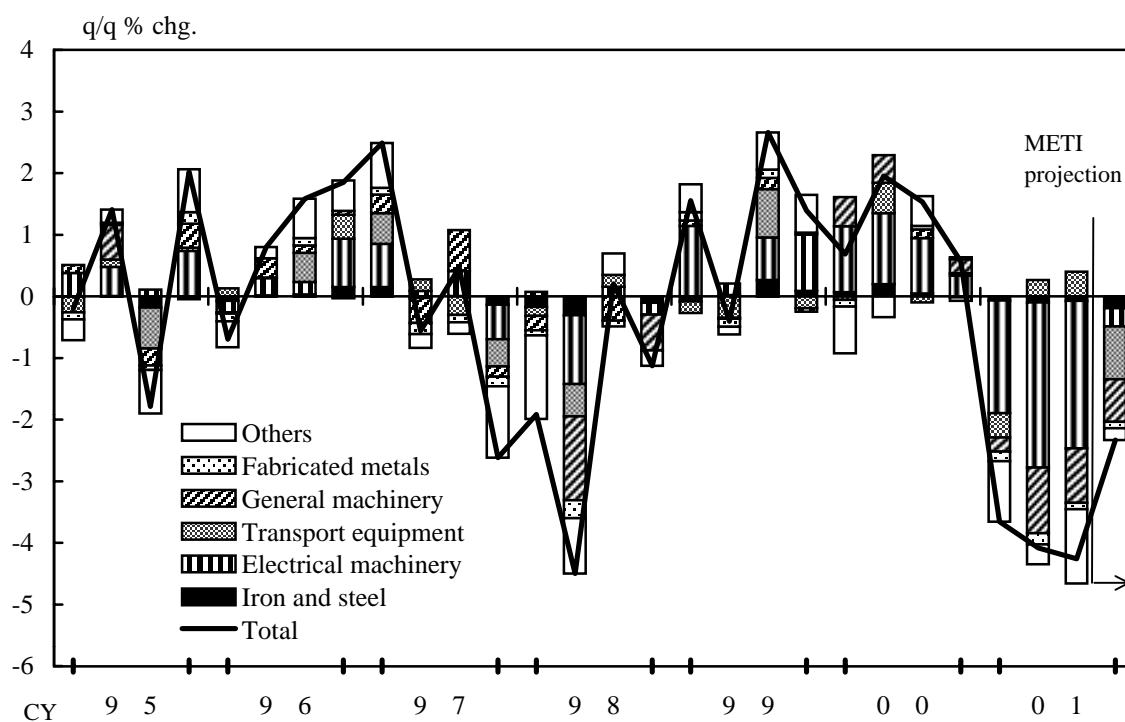
Sources: Ministry of Land, Infrastructure and Transport, "Monthly of Construction Statistics," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



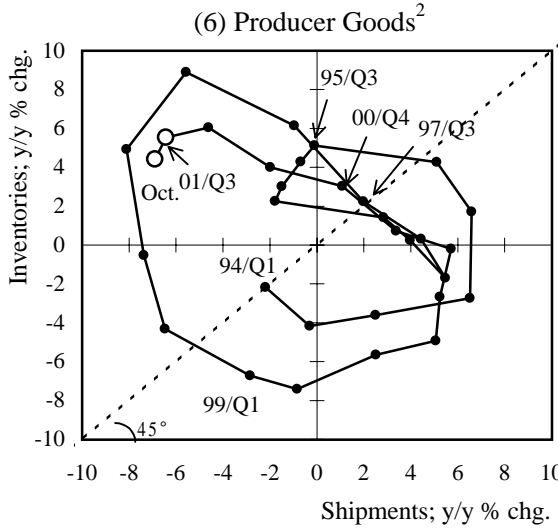
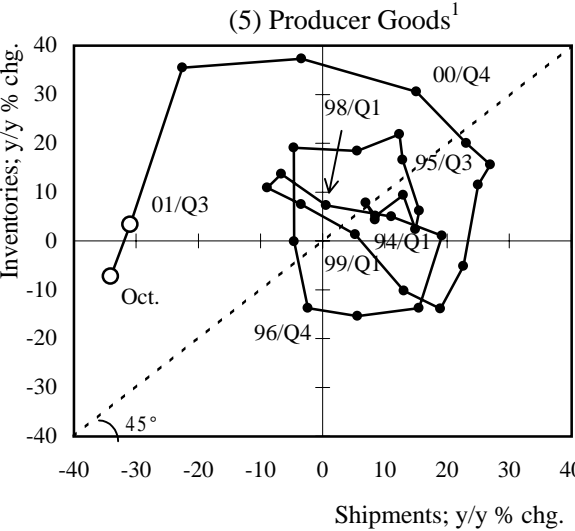
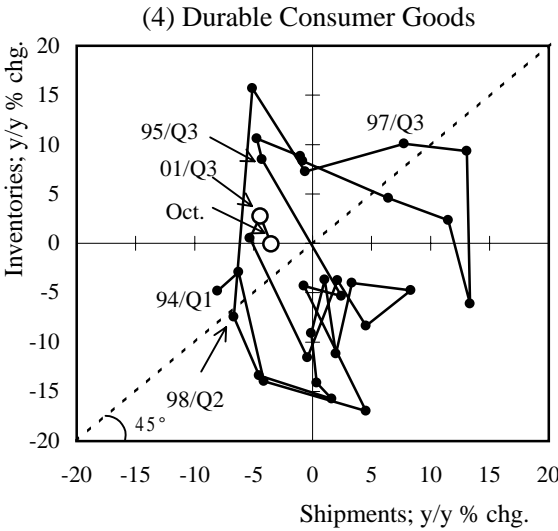
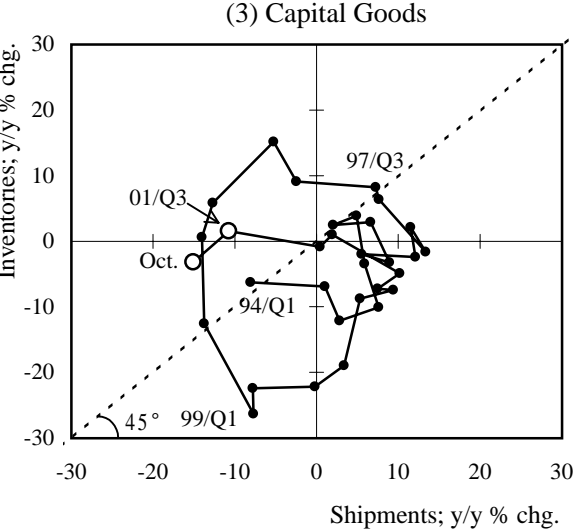
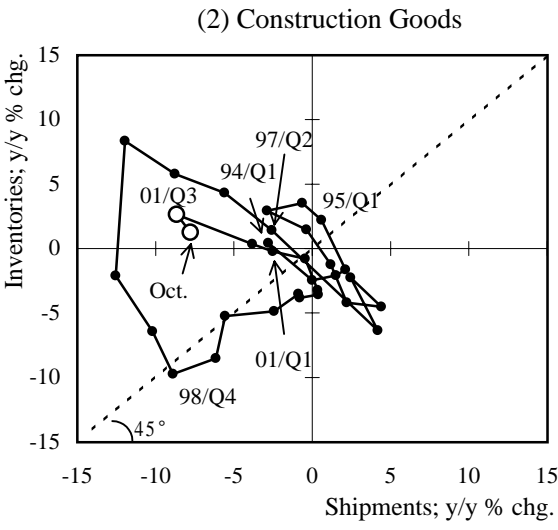
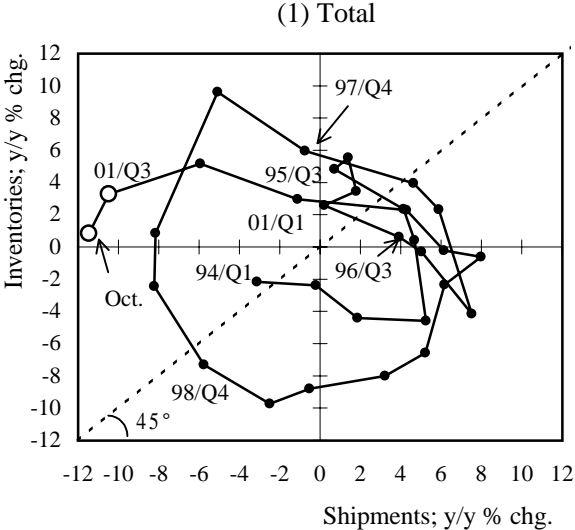
(2) Production by Industries



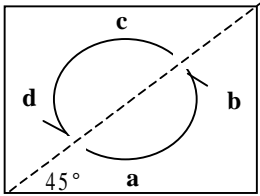
Note: Transport equipment excludes ships and rolling stock.

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

Inventory Cycle



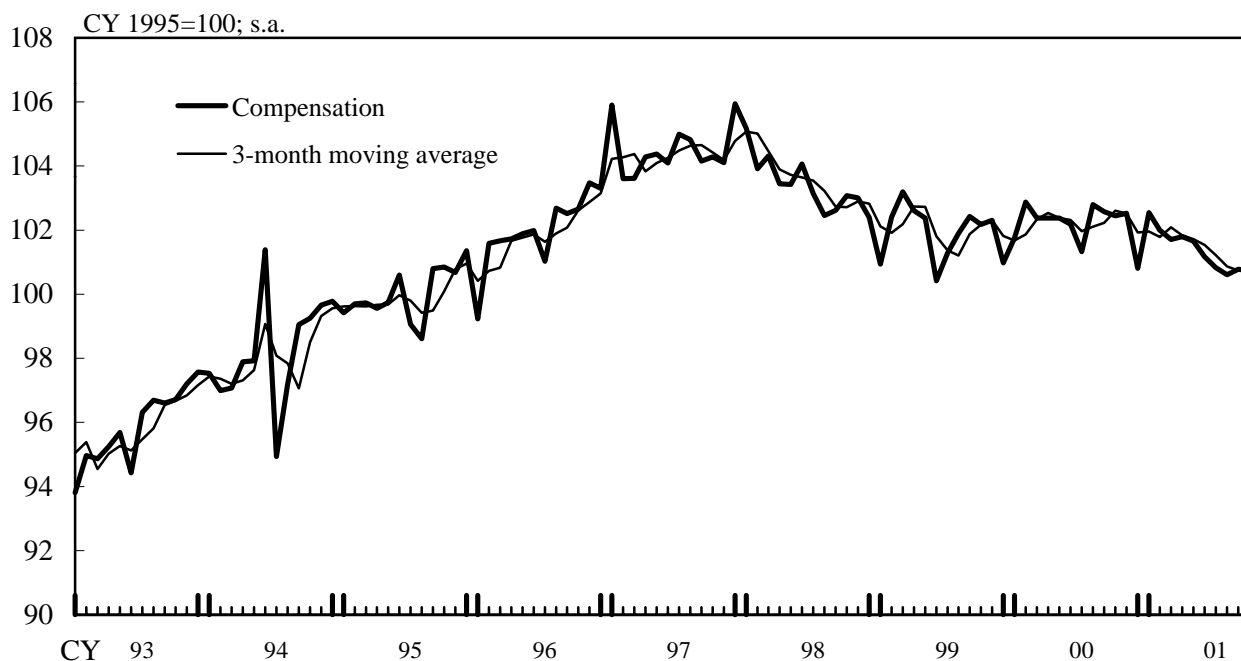
- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



Notes: 1. Producer goods of electrical machinery.  
 2. Producer goods excluding electrical machinery.  
 Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

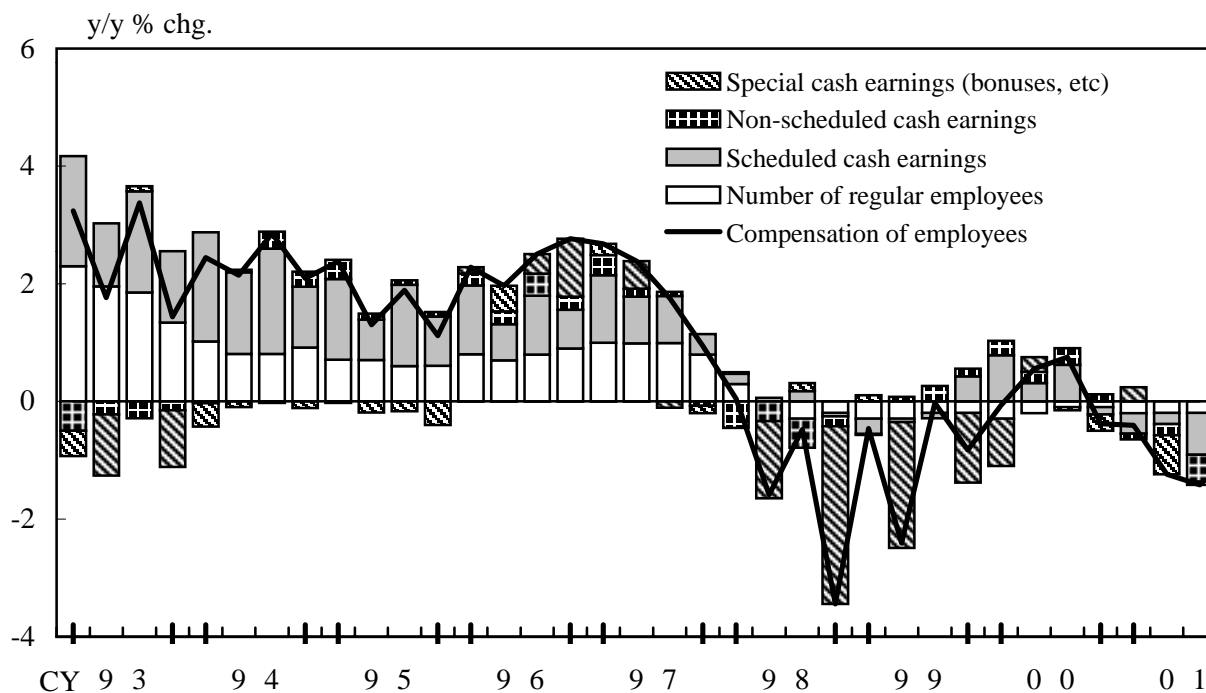
## Compensation of Employees

### (1) Compensation



- Notes: 1. Compensation = the index of total cash earnings  $\times$  the index of regular employees / 100 (calculated by the Bank of Japan).  
 2. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).  
 3. Data for establishments with at least 5 employees.

### (2) Breakdown of Compensation



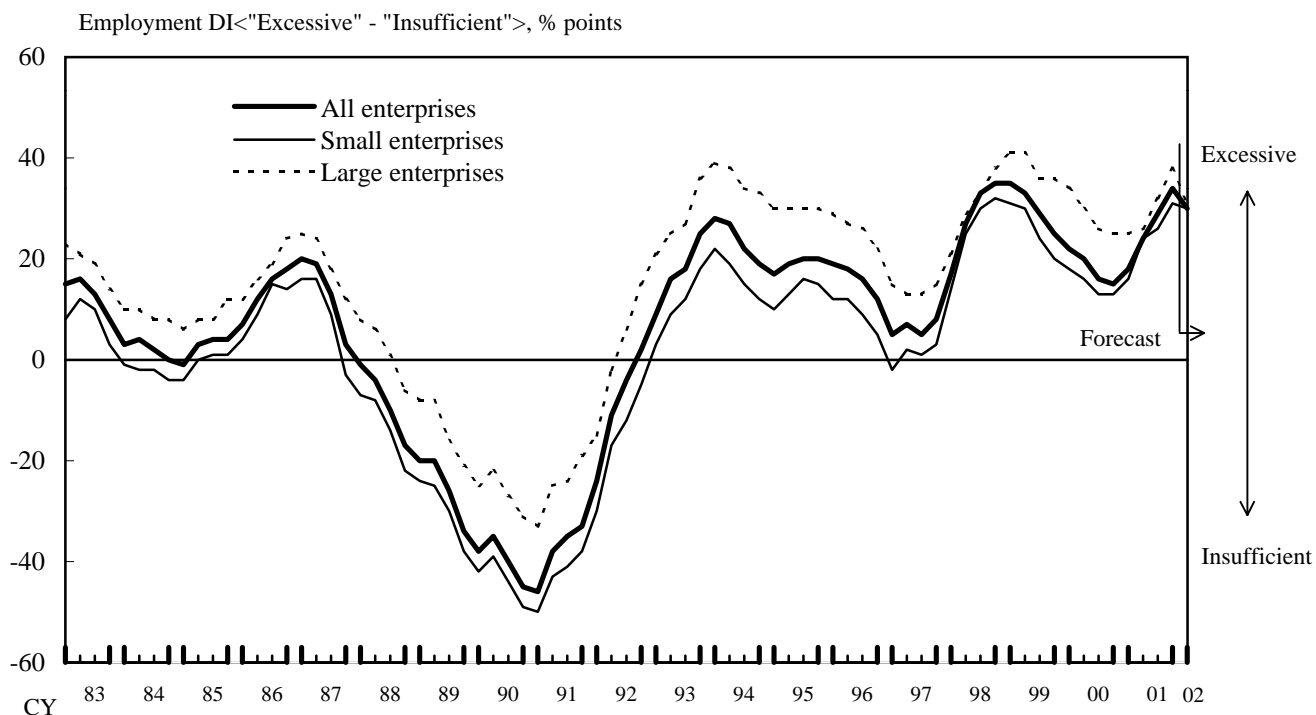
- Notes: 1. Data for establishments with at least 5 employees.  
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.  
 3. Figures for 2001/Q3 are those of the Sept.-Oct. averages.

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

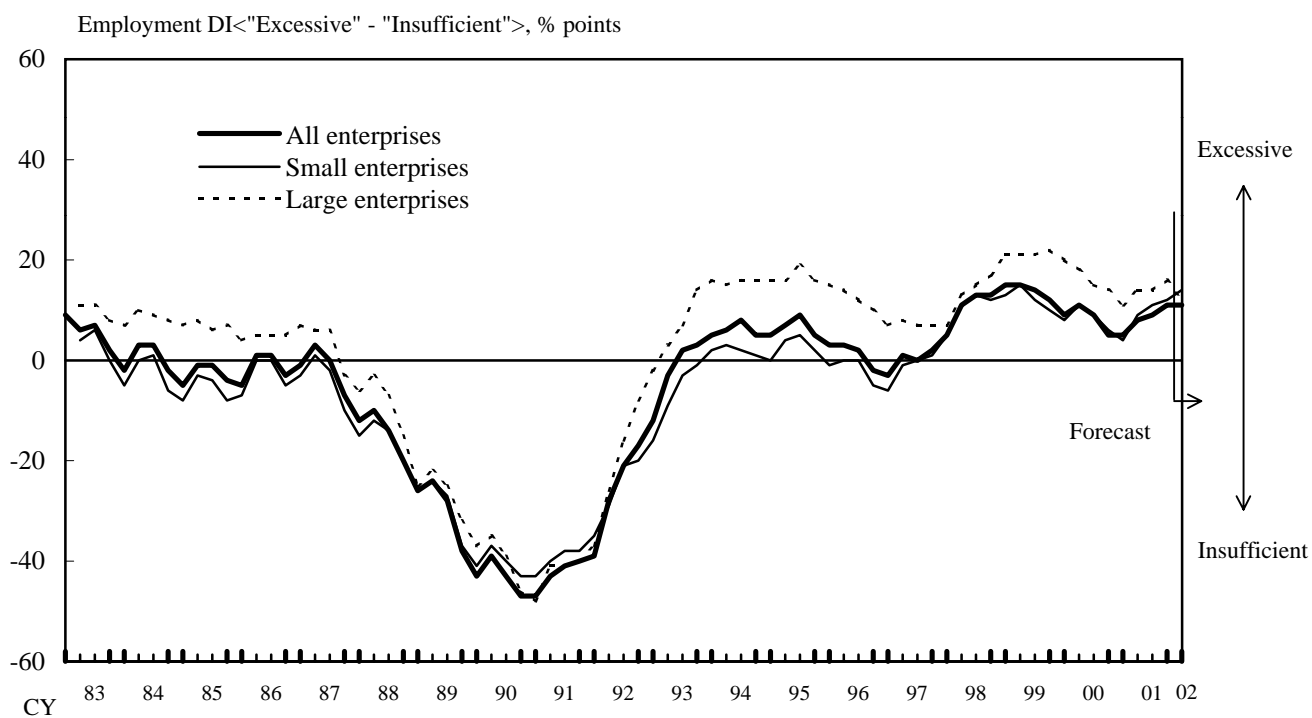


## Employment Conditions

## (1) Manufacturing



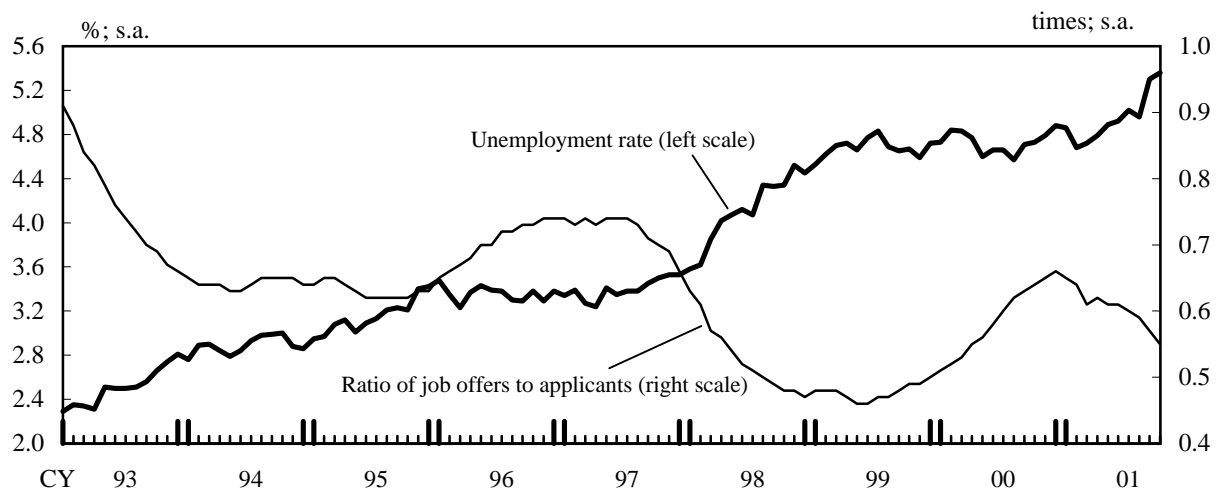
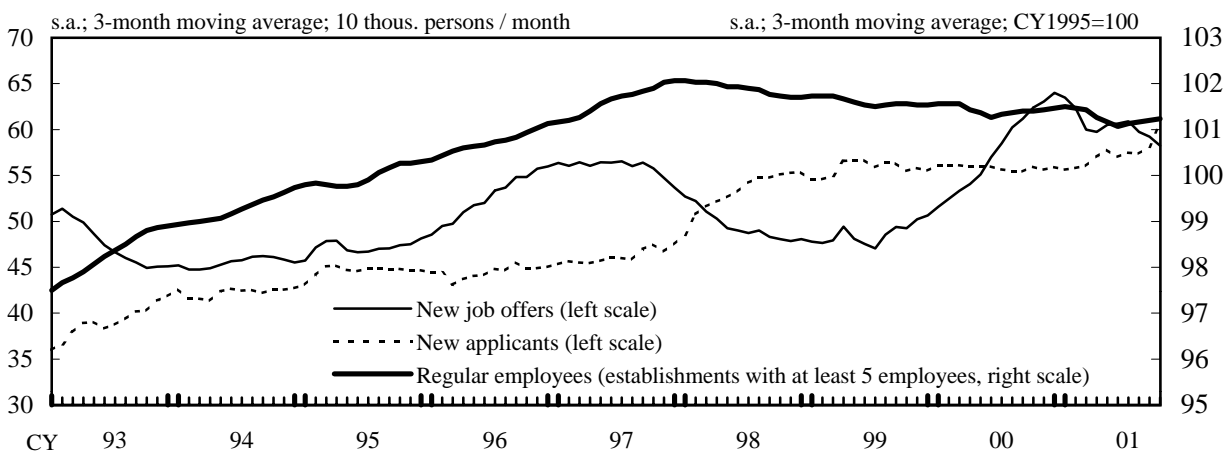
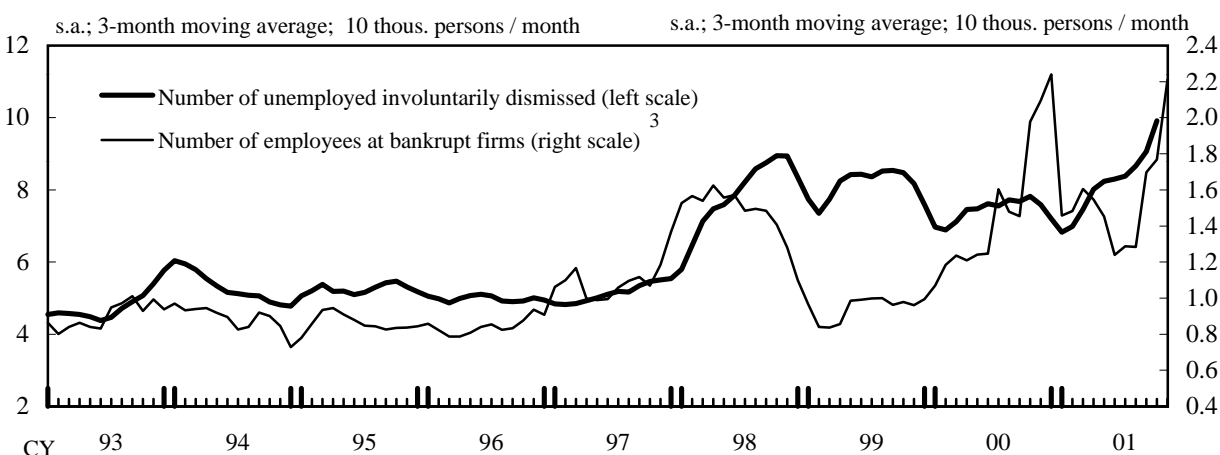
## (2) Nonmanufacturing



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

## Labor Market

## (1) Unemployment Rate and Job Offering

(2) New Job Offers, New Applicants<sup>1</sup> and Regular employees(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms<sup>2</sup>

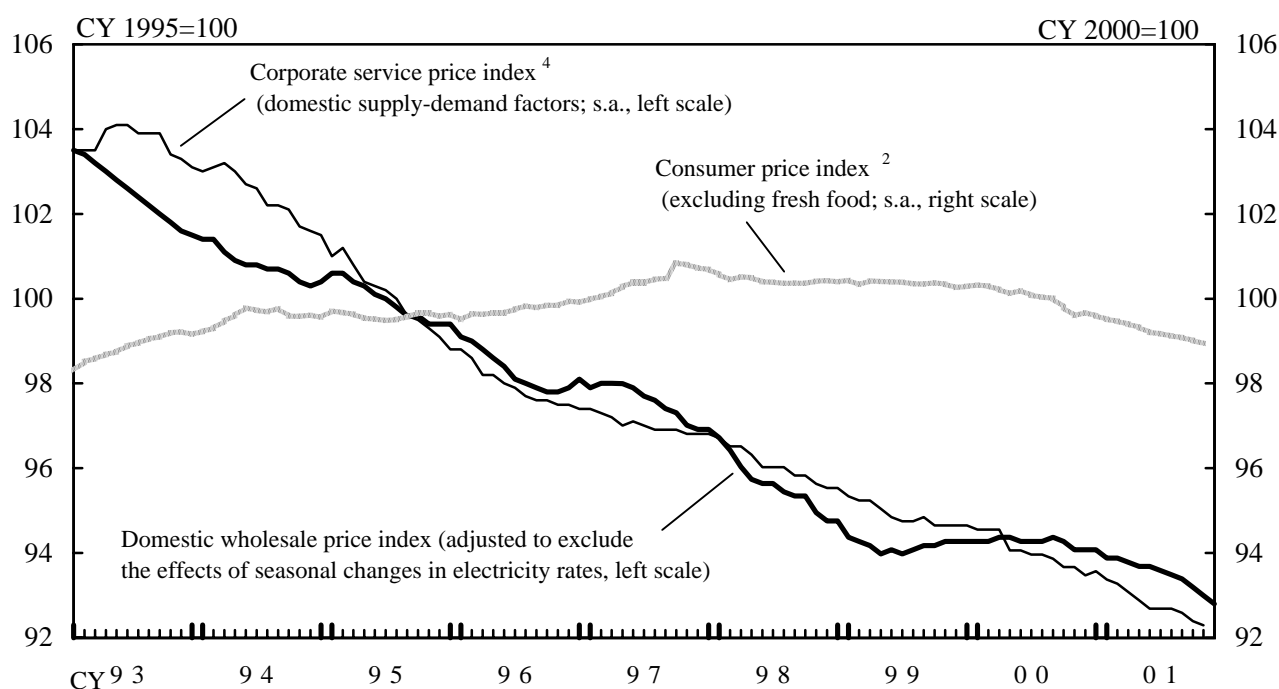
Notes: 1. Exclude jobs offered to new graduates.

2. Seasonally adjusted by X-11.

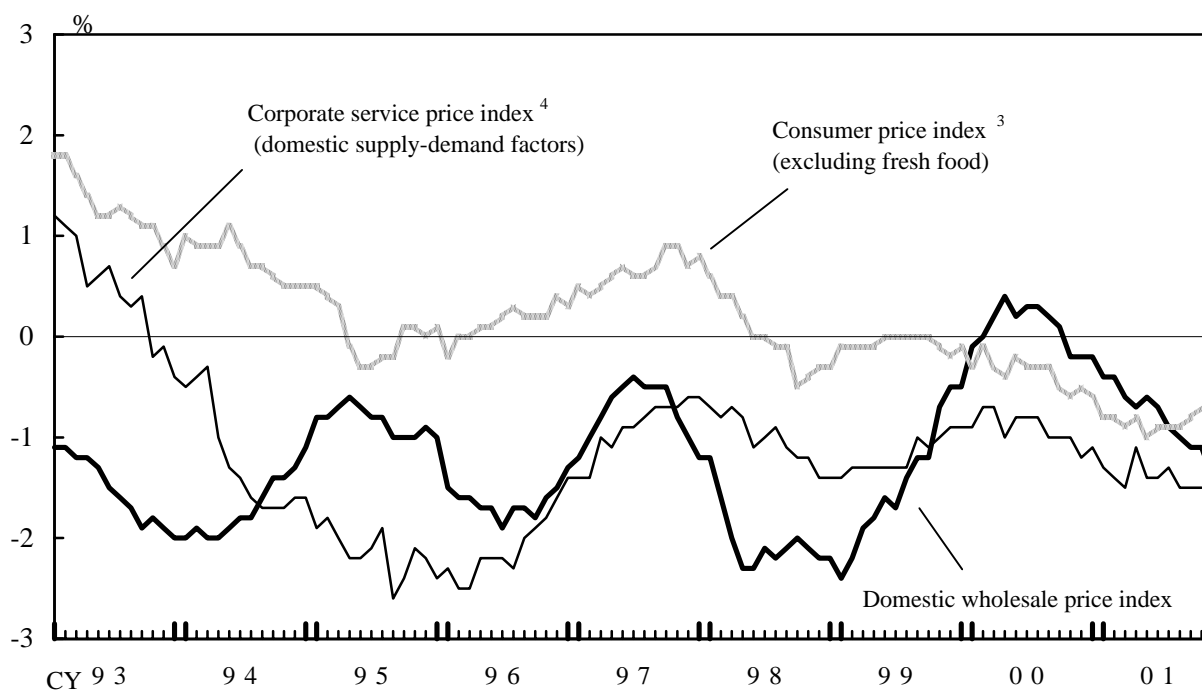
3. The data are based on a survey conducted by Teikoku Databank Ltd. Bankruptcies with liabilities of ten million yen or more.

Prices<sup>1</sup>

## (1) Level



## (2) Changes from a year earlier

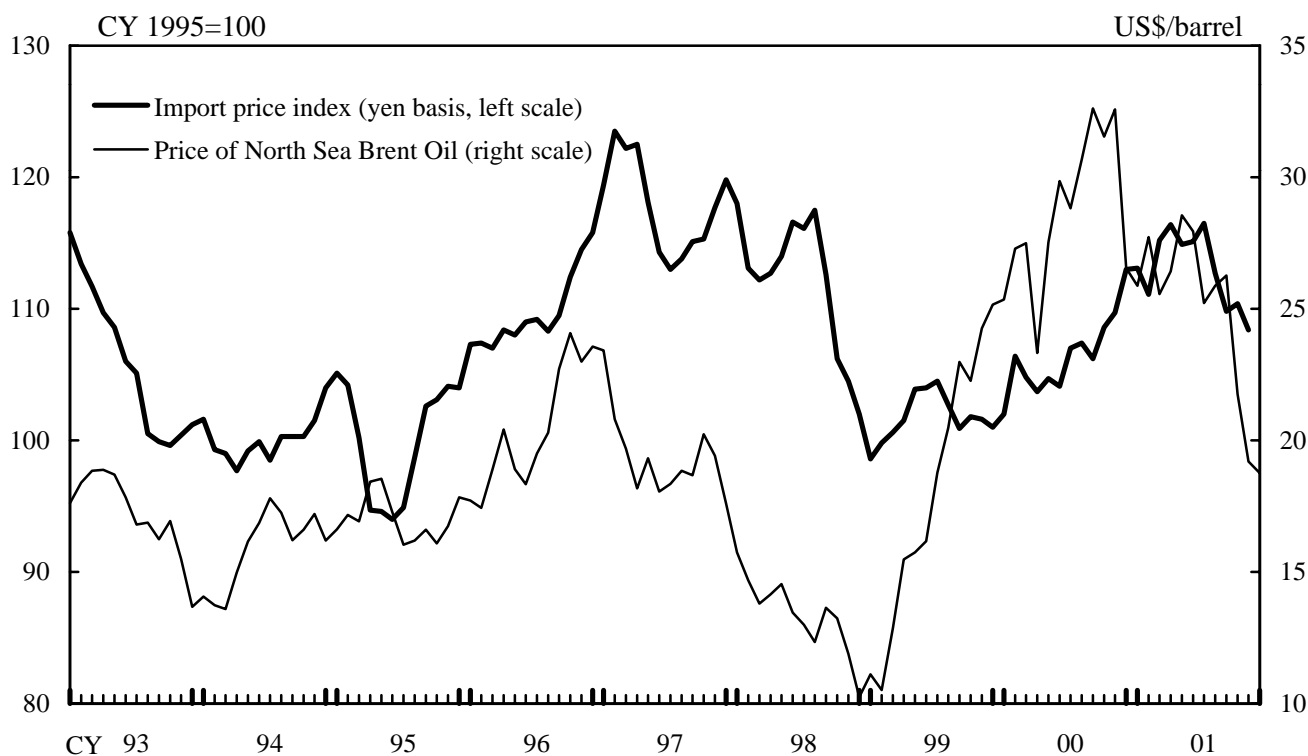


- Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Seasonally adjusted by X-12-ARIMA ( $\beta$  version), based on the original series excluding package tours to overseas.
3. Data before Dec. 2000 are on the 1995 base CPI.
4. See footnote 4 in Chart 23, for definition of the Corporate service price index (domestic supply-demand factors).

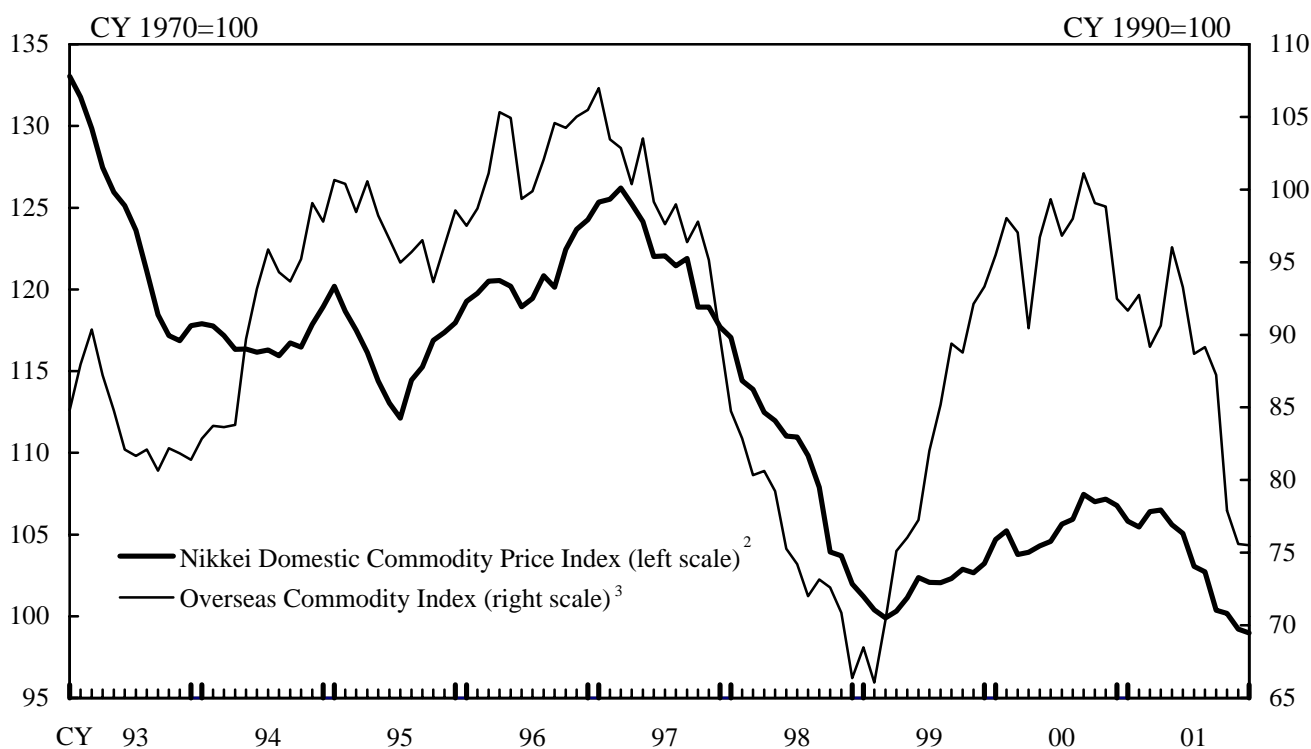
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Bank of Japan, "Wholesale Price Indexes," "Corporate Service Price Index."

## Import Prices and Commodity Prices

### (1) Import Price Index (yen basis) and Crude Oil Price<sup>1</sup>



### (2) Commodity Prices



Notes: 1. Data for December 2001 is the December 1-17 average.

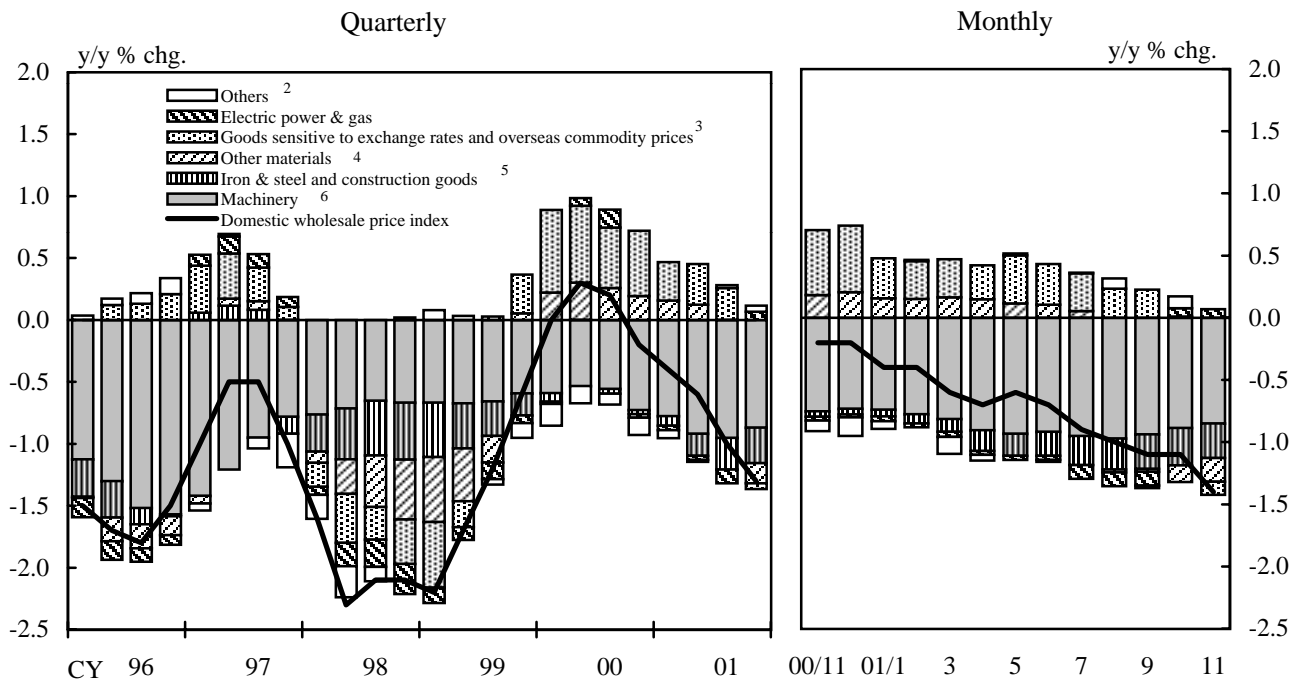
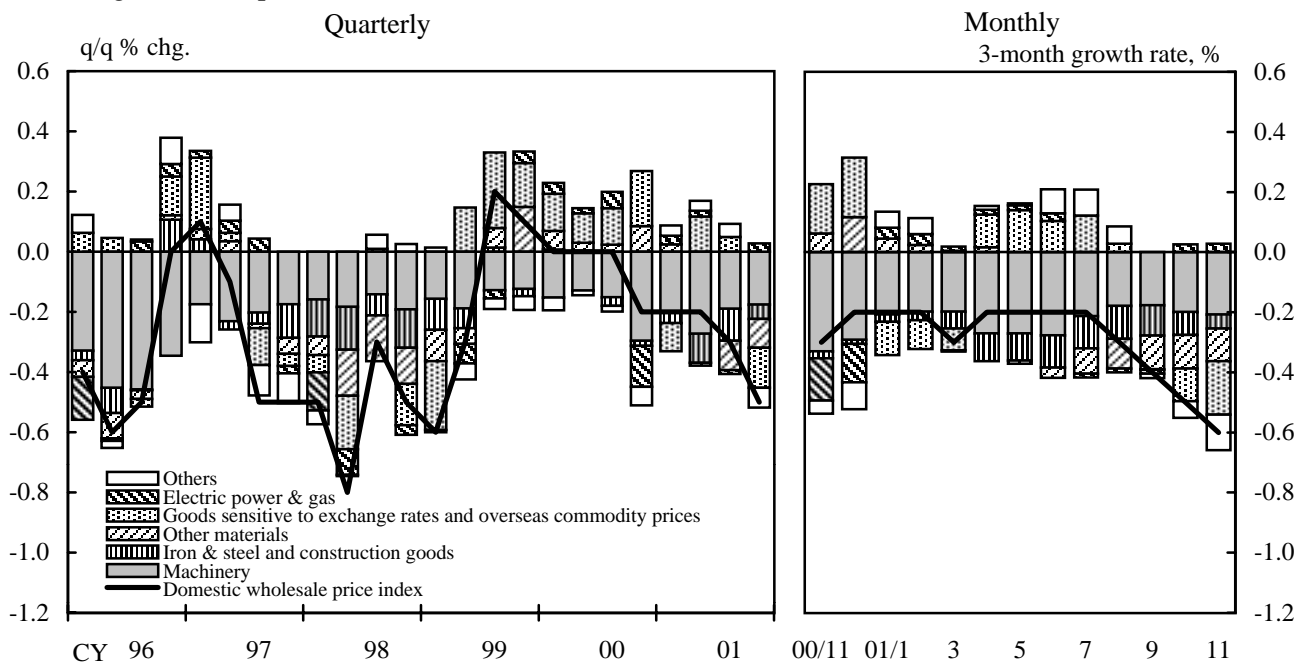
2. Data for December 2001 are as of December 14.

3. Calculated by the Research and Statistics Department, Bank of Japan. Data for December 2001 is the December 1-17 average.

Sources: Bank of Japan, "Wholesale Price Indexes," "Financial and Economic Statistics Monthly"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

Domestic Wholesale Price Index<sup>1</sup>

## (1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier<sup>7</sup>

Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

2. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.

3. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metals.

4. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

5. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wood products + scrap & waste.

6. Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.

7. Adjusted to exclude the effects of the summer-time (from July to September) hike in electricity rates.

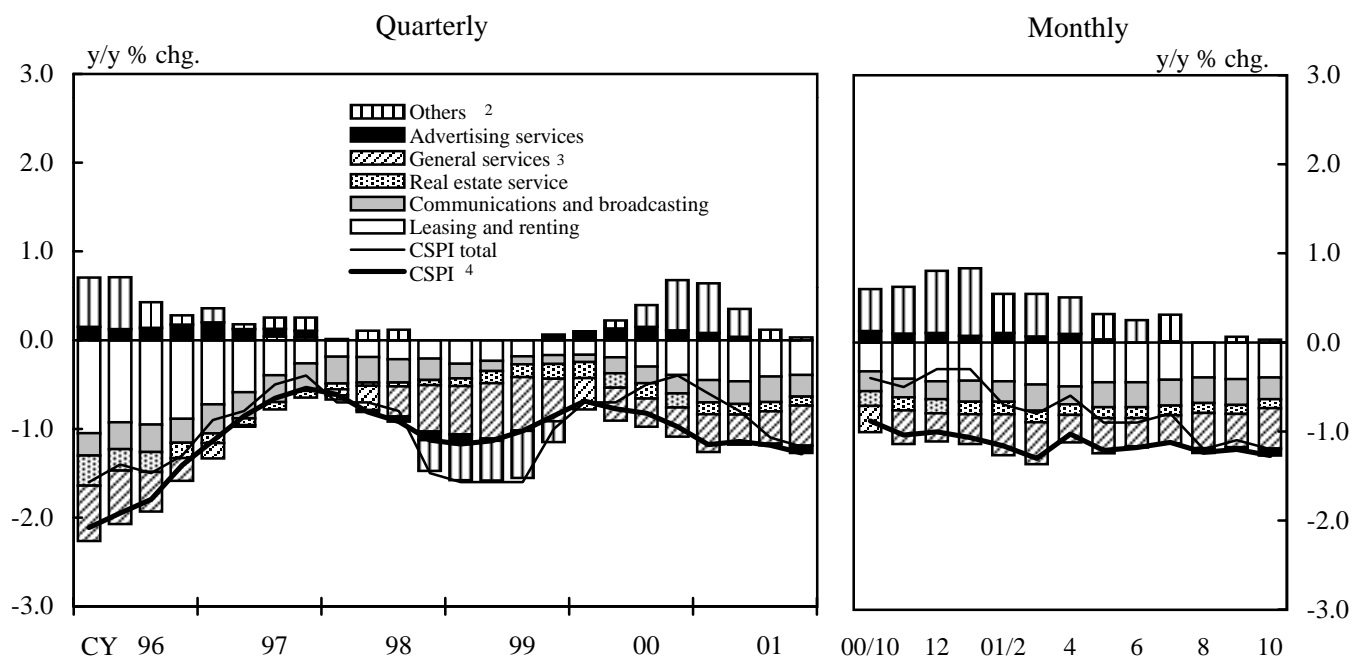
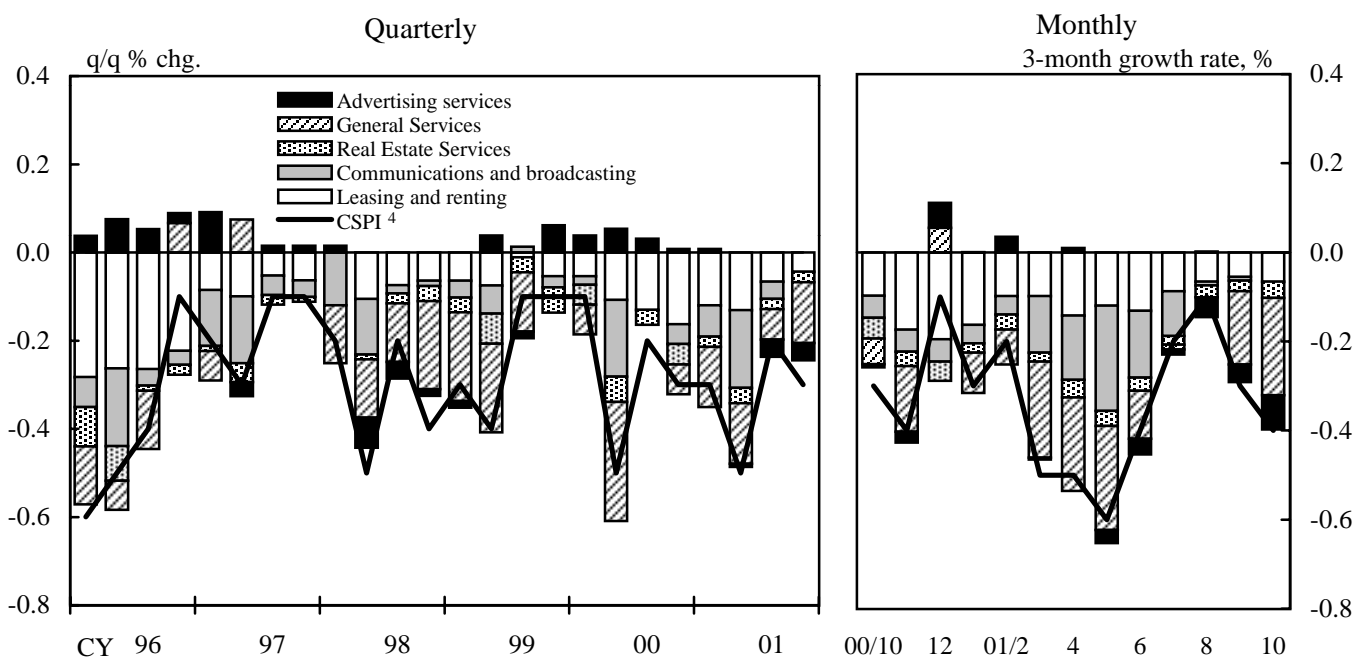
This effect causes the Domestic Wholesale Price Index to rise by about 0.2%.

8. Figures for 2001/Q4 are those of Oct.-Nov. averages.

Source: Bank of Japan, "Wholesale Price Indexes."

Corporate Service Price Index<sup>1</sup>

## (1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier<sup>5</sup>

Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

2. Others = automobile insurance (compulsory) + railroad fares + bus fares + taxi fares + domestic air fares + tolls + postal services + sewerage disposal + ocean freight + international air freight + international air fares + securities issuance and related services (banks' procurator service for issuing debentures <excluding underwriting services>).

3. General services = finance & insurance + transportation + information services + building maintenance services + temporary worker services + machinery maintenance, etc. (excluding items in "others").

4. CSPI (domestic supply-demand factors) includes all items aside from "others" as defined above. This index mainly reflects the supply and demand conditions in the domestic private sector.

5. Television commercials in Advertising services, Sales space rental in Real estate services, and General warehousing and storage in Transportation are seasonally adjusted by X-12-ARIMA ( $\beta$  version).

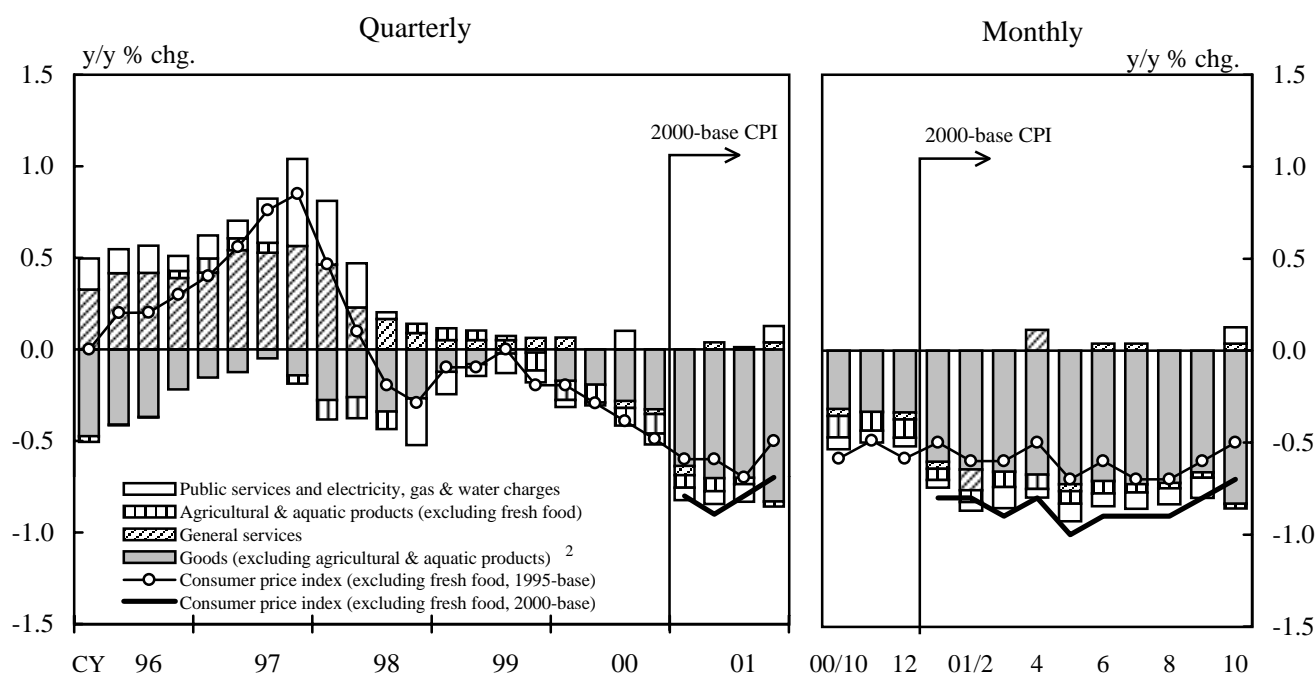
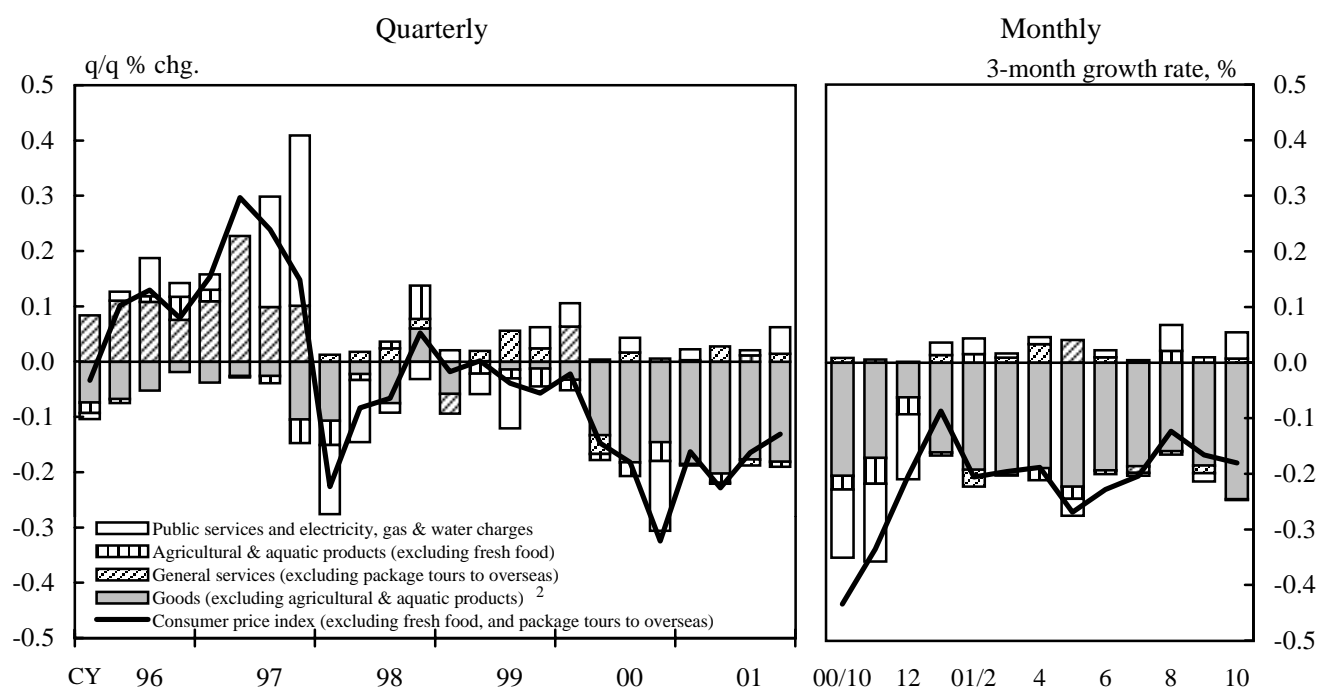
Due to seasonal adjustment every month, the series are revised retroactively every month.

6. Figures for 2001/Q4 are those of October.

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

Consumer Price Index (excluding fresh food)<sup>1</sup>

## (1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier (2000-base CPI)<sup>3</sup>

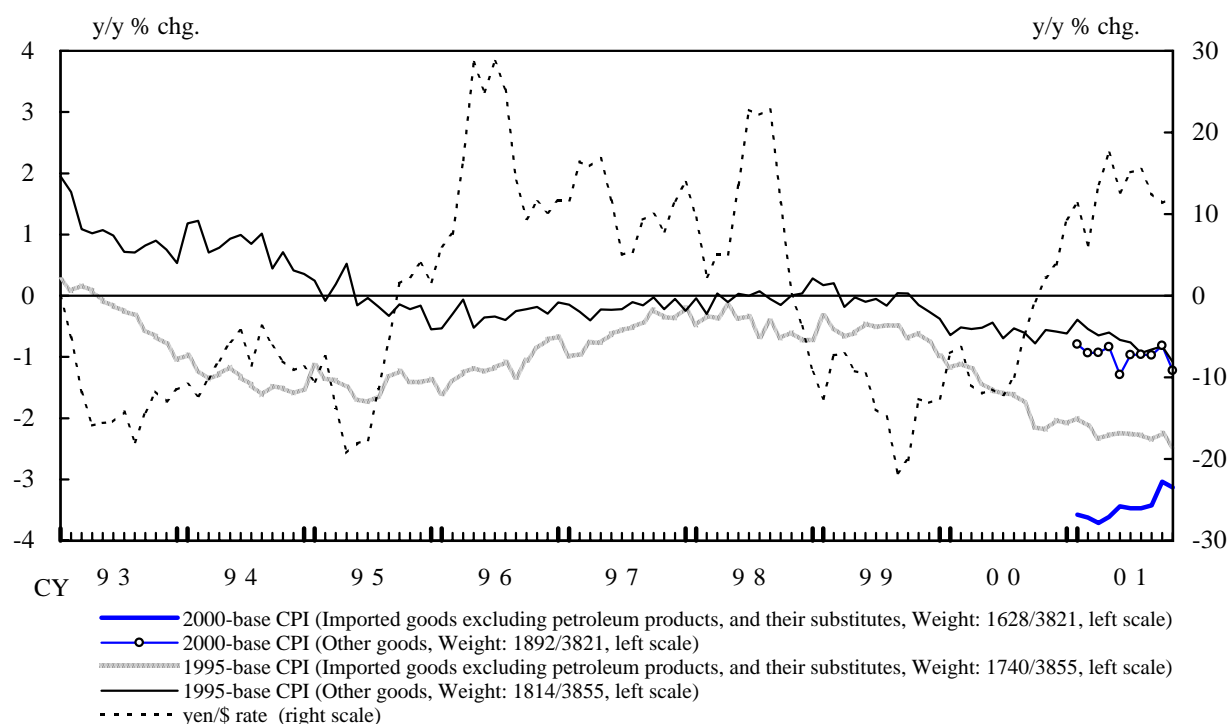
Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

2. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, however electricity, gas & water charges is excluded from goods.

3. Seasonally adjusted by X-12-ARIMA ( $\beta$  version). Due to seasonal adjustment every month, the series are revised retroactively every month. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.

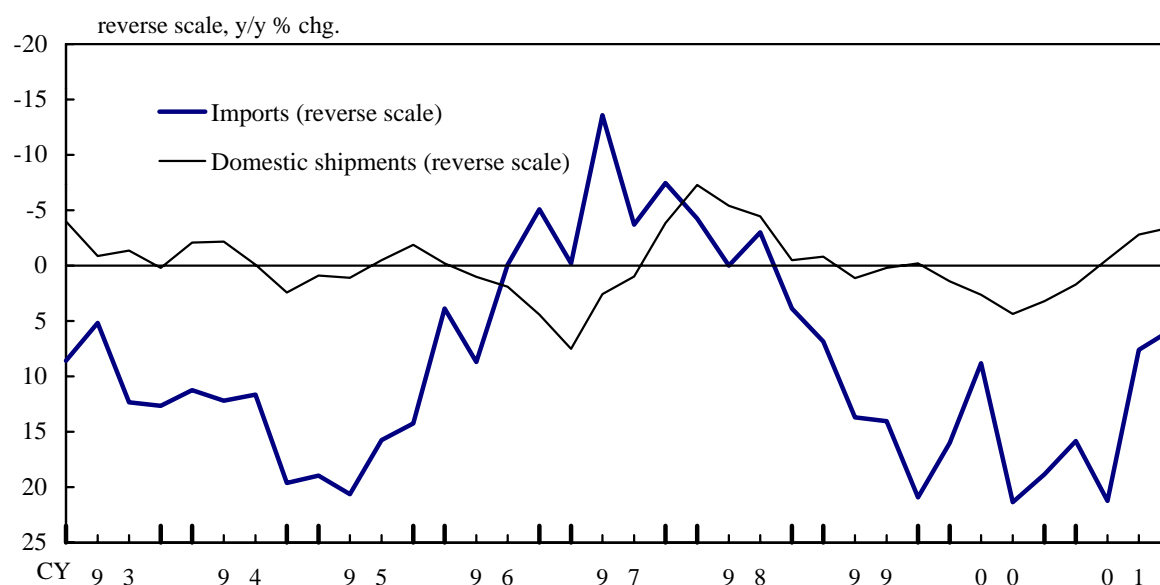
4. Figures for 2001/Q4 are those of October.

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index."

Consumer Price Index (Imported goods and their substitutes)<sup>1</sup>(1) Comparison of imported goods and other goods in terms of CPI <sup>2</sup>

- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Imported goods (excluding petroleum products) consist of items common to both the Import Price Index and the Consumer Price Index, and their substitutes consist of items considered to be substitutable for import products but not covered by the Import Price Index.
3. Adjusted to exclude the effects of the special tobacco tax introduced in December 1998, and biscuits, prices of which were heavily affected by changes in monitored brands. Weight is shares in Goods (excluding agricultural & aquatic products).

## (2) Consumer goods supply (Imports and Domestic shipments)



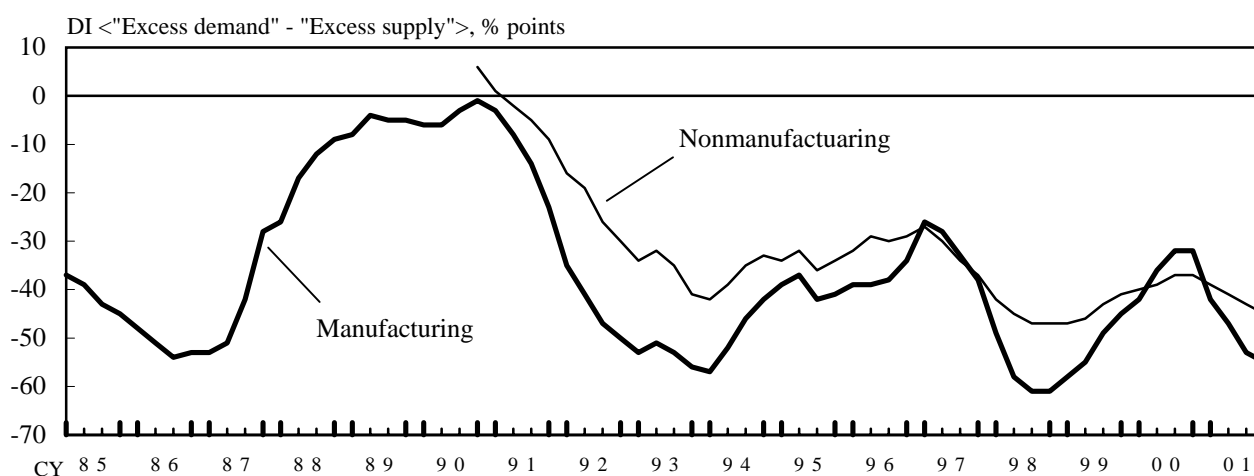
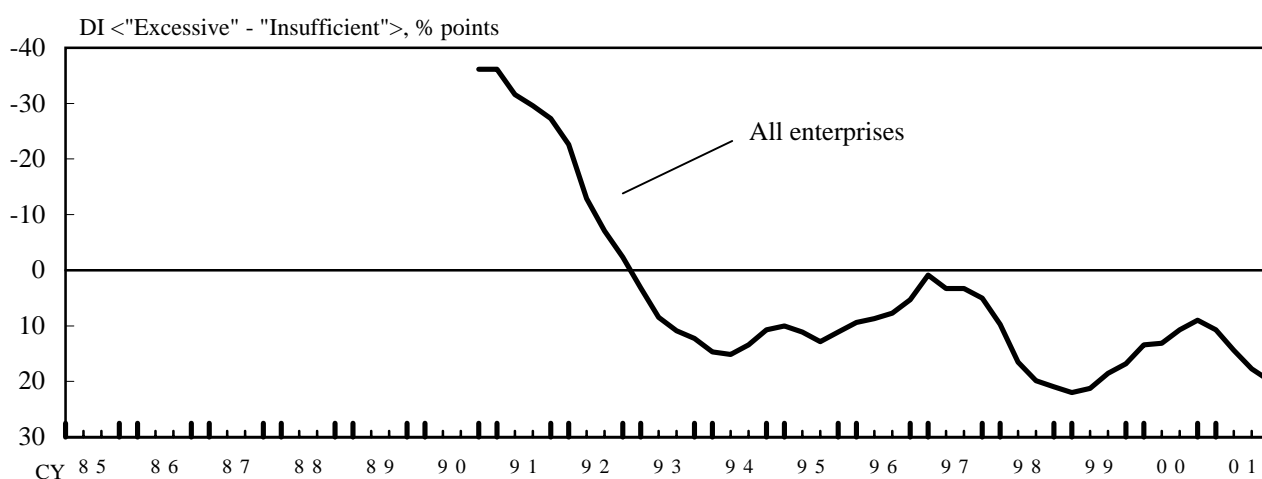
Note: See footnote Chart 12-4, for definition of the consumer goods supply.

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Bank of Japan, "Wholesale Price Indexes."

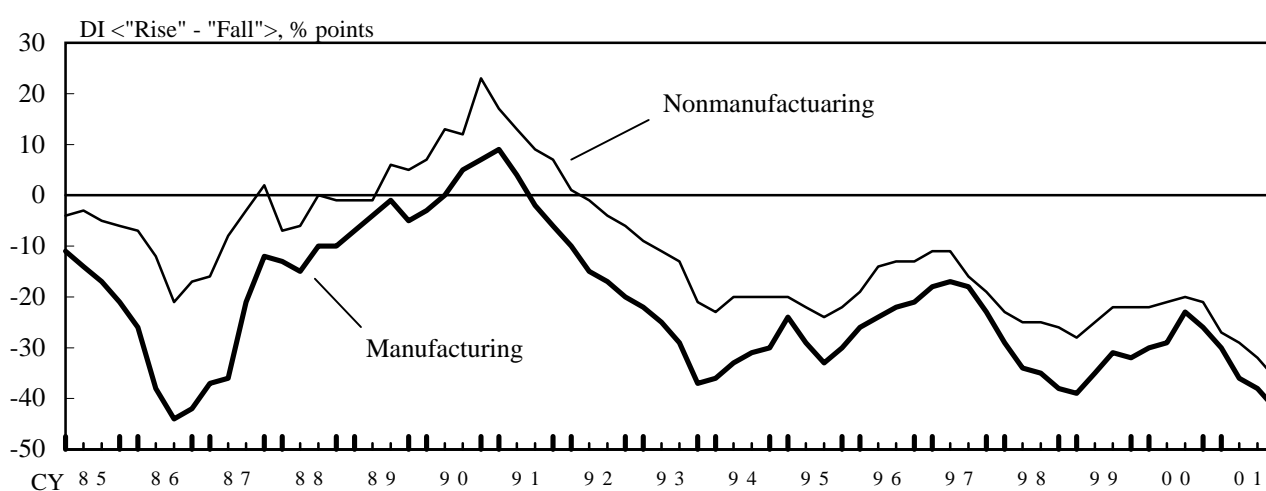


Factors Contributing to the Change in Prices<sup>1</sup>

## (1) Supply and Demand Conditions for Products and services (All Enterprises)

(2) Utilization of Capital and Labor<sup>2</sup>

## (3) Change in Output Prices (All Enterprises)



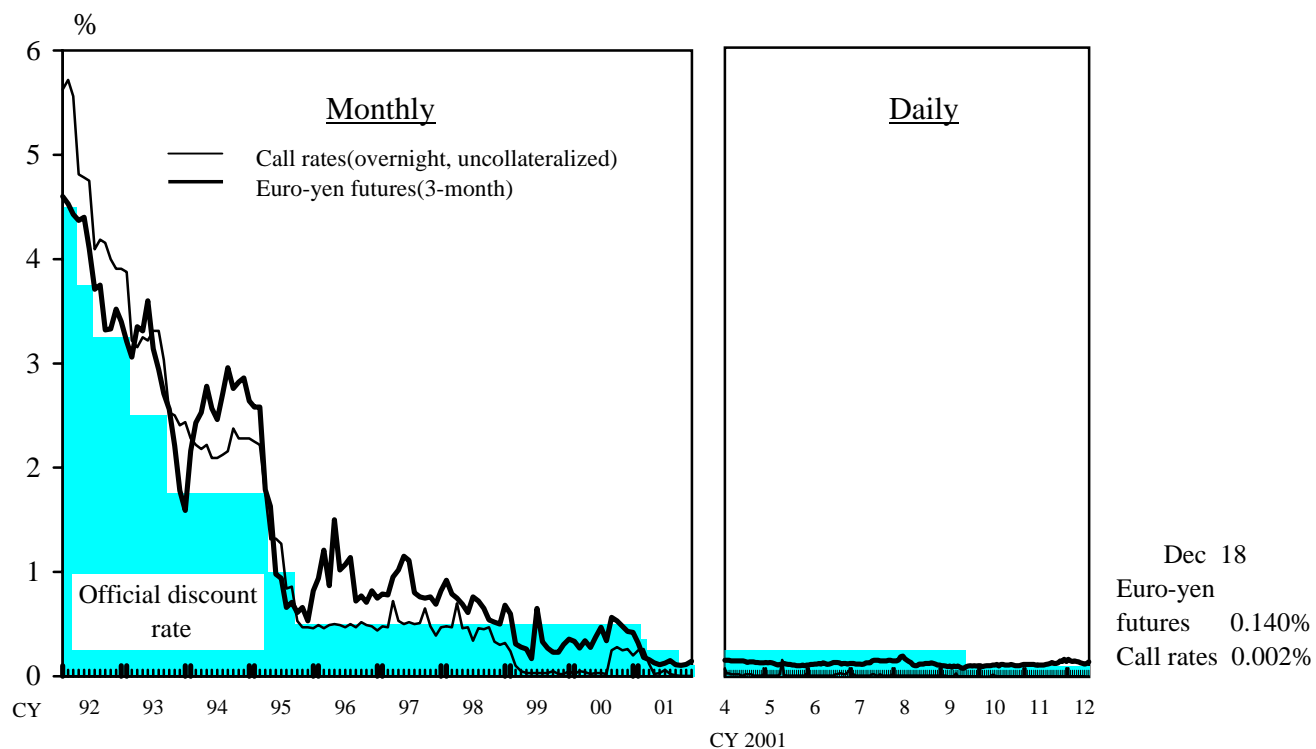
Notes: 1. Figures before December 1998 are based on the pre-revision *Tankan*, and those from March 1999 are based on the post-revision *Tankan*.

2. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1990-99 average.  
Production Capacity DI and Employment DI are calculated as "Excessive" minus "Insufficient".

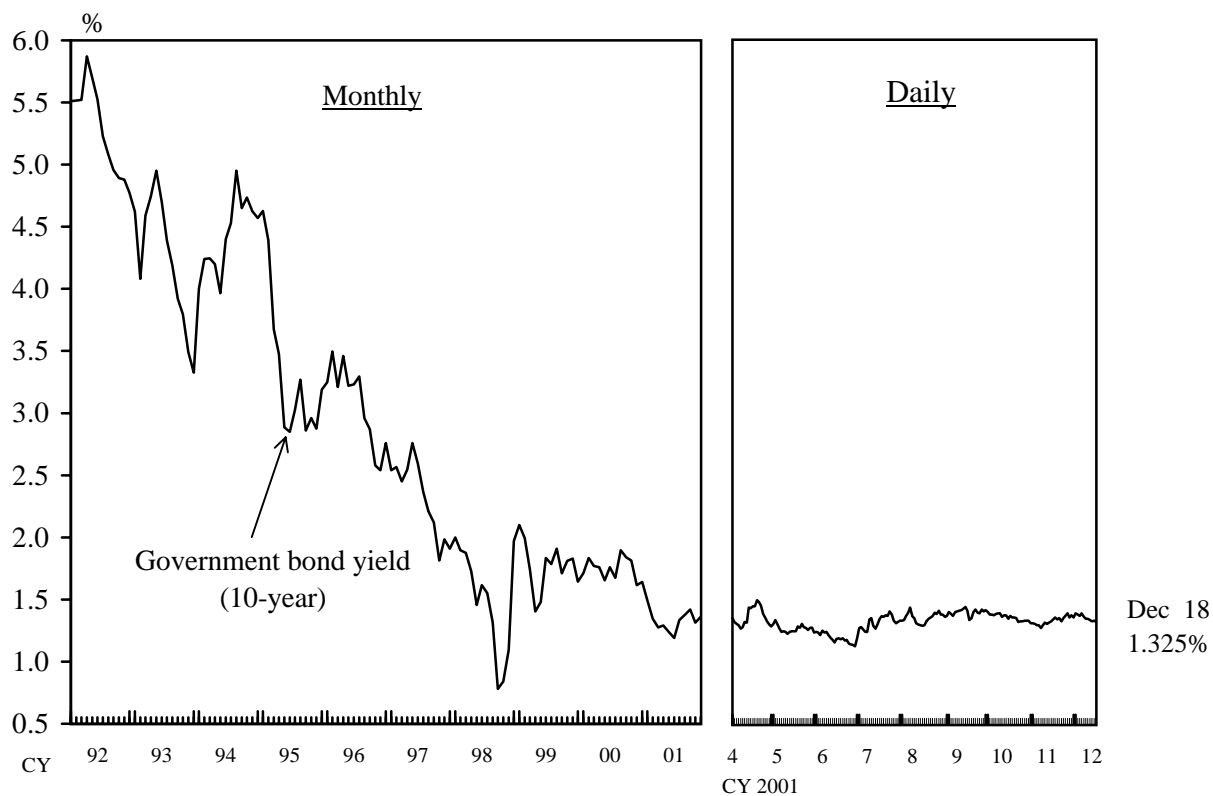
Sources: Cabinet Office, "National Accounts";  
Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



(2) Long-Term



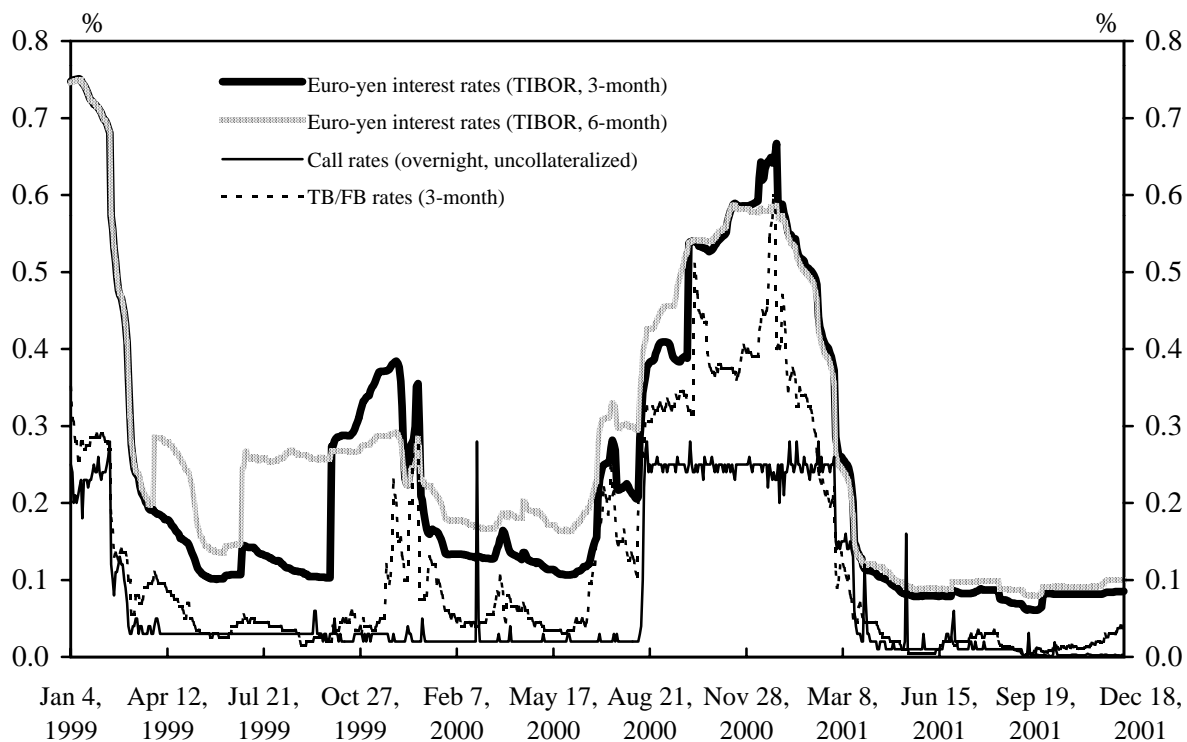
Sources: Bank of Japan; Tokyo International Financial Futures Exchange; Japan Bond Trading Co., Ltd.

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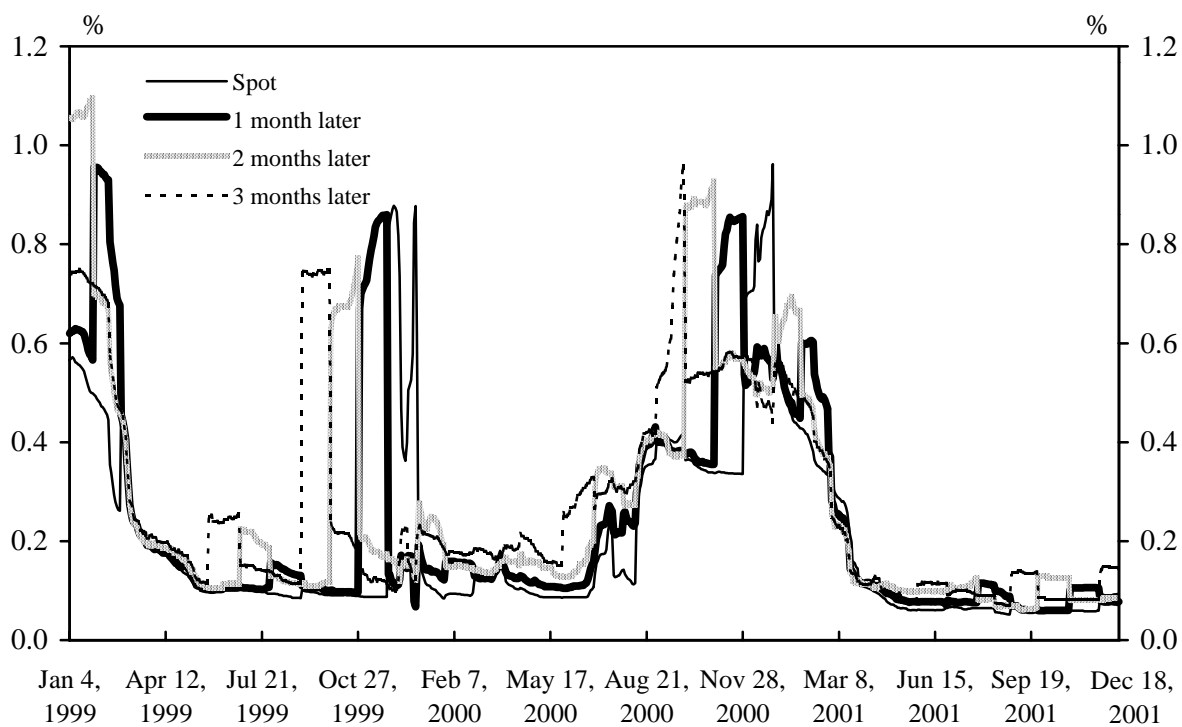
Short-Term Money Market Rates

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## (1) Interest Rates on Term Instruments

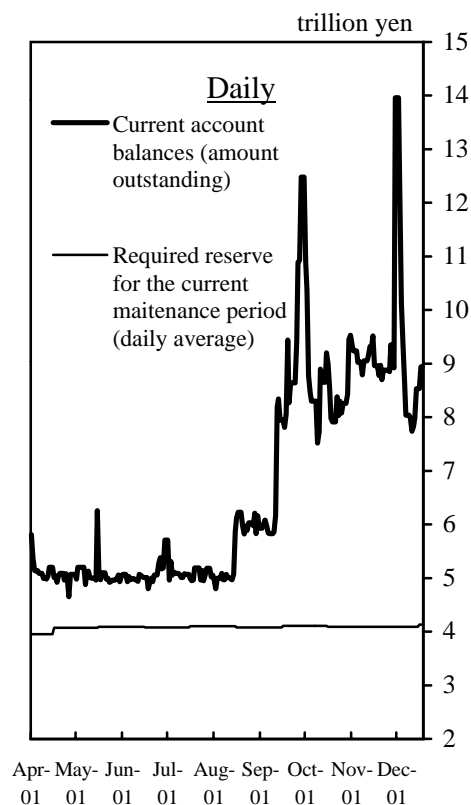
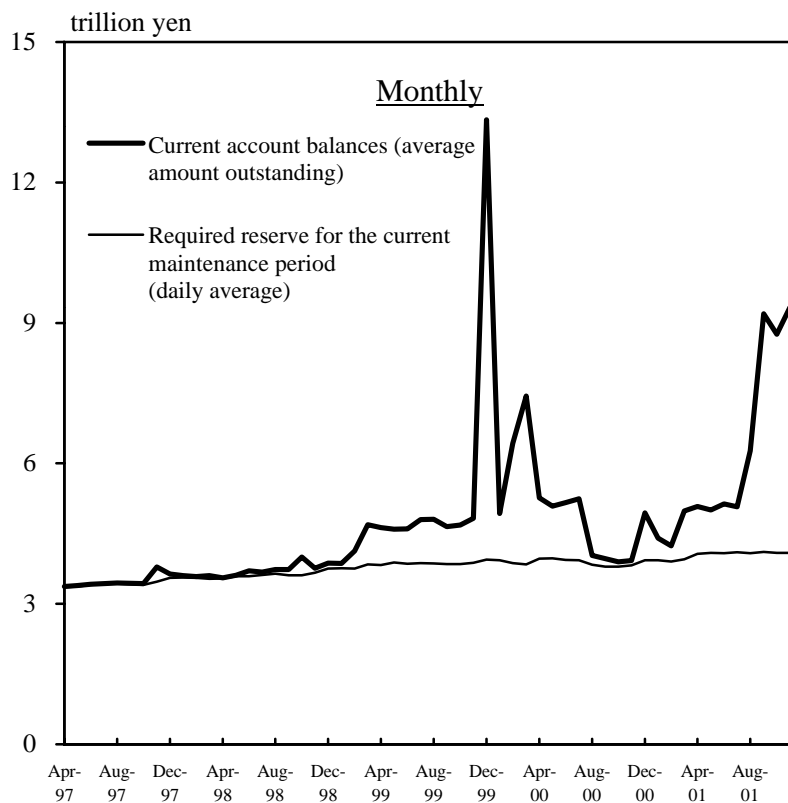


## (2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)

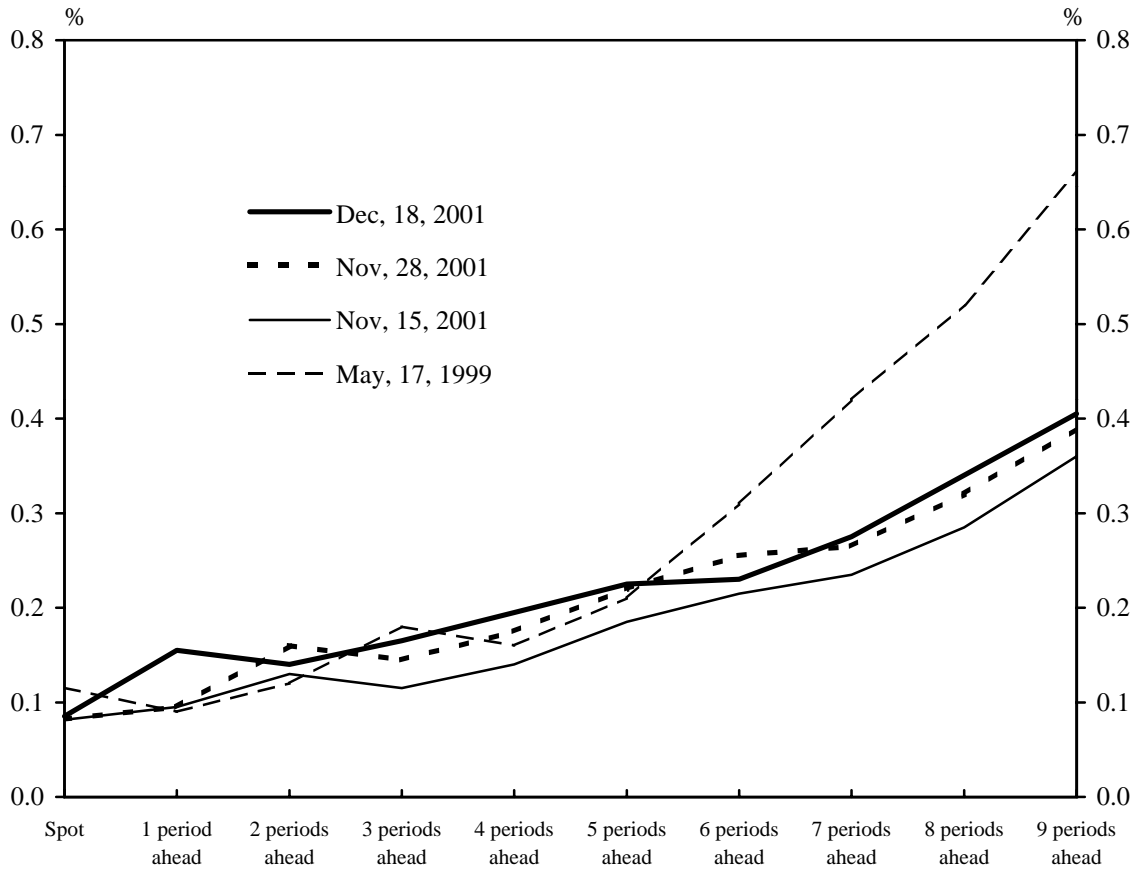


Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.

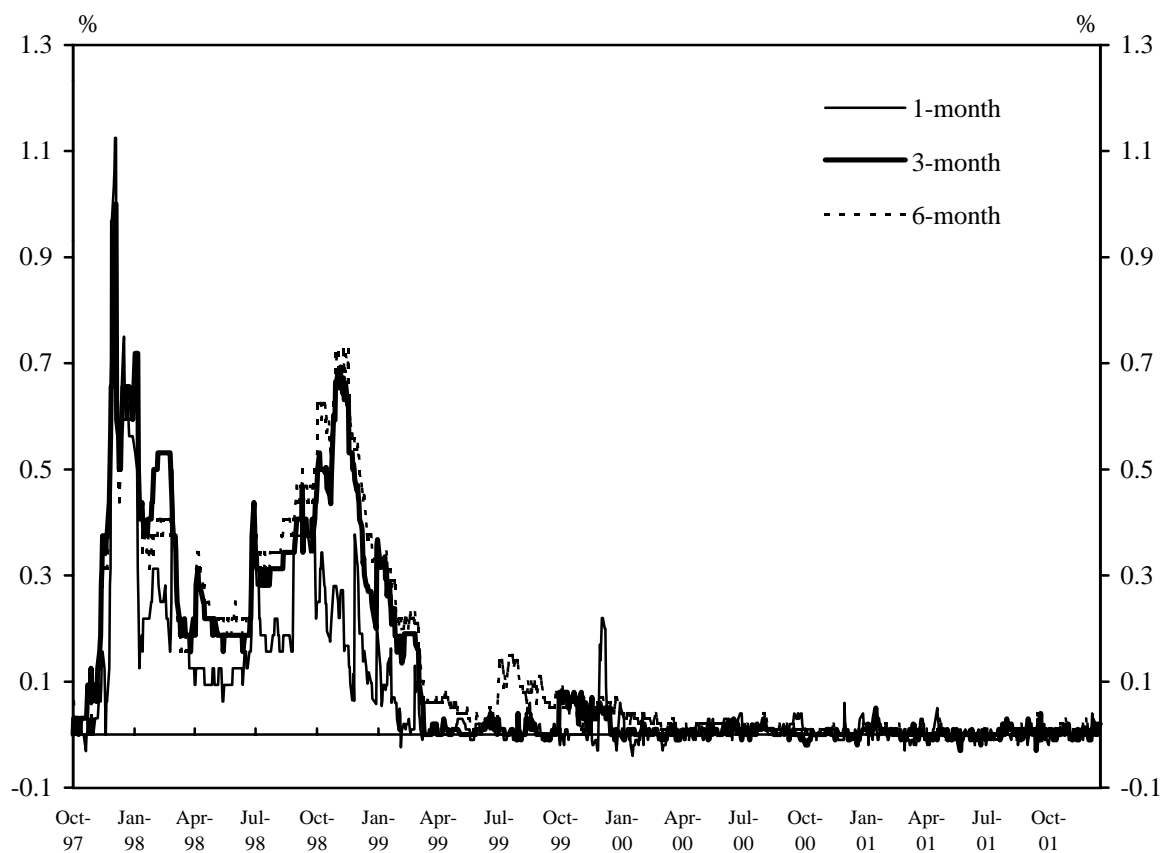
Current Account Balances at the Bank of Japan



Euro-Yen Interest Rates Futures (3-Month)



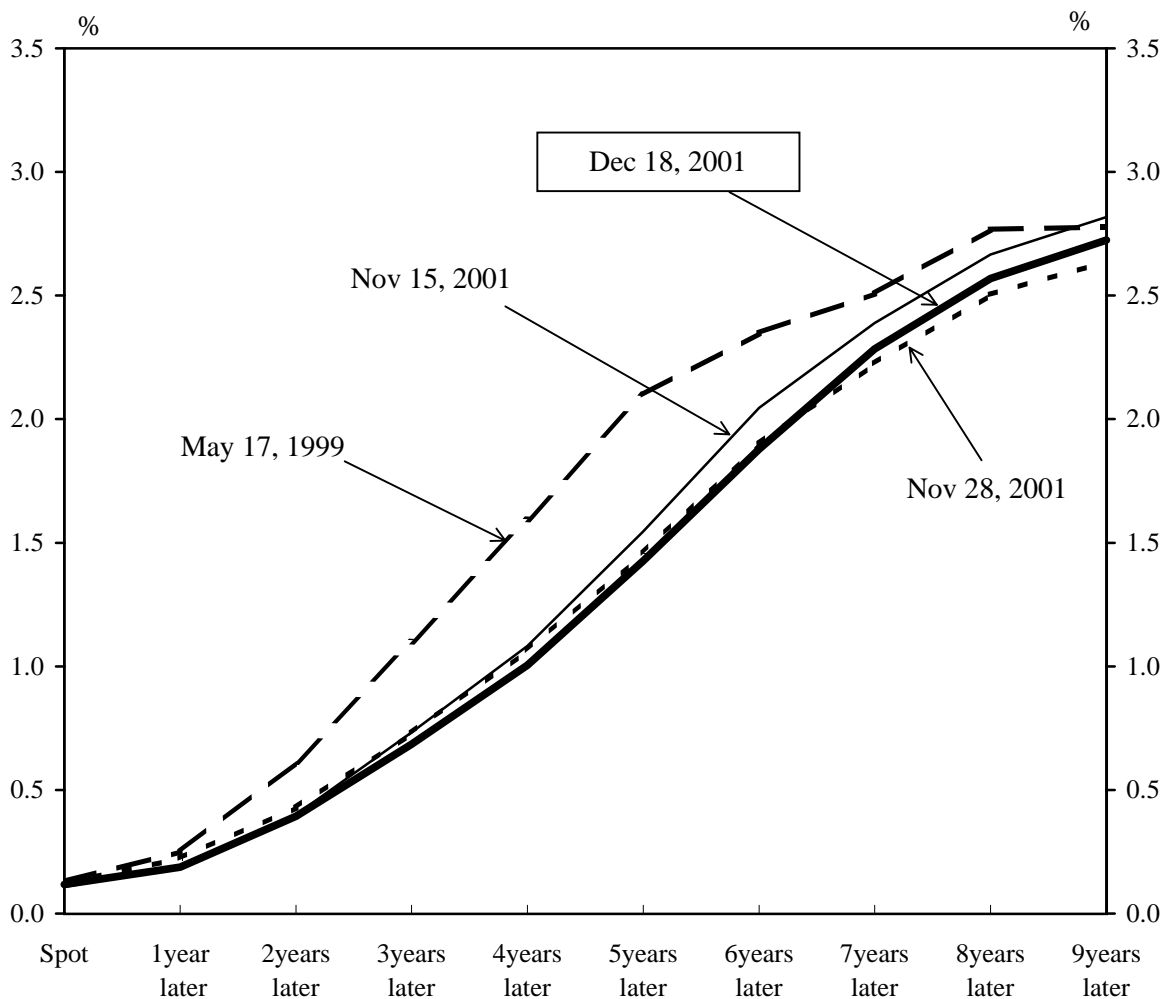
Source: Tokyo International Financial Futures Exchange.

Japan Premium in the Eurodollar Market <sup>1</sup>

Note: 1. Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:  
Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate quoted by Barclays Bank in the Eurodollar market (London).

Source: British Bankers' Association (BBA).

Implied Forward Rates (1-year)<sup>1</sup>

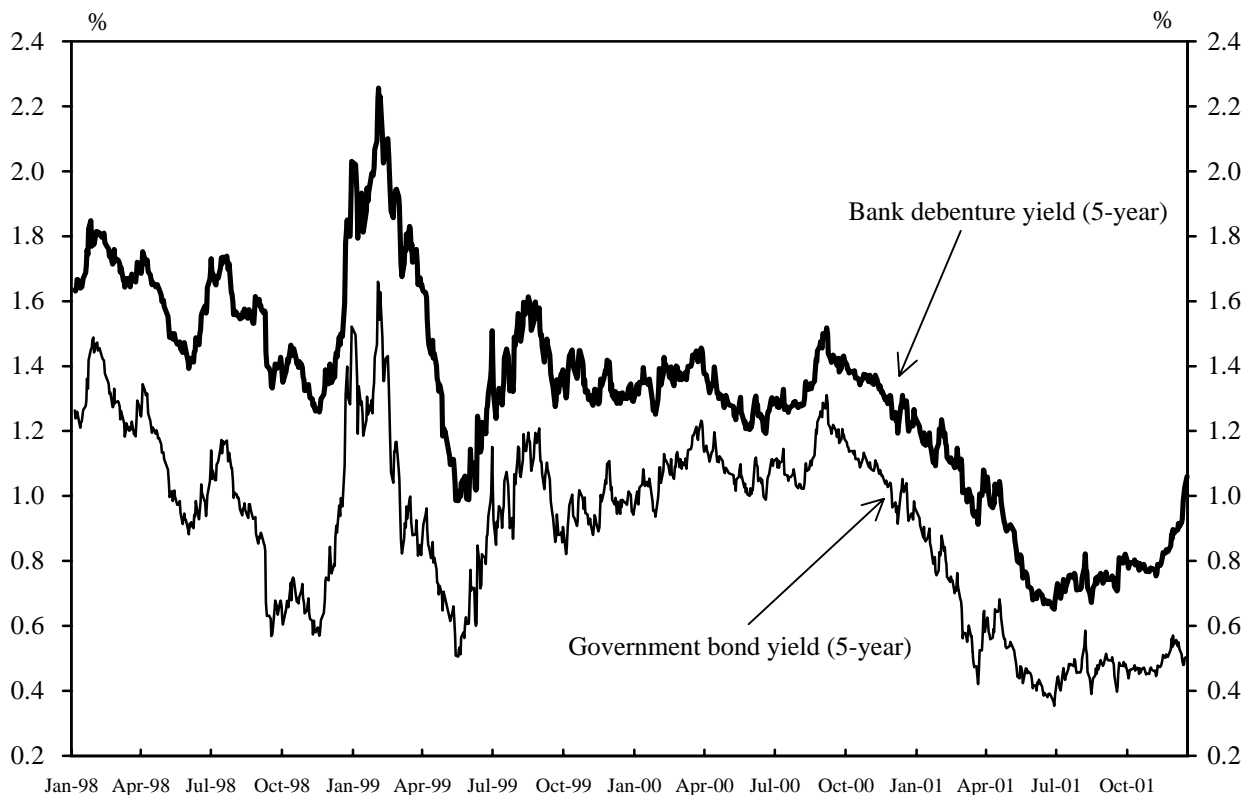


Note :Calculated from yen-yen swap rates.

Source: Kyodo News.

Yields of Bank Debentures

(1) Bond Yields



(2) Spread of Bank Debenture and Government Bond Yield

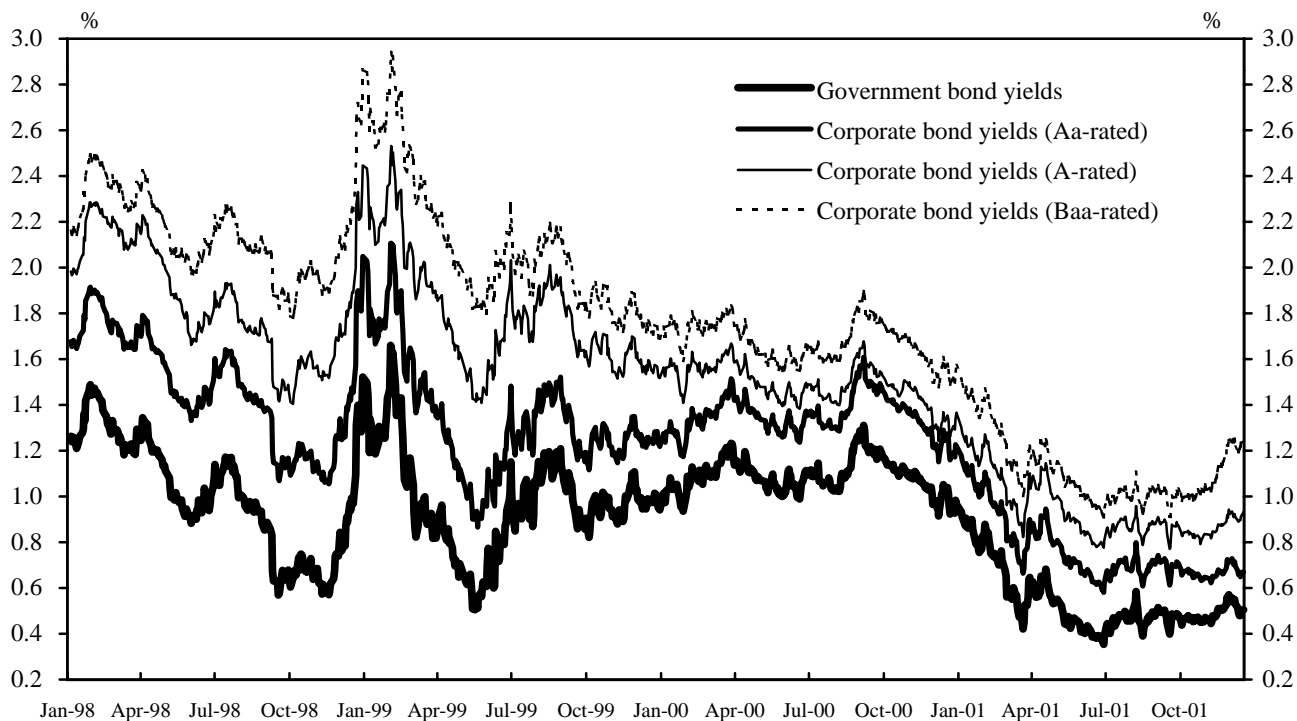


Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

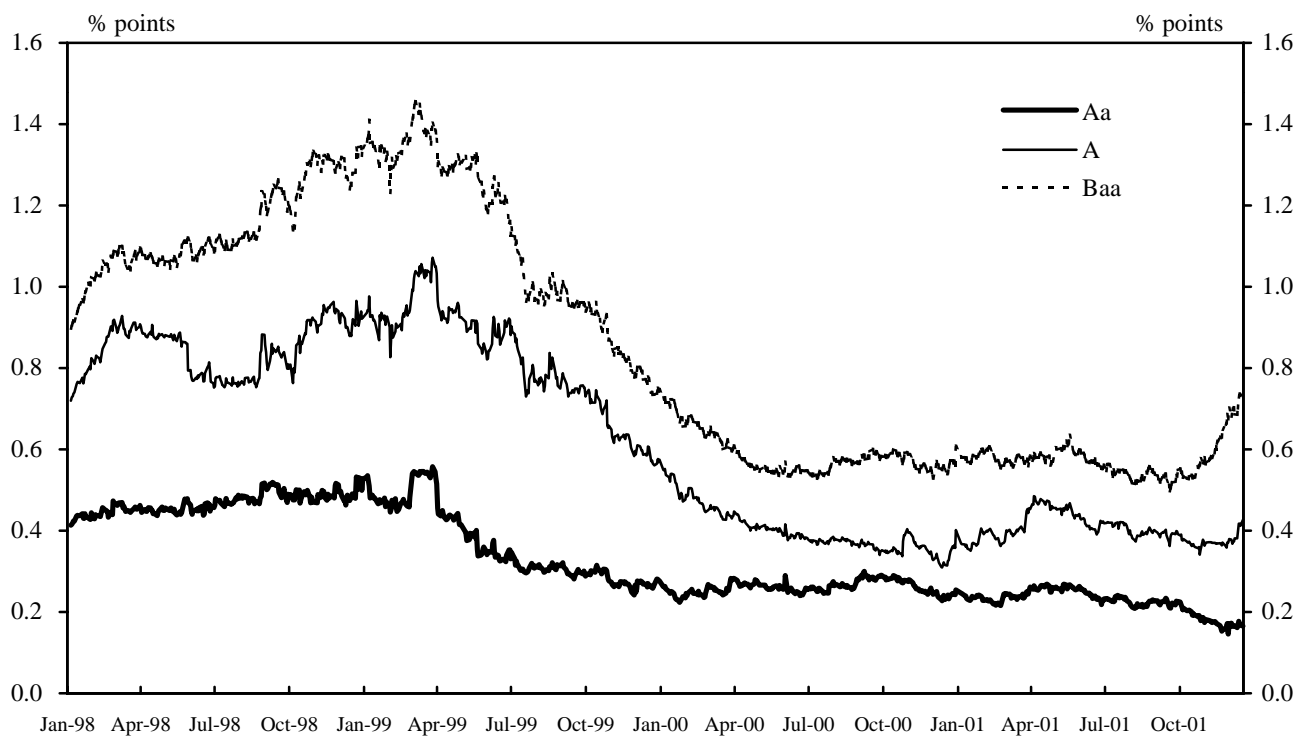


Corporate Bond Yields <sup>1</sup>

(1) Yields of Government and Corporate Bonds by Rating



(2) Yield Spreads of Public and Corporate Bonds



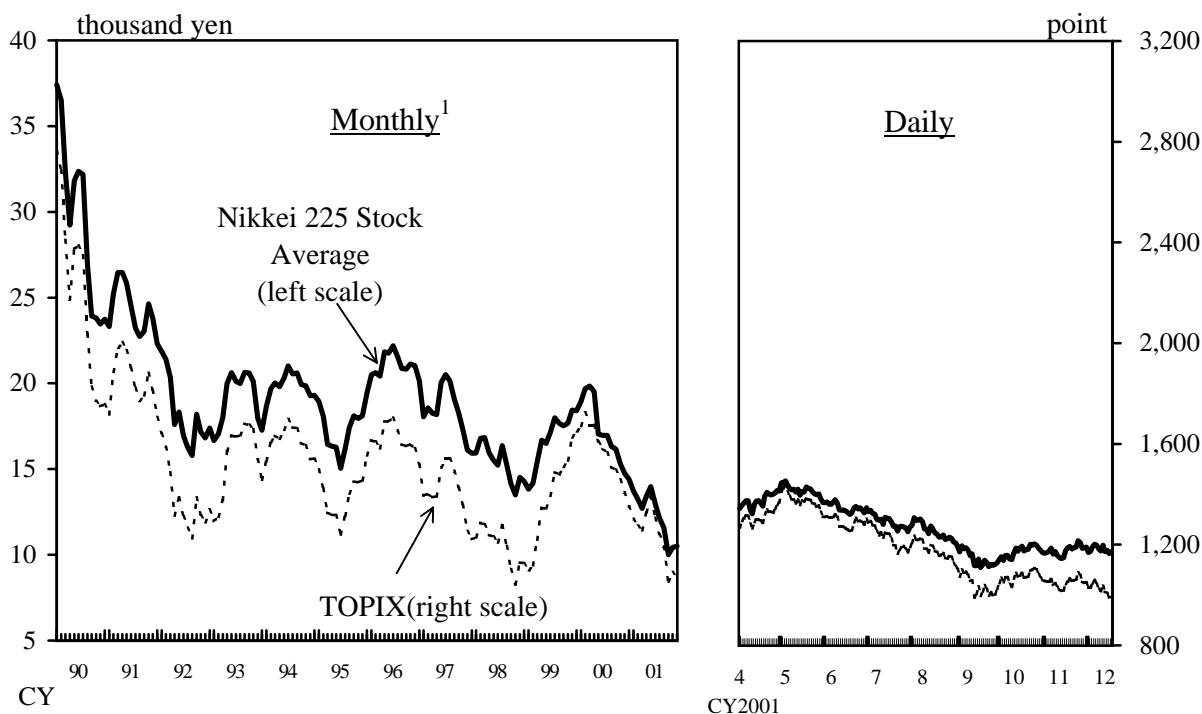
Note: 1. Yields on bonds with 5-year maturity.

The indicated ratings are of Moody's.

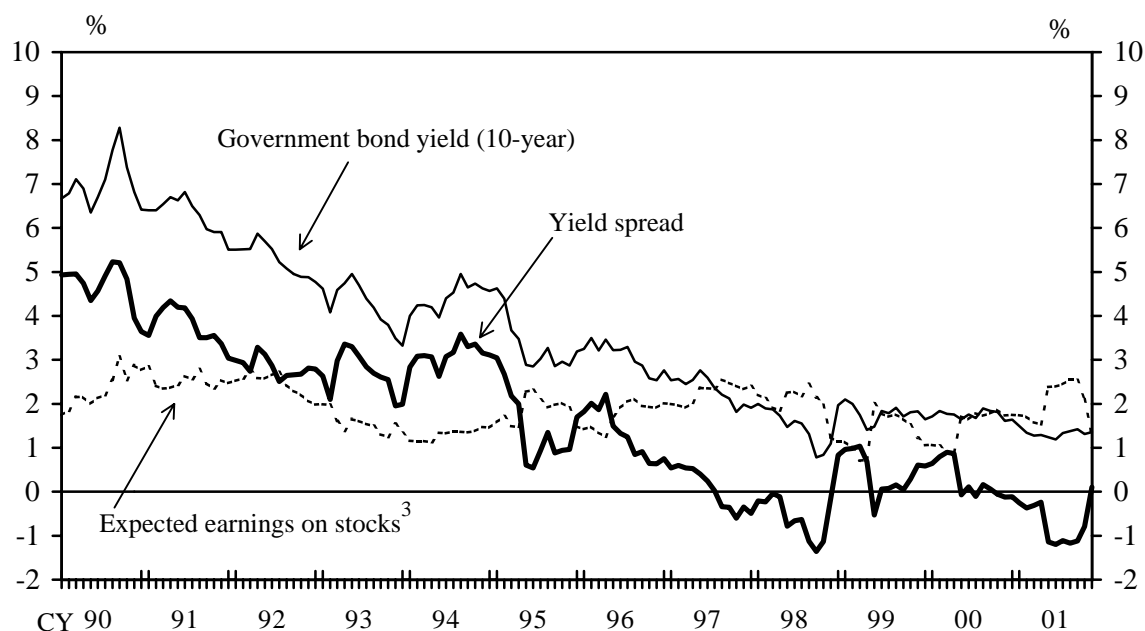
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock Prices



(2) Yield Spread<sup>2</sup>



Notes: 1. Data are monthly averages.

2. Data are at end of period.

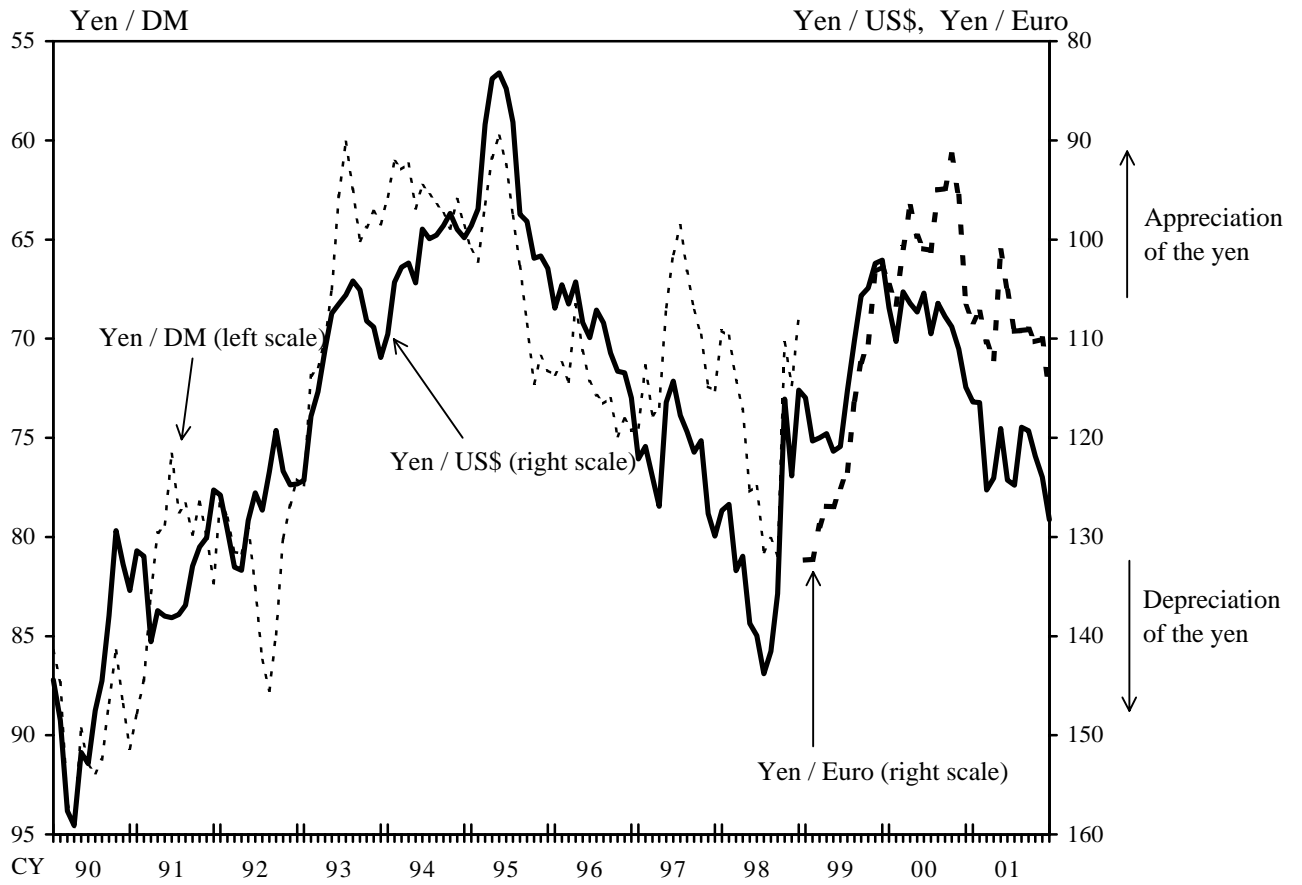
Yield spread = government bond yields - expected earnings on stocks,  
 where expected earnings on stocks = 1/expected price earnings ratio.

3. Based on stocks listed on the TSE First Section. Excludes bank stocks.

Data (unconsolidated) are calculated by the Daiwa Research Institute.

Sources: *The Nihon Keizai Shimbun* ; Daiwa Research Institute, "*Daiwa Tousei Shiryou* (Daiwa Investment Information)."

Exchange Rates <sup>1</sup>

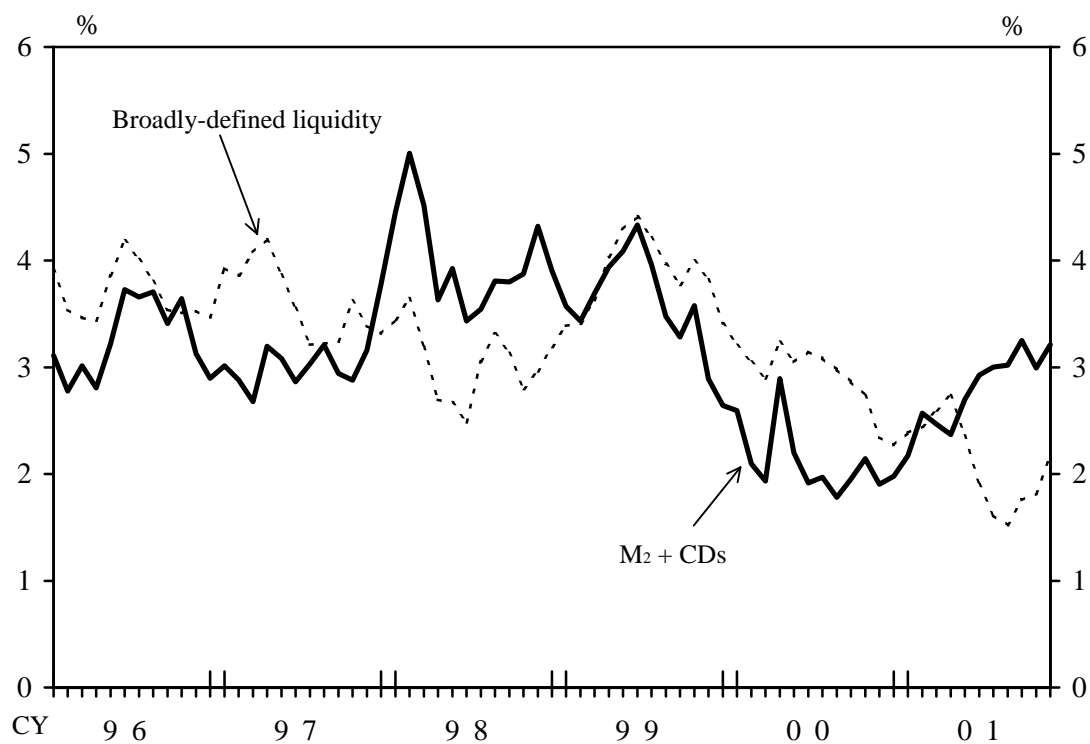


Note: 1. End of month. Data for December 2001 are as of December 18, 2001.

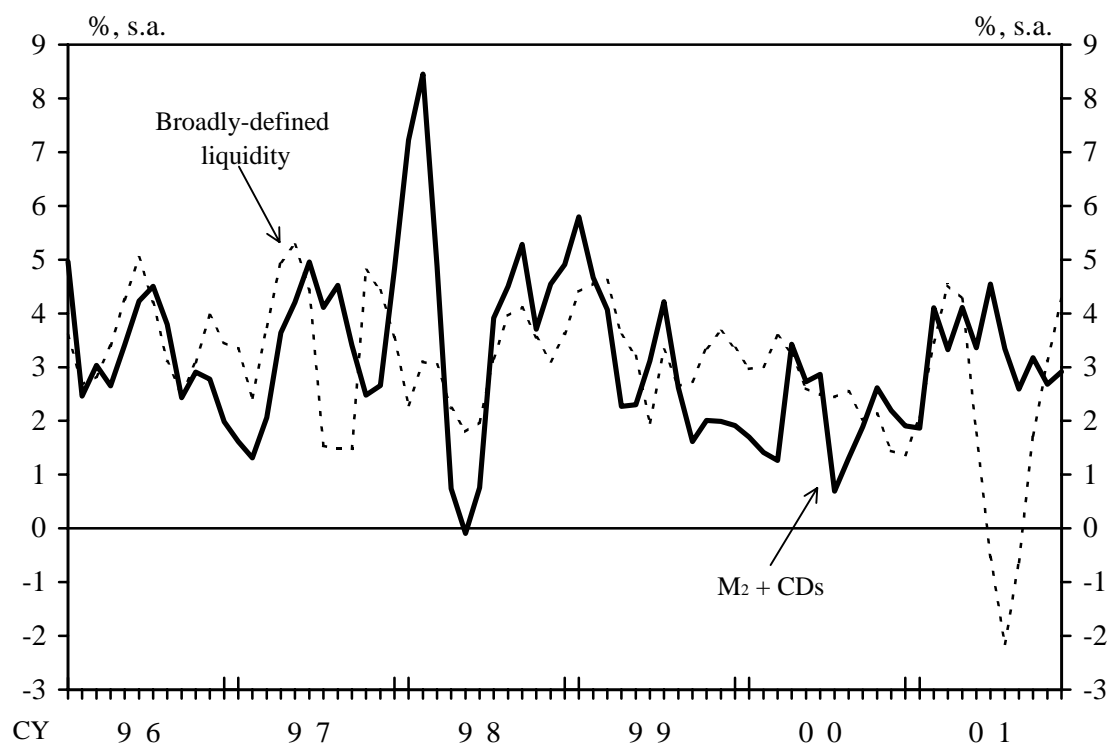
Source: Bank of Japan.

Money Stock (M<sub>2</sub>+CDs, Broadly-Defined Liquidity)

## (1) Changes from a Year Earlier



## (2) Changes from Three Months Earlier (Annualized)



Note: Percent changes in average amounts outstanding.

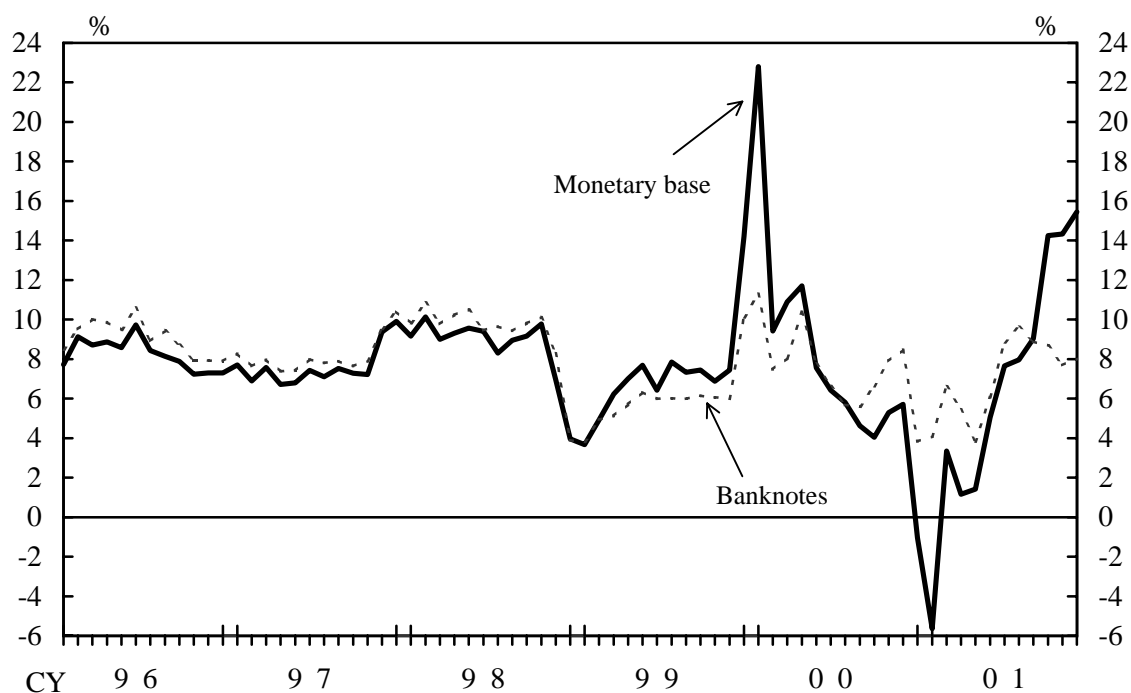
Source: Bank of Japan.

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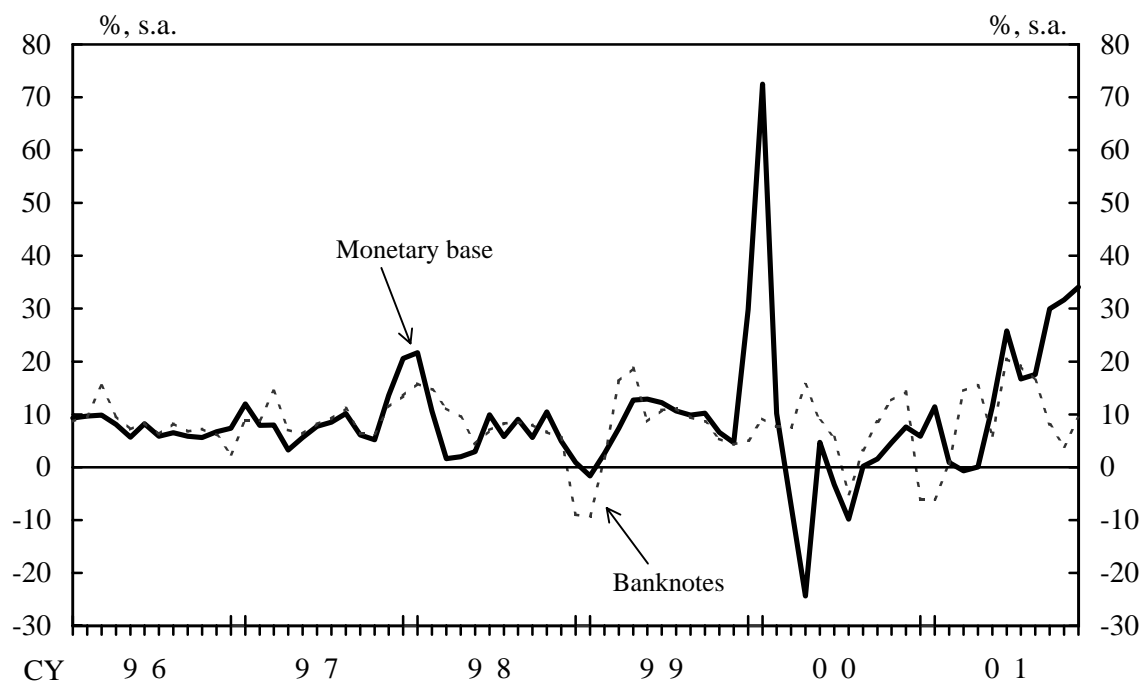
 Monetary Base
 

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## (1) Changes from a Year Earlier



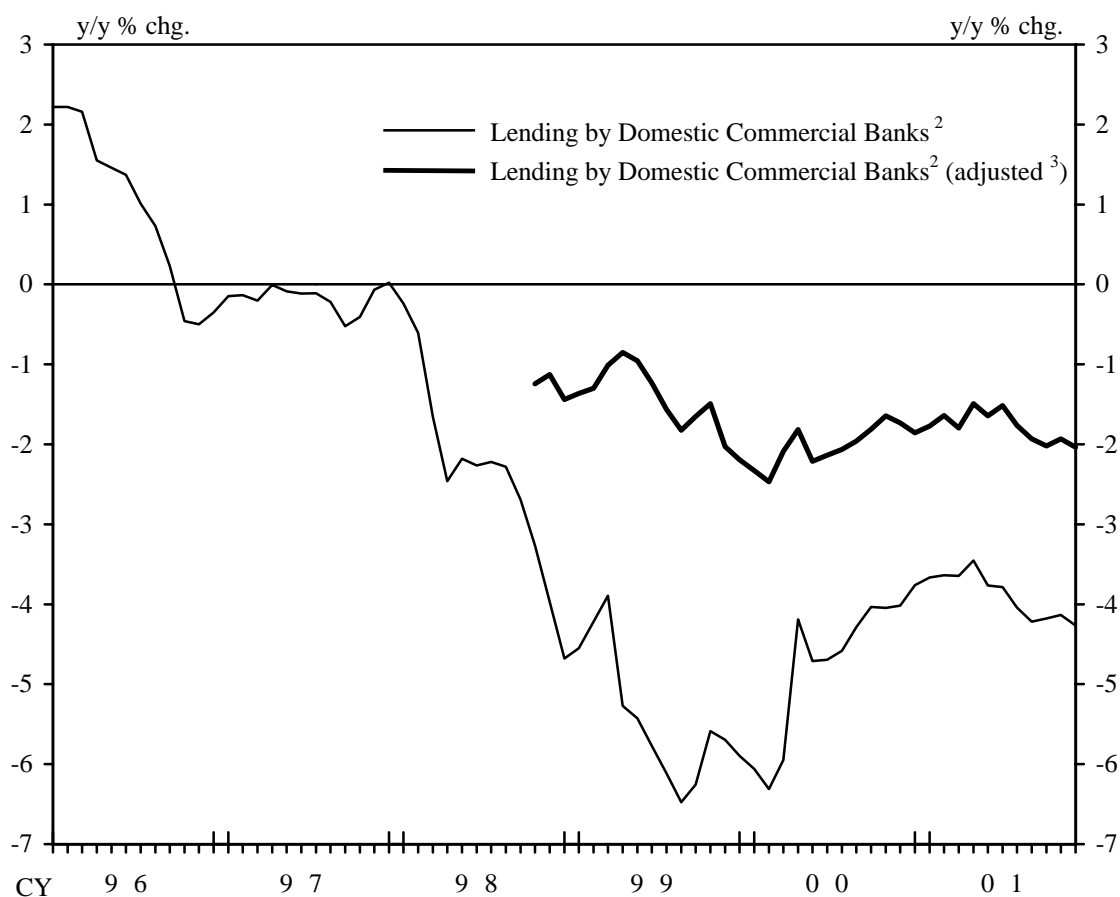
## (2) Changes from Three Months Earlier (Annualized)



Note: Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

Source: Bank of Japan.

Lending by Domestic Commercial Banks <sup>1</sup>

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

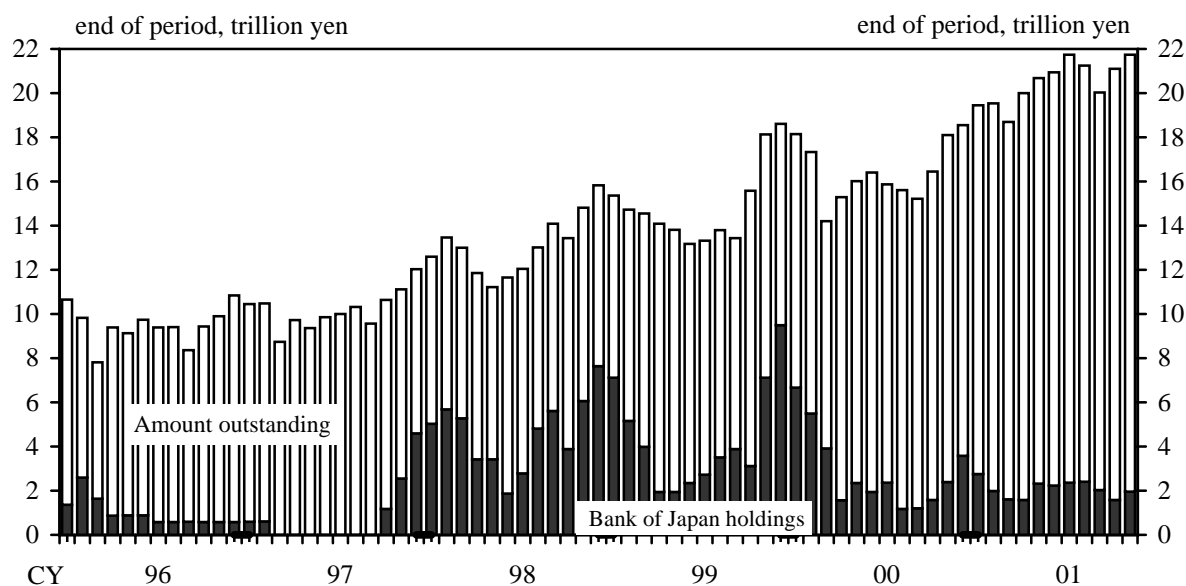
2. "Domestic commercial banks" refers to member banks of the Japanese Bankers Association, which consists of city banks, long-term credit banks, trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), the member banks of the Regional Banks Association of Japan (regional banks) and the member banks of the Second Association of Regional Banks (regional banks II).

3. Adjusted to exclude

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

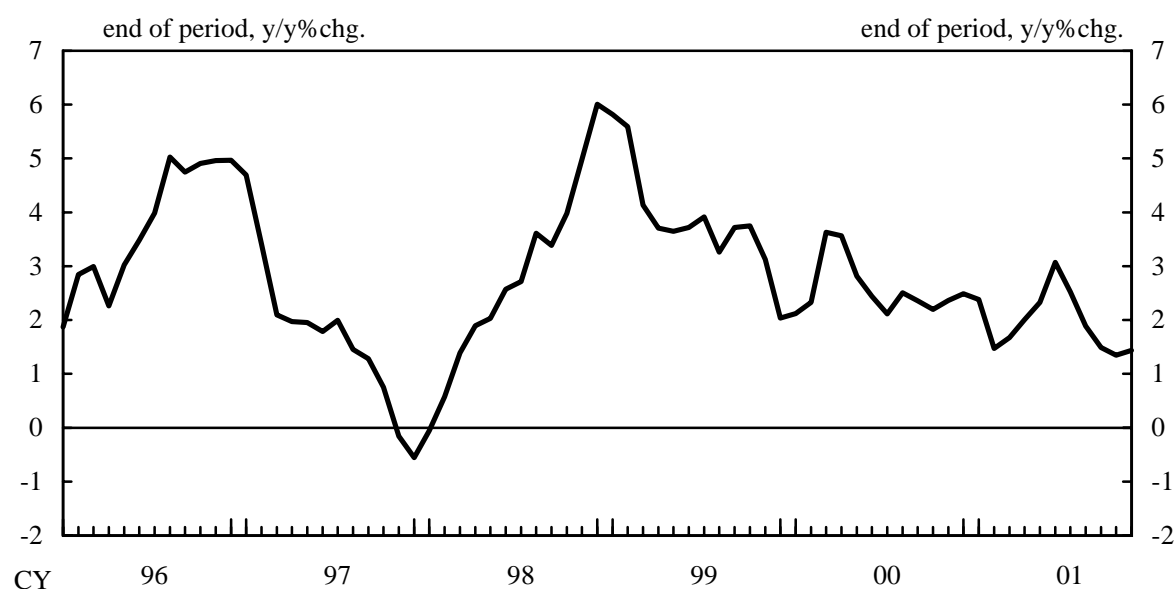
Source: Bank of Japan, "Principal Figures of Financial Institutions."

## Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper <sup>1</sup>(2) Issue Volume of Corporate Bonds <sup>2</sup>

(100 million yen)

	2001/Q1	Q2	Q3	2001/Sep.	Oct.	Nov.
Volume	22,009	35,222	20,214	10,513	4,645	11,585
(previous year)	(24,121)	(21,627)	(25,985)	(11,065)	(6,062)	(6,793)

(3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier) <sup>2,3</sup>

Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.

Excludes those issued by banks.

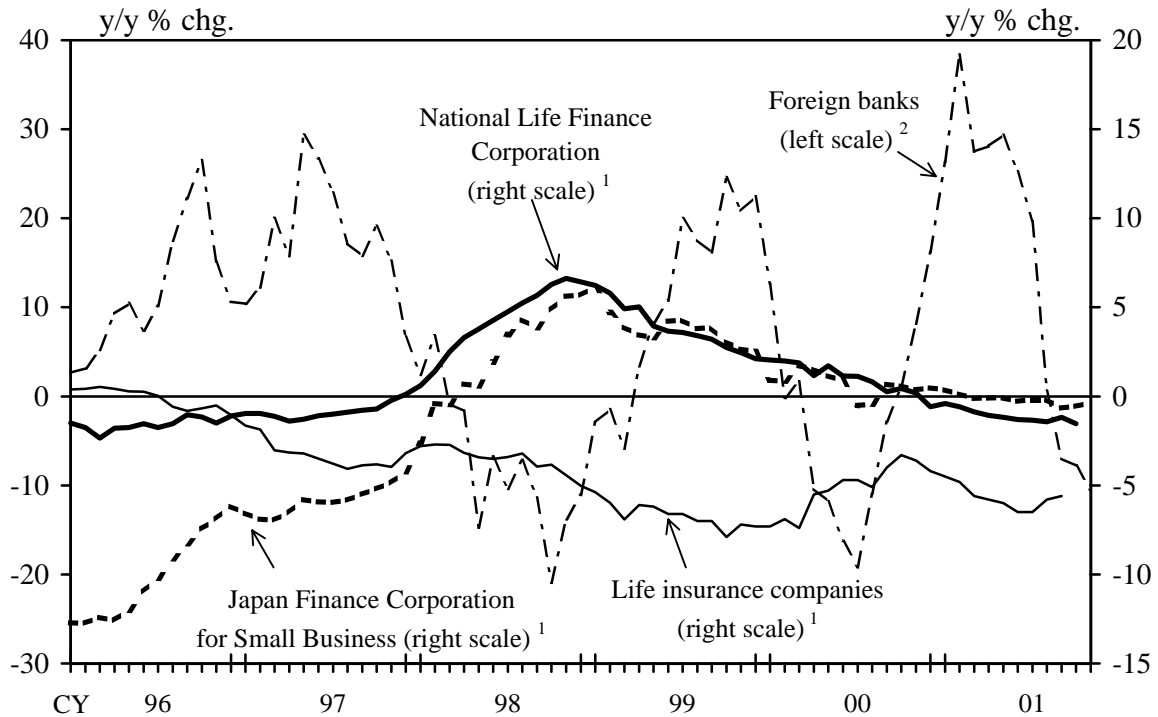
2. Includes straight bonds, convertible bonds, and bonds with warrants.

3. Estimated by the Bank of Japan.

Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Bond Review"; IN Information Center, "Funding Eye."

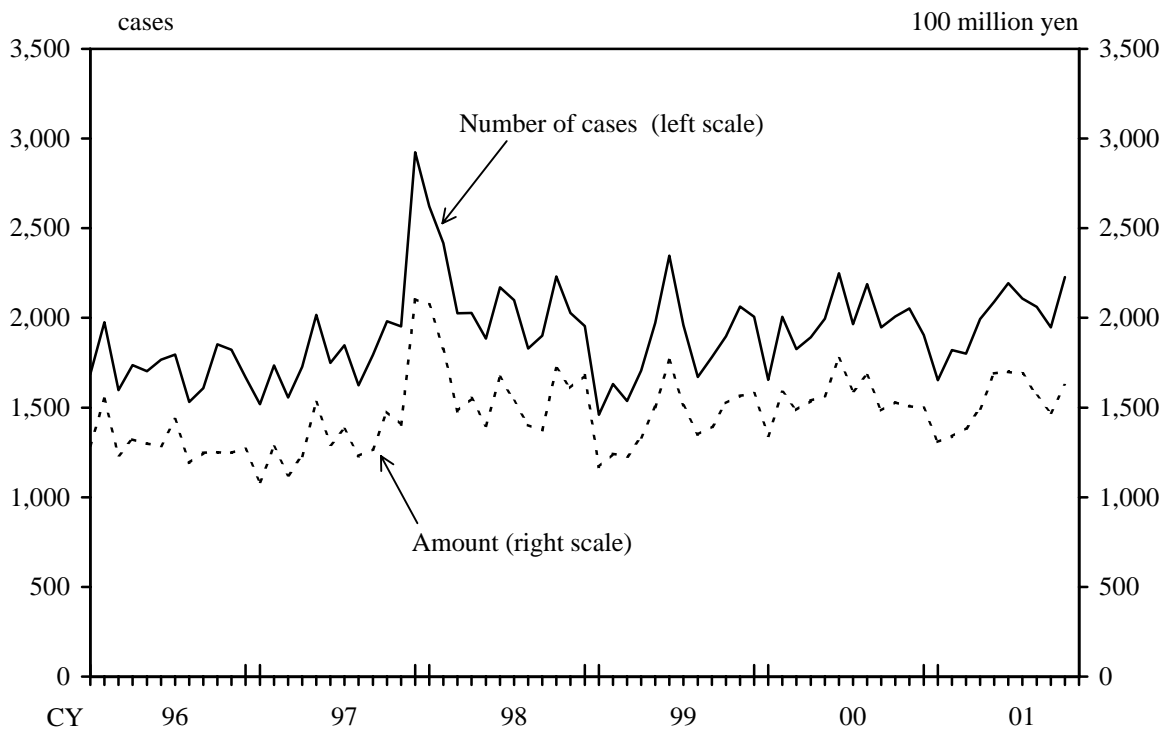
Lending by Other Financial Institutions

(1) Lending Outstanding



Notes: 1. Data are based on amounts outstanding at end of period.  
 2. Data are based on average amounts outstanding.

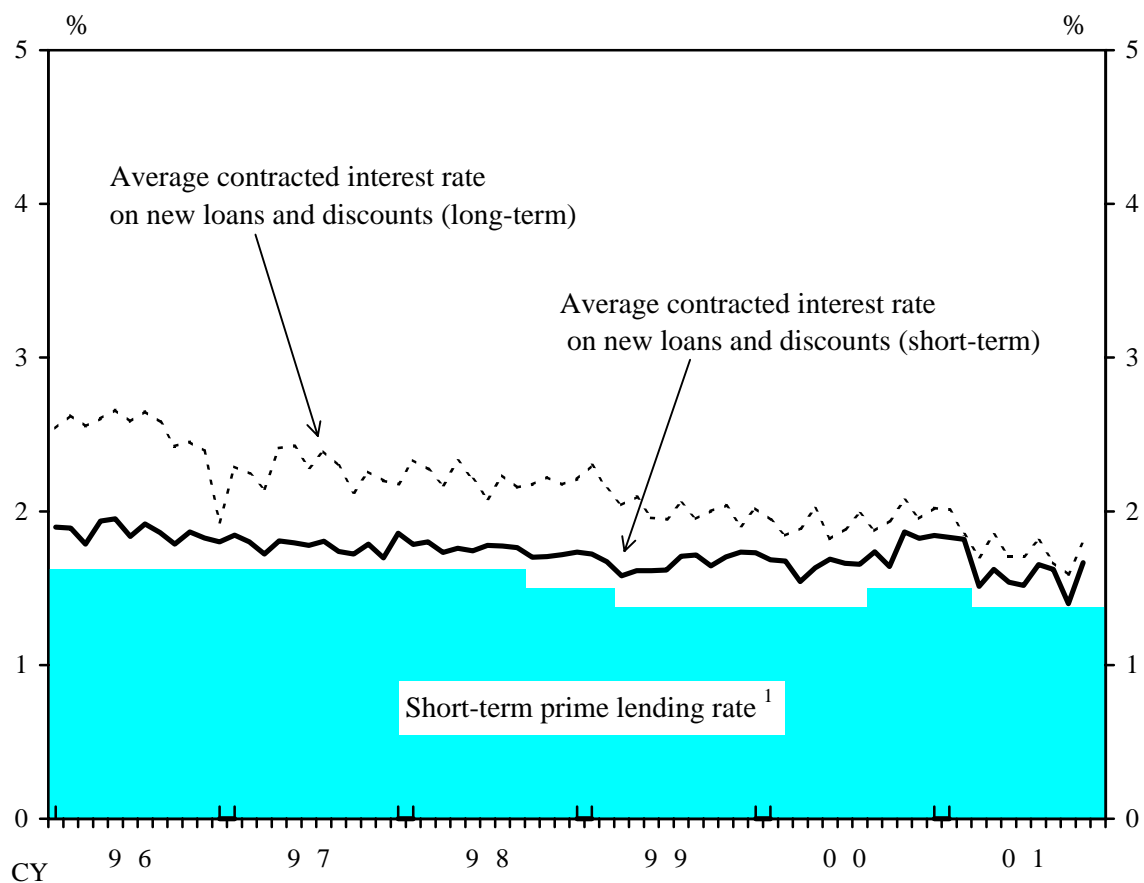
(2) Application for a Loan from Japan Finance Corporation for Small Business



Sources: Bank of Japan, "Financial and Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."



Lending Rates

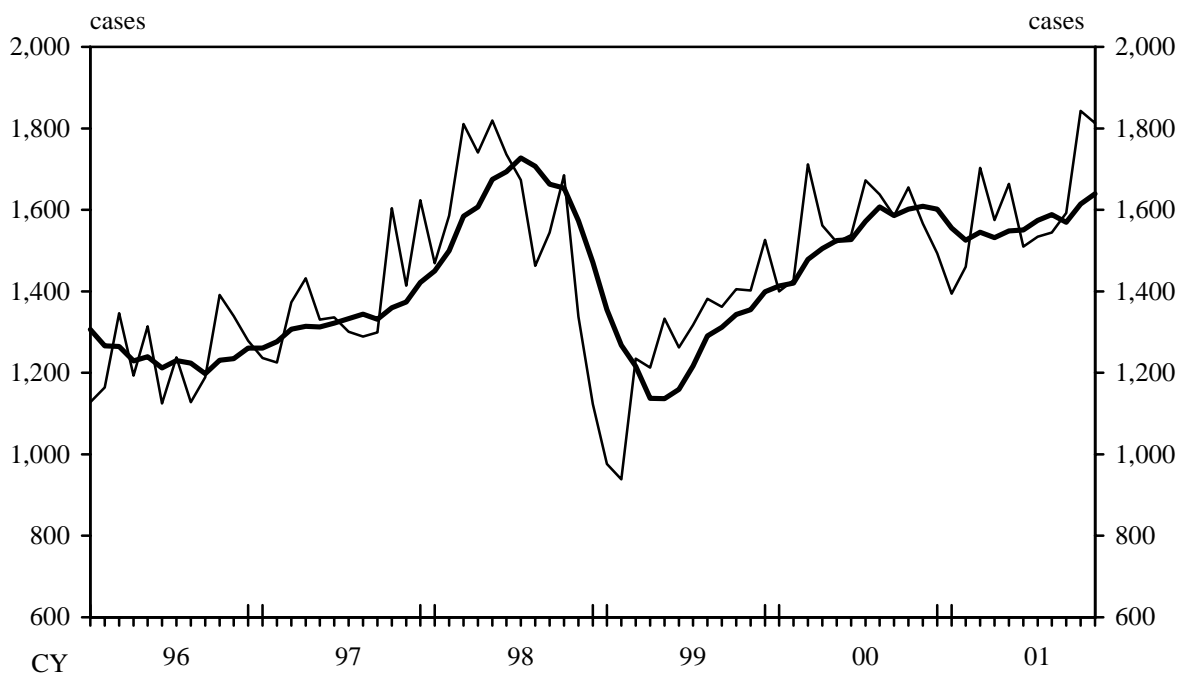


Note: 1. Data are at end of period.

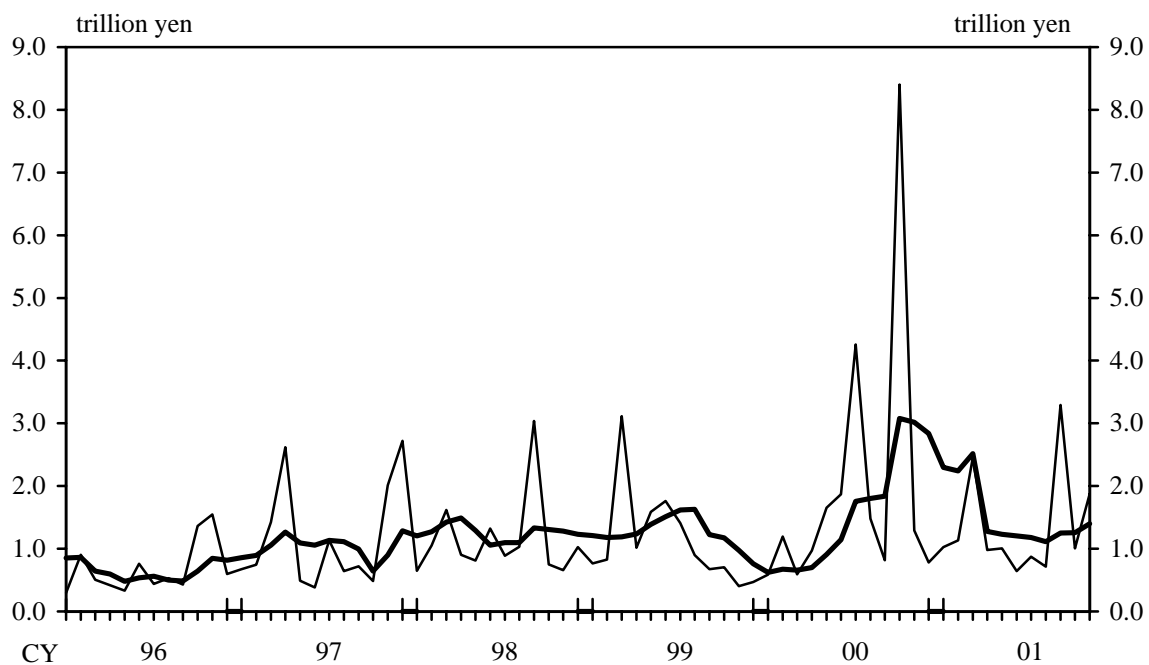
Source: Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



Note: The bold line is the six-month moving average.

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