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Bank of Japan

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

May 2002

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

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

The pace of deterioration in Japan's economy has moderated, with production starting to pick up reflecting the increase in exports and progress in inventory adjustment.

With regard to final demand, business fixed investment continues to decrease and private consumption remains weak. Moreover, housing investment remains sluggish and public investment is on a downtrend. Meanwhile, net exports (real exports minus real imports) are increasing due to the recovery in overseas economies.

Industrial production is starting to pick up, reflecting the increase in exports and also the further progress in inventory adjustment as a whole. However, firms are maintaining their stance on reducing personnel expenses given persistently strong excessiveness in employment. Therefore, employment and income conditions of households continue to worsen, reflecting the decrease in the number of employees and the faster pace of decline in wages.

Turning to the outlook, with respect to domestic demand, business fixed investment is expected to follow a downtrend for a while, judged mainly from leading indicators and firms' investment plans. Private consumption is also likely to remain lackluster mainly due to worsening employment and income conditions. In addition, government spending is basically projected to continue a downward trend.

Meanwhile, as for exporting conditions, overseas economies, especially in the U.S. and East Asia, are likely to follow a recovery path. The worldwide inventory adjustment in IT-related goods has come to an end except for some goods such as

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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 May 20 and 21, 2002.

<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 May 20 and 21 as the basis for monetary policy decisions.

networking equipment. Moreover, the yen is still lower than where it was last autumn. Under these circumstances, exports are projected to continue a moderate recovery. Industrial production is likely to follow a gradual uptrend supported by the increase in exports and also by the progress in inventory adjustment. This increase in production will help corporate profits to recover, particularly in the manufacturing sector, and is expected to gradually support domestic private demand such as business fixed investment.

Overall, Japan's economy is projected to stop deteriorating as a whole since an increase in exports and production will lead to an improvement in corporate profits and in turn, domestic private demand. However, in addition to the weak employment and income conditions, the pace of increase in exports and production is likely to remain modest on balance. Therefore, it will take a while for the positive effects, stemming from the developments in exports and production, to spread across the nonmanufacturing sector, small firms and households. With regard to the outlook for overseas economies, an essential element for exports, there are various uncertain factors including the U.S. economy, and the developments in crude oil prices and its effects on the global economy. Amid the persisting fragility and uncertainty of the economy, continuous attention should be still kept in mind that unstable movements in the foreign and domestic financial markets, including the foreign exchange market, would easily exert a negative influence on the economy.

On the price front, import prices continue to rise mainly due to higher crude oil prices. Domestic wholesale prices are almost flat recently since the decline in machinery prices and the reduction in electricity charges are offset against the increase in import prices and the effects of the progress in inventory adjustment. However, consumer prices and corporate service prices continue to decline.

As for the conditions surrounding price developments, past depreciation of the yen and the rise in crude oil prices are regarded as factors to support prices for the time being. However, since domestic demand is projected to remain weak for a time, the balance between supply and demand is expected to keep exerting downward pressure on prices. Furthermore, factors such as the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels

will restrain prices. In addition, the faster pace of decline in wages may also work as a factor to push prices downward, mainly in services prices which are sensitive to wage developments. Reflecting these factors, domestic wholesale prices, which tend to be greatly affected by the exchange rate and crude oil prices, are likely to be more or less flat for the time being. On the other hand, consumer prices are expected to stay on a gradual declining trend.

As for the financial market, in the short-term money markets, the outstanding balance of the current accounts at the Bank of Japan is recently moving around 15 trillion yen as the Bank continues to provide ample liquidity to the money market.

In these circumstances, the overnight call rate continues to move around zero percent. Moreover, interest rates on term instruments remain steady.

Yields on long-term government bonds are moving in the range of 1.3-1.4 percent recently. Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds are contracting slightly. However, spreads between bonds with low credit ratings and government bonds still remain wide.

Stock prices are level on the whole and are basically moving in the range of 11,000-12,000 yen.

In the foreign exchange market, the yen appreciated reflecting the overall downtrend in U.S. dollars due mainly to weak U.S. stock prices.

With regard to corporate finance, private banks are becoming 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 severe. In corporate bonds and CP markets, the issuing environment for firms with low credit ratings continues to be severe on the whole, but the environment for firms with high credit ratings is improving recently.

Credit demand in the private sector continues to follow a downtrend mainly because firms are decreasing their business fixed investment while continuously reducing their debts.

Amid these developments, private banks' lending continues to decline by about 2-3 percent on a year-on-year basis. The year-on-year growth rate of the amount outstanding of corporate bonds issued is decreasing somewhat. The year-on-year growth rate of the amount outstanding of CP issued continues to decline, although the amount is still well above the previous year's level.

The year-on-year growth rate of the monetary base in April increased further due partly to the continued high liquidity demand even after entering the new fiscal year, reflecting a system failure of a major bank group. The year-on-year growth rate of the money stock ( $M_2 + \text{CDs}$ ) remained around 3.5-4.0 percent.

Funding costs for firms continue to be at extremely low levels on the whole.

Overall, the recent financial environment remains extremely easy on the whole in terms of money market conditions. The deterioration in the financial position of firms is coming to a halt. However, the stance of investors toward firms with high credit risks remains severe and the lending attitudes of private banks are becoming more cautious. Hence, the developments in the behavior of financial institutions and corporate financing continue to require close monitoring.

## The Background

### 1. Japan's Economy

Public investment is on a downtrend. The value of public works contracted—a metric that reflects orders—remained sluggish, albeit with some fluctuations; the decrease in April followed the increase in March (Chart 2).<sup>3</sup> Moreover, various indicators reflecting the actual implementation of those works are also, on average, on a declining trend. The materialization of the supplementary budget for FY2001 is anticipated to underpin public investment for a while. However, judged from the large cutbacks in public-investment-related expenditures in the budget of both central and local governments for FY2002, public investment is basically expected to follow a declining trend.

Real exports are turning up, mainly owing to the recovery in overseas economies, especially in the U.S. and East Asia. Real exports increased considerably in the first quarter of 2002 after a substantial decline for four consecutive quarters last year (Chart 3[1]).<sup>4</sup> By type of goods (Chart 4), intermediate goods (iron and steel, and chemicals) and capital goods and parts (industrial machinery and semiconductor fabrication machines and equipment) increased, mainly to East Asia, such as China and South Korea. In addition, automobile-related goods continued to register an increase in exports, mainly to the U.S.,<sup>5</sup> where sales have been strong. Meanwhile, IT-related goods continued to fall, particularly in finished goods (optical fiber, telecommunications machinery, etc.), amid persistently sluggish IT-related

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<sup>3</sup> During the past few years, public orders related to the implementation of the supplementary budget tended to intensify at the end of the fiscal year. Comparing recent data with this trend, the value of public works contracted has been low. This is mainly because: (1) the scale of the supplementary budget of both the central and local governments has been shrinking since the peak in FY1998; and (2) for FY 2001, the second supplementary budget for the central government was passed relatively near the fiscal year-end.

<sup>4</sup> Figures for real exports and imports were retroactively revised this month as the final figures for 2001 in the trade statistics, compiled by the Ministry of Finance, were released and the seasonal adjustment method was changed from X-11 to X-12-ARIMA by the Bank of Japan.

<sup>5</sup> As for the developments in U.S. automobile sales (Chart 7-2[3]), sales increased conspicuously after the terrorist attacks due to large-scale incentive sales implemented by vehicle makers. Although a substantial decrease in sales in reaction to the prior surge was an initial concern thereafter, sales have actually remained firm. In addition, market share by sales in the U.S. market of imported automobiles has been on a rising trend. Thus, the environment surrounding automobile exports to the U.S. remains favorable on the whole.

investment abroad (Chart 5[1]). However, IT-related exports of the NIEs have already rebounded (Chart 5[2]); based on information from domestic firms, orders such as for electronic parts from overseas seem to be clearly picking up.<sup>6</sup> Considering this entire environment, IT-related exports from Japan are likely to start turning up in the near future.

Real imports continue to decline, mainly reflecting weak domestic demand. Real imports in the first quarter fell for five consecutive quarters (Chart 3[1]). By type of goods (Chart 6), capital goods and parts (excluding airplanes) continued to decrease against the background of the decline in business fixed investment. Moreover, consumer goods showed a sizable decline amid sluggish private consumption due to the effects of past depreciation of the yen and also in reaction to the increase in textile products from China in the fourth quarter. On the other hand, IT-related goods rose for the first time since the fourth quarter of 2000, mainly in personal computers, and electronic parts such as semiconductors whose inventory adjustment has progressed (Chart 5[3]).

Net exports (real exports minus real imports), in terms of the real trade balance (Chart 3[2]),<sup>7</sup> turned up in the first quarter, reflecting the developments in real exports and imports mentioned above. The surplus of the nominal balance on goods and services had been expanding earlier than net exports, reflecting the developments in crude oil prices and in the balance of travel services, and the expansion continued during the first quarter mainly from the developments in real exports and imports explained above.

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<sup>6</sup> Looking at exporting conditions in electronic parts such as semiconductors, which account for nearly half of IT-related exports in Japan, global semiconductor shipments in the first quarter increased notably (Chart 5[2]).

<sup>7</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, while net exports of GDP statistics are on an ownership-transfer basis and include trade in services.)

Regarding the environment for foreign trade from now on (Chart7), overseas economies especially in the U.S. and East Asia, are likely to follow a recovery path.<sup>8</sup> The worldwide inventory adjustment in IT-related goods from the start of last year has come to an end, except for some goods such as networking equipment. In addition, the real effective exchange rate of the yen is still lower than where it was last autumn.<sup>9</sup> As for the U.S. economy (Chart 7-2), it is true that real GDP growth accelerated in the first quarter, but this was largely attributed to inventory investment, which had continued substantial liquidation until the previous quarter. Rather, a retrenchment in capital spending has been ongoing. Thus, uncertain factors still remain regarding future developments in U.S. final demand. The developments in crude oil prices and its effects on the global economy are difficult to judge at present. In these circumstances, U.S. stocks and the U.S. dollar have recently been weak on average.

Overall, exports are projected to stay on a recovery path, mainly due to the rebound in economic activity abroad and to the effects from past depreciation of the yen. Yet, the recent strength in exports seems to be momentarily bolstered to some extent by the accumulation in inventories overseas. Hence, the pace of future recovery in exports is likely to become somewhat slower in conjunction with overseas final demand hereafter. On the other hand, while domestic demand is projected to be weak, imports are expected to stop declining gradually in the future, judged from the upturn in imports of IT-related goods and from the uptrend in production as explained below. Reflecting these developments in exports and imports, net exports are expected to follow a gradual rising trend for the time being.

Business fixed investment continues to decrease amid persistently strong excessiveness in the production capacities of firms and uncertainty regarding the

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<sup>8</sup> According to the latest *World Economic Outlook* published by the IMF, projections for the growth rate of the world economy in 2002 were revised upward to +2.8 percent compared to last December (the estimate at that time: +2.4 percent). However, the growth rate remains rather low compared to years 1999 (+3.6 percent) and 2000 (+4.7 percent).

<sup>9</sup> According to the March 2002 *Tankan*, business plans for FY2002 of large manufacturing firms were fixed, assuming the yen rate per US dollar to be 121.71. Moreover, “*Kigyō Kōdō ni Kansuru Ankeito Chōsa* (Questionnaire on Corporate Behavior; surveyed in January 2002)” conducted by the Cabinet Office showed that the profitability rate for exporting firms was 115.3 yen. The recent yen rate vis-à-vis the US dollar is still low compared to these levels.



outlook for domestic demand. The current machinery investment judged by aggregate supply of capital goods (excluding transport equipment) stays on a declining trend (Chart 8-1[1]).<sup>10</sup> Machinery orders (private demand, excluding shipbuilding and electric power equipment)—a leading indicator of machinery investment—declined substantially in the first quarter, following the fall in both the third and fourth quarters of 2001 (Chart 8-2[1]).<sup>11</sup> Manufacturing increased somewhat partly in reaction to the significant decrease in the fourth quarter; on the other hand, nonmanufacturing dropped sharply in the first quarter. Construction starts (private, nondwelling use), another leading indicator for business fixed investment, fell again in the first quarter after a rise in the third and fourth quarters, when large-scale construction starts related to real estate (urban redevelopment) as well as to public utilities (electricity and transportation etc.) were implemented (Chart 8-2 [2]).

Turning to the outlook, business fixed investment is likely to follow a downtrend for a while, judged mainly from the leading indicators explained above and from the investment plans of firms.

Private consumption remains weak, against the background of worsening employment and income conditions. With regard to sales indicators (Charts 9-1 and 9-2), passenger car sales remained firm mainly for small-sized cars, bolstered by the introduction of new models. The underlying trend for sales of household electrical appliances—those were still sluggish on average—remained unchanged, even though sales of personal computers and audio-visual equipment showed movements of a slight pick-up. Department store sales have recently been weak with monthly

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<sup>10</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 8-1(1) and 9-4 show the developments in aggregate supply of capital goods (excluding transport equipment) and consumer goods. The most recent figures (first quarter of 2002) are calculated by the Bank of Japan using indices of industrial shipments and real imports and exports.

<sup>11</sup> Machinery orders (private demand excluding shipbuilding and electric power equipment) in the second quarter, surveyed as of the end of March, are projected to remain at almost the same level as in the first quarter (-0.3 percent on a quarter-to-quarter basis). However, despite the fact that projections for the first quarter surveyed as of December had been almost flat, the actual figures declined substantially. Based on this fact, it is possible for the actual figures in the second quarter to be below current projections.

fluctuations, despite the rebound in March mainly in clothes owing to relatively warm weather. In addition, supermarket sales also continued to be sluggish. Outlays for travel have rebounded gradually, but remained well below the level prior to the terrorist attacks in the U.S. The indices of aggregated sales (Chart 9-3)<sup>12</sup>—which are mainly composed of the above indicators—inched up from the slump in the fourth quarter, but remained rather weak on the whole with the year-to-year change moving around zero. The level of aggregate supply of consumer goods was persistently below that of the previous year (Chart 9-4). According to the latest confidence indicators (Chart 10[1]), it is true that consumer sentiment seemingly stopped deteriorating further, but consumers remained cautious.<sup>13</sup> Private consumption is likely to be lackluster, since employment and income conditions continue to be harsh, as described below.

Housing investment remains sluggish, with some fluctuations (Chart 11). Construction starts in the first quarter were basically flat. Housing investment as a whole is likely to remain stagnant for the time being amid the ongoing severe employment and income conditions of households, even though large condominiums in the city area are expected to contribute as an underpinning factor.

All told, final demand overall is still weak, but industrial production is starting to pick up, reflecting the increase in exports and progress in inventory adjustment (Chart 12). By industry, production reductions in some materials, such as chemicals, pulp and paper, continued. On the other hand, the production of iron and steel among materials, of which exports continue to increase, have started to rise. Moreover, electrical machinery, which is largely comprised of IT-related goods, showed an increase, and transportation equipment (automobiles), which underwent

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<sup>12</sup> While each sales indicator shows different movements, the indices of aggregated sales are compiled by adding the weights of various sales indicators (including a few indicators for services consumption) to grasp the consumption trend from the supply side. For the detailed calculation method, see notes in Chart 9-3.

<sup>13</sup> For example, the consumer confidence index in March improved slightly, particularly in items regarding “employment conditions” (Chart 10[2]). Looking at the responding ratio in detail for “employment conditions” for the next six months, those answering “will deteriorate” decreased, while those answering “unchanged” have increased instead. This indicates that although the anxiety among consumers toward a further severity in employment conditions has eased somewhat, consumers still basically believe that this severe situation will continue for a while.

production cutbacks in the fourth quarter, also increased again. As for inventories (Chart 13), the adjustment has progressed further as a whole, in line with the gradual recovery in shipments, mainly for exports. Particularly, inventory adjustment in producer goods for electrical machinery (electronic parts, etc.) has apparently been completed. Also, that in other producer goods (mainly materials) has progressed sizably, especially for iron and steel, and chemicals, exports of which are increasing. Judged from the outlook for future exports explained before and these inventory conditions, industrial production is expected to follow a gradual rising trend hereafter.<sup>14</sup>

With regard to employment and income conditions, household income continues to weaken, reflected in the faster pace of decline in wages amid the easing supply-demand conditions in the labor market (Chart 14). Among labor-market-related indicators (Chart 15), the unemployment rate inched down in the first quarter after the clear rise in the fourth quarter, but still remained high. The decline in the unemployment rate in the first quarter is largely attributed statistically to the increase in the number of discouraged workers, who give up job-searching. Moreover, among the unemployed, the number of those involuntarily unemployed has been on a rising trend since the latter half of last year and the year-to-year decrease in the number of the employed, comprised of employees and self-employed workers and their family workers, also continued. Meanwhile, the ratio of job offers to applicants remained at low levels. It is true that there seemed to have been some slight positive changes such as in new job offers in manufacturing as well as overtime hours, reflecting the rebound in production mentioned above. The excessiveness of employment among firms persists, however, and the stance of firms on reducing personnel expenses is unlikely to be eased noticeably in the near future.

Nominal wages per employee tend to decline at a faster pace as a result of firms' intentions to cut personnel expenses. In detail, special payments (bonuses), which tend to be greatly affected by corporate profits, were basically decreasing

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<sup>14</sup> Based on information from firms, production in the second quarter is projected to increase substantially. This, however, is partly attributed to the momentary strength in recent exports explained above. Considering that firms maintain cautious views toward future domestic demand, the increase in production is expected to remain modest on average.

significantly; regular wages also continued to decline, owing mainly to the rise in the ratio of part-time workers. The base-pay hike this spring was noticeably restrained,<sup>15</sup> and firms' intentions to revise the compensation scheme, including the annual pay rise, were observed. Judged from these developments in employment and wages, compensation of employees is expected to continue a distinct decrease for the time being.

## 2. Prices

Import prices on a yen basis continue to rise compared to levels three months earlier, mainly as a result of higher crude oil prices since early spring (Chart 17).

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates; Chart 18)<sup>16</sup> are almost flat recently, but inched up in April compared to three months earlier after a relatively long time. In detail, machinery prices declined at a faster pace once again due to the effects of a drop in the prices of integrated circuits. Also, the reduction in electricity charges contributed to pushing the price downward. The substantial rise in petroleum product prices, which was influenced by the increase in crude oil prices, was the main reason why domestic wholesale prices rose in April. In addition, prices of iron and steel continued to increase against the background of the progress in inventory adjustment.

Corporate service prices continue to decrease. Compared to three months earlier, the rate of decline in corporate service prices (domestic supply-demand factors; Chart 19) seemed to be contracting. However, this was due to factors not necessarily related to supply and demand conditions in corporate services; that is, the smaller decline in prices of leasing and rentals owing to the rise in the long-term

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<sup>15</sup> According to a survey conducted by the *Nihon Keizai Shimbun Inc.*, the average wage this spring increased by 1.64 percent, which was below the previous year (+1.91 percent) and also the lowest level recorded since the survey had been compiled.

<sup>16</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.

prime lending rate contributed to these developments.<sup>17</sup> Rather, in March, in addition to the decline in real estate services, prices for building cleaning services and security services also fell. This indicates that firms are intensifying their efforts toward reducing business expenses.

Consumer prices continue to decline. In March, consumer prices (excluding fresh food) declined at a slower pace compared to levels three months earlier (Chart 20). This was because the decrease in prices of petroleum products (gasoline) contracted and because prices of general services, mainly in those of eating out, inched up. Meanwhile, clothes and durable consumer goods continued to decrease. The overall year-to-year rate of decline in March (excluding fresh food) was essentially unchanged (the year-to-year change was -0.8 percent in January, -0.8 percent in February, and -0.7 percent in March<sup>18</sup>) and the decline in prices of goods remained profound. With respect to the data of goods in more detail (Chart 21[1]), goods of imported products and their substitutes showed a relatively large decline, but the pace has contracted slightly. This may possibly be due to the effects from the slowdown in the pace of increase in imports of consumer goods amid past weak yen (Chart 21[2]).

As for the conditions surrounding price developments, past depreciation of the yen and the rise in crude oil prices are regarded as factors to support prices for the time being. However, since domestic demand is projected to remain weak for a time, the balance between supply and demand is expected to keep exerting downward pressure on prices. Furthermore, factors such as the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels will restrain prices. In addition, the faster pace of decline in wages may also work as a factor to push prices downward, mainly in services, prices of which are sensitive to

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<sup>17</sup> “Domestic supply-demand factors” of corporate service prices are compiled by removing the following items from the overall CSPI: (1) regulated fees, (2) overseas factors, and (3) fees with a large monthly fluctuation (for the detailed calculation, see the note in Chart 19). Hence, although the developments reflecting domestic private demand can be well grasped to some extent, they still include fluctuations that do not necessarily reflect supply-demand conditions in services among firms.

<sup>18</sup> The rate of decline of consumer prices including fresh food recorded a slight contraction, but still remains larger than that of prices excluding them. (The year-to-year change was -1.4

wage developments. Reflecting these factors, domestic wholesale prices, which tend to be greatly affected by the exchange rate and crude oil prices, are likely to be more or less flat for the time being. On the other hand, consumer prices are expected to stay on a gradual declining trend.

### **3. Financial Developments**

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

In the short-term money market, the outstanding balance of the current accounts at the Bank of Japan was around 20 trillion yen in April, as the Bank continued to provide further ample liquidity to the money market in reaction to the continued high liquidity demand, reflecting a system failure of a major bank group. Thereafter, as the Bank continues to provide ample liquidity, the outstanding balance of the current accounts at the Bank of Japan is recently moving at about 15 trillion yen since the system failure was solved and hence liquidity demand decreased (Chart 24).

As for interest rate developments in short-term money markets (Charts 22[1] and 23), in these circumstances the overnight call rate (uncollateralized; Chart 22[1]) is moving around zero percent. As for the developments in interest rates on term instruments (Chart 23), three-month Euro-yen rates (TIBOR) are steady and continue to be at low levels.

Yields on ten-year government bonds (newly issued 10-year JGB; Chart 22[2]) edged down, reflecting increasing intentions of investors such as banks to purchase the bonds, and are moving in the range of 1.3-1.4 percent recently. Moreover, the yield spreads between government bonds and private bonds (bank bonds and corporate bonds; Charts 28 and 29) tend to contract, as institutional investors are gradually increasing corporate bond investment. The yield spreads between bonds with low credit ratings and government bonds, however, remain wide.

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percent in January, -1.6 percent in February, and -1.2 percent in March.) This is because of the large decline in fresh food prices on a year-to-year basis (-12.1 percent in the first quarter).

Stock prices (Chart 30) are level on the whole, although prices continue to fluctuate due to weak U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 11,000-12,000 yen recently.

In the foreign exchange market (Chart 31), the yen appreciated, as the U.S. dollar had been weakening against major currencies mainly reflecting weak U.S. stock prices. The yen is currently being traded in the range of 125-127 yen to the U.S. dollar.

## **(2) Monetary Aggregates and Corporate Finance**

The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan; Chart 32) in April increased further owing to the sharp rise in the current account balances at the Bank of Japan due partly to the continued high liquidity demand even after entering the new fiscal year, reflecting a system failure of a major bank group, and due also to the continued higher growth of bank notes. (The year-on-year change was 27.5 percent in February, 32.6 percent in March, and 36.3 percent in April.)

The year-on-year growth rate of the money stock ( $M_2$  + CDs; Chart 33) remained around 3.5-4.0 percent. The rate declined slightly in April compared to the previous month. (The year-on-year change was 3.6 percent in February, 3.7 percent in March, and 3.6 percent in April.) Meanwhile, the year-on-year growth rate of  $M_1$  surged reflecting the increased preference for liquid assets. (The year-on-year change was 19.2 percent in February, 24.2 percent in March, and 32.6 percent in April.)

As for the lending attitudes of private financial institutions, financial institutions are becoming more cautious in extending loans to firms with high credit risks and charging a higher interest margin, 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 severe. In corporate bonds and CP markets, the issuing environment for firms with low credit ratings continues to be severe on the whole, but the environment for firms with high credit ratings is improving recently.

Credit demand in the private sector continues to follow a downtrend 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>19</sup> Chart 34), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, continues to decline by about 2-3 percent on a year-on-year basis. (The year-on-year change was –2.4 percent in February, –2.4 percent in March, and –2.8 percent in April.) The year-on-year growth rate of the amount outstanding of corporate bonds issued (Chart36) is decreasing somewhat. The year-on-year growth rate of the amount outstanding of CP issued continues to decline, 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. The average contracted interest rates on new loans and discounts (Chart 38) continued to be more or less unchanged. In the capital market, both corporate bond and CP issuance rates, mainly those with high credit ratings, recently start to decline. The spread between high and low credit ratings continues to be at high levels.

The number of corporate bankruptcies (Chart 39) is above that of the previous year.

Overall, the recent financial environment remains extremely easy on the whole in terms of money market conditions. The deterioration in the financial position of firms is coming to a halt. However, the stance of investors toward firms with credit risks remains severe and the lending attitudes of private banks are becoming more cautious. Hence, the developments in the behavior of financial institutions and corporate financing continue to require close monitoring.

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<sup>19</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.



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## Main Economic Indicators (1)

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

	2001/Q3	Q4	2002/Q1	2002/Jan.	Feb.	Mar.	Apr.
Index of living expenditure level (all households)	-0.1	0.6	1.7	6.3	-0.3	-1.2	n.a.
Sales at department stores	-1.2	0.1	-1.2	2.5	-5.1	3.5	n.a.
Sales at supermarkets	-0.5	-2.5	0.4	0.6	-1.2	-0.1	n.a.
New passenger-car registrations <sup>2</sup> <s.a., ann. 10,000 units>	< 308>	< 295>	< 304>	< 308>	< 303>	< 301>	< 313>
Sales of household electrical appliances (real, NEBA)	0.4	4.2	1.2	-2.9	1.2	6.9	n.a.
Outlays for travel (50 major travel agencies)	-3.1	-17.4	13.5	8.8	1.6	1.4	n.a.
Housing starts <s.a., ann. 10,000 units>	< 120>	< 117>	< 118>	< 125>	< 118>	< 111>	<n.a.>
Machinery orders (from private sector <sup>3</sup> )	-6.4	-7.5	-7.4	-10.9	6.3	-6.2	n.a.
Manufacturing	-9.7	-14.7	2.6	-2.2	3.9	10.9	n.a.
Nonmanufacturing <sup>3</sup>	-2.0	-5.7	-11.0	-13.9	7.3	-14.8	n.a.
Construction Starts (private, nonresidential use)	11.6	2.3	-13.7	-0.1	-16.8	-0.1	n.a.
Mining & manufacturing	-6.9	-16.1	-2.8	-1.7	17.2	6.0	n.a.
Nonmanufacturing <sup>4</sup>	18.4	5.8	-14.2	5.0	-24.8	-1.7	n.a.
Value of public works contracted	3.0	-2.8	-0.4	-1.4	-2.5	10.4	-9.8
Real exports	-3.9	-3.2	4.7	5.6	0.5	4.3	n.a.
Real imports	-3.1	-0.9	-1.9	-4.2	5.4	-1.9	n.a.
Industrial production	-4.3	-3.4	0.7	-0.1	1.2	0.8	n.a.
Shipments	-3.7	-3.5	1.2	0.3	1.2	0.9	n.a.
Inventories	-2.0	-3.3	-4.3	-1.4	-1.1	-2.0	n.a.
Inventories/shipments <s.a., 1995=100>	<114.9>	<115.0>	<108.9>	<109.3>	<110.8>	<108.9>	<n.a.>
Real GDP	-0.5	-1.2	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-1.7	-0.9	n.a.	-0.1	0.5	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2001/Q3	Q4	2002/Q1	2002/Jan.	Feb.	Mar.	Apr.
Ratio of job offers to applicants <s.a., times>	<0.59>	<0.53>	<0.51>	<0.51>	<0.50>	<0.51>	<n.a.>
Unemployment rate <s.a., %>	<5.11>	<5.43>	<5.28>	<5.29>	<5.31>	<5.24>	<n.a.>
Overtime working hours <sup>5</sup>	-5.5	-8.4	-5.7	-6.5	-5.4	-5.3	n.a.
Number of employees	0.0	-1.0	-1.1	-1.0	-1.4	-0.9	n.a.
Number of regular employees <sup>5</sup>	-0.2	-0.2	-0.4	-0.4	-0.3	-0.4	n.a.
Nominal wages per person <sup>5</sup>	-1.1	-2.5	-1.9	-4.0	-1.1	-0.7	n.a.
Domestic wholesale price index <q/q % chg.> (3-month growth rate)	-1.1 <-0.4>	-1.4 <-0.5>	-1.4 <-0.2>	-1.5 <-0.4>	-1.4 <-0.2>	-1.3 <-0.1>	-1.2 <0.1>
Consumer price index <sup>6</sup> <s.a., q/q % chg.> (3-month growth rate)	-0.8 <-0.2>	-0.8 <-0.2>	-0.8 <-0.1>	-0.8 <-0.2>	-0.8 <-0.2>	-0.7 <-0.1>	n.a. <n.a.>
Corporate service price index <sup>7</sup> <s.a., q/q % chg.> (3-month growth rate)	-1.3 <-0.2>	-1.4 <-0.3>	-1.4 <-0.2>	-1.5 <-0.3>	-1.4 <-0.1>	-1.3 <-0.2>	n.a. <n.a.>
Monetary aggregates (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	3.1	3.2	3.6	3.5	3.6	3.7	3.6
Number of suspension of transactions with banks	-8.5	5.9	3.5	10.5	13.6	-9.8	-7.1

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.

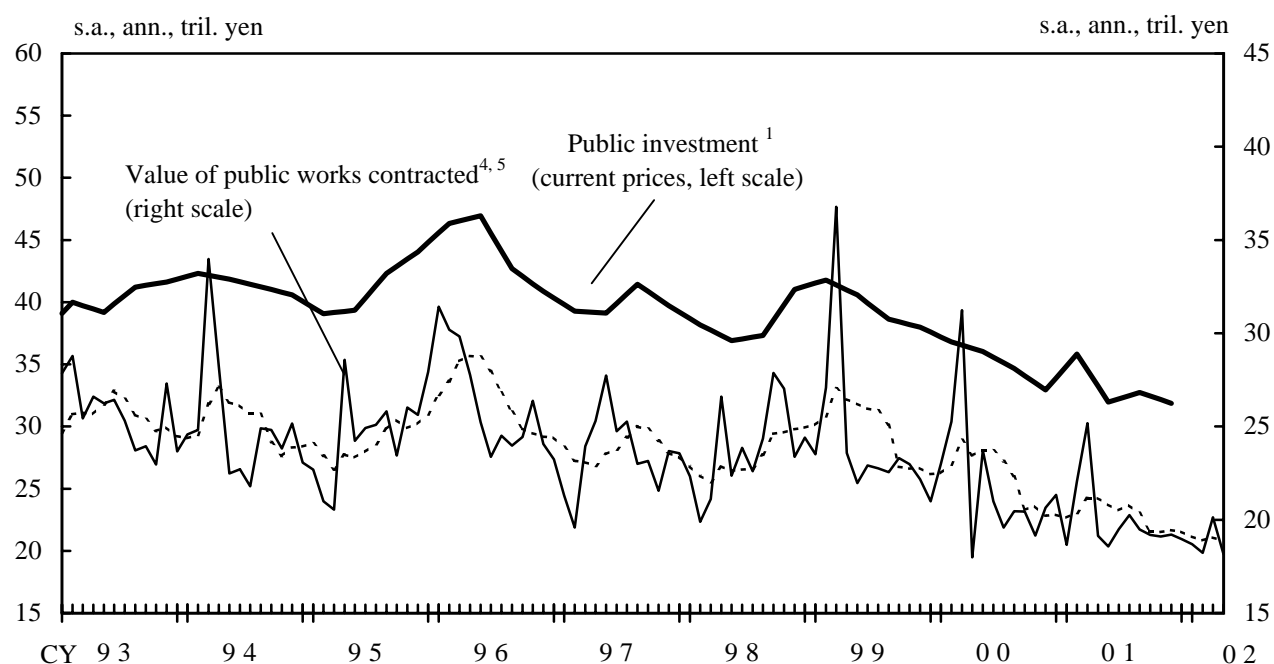
7. Domestic supply-demand factors.

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

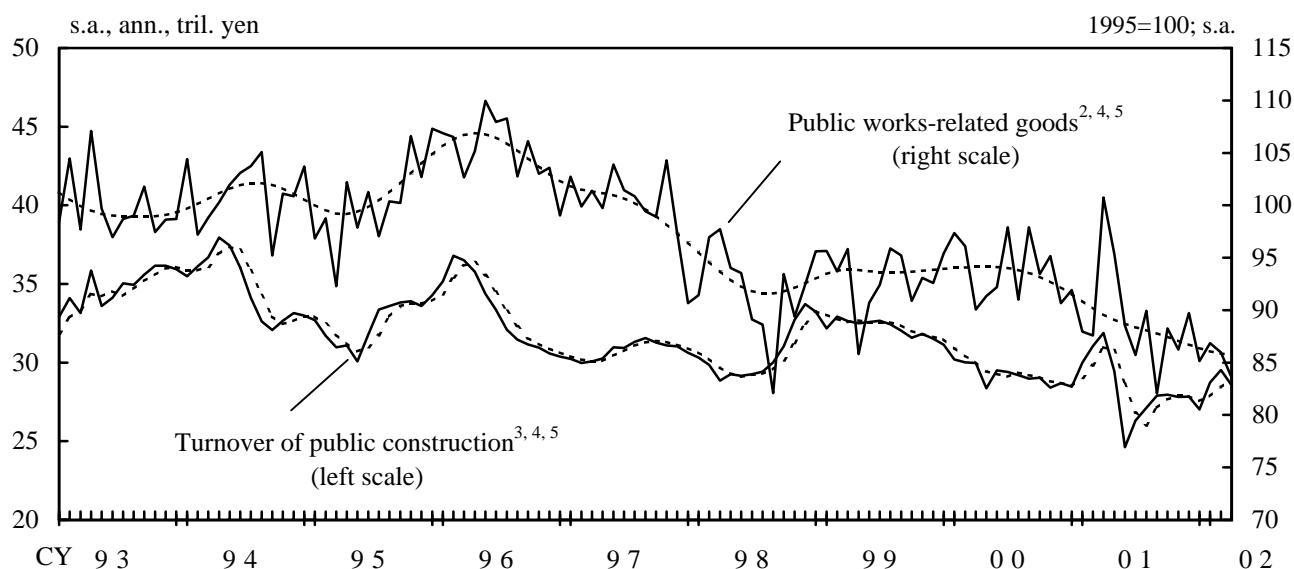
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices of Tertiary Industry Activity"; Japan 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 is seasonally adjusted by X-12-ARIMA and public works-related goods, and turnover of public construction are seasonally adjusted by X-12-ARIMA( $\beta$  version). As the figures of public works-related goods are seasonally adjusted on a monthly basis, the data are retroactively revised each month.

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";

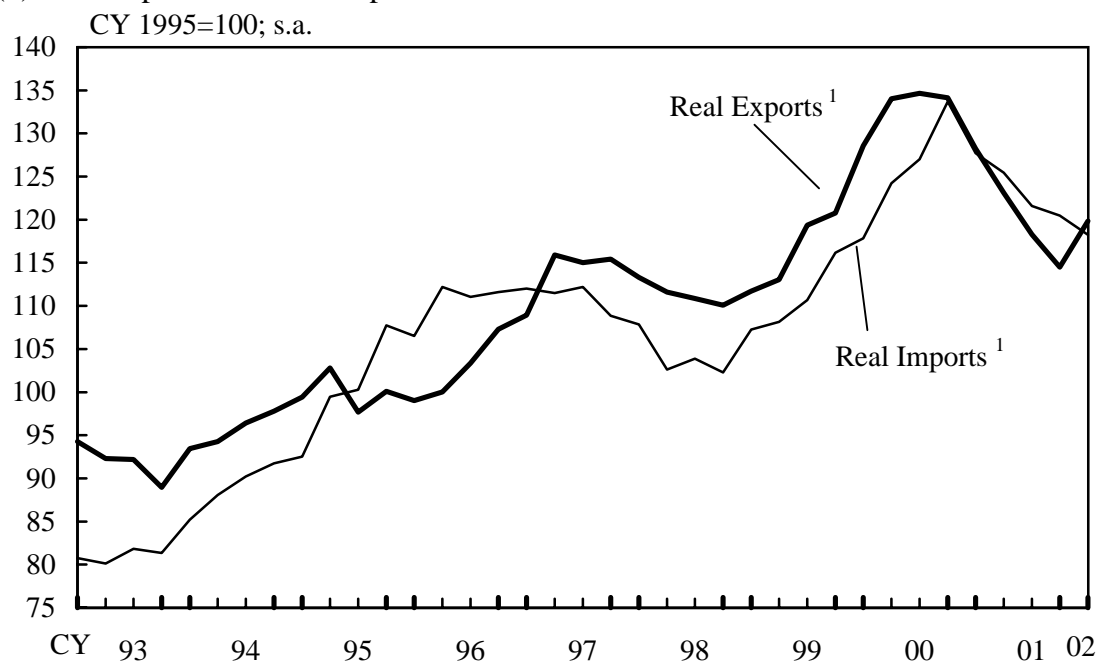
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";

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

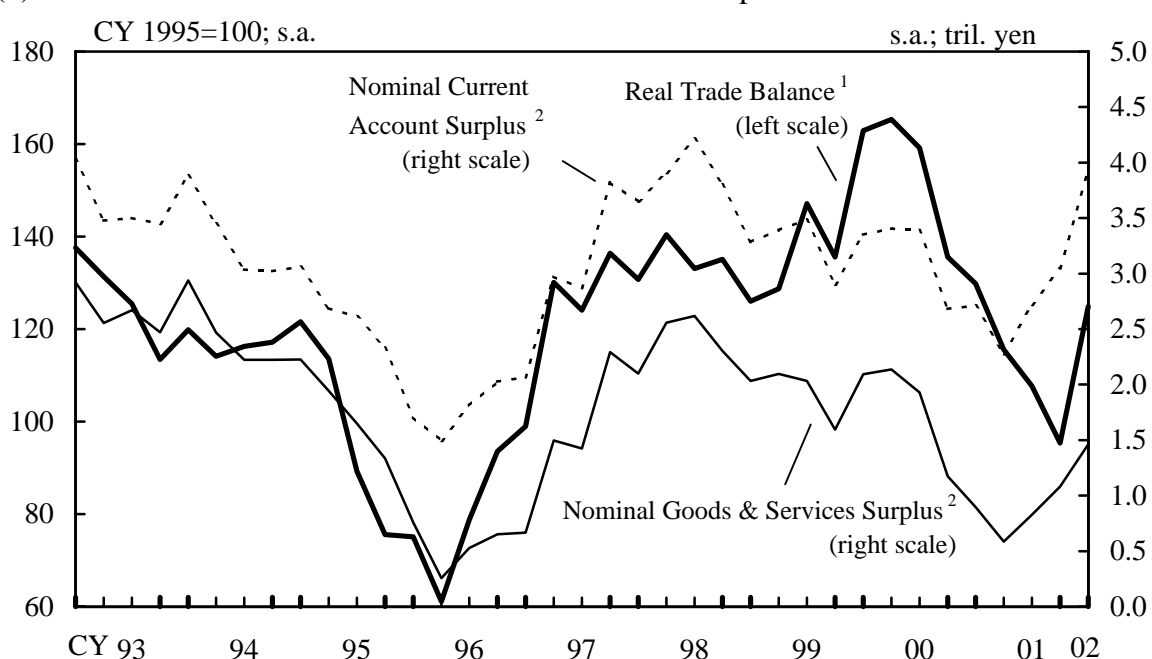
Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

## External Balance

## (1) Real Exports and Real Imports



## (2) Real Trade Balance and Nominal Current Account Surplus



Notes: 1. Figures for real exports and imports were retroactively revised this month as the figures for 2001 in the trade statistics, compiled by the Ministry of Finance, were revised and the seasonal adjustment method was changed from X-11 to X-12-ARIMA. In line with this, figures of real exports and imports on chart 4-1, 4-2, 5 and 6 are also revised retroactively.

2. Balance of payments data up to 1995/Q4 are old basis. Annual revision of seasonal factors is conducted by using data up to December 2001.

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

Real Exports (1) <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q1	Q2	Q3	2002 Q4	2002 Q1	2002 Jan.	Feb.	Mar.
United States	<30.0>	11.7	-8.5	-6.1	-5.3	-3.8	-3.7	4.3	3.4	4.0	3.4
EU	<15.9>	6.4	-10.9	-0.3	-7.6	-6.4	-0.8	-6.3	-4.0	1.1	3.3
East Asia	<38.7>	25.7	-9.7	-5.4	-5.0	-3.7	-1.1	7.4	11.9	-6.0	4.9
China	<7.7>	27.8	11.6	5.8	-1.2	-3.5	-0.5	17.8	35.3	-15.3	5.4
NIEs	<21.7>	25.8	-15.8	-9.4	-6.1	-3.4	-1.8	5.8	9.1	-5.5	6.5
Korea	<6.3>	30.4	-9.1	-4.3	-7.8	4.9	-1.5	2.7	2.4	4.7	1.4
Taiwan	<6.0>	22.5	-25.7	-16.6	-4.1	-11.1	4.3	6.7	6.6	-6.5	12.7
ASEAN4 <sup>3</sup>	<9.3>	24.0	-8.1	-3.5	-5.4	-4.6	-0.1	3.3	1.2	1.9	1.0
Thailand	<2.9>	19.0	-4.0	-4.8	-3.5	-0.8	-0.3	-1.6	-7.2	5.4	4.6
Real exports		14.1	-9.1	-4.4	-4.0	-3.9	-3.2	4.7	5.6	0.5	4.3

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q1	Q2	Q3	2002 Q4	2002 Q1	2002 Jan.	Feb.	Mar.
Intermediate goods	<14.7>	5.3	-3.5	-2.0	-3.7	0.1	2.1	5.6	8.9	-4.1	-1.1
Motor vehicles and their related goods	<22.1>	9.2	0.0	-4.2	2.0	2.0	1.1	5.8	1.4	7.7	5.5
Consumer goods <sup>4</sup>	<7.3>	13.0	-6.3	-4.8	-1.0	-1.6	-5.8	4.5	10.6	-1.2	9.7
IT-related goods <sup>5</sup>	<17.3>	25.2	-12.0	-5.1	-6.8	-7.5	-7.3	-5.9	-2.8	0.1	1.7
Capital goods and parts <sup>6</sup>	<27.5>	21.1	-14.9	-4.3	-8.9	-6.3	-5.0	6.1	5.5	0.6	5.9
Real exports		14.1	-9.1	-4.4	-4.0	-3.9	-3.2	4.7	5.6	0.5	4.3

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

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.

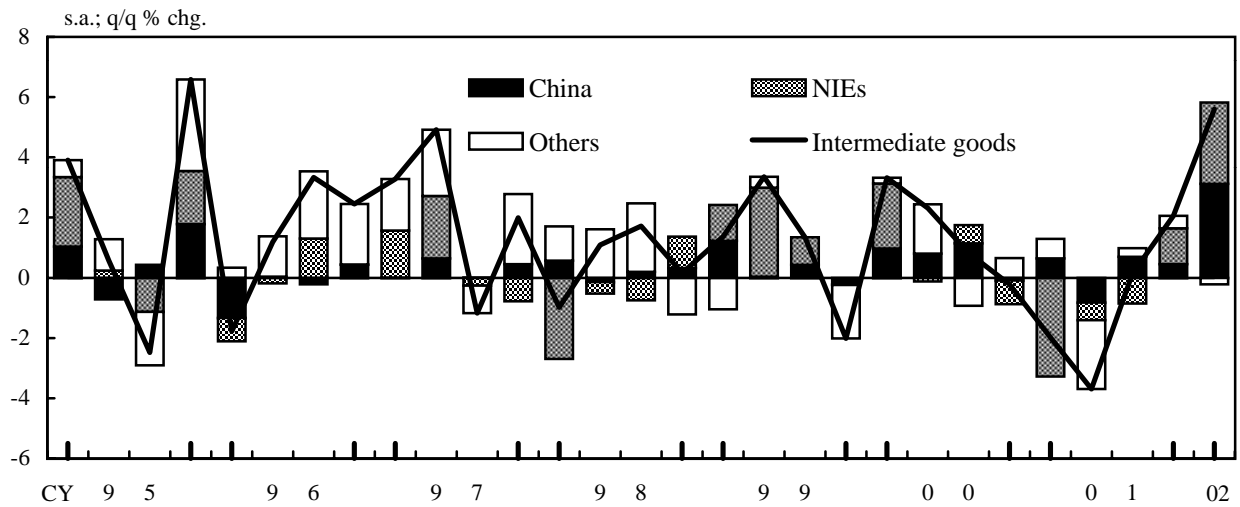
5. IT-related goods = automatic data processing machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

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

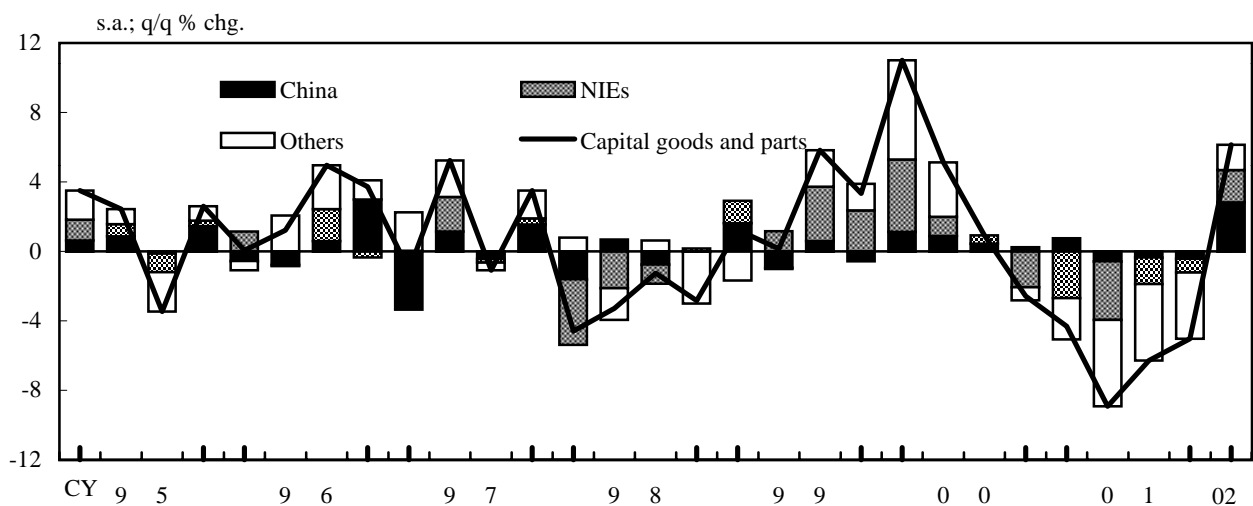
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Real Exports (2)

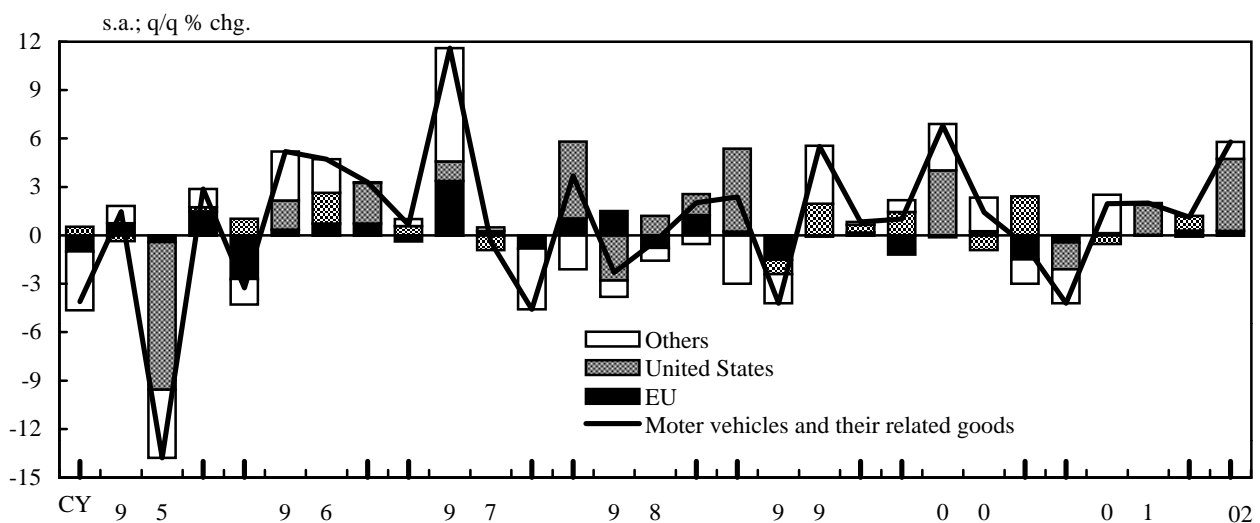
(1) Intermediate goods by region



(2) Capital goods and parts by region



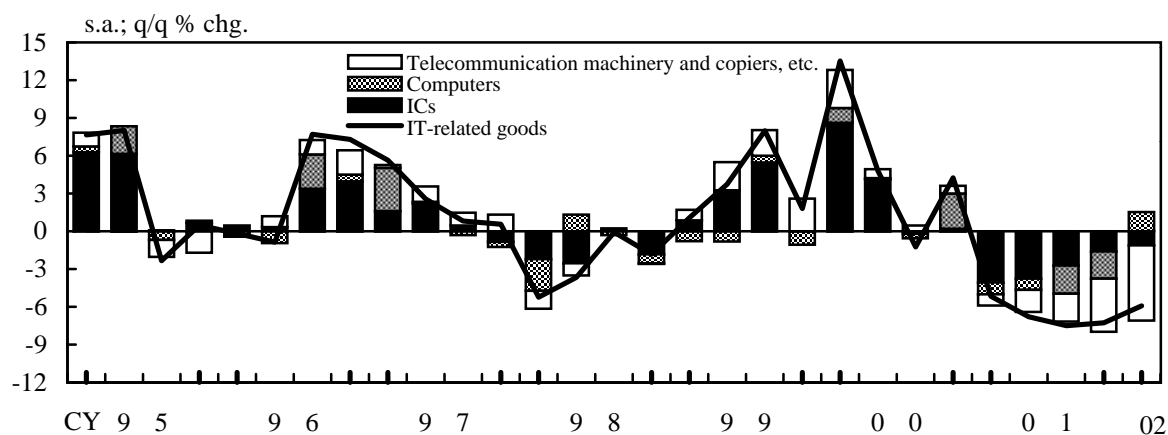
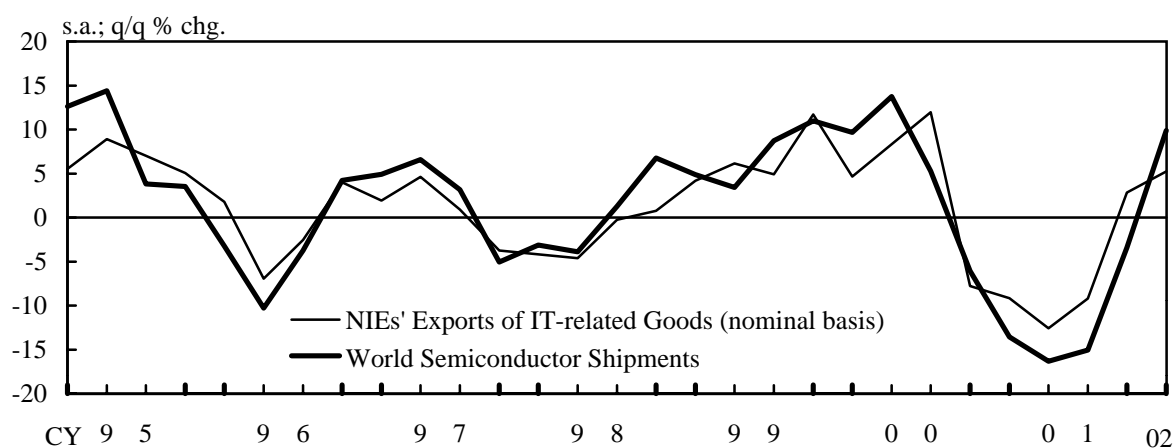
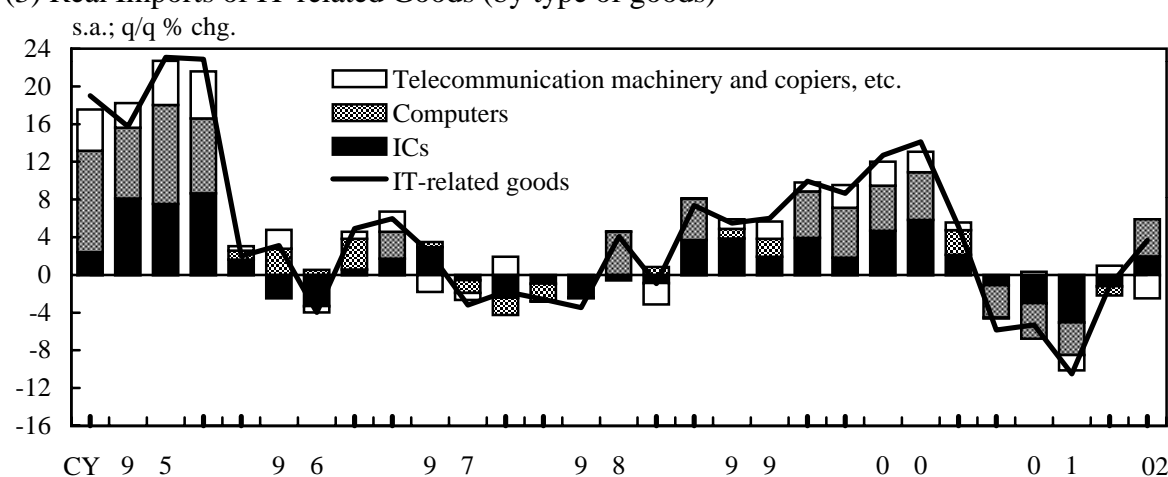
(3) Motor vehicles and their related goods by region



Note: Seasonally adjusted by X-12-ARIMA.

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

## Exports and Imports of IT-related goods

(1) Real Exports of IT-related Goods (by type of goods) <sup>1</sup>(2) World Semiconductor Shipments and NIEs' Exports of IT-related Goods <sup>2</sup>(3) Real Imports of IT-related Goods (by type of goods) <sup>1</sup>

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

2. Seasonally adjusted by X-11. World Semiconductor Shipments are on a real basis by U.S. PPI electronic devices. NIEs' exports of IT-related goods are the sum of Korea, Taiwan, and Singapore. Exports of IT-related goods of Korea include semi-conductors and information and communication's equipments, those of Taiwan include electronic products and information and communication products, and those of Singapore include machinery and transport equipments. Korea's exports for 2002/Q1 are Jan. -Feb. averages converted into quarterly amount.

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.



Real Imports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q1	Q2	Q3	Q4	2002 Q1	2002 Jan.	Feb.	Mar.
United States	<18.1>	7.9	-4.4	-8.0	-1.6	-6.5	-3.0	-1.5	-6.5	5.6	0.6
EU	<12.8>	8.5	3.5	-0.2	-3.0	-0.6	2.6	-6.4	-7.6	-2.0	3.0
East Asia	<40.3>	25.5	1.6	-4.2	-2.2	-3.9	-1.0	1.5	-4.0	10.5	-2.4
China	<16.6>	28.1	13.2	-1.3	2.9	-0.7	4.2	1.7	-8.7	18.1	-2.3
NIEs	<10.9>	28.4	-9.7	-7.0	-8.8	-7.6	-7.1	3.5	-0.3	7.0	-0.8
Korea	<4.9>	22.5	-7.8	-3.5	-6.2	-7.7	-7.0	-1.6	-5.5	8.4	1.0
Taiwan	<4.1>	43.6	-13.0	-10.2	-11.4	-10.6	-3.9	6.0	4.2	2.4	-1.3
ASEAN4 <sup>3</sup>	<12.7>	20.2	0.0	-4.5	-1.6	-4.3	-2.1	-0.3	-0.7	4.1	-3.8
Thailand	<3.0>	19.3	6.0	-5.8	4.0	-2.9	-0.5	-0.3	-4.3	1.5	4.8
Real imports		13.3	-1.1	-4.5	-1.8	-3.1	-0.9	-1.9	-4.2	5.4	-1.9

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q1	Q2	Q3	Q4	2002 Q1	2002 Jan.	Feb.	Mar.
Raw materials <sup>4</sup>	<26.2>	1.7	-5.1	-2.3	-2.5	-2.1	-2.6	-3.1	-1.6	5.3	-10.7
Intermediate goods	<12.9>	8.2	-0.2	-3.1	-2.9	-3.0	-0.5	-0.5	-0.3	-5.0	6.5
Foodstuffs	<12.4>	5.3	-1.6	-4.0	-0.4	-1.8	5.1	-4.5	-6.9	4.6	-5.3
Consumer goods	<11.2>	21.4	5.8	-5.6	4.0	-1.4	-0.2	-7.3	-12.6	12.0	-5.0
IT-related goods <sup>5</sup>	<14.8>	43.9	-2.4	-5.8	-5.3	-10.5	-1.1	5.0	-2.5	8.3	-0.2
Capital goods and parts <sup>6</sup>	<11.9>	12.4	3.2	-4.3	-1.6	-3.6	-3.4	0.5	-2.5	5.2	3.0
excluding aircraft		21.5	6.0	-2.7	0.2	-6.1	-1.1	-2.5	-9.2	8.4	3.2
Real imports		13.3	-1.1	-4.5	-1.8	-3.1	-0.9	-1.9	-4.2	5.4	-1.9

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

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

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

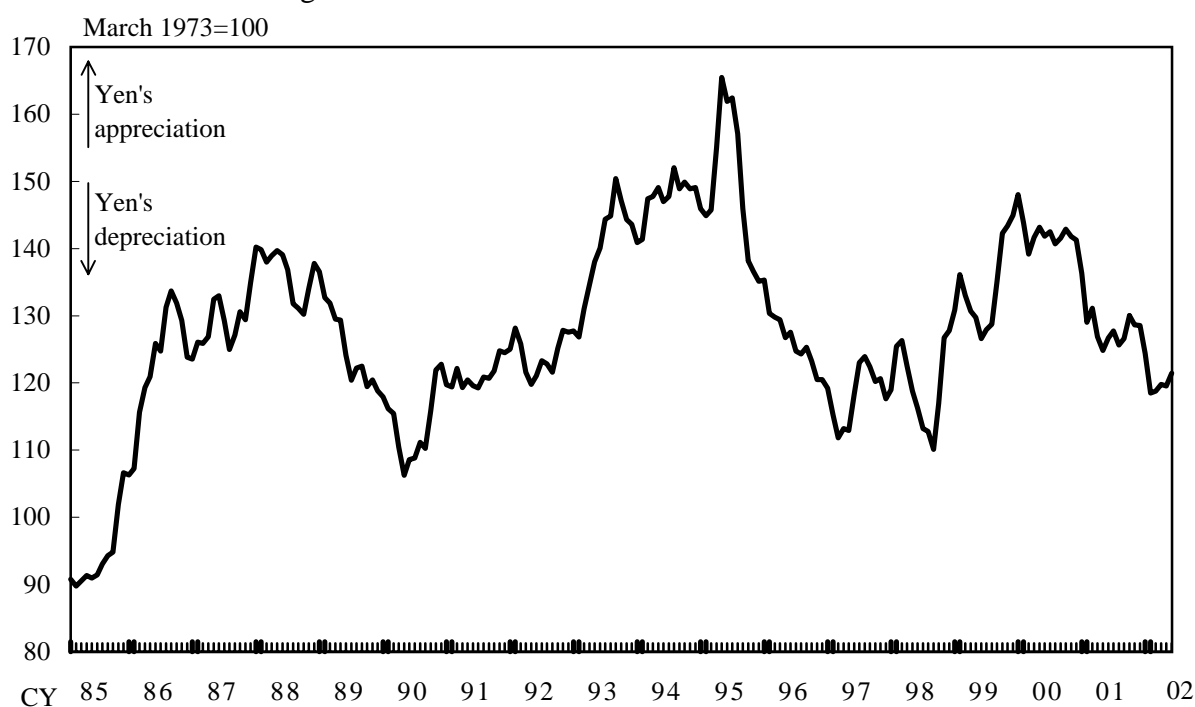
4. Raw materials = woods + ores + mineral fuel, etc.

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

6. Excluding IT-related goods.

## Exporting Conditions (1)

## (1) Real Effective Exchange Rate



Note: Monthly average. Figure for May 2002 is the average of May 1-20. Calculated by the Bank of Japan.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (26 countries) which are calculated from exchange rates and price indexes of the respective countries.

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

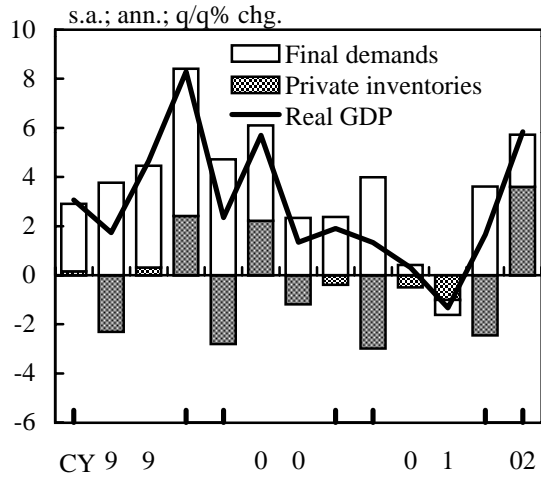
		CY99	2000	2001	2001 Q2	Q3	Q4	2002 Q1	
United States <sup>1</sup>		4.1	4.1	1.2	0.3	-1.3	1.7	5.8	
European Union <sup>1</sup>		2.6	3.3	1.6	0.5	1.0	-0.6	n.a.	
	Germany	1.8	3.0	0.6	0.2	-0.7	-1.0	n.a.	
	France	3.2	4.1	1.9	-0.1	2.0	-1.4	n.a.	
	United Kingdom	2.1	3.0	2.2	2.0	1.7	0.0	0.3	
East Asia <sup>2</sup>	China	7.1	8.0	7.3	(Jan-Jun) 7.9	(Jan-Sep) 7.6	(Jan-Dec) 7.3	7.6	
	NIEs	Korea	10.9	9.3	3.0	2.9	1.9	3.7	n.a.
		Taiwan	5.4	5.9	-1.9	-2.4	-4.2	-1.9	0.9
		Hong Kong	3.0	10.5	0.1	0.8	-0.4	-1.6	n.a.
		Singapore	6.9	10.3	-2.0	-0.5	-5.4	-6.6	-1.7
	ASEAN4	Thailand	4.4	4.6	1.8	1.8	1.6	2.1	n.a.
		Indonesia	0.8	4.9	3.3	3.8	3.1	1.6	2.5
Malaysia		6.1	8.3	0.4	0.5	-1.2	-0.5	n.a.	
	Philippines	3.4	4.0	3.4	3.2	3.3	3.8	n.a.	

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

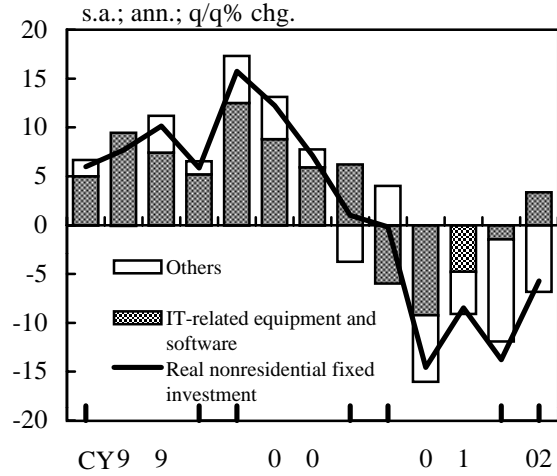
2. Quarterly data are percent changes from a year earlier.

Exporting Conditions (2)

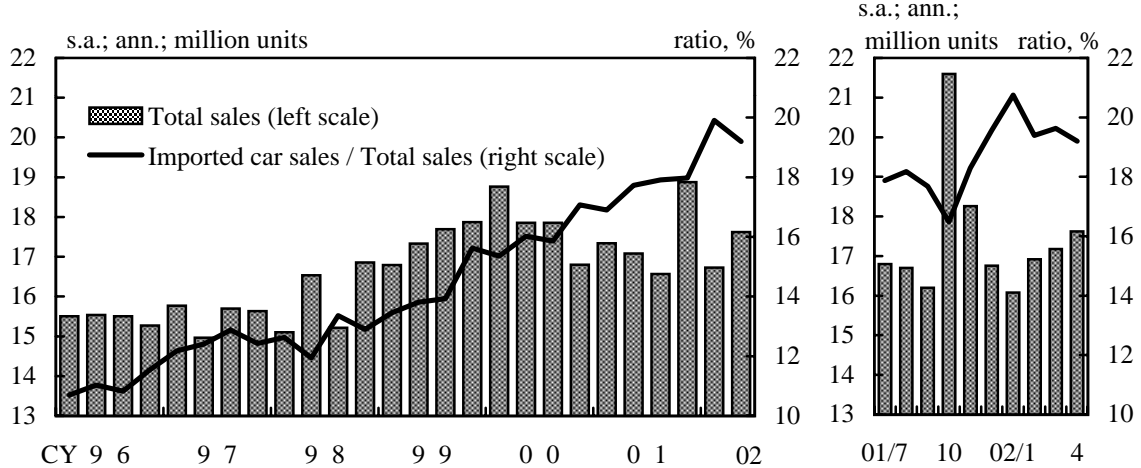
(1) U.S. Real GDP (Break Down by Final Demands and Inventories)



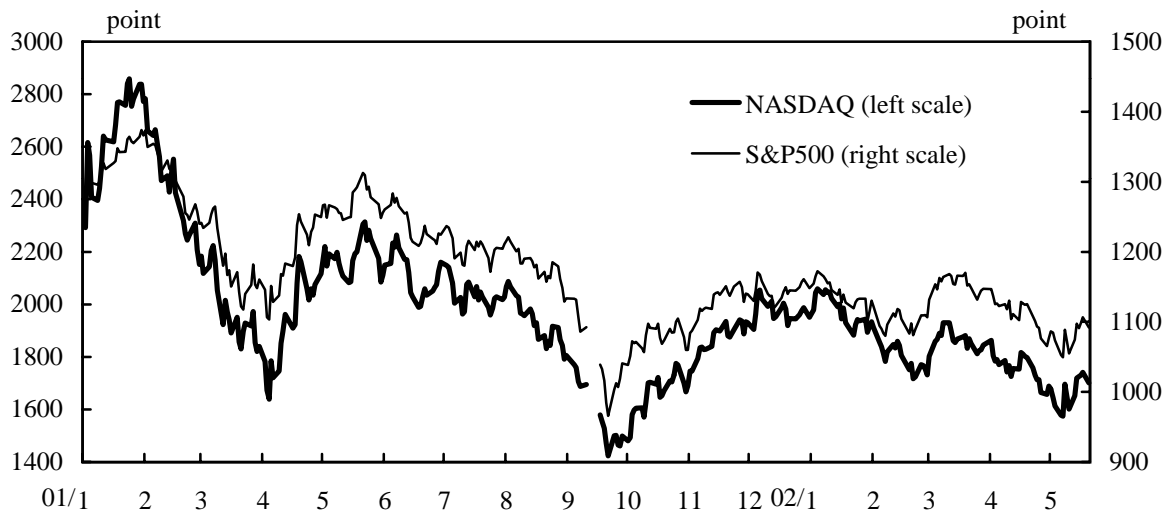
(2) U.S. Real Nonresidential Fixed Investment



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



(4) U.S. Stock Prices (NASDAQ, S&P500)

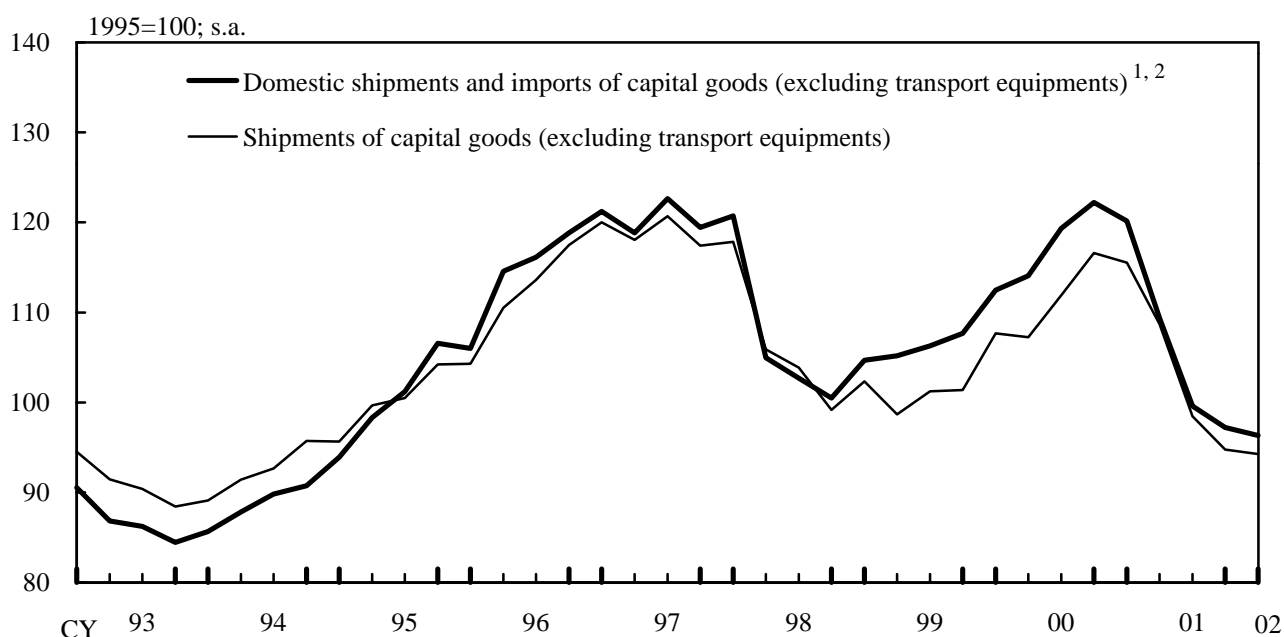


Notes: 1. 2002/Q2 figure of automobile sales in the U.S. is April figure.  
2. Figures of U.S. stock prices is up to May 20.

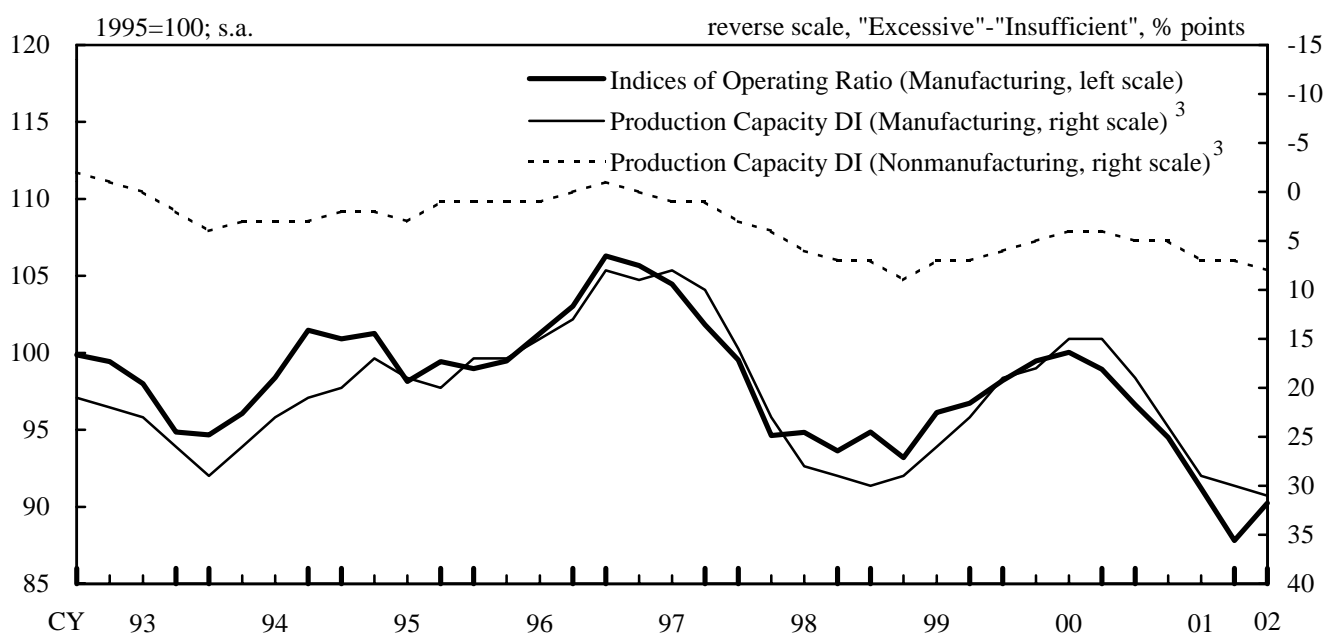
Sources: U.S. Department of Commerce, "National Income and Product Accounts"; CEIC Data Company; Bloomberg.

## Indicators for Business Fixed Investment (1)

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



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



Notes:1. The figure for 2002/Q1 of "Domestic shipments" is calculated using Indices of Industrial Production and real exports (see chart 4-1) .

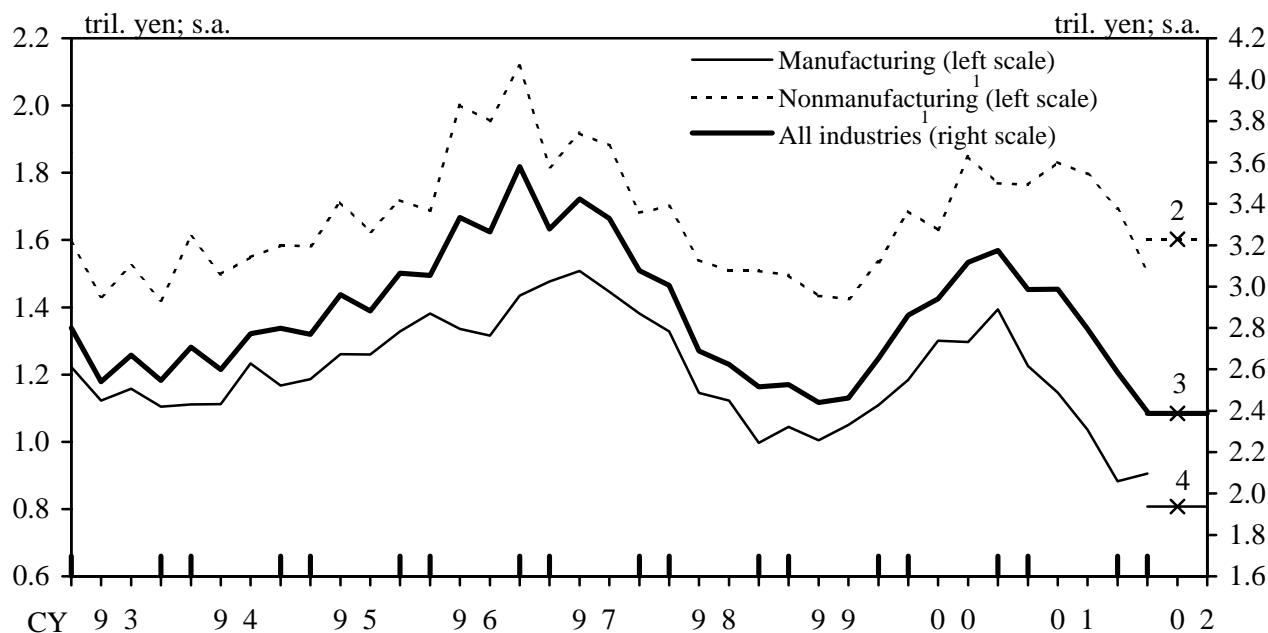
2. The figure for 2002/Q1 of "Domestic shipments and imports of capital goods (excluding transport equipments)" is calculated from the weighted average of the quarterly changes in "Imports" based on real imports and "Domestic shipments."

3. 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"; Bank of Japan, "Wholesale Price Indexes," "Tankan Short-term Economic Survey of Enterprises in Japan."

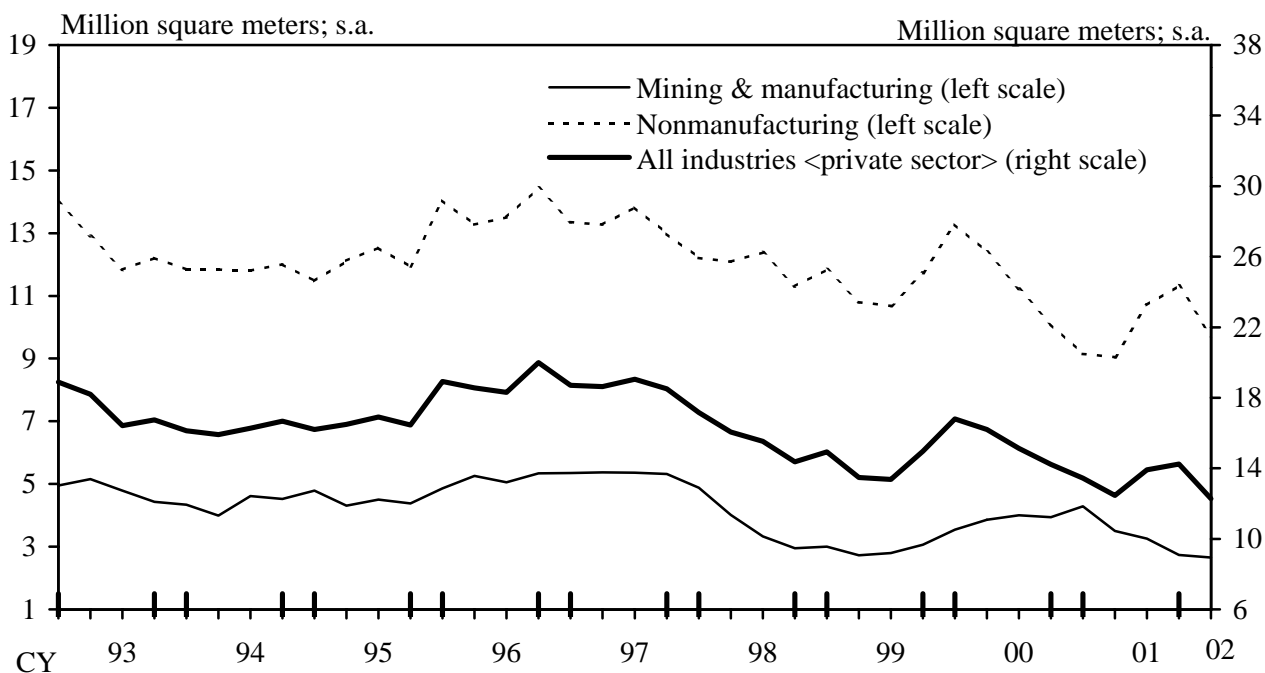
## Indicators for Business Fixed Investment (2)

## (1) Machinery Orders



- Notes: 1. Excludes orders from electric power companies and shipbuilding orders.  
2. Forecast of nonmanufacturing industries for 2002/Q2.  
3. Forecast of all industries for 2002/Q2.  
4. Forecast of manufacturing industries for 2002/Q2.

## (2) Construction Starts (Nonresidential)

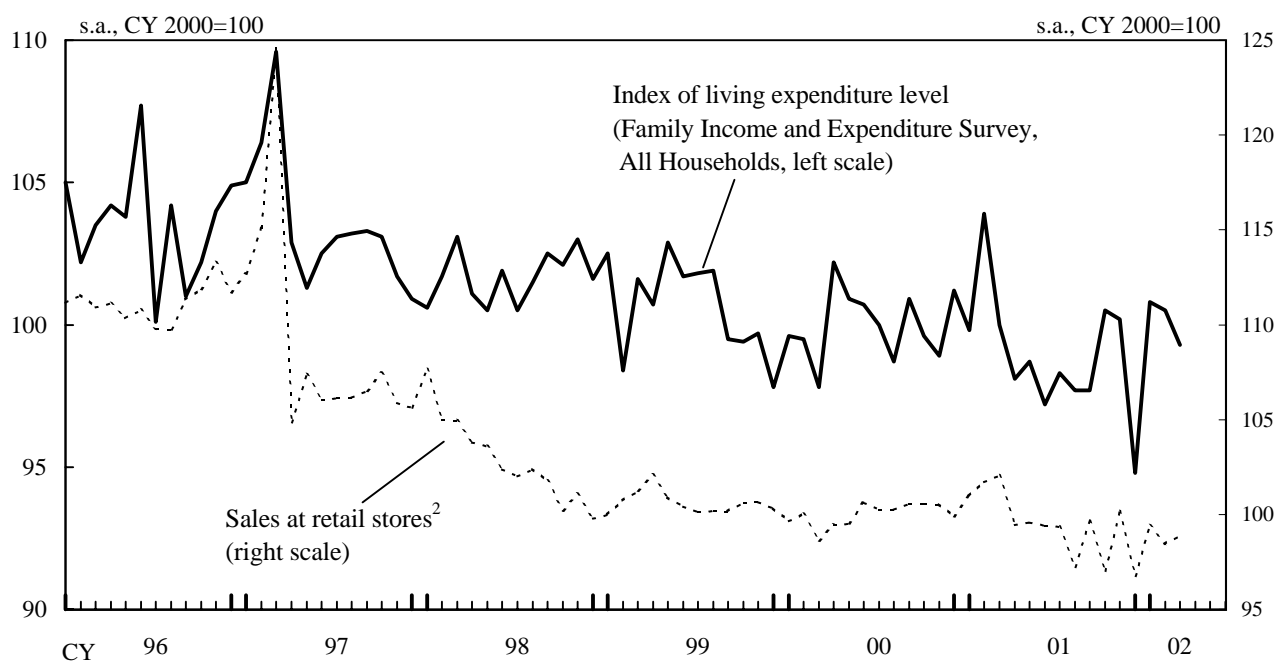


Note: Seasonally adjusted by X-12-ARIMA ( $\beta$  version).

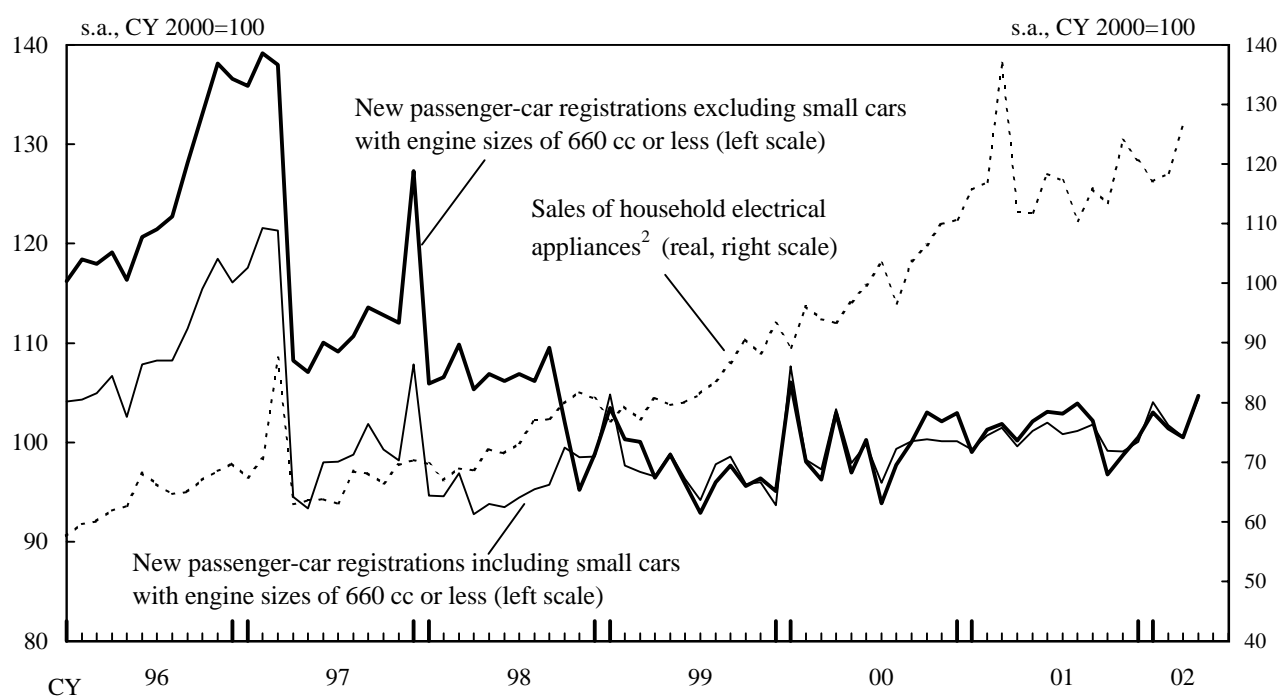
Sources: Cabinet Office, "Machinery Orders Statistics";  
Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

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

## (1) Household Spending



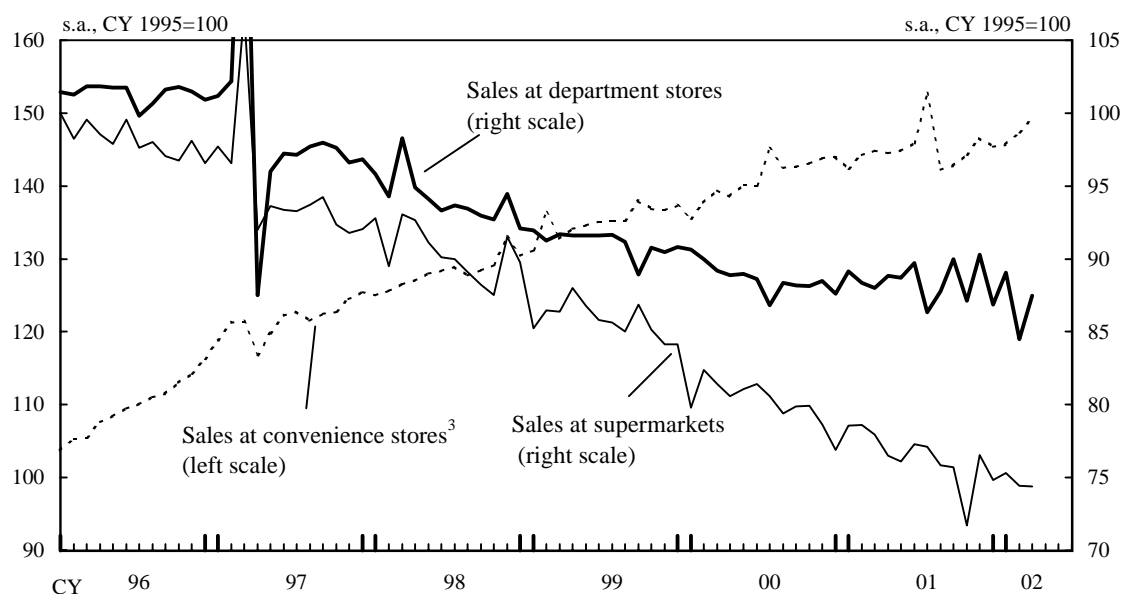
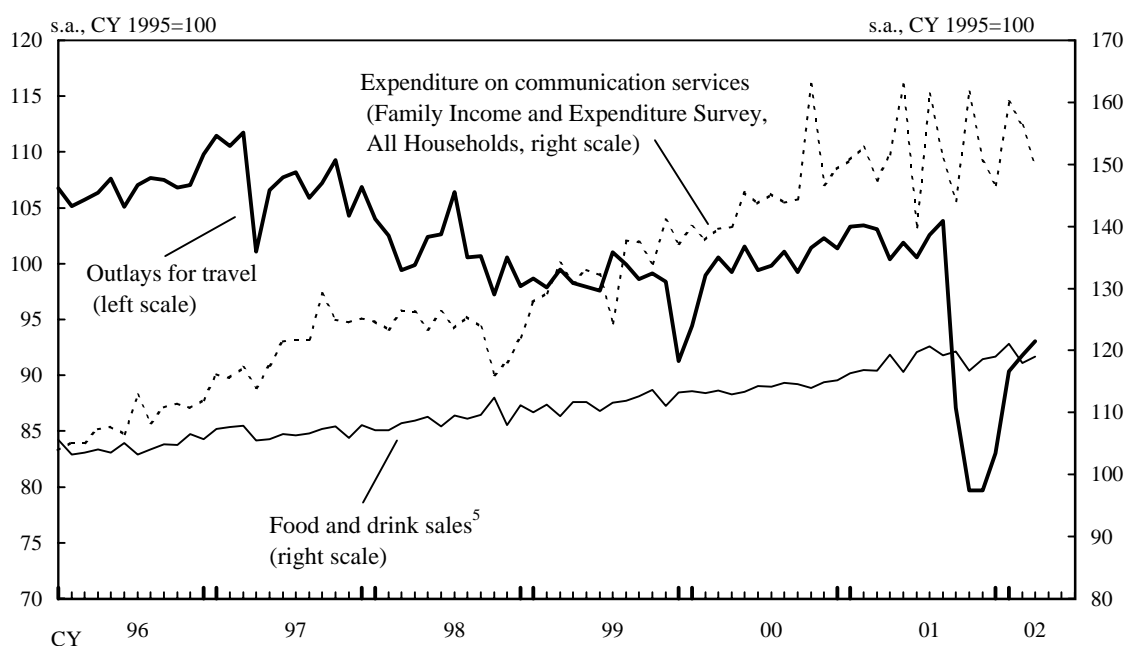
## (2) Sales of Durable Goods



Notes: 1. New passenger-car registrations are seasonally adjusted by X-12-ARIMA. Sales at retail stores and sales of household electrical appliances are 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, sales at supermarkets and sales at convenience 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,";

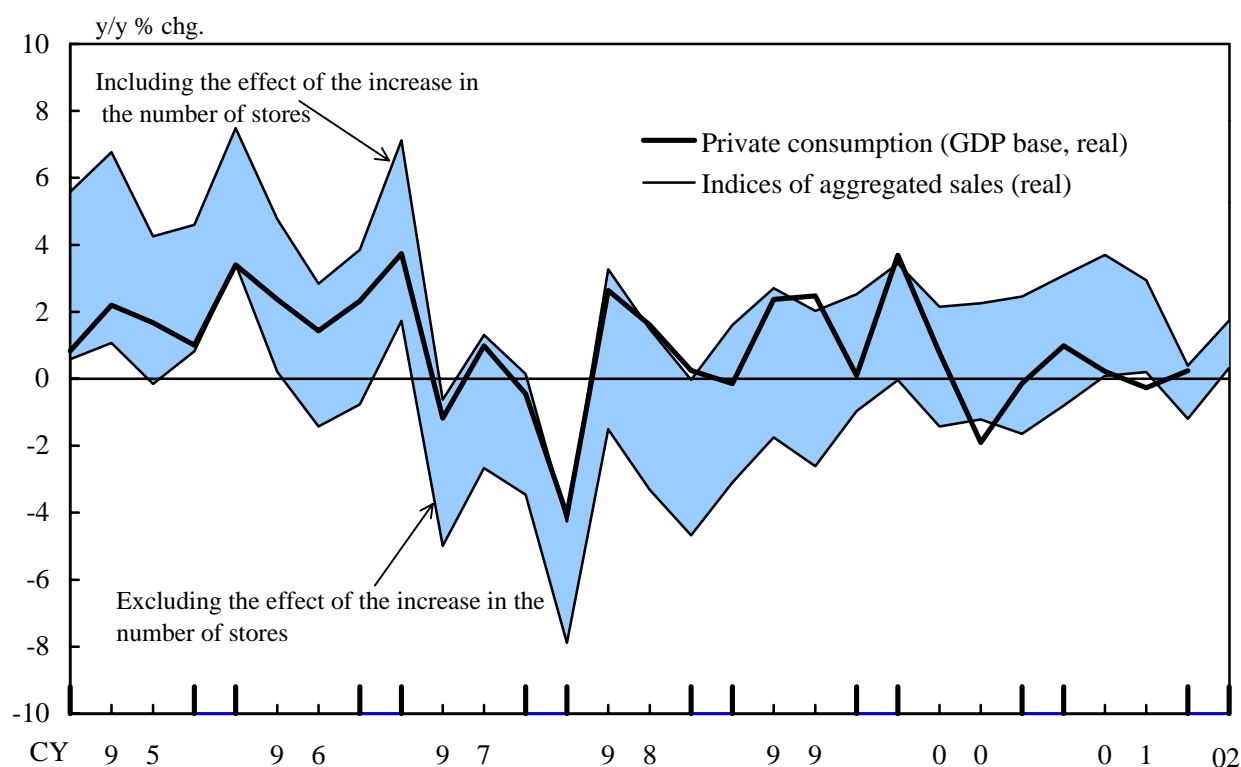
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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) - Indices of aggregated sales



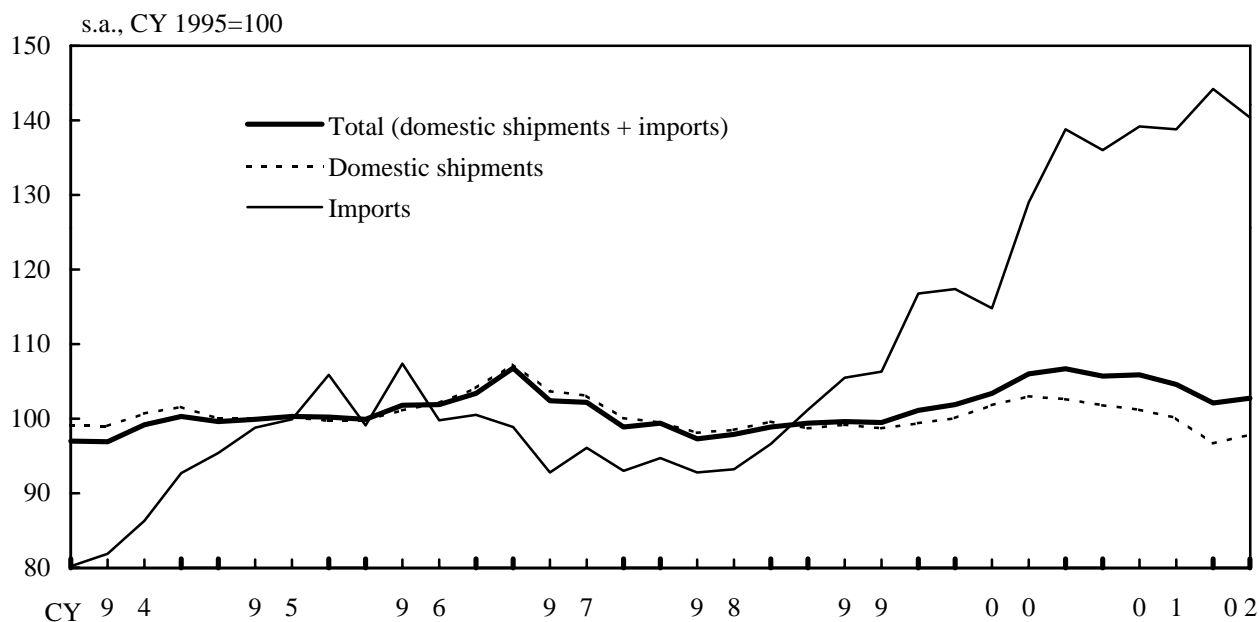
- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Food and drink sales*, where the weights come from the *Family Income and Expenditure 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" tend to capture consumption trends only from stores of which sales can be obtained continuously. The actual trend of private consumption is expected to be in between these two series.
2. Sales indicators in nominal terms are deflated by the corresponding items of the consumer price index or the wholesale price index.

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 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."

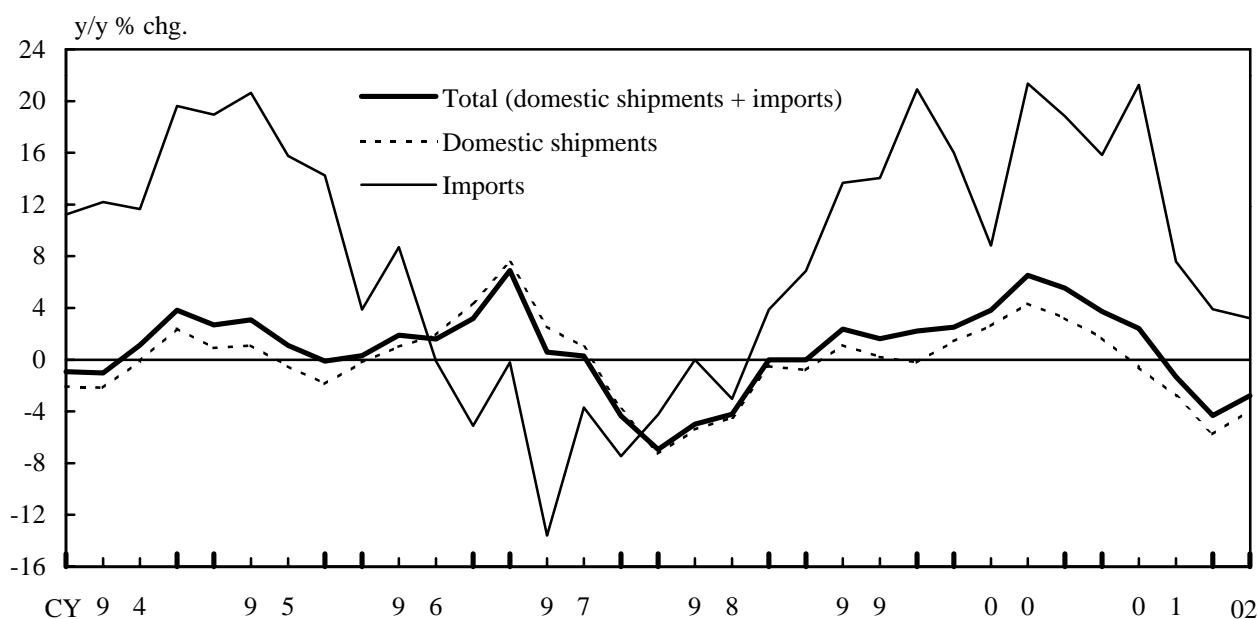


## Private Consumption (4) - Estimation of consumer goods supply

## (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 2002/Q1 of "Domestic shipments" are calculated from quarterly changes of *Indices of Industrial Production* (excluding the effects of exports).

3. Figures for 2002/Q1 of "Imports" are calculated from quarterly changes of real imports.  
Real imports (consumer goods) = motor vehicles + audio and visual apparatus + office machinery + foodstuffs + textiles.

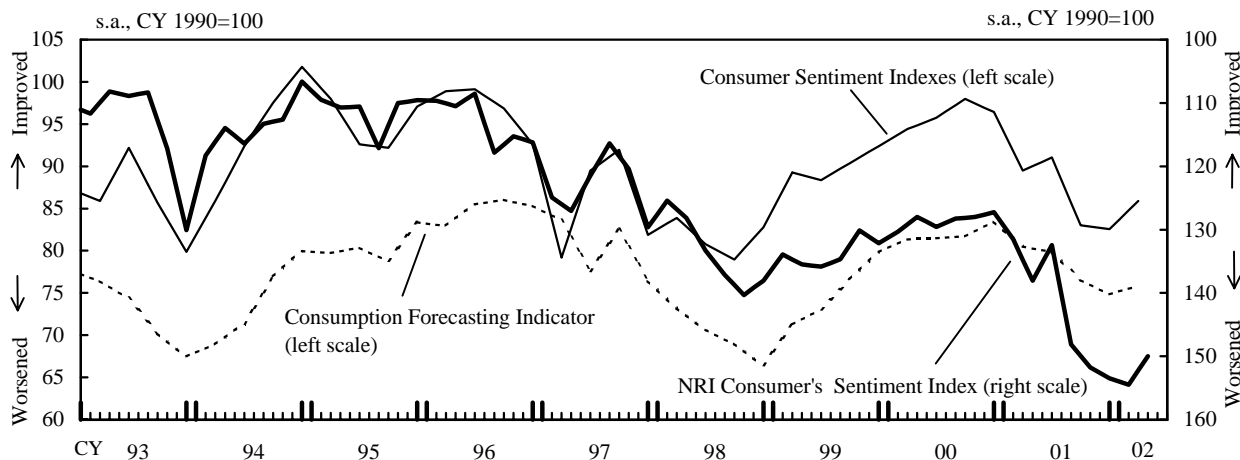
4. Figures for 2002/Q1 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports".

5. Year-on-year changes are calculated from seasonal adjusted series.

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."

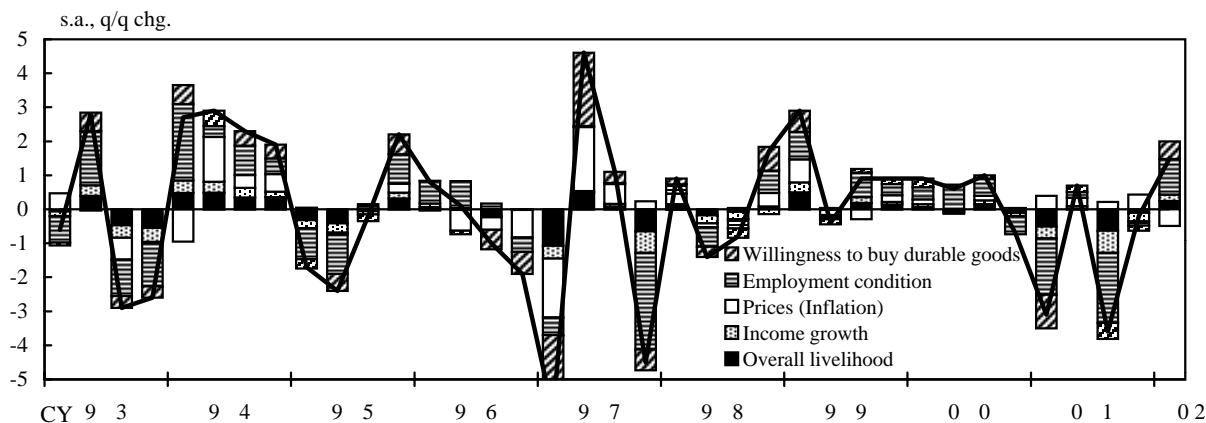
Consumer Confidence and Propensity to Consume

(1) Surveys on Consumer Confidence

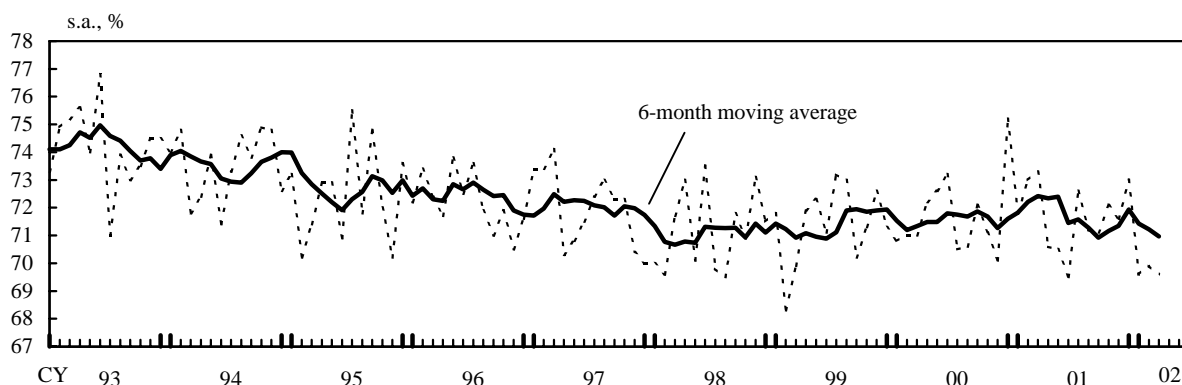


- Notes: 1. Seasonally adjusted by X-11. "Consumer Sentiment Indexes" is seasonally adjusted by the Cabinet Office.  
 2. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.  
 3. Data are plotted at the months 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) Contribution of Each Item in the Consumer Sentiment Indexes



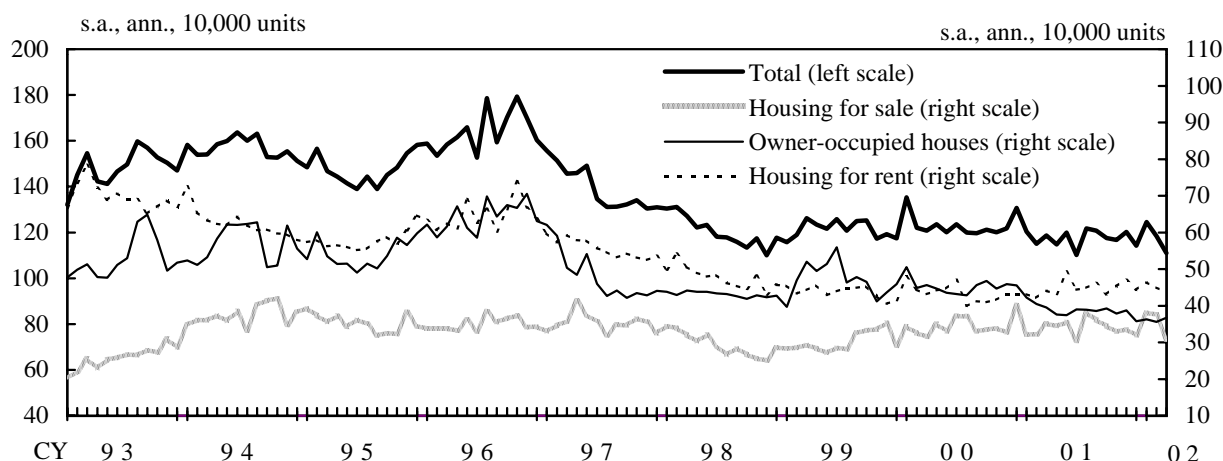
(3) Propensity to Consume (Family Income and Expenditure Survey, Workers' Households)



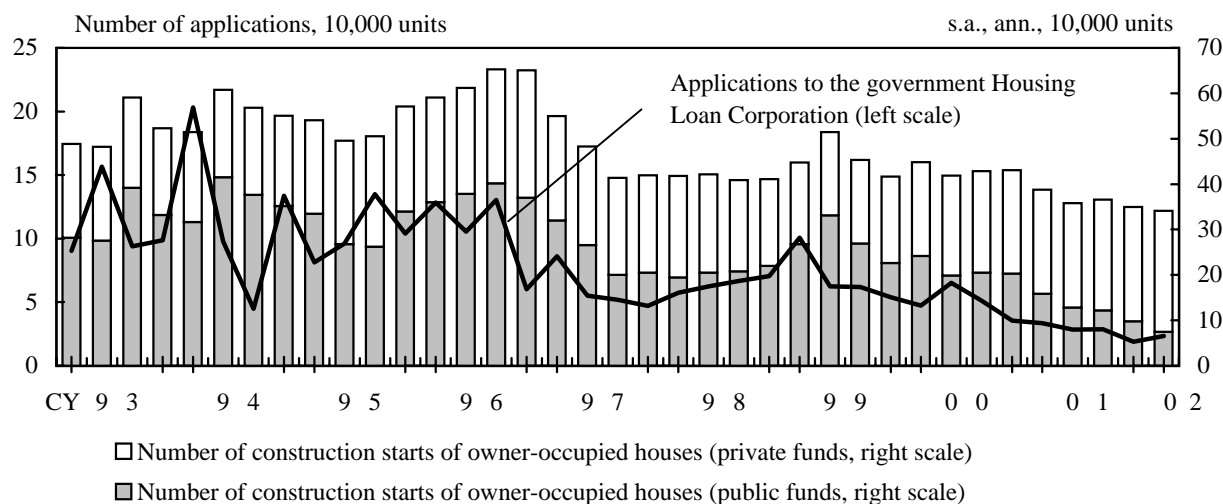
Sources: Cabinet Office, "Consumer Behavior Survey";  
 Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator";  
 Ministry of Public Management, Home Affairs, Posts and Telecommunications,  
 "Monthly Report on the Family Income and Expenditure Survey"; 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

Indicators for Housing Investment

(1) Housing Starts

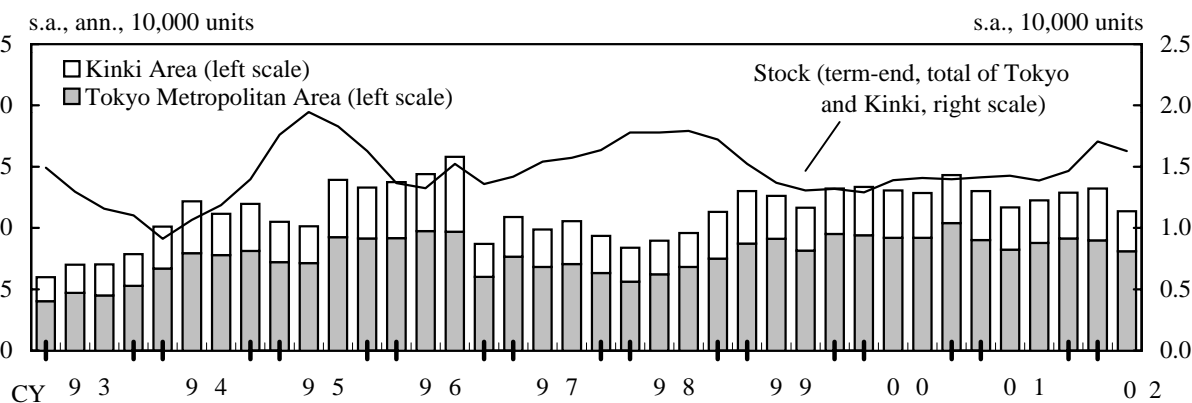


(2) Number of Applications to the Government Housing Loan Corporation  
 (for new owner-occupied houses)



Note: 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.

(3) Sales of Condominiums

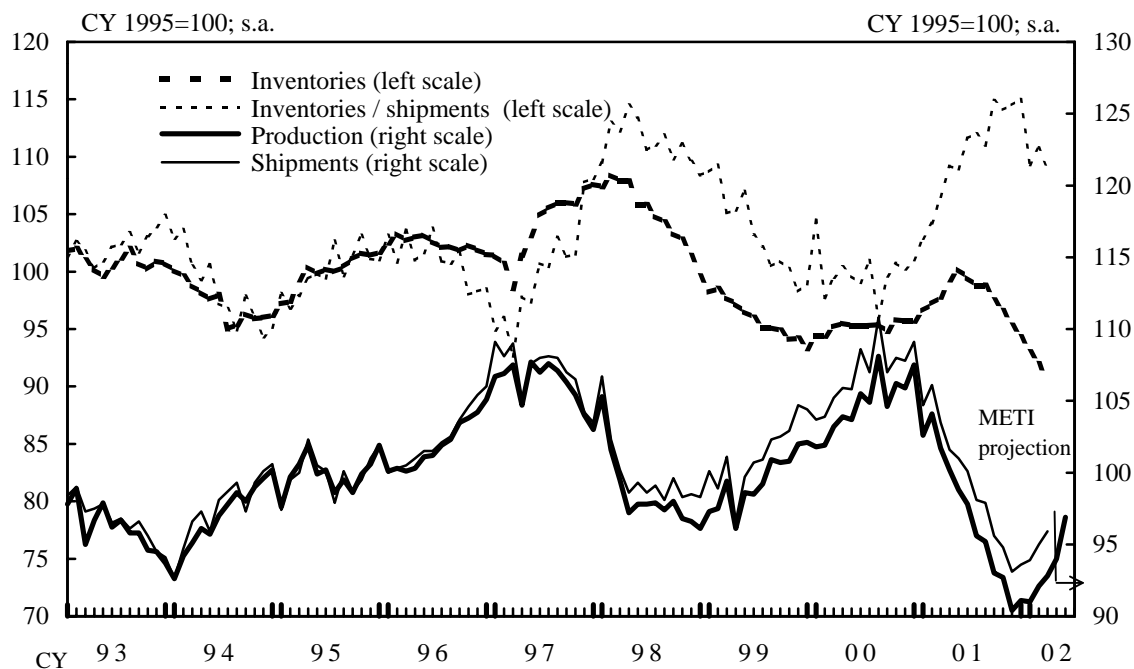


Note: Figures of 2002/Q2 are those of April.

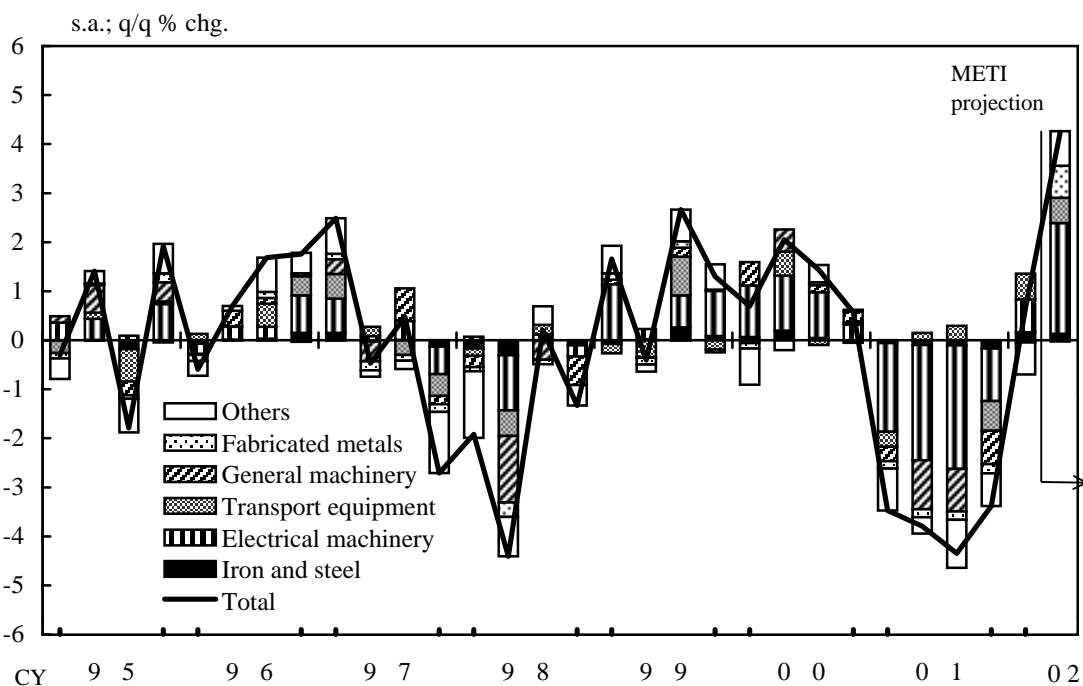
Sources: Ministry of Land, Infrastructure and Transport, "Monthly of Construction Statistics," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries

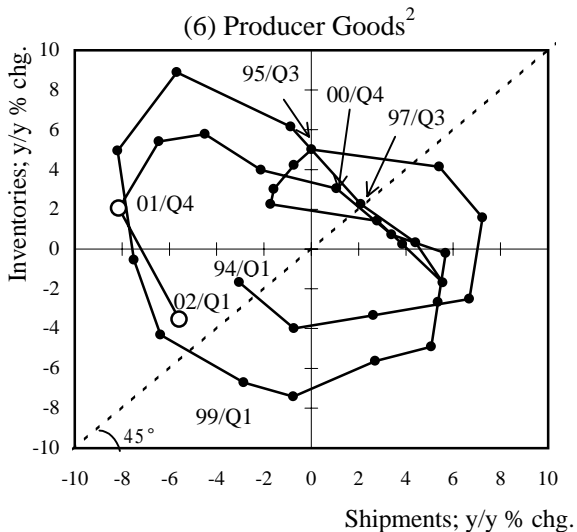
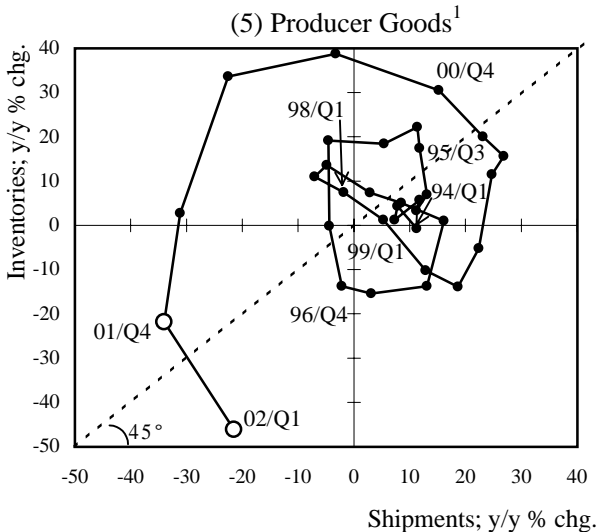
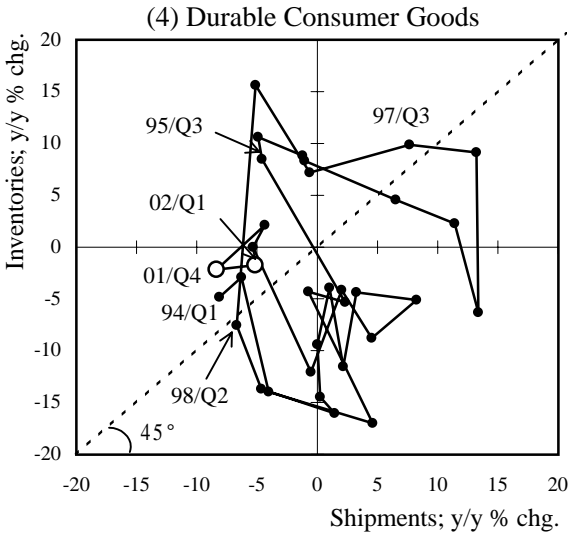
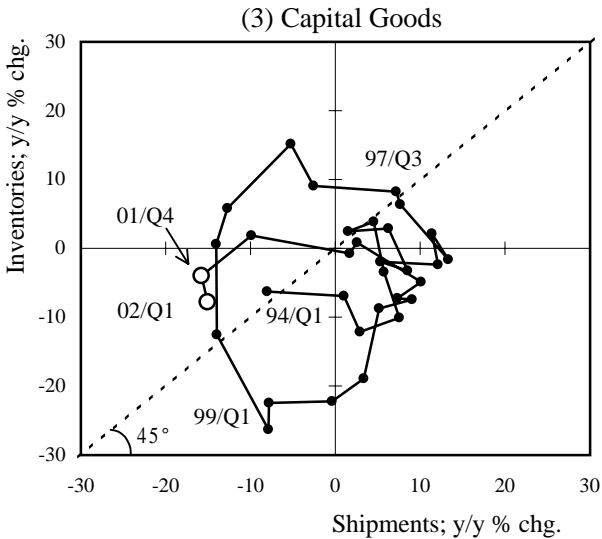
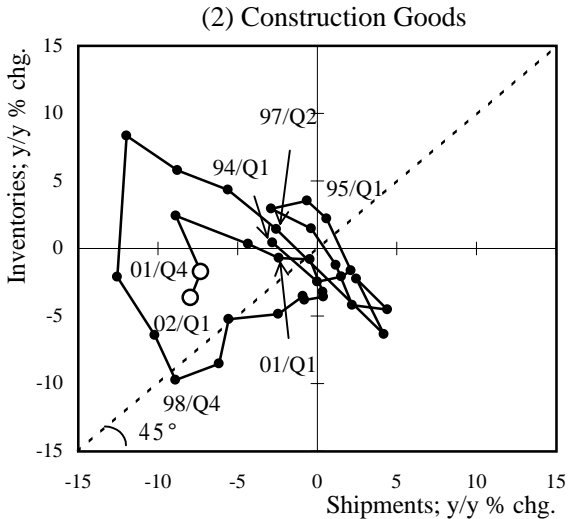
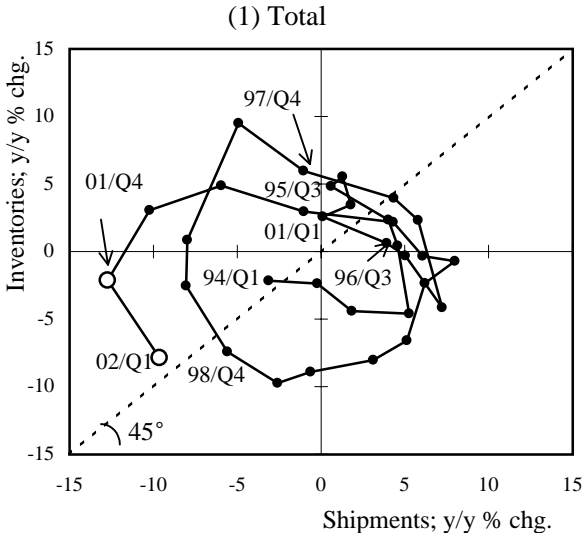


Notes:1. Transport equipment excludes ships and rolling stock.

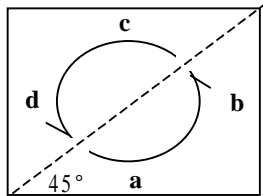
2. 2002/Q2 for METI projection is based on the assumption that production level in June is the same as that of May.

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



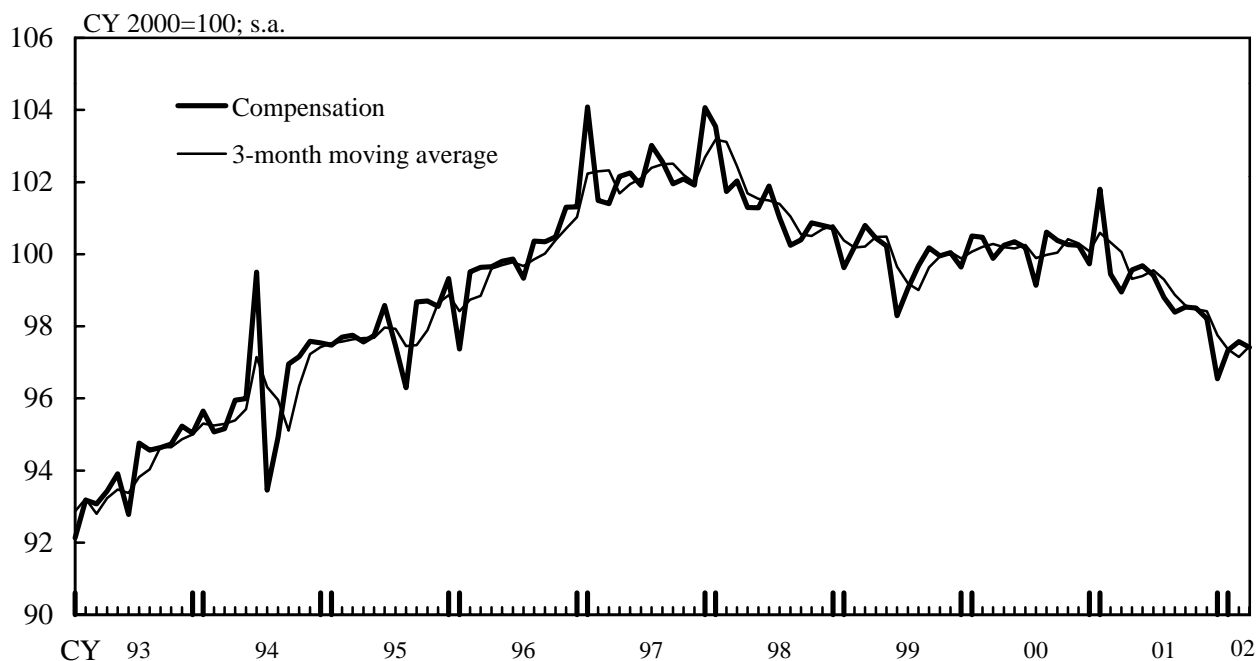
Notes: 1. Producer goods of electrical machinery.

2. Producer goods excluding electrical machinery.

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

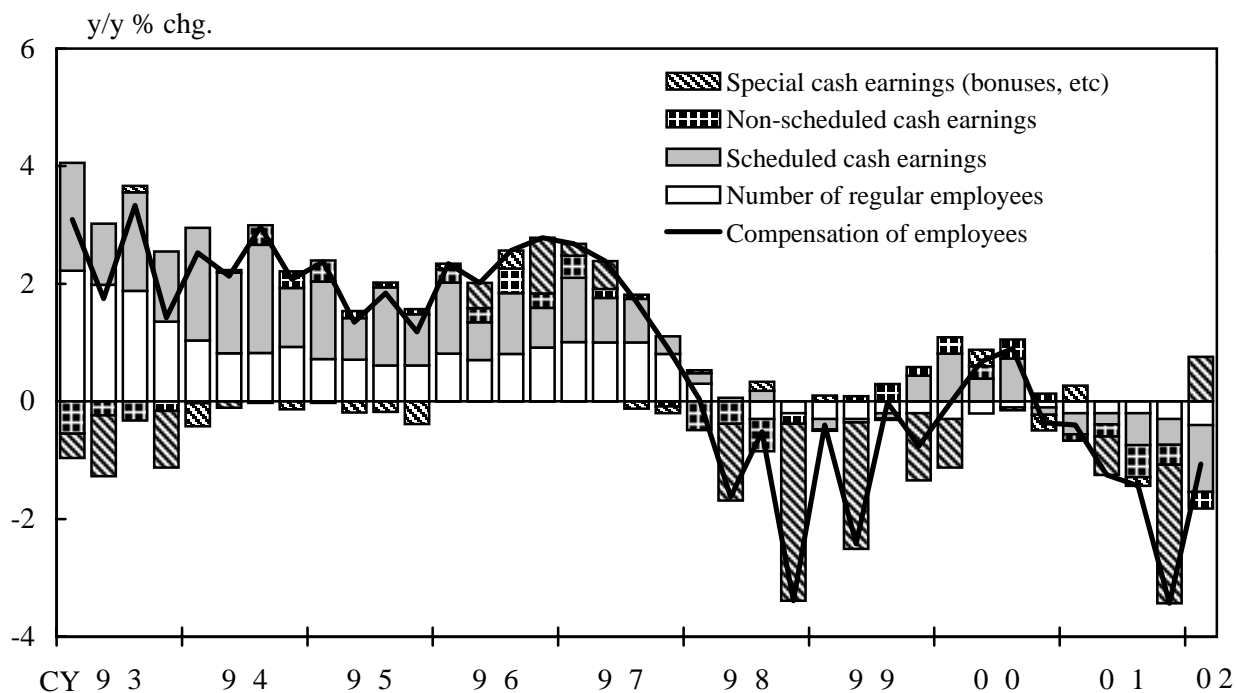
## Compensation of Employees

### (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

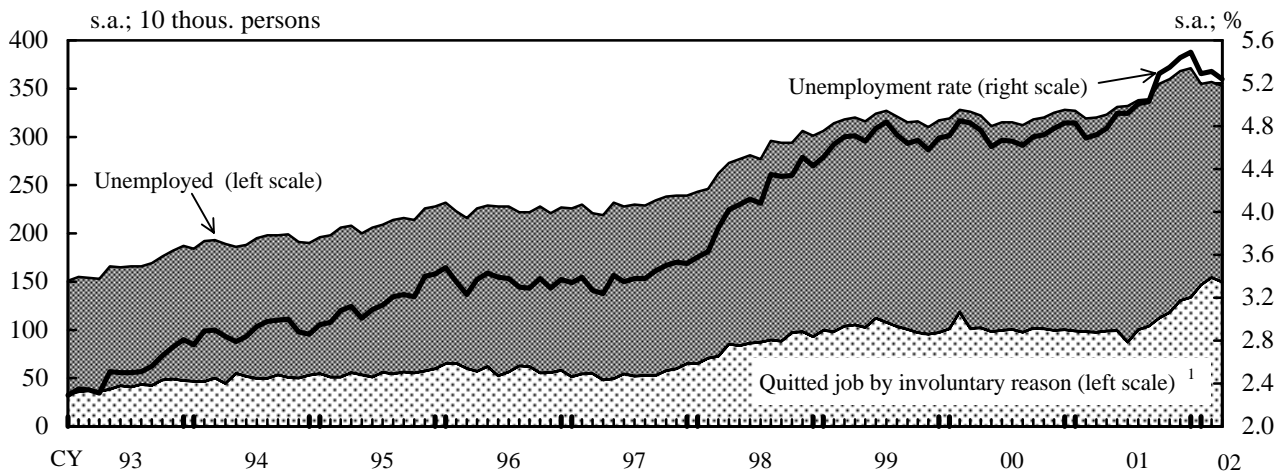


- Notes: 1. Data for establishments with at least 5 employees.  
2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.  
3. Figures for 2002/Q1 are those of March 2002.

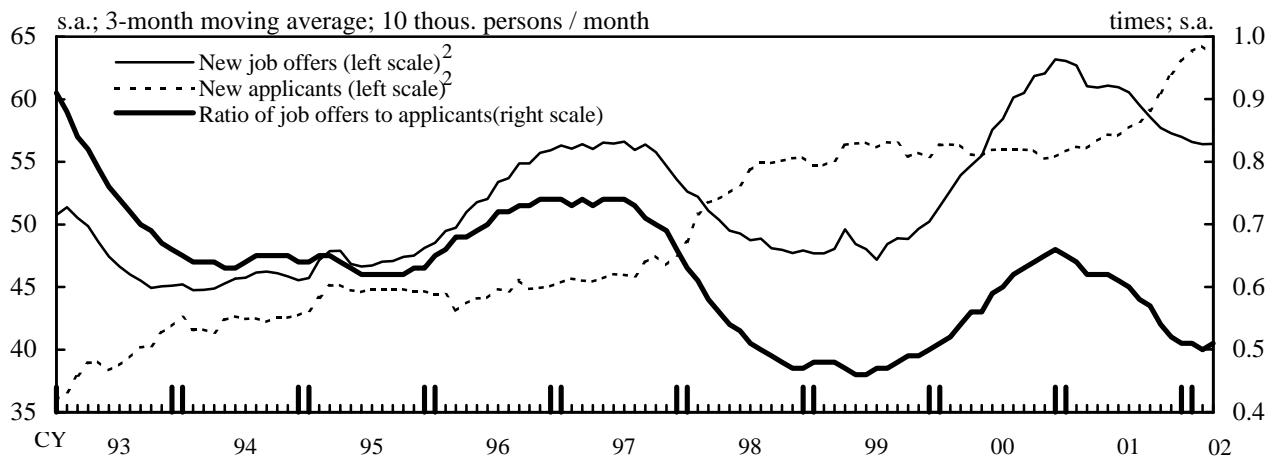
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

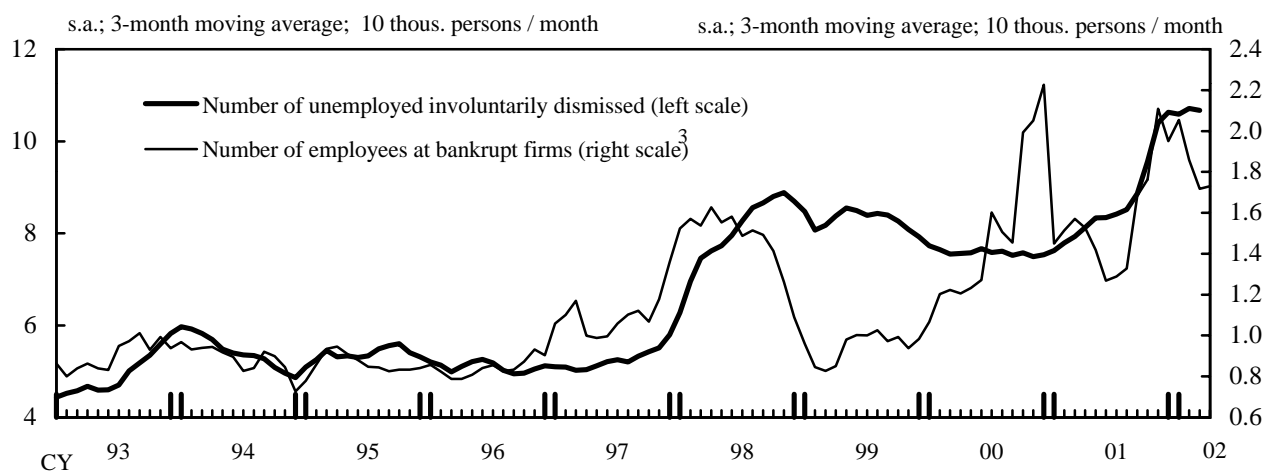
(1) The Unemployed and Unemployment Rate



(2) Ratio of Job Offers to Applicants



(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms <sup>1</sup>



Notes: 1. Seasonally adjusted by X-11.

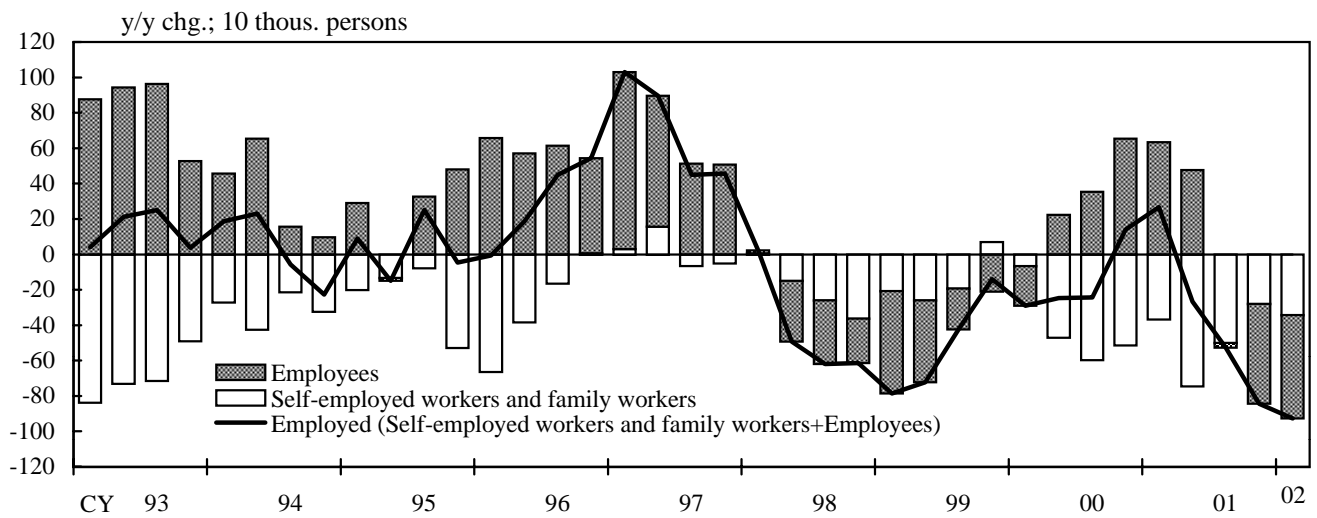
2. Exclude jobs offered to new graduates.

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

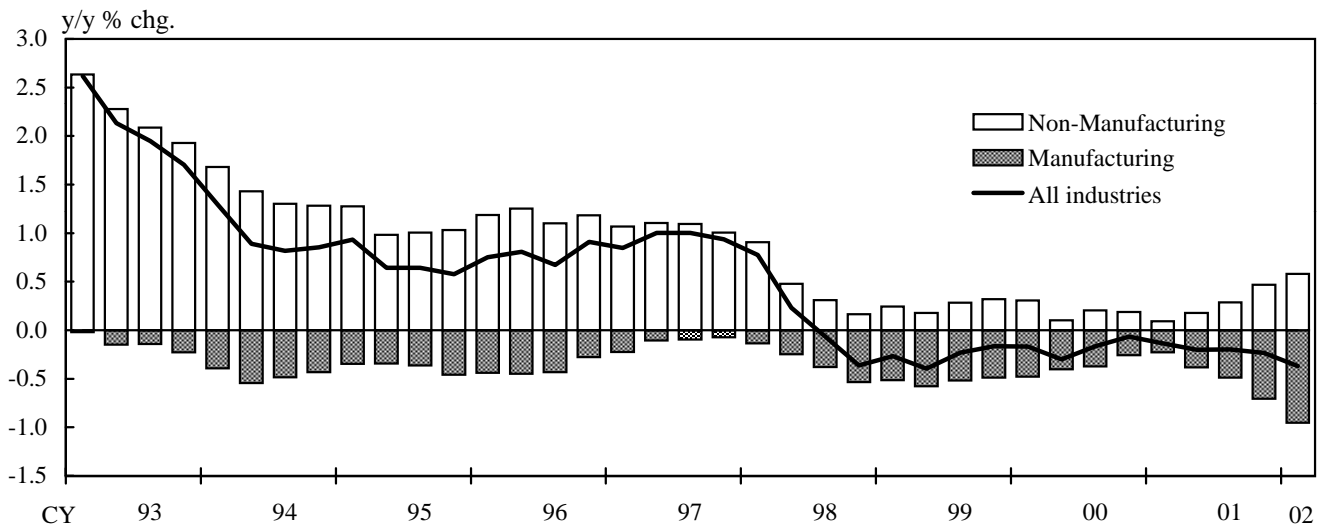
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service," "Report on Employment Insurance Service"; Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Teikoku Databank Ltd., "Japan's Business Failure."

Labor Market (2)

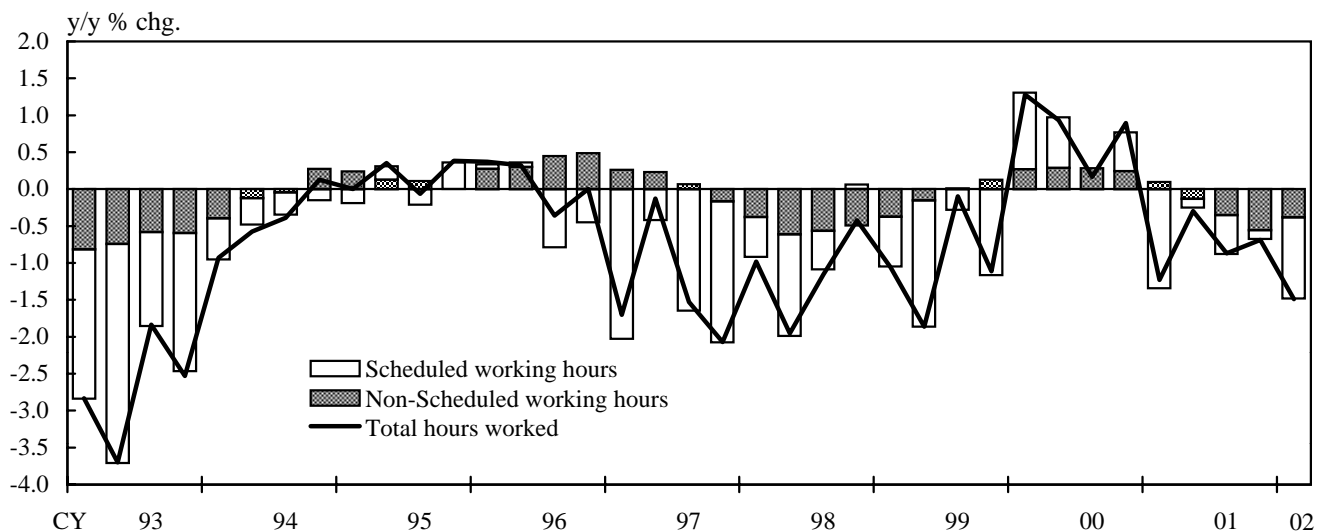
(1) The Employed (Labour Force Survey)



(2) Number of Regular Employees<sup>1</sup> (Monthly Labour Survey)



(3) Actual Hours Worked<sup>1</sup> (Monthly Labour Survey)



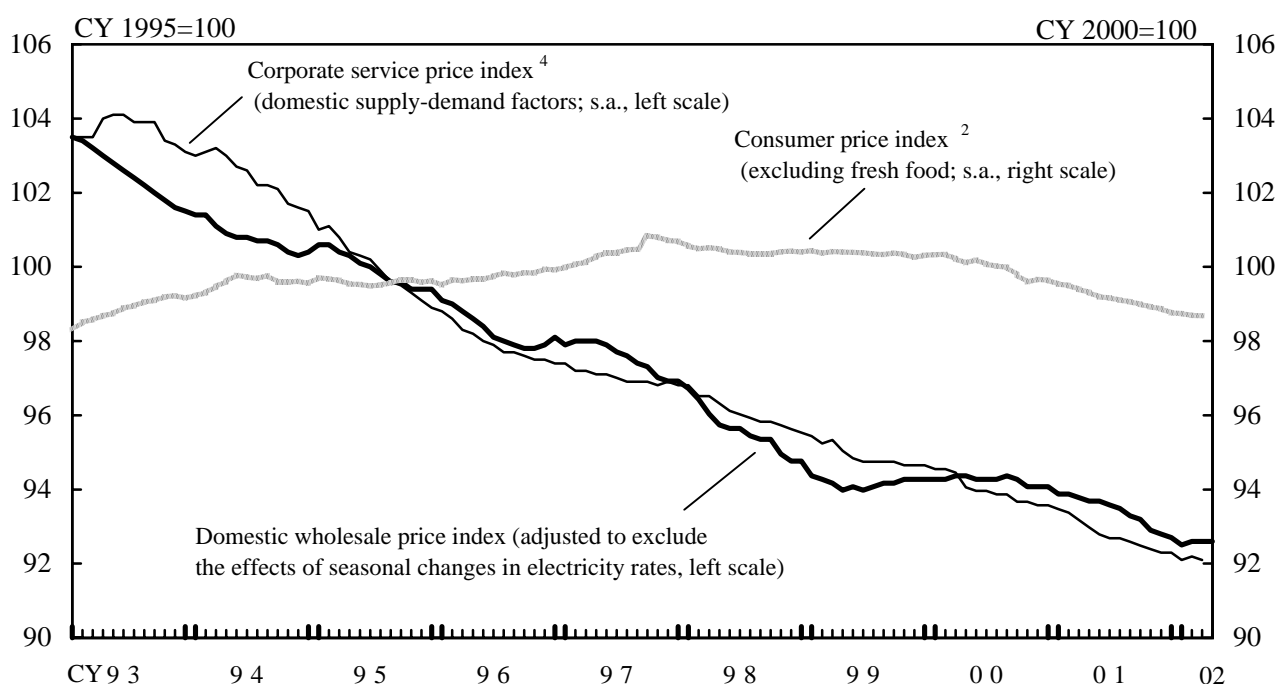
Note: 1. Data for establishments with at least 5 employees.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey" ;  
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

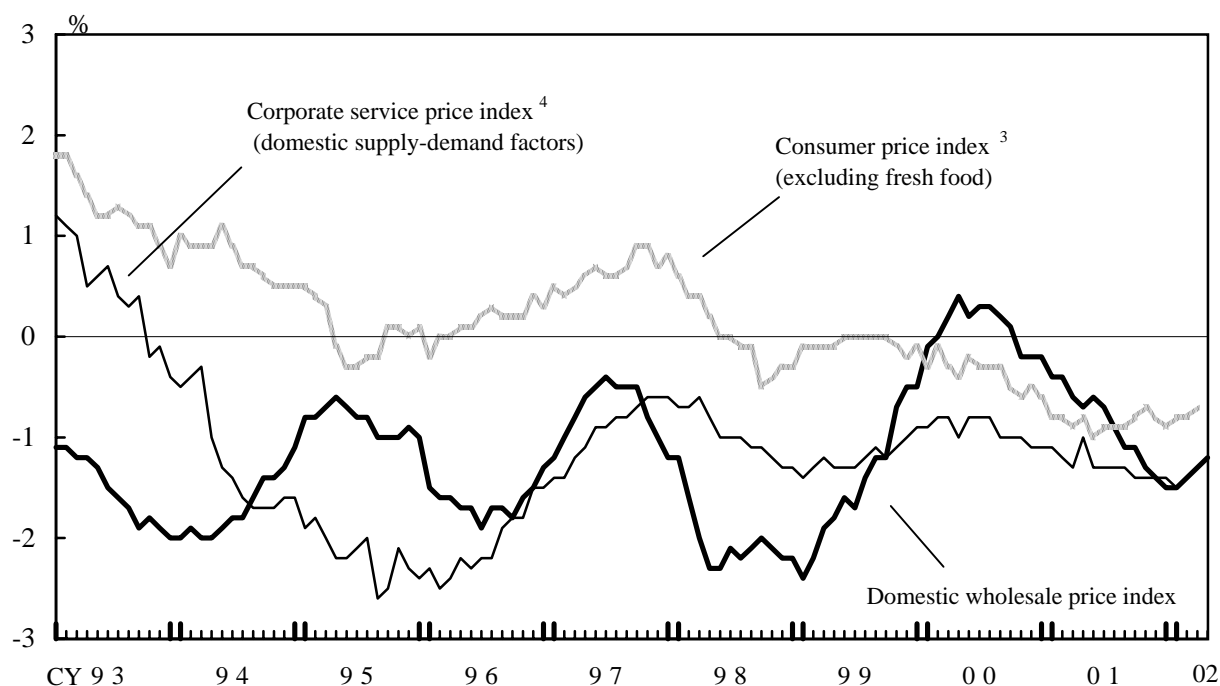


Prices<sup>1</sup>

## (1) Level



## (2) Changes from a year earlier

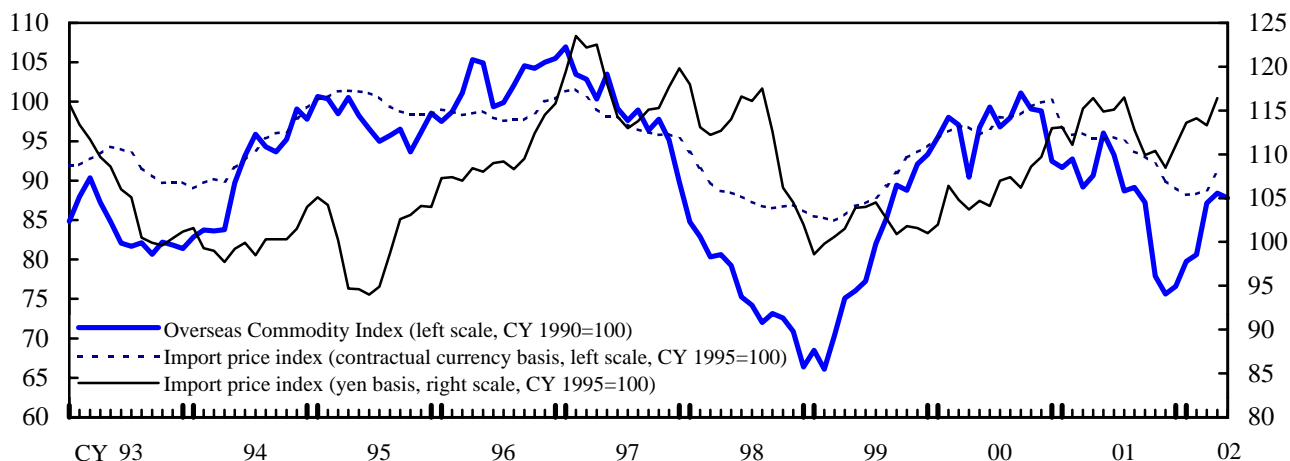


- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Seasonally adjusted by X-12-ARIMA ( $\beta$  version), based on the original series excluding package tours to overseas.
3. Data before Dec. 2000 are on the 1995 base CPI.
4. See footnote 4 in Chart 19, 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."

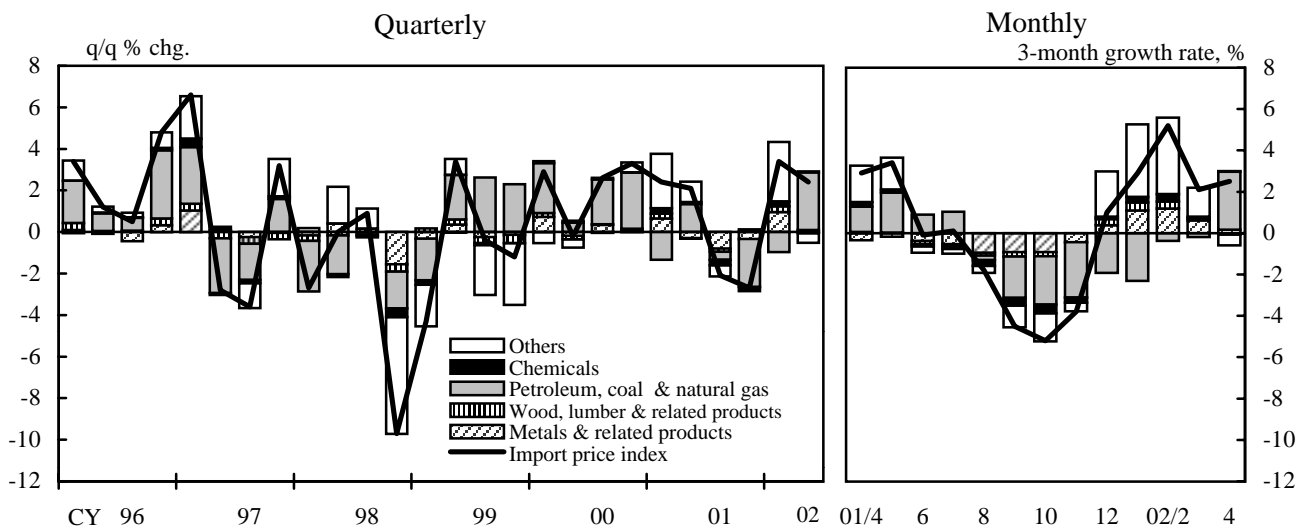
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



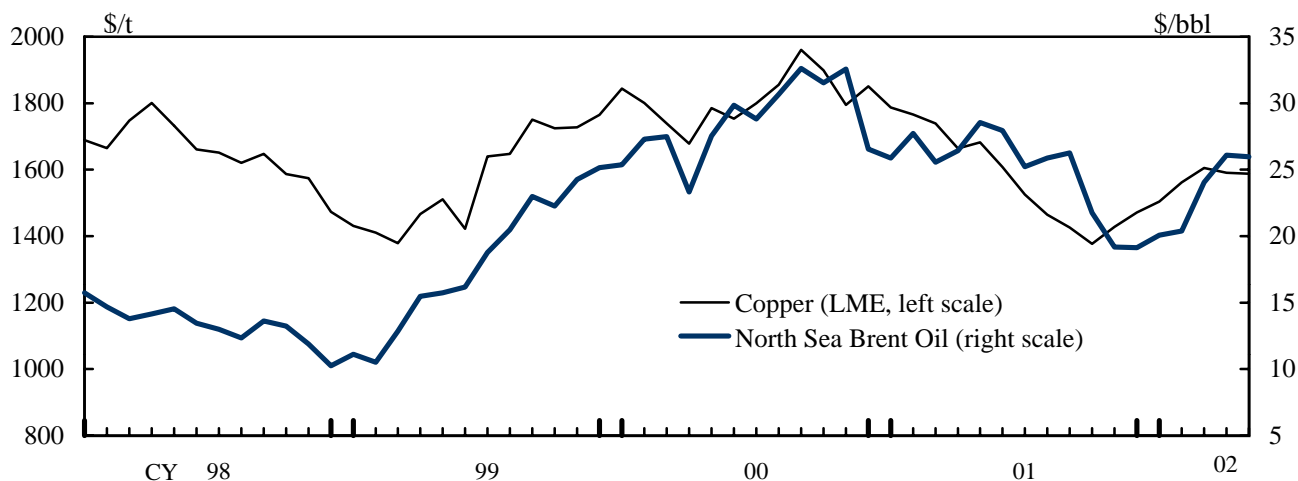
Note: Overseas Commodity Index, which is calculated by Bank of Japan, is a monthly average.  
Figure for May 2002 is the average of May 1-17.

(2) Import Price Index (yen basis, changes from a quarter earlier and 3 months earlier)



Note: Figures for 2002/Q2 are those of April.

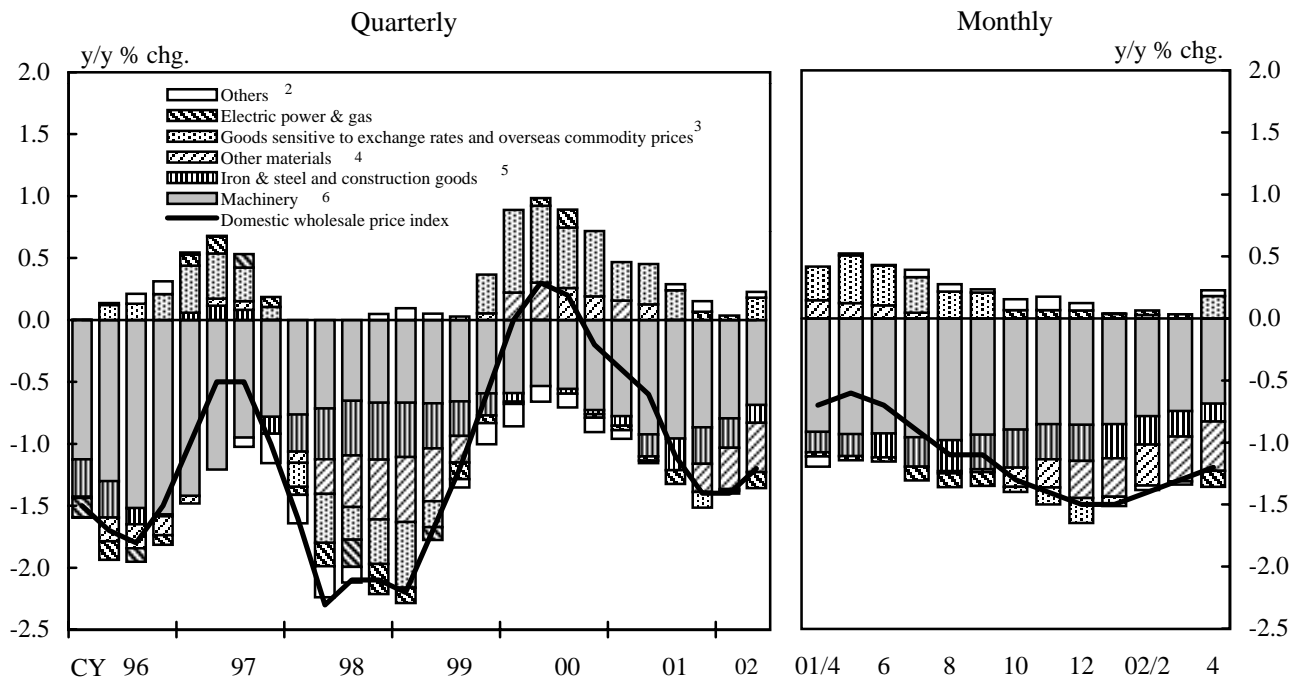
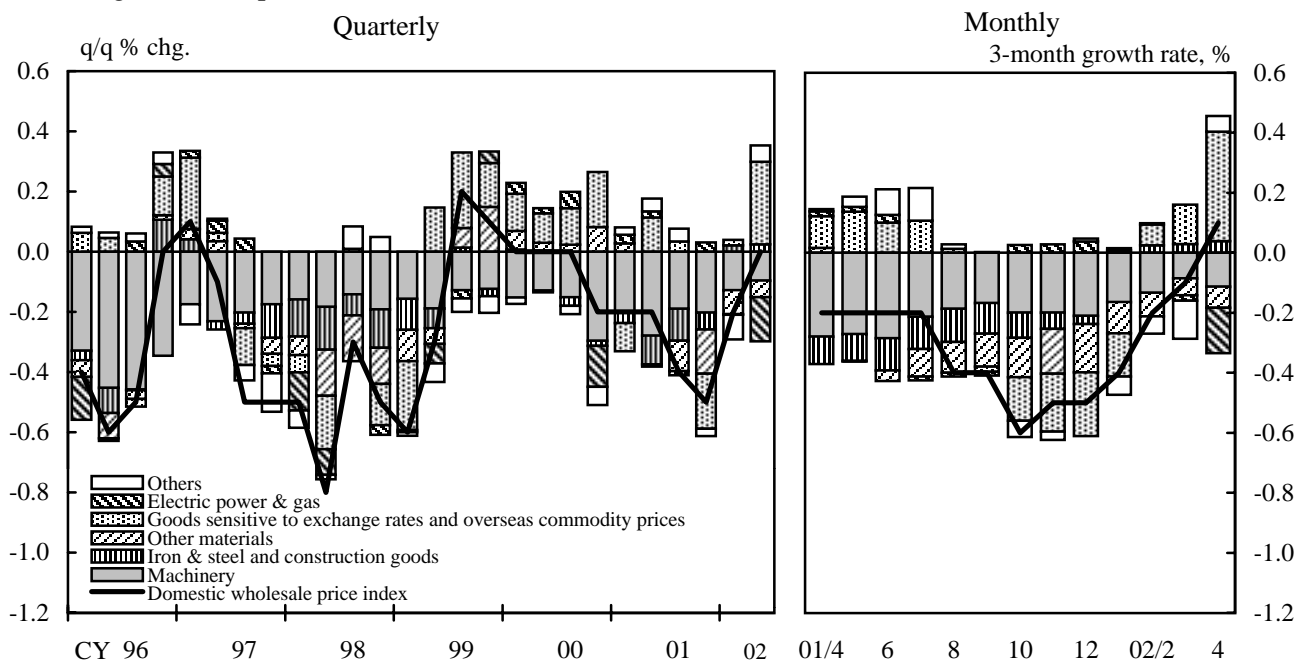
(3) Oil price (spot) and Copper price (futures)



Note: Monthly averages. Figures for May 2002 are the averages of May 1-17.

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.

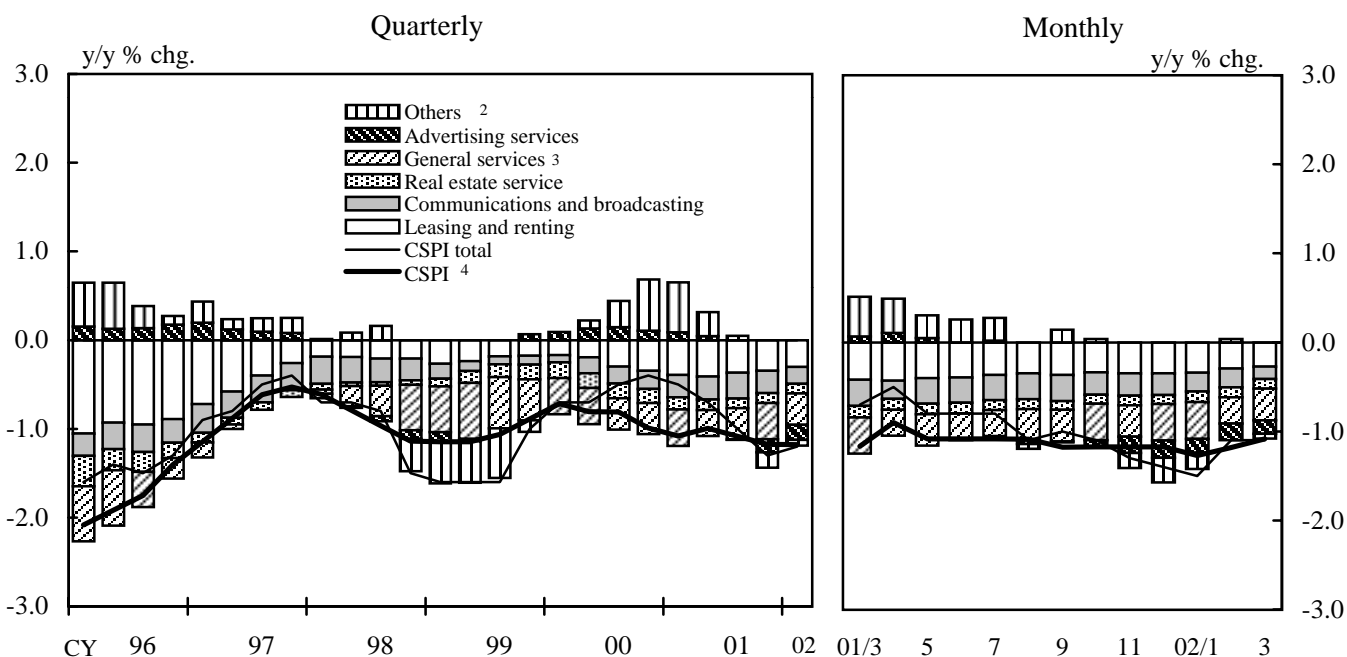
This effect causes the Domestic Wholesale Price Index to rise by about 0.2%.

8. Figures for 2002/Q2 are those of April.

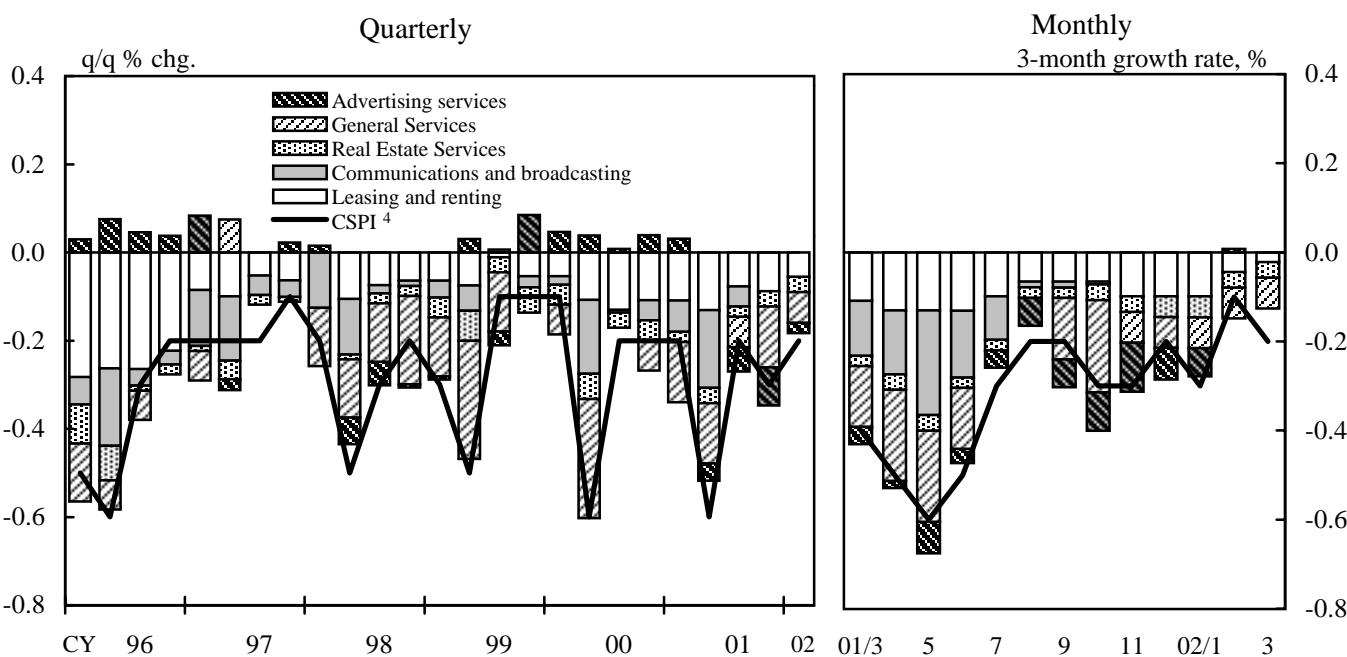
Source: Bank of Japan, "Wholesale Price Indexes."

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>).

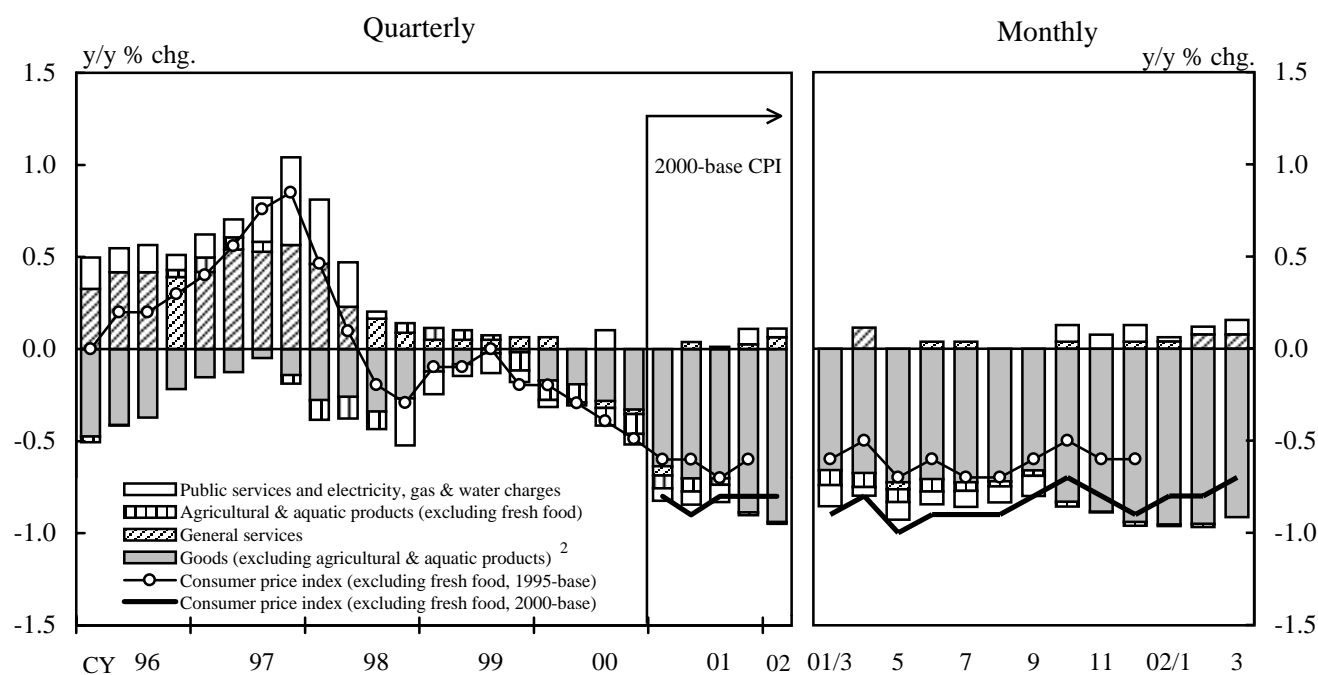
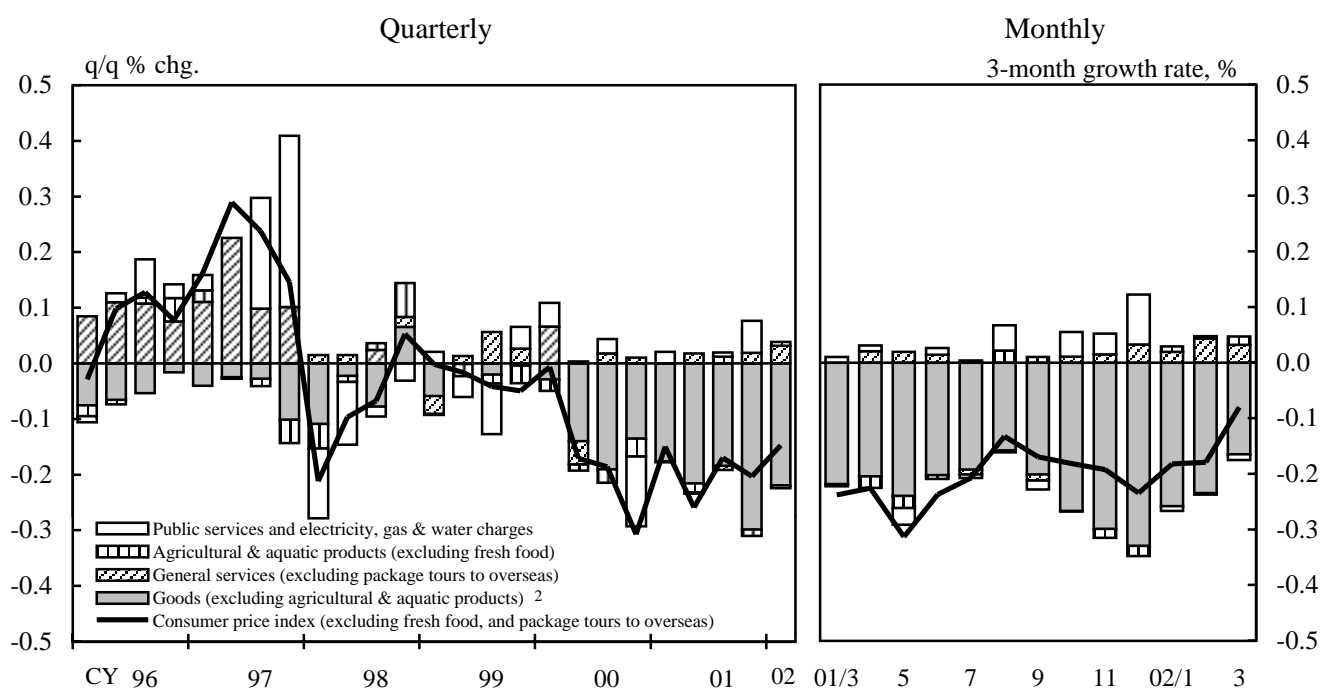
3. General services = finance & insurance + transportation + information services + building maintenance services + temporary worker services + machinery maintenance, etc. (excluding items in "others").

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

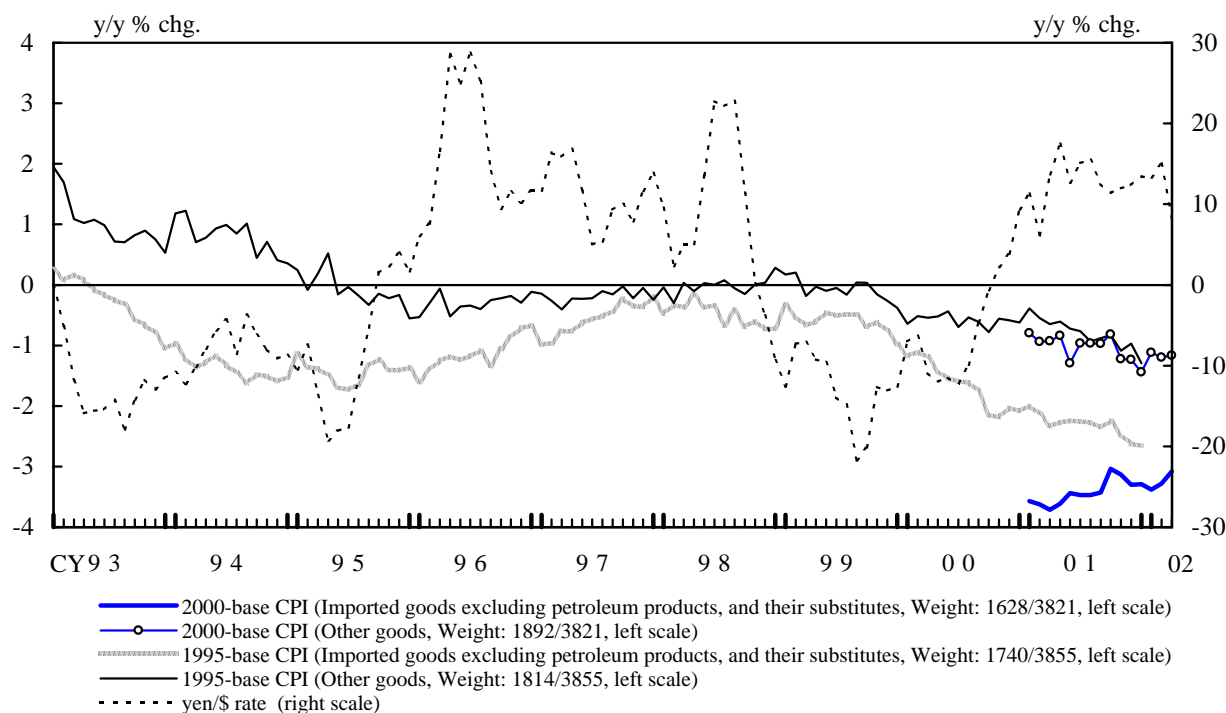
Consumer Price Index (excluding fresh food)<sup>1</sup>

## (1) Changes from a year earlier

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

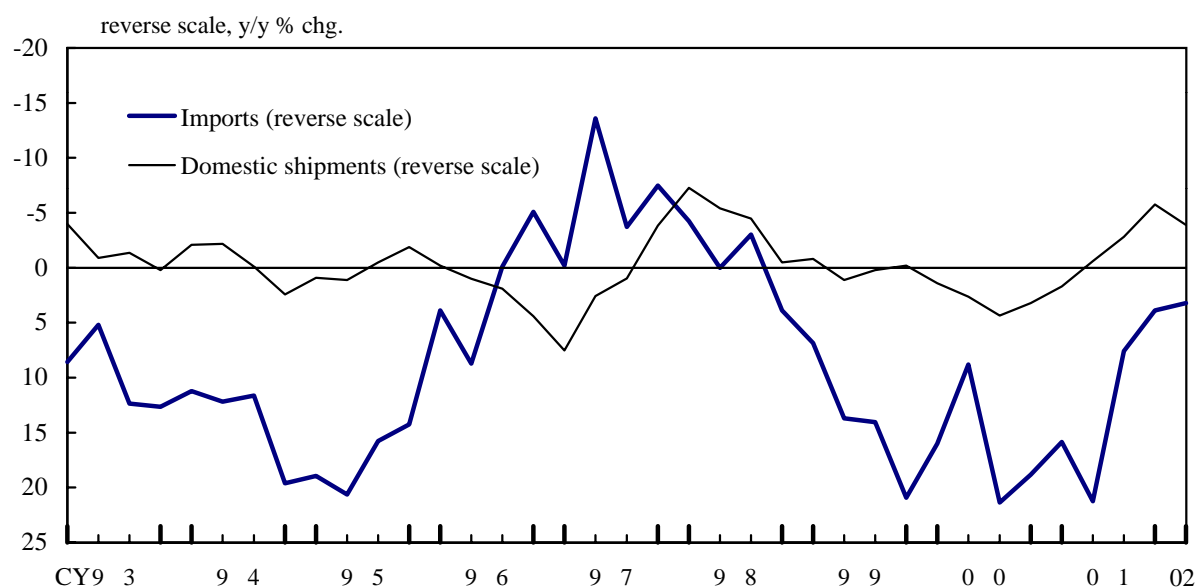
- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and 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.

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)

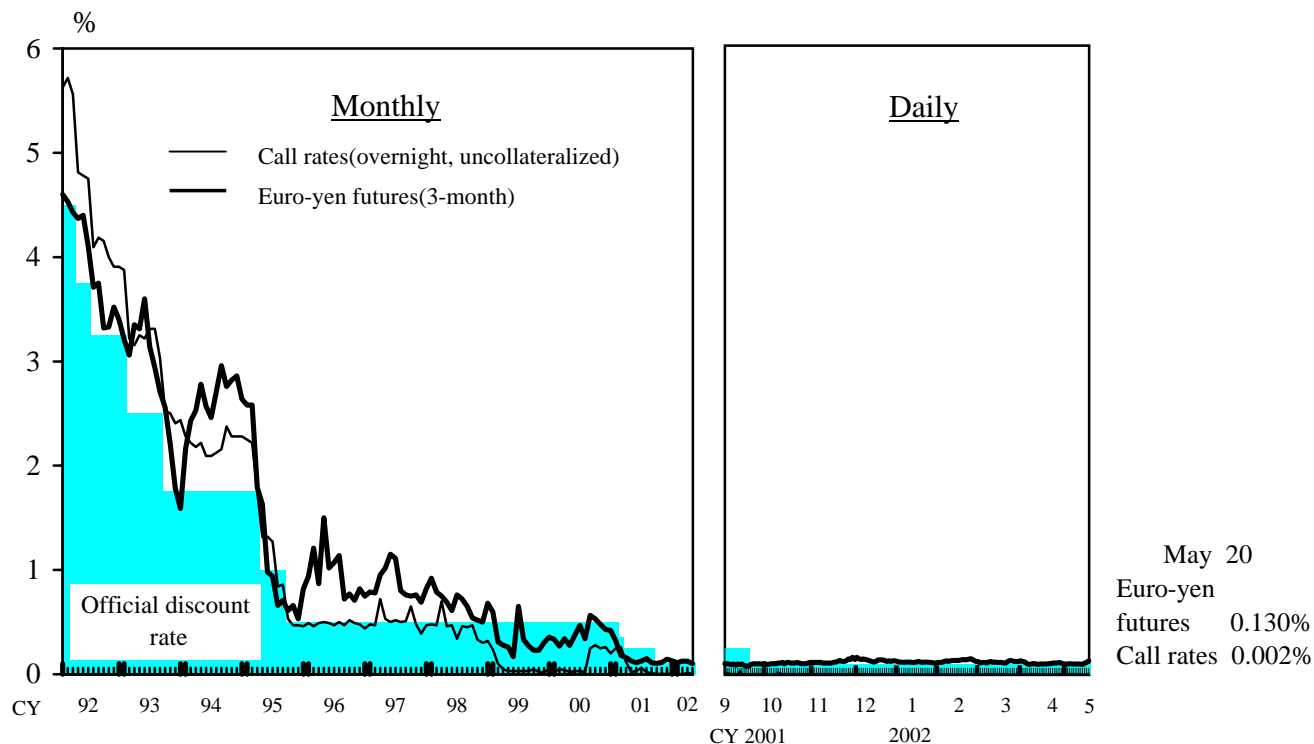


Note: See footnote Chart 9-4, for definition of the consumer goods supply.

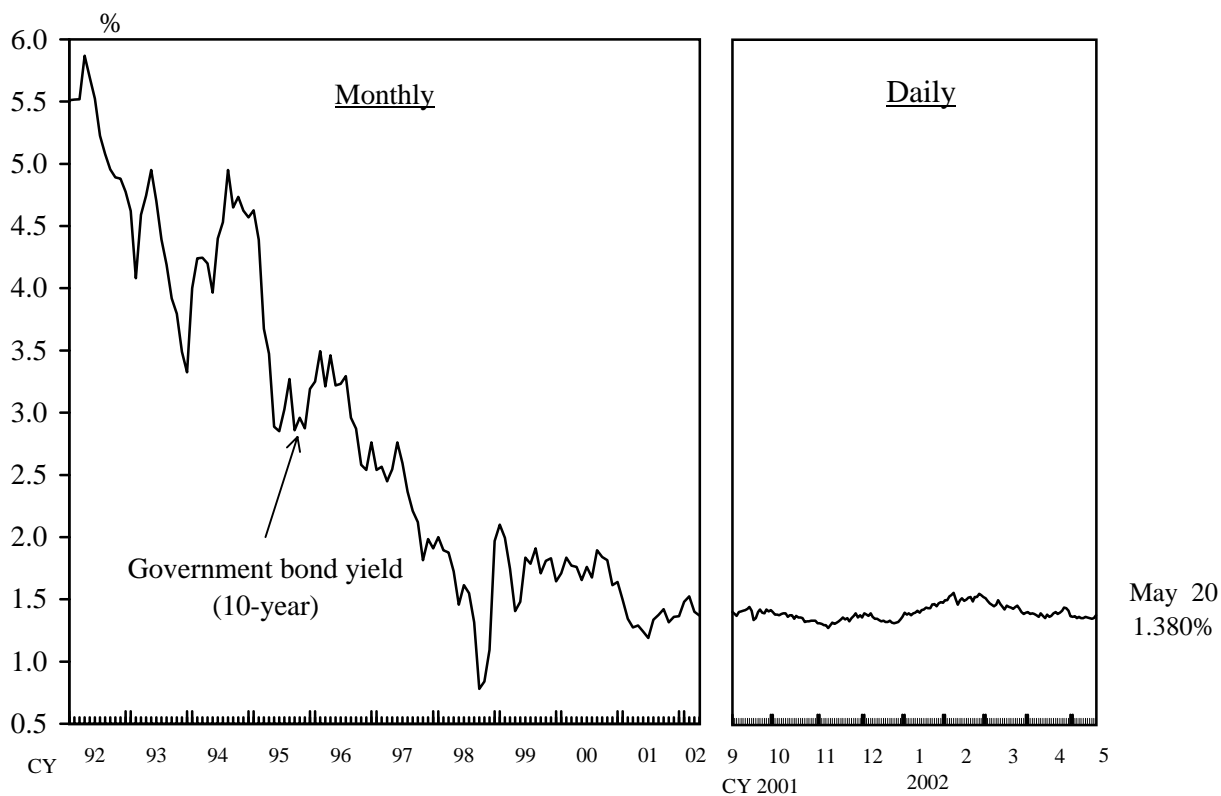
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports";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

Interest Rates

(1) Short-Term



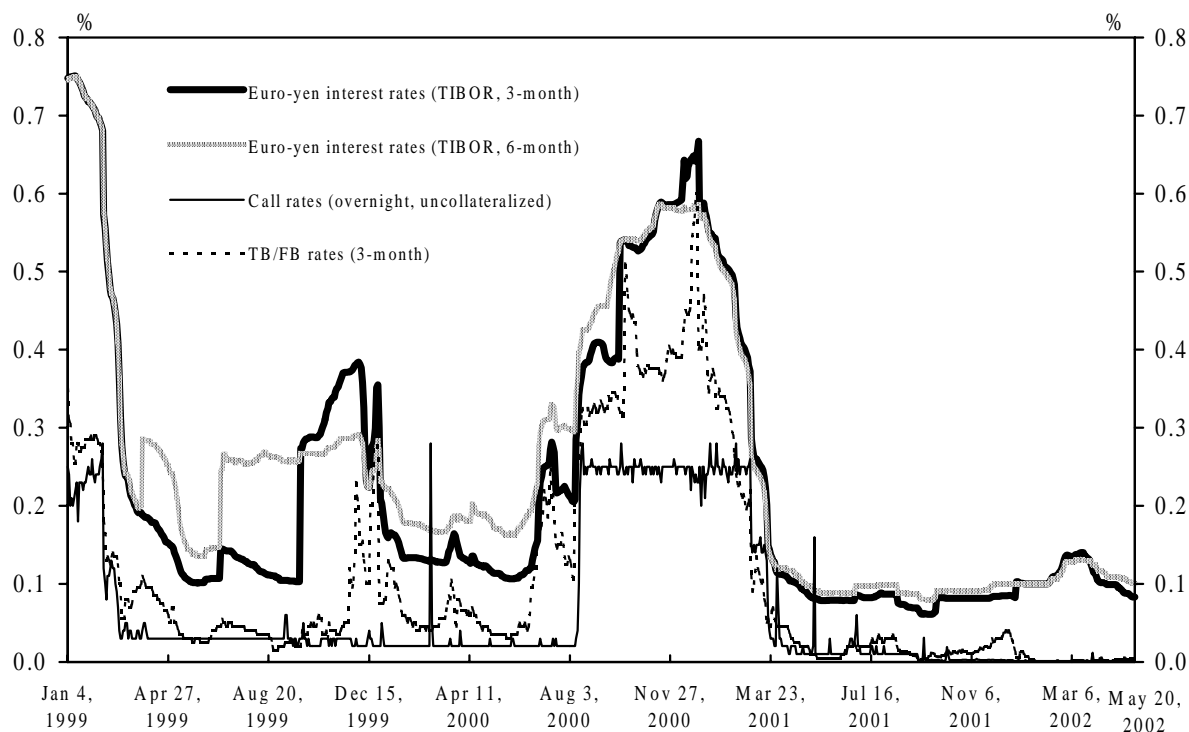
(2) Long-Term



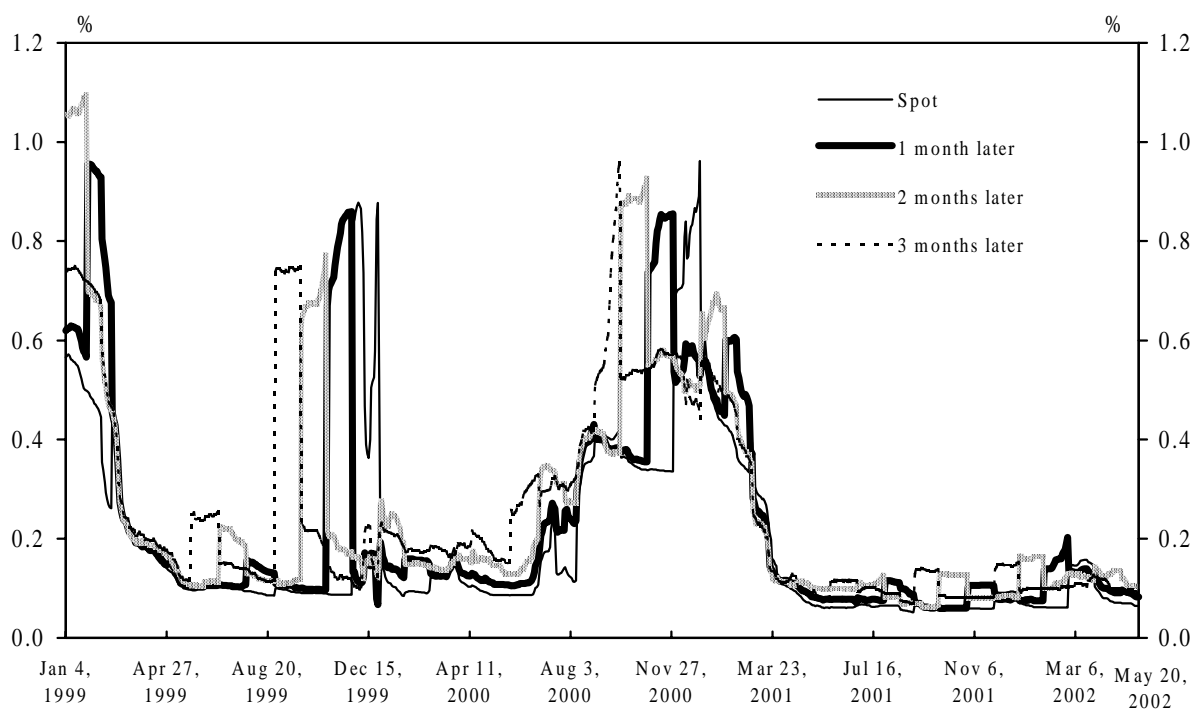
Sources: Bank of Japan; Tokyo International Financial Futures Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



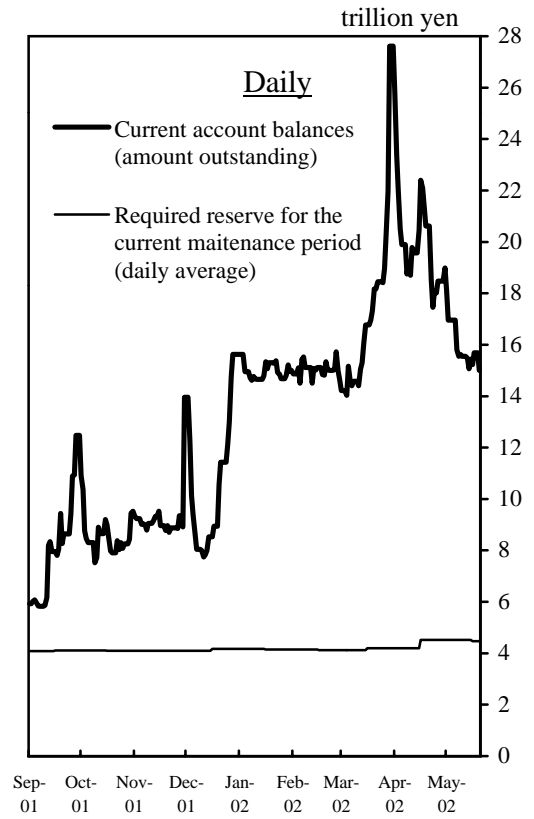
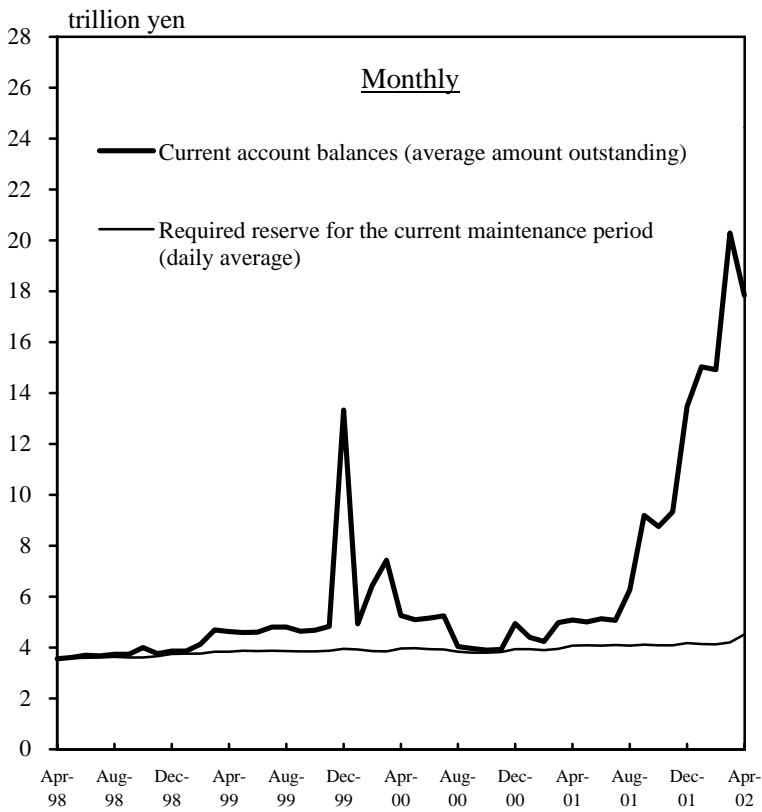
(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)



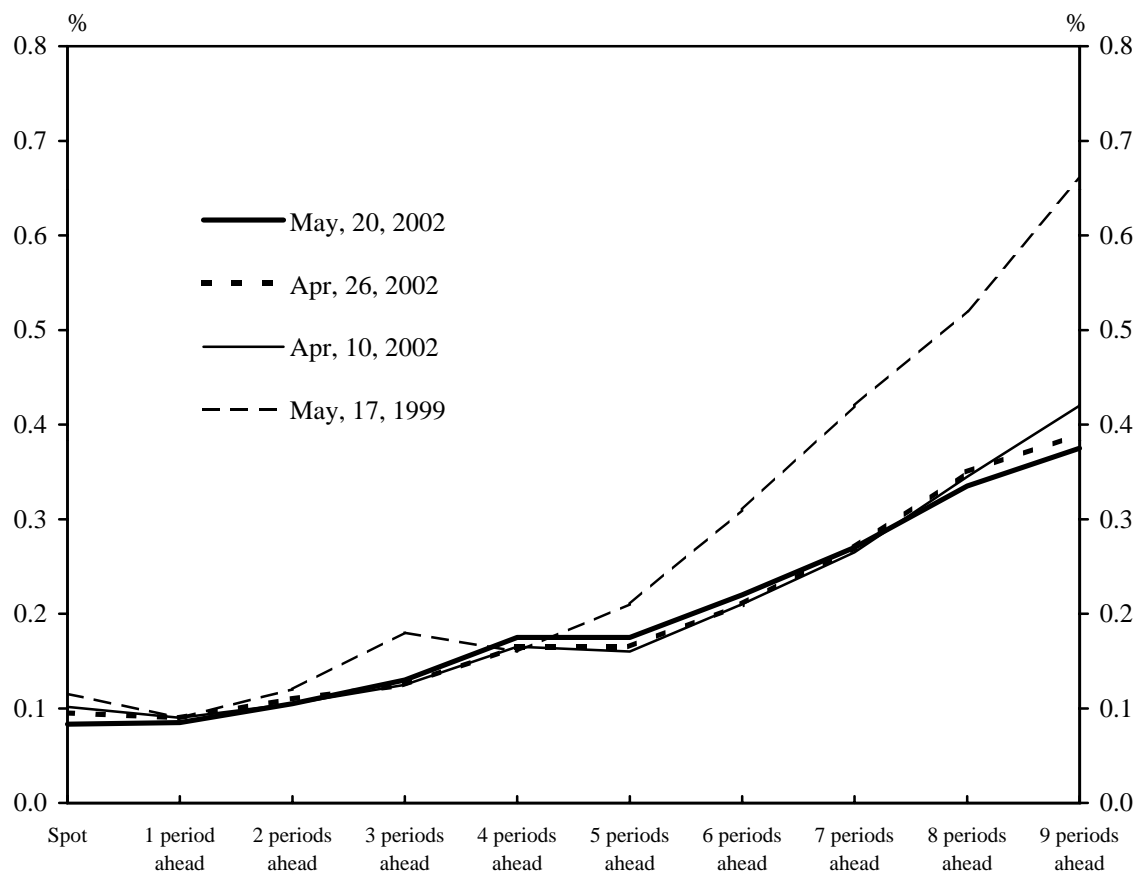
Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.



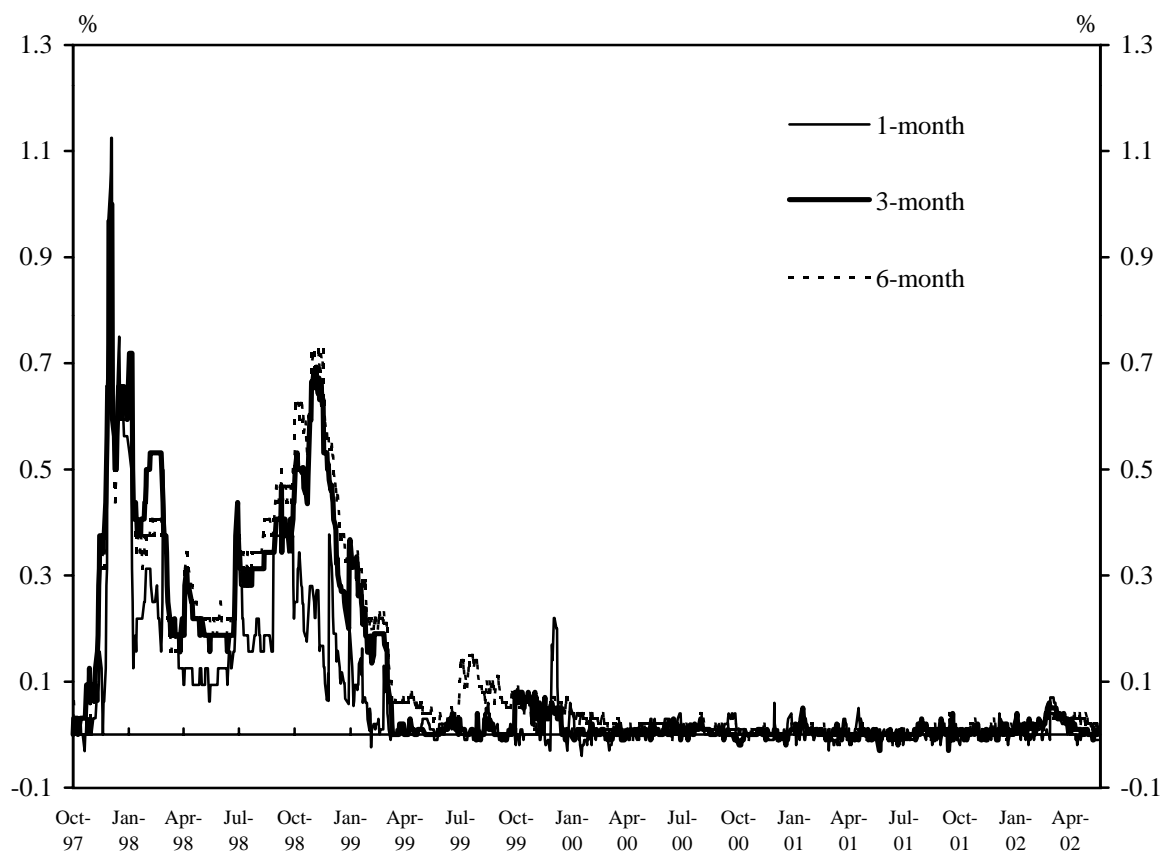
Current Account Balances at the Bank of Japan



## Euro-Yen Interest Rates Futures (3-Month)



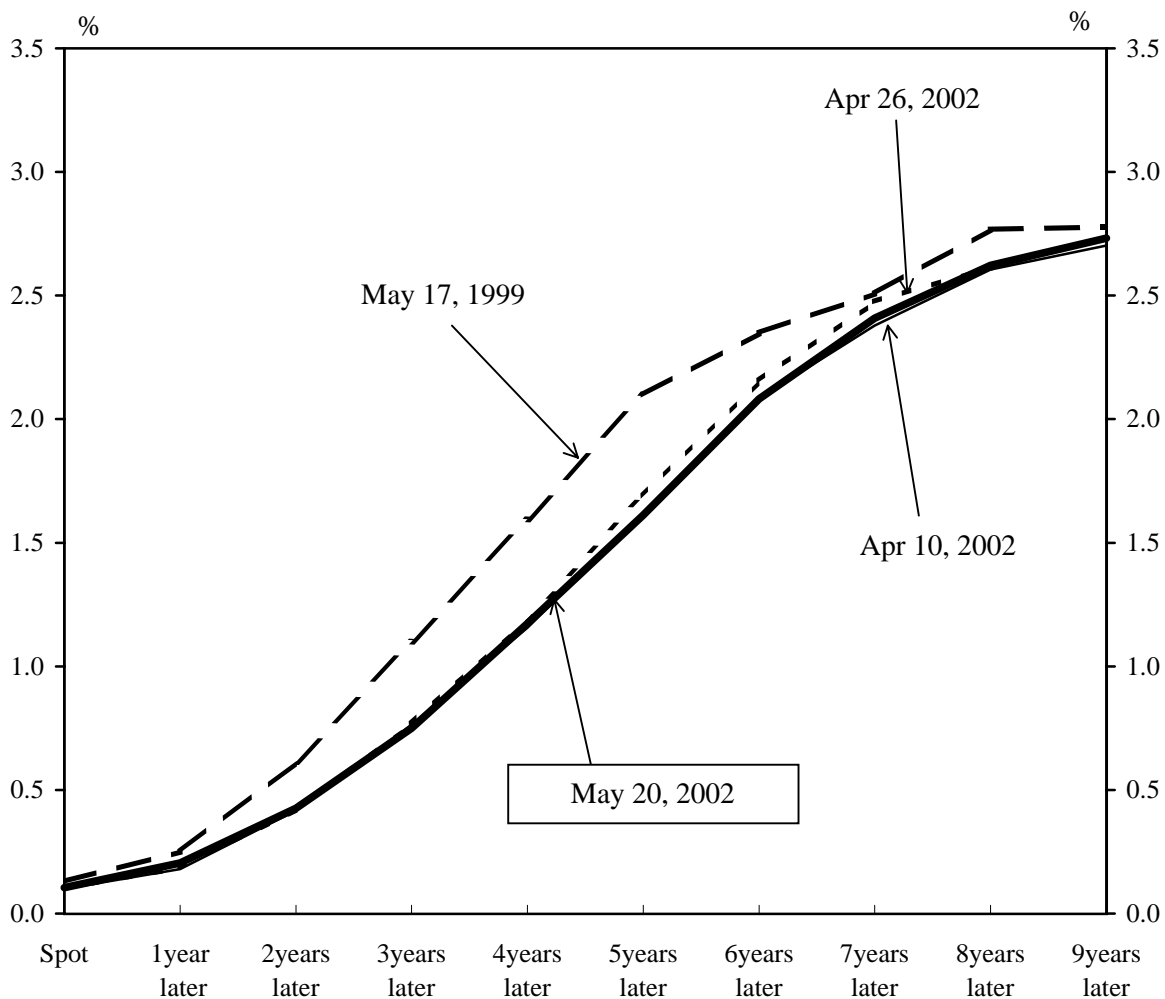
Source: Tokyo International Financial Futures Exchange.

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>

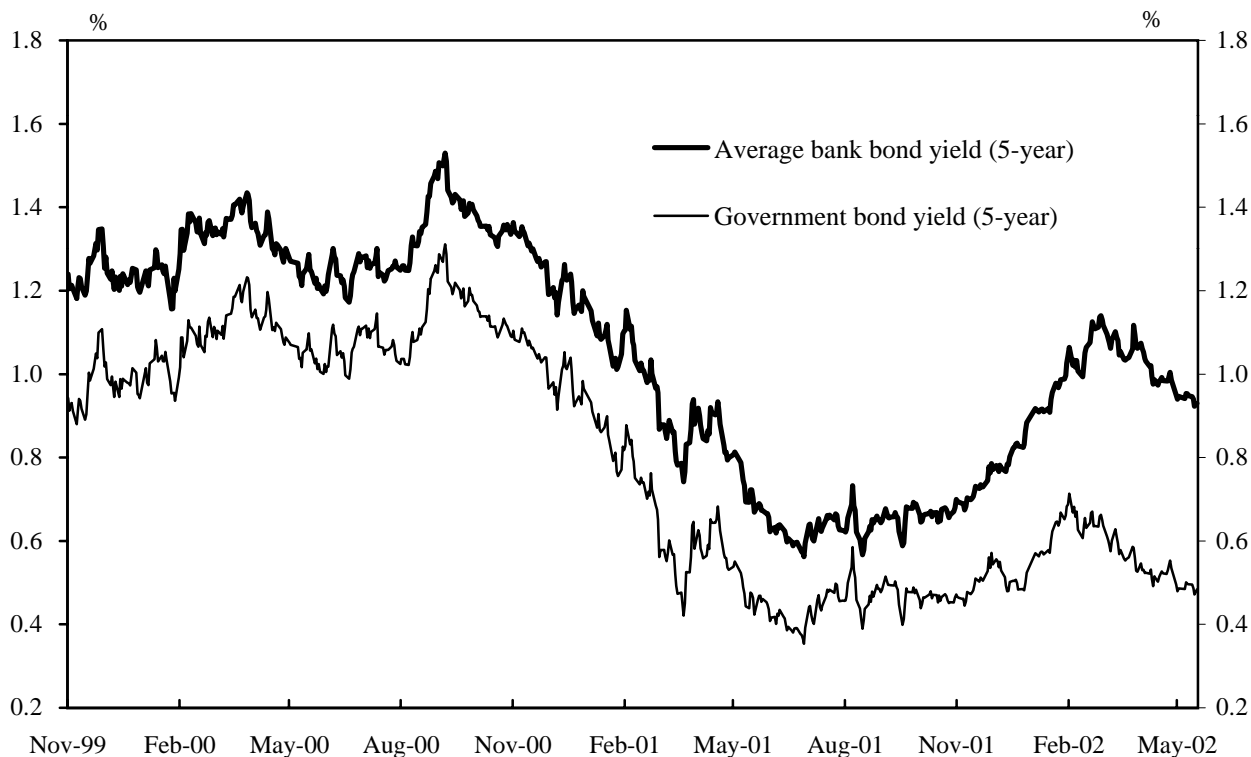


Note :Calculated from yen-yen swap rates.

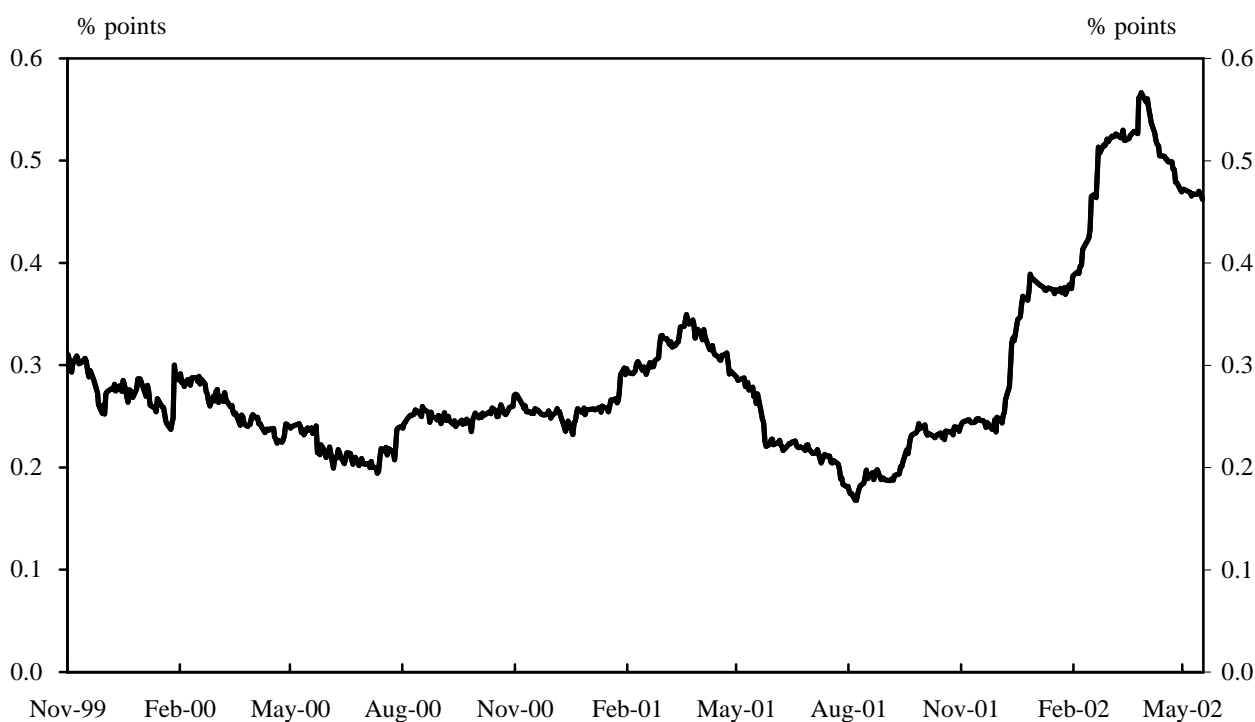
Source: Kyodo News.

Yields of Bank Bonds

(1) Bond Yields



(2) Spread of Average Bank Bond Yield and Government Bond Yield



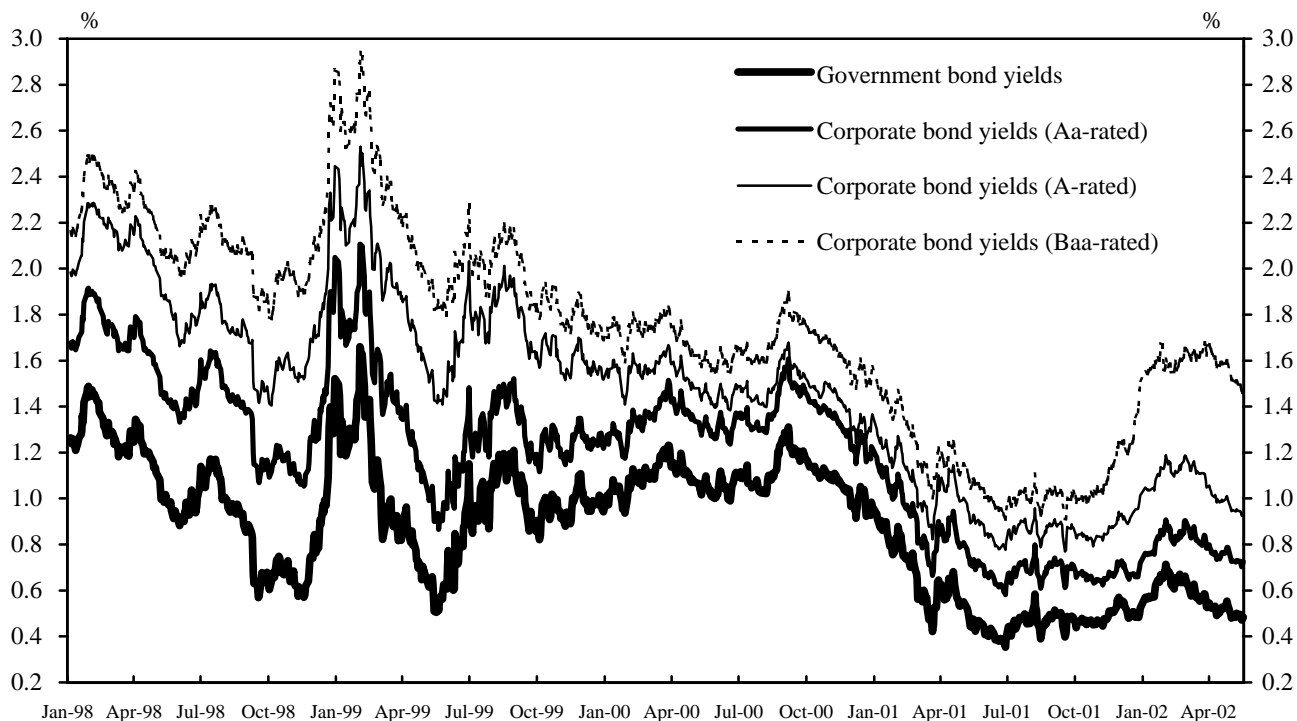
Notes: 1. Yields on bonds with 5-year maturity.

2. Average bank bond yield is the average of four bank bonds.

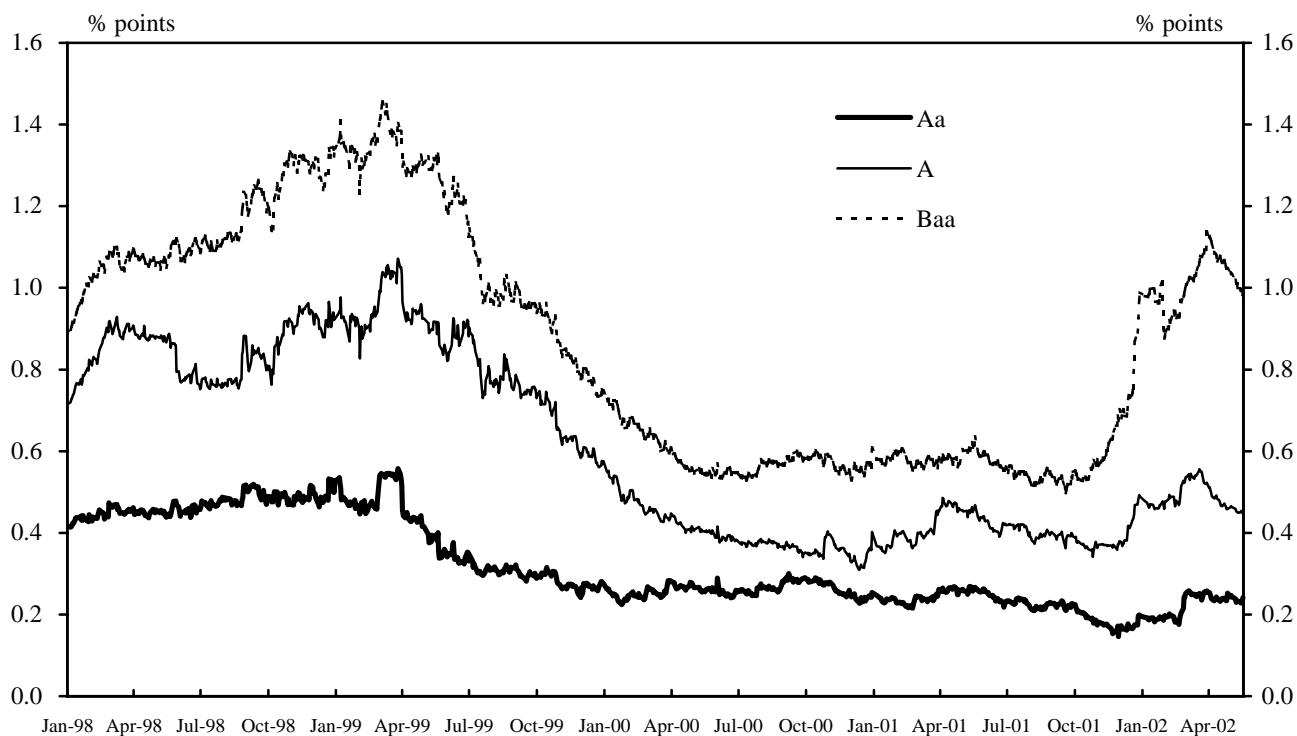
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields <sup>1</sup>

(1) Yields of Government and Corporate Bonds by Rating



(2) Yield Spreads of Public and Corporate Bonds



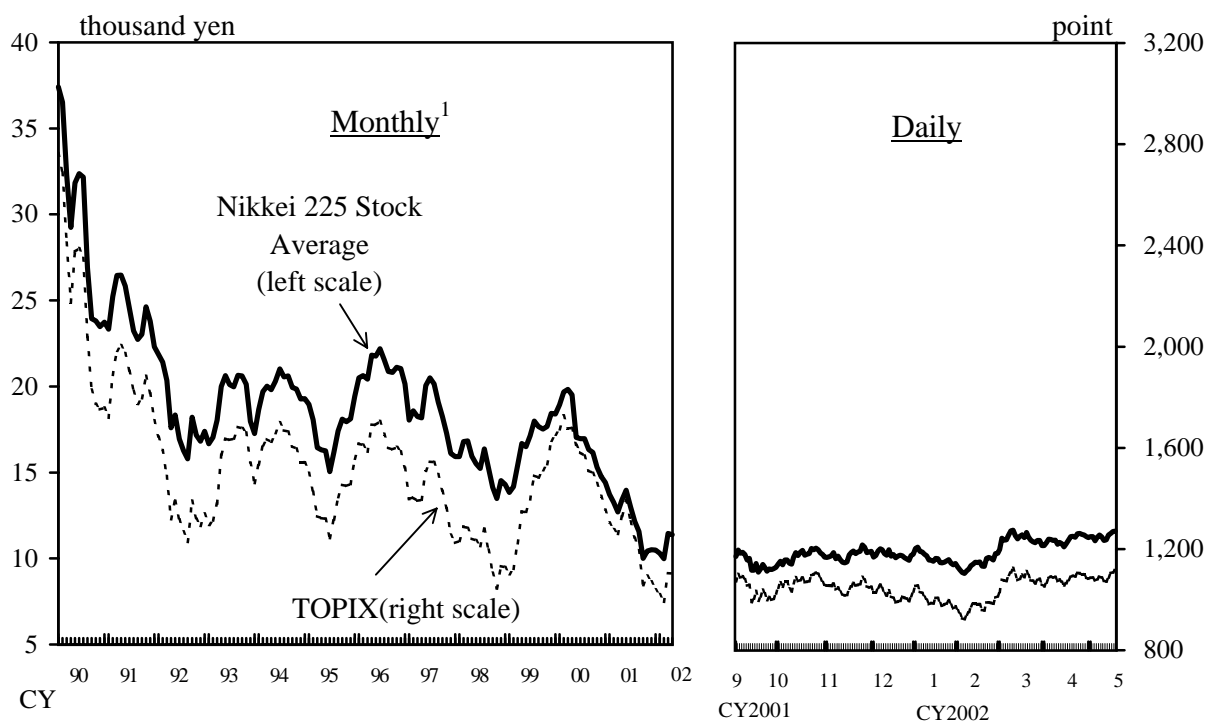
Note: 1. Yields on bonds with 5-year maturity.

The indicated ratings are of Moody's.

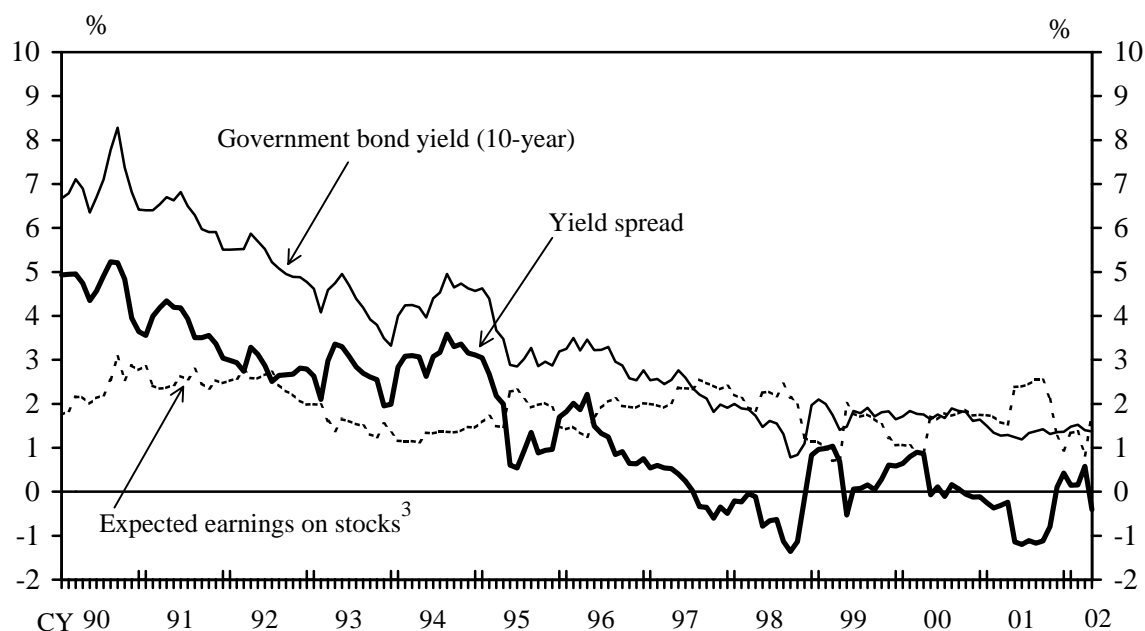
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock Prices



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



Notes: 1. Data are monthly averages.

2. Data are at end of period.

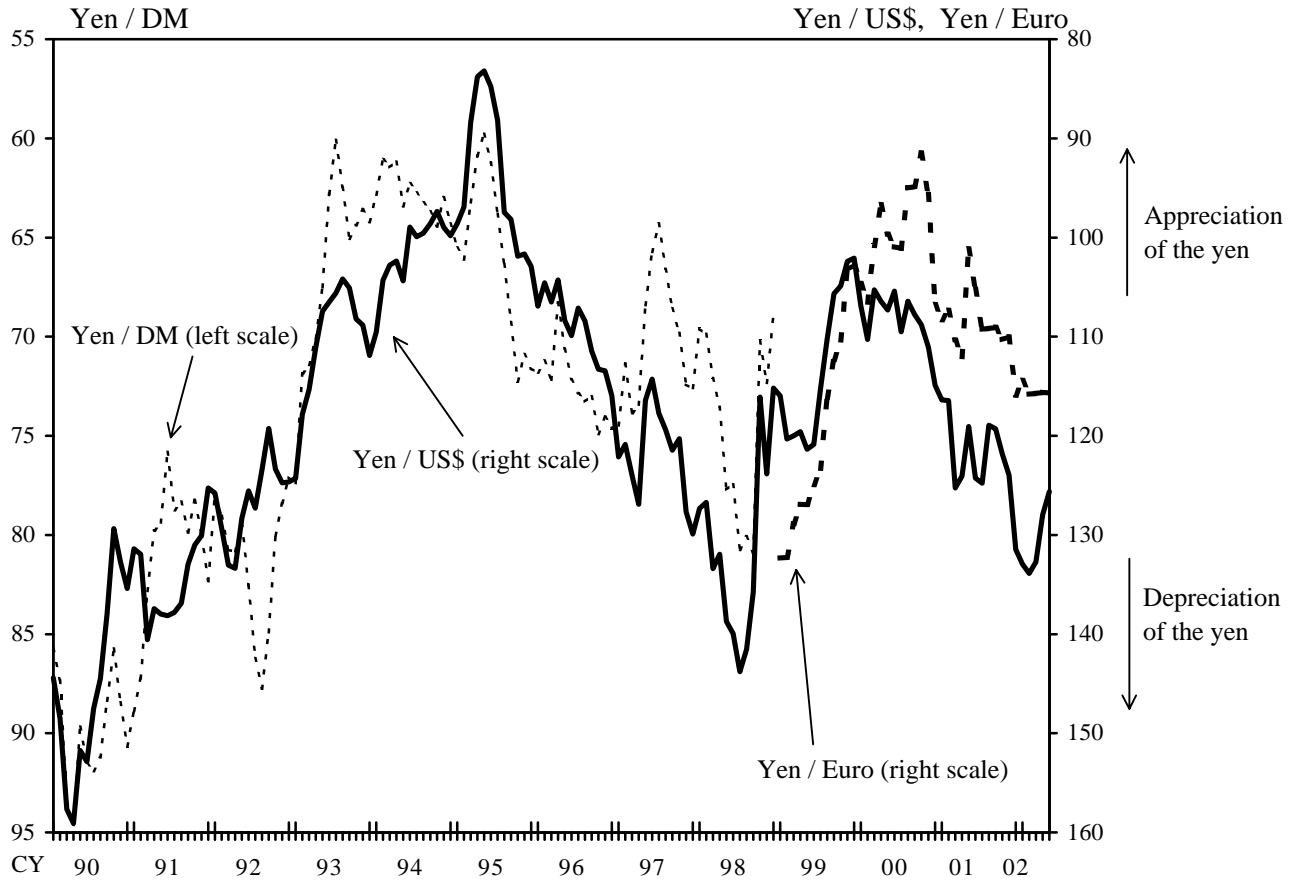
Yield spread = government bond yields - expected earnings on stocks,  
 where expected earnings on stocks = 1/expected price earnings ratio.

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 Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates <sup>1</sup>



Note: 1. End of month. Data for May 2002 are as of May 20, 2002.

Source: Bank of Japan.

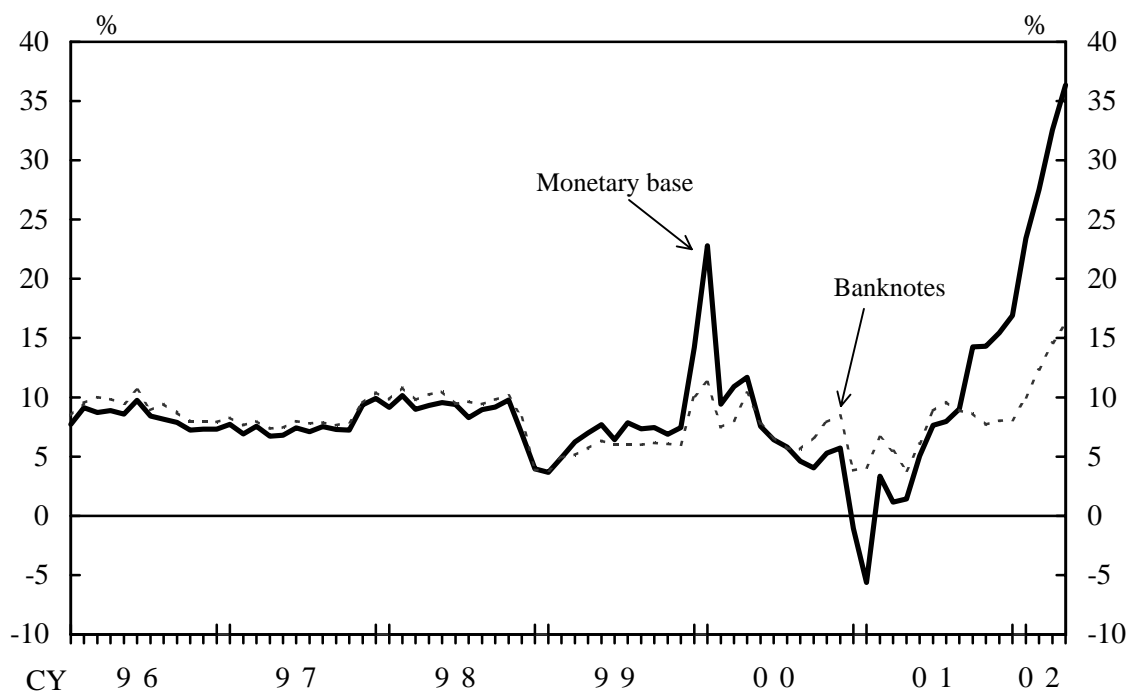


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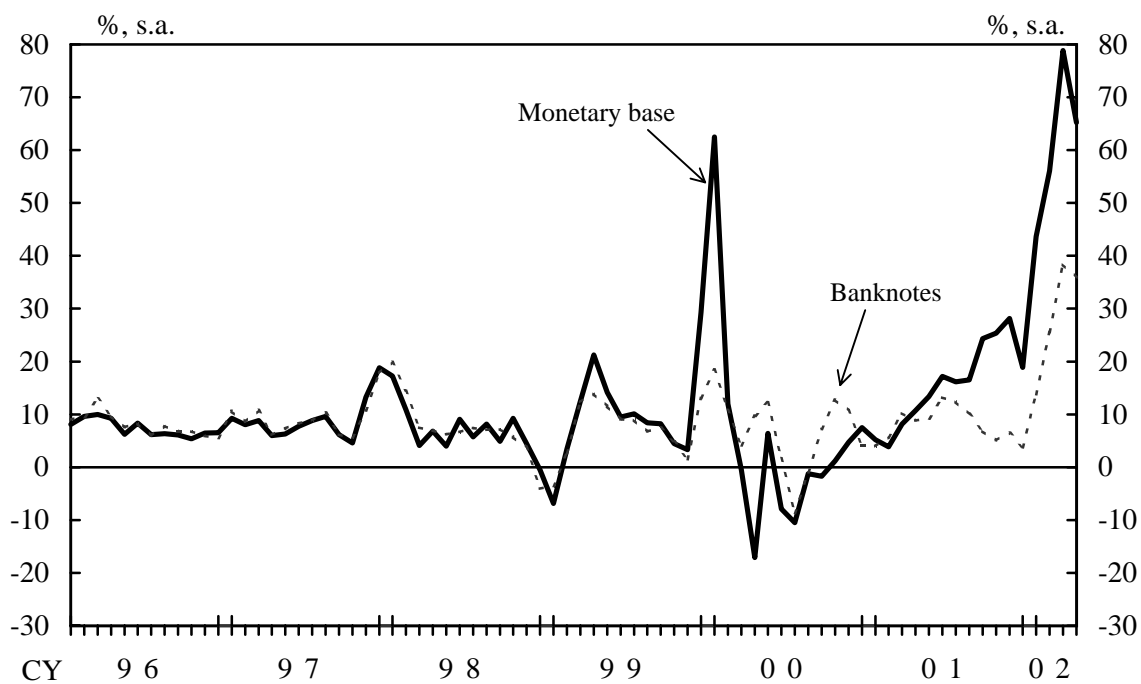
 Monetary Base
 

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## (1) Changes from a Year Earlier



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



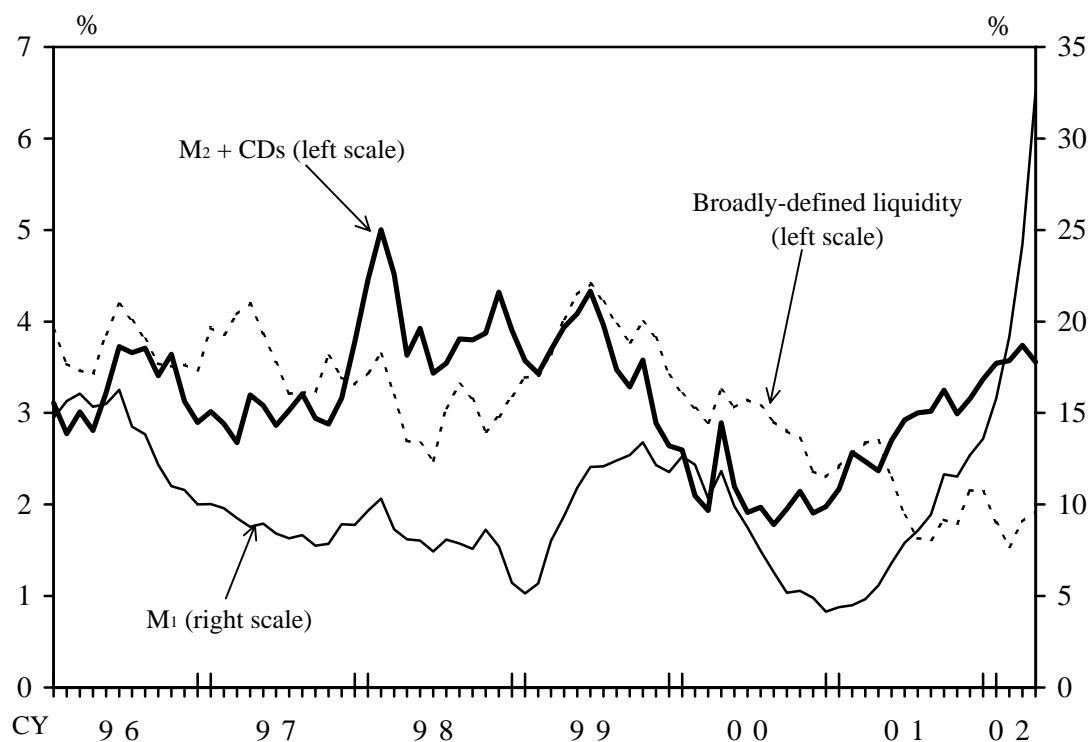
Note: Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

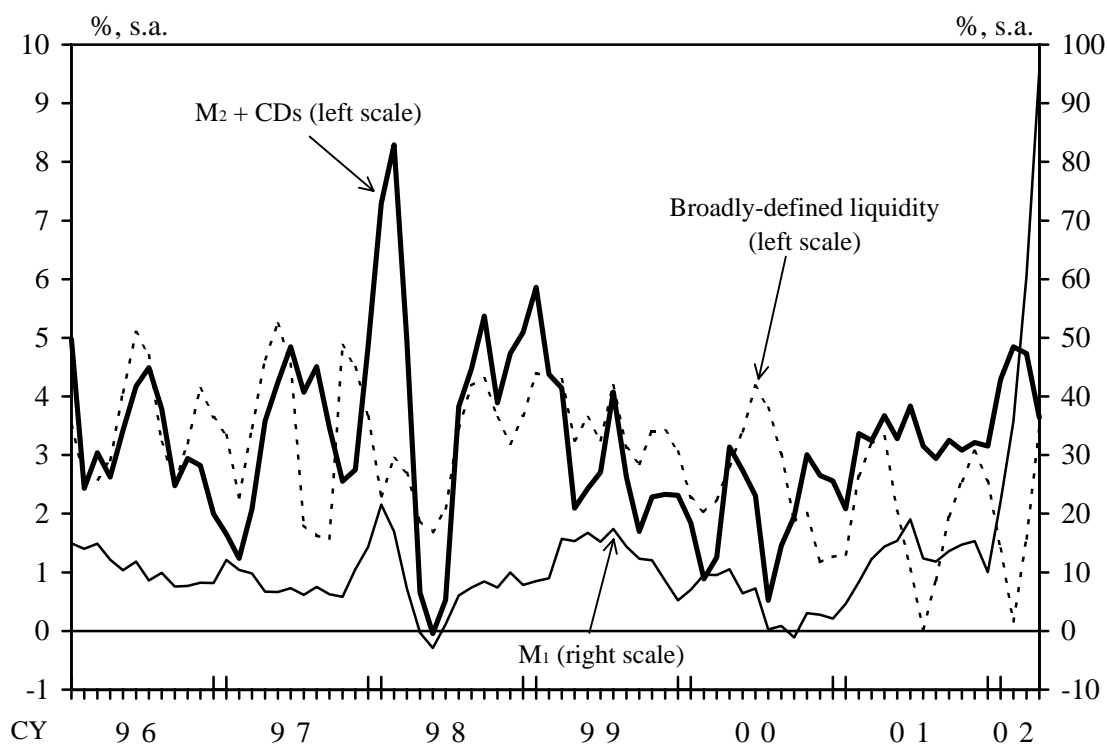
Source: Bank of Japan.

Money Stock (M<sub>1</sub>, M<sub>2</sub>+CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier

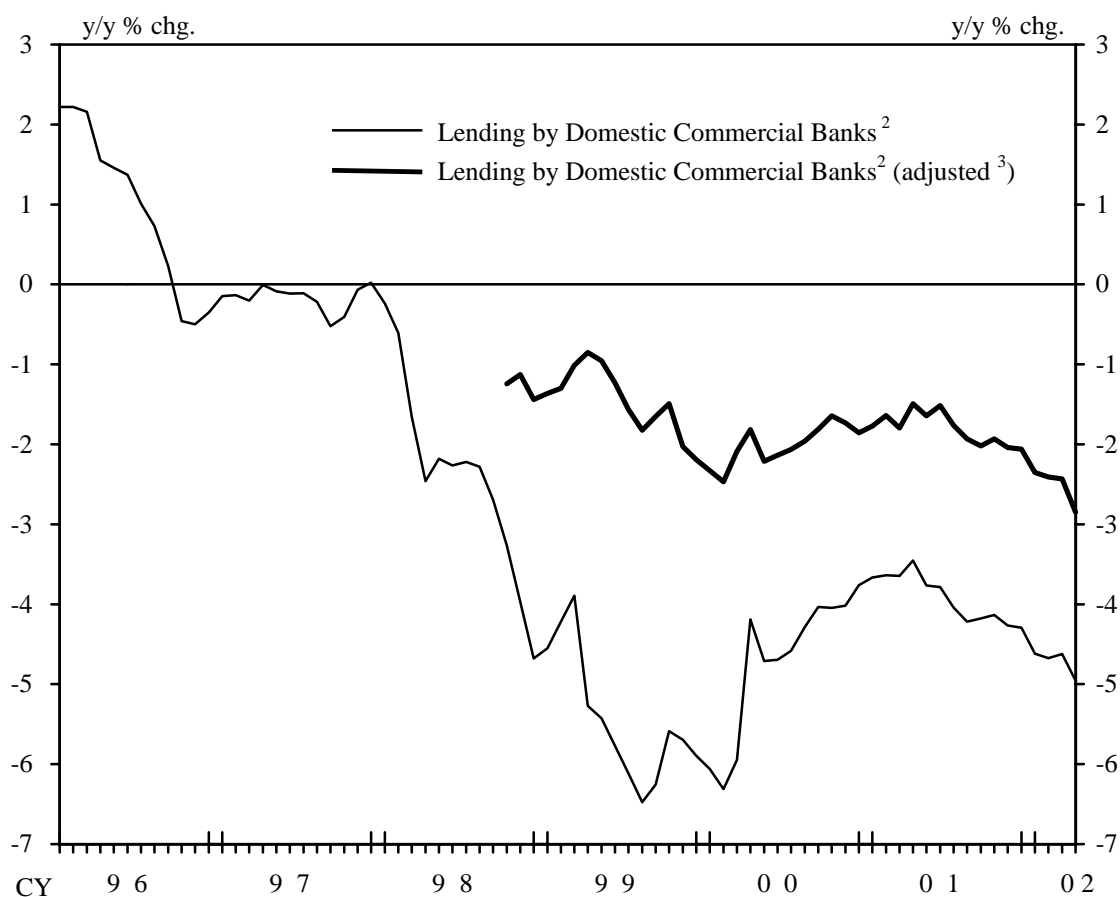


(2) Changes from Three Months Earlier (Annualized)



Note: Percent changes in average amounts outstanding.

Source: Bank of Japan.

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).

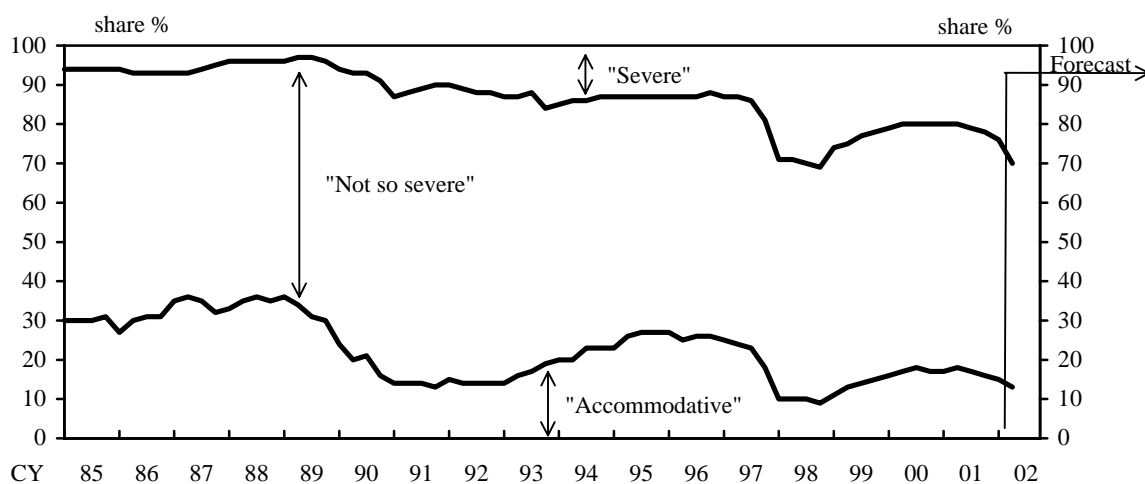
3. Adjusted to exclude

- (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.

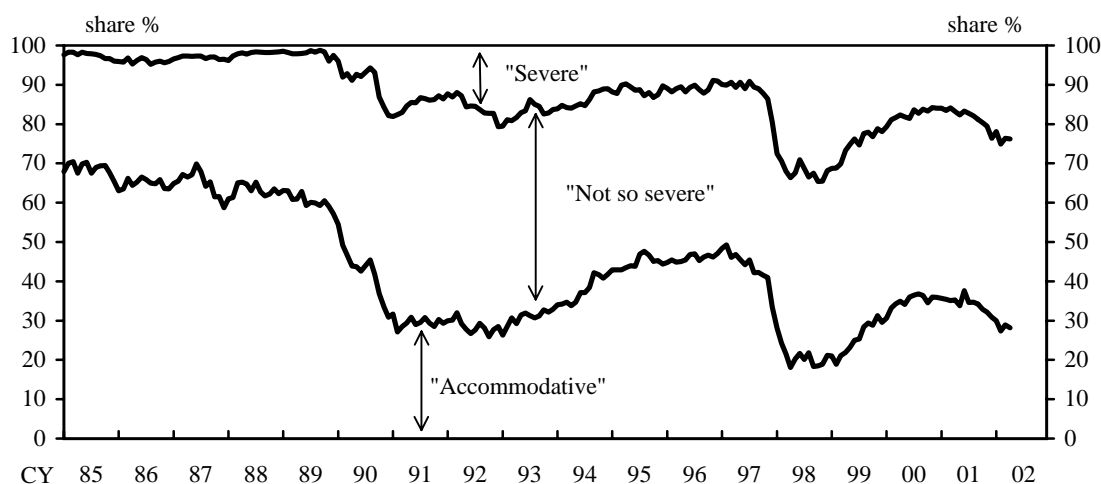
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as Perceived by Small Enterprises

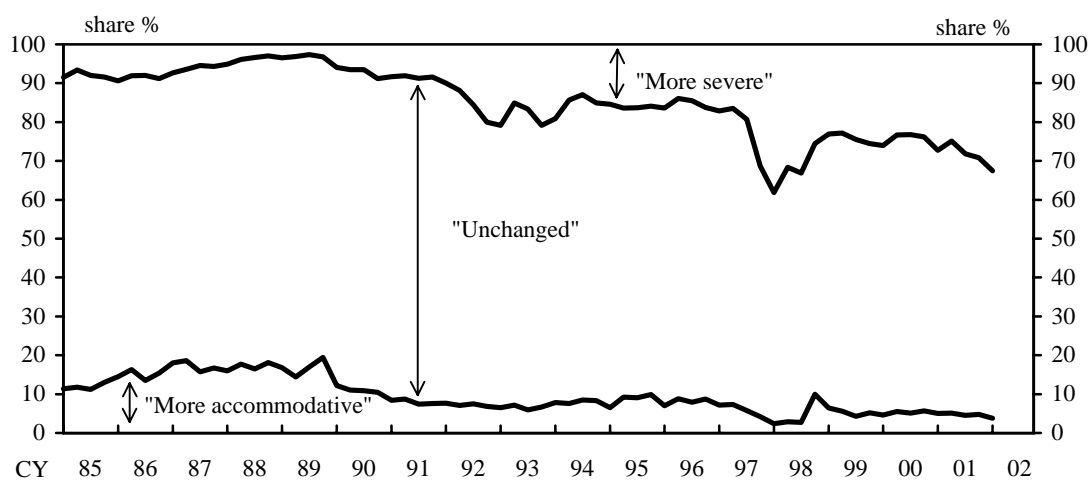
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 2002)



(2) "Monthly Survey on Trends of Small Businesses" (Mid-April, 2002)

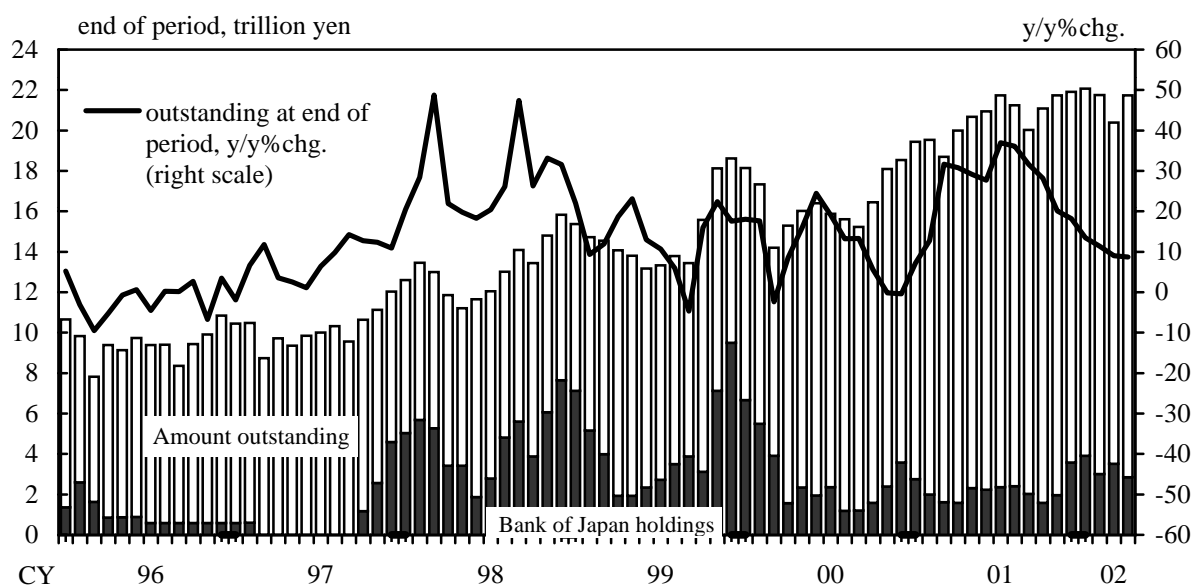


(3) "Quarterly Survey of Small Businesses in Japan" (Mid-March, 2002)



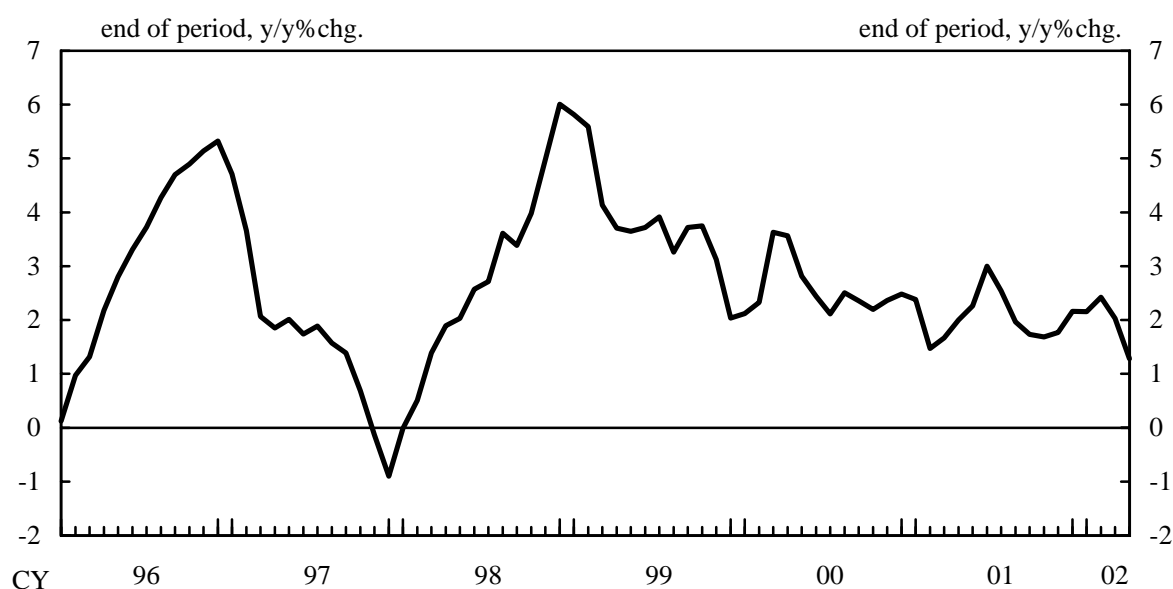
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ;  
 Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses";  
 National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

## 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/Q3	Q4	2002/Q1	2002/Feb.	Mar.	Apr.
Volume	23,779	31,733	24,079	11,235	10,273	5,418
(previous year)	(25,985)	(20,416)	(21,715)	(9,096)	(11,398)	(10,115)

(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.

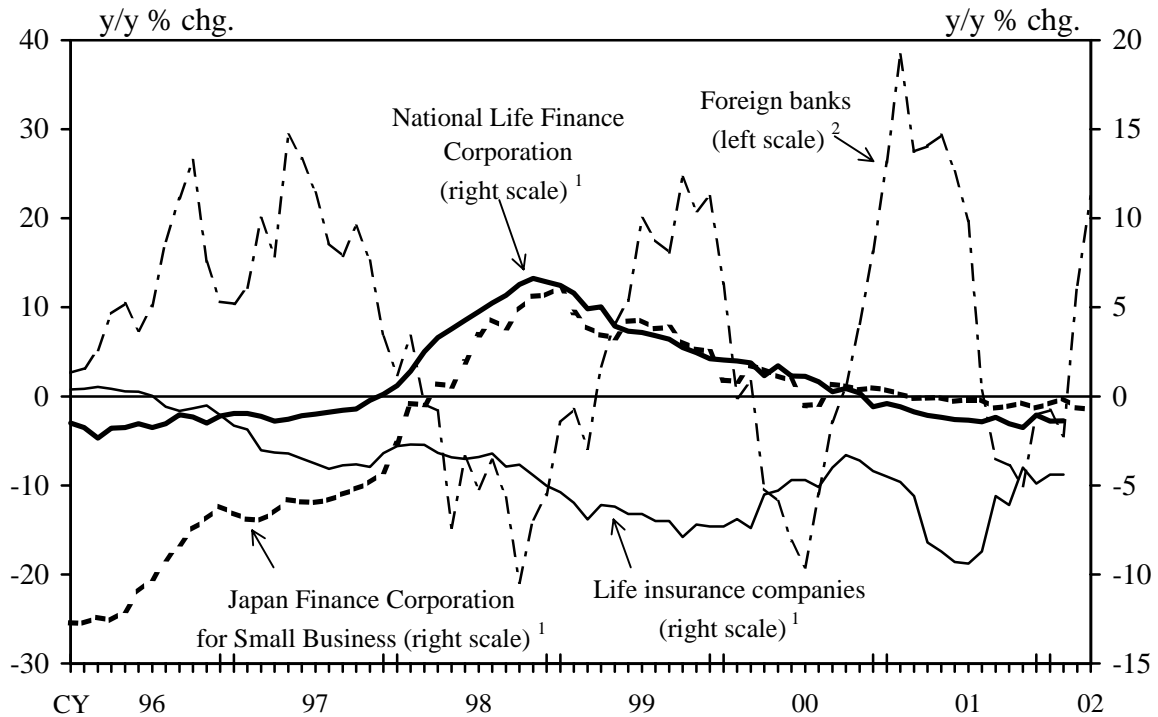
2. Includes straight bonds, convertible bonds, and bonds with warrants.

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."

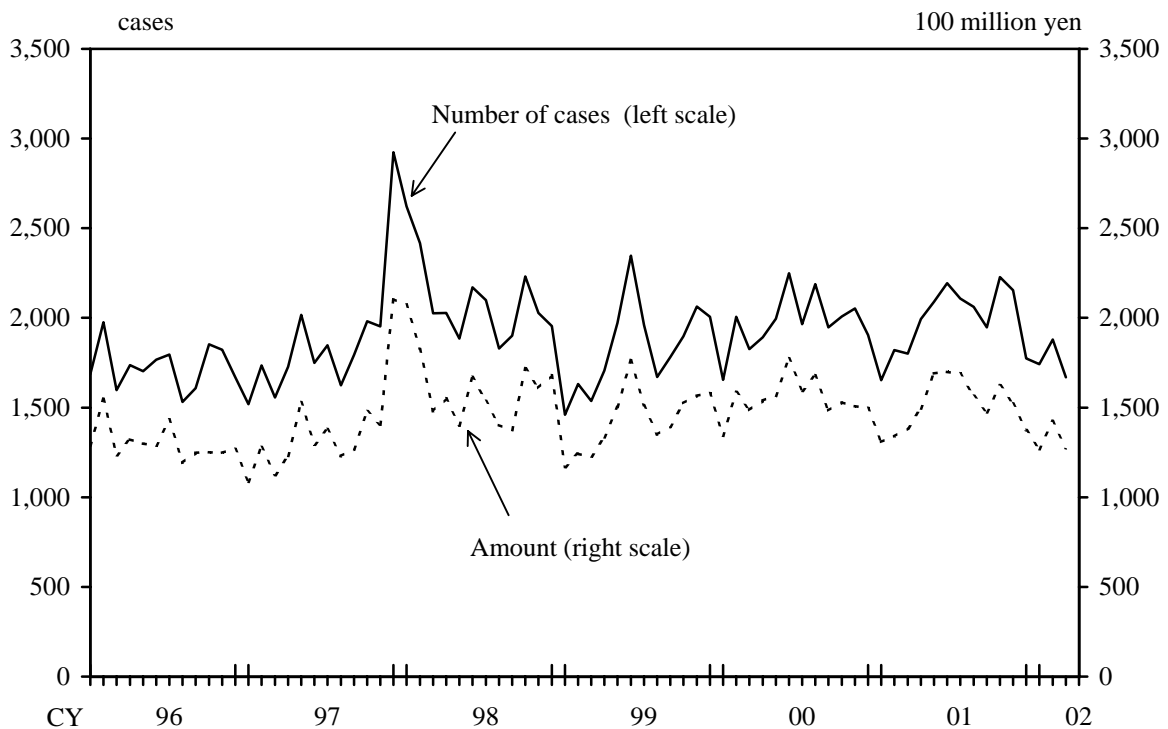
Lending by Other Financial Institutions

(1) Lending Outstanding



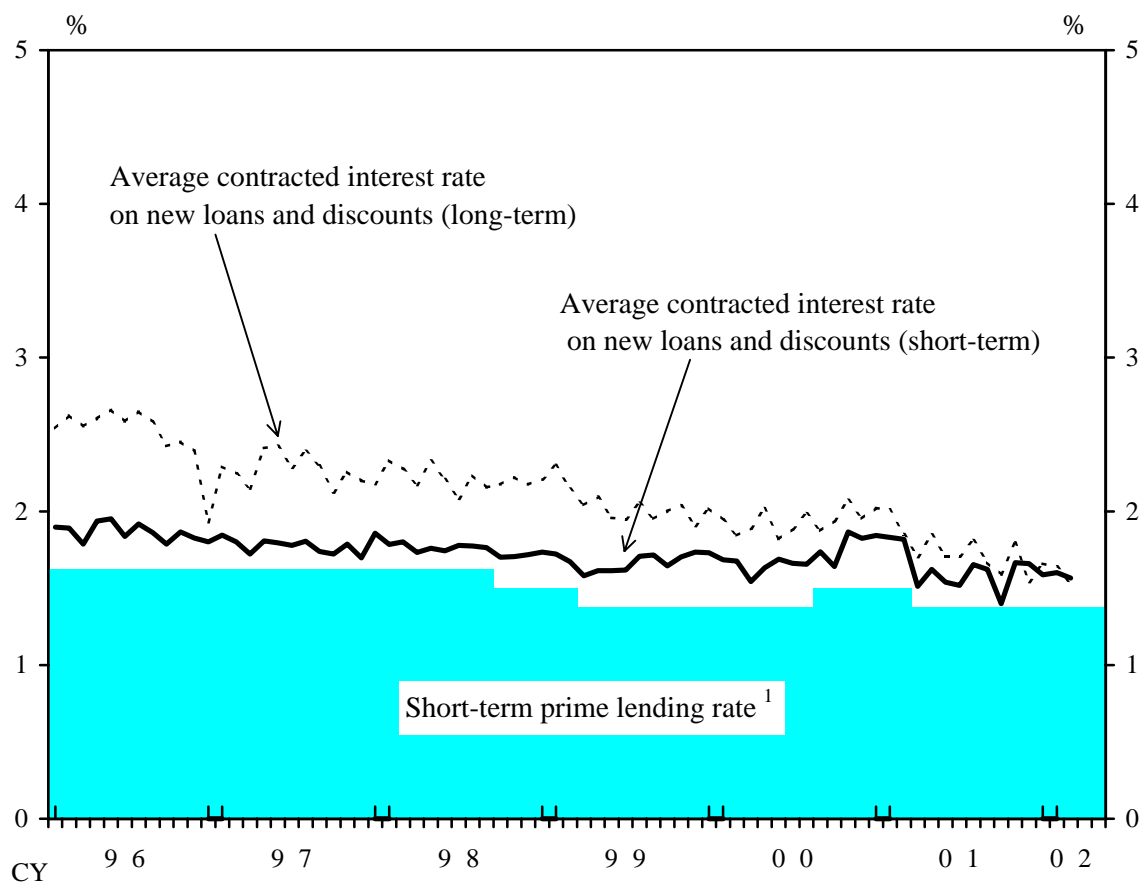
Notes: 1. Data are based on amounts outstanding at end of period.  
 2. Data are based on average amounts outstanding.

(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

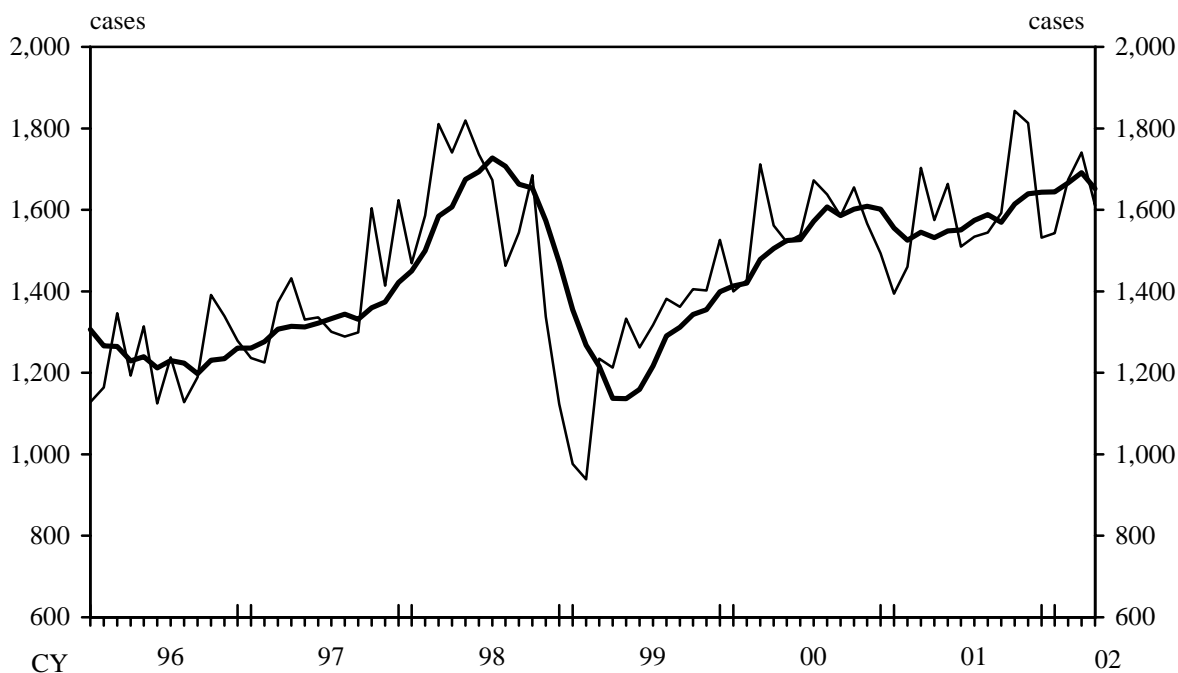


Note: 1. Data are at end of period.

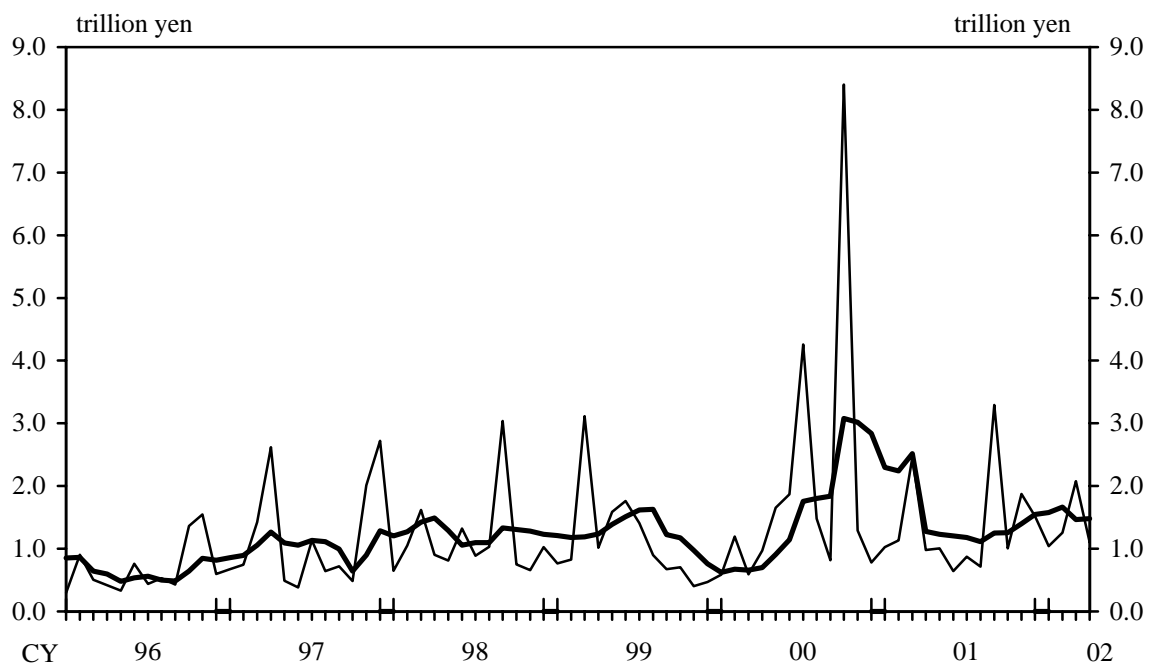
Source: Bank of Japan.

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)."