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Bank of Japan

Monthly Report of Recent Economic and Financial Developments

June 2002

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The Bank's View²

Japan's economy shows signs of stabilizing with a distinct increase in exports and a pick-up in production, although domestic private demand remains weak.

With regard to final demand, business fixed investment continues to decrease and private consumption, despite some resilience, remains weak as a whole. Moreover, housing investment remains sluggish and public investment is on a downtrend. Meanwhile, net exports (real exports minus real imports) are increasing markedly due to the recovery in overseas economies and also to the effects of restocking abroad, mainly in IT-related goods.

Industrial production is picking up, reflecting the increase in exports and completion of inventory adjustment. The rebound in production is beginning to affect employment conditions, albeit marginally, with an increase in overtime working hours and in new job offers mainly for part-time workers. Nevertheless, firms are still maintaining their stance on reducing personnel expenses from a longer term perspective and as a consequence, household income continues to decrease noticeably. In sum, employment and income conditions of households overall remain severe.

Turning to the outlook, exports are projected to continue to trend up mainly in IT-related goods amid the ongoing recovery in overseas economies, especially in the U.S. and East Asia. However, the pace of recovery is likely to become somewhat slower in the future than at present, as the effects from overseas restocking dissipate. Supported by this upturn in exports and also by the completion of inventory

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 11 and 12, 2002.

² The Bank's view of recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on June 11 and 12 as the basis for monetary policy decisions.

adjustment, industrial production is expected to accelerate momentarily followed by a gradual uptrend.

Meanwhile, with respect to domestic demand, public investment is projected to follow a declining trend and private demand is likely to remain weak for the immediate future. Nevertheless, if the increase in exports and production mentioned above continues, corporate profits will recover, particularly in the manufacturing sector, and this will gradually have a positive impact on domestic private demand such as business fixed investment.

Overall, Japan's economy is projected to stop declining 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, considering that forces restraining the economy stemming from excessive employment and debt are still persistently at work, it will take a while for the positive momentum to spread across the nonmanufacturing sector, small firms and households. The outlook for overseas economies, particularly for the U.S. economy, is also accompanied by various uncertain factors. Amid the persisting fragility and uncertainty of the economy, it should continue to be borne in mind that unstable movements in the foreign exchange and financial markets at home and abroad would easily exert a negative influence on the economy.

On the price front, import prices become almost unchanged because the continued upward pressure from the rise in crude oil prices around early spring is offset by the recent appreciation of the yen. Domestic wholesale prices are also almost flat since the decline in machinery prices and the reduction in electricity charges are offset by the effects of the increase in import prices in the past and of the progress in inventory adjustment. However, consumer prices and corporate service prices continue to decline.

As for the conditions surrounding price developments, the balance between supply and demand is expected to still keep exerting downward pressure on prices amid persistently weak domestic demand for a while, although the progress in inventory adjustment will support prices to some degree. Moreover, factors such as

the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels will continue to restrain prices. Under these circumstances, as import prices are likely to turn down, domestic wholesale prices, which are sensitive to import prices, will edge down after remaining flat a little further. On the other hand, consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. This is partly because while the slower growth in imports of consumer goods is expected to alleviate the downward pressure on prices to some extent, the faster pace of decline in wages may possibly reinforce the ongoing decline in prices, especially for services prices.

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 mainly moving in the range of 1.3-1.4 percent recently. Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds continue to contract. 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 continued to appreciate reflecting the overall downtrend in the U.S. dollar, but has been mixed thereafter since late May due mainly to the news on yen-selling intervention by the Japanese monetary authority.

With regard to corporate finance, private banks are becoming 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 severe. In the corporate bonds and

CP markets, the issuing environment for firms with low credit ratings remains severe, but the environment for firms with high credit ratings is on an improving trend.

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 is declining recently, although the amount is still well above the previous year's level.

The monetary base continued to increase substantially by around 30 percent from the previous year's level in May, although the growth rate slowed slightly due partly to the abatement of liquidity demand prompted by 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 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 funding situation 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—remains sluggish, albeit with some fluctuations (Chart 2). Moreover, various indicators, reflecting the actual implementation of those works, also continue a declining path as a whole. 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 budgets of both central and local governments for FY2002, public investment is basically expected to follow a declining trend.

Real exports are increasing markedly due to the recovery in overseas economies and to the effects of restocking abroad, mainly in IT-related goods. In April, real exports increased noticeably on a quarter-to-quarter basis after registering high growth in the first quarter (Chart 3[1]). With respect to the increase in April compared to the first quarter by goods (Charts 4 to 6), capital goods and parts were up, particularly in semiconductor fabrication machines and equipment. Intermediate goods (iron and steel, and chemicals) also continued to increase, mainly to East Asia, but at a slower pace than in the first quarter. Moreover, automobile-related goods continued to register an increase as a whole since exports to regions other than the U.S. rose mainly due to the effects of the yen's past depreciation, while exports to the U.S. decreased in reaction to the substantial increase aimed at building up inventories in the first quarter. In addition, IT-related goods, which had been decreasing until the first quarter, increased sizably in electronic parts such as semiconductors, reflecting the surge in orders from abroad to restock inventories.

Real imports continue to decline, mainly against the background of weak domestic demand. Still, real imports in April compared to the first quarter showed that the pace of decline tended to be slower due to the uptrend in IT-related imports (Charts 3[1] and 5[3]). Also, the following characteristics were observed in April: imports of capital goods and parts (excluding airplanes) increased, but materials (pulp, etc.) and intermediate goods (metal products and iron and steel) decreased conspicuously (Chart 7).

Net exports (real exports minus real imports), in terms of the real trade balance,³ increased markedly since exports rose and in contrast, imports still declined, as noted above (Chart 3[2]). The surplus of the nominal balance on goods and services had begun to expand earlier than net exports, reflecting the developments in crude oil prices and in the balance of travel services. It also continued to expand during the first quarter, mainly from the developments in real exports and imports explained above.

Regarding the environment for foreign trade from now on (Chart 8), overseas economies, especially in the U.S. and East Asia, are likely to stay on a recovery path. As for IT-related goods, which have a large impact on exports, inventory adjustment worldwide has already finished and related final demand are projected to rebound, mainly in personal computers and cellular phones. Also, the real effective exchange rate of the yen is still lower than last autumn, although it has been appreciating recently. Hence, exporting conditions are basically expected to be favorable hereafter and they may be accompanied by uncertain factors. As for the U.S. economy (Chart 8-2), 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, as a retrenchment in capital spending has been ongoing, uncertain aspects regarding future developments in U.S. final demand still remain. In these circumstances, U.S. stocks and the U.S. dollar have recently been weak on average.

Overall, exports, mainly in IT-related goods, are projected to continue to trend upward, amid the ongoing recovery in overseas economies, particularly in the U.S. and East Asia. Yet, the recent strength in exports seems to be momentarily bolstered to a large extent by the effects of restocking overseas, especially in IT-related goods.⁴

³ 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.)

⁴ In fact, according to the *WSTS*' (World Semiconductor Trade Statistics) "*Semiconductor Forecasts*" published in late May, shipments of global semiconductors in the second quarter will grow at a relatively high pace following the sizable increase in the first quarter, but the pace is projected to slow down in the second half of this year (Chart 5[2]).

Therefore, the pace of recovery in exports hereafter is likely to become somewhat modest in conjunction with overseas final demand as the effects from restocking, which are currently affecting exports to a large extent, dissipate.⁵ Meanwhile, imports are expected to stop declining gradually in the future, since production such as in IT-related goods is anticipated to follow an uptrend (as explained below), while the weakness in domestic demand is still likely to work as a factor restraining imports. Reflecting these developments in exports and imports, net exports are expected to follow a rising trend for the time being, although the pace of increase will become slower than at present.

Business fixed investment continues to decrease amid persistently strong excess capacities of firms and uncertainty regarding the outlook for domestic demand. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the rate of return seems to have bottomed out but still remains low (Chart 9[2]). The same statistics showed that business fixed investment declined somewhat moderately in the first quarter compared to the previous quarter, but the downtrend has kept on since the first quarter of 2001 (Chart 9[1]). In detail, manufacturing, which had turned downward at the beginning of last year, recorded a substantial decline in the first quarter, and its level was already below that of depreciation costs (Chart 10). On the other hand, nonmanufacturing, which had started to drop from the second half of last year, with a slight lag from manufacturing, also kept decreasing. The current machinery investment judged by the aggregate supply of capital goods (excluding transport equipment) stays on a declining trend (Chart 11-1[1]).⁶

⁵ 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).

⁶ 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 11-1(1) and 12-4 show the developments in aggregate supply of capital goods (excluding transport equipment) and consumer goods. The most recent figures (second quarter <April> of 2002) are calculated by the Bank of Japan using indices of industrial shipments and real imports and exports.

As for leading indicators, machinery orders (private demand, excluding shipbuilding and electric power equipment) rose in April compared to the first quarter (Chart 11-2[1]). Manufacturing increased in April on a quarter-to-quarter basis following the rise in the first quarter and seemed to be bottoming out recently. On the other hand, nonmanufacturing increased in April, but this occurred mainly in reaction to the substantial decrease in the first quarter. Moreover, construction starts (private, nondwelling use) inched up in April on a quarter-to-quarter basis after a considerable fall in the first quarter (Chart 11-2[2]). In detail, while construction starts for mining and manufacturing, which had been on a downtrend since the peak of early last year, have recently stabilized, those for nonmanufacturing have been on a declining trend after the temporary rise during the second half of last year, due to large-scale construction starts related to real estate (urban redevelopment) as well as to public utilities (electricity and transportation etc.).

Turning to the outlook, business fixed investment is likely to follow a downtrend for a while, judging mainly from the leading indicators explained above and from the investment plans of firms. However, the conditions surrounding business fixed investment are expected to improve gradually as corporate profits, particularly in the manufacturing sector, start to recover, if the increase in exports and production continues.

Private consumption, despite some resilience, remains weak as a whole amid the ongoing severe employment and income conditions. With regard to sales indicators (Charts 12-1 and 12-2), the number of passenger cars sold has picked up especially for small-sized cars, supported by the introduction of new models. The underlying trend for sales of household electrical appliances—those were still sluggish on balance—remained unchanged, even though sales of personal computers and audio-visual equipment (digital appliances) showed signs of a slight pick-up. While department store sales continued to be somewhat slack, supermarket sales improved in April particularly in foodstuffs. 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 sales⁷—which are mainly composed of the above

⁷ 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

indicators—remained weak since last autumn with the year-to-year change moving around zero, albeit with some fluctuations (Chart 12-3). The level of aggregate supply of consumer goods was persistently below that of the previous year (Chart 12-4). It is true that the latest confidence indicators have seemingly shown some gradual improvements, but consumers maintain a cautious stance (Chart 13[1]). Private consumption is likely to be lackluster, since employment and income conditions continue to be harsh, as described later.

Housing investment remains sluggish (Chart 14). Construction starts inched down in April compared to the first quarter due to the drop in construction starts of built for sale.⁸ Housing investment is likely to remain stagnant for the time being amid the ongoing severe employment and income conditions of households.

While noticeable changes in the weakness in final demand are not observed, industrial production is picking up, supported by the distinct increase in exports and completion of inventory adjustment (Charts 15 and 16). By industry, production of electrical machinery—which is largely comprised of IT-related goods—increased substantially, mainly reflecting the upsurge in orders to restock inventories at home and abroad. Moreover, transportation equipment (automobiles) has also been on an uptrend since the first quarter against the background of the increase in exports and in domestic sales of some models. With respect to materials, the rebound in production seemed to have spread over industries supported by the increase in exports and the progress in inventory adjustment, although the effects of the weakness in domestic demand persisted. As for inventories, the adjustment has seemingly been completed as a whole since inventories have dropped significantly owing to the substantial increase in shipments for exports, mainly in producer goods (Chart 17). Particularly, inventory adjustment in producer goods for electrical machinery (electronic parts,

consumption) to grasp the consumption trend from the supply side. For the detailed calculation method, see notes in Chart 12-3.

⁸ From fiscal 2002, The Government Housing Loan Corporation lowered its maximum ratio of loans for individuals. In January and February, some construction, mainly of condominiums, was started in anticipation of the rush of demand before the revision of the loan scheme. The recent decline in built for sale occurred partly in reaction to the increase during January and February.

etc.) was completed at the earliest stage. Also, that in other producer goods (mainly materials) has almost come to an end.

Considering these inventory situations and the outlook for exports noted above, industrial production is expected to follow an uptrend hereafter. Production activity, according to the survey of production forecast index and information of firms, is likely to accelerate temporarily in the immediate future.⁹ As previously mentioned, however, this will be largely bolstered by the developments in restocking of IT-related goods at home and abroad. Rather, firms are still maintaining a cautious view regarding the outlook for final demand. Based on these factors, production is likely to slow down as the effects from restocking dissipate. In sum, the recovery in production is, on average, expected to be only gradual for a while with some fluctuations.

With respect to employment and income conditions, although the pick-up in production is beginning to affect the labor market situation marginally, the employment and income conditions of households as a whole remain severe, with the faster pace of decline in the number of regular employees and the gradual expansion in the wage decrease (Chart 18). Among labor-market-related indicators (Chart 19), the unemployment rate has recorded a slight fall since January after a marked climb toward the end of last year. However, the slip in the unemployment rate was largely attributed statistically to the increase in the number of discouraged workers, who give up job-searching. The high unemployment rate itself remained unchanged. Moreover, among the unemployed, the number of those involuntarily unemployed remained at considerably high levels after the substantial increase in the latter half of last year. Meanwhile, the ratio of job offers to applicants has recently started to stabilize, although it is still at low levels. In detail, new job offers in the manufacturing sector as well as overtime working hours have bounced back. Yet, the increase in job offers was mainly for non-regular employees such as part-time and

⁹ According to the survey of production forecast index (+5.1 percent in May and -0.4 percent in June on a month-to-month basis), production in the second quarter is estimated to be +4.3 percent on a quarter-to-quarter basis. Based on the fact that actual industrial production still tends to be below that of the production forecast index and taking various information of firms into account, production in the second quarter is likely to increase noticeably, although not as high as indicated in the forecast index.

seasonal/temporary workers,¹⁰ and the number of regular employees has still been on a declining trend. The number of employees in the *Labour Force Survey* was apparently declining somewhat slowly,¹¹ but the number of regular employees in the *Monthly Labour Survey* continued to decline at a slightly faster pace. Judged from the divergence of these two statistics and their definitions, firms held the stance on reducing personnel expenses by switching from regular employees to non-regular employees.¹² These strong intentions of firms to reduce personnel expenses from a longer-term perspective are unlikely to ease noticeably in the near future, considering the excessiveness in employment among firms.

This stance of firms to cut personnel expenses affects wage developments. In fact, the rate of decline in nominal wages per employee is expanding gradually. In detail, while overtime payments were on a recovery against the background of the pick-up in production, regular payments declined slightly faster due to a rise in the ratio of part-time workers and a restraint on the base-pay hike this spring. Moreover, negotiations between labor and management have prevailed to revise the compensation scheme, including the annual pay rise, even after the base wage had been fixed. In addition, special payments (bonuses), which are sensitive to corporate profits with a lag, are projected to fall significantly this summer following the marked decline in winter bonuses. Judged from these developments in employment and wages, household income is expected to continue a notable decrease for the time being.

¹⁰ The ratio of job offers to applicants of part-time workers has been increasing steadily from the bottom of early this year. (The seasonally adjusted bases were 1.23 in January, 1.25 in February, 1.28 in March, and 1.31 in April.)

¹¹ Still, the number of employed—comprised of employees and self-employed workers and their family workers—continued to decrease substantially on a year-to-year basis (Chart 19-2[1]).

¹² “Employees” in the *Labour Force Survey* covers a wider range of workers than “regular employees” in the *Monthly Labour Survey*. In detail, “employees” in the *Labour Force Survey* includes part-time workers, so-called “arbeit” workers, and registered temporary workers all with limited working days. In contrast, these types of workers are not included in the *Monthly Labour Survey*. The number of “regular employees” in the *Monthly Labour Survey* has continued a gradual decline since the second half of 1998, regardless of the short-term fluctuations in the economy, reflecting the fact that firms continued to reduce regular employees from a mid-term perspective (Chart 19-2[2]). On the other hand, firms have made use of more non-regular employees as a buffer against the ups and downs of facing demand. Therefore, the number of “employees” in the *Labour Force Survey* seems to react rather sensitively to the short-term fluctuations in economic activity.

2. Prices

Import prices on a yen basis, which had been rising since the end of last year, become almost unchanged compared to levels three months earlier because the continued upward pressure from the rise in crude oil prices around early spring was offset by the recent appreciation of the yen (Chart 21).

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates)¹³ are almost flat recently compared to levels three months earlier (Chart 22). In detail, while the reduction in electricity charges and the decline in machinery prices contributed to pushing prices downward, the rise in crude oil prices around early spring was passed on to petroleum product prices and this factor continued to push prices upward to a large extent. Moreover, prices of iron and steel rose slightly reflecting the progress in inventory adjustment.

Corporate service prices continue to decline. As for corporate service prices (domestic supply-demand factors) in April compared to three months earlier, prices for real estate services continued to fall, as did those for building maintenance (building cleaning services) and machinery maintenance, against the background of firms' intentions to reduce business costs (Chart 23). In addition, communications charges (access charges—network connection charges among telecommunications businesses) were lowered in April.

Consumer prices continue to decline. In April, the rate of decline in consumer prices (excluding fresh food; Chart 24) compared to levels three months earlier expanded in line with the reductions in public utility charges (electricity charges, medical treatment, etc.). Meanwhile, prices of goods continued to decline at a slower pace mainly due to the bottoming in prices of petroleum products (gasoline) and to the contraction in the rate of decline in the prices of clothes. The overall year-to-year rate of decline in April (excluding fresh food) basically followed a declining trend by around 1 percent (the year-to-year change was -0.8 percent in

¹³ 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.

February, -0.7 percent in March, and -0.9 percent in April¹⁴). With respect to the developments in goods prices on a year-to-year basis in more detail, the decline in goods of imported products and their substitutes remained large compared to other goods, but the rate has recently started to contract rather clearly (Chart 25[1]). This may possibly be partly attributable to the yen's depreciation over the last one to two years on balance. Moreover, in relation to this development in Japan's currency, there is an observed tendency for firms not to pursue lower-pricing strategies, which accelerated at the former stage. In fact, the increase in imports of consumer goods, which had facilitated the lower-pricing strategies from the supply side, has slowed recently (Chart 25[2]).

As for land prices, according to the Urban Land Price Index, the prices of both commercial and residential land continue to decline at the same pace as before (Chart 26).

As for the conditions surrounding price developments, the balance between supply and demand is expected to still keep exerting downward pressure on prices amid persistently weak domestic demand for a while, although the progress in inventory adjustment will support prices to some degree. Moreover, factors such as the ongoing technological innovations in machinery, deregulation, and the streamlining of distribution channels will continue to restrain prices. Under these circumstances, as import prices are likely to turn down, domestic wholesale prices, which are sensitive to import prices, will edge down after remaining flat a little further. On the other hand, consumer prices are expected to stay on a declining trend for the time being at the current gradual pace. This is partly because while the slower growth in imports of consumer goods is expected to alleviate the downward pressure on prices to some extent, the faster pace of decline in wages may possibly reinforce the ongoing decline in prices, especially for services prices.

¹⁴ The rate of decline in consumer prices including fresh food, which expanded last winter, has contracted gradually. (The year-to-year change was -1.6 percent in February, -1.2 percent in March, and -1.1 percent in April.)

3. Financial Developments

(1) Financial Markets

In the short-term money markets, the outstanding balance of the current accounts at the Bank of Japan has been moving at about 15 trillion yen, as the Bank continues to provide ample liquidity to the money market (Chart 29).

As for interest rate developments in short-term money markets (Charts 27[1] and 28), in these circumstances the overnight call rate (uncollateralized; Chart 27[1]) is moving around zero percent. As for the developments in interest rates on term instruments (Chart 28), 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 27[2]) are level and mainly moving in the range of 1.3-1.4 percent as intentions of investors such as banks to purchase the bonds remain strong, although expectations for an economic recovery are inducing the rise in interest rates. Moreover, the yield spreads between government bonds and private bonds (bank bonds and corporate bonds; Charts 33 and 34) have tended to contract since April, as institutional investors are increasing corporate bond investment mainly in bonds with high credit ratings. The yield spreads between bonds with low credit ratings and government bonds, however, remain wide.

Stock prices (Chart 35) are level on the whole, as foreign investors bought back Japanese stocks, while U.S. stock prices continued to be weak. The Nikkei 225 Stock Average is moving in the range of 11,000-12,000 yen recently.

In the foreign exchange market (Chart 36), the yen continued to appreciate reflecting the overall downtrend in the U.S. dollar, but has been mixed thereafter since late May reflecting the news on yen-selling intervention by the Japanese monetary authority. The yen is currently being traded in the range of 124-126 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The monetary base (currency in circulation + current account balances at the Bank of Japan; Chart 37) continued to increase substantially by around 30 percent from the previous year's level in May, although the growth rate slowed slightly due partly to the abatement of liquidity demand prompted by a system failure of a major bank group. (The year-on-year change was 32.6 percent in March, 36.3 percent in April, and 29.7 percent in May.)

The year-on-year growth rate of the money stock (M_2 + CDs; Chart 38) remained around 3.5 percent. (The year-on-year change was 3.7 percent in March, 3.6 percent in April, and 3.5 percent in May.) Meanwhile, M_1 continued to increase substantially, by around 30 percent from the previous year's level, reflecting the increased preference for liquid assets. (The year-on-year change was 24.2 percent in March, 32.6 percent in April, and 31.9 percent in May.)

Meanwhile, with regard to corporate finance, private banks are becoming 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 the corporate bonds and CP markets, the issuing environment for firms with low credit ratings remains severe, but the environment for firms with high credit ratings is on an improving trend.

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;¹⁵ Chart 39), 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.

¹⁵ 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.

(The year-on-year change was –2.5 percent in March, –2.8 percent in April, and –2.6 percent in May.) The year-on-year growth rate of the amount outstanding of corporate bonds issued (Chart 41) is decreasing somewhat. 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. The average contracted interest rates on new loans and discounts (Chart 43) continued to be more or less unchanged. The long-term prime lending rate was lowered by 0.15 percent to 1.95 percent on June 11. In the capital market, both corporate bond and CP issuance rates, mainly those with high credit ratings, are declining. The spread between high and low credit ratings still continues to be at high levels.

The number of corporate bankruptcies (Chart 44) 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 funding situation 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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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2001/Q3	Q4	2002/Q1	2002/Feb.	Mar.	Apr.	May
Index of living expenditure level (all households)	-0.1	0.6	1.7	-0.3	-1.2	1.0	n.a.
Sales at department stores	-0.8	0.2	-0.3	-1.1	0.3	-0.1	n.a.
Sales at supermarkets	-1.1	-1.6	-0.6	-0.4	0.0	3.3	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 308>	< 295>	< 304>	< 303>	< 301>	< 313>	< 320>
Sales of household electrical appliances (real, NEBA)	0.3	1.9	2.8	-1.1	5.4	-1.7	n.a.
Outlays for travel (50 major travel agencies)	-4.3	-16.0	13.5	2.1	0.1	0.7	n.a.
Housing starts <s.a., ann. 10,000 units>	< 120>	< 117>	< 118>	< 118>	< 111>	< 114>	<n.a.>
Machinery orders (from private sector ⁴)	-6.4	-7.5	-7.4	6.3	-6.2	8.4	n.a.
Manufacturing	-9.7	-14.7	2.6	3.9	10.9	-2.5	n.a.
Nonmanufacturing ⁴	-2.0	-5.7	-11.0	7.3	-14.8	13.3	n.a.
Construction Starts (private, nonresidential use)	7.8	-0.1	-10.6	-11.7	0.1	6.2	n.a.
Mining & manufacturing	-6.9	-13.1	-12.2	7.4	3.5	3.4	n.a.
Nonmanufacturing ⁵	13.2	4.0	-10.2	-17.6	-0.5	7.4	n.a.
Value of public works contracted	3.0	-2.8	-0.4	-2.5	10.4	-9.8	n.a.
Real exports	-3.9	-3.2	4.7	0.5	4.4	0.5	n.a.
Real imports	-3.1	-0.9	-1.9	5.4	-1.9	-1.2	n.a.
Industrial production	-4.3	-3.4	0.7	1.2	0.8	p 0.2	n.a.
Shipments	-3.7	-3.5	1.2	1.2	0.9	p 0.8	n.a.
Inventories	-2.0	-3.3	-4.3	-1.1	-2.0	p -1.6	n.a.
Inventories/shipments <s.a., CY 1995=100>	<114.9>	<115.0>	<108.9>	<110.8>	<108.9>	<p 101.4>	<n.a.>
Real GDP	-0.6	-1.2	1.4	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-1.7	-0.9	0.6	0.4	1.2	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2001/Q3	Q4	2002/Q1	2002/Feb.	Mar.	Apr.	May
Ratio of job offers to applicants <s.a., times>	<0.59>	<0.53>	<0.51>	<0.50>	<0.51>	<0.52>	<n.a.>
Unemployment rate <s.a., %>	<5.1>	<5.4>	<5.3>	<5.3>	<5.2>	<5.2>	<n.a.>
Overtime working hours ⁶	-5.5	-8.4	-5.7	-5.4	-5.3	p -2.5	n.a.
Number of employees	0.0	-1.0	-1.1	-1.4	-0.9	-0.8	n.a.
Number of regular employees ⁶	-0.2	-0.2	-0.4	-0.3	-0.4	p -0.5	n.a.
Nominal wages per person ⁶	-1.1	-2.5	-1.9	-1.1	-0.7	p -1.6	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>	-1.4 <-0.2>	-1.3 <-0.1>	-1.2 <0.1>	-1.2 <0.0>
Consumer price index ⁷ <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>	-0.7 <-0.1>	-0.9 <-0.3>	n.a. <n.a.>
Corporate service price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-1.3 <-0.2>	-1.4 <-0.3>	-1.4 <-0.2>	-1.4 <-0.1>	-1.3 <-0.2>	-1.2 <-0.2>	n.a. <n.a.>
Monetary aggregates (M ₂ +CDs) <average outstanding, y/y % chg.>	3.1	3.2	3.6	3.6	3.7	3.6	3.5
Number of suspension of transactions with banks	-8.5	5.9	3.5	13.6	-9.8	-7.1	n.a.

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

2. P indicates preliminary figures.

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

4. Excludes ships and demand from electric power companies.

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

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

7. Excludes fresh food.

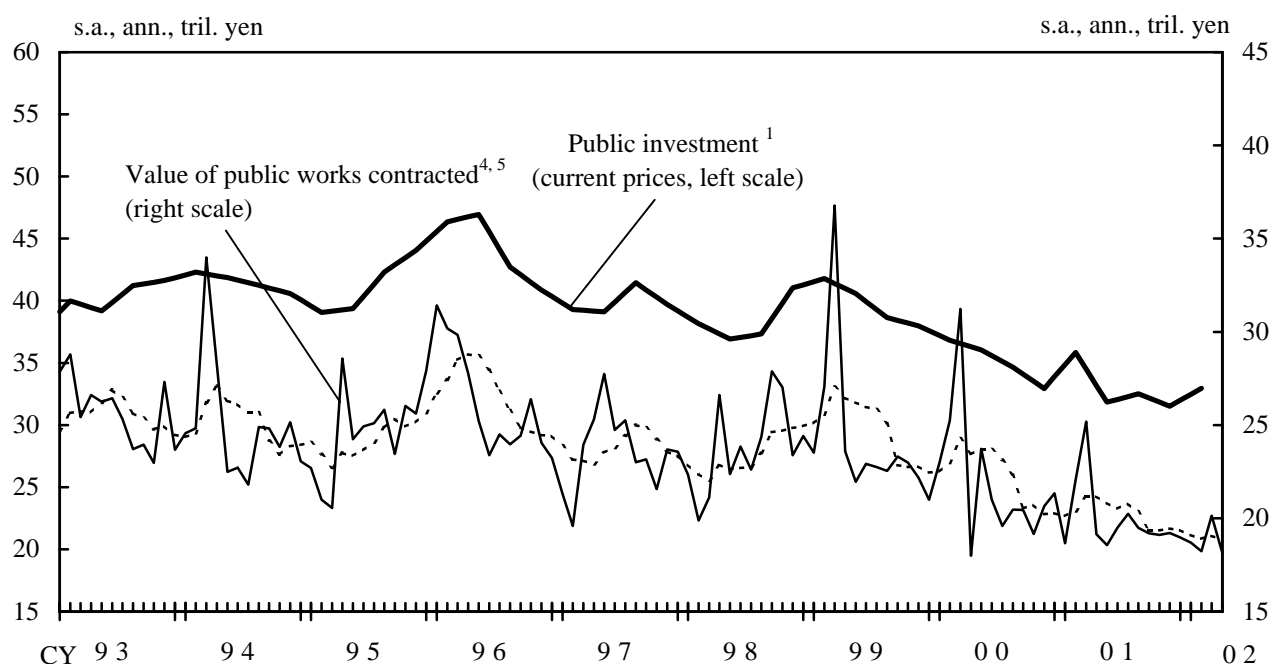
8. Domestic supply-demand factors.

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

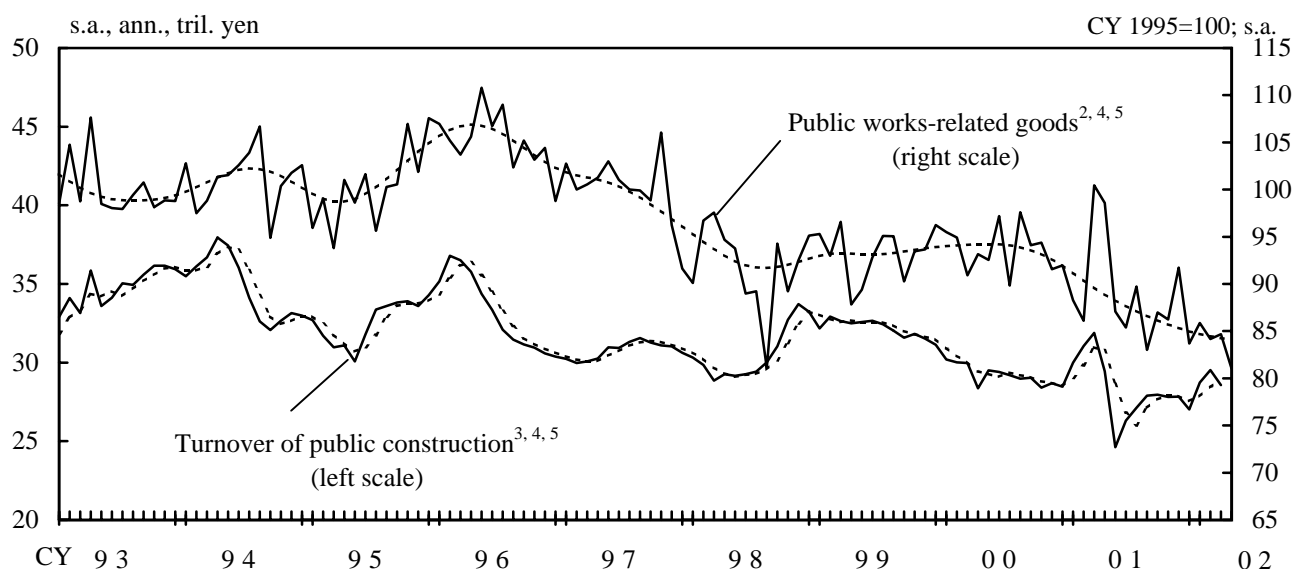
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices 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 and public works-related goods are seasonally adjusted by X-12-ARIMA and turnover of public construction is seasonally adjusted by X-12-ARIMA (β 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.

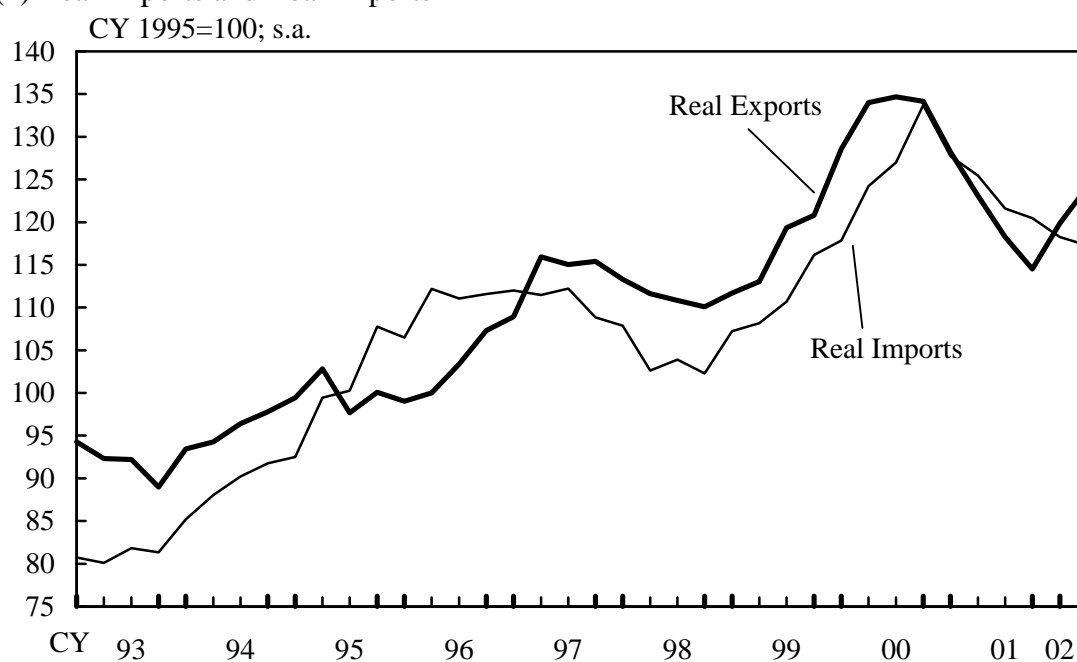
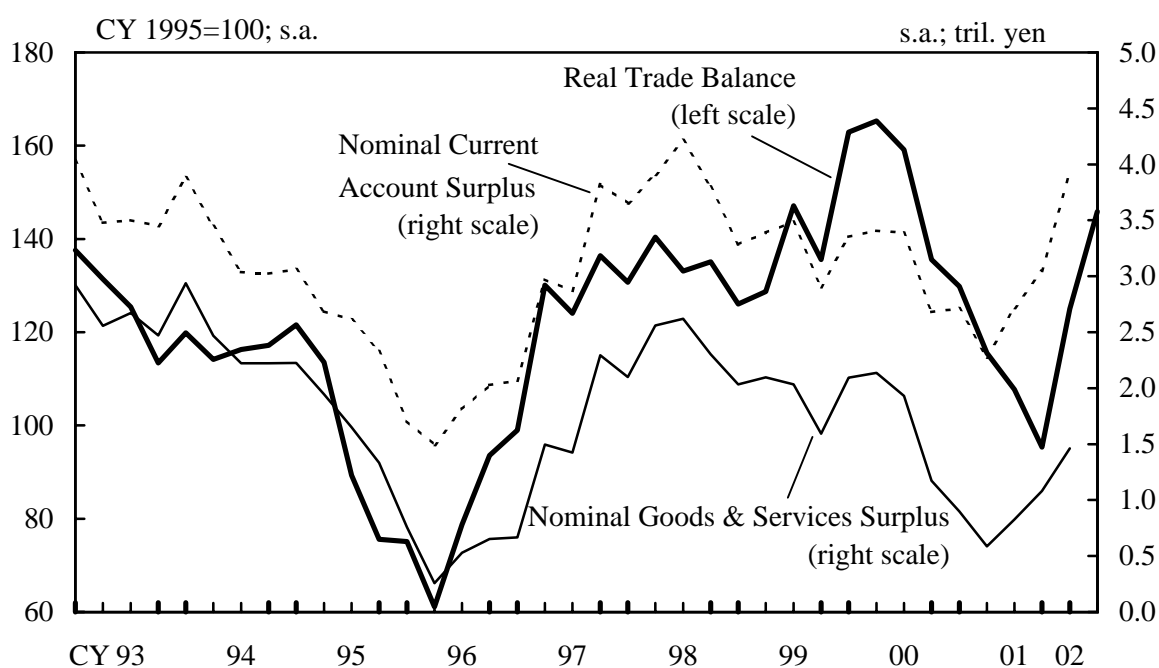
Sources: Cabinet Office, "National Accounts";

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. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA. 2002/Q2 figures are April figures converted into quarterly amount.
2. Balance of payments data up to 1995/Q4 are old basis.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q2	Q3	Q4	2002 Q1	Q2	2002 Feb.	Mar.	Apr.
United States	<30.0>	11.7	-8.5	-5.3	-3.8	-3.7	4.3	-2.4	4.0	3.4	-5.7
EU	<15.9>	6.4	-10.9	-7.6	-6.4	-0.8	-6.3	5.6	1.1	3.3	3.0
East Asia	<38.7>	25.7	-9.7	-5.0	-3.7	-1.1	7.5	6.1	-6.0	4.9	4.9
China	<7.7>	27.8	11.6	-1.2	-3.5	-0.5	17.8	2.9	-15.3	5.4	5.3
NIEs	<21.7>	25.8	-15.8	-6.1	-3.4	-1.8	5.8	7.5	-5.5	6.6	5.1
Korea	<6.3>	30.4	-9.1	-7.8	4.9	-1.5	2.7	5.2	4.7	1.4	2.7
Taiwan	<6.0>	22.5	-25.7	-4.1	-11.1	4.3	6.7	6.7	-6.5	12.7	0.9
ASEAN4 ³	<9.3>	24.0	-8.1	-5.4	-4.6	-0.1	3.3	5.7	1.9	1.0	4.4
Thailand	<2.9>	19.0	-4.0	-3.5	-0.8	-0.3	-1.6	10.0	5.4	4.6	4.9
Real exports		14.1	-9.1	-4.0	-3.9	-3.2	4.7	3.5	0.5	4.4	0.5

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2000	2001	2001 Q2	Q3	Q4	2002 Q1	Q2	2002 Feb.	Mar.	Apr.
Intermediate goods	<14.7>	5.3	-3.5	-3.7	0.1	2.1	5.6	1.2	-4.1	-1.1	3.3
Motor vehicles and their related goods	<22.1>	9.2	0.0	2.0	2.0	1.1	5.8	2.7	7.7	5.5	-3.2
Consumer goods ⁴	<7.3>	13.0	-6.3	-1.0	-1.6	-5.8	4.5	3.5	-1.2	9.7	-2.3
IT-related goods ⁵	<17.3>	25.2	-12.0	-6.8	-7.5	-7.3	-5.9	9.0	0.1	1.8	7.7
Capital goods and parts ⁶	<27.5>	21.1	-14.9	-8.9	-6.3	-5.0	6.2	2.8	0.6	6.0	-1.3
Real exports		14.1	-9.1	-4.0	-3.9	-3.2	4.7	3.5	0.5	4.4	0.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q2 figures are April 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.

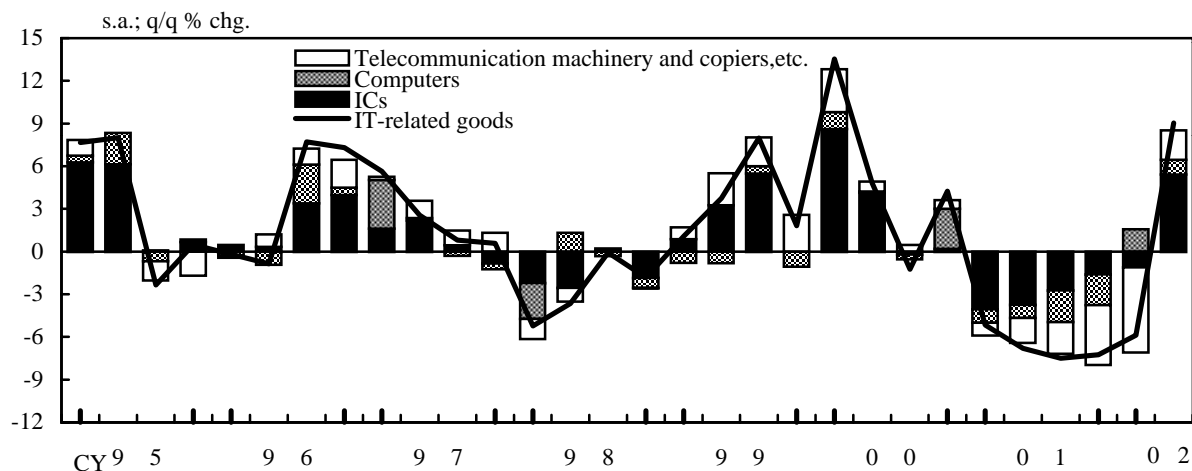
5. IT-related goods = automatic data processing machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

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

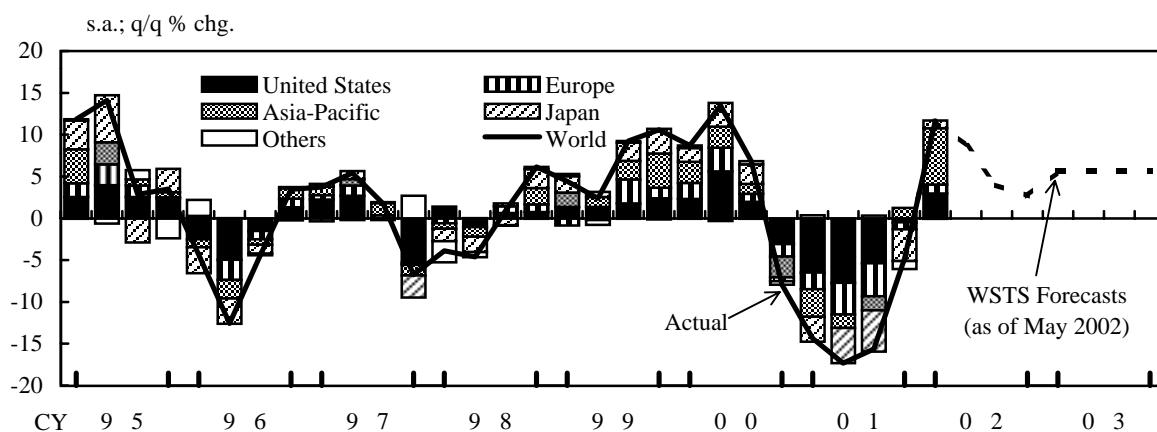
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Wholesale Price Indexes."

Exports and Imports of IT-related goods

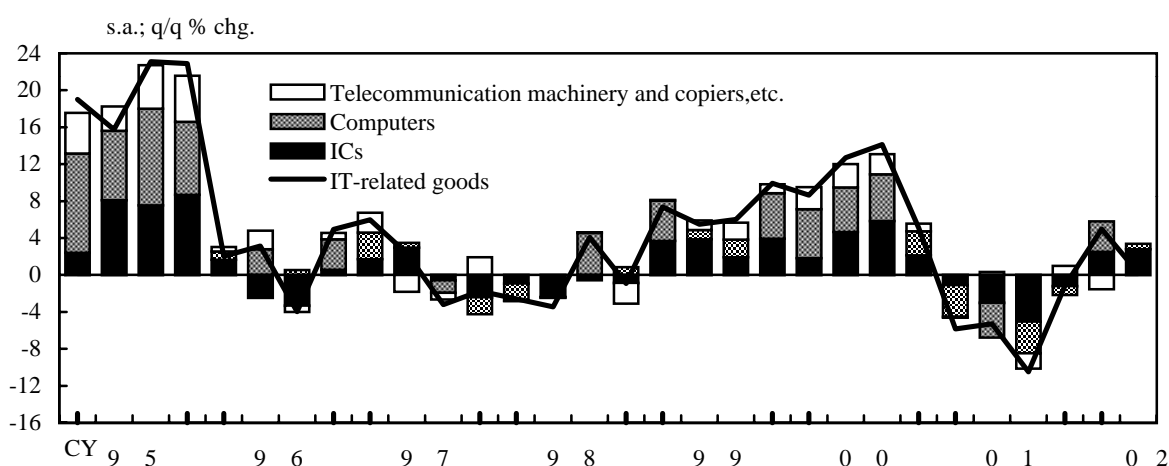
(1) Exports of IT-related goods (Real, Breakdown by goods)



(2) World Semiconductor Shipments (Nominal, Breakdown by region)



(3) Imports of IT-related goods (Real, Breakdown by goods)



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

2. 2002/Q2 figures of (1) and (3) are April figures converted into quarterly amount.

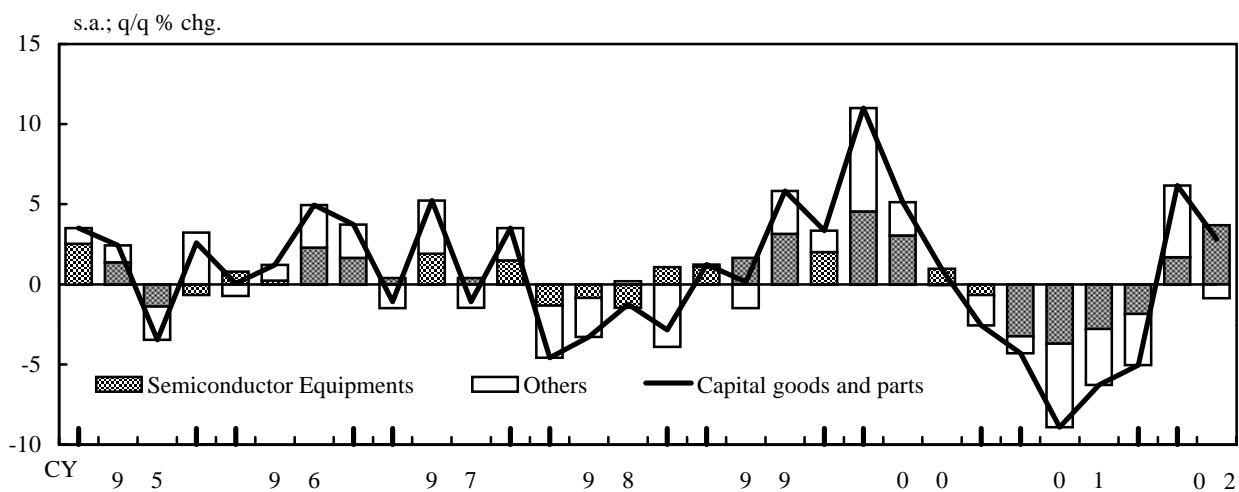
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";

Bank of Japan, "Wholesale Price Indexes";

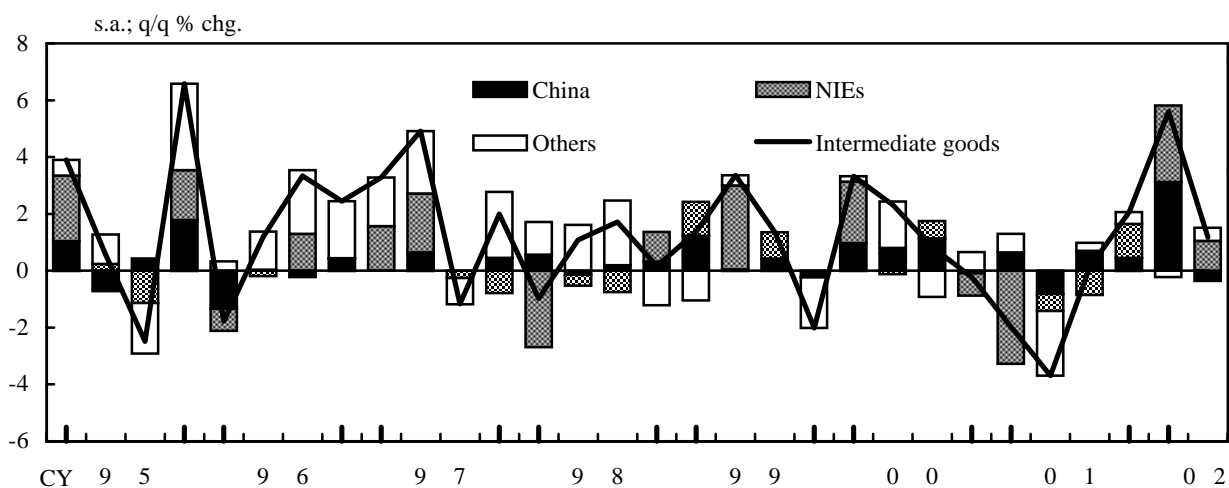
WSTS (World Semiconductor Trade Statistics), "Semiconductor Forecasts."

Real Exports Breakdown by goods / region

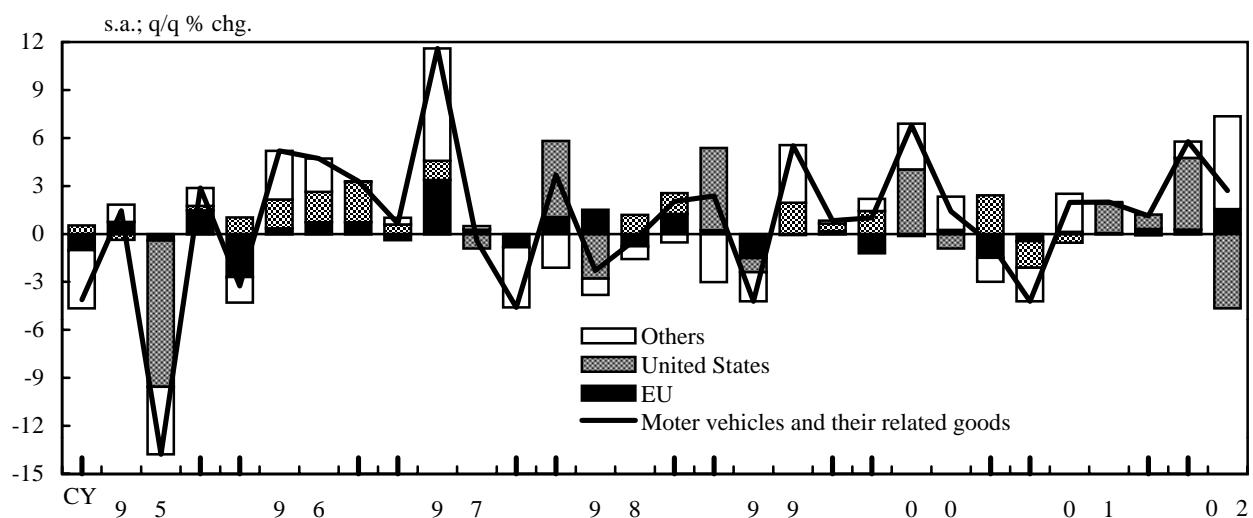
(1) Capital goods and parts (Breakdown by goods)



(2) Intermediate goods by region



(3) Motor vehicles and their related goods by region



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

2. 2002/Q2 figures are April figures converted into quarterly amount.

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

Real Imports ¹

(1) Breakdown by region

		y/y % chg.			s.a. q/q % chg.				s.a. m/m % chg.		
		CY 2000	2001	2001 Q2	Q3	Q4	2002 Q1	Q2	2002 Feb.	Mar.	Apr.
United States	<18.1>	7.9	-4.4	-1.6	-6.5	-3.0	-1.5	-2.3	5.6	0.6	-4.4
EU	<12.8>	8.5	3.5	-3.0	-0.6	2.6	-6.4	2.8	-2.0	2.9	1.6
East Asia	<40.3>	25.5	1.6	-2.2	-3.9	-1.0	1.5	-0.4	10.5	-2.3	-2.0
China	<16.6>	28.1	13.2	2.9	-0.7	4.2	1.7	-0.9	18.1	-2.3	-4.5
NIEs	<10.9>	28.4	-9.7	-8.8	-7.6	-7.1	3.5	4.7	7.0	-0.8	3.0
Korea	<4.9>	22.5	-7.8	-6.2	-7.7	-7.0	-1.6	6.6	8.4	1.0	3.2
Taiwan	<4.1>	43.6	-13.0	-11.4	-10.6	-3.9	6.0	3.1	2.4	-1.3	3.2
ASEAN4 ³	<12.7>	20.2	0.0	-1.6	-4.3	-2.1	-0.3	-4.1	4.1	-3.7	-2.9
Thailand	<3.0>	19.3	6.0	4.0	-2.9	-0.5	-0.3	-1.6	1.5	4.9	-5.1
Real imports		13.3	-1.1	-1.8	-3.1	-0.9	-1.9	-0.8	5.4	-1.9	-1.2

(2) Breakdown by type of goods

		y/y % chg.			s.a. q/q % chg.				s.a. m/m % chg.		
		CY 2000	2001	2001 Q2	Q3	Q4	2002 Q1	Q2	2002 Feb.	Mar.	Apr.
Raw materials ⁴	<26.2>	1.7	-5.1	-2.5	-2.1	-2.6	-3.1	-3.5	5.3	-10.7	2.4
Intermediate goods	<12.9>	8.2	-0.2	-2.9	-3.0	-0.5	-0.5	-5.4	-5.0	6.5	-7.7
Foodstuffs	<12.4>	5.3	-1.6	-0.4	-1.8	5.1	-4.5	0.0	4.6	-5.3	2.2
Consumer goods	<11.2>	21.4	5.8	4.0	-1.4	-0.2	-7.3	3.4	12.0	-5.0	3.2
IT-related goods ⁵	<14.8>	43.9	-2.4	-5.3	-10.5	-1.1	5.0	0.2	8.3	-0.2	-2.2
Capital goods and parts ⁶	<11.9>	12.4	3.2	-1.6	-3.6	-3.4	0.5	4.8	5.2	3.0	1.2
excluding aircraft	<11.4>	21.5	6.0	0.2	-6.1	-1.1	-2.5	7.2	8.4	3.2	2.3
Real imports		13.3	-1.1	-1.8	-3.1	-0.9	-1.9	-0.8	5.4	-1.9	-1.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2002/Q2 figures are April 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.

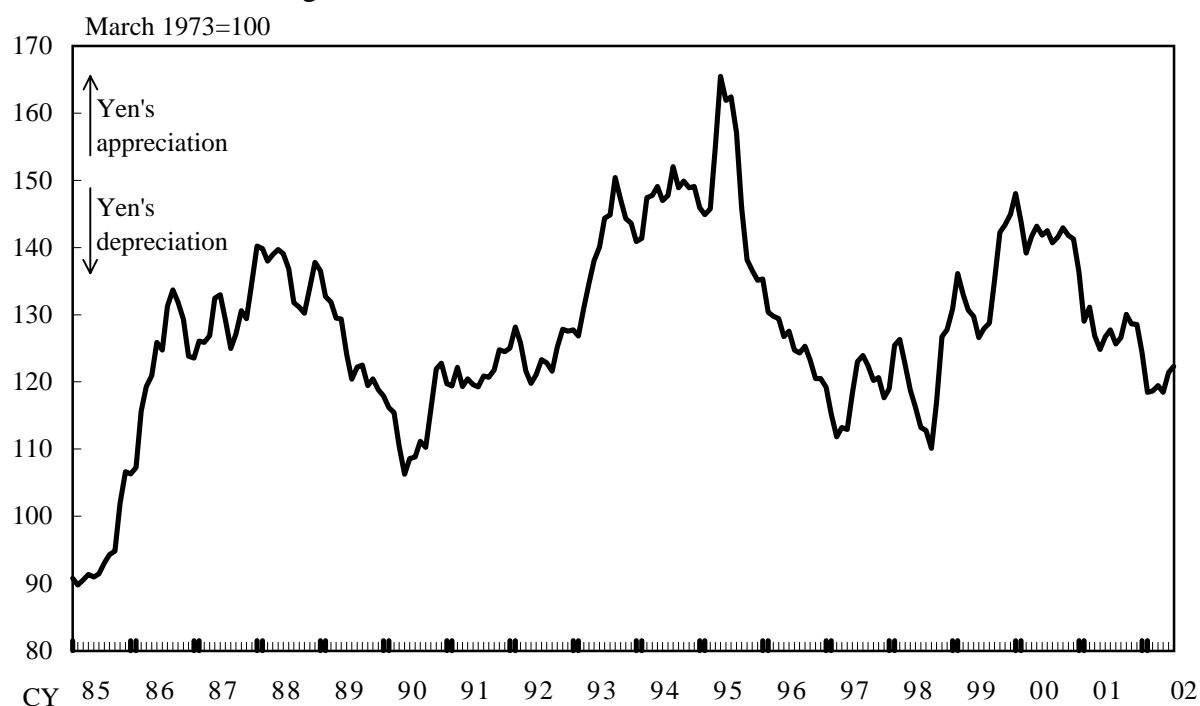
5. IT-related goods = office machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

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. Figure for June 2002 is the average of June 1-11. 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

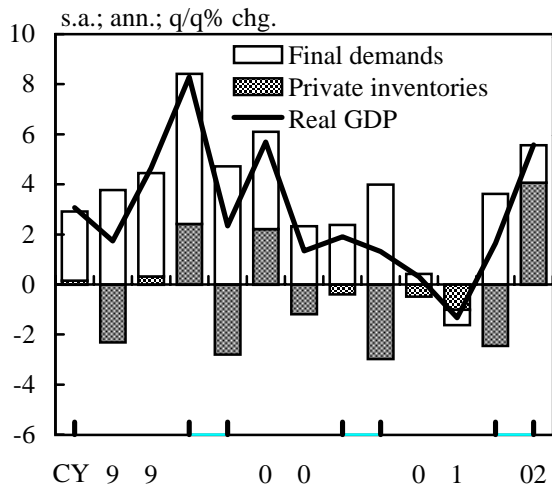
		CY99	2000	2001	2001 Q2	Q3	Q4	2002 Q1	
United States ¹		4.1	4.1	1.2	0.3	-1.3	1.7	5.6	
European Union ¹		2.7	3.4	1.5	0.4	0.6	-0.9	0.7	
	Germany	1.8	3.0	0.6	0.2	-0.7	-1.0	0.7	
	France	3.2	4.1	1.8	-0.3	1.9	-1.8	1.4	
	United Kingdom	2.1	3.0	2.2	2.0	1.7	0.0	0.1	
East Asia ²	China	7.1	8.0	7.3	(Jan-Jun) 7.9	(Jan-Sep) 7.6	(Jan-Dec) 7.3	7.6	
	NIEs	Korea	10.9	9.3	3.0	2.9	1.9	3.7	5.7
		Taiwan	5.4	5.9	-1.9	-2.4	-4.2	-1.9	0.9
		Hong Kong	3.0	10.4	0.2	0.8	-0.4	-1.4	-0.9
		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	0.4	-0.9	-0.5	1.1	
	Philippines	3.4	4.4	3.2	3.0	3.0	3.9	3.8	

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

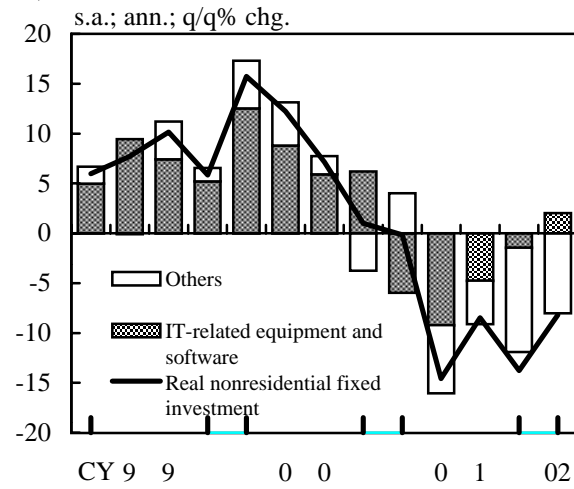
2. Quarterly data are percent changes from a year earlier.

Exporting Conditions (2)

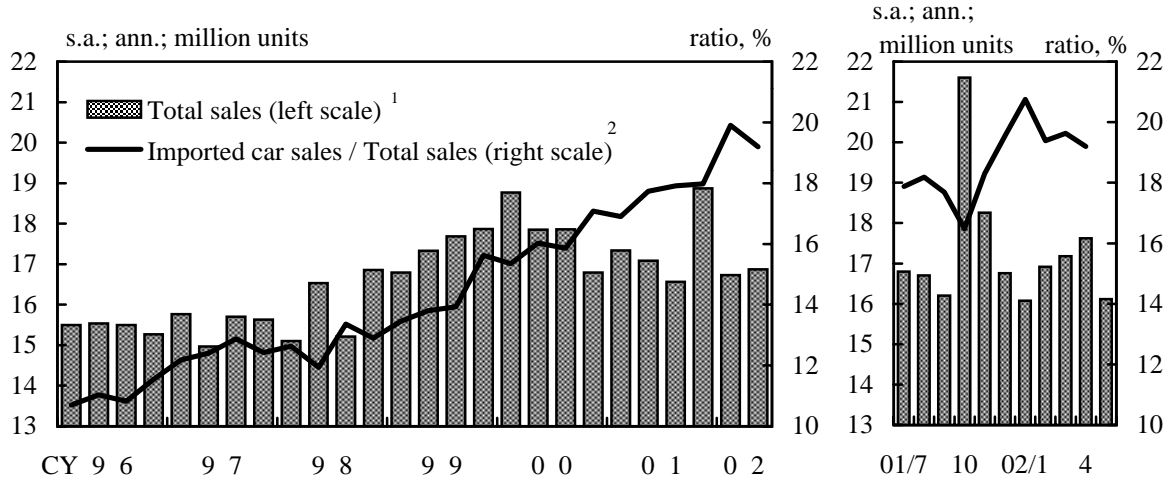
(1) U.S. Real GDP (Break Down by Final Demands and Inventories)



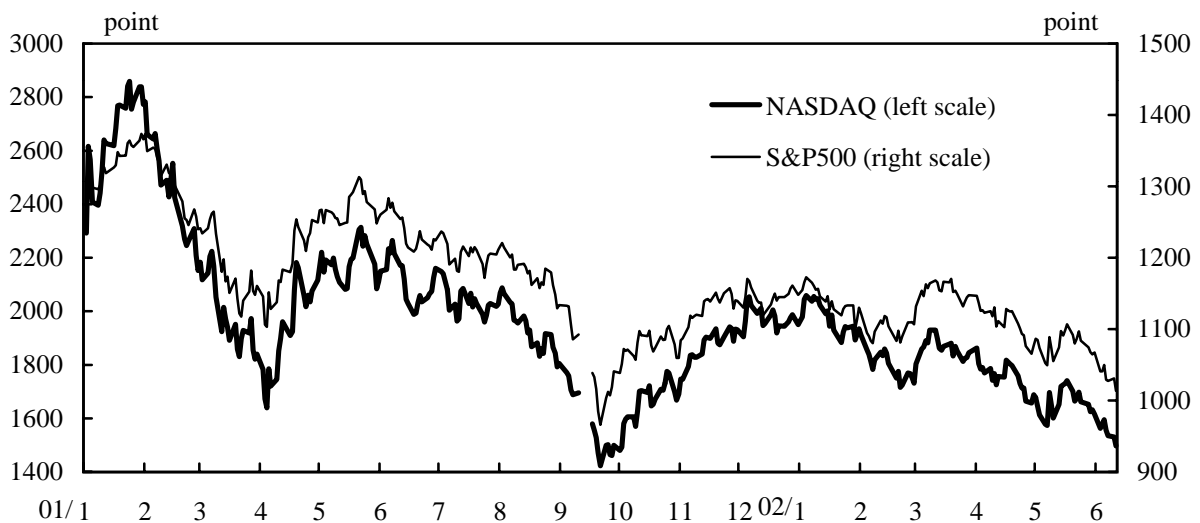
(2) U.S. Real Nonresidential Fixed Investment



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



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

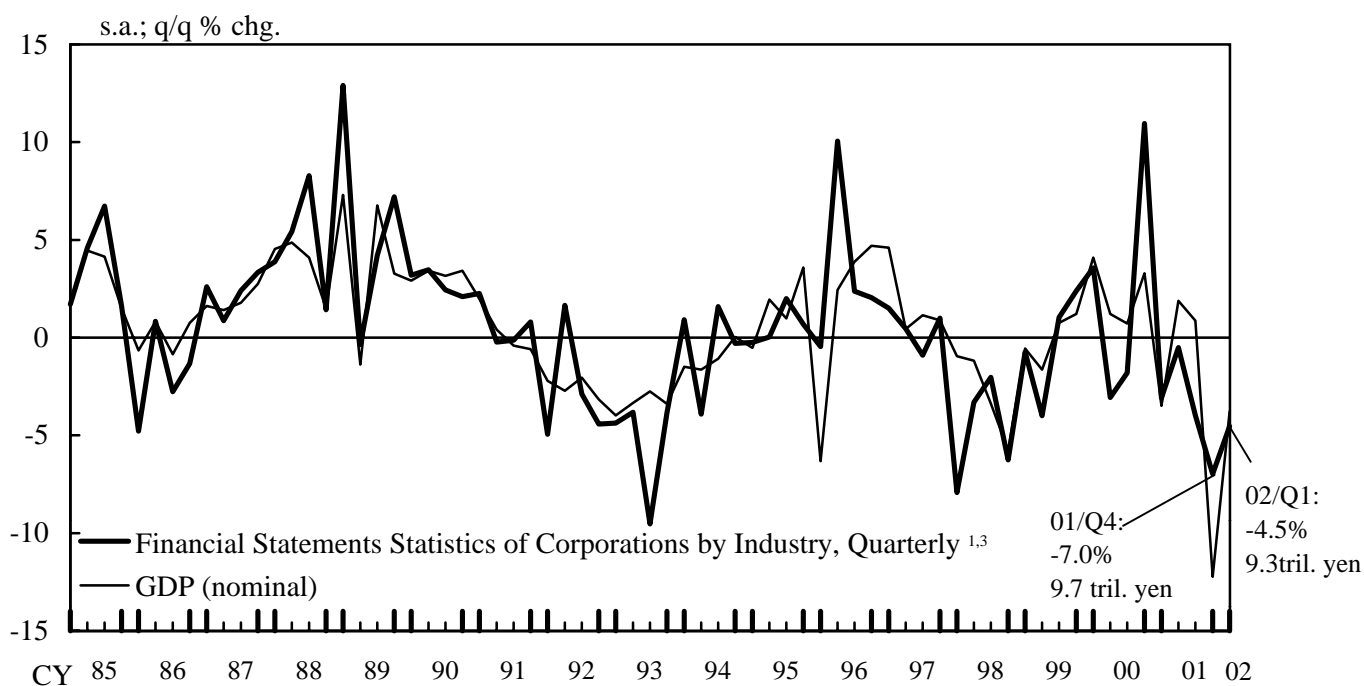
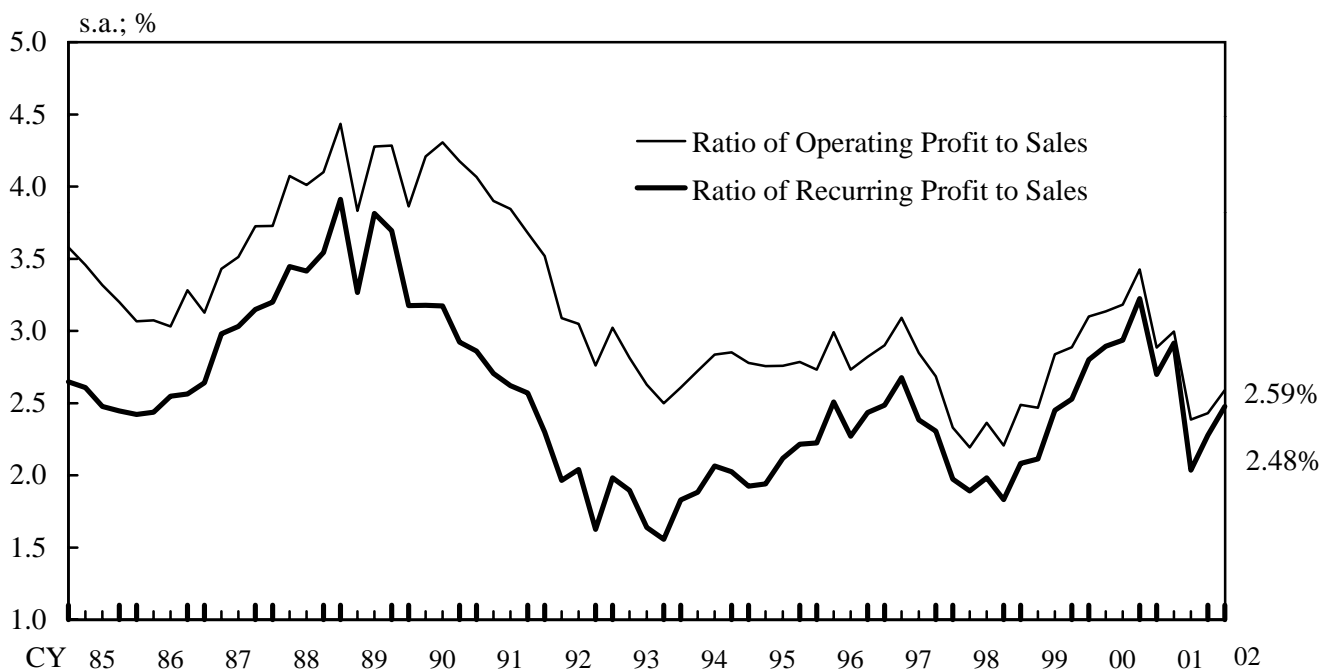


Notes: 1. May figures of Automobile Sales are calculated by adding 2001 CY average of heavy trucks (0.45mil.) to preliminary figures released by the industry (sa., ann. 15.67 mil.). 2002/Q2 figures are Apr.-May averages.
2. 2002/Q2 figures are April figures.
3. Figures of U.S. stock prices is up to June 11.

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

Business Fixed Investment and Corporate Profits

(1) Fixed Investment

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

Notes: 1. All enterprises (i) excluding large enterprises of other services industry, and (ii) adjusting sample change.

2. Financial Statements Statistics of Corporations by Industry, Quarterly basis.

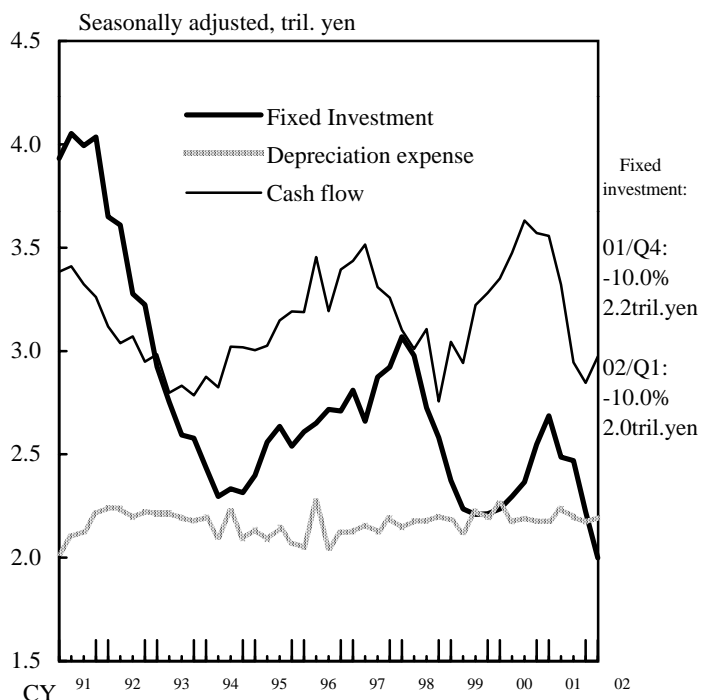
3. Seasonally adjusted by X-11.

Sources: Cabinet Office, "National Accounts";

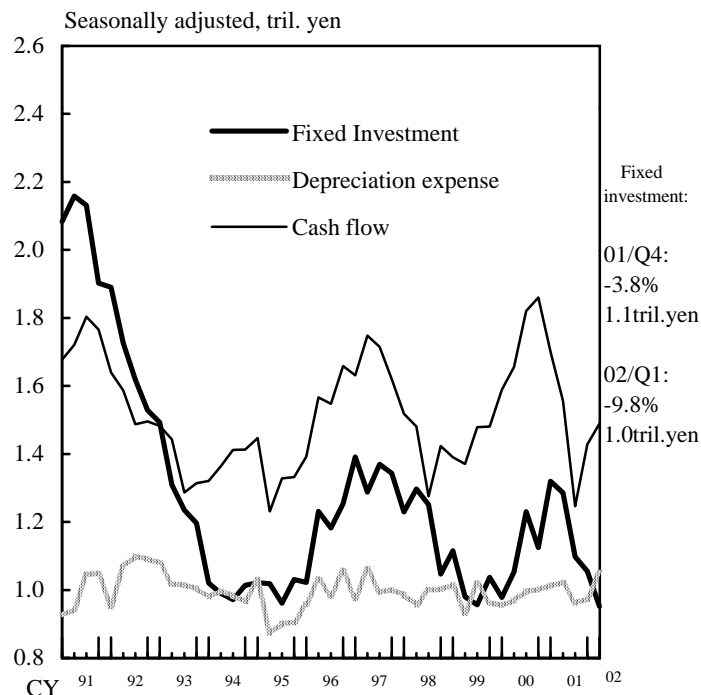
Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment

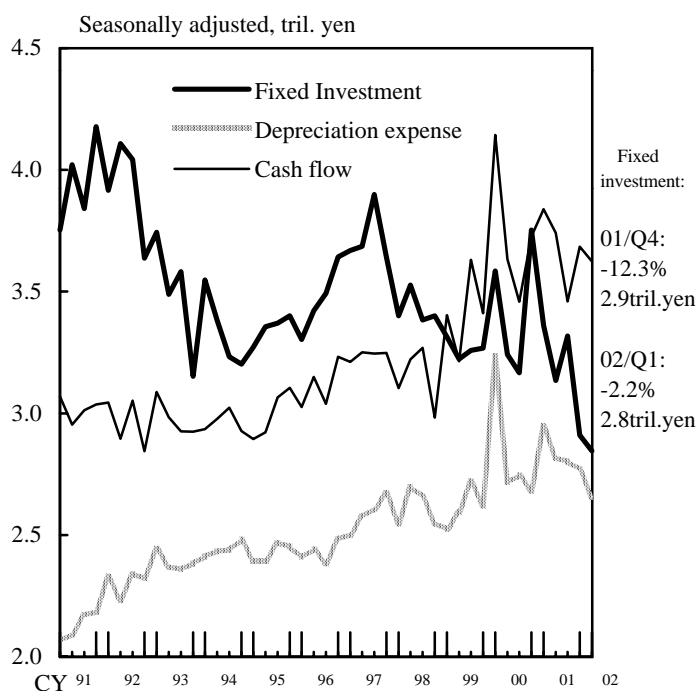
(1) Manufacturing large firms



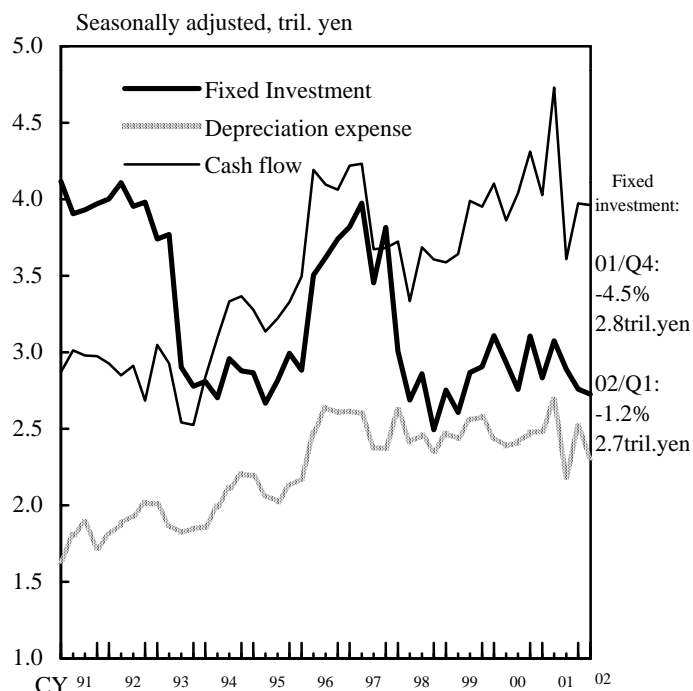
(2) Manufacturing medium and small firms



(3) Nonmanufacturing large firms



(4) Nonmanufacturing medium and small firms



Notes: 1. Electric, gas and other service industries are excluded from nonmanufacturing large firms.

2. "Large firms" refers to firms with stockholders' equity of 1 billion yen or more, and "medium and small firms" refers to firms with stockholders' equity of 10 million or more but less than 1 billion yen.

3. Cash Flow = Recurring profit / 2 + Depreciation expense

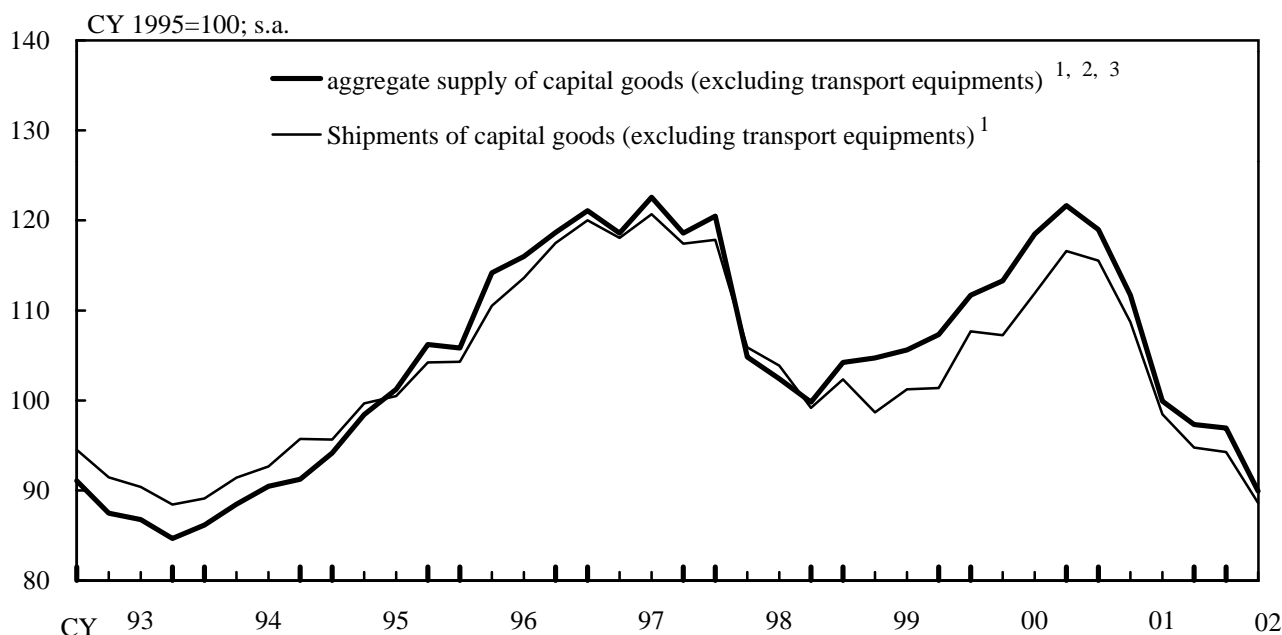
4. Seasonally adjusted by X-11.

5. Sample change adjusted.

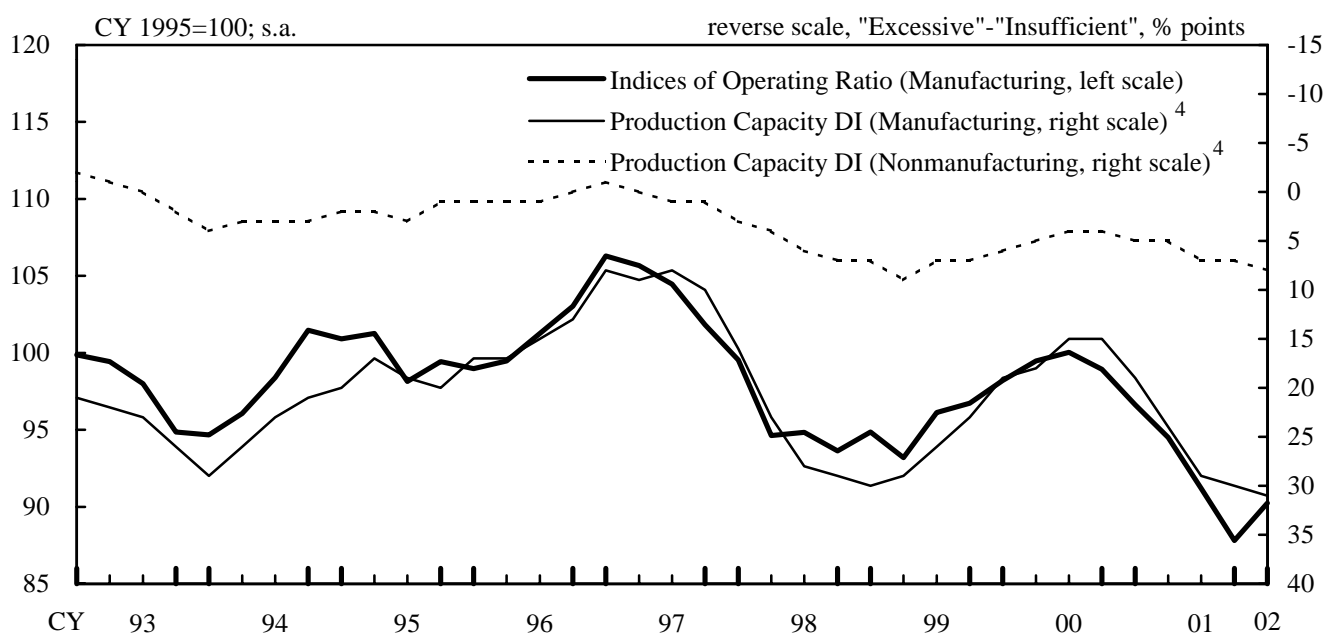
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

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. Figures for 2002/Q2 are those of April.

2. The figure for 2002/Q2 of "Domestic shipments" is calculated using Indices of Industrial Production and real exports (see chart 4).

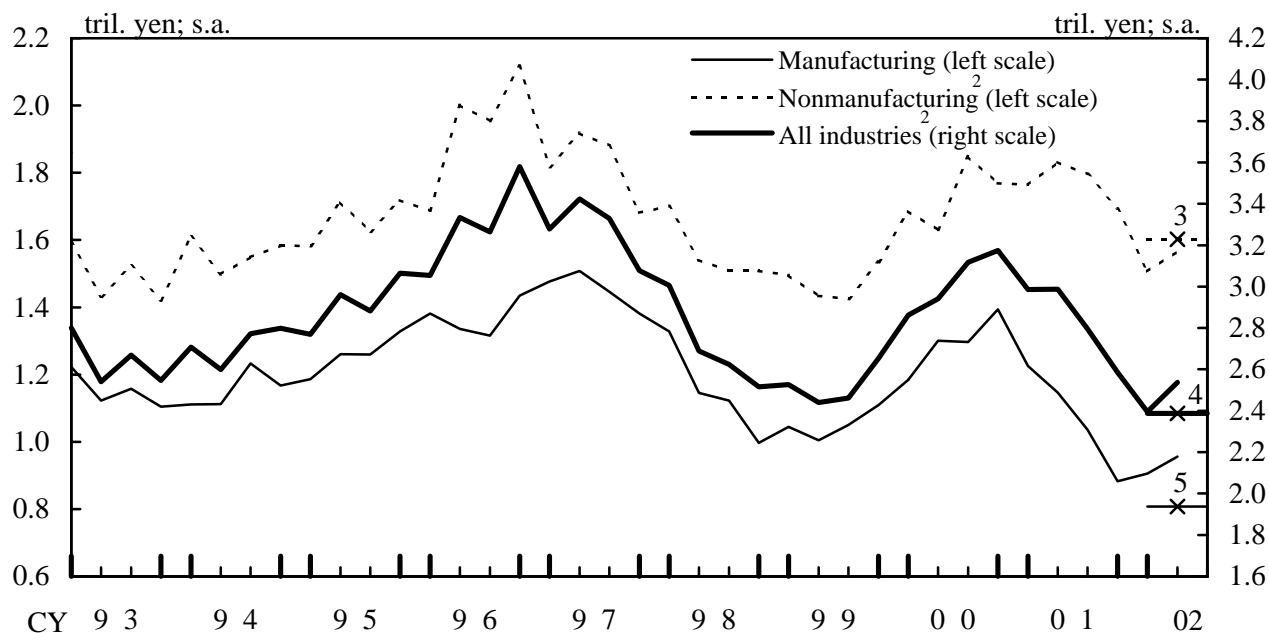
3. The figure for 2002/Q2 of "Domestic shipments and imports of capital goods (excluding transport equipments)" is calculated from the weighted average of the quarterly changes in "Imports" based on real imports and "Domestic shipments."

4. 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."

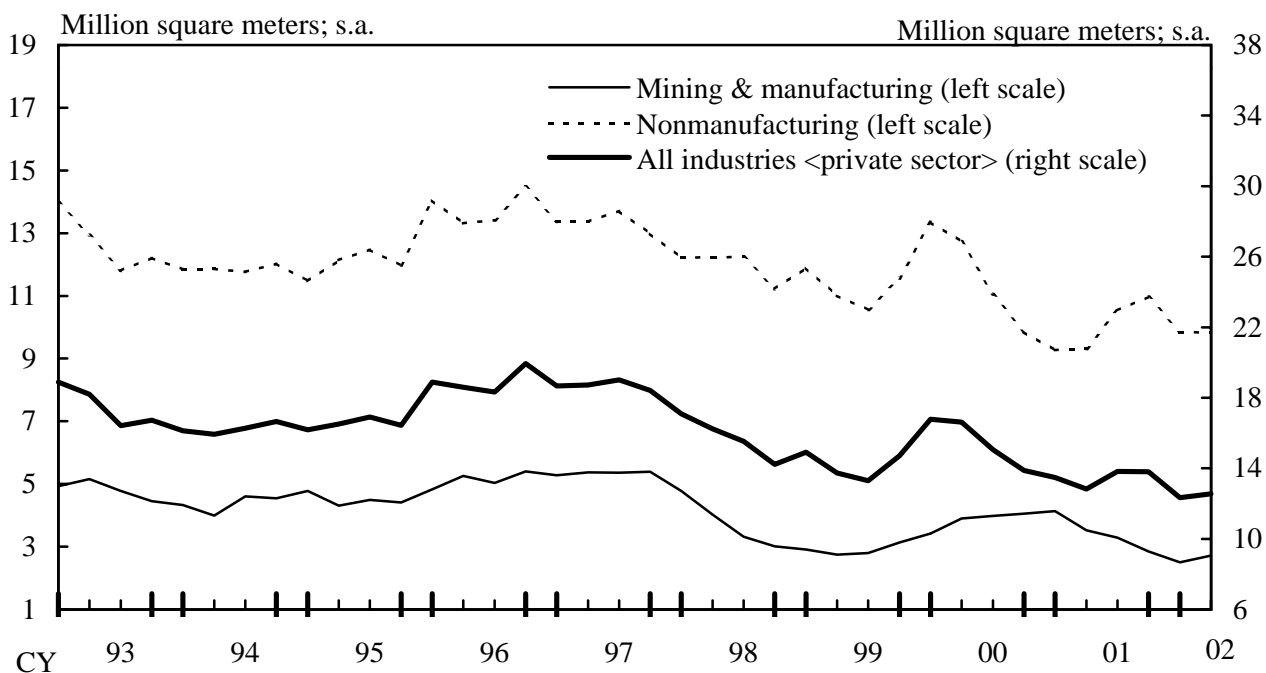
Indicators for Business Fixed Investment (2)

(1) Machinery Orders



- Notes: 1. Figures for 2002/Q2 are those of April in terms of quarterly amount.
 2. Excludes orders from electric power companies and shipbuilding orders.
 3. Forecast of nonmanufacturing industries for 2002/Q2.
 4. Forecast of all industries for 2002/Q2.
 5. Forecast of manufacturing industries for 2002/Q2.

(2) Construction Starts (Nonresidential)

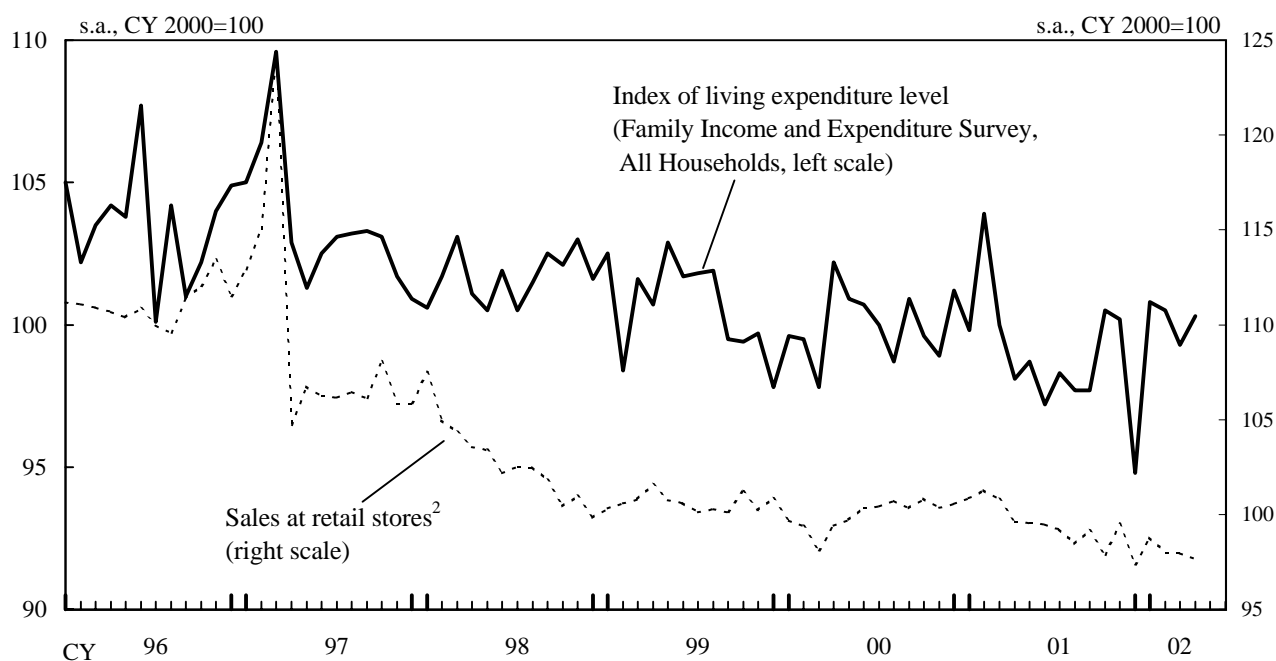


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2002/Q2 are those of April in terms of quarterly amount.

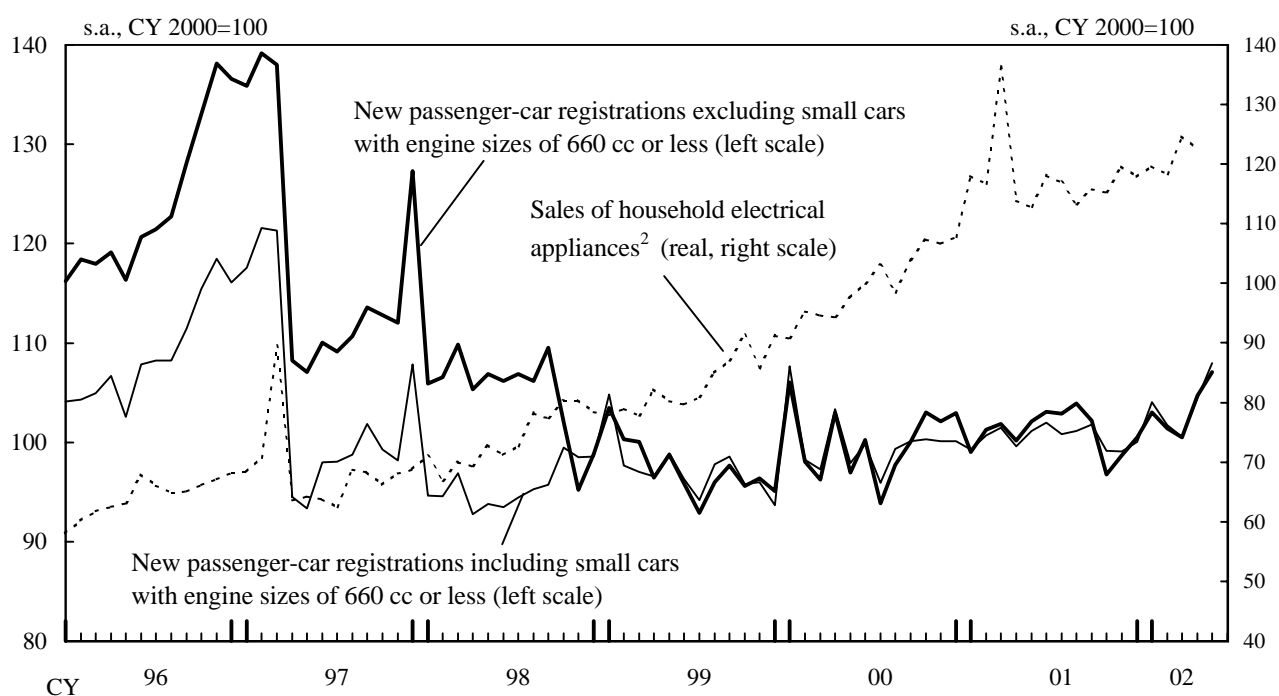
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics Building Construction Starts."

Private Consumption¹ (1)

(1) Household Spending



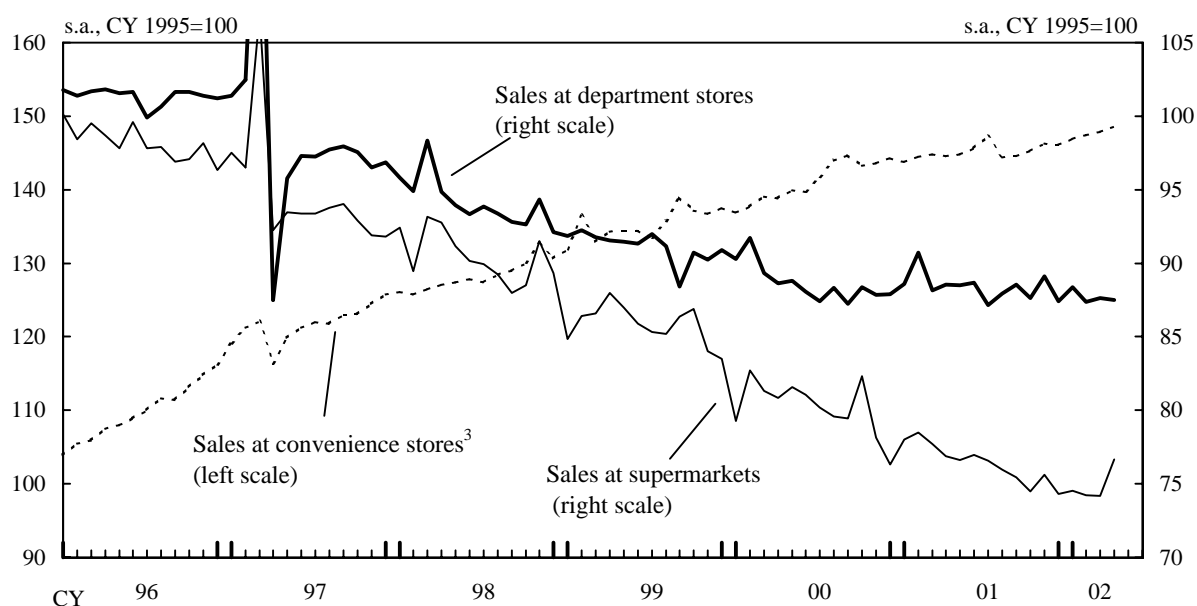
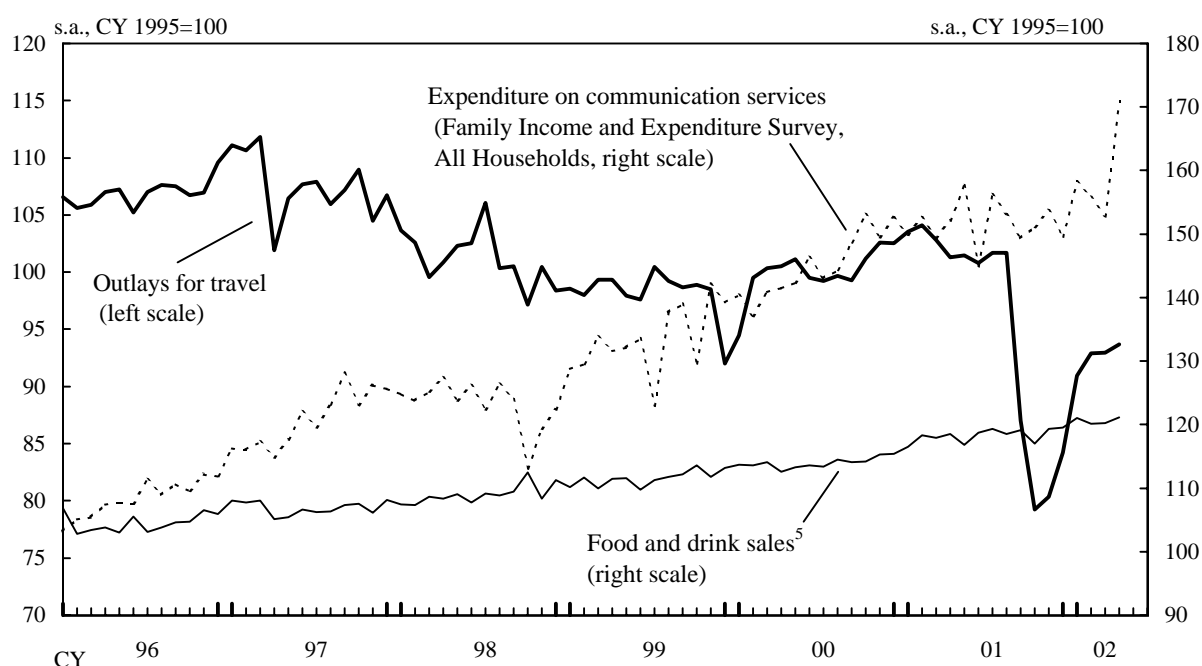
(2) Sales of Durable Goods



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

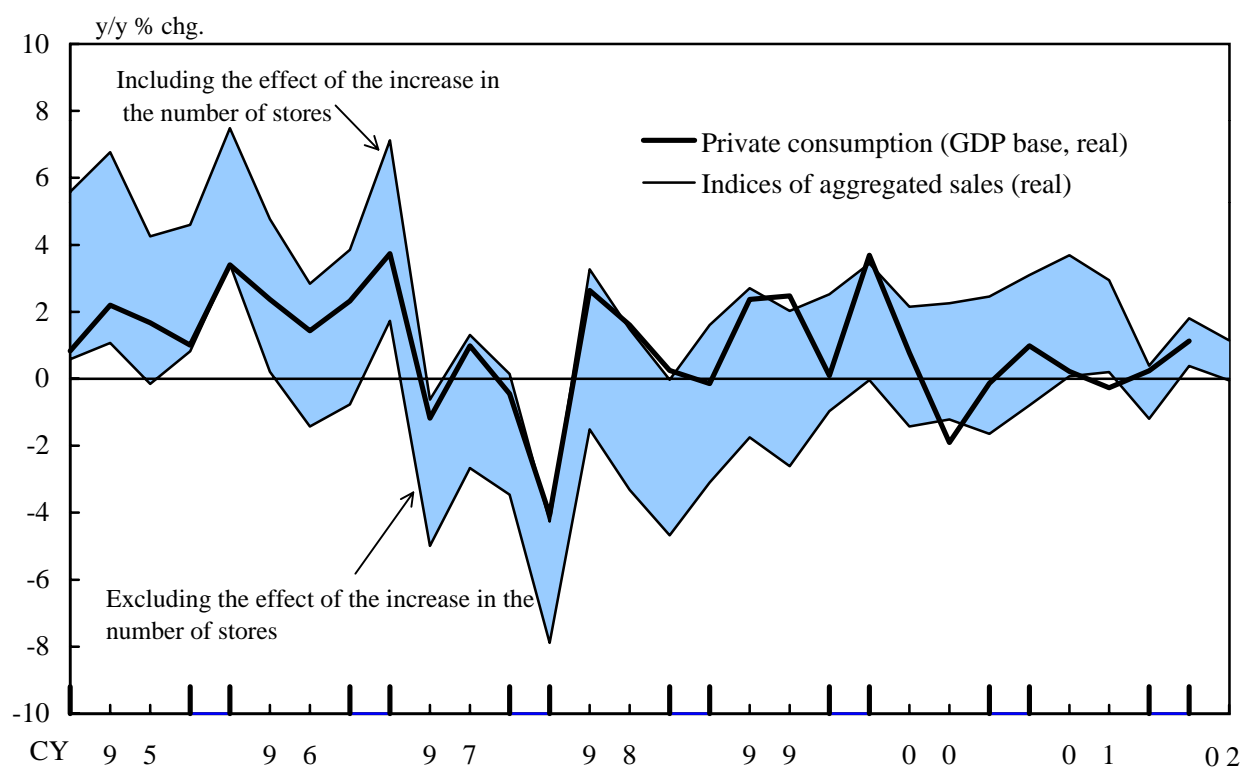
Private Consumption¹ (2)(3) Sales of Retail Stores²(4) Consumption of Services⁴

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

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

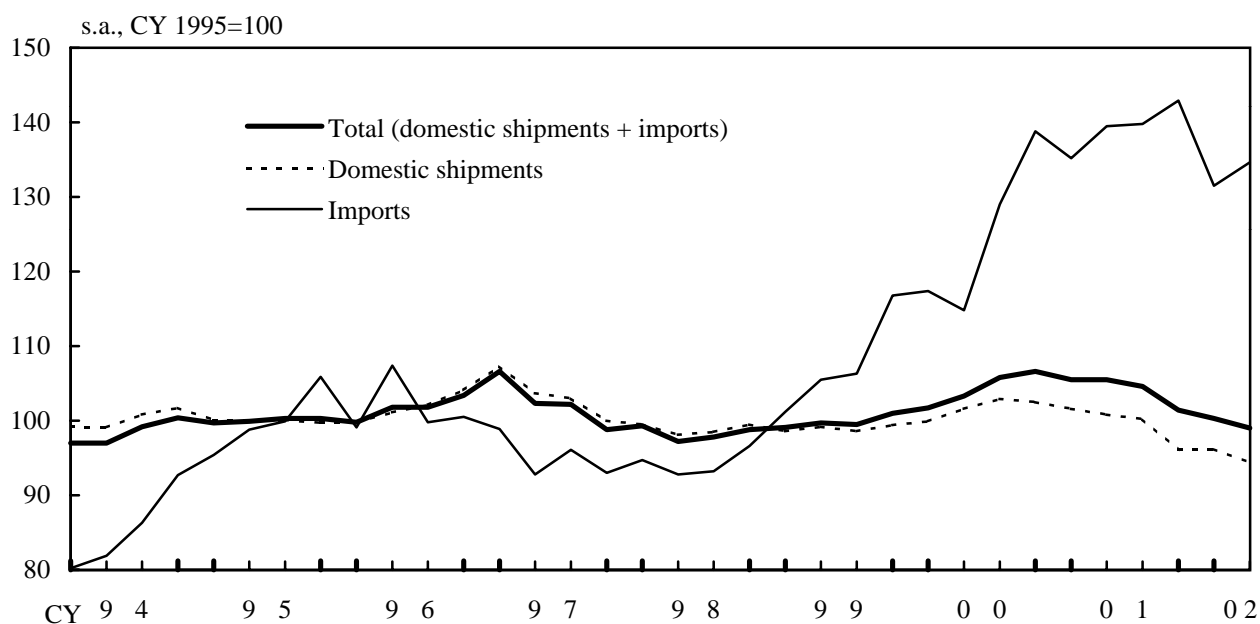


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Food and drink sales*, where the weights come from the *Family Income and Expenditure 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.
2. Sales indicators in nominal terms are deflated by the corresponding items of the consumer price index or the wholesale price index.
3. 2002/Q2 figures are those of April converted to a quarterly basis.

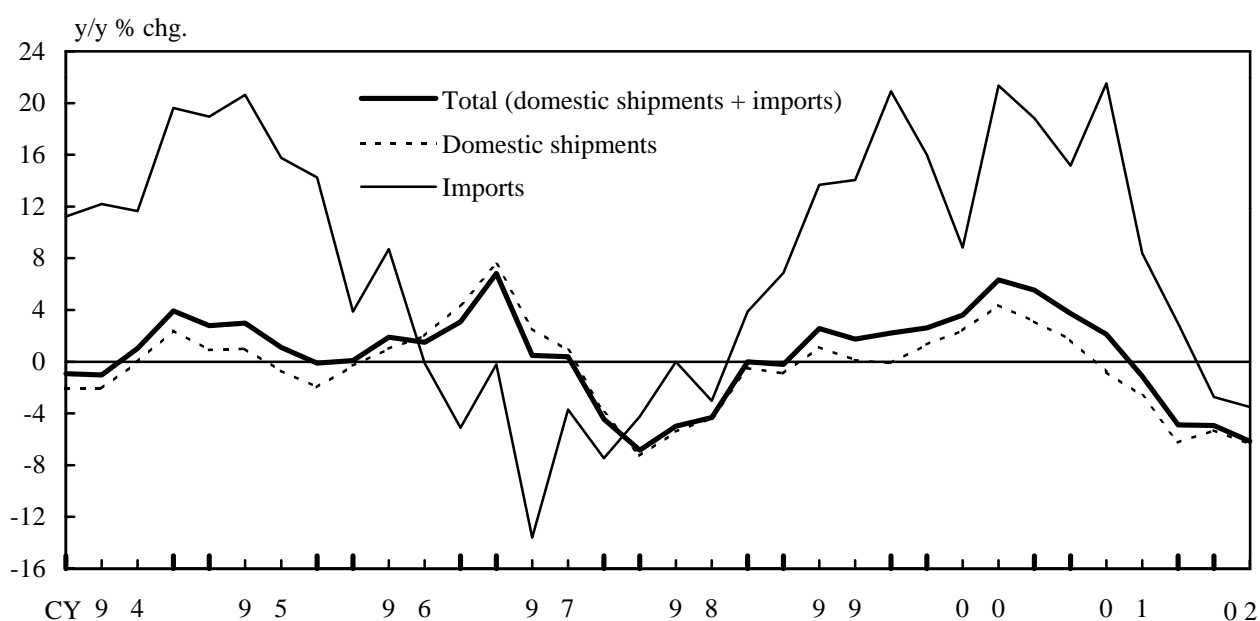
Sources: Cabinet Office, "National Accounts";
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index,"
 "Monthly Report on the Family Income and Expenditure Survey";
 Bank of Japan, "Wholesale Price Indexes";
 Japan 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) - aggregate supply of consumer goods

(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/Q2 of "Domestic shipments" are calculated from quarterly changes of *Indices of Industrial Production* (excluding the effects of exports).

3. Figures for 2002/Q2 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/Q2 of "Total (domestic shipments + imports)" are calculated from weighted average of the quarterly changes in "Domestic shipments" and "Imports".

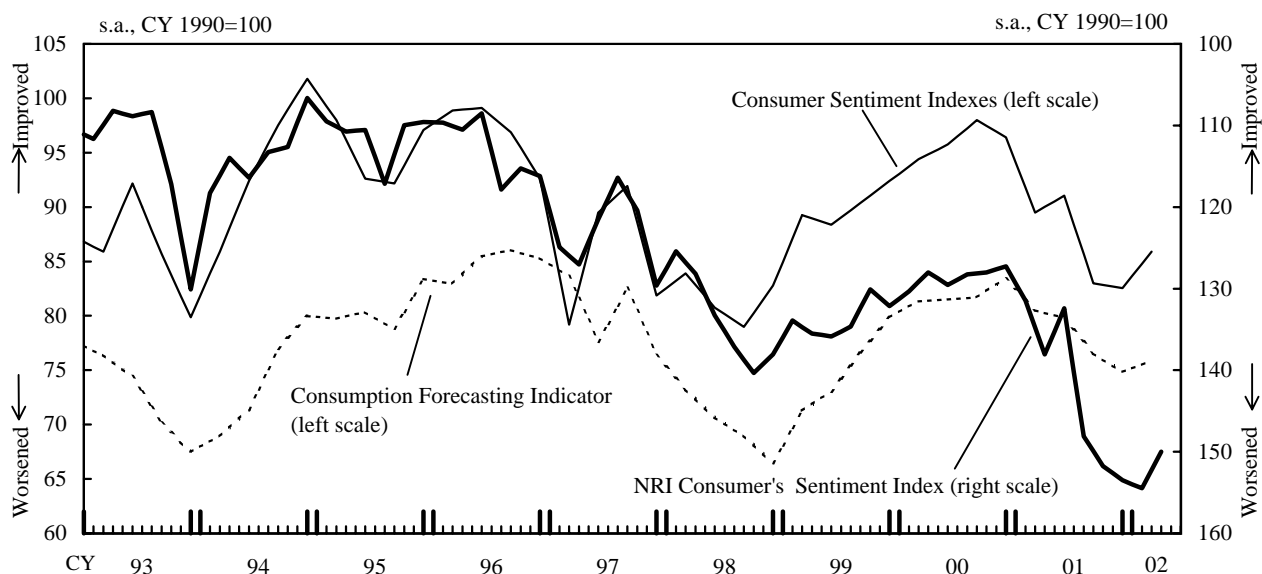
5. Year-on-year changes are calculated from seasonal adjusted series.

6. 2002/Q2 figures are those of April 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."

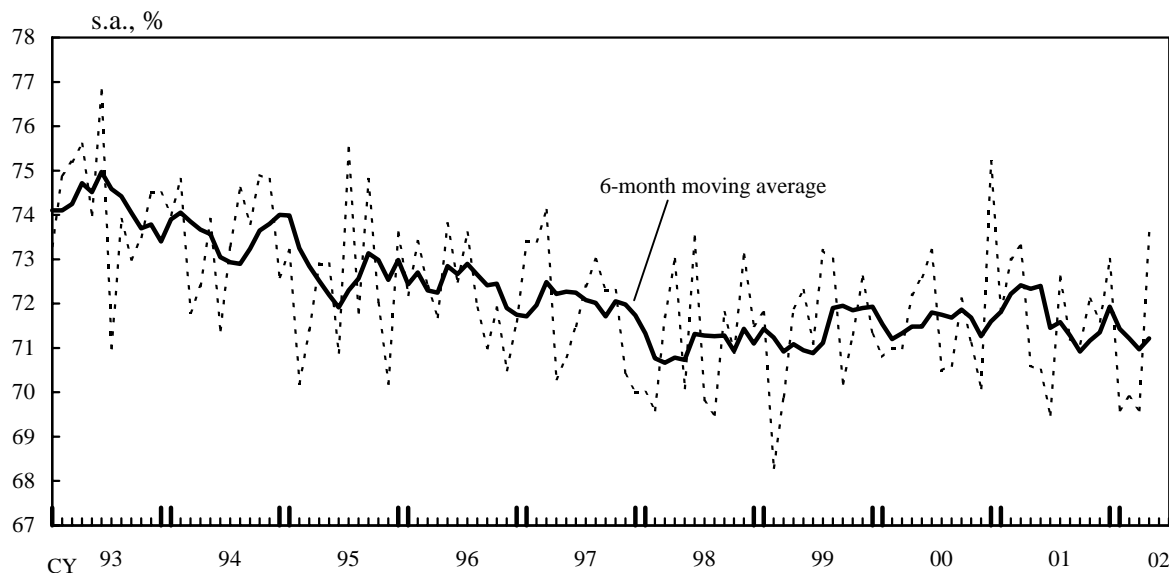
Consumer Confidence and Propensity to Consume

(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.

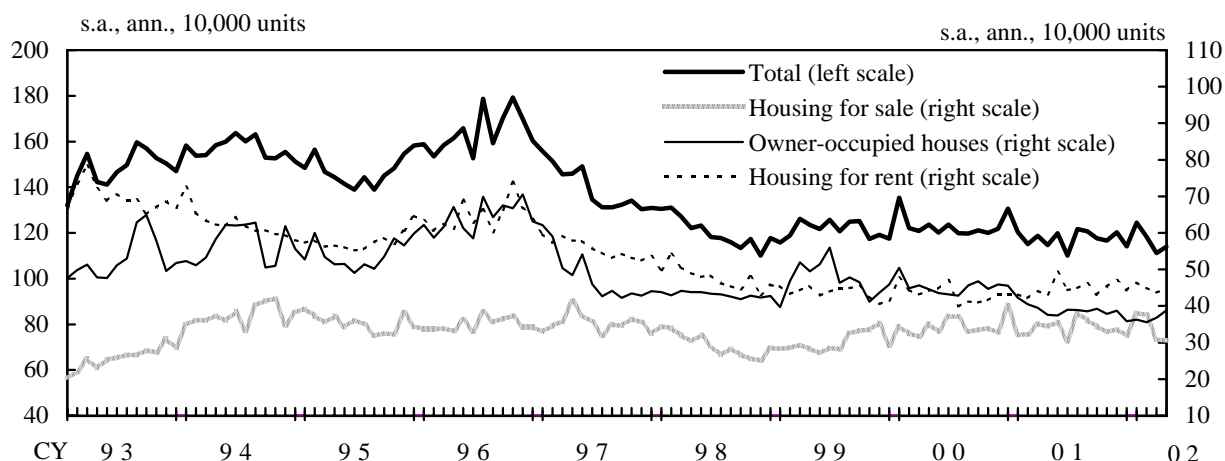
(2) Propensity to Consume (Family Income and Expenditure Survey, Workers' Households)



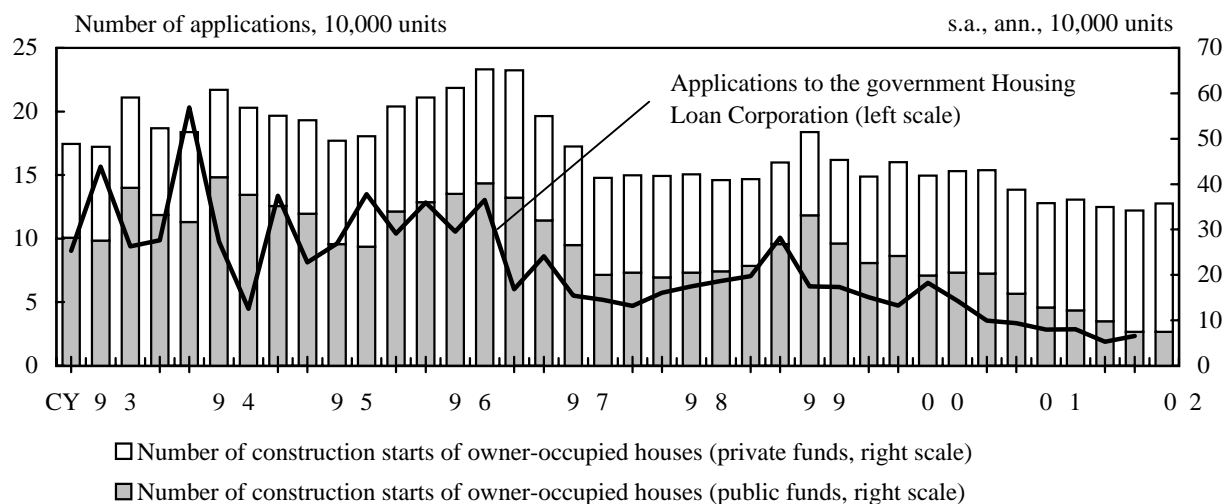
Sources: Cabinet Office, "Consumer Behavior Survey";
 Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications,
 "Monthly Report on the Family Income and Expenditure Survey";
 Nippon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

Indicators for Housing Investment

(1) Housing Starts

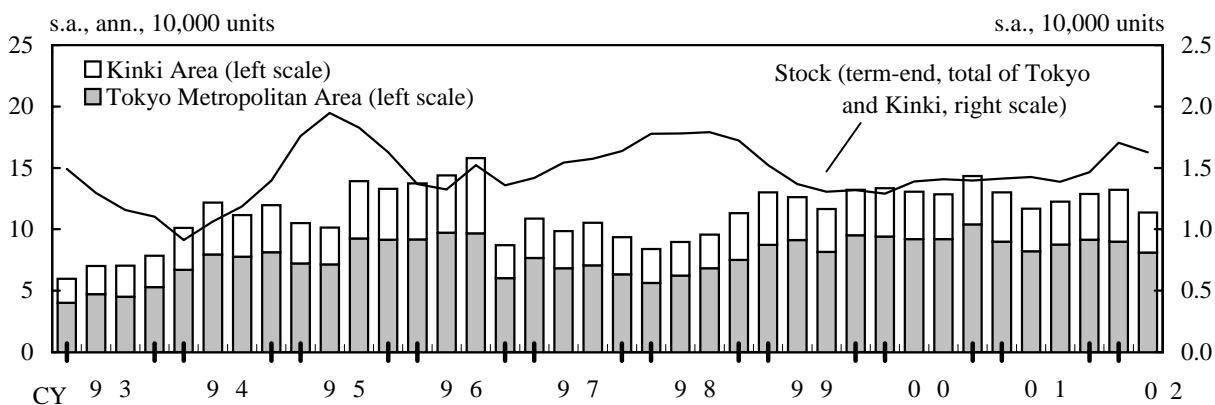


(2) Number of Applications to the Government Housing Loan Corporation
(for new owner-occupied houses)



- 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 CY 2002/Q2 are those of April.

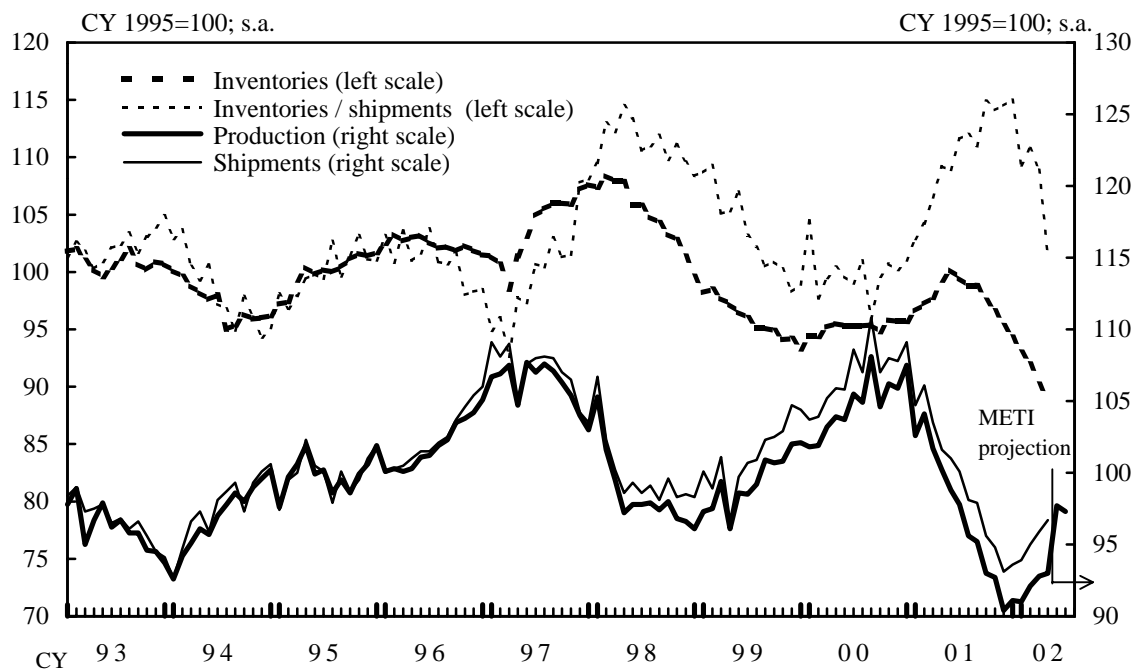
(3) Sales of Condominiums



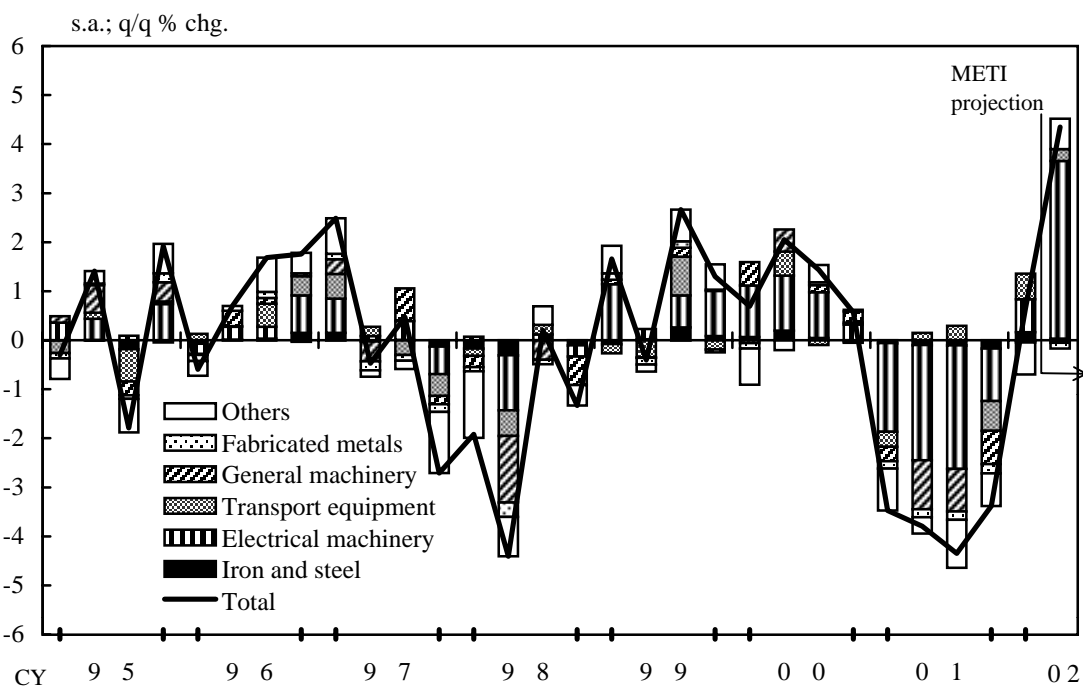
Note: Figures of CY 2002/Q2 are those of April.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries

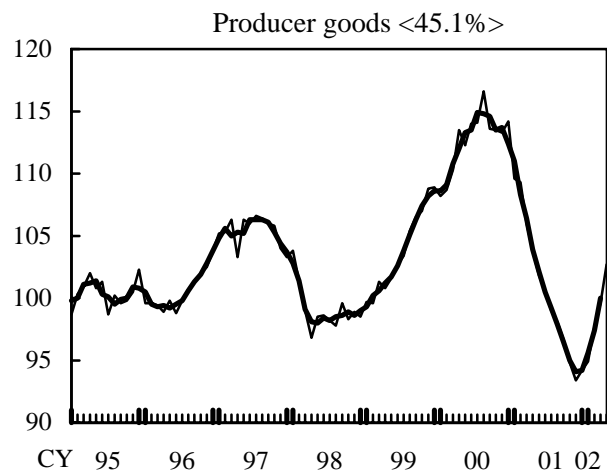
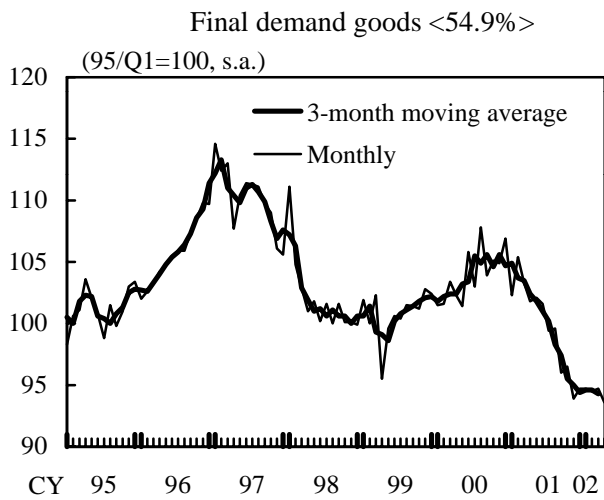


Note: Transport equipment excludes ships and rolling stock.

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

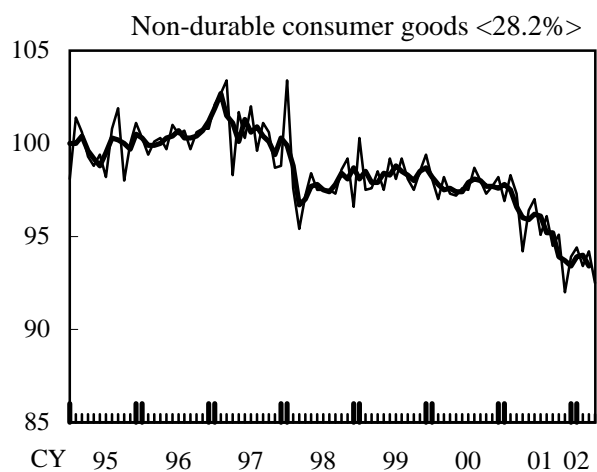
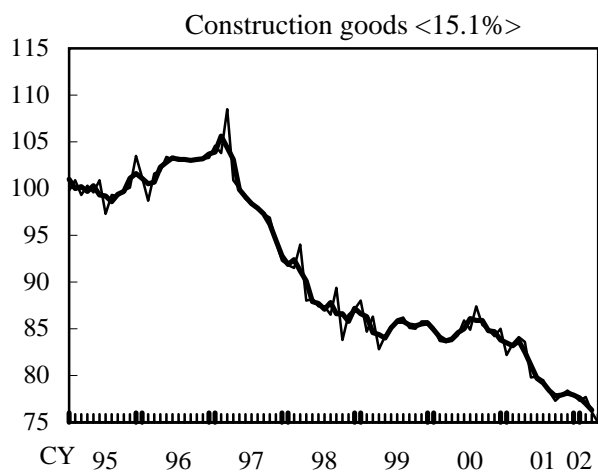
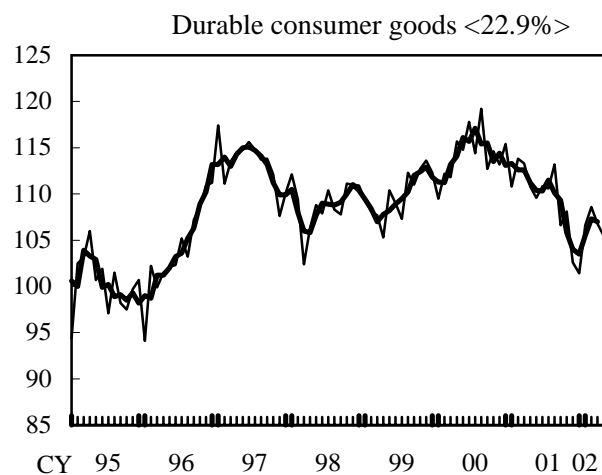
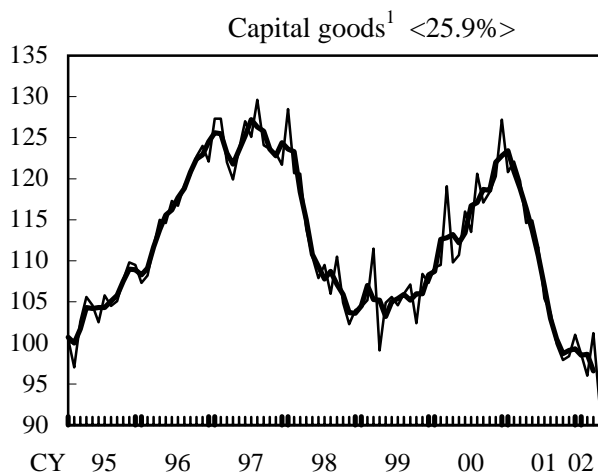
Shipments (breakdown by type of goods)

(1) Final demand goods and Producer goods



Note: Shares of shipments of mining and manufacturing are shown in brackets.

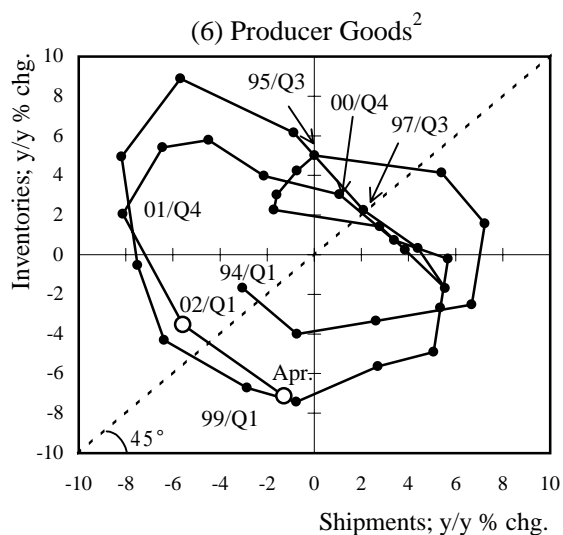
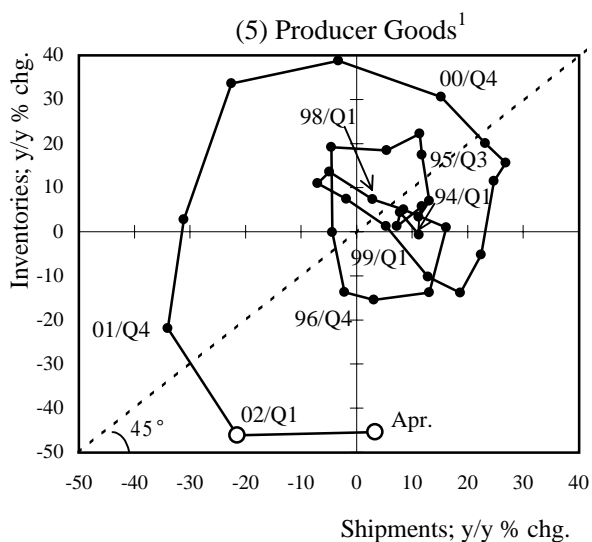
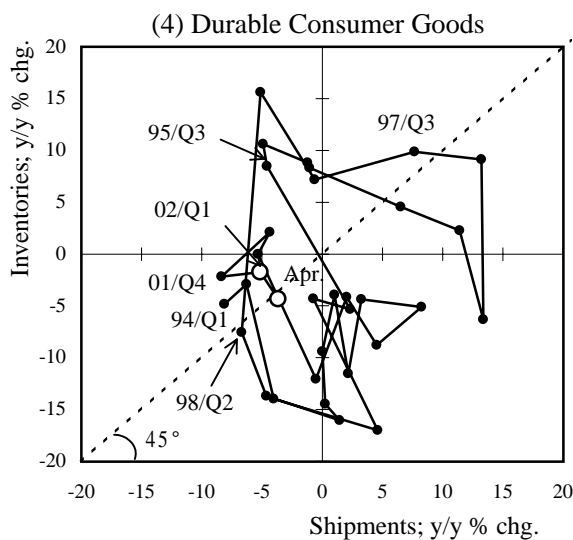
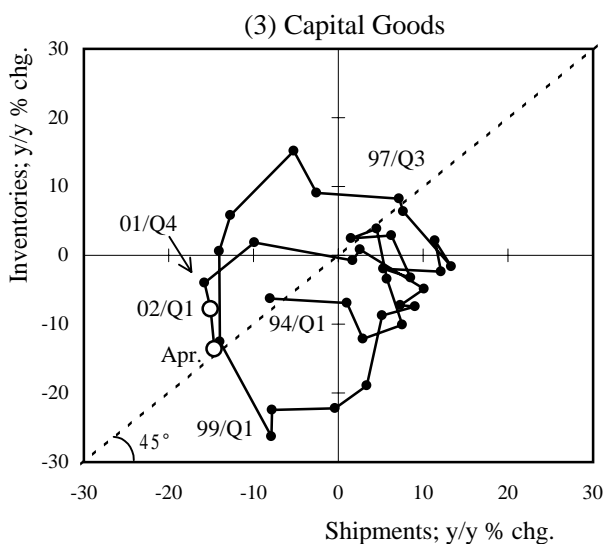
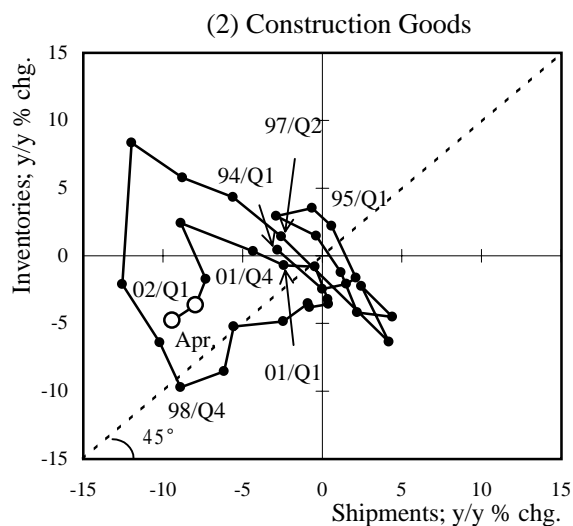
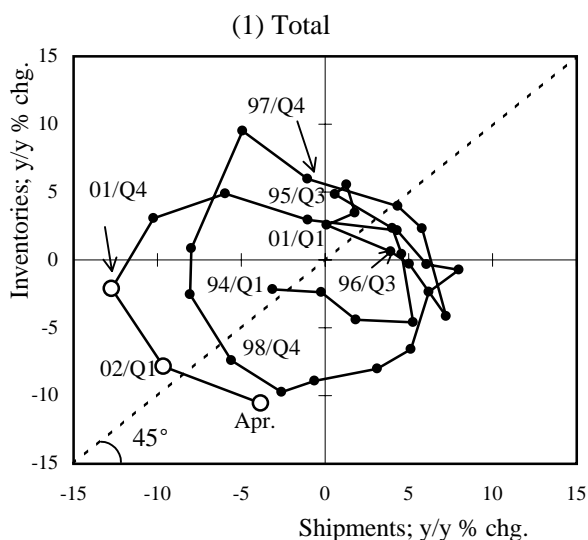
(2) Breakdown of final demand goods



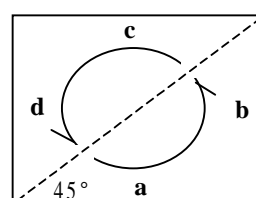
Notes: 1.Excluding transport equipment.

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

Inventory Cycle



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

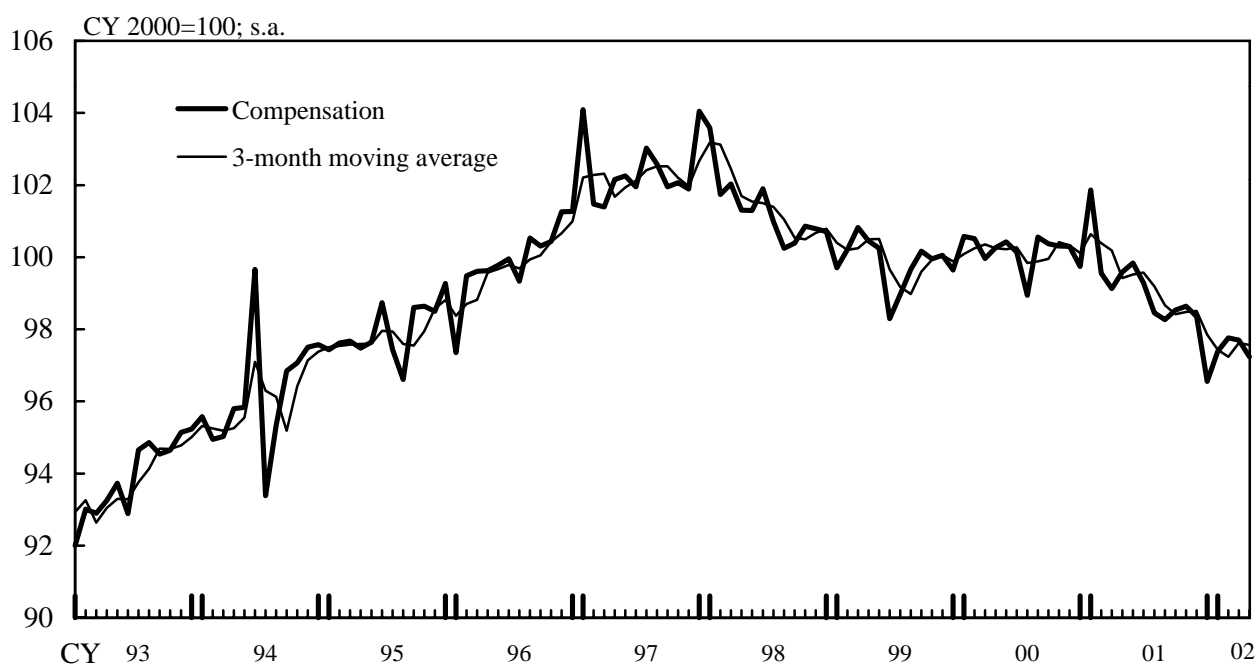


Notes: 1. Producer goods of electrical machinery.
 2. Producer goods excluding electrical machinery.

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

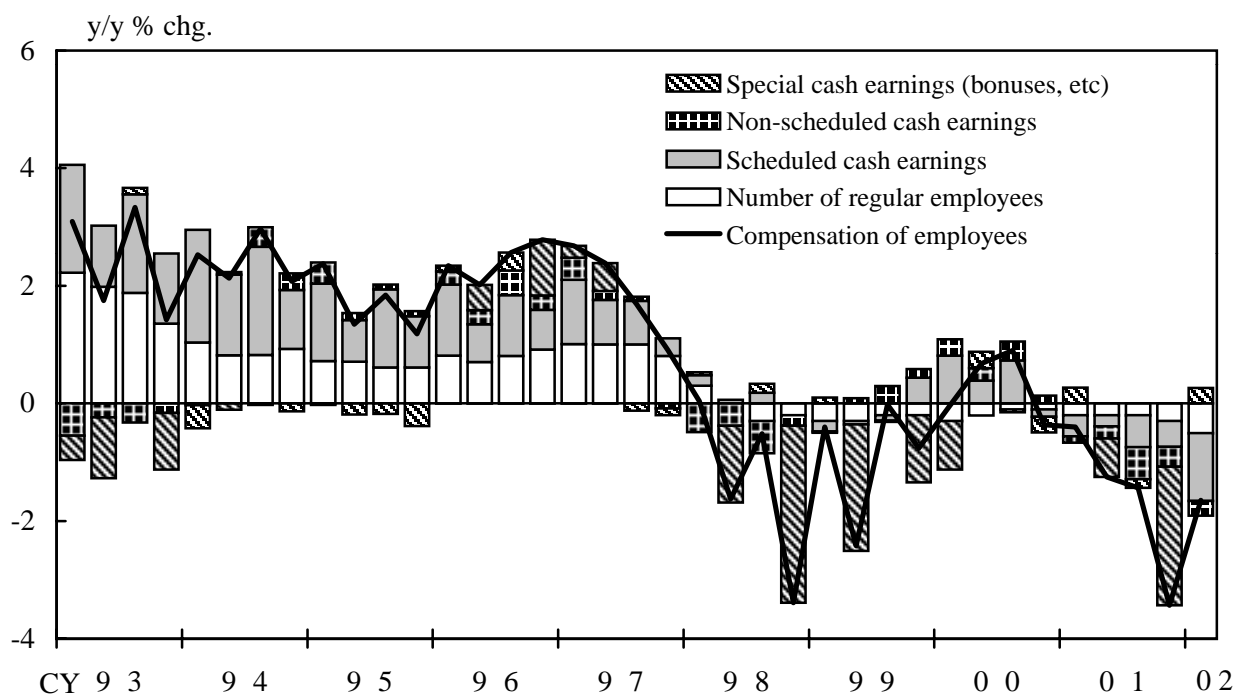
Compensation of Employees

(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.
 3. Data for establishments with at least 5 employees. The data for April 2002 are preliminary figures.

(2) Breakdown of Compensation

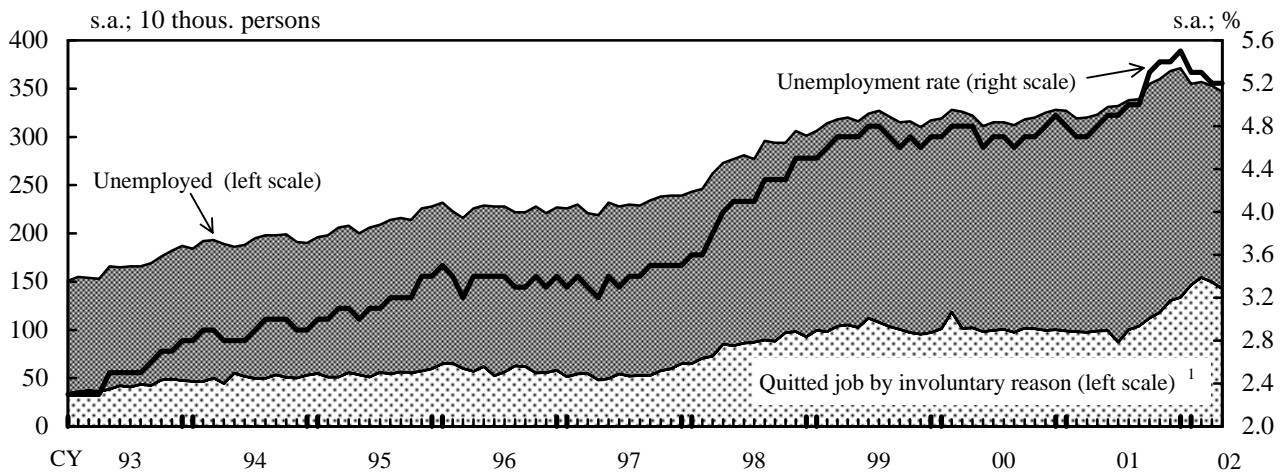


- Notes: 1. Data for establishments with at least 5 employees. The data for April 2002 are preliminary figures.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.
 3. Figures for 2002/Q1 are those of March - April 2002.

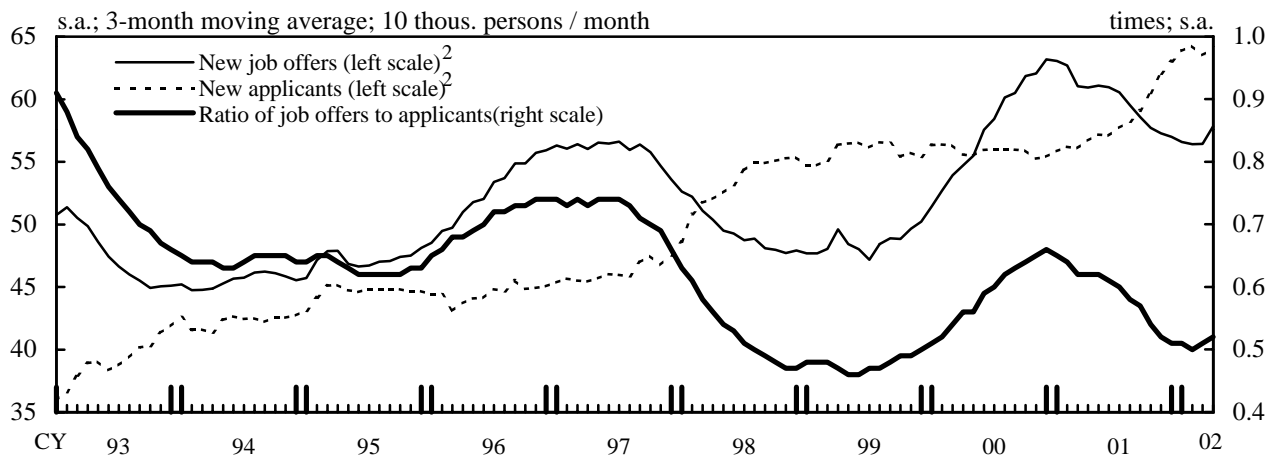
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

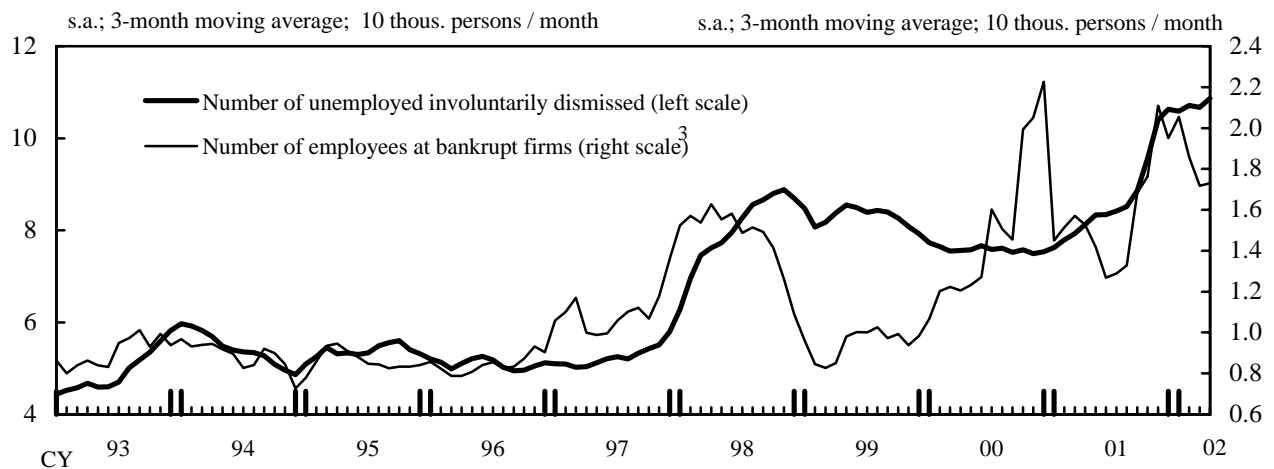
(1) The Unemployed and Unemployment Rate



(2) Ratio of Job Offers to Applicants



(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms¹



Notes: 1. Seasonally adjusted by X-11.

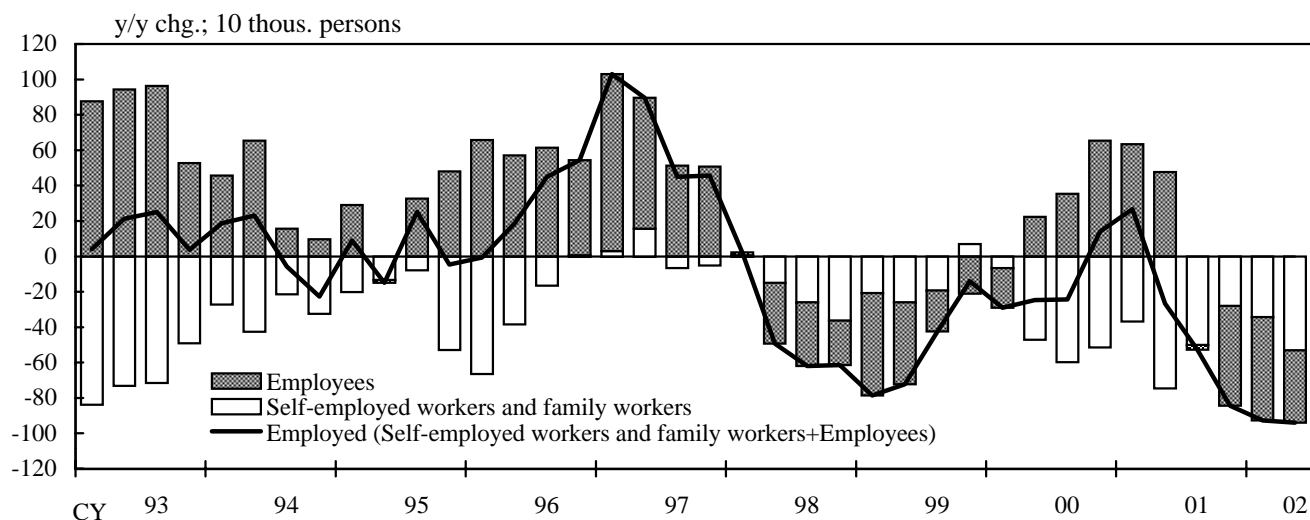
2. Exclude jobs offered to new graduates.

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

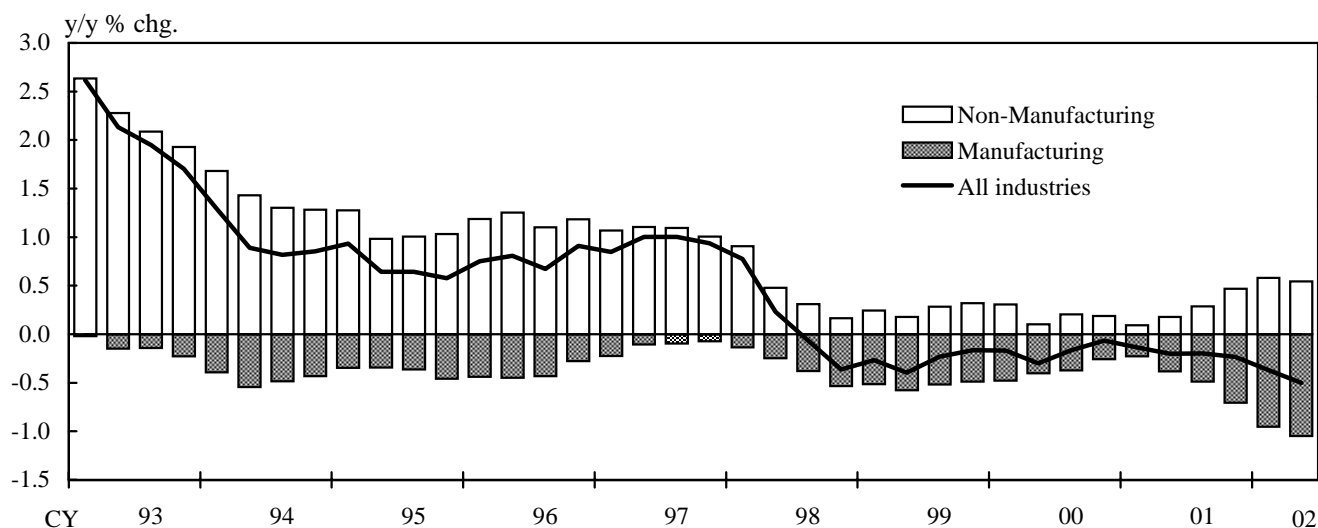
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service," "Report on Employment Insurance Service"; Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Teikoku Databank Ltd., "Japan's Business Failure."

Labor Market (2)¹

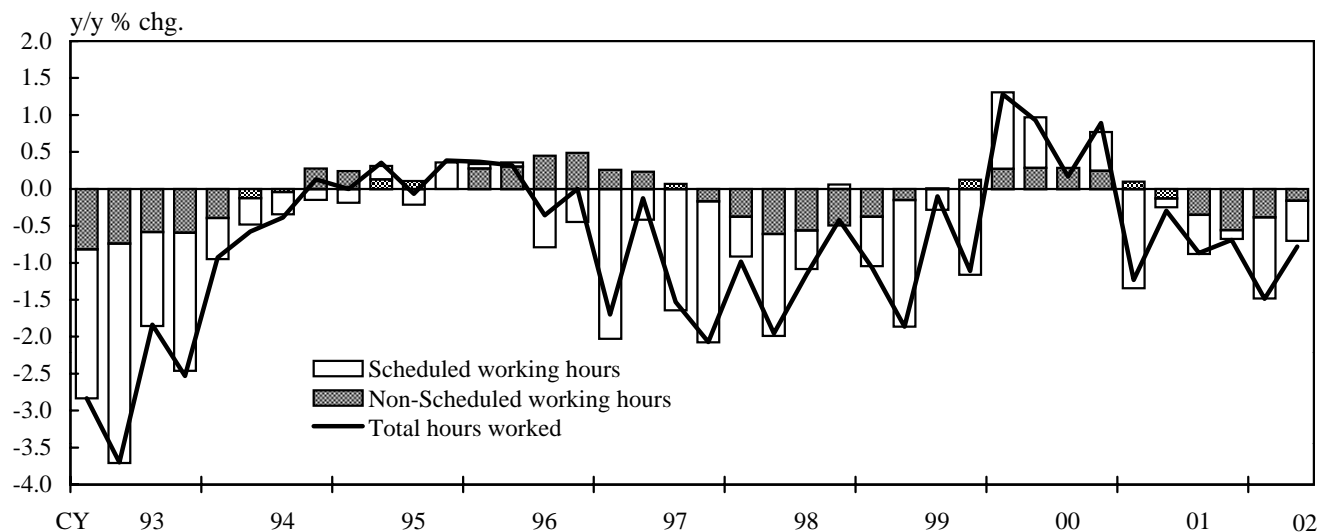
(1) The Employed (Labour Force Survey)



(2) Number of Regular Employees² (Monthly Labour Survey)



(3) Actual Hours Worked² (Monthly Labour Survey)



Notes: 1. Figures for 2002/Q2 are those of the April averages.

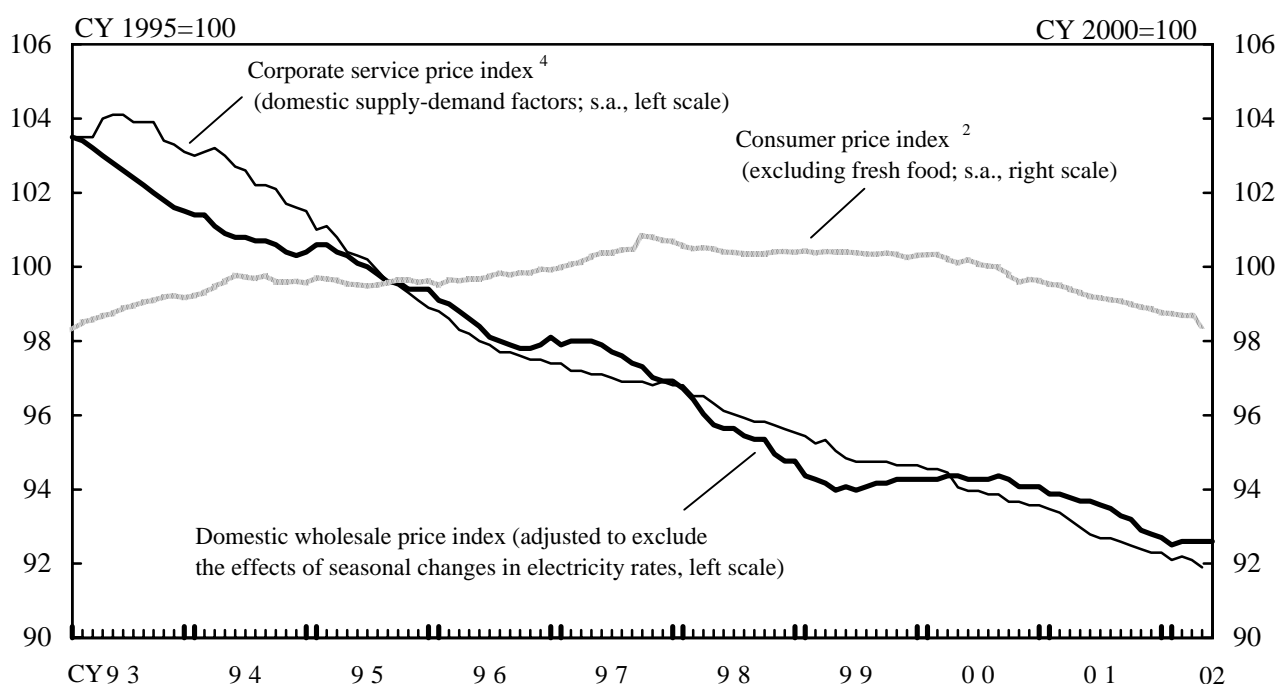
2. Data for establishments with at least 5 employees. The data for April 2002 are preliminary figures.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey" ;

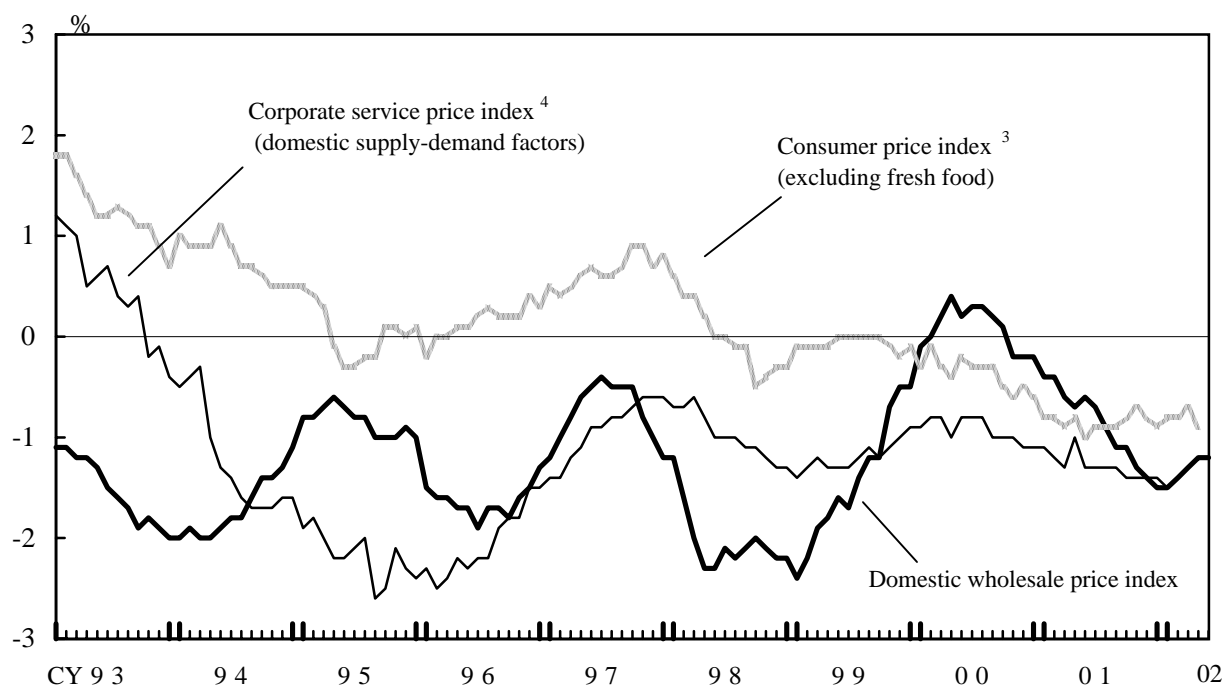
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Prices¹

(1) Level



(2) Changes from a year earlier

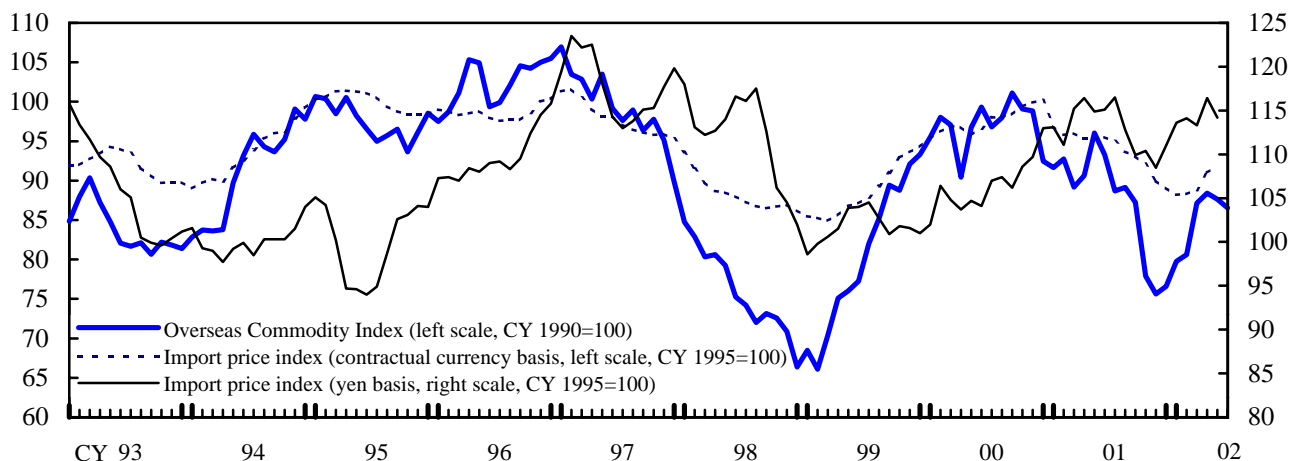


- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
2. Seasonally adjusted by X-12-ARIMA, based on the original series excluding "package tours to overseas" newly adopted from the 2000 base. This is because data for this item is insufficient, while large seasonal fluctuations are observed.
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."

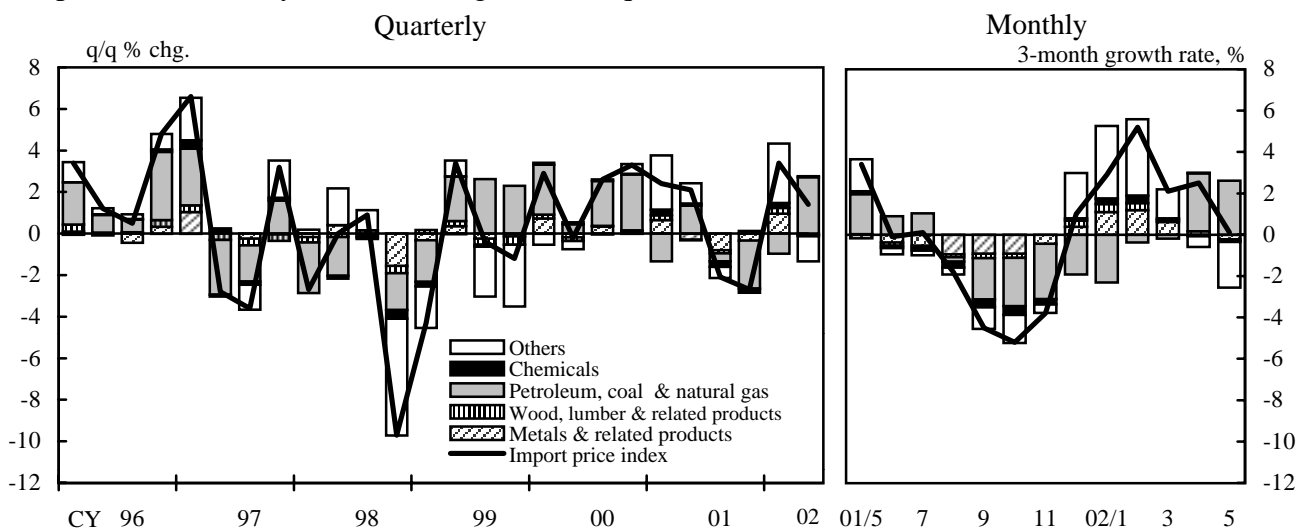
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



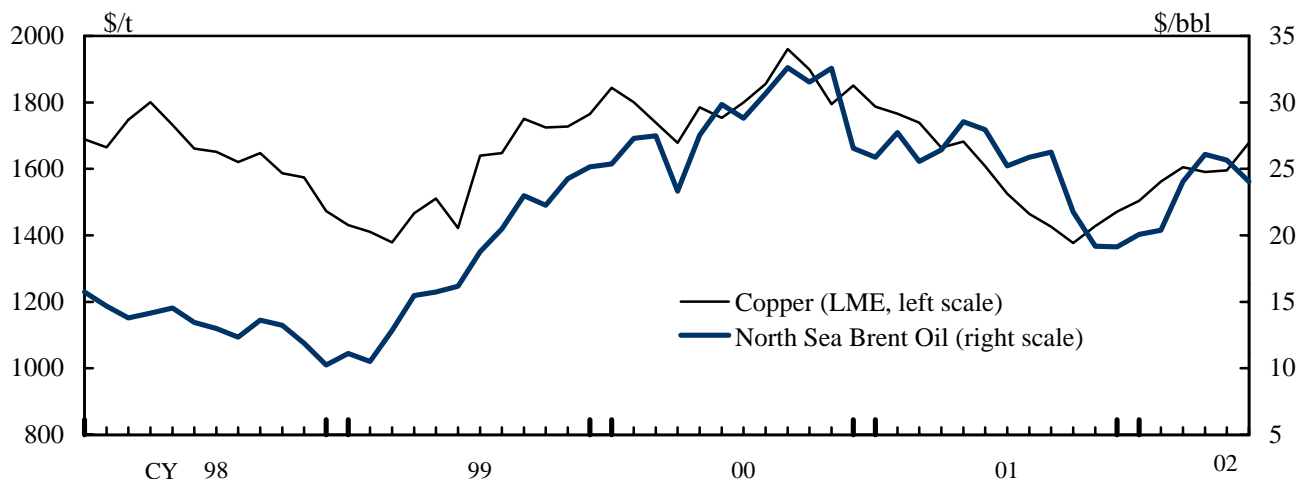
Note: Overseas Commodity Index, which is calculated by Bank of Japan, is a monthly average.
Figure for June 2002 is the average of June 1-10.

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



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

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

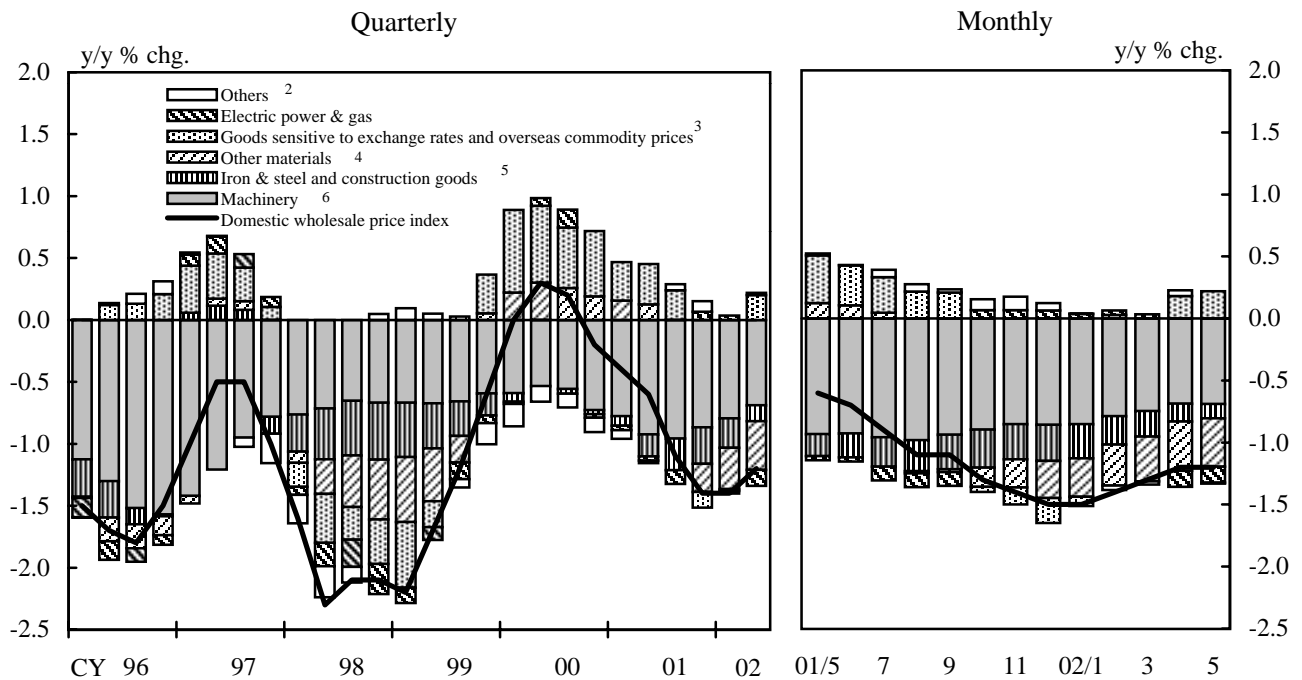
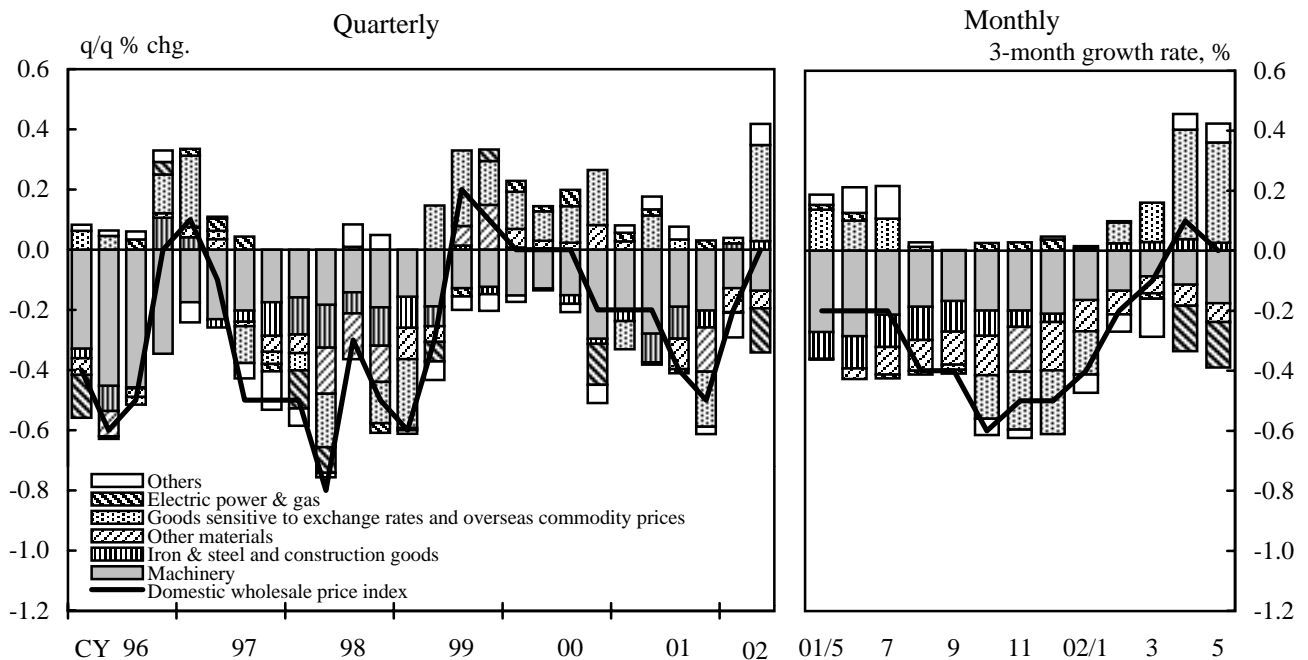


Note: Monthly averages. Figures for June 2002 are the averages of June 1-10.

Sources: Bank of Japan, "Wholesale Price Indexes," "Financial and Economic Statistics Monthly," etc.

Domestic Wholesale Price Index¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁷

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.

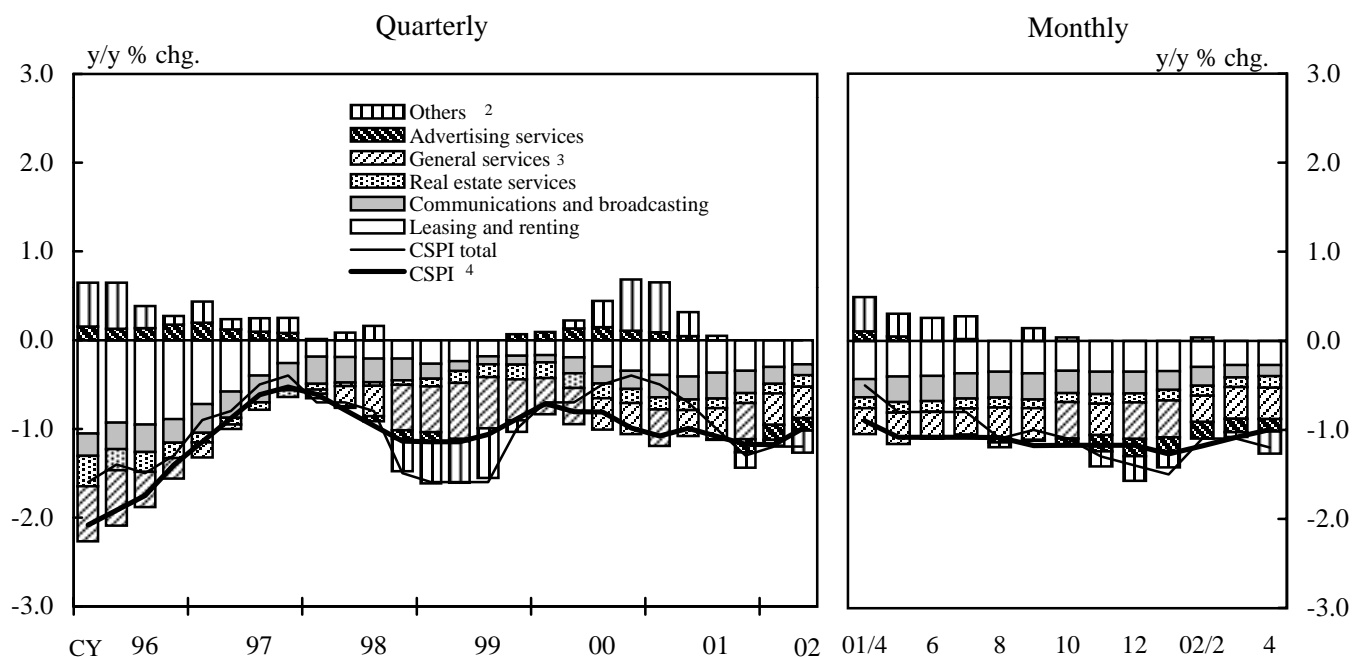
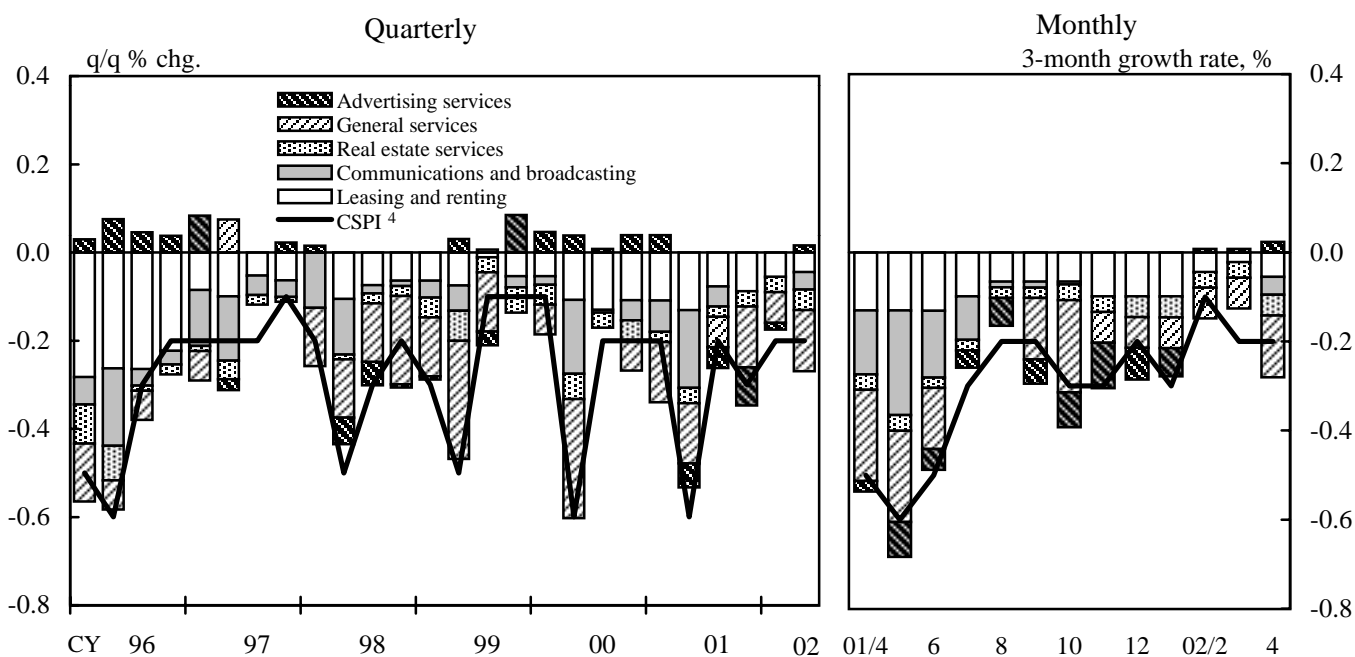
This effect causes the Domestic Wholesale Price Index to rise by about 0.2%.

8. Figures for 2002/Q2 are those of April-May averages.

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

Corporate Service Price Index¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁵

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 road + 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 employment 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 General services are seasonally adjusted by X-12-ARIMA.

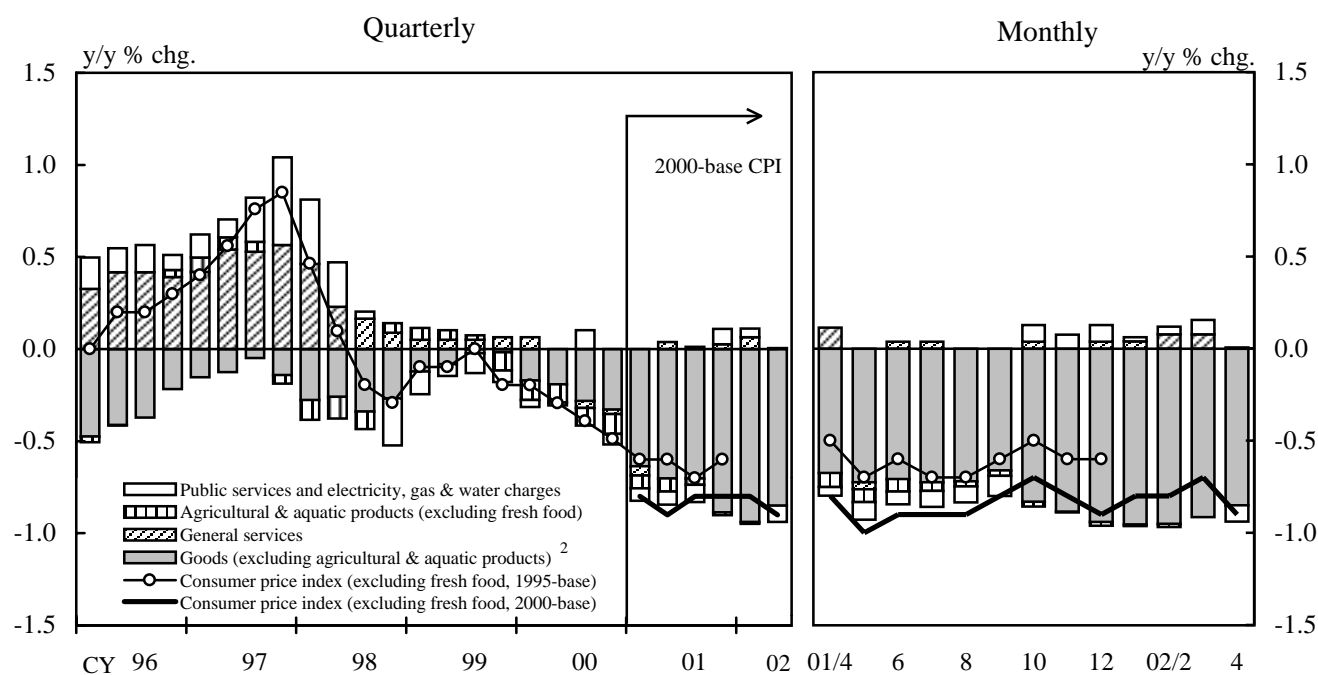
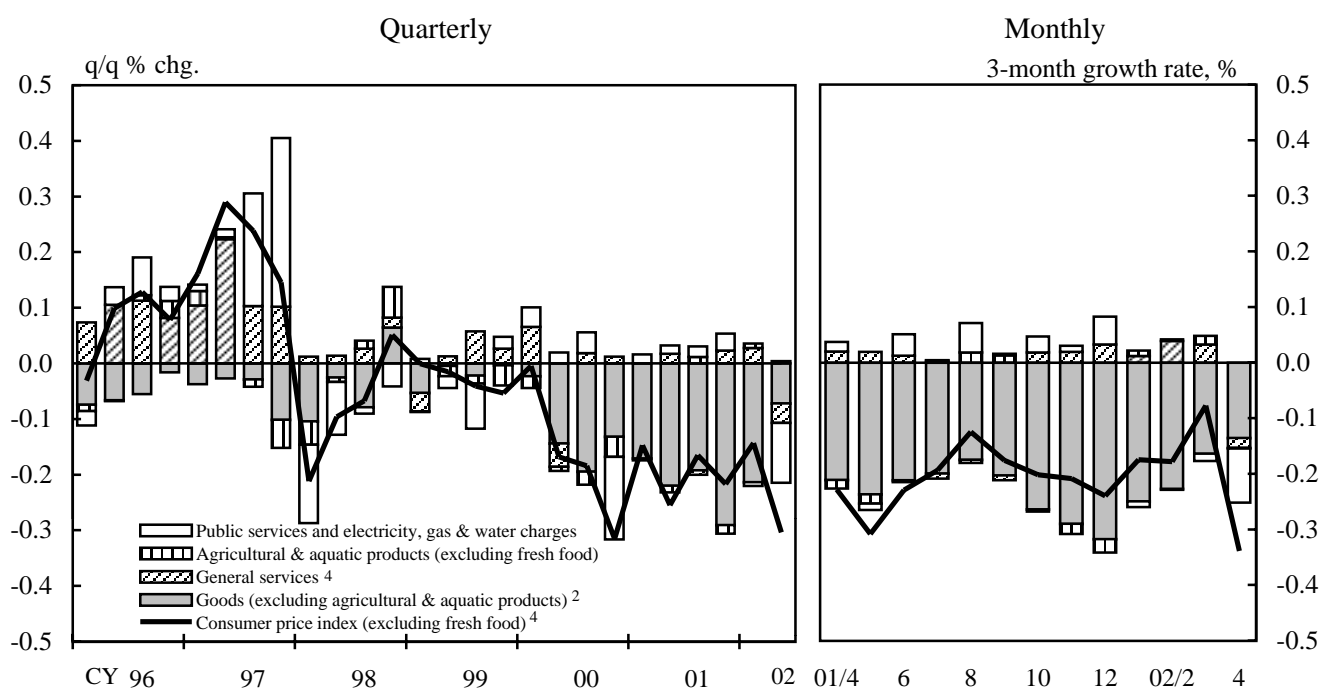
Due to seasonal adjustment every month, the series are revised retroactively every month.

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

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

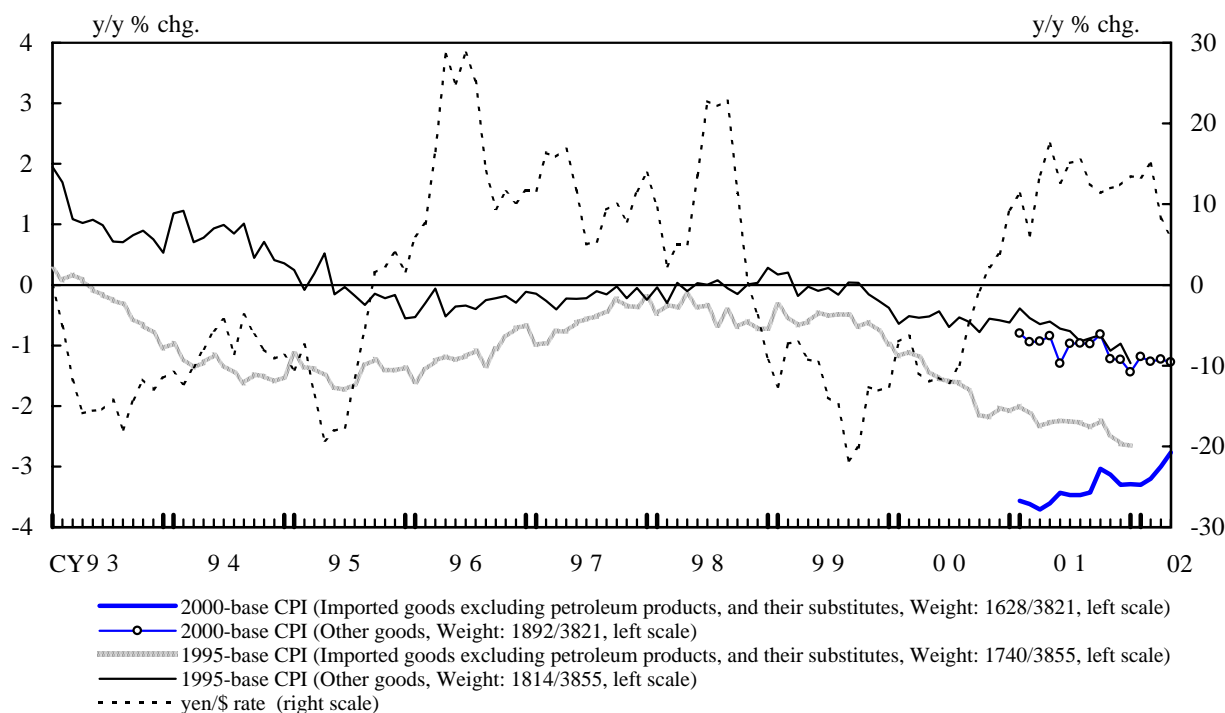
Consumer Price Index (excluding fresh food)¹

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier (2000-base CPI)³

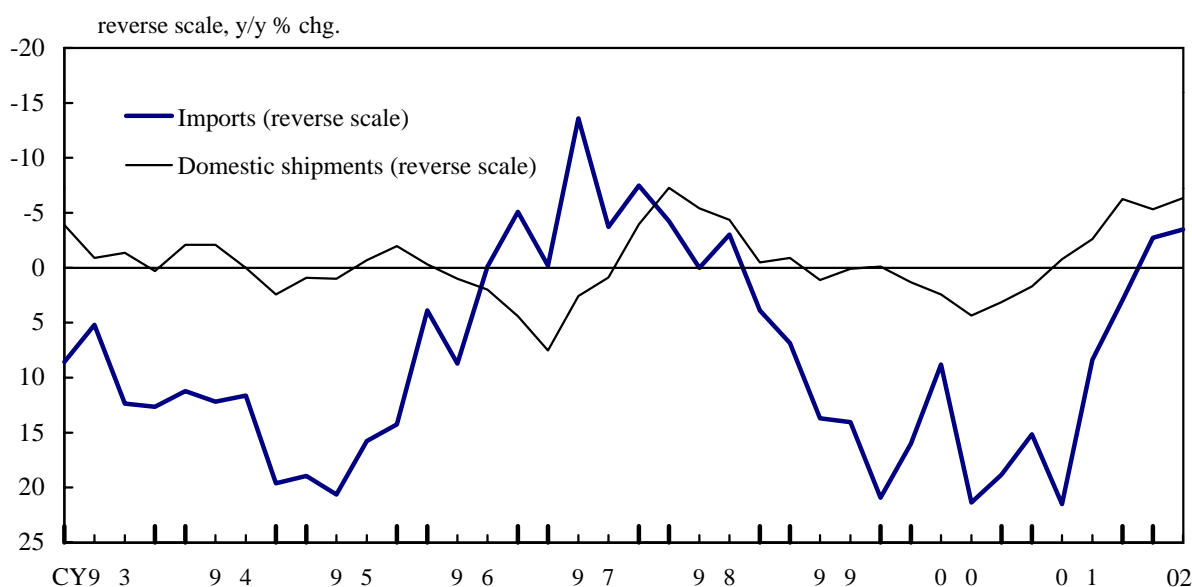
- Notes: 1. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
 2. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, however electricity, gas & water charges is excluded from goods.
 3. Seasonally adjusted by X-12-ARIMA. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.
 4. Excluding "package tours to overseas" newly adopted from the 2000 base. This is because data for this item is insufficient, while large seasonal fluctuations are observed.
 5. Figures for 2002/Q2 are those of April.

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

Consumer Price Index (Imported goods and their substitutes)¹(1) Comparison of imported goods and other goods in terms of CPI²

- 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)

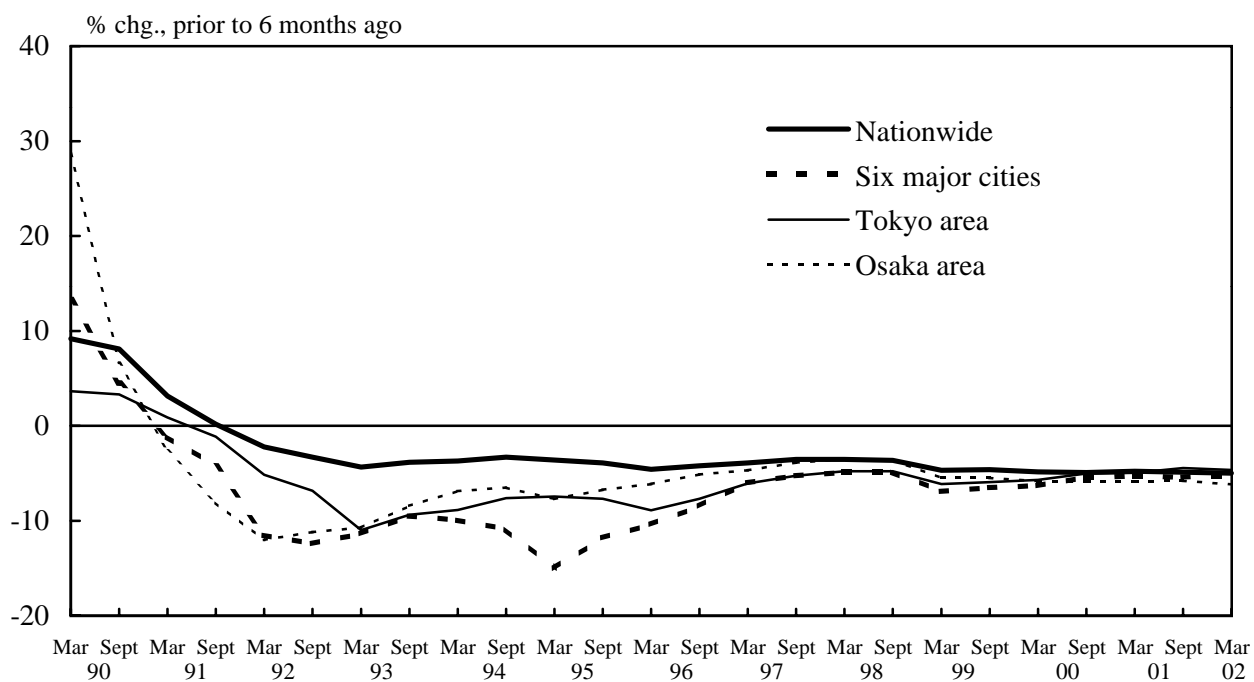


Note: See footnote Chart 12-4, for definition of the consumer goods supply.

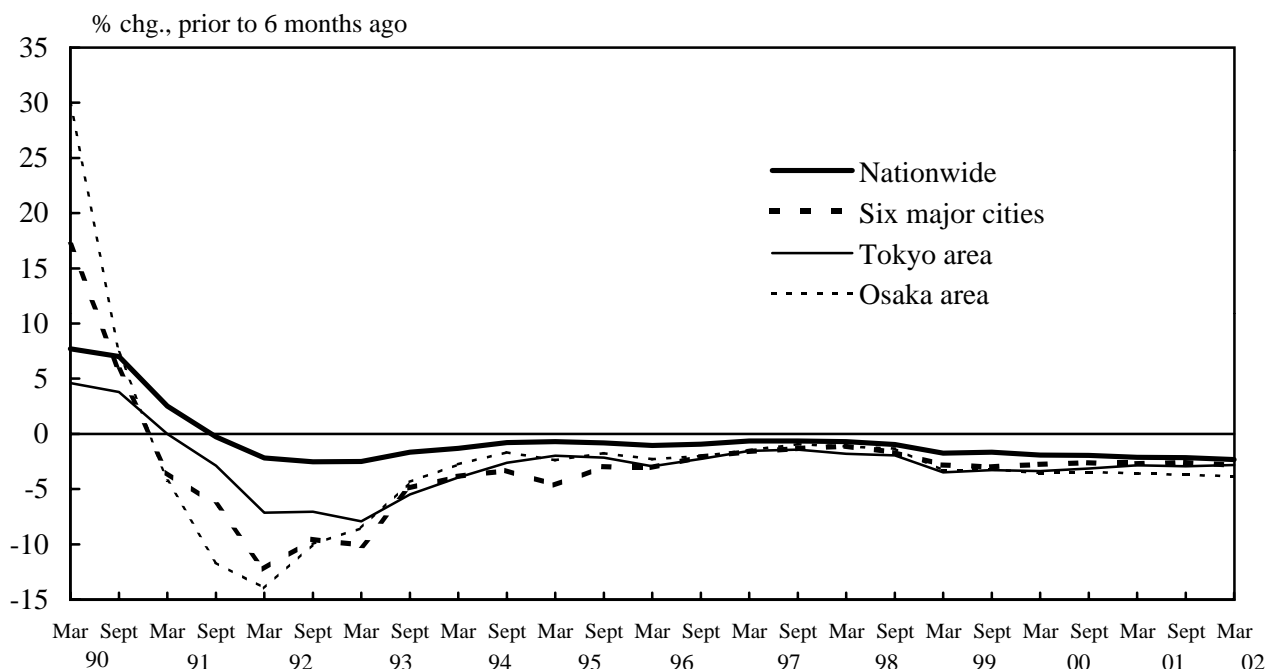
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports";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

 Urban Land Price Index

(1) Commercial land



(2) Residential land



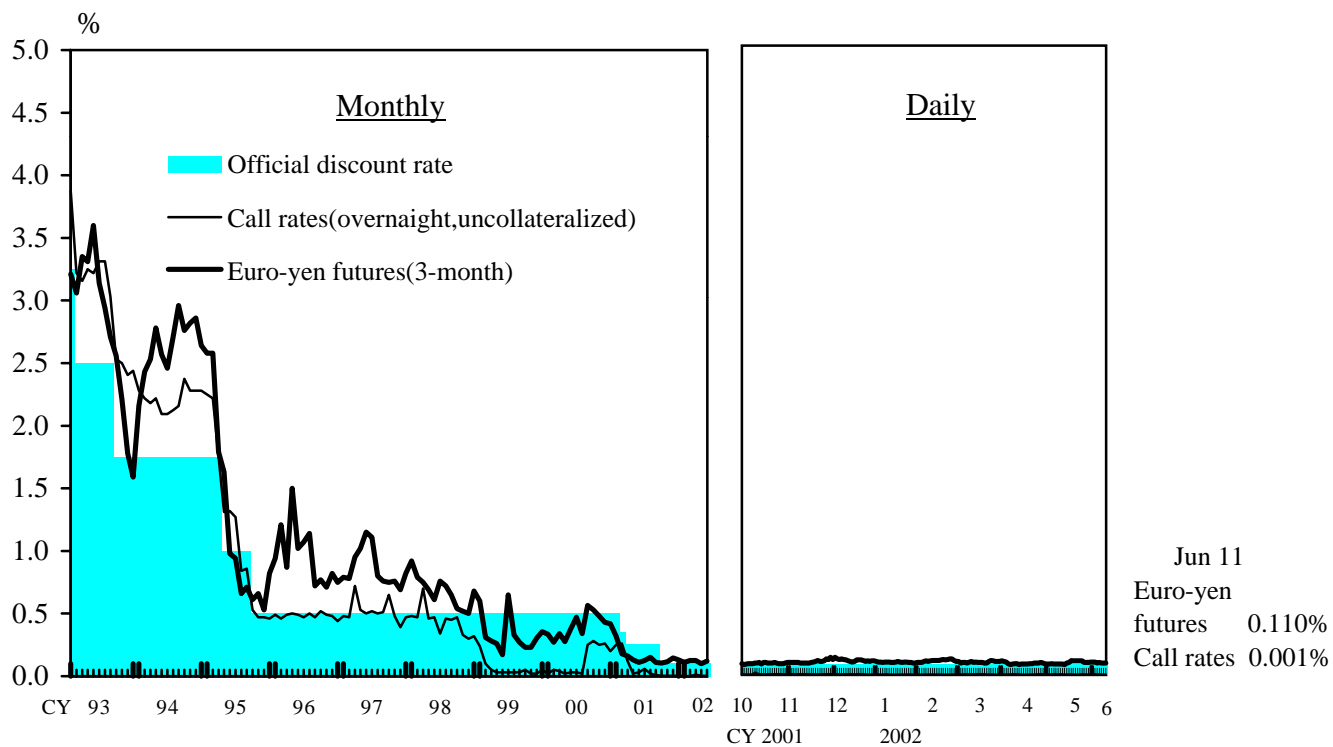
Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.

2. Six major cities include Tokyo(23 wards only), Yokohama, Nagoya, Kyoto, Osaka and Kobe.

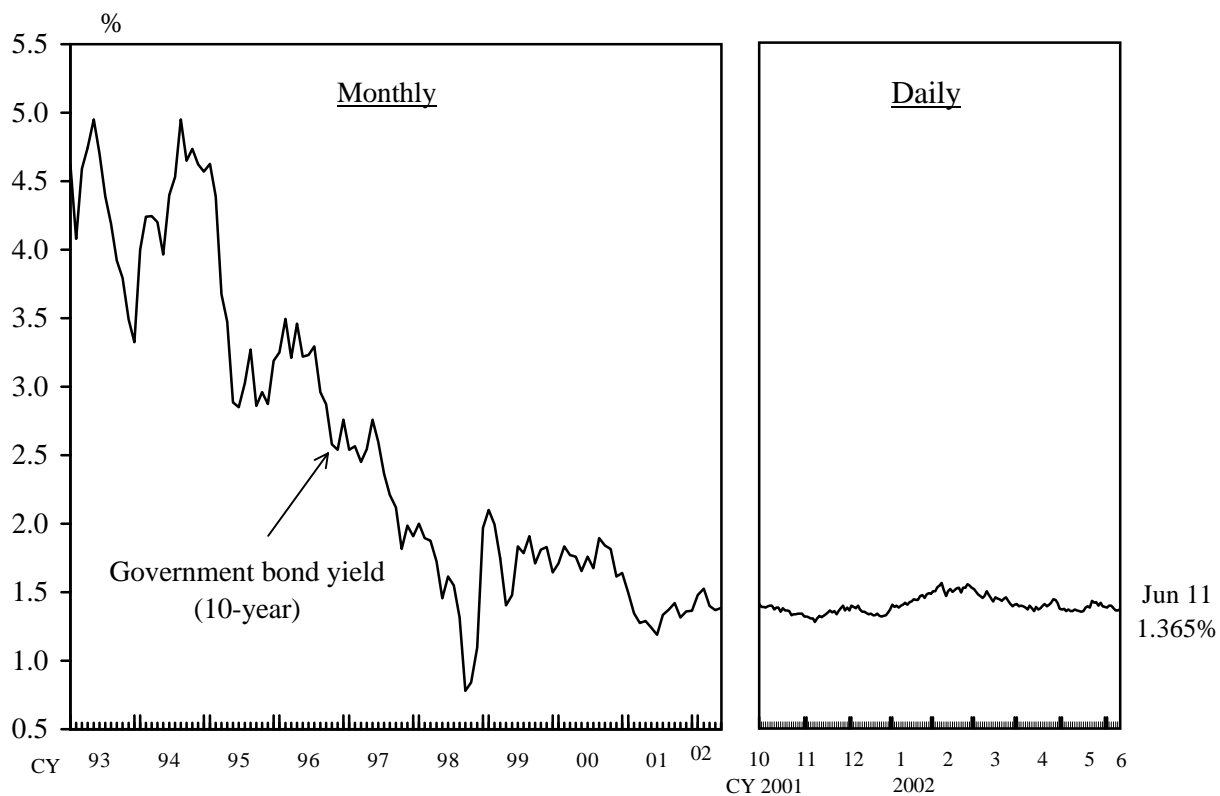
Source: Japan Real Estate Institute, "Urban Land Price Index."

Interest Rates

(1) Short-Term



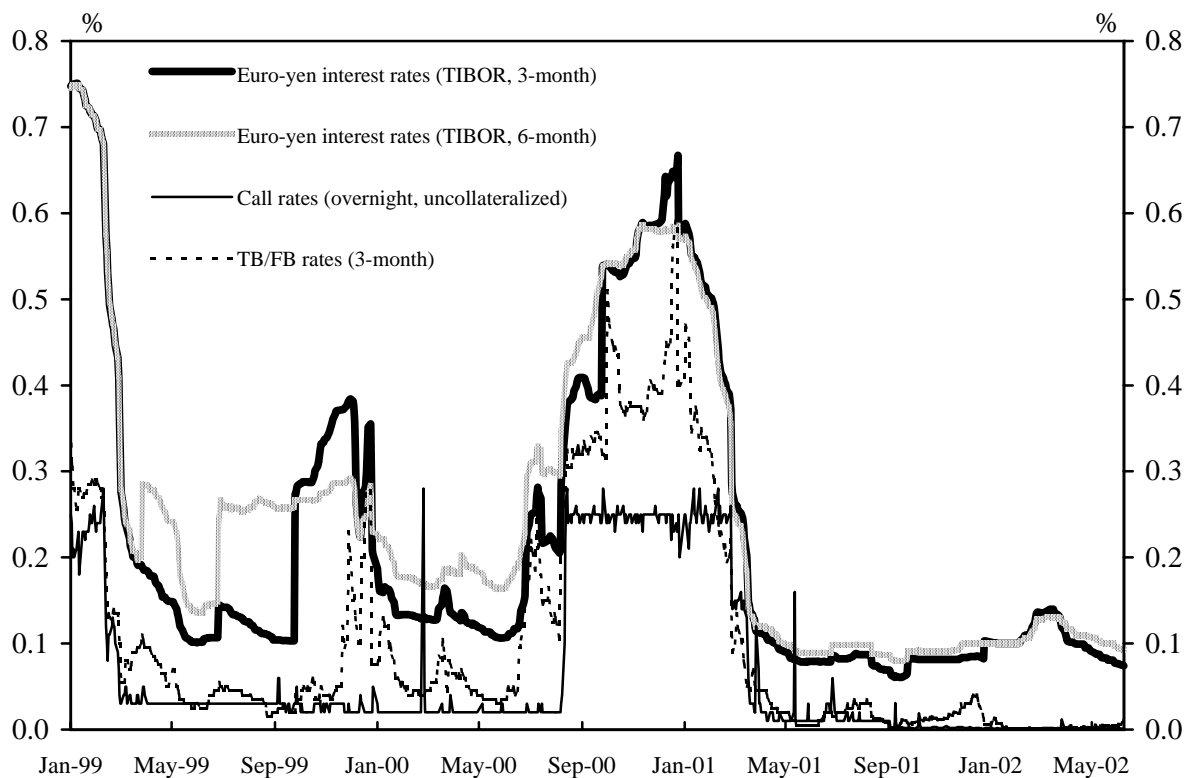
(2) Long-Term



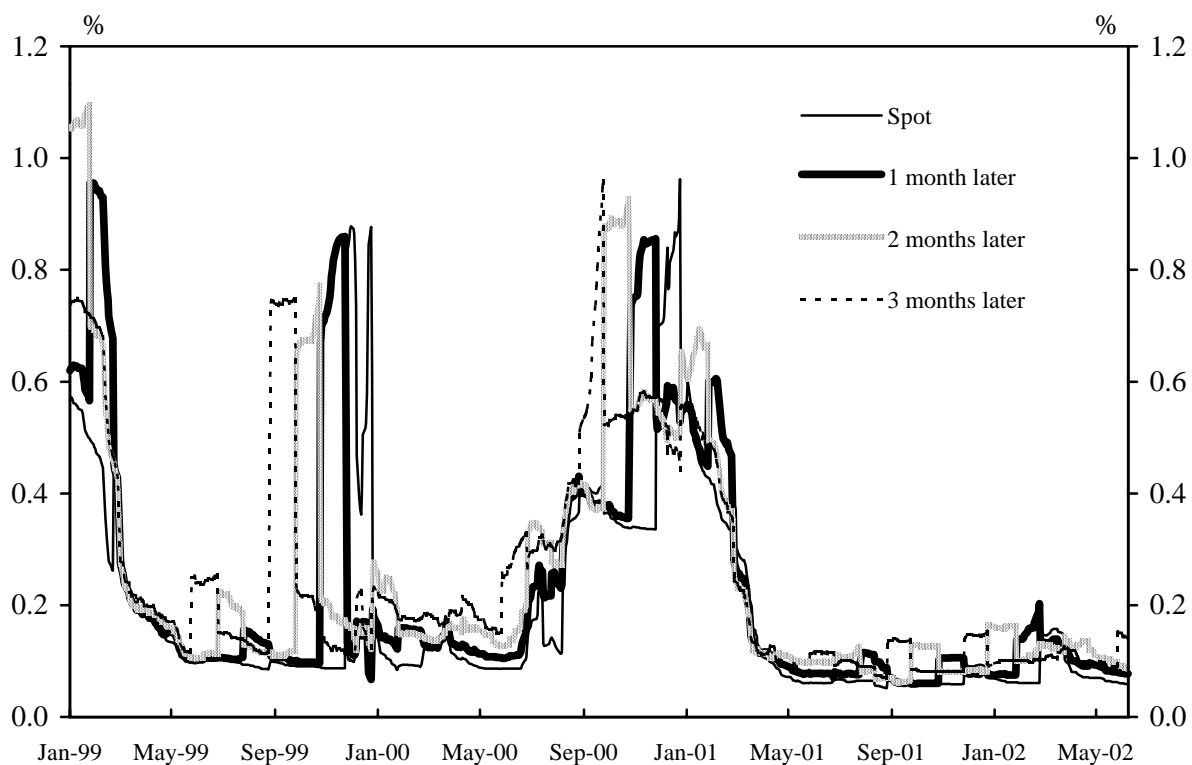
Sources: Bank of Japan; Tokyo International Financial Futures Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

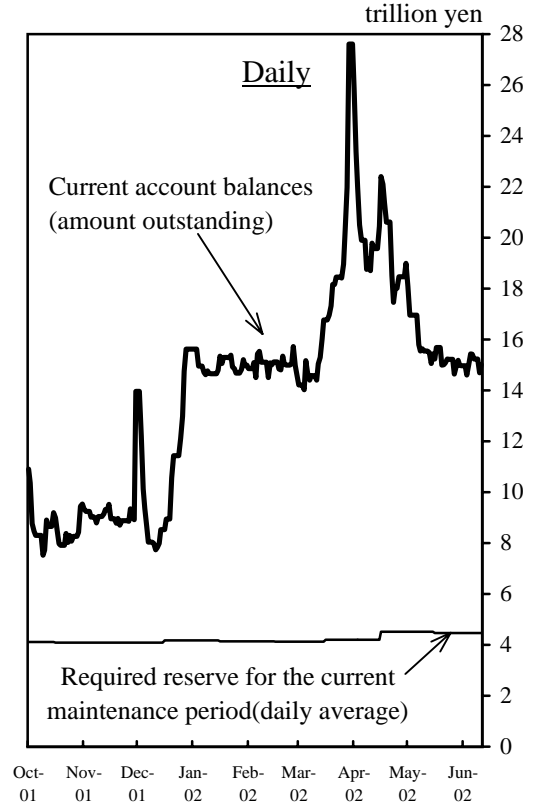
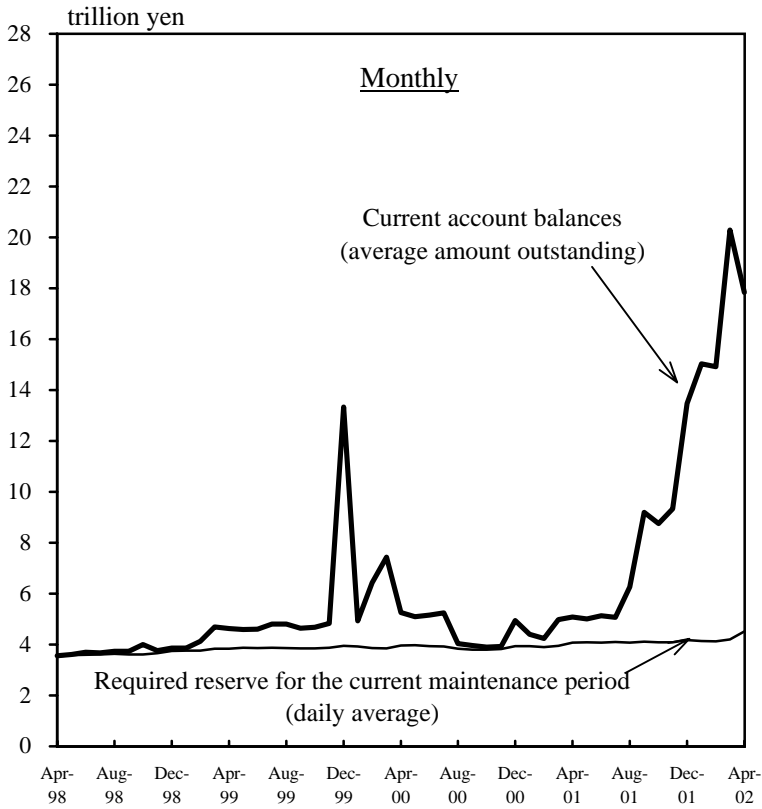


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)

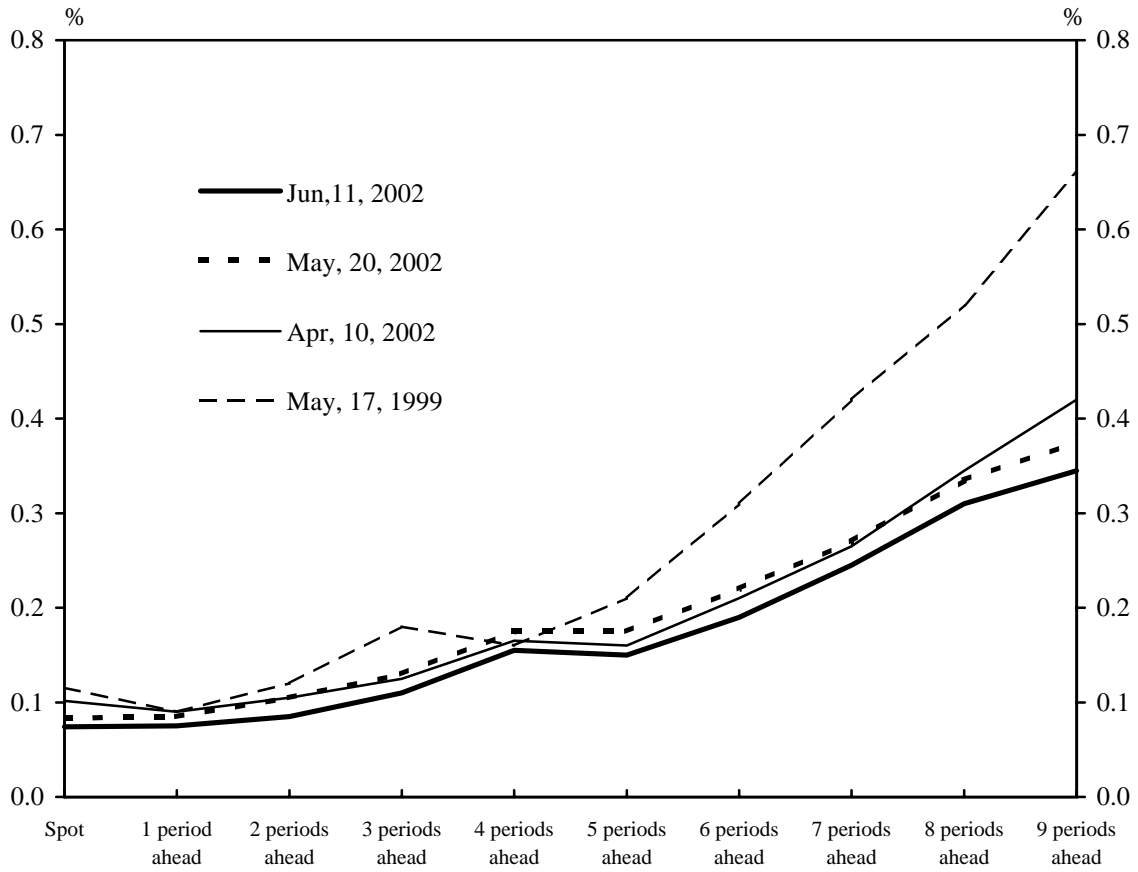


Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.

Current Account Balances at the Bank of Japan

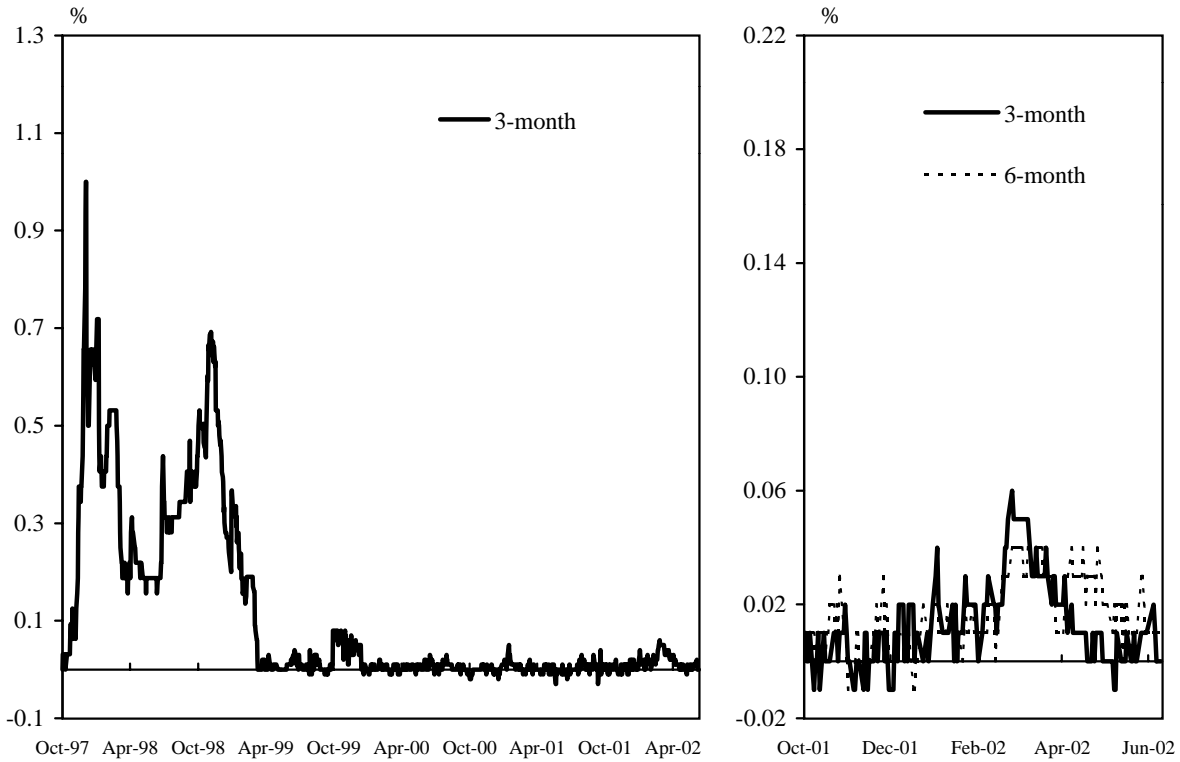


Euro-Yen Interest Rates Futures (3-Month)



Source: Tokyo International Financial Futures Exchange.

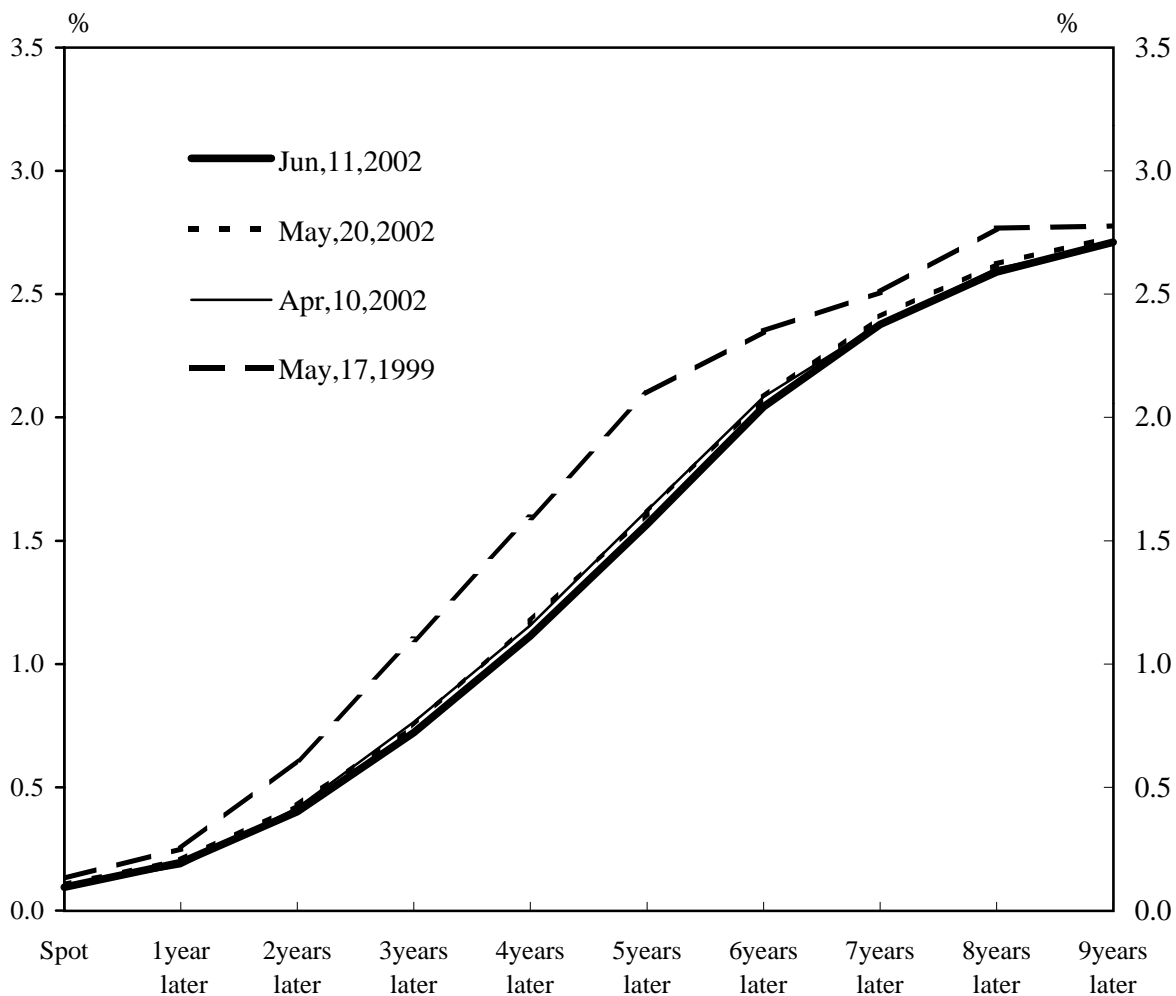
Japan Premium in the Eurodollar Market ¹



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)¹

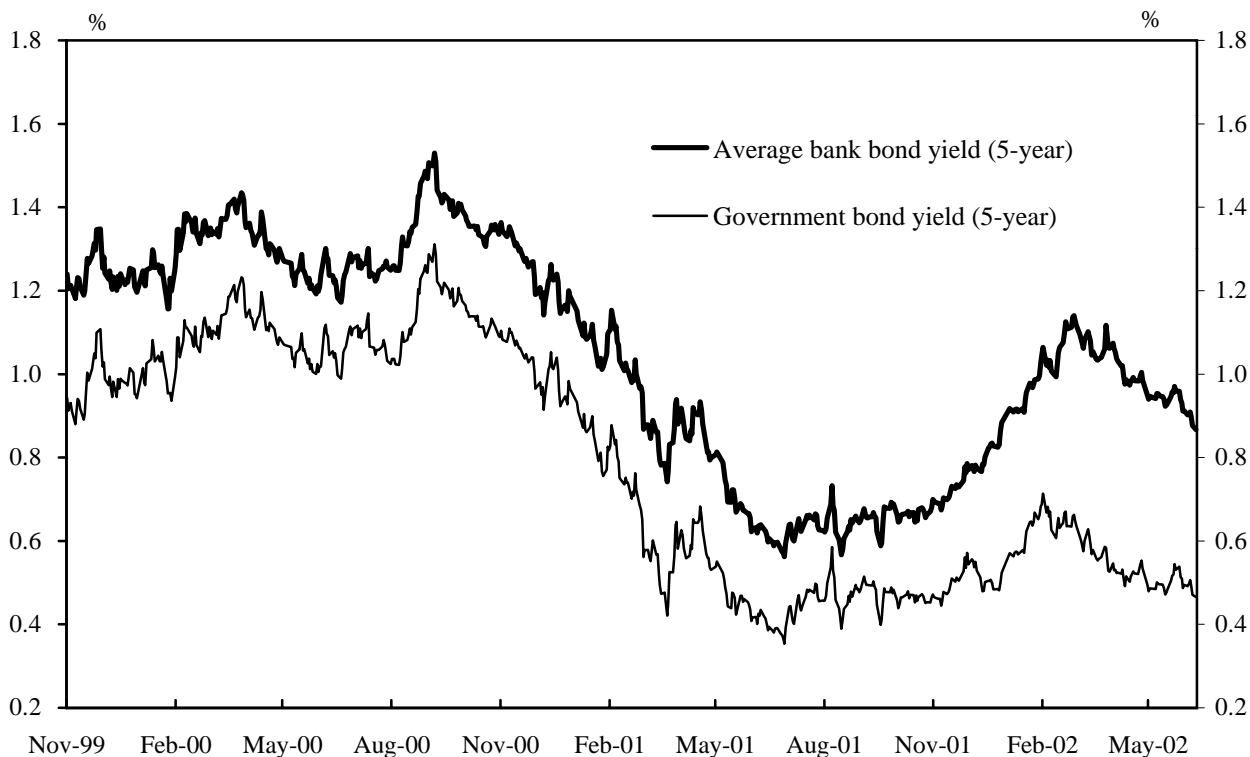


Note :Calculated from yen-yen swap rates.

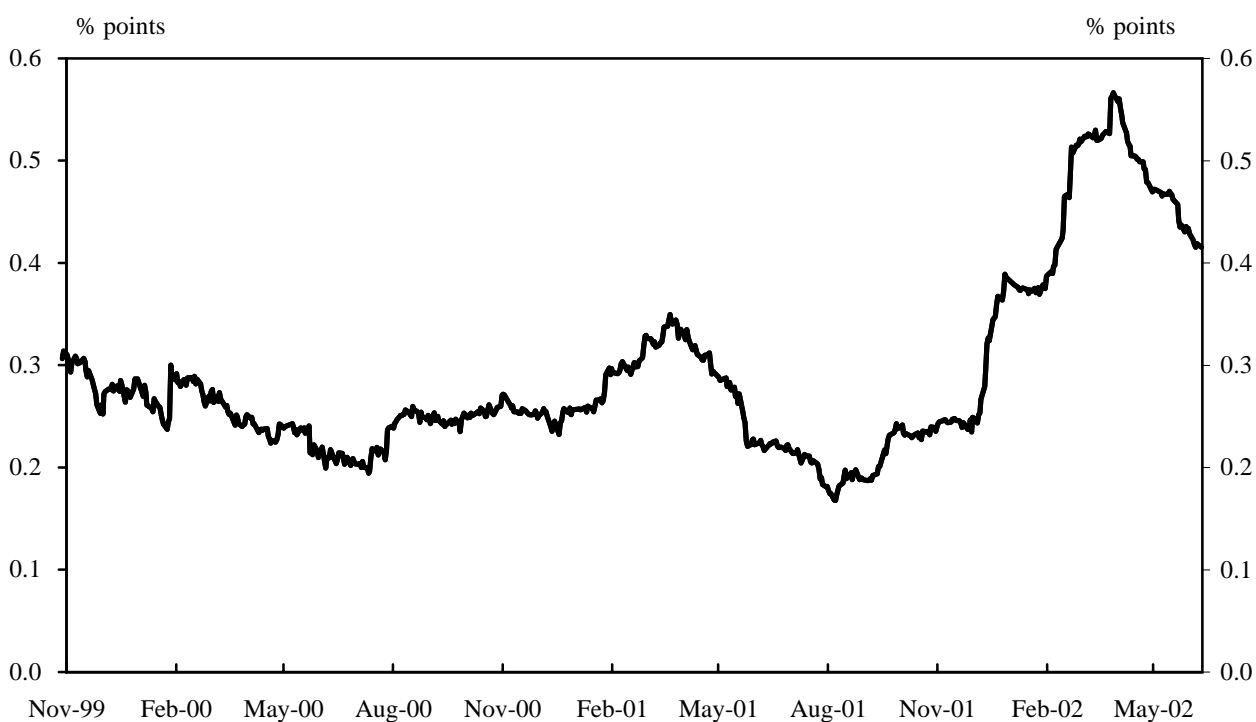
Source: Kyodo News.

Yields of Bank Bonds

(1) Bond Yields



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



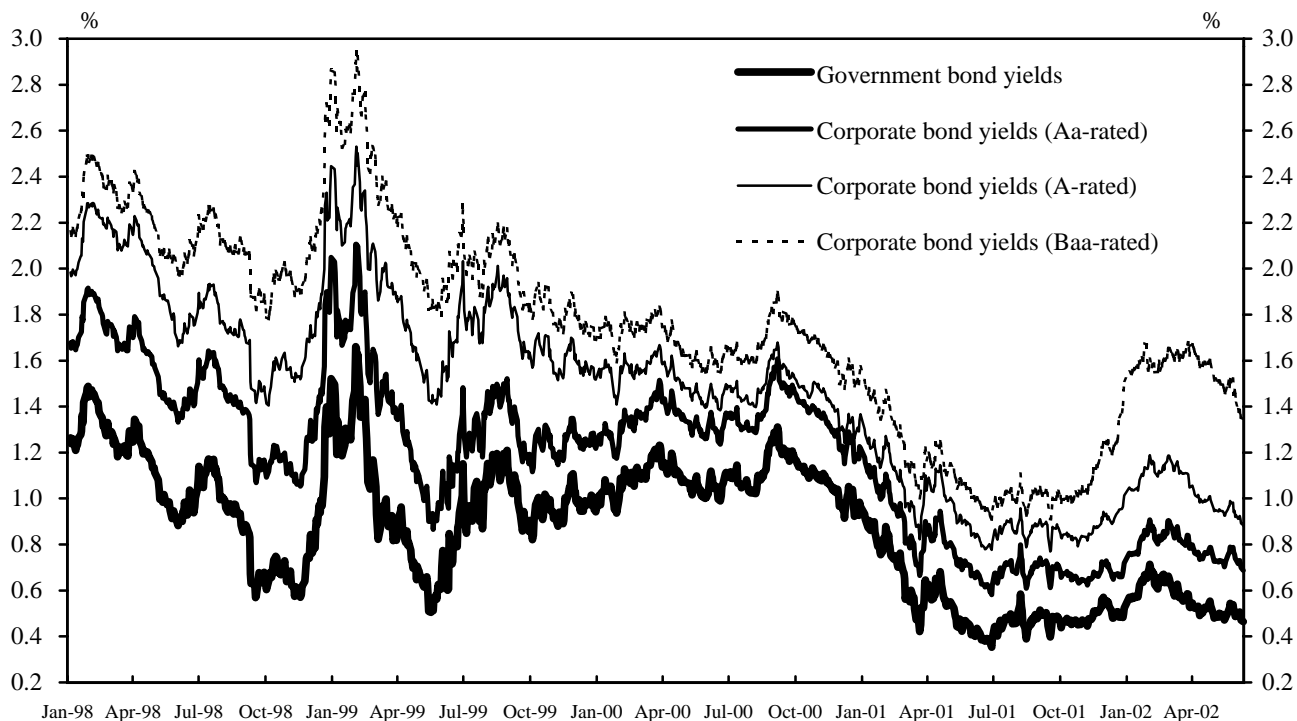
Note: 1. Yields on bonds with 5-year maturity.

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

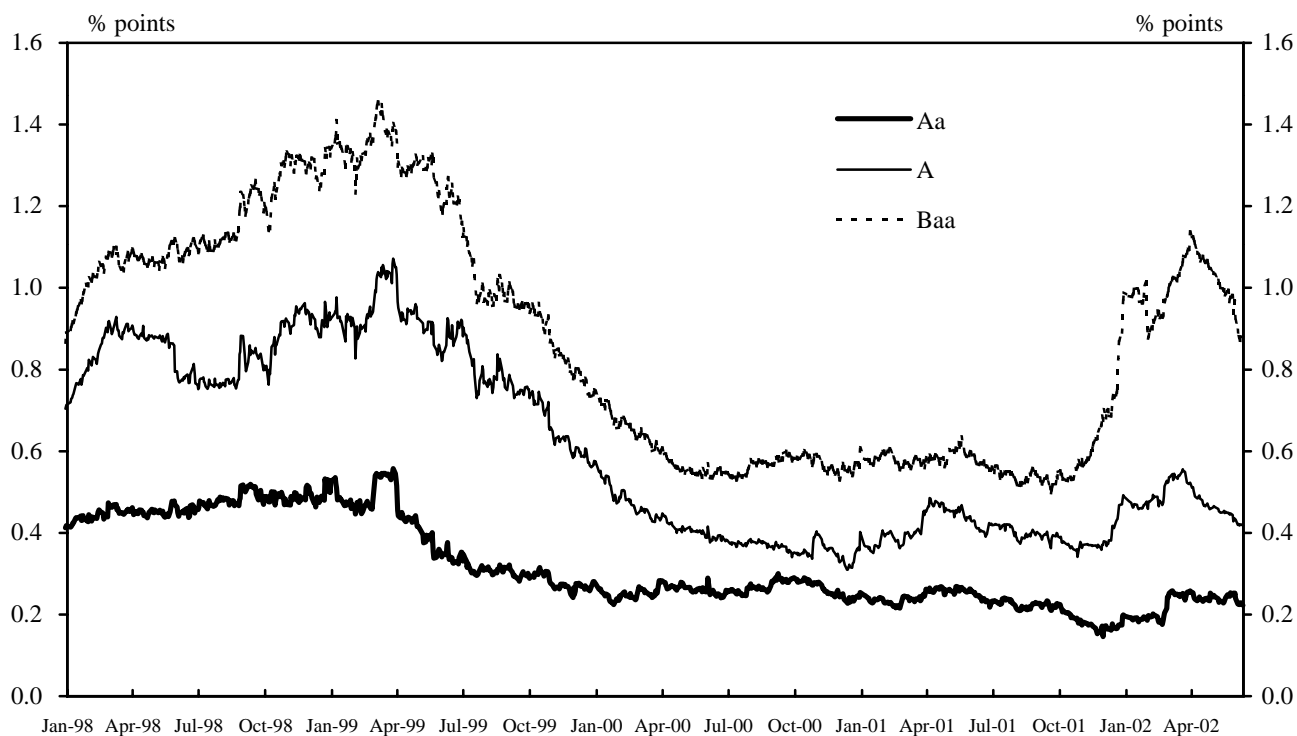
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields ¹

(1) Yields of Government and Corporate Bonds by Rating



(2) Yield Spreads of Public and Corporate Bonds



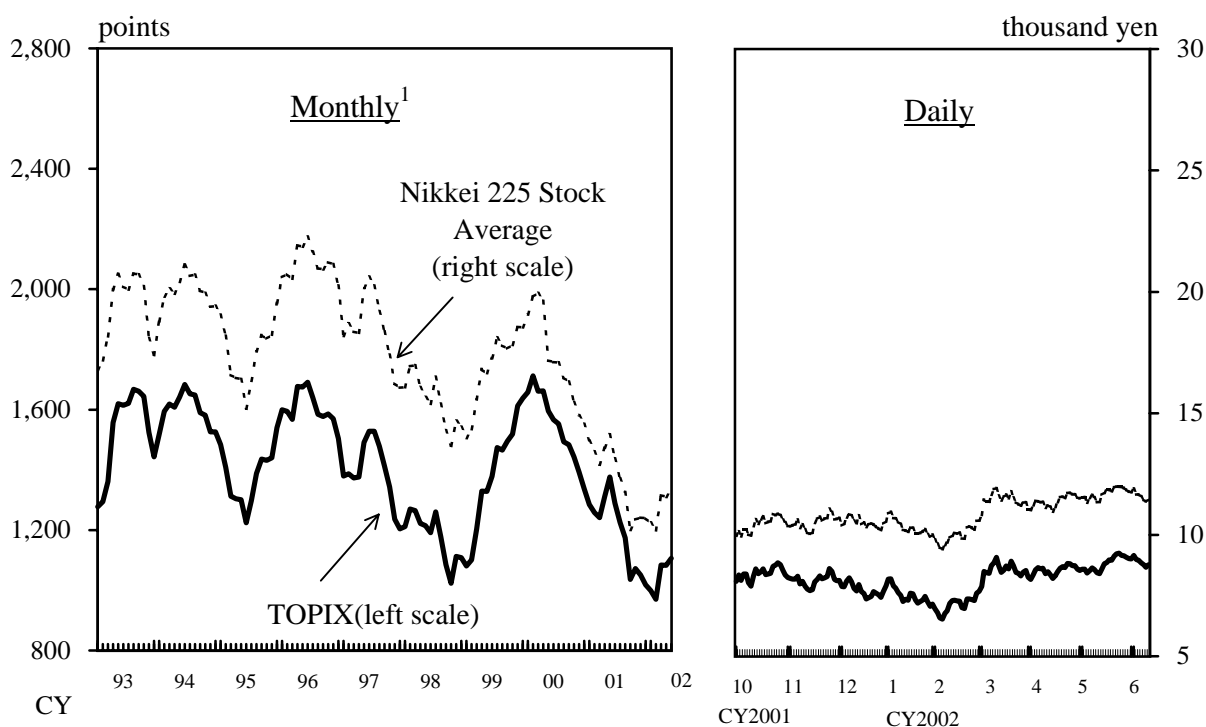
Note: 1. Yields on bonds with 5-year maturity.

The indicated ratings are of Moody's.

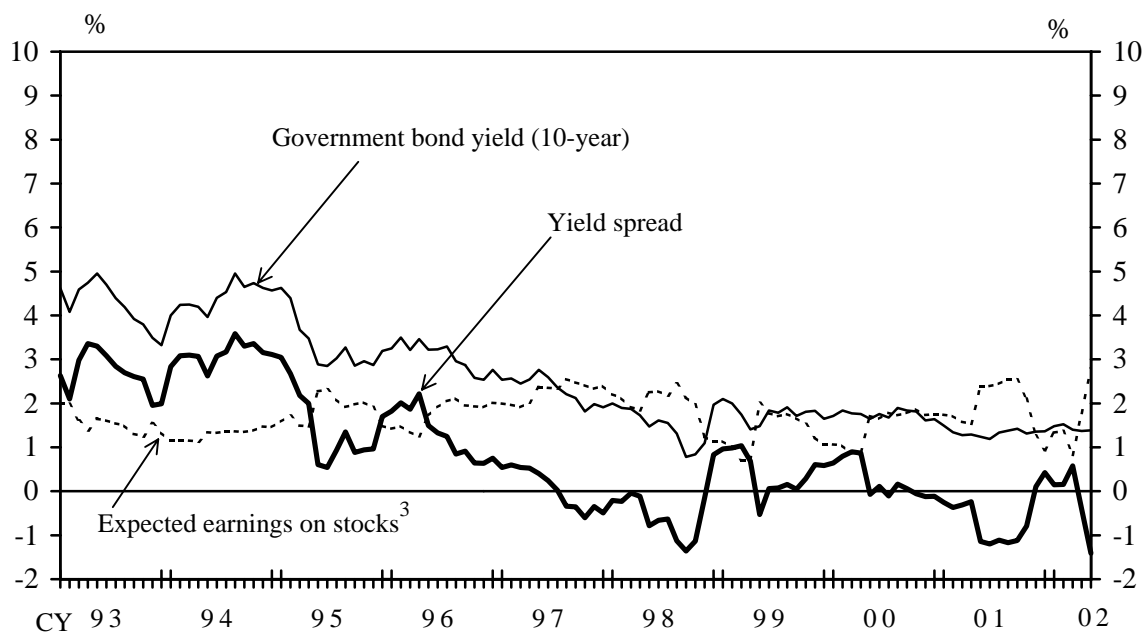
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

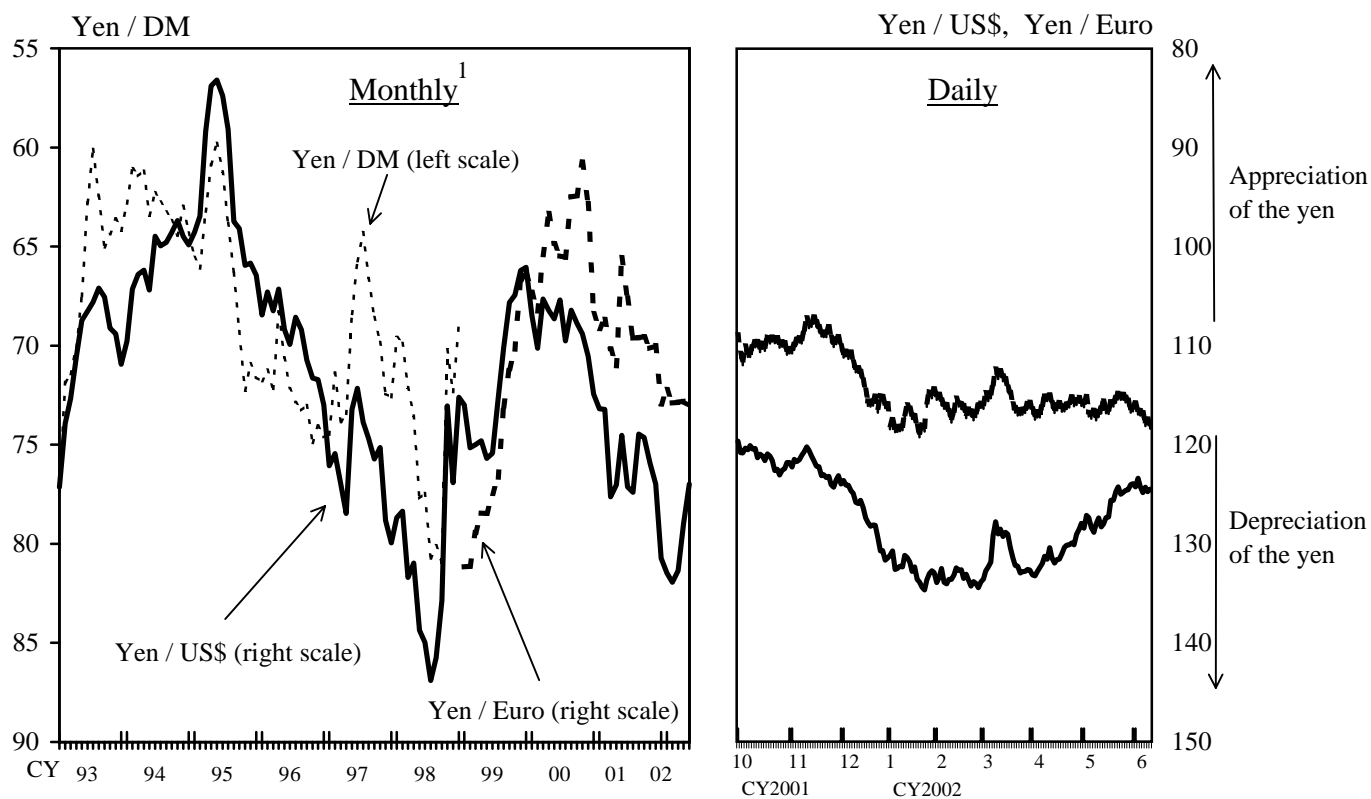
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

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

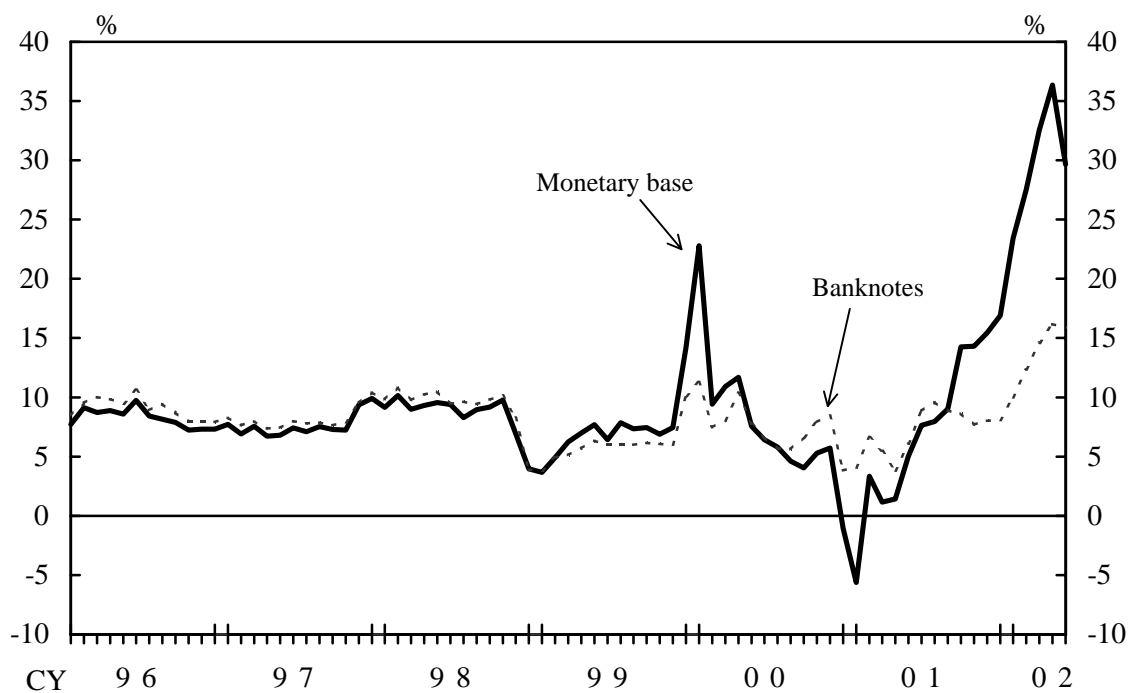
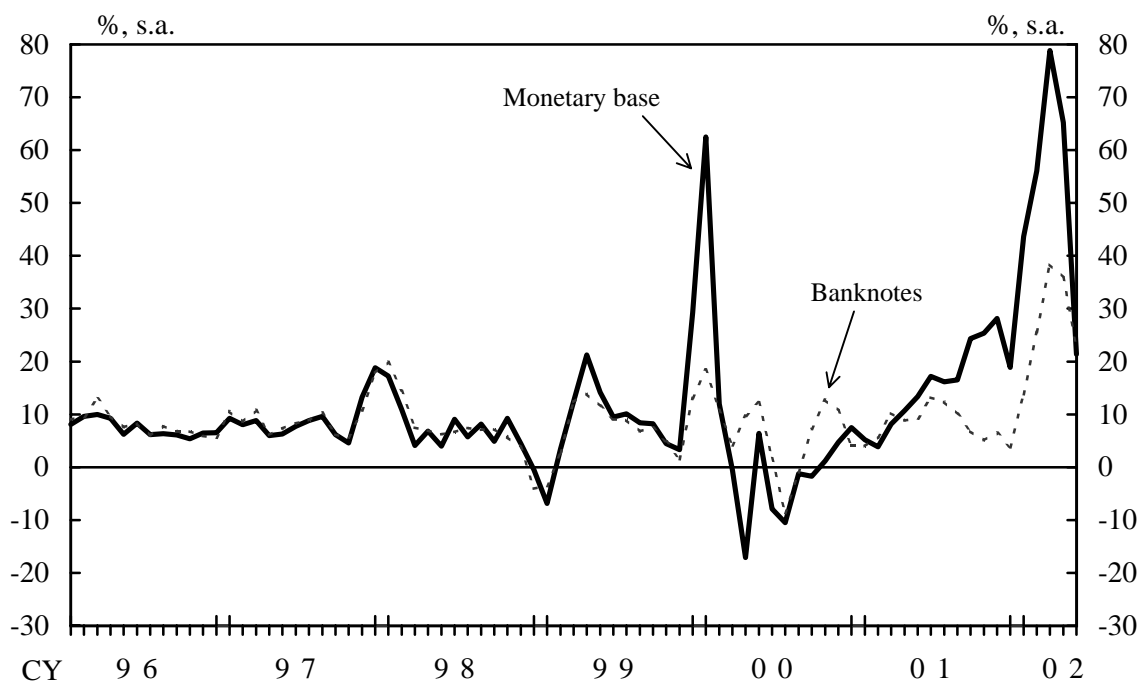
Sources: *The Nihon Keizai Shimbun* ; Daiwa Research Institute, "*Daiwa Tousei Shiryou* (Daiwa Investment Information)."

Exchange Rates



Note: 1. End of month.
 Source: Bank of Japan.

Monetary Base

(1) Changes from a Year Earlier**(2) Changes from Three Months Earlier (Annualized)**

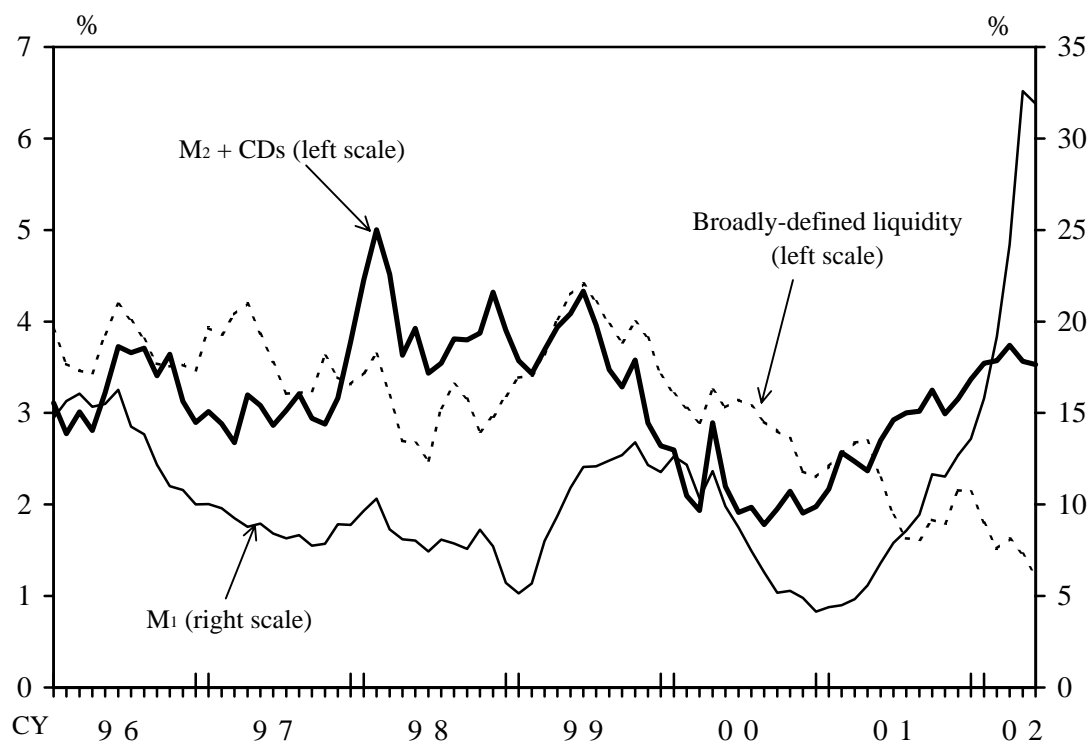
Note: Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

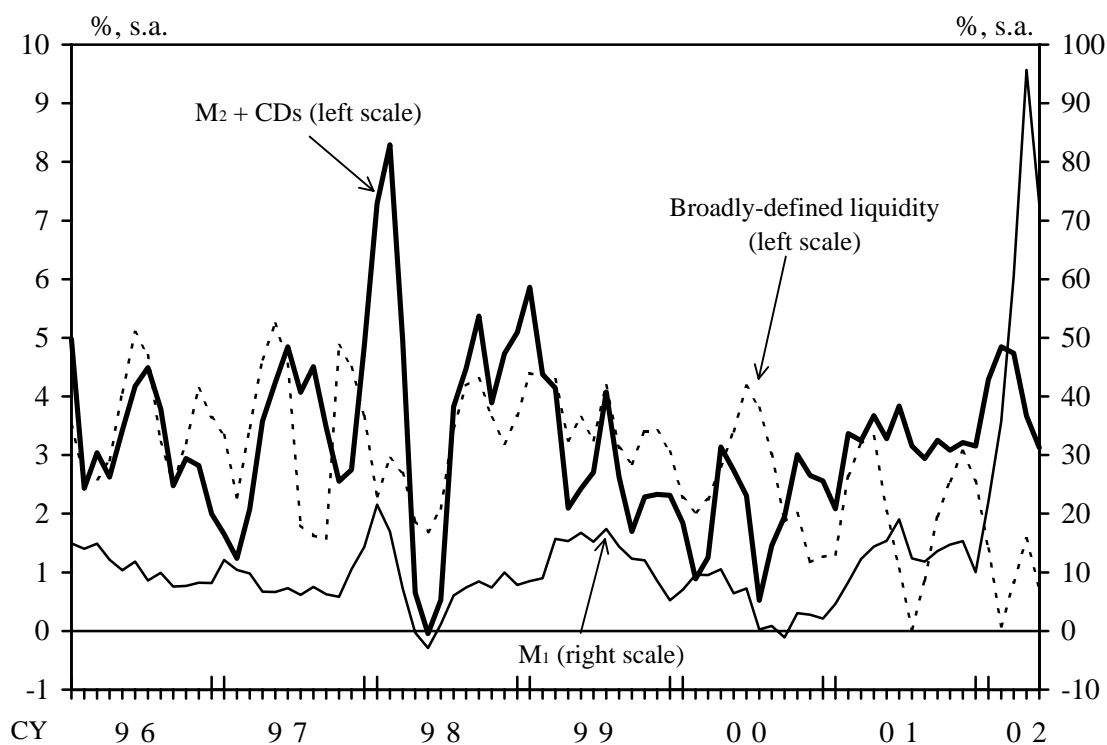
Source: Bank of Japan.

Money Stock (M₁, M₂+CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier

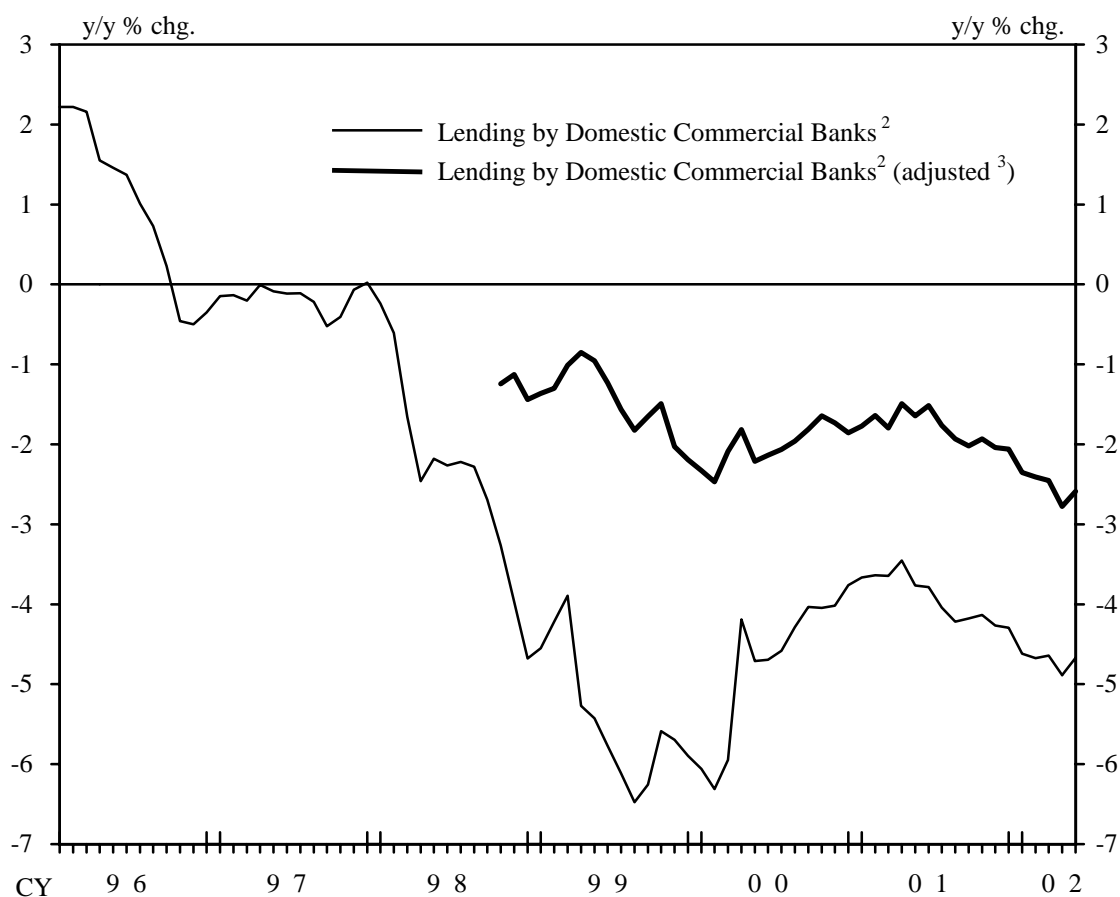


(2) Changes from Three Months Earlier (Annualized)



Note: Percent changes in average amounts outstanding.

Source: Bank of Japan.

Lending by Domestic Commercial Banks ¹

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).

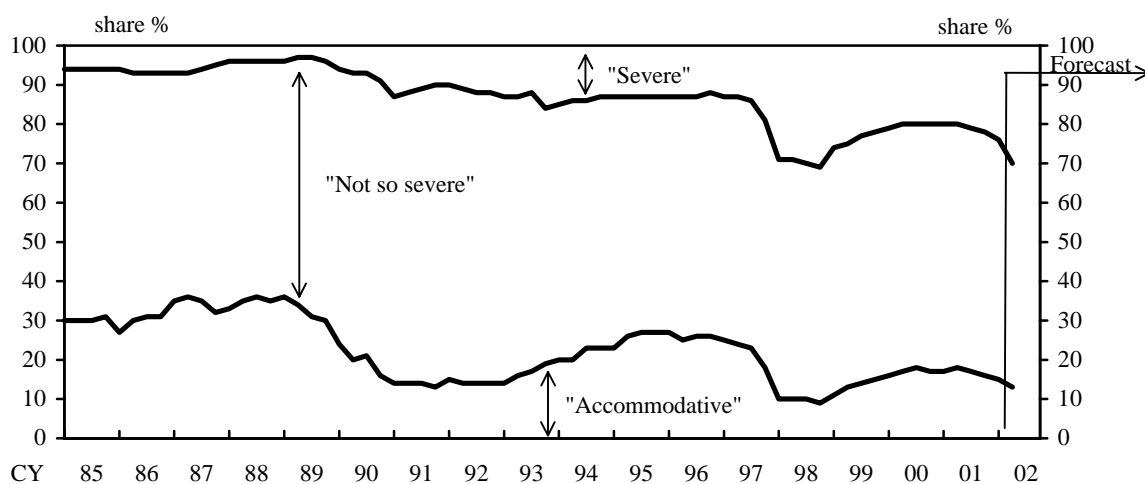
3. Adjusted to exclude

- (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.

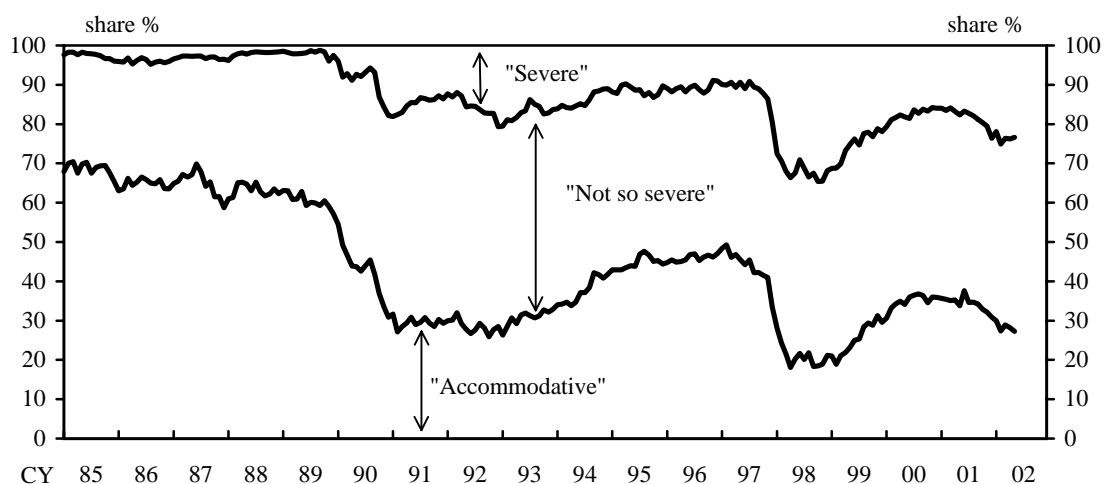
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as Perceived by Small Enterprises

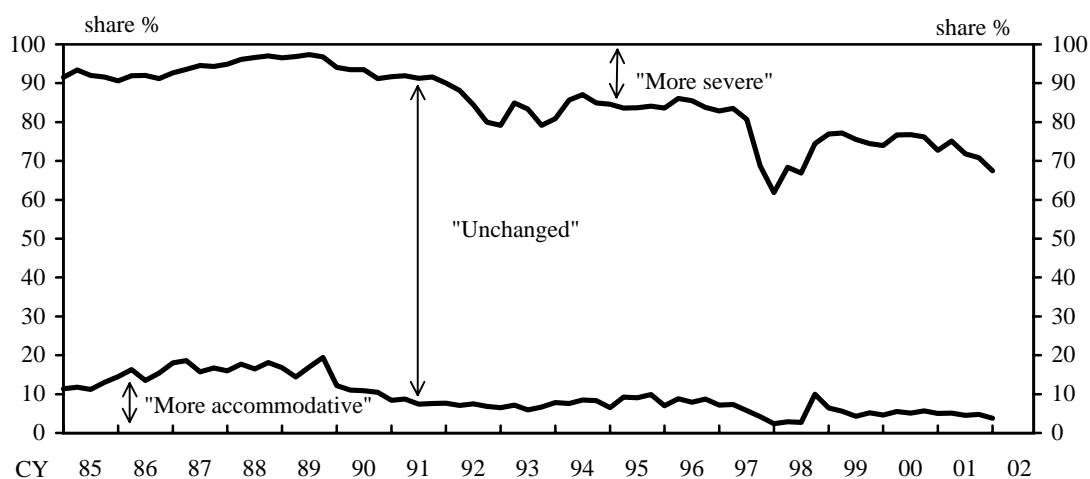
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 2002)



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

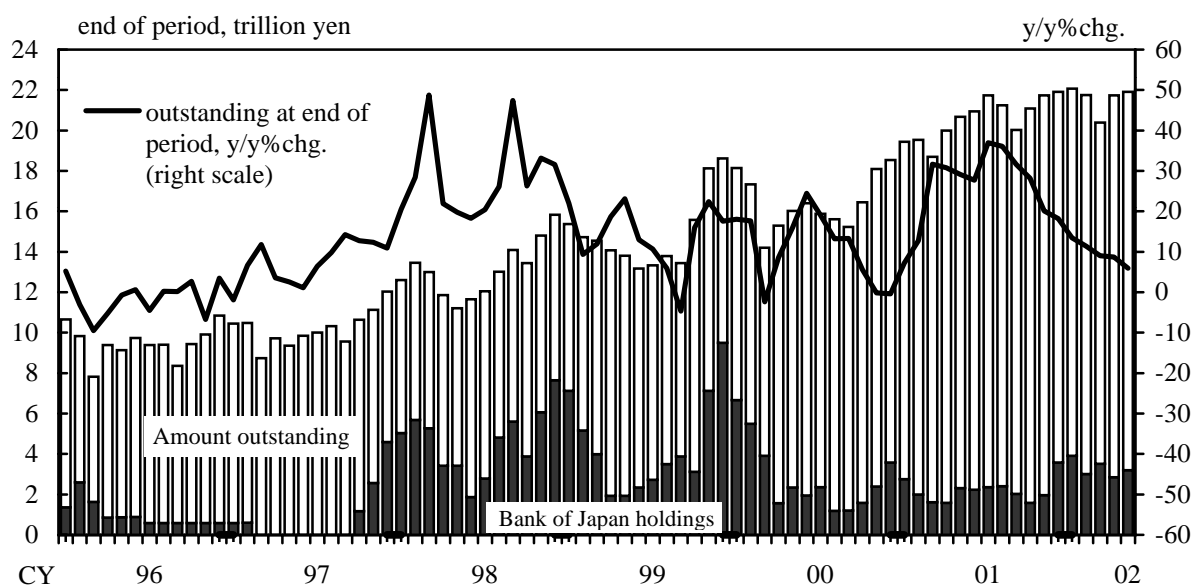


(3) "Quarterly Survey of Small Businesses in Japan" (Mid-March, 2002)



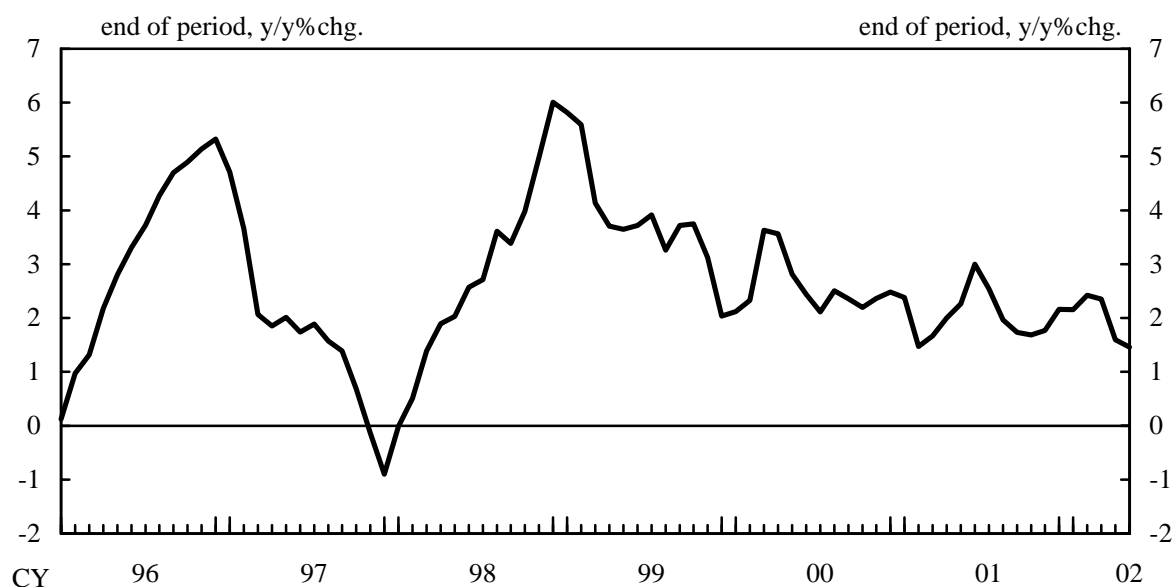
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ;
 Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses";
 National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper ¹(2) Issue Volume of Corporate Bonds ²

(100 million yen)

	2001/Q3	Q4	2002/Q1	2002/Mar.	Apr.	May
Volume	23,779	31,733	26,133	12,327	5,418	9,452
(previous year)	(25,985)	(20,416)	(21,715)	(11,398)	(10,115)	(9,854)

(3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier) ^{2,3}

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

Excludes those issued by banks.

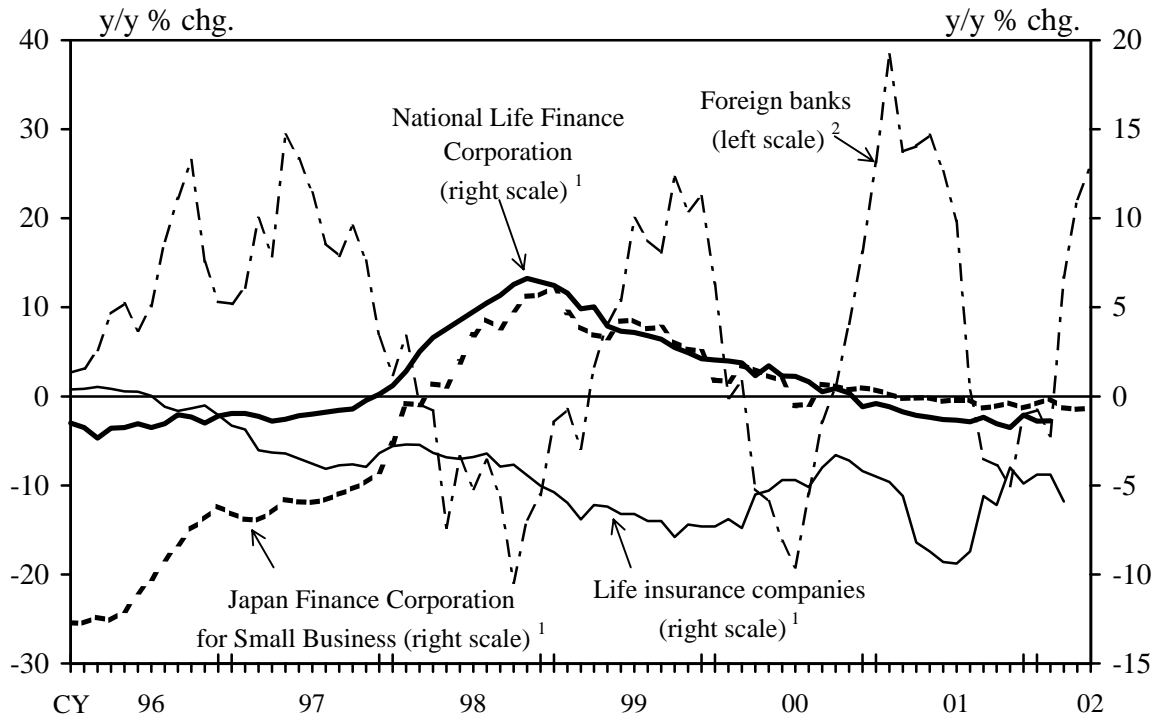
2. Includes straight bonds, convertible bonds, and bonds with warrants.

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."

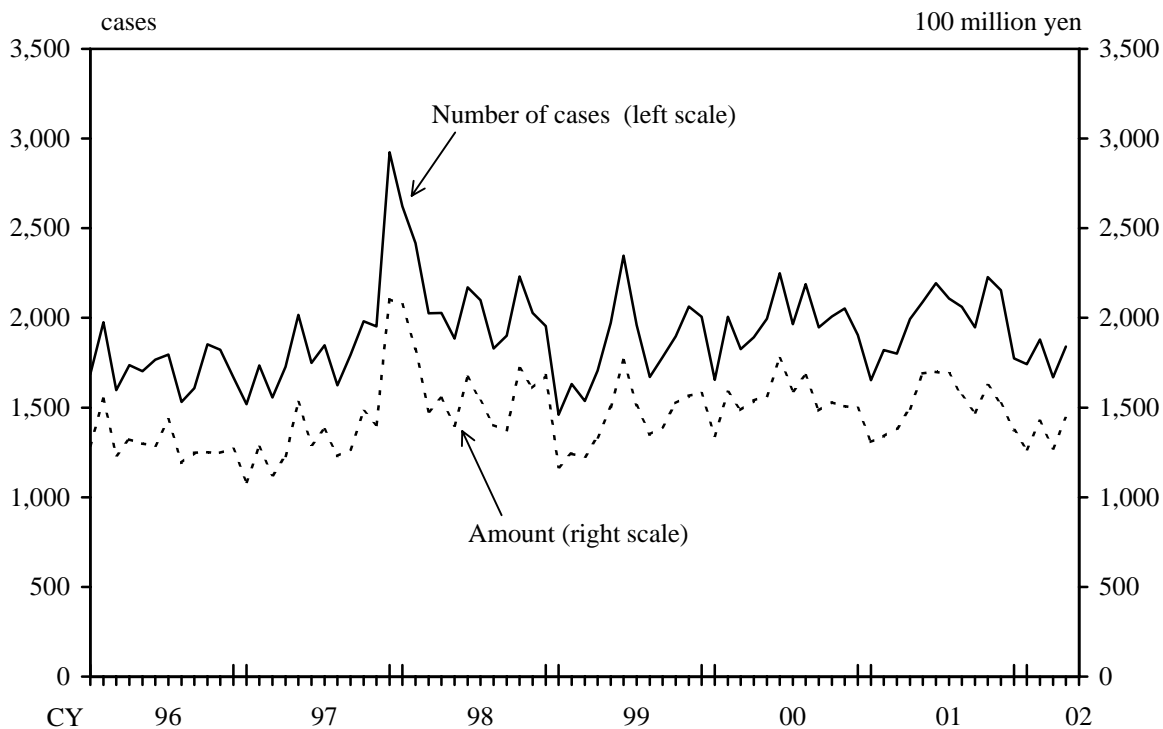
Lending by Other Financial Institutions

(1) Lending Outstanding



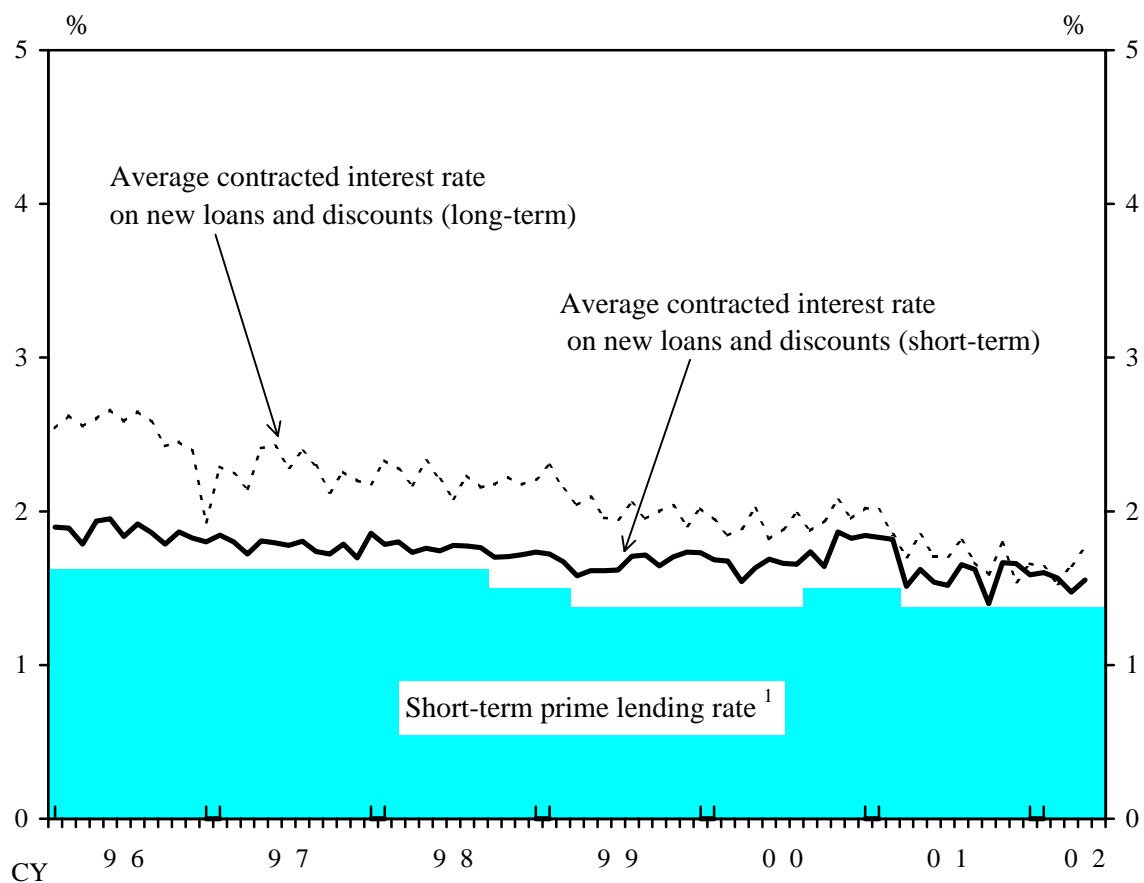
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

(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

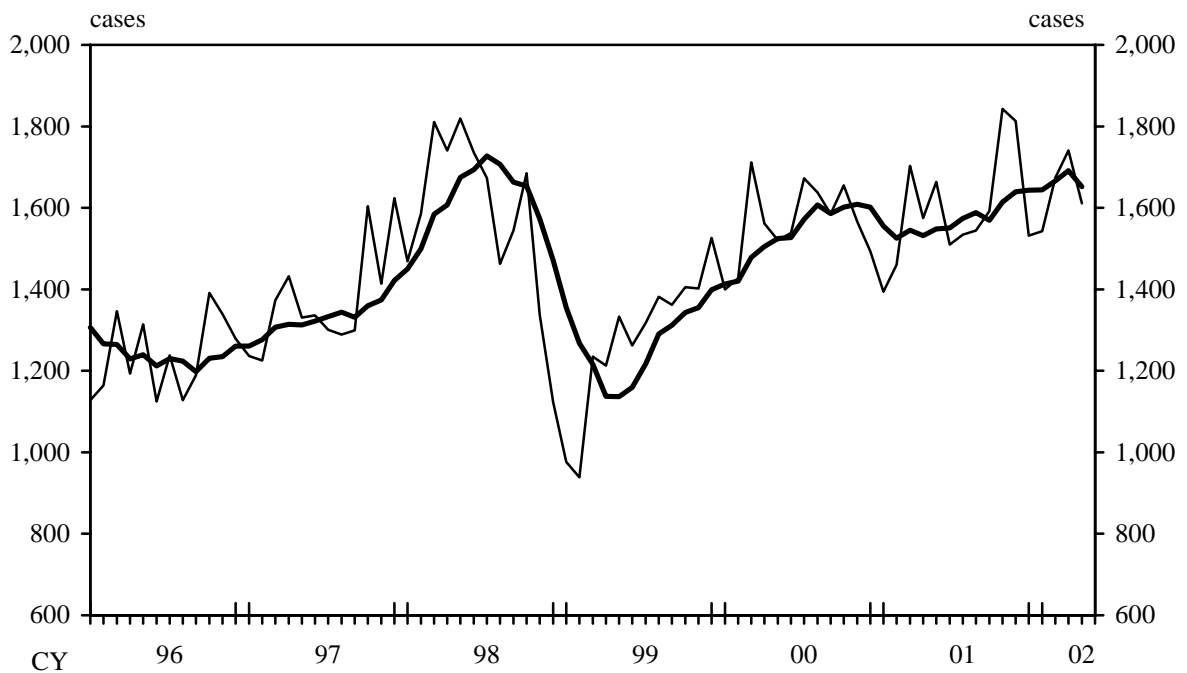


Note: 1. Data are at end of period.

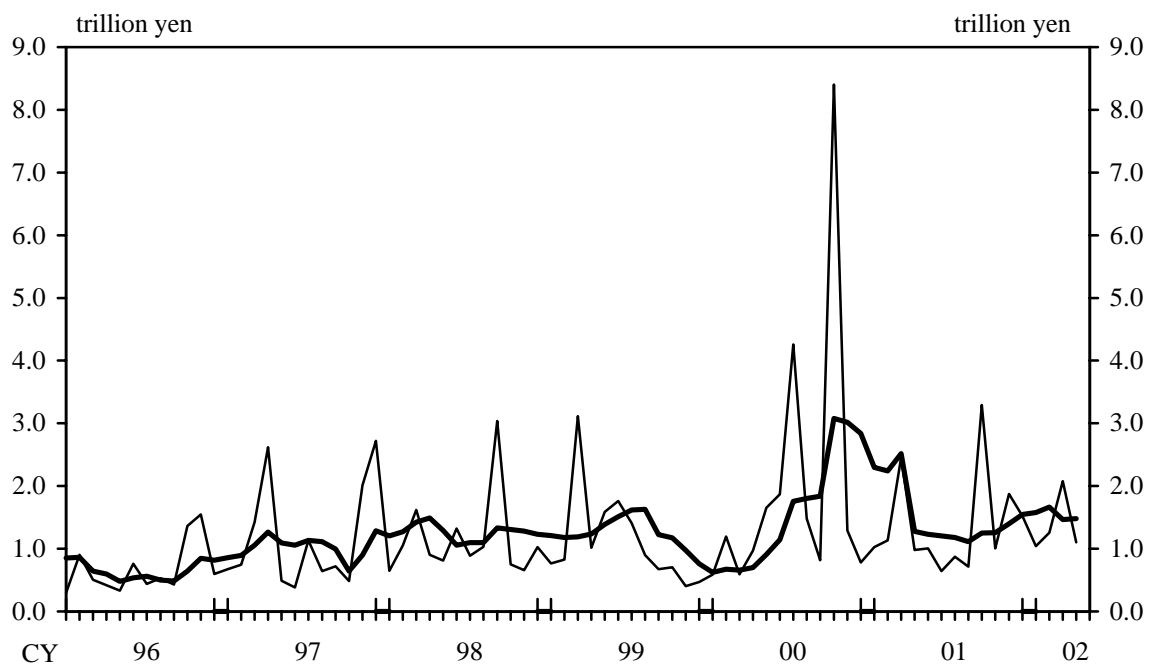
Source: Bank of Japan.

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)."