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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
May 2004

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Monthly Report of Recent Economic and Financial Developments¹

May 2004

The Bank's View²

Japan's economy continues to recover gradually, and domestic demand is becoming firmer.

Exports have been increasing substantially, and business fixed investment continues its path of recovery. Reflecting these developments, industrial production has also been increasing. The decline in household income is gradually coming to a halt, and private consumption is showing some positive movements. Meanwhile, housing investment has been nearly flat and public investment has been declining.

As for the outlook, Japan's economy is expected to gain further momentum gradually, as it continues to recover moderately for the time being.

Overseas economies are projected to continue growing relatively fast. Based on this projection, it is likely that final demand, particularly exports and business fixed investment, will continue recovering, and that production will also continue increasing. Excessive debt in the corporate sector and other structural factors still persist, but their impact has been waning. Although firms are determined to continue restraining their labor costs, the increases in production and corporate profits are expected to exert positive effects gradually on employment and income situations. Public investment, meanwhile, is projected to be on a downtrend.

On the price front, domestic corporate goods prices have been rising, due to the strengthening of commodity prices at home and abroad and to the improvement in supply and demand conditions. The year-on-year rate of change in consumer prices (excluding fresh food) has been close to zero, while temporary factors have exerted upward pressure on prices.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on May 19 and 20, 2004.

² The Bank's view was determined by the Policy Board at the Monetary Policy Meeting held on May 19 and 20, 2004.

As for the outlook, domestic corporate goods prices are expected to continue increasing for some time, partly due to the recent rise in crude oil prices. On the other hand, the output gap still remains, although it is gradually narrowing. Under these circumstances, consumer prices are projected to continue falling slightly on a year-on-year basis, as the upward pressure from the above temporary factors, including medical costs, dissipates.

As for the financial environment, the environment for corporate finance is becoming more accommodative on the whole, although it remains severe for firms with high credit risks. The issuing environment for CP and corporate bonds is favorable on the whole. Also, the lending attitude of private banks continues to be slightly more accommodative. The lending attitude of financial institutions as perceived by firms continues to improve. The pace of decline in credit demand in the private sector is becoming somewhat moderate. Under these circumstances, the amount outstanding of CP and corporate bonds issued continues to be above the previous year's level, and the rate of decline in lending by private banks has been diminishing slightly. As growth of banknotes in circulation is on a downtrend mainly due to decreasing anxieties about the financial system, the year-on-year growth rate of the monetary base is at the 6.0-7.0 percent level. The year-on-year growth rate of the money stock is at the 1.5-2.0 percent level. As for developments in financial markets, money market conditions continue to be extremely easy, as the Bank of Japan continues to provide ample liquidity. In the foreign exchange and capital markets, long-term interest rates have been around the same level as last month, while the yen's exchange rate against the U.S. dollar and stock prices have fallen from last month.

The Background

1. Japan's Economy

Public investment has been declining (Chart 3). The value of public works contracted—a measure that reflects public orders—is on a downtrend. The amount of public construction completed, which reflects the actual progress of public works, is also trending downward. Public investment is projected to continue declining, since the initial budget for fiscal 2004 has been reduced considerably.

Real exports have been increasing substantially, reflecting the expansion of overseas economies, particularly in the United States and East Asia (Charts 4[1] and 5). By region (Chart 5[1]), exports to East Asia continued to increase sharply in the first quarter. Exports to the United States also continued to rise, and those to the EU exhibited high growth. Among exports to East Asia, those to China grew rapidly, partly due to the lowering of tariffs there in January,³ and then dropped back considerably in March. On a quarter-on-quarter basis, exports to China registered double-digit growth in the first quarter. Exports to NIEs continued to advance briskly. Furthermore, exports to ASEAN marked high growth in the first quarter, partly due to spot exports of ships (included in “capital goods and parts”) in January.

By goods (Chart 5[2]), exports of capital goods and parts, including semiconductor fabrication machines and equipment, and those of IT-related goods, continued to increase substantially, mainly to East Asia (Charts 6[1] and 7[1]). Also, exports of intermediate goods (chemicals and iron and steel) rose considerably (Chart 6[2]). Furthermore, consumer goods (digital home appliances) registered high growth in the first quarter, although the pace has decelerated slightly from the fourth quarter, when they rose sharply, spurred by seasonal demand for those goods during the Christmas shopping period in the United States and Europe. On the other hand, exports of automobile-related goods inched down in the first quarter, mainly in reaction to the considerable increase in the fourth quarter, while transfers of

³ Exports to China tend to exhibit high growth at the start of the year. This is because China is in the process of step-by-step tariff reductions in the wake of its accession to the WTO at the end of 2001; each stage of reduction occurs at the beginning of the year.

production plants to overseas locations has been progressing in the medium term (Chart 6[3]).

Real imports continued to increase with the recovery in the domestic economy (Charts 4[1] and 8). By goods (Chart 8[2]), imports of IT-related goods and those of capital goods and parts (excluding aircraft) increased steadily, reflecting the increase in production and further progress in the international division of labor, mainly within the East Asian region. Moreover, imports of materials such as crude oil, which had been decreasing until last fall, have been increasing thereafter.

Given these developments in exports and imports, net exports have been increasing substantially in terms of the real trade balance (Chart 4[2]). The surplus of the nominal balance on goods and services also continued to rise.

Exports are expected to continue increasing, since overseas economies are projected to continue growing relatively fast, particularly in the United States and East Asia (Chart 9-1[2]). The U.S. economy is likely to continue growing relatively fast, as private consumption and business fixed investment continue to be solid, and also as a recovery trend in the employment situation is also becoming visible (Chart 9-2). The East Asian economies are also expected to continue growing, led by China's economy. However, the rise in long-term interest rates in the United States, high crude oil prices, and measures taken to cool the overheating economy in China require close scrutiny in terms of their effects on the future global economy.

Imports are expected to trend upward, mainly in IT-related goods, capital goods and parts, and consumer goods, as the domestic economy is projected to continue recovering. The international division of labor between Japan and East Asia is likely to progress further in all of these fields.

Business fixed investment continued its path of recovery. Fixed investment on a real GDP basis continued to increase in the first quarter, after the high growth in the fourth quarter (Chart 2). Shipments of capital goods (excluding transport equipment) have been increasing, particularly in semiconductor fabrication machines and equipment, although the pace slowed in the first quarter compared to the high

growth in the fourth quarter (Chart 10-1[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of business fixed investment—have been on a rising trend on average, although they dropped in the first quarter in reaction to the upsurge in the fourth quarter (Chart 10-2[1]). As for the forecast figures of the second quarter, orders from nonmanufacturing firms, which have recently been showing large fluctuations,⁴ showed a decline, but those from manufacturing firms exhibited a steady increase. Construction starts (floor area, private, nondwelling use)—another leading indicator—rose sharply in the first quarter, mainly due to the start of some large-scale projects in the nonmanufacturing sector, while those of the mining and manufacturing sectors have been on a gradual but steady uptrend (Chart 10-2[2]).

The recovery in business fixed investment is expected to continue, particularly for manufacturing firms, since domestic as well as external demand and corporate profits are projected to increase. Meanwhile, excessive debt in the corporate sector and other structural factors still persist, but their impact has been waning.

Private consumption is showing some positive movements. With regard to individual indicators (Charts 11-1 and 11-2), the number of new passenger-car registrations was nearly flat with the fluctuations smoothed out; it dropped in April, in reaction to the high growth in the first quarter partly reflecting strong sales of new models. Sales of household electrical appliances (NEBA statistics; in real terms) continued to increase, particularly in digital home appliances (flat panel TVs, DVD recorders, and digital cameras) and PCs. On the other hand, sales at department stores and supermarkets inched down in March, partly due to adverse weather. Meanwhile, sales at convenience stores have been on a gradual uptrend. As for services consumption, sales in the food services industry were nearly flat with the fluctuations smoothed out. Outlays for travel had been on a recovery trend toward the end of last year, but decreased in the first quarter, particularly in domestic travel. However, outlays for travel seem to have been strong during Japan's annual holidays

⁴ The fluctuations in nonmanufacturing firms seem to be affected by the movements in orders of cellular phones, and thus are not necessarily a reflection of the actual trend in business fixed investment.

from late April to early May (the so-called Golden Week holidays), boosted partly by calendar factors.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services (Chart 11-3),⁵ showed a slight decline in the first quarter in reaction to the steady increase in the fourth quarter. Moreover, aggregate supply of consumer goods (Chart 11-4), which comprehensively captures producers' supply of goods, decreased in the first quarter, in reaction to the substantial rise in the fourth quarter. However, both indicators have been firm to a certain extent with the fluctuations smoothed out. Also, according to the *Family Income and Expenditure Survey* (Chart 11-1[1]), which captures private consumption from the demand side, the index of living expenditure level has been on a slight uptrend, with the movements since last fall averaged.

Indicators for consumer sentiment have been on a recovery trend as a whole (Chart 12).

Private consumption is projected to head toward a gradual recovery, as production and corporate profits continue to increase, and as this increase exerts positive effects gradually on the household sector through changes in employment and income, and also in asset prices. However, it is likely to take more time to confirm a recovery in consumption backed by this transmission mechanism.

The level of housing investment was relatively high compared to some time ago; housing starts were around 1.2 million units at annual rates in the first quarter (Chart 13[1]). However, since the recovery has been basically limited to housing for rent and for sale in the Tokyo metropolitan area, it is appropriate to say that housing investment as a whole remains more or less flat. It is not clear yet that housing investment will start an uptrend, since it lacks supporting factors such as an increase in income.

⁵ The indices of aggregated sales are the weighted average of major sales indicators, with the weights based on the consumption spending of households. Each sales indicator is deflated by consumer prices. The indices are convenient in the sense that the trend of these sales indicators can be observed in a single series. However, the coverage of services consumption is narrow, and the indices do not necessarily incorporate all sales channels of goods.

The pace of increase in industrial production slowed significantly in the first quarter in reaction to the upsurge in the fourth quarter (Chart 14[1]). Shipments of a wide range of goods, such as producer goods (electronic parts), capital goods (including semiconductor fabrication machines and equipment), and durable consumer goods (automobiles and digital home appliances) peaked in the first quarter, mainly in reaction to the upsurge in the fourth quarter (Chart 15).

Meanwhile, inventories remain flat or slightly down (Chart 14[1]). The chart of the inventory cycle shows that inventories for “producer goods in a broad category of electrical machinery” (such as electronic parts) have started to accumulate, as the stances of firms on production have become active, reflecting the strong demand forecast (Chart 16). Inventories for the rest of the goods, however, are still declining. These movements as a whole indicate that production will likely continue to grow.

Production is expected to continue increasing, reflecting the recovery in domestic and external demand. In the forthcoming second quarter, the pace of increase in production is likely to accelerate again. Production forecast indices for April and May exhibited considerably strong figures.⁶ Also, based on anecdotal information, firms are projected to increase their production noticeably, particularly in general machinery (semiconductor fabrication machines and equipment), electrical machinery, and electronic parts.

As for the employment and income situations, job offers have been on an uptrend, reflecting labor market conditions. Under this situation, the decline in household income is gradually coming to a halt (Chart 17[1]).

⁶ By simply using the forecast indices for April and May, and assuming that the level for June is the same as May, production for the second quarter is projected to increase substantially, by 6.2 percent from the previous quarter (Chart 14[2]). However, the rate of increase calculated here should be discounted considerably, based on these factors below.

(1) Judged by past movements, the production forecast indices of general machinery and electronic parts, which are the main contributors to the increase, tend to show stronger figures than their actual results.

(2) In industries facing strong demand, many factories were in full production throughout the long consecutive holidays in April-May. Hence, the seasonally adjusted production levels for June are likely to decrease, unlike the above assumption.

In the labor market, overtime hours worked have been above the peak of the previous recovery periods (Chart 18-2[3]). The number of new job offers continued to increase, particularly in the services industry, including temporary employment services and similar businesses (Charts 18-1[2] and [3]). The ratio of job offers to applicants has been on an uptrend on average (Chart 18-1[1]), although they have recently been flat after the sharp rise toward the end of last year. Moreover, the unemployment rate dropped to 4.7 percent in March, and is on a gradual downtrend even when taking into account the large monthly fluctuations (Chart 18-1[1]).

The number of employees in the *Labour Force Survey* has been slightly above the previous year's level (Chart 18-2[1]). The rate of year-on-year decline in the number of regular employees in the *Monthly Labour Survey* has been diminishing gradually (Chart 18-2[2]).

Regarding wages on a year-on-year basis (Chart 17[2]), overtime payments continued to increase, while regular payments continued to decrease. In these circumstances, special cash earnings in March dropped substantially, probably due to the reduction in fiscal-year end bonuses of public employees (such as those working at public schools and hospitals).

Firms are expected to continue restraining their labor costs through the extensive use of part-time workers and outsourcing. However, further increases in production and corporate profits, whose levels have already risen considerably, are expected to exert positive effects gradually on employment and income.

2. Prices

Import prices (on a yen basis; same hereafter) continue to increase compared to levels three months before, particularly in petroleum and its related products and in nonferrous metals reflecting the rise in international commodity prices (Chart 20).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates; same hereafter)⁷ have been rising compared to levels three months before (Chart 21). In detail, prices of petroleum products, nonferrous metals, and iron and steel related products rose markedly, reflecting the strengthening of commodity prices at home and abroad. In these areas, the effects from the rise in materials prices on intermediate goods prices are becoming noticeable, assisted by the improvement in supply and demand conditions. Meanwhile, the impact from materials prices on final goods prices is still limited. However, the rate of decline in final goods prices has been diminishing, particularly in capital goods, in which demand such as exports and business fixed investment has been recovering. Rice prices, which had been rising since last fall, have fallen back.

Corporate services prices (domestic supply-demand factors; same hereafter) continued their year-on-year decline of slightly more than 1 percent, mainly in leasing and renting, real estate services, and general services such as car maintenance and building maintenance (Chart 22).

The year-on-year rate of change in consumer prices (excluding fresh food; same hereafter) has been close to zero, while temporary factors have exerted upward pressure on prices (Chart 23); the year-on-year rates of CPI registered a drop of 0.1 percent in January, 0.0 percent in February, and a drop of 0.1 percent in March.

Domestic corporate goods prices are likely to continue increasing for the time being, partly due to the recent rise in crude oil prices. With respect to the outlook for consumer prices, the output gap is expected to narrow, albeit gradually. On the other hand, firms have been restraining their labor costs, and the impact on consumer prices from the rise in prices at the corporate transaction stage is still expected to be limited. Hence, consumer prices are projected to continue falling slightly on a year-on-year basis, as the upward pressure from the above temporary factors, including medical costs, dissipates.

⁷ The figures are adjusted to exclude a large seasonal fluctuation in electric power charges in order to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power consumption charges are set relatively high during July-September, when consumption increases substantially.

3. Financial Developments

(1) Financial Markets

The outstanding balance of current accounts at the Bank of Japan has been moving in the range of 31-35 trillion yen, as the Bank continues to provide ample liquidity (Chart 27).

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 25[1]) has been moving at around zero percent. Interest rates on term instruments (Chart 26[1]) have been steady at low levels on the whole. Under these circumstances, interest rates on Euroyen futures (Chart 26[2]) have been falling slightly.

In the government bond market, yields on 10-year government bonds (newly issued 10-year JGB; Chart 25[2]) inched upward toward mid-April, reflecting the gradual recovery in Japan's economy, but declined from late April, mainly due to the weakening in stock prices. They have recently been moving at around 1.5 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 29 and 30) remain essentially unchanged on the whole, disregarding the large expansion in the spreads for a certain corporation with low credit ratings.

Stock prices (Chart 31) had been steady toward mid-April, reflecting expectations for the economic recovery. They declined sharply from late April, however, reflecting large-scale profit-taking, together with growing market perception that U.S. interest rates would rise. The Nikkei 225 Stock Average is moving in the range of 10,500-11,000 yen.

In the foreign exchange market (Chart 32), the yen dropped, mainly due to investment in foreign securities by Japanese investors from the start of the new fiscal year and to the selling of Japanese stocks by foreign investors, together with growing market perception that U.S. interest rates would rise. The yen is being traded in the range of 112-115 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

As for credit demand in the private sector, the pace of decline is becoming somewhat moderate, since corporate activity has started to recover, as seen in the increase in business fixed investment, while firms continue to reduce their debts.

Regarding credit supply, the lending attitude of private banks continues to be slightly more accommodative on the whole, although they remain cautious about extending loans to firms with high credit risks. The lending attitude of financial institutions as perceived by firms continues to improve (Chart 33).

Lending rates continue to be at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations averaged, are more or less unchanged (Chart 34).

The rate of decline in lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors⁸), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, has been diminishing slightly. (The year-on-year change was -1.7 percent in February, -1.6 percent in March, and -1.8 percent in April; Chart 35.)

In the corporate bond and CP markets, the issuing environment continues to be favorable on the whole. Corporate bond issuance rates have been virtually flat, and the issuance spreads remain steady. CP issuance rates continue to be at low levels. The year-on-year growth rate of the amount outstanding of CP and corporate bonds issued rose slightly; it is currently around 2 percent. (The year-on-year change was 1.6 percent in February, 1.6 percent in March, and 2.0 percent in April; Chart 37.)

According to business surveys, the financial positions of firms continue to improve.

⁸ The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

The growth of banknotes in circulation is on a downtrend, due mainly to decreasing anxieties about the financial system. The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan) declined and is at the 6.0-7.0 percent level. (The year-on-year change was 16.2 percent in February, 11.9 percent in March, and 6.6 percent in April; Chart 38.)

The year-on-year growth rate of the money stock (M_2 + CDs) rose somewhat; it is currently at the 1.5-2.0 percent level. (The year-on-year change was 1.7 percent in February, 1.7 percent in March, and 1.9 percent in April; Chart 39.)

The number of corporate bankruptcies continues its downtrend; it declined by 17.3 percent year-on-year in April, to 1,236 cases (Chart 40).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2003/Q3	Q4	2004/Q1	2004/Jan.	Feb.	Mar.	Apr.
Index of living expenditure level (all households)	-0.1	-0.1	0.5	2.0	-0.8	-1.6	n.a.
Sales at department stores	-0.4	-0.3	-0.5	0.5	-0.3	-1.0	n.a.
Sales at supermarkets	-2.0	0.1	-0.7	0.4	0.2	-0.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	<338>	<332>	<347>	<365>	<346>	<331>	<319>
Sales of household electrical appliances (real, NEBA)	4.4	2.0	2.7	3.3	0.7	-3.5	n.a.
Outlays for travel (50 major travel agencies)	11.3	4.7	-2.8	-2.1	-1.7	-0.3	n.a.
Housing starts <s.a., ann. 10,000 units>	<112>	<117>	<121>	<125>	<117>	<120>	<n.a.>
Machinery orders (from private sector ⁴)	-1.0	8.5	-5.6	-8.1	2.8	-3.2	n.a.
Manufacturing	0.0	9.8	-3.6	-4.7	1.1	-4.5	n.a.
Nonmanufacturing ⁴	-1.4	7.4	-7.7	-11.5	4.6	-3.2	n.a.
Construction Starts (private, nondwelling use)	1.7	-1.6	18.1	1.7	3.5	14.6	n.a.
Mining & manufacturing	2.8	14.9	5.5	-13.4	10.2	-7.9	n.a.
Nonmanufacturing ⁵	2.0	-5.6	23.1	10.8	-0.4	22.8	n.a.
Value of public works contracted	-2.1	-8.3	-6.4	-0.7	-0.0	-12.5	23.1
Real exports	3.4	6.4	4.1	3.5	-1.7	0.5	n.a.
Real imports	1.3	1.6	2.6	3.5	-5.3	7.9	n.a.
Industrial production	1.0	3.9	0.5	2.9	-3.8	0.6	n.a.
Shipments	0.8	4.0	0.0	2.6	-4.5	0.1	n.a.
Inventories	0.4	-1.2	0.2	-0.8	0.7	0.3	n.a.
Inventory Ratio <s.a., CY 2000=100>	<97.1>	<93.9>	<94.0>	<91.8>	<95.3>	<94.0>	<n.a.>
Real GDP	0.8	1.7	1.4	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.0	1.6	n.a.	2.2	-3.6	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2003/Q3	Q4	2004/Q1	2004/Jan.	Feb.	Mar.	Apr.
Ratio of job offers to applicants <s.a., times>	<0.64>	<0.73>	<0.77>	<0.77>	<0.77>	<0.77>	<n.a.>
Unemployment rate <s.a., %>	<5.2>	<5.1>	<4.9>	<5.0>	<5.0>	<4.7>	<n.a.>
Overtime working hours ⁶	3.6	4.7	3.3	4.2	3.0	2.9	n.a.
Number of employees	-0.2	0.3	0.4	0.4	0.5	0.3	n.a.
Number of regular employees ⁶	-0.5	-0.3	-0.1	-0.1	-0.1	-0.1	n.a.
Nominal wages per person ⁶	-1.7	-1.3	-1.7	-1.7	-0.4	-2.9	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	-0.7 <-0.2>	-0.4 <0.1>	0.1 <0.5>	-0.1 <0.3>	0.0 <0.5>	0.2 <0.6>	p 0.5 <p 0.6>
Consumer price index ⁸ <s.a., q/q % chg.> (3-month growth rate)	-0.1 <0.0>	0.0 <-0.0>	0.0 <-0.1>	-0.1 <-0.2>	0.0 <-0.0>	-0.1 <-0.1>	n.a. <n.a.>
Corporate service price index ⁹ <s.a., q/q % chg.> (3-month growth rate)	-1.1 <-0.2>	-1.2 <-0.2>	-1.2 <-0.2>	-1.2 <-0.2>	-1.3 <-0.3>	-1.2 <-0.1>	n.a. <n.a.>
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.8	1.5	1.7	1.6	1.7	1.7	1.9
Number of suspension of transactions with banks	-28.9	-29.0	-24.4	-15.5	-30.1	-26.7	-24.5

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

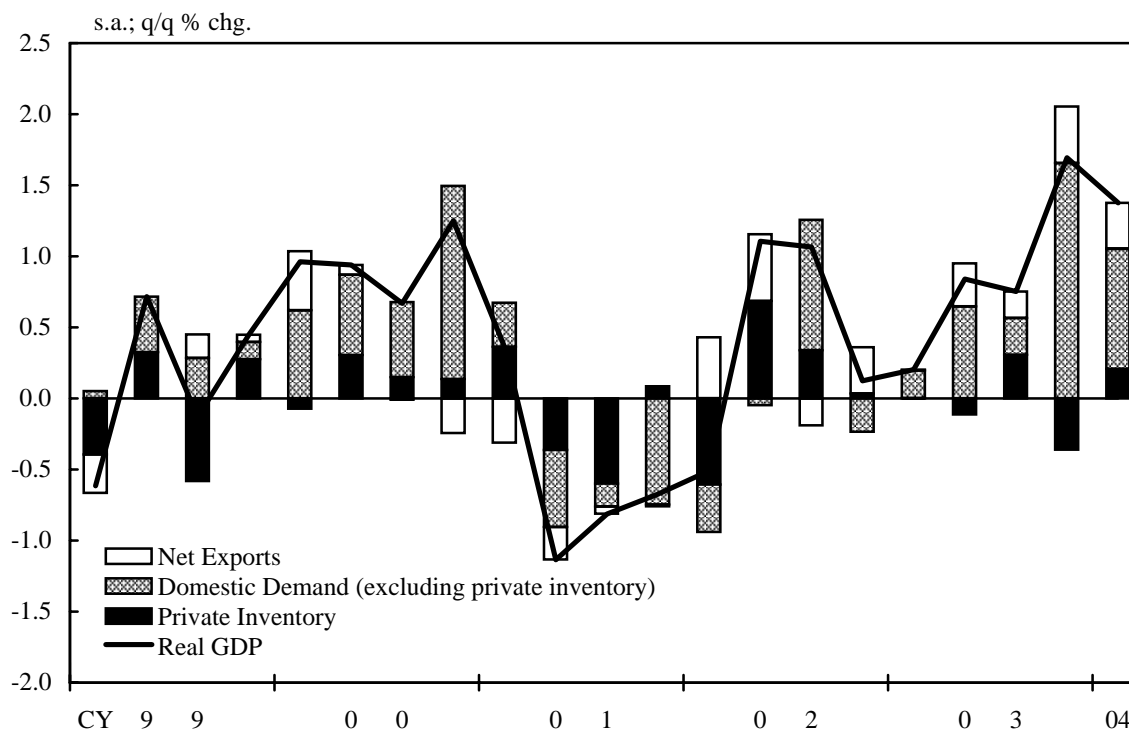
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

2. Figure with "p" indicates preliminary one.
3. Excludes small cars with engine sizes of 660cc or less.
4. Excludes orders of shipbuilding and orders from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.
6. Data for establishments with at least 5 regular employees.
7. Adjusts to exclude a hike of electric power charges in summer season.
8. Excludes fresh food.
9. Domestic supply-demand factors.

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," "Statistics on Building Construction Starts"; Ministry of Finance, "The Summary Report on Trade of Japan"; Cabinet Office, "Machinery Orders Statistics," "National Accounts"; East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics"; Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey"; Bank of Japan, "Corporate Goods Price Index," "Corporate Service Price Index," "Financial and Economic Statistics Monthly"; Japanese Bankers Associations, "Suspension of Transaction with Banks."

Real GDP

(1) Changes from the previous quarter (seasonally adjusted series)



(2) Components

s.a.; q/q % chg.

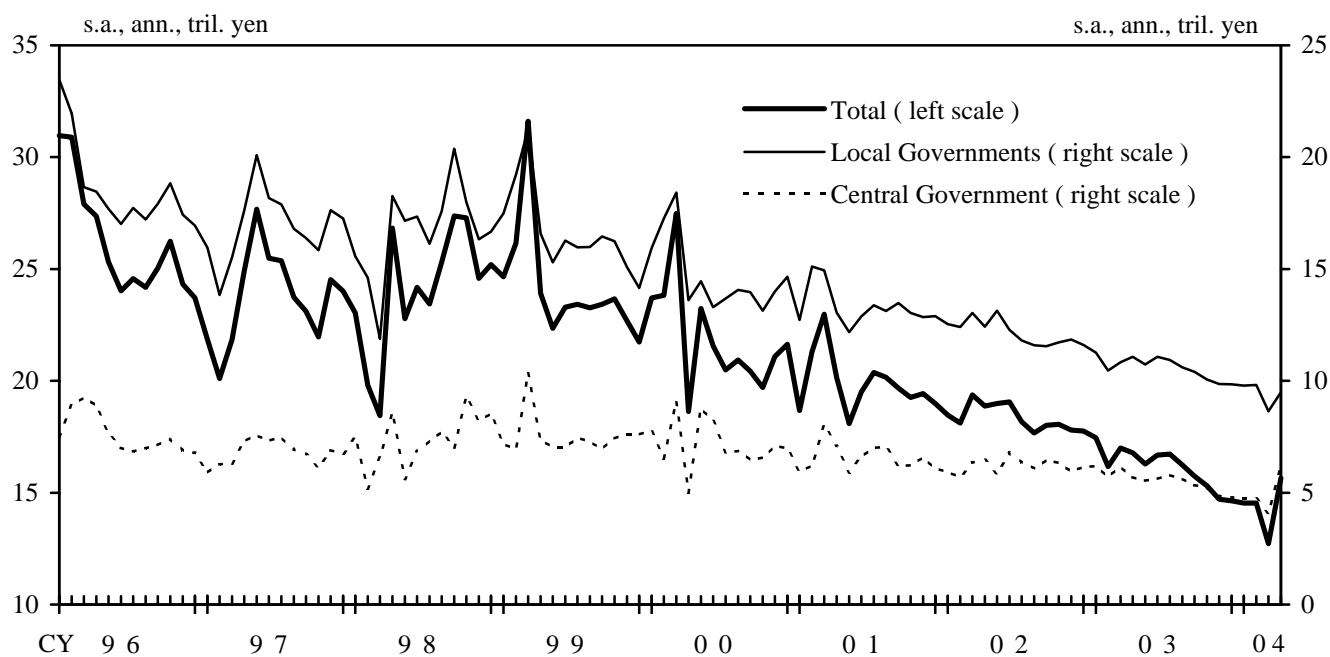
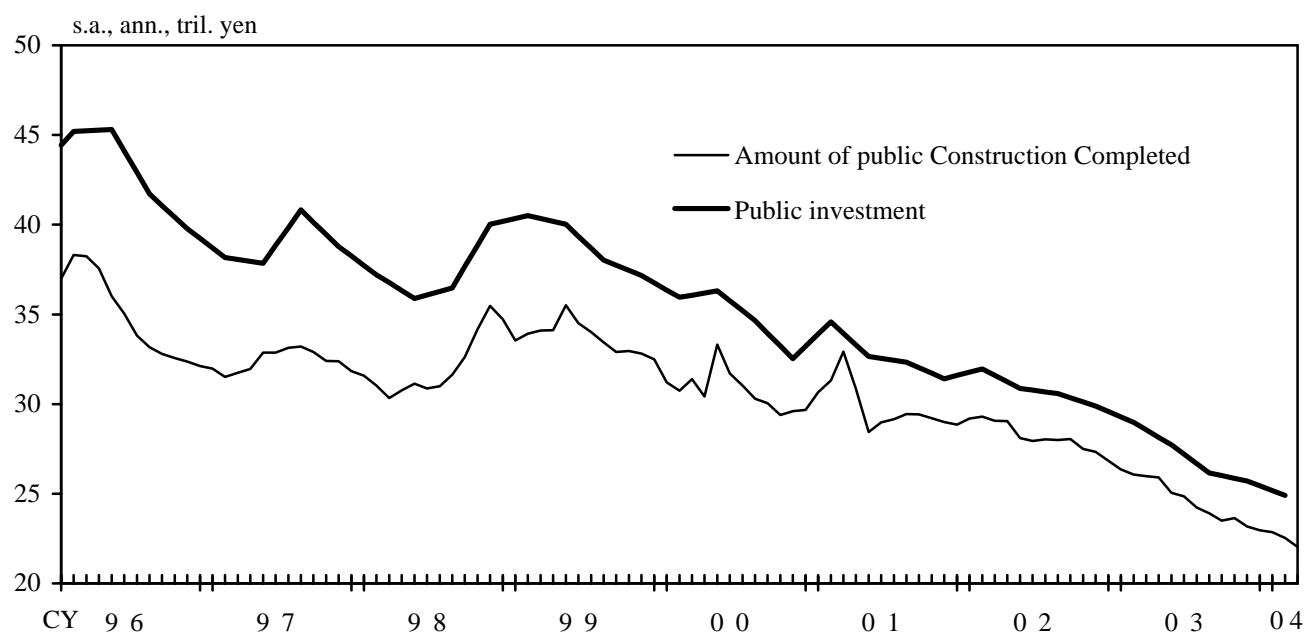
	2003				2004
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.2	0.8	0.8	1.7	1.4
Domestic Demand	0.2	0.5	0.6	1.3	1.1
Private Consumption	-0.1	0.3	0.7	1.1	1.0
Non-Resi. Investment	2.0	4.8	0.1	6.9	2.4
Residential Investment	-1.2	-0.2	3.2	-0.9	0.6
Private Inventory	(0.0)	(-0.1)	(0.3)	(-0.4)	(0.2)
Public Demand	-0.2	-1.2	-1.0	-0.2	-0.6
Public Investment	-2.1	-4.1	-5.5	-1.4	-3.4
Net Exports of goods and services	(0.0)	(0.3)	(0.2)	(0.4)	(0.3)
Exports	0.7	1.8	3.5	5.1	3.9
Imports	0.8	-1.0	2.6	2.5	1.9
Nominal GDP	-0.6	0.5	0.3	0.5	0.8

Note: Figures shown in parentheses indicate the contributions to changes in GDP.

Source: Cabinet Office, "National Accounts."

Public Investment

(1) Value of Public Works Contracted

(2) Amount of Public Construction Completed^{2,3} and Public Investment

Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

2. Amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works." The figures until March 2002 are retroactively calculated with year-to-year growth rates on the former basis.

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

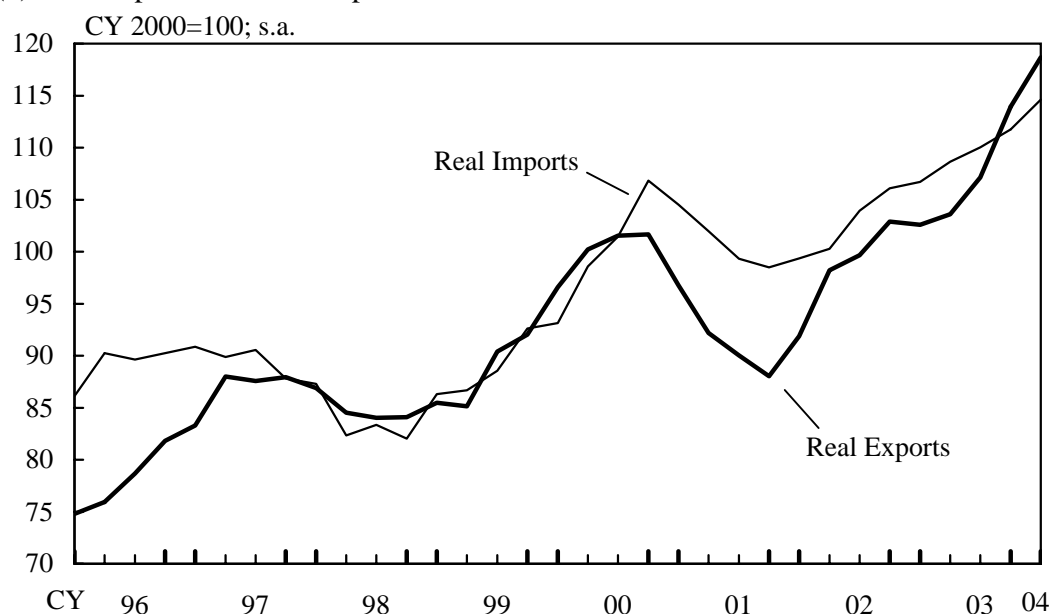
Sources: Cabinet Office, "National Accounts";

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

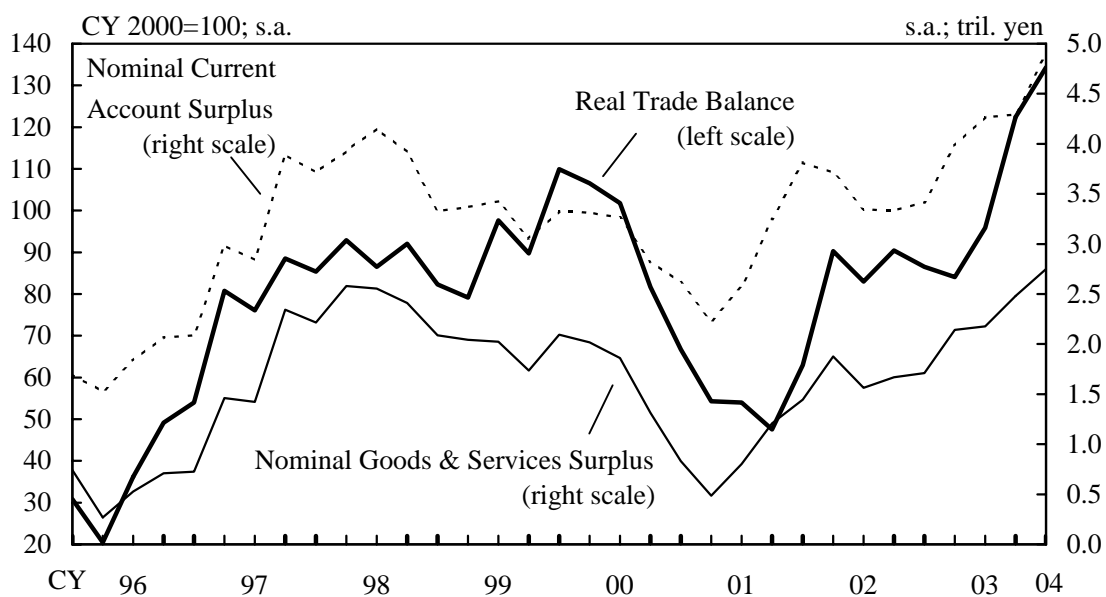
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

 External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



Notes: 1. Real trade balance is defined as real exports minus real imports, indexed with base year of 2000. Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by the "Export and Import Price Index."

2. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q1	Q2	Q3	Q4	2004 Q1	2004 Jan.	Feb.	Mar.
United States	<24.6>	1.4	-6.2	-7.4	0.5	-1.4	2.6	2.7	-0.7	2.1	2.6
EU	<15.3>	-0.0	13.9	4.5	1.6	1.7	3.9	9.8	8.4	-3.4	3.4
East Asia	<44.9>	17.5	19.9	6.9	-1.0	7.1	8.4	8.8	9.7	-0.3	-4.8
China	<12.2>	35.5	41.1	16.9	2.3	9.2	5.3	11.0	13.6	0.1	-10.3
NIEs	<23.5>	14.4	15.7	4.6	-3.3	7.4	12.1	8.1	6.2	2.5	-3.9
Korea	<7.4>	19.1	19.2	6.5	-5.3	8.5	9.2	13.2	9.9	-0.6	-2.2
Taiwan	<6.6>	14.6	16.1	5.1	-3.4	9.3	17.0	5.8	2.3	8.5	-4.9
ASEAN4 ³	<9.2>	10.2	9.1	2.2	0.7	4.1	3.5	7.7	13.7	-7.6	0.2
Thailand	<3.4>	16.5	18.3	1.2	3.0	6.5	5.5	7.4	12.6	-1.9	-3.5
Real exports		7.2	8.9	-0.3	1.0	3.4	6.4	4.1	3.5	-1.7	0.5

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q1	Q2	Q3	Q4	2004 Q1	2004 Jan.	Feb.	Mar.
Intermediate goods	<15.6>	8.8	5.6	4.3	0.6	0.9	4.0	6.0	14.5	-12.7	0.8
Motor vehicles and their related goods	<23.7>	12.7	1.3	-0.8	-3.6	0.3	5.9	-1.5	-6.3	-1.9	5.4
Consumer goods ⁴	<7.0>	7.9	14.9	4.2	2.7	0.7	9.4	6.2	5.4	0.9	4.2
IT-related goods ⁵	<14.1>	0.3	12.9	-2.4	3.4	7.4	4.7	5.5	3.8	-2.8	1.4
Capital goods and parts ⁶	<28.6>	7.8	17.1	2.2	2.3	6.4	6.3	7.3	4.5	2.3	-3.0
Real exports		7.2	8.9	-0.3	1.0	3.4	6.4	4.1	3.5	-1.7	0.5

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

2. Shares of each region and goods in 2003 are shown in angle brackets.

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

4. Excludes motor vehicles.

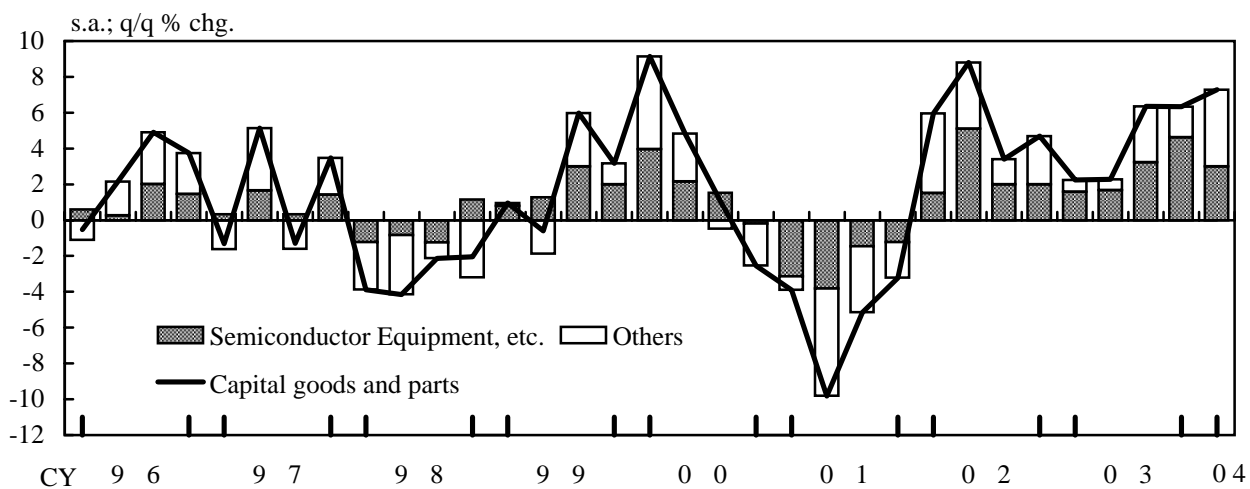
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

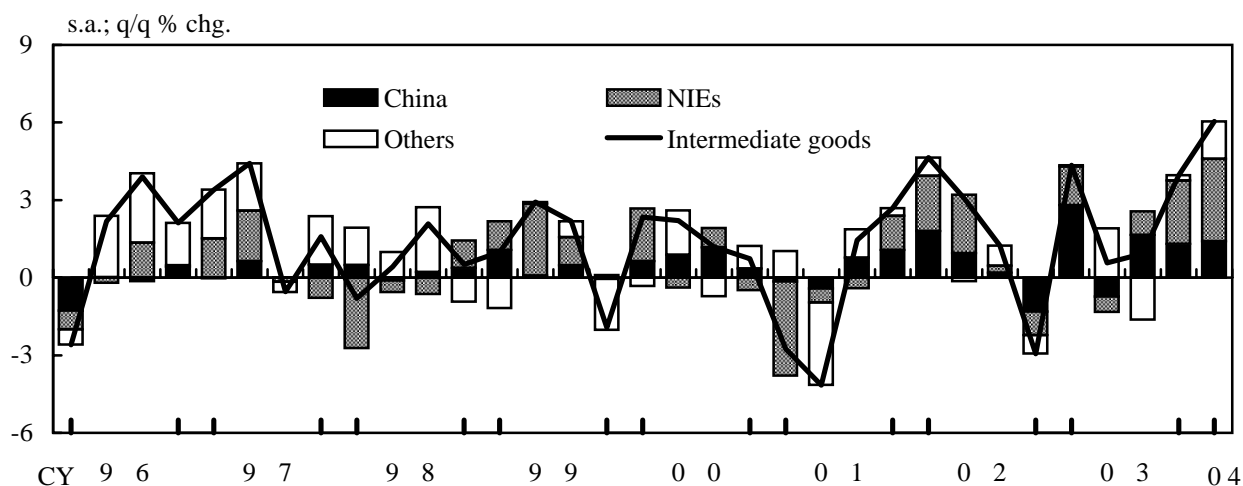
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports breakdown by goods

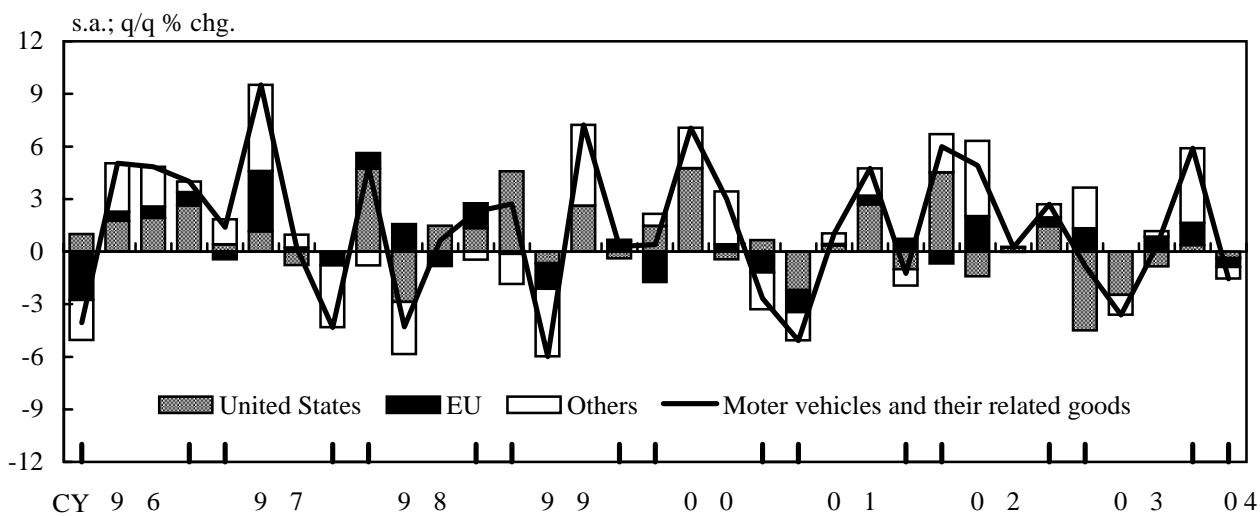
(1) Capital goods and parts (real, breakdown by goods)



(2) Intermediate goods (real, breakdown by region)



(3) Motor vehicles and their related goods (real, breakdown by region)

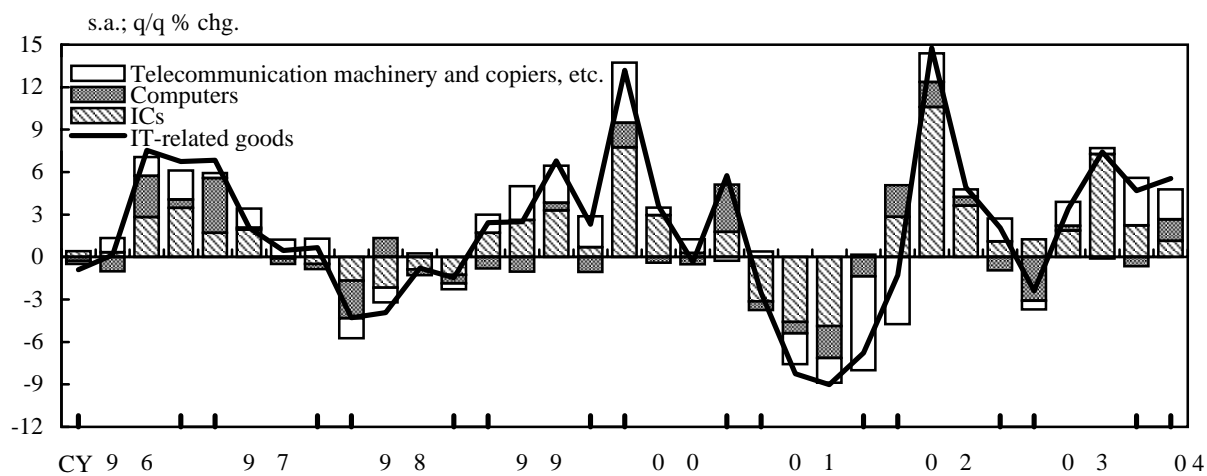


Note: Seasonally adjusted by X-12-ARIMA.

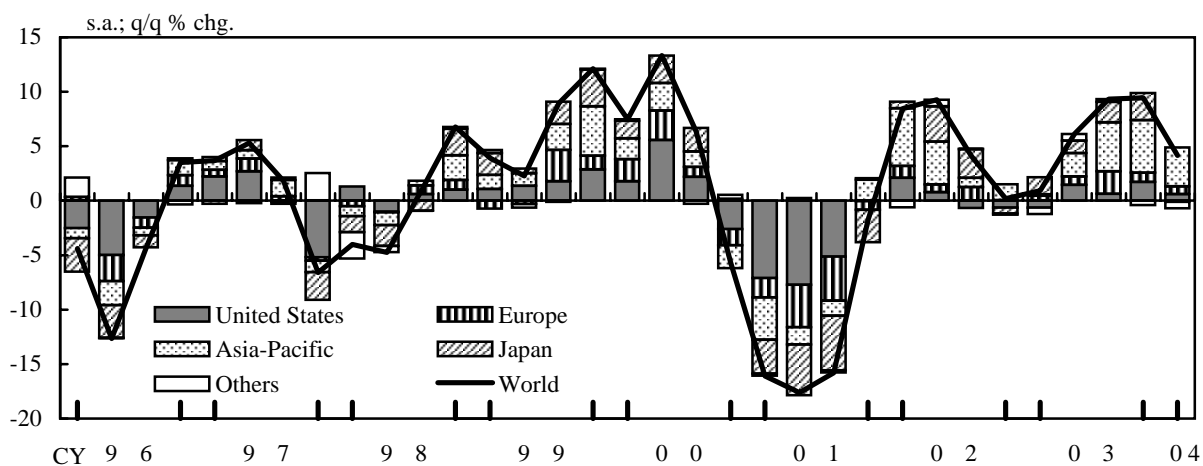
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

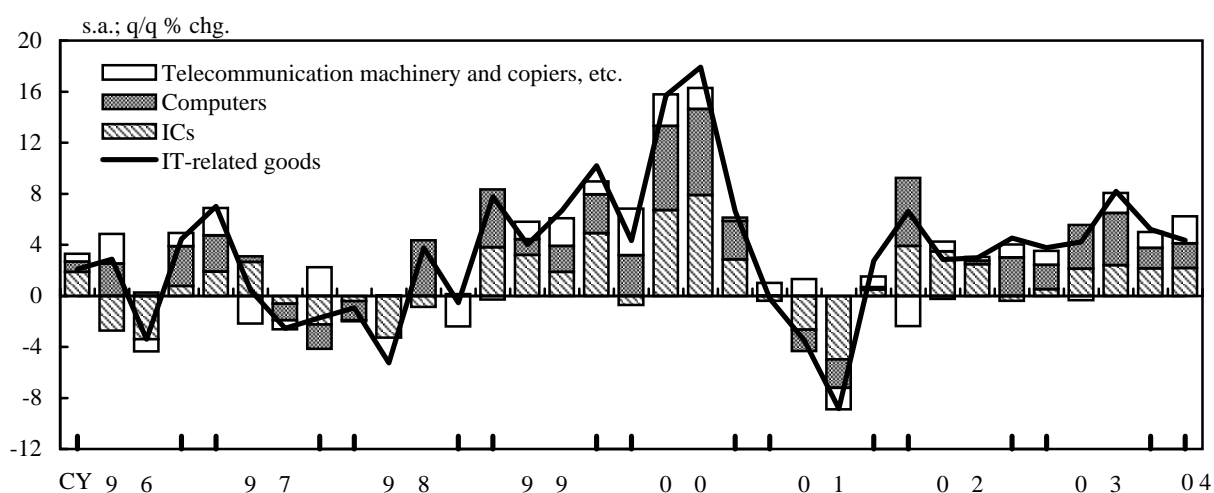
(1) Exports of IT-related goods (real, breakdown by goods)



(2) World Semiconductor Shipments (nominal, breakdown by region)



(3) Imports of IT-related goods (real, breakdown by goods)



Note: Seasonally adjusted by X-12-ARIMA.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics.)

Real Imports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q1	Q2	Q3	Q4	2004 Q1	2004 Jan.	Feb.	Mar.
United States	<15.4>	-3.9	-1.6	-1.8	4.5	-1.4	1.3	-3.6	-2.1	-2.4	4.6
EU	<12.8>	2.3	6.4	-0.9	2.6	1.3	3.1	6.8	6.7	0.6	0.1
East Asia	<42.4>	6.4	14.6	1.1	4.5	3.9	3.6	4.7	3.6	-0.8	4.3
China	<19.7>	13.8	21.9	3.7	5.1	5.2	3.5	6.7	1.9	-2.8	13.9
NIEs	<10.2>	1.8	9.8	-0.6	3.2	6.0	5.5	4.8	1.8	6.2	-3.9
Korea	<4.7>	-1.5	13.1	0.6	4.2	3.1	7.8	9.4	3.8	11.8	-3.4
Taiwan	<3.7>	5.4	7.1	-1.3	2.7	8.4	2.2	3.3	5.9	0.8	-5.7
ASEAN4 ³	<12.5>	1.5	9.0	-1.2	4.9	0.5	2.1	1.5	7.9	-3.6	-2.5
Thailand	<3.1>	7.6	11.5	-0.1	2.2	4.6	3.4	2.3	10.2	-4.7	-1.9
Real imports		1.1	6.8	0.6	1.8	1.3	1.6	2.6	3.5	-5.3	7.9

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 2002	2003	2003 Q1	Q2	Q3	Q4	2004 Q1	2004 Jan.	Feb.	Mar.
Raw materials ⁴	<27.1>	-2.7	6.0	2.9	-0.5	-3.0	-3.4	3.3	4.8	-5.8	2.7
Intermediate goods	<13.4>	1.4	4.5	0.4	-0.1	2.5	1.0	3.4	2.2	-2.4	7.5
Foodstuffs	<11.5>	-2.5	-4.2	-1.0	-1.4	-0.6	0.2	-0.0	-0.3	-0.1	3.5
Consumer goods	<10.8>	-0.9	8.0	-2.5	2.6	3.7	6.3	0.7	3.4	-9.4	14.1
IT-related goods ⁵	<14.0>	7.8	19.3	3.8	4.2	8.2	5.2	4.4	5.5	-0.8	0.8
Capital goods and parts ⁶	<13.0>	11.5	14.3	-1.4	10.8	-1.7	6.5	3.0	4.6	-11.5	26.6
excluding aircraft	<11.9>	8.3	14.3	1.9	3.7	1.5	4.8	7.8	10.0	-3.2	2.0
Real imports		1.1	6.8	0.6	1.8	1.3	1.6	2.6	3.5	-5.3	7.9

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

2. Shares of each region and goods in 2003 are shown in angle brackets.

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

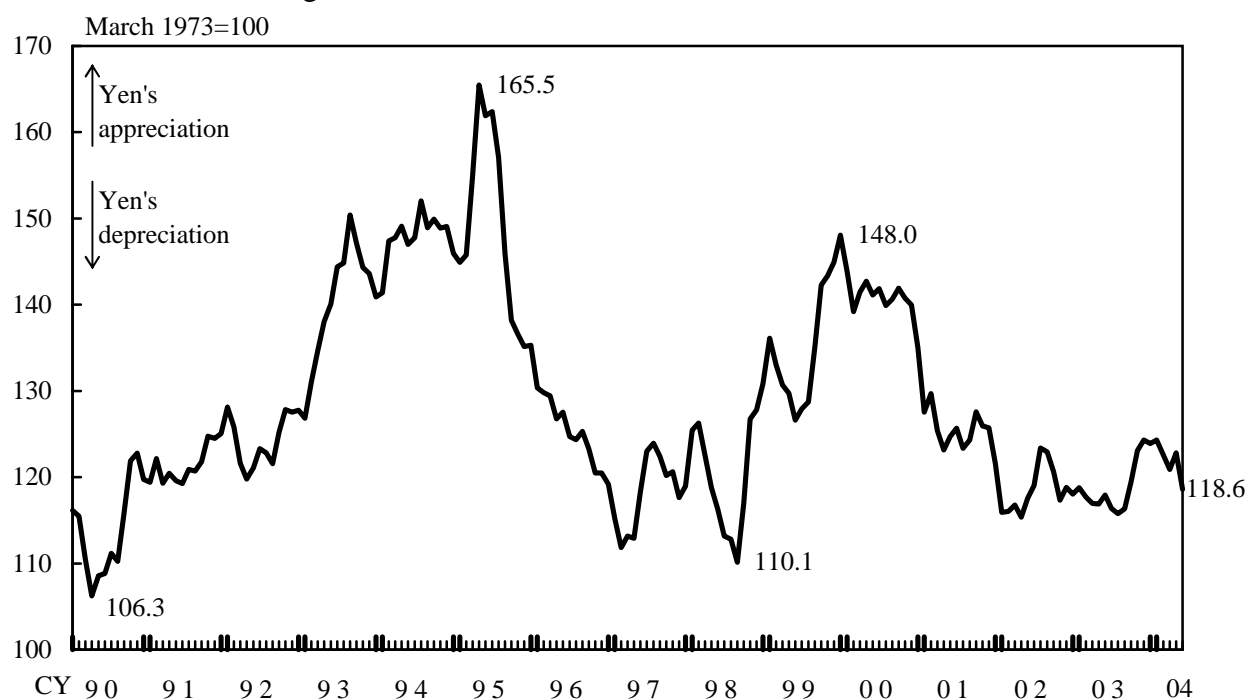
4. Raw materials are mainly composed of woods, ores and mineral fuel.

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

6. Excludes IT-related goods.

Environment for Exports (1)

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for May 2004 is the average up to May 19.

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

(2) Real GDP Growth Rates in Overseas Economies

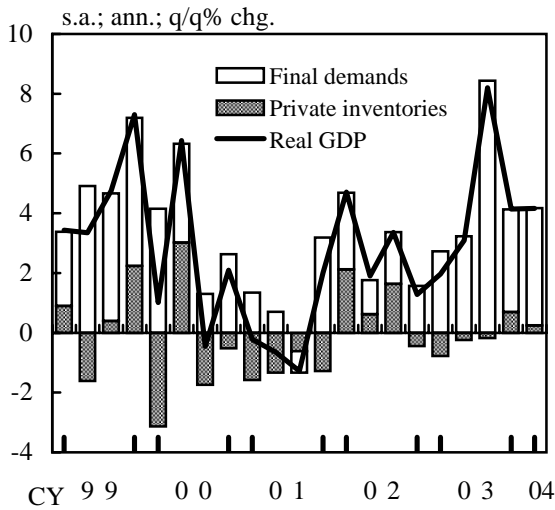
		CY2001	2002	2003	2003 Q2	Q3	Q4	2004 Q1	
United States ¹		0.5	2.2	3.1	3.1	8.2	4.1	4.2	
European Union ¹		1.6	1.0	0.7	0.0	1.8	1.7	n.a.	
East Asia ²	Germany	0.8	0.2	-0.1	-0.7	0.8	1.1	1.8	
	France	2.1	1.1	0.5	-1.5	2.8	2.7	n.a.	
	United Kingdom	2.1	1.6	2.2	2.4	3.4	3.7	2.6	
	China	7.5	8.0	9.1	6.7	9.6	9.9	9.8	
	NIEs	Korea	3.8	7.0	3.1	2.2	2.4	3.9	n.a.
		Taiwan	-2.2	3.6	3.2	-0.1	4.2	5.2	6.3
		Hong Kong	0.5	2.3	3.3	-0.5	4.0	5.0	n.a.
Singapore		-1.9	2.2	1.1	-3.9	1.7	4.9	7.5	
ASEAN4	Thailand	2.1	5.4	6.7	5.8	6.6	7.8	n.a.	
	Indonesia	3.5	3.7	4.1	3.6	4.0	4.4	n.a.	
	Malaysia	0.3	4.1	5.2	4.5	5.2	6.4	n.a.	
	Philippines	3.0	4.4	4.5	4.0	5.1	4.5	n.a.	

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

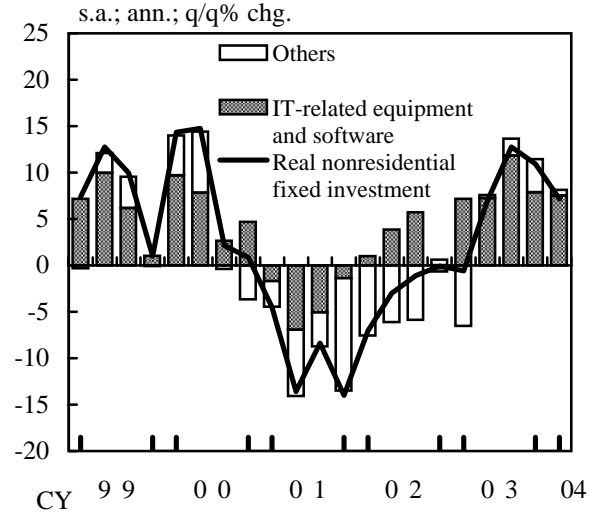
2. Quarterly data of East Asia are percent changes from a year earlier.

Environment for Exports (2)

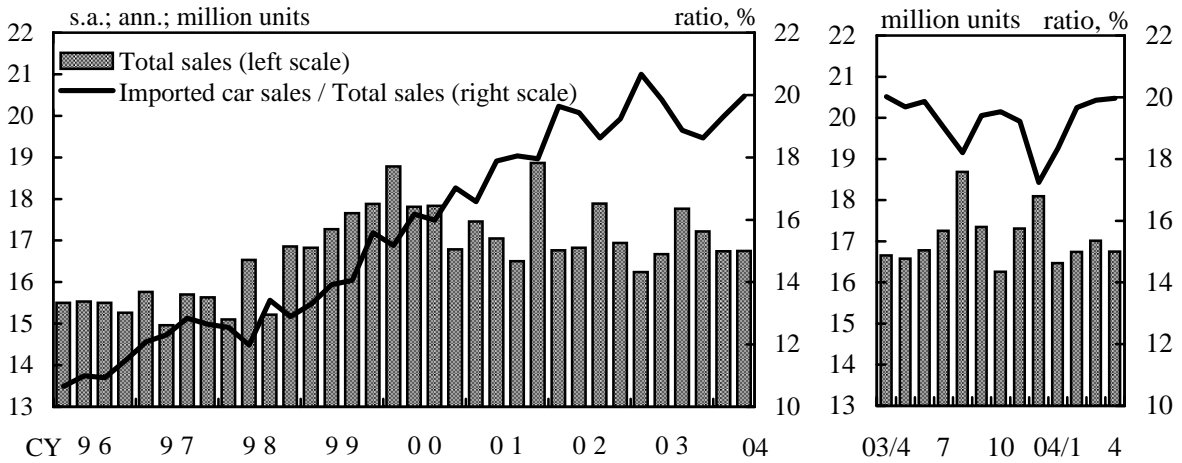
(1) U.S. Real GDP (breakdown by final demands and inventories)



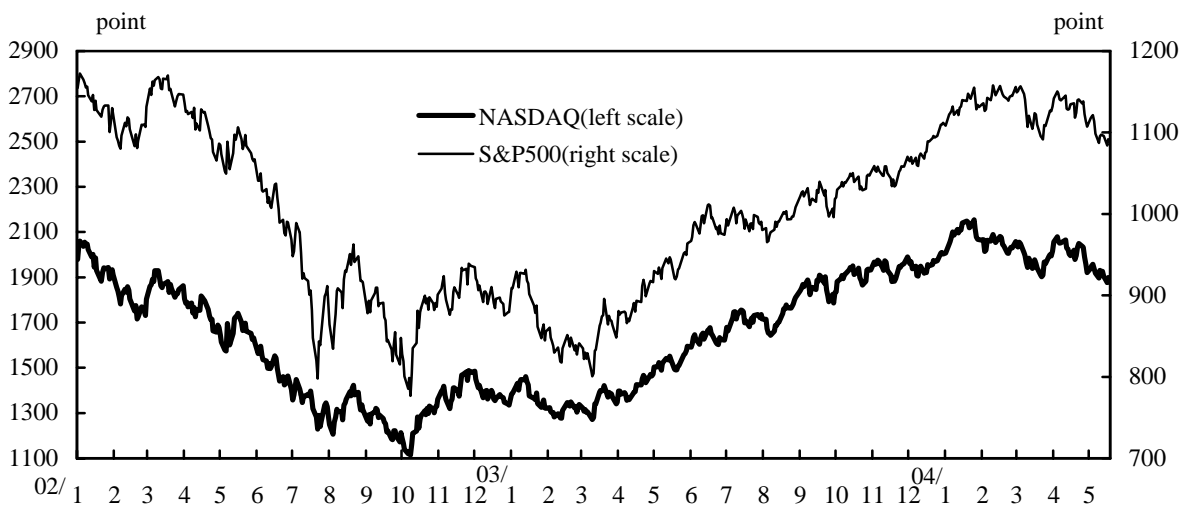
(2) U.S. Real Nonresidential Fixed Investment



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



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

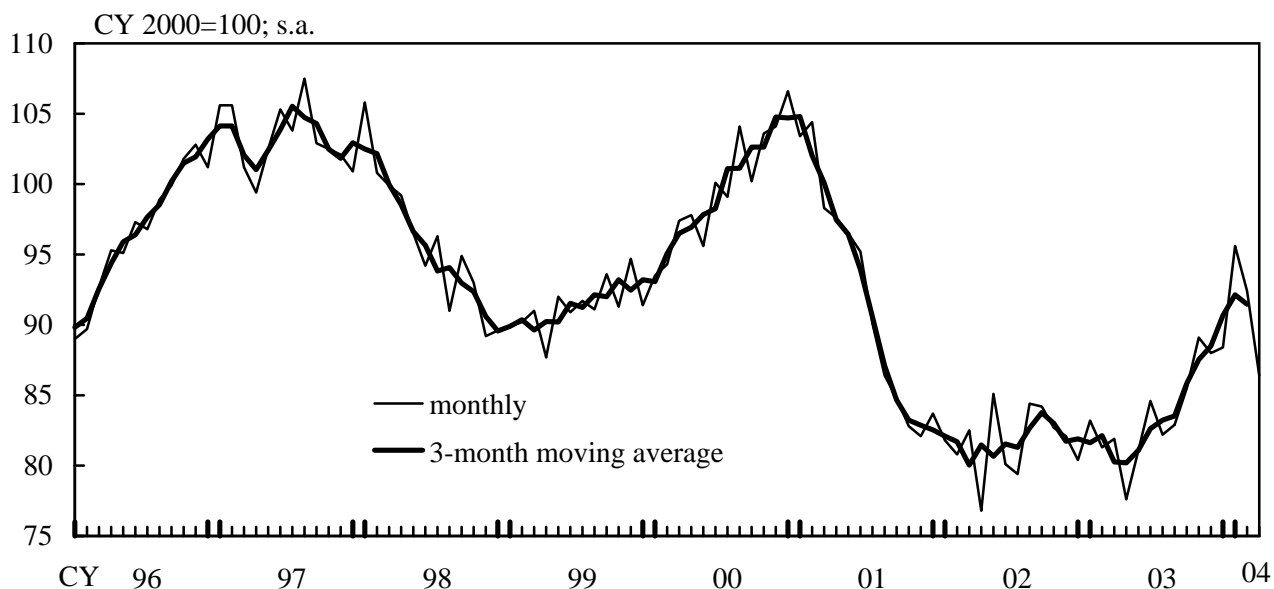


Notes: 1. 2004/Q2 figures are based on April figures in (3).
2. Figures of U.S. stock prices in (4) are up to May 19.

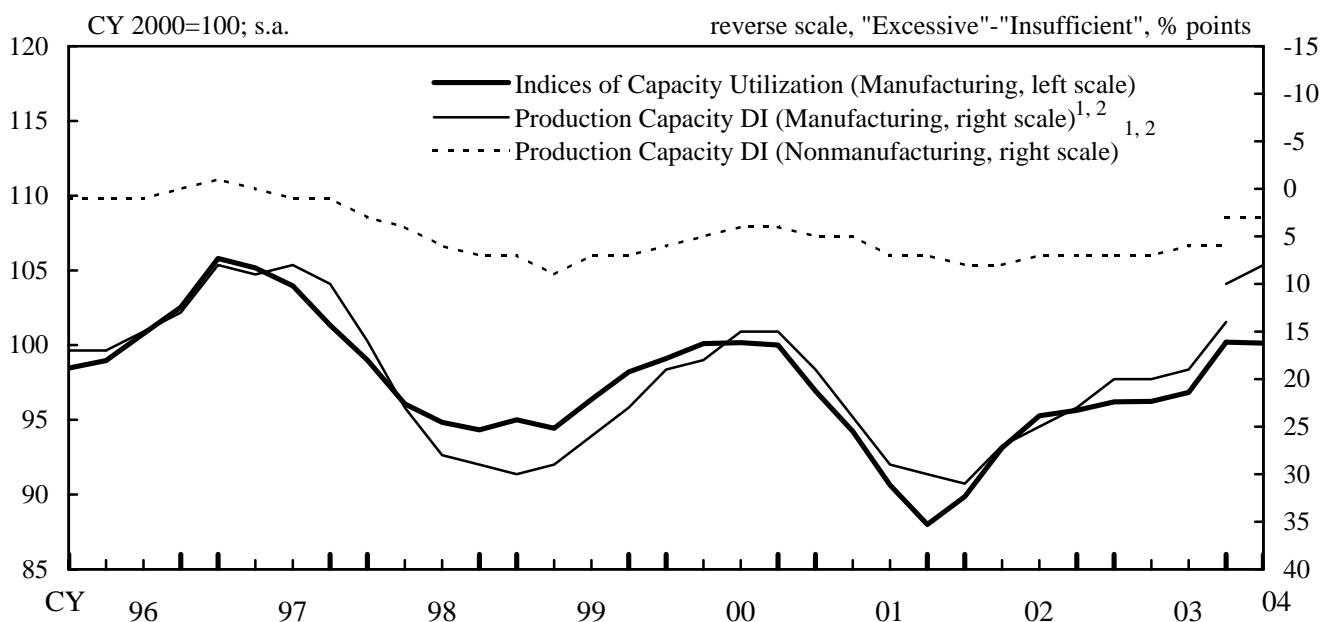
Sources: U.S. Department of Commerce, "National Income and Product Accounts," "Sales, production, imports, exports, and inventories, in units"; Bloomberg.

Indicators for Business Fixed Investment (1)

(1) Shipments of capital goods (excluding transport equipment)



(2) Indices of Capacity Utilization and Production Capacity DI



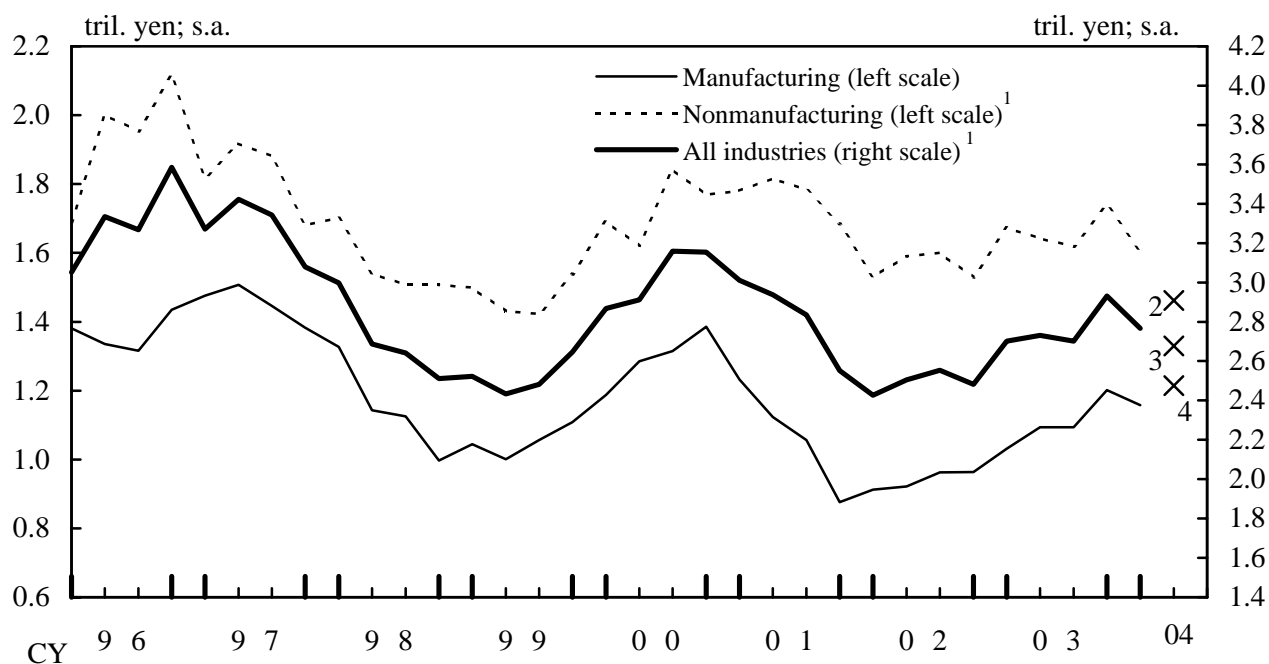
Notes: 1. Production Capacity DIs are those of all enterprises.

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

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production";
Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Indicators for Business Fixed Investment (2)

(1) Machinery Orders



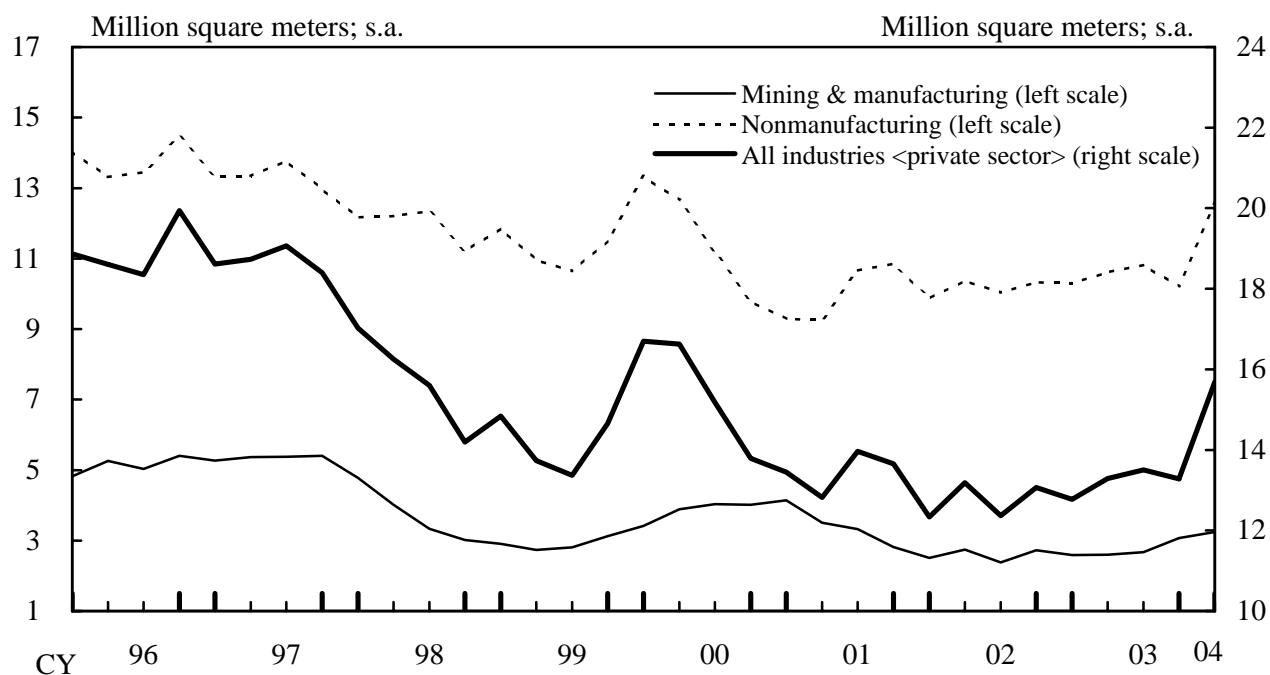
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2004/Q2.

3. Forecast of all industries for 2004/Q2.

4. Forecast of manufacturing industries for 2004/Q2.

(2) Construction Starts (floor area, private, nondwelling use)



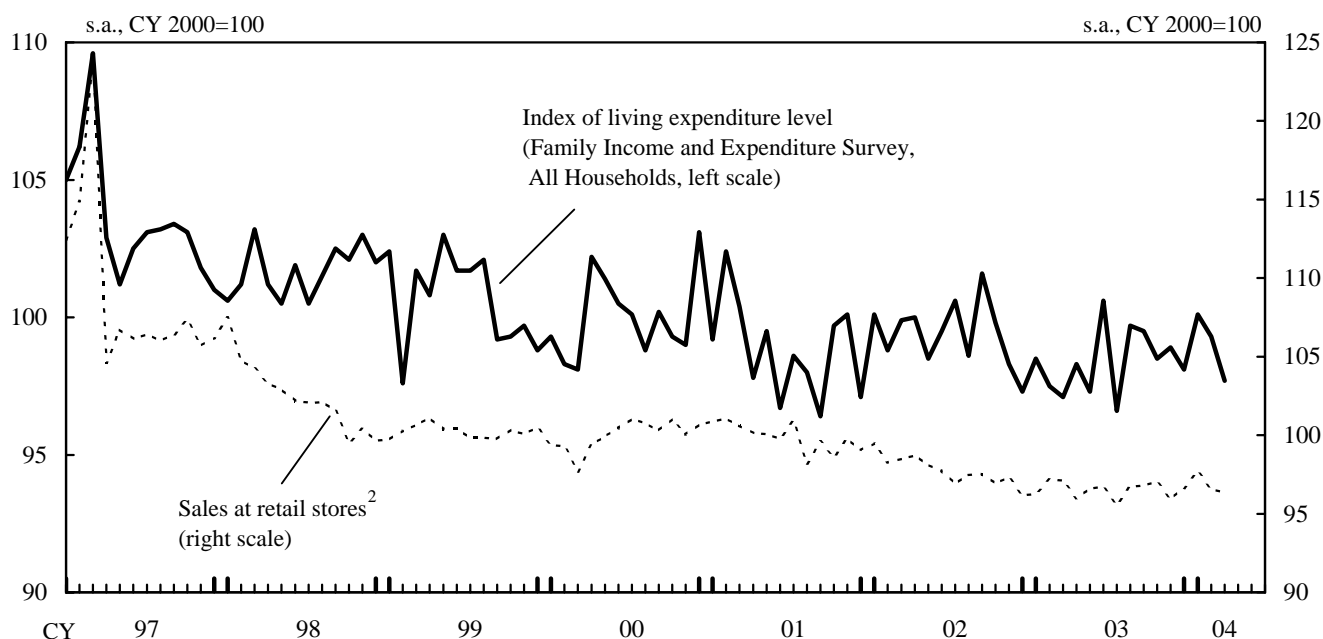
Note: Seasonally adjusted by X-12-ARIMA.

Sources: Cabinet Office, "Machinery Orders Statistics";

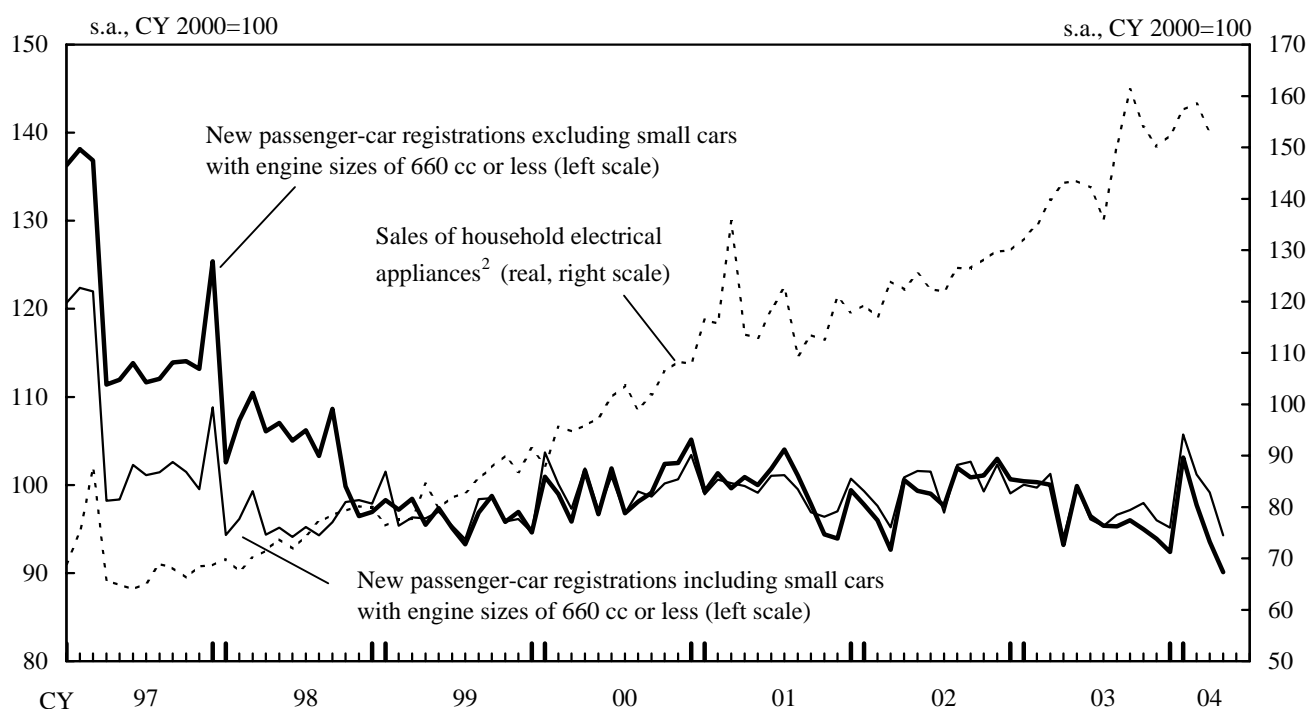
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



(2) Sales of Durable Goods

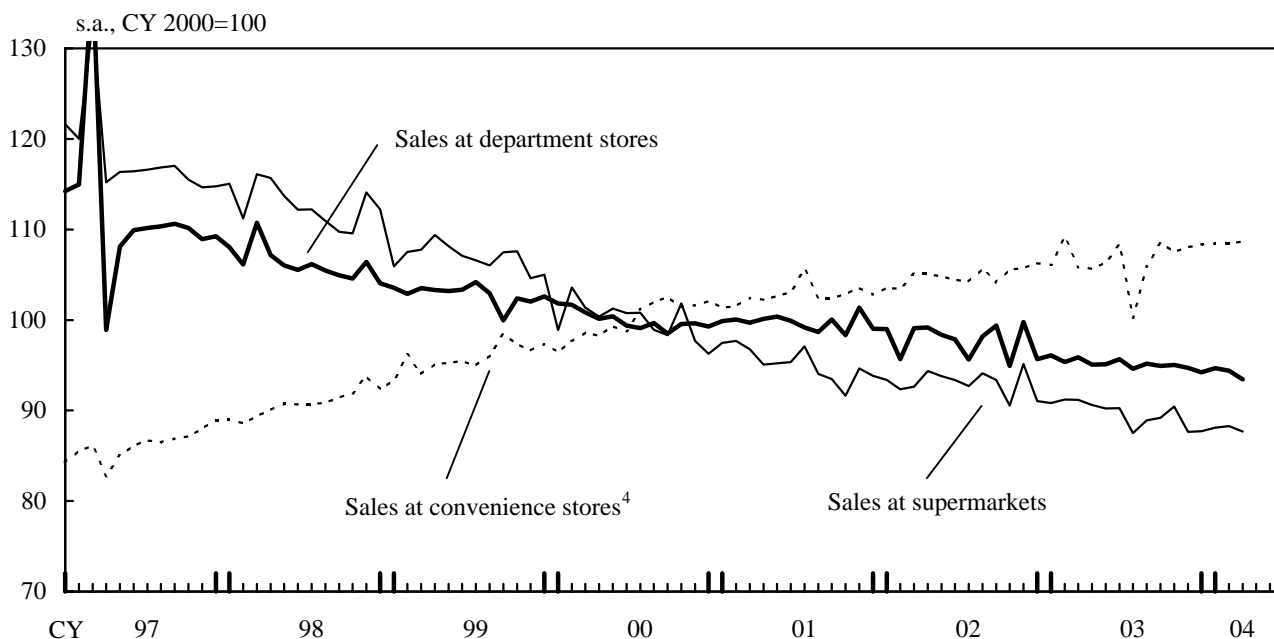


- Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.
2. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). Sales of household electrical appliances are the sum of their components deflated by the consumer price index (or the wholesale price index for personal computers before 1999).

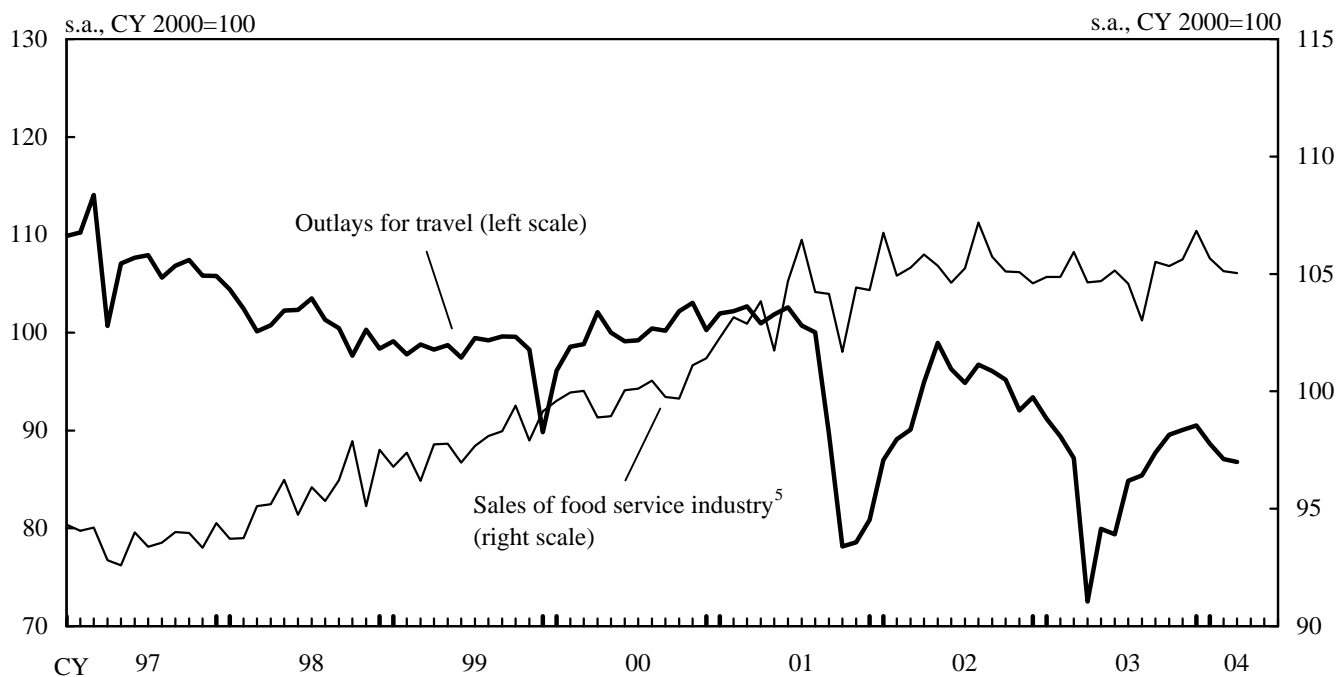
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles";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

Indicators for Private Consumption^{1, 2} (2)

(3) Sales at Retail Stores (nominal)³



(4) Consumption of Services (nominal)



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

2. Adjusted to exclude the effect of the rise in the consumption tax rate.

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

4. 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.

5. Sales of food service industry are calculated using the year to year change rates of every month released by the Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

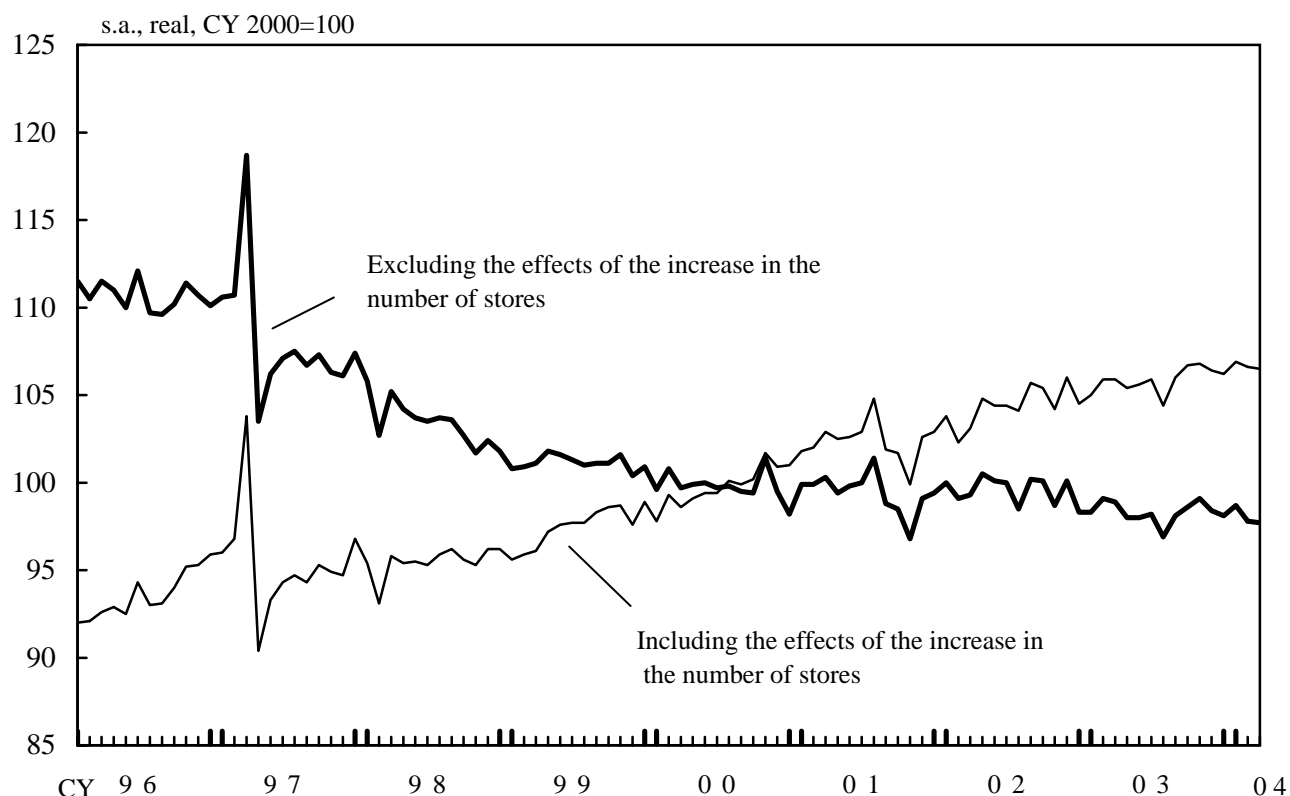
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food

Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (The Research of Food Service Industry)."

Indicators for Private Consumption (3) - Indices of aggregated sales

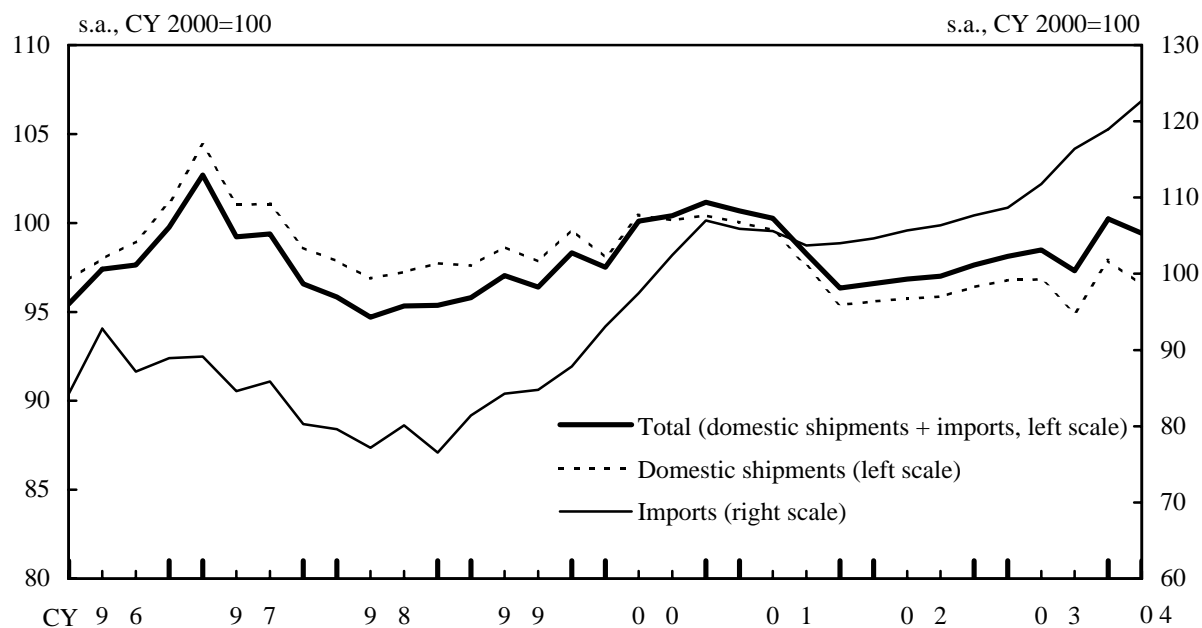


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets* ; *New passenger-car registrations* ; *Sales of household electrical appliances* ; *Outlays for travel* ; and *Sales of food service industry* , where the weights come from household expenditure in the *Family Income and Expenditure Survey* . These indices of aggregated sales consist of the series including and excluding the effects of the increase in the number of stores. Indices "including the effects of the increase in the number of stores" reflect the fluctuations in sales due to changes in the number of stores caused by the opening and closing down of businesses. (Indices "including the effects of the increase in the number of stores" include sales at convenience stores.) On the other hand, those "excluding the effects of the increase in the number of stores" aim to capture consumption trends only from stores of which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the price indices.
3. Seasonally adjusted by X-12-ARIMA.

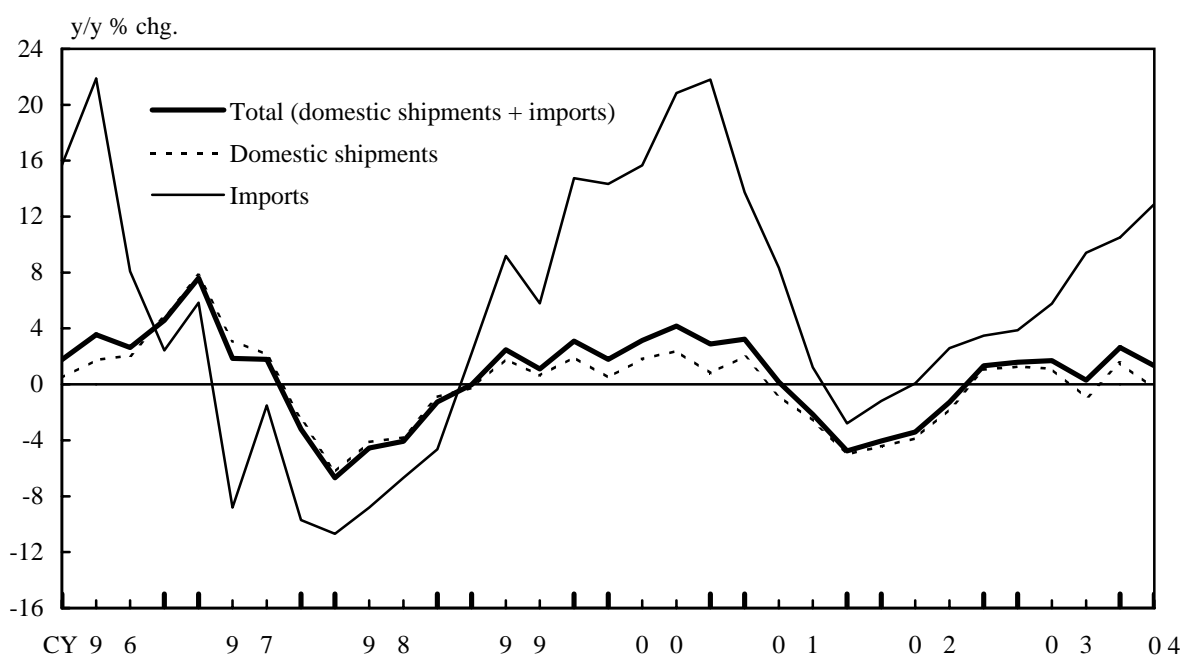
Source: Bank of Japan, "Indices of Aggregated Sales."

Indicators for Private Consumption (4) - Aggregate supply of consumer goods

(1) Level



(2) Changes from a year earlier



Notes: 1. Aggregate supply of consumer goods is calculated by the Bank of Japan using shipments of consumer goods in *Indices of Industrial Production* and real exports and imports of consumer goods. The weights used for calculation are those of *Indices of Industrial Domestic Shipments and Imports*.

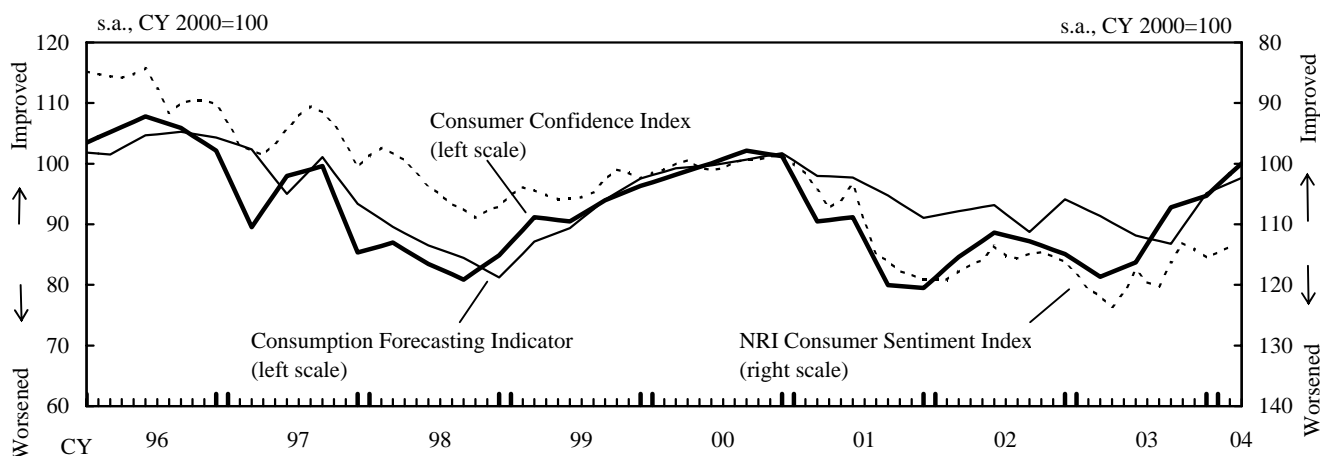
2. Figures of "Imports" are calculated from real imports of consumer goods. Real imports (consumer goods) are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles.

3. Year-on-year changes are calculated from seasonally adjusted series.

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

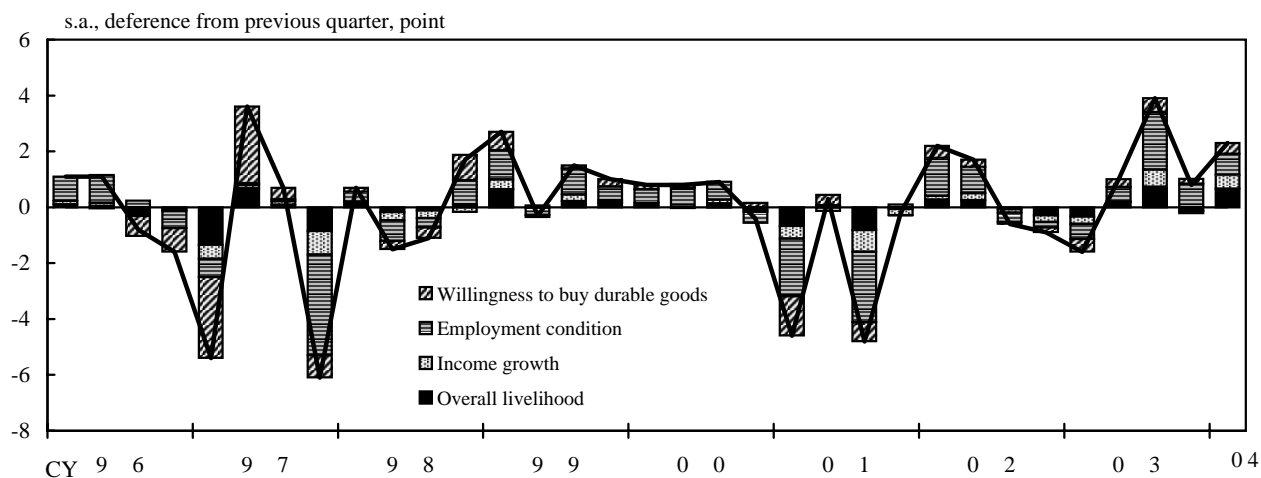
Consumer Confidence

(1) Surveys on Consumer Confidence

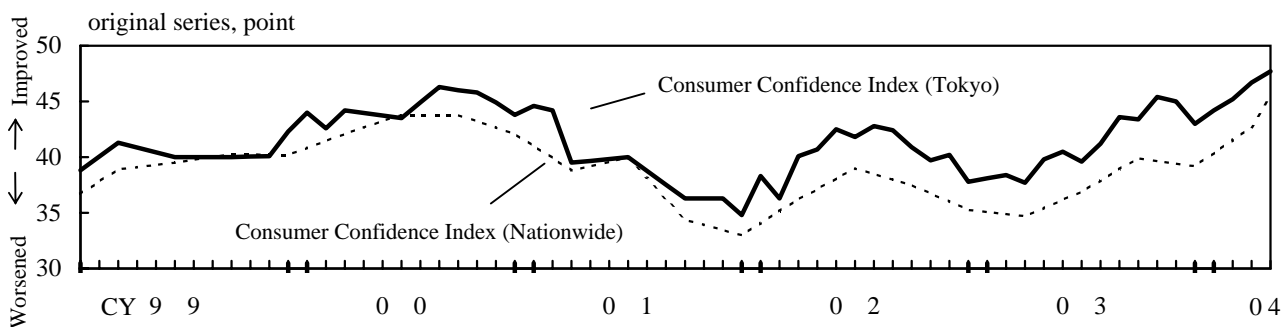


- Notes:
1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with 2,200 samples in a nationwide basis) are based on surveys on consumer confidence.
 3. Data are plotted at the months of each survey.
 4. "Consumer Confidence Index" is surveyed by the Cabinet Office, "Consumption Forecasting Indicator" by NIKKEI RIM, and "NRI Consumer Sentiment Index" by NRI.
 5. Figures of "Consumer Confidence Index" are retroactively revised since the item "Inflation" was abolished.

(2) Contribution of Each Item in the Consumer Confidence Index



(Reference) Consumer Confidence Survey (Monthly)

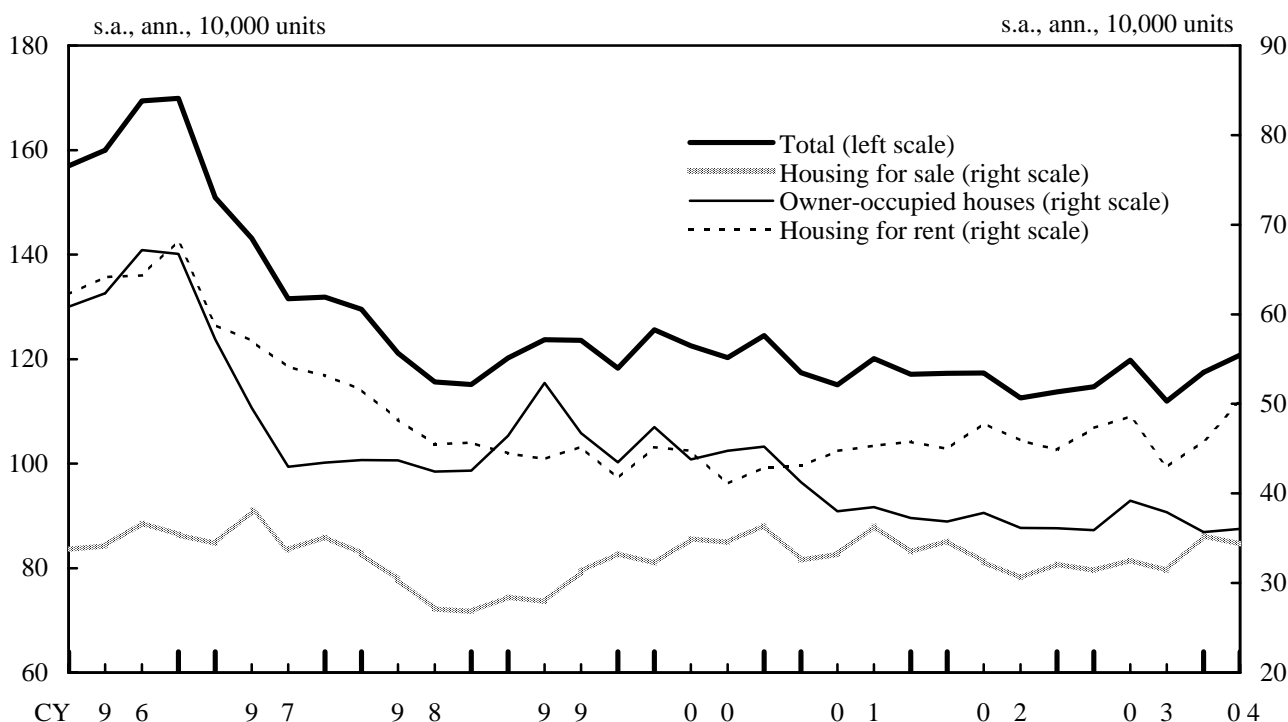


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation prior to March 2004.

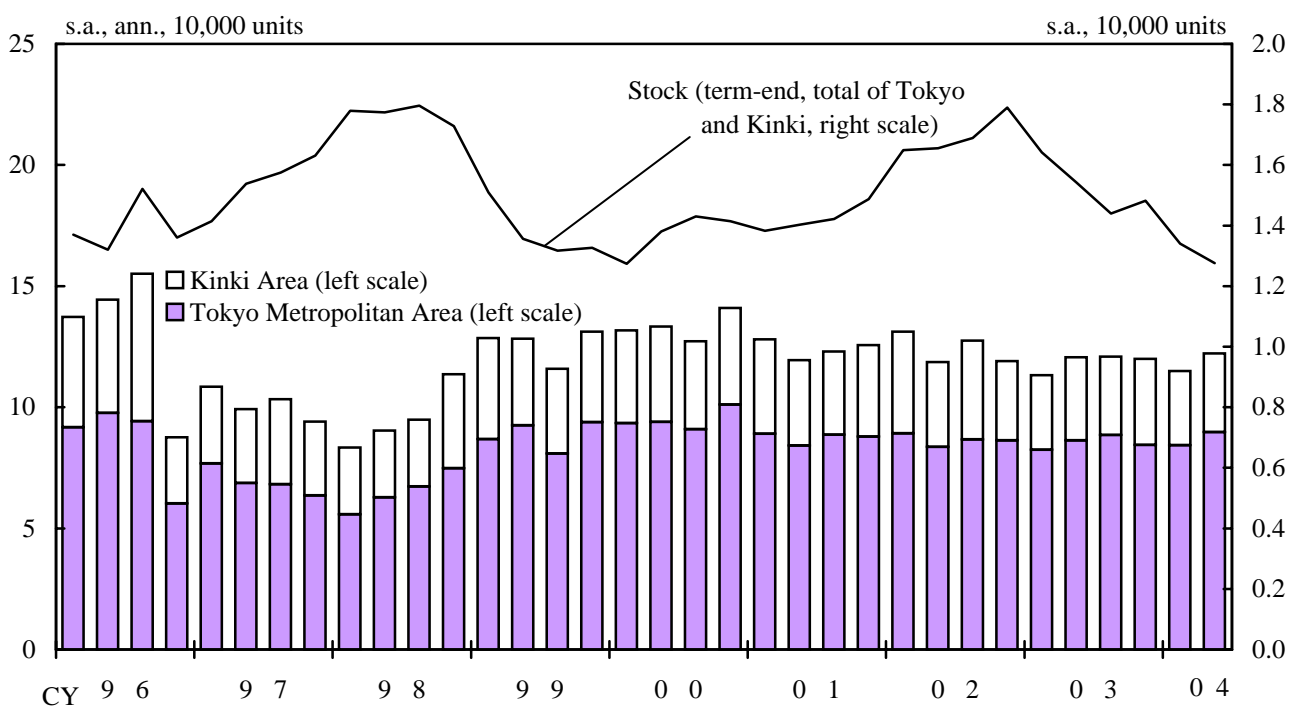
Sources: Cabinet Office, "Consumer Confidence Survey"; Nippon Research Institute (NRI), "Consumer Sentiment Survey"; Nikkei Research Institute of Industry and Markets (NIKKEI RIM), "Consumption Forecasting Indicator."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Condominiums

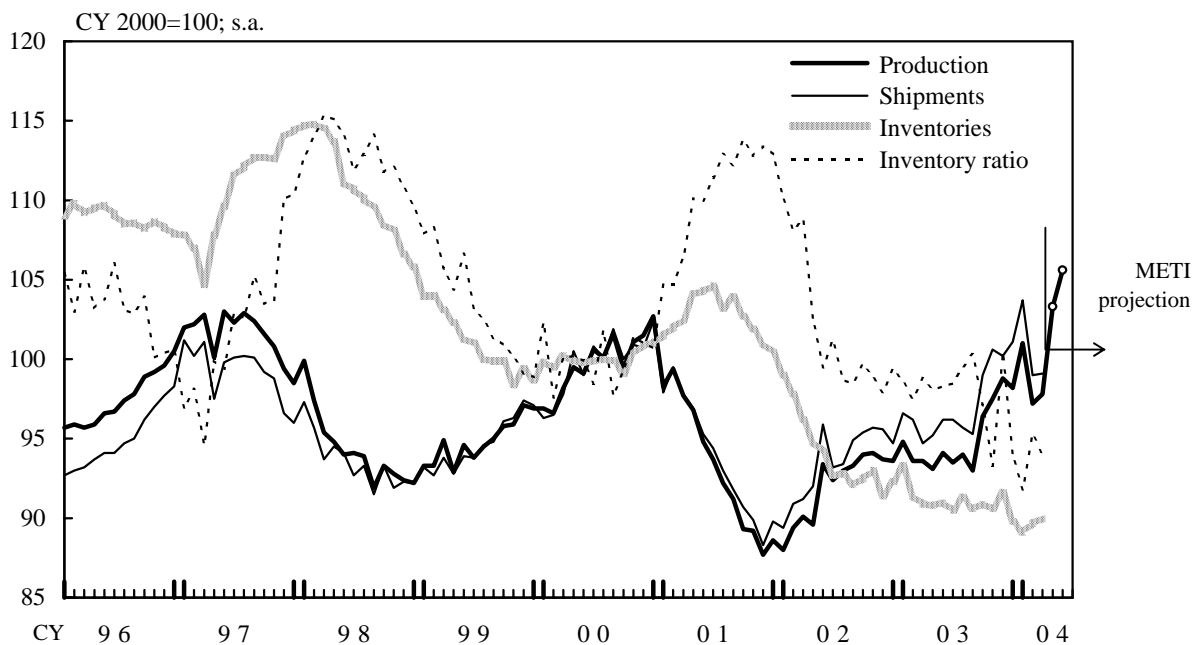


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2004/Q2 are those of April.

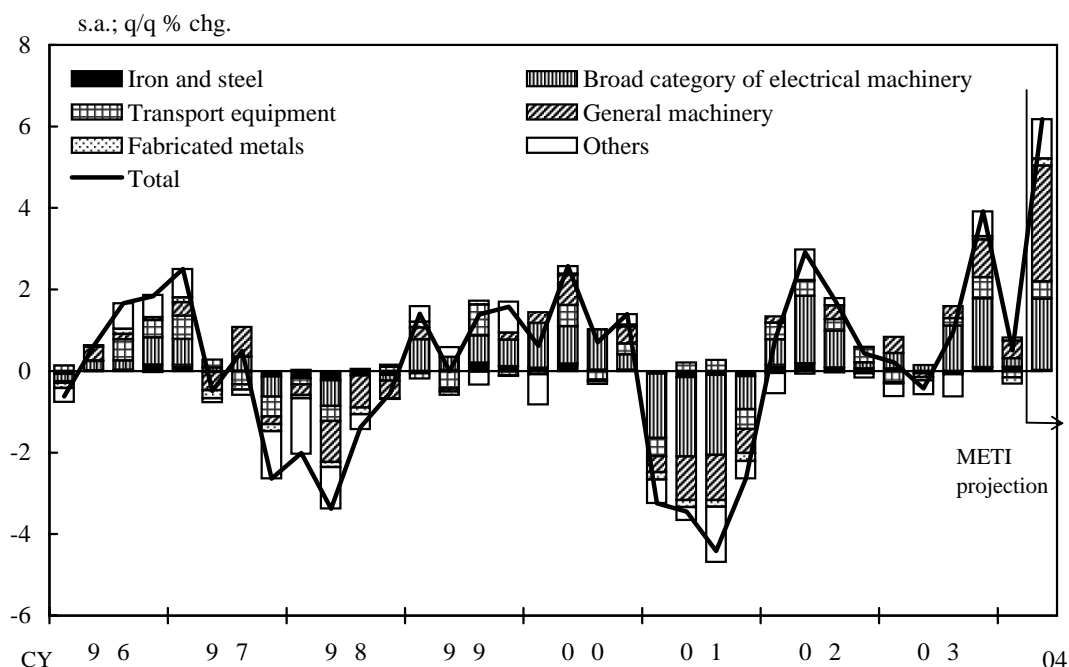
Sources: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

 Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



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

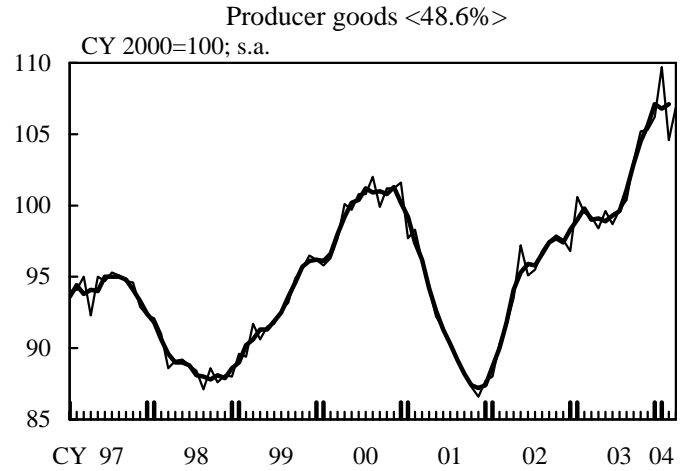
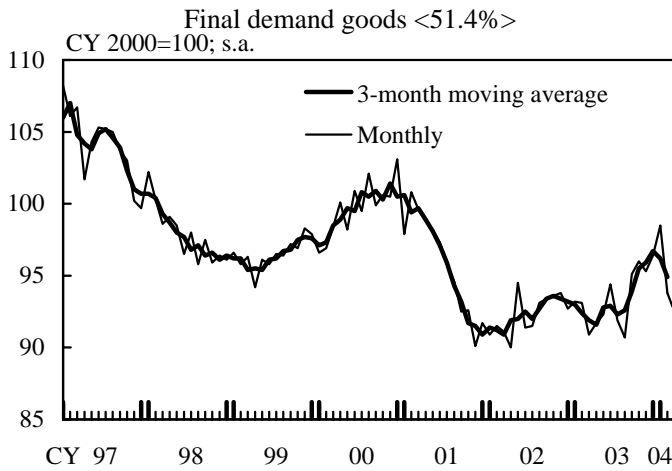
"Broad category of electrical machinery" is the weighted sum of "electrical machinery", "information and communication electronics equipment" and "electronic parts and devices."

2. 2004/Q2 for METI projection is based on the assumption that production level in June is the same as that of May.

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

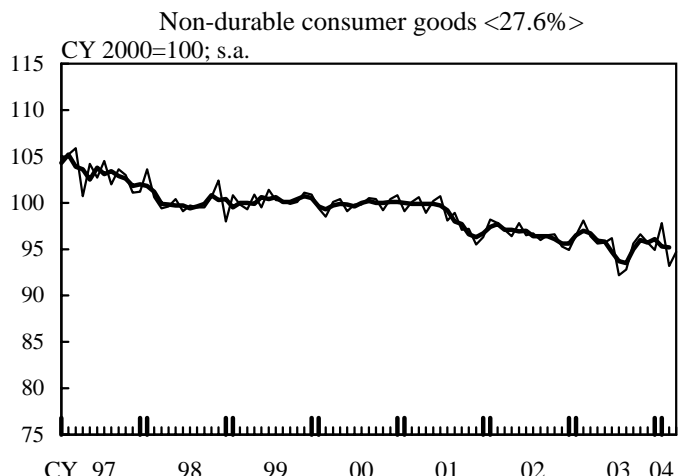
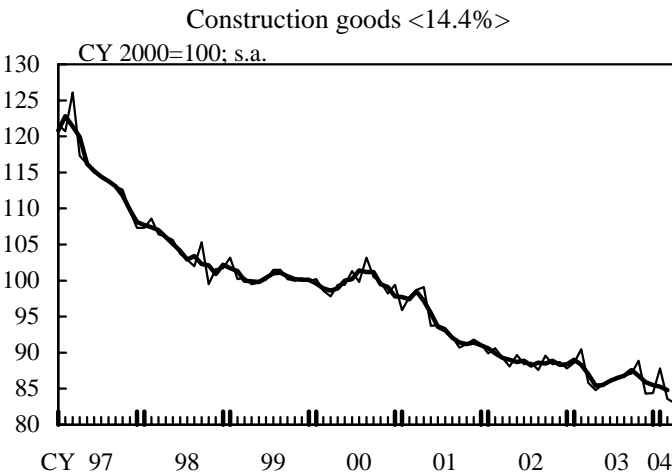
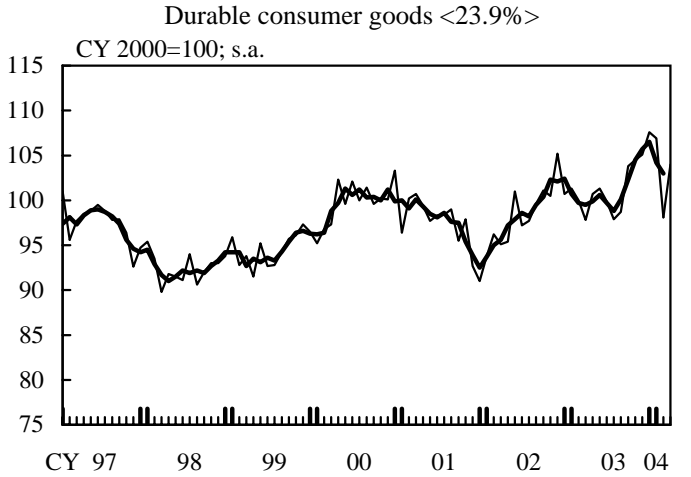
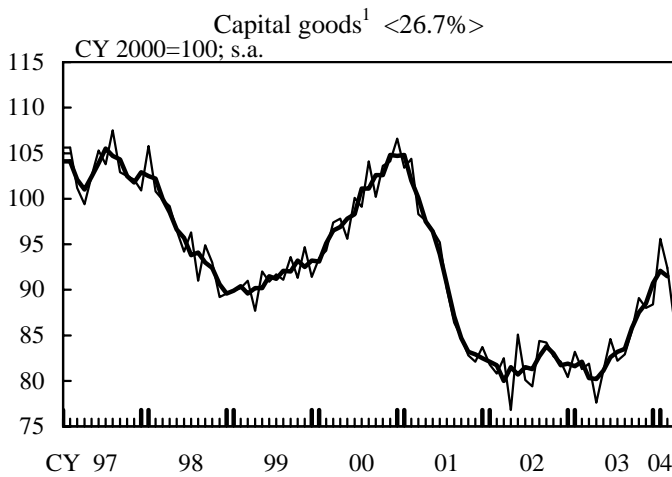
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



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

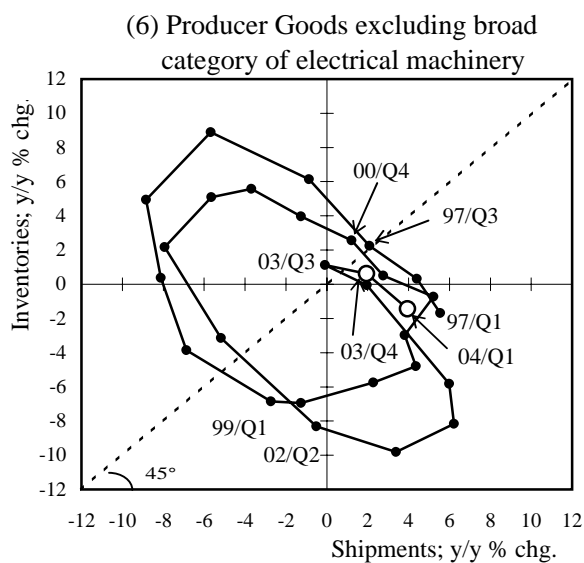
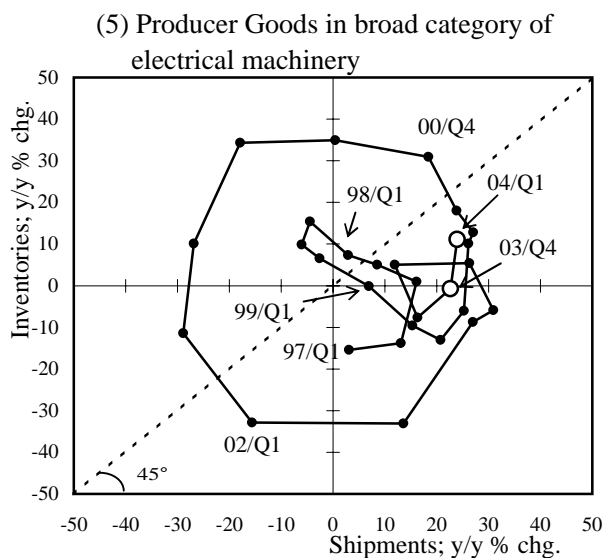
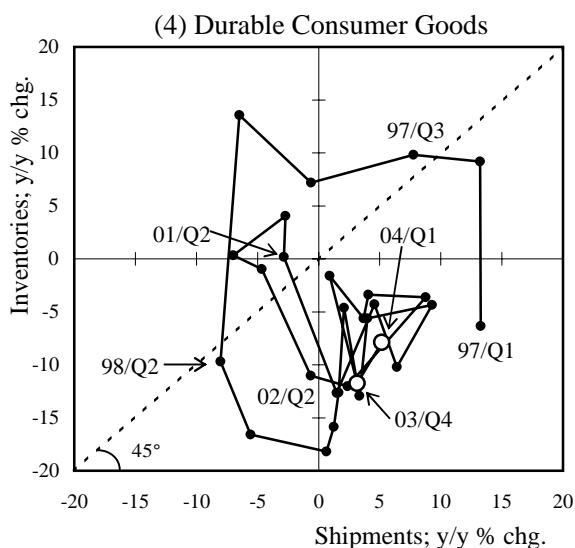
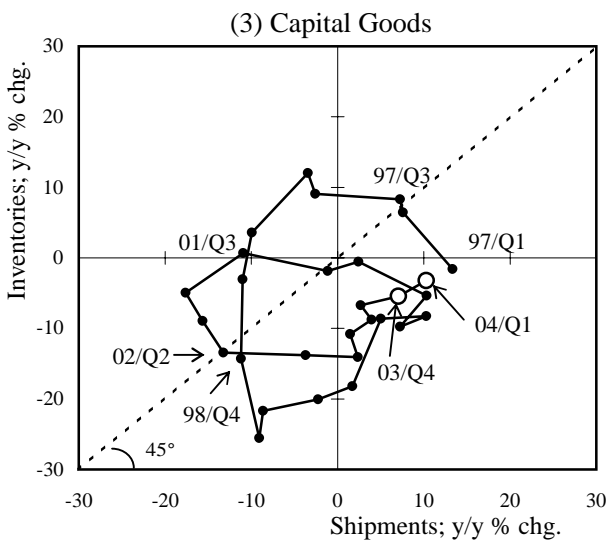
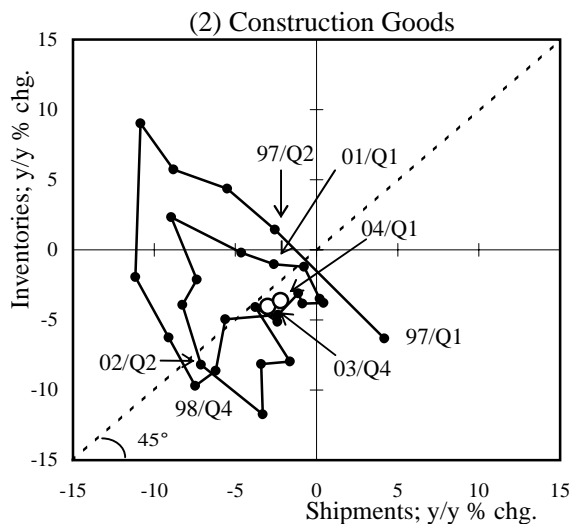
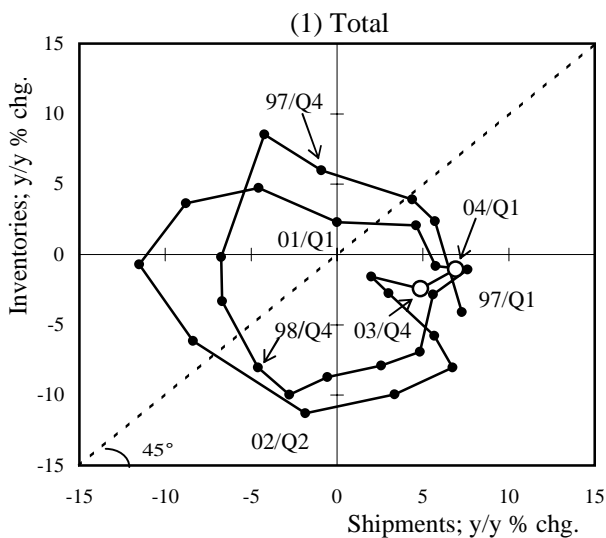
(2) Breakdown of final demand goods



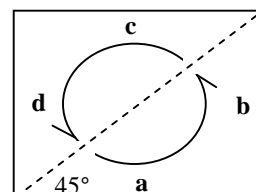
Notes: 1. Excluding transportation equipment.
 2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

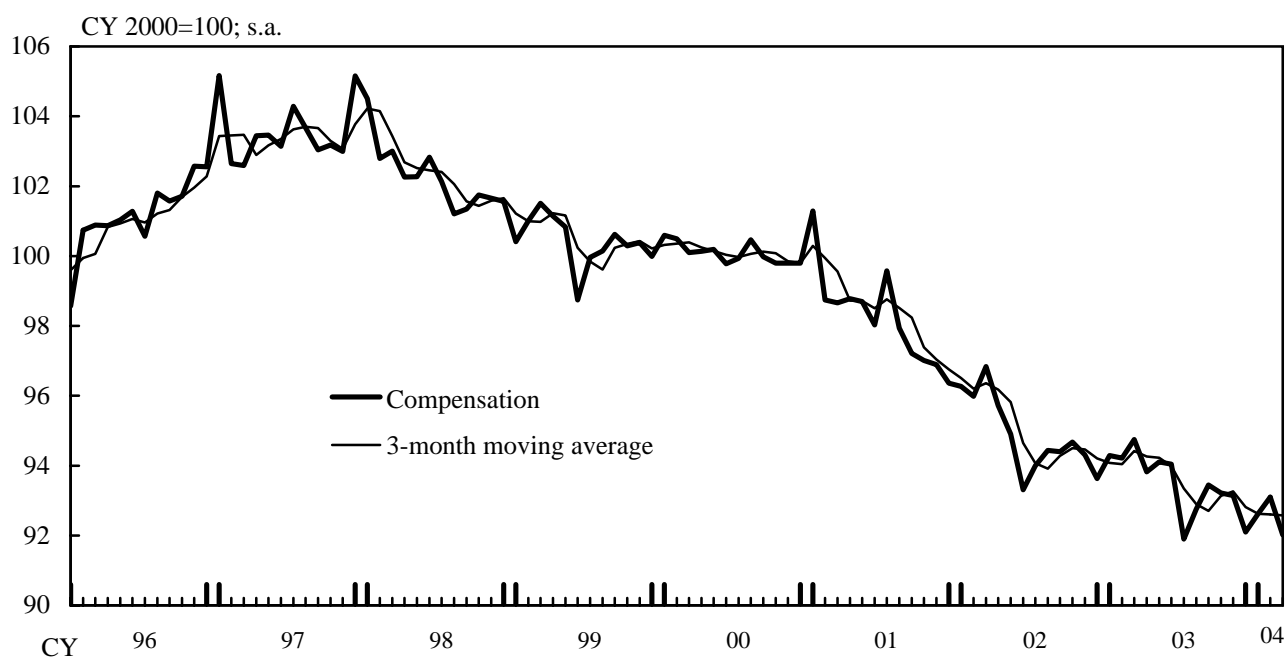


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



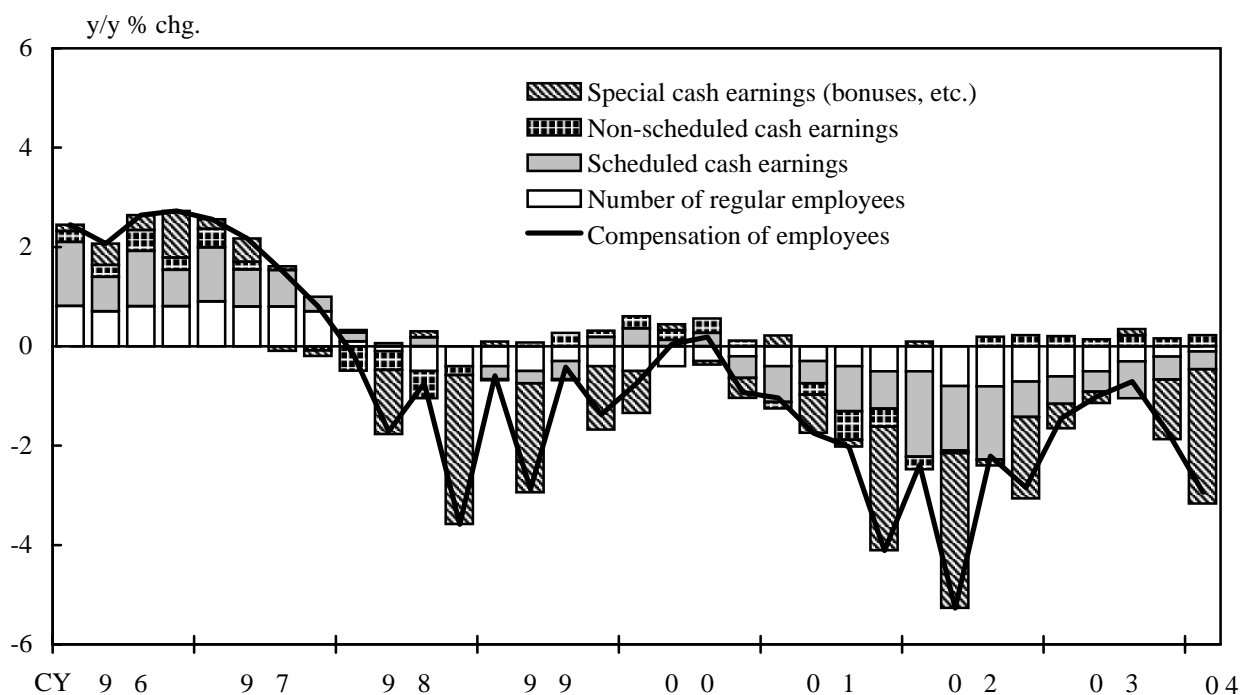
Compensation of Employees

(1) Compensation



- Notes: 1. Compensation figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.
2. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.
3. Data are for establishments with at least 5 employees.

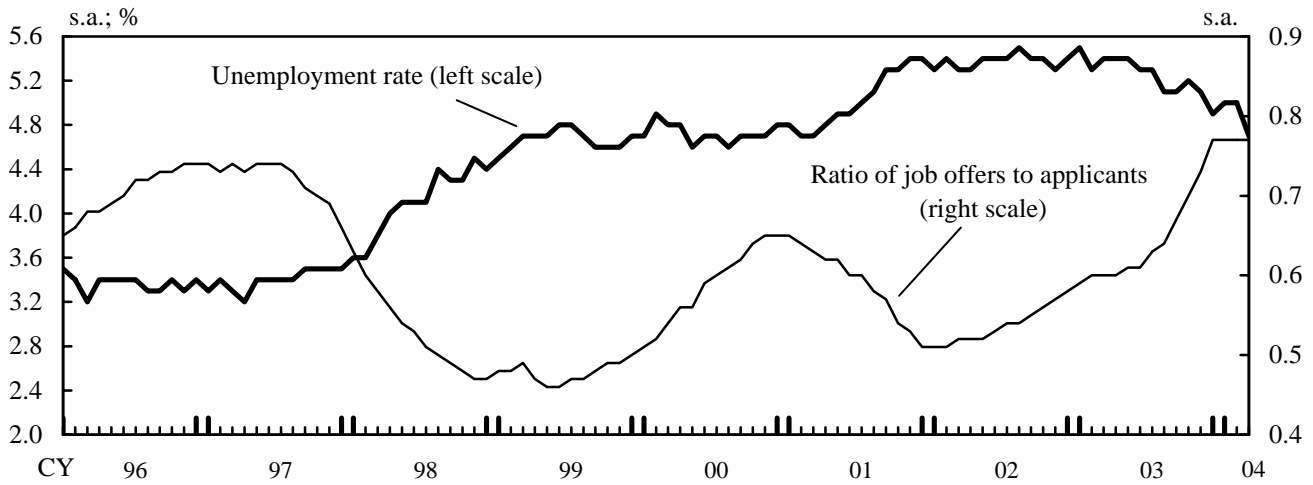
(2) Breakdown of Compensation



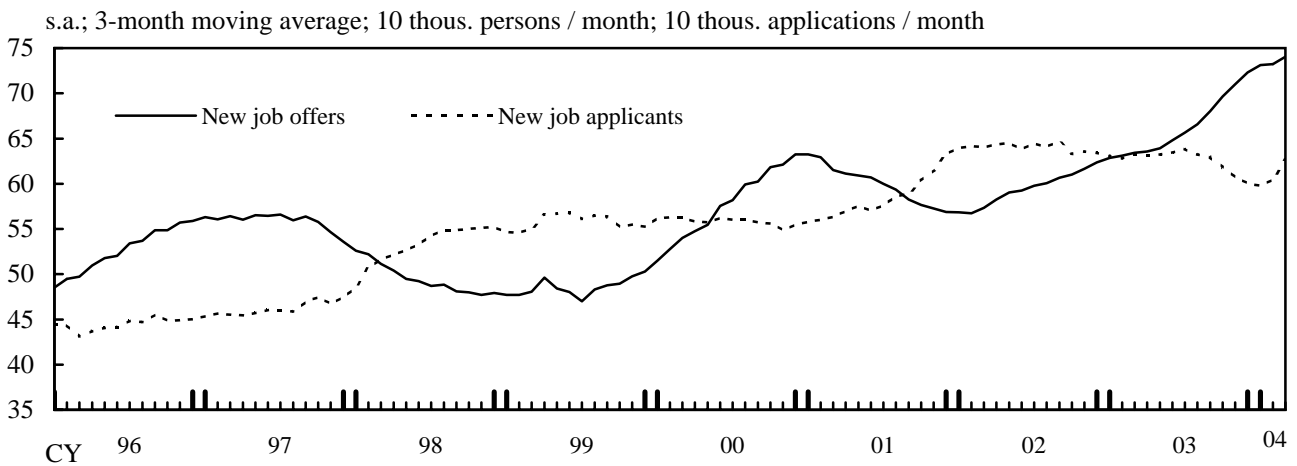
- Notes: 1. Data are for establishments with at least 5 employees.
2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.
3. Figures for 2004/Q1 are those of March.

Labor Market (1)

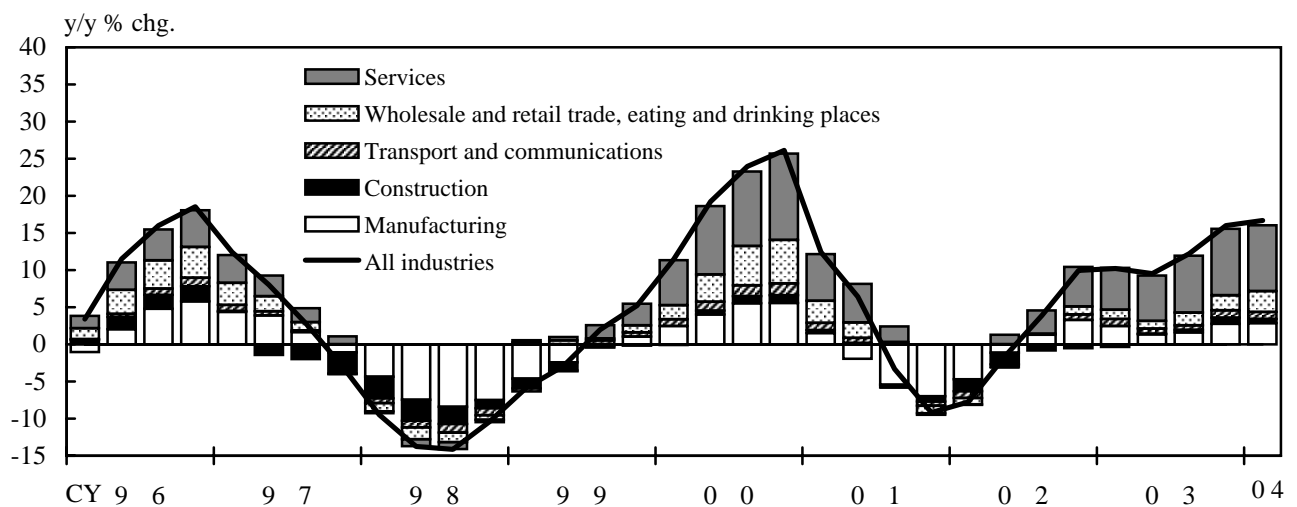
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New job offers and New job applicants¹



(3) Breakdown of New job offers¹

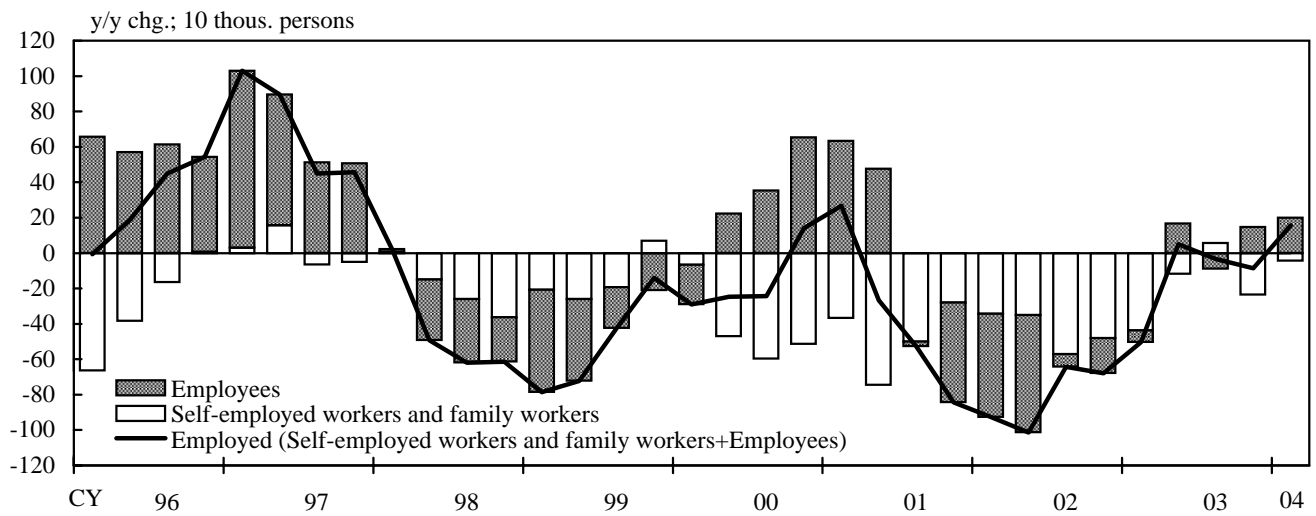


Note: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

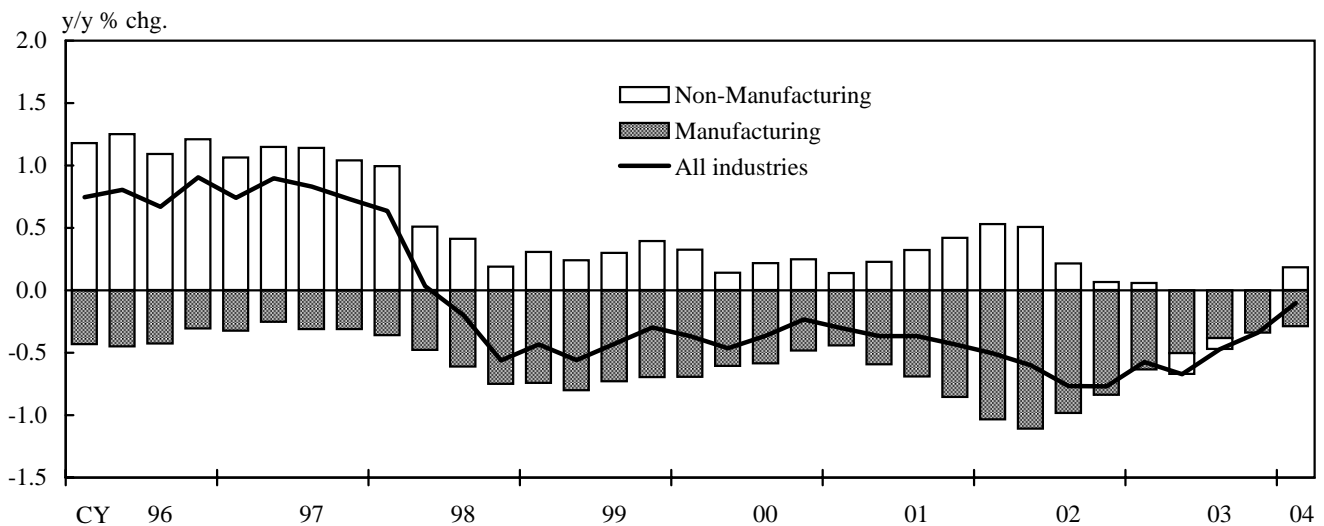
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service,"
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Labor Market (2)

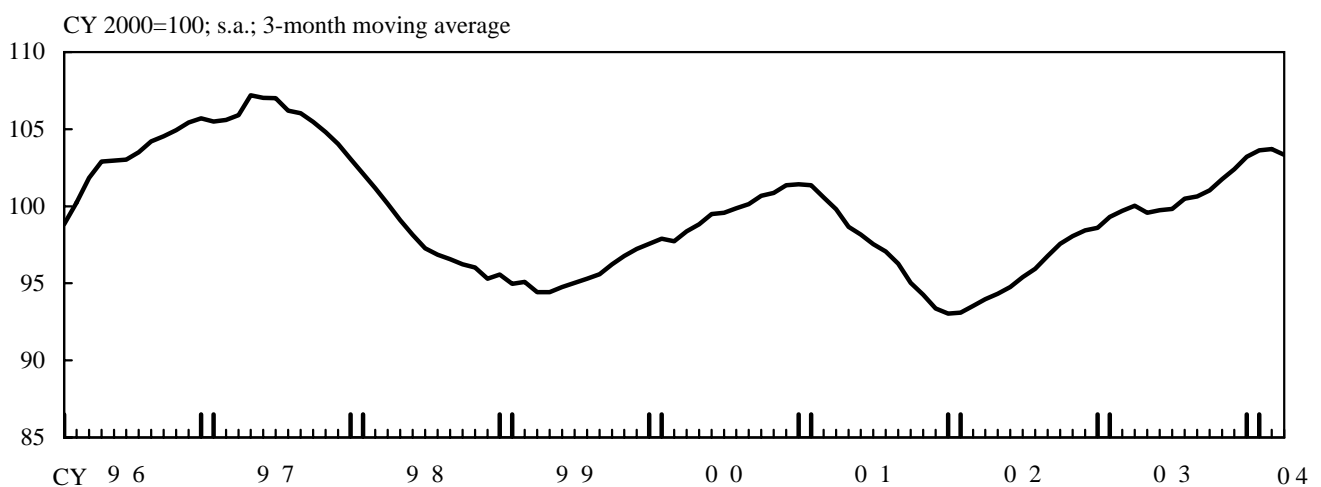
(1) The Employed¹ (Labour Force Survey)



(2) Number of Regular Employees¹ (Monthly Labour Survey)



(3) Non-scheduled Hours Worked¹ (Monthly Labour Survey)

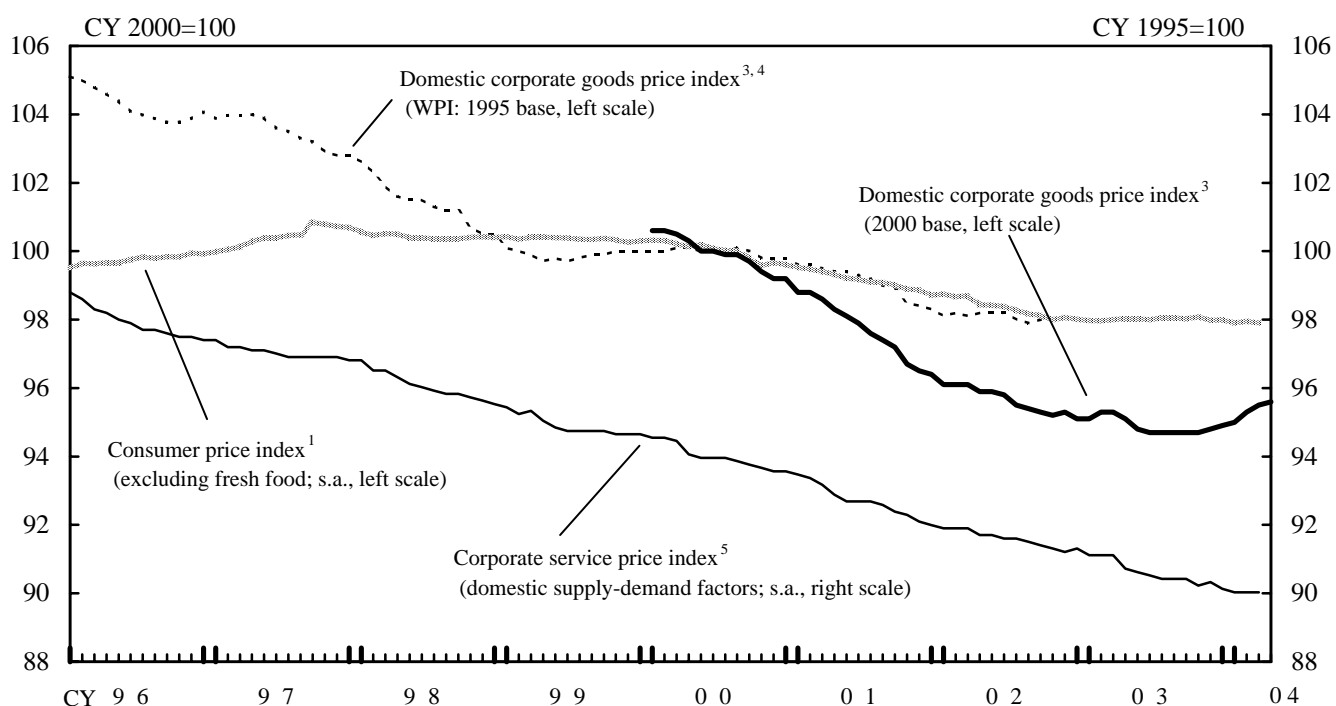


Note: 1. Data are for establishments with at least 5 employees.

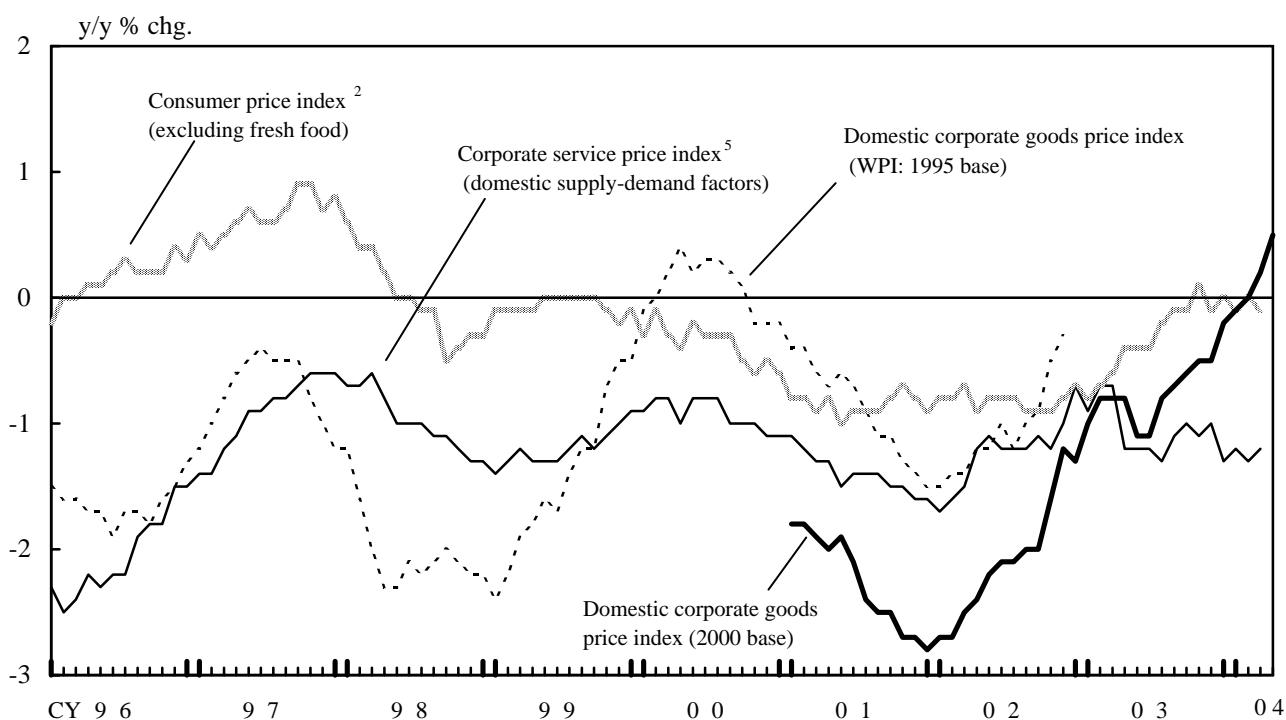
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Prices⁶

(1) Level



(2) Changes from a year earlier



Notes: 1. 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 sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.

2. Data up to Dec. 2000 are on the 1995 base CPI.

3. Adjusted to exclude a hike of electric power charges in summer season.

4. The 1995 base WPI shown in the level graph has been adjusted so that its 2000 average may equal 100.

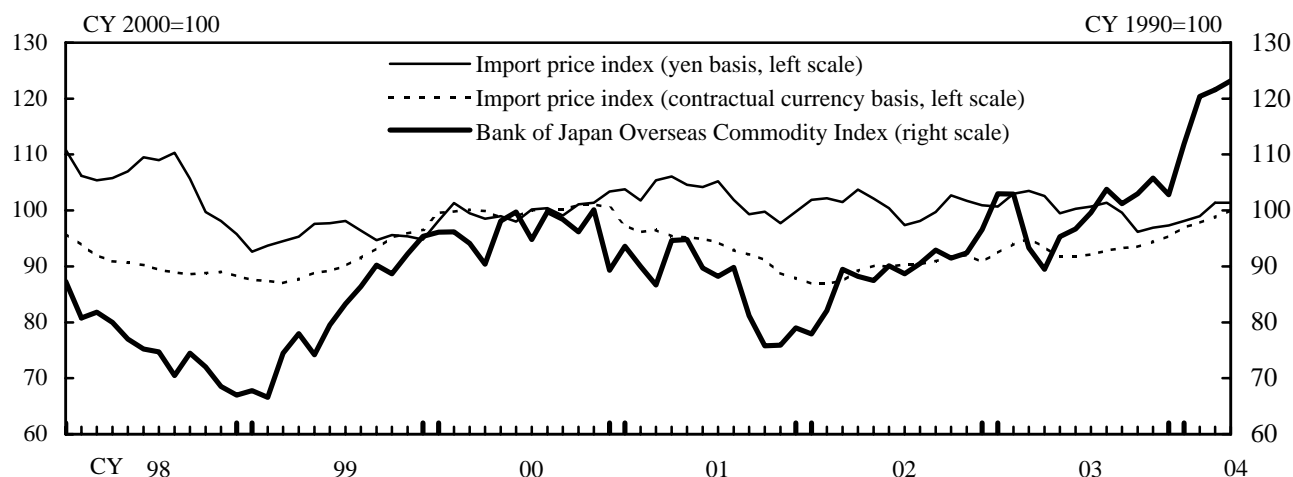
5. See footnote 1 in Chart 22, for definition of the Corporate Service Price Index (domestic supply-demand factors).

6. 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.

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

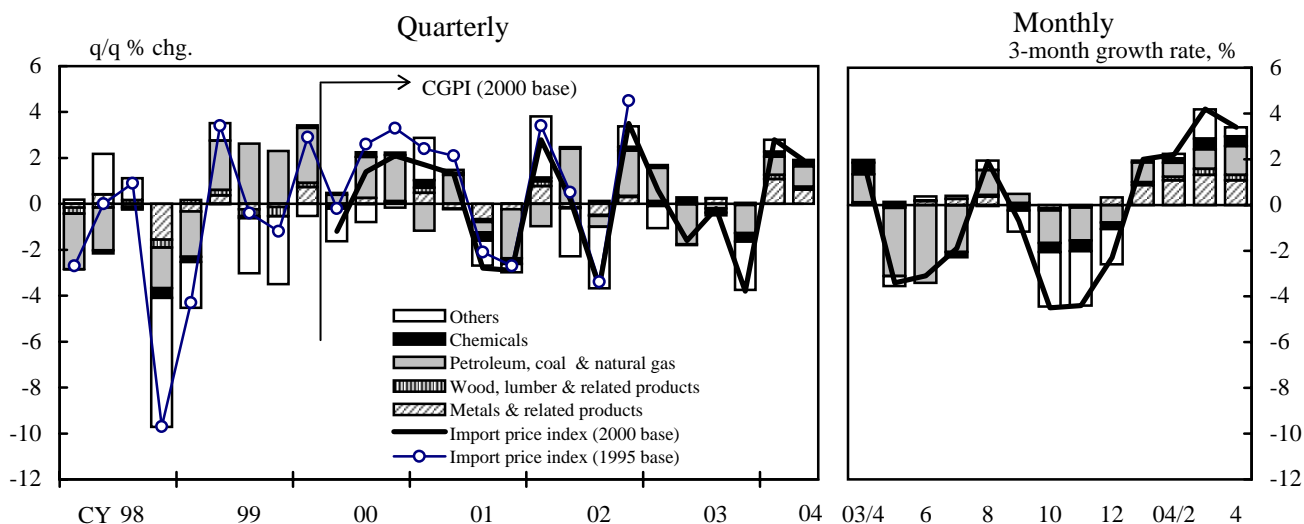
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



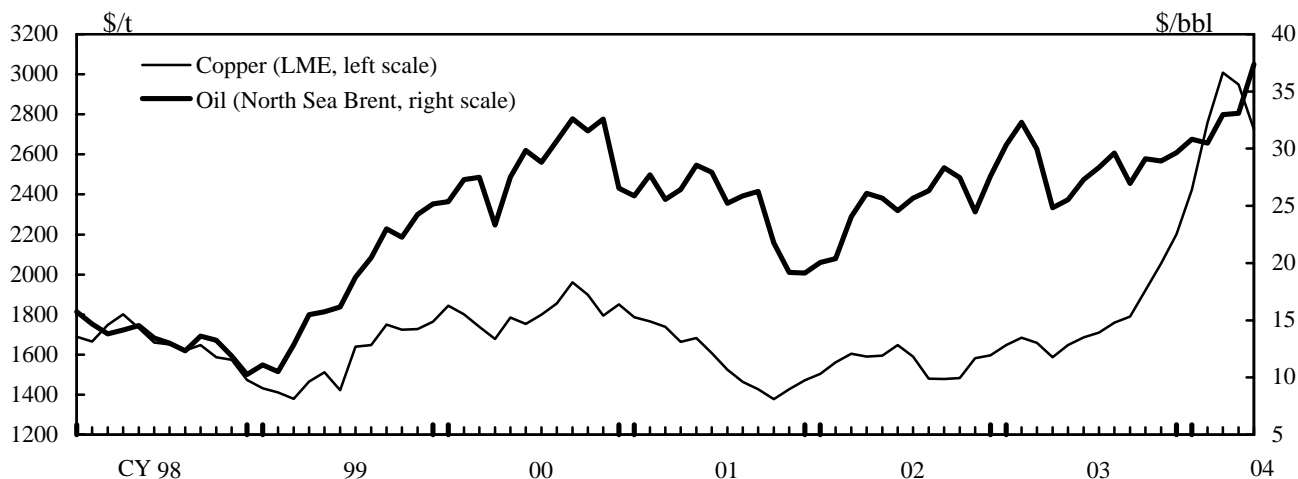
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: Figures for 2004/Q2 are those of April.
 1995 base figure for 2002/Q4 is Oct.-Nov. average.

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

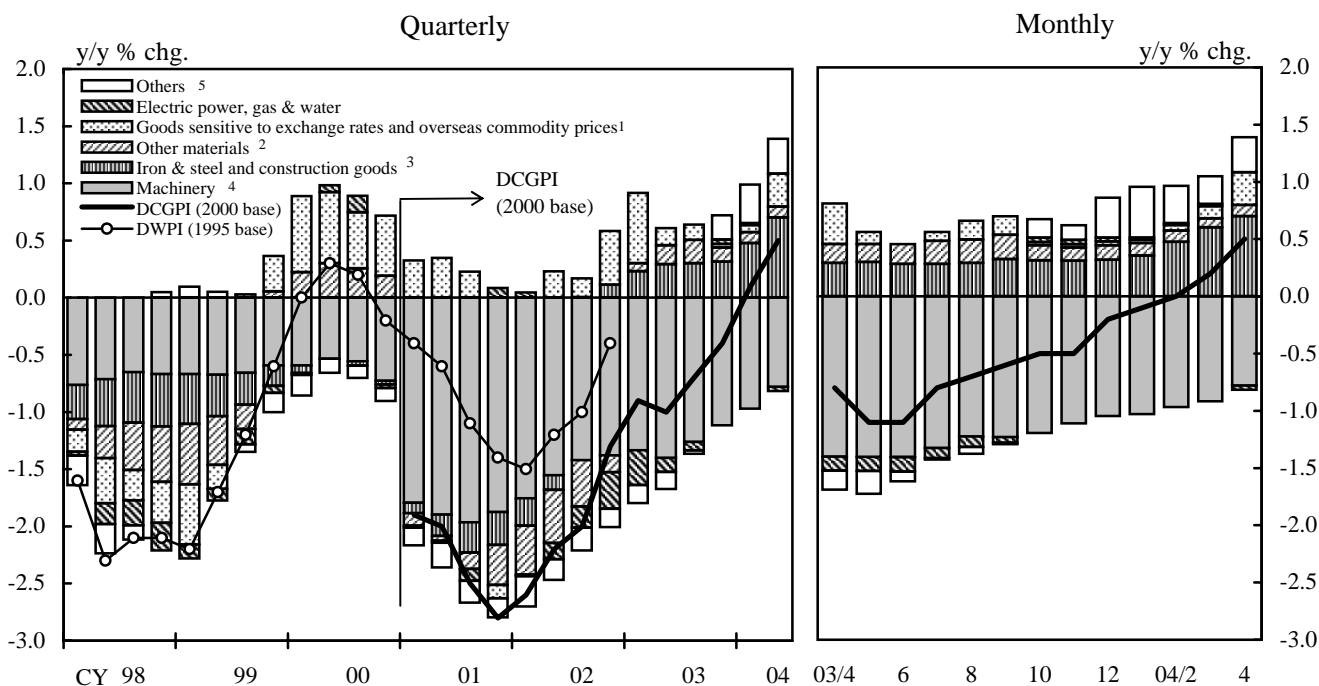
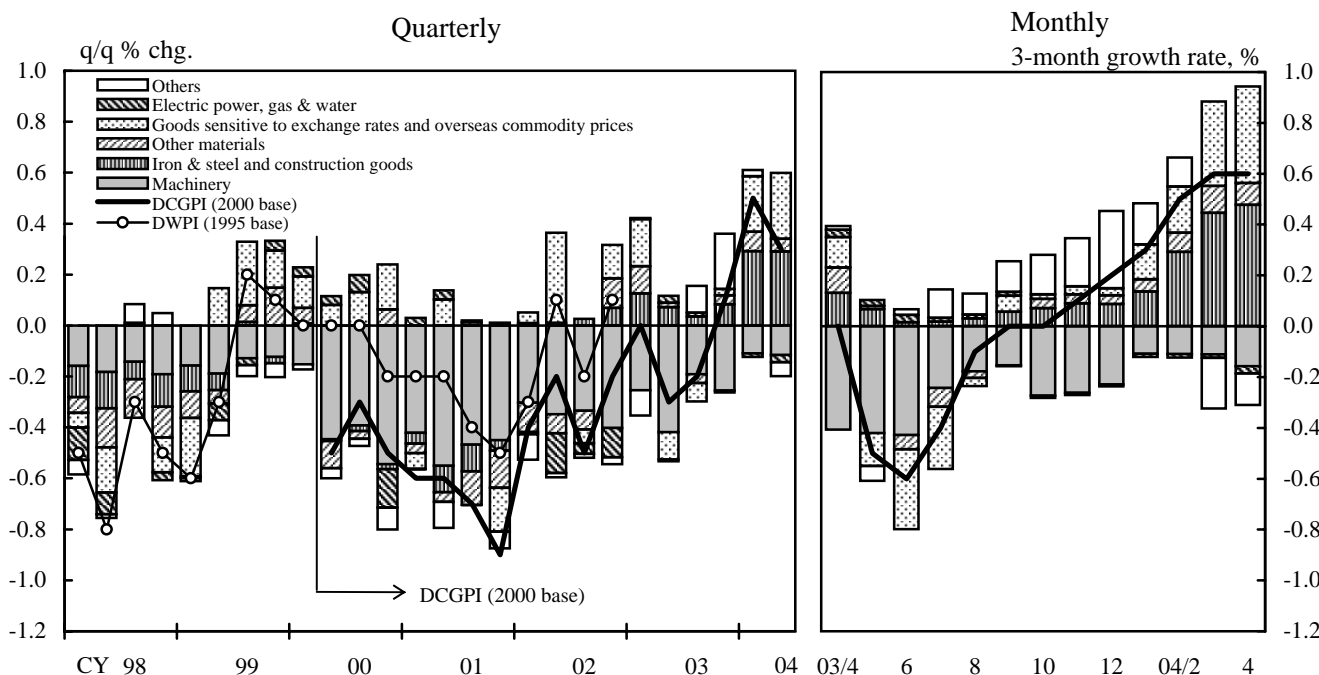


Note: Monthly averages. Figures for May 2004 are the averages up to May 18.

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

Domestic Corporate Goods Price Index⁷

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier⁶

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices; petroleum & coal products, nonferrous metals.

2. Other materials; chemicals, plastic products, textile products, pulp, paper & related products.

3. Iron & steel and construction goods; iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.

4. Machinery; electrical machinery, general machinery, transportation equipment, precision instruments.

5. Others; processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.

6. Adjusted to exclude a hike of electric power charges in summer season from July to September.

This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.

7. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

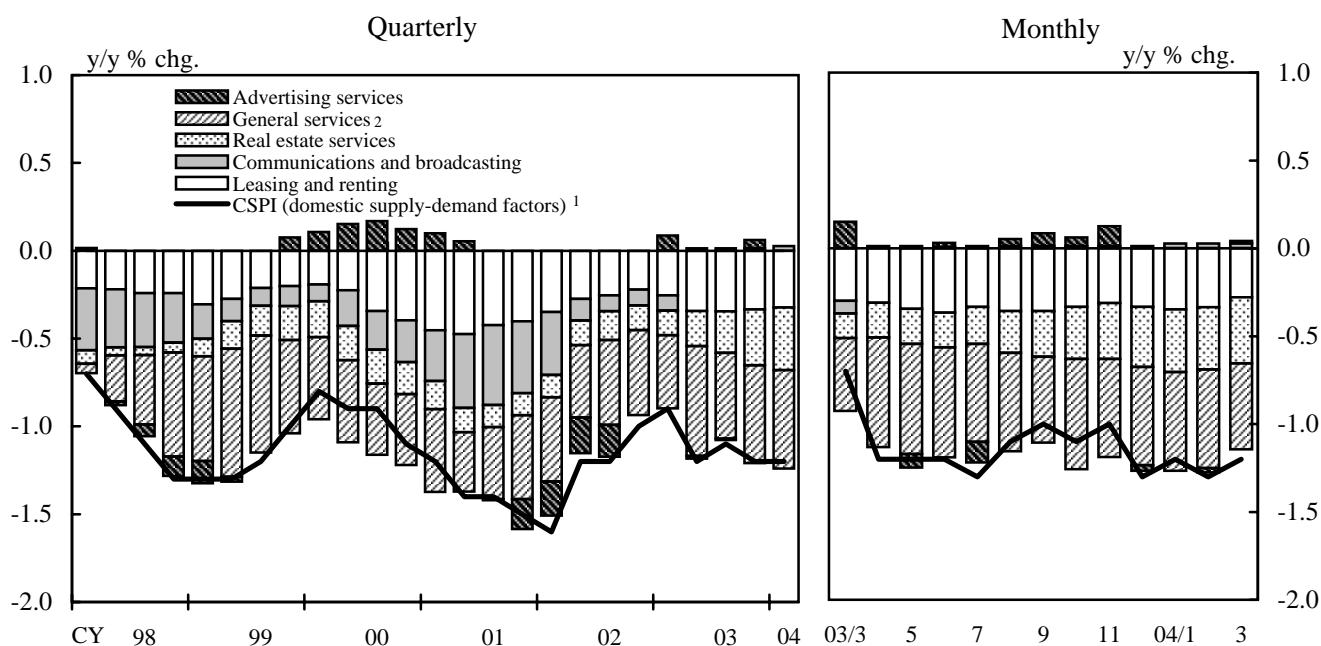
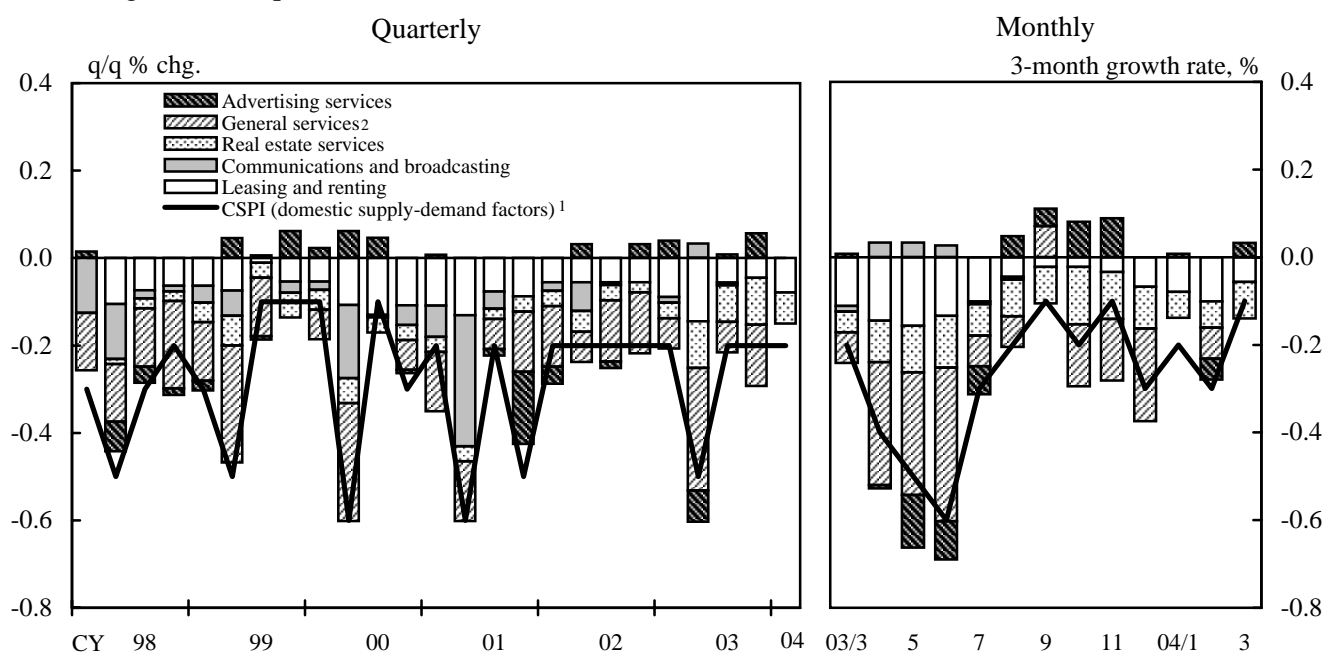
8. Figures for 2004/Q2 are those of April.

1995 base figures for 2002/Q4 are those of Oct.-Nov. averages.

Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes."

Corporate Service Price Index⁴

(1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier³

Notes: 1. CSPI (domestic supply-demand factors) includes all items except the following: (1) Regulated prices (Compulsory motor vehicle insurance, Railroad passenger transportation, Buses, Taxis, Domestic air passenger transportation, Toll roads, Postal services, Sewage disposal), (2) Overseas supply-demand factors (Ocean freight transportation, International air freight, International air passenger transportation), and (3) Securities issuance and related services (banks' procurement service for issuing debentures <excluding underwriting services>).

(3) is excluded due to its large monthly fluctuation. Thus, CSPI (domestic supply-demand factors) mainly reflects the supply and demand conditions in the domestic private sector.

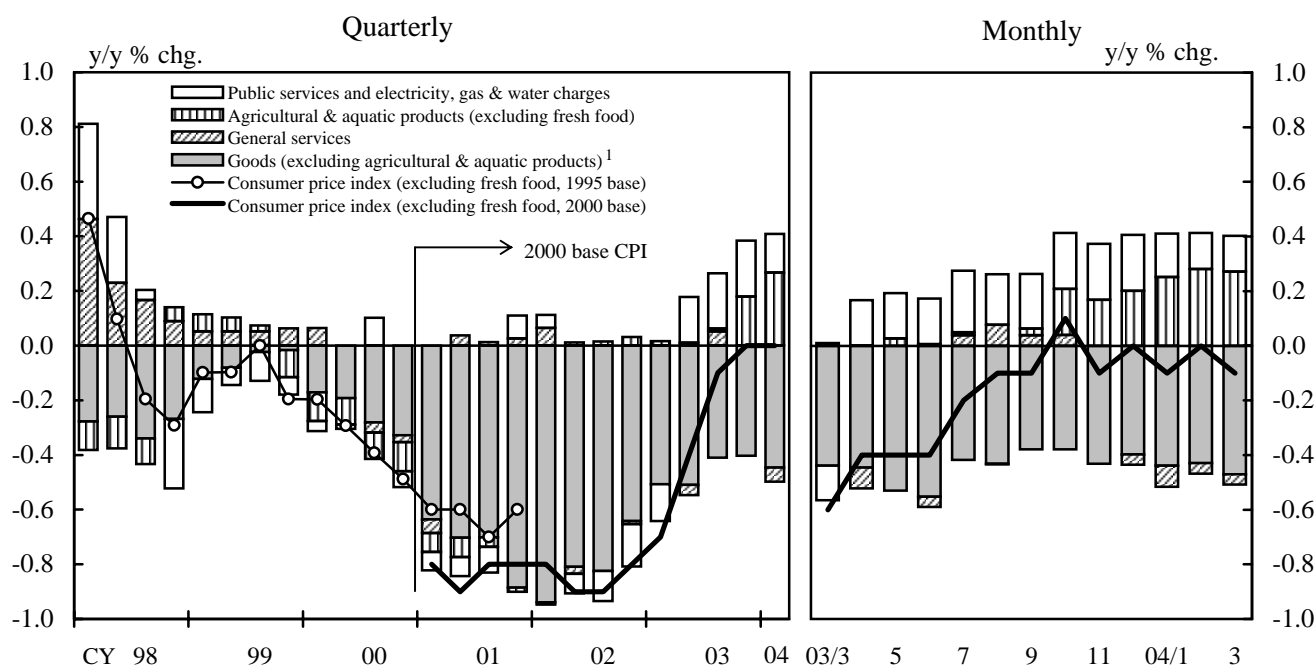
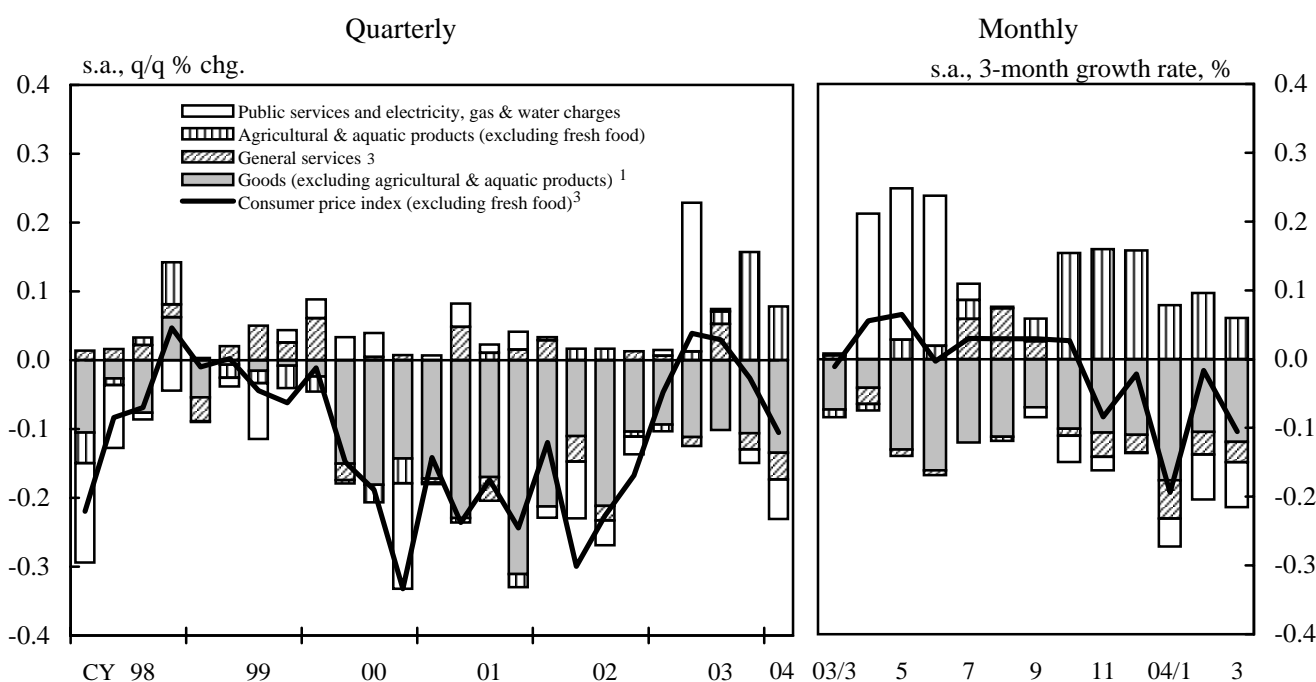
2. General services include all services in Domestic supply-demand factors except Leasing and rental, Communications and broadcasting, Real estate services, and Advertising services.

3. 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. As the seasonally adjusted figures are recalculated each month, the series are revised retroactively every month.

4. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

Consumer Price Index (excluding fresh food)⁴

(1) Changes from a year earlier

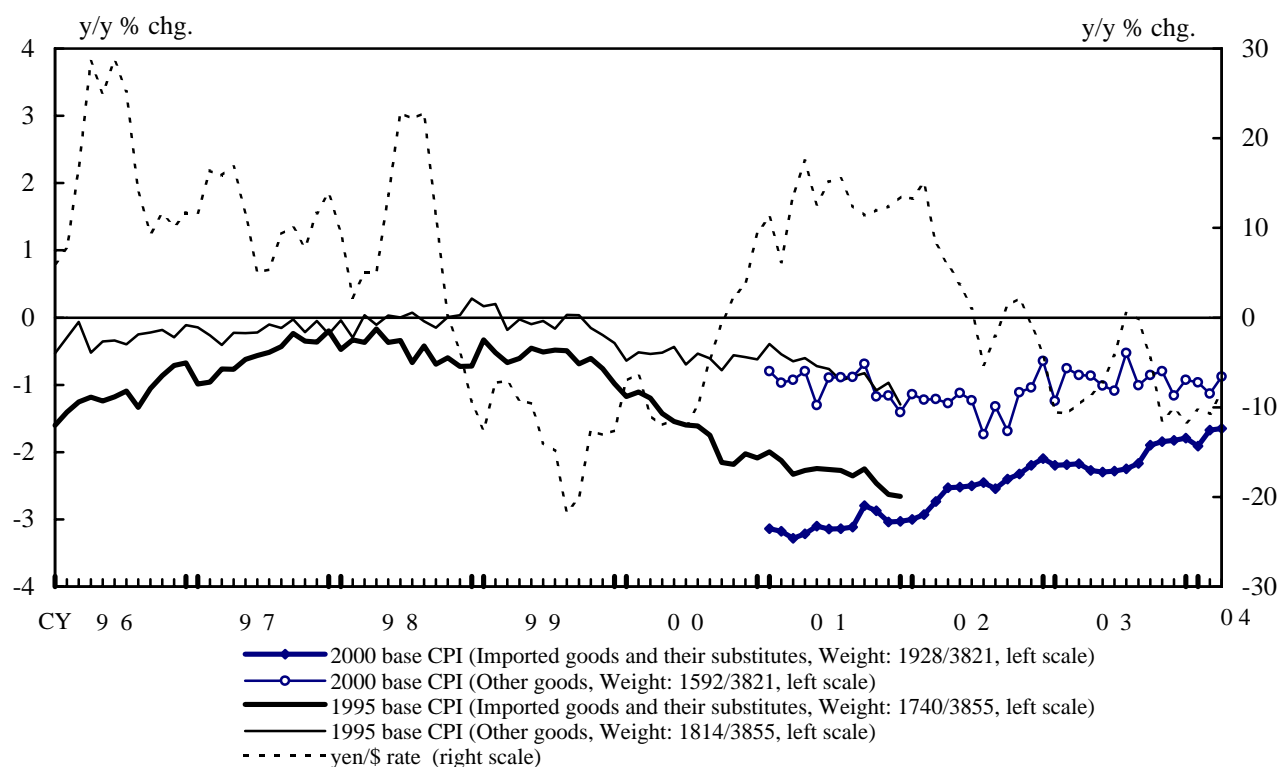
(2) Changes from a quarter earlier and 3 months earlier (2000 base CPI)²

- Notes: 1. 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.
2. Seasonally adjusted by X-12-ARIMA. Because of the seasonal adjustment error, there are discrepancies between the CPI and the sum of its components.
3. Excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.
4. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

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

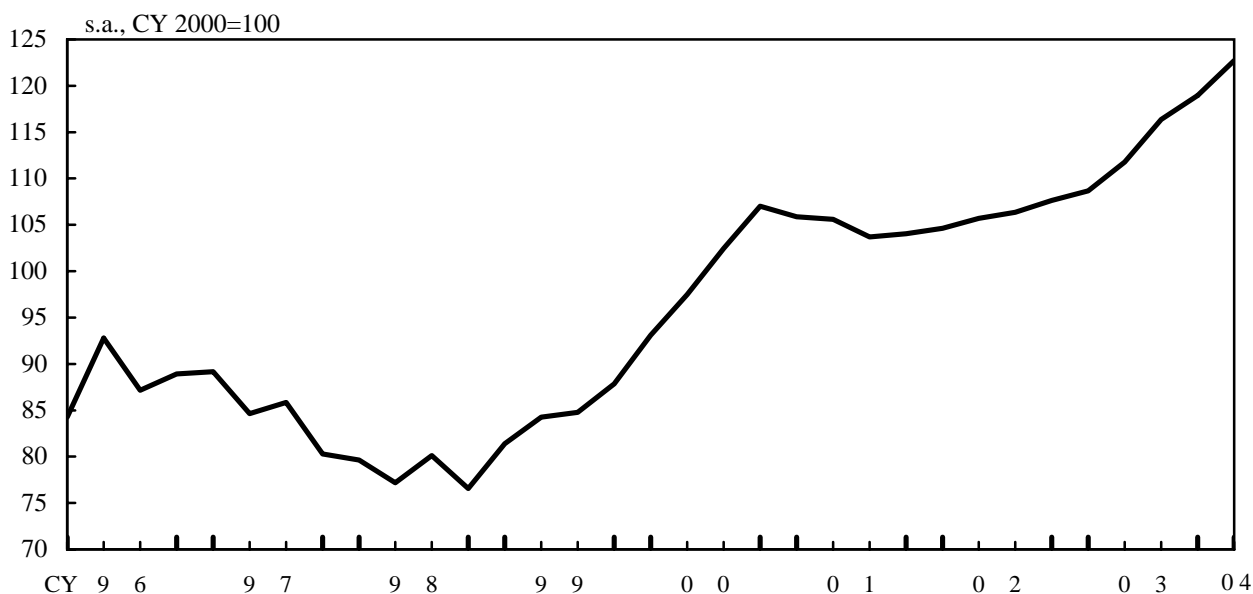
Consumer Prices of imported goods and their substitutes

(1) Comparison of imported goods and other goods in terms of CPI



- Notes:
1. Goods covered here exclude petroleum products and agricultural & aquatic products.
 2. Imported goods 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 tobacco tax increases in Dec. 1998 and Jul. 2003, and biscuits, prices of which were heavily affected by changes in monitored brands. Weight is shares in Goods (excluding agricultural & aquatic products).
 4. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

(2) Real imports (consumer goods)

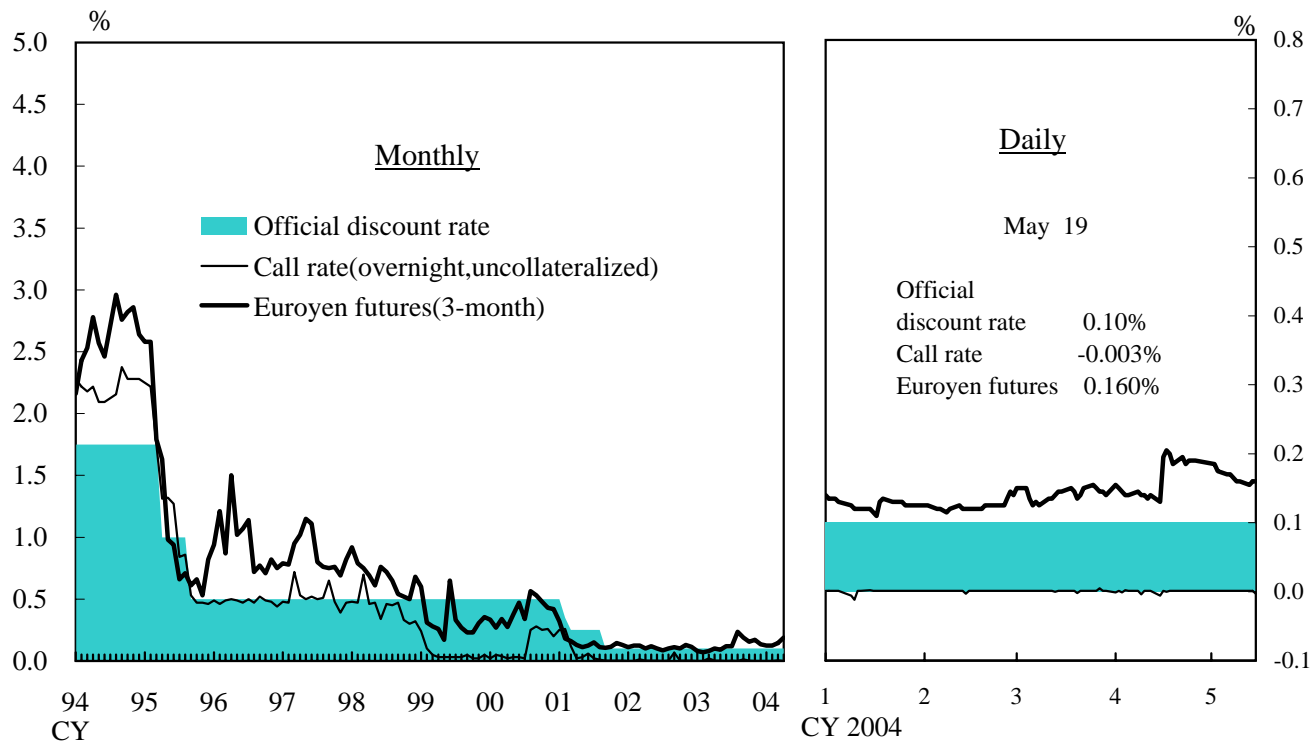


Note: Real imports (consumer goods), which are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles, are calculated from the Trade Statistics as an index with the 2000 average equal to 100.

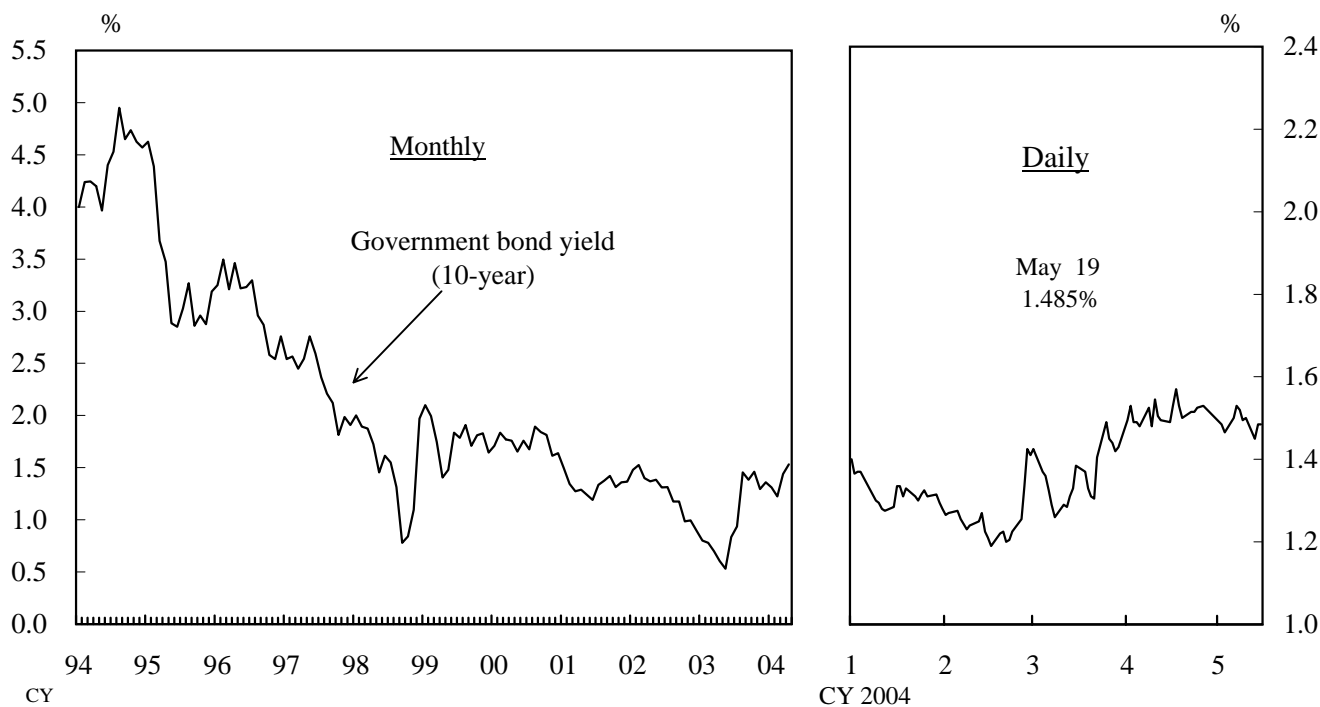
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Interest Rates

(1) Short-Term



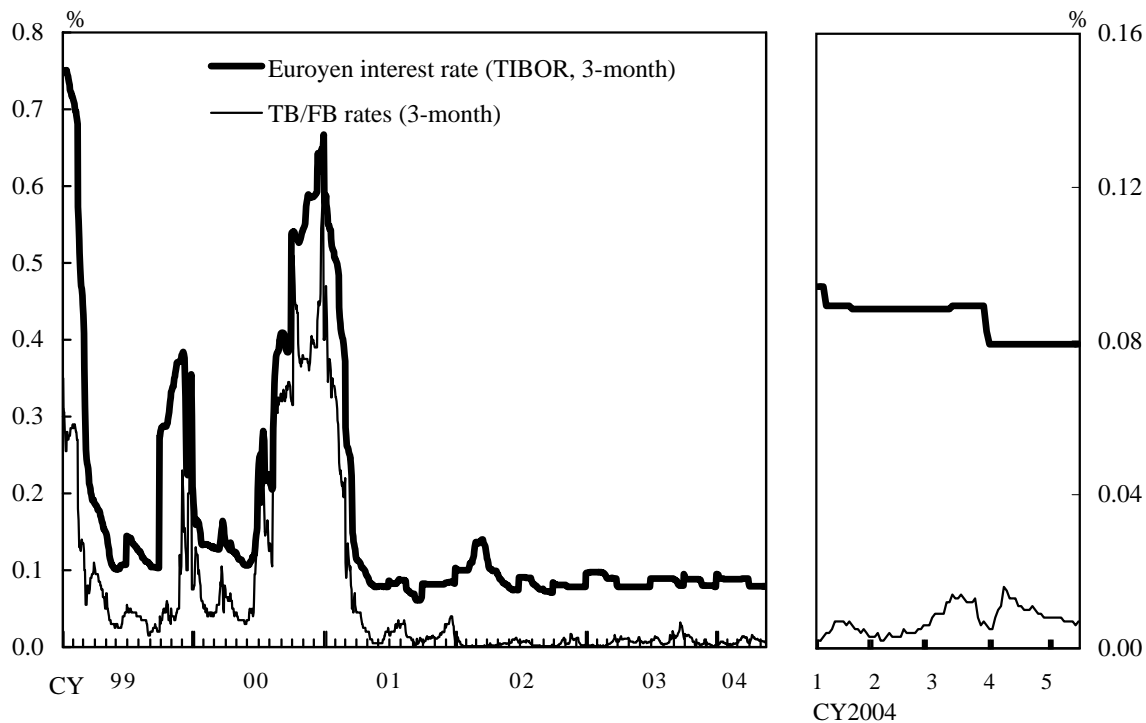
(2) Long-Term



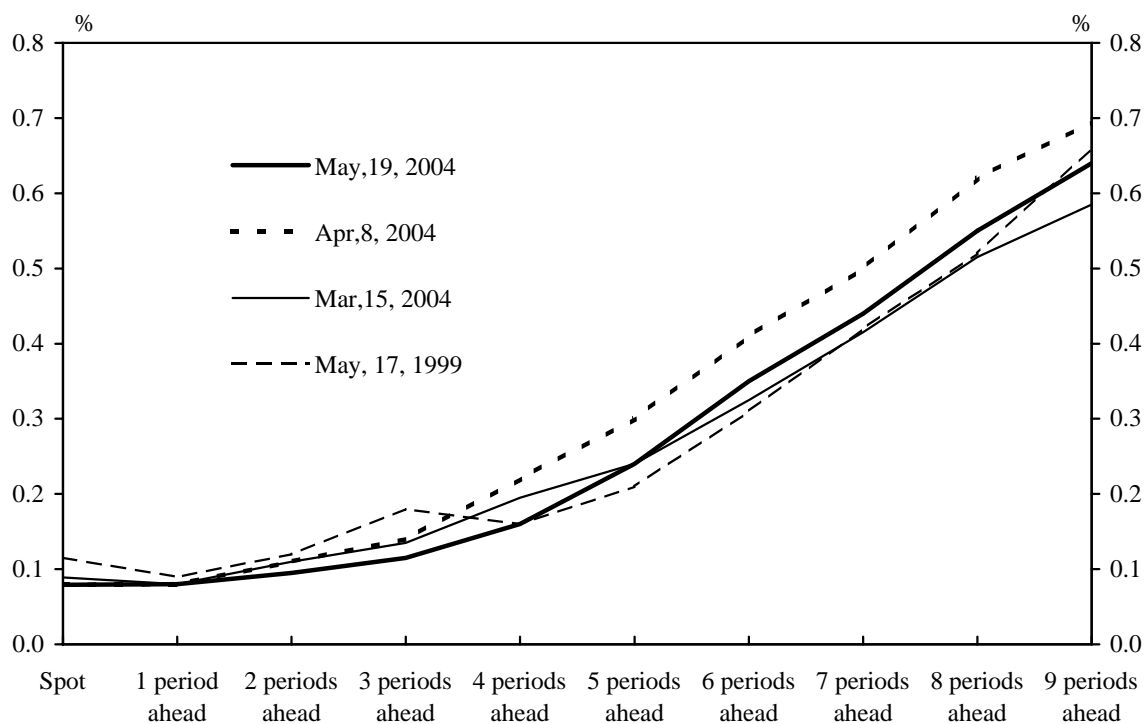
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
 Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



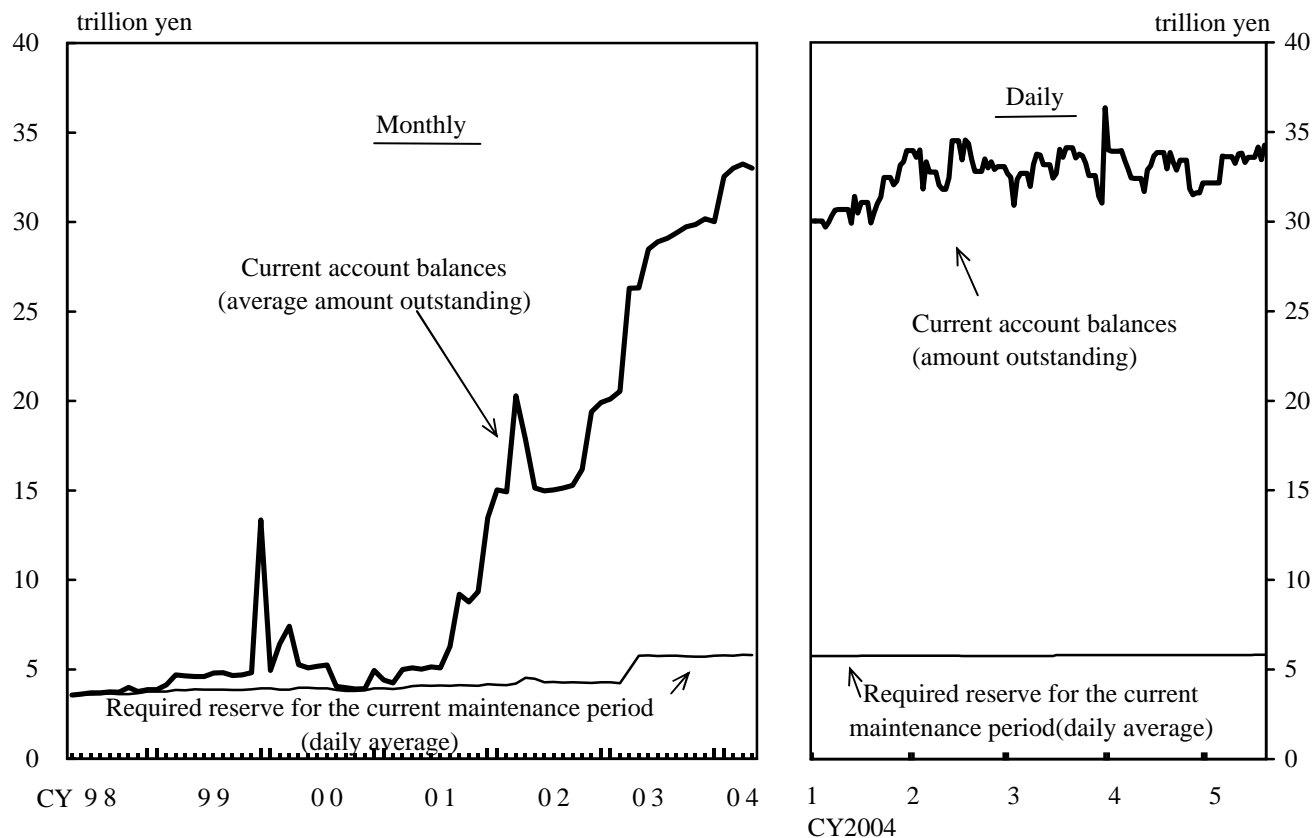
(2) Euroyen Interest Rates Futures (3-Month) ¹



Note: 1. Contract months in the figure (2) exclude "serial months," the months other than March, June, September and December.

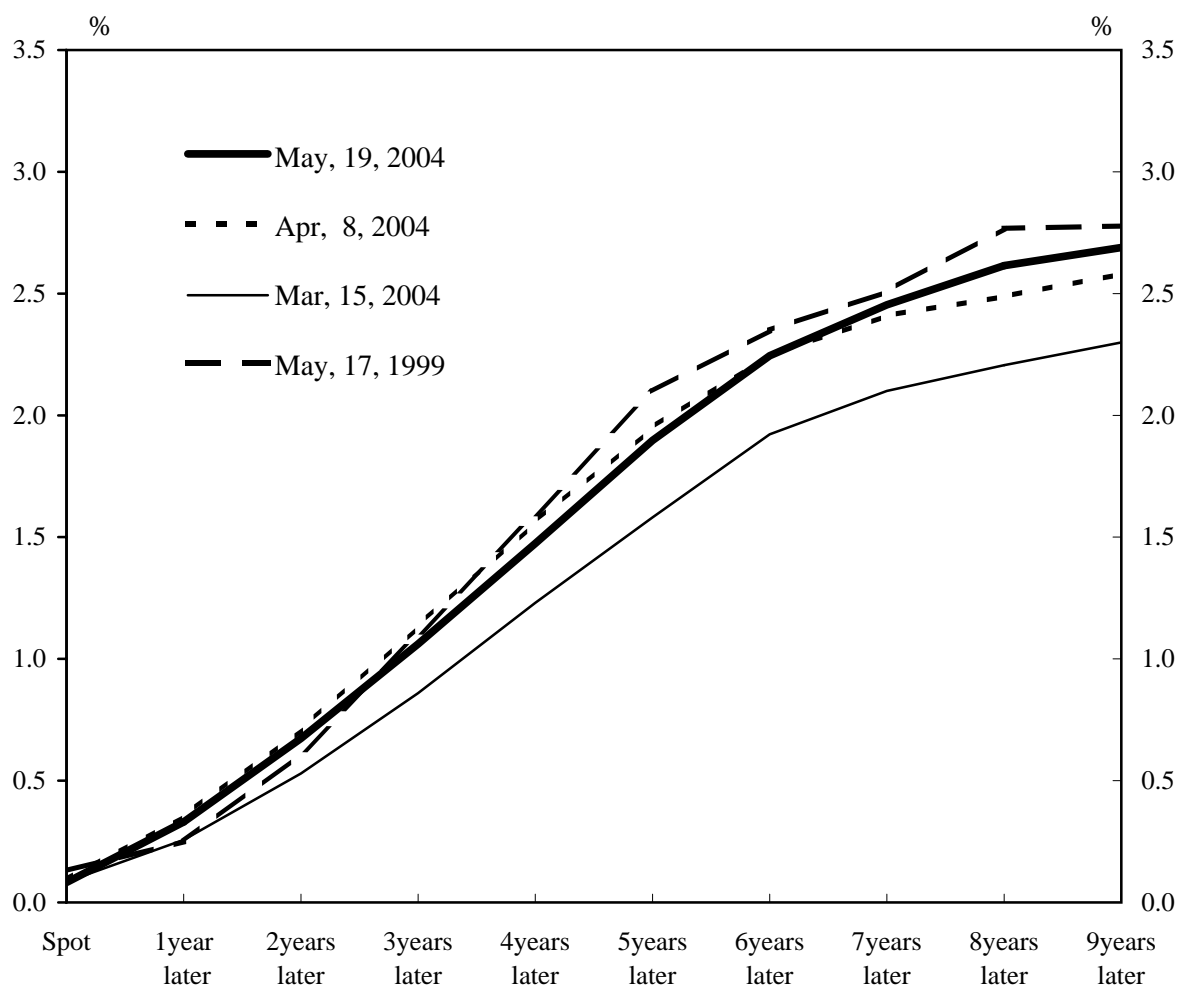
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo International Financial Futures Exchange.

Current Account Balances at the Bank of Japan ¹



Note: 1. From April 2003, the figures for current account balances and required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

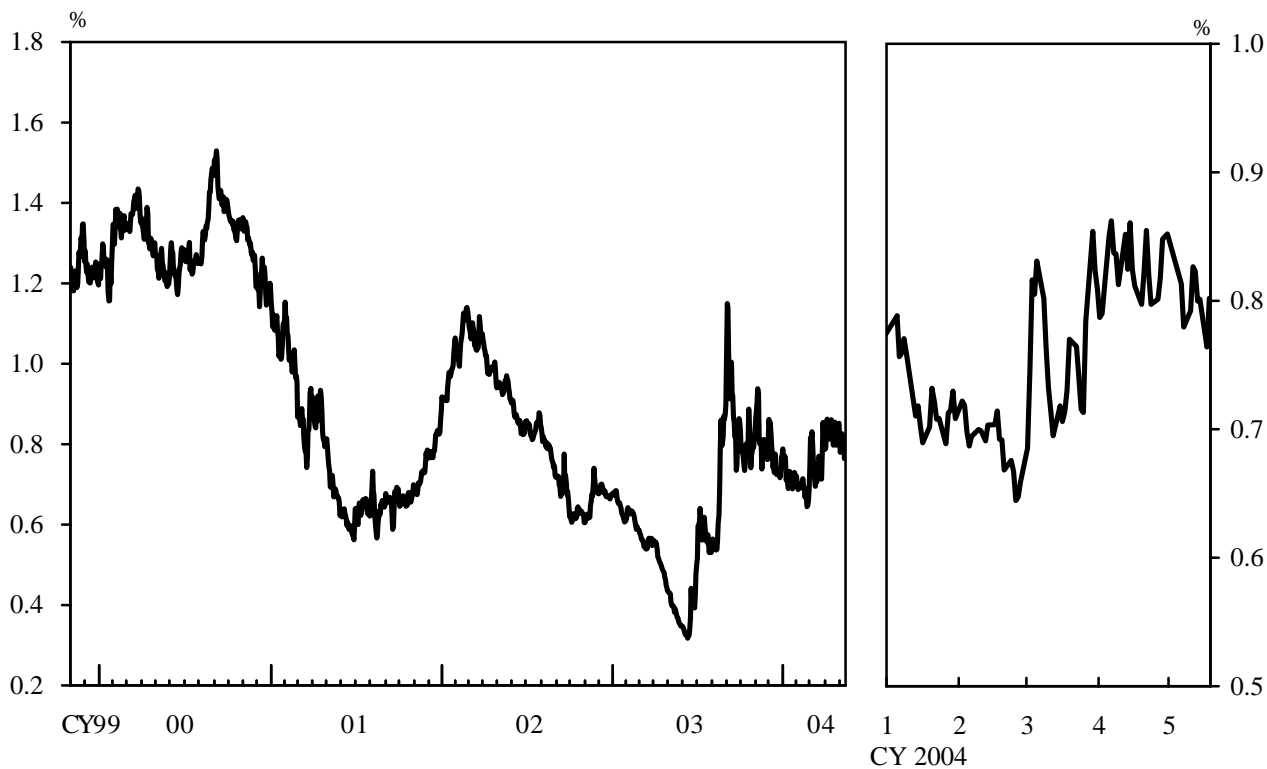
Implied Forward Rates (1-year)¹

Note: 1. Calculated from yen-yen swap rates.

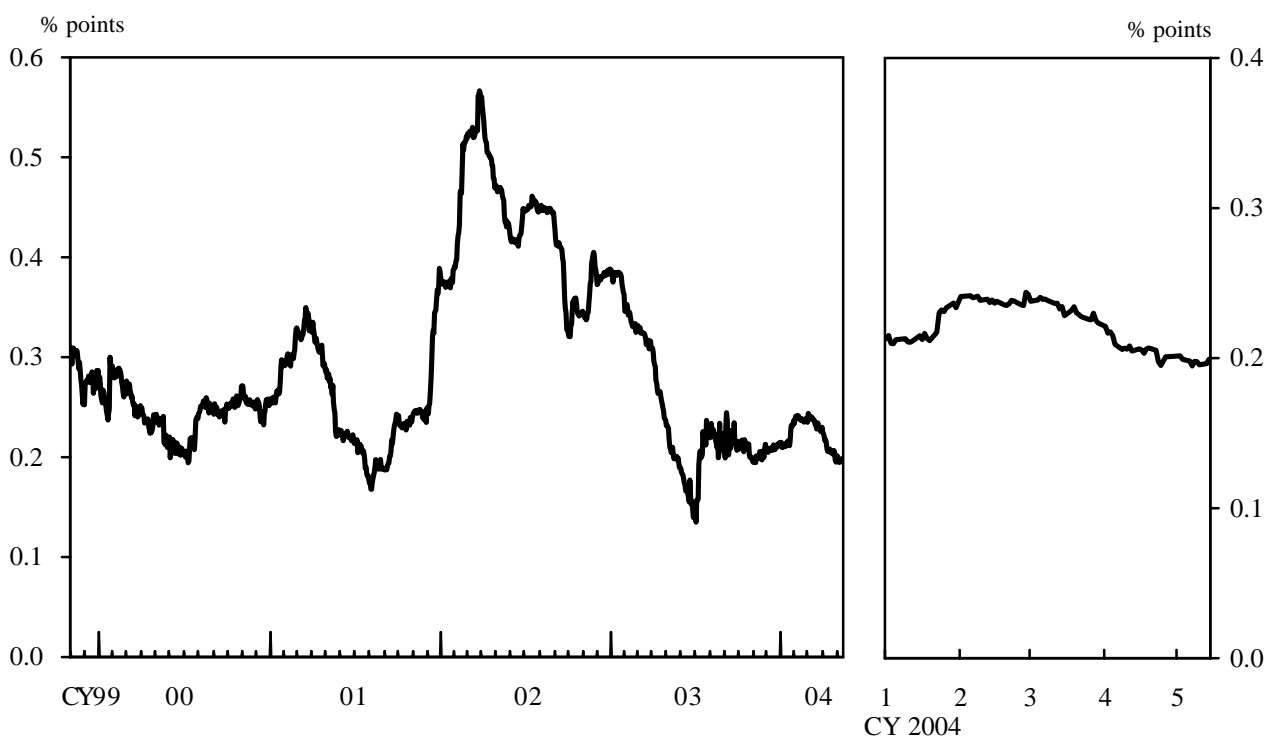
Source: Kyodo News.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



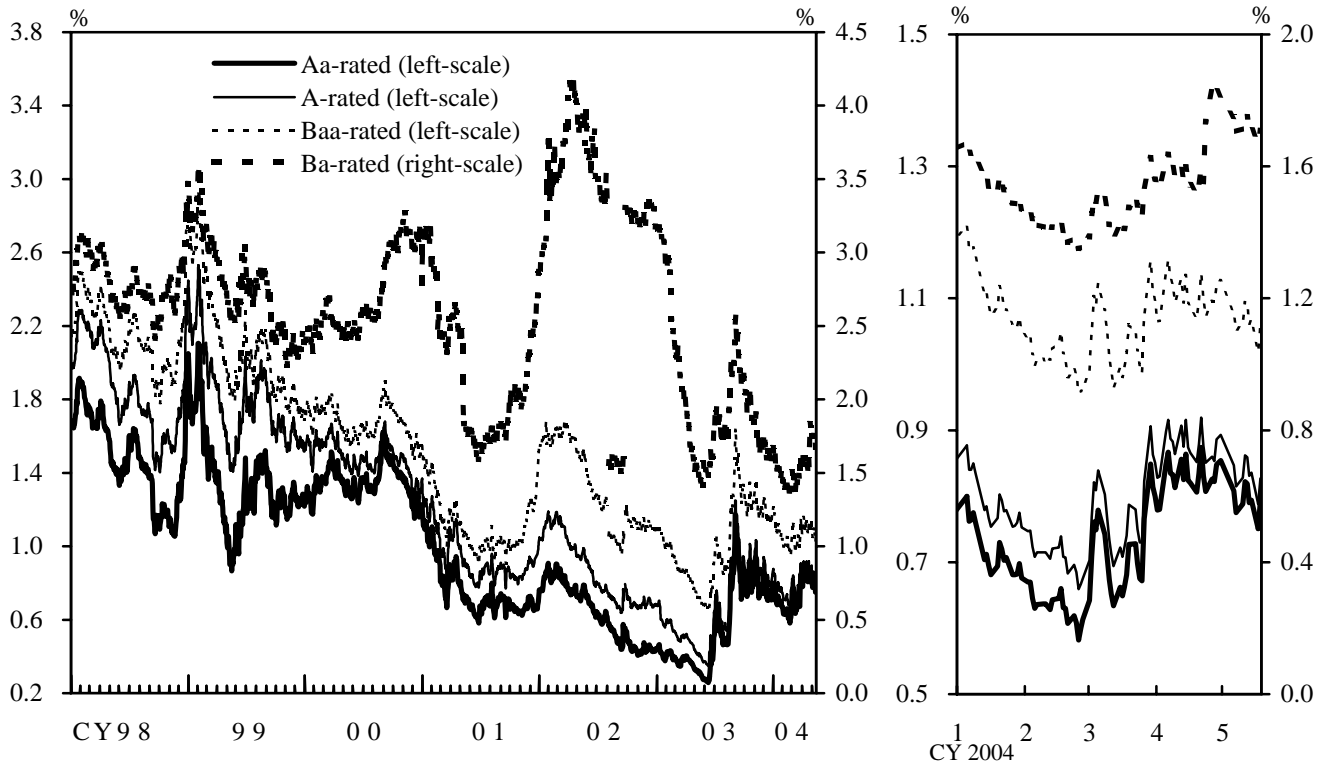
Notes: 1. Yields on bonds with 5-year maturity.

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

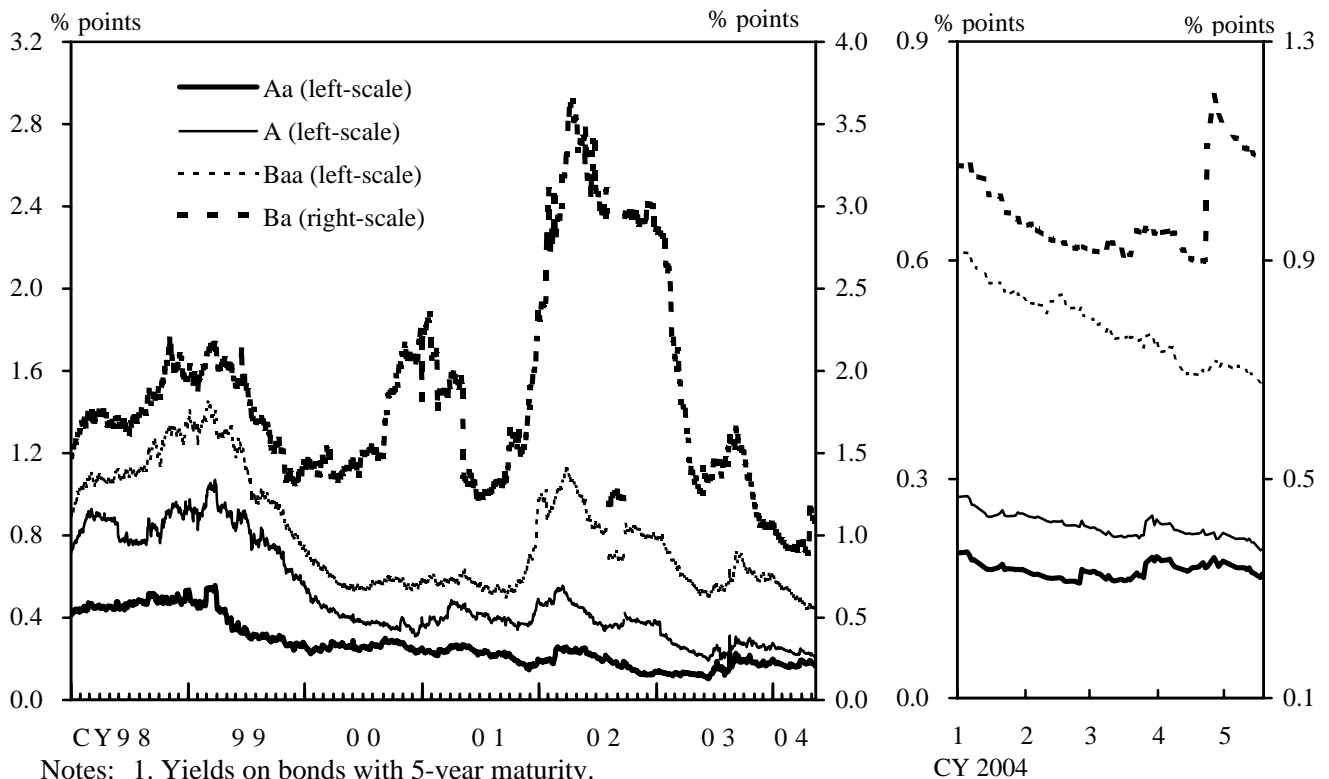
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
 "Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds ¹

(1) Corporate Bond Yields



(2) Spread of Corporate Bond Yield and Government Bond Yield



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

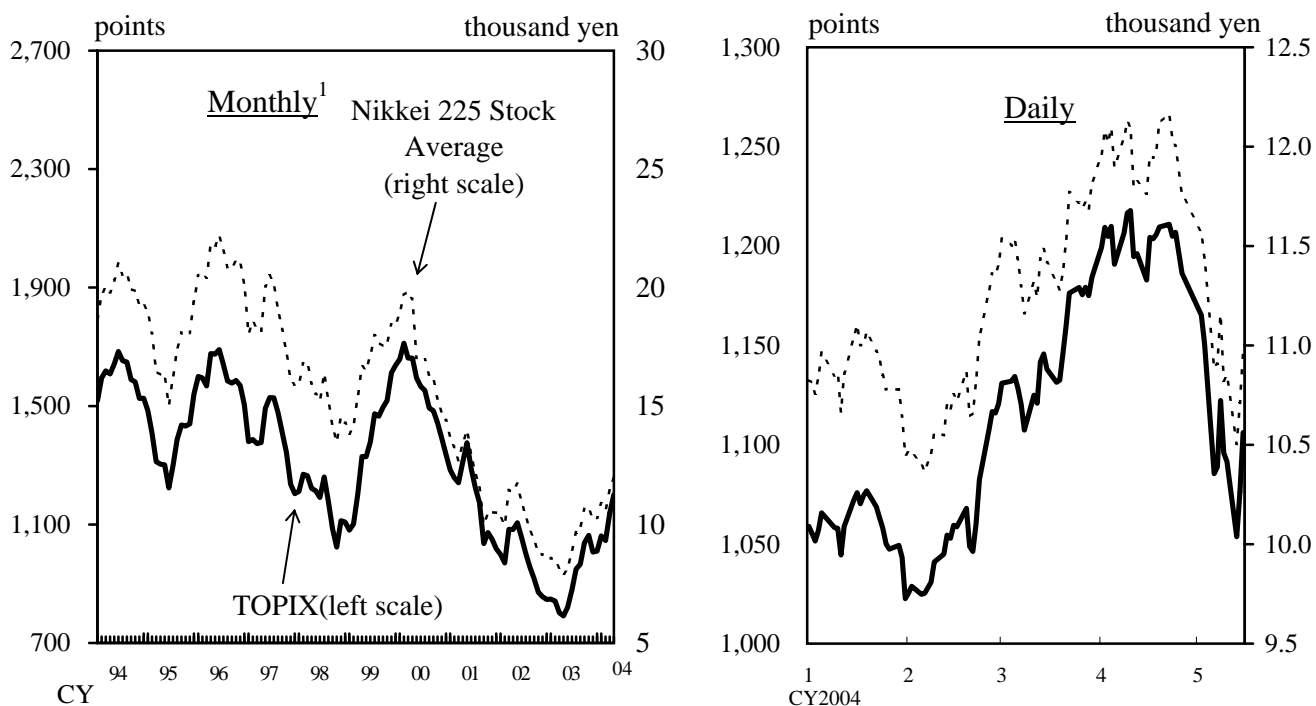
2. The indicated ratings are of Moody's.

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

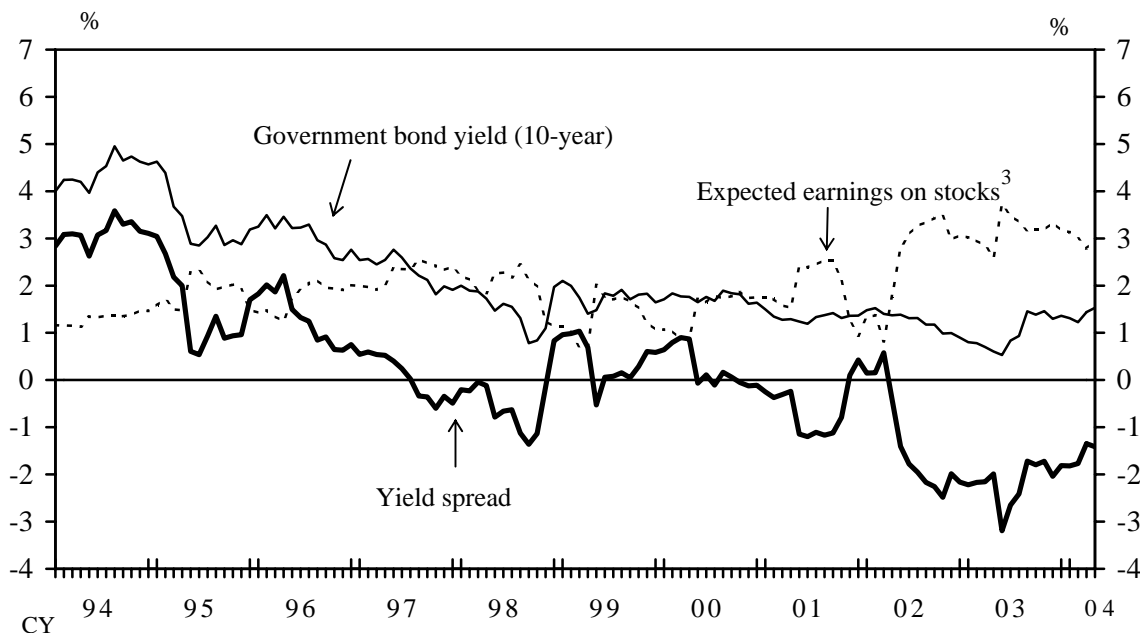
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

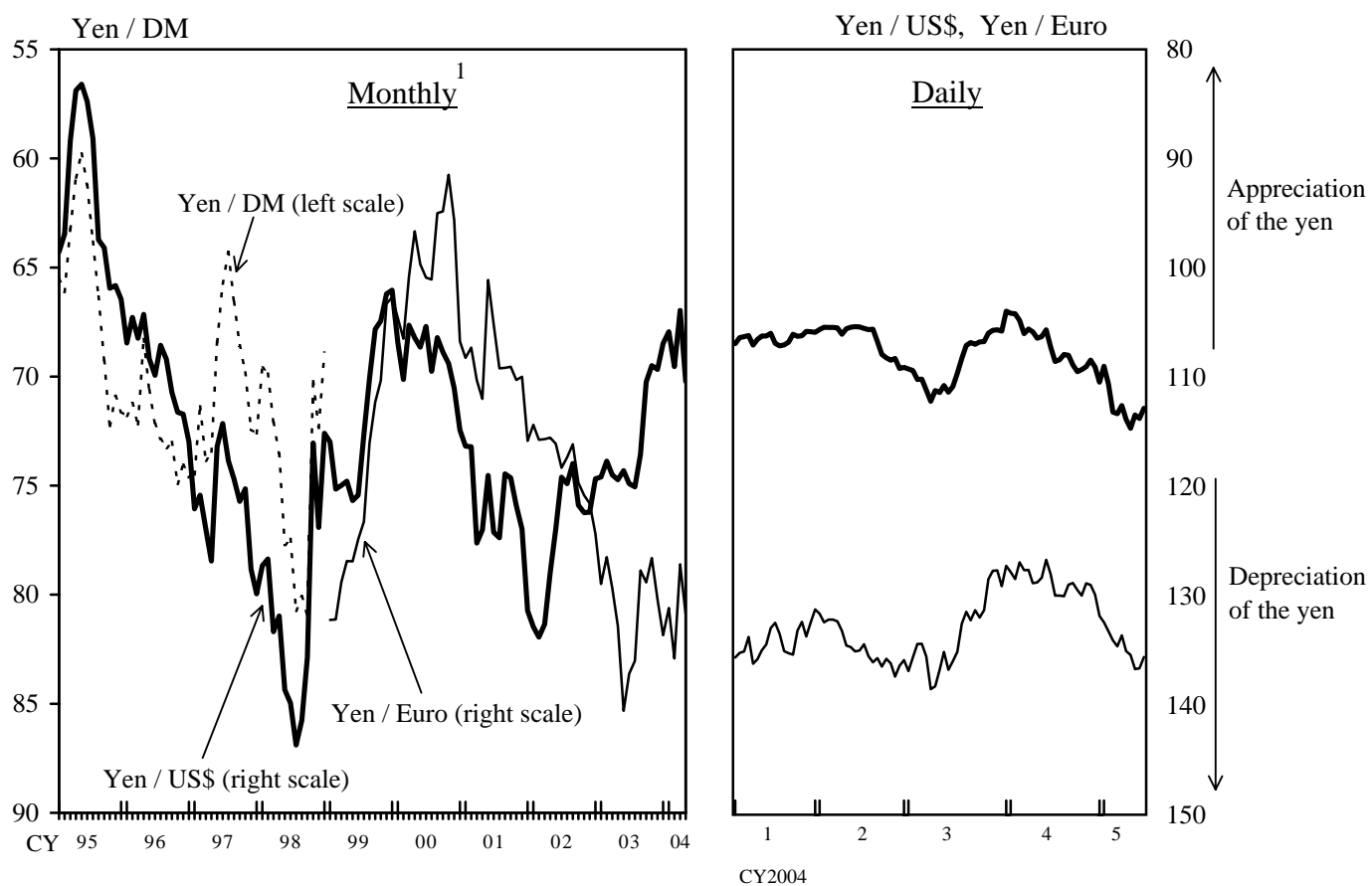
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

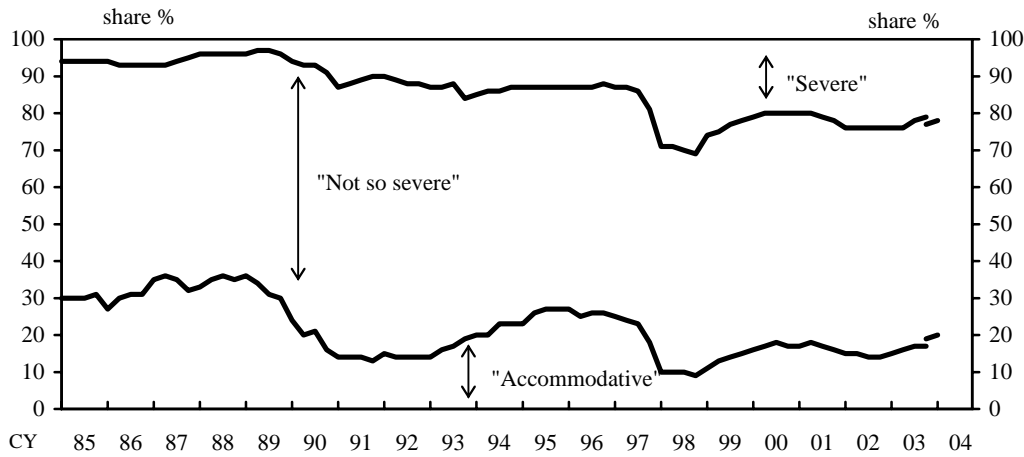
Exchange Rates



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

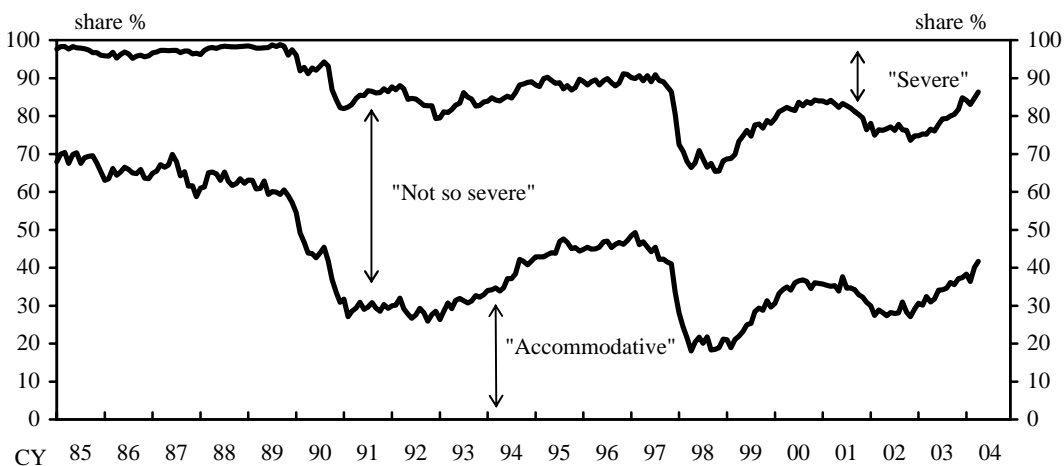
Lending Attitude of Financial Institutions as Perceived by Small Enterprises

(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 2004)

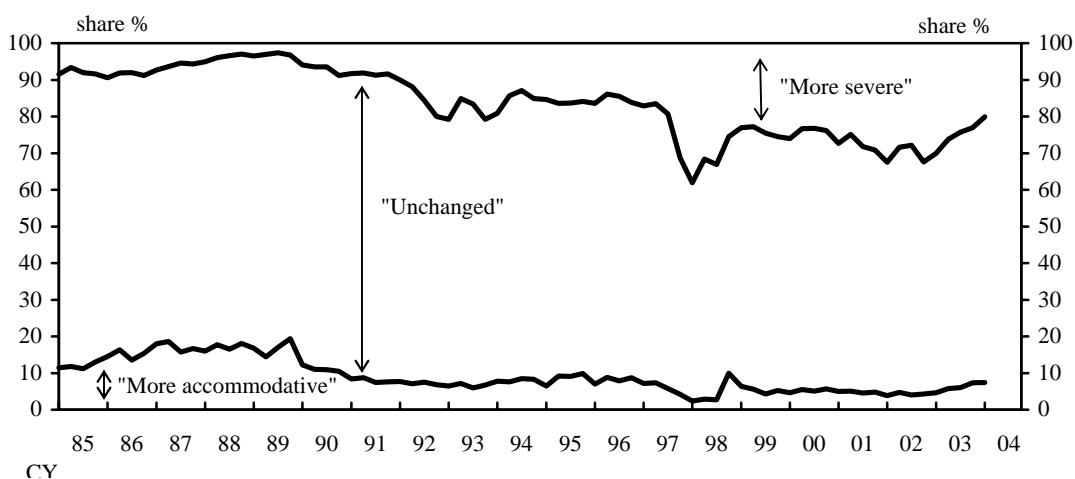


Note: The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis

(2) "Monthly Survey of Small Businesses in Japan" (Mid-April, 2004)

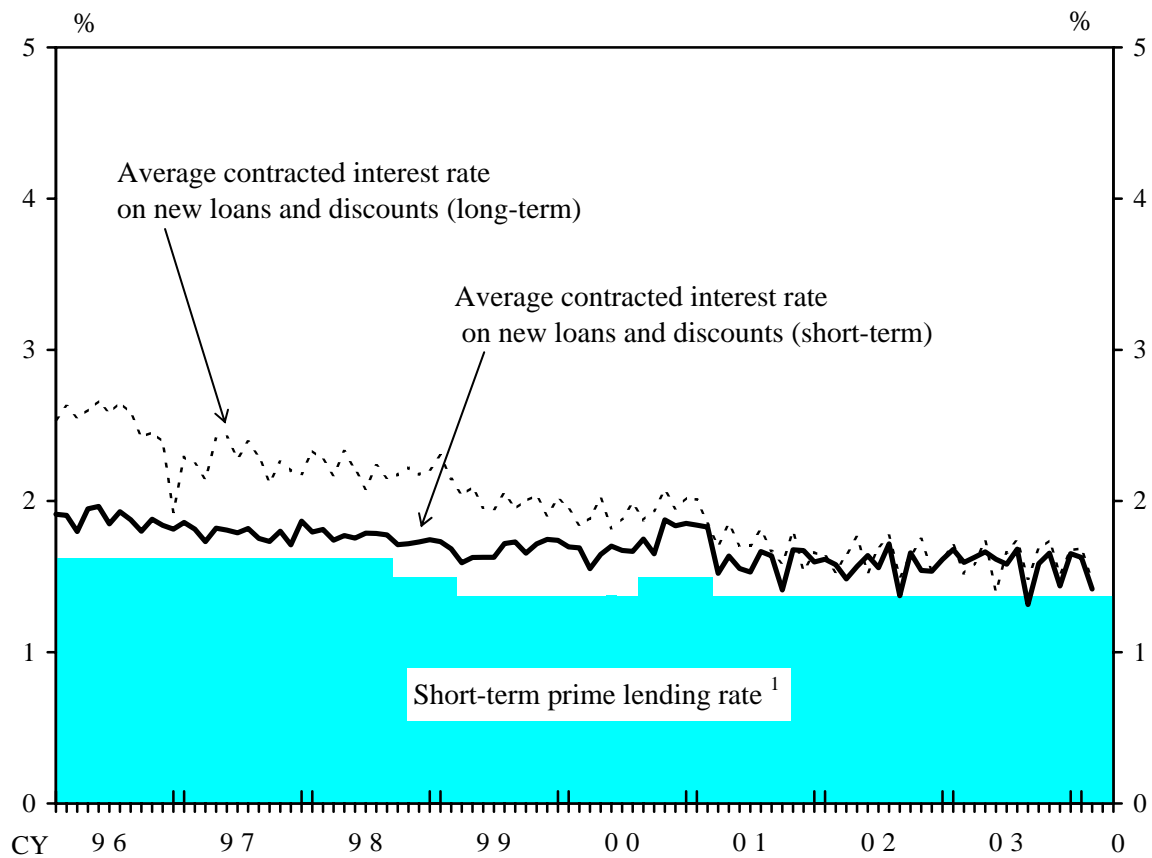


(3) "Quarterly Survey of Small Businesses in Japan" (March 10, 2004)



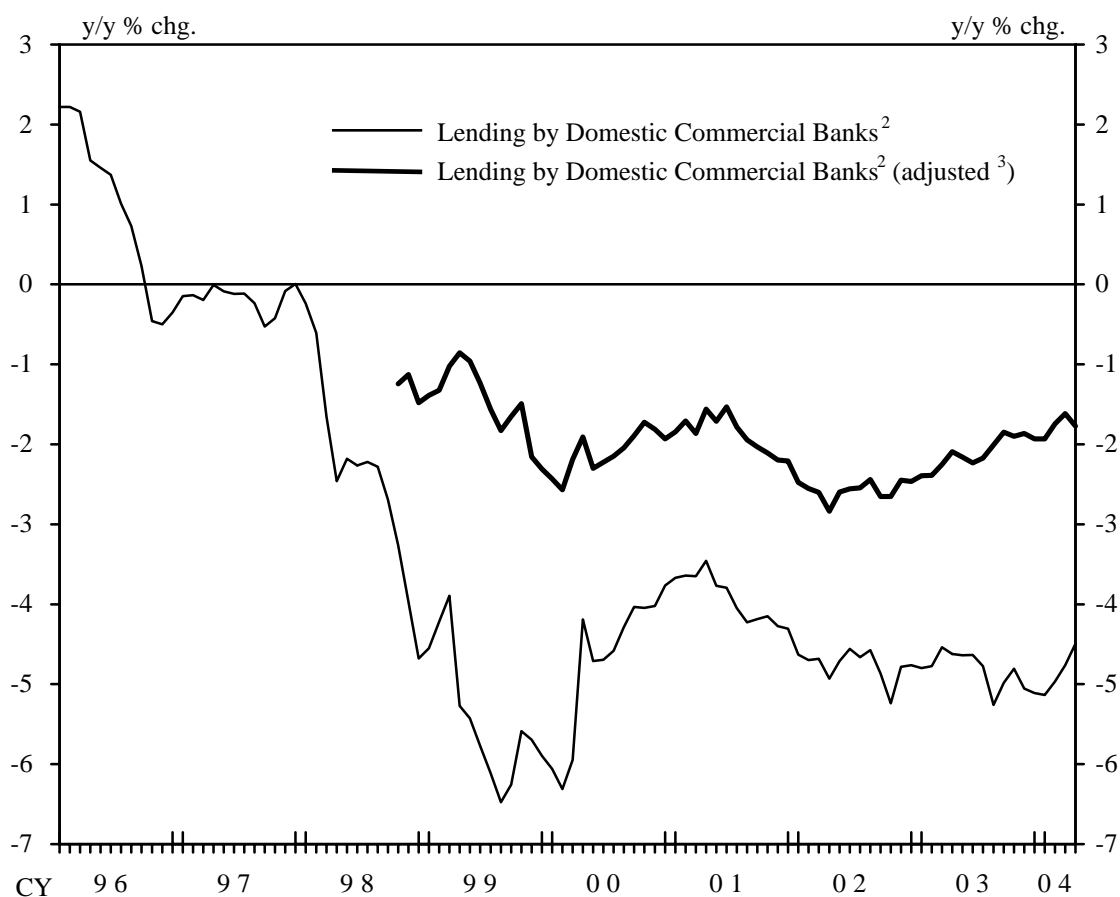
Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small Business, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Lending Rates



Note: 1. Data are at end of period.

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).

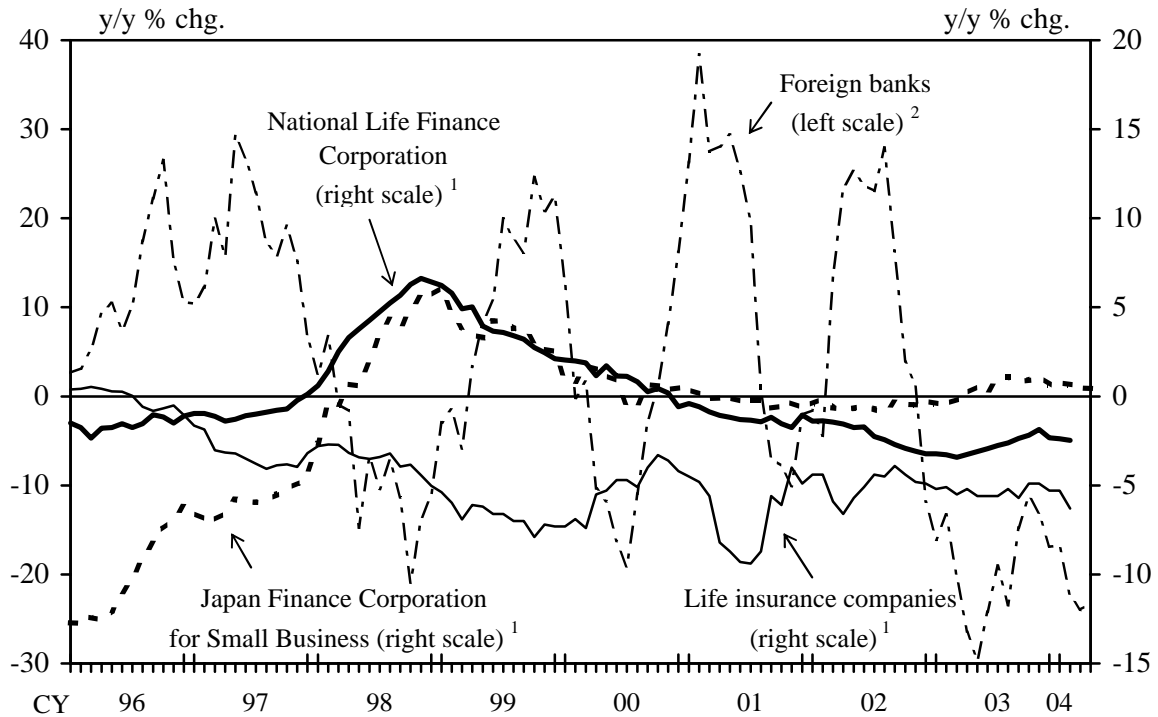
3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

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

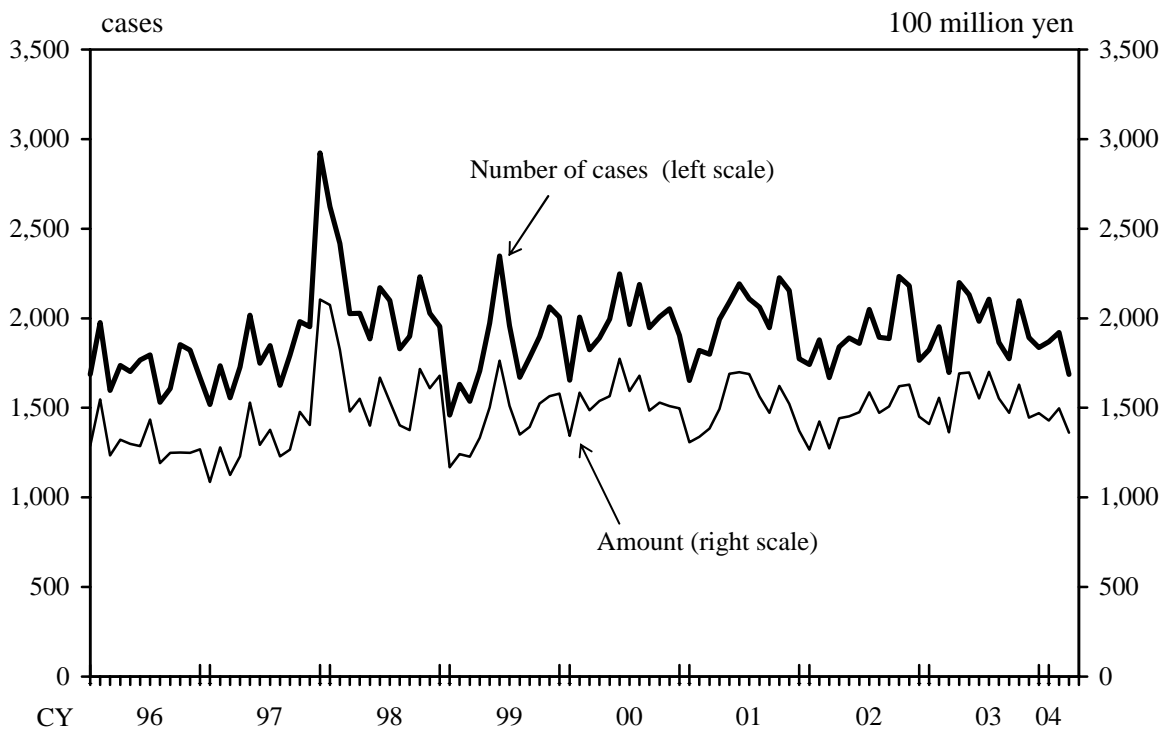
Lending by Other Financial Institutions

(1) Lending Outstanding



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

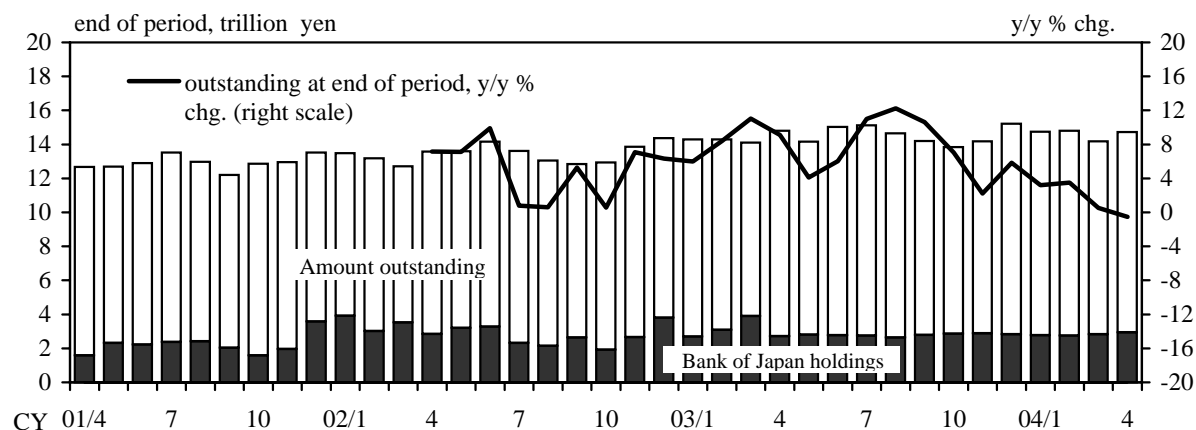
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



- Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.
2. Excludes those issued by banks.

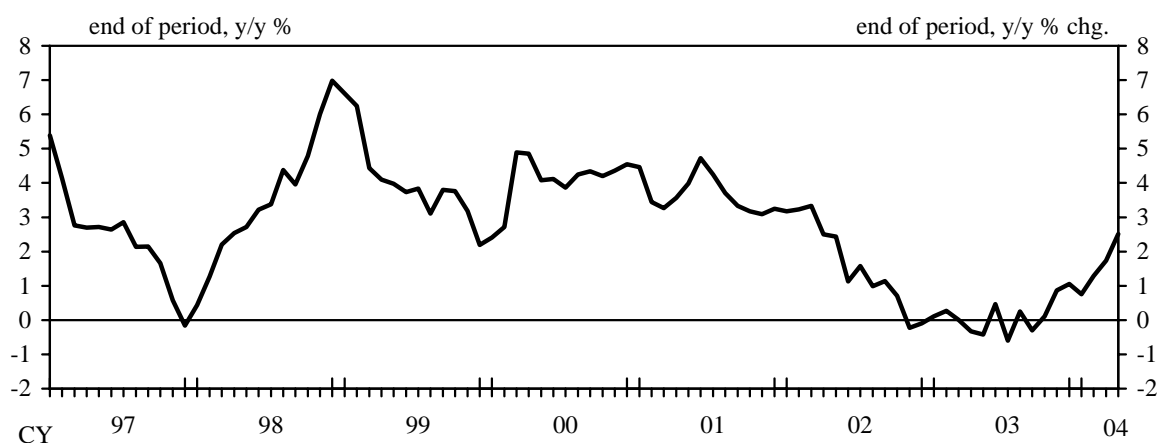
(2) Issue Volume of Corporate Bonds

(100 million yen)

	2003/Q3	Q4	2004/Q1	2004/Feb.	Mar.	Apr.
Volume	29,385	29,183	29,856	8,233	18,378	6,289
(previous year)	(28,505)	(27,520)	(31,859)	(11,296)	(16,168)	(6,229)

- Notes: 1. Corporate bonds are defined as the sum of the following categories: straight bonds, convertible bonds, and bonds with warrants issued in domestic and overseas markets, as well as ABSs issued in the domestic market.
2. Straight bonds issued by banks are excluded from domestically issued straight bonds.
3. The figure as of the latest month is a preliminary one, using an estimate for the amount outstanding of the domestically issued private placement bonds.

(3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier)

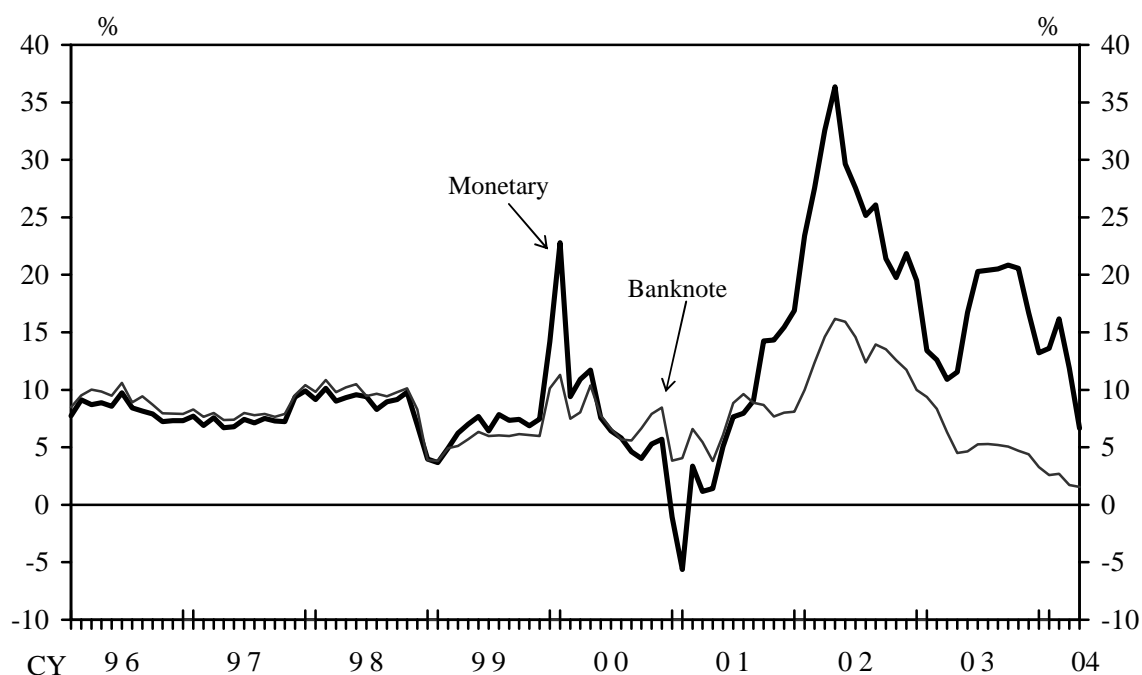
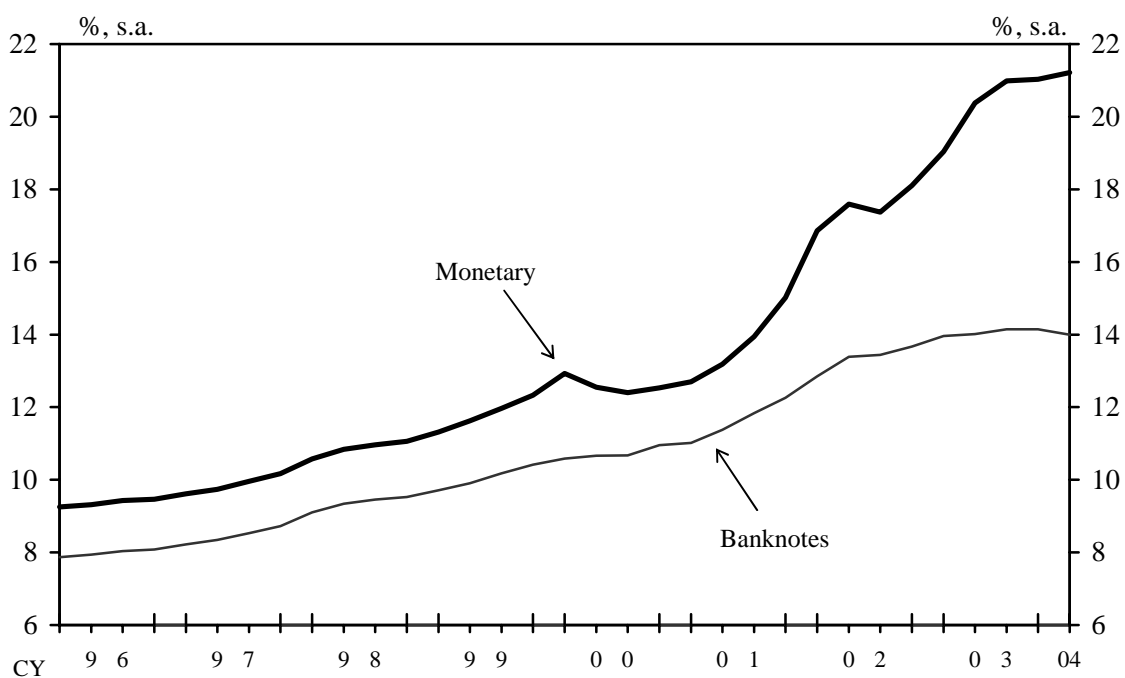


Note: Percentage changes from the previous year of the amount outstanding of corporate bonds are estimated figures. Procedures of the estimation are summarized as follows:

- (1) The sum of straight bonds, convertible bonds, bonds with warrants, and ABSs issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) In calculating the percentage changes from the previous year of the amount outstanding of corporate bonds, the following adjustment is made for the treatment of convertible bonds that have been converted into shares.
Percentage changes from the previous year of the amount outstanding of corporate bonds
= (The amount outstanding of corporate bonds as of this month + The sum of conversion amount over the last 12 months) / The amount outstanding of corporate bonds as of the same month in the previous year
- (4) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

Sources: Bank of Japan, "Principal Figures of Financial Institutions," "Balance of Payments Monthly"; Japan Securities Dealers Association, "New Issue Volume- Redemption of Bonds," "Bond Issuance Abroad by Japanese," "Kisai-Jouhou (Issuance Information)"; IN Information Center, "Funding Eye."

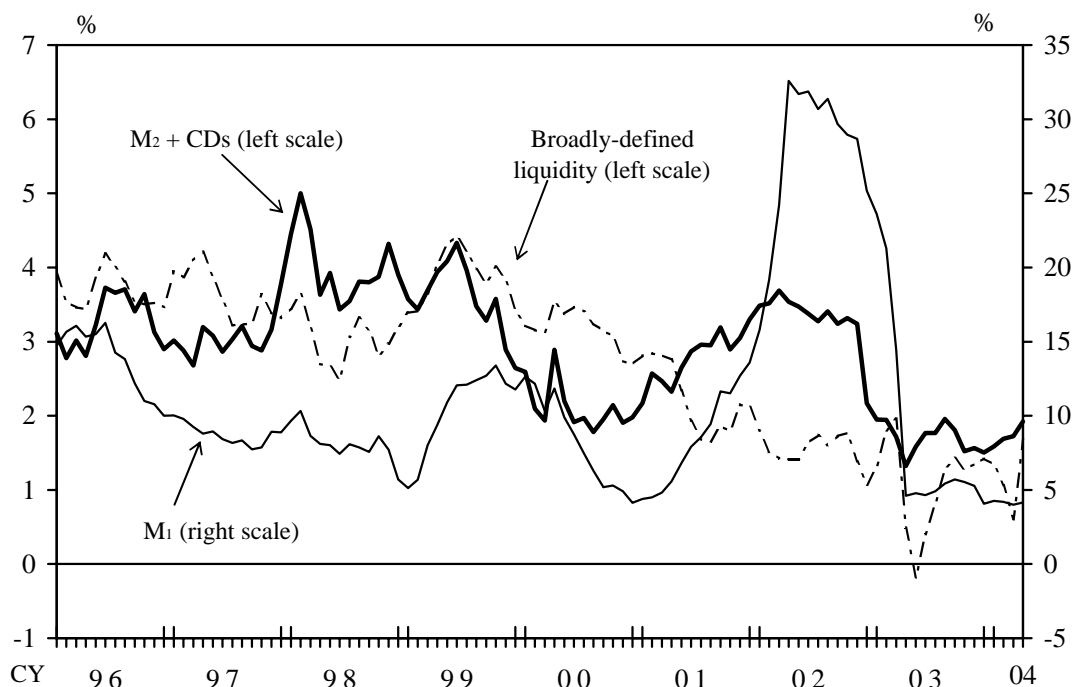
Monetary Base

(1) Changes from a Year Earlier**(2) Ratio of Monetary Base to Nominal GDP**

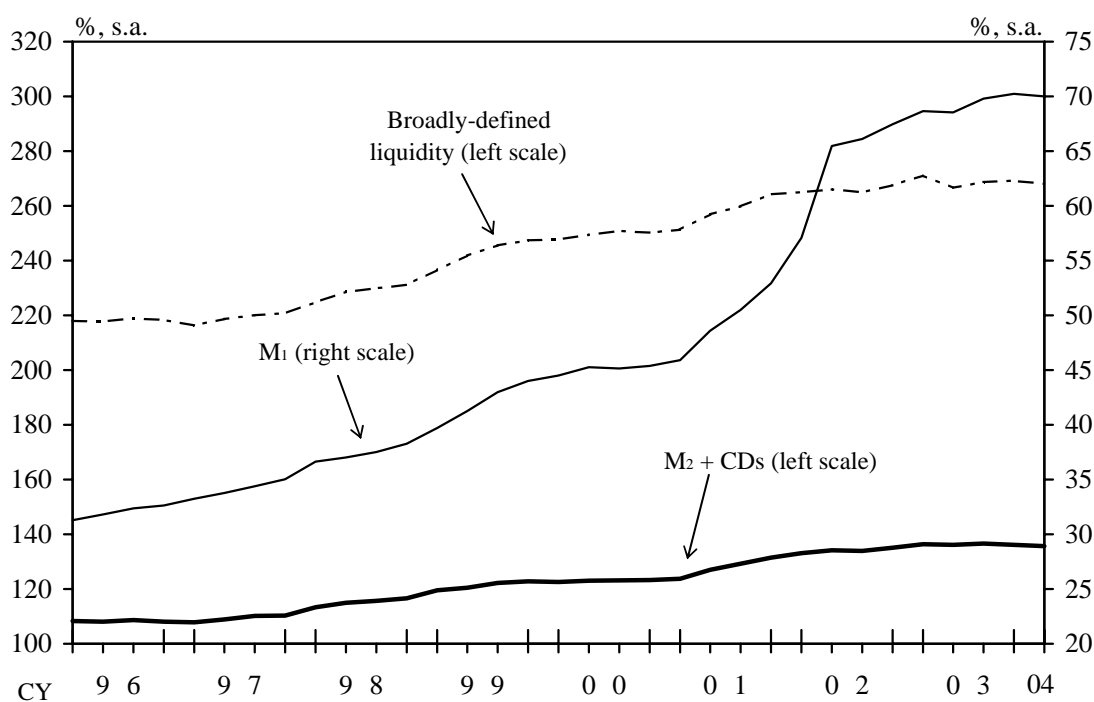
Note: Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

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

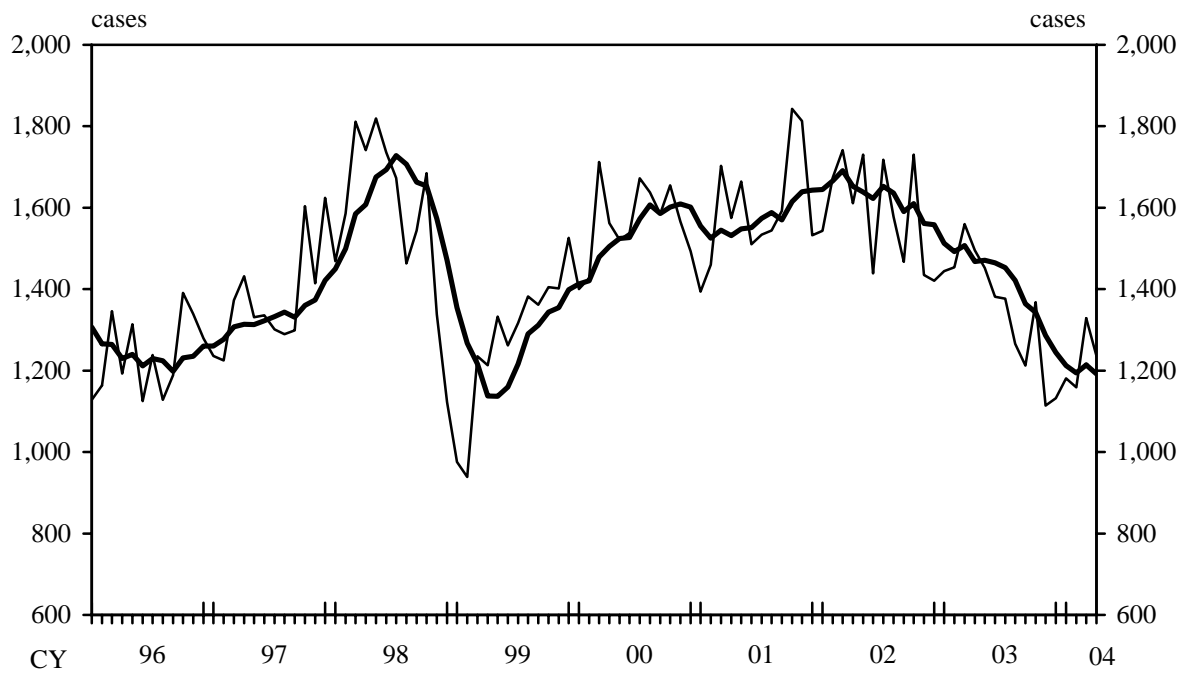
(1) Changes from a Year Earlier

Note: In April 2003, the Postal Life Welfare Corporation was dissolved and its assets were transferred to the Japan Post. Accordingly, its financial assets were excluded from the Money Stock. Changes of the Broadly-defined Liquidity from a year earlier adjusted for the exclusion is 2.7% in April 2004.

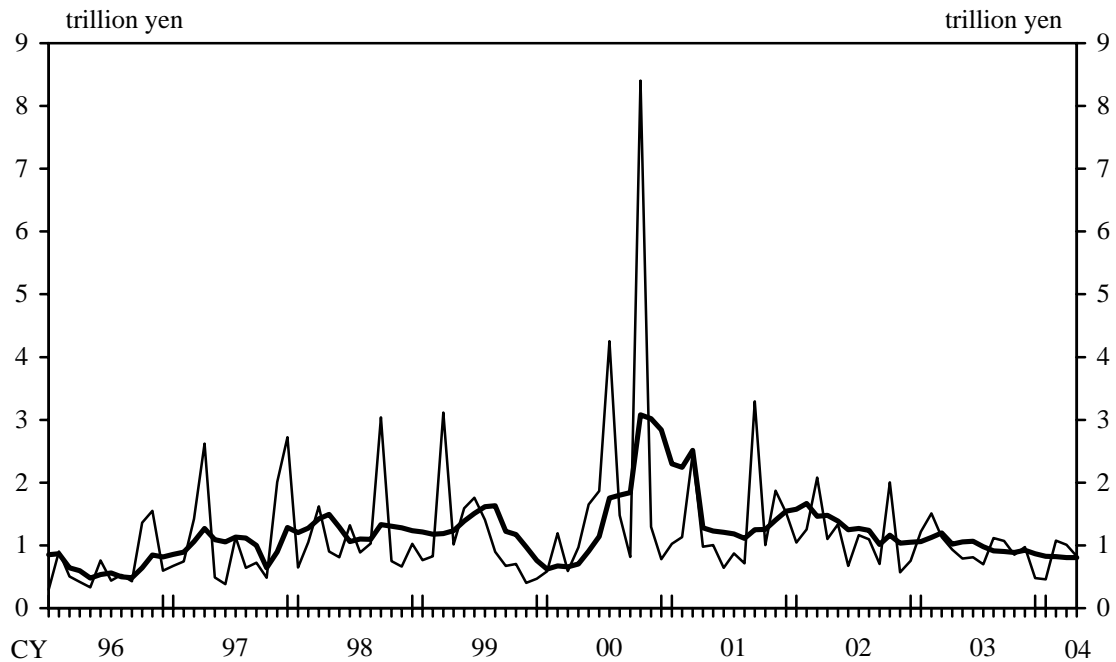
(2) Ratio of Money Stock to Nominal GDP

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

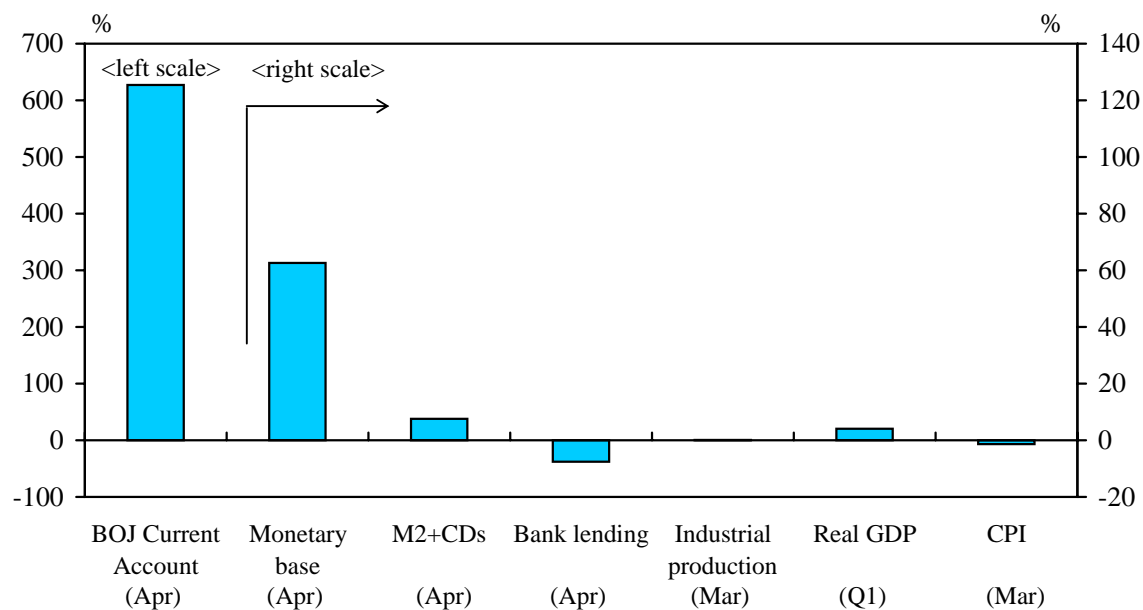


Note: Bold lines are the six-month moving average.

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

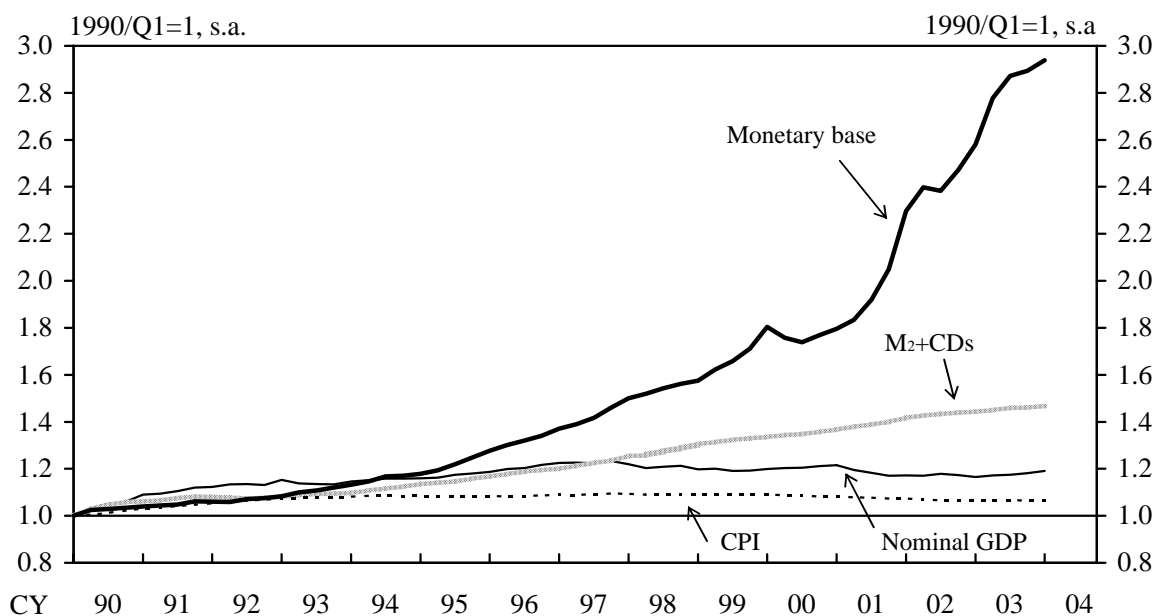
 Monetary Indicators, Economic Activity and Price Development

(1) Changes from March 2001



- Notes: 1. Figures, excluding BOJ current account balance and bank lending, are seasonally adjusted.
 2. Figure for the real GDP is compared to that in 2001/Q1.
 3. Figure for the bank lending is adjusted to exclude factors such as the liquidation of loans.
 4. Figure for the CPI excludes fresh food.

(2) Developments since 1990



- Notes: 1. Figures for monetary base are adjusted for changes in reserve requirement rates.
 2. Figures for CPI exclude fresh food and effects of the change in the consumption tax rate.

Sources: Cabinet Office, "National Accounts"; Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production"; Bank of Japan.