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Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original released on September 10, 2004)

Monthly Report of Recent Economic and Financial Developments¹

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The Bank's View²

Japan's economy continues to recover.

Exports and industrial production continue to increase, albeit at a slightly slower pace. Business fixed investment has also been increasing with the ongoing improvement in corporate profits. The employment situation has been on an improving trend, and the decline in household income is coming to a halt. Private consumption continues to show some positive movements. Meanwhile, housing investment has been nearly flat, and public investment has been declining.

Japan's economy is expected to continue to recover, gathering stronger momentum.

Overseas economies are projected to continue to expand. Based on this projection, it is likely that exports and domestic demand will continue to increase, and that production will also continue to be on an uptrend. The impact of excessive debt in the corporate sector and other structural factors on corporate activity is weakening. Although firms are still restraining their labor costs, the positive effects of the increases in production and corporate profits on household income are expected to become visible. Public investment, meanwhile, is projected to be on a downtrend.

Developments in crude oil prices and their impact on the domestic as well as overseas economies should continue to be noted.

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

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 8 and 9, 2004.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on September 8 and 9, 2004.

supply and demand conditions. Consumer prices (excluding fresh food) have been declining slightly on a year-on-year basis.

Domestic corporate goods prices are expected to continue increasing for some time, partly due to the rise in crude oil prices. On the other hand, supply and demand conditions are likely to remain loose for the time being, although they are improving. Under these circumstances, consumer prices are projected to basically continue falling slightly on a year-on-year basis.

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 is becoming more accommodative. The lending attitude of financial institutions as perceived by firms has been improving noticeably. 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 basically been diminishing. 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 has been at the 4.0-5.0 percent level. The year-on-year growth rate of the money stock is around 2.0 percent. 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, the yen's exchange rate against the U.S. dollar, long-term interest rates, and stock prices have been around the same level as last month.

The Background

1. Japan's Economy

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

Real exports continued to increase with the expansion of overseas economies, albeit at a slightly slower pace (Charts 4[1] and 5); they rose 3.2 percent in the second quarter on a quarter-on-quarter basis and 0.2 percent in July from the second quarter.

By region (Chart 5[1]), exports to the United States dropped in July, although they had been growing steadily until the second quarter. Also, the growth rate of exports to the EU remained low. Furthermore, exports to East Asia increased only marginally in July following the second quarter. Among exports to East Asia, those to China decelerated, affected temporarily by measures taken to cool the overheating economy in China. The growth rate of exports to the NIEs and ASEAN has slowed from some time ago, although they have been on a rising trend.

By goods (Chart 5[2]), exports of capital goods and parts (including semiconductor fabrication machines and equipment) and those of automobile-related goods increased in July as well, but the growth rate slowed compared to the second quarter (Charts 6[1] and [3]). Those of intermediate goods, which dropped in the second quarter, rose slightly in July (Chart 6[2]). Meanwhile, exports of consumer goods (such as digital home appliances), mainly to the United States and EU, dropped sharply in July.³ Those of IT-related goods also fell slightly in July, after they continued to increase substantially.

³ Anecdotes about the U.S. and European markets suggest that sales of digital cameras, in particular, were sluggish. As for flat panel TVs, exports seemed to have been restrained partly because domestic supply for Olympic demand was prioritized.

Real imports continued to trend upward with the recovery in the domestic economy, although the pace was moderate compared to exports (Charts 4[1] and 8). By goods (Chart 8[2]), imports of IT-related goods and those of capital goods and parts (excluding aircraft) continued to increase, reflecting the rise in production and the international division of labor between Japan and East Asia. Moreover, imports of raw materials rose in July, partly due to the increase in coal imports for the iron and steel industries in addition to those of crude oil. On the other hand, imports of consumer goods dropped in July due to the decline in reimports of automobiles. Those of foodstuffs also fell in July, mainly in meat.

Given these developments in exports and imports, net exports have been on a rising trend in terms of the real trade balance (Chart 4[2]). As for the surplus of the nominal balance on goods and services, the expansion in the previous quarters has come to a halt, mainly due to the increase in overseas travel and the rise in crude oil prices.

Exports are expected to continue increasing, since overseas economies are projected to continue to expand, particularly in the United States and East Asia (Chart 9-1[2]). Nevertheless, overseas economies—which had been exhibiting high growth—have started to decelerate toward more sustainable growth. Hence, the pace of increase in exports is projected to slow somewhat. The U.S. economy is considered to be on an expansionary trend, judged from the high growth in business fixed investment and the uptrend in employment, but its pace of increase has recently decelerated somewhat, particularly in private consumption (Chart 9-2). In China, on the other hand, fixed capital investment has again been showing signs of acceleration. Meanwhile, developments in crude oil prices and their impact on the domestic as well as overseas economies should continue to be noted.

As the domestic economy is projected to continue recovering, imports are expected to continue their uptrend, mainly in IT-related goods, and capital goods and parts.

Business fixed investment continued to increase. According to the first preliminary figures, fixed investment on a real GDP basis was flat in the second

quarter, after it increased in the fourth quarter last year and in the first quarter this year (Chart 2). Fixed investment, however, is considered to be trending upward, judged from movements in monthly indicators mentioned below. Fixed investment in nominal terms continued to rise firmly in the second quarter,⁴ following a slight increase in the first quarter (Chart 10[1]). By industry and size of firms (Chart 11), investment by large manufacturing firms rose steadily, particularly in electrical machinery. Investment by small and medium-sized manufacturing firms continued to be at high levels, although it has recently dropped in reaction to the upsurge in the previous quarters. Moreover, investment by small and medium-sized nonmanufacturing firms has recently exhibited high growth.⁵ Meanwhile, investment by large nonmanufacturing firms continued to be more or less flat.

With regard to monthly indicators, shipments of capital goods (excluding transport equipment) continued to increase firmly in July following the second quarter (Chart 12-1[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of business fixed investment—surged in the second quarter, after they dropped in the first quarter (Chart 12-2[1]). Orders from manufacturing firms have been on a clear uptrend, although they were partly bolstered by large orders of industrial machinery and heavy electrical machinery. On the other hand, orders from nonmanufacturing firms remained almost flat. Forecasts of the third quarter also indicate that investment will continue its rising trend. Construction starts (floor area, private, nondwelling use)—another leading indicator—have basically been trending upward, mainly in mining and manufacturing (factories), wholesale and retail trade (such as shopping centers), and transportation (distribution and delivery centers) (Chart 12-2[2]), although they have been fluctuating on a quarterly basis due to the movements in large-scale projects in real estate.

⁴ Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*.

⁵ Since there is a sample change in the *Financial Statements Statistics of Corporations by Industry, Quarterly* in the second quarter each year, the Research and Statistics Department of the Bank of Japan has been adjusting data to correct a bias in the figures. This time, however, it is likely that the discontinuity in the data has not been adjusted completely, due to the large sample revisions, particularly in nonmanufacturing. Some latitude should be allowed for figures of small and medium-sized nonmanufacturing firms, since they tend to fluctuate substantially.

Looking at developments in corporate profits as part of the environment surrounding business fixed investment (Chart 10[2]),⁶ the ratio of current profits to sales continued to improve steadily, regardless of industry or size.

The recovery in business fixed investment is expected to continue, particularly for manufacturing firms, since domestic and external demand, as well as corporate profits, are projected to increase.

Private consumption continued to show some positive movements. With regard to individual indicators (Charts 13-1 and 13-2), the number of new passenger-car registrations increased in July-August, mainly in new models of small passenger cars, after declining in the second quarter. Sales of household electrical appliances (NEBA statistics; in real terms) continued to increase steadily assisted by Olympic-driven demand for digital home appliances, such as flat panel TVs and DVD recorders, while sales of white goods including air conditioners were solid spurred by the heat wave. Sales at department stores picked up in July partly due to the later-than-usual sales period at department stores,⁷ after decreasing in the second quarter. On the other hand, sales at supermarkets remained flat or dropped slightly. Meanwhile, sales at convenience stores have been on a gradual uptrend. As for services consumption, outlays for travel increased slightly in June, following a sharp increase in April-May, which was partly due to calendar factors during Japan's annual holidays from late April to early May (the so-called Golden Week holidays). Sales in the food services industry have been steady since May, partly due to fine weather and the heat wave.

Looking at indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,⁸ the growth rate of the indices

⁶ Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*.

⁷ It is usually the case every year that summer sales at most stores start at the end of June. This year, however, sales started from early July at many stores.

⁸ 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. Also, note that outlays

including the effects of the increase in the number of stores (including sales at convenience stores) rose in July, while those excluding the effects of the increase in the number of stores (excluding sales at convenience stores) picked up somewhat (Chart 13-3). Moreover, aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—was almost flat in the second quarter, but increased in July, particularly in durable consumer goods (Chart 13-4). Meanwhile, according to the *Family Income and Expenditure Survey*, which captures private consumption from the demand side, the index of living expenditure level (all households, in real terms) fell back in June from the considerably high level in April-May, and also inched down in July (Chart 13-1[1]). Judging from various indicators capturing the sales and the supply sides mentioned above, the weakness in consumption since June shown in the *Family Income and Expenditure Survey* is considered to be largely because the effects from sampling factors, which were overestimated until April-May, have dissipated.

Indicators for consumer sentiment continued to be on a recovery trend, albeit with some fluctuations (Chart 14).

As the positive effects of the increases in production and corporate profits on household income are expected to become visible, private consumption is projected to recover gradually, supported by the improvement in consumer sentiment.

As for housing investment, housing starts marked a relatively high level of around 1.2 million units (annual rates) in July. This was due to large-scale construction starts of housing for sale in the Tokyo metropolitan area, and to an increase in construction starts of owner-occupied houses, which seemed to be bolstered by the demand rush prior to the reduction in tax credits of housing loans (Chart 15[1]).⁹ Nevertheless, housing starts have been nearly flat with the fluctuations smoothed out. Housing investment is projected to be more or less flat.

for travel in July were not released at the time when these indices were compiled, and hence were incorporated into the indices under the assumption that their seasonally adjusted figures in July were the same level as in June.

⁹ As for tax credits for housing loans, the maximum credit amount is scheduled to be reduced gradually each year until 2008. Home-buyers are eligible for this year’s tax credits for housing loans on the condition that they move into their new houses by the end of this year. Considering

Industrial production increased 2.6 percent in the second quarter on a quarter-on-quarter basis, but dropped 0.6 percent in July from the second quarter (Chart 16[1]). Although this movement was observed in July alone, taking this into account in conjunction with the developments in exports mentioned above, it is likely that the effects from the deceleration in overseas economies observed in the second quarter have started to emerge. By goods (Chart 17), shipments of capital goods continued to increase, and also those of consumer goods have recently increased slightly. On the other hand, producer goods (electronic parts) continued to trend upward, although the pace of increase has been slowing.

Inventories, meanwhile, declined as a whole, although movements differ according to goods (Charts 16[1] and 18). The chart of the inventory cycle shows that inventories of materials related goods such as “producer goods excluding a broad category of electrical machinery” and “construction goods” were still declining because production in those goods was somewhat restrained partly due to the intention of firms to pass on cost increases of materials, regardless of favorable demand. Moreover, inventories of “durable consumer goods” dropped sharply in July due to the decline in inventories of air conditioners spurred on by the heat wave, in addition to the decrease in inventories of some automobiles waiting to be shipped overseas.

On the other hand, inventories for “producer goods in a broad category of electrical machinery” (electronic parts) have entered the inventory adjustment phase, as their inventory cycle has slightly passed the 45-degree line in the chart, which is the border of the intended inventory accumulation and unintended inventory accumulation phases. Since sales of some products such as cellular phones, digital cameras, and camcorders in the domestic and overseas markets have fallen below the strong forecasts, it appears that it has become inevitable to restrain the inventories of some electronic parts. The market for digital home appliances is projected to continue growing, and firms are starting to restrain their production before inventories become significantly excessive. Under this situation, it is likely that inventories will

the length of construction, it is likely that this condition contributed toward increasing the number of construction starts around this time.

basically be adjusted only slightly.¹⁰ Nevertheless, developments in domestic as well as external demand toward the end of the year require close monitoring regarding the degree and period of adjustment.

Production is likely to continue its rising trend, based on the recovery in domestic as well as external demand and the well-balanced inventories as a whole, although there are factors indicating a deceleration such as inventory adjustments of electronic parts. Calculating the forecast from the production forecast index for August and September, production in the third quarter was projected to increase by 0.6 percent from the previous quarter (Chart 16[2]). Also, based on anecdotal information, firms are projected to continue increasing their production in the future, although the pace will slow considerably compared to the second quarter.

As for the employment and income situations, various indicators reflecting labor market conditions have been on an uptrend, albeit with some fluctuations. Under this situation, the number of employees has been on an uptrend, and the decline in household income is coming to a halt (Chart 19[1]).

In the labor market, overtime hours worked have been above the peak of the previous recovery periods (Chart 20-2[3]). The number of new job offers continued to display double-digit increases on a year-on-year basis, particularly in the services industry, including temporary employment services and similar businesses, although it has slowed from some time ago (Charts 20-1[2] and [3]). Moreover, the ratio of job offers to applicants has also been rising (Chart 20-1[1]). Meanwhile, the unemployment rate has basically been on a gradual downtrend, although it rose in July.

The number of employees in the *Labour Force Survey* has recently moved at close to zero percent on a year-on-year basis, after exhibiting small increases (Chart 20-2[1]). These movements, however, are likely to be caused by sampling factors.

¹⁰ According to the chart of the inventory cycle, unlike when the IT bubble burst in 2000-2001, the cycle seems to have started to go round in small circles within the first quadrant.

The number of regular employees in the *Monthly Labour Survey* has been increasing steadily on a year-on-year basis since April (Chart 20-2[2]).

Regarding wages on a year-on-year basis (Chart 19[2]), overtime payments continued to increase. On the other hand, regular payments were still on a downtrend in terms of the average per person, mainly due to the rise in the ratio of part-time workers. The rate of decline, however, has been diminishing gradually. Under these circumstances, special payments in June and July (preliminary figures for July)—which represent more than 90 percent of summer bonuses—dropped 3.1 percent on a year-on-year basis.¹¹ This drop was mainly due to the downward pressure on the average bonuses paid from the rise in the ratio of part-time workers, and the weakness in government services (for June) reflecting the movements in bonuses of public employees.

Firms are expected to continue restraining their labor costs through the use of part-time workers and outsourcing. However, further increases in production and corporate profits, levels of which have already been high, are expected to exert positive effects more visibly on household income.

2. Prices

Import prices (on a yen basis; same hereafter) continued to increase compared to levels three months before, reflecting the rise in international commodity prices, including crude oil prices (Chart 22).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates; same hereafter)¹² have been rising compared to levels

¹¹ According to various surveys, large firms reported an increase in summer bonuses. Bonuses here based on the *Monthly Labour Survey* are the average bonus per person, which widely covers those of non-regular employment such as part-time workers in addition to small firms.

¹² The figures are adjusted to exclude a large seasonal fluctuation in electric power charges 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.

three months before¹³ (Chart 23). In detail, prices of petroleum products, those of iron and steel related products, and those of chemical-related products increased noticeably, reflecting the rise in crude oil prices and the improvement trend in supply and demand conditions. Moreover, the pace of decline in machinery prices has slowed considerably from a while ago because prices of general machinery and equipment started to rise, albeit marginally, reflecting the increase in exports and business fixed investment. With respect to the above movements by stage of demand, the rise in materials prices has been passed on to intermediate goods prices. The rate of decline in final goods prices has narrowed considerably, but among final goods, the impact of the cost increase on prices of consumer goods has remained limited, except for some items such as gasoline.

Corporate services prices (domestic supply-demand factors; same hereafter) continued their year-on-year decline of somewhat less than 1 percent, mainly in leasing and renting, real estate services, and general services such as car maintenance and building maintenance (Chart 24).

Consumer prices (excluding fresh food; same hereafter) have been declining slightly on a year-on-year basis (Chart 25). The year-on-year rate of decline in July expanded somewhat, to 0.2 percent, from that in June, which posted a decline of 0.1 percent. This was because the upward pressure on consumer prices from the rise in the tax on tobacco in July last year has dissipated.

Domestic corporate goods prices are likely to continue increasing for some time, partly due to the rise in crude oil prices. With respect to consumer prices, prices of petroleum-related products such as gasoline are expected to push consumer prices further upward from September, reflecting the rise in crude oil prices in July-August. On the other hand, rice prices are projected to start declining on a year-on-year basis from October. Meanwhile, supply and demand conditions in the macroeconomy are likely to remain loose for the time being, although they are improving. Under these circumstances, firms are expected to offset the increased cost of materials through streamlining measures such as restraining labor costs.

¹³ Domestic corporate goods prices registered an increase of 1.6 percent in July on a year-on-year basis, the highest growth since May 1991 (Chart 21[2]).

Hence, the impact of the rise in international commodity prices on consumer goods prices as a whole is expected to be relatively small. Based on these considerations, consumer prices are projected to basically continue falling slightly on a year-on-year basis.

3. Financial Developments

(1) Financial Markets

The outstanding balance of current accounts at the Bank of Japan has been moving at around 30-35 trillion yen, as the Bank continues to provide ample liquidity (Chart 29).

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 27[1]) has been moving at around zero percent. Interest rates on term instruments (Chart 28[1]) have been steady at low levels on the whole. Under these circumstances, interest rates on Euroyen futures (Chart 28[2]) have been declining on the whole.

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 27[2]) dropped, reflecting more cautious views about the economic recovery taking into account domestic and overseas economic indicators. Nevertheless, they have recently risen—mainly because of the rise in stock prices—to around 1.6 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 31 and 32) remain essentially unchanged on the whole.

Stock prices (Chart 33) dropped toward mid-August, due to the fall in U.S. stock prices mainly because of the rise in crude oil prices and to Japan's lower-than-forecasted real GDP. They started to climb thereafter, however, reflecting factors such as the rebound in U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 11,000-11,500 yen.

In the foreign exchange market (Chart 34), the yen is fluctuating in the range of 108-111 yen to the U.S. dollar, mainly in view of domestic and overseas economic indicators.

(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 recovered—as seen in the ongoing increase in business fixed investment—while firms continue to reduce their debts.

Regarding credit supply, the lending attitude of private banks is becoming 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, including small firms, has been improving noticeably (Chart 35).

Lending rates have been moving at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations averaged, have been more or less flat (Chart 36).

The rate of decline in lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹⁴) has basically been diminishing. (The year-on-year change was –1.3 percent in June, –1.2 percent in July, and –1.2 percent in August; Chart 37.)

In the corporate bond and CP markets, the issuing environment continues to be favorable on the whole. Corporate bond issuance rates have basically been flat, while issuance spreads remain steady. CP issuance rates continue to be at low levels. The amount outstanding of CP and corporate bonds issued has been moving above the previous year's level. (The year-on-year change was 1.0 percent in June, 1.4 percent in July, and 1.6 percent in August; Chart 39.)

¹⁴ 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.

According to business surveys, the financial positions of firms have been improving noticeably.

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) has been at the 4.0-5.0 percent level. (The year-on-year change was 4.4 percent in June, 4.7 percent in July, and 4.6 percent in August; Chart 40.)

The year-on-year growth rate of the money stock (M_2 + CDs) was around 2.0 percent. (The year-on-year change was 1.7 percent in June, 1.8 percent in July, and 1.9 percent in August; Chart 41.)

The number of corporate bankruptcies continues its downtrend; it declined by 18.4 percent year-on-year in July, to 1,123 cases (Chart 42).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2003/Q4	2004/Q1	Q2	2004/May	Jun.	Jul.	Aug.
Index of living expenditure level (all households)	-0.1	0.5	2.4	-0.8	-4.2	-0.4	n.a.
Sales at department stores	-0.3	-0.5	-1.7	-2.5	-0.9	2.4	n.a.
Sales at supermarkets	0.1	-0.7	-2.1	-0.7	1.0	-0.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	<332>	<347>	<321>	<320>	<323>	<342>	<353>
Sales of household electrical appliances (real, NEBA)	2.0	2.7	3.6	0.5	-1.2	4.7	n.a.
Outlays for travel (50 major travel agencies)	4.7	-2.8	13.2	8.0	1.6	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	<117>	<121>	<115>	<117>	<118>	<124>	<n.a.>
Machinery orders (from private sector ⁴)	8.5	-5.6	10.3	-2.1	3.9	n.a.	n.a.
Manufacturing	9.8	-3.6	18.4	-9.1	-2.8	n.a.	n.a.
Nonmanufacturing ⁴	7.4	-7.7	5.0	3.0	10.1	n.a.	n.a.
Construction Starts (private, nondwelling use)	-2.7	17.9	-3.9	-8.6	16.3	-4.2	n.a.
Mining & manufacturing	17.0	2.7	21.7	-19.2	3.7	-10.8	n.a.
Nonmanufacturing ⁵	-5.6	21.5	-10.2	-4.0	20.6	-4.9	n.a.
Value of public works contracted	-8.3	-6.4	5.4	-15.3	13.8	-13.6	n.a.
Real exports	6.4	4.1	3.2	-0.4	4.1	-2.4	n.a.
Real imports	1.6	2.6	1.5	-2.8	9.8	-4.7	n.a.
Industrial production	3.9	0.5	2.6	0.8	-1.3	p 0.0	n.a.
Shipments	4.0	0.0	2.9	1.3	-1.3	p 0.4	n.a.
Inventories	-1.2	0.2	-0.4	-1.8	-0.1	p -2.0	n.a.
Inventory Ratio <s.a., CY 2000=100>	<93.9>	<94.0>	<93.4>	<96.9>	<93.4>	<p 95.1>	<n.a.>
Real GDP	1.8	1.6	0.4	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.2	-0.1	1.8	-0.8	0.6	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2003/Q4	2004/Q1	Q2	2004/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	<0.73>	<0.77>	<0.80>	<0.80>	<0.82>	<0.83>	<n.a.>
Unemployment rate <s.a., %>	<5.1>	<4.9>	<4.6>	<4.6>	<4.6>	<4.9>	<n.a.>
Overtime working hours ⁶	4.7	3.3	3.7	3.1	4.1	p 3.0	n.a.
Number of employees	0.3	0.4	0.7	1.0	-0.0	-0.0	n.a.
Number of regular employees ⁶	-0.3	-0.1	0.4	0.3	0.4	p 0.5	n.a.
Nominal wages per person ⁶	-1.3	-1.7	-1.1	-0.6	-2.2	p -0.4	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	-0.4 <0.1>	0.1 <0.5>	0.9 <0.5>	0.9 <0.4>	1.4 <0.5>	p 1.6 <p 0.5>	n.a. <n.a.>
Consumer price index ⁸	0.0	0.0	-0.2	-0.3	-0.1	-0.2	n.a.
Corporate service price index ⁹	-1.2	-1.2	-0.9	-0.9	-0.9	-0.8	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.5	1.7	1.9	2.0	1.7	1.8	1.9
Number of suspension of transactions with banks	-29.0	-24.4	-29.1	-33.0	-29.8	-19.3	n.a.

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.

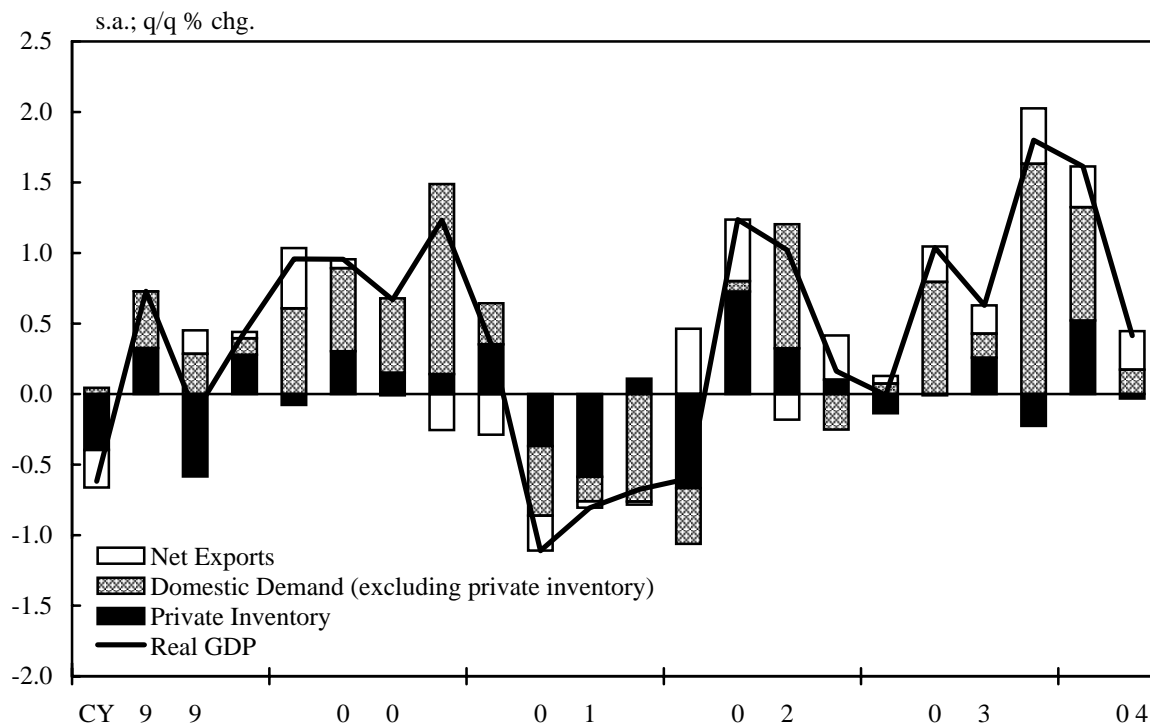
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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.

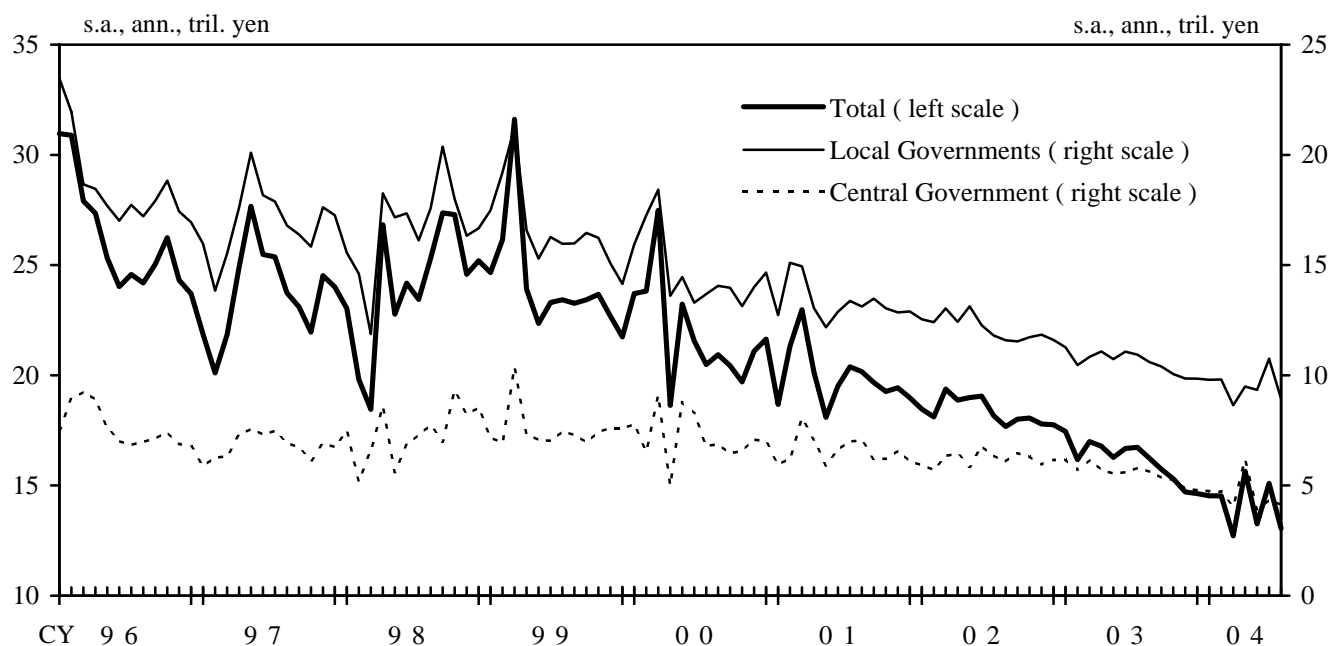
	2003			2004	
	Q2	Q3	Q4	Q1	Q2
Real GDP	1.0	0.6	1.8	1.6	0.4
Domestic Demand	0.8	0.4	1.5	1.4	0.1
Private Consumption	0.2	0.7	1.1	1.0	0.6
Non-Resi. Investment	5.7	-0.3	6.6	1.7	0.0
Residential Investment	-0.2	3.1	-0.8	0.5	0.3
Private Inventory	(-0.0)	(0.3)	(-0.2)	(0.5)	(-0.0)
Public Demand	-0.9	-1.1	-0.1	-0.4	-0.8
Public Investment	-3.2	-5.8	-1.6	-3.4	-5.1
Net Exports of goods and services	(0.3)	(0.2)	(0.4)	(0.3)	(0.3)
Exports	1.3	3.6	5.2	4.5	3.5
Imports	-1.0	2.6	2.7	3.1	2.0
Nominal GDP	0.6	0.3	0.6	1.1	-0.3

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

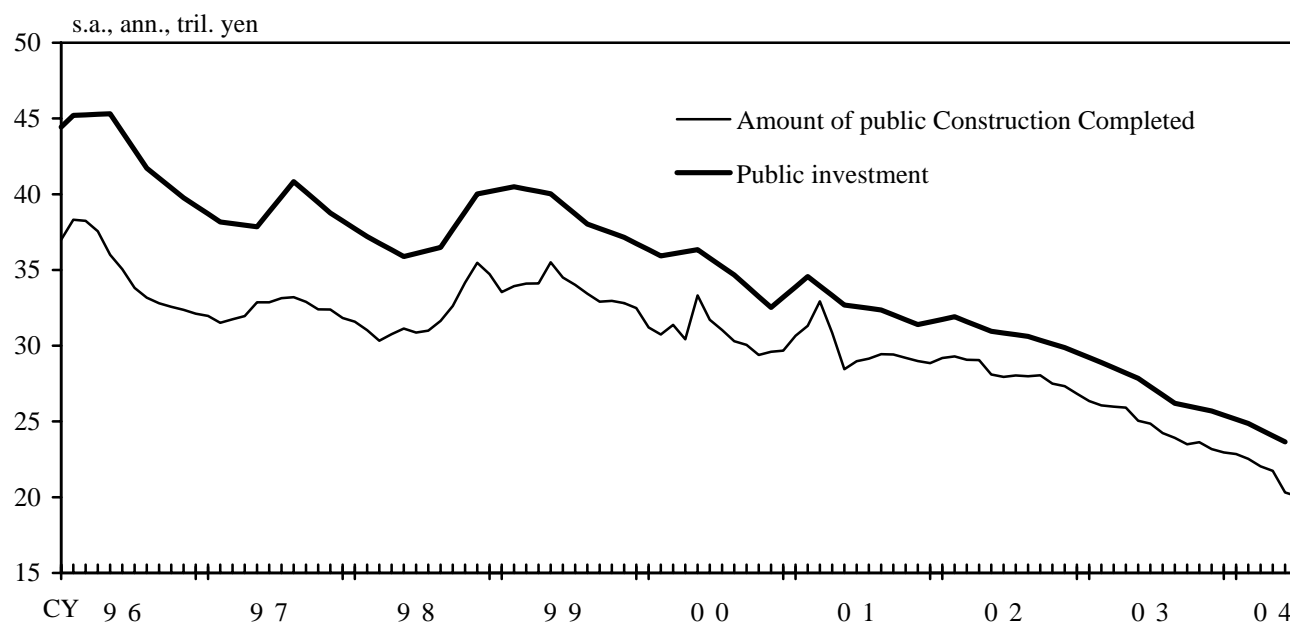
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Value of Public Works Contracted



(2) Amount of Public Construction Completed 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.

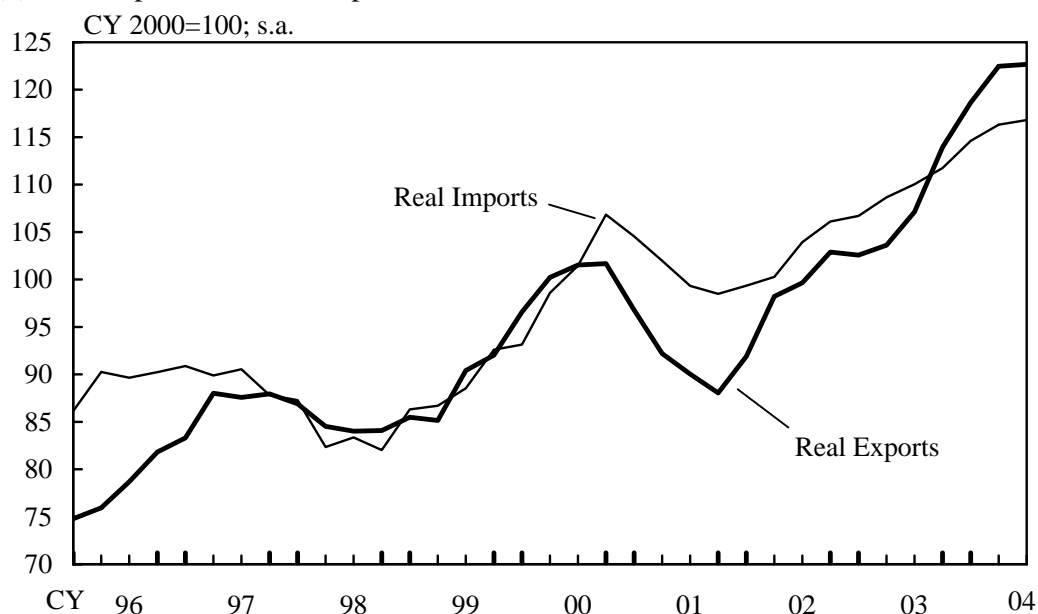
Sources: Cabinet Office, "National Accounts";

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

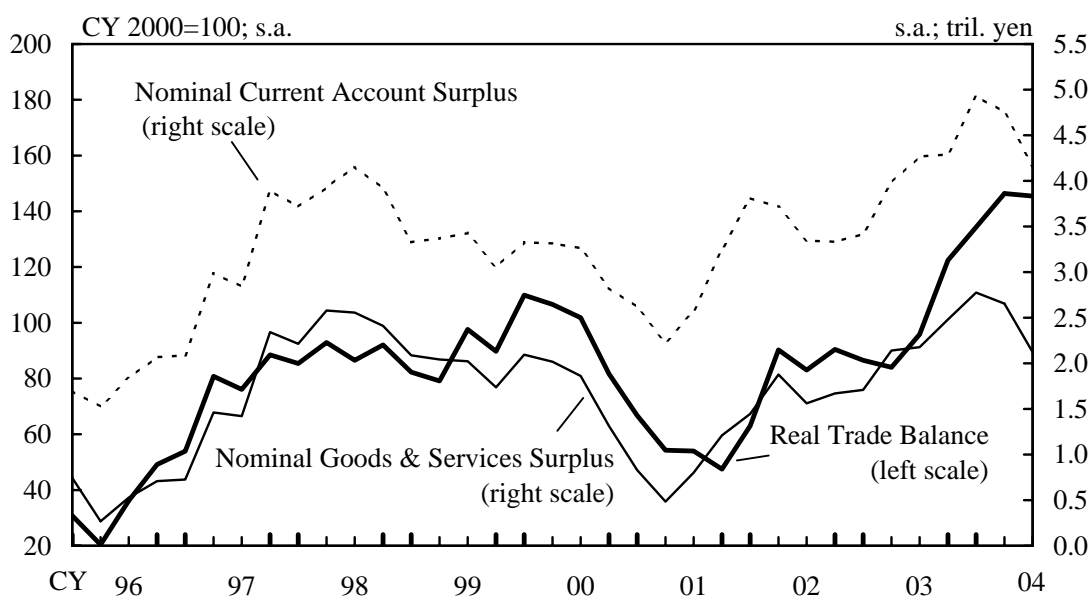
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

 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." 2004/Q3 figures are July figures converted into quarterly amount.
2. Real exports/imports and the real trade balance are seasonally adjusted by X-12-ARIMA.
3. 2004/Q3 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are July figures converted into quarterly amount.

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 Q3	2004 Q4	2004 Q1	2004 Q2	2004 Q3	2004 May	2004 Jun.
United States <24.6>	1.4	-6.2	-1.4	2.6	2.7	3.0	-3.1	2.9	4.5	-6.7
EU <15.3>	-0.0	13.9	1.7	3.9	9.8	1.8	0.2	9.0	2.7	-4.3
East Asia <44.9>	17.5	19.9	7.1	8.4	8.8	0.3	1.6	-1.4	1.1	1.3
China <12.2>	35.5	41.1	9.2	5.3	11.0	1.4	0.7	0.9	3.7	-2.0
NIEs <23.5>	14.4	15.7	7.4	12.1	8.1	0.2	2.2	-2.7	-0.6	3.5
Korea <7.4>	19.1	19.2	8.5	9.2	13.2	-1.5	2.7	2.5	-4.0	4.6
Taiwan <6.6>	14.6	16.1	9.3	17.0	5.8	0.7	8.5	-5.9	6.7	6.1
ASEAN4 ³ <9.2>	10.2	9.1	4.1	3.5	7.7	-0.8	1.2	-0.9	1.8	0.3
Thailand <3.4>	16.5	18.3	6.5	5.5	7.4	0.9	1.3	-0.7	-4.0	4.4
Real exports	7.2	8.9	3.4	6.4	4.1	3.2	0.2	-0.4	4.1	-2.4

(2) Breakdown by goods

	y/y % chg.	s.a. q/q % chg.						s.a. m/m % chg.		
		CY 2002	2003	2003 Q3	2004 Q4	2004 Q1	2004 Q2	2004 Q3	2004 May	2004 Jun.
Intermediate goods <15.6>	8.8	5.6	0.9	4.0	6.0	-3.8	1.0	-3.8	4.9	-0.9
Motor vehicles and their related goods <23.7>	12.7	1.3	0.3	5.9	-1.5	7.2	1.2	8.3	0.2	-1.6
Consumer goods ⁴ <7.0>	7.9	14.9	0.7	9.4	6.2	1.6	-10.3	-6.5	1.1	-8.9
IT-related goods ⁵ <14.1>	0.3	12.9	7.4	4.7	5.6	5.0	-1.4	1.7	2.5	-3.6
Capital goods and parts ⁶ <28.6>	7.8	17.1	6.4	6.3	7.3	6.1	1.4	0.5	0.2	1.1
Real exports	7.2	8.9	3.4	6.4	4.1	3.2	0.2	-0.4	4.1	-2.4

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q3 figures are July figures converted into quarterly amount.

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.

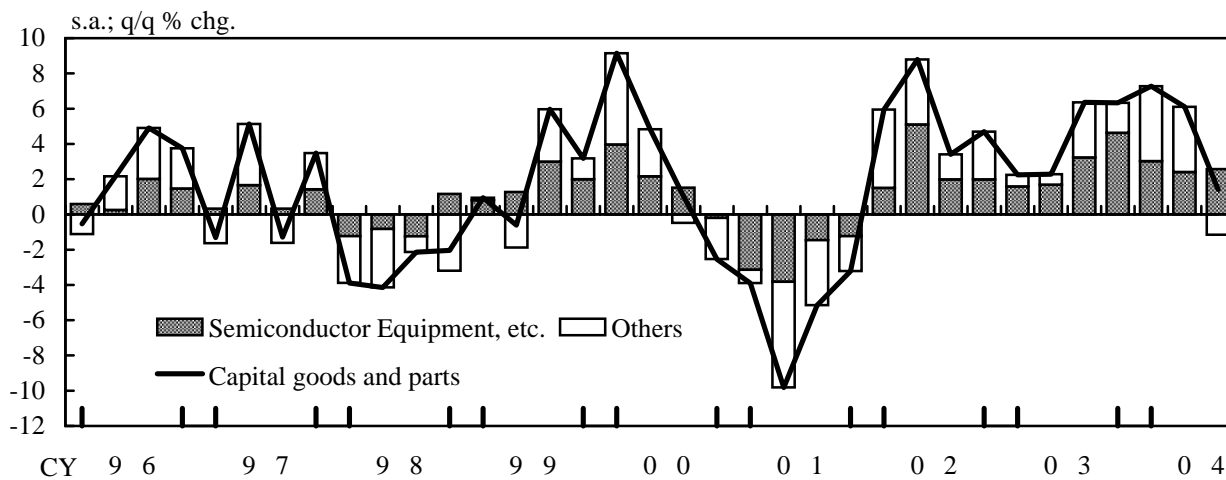
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

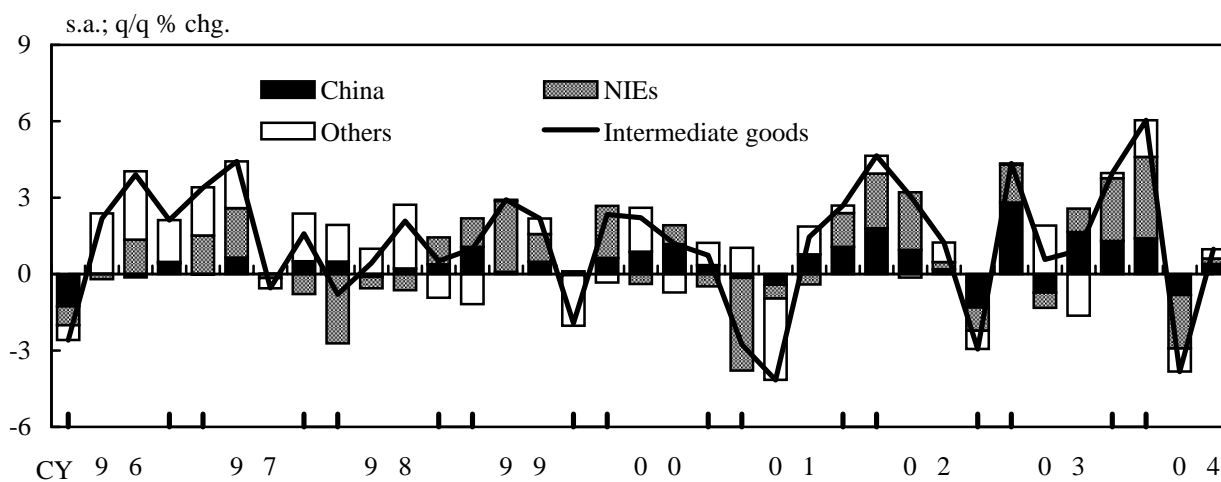
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports breakdown by goods

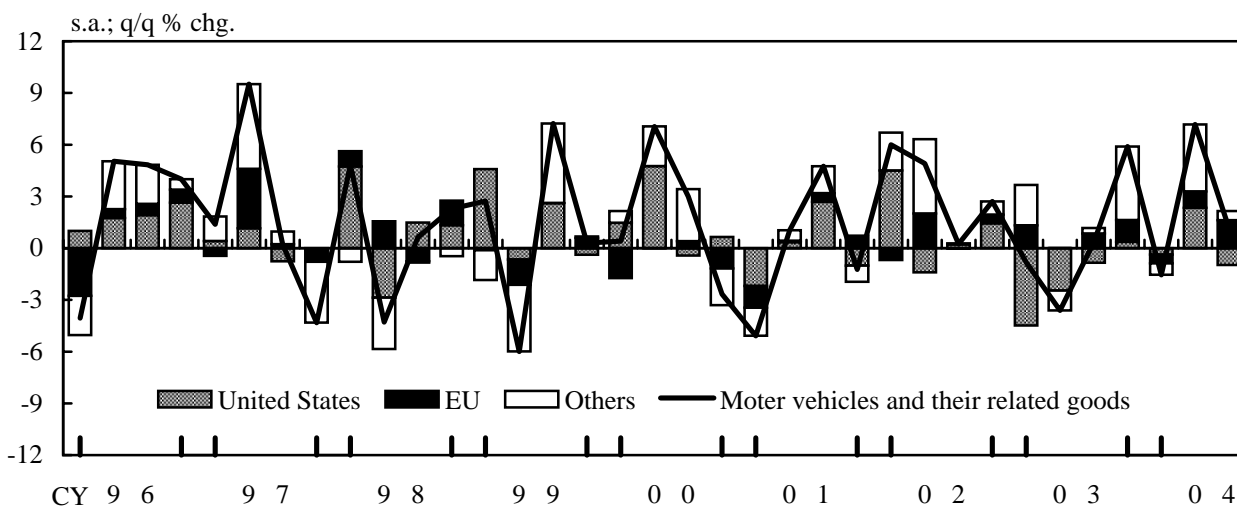
(1) Capital goods and parts (real, breakdown by goods)



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



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



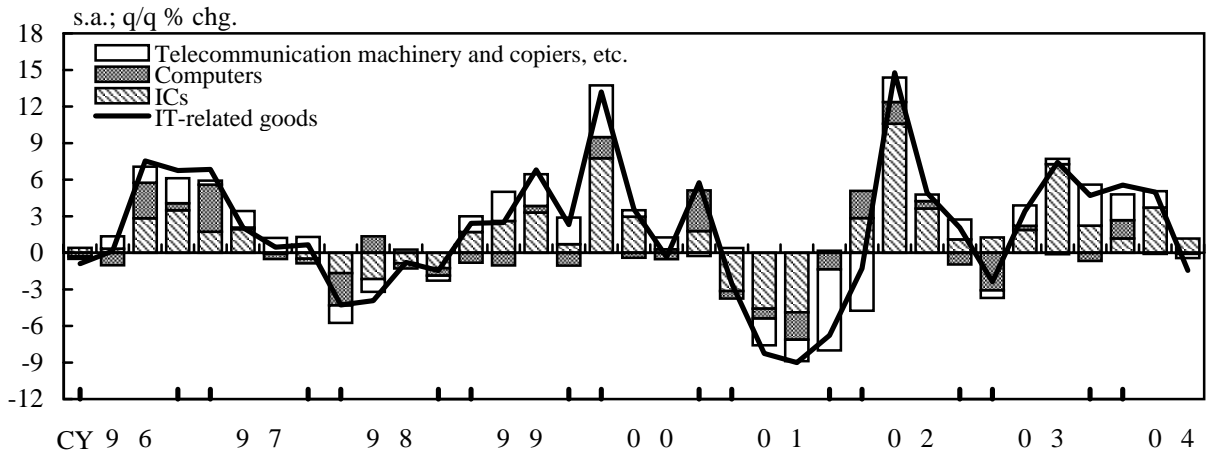
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2004/Q3 figures are July figures converted into quarterly amount.

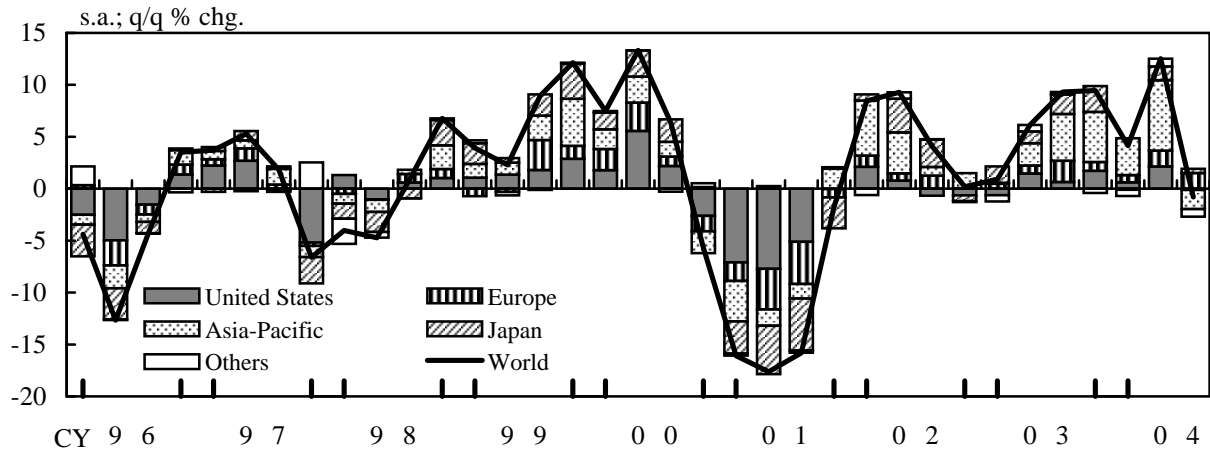
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

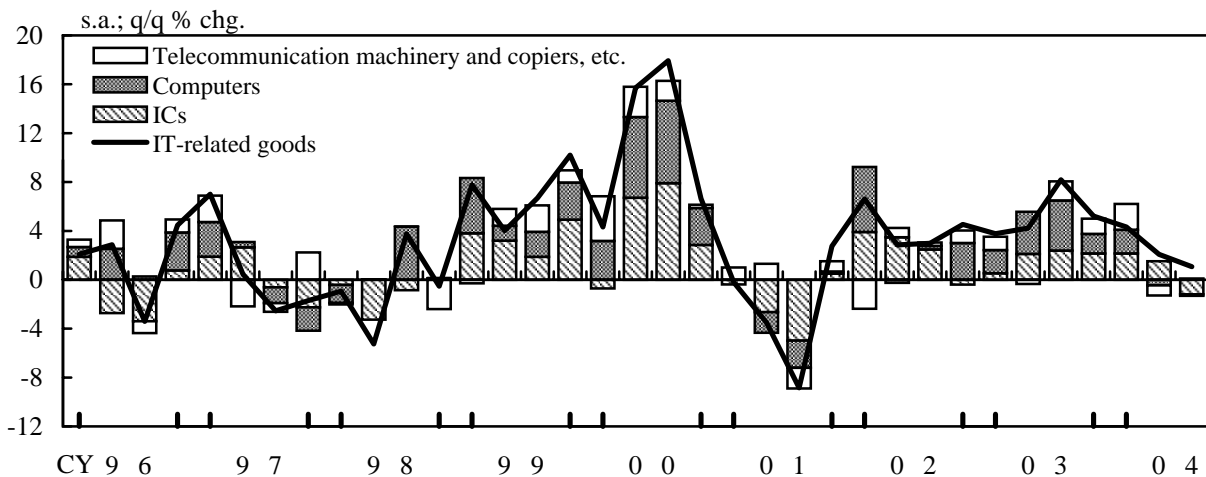
(1) Exports of IT-related goods (real, breakdown by goods)



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



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



Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. 2004/Q3 figures are July figures converted into quarterly amount.

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 Q3	2004 Q4	2004 Q1	Q2	Q3	2004 May	Jun.	Jul.
United States	<15.4>	-3.9	-1.6	-1.4	1.3	-3.6	4.0	-2.7	-9.7	15.2	-8.2
EU	<12.8>	2.3	6.4	1.3	3.1	6.8	-1.3	0.5	4.7	3.1	-2.9
East Asia	<42.4>	6.4	14.6	3.9	3.6	4.7	1.7	1.4	-0.3	6.8	-2.9
China	<19.7>	13.8	21.9	5.2	3.5	6.7	3.4	1.0	1.4	11.8	-6.5
NIEs	<10.2>	1.8	9.8	6.0	5.5	4.8	0.0	1.3	-3.9	4.3	-0.2
Korea	<4.7>	-1.5	13.1	3.1	7.8	9.4	0.9	-7.3	-0.9	5.4	-10.2
Taiwan	<3.7>	5.4	7.1	8.4	2.2	3.3	-0.6	7.2	-6.1	0.3	9.3
ASEAN4 ³	<12.5>	1.5	9.0	0.5	2.1	1.5	0.5	2.1	0.3	1.2	1.2
Thailand	<3.1>	7.6	11.5	4.6	3.4	2.3	4.0	4.1	3.0	2.0	1.7
Real imports		1.1	6.8	1.3	1.6	2.6	1.5	0.4	-2.8	9.8	-4.7

(2) Breakdown by goods

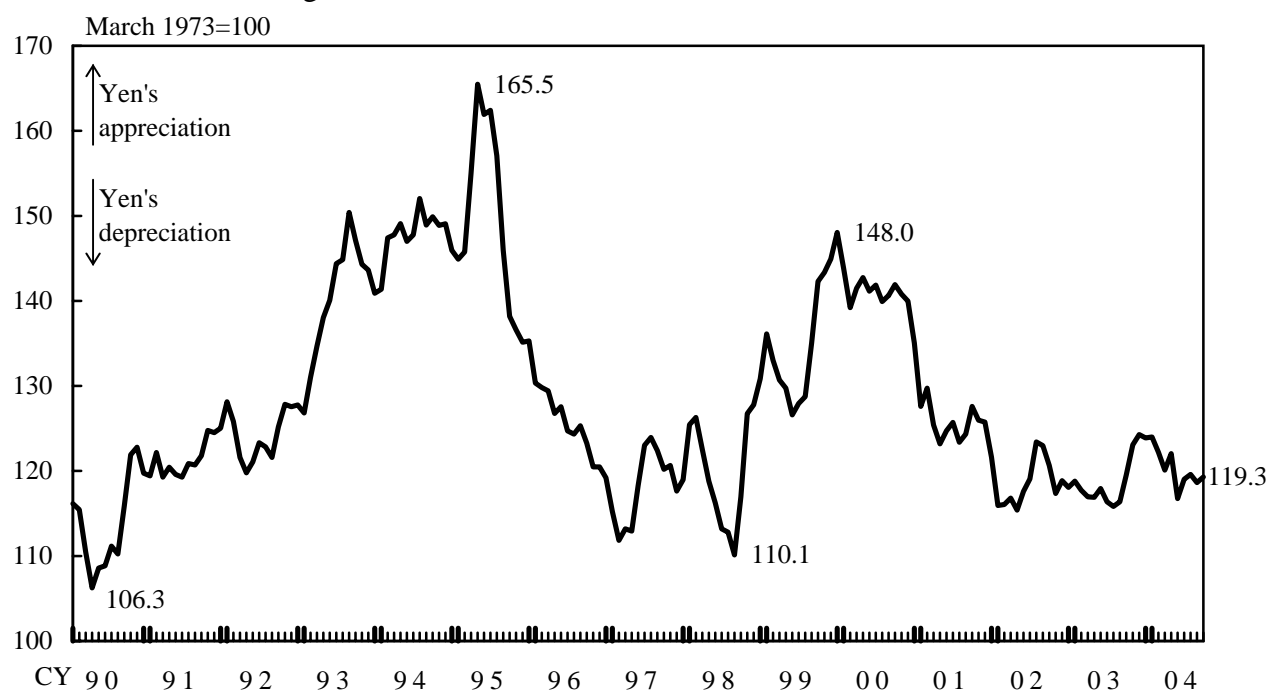
		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q3	2004 Q4	2004 Q1	Q2	Q3	2004 May	Jun.	Jul.
Raw materials ⁴	<27.1>	-2.7	6.0	-3.0	-3.4	3.3	-0.4	4.0	-5.4	7.8	0.8
Intermediate goods	<13.4>	1.4	4.5	2.5	1.0	3.3	2.0	2.3	6.7	3.4	-2.0
Foodstuffs	<11.5>	-2.5	-4.2	-0.6	0.2	-0.0	-0.0	-1.8	-4.8	7.3	-4.7
Consumer goods	<10.8>	-0.9	8.0	3.7	6.3	0.7	4.0	-2.3	8.9	6.3	-8.7
IT-related goods ⁵	<14.0>	7.8	19.3	8.2	5.2	4.3	2.1	1.1	-4.7	-1.2	3.6
Capital goods and parts ⁶	<13.0>	11.5	14.3	-1.7	6.5	3.0	4.9	2.4	-11.3	22.9	-6.8
excluding aircraft	<11.9>	8.3	14.3	1.5	4.8	7.8	1.6	3.1	-5.6	6.7	0.7
Real imports		1.1	6.8	1.3	1.6	2.6	1.5	0.4	-2.8	9.8	-4.7

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q3 figures are July figures converted into quarterly amount.
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.

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

Environment for Exports (1)

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for September 2004 is the average up to September 8.
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

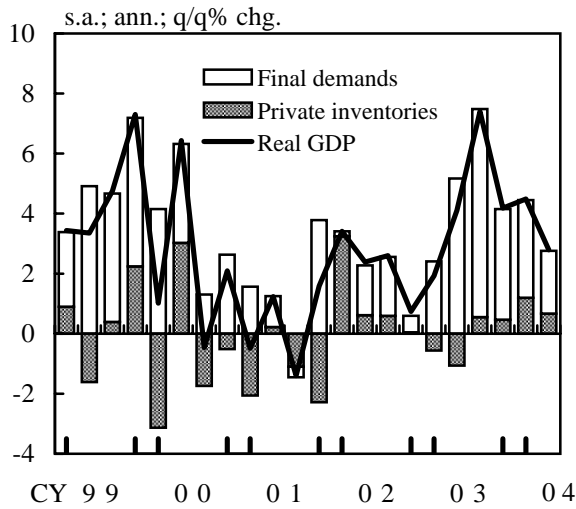
		CY2001	2002	2003	2003 Q3	Q4	2004 Q1	Q2	
United States ¹		0.8	1.9	3.0	7.4	4.2	4.5	2.8	
European Union ¹ (15 countries)		1.7	1.0	0.7	2.2	1.9	2.7	2.4	
	Germany	0.8	0.1	-0.1	1.1	1.2	1.7	1.9	
	France	2.1	1.1	0.5	3.0	2.1	3.4	3.4	
	United Kingdom	2.3	1.8	2.2	3.8	4.2	2.9	3.8	
East Asia ²	China	7.5	8.0	9.1	9.6	10.1	9.8	9.6	
	NIEs	Korea	3.8	7.0	3.1	2.4	3.9	5.3	5.5
		Taiwan	-2.2	3.6	3.3	4.0	5.7	6.7	7.7
		Hong Kong	0.5	1.9	3.2	4.0	4.9	7.0	12.1
		Singapore	-1.9	2.2	1.1	1.7	4.9	7.4	11.7
	ASEAN4	Thailand	2.1	5.4	6.8	6.6	7.8	6.6	6.3
		Indonesia	3.8	4.3	4.5	3.7	4.1	5.0	4.3
		Malaysia	0.3	4.1	5.3	5.3	6.6	7.6	8.0
Philippines		3.0	3.1	4.7	4.8	5.0	6.5	6.2	

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

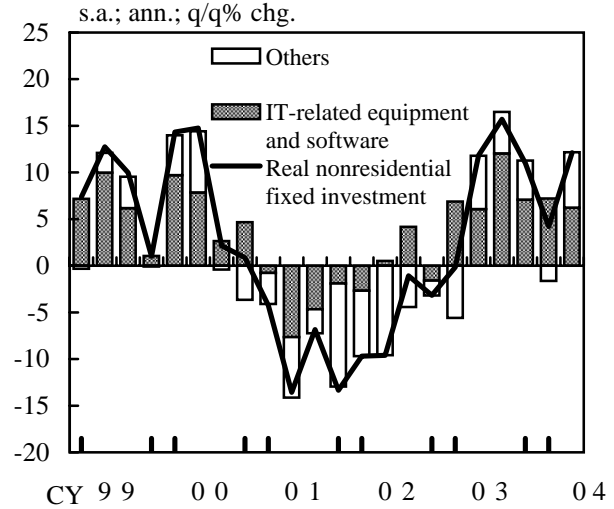
2. Quarterly data of East Asia are percent changes from a year earlier.

Environment for Exports (2)

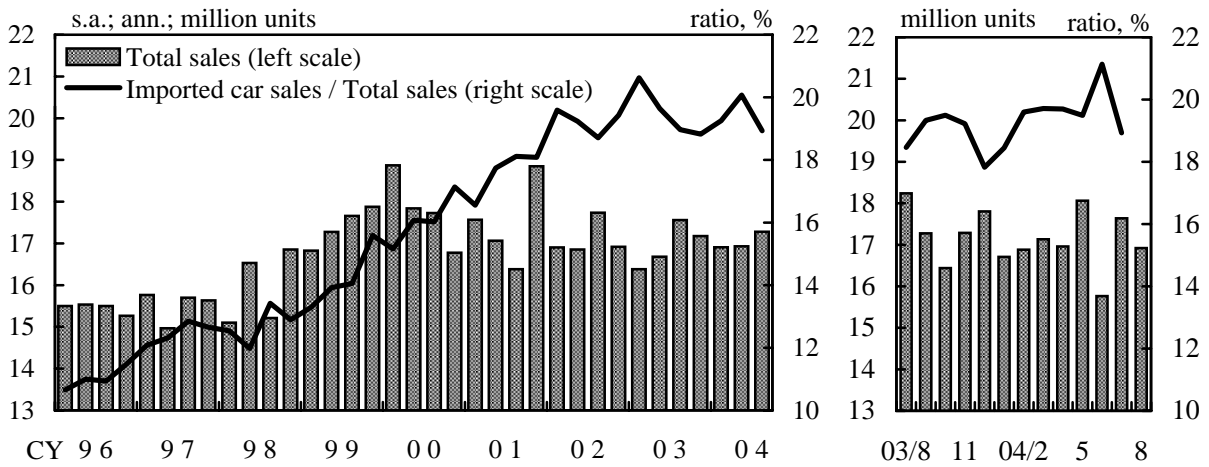
(1) U.S. Real GDP (breakdown by final demands and inventories)



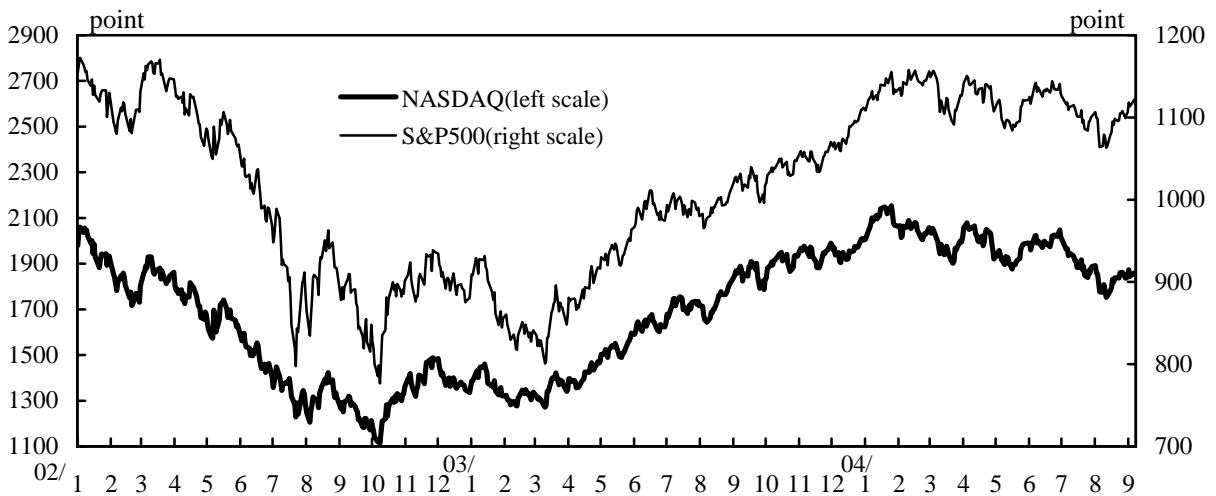
(2) U.S. Real Nonresidential Fixed Investment



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



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

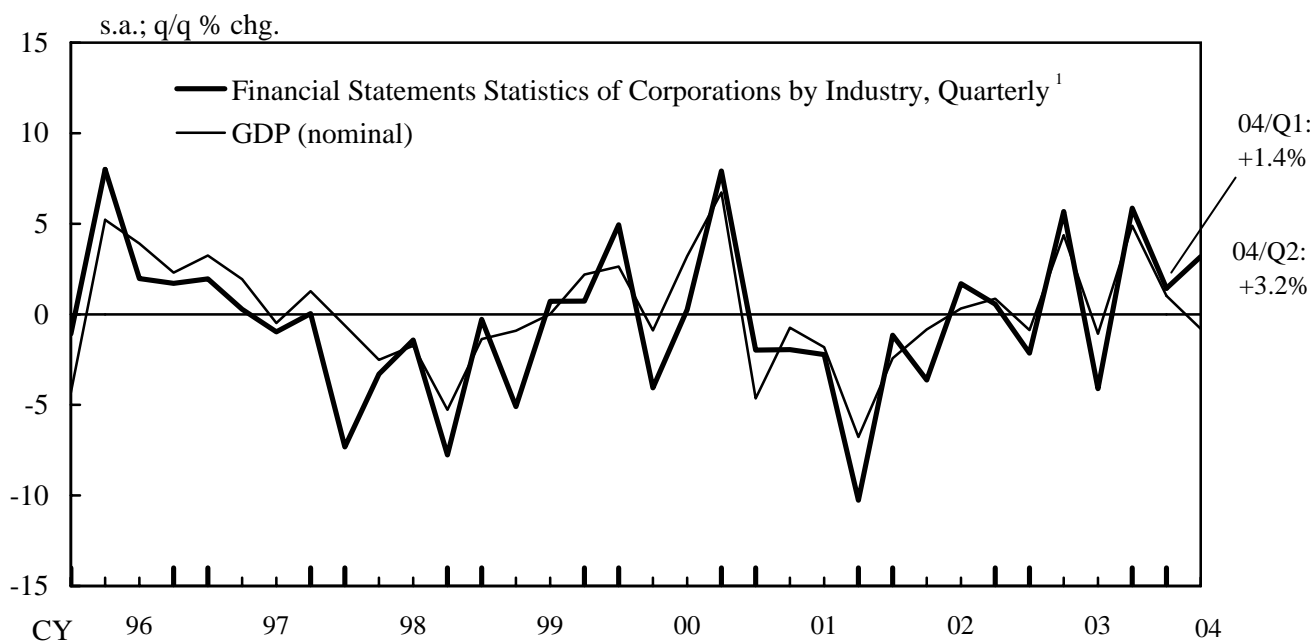
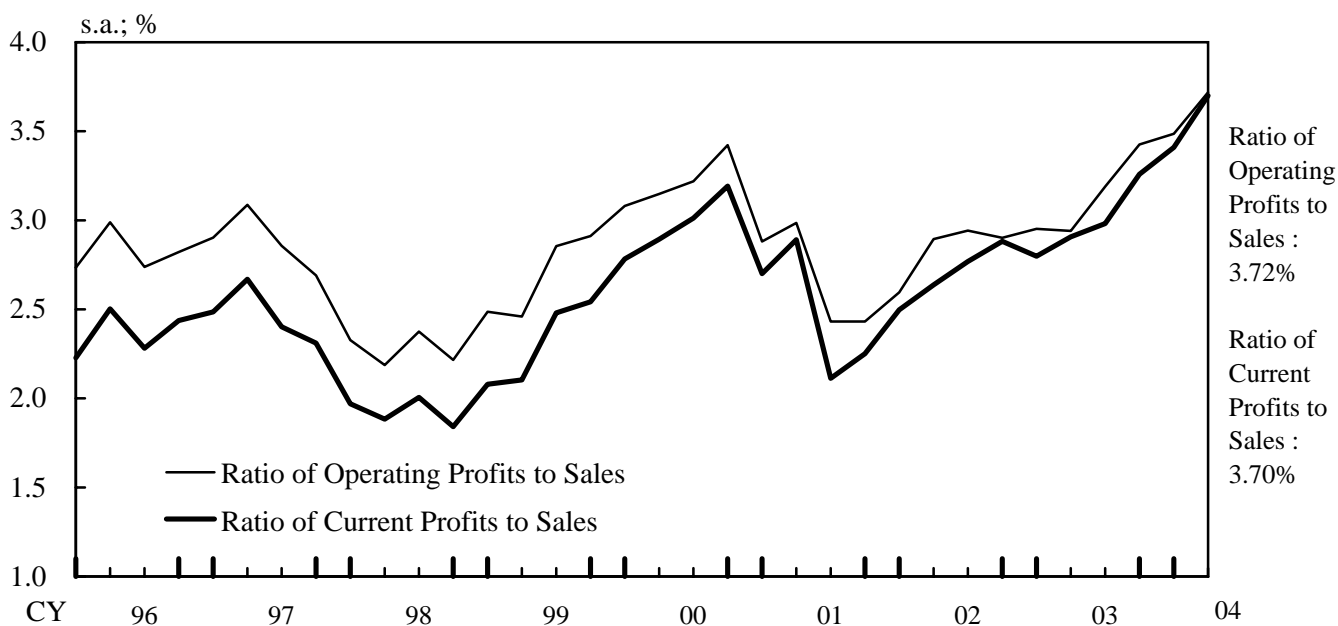


- Notes: 1. "Imported car sales / Total sales" of automobile in 2004/Q3 is based on July figure in (3). "Total sales" of automobile in 2004/Q3 is Jul.-Aug. averages. August automobile sales is calculated by adding CY 2003 sales of heavy trucks (0.33mil.) to preliminary figure released by an industry association (s.a., ann., 16.59 mil.) which does not include heavy trucks.
2. Figures of U.S. stock prices in (4) are up to September 8.

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

Business Fixed Investment and Corporate Profits

(1) Fixed Investment

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

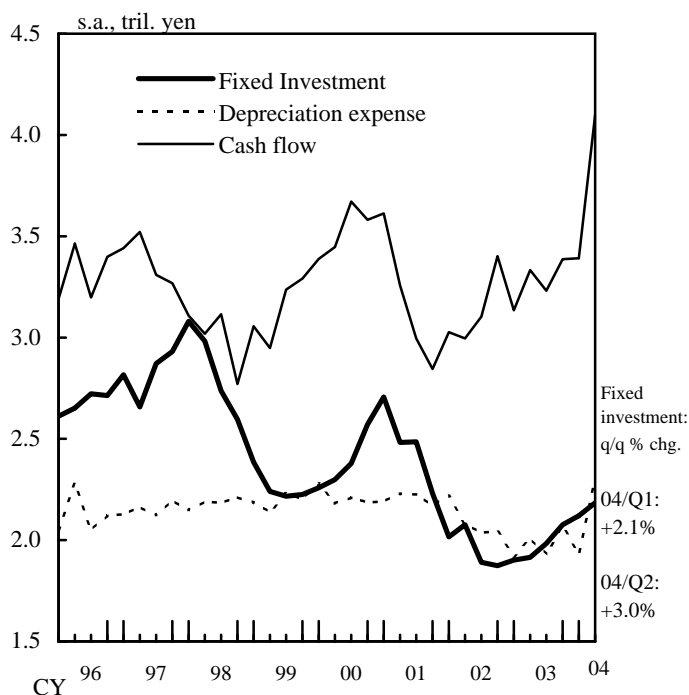
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. The sample change comes due to (i) a change in sampling firm in each the second quarter survey, and (ii) changes in the respondent firms in every quarter.

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

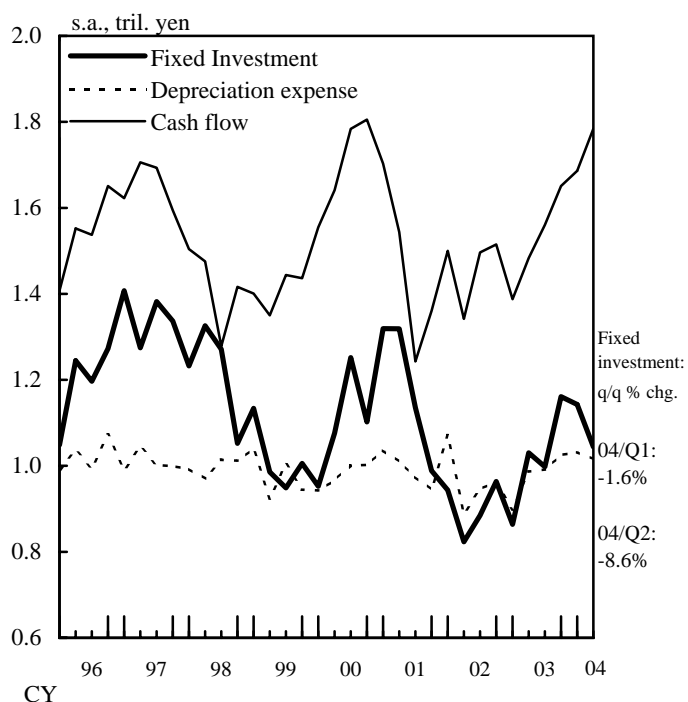
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment

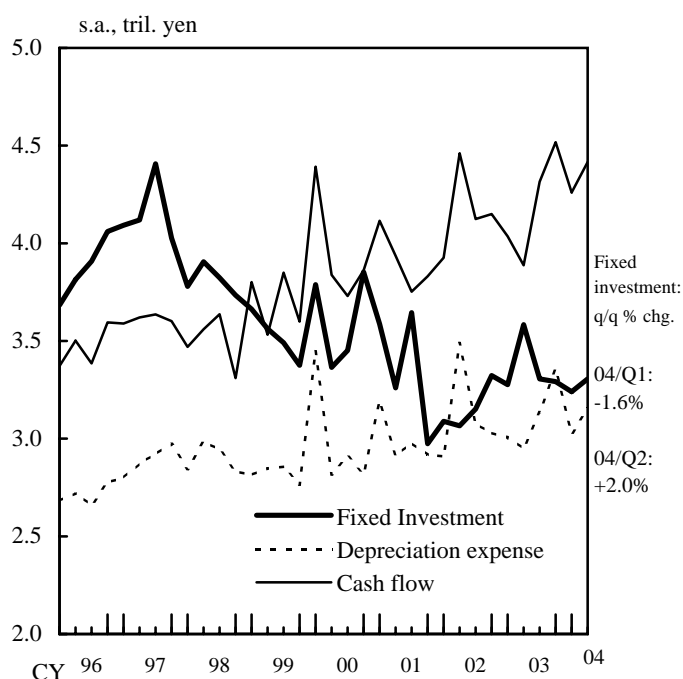
(1) Large manufacturing firms



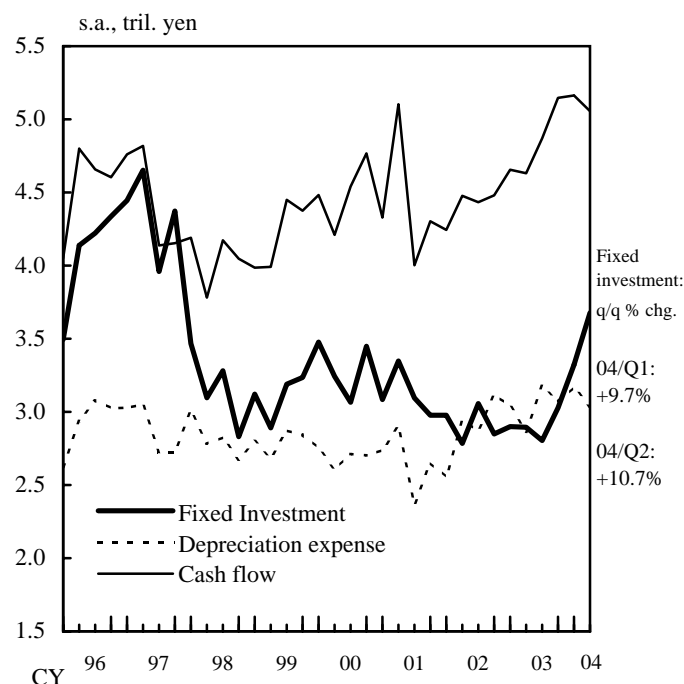
(2) Medium-sized and small manufacturing firms



(3) Large nonmanufacturing firms



(4) Medium-sized and small nonmanufacturing firms



Notes: 1. *Financial Statements Statistics of Corporations by Industry, Quarterly* basis.

2. Sample change adjusted.

3. Electric and gas are excluded from nonmanufacturing large firms.

4. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

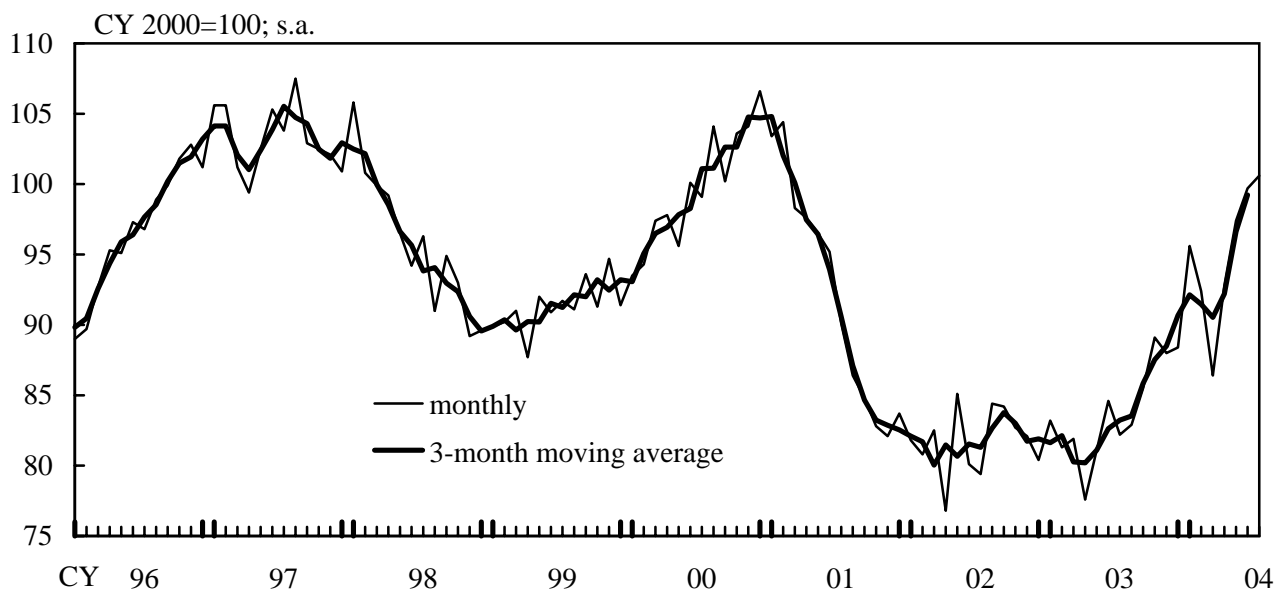
5. Cash Flow = Current profits / 2 + Depreciation expense

6. Seasonally adjusted by X-11.

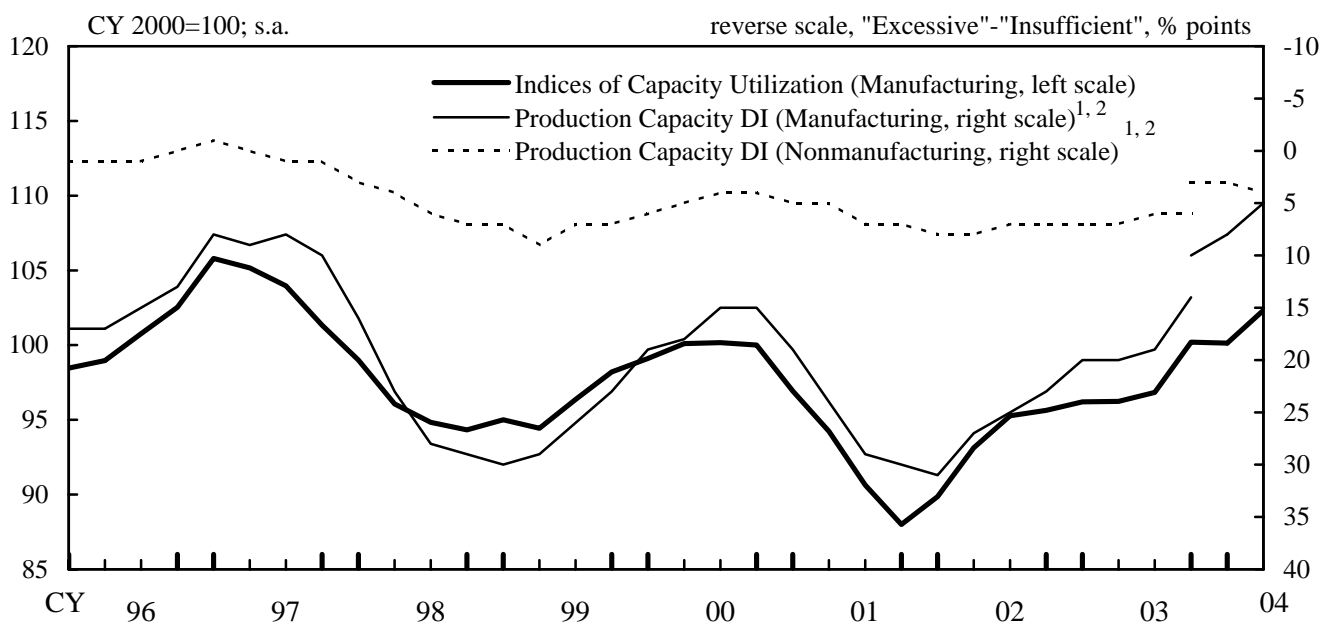
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Indicators for Business Fixed Investment (1)

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



(2) Indices of Capacity Utilization and Production Capacity DI



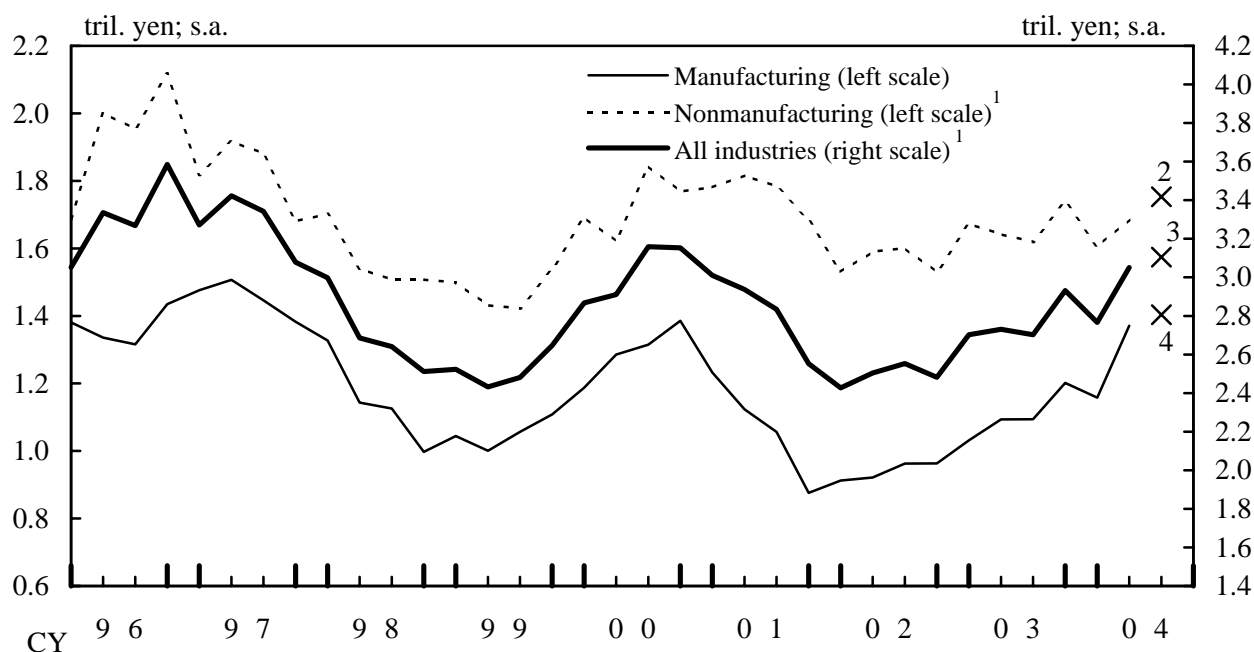
Notes: 1. Production Capacity DIs are those of all enterprises.

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



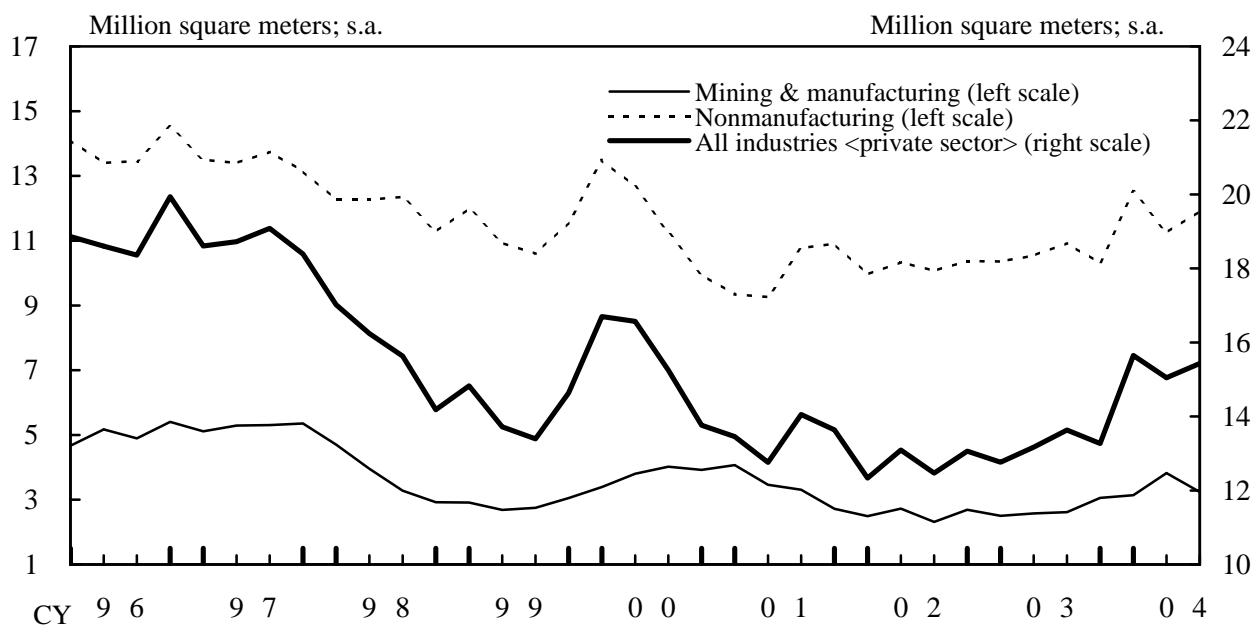
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2004/Q3.

3. Forecast of all industries for 2004/Q3.

4. Forecast of manufacturing industries for 2004/Q3.

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



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

2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for Newspaper Publishing and Publishing Business was changed from Mining and Manufacturing to Nonmanufacturing. Accordingly, the data up to fiscal year 2002 were adjusted by using a link coefficient.

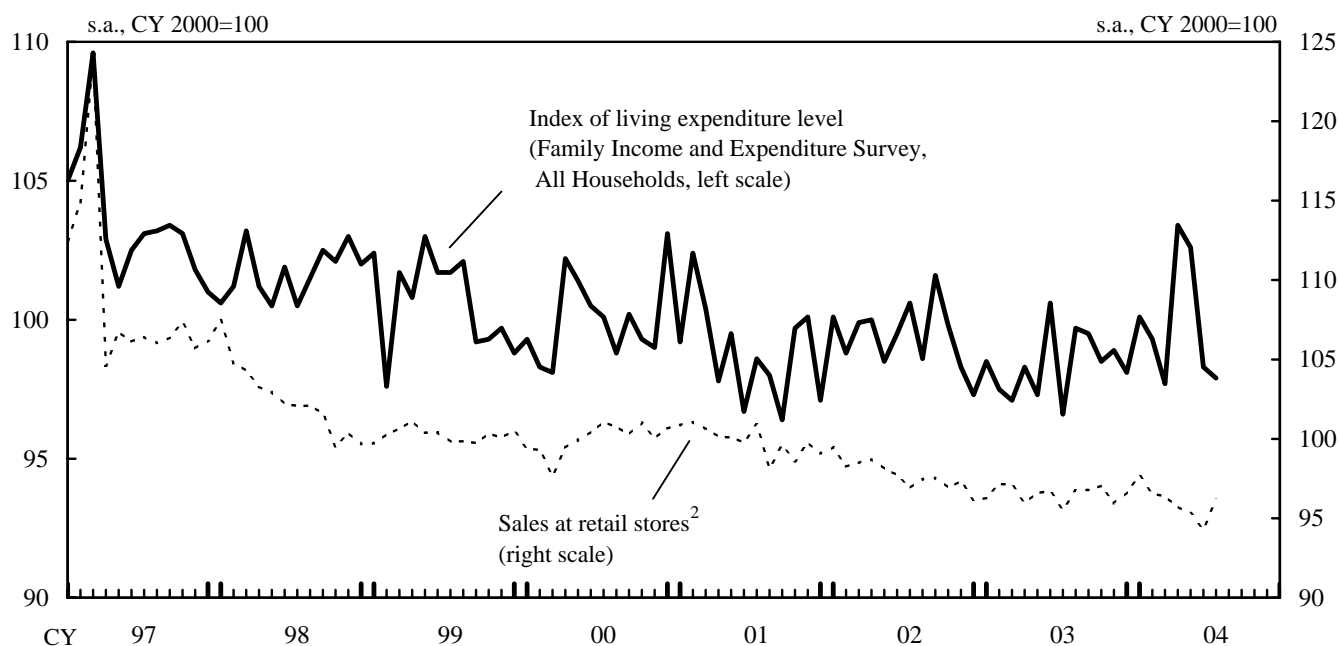
3. Figures for 2004/Q3 are those of July in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

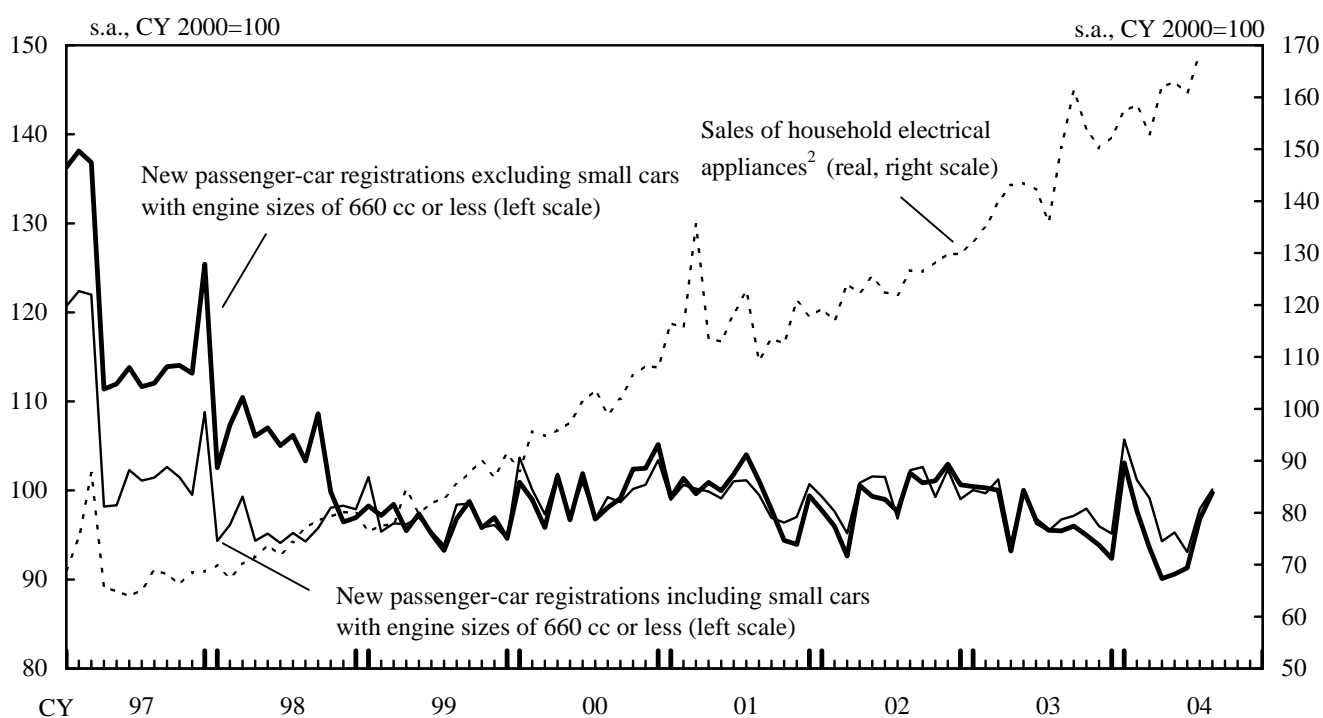
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



(2) Sales of Durable Goods



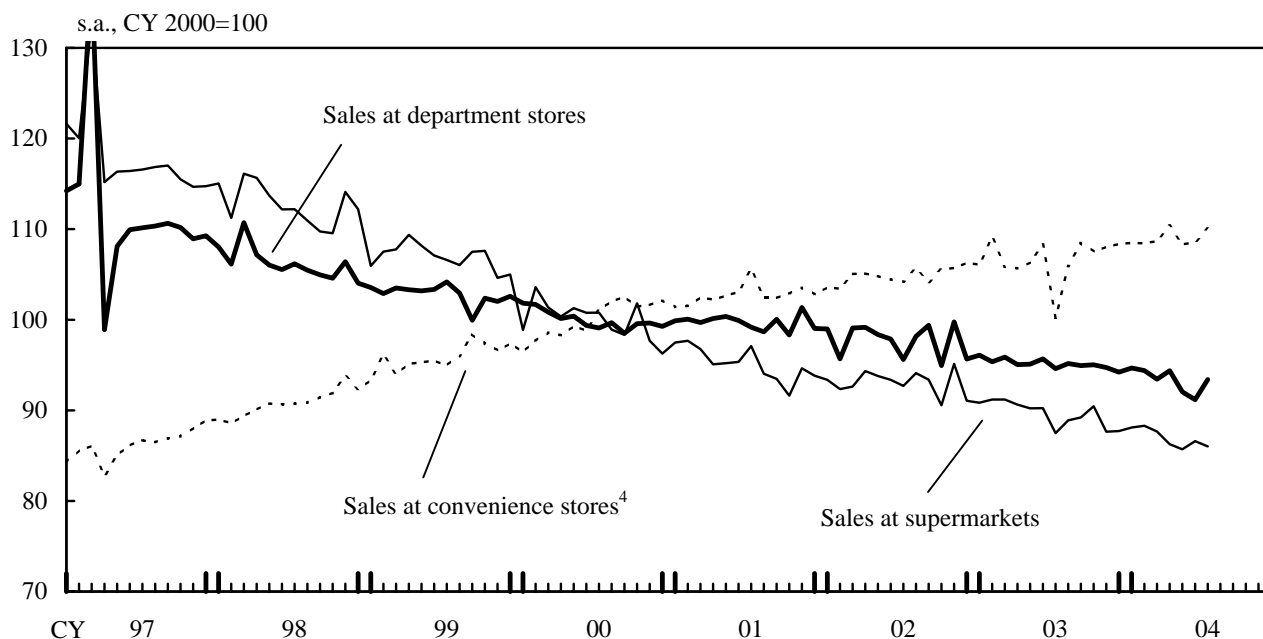
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.

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).

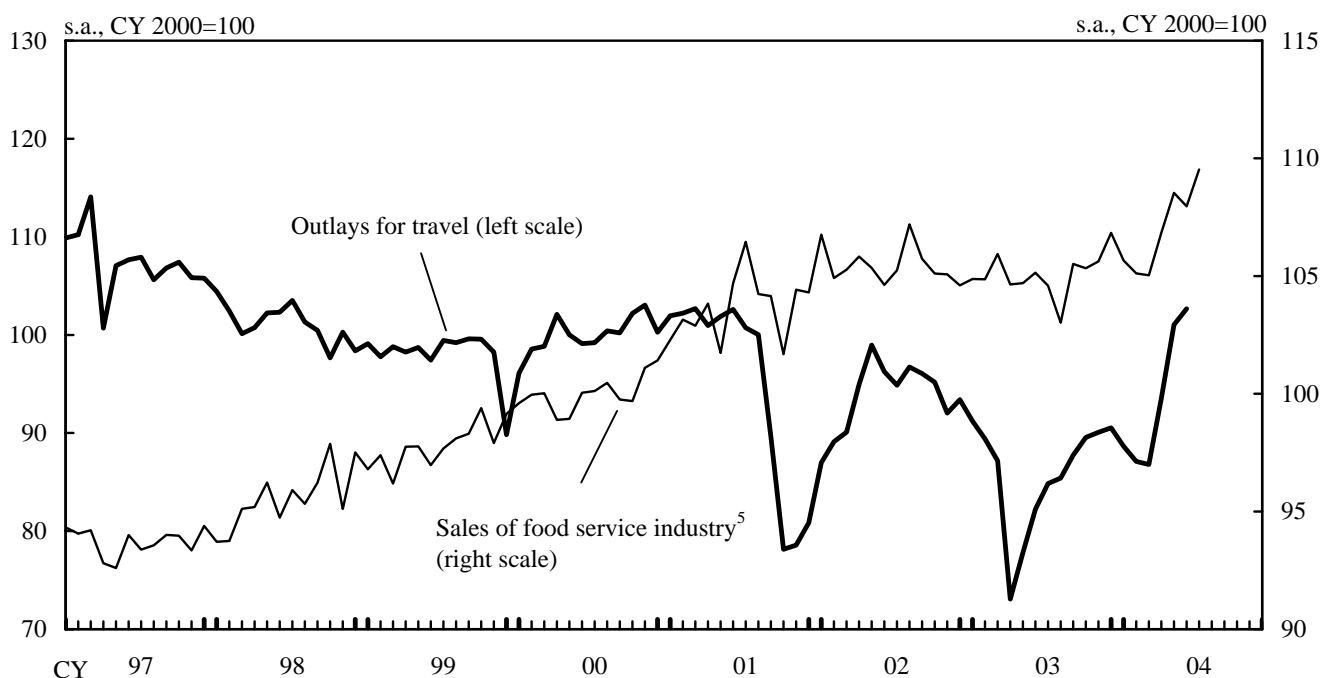
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; 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.

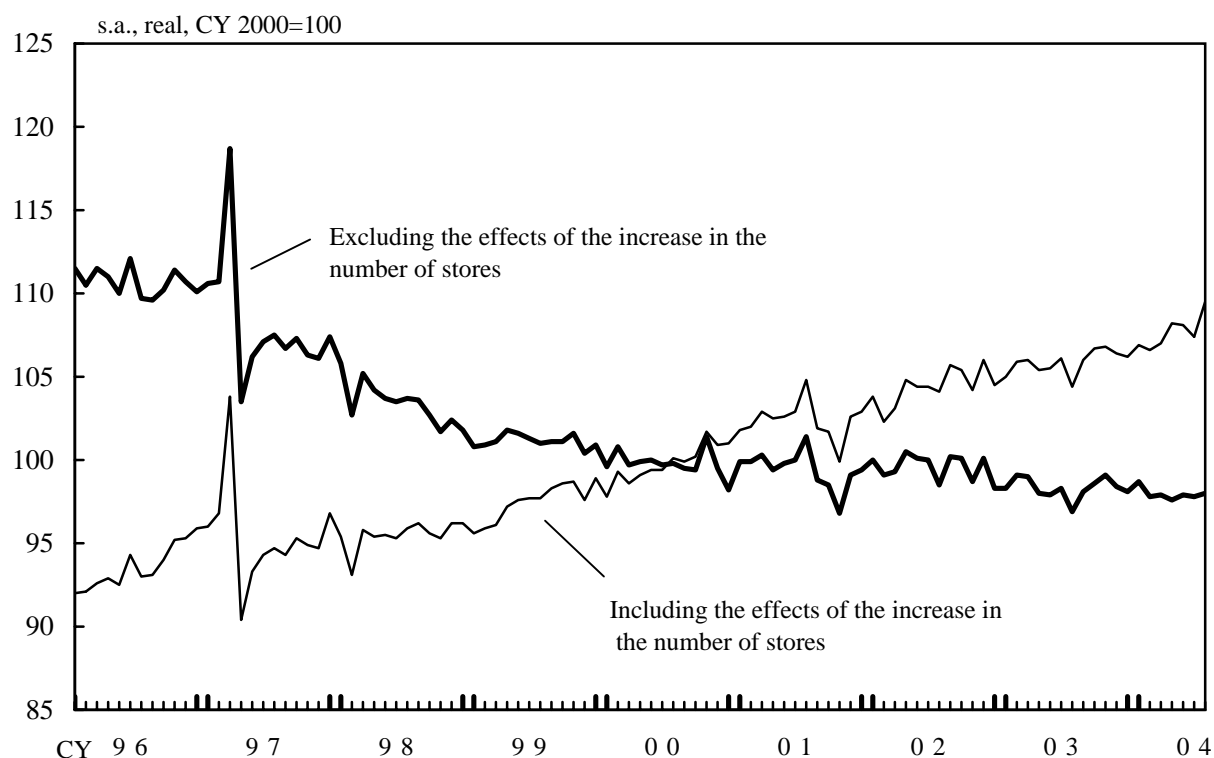
5. Sales of food service industry are calculated using the year to year change rates of every month released by the Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

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

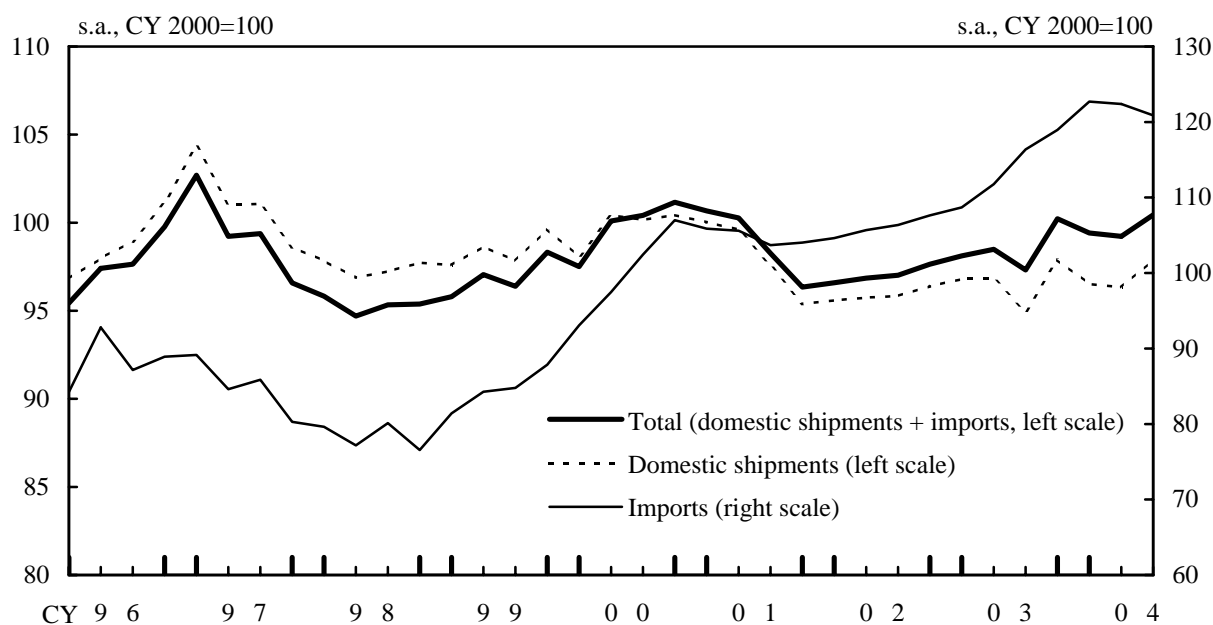


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in 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.

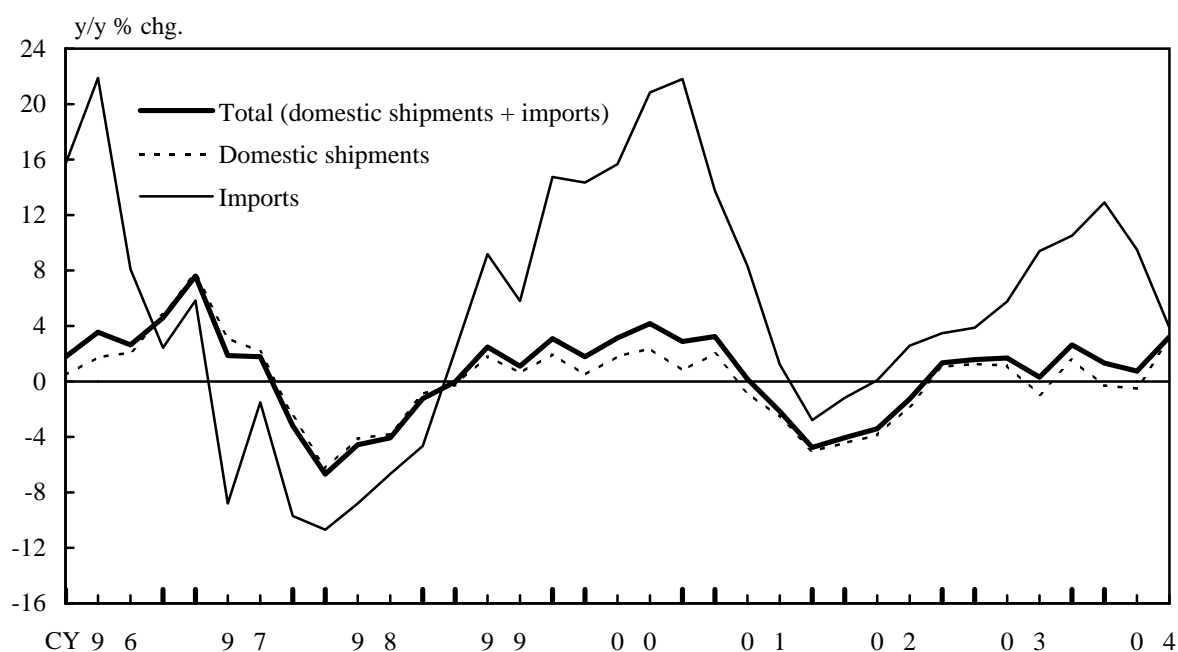
Source: Bank of Japan, "Indices of Aggregated Sales."

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.

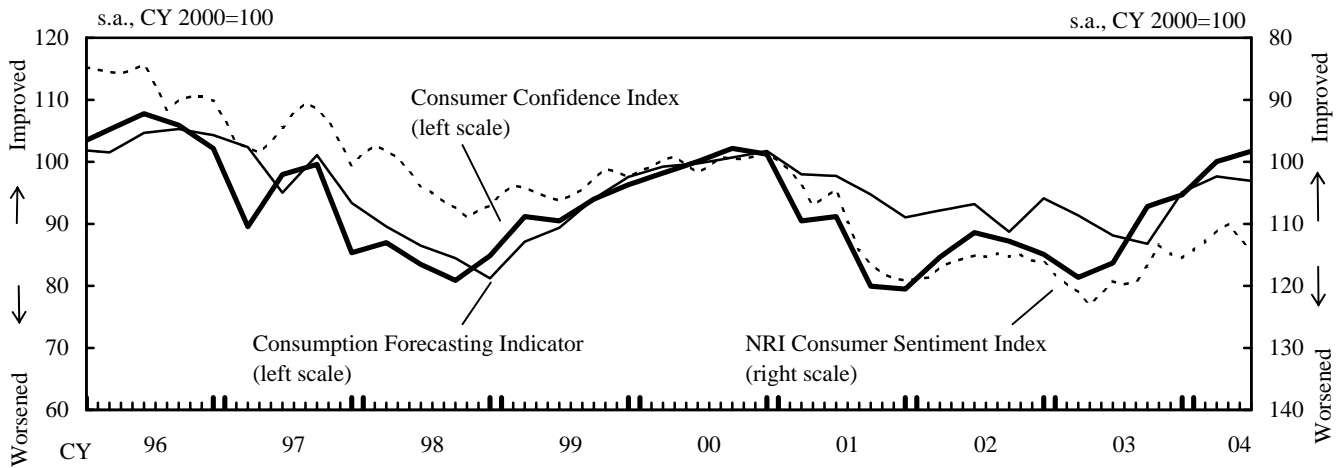
3. Year-on-year changes are calculated from seasonally adjusted series.

4. 2004/Q3 figures are those of July 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, "Corporate Goods Price Index."

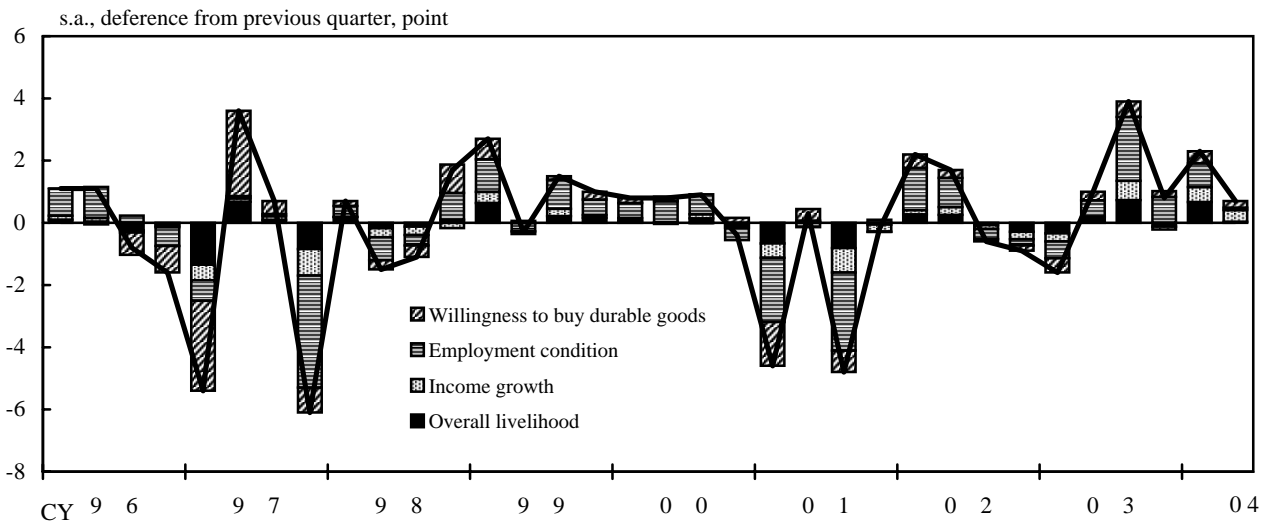
Consumer Confidence

(1) Surveys on Consumer Confidence

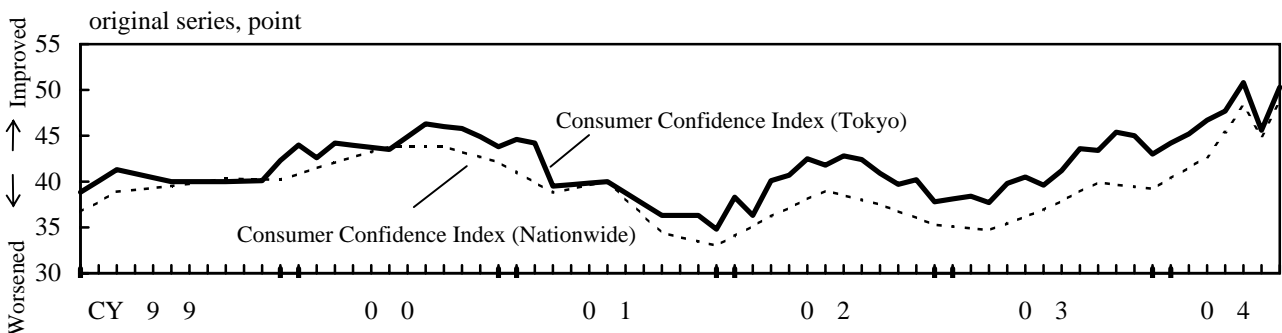


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 1,500 samples in metropolitan area), and NRI Consumer Sentiment Index (with 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.

(2) Contribution of Each Item in the Consumer Sentiment Indexes



(Reference) Consumer Confidence Survey (Monthly)

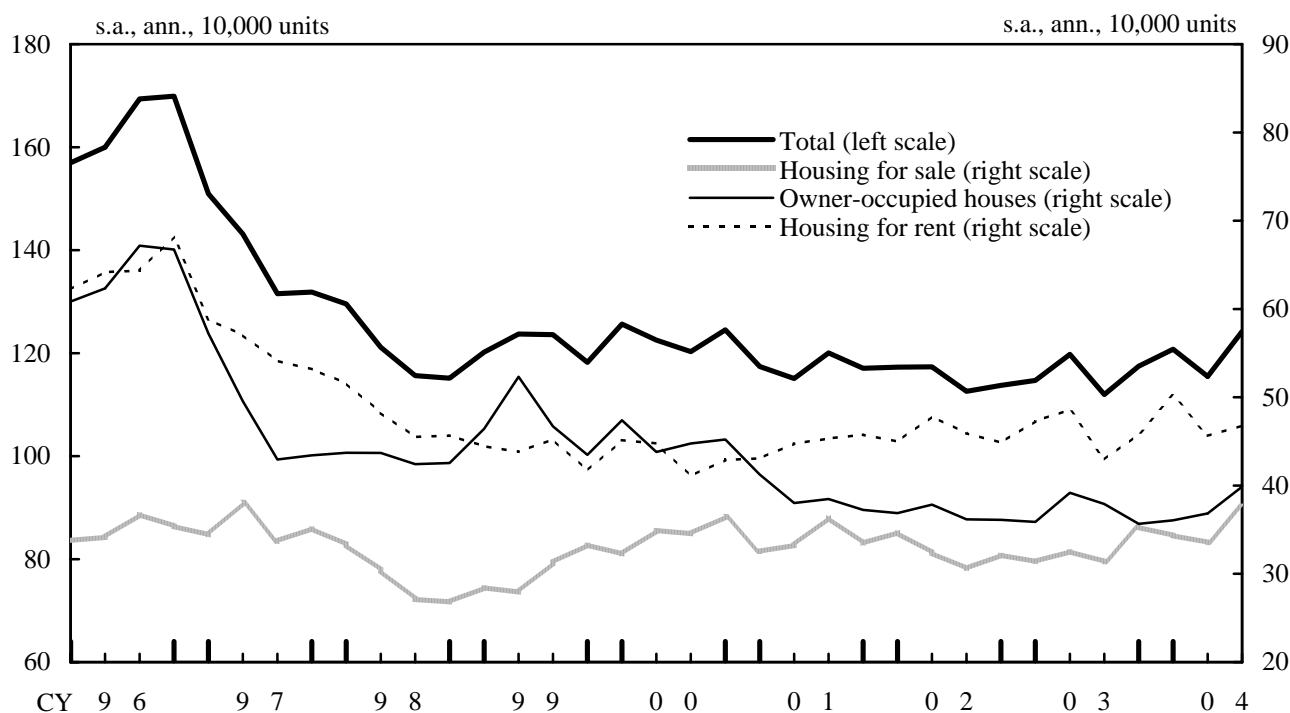


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation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

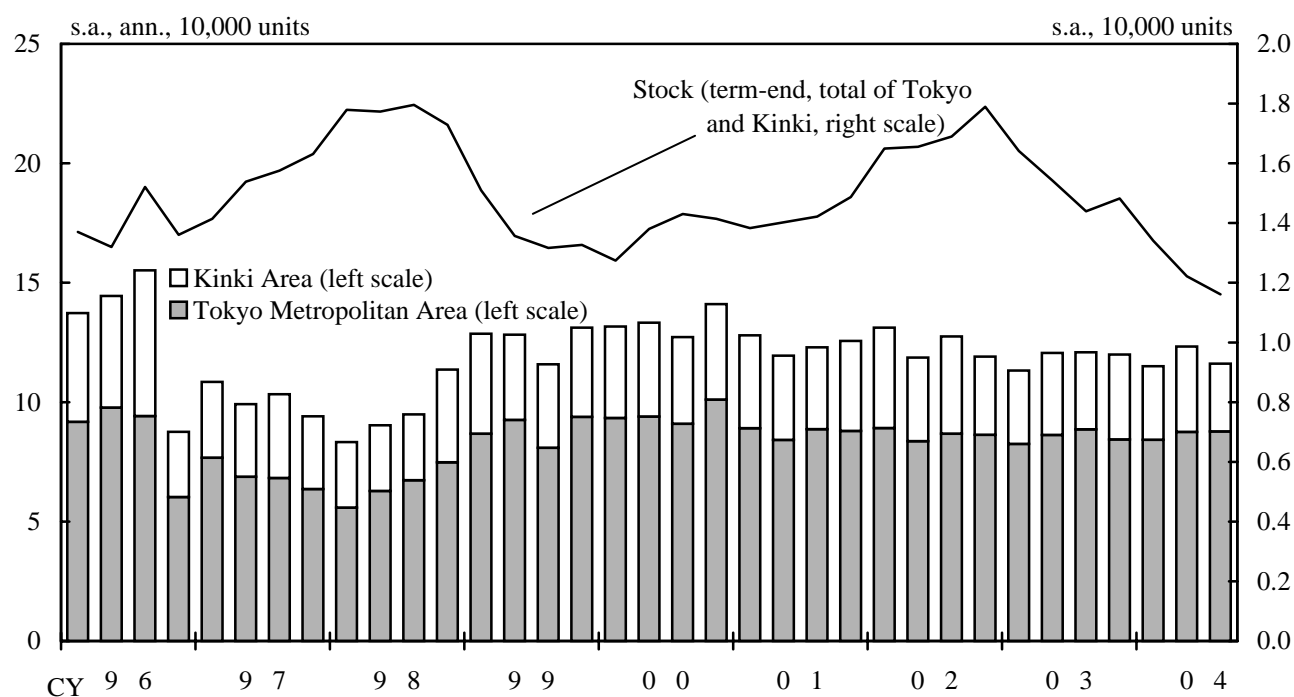
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2004/Q3 are those of July.

(2) Sales of Condominiums



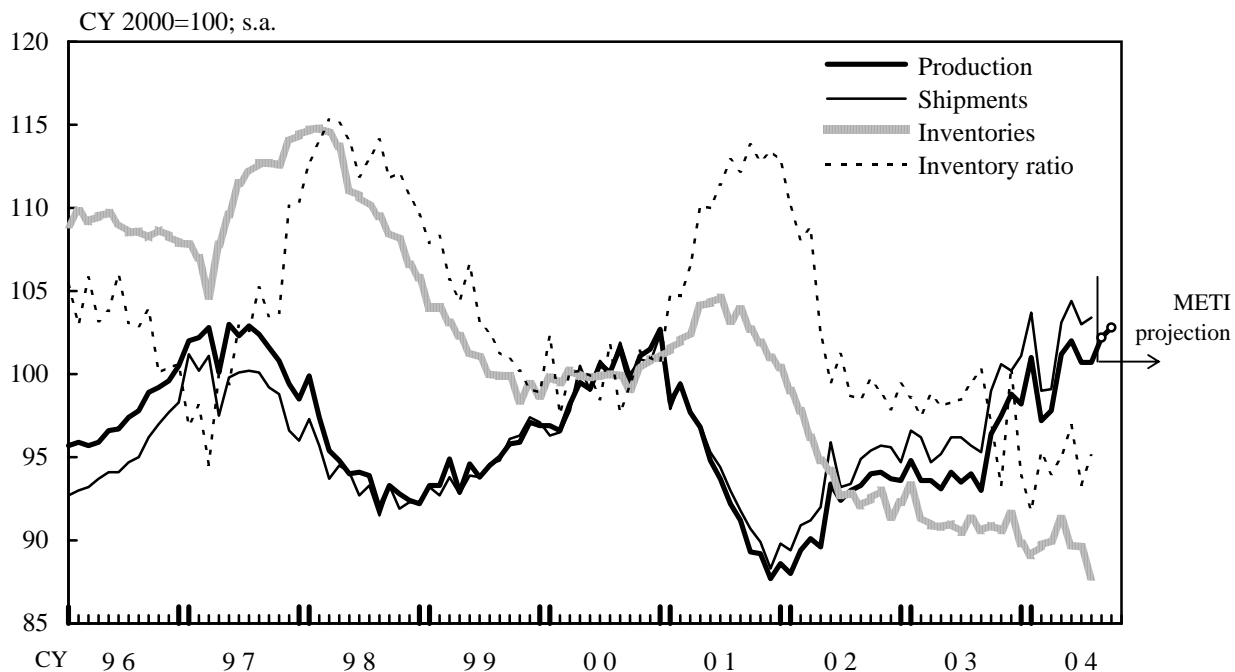
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Figures for 2004/Q3 are those of July.

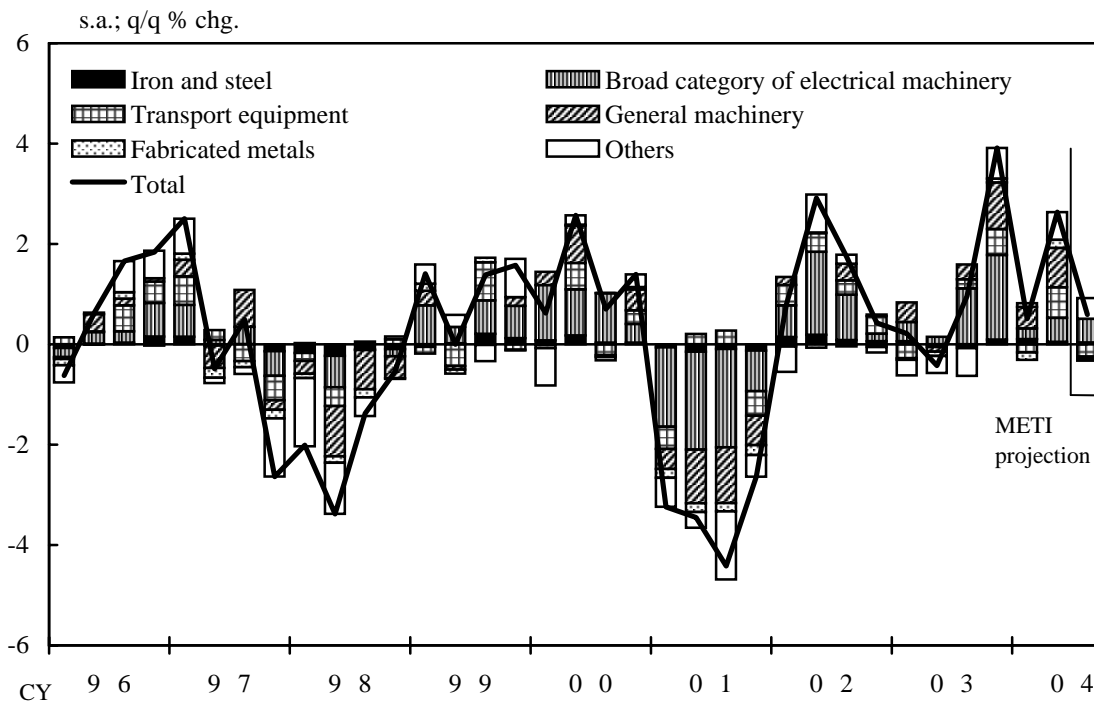
Sources: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



Note: Transport equipment excludes ships and rolling stock.

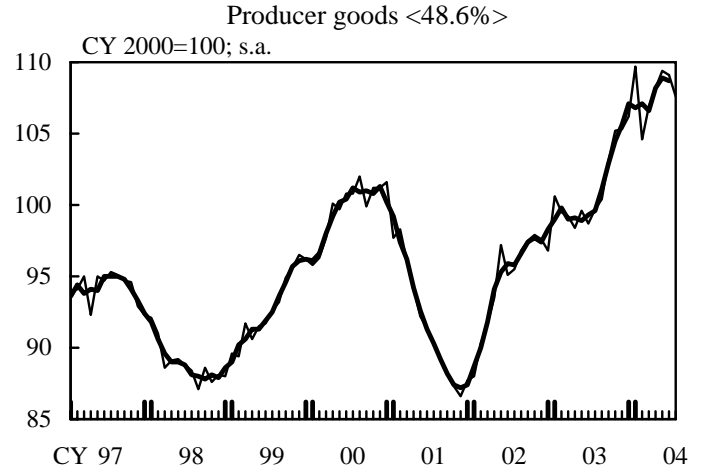
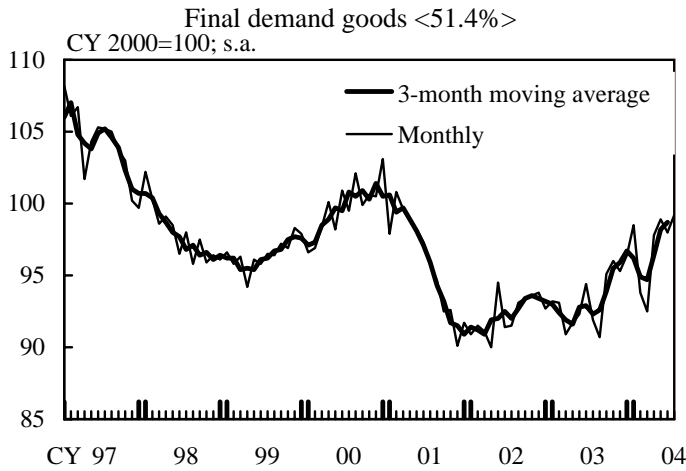
"Broad category of electrical machinery" is the weighted sum of "electrical machinery",

"information and communication electronics equipment" and "electronic parts and devices."

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

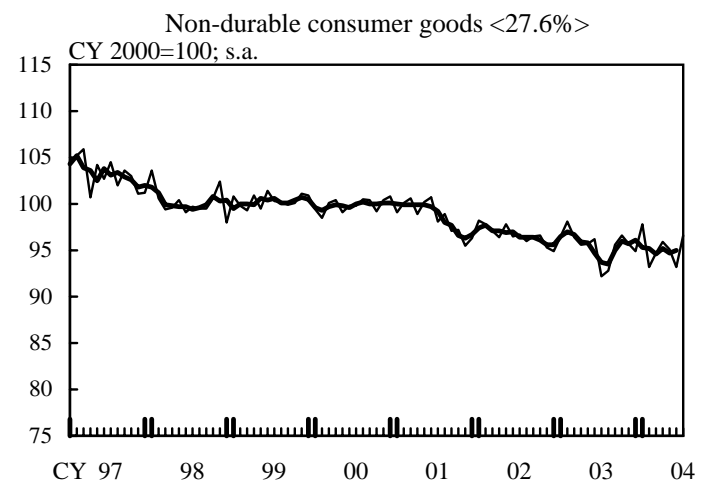
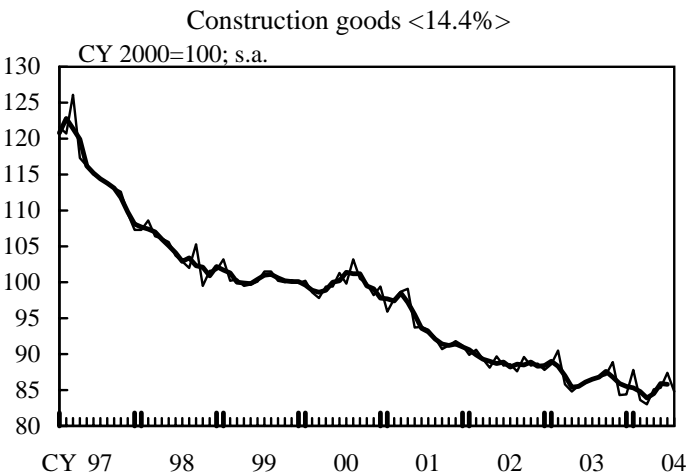
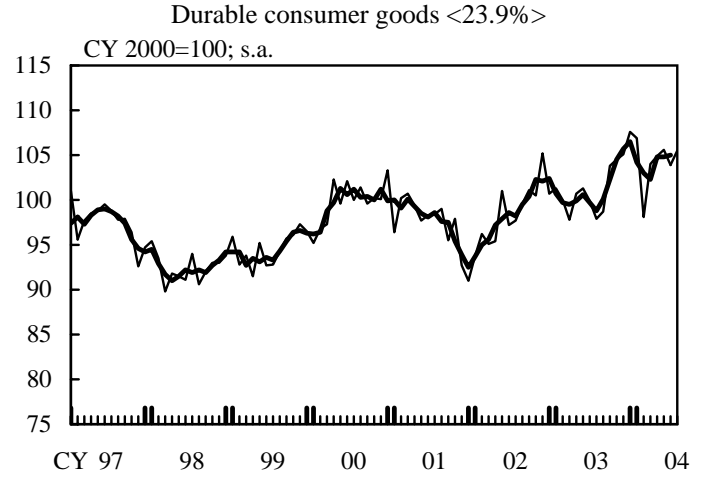
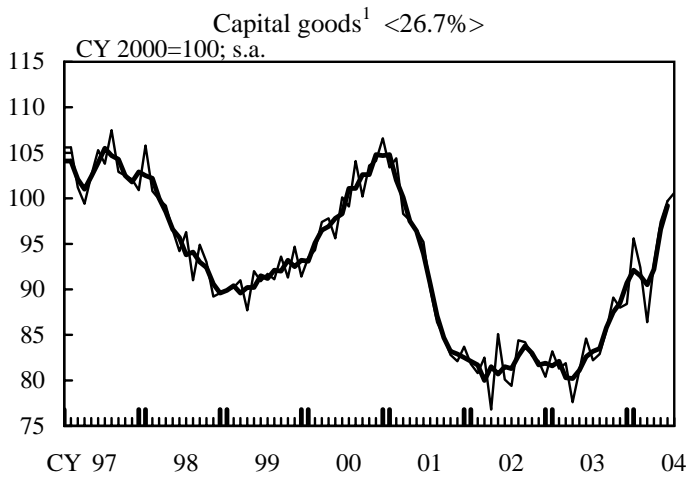
Shipments breakdown by type of goods

(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

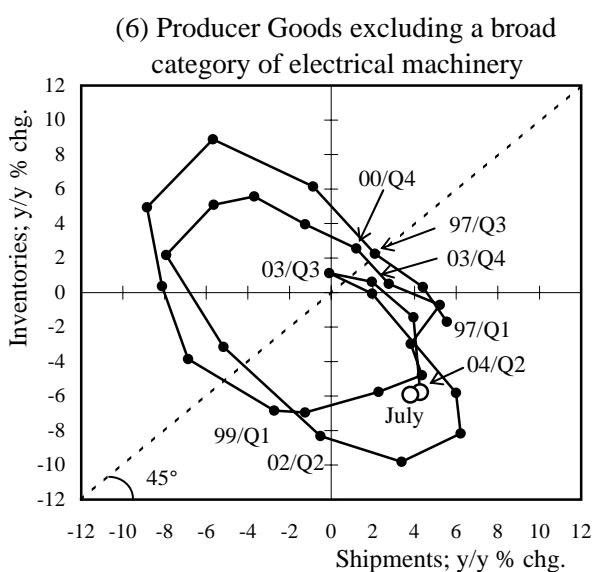
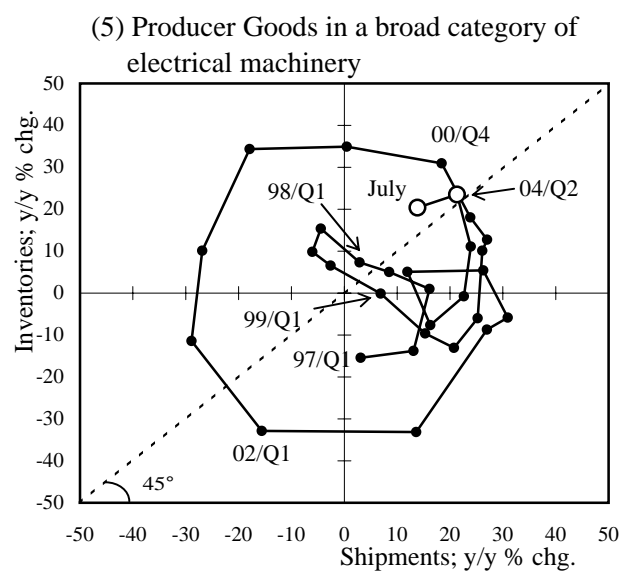
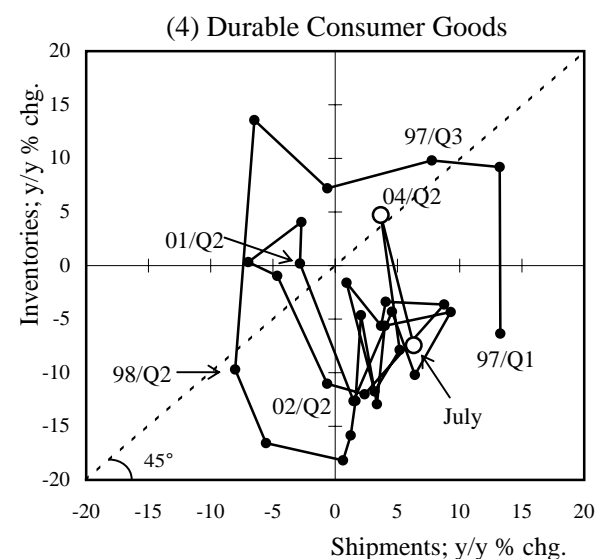
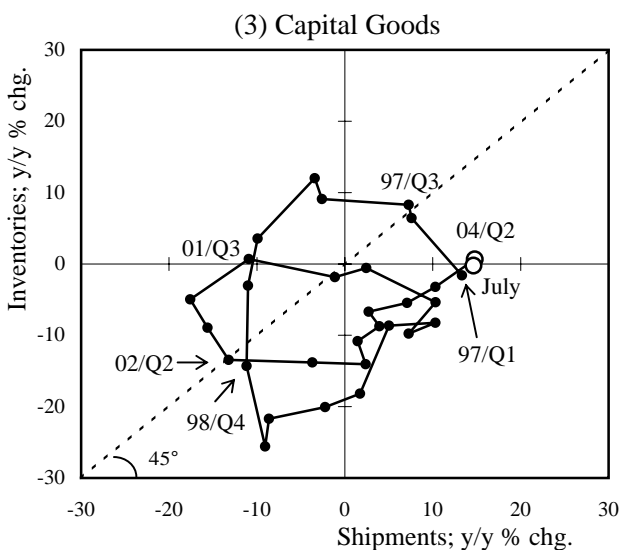
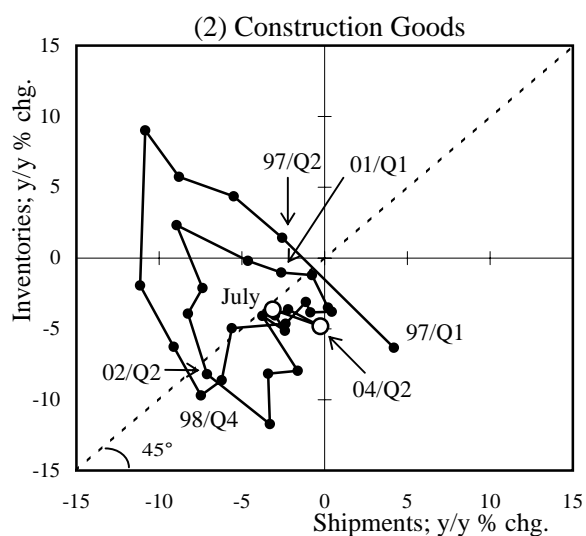
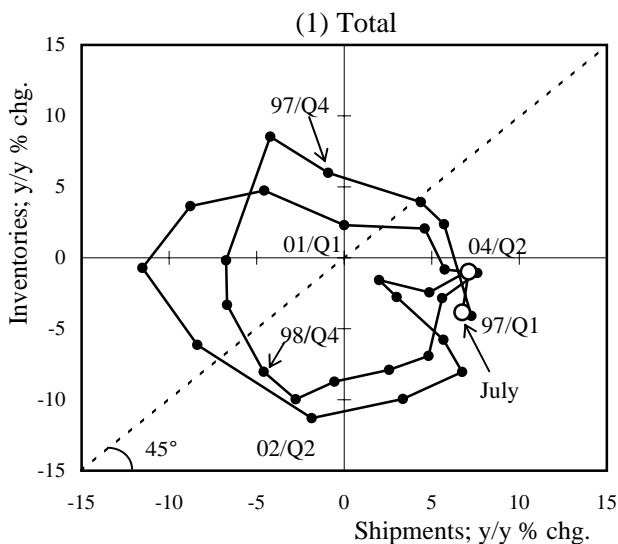


Notes: 1. Excluding transportation equipment.

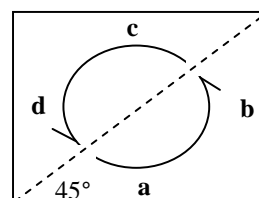
2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

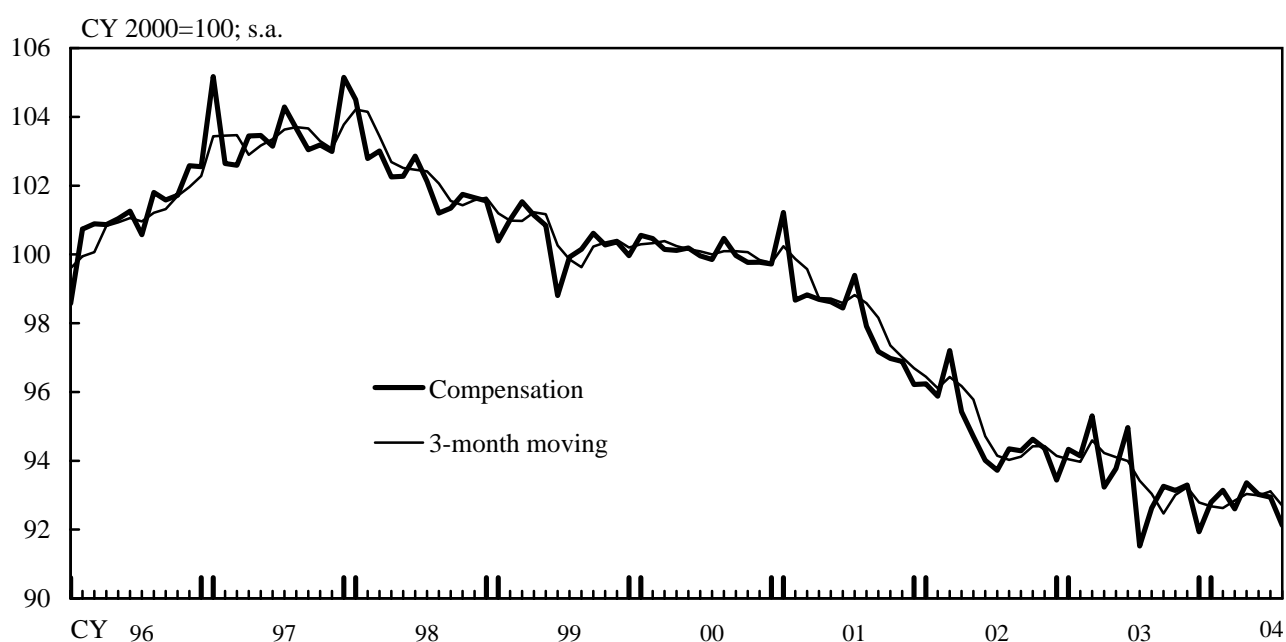


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



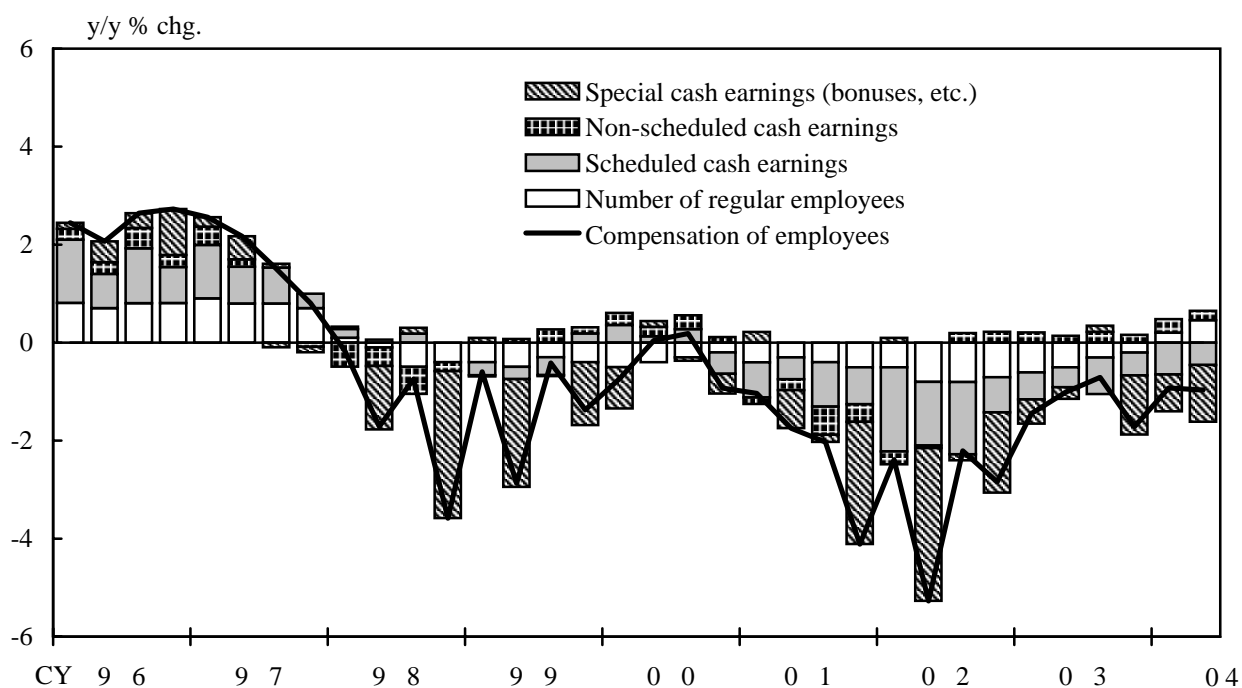
Compensation of Employees

(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

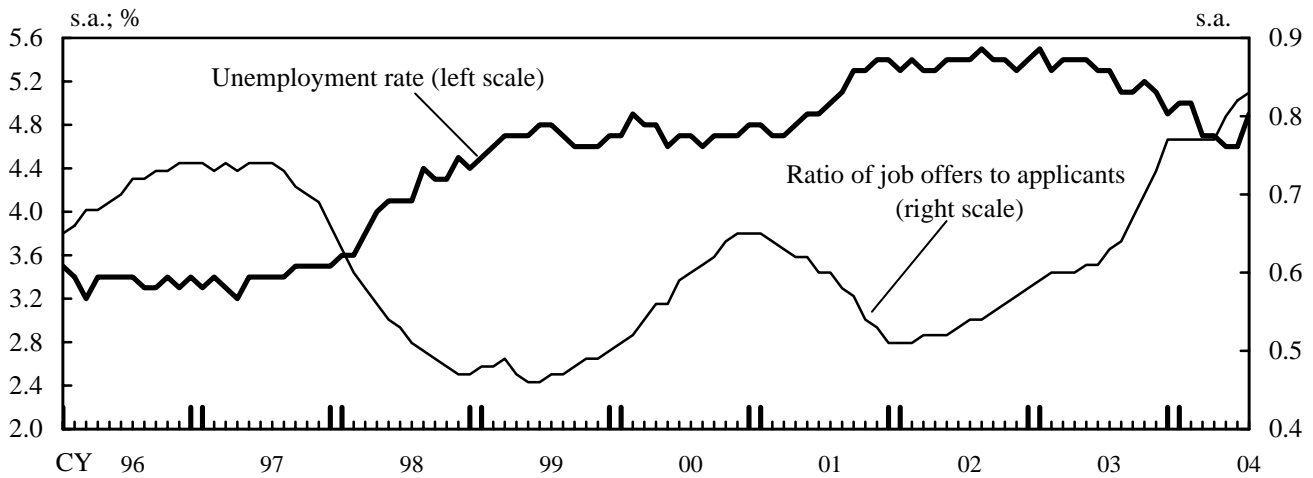


- Notes:
1. Data are for establishments with at least 5 employees.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.
 3. Figures for 2004/Q2 are those of June-July averages.

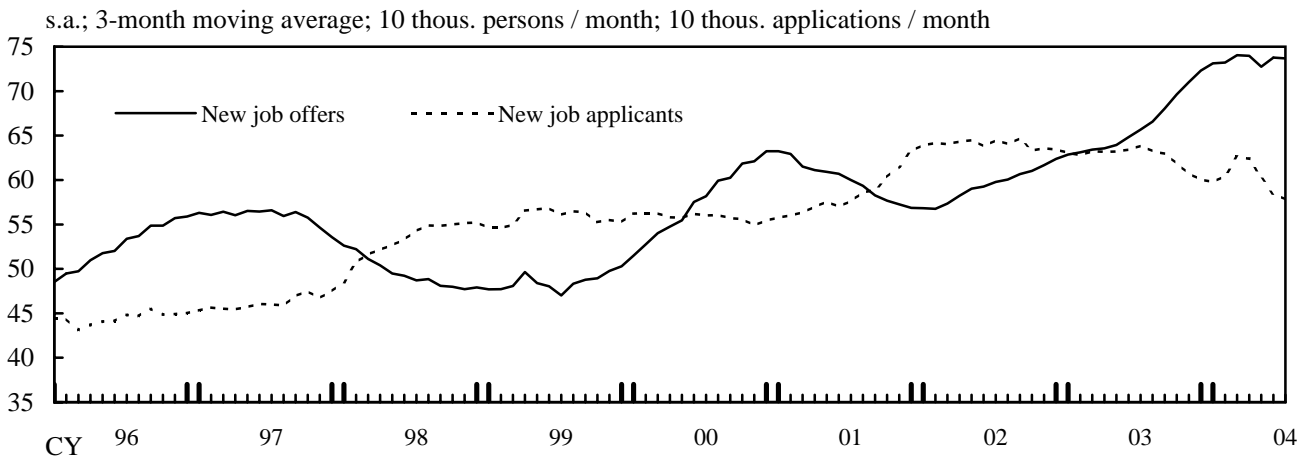
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

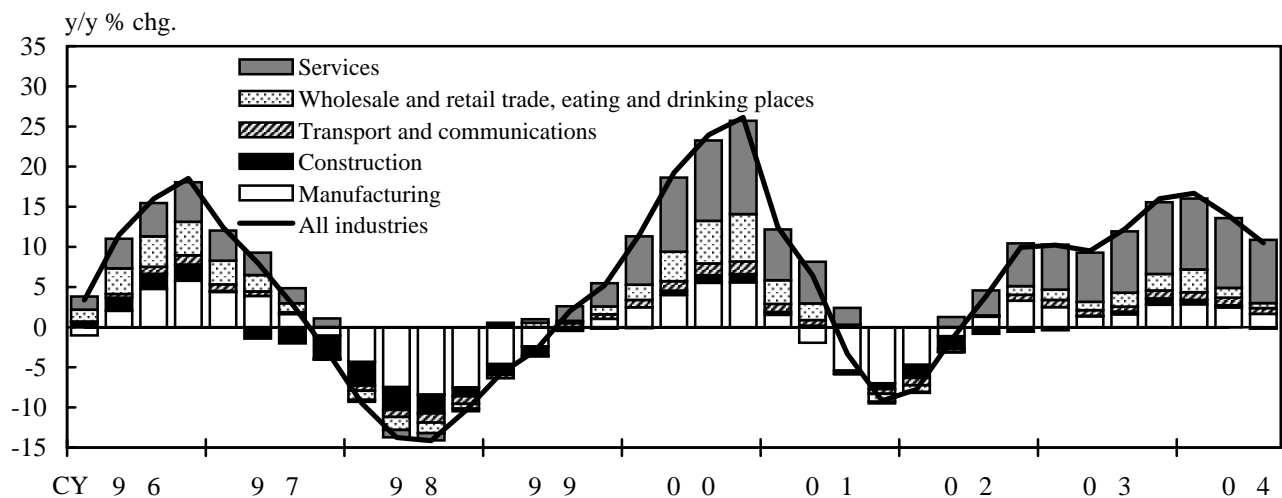
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New job offers and New job applicants¹



(3) Breakdown of New job offers^{1,2}



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

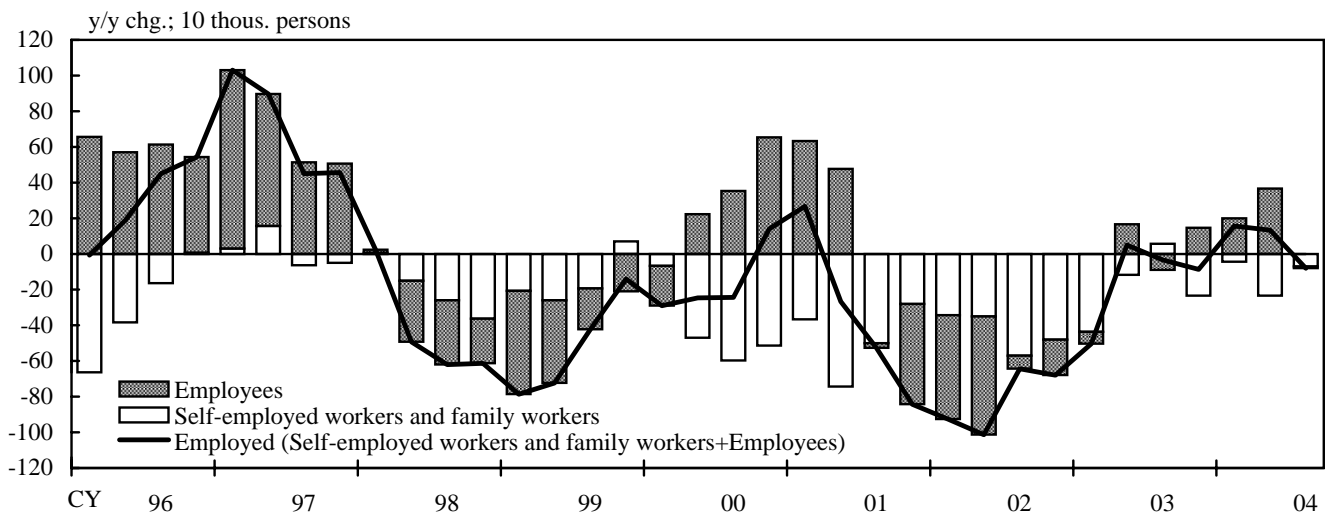
2. Figures for 2004/Q3 are those of July.

Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service,"

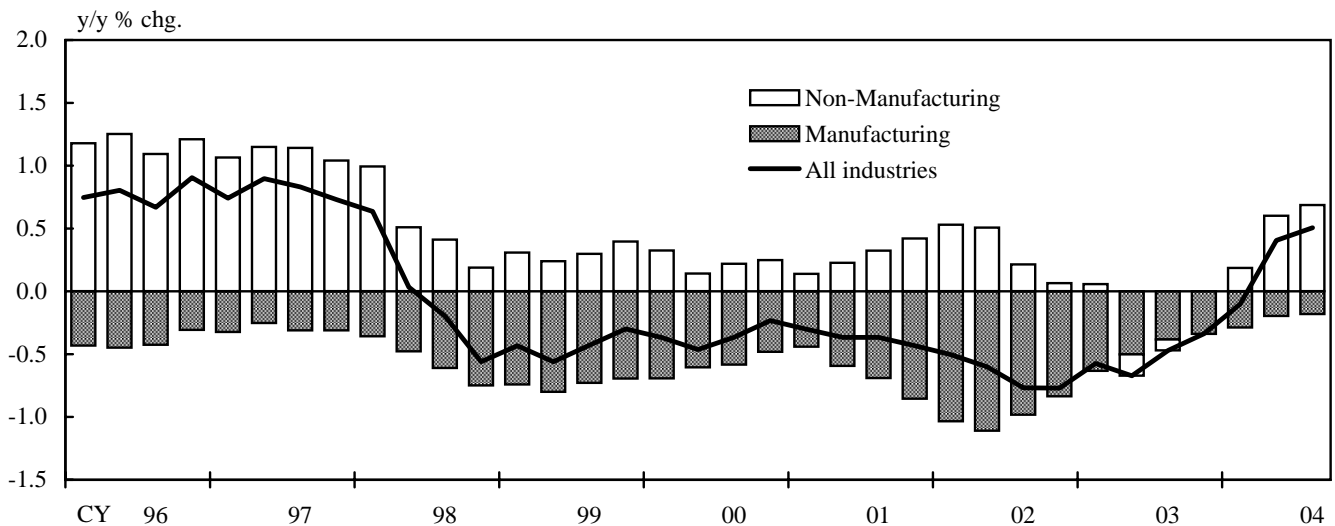
Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Labor Market (2)

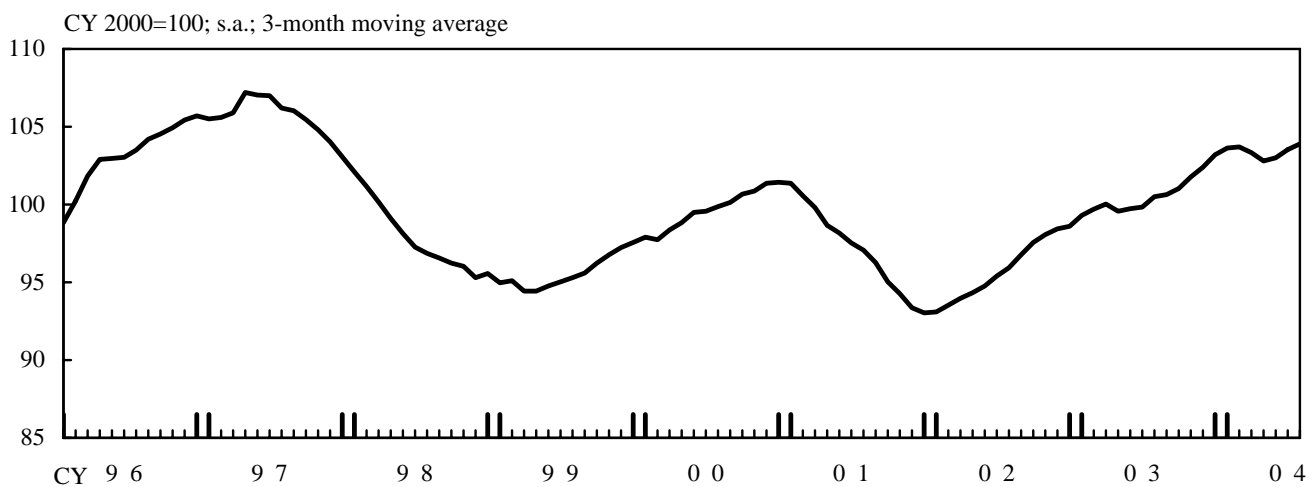
(1) The Employed¹ (Labour Force Survey)



(2) Number of Regular Employees^{1,2} (Monthly Labour Survey)



(3) Non-scheduled Hours Worked² (Monthly Labour Survey)



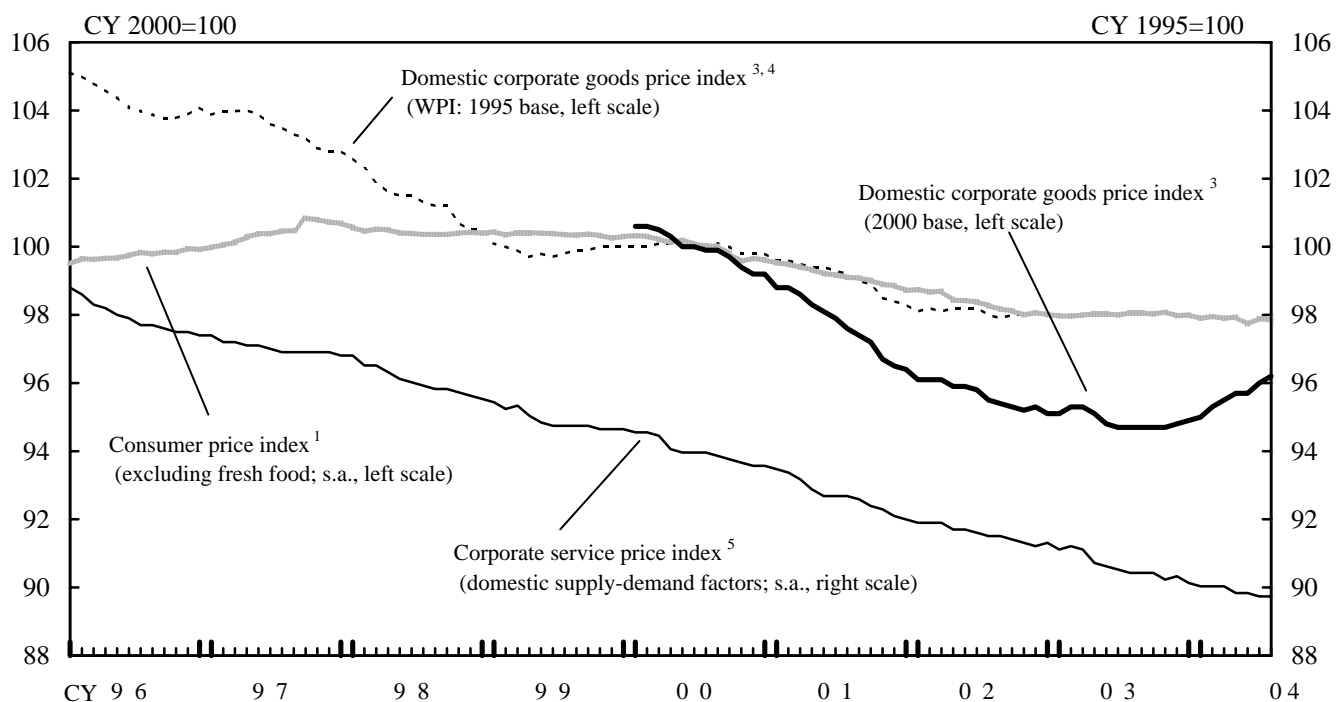
Notes: 1. Figures for 2004/Q3 are those of July.

2. Data are for establishments with at least 5 employees.

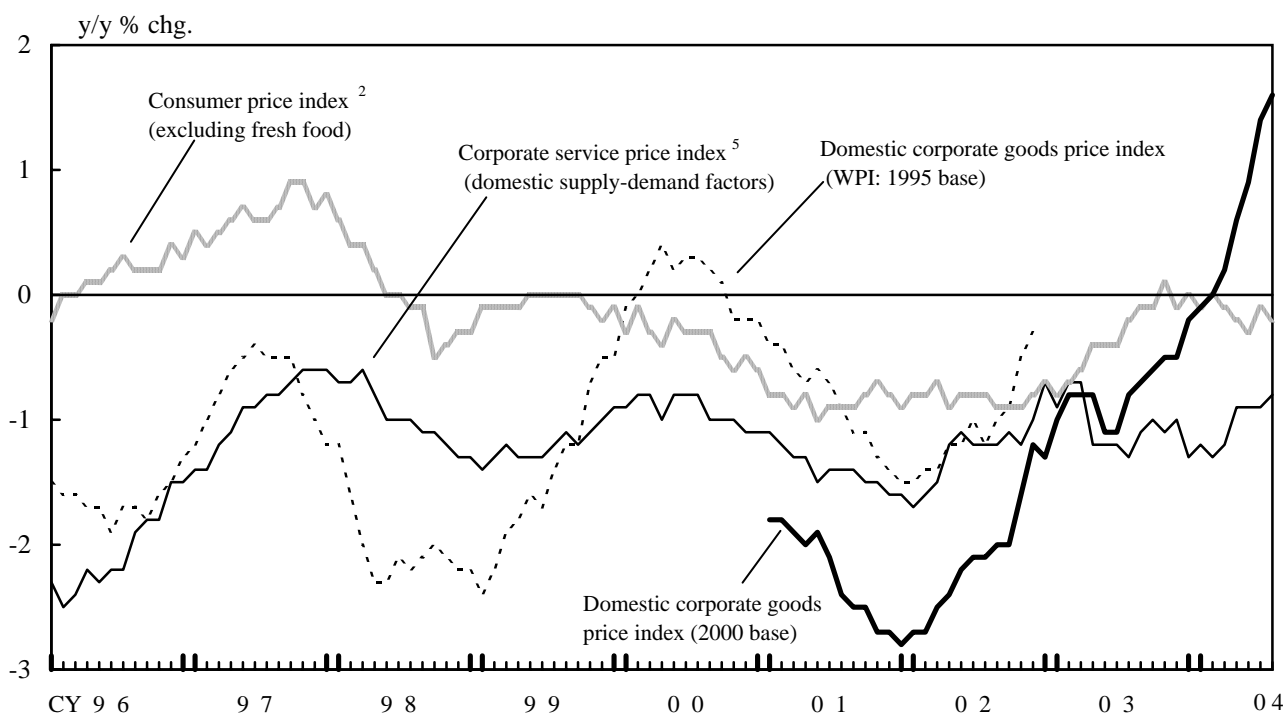
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

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.

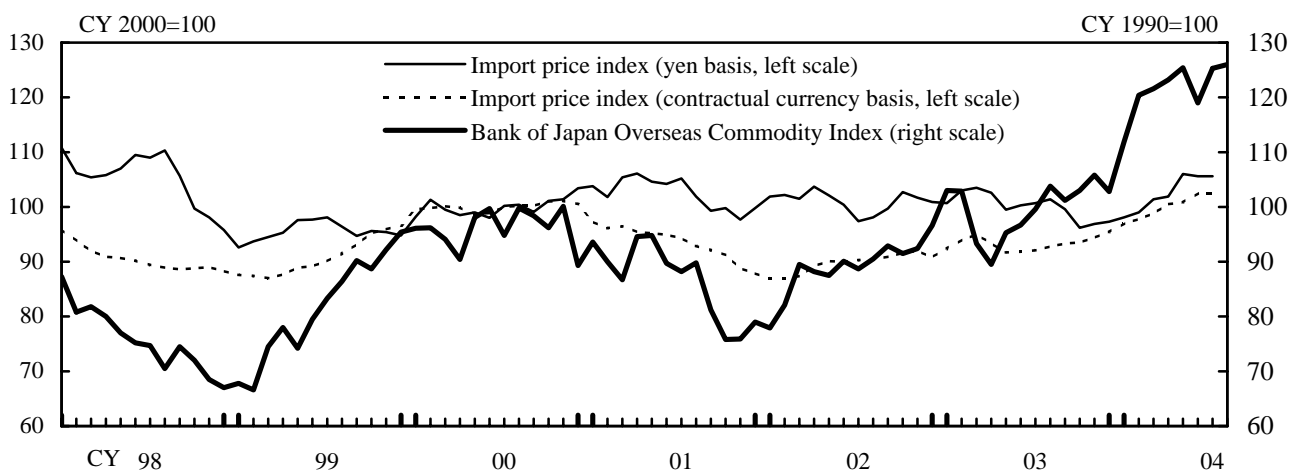
5. See footnote 1 in Chart 24, for definition of the Corporate Service Price Index (domestic supply-demand factors).

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."

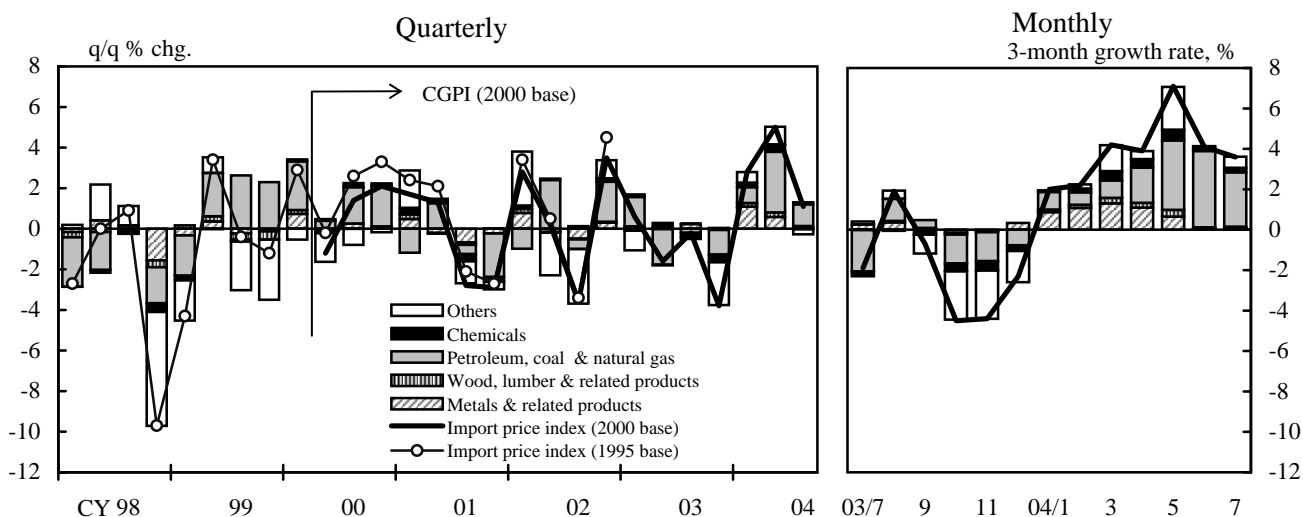
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



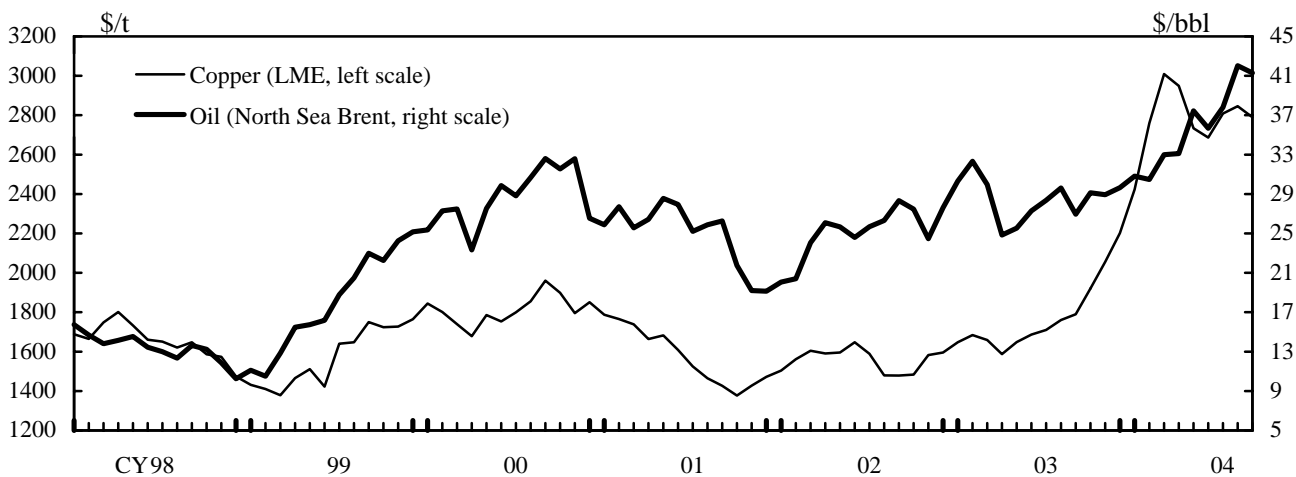
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: Figures for 2004/Q3 are those of July.
1995 base figure for 2002/Q4 is Oct.-Nov. average.

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

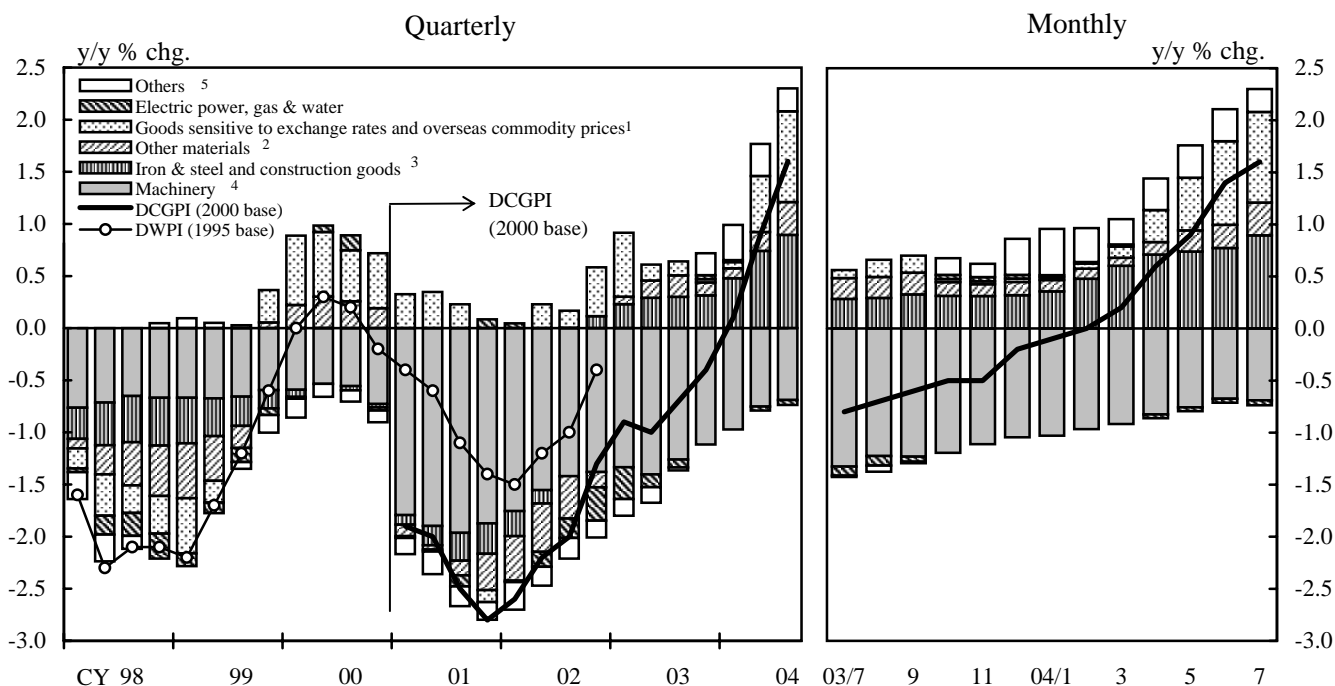


Note: Monthly averages. Figures for September 2004 are the averages up to September 7.

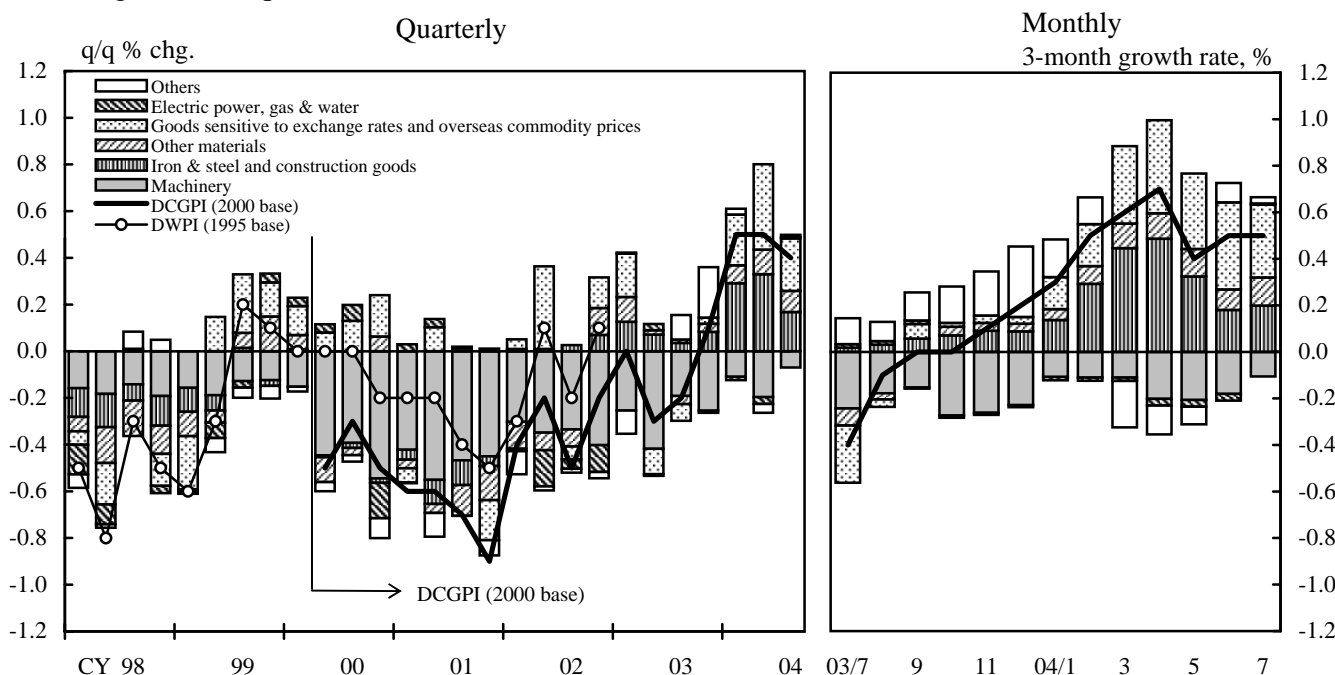
Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index⁷

(1) Changes from a year earlier



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

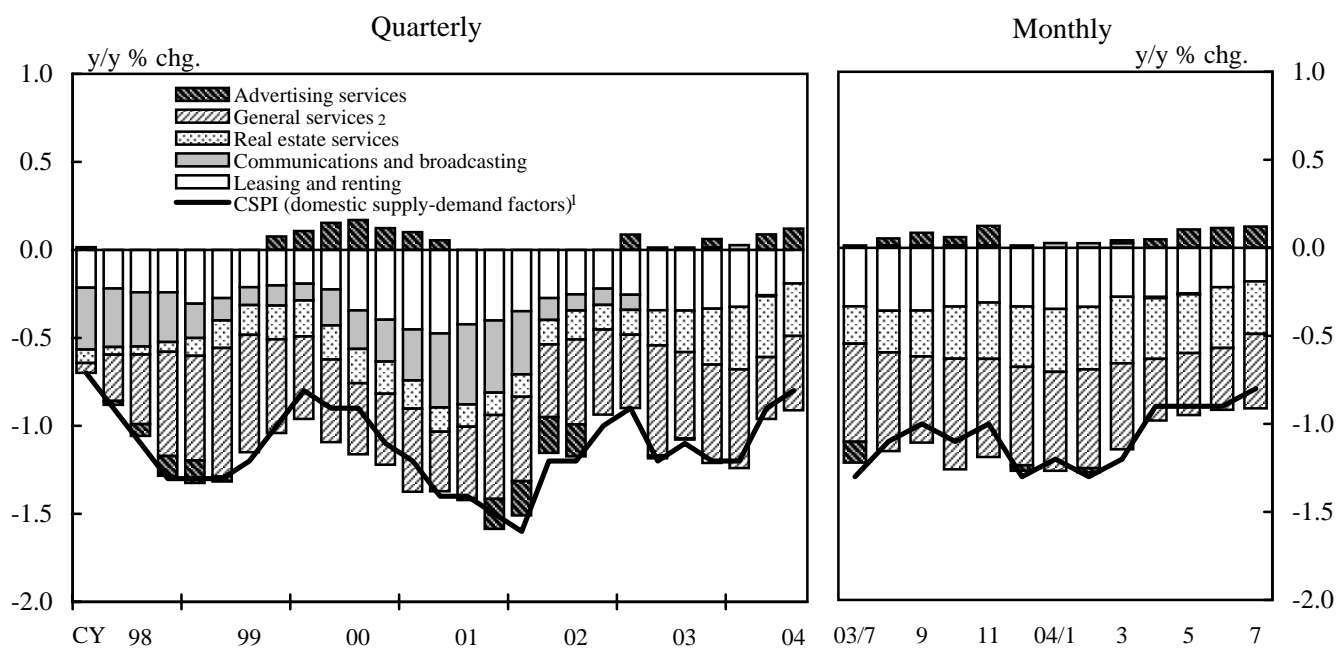
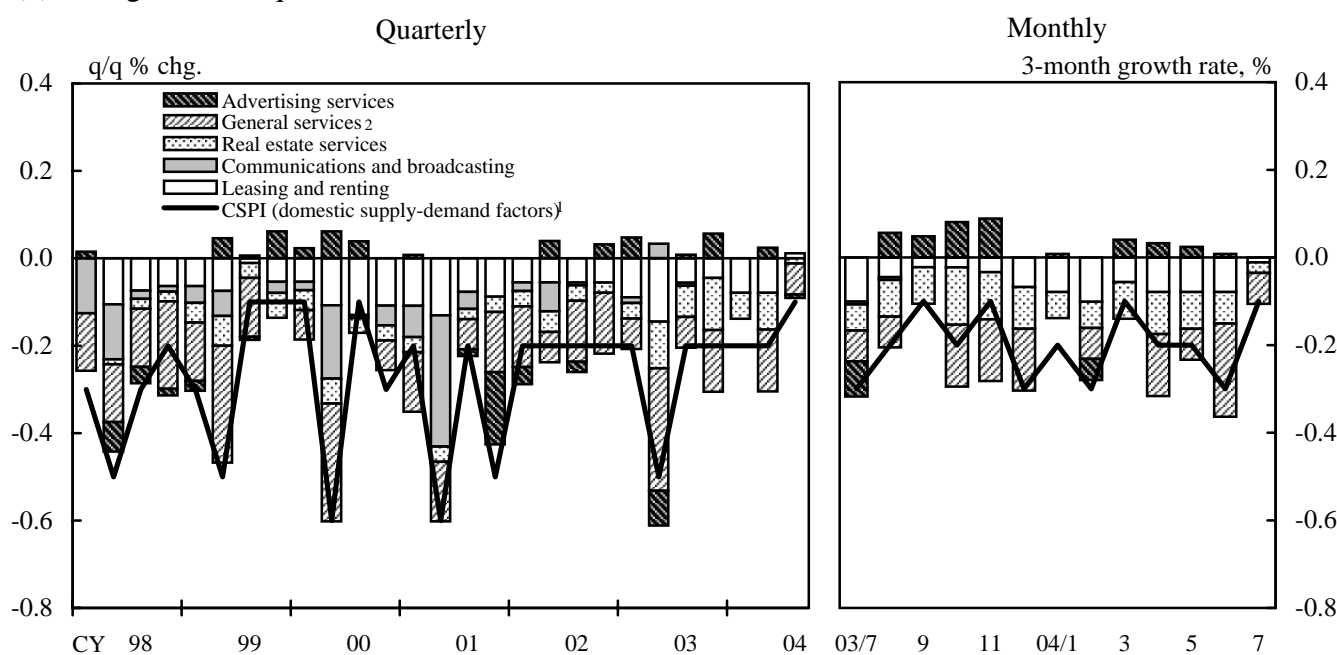


- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices; petroleum & coal products, nonferrous metals.
 2. Other materials; chemicals, plastic products, textile products, pulp, paper & related products.
 3. Iron & steel and construction goods; iron & steel, metal products, ceramics, 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/Q3 are those of July.
 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.

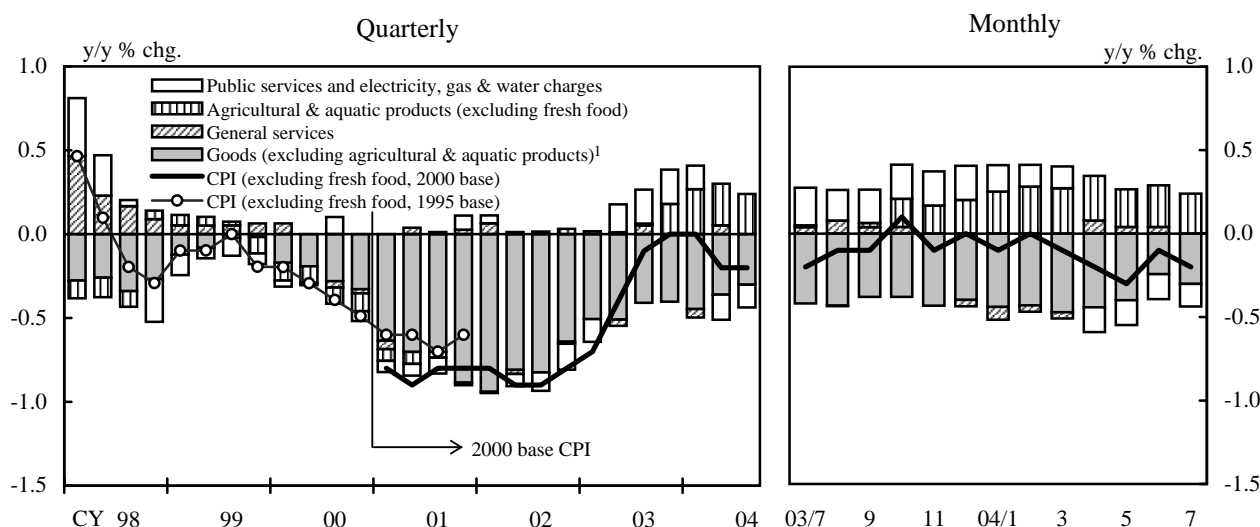
4. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

5. Figures for 2004/Q3 are those of July.

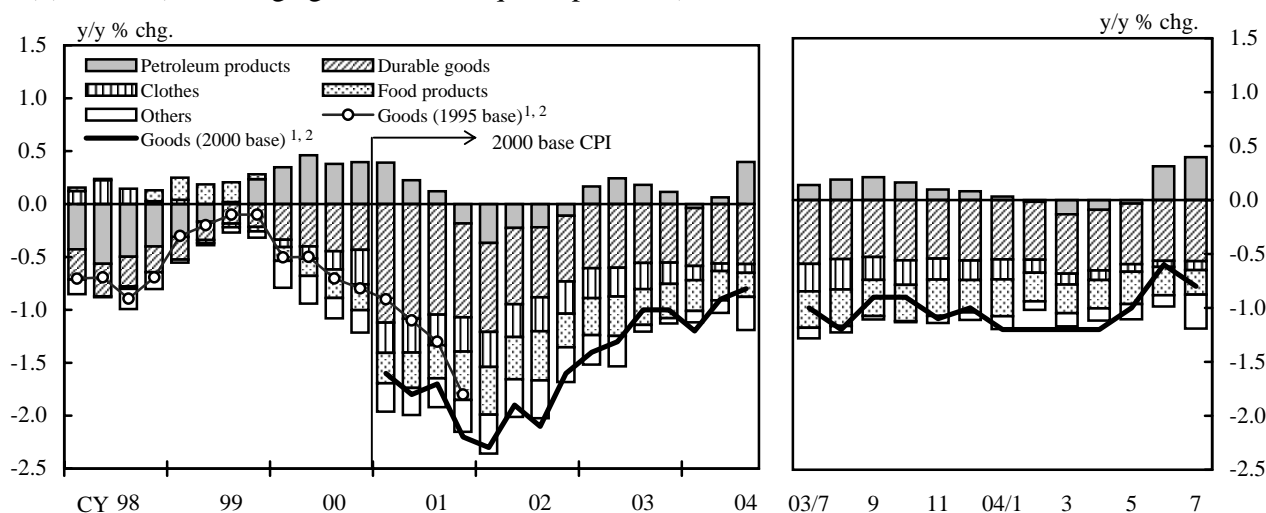
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (excluding fresh food)³

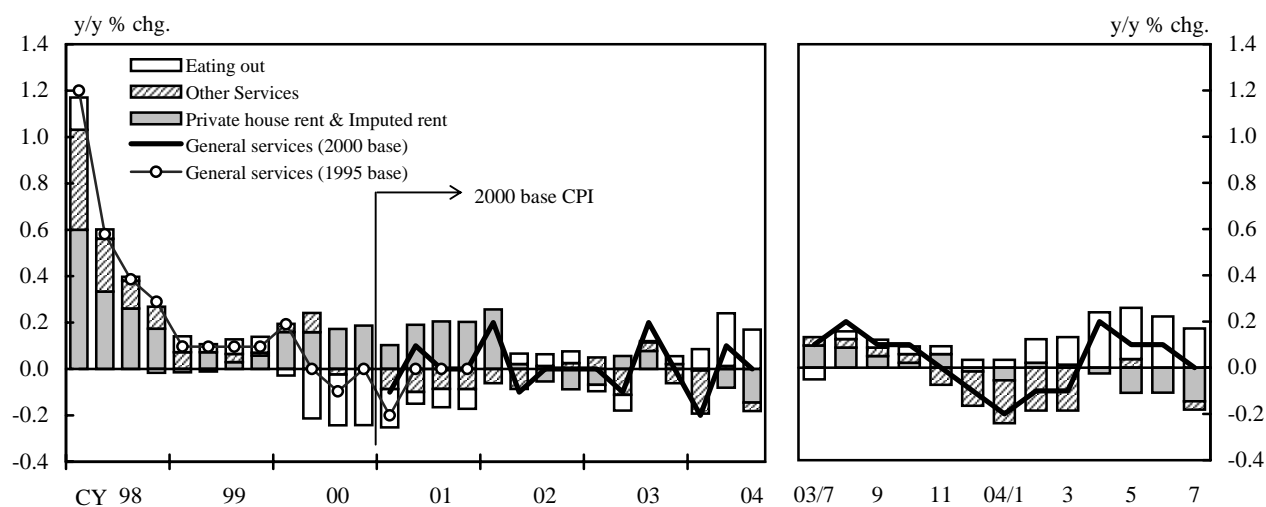
(1) Consumer price index (excluding fresh food)



(2) Goods (excluding agricultural & aquatic products)¹



(3) General services

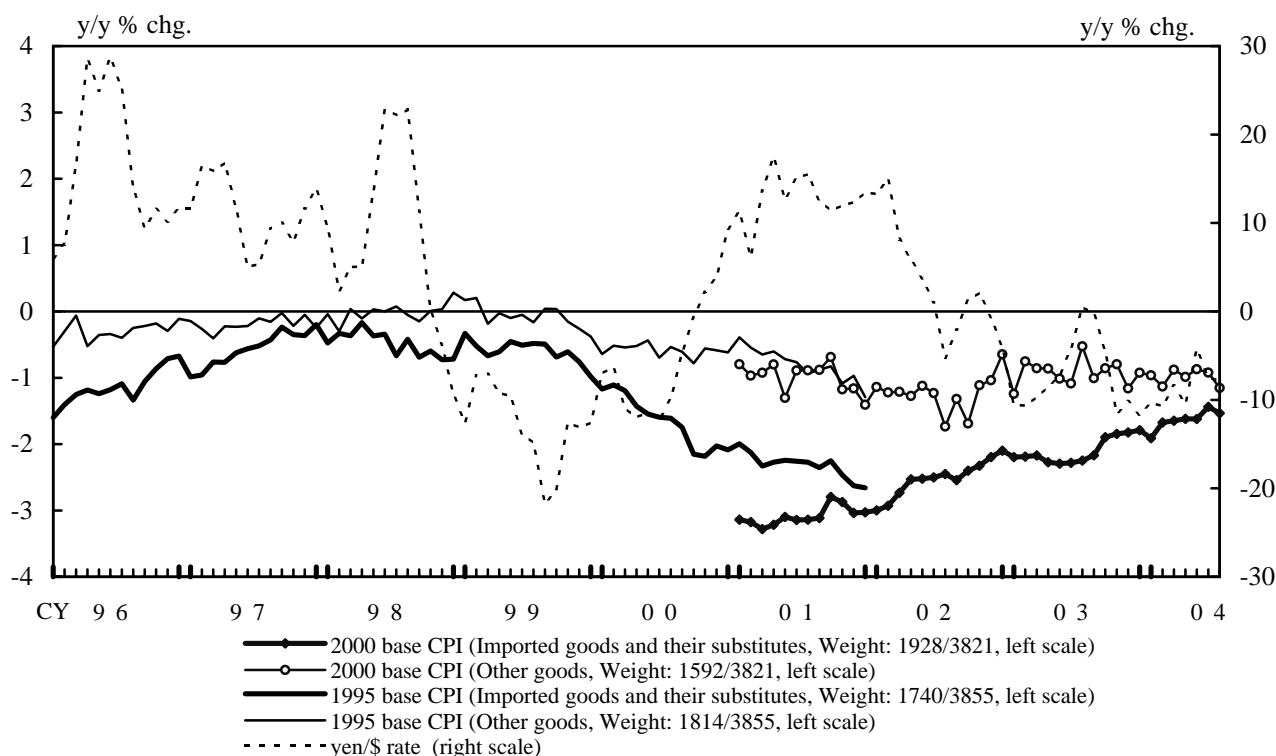


- Notes: 1. The Items are basically the same as the definition published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, however electricity, gas & water charges is excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
 4. Figures for 2004/Q3 are those of July.

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

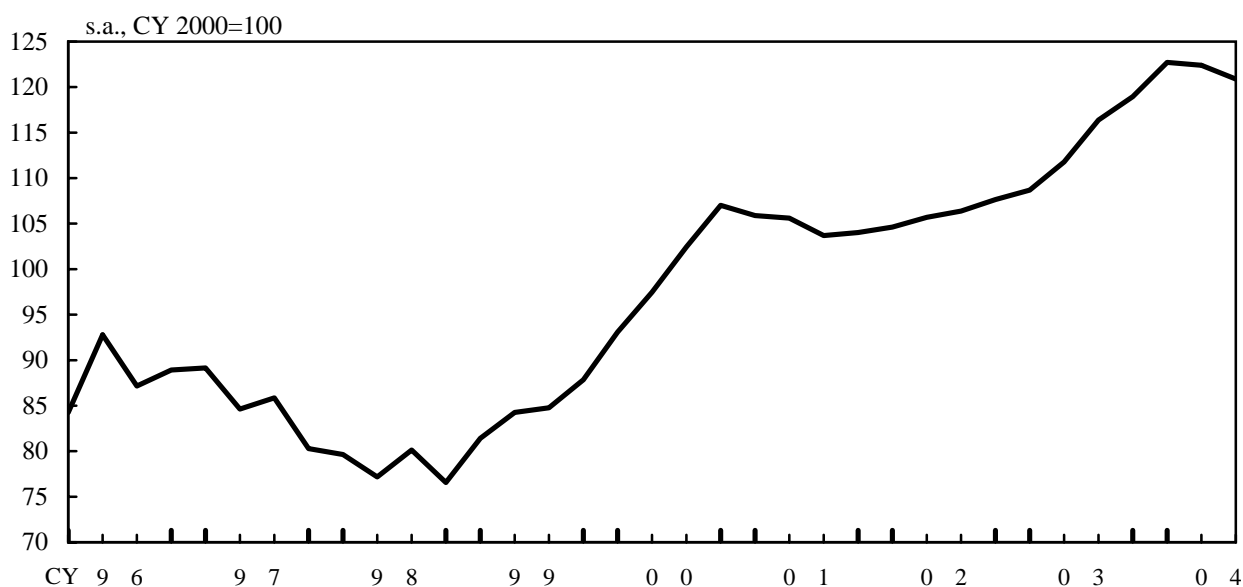
Consumer Prices of imported goods and their substitutes

(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)

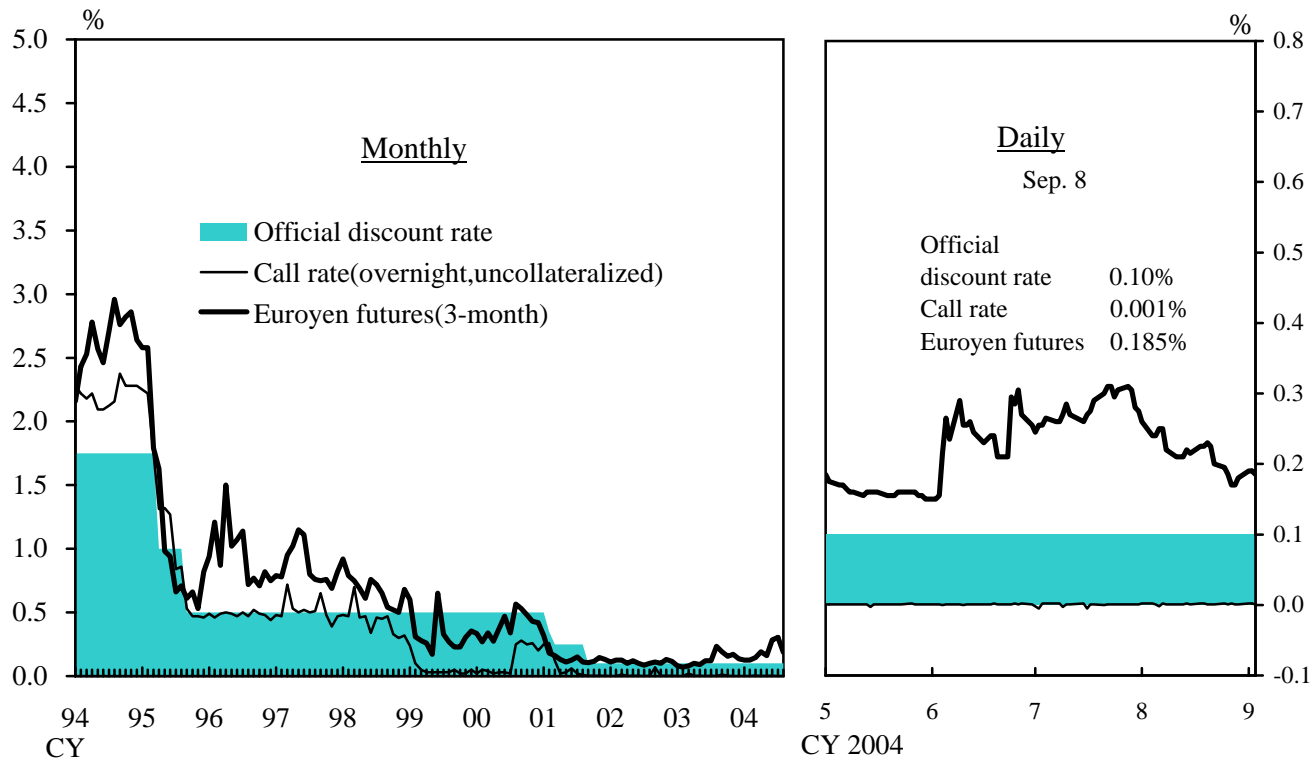


- Notes: 1. Real imports (consumer goods), which are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles, are calculated from the Trade Statistics as an index with the 2000 average equal to 100.
 2. 2004/Q3 figure is July at a quarterly rate.

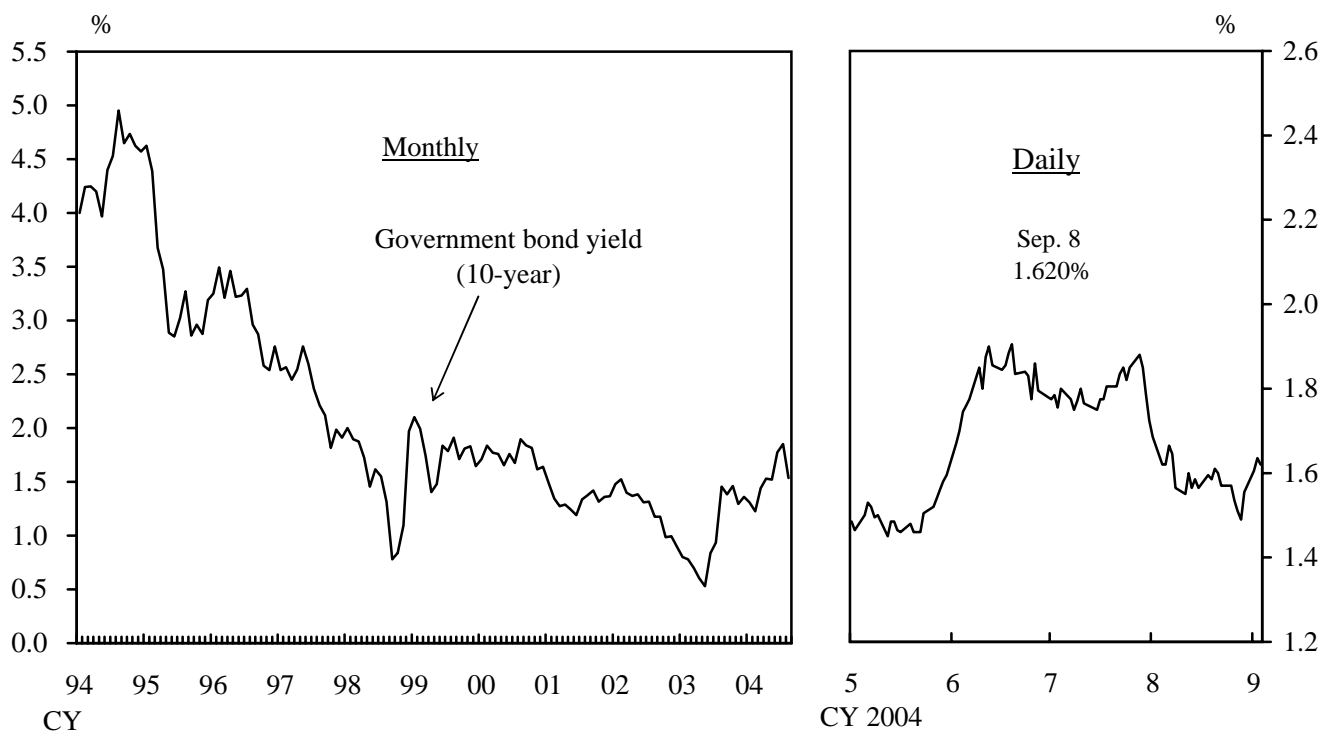
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Consumer Price Index";
 Ministry of Finance, "The Summary Report on Trade of Japan";
 Bank of Japan, "Corporate Goods Price Index."

Interest Rates

(1) Short-Term



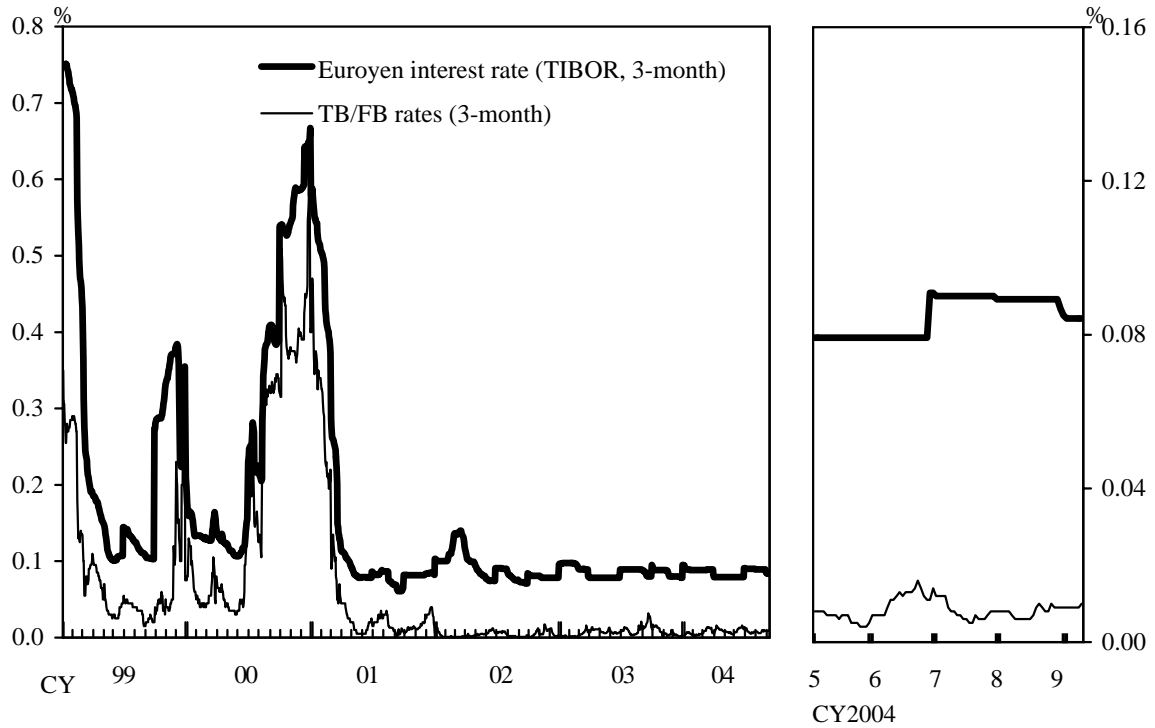
(2) Long-Term



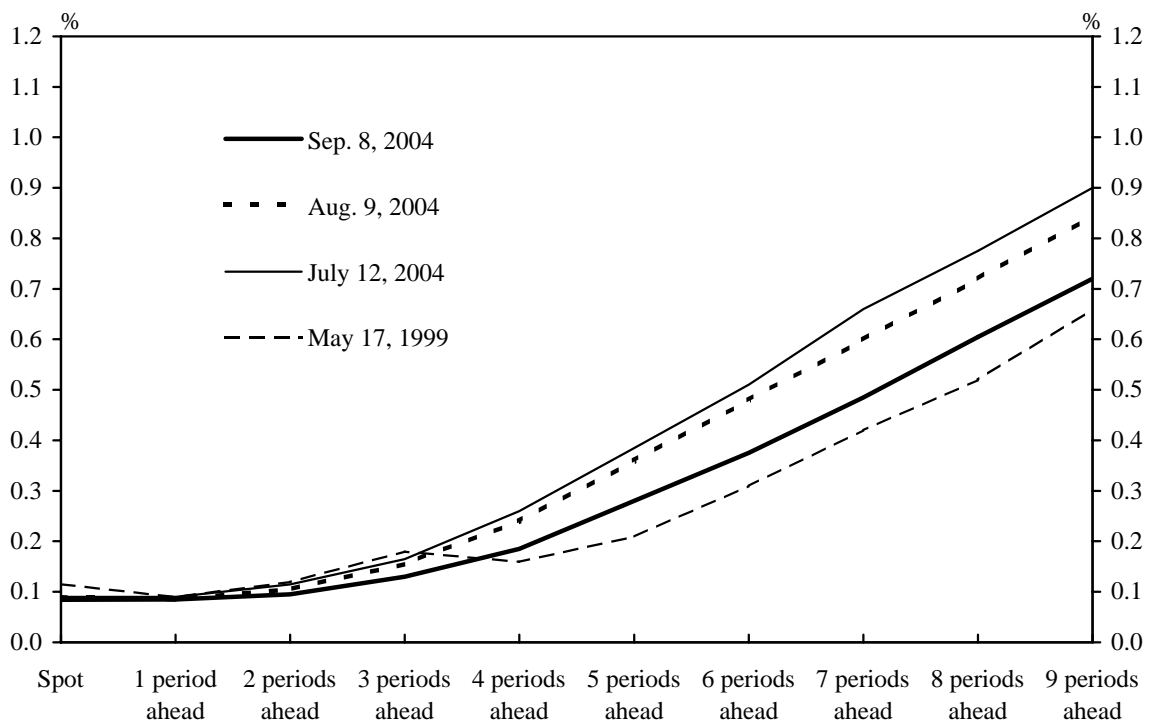
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



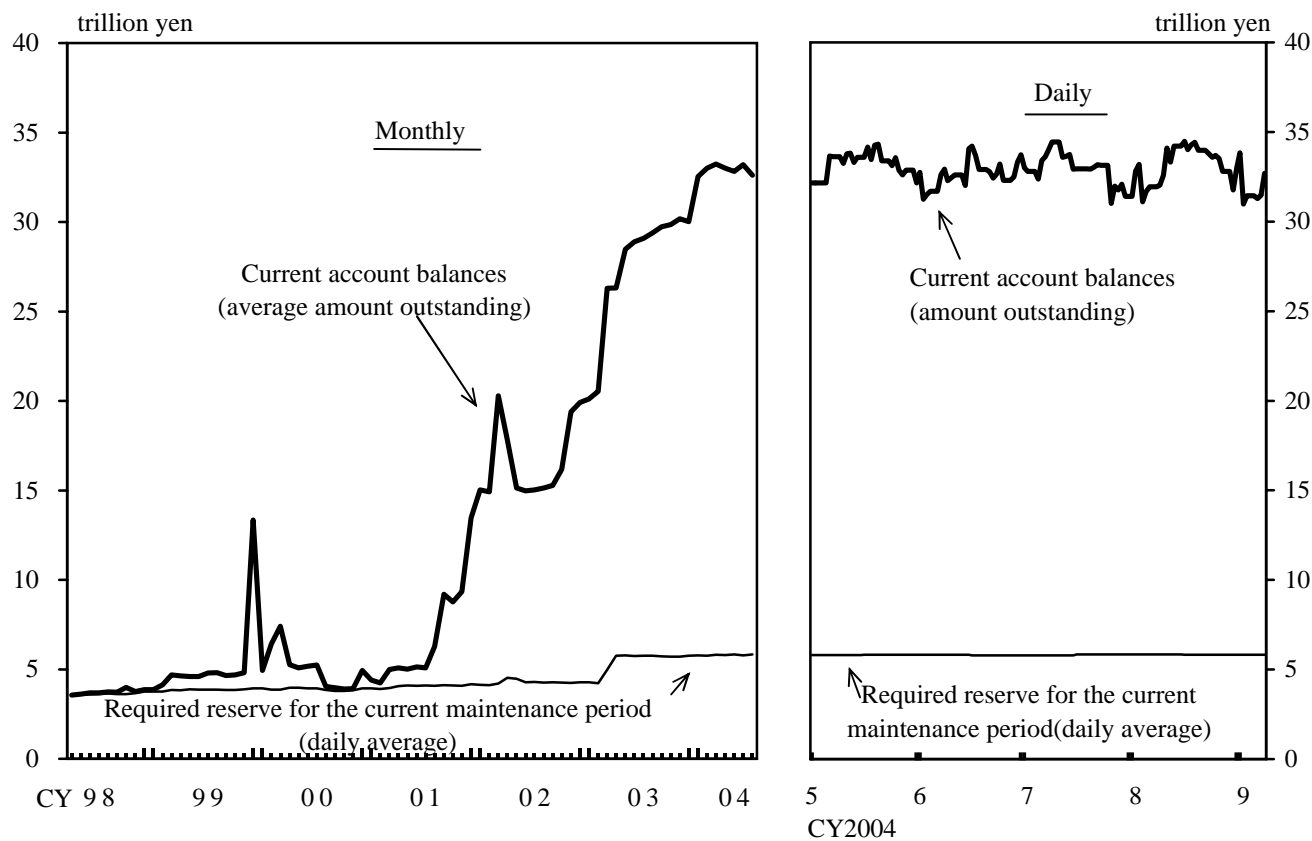
(2) Euroyen Interest Rates Futures (3-Month) ¹



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.

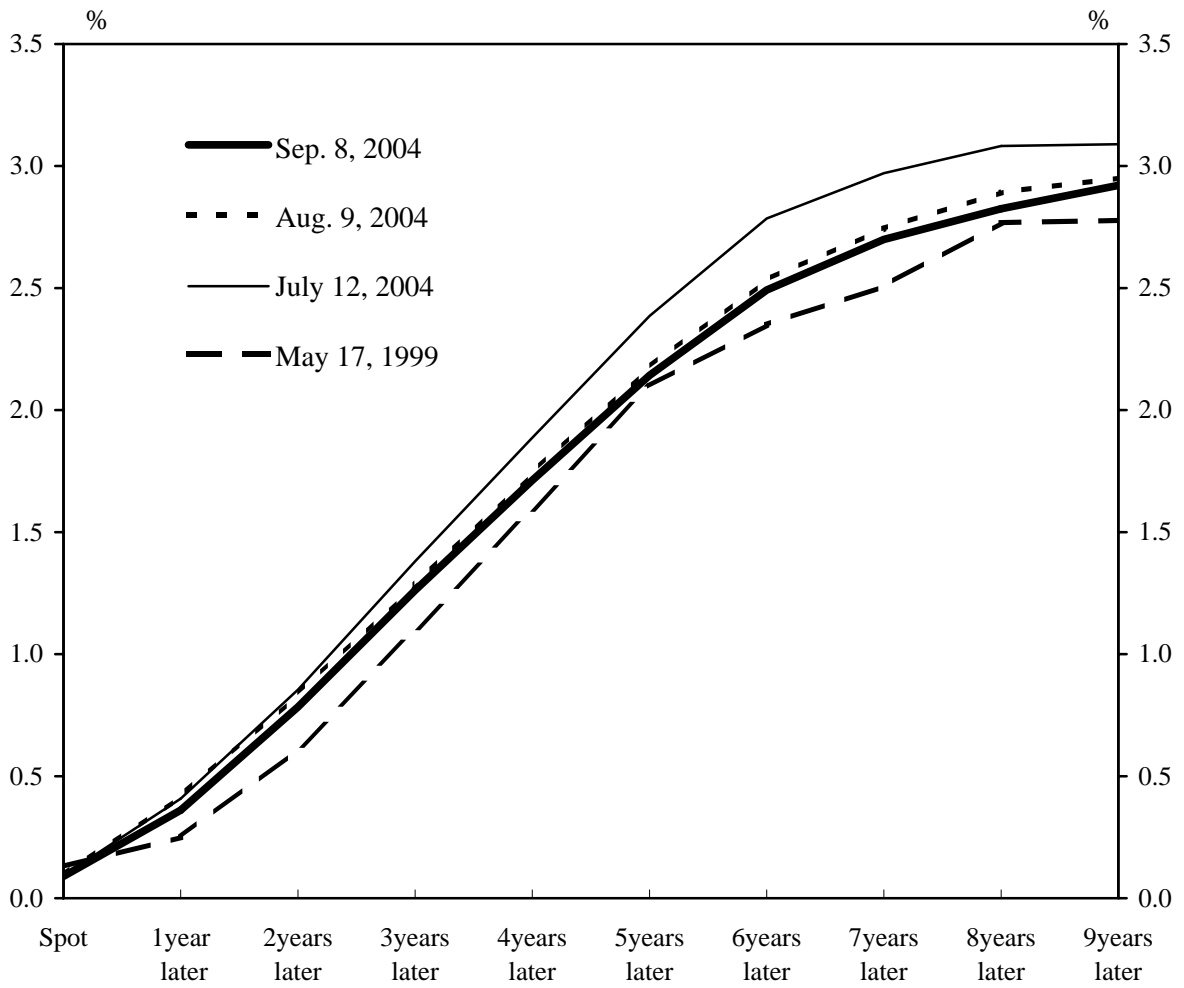
Current Account Balances at the Bank of Japan ¹



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

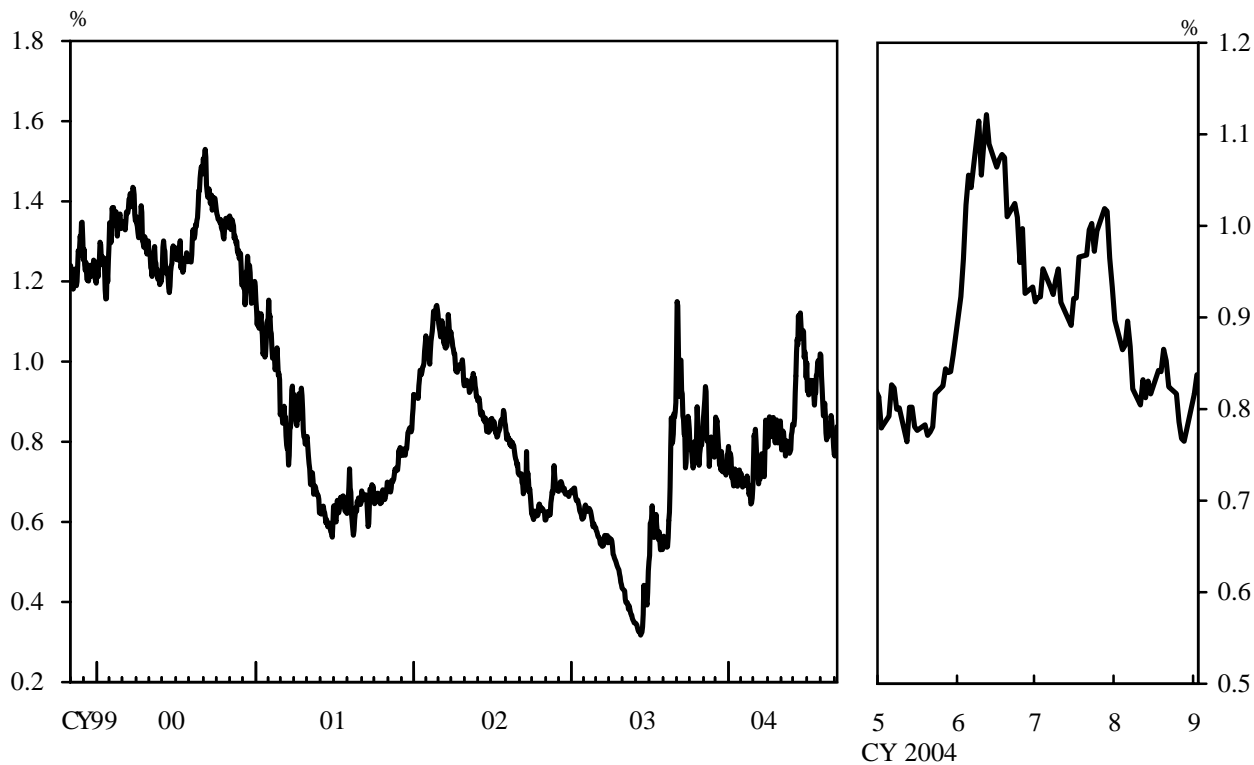


Note: 1. Calculated from yen-yen swap rates.

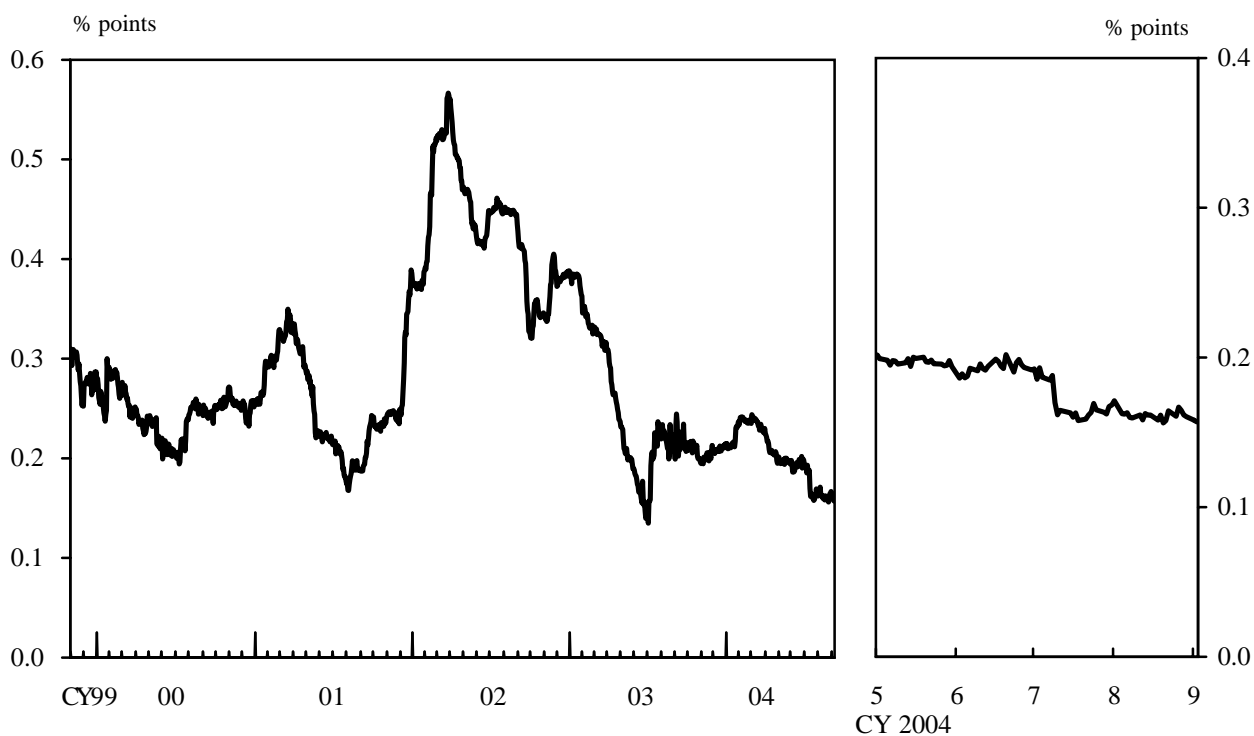
Source: QUICK Moneyline Telerate Corp.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



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

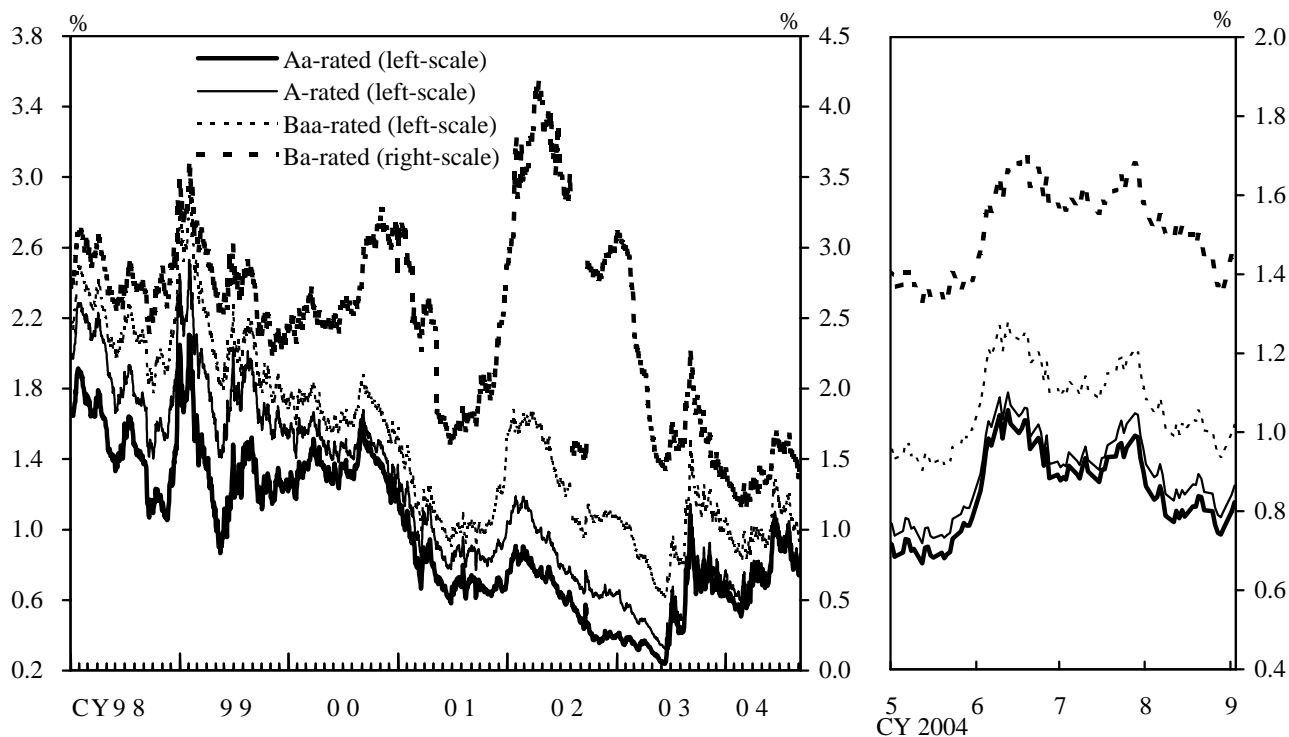
2. Average bank bond yield is the average of four bank bonds.

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

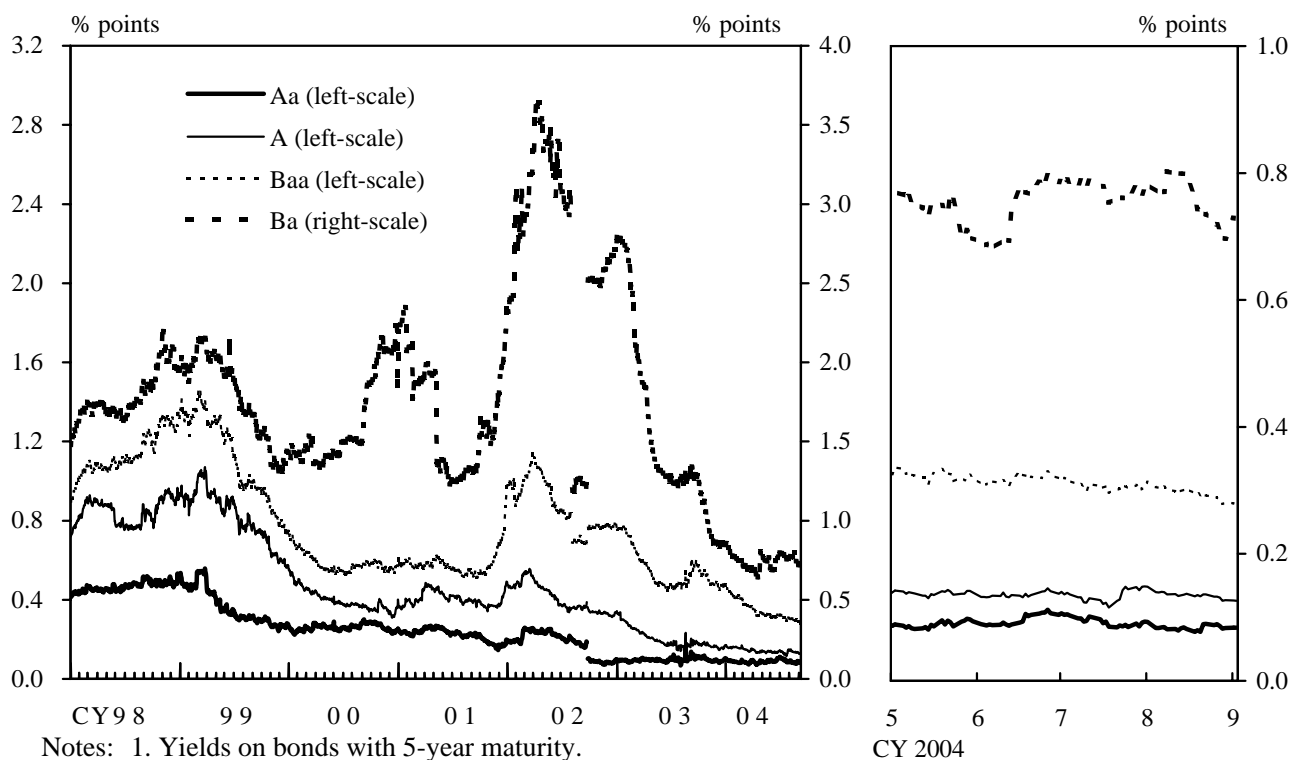
"Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds ¹

(1) Corporate Bond Yields



(2) Spreads of Corporate Bond Yields over Government Bond Yields



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

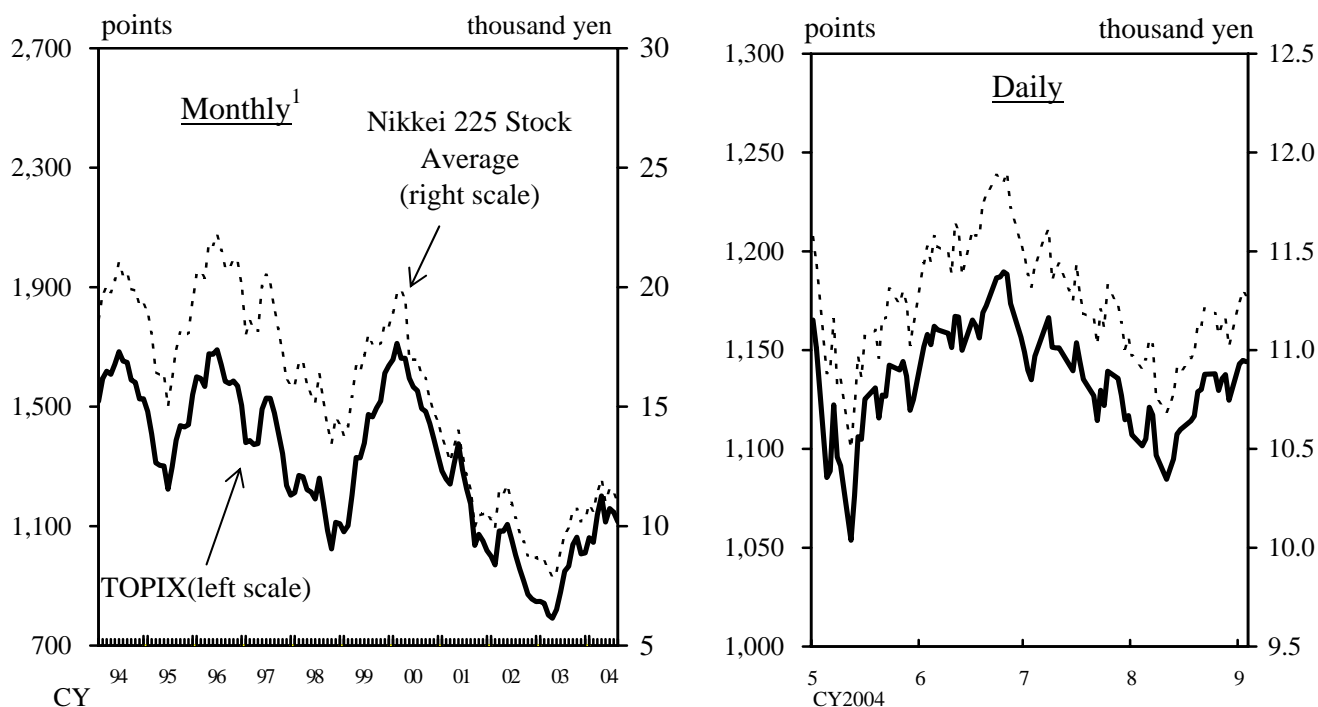
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of 4 to 6 years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

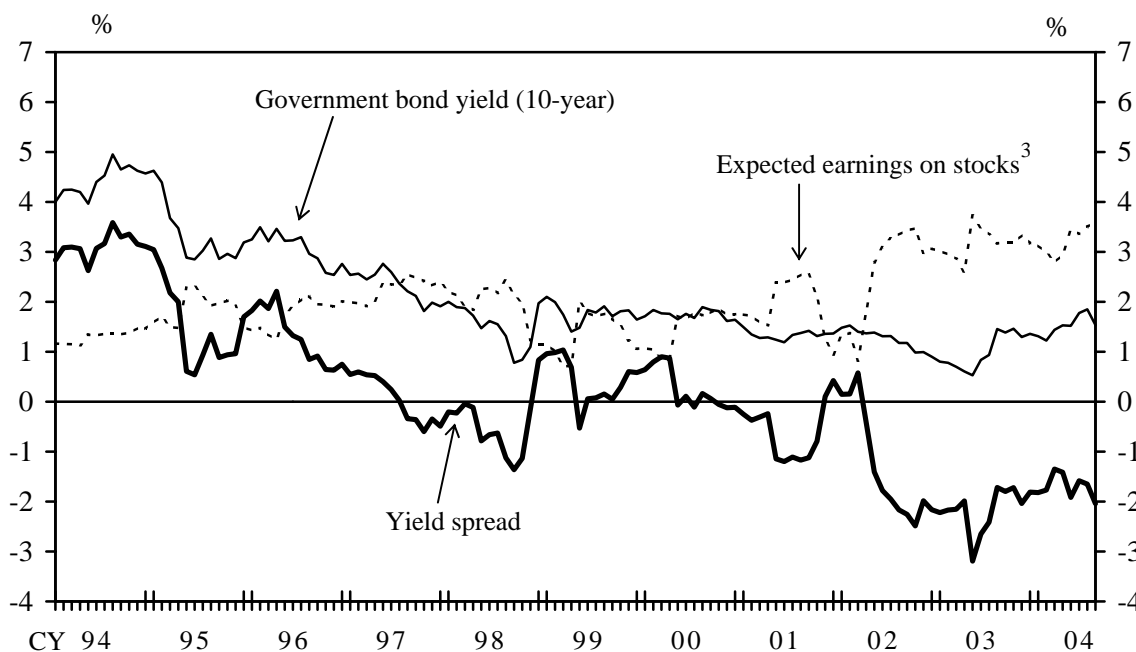
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

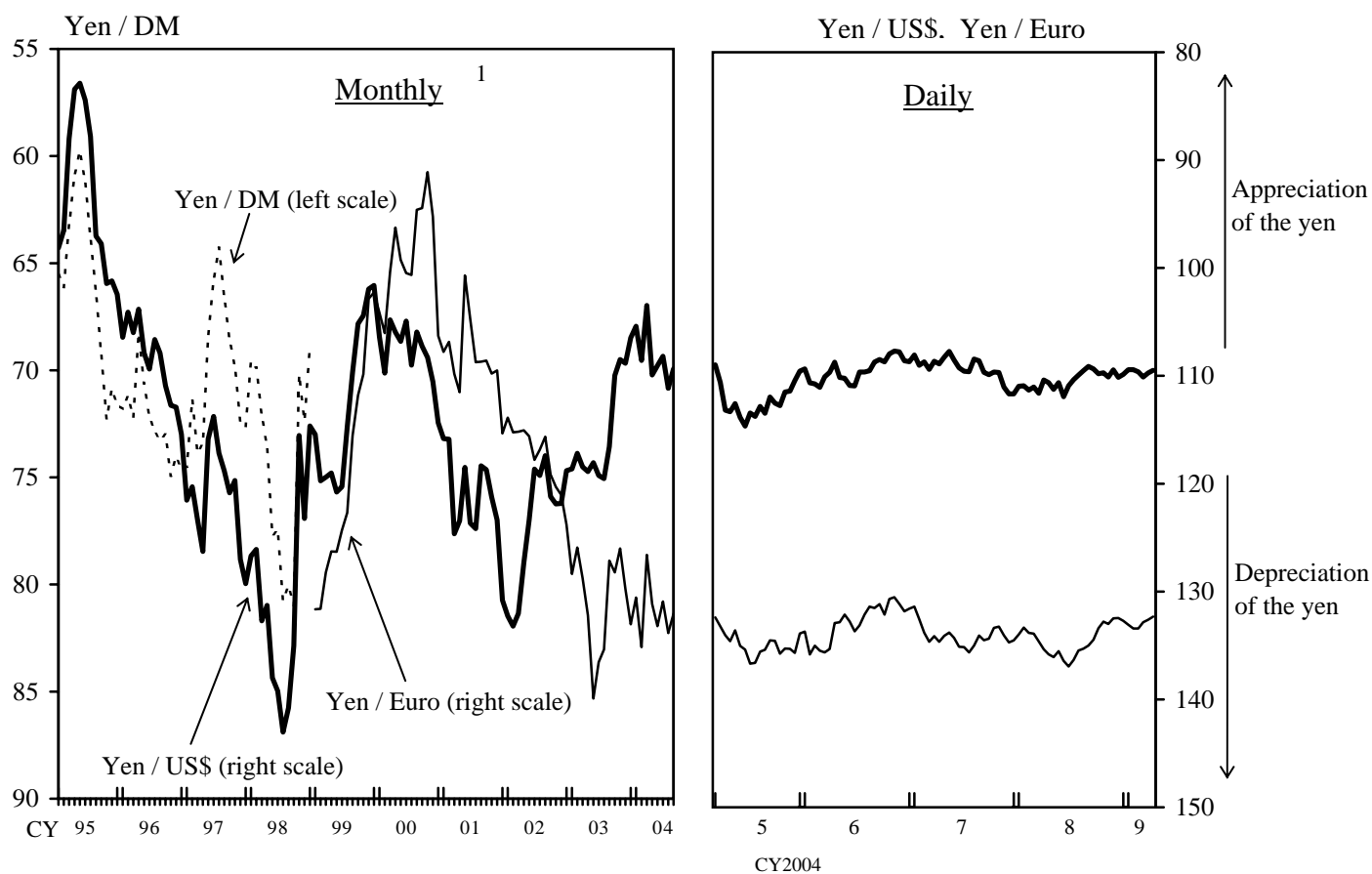
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

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)."

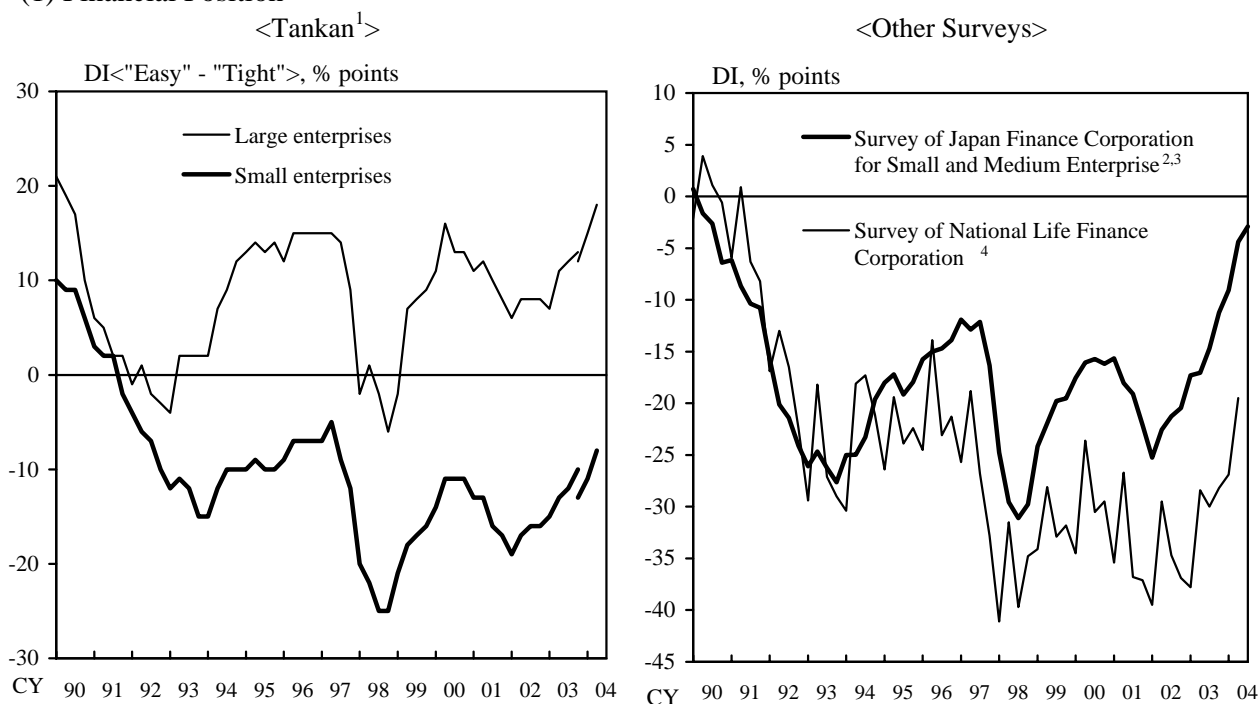
Exchange Rates



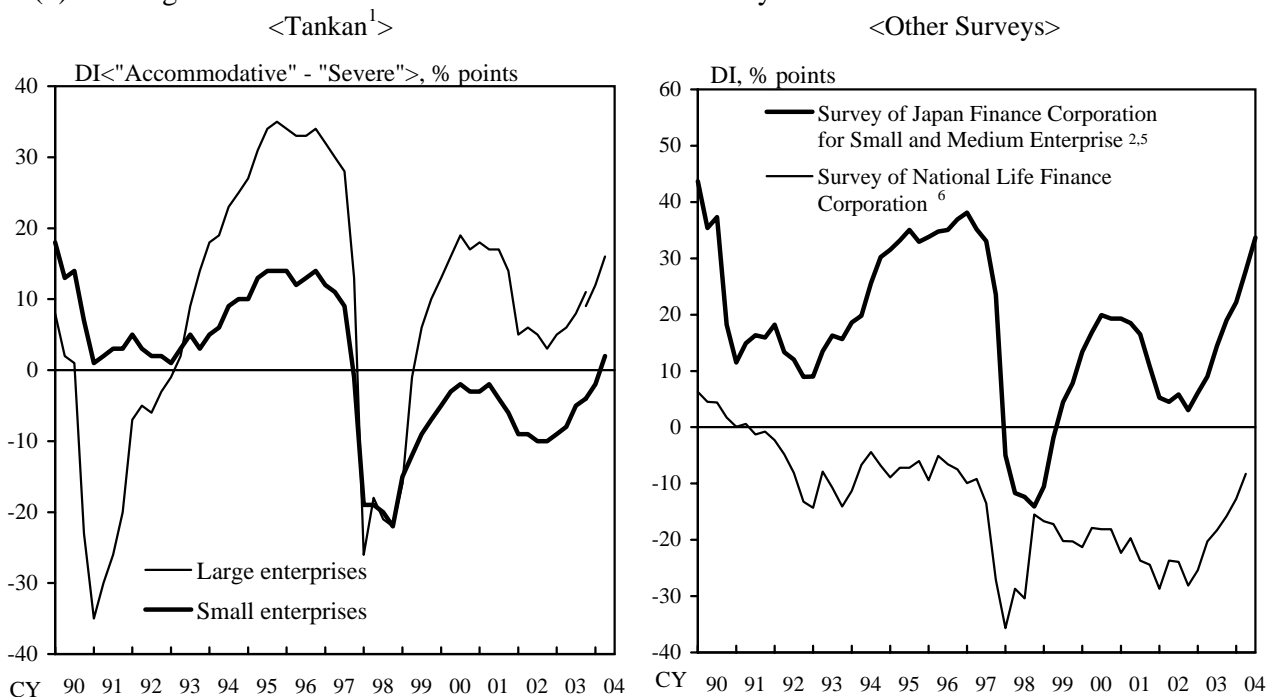
Note: 1. End of month.
 Source: Bank of Japan.

Corporate Finance-Related Indicators

(1) Financial Position



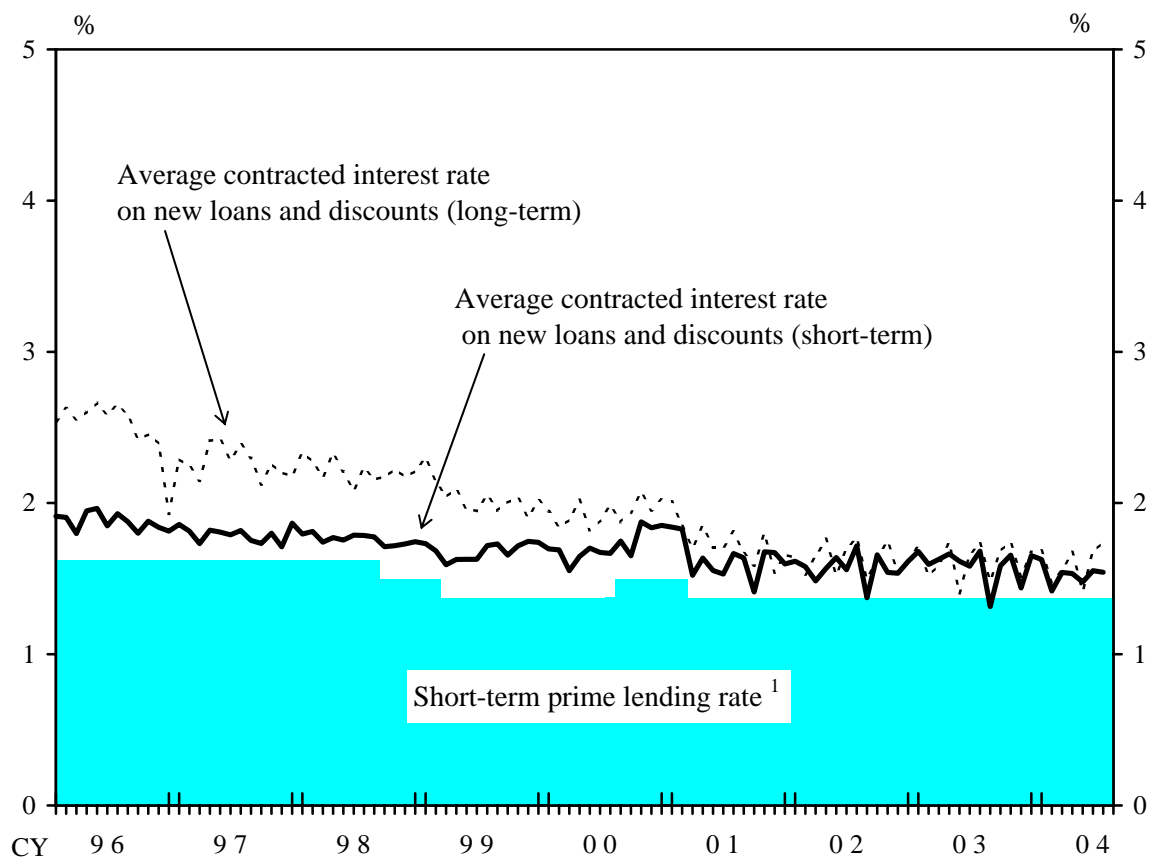
(2) Lending attitude of Financial Institutions as Perceived by Firms



- Notes: 1. Data of the *Tankan* are based on all industries. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.
 2. Figures are quarterly averages of monthly data. Figures for 2004/Q3 are averages of July and August.
 3. DI of "Easy" - "Tight"
 4. DI of "Easier" - "Tighter"
 5. DI of "Accommodative" - "Severe"
 6. DI of "More accommodative" - "More severe"

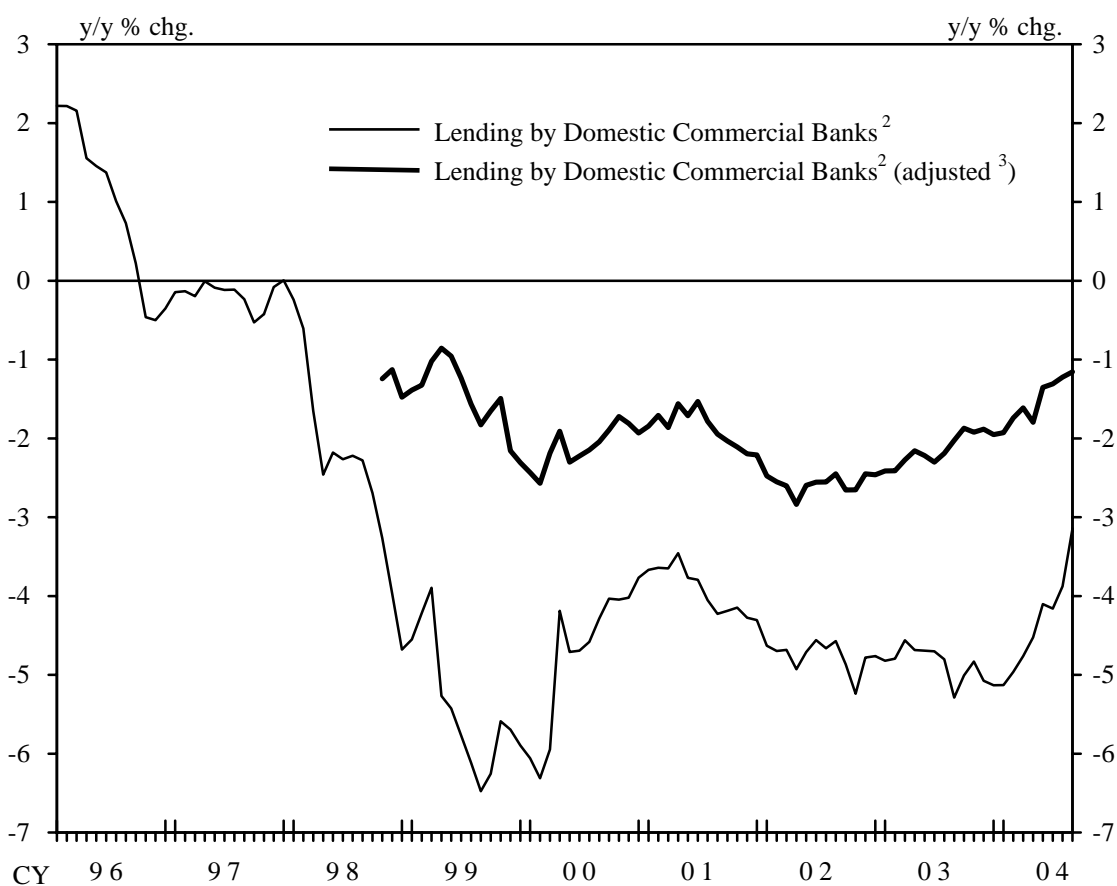
Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small and Medium Enterprise, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

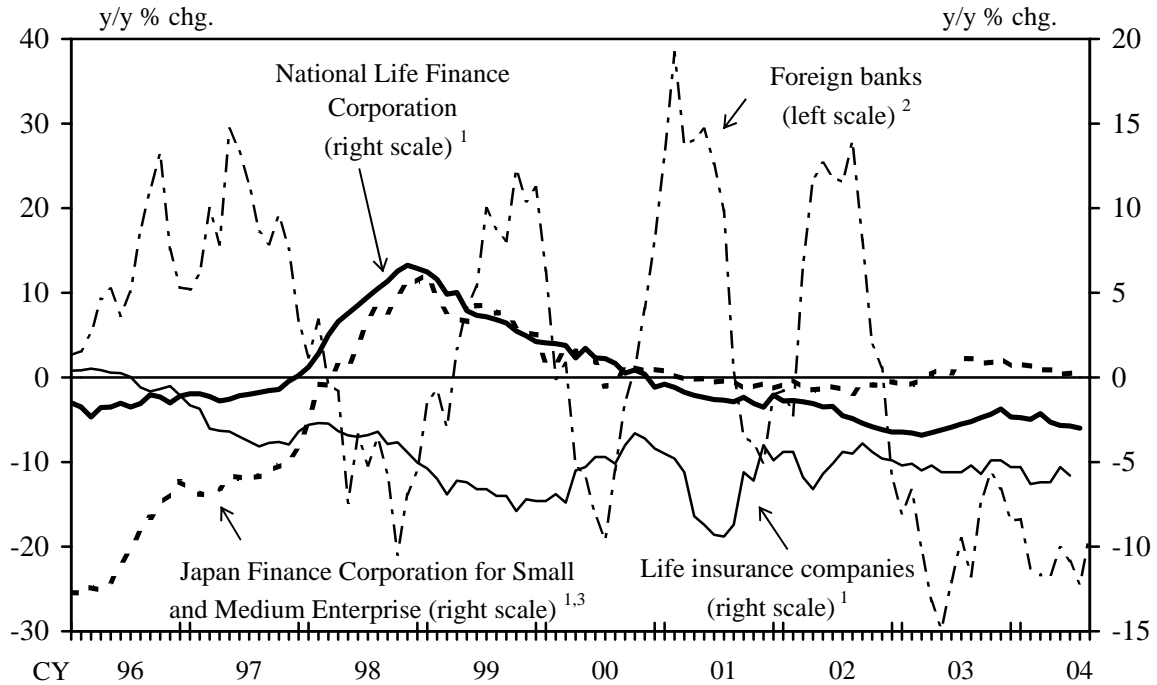
Lending by Domestic Commercial Banks ¹

- Notes: 1. Percent changes in average amounts outstanding from a year earlier.
 2. "Domestic commercial banks" refers to city banks, 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."

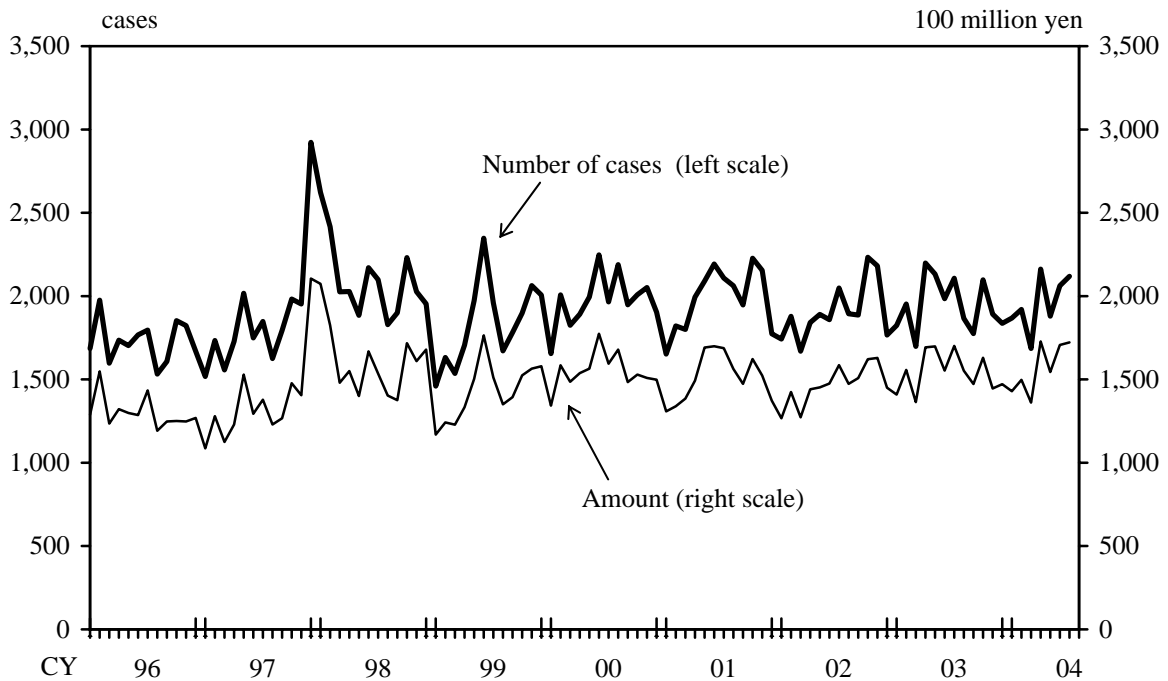
Lending by Other Financial Institutions

(1) Lending Outstanding



- Notes: 1. Data are based on amounts outstanding at end of period.
- 2. Data are based on average amounts outstanding.
- 3. Figures for July 2004 are adjusted to exclude the effects from the succession of the credit insurance accounts of the former Japan Small and Medium Enterprise Corporation.

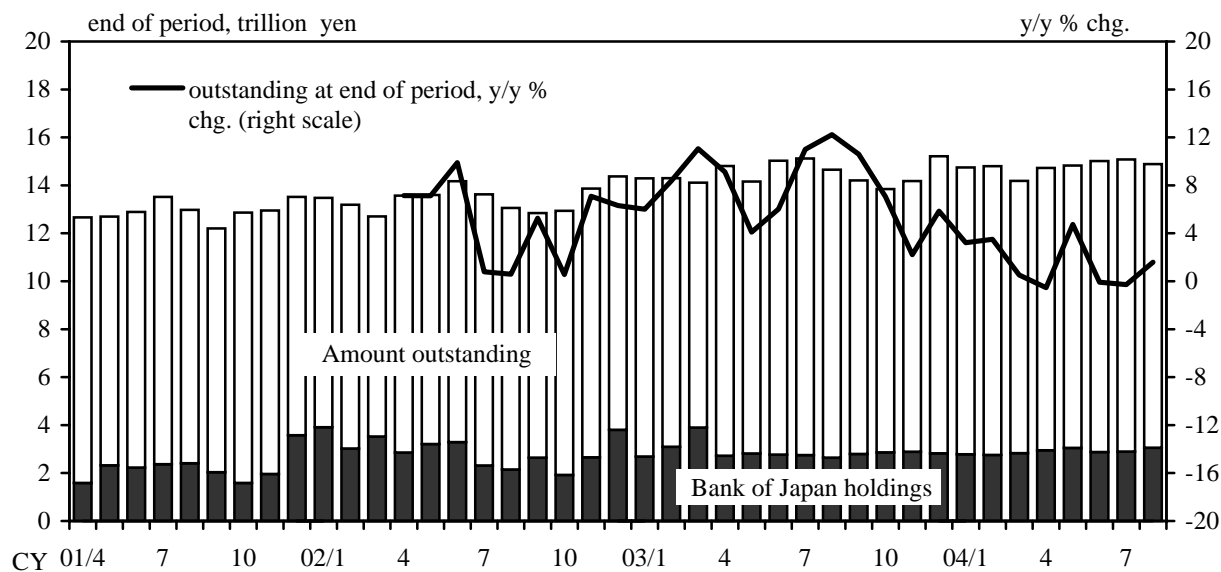
(2) Application for a Loan from Japan Finance Corporation for Small and Medium Enterprise



Sources: Bank of Japan, "Financial and Economic Statistics Monthly"; Japan Finance Corporation for Small and Medium Enterprise, "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) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier)



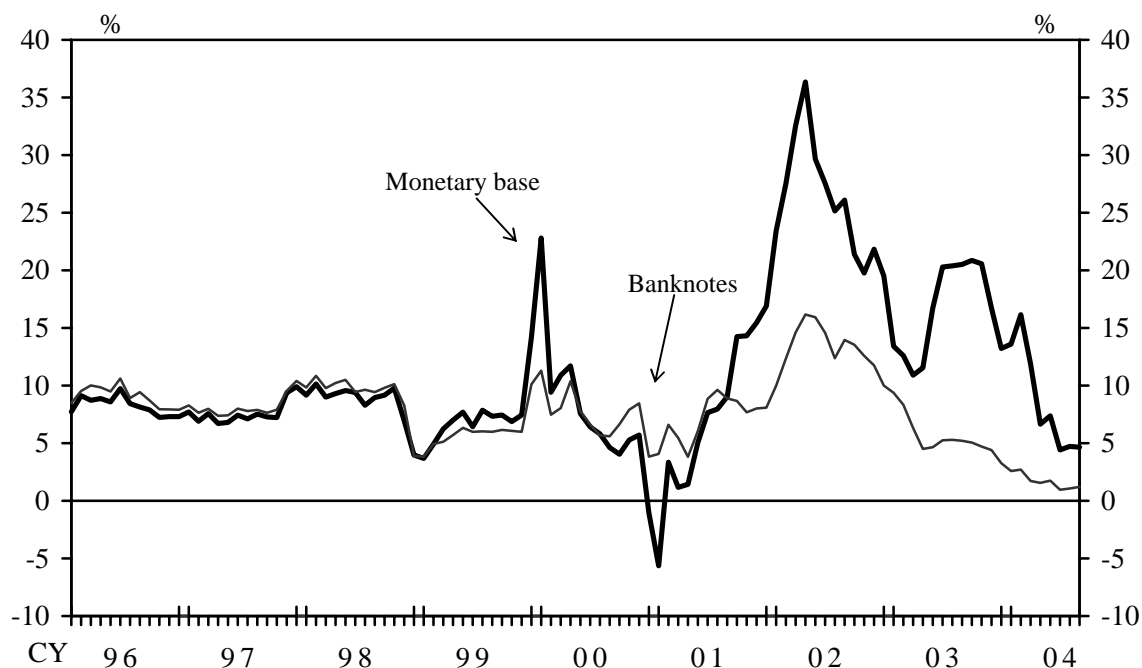
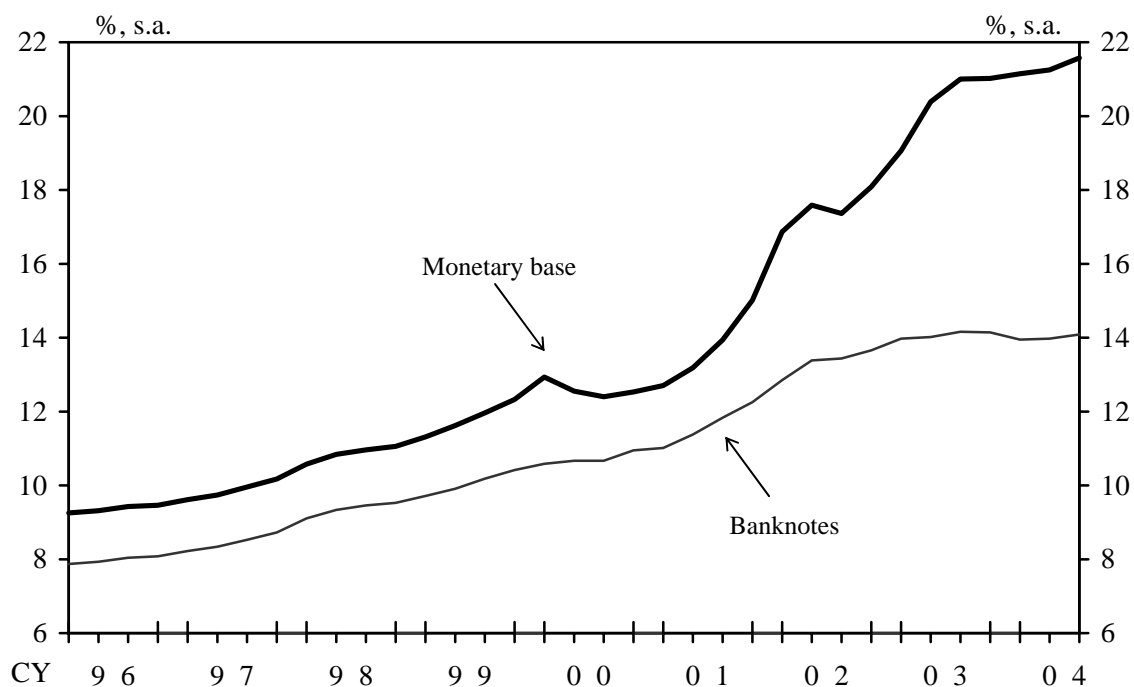
Note: Percentage changes from the previous year of the amount outstanding of corporate bonds are estimated figures. Procedures of the estimation are summarized as follows:

- (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.

$$\text{Percentage changes from the previous year of the amount outstanding of corporate bonds} = \frac{\text{The amount outstanding of corporate bonds as of this month} + \text{The sum of conversion amount over the last 12 months}}{\text{The amount outstanding of corporate bonds as of the same month in the previous year}}$$
- (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," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Monetary Base

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

Notes: 1. Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

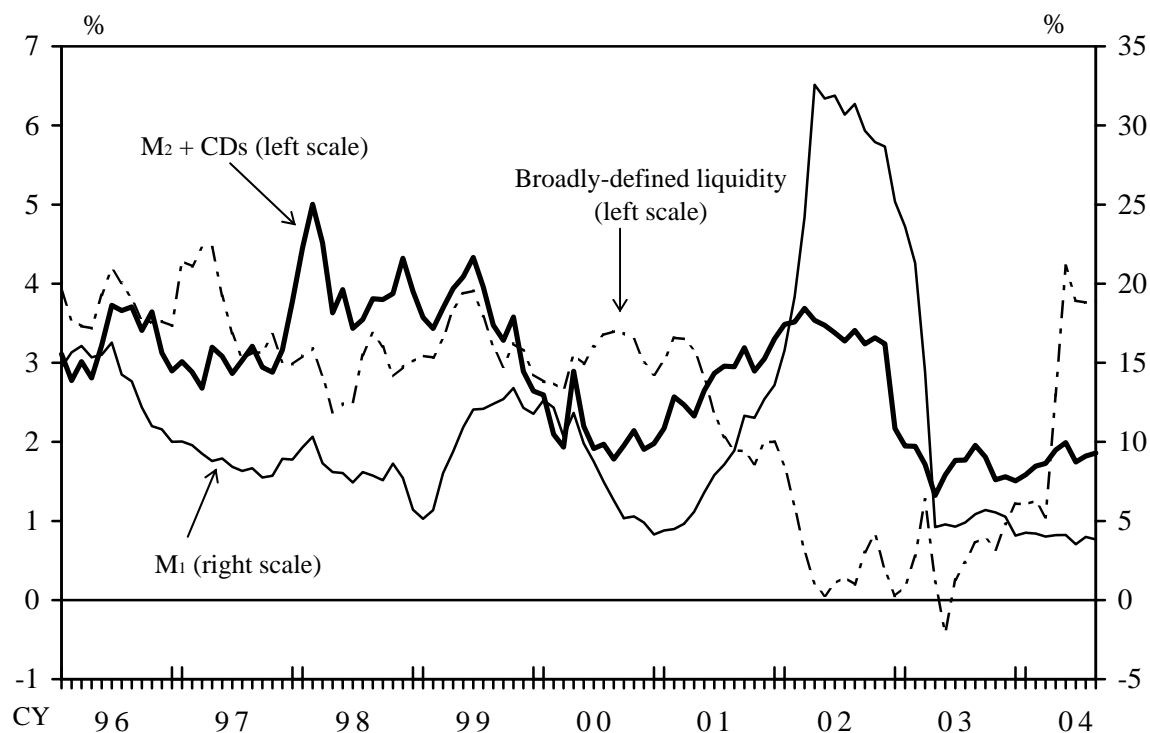
Data for currency in circulation include holdings of financial institutions.

2. Figures for the monetary base and banknotes in 2004/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2004/Q3 is assumed to be unchanged from the previous quarter.

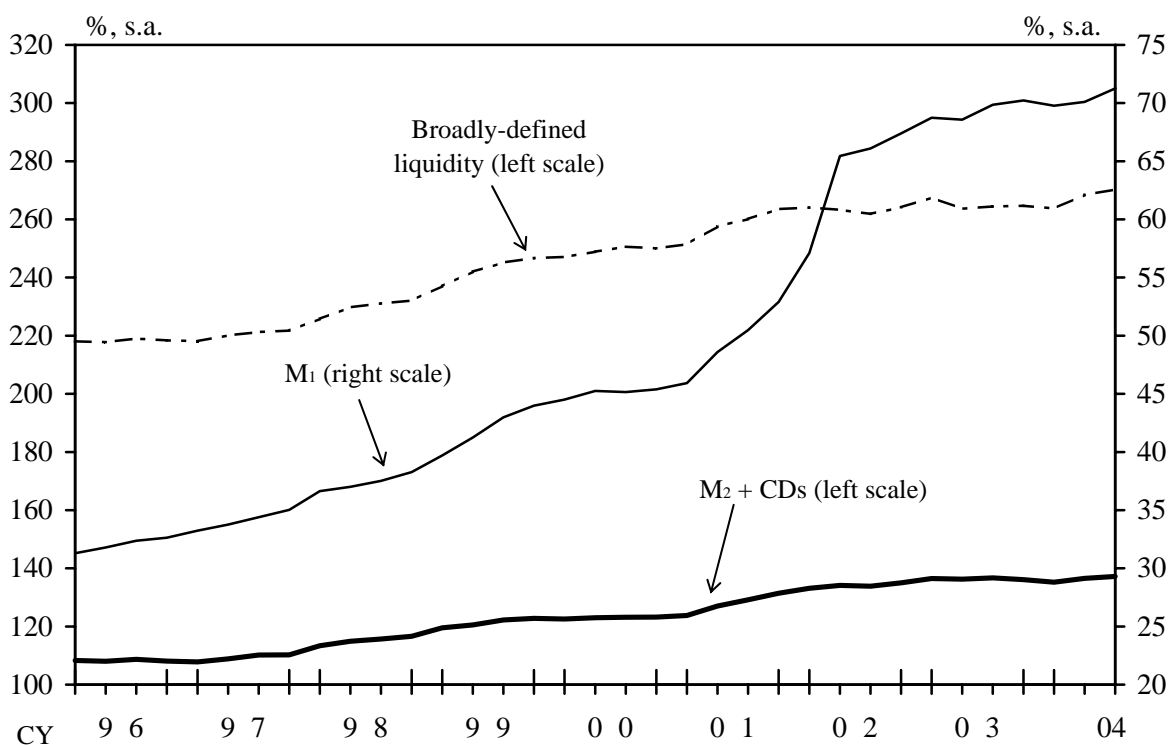
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

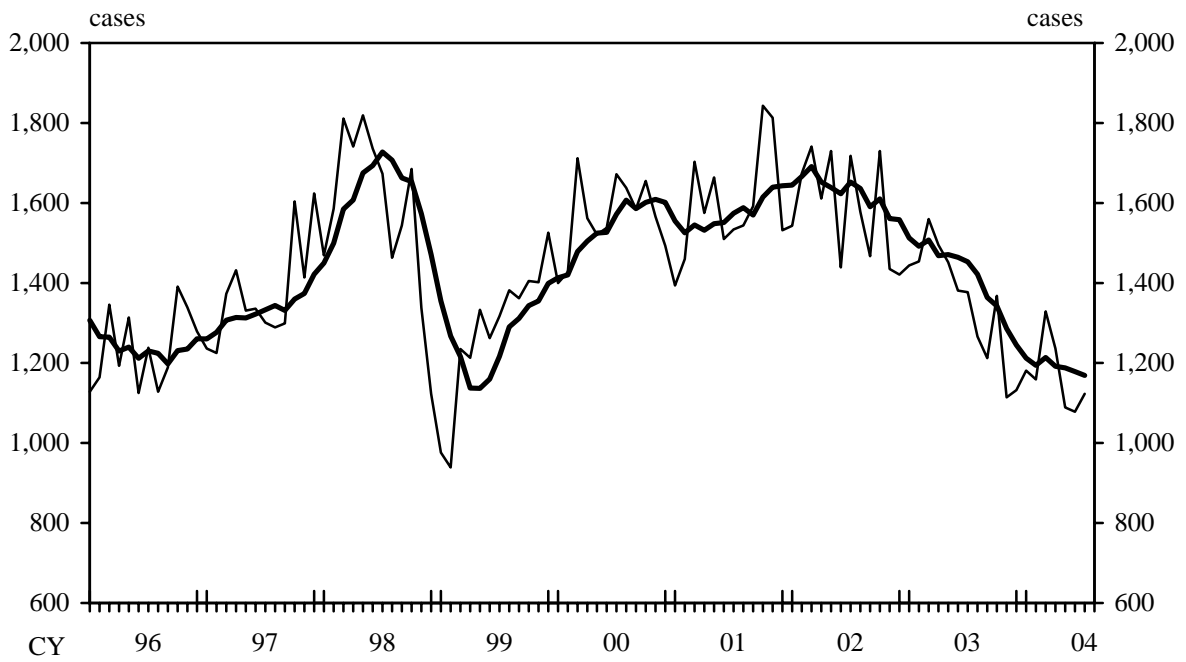


Note: Figures for money stock in 2004/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2004/Q3 is assumed to be unchanged from the previous quarter.

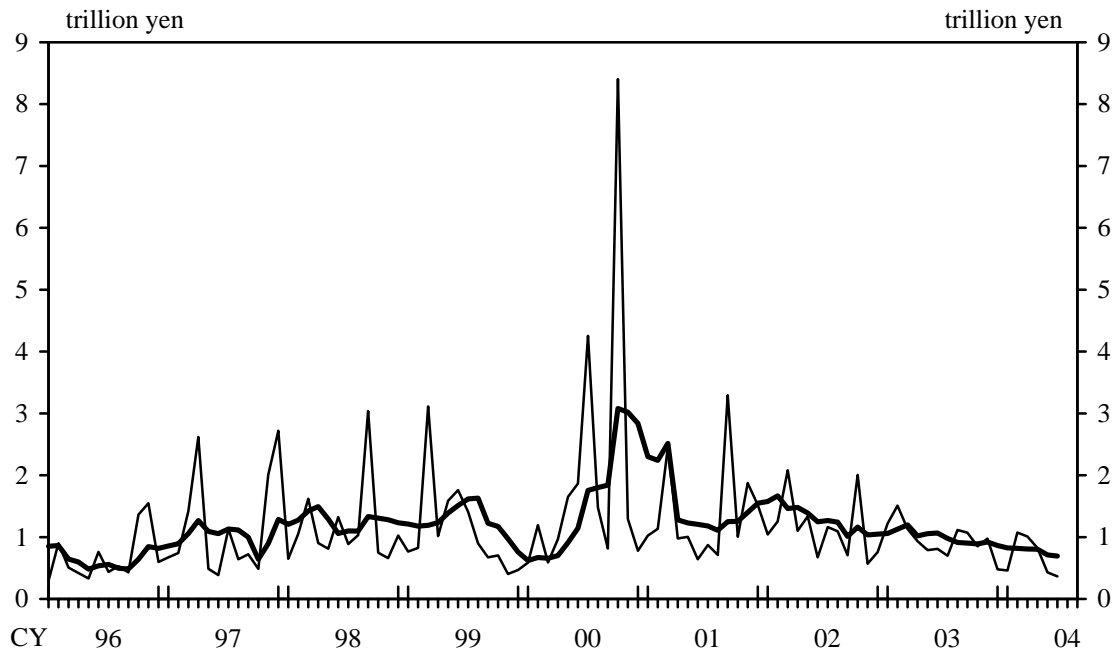
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

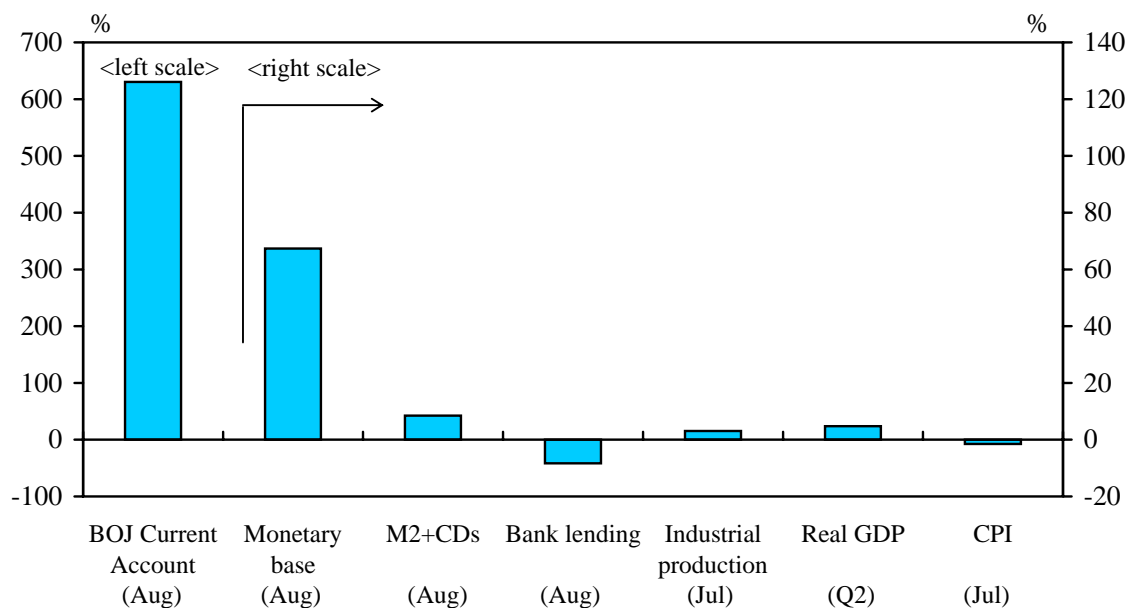


Note: Bold lines are the six-month moving average.

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

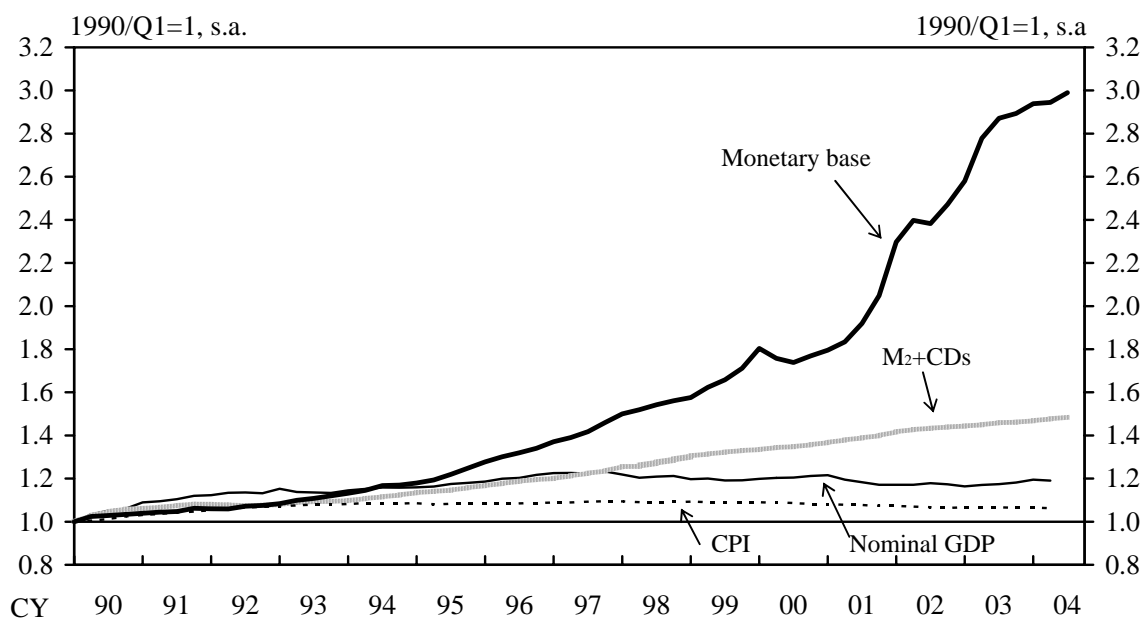
 Monetary Indicators, Economic Activity and Price Development

(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.
 3. Figures for Monetary base and M2+CDs in 2004/Q3 are those of Jul.-Aug. averages.

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.