

January 21, 2005
Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
January 2005

(English translation prepared by the Bank's staff based on the Japanese original released on January 20, 2005)

Monthly Report of Recent Economic and Financial Developments¹

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The Bank's View²

Japan's economy continues a recovery trend, although there seem to be somewhat weak movements mainly in production.

While exports have been more or less flat, industrial production seems to be somewhat weak mainly due to inventory adjustments in IT-related sectors. On the other hand, business fixed investment has been on a rising trend, with corporate profits improving. The employment situation has also been on an improving trend and household income has stopped declining. In this situation, private consumption has been steady. Meanwhile, housing investment has been nearly flat, and public investment has been declining.

Japan's economy is expected to continue to recover.

Although the effects of inventory adjustments in IT-related sectors are projected to remain for some time, exports and production are expected to follow an uptrend, as overseas economies will continue to expand and domestic demand will also continue to increase. Structural adjustment pressure stemming from firms' excess capacity and debt has been easing. While firms are likely to continue restraining labor costs, household income is expected to show signs of a gradual increase since corporate profits are increasing and the extent of excess labor as perceived by firms is continuing to ease. Public investment, meanwhile, is projected to be basically on a downtrend.

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

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on January 18 and 19, 2005.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on January 18 and 19, 2005.

On the price front, the pace of increase in domestic corporate goods prices has become somewhat moderate mainly because crude oil prices have stopped rising. Consumer prices (excluding fresh food) have been declining slightly on a year-on-year basis.

Domestic corporate goods prices are likely to peak out in the immediate future, as commodity prices have stopped rising. Consumer prices are projected to continue falling slightly on a year-on-year basis, as supply and demand conditions are likely to remain loose for the time being, although they are improving.

As for the financial environment, the environment for corporate finance is becoming more accommodative on the whole. The issuing environment for CP and corporate bonds is favorable. Also, the lending attitude of private banks is becoming more accommodative. The lending attitude of financial institutions as perceived by firms has been improving. Meanwhile, the improvement in credit demand in the private sector seems to have stopped temporarily. Under these circumstances, the rate of decline in lending by private banks has not changed recently. However, lending by private banks is still on an improving trend. On the other hand, the amount outstanding of CP and corporate bonds issued continues to be above the previous year's level. 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. The year-on-year growth rate of banknotes in circulation is at the 2.0-3.0 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, the yen's exchange rate against the U.S. dollar and stock prices have risen compared with last month, while long-term interest rates have been around the same level as last month.

Japan's economy has deviated slightly below the Outlook³ presented in the *Outlook for Economic Activity and Prices* (the Outlook Report) released in October 2004, partly due to larger-than-anticipated adjustments in production and inventories of IT-related goods. Adjustments in IT-related goods are likely to be completed in or after spring 2005, while overseas economies continue to be on an expanding trend. Hence, the economy is expected to be broadly in line with the Outlook that it will continue recovering and gradually move to a sustainable growth path. As for prices, domestic corporate goods prices are expected to be in line with the Outlook. Consumer prices are also expected to be basically in line with the Outlook, although they may deviate slightly below it depending on the effects of the reduction in telephone charges.

³ Policy Board members made the forecasts for the real GDP growth rates in the Outlook Report released in October 2004 based on the fixed-base year method. At that time, they estimated that the real GDP growth rates were slightly over 1 percent higher by the fixed-base year method compared to the chain-linking method. Hence, the medians of Policy Board members' forecasts for the real GDP growth rates could be translated into around 2.5 percent for fiscal 2004 and around 1.5 percent for fiscal 2005 in terms of the chain-linking method. This method was introduced in the calculation of the GDP deflator in December 2004.

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 gradually downward on average, although it has recently been fluctuating substantially. The amount of public construction completed, which reflects the actual progress of public works, continued to decrease. Public investment is expected to follow a declining trend, although it is projected to increase temporarily due to disaster relief-related constructions in the wake of several typhoons and the Mid Niigata Prefecture Earthquake.

Real exports continued to be more or less flat due to global supply-demand adjustments in IT-related sectors, although overseas economies have been on an expanding trend (Charts 4[1] and 5); they rose 0.1 percent in the third quarter on a quarter-on-quarter basis and 2.3 percent in October-November from the third quarter. The increase in October-November was spurred by temporary movements in automobile-related goods and intermediate goods.

As for real exports by goods (Chart 5[2]), exports of consumer goods (such as digital home appliances) rose in October-November, mainly to the United States and the EU, after they dropped in the third quarter. On the other hand, exports of capital goods and parts (semiconductor manufacturing equipment) and those of IT-related goods (such as semiconductors) remained weak due to supply-demand adjustments in IT-related sectors (Charts 6[1] and 7[1]). Meanwhile, exports of automobile-related goods and intermediate goods (such as iron and steel) rose somewhat sharply in November. Nevertheless, this is likely to be a temporary fluctuation, taking into account the fact that spare production capacity is small and manufacturers have been giving priority to supplying these goods to domestic customers (Charts 6[2] and [3]).

By region (Chart 5[1]), exports to the United States rose in October-November, after declining slightly in the third quarter. On the other hand, exports to East Asia inched down, mainly to the NIEs. However, those to China

picked up in October-November since the effects of measures taken to cool the overheating economy in China seem to be waning. Meanwhile, exports to the EU continued to rise.

Real imports continued to increase, as domestic demand has been steady (Charts 4[1] and 8). By goods (Chart 8[2]), imports of IT-related goods slowed, reflecting adjustments in the production of these goods. Also, imports of capital goods and parts (excluding aircraft) were virtually flat in October-November, partly in reaction to the high growth in the third quarter. On the other hand, imports of raw materials continued to rise. Consumer goods imports also registered relatively high growth in October-November in reaction to the decrease seen in the third quarter. Meanwhile, imports of foodstuffs increased in October-November mainly due to the upsurge in imports of vegetables fueled by the typhoons, after they remained flat until the third quarter.

Given these developments in exports and imports, net exports have recently declined in terms of the real trade balance (Chart 4[2]). The surplus of the nominal balance on goods and services has been diminishing, partly due to the rise in import prices of crude oil.

Exports are projected to follow an uptrend, since it is expected that overseas economies will continue to expand, particularly in the United States and East Asia (Chart 9-1[2]), and that adjustment pressures in IT-related sectors will ease. Looking at overseas economies—one of the important conditions of exports—the U.S. economy is expected to continue expanding at a pace close to its potential growth rate, as Christmas sales seemed to have been rather solid, and business fixed investment and employment have been steady (Chart 9-2). Moreover, the Chinese economy has continued its high growth on the whole. Nevertheless, the pace of increase in exports is likely to be moderate, because global IT-related demand is unlikely to regain the high growth observed during the first half of last year.

Imports are expected to continue their uptrend, as the domestic economy is projected to continue recovering.

Business fixed investment has been on a rising trend. Shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—have recently been somewhat weak, mainly semiconductor manufacturing equipment, reflecting adjustments in IT-related sectors (Chart 10-1[1]). However, machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of business fixed investment—were on an uptrend on average; they increased in October-November after declining in the third quarter (Chart 10-2[1]). Moreover, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued an uptrend, albeit with some fluctuations (Chart 10-2[2]). By industry, construction starts have been on an increasing trend in a wide-range of industries: mining and manufacturing (factories), real estate (office buildings), wholesale and retail trade (such as shopping centers), and transportation (distribution and delivery centers).

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

Private consumption has been steady. With regard to individual indicators (Charts 11-1 and 11-2), the number of new passenger-car registrations increased in the third quarter, but were more or less flat in the fourth quarter.⁴ Sales of household electrical appliances (NEBA statistics, in real terms) continued to trend steadily upward, particularly in flat panel TVs and DVD recorders. Anecdotes showed that year-end sales were favorable, mainly for flat panel TVs. Meanwhile, sales at department stores and supermarkets continued to be somewhat sluggish in November because of slack sales of winter apparel due to the warm winter, after they dropped in August-October due to the typhoons. On the other hand, sales at convenience stores in November were assisted by favorable weather conditions. Among services consumption, the levels of sales in the food service industry and outlays for travel have dropped slightly from early fall, affected mainly by the typhoons and the Niigata earthquake, after recording high levels during the summer.

⁴ The number dropped slightly in December, but this seems to be due to a delay in some registrations caused by a lack of steel products

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,⁵ have recently been somewhat weak, as many indices were affected by the adverse weather mentioned above (Chart 11-3). On the other hand, the aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—increased in October-November particularly in digital home appliances (Chart 11-4). 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) has been decreasing from around summer in reaction to the high growth registered in the first half of last year which seemed to be due to sampling factors (Chart 11-1[1]).

Indicators for consumer sentiment continued to be on a recovery trend on the whole (Chart 12).

Private consumption is projected to recover gradually, as household income is expected to show signs of a gradual increase.

As for housing investment, housing starts fell back slightly in October-November, after marking a high level of over 1.2 million units (annual rates) in the third quarter,⁶ partly due to the demand rush in construction starts of owner-occupied houses (Chart 13[1]). With these fluctuations smoothed out, the underlying trend of housing starts has been nearly flat. Housing investment is projected to be more or less flat.

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. The coverage of services consumption is narrow, however, and the indices do not necessarily incorporate all sales channels of goods. Also, note that outlays for travel in November were not released at the time when these indices were compiled and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for November were at the same level as in October.

⁶ 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 the year 2004 tax credits for housing loans on the condition that they moved into their new houses by the end of last year. Hence, there was a rush of demand in construction starts of owner-occupied houses around last summer to meet this condition.

Industrial production continued to decline by posting a drop of 0.6 percent in October-November from the third quarter, mainly in electronic parts and devices, after it inched down in the third quarter (Chart 14[1]).⁷ By goods (Chart 15), shipments of capital goods (semiconductor manufacturing equipment) and producer goods (electronic parts and devices)—which were the main contributors in pushing overall production upward until around summer last year—have recently been somewhat weak.

Inventories, meanwhile, were more or less flat as a whole (Chart 14[1]), although movements differ according to goods. The chart of the inventory cycle shows that inventories of materials-related goods such as “producer goods excluding a broad category of electrical machinery” continued to decline, mainly due to the decrease in spare production capacity (Chart 16). For capital goods and durable consumer goods, the increases in shipments and inventories were almost balanced. In contrast, inventories of electronic parts and devices continued to be noticeably in the inventory adjustment phase.

As for the outlook, although the effects of inventory adjustments in IT-related sectors are expected to remain for some time, overseas economies will continue to grow and the foundation for a recovery in domestic demand will also be solid. Based on these factors, production is expected to gradually regain its uptrend.⁸ There is, however, large uncertainty about the degree of progress in inventory adjustments in IT-related sectors and their final demand thereafter. These developments therefore require close monitoring.

As for the employment and income situations, various indicators reflecting labor market conditions have been on an uptrend, albeit with some fluctuations. In this environment, the number of employees has been on an uptrend and household income has stopped declining (Chart 17).

⁷ When combining the production forecast index for December, the production forecast for the fourth quarter is estimated to decline by 0.7 percent compared to the previous quarter.

⁸ Based on anecdotal information, firms seem to be projecting their production to be flat or to increase slightly in the first quarter.

In the labor market, overtime hours worked have been moving at levels above the peak of the previous recovery phase (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]). Under these circumstances, the ratio of job offers to applicants has been rising and the unemployment rate has followed a gradual downtrend (Chart 18-1[1]).

Both the number of employees in the *Labour Force Survey* and the number of regular employees in the *Monthly Labour Survey* continued to increase on a year-on-year basis (Charts 18-2[1] and [2]).

Regarding wages on a year-on-year basis (Chart 17[2]), regular payments were still on a downtrend in terms of the average per person. On the other hand, the rate of decline in special payments has been on a diminishing trend assisted by the increase in corporate profits and the peaking out of firms' restructuring efforts. As for winter bonuses, judging by surveys, those for large manufacturing firms were likely to be above those of the previous year.⁹ Also, winter bonuses in the corporate sector as a whole including nonmanufacturing firms and small firms are basically expected to stop declining, although the December figures need to be released to judge them firmly. This is because special factors (the weakness in government services reflecting the movements in bonuses of public employees and sampling factors in wholesaling)—which had been exerting downward pressure on last year's summer bonuses—will either dissipate or push bonuses upward.¹⁰

Firms are expected to continue restraining their labor costs through the use of part-time workers and outsourcing. Household income is, however, expected to

⁹ According to the survey results released by the Japan Business Federation (final results; the number of responding firms was 166 in manufacturing and 40 in nonmanufacturing), winter bonuses of large firms were reported to increase by 3.0 percent on a year-on-year basis.

¹⁰ Annual bonus payments for public employees were unchanged this fiscal year from fiscal 2003 (a total of 4.4 months salary). In fiscal 2003, however, summer bonuses were equivalent to 2.25 months salary and winter bonuses to 2.15 months salary, but for this fiscal year summer bonuses were equivalent to 2.1 months salary and winter bonuses to 2.3 months salary. This shows that there has been a shift in bonus payments for this fiscal year with more paid at winter bonuses.

show signs of a gradual increase, since corporate profits are increasing and the extent of excess labor as perceived by firms is continuing to ease.

2. Prices

Import prices (on a yen basis, same hereafter; compared to levels three months before) have recently started decreasing, since international commodity prices such as crude oil prices have stopped increasing and the yen has been rising against the U.S. dollar since last fall (Chart 20).

The pace of increase in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates; same hereafter; compared to levels three months before)¹¹ has become somewhat moderate, mainly because crude oil prices have stopped rising (Chart 21). In detail, prices of chemical-related products and those of plastic products have been increasing, reflecting the rise in crude oil prices during the previous periods. Also, prices of iron and steel related products continued to rise from a tightening of supply and demand conditions for these products. On the other hand, prices of petroleum and coal products have almost peaked out since crude oil prices have recently stopped rising. Meanwhile, prices of agriculture, forestry and fishery products, pork in particular, increased in December. With respect to the above movements by stage of demand, intermediate goods prices continued to rise. On the other hand, final goods prices have recently been weak, mainly due to the expansion in the rate of decline in machinery prices and the drop in gasoline prices.

The rate of decline in corporate services prices (excluding external factors; same hereafter) has recently stopped diminishing partly since the rate of decline in leasing and rentals expanded, after the rate narrowed sharply mainly in information services and other services when many services prices were revised last spring (Chart

¹¹ 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.

22).¹² With these fluctuations smoothed out, the year-on-year rate of decline continued to be on a gradual diminishing trend.

Consumer prices (excluding fresh food; same hereafter) have been declining slightly on a year-on-year basis (Chart 23). The year-on-year rate of decline expanded slightly in November with a decrease of 0.2 percent compared to the previous month (a drop of 0.1 percent), mainly due to the decline in telephone charges.¹³

As for the outlook, domestic corporate goods prices are likely to peak out in the immediate future, as commodity prices have stopped rising. With respect to the outlook for consumer prices, supply and demand conditions in the macroeconomy are likely to remain loose for the time being, although they are improving. Moreover, firms are expected to continue their streamlining efforts such as restraining labor costs. Meanwhile, the effects of the reduction in public utility charges (electricity charges and telephone charges) are also expected. Based on these considerations, consumer prices are projected to 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 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.

¹² Corporate services prices have been revised to the 2000 base year index from this month. Excluding external factors means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

¹³ Consumer prices on a general basis including fresh food increased by 0.8 percent on a year-on-year basis, due to an upsurge in fresh vegetables prices.

Under these circumstances, interest rates on Euroyen futures (Chart 26[2]) remain unchanged.

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 25[2]) have basically been more or less flat, partly since Japanese stock prices climbed toward the year-end, while views on the economic outlook continue to be cautious. They have recently been moving in the range of 1.35-1.4 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 29 and 30) have been more or less flat.

Stock prices (Chart 31) have risen mainly due to purchases of Japanese stocks by foreign investors, reflecting the firmness of U.S. stock prices toward the year-end. The Nikkei 225 Stock Average is moving at around 11,500 yen.

In the foreign exchange market (Chart 32), the yen fluctuated while the market was thin from late December to early January. It rose thereafter, mainly since the U.S. trade deficit marked a record high. The yen is being traded in the range of 102-105 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

The improvement in credit demand in the private sector seems to have stopped temporarily, while firms continue to reduce their debts.

Regarding credit supply, the lending attitude of private banks is becoming more accommodative on the whole. The lending attitude of financial institutions as perceived by firms, including small firms, has been improving (Chart 33).

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 34).

The year-on-year rate of decline in lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹⁴) has not changed recently, mainly since the increase in housing loans has slowed somewhat. However, lending by private banks is still on an improving trend. (The year-on-year change was –1.3 percent in October, –1.3 percent in November, and –1.1 percent in December; Chart 35.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. 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 1.6 percent in October, 1.7 percent in November, and 1.6 percent in December; Chart 37.)

According to business surveys, the financial positions of firms have been on an improving trend.

The year-on-year growth of banknotes in circulation is at the 2.0-3.0 percent level, bolstered by the introduction of the new series of banknotes. The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan) continued to be at the 4.0-5.0 percent level. (The year-on-year change was 4.2 percent in October, 4.9 percent in November, and 4.2 percent in December; Chart 38.)

The year-on-year growth rate of the money stock ($M_2 + \text{CDs}$) was around 2.0 percent. (The year-on-year change was 2.0 percent in October, 2.0 percent in November, and 2.0 percent in December; Chart 39.) The year-on-year growth rate for the first quarter is projected to be around 2 percent.

The number of corporate bankruptcies continues its downtrend; it declined by 4.5 percent year-on-year in November, to 1,064 cases (Chart 40).

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.

Box: Introduction of the Chain-linking Method to the GDP Statistics and Its Effects

The Cabinet Office has recently changed the calculation method for deflators and real term figures in the GDP statistics from the fixed-base year method to the chain-linking method. As with the fixed-base year method, the contribution of goods whose prices are declining rapidly tend to be overestimated as the year moves away from the base year. Recently, in particular, both the GDP deflator and the real GDP growth rate were considered to be calculated with a considerable bias, with a downward bias on the former and an upward bias on the latter since the base year (CY1995) was becoming outdated. The chain-linking method introduced this time will remove the above bias to a considerable degree since the base year will be revised each year and so the previous calendar year will always be the base year.

In fact, the real GDP growth rate for fiscal 2003 was revised from +3.2 percent to +1.9 percent on a year-on-year basis due mainly to the introduction of the chain-linking method. Of course, this is because the “measure” has been changed and does not indicate changes in real economic conditions. The Bank of Japan has been releasing estimates of potential growth rates and Policy Board members’ forecasts for the real GDP growth rates taking into account the above bias.

In sum, the introduction of the chain-linking method for the GDP statistics will have the following effects:

- (1) Forecasts for the real GDP growth rates in the Outlook Report released in October 2004 are considered to be lowered by slightly over 1 percent under the chain-linking method.
- (2) The potential growth rate, which was estimated to be “around 2 percent,” is considered to be “around 1 percent” under the chain-linking method.
- (3) As a result of (1) and (2), the output gap, which is calculated from the gap between the potential GDP and actual GDP, is not affected.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2004/Q2	Q3	Q4	2004/Sep.	Oct.	Nov.	Dec.
Index of living expenditure level (all households)	2.4	-2.5	n.a.	-1.9	-1.8	0.9	n.a.
Sales at department stores	-1.7	-0.6	n.a.	0.2	-1.8	1.2	n.a.
Sales at supermarkets	-2.1	-1.0	n.a.	1.7	-0.5	-0.8	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 321>	< 346>	< 344>	< 342>	< 335>	< 356>	< 342>
Sales of household electrical appliances (real, NEBA)	3.6	3.8	n.a.	4.0	1.4	-1.6	n.a.
Outlays for travel (50 major travel agencies)	13.2	-4.5	n.a.	0.7	-4.7	-0.4	n.a.
Housing starts <s.a., ann. 10,000 units>	< 115>	< 123>	<n.a.>	< 126>	< 119>	< 113>	<n.a.>
Machinery orders (from private sector ⁴)	10.3	-8.4	n.a.	-1.9	-3.1	19.9	n.a.
Manufacturing	18.4	-12.0	n.a.	-7.0	-3.6	12.5	n.a.
Nonmanufacturing ⁴	5.0	-5.1	n.a.	1.8	-3.9	26.9	n.a.
Construction Starts (private, nondwelling use)	-3.9	8.8	n.a.	-3.5	-5.2	-9.3	n.a.
Mining & manufacturing	21.7	-10.1	n.a.	37.4	-14.0	8.8	n.a.
Nonmanufacturing ⁵	-10.2	14.0	n.a.	-9.3	-1.7	-17.0	n.a.
Value of public works contracted	5.4	-2.7	-10.8	-10.1	-13.1	9.4	-6.6
Real exports	3.2	0.1	n.a.	-1.7	2.2	1.9	n.a.
Real imports	1.3	2.1	n.a.	-0.3	2.2	3.4	n.a.
Industrial production	2.6	-0.7	n.a.	-0.4	-1.3	1.7	n.a.
Shipments	2.9	-1.1	n.a.	1.6	-1.3	1.3	n.a.
Inventories	-0.4	2.1	n.a.	2.1	-1.0	0.8	n.a.
Inventory Ratio <s.a., CY 2000=100>	<93.4>	<98.2>	< n.a.>	<98.2>	<96.9>	<96.5>	< n.a.>
Real GDP	-0.1	0.1	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.8	-0.2	n.a.	0.1	-0.4	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2004/Q2	Q3	Q4	2004/Sep.	Oct.	Nov.	Dec.
Ratio of job offers to applicants <s.a., times>	<0.80>	<0.83>	<n.a.>	<0.84>	<0.88>	<0.92>	<n.a.>
Unemployment rate <s.a., %>	<4.6>	<4.8>	<n.a.>	<4.6>	<4.7>	<4.5>	<n.a.>
Overtime working hours ⁶	3.7	2.6	n.a.	2.0	0.0	1.9	n.a.
Number of employees	0.7	0.4	n.a.	0.5	0.6	0.1	n.a.
Number of regular employees ⁶	0.4	0.5	n.a.	0.5	0.5	0.6	n.a.
Nominal wages per person ⁶	-1.1	-0.2	n.a.	-0.5	-0.5	1.8	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	1.1 <0.5>	1.7 <0.5>	p 2.0 <p 0.4>	1.8 <0.4>	2.0 <0.4>	2.0 <0.4>	p 1.9 <p 0.3>
Consumer price index ⁸	-0.2	-0.2	n.a.	0.0	-0.1	-0.2	n.a.
Corporate service price index ⁹	-0.4	-0.2	n.a.	-0.2	-0.2	p -0.3	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Number of suspension of transactions with banks	-29.1	-17.4	-15.8	-15.0	-27.4	-3.6	-14.4

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.

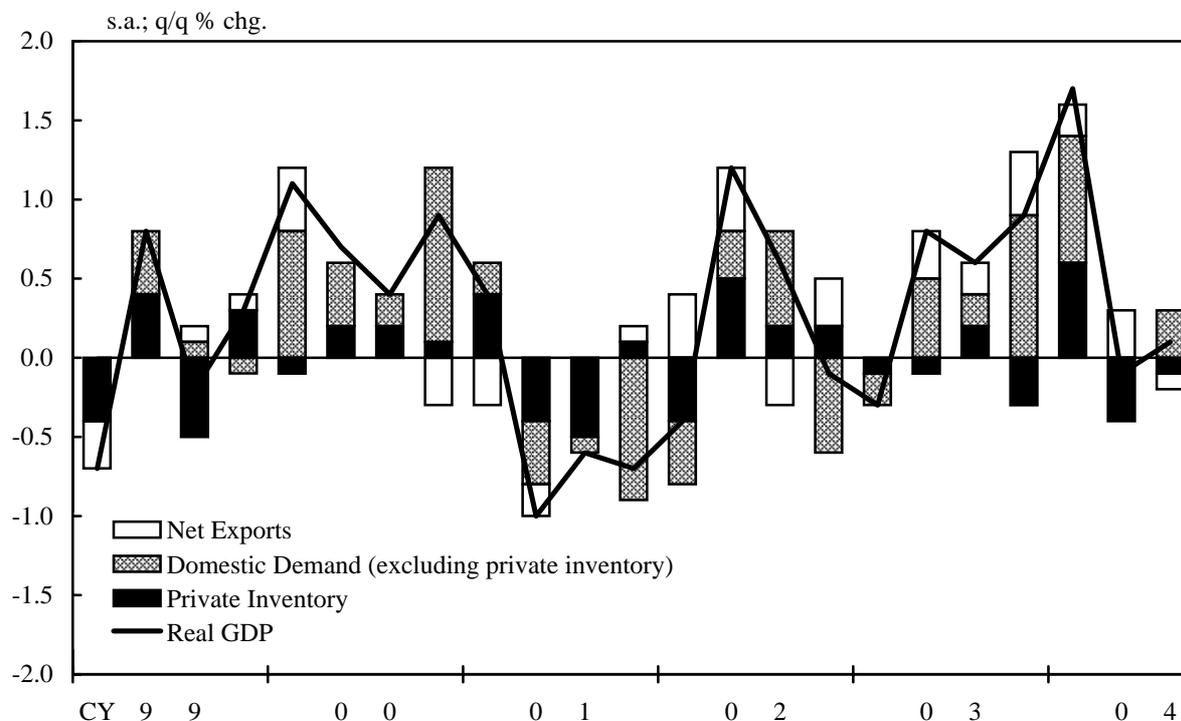
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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. Data is revised to the 2000 base.

Sources: Ministry of Internal Affairs and Communications, "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.

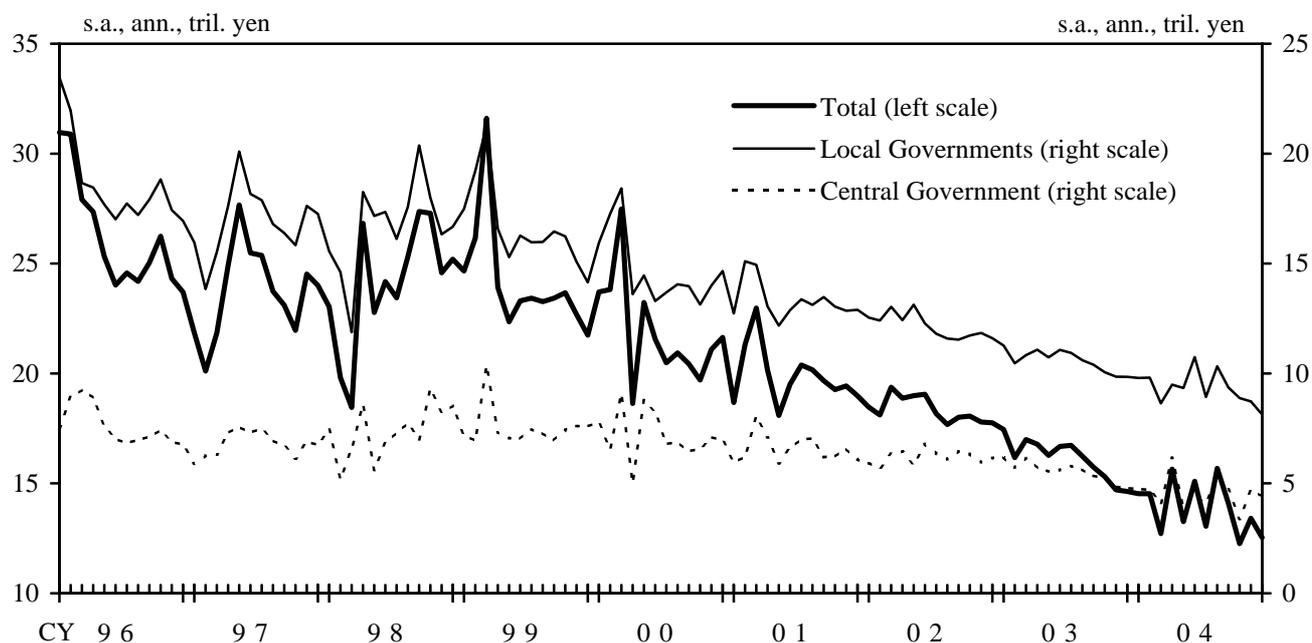
	2003		2004		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.6	0.9	1.7	-0.1	0.1
Domestic Demand	0.4	0.6	1.4	-0.4	0.2
Private Consumption	0.3	0.6	0.9	0.3	0.2
Non-Resi. Investment	0.2	4.8	-2.3	4.3	1.1
Residential Investment	2.1	-1.0	0.4	0.9	0.7
Private Inventory	(0.2)	(-0.3)	(0.6)	(-0.4)	(-0.1)
Public Demand	-0.2	-0.8	2.9	-3.4	-0.1
Public Investment	-3.2	-3.6	8.6	-16.8	-2.2
Net Exports of goods and services	(0.2)	(0.4)	(0.2)	(0.3)	(-0.1)
Exports	3.3	5.3	4.6	3.4	0.6
Imports	2.1	2.7	3.3	1.7	1.8
Nominal GDP	0.2	0.5	1.1	-0.6	-0.0

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

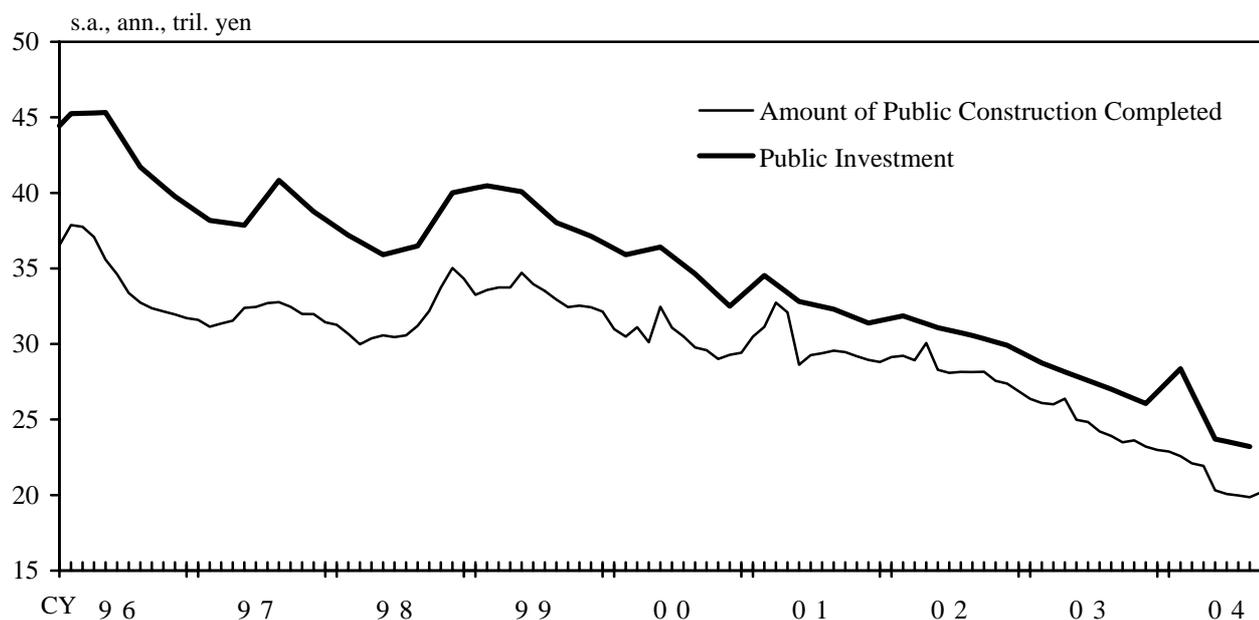
Source: Cabinet Office, "National Accounts."

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 2000 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.

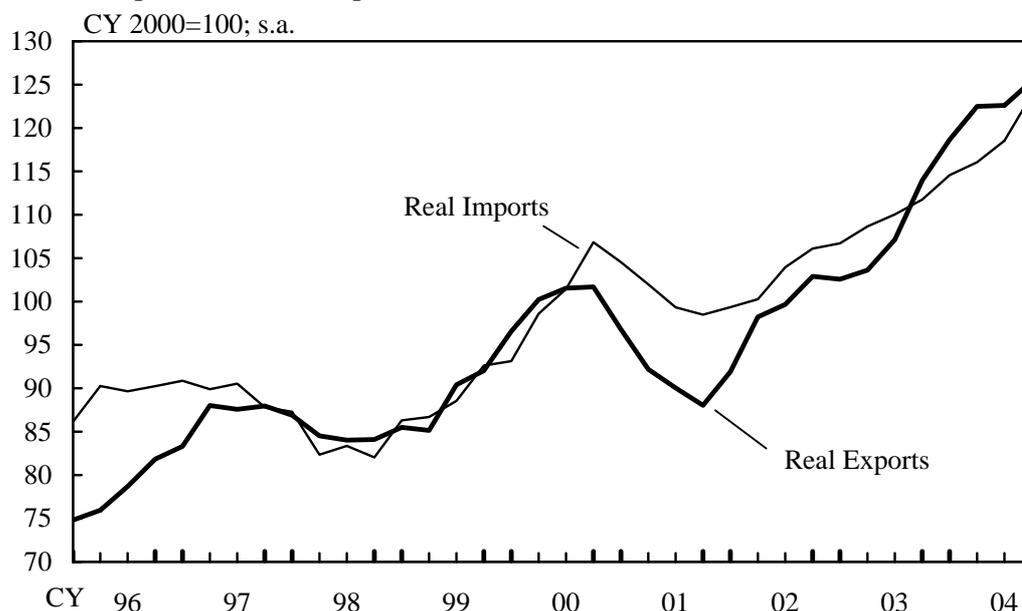
Sources: Cabinet Office, "National Accounts";

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

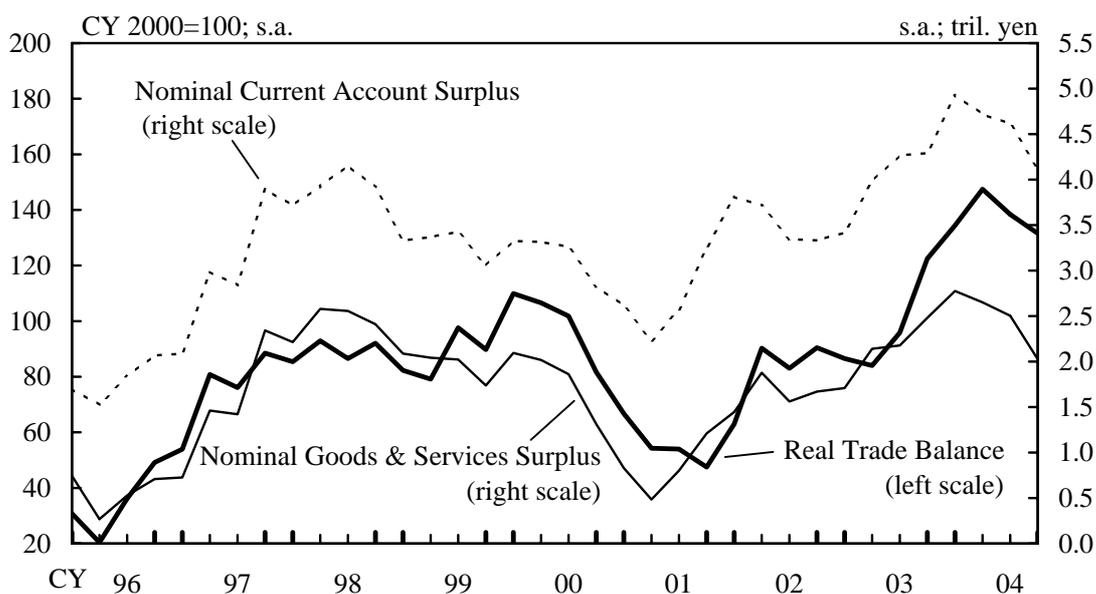
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

 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. 2004/Q4 figures are Oct.-Nov. averages converted into quarterly amount.
 3. 2004/Q4 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are Oct.-Nov. averages converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q4	2004 Q1	Q2	Q3	Q4	2004 Sep.	Oct.	Nov.
United States	<24.6>	1.4	-6.2	2.6	2.7	3.0	-0.9	2.3	-4.0	0.8	5.1
EU	<15.3>	-0.0	13.9	3.9	9.8	1.8	3.6	3.2	-7.7	2.0	7.2
East Asia	<44.9>	17.5	19.9	8.4	8.8	0.3	1.0	-0.3	-1.5	-0.2	1.8
China	<12.2>	35.5	41.1	5.3	11.0	1.4	0.5	3.1	1.4	4.2	-3.3
NIEs	<23.5>	14.4	15.7	12.2	8.1	0.2	1.5	-2.3	-3.4	-1.9	3.4
Korea	<7.4>	19.1	19.2	9.2	13.2	-1.5	-1.4	-5.1	-2.3	-6.1	8.6
Taiwan	<6.6>	14.6	16.1	17.0	5.8	0.7	8.0	0.0	-5.9	0.8	5.2
ASEAN4 ³	<9.2>	10.2	9.1	3.5	7.7	-0.8	0.3	0.2	-0.4	-1.7	5.3
Thailand	<3.4>	16.5	18.3	5.5	7.4	0.9	0.5	7.4	-2.6	7.3	3.7
Real exports		7.2	8.9	6.4	4.1	3.2	0.1	2.3	-1.7	2.2	1.9

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q4	2004 Q1	Q2	Q3	Q4	2004 Sep.	Oct.	Nov.
Intermediate goods	<15.6>	8.8	5.6	4.0	5.9	-3.8	-1.9	0.4	-4.0	0.8	6.2
Motor vehicles and their related goods	<23.7>	12.7	1.3	5.9	-1.5	7.2	0.5	1.1	-1.5	-1.9	8.4
Consumer goods ⁴	<7.0>	7.9	14.9	9.4	6.2	1.5	-6.4	9.0	4.0	7.8	-5.5
IT-related goods ⁵	<14.1>	0.3	12.9	4.7	5.6	5.0	-1.0	-0.3	-2.8	0.6	0.7
Capital goods and parts ⁶	<28.6>	7.8	17.1	6.3	7.3	6.1	2.6	1.0	-7.3	3.5	1.7
Real exports		7.2	8.9	6.4	4.1	3.2	0.1	2.3	-1.7	2.2	1.9

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q4 figures are Oct.-Nov. averages 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.

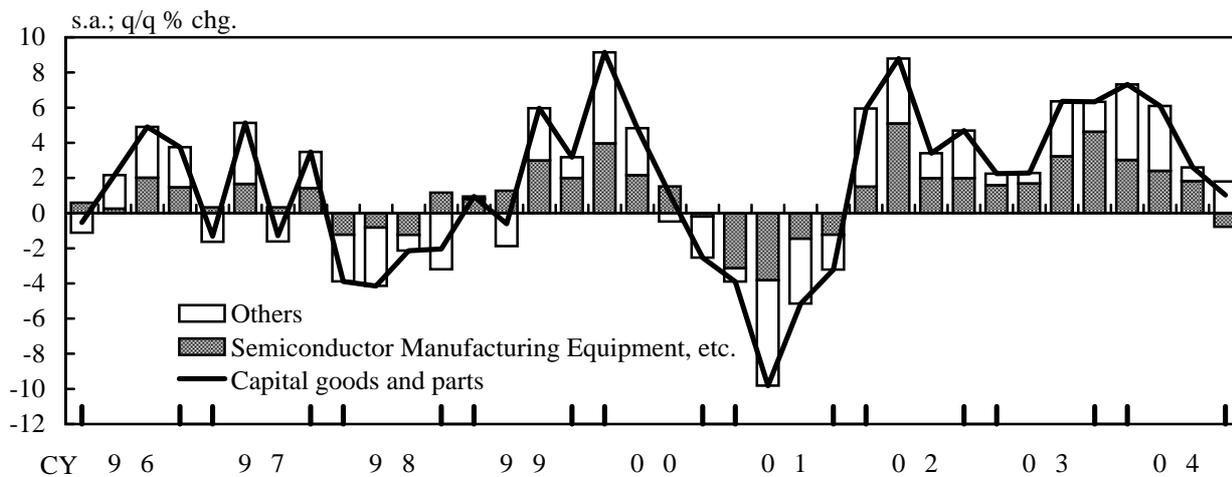
5. IT-related goods are composed of automatic data processing machinery, telecommunication machinery, ICs and medical and optical instruments.

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

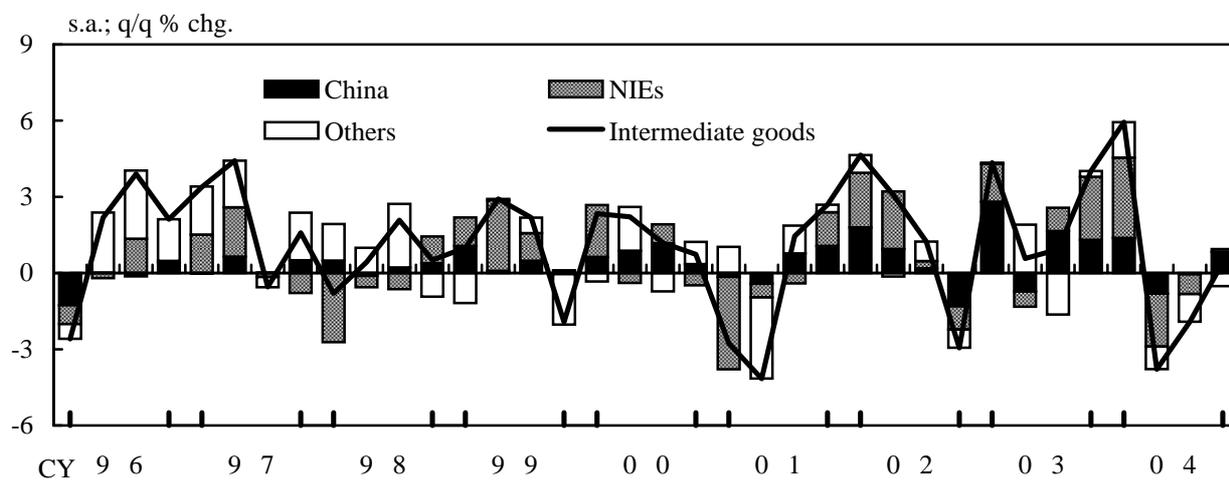
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports breakdown by goods

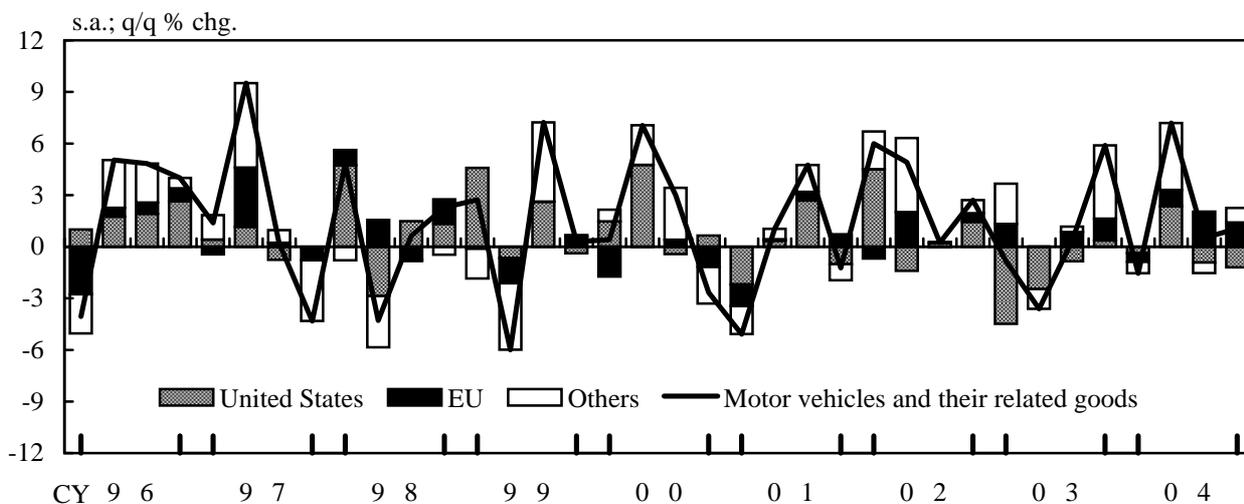
(1) Capital goods and parts (real, breakdown by goods)



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



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



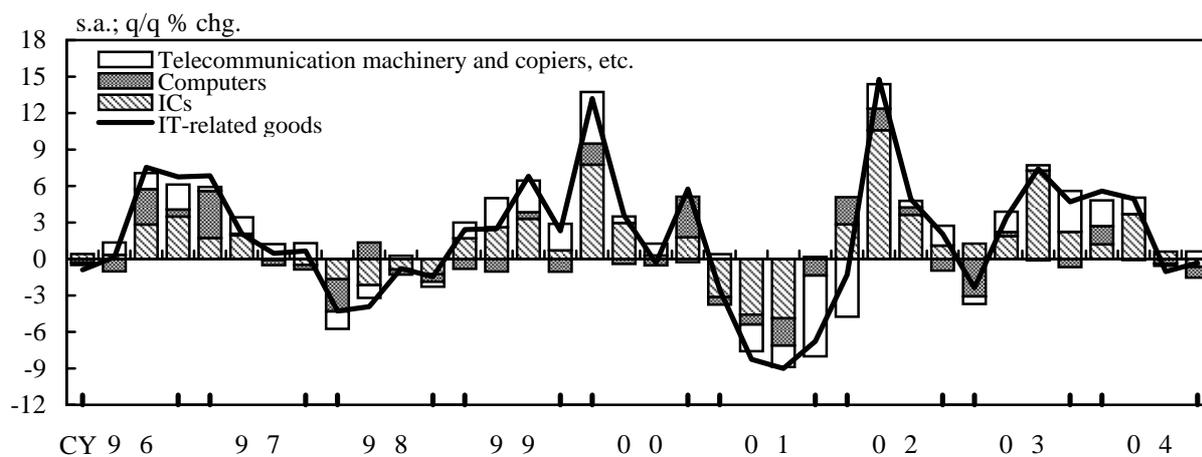
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2004/Q4 figures are Oct.-Nov. averages converted into quarterly amount.

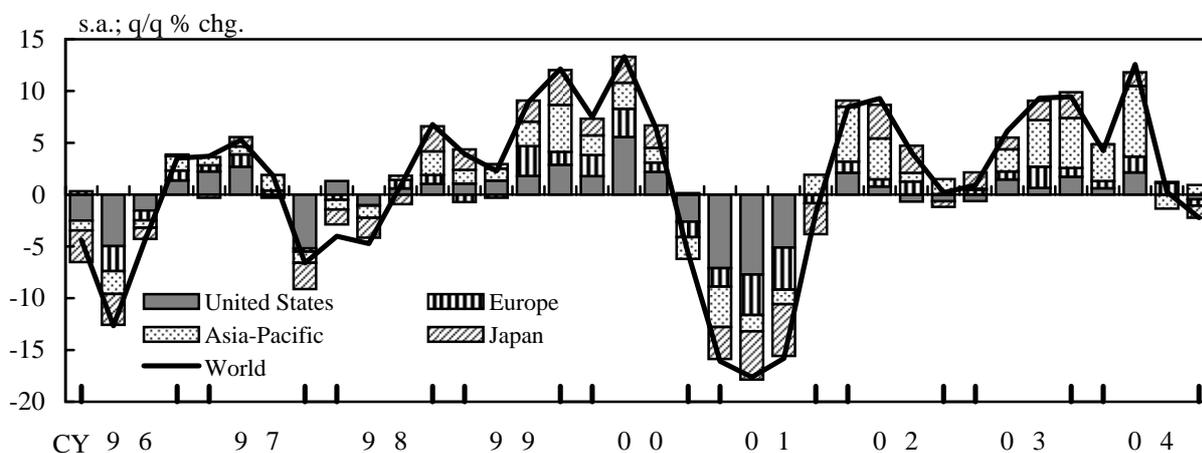
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

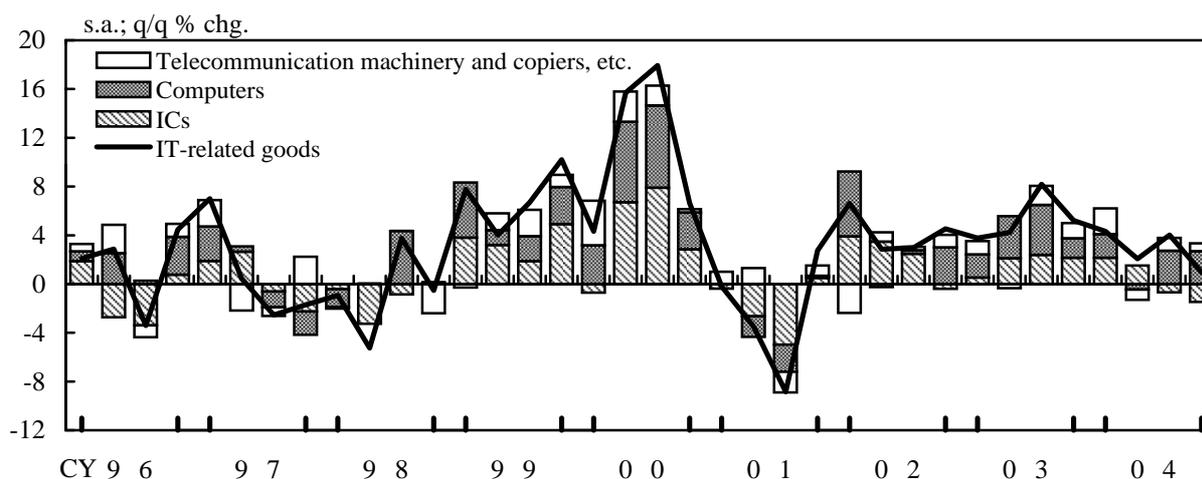
(1) Exports of IT-related goods (real, breakdown by goods)



(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/Q4 figures are Oct.-Nov. averages 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 Q4	2004 Q1	Q2	Q3	Q4	2004 Sep.	Oct.	Nov.
United States	<15.4>	-3.9	-1.6	1.3	-3.6	3.9	-0.1	6.2	3.1	7.7	-7.9
EU	<12.8>	2.3	6.4	3.1	6.8	-1.4	-0.3	5.0	-7.1	6.8	5.2
East Asia	<42.4>	6.4	14.6	3.6	4.7	1.6	3.8	2.2	1.6	-1.6	4.3
China	<19.7>	13.8	21.9	3.6	6.7	3.3	4.2	6.0	2.8	0.3	6.0
NIEs	<10.2>	1.8	9.8	5.5	4.8	-0.1	2.1	-3.5	3.1	-6.1	2.1
Korea	<4.7>	-1.5	13.1	7.8	9.4	0.8	-5.3	-4.9	5.0	-10.3	5.5
Taiwan	<3.7>	5.4	7.1	2.2	3.3	-0.7	7.3	-3.3	-0.1	-1.0	-4.2
ASEAN4 ³	<12.5>	1.5	9.0	2.1	1.5	0.4	4.6	0.9	-1.6	-0.7	3.1
Thailand	<3.1>	7.6	11.5	3.4	2.3	3.9	4.4	4.9	-2.2	3.5	5.4
Real imports		1.1	6.8	1.6	2.5	1.3	2.1	4.5	-0.3	2.2	3.4

(2) Breakdown by goods

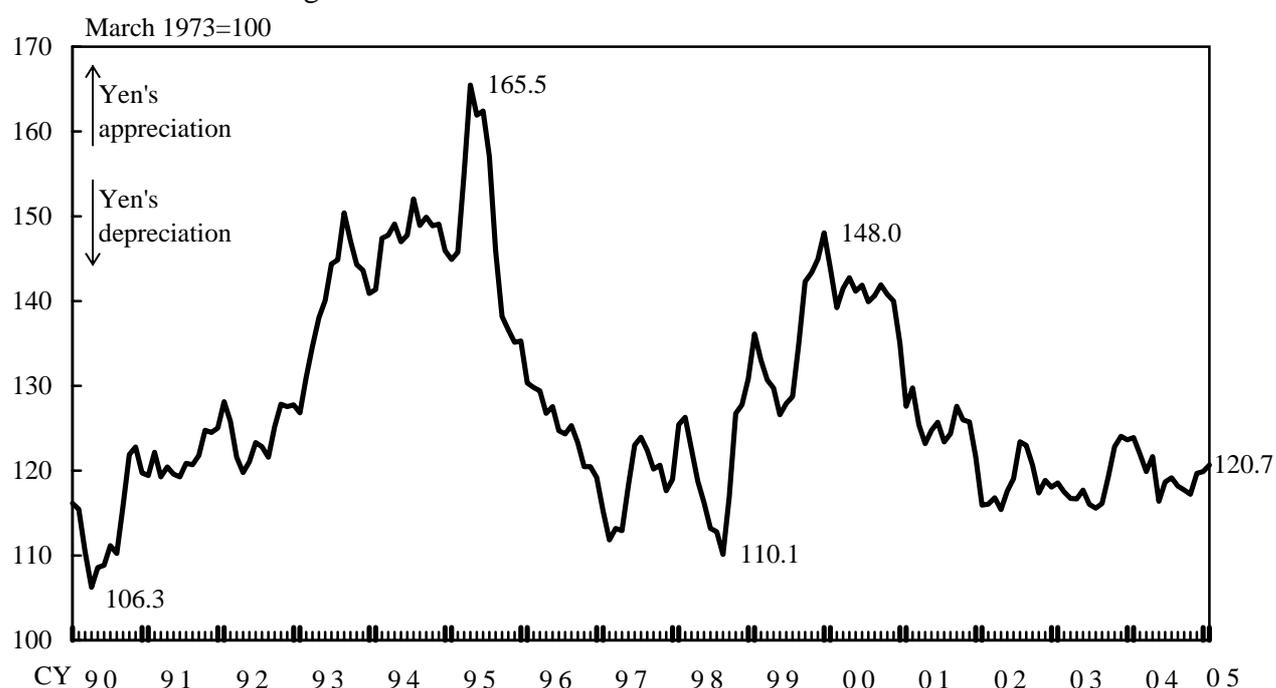
		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2002	2003	2003 Q4	2004 Q1	Q2	Q3	Q4	2004 Sep.	Oct.	Nov.
Raw materials ⁴	<27.1>	-2.7	6.0	-3.4	3.2	-0.7	3.9	4.9	-5.4	7.6	0.8
Intermediate goods	<13.4>	1.4	4.5	1.0	3.3	2.0	2.3	1.5	-0.9	-2.3	8.7
Foodstuffs	<11.5>	-2.5	-4.2	0.2	-0.0	-0.0	-0.5	4.2	-7.1	4.6	5.5
Consumer goods	<10.8>	-0.9	8.0	6.3	0.7	4.0	-1.6	8.1	1.8	4.6	4.2
IT-related goods ⁵	<14.0>	7.8	19.3	5.2	4.3	2.1	4.0	1.0	4.8	-3.4	2.7
Capital goods and parts ⁶	<13.0>	11.5	14.3	6.5	3.0	4.5	2.3	12.5	-1.0	15.0	-2.8
excluding aircraft	<11.9>	8.3	14.3	4.8	7.8	1.2	7.0	0.5	-0.4	-1.4	1.0
Real imports		1.1	6.8	1.6	2.5	1.3	2.1	4.5	-0.3	2.2	3.4

- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2004/Q4 figures are Oct.-Nov. averages 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 January 2005 is the average up to January 18.
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.

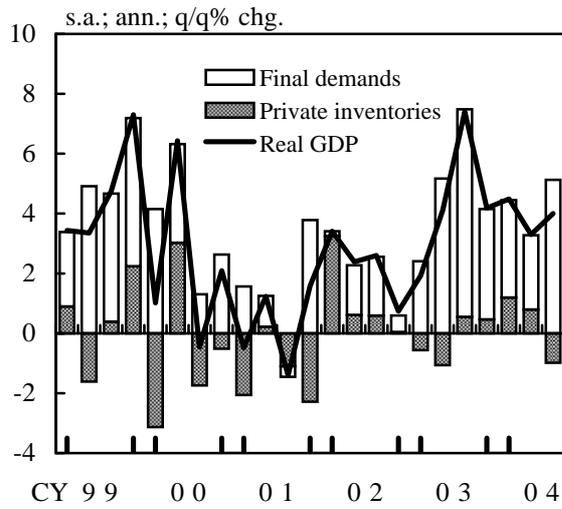
(2) Real GDP Growth Rates in Overseas Economies

		CY2002	2003	2004	2004 Q1	Q2	Q3	Q4	
United States ¹		1.9	3.0	n.a.	4.5	3.3	4.0	n.a.	
European Union ¹ (15 countries)		1.0	0.8	n.a.	2.8	2.2	1.3	n.a.	
Germany		0.1	-0.1	1.7	1.7	1.7	0.4	n.a.	
France		1.1	0.6	n.a.	2.6	2.5	0.3	n.a.	
United Kingdom		1.8	2.2	n.a.	3.0	3.5	1.8	n.a.	
East Asia ²	China	8.3	9.3	n.a.	9.8	9.6	9.1	n.a.	
	NIEs	Korea	7.0	3.1	n.a.	5.3	5.5	4.6	n.a.
		Taiwan	3.9	3.3	n.a.	6.7	7.9	5.3	n.a.
		Hong Kong	1.9	3.2	n.a.	7.0	12.1	7.2	n.a.
		Singapore	2.2	1.1	8.1	7.5	12.5	7.5	5.4
	ASEAN4	Thailand	5.3	6.9	n.a.	6.7	6.4	6.0	n.a.
		Indonesia	4.3	4.5	n.a.	5.1	4.5	5.0	n.a.
		Malaysia	4.1	5.3	n.a.	7.8	8.2	6.8	n.a.
Philippines		4.3	4.7	n.a.	6.5	6.6	6.3	n.a.	

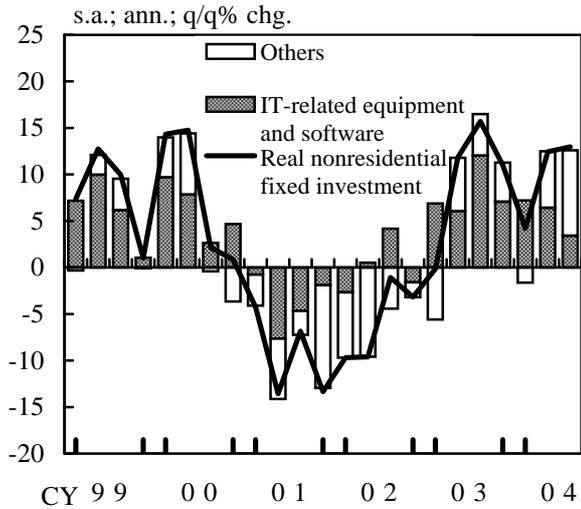
Notes: 1. Quarterly data of U.S. and EU are quarter-to-quarter percent changes at annual rate.
2. Quarterly data of East Asia are percent changes from a year earlier.

Environment for Exports (2)

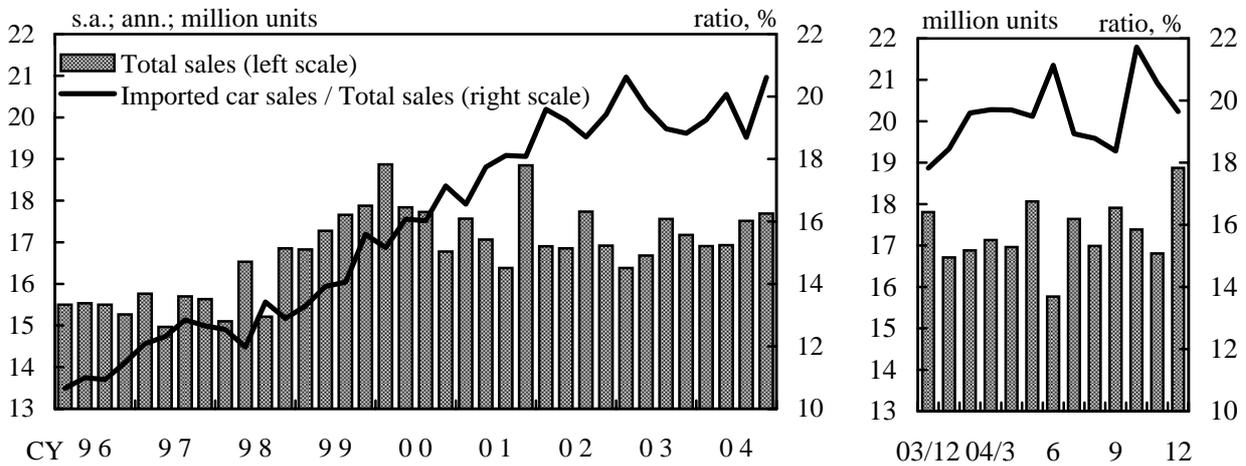
(1) U.S. Real GDP (breakdown by final demands and inventories)



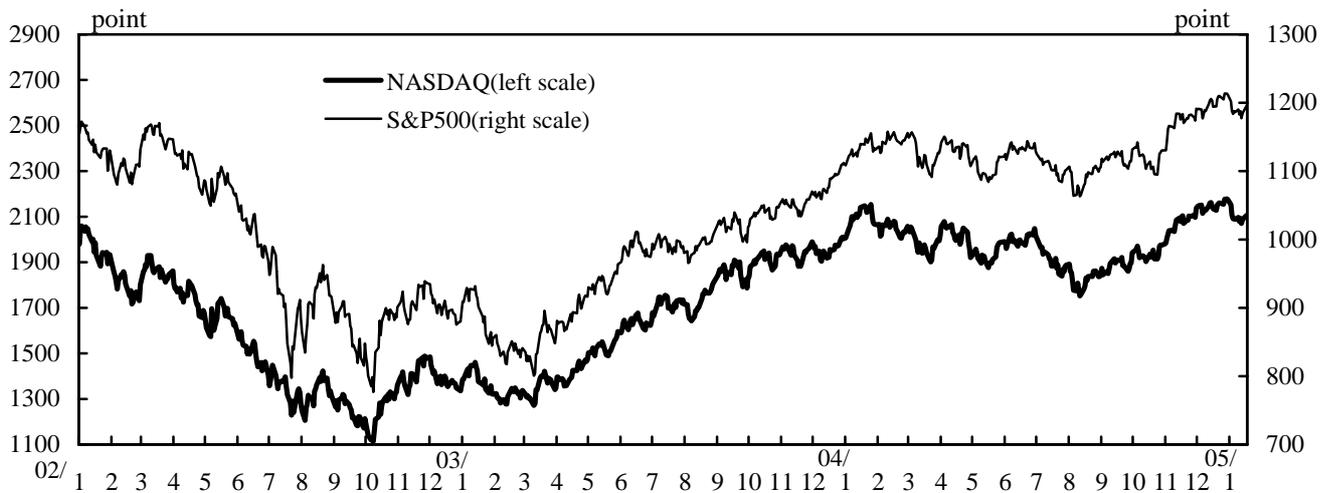
(2) U.S. Real Nonresidential Fixed Investment



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



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

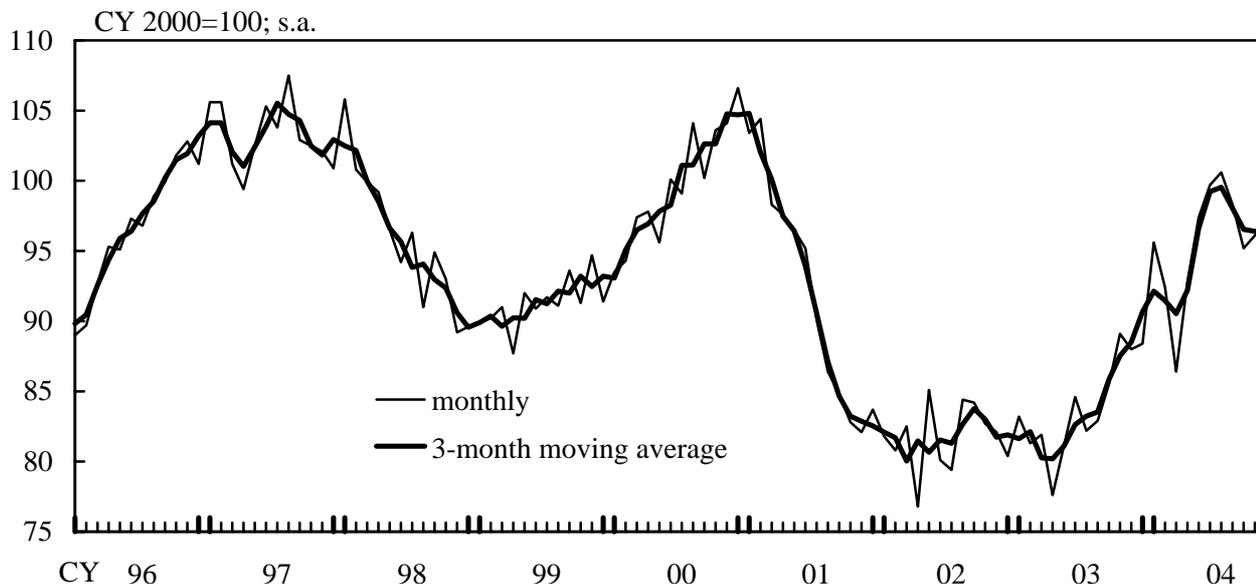


Note: Figures of U.S. stock prices in (4) are up to January 18.

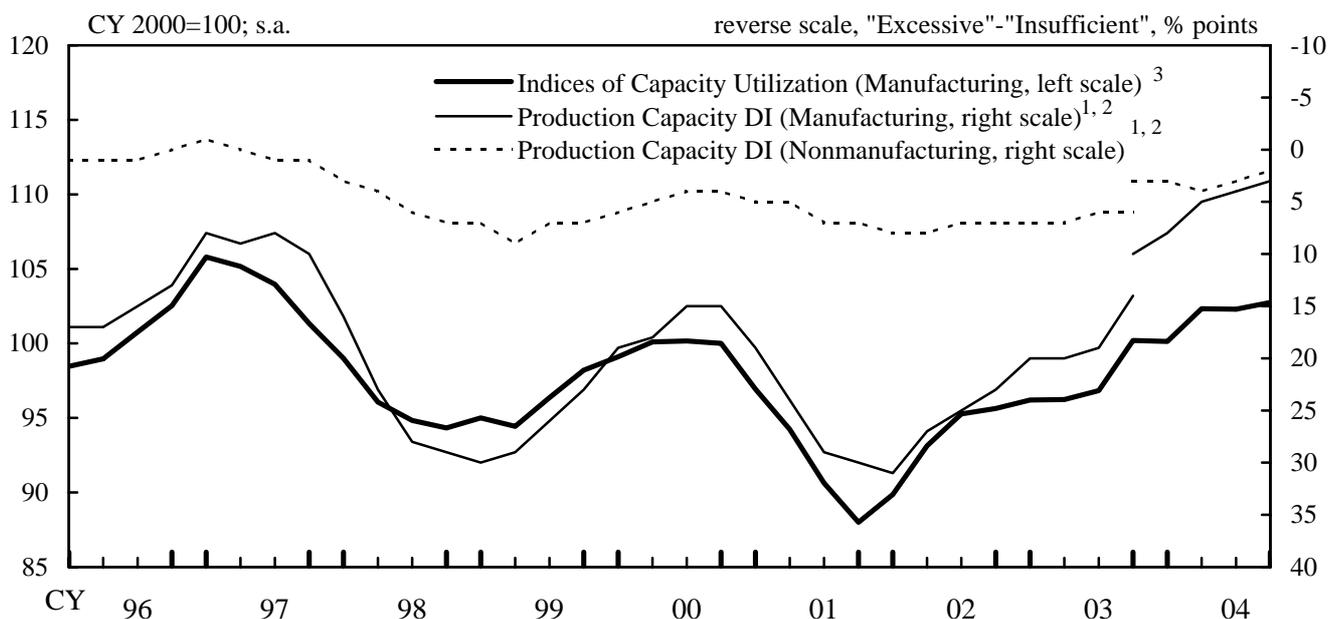
Sources: U.S. Department of Commerce, "National Income and Product Accounts," "Sales, production, imports, exports, and inventories, in units"; Bloomberg.

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.

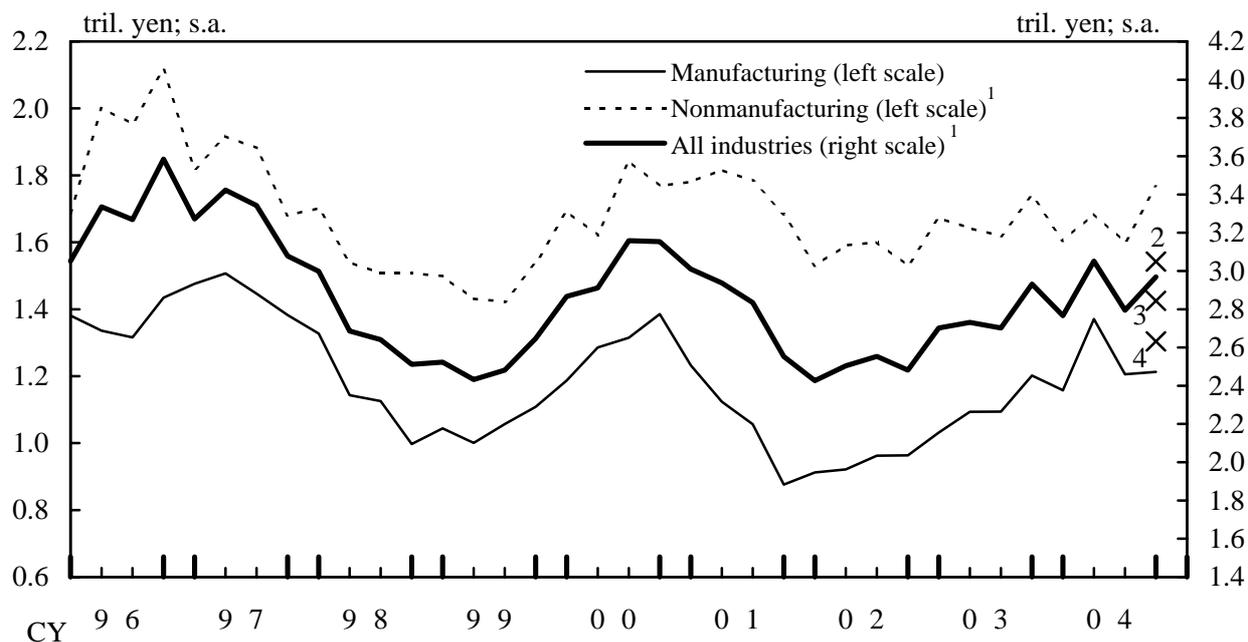
2. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

3. The figure for 2004/Q4 is that of Oct.-Nov. average.

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

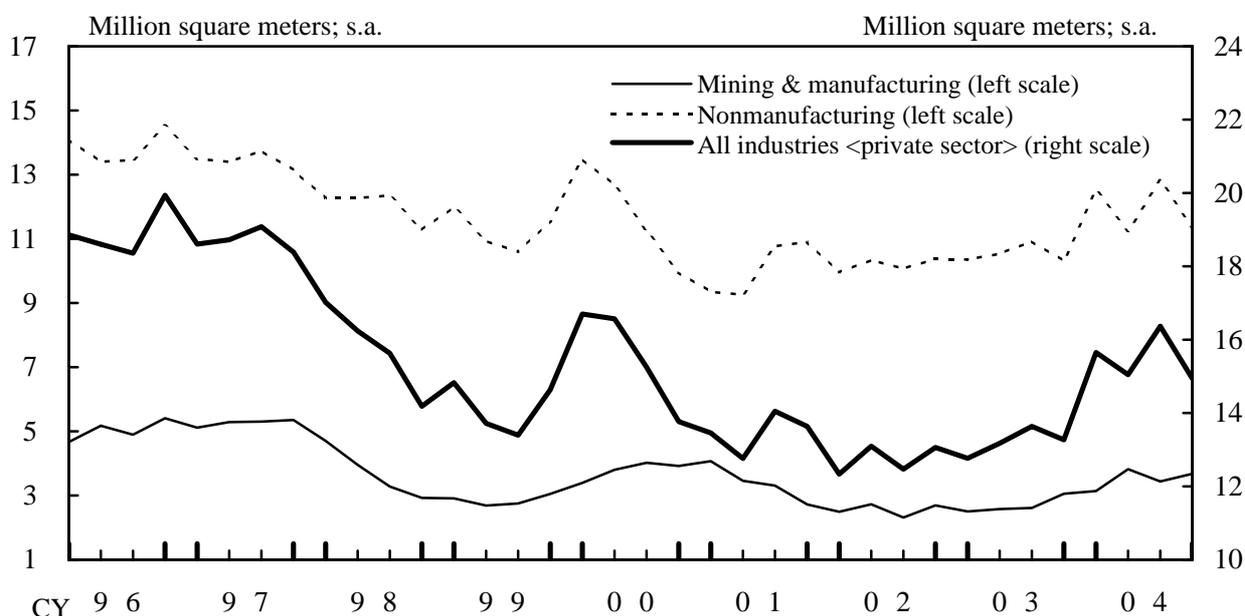
Indicators for Business Fixed Investment (2)

(1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.
 2. Forecast of nonmanufacturing industries for 2004/Q4.
 3. Forecast of all industries for 2004/Q4.
 4. Forecast of manufacturing industries for 2004/Q4.
 5. Figures for 2004/Q4 are averages of October and November in terms of quarterly amount.

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



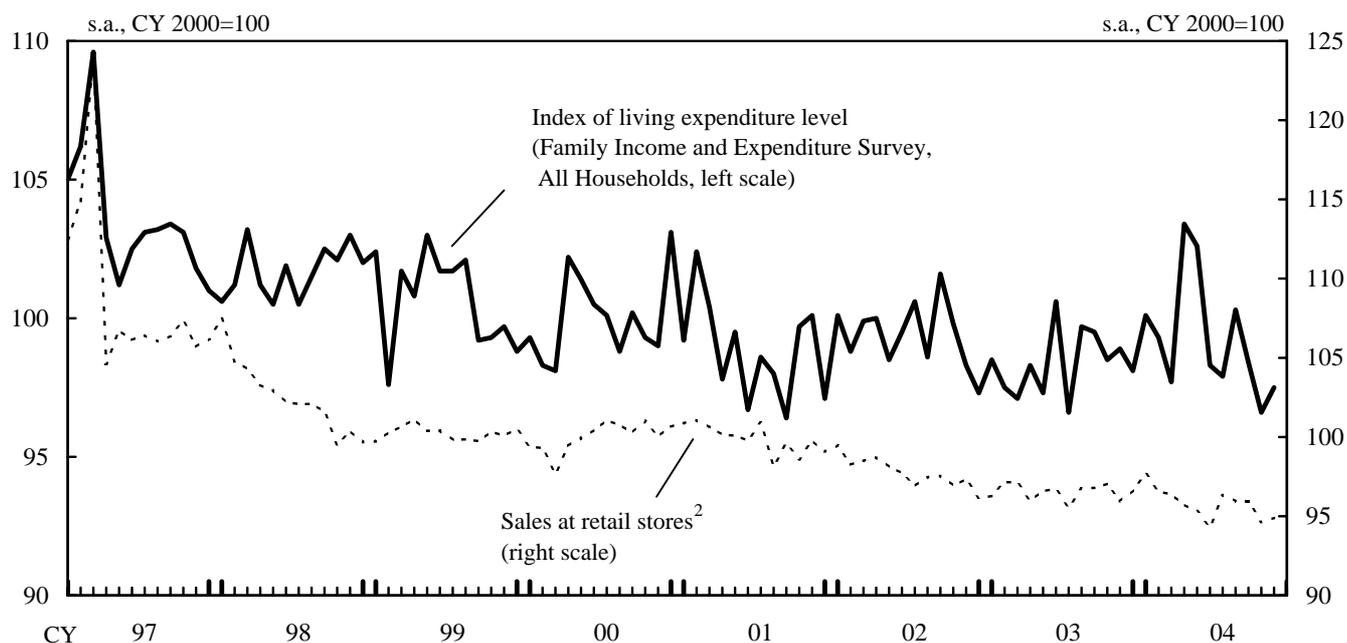
- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for Newspaper Publishing and Publishing Business was changed from Mining and Manufacturing to Nonmanufacturing. Accordingly, the data up to fiscal year 2002 were adjusted by using a link coefficient.
 3. Figures for 2004/Q4 are averages of October and November in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

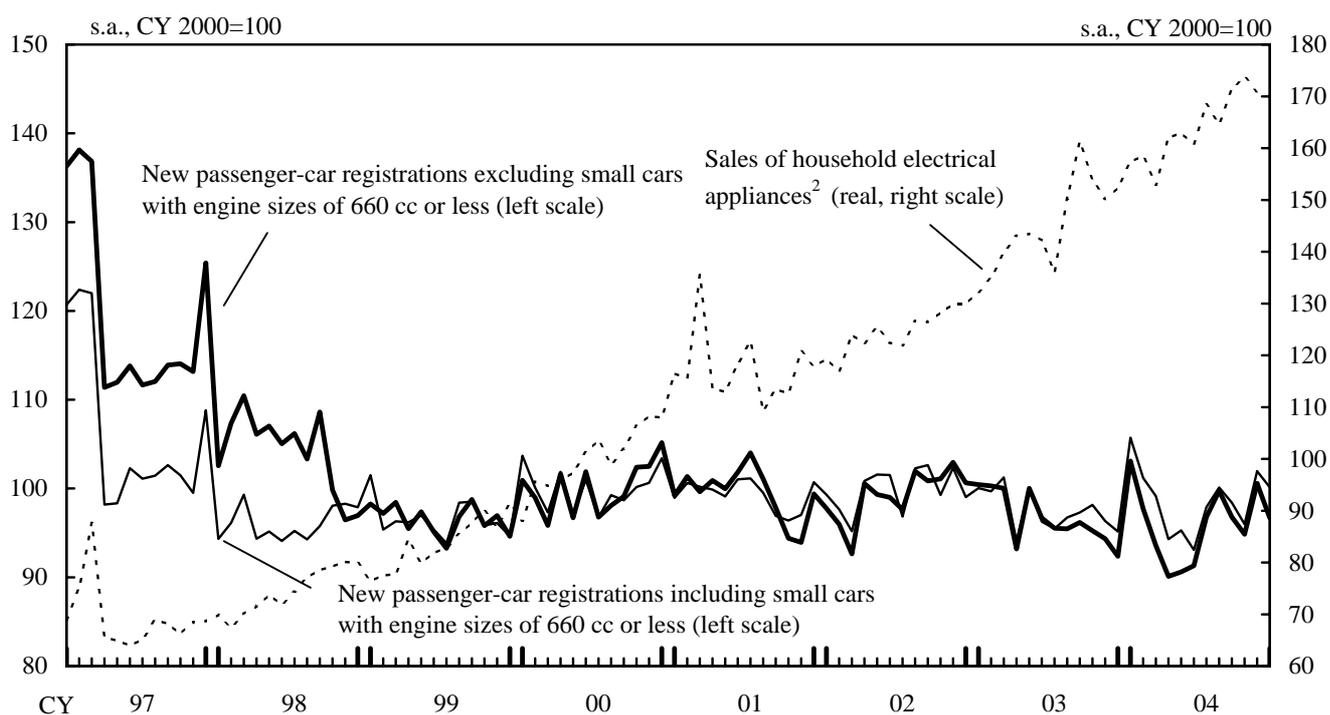
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



(2) Sales of Durable Goods



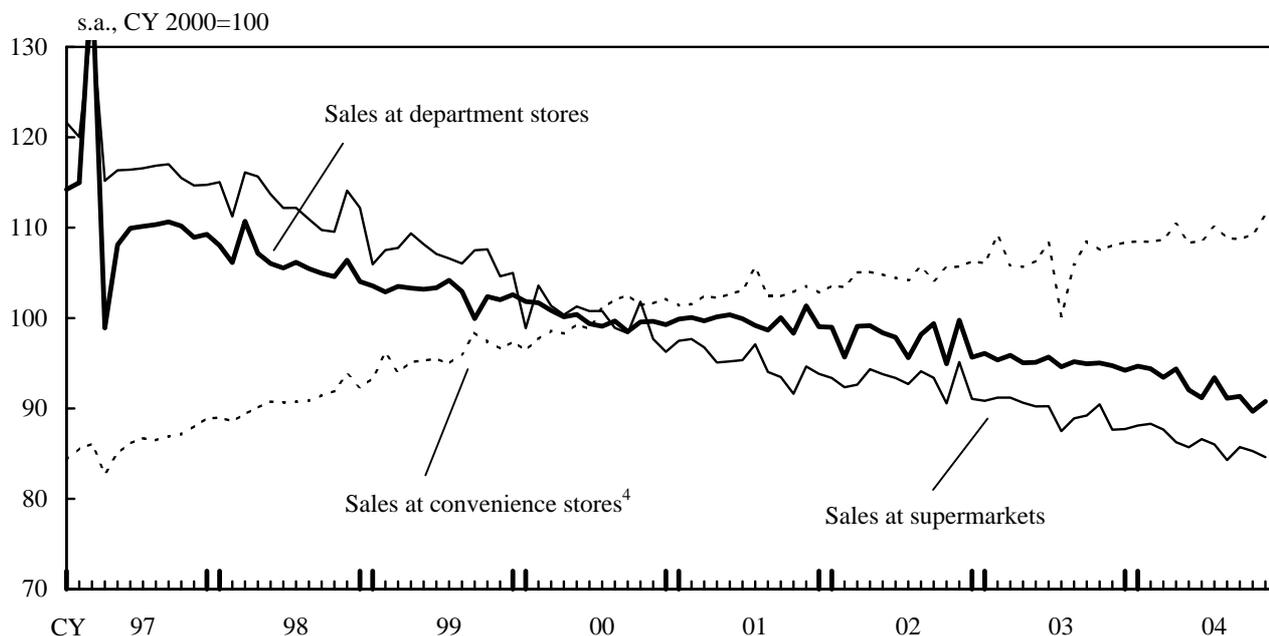
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

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).

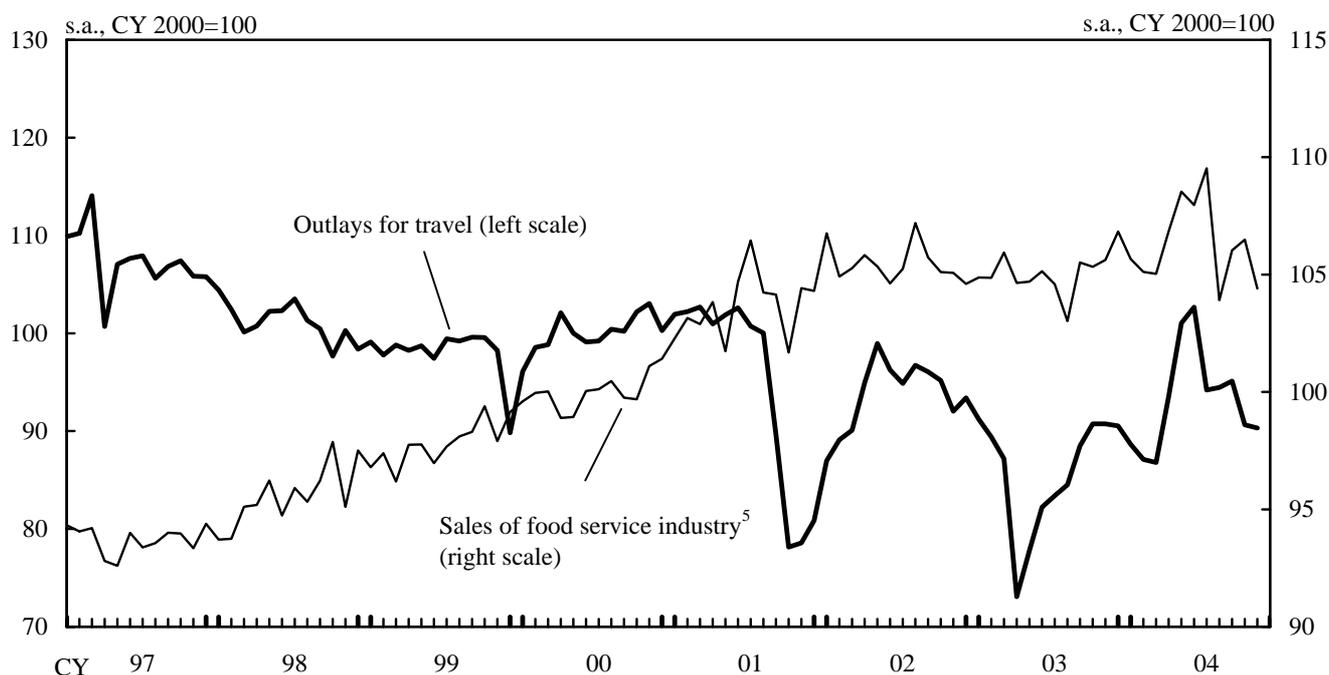
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
Japan Mini Vehicles 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.

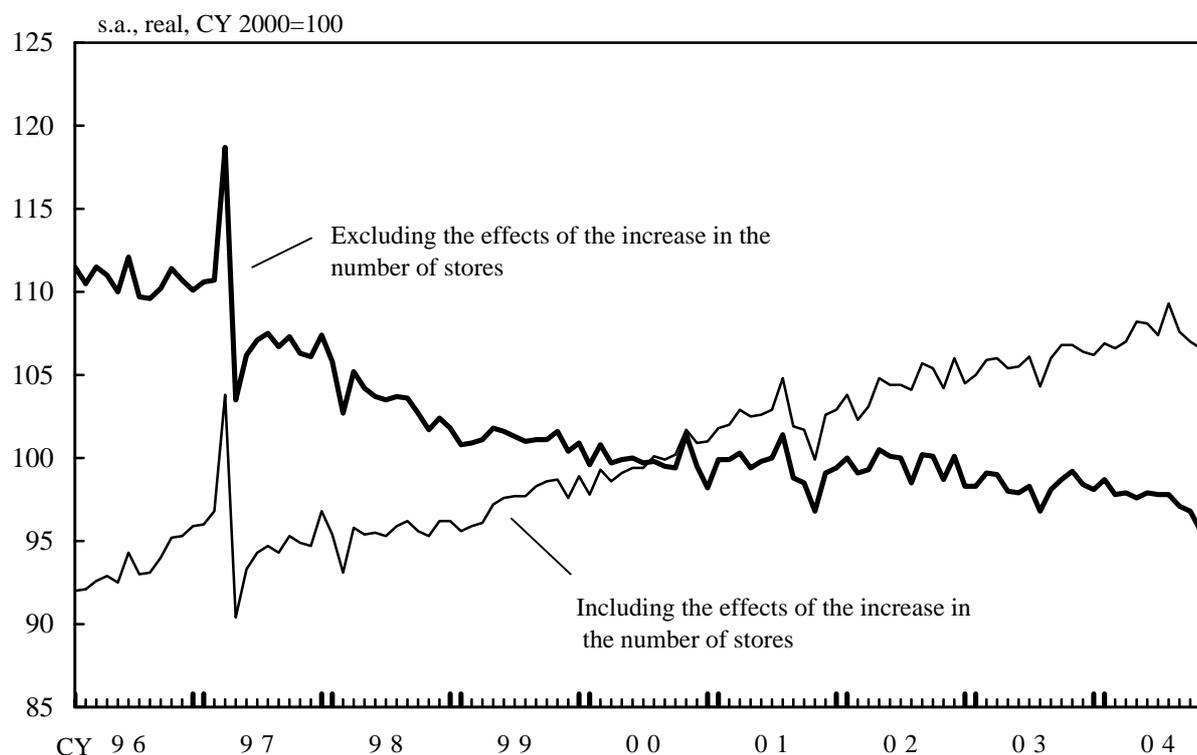
5. Sales of food service industry are calculated using the year-on-year change rates of every month released by the Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

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

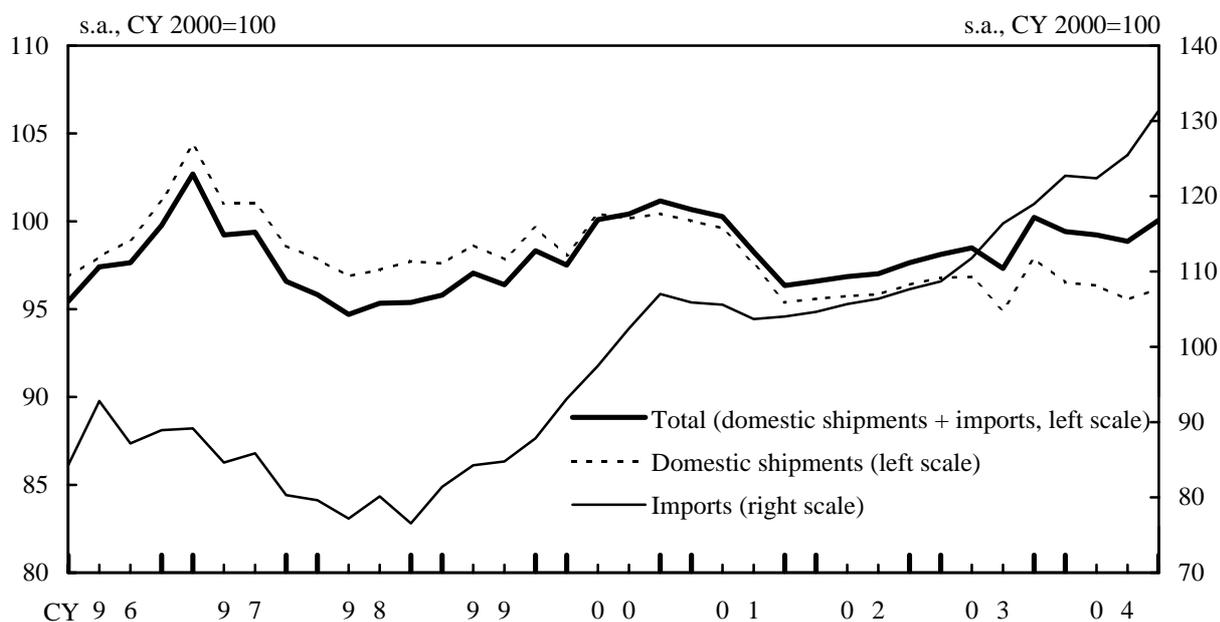


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in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

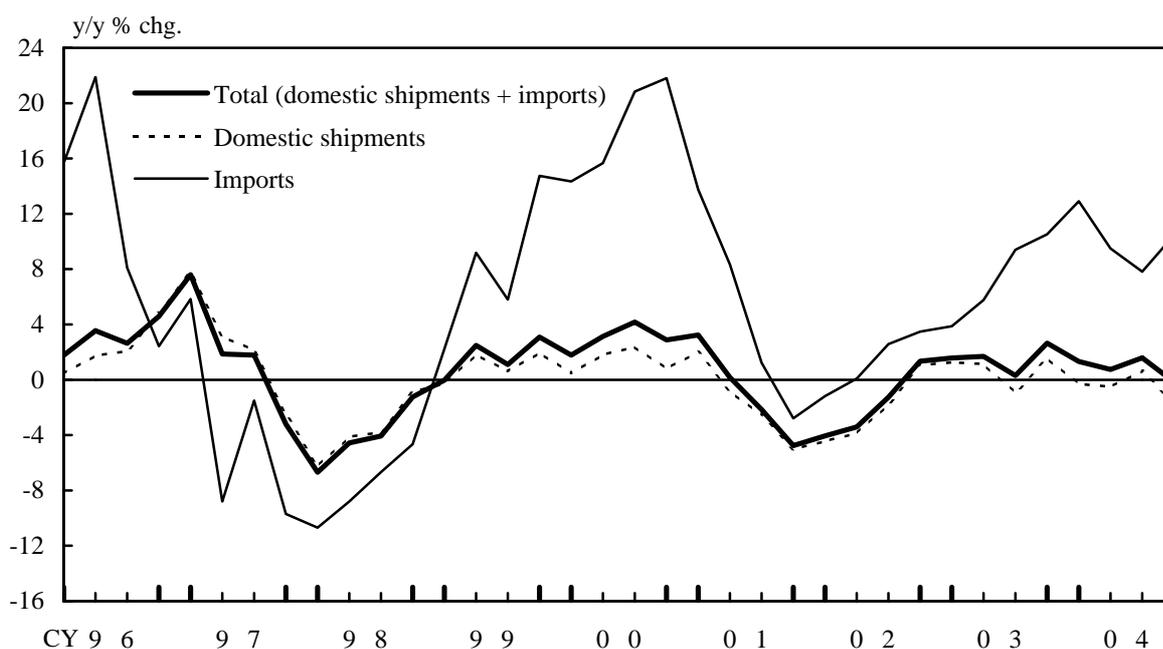
Source: Bank of Japan, "Indices of Aggregated Sales."

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.

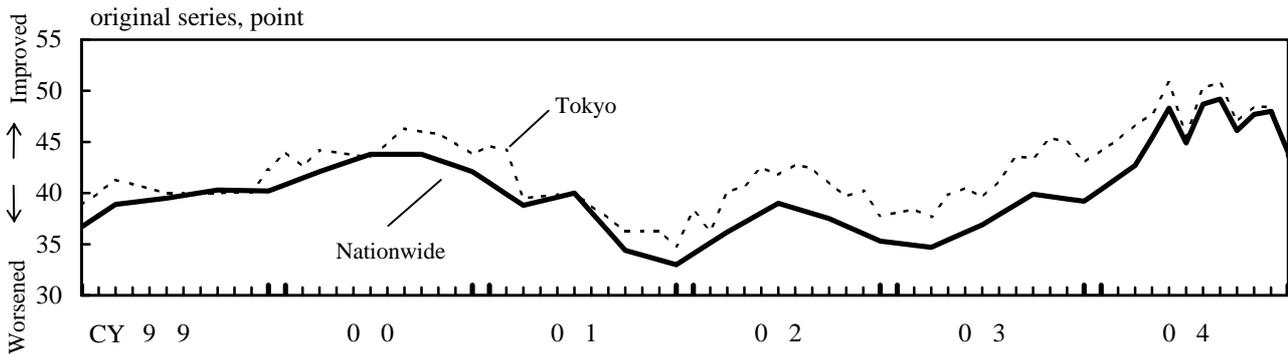
3. Year-on-year changes are calculated from seasonally adjusted series.

4. Data for 2004/Q4 figures are those of Oct.-Nov. averages.

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."

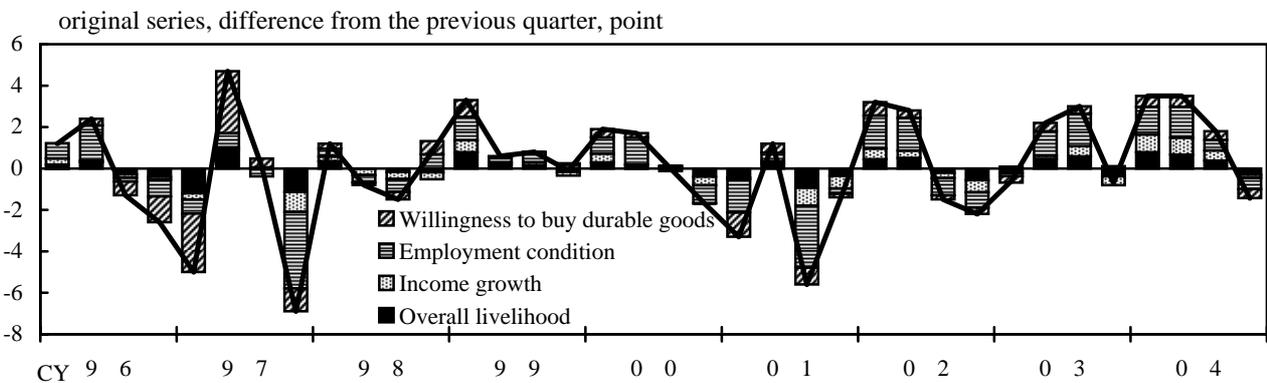
Consumer Confidence

(1) Consumer Confidence Index (Monthly)

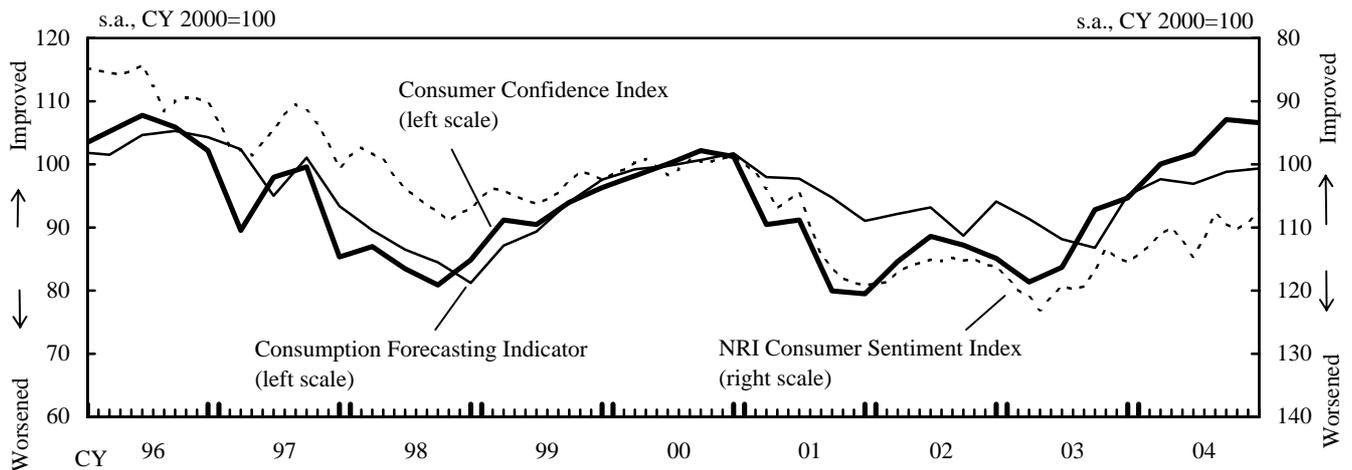


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation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

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



(3) Surveys on Consumer Confidence

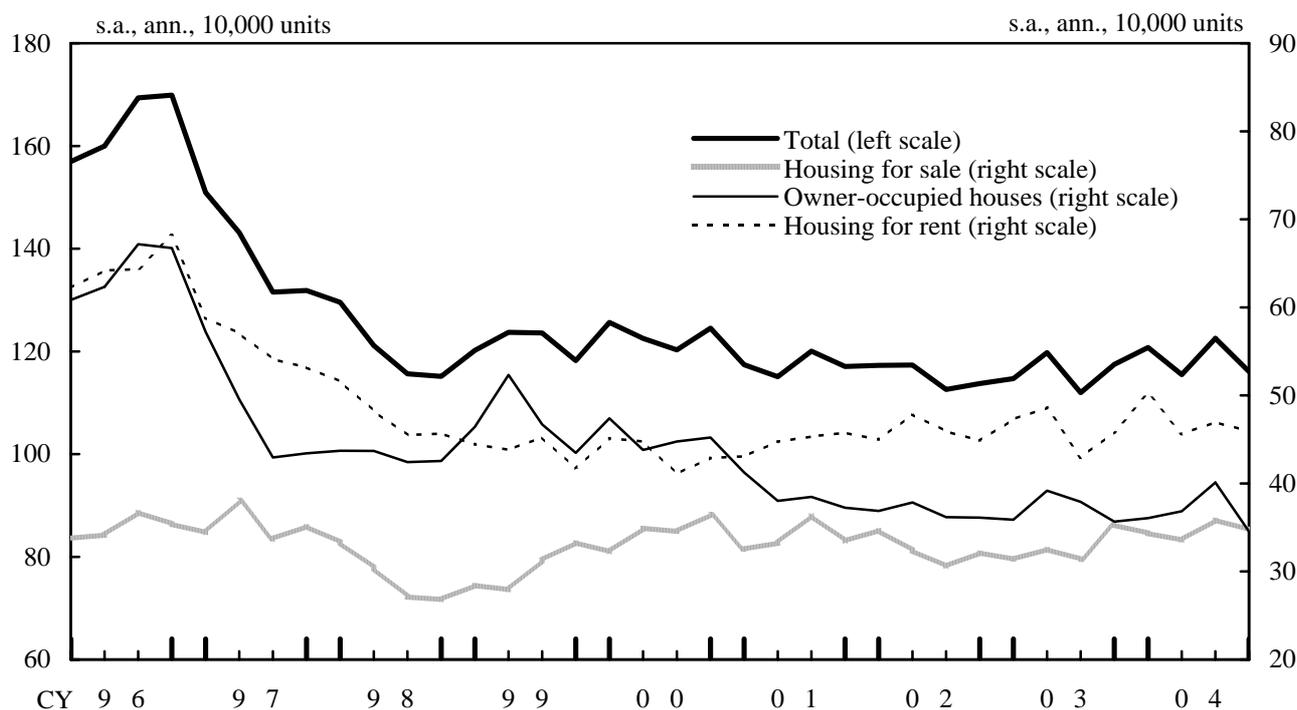


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 880 samples in metropolitan area <till Sept. 2004: 1,500 samples>), and NRI Consumer Sentiment Index (with 2,200 samples in 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.

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."

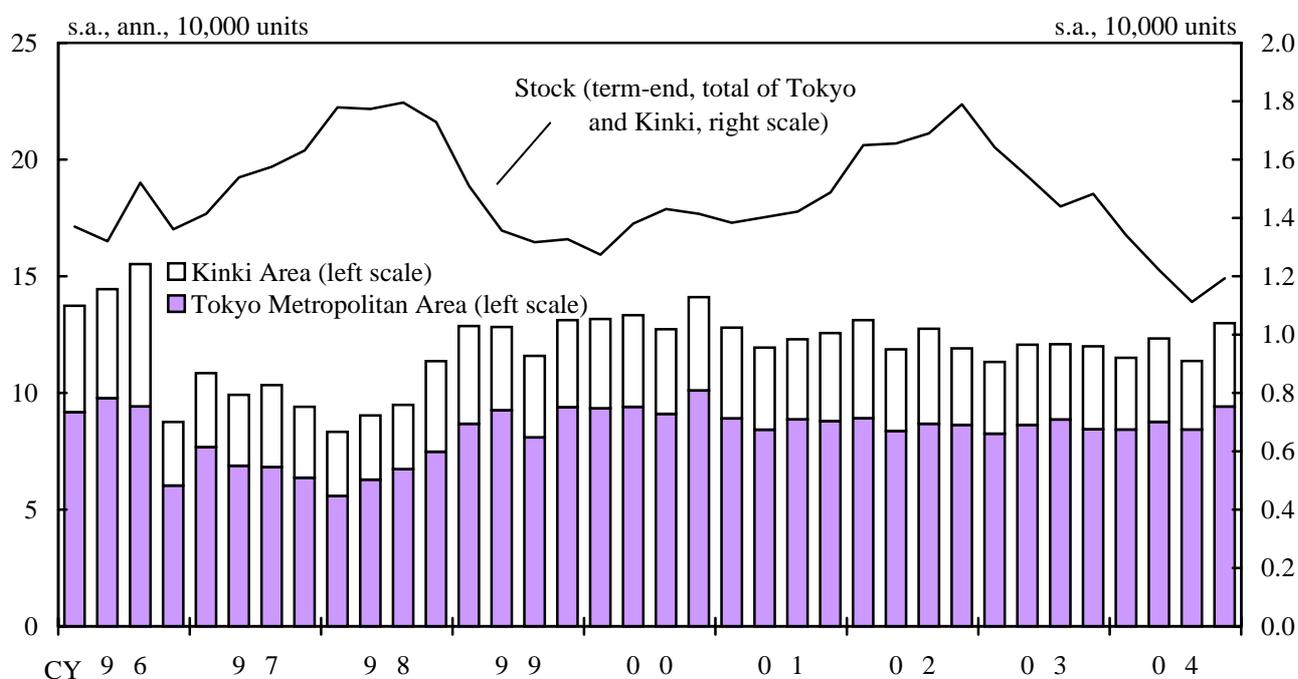
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2004/Q4 are those of October-November averages.

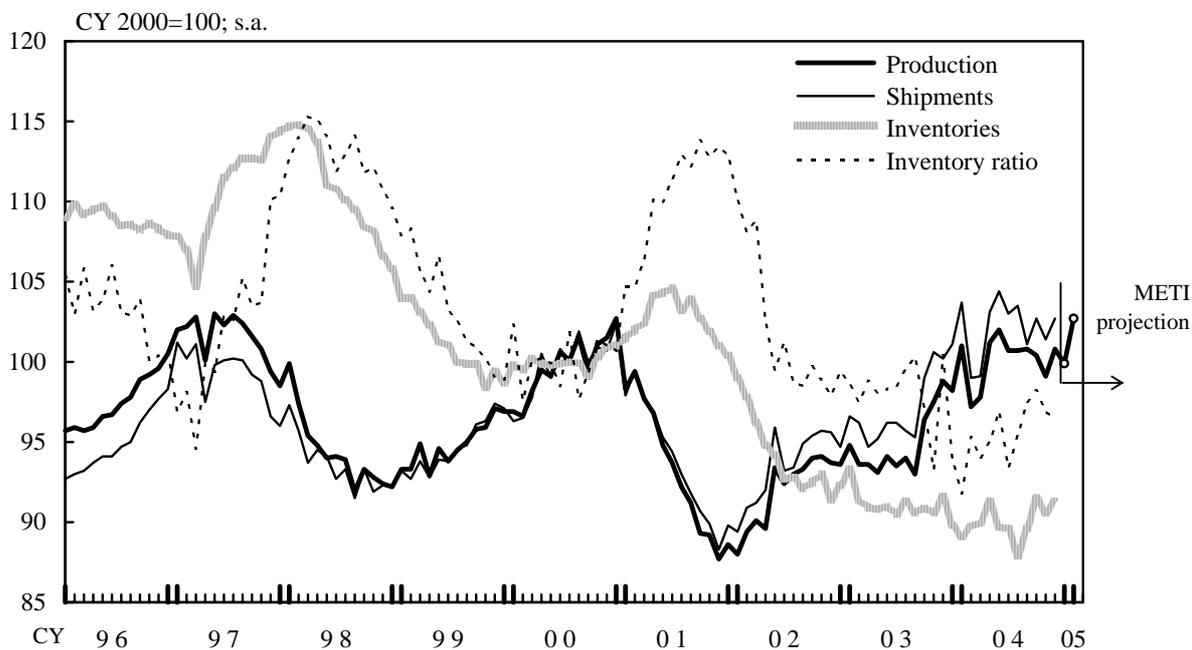
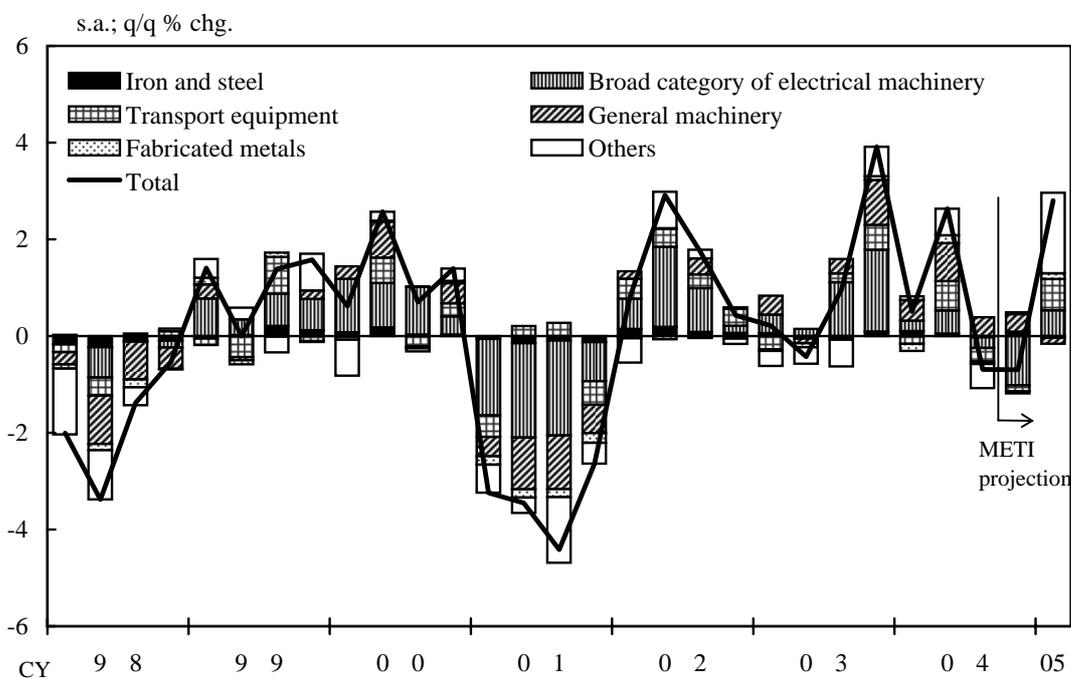
(2) Sales of Condominiums



Note: Seasonally adjusted by X-12-ARIMA.

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

Production, Shipments, and Inventories

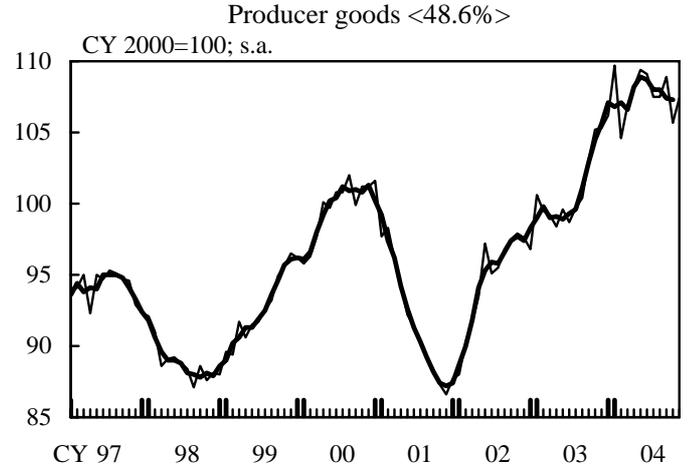
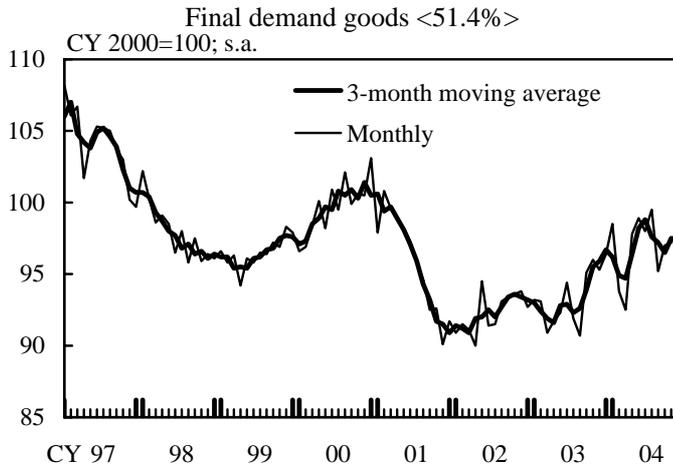
(1) Production, Shipments, and Inventories**(2) Production by Industries**

- 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/Q4 figures are based on the actual levels in Oct. and Nov., and the METI projection level in Dec. 2005/Q1 figures are based on the assumption that production level in Feb. and March is the same as that of Jan.

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

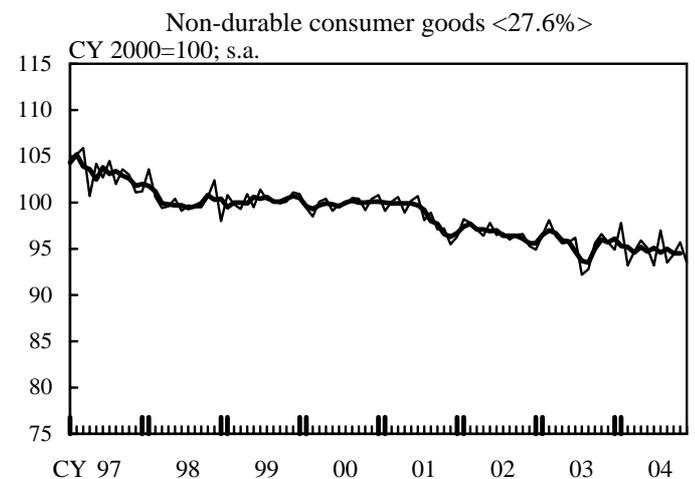
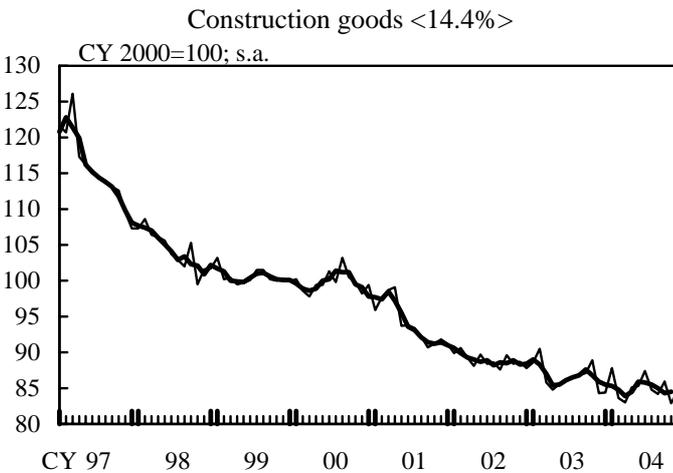
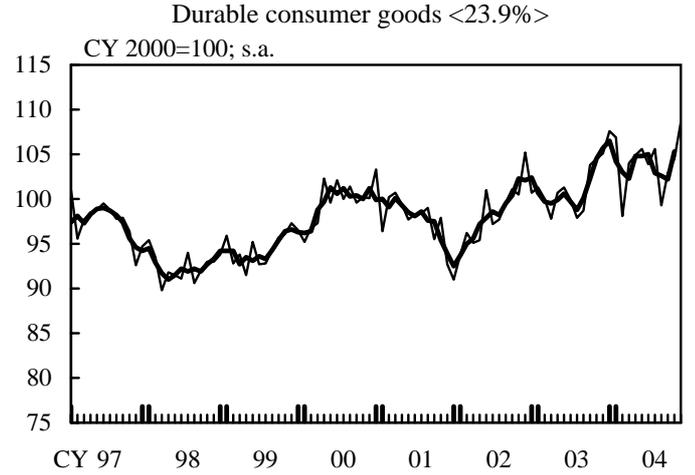
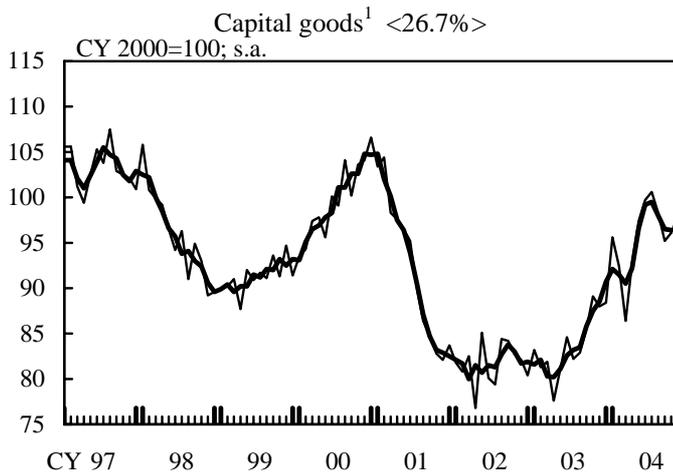
Shipments breakdown by type of goods

(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

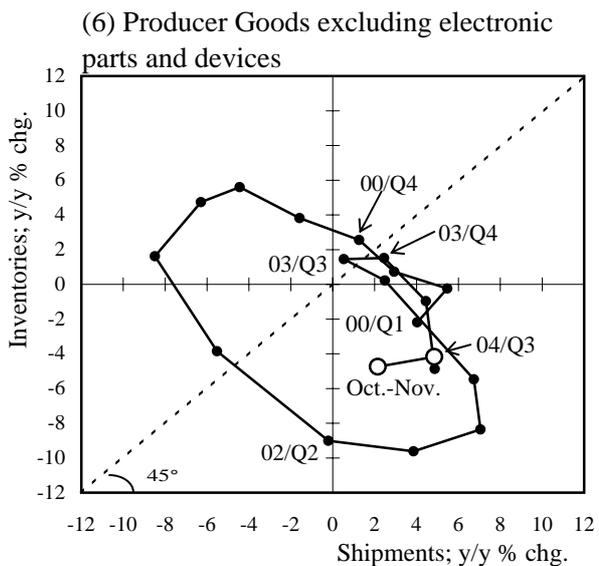
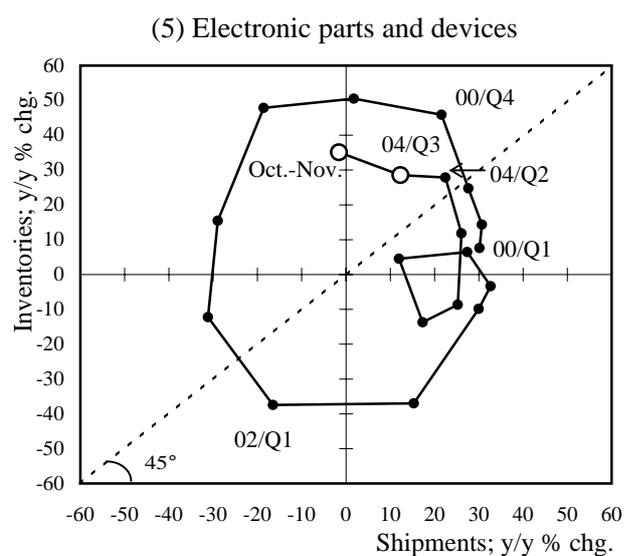
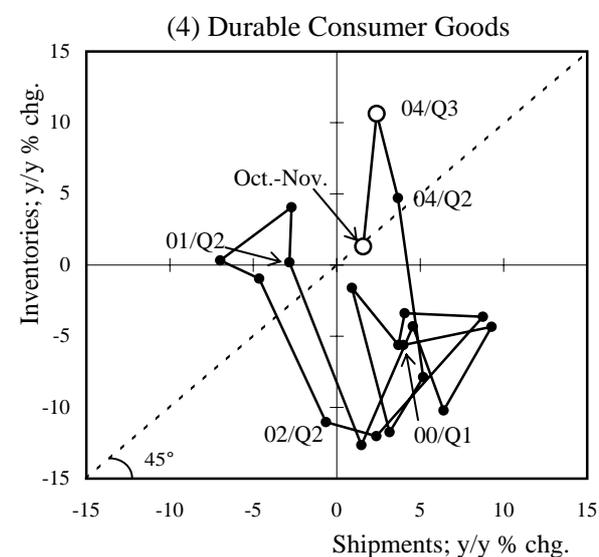
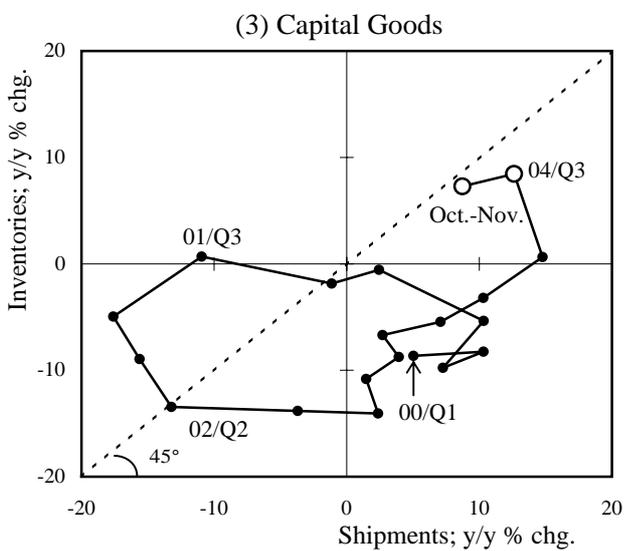
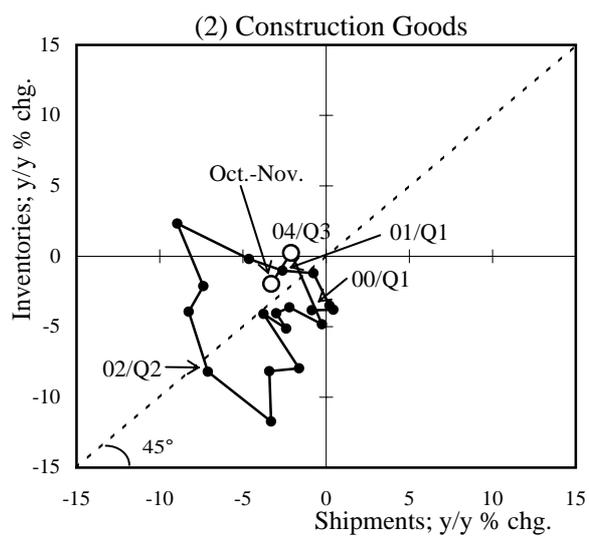
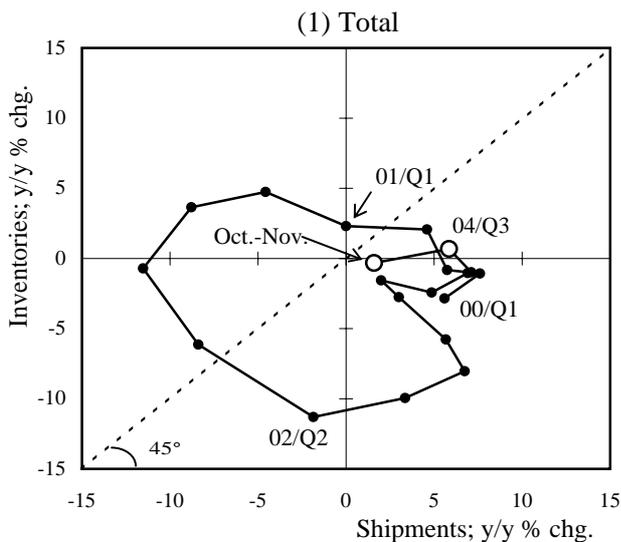


Notes: 1. Excluding transportation equipment.

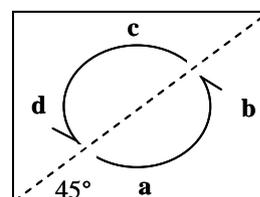
2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

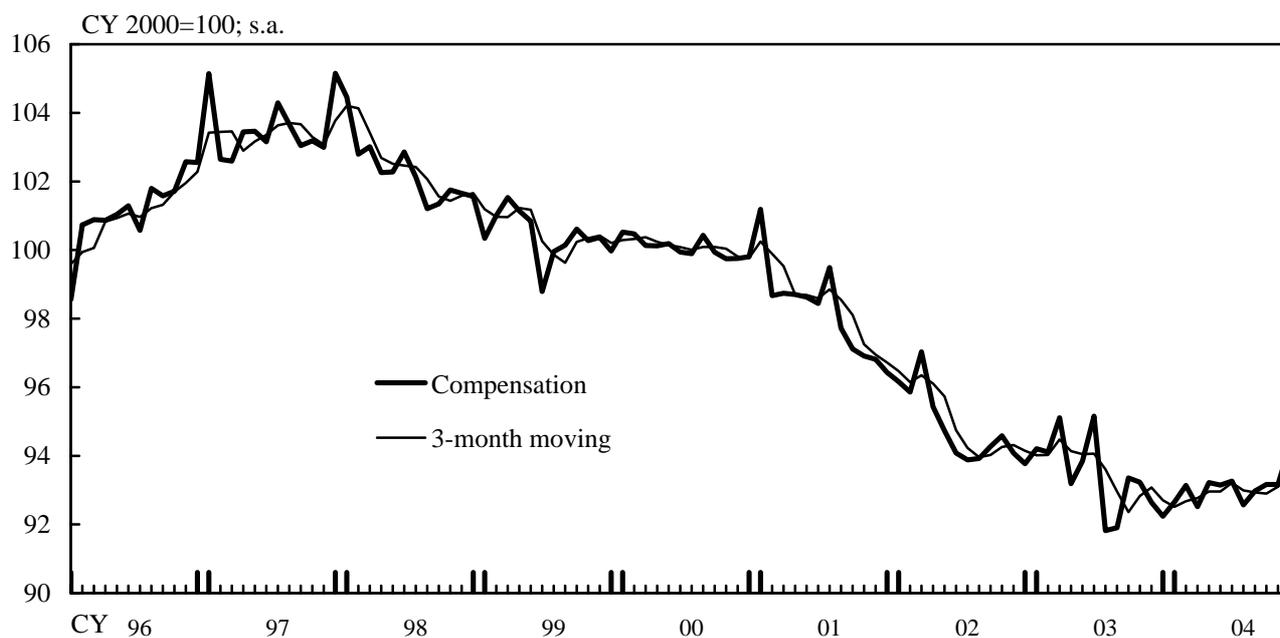


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



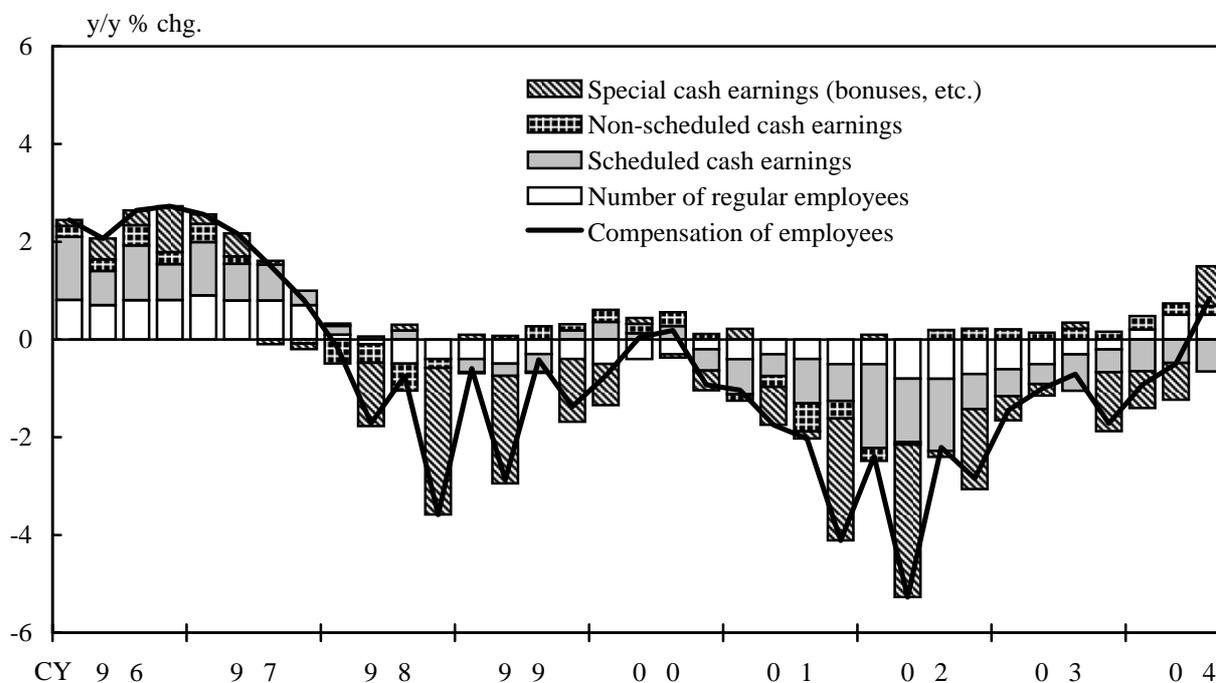
Compensation of Employees

(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.

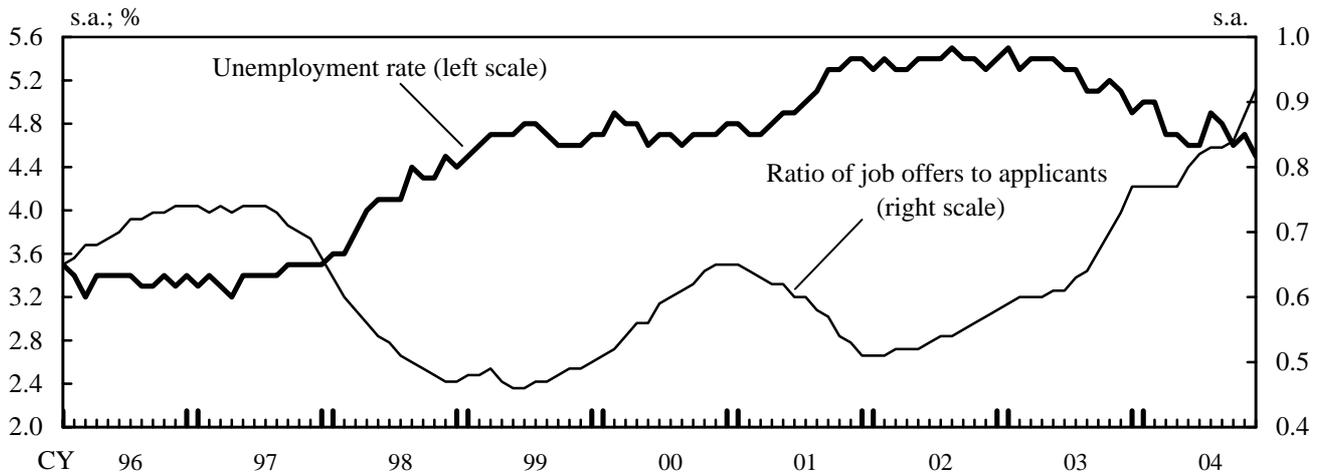
(2) Breakdown of Compensation



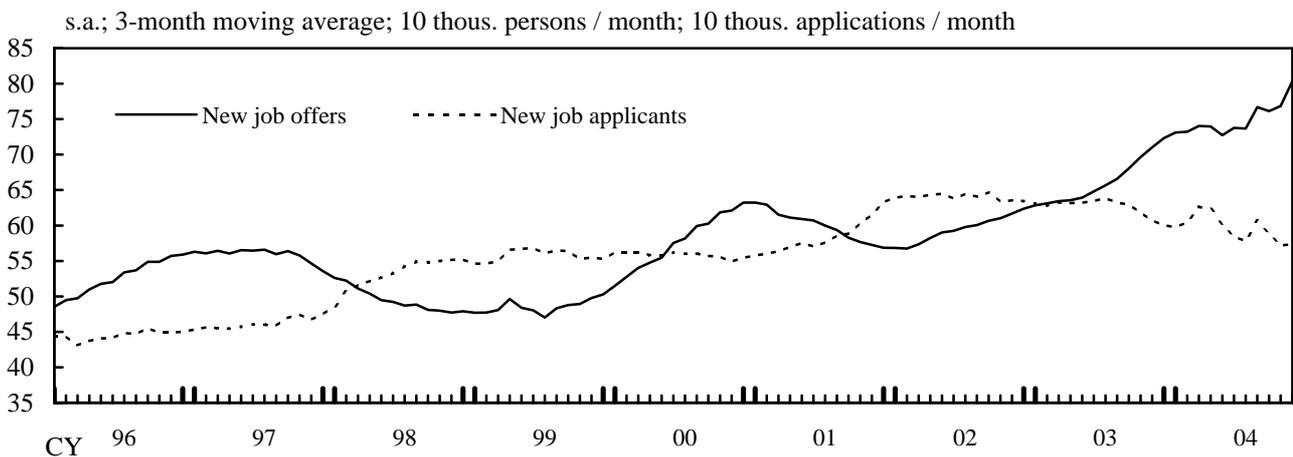
- Notes: 1. Data are for establishments with at least 5 employees.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.

Labor Market (1)

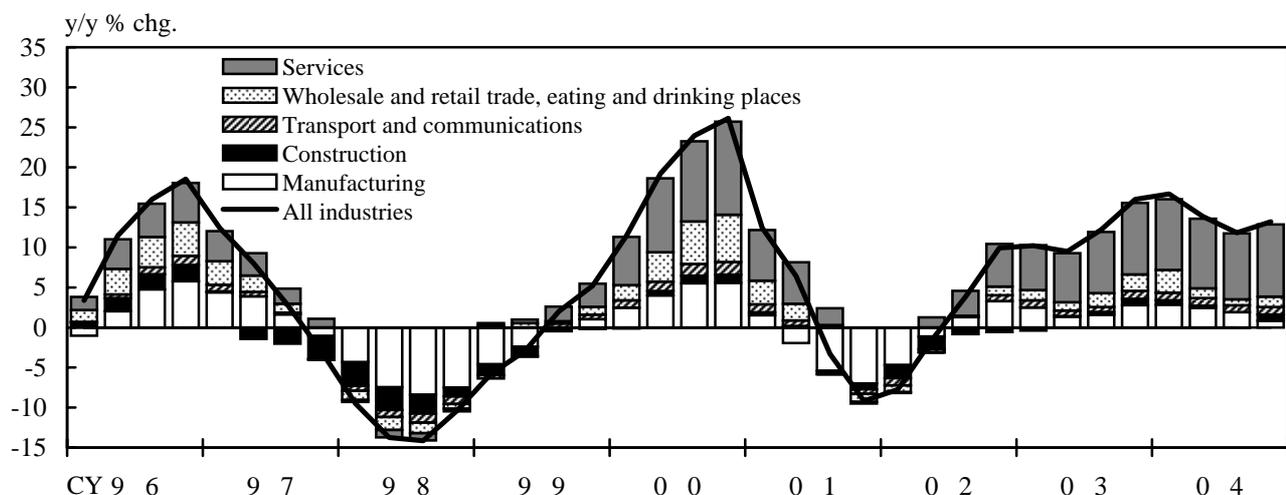
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New job offers and New job applicants¹



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



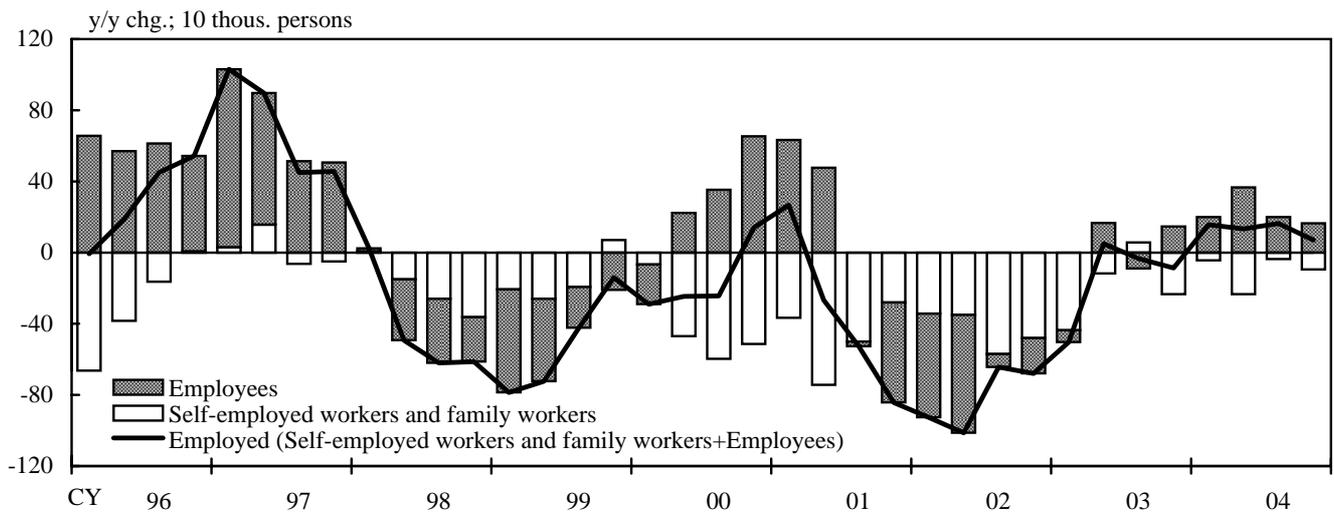
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

2. Figures for 2004/Q4 are those of October-November averages.

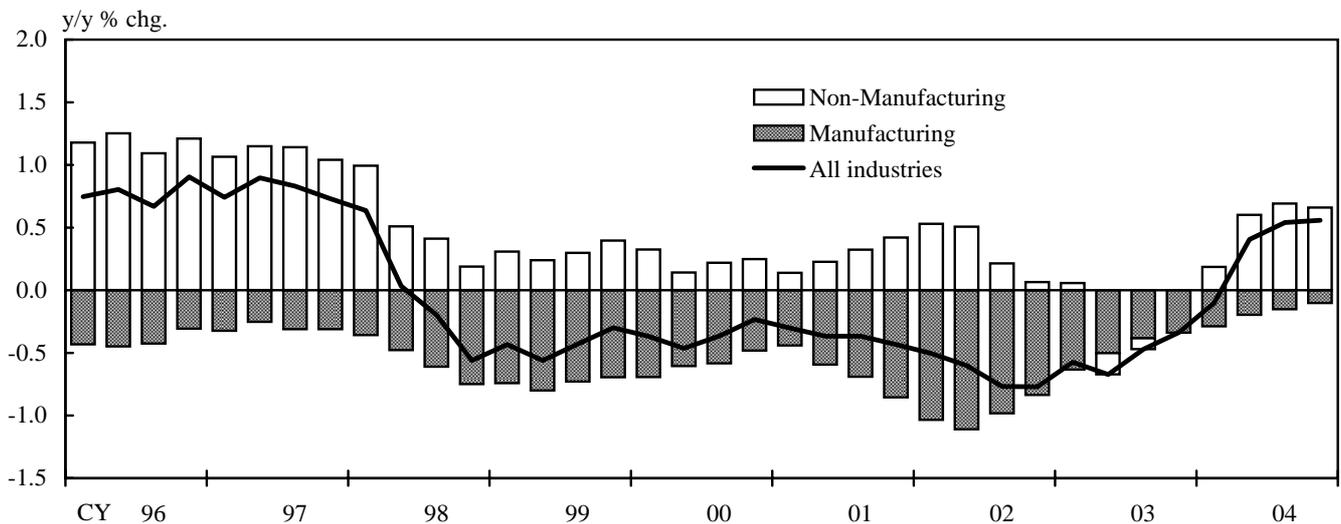
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

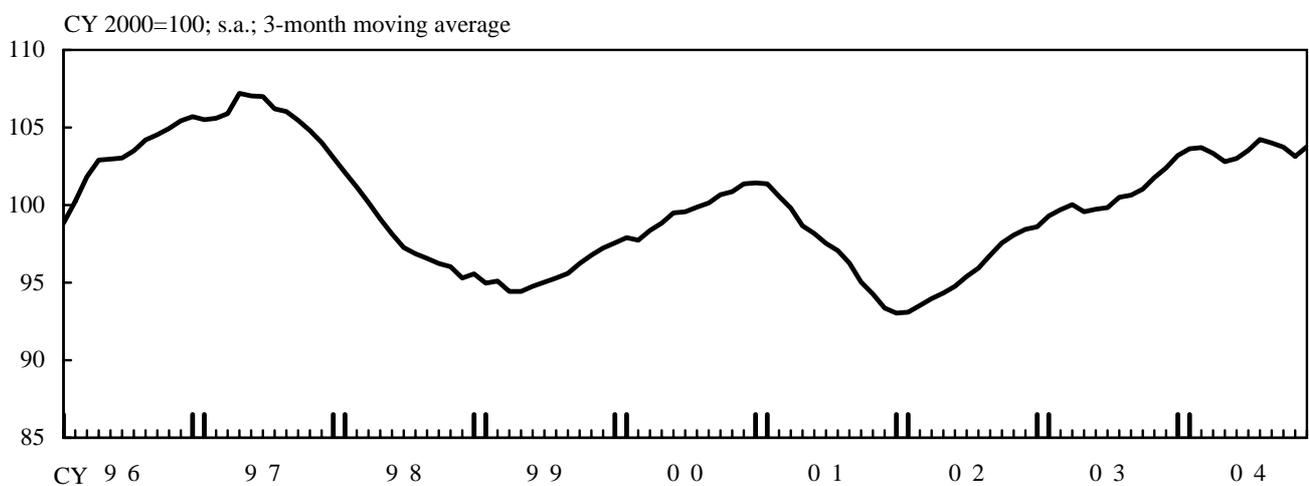
(1) The Employed¹ (Labour Force Survey)



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



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



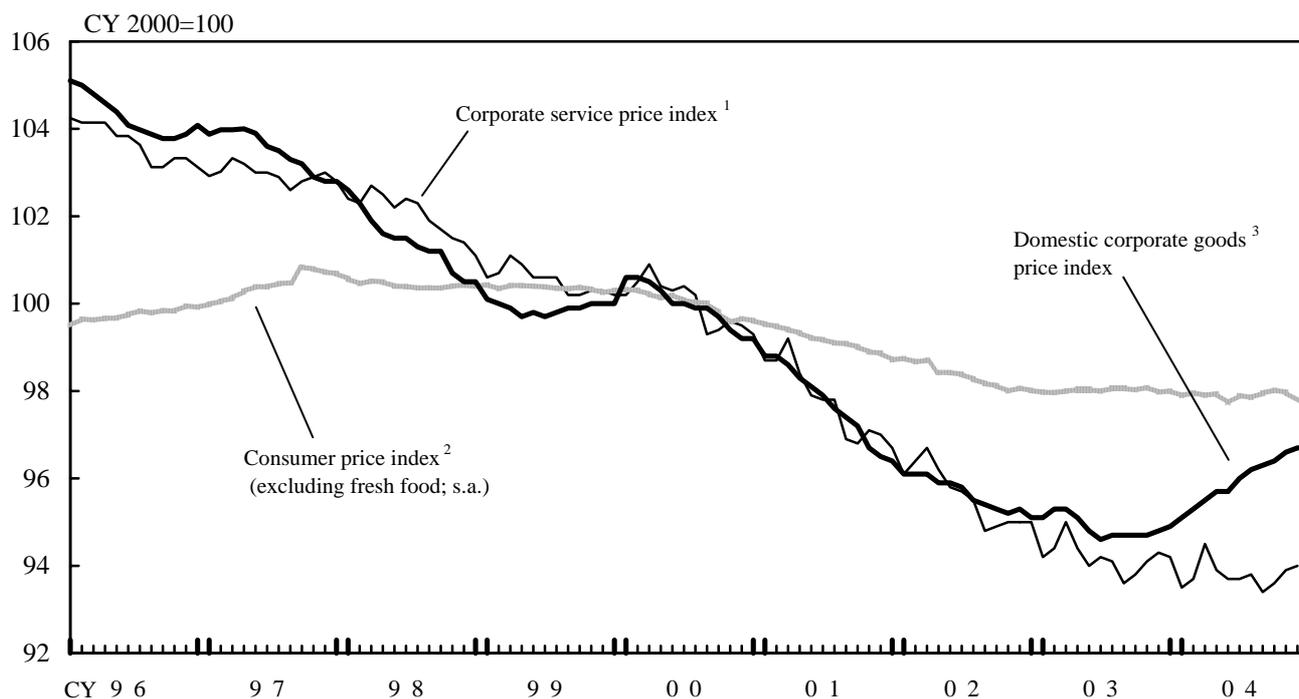
Notes: 1. Figures for 2004/Q4 are those of October-November averages.

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

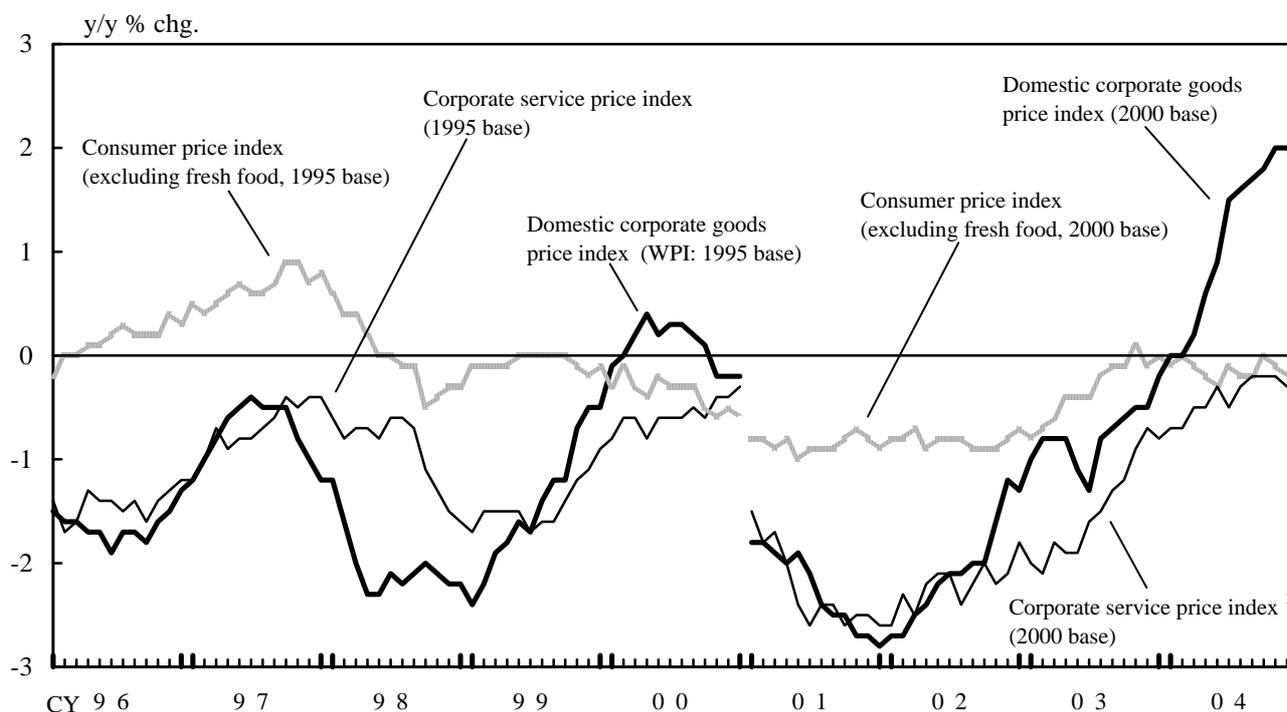
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices⁴

(1) Level



(2) Changes from a year earlier



Notes: 1. Data are revised to the 2000 base.

2. Seasonally adjusted by X-12-ARIMA, based on the original series excluding "package tours to overseas" newly adopted from the 2000 base. This is because sample size of this item is insufficient for seasonal adjustment, though it has large seasonal fluctuations.

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

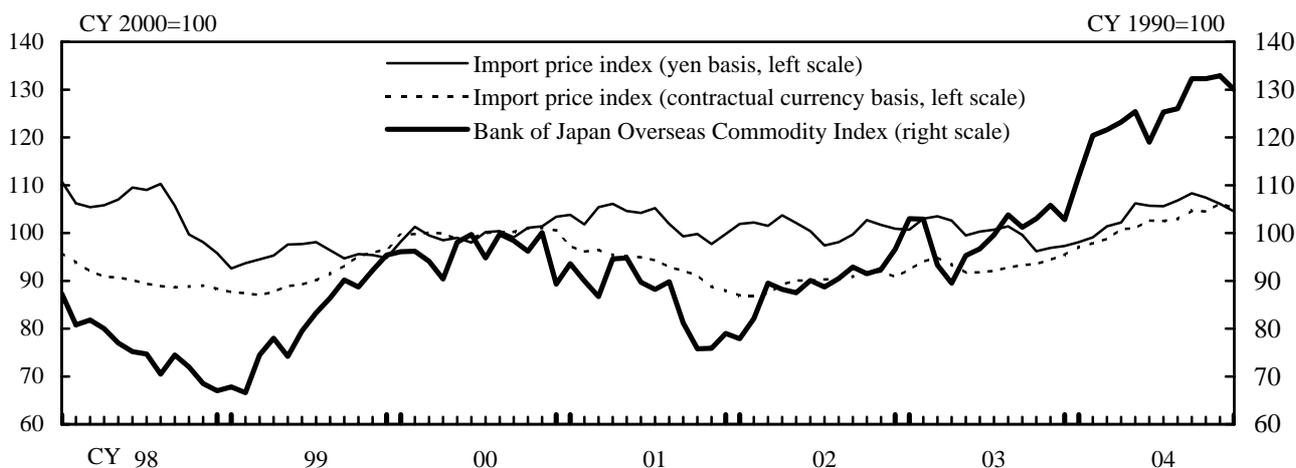
4. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";

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

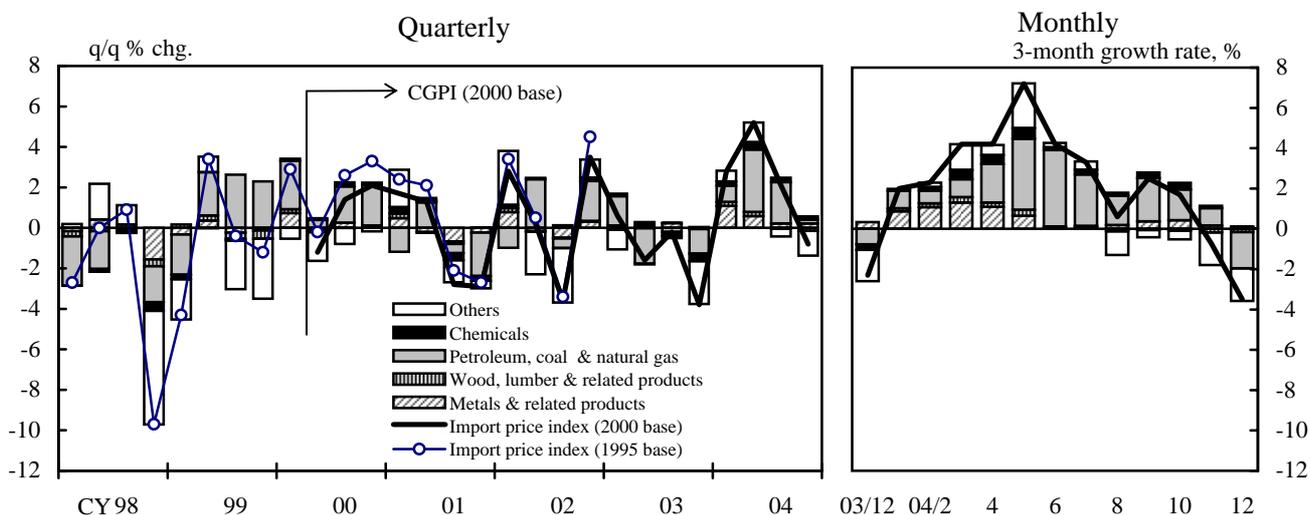
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



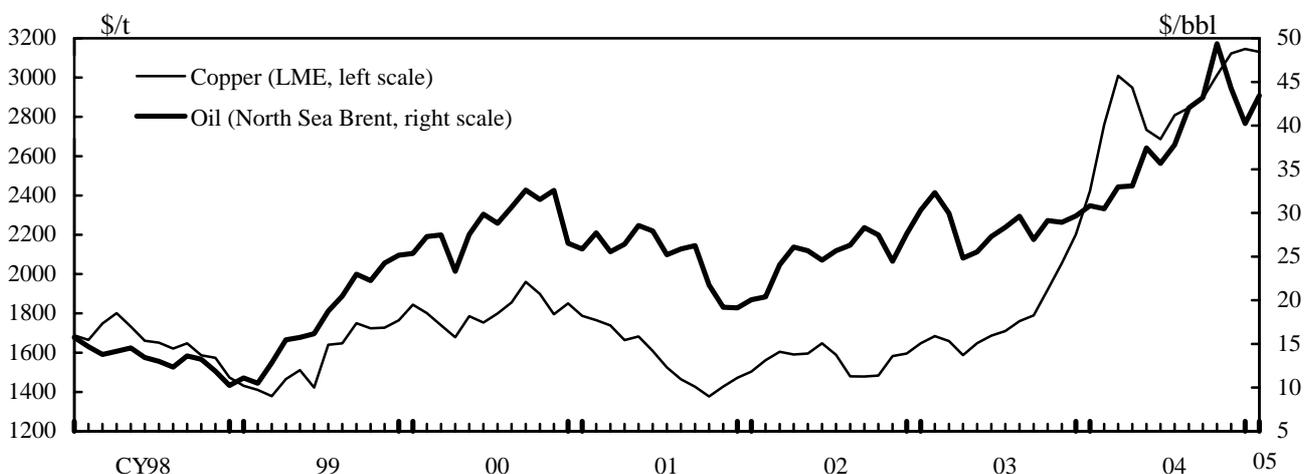
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: 1995 base figure for 2002/Q4 is Oct.-Nov. average.

(3) Oil price and Copper price

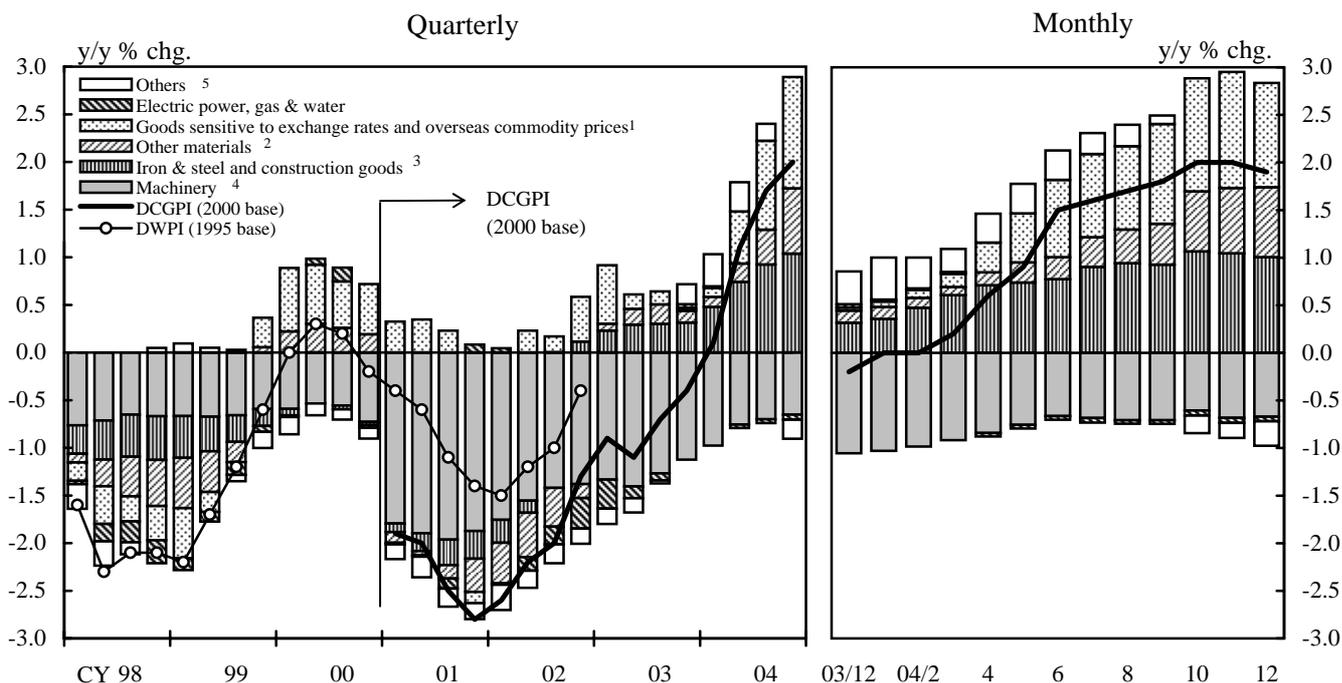


Note: Monthly averages. Figures for January 2005 are the averages up to January 18.

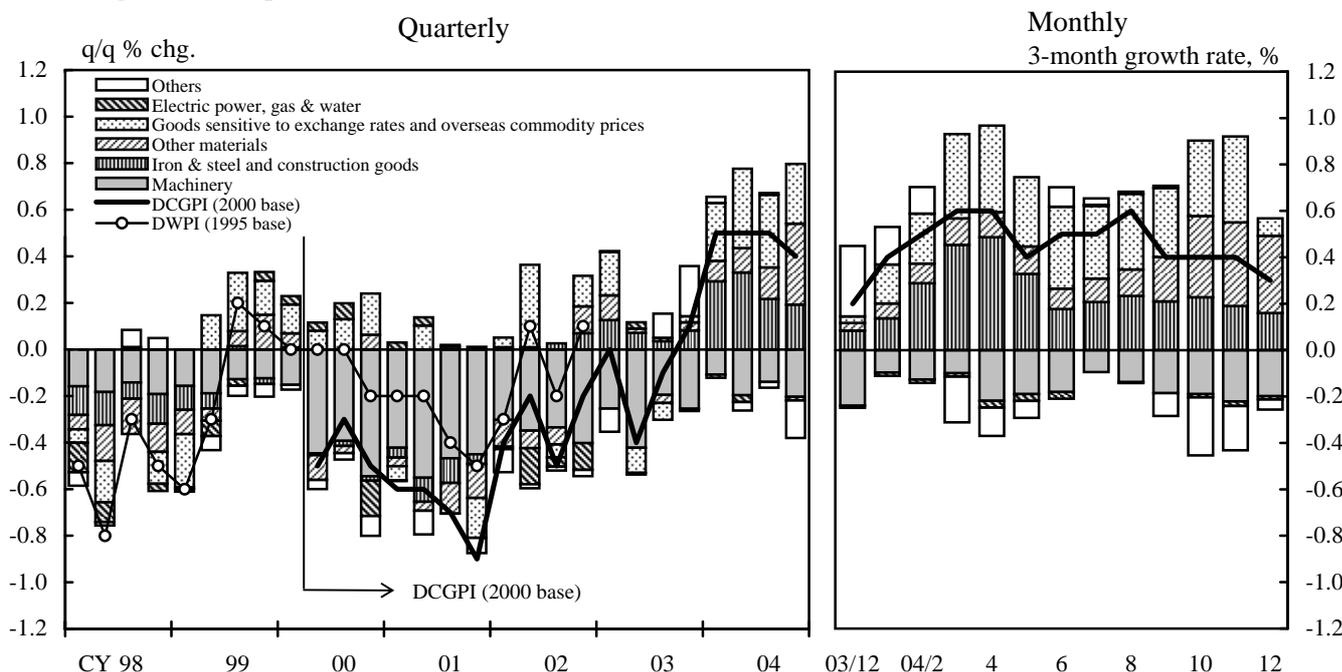
Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index⁷

(1) Changes from a year earlier

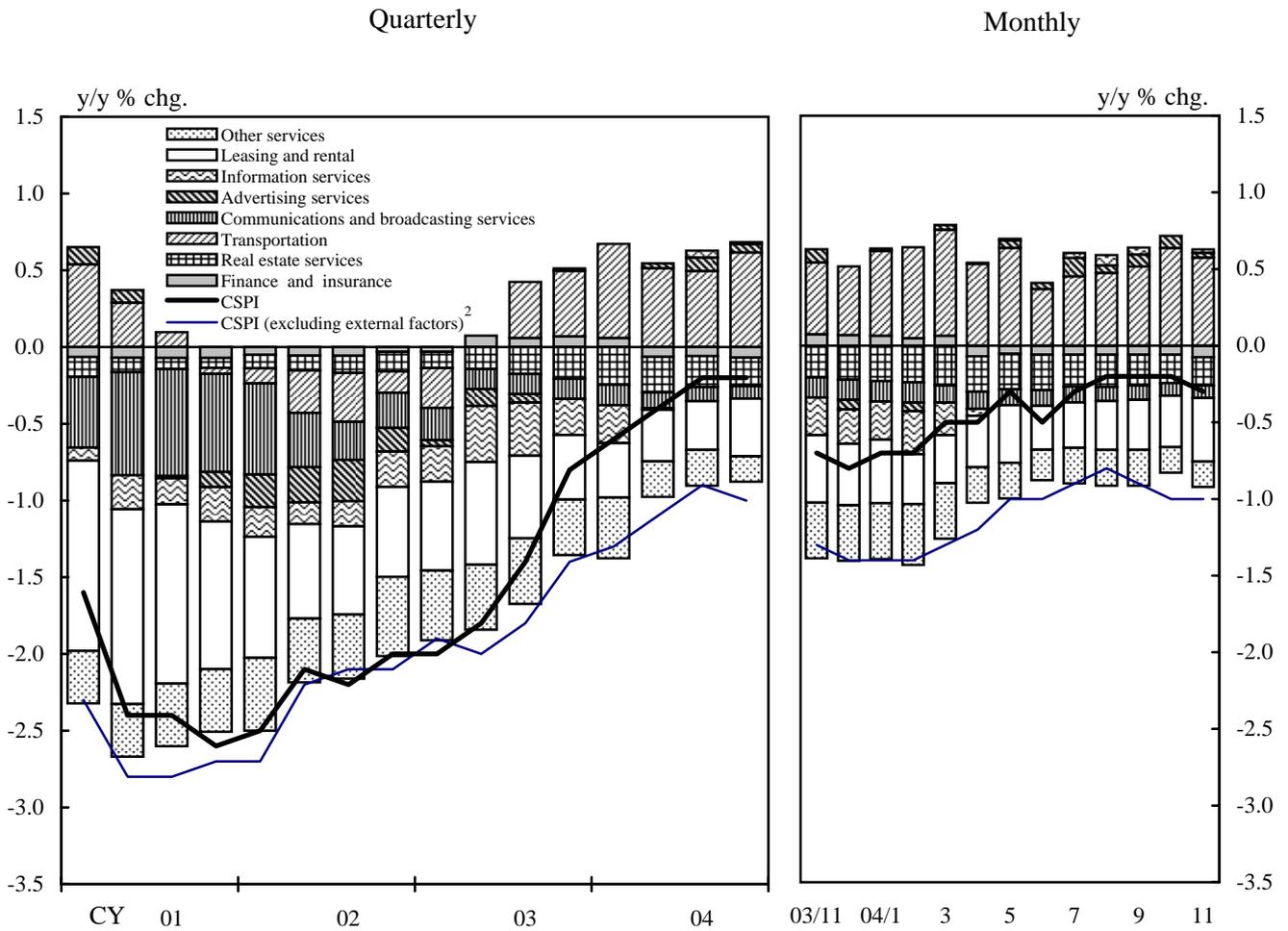


(2) Changes from a quarter earlier and 3 months earlier⁶



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

Corporate Service Price Index



Notes: 1. Data are revised to the 2000 base.

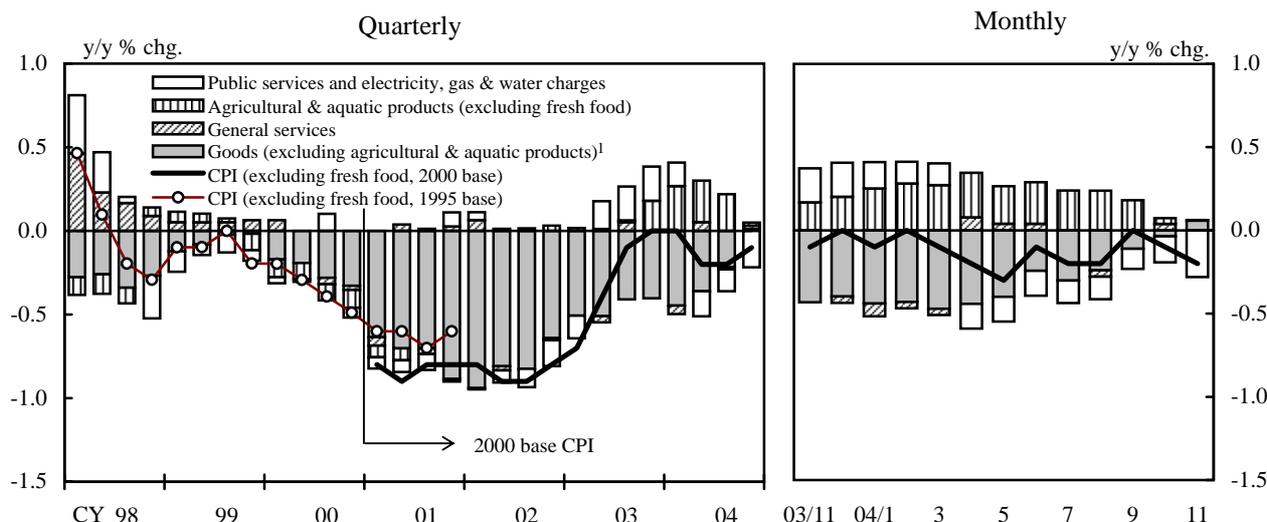
2. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

3. Figures for 2004/Q4 are those of Oct.-Nov. averages.

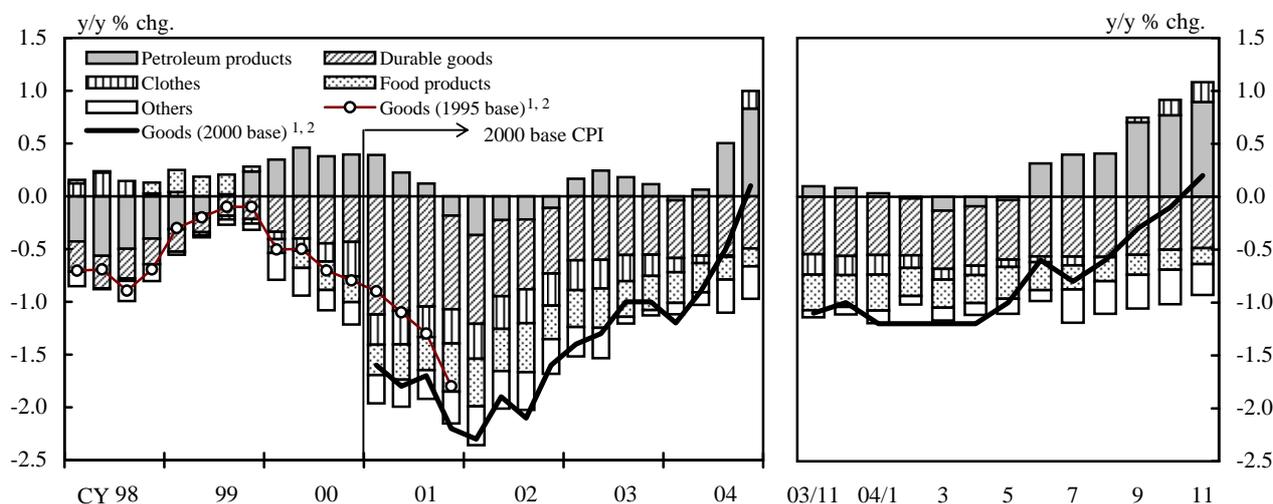
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (excluding fresh food)³

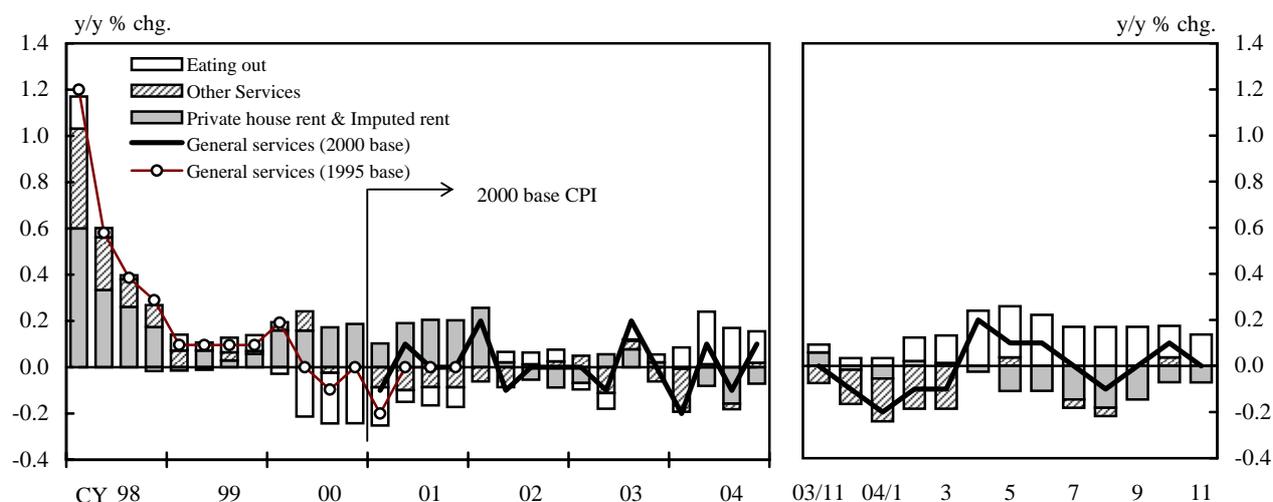
(1) Consumer price index (excluding fresh food)



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



(3) General services

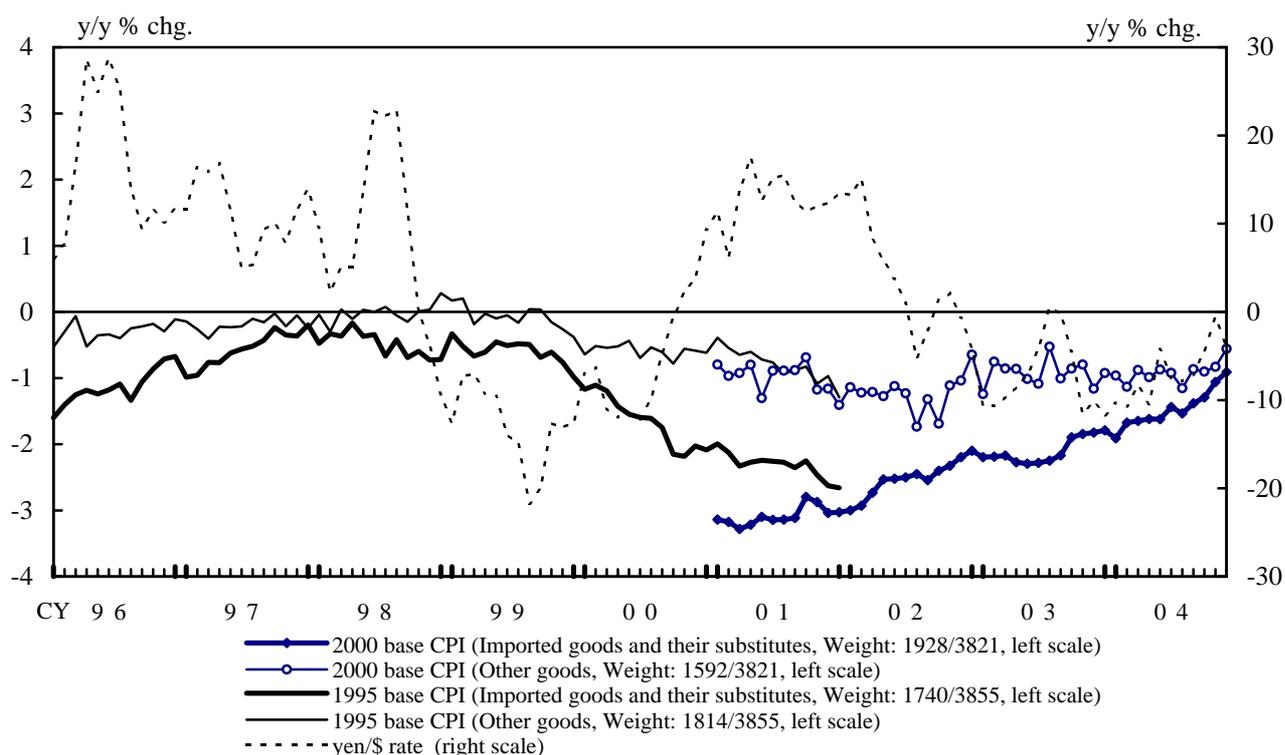


- Notes: 1. The Items are basically the same as the definition published by the Ministry of Internal Affairs and Communications, however electricity, gas & water charges is excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.
 4. Figures for 2004/Q4 are those of Oct.-Nov. averages.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

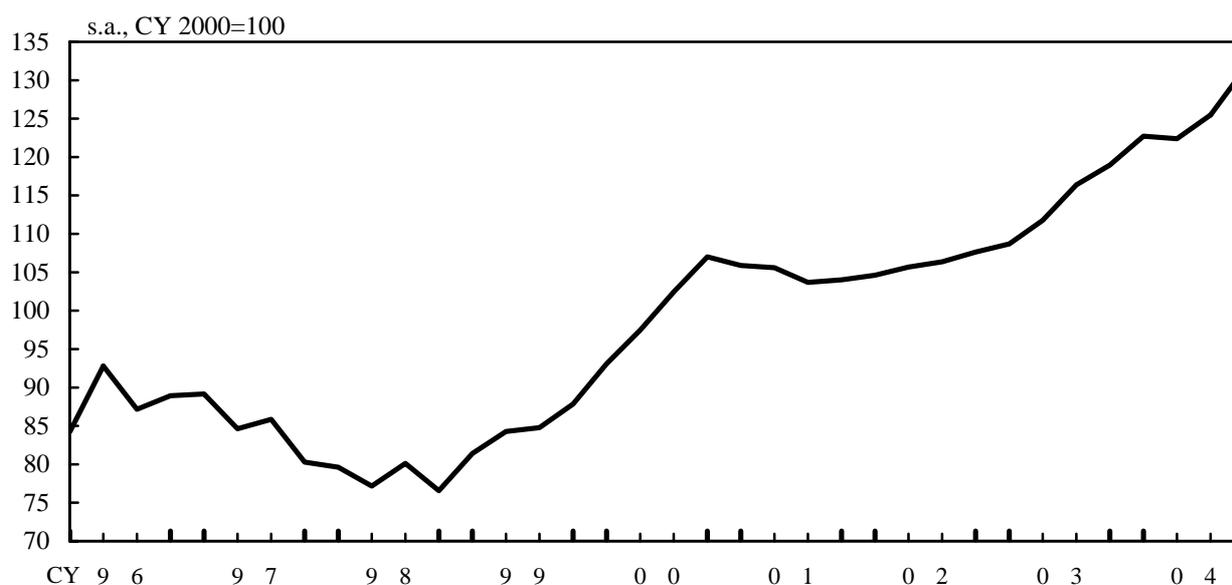
Consumer Prices of imported goods and their substitutes

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



- Notes:
1. 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.
 2. Goods covered here exclude petroleum products and agricultural & aquatic products.
Weight is shares in Goods (excluding agricultural & aquatic products).
 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.
 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)

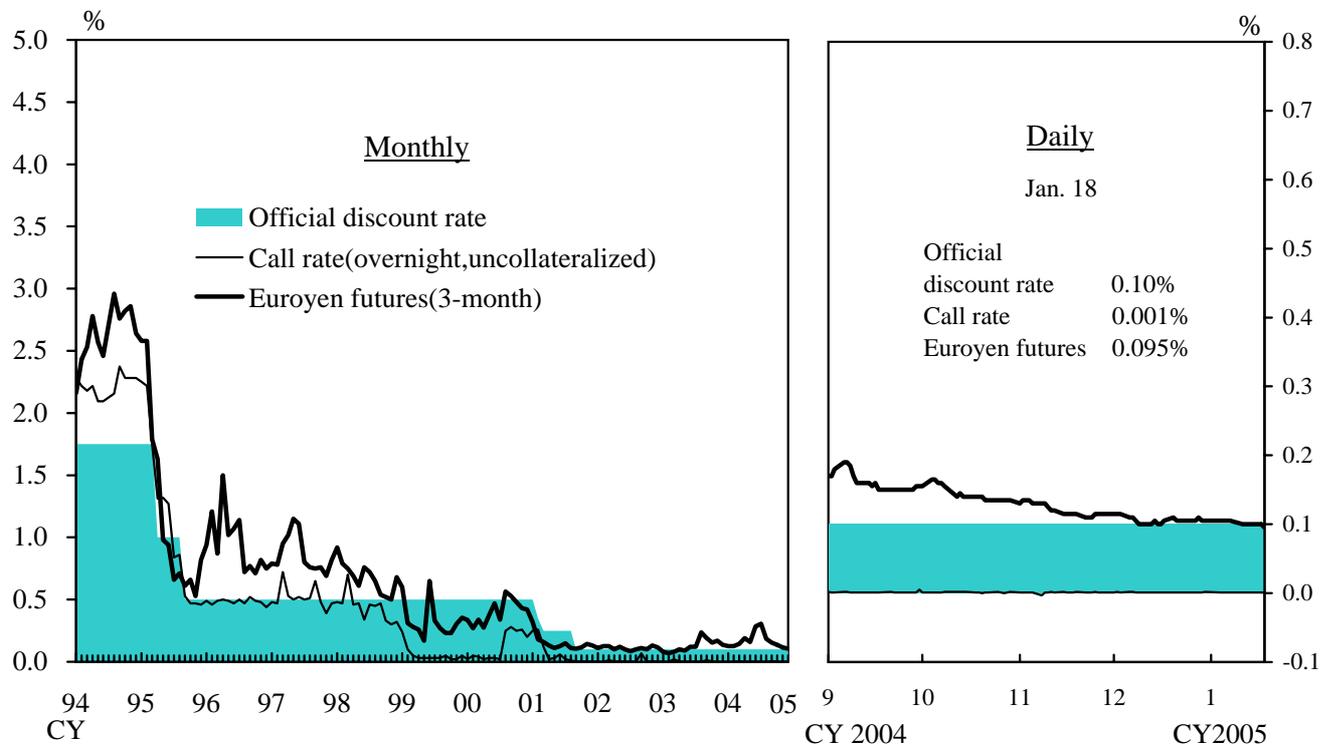


- Notes:
1. Real imports (consumer goods), which are composed of motor vehicles, audio and visual apparatus, office machinery, foodstuffs and textiles, are calculated from the Trade Statistics as an index with the 2000 average equal to 100.
 2. 2004/Q4 figure is an Oct.-Nov. average at a quarterly rate.

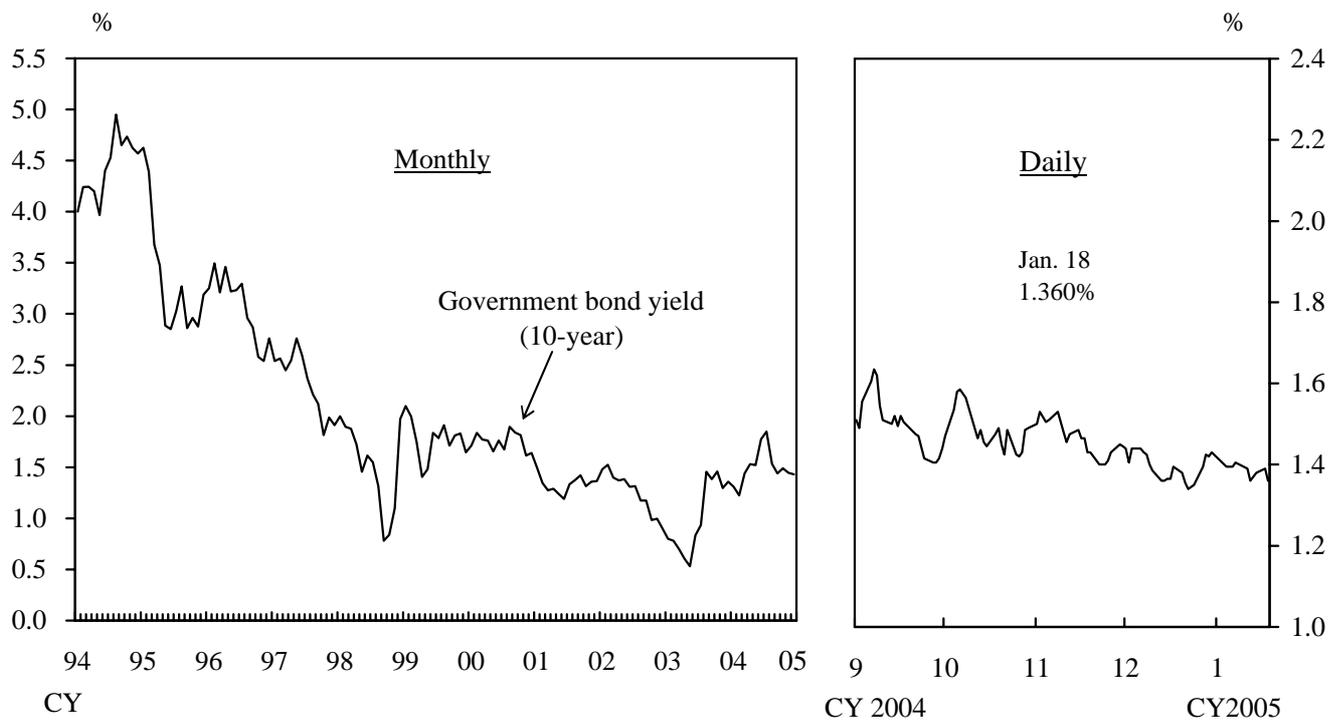
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";
Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Interest Rates

(1) Short-Term



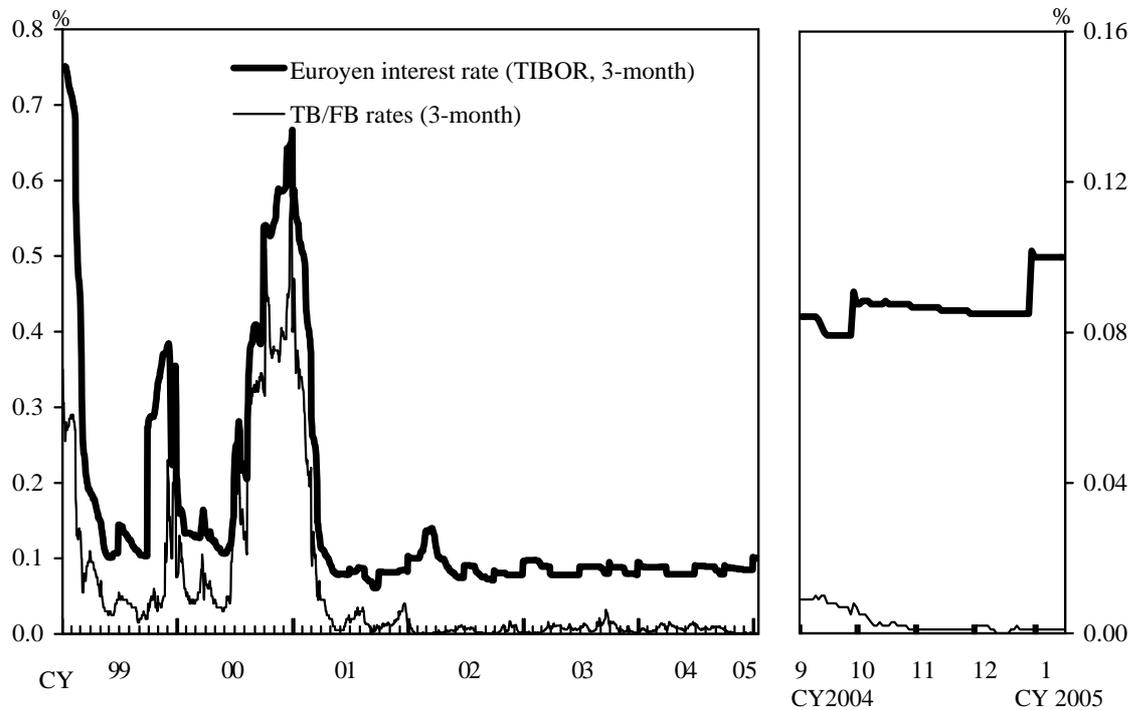
(2) Long-Term



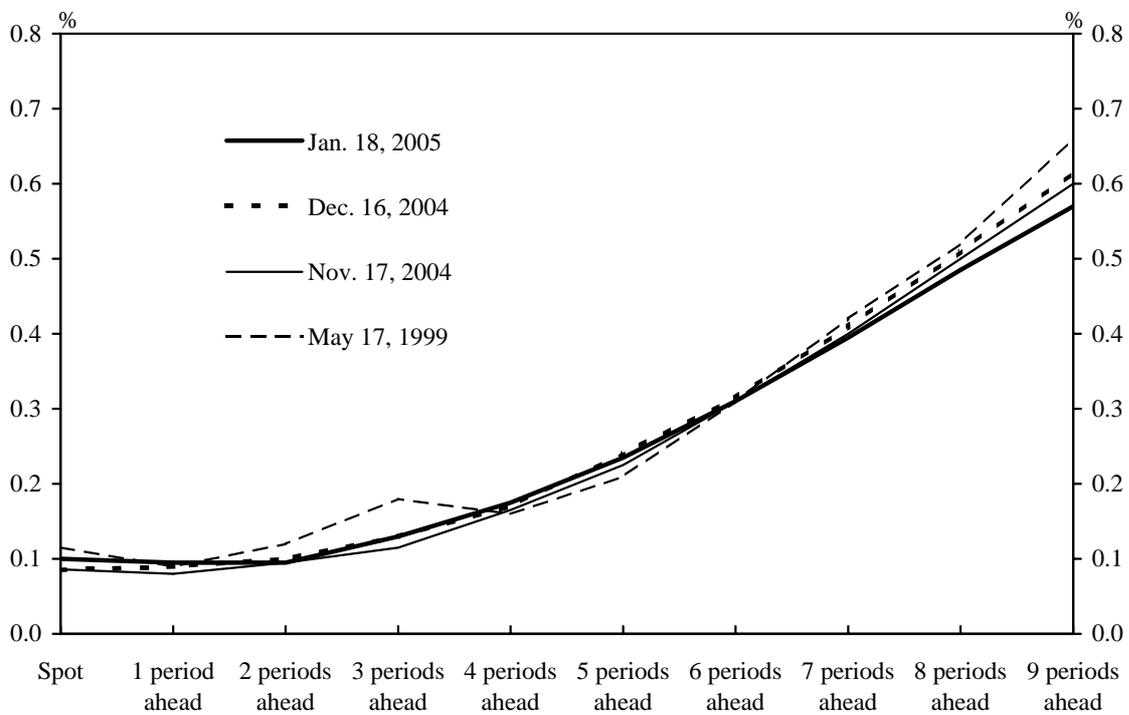
Sources: Bank of Japan; Tokyo International Financial Futures Exchange;
 Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



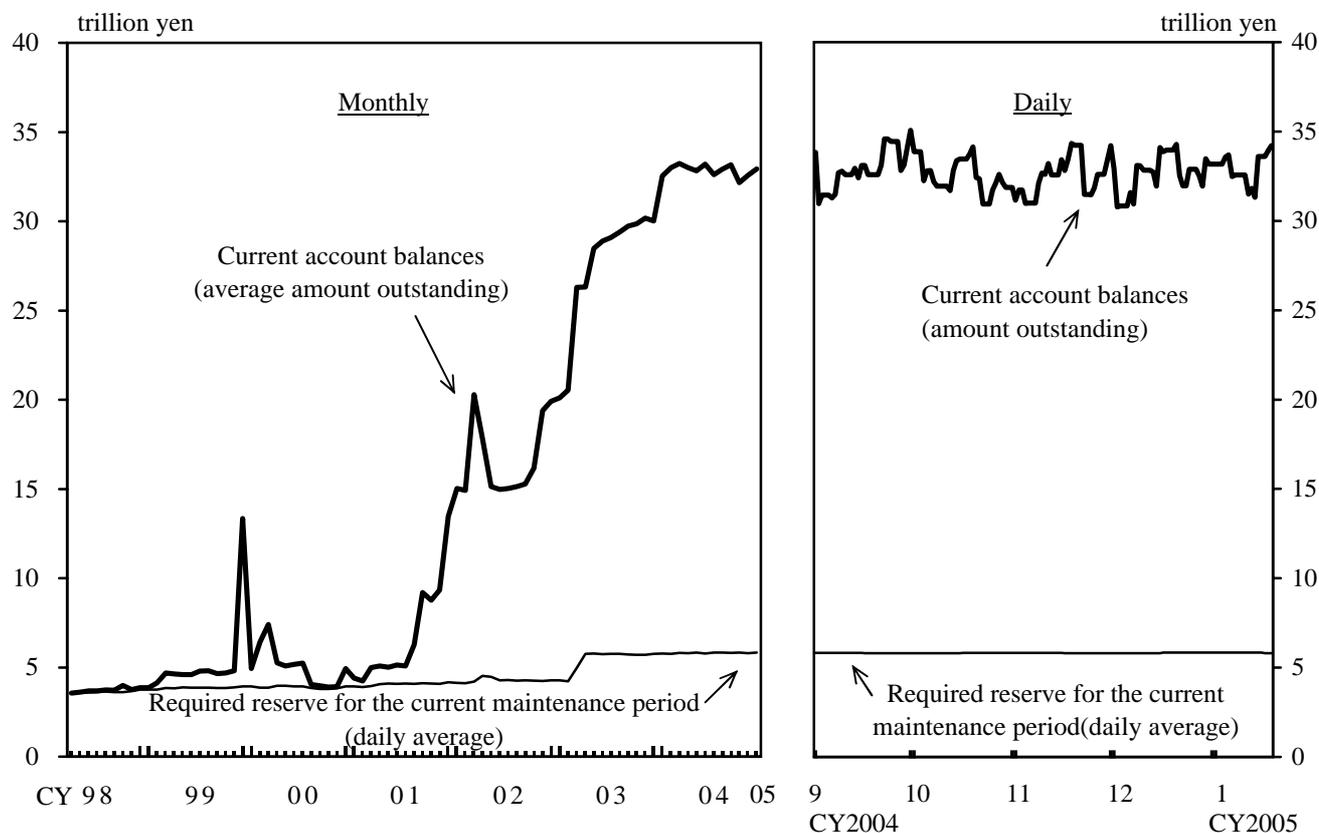
(2) Euroyen Interest Rates Futures (3-Month) ¹



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.

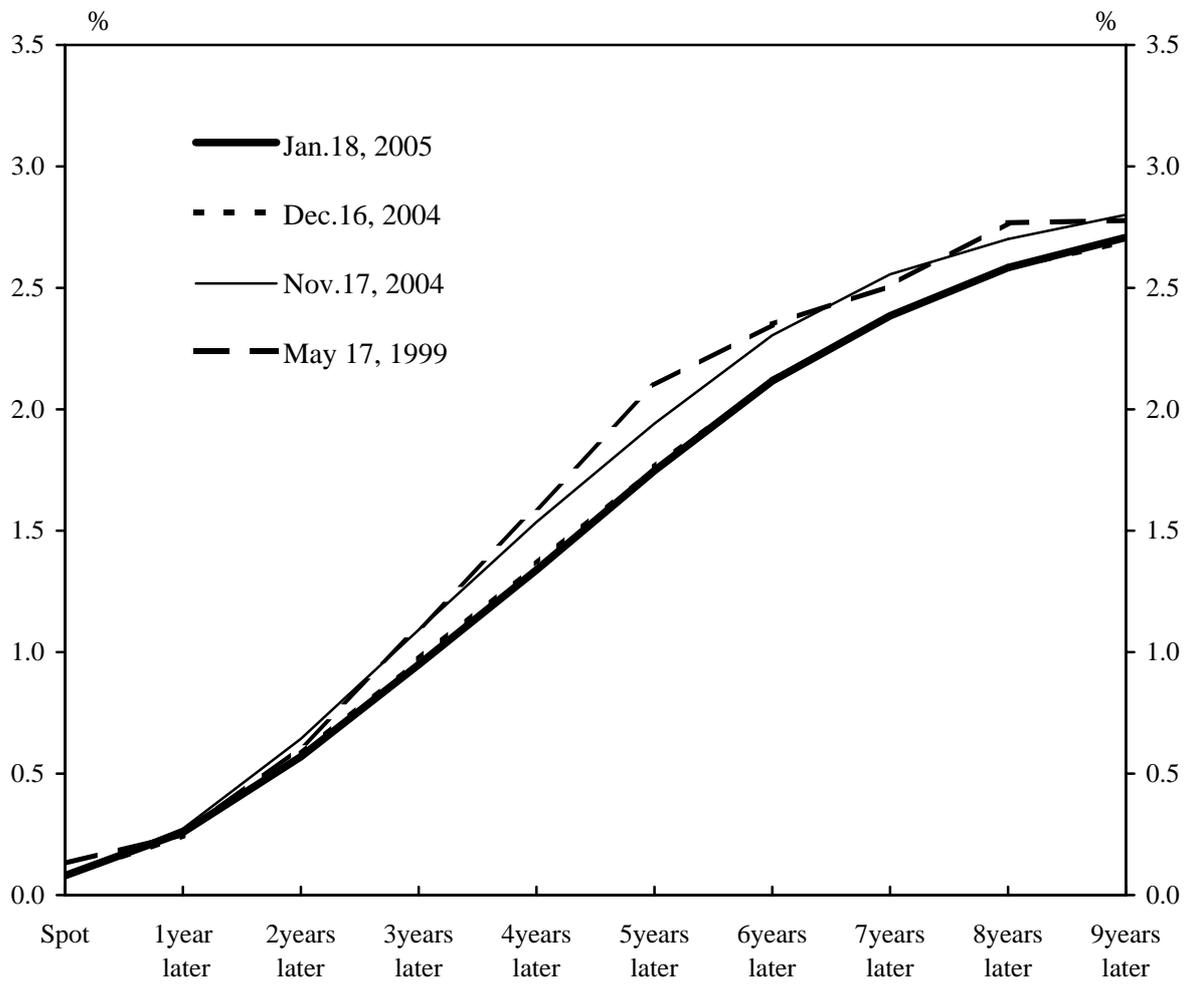
Current Account Balances at the Bank of Japan ¹



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

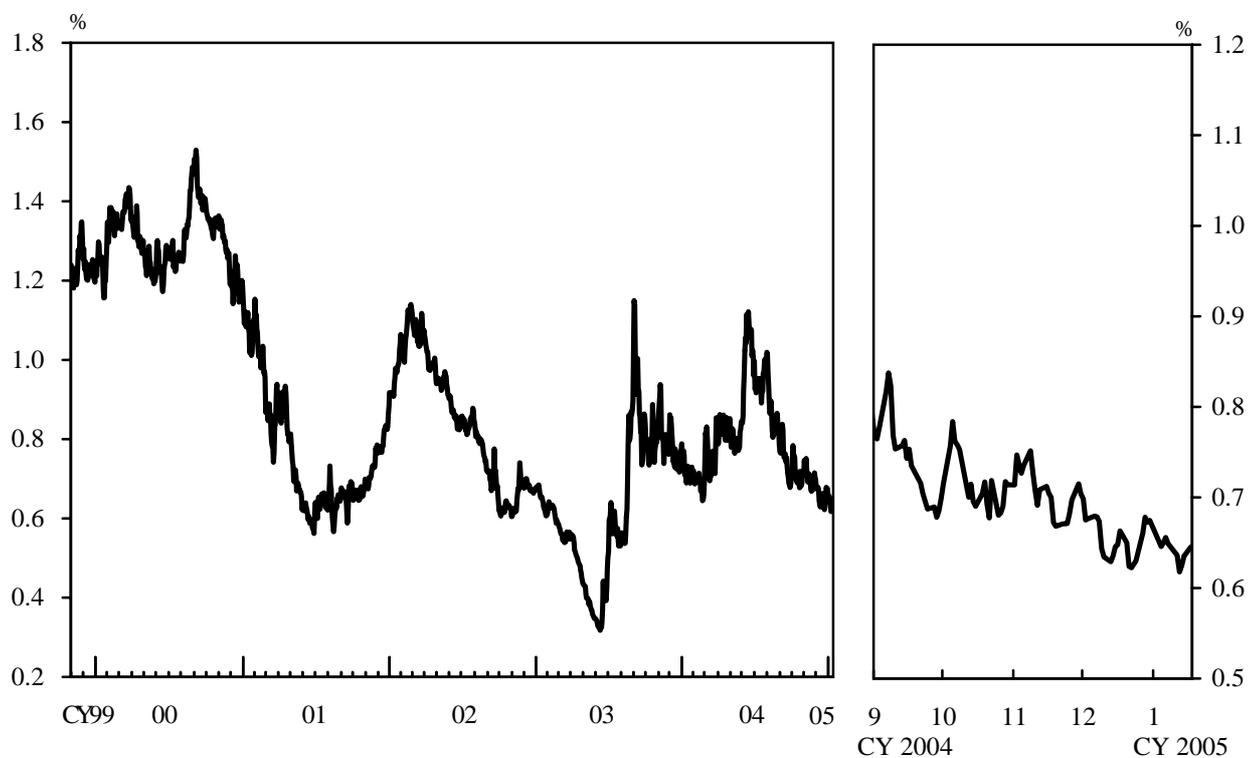


Note: 1. Calculated from yen-yen swap rates.

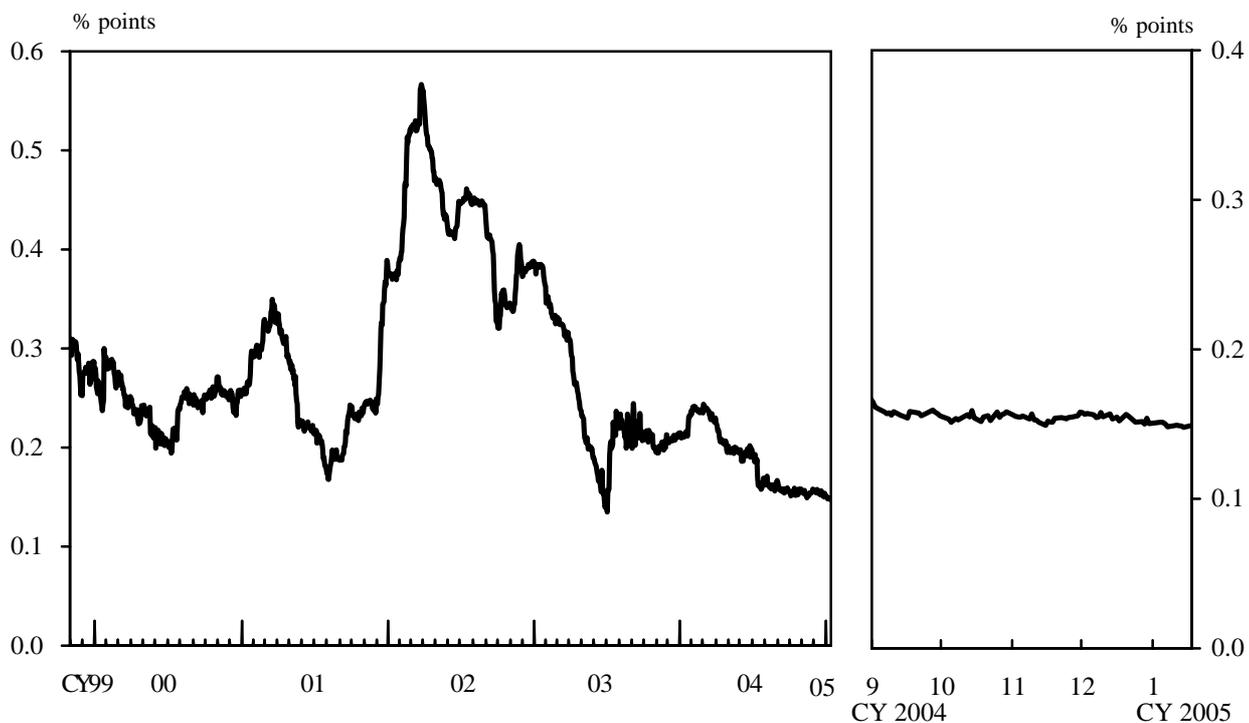
Source: QUICK Moneyline Telerate Corp.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



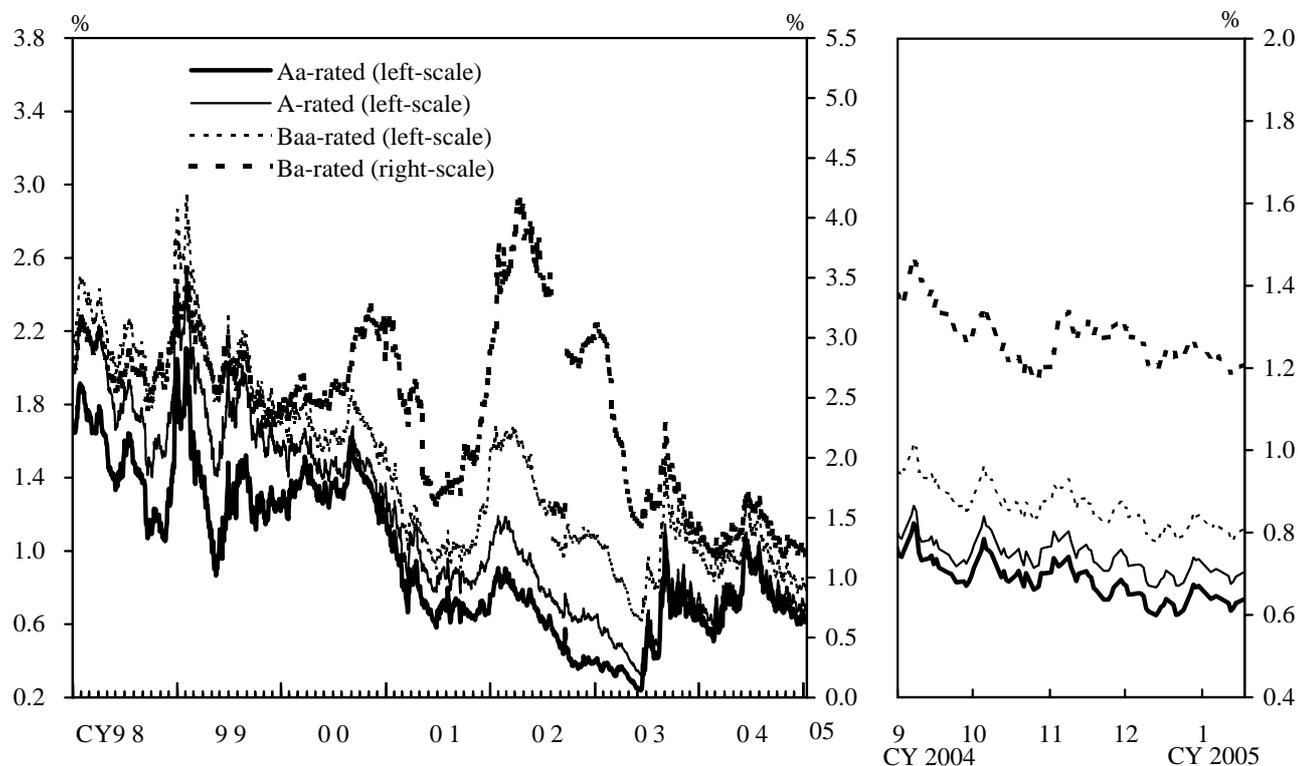
Notes: 1. Yields on bonds with 5-year maturity.

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

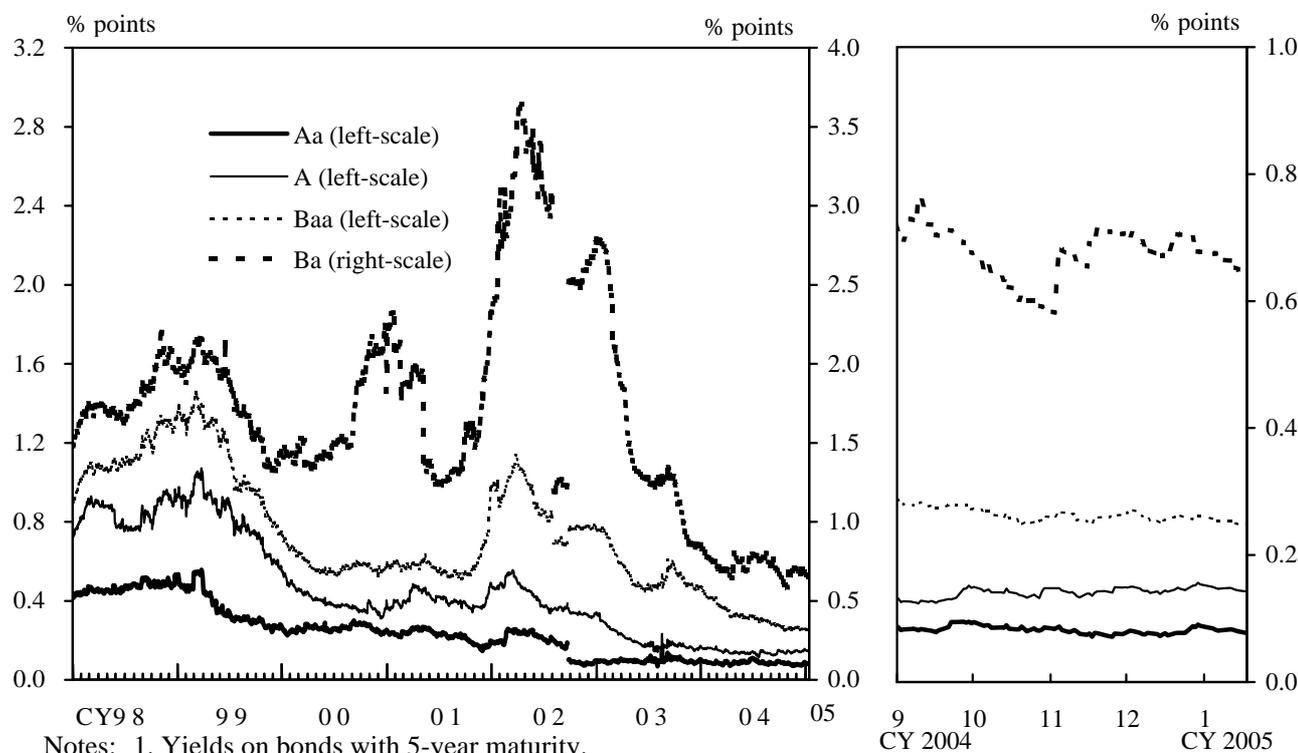
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price(Yields) Table for OTC Bond Transactions."

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.

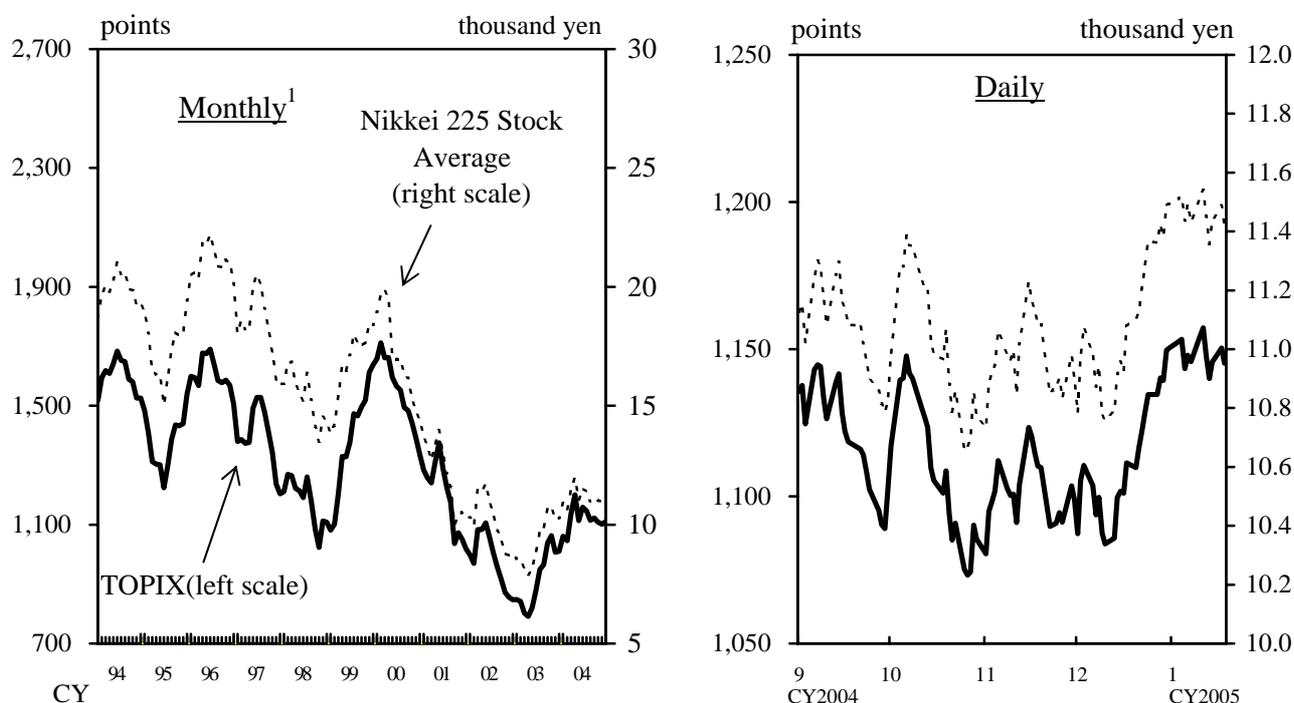
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of 4 to 6 years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

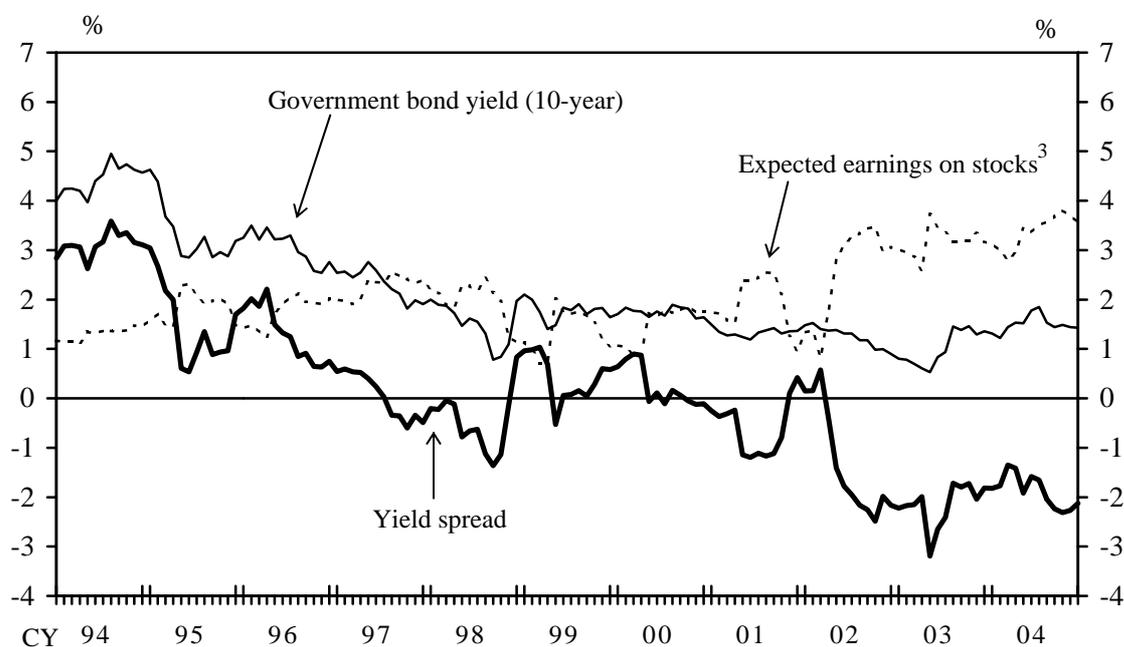
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

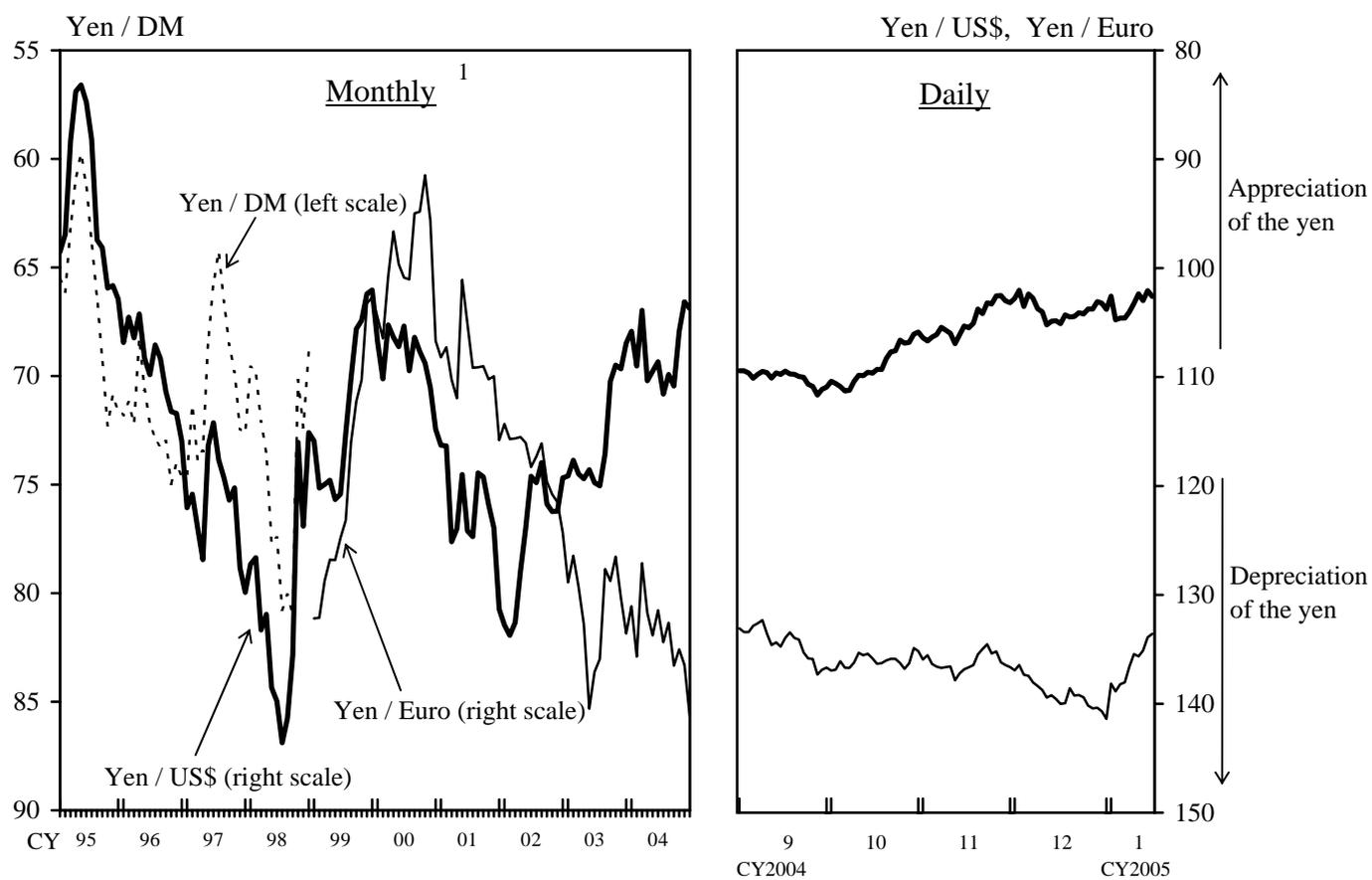
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

Exchange Rates

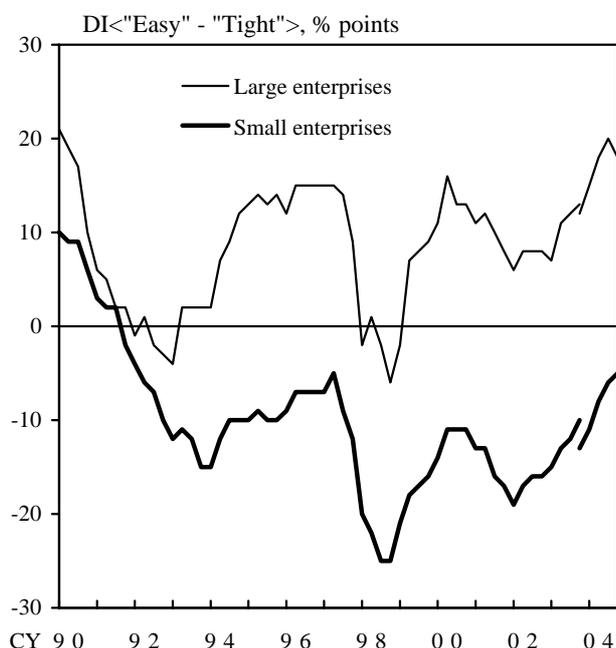


Note: 1. End of month.

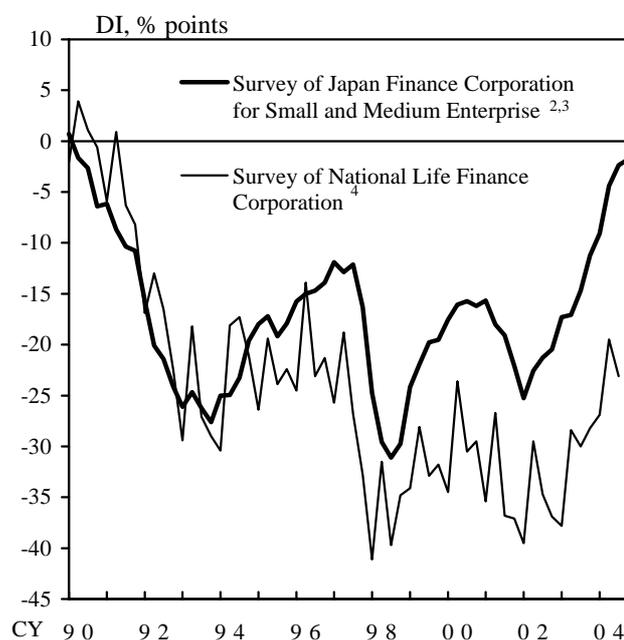
Source: Bank of Japan.

Corporate Finance-Related Indicators

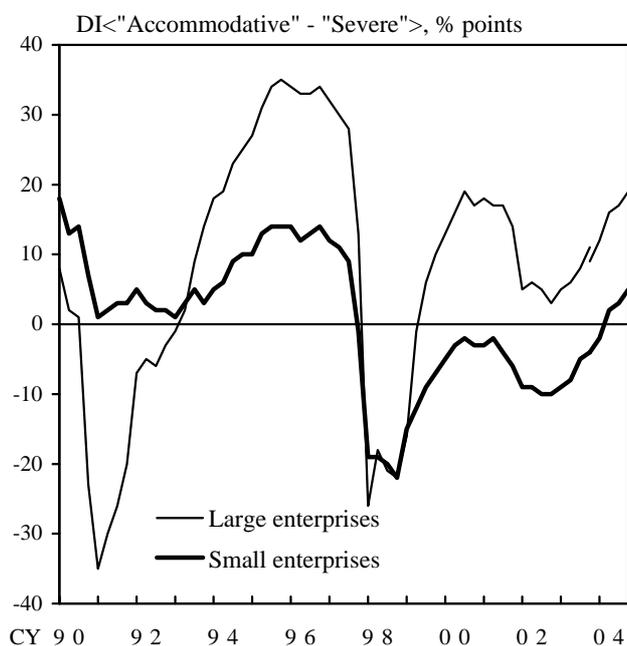
(1) Financial Position

<Tankan¹>

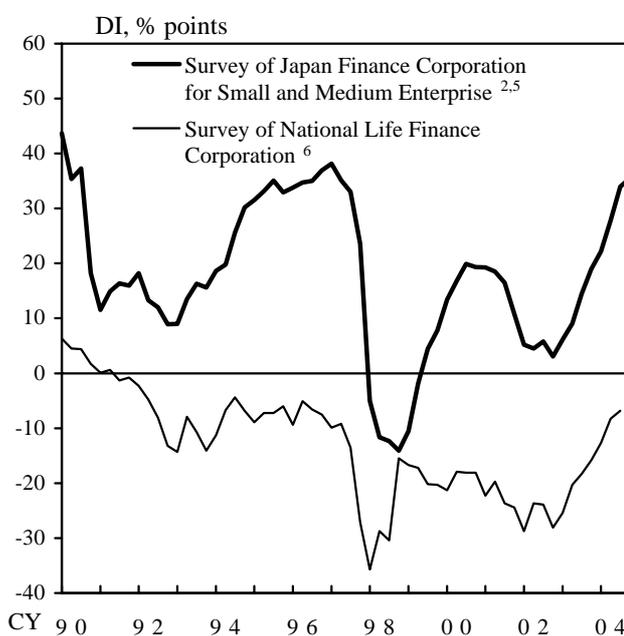
<Other Surveys>



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

<Tankan¹>

<Other Surveys>



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.

3. DI of "Easy" - "Tight"

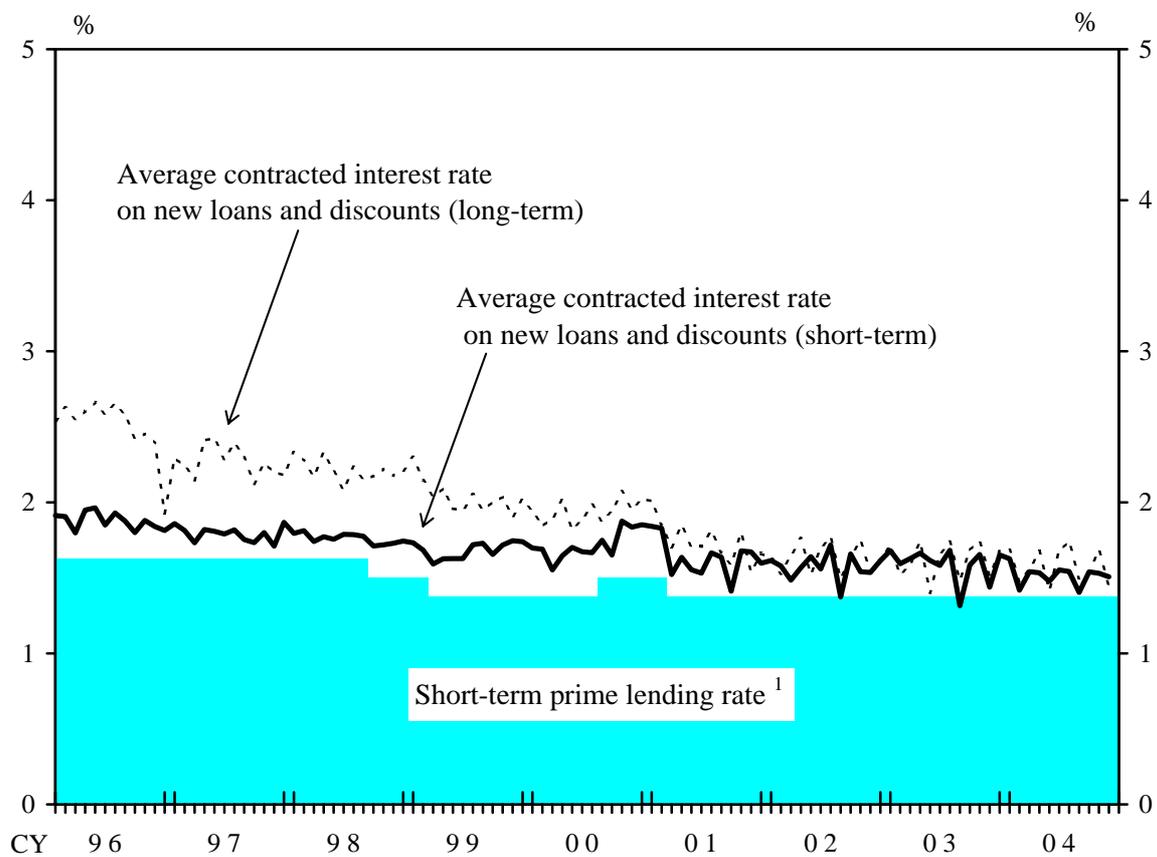
4. DI of "Easier" - "Tighter"

5. DI of "Accommodative" - "Severe"

6. DI of "More accommodative" - "More severe"

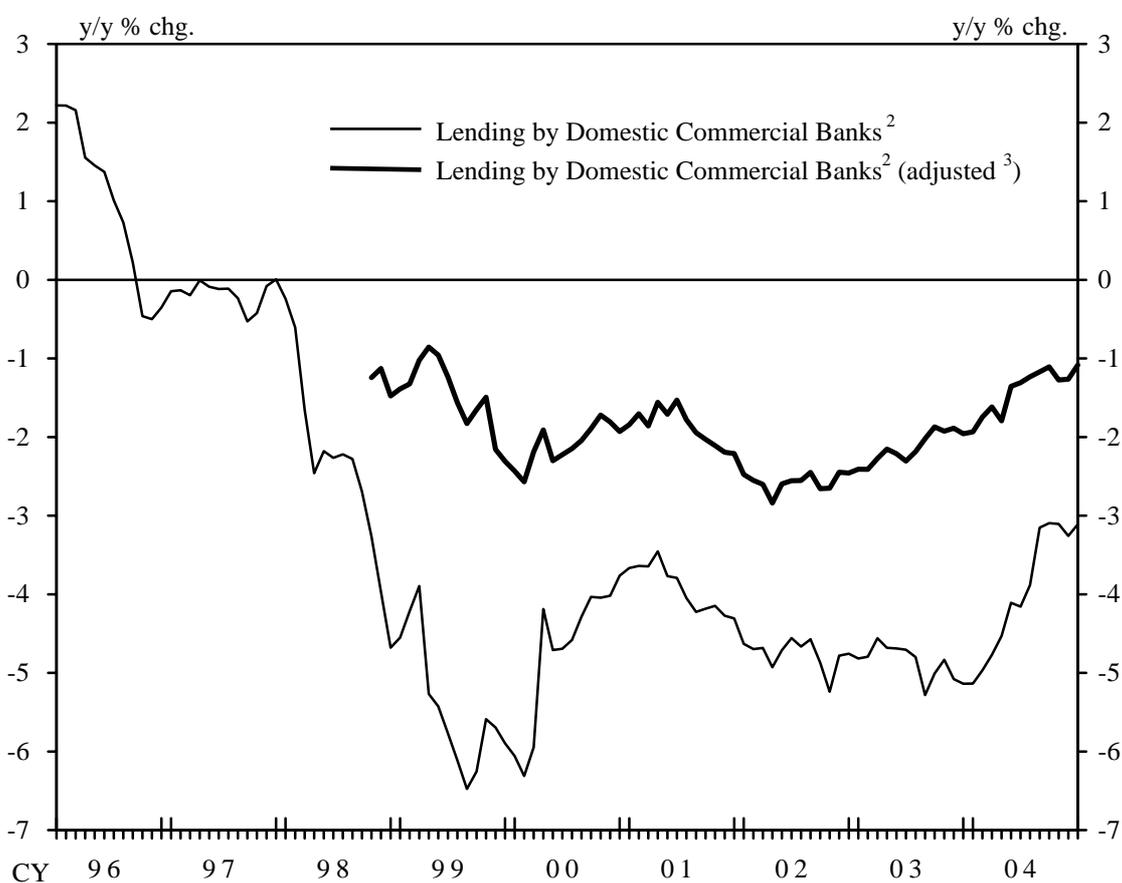
Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small and Medium Enterprise, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

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.

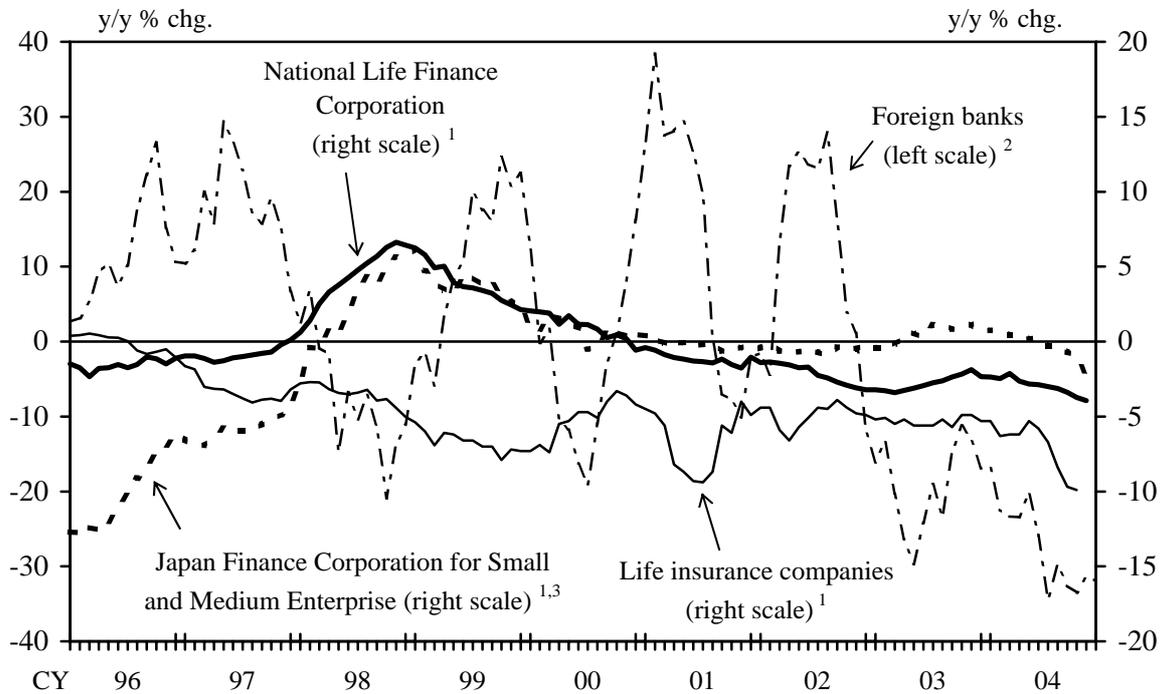
3. Adjusted to exclude

- (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."

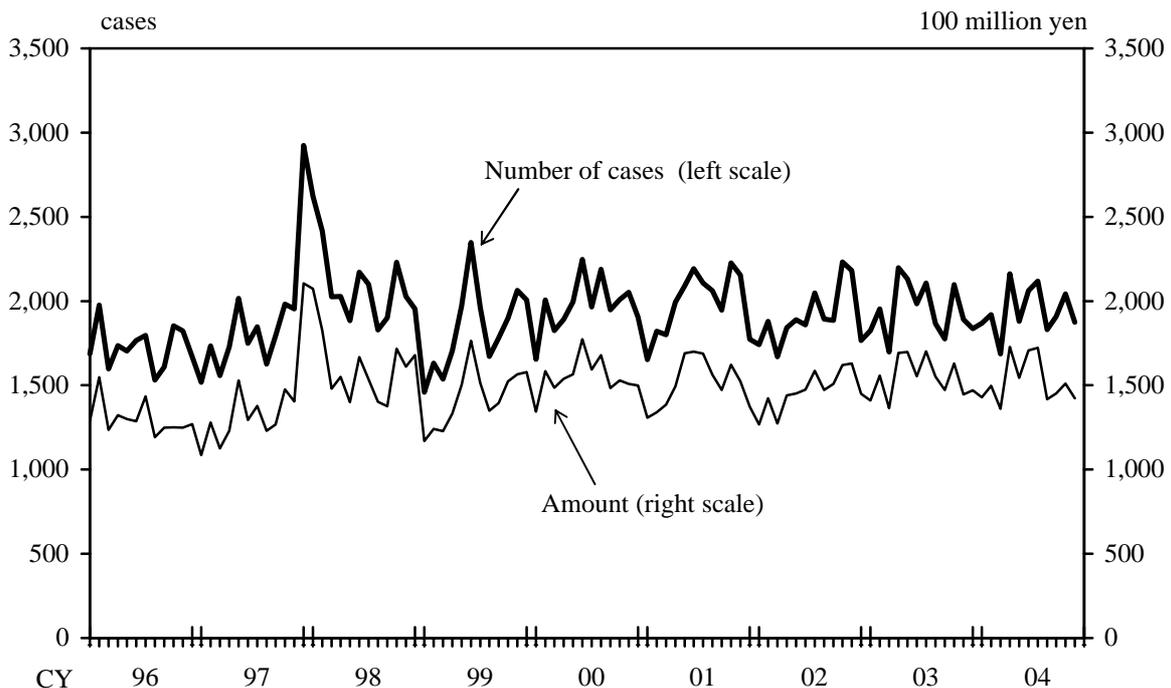
Lending by Other Financial Institutions

(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 from 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.

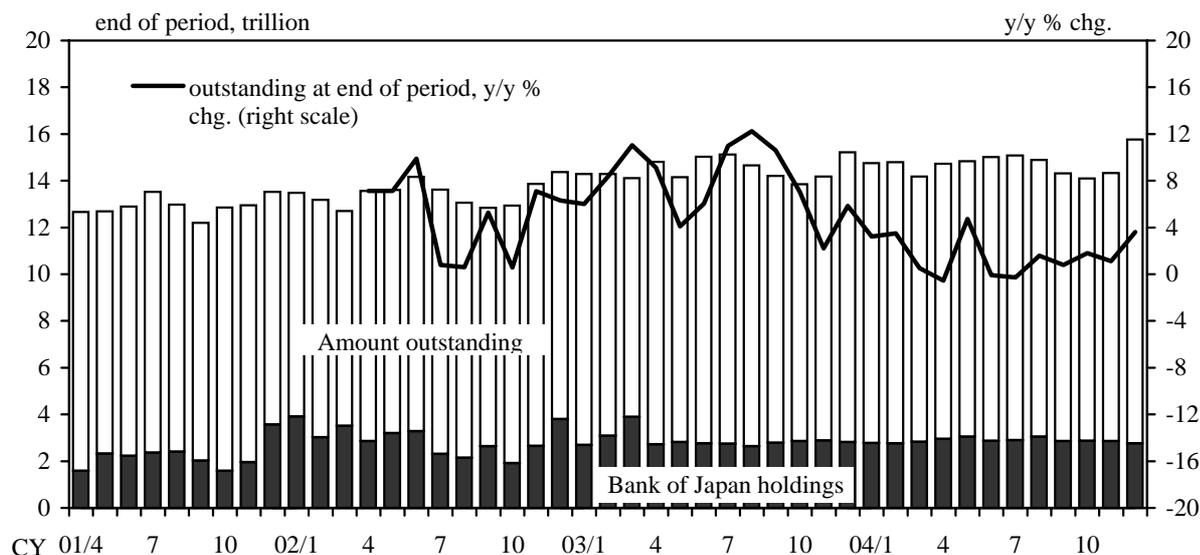
(2) Application for a Loan from Japan Finance Corporation for Small and Medium Enterprise



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

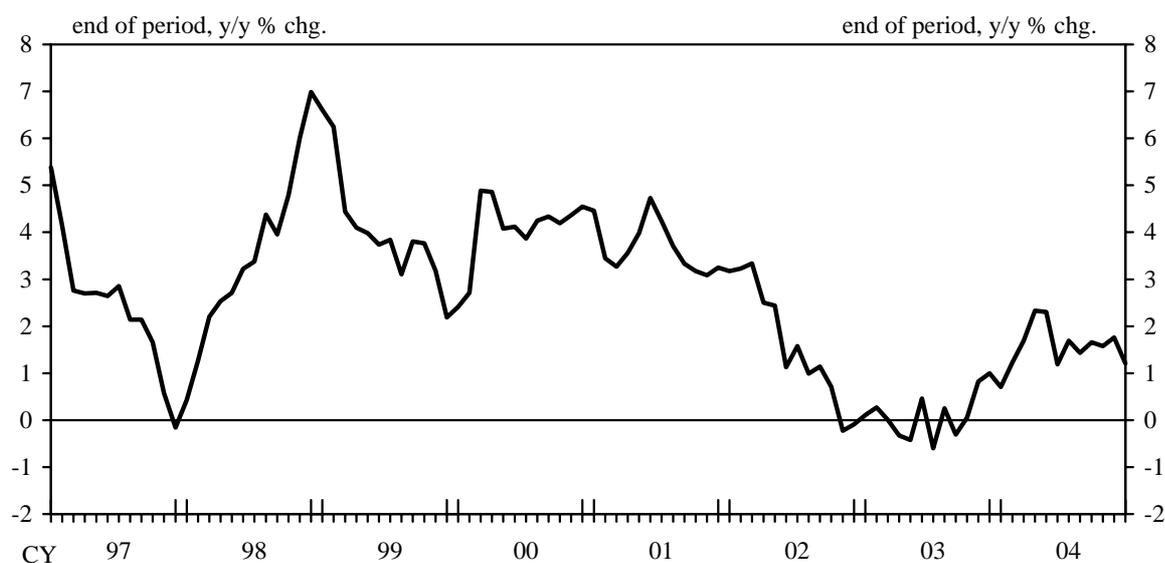
Private-Sector Fund-Raising in the Capital Markets

(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)

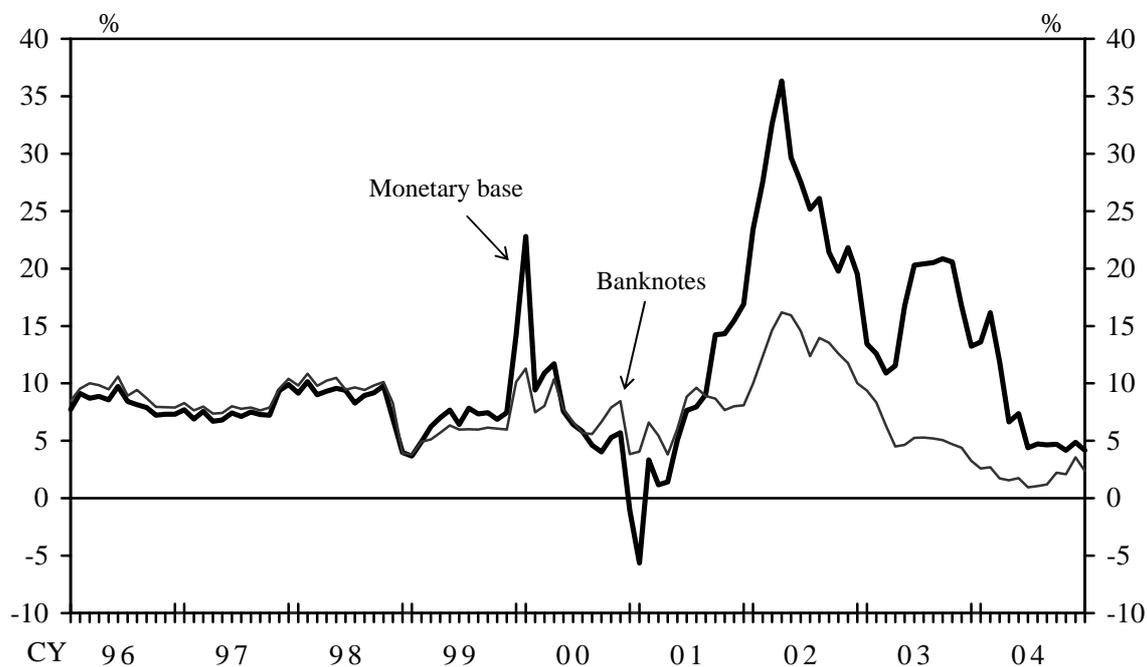
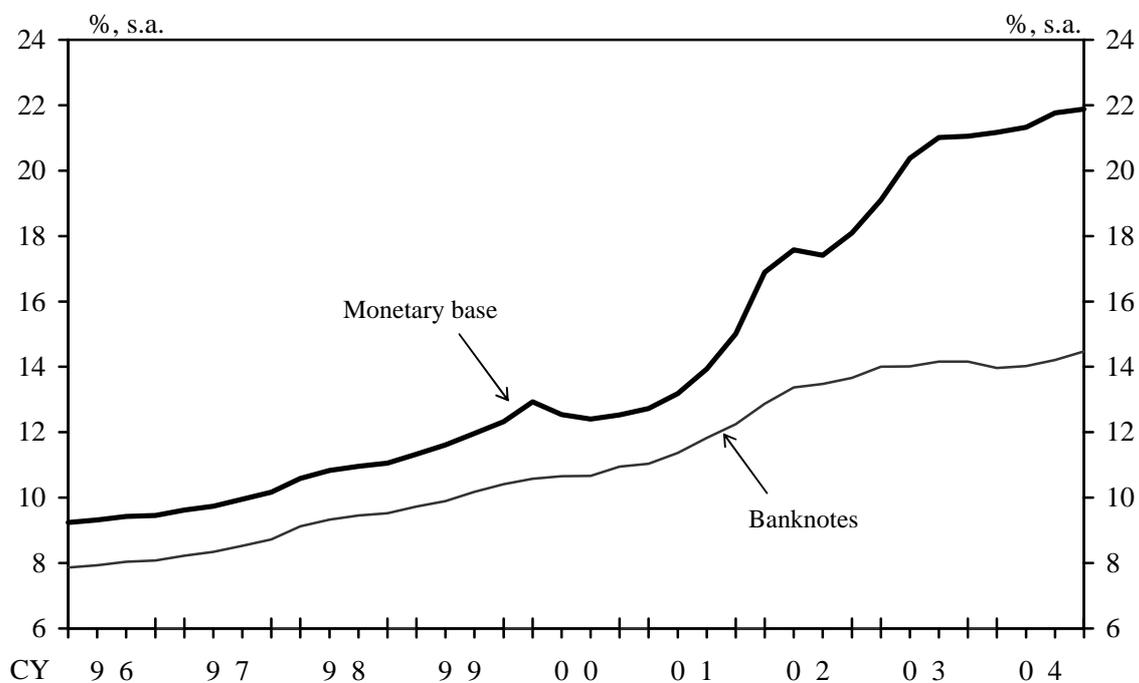


Note: Percentage changes from the previous year of the amount outstanding of corporate bonds are estimated figures. Procedures of the estimation are summarized as follows:

- (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.
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," "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.

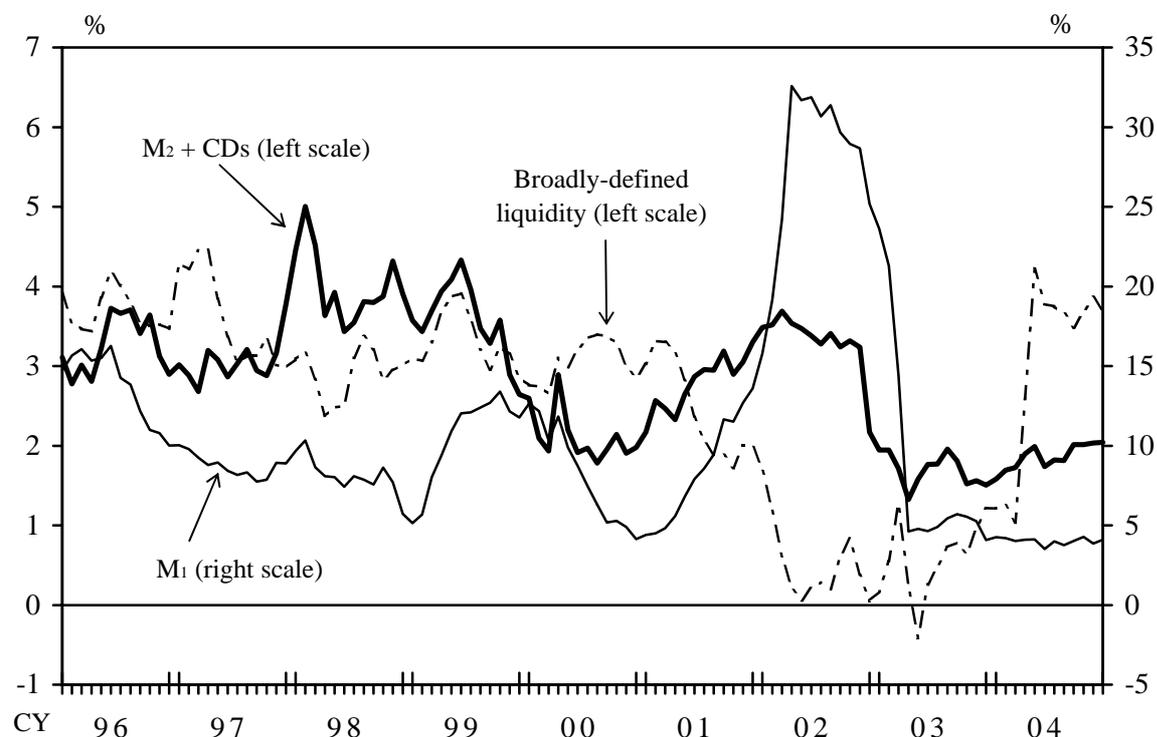
Data for currency in circulation include holdings of financial institutions.

2. Figure for the nominal GDP in 2004/Q4 is assumed to be unchanged from the previous quarter.

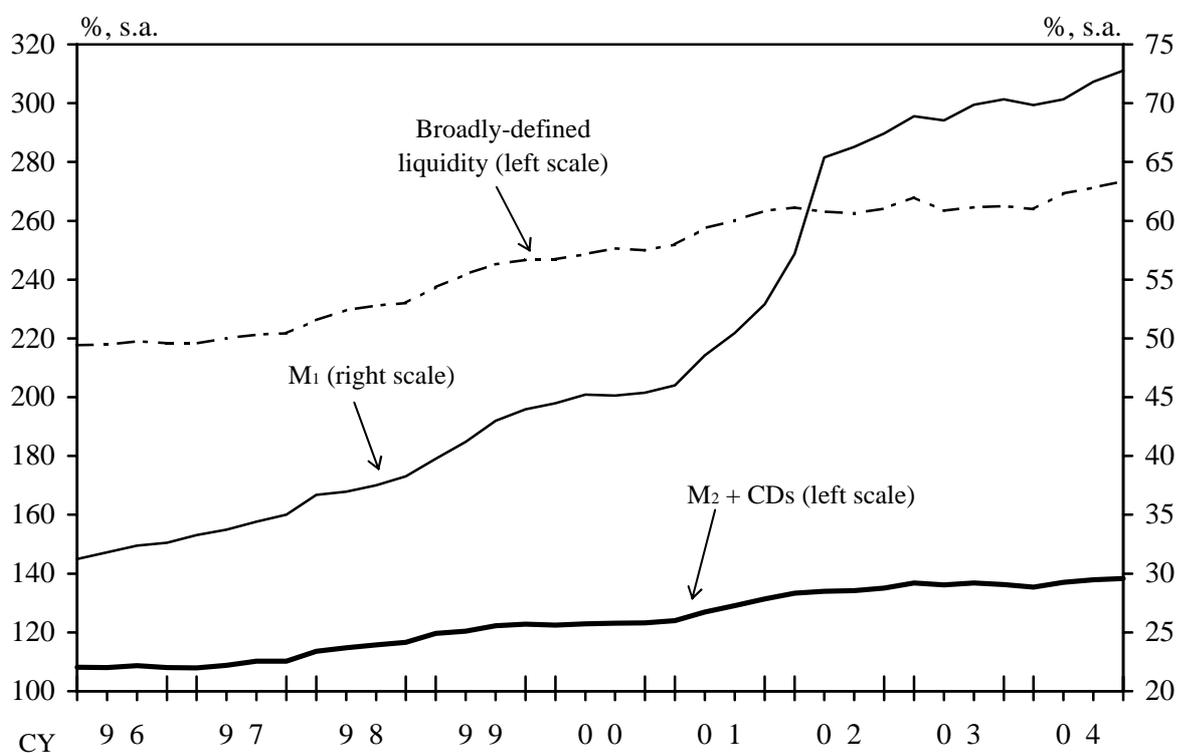
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

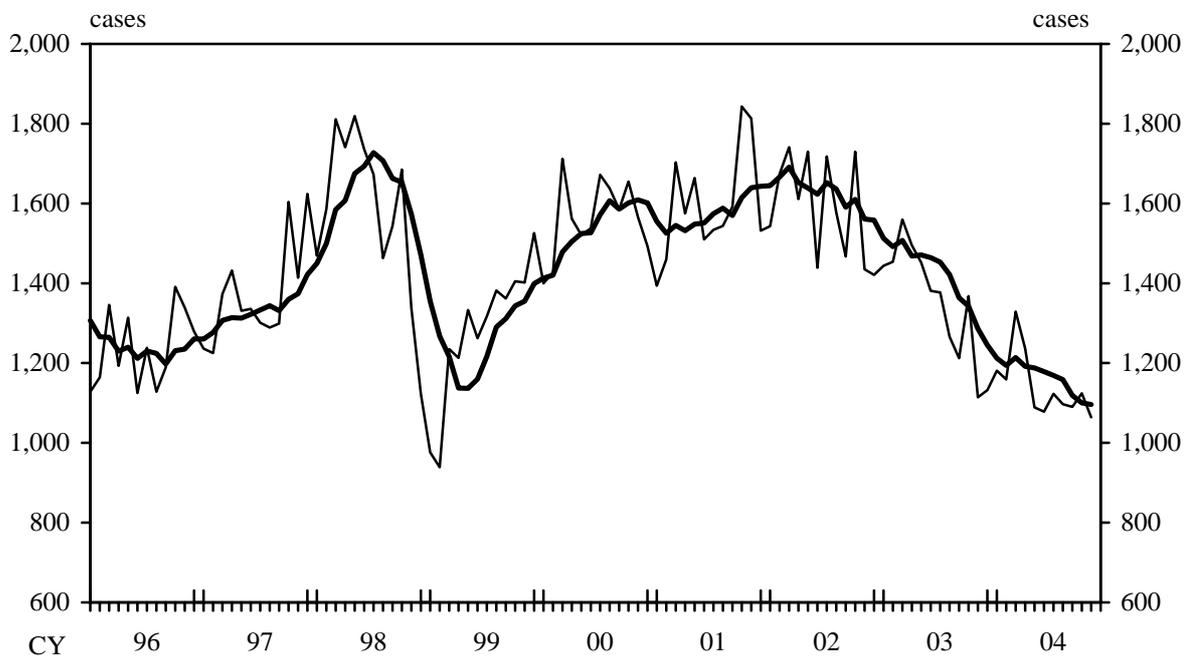


Note: Figure for the nominal GDP in 2004/Q4 is assumed to be unchanged from the previous quarter.

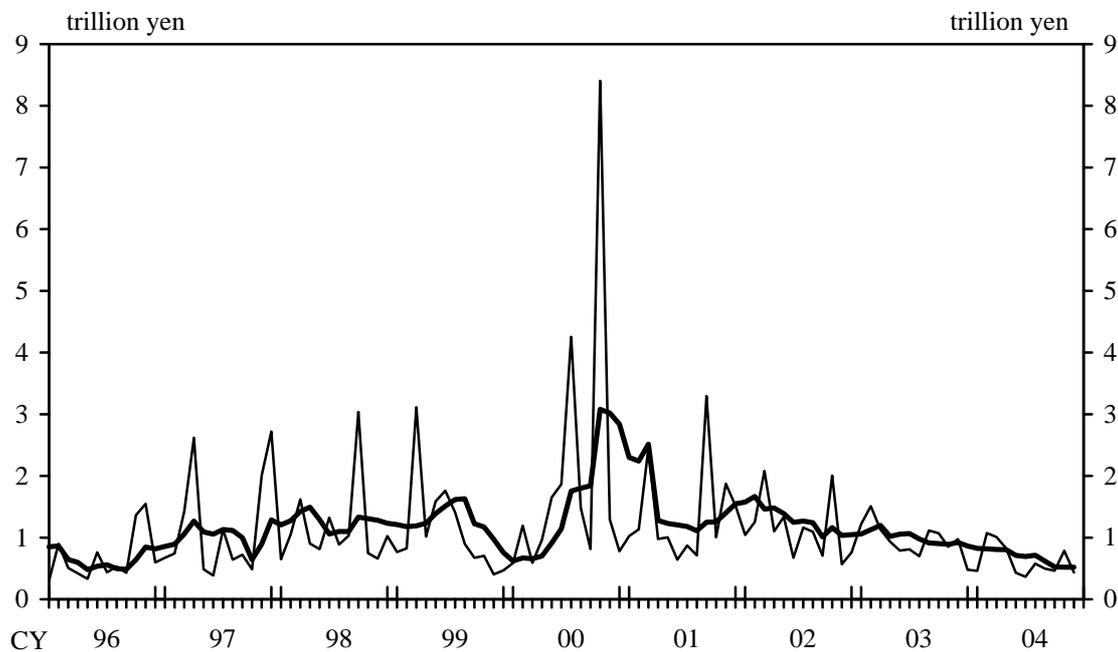
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

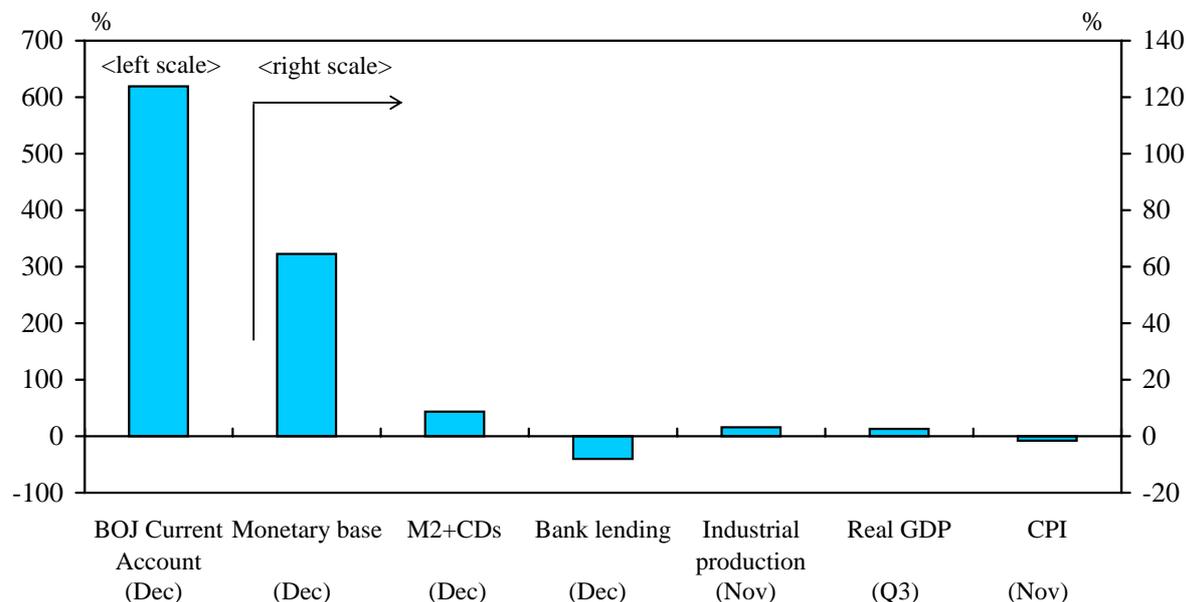


Note: Bold lines are the six-month moving average.

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

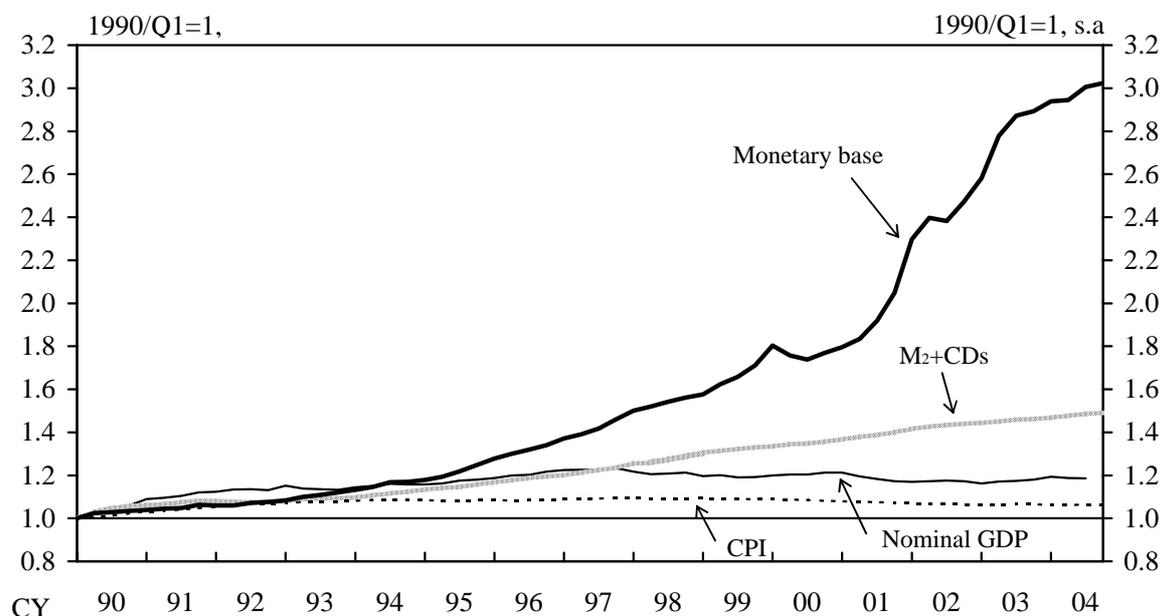
 Monetary Indicators, Economic Activity and Price Development

(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. Figure for CPI in 2004/Q4 is that of Oct.-Nov. average.

Sources: Cabinet Office, "National Accounts"; Ministry of Internal Affairs and Communications, "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production"; Bank of Japan.

 Forecasts in the *Outlook for Economic Activity and Prices* released in October 2004

Forecasts of the Majority of Policy Board Members¹

	(y/y % chg.)		
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2004	+3.4 to +3.7 [+3.6]	+1.4 to +1.5 [+1.5]	-0.2 to -0.1 [-0.2]
Forecasts made in April 2004	+3.0 to +3.2 [+3.1]	+0.1 to +0.3 [+0.2]	-0.2 to -0.1 [-0.2]
Fiscal 2005	+2.2 to +2.6 [+2.5]	+0.2 to +0.5 [+0.3]	-0.1 to +0.2 [+0.1]

Notes: 1. Brackets indicate median of the forecasts.

2. The forecasts of Policy Board members are based on the assumption that there will be no change in monetary policy.

¹ Forecasts of the majority of Policy Board members are shown as a range, with the highest and lowest figures excluded. The forecasts of all Policy Board members are as follows.

	(y/y % chg.)		
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2004	+3.2 to +3.7	+1.4 to +1.8	-0.2 to -0.1
Forecasts made in April 2004	+2.9 to +3.5	+0.1 to +0.5	-0.2 to +0.5
Fiscal 2005	+2.0 to +2.6	+0.1 to +1.3	-0.1 to +0.3