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Bank of Japan

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

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Monthly Report of Recent Economic and Financial Developments¹

September 2005

The Bank's View²

Japan's economy continues to recover.

Exports have continued to increase, albeit moderately, and industrial production has also been on an uptrend with some fluctuations. Business fixed investment has continued to increase against the background of high corporate profits. Household income has also continued rising moderately, reflecting the improvement in employment and wages. In this situation, private consumption has been steady. Meanwhile, housing investment has been nearly flat, and public investment has basically been on a downtrend.

Japan's economy is expected to continue to recover.

Growth in exports is expected to accelerate gradually, as overseas economies continue to expand. Domestic private demand is likely to continue increasing against the background of high corporate profits and the moderate rise in household income, while structural adjustment pressure stemming from the excess capacity and debt of firms has almost dissipated. In light of these increases in demand both at home and abroad, as well as the completion of adjustments in IT-related sectors, production is also expected to follow an increasing trend. Public investment, meanwhile, is projected to remain on a downtrend.

On the price front, domestic corporate goods prices have increased, mainly reflecting the effects of the rise in crude oil prices. Consumer prices (excluding fresh food) have been declining slightly on a year-on-year basis, partly due to the reduction in electricity and telephone charges.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 7 and 8, 2005.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on September 7 and 8, 2005.

Domestic corporate goods prices are expected to continue increasing mainly due to high crude oil prices. Meanwhile, the year-on-year rate of change in consumer prices is projected to be 0.0 percent or a slight increase toward the end of the year. This is because the negative contribution of rice prices is likely to dissipate and the effects from the reduction in electricity and telephone charges are expected to ease, in a situation where supply and demand conditions continue improving gradually.

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. The pace of decline in credit demand in the private sector is becoming somewhat moderate. Under these circumstances, the amount outstanding of lending by private banks is around the previous year's level, and that of CP and corporate bonds issued has been above the previous year's level. The year-on-year growth rate of the monetary base is around 1.0 percent, and that of the money stock has been at the 1.0-2.0 percent level. The year-on-year growth rate of banknotes in circulation is around 3.0 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 and stock prices have risen compared with last month, while long-term interest rates have been around the same level as last month.

The Background

1. Japan's Economy

Public investment has basically been on a downtrend, although the decline seemed to have come to a halt temporarily, reflecting the progress in the disaster relief construction (Chart 3). The amount of public construction completed—which reflects the actual progress of public works—was relatively subdued in the second quarter, after having increased somewhat in March bolstered mainly by the disaster relief construction after the Mid Niigata Prefecture Earthquake. On the other hand, the value of public works contracted—a measure that reflects public orders—declined substantially in July, mainly as a reaction to the slight increase in the second quarter due to large-scale orders from public corporations. Public investment is expected to follow a declining trend, since the initial budget of fiscal 2005 has been reduced.

Real exports have continued to increase, albeit moderately, against the background of the expansion of overseas economies (Charts 4[1] and 5); exports rose 1.5 percent in the second quarter on a quarter-on-quarter basis, and rose 0.9 percent in July compared to the second quarter.

As for real exports by region (Chart 5[1]), exports to the United States have continued an increasing trend against the background of the U.S. economic expansion, although they declined in July, mainly reflecting the drop in automobiles as a reaction. Exports to the NIEs and ASEAN have also been on a moderate uptrend, with fluctuations smoothed out. Meanwhile, exports to China posted high growth in July, but this was partly buoyed by semiconductor manufacturing equipment, which tends to fluctuate widely. Thus, whether this growth would lead to an underlying recovery is quite uncertain (Chart 8). By goods (Chart 5[2]), exports of automobile-related goods have followed an increasing trend, mainly to the United States, but they fell back in July in reaction to the high growth registered in the second quarter (Chart 6[3]). Exports of consumer goods have continued a solid increase, mainly in digital home appliances. Exports of capital goods and parts have also continued to rise, albeit gradually (Chart 6[1]). Meanwhile, exports of IT-related goods have increased only marginally, although global adjustments in the IT-related sectors seem to have almost completed (Chart 7[1]).

Real imports have been on an increasing trend, partly due to the progress in the international division of labor between Japan and the emerging market economies, such as China, while domestic demand has been steady (Charts 4[1] and 10). In July alone, however, imports recorded a slight decrease compared to the second quarter, since imports of consumer goods (automobiles from the EU) declined as a reaction to the surge in the previous quarter, and since those of raw materials also continued to decline. Meanwhile, imports of capital goods and parts (machinery and aircrafts), and IT-related goods (electronic parts and PCs) have continued a steady increase.

The surplus of net exports has been more or less flat in terms of the real trade balance (Chart 4[2]). On the other hand, the surplus of the nominal balance on goods and services has recently narrowed, due to the rise in import prices of crude oil.

Growth in exports is expected to accelerate gradually, since overseas economies are likely to continue expanding, particularly in the United States and East Asia (Chart 9[2]), and also since adjustments in the IT-related sectors seemed to have almost completed. Looking at overseas economies—an important export condition—steady economic expansion is generally expected to continue in many regions, although the impact of the surge in crude oil prices requires close attention. The U.S. economy is expected to continue expanding at a pace close to its potential growth rate, as private consumption and business fixed investment continue to increase and employment has also been improving. As for the Chinese economy, the high economic growth is expected to continue overall. In this light, adjustment pressures, such as the restraint on inventory, are expected to diminish over time. However, the exact timing of a more visible increase in exports and the pace of its growth when it occurs are quite uncertain, since the degree of adjustment pressures in China is difficult to assess. Also, the pace of increase in global IT-related demand is projected to remain moderate, even after adjustments are completed. Exports are therefore unlikely to resume 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 continued to increase. On a GDP basis, fixed investment recorded a firm increase in the second quarter, following the first quarter (Chart 2). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms recorded a significantly high increase in the second quarter (Chart 11[1]). By industry and size (Chart 12), investment by large manufacturing firms has continued a steady increase, and investment by large nonmanufacturing firms has also followed a moderate uptrend. Meanwhile, investment by small and medium-sized firms in manufacturing has registered a solid increase, after having been flat at one time. Investment by small and medium-sized firms in nonmanufacturing increased significantly in the second quarter, although the basic trend is unclear due to large fluctuations. Looking at monthly figures, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—decreased slightly in July, mainly in flat-panel display manufacturing equipment, after having posted a relatively high increase in the second quarter. With the fluctuations smoothed out, however, they have been on an increasing trend (Chart 13-1[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—continued their uptrend, mainly in manufacturing, such as a notable increase in orders from iron and steel, electrical machinery, and chemicals in the second quarter (Chart 13-2[1]). Forecast figures for the third quarter show that orders are projected to continue an uptrend as a whole, despite the drop in manufacturing as a reaction. Moreover, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued their solid increase, with the fluctuations smoothed out (Chart 13-2[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales is on a rising trend in large firms, and it remained high in small and medium-sized firms on the whole (Chart 11[2]).

Business fixed investment is expected to continue increasing, since increases in both domestic and external demand, as well as high corporate profits, are projected to continue.

Private consumption has been steady. On a GDP basis, private consumption continued a solid increase in the second quarter, after having posted relatively high growth in the first quarter (Chart 2). With regard to individual indicators, many have shown declines since July as a reaction, after having been strong on the whole until the second quarter (Chart 14[1], 14[2]). The number of new passenger-car registrations declined in July-August compared to the second quarter, after having registered high growth in the second quarter, which was fueled by the effects of new model automobiles, mainly of small passenger cars. Sales at department stores remained solid in July, mainly supported by the favorable sales of apparel, bolstered particularly by the effects of the “cool biz” dress code. Compared to the relatively high growth in the second quarter, however, sales dropped marginally as a reaction. Meanwhile, supermarket sales continued to be somewhat weak. Sales at convenience stores declined in July, but have basically been on a moderate uptrend. Meanwhile, sales of household electrical appliances (NEBA statistics, in real terms) have basically continued increasing steadily, including flat panel TVs and PCs, as well as high value-added white goods (such as washing machines), although sales of air-conditioners were somewhat weak in July, mainly because of weather factors. As for services consumption, sales in the food service industry have followed an increasing trend, albeit with some fluctuations. Outlays for travel have also been on an uptrend. Recently, in particular, domestic travel has been strong.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,³ declined in July as a reaction after having been relatively strong until June (Chart 14-3). The aggregate supply of consumer

³ 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 July 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 July were at the same level as in June.

goods—which comprehensively captures producers’ supply of goods—was somewhat weak in July (Chart 14-4). 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 significantly in July compared to the second quarter, reflecting the notable weaknesses in various categories, particularly expenditure for automobile purchases (Chart 14-1[1]). However, this decline appears to be affected largely by statistical fluctuations caused by sample factors.

Indicators for consumer sentiment continued to be favorable on the whole (Chart 15).

Private consumption is projected to continue recovering steadily, against the background of a gradual increase in household income.

As for housing investment, housing starts increased; they recorded more than 1.3 million units (annual rates) in July, a high level, particularly in housing for sale and housing for rent. However, the basic trend remained more or less flat (Chart 16[1]). Housing investment is considered unlikely to show any significant change in the near future.

Industrial production has been on an uptrend with some fluctuations; it rose by 1.7 percent in the first quarter, decreased by 0.4 percent in the second quarter on a quarter-on-quarter basis, and decreased by 1.0 percent in July compared to the second quarter (Chart 17). Production in July declined marginally compared to the second quarter, mainly reflecting the fall in general machinery and transport equipment. However, figures since the second quarter have partly been dampened by some apparent statistical fluctuations, including those of steel ships. Furthermore, the forecast indices for August and September suggest a pickup in production in the third quarter, mainly in electronic parts and devices. With the fluctuations smoothed out, production has been on an increasing trend.⁴

⁴ The forecast for production in the third quarter, calculated based on the production forecast index for August and September (both increased by 2.3 percent compared to the previous month), is an increase of 1.3 percent on a quarter-on-quarter basis. Also, according to anecdotal

Shipments decreased slightly in July after having increased in the first and second quarters. By goods (Chart 18), shipments of capital goods have been on an increasing trend, albeit with fluctuations, and those of consumer goods have been steady on the whole, although those of durable consumer goods (automobiles and air-conditioners) have recently been somewhat subdued. Meanwhile, shipments of producer goods have been more or less flat, although the adjustments in IT-related sectors have almost completed.

Meanwhile, inventories have recently been flat at a level slightly higher than that at the end of last year, although they remain low from a long-term perspective (Chart 17[1]).⁵ The chart of the inventory cycle (Chart 19) shows that the inventory level of capital goods fell to around the previous year's level. Also, the increases in inventories and shipments of electronic parts and devices have recently been almost in balance. Thus, inventory adjustments are considered to have almost completed. With regard to durable consumer goods, the decline in shipments and the rise in inventories have been rather pronounced. This is because shipments of automobiles both for exports and for the domestic market fell in July, and also because the inventory level in the same month last year was low. Meanwhile, the year-on-year growth rate in inventories of "producer goods excluding electronic parts and devices" has accelerated slightly, mainly in iron and steel, and chemicals. Although this partly reflects intended accumulation ahead of sales of new products (cosmetics), it is basically attributable to the somewhat loose supply-demand conditions both at home and abroad, particularly in iron and steel. As such, inventories are currently in a moderate adjustment phase on the whole. However, considering that the supply-demand adjustments in China seem to have peaked, and that the domestic iron and steel market shows signs of bottoming out, the inventory balance is expected to improve in the near future.

information, production in the third quarter is projected to increase, particularly due to the completion of inventory adjustments in electrical parts and devices.

⁵ When assessing the developments in July on the chart of the inventory cycle, the following require attention: first, the year-on-year figures for shipments have been depressed by calendar factors (one extra holiday compared to last year), and second, the year-on-year figures for inventories have come out to be relatively high, since the figures were low in the same month in the previous year. In July, therefore, the movement toward the upper left of the chart of the inventory cycle was possibly more pronounced than the actual level.

As for the outlook, 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 continue its uptrend. Nevertheless, the pace of increase in final demand in IT-related sectors and the exact timing of a more visible increase in exports require close monitoring.

As for the employment and income situations, household income has been rising moderately, as various indicators for labor market conditions have been improving (Chart 20).

In the labor market, overtime hours worked remained high, although they have recently remained more or less flat (Chart 21-2[3]). The number of new job offers continued to increase on a year-on-year basis, particularly in the services industry, including temporary employment services and similar businesses, as well as the construction, and wholesale and retail industries, although the growth rate has been on a slowing trend (Charts 21-1[2] and [3]).⁶ Under these circumstances, the ratio of job offers to applicants has been on a moderate uptrend, and the unemployment rate has followed a gradual downtrend (Chart 21-1[1]).

In terms of employment, the number of employees in the *Labour Force Survey* has followed an increasing trend on a year-on-year basis, mainly in the services industry, despite some fluctuations. Also, the number of regular employees in the *Monthly Labour Survey* continued to increase steadily (Chart 21-2[1]). Looking at the number of regular employees in detail, while the rise in full-time employees has accelerated on a year-on-year basis, growth in the number of part-time employees has peaked after April this year when the recruitment of new graduates increased. Consequently, the ratio of part-time workers has recently been recording slightly negative growth on a year-on-year basis (Chart 21-2[2]).⁷

⁶ The relatively large drop in the year-on-year growth rate in July seems to have been affected by the aforementioned calendar factor (one extra holiday compared to last year).

⁷ While part-time workers have started to decrease, dispatched workers seem to continue increasing. Thus, the expansion of non-regular employment in a broad sense is considered to be ongoing.

Regarding wages on a year-on-year basis (Chart 20[2]), regular payments have been increasing extremely gradually, supported by the rise in wages of full-time employees, as the ratio of part-time workers ceased to exert downward pressure. Also, special payments in June-July (preliminary figures for July), which comprise over ninety percent of summer bonuses, recorded a high growth of 3.7 percent on a year-on-year basis.⁸ As a result, nominal wages per worker have recently increased rather notably.

As for the outlook, household income is expected to continue increasing gradually, since the perception among firms that they have excess labor has dissipated, and corporate profits remain high.

2. Prices

Import prices (on a yen basis, same hereafter, compared to levels three months before) have continued to increase against the background of the rise in international commodity prices, although the rate of growth has slowed as the effect of the significant rise in April has dissipated (Chart 23).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter, compared to levels three months before)⁹ have continued to increase, although the rate of growth has slowed since the effect of the significant rise in April has dissipated, as seen in import prices (Chart 24).¹⁰ In detail, prices of petroleum and coal products have continued to increase, reflecting the rise in crude oil prices. On the other hand, prices of iron and steel related products and of other materials (chemicals) have recently been more or less flat, mainly

⁸ According to the survey released by the *Nihon Keizai Shimbun, Inc.* (915 firms, among which 669 are manufacturing), summer bonuses this year rose 3.3 percent on a year-on-year basis.

⁹ 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 charges are set relatively high during July-September, when consumption increases substantially.

¹⁰ They declined slightly both in May and June when compared to the previous month. In July, they increased by 0.4 percent, which mainly reflects the rise in petroleum and coal products due to high crude oil prices.

because the effect of the surge in April has dissipated. Meanwhile, the rate of decline in prices of machinery has been on a moderate narrowing trend, reflecting the progress of adjustments in IT-related sectors. By stage of demand, intermediate goods prices have continued on an uptrend, despite some fluctuations. On the other hand, final goods prices have been virtually flat, as the moderate declines in prices of capital goods and durable consumer goods have been more or less offset by the rise in prices of non-durable consumer goods (gasoline).

The year-on-year rate of decline in corporate services prices (excluding external factors; same hereafter) has been on a gradual diminishing trend (Chart 25).¹¹ In July, however, the rate of decline accelerated slightly on the whole, reflecting the fall in prices of advertising services (a reaction to the Athens Olympics-driven factor last year), and the fall in prices of information services (a reaction to the temporary rise recorded last year). Prices of other services, however, have almost stopped declining, particularly due to the rise in prices of temporary employment agency services.

Consumer prices (excluding fresh food, same hereafter) have been declining slightly on a year-on-year basis, partly due to the reduction in electricity and telephone charges (Chart 26). In July, consumer prices decreased by 0.2 percent on a year-on-year basis, as they did in June.

As for the outlook, domestic corporate goods prices are expected to continue increasing, mainly due to high crude oil prices. The year-on-year rate of change in consumer prices is projected to be 0.0 percent or a slight increase toward the end of the year. This is because the negative contribution of rice prices is likely to dissipate and the effects from the reduction in electricity and telephone charges are expected to ease, in a situation where supply and demand conditions continue improving gradually.

¹¹ “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.

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 remain basically unchanged (Chart 28[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 27 [2]) rose, reflecting an improvement in business sentiment in view of domestic economic indicators and the rise in stock prices. They later decreased, mainly due to the decline in U.S. interest rates. They have recently been moving at the 1.30-1.35 percent level.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 32 and 33) have been more or less flat.

Stock prices (Chart 34) rose, reflecting heightened expectations for an economic recovery in view of domestic economic indicators. The Nikkei 225 Stock Average is moving at around 12,500 yen.

In the foreign exchange market (Chart 35), the yen rose as expectations for a recovery in the domestic economy grew, and as the U.S. dollar was sold, mainly against the background of weaker-than-forecasted U.S. economic indicators. The yen is being traded in the range of 109-112 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

The pace of decline in credit demand in the private sector is becoming somewhat moderate as the economy continues to recover, 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 also been improving (Chart 36).

Lending rates have recently edged somewhat lower. The average contracted interest rates on new loans and discounts, with the monthly fluctuations averaged, have been declining slightly (Chart 37).

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹²) is around the previous year's level. (The year-on-year change was -0.3 percent in June, -0.1 percent in July, and 0.2 percent in August; Chart 38.)

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 stable at low levels. CP issuance rates continue to be at low levels. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. (The year-on-year change was 1.3 percent in June, 1.7 percent in July, and 2.5 percent in August; Chart 40.)

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

The year-on-year growth rate of banknotes in circulation is around 3.0 percent. The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan) declined somewhat; it is currently around 1.0

¹² 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.

percent. (The year-on-year change was 1.7 percent in June, 1.5 percent in July, and 1.1 percent in August; Chart 41.)

The year-on-year growth rate of the money stock (M_2 + CDs) has been at the 1.0-2.0 percent level. (The year-on-year change was 1.6 percent in June, 1.7 percent in July, and 1.7 percent in August; Chart 42.)

The number of corporate bankruptcies declined by 8.8 percent year-on-year in July, to 1,024 cases (Chart 43).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2004/Q4	2005/Q1	Q2	2005/May	Jun.	Jul.	Aug.
Index of living expenditure level (all households)	-1.8	2.7	0.4	0.9	-0.9	-4.3	n.a.
Sales at department stores	-0.6	0.2	1.0	-0.1	1.4	p -1.6	n.a.
Sales at supermarkets	-1.1	-0.5	-1.2	-0.4	0.4	p -1.0	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 344>	< 342>	< 362>	< 348>	< 360>	< 329>	< 323>
Sales of household electrical appliances (real, NEBA)	4.3	3.4	4.9	2.2	2.4	-2.0	n.a.
Outlays for travel (50 major travel agencies)	-0.6	3.6	0.8	-1.6	2.6	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 117>	< 121>	< 119>	< 121>	< 122>	< 133>	<n.a.>
Machinery orders (from private sector ⁴)	5.7	0.8	0.8	-6.7	11.1	n.a.	n.a.
Manufacturing	5.3	0.8	7.5	-20.6	14.9	n.a.	n.a.
Nonmanufacturing ⁴	6.5	0.3	-1.9	1.5	8.0	n.a.	n.a.
Construction Starts (private, nondwelling use)	-5.3	11.4	-0.5	-0.2	6.5	-11.1	n.a.
Mining & manufacturing	5.3	8.8	27.8	-24.5	-16.0	-4.2	n.a.
Nonmanufacturing ⁵	-9.1	12.6	-8.5	7.9	17.5	-14.0	n.a.
Value of public works contracted	-7.4	0.5	1.9	5.6	3.0	-10.7	n.a.
Real exports	0.5	0.7	1.5	0.8	0.7	0.1	n.a.
Real imports	2.1	0.4	2.1	1.3	0.9	-1.4	n.a.
Industrial production	-0.9	1.7	-0.4	-2.8	1.6	p -1.1	n.a.
Shipments	-0.9	0.4	1.0	-3.0	2.3	p -1.2	n.a.
Inventories	-2.2	3.1	-0.1	0.1	-0.2	p 0.4	n.a.
Inventory Ratio <s.a., CY 2000=100>	<94.9>	<98.4>	<96.2>	<100.2>	<96.2>	<p 102.7>	<n.a.>
Real GDP	0.1	1.3	0.3	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.2	1.4	0.3	-1.5	1.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2004/Q4	2005/Q1	Q2	2005/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	<0.90>	<0.91>	<0.94>	<0.94>	<0.96>	<0.97>	<n.a.>
Unemployment rate <s.a., %>	<4.6>	<4.6>	<4.3>	<4.4>	<4.2>	<4.4>	<n.a.>
Overtime working hours ⁶	1.6	0.4	1.6	1.0	2.1	p 0.0	n.a.
Number of employees	0.1	0.0	0.7	0.8	0.8	0.5	n.a.
Number of regular employees ⁶	0.7	0.6	0.5	0.5	0.6	p 0.5	n.a.
Nominal wages per person ⁶	0.0	0.0	1.0	0.6	1.5	p 1.7	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	2.0 <0.4>	1.4 <-0.1>	1.7 <-0.8>	1.8 <-0.9>	1.4 <-0.5>	p 1.5 <p 0.2>	n.a. <n.a.>
Consumer price index ⁸	-0.2	-0.4	-0.1	0.0	-0.2	-0.2	n.a.
Corporate service price index	-0.3	-0.7	-0.5	-0.5	-0.5	p -0.7	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	2.0	2.0	1.7	1.5	1.6	1.7	p 1.7
Number of corporate bankruptcies <cases>	<1,099>	<1,059>	<1,075>	<1,072>	<1,207>	<1,024>	<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.

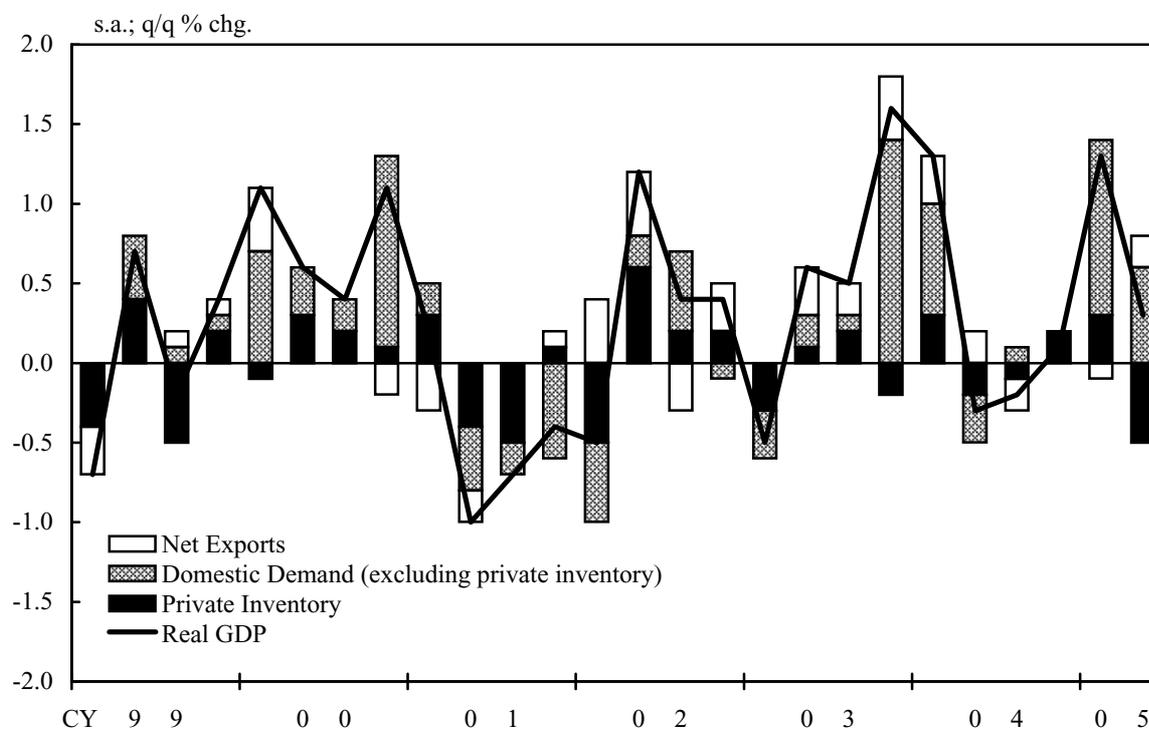
All figures in chart 1-2 except figures in angle brackets are year on year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of respective charts.

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.

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," "Money Stock";
 Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."

Real GDP

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



(2) Components

s.a.; q/q % chg.

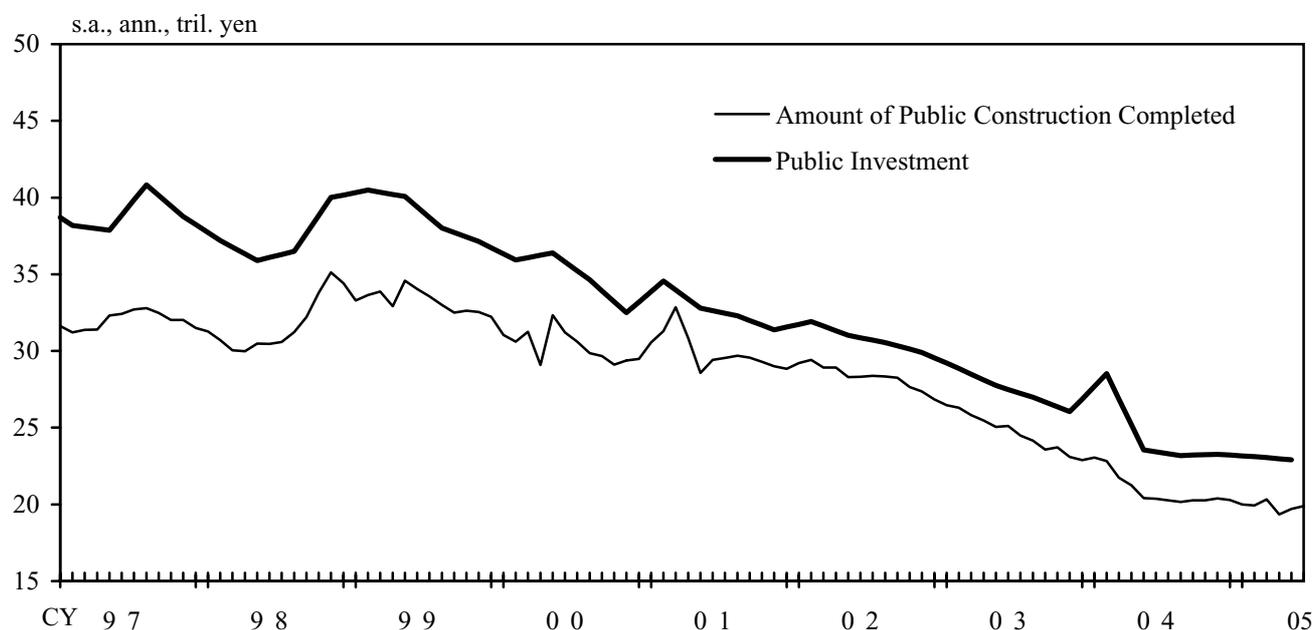
	2004			2005	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.3	-0.2	0.1	1.3	0.3
Domestic Demand	-0.5	-0.0	0.2	1.4	0.1
Private Consumption	-0.1	-0.0	-0.3	1.2	0.7
Non-Resi. Investment	3.2	0.1	0.2	2.7	2.2
Residential Investment	1.3	0.7	0.6	-1.3	-2.3
Private Inventory	(-0.2)	(-0.1)	(0.2)	(0.3)	(-0.5)
Public Demand	-3.5	-0.1	0.5	0.4	-0.4
Public Investment	-17.2	-1.8	-0.2	-0.4	-1.3
Net Exports of goods and services	(0.2)	(-0.2)	(-0.0)	(-0.1)	(0.2)
Exports	3.0	0.6	1.5	-0.1	2.8
Imports	1.9	2.3	2.1	0.7	1.6
Nominal GDP	-0.6	-0.1	0.2	0.6	0.0

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

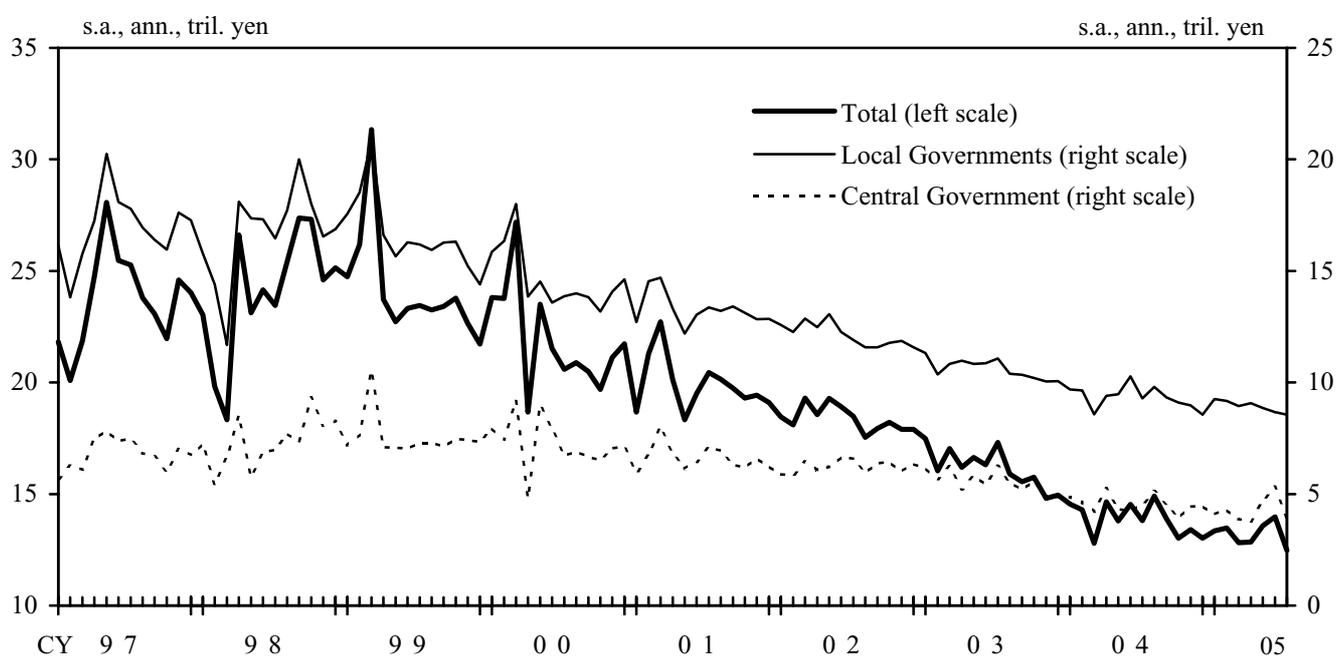
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted

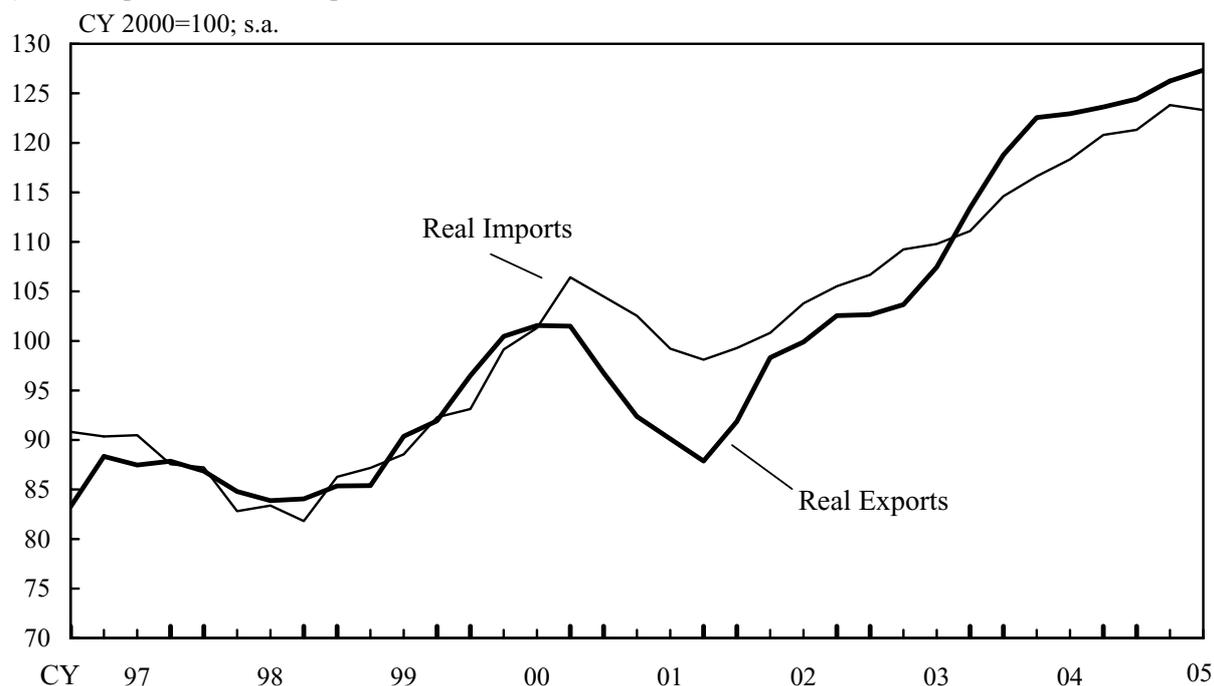


- Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.
2. Amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works." The figures until March 2000 are retroactively calculated with year-to-year 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.

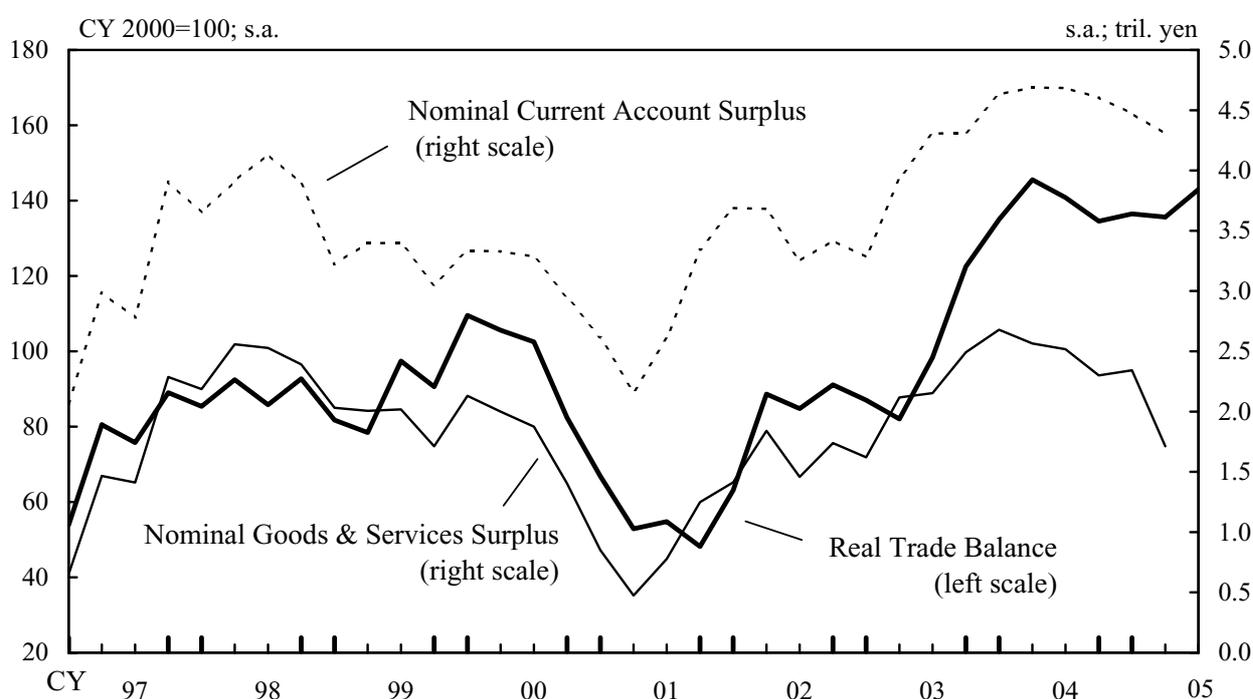
Sources: Cabinet Office, "National Accounts";
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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. 2005/Q3 figures are Jul. figures 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 2003	2004	2004 Q3	Q4	2005 Q1	Q2	Q3	2005 May	Jun.	Jul.
United States	<22.4>	-5.5	6.8	0.3	2.3	2.0	1.4	-1.0	5.2	-0.8	-2.1
EU	<15.5>	14.9	18.7	2.1	2.0	-0.7	0.2	-0.3	-3.2	-3.6	3.4
East Asia	<46.9>	20.4	19.1	0.7	-0.5	3.2	-0.0	2.0	0.8	-0.8	2.3
China	<13.1>	42.0	22.2	-0.2	2.8	1.3	-1.6	9.0	4.9	-0.2	7.5
NIEs	<24.7>	16.2	20.4	0.9	-2.8	4.4	0.6	-1.6	0.7	-1.5	-0.8
Korea	<7.8>	19.2	19.1	-1.4	-6.9	7.9	-1.4	1.5	0.6	0.2	1.2
Taiwan	<7.4>	16.8	26.9	6.8	-1.7	3.2	3.1	-5.4	-0.3	-7.4	-0.2
ASEAN4 ³	<9.1>	9.6	12.3	1.1	1.2	2.8	0.5	1.9	-4.0	0.3	3.1
Thailand	<3.6>	19.0	16.8	0.9	5.6	5.2	-0.4	-1.5	-3.7	3.5	-2.5
Real exports		8.9	14.5	0.3	0.5	0.7	1.5	0.9	0.8	0.7	0.1

(2) Breakdown by goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 2003	2004	2004 Q3	Q4	2005 Q1	Q2	Q3	2005 May	Jun.	Jul.
Intermediate goods	<16.3>	5.6	5.5	-1.6	-0.0	1.5	0.7	-0.3	2.9	-0.9	-0.6
Motor vehicles and their related goods	<22.4>	1.3	8.3	0.6	1.2	1.7	4.3	-2.8	4.9	1.2	-5.0
Consumer goods ⁴	<6.0>	16.2	14.9	-3.5	4.5	-2.0	3.2	2.7	-2.5	-4.8	7.1
IT-related goods ⁵	<13.7>	13.2	17.3	-0.4	-0.6	2.2	0.3	0.4	4.6	-1.4	-0.2
Capital goods and parts ⁶	<30.0>	18.8	23.5	1.8	0.3	1.3	1.2	0.8	0.3	1.6	-0.3
Real exports		8.9	14.5	0.3	0.5	0.7	1.5	0.9	0.8	0.7	0.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2005/Q3 figures are Jul. figures converted into quarterly amount.

2. Shares of each region and goods in 2004 are shown in angle brackets.

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

4. Excludes motor vehicles.

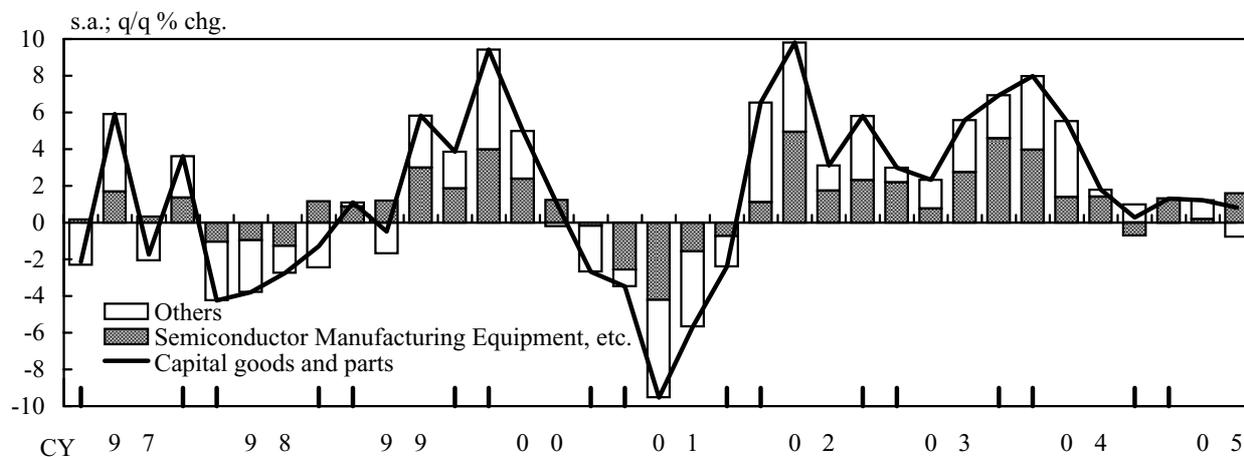
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

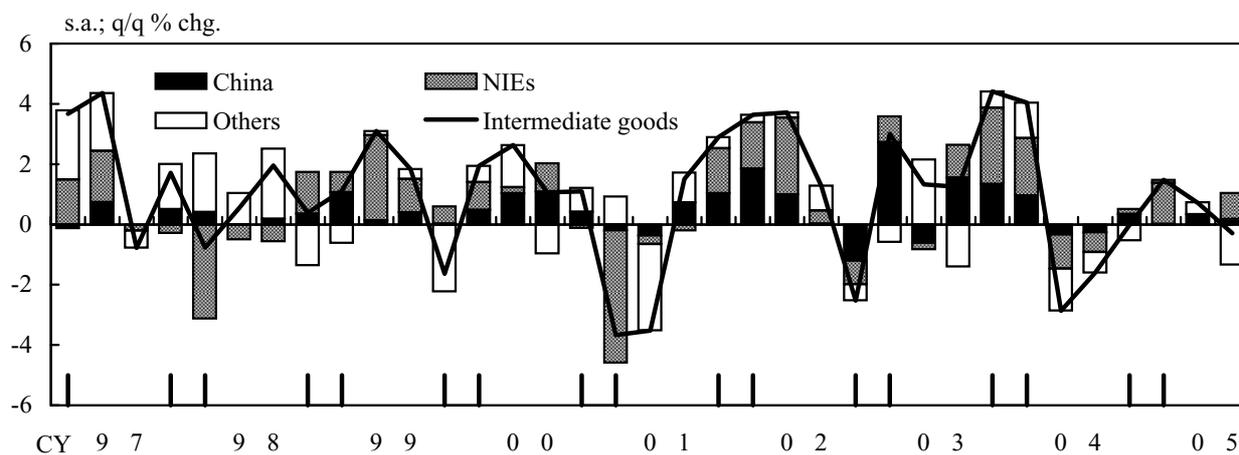
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports breakdown by goods

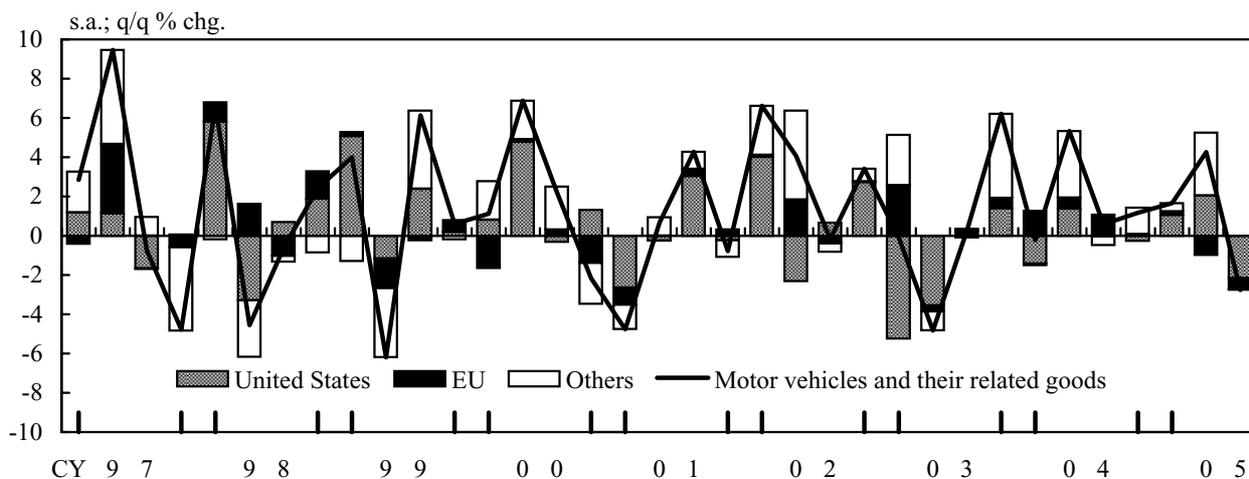
(1) Capital goods and parts (real, breakdown by goods)



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



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



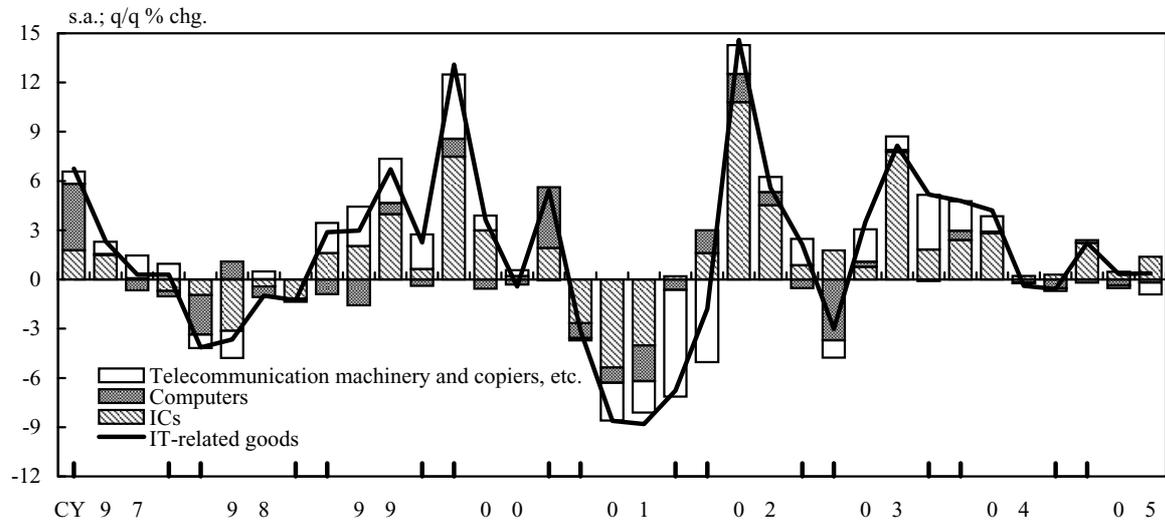
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2005/Q3 figures are Jul. figures converted into quarterly amount.

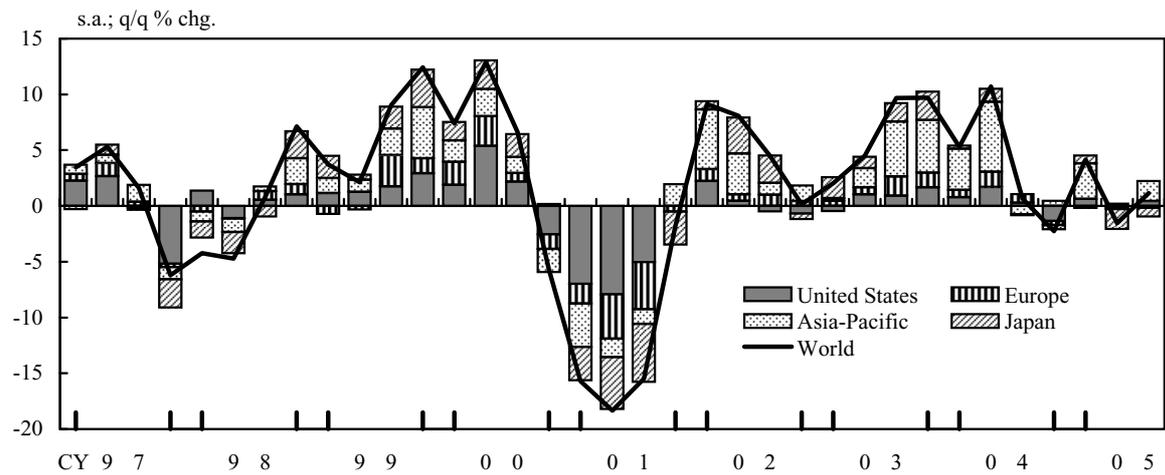
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

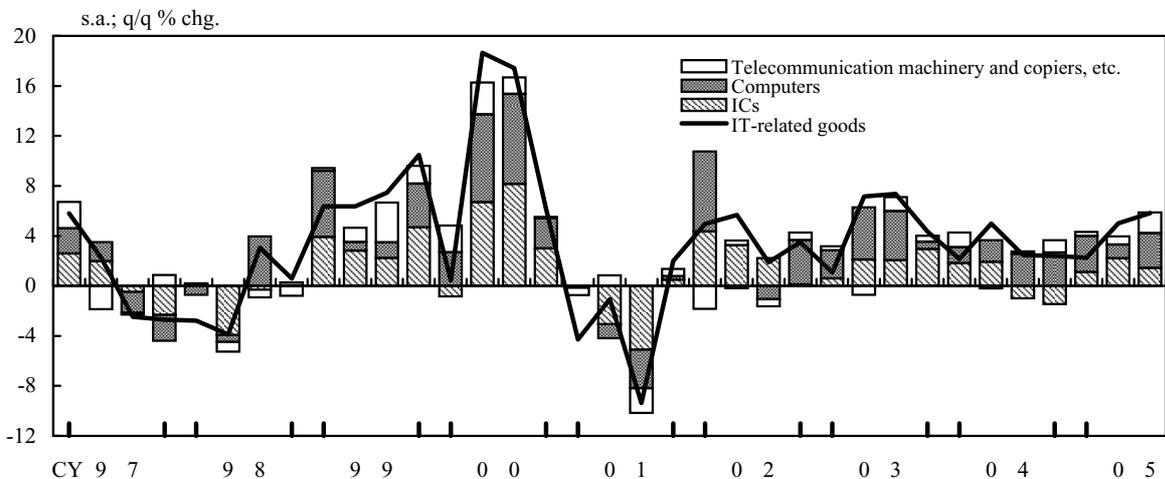
(1) Exports of IT-related goods (real, breakdown by goods)



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



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

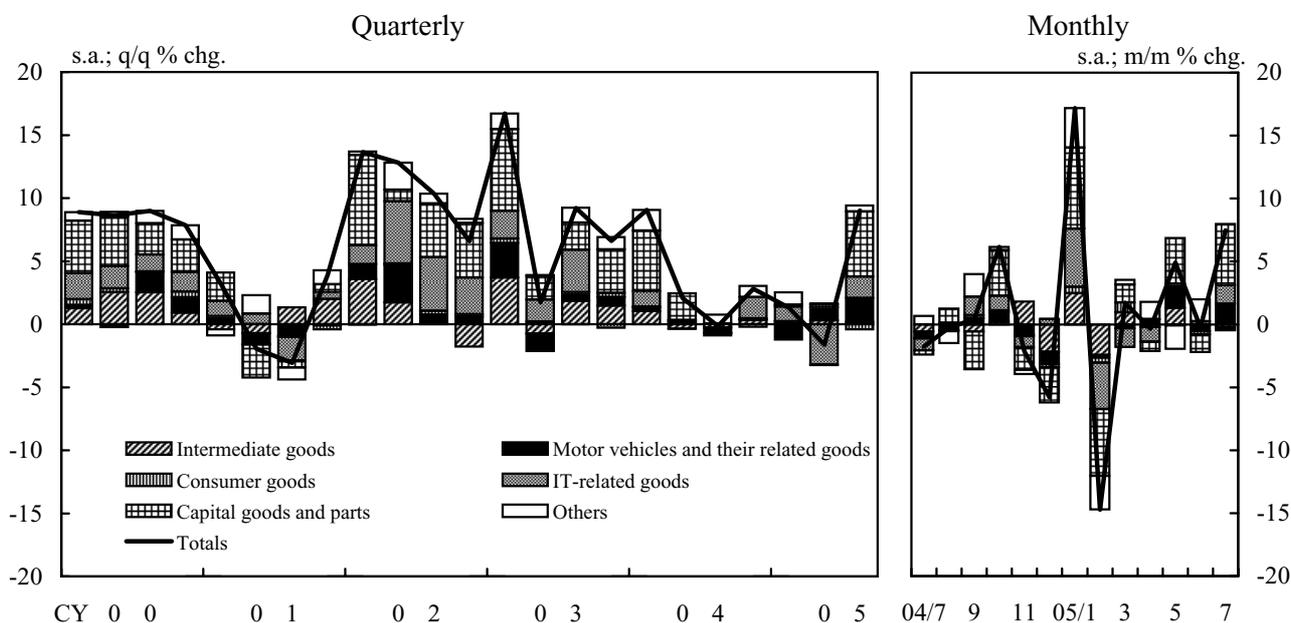


- Notes: 1. Seasonally adjusted by X-12-ARIMA in (1) and (3).
- 2. Seasonally adjusted by X-11 in (2).
- 3. 2005/Q3 figures are Jul. figures converted into quarterly amount.

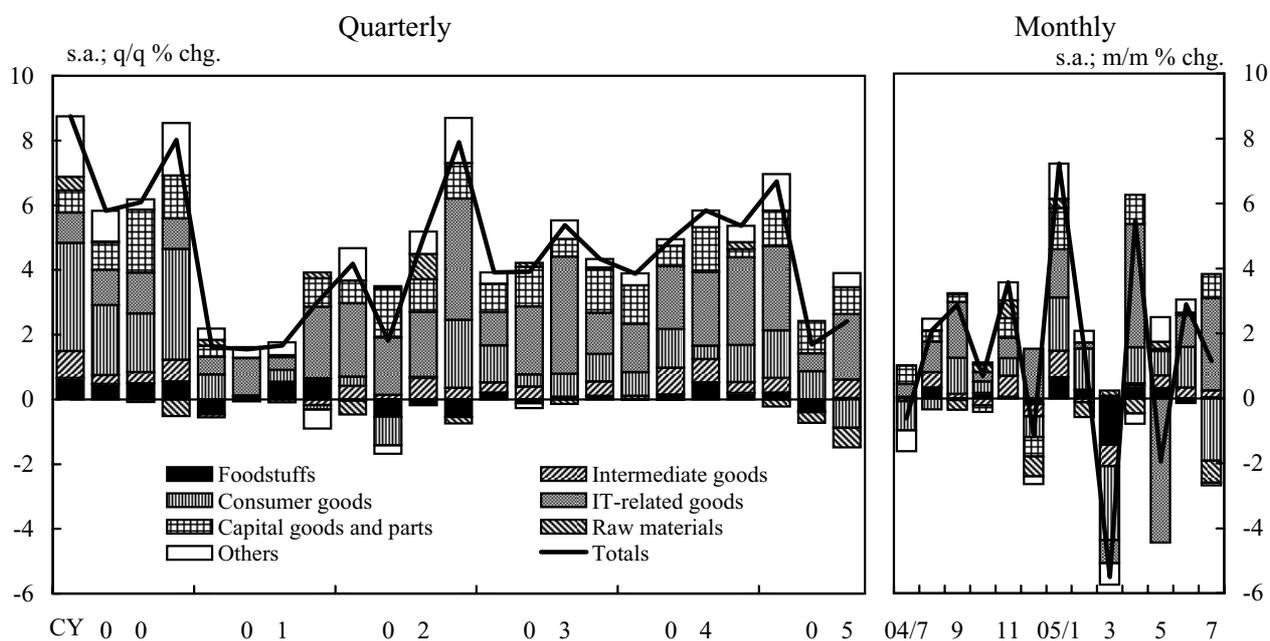
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
 Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics.)

Exports and Imports with China

(1) Exports to China (real, breakdown by goods)



(2) Imports from China (real, breakdown by goods)



Notes: 1. Regarding classifications of each goods, see notes of chart 5 and 10.

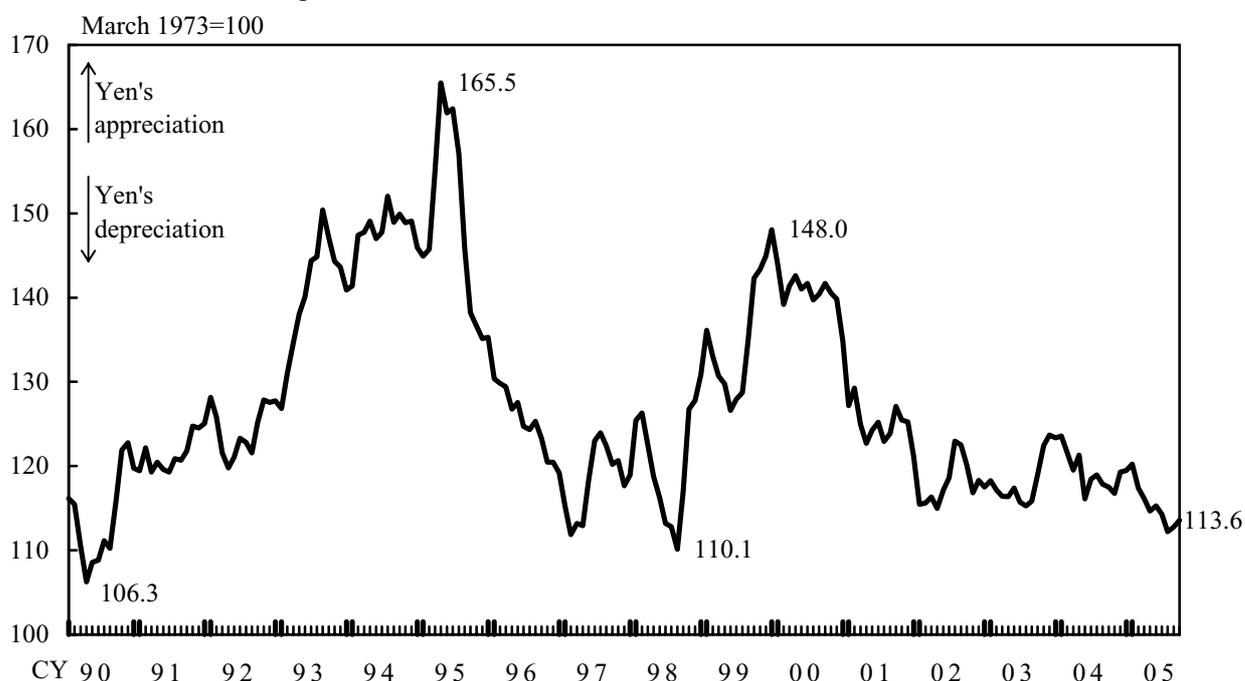
2. Seasonally adjusted by X-12-ARIMA.

3. 2005/Q3 figures are Jul. figures converted into quarterly amount.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for September 2005 is the average up to September 7.
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 Q3	Q4	2005 Q1	Q2	
United States ¹		1.6	2.7	4.2	4.0	3.3	3.8	3.3	
European Union ¹		1.1	1.1	2.1	1.2	1.0	1.5	1.3	
	Germany	0.1	-0.2	1.6	-0.3	-0.3	3.0	0.0	
	France	1.3	0.9	2.1	0.3	2.6	1.6	0.5	
	United Kingdom	2.0	2.5	3.2	1.4	2.2	1.5	1.9	
East Asia ²	China	8.3	9.5	9.5	9.1	9.5	9.4	9.5	
	NIEs	Korea	7.0	3.1	4.6	4.7	3.3	2.7	3.3
		Taiwan	3.9	3.3	5.7	5.3	3.3	2.5	3.0
		Hong Kong	1.9	3.1	8.1	6.7	7.2	6.2	6.8
		Singapore	3.2	1.4	8.4	7.2	6.5	2.7	5.2
	ASEAN4	Thailand	5.3	6.9	6.1	6.1	5.3	3.3	4.4
		Indonesia	4.4	4.9	5.1	5.1	6.7	6.2	5.5
		Malaysia	4.4	5.4	7.1	6.7	5.8	5.8	4.1
Philippines		4.3	4.6	6.0	6.2	5.3	4.6	4.8	

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.

Real Imports ¹

(1) Breakdown by region

		y/y % chg.		2004			2005			2005		
		CY 2003	2004	Q3	Q4	Q1	Q2	Q3	May	Jun.	Jul.	
United States	<13.7>	-2.4	0.4	-1.3	2.0	-4.2	5.8	2.7	-4.5	9.1	-1.6	
EU	<12.6>	5.6	9.6	-0.5	2.1	-1.3	5.3	-3.9	-4.1	-6.5	2.0	
East Asia	<43.1>	14.2	14.7	4.1	1.7	4.7	0.4	1.6	-0.5	0.9	1.2	
China	<20.7>	21.3	20.9	5.8	5.4	6.7	1.7	2.4	-1.9	2.9	1.1	
NIEs	<10.2>	9.6	12.8	1.4	-2.1	3.9	1.4	3.7	1.0	-1.1	4.1	
Korea	<4.8>	13.0	14.5	-4.0	-2.3	5.1	3.3	-2.2	3.9	-1.1	-2.7	
Taiwan	<3.7>	6.9	12.0	4.5	-1.2	2.7	0.8	10.5	-2.8	0.4	11.3	
ASEAN4 ³	<12.1>	8.6	7.1	3.8	-0.9	1.8	-2.9	-1.7	0.9	-1.0	-1.3	
Thailand	<3.1>	11.0	14.3	4.0	3.9	5.1	0.0	0.7	3.4	-4.3	2.6	
Real imports		6.8	8.1	1.5	2.1	0.4	2.1	-0.4	1.3	0.9	-1.4	

(2) Breakdown by goods

		y/y % chg.		2004			2005			2005		
		CY 2003	2004	Q3	Q4	Q1	Q2	Q3	May	Jun.	Jul.	
Raw materials ⁴	<27.9>	5.9	1.3	2.5	1.7	-3.4	-3.1	-3.3	9.3	0.5	-6.4	
Intermediate goods	<14.1>	4.6	8.7	1.2	0.1	2.4	1.8	-1.5	-1.0	-2.4	0.5	
Foodstuffs	<10.8>	-4.2	0.4	-0.2	0.2	3.3	2.0	-4.5	4.5	-5.6	-2.1	
Consumer goods ⁵	<10.6>	8.0	12.5	-1.5	4.4	2.2	8.1	-7.6	0.4	0.5	-8.0	
IT-related goods ⁶	<13.6>	17.3	17.6	2.5	2.4	2.2	5.0	5.8	-8.4	6.2	4.8	
Capital goods and parts ⁷	<12.6>	14.5	17.4	2.9	5.6	-1.4	6.2	11.2	-0.7	3.8	8.7	
excluding aircraft	<11.7>	14.6	19.2	4.3	1.1	2.0	6.8	4.0	3.5	0.0	2.8	
Real imports		6.8	8.1	1.5	2.1	0.4	2.1	-0.4	1.3	0.9	-1.4	

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

2. Shares of each region and goods in 2004 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. Excludes foodstuffs.

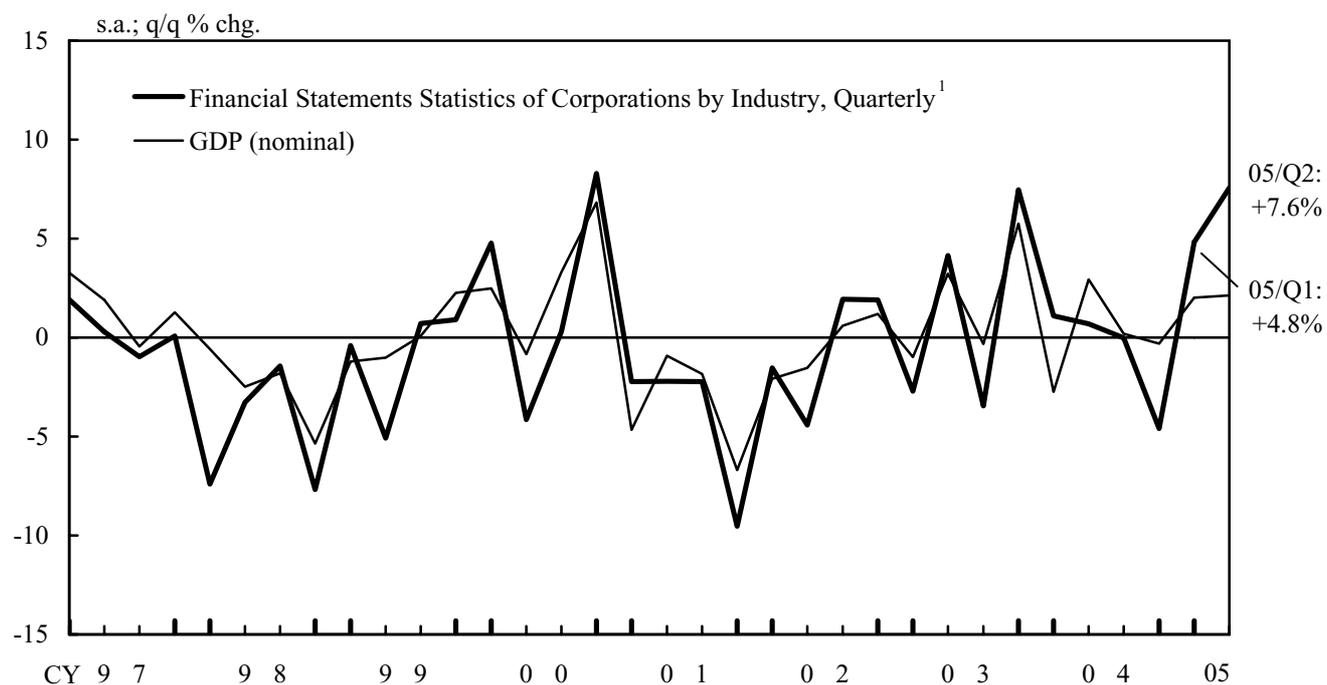
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

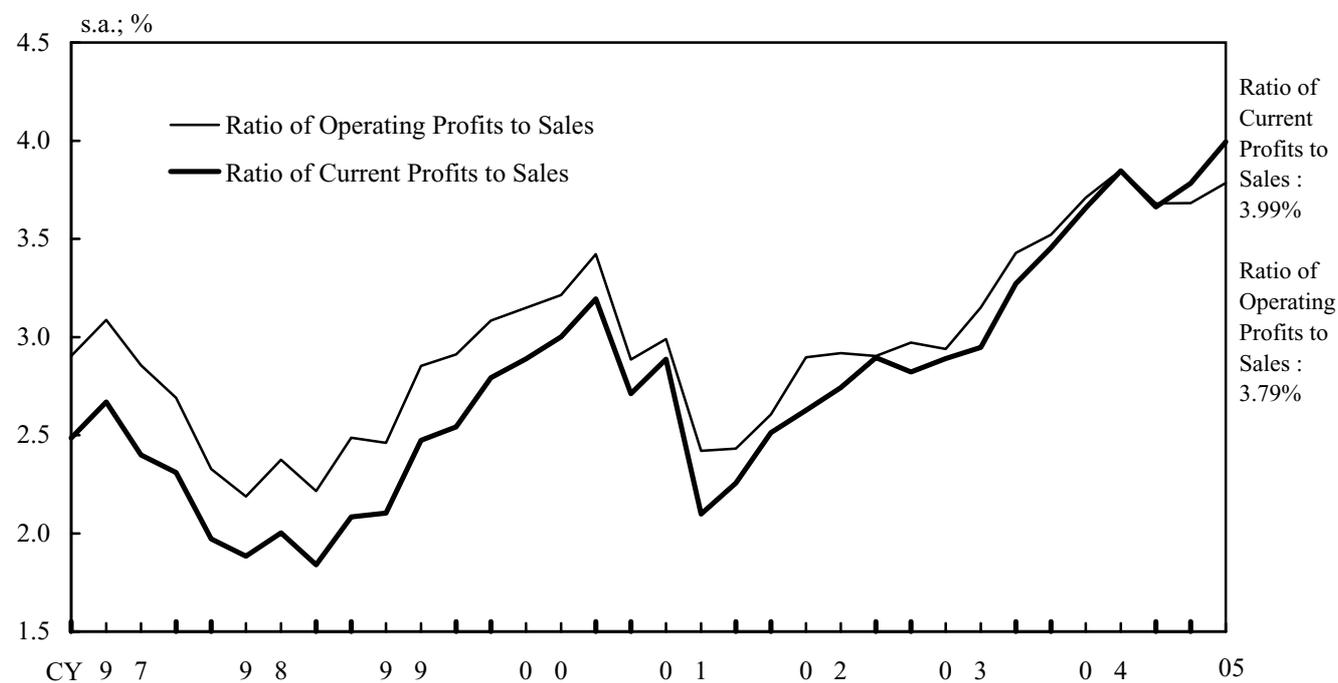
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Fixed Investment



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



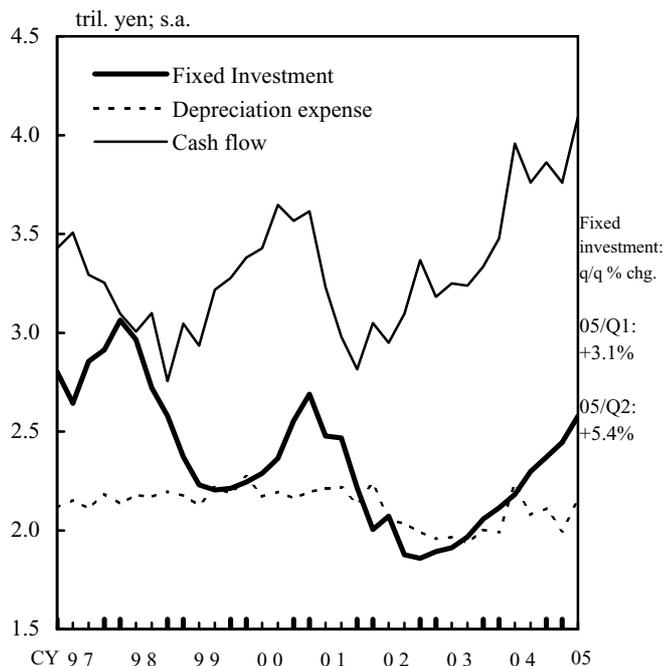
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. 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.

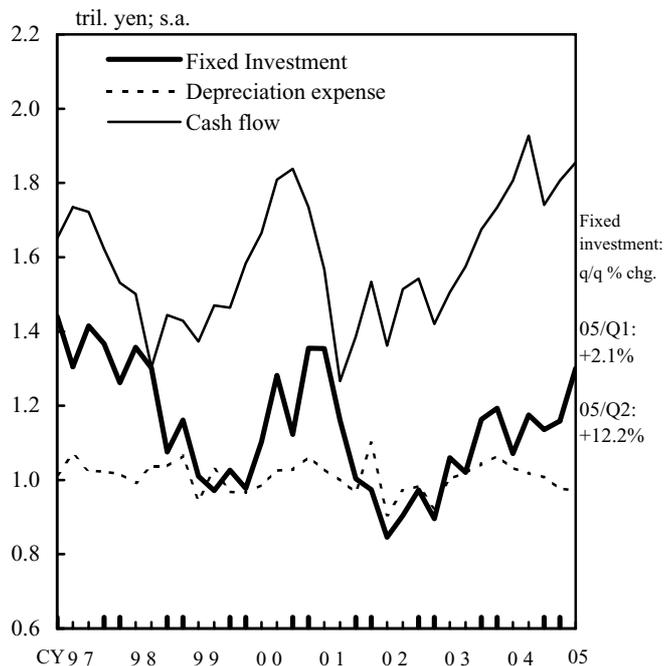
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment

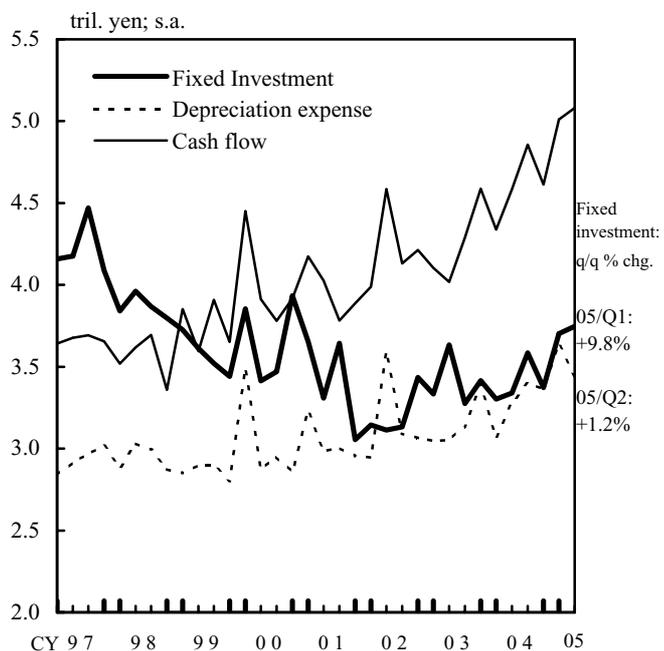
(1) Large manufacturing firms



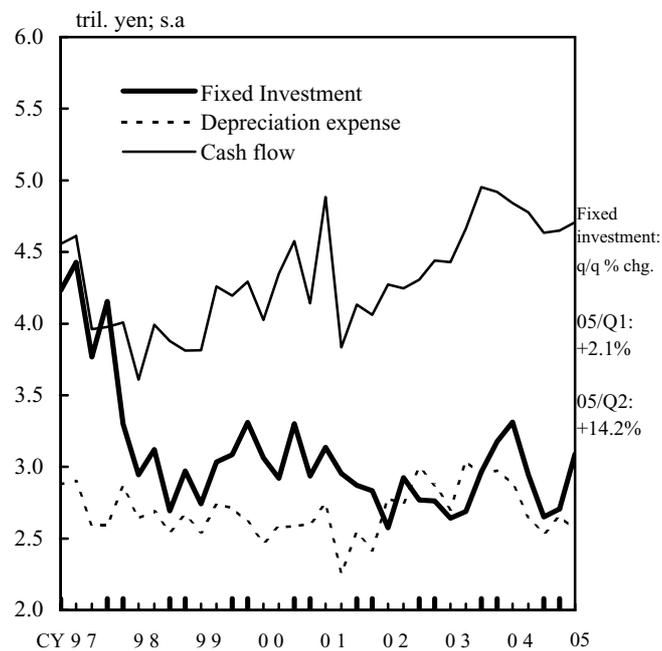
(2) Medium-sized and small manufacturing firms



(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 (see in chart 11 Note 1).

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-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

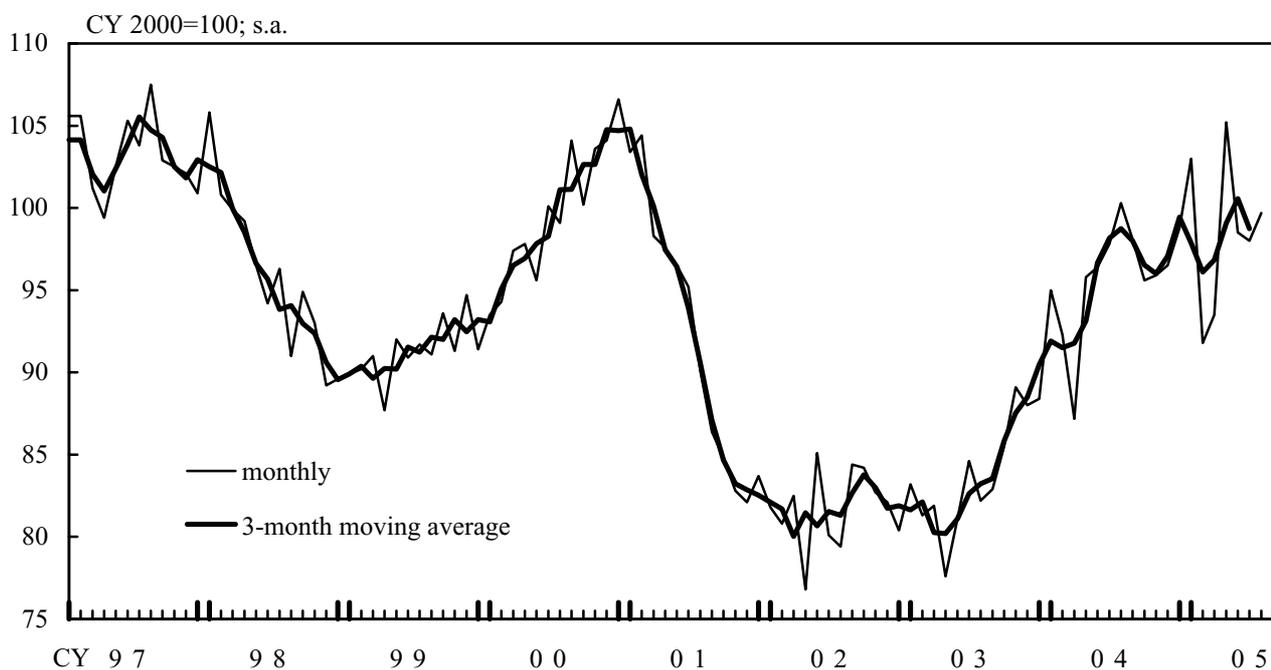
5. Cash Flow = Current profits / 2 + Depreciation expense

6. Seasonally adjusted by X-11.

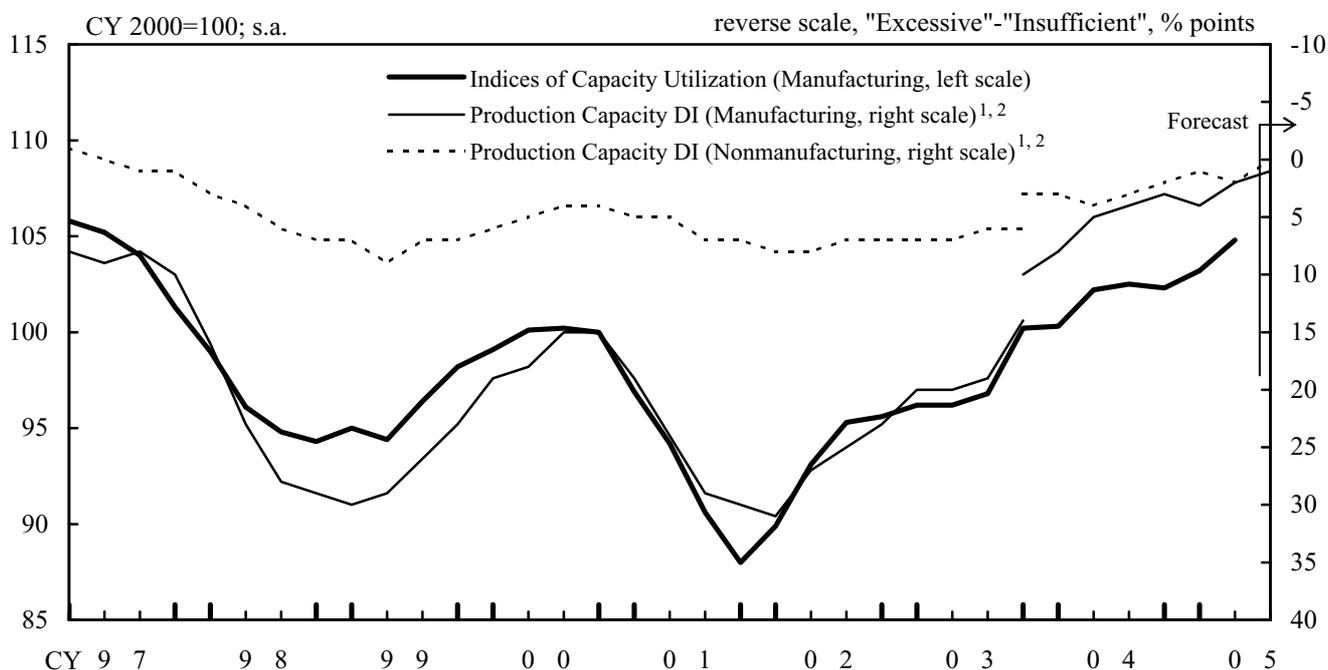
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Indicators for Business Fixed Investment (1)

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



(2) Indices of Capacity Utilization and Production Capacity DI



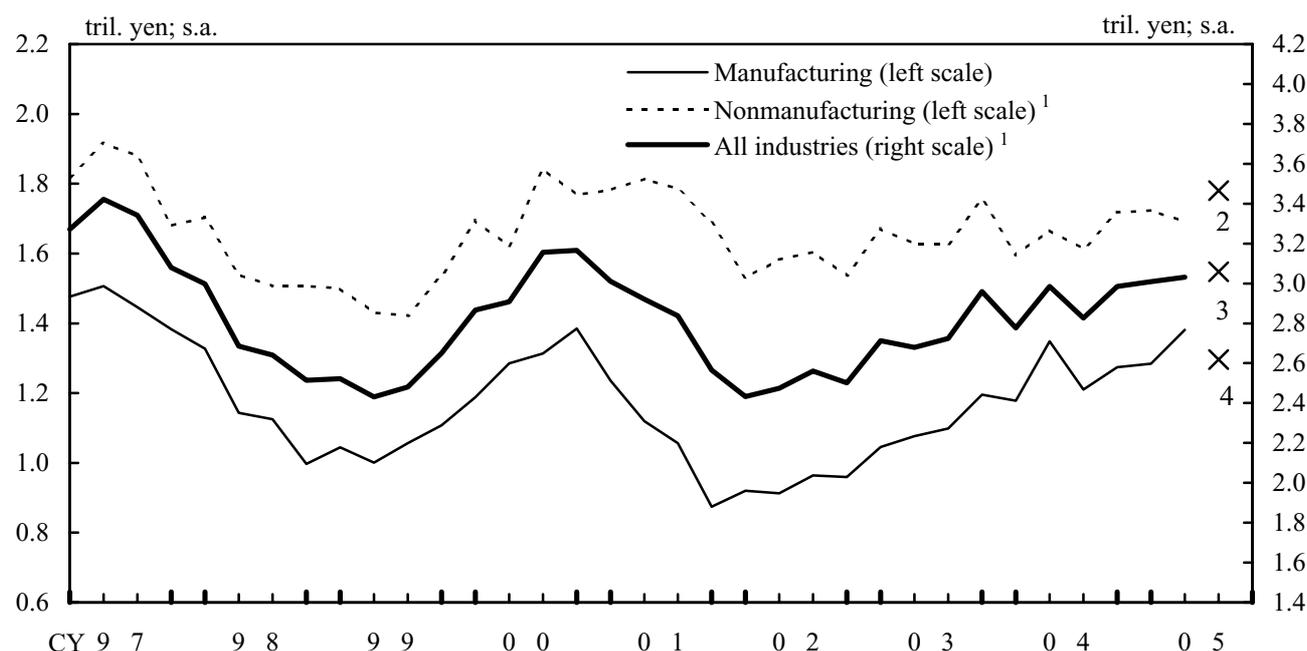
Notes: 1. Production Capacity DIs are those of all enterprises.

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



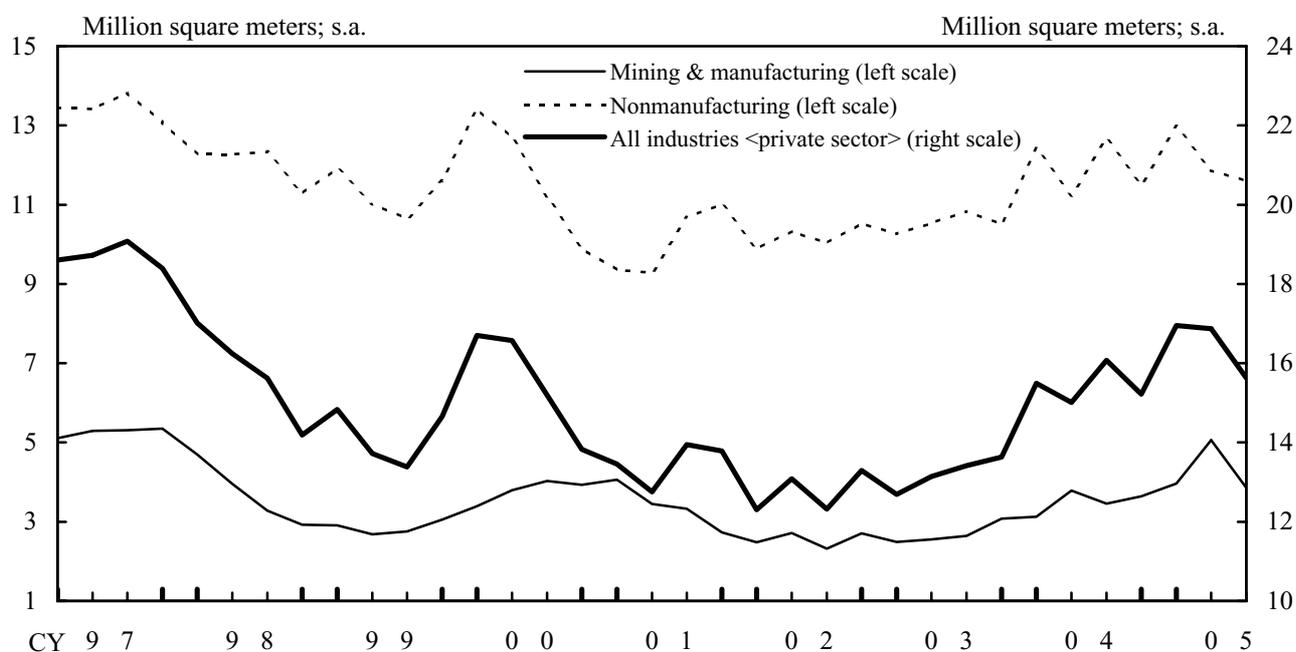
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2005/Q3.

3. Forecast of all industries for 2005/Q3.

4. Forecast of manufacturing industries for 2005/Q3.

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



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

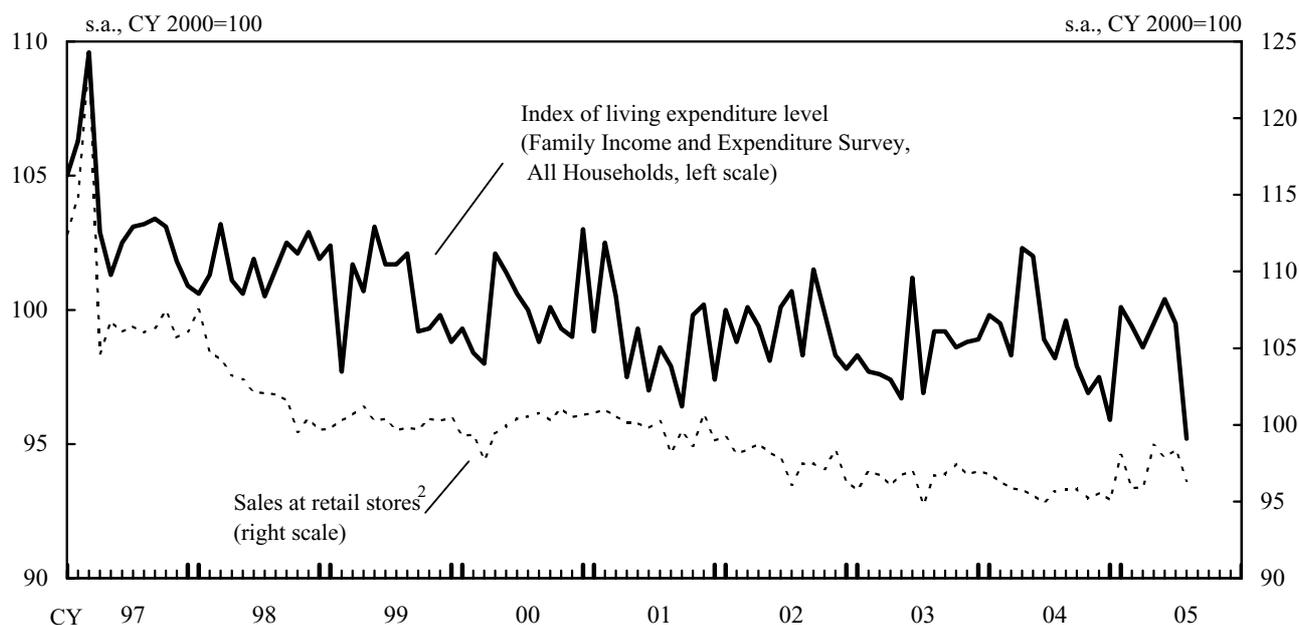
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for Newspaper Publishing and Publishing Business was changed from Mining and Manufacturing to Nonmanufacturing. Accordingly, the data up to fiscal year 2002 were adjusted by using a link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

3. Figures for 2005/Q3 are those of July in terms of quarterly amount.

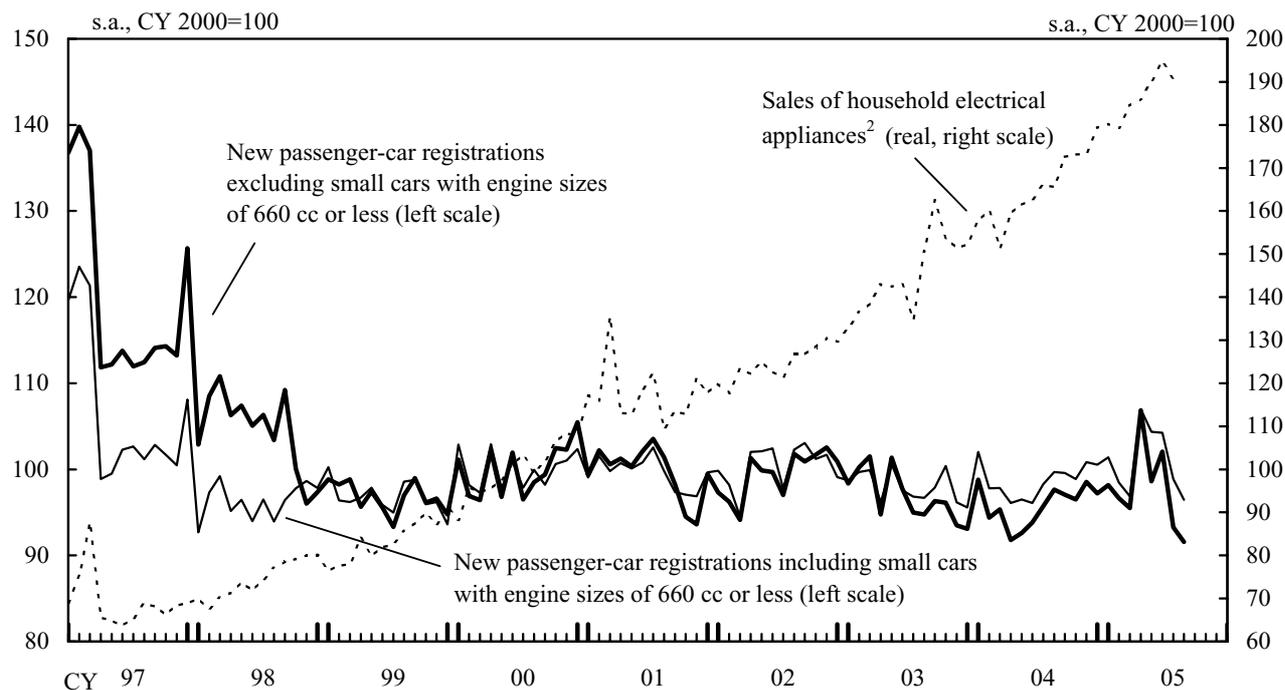
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption¹ (1)

(1) Household Spending (real)



(2) Sales of Durable Goods



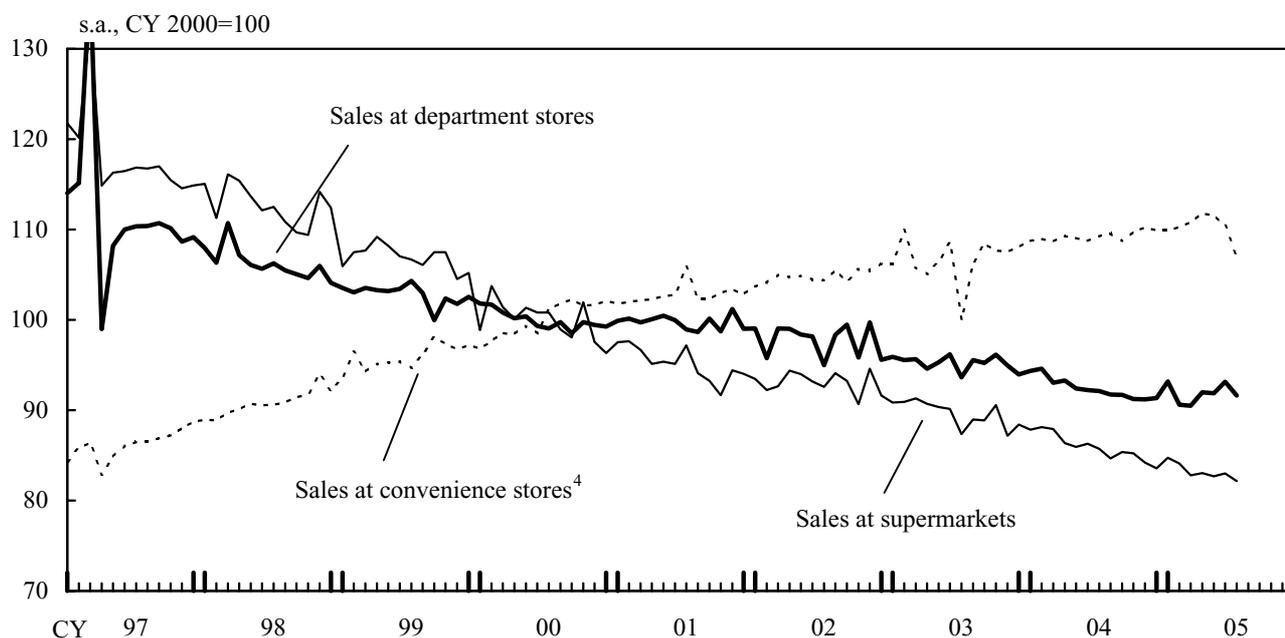
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

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).

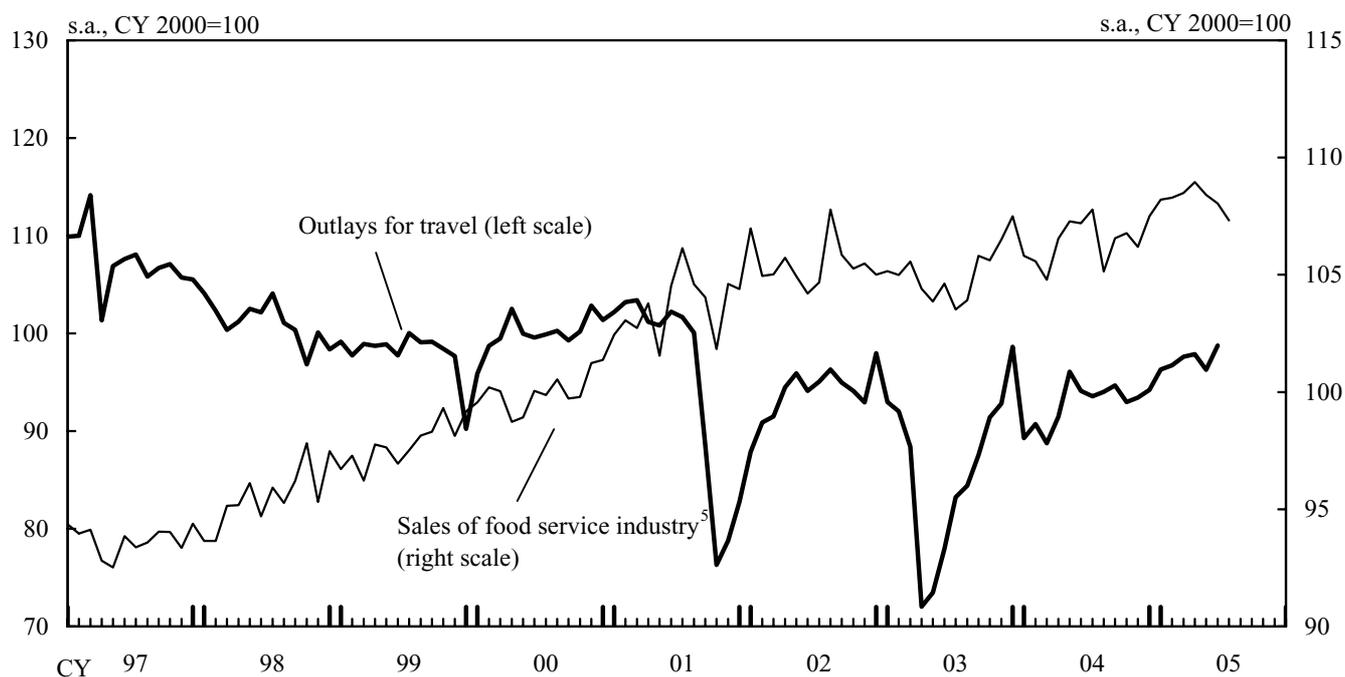
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey";
Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
Japan Mini Vehicles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

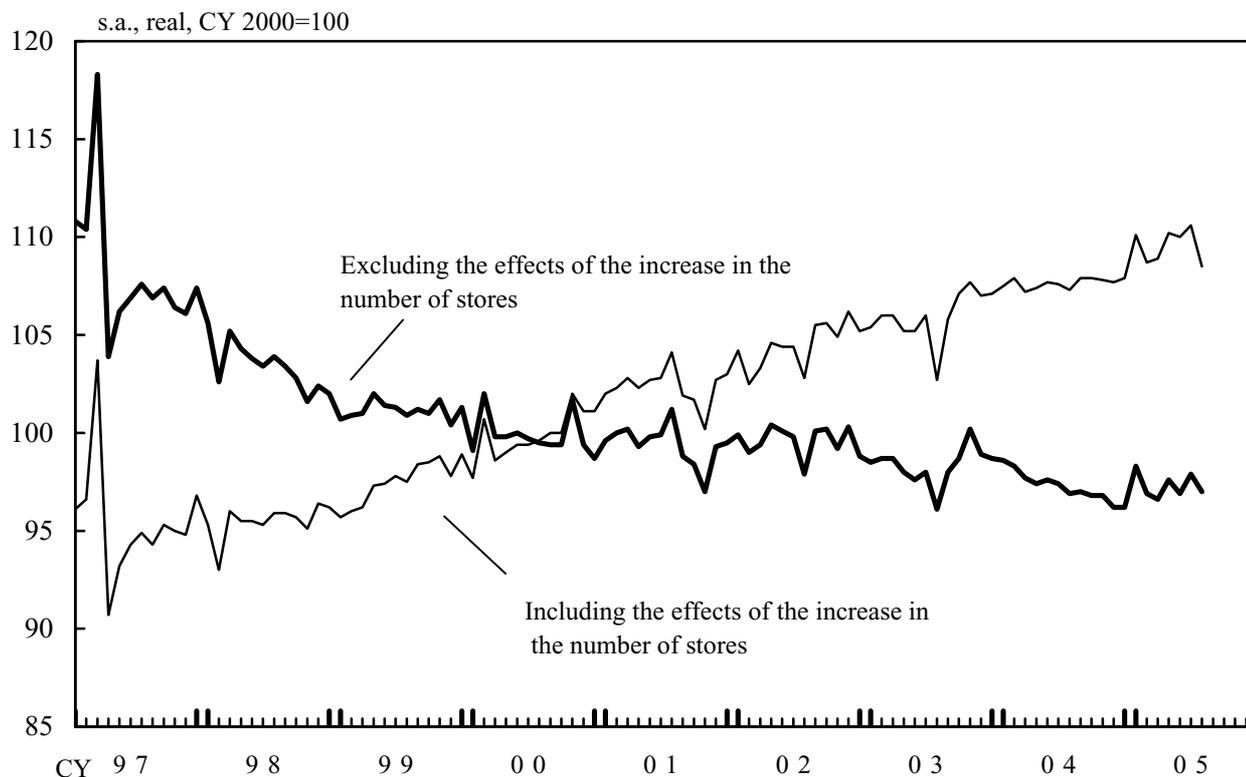
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

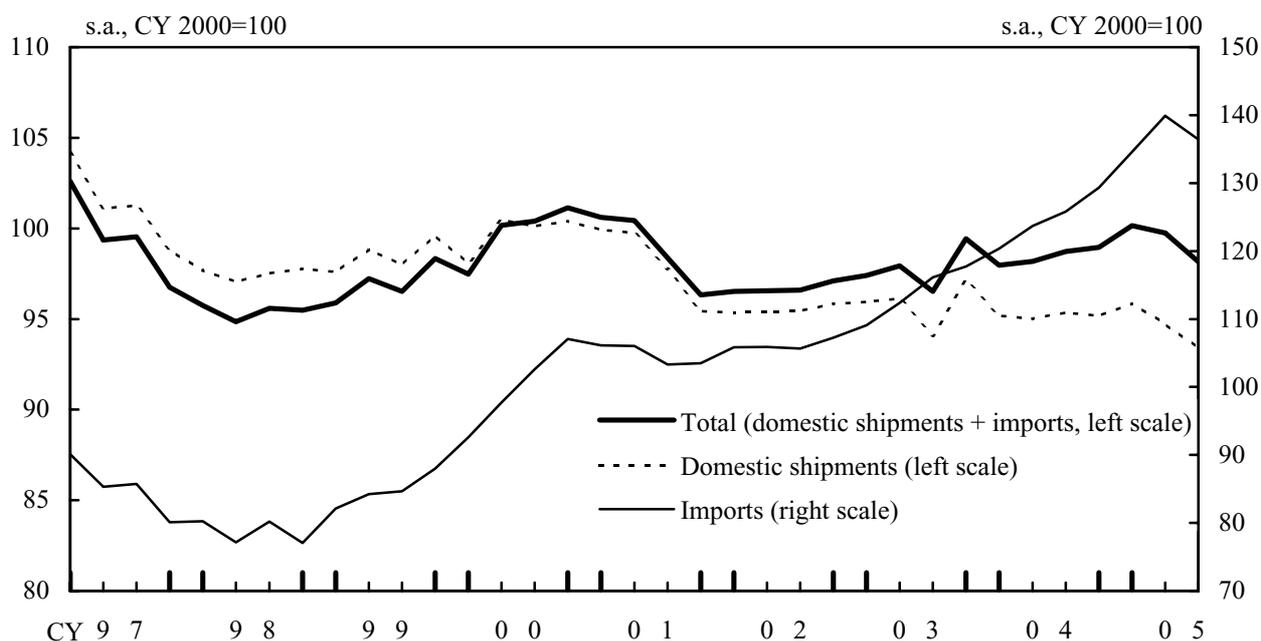


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets* ; *New passenger-car registrations* ; *Sales of household electrical appliances* ; *Outlays for travel* ; and *Sales of food service industry* , where the weights come from household expenditure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

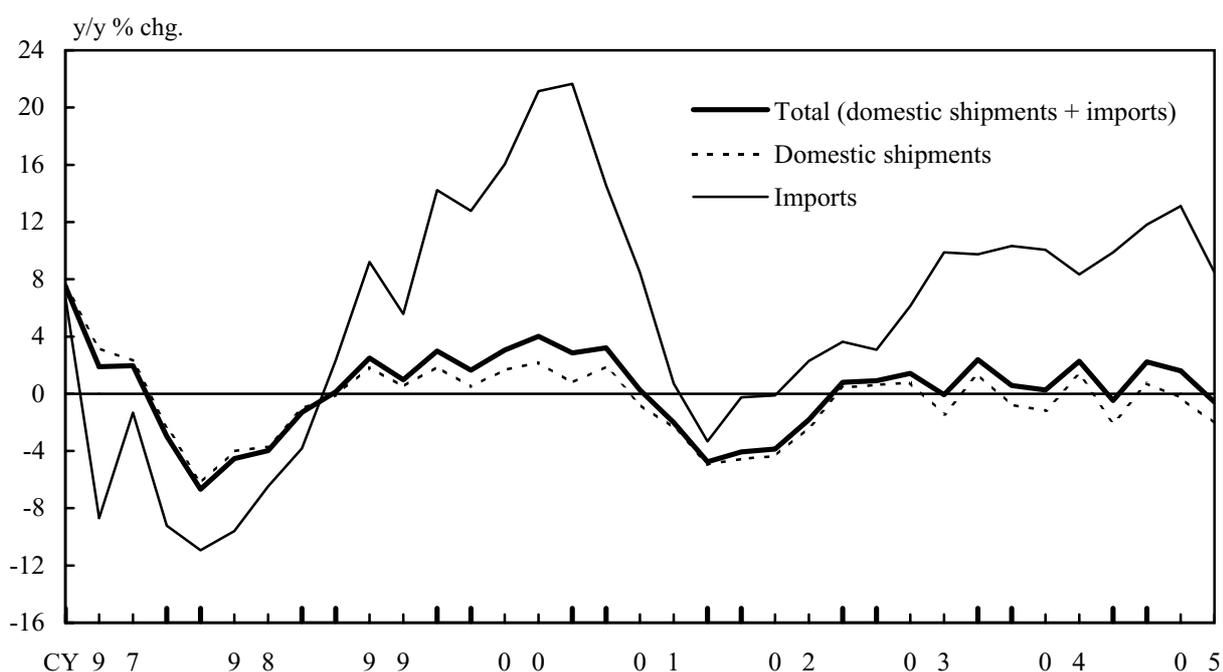
Source: Bank of Japan, "Indices of Aggregated Sales."

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 of consumer goods; motor vehicles, computers and the parts, parts of audio and visual apparatus, foodstuffs, textile, and clothing and the accessories.

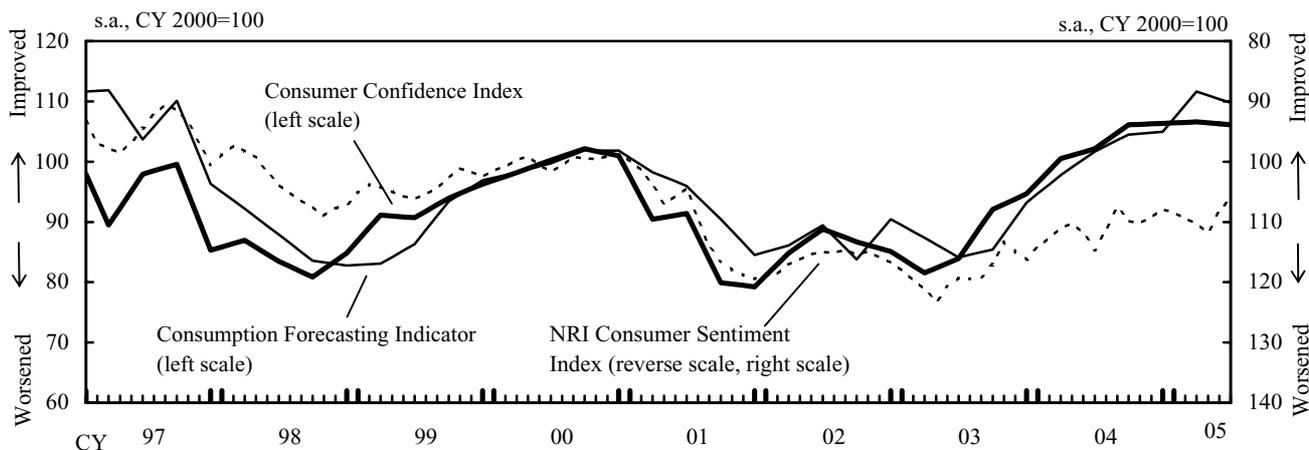
3. Year-on-year changes are calculated from seasonally adjusted series.

4. Data for 2005/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."

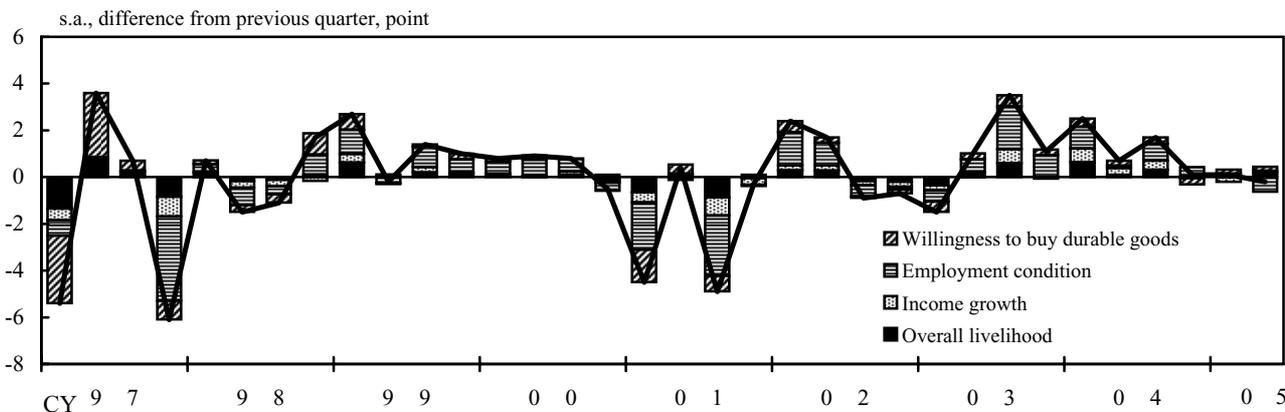
Consumer Confidence

(1) Surveys on Consumer Confidence

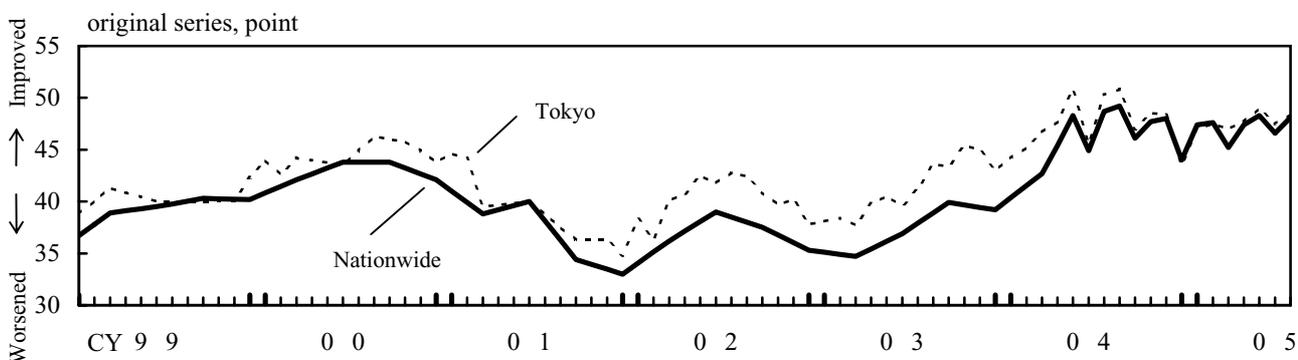


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office. "Consumption Forecasting Indicator" is seasonally adjusted using quarterly figures because the survey is quarterly until 2004.
2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 600 samples in metropolitan area <until Sept. 2004: 1,500 samples, Dec. 2004: 880 samples >), 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.

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



(3) Consumer Confidence Index (Monthly)

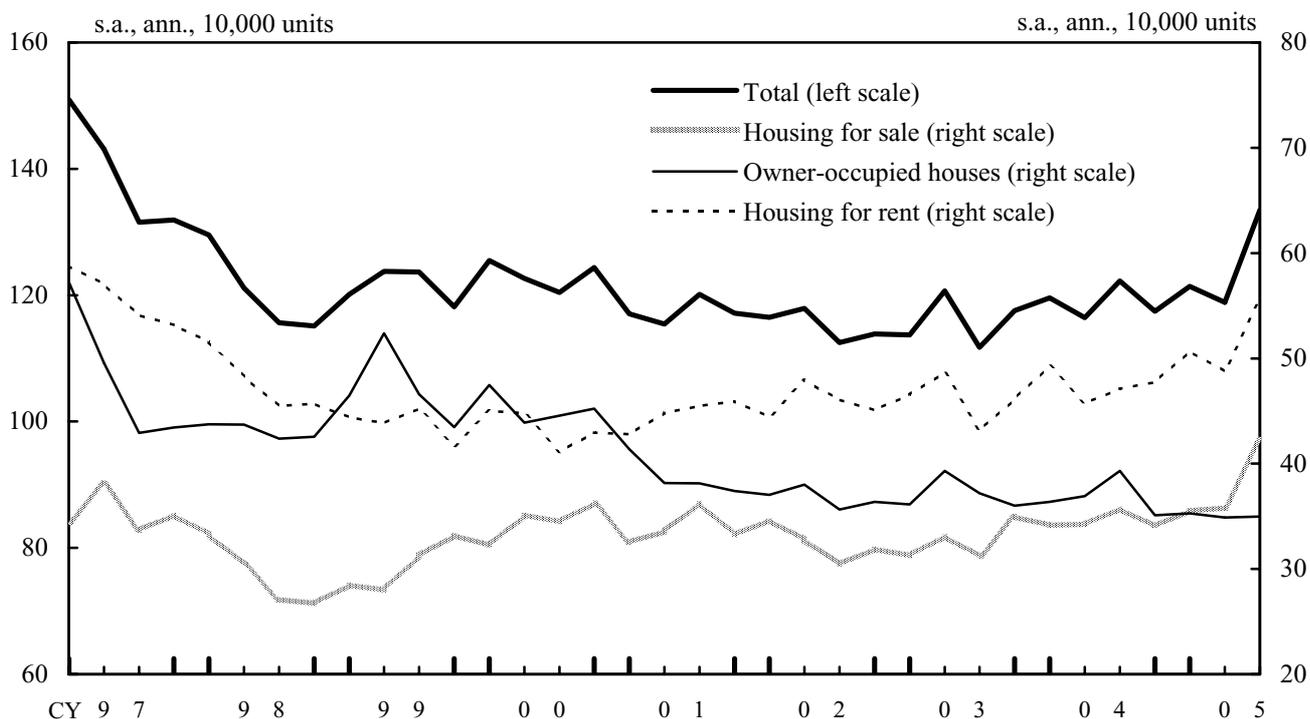


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation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

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."

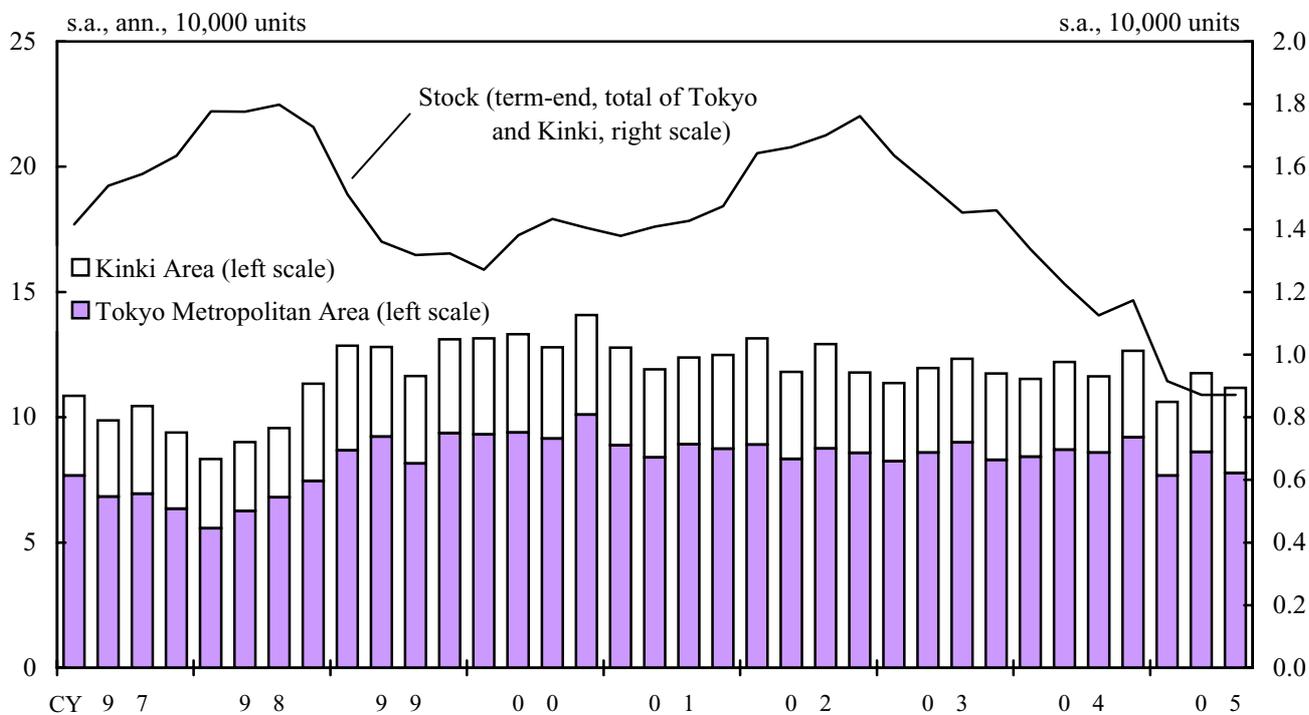
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2005/Q3 are those of July.

(2) Sales of Condominiums

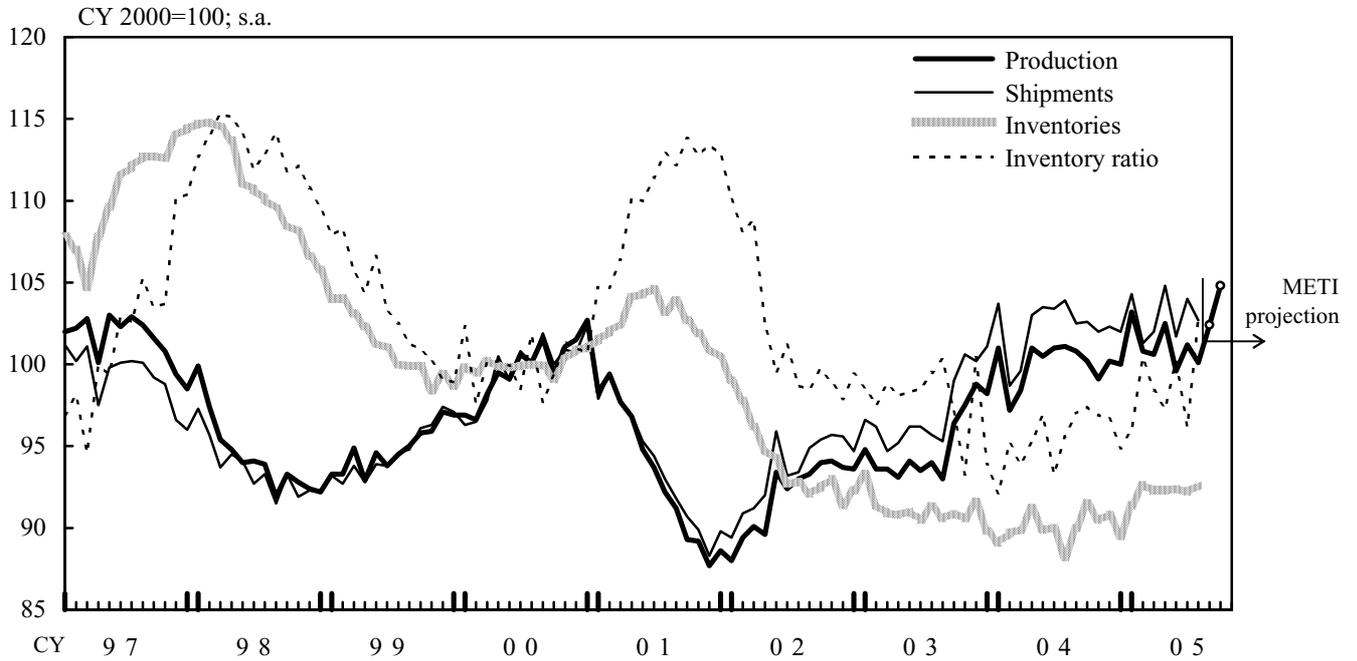


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2005/Q3 are those of July.

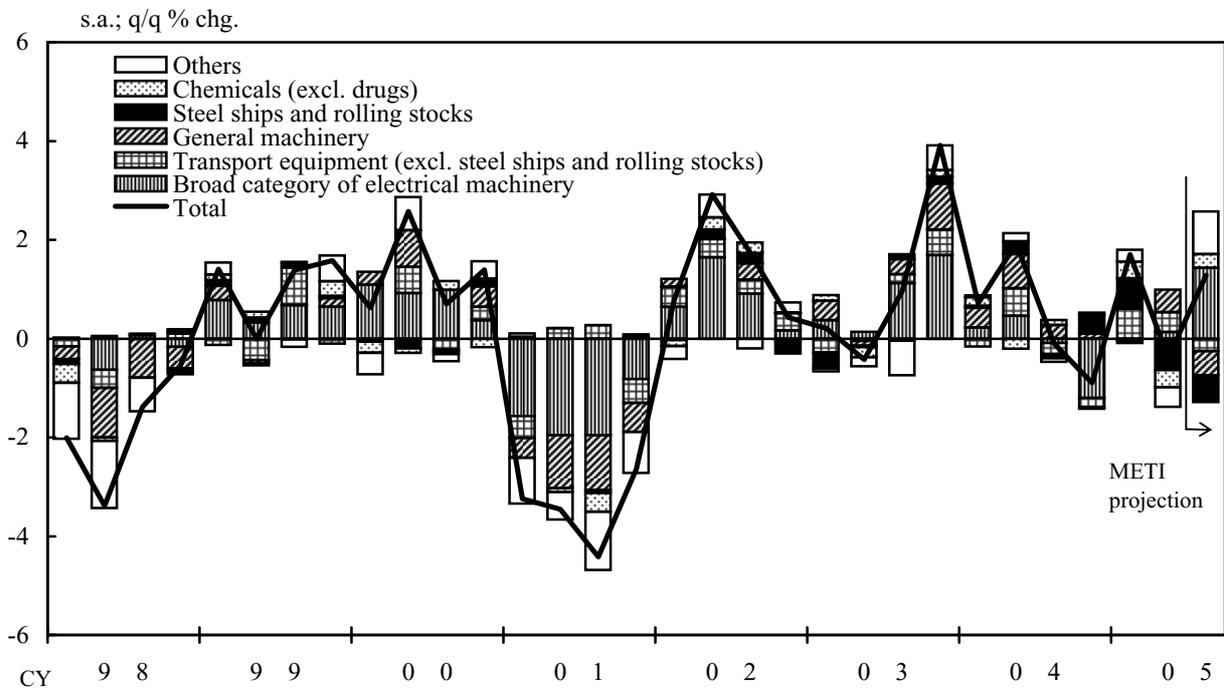
Sources: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



Note: "Steel ships and rolling stocks" is calculated as the difference between "Transport equipment" and "Transport equipment excluding steel ships and rolling stocks."

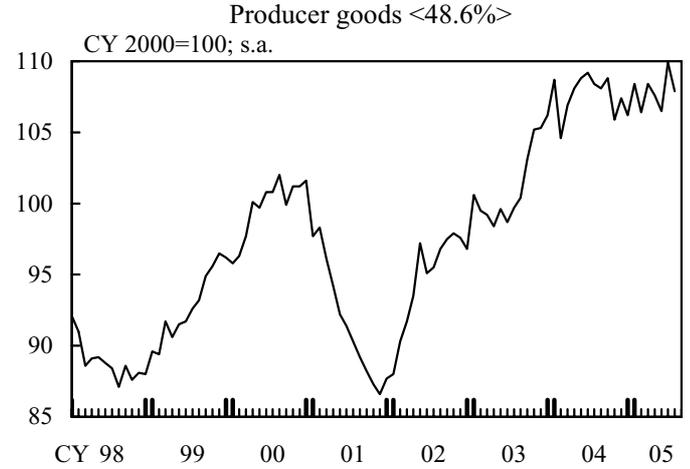
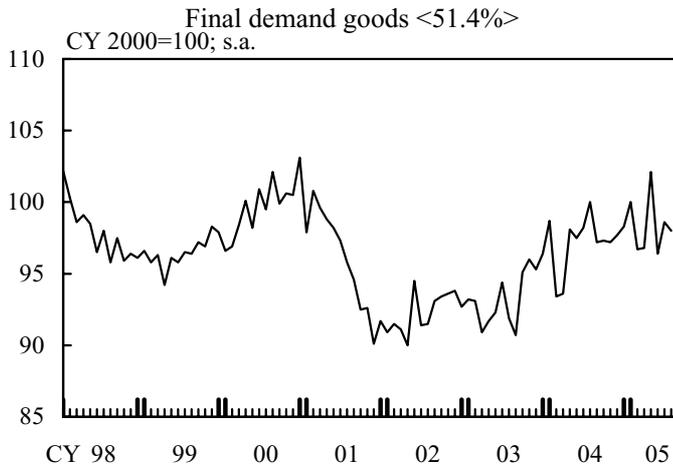
"Broad category of electrical machinery" is the weighted sum of "electrical machinery,"

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

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

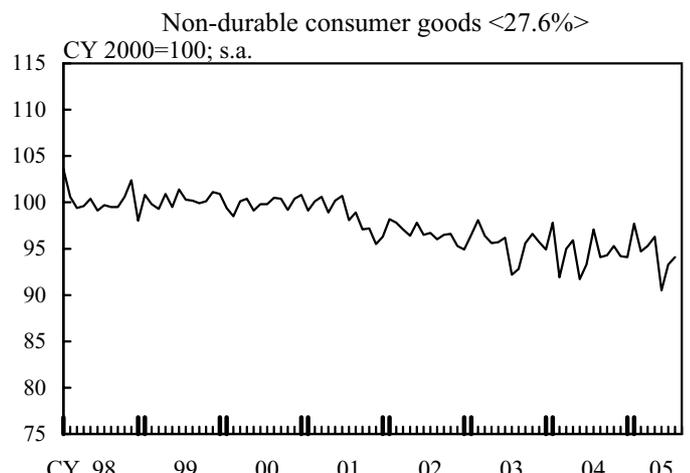
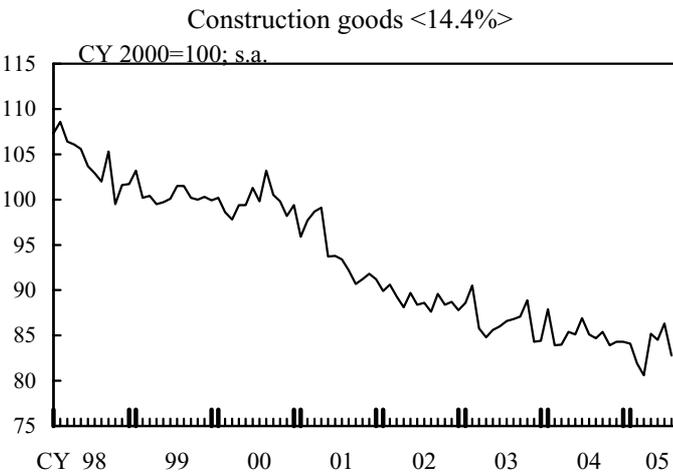
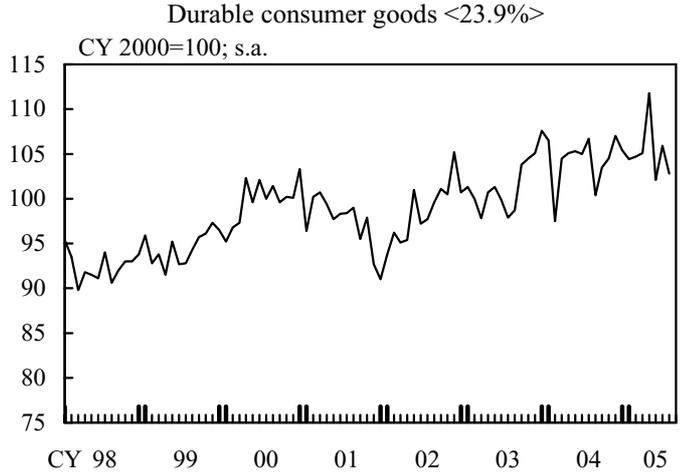
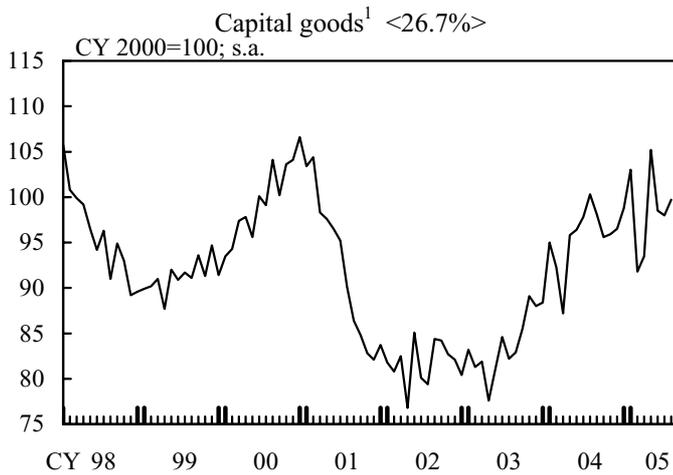
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



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

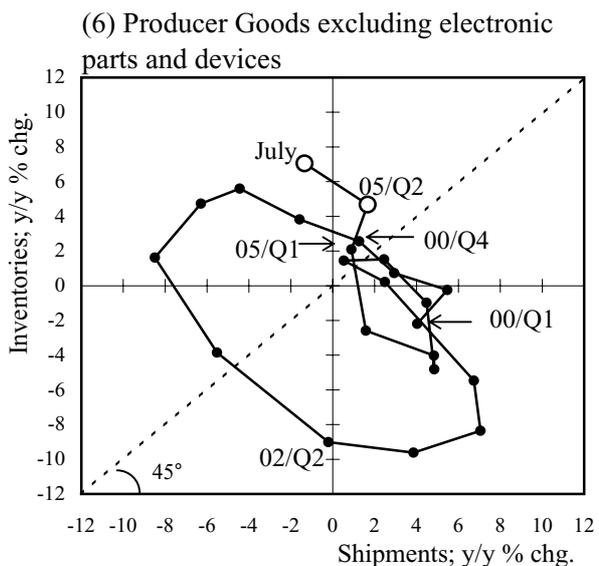
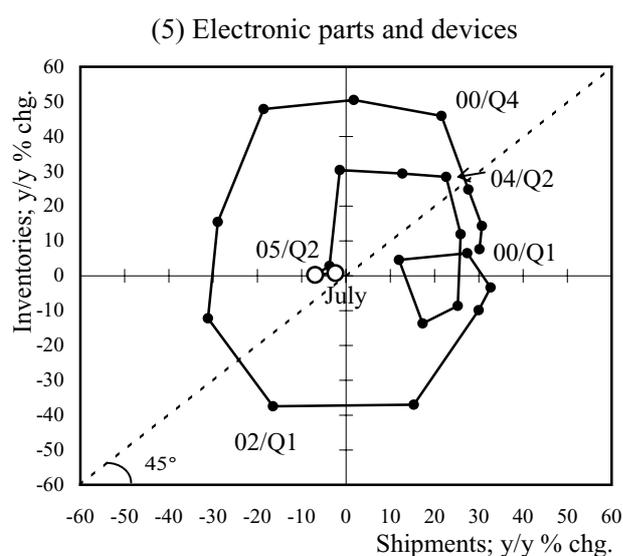
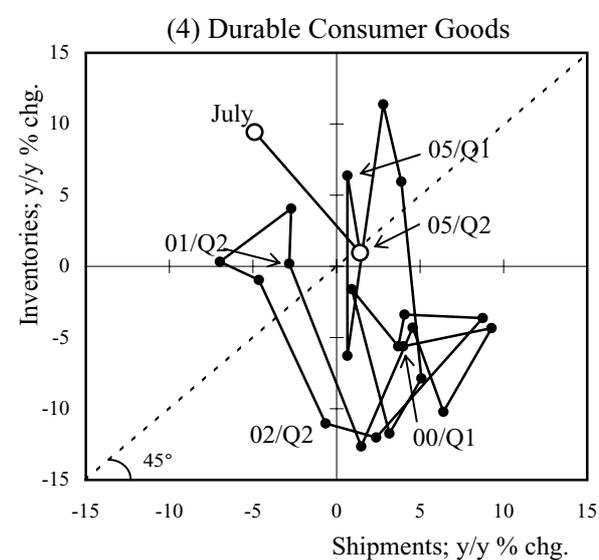
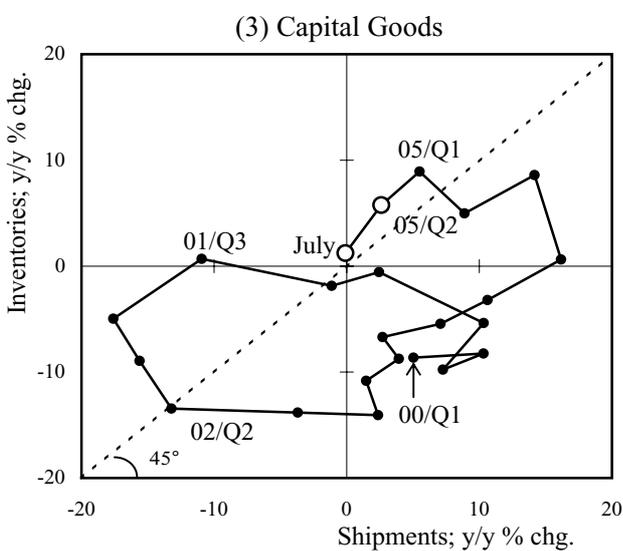
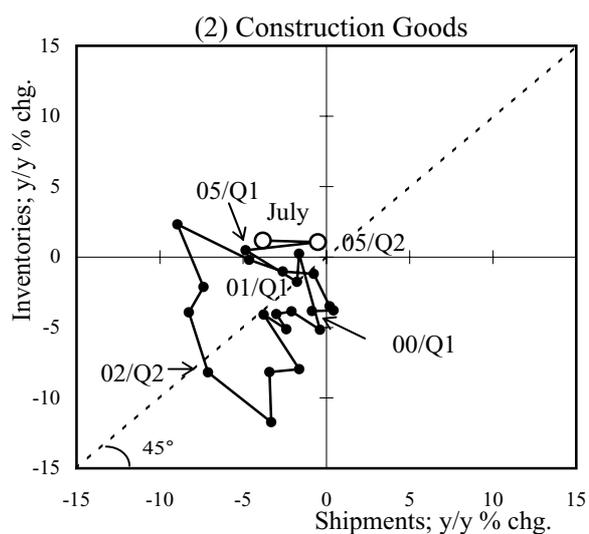
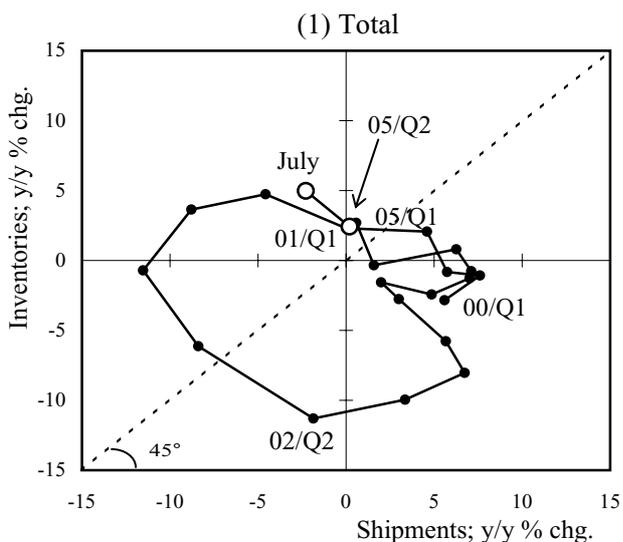
(2) Breakdown of final demand goods



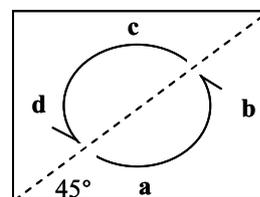
Notes: 1. Excluding transport equipment.
2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

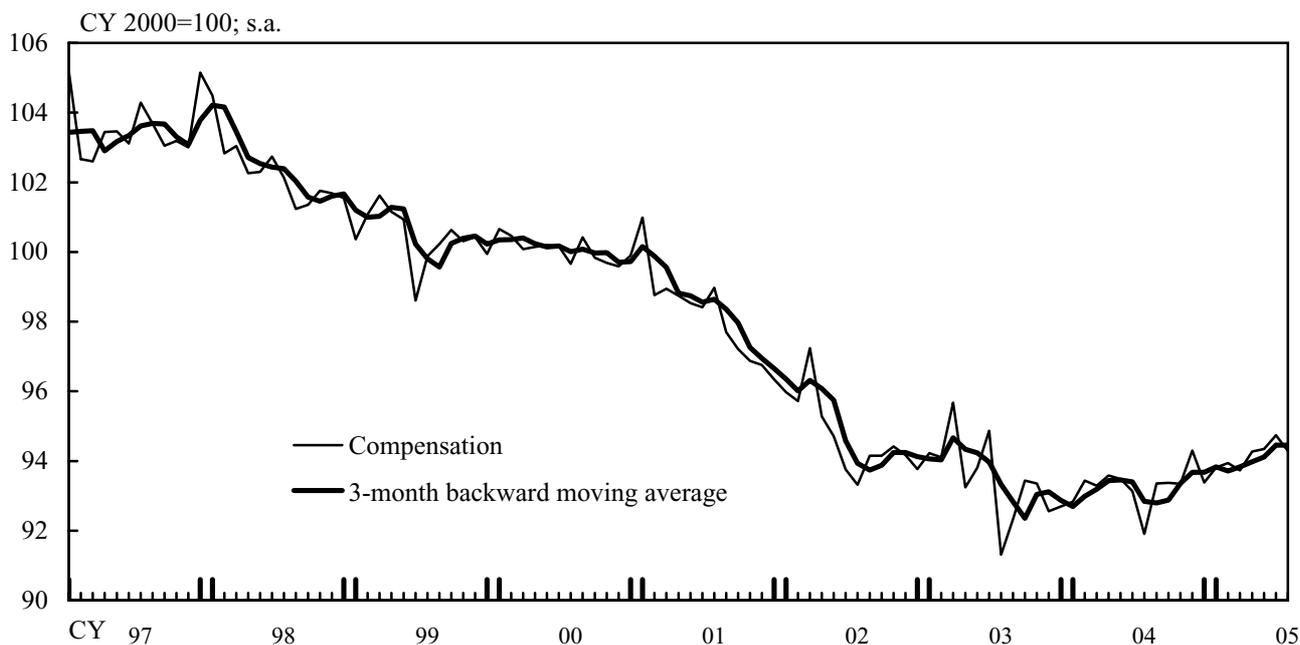


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



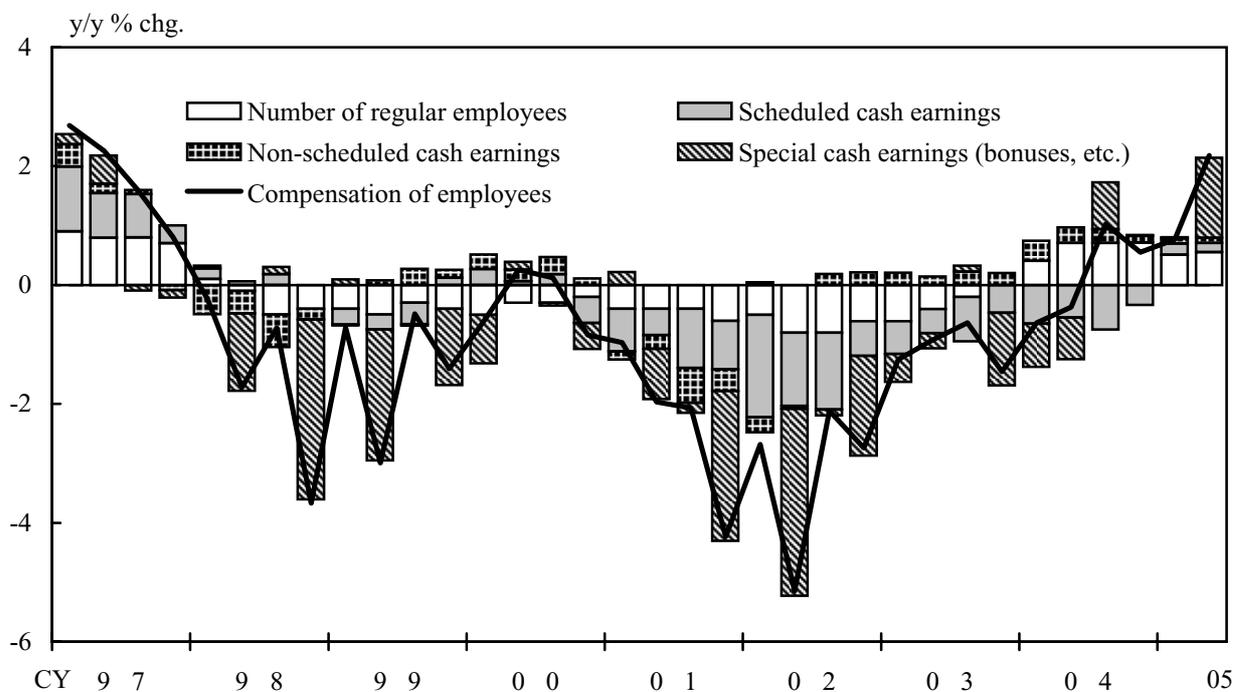
Compensation of Employees

(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.

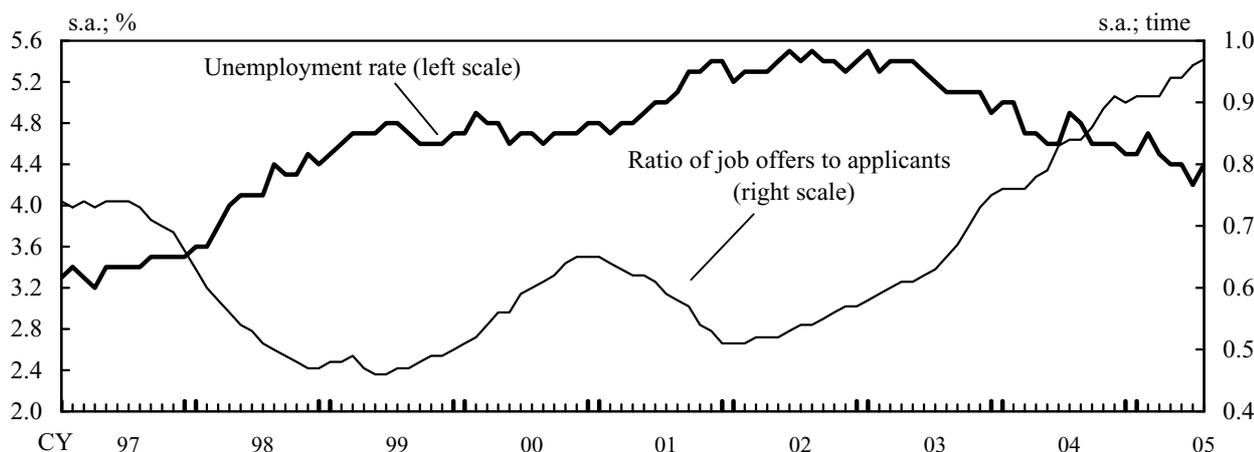
(2) Breakdown of Compensation



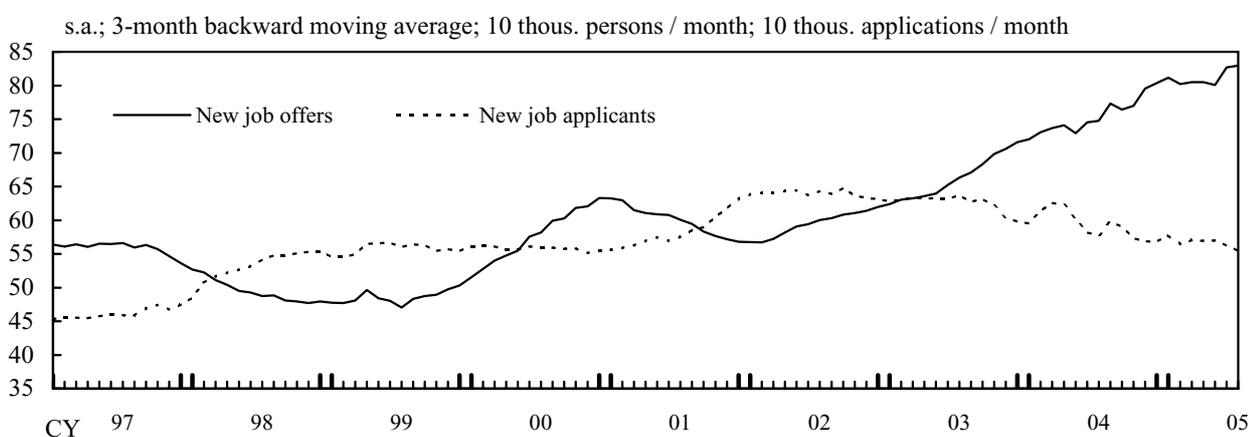
- Notes: 1. Data are for establishments with at least 5 employees.
 2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.
 3. Figures for 2005/Q2 are those of June-July averages.

Labor Market (1)

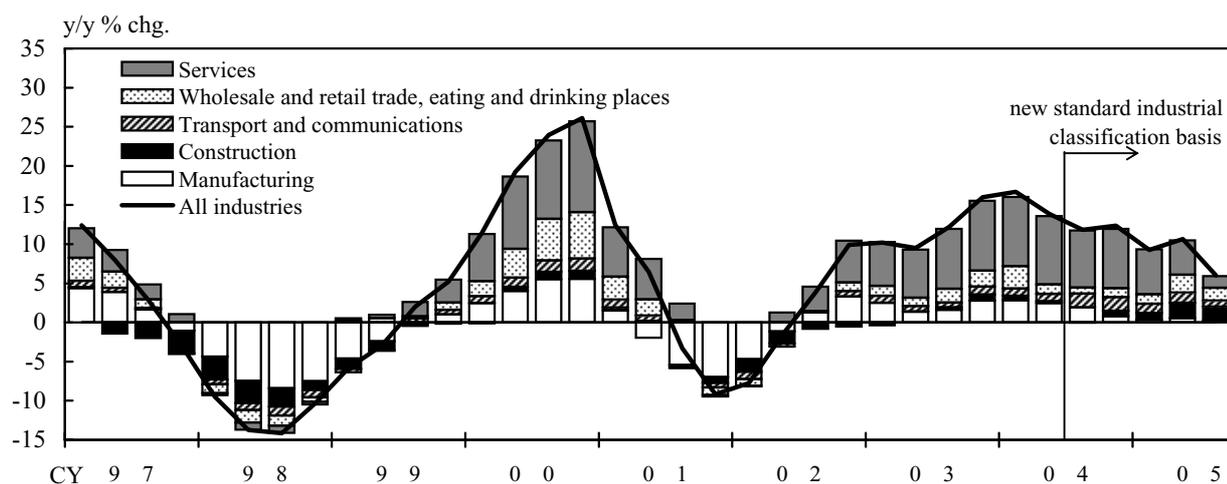
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New job offers and New job applicants¹



(3) Breakdown of New job offers¹



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

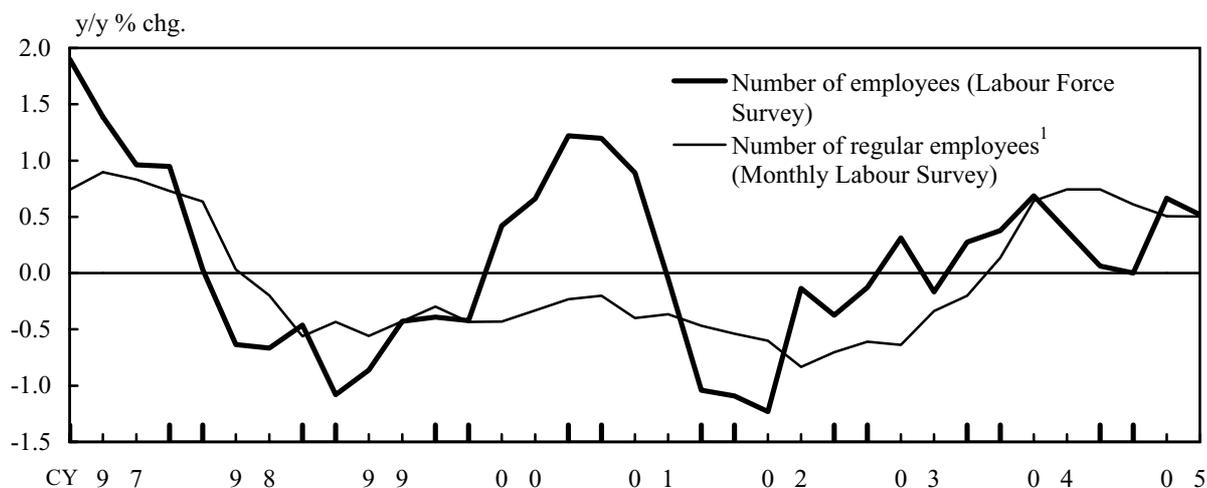
2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum of "electricity and gas," "information and communications" and "transport." "Wholesale and retail trade, eating and drinking places" are the sum of "wholesale and retail trade" and eating and drinking places, accommodations." "Services" are the sum of "medical, health care and welfare," "education, learning support," "compound services" and "services (not elsewhere classified)."

3. Figures for 2005/Q3 are those of July.

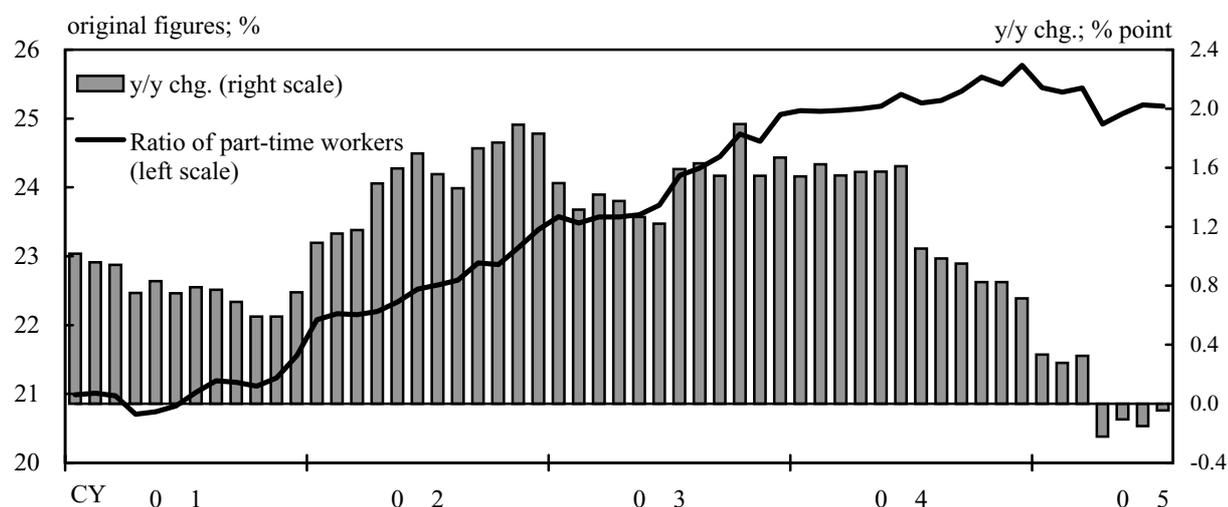
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service"; Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

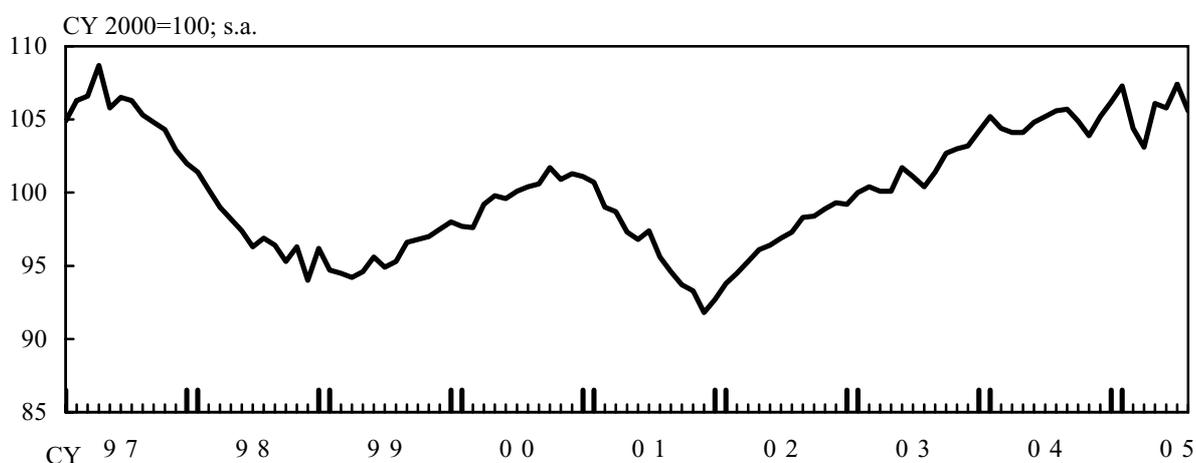
(1) Number of Employees³



(2) Ratio of part-time workers^{1,2} (Monthly Labour Survey)



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



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

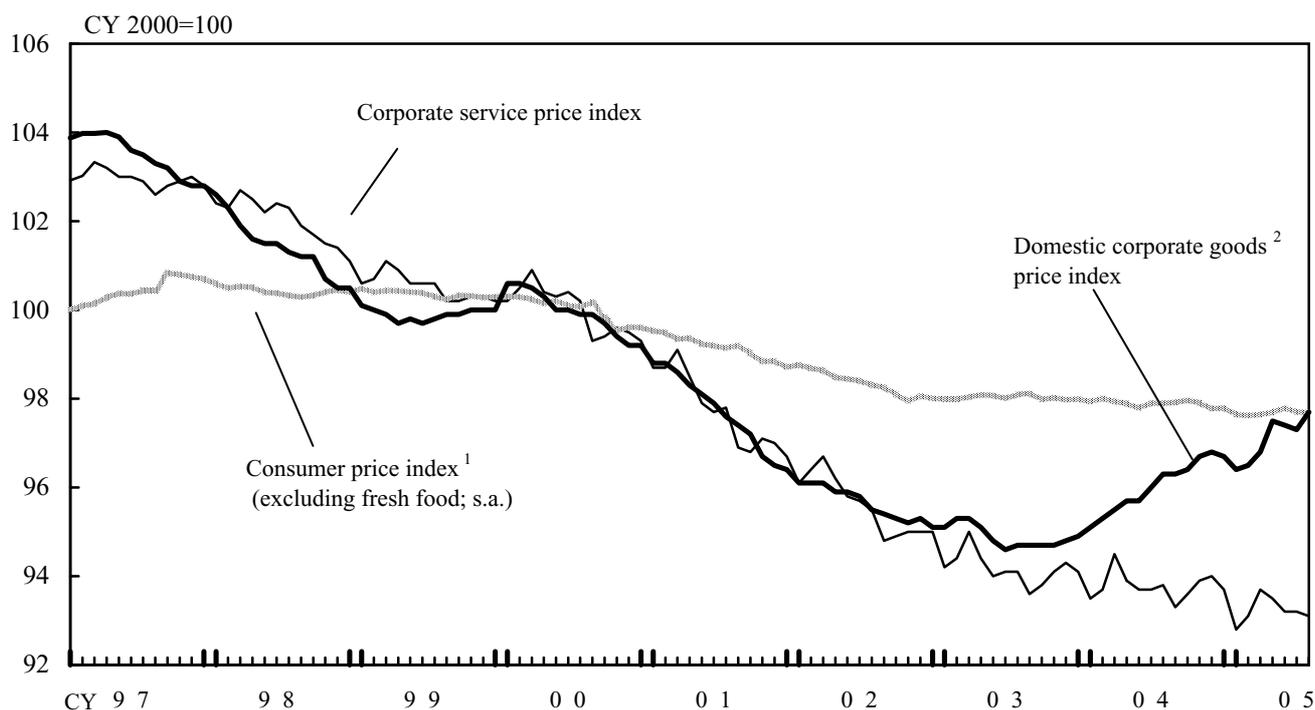
2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.

3. Figures for 2005/Q3 are those of July.

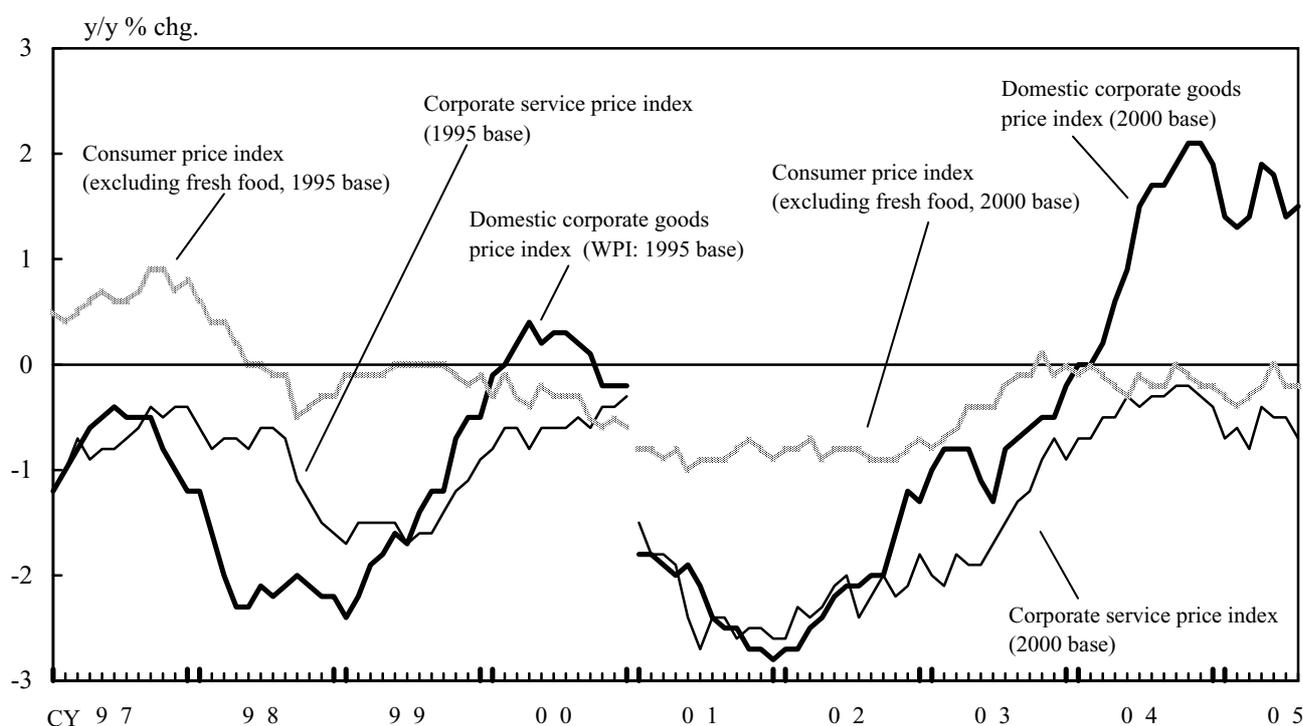
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices³

(1) Level



(2) Changes from a year earlier



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

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

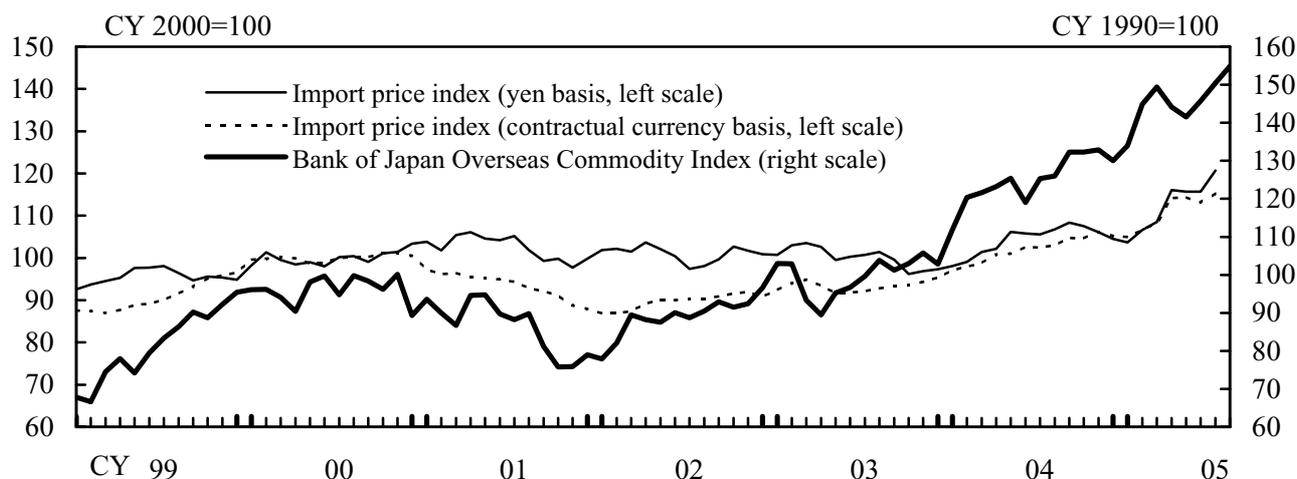
3. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

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

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

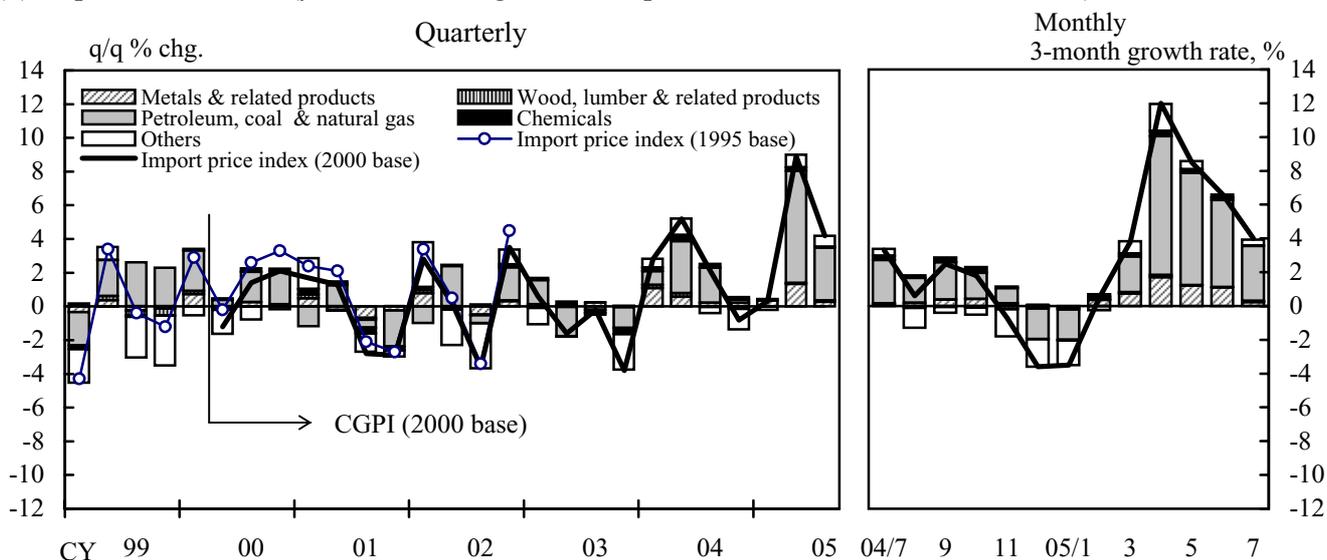
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



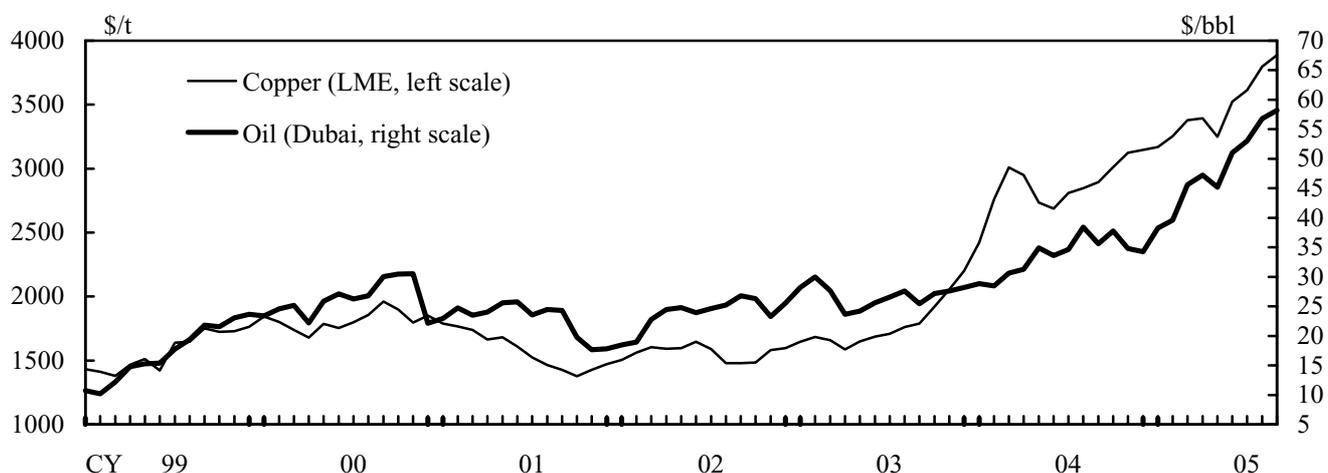
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: Figures for 2005/Q3 are those of July.
1995 base figure for 2002/Q4 is Oct.-Nov. average.

(3) Oil price and Copper price

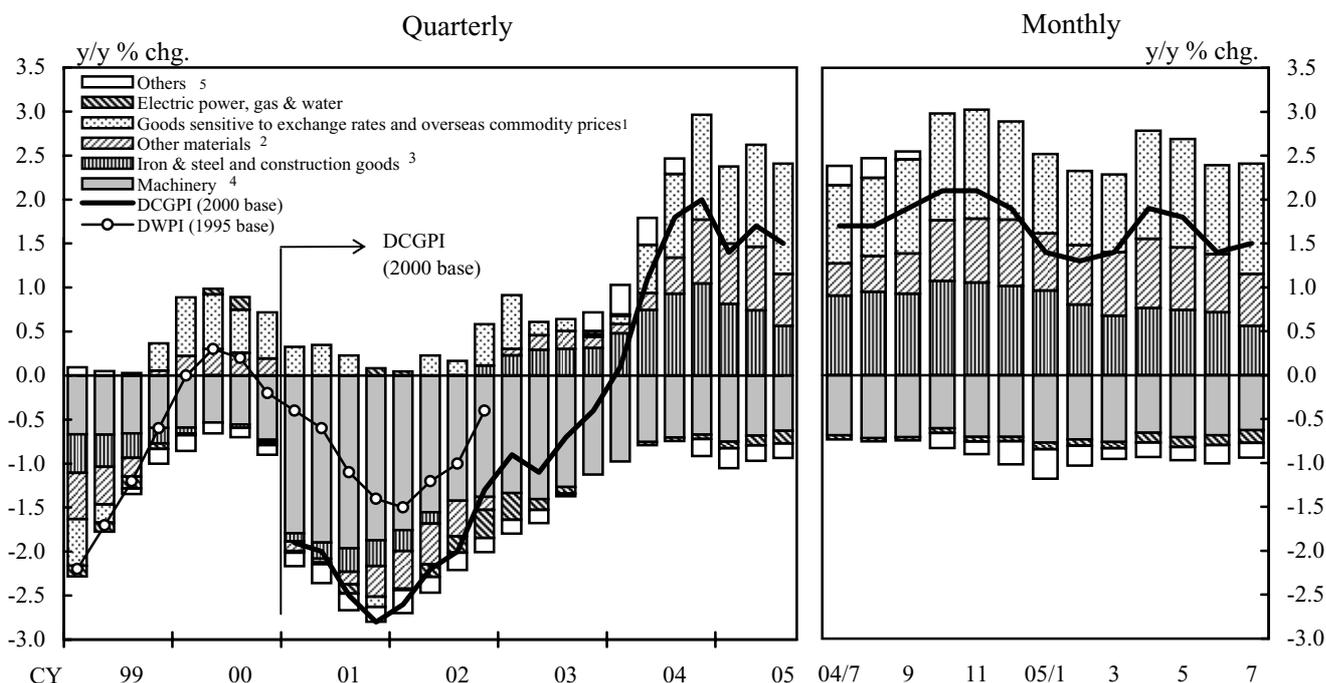


Note: Monthly averages. Figures for September 2005 are the averages up to September 7.

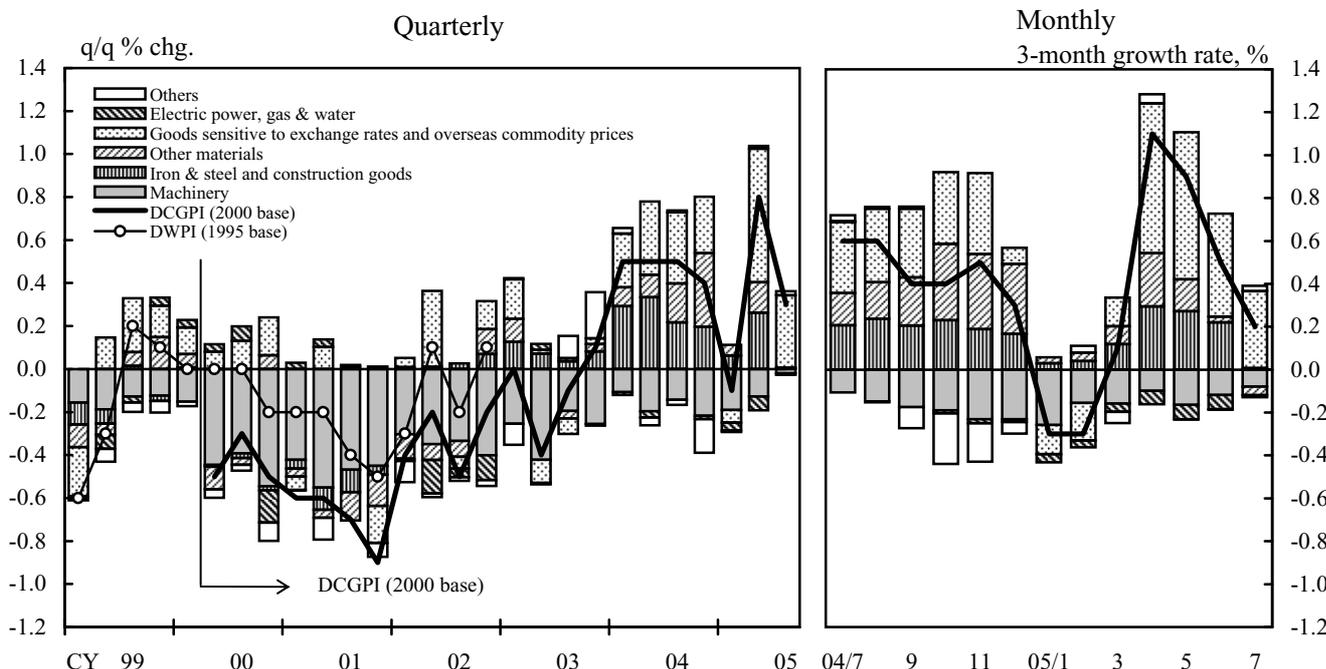
Sources: Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index⁷

(1) Changes from a year earlier

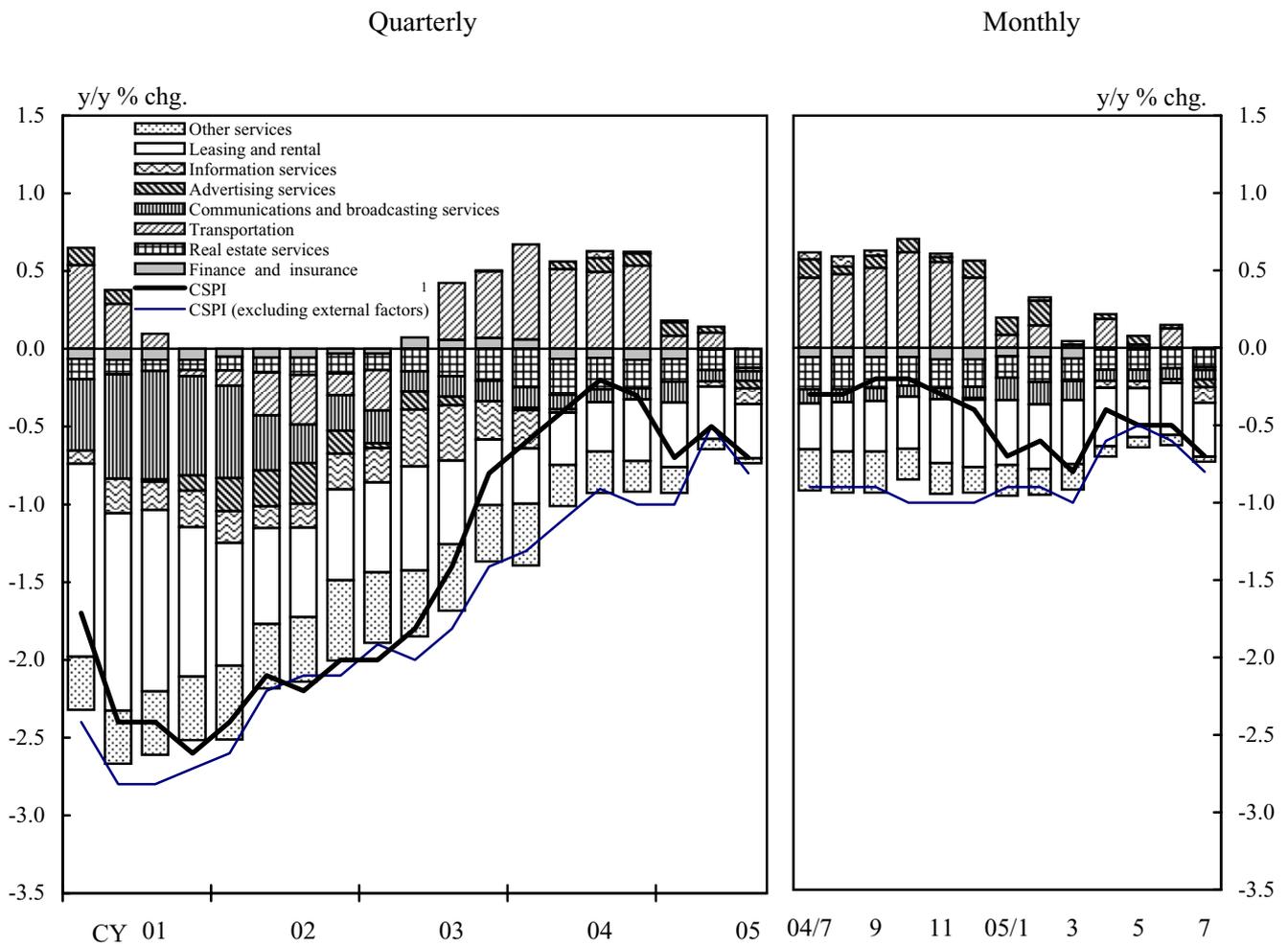


(2) Changes from a quarter earlier and 3 months earlier⁶



- 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. Figures for 2005/Q3 are those of July. 1995 base figures for 2002/Q4 are Oct.-Nov. averages.

Corporate Service Price Index

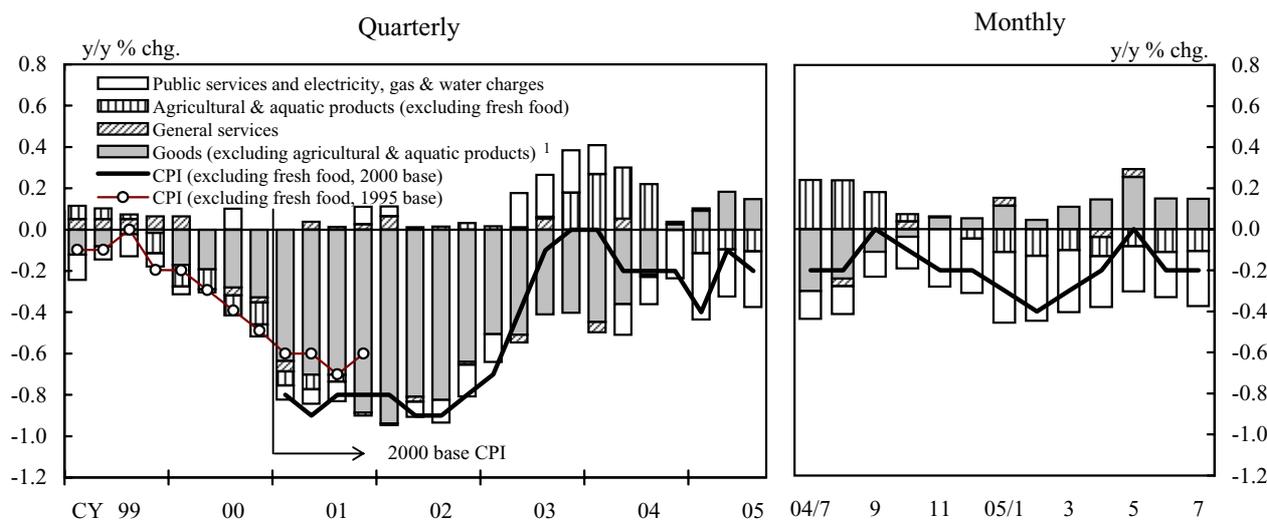


Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures for 2005/Q3 are those of July.

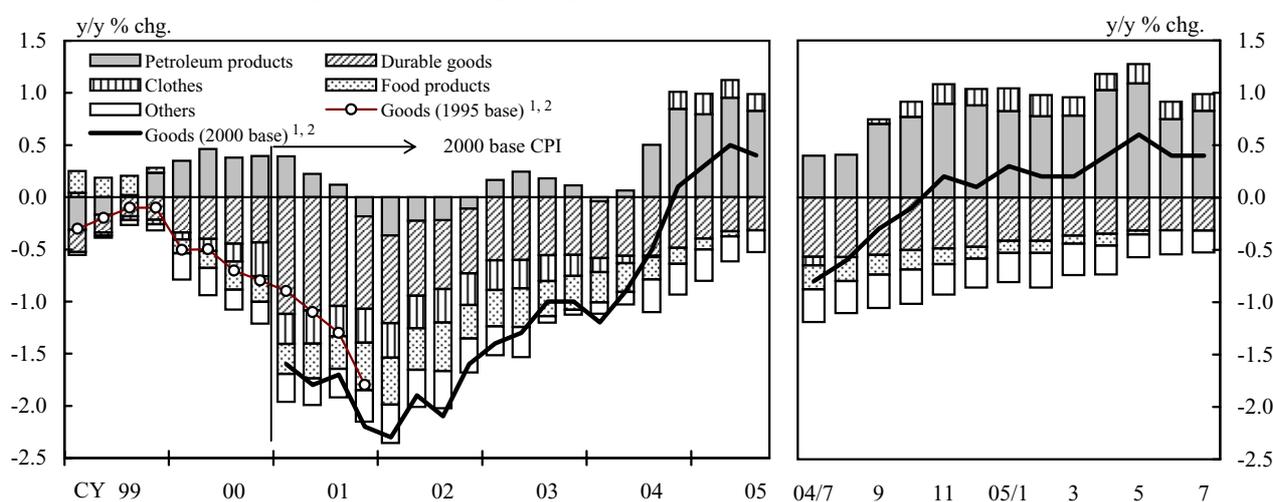
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (excluding fresh food)

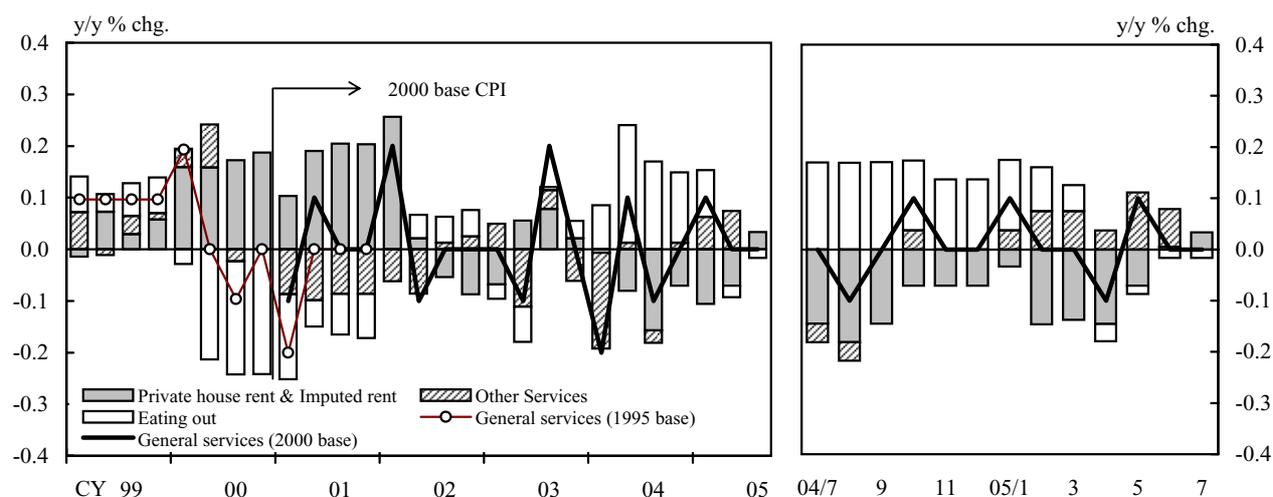
(1) Consumer price index (excluding fresh food)



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



(3) General services



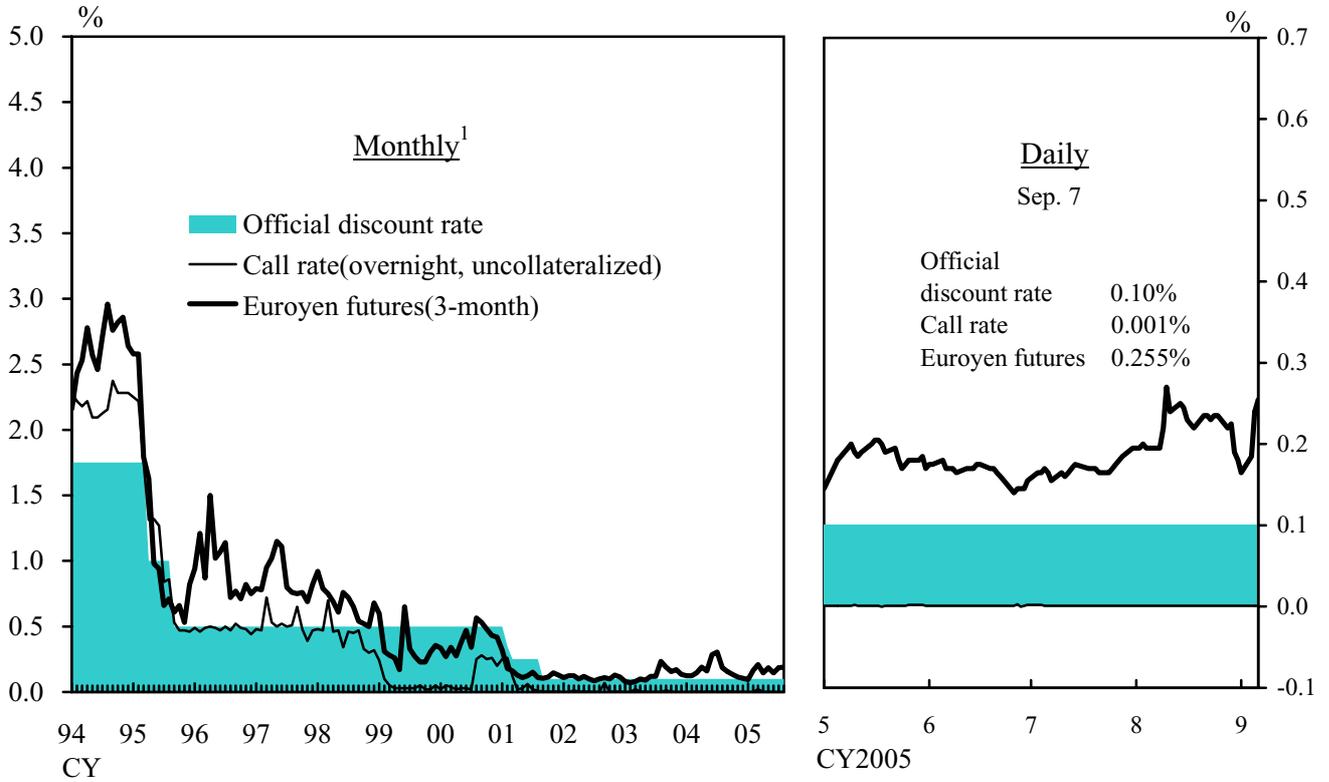
Notes: 1. The Items are basically the same as the definition published by the Ministry of Internal Affairs and Communications, however electricity, gas & water charges is excluded from goods.

2. Excluding agricultural & aquatic products.

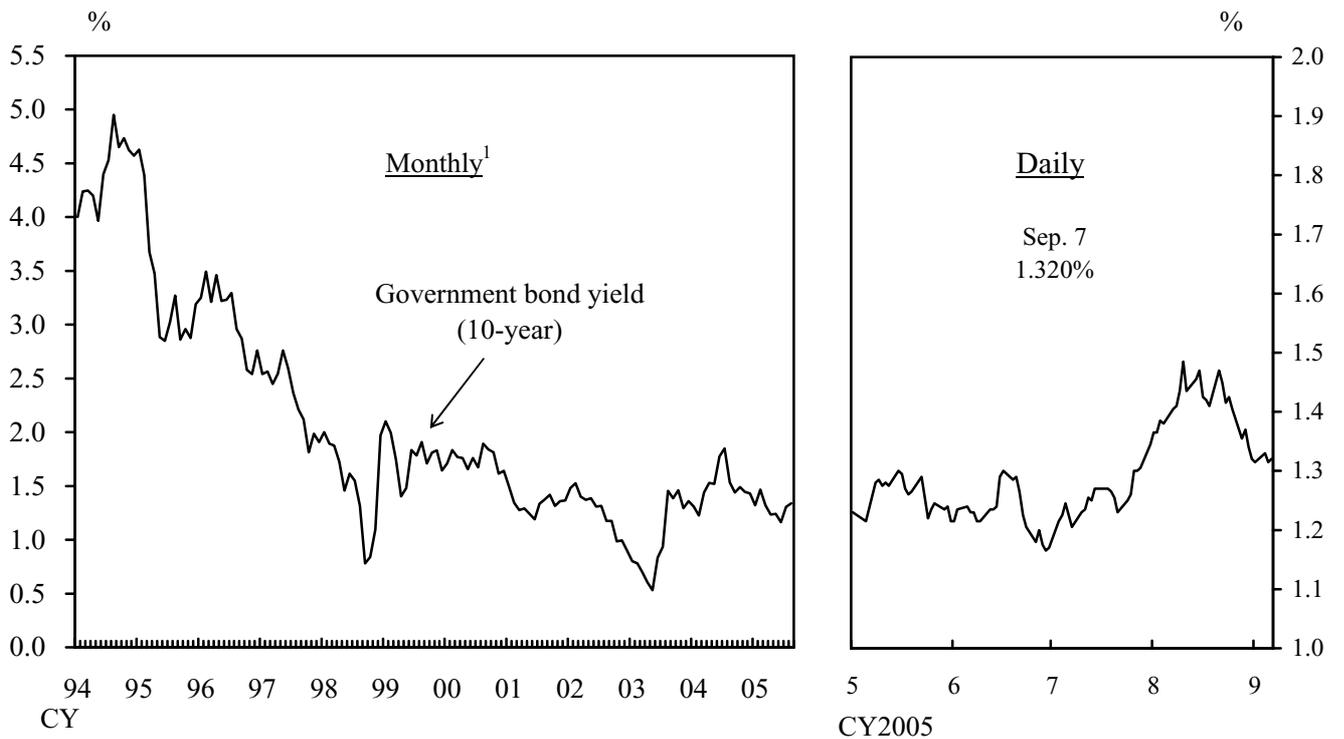
3. Figures for 2005/Q3 are those of July.

Interest Rates

(1) Short-Term



(2) Long-Term

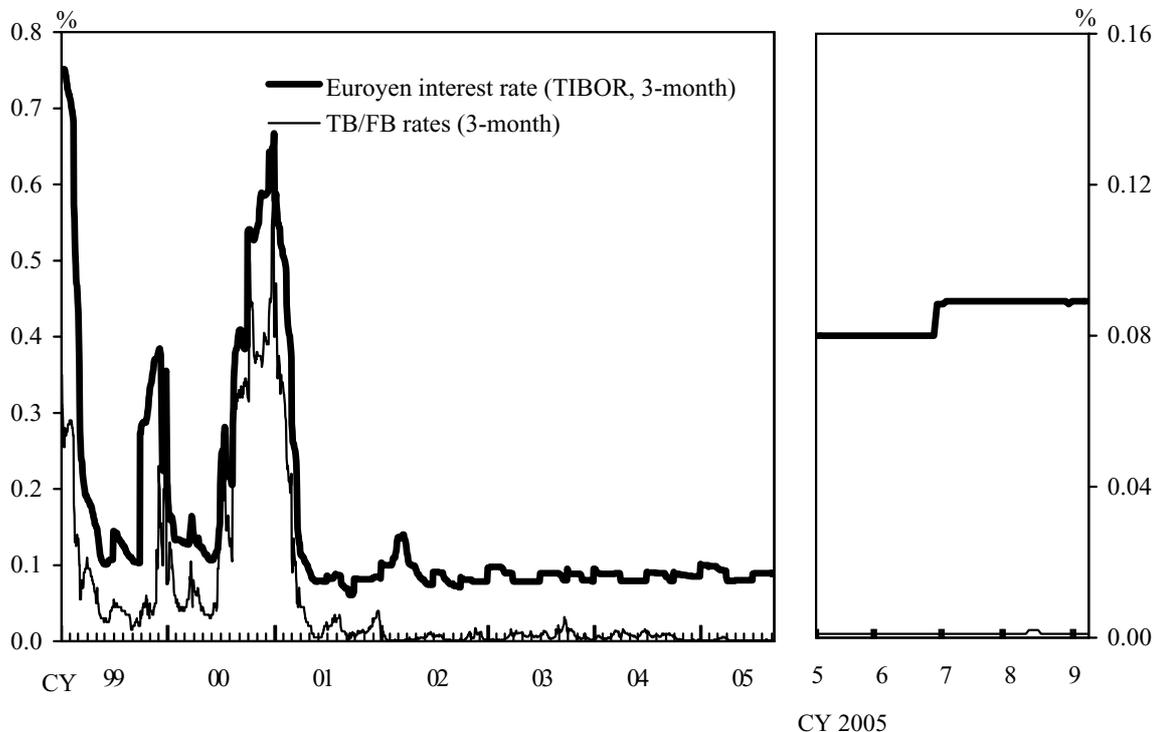


Note: 1. End of month.

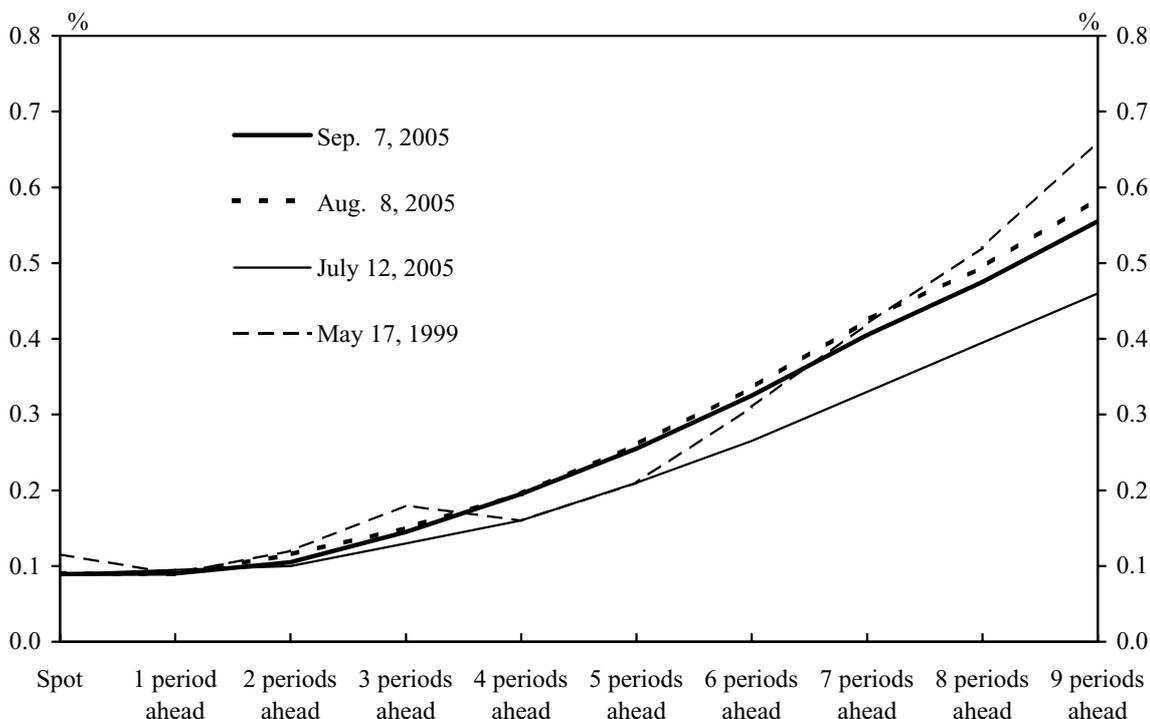
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



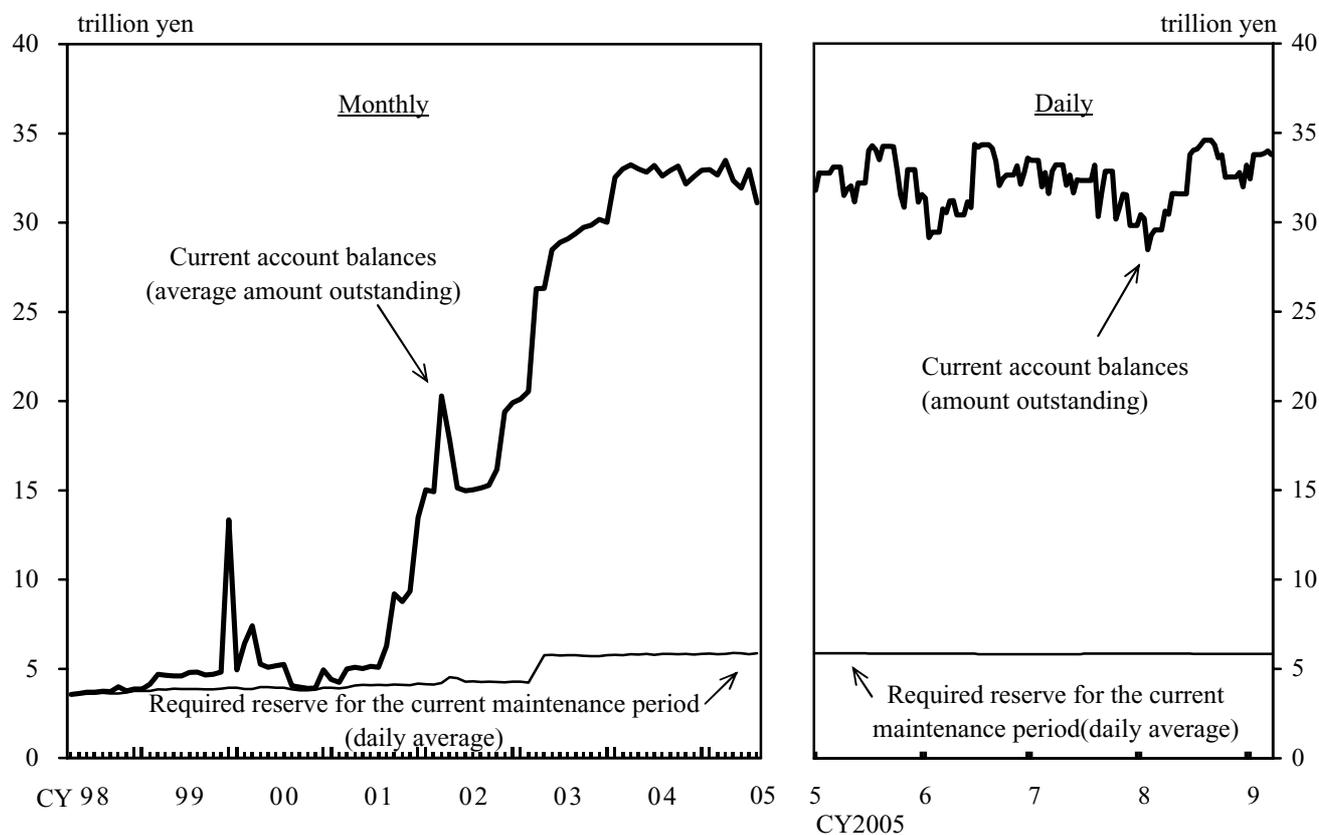
(2) Euroyen Interest Rates Futures (3-Month) ¹



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 Financial Exchange.

Current Account Balances at the Bank of Japan

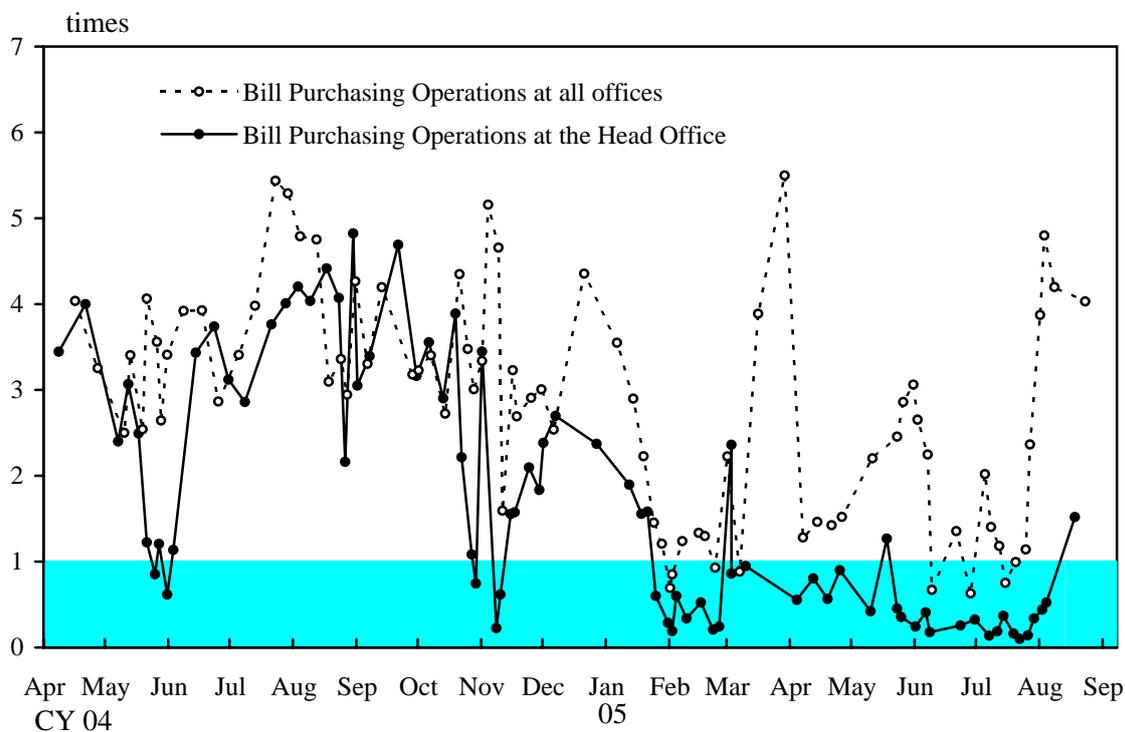


Note: From April 2003, the figures for current account balances and required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

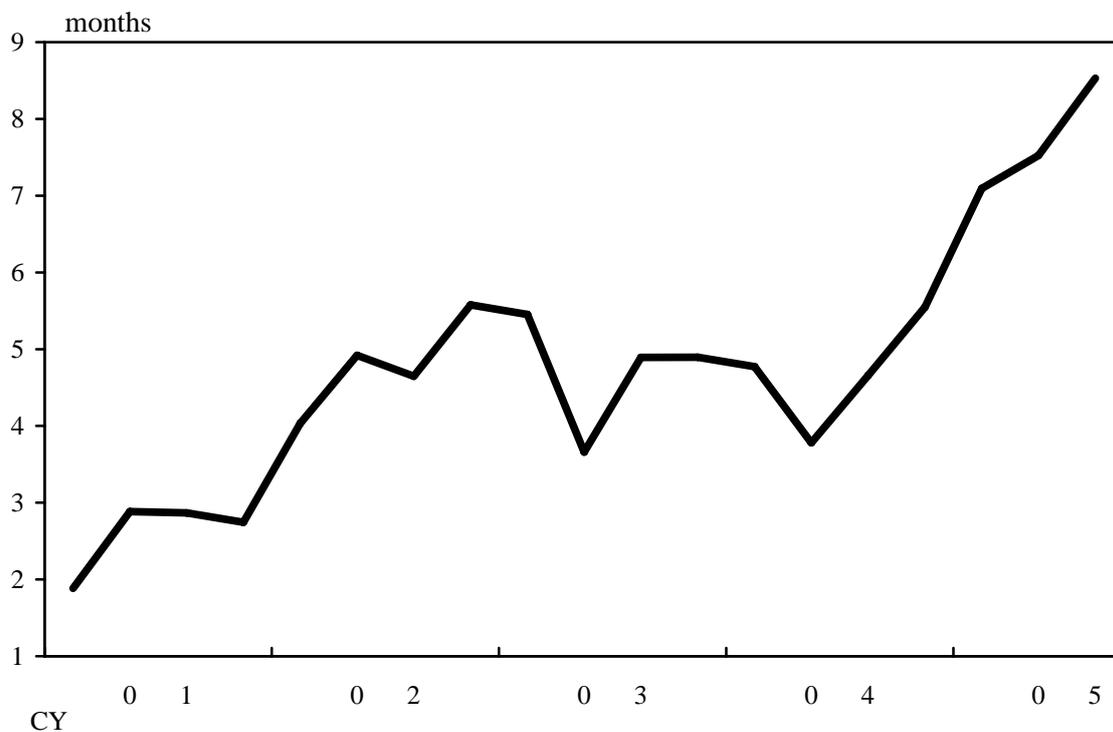
Funds-Supplying Operations

(1) Bid-to-Cover Ratio (Bill-Purchasing Operations)



Note: Based on the dates of offers.

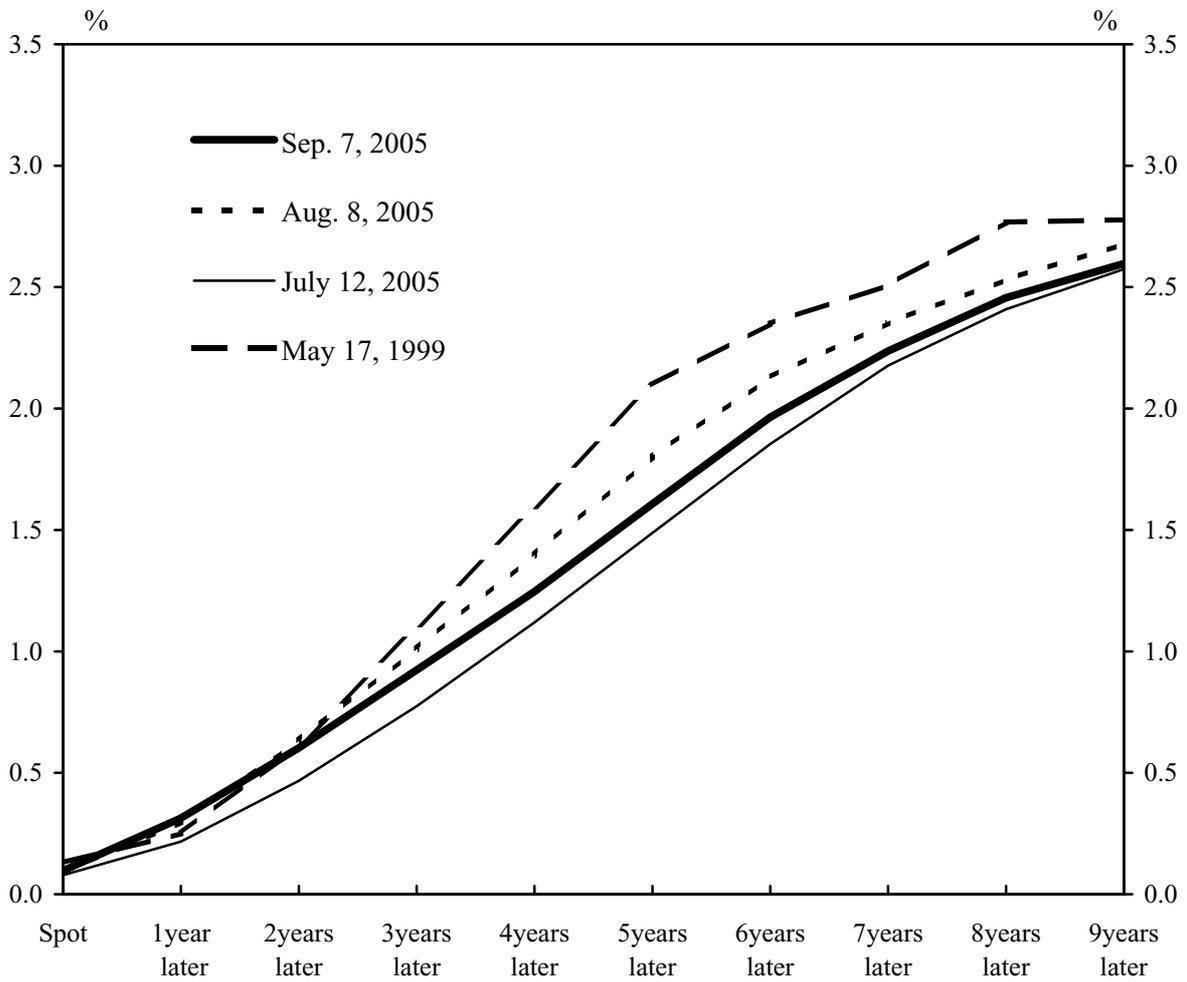
(2) Maturity of Bill-Purchasing Operations



Note: Figures are weighted average maturities of bill-purchasing operations offered during each quarter. The amounts of funds supplied are used as the weight.

Source: Bank of Japan.

Implied Forward Rates (1-year)

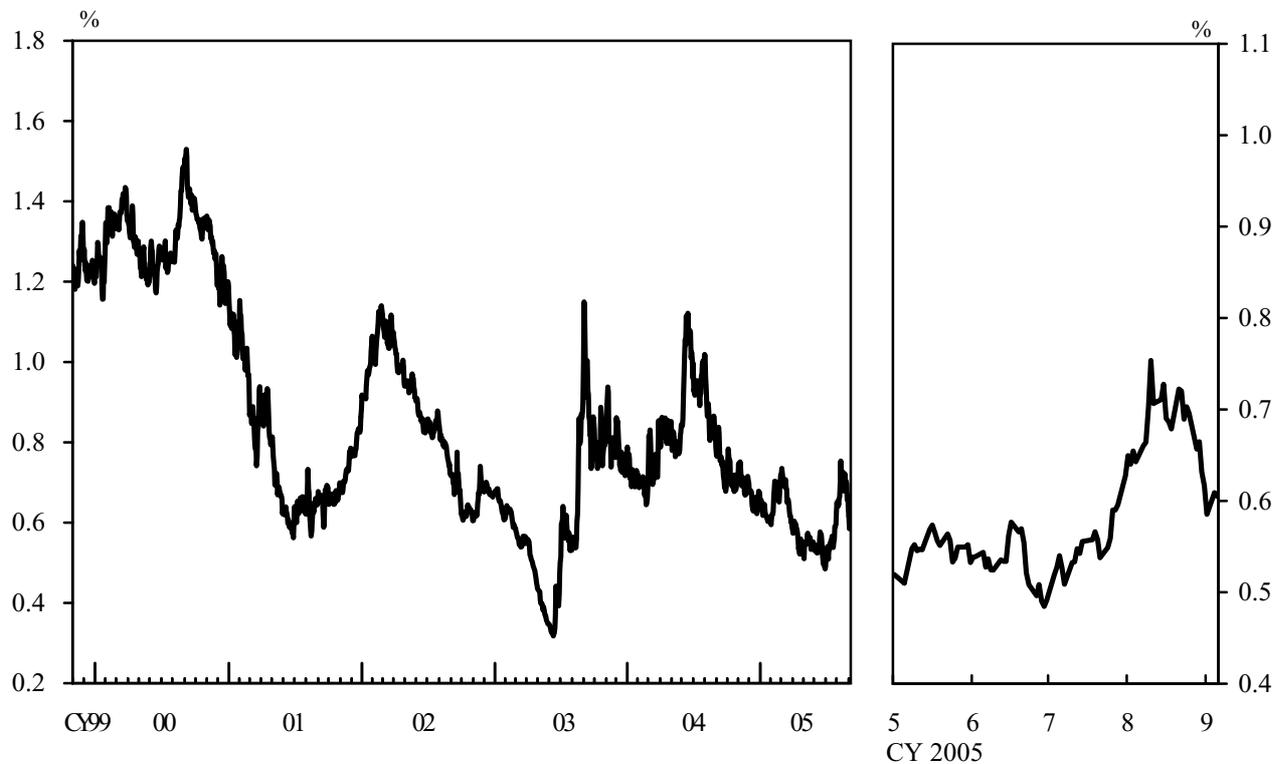


Note: Calculated from yen-yen swap rates.

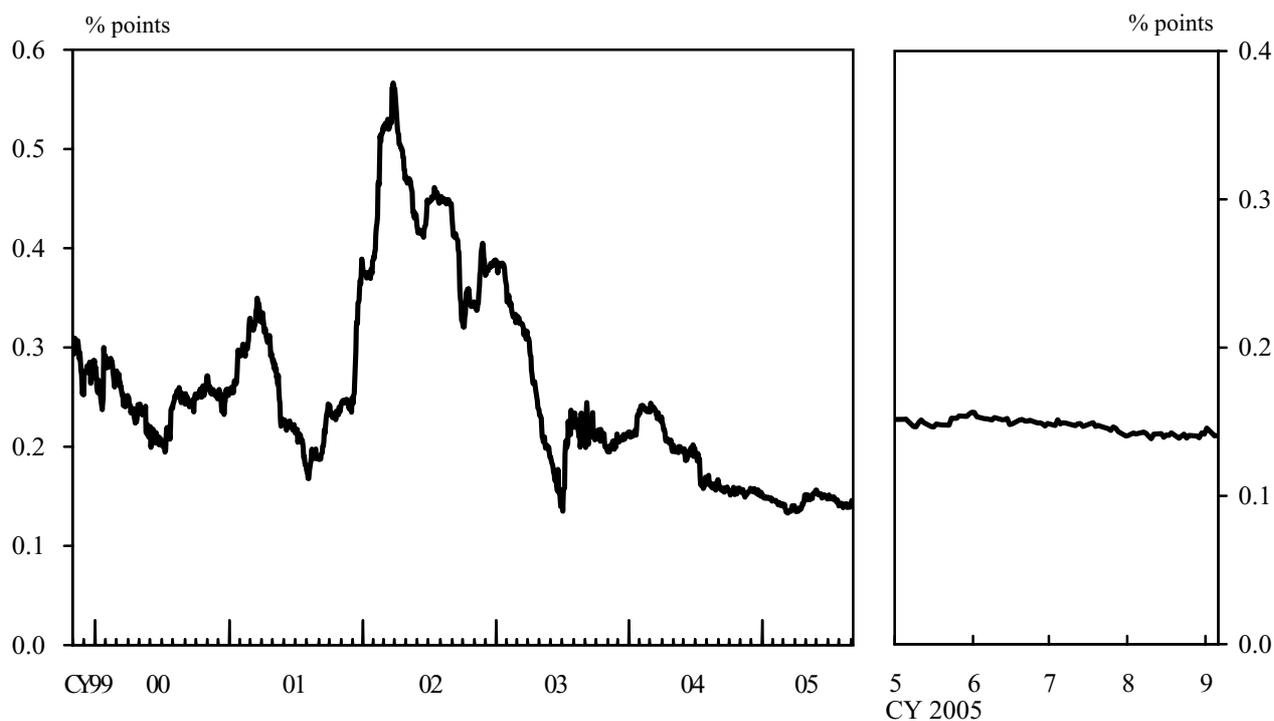
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



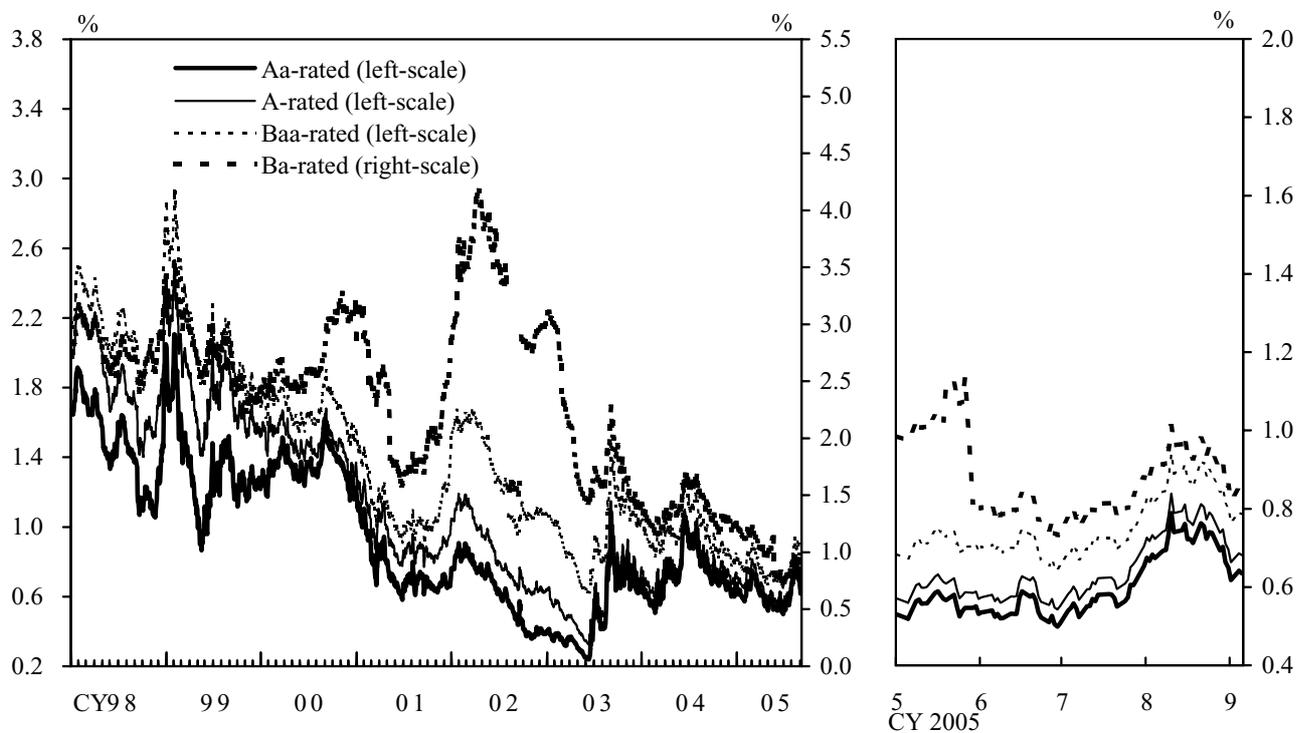
Notes: 1. Yields on bonds with 5-year maturity.

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

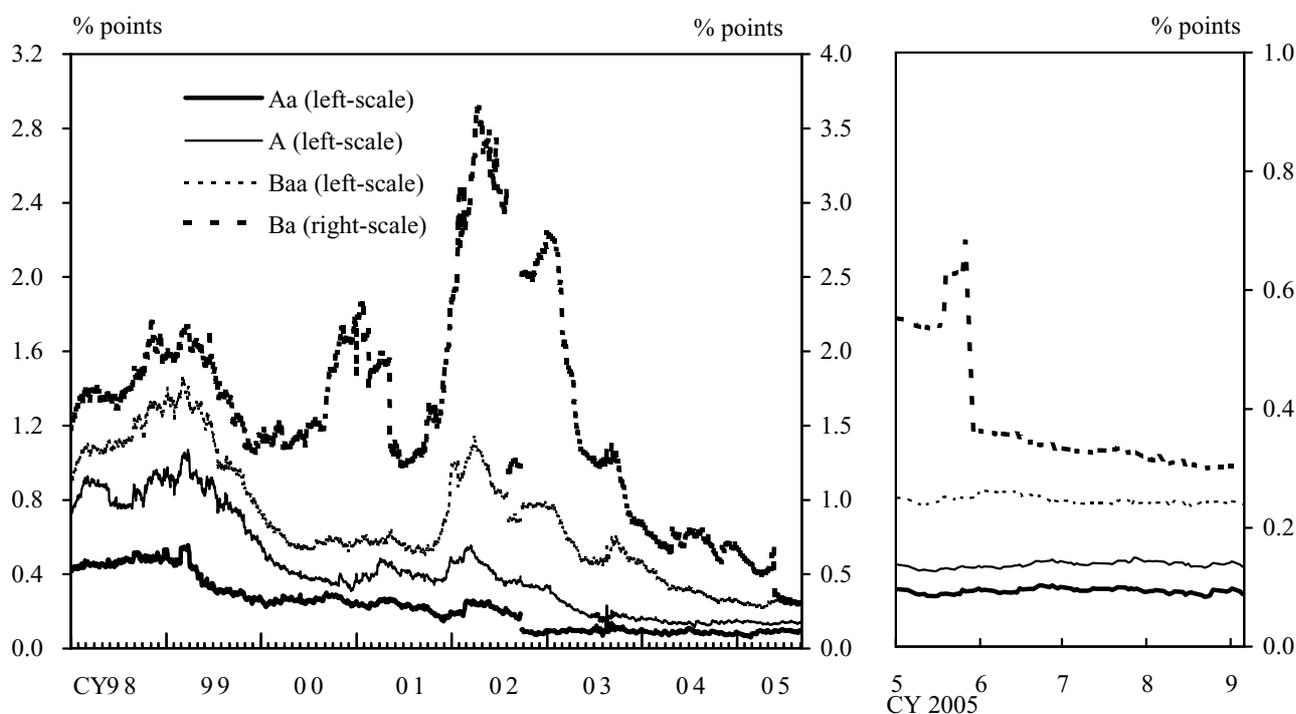
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price(Yields) Table for OTC Bond Transactions."

Yields of Corporate Bonds

(1) Corporate Bond Yields



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



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

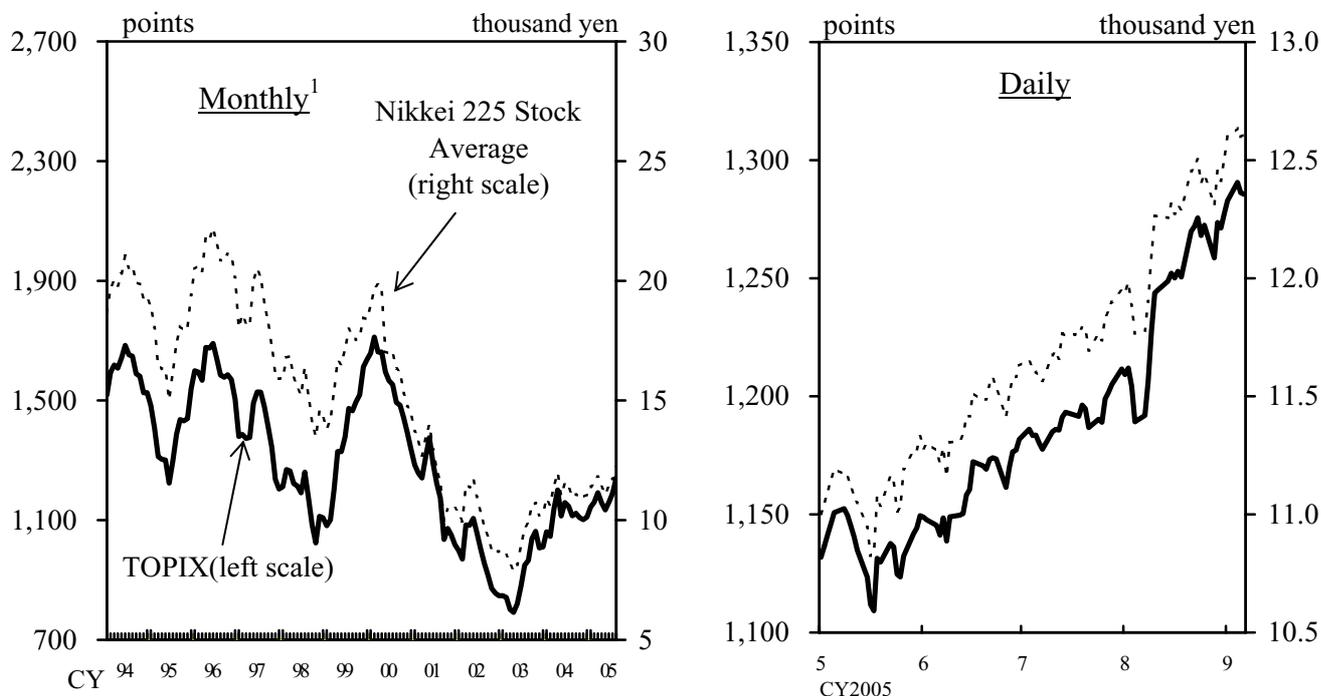
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of 4 to 6 years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

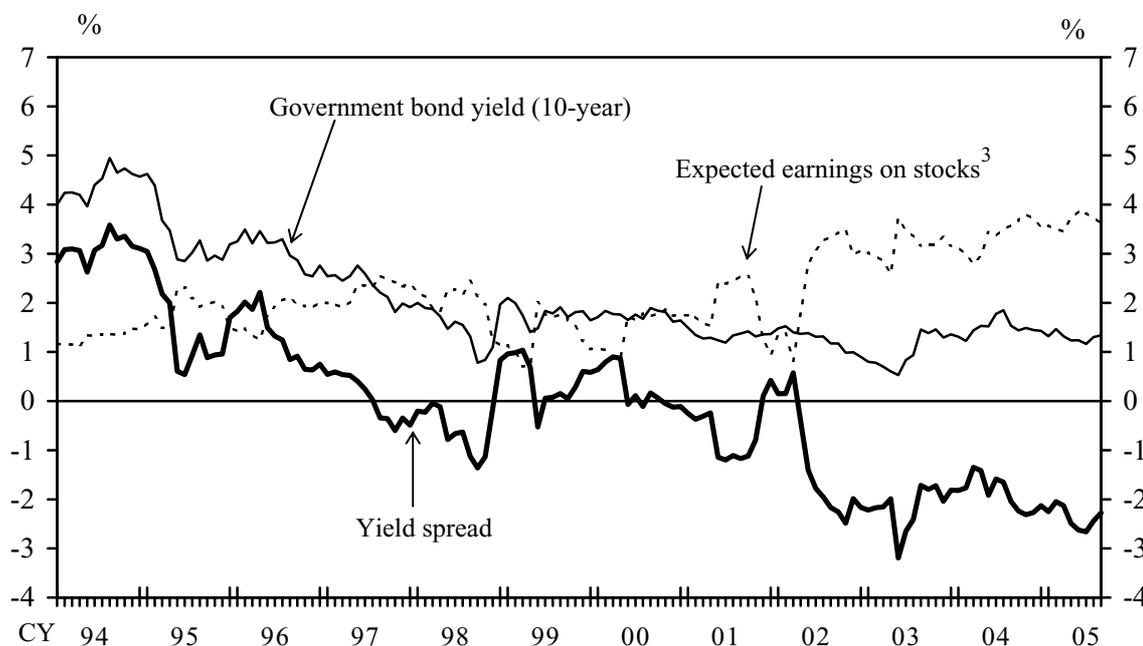
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

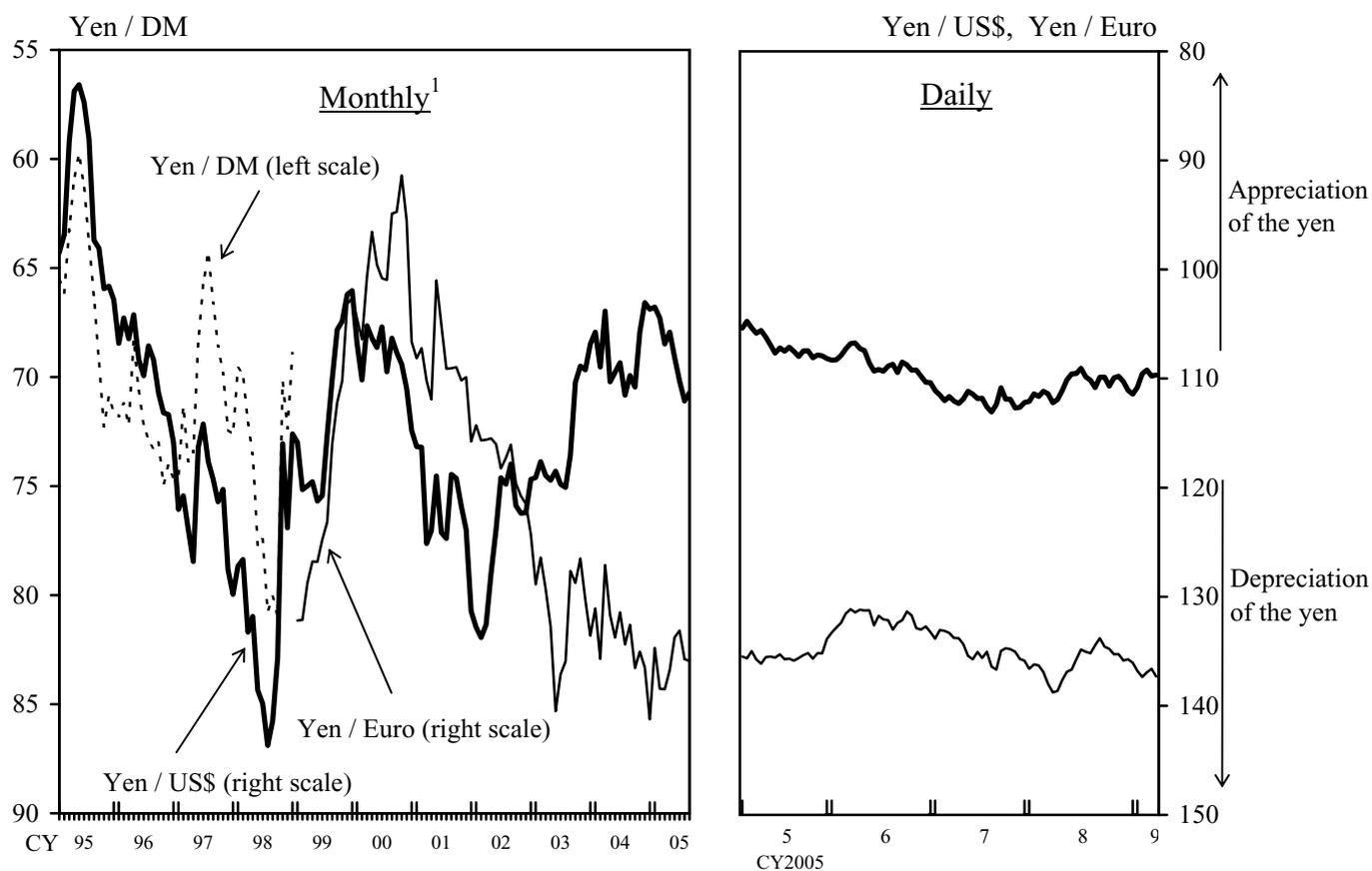
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

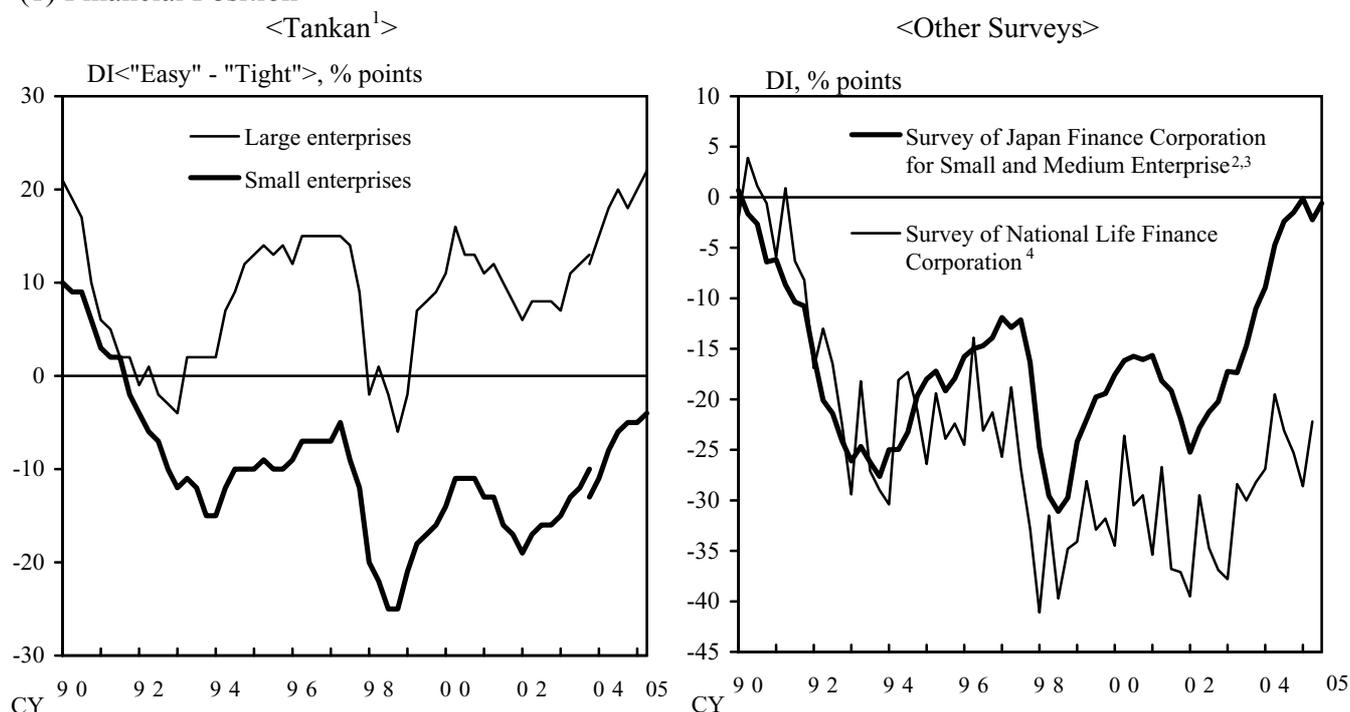
Exchange Rates



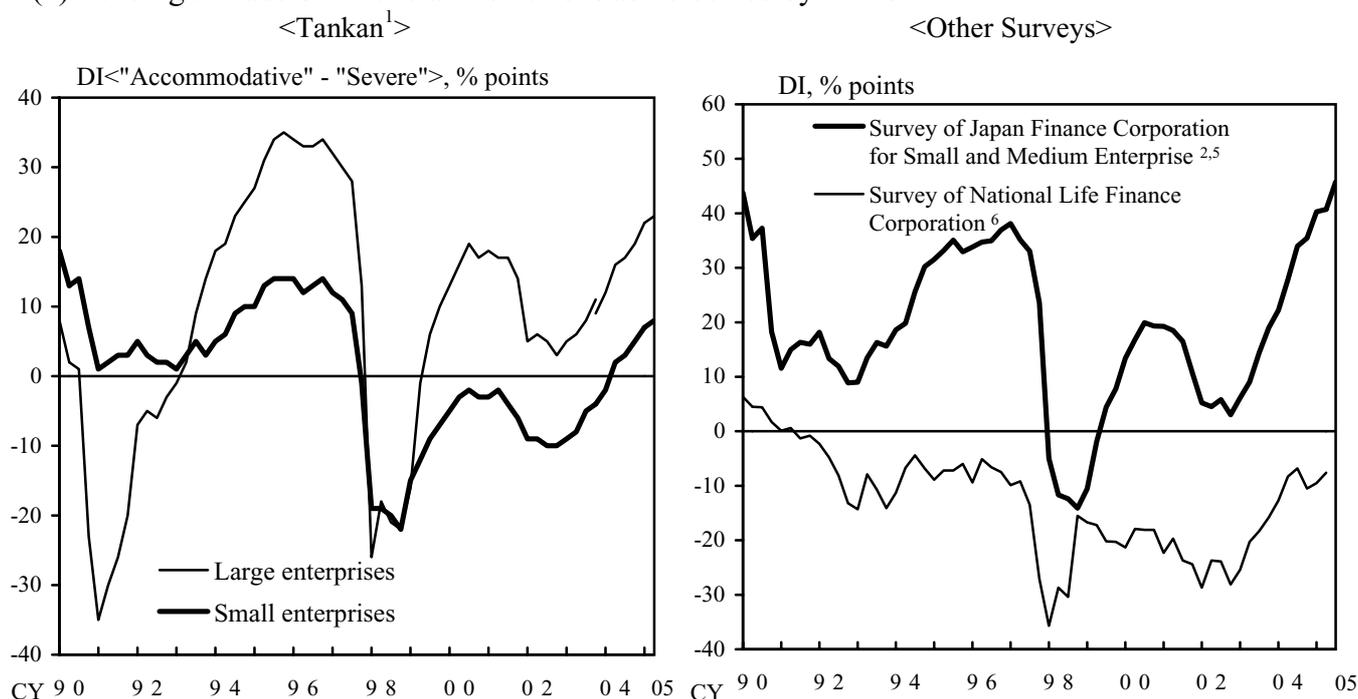
Note: 1. End of month.
 Source: Bank of Japan.

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 2005/Q3 are those of Jul.-Aug. averages.

3. DI of "Easy" - "Tight"

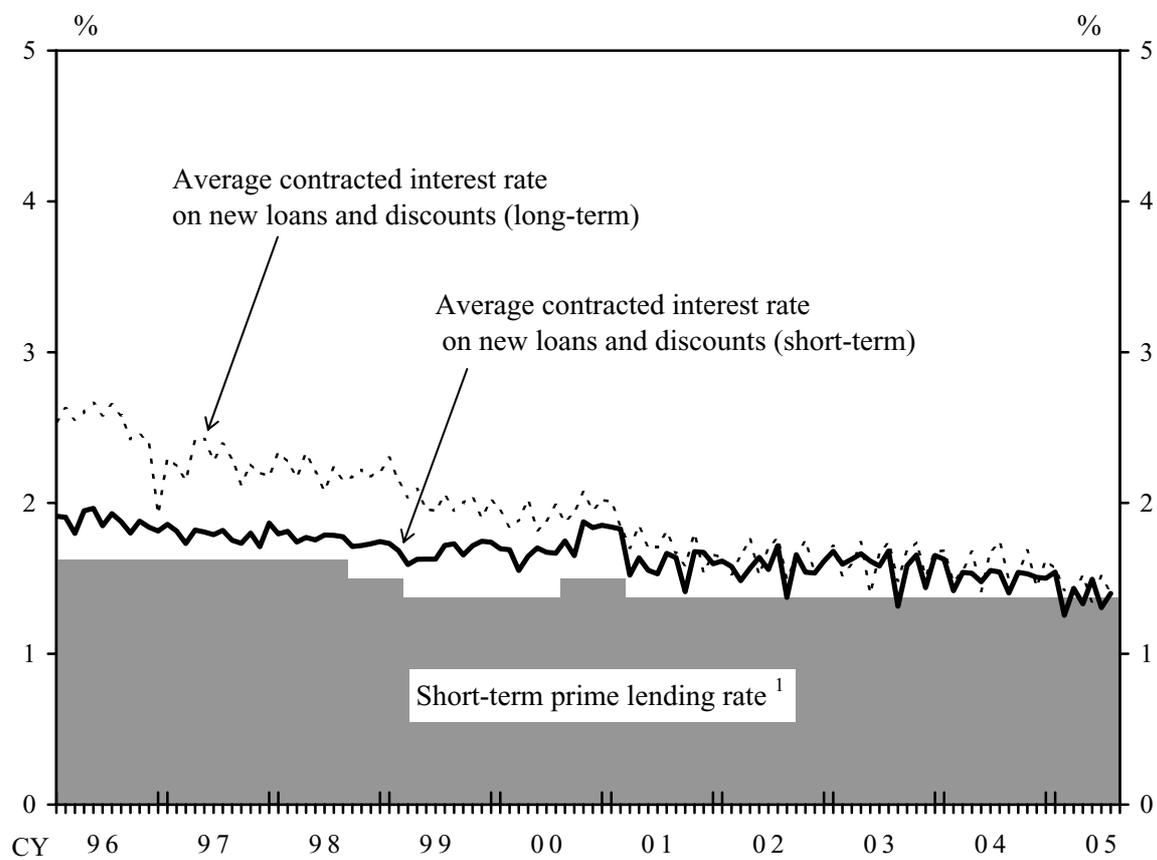
4. DI of "Easier" - "Tighter"

5. DI of "Accommodative" - "Severe"

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

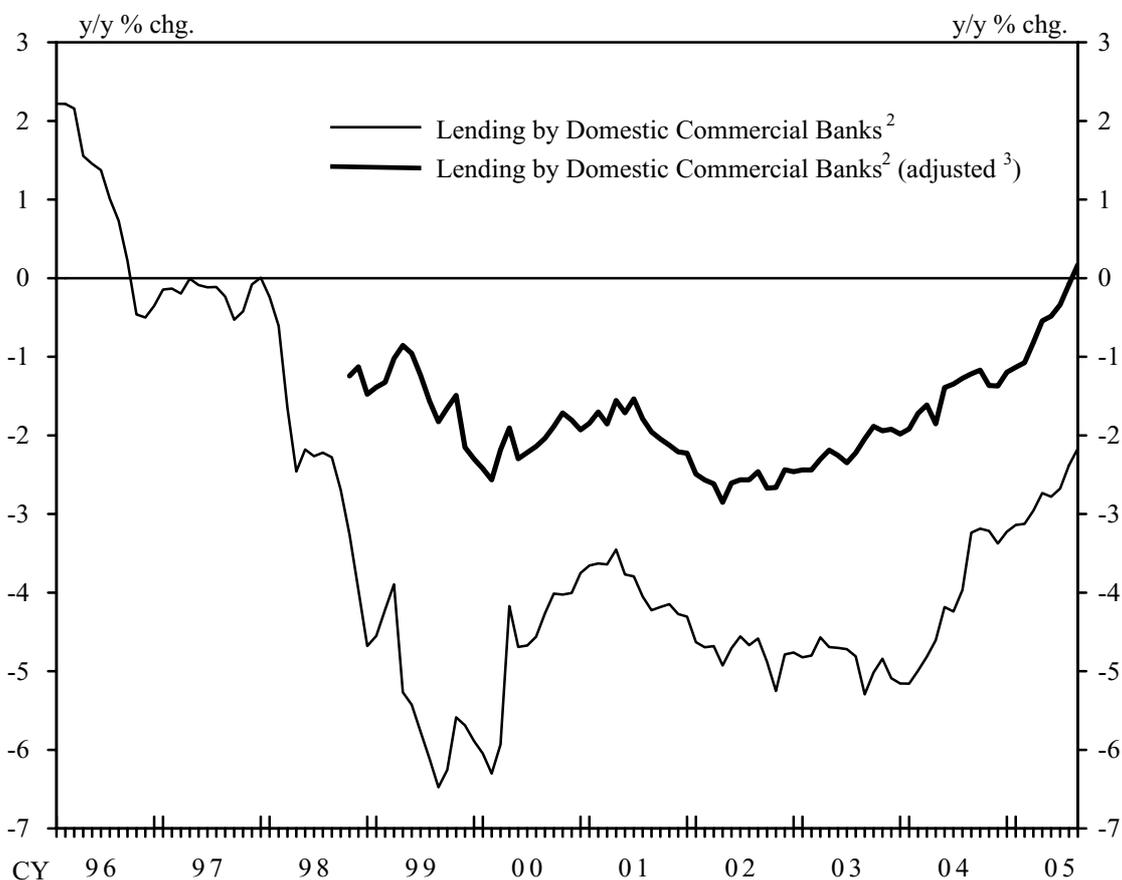
Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small and Medium Enterprise, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

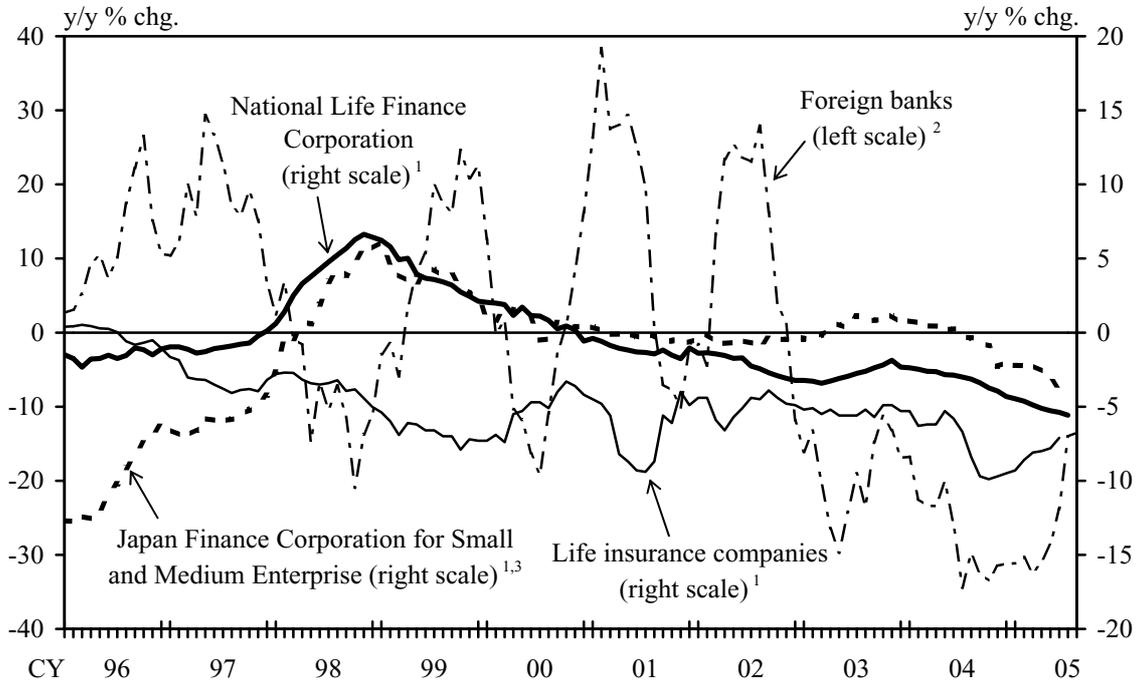
Lending by Domestic Commercial Banks ¹

- 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."

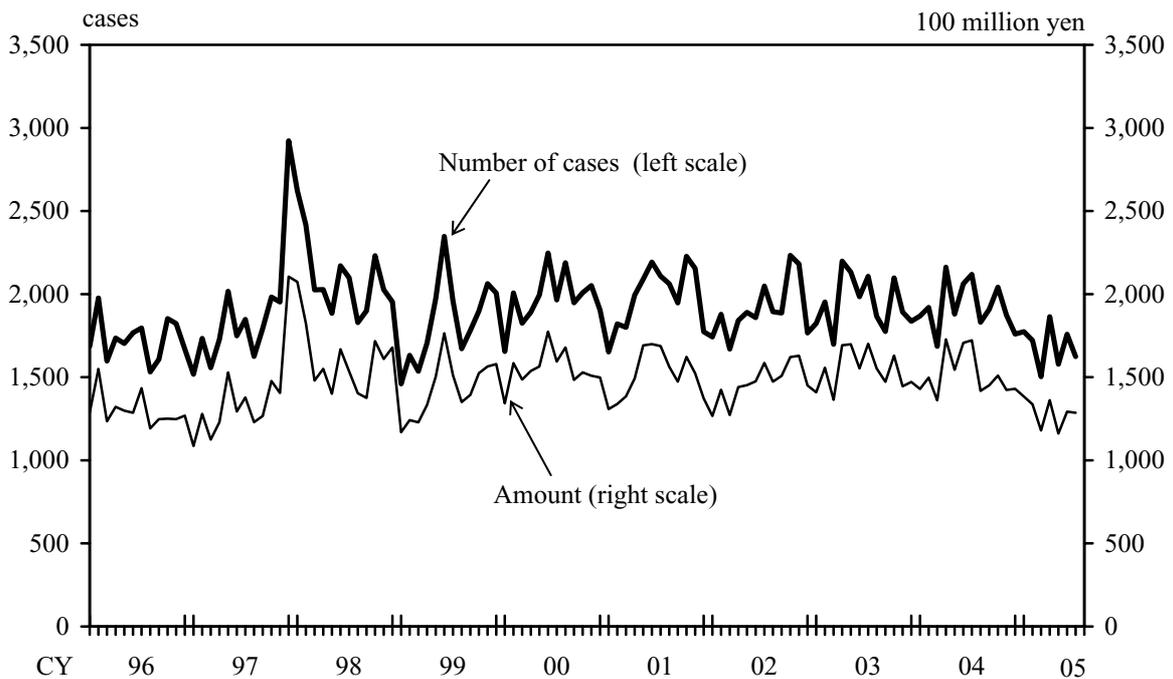
Lending by Other Financial Institutions

(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 to June 2005 are adjusted to exclude the effects from the succession of the credit insurance accounts of the former Japan Small and Medium Enterprise Corporation.

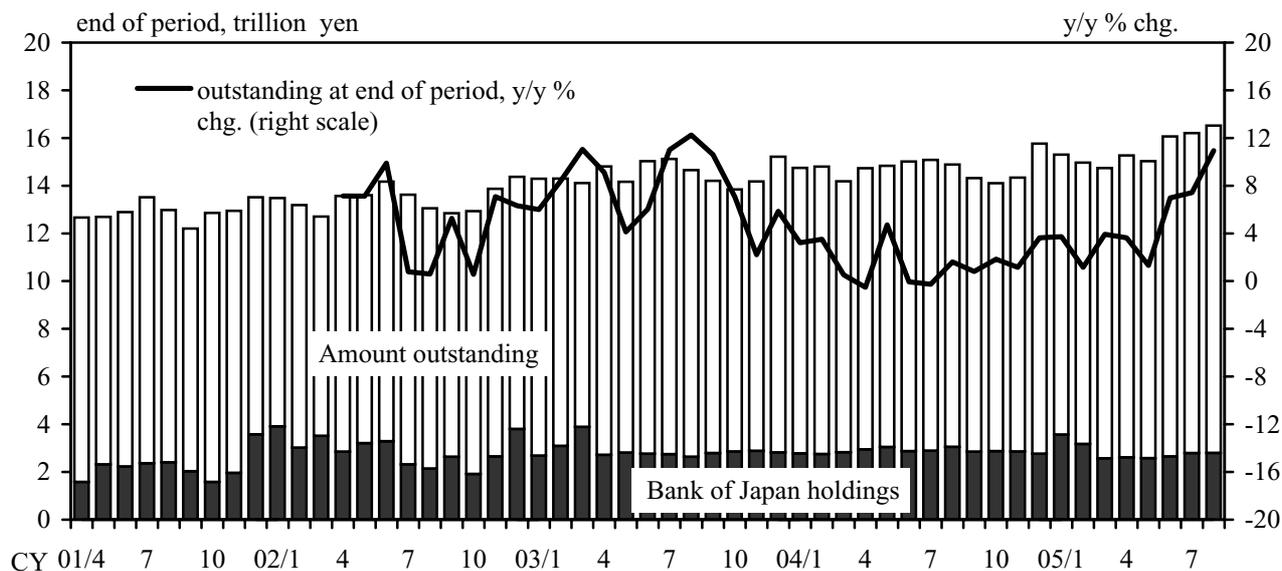
(2) Application for a Loan from Japan Finance Corporation for Small and Medium Enterprise



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

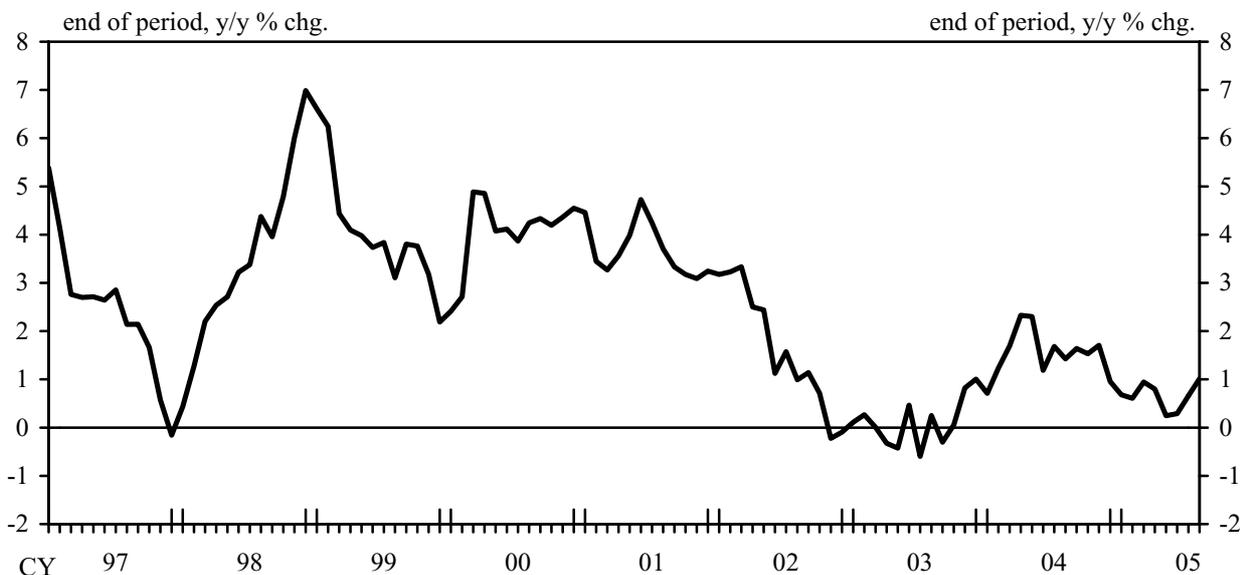
Private-Sector Fund-Raising in the Capital Markets

(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)



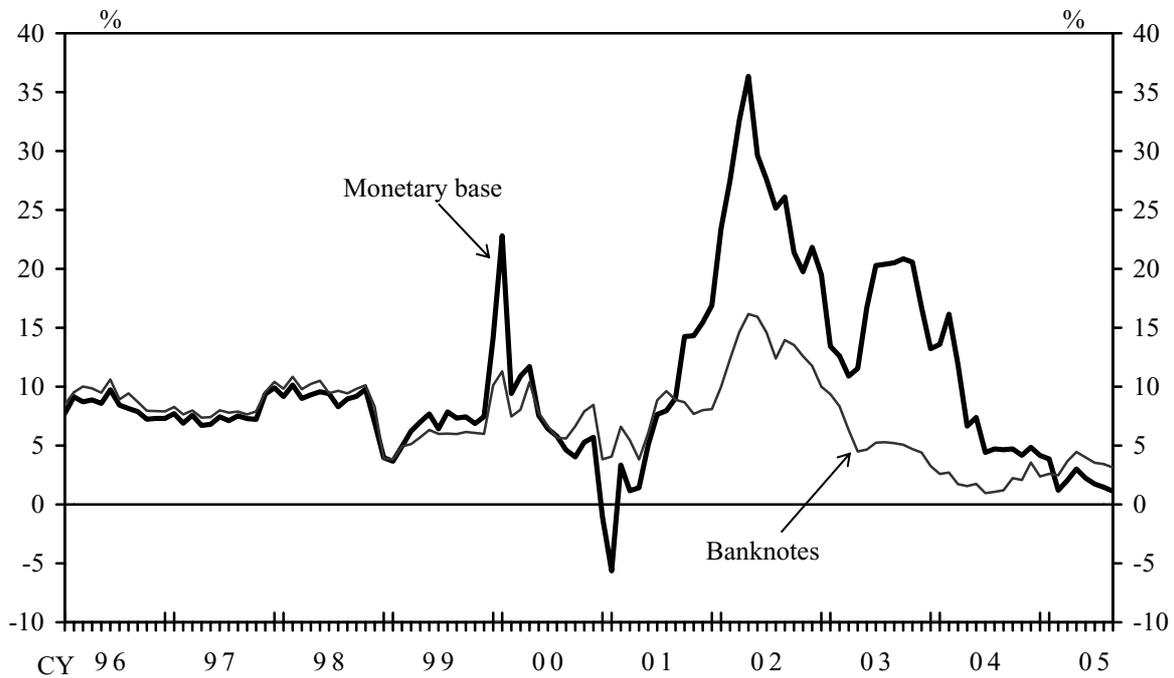
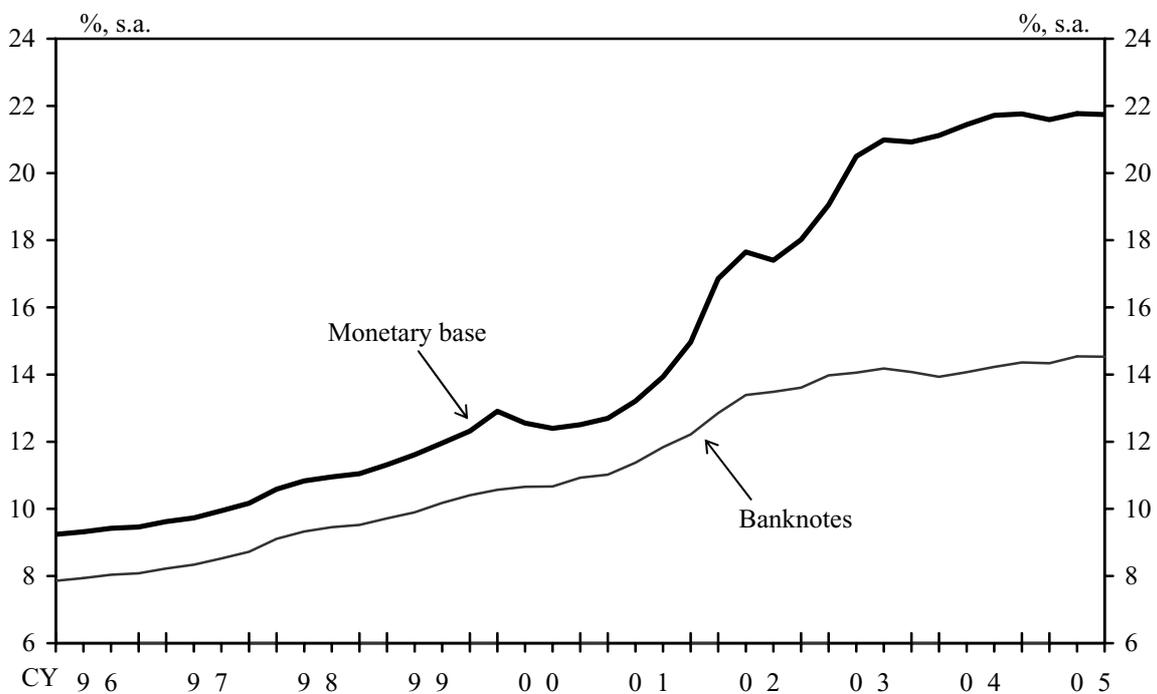
Note: Percentage changes from the previous year of the amount outstanding of corporate bonds are estimated figures. Procedures of the estimation are summarized as follows:

- (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**

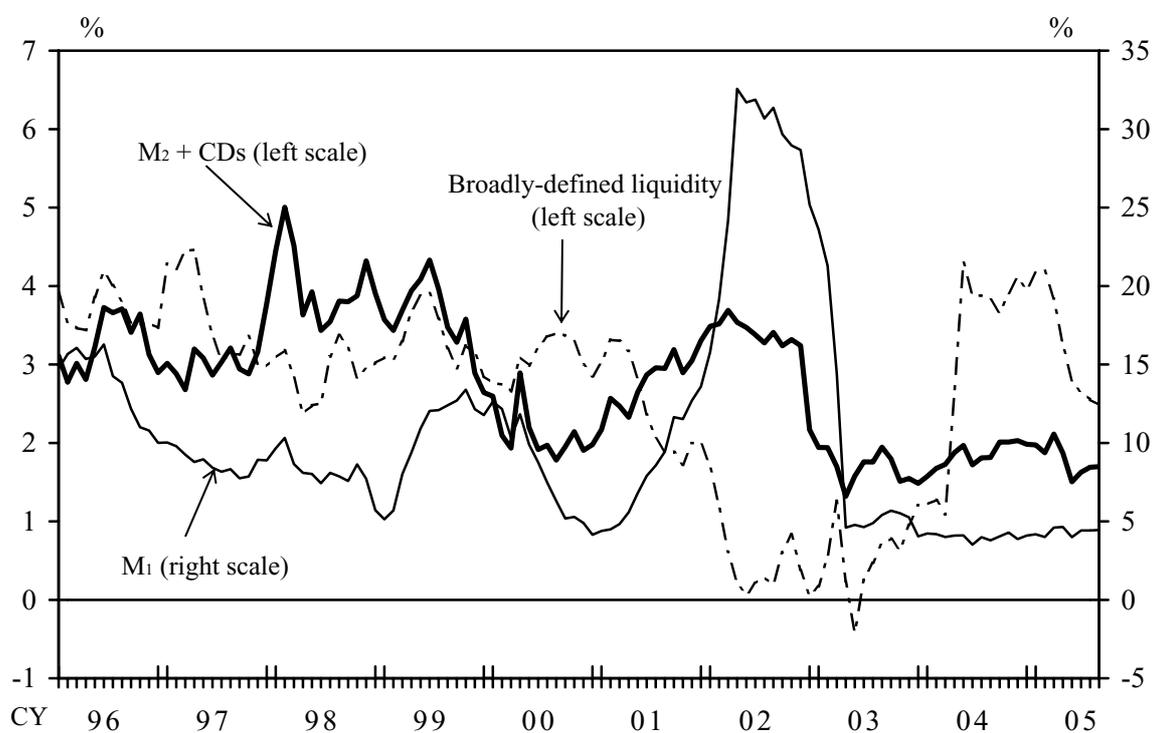
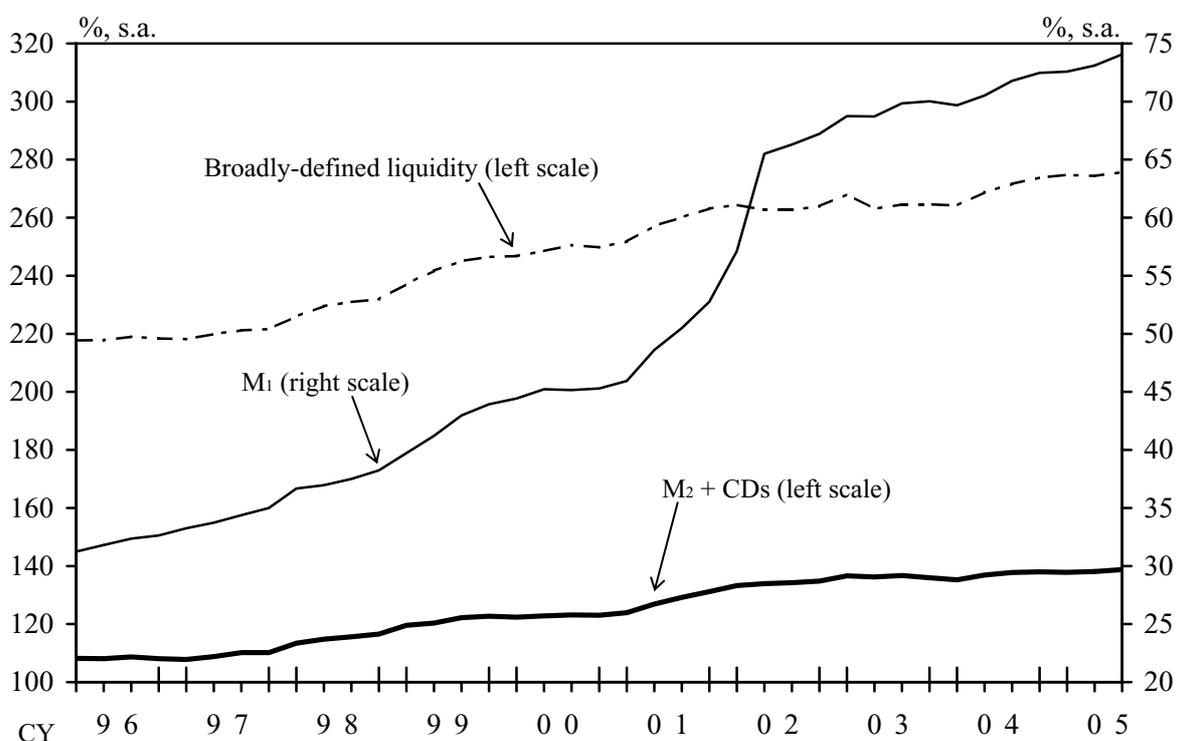
Notes: 1. Monetary base = currency in circulation (banknotes + coins) + current deposits at the Bank of Japan.

Data for currency in circulation include holdings of financial institutions.

2. Figures for the monetary base and banknotes in 2005/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2005/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)

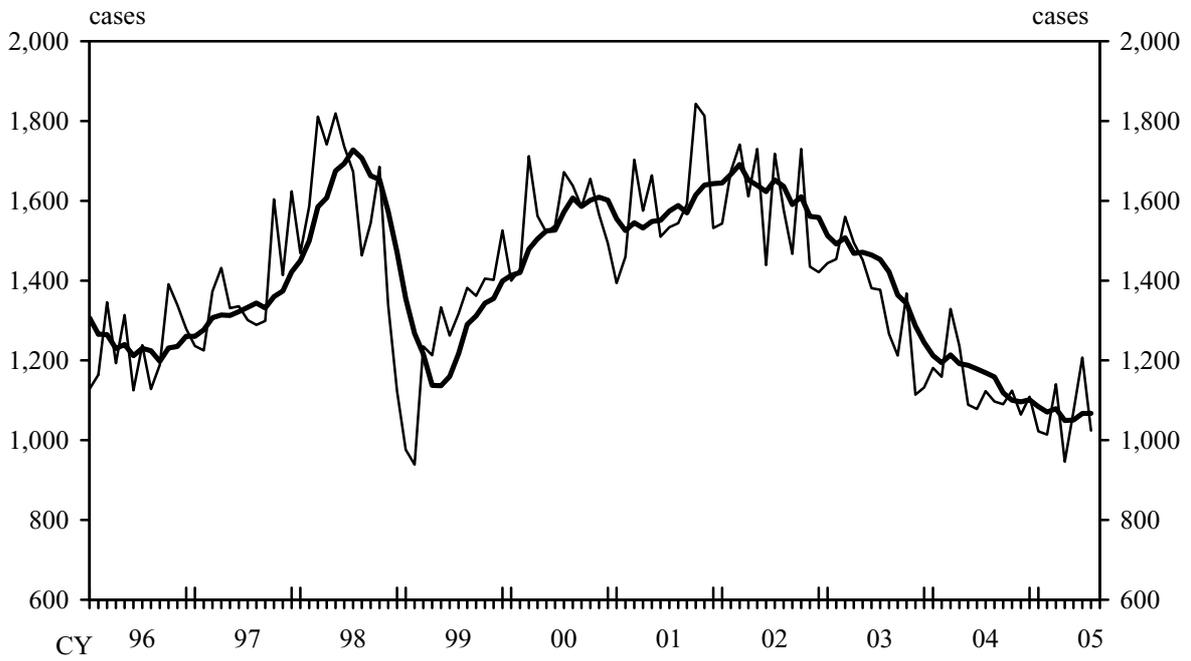
(1) Changes from a Year Earlier**(2) Ratio of Money Stock to Nominal GDP**

Note: Figures for money stock in 2005/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2005/Q3 is assumed to be unchanged from the previous quarter.

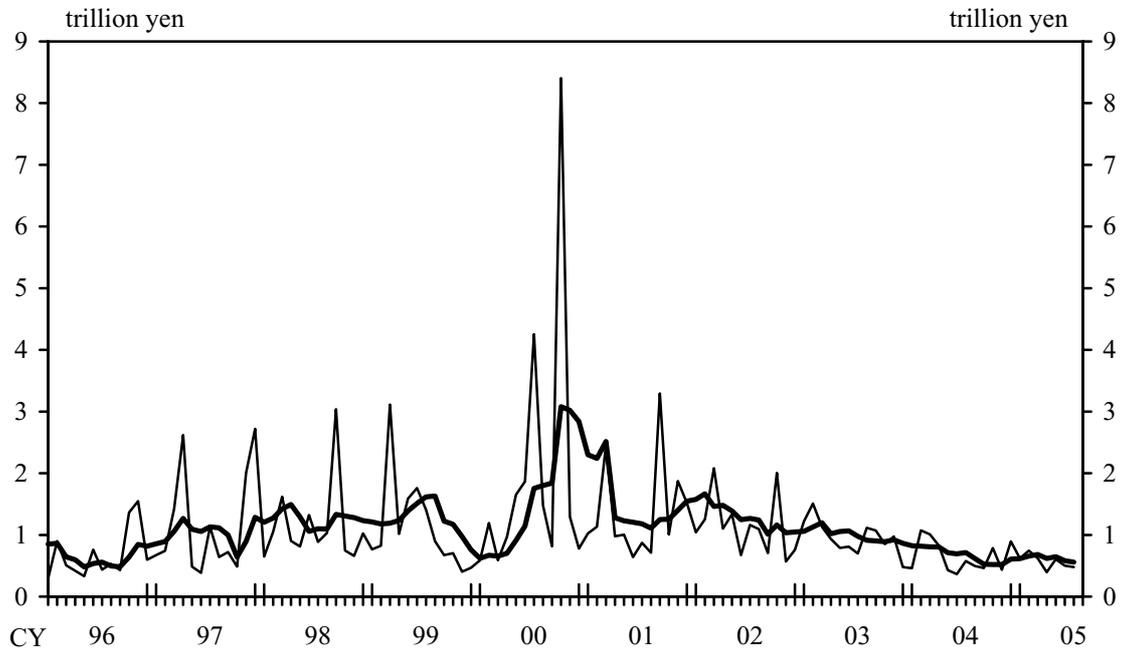
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

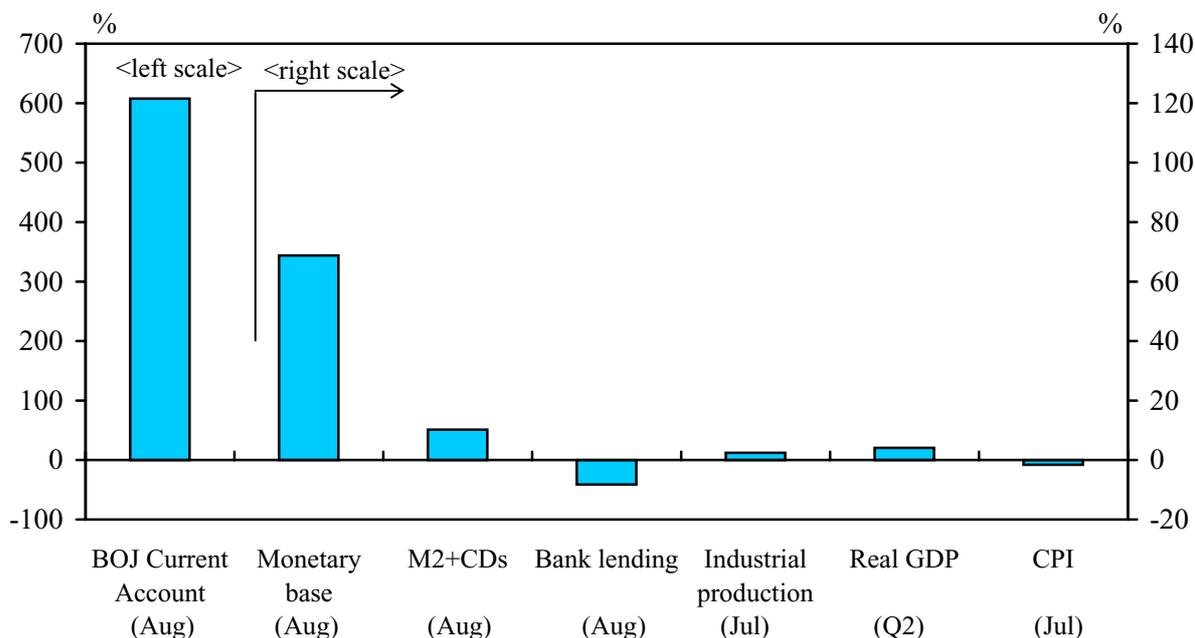


Note: Bold lines are the six-month moving average.

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

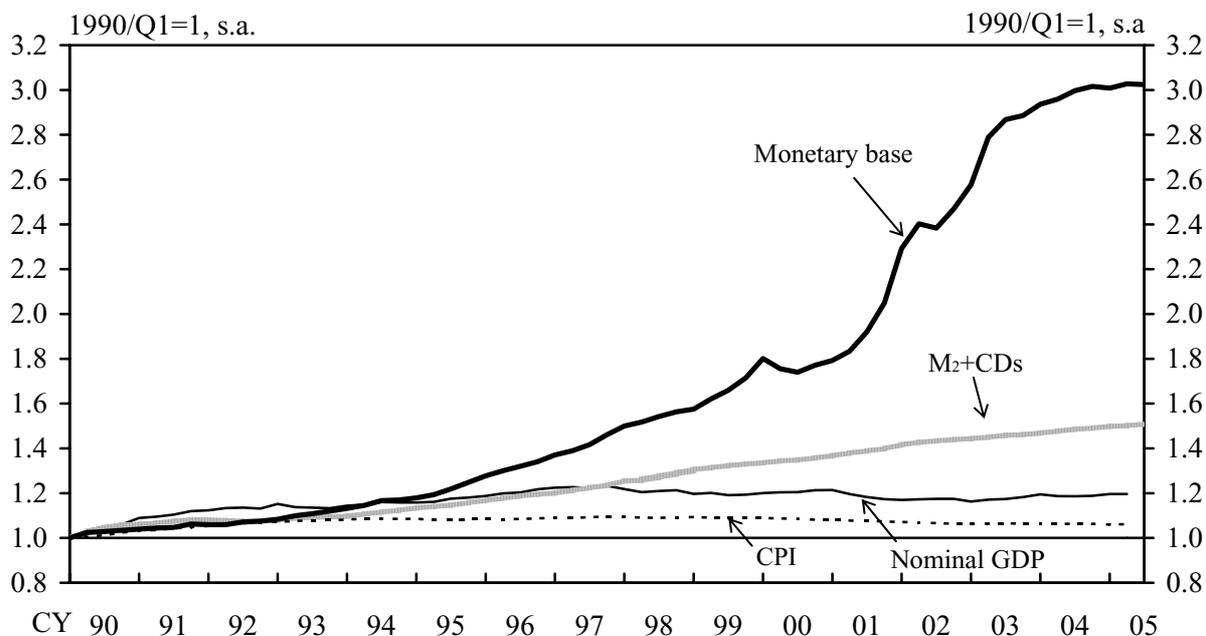
Monetary Indicators, Economic Activity and Price Development

(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 2005/Q3 are those of Jul.-Aug. averages.

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.