

October 14, 2005  
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original released on October 13, 2005)

# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

October 2005

## The Bank's View<sup>2</sup>

Japan's economy continues to recover.

Exports have continued to increase 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 and a modest improvement in business sentiment. Household income has also continued rising moderately, reflecting the improvement in employment and wages. In this situation, private consumption has been steady. Housing investment has recently shown some increases. Meanwhile, public investment has basically been on a downtrend.

Japan's economy is expected to continue to recover.

Exports are expected to continue rising against the background of the expansion of overseas economies. 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, 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.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 11 and 12, 2005.

<sup>2</sup> The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on October 11 and 12, 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 rates of the monetary base and the money stock are at the 1.0-2.0 percent level. 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, long-term interest rates and stock prices have risen compared with last month, while the yen's exchange rate against the U.S. dollar has fallen compared with last month.

## **The Background**

### **1. Japan's Economy**

Public investment has basically been on a downtrend (Chart 3). The amount of public construction completed—which reflects the actual progress of public works—has recently been increasing slightly, but has basically followed a downtrend. The value of public works contracted—a measure that reflects public orders—has also been on a moderate downtrend with fluctuations smoothed out. It declined in July-August, after having increased slightly in the second quarter due to large-scale orders from public corporations. Public investment is expected to remain on a downtrend, since the initial budget of fiscal 2005 has been reduced.

Real exports have continued to increase 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 2.5 percent in July-August compared to the second quarter.

As for real exports by region (Chart 5[1]), exports to the United States have continued increasing against the background of the U.S. economic expansion. Exports to the NIEs and ASEAN have also been increasing moderately, mainly in IT-related goods. Meanwhile, exports to China, which had been lacking momentum, have shown some pickup. In July-August, exports to China rose significantly across a wide range of goods, although this was partly buoyed by semiconductor manufacturing equipment, which tends to fluctuate widely (Chart 8). By goods (Chart 5[2]), exports of automobile-related goods have continued a steady increase on average, although they declined marginally in July-August as a reaction (Chart 6[3]). Exports of consumer goods have also continued a solid increase, driven by digital home appliances. Exports of IT-related goods (electronic parts, such as semiconductors), which had been lacking momentum, have recently increased noticeably, against the background of the completion of global adjustments in the IT-related sectors. Also, exports of capital goods and parts have posted a slightly higher growth, particularly in semiconductor manufacturing equipment (Charts 6[1], 7[1]).

Real imports have been on an increasing trend, due to the rise in domestic demand, and to the progress in the international division of labor between Japan and China (Charts 4[1] and 10). Looking at July-August figures by goods, imports of consumer goods (automobiles from the EU) declined as a reaction to the surge in the previous quarter, and those of raw materials have remained subdued. However, imports of IT-related goods (PCs and electronic parts, such as semiconductors) and those of capital goods and parts (machinery and aircrafts) have posted high growth.

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.

Exports are expected to continue rising, as overseas economies continue expanding, particularly in the United States and East Asia (Chart 9[2]). 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. As for the U.S. economy, although the growth rate is likely to slow temporarily due to the impact of the hurricanes, the economy is expected to continue expanding at a pace close to its potential growth rate as a trend, since private consumption and business fixed investment will increase steadily and reconstruction-related demand is expected. As for the Chinese economy, adjustment pressures, such as the restraint on inventories, have been diminishing, reflecting the continued high economic growth. In fact, China's imports have begun to increase again, which is considered to be a sign of this development. However, future developments in exports to China are still quite uncertain, as the supply-demand balance of materials in China still lacks firmness. Moreover, the pace of increase in global IT-related demand is projected to remain moderate, although 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. Shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—continued to increase in July-August, mainly in shipments of computer-related goods and plant-related equipments, after having posted a relatively high increase in the second quarter (Chart 11-1[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—continued an uptrend both in the manufacturing and nonmanufacturing industries (Chart 11-2[1]). Moreover, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—continued their solid increase across a wide range of industries, with fluctuations smoothed out (Chart 11-2[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been at a high level. In the September *Tankan* (Chart 12), projections for current profits of large firms in fiscal 2005 have been revised upward, although marginally, particularly in the materials and nonmanufacturing industries, despite the rise in crude oil prices. As a result, current profits are projected to increase somewhat further, after having increased substantially to a high level in fiscal 2004. Meanwhile, projections for current profits of small firms have been revised slightly downward, but they have maintained a solid increase. In these circumstances, business sentiment has shown some improvements, albeit modest (Chart 13).

Business fixed investment is expected to continue increasing, since domestic and external demand continues to increase, and corporate profits remain high. According to the September *Tankan* (Chart 14), business fixed investment plans in fiscal 2005 of large manufacturing firms have remained more or less unchanged from the June *Tankan*, reporting a strong increase of a 16.0 percent on a year-on-year basis.<sup>3</sup> Investment plans of electric machinery, which had been the driving force of the previous fiscal year's investment, continued to increase, albeit at a slower pace. Also, plans of the non-IT-related industries such as transport machinery, general machinery and materials, have shown a significant rise. Investment plans of large nonmanufacturing firms registered an increase of around 6.0 percent on a

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<sup>3</sup> While plans for the first half of the fiscal year have been revised downward compared to the June *Tankan*, those for the second half have been revised upward. This suggests that actual investments have tended to lag behind plans.

year-on-year basis, unchanged from the June *Tankan*. Although the rate of increase is smaller compared to that of manufacturing, these investment plans were the strongest in recent years for nonmanufacturing. Investment plans of small firms both in manufacturing and nonmanufacturing were revised upward steadily across a wide range of industries. As investment plans made at the time of the September *Tankan*, these exceeded the plans of the same period of last fiscal year, which had finally registered an approximate 10.0 percent rise.

Private consumption has been steady. Individual indicators on consumption have shown slight declines since July as a reaction, after having been relatively strong on the whole until the second quarter (Charts 15-1, 15-2). The number of new passenger-car registrations declined in the third quarter as a reaction to the high growth registered in the second quarter, which was fueled by the introduction of new model automobiles, mainly of small passenger cars. Sales at department stores remained solid, mainly in apparel and general merchandise (cosmetics), but dropped marginally in July-August compared to the second quarter, in which sales posted a relatively large increase. Supermarket sales continued to be relatively weak. Sales at convenience stores have been on a moderate uptrend on average, despite the recent large fluctuations. Meanwhile, sales of household electrical appliances have continued a steady increase.<sup>4</sup> As for services consumption, sales in the food service industry have followed an increasing trend, albeit with some fluctuations. On the other hand, outlays for travel have almost peaked on the whole, as overseas travel has recently been relatively weak, while domestic travel has continued to be strong.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,<sup>5</sup> were somewhat subdued in July-August as a reaction to the relatively strong sales until June (Chart 15-3). The aggregate supply of consumer goods—which comprehensively captures producers' supply of

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<sup>4</sup> Figures published by Nippon Electric Big-stores Association (NEBA) had been used for household electrical appliances sales. However, with the dissolution of the association at the end of August, sales of household machinery retail stores in the Current Survey of Commerce will be used hereafter (deflated mainly using CPI by the Research and Statistics Department, Bank of Japan).

<sup>5</sup> The indices of aggregated sales are the weighted average of each sales indicator. With the aforementioned changes in the household electrical appliances statistics used for calculation, the indices are also retroactively revised.

goods—also declined in July-August (Chart 15-4). 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) declined in July-August in various categories, such as automobiles, as a reaction to the increases in the first and second quarters (Chart 15-1[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 16).

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

As for housing investment, housing starts have recently shown some increases (Chart 17[1]). While starts of owner-occupied housing have been more or less flat, those of housing for sale and housing for rent have been rather strong. Particularly in July-August, total housing starts recorded a high level of more than 1.3 million units (annual rates). In the near future, housing investment is likely to be relatively strong because land prices in the central areas of the major cities have almost stopped declining, as mentioned below, and because the supply-side is likely to continue their effort to stimulate potential housing demand.

Industrial production has been on an uptrend with some fluctuations (Chart 18). Production in July-August declined marginally compared to the second quarter, mainly because production of general machinery and automobiles fell, although that of electronic parts and devices increased. However, production in the third quarter as a whole is projected to rise, given the substantial increase in the forecast index for September.<sup>6</sup> Also, following the second quarter, figures for the third quarter have been dampened by some apparent statistical fluctuations, particularly those of steel ships. These considered, production has continued a moderate increasing trend.

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<sup>6</sup> Production in the third quarter, calculated based on the production forecast index for September (increased by 3.0 percent on a month-on-month basis) is an increase of 0.7 percent on a quarter-on-quarter basis.

Shipments were more or less flat in July-August, after having increased in the first and second quarters. By goods (Chart 19), shipments of capital goods have been on an increasing trend, albeit with fluctuations, while those of consumer goods have recently been somewhat subdued for both durables and nondurables. Meanwhile, shipments of producer goods have been picking up slightly on the whole. This is because shipments of electronic parts and devices have increased substantially against the background of the completion of adjustments in IT-related sectors, although iron and steel, and chemicals have been relatively weak.

Meanwhile, inventories have recently increased somewhat, mainly in the materials industries, although they remain low from a long-term perspective (Chart 18[1]). Looking at the inventory cycle (Chart 20), latest figures of electronic parts and devices have marginally exceeded the 45 degree line—where the growth of shipments balances with that of inventories—to the lower-right. This confirms the completion of inventory adjustments in this sector. Meanwhile, the year-on-year growth rate in inventories of producer goods excluding electronic parts and devices has increased somewhat, particularly in iron and steel, chemicals, paper and pulp. As for durable consumer goods, inventory of automobiles, which tends to fluctuate widely, has shown relatively high growth. As a result, inventories in the industrial sector as a whole are currently in a moderate adjustment phase, owing to the developments in producer goods excluding electronic parts and devices. The somewhat excess inventory in the materials industries mentioned above is considered to be attributable to the supply-demand imbalance in domestic and Asian markets, including China. However, among materials, high value-added products for IT-related goods and automobiles remain in a favorable supply-demand condition. Thus, the effects of inventory adjustments in the materials industries on corporate profits of related industries, and consequently on the economy as a whole, seem to be limited.

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, although inventory adjustments of materials are likely to dampen production somewhat. According to anecdotal

information, production in the fourth quarter is likely to continue increasing.<sup>7</sup> Nevertheless, the strength of final demand in IT-related sectors and whether exports will take a steady growth path require close monitoring.

As for the employment and income situations, household income has been rising moderately, reflecting improvements in employment and wages, as various indicators for labor market conditions have been improving (Chart 21).

In the labor market, overtime hours worked remained high, although they have recently been more or less flat (Chart 22-2[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, the construction industry, and the wholesale and retail industries (Charts 22-1[2] and [3]). 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 with some fluctuations (Chart 22-1[1]). According to the September *Tankan*, the employment conditions DI has become insufficient slightly as a whole, which suggests that perception among firms of having excess labor has dissipated (Chart 23).

In terms of employment, the number of employees in the *Labour Force Survey* has followed an increasing trend on a year-on-year basis despite some fluctuations, driven by the services industry. Also, the number of regular employees in the *Monthly Labour Survey* continued to increase steadily (Chart 22-2[1]). Looking at the number of regular employees in detail, full-time employees have continued to increase on a year-on-year basis since the start of this year, while the growth rate of part-time employees has been slowing significantly. Consequently, the ratio of part-time workers has recently been almost flat at a level somewhat below the peak recorded at the end of last year (Chart 22-2[2]).<sup>8</sup>

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<sup>7</sup> Production in October, calculated based on the production forecast index, is an increase of 2.0 percent compared to the third quarter. In and after the fourth quarter, the statistical downward pressure caused by steel ships is expected to dissipate.

<sup>8</sup> 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, regular payments have been increasing quite gradually, driven by payments to full-time employees. As for summer bonuses, special payments declined significantly in August, although those figures are preliminary. In June-August as a whole, however, they increased by 1.5 percent on a year-on-year basis. As a result, nominal wages per worker have increased moderately (Chart 21[2]).

As for the outlook, household income is likely to continue increasing gradually, since the perception among firms of having excess labor has dissipated, and corporate profits are likely to 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 (Chart 25).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter, compared to levels three months before)<sup>9</sup> have increased, mainly reflecting the effects of the rise in crude oil prices (Chart 26). In detail, the rate of increase in prices of petroleum and coal products has accelerated, reflecting the rise in crude oil prices. Prices of other materials (chemicals) have risen somewhat, with the passing-on of high costs. Also, prices of iron and steel-related products and construction-related products have increased somewhat, mainly in those of scrap. Meanwhile, the rate of decline in prices of machinery has been narrowing moderately, reflecting the smaller declines in prices of IT-related products and the rise in prices of general machinery. 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

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<sup>9</sup> 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.

in prices of 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 when seen from a somewhat long-term perspective (Chart 27).<sup>10</sup> In July-August, however, the rate of decline widened slightly, reflecting developments in prices of information services (a reaction to the temporary rise recorded last year) and prices of advertising services (a reaction to the Athens Olympics-driven factor 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 28). In August, the year-on-year decline was 0.1 percent, narrowing slightly compared to the decline of 0.2 percent registered in July.

With regard to the domestic supply and demand conditions, the operating level in the domestic economy—measured by the weighted average of the excess in both production capacity and employment conditions as perceived by firms in the September *Tankan*—continued its moderate improving trend (Chart 29). The supply and demand conditions DI has also continued on a recovery trend both for manufacturing and nonmanufacturing, although the pace of improvement has recently been extremely moderate.

In these circumstances, 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

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<sup>10</sup> “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.

telephone charges are expected to ease, in a situation where supply and demand conditions continue improving gradually.

With respect to developments in land prices (in terms of the Prefectural Land Price Survey; Chart 30), the rate of declines both for commercial and residential land prices has distinctly narrowed on the whole in the three metropolitan areas (Tokyo, Osaka, and Nagoya). Furthermore, in central areas of the major cities, more land prices have either stopped declining or started to pick up. On the other hand, in other areas, the rate of declines has narrowed, but the pace has been extremely moderate.

### **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 including September 30, as the Bank continues to provide ample liquidity (Chart 33).

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 31[1]) has been moving at around zero percent. Interest rates on term instruments (Chart 32[1]) have been steady at low levels on the whole. Interest rates on Euroyen futures have been rising on the whole (Chart 32[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 31 [2]) have recently risen to around 1.5 percent, reflecting an improvement in business sentiment in view of domestic economic indicators.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 36 and 37) have been more or less flat on the whole.

Stock prices (Chart 38) have risen, reflecting heightened expectations for an economic recovery in view of domestic economic indicators. The Nikkei 225 Stock Average is moving at around 13,500 yen.

In the foreign exchange market (Chart 39), the yen has fallen as the prospects of a wider interest rate differential between Japan and the U.S. strengthened, reflecting some stronger-than-forecasted U.S. economic indicators. The yen is being traded in the range of 113-115 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 40).

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 41). The long-term prime lending rate was raised by 0.25 percent on October 12 to 1.80 percent.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors<sup>11</sup>) 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 42.)

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, 1.9 percent in July, and 2.6 percent in August; Chart 44.)

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<sup>11</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

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

The year-on-year growth rate of banknotes in circulation decreased slightly; it is currently at the 2.0-3.0 percent level. The year-on-year growth rate of the monetary base (currency in circulation + current account balances at the Bank of Japan) rose somewhat; it is currently at the 1.0-2.0 percent level. (The year-on-year change was 1.5 percent in July, 1.1 percent in August, and 1.7 percent in September; Chart 45.)

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 46.) The year-on-year growth rate for the fourth quarter is projected to be at the 1.0-2.0 percent level.

The number of corporate bankruptcies rose by 5.0 percent year-on-year in August, to 1,152 cases (Chart 47).

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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2005/Q1	Q2	Q3	2005/Jun.	Jul.	Aug.	Sep.
Index of living expenditure level (all households)	2.7	0.4	n.a.	-0.9	-4.3	4.7	n.a.
Sales at department stores	0.2	1.0	n.a.	1.4	-1.6	p 0.2	n.a.
Sales at supermarkets	-0.5	-1.2	n.a.	0.4	-1.2	p 0.4	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 342>	< 362>	< 330>	< 360>	< 329>	< 323>	< 338>
Sales of household electrical appliances <sup>9</sup> (real, Current Survey of Commerce)	1.6	-0.3	n.a.	4.7	-3.8	p 4.7	n.a.
Outlays for travel (50 major travel agencies)	3.6	0.8	n.a.	2.6	-2.8	-1.5	n.a.
Housing starts <s.a., ann. 10,000 units>	< 121>	< 119>	<n.a.>	< 122>	< 133>	< 127>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	0.8	0.8	n.a.	11.1	-4.3	8.2	n.a.
Manufacturing	0.8	7.5	n.a.	14.9	-4.5	9.5	n.a.
Nonmanufacturing <sup>4</sup>	0.3	-1.9	n.a.	8.0	-5.1	7.6	n.a.
Construction Starts (private, nondwelling use)	11.4	-0.5	n.a.	6.5	-11.1	1.0	n.a.
Mining & manufacturing	8.8	27.8	n.a.	-16.0	-4.2	19.4	n.a.
Nonmanufacturing <sup>5</sup>	12.6	-8.5	n.a.	17.5	-14.0	-0.0	n.a.
Value of public works contracted	0.5	1.9	n.a.	3.0	-10.7	11.0	n.a.
Real exports	0.7	1.5	n.a.	0.7	0.1	3.3	n.a.
Real imports	0.4	2.1	n.a.	0.9	-1.4	4.5	n.a.
Industrial production	1.7	-0.4	n.a.	1.6	-1.2	p 1.2	n.a.
Shipments	0.4	1.0	n.a.	2.3	-1.5	p 1.7	n.a.
Inventories	3.1	-0.1	n.a.	-0.2	0.5	p 1.0	n.a.
Inventory Ratio <s.a., CY 2000=100>	<98.4>	<96.2>	< n.a.>	<96.2>	<103.1>	<p 98.5>	< n.a.>
Real GDP	1.4	0.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.4	0.2	n.a.	1.2	-0.8	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	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>	<0.97>
Unemployment rate <s.a., %>	<4.6>	<4.6>	<4.3>	<4.4>	<4.2>	<4.4>	<4.3>
Overtime working hours <sup>6</sup>	1.6	0.4	1.6	1.0	2.1	1.0	p 1.0
Number of employees	0.1	0.0	0.7	0.8	0.8	0.5	0.3
Number of regular employees <sup>6</sup>	0.7	0.6	0.5	0.5	0.6	0.5	p 0.5
Nominal wages per person <sup>6</sup>	0.0	0.0	1.0	0.6	1.5	1.3	p -1.3
Domestic corporate goods price index <sup>7</sup> <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>	1.5 <0.2>	p 1.7 <p 0.5>
Consumer price index <sup>8</sup>	-0.2	-0.4	-0.1	0.0	-0.2	-0.2	-0.1
Corporate service price index	-0.3	-0.7	-0.5	-0.5	-0.5	-0.6	p -0.8
Money Stock (M <sub>2</sub> +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>	<1,152>

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. Household electrical appliances sales have been replaced by the sales of household machinery retail stores in the Current Survey of Commerce from the data of Nippon Electric Big-stores Association (NEBA).

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";

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";

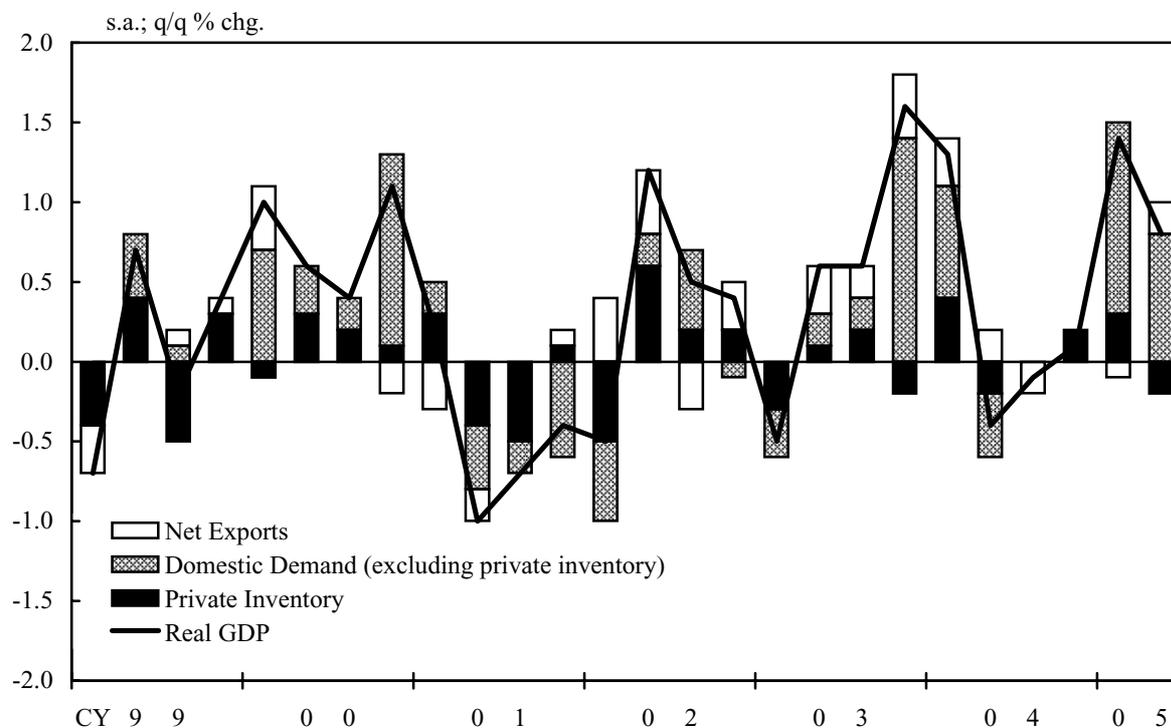
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

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.

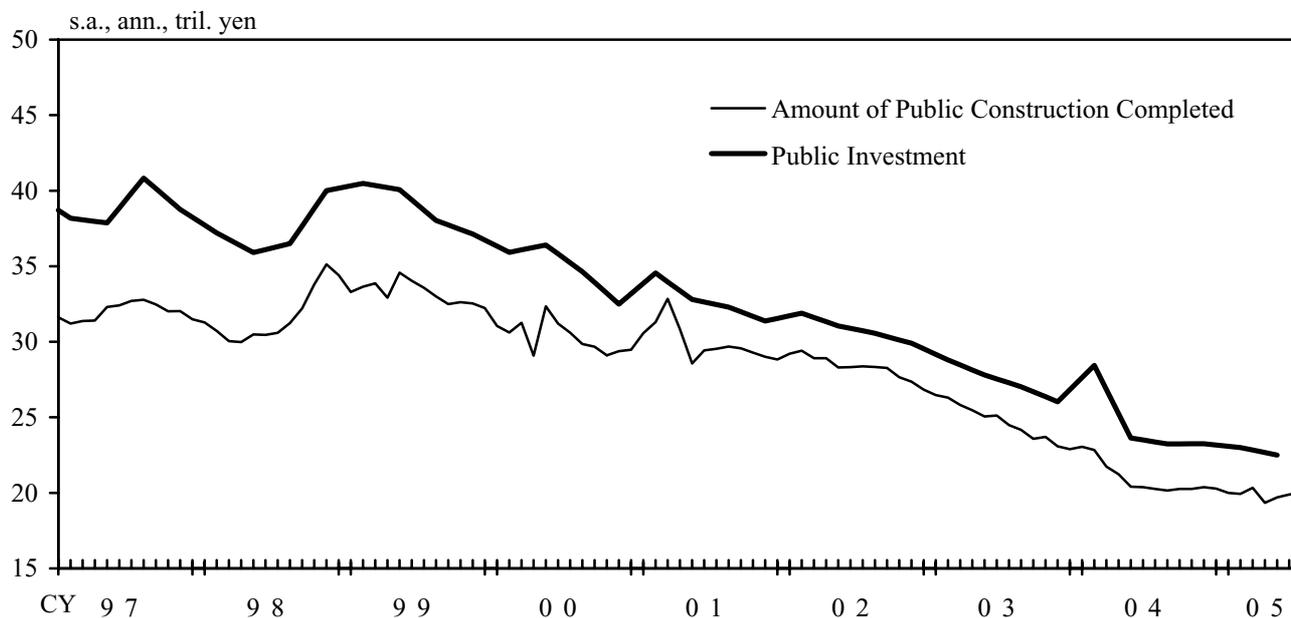
	2004			2005	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.4	-0.1	0.1	1.4	0.8
Domestic Demand	-0.6	0.0	0.2	1.5	0.6
Private Consumption	-0.0	-0.0	-0.3	1.2	0.6
Non-Resi. Investment	2.5	0.3	0.4	3.1	3.6
Residential Investment	1.3	0.7	0.6	-1.3	-2.3
Private Inventory	(-0.2)	(-0.0)	( 0.2)	( 0.3)	(-0.2)
Public Demand	-3.4	-0.1	0.5	0.3	-0.3
Public Investment	-16.7	-1.9	-0.5	-0.9	-2.6
Net Exports of goods and services	( 0.2)	(-0.2)	(-0.0)	(-0.1)	( 0.2)
Exports	3.0	0.7	1.5	-0.1	2.9
Imports	1.9	2.3	2.1	0.7	1.5
Nominal GDP	-0.7	-0.0	0.2	0.7	0.4

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

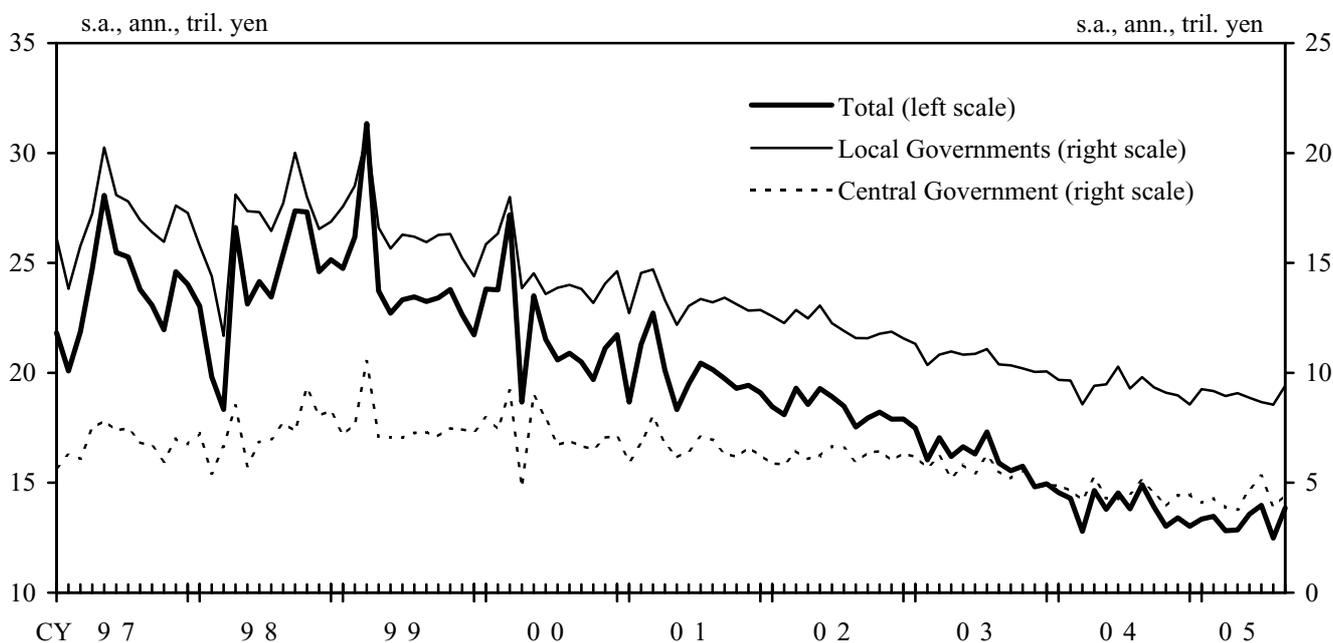
Source: Cabinet Office, "National Accounts."

## 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.

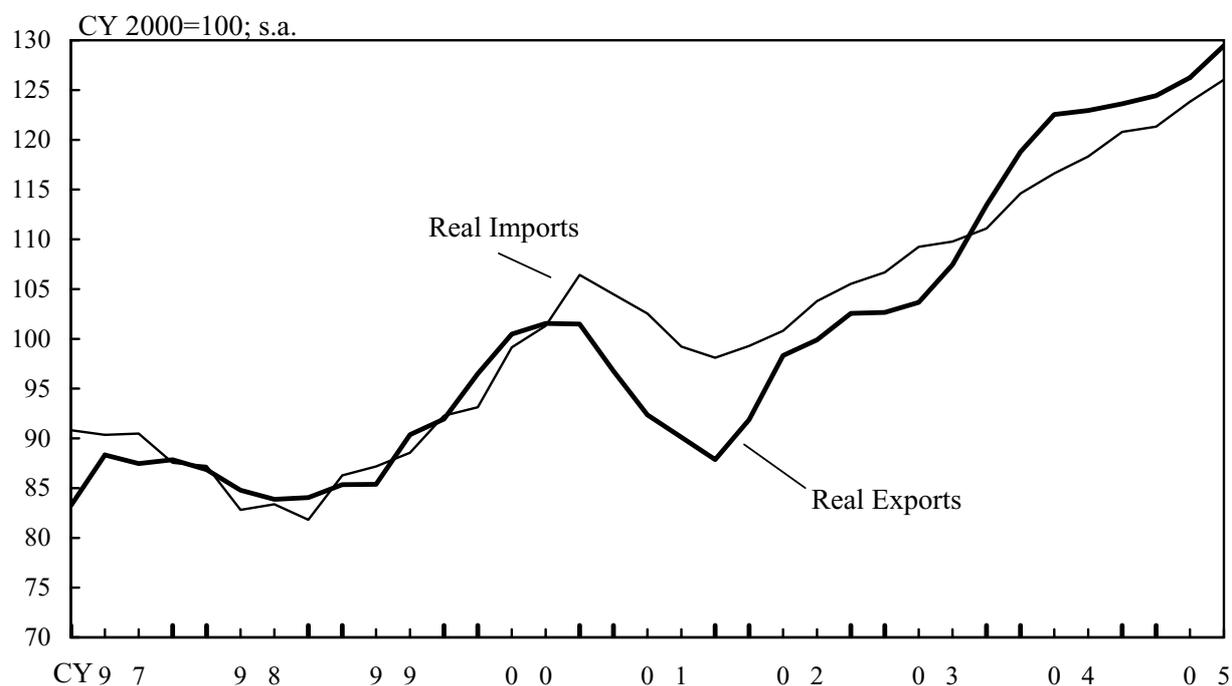
Sources: Cabinet Office, "National Accounts";

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

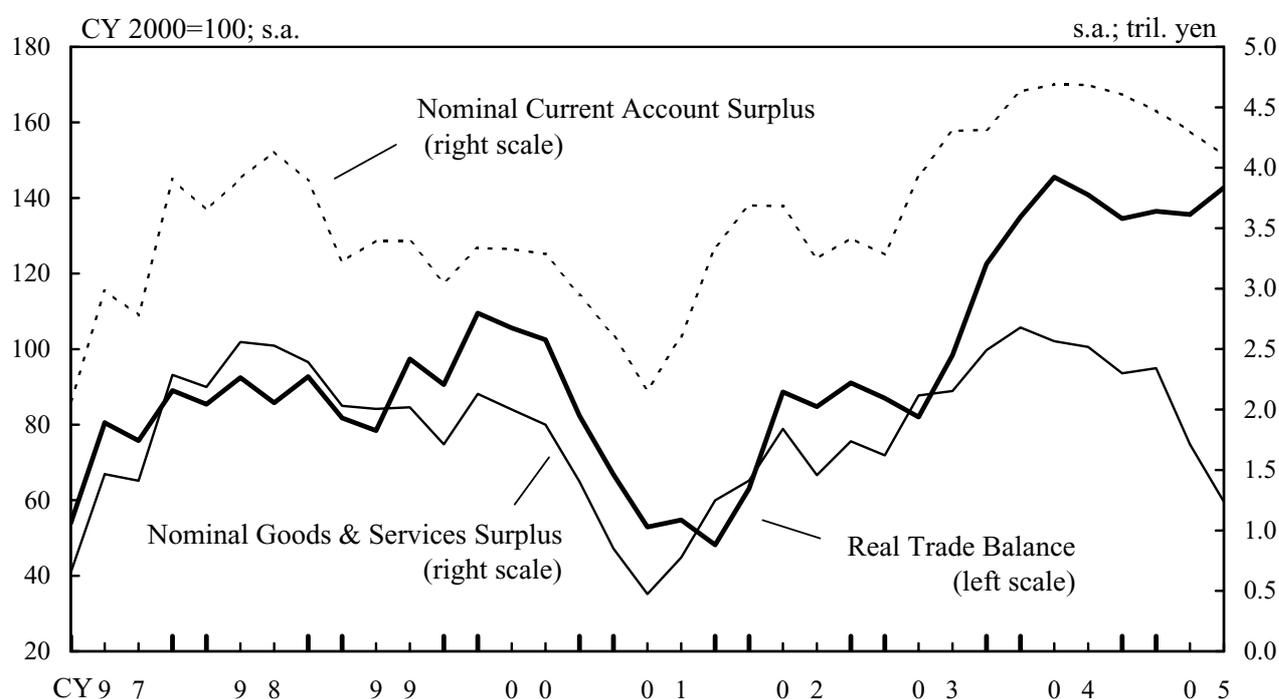
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

## 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.-Aug. averages converted into quarterly amount.  
 3. 2005/Q3 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus 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 <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2003	2004	2004 Q3	2004 Q4	2005			2005		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
United States	<22.4>	-5.5	6.8	0.3	2.3	2.0	1.4	1.3	-0.8	-2.2	4.7
EU	<15.5>	14.9	18.7	2.1	2.0	-0.7	0.2	0.9	-3.6	3.4	2.4
East Asia	<46.9>	20.4	19.1	0.7	-0.5	3.2	-0.0	3.1	-0.8	2.3	2.1
China	<13.1>	42.0	22.2	-0.2	2.8	1.3	-1.6	9.3	-0.2	7.5	0.4
NIEs	<24.7>	16.2	20.4	0.9	-2.8	4.4	0.6	1.0	-1.5	-0.8	5.2
Korea	<7.8>	19.2	19.1	-1.4	-6.9	7.9	-1.4	5.5	0.2	1.2	7.8
Taiwan	<7.4>	16.8	26.9	6.8	-1.7	3.2	3.1	-4.8	-7.4	-0.2	1.2
ASEAN4 <sup>3</sup>	<9.1>	9.6	12.3	1.1	1.2	2.8	0.6	0.1	0.3	3.1	-3.5
Thailand	<3.6>	19.0	16.8	0.9	5.6	5.2	-0.4	-0.9	3.6	-2.6	1.2
Real exports		8.9	14.5	0.3	0.5	0.7	1.5	2.5	0.7	0.1	3.3

## (2) Breakdown by goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2003	2004	2004 Q3	2004 Q4	2005			2005		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
Intermediate goods	<16.3>	5.6	5.5	-1.6	-0.0	1.5	0.7	1.2	-0.9	-0.6	2.9
Motor vehicles and their related goods	<22.4>	1.3	8.3	0.6	1.2	1.7	4.3	-0.4	1.3	-5.3	5.3
Consumer goods <sup>4</sup>	<6.0>	16.2	14.9	-3.5	4.5	-2.0	3.2	3.8	-4.8	7.2	2.0
IT-related goods <sup>5</sup>	<13.7>	13.2	17.3	-0.4	-0.6	2.2	0.3	3.6	-1.4	-0.1	6.3
Capital goods and parts <sup>6</sup>	<30.0>	18.8	23.5	1.8	0.3	1.3	1.2	3.0	1.6	-0.4	4.4
Real exports		8.9	14.5	0.3	0.5	0.7	1.5	2.5	0.7	0.1	3.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2005/Q3 figures are Jul.-Aug. averages 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.

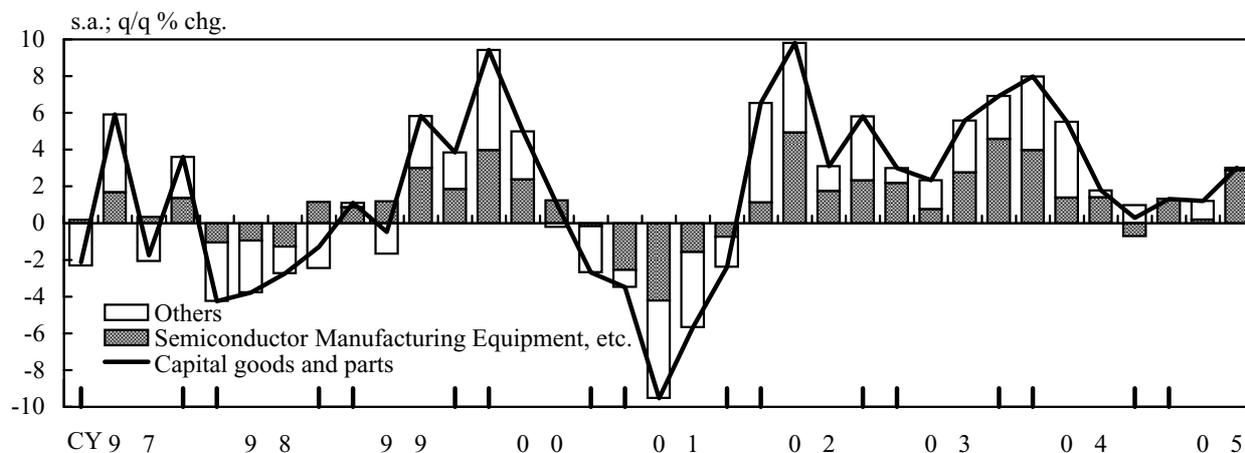
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

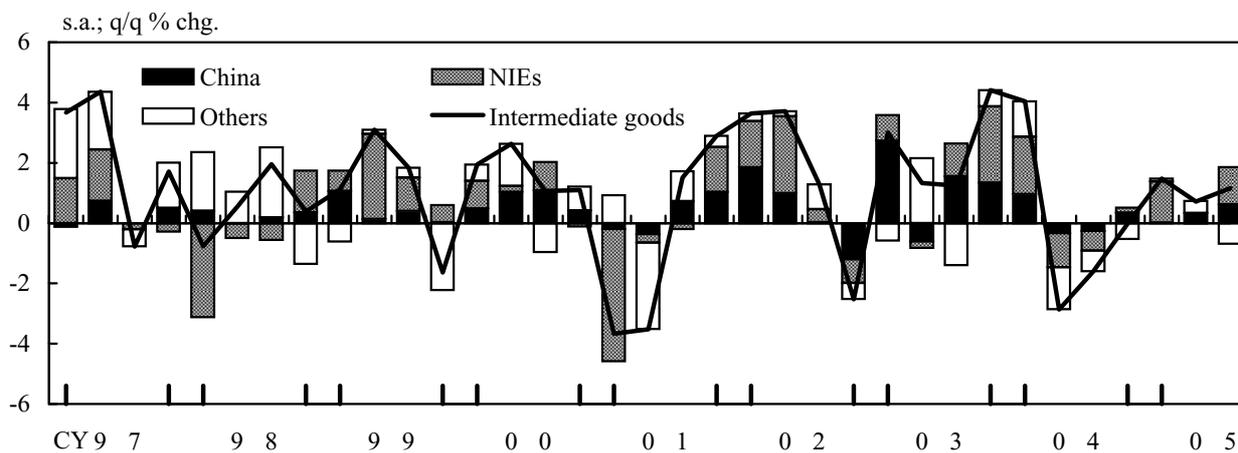
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Real Exports breakdown by goods

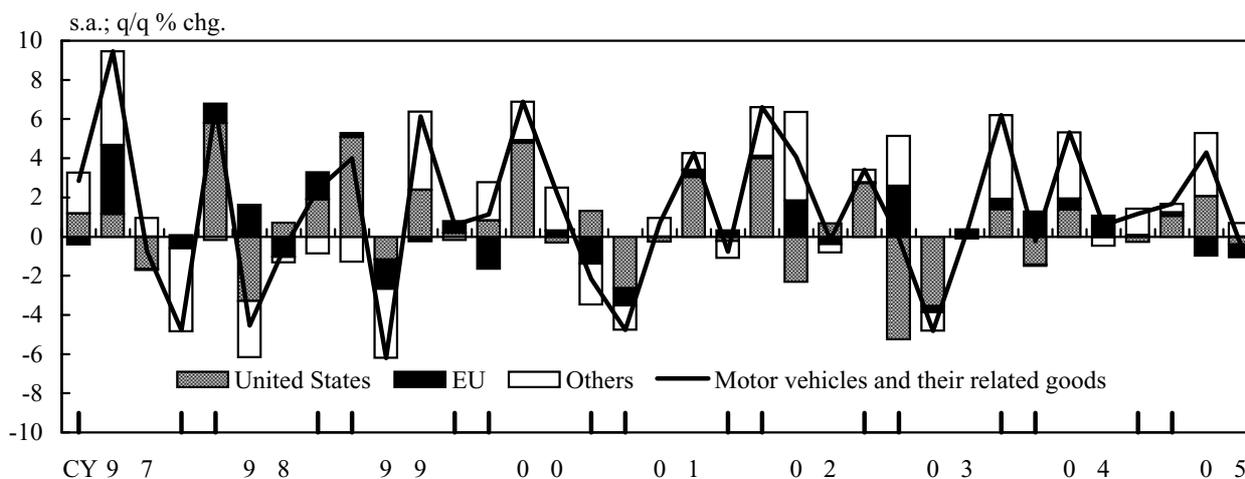
## (1) Capital goods and parts (real, breakdown by goods)



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



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



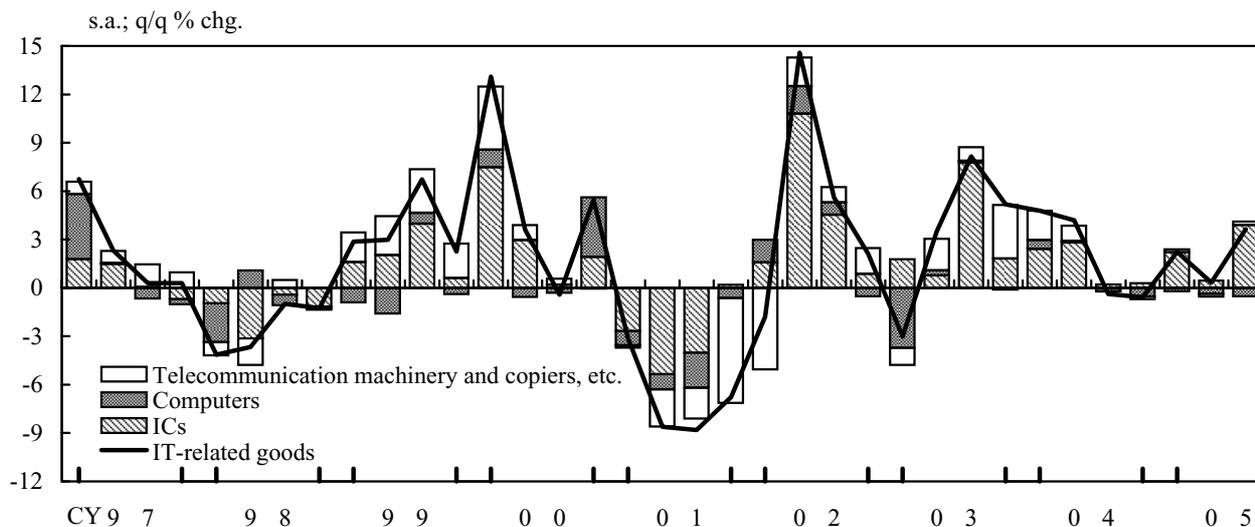
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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

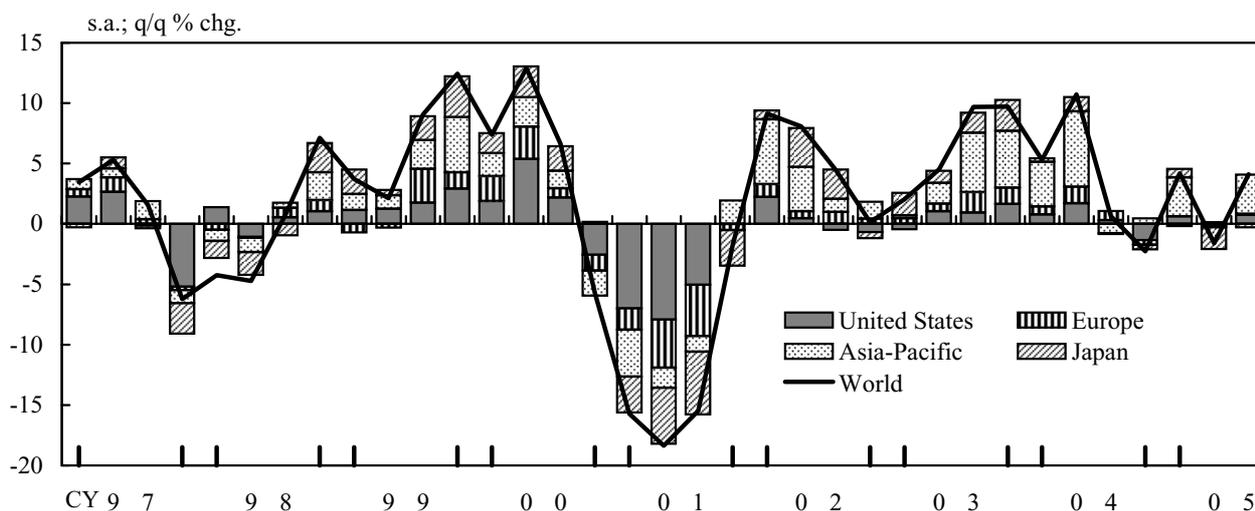
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-related goods

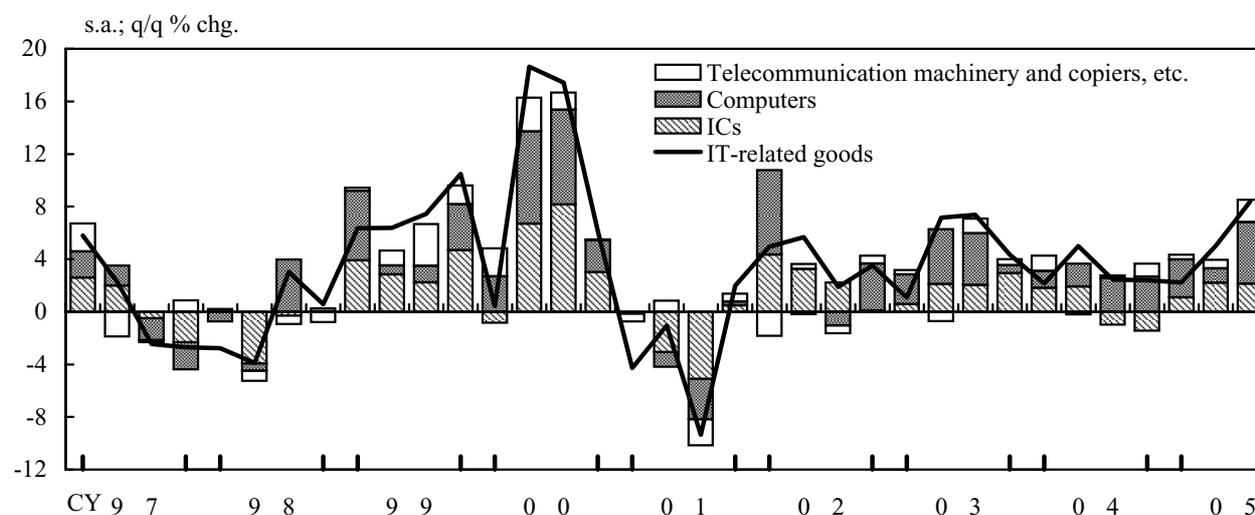
(1) Exports of IT-related goods (real, breakdown by goods)



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



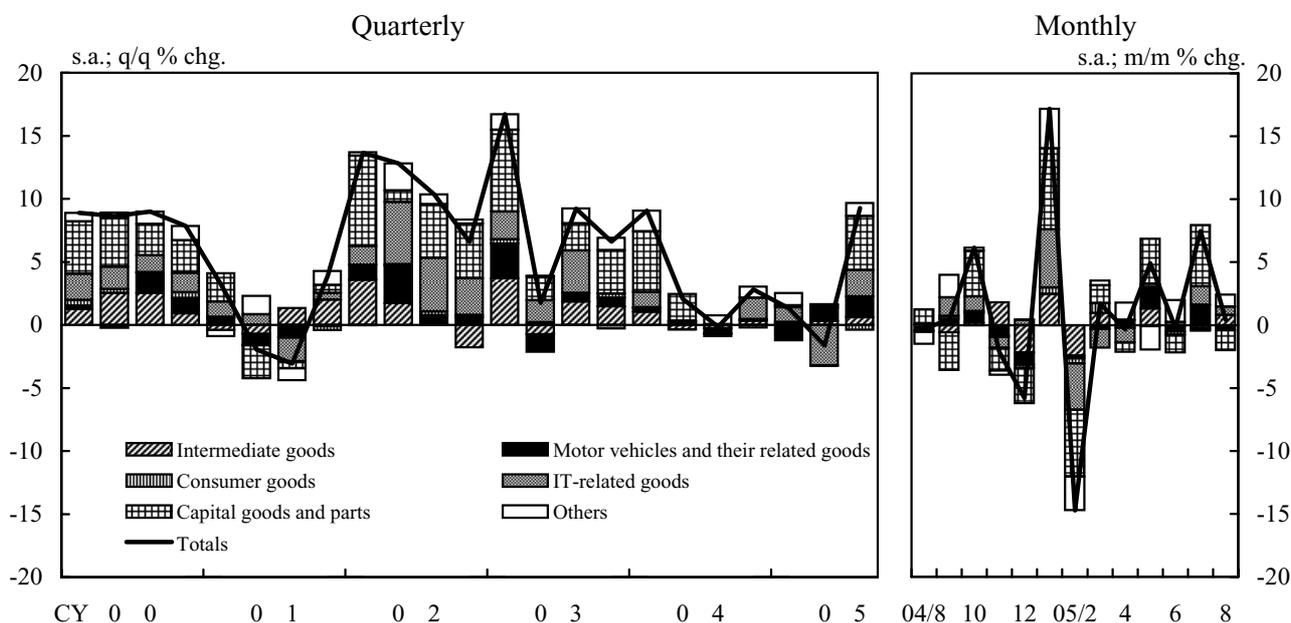
(3) Imports of IT-related goods (real, breakdown by goods)



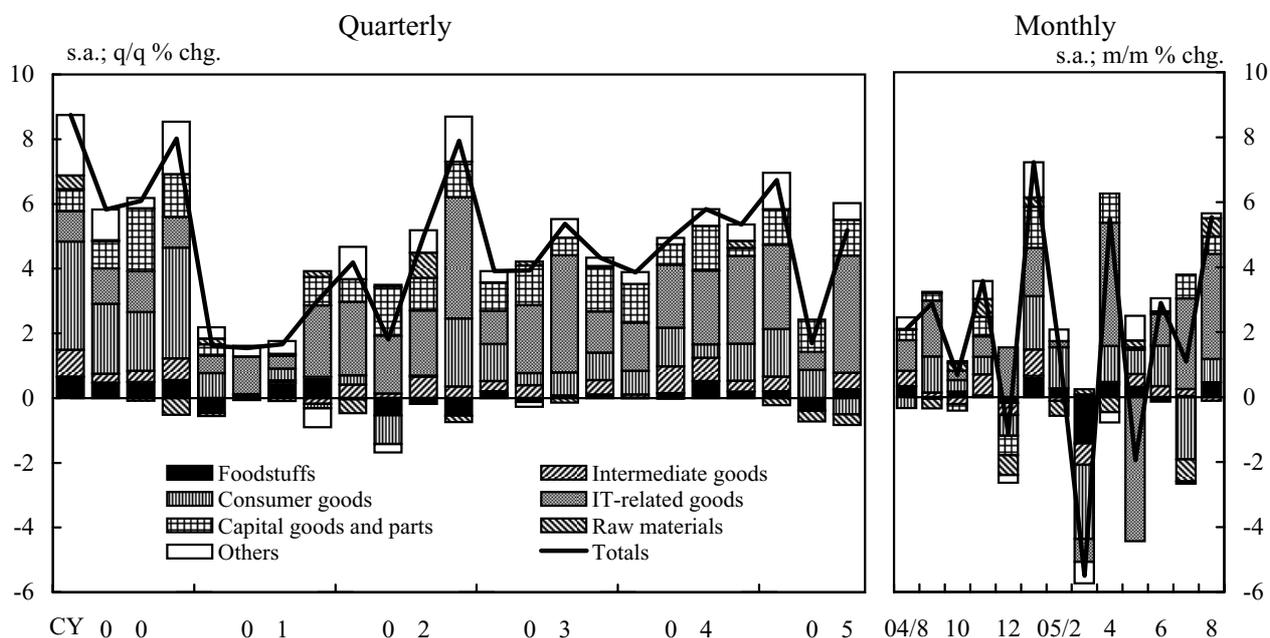
Notes: 1. Seasonally adjusted by X-12-ARIMA in (1) and (3).  
 2. Seasonally adjusted by X-11 in (2).  
 3. 2005/Q3 figures are Jul.-Aug. averages converted into quarterly amount.  
 Sources: Ministry of Finance, "The Summary Report on Trade of Japan";  
 Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics.)

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.

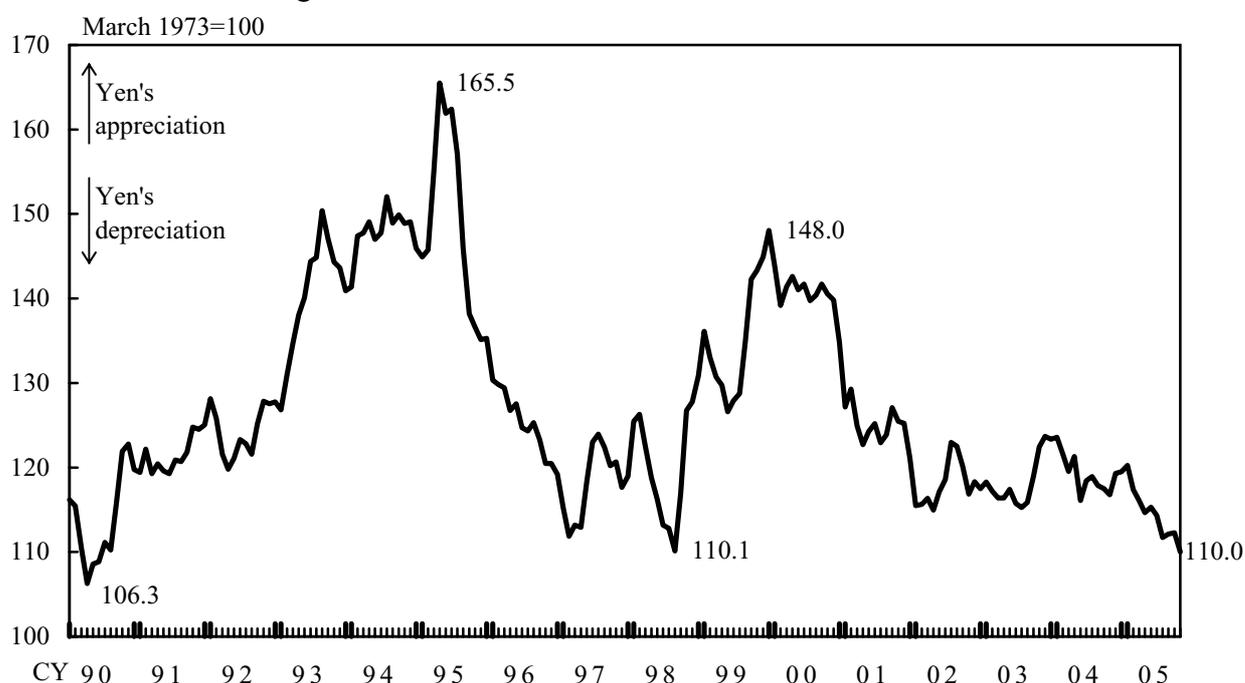
2. Seasonally adjusted by X-12-ARIMA.

3. 2005/Q3 figures are Jul.-Aug. averages 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 October 2005 is the average up to October 11.

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 Q4	2005 Q1	Q2	Q3	
United States <sup>1</sup>		1.6	2.7	4.2	3.3	3.8	3.3	n.a.	
European Union <sup>1</sup>		1.1	1.1	2.1	1.0	1.5	1.3	n.a.	
	Germany	0.1	-0.2	1.6	-0.3	3.0	0.0	n.a.	
	France	1.3	0.9	2.1	2.6	1.5	0.6	n.a.	
	United Kingdom	2.0	2.5	3.2	1.9	1.0	2.0	n.a.	
East Asia <sup>2</sup>	China	8.3	9.5	9.5	9.5	9.4	9.5	n.a.	
	NIEs	Korea	7.0	3.1	4.6	3.3	2.7	3.3	n.a.
		Taiwan	3.9	3.3	5.7	3.3	2.5	3.0	n.a.
		Hong Kong	1.8	3.1	8.2	7.2	6.2	6.8	n.a.
		Singapore	3.2	1.4	8.4	6.5	2.7	5.4	6.0
	ASEAN4	Thailand	5.3	6.9	6.1	5.3	3.3	4.4	n.a.
		Indonesia	4.4	4.9	5.1	6.7	6.2	5.5	n.a.
		Malaysia	4.4	5.4	7.1	5.8	5.8	4.1	n.a.
Philippines		4.3	4.6	6.0	5.3	4.6	4.8	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.

Real Imports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2003	2004	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Jun.	2005 Jul.	2005 Aug.
United States	<13.7>	-2.4	0.4	-1.3	2.0	-4.2	5.8	3.0	9.1	-1.7	0.7
EU	<12.6>	5.6	9.6	-0.5	2.1	-1.3	5.3	-1.1	-6.5	2.0	6.0
East Asia	<43.1>	14.2	14.7	4.1	1.7	4.7	0.4	4.7	0.9	1.1	6.1
China	<20.7>	21.3	20.9	5.8	5.4	6.7	1.7	5.2	2.9	1.1	5.5
NIEs	<10.2>	9.6	12.8	1.4	-2.1	3.9	1.4	8.8	-1.1	3.9	10.2
Korea	<4.8>	13.0	14.5	-4.0	-2.3	5.1	3.3	5.3	-1.1	-2.9	15.8
Taiwan	<3.7>	6.9	12.0	4.5	-1.2	2.7	0.8	14.6	0.4	11.0	7.8
ASEAN4 <sup>3</sup>	<12.1>	8.6	7.1	3.8	-0.9	1.8	-2.9	-0.1	-1.0	-1.3	3.3
Thailand	<3.1>	11.0	14.3	4.0	3.9	5.1	0.0	2.0	-4.3	2.5	2.6
Real imports		6.8	8.1	1.5	2.1	0.4	2.1	1.8	0.9	-1.4	4.5

## (2) Breakdown by goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2003	2004	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Jun.	2005 Jul.	2005 Aug.
Raw materials <sup>4</sup>	<27.9>	5.9	1.3	2.5	1.7	-3.4	-3.1	-1.1	0.5	-6.3	4.4
Intermediate goods	<14.1>	4.6	8.7	1.2	0.1	2.4	1.8	-0.6	-2.4	0.5	1.8
Foodstuffs	<10.8>	-4.2	0.4	-0.2	0.2	3.3	2.0	-0.8	-5.6	-2.1	7.6
Consumer goods <sup>5</sup>	<10.6>	8.0	12.5	-1.5	4.4	2.2	8.1	-5.0	0.5	-8.0	5.5
IT-related goods <sup>6</sup>	<13.6>	17.3	17.6	2.5	2.4	2.2	5.0	8.4	6.2	4.5	5.4
Capital goods and parts <sup>7</sup>	<12.6>	14.5	17.4	2.9	5.6	-1.4	6.2	7.6	3.8	8.7	-6.3
excluding aircraft	<11.7>	14.6	19.2	4.3	1.1	2.0	6.8	3.8	0.0	2.8	-0.4
Real imports		6.8	8.1	1.5	2.1	0.4	2.1	1.8	0.9	-1.4	4.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2005/Q3 figures are Jul.-Aug. averages 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. Raw materials are mainly composed of woods, ores and mineral fuel.

5. Excludes foodstuffs.

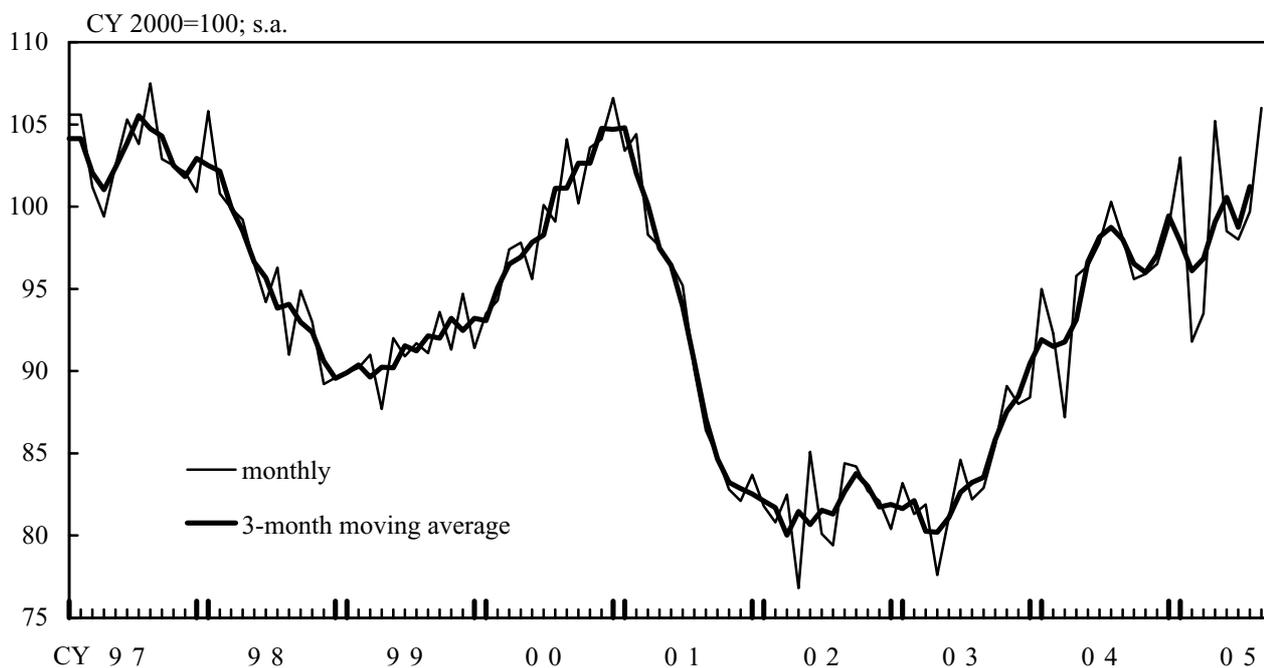
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

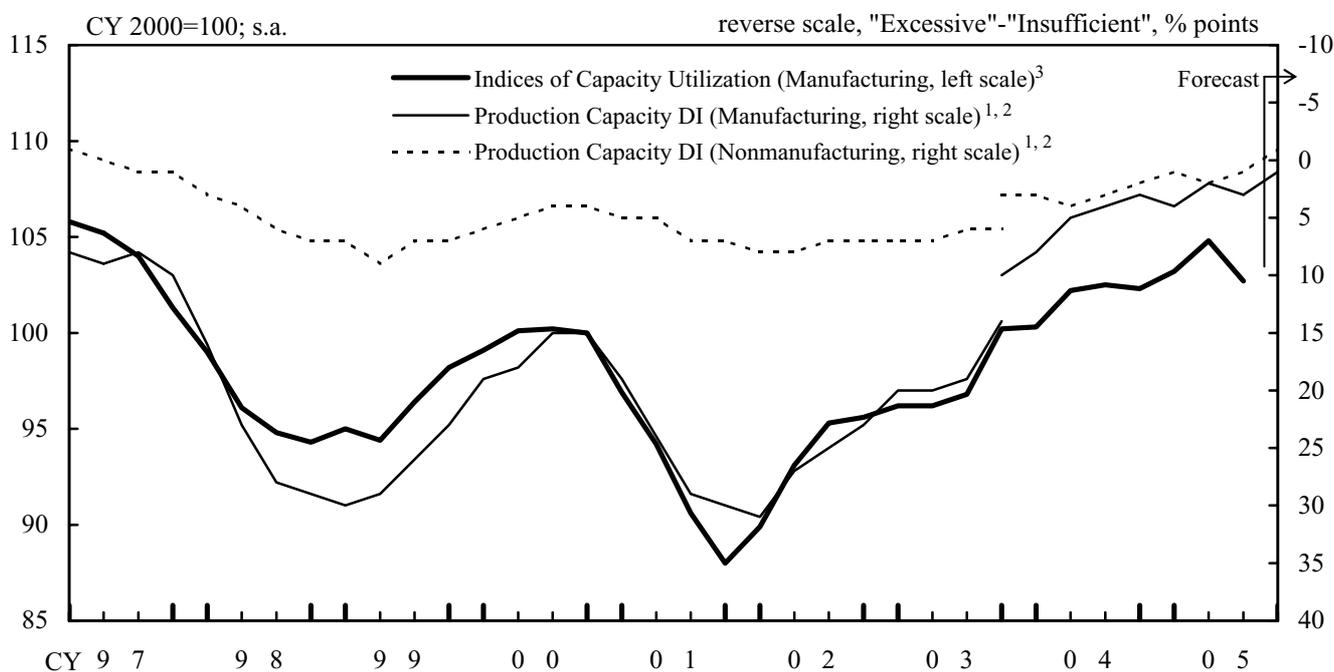
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## 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.

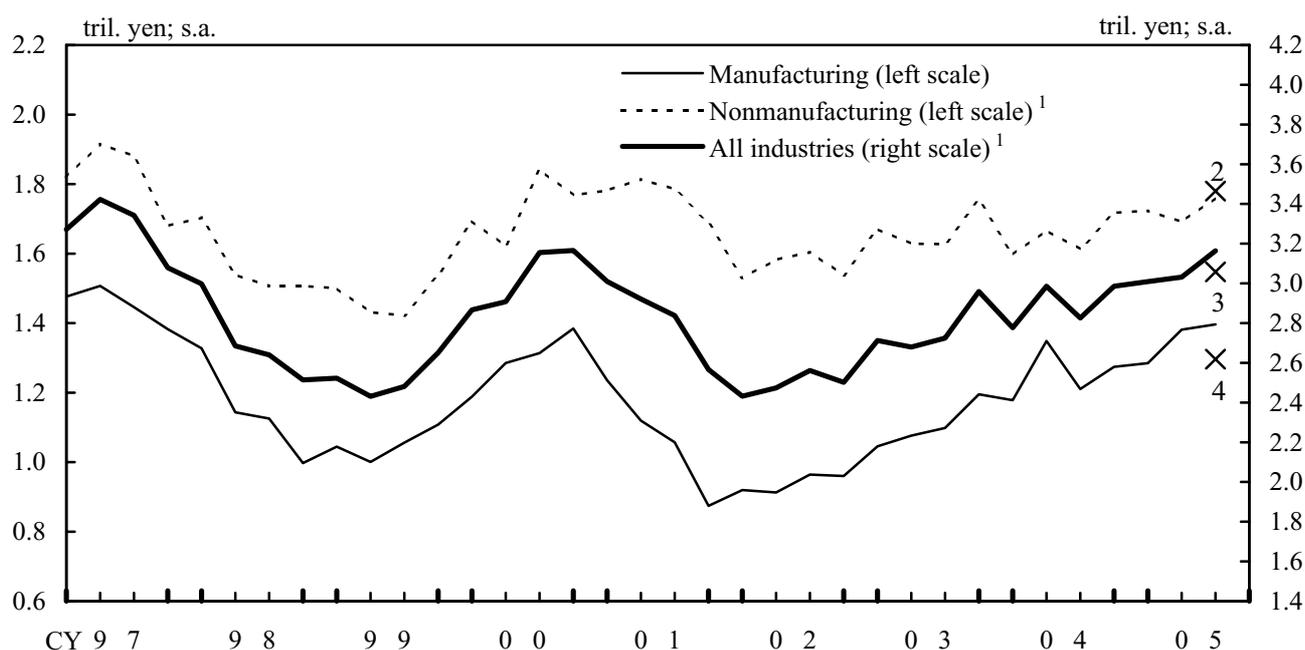
2. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

3. The figure for 2005/Q3 is as of July.

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.

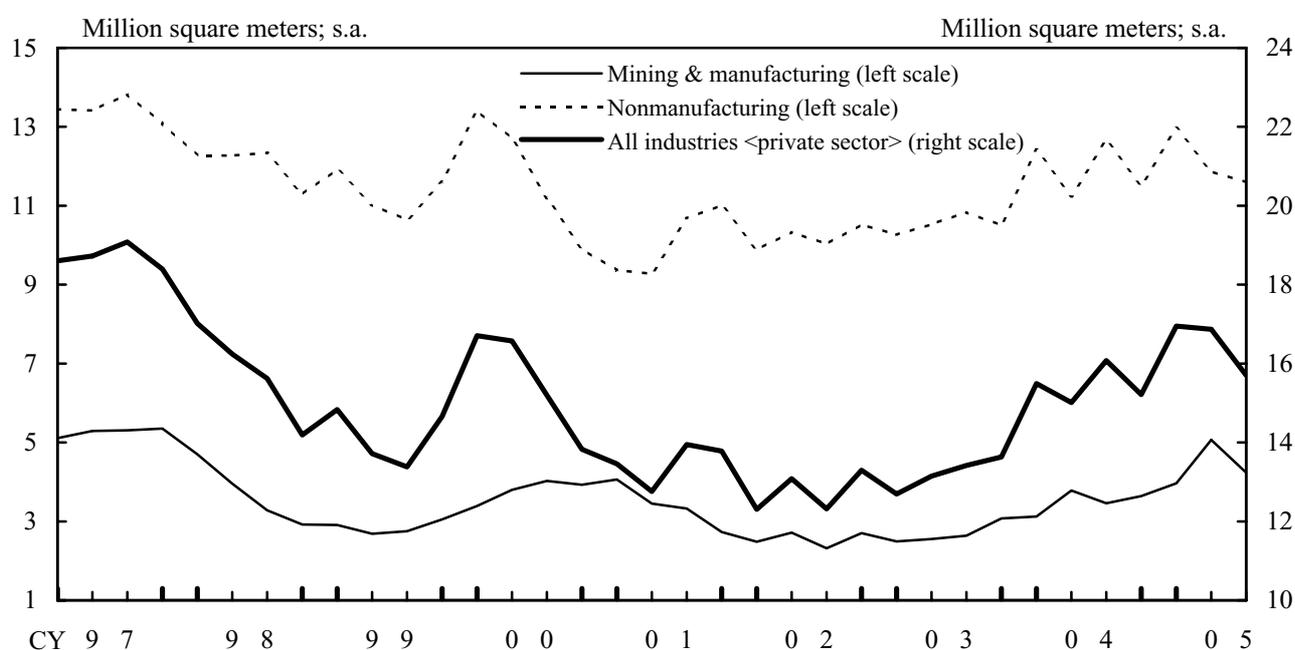
2. Forecast of nonmanufacturing industries for 2005/Q3.

3. Forecast of all industries for 2005/Q3.

4. Forecast of manufacturing industries for 2005/Q3.

5. Figures for 2005/Q3 are averages of July-August 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.

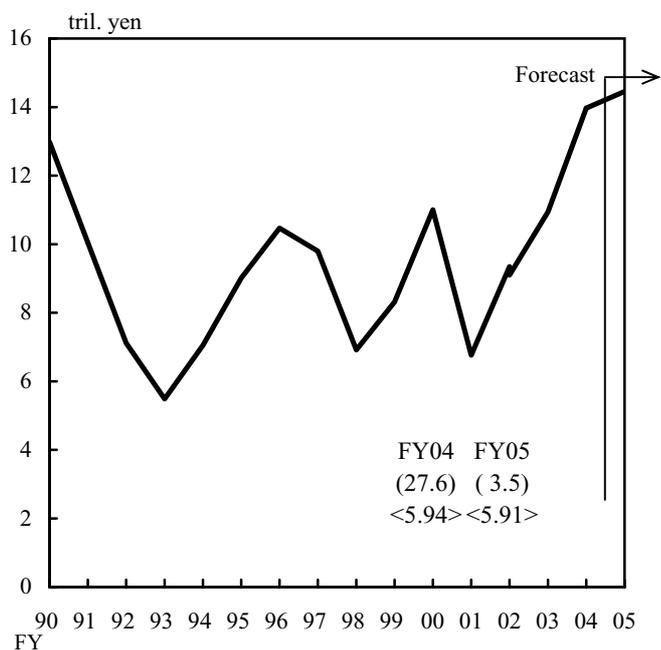
3. Figures for 2005/Q3 are averages of July-August in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

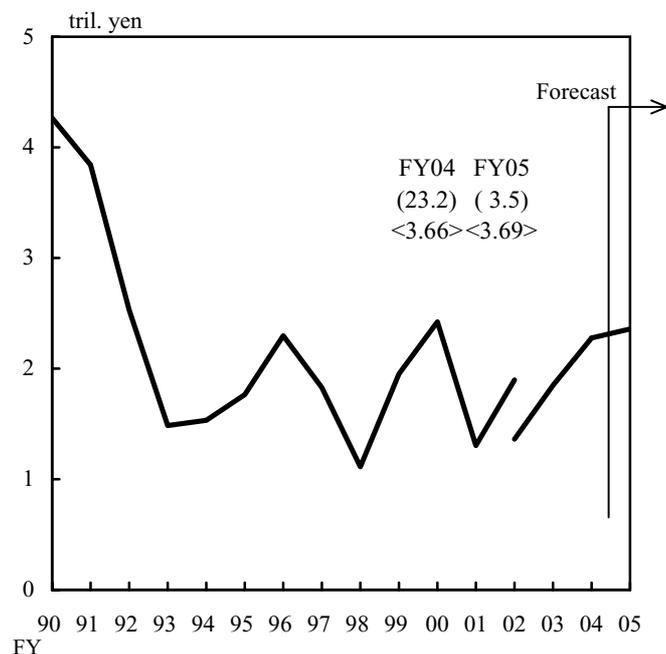
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

## Current Profits

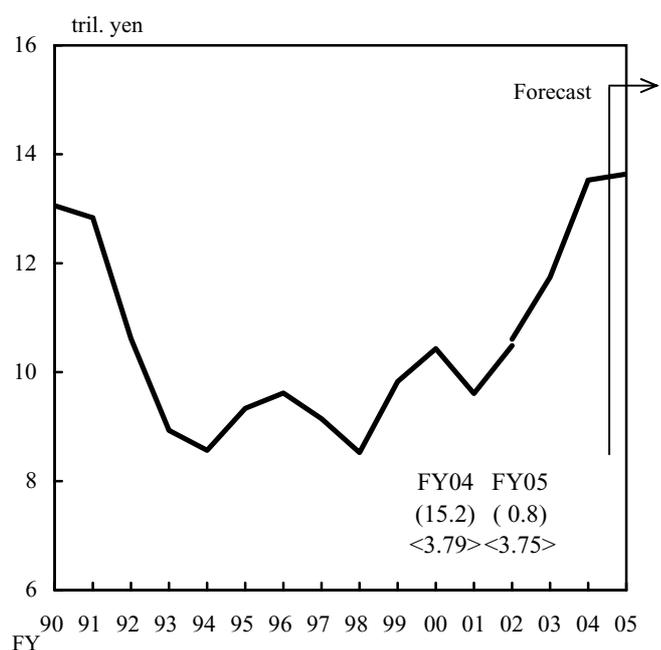
(1) Manufacturing Large Enterprises



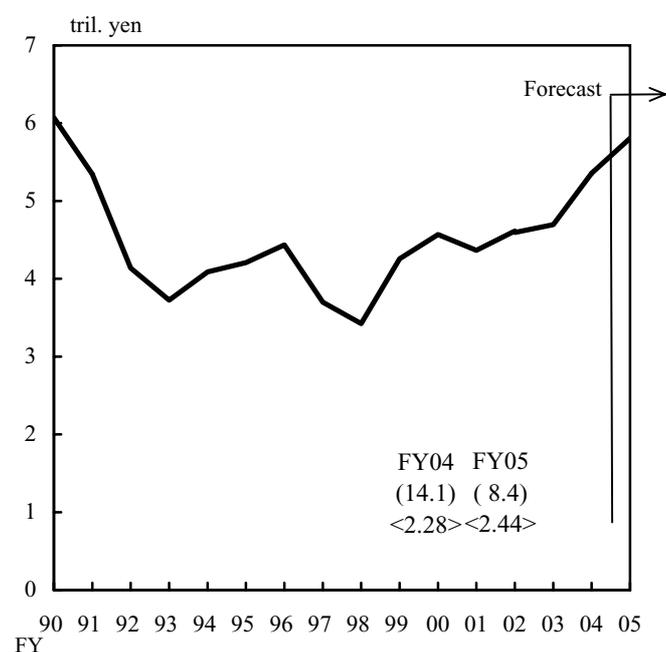
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



Notes: 1. Large enterprises (pre-revision): 1,000 employees or more

Small enterprises (pre-revision): 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling), 20-49 employees (for Retailing, services, and leasing), 50-299 employees (for Other industries)

Large enterprises (post-revision): capital with 1 billion yen and more

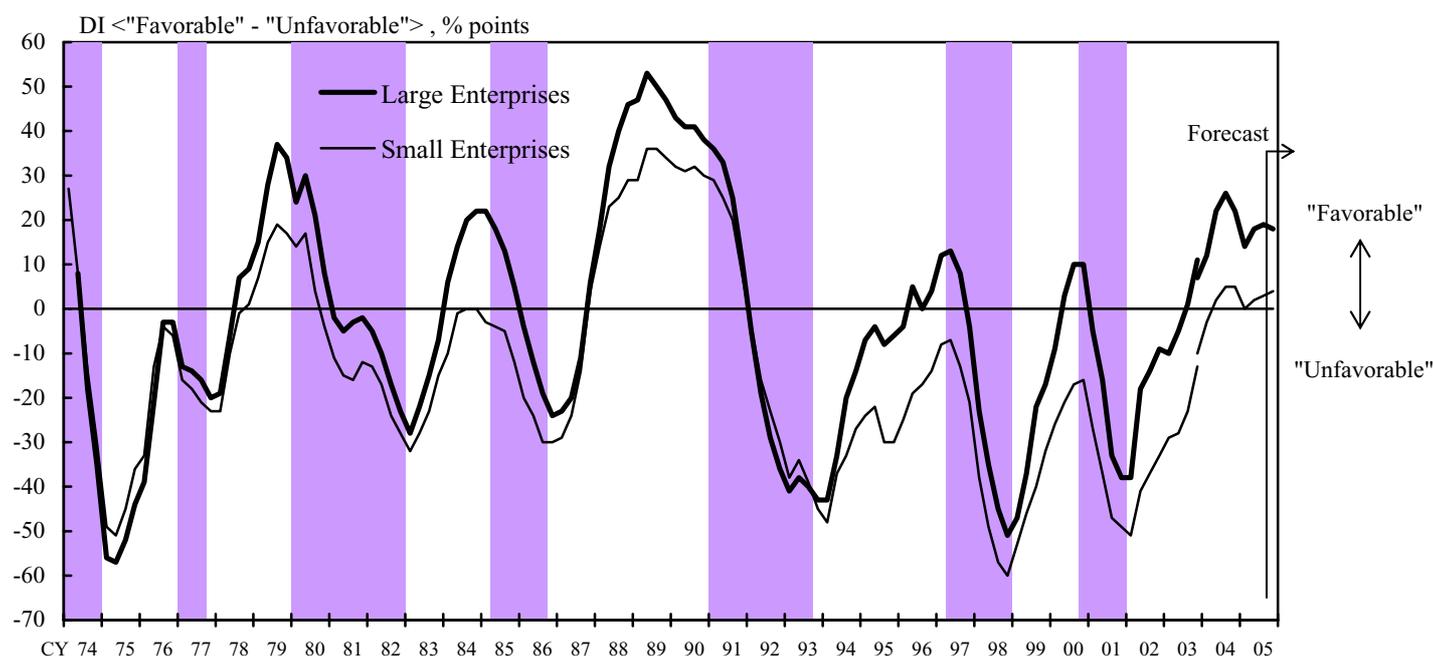
Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen

2. ( ): Current Profits (y/y% chg.), <>: Ratio of current profit to sales (%).

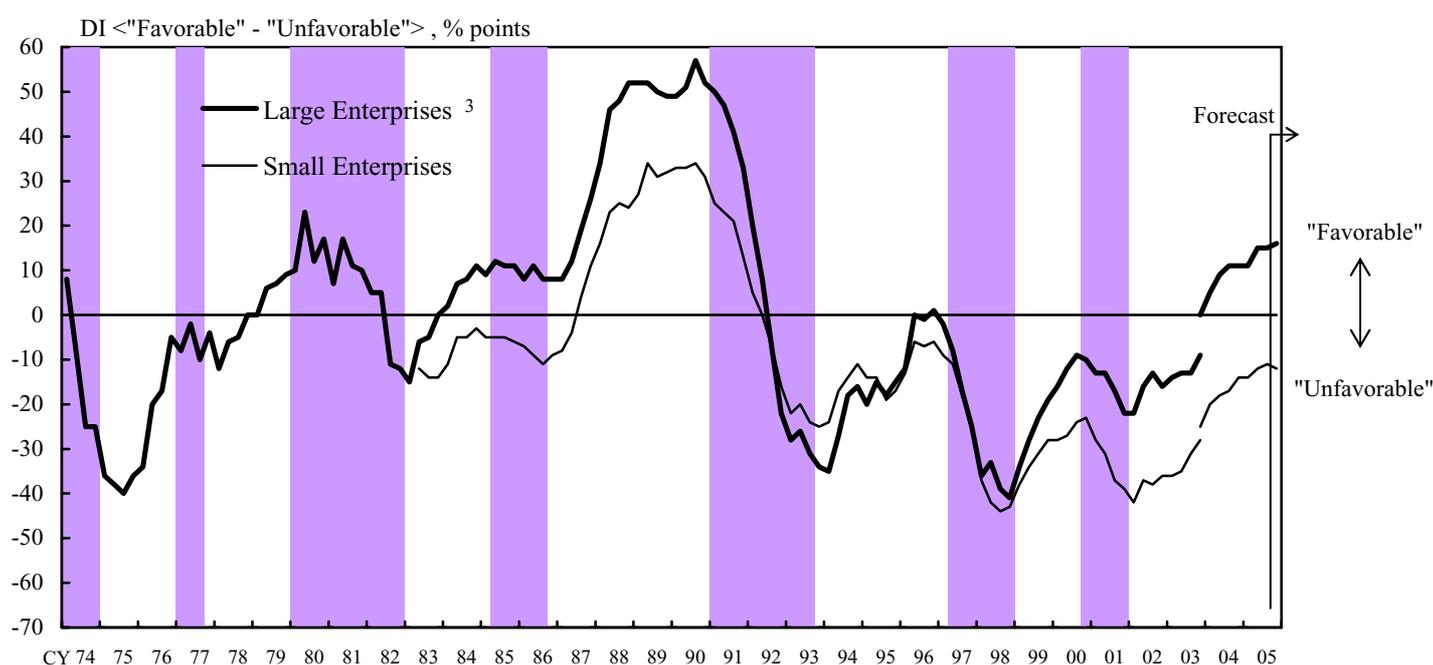
3. The *Tankan* has been revised from the March 2004 Survey. Figures up to FY2002 are based on the previous data sets. Figures from FY2002 are on a new basis.

## Business Conditions

## (1) Manufacturing



## (2) Nonmanufacturing



Notes: 1. Large enterprises (pre-revision): 1,000 employees or more

Small enterprises (pre-revision): 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),  
20-49 employees (for Retailing, services, and leasing),  
50-299 employees (for Other industries)

Large enterprises (post-revision): capital with 1 billion yen and more

Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen

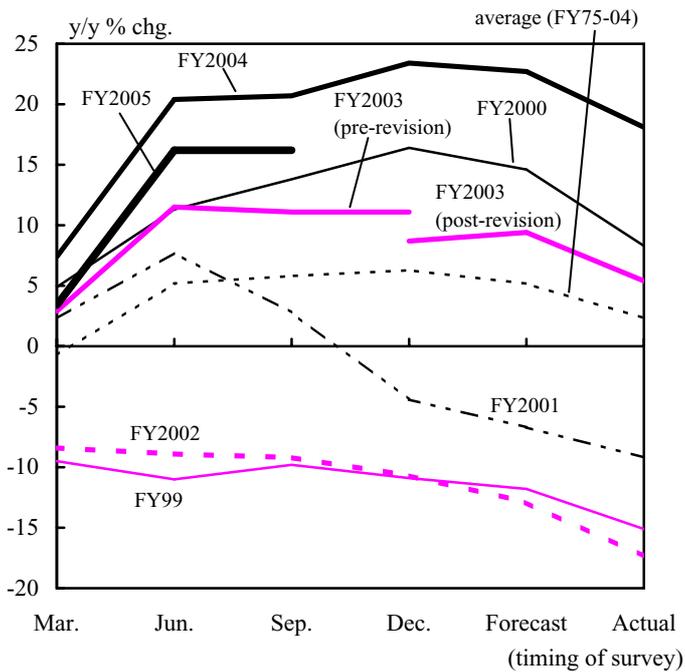
2. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

3. Date prior to Feb. 1983 are those of Principal Enterprises.

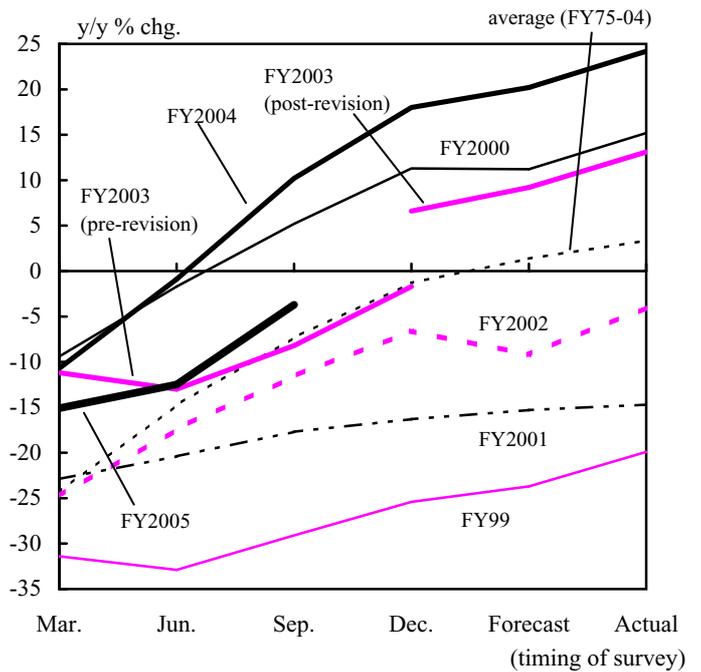
4. Shaded areas indicate recession periods.

## Business Fixed Investment Plans as Surveyed

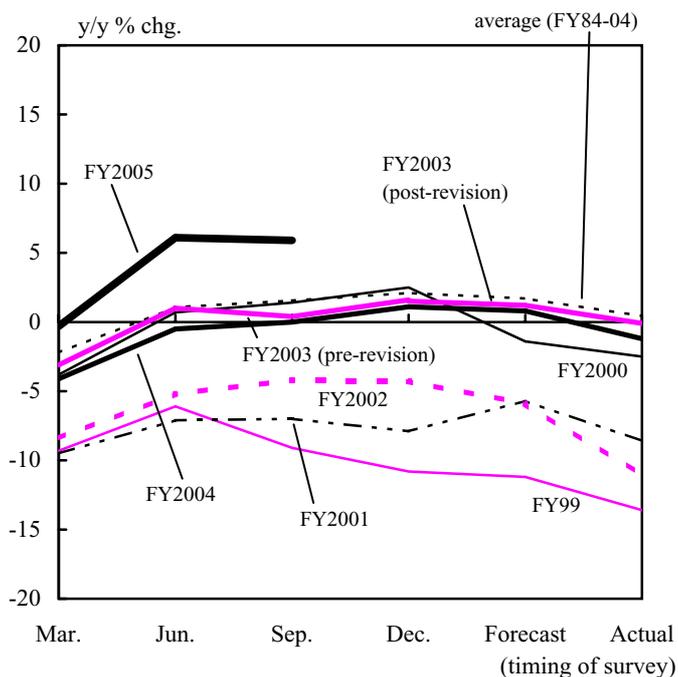
(1) Manufacturing Large Enterprises



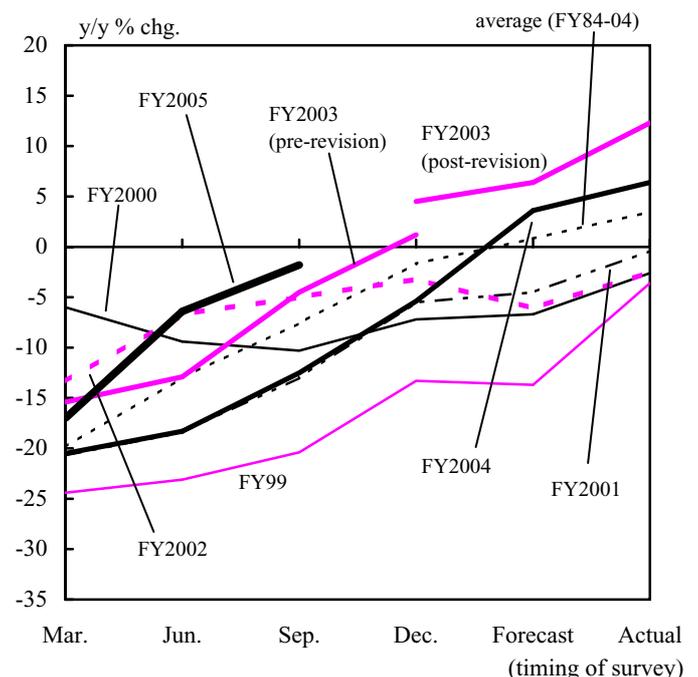
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



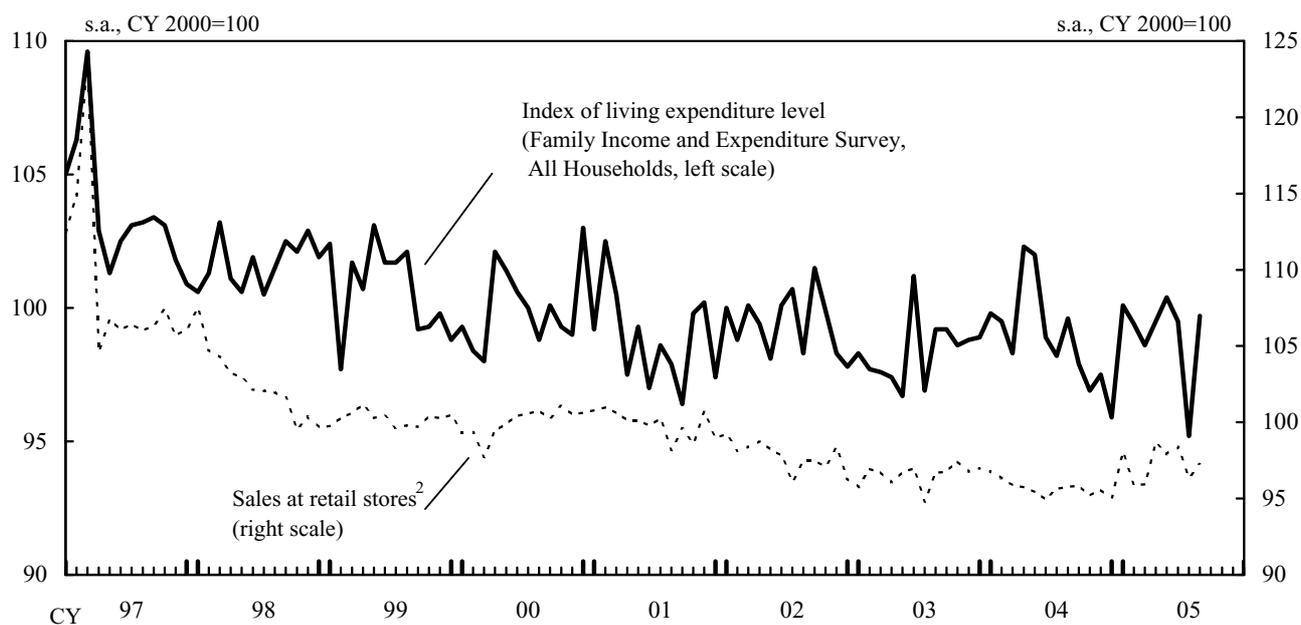
(4) Nonmanufacturing Small Enterprises



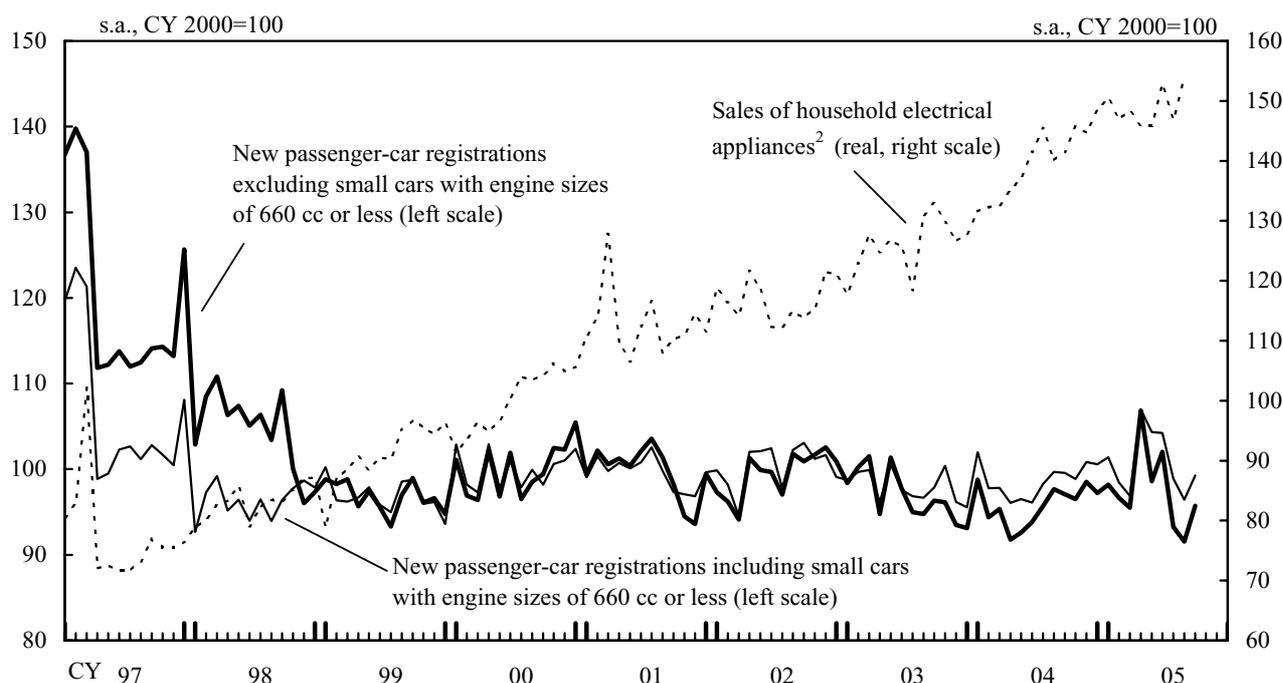
- Notes: 1. Large enterprises (pre-revision): 1,000 employees or more  
 Small enterprises (pre-revision): 50-299 employees (for Manufacturing), 20-99 employees (for Wholesaling),  
 20-49 employees (for Retailing, services, and leasing),  
 50-299 employees (for Other industries)  
 Large enterprises (post-revision): capital with 1 billion yen and more  
 Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen
2. Includes land purchasing expenses and excludes software investment.
3. 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.

# Indicators for Private Consumption<sup>1</sup> (1)

## (1) Household Spending (real)



## (2) Sales of Durable Goods



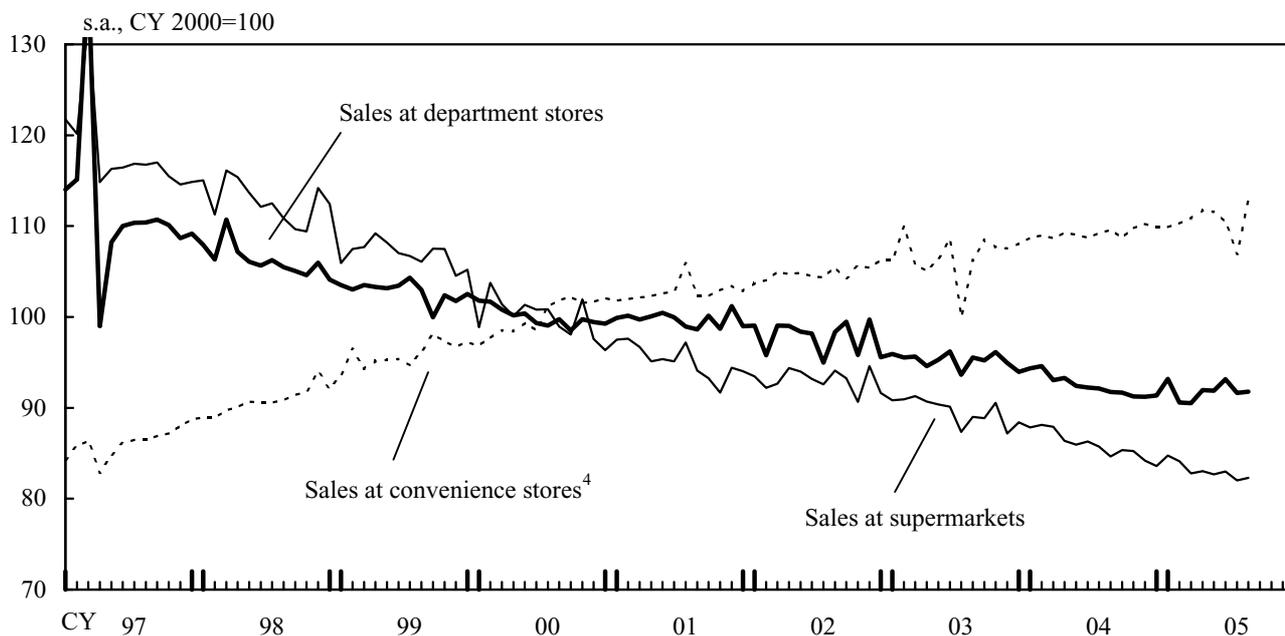
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

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 calculated as follows; the sales of household machinery retail stores in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the wholesale price index for personal computers before 1999 and for communication equipments up to 1994).

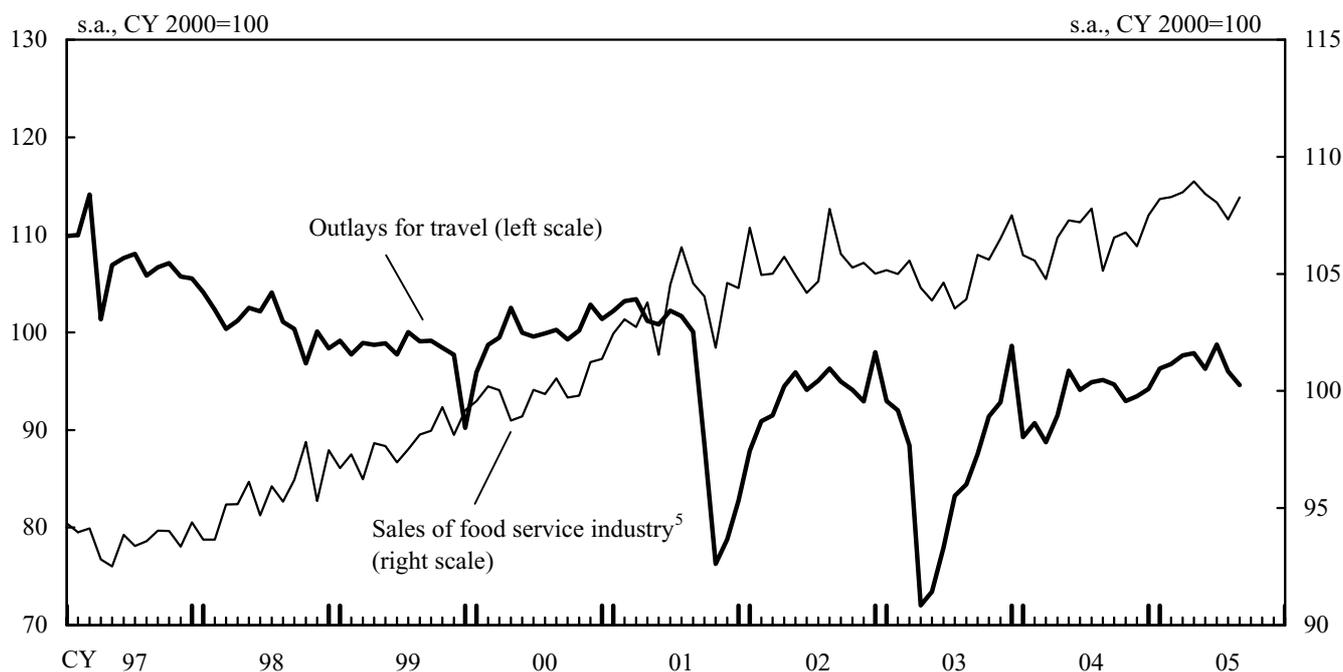
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles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

## Indicators for Private Consumption<sup>1, 2</sup> (2)

### (3) Sales at Retail Stores (nominal)<sup>3</sup>



### (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.

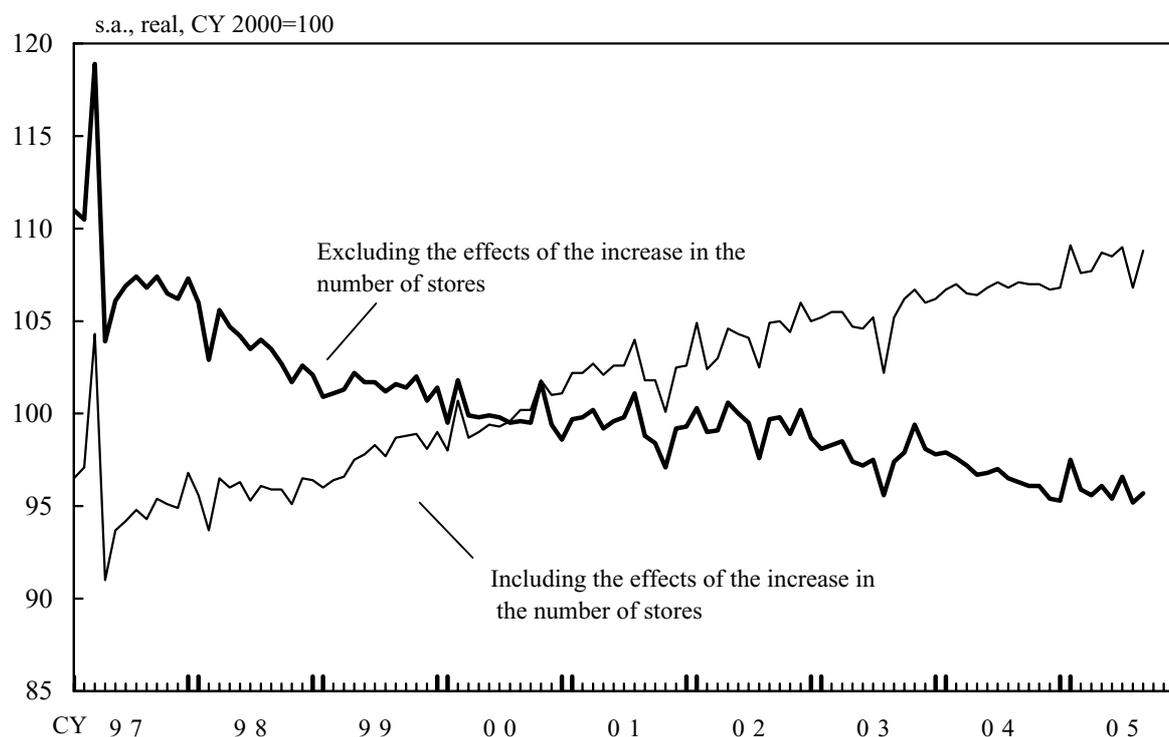
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

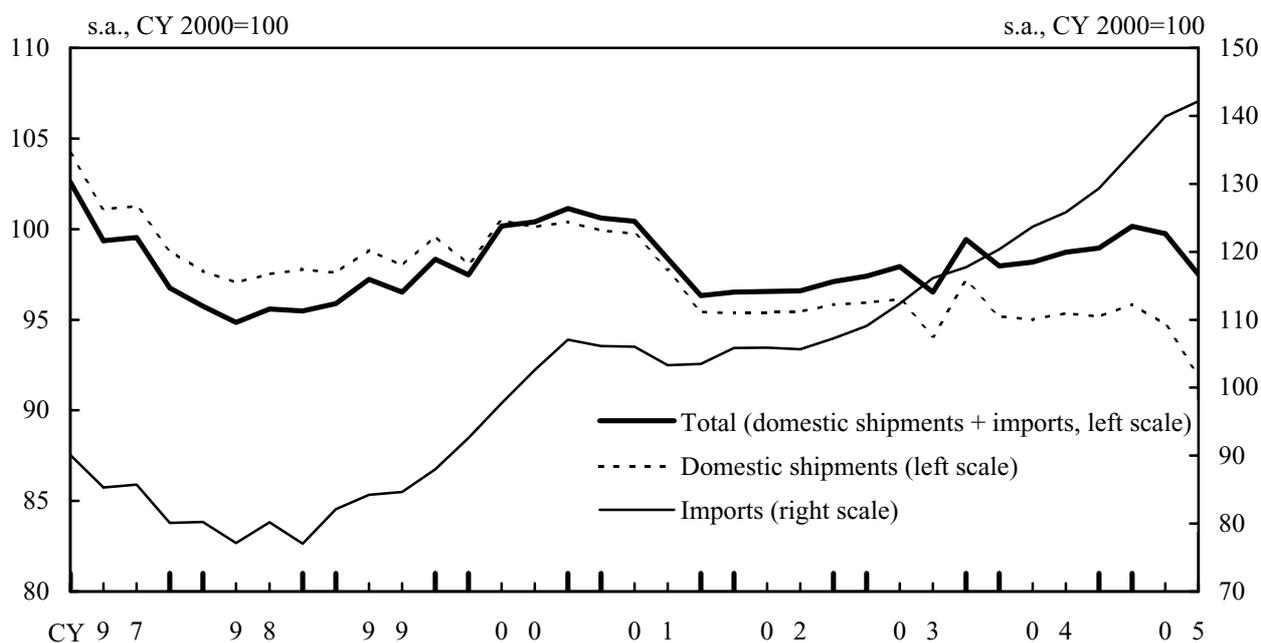


- Notes: 1. Indices of aggregated sales are the weighted sum of *Sales at department stores and supermarkets*; *New passenger-car registrations*; *Sales of household electrical appliances*; *Outlays for travel*; and *Sales of food service industry*, where the weights come from household expenditure in 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.
4. Household electrical appliances sales have been replaced by the sales of household machinery retail stores in the Current Survey of Commerce from the data of Nippon Electric Big-stores Association (NEBA). Thus, the entire series of Indices of Aggregated Sales has been retroactively revised.

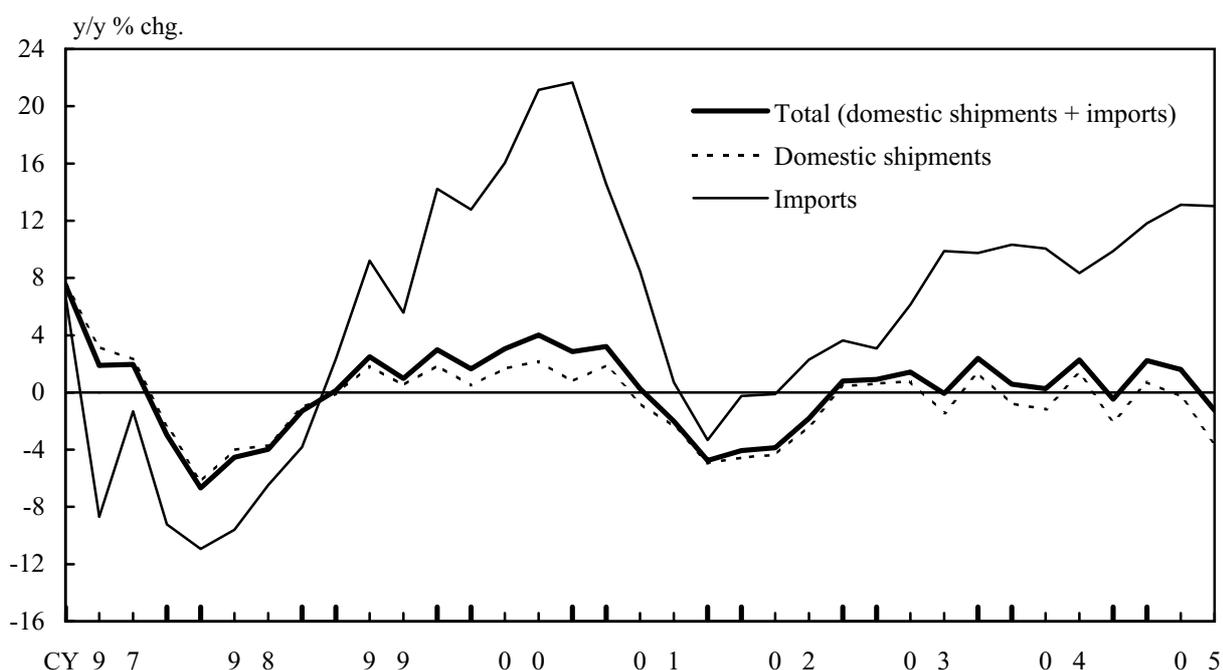
Source: Bank of Japan, "Indices of Aggregated Sales."

## 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.

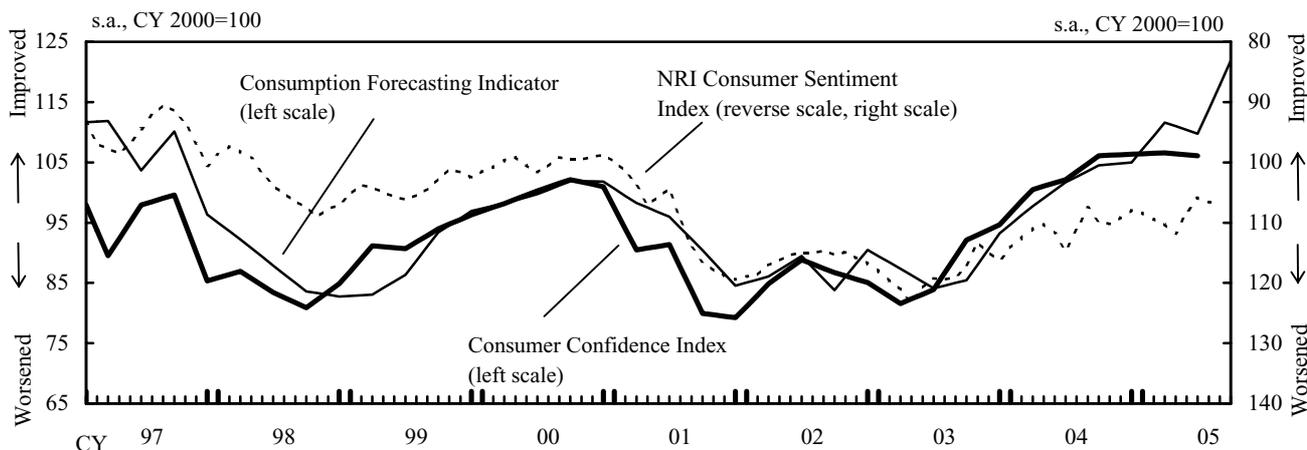
3. Year-on-year changes are calculated from seasonally adjusted series.

4. Data for 2005/Q3 figures are those of July-Aug. averages 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."

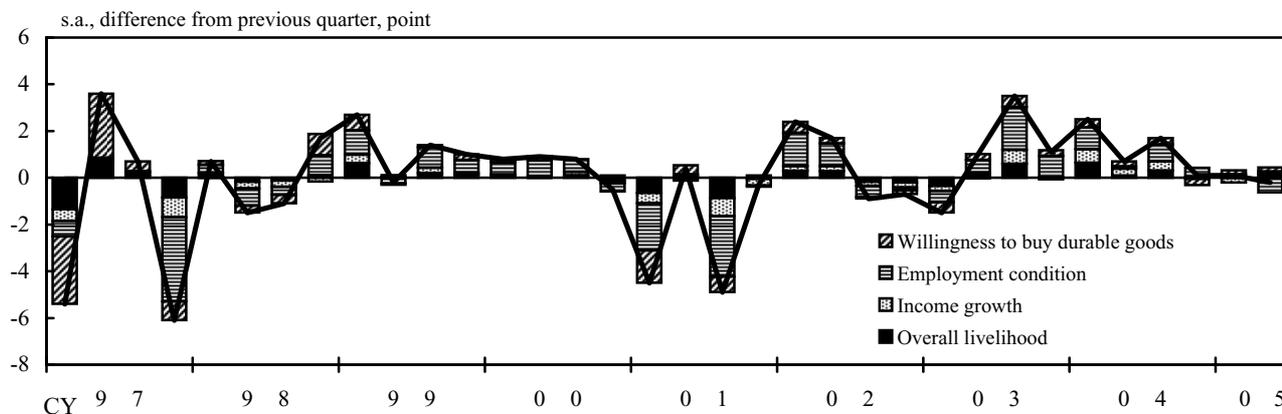
# Consumer Confidence

## (1) Surveys on Consumer Confidence

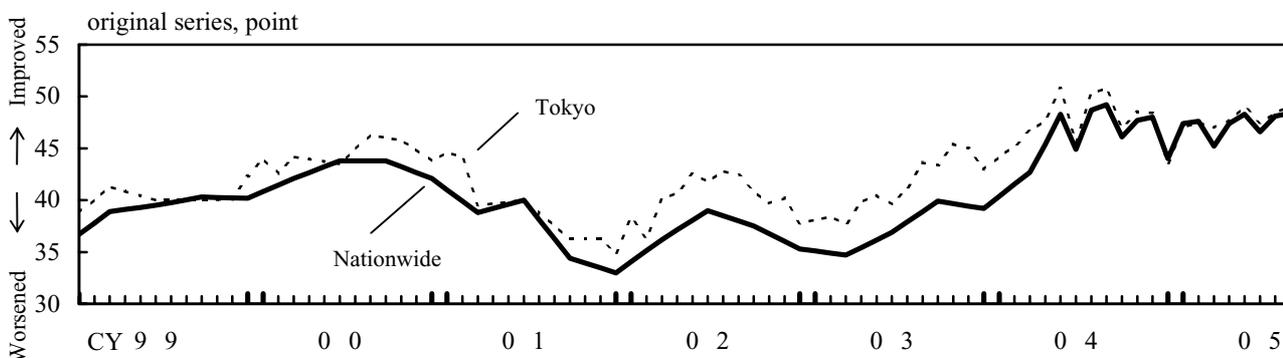


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office. "Consumption Forecasting Indicator" is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. Consumer Confidence Index (with 5,040 samples in a nationwide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

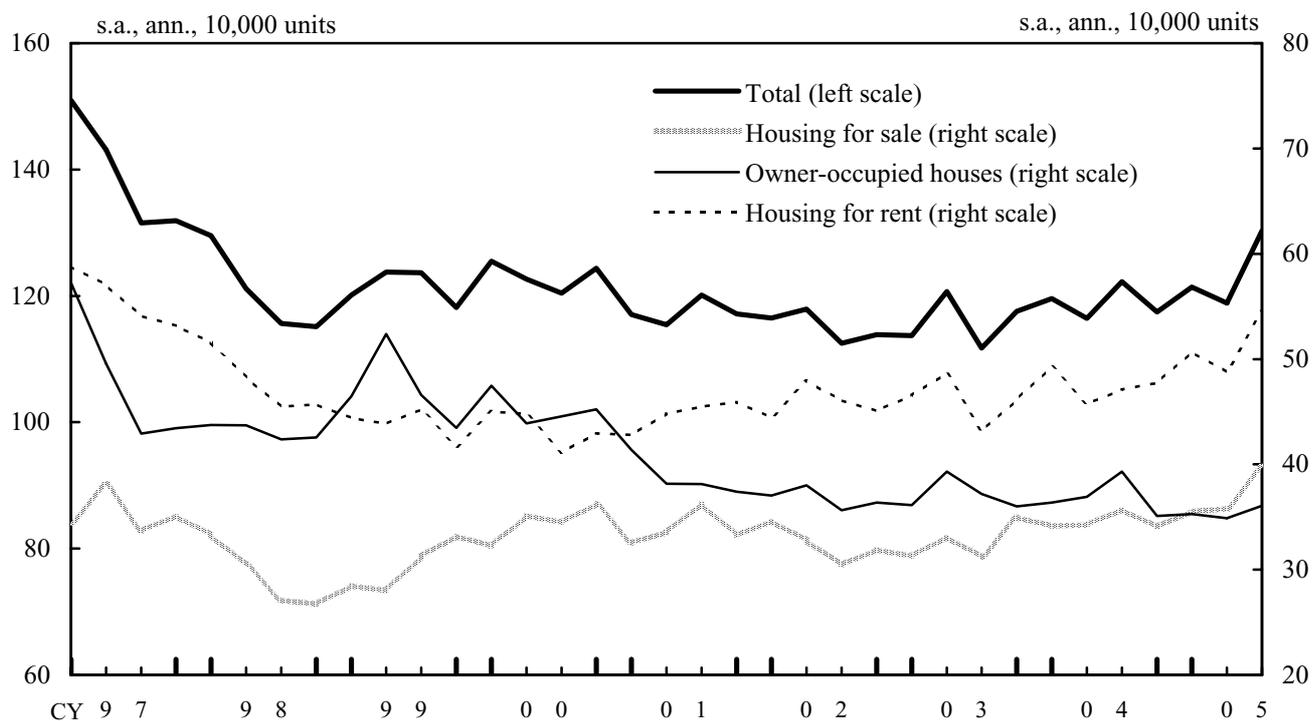


Note: Prior to 2001, figures of "Monthly Consumer Confidence Index of Tokyo" when the survey was not conducted have been supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" have also been plotted at the surveyed months and supplemented with linear interpolation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

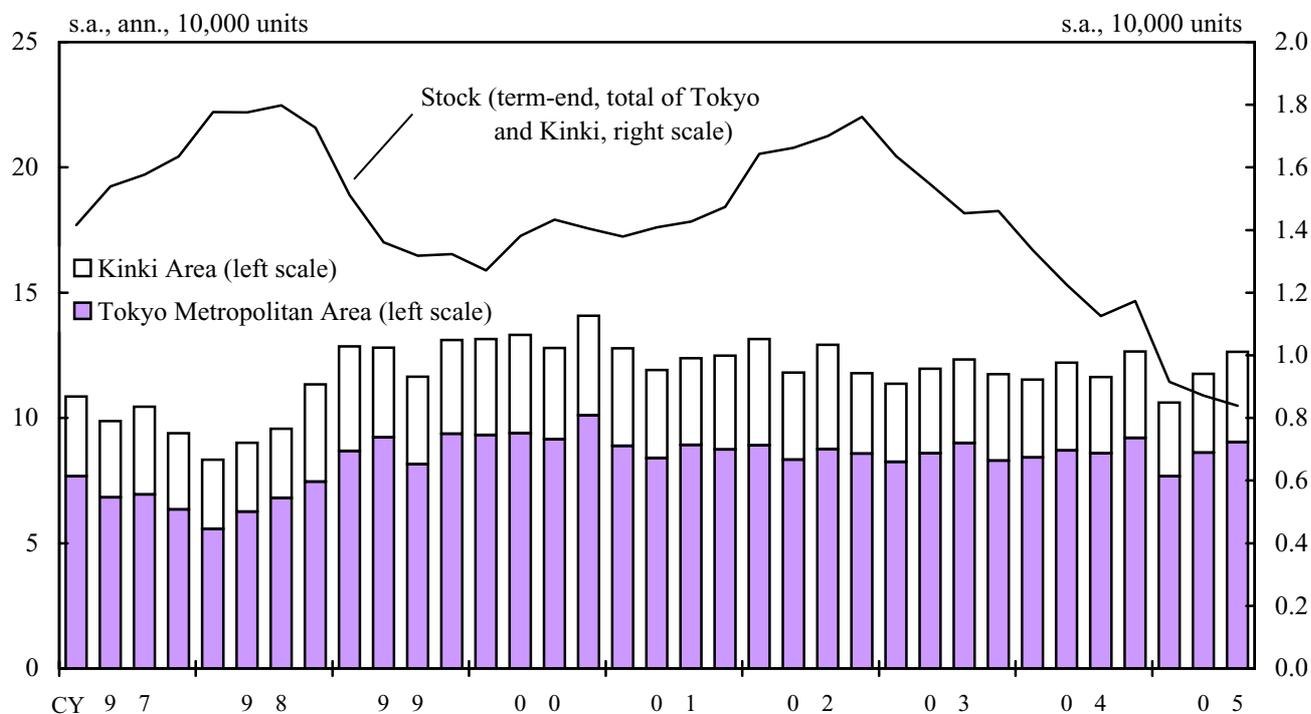
## Indicators for Housing Investment

## (1) Housing Starts



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

## (2) Sales of Condominiums



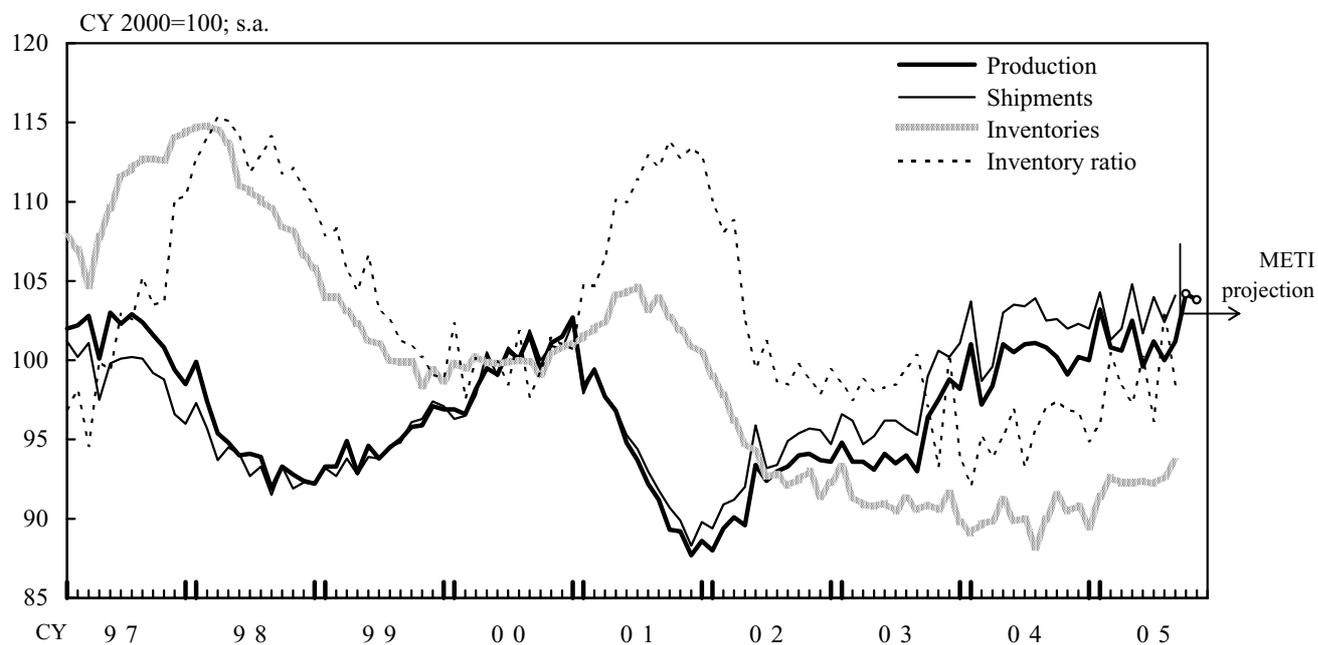
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. Figures of total condominiums sales for 2005/Q3 are those of July-August averages.  
 Term-end stocks for 2005/Q3 are those of August.

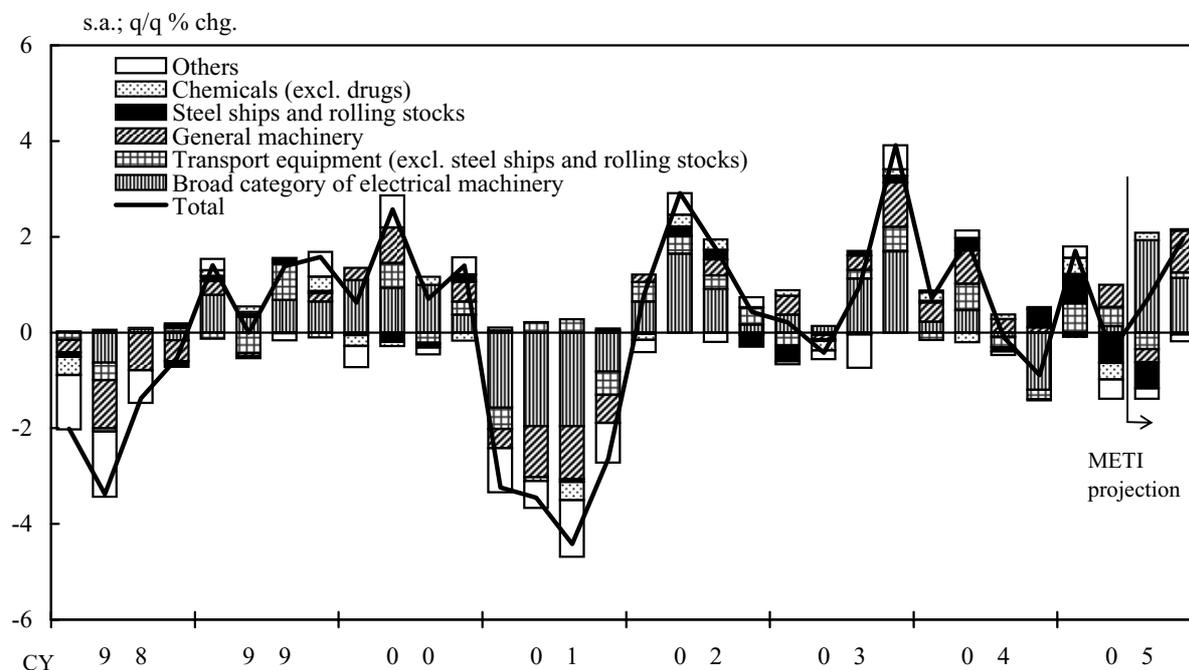
Sources: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

## Production, Shipments, and Inventories

### (1) Production, Shipments, and Inventories



### (2) Production by Industries



Notes: 1. "Steel ships and rolling stocks" is calculated as the difference between "Transport equipment" and "Transport equipment excluding steel ships and rolling stocks."

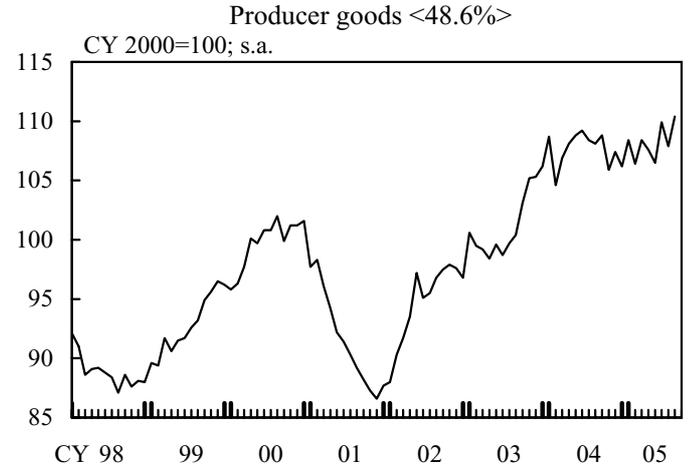
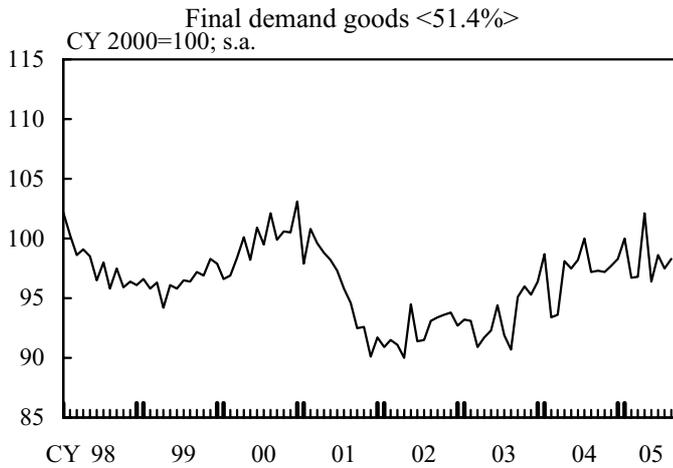
"Broad category of electrical machinery" is the weighted sum of "electrical machinery," "information and communication electronics equipment" and "electronic parts and devices."

2. 2005/Q3 figures are based on the actual levels in July and Aug., and the METI projection level in Sept. 2005/Q4 figures are based on the assumption that production level in Nov. and Dec. is the same as that of Oct.

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

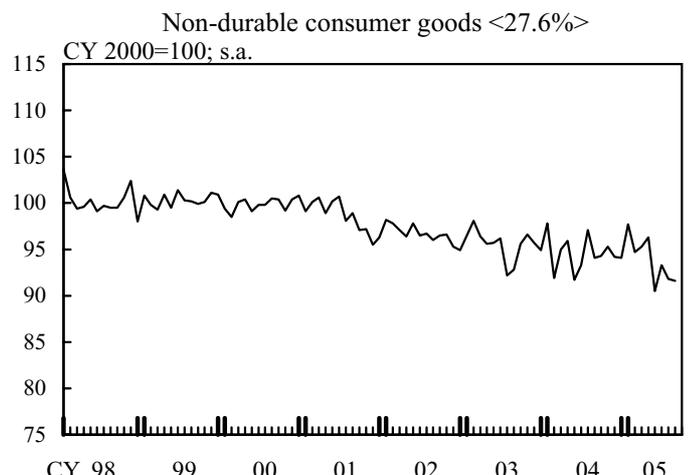
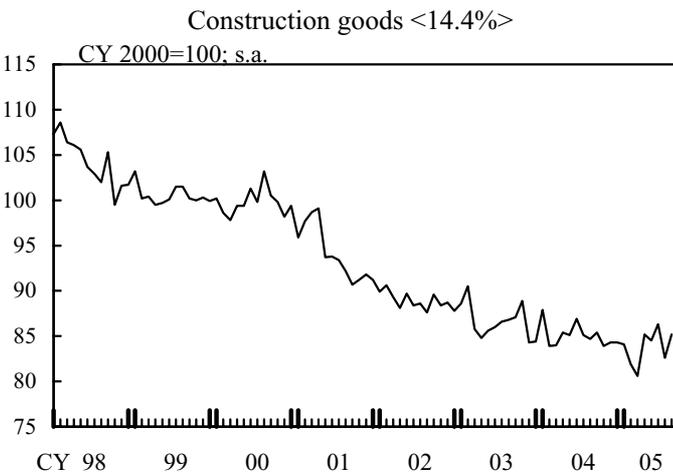
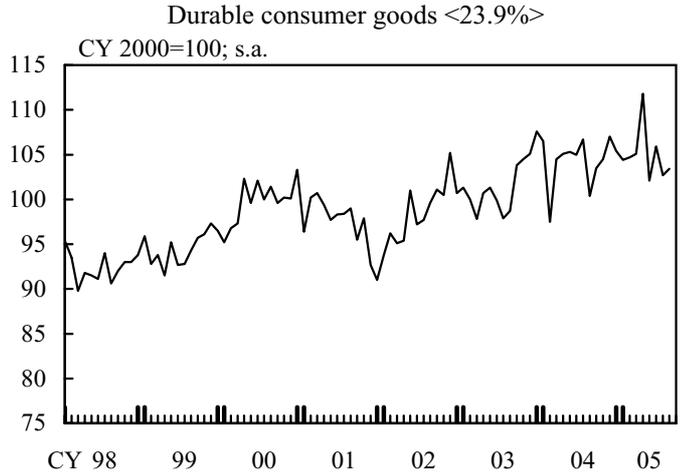
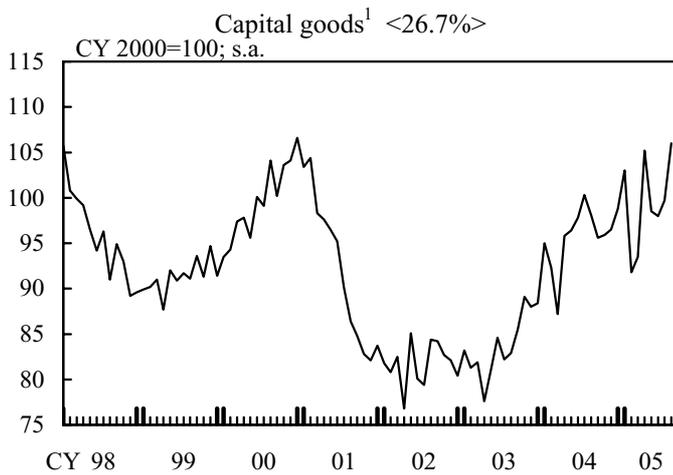
Shipments breakdown by type of goods

(1) Final demand goods and Producer goods



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

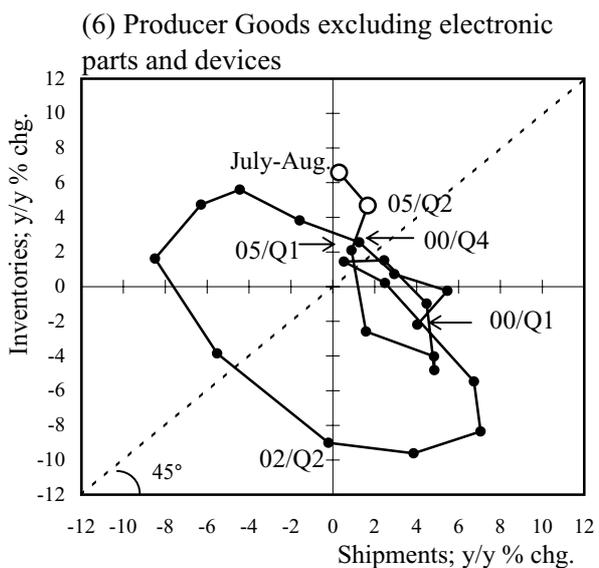
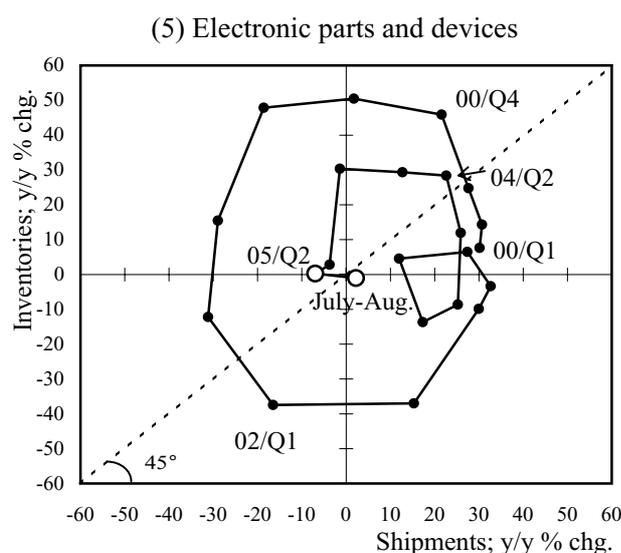
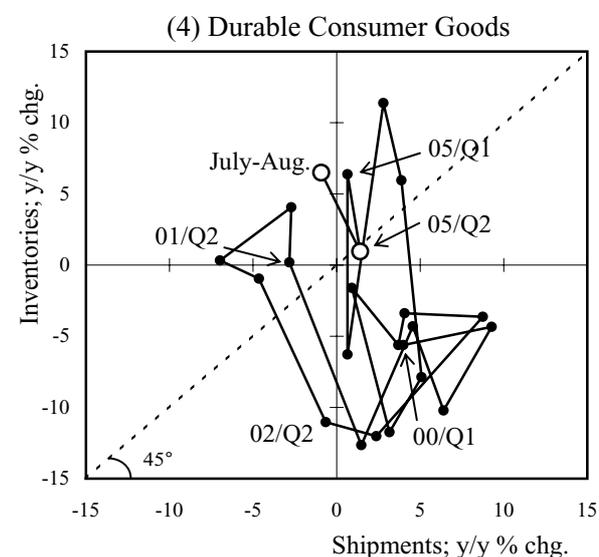
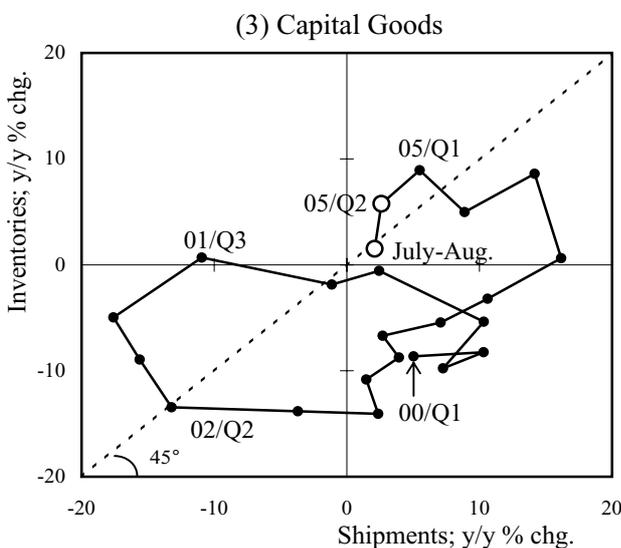
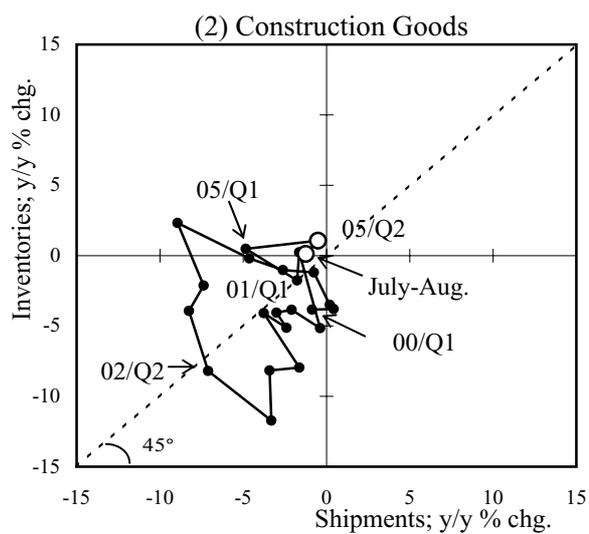
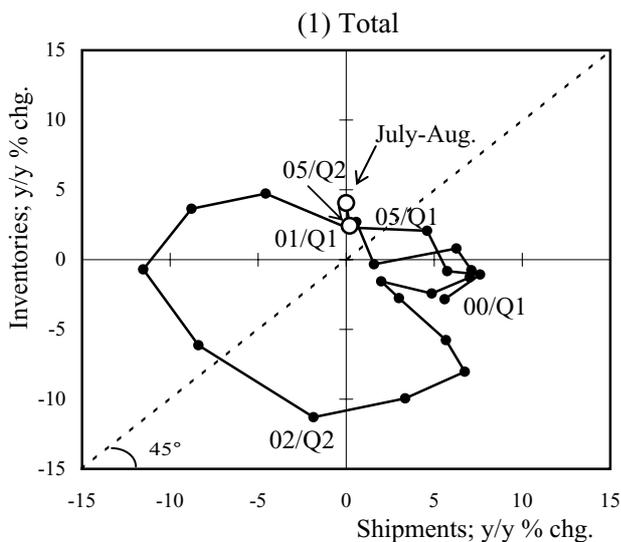
(2) Breakdown of final demand goods



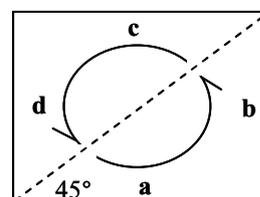
Notes: 1. Excluding transport equipment.  
2. Shares of shipments of final demand goods are shown in angle brackets.

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

# Inventory Cycle

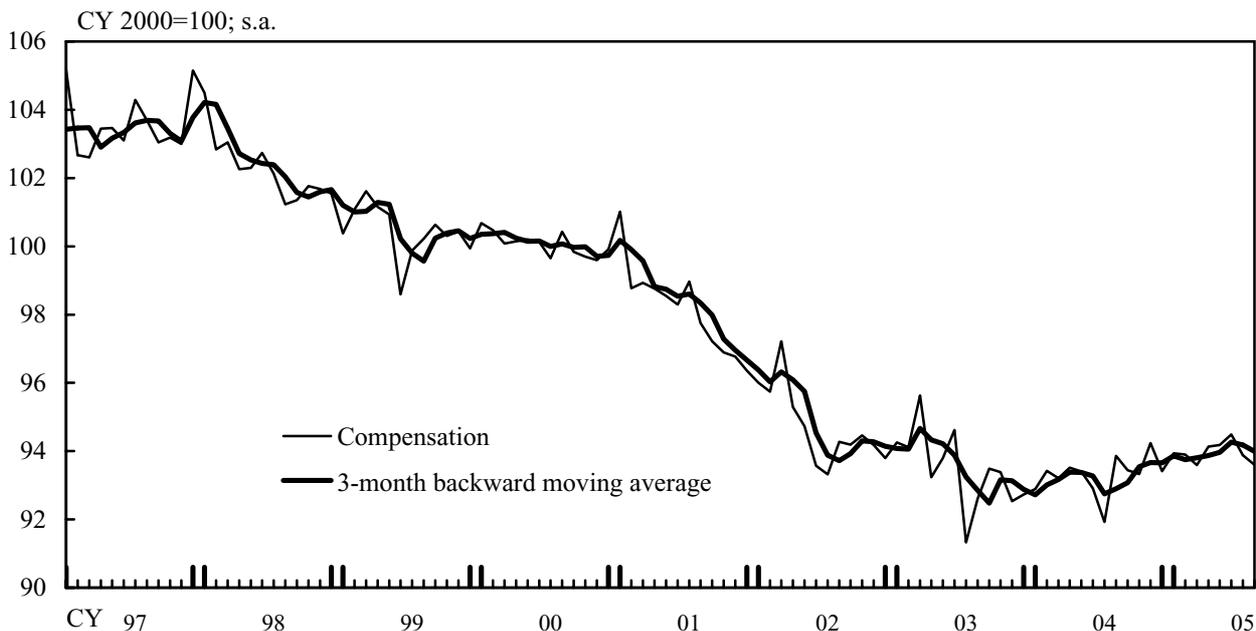


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



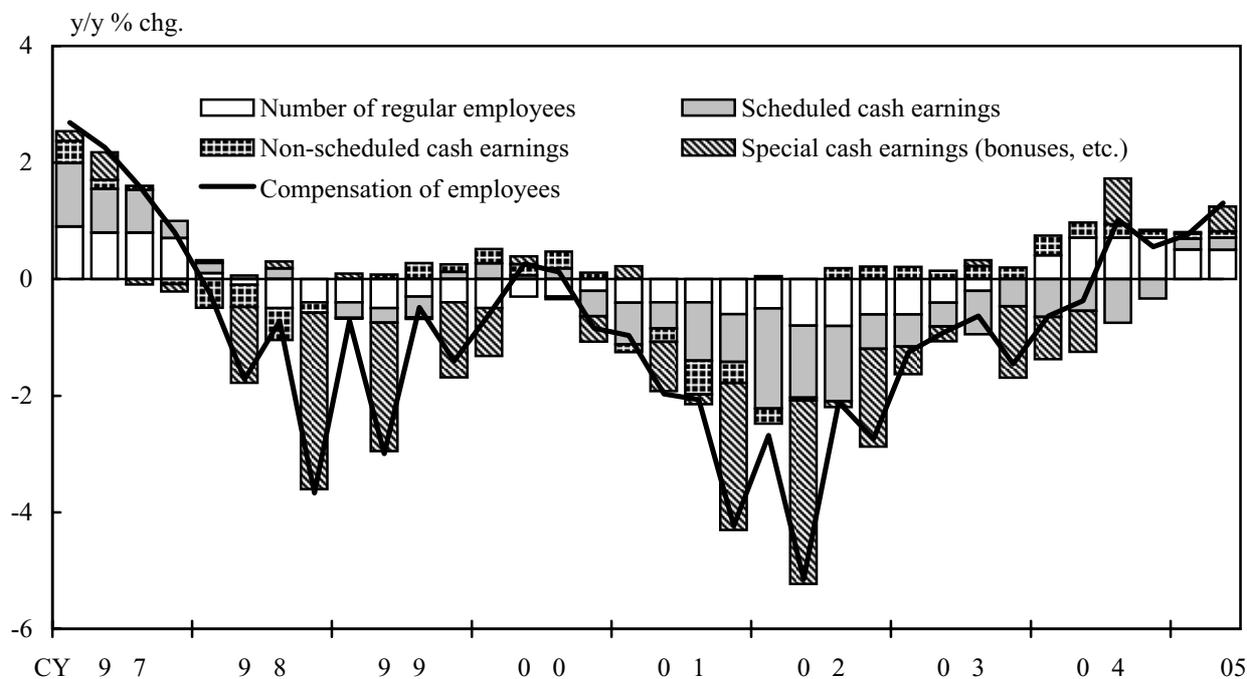
Compensation of Employees

(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.

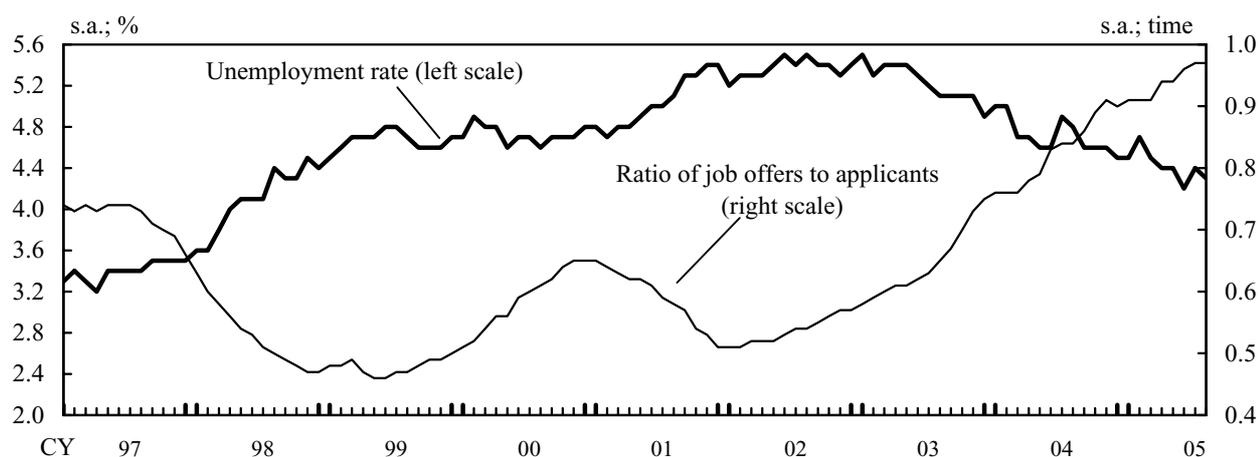
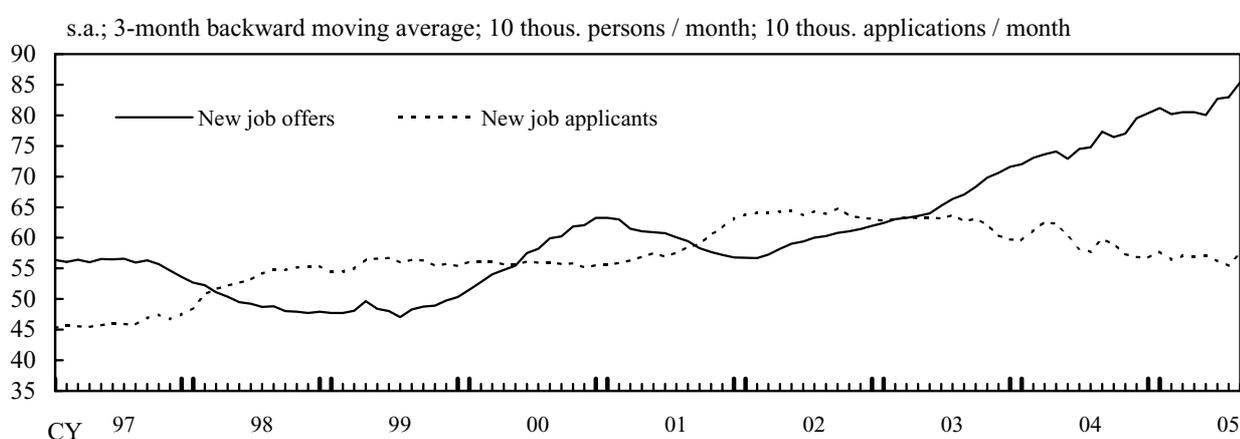
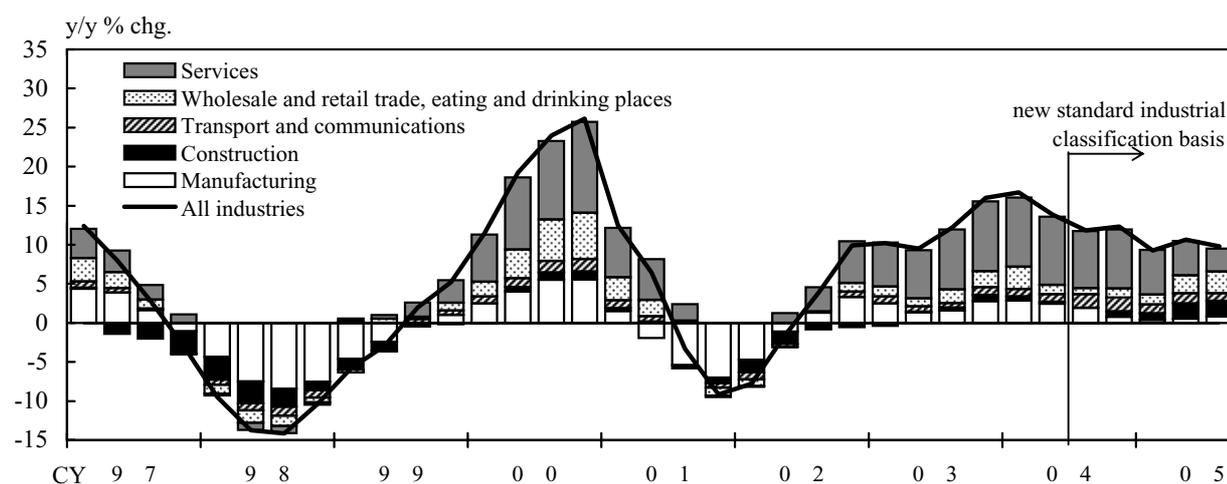
(2) Breakdown of Compensation



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

## Labor Market (1)

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

(2) New job offers and New job applicants<sup>1</sup>(3) Breakdown of New job offers<sup>1,2,3</sup>

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

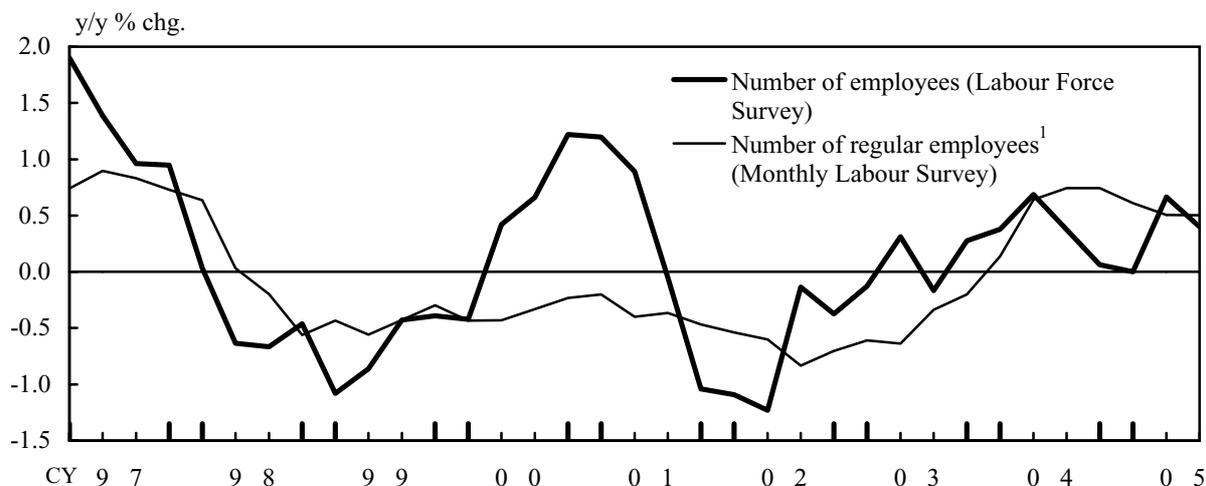
2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum of "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-August averages.

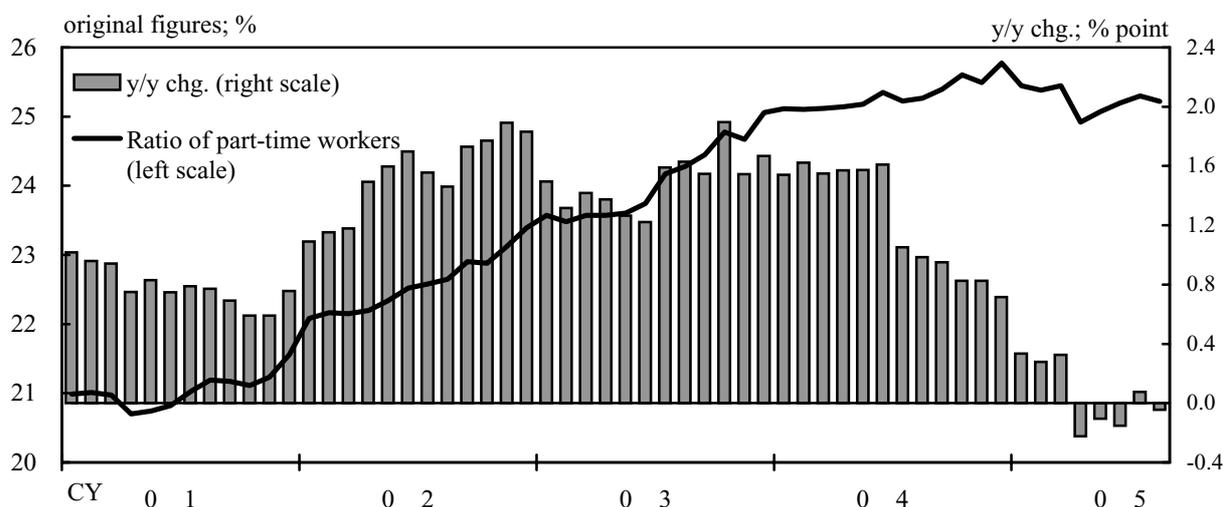
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

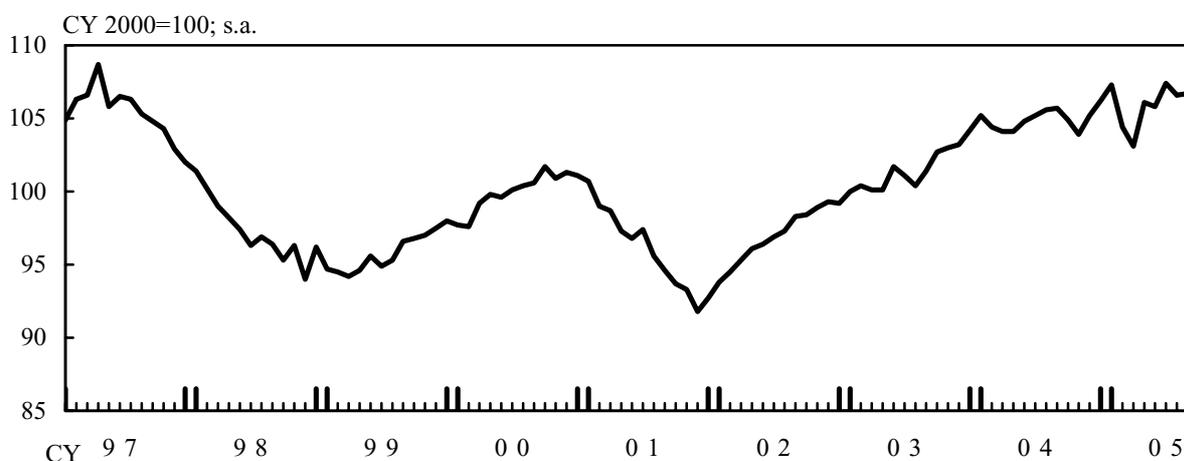
(1) Number of Employees<sup>3</sup>



(2) Ratio of part-time workers<sup>1,2</sup> (Monthly Labour Survey)



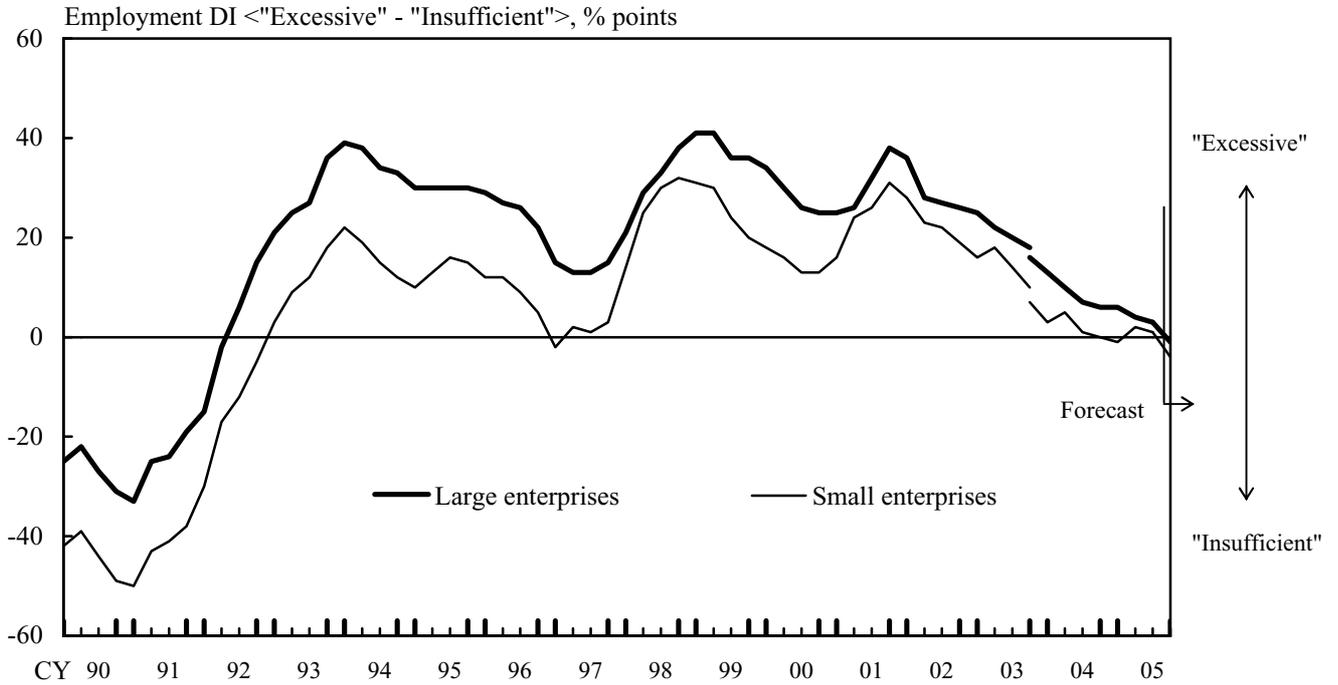
(3) Non-scheduled Hours Worked<sup>1</sup> (Monthly Labour Survey)



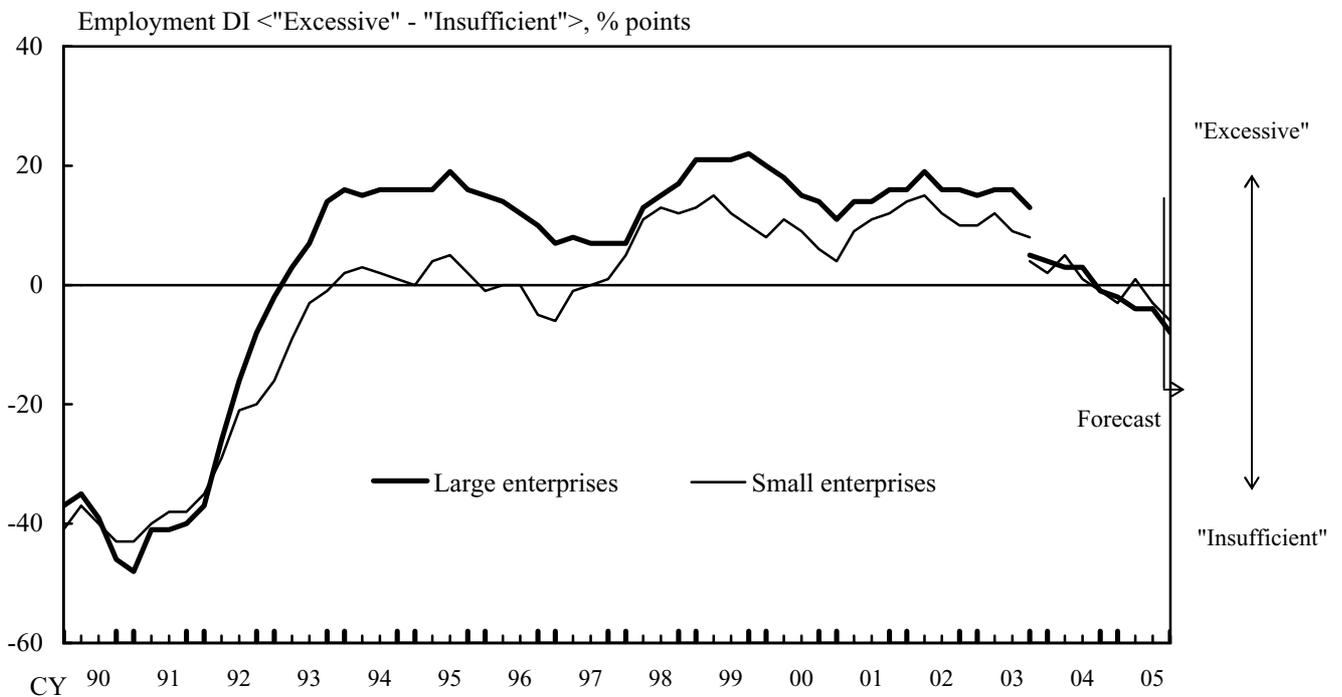
Notes: 1. Data are for establishments with at least 5 employees.  
 2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.  
 3. Figures for 2005/Q3 are those of July-August averages.  
 Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

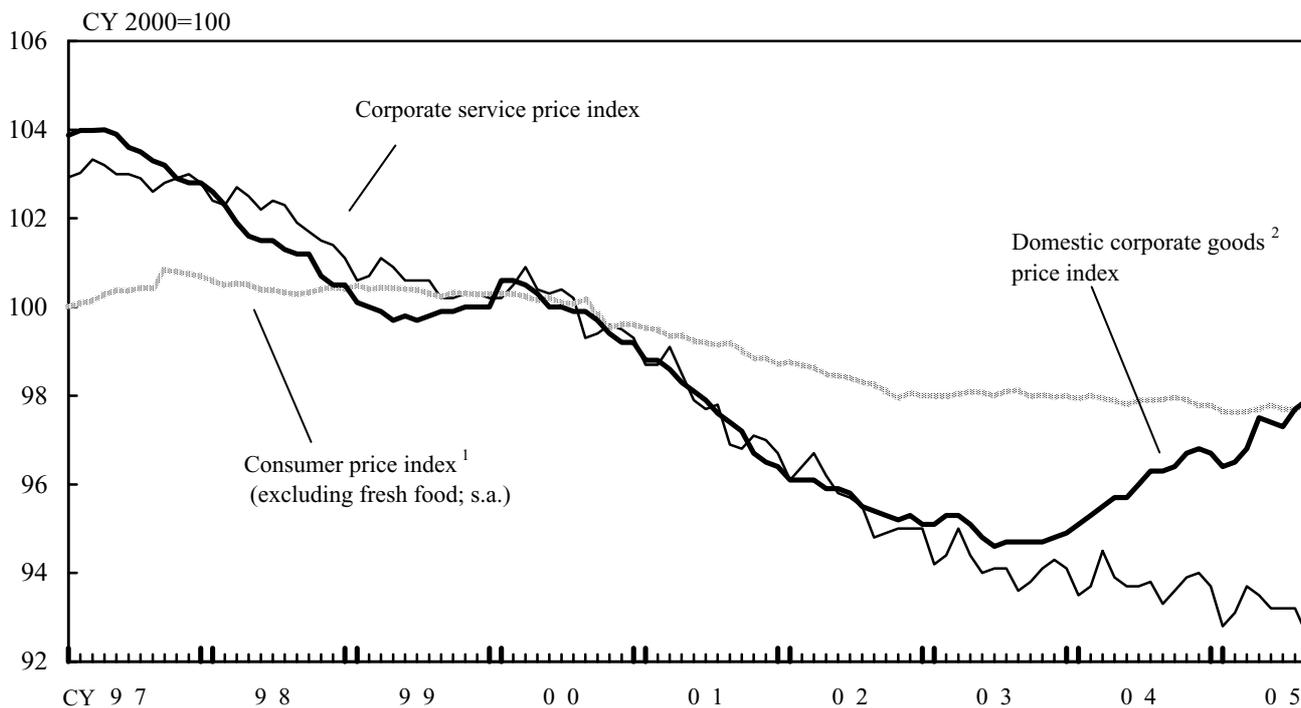


Note: The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

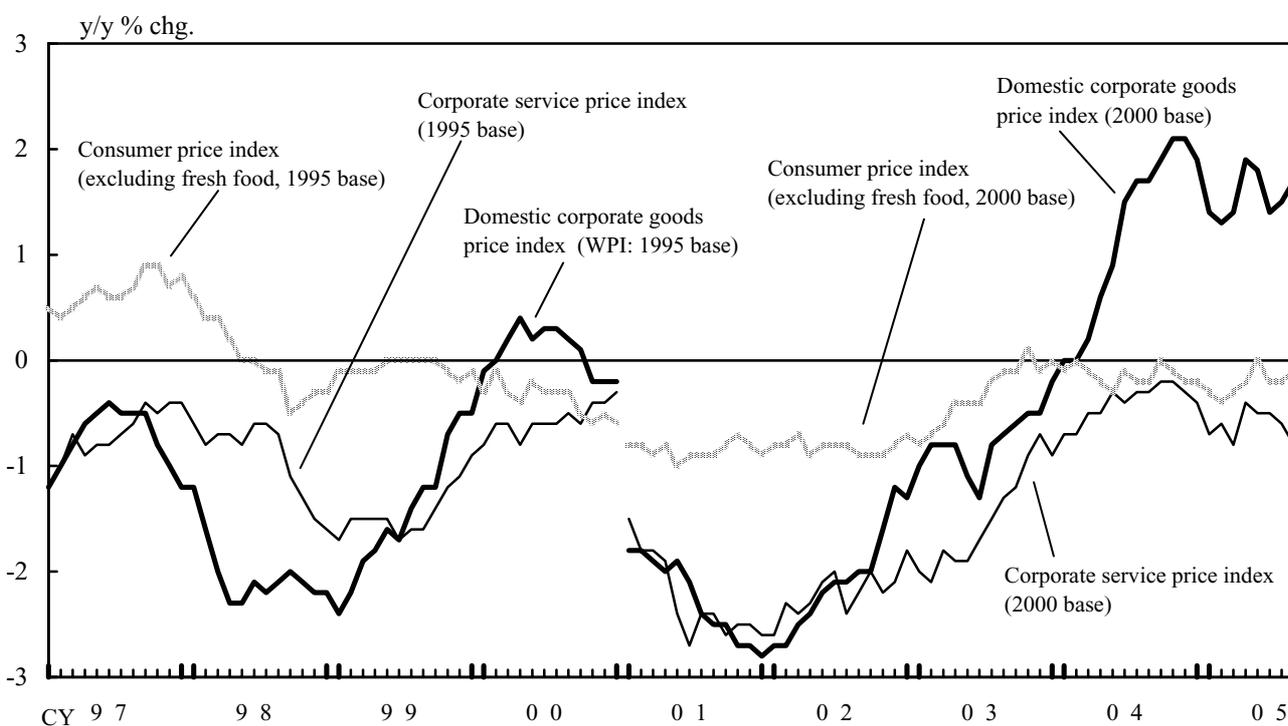
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Prices<sup>3</sup>

(1) Level



(2) Changes from a year earlier

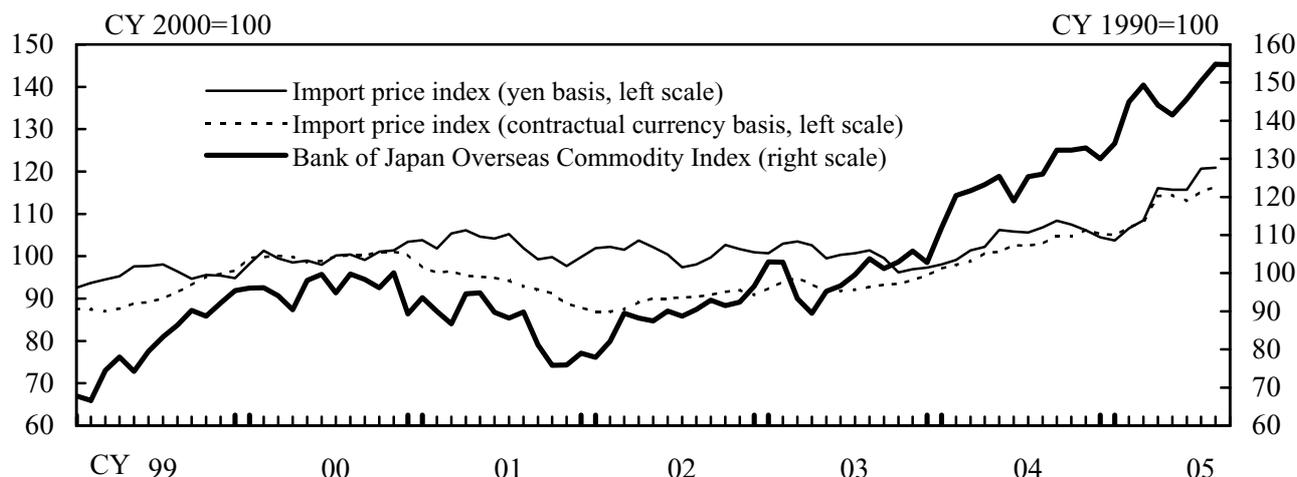


- Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Adjusted to exclude a hike of electric power charges in summer season.  
 3. Adjusted to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";  
 Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Corporate Service Price Index."

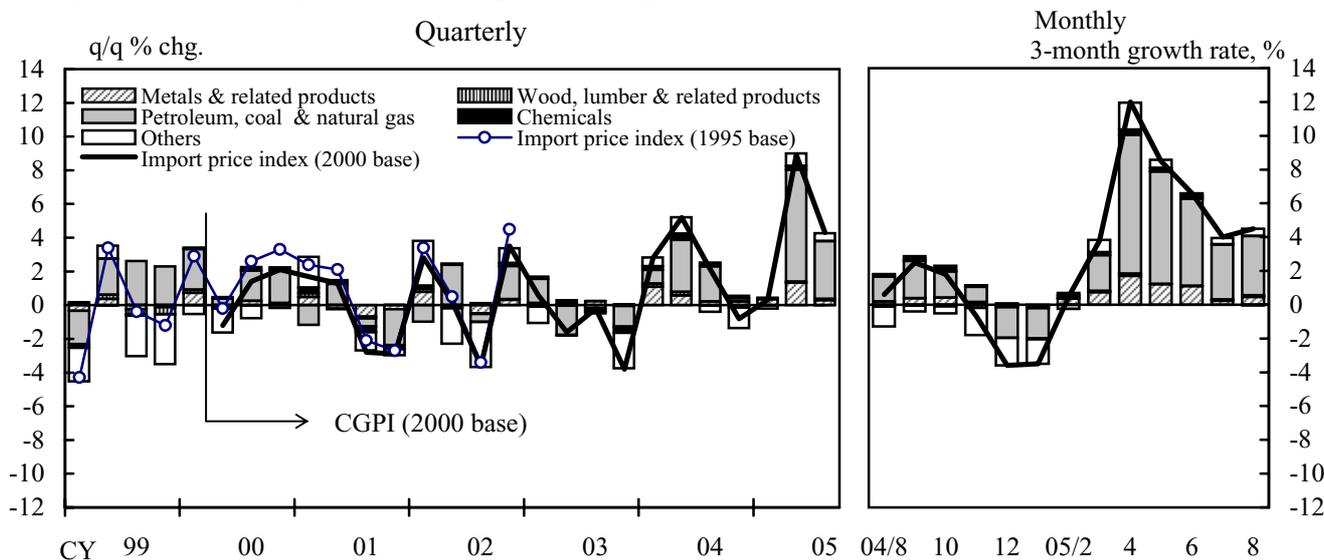
## Import Prices and International Commodity Prices

### (1) Import Price Index and Overseas Commodity Index



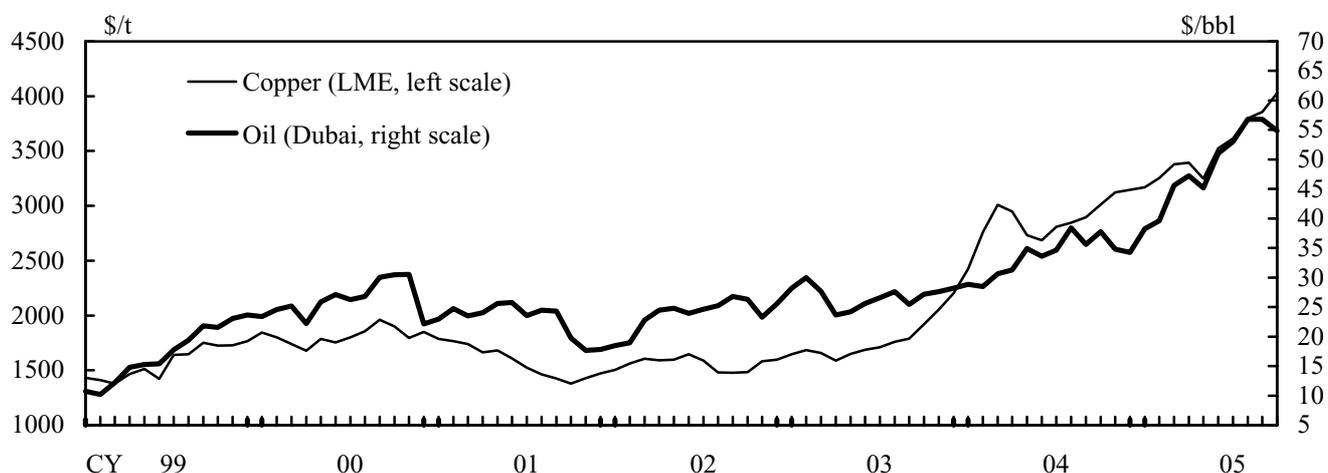
Note: Bank of Japan Overseas Commodity Index is the end of month figure.

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



Note: Figures for 2005/Q3 are Jul.-Aug. averages.  
1995 base figure for 2002/Q4 is Oct.-Nov. average.

### (3) Oil price and Copper price

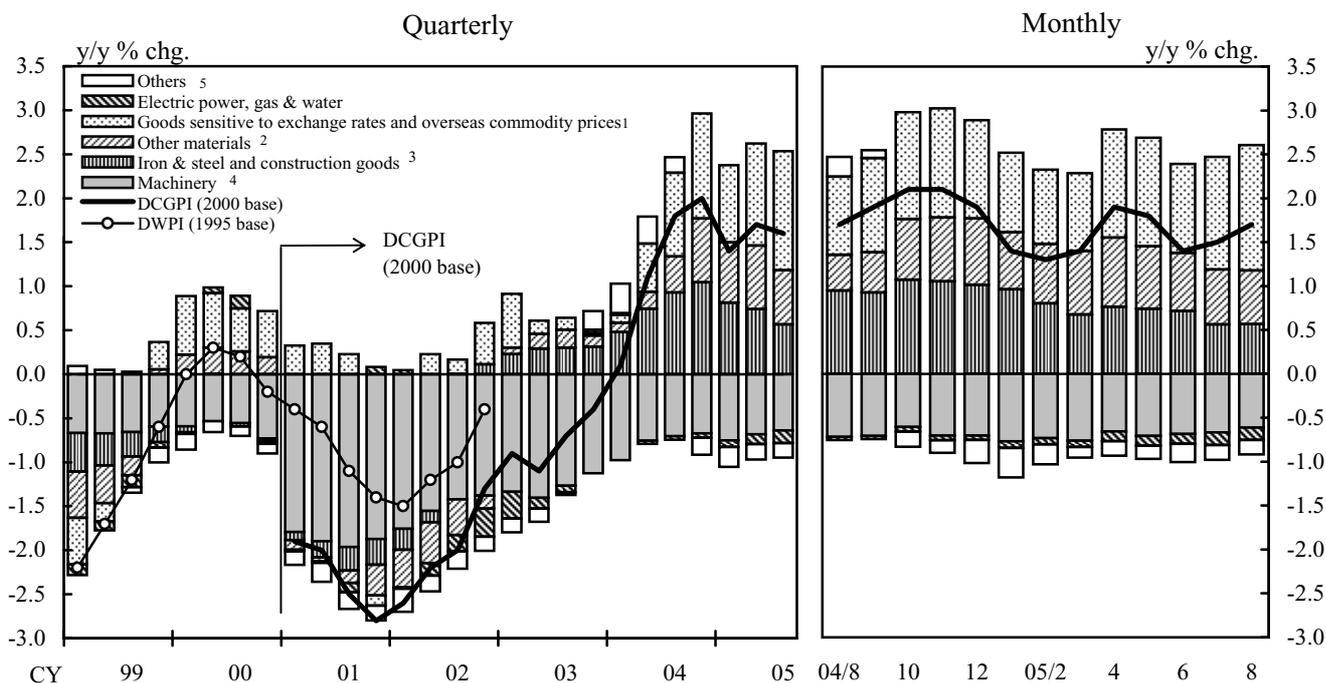
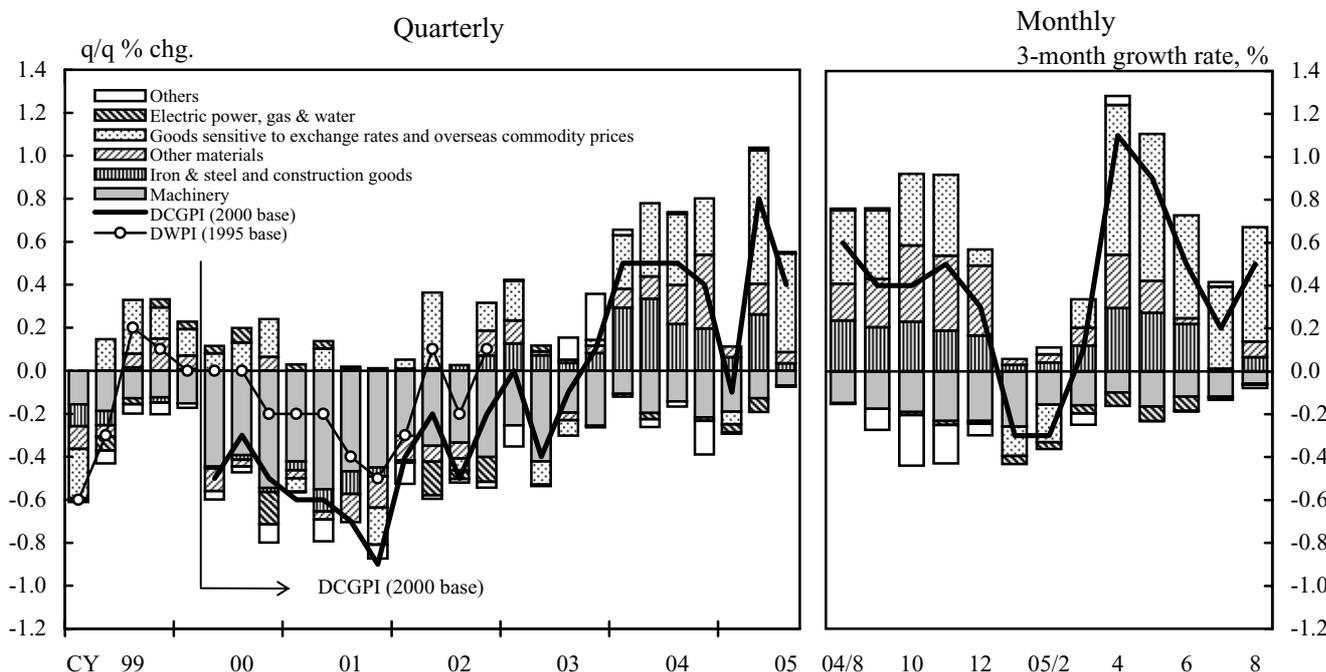


Note: Monthly averages. Figures for October 2005 are the averages up to October 11.

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

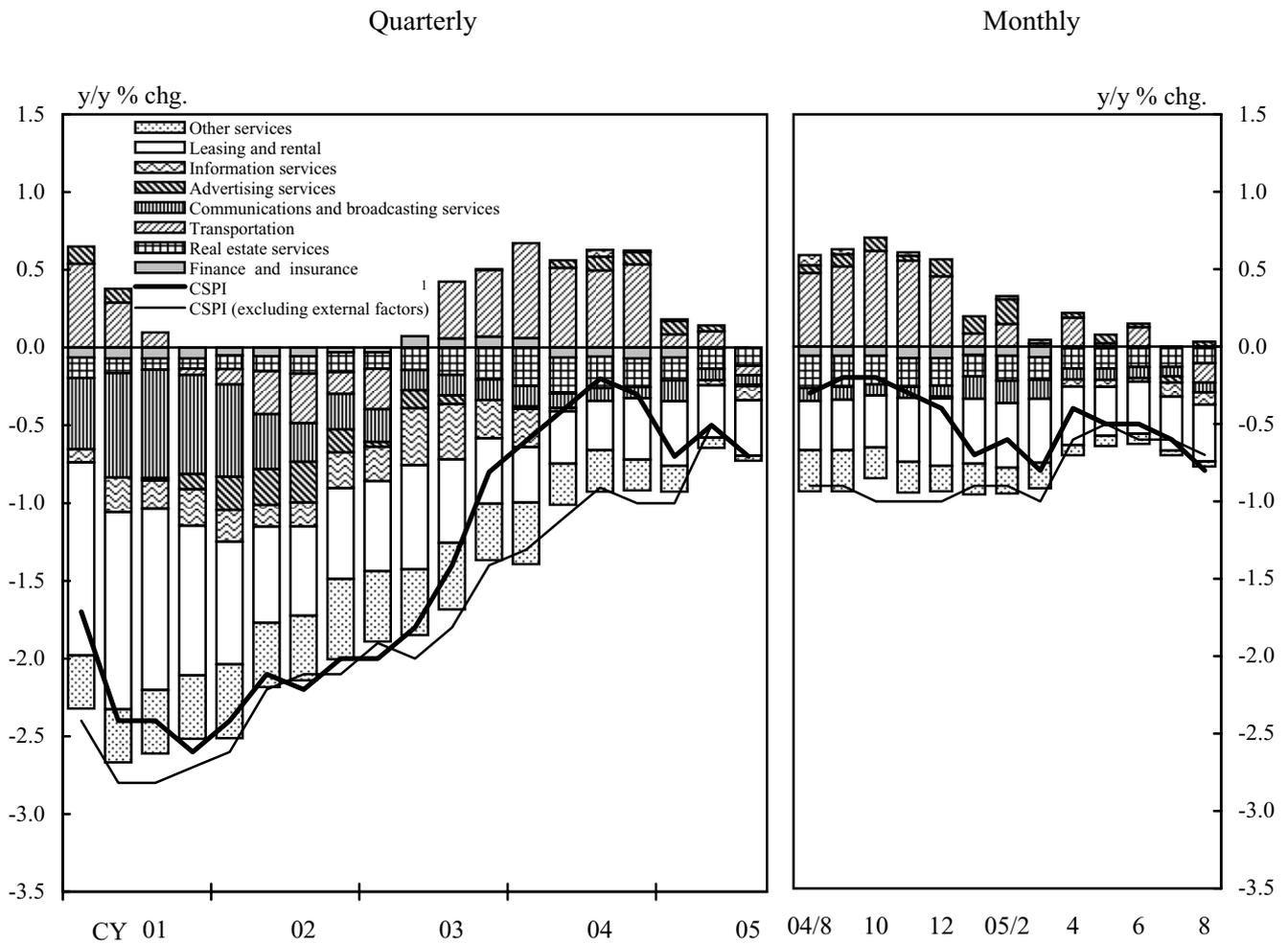
Domestic Corporate Goods Price Index<sup>7</sup>

## (1) Changes from a year earlier

(2) Changes from a quarter earlier and 3 months earlier<sup>6</sup>

- 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 Jul.-Aug. averages. 1995 base figures for 2002/Q4 are Oct.-Nov. averages.

Corporate Service Price Index



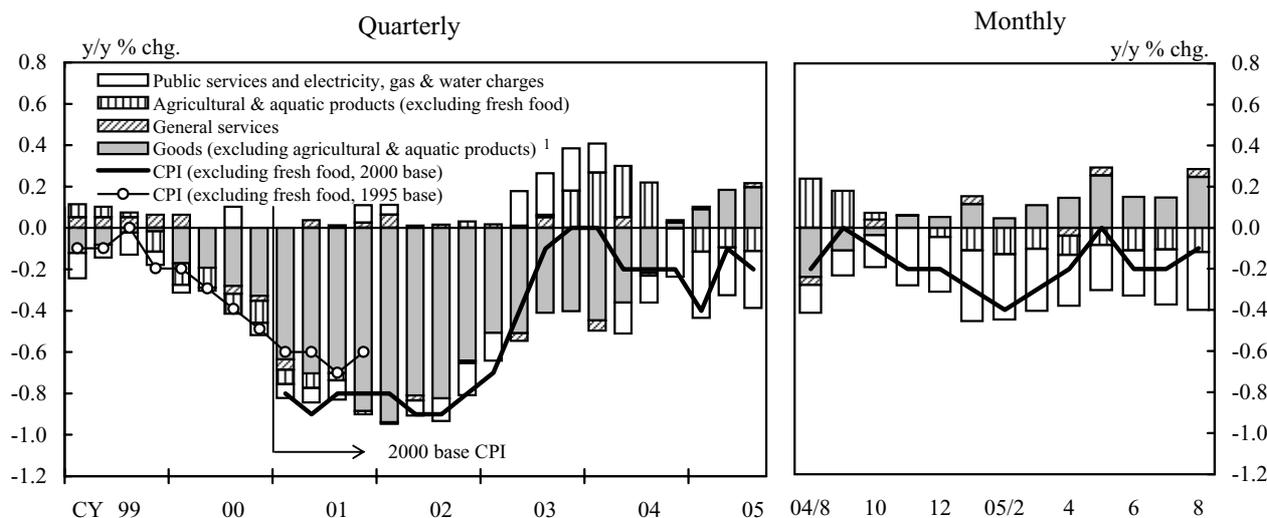
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2005/Q3 are Jul.-Aug. averages.

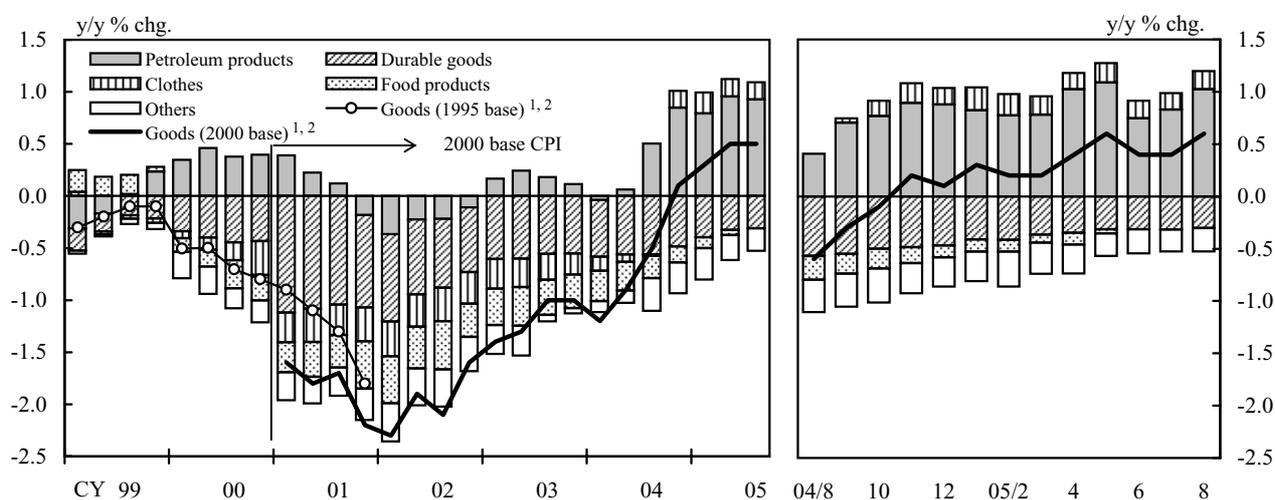
Source: Bank of Japan, "Corporate Service Price Index."

# Consumer Price Index (excluding fresh food)

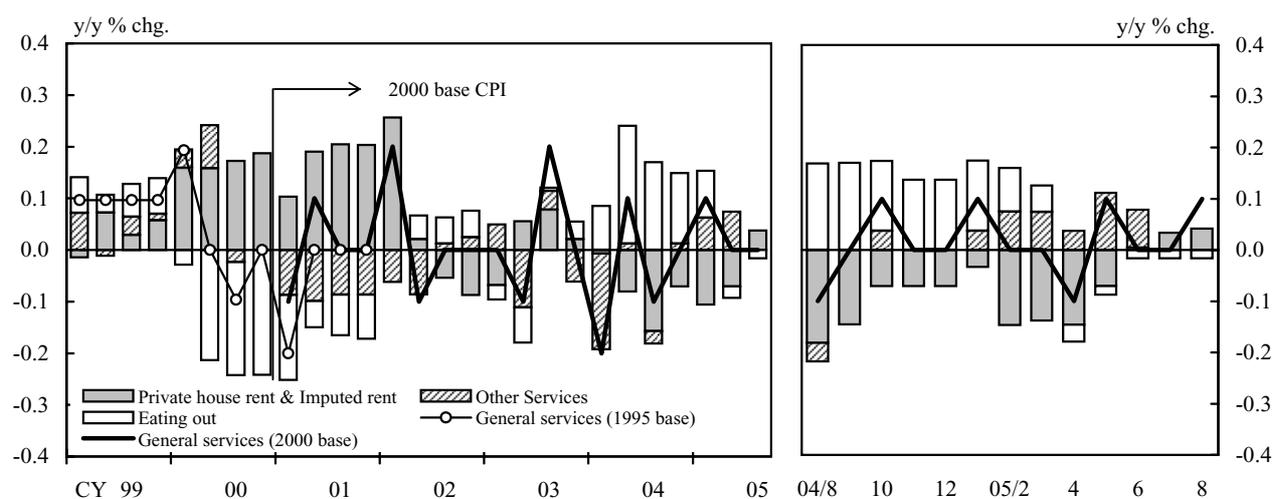
## (1) Consumer price index (excluding fresh food)



## (2) Goods (excluding agricultural & aquatic products)<sup>1</sup>



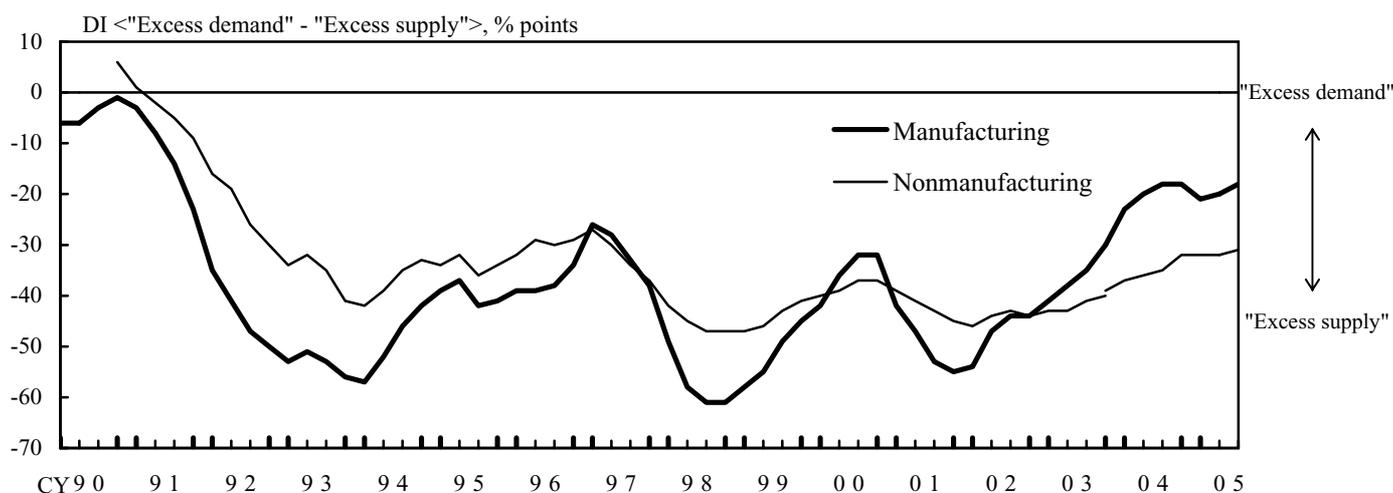
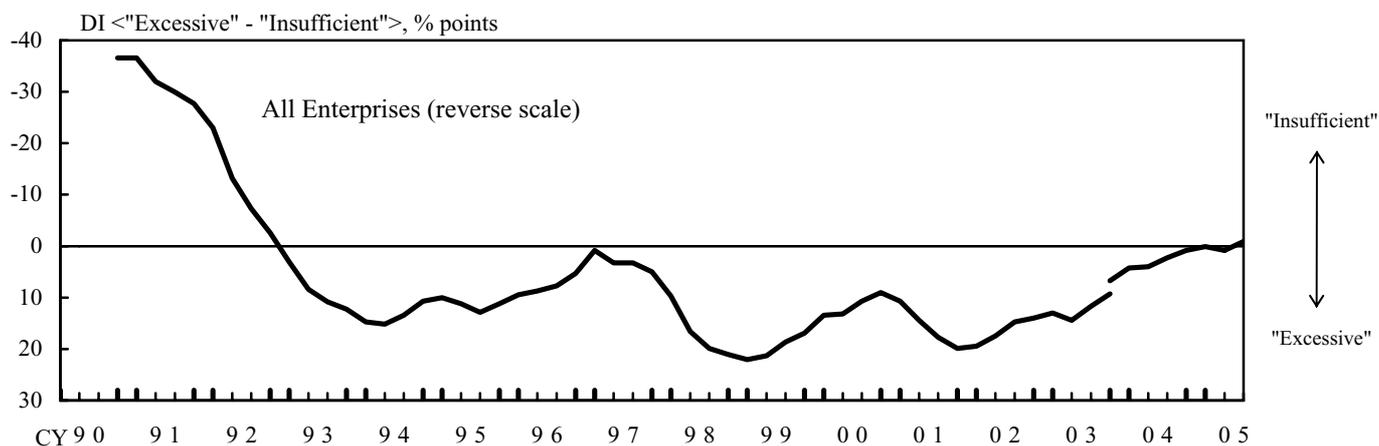
## (3) General services



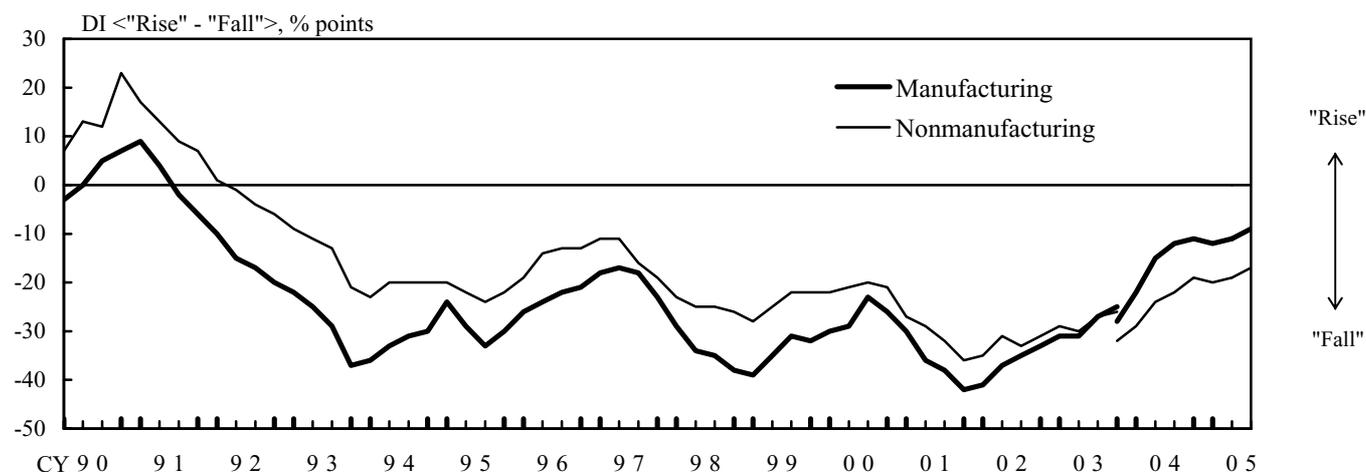
Notes: 1. The Items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges is excluded from goods.  
 2. Excluding agricultural & aquatic products.  
 3. Figures for 2005/Q3 are Jul.-Aug. averages.

Domestic Supply and Demand Conditions<sup>1</sup>

## (1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)

(2) Utilization of Capital and Labor<sup>2</sup>

## (3) Change in Output Prices (All Enterprises)



Notes: 1. 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.

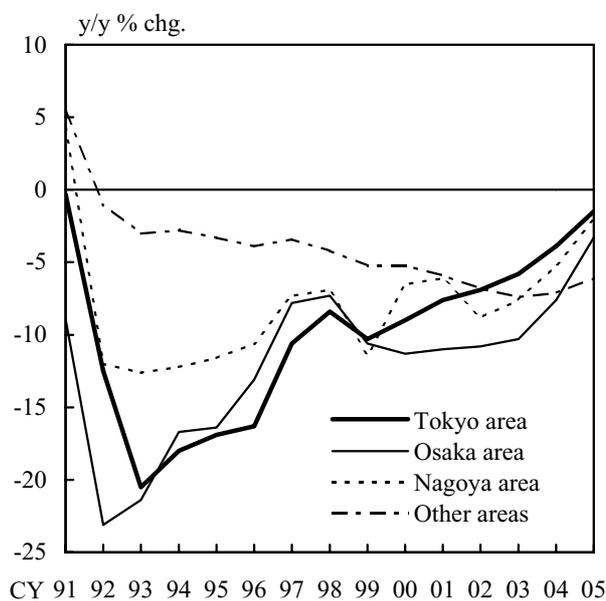
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2003 averages of capital and labor shares in national accounts are used as the weight.

Sources: Cabinet Office, "National Accounts";  
Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

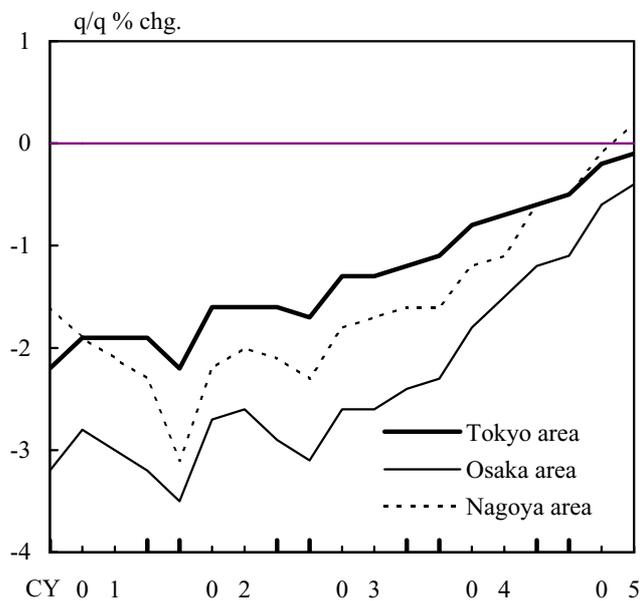
## Land Prices

## (1) Commercial land

(1-1) Prefectural Land Prices (as of July 1st)

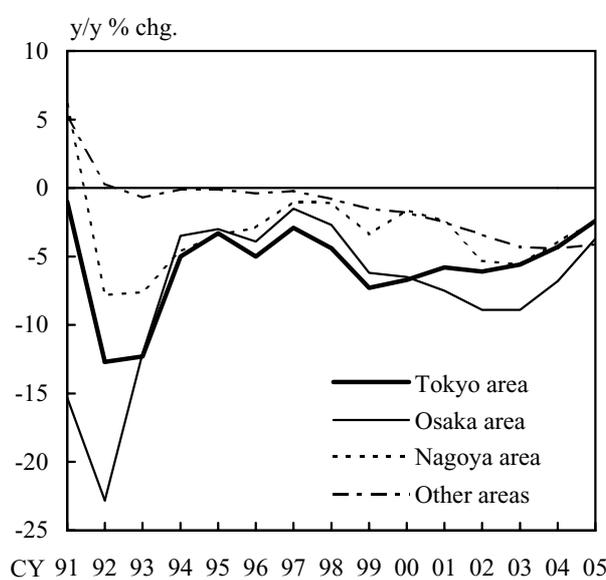


(1-2) Land prices at representative locations

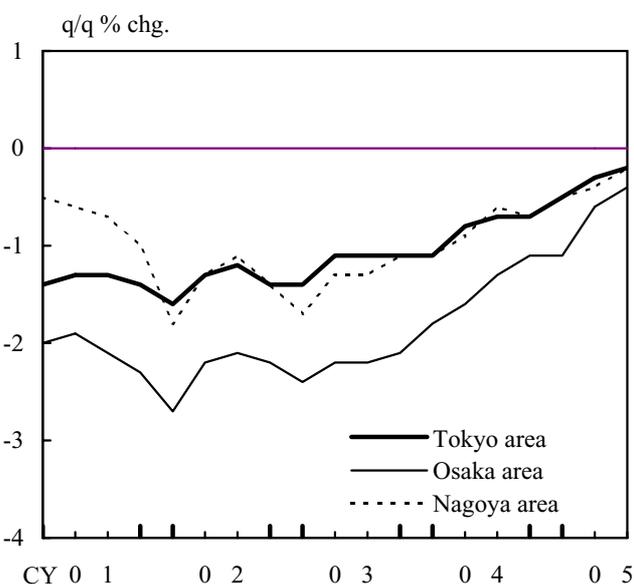


## (2) Residential land

(2-1) Prefectural Land Prices (as of July 1st)



(2-2) Land prices at representative locations

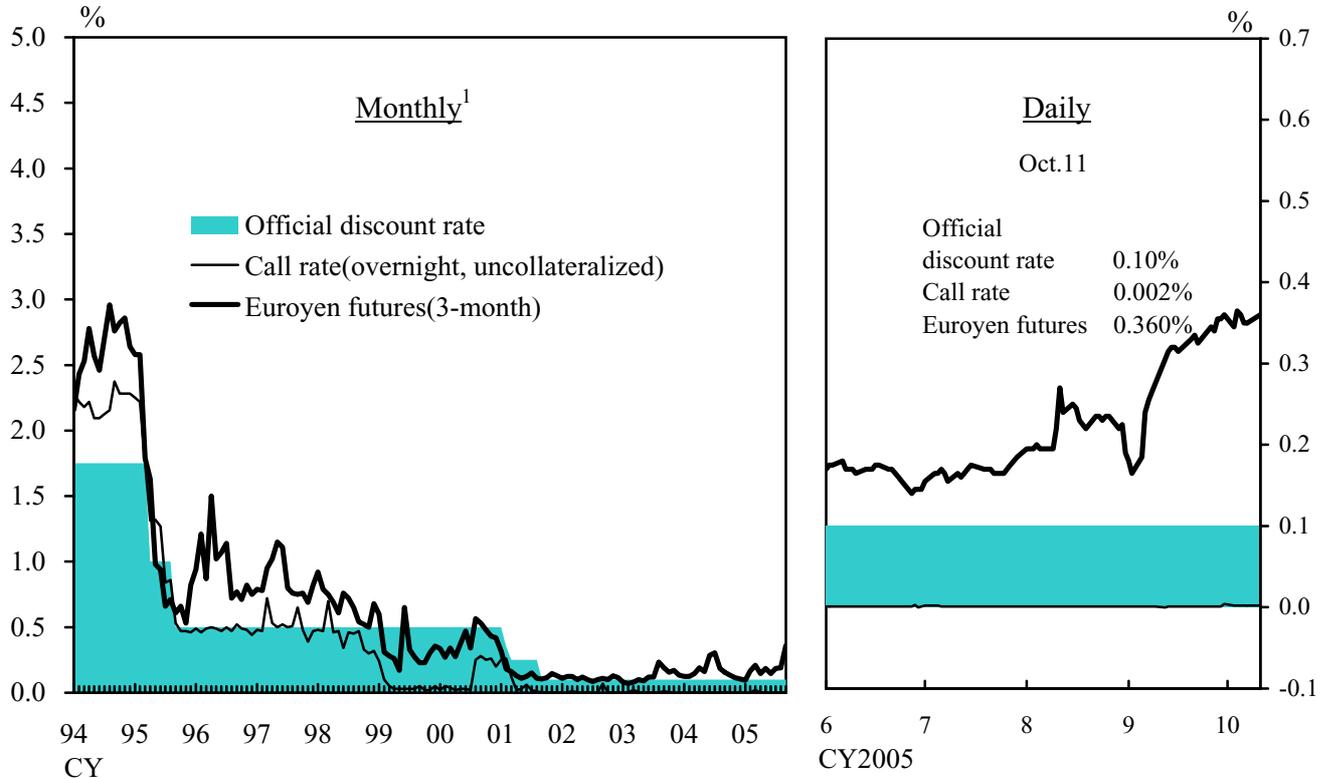


Note: *Publication of Land Price*, surveyed by the Ministry of Land, Infrastructure and Transport, shows the land prices as of January 1st. *Prefectural Land Price Survey*, surveyed by prefecture officials, shows the land prices as of July 1st. Each survey has representative locations which are basically regarded as the same locations between the two statistics. The prices of these representative locations are also surveyed on April 1st and October 1st, so the series of the quarterly price changes for those locations can be obtained.

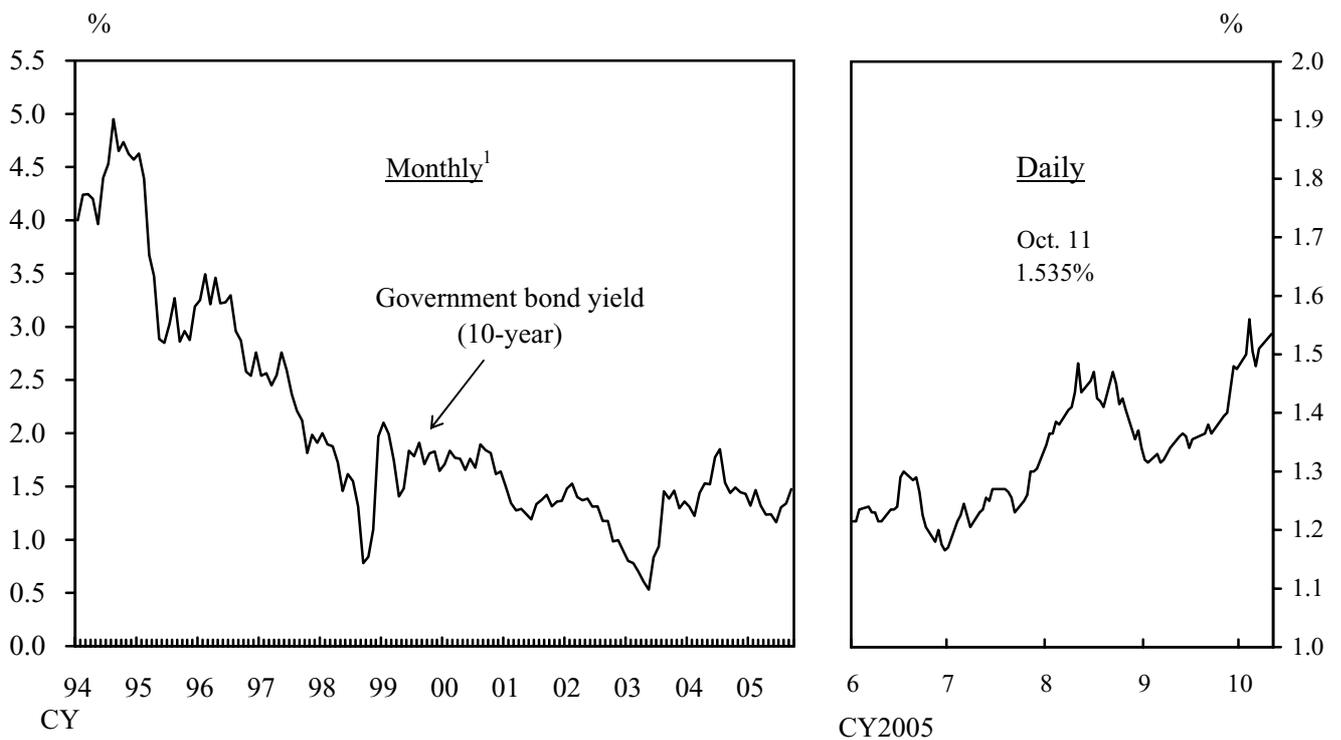
Sources: Ministry of Land, Infrastructure and Transport, "Publication of Land Price,"  
"Prefectural Land Price Survey."

Interest Rates

(1) Short-Term



(2) Long-Term

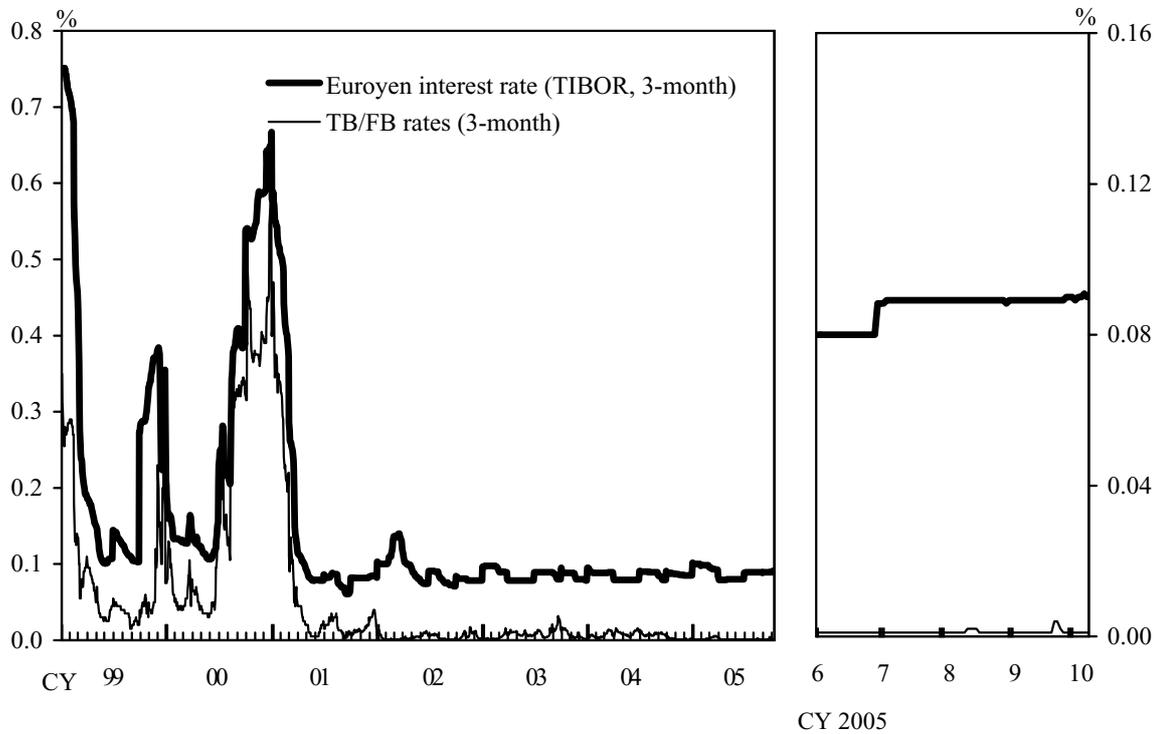


Note: 1. End of month.

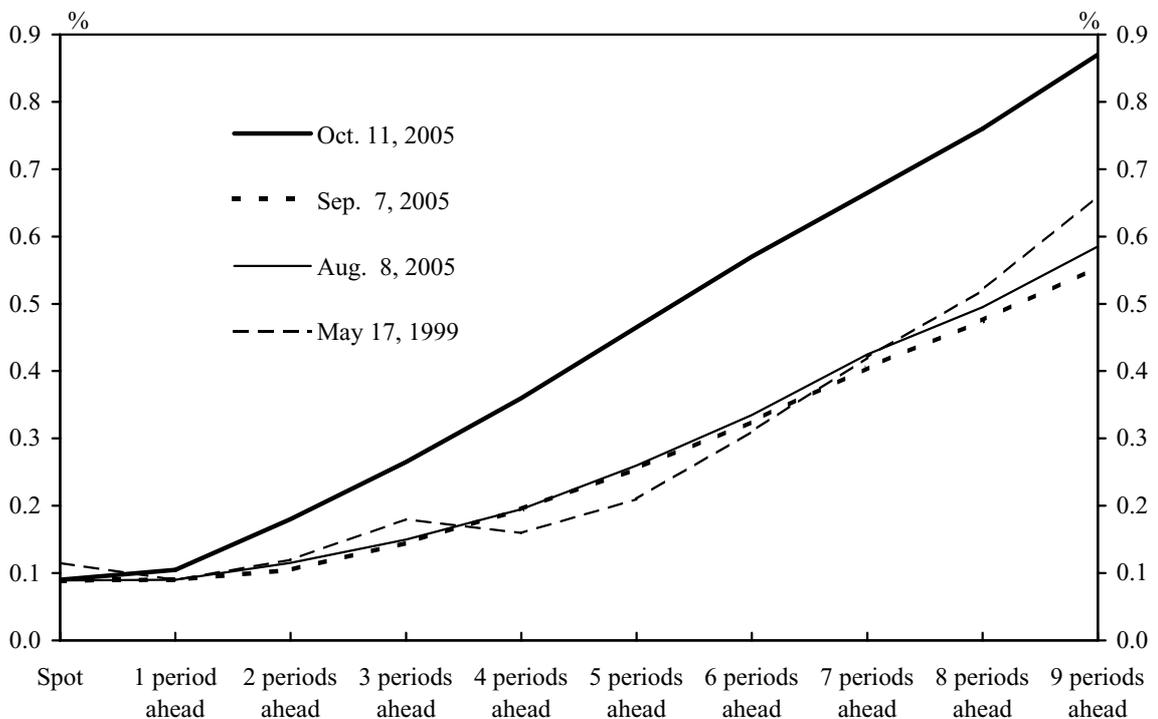
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



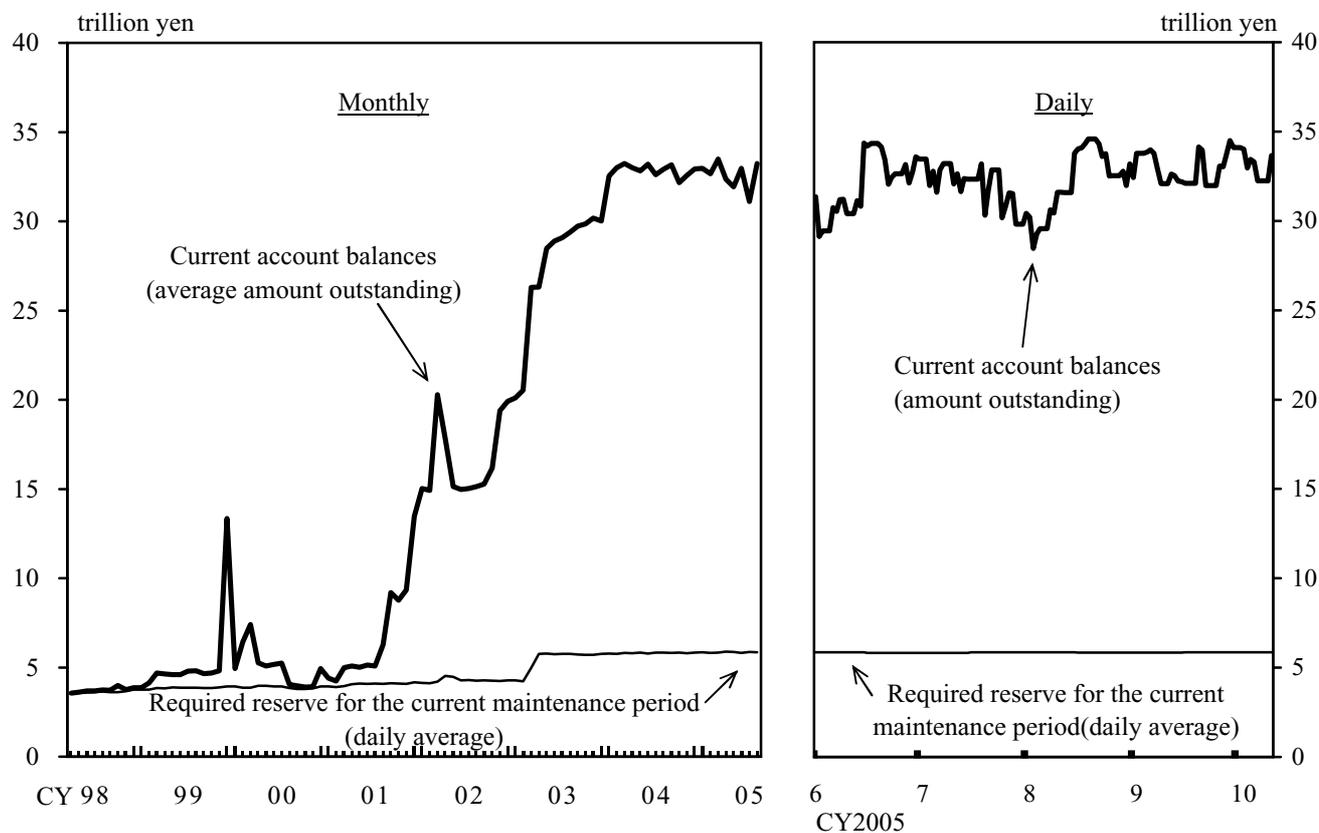
(2) Euroyen Interest Rates Futures (3-Month) <sup>1</sup>



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

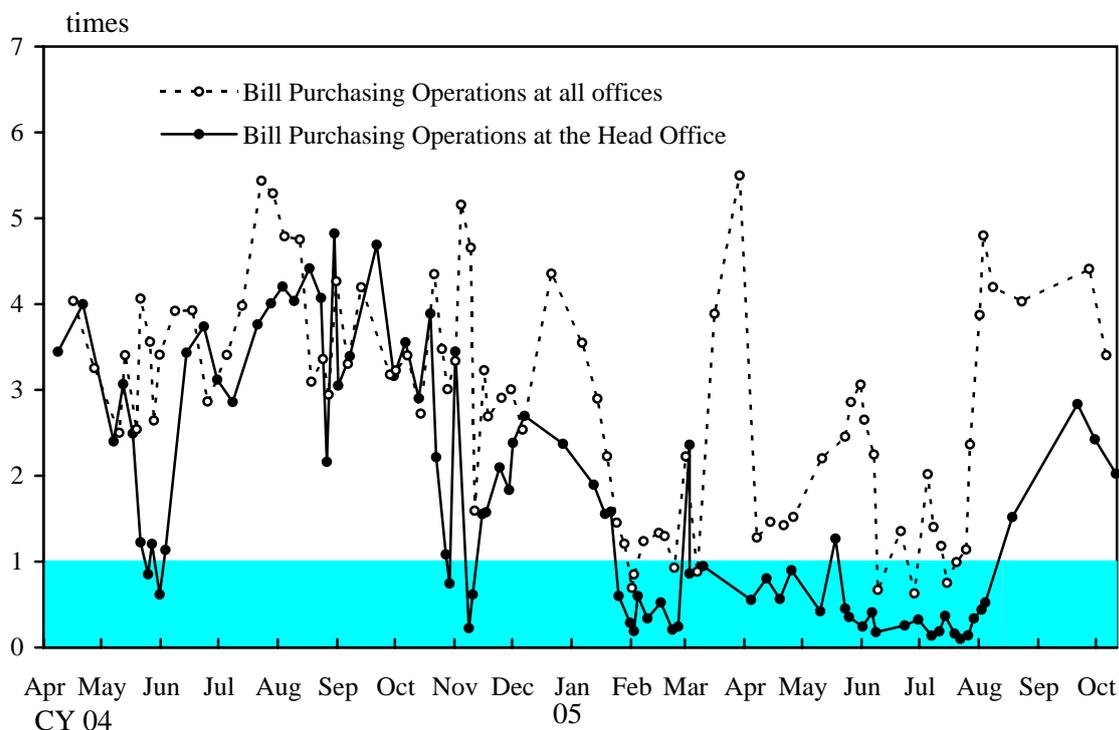


Note: From April 2003, the figures for current account balances and required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

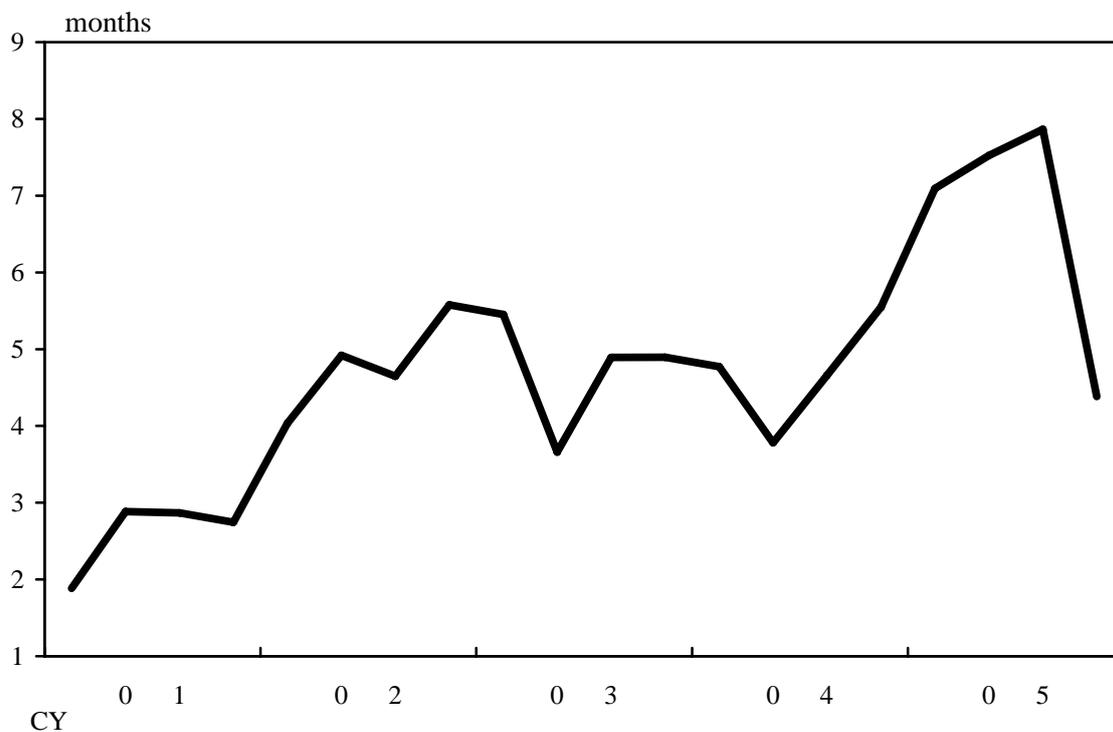
Funds-Supplying Operations

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



Note: Based on the dates of offers.

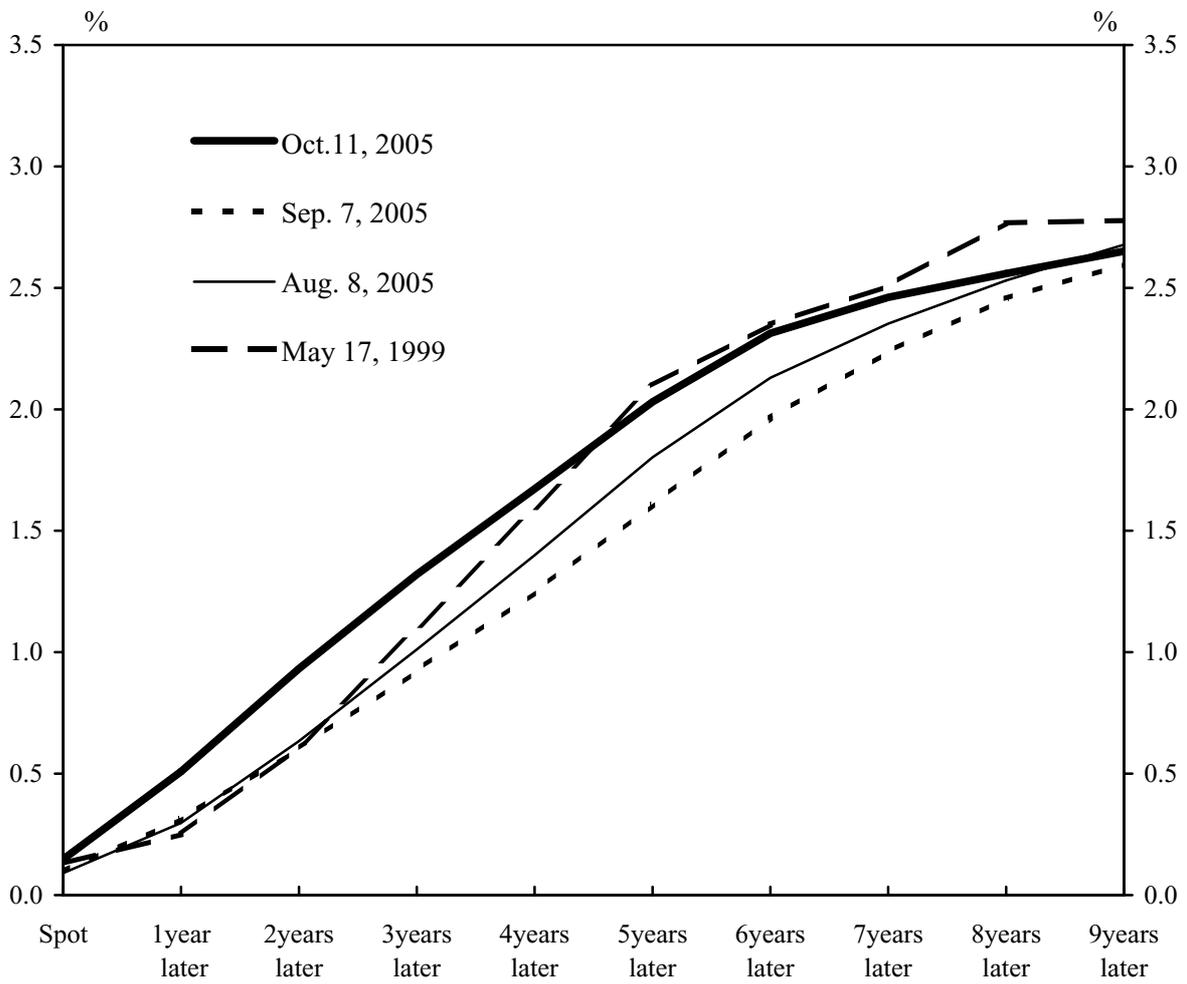
(2) Maturity of Bill-Purchasing Operations



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)

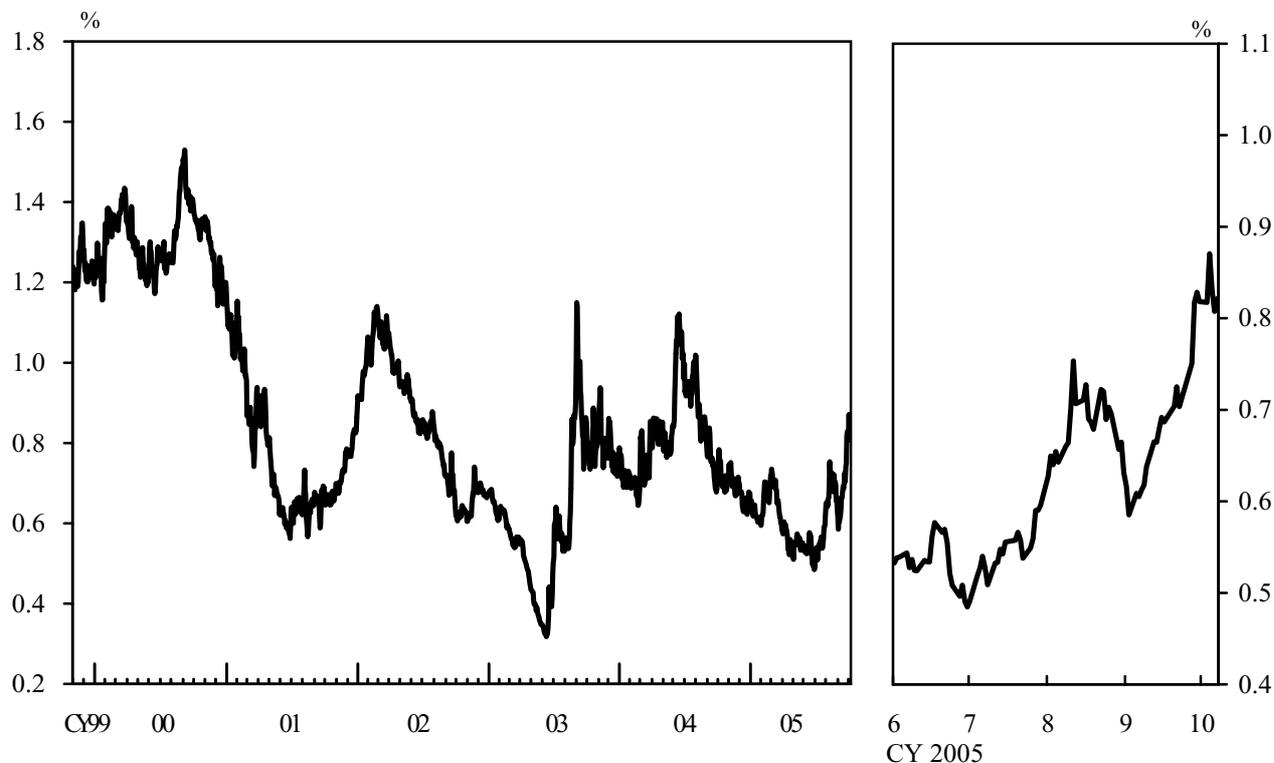


Note: Calculated from yen-yen swap rates.

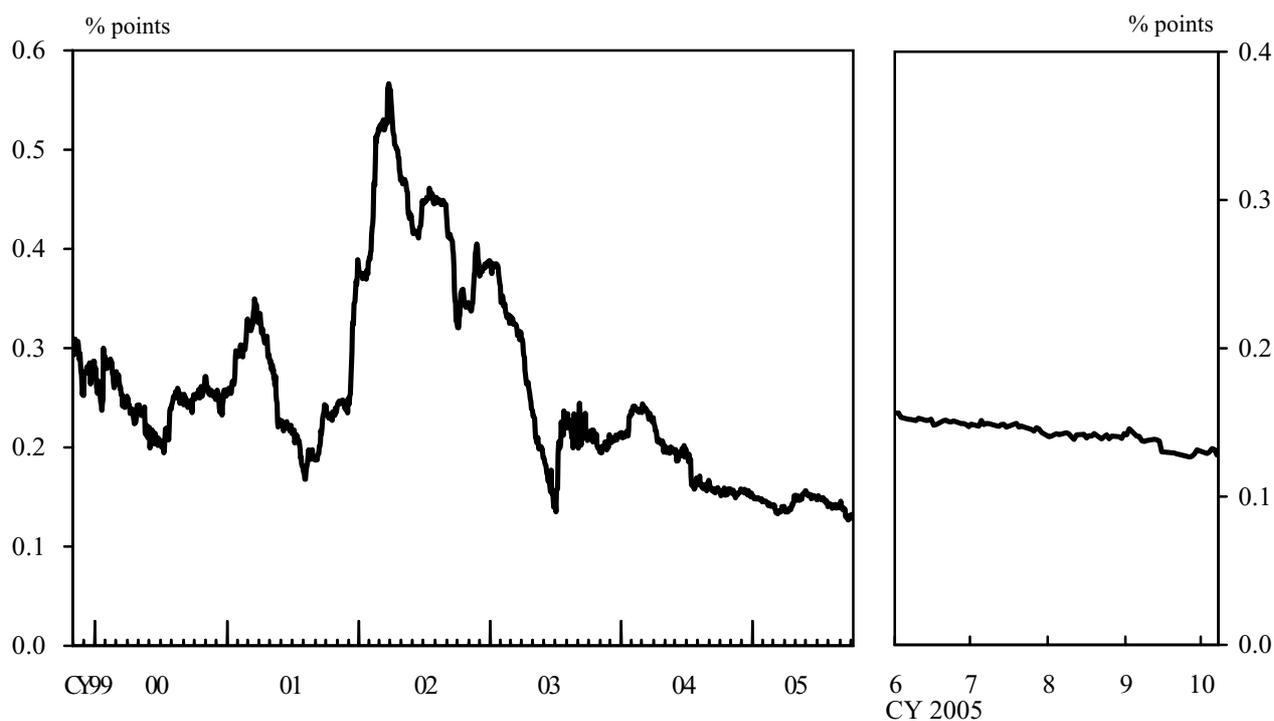
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



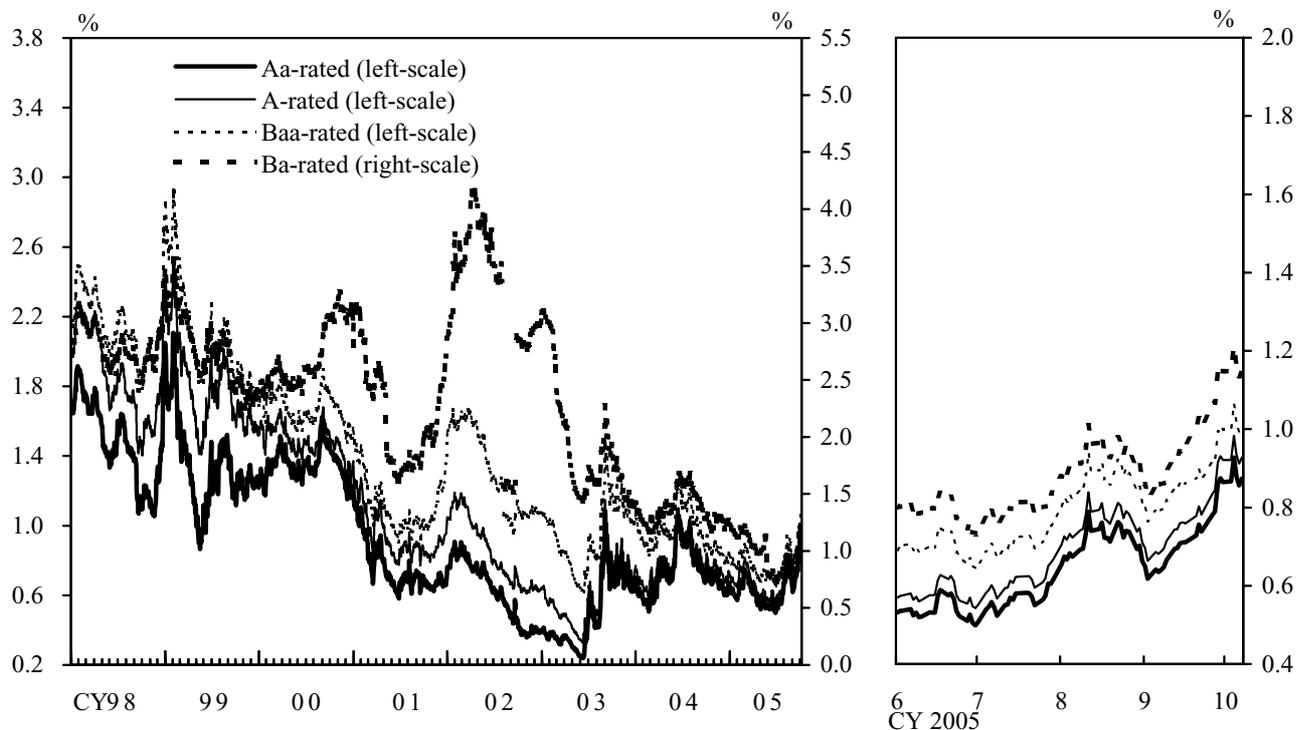
Notes: 1. Yields on bonds with 5-year maturity.

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

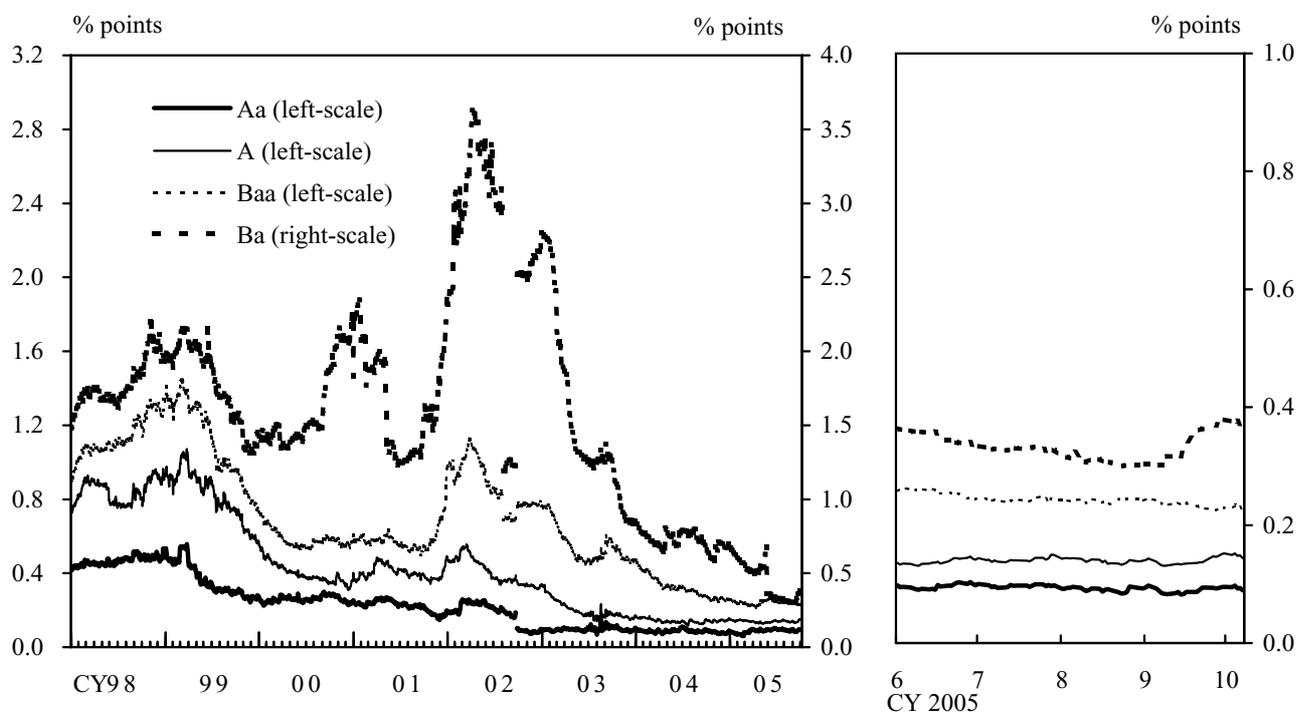
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."  
 "Reference Price(Yields) Table for OTC Bond Transactions."

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.

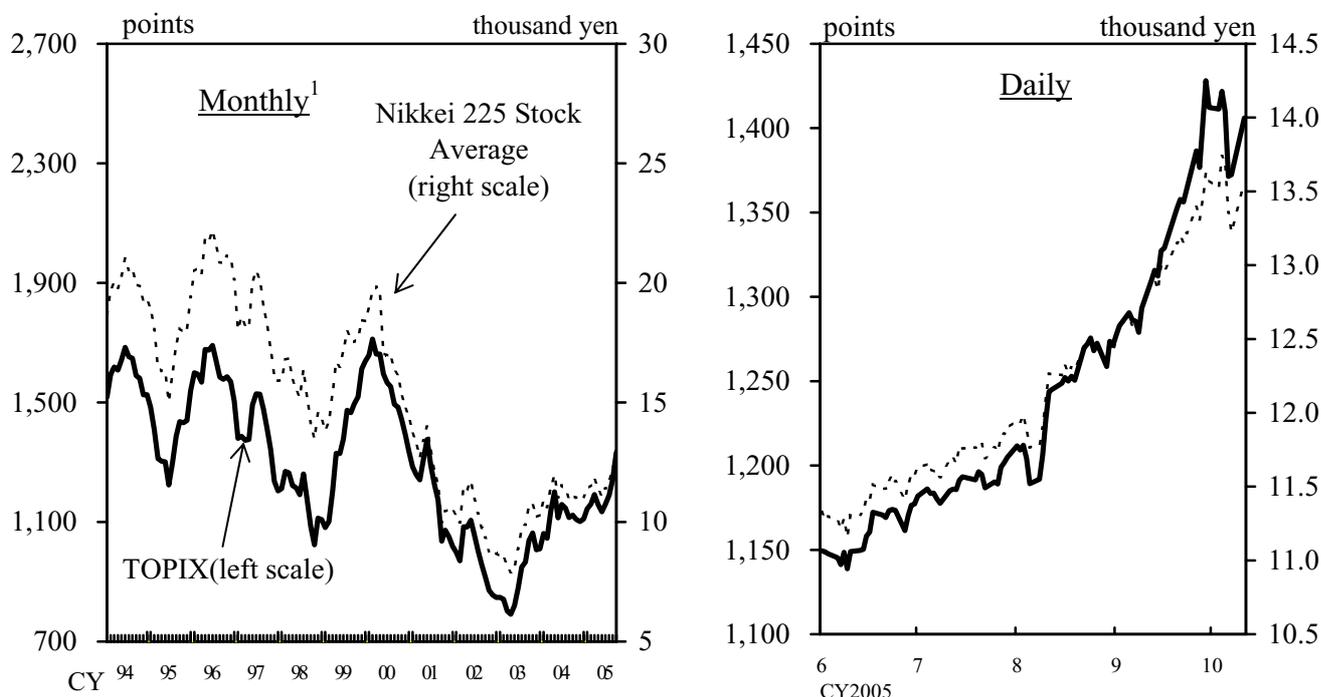
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of 4 to 6 years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

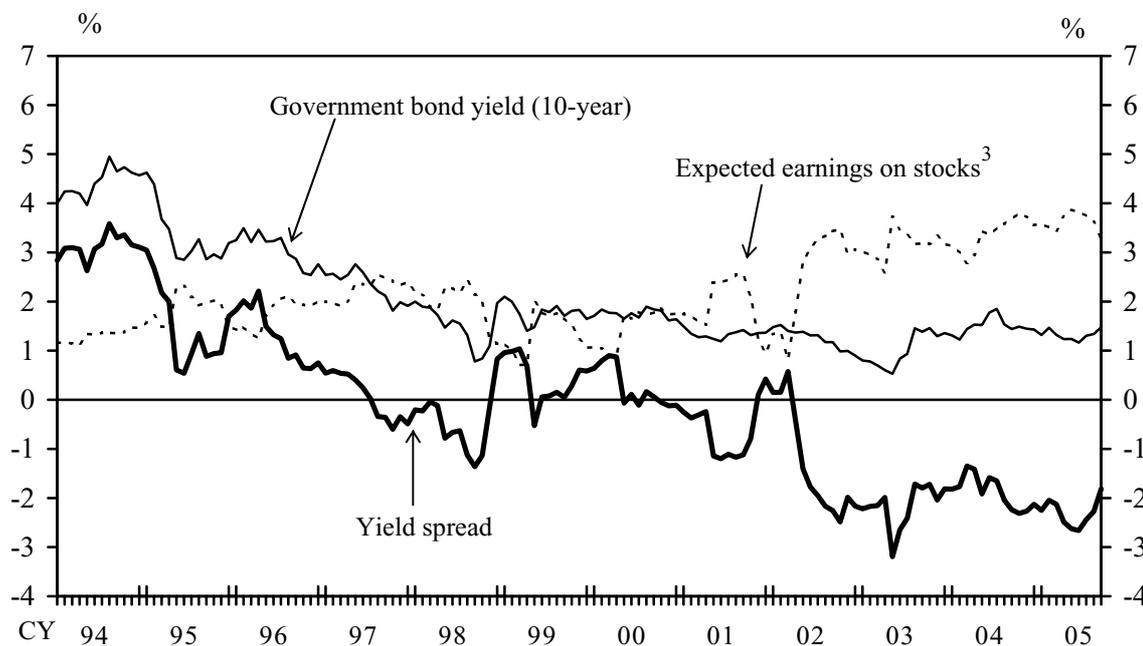
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price(Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread<sup>2</sup>



Notes: 1. Data are monthly averages.

2. Data are at end of period.

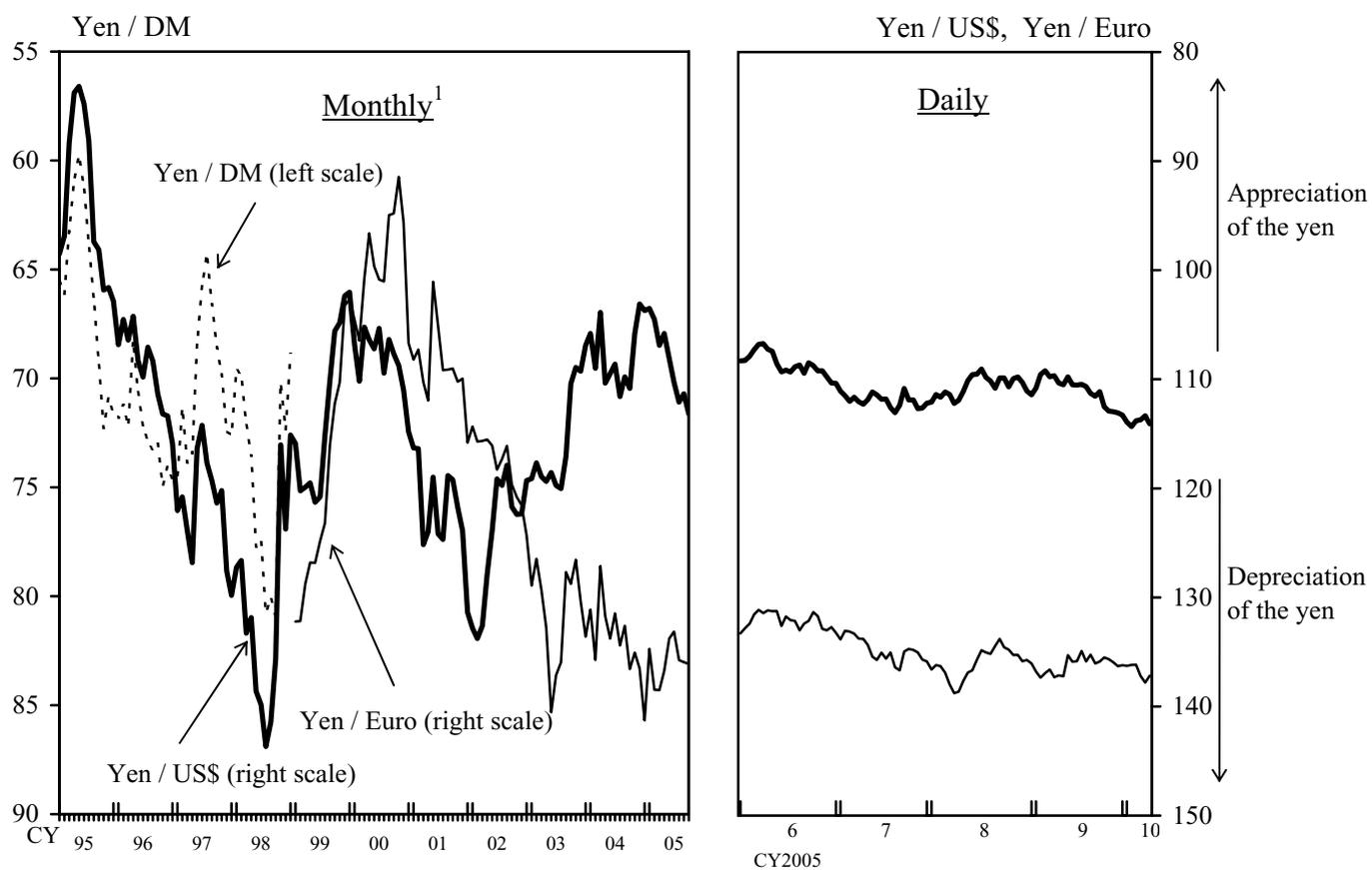
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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)."

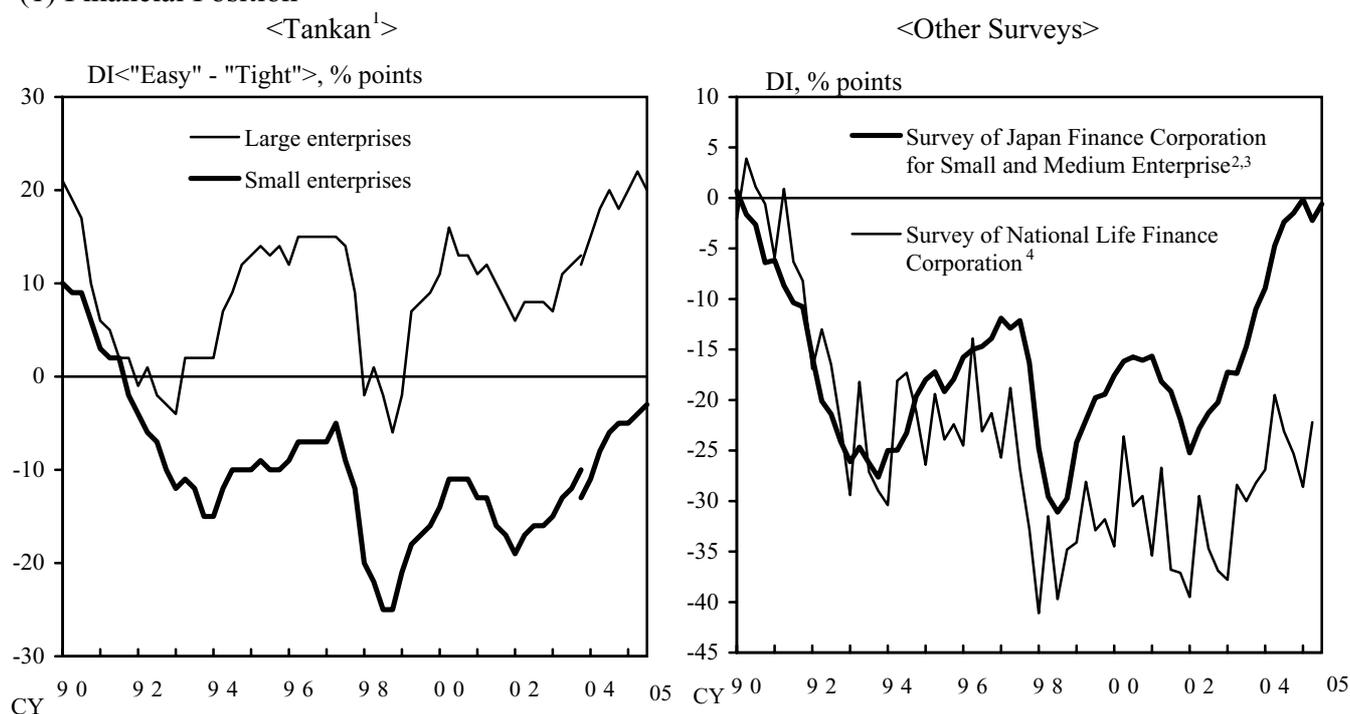
Exchange Rates



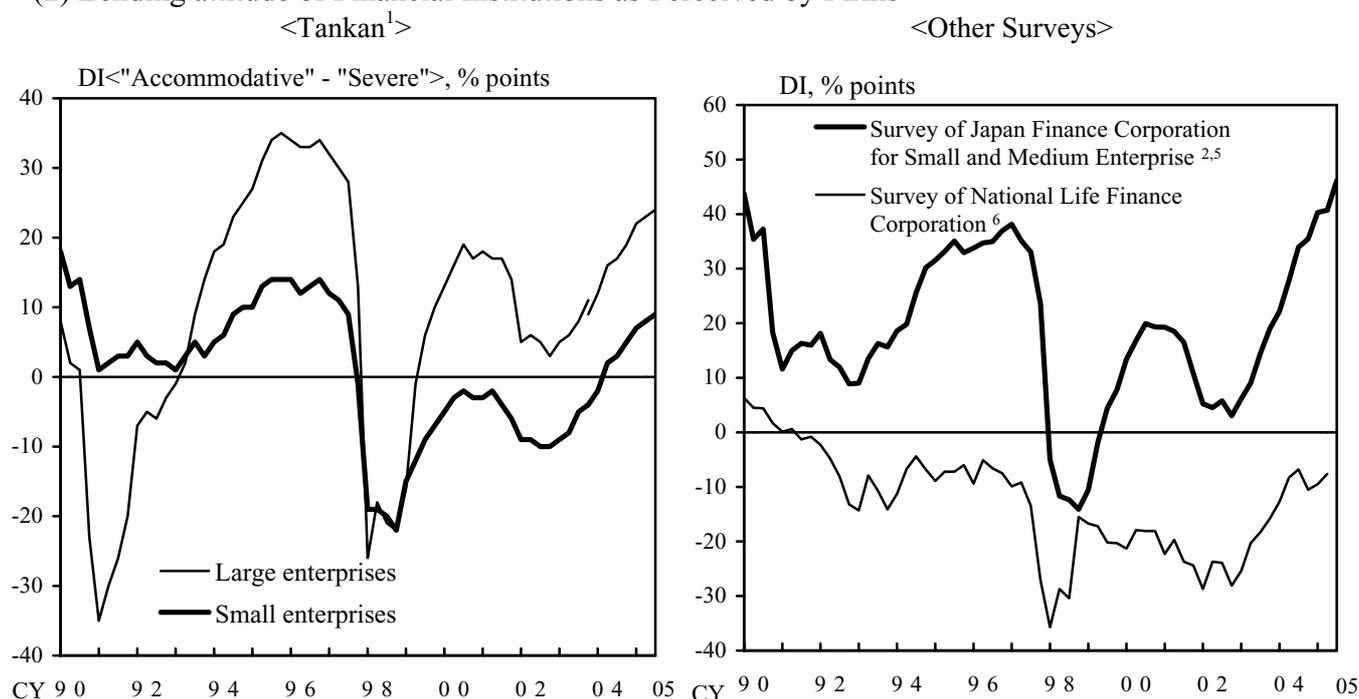
Note: 1. End of month.  
 Source: Bank of Japan.

## 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.

3. DI of "Easy" - "Tight"

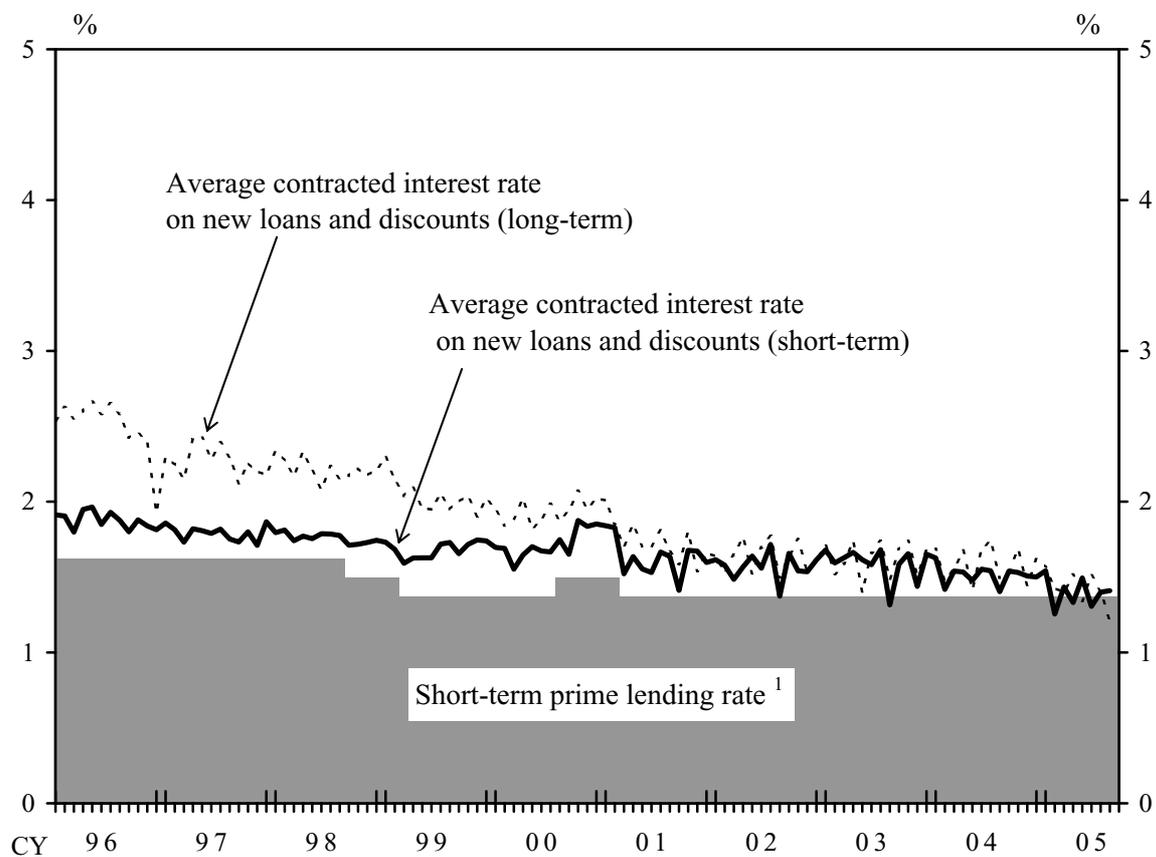
4. DI of "Easier" - "Tighter"

5. DI of "Accommodative" - "Severe"

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

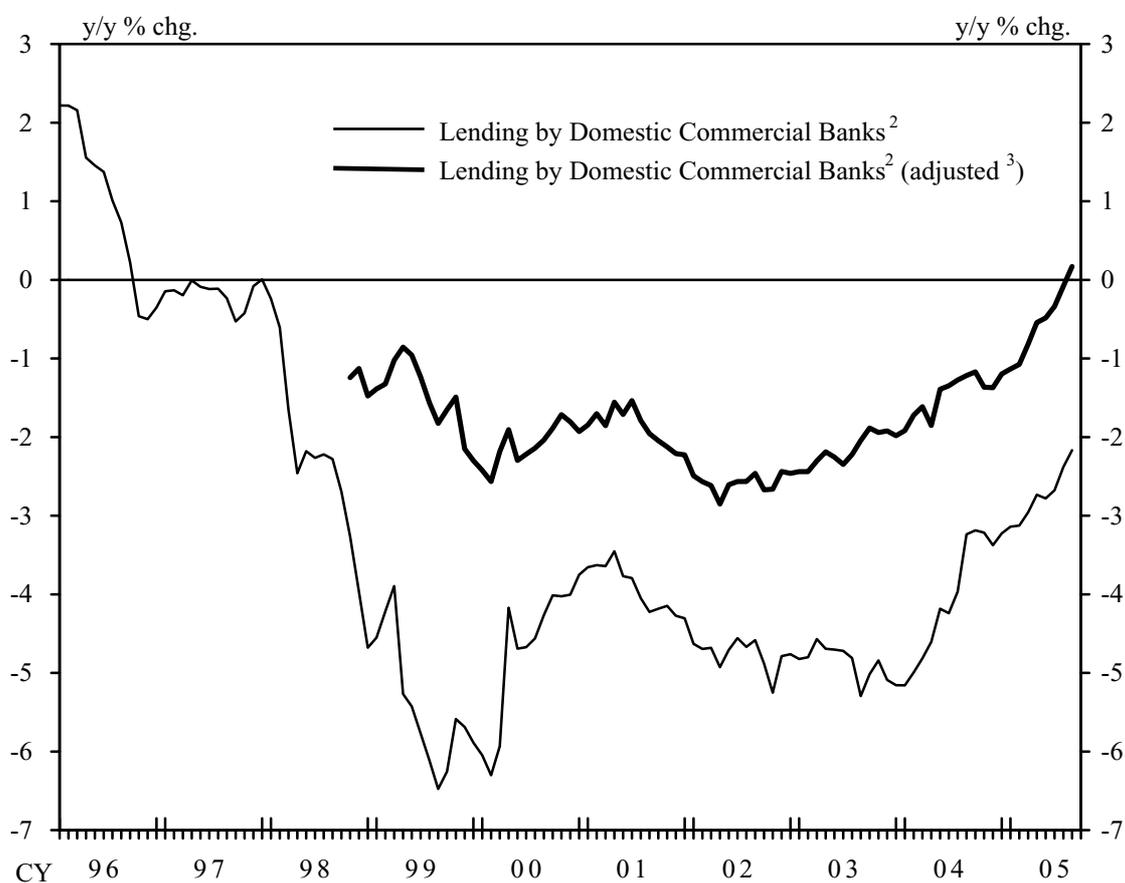
Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation for Small and Medium Enterprise, "Monthly Survey of Small Businesses in Japan"; National Life Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

## Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

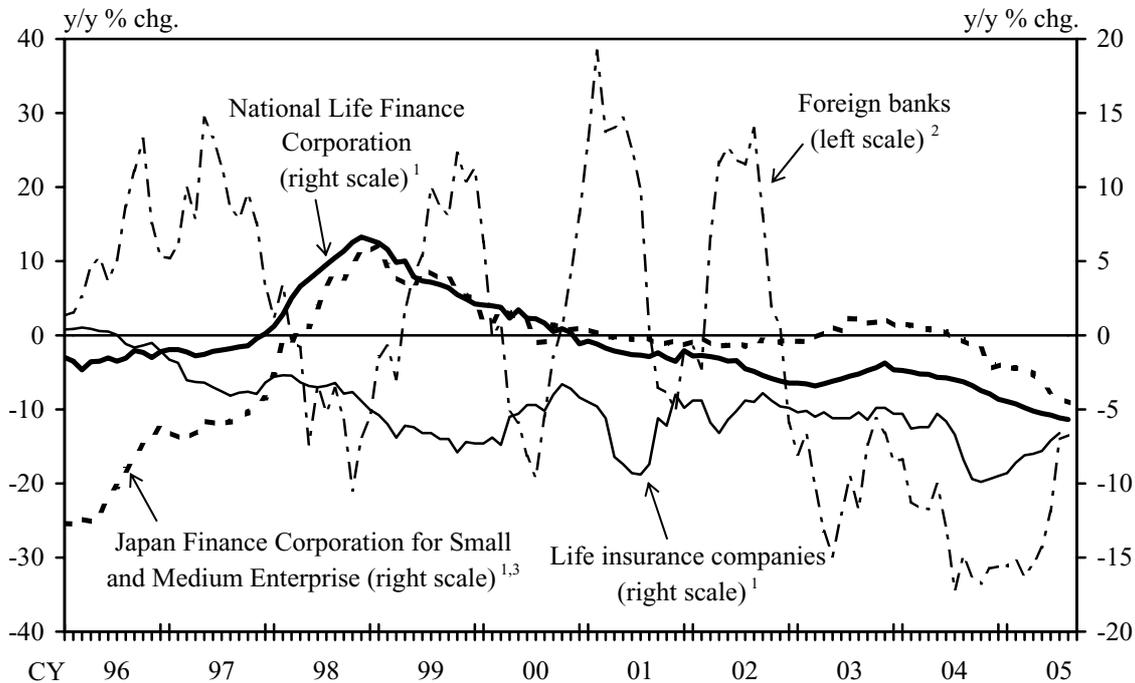
Lending by Domestic Commercial Banks <sup>1</sup>

- 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."

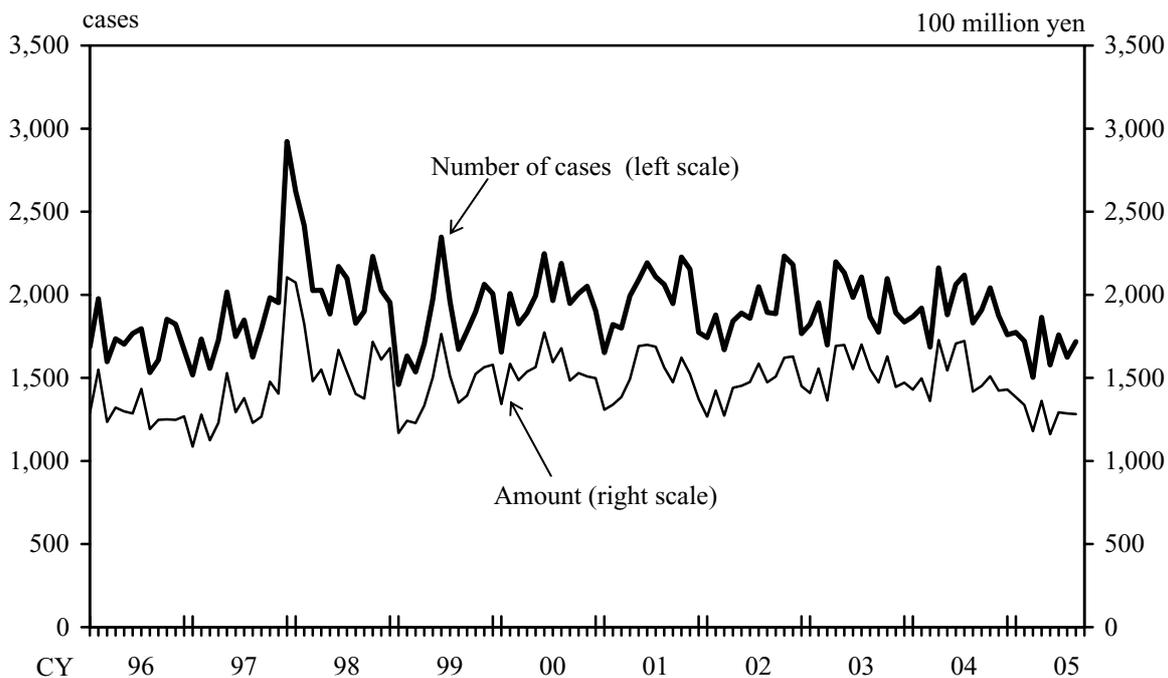
Lending by Other Financial Institutions

(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.

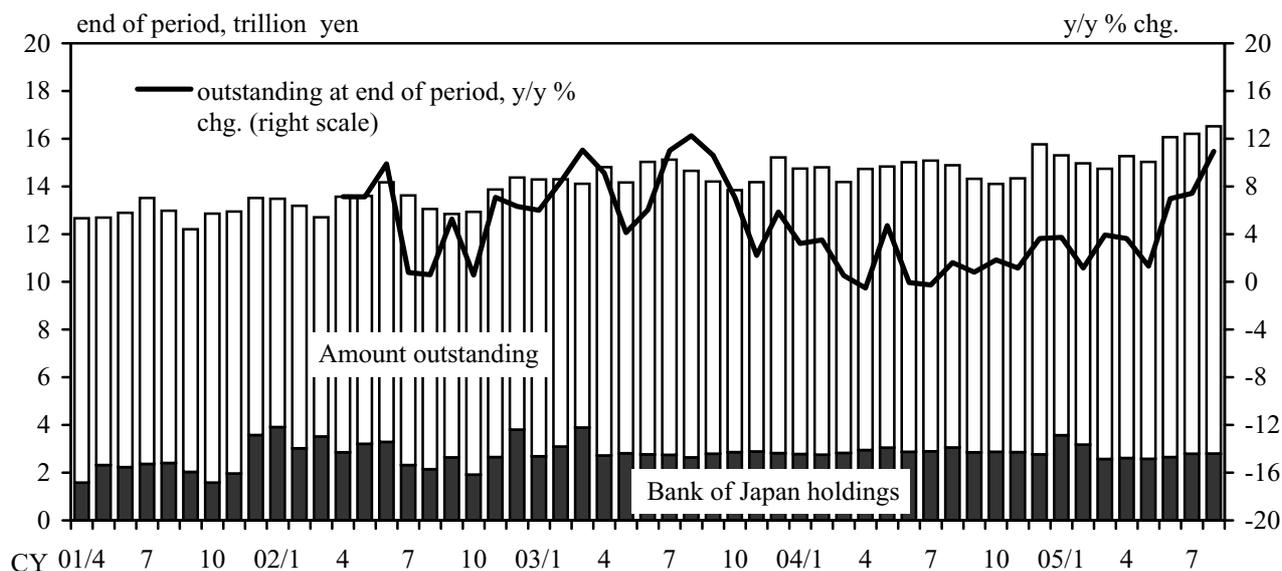
(2) Application for a Loan from Japan Finance Corporation for Small and Medium Enterprise



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

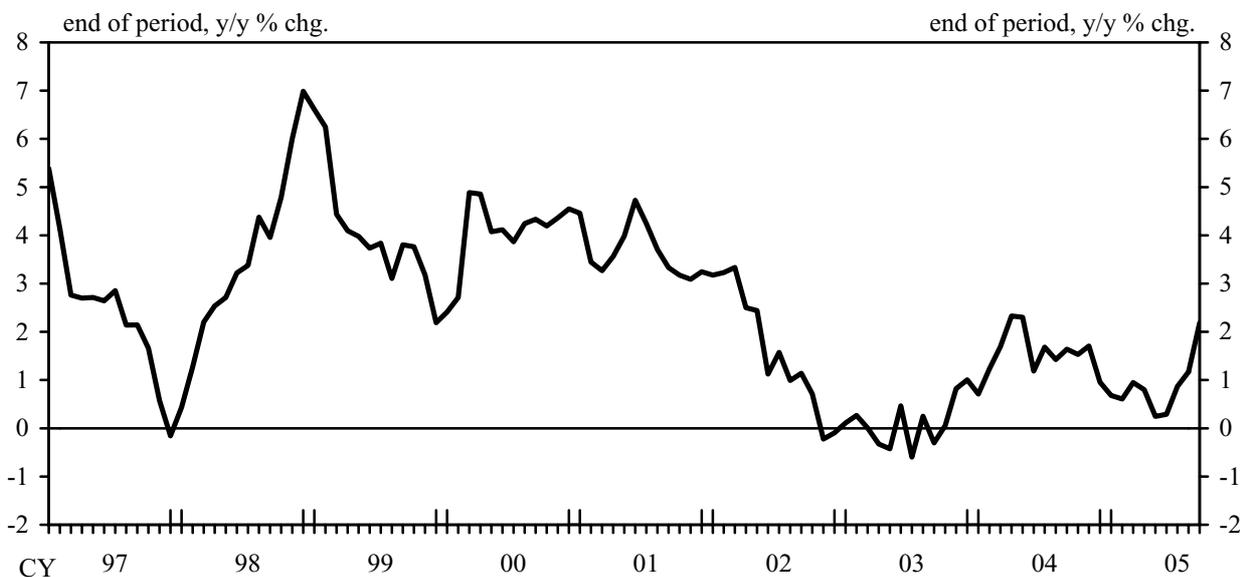
## Private-Sector Fund-Raising in the Capital Markets

## (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.  

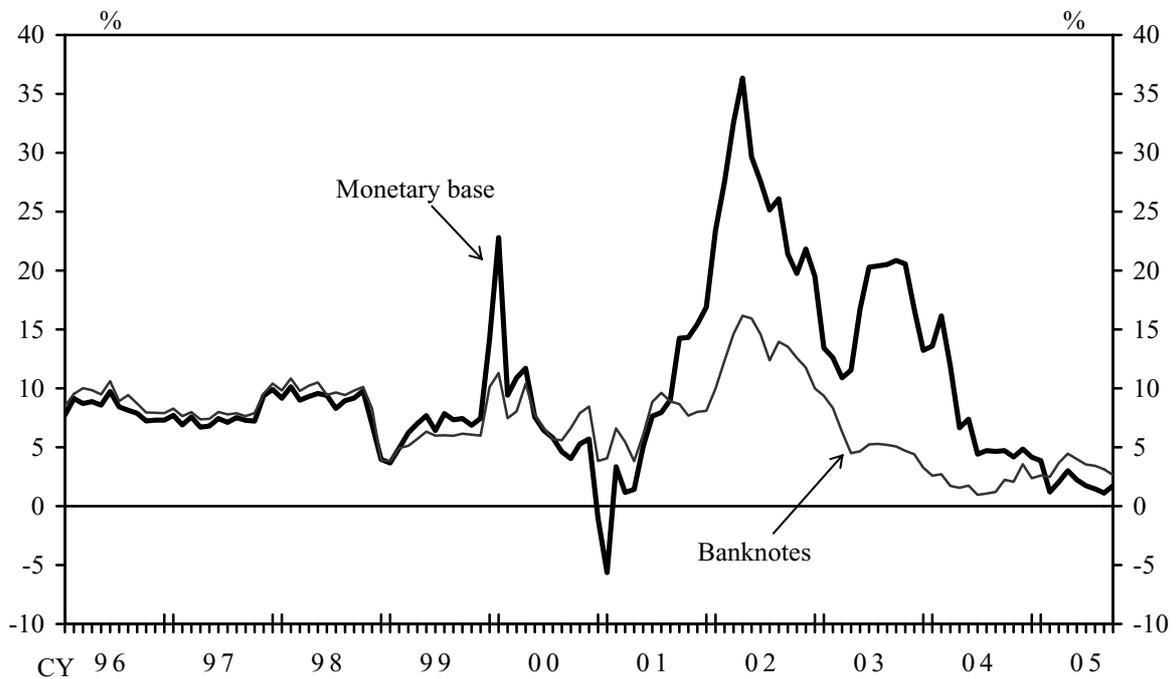
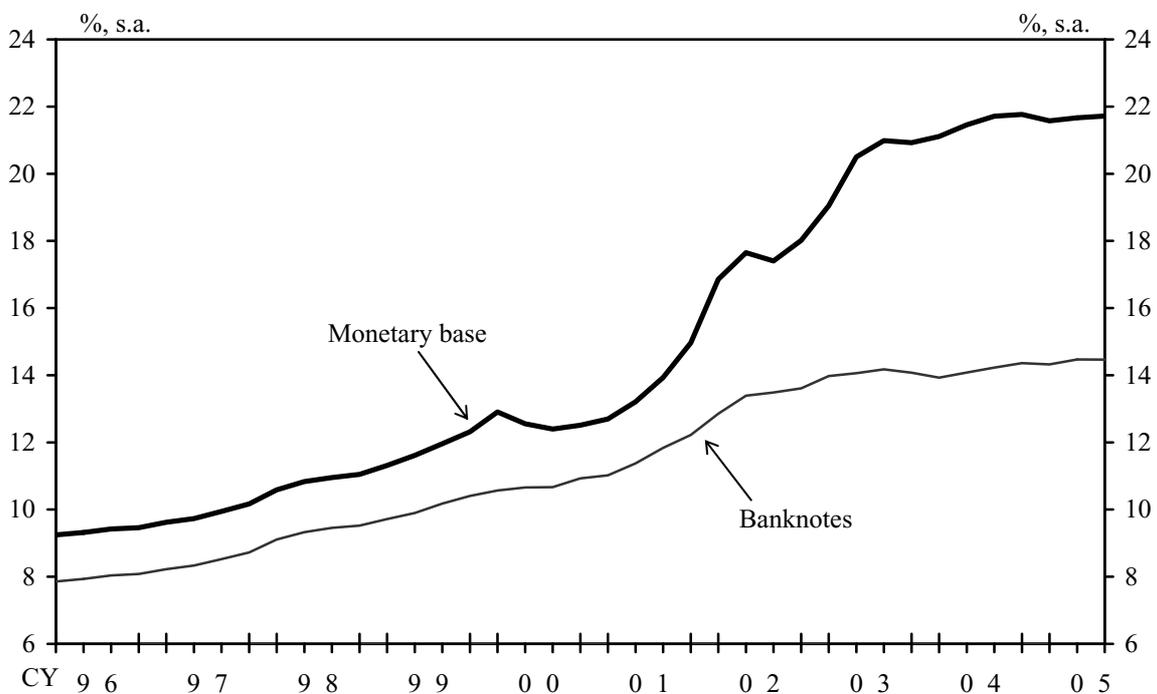
$$\text{Percentage changes from the previous year of the amount outstanding of corporate bonds} = \frac{\text{The amount outstanding of corporate bonds as of this month} + \text{The sum of conversion amount over the last 12 months}}{\text{The amount outstanding of corporate bonds as of the same month in the previous year}}$$
- (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."

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**Monetary Base**


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**(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.

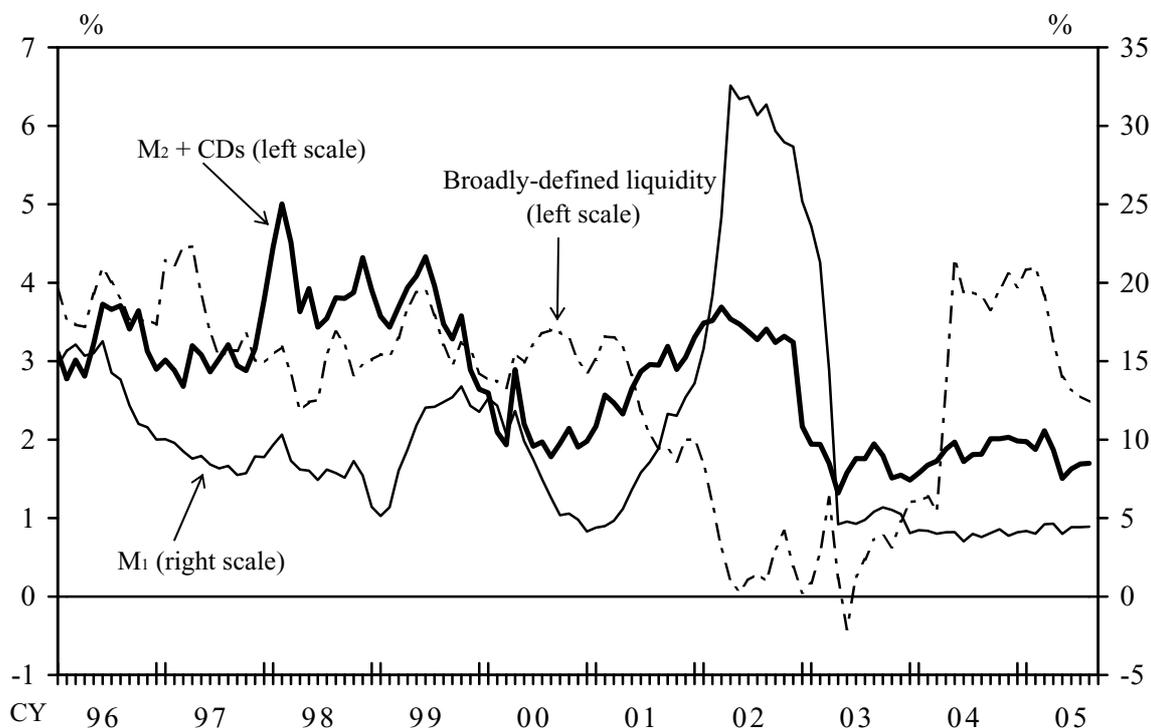
Data for currency in circulation include holdings of financial institutions.

2. Figure for the nominal GDP in 2005/Q3 is assumed to be unchanged from the previous quarter.

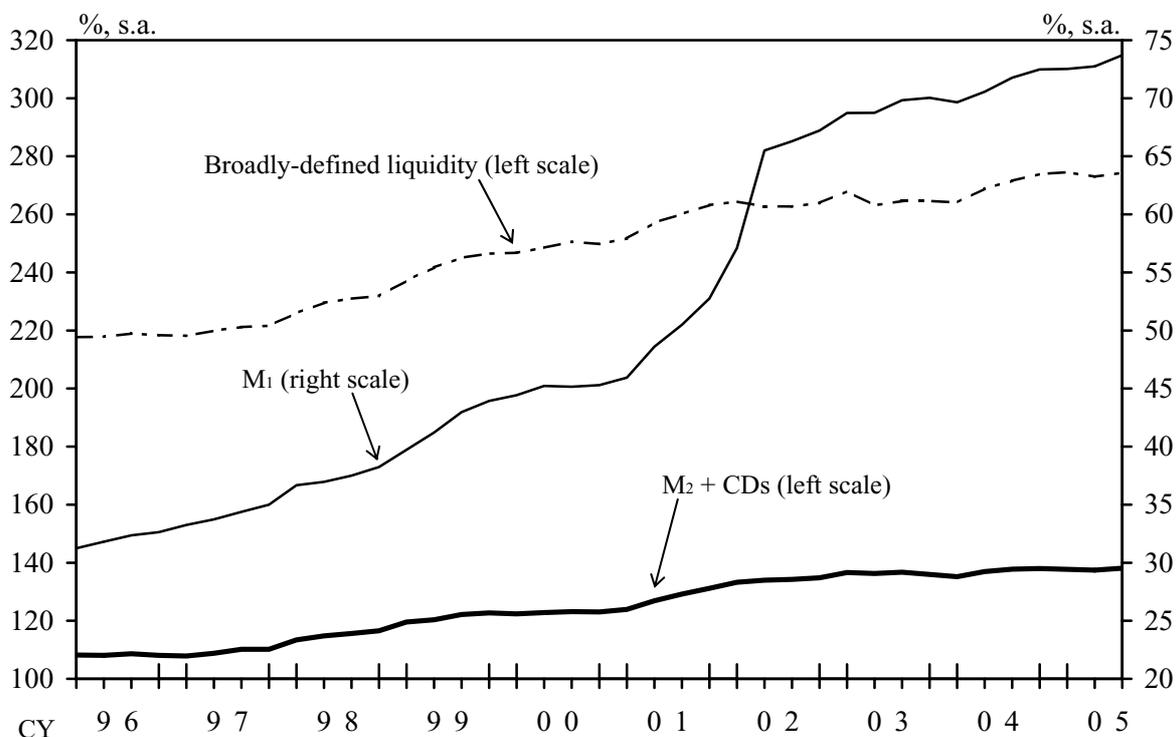
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Money Stock (M<sub>1</sub>, M<sub>2</sub>+CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

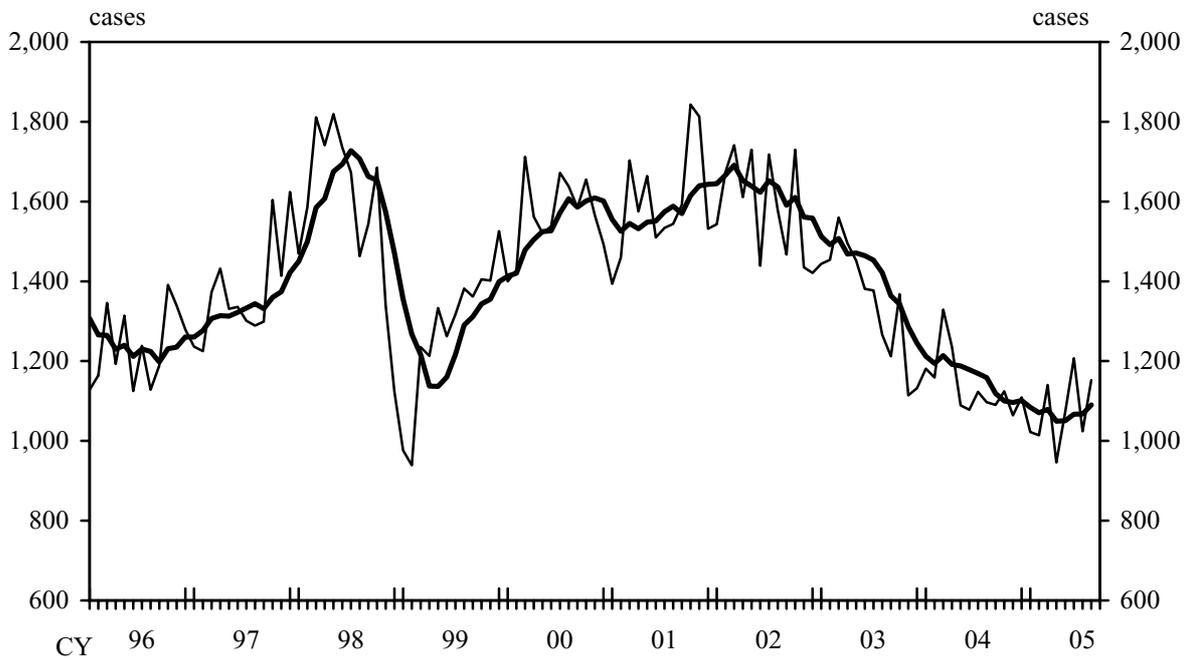


Note: Figures for money stock in 2005/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2005/Q3 is assumed to be unchanged from the previous quarter.

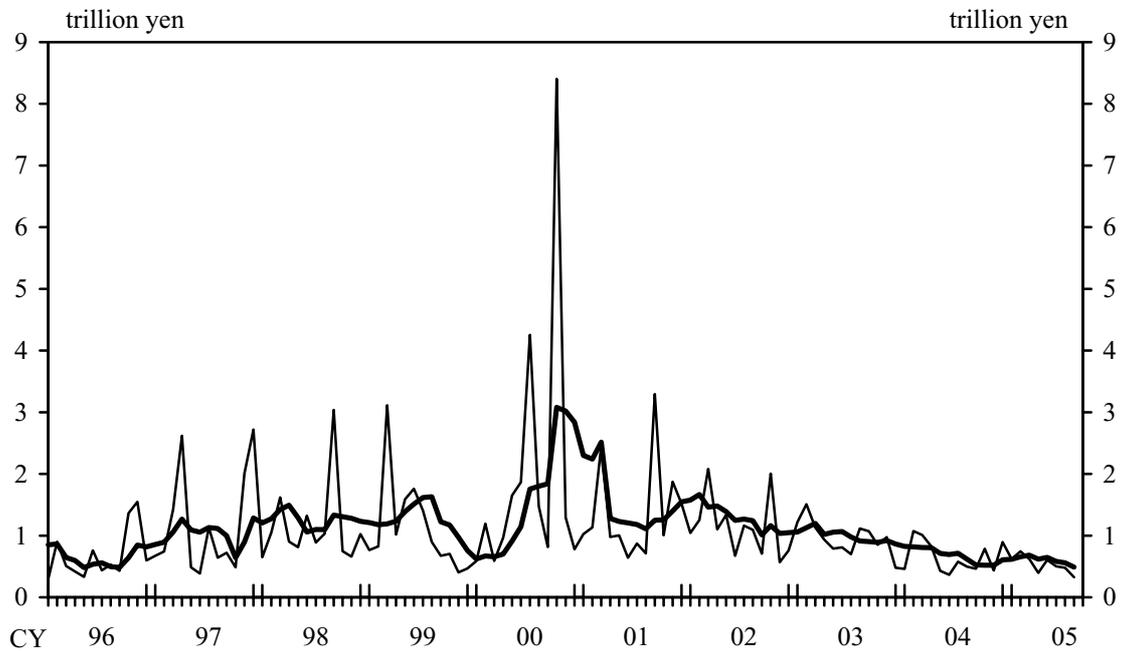
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

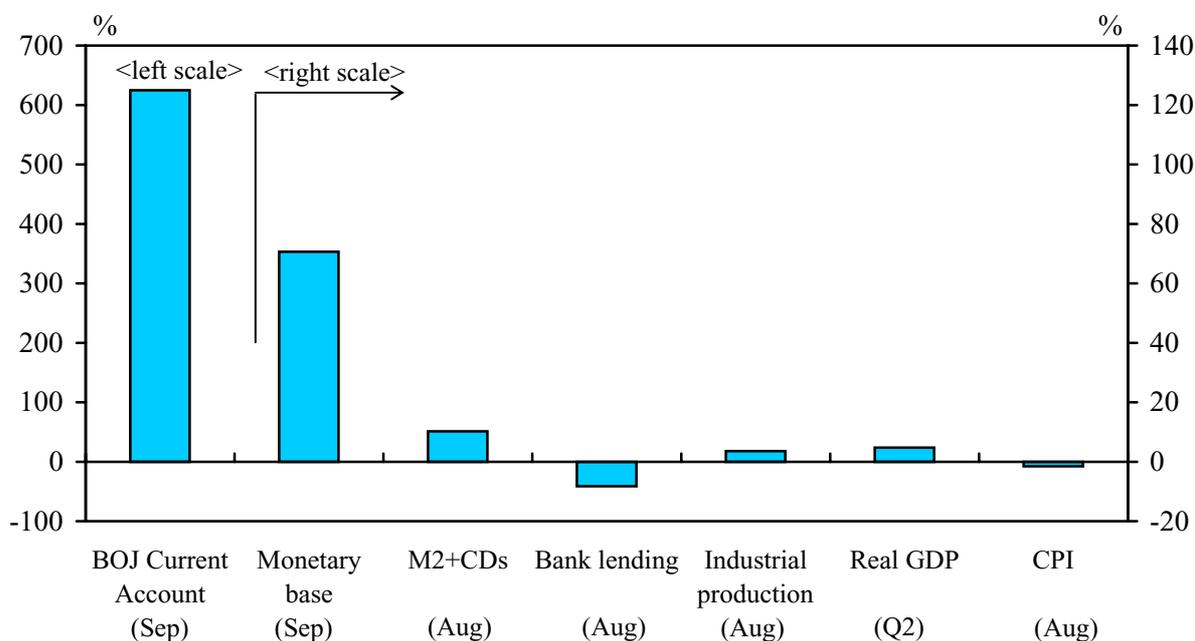
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."

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 Monetary Indicators, Economic Activity and Price Development
 

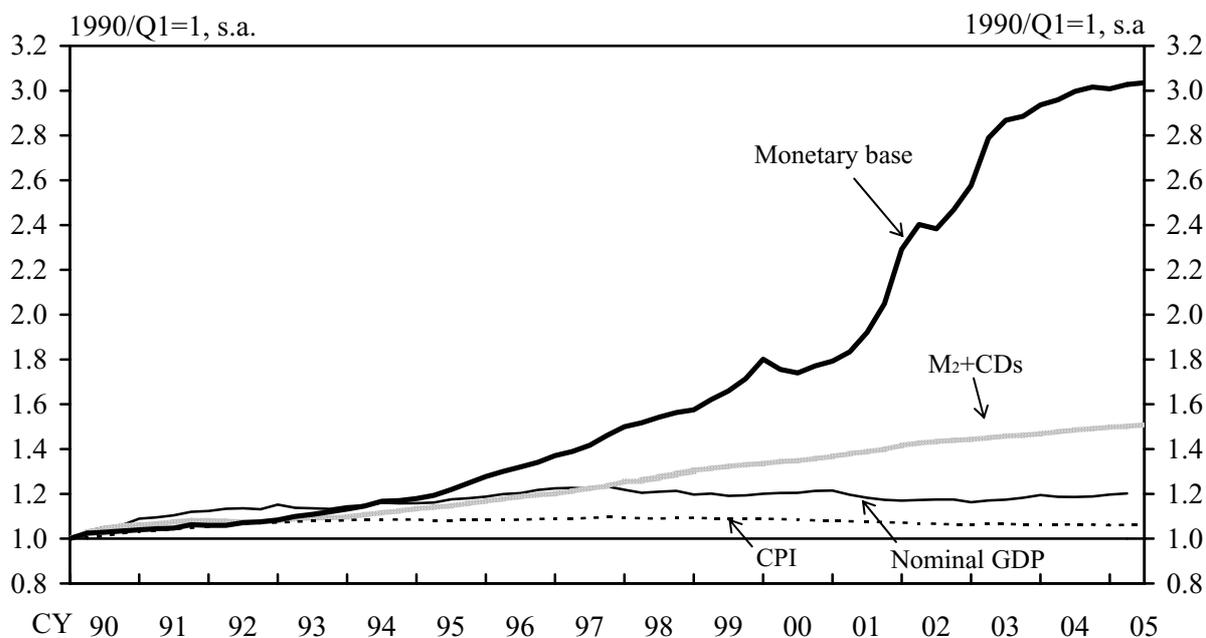
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## (1) Changes from March 2001



- 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 M2+CDs and CPI 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.