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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
July 2006

(English translation prepared by the Bank's staff based on the Japanese original released on July 18, 2006)

Monthly Report of Recent Economic and Financial Developments¹

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The Bank's View²

Japan's economy is expanding moderately.

Exports have continued to increase, while public investment has been on a downtrend. Business fixed investment has continued to increase against the background of high corporate profits and favorable business sentiment. Household income has also continued rising moderately. In this situation, private consumption has been on an increasing trend. Housing investment has increased moderately. With the rise in demand both at home and abroad, production has also been increasing. Meanwhile, the conditions of persistent excess supply have been dispersed, and the output gap seems to have become positive.

Japan's economy is expected to continue expanding moderately.

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. 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 continued to increase, mainly reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been on a positive trend.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 13 and 14, 2006.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on July 13 and 14, 2006.

Domestic corporate goods prices are expected to continue increasing for the time being, mainly due to the effects of the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to continue to follow a positive trend, as the output gap continues to be positive.

As for the financial environment, the environment for corporate finance is accommodative. The issuing environment for CP and corporate bonds is favorable. Also, the lending attitude of private banks has continued to be accommodative. Credit demand in the private sector has started increasing. Under these circumstances, the rate of increase in the amount outstanding of lending by private banks is accelerating. The amount outstanding of CP and corporate bonds issued is around the previous year's level. Funding costs for firms have risen slightly. Meanwhile, the year-on-year growth rate of the money stock has been at the 1.0-2.0 percent level. As for developments in financial markets, in the money markets, the overnight call rate has been effectively zero percent under the Bank of Japan's guideline for money market operations. Interest rates on term instruments have risen compared with last month. 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 been around the same level as last month.

Japan's economy is expected to be broadly in line with the outlook presented in the *Outlook for Economic Activity and Prices* (the Outlook Report) released in April. As for prices, domestic corporate goods prices in fiscal 2006 are expected to deviate above the outlook, reflecting the rise in international commodity prices, primarily in crude oil prices. The rate of increase in fiscal 2007 is projected to be broadly in line with the outlook. Meanwhile, consumer prices are projected to be broadly in line with the outlook.

The Background

1. Economic Developments

Public investment has been on a downtrend (Chart 4). The amount of public construction completed—which reflects the progress of public works—has continued to decrease moderately. On the other hand, the value of public works contracted—a measure that reflects public orders—has been on a downtrend on average, although it rose slightly in April-May compared to the first quarter, following noticeable declines in the fourth and first quarters. Public investment is expected to remain on a downtrend due to tight national and local fiscal conditions.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6). Exports increased by 3.4 percent in the first quarter compared to the previous quarter and by 1.3 percent in April-May compared to the first quarter.

As for real exports by destination (Chart 6[1]), exports to the United States have continued their firm increase, primarily in those of automobile-related goods, capital goods and parts. Exports to the EU have also been on a moderate uptrend. As for exports to East Asia, those to China have continued their solid uptrend across a wide range of categories (Chart 9). Meanwhile, although exports to the NIEs and ASEAN have continued to increase as a trend, there recently has been some weakness, such as in exports for Indonesia and Taiwan.³ By goods (Chart 6[2]), exports of automobile-related goods have remained on a solid upward trend, bolstered by the favorable overseas demand (Chart 7[1]). Exports of capital goods and parts continued to increase firmly, especially in semiconductor manufacturing equipment and general machinery (Chart 7[2]). On the other hand, exports of IT-related goods have recently been slightly weak, as partial production adjustments seem to have been occurring mainly in East Asia (Chart 8[1]). Meanwhile, those of consumer goods inched down in the first quarter, but rose firmly again in April-May compared to the first quarter, due to the rebound in motorcycles and the increase in digital home appliances.

³ Regarding exports to Indonesia in more detail, those of automobile-related goods, in particular, showed some weakness, apparently as a result of a slowdown in domestic demand in Indonesia, dampened by high crude oil prices.

Real imports have trended up against the background of the rise in domestic demand (Charts 5[1] and 11). By goods, imports of capital goods and parts (excluding aircraft) and those of IT-related goods have continued their solid increasing trend. Imports of consumer goods have been on an upward trend on average, boosted particularly by apparel from China. Meanwhile, imports of raw materials—which had remained roughly unchanged—advanced in April-May compared to the first quarter, chiefly in crude oil.

The surplus of net exports in terms of the real trade balance has continued its upward trend (Chart 5[2]). On the other hand, the surplus of the nominal balance on goods and services has been declining, dampened largely by higher import prices of raw materials.

Exports are expected to continue to rise, as overseas economies expand further, particularly in the United States and East Asia (Chart 10[2]). Looking at the environment surrounding exports, the U.S. economy is likely to continue growing at a pace close to its potential growth rate, although the pace of growth is projected to moderate somewhat, due mainly to the effects of raising interest rates thus far. As for the East Asian economies, the Chinese economy has maintained its high economic growth, and the NIEs and ASEAN economies have been expanding at a moderate pace as a whole, although some negative effects of high crude oil prices have been observed. Regarding exports of IT-related goods, demand for personal computers seems to be sluggish temporarily, and prices of liquid crystal panels have been falling, caused by the increase in supply. However, given that favorable demand for digital home appliances continues, exports of IT-related goods are expected to continue increasing as a trend. Meanwhile, in the foreign exchange market, the yen has remained at significantly low levels in terms of the real effective exchange rate, which incorporates differentials in the inflation rates between home and abroad (Chart 10[1]).

Imports are projected to continue their uptrend, fueled by the increase in domestic demand.

Business fixed investment has continued to increase. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—jumped in April-May, fueled by large-scale shipments, including those of semiconductor manufacturing equipment, computer-related goods, and electric power generation equipment (boilers and turbines), after having declined temporarily in the first quarter (Chart 12[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—continued their steady uptrend on average (Chart 13[1]); they were almost flat in the first quarter, but advanced in April-May both in manufacturing and nonmanufacturing. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have stayed on an upward trend across a wide range of industries, with some fluctuations (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. In the June *Tankan* (Chart 14), current profits are expected to continue to be at high levels in fiscal 2006, after having registered a double-digit increase for large firms and a near 10-percent rise for small firms in fiscal 2005. In these circumstances, business sentiment has also remained favorable with some improvements observed as a whole in the June *Tankan* (Chart 15).

Business fixed investment is expected to continue increasing, since the expansion in domestic and external demand, and the high level of corporate profits, are likely to be maintained. According to the June *Tankan* (Chart 16), business fixed investment plans for fiscal 2006 of large manufacturing firms showed a high growth of 16.4 percent compared to the previous fiscal year, close to that recorded at the same time last year. Those of large nonmanufacturing firms exhibited higher growth compared to last year, rising by 8.9 percent on a year-on-year basis. As for small firms, investment plans of manufacturing firms were strong; they were revised sharply upward from the previous survey and in June, almost reached levels registered in fiscal 2005. Meanwhile, those of nonmanufacturing firms were solid on the whole, taking into account that these year-on-year figures were compared to the high growth

figures registered in fiscal 2005, although current projections were somewhat weak compared to the previous year.⁴

Private consumption has been on an increasing trend. Looking at individual indicators on consumption (Charts 17 and 18), sales at department stores have remained firm as a trend, although they were slightly weak in April-May, dampened by the unfavorable weather nationwide. By contrast, supermarket sales have been somewhat weak as a trend compared to those at department stores, although they inched up in April-May, chiefly in foodstuffs. Meanwhile, sales at convenience stores have been essentially flat on average.⁵ Sales of household electrical appliances continued their steady uptrend as a whole, largely in digital home appliances and white goods, although sales of personal computers recently seem to have weakened somewhat. Meanwhile, the number of new passenger-car registrations, excluding mini-vehicles, has recently shown weakness. In contrast, the number of registrations of mini-vehicles has been on an uptrend, supported by their high cost-performance and the introduction of new models. As for services consumption, sales in the food service industry have been on a steady uptrend, particularly in bars and restaurants. Outlays for travel were also strong in April-May, including the Golden Week holiday period, mainly in overseas travel. As for business sentiment of industries related to private consumption in the June *Tankan*, sentiment of services for individuals and that of restaurants and accommodations improved markedly, although that of retailing edged down affected by unfavorable weather factors.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of these goods and services,⁶ remained firm on average, although they

⁴ Based on “software and fixed investment excluding land purchasing expenses,” which is close to the concept of GDP, business fixed investment of all industries and enterprises for fiscal 2006 was projected to rise by 7.6 percent compared to the previous fiscal year. This figure shows a slight deceleration from projections made for fiscal 2005 (an increase of 8.8 percent) as of last June.

⁵ In June, however, there seems to have been a surge in demand for tobacco before the tax raise.

⁶ The indices of aggregated sales are the weighted average of each sales indicator. Outlays for travel in May were not released at the time when these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for May were at the same level as those in April.

showed a slight weakness in April-May due to the aforementioned unfavorable weather (Chart 19). The aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—jumped in the first quarter, largely in durable goods, but was more or less flat in April-May compared to the first quarter (Chart 20). 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) was almost flat in April-May, after having recorded a rather large decline in the first quarter caused particularly by sample factors (Chart 17).

Indicators for consumer sentiment have been more or less flat (Chart 21).

Private consumption is likely to continue to increase steadily, with the gradual increase in household income.

As for housing investment, housing starts have increased moderately (Chart 22[1]); they have exceeded 1.25 million units (annual rates) since the second half of last year and, in April-May, they rose to slightly above 1.3 million units (annual rates). In detail, while starts of owner-occupied housing have been almost flat, starts of housing for rent have been on an increasing trend. Starts of housing for sale, which had lost momentum temporarily, rose sharply in April-May, boosted by a number of large scale starts in the greater Tokyo metropolitan area. Housing investment is likely to remain on a moderate increasing trend, against the background of the rise in household income, favorable financial conditions, and the growing awareness that land prices have bottomed.

Industrial production has continued to increase against the background of the growth in domestic and external demand. Production rose by 0.4 percent in April-May compared to the first quarter (Chart 23).⁷ By industry, production of electronic parts and devices dropped slightly, since that for personal computers and for East Asia was somewhat weak. Nevertheless, production of transport equipment (automobiles) continued to register fairly sizeable growth, supported by favorable

⁷ Production in the second quarter, simply calculated from the production forecast index of June, posted a 1.1 percent growth on a quarter-on-quarter basis.

exports, and production of general machinery also increased, mainly in semiconductor manufacturing equipment.

Shipments have also continued their solid increasing trend. By goods (Chart 24), shipments of producer goods have recently been essentially flat because growth in those of electronic parts and devices has temporarily paused, after having marked a high growth in the second half of last year. In contrast, those of capital goods have been on an increasing trend with large fluctuations. As for consumer goods, while shipments of durable goods, including automobiles for exports and digital home appliances, have recently shown strength, those of nondurable goods have recently been somewhat weak, particularly in gasoline.

Inventories have been more or less in balance with shipments. The inventory cycle (Chart 25) showed that, in the industrial sector as a whole, the year-on-year rate of growth in inventories has recently fallen below that in shipments, influenced by the sharp reduction in inventories of automobiles waiting to be shipped overseas. By goods, the year-on-year growth rate of inventories of producer goods, excluding electronic parts and devices, dropped to almost zero due to the progress of inventory adjustments in general-purpose products and the effects of regular repairs in chemicals. The year-on-year rate of growth in inventories of durable consumer goods was recently lower than that in shipments due to the decline in inventories of automobiles waiting to be shipped overseas. As for electronic parts and devices, the year-on-year growth rate of inventories continued to be lower than that of shipments. On a seasonally adjusted quarter-on-quarter basis, however, inventories rose, while shipments seem to have peaked out since the start of this year. Although this was possibly caused by temporary production adjustments, mainly in East Asia, future developments in the inventory-shipment balance need careful monitoring.

As for the outlook, production is expected to follow an increasing trend, with continued growth in overseas economies and a solid foundation for a recovery in domestic demand. Anecdotal information suggests that production in the third quarter is likely to increase further.⁸

⁸ Although the data covers just a single month, the production forecast index for July increased by 2.5 percent from the second quarter.

As for the employment and income situations, household income has continued rising moderately, as various indicators for labor market conditions have continued their tightening trend (Chart 26).

In the labor market, overtime hours worked have remained on a moderate upward trend at a high level (Chart 28[3]). The number of new job offers continued its year-on-year increase, albeit at a somewhat slower pace (Chart 27[3]). Under these circumstances, the ratio of job offers to applicants has trended up at a moderate pace and recorded 1.07 in May (Chart 27[1]). The unemployment rate followed a gradual downtrend by registering 4.0 percent in May, the lowest level recorded since April 1998 (Chart 27[1]). Meanwhile, in the *Tankan*, the employment conditions DI shows that firms are gradually more aware of the shortage of labor (Chart 29).⁹

In terms of employment (Chart 28[1]), the number of employees in the *Labour Force Survey* has continued to show a solid increase of 1.0-2.0 percent on a year-on-year basis, although the pace of growth slowed in April-May in reaction to the large increase in the first quarter, which reflected sample factors. On the other hand, growth in the number of regular employees in the *Monthly Labour Survey*, which is more stable, has gathered pace since April, from around 0.5 percent on a year-on-year basis to just below 1.0 percent. In detail, the year-on-year growth in full-time employees has accelerated, supported by an increase in hiring of new graduates. As a result, the ratio of part-time workers has recently declined slightly (Chart 28[2]).

Regarding wages on a year-on-year basis, regular payments have been rising gradually as a trend,¹⁰ although they have been somewhat subdued since January, possibly by sample factors. Special payments have maintained an increasing trend,

⁹ The DI for small firms has moved slightly toward excess labor. However, this is considered to be a seasonal fluctuation observed each year in the June *Tankan*, immediately after the recruitment of new graduates. In fact, firms are projecting a greater labor shortage in the near future.

¹⁰ In the *Monthly Labour Survey*, one-third of the total survey samples of small establishments (5 to 29 employees) are changed every January and July. Since January this year, some discontinuous declines have been observed in the regular payments of small establishments, suggesting some possible effects of sample factors.

supported by favorable corporate profits.¹¹ In this light, nominal wages per worker have gradually increased further (Chart 26 [2]).

Looking ahead, the gradual increase in household income is likely to continue, because firms are more aware of the shortage of labor, and corporate profits are expected to remain high.

2. Prices

Import prices (on a yen basis, same hereafter, compared to levels three months before) have been on a rising trend, due to the rise in international commodity prices (Chart 31).

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter, compared to levels three months before)¹² have continued to increase, mainly reflecting the rise in international commodity prices (Chart 32).¹³ In detail, prices of nonferrous metals have soared, and prices of petroleum and coal products have continued to climb, boosted by the rise in crude oil prices. Prices of iron and steel-related products and construction-related products have also increased, mainly in scrap and waste products and in iron and steel products. Prices of other materials started to increase moderately overall, since prices of chemical products and plastic products rose reflecting higher crude oil prices, while those of prescription drugs declined. Meanwhile, machinery prices have been declining marginally. By stages of demand, prices of raw materials and intermediate goods have risen further, but final goods prices have stayed almost

¹¹ According to survey results released by the *Nihon Keizai Shimbun*, Inc. (final results as of July 4: 831 firms) and survey results released by the Japan Business Federation (interim results as of June 28: 163 firms), summer bonuses this year are expected to rise again on a year-on-year basis, although at a slower pace compared to the bonuses of last summer and winter, which rose by 2.1 percent and 2.2 percent, respectively.

¹² The figures are adjusted to exclude a large seasonal fluctuation in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when consumption increases substantially.

¹³ However, they dropped slightly by 0.1 percent in June compared to the previous month, as prices of nonferrous metals fell back.

unchanged overall, since prices of prescription drugs and of durable consumer goods fell, while those of gasoline increased.

The year-on-year rate of decline in corporate services prices (excluding external factors, same hereafter) has remained on a gradual diminishing trend (Chart 33).¹⁴ The rate of decline in April-May narrowed slightly compared to the first quarter, assisted by improvements in the year-on-year rates of change in prices of leasing and rental (reflecting the rise in leasing rates in line with higher long-term interest rates), information services (software development), and real estate services (office space rental). However, prices of other services did not show notable changes since the start of this fiscal year, as firms have maintained their stance on reducing business expenses.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been on a positive trend (Chart 34). The rate of increase rose slightly in May to 0.6 percent on a year-on-year basis from the increase of 0.5 percent registered in January-April. In detail, the rate of increase in prices of goods accelerated slightly due mainly to the rise in gasoline prices. Also, the rate of increase in services prices inched up, particularly in eating out and hotel charges.

With regard to domestic supply and demand conditions (Chart 35), the conditions of persistent excess supply have been dispersed, and the output gap seems to have become positive. The weighted average of the DI in both production capacity and employment conditions as perceived by firms in the *Tankan* has continued to improve steadily, and it has recently been in the shortage territory, reflecting the labor shortage. The supply and demand conditions DI has also been on an improving trend, both in the manufacturing and nonmanufacturing sectors. In this situation, the rate of decline in the output prices DI has been diminishing considerably.

¹⁴ “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.

Domestic corporate goods prices are expected to continue increasing for the time being, mainly due to the effects of the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to continue to follow a positive trend, as the output gap continues to be positive.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 36[1]) has been at around zero percent, albeit with some fluctuations. Regarding interest rates on term instruments (Chart 37[1]), FB rates (3-month) and the Euroyen interest rate (TIBOR, 3-month) have risen, reflecting the prospects of a change in monetary policy in Japan. Under these circumstances, interest rates on Euroyen futures rose overall (Chart 37[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 36 [2]) have increased, mainly reflecting firm domestic economic indicators. The yields have recently been moving at the 1.85-1.90 percent level.

As for yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 40 and 41), those between government bonds and private bonds with high credit ratings have widened slightly due to weakening supply-demand conditions.

Stock prices (Chart 42) have risen, mainly due to the rise in U.S stock prices. The Nikkei 225 Stock Average is moving at around 15,000 yen.

In the foreign exchange market (Chart 43), the yen has fluctuated somewhat, mainly due to the prospects of Japan and U.S. monetary policy and concerns over increasing geopolitical risks. The yen is being traded in the range of 114-116 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has started increasing, since business outlays such as business fixed investment continue to increase, while the economy is expanding moderately.

Regarding credit supply, the lending attitude of private banks has continued to be accommodative. The lending attitude of financial institutions as perceived by firms, including small firms, has been improving (Chart 44).

Lending rates have been moving at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations averaged, have been more or less flat (Chart 45). The long-term prime lending rate was raised by 0.2 percent to 2.65 percent on July 11.

The rate of increase in the amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹⁵) is accelerating. (The year-on-year change was 2.0 percent in April, 2.0 percent in May, and 2.6 percent in June; Chart 46.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have recently risen somewhat, reflecting the developments in long-term interest rates. Meanwhile, issuance spreads remain at low levels, although they have risen somewhat. CP issuance rates continue to be at low levels, although they have climbed to some degree. The amount outstanding of CP and corporate bonds issued is around the previous year's level. (The year-on-year change was 1.3 percent in April, 1.2 percent in May, and -0.0 percent in June; Chart 47.)

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

¹⁵ The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

The 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 1.7 percent in April, 1.3 percent in May, and 1.2 percent in June; Chart 48.)

The number of corporate bankruptcies increased by 1.0 percent year-on-year in May, to 1,083 cases (Chart 49).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2005/Q4	2006/Q1	Q2	2006/Mar.	Apr.	May	Jun.
Index of living expenditure level (all households)	0.5	-1.5	n.a.	-1.2	-0.1	1.1	n.a.
Sales at department stores	0.4	0.2	n.a.	0.4	-1.9	1.1	n.a.
Sales at supermarkets	0.2	-1.4	n.a.	-0.0	0.1	1.2	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	<320>	<336>	<311>	<332>	<321>	<302>	<309>
Sales of household electrical appliances (real, Current Survey of Commerce)	4.3	1.9	n.a.	2.2	-4.3	2.1	n.a.
Outlays for travel (50 major travel agencies)	0.9	0.6	n.a.	2.3	0.7	1.7	n.a.
Housing starts <s.a., ann. 10,000 units>	<125>	<127>	<n.a.>	<122>	<134>	<129>	<n.a.>
Machinery orders (from private sector ⁴)	2.8	-0.4	n.a.	-5.2	10.8	-2.1	n.a.
Manufacturing	0.6	0.9	n.a.	-5.9	8.0	-5.5	n.a.
Nonmanufacturing ⁴	4.5	-1.8	n.a.	-4.6	13.8	0.2	n.a.
Construction Starts (private, nondwelling use)	9.3	0.9	n.a.	-0.1	5.1	0.1	n.a.
Mining & manufacturing	5.1	6.0	n.a.	0.3	15.8	1.4	n.a.
Nonmanufacturing ⁵	8.2	0.5	n.a.	1.0	7.5	-5.8	n.a.
Value of public works contracted	-4.5	-6.2	n.a.	-8.7	3.9	9.0	n.a.
Real exports	2.9	3.4	n.a.	-0.5	-0.5	2.7	n.a.
Real imports	0.2	2.4	n.a.	0.3	2.9	-4.0	n.a.
Industrial production	2.8	0.6	n.a.	0.2	1.4	-1.3	n.a.
Shipments	2.3	0.1	n.a.	0.9	2.6	-1.4	n.a.
Inventories	0.2	0.7	n.a.	0.2	-0.2	-1.5	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	<101.4>	<100.6>	<n.a.>	<100.6>	<100.1>	<98.1>	<n.a.>
Real GDP	1.1	0.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.1	0.4	n.a.	-0.9	1.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2005/Q4	2006/Q1	Q2	2006/Mar.	Apr.	May	Jun.
Ratio of job offers to applicants <s.a., times>	<1.00>	<1.03>	<n.a.>	<1.01>	<1.04>	<1.07>	<n.a.>
Unemployment rate <s.a., %>	<4.5>	<4.2>	<n.a.>	<4.1>	<4.1>	<4.0>	<n.a.>
Overtime working hours ⁶	1.6	2.2	n.a.	2.8	2.8	p 3.0	n.a.
Number of employees	1.2	2.1	n.a.	2.1	1.3	1.4	n.a.
Number of regular employees ⁶	0.5	0.5	n.a.	0.7	0.9	p 0.9	n.a.
Nominal wages per person ⁶	1.1	0.3	n.a.	0.4	0.4	p 0.1	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	2.2 <0.8>	2.8 <0.5>	p 3.0 <p 1.0>	2.7 <0.5>	2.5 <0.9>	3.3 <1.2>	p 3.3 <p 1.1>
Consumer price index ⁸	0.1	0.5	n.a.	0.5	0.5	0.6	n.a.
Corporate service price index	-0.4	-0.1	n.a.	-0.1	-0.3	p -0.2	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	2.0	1.6	p 1.4	1.4	1.7	1.3	p 1.2
Number of corporate bankruptcies <cases>	<1,145>	<1,116>	<n.a.>	<1,255>	<1,087>	<1,083>	<n.a.>

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

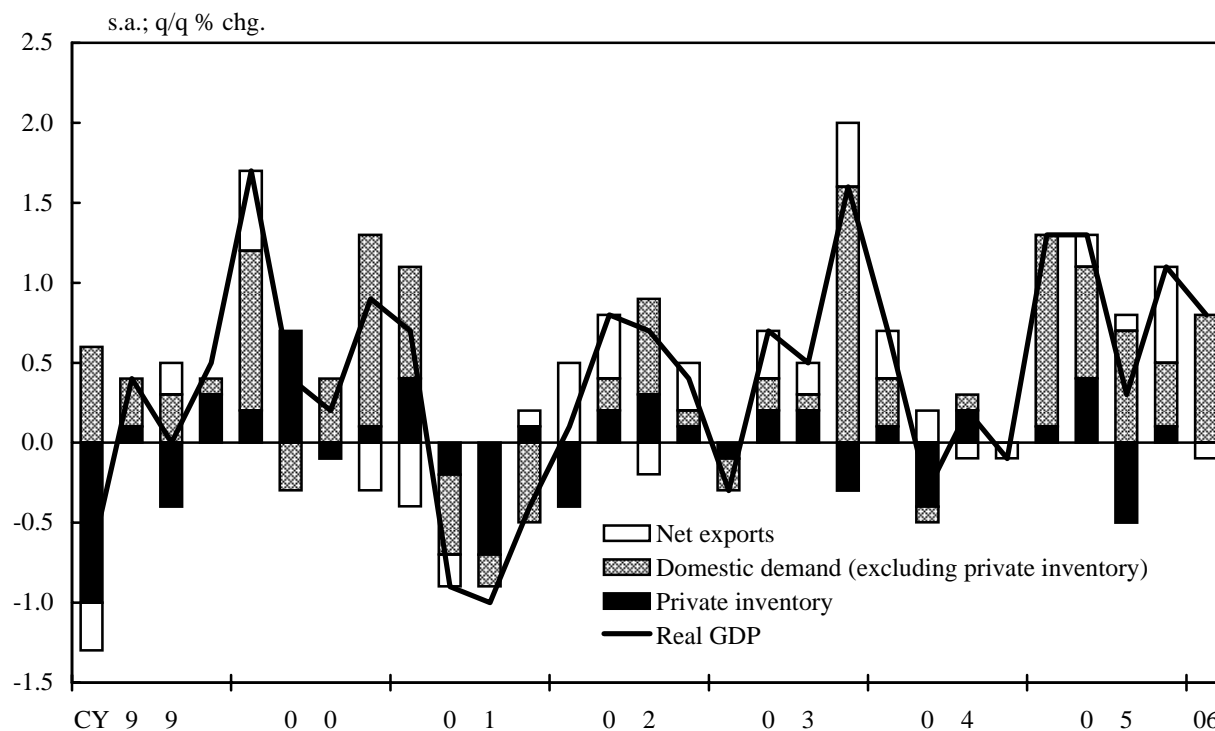
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

2. Figure with "p" indicates preliminary data.
3. Excludes small cars with engine sizes of 660 cc 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 five regular employees.
7. Adjusts to exclude a hike of electric power charges in summer season.
8. Excludes fresh food.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey,"
 "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index";
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"
 "Indices of All 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.

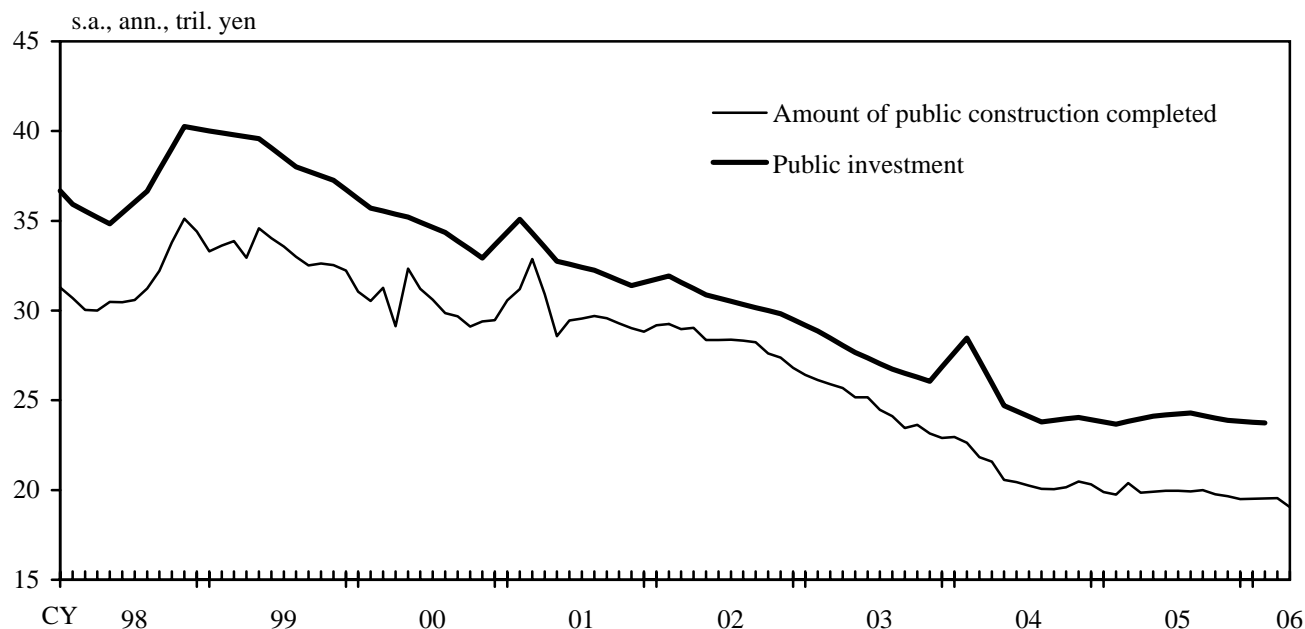
	2005				2006
	Q1	Q2	Q3	Q4	Q1
Real GDP	1.3	1.3	0.3	1.1	0.8
Domestic demand	1.3	1.2	0.2	0.5	0.8
Private consumption	1.4	0.8	0.5	0.6	0.5
Non-Resi. investment	2.5	2.4	1.5	0.2	3.1
Residential investment	-1.3	-1.9	1.6	2.1	1.1
Private inventory	(0.1)	(0.4)	(-0.5)	(0.1)	(0.0)
Public demand	0.5	0.2	0.5	-0.5	-0.1
Public investment	-1.0	1.1	0.6	-2.5	-0.6
Net exports of goods and services	(-0.0)	(0.2)	(0.1)	(0.6)	(-0.1)
Exports	-0.2	3.5	3.1	3.8	2.7
Imports	-0.1	2.2	3.1	-0.6	3.5
Nominal GDP	0.5	1.1	-0.1	0.8	0.4

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

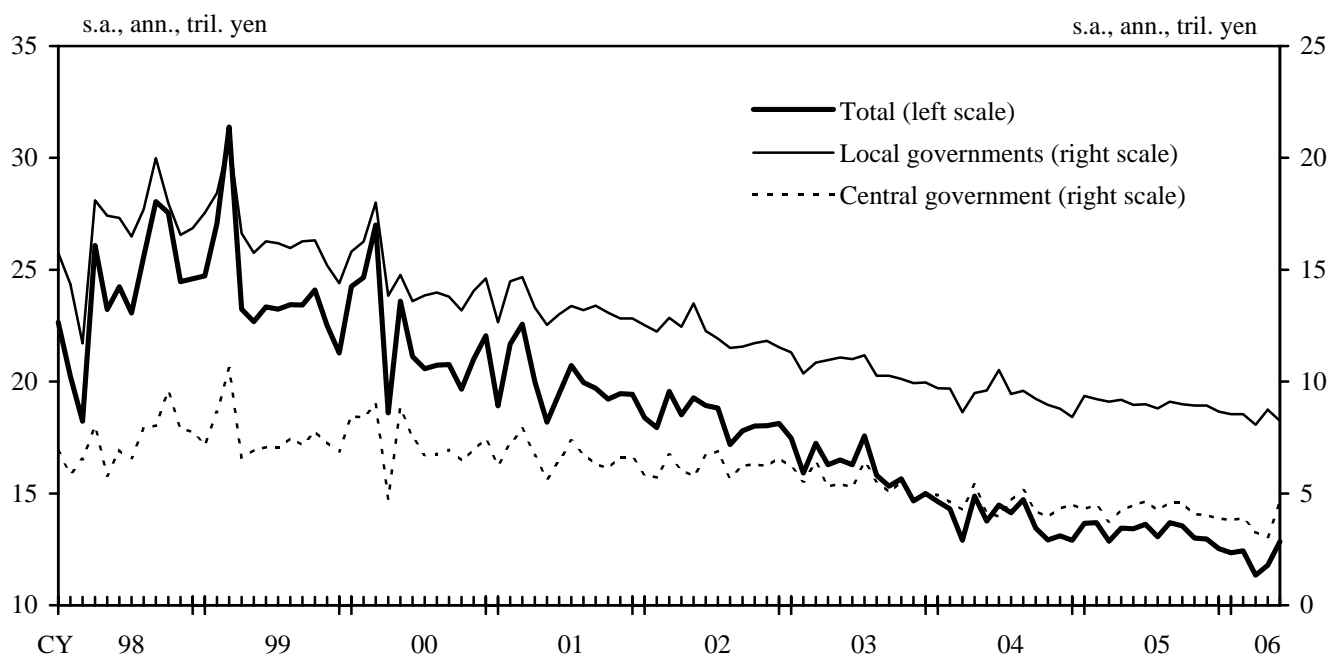
Source: Cabinet Office, "National Accounts."

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

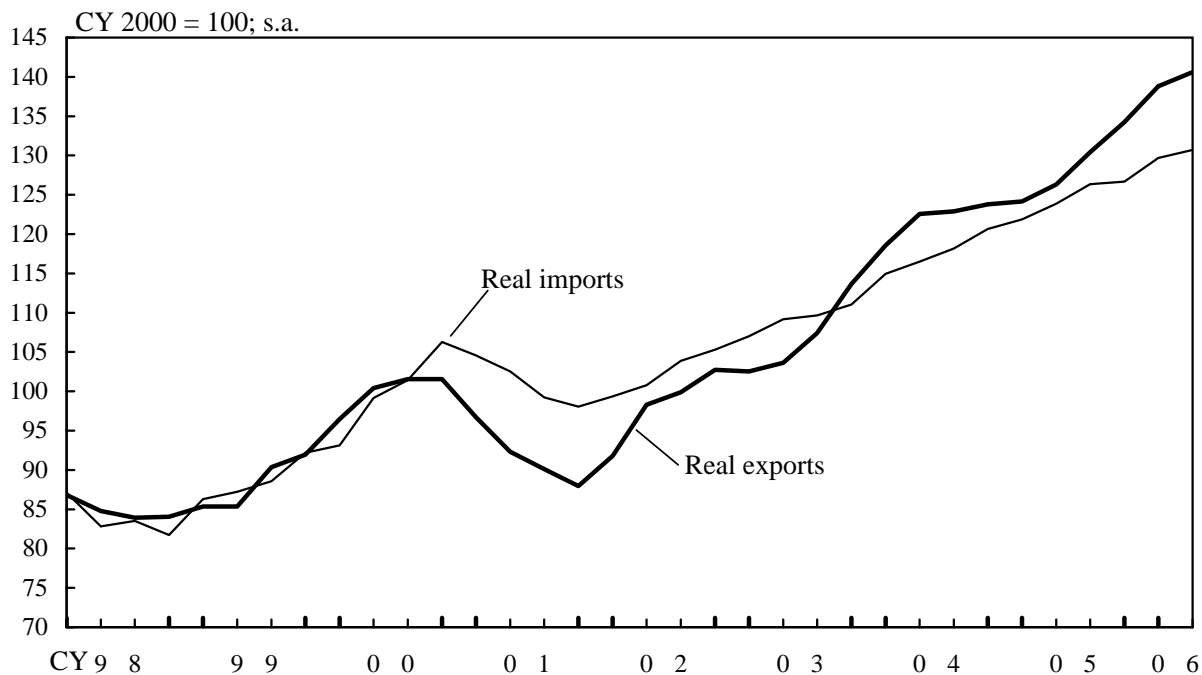
Sources: Cabinet Office, "National Accounts";

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

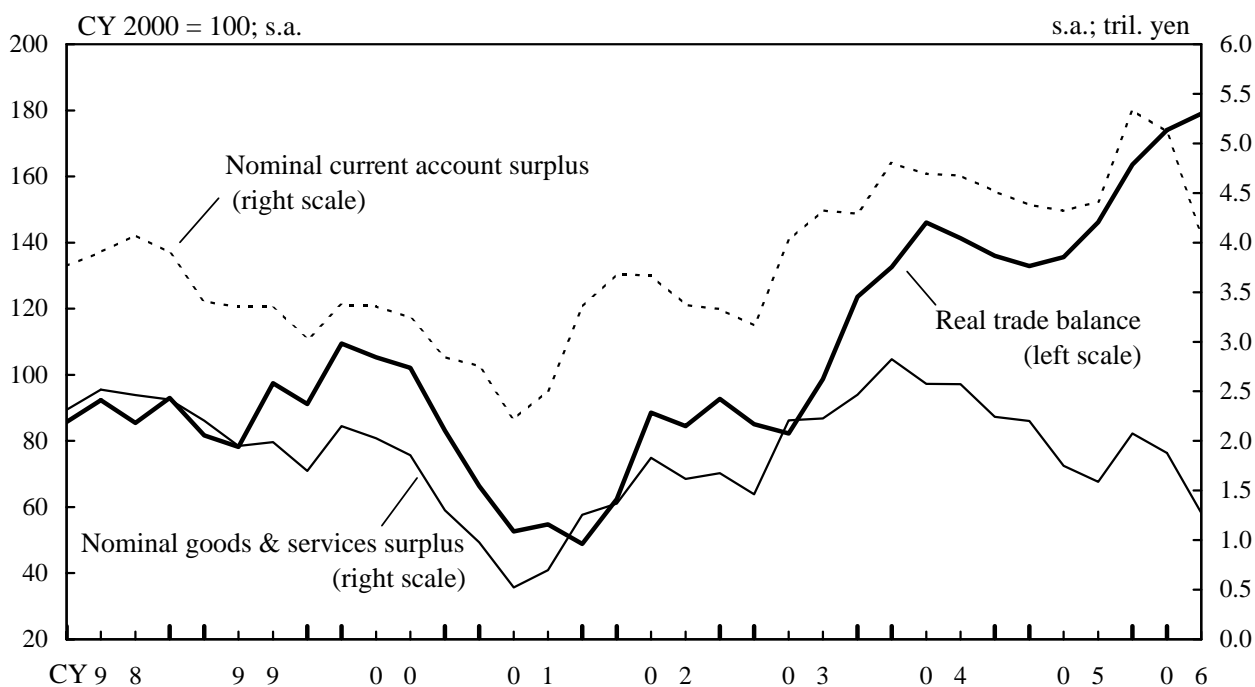
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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. 2006/Q2 figures are April-May averages converted into quarterly amount.
3. 2006/Q2 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are April-May averages converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2004	2005	2005 Q2	Q3	Q4	2006 Q1	Q2	2006 Mar.	Apr.	May
United States	<22.5>	6.8	7.3	2.0	0.8	4.4	3.4	4.1	-1.8	3.8	2.8
EU	<14.7>	18.7	3.4	1.2	2.2	2.5	1.2	4.9	-3.6	5.9	4.3
East Asia	<46.7>	19.1	6.2	0.7	4.4	1.8	3.5	-0.7	-0.7	-2.4	1.1
China	<13.5>	22.2	9.7	0.4	10.1	4.7	4.7	1.3	2.6	-3.2	0.4
NIEs	<24.3>	20.3	5.0	0.7	3.4	0.6	3.4	-0.9	-2.1	-1.2	0.6
Korea	<7.8>	19.1	4.5	1.0	5.7	3.1	1.4	4.1	6.5	-0.1	2.1
Taiwan	<7.3>	26.9	4.4	2.6	-2.2	-3.3	9.5	-3.6	-8.3	-0.4	-0.8
ASEAN4 ³	<9.0>	12.3	4.4	0.8	-0.4	1.0	1.9	-3.4	-2.1	-4.2	3.6
Thailand	<3.8>	18.7	10.0	0.3	0.9	1.3	2.1	-1.2	-2.4	1.4	-2.9
Others	<16.0>	14.4	11.6	4.6	5.6	4.7	7.7	1.5	4.6	-4.7	6.3
Real exports		14.5	5.4	1.7	3.3	2.9	3.4	1.3	-0.5	-0.5	2.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2004	2005	2005 Q2	Q3	Q4	2006 Q1	Q2	2006 Mar.	Apr.	May
Intermediate goods	<17.3>	5.5	1.8	1.7	2.6	1.9	4.7	-2.2	-0.4	-2.2	-1.2
Motor vehicles and their related goods	<22.7>	8.3	8.2	4.3	0.8	4.1	5.4	2.3	1.1	-1.7	5.6
Consumer goods ⁴	<5.6>	14.9	5.5	2.4	4.7	2.6	-2.3	4.9	-9.7	6.4	10.1
IT-related goods ⁵	<12.5>	17.3	5.4	-0.1	3.8	3.4	1.2	-0.5	-4.6	2.7	-1.5
Capital goods and parts ⁶	<29.5>	23.5	7.2	1.8	3.4	3.1	4.7	1.3	1.3	-2.8	4.9
Real exports		14.5	5.4	1.7	3.3	2.9	3.4	1.3	-0.5	-0.5	2.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q2 figures are April-May averages converted into quarterly amount.

2. Shares of each region and goods in 2005 are shown in angle brackets.

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

4. Excludes motor vehicles.

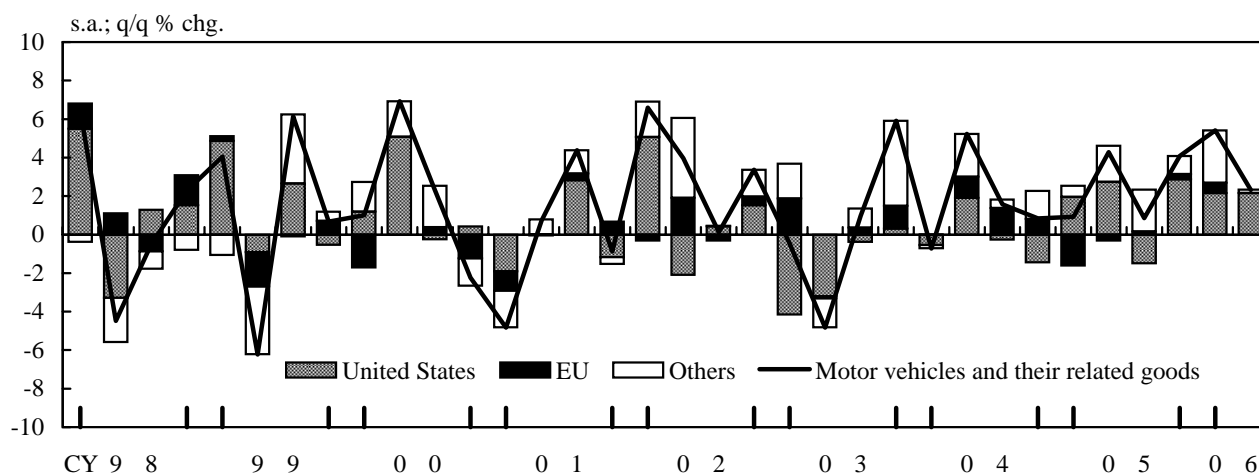
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

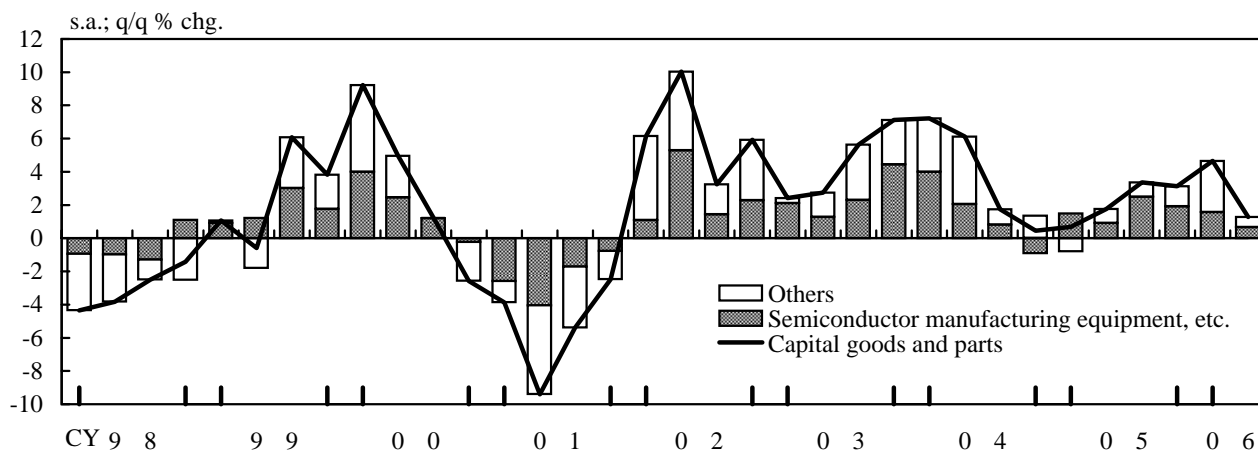
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

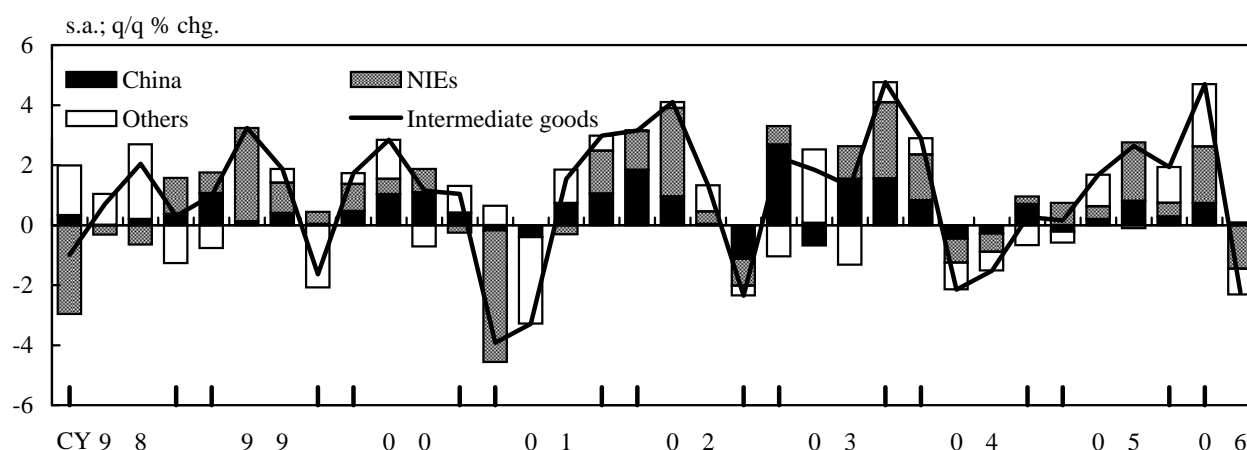
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



(2) Capital Goods and Parts (Real, Breakdown by Goods)



(3) Intermediate Goods (Real, Breakdown by Region)

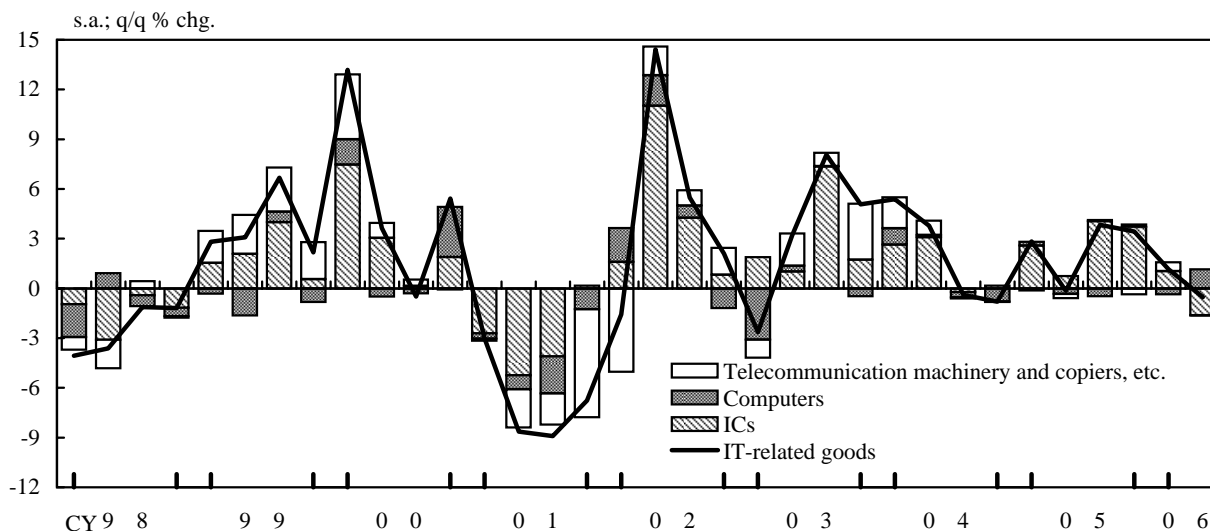


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q2 figures are April-May averages converted into quarterly amount.

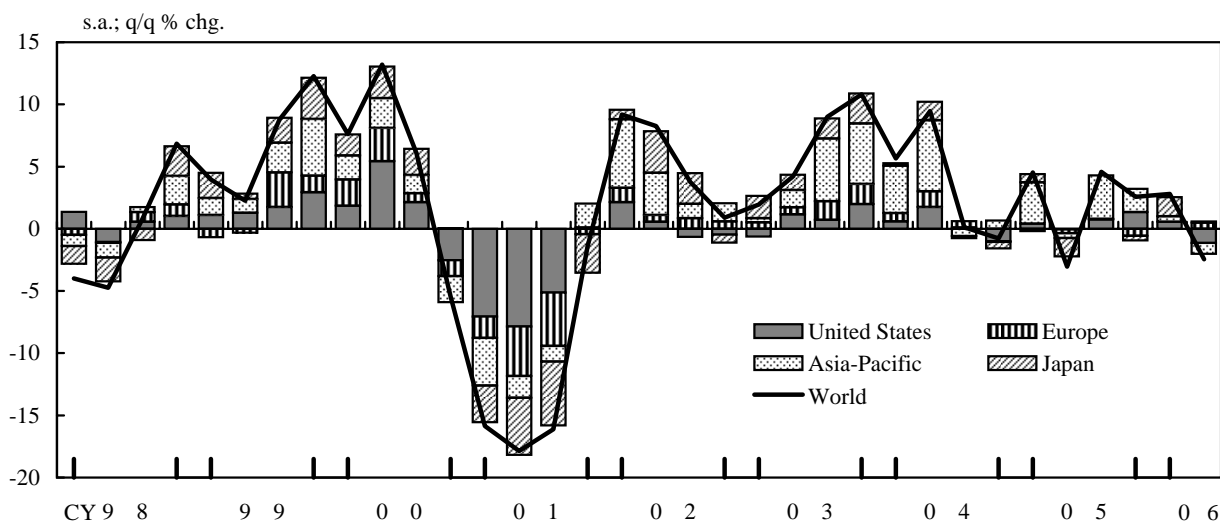
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

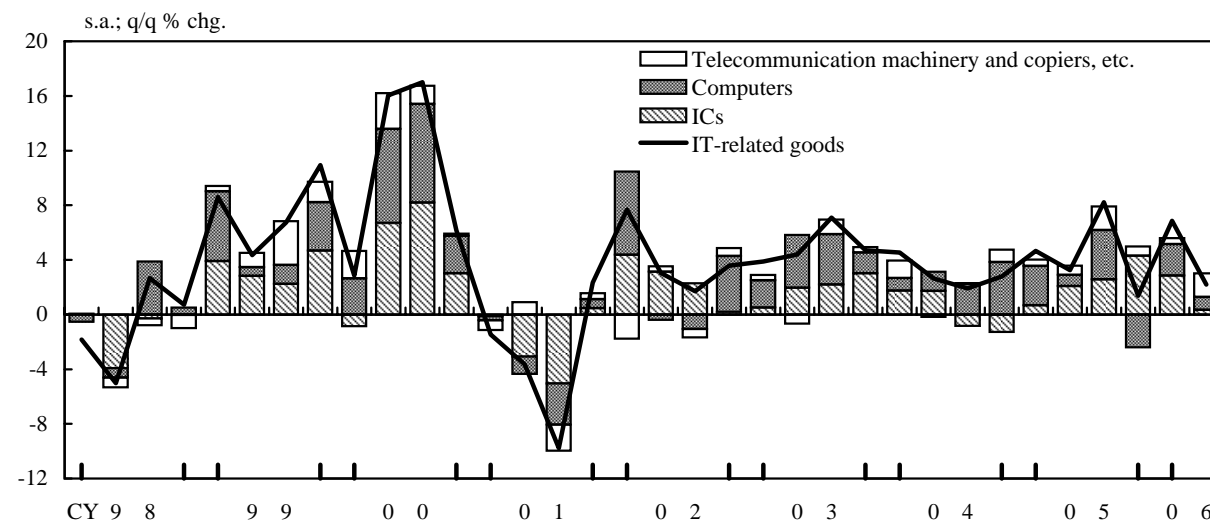
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(2) World Semiconductor Shipments (Nominal, Breakdown by Region)



(3) Imports of IT-Related Goods (Real, Breakdown by Goods)

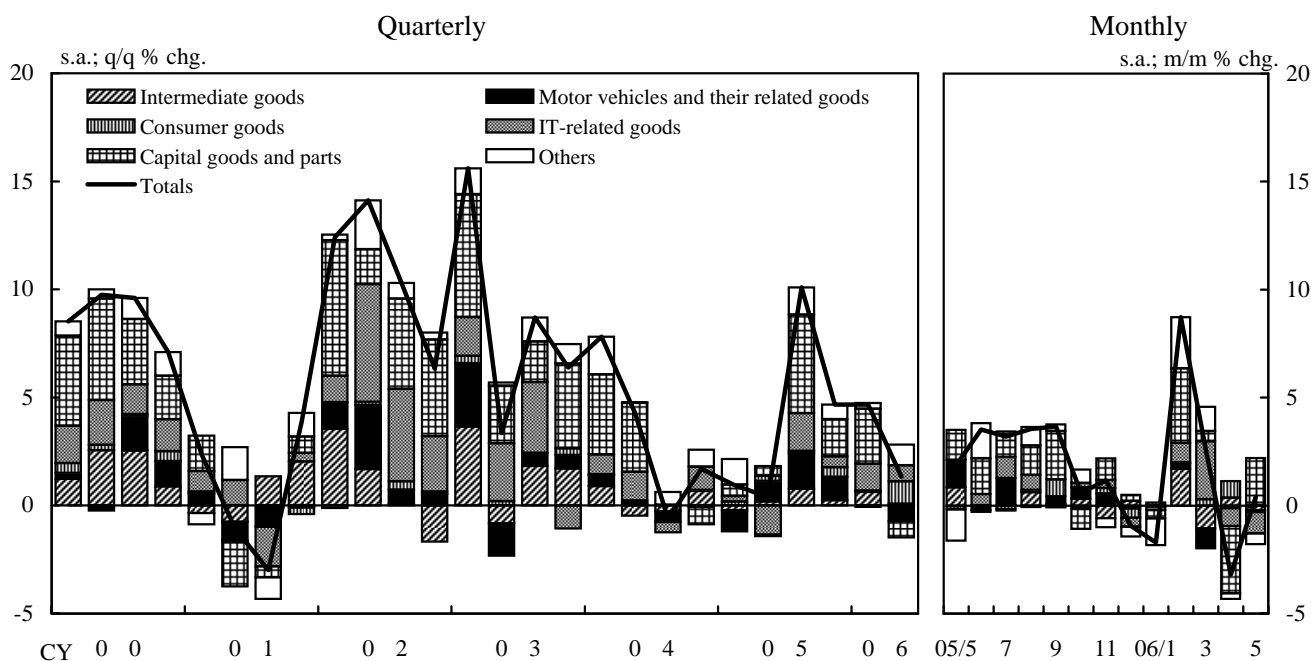


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q2 figures are April-May averages converted into quarterly amount.

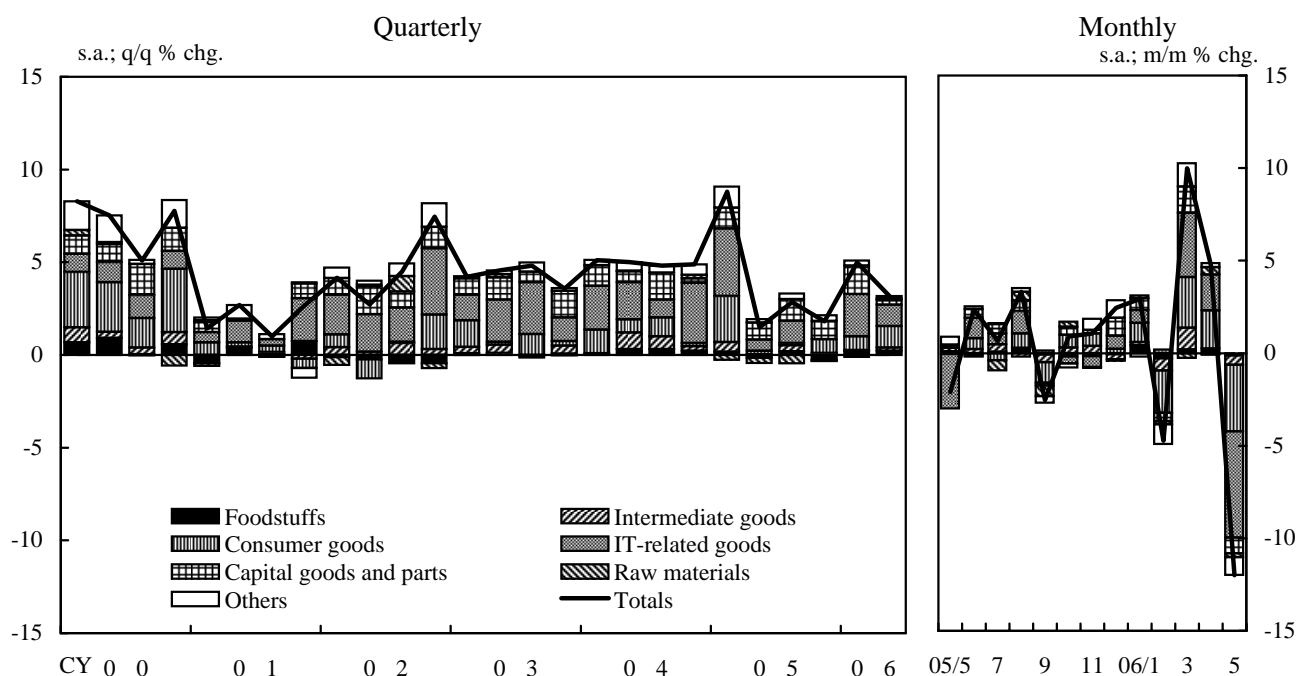
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Exports and Imports with China

(1) Exports to China (Real, Breakdown by Goods)



(2) Imports from China (Real, Breakdown by Goods)



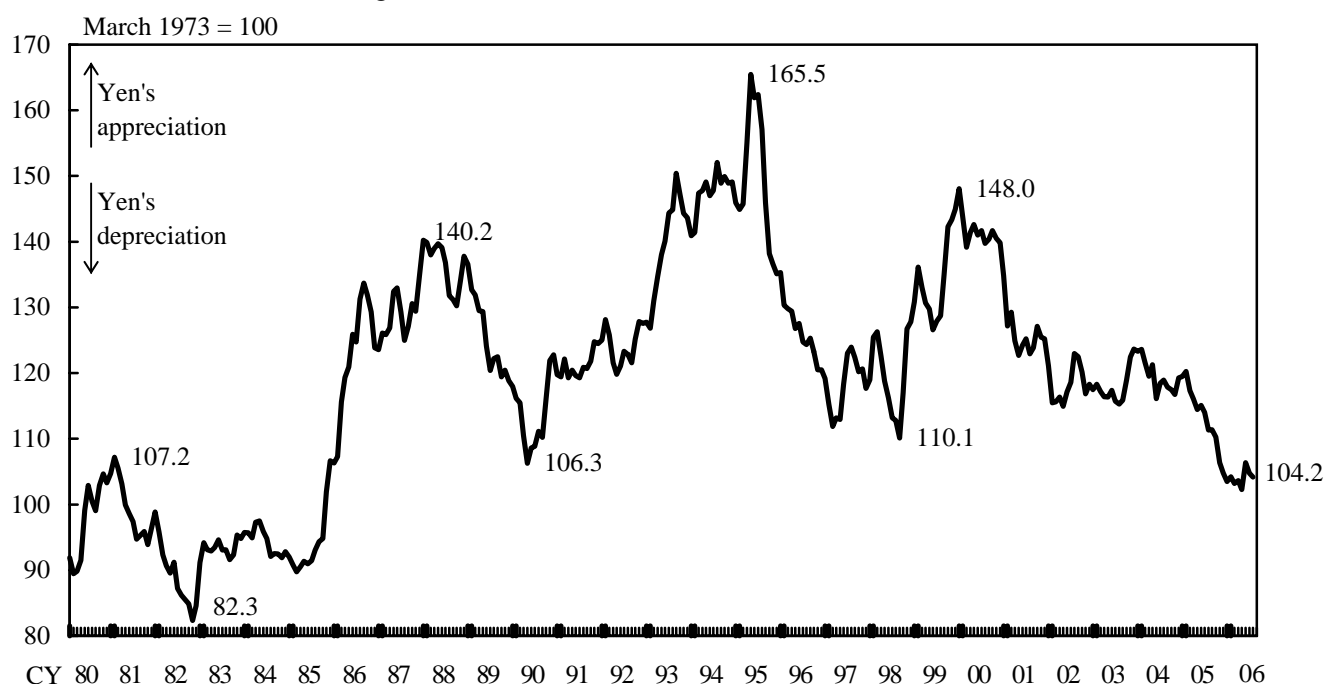
Notes: 1. Regarding classifications of each goods, see notes to charts 6 and 11.

2. Seasonally adjusted by X-12-ARIMA. 2006/Q2 figures are April-May 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 July 2006 is the average up to July 13.

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

		CY2003	2004	2005	2005 Q3	Q4	2006 Q1	Q2	
United States ¹		2.7	4.2	3.5	4.1	1.7	5.6	n.a.	
European Union ¹		1.3	2.3	1.7	2.6	1.6	2.8	n.a.	
	Germany	-0.2	1.6	1.0	2.5	0.0	1.5	n.a.	
	France	1.1	2.0	1.2	2.6	1.1	2.1	n.a.	
	United Kingdom	2.7	3.3	1.9	1.6	2.7	3.0	n.a.	
East Asia ²	China	10.0	10.1	9.9	9.8	9.9	10.3	n.a.	
	NIEs	Korea	3.1	4.7	4.0	4.5	5.3	6.1	n.a.
		Taiwan	3.4	6.1	4.1	4.4	6.4	4.9	n.a.
		Hong Kong	3.2	8.6	7.3	8.2	7.5	8.2	n.a.
		Singapore	2.9	8.7	6.4	7.6	8.7	10.7	7.5
	ASEAN4	Thailand	7.0	6.2	4.5	5.4	4.7	6.0	n.a.
		Indonesia	4.8	5.1	5.6	5.6	4.9	4.6	n.a.
		Malaysia	5.5	7.2	5.2	5.3	5.2	5.3	n.a.
Philippines		4.9	6.2	5.0	4.8	5.3	5.5	n.a.	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2004	2005	2005 Q2	Q3	Q4	2006 Q1	Q2	2006 Mar.	Apr.	May
United States	<12.4>	0.4	3.6	4.4	4.7	-0.1	4.2	-2.8	-1.3	-4.6	6.2
EU	<11.4>	9.6	2.1	3.8	-1.1	-0.7	1.7	0.2	-1.6	0.4	-0.3
East Asia	<42.3>	14.7	11.2	0.8	3.0	1.8	4.2	2.2	5.2	4.4	-9.0
China	<21.0>	20.9	18.8	1.5	2.9	1.8	5.0	3.2	10.0	4.8	-12.0
NIEs	<9.8>	12.8	9.3	2.8	7.1	4.1	4.0	1.9	-0.2	3.7	-2.0
Korea	<4.7>	14.5	8.3	4.6	5.9	7.5	-1.2	1.8	-0.3	6.0	-3.2
Taiwan	<3.5>	12.0	11.0	1.9	12.4	0.4	8.3	2.4	-1.0	5.3	-3.8
ASEAN4 ³	<11.4>	7.1	0.2	-2.3	-0.5	-0.4	2.7	0.3	1.1	4.3	-9.8
Thailand	<3.0>	14.3	12.8	0.3	2.0	2.0	1.2	3.1	-1.2	6.4	-5.9
Others	<34.0>	4.7	1.8	1.6	1.2	2.1	-2.0	4.8	1.2	9.9	-10.2
Real imports		8.1	5.4	1.6	2.0	0.2	2.4	0.8	0.3	2.9	-4.0

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2004	2005	2005 Q2	Q3	Q4	2006 Q1	Q2	2006 Mar.	Apr.	May
Raw materials ⁴	<31.7>	1.3	-3.9	-3.5	1.4	-0.6	0.5	4.4	-5.8	15.2	-13.3
Intermediate goods	<14.0>	8.7	4.6	1.0	0.3	0.6	0.4	1.6	-0.0	3.2	-3.3
Foodstuffs	<9.8>	0.4	2.6	1.1	-0.9	-3.1	2.5	-3.0	1.6	-2.3	-2.0
Consumer goods ⁵	<9.9>	12.5	8.7	4.6	-3.0	3.0	1.4	-0.1	4.3	3.0	-7.3
IT-related goods ⁶	<12.5>	17.6	15.4	3.2	8.2	1.4	6.9	2.2	3.2	5.7	-10.8
Capital goods and parts ⁷	<12.1>	17.4	13.6	4.6	7.2	2.0	7.3	0.5	-2.5	-2.5	8.3
Excluding aircraft	<11.2>	19.2	13.7	5.4	5.0	3.8	5.7	3.7	0.6	5.3	-5.3
Real imports		8.1	5.4	1.6	2.0	0.2	2.4	0.8	0.3	2.9	-4.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q2 figures are April-May averages converted into quarterly amount.

2. Shares of each region and goods in 2005 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.

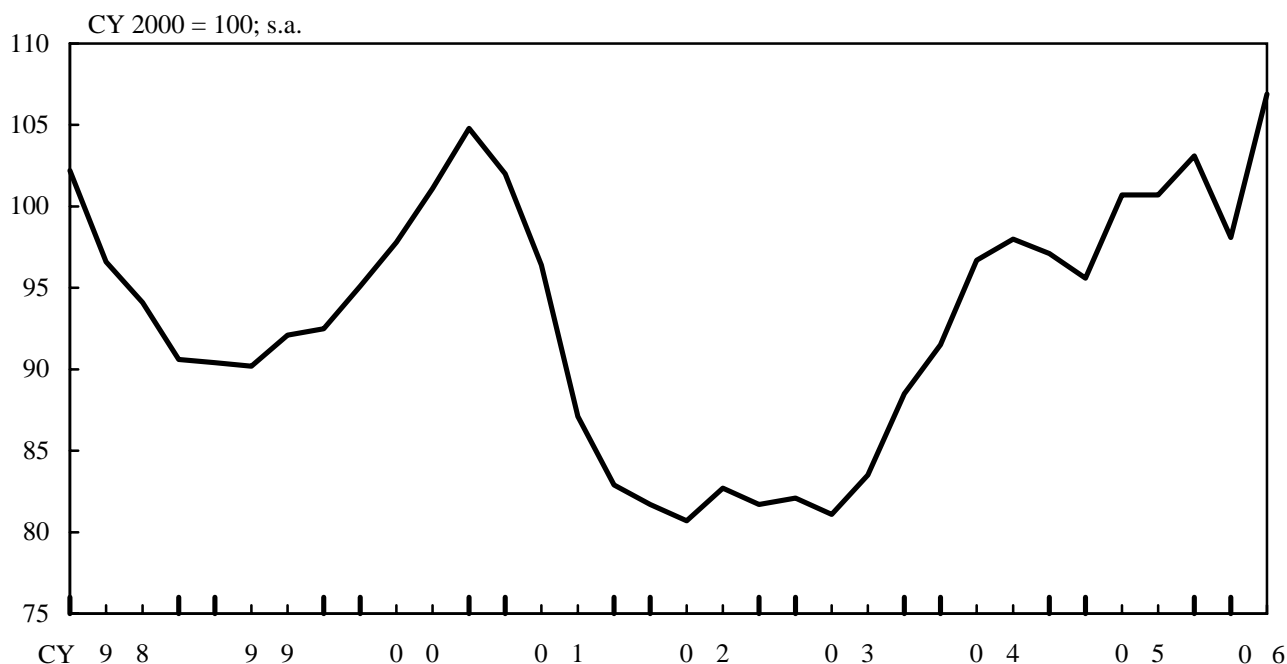
5. Excludes foodstuffs.

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.

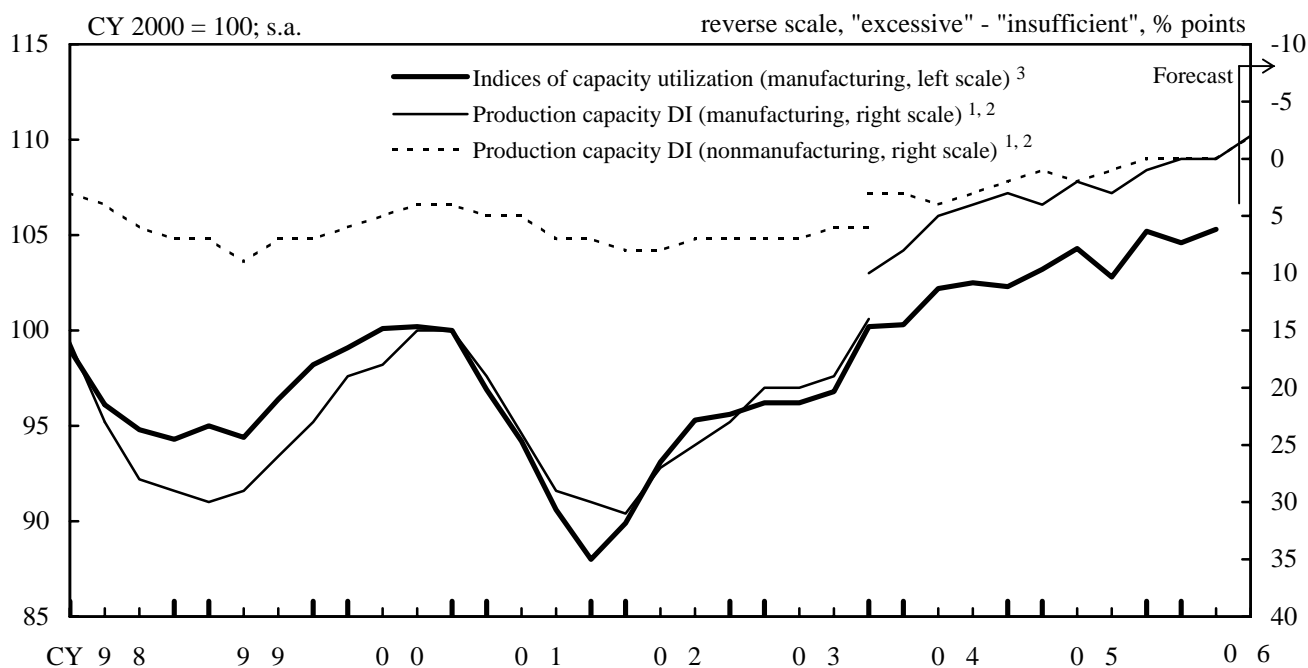
Coincident Indicators for Business Fixed Investment

(1) Shipments of Capital Goods (Excluding Transport Equipment)



Note: The figure for 2006/Q2 is as of April-May average.

(2) Indices of Capacity Utilization and Production Capacity DI



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

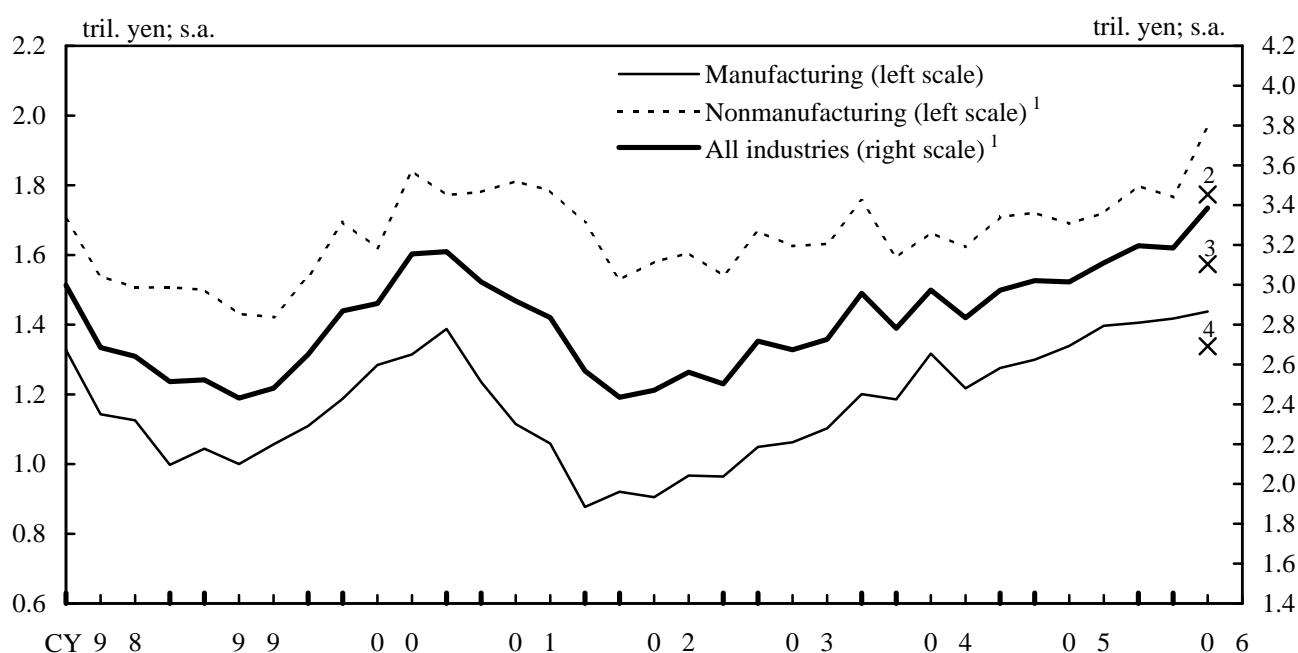
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2006/Q2 is as of April-May average.

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

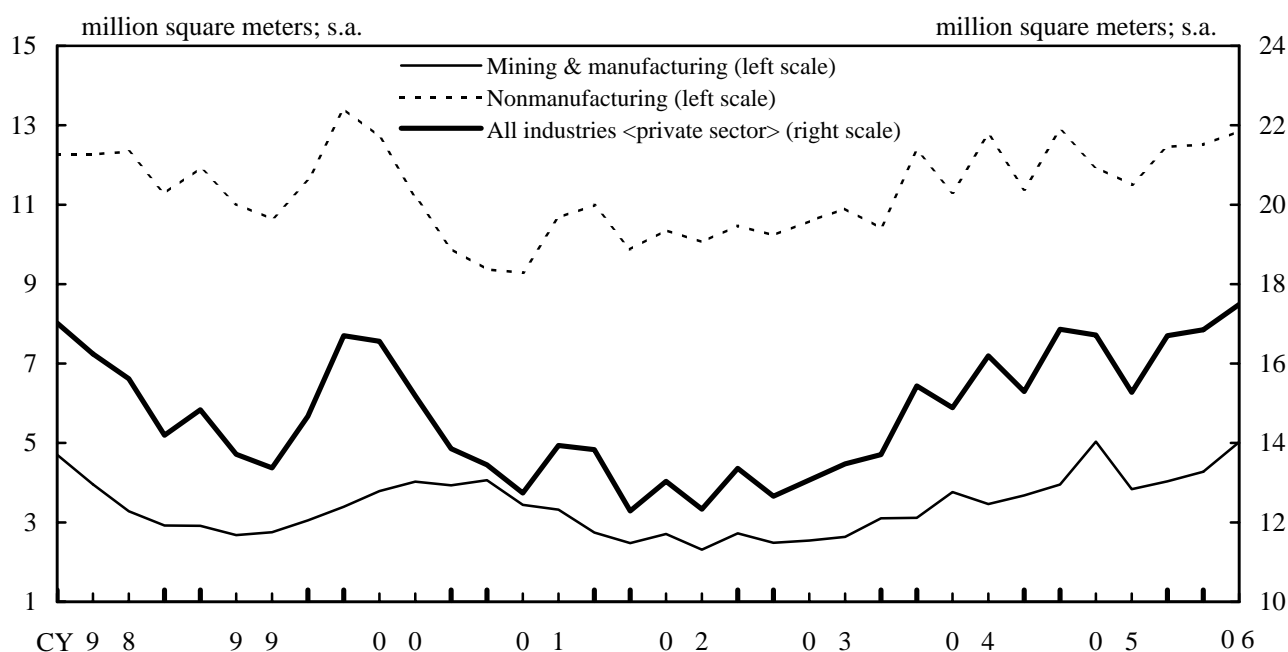
Leading Indicators for Business Fixed Investment

(1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.
 2. Forecast of nonmanufacturing industries for 2006/Q2.
 3. Forecast of all industries for 2006/Q2.
 4. Forecast of manufacturing industries for 2006/Q2.
 5. Figures for 2006/Q2 are those of April-May in terms of quarterly amount.

(2) Construction Starts (Floor Area, Private, Nondwelling Use)

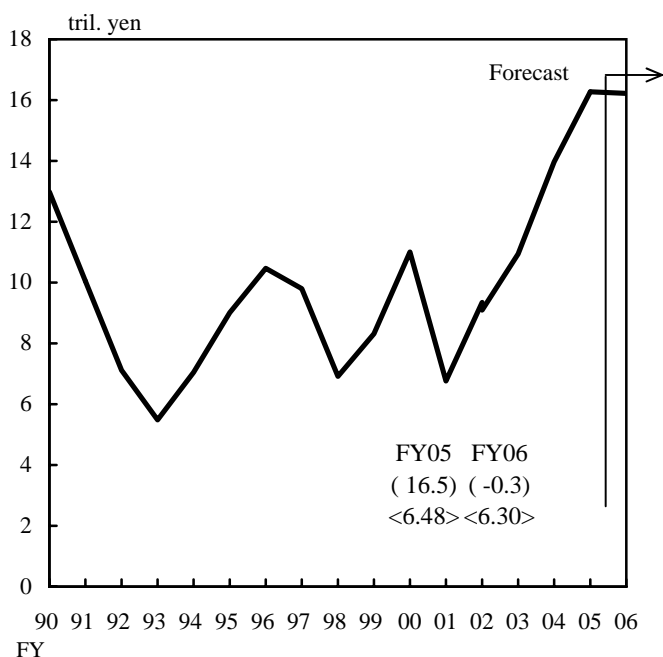


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.
 3. Figures for 2006/Q2 are averages of April-May in terms of quarterly amount.

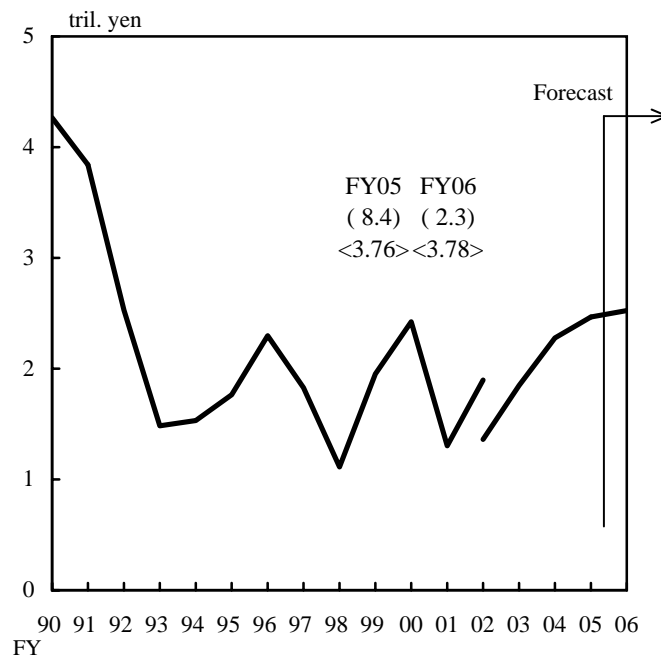
Sources: Cabinet Office, "Machinery Orders Statistics";
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

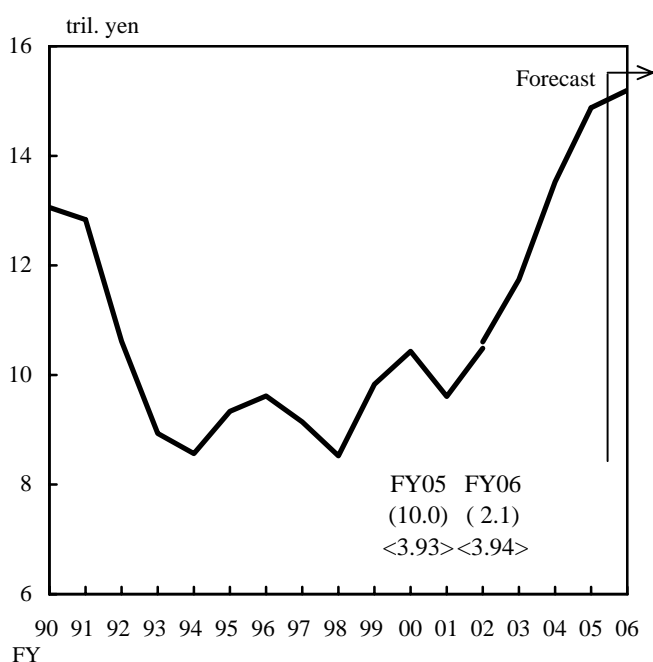
(1) Manufacturing Large Enterprises



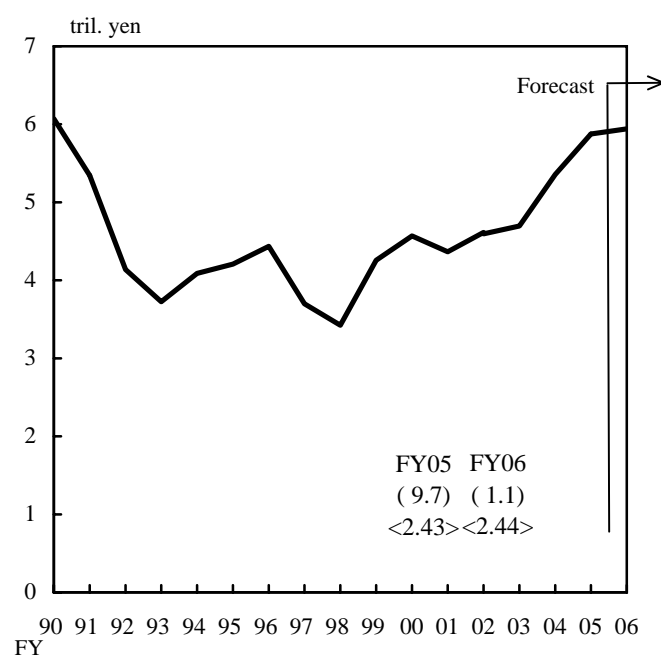
(2) Manufacturing Small Enterprises



(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

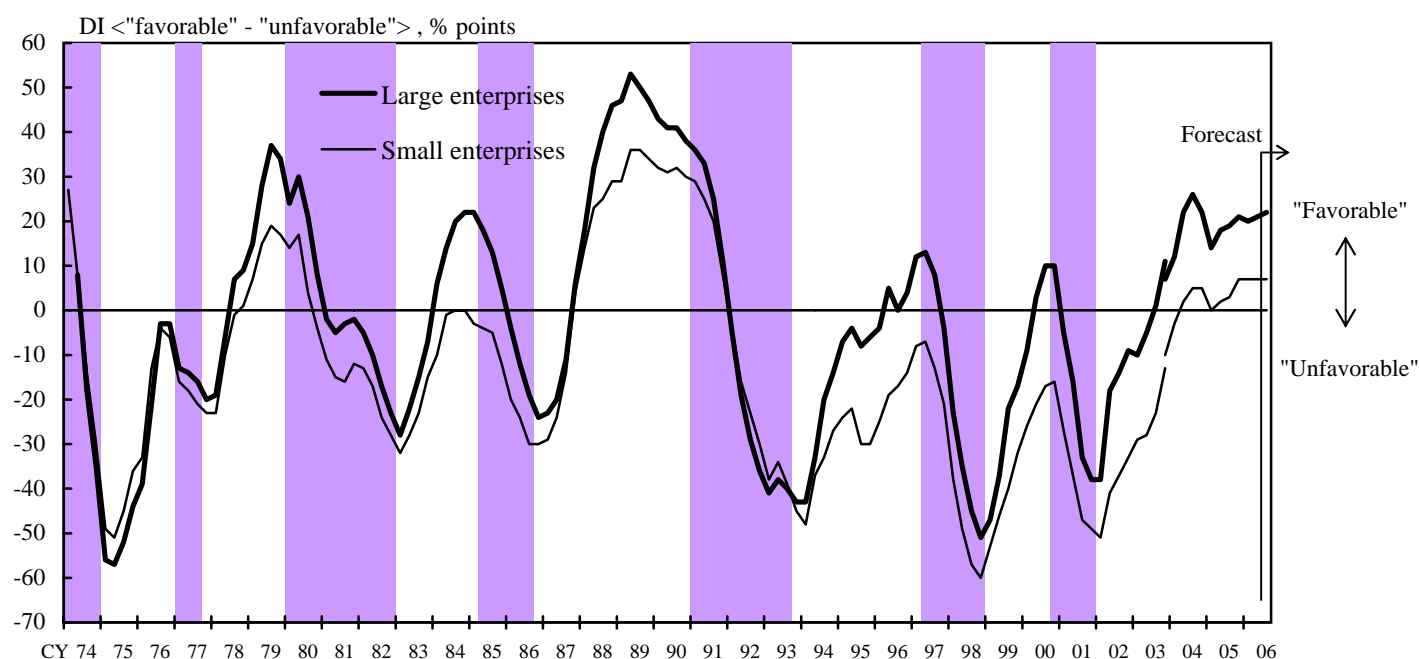
2. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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.

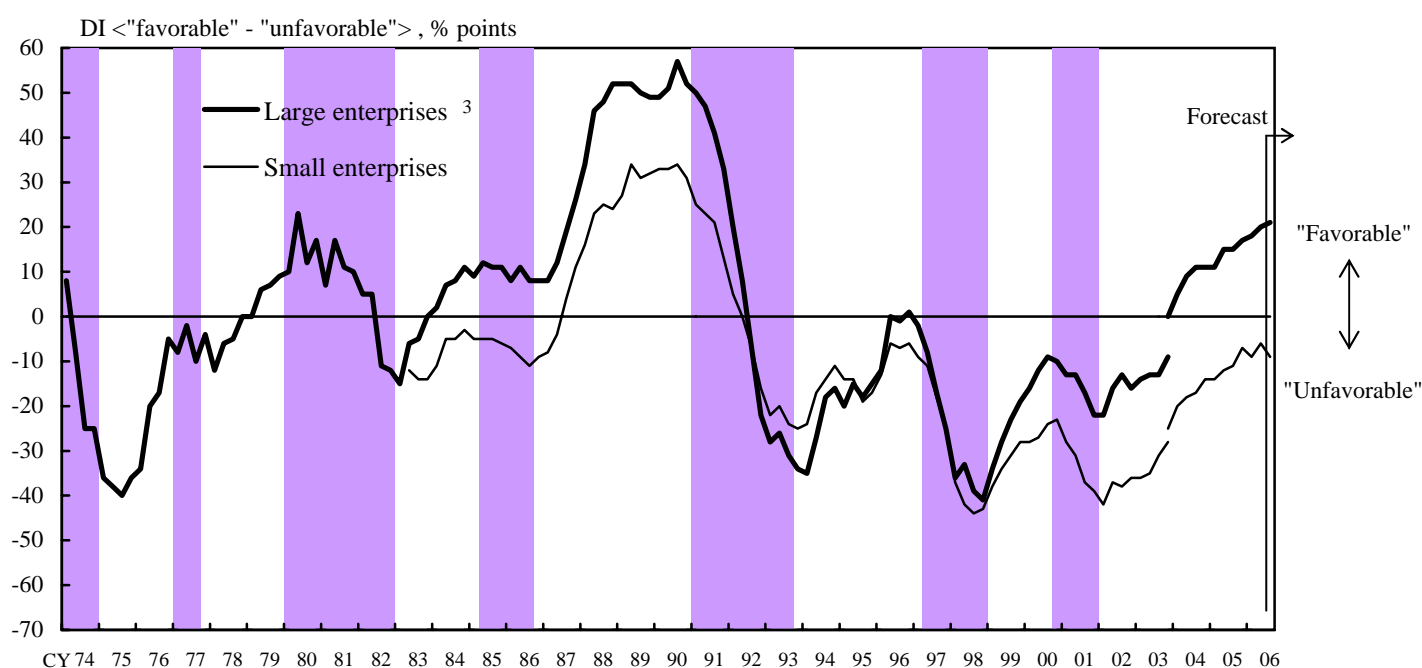
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

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

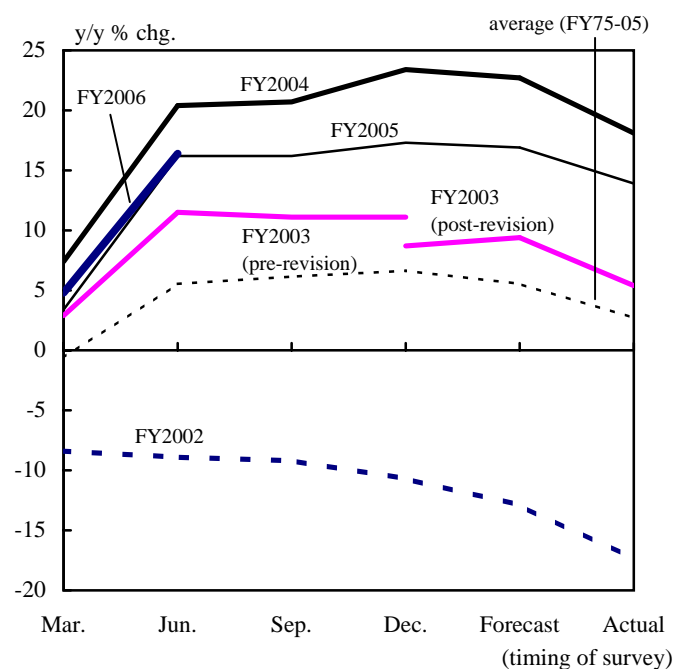
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. Date prior to Feb. 1983 are those of principal enterprises.

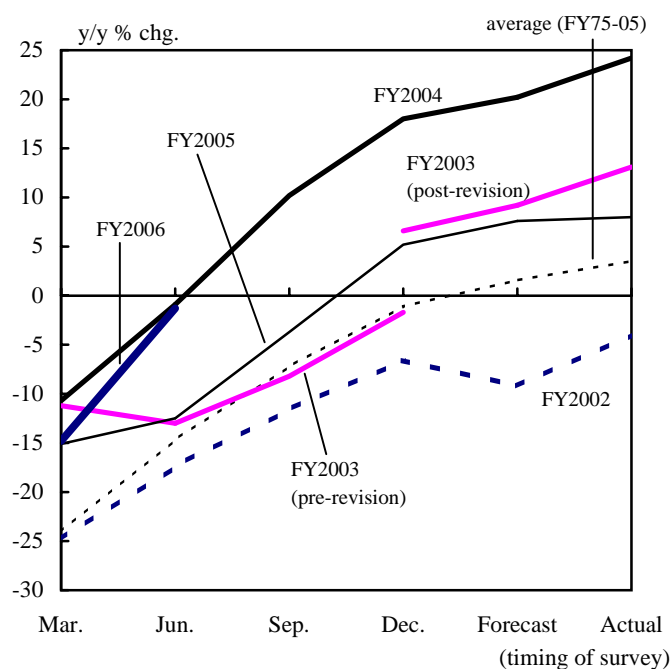
4. Shaded areas indicate recession periods.

Business Fixed Investment Plans as Surveyed

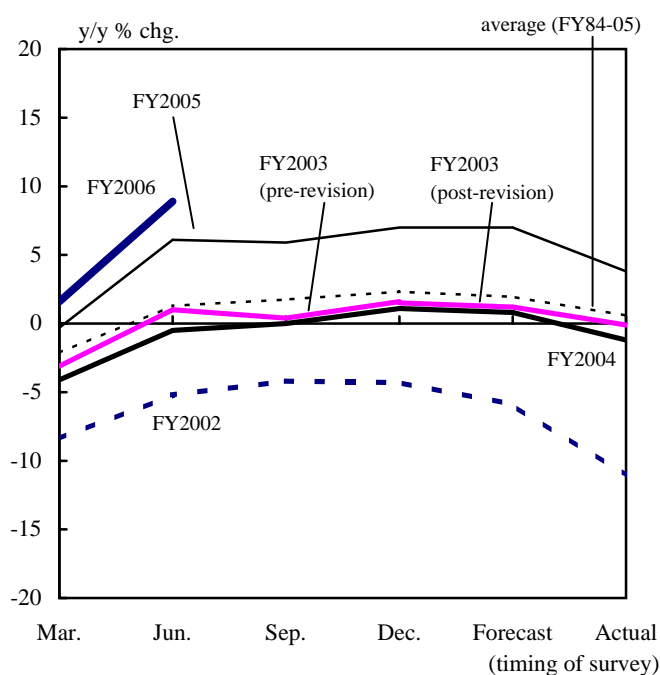
(1) Manufacturing Large Enterprises



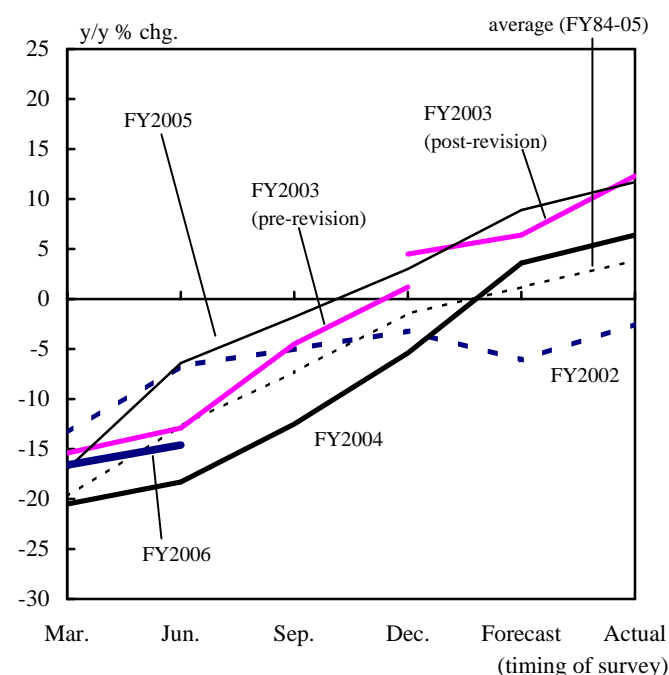
(2) Manufacturing Small Enterprises



(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

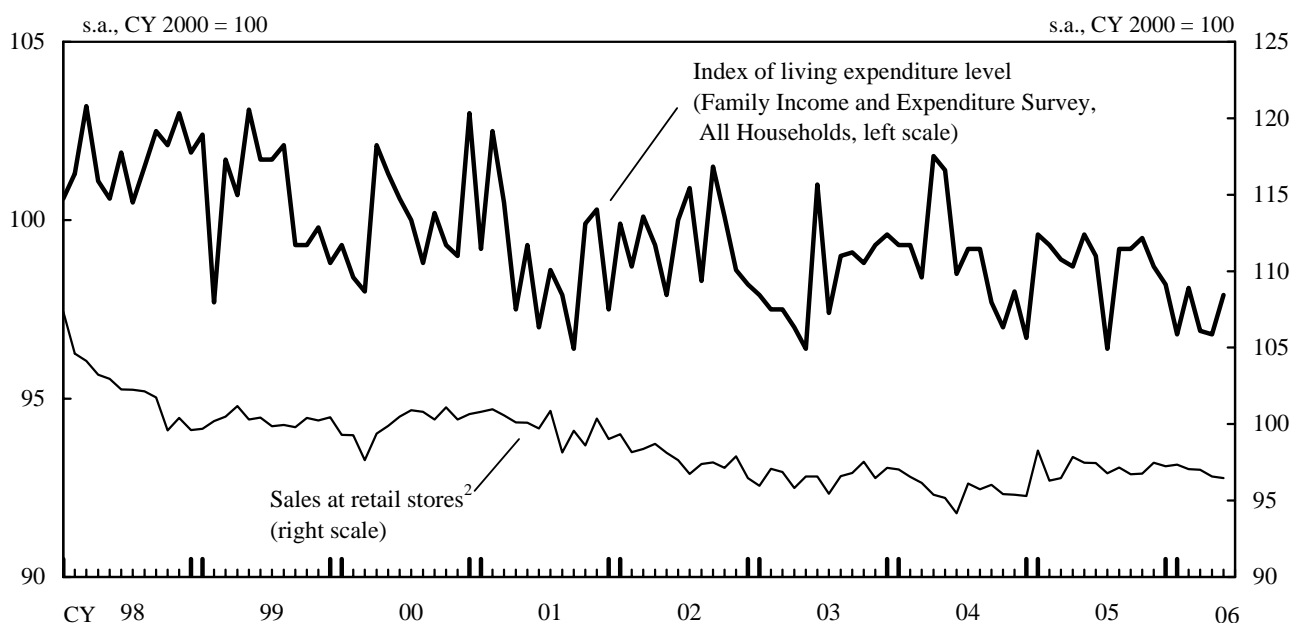
2. Includes land purchasing expenses and excludes software investment.

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.

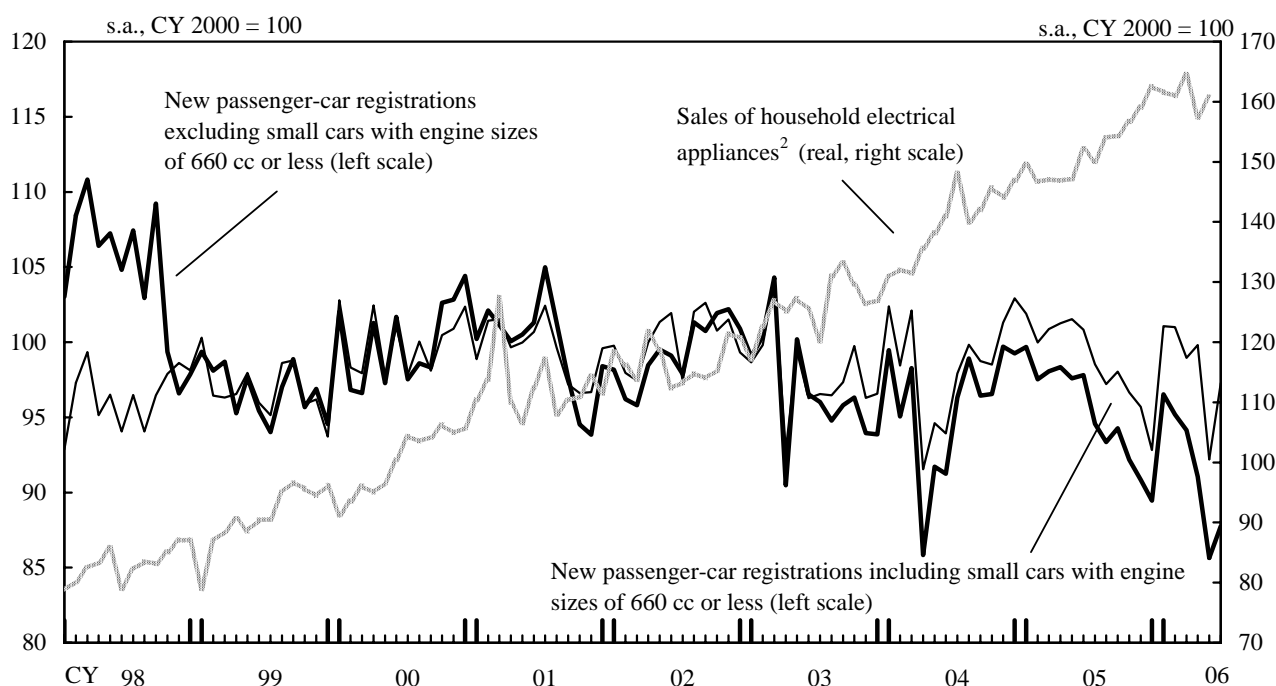
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption¹ (1)

(1) Household Spending (Real)



(2) Sales of Durable Goods



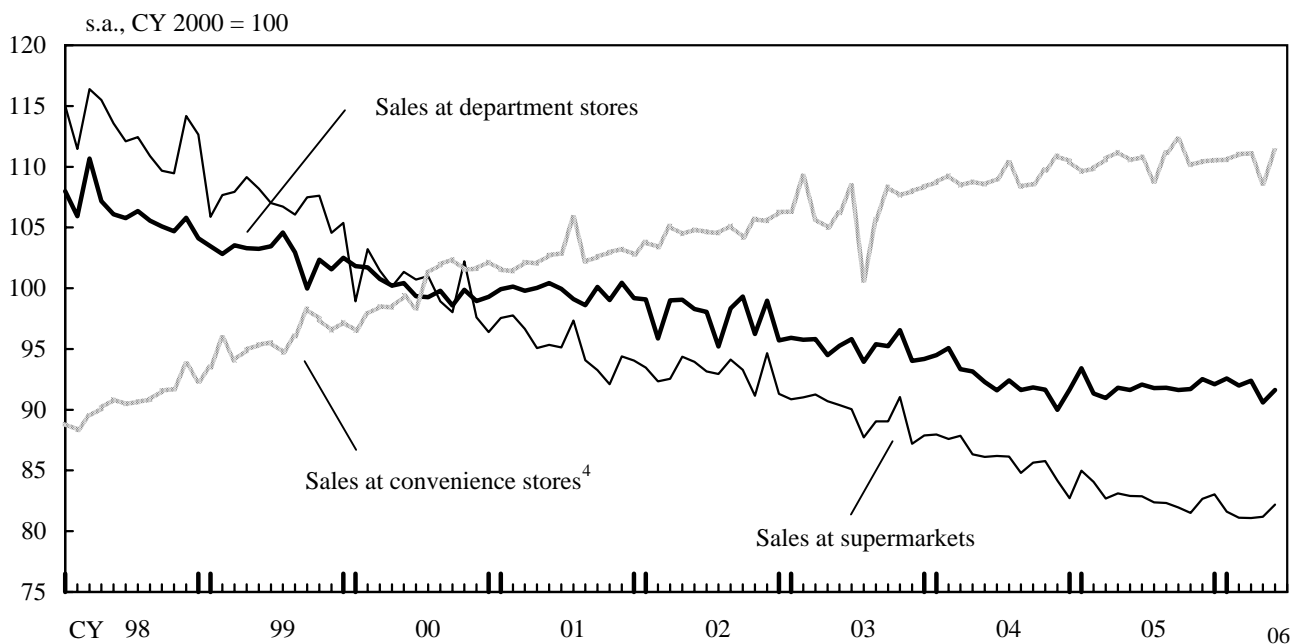
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

2. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). Sales of household electrical appliances are 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).

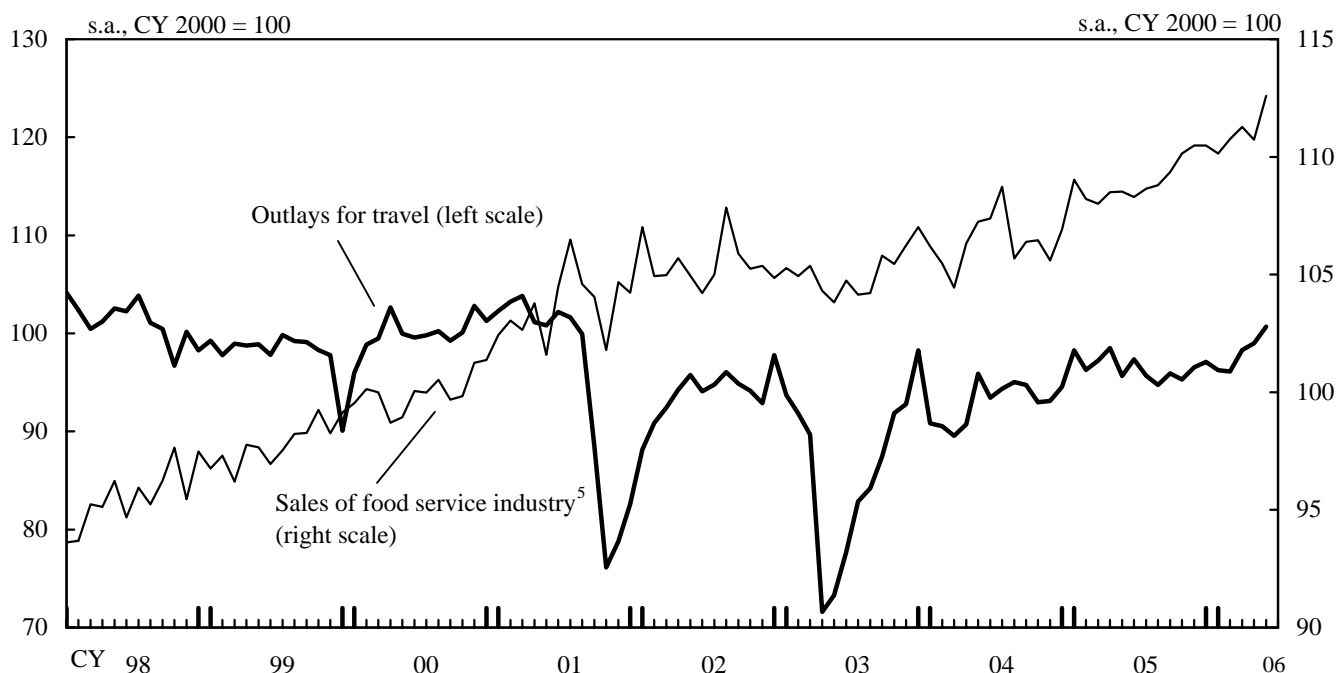
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles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

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

(3) Sales at Retail Stores (Nominal)³



(4) Consumption of Services (Nominal)



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

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

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

4. Sales at convenience stores until March 1997 are based on the survey conducted by the Bank of Japan. From April 1997 they are based on the data published by the Ministry of Economy, Trade and Industry.

5. Sales of food service industry are calculated using the year-on-year rates of change 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.

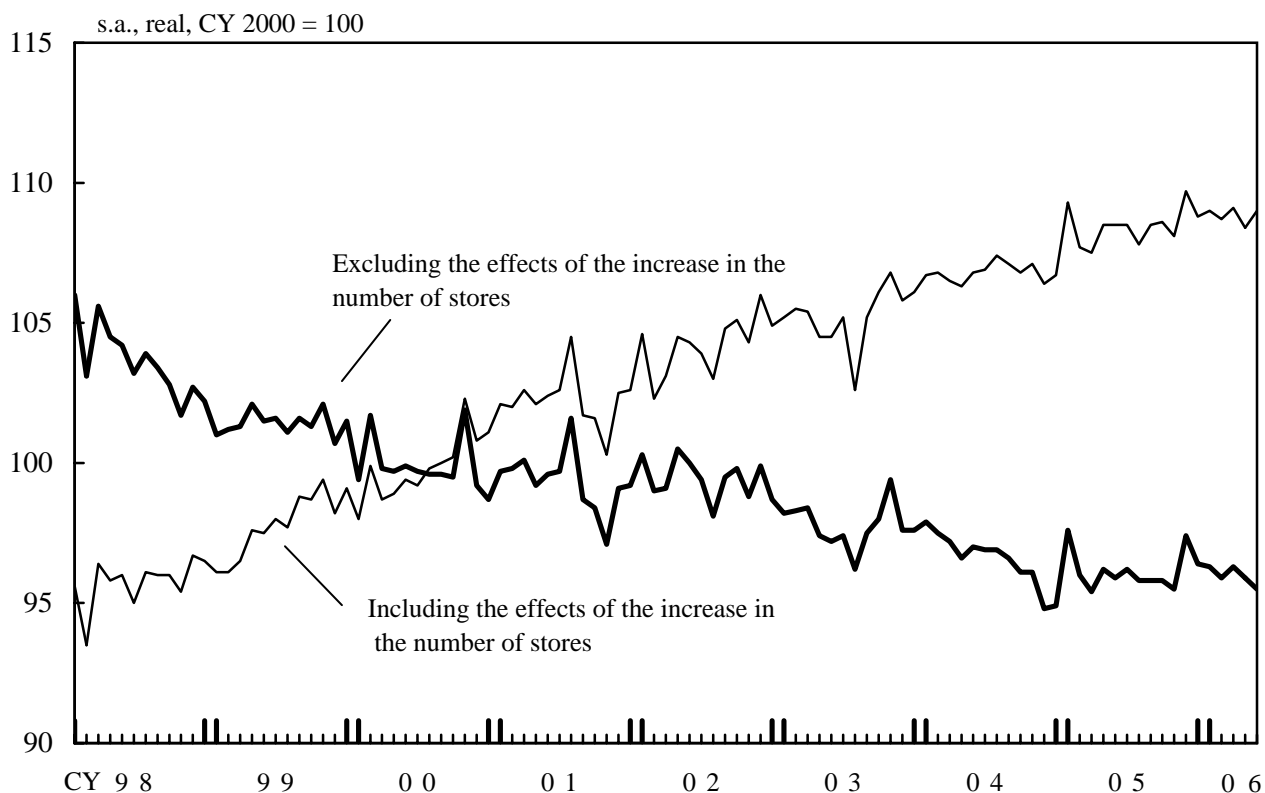
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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)."

Indices of Aggregated Sales

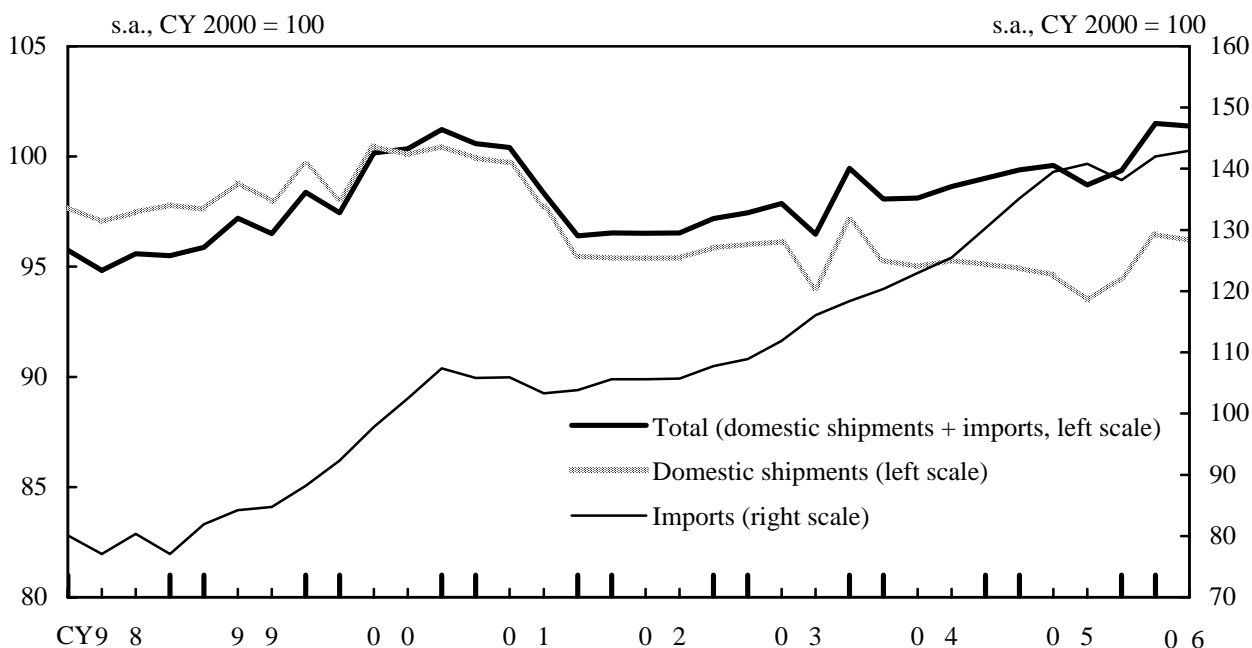


- Notes: 1. Indices of aggregated sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in 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 for which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the price indices.
3. Seasonally adjusted by X-12-ARIMA.

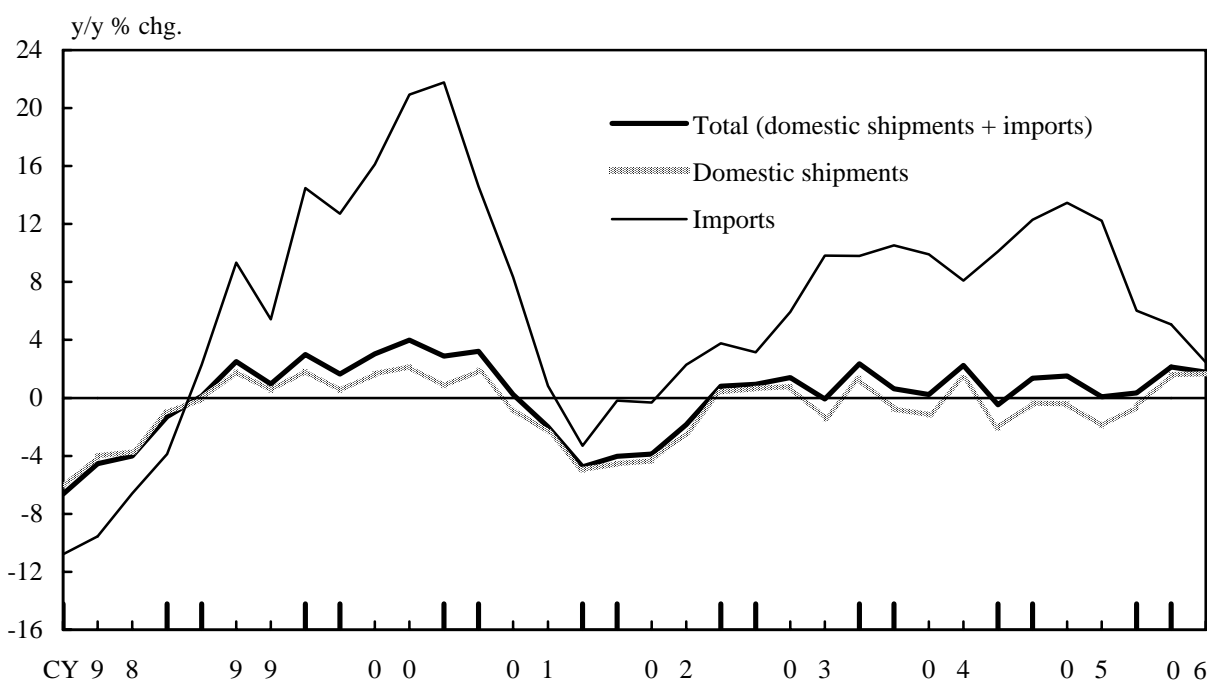
Source: Bank of Japan, "Indices of Aggregated Sales."

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 accessories.

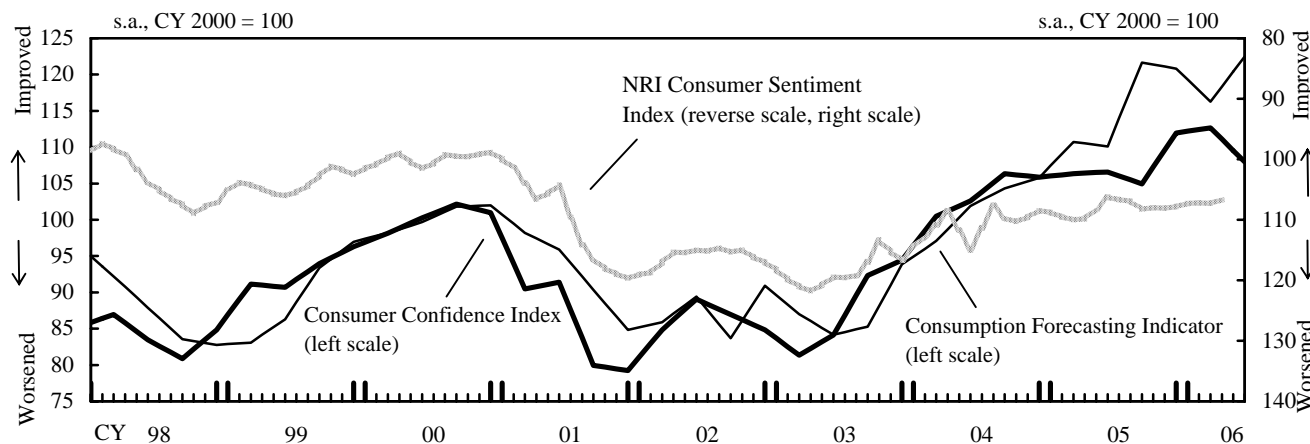
3. Year-on-year rates of change are calculated from seasonally adjusted series.

4. Data for 2006/Q2 figures are those of Apr.-May 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."

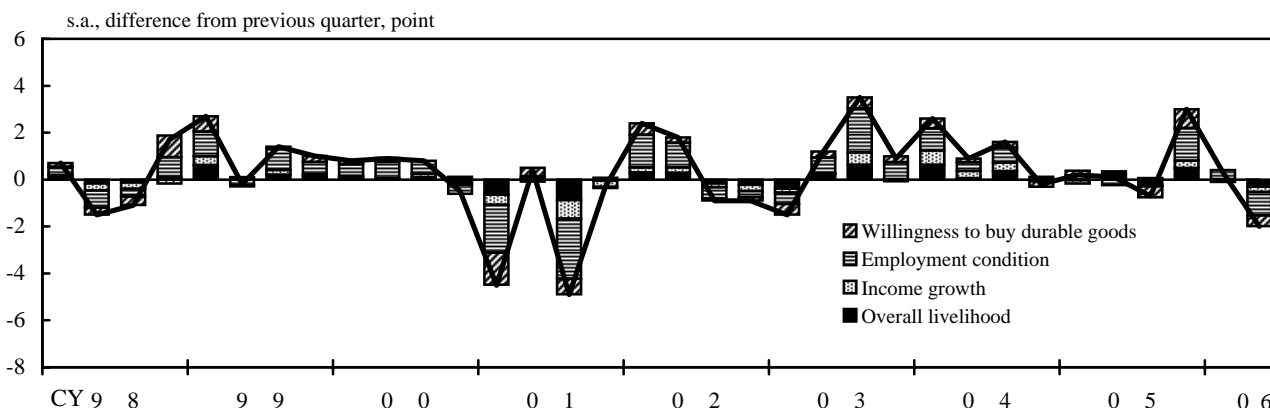
Consumer Confidence

(1) Surveys on Consumer Confidence

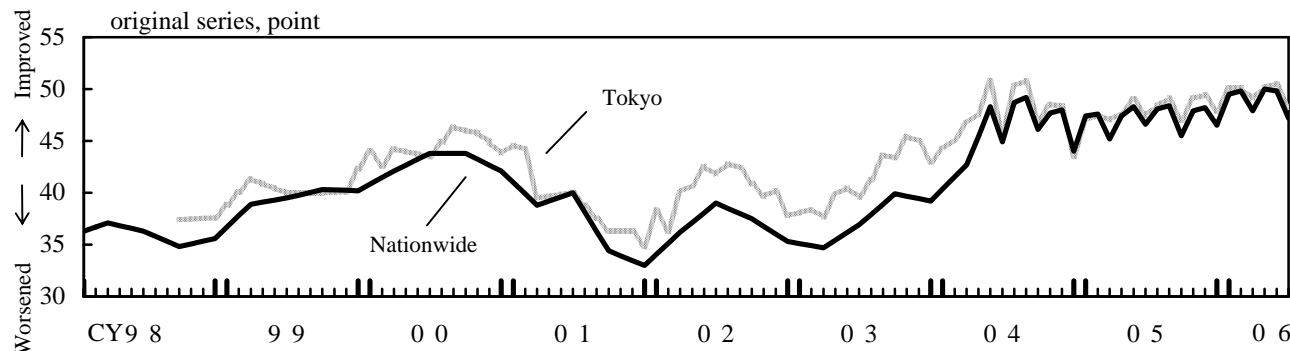


- Notes: 1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office. "Consumption Forecasting Indicator" is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 2,400 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)

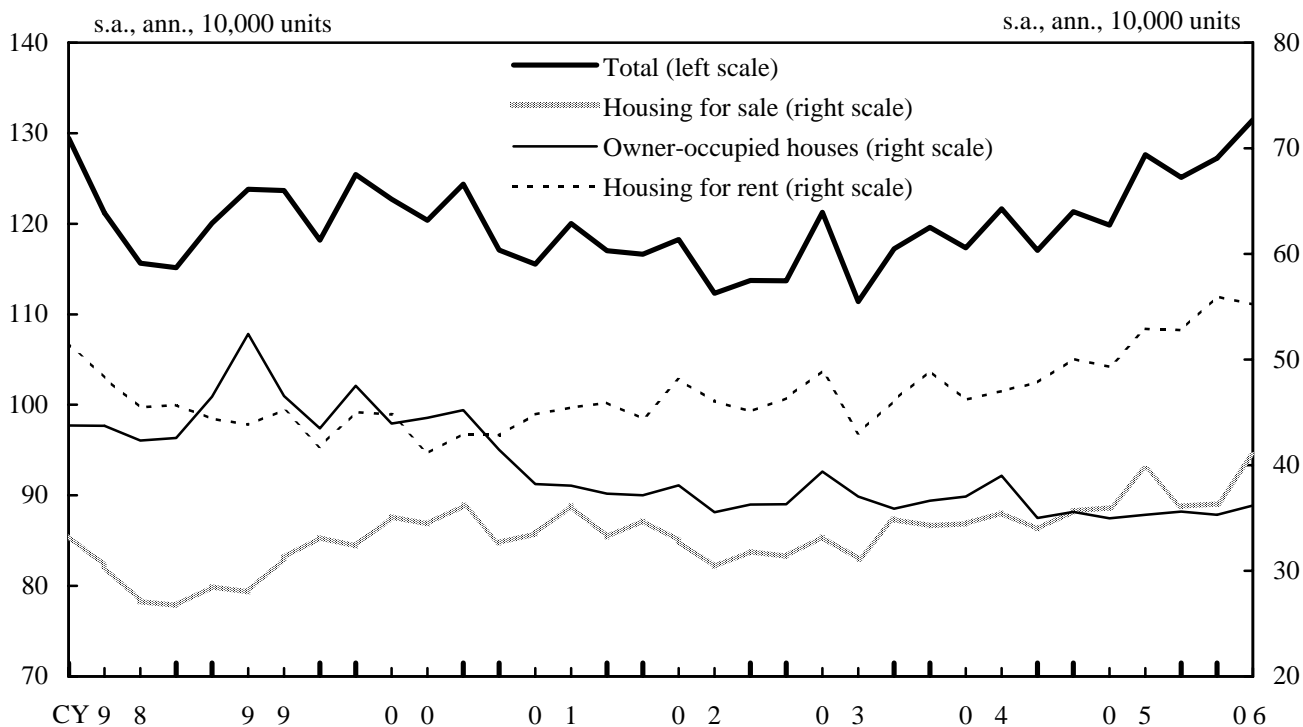


Note: From September 1998 to October 2001, figures of "Monthly Consumer Confidence Index (Tokyo)" when the survey was not conducted were supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" were also plotted at the surveyed months and supplemented with linear 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."

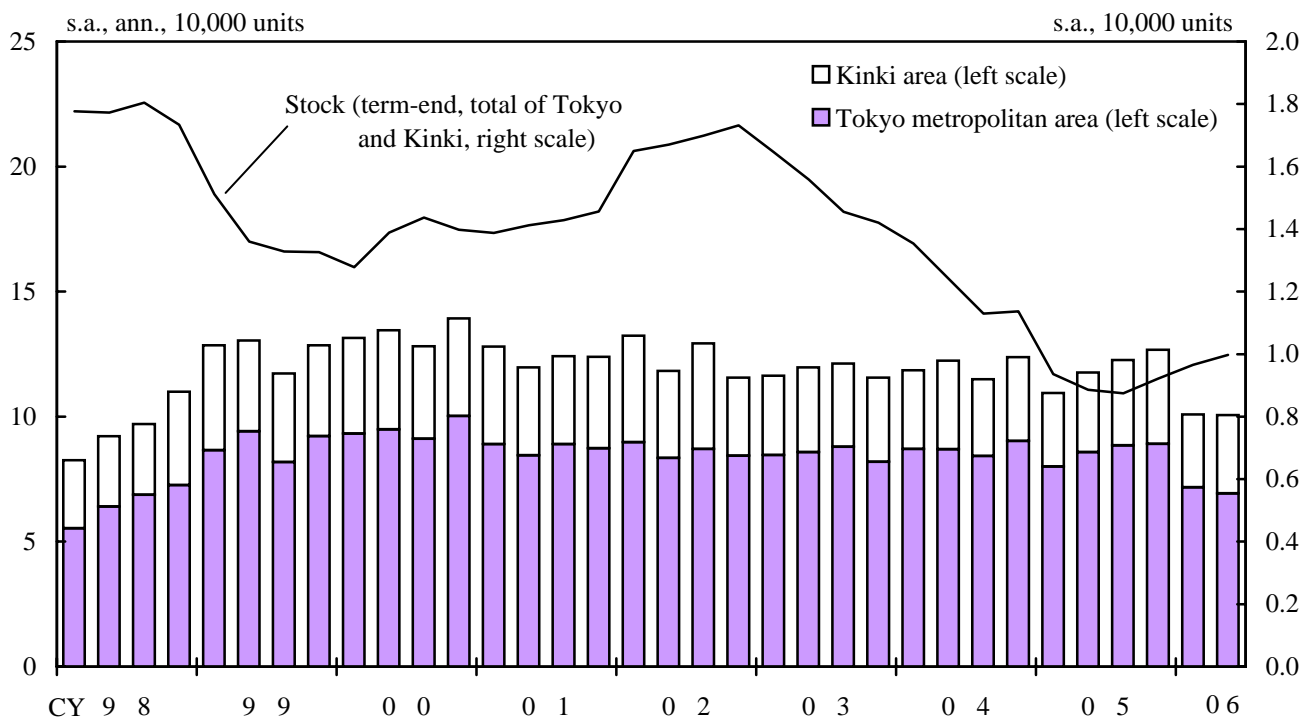
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2006/Q2 are those of April-May averages.

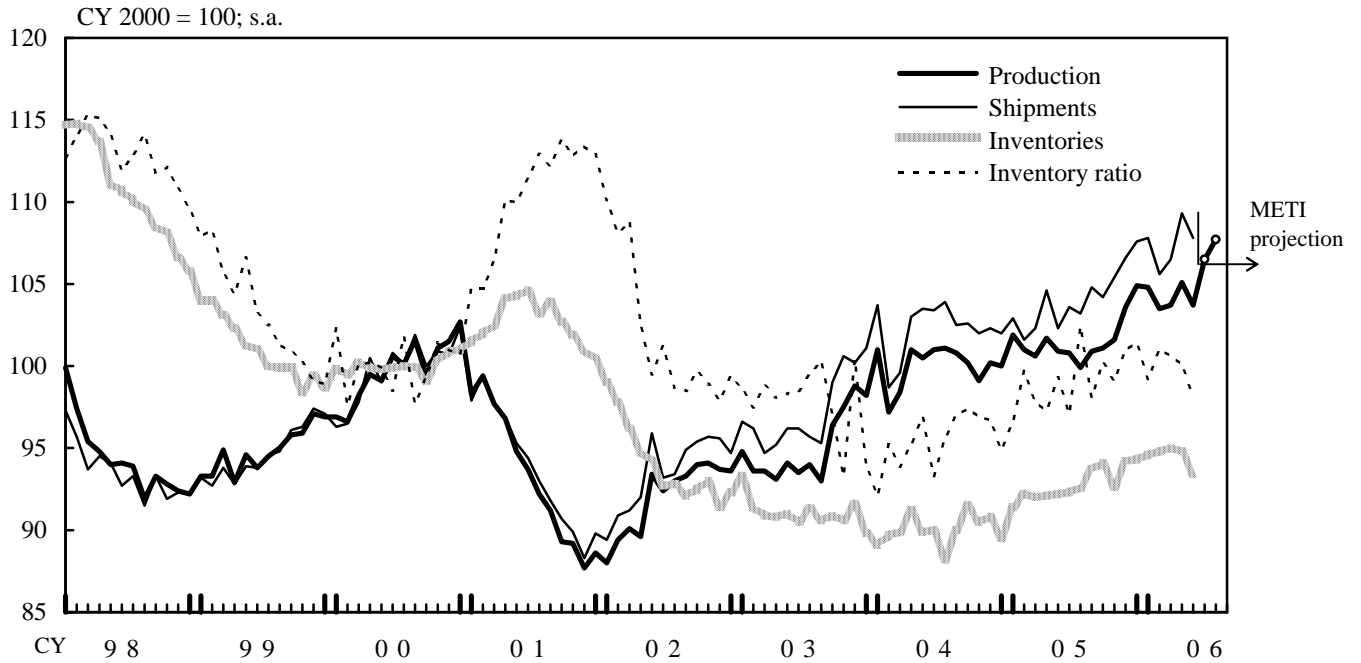
(2) Sales of Apartments



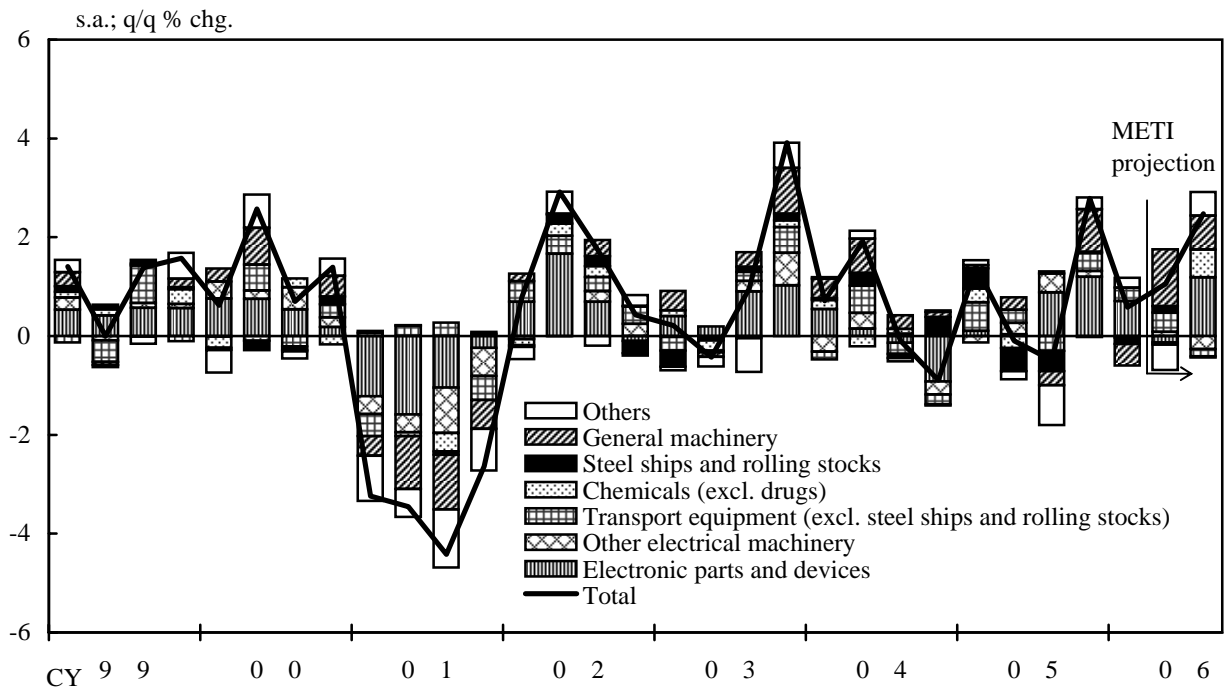
Note: Seasonally adjusted by X-12-ARIMA.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries



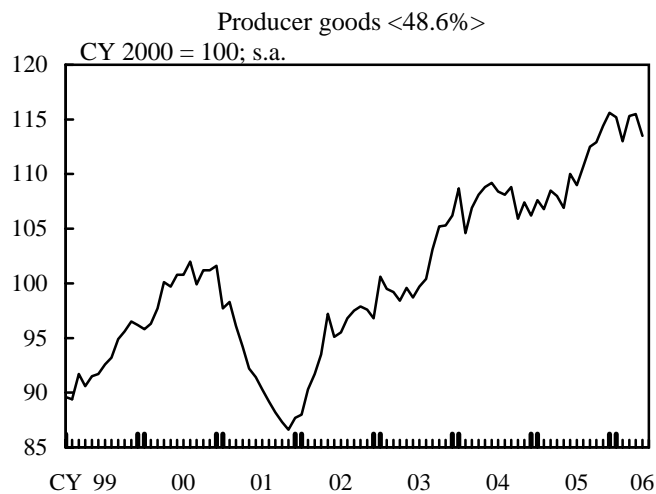
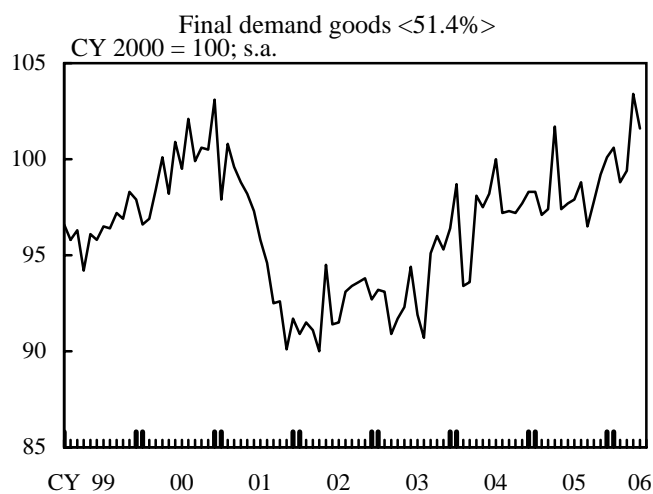
Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery," "information and communication electronics equipment."

2. 2006/Q3 figures are based on the assumption that production level in Aug. and Sept. is the same as that of July.

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

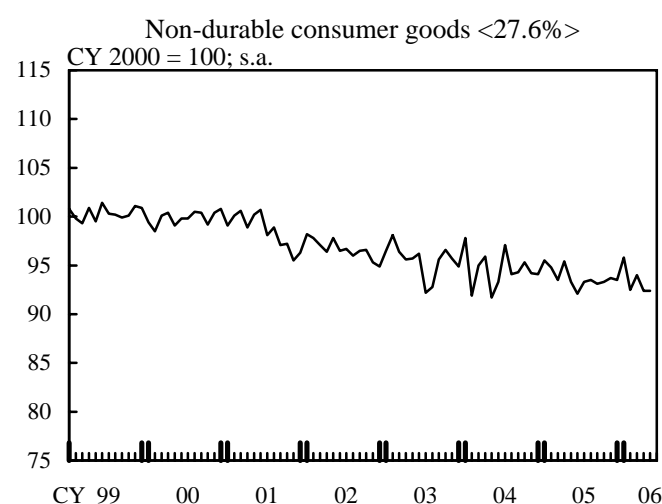
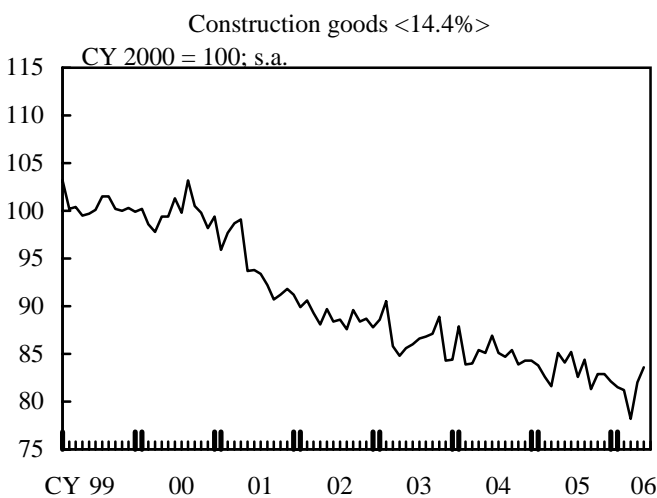
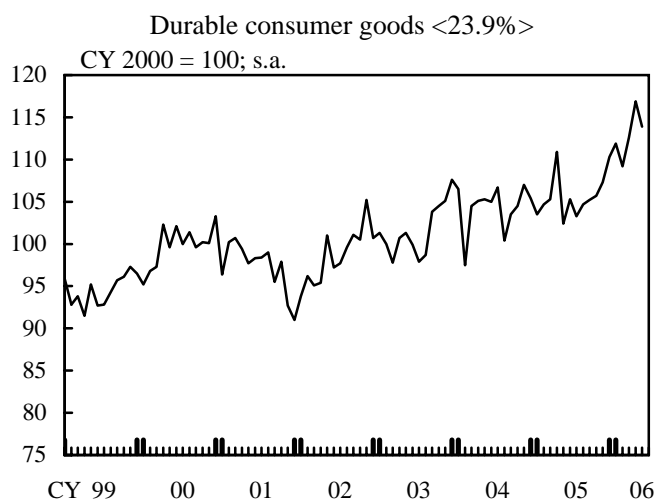
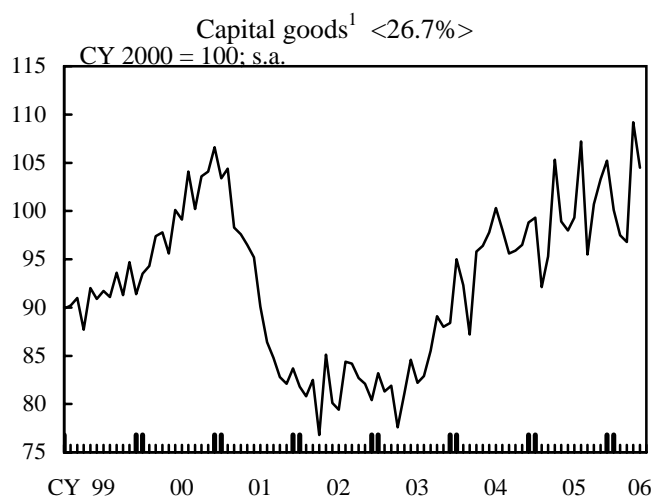
Shipments Breakdown by Type of Goods

(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

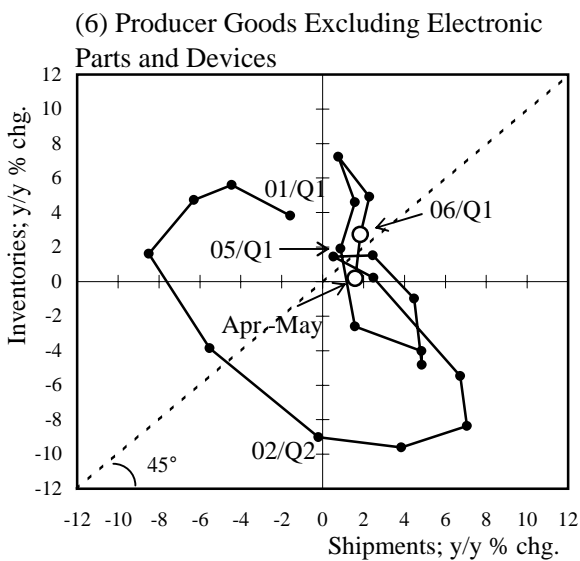
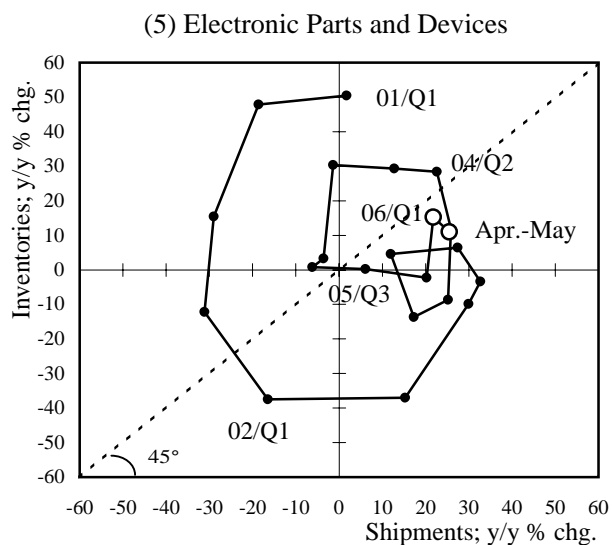
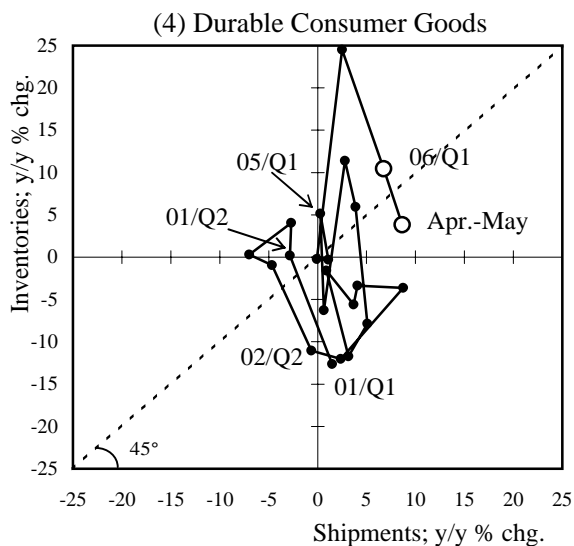
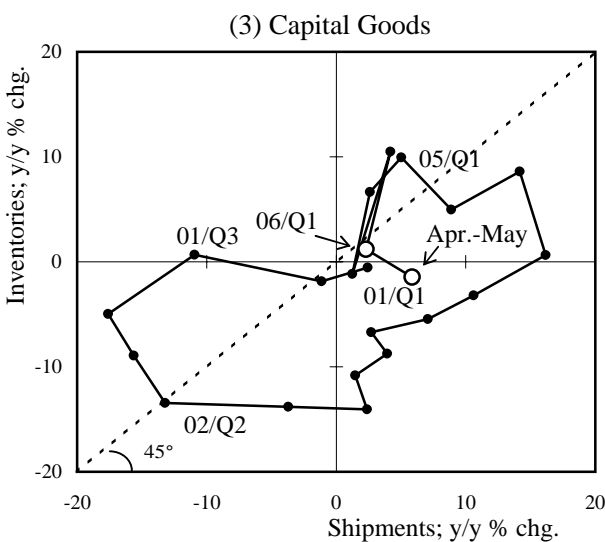
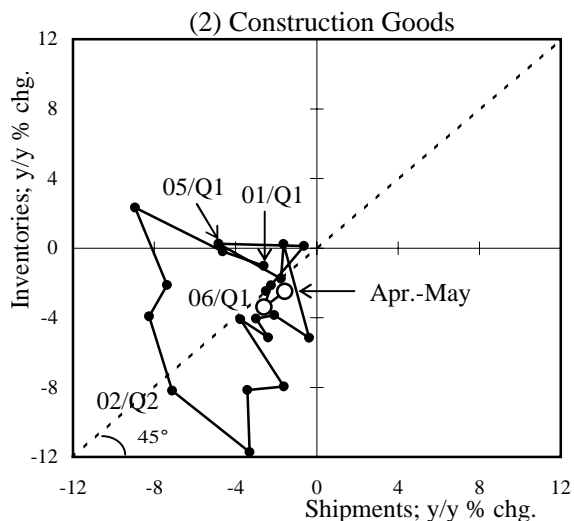
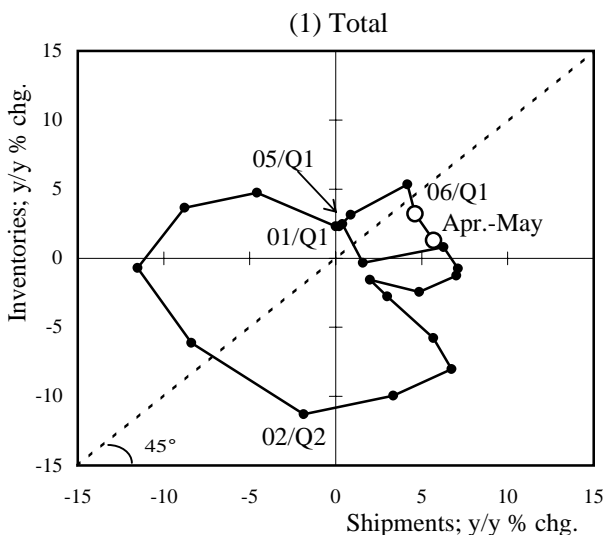


Notes: 1. Excluding transport equipment.

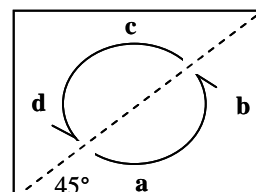
2. Shares of shipments of final demand goods are shown in angle brackets.

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

Inventory Cycle

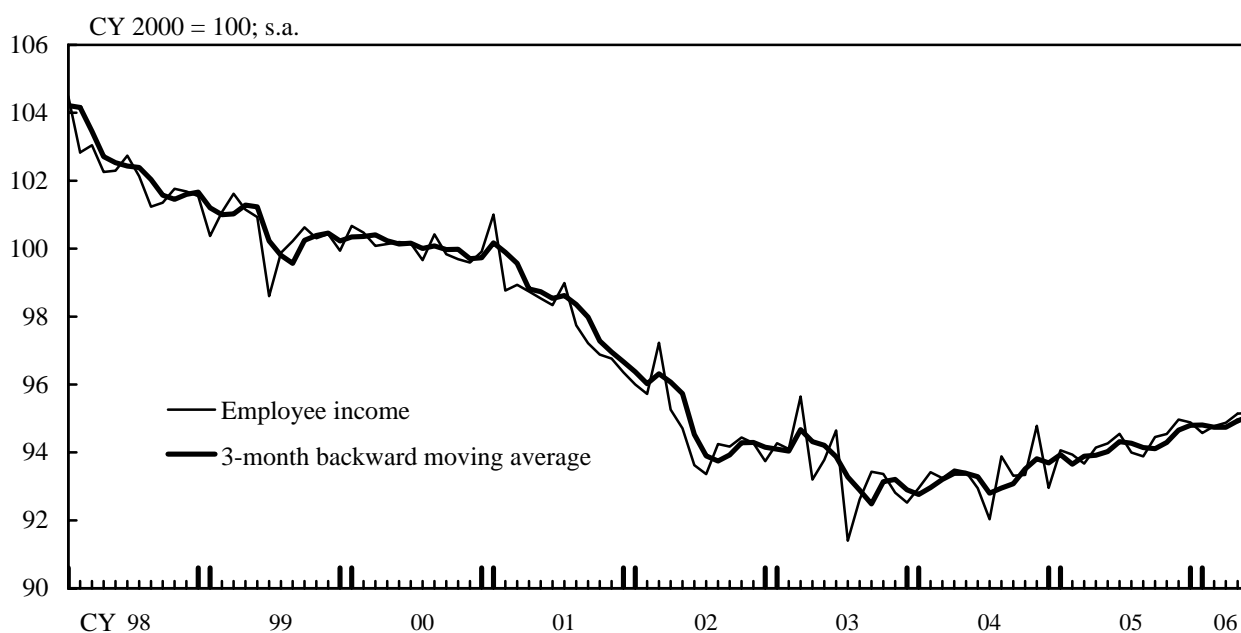


- a Shipment recovery phase
- b Intended inventory accumulation phase
- c Unintended inventory accumulation phase
- d Inventory adjustment phase



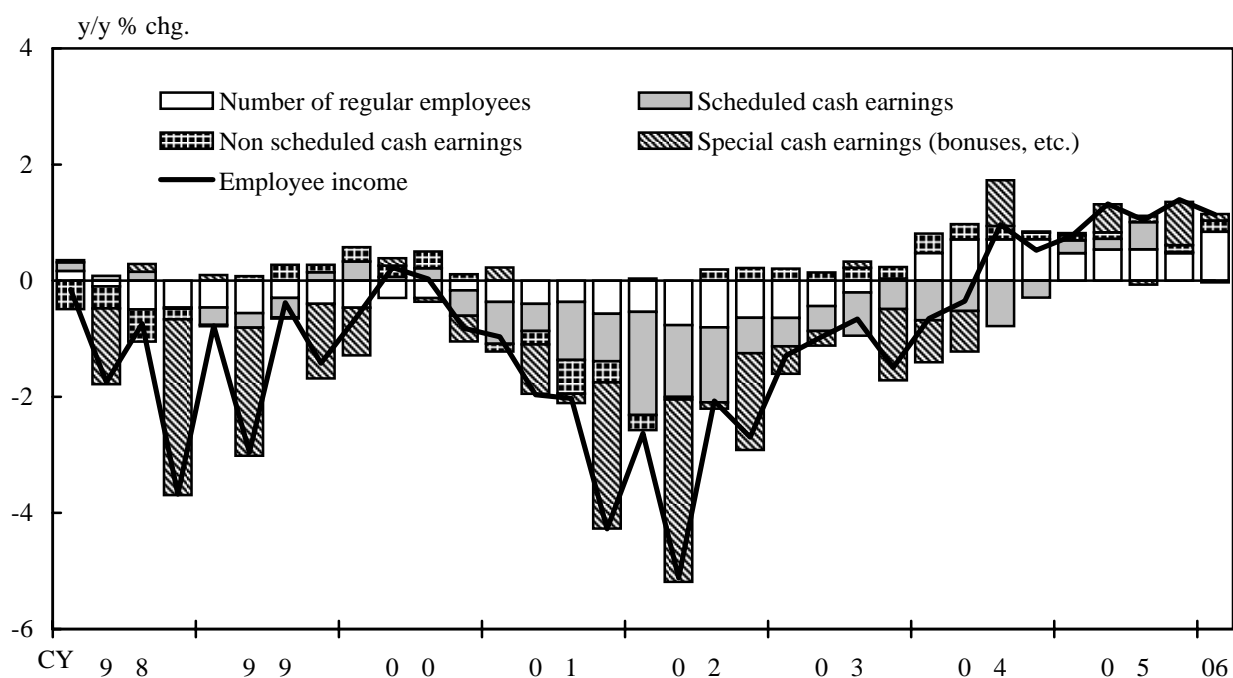
Employee Income

(1) Employee Income



- Notes: 1. Employee income's 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 five employees.

(2) Breakdown of Employee Income

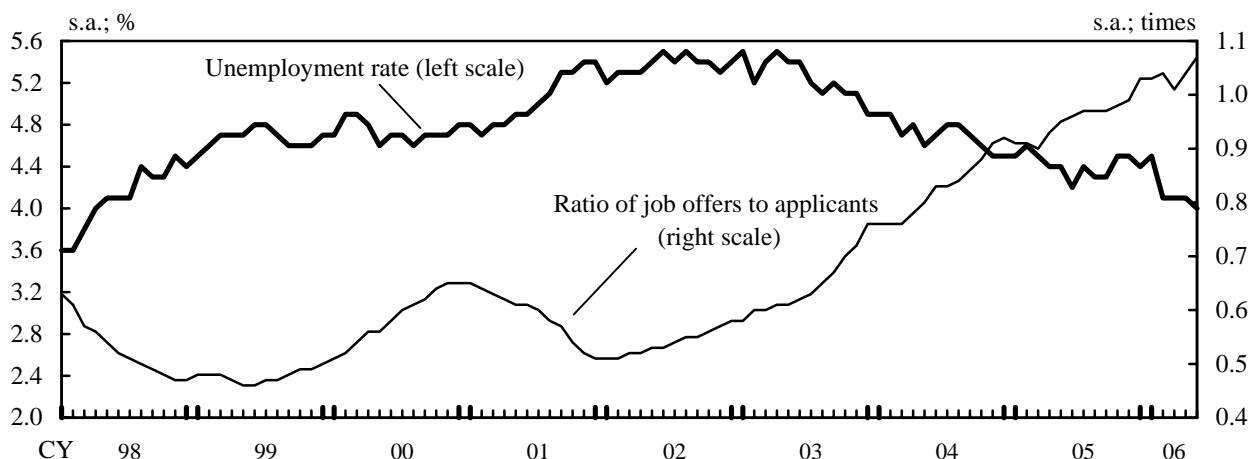


- Notes: 1. Data are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

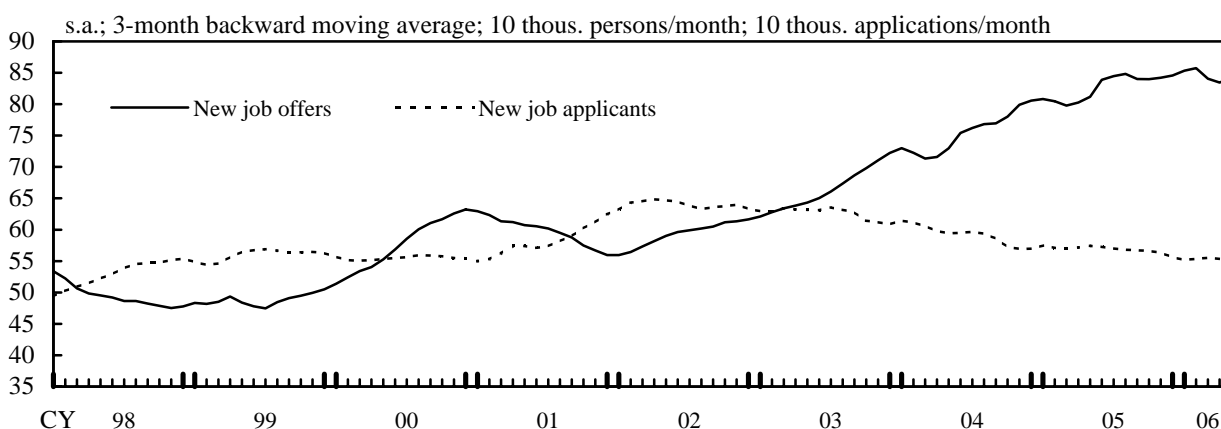
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

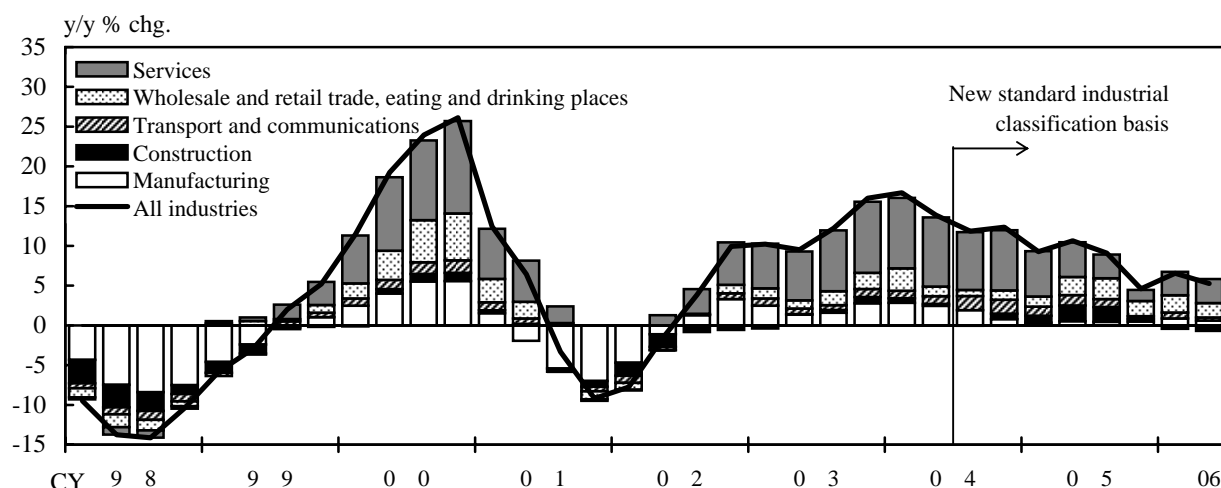
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



(3) Breakdown of New Job Offers^{1,2,3}

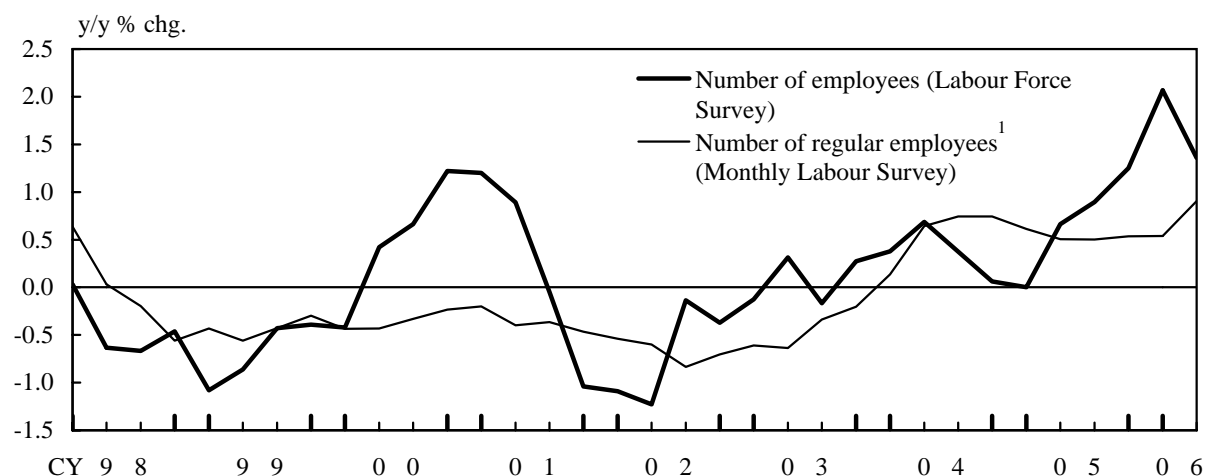


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation 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 2006/Q2 are those of April-May averages.

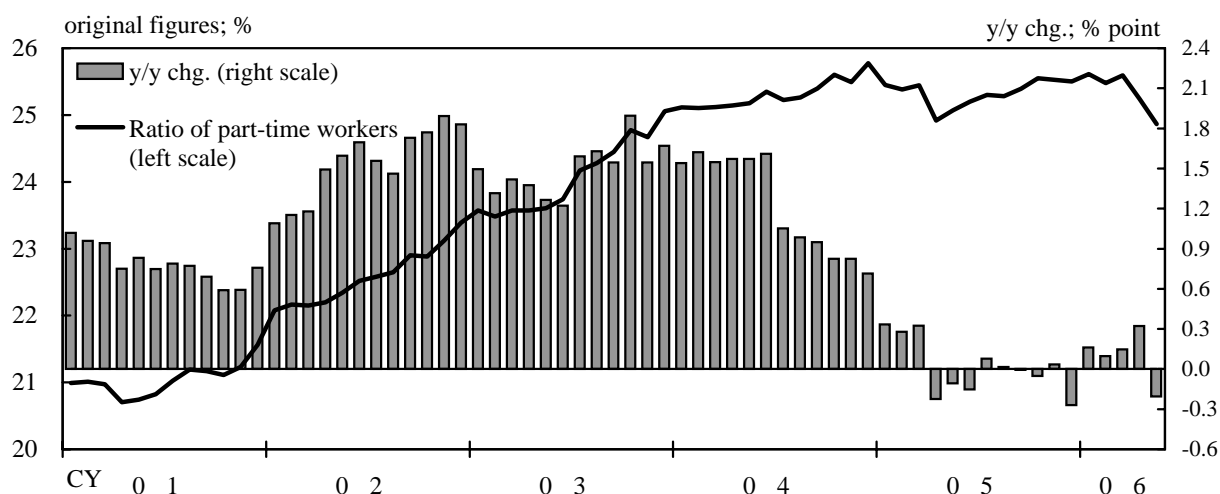
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

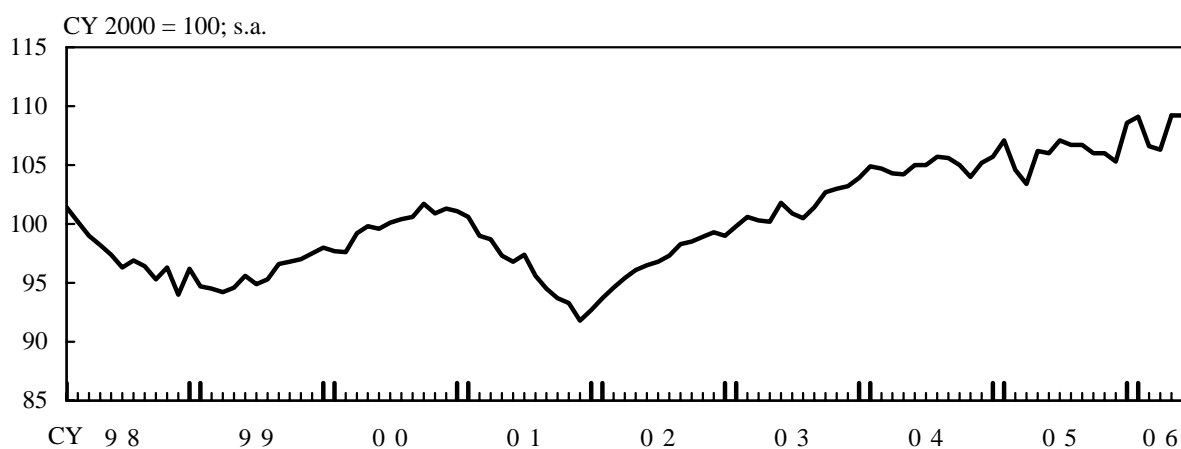
(1) Number of Employees³



(2) Ratio of Part-Time Workers^{1,2} (Monthly Labour Survey)



(3) Non Scheduled Hours Worked¹ (Monthly Labour Survey)



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

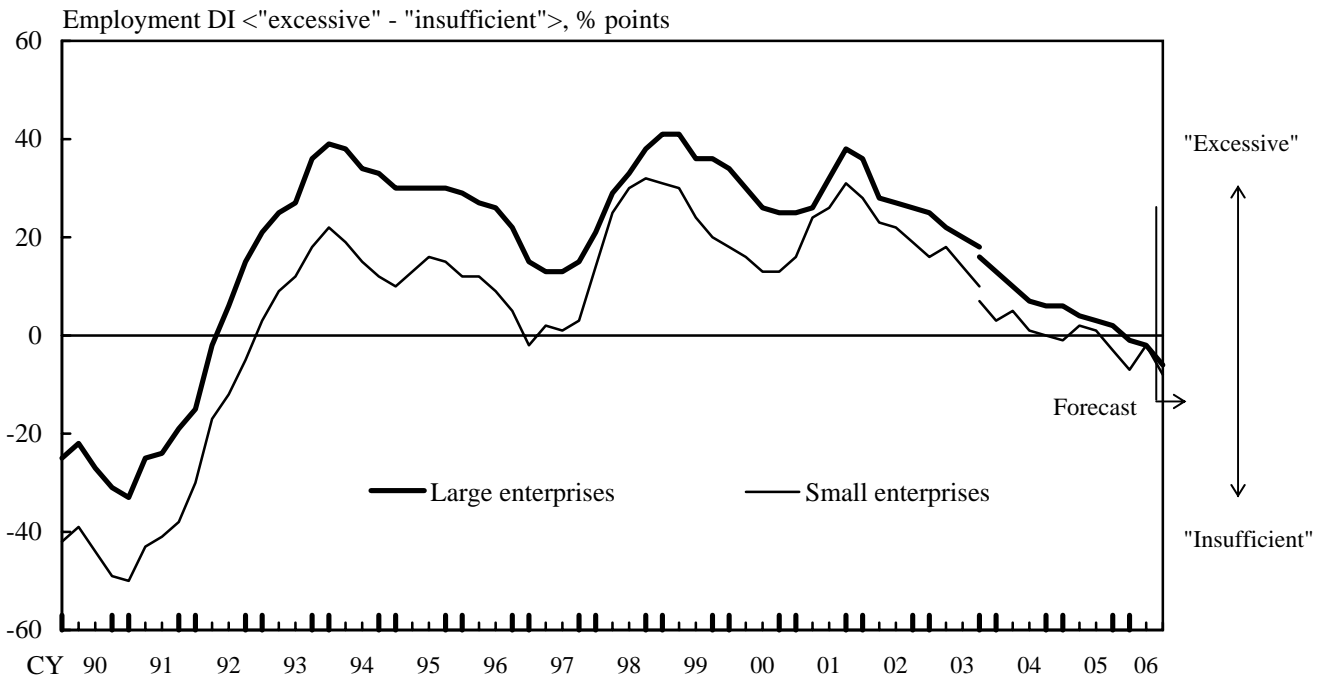
2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.

3. Figures for 2006/Q2 are those of April-May averages.

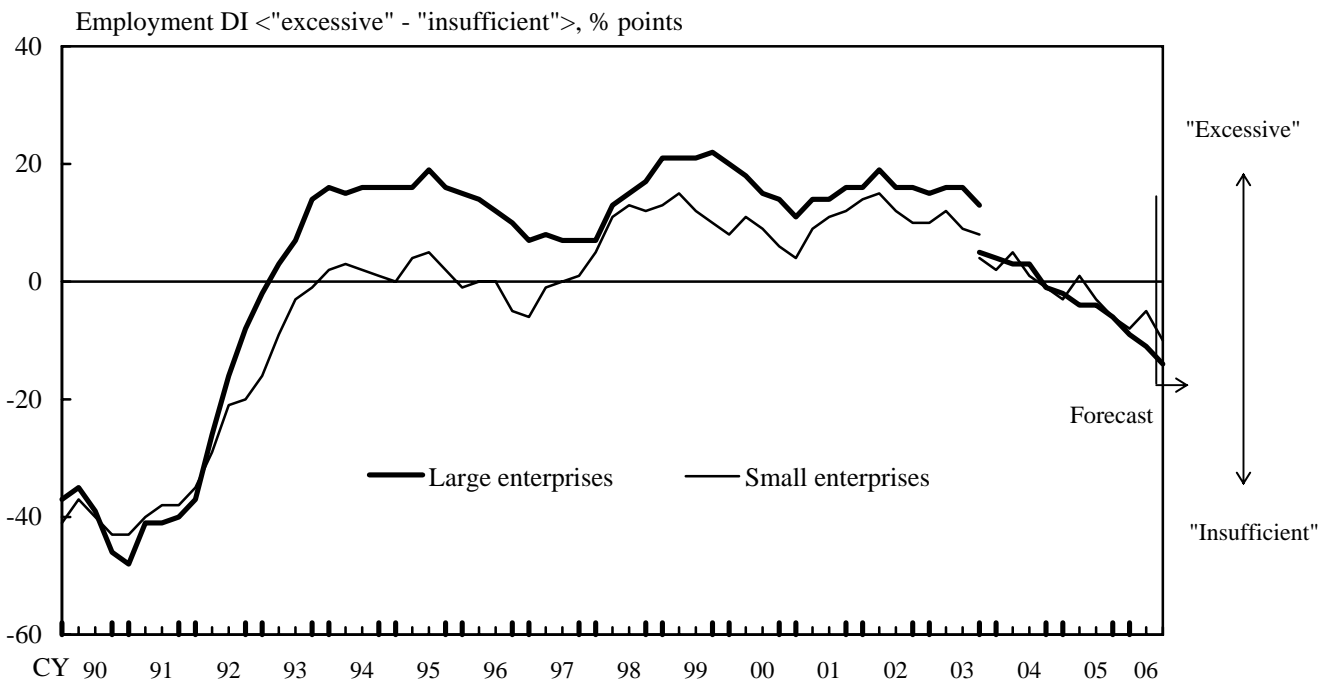
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

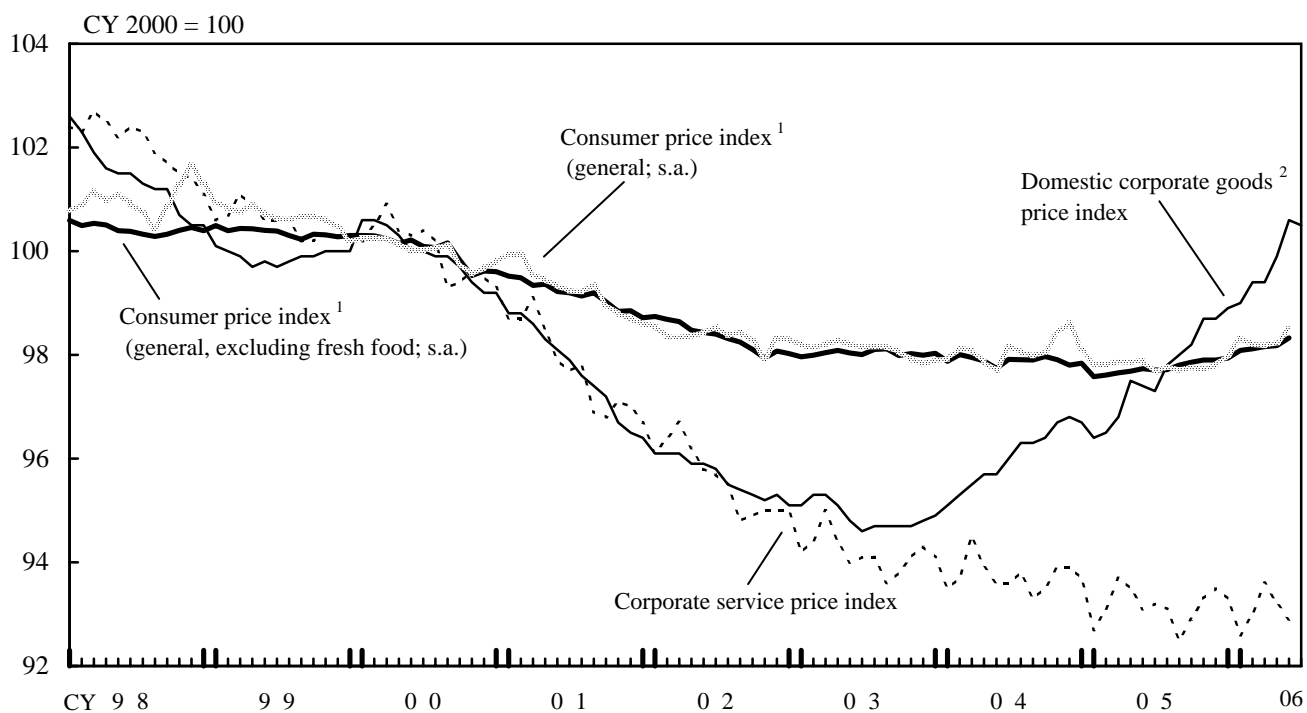
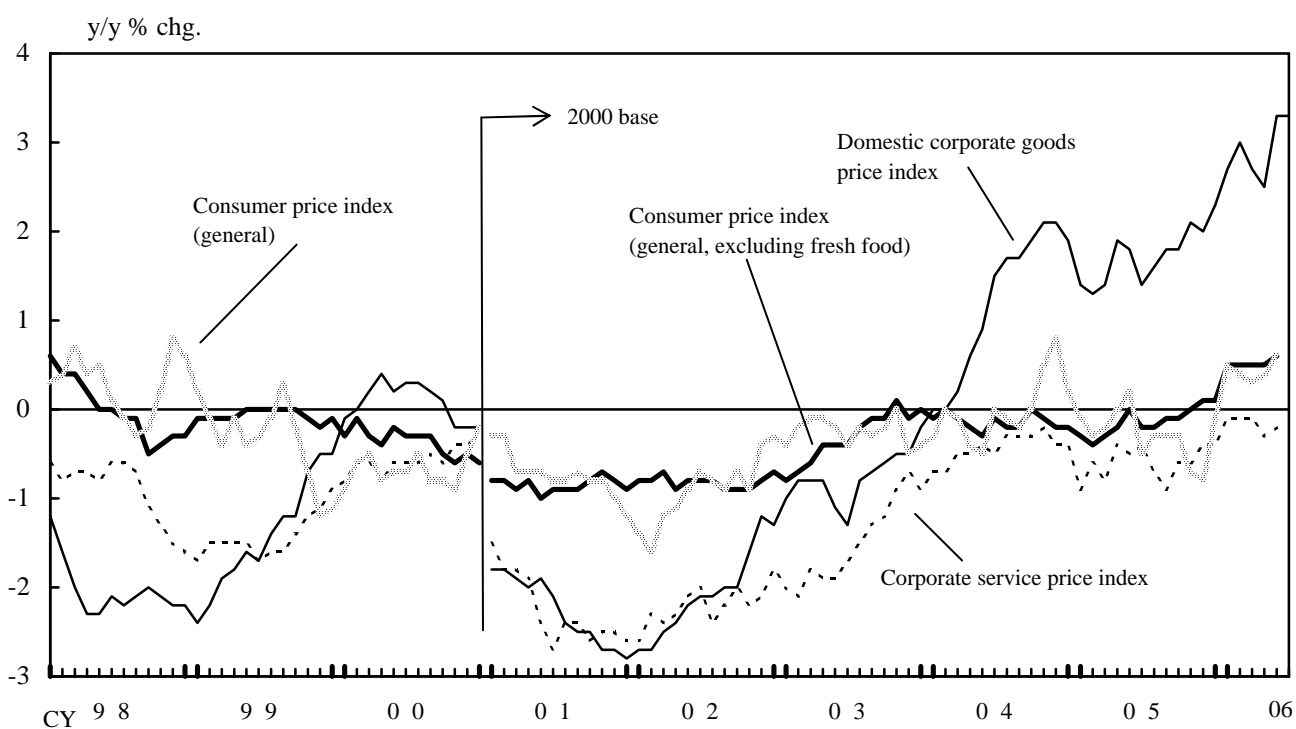


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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

Prices³

(1) Level

(2) Changes from a Year Earlier³

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

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

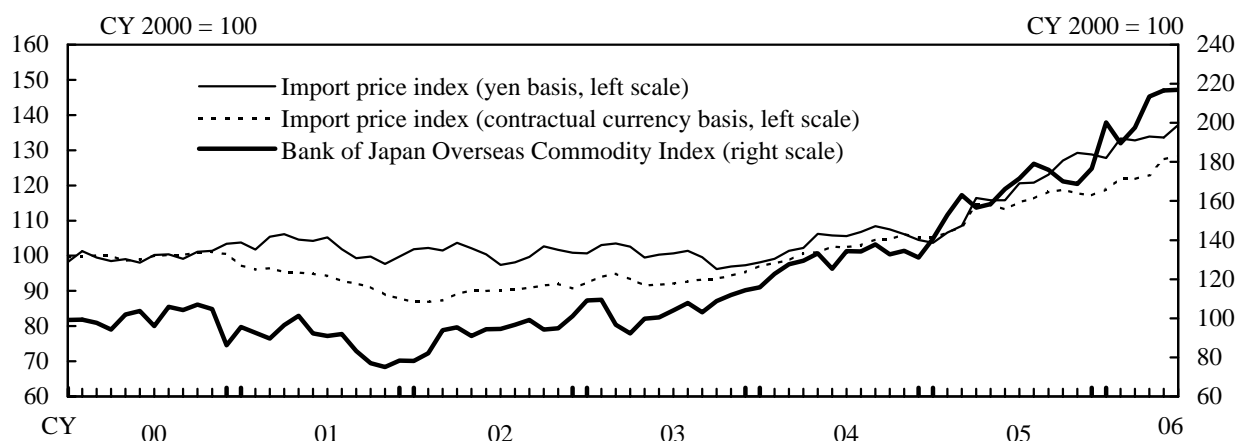
3. Figures until CY 2000 are on the 1995 base. Adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate.

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

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

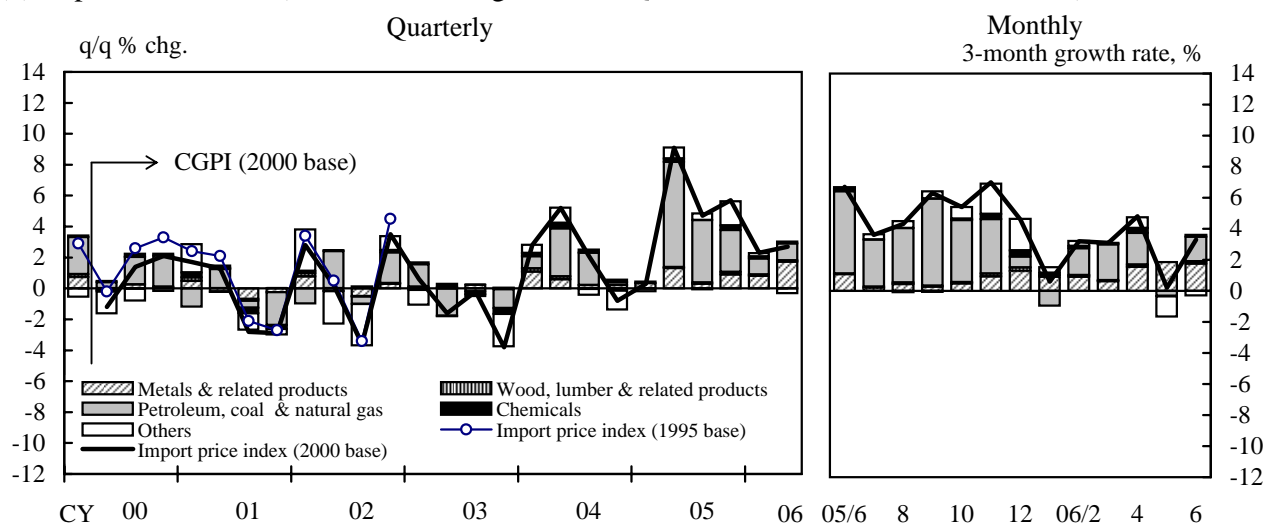
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



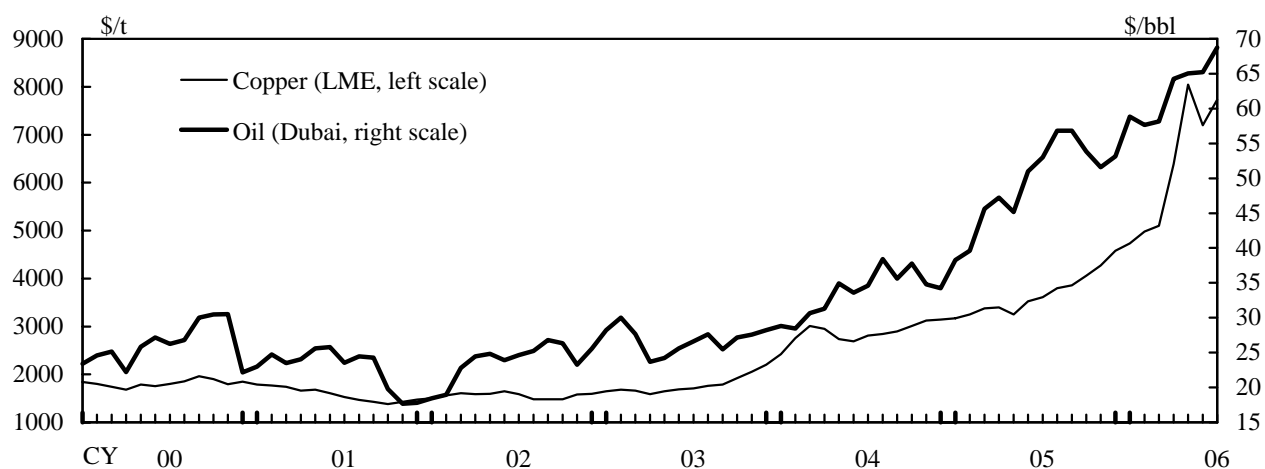
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Note: 1995 base figure for 2002/Q4 is October-November average.

(3) Oil Price and Copper Price

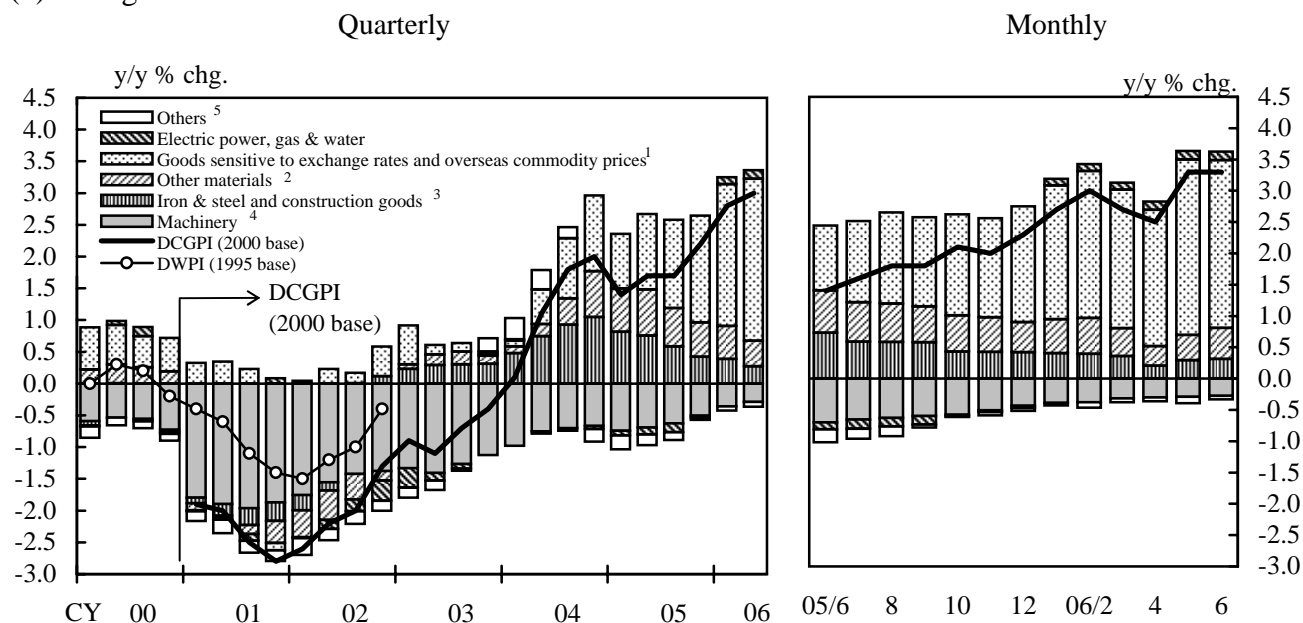
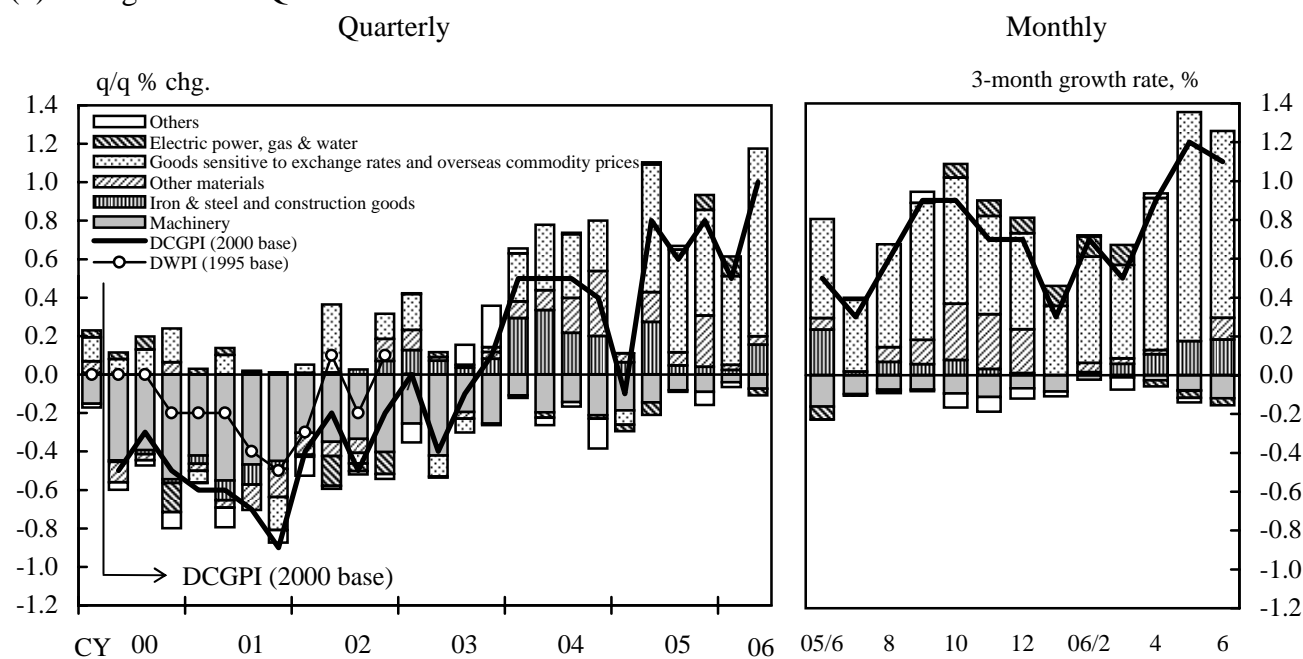


Note: Monthly averages. Figures for July 2006 are the averages up to July 13.

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

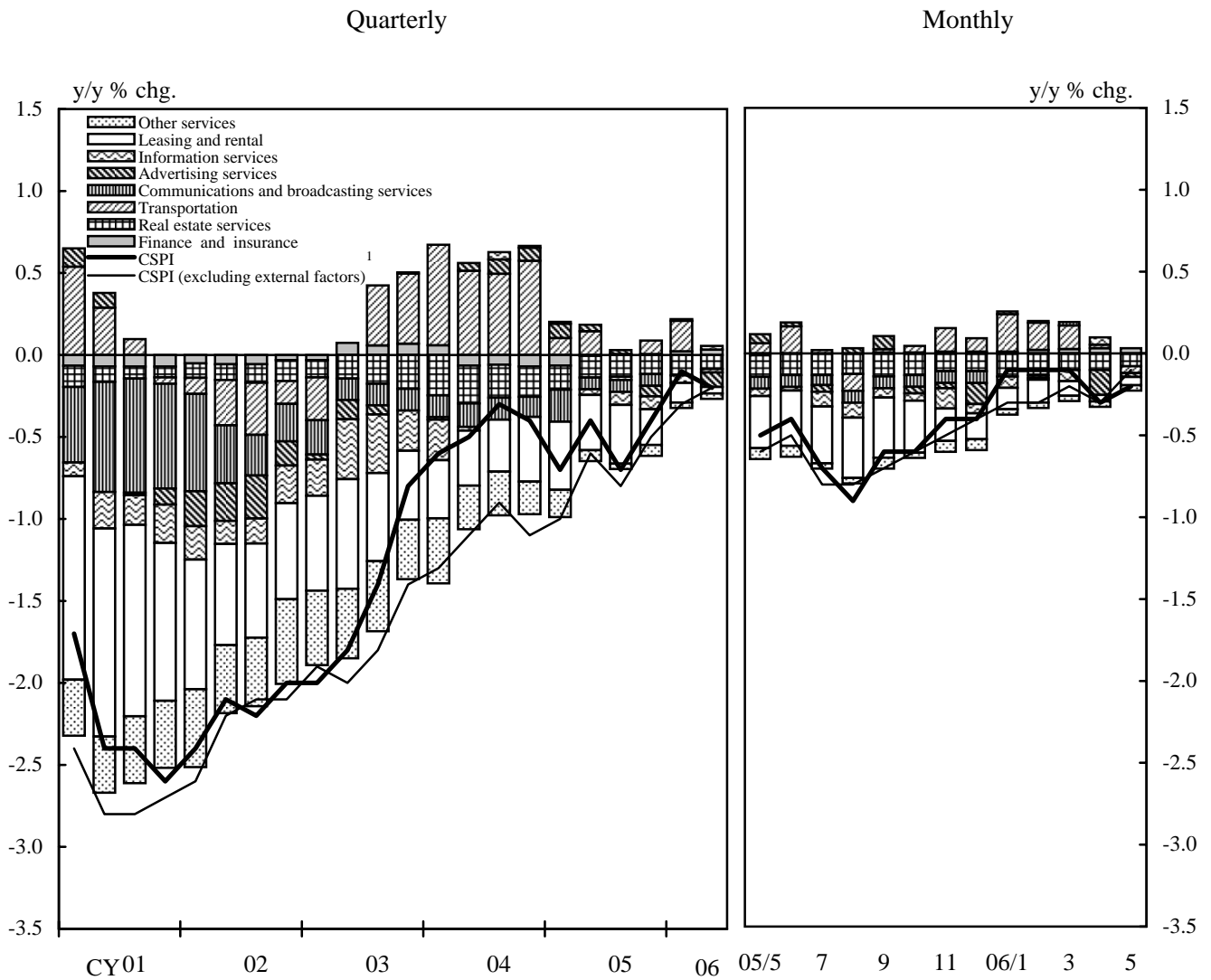
Domestic Corporate Goods Price Index⁷

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.
 2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.
 3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.
 4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.
 5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.
 6. Adjusted to exclude a hike of electric power charges in summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
 7. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index



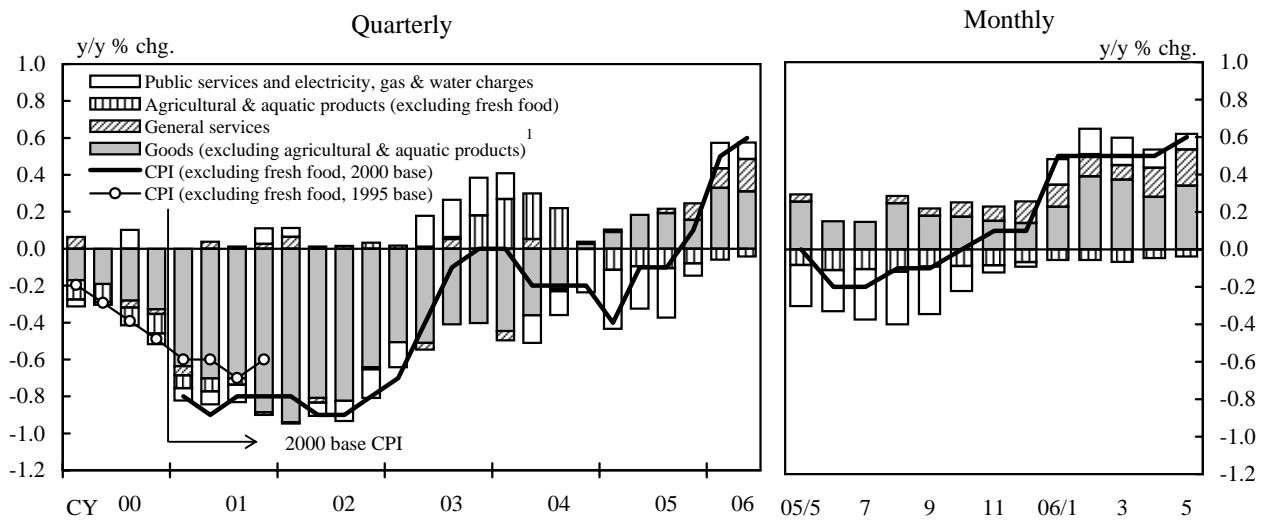
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2006/Q2 are April-May averages.

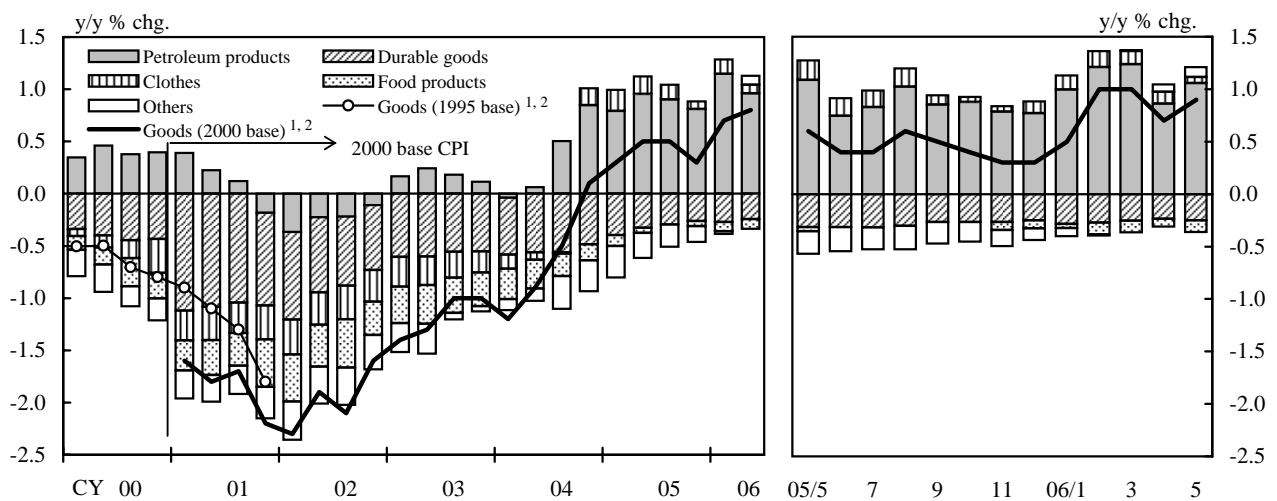
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

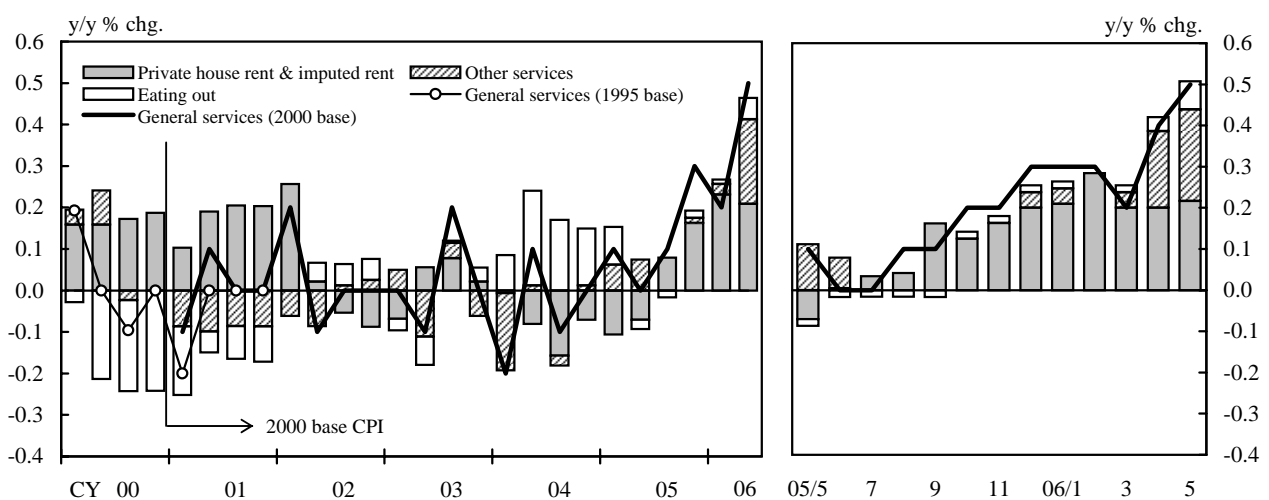
(1) Consumer Price Index (Excluding Fresh Food)



(2) Goods (Excluding Agricultural & Aquatic Products)¹



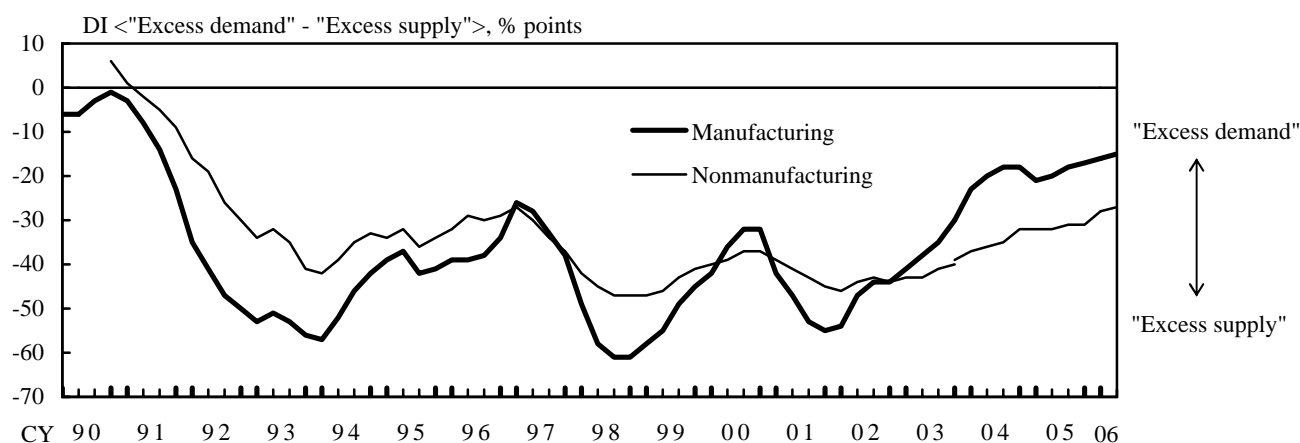
(3) General Services



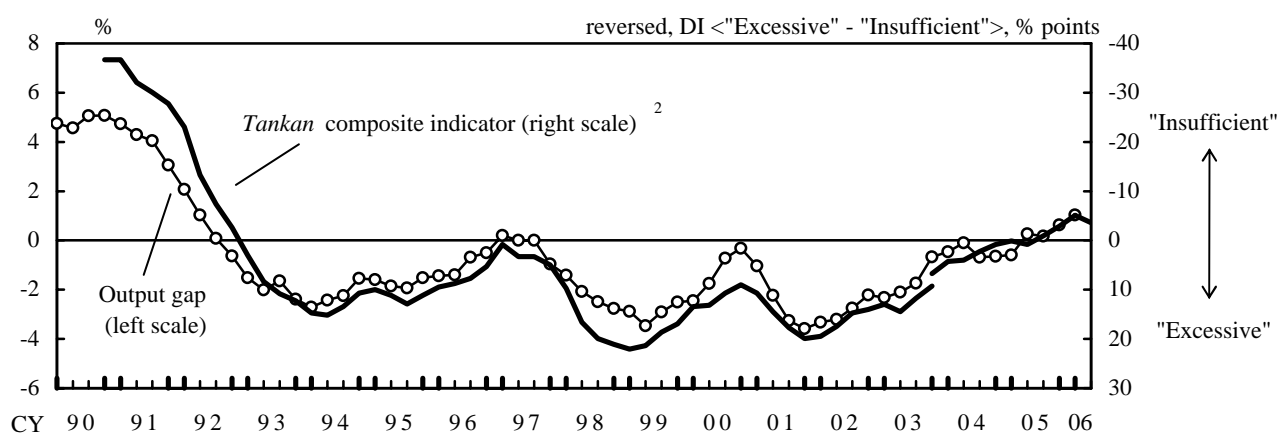
- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Figures for 2006/Q2 are April-May averages.

Domestic Supply and Demand Conditions¹

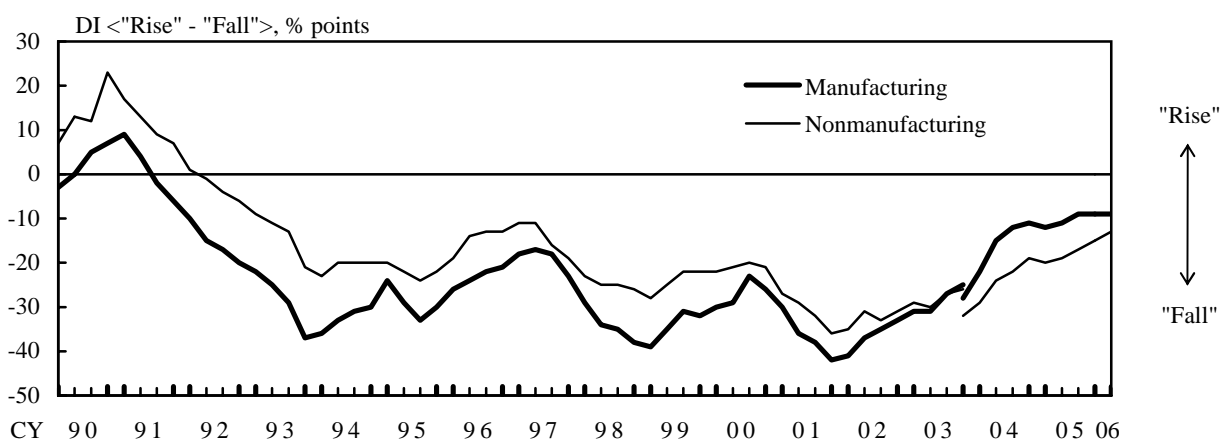
(1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)



(2) Output Gap and *Tankan* Composite Indicator



(3) Change in Output Prices (All Enterprises)



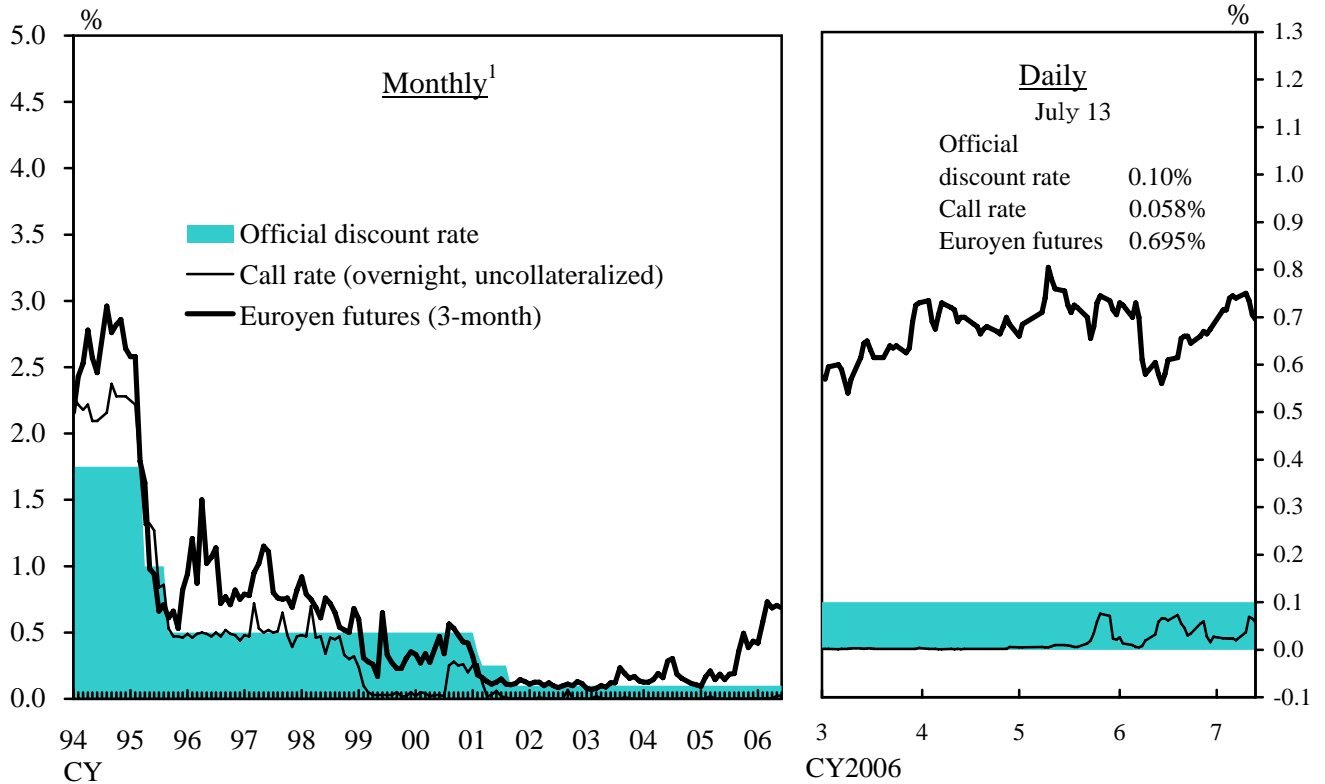
Notes: 1. The *Tankan* has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.

2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2004 averages of capital and labor shares in national accounts are used as the weight (all enterprises).

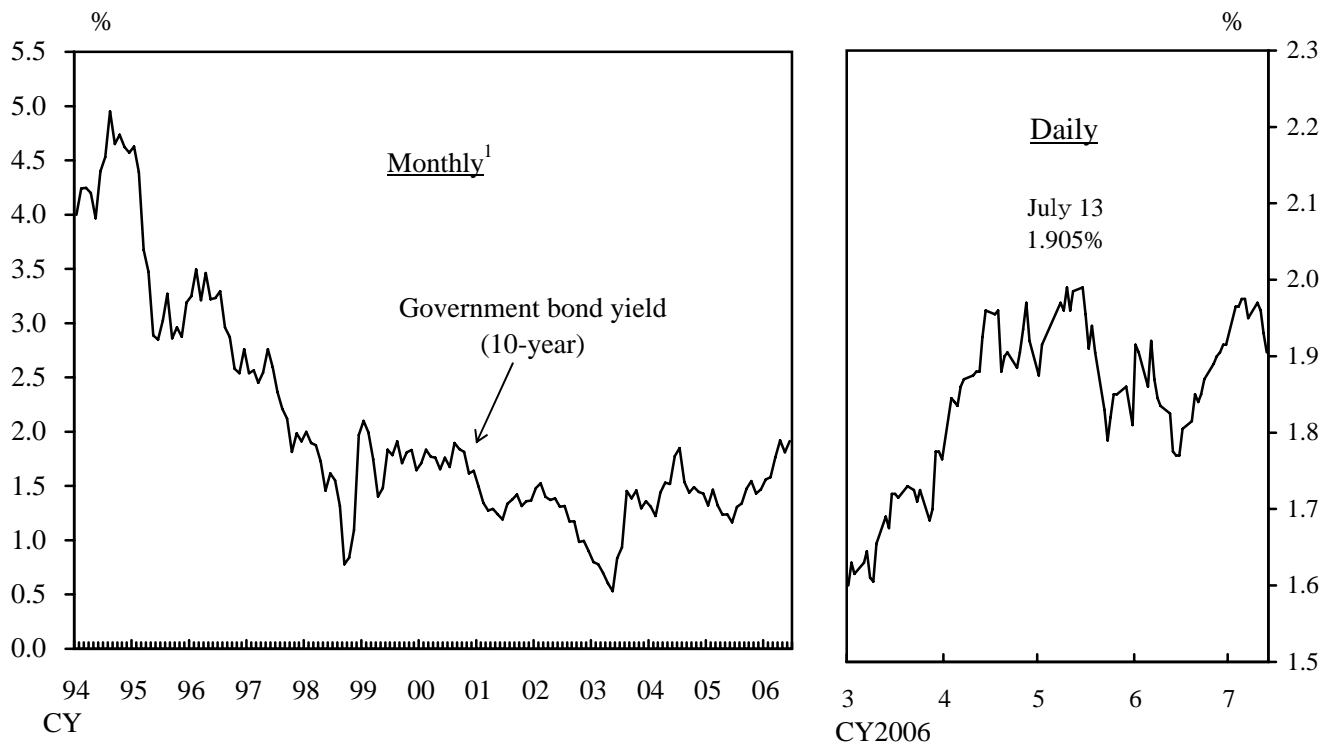
Sources: Cabinet Office, "National Accounts"; Cabinet Office and Ministry of Finance, "Business Outlook Survey"; Ministry of Internal Affairs and Communications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Monthly Labour Survey," "Report on Employment Service"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production"; Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Interest Rates

(1) Short-Term



(2) Long-Term

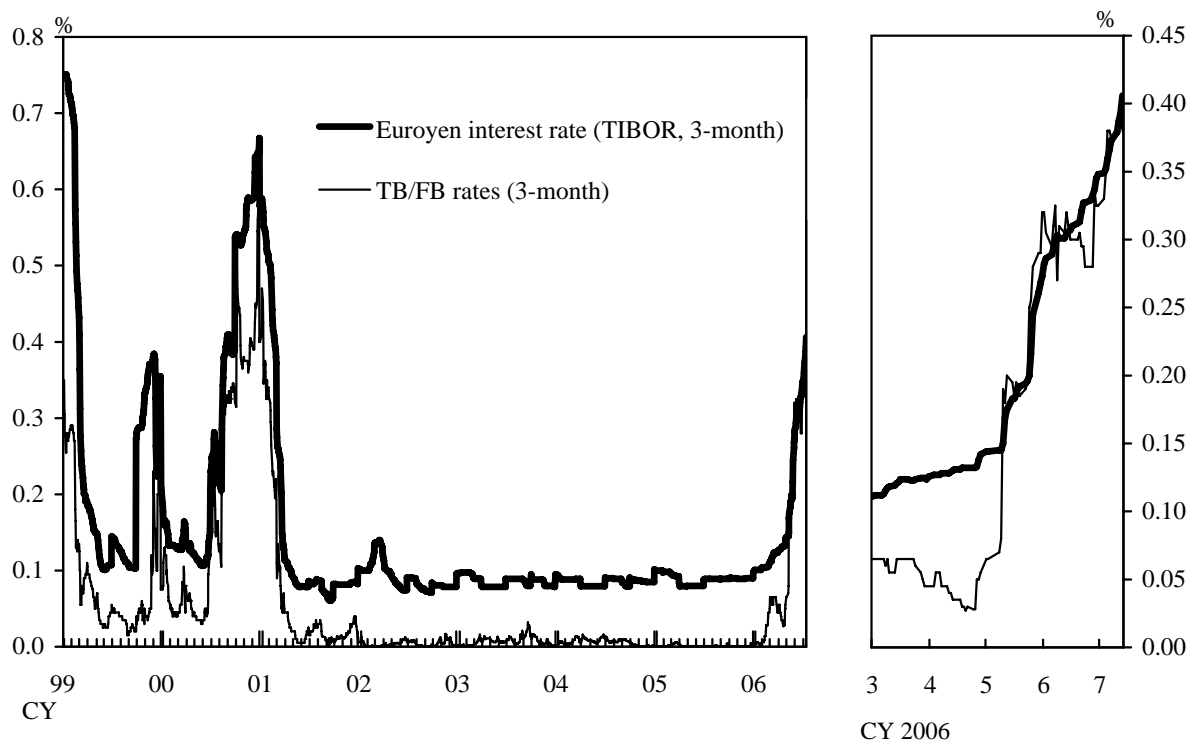


Note: 1. End of month.

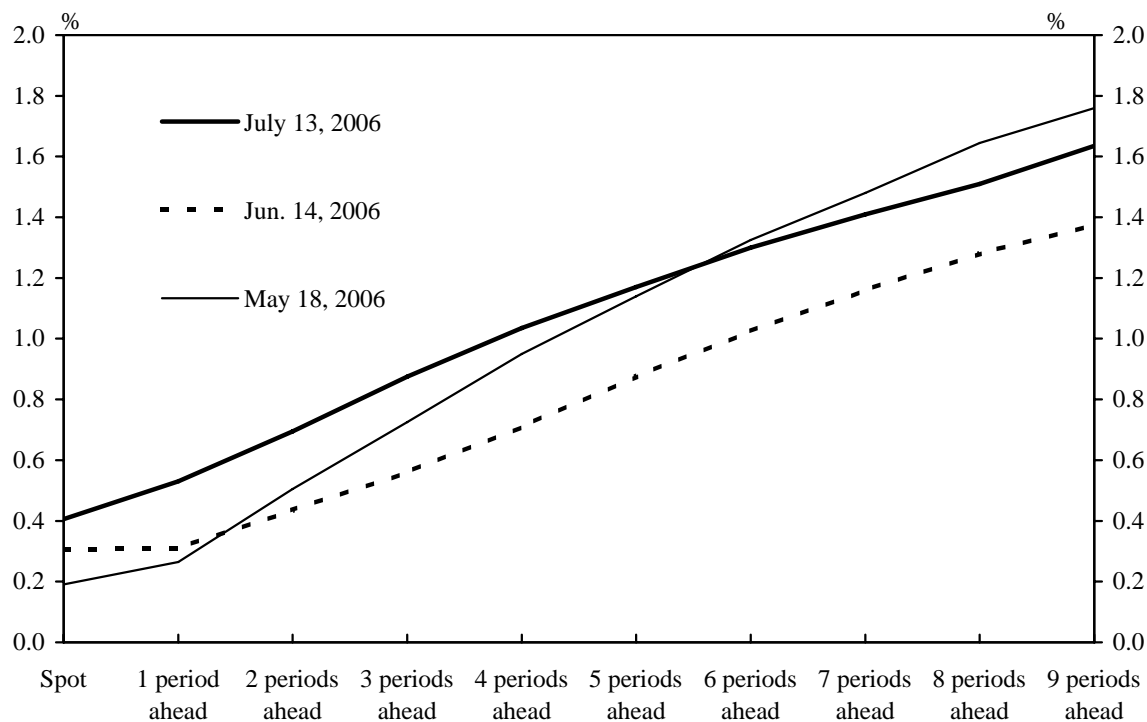
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



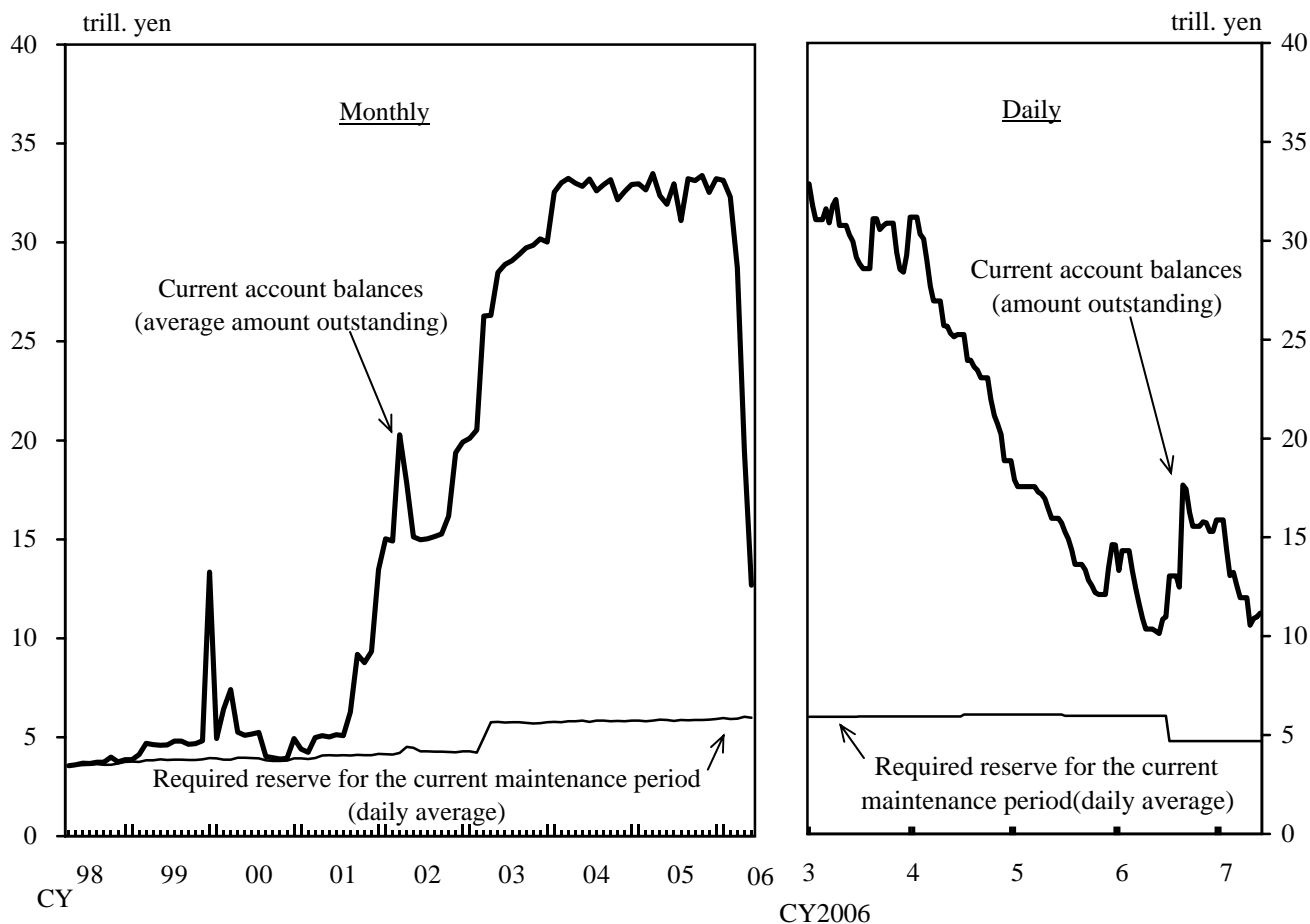
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

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

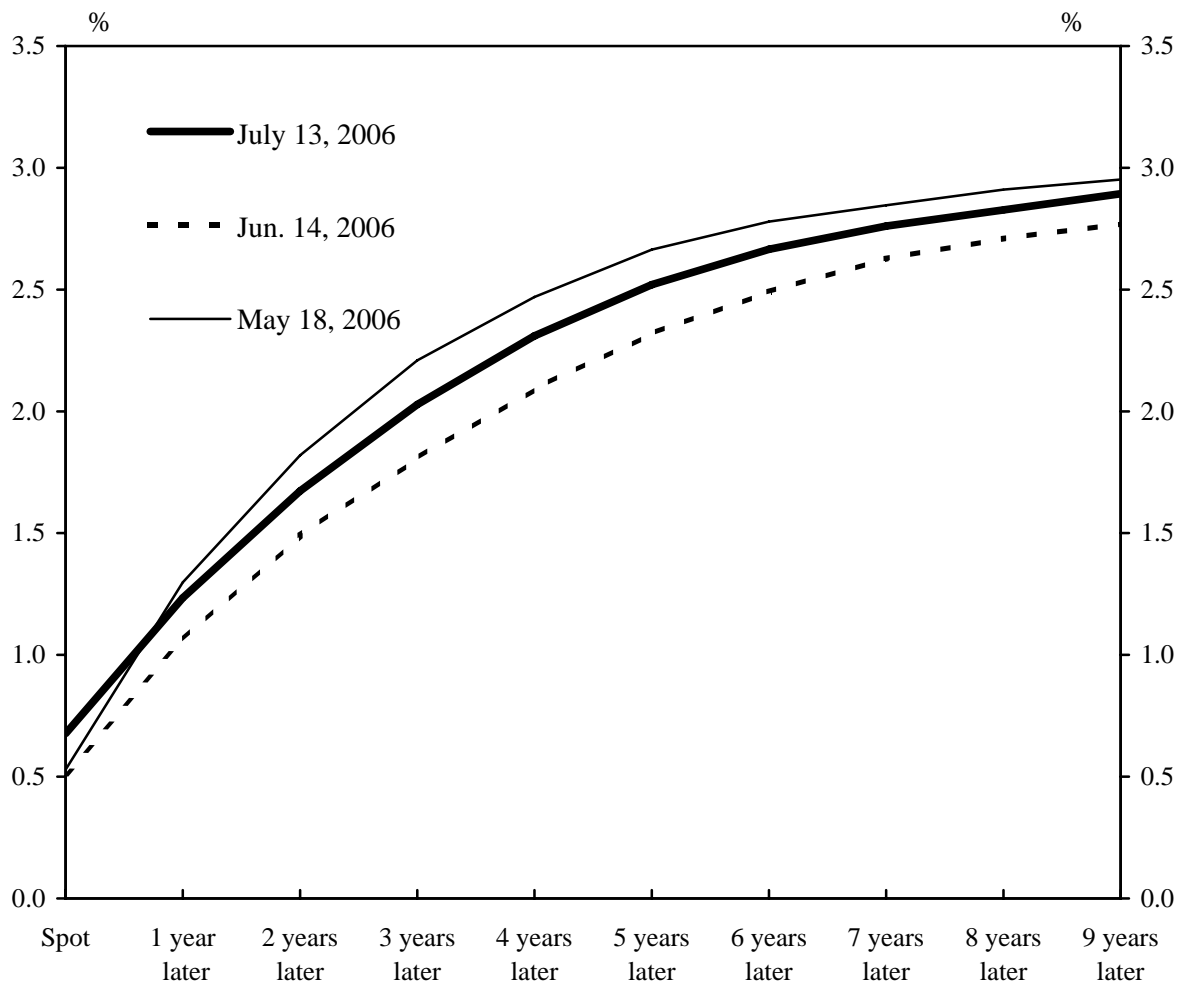
Current Account Balances at the Bank of Japan



Note: From April 2003, the figures for current account balances include the deposit of the Japan Post.
 From April 1, 2003 to June 15, 2006, the figures for required reserve include the deposit of the Japan Post.

Source: Bank of Japan.

Implied Forward Rates (1-Year)

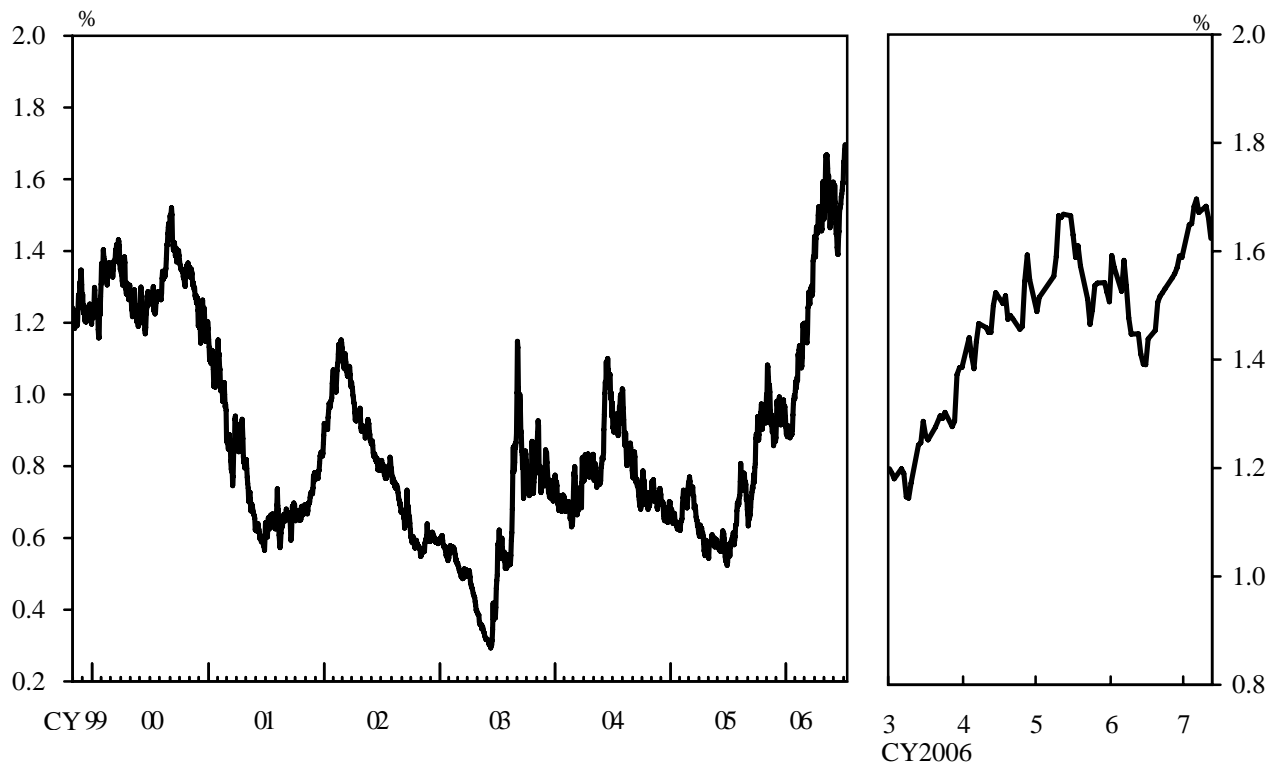


Note: Calculated from yen-yen swap rates.

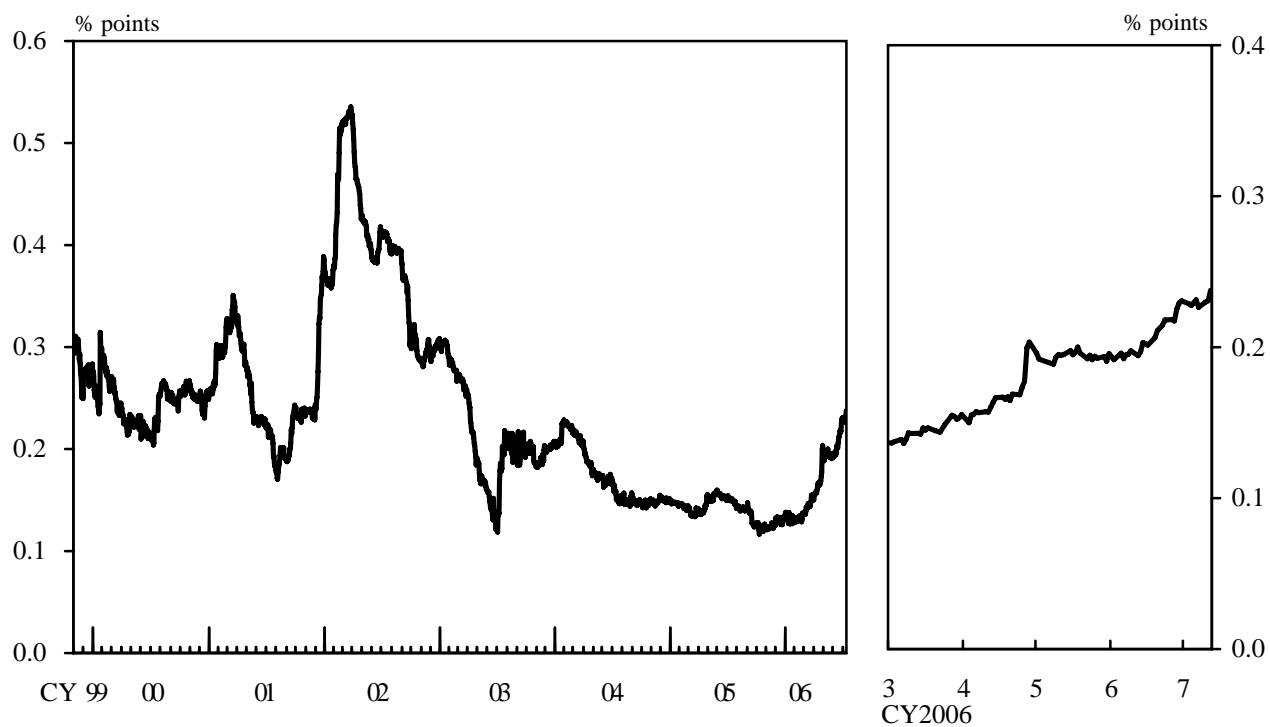
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



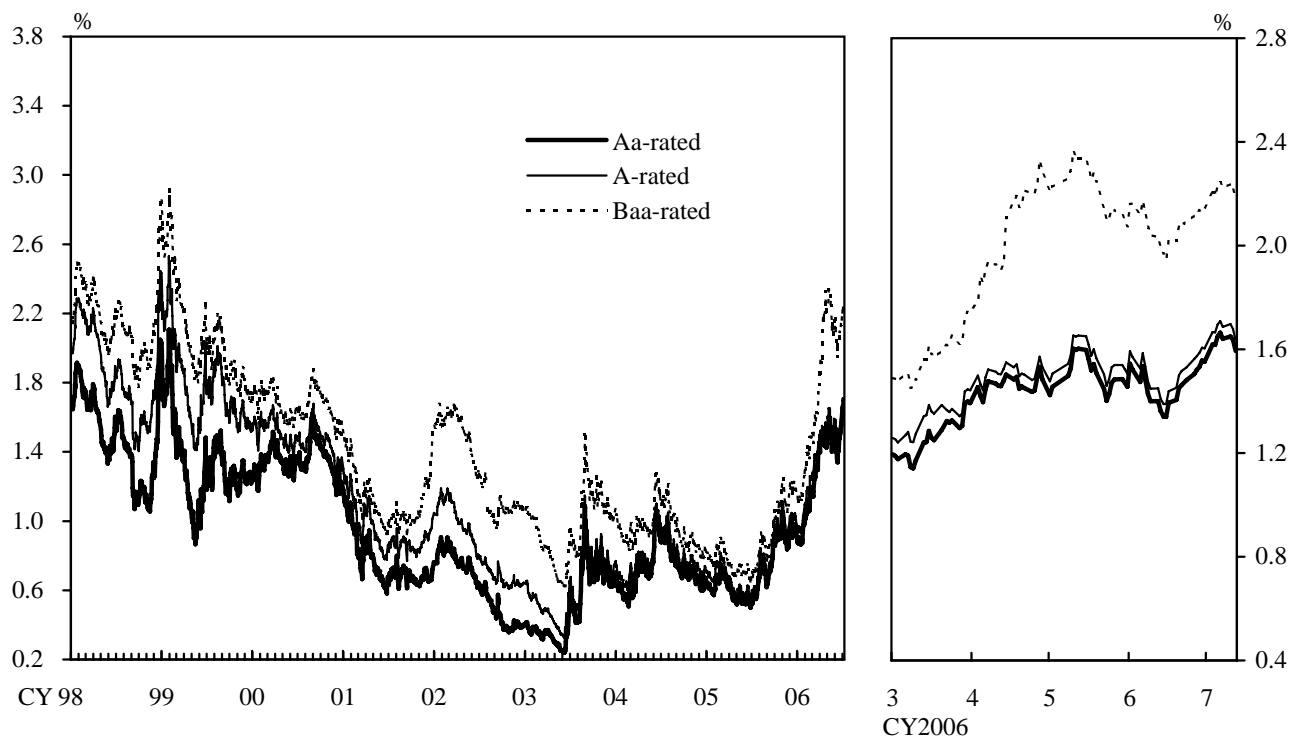
Notes: 1. Yields on bonds with 5-year maturity.

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

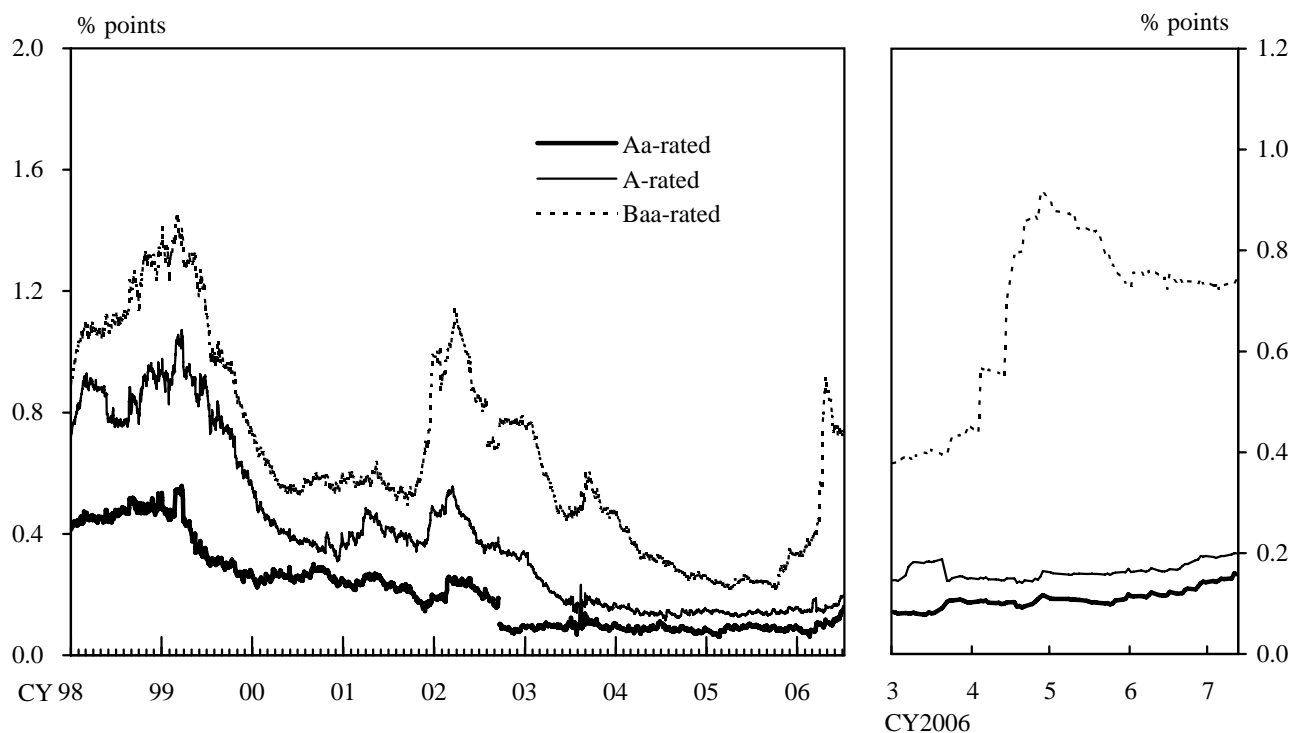
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
 "Reference Price (Yields) Table for OTC Bond Transactions."

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.

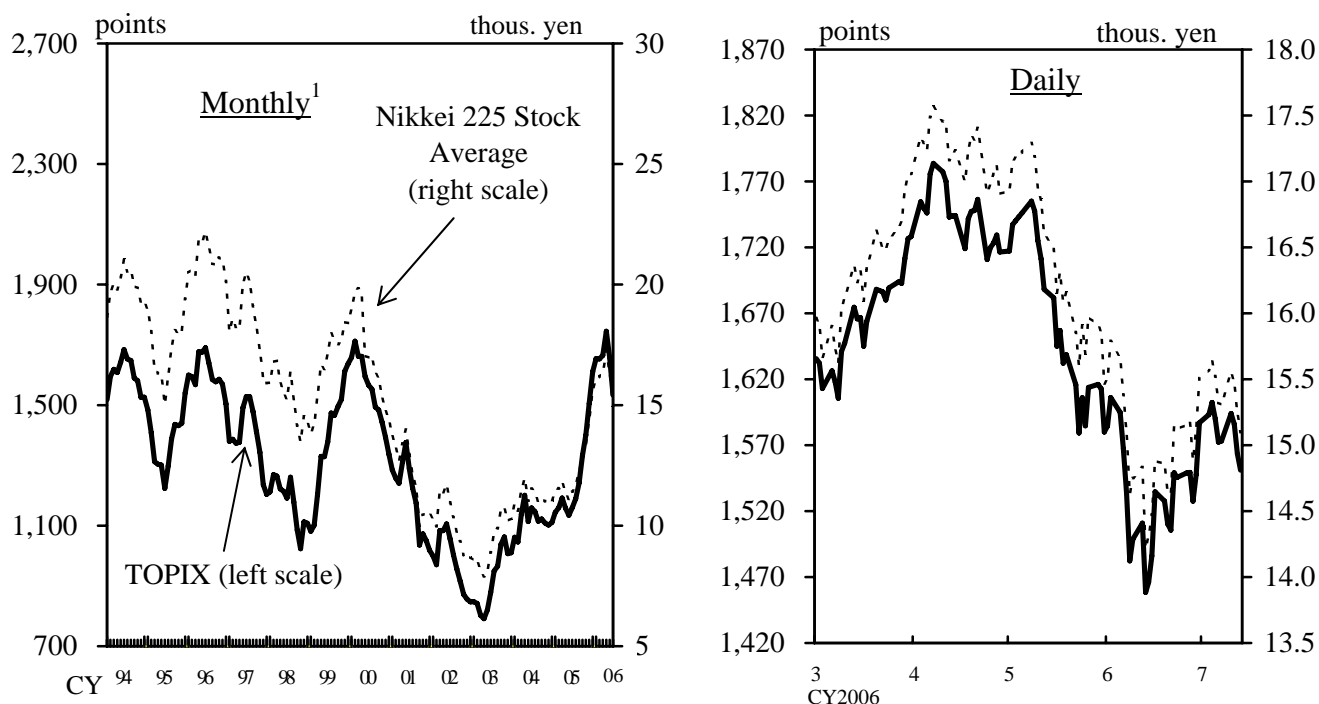
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

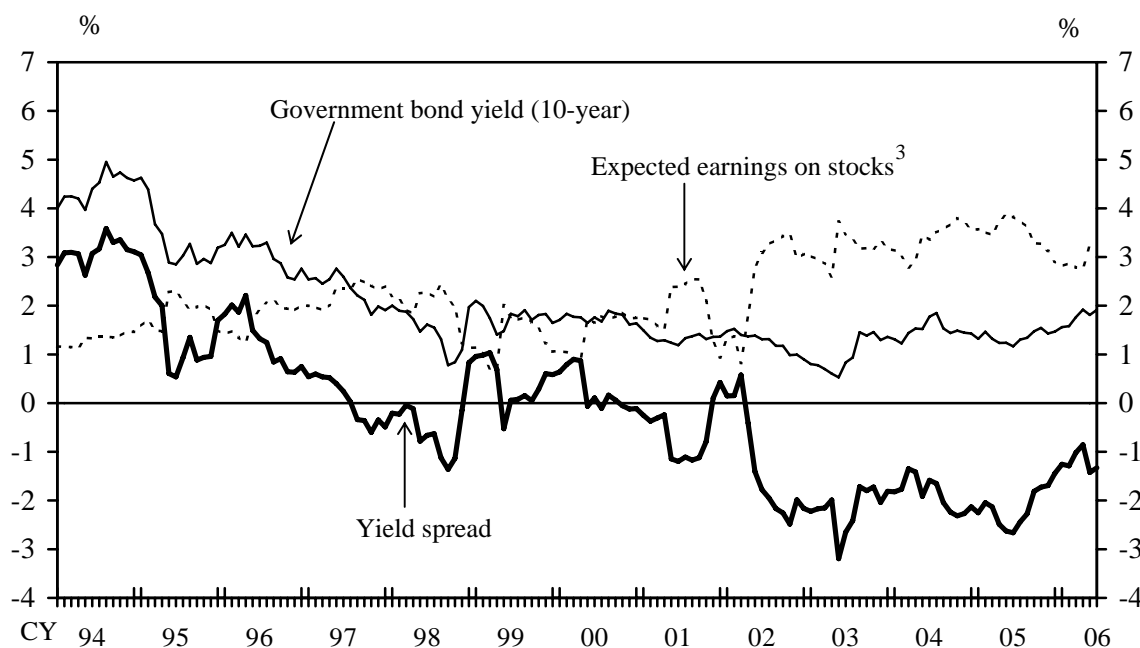
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

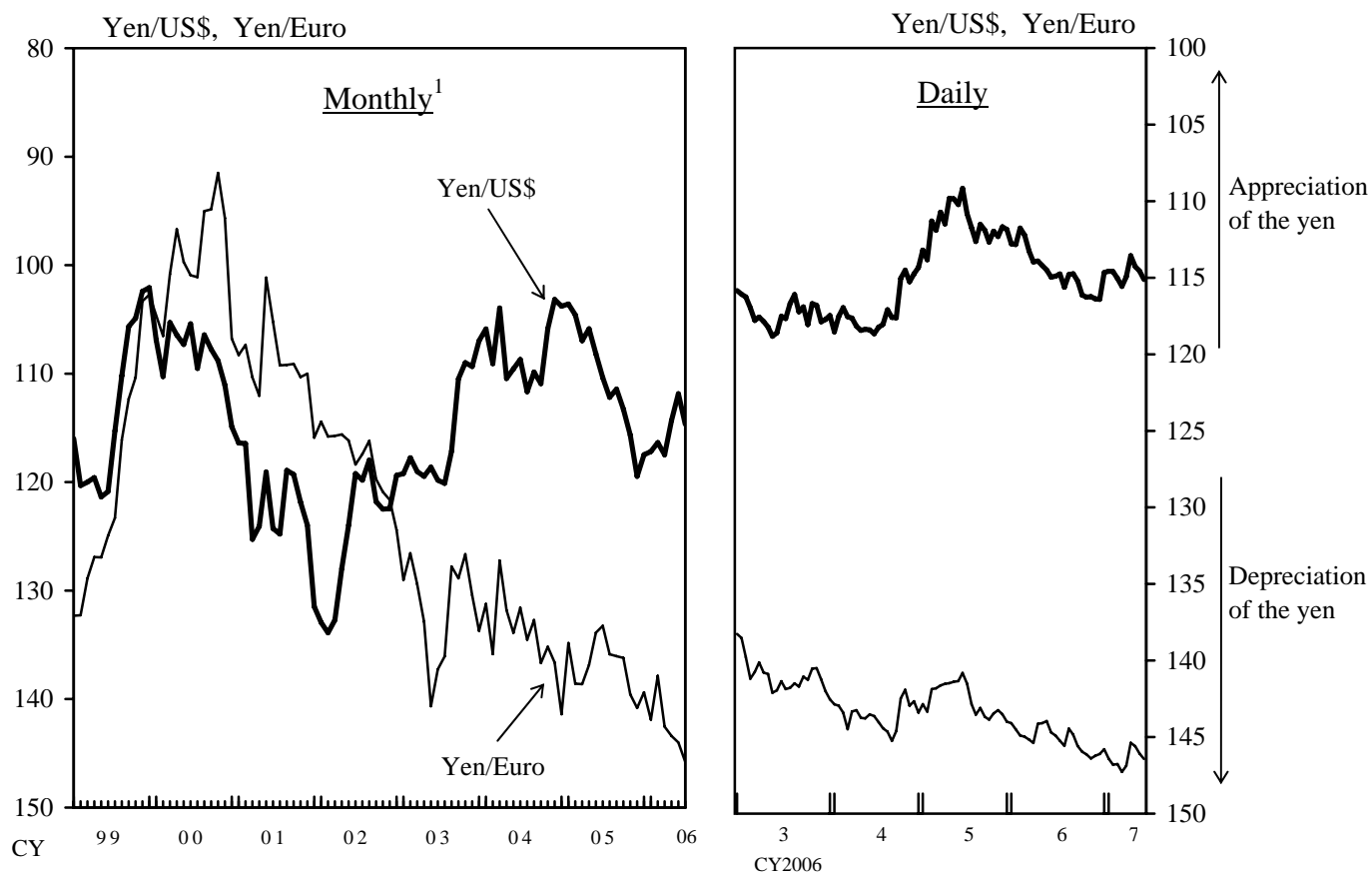
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

Exchange Rates

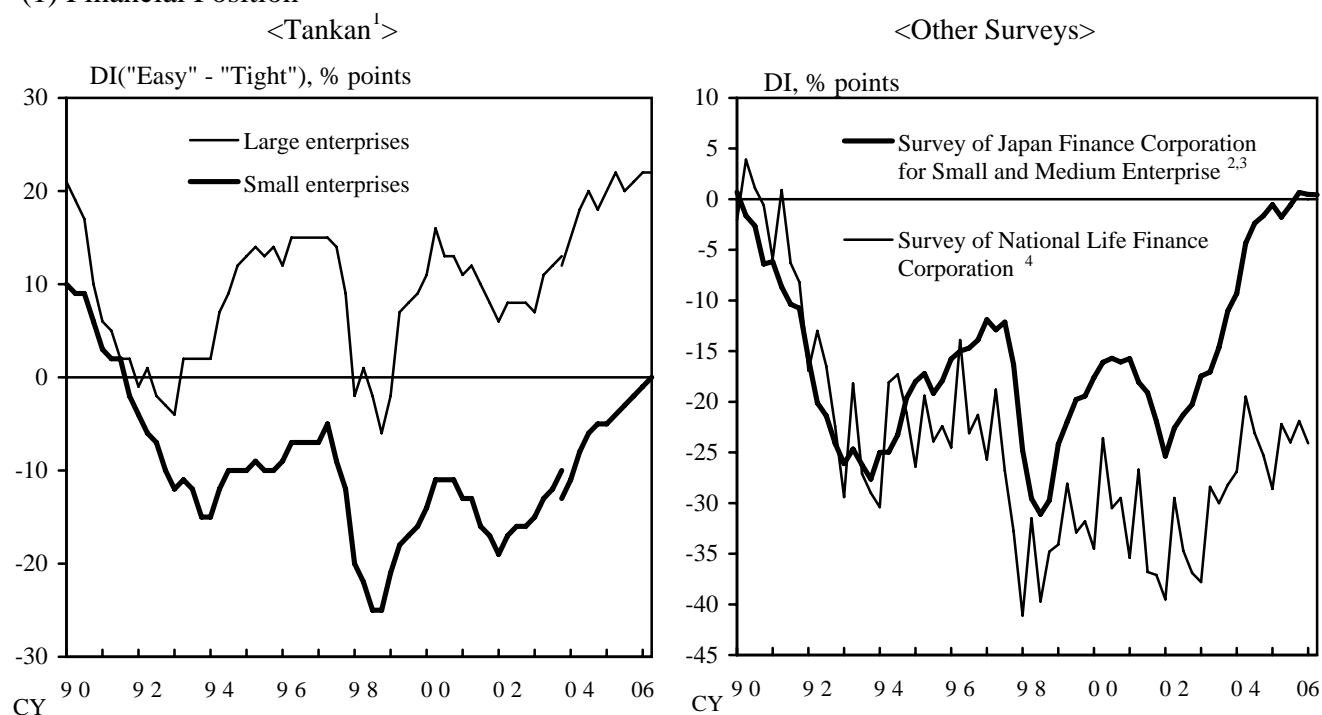


Note: 1. End of month.

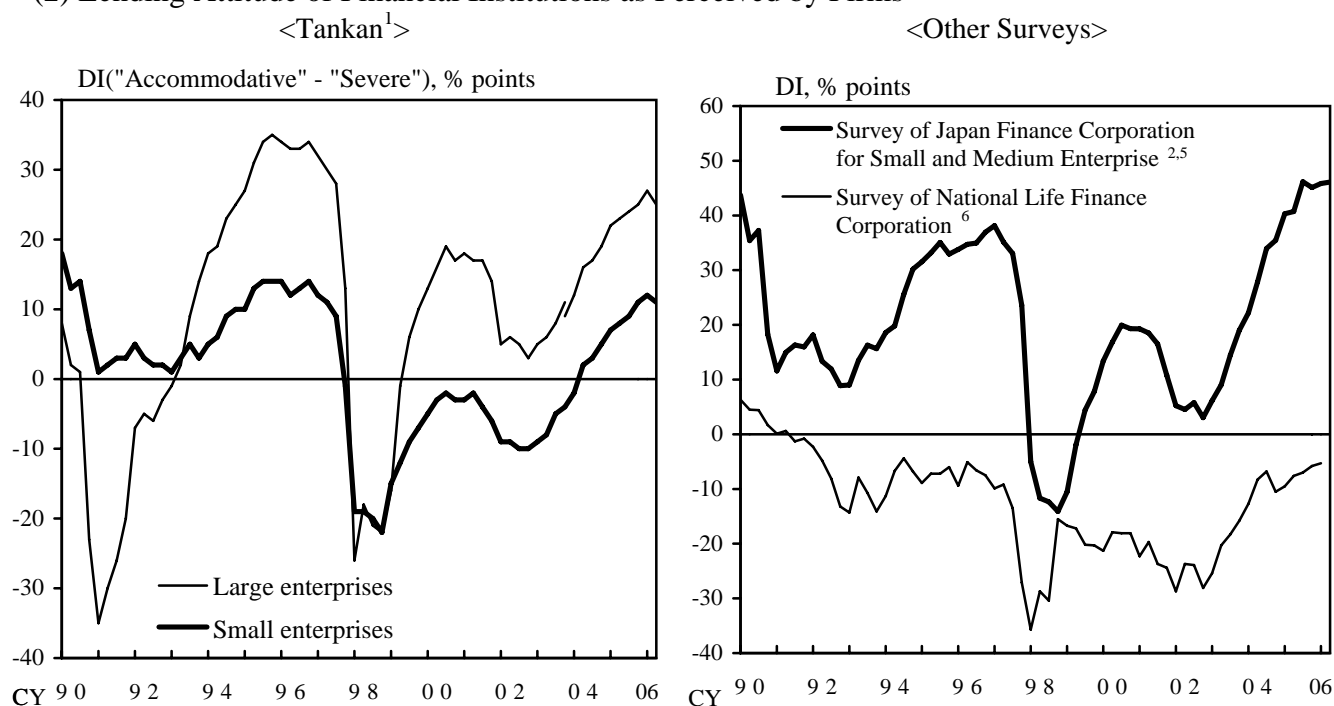
Source: Bank of Japan.

Corporate Finance-Related Indicators

(1) Financial Position



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



Notes: 1. Data of the *Tankan* are based on all industries. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

2. Figures are quarterly averages of monthly data.

3. DI of "Easy" - "Tight."

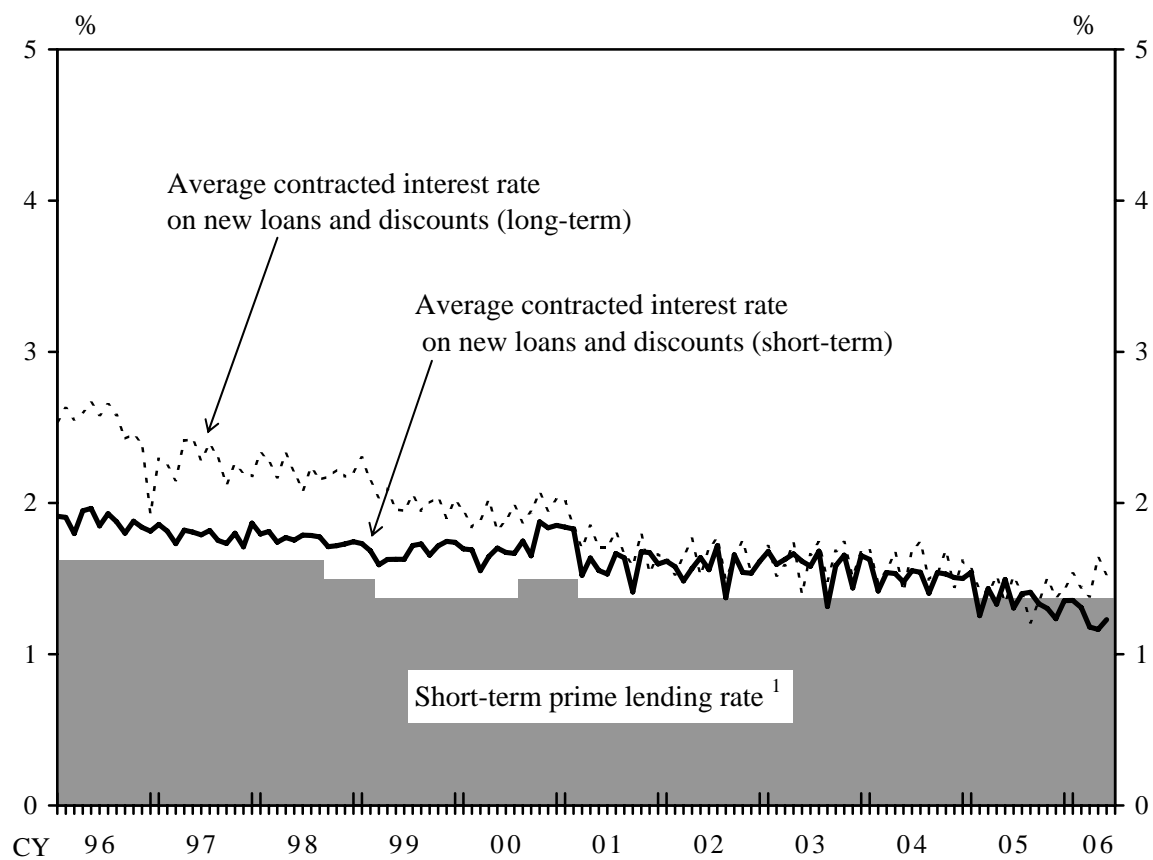
4. DI of "Easier" - "Tighter."

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

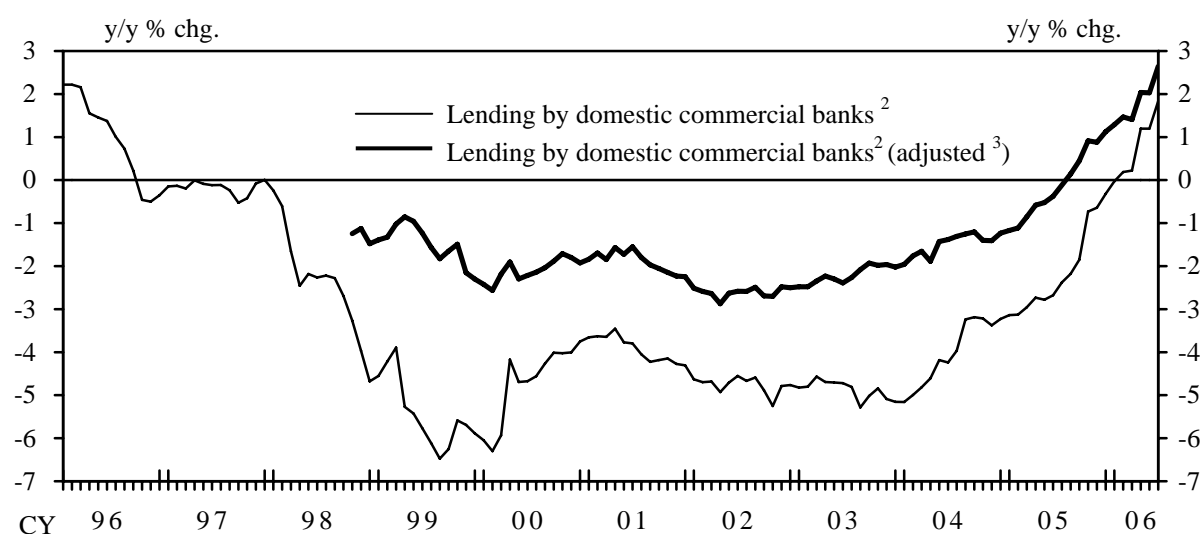


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



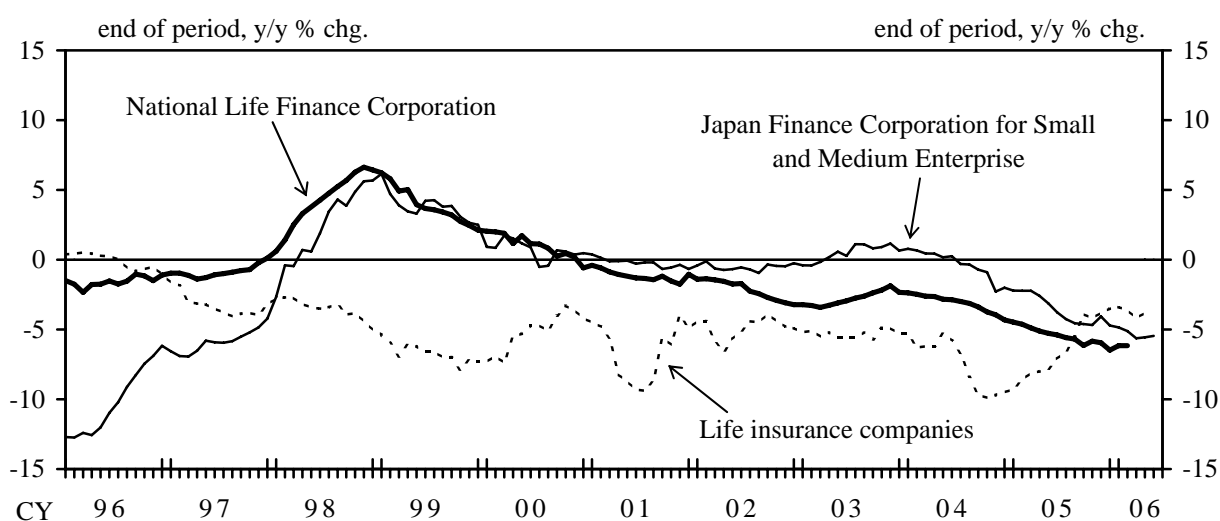
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to city banks, regional banks, and 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.

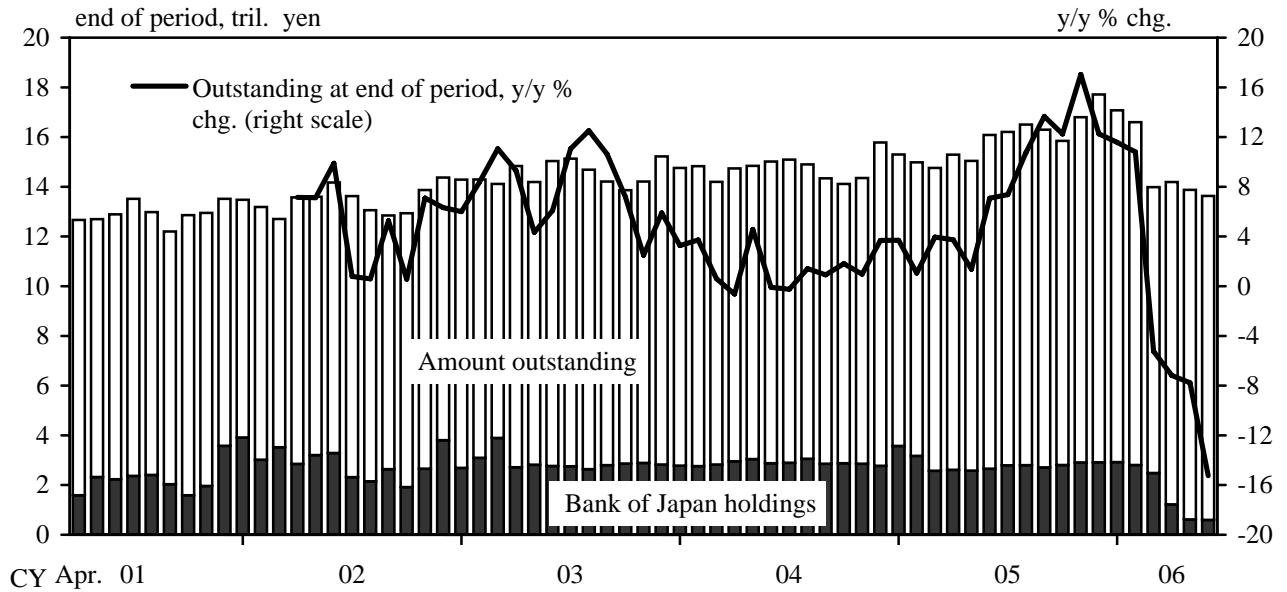
(2) Lending by Other Financial Institutions



Sources: Bank of Japan, "Principal Figures of Financial Institutions," "Financial and Economic Statistics Monthly."

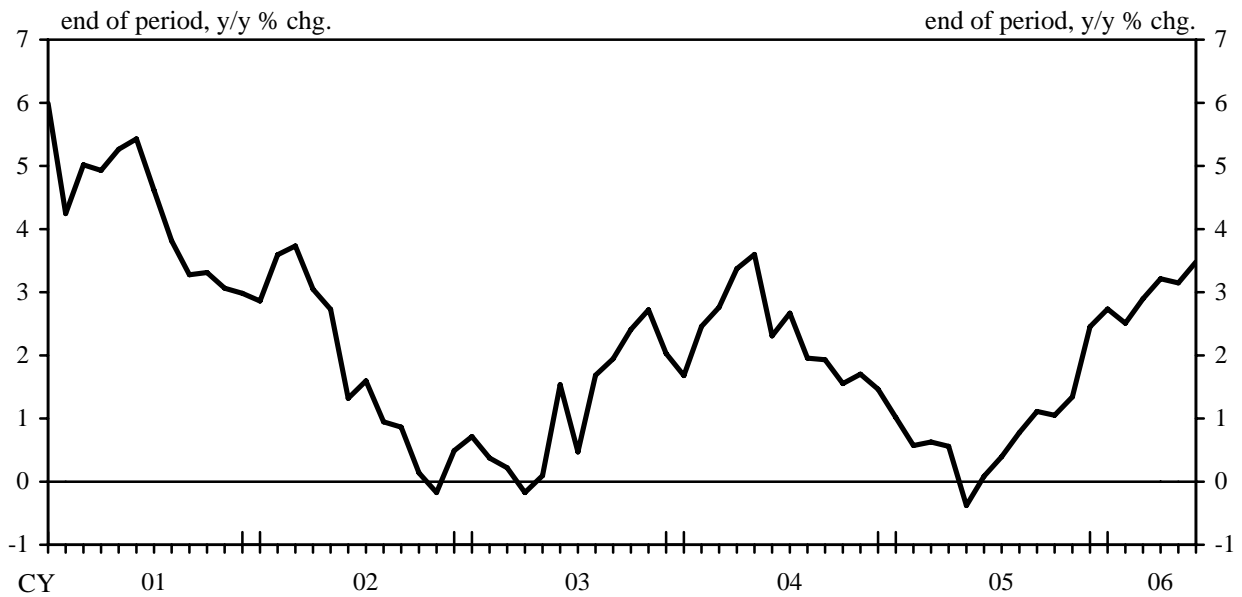
Private-Sector Fund-Raising in the Capital Markets

(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)

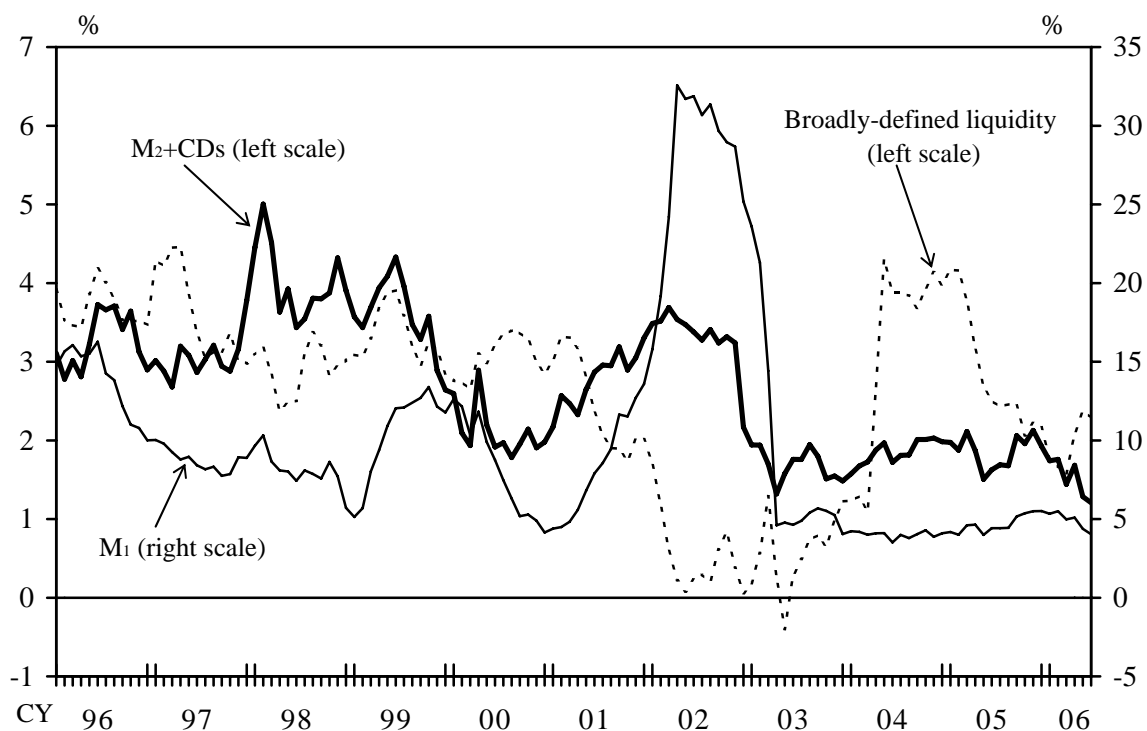


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

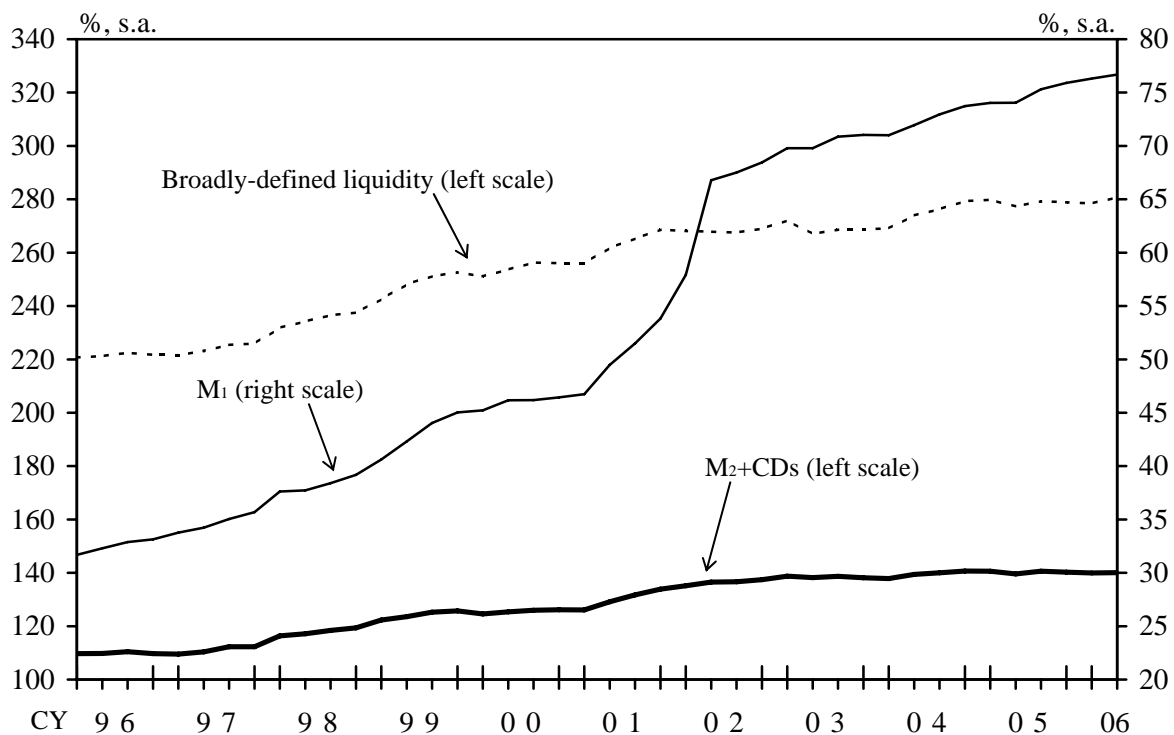
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

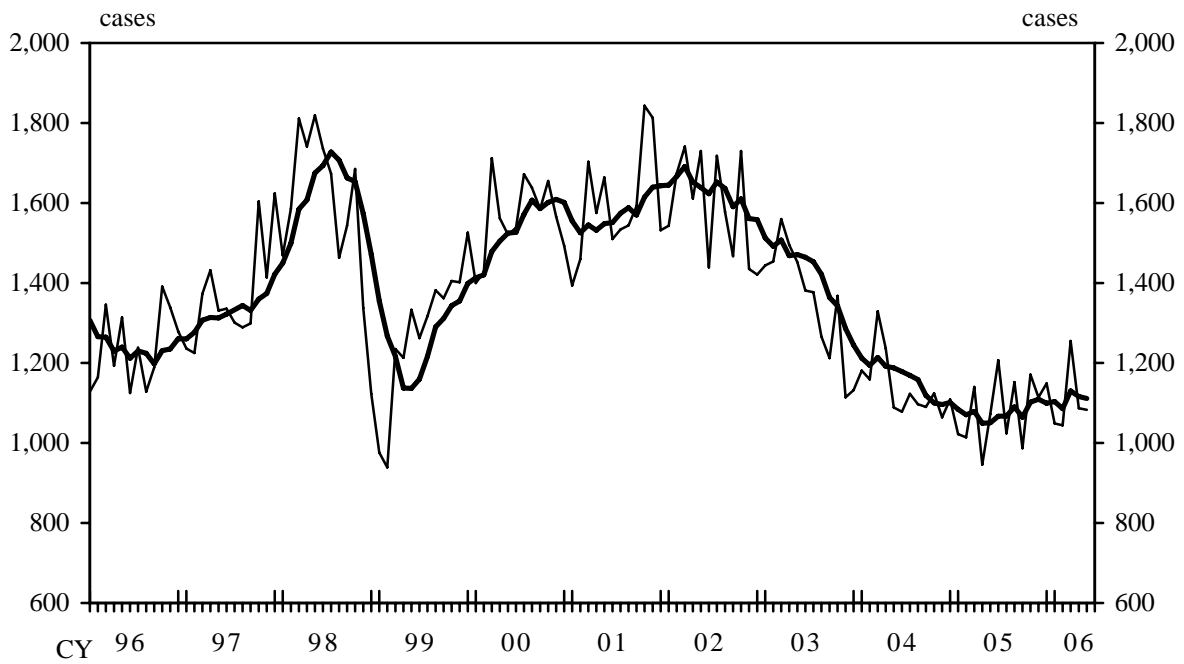


Note: Figure for the nominal GDP in 2006/Q2 is assumed to be unchanged from the previous quarter.

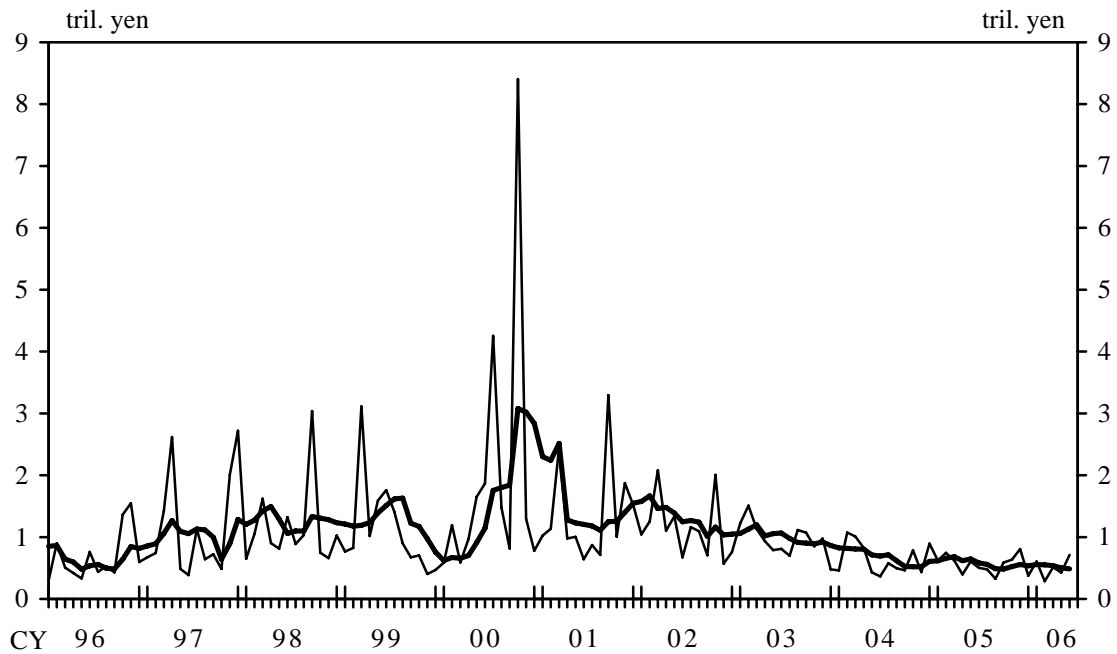
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."

 Forecasts in the *Outlook for Economic Activity and Prices* released in April 2006

Forecasts of the Majority of Policy Board Members^{1,2} for Fiscal 2006 and Fiscal 2007

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2006	+2.1 to +3.0 [+2.4]	+1.4 to +1.8 [+1.5]	+0.6 to +0.6 [+0.6]
Forecasts made in October 2005	+1.6 to +2.2 [+1.8]	+0.5 to +0.8 [+0.6]	+0.4 to +0.6 [+0.5]
Fiscal 2007	+1.8 to +2.4 [+2.0]	+0.8 to +1.1 [+1.0]	+0.7 to +0.9 [+0.8]

Notes: 1. Brackets indicate the median of the forecasts.

2. Individual Policy Board members make the above forecasts with reference to market participants' view regarding the future course of the policy interest rate that is incorporated in market interest rates. Their forecasts made in October 2005 were based on the assumption that there would be no change in monetary policy.

¹ Forecasts of the majority of Policy Board members are the figures to which the individual members attach the highest probability and they are shown as a range, with the highest and lowest figures excluded. It should be noted that the range does not indicate the forecast errors.

² The forecasts of all Policy Board members are as follows.

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2006	+2.1 to +3.0	+1.3 to +1.8	+0.5 to +0.7
Forecasts made in October 2005	+1.3 to +2.4	+0.4 to +1.0	+0.4 to +0.6
Fiscal 2007	+1.6 to +2.5	+0.7 to +1.3	+0.7 to +1.0