

October 17, 2006
Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original released on October 16, 2006)

Monthly Report of Recent Economic and Financial Developments¹

October 2006

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 been increasing moderately with some fluctuations. With the rise in demand both at home and abroad, production has also been increasing.

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

The pace of increase in domestic corporate goods prices is expected to slow in the immediate future, due to the recent drop in international commodity prices.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 12 and 13, 2006.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on October 12 and 13, 2006.

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 been increasing. Under these circumstances, the amount outstanding of lending by private banks has been increasing. The amount outstanding of CP and corporate bonds issued is slightly below the previous year's level. Funding costs for firms have risen slightly. Meanwhile, the year-on-year rate of change in the money stock is at the 0.0-1.0 percent level. As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.25 percent, and interest rates on term instruments have been around the same level as last month. In the foreign exchange and capital markets, 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. Meanwhile, long-term interest rates have been around the same level as last month.

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 its declining trend. On the other hand, the value of public works contracted—a measure that reflects public orders—has recently been essentially flat due to large-scale orders but, on average, it has been on a downtrend. 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 1.3 percent in the second quarter compared with the previous quarter, and by 3.4 percent in July-August compared with the second quarter.

As for real exports by destination (Chart 6[1]), exports to the United States have maintained their steady growth as a whole, although the growth in automobile-related goods has eased somewhat. Exports to the EU have also continued their solid increases. Exports to East Asia have been on an uptrend, mainly in capital goods and parts. Those of IT-related goods, which had decreased in the second quarter, were flat in July-August (Chart 9). Meanwhile, exports to other regions (such as the Middle East, Mexico, and Russia) continued to register relatively high growth as a trend, albeit with some fluctuations, chiefly in capital goods and parts and in automobile-related goods. By goods (Chart 6[2]), exports of capital goods and parts exhibited relatively high growth, with favorable demand from many parts of the world (Chart 7[2]). Exports of automobile-related goods continued to increase steadily as a whole. Exports of these goods to the United States somewhat decelerated, but those to other regions maintained firm growth (Chart 7[1]). On the other hand, exports of IT-related goods had been slightly weak in the second quarter, as partial production adjustments have been occurring mainly in East Asia, but they started to increase again in July-August compared with the second quarter (Chart 8[1]). Meanwhile, those of consumer goods have been trending upward, albeit with some fluctuations, mainly in digital home appliances.

Real imports have been on a gradual uptrend against the background of the expansion in domestic demand, but they have recently been more or less flat (Charts 5[1] and 11). By goods, imports of capital goods and parts (excluding aircraft) have maintained their solid increasing trend. Growth in imports of IT-related goods, as observed in exports, slowed temporarily in the second quarter, but stepped up again in July-August. Meanwhile, imports of foodstuffs, which fluctuate substantially, and of consumer goods have been relatively weak since the spring. Moreover, imports of raw materials and intermediate goods seem to have been increasing mildly as a trend, assisted by the increase in domestic production, but they have recently been showing some weakness.

The surplus of net exports in terms of the real trade balance has continued its upward trend and registered rather high growth in July-August, reflecting the aforementioned movements in imports and exports (Chart 5[2]). On the other hand, the surplus of the nominal balance on goods and services had continued to narrow, reflecting higher import prices of raw materials, but it expanded in July-August.

Exports are expected to continue to rise, as overseas economies overall continue to expand (Chart 10[2]).³ Looking at the environment surrounding exports, U.S. economic growth has moderated, chiefly in the household sector, due mainly to the lagged effects of increases in interest rates. Nevertheless, the economy is most likely to avoid further deceleration and manage a soft landing, partly because crude oil prices, which had been surging for some time, have fallen back. As for the East Asian economies, the Chinese economy is expected to maintain its high economic growth, and the NIEs and ASEAN economies are also projected to expand at a moderate pace as a whole, although some negative impacts from high crude oil prices until recently are expected to persist for some time. Economic expansion is also expected to continue in the EU and other regions. Regarding the environment surrounding exports of IT-related goods, partial adjustments of these goods in the East Asian region seemed to be almost completed, and overseas market prices of liquid

³ Looking at forecasts of exports of large manufacturing firms for fiscal 2006 in the September *Tankan*, those for the first half-year were revised substantially upward, compared with the June *Tankan*, to growth of around 10 percent. The forecasts for the second half-year were also revised slightly upward to a steady growth of about 4 percent. Moreover, the DI for overseas supply and

crystal panels and DRAM have also shown some improvement, as demand such as in digital home appliances continues to be favorable. 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 gradual uptrend, fueled by the increase in domestic demand.

Business fixed investment has continued to increase. Shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—surged in the second quarter, and continued to increase in July-August compared with the second quarter (Chart 12[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—continued their uptrend on average (Chart 13[1]); they marked relatively strong growth in the second quarter both in manufacturing and nonmanufacturing, but fell back somewhat substantially in July-August compared with the second quarter, mainly in nonmanufacturing.⁴ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have been at relatively high levels overall, with some fluctuations; starts in mining and manufacturing have continued high growth, while those in nonmanufacturing have recently dropped (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. In the September *Tankan* (Chart 14), current profits of large firms are expected to continue edging up in fiscal 2006 for both manufacturing and nonmanufacturing firms, after having registered double-digit year-on-year increases in fiscal 2005. As for small firms, whose current profits recorded a near 10-percent rise in fiscal 2005, forecasts of modest profit increases in fiscal 2006 have been maintained, although they were revised slightly downward compared with the June *Tankan*, possibly in response to the rise in input raw material costs. In these

demand conditions for products indicated that firms view demand to be in excess, albeit marginally, in both the actual result and forecast.

circumstances, business sentiment in the September *Tankan* has continued to improve among large manufacturing firms for two consecutive quarters, and that of large nonmanufacturing firms has been unchanged at a relatively strong “favorable” position. Moreover, business sentiment of small firms continued to be favorable on the whole, although it fell back slightly, weighed down by the effects from the rise in input raw material costs (Chart 15).

Business fixed investment is projected 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 September *Tankan* (Chart 16), the business fixed investment plans of large firms for fiscal 2006 were more or less the same as in the June *Tankan*; plans of both manufacturing and nonmanufacturing firms continued to be relatively strong by marking year-on-year increases of 16.9 percent and 8.5 percent respectively. Furthermore, those of small firms were revised substantially upward from the previous survey for both manufacturing and nonmanufacturing, with the rate of increase at the time of the September *Tankan* comparable to fiscal 2004 and 2005 when the investment of small firms of all industries turned out to register a 10-percent rise.

Private consumption has been on an increasing trend. Looking at individual indicators on consumption (Charts 17 and 18), sales at department stores and supermarkets were relatively sluggish from the spring to around July, dampened by the unfavorable weather. Weather conditions improved in August, however, and sales picked up, mainly in apparel. Sales at convenience stores continued to be essentially flat on average, although they have recently been substantially affected by large ups and downs in demand for tobacco in reaction to the tax rise. As for sales of household electrical appliances, those of digital home appliances such as flat panel TVs and digital cameras have been on an uptrend, although sales of personal computers seem to be somewhat weak. Meanwhile, the number of new passenger-car registrations, excluding mini-vehicles, has recently shown weakness. In contrast, mini-vehicles have maintained their uptrend, supported by their high cost-performance. As for services consumption, sales in the food service industry

⁴ The large decline in the July-August period is to some extent attributable to the decline in cellular phones, which should be categorized as consumer goods.

have been on a steady uptrend, particularly in restaurants and bars. Outlays for travel have been firm, mainly in overseas travel.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of goods and services mentioned above,⁵ were somewhat weak, especially in retail-related indicators, partly due to weather factors, but they improved slightly in August (Chart 19). Moreover, the aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—decreased in July-August compared with the second quarter, but this decline appears to be largely due to a temporary factor caused by a fall in demand for tobacco products, in reaction to the tax rise (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) has recently continued to be somewhat weak, caused particularly by sample factors (Chart 17[1]).

Indicators for consumer sentiment overall have been at favorable levels (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 been increasing moderately with some fluctuations (Chart 22[1]). In detail, while starts of owner-occupied housing have been mostly flat, starts of housing for rent have been on an increasing trend. Starts of housing for sale have also continued to increase mildly as a trend, although they have fluctuated substantially, depending on the number of large-scale starts. Looking ahead, 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.

⁵ The indices of aggregated sales are the weighted average of each sales indicator. Outlays for travel in August were not released at the time these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for August were at the same level as those in July.

Industrial production has continued to increase against the background of the growth in domestic and external demand. Production also rose by 1.0 percent in July-August compared with the second quarter, following an increase of 0.9 percent in the second quarter on a quarter-on-quarter basis (Chart 23).⁶ By industry, production of electronic parts and devices dropped marginally in the second quarter, but rebounded in July-August. Production of transport equipment also continued to advance. Meanwhile, production of general machinery has been on an uptrend on average, although it has recently fallen in reaction to the high growth in the second quarter.

Shipments have also continued to increase. By goods (Chart 24), shipments of producer goods have recently increased further, since those of electronic parts and devices, which had declined in the second quarter, rose again in July-August. Shipments of capital goods have been on a rising trend with large fluctuations. As for consumer goods, while shipments of durable goods have been on an uptrend, chiefly in automobiles for exports and digital home appliances, those of nondurable goods have recently been somewhat sluggish, affected possibly by the rise in the tobacco tax.

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 shipment-inventory balance (the year-on-year rate of change in shipments minus that in inventories) has continued its improving trend, with the balance being more or less favorable. By goods, the shipment-inventory balance in producer goods (such as iron and steel, chemicals), excluding electronic parts and devices, has been improving, since inventories of these goods started to decrease on a year-on-year basis, while shipments rose persistently. On the other hand, in electronic parts and devices, the year-on-year rate of increase in inventories has recently slightly exceeded that of shipments. These developments seem to have been affected not only by the unintended inventory accumulation in some goods, but also by the intended inventory

⁶ Production in the third quarter, based on the production forecast index for September (a decrease of 0.1 percent on a month-on-month basis), is calculated to increase by 1.2 percent on a quarter-on-quarter basis.

accumulation in anticipation of new products.⁷ Future developments in the shipment-inventory balance still need careful monitoring. Nevertheless, considering also that the environment surrounding exports in this sector has started improving, as mentioned above, it is unlikely that inventory adjustments will become widespread for the time being.

As for the outlook, production is expected to follow an increasing trend, reflecting the rise in domestic and external demand. Anecdotal information suggests that production in the fourth quarter is likely to increase further.⁸

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 (Chart 27[1]); the unemployment rate followed a gradual downtrend, with monthly fluctuations (Chart 27[1]). Meanwhile, the employment conditions DI in the *Tankan* shows that both small and large firms are facing a greater labor shortage, indicating also that this shortage will extend in the future (Chart 29).

In terms of employment (Chart 28[1]), the number of employees in the *Labour Force Survey*, which tends to show relatively large monthly fluctuations due partly to sample factors, has recently been showing a solid increase of 1.0-2.0 percent on a year-on-year basis on average. On the other hand, growth in the number of regular

⁷ The DI of inventory level of finished goods (diffusion index of “excessive or somewhat excessive” minus “insufficient or somewhat insufficient”) of the electrical machinery sector (all firms) stood at +20 in the September *Tankan*, showing only a marginal deterioration from the June *Tankan* (+18); it remained more favorable overall compared with levels in 2005 (+20-26).

⁸ Based on only a single month’s information, the production forecast index for October shows production to increase by 2.4 percent compared with the third quarter (September is based on the forecast index).

employees in the *Monthly Labour Survey*, which is more stable, has gathered pace from more active hiring, and is recently marking an increase of slightly over 1.0 percent on a year-on-year basis.

Regarding wages on a year-on-year basis, regular payments have been moving at around zero percent on a year-on-year basis, since firms have persisted in labor cost restraints. Overtime payments, however, have continued to rise moderately. As for summer bonuses, special payments in June-August (August based on provisional figures) have maintained an increasing trend, supported by favorable corporate profits; they rose by 1.4 percent on a year-on-year basis. 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 becoming more aware of the shortage of labor, and because corporate profits are expected to remain high.

2. Prices

Import prices (on a yen basis, same hereafter, compared with levels three months before) have been increasing, reflecting the previous rise in international commodity prices (Chart 31). Looking at recent developments in international commodity prices, prices of nonferrous metals remain mostly unchanged at high levels, albeit with some fluctuations. Crude oil prices, however, have dropped sharply since mid-August to levels observed around the spring this year, in response to receding uncertainty about the situation in the Middle East.

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter, compared with levels three months before)⁹ have been increasing, reflecting the previous rise in international commodity prices (Chart 32). In detail, prices of nonferrous metals and of petroleum and coal

⁹ The figures are adjusted to exclude a large seasonal fluctuation in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when consumption increases substantially.

products have continued to rise against the background of high international commodity prices until recently (both are categorized as “goods sensitive to exchange rates and overseas commodity prices” in the chart). The rate of increase in prices of other materials has accelerated overall, since prices of chemical products and plastic products increased, reflecting the previous rise in crude oil prices. Prices of iron and steel-related products and of construction-related products have also increased moderately across a wide range of items, reflecting high material costs and the tightening of supply-demand conditions. Meanwhile, machinery prices have been declining marginally. By stages of demand, prices of raw materials and intermediate goods have risen further. Final goods prices have recently inched up from the rise in prices of nondurable consumer goods (such as gasoline), while prices of capital goods and durable consumer goods have stayed almost unchanged.

Corporate services prices (excluding external factors, same hereafter) have continued to decline marginally on a year-on-year basis (Chart 33).^{10,11} As for recent developments, the year-on-year rates of change in prices of real estate services (office space rental) and of leasing and rental have been on an improving trend. On the other hand, prices of advertising services have recently been rather weak, and prices of other services have also continued to decline marginally, since firms have continued to emphasize the reduction of 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 2005-base index showed that consumer prices rose by 0.3 percent on a year-on-year basis in August, following the increase of 0.2 percent in both June and July for two consecutive months.¹² Looking at developments in the past few months in more detail, the rate

¹⁰ “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.

¹¹ Including overseas factors, corporate services prices showed an increase of 0.3 percent on a year-on-year basis, assisted by the rise in ocean freight transportation, such as in ocean tramper. This was the first year-on-year increase since March 1998, when the index was pushed up by the consumption tax hike.

¹² For consumer prices of all items including fresh food, the year-on-year rate of increase expanded to 0.9 percent, mainly due to the upsurge in prices of fresh vegetables caused by the unfavorable weather.

of increase in prices of goods has expanded slightly on the whole. While petroleum products (such as gasoline) have continued to show a relatively large contribution to price increases reflecting high crude oil prices, other items have followed a moderate improving trend. By contrast, services prices inched down overall, since mobile telephone charges were lowered, although prices of eating out have been somewhat positive on a year-on-year basis.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 35), the weighted average of the DI in both production capacity and employment conditions as perceived by firms showed that the shortage has been expanding gradually, with the excessiveness in production capacity having been dispelled and labor shortage having developed. The supply and demand conditions DI has also been on an improving trend, both in the manufacturing and nonmanufacturing sectors. In this situation, the decline in the output prices DI has diminished considerably.

The pace of increase in domestic corporate goods prices is expected to slow in the immediate future, due to the recent drop 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.

With respect to developments in land prices (in terms of the Prefectural Land Price Survey as of July; Chart 36), both commercial and residential land prices rose for the first time in 16 years in the three metropolitan areas (Tokyo, Osaka, and Nagoya). On the other hand, in other areas, land prices have been falling, although the rate of decline has narrowed, albeit moderately.¹³

¹³ Land purchasing expenses for fiscal 2006 (all firms and industries) in the September *Tankan* already registered a decrease of just 5.0 percent on a year-on-year basis at this present stage. This projection is somewhat stronger compared with fiscal 2005. The forecast of fiscal 2005 at the time of the September survey last year had shown a decrease of 38.5 percent, and land purchases turned out to mark an increase of 8.3 percent on a year-on-year basis. In this regard, it is possible that firms have now become more active in land transactions.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 37[1]) has been at around 0.25 percent. Regarding interest rates on term instruments (Chart 38[1]), FB rates (3-month) and the Euroyen interest rate (TIBOR, 3-month) have been more or less flat. Under these circumstances, interest rates on Euroyen futures have been essentially unchanged on the whole (Chart 38[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 37 [2]) dropped to around 1.60 percent, reflecting some weaker-than-forecasted domestic economic indicators and the decline in U.S. interest rates. They later rose, in view of firm domestic economic indicators, and have recently been moving at around 1.75 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 41 and 42) have been more or less flat on the whole.

Stock prices (Chart 43) dropped in view of some weaker-than-forecasted domestic economic indicators, but then increased, reflecting the rise in U.S. stock prices and firm domestic economic indicators. The Nikkei 225 Stock Average is moving at around 16,500 yen.

In the foreign exchange market (Chart 44), the yen moved up temporarily in late September on some weaker-than-forecasted U.S. economic indicators, but later fell, as the yen was sold in view of the interest rate differential between Japan and abroad, and due to the prospects of U.S. monetary policy. The yen is being traded at around 119 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has been increasing, since firms' operating funds and outlays for 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 accommodative (Chart 45).

Lending rates have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts inched down in August for both short-term and long-term rates. With the monthly fluctuations smoothed out, short-term rates have recently risen slightly, while long-term rates have been more or less flat (Chart 46). The long-term prime lending rate was raised by 0.05 percent to 2.35 percent on October 11.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors¹⁴) has continued to increase. (The year-on-year change was 2.9 percent in July, 2.6 percent in August, and 2.3 percent in September; Chart 47.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have been basically around the same levels as last month. Issuance spreads remain low, having been around last month's levels. CP issuance rates have been also around last month's levels and continue to be low. The amount outstanding of CP and corporate bonds issued is slightly below the previous year's level. (The year-on-year change was -0.0 percent in July, and -0.2 percent in August, and -1.4 percent in September; Chart 48.)

According to business surveys, the financial positions of firms have continued to be favorable (Chart 45).

The year-on-year rate of change in the money stock ($M_2 + \text{CDs}$) is at the 0.0-1.0 percent level. (The year-on-year change was 0.5 percent in July, 0.4 percent in August, and 0.6 percent in September; Chart 49.)

¹⁴ The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

The number of corporate bankruptcies increased by 1.5 percent year-on-year in August, to 1,169 cases (Chart 50).

Charts

Chart 1	Main Economic Indicators (1)	Chart 30	Prices
Chart 2	Main Economic Indicators (2)	Chart 31	Import Prices and International Commodity Prices
Chart 3	Real GDP	Chart 32	Domestic Corporate Goods Price Index
Chart 4	Public Investment	Chart 33	Corporate Service Price Index
Chart 5	External Balance	Chart 34	Consumer Price Index (Excluding Fresh Food)
Chart 6	Real Exports	Chart 35	Domestic Supply and Demand Conditions
Chart 7	Real Exports Breakdown by Goods	Chart 36	Land Prices
Chart 8	Exports and Imports of IT-Related Goods	Chart 37	Interest Rates
Chart 9	Real Exports to East Asia	Chart 38	Short-Term Money Market Rates
Chart 10	Real Effective Exchange Rate and Overseas Economies	Chart 39	Current Account Balances at the Bank of Japan
Chart 11	Real Imports	Chart 40	Implied Forward Rates (1-Year)
Chart 12	Coincident Indicators for Business Fixed Investment	Chart 41	Yields of Bank Bonds
Chart 13	Leading Indicators for Business Fixed Investment	Chart 42	Yields of Corporate Bonds
Chart 14	Current Profits	Chart 43	Stock Prices
Chart 15	Business Conditions	Chart 44	Exchange Rates
Chart 16	Business Fixed Investment Plans as Surveyed	Chart 45	Corporate Finance-Related Indicators
Chart 17	Indicators for Private Consumption (1)	Chart 46	Lending Rates
Chart 18	Indicators for Private Consumption (2)	Chart 47	Lending by Financial Institutions
Chart 19	Indices of Aggregated Sales	Chart 48	Private-Sector Fund-Raising in the Capital Markets
Chart 20	Aggregate Supply of Consumer Goods	Chart 49	Money Stock
Chart 21	Consumer Confidence	Chart 50	Corporate Bankruptcies
Chart 22	Indicators for Housing Investment		
Chart 23	Production, Shipments, and Inventories		
Chart 24	Shipments Breakdown by Type of Goods		
Chart 25	Inventory Cycle		
Chart 26	Employee Income		
Chart 27	Labor Market (1)		
Chart 28	Labor Market (2)		
Chart 29	Employment Conditions		

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2006/Q1	Q2	Q3	2006/Jun.	Jul.	Aug.	Sep.
Index of living expenditure level (all households)	-1.2	0.1	n.a.	-0.7	-1.9	-0.3	n.a.
Sales at department stores	0.2	-1.8	n.a.	-1.9	0.9	p 0.8	n.a.
Sales at supermarkets	-1.4	0.8	n.a.	0.2	-0.6	p 1.0	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 336>	< 311>	< 303>	< 309>	< 296>	< 308>	< 306>
Sales of household electrical appliances (real, Current Survey of Commerce)	4.7	-0.6	n.a.	-1.5	1.7	p 1.2	n.a.
Outlays for travel (50 major travel agencies)	0.6	2.3	n.a.	-3.1	-1.3	4.0	n.a.
Housing starts <s.a., ann. 10,000 units>	< 127>	< 130>	<n.a.>	< 128>	< 121>	< 130>	<n.a.>
Machinery orders (from private sector ⁴)	-0.4	8.9	n.a.	8.5	-16.7	6.7	n.a.
Manufacturing	0.9	8.9	n.a.	25.6	-18.7	9.3	n.a.
Nonmanufacturing ⁴	-1.8	10.0	n.a.	-3.6	-15.8	5.1	n.a.
Construction Starts (private, nondwelling use)	0.9	0.2	n.a.	-10.3	5.6	3.4	n.a.
Mining & manufacturing	6.0	11.6	n.a.	-15.5	22.2	14.3	n.a.
Nonmanufacturing ⁵	0.5	-1.4	n.a.	-9.4	-0.7	3.0	n.a.
Value of public works contracted	-6.2	-0.0	n.a.	-10.6	10.9	-10.7	n.a.
Real exports	3.4	1.3	n.a.	-1.4	2.2	2.5	n.a.
Real imports	2.4	0.2	n.a.	0.1	-0.9	2.8	n.a.
Industrial production	0.6	0.9	n.a.	2.1	-0.9	p 1.9	n.a.
Shipments	0.1	2.1	n.a.	1.3	-0.5	p 2.5	n.a.
Inventories	0.7	-1.1	n.a.	0.6	-0.7	p 1.0	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	<100.6>	<97.0>	<n.a.>	<97.0>	<101.9>	<p 96.5>	<n.a.>
Real GDP	0.8	0.2	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.4	0.6	n.a.	0.0	-0.4	n.a.	n.a.

Main Economic Indicators (2)

y/y % chg.¹

	2006/Q1	Q2	Q3	2006/Jun.	Jul.	Aug.	Sep.
Ratio of job offers to applicants <s.a., times>	<1.03>	<1.06>	<n.a.>	<1.08>	<1.09>	<1.08>	<n.a.>
Unemployment rate <s.a., %>	<4.2>	<4.1>	<n.a.>	<4.2>	<4.1>	<4.1>	<n.a.>
Overtime working hours ⁶	2.2	2.9	n.a.	2.9	2.9	p 1.1	n.a.
Number of employees	2.1	1.5	n.a.	1.9	1.3	1.5	n.a.
Number of regular employees ⁶	0.5	1.0	n.a.	1.0	1.2	p 1.2	n.a.
Nominal wages per person ⁶	0.3	0.6	n.a.	1.0	0.4	p -0.5	n.a.
Domestic corporate goods price index ⁷ <q/q % chg.> (3-month growth rate)	2.8 <0.5>	3.1 <1.1>	p 3.5 <p 1.0>	3.4 <1.2>	3.4 <1.1>	3.5 <0.8>	p 3.6 <p 1.1>
Consumer price index ⁸	0.0	0.0	n.a.	0.2	0.2	0.3	n.a.
Corporate service price index	-0.1	-0.3	n.a.	-0.2	0.0	p 0.3	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.7	1.4	p 0.5	1.2	0.5	0.4	p 0.6
Number of corporate bankruptcies <cases>	<1,116>	<1,094>	<n.a.>	<1,111>	<1,051>	<1,169>	<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.

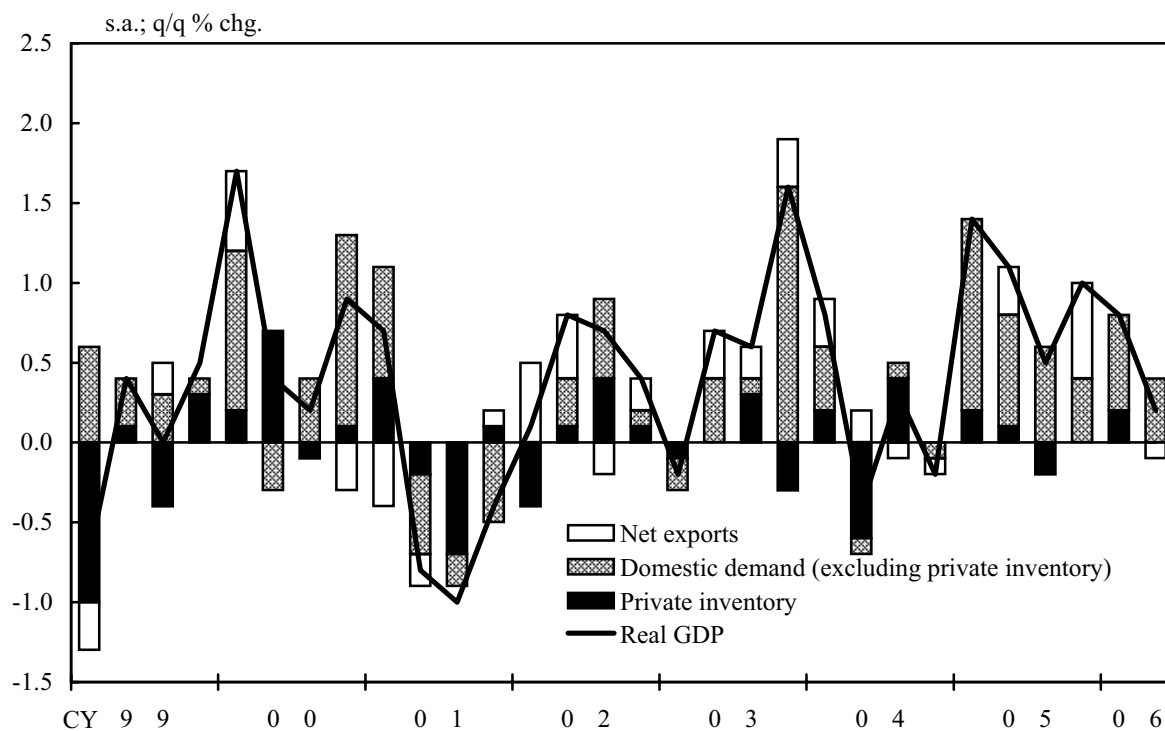
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

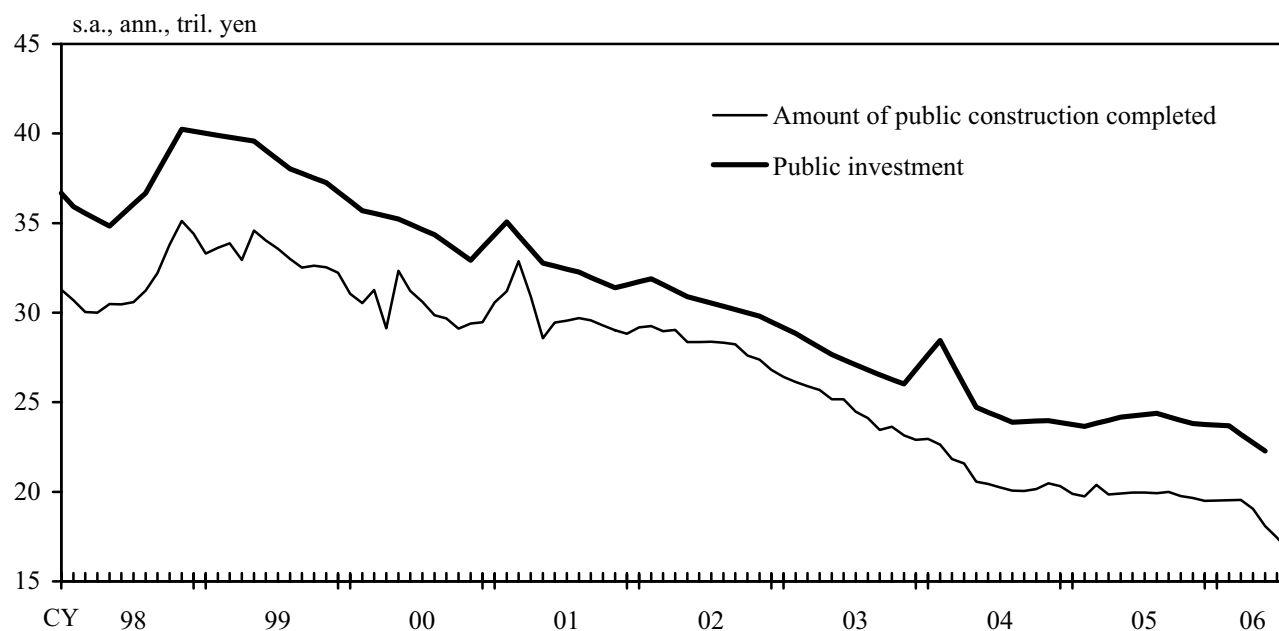
	2005			2006	
	Q2	Q3	Q4	Q1	Q2
Real GDP	1.1	0.5	1.0	0.8	0.2
Domestic demand	0.9	0.4	0.4	0.8	0.4
Private consumption	0.7	0.4	0.7	0.2	0.5
Non-Resi. investment	2.0	1.7	0.3	3.3	3.7
Residential investment	-1.5	1.9	1.8	0.7	-2.7
Private inventory	(0.1)	(-0.2)	(0.0)	(0.2)	(-0.0)
Public demand	0.6	0.2	-0.5	-0.1	-1.5
Public investment	1.6	0.5	-3.0	-0.6	-6.3
Net exports of goods and services	(0.3)	(0.0)	(0.6)	(0.0)	(-0.1)
Exports	3.6	3.1	3.8	2.2	0.9
Imports	1.9	3.4	-0.5	2.4	2.0
Nominal GDP	0.7	0.2	0.6	0.5	0.3

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

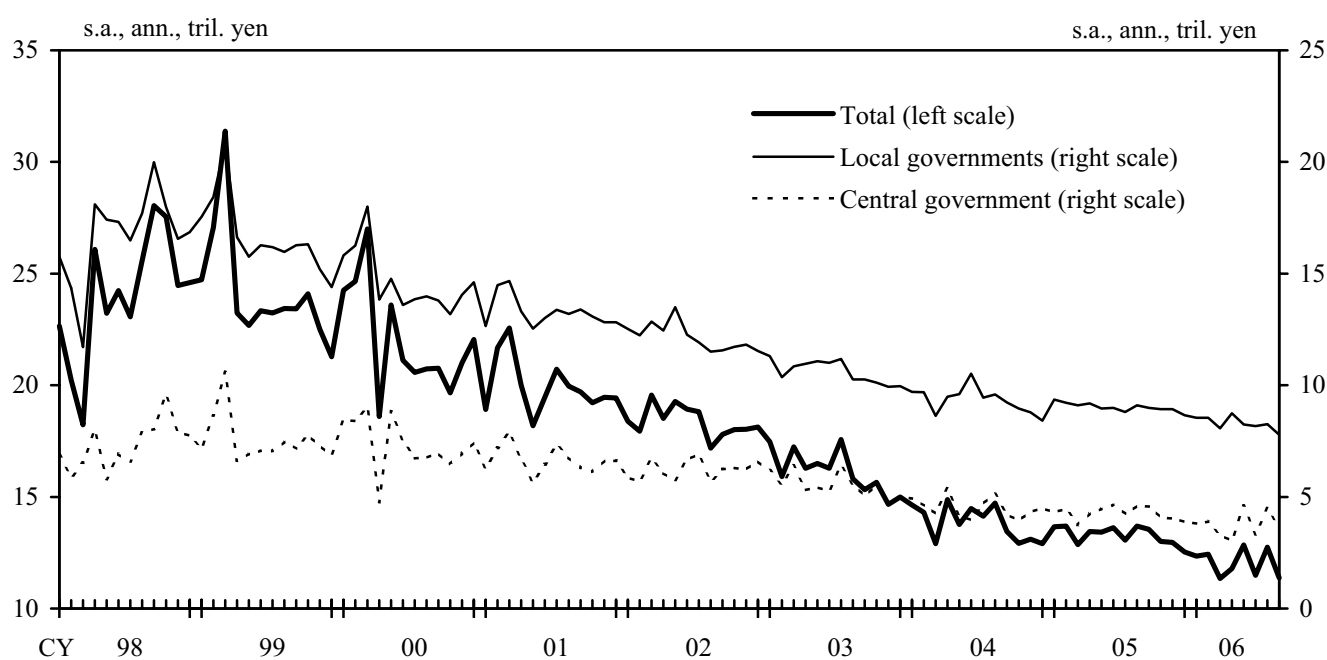
Source: Cabinet Office, "National Accounts."

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.

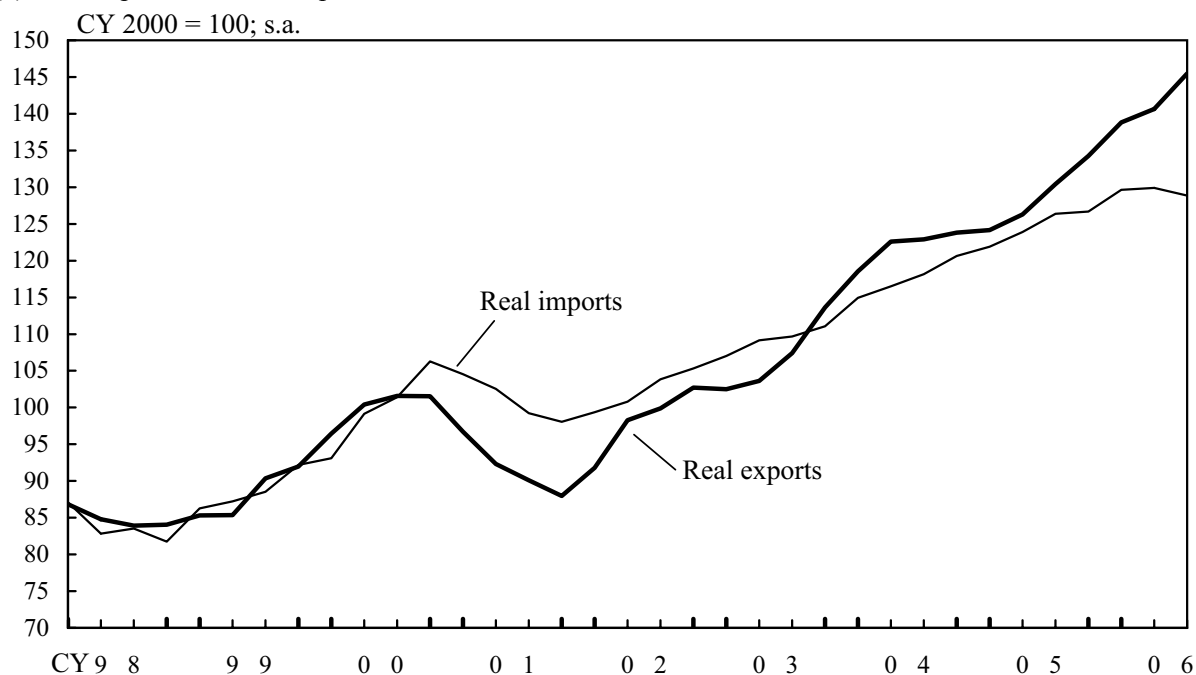
Sources: Cabinet Office, "National Accounts";

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

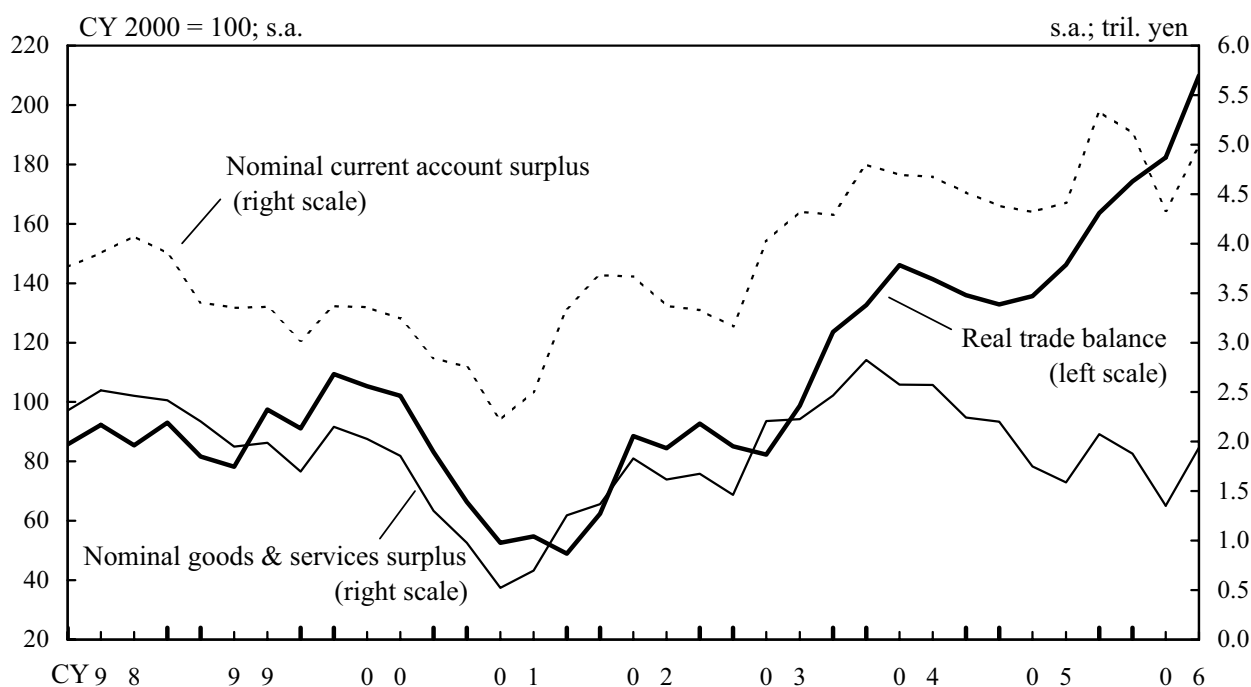
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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. 2006/Q3 figures are July-August averages converted into quarterly amount.
 3. 2006/Q3 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are July-August 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 Q3	2006 Q4	2006 Q1	Q2	Q3	2006 Jun.	Jul.	Aug.
United States	<22.5>	6.8	7.3	0.8	4.4	3.4	1.7	3.1	-8.3	6.7	3.0
EU	<14.7>	18.7	3.4	2.2	2.5	1.2	5.6	3.0	-0.1	1.5	0.3
East Asia	<46.7>	19.1	6.2	4.4	1.8	3.5	0.3	2.1	2.6	-0.1	0.4
China	<13.5>	22.2	9.7	10.1	4.7	4.7	2.9	2.4	4.6	-1.6	1.7
NIEs	<24.3>	20.3	5.0	3.4	0.6	3.4	0.2	0.0	3.1	-1.7	-1.0
Korea	<7.8>	19.1	4.5	5.7	3.1	1.4	2.8	-3.2	-4.6	0.8	-3.0
Taiwan	<7.3>	26.9	4.4	-2.2	-3.3	9.5	-1.4	0.5	7.2	-1.9	-3.8
ASEAN ⁴	<9.0>	12.3	4.4	-0.4	1.0	1.9	-3.6	7.6	-2.1	6.7	2.2
Thailand	<3.8>	18.7	10.0	0.9	1.3	2.1	-1.7	6.8	0.1	9.5	-3.2
Others	<16.0>	14.4	11.6	5.6	4.7	7.7	0.8	7.2	-5.6	8.6	1.2
Real exports		14.5	5.4	3.3	2.9	3.4	1.3	3.4	-1.4	2.2	2.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q3	2006 Q4	2006 Q1	Q2	Q3	2006 Jun.	Jul.	Aug.
Intermediate goods	<17.3>	5.5	1.8	2.6	1.9	4.7	-2.0	1.6	2.1	-0.6	2.6
Motor vehicles and their related goods	<22.7>	8.3	8.2	0.8	4.1	5.4	1.7	3.0	-5.5	2.7	4.6
Consumer goods ⁴	<5.6>	14.9	5.5	4.7	2.6	-2.3	4.1	2.7	-6.9	2.8	3.2
IT-related goods ⁵	<12.5>	17.3	5.4	3.8	3.4	1.2	-1.0	3.1	-0.7	3.9	0.4
Capital goods and parts ⁶	<29.5>	23.5	7.2	3.4	3.1	4.7	1.5	5.6	-1.6	3.6	2.9
Real exports		14.5	5.4	3.3	2.9	3.4	1.3	3.4	-1.4	2.2	2.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July-August 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.

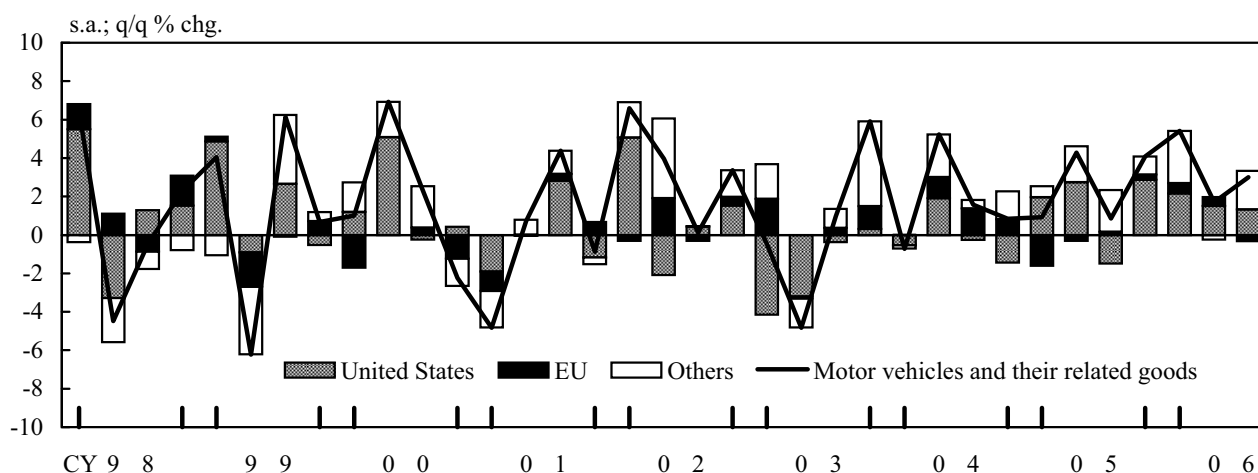
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

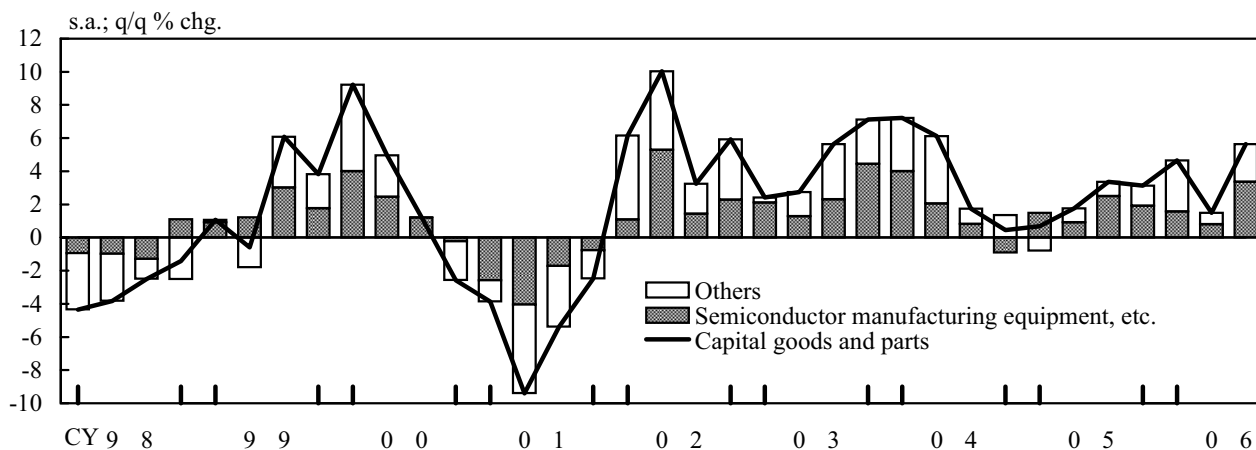
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

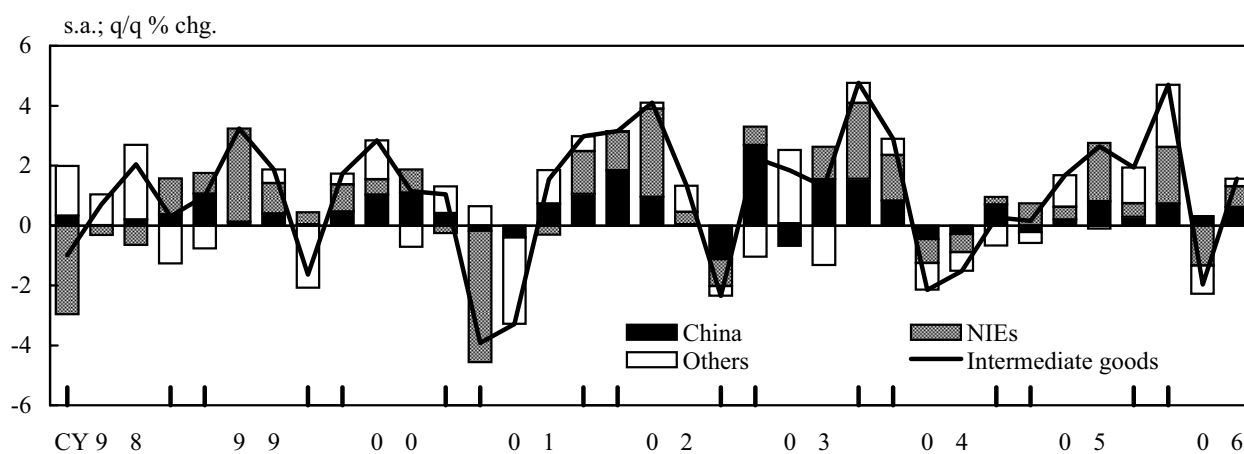
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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

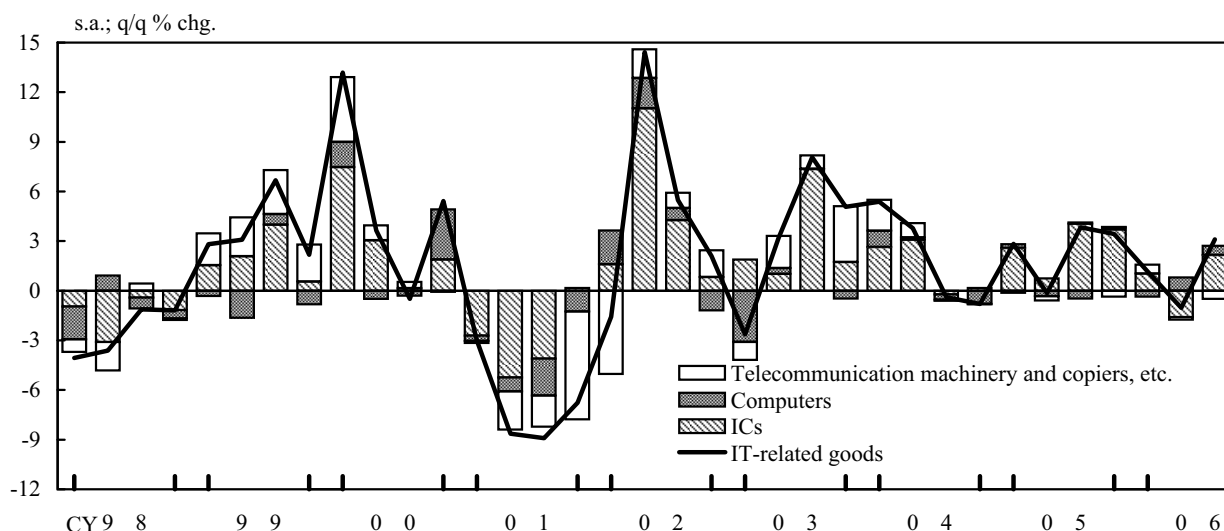


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July-August averages converted into quarterly amount.

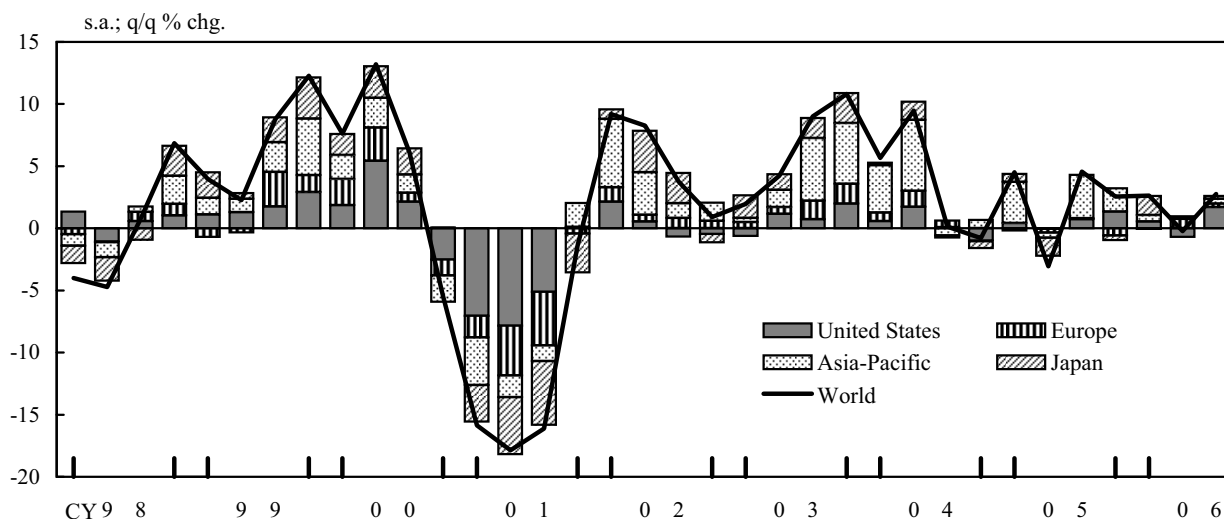
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

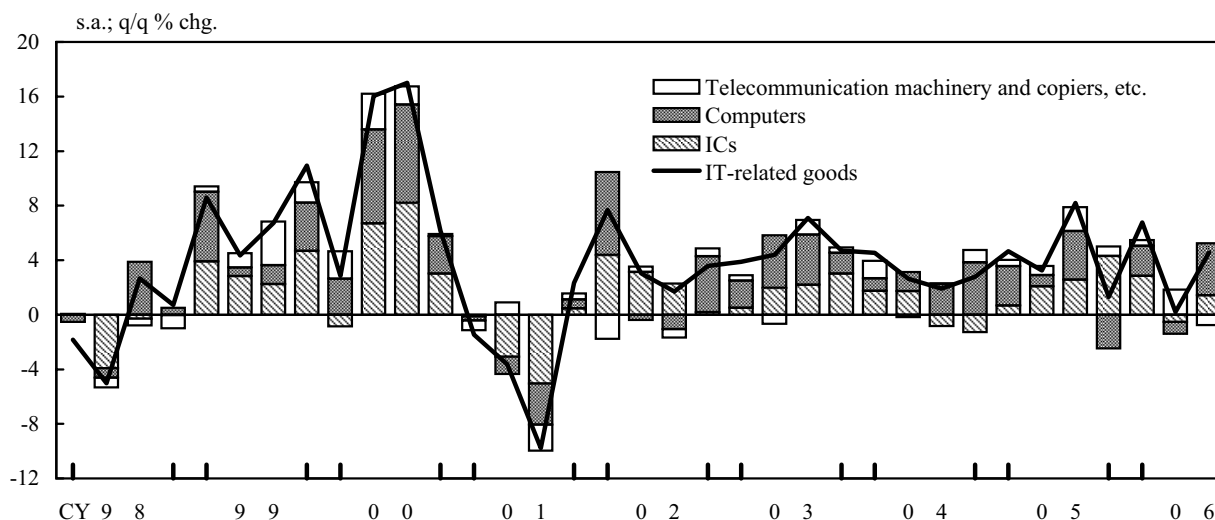
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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

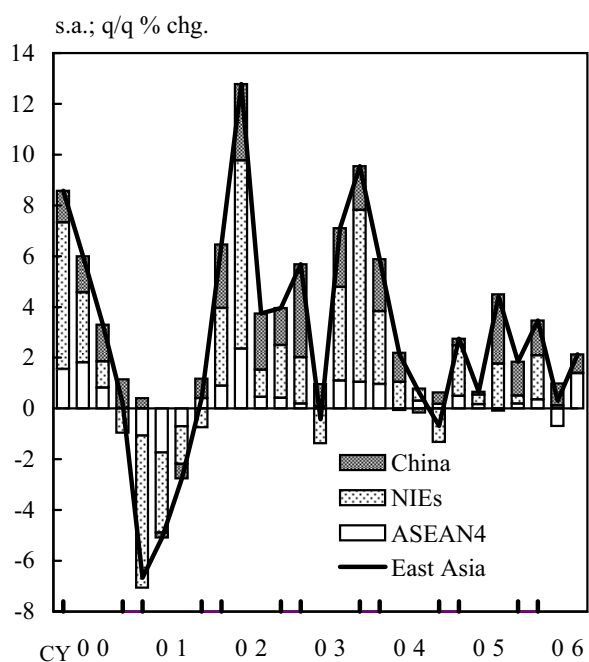


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July-August averages converted into quarterly amount.

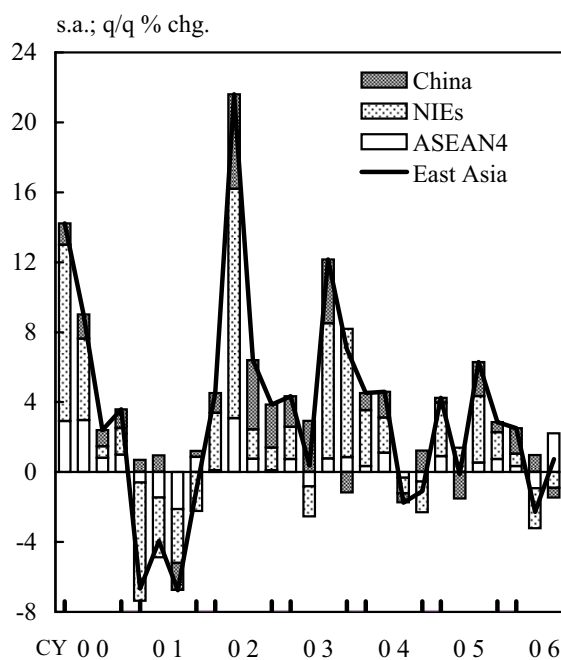
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

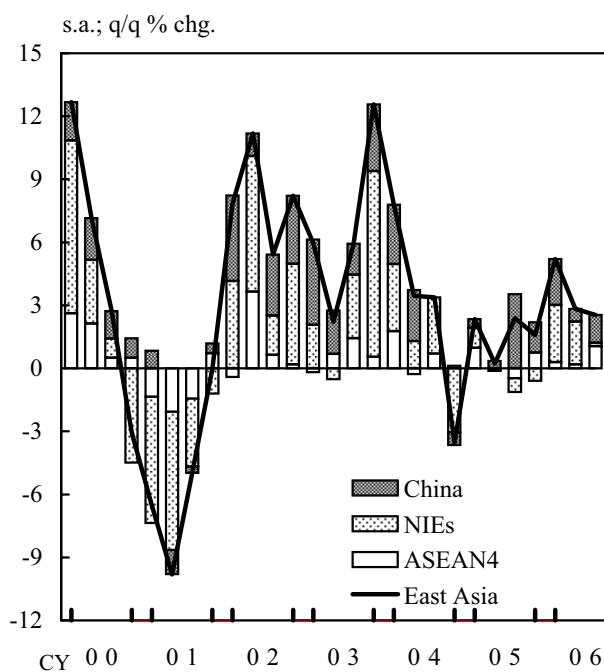
(1) All Goods (Real, Breakdown by Region)



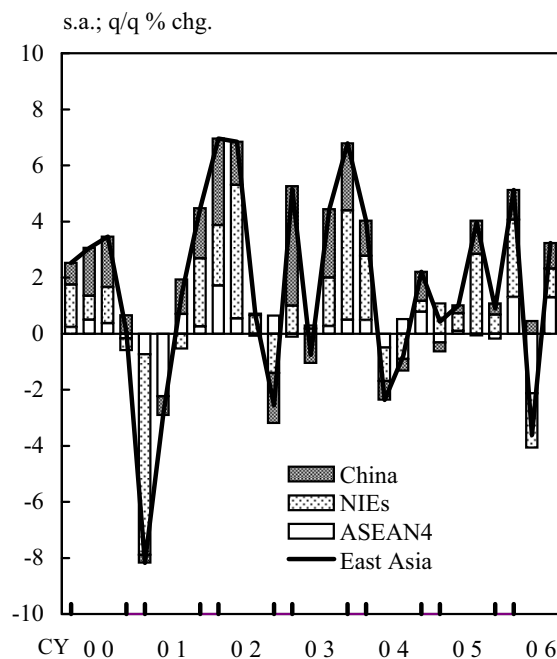
(2) IT-Related Goods (Real, Breakdown by Region)



(3) Capital Goods and Parts (Including Semiconductor Manufacturing Equipment, Real, Breakdown by Region)



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

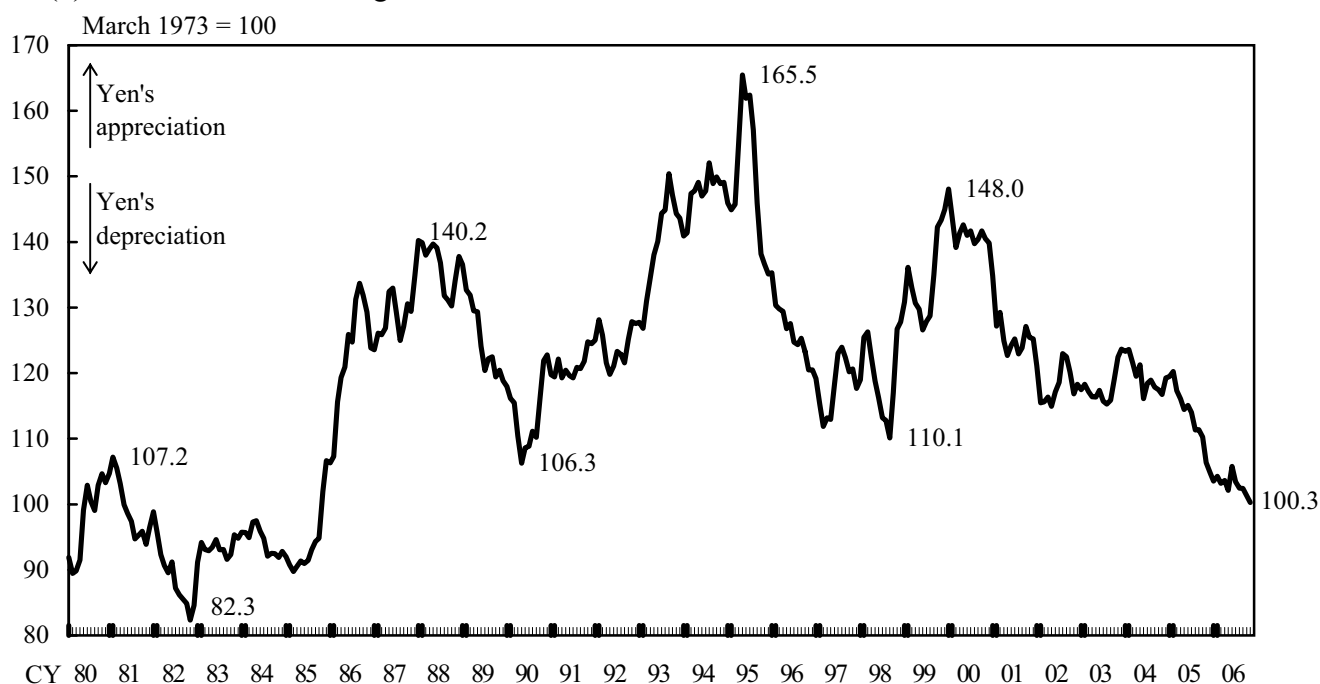


Note: Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July-August averages converted into quarterly amount.

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 2006 is the average up to October 12.

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 Q4	2006 Q1	Q2	Q3	
United States ¹		2.5	3.9	3.2	1.8	5.6	2.6	n.a.	
European Union ¹		1.3	2.2	1.8	2.0	3.2	3.8	n.a.	
	Germany	-0.2	0.8	1.1	1.1	2.7	3.6	n.a.	
	France	1.1	2.0	1.2	1.1	1.8	4.9	n.a.	
	United Kingdom	2.7	3.3	1.9	2.7	2.6	2.8	n.a.	
East Asia ²	China	10.0	10.1	10.2	9.9	10.3	11.3	n.a.	
	NIEs	Korea	3.1	4.7	4.0	5.3	6.1	5.3	n.a.
		Taiwan	3.4	6.1	4.0	6.4	4.9	4.6	n.a.
		Hong Kong	3.2	8.6	7.3	7.5	8.0	5.2	n.a.
		Singapore	2.9	8.7	6.4	8.7	10.6	8.0	7.1
	ASEAN4	Thailand	7.0	6.2	4.5	4.7	6.1	4.9	n.a.
		Indonesia	4.8	5.1	5.6	4.9	4.7	5.2	n.a.
		Malaysia	5.5	7.2	5.2	5.2	5.5	5.9	n.a.
Philippines		4.9	6.2	5.0	5.3	5.7	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 Q3	2005 Q4	2006			2006		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
United States	<12.4>	0.4	3.6	4.7	-0.1	4.1	-3.1	4.6	-4.1	-0.3	11.7
EU	<11.4>	9.6	2.1	-1.1	-0.7	1.6	0.0	-0.2	-0.7	-1.5	3.7
East Asia	<42.3>	14.7	11.2	3.0	1.8	4.1	0.6	0.9	-0.2	2.4	3.8
China	<21.0>	20.9	18.8	2.8	1.8	4.9	0.7	1.5	-1.5	3.9	6.1
NIEs	<9.8>	12.8	9.3	7.1	4.0	4.0	1.2	0.2	-1.1	0.1	3.2
Korea	<4.7>	14.5	8.3	5.9	7.5	-1.2	3.4	-1.4	6.5	-4.9	1.2
Taiwan	<3.5>	12.0	11.0	12.3	0.3	8.2	-0.5	4.1	-6.4	7.4	5.6
ASEAN4 ³	<11.4>	7.1	0.2	-0.6	-0.4	2.7	-0.2	0.3	3.6	1.8	-0.6
Thailand	<3.0>	14.3	12.8	2.0	2.0	1.2	3.5	-1.5	3.8	-4.0	4.1
Others	<34.0>	4.7	1.8	1.2	2.0	-2.0	4.1	-4.6	3.6	-4.2	1.9
Real imports		8.1	5.4	2.0	0.2	2.4	0.2	-0.8	0.1	-0.9	2.8

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q3	2005 Q4	2006			2006		
						Q1	Q2	Q3	Jun.	Jul.	Aug.
Raw materials ⁴	<31.7>	1.3	-3.9	1.4	-0.6	0.5	2.8	-3.2	2.7	0.6	-1.3
Intermediate goods	<14.0>	8.7	4.6	0.3	0.6	0.4	2.0	-1.7	3.0	-5.4	6.0
Foodstuffs	<9.8>	0.4	2.6	-0.9	-3.1	2.5	-2.9	-4.2	1.5	-6.0	3.2
Consumer goods ⁵	<9.9>	12.5	8.7	-3.0	3.0	1.4	-2.4	-1.8	-3.3	3.4	-0.7
IT-related goods ⁶	<12.5>	17.6	15.4	8.2	1.3	6.8	0.2	4.6	-0.6	6.2	5.5
Capital goods and parts ⁷	<12.1>	17.4	13.6	7.2	2.0	7.2	-0.2	4.4	-6.2	1.8	8.4
Excluding aircraft	<11.2>	19.2	13.7	5.0	3.8	5.6	3.5	2.7	1.6	2.2	2.5
Real imports		8.1	5.4	2.0	0.2	2.4	0.2	-0.8	0.1	-0.9	2.8

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q3 figures are July-August 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.

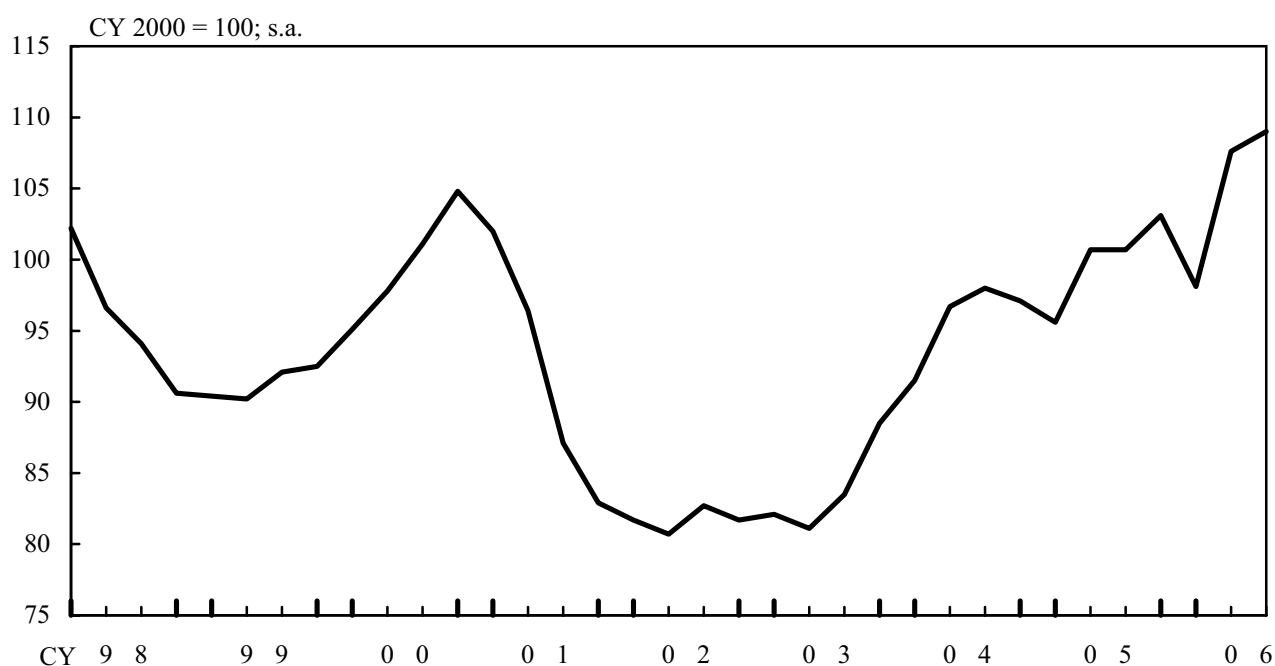
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

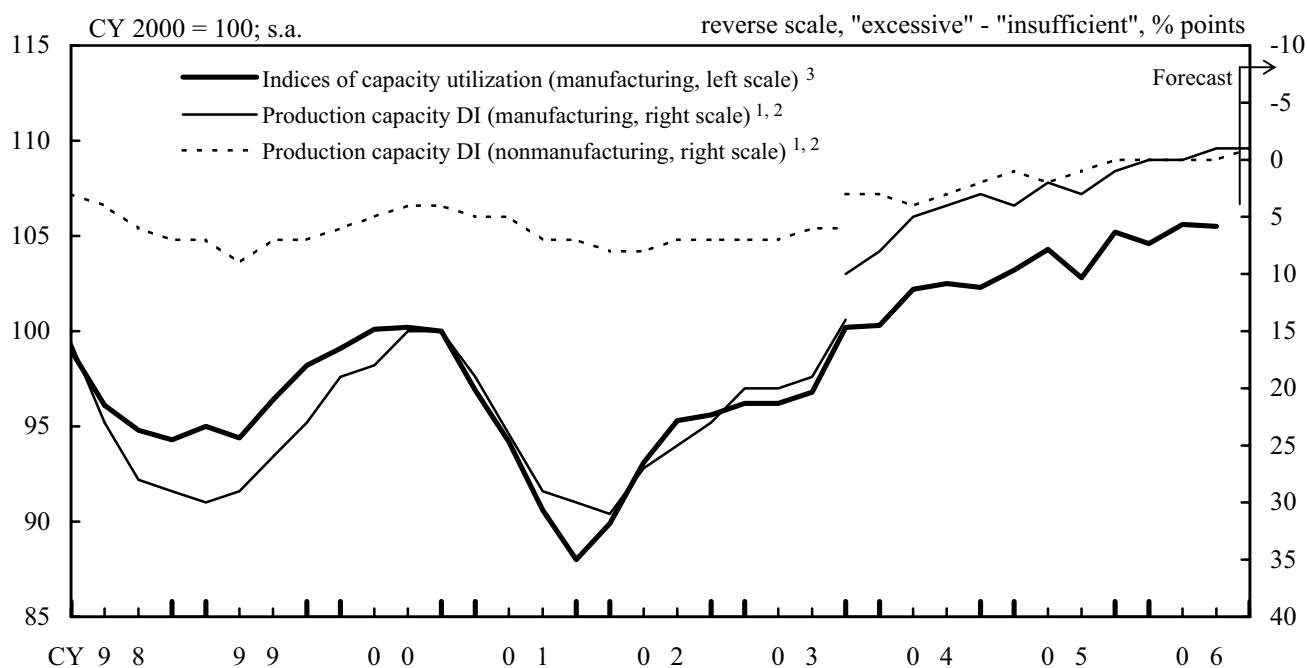
Coincident Indicators for Business Fixed Investment

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



Note: The figure for 2006/Q3 is as of July-August average.

(2) Indices of Capacity Utilization and Production Capacity DI



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

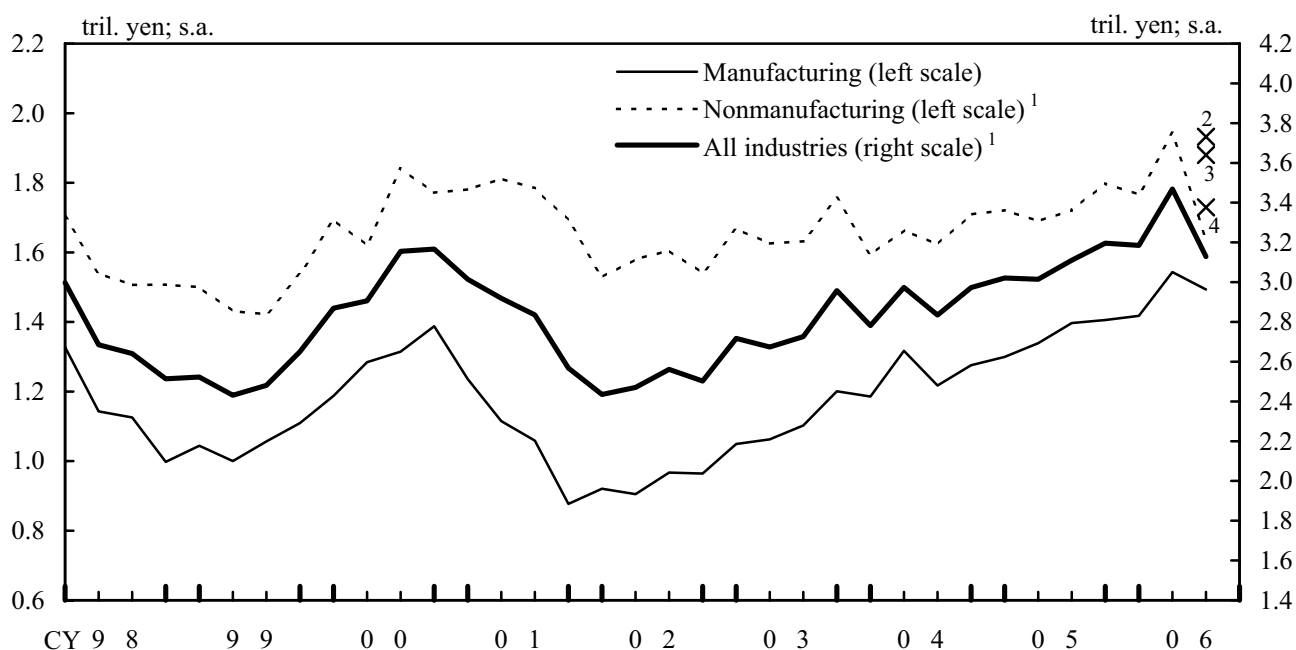
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2006/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."

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



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

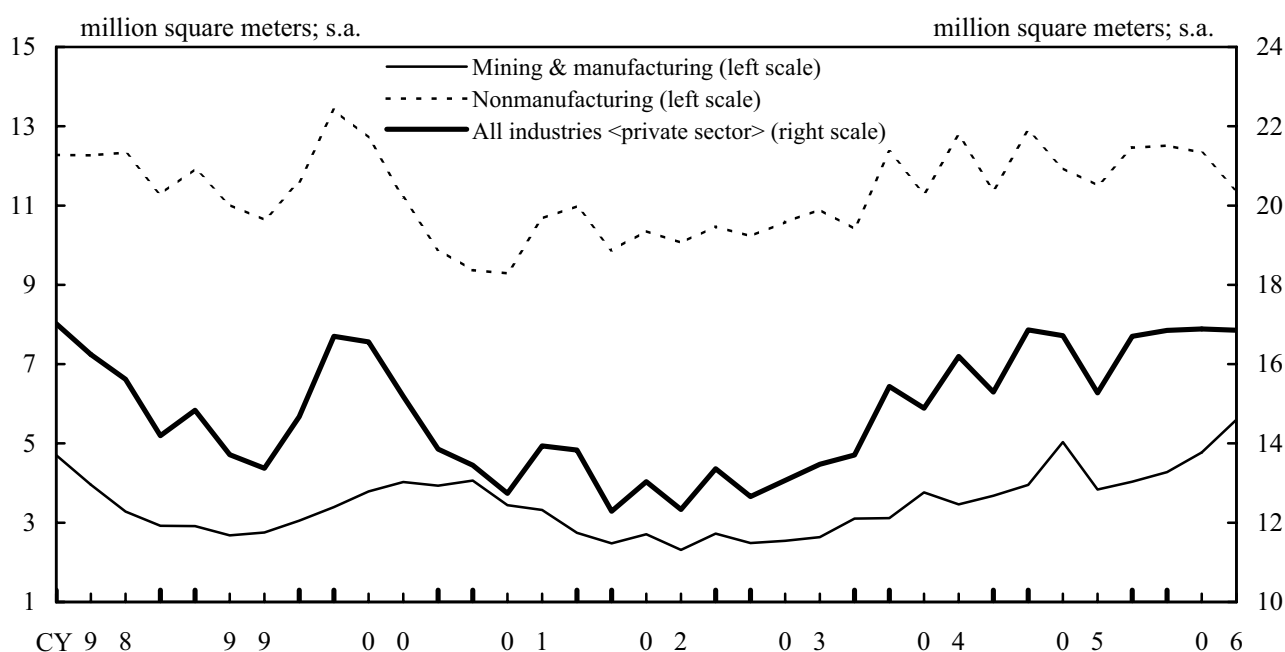
2. Forecast of nonmanufacturing industries for 2006/Q3.

3. Forecast of all industries for 2006/Q3.

4. Forecast of manufacturing industries for 2006/Q3.

5. Figures for 2006/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 FY 2002 were adjusted by using a link coefficient.

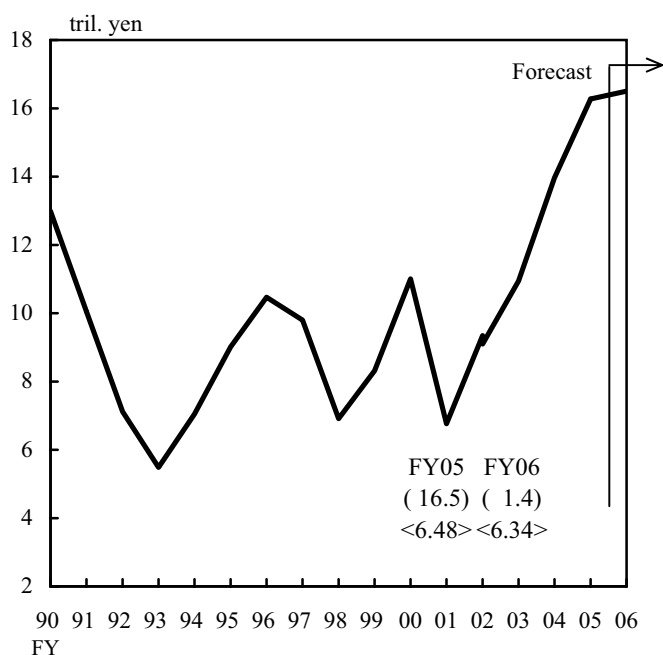
3. Figures for 2006/Q3 are averages of July-August in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

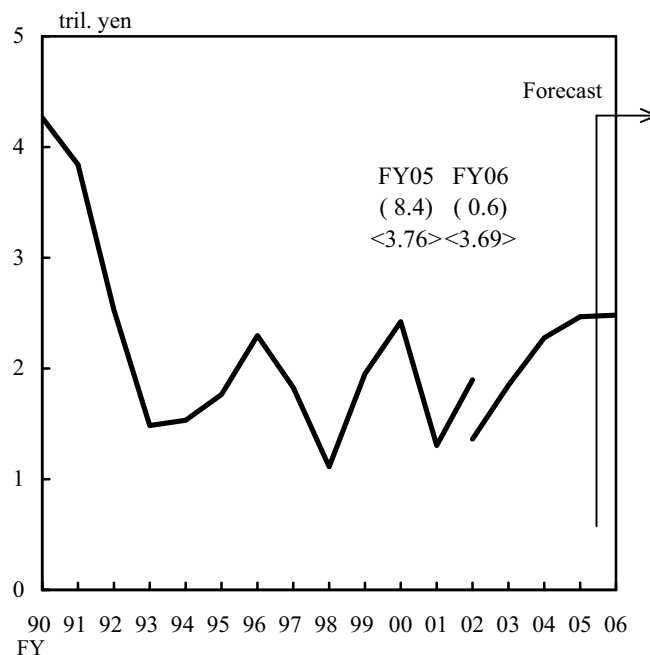
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

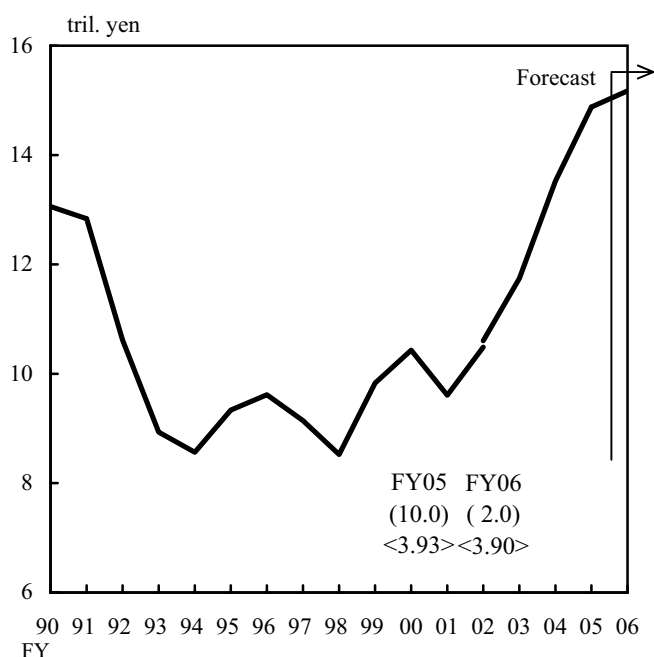
(1) Manufacturing Large Enterprises



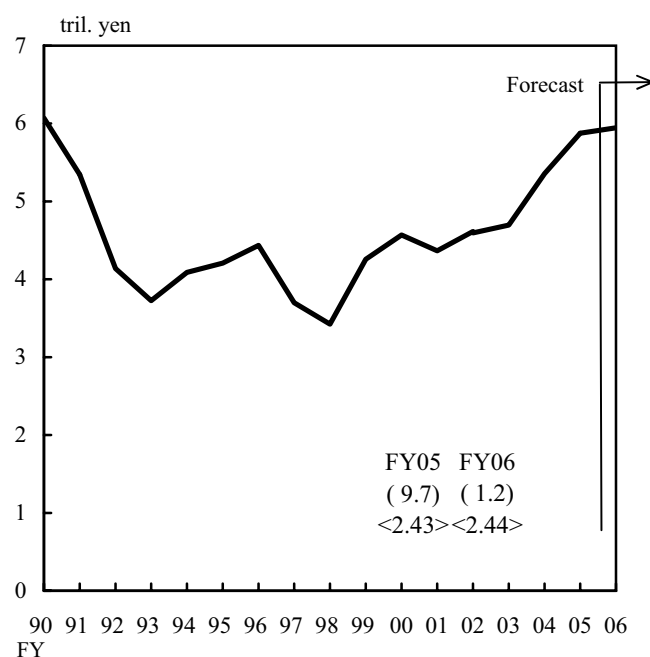
(2) Manufacturing Small Enterprises



(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

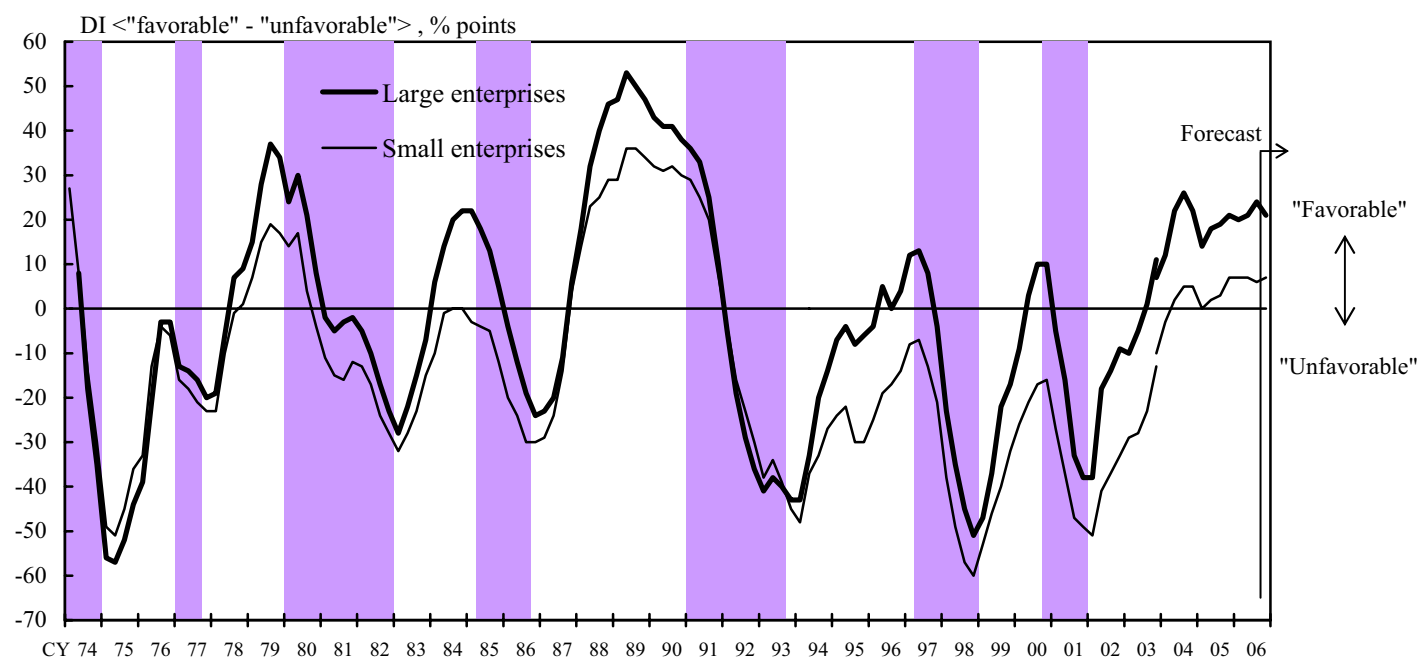
Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen

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

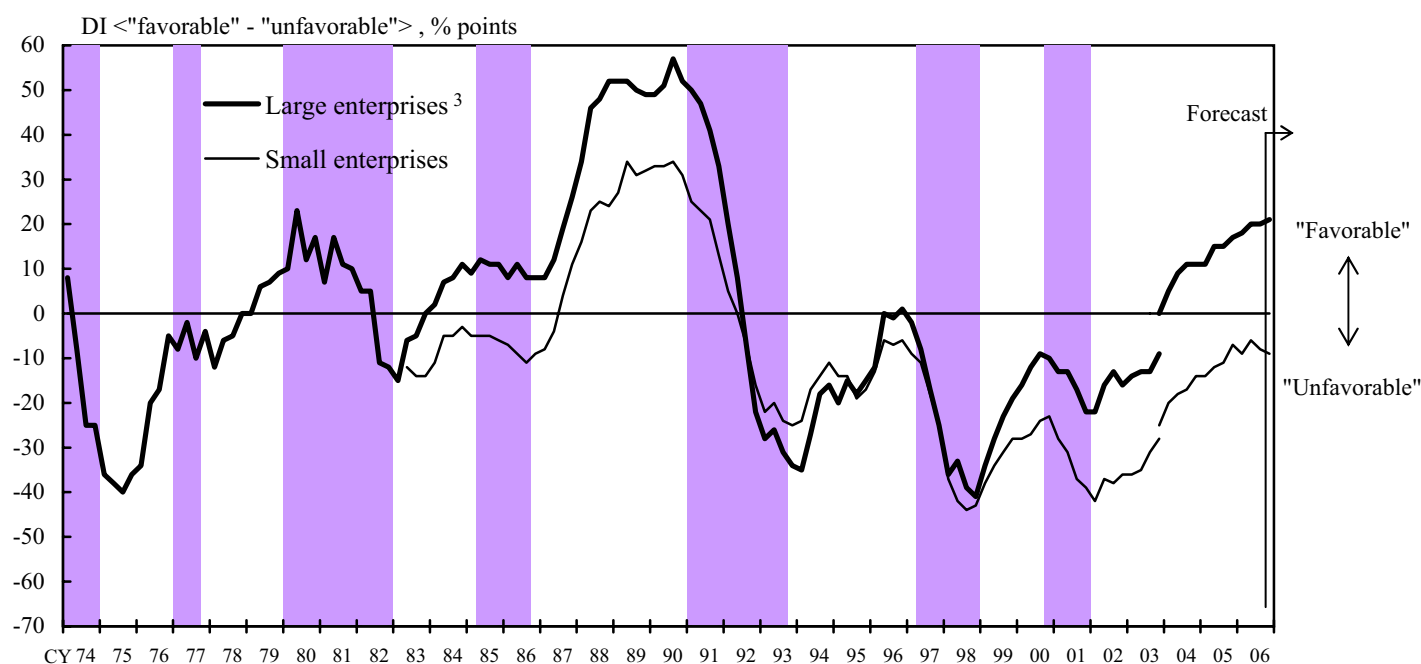
3. The *Tankan* has been revised from the March 2004 survey. Figures up to FY2002 are based on the previous data sets. Figures from FY2002 are on a new basis.

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

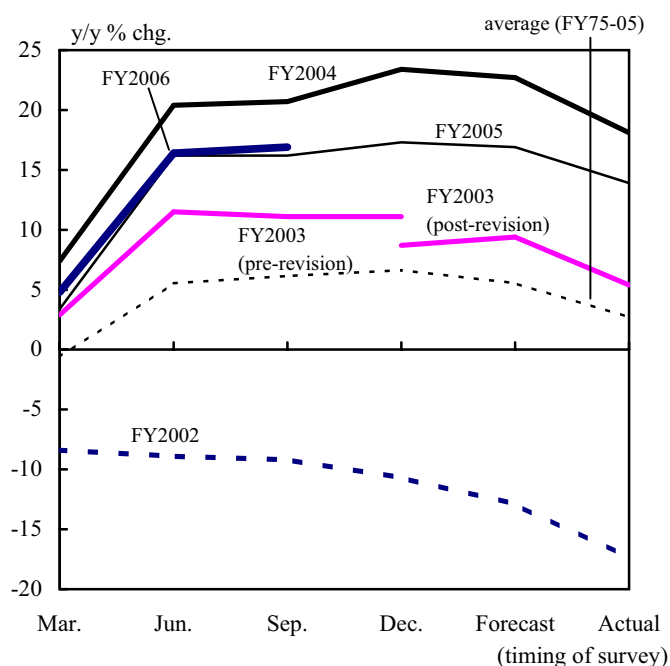
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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

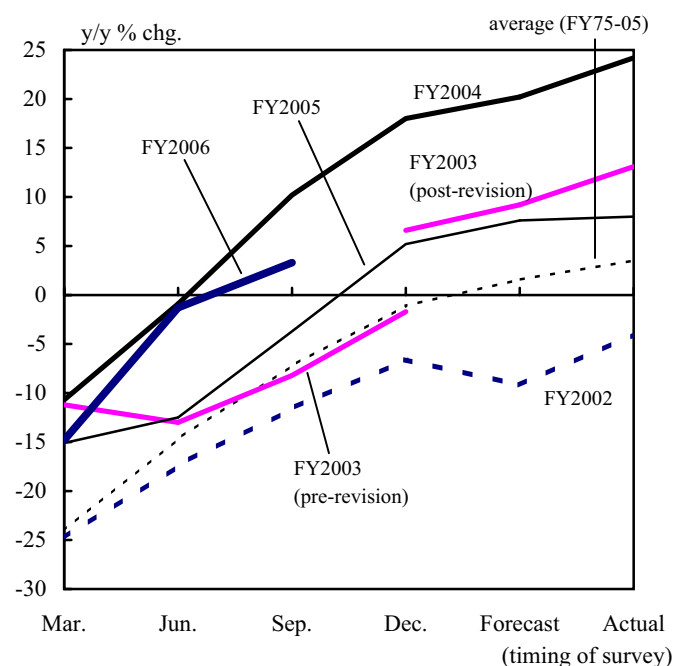
4. Shaded areas indicate recession periods.

Business Fixed Investment Plans as Surveyed

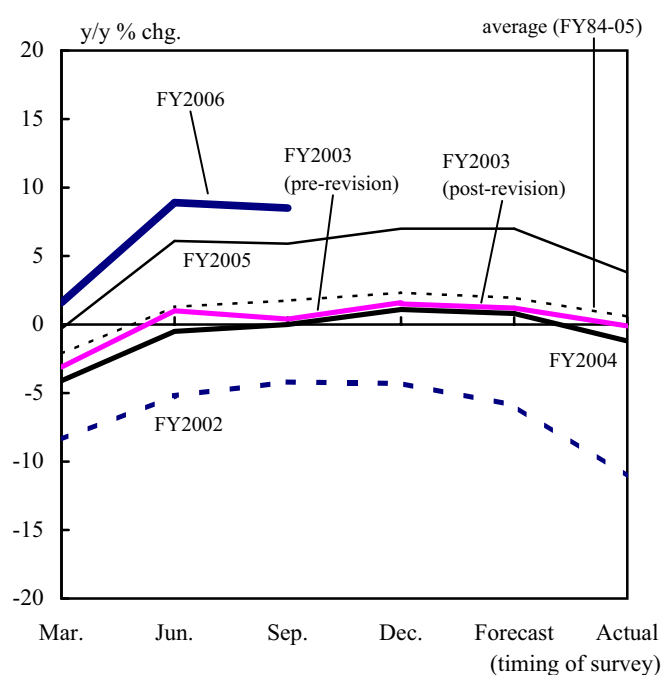
(1) Manufacturing Large Enterprises



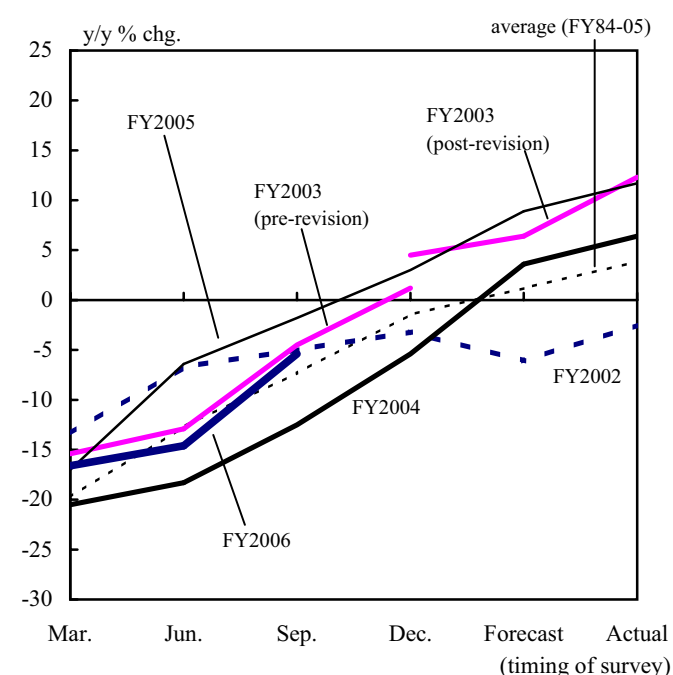
(2) Manufacturing Small Enterprises



(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

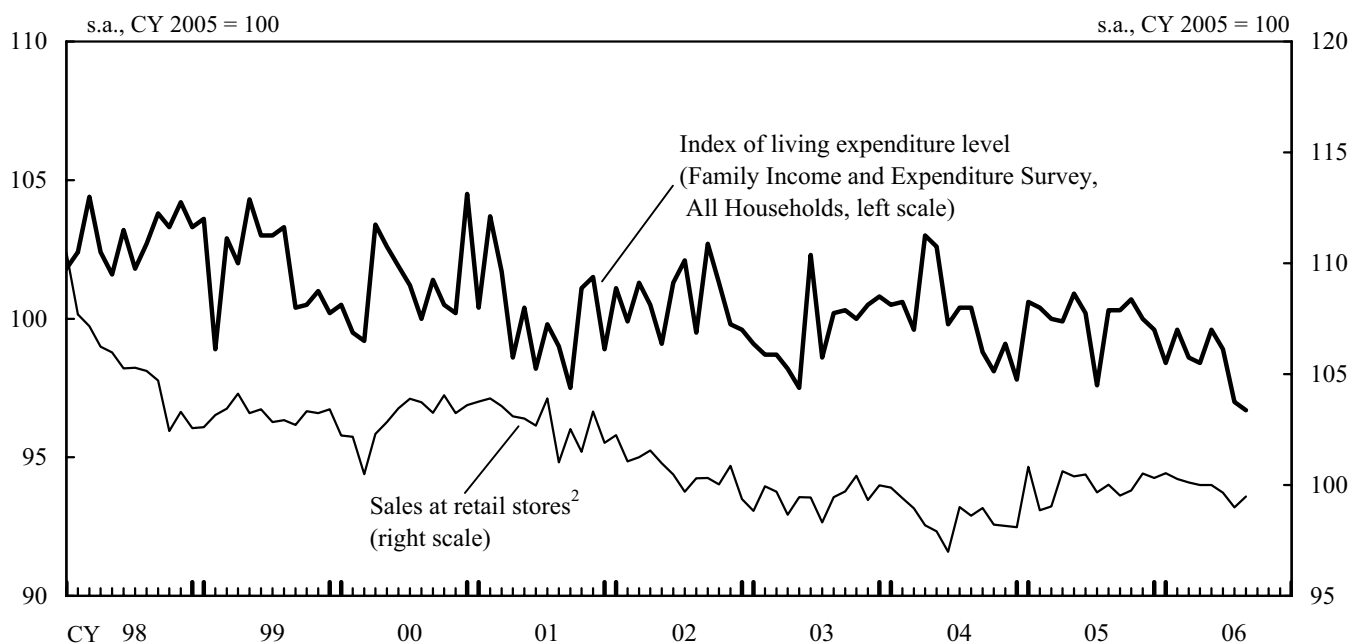
2. Includes land purchasing expenses and excludes software investment.

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.

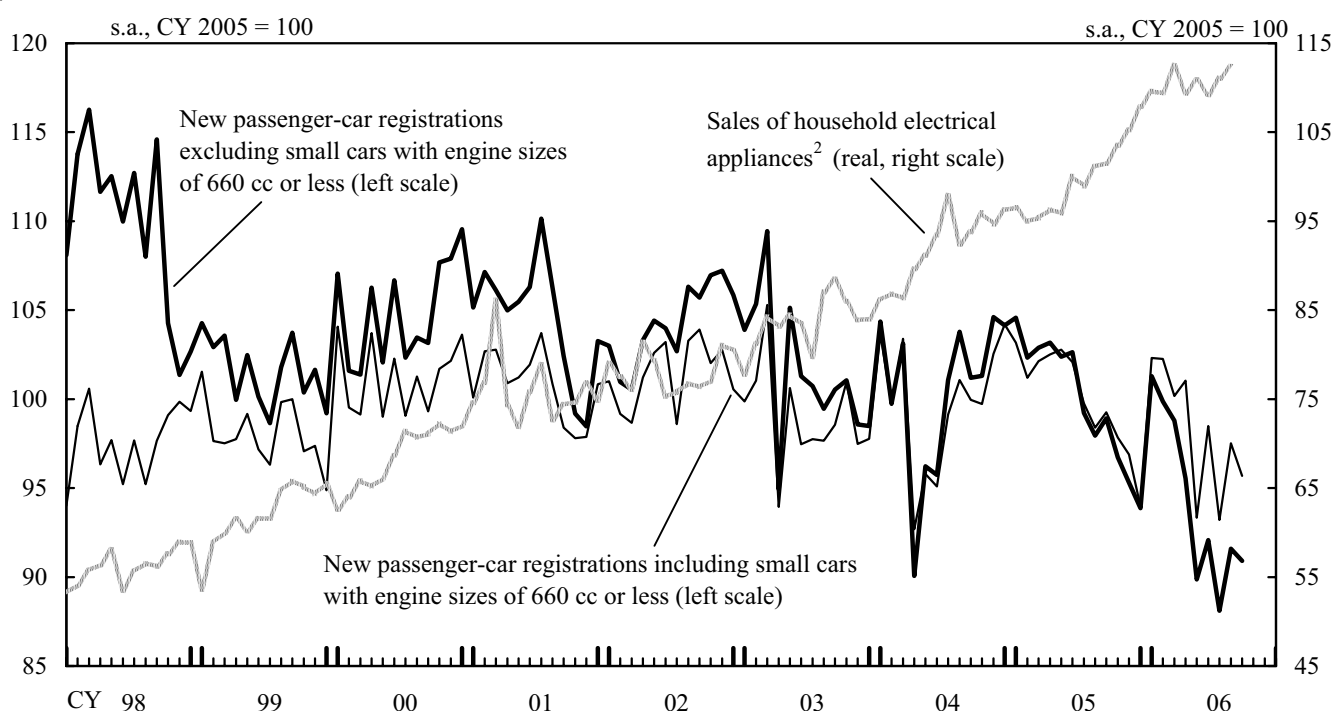
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption¹ (1)

(1) Household Spending (Real)



(2) Sales of Durable Goods



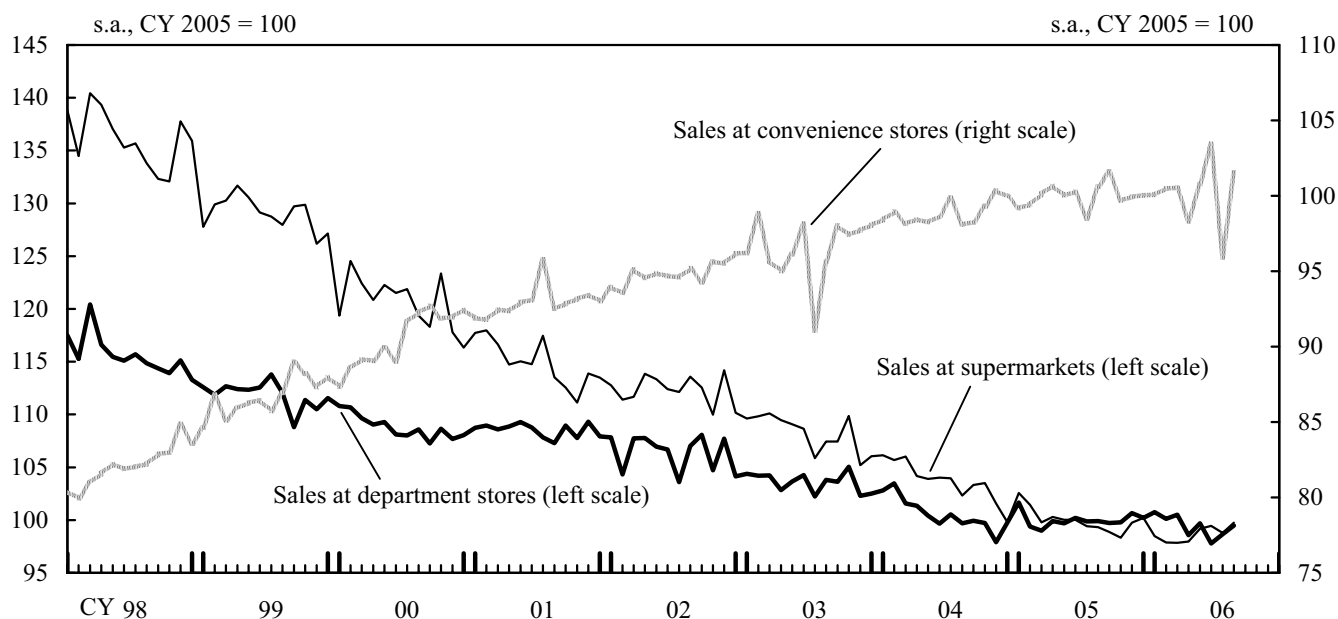
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

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 and the corporate goods price index for personal computers before 1999 and PC printers before 2002).

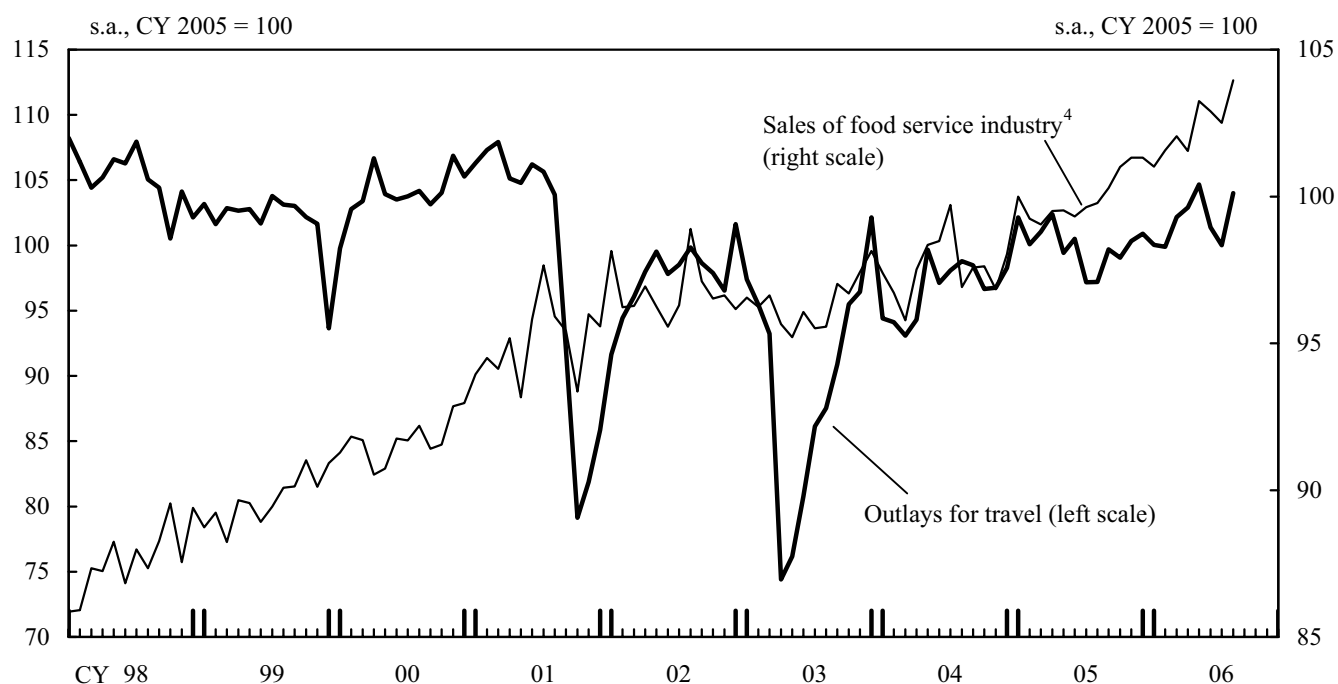
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index," "Monthly Report on the Family Income and Expenditure Survey"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles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

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 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.

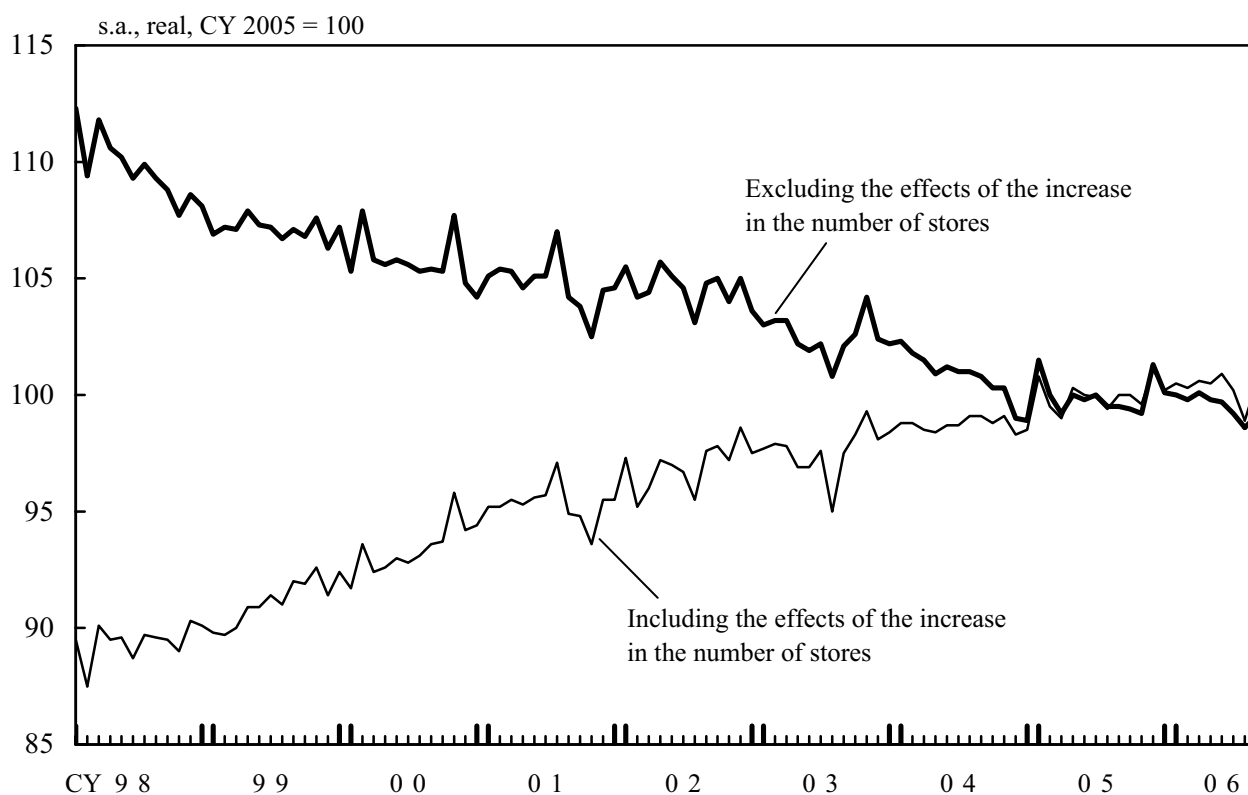
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

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

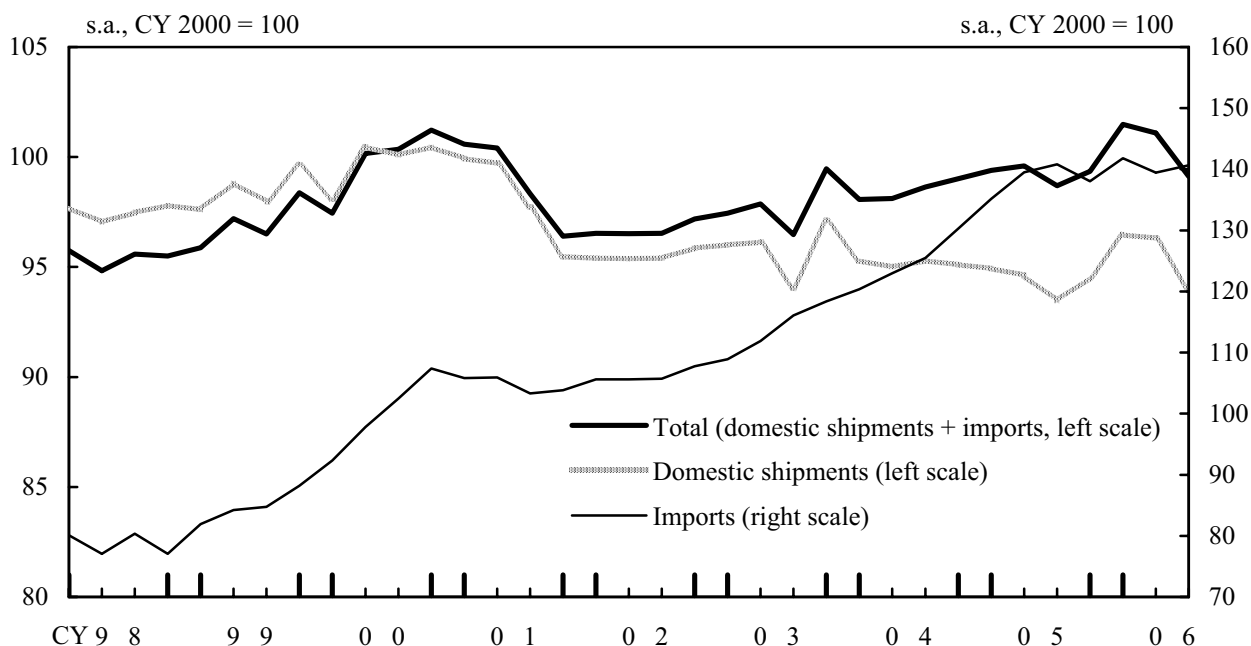


- Notes: 1. Indices of aggregated sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in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

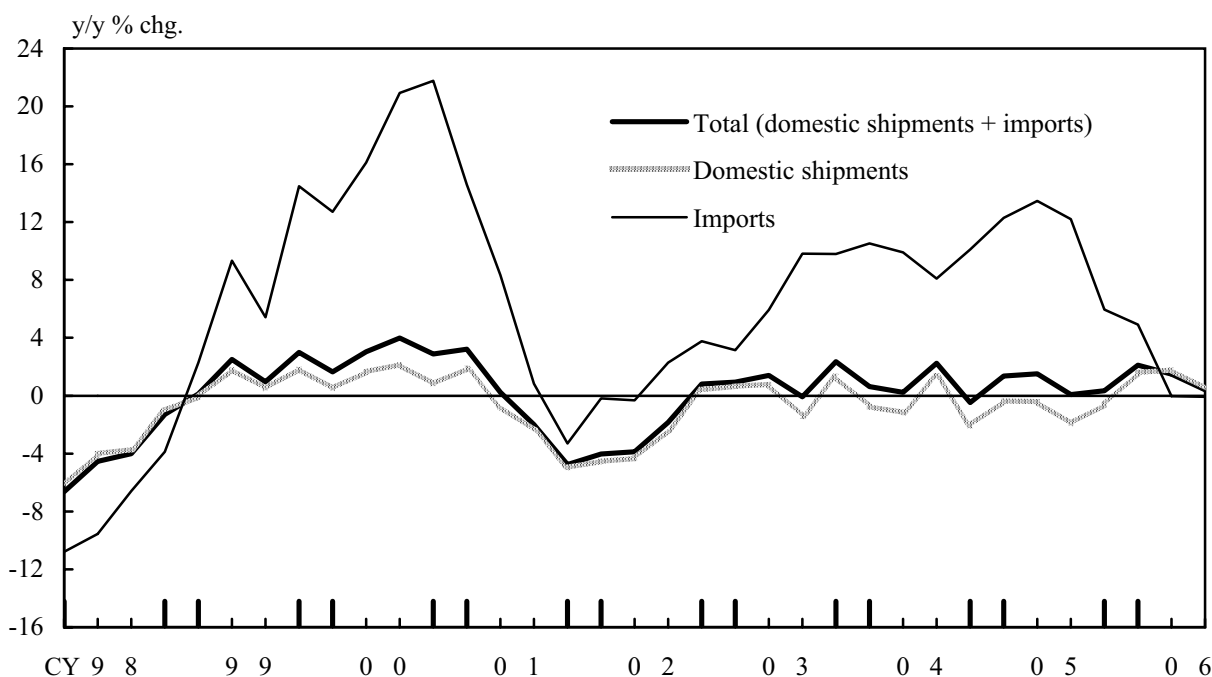
Source: Bank of Japan, "Indices of Aggregated Sales."

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.

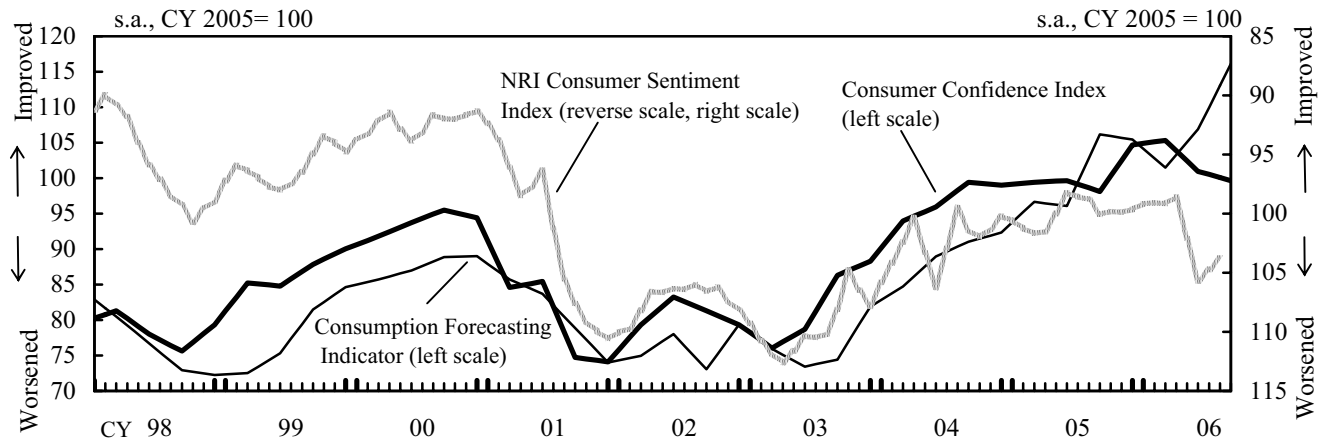
3. Year-on-year rates of change are calculated from seasonally adjusted series.

4. Data for 2006/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."

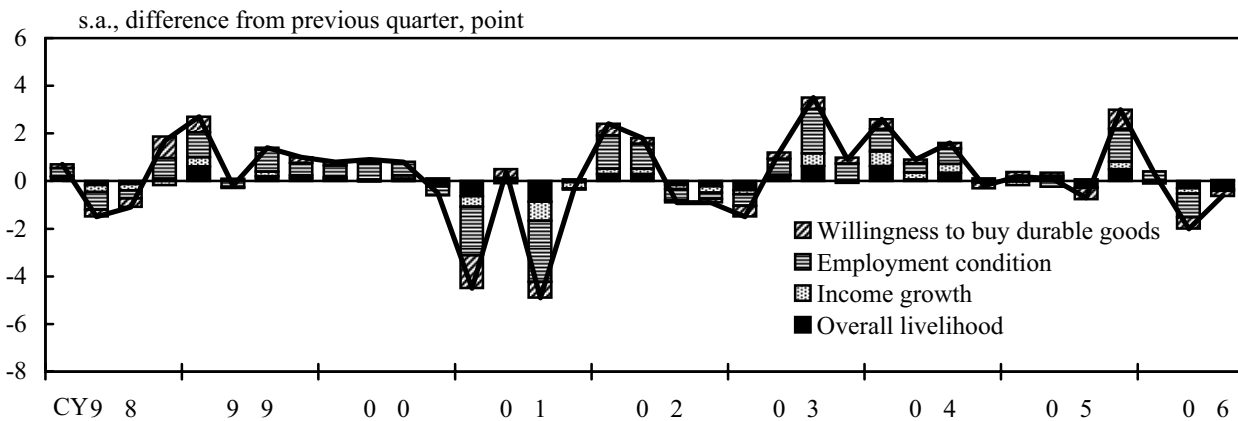
Consumer Confidence

(1) Surveys on Consumer Confidence

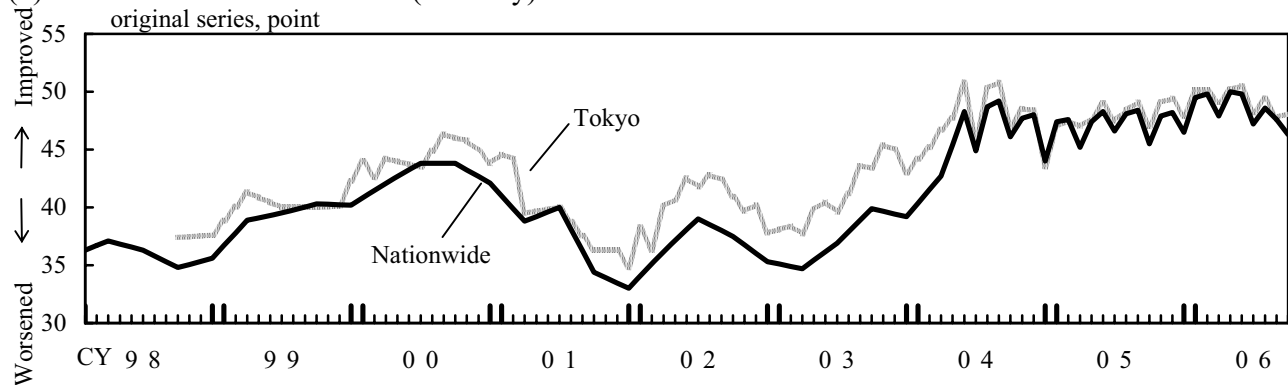


- Notes:
1. Seasonally adjusted by X-11. "Consumer Confidence Index" is seasonally adjusted by the Cabinet Office. "Consumption Forecasting Indicator" is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
 2. Consumer Confidence Index (with 5,040 samples in a nationwide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

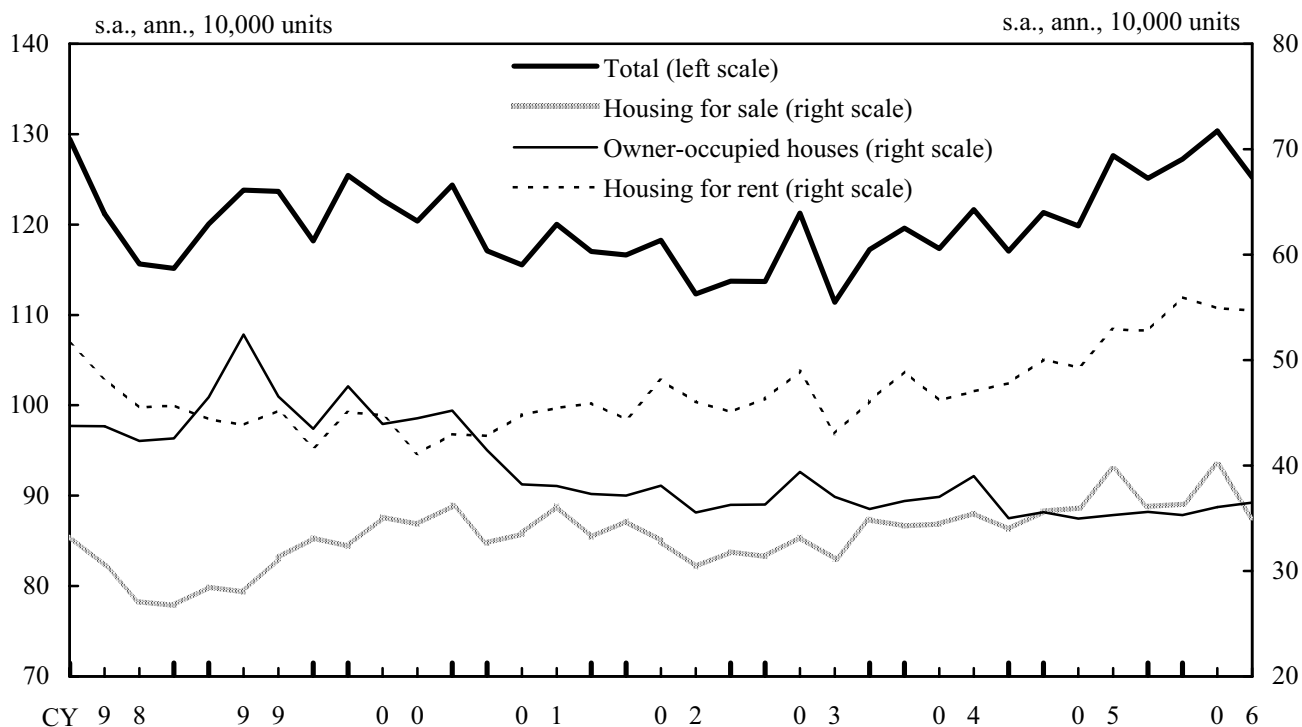


Note: From September 1998 to October 2001, figures of "Monthly Consumer Confidence Index (Tokyo)" when the survey was not conducted were supplemented with linear interpolation. Figures of "Monthly Consumer Confidence Index (Nationwide)" were also plotted at the surveyed months and supplemented with linear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

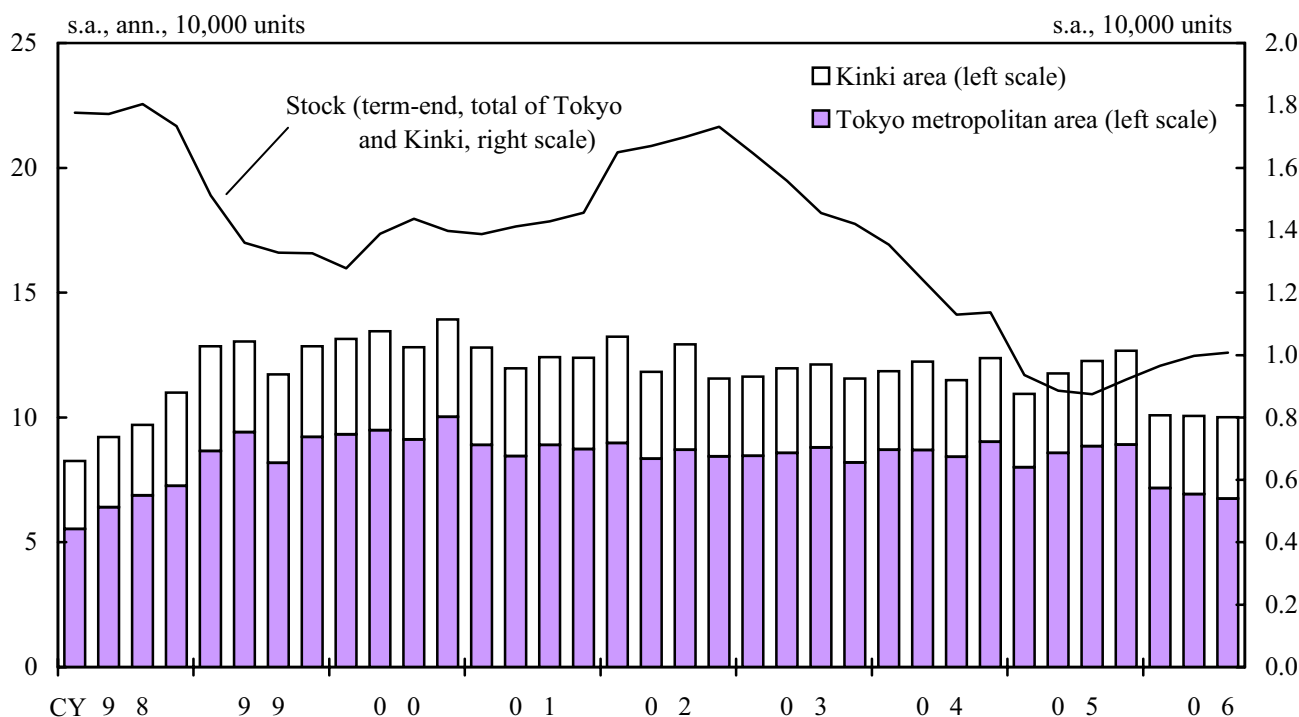
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2006/Q3 are those of July-August averages.

(2) Sales of Apartments



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

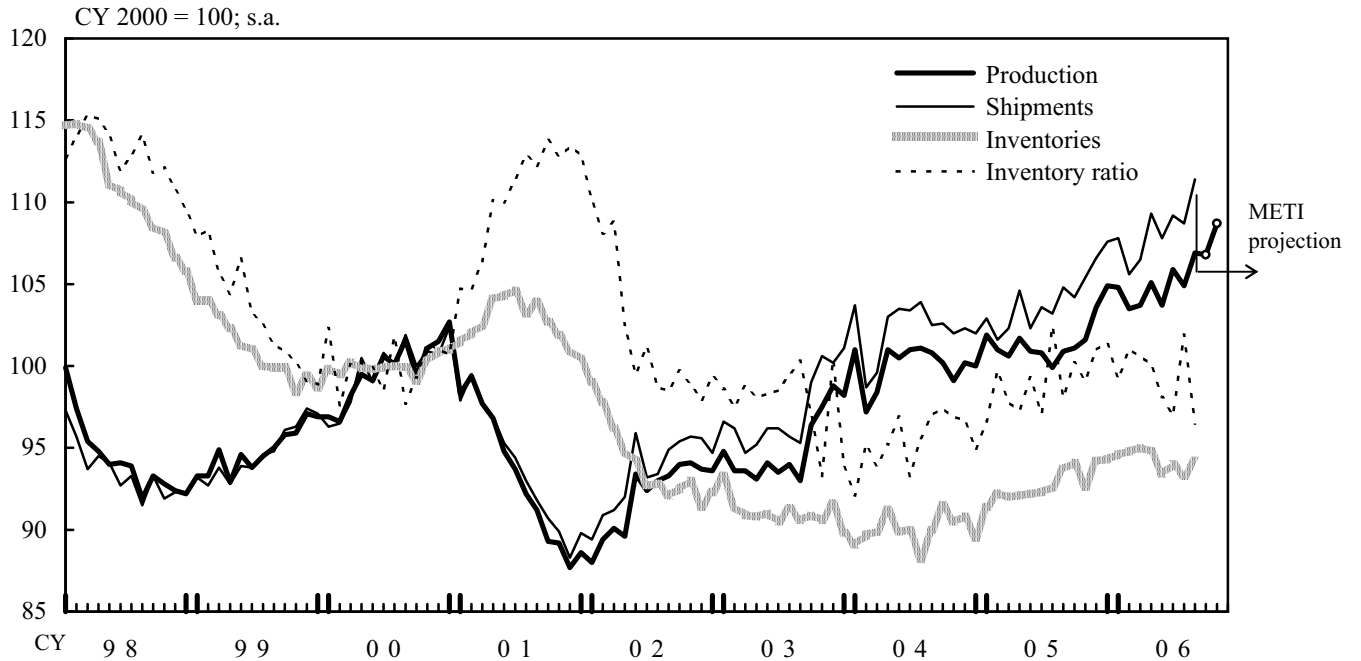
2. Figures of total apartments sales for 2006/Q3 are those of July-August averages.

Term-end stocks for 2006/Q3 are those of August.

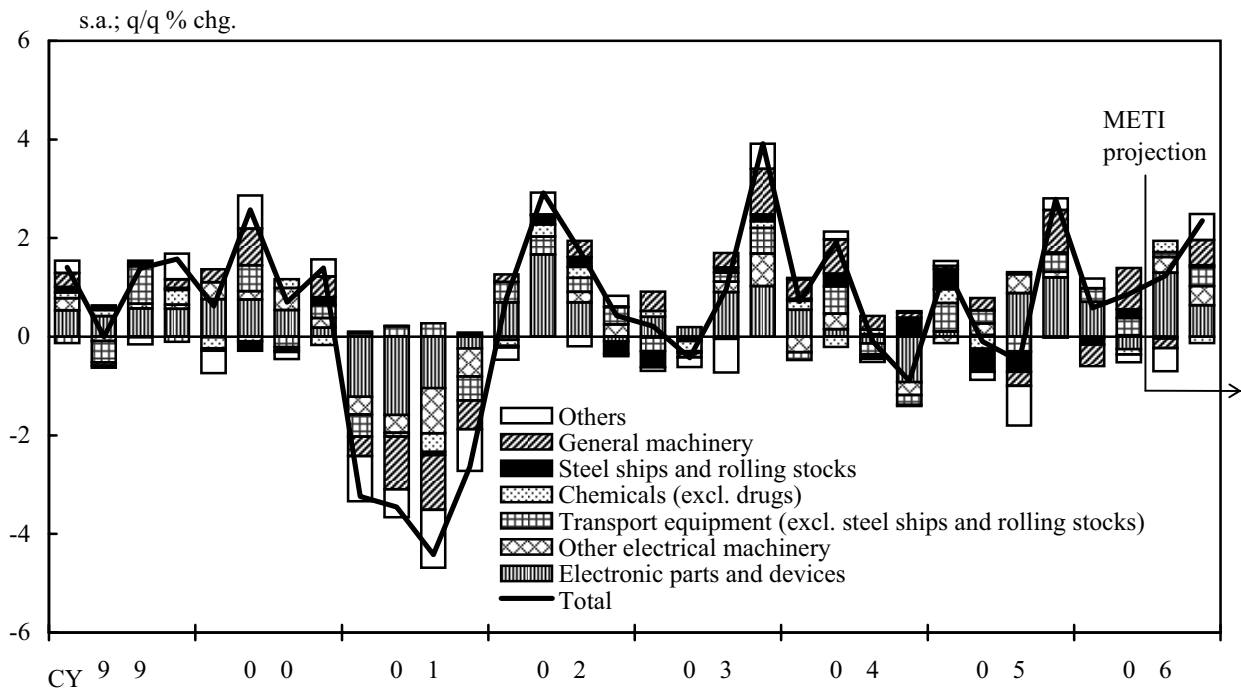
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

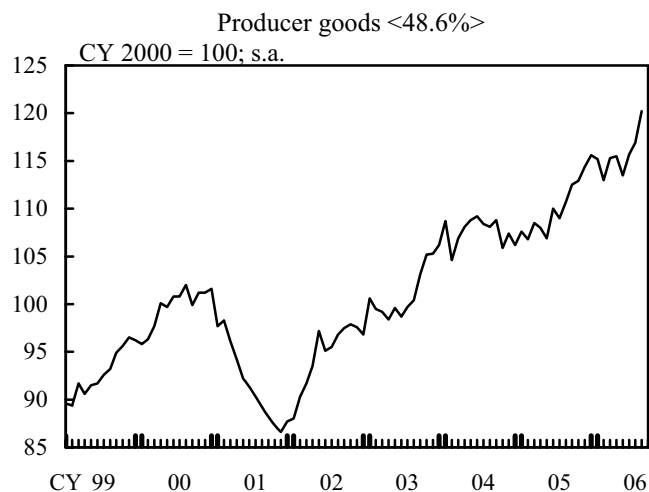
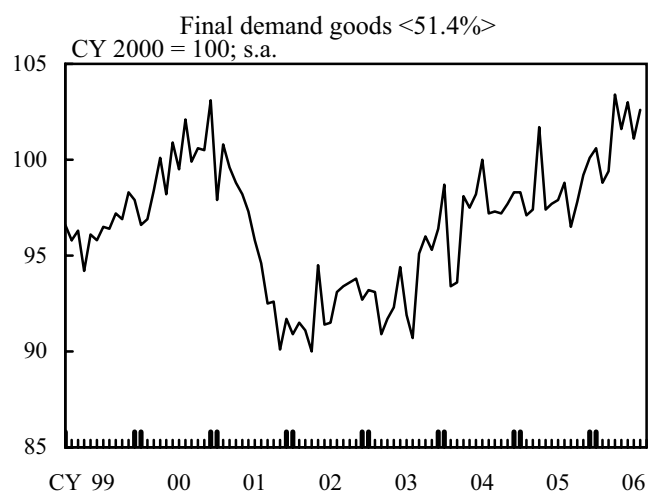


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. 2006/Q3 figures are based on the actual levels in July and August, and the METI projection level in September. 2006/Q4 figures are based on the assumption that production level in November and December is the same as that of October.

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

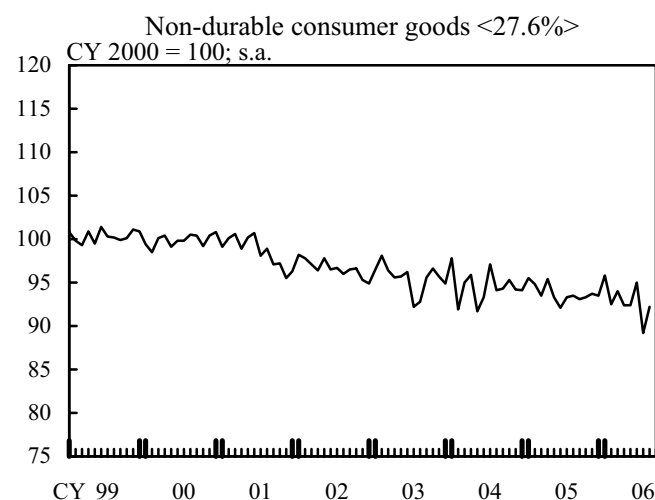
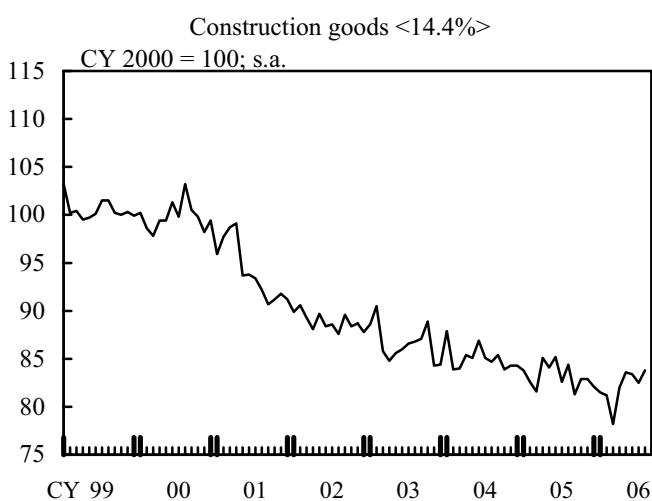
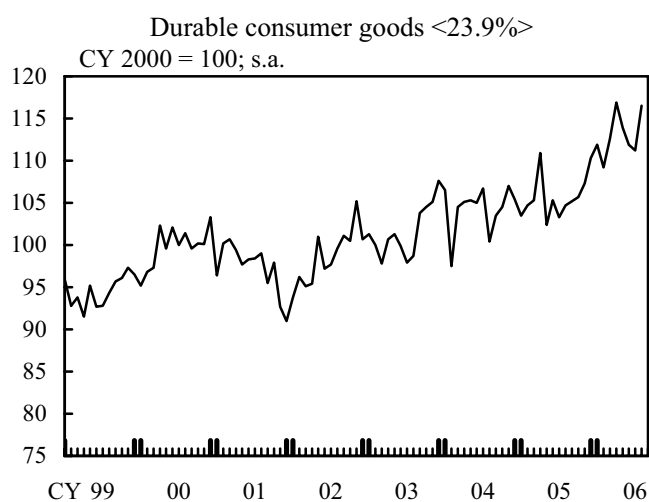
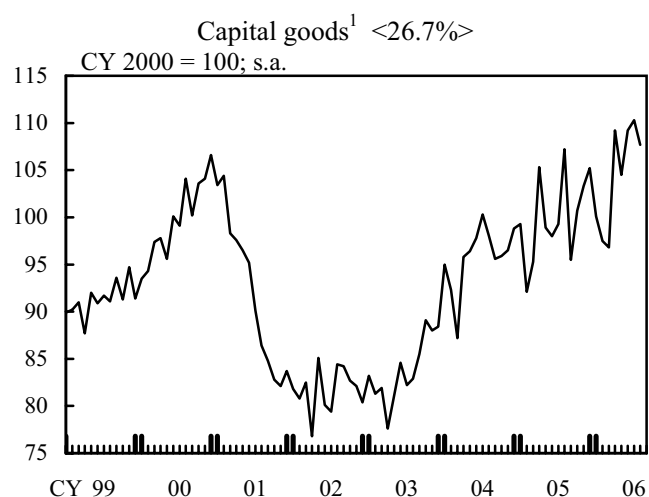
Shipments Breakdown by Type of Goods

(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



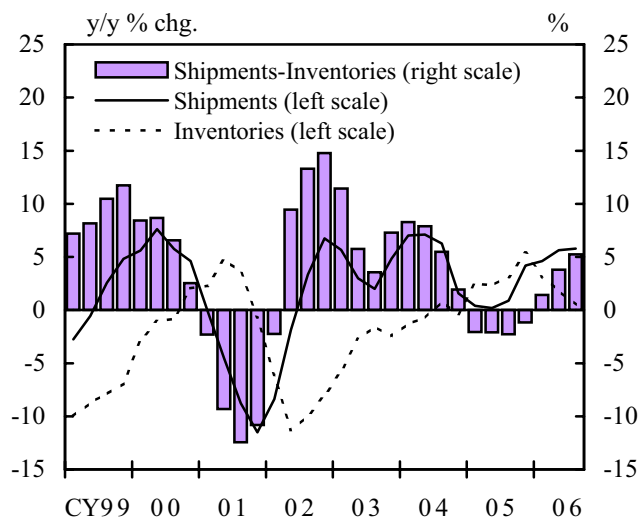
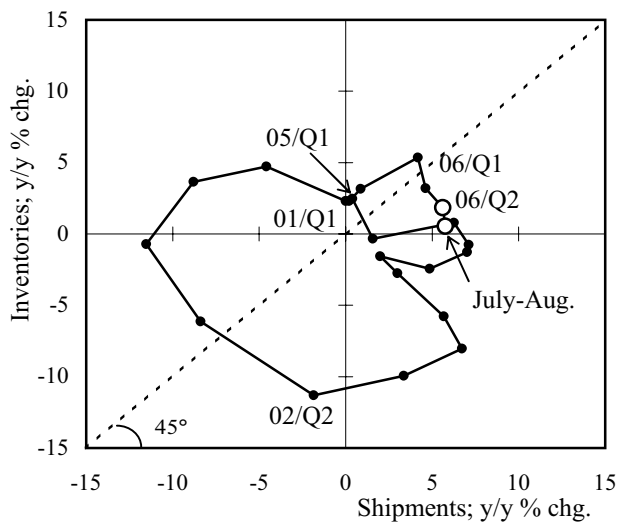
Notes: 1. Excluding transport equipment.

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

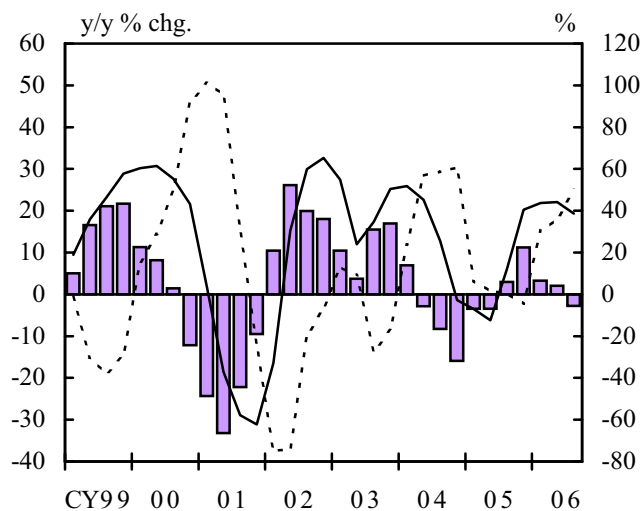
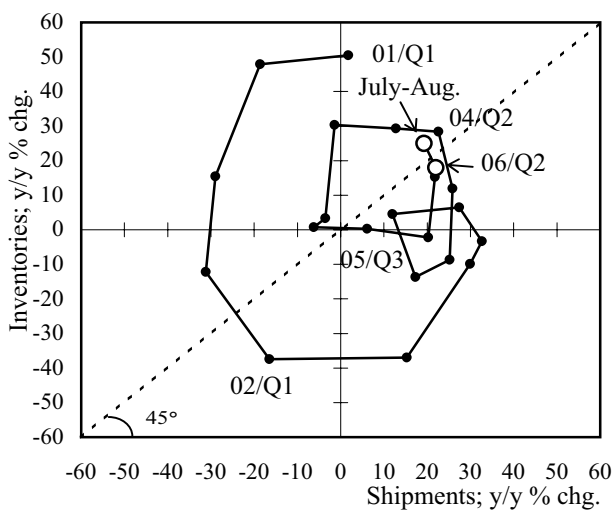
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

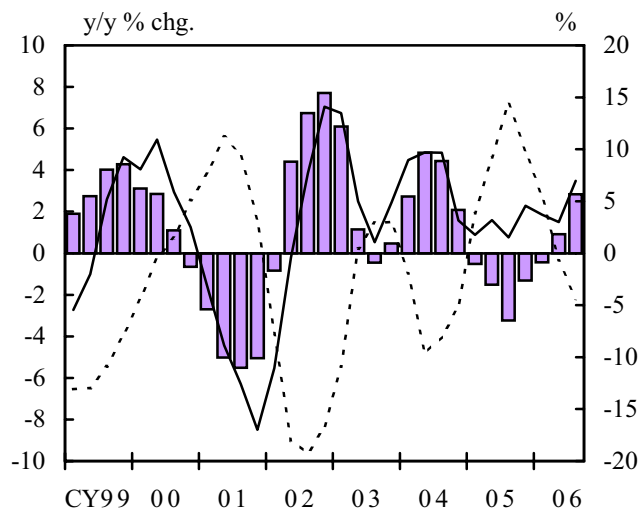
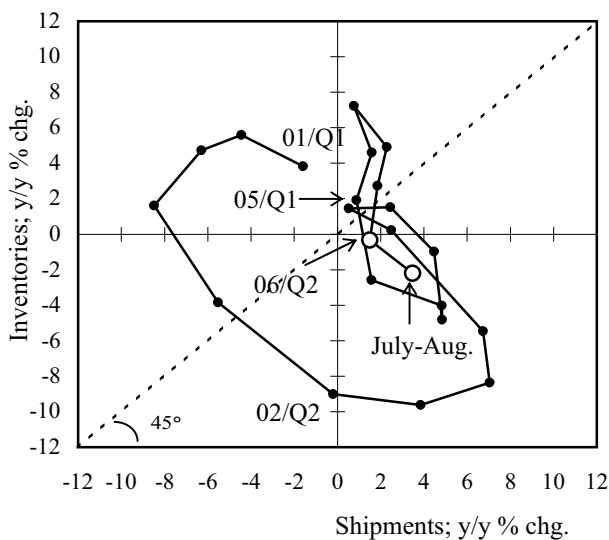
(1) Total



(2) Electronic Parts and Devices

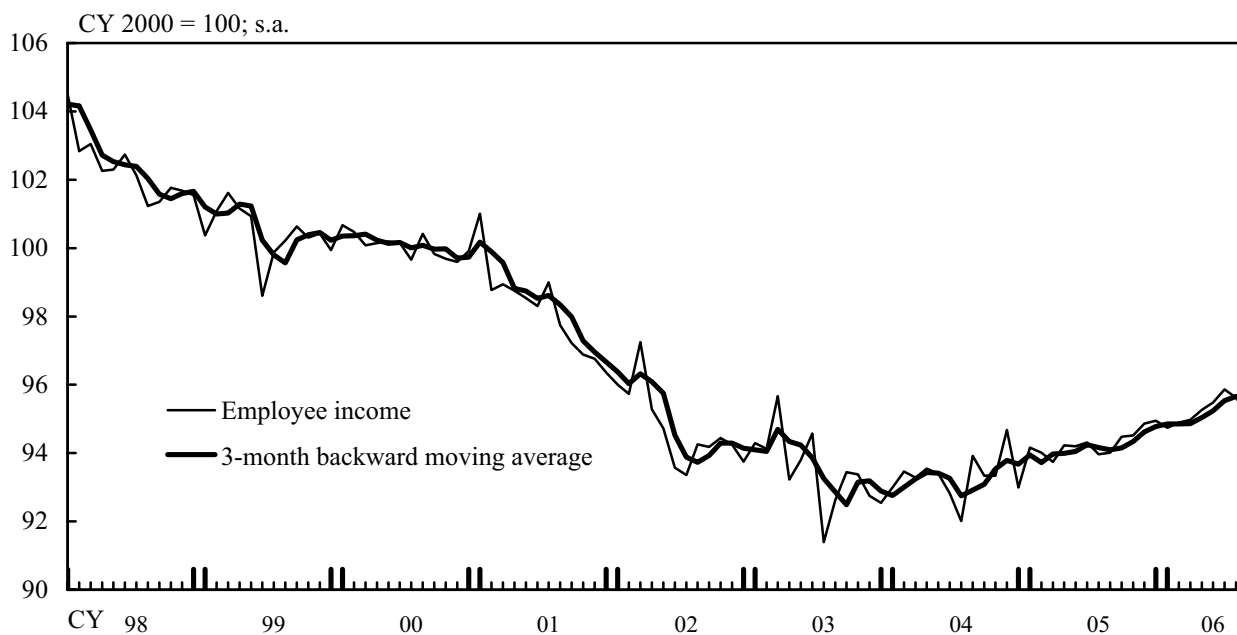


(3) Producer Goods Excluding Electronic Parts and Devices



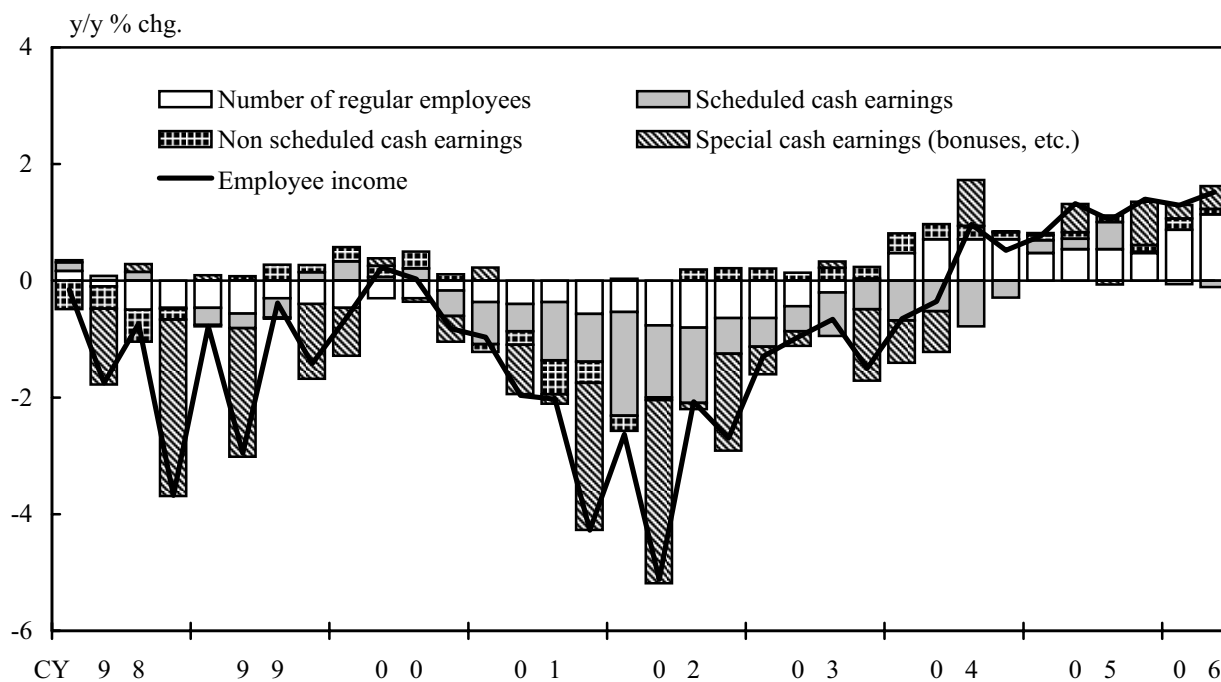
Employee Income

(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.

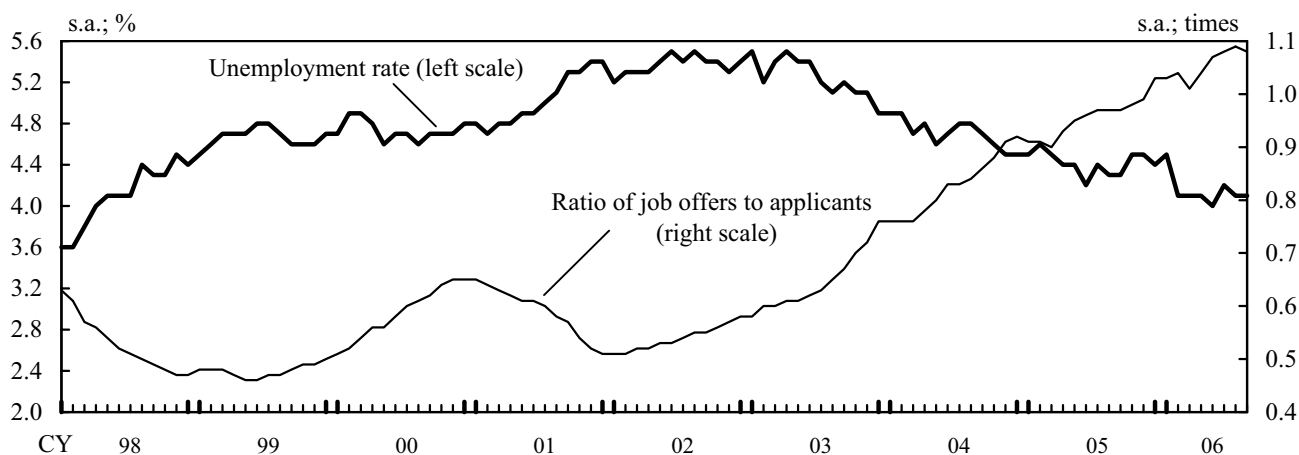
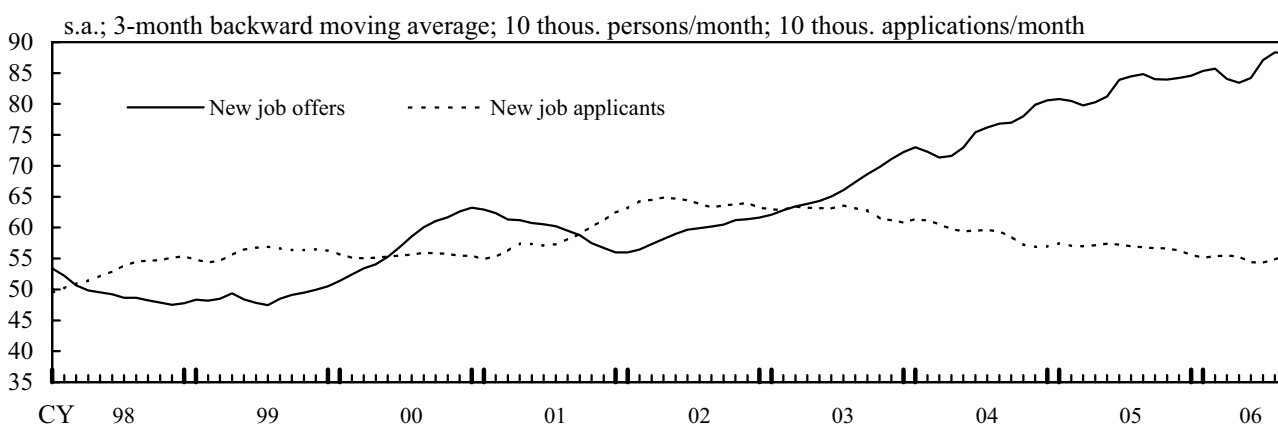
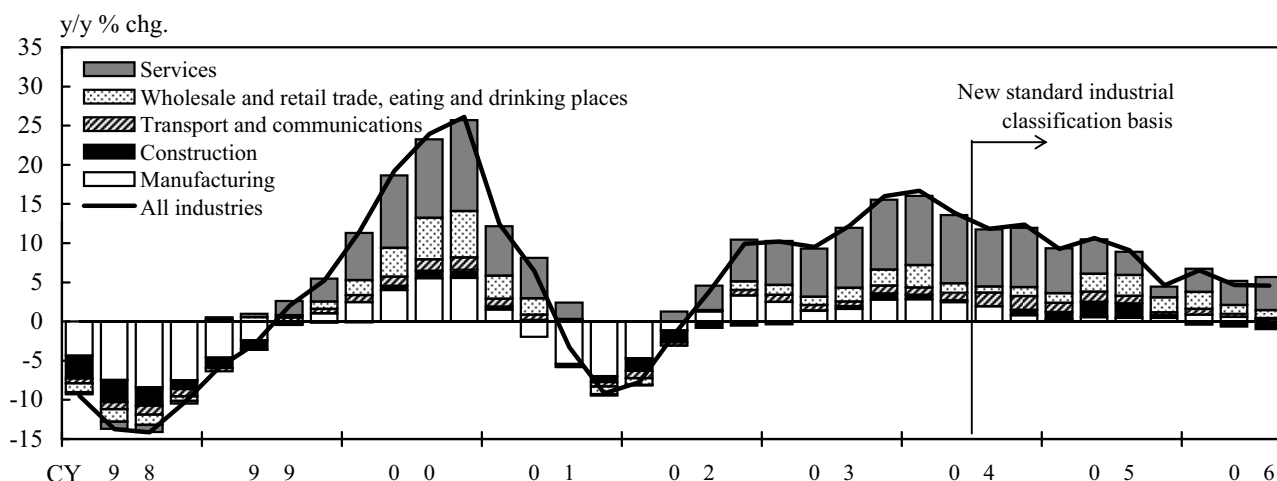
(2) Breakdown of Employee Income



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

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}

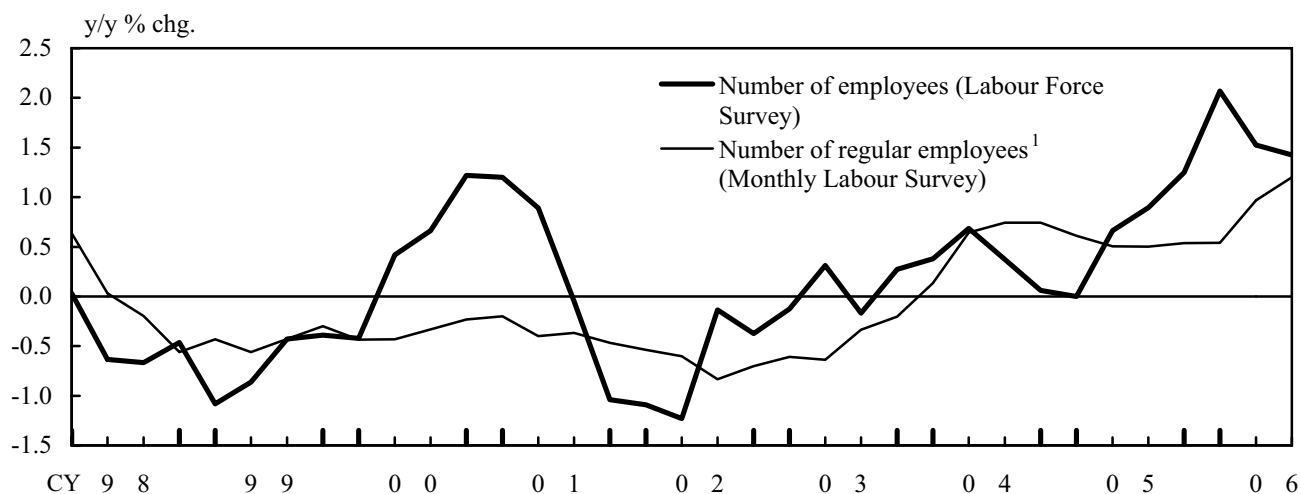
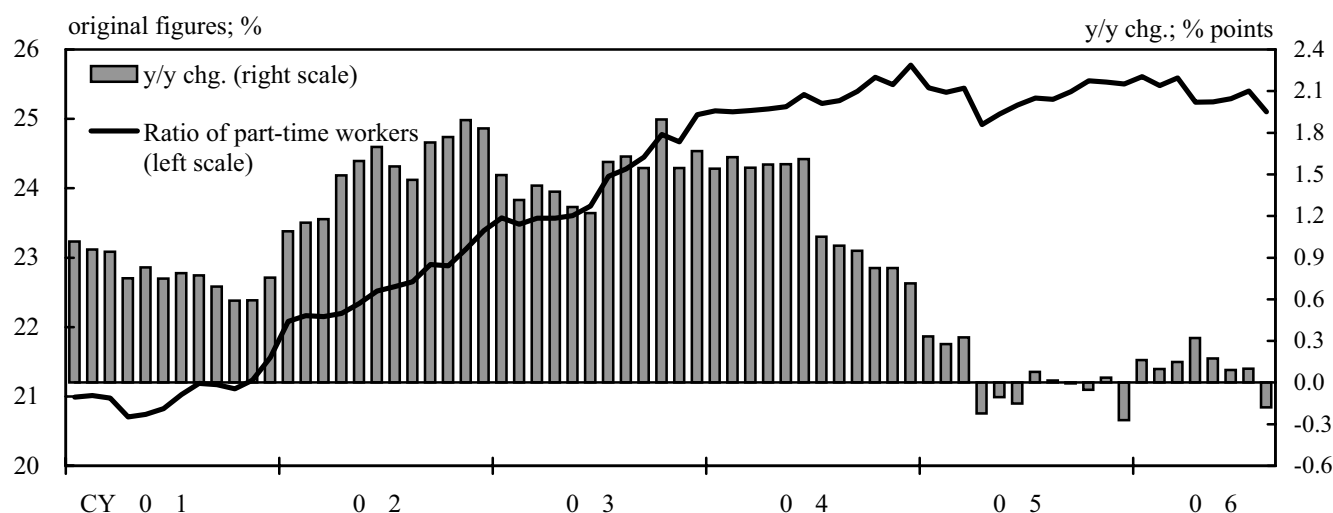
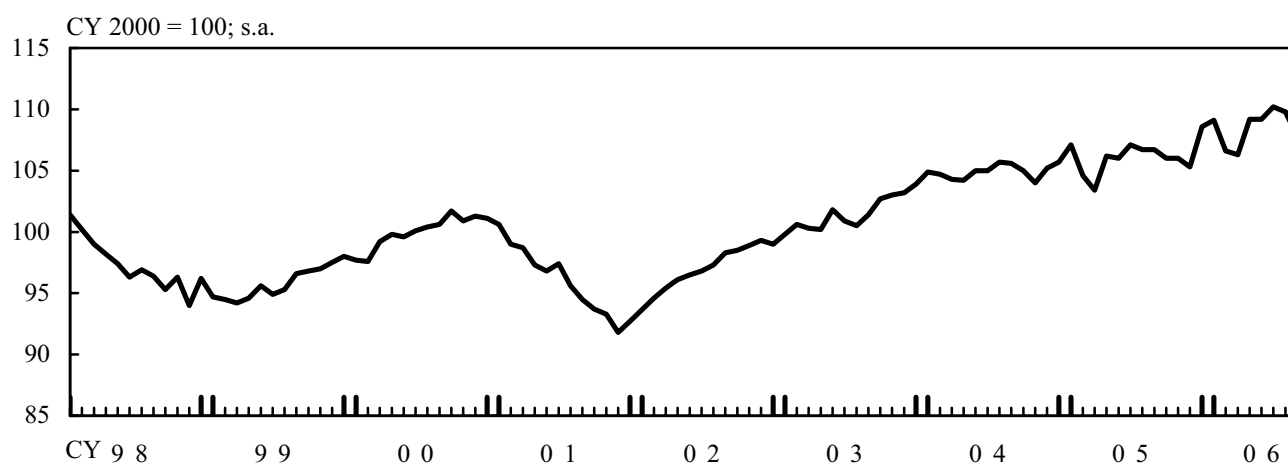
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

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/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 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.

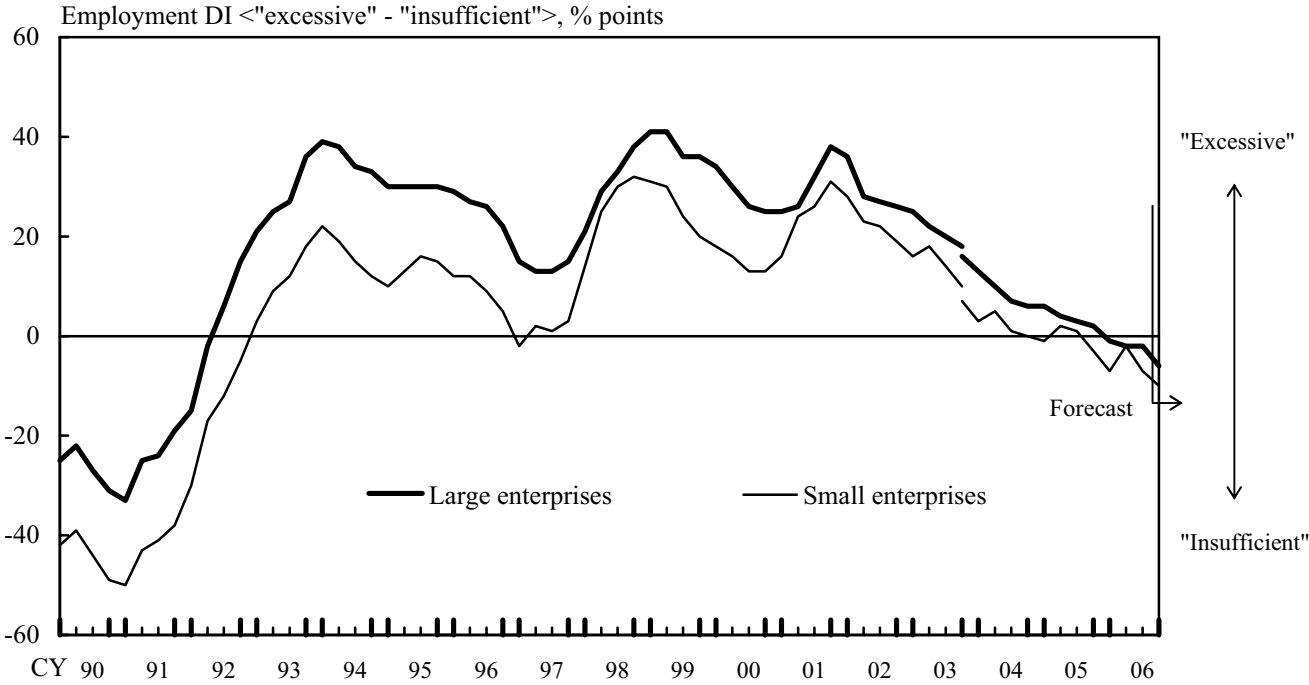
3. Figures for 2006/Q3 are those of July-August averages.

Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";

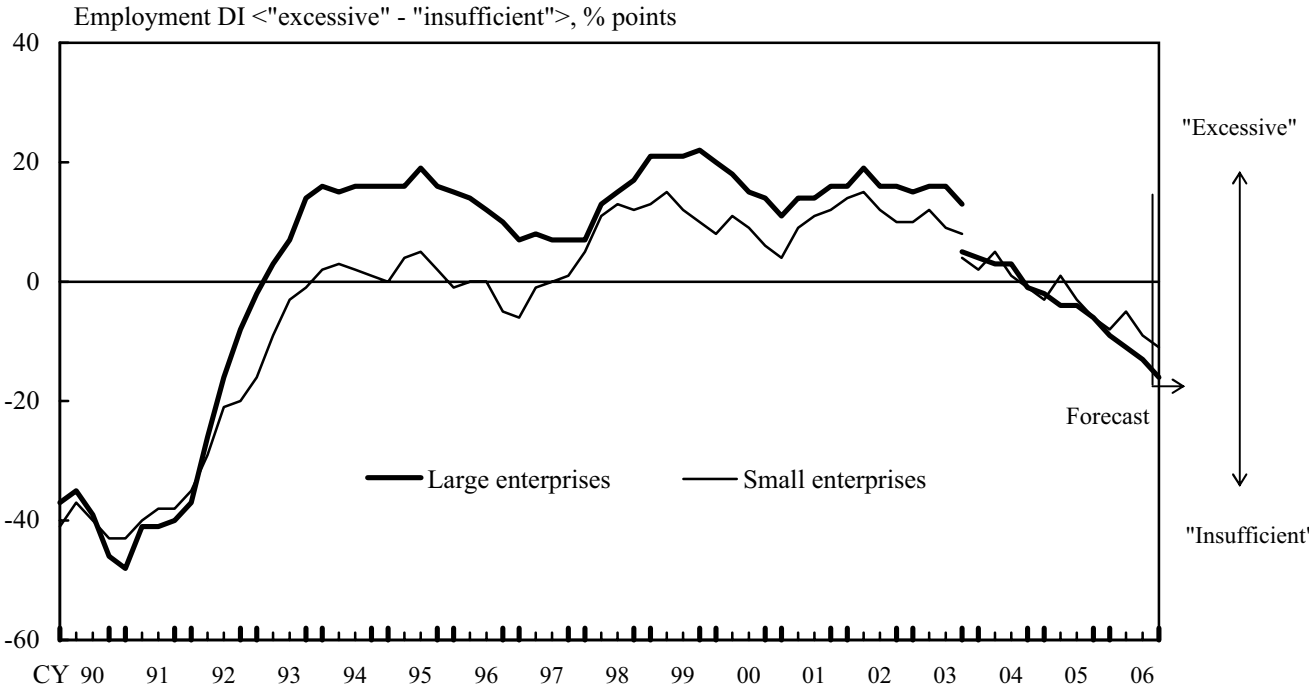
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

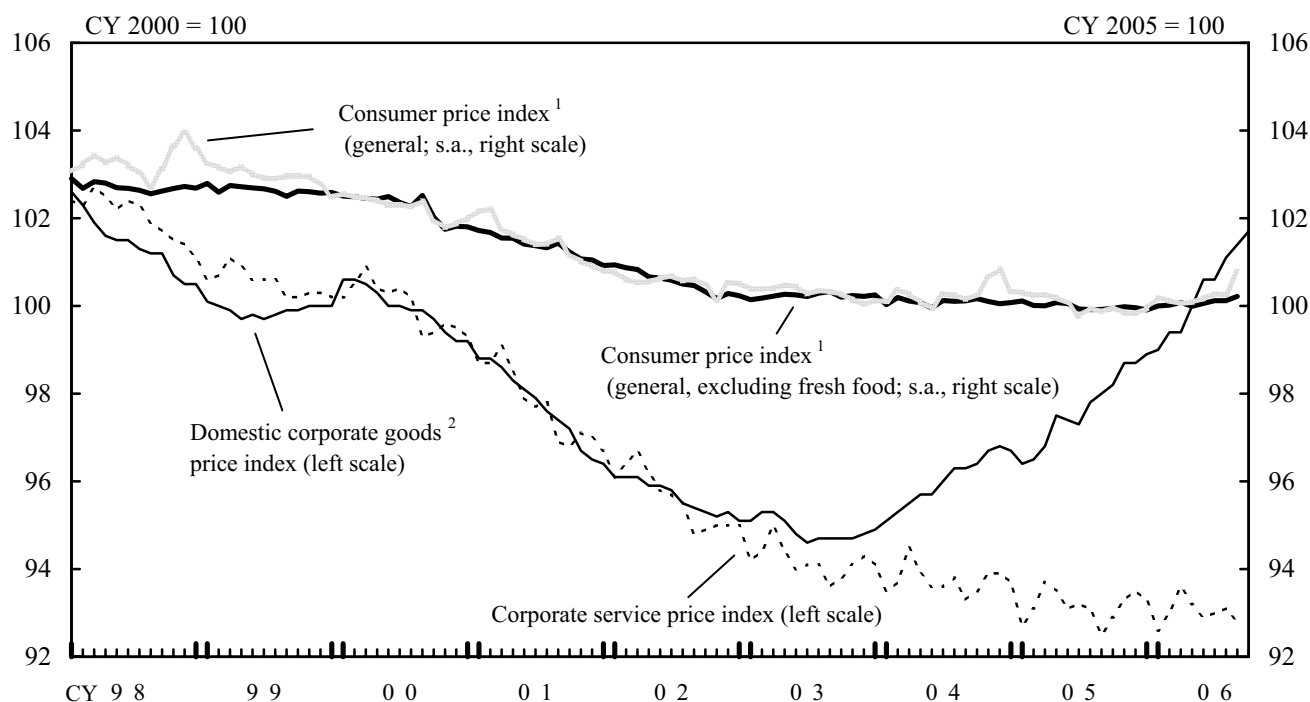
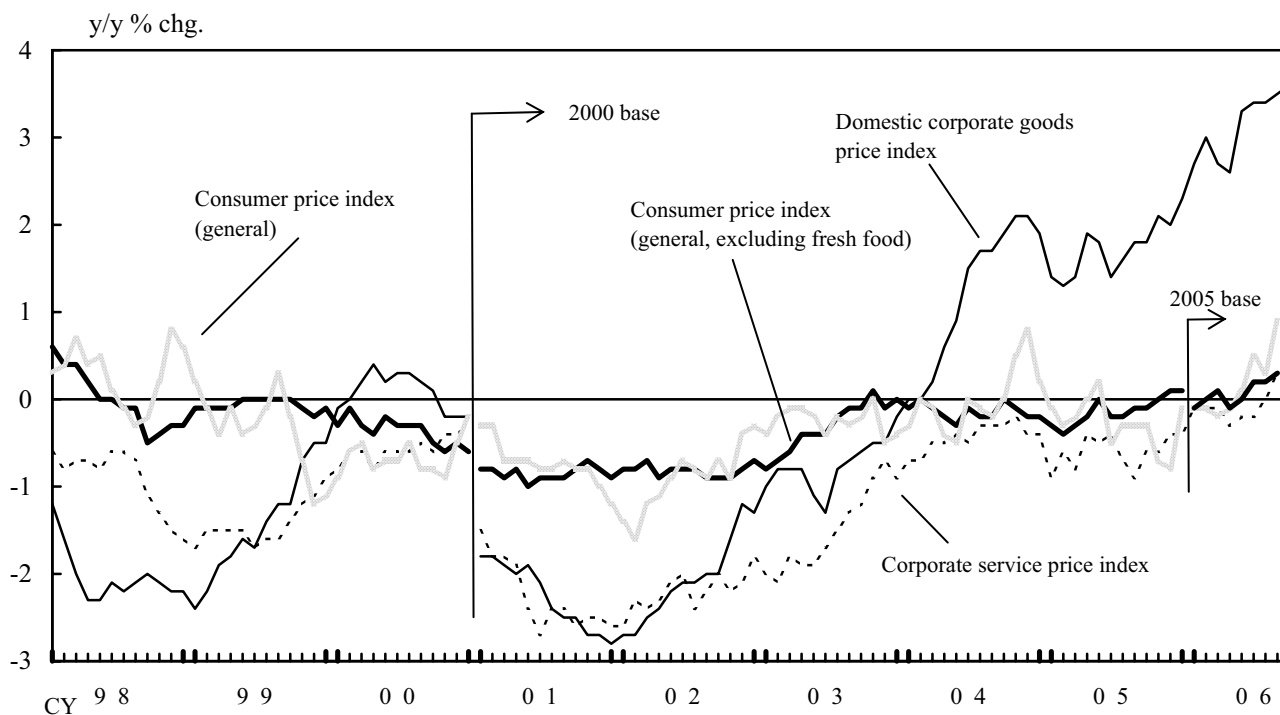


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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

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.

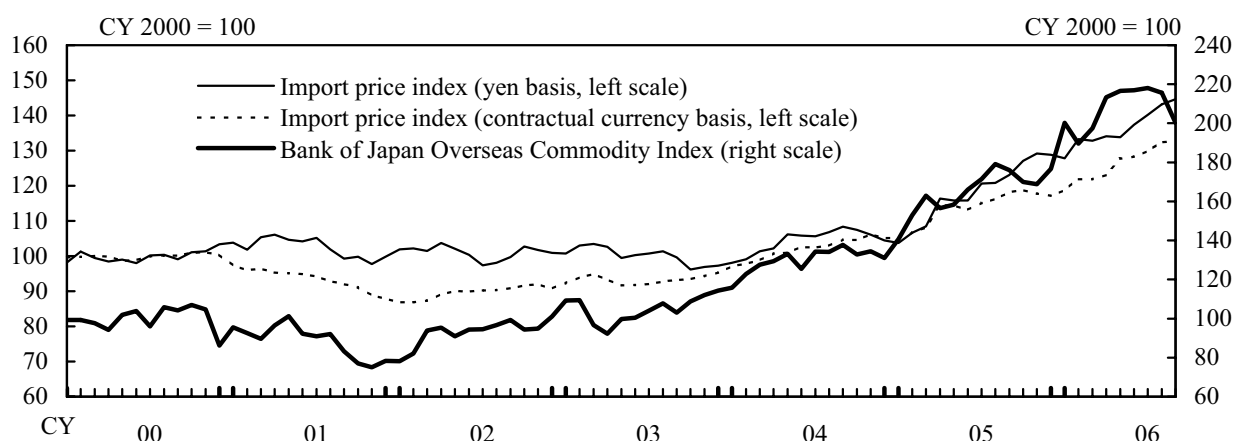
3. Figures up to CY 2000 are on the 1995 base and are adjusted to exclude the effects of the consumption tax hike on the assumption that prices of all taxable goods fully reflect the rise in the tax rate. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

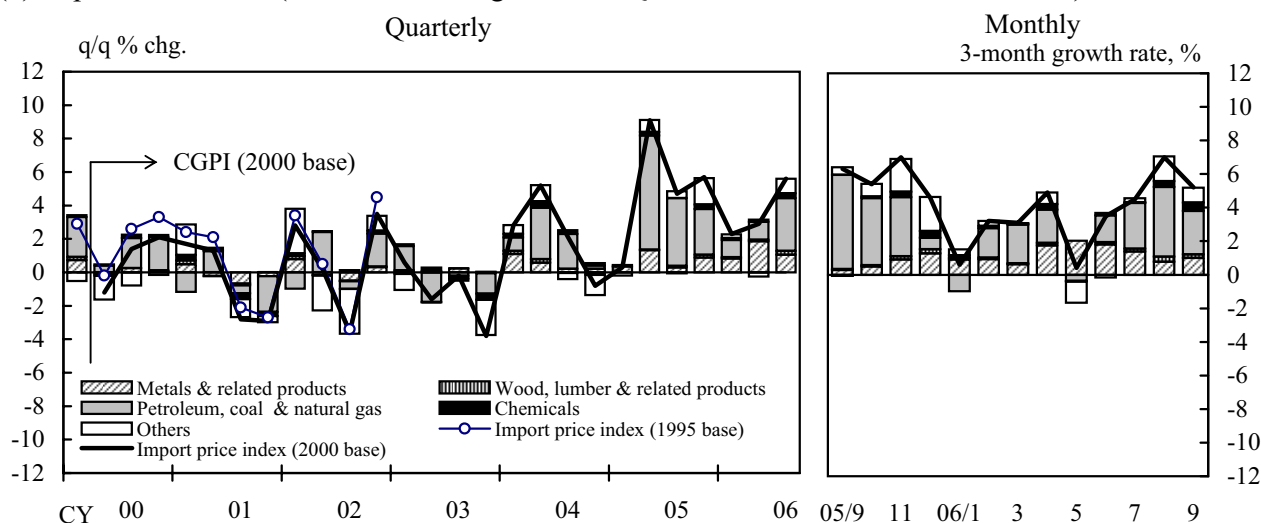
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



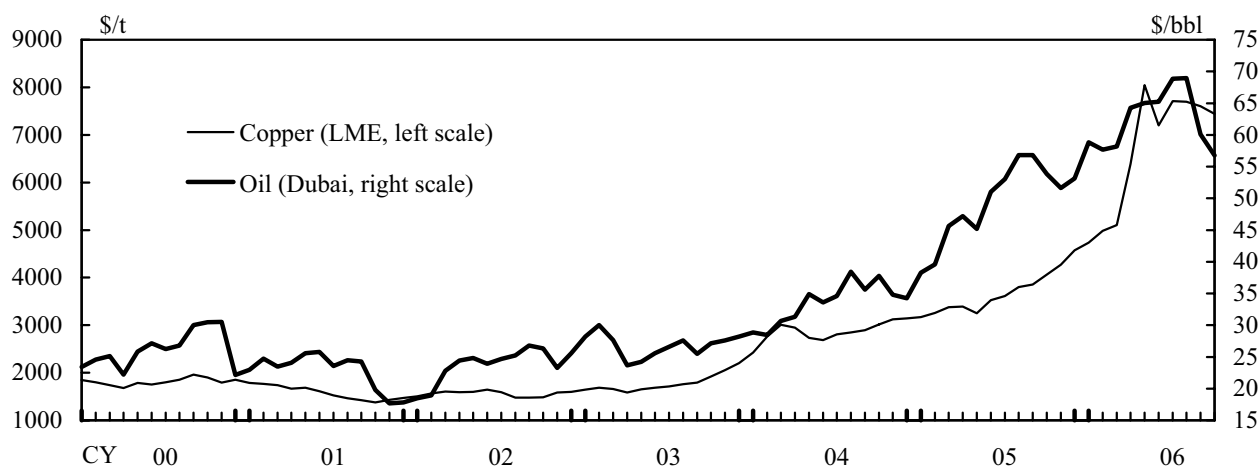
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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

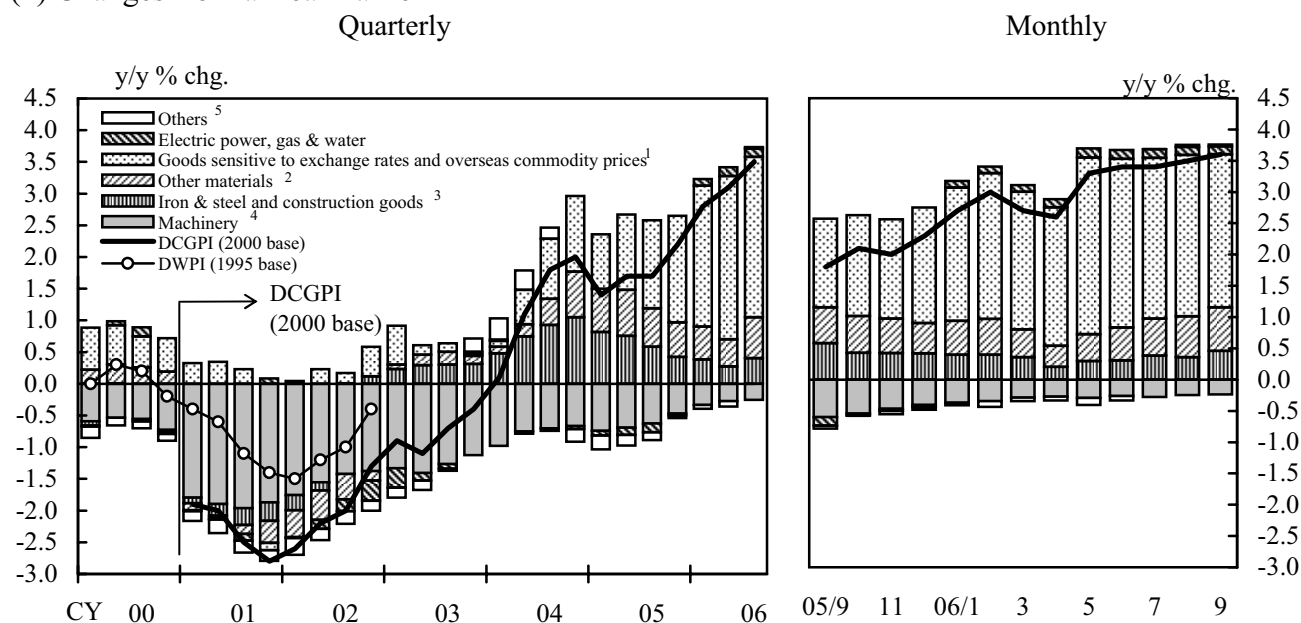
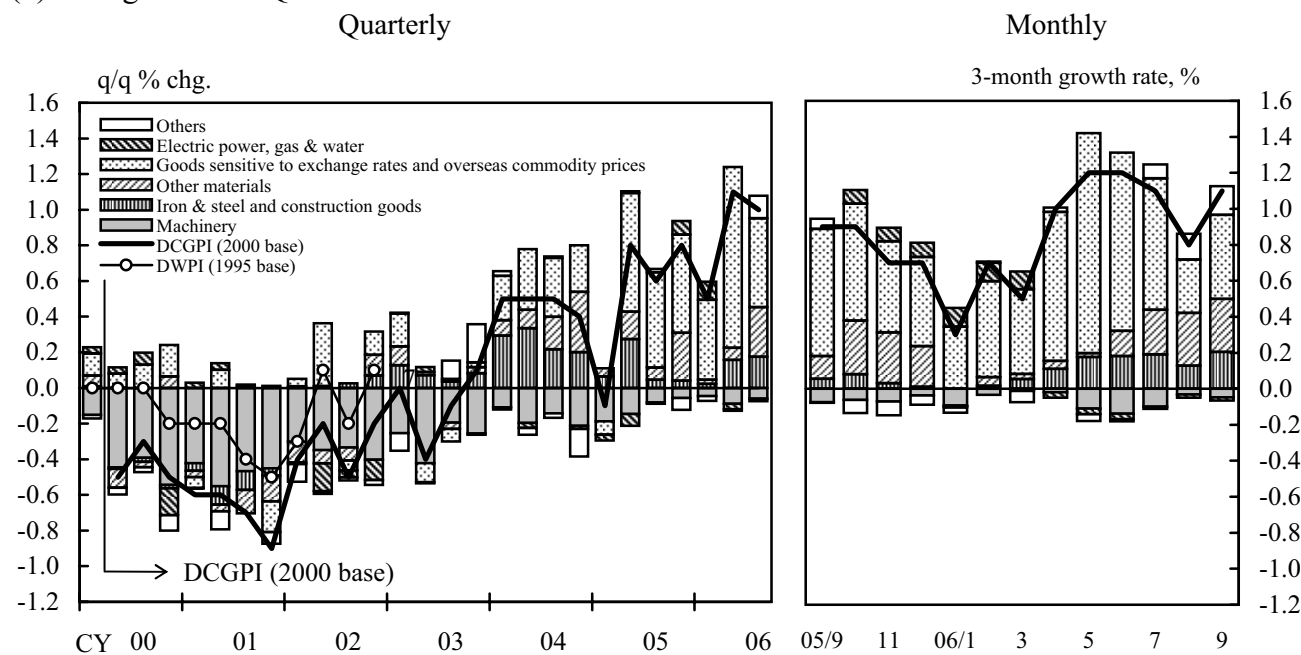


Note: Monthly averages. Figures for October 2006 are the averages up to October 12.

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

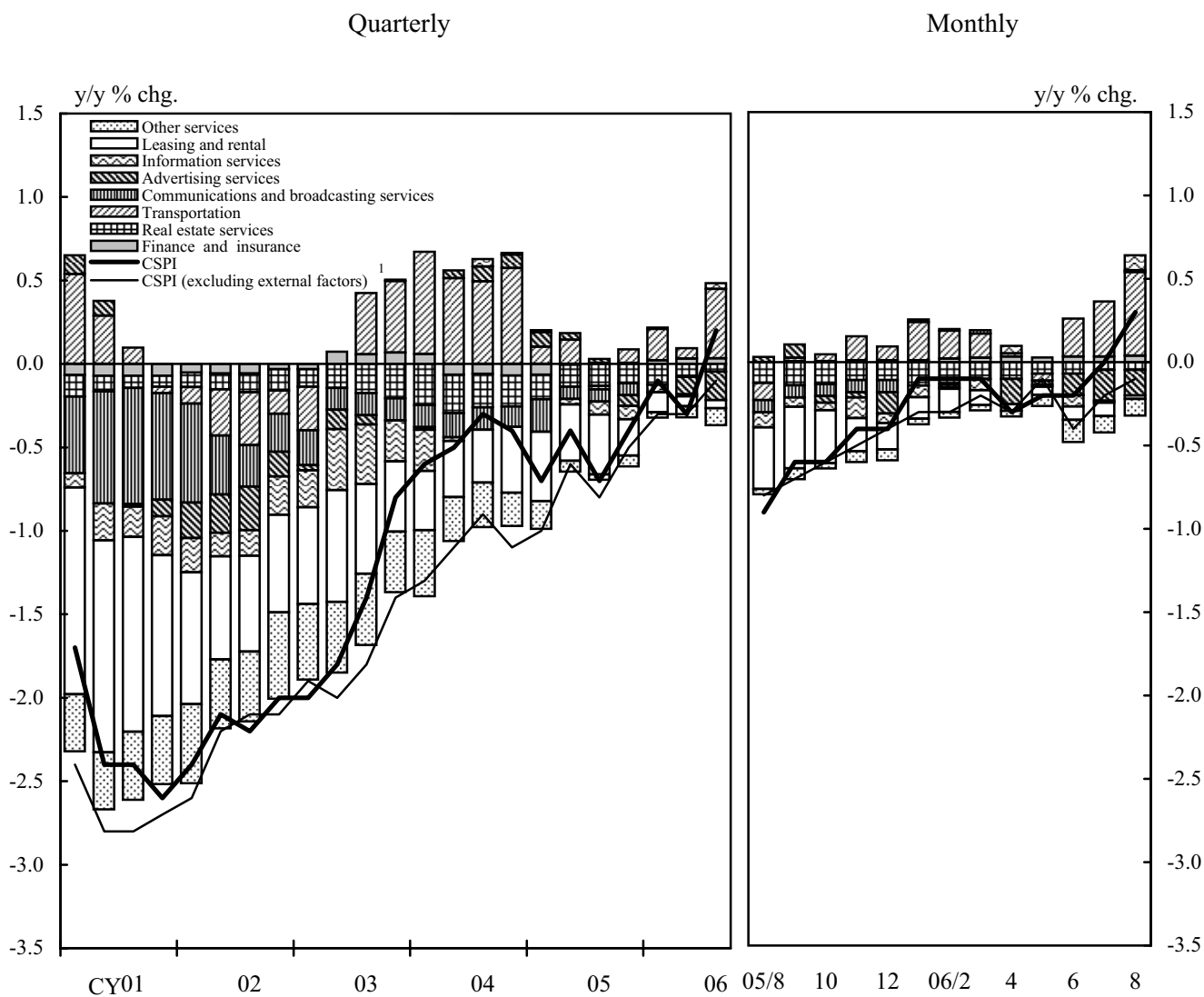
Domestic Corporate Goods Price Index⁷

(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



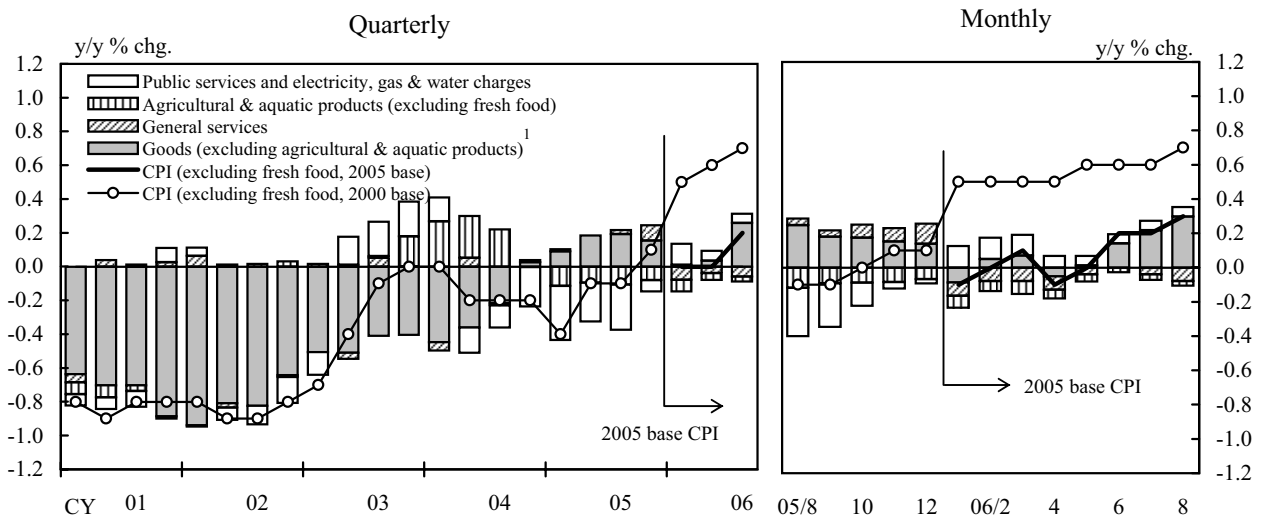
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2006/Q3 are July-August averages.

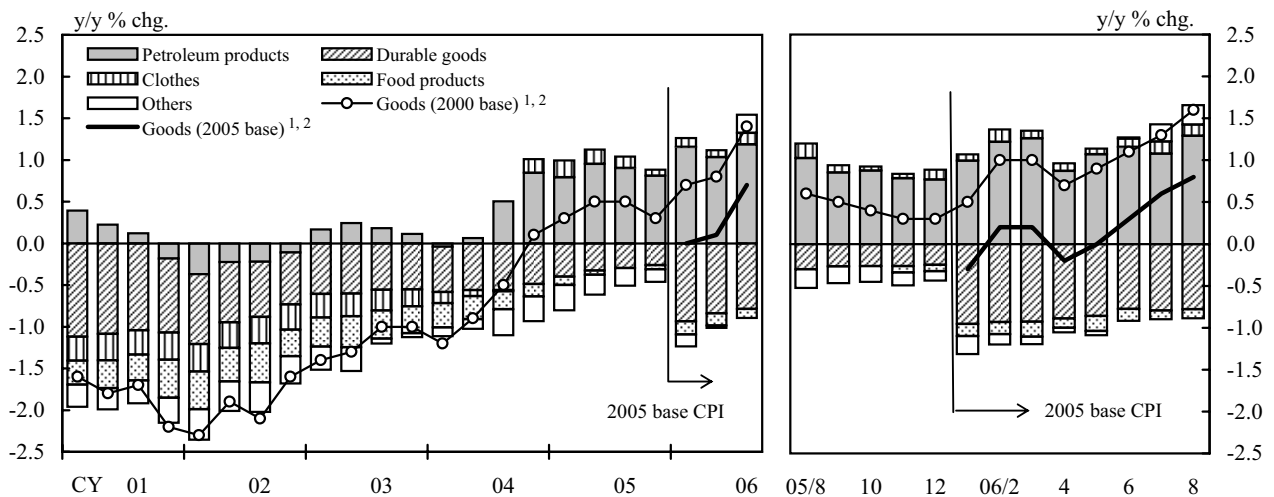
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

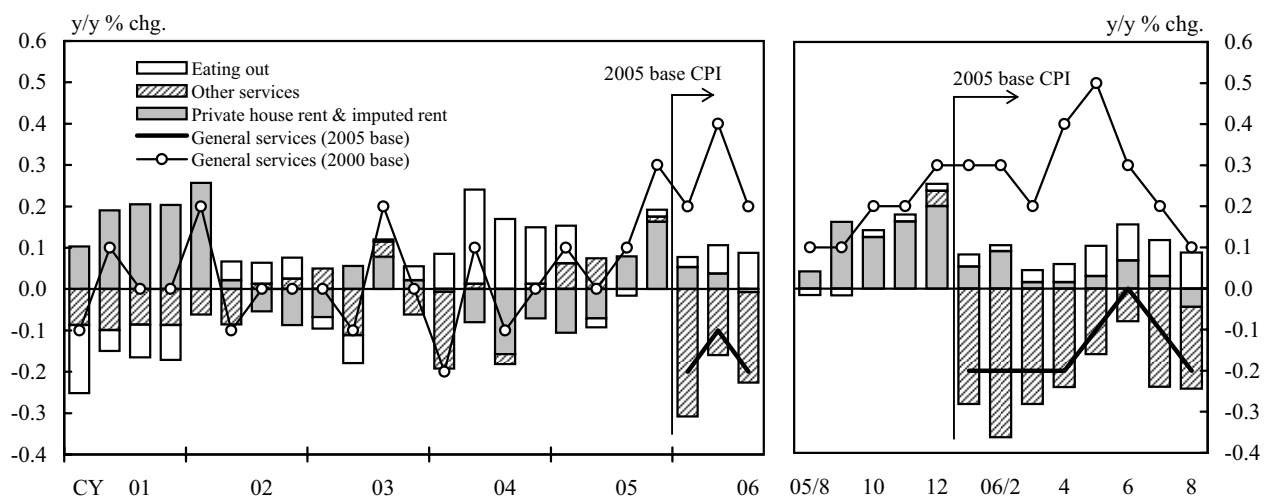
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

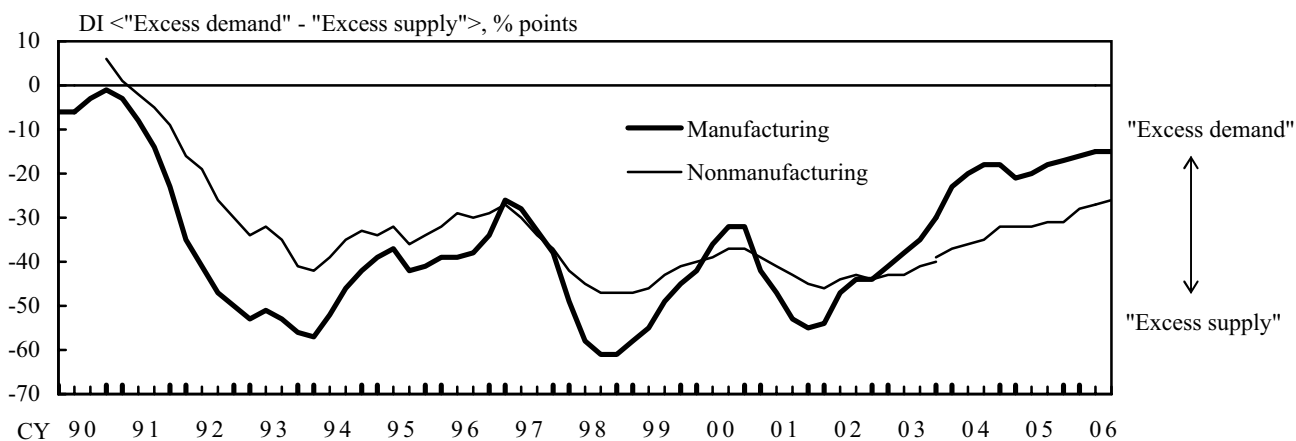


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Figures for 2006/Q3 are July-August averages.

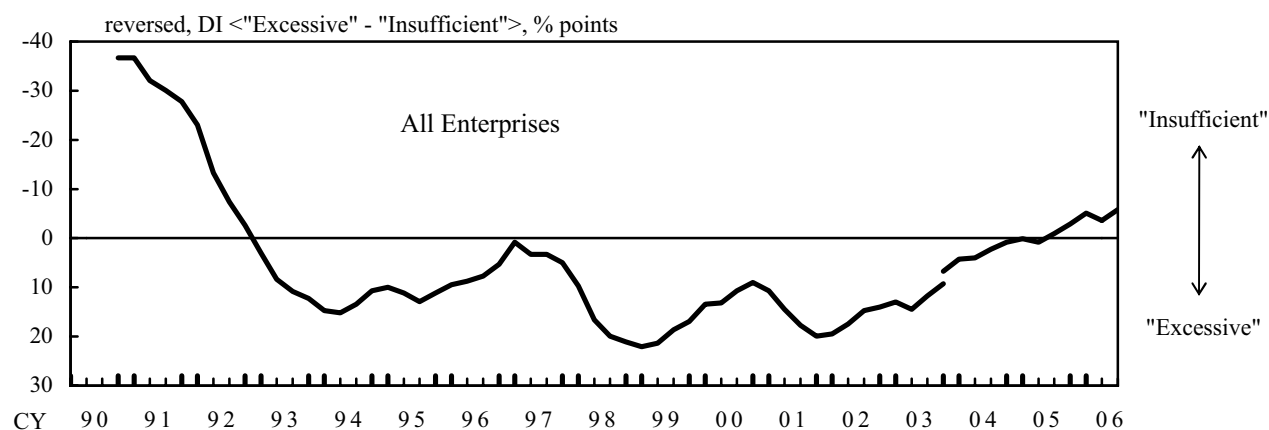
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

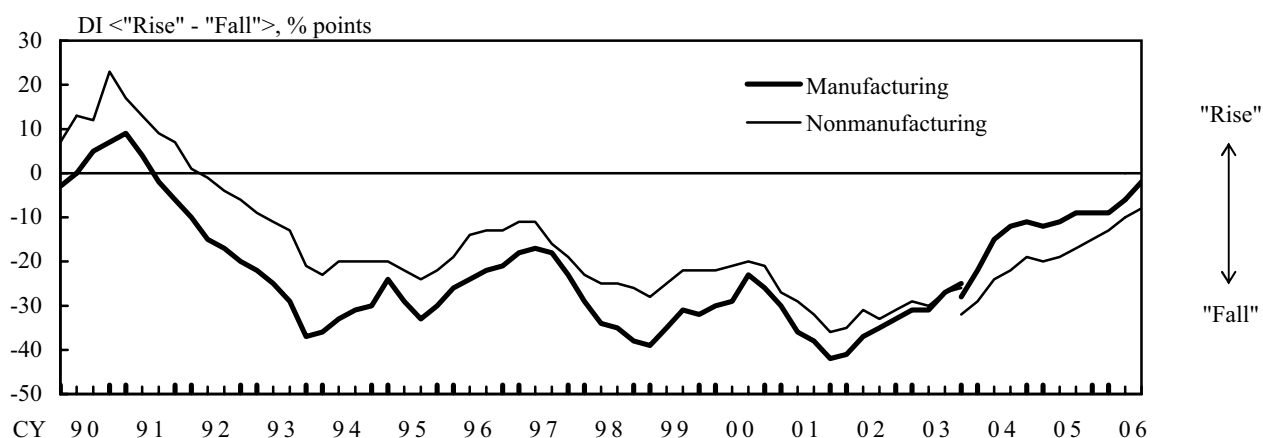
(1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)



(2) Utilization of Capital and Labor²



(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.

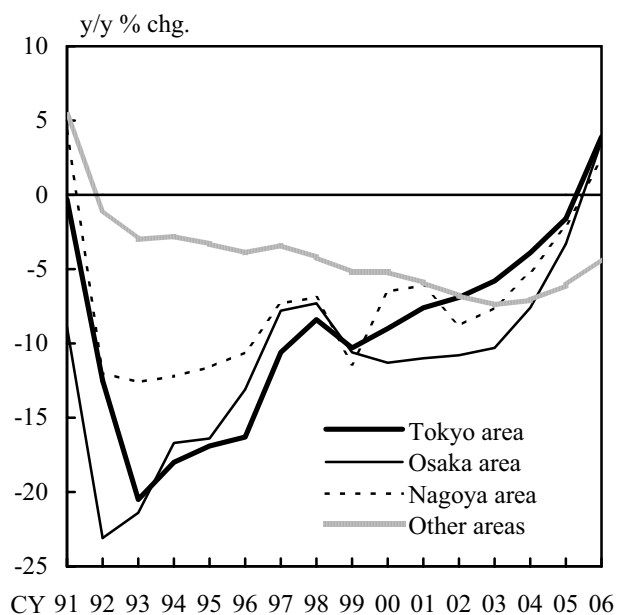
Sources: Cabinet Office, "National Accounts";

Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan."

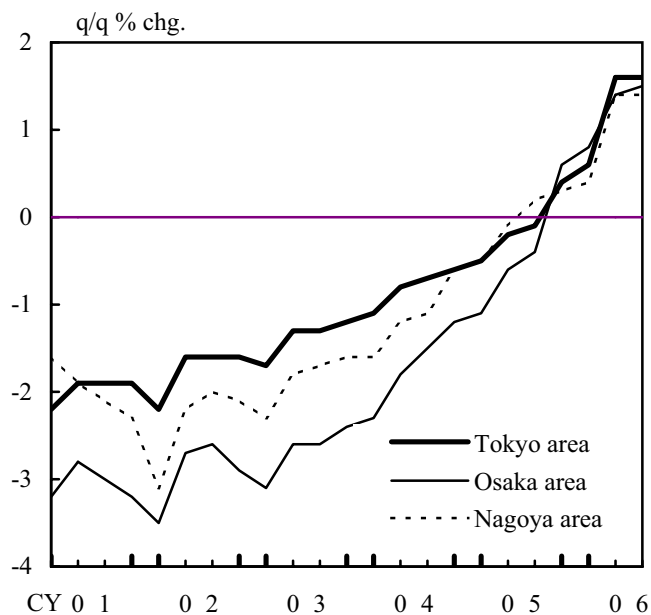
Land Prices

(1) Commercial Land

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

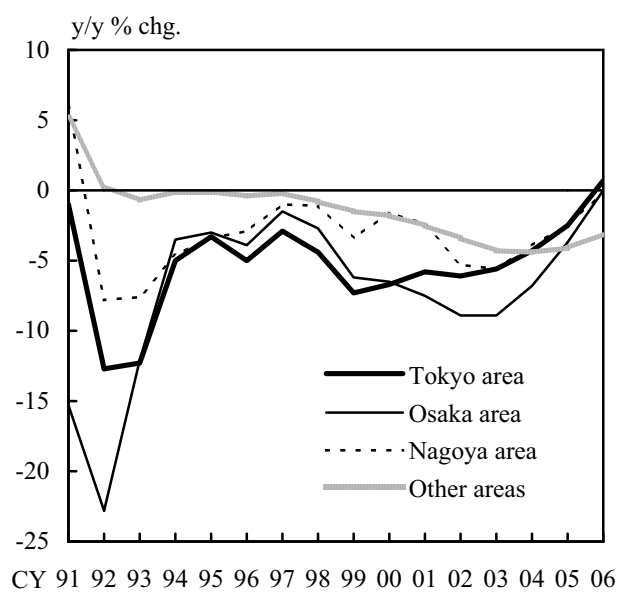


(1-2) Land Prices at Representative Locations

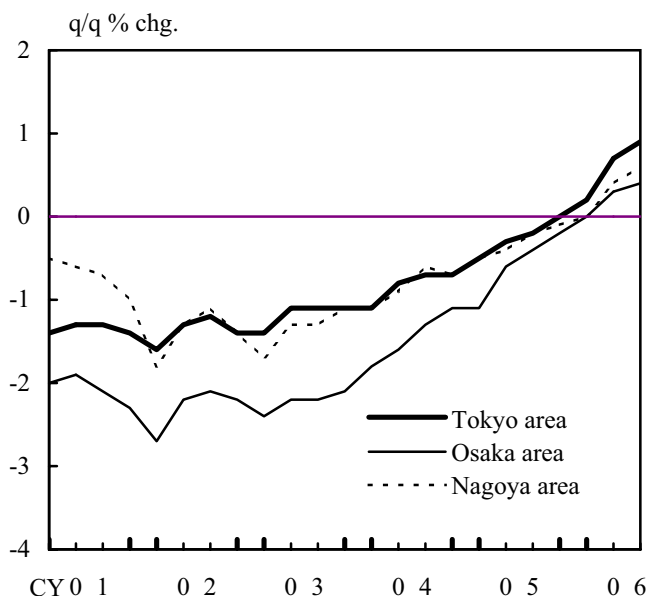


(2) Residential Land

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



(2-2) Land Prices at Representative Locations

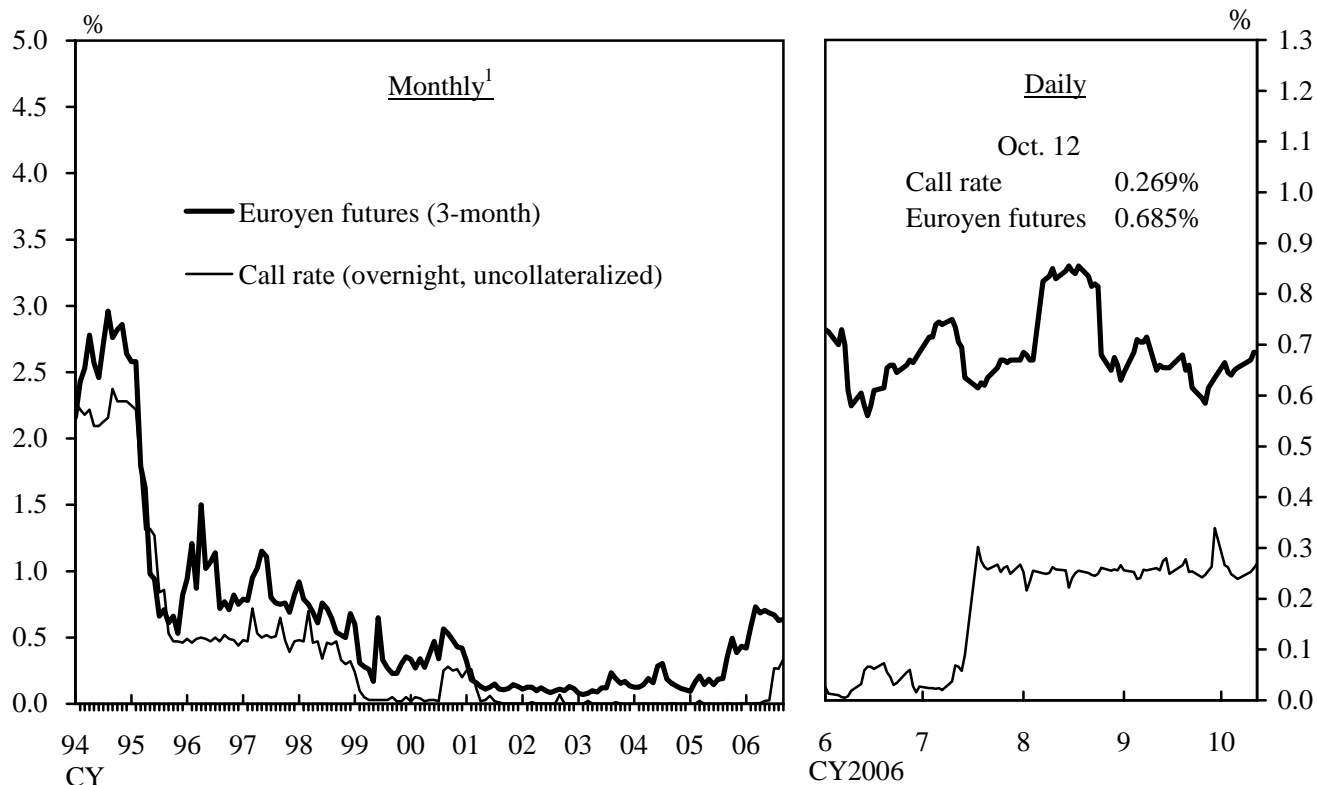


Note: *Publication of Land Price*, surveyed by the Ministry of Land, Infrastructure and Transport, shows the land prices as of January 1st. *Prefectural Land Price Survey*, surveyed by prefecture officials, shows the land prices as of July 1st. Each survey has representative locations which are basically 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.

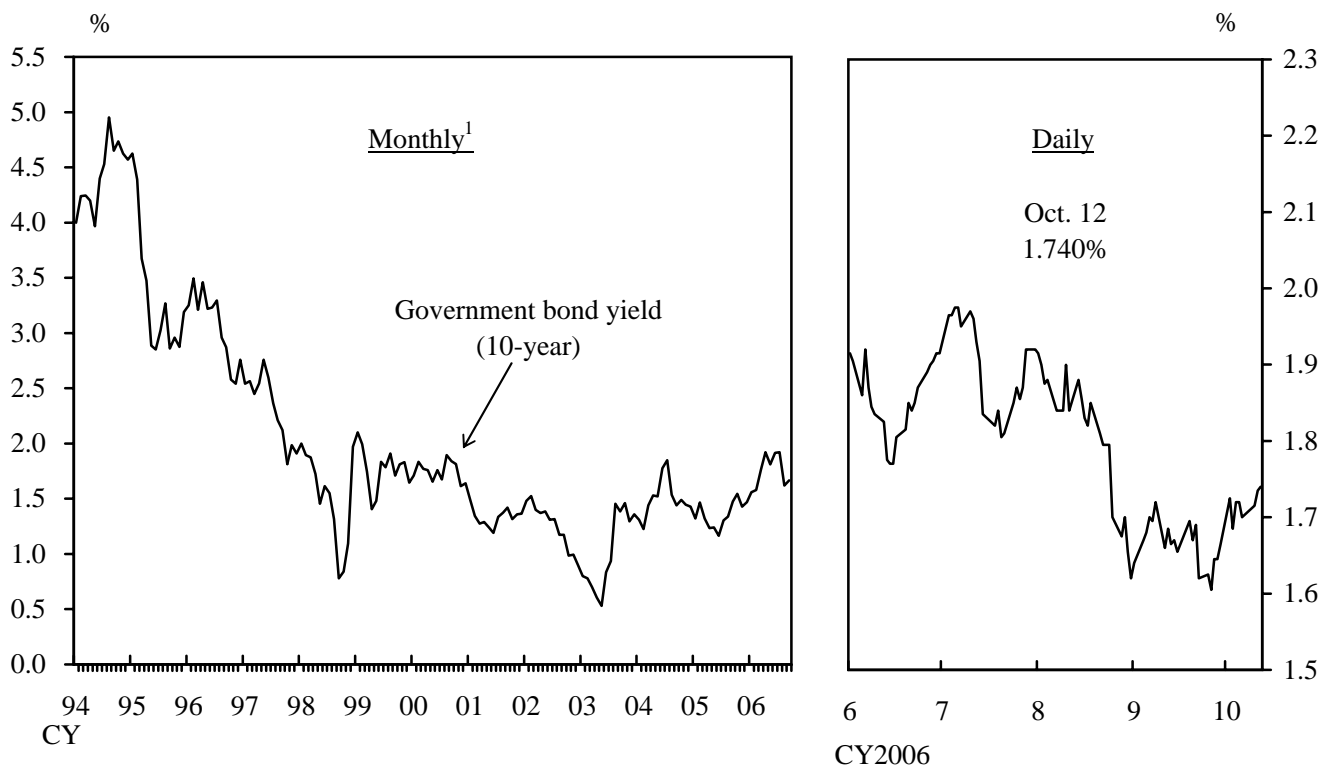
Source: Ministry of Land, Infrastructure and Transport, "Publication of Land Price," "Prefectural Land Price Survey."

Interest Rates

(1) Short-Term



(2) Long-Term

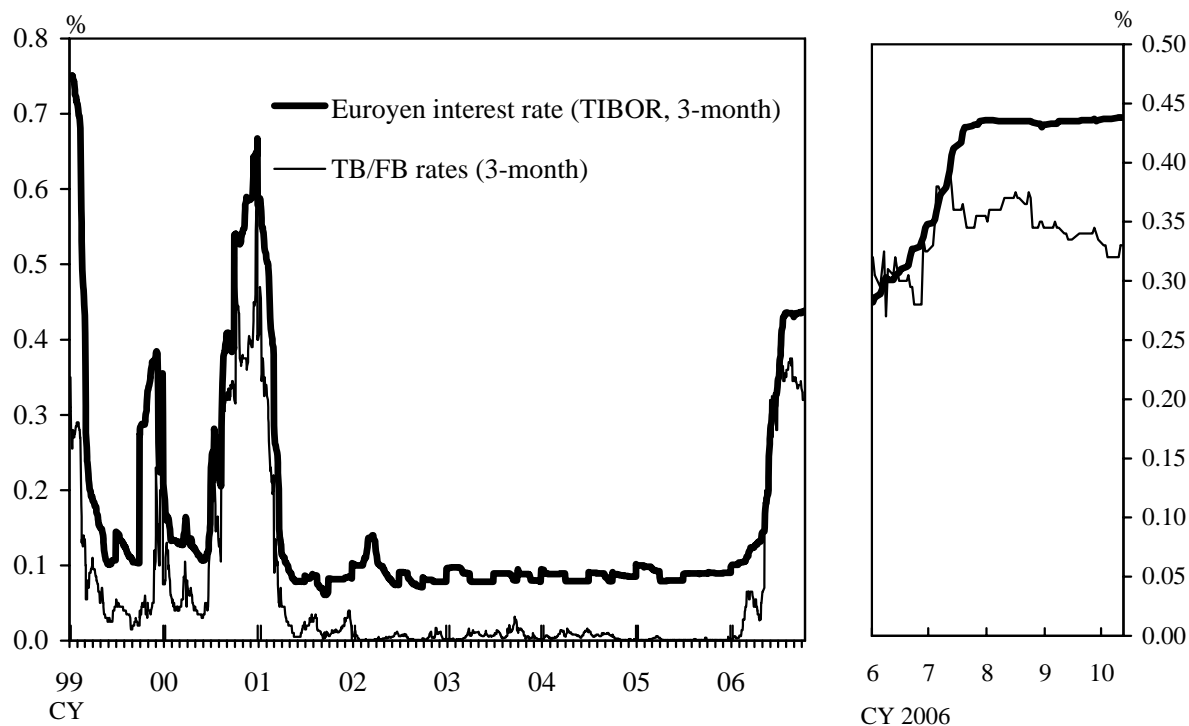


Note: 1. End of month.

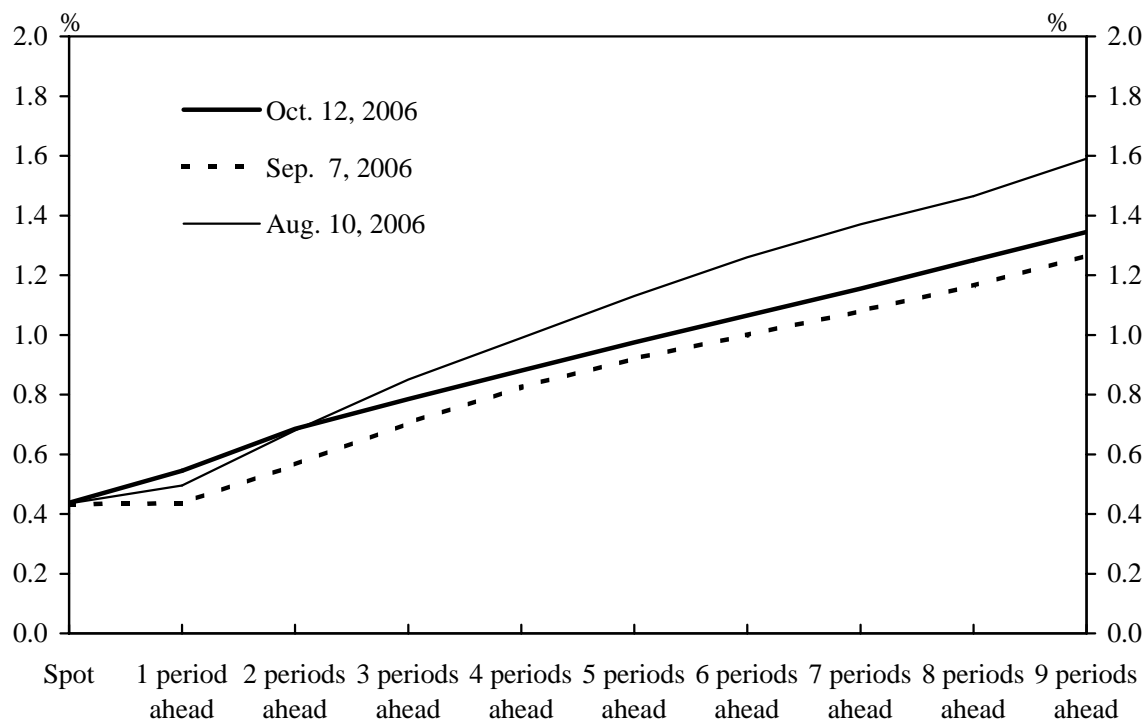
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



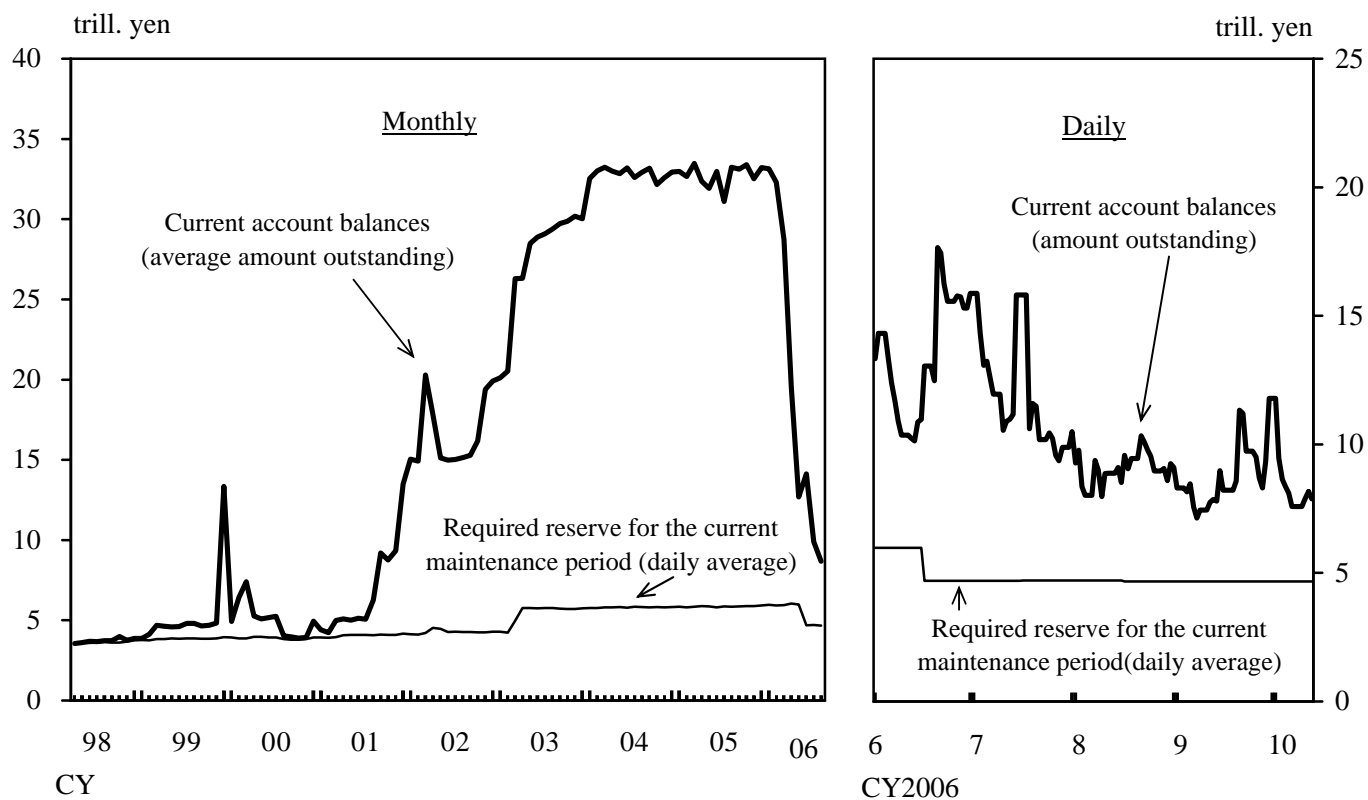
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

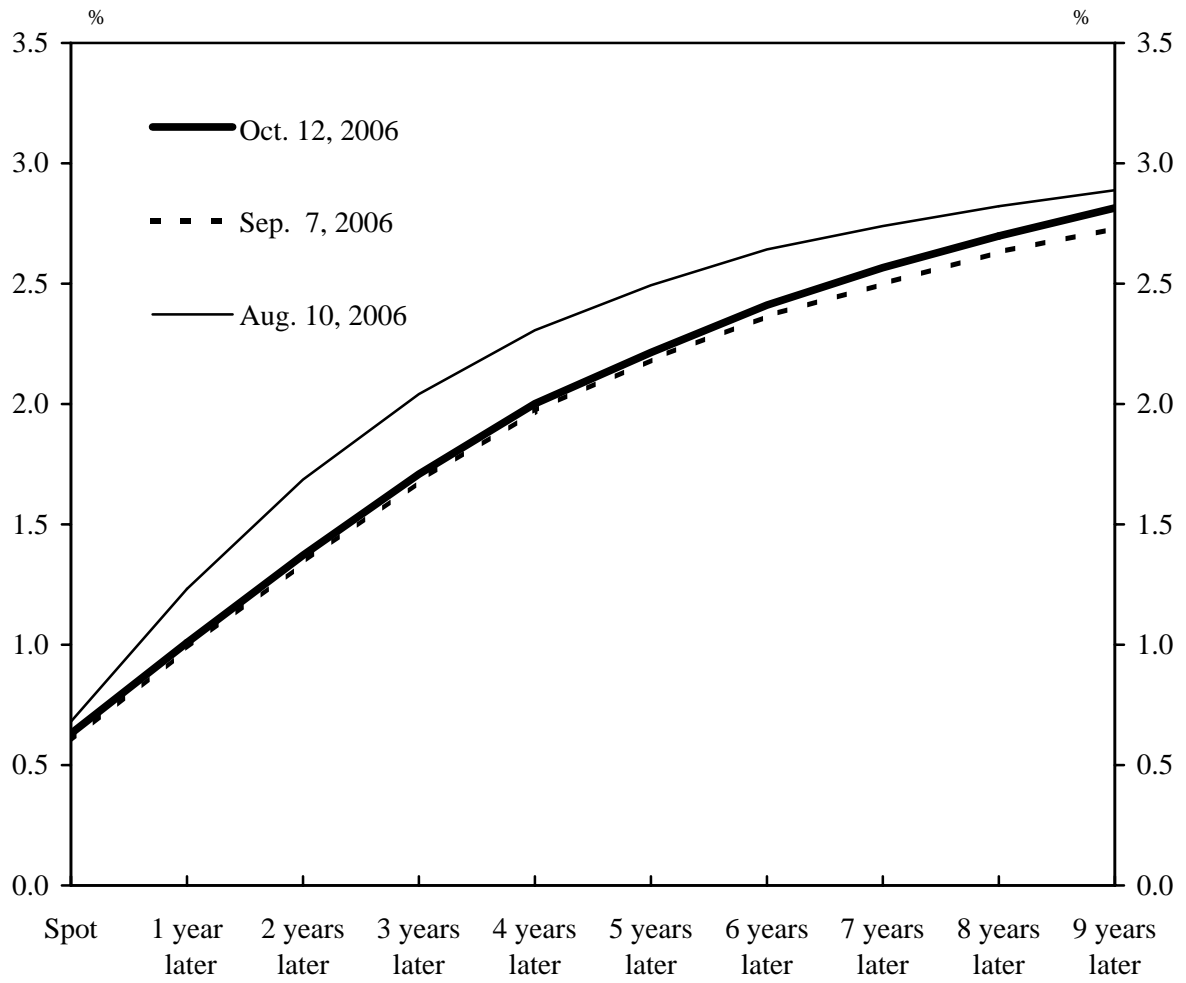


Note: From April 2003, the figures for current account balances include the deposit of the Japan Post.

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)

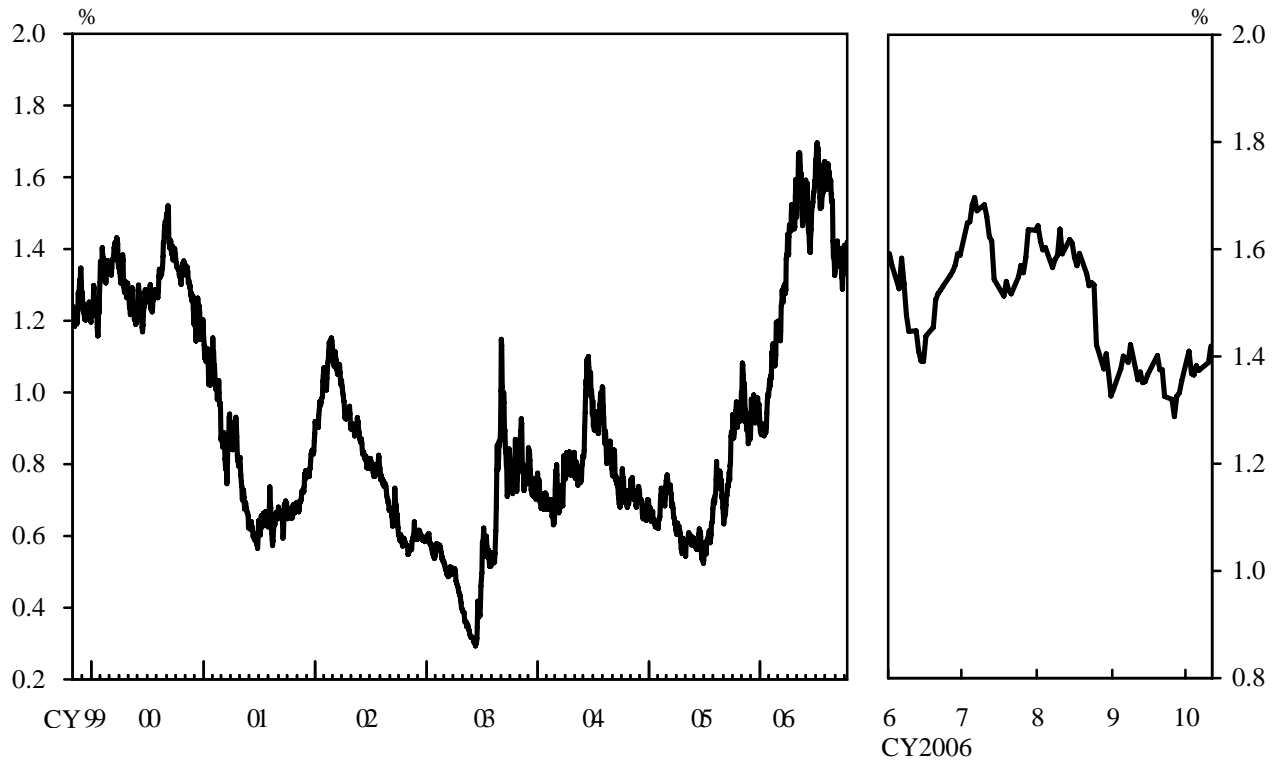


Note: Calculated from yen-yen swap rates.

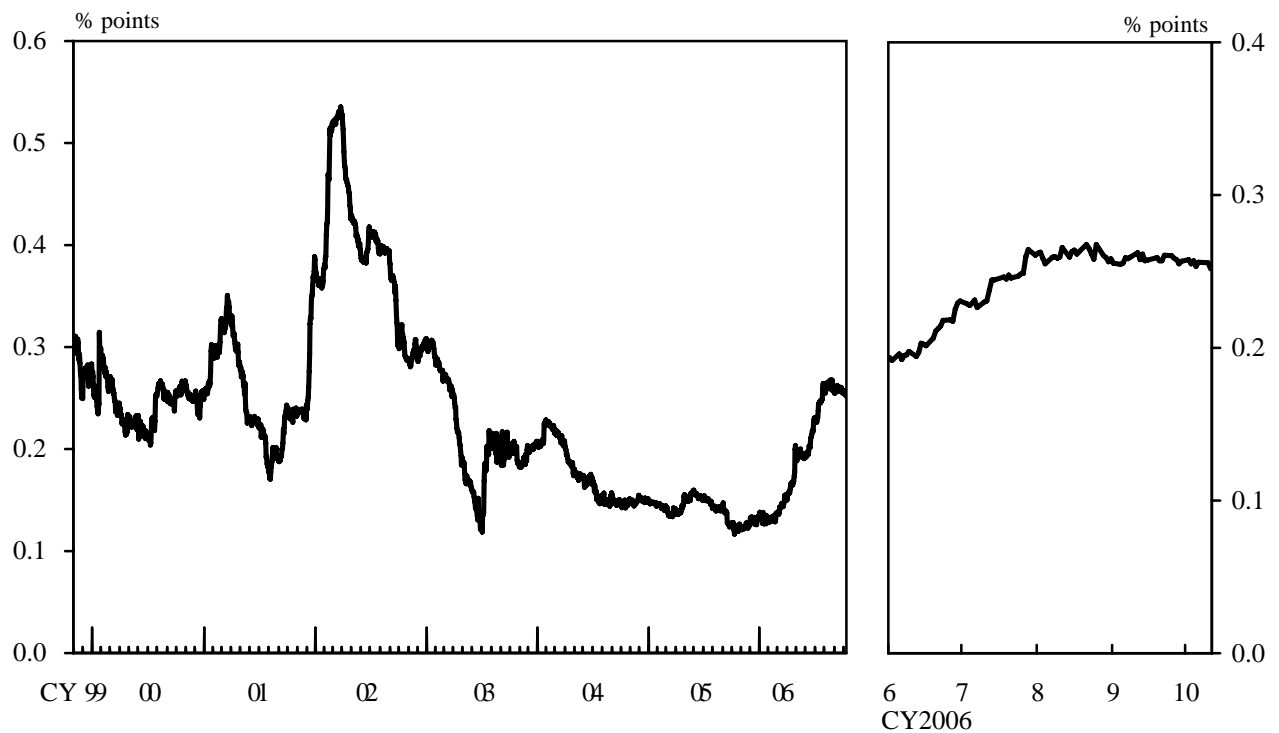
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



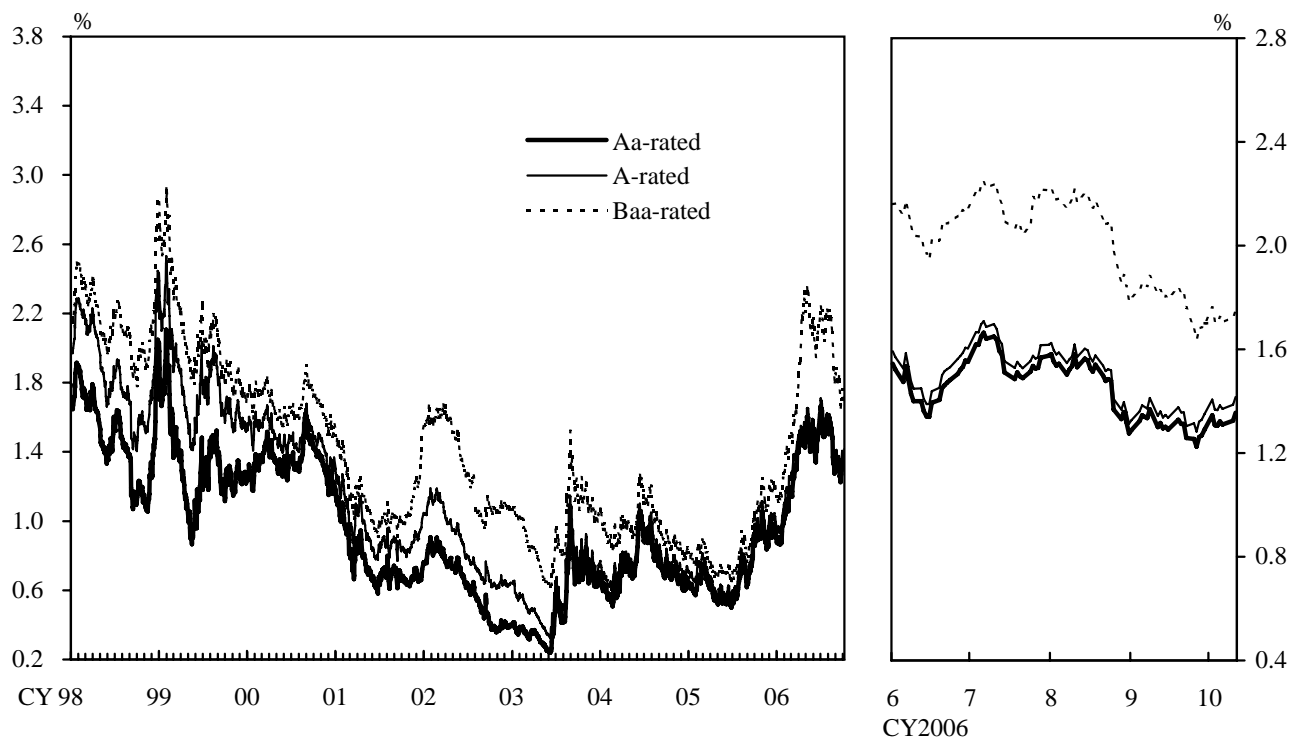
Notes: 1. Yields on bonds with 5-year maturity.

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

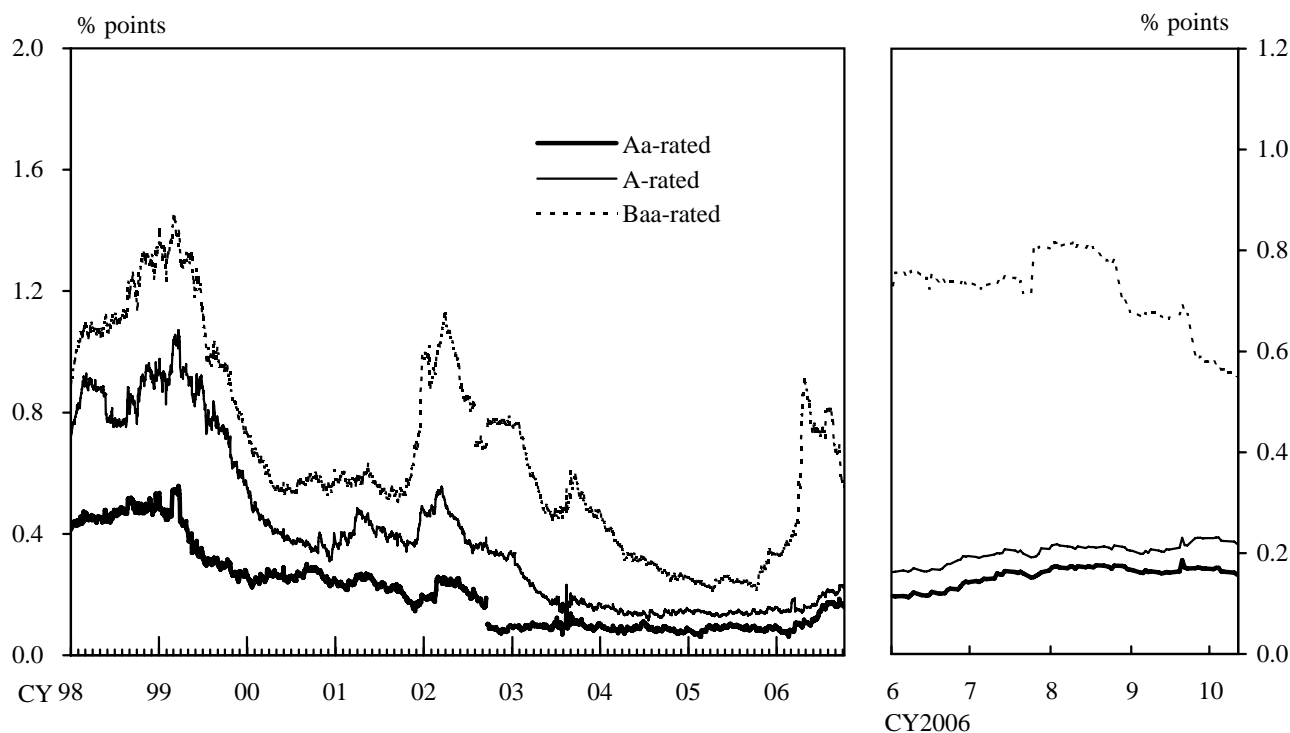
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
"Reference Price (Yields) Table for OTC Bond Transactions."

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.

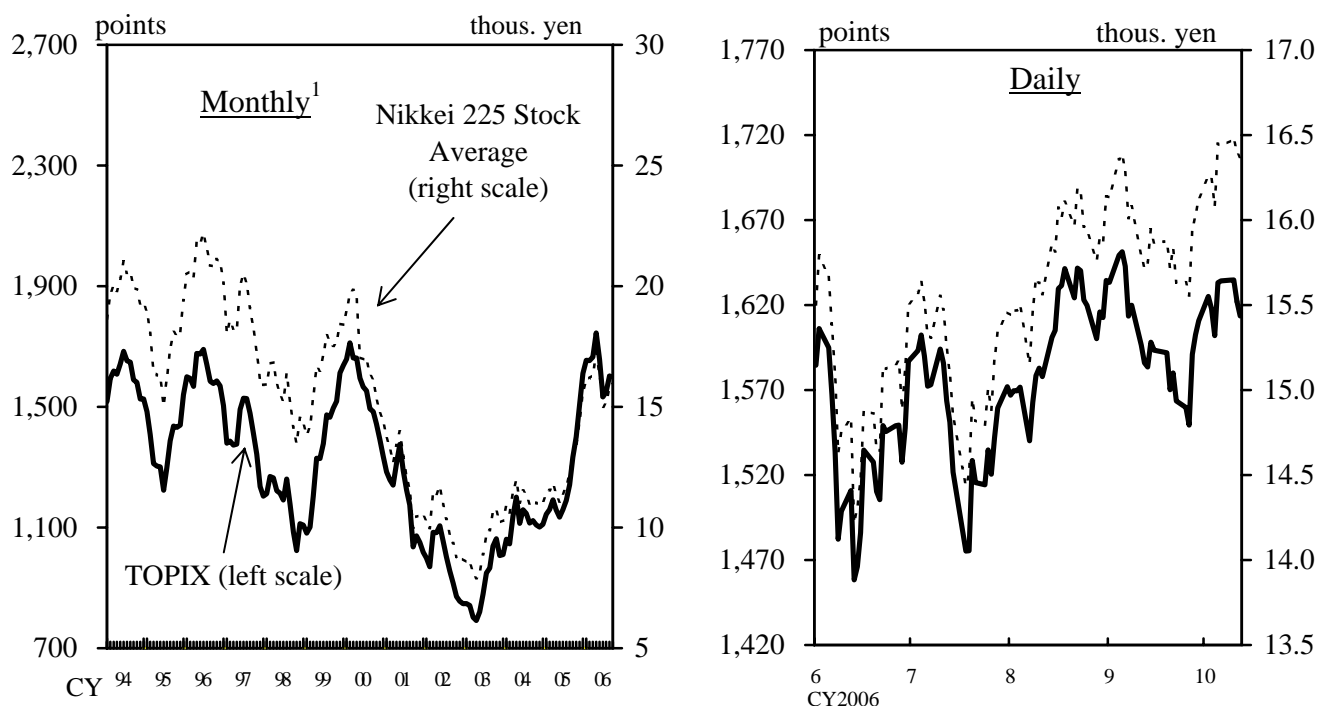
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

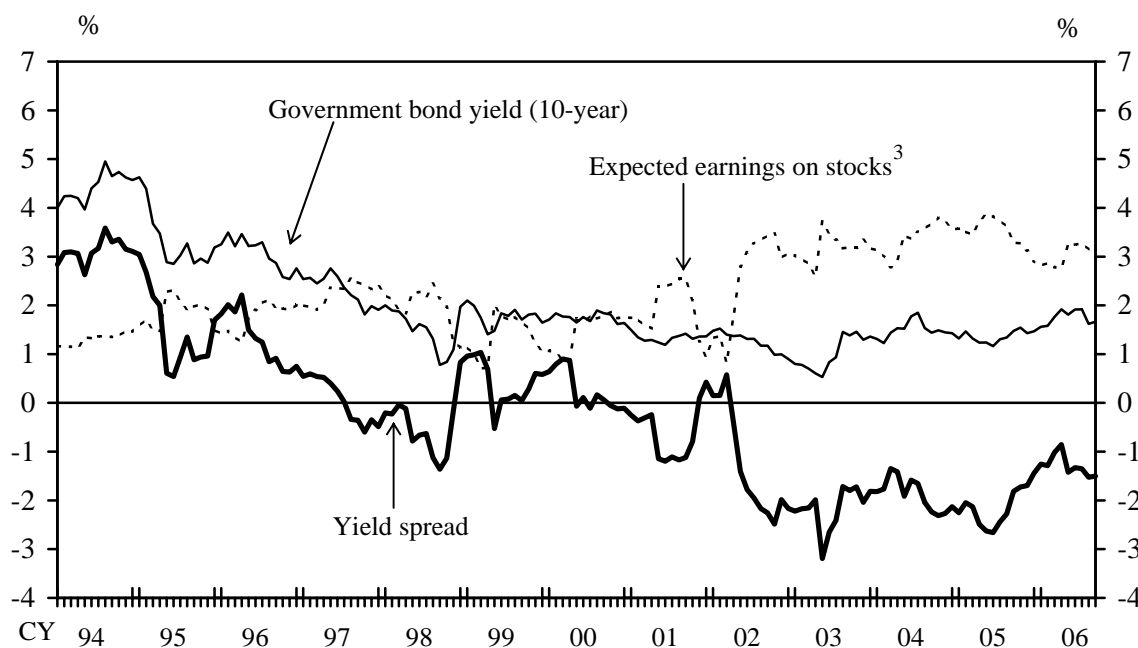
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

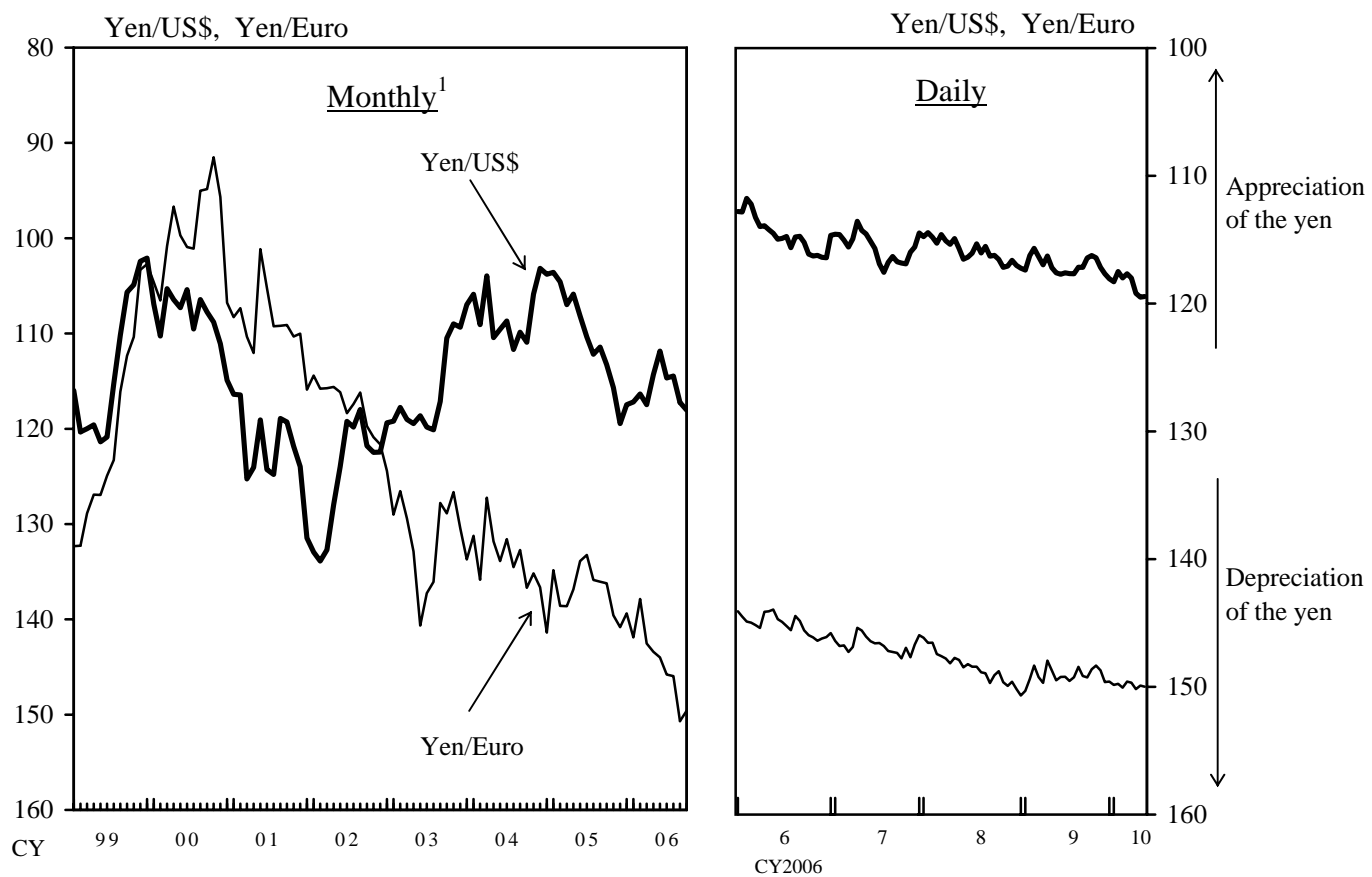
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

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 Tousei Shiryou*" (Daiwa Investment Information)."

Exchange Rates

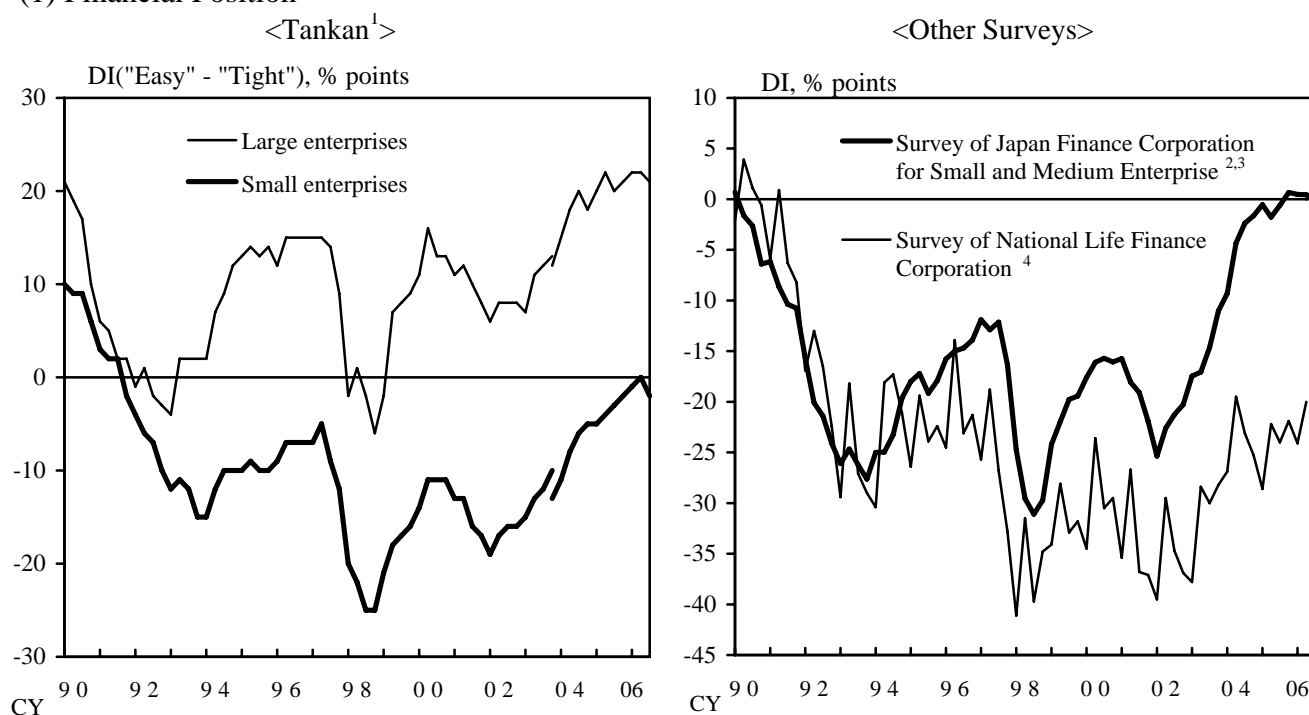


Note: 1. End of month.

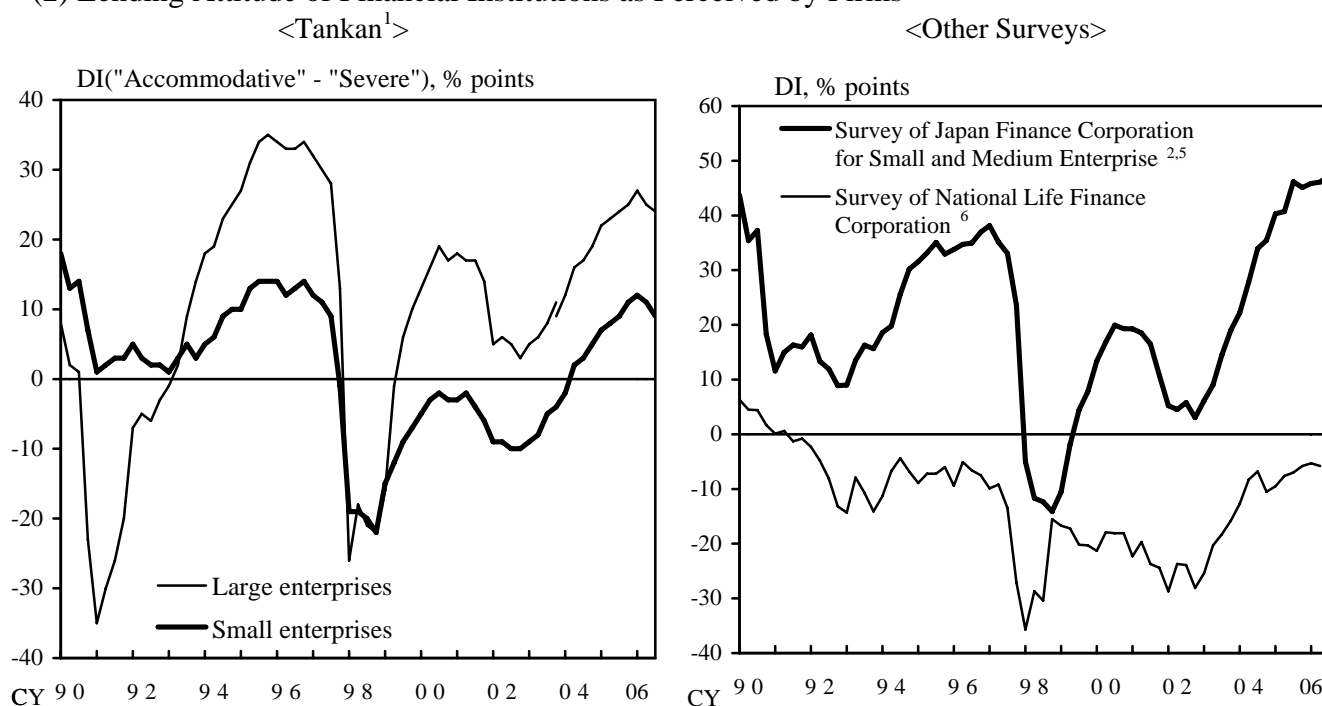
Source: Bank of Japan.

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."

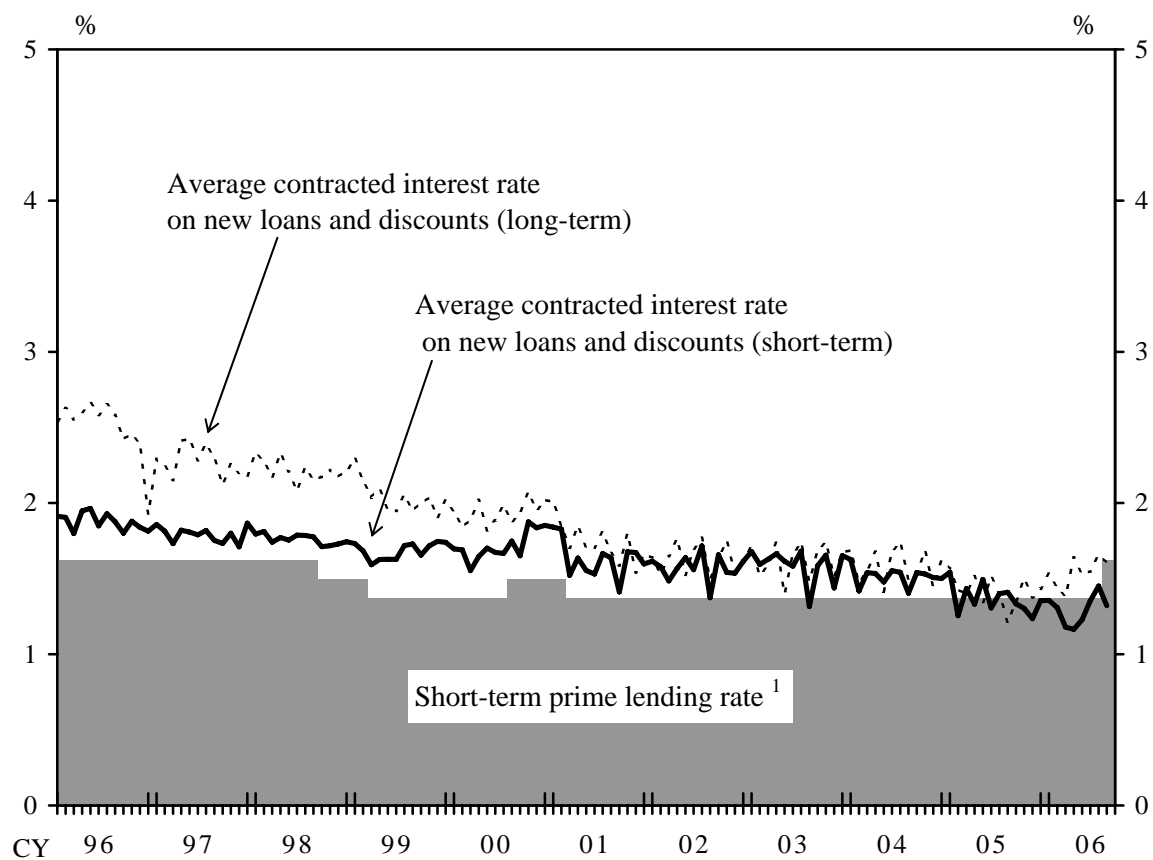
4. DI of "Easier" - "Tighter."

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

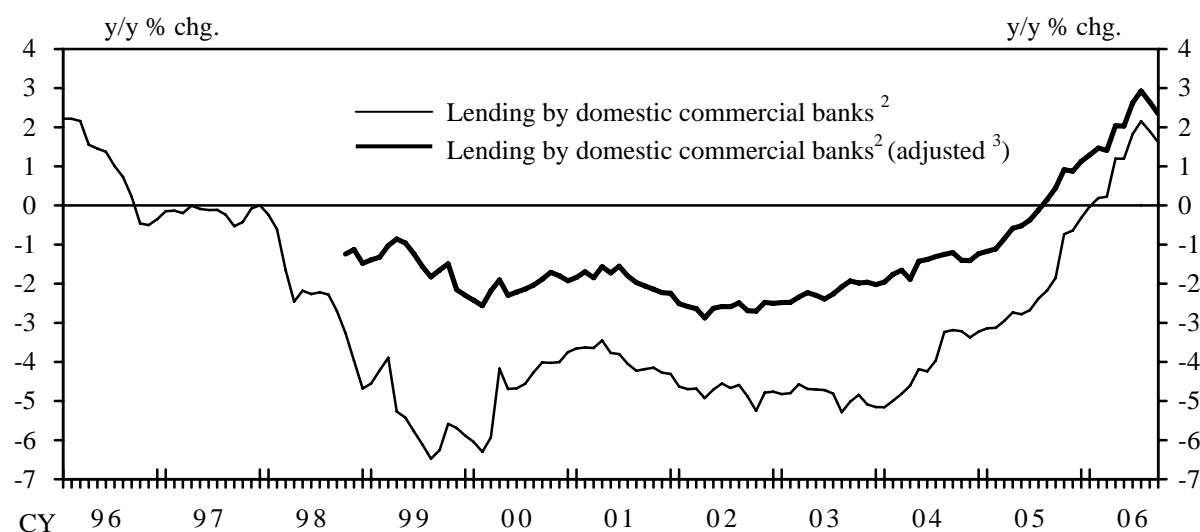


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



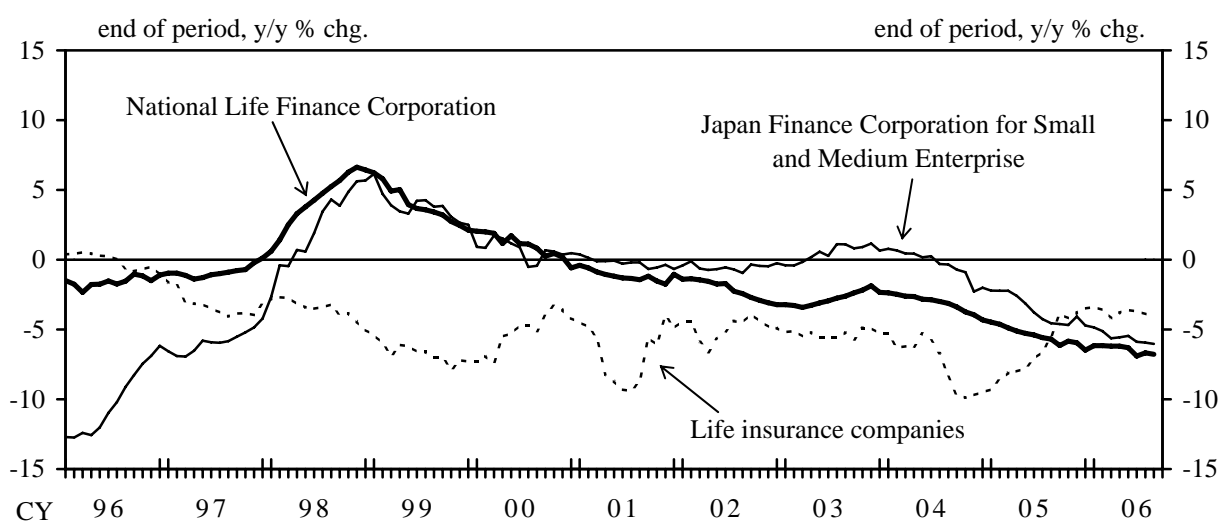
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

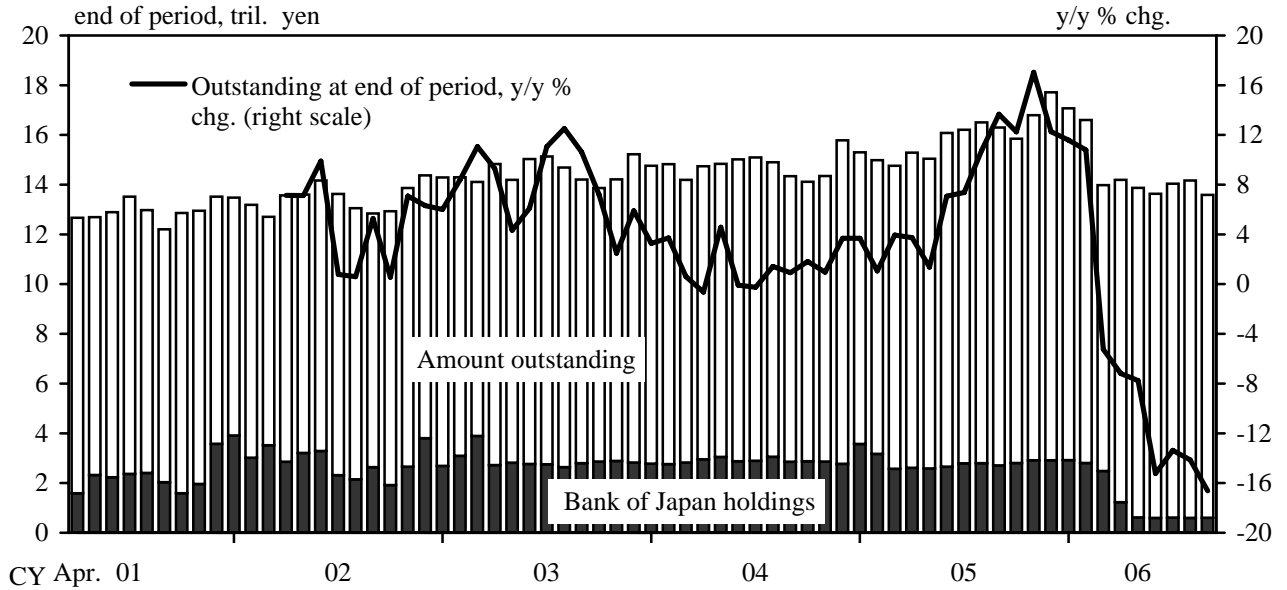
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

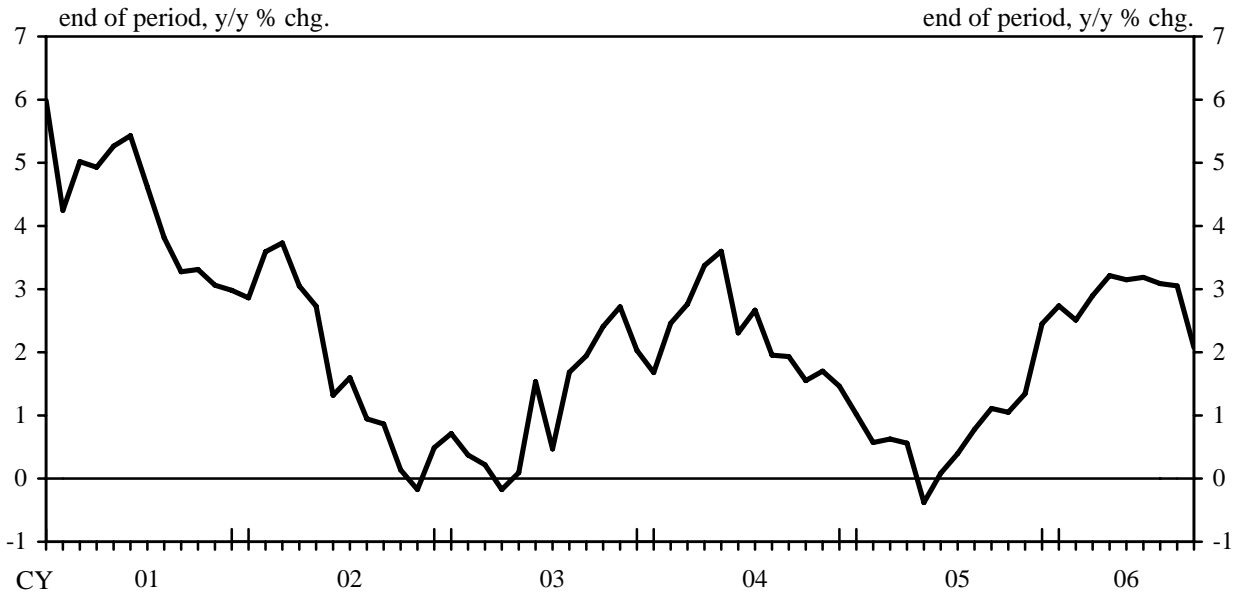
Private-Sector Fund-Raising in the Capital Markets

(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)

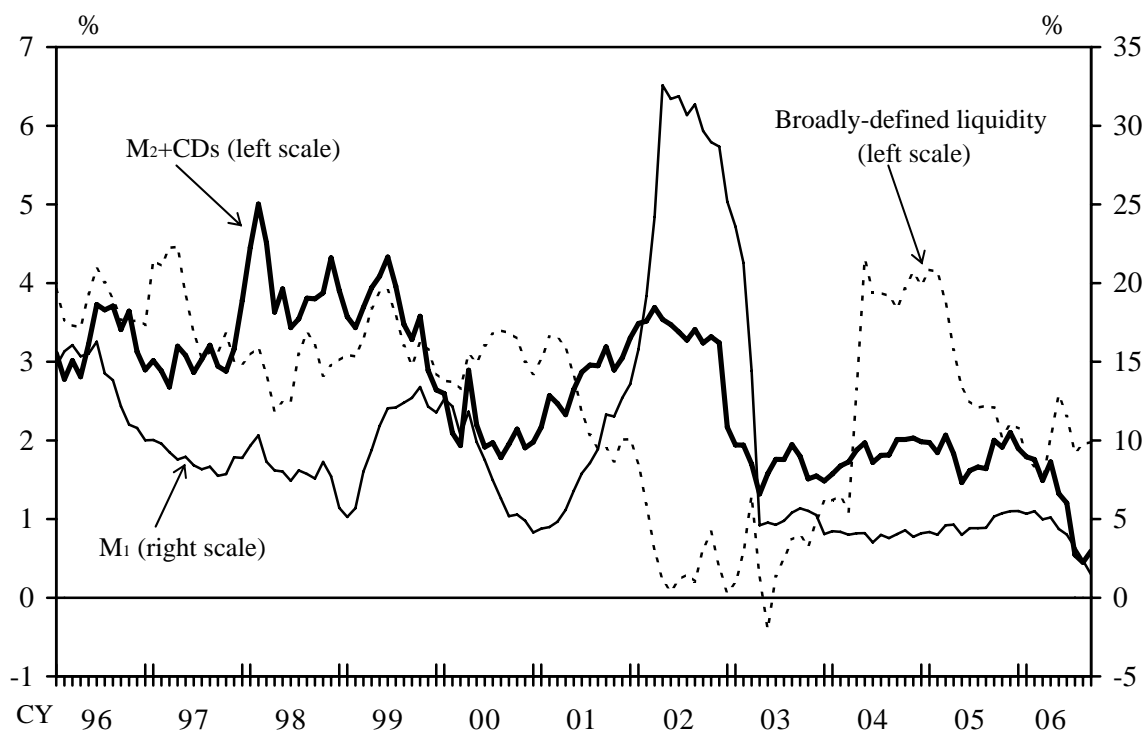


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

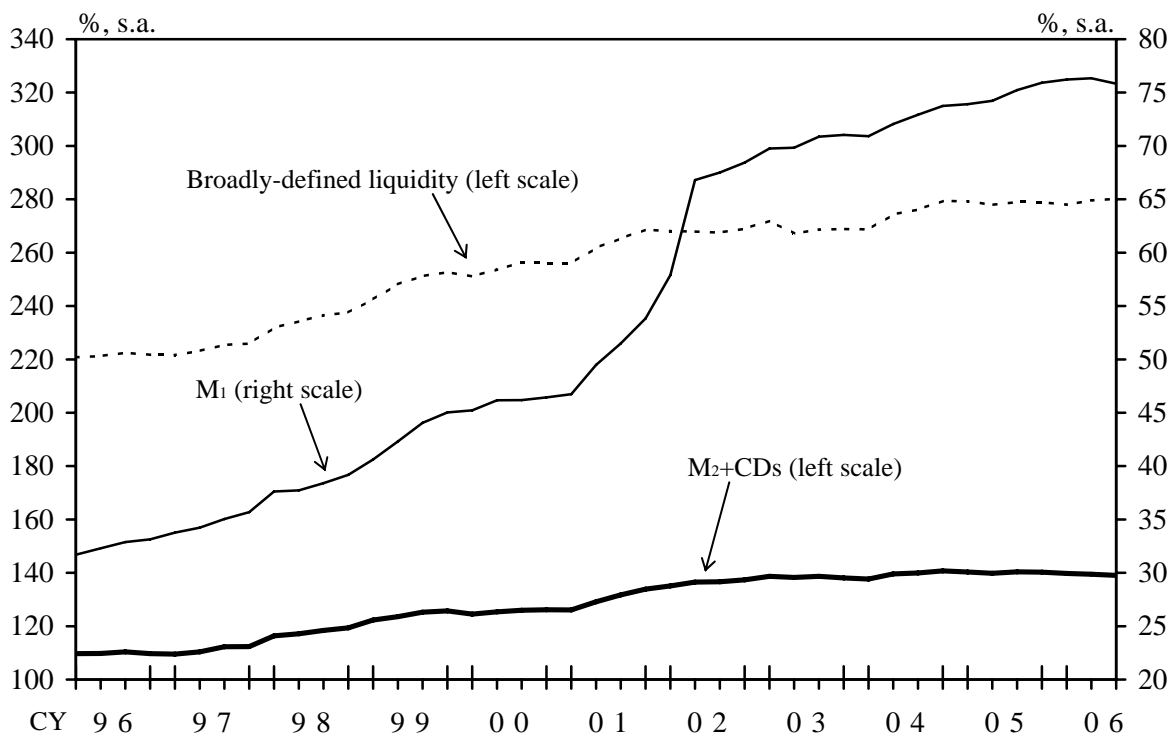
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

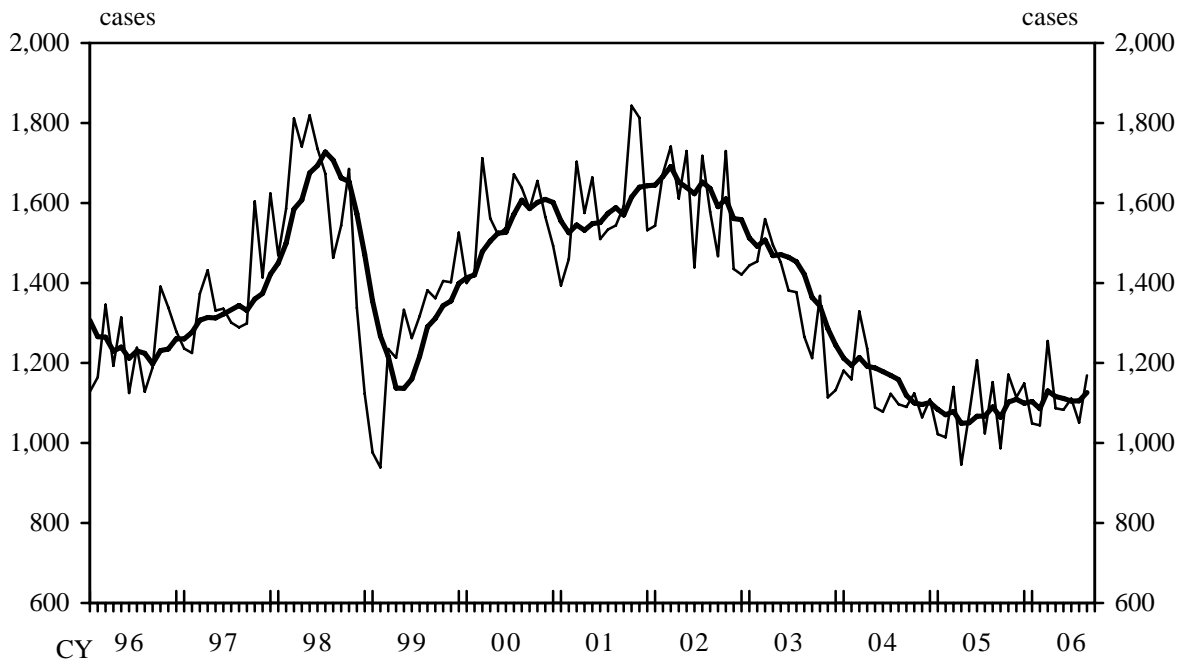


Note: Figure for the nominal GDP in 2006/Q3 is assumed to be unchanged from the previous quarter.

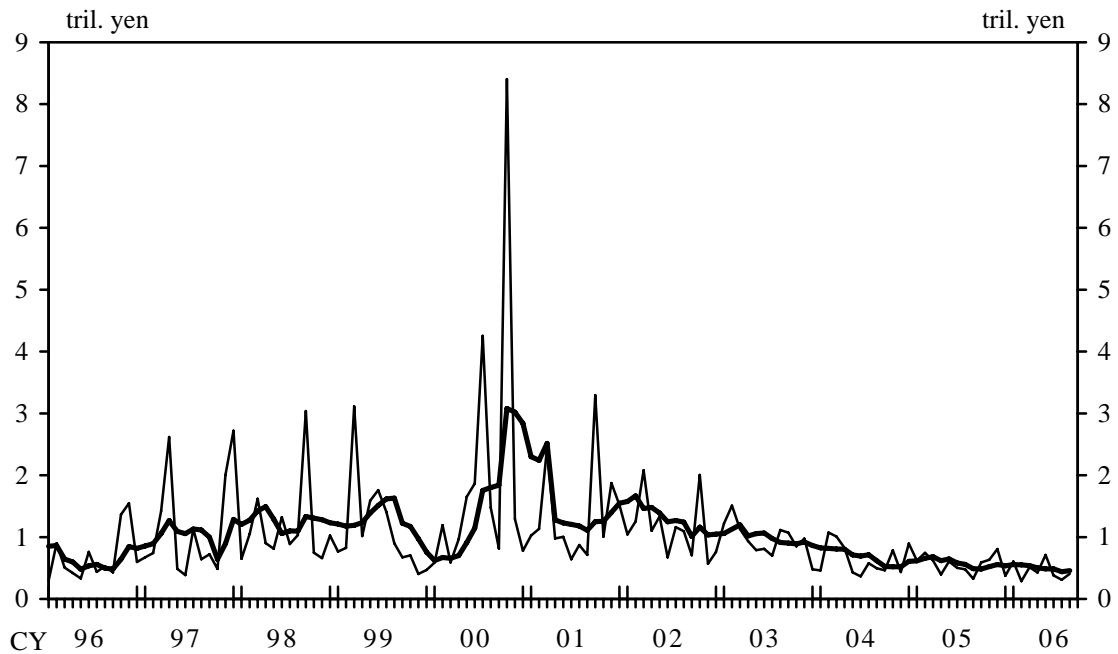
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."