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

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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, although the pace of increase has been only modest. 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 recently been about the same as their levels of three months earlier, due to the drop in crude oil prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been on a positive trend.

Domestic corporate goods prices are expected to be somewhat weak or stay flat in the immediate future, since the effects of the drop in crude oil prices still exist.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 18 and 19, 2006.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 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 attitudes of private banks have 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 and 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, although it has recently been flat. On the other hand, the value of public works contracted—a measure that reflects public orders—has been trending down on average, but it has been essentially flat since mid-year. Public investment is expected to remain on a downtrend due to tight national and local fiscal conditions.³

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6). Real exports dropped slightly, by 0.6 percent, in October compared with the third quarter, when they registered relatively high quarter-on-quarter growth of 3.0 percent. As a trend, however, they have continued to increase.

As for real exports by destination (Chart 6[1]), exports to the United States have continued to rise as a whole, although the pace of increase has eased somewhat, mainly in automobile-related goods. Exports to the EU have also continued their solid increases on average. Exports to East Asia have been on an uptrend, particularly those to China, and exports of IT-related goods, which had decreased in the second quarter, have been rising since the third quarter (Chart 9). Meanwhile, exports to other regions (such as the Middle East, Mexico, and Russia) have been registering high growth, despite some fluctuations, chiefly in capital goods and parts and in automobile-related goods. By goods (Chart 6[2]), exports of capital goods and parts continued to increase, albeit with some fluctuations, thanks to favorable demand from many parts of the world (Chart 7[2]). Exports of consumer goods have been trending upward, mainly in digital home appliances. Those of automobile-related goods continued to increase steadily as a whole; while growth in exports to the United States has slowed, exports to other regions have continued to rise firmly (Chart 7[1]). On the other hand, exports of IT-related goods were

³ Nevertheless, given that the pace of decline in the first half of this fiscal year was notably rapid, public investment is projected to stop declining temporarily toward the second half of the year compared to the first half, as shown in the contract data, which may serve as a leading indicator of actual construction.

relatively weak in the second quarter due to partial production adjustments, mainly in East Asia, but they have turned up again since the third quarter, against the background of growing global demand (Chart 8[1]). Meanwhile, exports of intermediate goods have been rising as a trend, mainly in high valued-added goods used for IT-related goods and automobiles, although exports to the NIEs have recently fallen (Chart 7[3]).

Real imports have been on a gradual uptrend against the background of the expansion of the domestic economy (Charts 5[1] and 11). By goods, imports of capital goods and parts (excluding aircraft) and of IT-related goods have continued to increase as a trend. Imports of foodstuffs have been more or less flat, albeit with some fluctuations, while those of consumer goods, which had declined temporarily in the second quarter, have been increasing despite at a moderate pace. Meanwhile, imports of raw materials and intermediate goods appear to have been increasing mildly as a trend, assisted by the increase in domestic production, but they have recently been showing some weakness.⁴

The surplus of net exports in terms of the real trade balance has continued its upward trend, which reflects 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 been narrowing, affected by higher import prices of raw materials, but it has recently expanded also on a nominal basis, as crude oil prices fell back.

Exports are expected to continue to rise as overseas economies overall continue to expand (Chart 10[2]).⁵ Looking at the environment surrounding exports, U.S. economic growth has moderated, chiefly in housing investment, due mainly to the lagged effects of increases in interest rates. As for the outlook, however, the economy is most likely to avoid further deceleration and manage a soft landing, partly

⁴ This weakness was possibly caused by the efforts of many firms to reduce imports of raw materials required for production, reflecting the rise in import prices thus far.

⁵ Looking at forecasts of exports of large manufacturing firms in the December *Tankan*, those for the first half of fiscal 2006 turned out to register a double-digit increase on a year-on-year basis, assisted partly by the yen's depreciation. Also for the second half of the year, forecasts were revised upward from the previous survey to a somewhat high growth of 7.1 percent on a year-on-year basis.

because crude oil prices—which had been surging for some time—have fallen back.⁶ As for the East Asian economies, the Chinese economy is expected to maintain its high growth, and the NIEs and ASEAN economies are also projected to continue to expand at a moderate pace as a whole. Economic expansion is also expected to continue in the EU and other regions. Regarding the environment surrounding exports of IT-related goods, on a worldwide basis, demand for products such as digital home appliances continues to be favorable, and overseas market prices of liquid crystal panels and DRAM have also been firm. 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, assisted by the expansion of the domestic economy.

Business fixed investment has continued to increase. On a GDP basis (the second preliminary figures), fixed investment has continued to show solid gains (Chart 3). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms has continued to trend up on average (Chart 12[1]). By industry and size (Chart 13), in manufacturing, investment by large firms has continued to increase steadily at a somewhat fast pace, and that by small and medium-sized firms has also followed an uptrend, albeit with some fluctuations. As for nonmanufacturing firms, investment by large firms has been on an uptrend, while that by small and medium-sized firms has been virtually flat. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—have been moving up as a trend with somewhat large fluctuations lately (Chart 14[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—marked a relatively large drop in the third quarter, chiefly in nonmanufacturing, in reaction to the high growth in the second quarter; they remained essentially unchanged in October compared with the third quarter (Chart 15[1]). However, taking into consideration the business fixed investment plans in the December *Tankan*, to be mentioned below, these

⁶ Holiday sales seem to be solid at this early stage.

fluctuations are considered to be only of temporary nature, as orders continue to follow an uptrend.⁷ 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 stayed on an uptrend, while those in nonmanufacturing, which tend to fluctuate significantly, have recently dropped (Chart 15[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales has remained high on the whole (Chart 12[2]), with a further increase in large manufacturing firms.⁸ In the December *Tankan* (Chart 16), current profits of both manufacturing and nonmanufacturing firms of all sizes were revised upward from the September survey, and further profit increases are projected in fiscal 2006, following the upsurge in fiscal 2005. In these circumstances, business sentiment in the December *Tankan* has continued to be favorable, with improvements observed on the whole (Chart 17).⁹

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 December *Tankan* (Chart 18), the business fixed investment plans of large firms for fiscal 2006 were more or less the same as in the September *Tankan*; plans of both manufacturing and nonmanufacturing firms continued to be relatively strong, marking increases of 16.5 percent and 10.1 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 December *Tankan* slightly exceeding that of fiscal 2004

⁷ Forecasts for the fourth quarter—for private demand, excluding shipbuilding and orders from electric power companies—show that orders are projected to rise by 5.7 percent on a quarter-on-quarter basis.

⁸ Small and medium-sized firms, which have been affected by the rise in the cost of raw materials to date, also saw an improvement in their ratio of current profits to sales in the third quarter.

⁹ Business sentiment of small firms, which had deteriorated slightly in the September *Tankan*, weighed down by the effects from the rise in input raw material costs, has improved.

and 2005 when investment by small firms of all industries turned out to register a 10-percent rise.

Private consumption has been on an increasing trend, although the pace of increase has been only modest. On a GDP basis, private consumption has been on a gradual uptrend on average, although it dropped in the third quarter, notably in nondurable consumer goods (Chart 3).¹⁰ Looking at individual indicators on consumption (Charts 19 and 20), sales at department stores and supermarkets picked up in August-September, mainly in apparel, with improved weather conditions, but were relatively sluggish again in October, weighed down by the weakness in winter apparel due to the somewhat high temperatures. Sales at convenience stores continued to be essentially flat on average, but they climbed in October, aided by good weather. The pace of increase in sales of household electrical appliances has slowed slightly overall; sales of personal computers seem to be somewhat weak, with consumers holding off purchases of new computers prior to the introduction of the new operating system, while those of digital home appliances such as flat panel TVs and digital cameras have continued to advance.¹¹ Meanwhile, the number of new passenger-car registrations, excluding mini-vehicles, has continued to stay at low levels. In contrast, mini-vehicles have trended upward on average, supported by their high cost-performance. As for services consumption, sales in the food service industry have been on a steady uptrend. Outlays for travel have been firm on average, mainly in overseas travel.

Indices of aggregated sales (in real terms), which are comprised of major sales indicators of goods and services mentioned above,¹² were relatively weak in October due to sluggish sales of winter apparel, which were suppressed by the relatively high

¹⁰ GDP consumption was weak in the third quarter, possibly because supply-side statistics were sluggish overall due to the unfavorable weather. A large decrease in consumption expenditure in the *Family Income and Expenditure Survey*, which is a demand-side statistics, has also contributed to the weakness.

¹¹ As for sales of cellular phones, consumers also seemed to have withheld buying new cellular phones prior to the introduction of the mobile number portability system.

¹² The indices of aggregated sales are the weighted average of each sales indicator. Outlays for travel in October 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 October were at the same level as those in September.

temperatures, following the fall in the third quarter caused by weather factors and the rise in the tobacco tax (Chart 21[1]). Moreover, the aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—continued to be rather weak, dampened by sluggish domestic sales of automobiles (Chart 21[2]). 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) had been showing a sizeable decline, caused particularly by sample factors, but it bounced back considerably in October (Chart 19[1]).¹³

Indicators for consumer sentiment overall have been at favorable levels (Chart 22).

Private consumption is expected to follow an uptrend, with the gradual increase in household income.

As for housing investment, housing starts have been increasing moderately with some fluctuations (Chart 23[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.

Industrial production has continued to increase against the background of the growth in domestic and external demand. Production also rose by 1.8 percent in October compared with the third quarter, following an increase of 1.0 percent in the third quarter on a quarter-on-quarter basis (Chart 24). As for production in October by industry, production of electronic parts and devices—which had dropped marginally in the second quarter—rebounded in the third quarter and continued to

¹³ As mentioned above, the index of living expenditure level of the *Family Income and Expenditure Survey* has shown considerably large fluctuations. However, the consumption expenditure of the *Survey of Household Economy*, which covers more households (the number of samples is about thirty thousand households) than the *Family Income and Expenditure Survey* (about eight thousand households), shows less fluctuations.

step up in October compared with the third quarter. Production of transport equipment has been increasing reflecting favorable exports, and that of general machinery has been on an uptrend on average; it jumped sharply in October after falling in the third quarter.

Shipments have also continued to increase. By goods (Chart 25), shipments of producer goods have been at high levels overall, since those of electronic parts and devices, as well as materials (such as iron and steel, chemicals) have been increasing. Shipments of capital goods have been rising as a trend, with relatively large fluctuations. As for consumer goods, while shipments of nondurable goods have been on a downtrend, those of durable goods have been on an uptrend, chiefly in automobiles for exports and digital home appliances.

Inventories have been more or less in balance with shipments in the industrial sector as a whole, although in electronic parts and devices, they have elevated to a high level relative to shipments. The inventory cycle (Chart 26) 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 been more or less favorable. By goods, the shipment-inventory balance in producer goods, excluding electronic parts and devices (such as iron and steel, chemicals), has continued to improve, 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 shipment-inventory balance has deteriorated lately, as the year-on-year rate of increase in inventories has clearly exceeded that in shipments. Shipments of electronic parts and devices have been on an uptrend, and the rise in inventories is partly a result of an intended buildup. For some electronic parts and components used for new final products of some domestic manufacturers, however, inventories recently seemed to have been unintentionally piled up, with orders for those products having turned out to be weaker than previously projected. Given that the environment surrounding exports has been improving, and given that global IT-related demand has been steady overall, as mentioned above, these adjustments are considered to be a temporary phenomenon caused basically by domestic factors. Thus, it is unlikely that the recent inventory adjustments will become widespread. Nevertheless, as the pace of increase in the supply capacity tends to be quite rapid for

this sector, future developments, including year-end sales at home and abroad, continue to require close monitoring.

As for the outlook, production is expected to follow an increasing trend, reflecting the rise in domestic and external demand, with overall inventories being more or less in balance with shipments. Anecdotal information suggests that production in the fourth quarter will continue to increase.¹⁴

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 27).

In the labor market, overtime hours worked have remained on a moderate upward trend at a high level (Chart 29[3]). The ratio of job offers to applicants has been rising moderately as a trend, although it has recently been more or less flat, reflecting the slower pace of increase in the number of new job offers. The unemployment rate followed a gradual downtrend, with monthly fluctuations (Chart 28[1]).¹⁵ Meanwhile, the employment conditions DI in the *Tankan* shows that both small and large firms are facing a greater labor shortage; it also indicates that this shortage will extend into the future (Chart 30).

In terms of employment (Chart 29[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, on average, a solid increase of around 1.0 percent on a year-on-year basis. On the other hand, growth in the number of regular employees in the *Monthly Labour Survey*, which is more stable, has gathered

¹⁴ Production in the fourth quarter, based on the production forecast index for November and December (an increase of 2.7 percent and 0.1 percent on a month-on-month basis respectively), is calculated to rise sharply, by 3.7 percent, compared with the third quarter. By industry, electronic parts and devices have contributed significantly to this increase. Nevertheless, with the shipment-inventory balance having deteriorated lately, the sharp increase in the production plans of electronic parts and devices ought to be discounted to a certain extent.

¹⁵ During the past six months, the unemployment rate has remained more or less flat at slightly over 4 percent. This was because, with conditions in the labor market improving, the number of people involuntarily unemployed has been trending downward, but that of voluntary unemployed seeking better job conditions has recently increased. At the same time, the number of workers leaving the labor market has been decreasing (a bottoming in the labor force participation rate).

pace from more active hiring, and is recently marking an increase of 1.0-1.5 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. Moreover, special payments have maintained an increasing trend, supported by favorable corporate profits.¹⁶ In this light, nominal wages per worker have gradually increased further (Chart 27[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 recently been falling slightly, reflecting the drop in crude oil prices since around the summer (Chart 32). Looking at recent developments in international commodity prices in more detail, crude oil prices have dropped sharply since mid-August, in response to receding uncertainty about the situation in the Middle East, but they have moved up slightly again of late, partly due to further cutbacks in production by OPEC. On the other hand, prices of nonferrous metals have remained high, albeit with somewhat large fluctuations.¹⁷

¹⁶ As for winter bonuses of large firms, a survey result released by the *Nihon Keizai Shimbun*, Inc. (final results as of December 1; the number of responding firms was 569 in manufacturing and 189 in nonmanufacturing) showed an increase of 2.0 percent on a year-on-year basis, which is around the same rate of increase for summer bonuses this year (an increase of 2.1 percent). Moreover, according to a survey by the Japan Business Federation (final results as of December 13; the number of responding firms was 161 in manufacturing and 37 in nonmanufacturing), winter bonuses of large firms grew at a solid pace of 2.5 percent on a year-on-year basis (summer bonuses this year increased 2.9 percent).

¹⁷ Prices of grain have also been staying at high levels, due to an expansion in global demand and to a drought in some regions. Meanwhile, domestic commodity prices have been on a gradual uptrend, mainly reflecting the tightening of domestic supply-demand conditions, with international commodity prices as a whole remaining at a high level.

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁸ have recently been about the same as their levels of three months earlier, due to the drop in crude oil prices (Chart 33). In detail, prices of nonferrous metals have been more or less flat lately, and prices of petroleum and coal products have fallen, due to the past drop in crude oil prices (both are categorized as “goods sensitive to exchange rates and overseas commodity prices” in the chart). Prices of chemical products (categorized as “other materials” in the chart) have recently slowed their pace of increase because of the drop in crude oil prices. On the other hand, prices of iron and steel-related products and of construction-related products have continued to increase 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, the pace of increase in prices of raw materials and intermediate goods has slowed from the drop in crude oil prices. Final goods prices have stayed almost unchanged.

The year-on-year rate of decline in corporate services prices (excluding external factors, same hereafter) has been narrowing moderately (Chart 34).^{19,20} As for recent developments, prices of real estate services have been on an improving trend, albeit with some fluctuations, assisted by the rise in office space rental against the background of improved supply-demand conditions of office spaces in the Tokyo metropolitan area. Moreover, prices of information services have recently increased, albeit slightly, and the year-on-year rate of decline in prices of leasing and rental has been narrowing, with some fluctuations. On the other hand, prices of advertising services have continued to be somewhat weak, held down by a decline in the number

¹⁸ 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.

¹⁹ “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.

²⁰ Including overseas factors, corporate services prices marked a slight year-on-year increase for three months in a row (the year-on-year rate of increase was 0.4 percent in August, 0.3 percent in September, and 0.1 percent in October), assisted by the yen’s depreciation as well as by the rise in ship chartering services and in ocean freight transportation, reflecting increased cargo movements around the world.

of television commercials. Prices of other services have also continued to be relatively weak; no marked improvement was observed even in October when some price contracts are renewed. These movements, along with those in wages, indicate that 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 35). The 2005-base index showed that consumer prices have been registering a small positive since June. (The year-on-year rate of increase was 0.2 percent in June and July, 0.3 percent in August, 0.2 percent in September, and 0.1 percent in October.) Looking at developments in the past few months in more detail, the positive year-on-year rate of change in prices of goods as a whole has been diminishing slightly; while a range of items has followed a moderate improving trend, the rate of increase in petroleum products (such as gasoline) has recently been narrowing. By contrast, services prices continued to decline marginally overall, since mobile telephone charges were lowered, although the price of eating out has been somewhat positive on a year-on-year basis.

With regard to domestic supply and demand conditions in the December *Tankan* (Chart 36), the weighted average DI in both production capacity and employment conditions as perceived by firms showed that the shortage has been expanding gradually, as the shortage of production capacity has emerged and labor shortage has further 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.

Domestic corporate goods prices are expected to be somewhat weak or stay flat in the immediate future, since the effects of the drop in crude oil prices still exist. 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.

Regarding developments in land prices (in terms of the Urban Land Price Index; Chart 37), the rate of increase compared to six months ago expanded in both commercial and residential land prices in the six large city areas. Meanwhile, land

prices in areas other than the six large city areas have continued to fall, but the rate of decline has been diminishing, albeit moderately.²¹

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 38[1]) has been at around 0.25 percent. Regarding interest rates on term instruments (Chart 39[1]), the Euroyen interest rate (TIBOR, 3-month) has risen, while FB rates (3-month) have fallen after a previous rise. Under these circumstances, interest rates on Euroyen futures have been essentially unchanged on the whole (Chart 39[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 38 [2]) have been fluctuating somewhat, mainly in view of domestic economic indicators and interest rate movements in the U.S. They have recently been moving in the range of 1.65-1.70 percent.

Yield spreads between private bonds (bank bonds and corporate bonds) and government bonds (Charts 42 and 43) have been more or less flat on the whole.

Stock prices (Chart 44) dropped in view of the generally cautious earnings forecasts of domestic firms and some weaker-than-forecasted domestic economic indicators, but then rose on some firm economic indicators. The Nikkei 225 Stock Average is moving in the range of 16,500-17,000 yen.

In the foreign exchange market (Chart 45), the yen appreciated temporarily, mainly since U.S. economic indicators were weaker than market forecasts. It later fell, against the background of some stronger-than-forecasted U.S. economic indicators. The yen is being traded in the range of 117-119 yen to the U.S. dollar.

²¹ Land purchasing expenses for fiscal 2006 (all firms and industries) in the December *Tankan* are projected to be up by 10.9 percent on a year-on-year basis at this present stage. This projection is considerably stronger compared with fiscal 2005; the forecast of fiscal 2005 at the time of the December survey last year had shown a decrease of 20.8 percent, and the actual result 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.

(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 attitudes of private banks have continued to be accommodative. The lending attitudes of financial institutions as perceived by firms, including small firms, have been accommodative (Chart 46).

Lending rates have been at extremely low levels on the whole. As for the average contracted interest rates on new loans and discounts, short-term rates have recently risen moderately, while long-term rates have been more or less flat (Chart 47). The long-term prime lending rate was raised by 0.05 percent to 2.35 percent on December 8.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors²²) has continued to increase. (The year-on-year change was 2.3 percent in September, 2.1 percent in October, and 2.2 percent in November; Chart 48.)

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, and issuance spreads remain low, at 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 -1.6 percent in September, -1.4 percent in October, and -2.3 percent in November; Chart 49.)

According to business surveys, the financial positions of firms have continued to be favorable (Chart 46).

²² 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 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 0.6 percent in September, 0.6 percent in October, and 0.7 percent in November; Chart 50.)

The number of corporate bankruptcies declined by 2.1 percent year-on-year in November, to 1,091 cases (Chart 51).

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2006/Q1	Q2	Q3	2006/Aug.	Sep.	Oct.	Nov.
Index of living expenditure level (all households)	-1.2	0.1	-3.1	-0.3	-2.8	5.3	n.a.
Sales at department stores	0.2	-1.8	0.9	0.9	1.0	-2.0	n.a.
Sales at supermarkets	-1.4	0.8	0.4	1.0	-0.6	-1.9	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 336>	< 311>	< 303>	< 308>	< 306>	< 301>	< 299>
Sales of household electrical appliances (real, Current Survey of Commerce)	4.7	-0.6	1.6	1.0	-0.6	-1.2	n.a.
Outlays for travel (50 major travel agencies)	0.8	2.3	-1.9	4.0	-4.9	2.8	n.a.
Housing starts <s.a., ann. 10,000 units>	< 127>	< 130>	< 127>	< 130>	< 130>	< 131>	<n.a.>
Machinery orders (from private sector ⁴)	-0.4	8.9	-11.1	6.7	-7.4	2.8	n.a.
Manufacturing	0.9	8.9	-2.9	9.3	-3.2	-10.0	n.a.
Nonmanufacturing ⁴	-1.8	10.0	-17.9	5.1	-10.0	10.9	n.a.
Construction Starts (private, nondwelling use)	0.9	0.2	-1.7	3.4	-6.1	-4.3	n.a.
Mining & manufacturing	6.0	11.6	13.6	14.3	-15.1	-10.5	n.a.
Nonmanufacturing ⁵	0.5	-1.4	-8.5	3.0	-4.2	-1.3	n.a.
Value of public works contracted	-6.2	-0.0	0.4	-10.7	6.9	2.1	-0.6
Real exports	3.4	1.4	3.0	2.5	-2.5	0.3	n.a.
Real imports	2.4	0.1	0.8	2.8	3.0	-2.3	n.a.
Industrial production	0.6	0.9	1.0	1.8	-0.7	1.6	n.a.
Shipments	0.1	2.1	0.7	2.5	-2.4	1.3	n.a.
Inventories	0.7	-1.1	1.0	0.9	0.9	1.1	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	<100.6>	<97.0>	<99.9>	<96.4>	<99.9>	<99.4>	<n.a.>
Real GDP	0.7	0.3	0.2	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.4	0.6	-0.4	0.5	-0.9	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2006/Q1	Q2	Q3	2006/Aug.	Sep.	Oct.	Nov.
Ratio of job offers to applicants <s.a., times>	<1.03>	<1.06>	<1.09>	<1.08>	<1.08>	<1.06>	<n.a.>
Unemployment rate <s.a., %>	<4.2>	<4.1>	<4.1>	<4.1>	<4.2>	<4.1>	<n.a.>
Overtime working hours ⁶	2.2	2.9	3.0	3.0	2.9	2.9	n.a.
Number of employees	2.1	1.5	1.2	1.5	0.7	0.8	n.a.
Number of regular employees ⁶	0.5	1.0	1.3	1.2	1.4	1.4	n.a.
Nominal wages per person ⁶	0.3	0.6	0.1	-0.2	0.1	0.0	n.a.
Domestic corporate goods price index ⁷ <q/q % chg., 3-month rate of change>	2.8 <0.5>	3.1 <1.1>	3.5 <1.0>	3.5 <0.8>	3.6 <1.1>	2.8 <0.4>	p 2.7 <p 0.0>
Consumer price index ⁸	0.0	0.0	0.3	0.3	0.2	0.1	n.a.
Corporate service price index	0.0	-0.3	0.2	0.4	0.3	p 0.1	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.7	1.4	0.5	0.4	0.6	0.6	p 0.7
Number of corporate bankruptcies <cases>	<1,116>	<1,094>	<1,083>	<1,169>	<1,030>	<1,166>	<1,091>

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

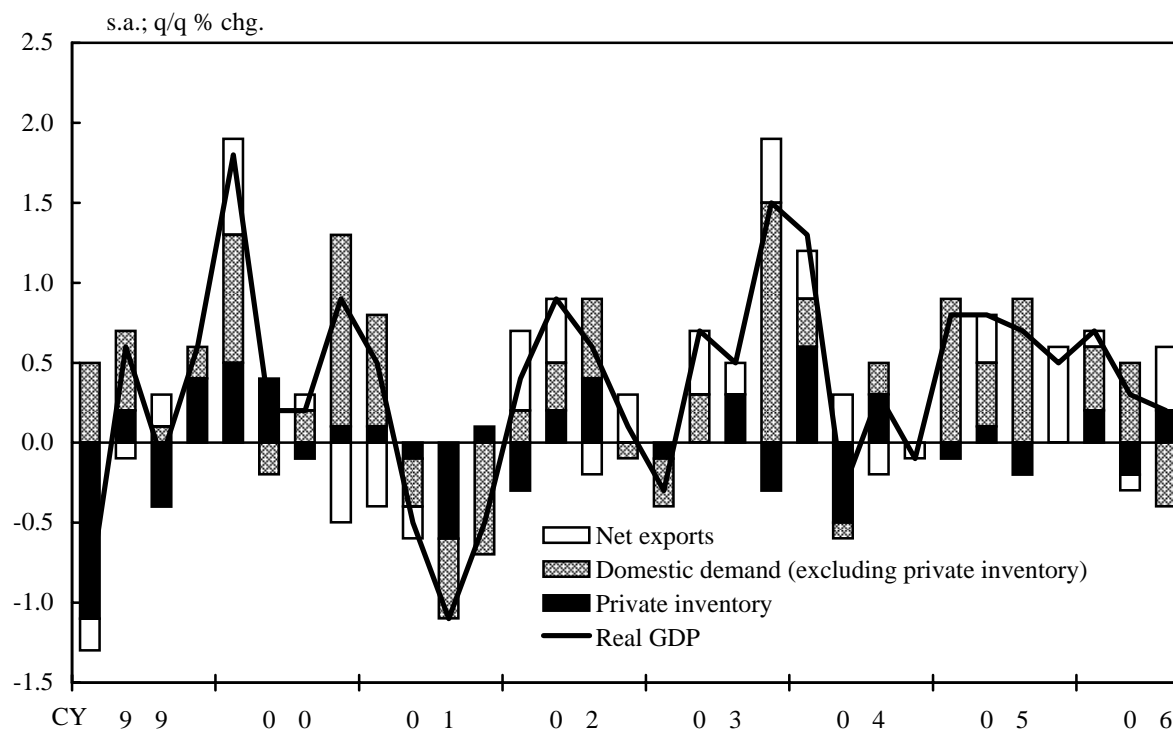
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

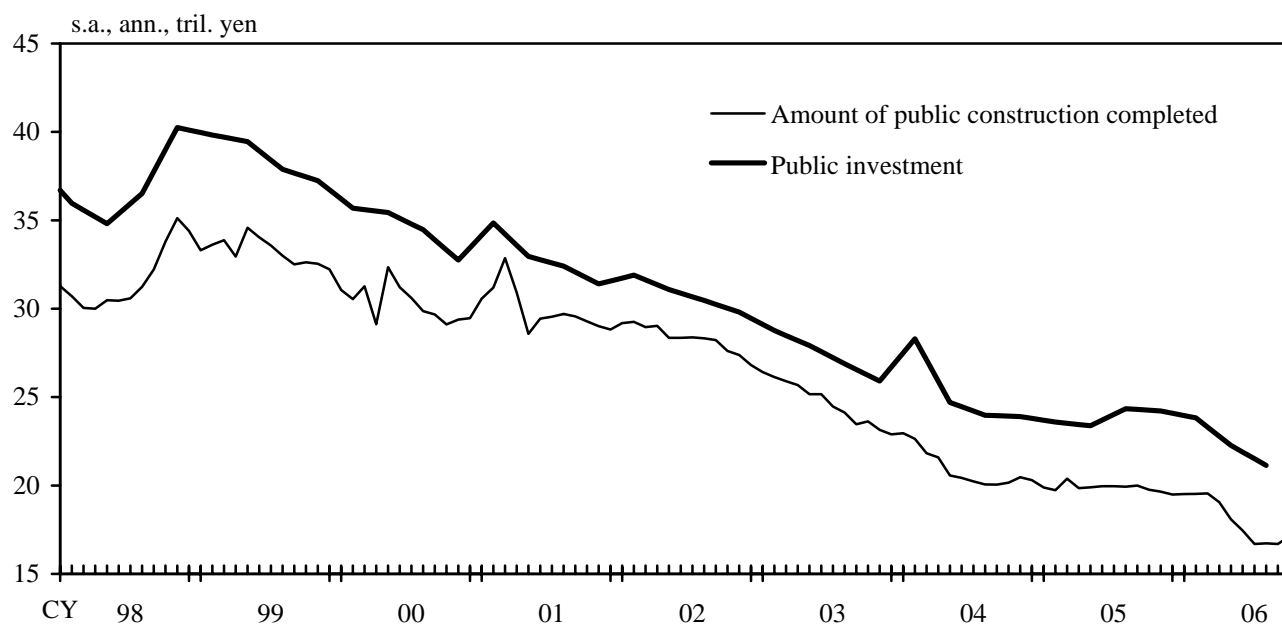
	2005		2006		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.7	0.5	0.7	0.3	0.2
Domestic demand	0.7	-0.0	0.6	0.4	-0.2
Private consumption	0.6	0.5	-0.1	0.5	-0.9
Non-Resi. investment	0.9	-0.8	3.6	3.2	1.5
Residential investment	1.0	1.5	0.9	-2.1	-0.3
Private inventory	(-0.2)	(0.0)	(0.2)	(-0.2)	(0.2)
Public demand	1.9	-1.3	-0.6	-0.9	-0.4
Public investment	4.2	-1.2	-1.9	-6.9	-5.3
Net exports of goods and services	(0.0)	(0.6)	(0.1)	(-0.1)	(0.4)
Exports	3.0	3.8	2.3	0.7	2.5
Imports	3.5	-0.2	1.9	1.3	-0.5
Nominal GDP	0.1	0.4	0.4	0.0	-0.0

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

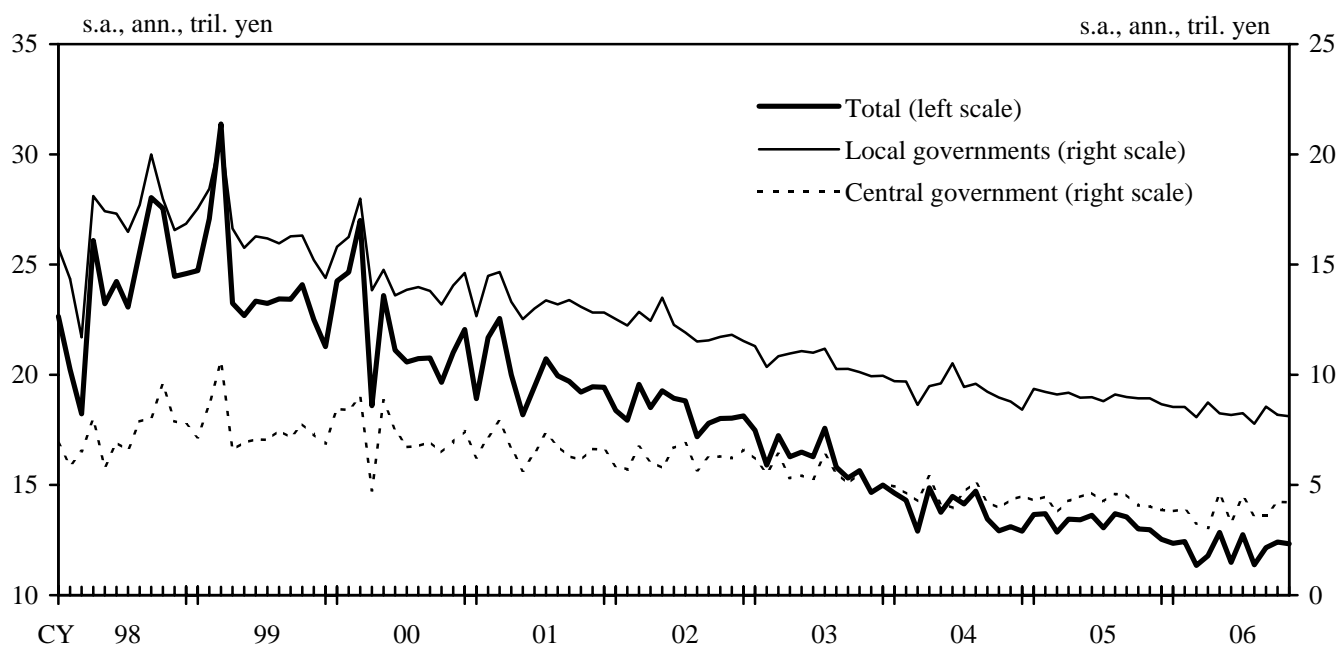
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

2. Amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works." The figures until March 2000 are retroactively calculated with year-to-year growth rates on the former basis.

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

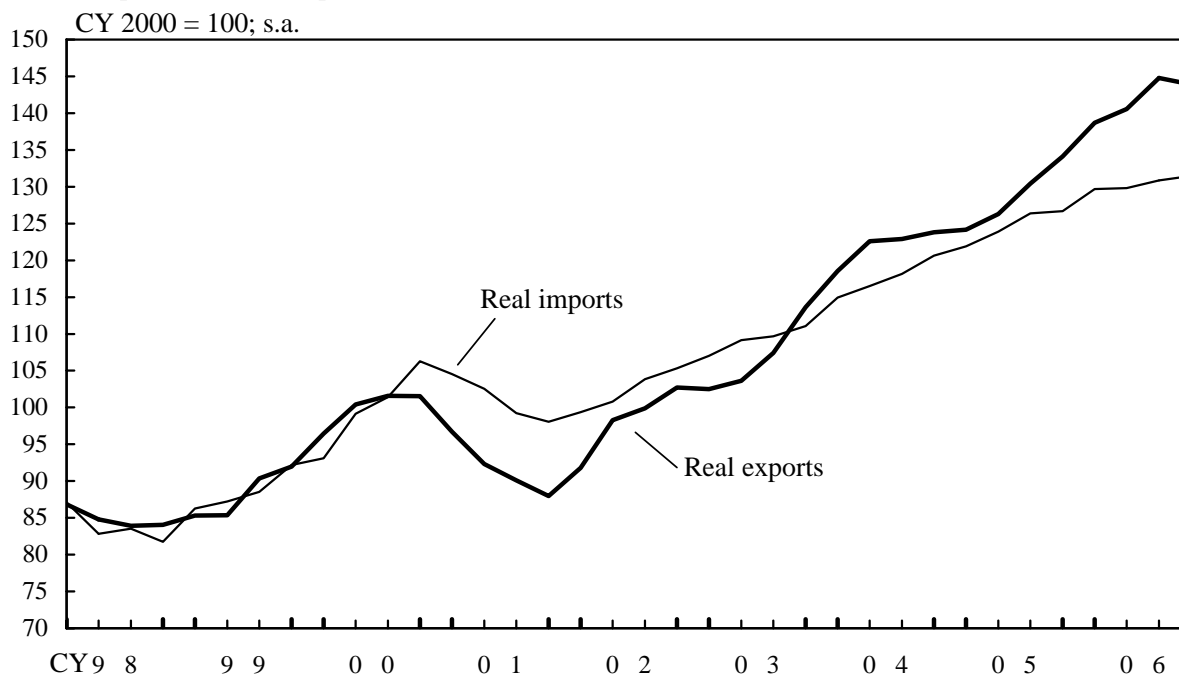
Sources: Cabinet Office, "National Accounts";

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

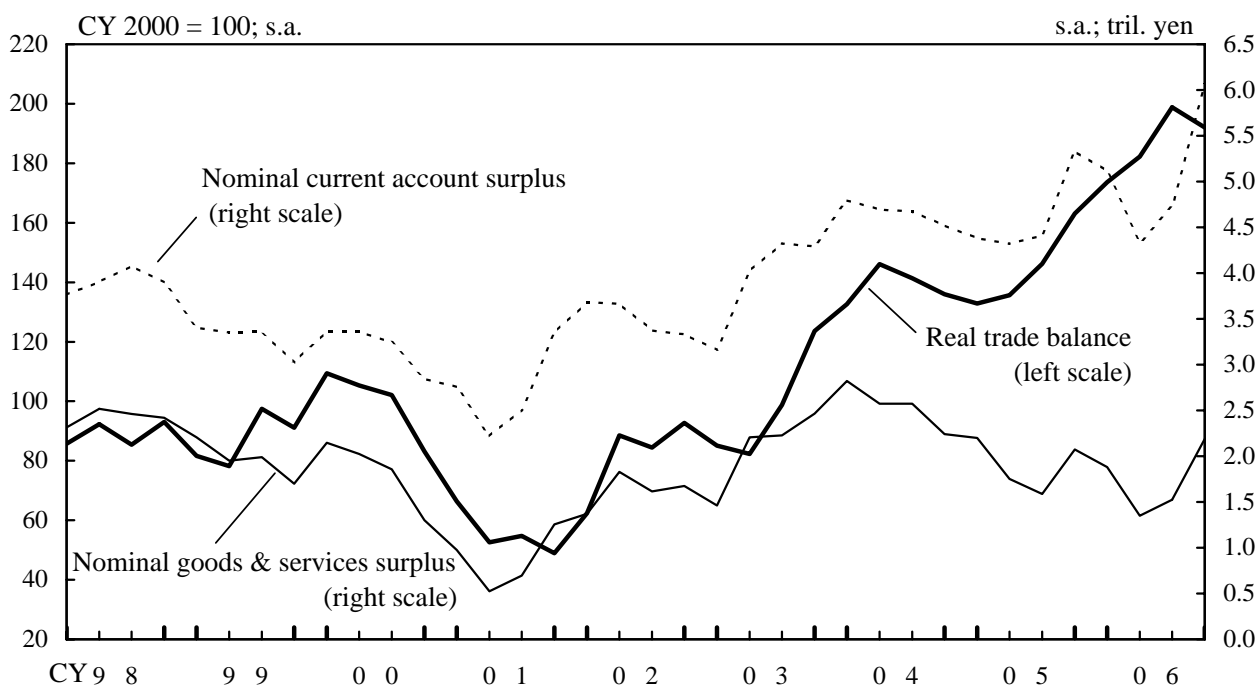
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



- Notes: 1. Real trade balance is defined as real exports minus real imports, indexed with base year of 2000. Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by the "Export and Import Price Index."
 2. Seasonally adjusted by X-12-ARIMA.
 3. 2006/Q4 figures are October figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q4	2006 Q1	Q2	Q3	Q4	2006 Aug.	Sep.	Oct.
United States	<22.5>	6.8	7.3	4.3	3.4	1.8	3.2	0.3	3.0	-1.2	0.2
EU	<14.7>	18.7	3.3	2.4	1.3	5.7	2.2	-1.9	0.3	-2.7	-0.2
East Asia	<46.7>	19.1	6.1	1.7	3.5	0.3	2.4	0.9	0.4	0.3	0.6
China	<13.5>	22.2	9.6	4.6	4.7	2.9	3.0	4.7	1.7	0.8	3.6
NIEs	<24.3>	20.3	5.0	0.5	3.4	0.2	0.5	-1.1	-1.1	1.9	-2.0
Korea	<7.8>	19.1	4.5	3.0	1.4	2.7	-3.0	-0.7	-3.0	2.2	-1.1
Taiwan	<7.3>	26.9	4.4	-3.4	9.5	-1.5	-0.2	-4.4	-3.8	-0.2	-3.0
ASEAN4 ³	<9.0>	12.3	4.4	0.9	1.9	-3.6	6.4	0.4	2.2	-4.5	2.8
Thailand	<3.8>	18.7	10.0	1.1	2.1	-1.7	6.8	0.8	-3.2	1.5	1.0
Others	<16.0>	14.4	11.5	4.6	7.7	0.9	5.3	-3.7	1.2	-5.8	-0.1
Real exports		14.5	5.3	2.8	3.4	1.4	3.0	-0.6	2.5	-2.5	0.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q4	2006 Q1	Q2	Q3	Q4	2006 Aug.	Sep.	Oct.
Intermediate goods	<17.3>	5.5	1.8	1.8	4.7	-2.0	0.7	-2.8	2.4	-3.6	-1.1
Motor vehicles and their related goods	<22.7>	8.3	8.2	4.1	5.4	1.7	1.9	2.3	4.6	-5.4	4.6
Consumer goods ⁴	<5.6>	14.9	5.2	1.7	-2.3	4.9	3.2	2.1	3.2	-0.1	1.2
IT-related goods ⁵	<12.5>	17.3	5.4	3.3	1.2	-1.1	2.8	2.9	0.3	-1.5	3.9
Capital goods and parts ⁶	<29.5>	23.5	7.1	3.0	4.6	1.5	4.9	-3.7	3.0	-3.7	-2.2
Real exports		14.5	5.3	2.8	3.4	1.4	3.0	-0.6	2.5	-2.5	0.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q4 figures are October figures 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.

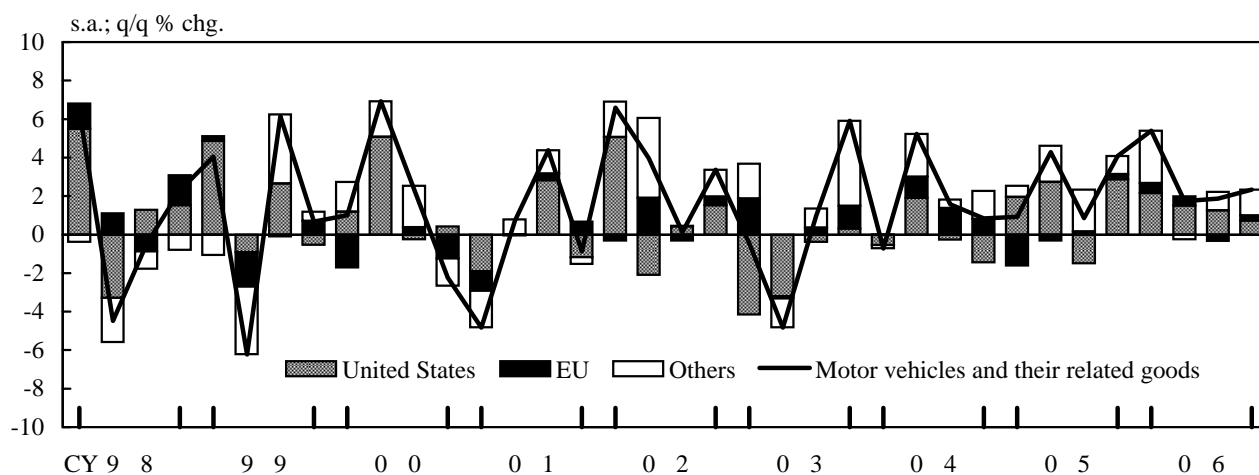
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

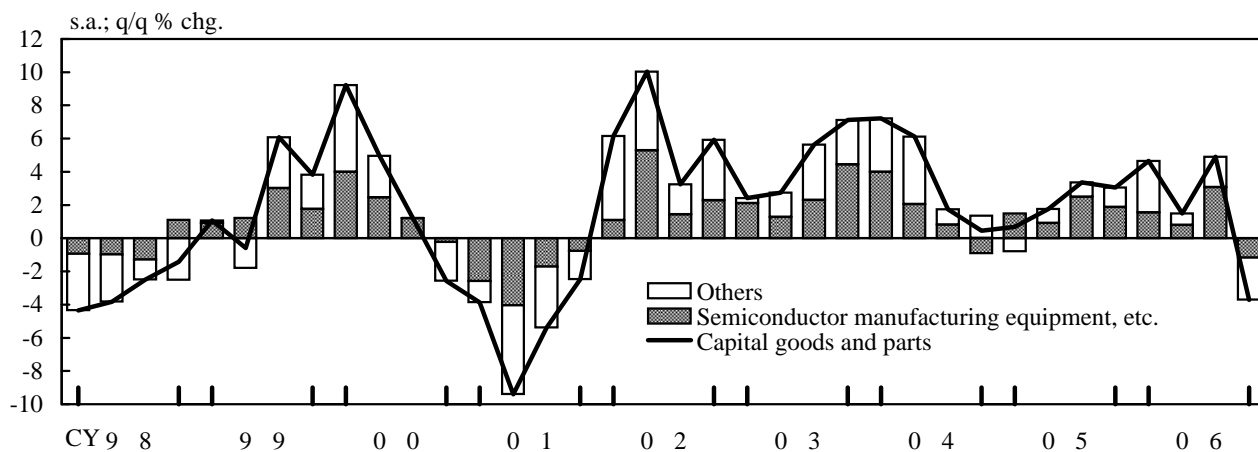
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

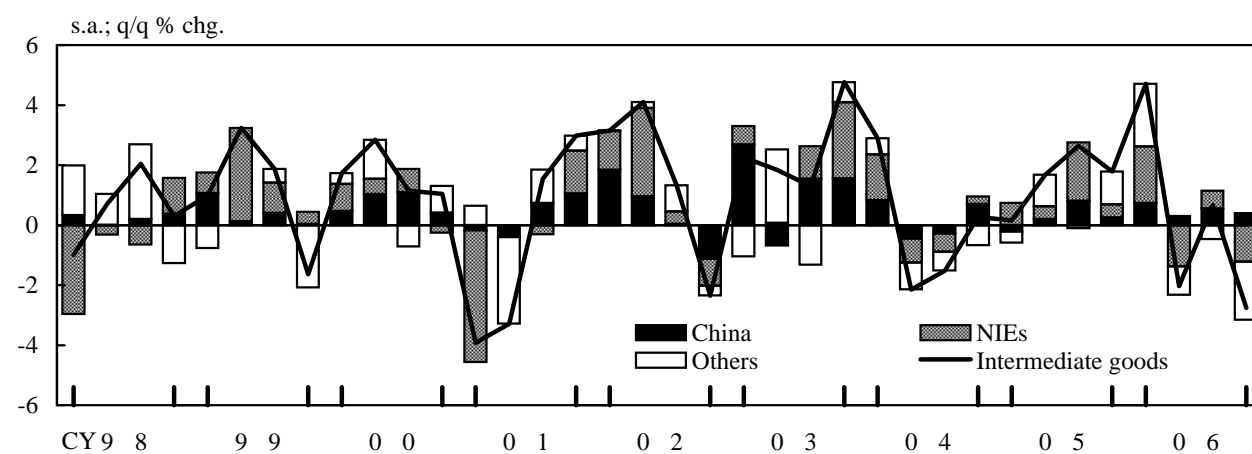
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



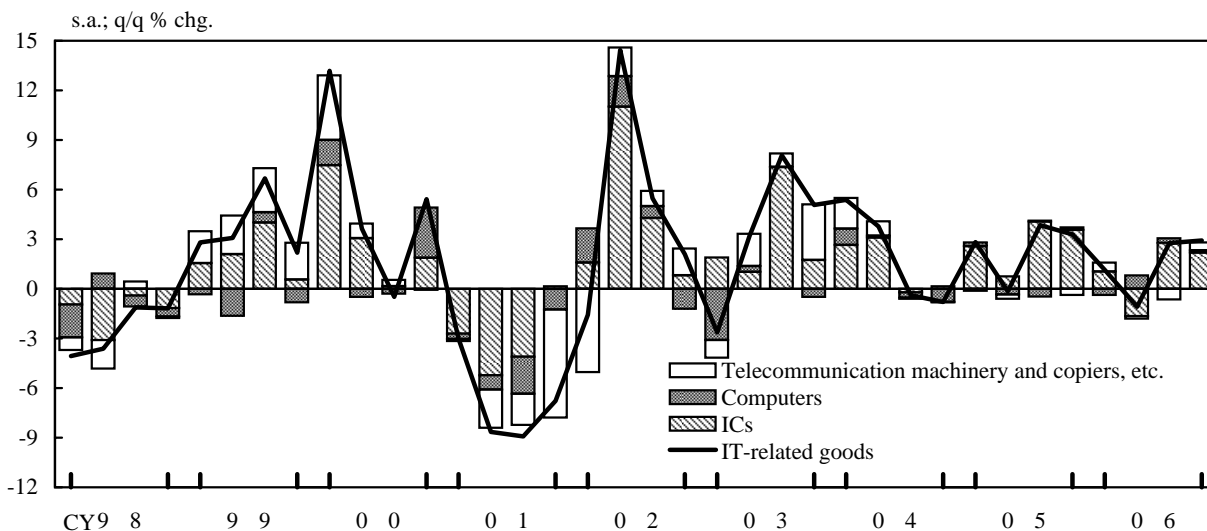
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2006/Q4 figures are October figures converted into quarterly amount.

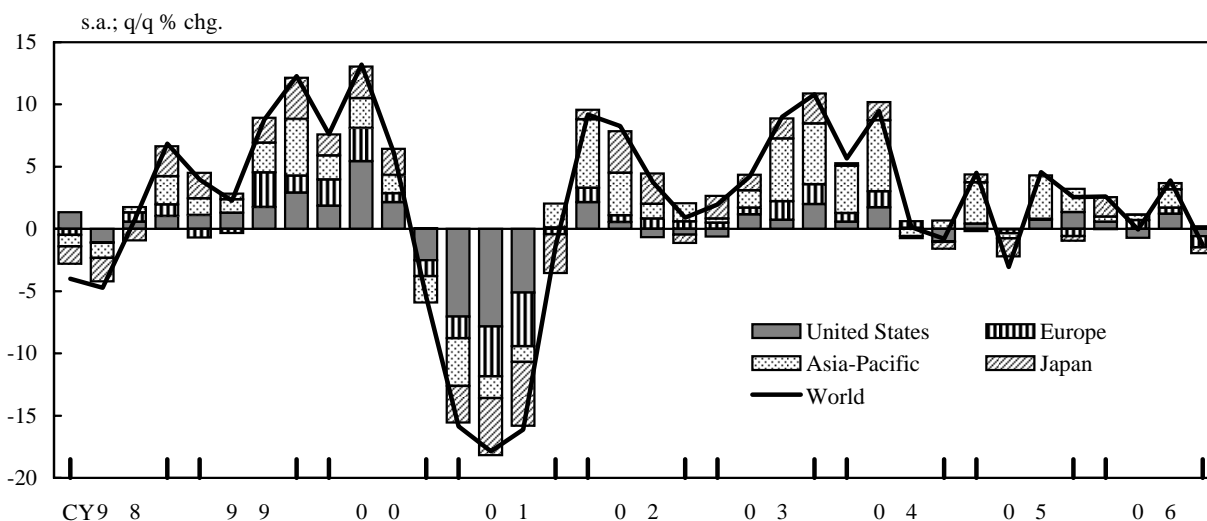
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

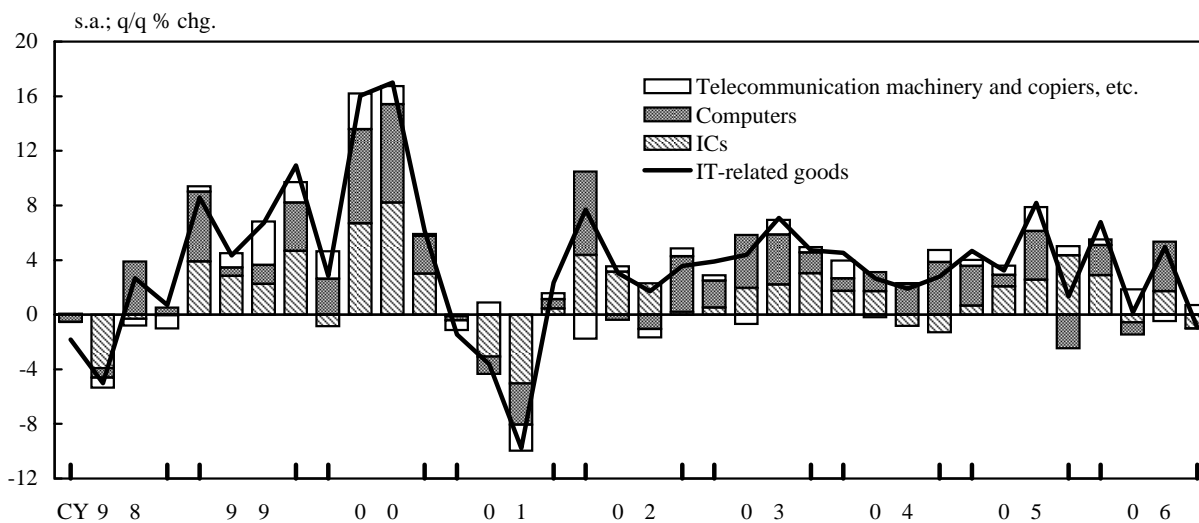
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

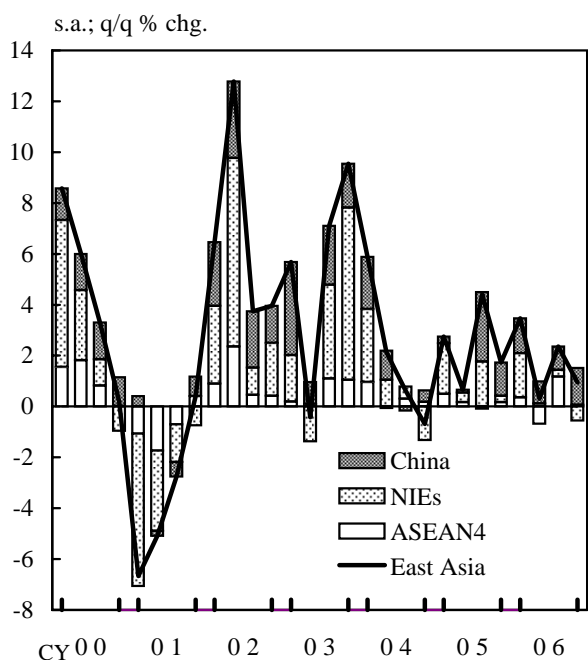
2. 2006/Q4 figures are October figures converted into quarterly amount.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan";

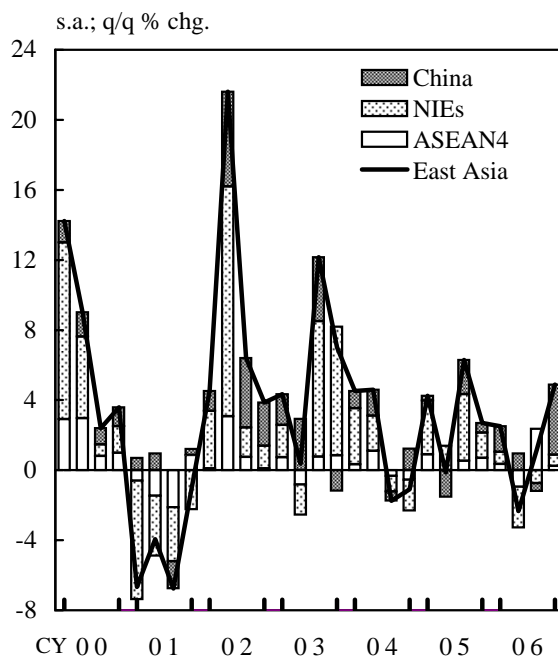
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

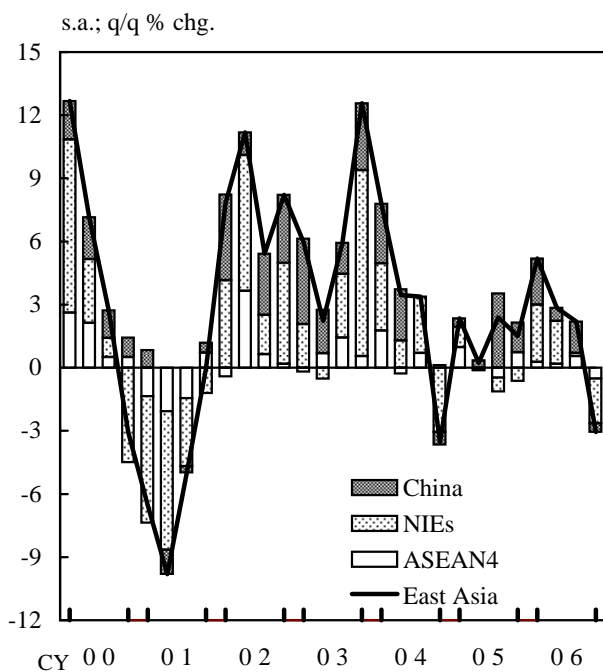
(1) All Goods (Real, Breakdown by Region)



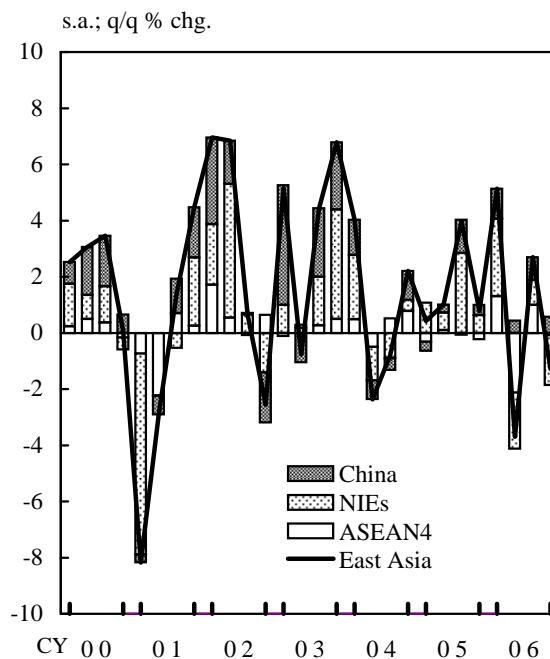
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



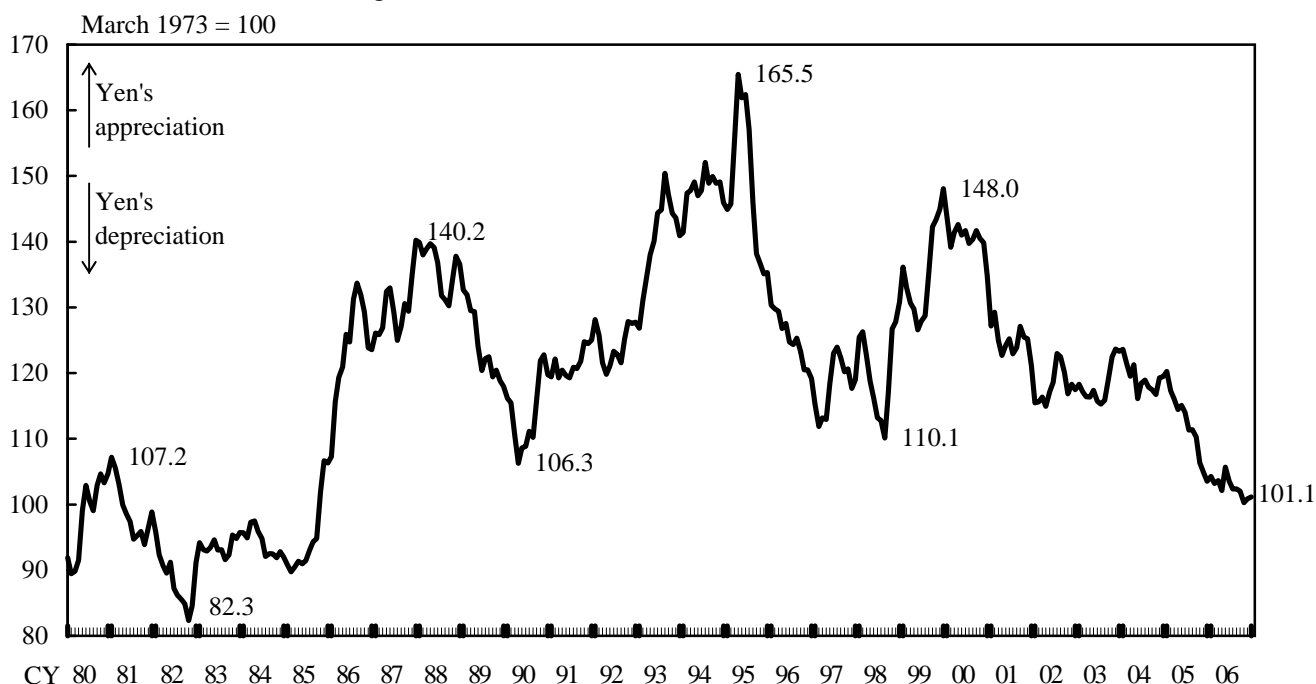
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2006/Q4 figures are October figures converted into quarterly amount.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for December 2006 is the average up to December 18.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (26 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY2003	2004	2005	2005 Q4	2006 Q1	Q2	Q3	
United States ¹		2.5	3.9	3.2	1.8	5.6	2.6	2.2	
European Union ¹		1.3	2.2	1.7	1.9	3.4	3.9	2.2	
	Germany	-0.2	0.8	1.1	1.1	3.2	4.4	2.6	
	France	1.1	2.1	1.2	0.7	2.0	4.8	-0.1	
	United Kingdom	2.7	3.3	1.9	2.7	2.6	2.8	2.7	
East Asia ²	China	10.0	10.1	10.2	9.9	10.3	11.3	10.4	
	NIEs	Korea	3.1	4.7	4.0	5.3	6.1	5.3	4.8
		Taiwan	3.4	6.1	4.0	6.4	4.9	4.6	5.0
		Hong Kong	3.2	8.6	7.3	7.5	8.0	5.5	6.8
		Singapore	2.9	8.7	6.4	8.7	10.7	8.2	7.2
	ASEAN4	Thailand	7.1	6.3	4.5	4.3	6.1	5.0	4.7
		Indonesia	4.8	5.1	5.6	4.9	4.8	5.1	5.5
		Malaysia	5.5	7.2	5.2	5.2	5.9	6.2	5.8
Philippines		4.9	6.2	5.0	5.3	5.7	5.8	4.8	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q4	2006 Q1	Q2	Q3	Q4	2006 Aug.	Sep.	Oct.
United States	<12.4>	0.4	3.6	-0.1	4.1	-3.2	5.3	3.6	11.6	-3.5	2.4
EU	<11.4>	9.6	2.1	-0.7	1.6	-0.0	0.1	0.1	3.7	-0.8	-0.5
East Asia	<42.3>	14.7	11.2	1.8	4.1	0.6	2.6	0.9	3.8	2.8	-2.1
China	<21.0>	20.9	18.8	1.8	4.9	0.7	3.3	0.7	6.1	2.1	-2.6
NIEs	<9.8>	12.8	9.3	4.1	4.0	1.1	1.8	-0.5	3.4	2.6	-3.2
Korea	<4.7>	14.5	8.3	7.5	-1.2	3.4	0.9	-0.7	1.3	5.8	-4.7
Taiwan	<3.5>	12.0	11.0	0.4	8.3	-0.6	6.3	-0.4	5.8	2.9	-4.0
ASEAN4 ³	<11.4>	7.1	0.2	-0.4	2.7	-0.2	1.9	2.8	-0.5	4.6	-0.0
Thailand	<3.0>	14.3	12.8	2.0	1.2	3.5	0.2	0.3	4.2	2.8	-2.8
Others	<34.0>	4.7	1.8	2.1	-2.0	4.1	-2.3	-1.0	1.8	5.4	-4.9
Real imports		8.1	5.4	0.2	2.4	0.1	0.8	0.5	2.8	3.0	-2.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2004	2005	2005 Q4	2006 Q1	Q2	Q3	Q4	2006 Aug.	Sep.	Oct.
Raw materials ⁴	<31.7>	1.3	-3.9	-0.6	0.5	2.9	-1.6	-2.0	-1.4	4.5	-4.4
Intermediate goods	<14.0>	8.7	4.6	0.6	0.4	2.1	-0.4	-2.8	6.1	0.8	-5.2
Foodstuffs	<9.8>	0.4	2.6	-3.1	2.5	-3.0	-3.7	2.2	3.1	-0.5	1.6
Consumer goods ⁵	<9.9>	12.5	8.7	3.0	1.4	-2.4	1.4	2.5	-0.6	10.2	-3.6
IT-related goods ⁶	<12.5>	17.6	15.4	1.3	6.8	0.2	4.9	-0.9	5.6	-1.8	-1.5
Capital goods and parts ⁷	<12.1>	17.4	13.6	2.0	7.3	-0.3	5.8	2.6	8.5	-0.4	0.2
Excluding aircraft	<11.2>	19.2	13.7	3.8	5.7	3.4	3.7	-0.5	2.6	1.3	-2.1
Real imports		8.1	5.4	0.2	2.4	0.1	0.8	0.5	2.8	3.0	-2.3

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2006/Q4 figures are October figures 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.

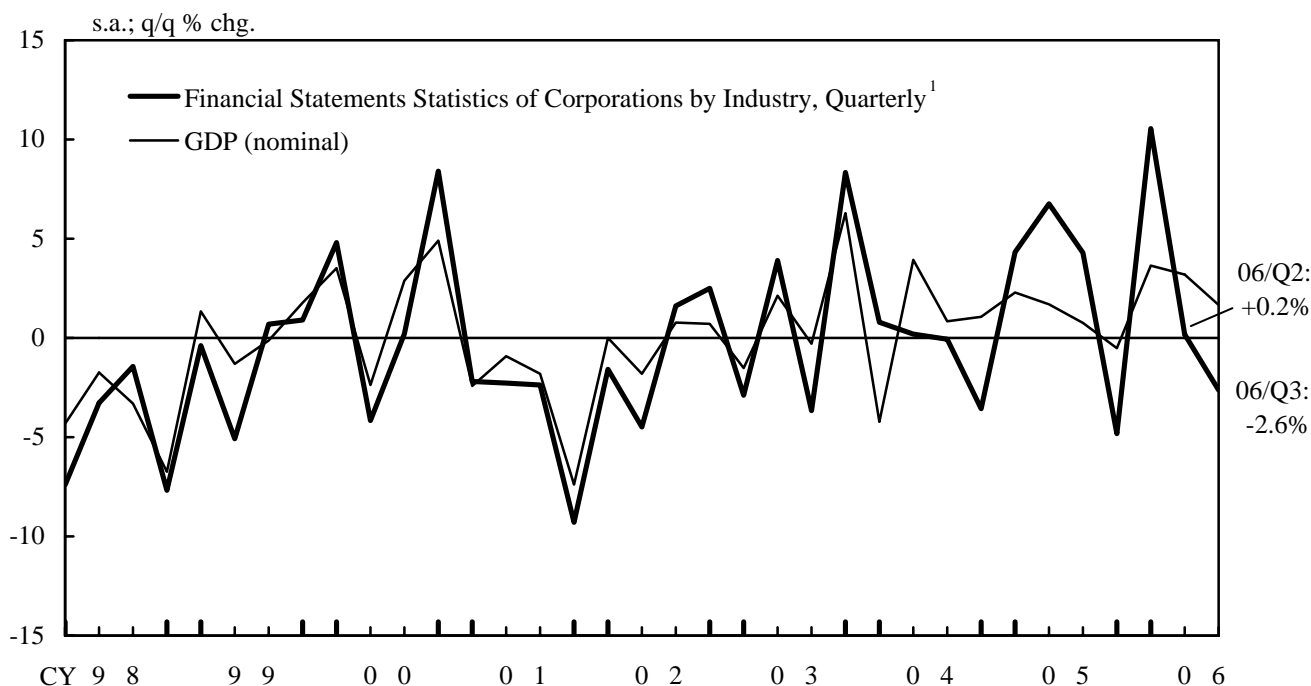
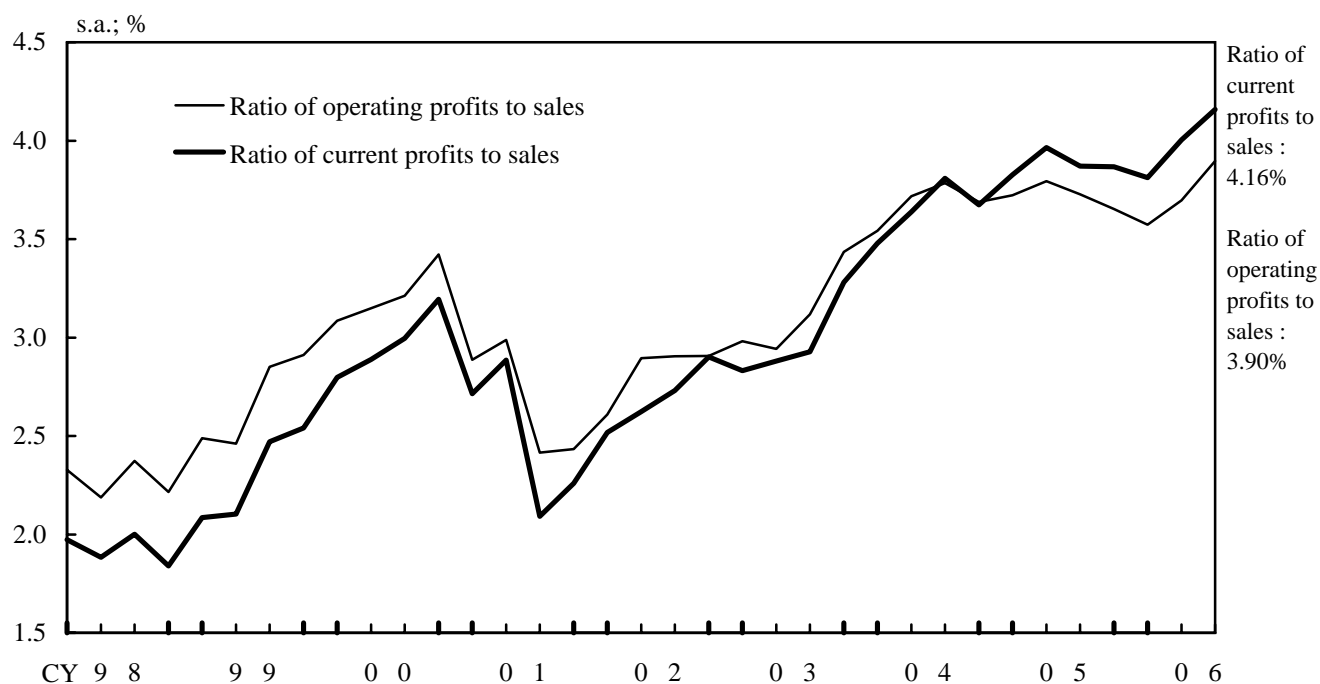
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

Business Fixed Investment and Corporate Profits

(1) Fixed Investment

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

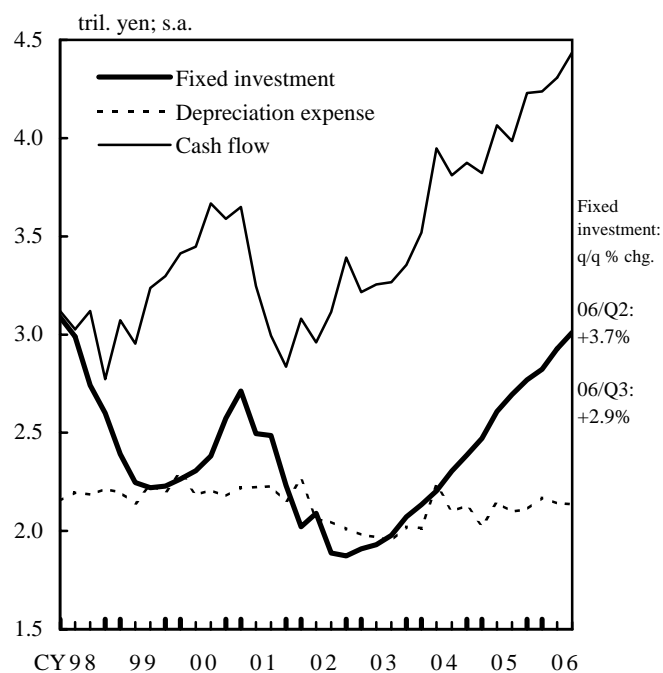
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. The sample change comes due to (i) a change in sampling firm in every second quarter, and (ii) changes in the respondent firms in every quarter.

2. "Financial Statements Statistics of Corporations by Industry, Quarterly" basis.

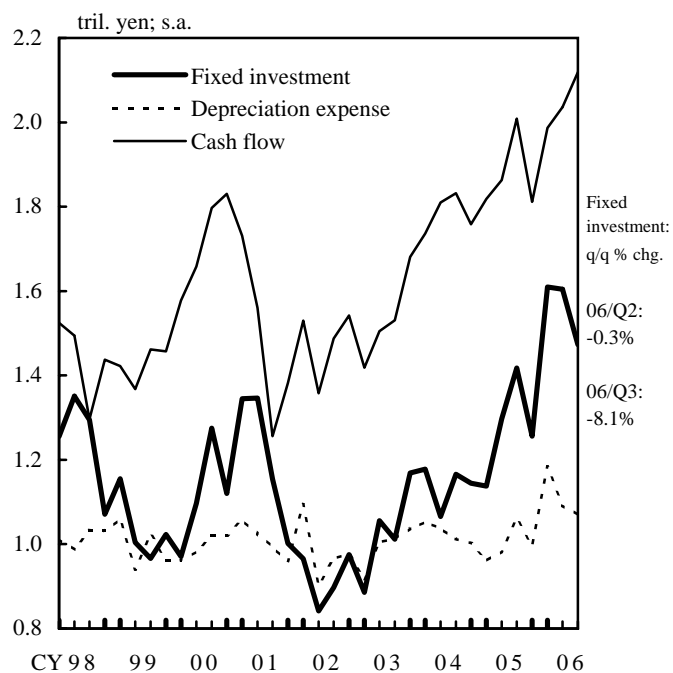
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

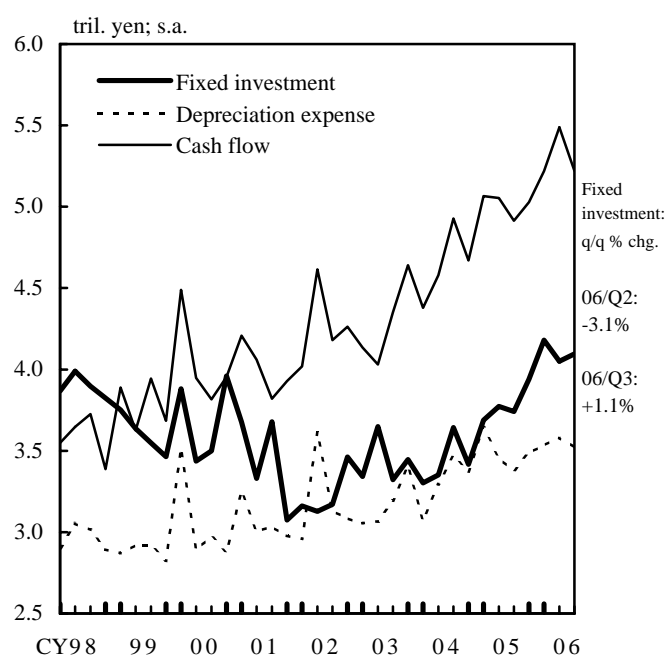
(1) Large Manufacturing Firms



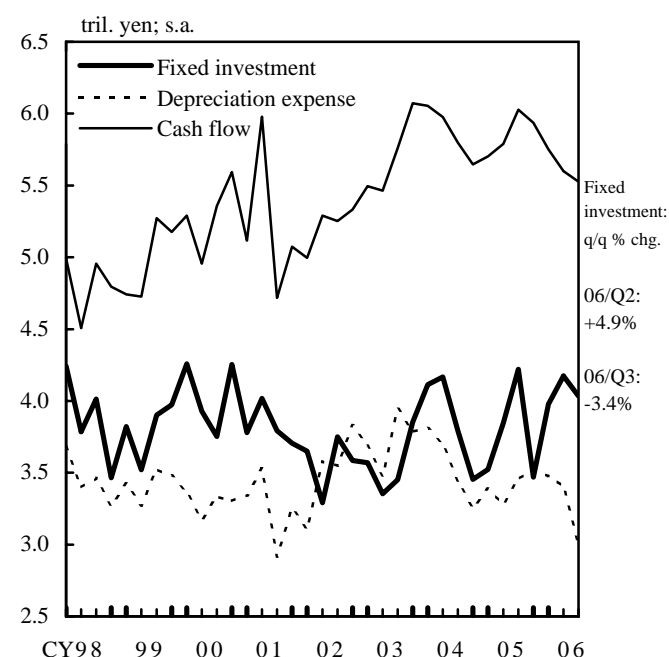
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



Notes: 1. On a "Financial Statements Statistics of Corporations by Industry, Quarterly" basis.

2. Sample change is adjusted (see note of Chart 12).

3. Electric and gas are excluded from large nonmanufacturing firms.

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

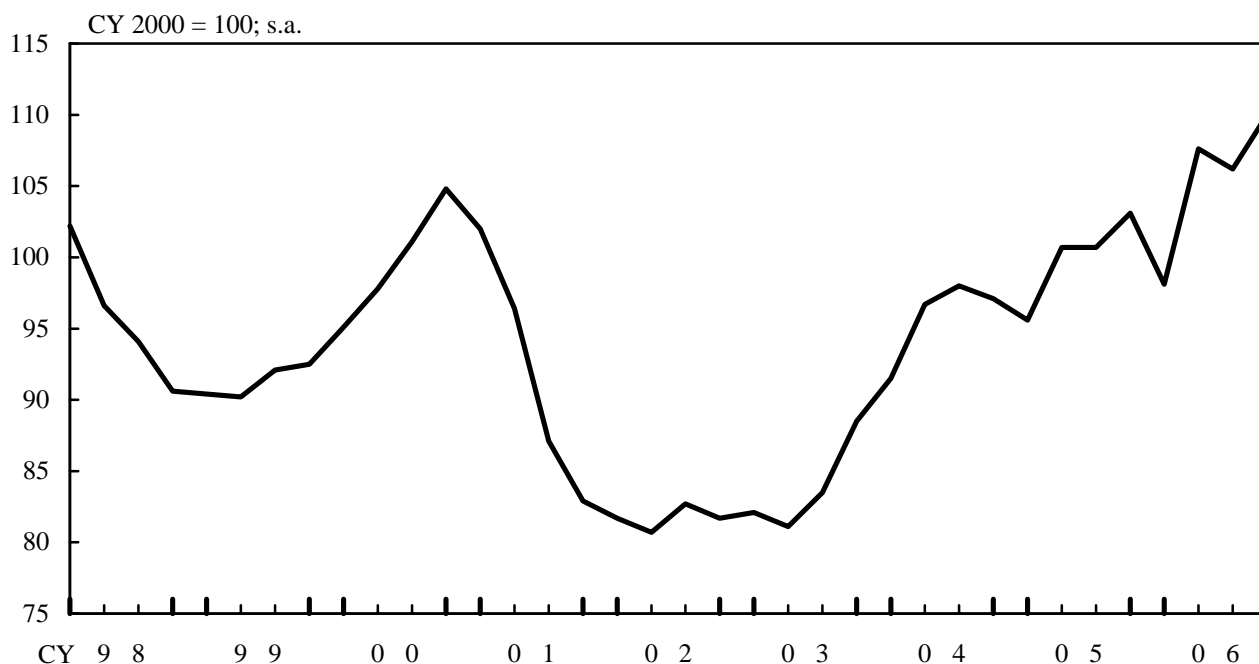
5. Cash flow = current profits / 2 + depreciation expense.

6. Seasonally adjusted by X-11.

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

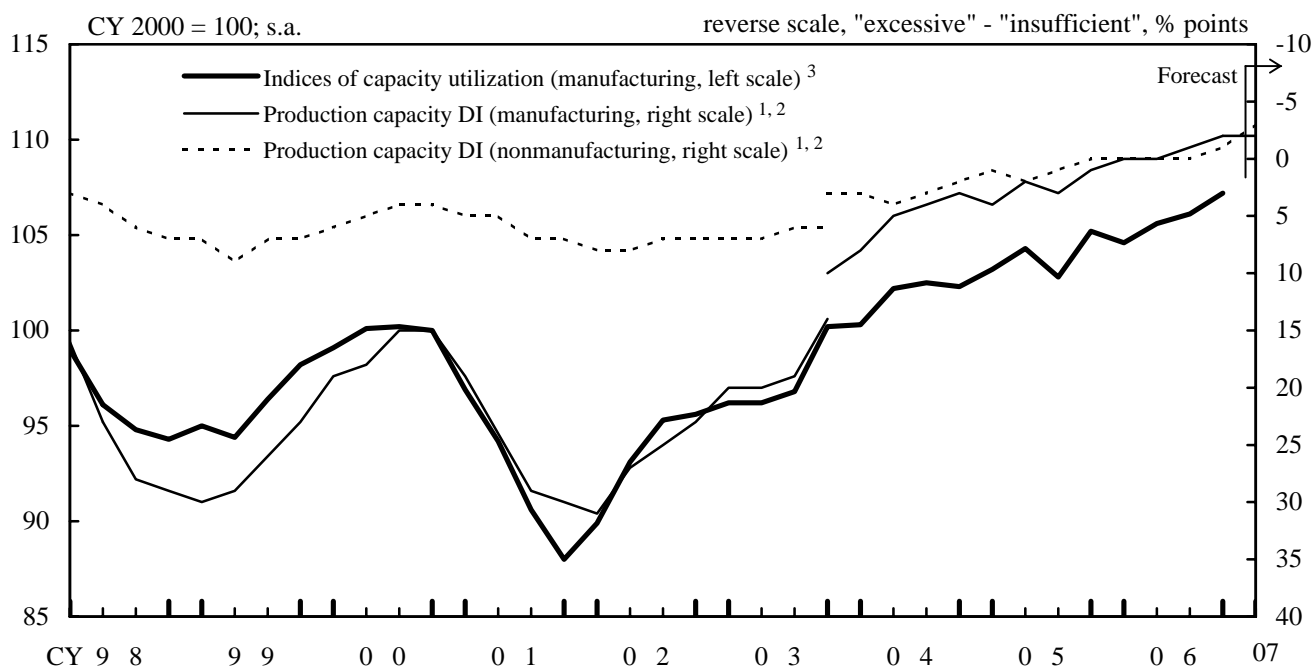
Coincident Indicators for Business Fixed Investment

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



Note: The figure for 2006/Q4 is as of October.

(2) Indices of Capacity Utilization and Production Capacity DI



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

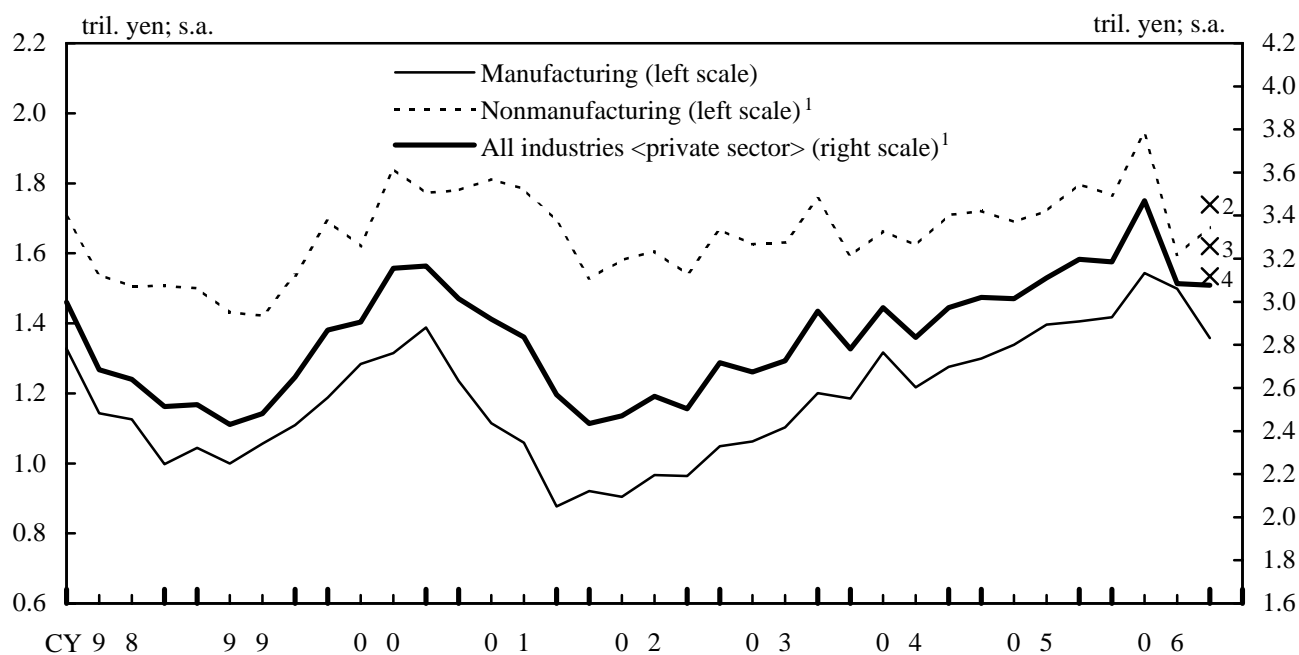
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2006/Q4 is as of October.

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.

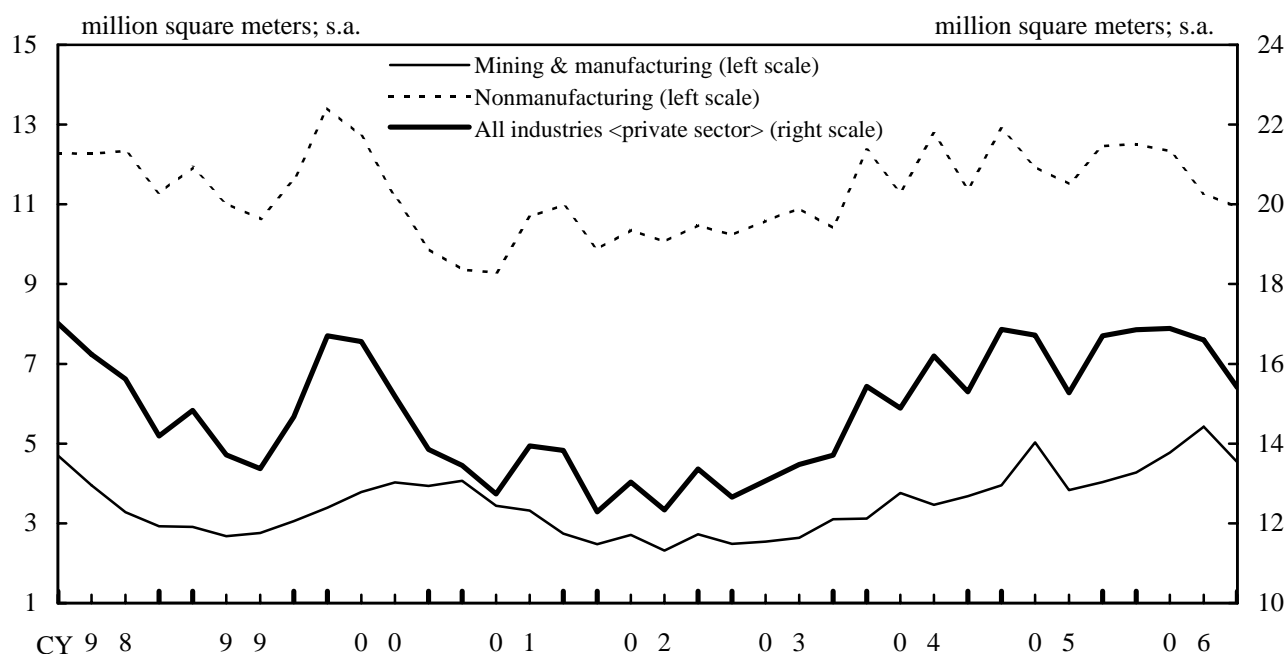
2. Forecast of nonmanufacturing industries for 2006/Q4.

3. Forecast of all industries for 2006/Q4.

4. Forecast of manufacturing industries for 2006/Q4.

5. Figures for 2006/Q4 are those of October 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.

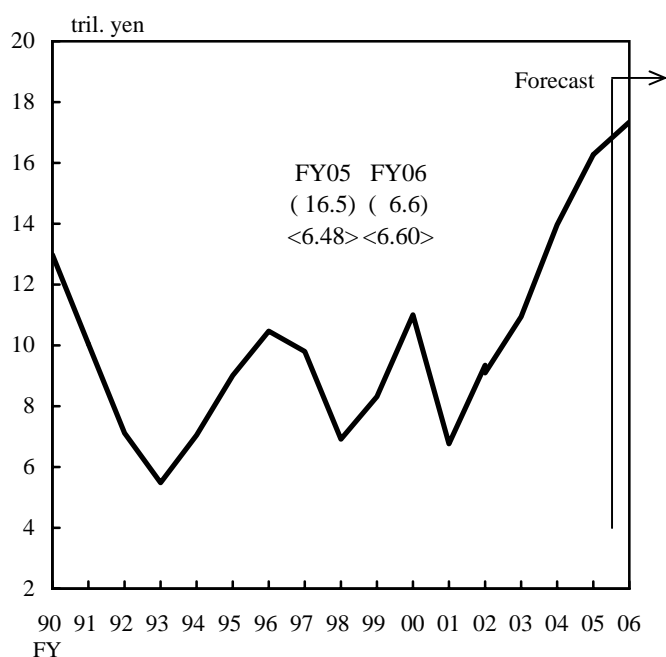
3. Figures for 2006/Q4 are those of October in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

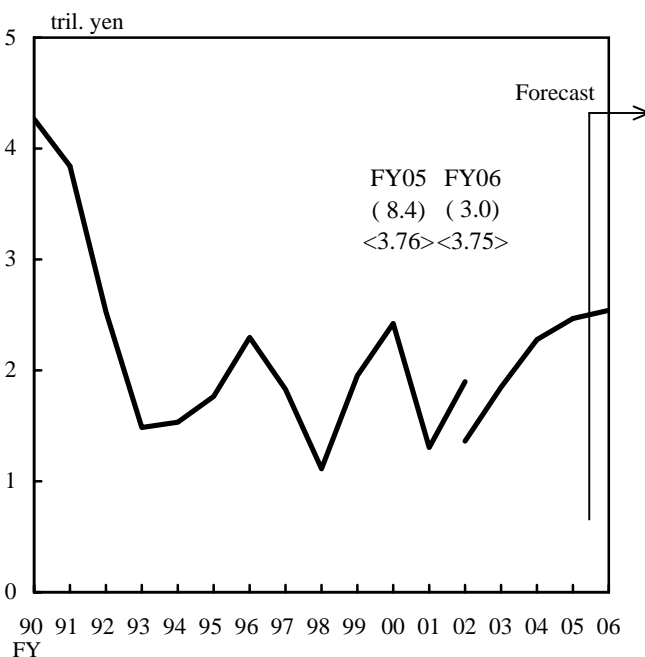
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

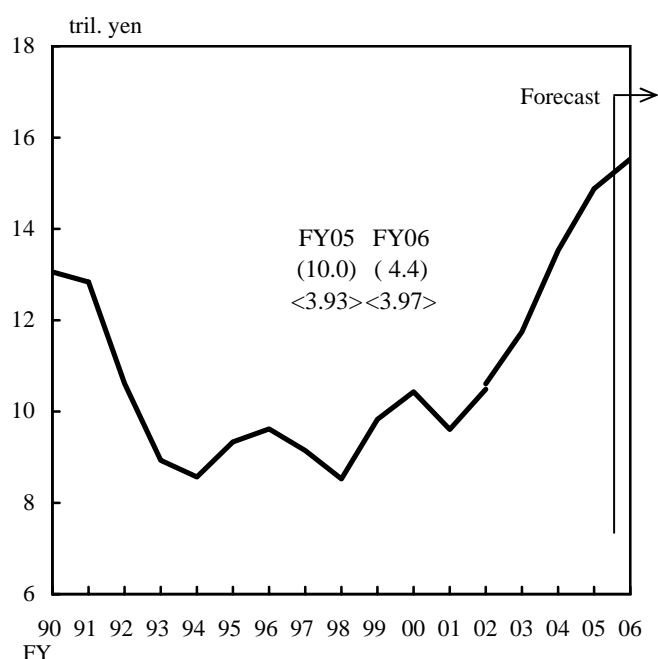
(1) Manufacturing Large Enterprises



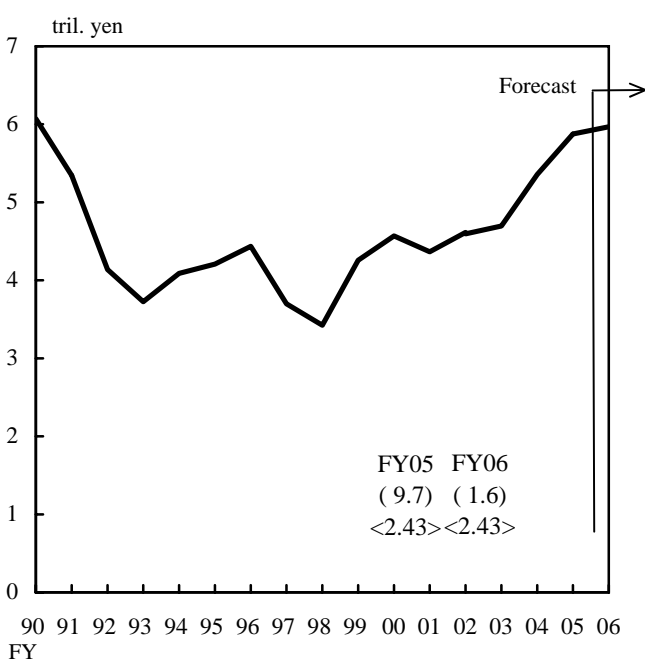
(2) Manufacturing Small Enterprises



(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

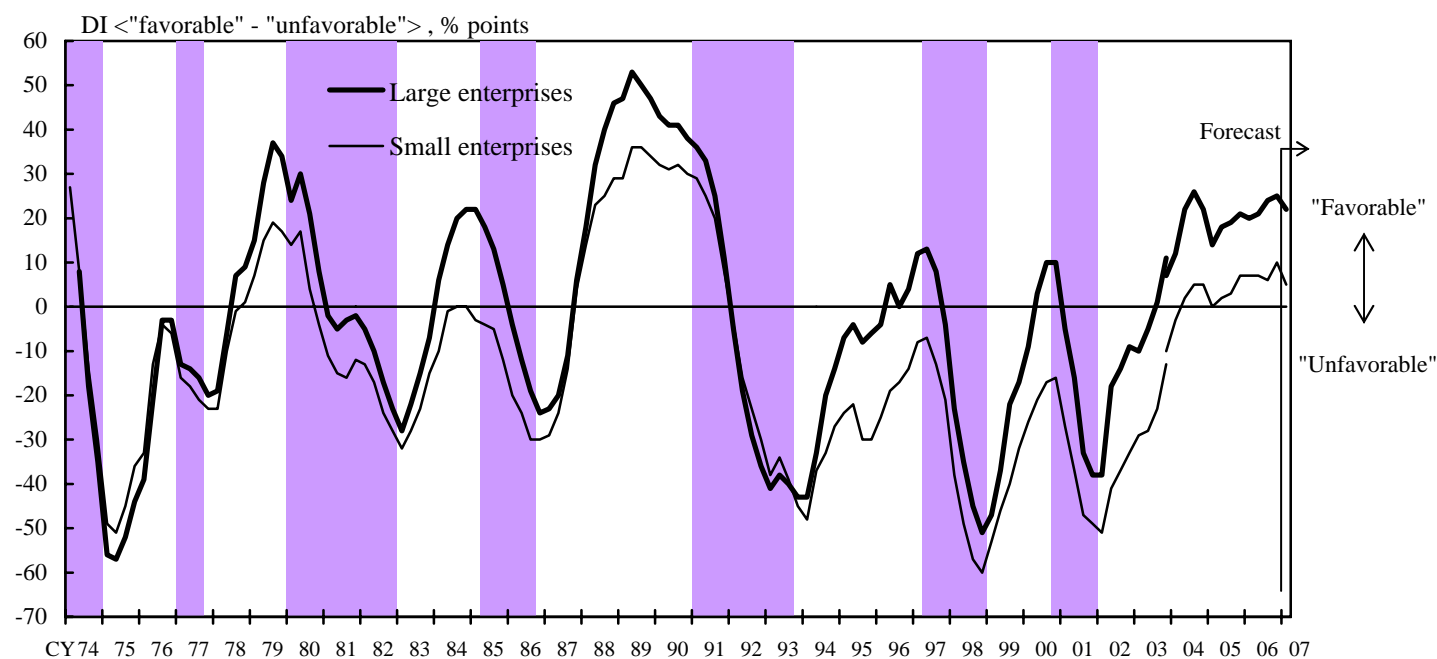
Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen

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

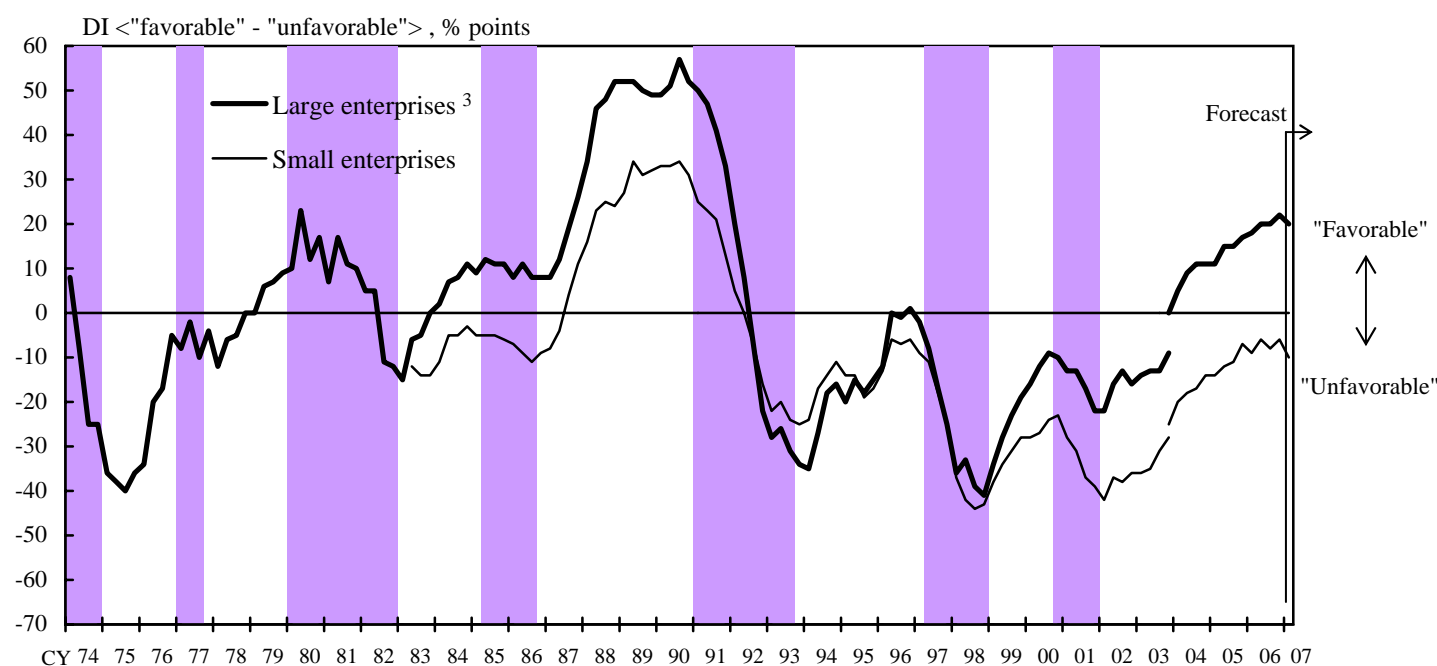
3. The *Tankan* has been revised from the March 2004 survey. Figures up to FY2002 are based on the previous data sets. Figures from FY2002 are on a new basis.

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

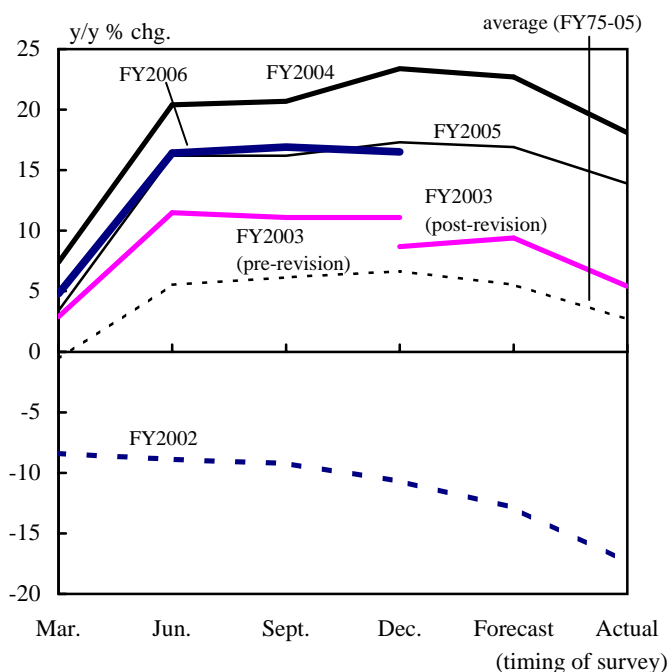
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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

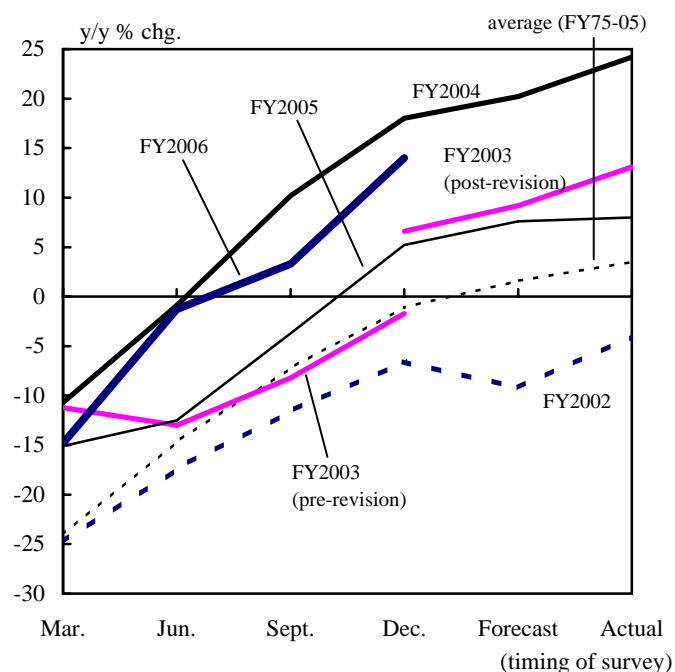
4. Shaded areas indicate recession periods.

Business Fixed Investment Plans as Surveyed

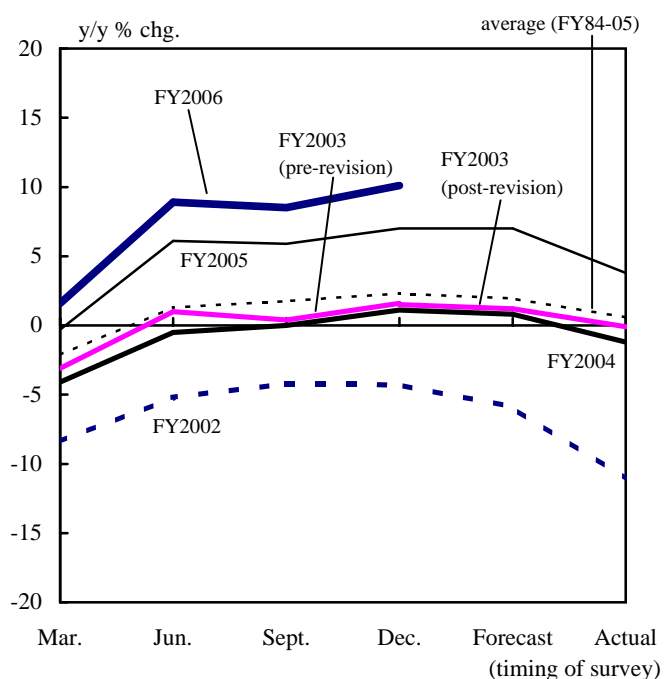
(1) Manufacturing Large Enterprises



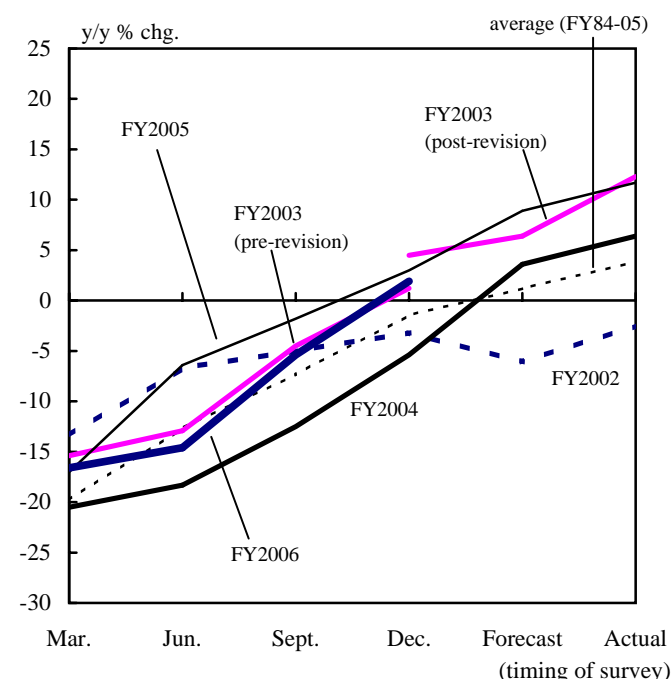
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



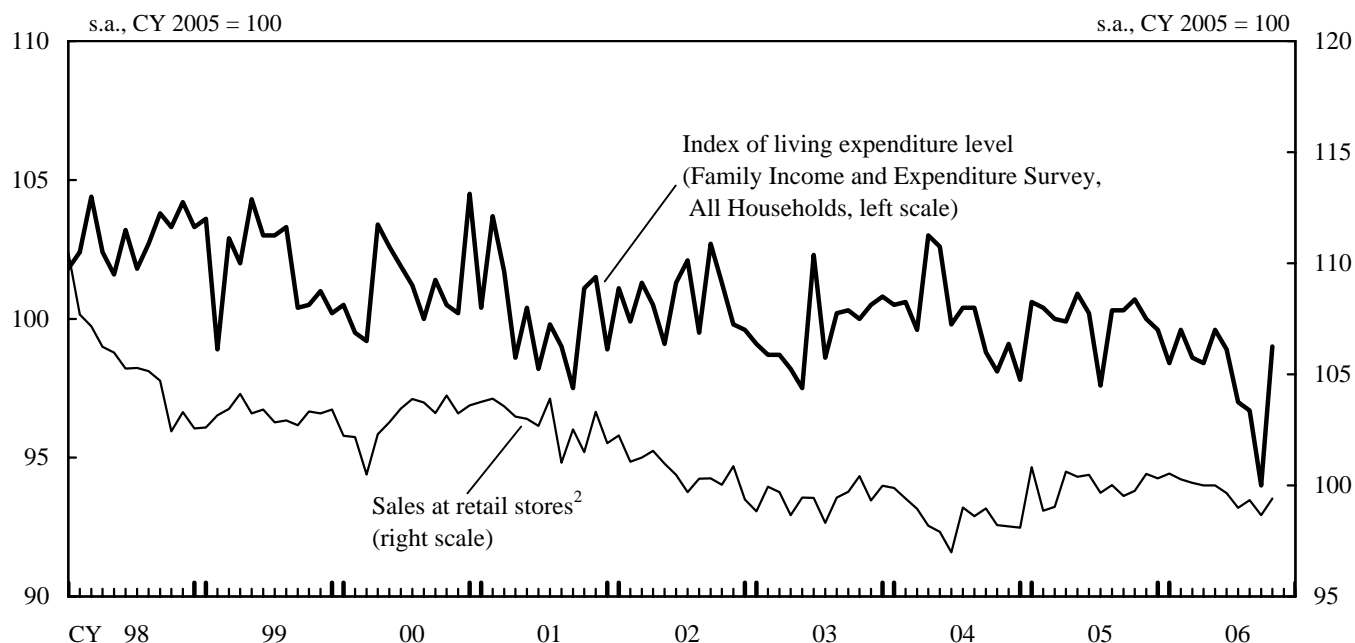
(4) Nonmanufacturing Small Enterprises



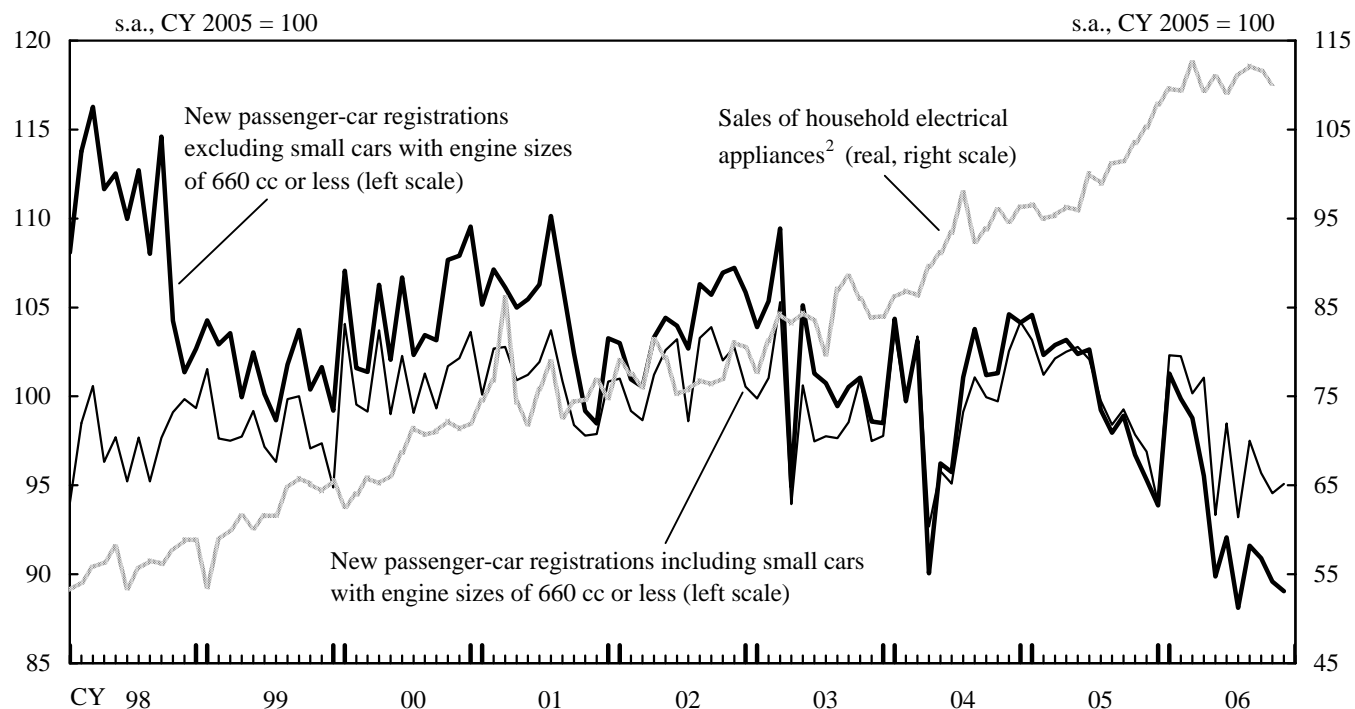
- Notes: 1. Large enterprises (pre-revision): 1,000 employees or more
 Small enterprises (pre-revision): 50-299 employees (for manufacturing), 20-99 employees (for wholesaling), 20-49 employees (for retailing, services, and leasing), 50-299 employees (for other industries)
 Large enterprises (post-revision): capital with 1 billion yen and more
 Small enterprises (post-revision): capital with 20 million yen to less than 100 million yen
2. Includes land purchasing expenses and excludes software investment.
3. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

Indicators for Private Consumption¹ (1)

(1) Household Spending (Real)



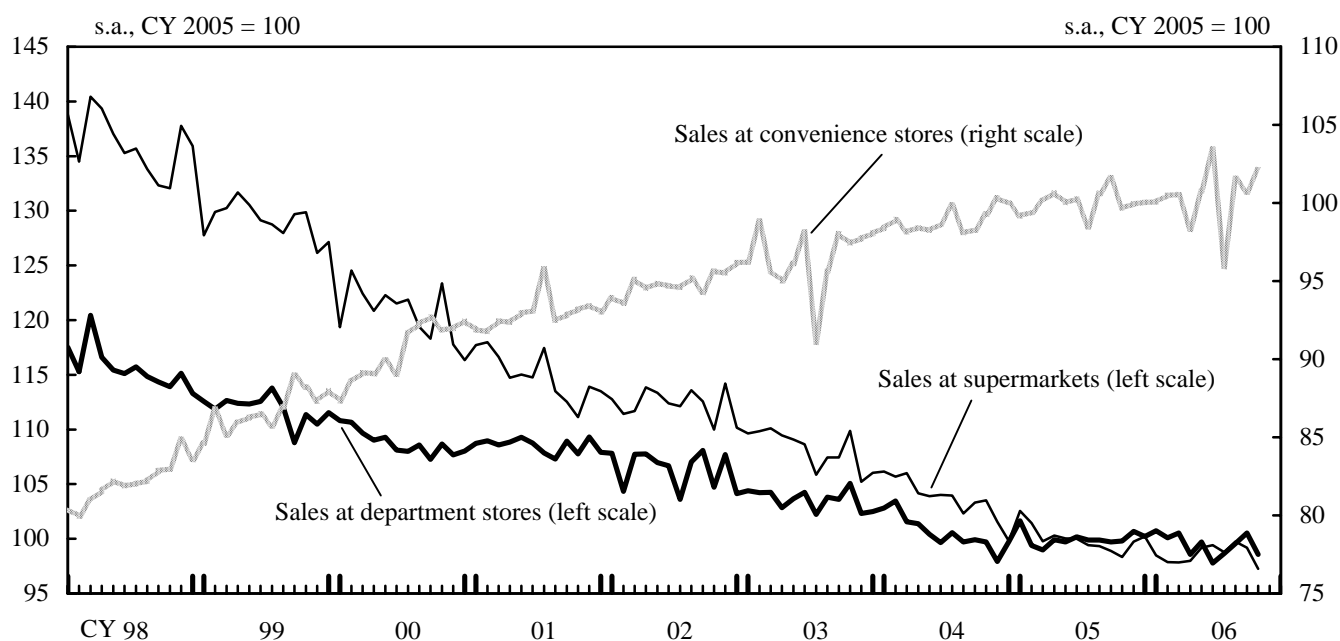
(2) Sales of Durable Goods



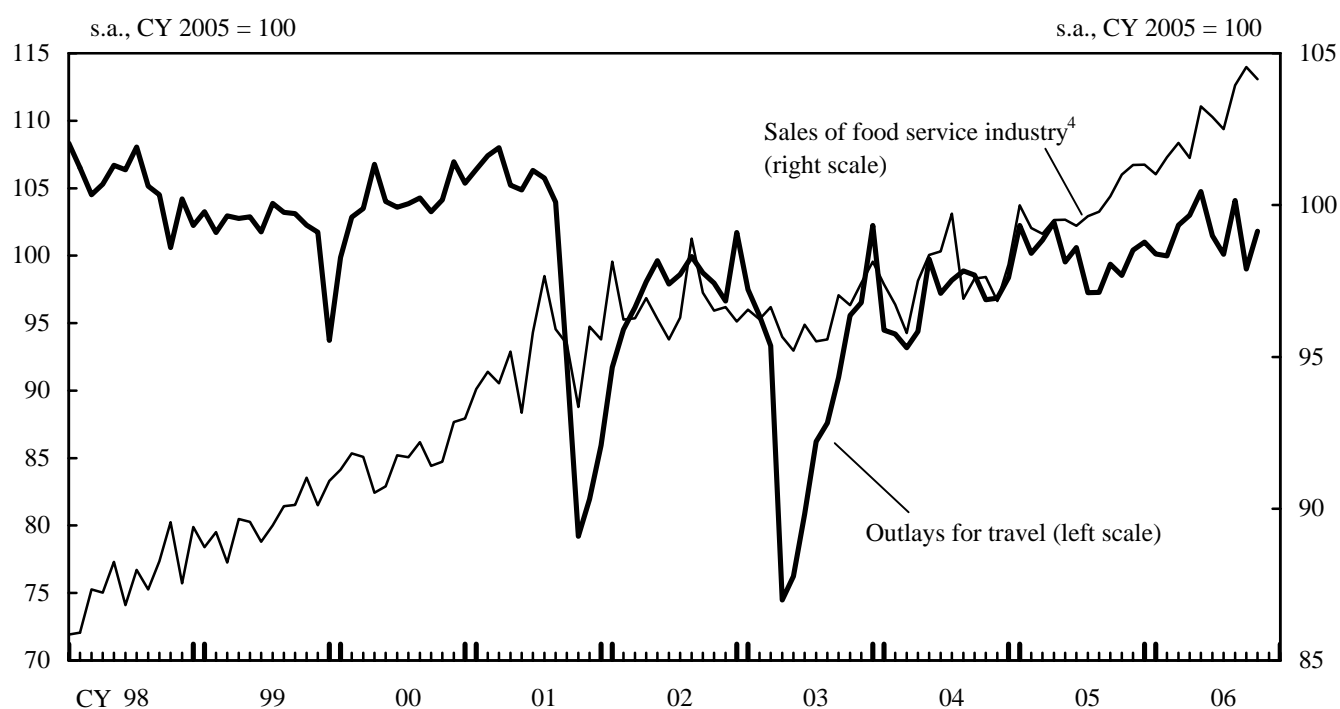
Notes: 1. Seasonally adjusted by X-12-ARIMA. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.

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.

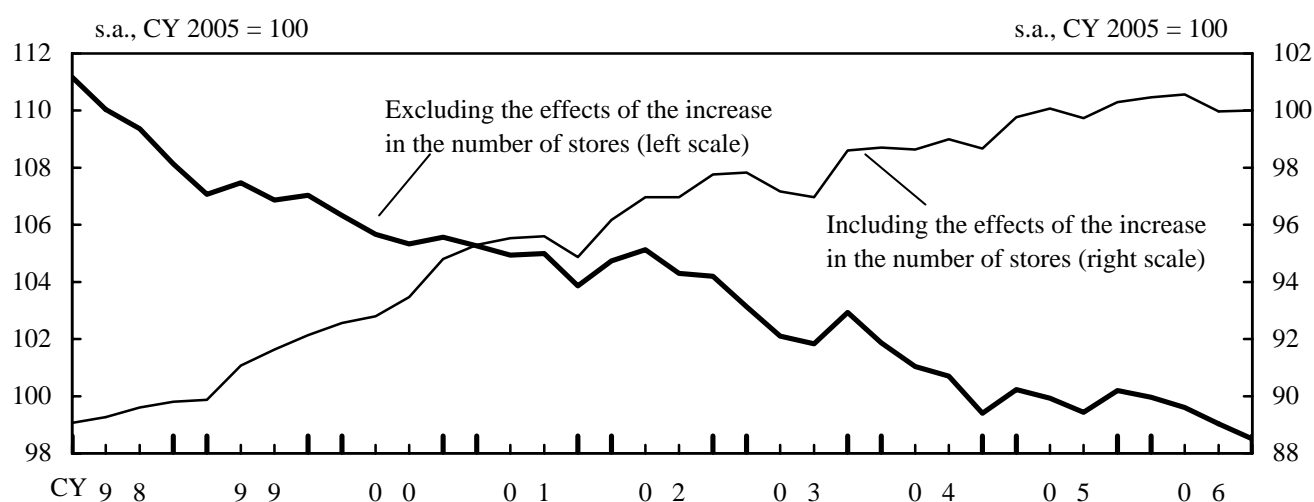
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"

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)."

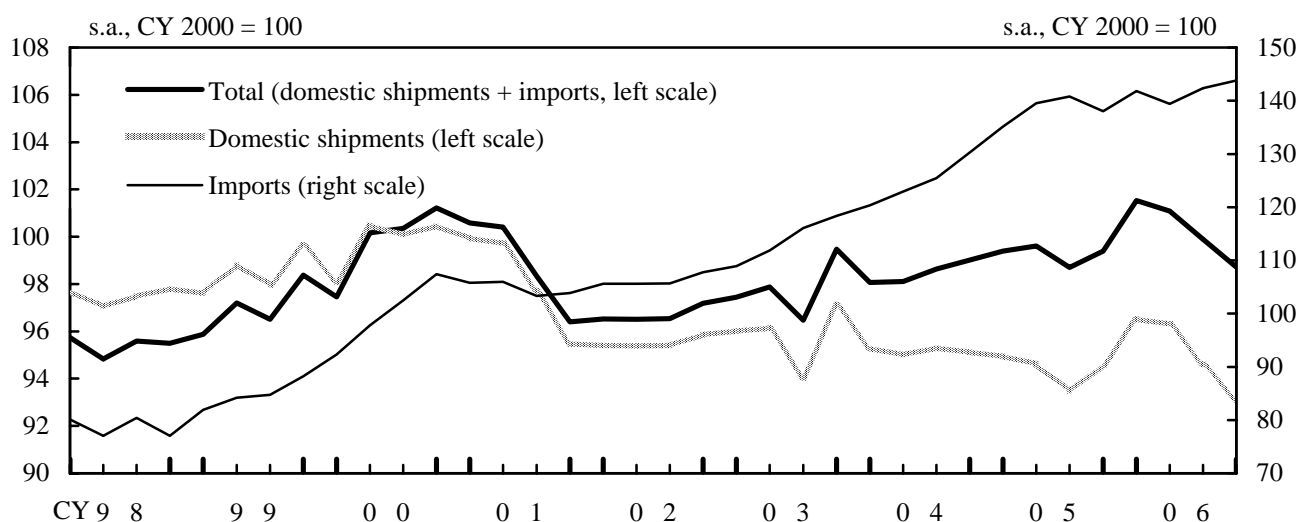
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- 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.
4. Data for 2006/Q4 figures are those of October in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

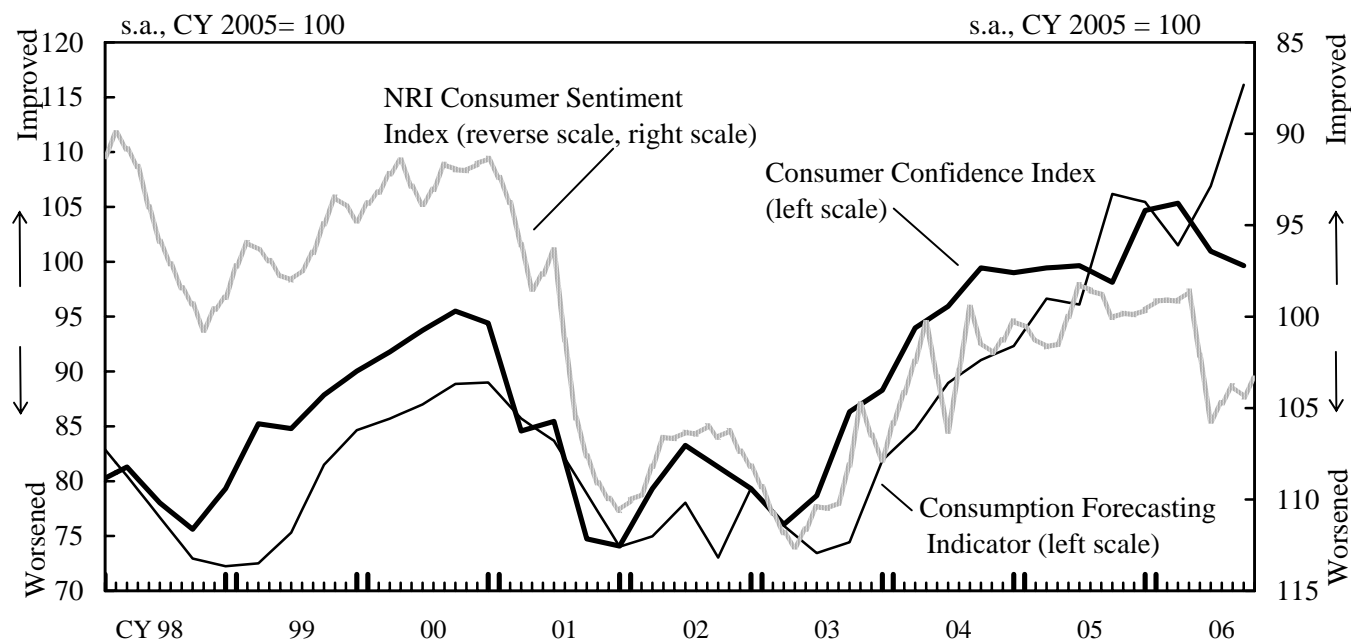


- Notes: 1. Aggregate supply of consumer goods is calculated by the Bank of Japan using shipments of consumer goods in "Indices of industrial production" and real exports and imports of consumer goods. The weights used for calculation are those of "Indices of industrial domestic shipments and imports."
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. Seasonally adjusted by X-12-ARIMA.
4. Data for 2006/Q4 figures are those of October in terms of quarterly amount.

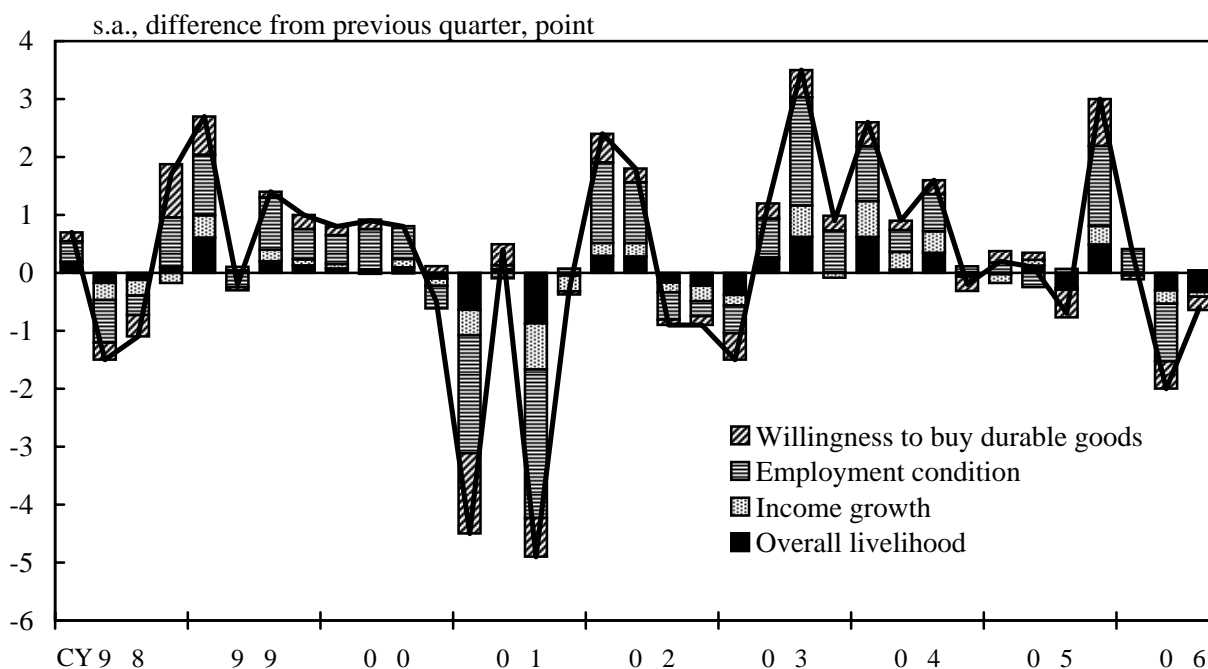
Source: Bank of Japan, "Indices of Aggregated Sales""Corporate Goods Price Index"; Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Imports"; Ministry of Finance, "The Summary Report on Trade of Japan."

Consumer Confidence

(1) Surveys on Consumer Confidence



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



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.

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."

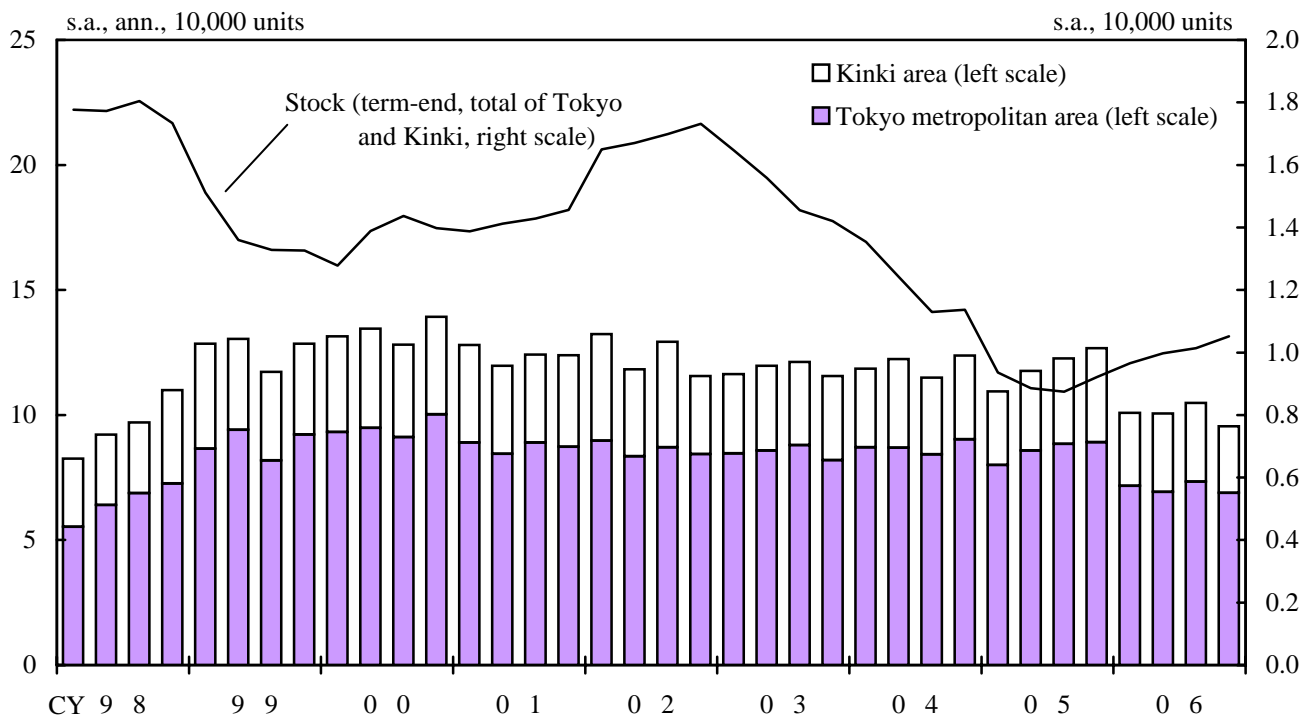
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2006/Q4 are those of October.

(2) Sales of Apartments



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

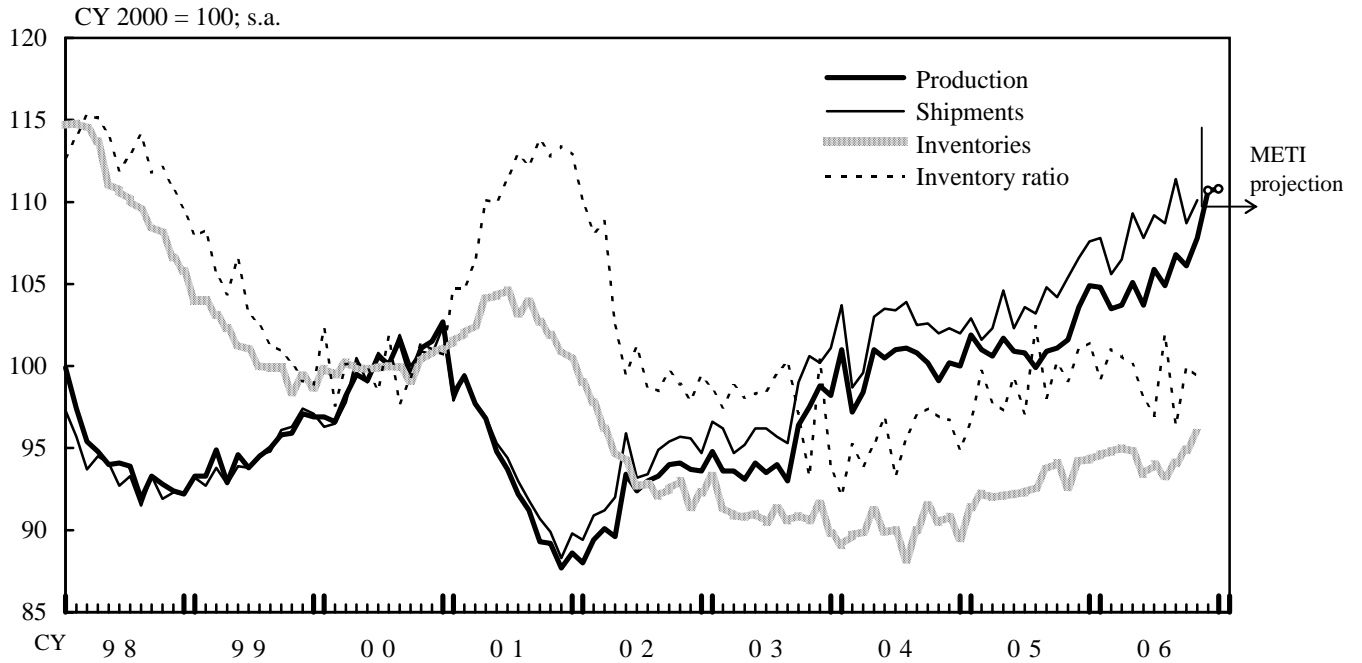
2. Figures of total apartments sales for 2006/Q4 are those of October-November averages.

Term-end stocks for 2006/Q4 are those of November.

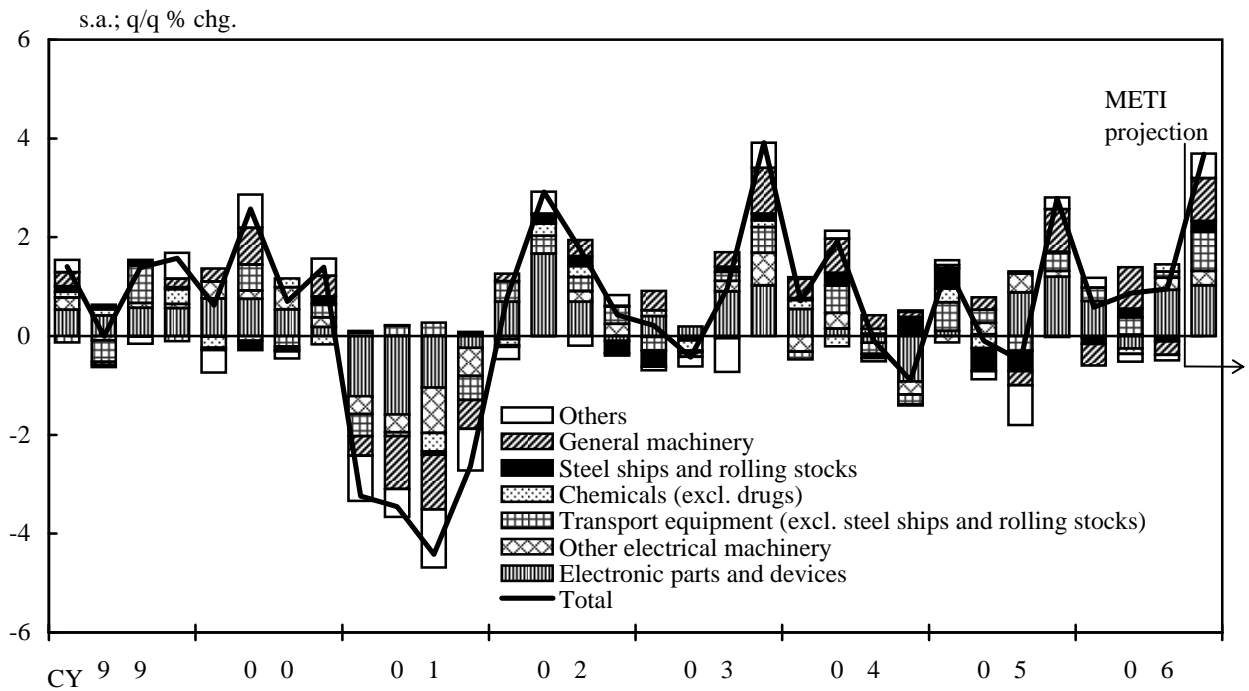
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

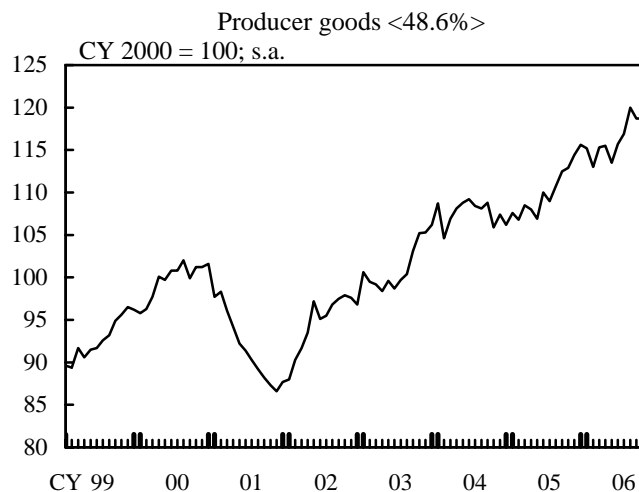
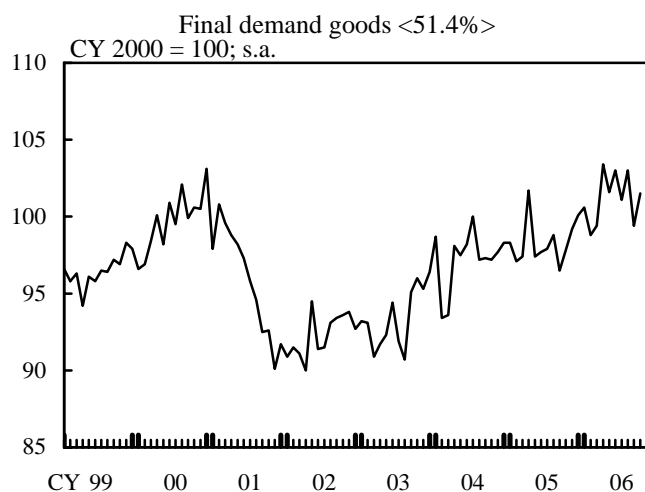


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

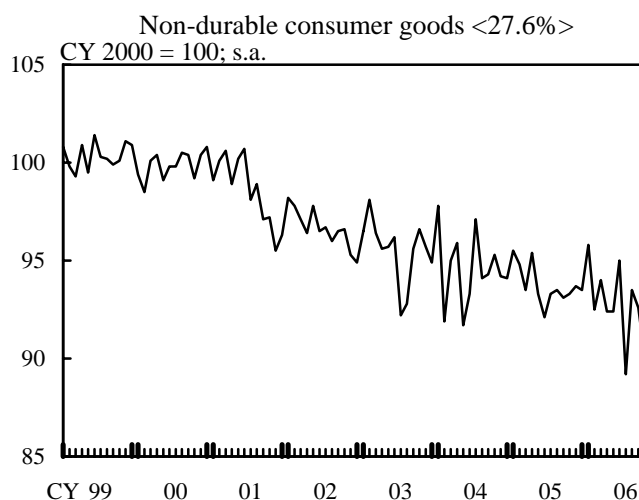
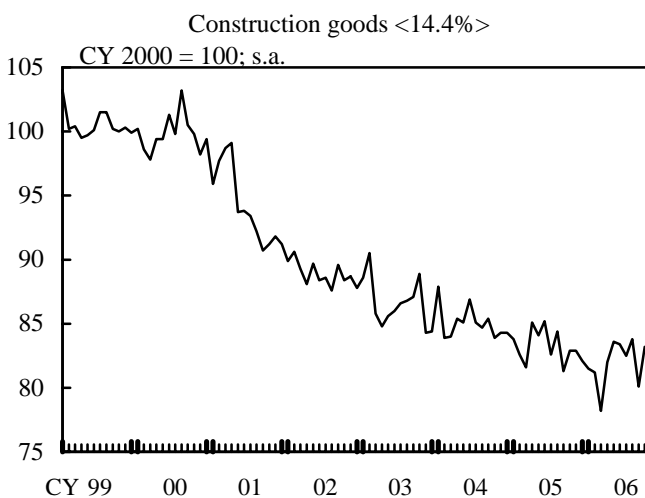
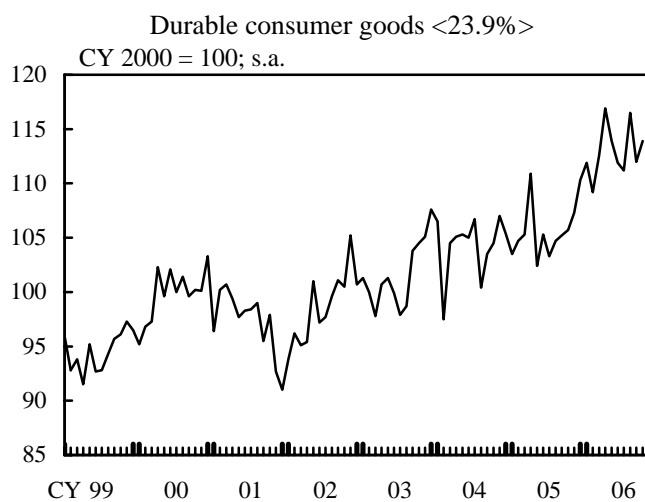
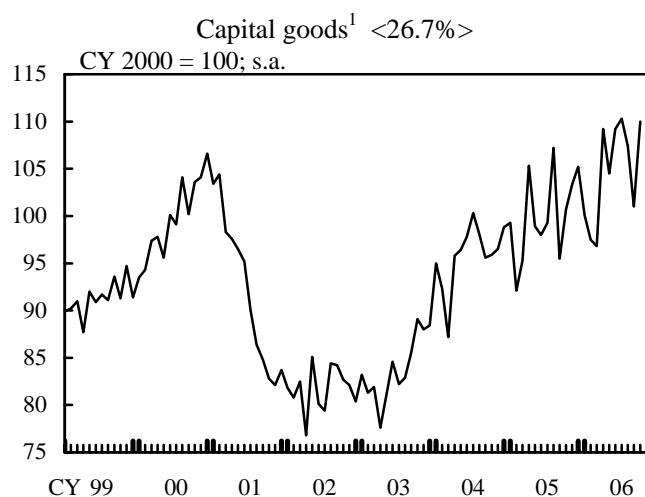
Shipments Breakdown by Type of Goods

(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



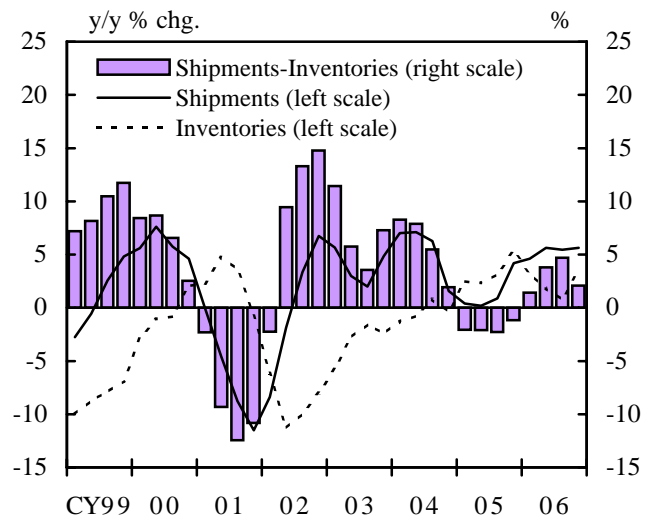
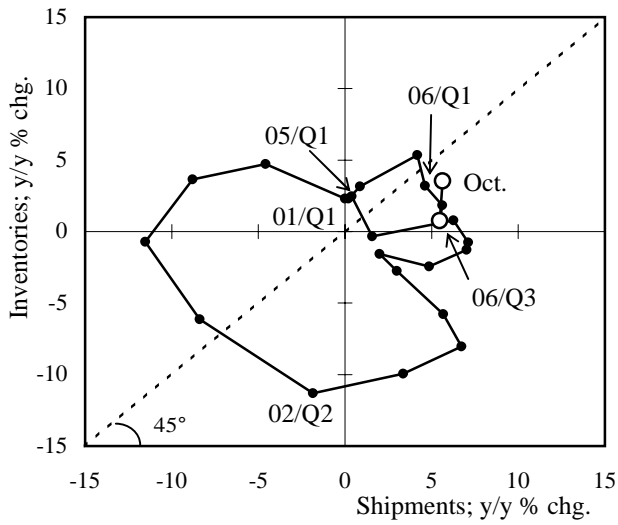
Notes: 1. Excluding transport equipment.

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

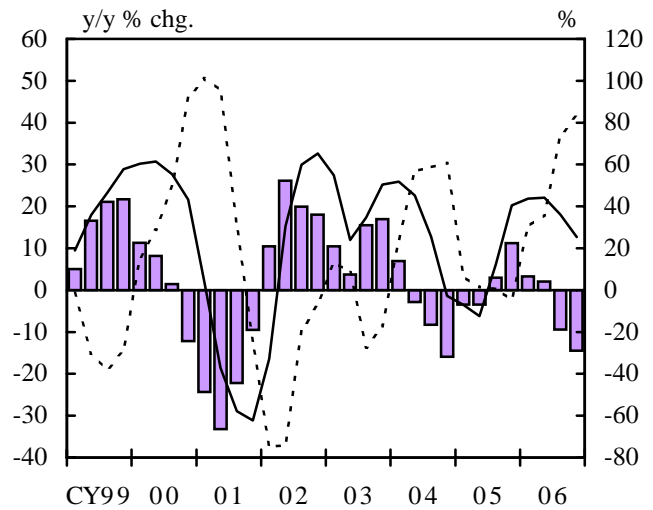
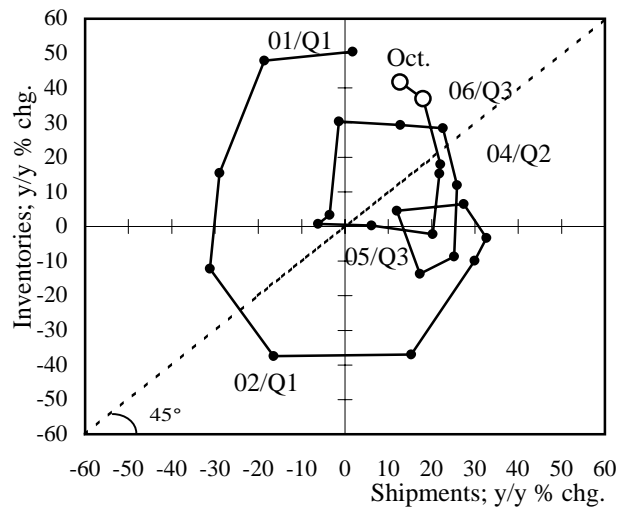
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

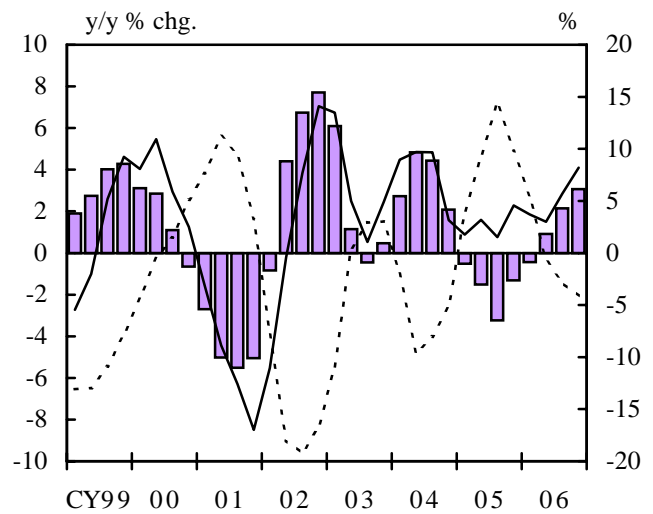
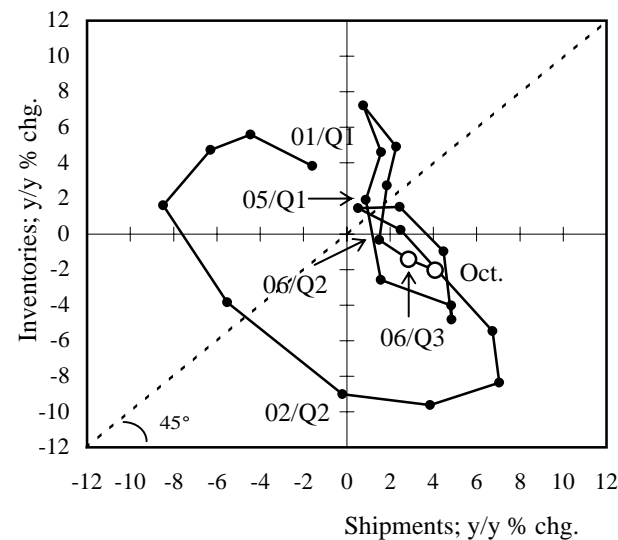
(1) Total



(2) Electronic Parts and Devices

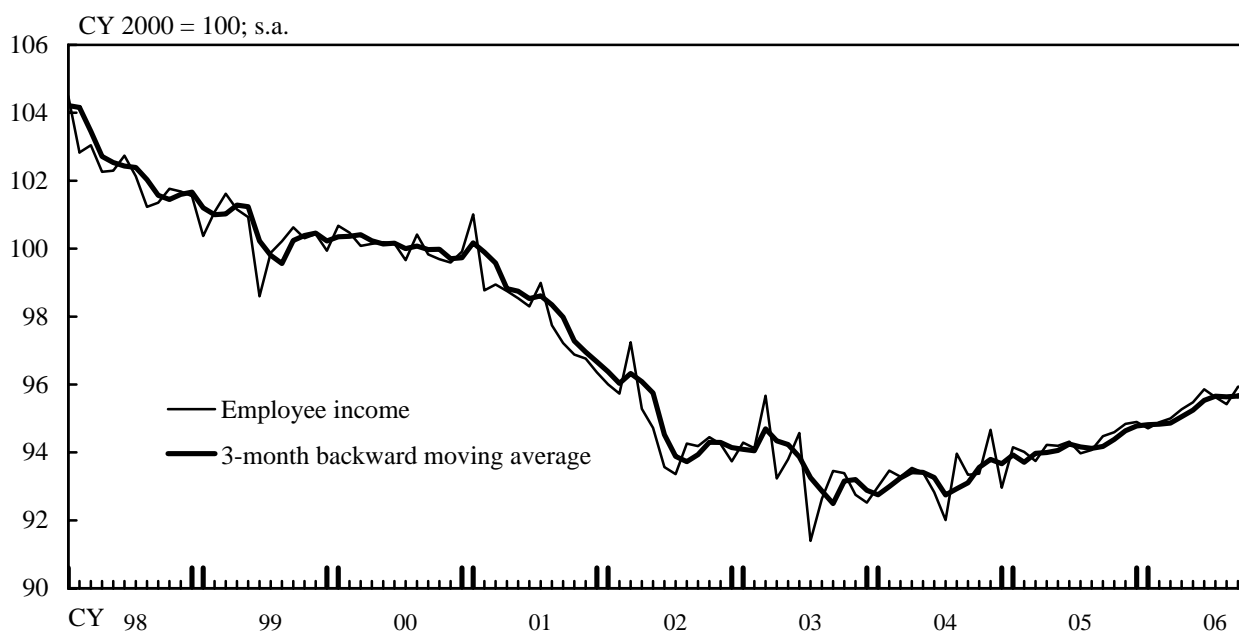


(3) Producer Goods Excluding Electronic Parts and Devices



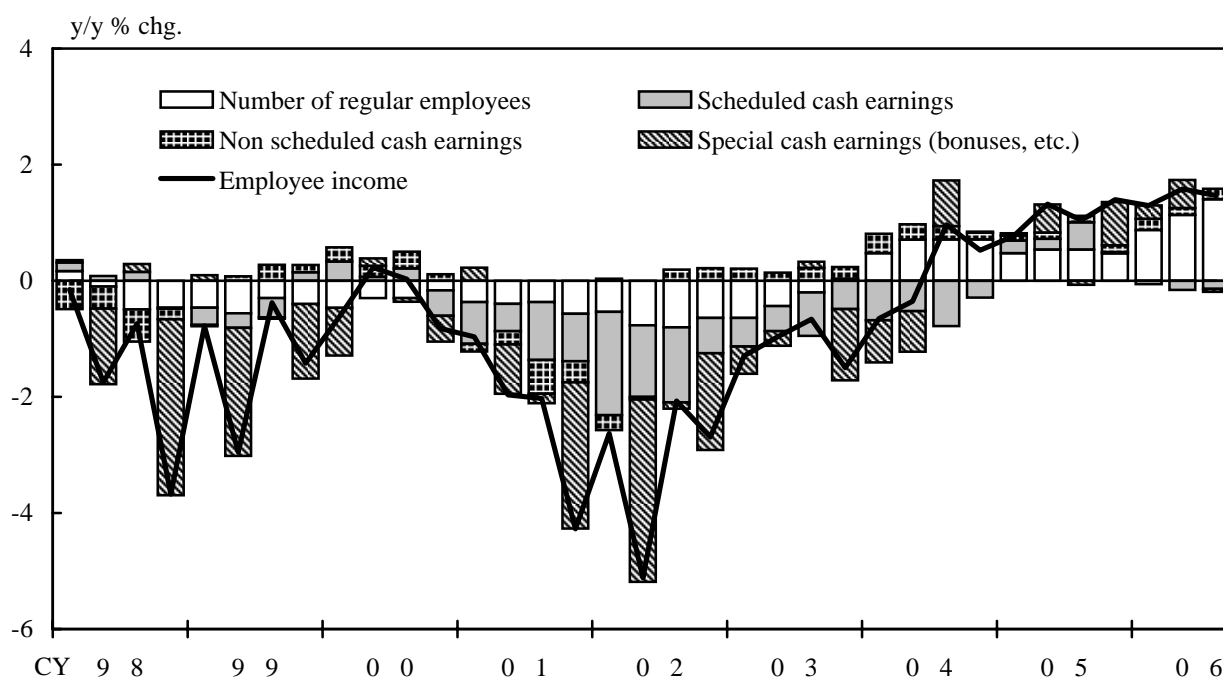
Employee Income

(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

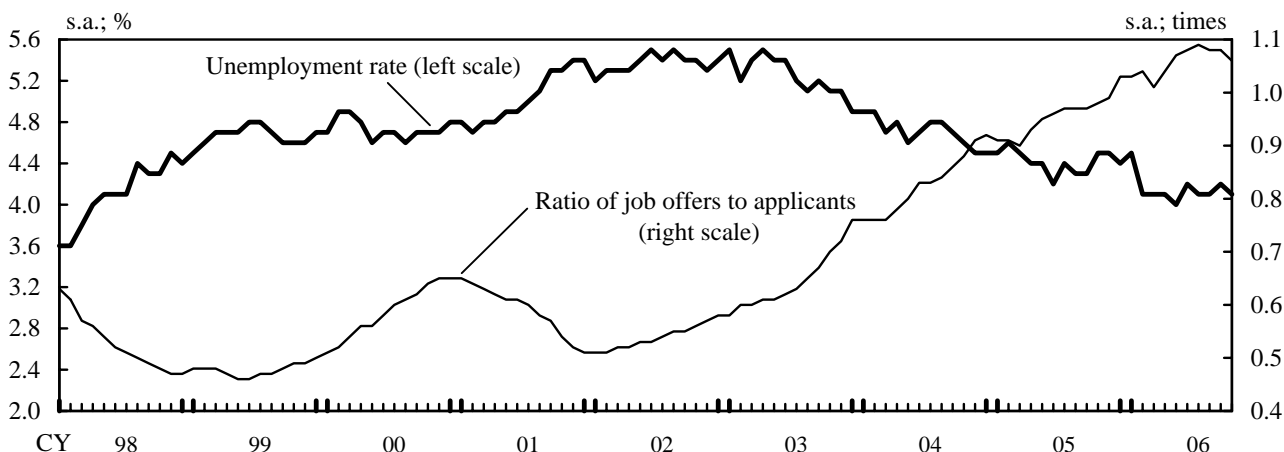


- Notes: 1. Data are for establishments with at least five employees.
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
3. Figures for 2006/Q3 are those of September-October averages.

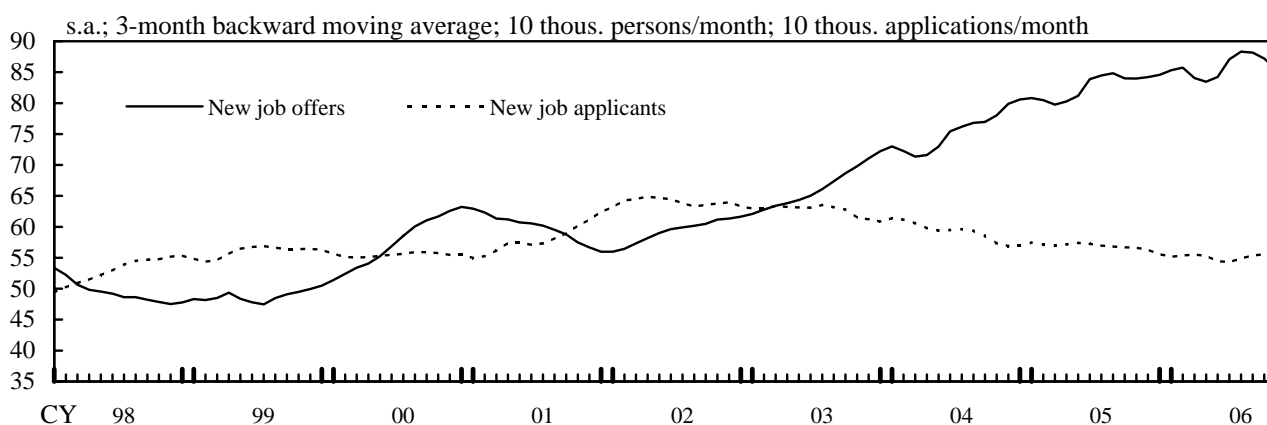
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

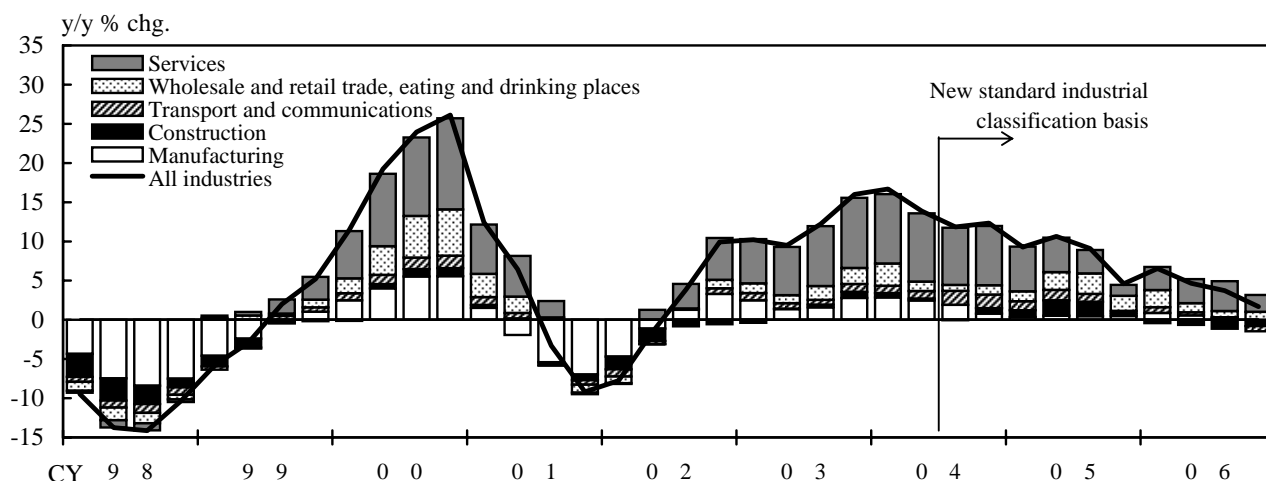
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(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.

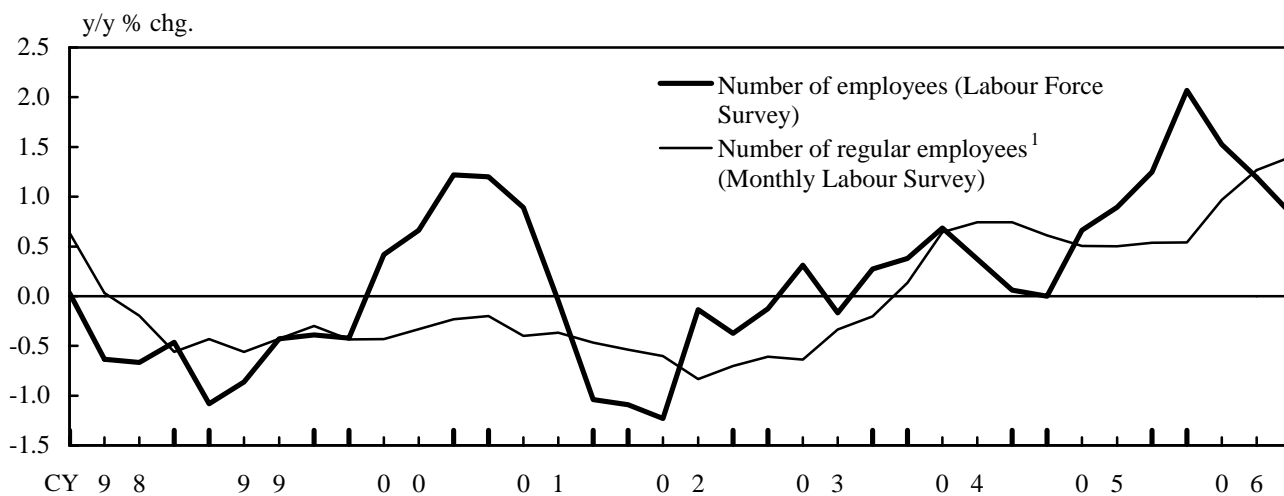
2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum 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/Q4 are those of October.

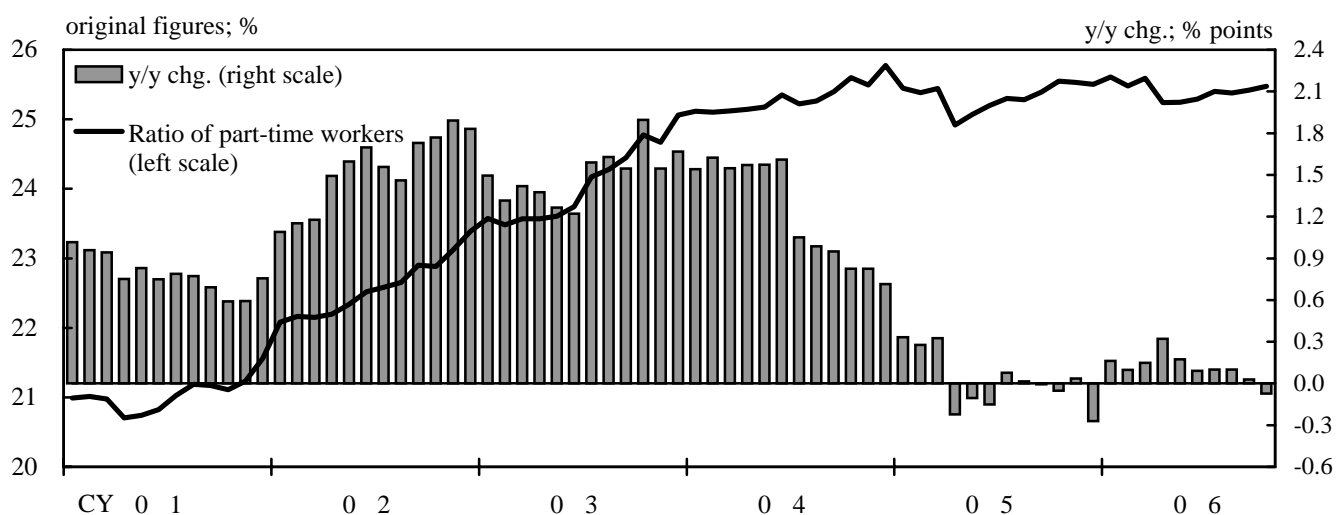
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service"; Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

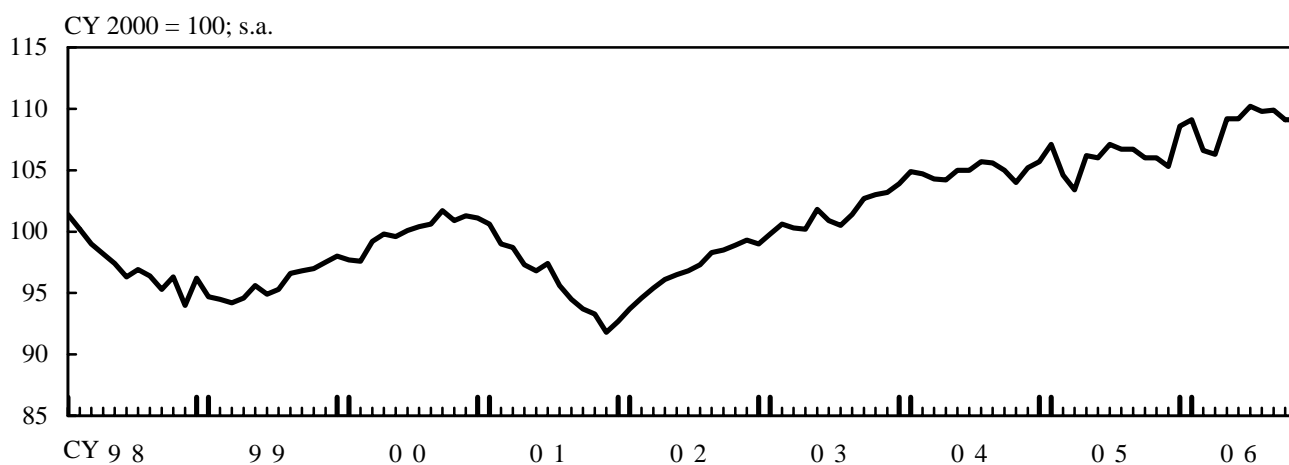
(1) Number of Employees³



(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.

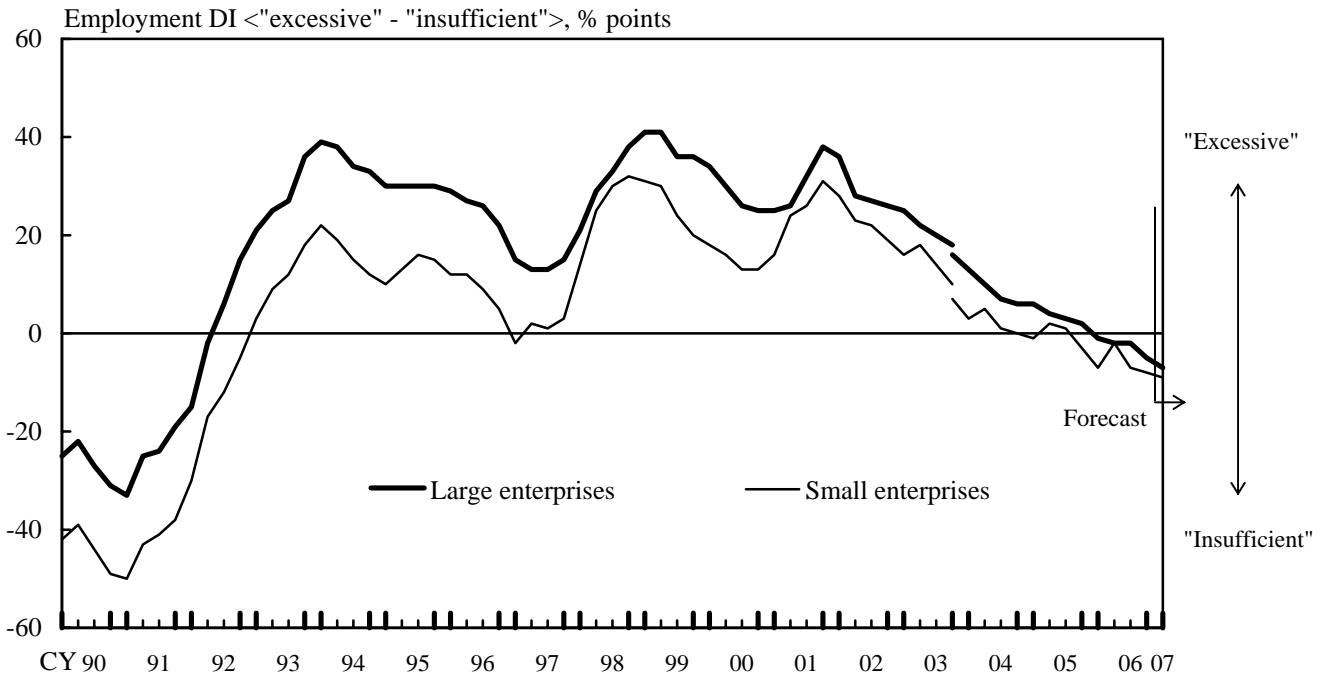
2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.

3. Figures for 2006/Q4 are those of October.

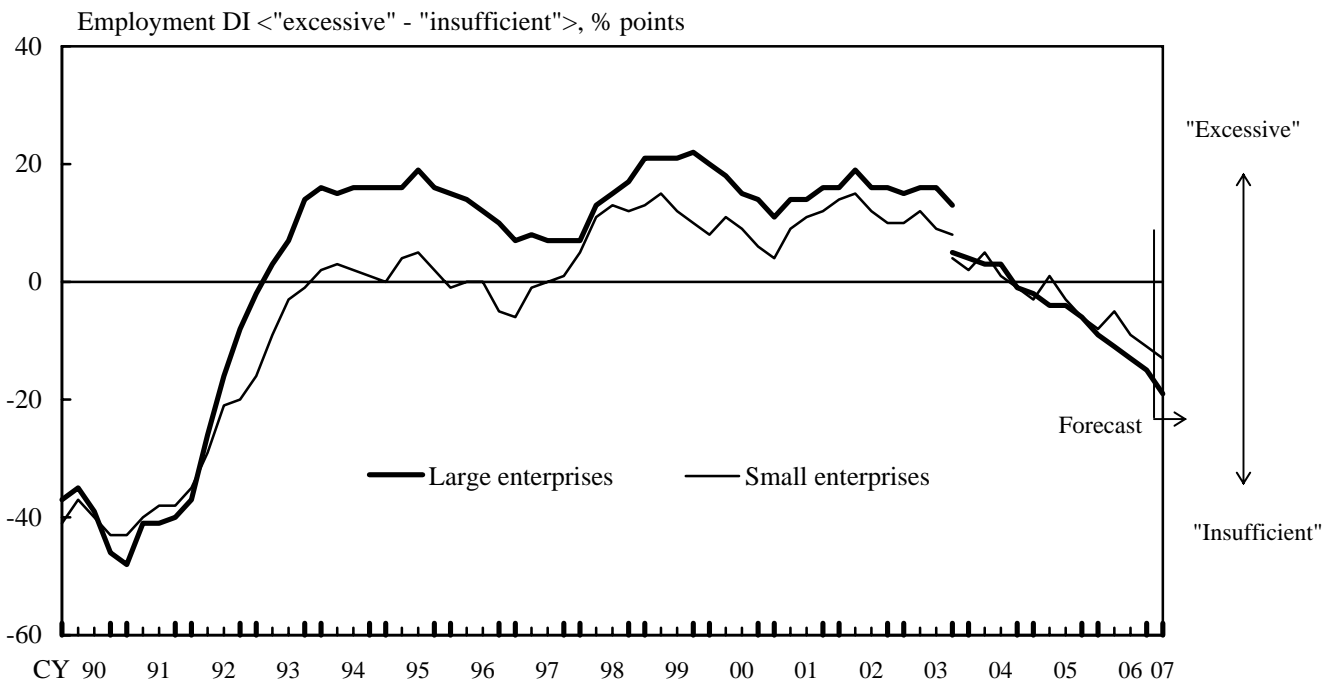
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

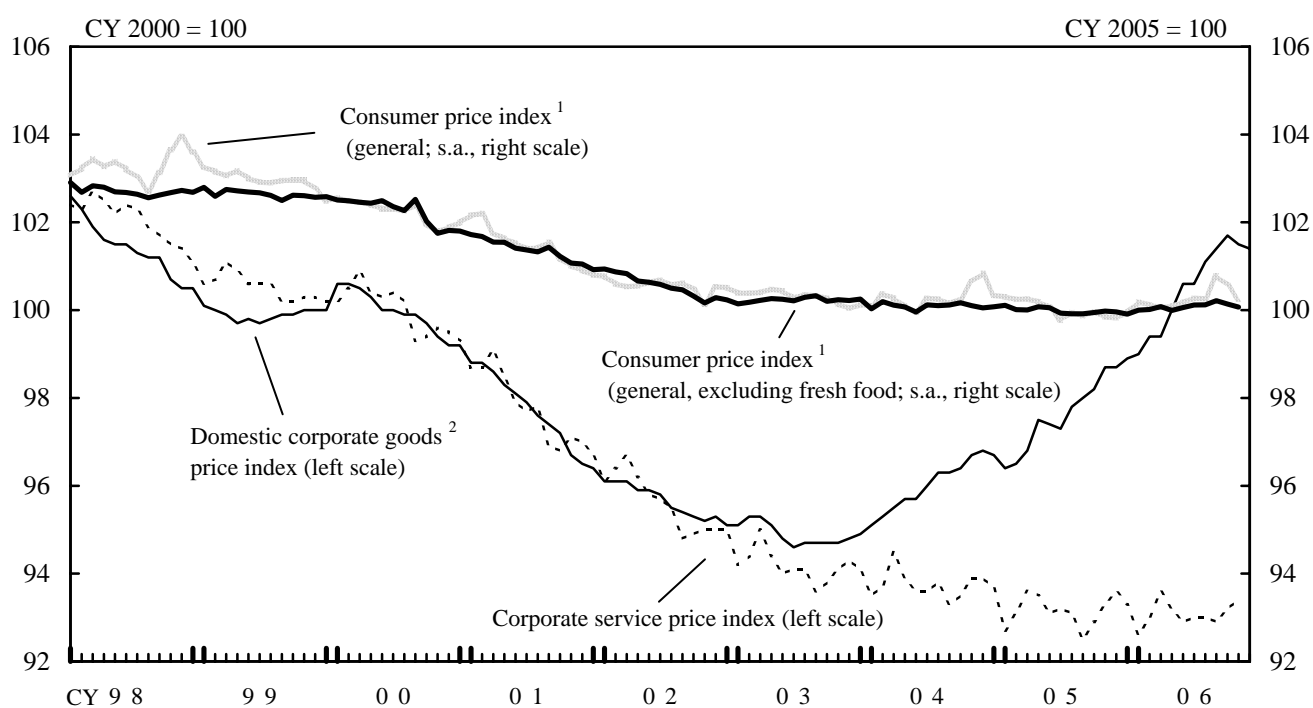
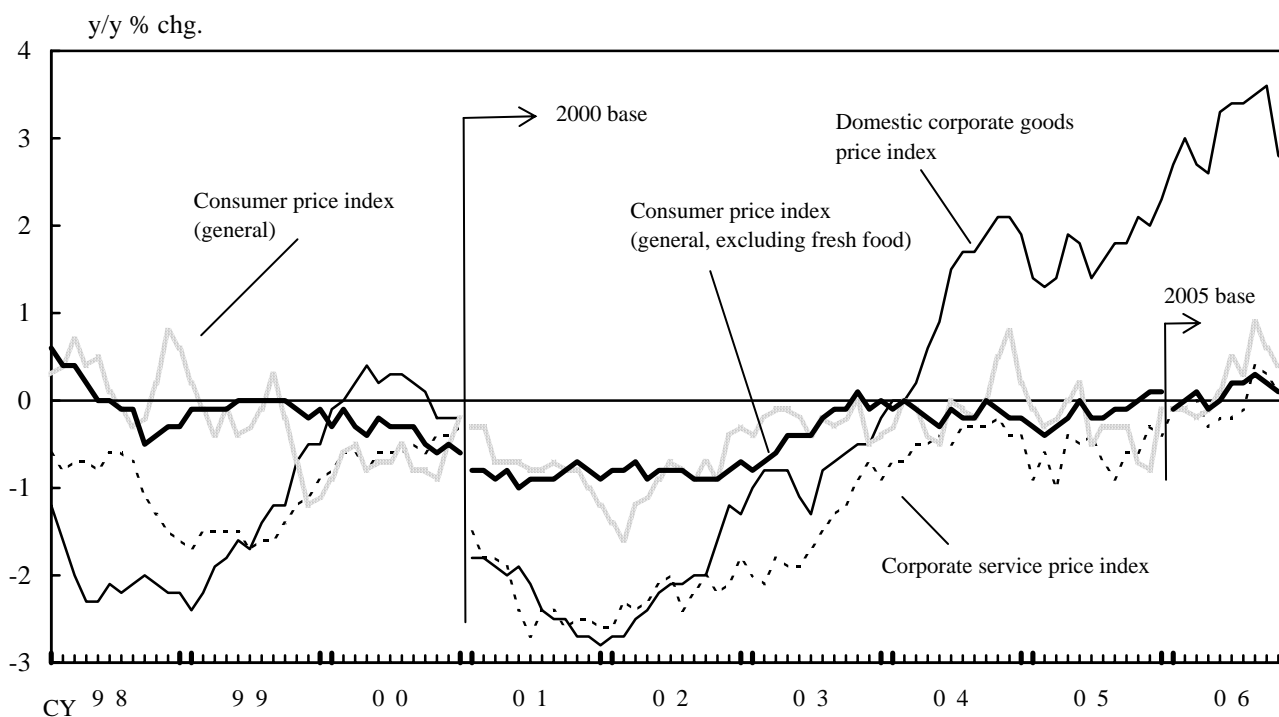


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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.

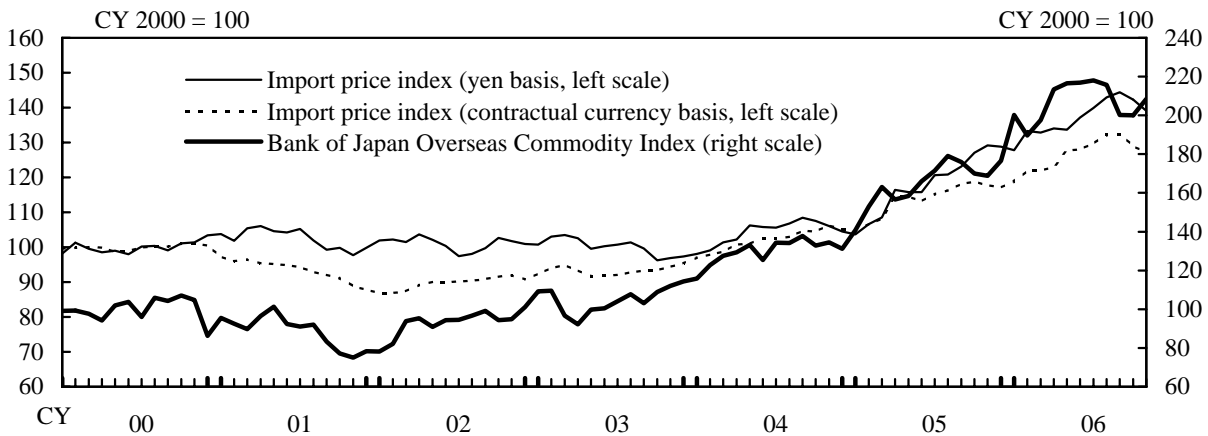
2. Adjusted to exclude a hike of electric power charges in summer season.

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."

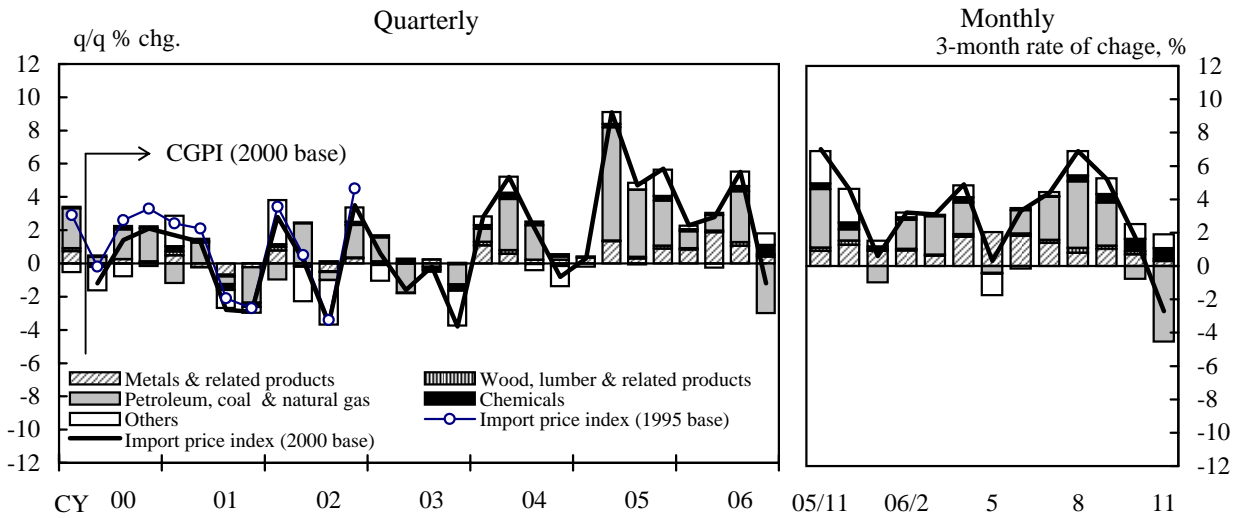
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



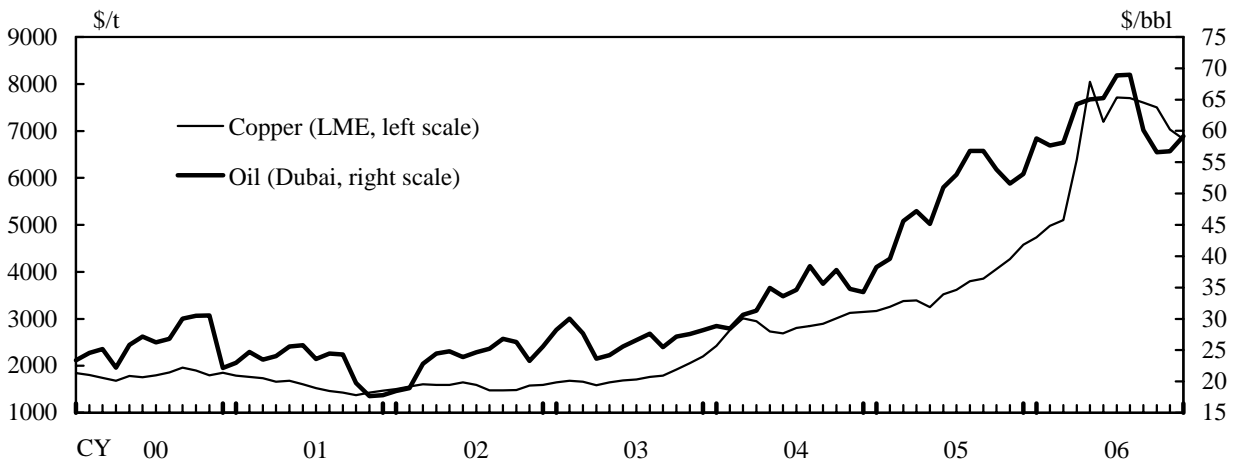
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: Figures for 2006/Q4 are October-November averages.
 1995 base figure for 2002/Q4 is October-November average.

(3) Oil Price and Copper Price

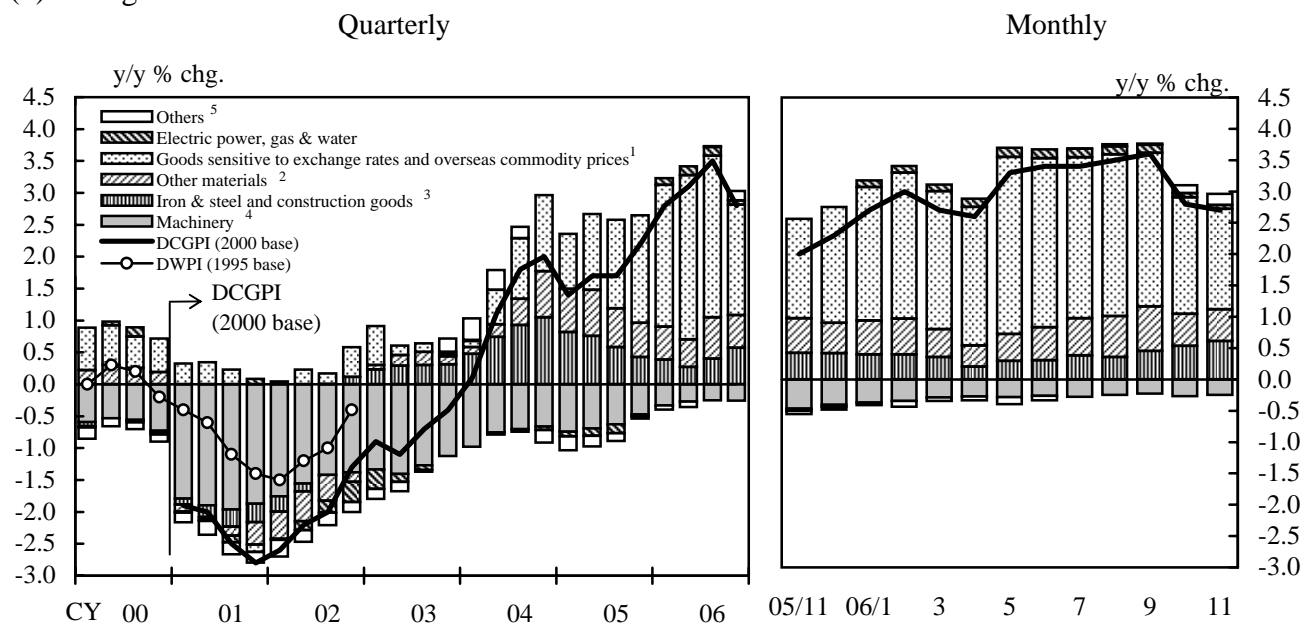
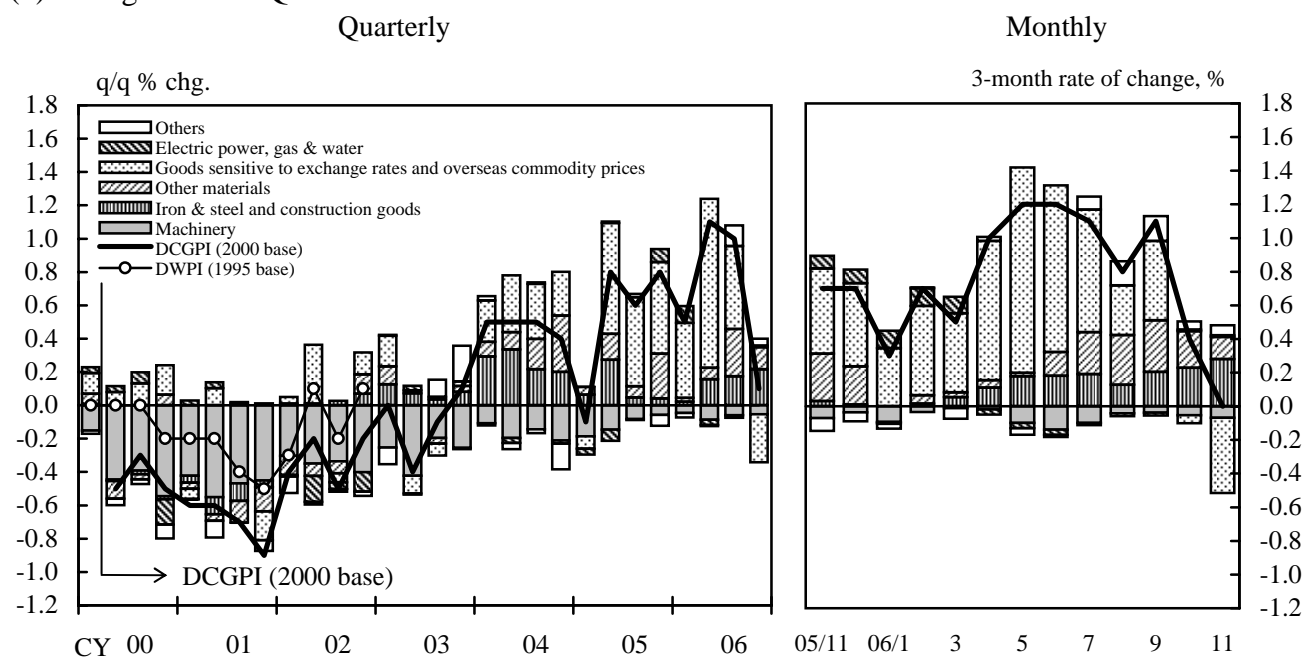


Note: Monthly averages. Figures for December 2006 are the averages up to December 18.

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

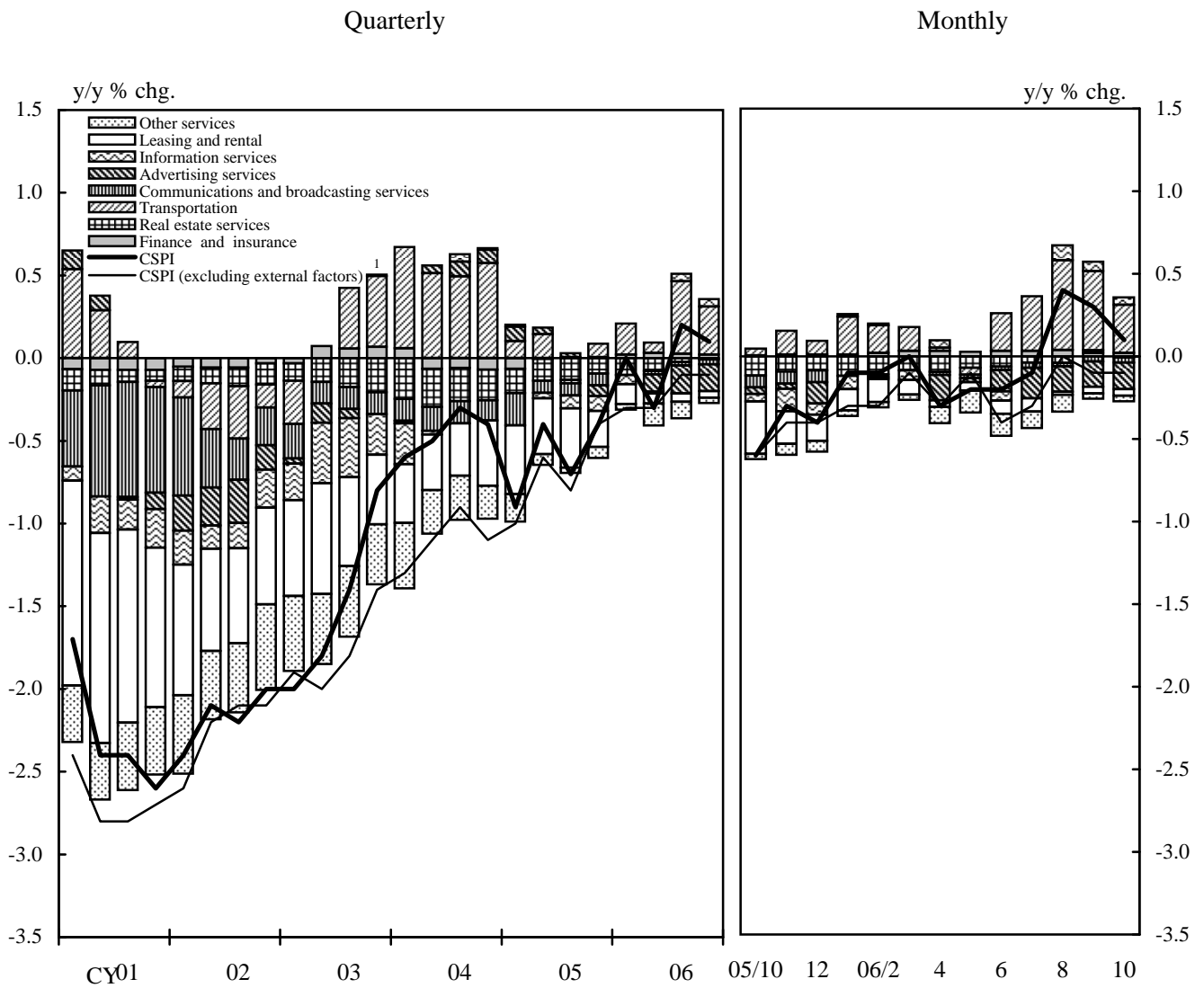
Domestic Corporate Goods Price Index⁷

(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. Figures for 2006/Q4 are October-November averages. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index



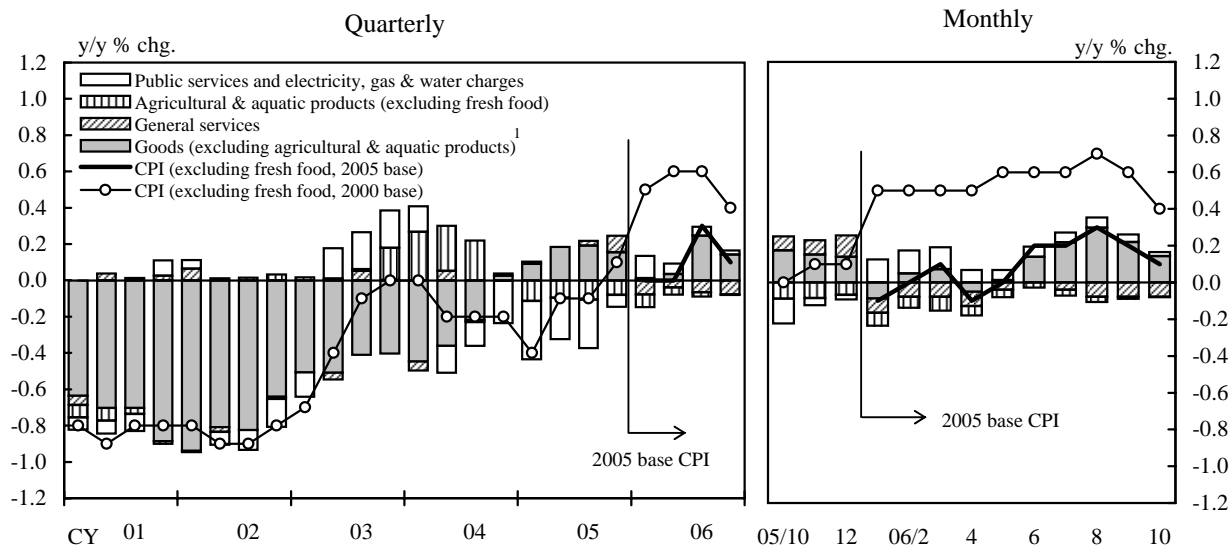
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2006/Q4 are those of October.

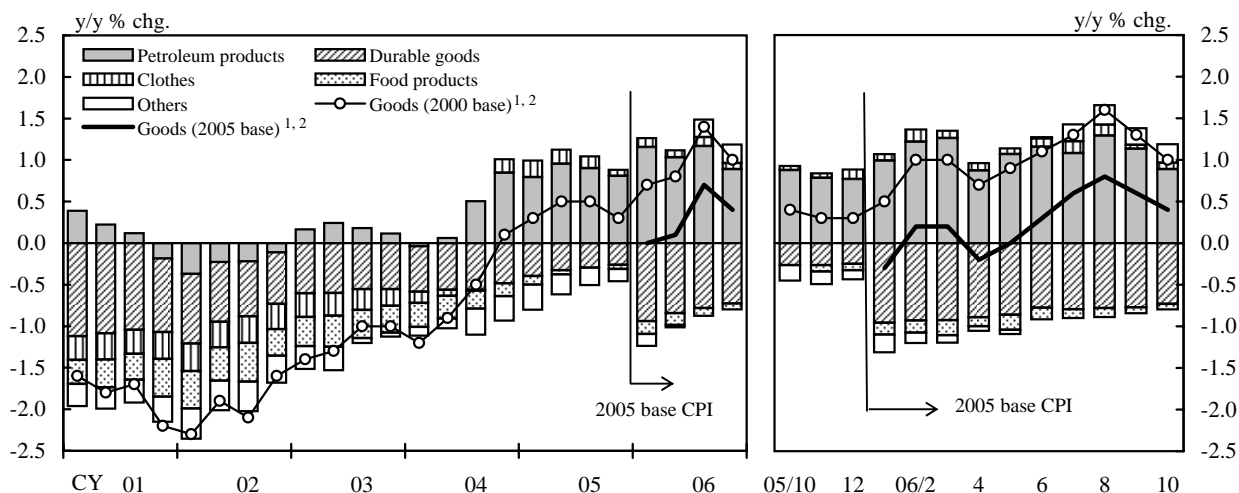
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

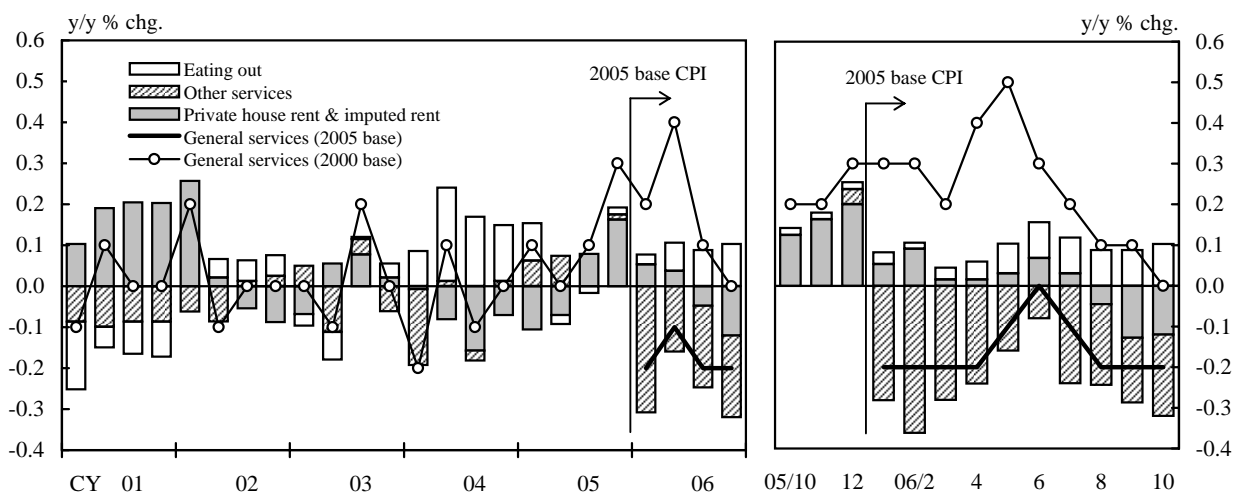
(1) Consumer Price Index (Excluding Fresh Food)



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



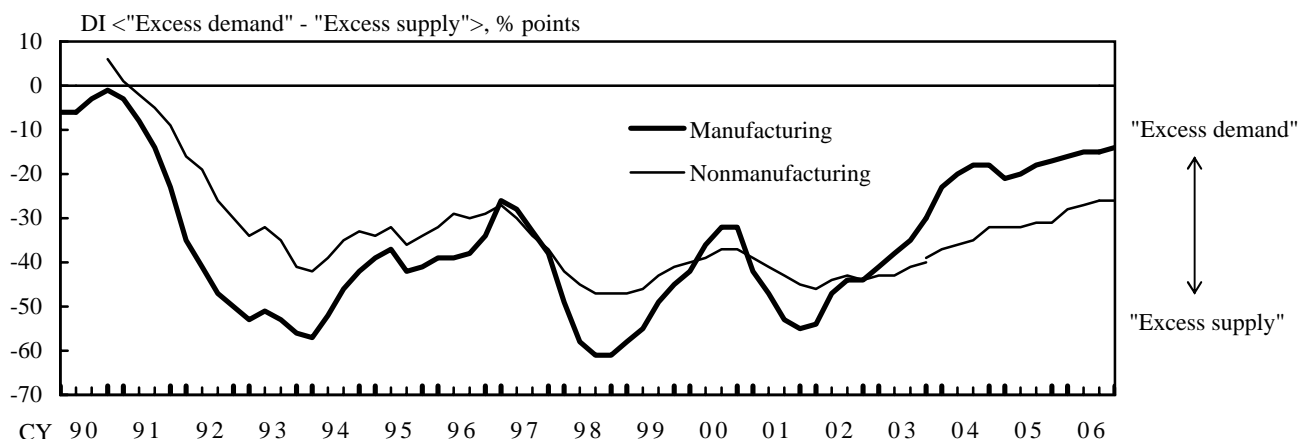
(3) General Services



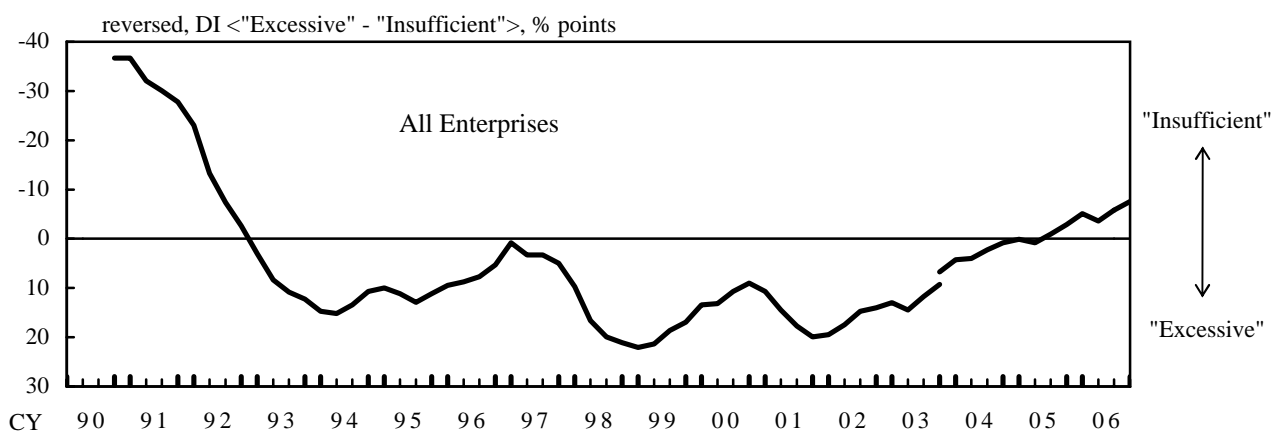
Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Figures for 2006/Q4 are those of October.

Domestic Supply and Demand Conditions¹

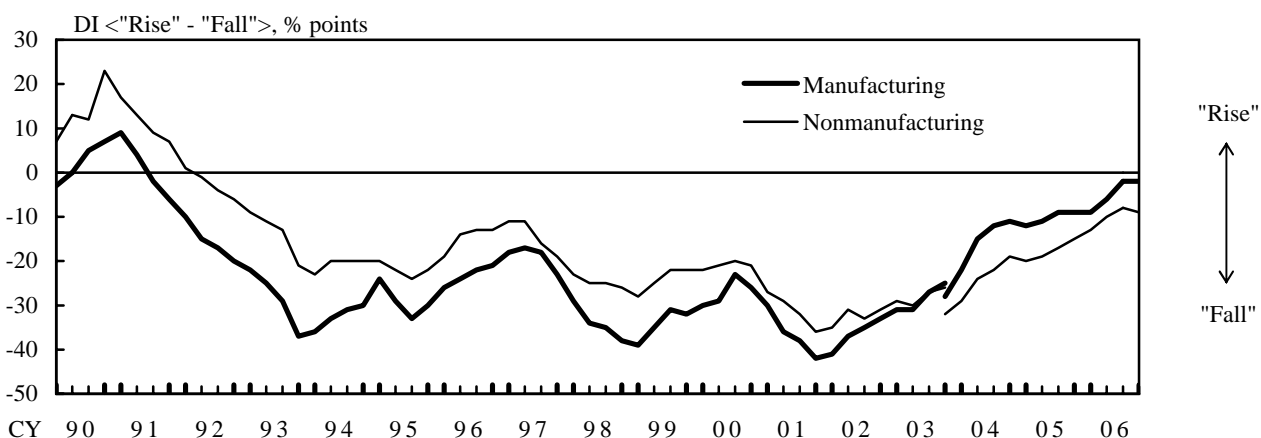
(1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)



(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.

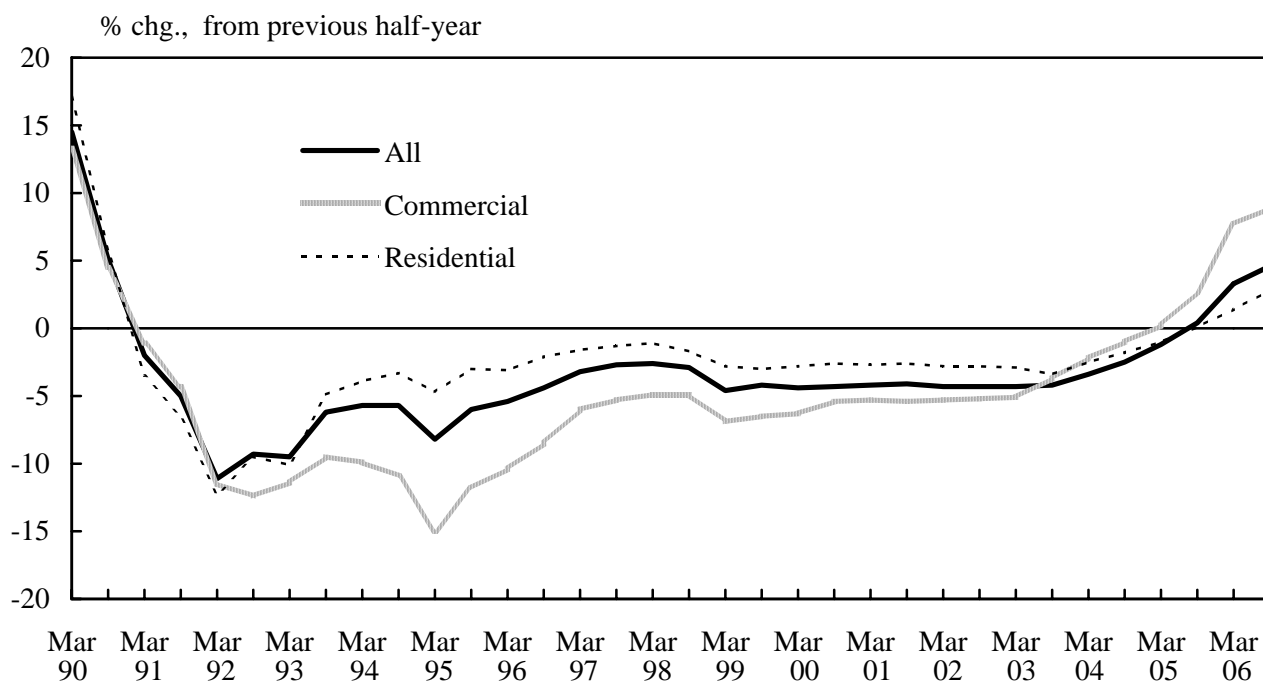
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2004 averages of capital and labor shares in national accounts are used as the weight.

Sources: Cabinet Office, "National Accounts";

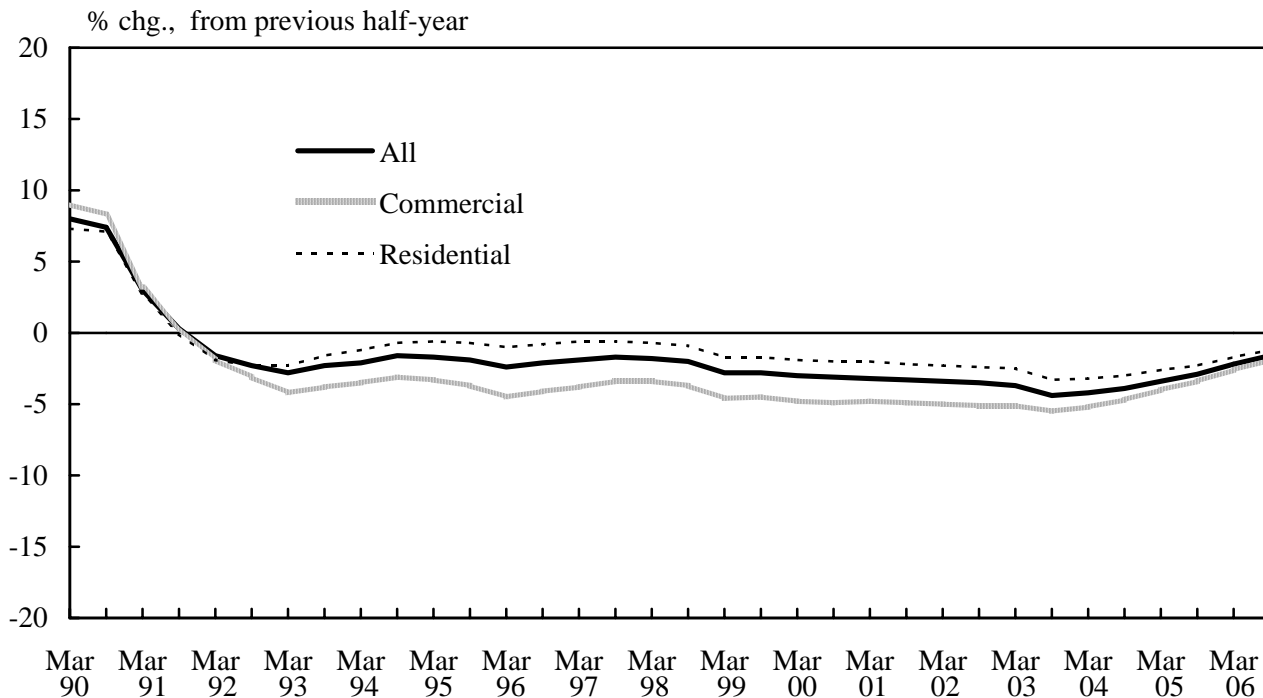
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan."

 Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas



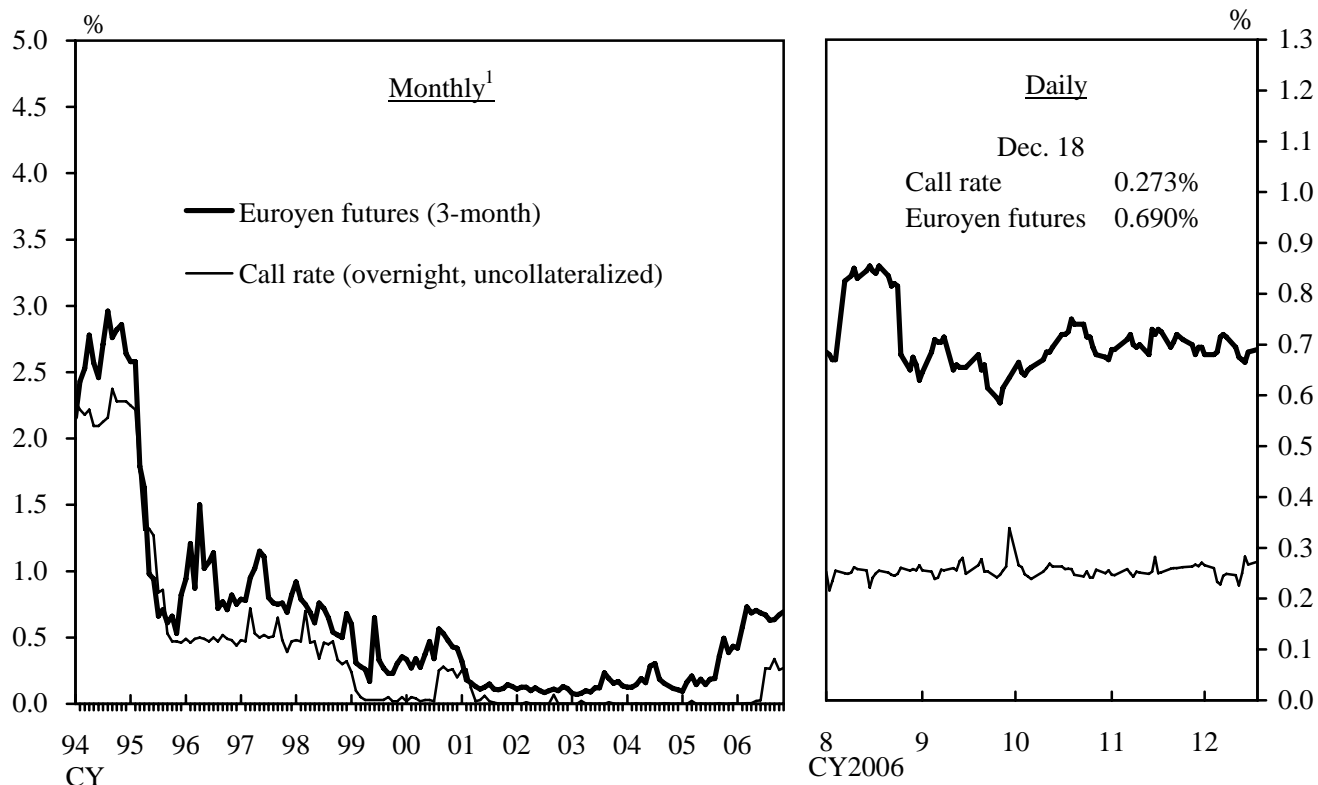
Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.

2. Six Large City Areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.

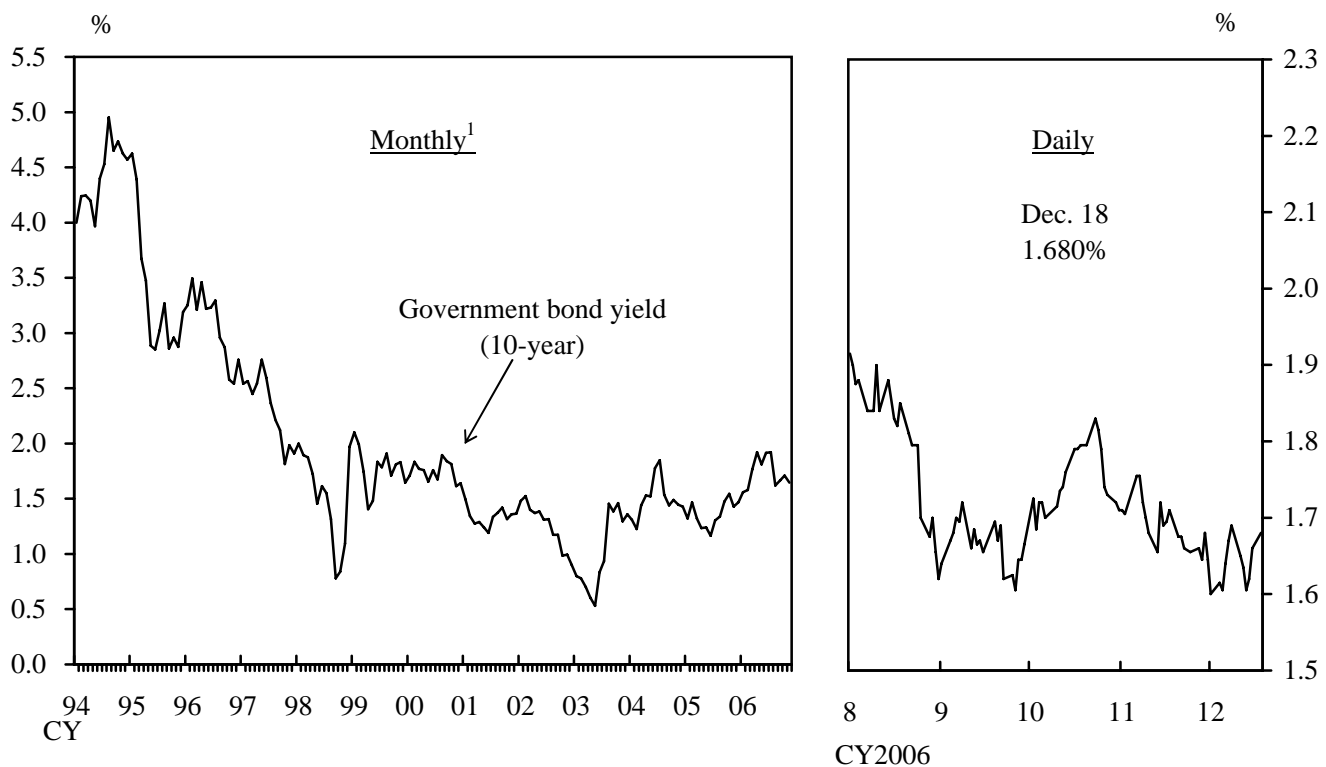
Source: Japan Real Estate Institute, "Urban Land Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

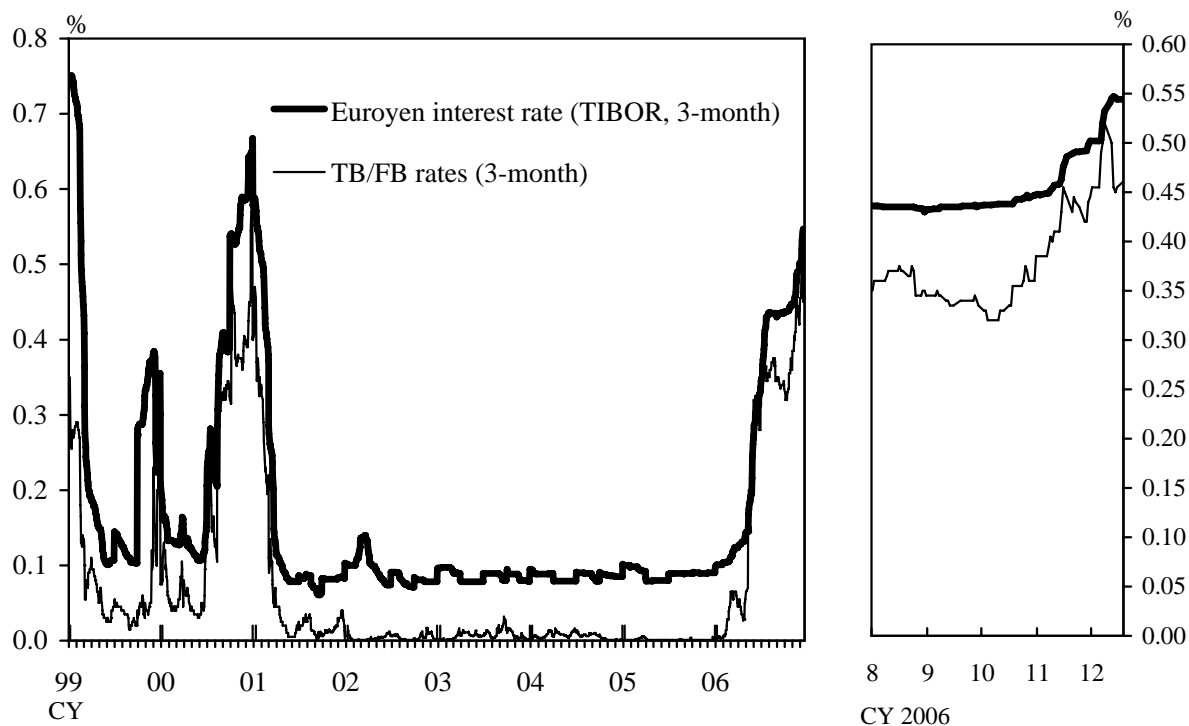


Note: 1. End of month.

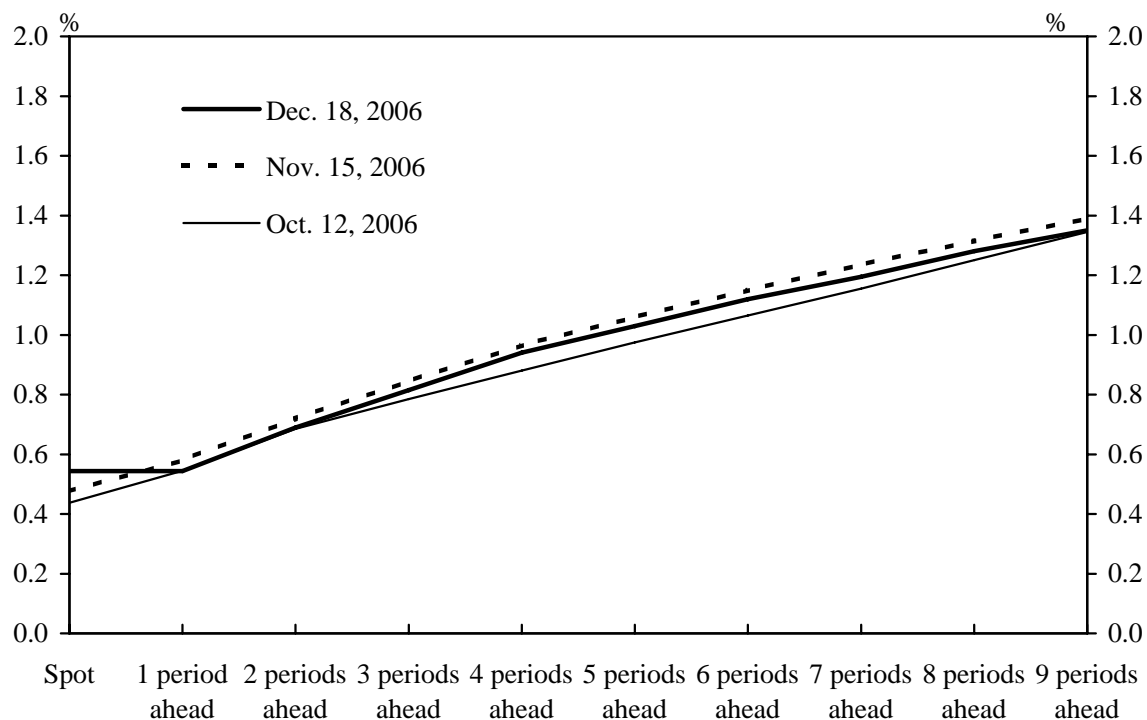
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



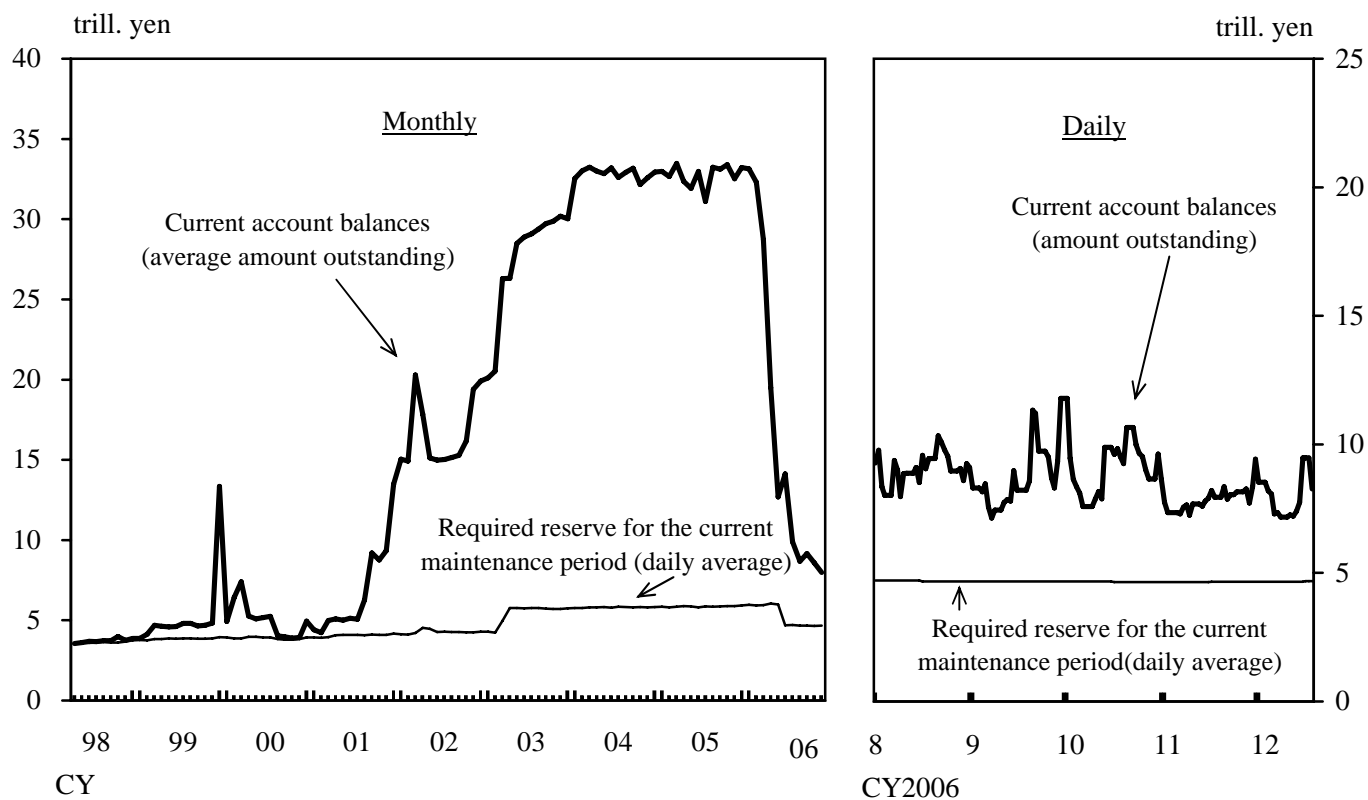
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

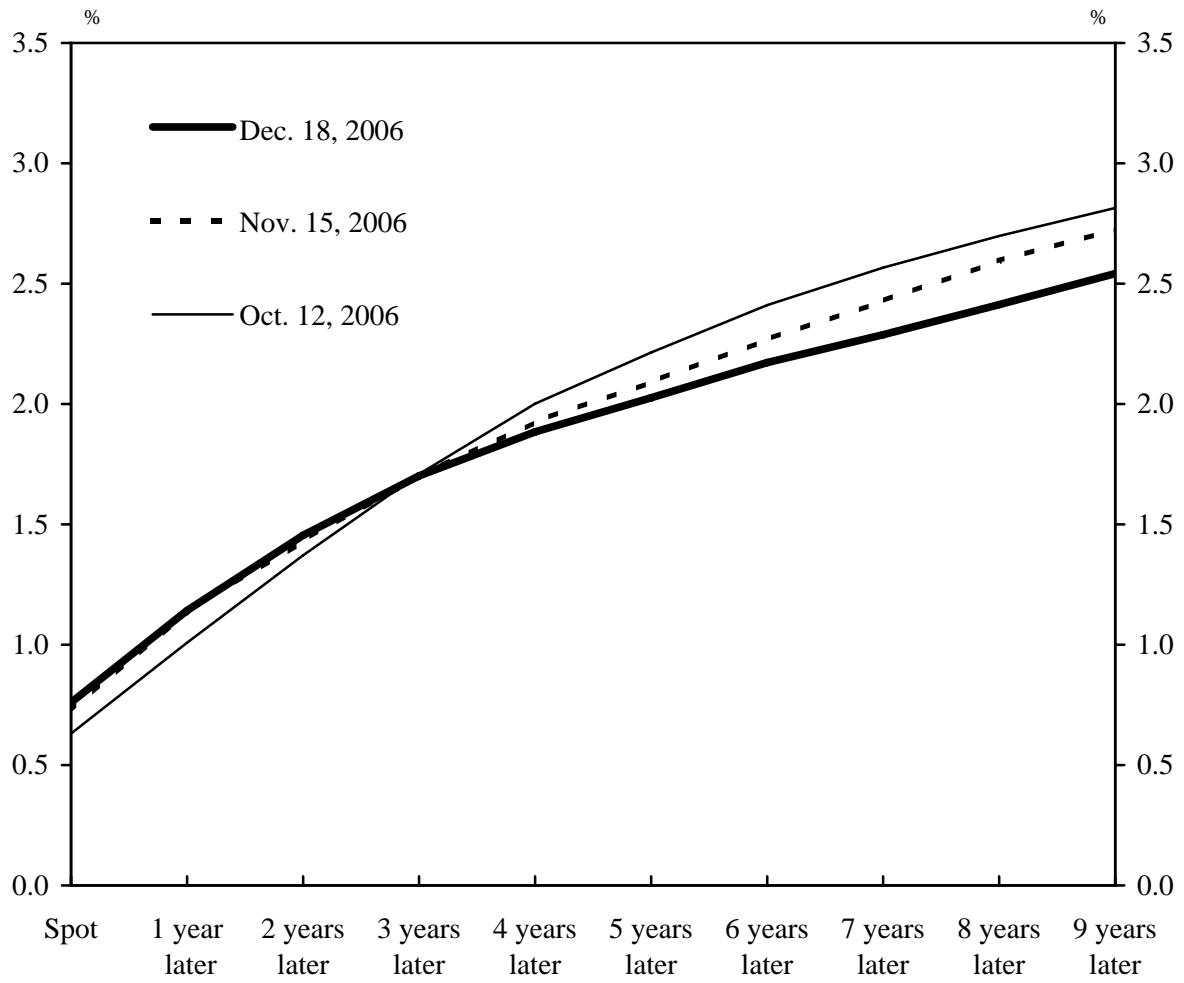


Note: From April 2003, the figures for current account balances include the deposit of the Japan Post.

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)

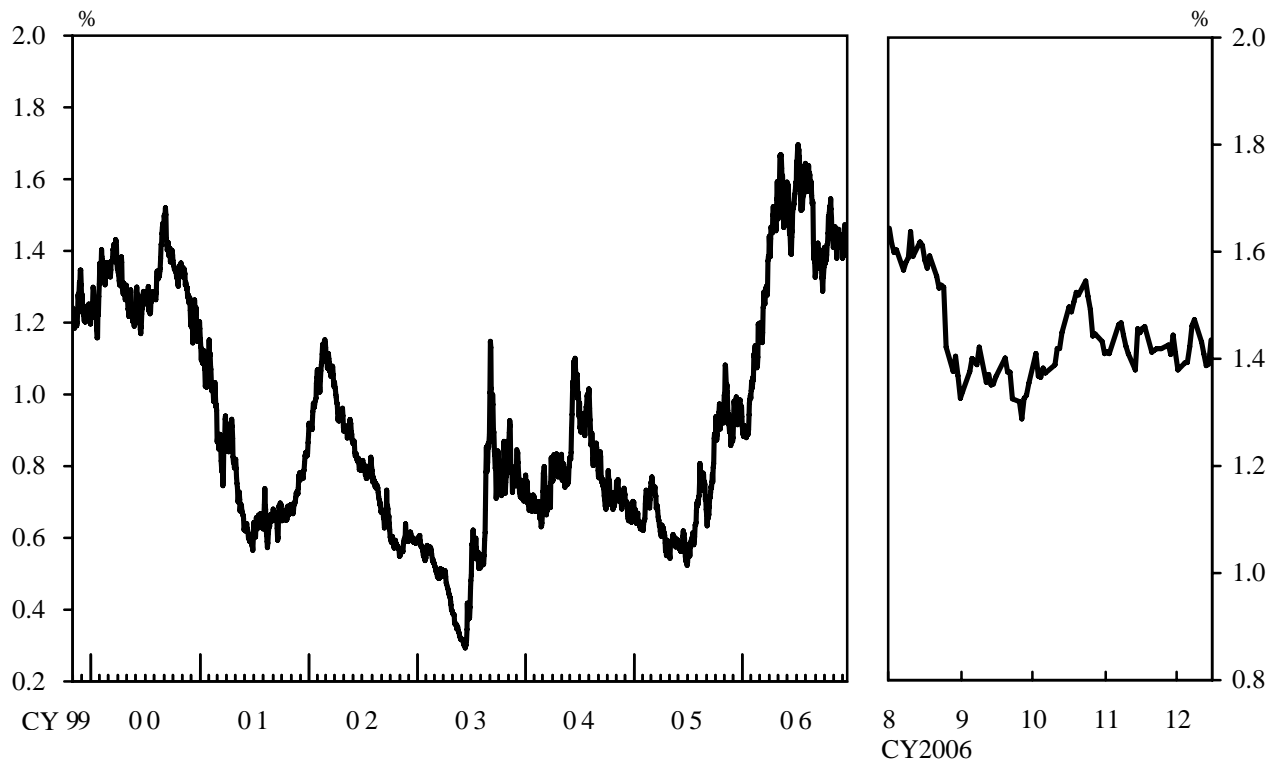


Note: Calculated from yen-yen swap rates.

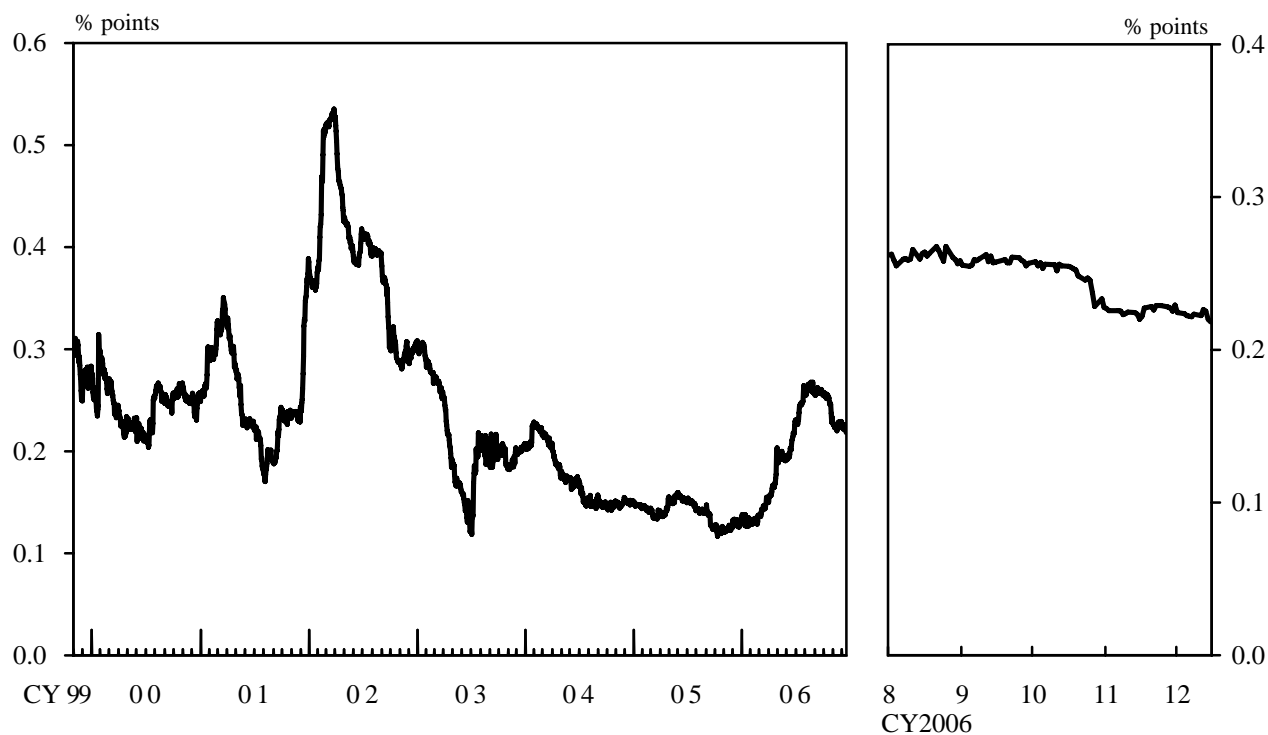
Source: Reuters.

Yields of Bank Bonds

(1) Average Bank Bond Yield



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



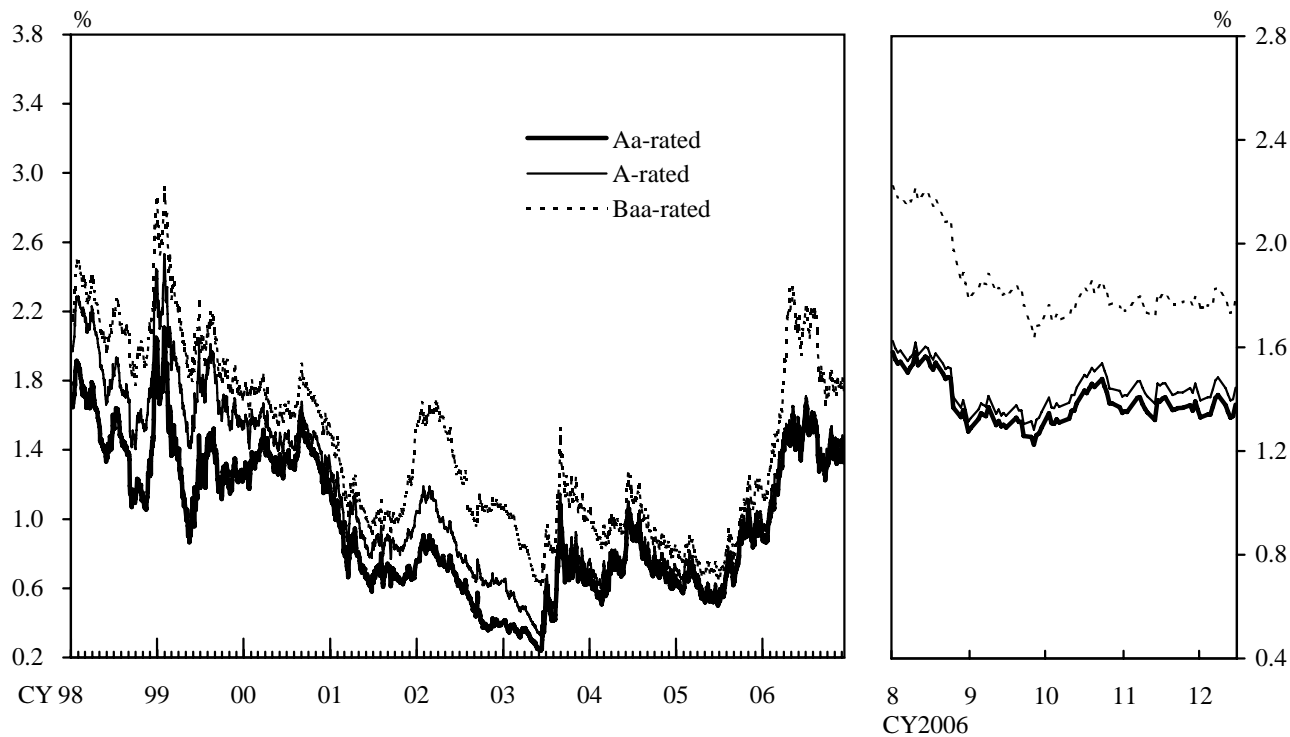
Notes: 1. Yields on bonds with 5-year maturity.

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

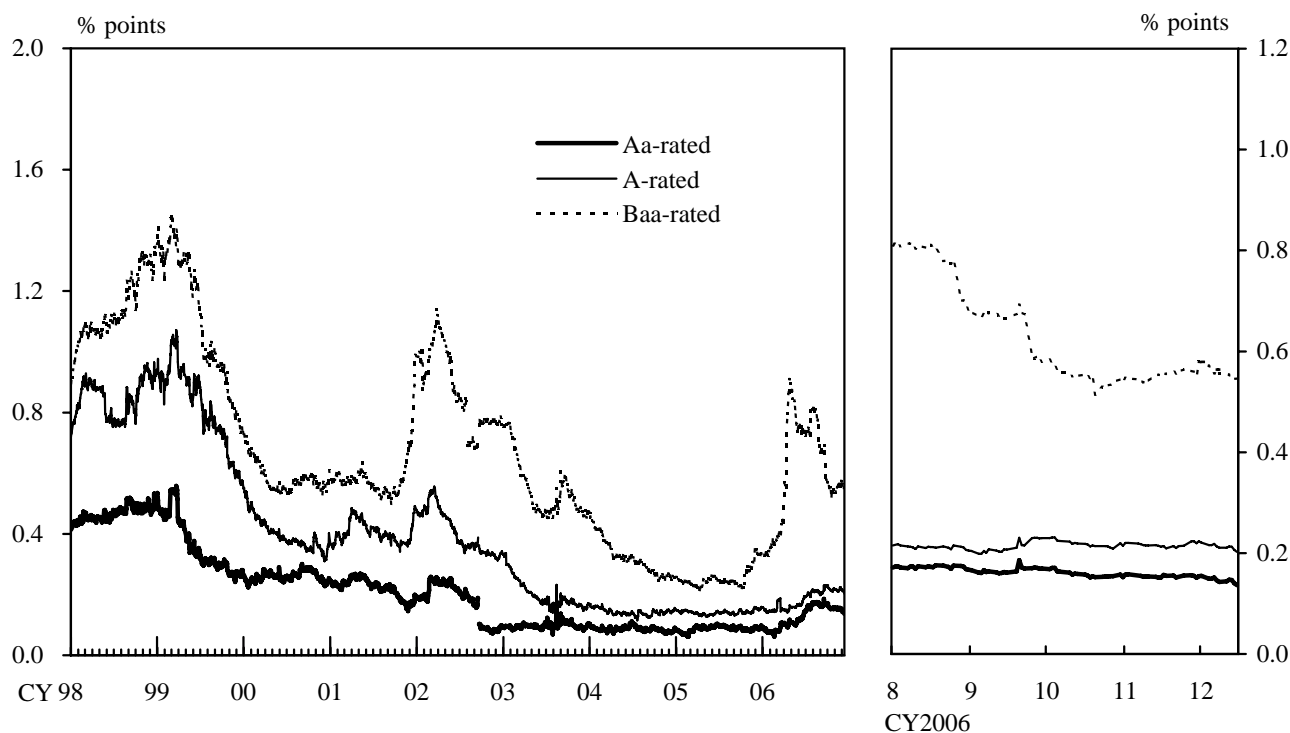
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."
 "Reference Price (Yields) Table for OTC Bond Transactions."

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.

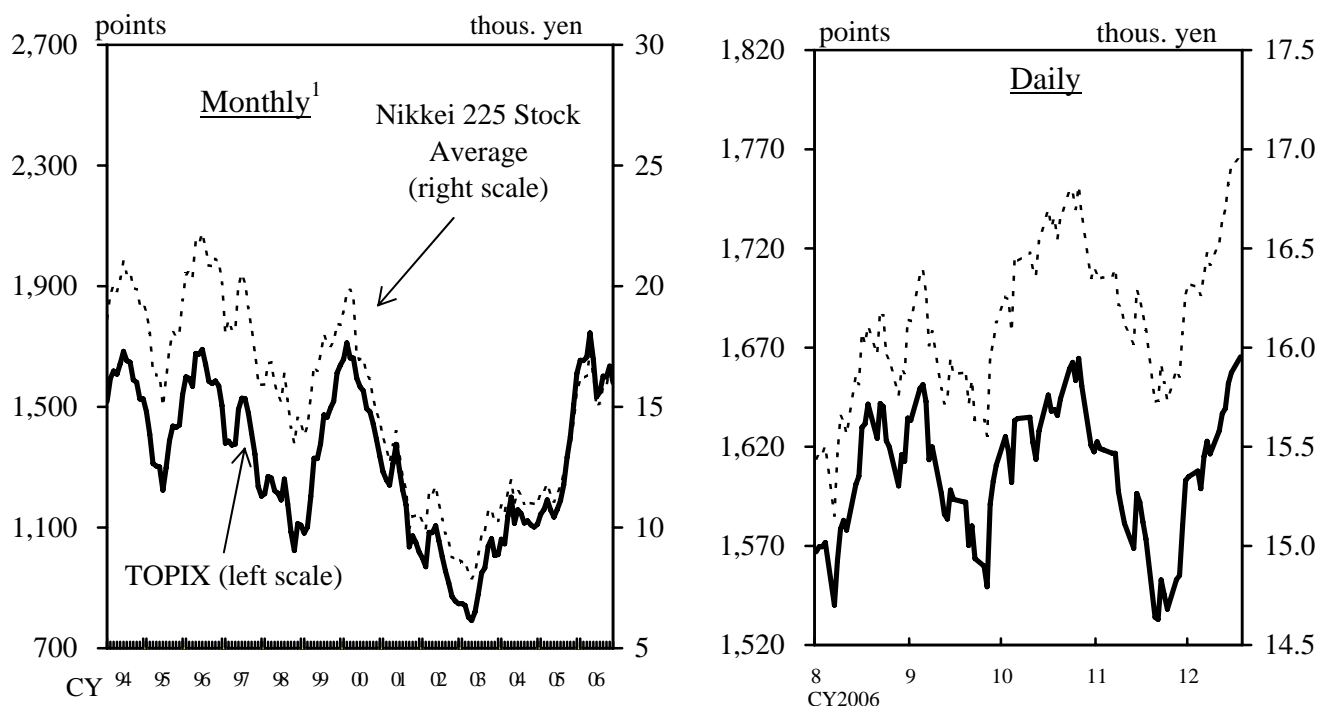
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

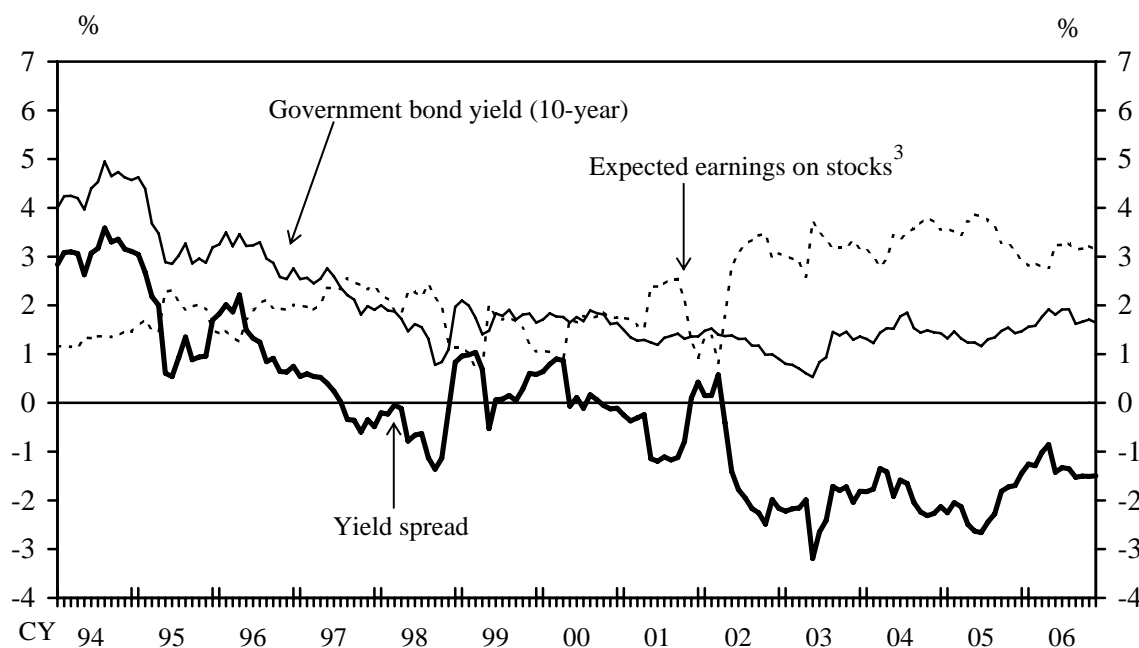
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

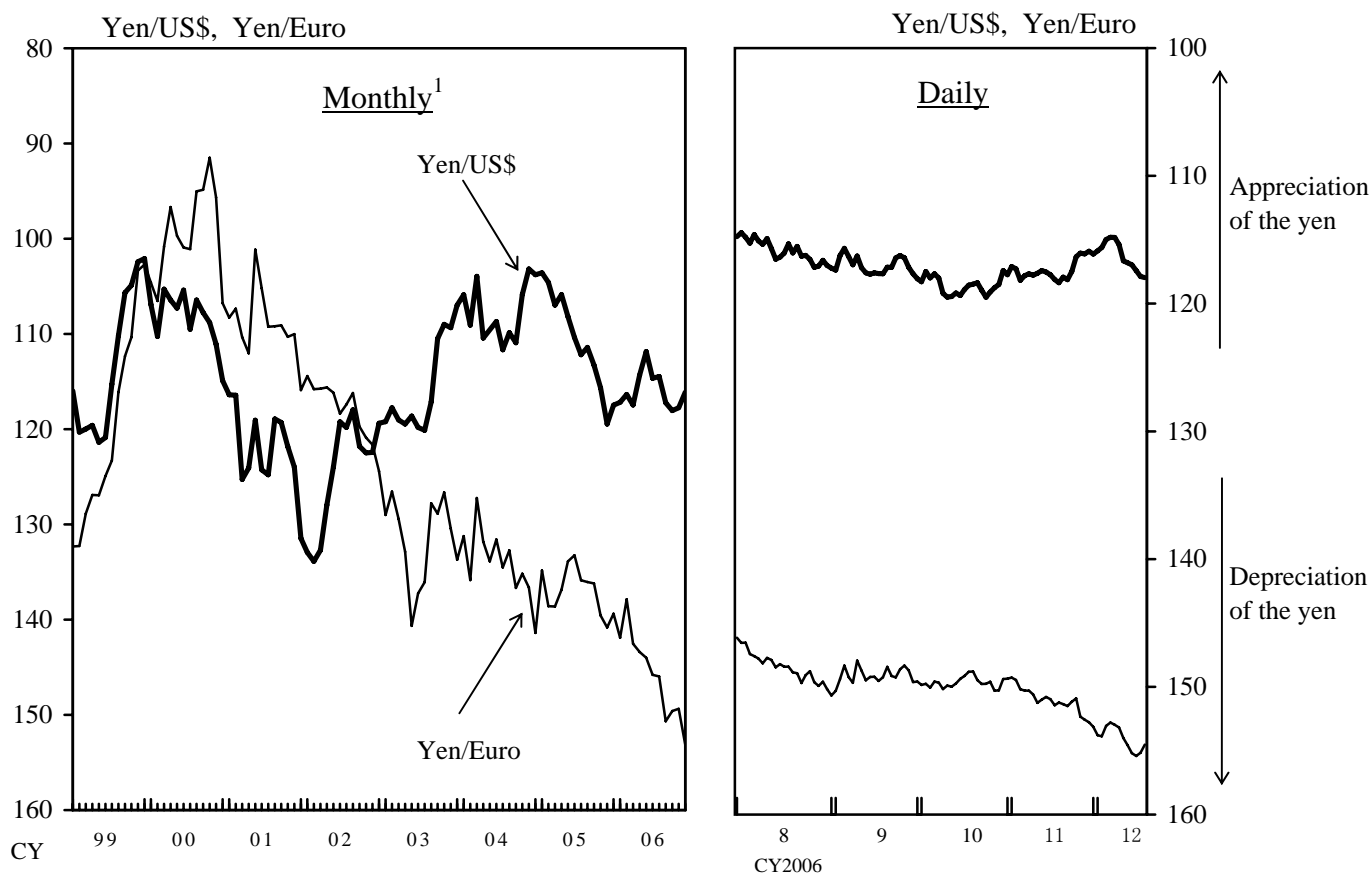
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

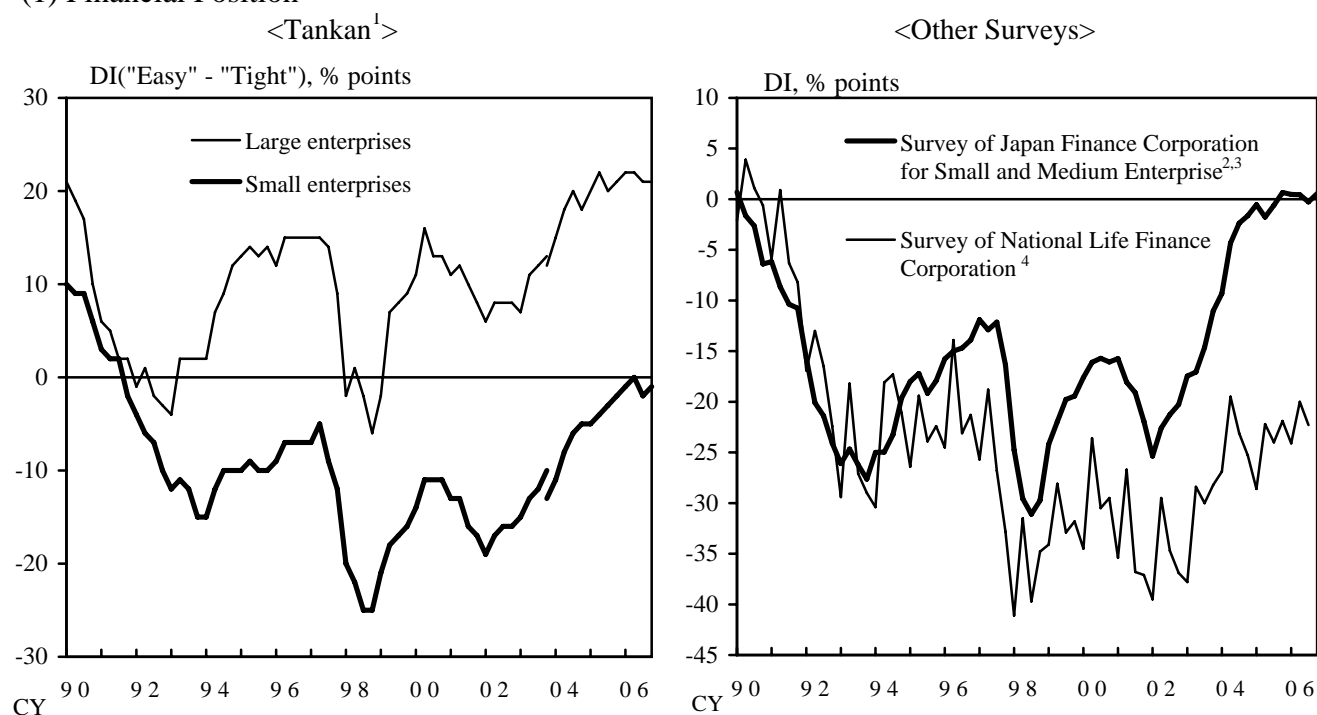
Exchange Rates



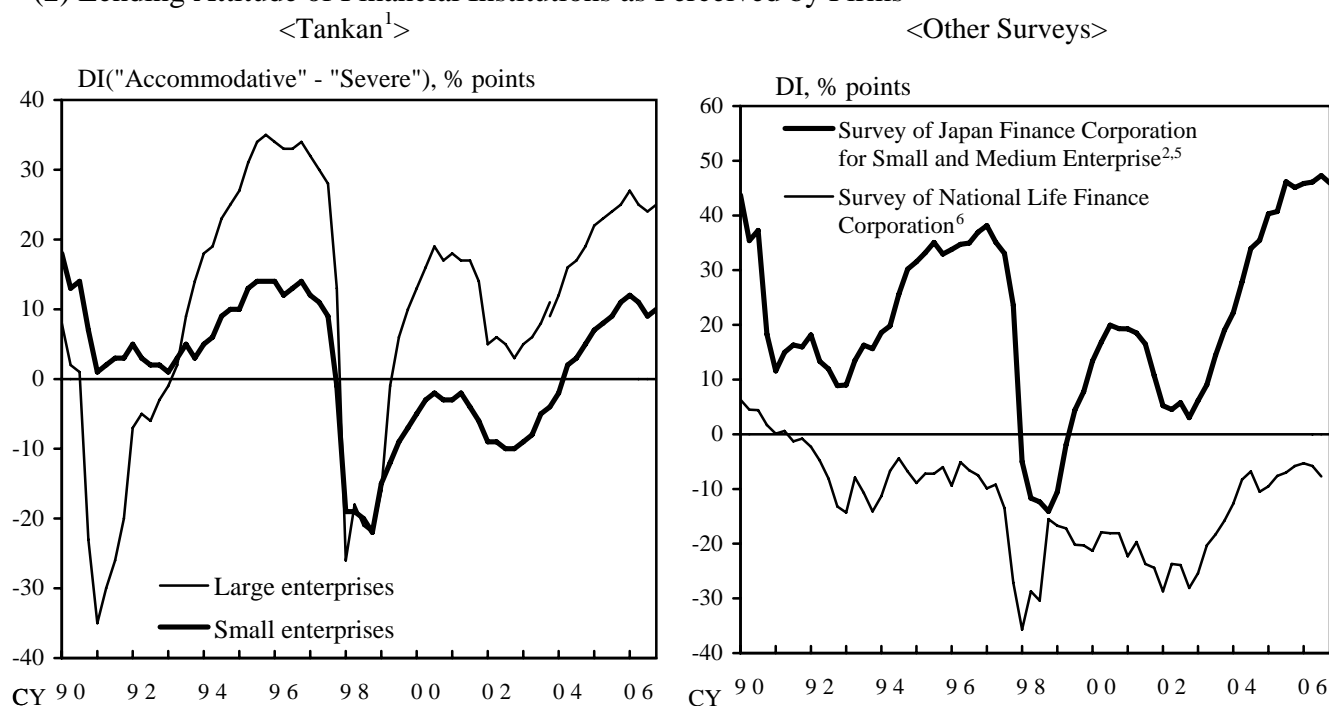
Note: 1. End of month.
 Source: Bank of Japan.

Corporate Finance-Related Indicators

(1) Financial Position



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



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

2. Figures are quarterly averages of monthly data. Figures for 2006/Q4 are those of Oct.-Nov. averages.

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

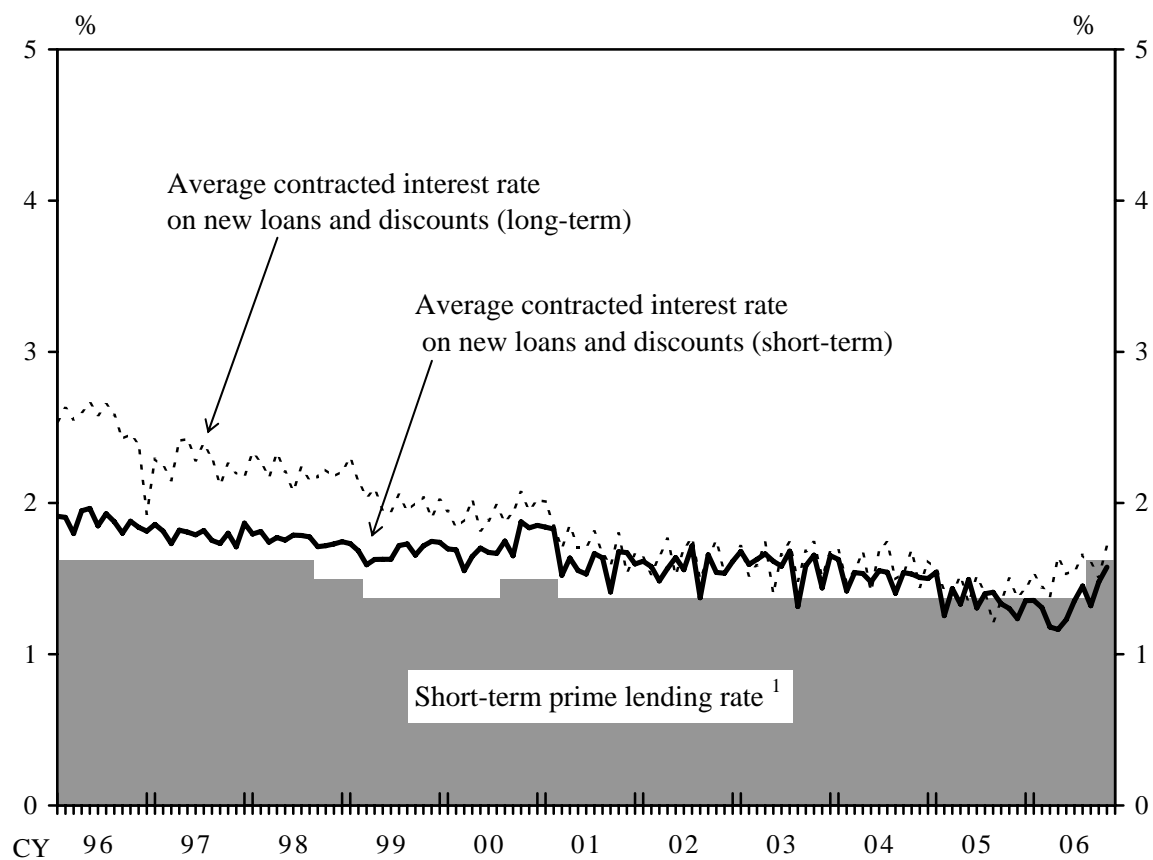
4. DI of "Easier" - "Tighter."

5. DI of "Accommodative" - "Severe."

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

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

Lending Rates

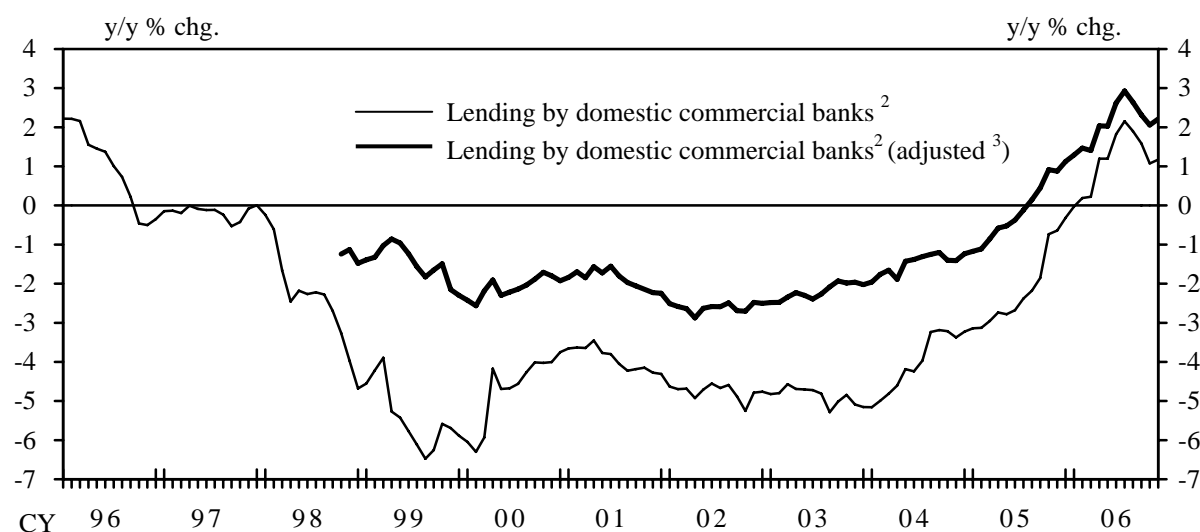


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



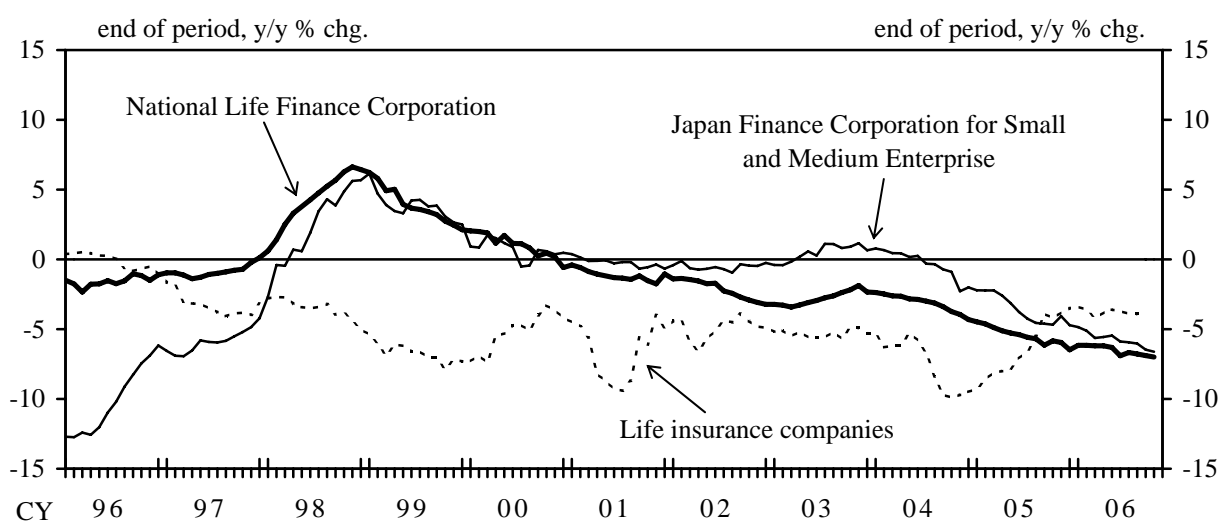
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

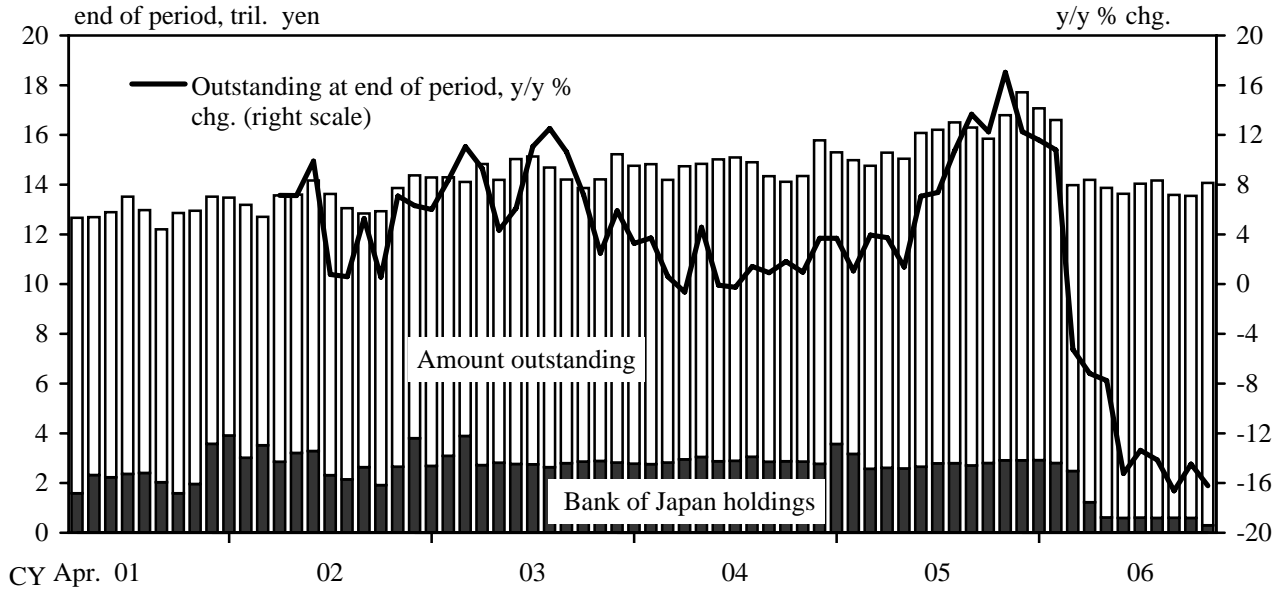
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

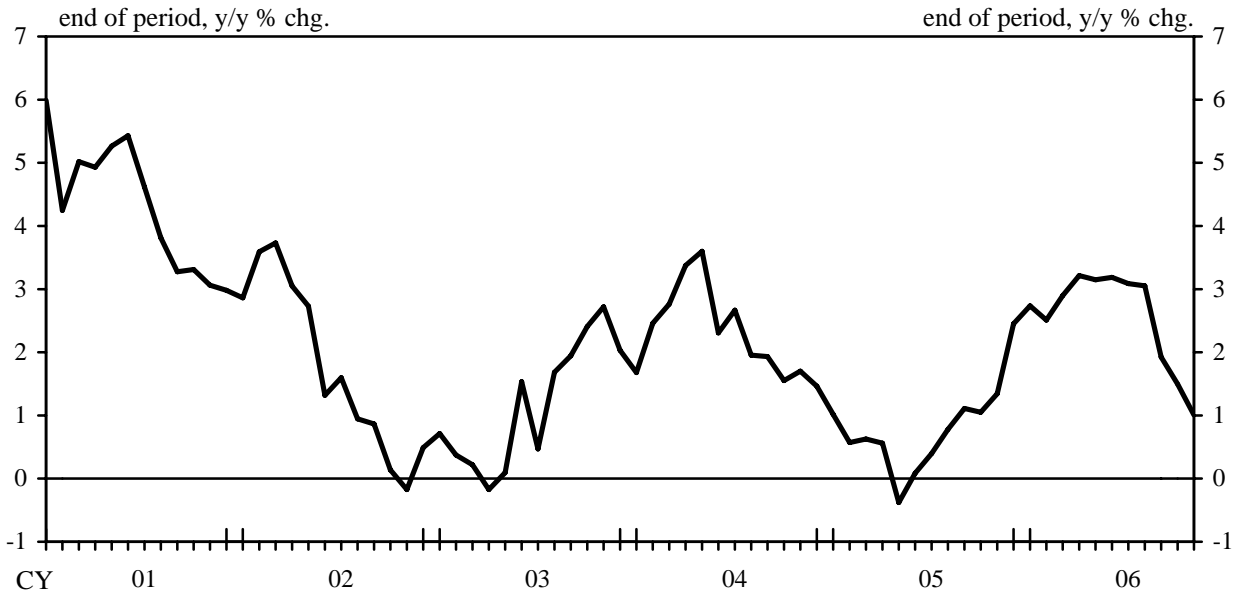
Private-Sector Fund-Raising in the Capital Markets

(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)

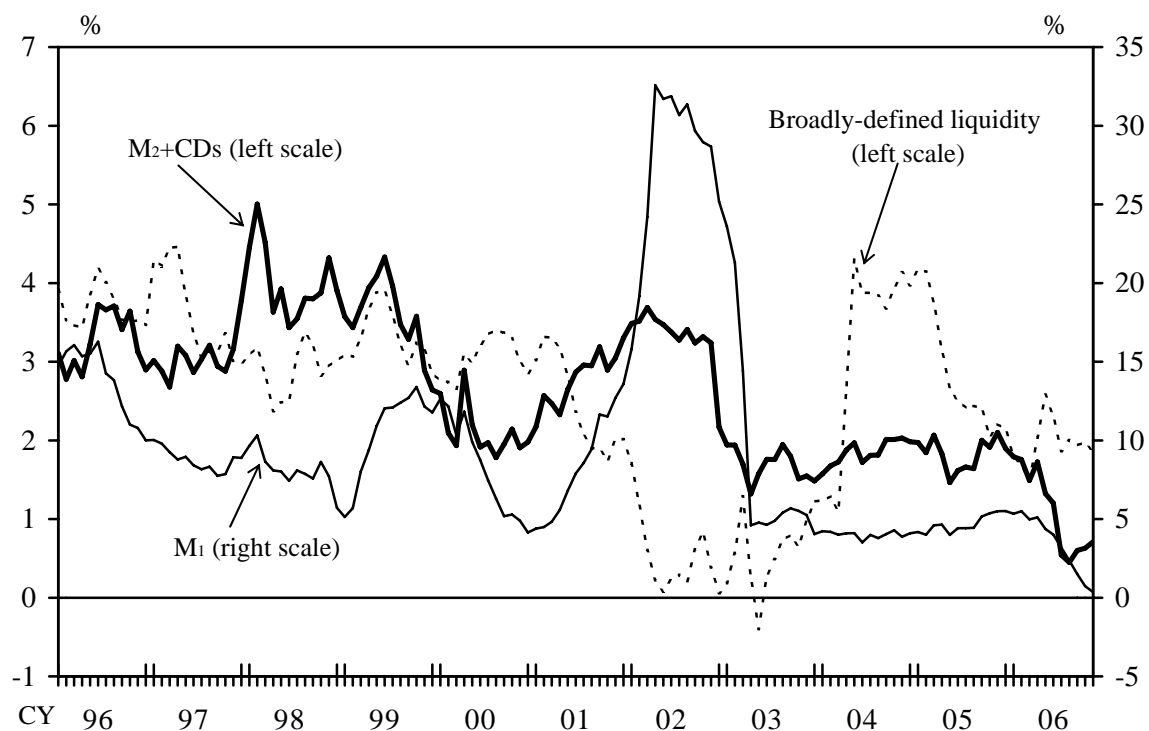


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

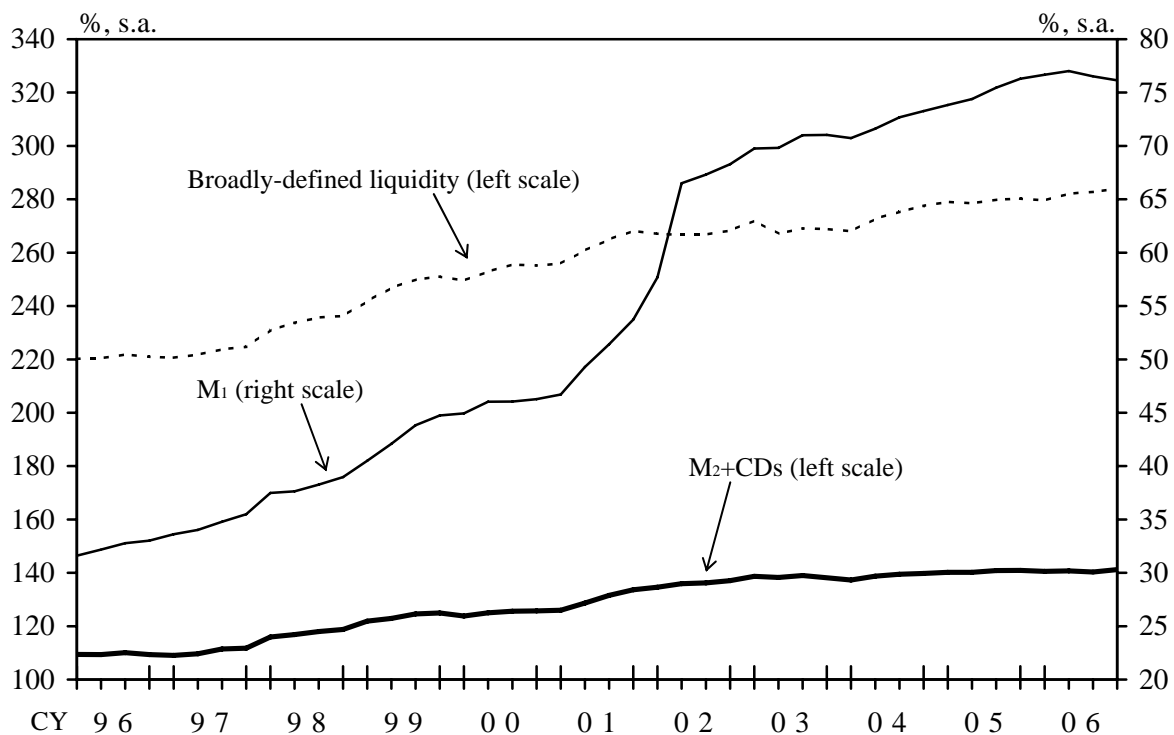
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

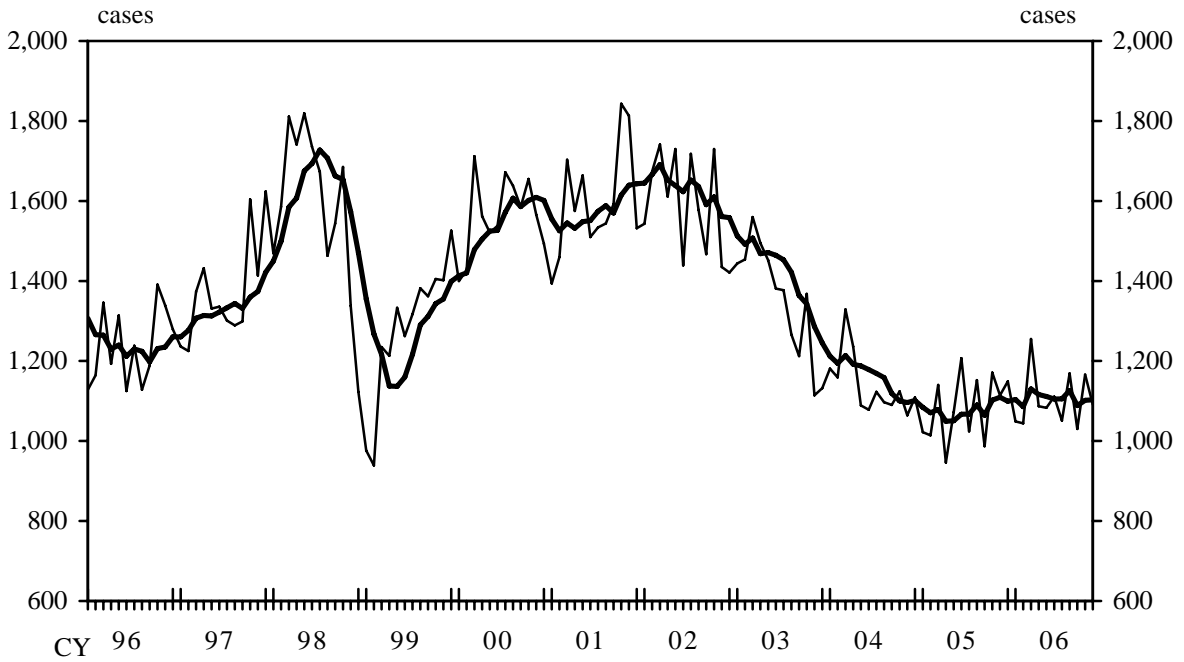


Note: Figures for money stock in 2006/Q4 are those of Oct.-Nov. averages, and the nominal GDP in 2006/Q4 is assumed to be unchanged from the previous quarter.

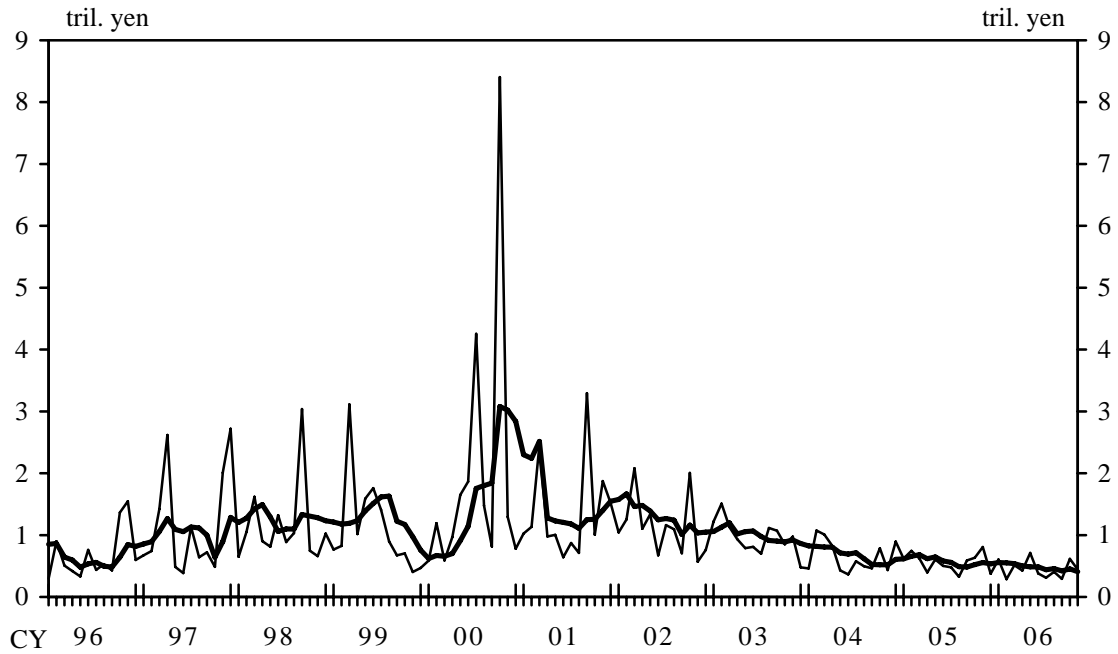
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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