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Bank of Japan

**Monthly Report of  
Recent Economic and Financial Developments**  
April 2007

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

April 2007

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

Japan's economy is expanding moderately.

Public investment has been declining as a trend, although it has recently increased slightly. Meanwhile, exports have continued to increase, and business fixed investment has also continued to increase against the background of high corporate profits and generally favorable business sentiment. Household income has continued rising moderately, and in this situation, private consumption has been firm. Housing investment has been increasing moderately with some fluctuations. With the rise in demand both at home and abroad, production has also been on an increasing trend.

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 somewhat lower than their levels of three months earlier, due to past declines in international commodity prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been around zero percent, due to the drop in crude oil prices.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on April 9 and 10, 2007.

<sup>2</sup> The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on April 9 and 10, 2007.

Domestic corporate goods prices are expected to level off in the immediate future, as the decline in international commodity prices has come to a halt. The year-on-year rate of change in consumer prices is expected to be around zero percent in the short run, with the effects of the drop in crude oil prices remaining. From a longer-term perspective, however, it 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 around 1.0 percent. As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.5 percent, and interest rates on term instruments have been around the same level as last month. In the foreign exchange and capital markets, long-term interest rates and stock prices have risen compared with last month, while the yen's exchange rate against the U.S. dollar has fallen compared with last month.

## The Background

### 1. Economic Developments

Public investment has been declining as a trend, although it has recently increased slightly (Chart 4). The value of public works contracted—a measure that reflects public orders—rose slightly in the second half of last year, but fell back again in January-February. The amount of public construction completed—which reflects the progress of public works—has inched up of late, partly in reaction to the sharp decline in the first half of fiscal 2006. Public investment is expected to continue declining as a trend due to tight national and local fiscal conditions, even though it will be essentially flat for the time being.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6); they continued to advance, by 2.7 percent, in January-February compared with the fourth quarter, following a quarter-on-quarter increase of 2.8 percent in the third quarter and 0.9 percent in the fourth quarter.<sup>3</sup>

As for real exports by destination (Chart 6[1]), exports to the United States, which had been on an uptrend to date, have weakened somewhat recently affected by the economic slowdown.<sup>4</sup> Exports to the EU have continued their solid increases. Exports to East Asia have also been rising solidly as a whole; exports of IT-related goods showed relatively high growth, mainly to China, and those of capital goods and parts and of intermediate goods were also trending upward (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 have continued to increase, albeit with some fluctuations, thanks to favorable demand from many parts of the world (Chart 7[2]). Exports of consumer

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<sup>3</sup> The seasonally-adjusted figures have been retroactively revised (this time, the revision applies only to the total values) after incorporating the regular annual revision for the 2006 data in the original *Trade Statistics*.

<sup>4</sup> In January-February, the decline was noticeable for automobile-related goods compared with the fourth quarter. With sales in the United States decelerating slightly, inventories of automobiles have recently risen to a somewhat high level, and exports appear to have been restrained to trim inventories.

goods have recently been relatively weak, chiefly to Europe, but, with these fluctuations smoothed out, they have been trending upward, mainly in digital home appliances. Those of automobile-related goods continued to increase steadily as a whole; while exports to the United States have been somewhat weak lately, those to Europe and other regions have continued their solid increases (Chart 7[1]). Exports of IT-related goods have turned up again since the third quarter in response to growing global demand; those to China have recently exhibited particularly high growth (Charts 8[1] and 9[2]).<sup>5</sup> Meanwhile, exports of intermediate goods have been on a gradual uptrend, mainly in high valued-added goods used for IT-related goods and automobiles (Chart 7[3]).

Real imports have followed an uptrend, albeit gradually, along with the expansion of the domestic economy (Charts 5[1] and 11). Real imports rose, by 1.9 percent, in January-February compared with the fourth quarter when they were more or less flat, with a quarter-on-quarter decline of 0.5 percent. The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued to increase. Those of consumer goods have been on a moderate uptrend, with some fluctuations. Meanwhile, imports of IT-related goods have been rising as a trend, although they have been relatively weak lately, affected by the deterioration in the domestic shipment-inventory balance. Imports of raw materials and intermediate goods have continued to be weak, since firms have cut back on imports of raw materials in response to past increases in import prices.

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]). The surplus of the nominal balance on goods and services—which had been narrowing as a result of higher import prices of raw materials—has also expanded since autumn last year from the drop in crude oil prices.

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<sup>5</sup> The large increase in exports of IT-related goods to China from the fourth quarter onward is possibly attributable to exports of parts and components used for new game consoles, the assembly of which had started in China (Chart 9[2]). In fact, import data showed that, in response to this rise in exports of parts and components, imports of finished game consoles from China have increased lately. Imports of game consoles fall outside the categorization by goods shown in Chart 11(2).

Exports are expected to continue to rise as overseas economies overall continue to expand (Chart 10[2]). As for the environment surrounding exports, in the United States, housing investment has continued to drop sharply—due mainly to the lagged effects of increases in interest rates until the middle of last year—and uncertainty has been increasing somewhat of late. Nevertheless, with private consumption remaining firm, the economy is most likely to manage a gradual soft landing. 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 on the whole. Economic expansion is also expected to continue in the EU and other regions. Regarding the environment surrounding exports of IT-related goods, global demand for products such as digital home appliances has continued to be favorable, and global semiconductor shipments have also continued to advance as a trend, albeit with fluctuations (Chart 8[2]).<sup>6</sup> 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. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—have been moving up as a trend, though some fluctuations have been observed (Chart 12[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, but they rose by 2.0 percent in the fourth quarter on a quarter-on-quarter basis, followed by an increase of 4.7 percent in January compared with the fourth quarter. With these fluctuations smoothed out, orders continued to be on an uptrend,

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<sup>6</sup> Global semiconductor shipments marked a relatively sharp decline in February, particularly to Asia. This decline, however, seems to be largely attributable to the drop in market prices rather than that in the quantity. Also, attention should be paid to the fact that data of shipments to Asia during this period tend to fluctuate, since the timing of the Lunar New Year varies each year.

although the pace has decelerated somewhat from a while ago (Chart 13[1]).<sup>7</sup> Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have been flat at high levels (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. In the March *Tankan* (Chart 14), current profits for fiscal 2006 were revised upward from the December survey; they are projected to increase for the fifth consecutive year. Profits are expected to remain overall at a high level also in fiscal 2007. In these circumstances, business sentiment in the March *Tankan* has remained generally favorable, despite some cautiousness (Chart 15).

Business fixed investment is projected to continue increasing, since the expansion in domestic and external demand and the high levels of corporate profits are likely to be maintained. According to the March *Tankan* (Chart 16), the business fixed investment plan of large firms for fiscal 2007 as a whole showed a growth rate comparable to the initial plan for fiscal 2006, when investments are likely to have resulted in a relatively high growth rate. While the plan of the manufacturing sector was slightly lower compared to the initial plan for fiscal 2006, it was somewhat stronger in the nonmanufacturing sector. Meanwhile, the plan of small firms for fiscal 2007 showed negative growth on a year-on-year basis as is usually the case with the initial plan. Overall, however, they have set out with figures close to the initial plan for fiscal 2006 which is projected to turn to register steady growth.<sup>8</sup>

Private consumption has been firm. Looking at individual indicators on consumption (Charts 17 and 18), sales at department stores and supermarkets were relatively weak in the fourth quarter, weighed down by sluggish sales of winter apparel due to the unseasonably warm winter. However, they showed considerable improvements in January-February, since start-of-the-year and clearance sales were favorable and because the warm winter spurred sales of spring apparel. Sales at

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<sup>7</sup> Forecasts for the first quarter—for private demand, excluding shipbuilding and orders from electric power companies—show that orders are projected to rise by 2.2 percent on a quarter-on-quarter basis.

<sup>8</sup> The plan of the nonmanufacturing sector is considered to be relatively weak, given that the plan for fiscal 2006 was hardly revised upward this time and is likely to end up with around zero percent growth on a year-on-year basis.



convenience stores, which had been essentially flat on average, have been rising lately, especially in food and beverages, assisted by the warm winter. As for sales of household electrical appliances, sales of digital home appliances such as flat panel TVs and digital cameras have continued to advance, and also those of cellular phones and game consoles have increased, aided by the introduction of new products. Sales of personal computers had been relatively weak, since consumers held off purchases of new computers prior to the introduction of a new operating system, but they seemed to have recently improved to some extent. Meanwhile, the number of new passenger-car registrations, excluding mini-vehicles, has remained on a downtrend, chiefly in small-sized passenger cars. In contrast, mini-vehicles have been on an increasing trend, supported by their high cost-performance. As for services consumption, sales in the food service industry have continued to trend upward. Outlays for travel have also been firm on average, mainly in overseas travel.

The *Indices of Aggregated Sales* (in real terms), which are comprised of major sales indicators of goods and services mentioned above,<sup>9</sup> were more or less flat in the fourth quarter, but then advanced considerably in January-February as a whole compared with the fourth quarter, since most of the sales indicators had been favorable (Chart 19[1]). On the other hand, the aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—has rebounded since last autumn, due mainly to buoyant sales of household electrical appliances; it has been on a moderate uptrend on average (Chart 19[2]). Meanwhile, according to the *Family Income and Expenditure Survey*—which captures private consumption from the demand side—the index of living expenditure level (two-or-more-person households, in real terms) showed a sizeable decline in the third quarter, caused particularly by sample factors, but it bounced back considerably in the fourth quarter, and rose marginally in January-February compared with the fourth quarter (Chart 17[1]). The total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms), which covers more households than

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<sup>9</sup> The *Indices of Aggregated Sales* are the weighted average of each sales indicator. Outlays for travel in February 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 February were at the same level as those for January.

the *Family Income and Expenditure Survey* does, was relatively stable; it has been on a gradual uptrend since around the end of 2004 (Chart 17[1]).<sup>10</sup>

Indicators for consumer sentiment overall have been at favorable levels, with some variations depending on the indicators (Chart 20).

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

As for housing investment, housing starts have been increasing moderately with some fluctuations (Chart 21[1]). In detail, starts of owner-occupied housing have been mostly flat. Starts of housing for rent have recently declined, but they continued to be on an increasing trend. Starts of housing for sale have been more or less flat lately, with fluctuations caused by the ups and downs in 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 emerging consensus that land prices have bottomed.

Industrial production has been on an increasing trend against the background of the growth in domestic and external demand. Production dropped, by 0.9 percent, in January-February compared with the fourth quarter, largely in reaction to the high growth of 2.6 percent in the fourth quarter on a quarter-on-quarter basis (Chart 22).<sup>11</sup> As for production in January-February by industry, production of transport equipment showed a sizeable decline in reaction to the large increase in the fourth quarter, but, as a trend, it has been increasing due to favorable exports. Production of electronic parts and devices—which rose in the third and fourth quarters—dropped marginally in January-February compared with the fourth quarter, due partly to the high level of domestic inventories. Production of general machinery was almost flat in January-February compared with the fourth quarter, when it exhibited high growth; it

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<sup>10</sup> In the *Family Income and Expenditure Survey*, the number of samples is about 8,000 households, while that of the *Survey of Household Economy* is about 30,000.

<sup>11</sup> Production appears to have dropped marginally throughout the first quarter. Based on the production forecast index, production in the first quarter is calculated to decline by 0.5 percent compared with the fourth quarter.

has been on an uptrend on average with firms having substantial unfilled orders on hand. Meanwhile, production of iron and steel had retained momentum in January-February, aided by steady demand at home and abroad.

Shipments have been on an uptrend, although they have recently been somewhat sluggish. By goods (Chart 23), shipments of producer goods have been on an uptrend overall, assisted partly by favorable shipments of materials (such as iron and steel). Shipments of electronic parts and devices, however, have fallen of late, particularly in producer goods used for cellular phones. Shipments of capital goods have also 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 moved upward, chiefly in automobiles for exports and digital home appliances. Shipments of cellular phones and game consoles have also risen lately.

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 24) 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, shipments of producer goods, excluding electronic parts and devices (such as iron and steel) rose persistently, while inventories continued to decline. Moreover, the shipment-inventory balance of transport equipment (automobiles), which deteriorated at the end of last year, has improved in response to the reduction of inventories waiting to be shipped overseas and to production cutbacks aimed at trimming inventories. On the other hand, in electronic parts and devices, the year-on-year rate of increase in inventories has continued to clearly exceed that in shipments. Inventories still remain elevated; they have been partly affected by the build-ups of new products and by the increase in production capacity with new production lines having come into operation. Nevertheless, while global IT-related demand remains solid overall, as mentioned above, adjustments have started to take place, albeit gradually, in domestic cellular phones and game consoles, which seem to

have triggered the rise in inventories.<sup>12</sup> Under these circumstances, it is unlikely that the recent adjustments in electronic parts and devices will become widespread. Nonetheless, because the pace of increase in the supply capacity tends to be quite rapid for this sector and because market prices have been softening lately, future developments, including those in global supply-demand conditions, 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 also suggests that production in the second quarter is projected to turn up, after having dropped marginally in the first quarter.<sup>13</sup>

As for the employment and income situations, household income has continued rising moderately, supported by the increase in the number of employees, since various indicators for labor market conditions have continued their tightening trend (Chart 25[1]).

In the labor market, overtime hours worked have continued to increase gradually as a trend, although they have recently somewhat eased off, mainly due to a temporary drop in production (Chart 27[3]). The ratio of job offers to applicants has been basically flat, at a high level above 1.00, of late.<sup>14</sup> The unemployment rate followed a gradual downtrend, with monthly fluctuations (Chart 26). Meanwhile, the employment conditions DI in the *Tankan* shows that firms as a whole are facing a

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<sup>12</sup> The DI of inventory level of finished goods and merchandise (diffusion index of “excessive or somewhat excessive” minus “insufficient or somewhat insufficient”) of the electrical machinery sector (all enterprises) in the March *Tankan* remained unchanged from the December *Tankan*, although its level still continues to be relatively high (+22 both in December and March).

<sup>13</sup> The production forecast index of April—for which allowances ought to be made for the fact that the information is based on a single month alone—is calculated to increase by 2.2 percent compared with the first quarter.

<sup>14</sup> The growth in job offers has slowed since last autumn, and it has been declining recently. This, however, seems to be due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring the overstatement in the number of job offers. The perception of firms of a further increase in labor shortage is considered to remain unchanged, as indicated in the March *Tankan*.

greater labor shortage; it also indicates that this shortage will extend on into the future (Chart 28).

In terms of employment (Chart 27[1]), the number of employees in the *Labour Force Survey*—which tends to show relatively large monthly fluctuations—has recently been showing, on average, a solid increase of about 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 pace from more active hiring, and is recently marking an increase of around 1.5 percent on a year-on-year basis.

Nominal wages per employee have been on a gradual uptrend, although they have recently been somewhat lackluster (Chart 25[2]). Regular payments have been somewhat weak lately, since firms have persisted in labor cost restraints; they may have been held down further by the retirement of the baby-boom generation whose wage levels are relatively high.<sup>15</sup> In contrast, overtime payments have continued to trend up mildly, although the pace has recently decelerated slightly. Special payments have been increasing as a trend, supported by favorable corporate profits, but those of November-January registered -0.0 percent on a year-on-year basis, a slowdown from last summer (a year-on-year increase of 1.7 percent) and last winter (a year-on-year increase of 1.8 percent). They also have turned out to be considerably weak compared to various surveys previously released.<sup>16</sup>

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<sup>15</sup> With regard to the demographic composition in more detail, the retirement of the baby-boom generation may have started to increase in the second half of last year. Hence, the year-on-year increase in the number of those retiring may have been exerting downward pressure on the year-on-year rate of change in wages. At the same time, by industry, education and learning support—which comprises many local government employees—has contributed significantly to the weakness in overall wages.

<sup>16</sup> By industry, the manufacturing sector maintained its steady growth, with the rate of increase comparable to the 2005 winter and 2006 summer bonuses. In contrast, the growth in finance and insurance, which saw a sharp rise in the 2005 winter and 2006 summer bonuses, turned negative on a year-on-year basis in the winter of 2006, weighed down by the rise in stock prices coming to a halt and by the deterioration in the business climate surrounding non-deposit money corporations. Moreover, as observed in regular payments, the overall weakness was due in part to a further drop in education and learning support.

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 picked up slightly, after having fallen slightly toward the end of last year, in response to developments in international commodity prices and the foreign exchange market (Chart 30). Looking at recent developments in international commodity prices in more detail, crude oil prices dropped sharply toward the start of this year, but then bounced back mainly due to increasing concerns over geopolitical risks. Prices of nonferrous metals had been falling amid a high level toward the start of the year, mainly in copper, but they have recently rebounded.<sup>17</sup>

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>18</sup> have recently been somewhat lower than their levels of three months earlier, due to past declines in international commodity prices (Chart 31). In detail, prices of nonferrous metals have fallen along with the drop in international commodity prices. Those of petroleum products have also fallen, due to the drop in crude oil prices and the warm winter (both are categorized as “goods sensitive to exchange rates and overseas commodity prices” in the chart). On the other hand, prices of chemical products (categorized as “other materials” in the chart) have continued to register a small increase in light of the tightening of supply-demand conditions, although their pace of increase has been slowing in response to the drop in crude oil prices. Prices of iron and steel-related products and of construction-related products have continued to increase moderately across a wide range of items, as a result of high material costs and the tightening of

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<sup>17</sup> Meanwhile, domestic commodity prices have been moving at a high level, and they have recently been moving up again, as the tightening of supply-demand conditions continues.

<sup>18</sup> The figures are adjusted to exclude a large seasonal fluctuation in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when consumption increases substantially.

supply-demand conditions. Meanwhile, machinery prices have been declining marginally. By stages of demand, prices of raw materials have shifted downward, and those of intermediate goods have peaked, both from the drop in crude oil prices. Final goods prices have recently fallen marginally due to the decline in prices of petroleum products (such as gasoline and kerosene).

The year-on-year rate of decline in corporate services prices (excluding external factors, same hereafter) has narrowed moderately; it has recently been around zero percent (Chart 32).<sup>19</sup> The year-on-year changes in prices, excluding external factors, increased by 0.1 percent in January-February, after having marked 0.0 percent in December. As for recent developments by industry, prices of real estate services have been on an improving trend, and have recently turned somewhat positive, 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 marginally, and the year-on-year rate of decline in prices of leasing and rental has been narrowing moderately, with some fluctuations. Prices of other services have been bottoming on a year-on-year basis, aided by the rise in temporary employment agency services. Meanwhile, prices of advertising services have remained somewhat weak as a trend, since firms have continued to be cautious about increasing advertisement placements.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been around zero percent, due to the drop in crude oil prices (Chart 33). Looking at developments in the past few months in more detail, the year-on-year changes in prices of goods overall have recently posted a slight negative; although a range of items has followed a moderate improving trend, durable consumer goods have continued to fall, and petroleum products (such as gasoline) have ceased to give upward pressure. By contrast, the changes in services prices have been somewhat positive as a whole, due to the rise in prices of eating out and other services, although housing rents have dropped.

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<sup>19</sup> “Excluding external factors” means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

With regard to domestic supply and demand conditions in the March *Tankan* (Chart 34), 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 level off in the immediate future, as the decline in international commodity prices has come to a halt. The year-on-year rate of change in consumer prices is expected to be around zero percent in the short run, with the effects of the drop in crude oil prices remaining. From a longer-term perspective, however, it 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 published land prices) as of January (Chart 35), prices based on the national average and all land turned positive for the first time in 16 years (since 1991). In the three metropolitan areas, the rate of increase in commercial land prices expanded, and prices of residential land also turned upward.<sup>20</sup> On the other hand, land prices in the other areas continued to fall, although the rate of decline has narrowed, albeit mildly.

### **3. Financial Developments**

#### **(1) Financial Markets**

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 36[1]) has been at around 0.5 percent. Regarding interest rates on term instruments (Chart 37[1]), the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have been more or less flat. Under these

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<sup>20</sup> Land purchasing expenses for fiscal 2006 (all firms and industries) in the March *Tankan* have been revised further upward from the December *Tankan*; they are projected to be up by 12.1 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 March survey last year had shown a decrease of 5.8 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.



circumstances, interest rates on Euroyen futures have risen, mainly in distant contracts (Chart 37[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 36 [2]) have increased, mainly due to the rise in U.S. interest rates. They have recently been moving in the range of 1.65-1.70 percent.

Yield spreads between corporate bonds and government bonds (Chart 39) have been more or less flat on the whole.

Stock prices (Chart 40) have fluctuated, mainly in view of U.S. stock prices. They later rose, mainly reflecting the depreciation of the yen against the U.S. dollar. The Nikkei 225 Stock Average is moving in the range of 17,500-18,000 yen.

In the foreign exchange market (Chart 41), the yen has fallen, mainly in response to some U.S. economic indicators. The yen is being traded in the range of 118-120 yen to the U.S. dollar.

## **(2) Corporate Finance and Monetary Aggregates**

Credit demand in the private sector has been increasing, since firms' operating funds and outlays for business fixed investment continue to increase, while the economy is expanding moderately.

Regarding credit supply, the lending 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 42).

Lending rates have been at extremely low levels on the whole. With the monthly fluctuations smoothed out, the average contracted interest rates on new loans and discounts have risen moderately for short-term rates, while they have been more or less flat for long-term rates (Chart 43). The long-term prime lending rate was raised by 0.05 percent to 2.25 percent on April 10.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors<sup>21</sup>) has continued to increase. (The year-on-year change was 2.8 percent in December, 2.8 percent in January, and 2.4 percent in February; Chart 44.)

In the corporate bond and CP markets, the issuing environment continues to be favorable. Corporate bond issuance rates have been basically around the same levels as last month. Issuance spreads have also been around last month's levels, and continue to be low. CP issuance rates have risen compared with last month. The amount outstanding of CP and corporate bonds issued is slightly below the previous year's level. (The year-on-year change was -3.3 percent in December, -1.9 percent in January, and -1.3 percent in February; Chart 45.)

According to business surveys, the financial positions of firms have continued to be favorable (Chart 42).

The year-on-year rate of change in the money stock ( $M_2 + \text{CDs}$ ) is around 1.0 percent. (The year-on-year change was 0.8 percent in December, 1.0 percent in January, and 1.1 percent in February; Chart 46.)

The number of corporate bankruptcies increased by 5.6 percent year-on-year in February, to 1,102 cases (Chart 47).

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<sup>21</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

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## Main Economic Indicators (1)

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

	2006/Q3	Q4	2007/Q1	2006/Dec.	2007/Jan.	Feb.	Mar.
Index of living expenditure level (two-or-more-person households)	-2.3	2.7	n.a.	-0.7	0.9	0.2	n.a.
Sales at department stores	0.9	-1.1	n.a.	-3.5	5.0	p 0.2	n.a.
Sales at supermarkets	0.4	-2.0	n.a.	-2.1	2.2	p -0.8	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 308>	< 304>	< 291>	< 303>	< 288>	< 300>	< 286>
Sales of household electrical appliances (real, Current Survey of Commerce)	1.6	3.0	n.a.	2.2	3.4	p 1.9	n.a.
Outlays for travel (50 major travel agencies)	-1.9	1.3	n.a.	-5.9	5.1	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 127>	< 131>	<n.a.>	< 130>	< 125>	< 120>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	-11.1	2.0	n.a.	-0.7	3.9	n.a.	n.a.
Manufacturing	-2.9	-3.5	n.a.	0.1	4.8	n.a.	n.a.
Nonmanufacturing <sup>4</sup>	-17.9	6.9	n.a.	-5.5	2.2	n.a.	n.a.
Construction Starts (private, nondwelling use)	-1.7	0.9	n.a.	5.2	-6.7	2.2	n.a.
Mining & manufacturing	13.6	-15.1	n.a.	8.4	-10.1	1.8	n.a.
Nonmanufacturing <sup>5</sup>	-8.5	6.2	n.a.	3.3	-3.0	0.8	n.a.
Value of public works contracted	0.4	4.3	n.a.	6.2	-10.0	0.2	n.a.
Real exports	2.8	0.9	n.a.	-0.8	3.5	-1.6	n.a.
Real imports	0.6	-0.5	n.a.	2.8	-2.7	7.6	n.a.
Industrial production	1.0	2.6	n.a.	0.9	-1.7	p -0.2	n.a.
Shipments	0.7	1.6	n.a.	-0.4	-0.2	p -1.4	n.a.
Inventories	1.0	3.6	n.a.	1.2	-1.0	p -0.4	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	<99.9>	<101.2>	<n.a.>	<101.2>	<98.2>	<p 100.5>	<n.a.>
Real GDP	0.1	1.3	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.3	1.1	n.a.	-0.2	0.7	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2006/Q2	Q3	Q4	2006/Nov.	Dec.	2007/Jan.	Feb.
Ratio of job offers to applicants <s.a., times>	<1.06>	<1.08>	<1.07>	<1.07>	<1.07>	<1.06>	<1.05>
Unemployment rate <s.a., %>	<4.1>	<4.1>	<4.0>	<4.0>	<4.0>	<4.0>	<4.0>
Overtime working hours <sup>6</sup>	2.9	3.0	2.5	3.8	0.9	1.0	p 1.9
Number of employees	1.5	1.2	1.1	1.5	1.0	0.9	1.1
Number of regular employees <sup>6</sup>	1.0	1.3	1.4	1.3	1.4	1.6	p 1.6
Nominal wages per person <sup>6</sup>	0.6	0.1	0.0	0.2	-0.1	-1.2	p -0.7
Domestic corporate goods price index <sup>7</sup> <q/q % chg., 3-month rate of change>	3.1	3.5	2.6	2.7	2.5	2.2	p 1.8
	<1.1>	<1.0>	<0.0>	<0.0>	<-0.3>	<-0.3>	<p -0.2>
Consumer price index <sup>8</sup>	0.0	0.3	0.1	0.2	0.1	0.0	-0.1
Corporate service price index	-0.3	0.2	0.1	-0.1	0.2	0.6	p 0.4
Money Stock (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	1.4	0.5	0.7	0.7	0.8	1.0	p 1.1
Number of corporate bankruptcies <cases>	<1,094>	<1,083>	<1,122>	<1,091>	<1,109>	<1,091>	<1,102>

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

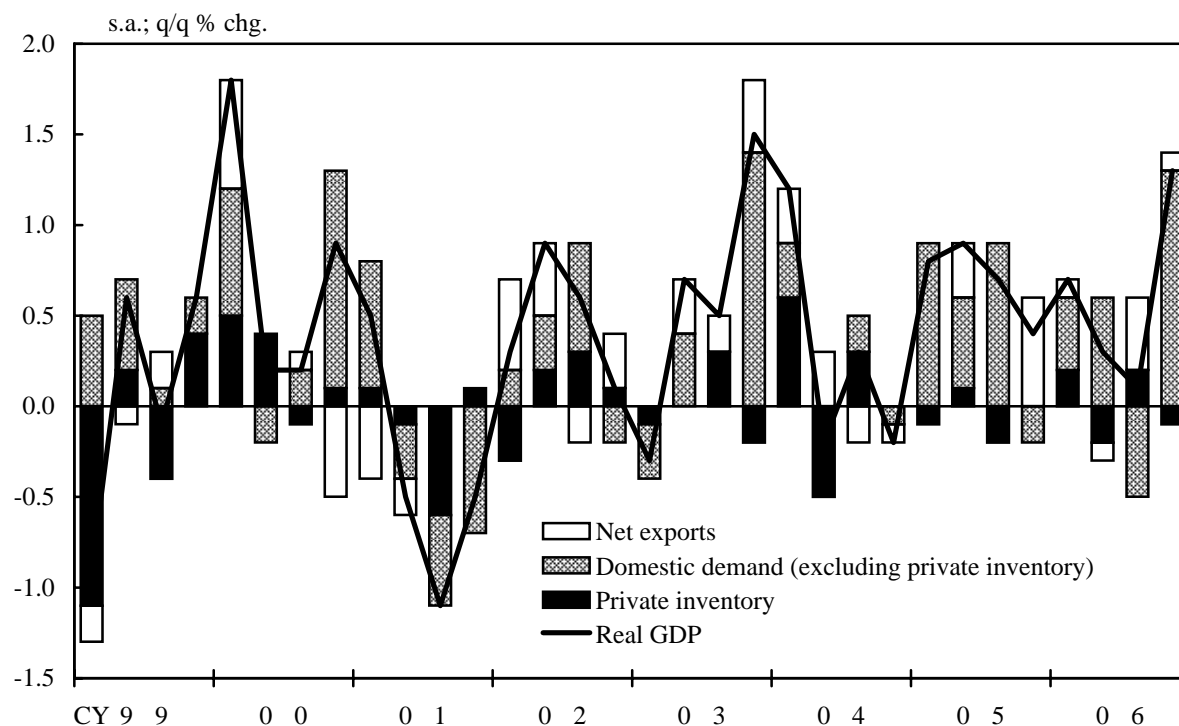
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

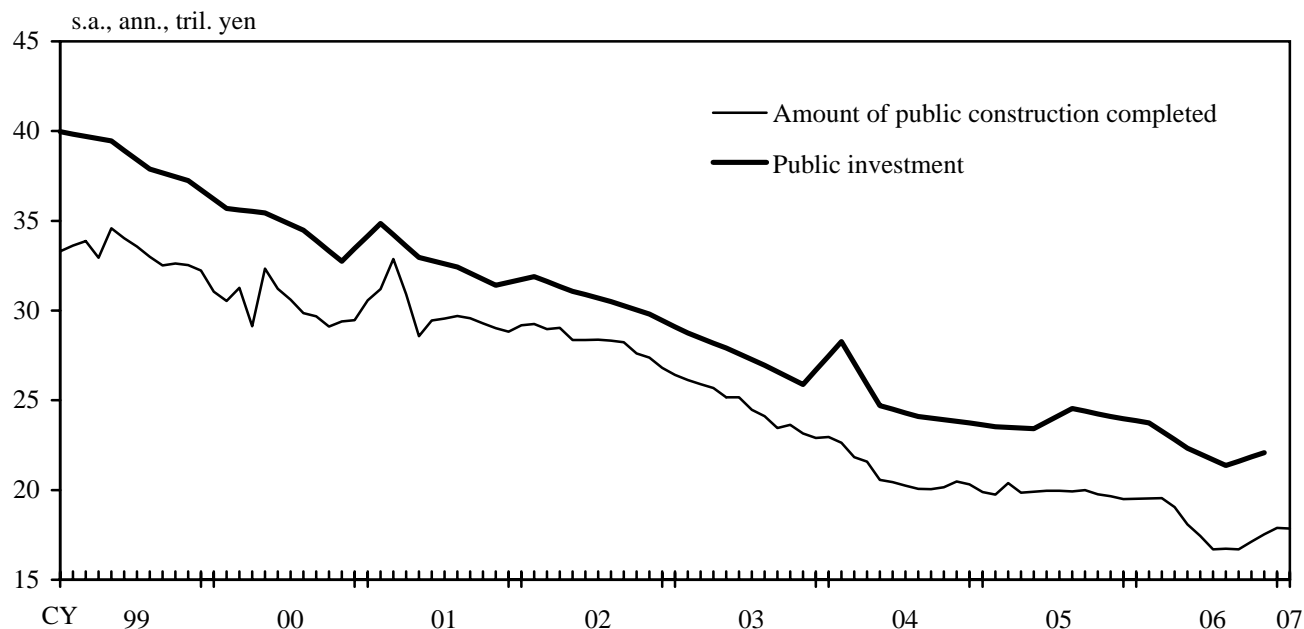
	2005	2006			
	Q4	Q1	Q2	Q3	Q4
Real GDP	0.4	0.7	0.3	0.1	1.3
Domestic demand	-0.2	0.6	0.4	-0.3	1.2
Private consumption	0.3	0.0	0.5	-1.1	1.0
Non-Resi. investment	-0.9	3.6	3.2	1.1	3.1
Residential investment	1.3	0.9	-2.1	-0.1	2.2
Private inventory	( 0.0)	( 0.2)	(-0.2)	( 0.2)	(-0.1)
Public demand	-1.3	-0.6	-0.7	-0.4	0.8
Public investment	-2.2	-1.9	-6.2	-4.8	3.7
Net exports of goods and services	( 0.6)	( 0.1)	(-0.1)	( 0.4)	( 0.1)
Exports	3.8	2.3	0.6	2.4	0.6
Imports	-0.2	2.0	1.4	-0.5	-0.2
Nominal GDP	0.2	0.4	0.2	-0.0	1.4

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

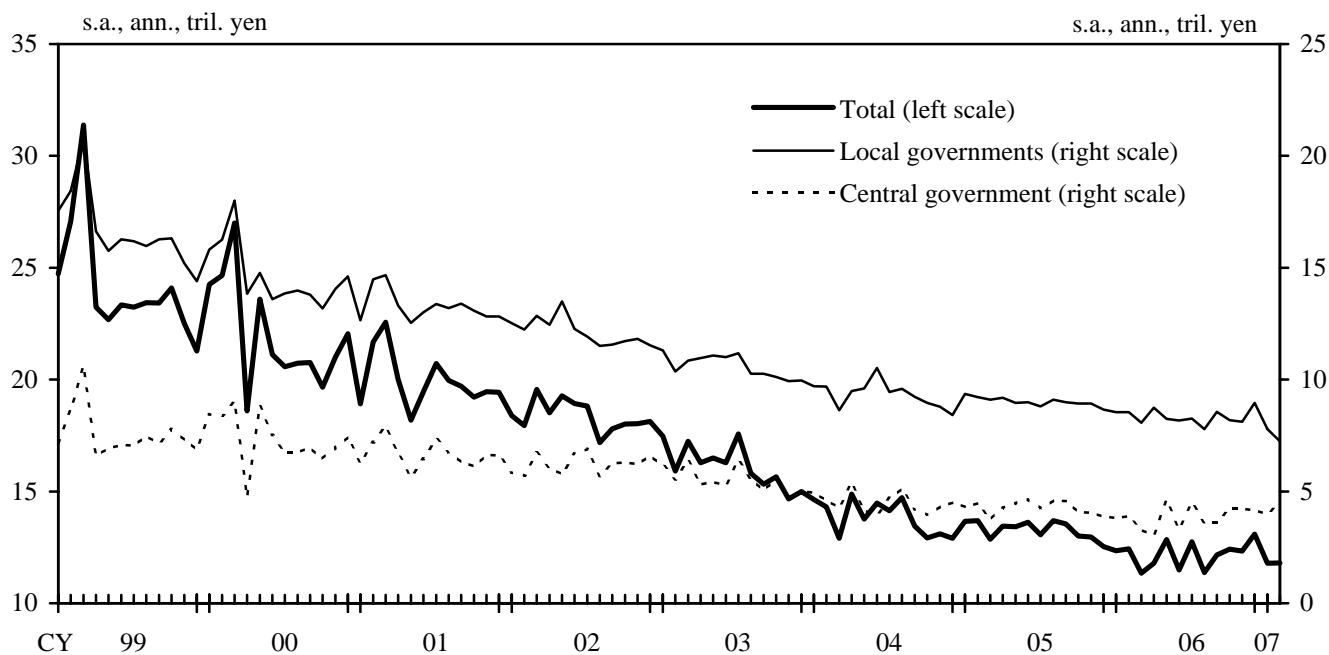
Source: Cabinet Office, "National Accounts."

## Public Investment

### (1) Amount of Public Construction Completed and Public Investment



### (2) Value of Public Works Contracted



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

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

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

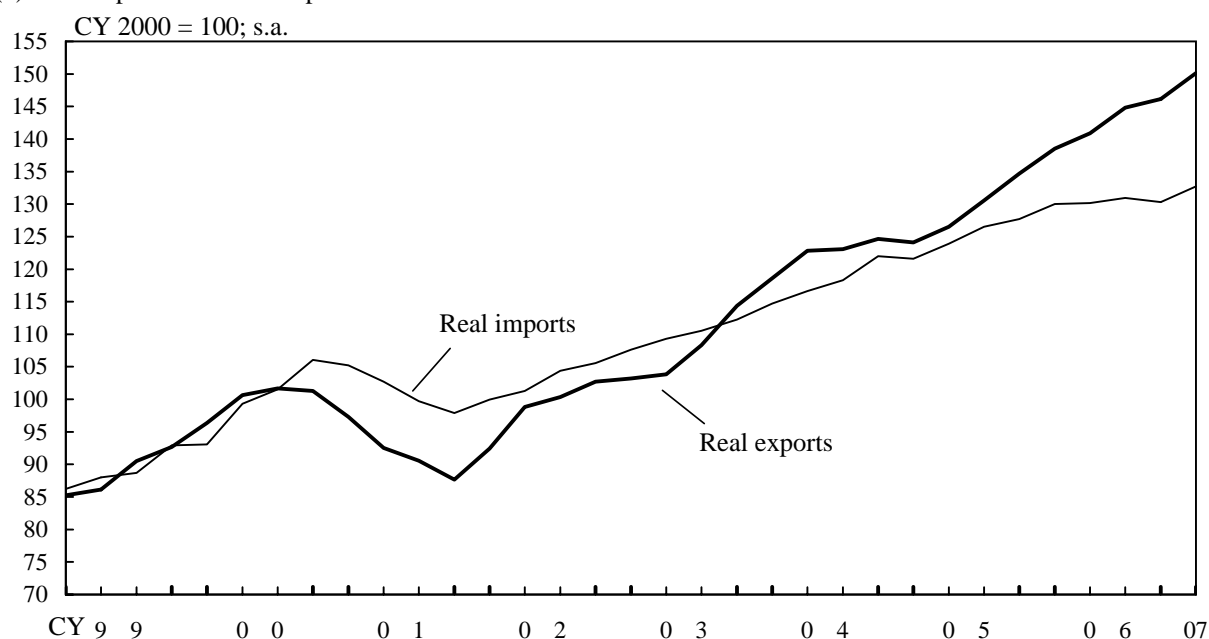
Sources: Cabinet Office, "National Accounts";

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

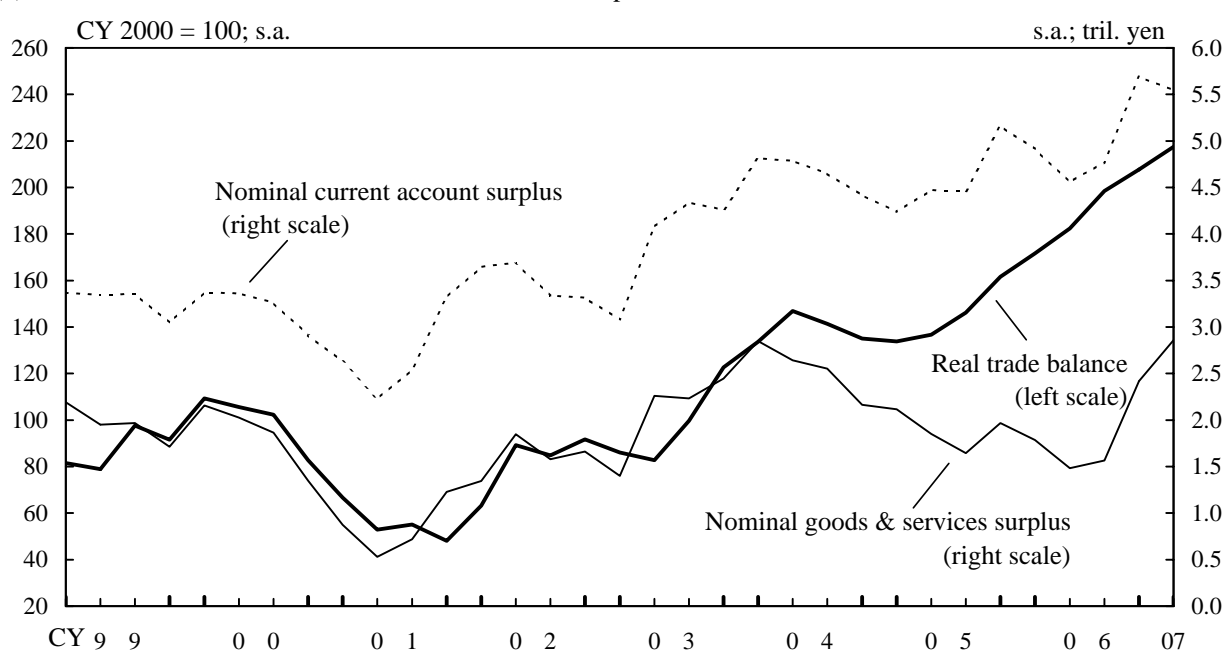
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

## External Balance

## (1) Real Exports and Real Imports



## (2) Real Trade Balance and Nominal Current Account Surplus



Notes: 1. Real trade balance is defined as real exports minus real imports, indexed with base year of 2000.

Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by the "Export and Import Price Index."

2. Figures are seasonally adjusted by X-12-ARIMA.

We have incorporated the regular annual revision for the 2006 data in the original Trade Statistics, and the seasonally-adjusted figures for total real exports/imports and the trade balance have been retroactively revised. Figures by region or goods category, however, have not been revised this time (this applies to Charts 6 to 9 and 11).

3. 2007/Q1 figures for Real exports/imports and the real trade balance are January-February averages converted into quarterly amount.

4. 2007/Q1 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are January 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."



Real Exports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006		2007			2006	2007	
				Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.
United States	<22.5>	7.3	10.3	3.4	1.8	3.2	-0.8	-2.7	-0.4	-3.9	4.2
EU	<14.5>	3.3	10.1	1.3	5.7	2.2	0.9	2.5	1.4	-1.9	4.7
East Asia	<45.7>	6.1	9.2	3.5	0.3	2.3	2.4	3.3	1.5	5.2	-6.5
China	<14.3>	9.6	20.1	4.7	2.9	3.0	8.6	3.8	-0.1	9.6	-13.9
NIEs	<23.2>	5.0	5.8	3.4	0.2	0.5	-0.7	3.0	1.2	5.1	-5.5
Korea	<7.8>	4.5	7.7	1.4	2.8	-3.0	1.3	4.4	4.5	0.7	0.8
Taiwan	<6.8>	4.4	3.7	9.5	-1.5	-0.2	-3.7	-1.1	-3.5	4.7	-8.2
ASEAN4 <sup>4</sup>	<8.1>	4.4	2.8	1.9	-3.6	6.4	0.7	3.2	5.2	-1.9	5.0
Thailand	<3.5>	10.0	5.2	2.1	-1.7	6.7	-0.1	0.6	8.8	-7.1	8.8
Others	<17.3>	11.5	19.5	7.7	0.9	5.3	1.2	4.0	-4.9	4.3	-0.3
Real exports		5.3	10.5	2.9	1.7	2.8	0.9	2.7	-0.8	3.5	-1.6

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006		2007			2006	2007	
				Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.
Intermediate goods	<17.9>	1.8	6.5	4.7	-2.0	0.7	0.2	2.0	-1.9	1.4	0.4
Motor vehicles and their related goods	<23.4>	8.2	13.6	5.4	1.7	1.9	4.2	1.8	-0.3	0.4	1.2
Consumer goods <sup>5</sup>	<5.0>	5.2	7.1	-2.3	4.9	3.2	0.7	-8.1	1.2	-5.9	-4.2
IT-related goods <sup>6</sup>	<11.5>	5.4	7.7	1.2	-1.1	2.8	6.4	7.5	0.4	6.6	-1.8
Capital goods and parts <sup>7</sup>	<29.4>	7.1	12.4	4.7	1.5	4.9	-2.2	2.4	0.6	3.9	-5.2
Real exports		5.3	10.5	2.9	1.7	2.8	0.9	2.7	-0.8	3.5	-1.6

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

2. 2007/Q1 figures are January-February averages converted into quarterly amount.

3. Shares of each region and goods in 2006 are shown in angle brackets.

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

5. Excludes motor vehicles.

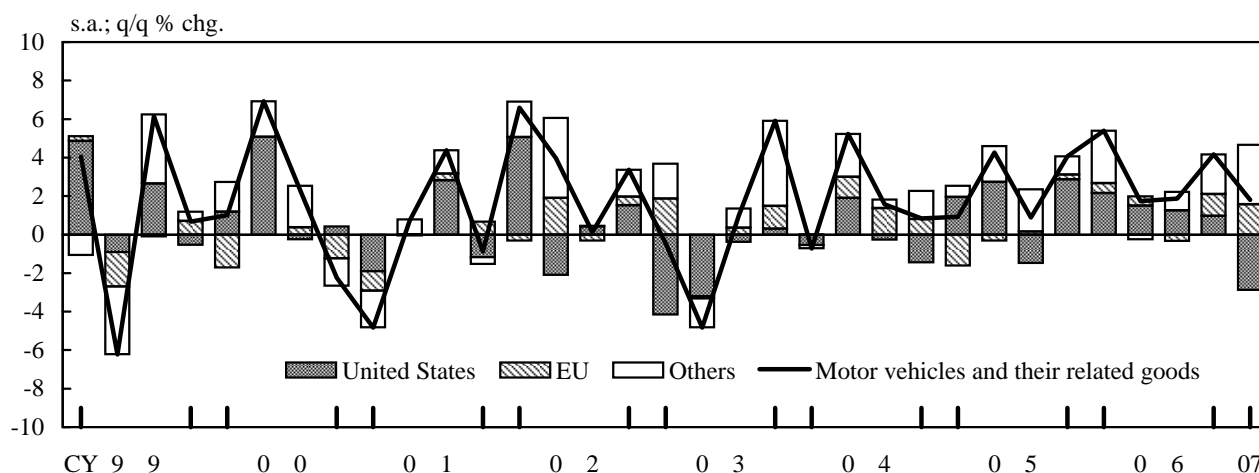
6. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

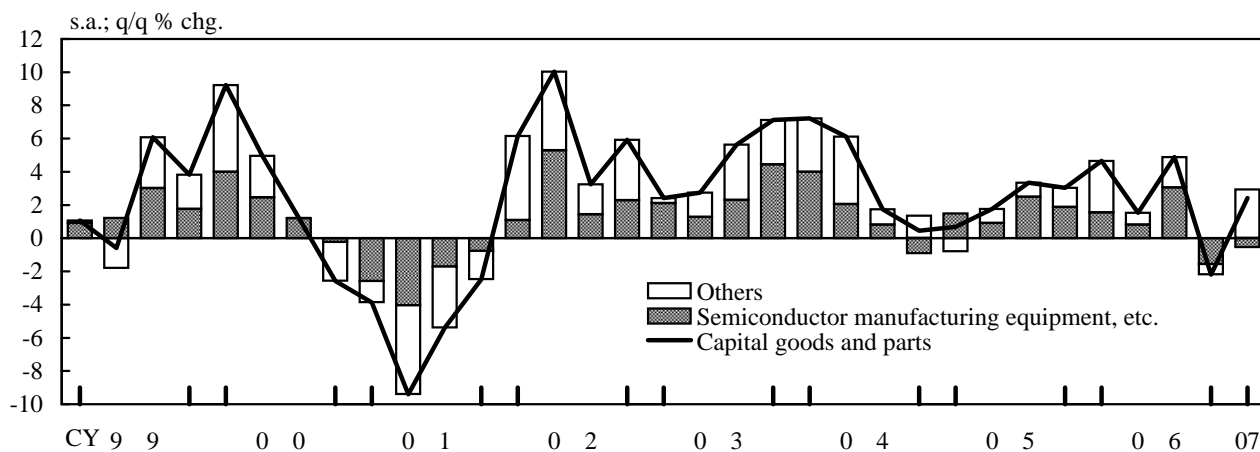
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

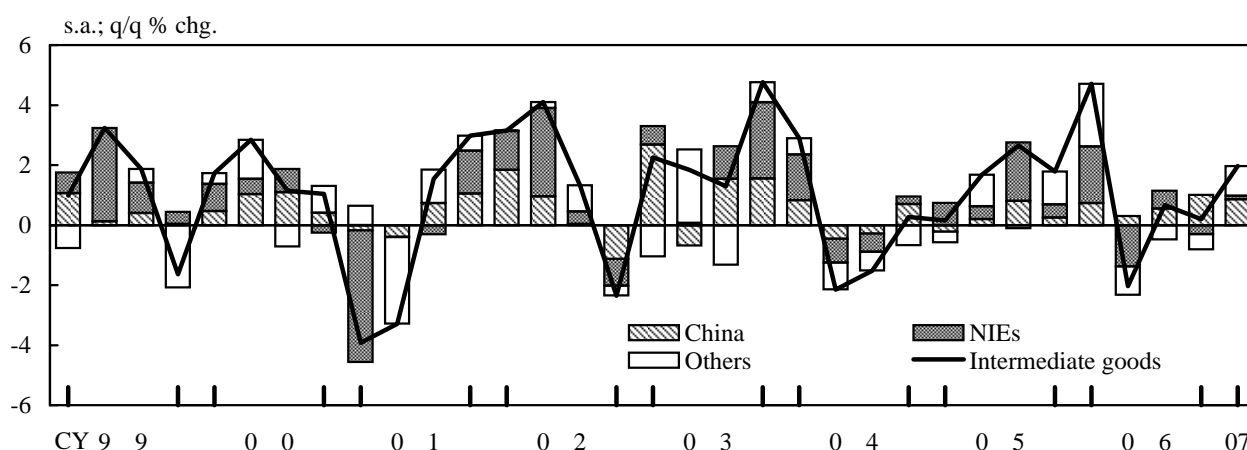
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



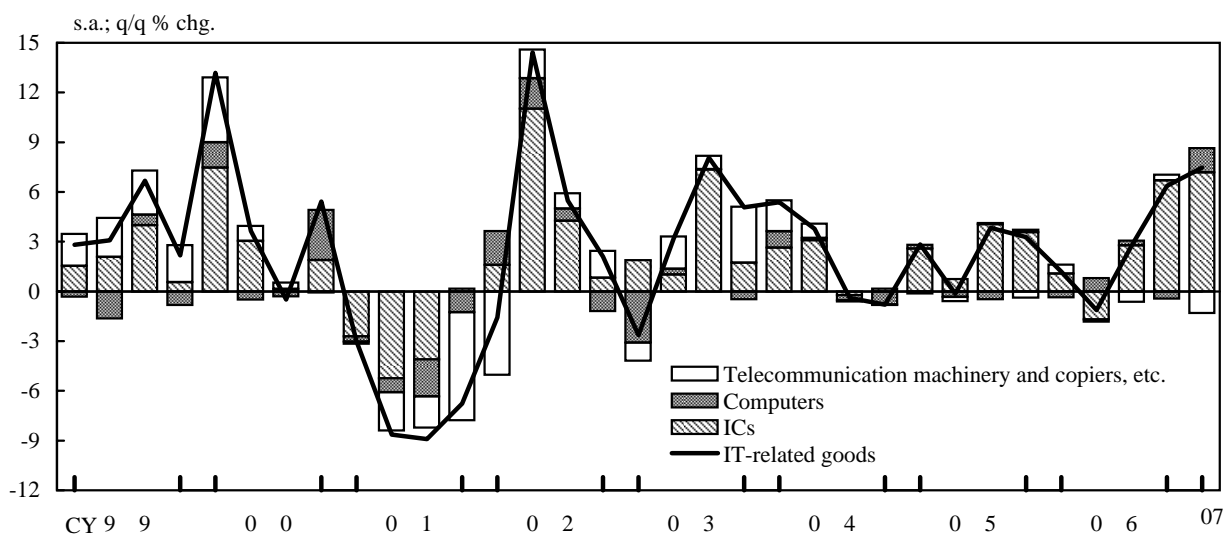
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q1 figures are January-February averages converted into quarterly amount.

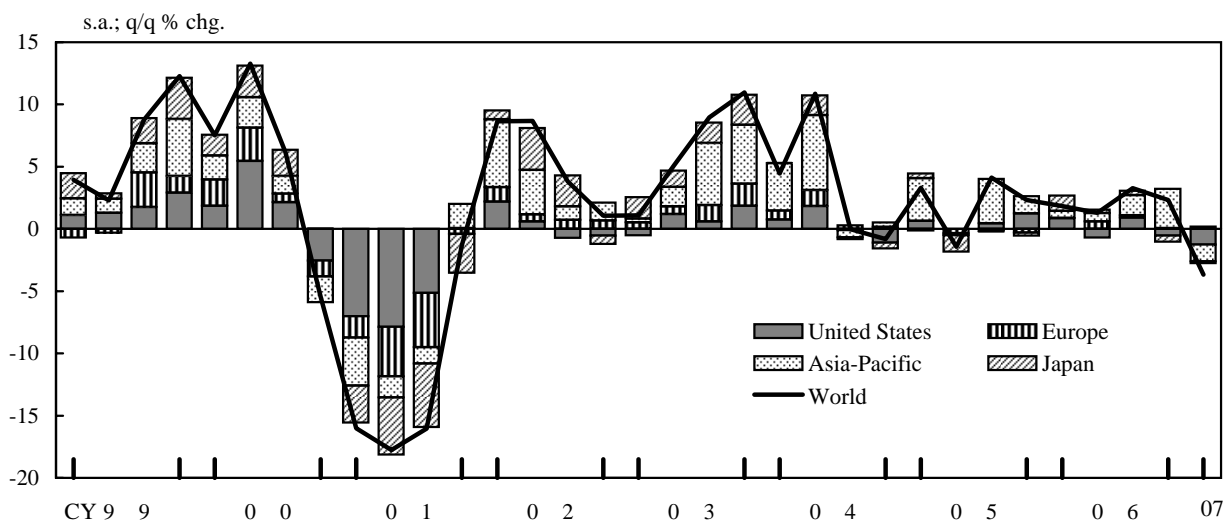
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Exports and Imports of IT-Related Goods

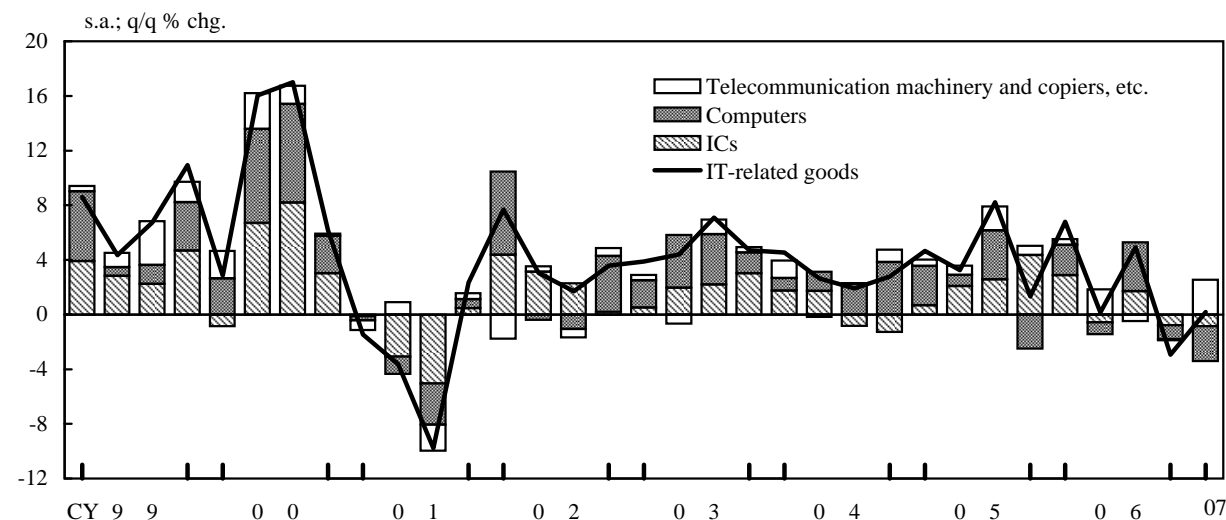
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

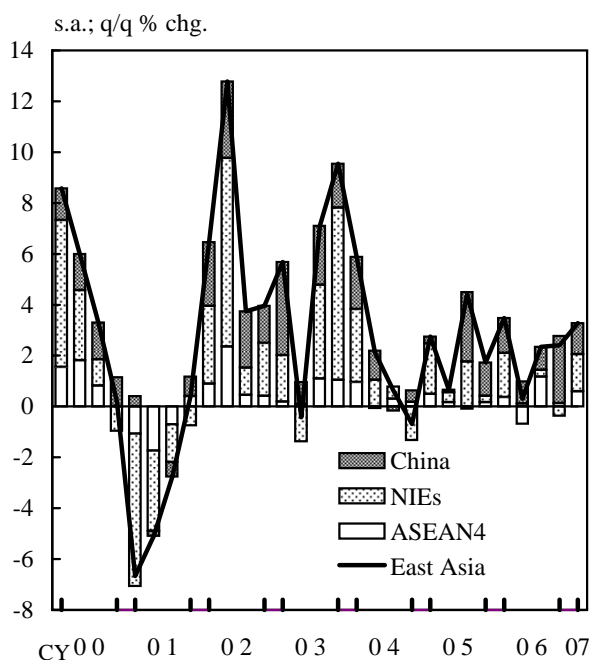
2. 2007/Q1 figures are January-February averages converted into quarterly amount.

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

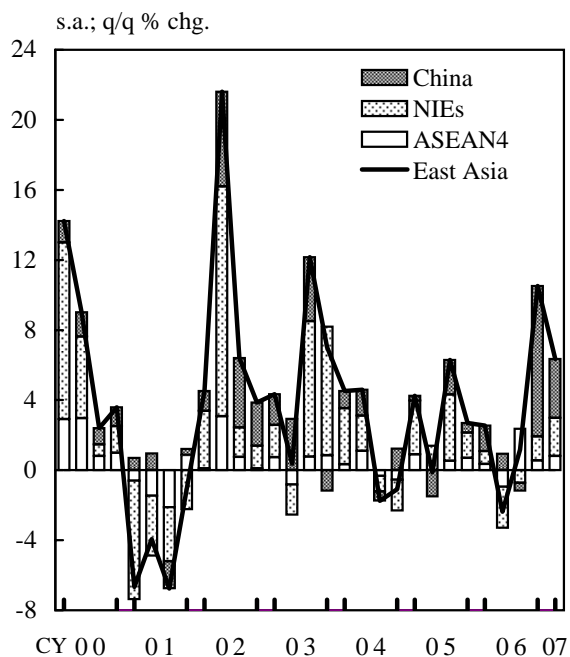
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

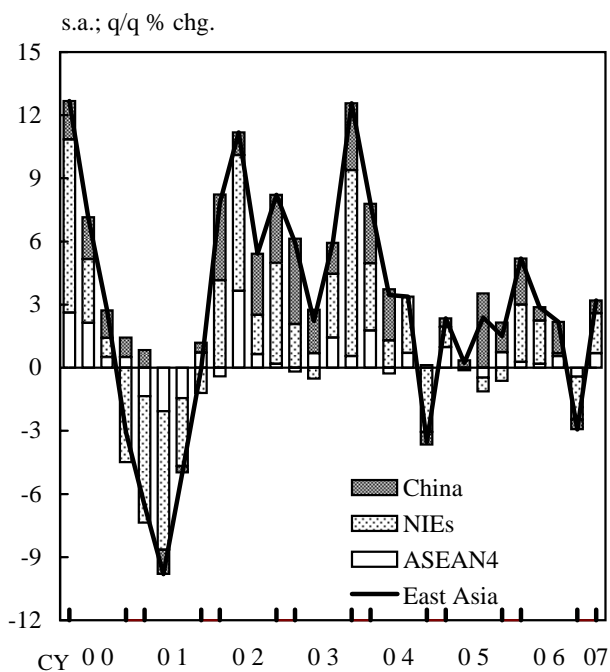
(1) All Goods (Real, Breakdown by Region)



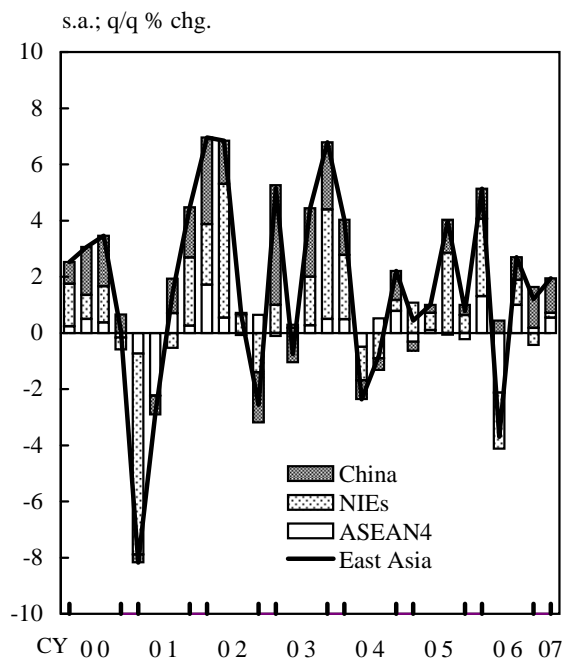
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



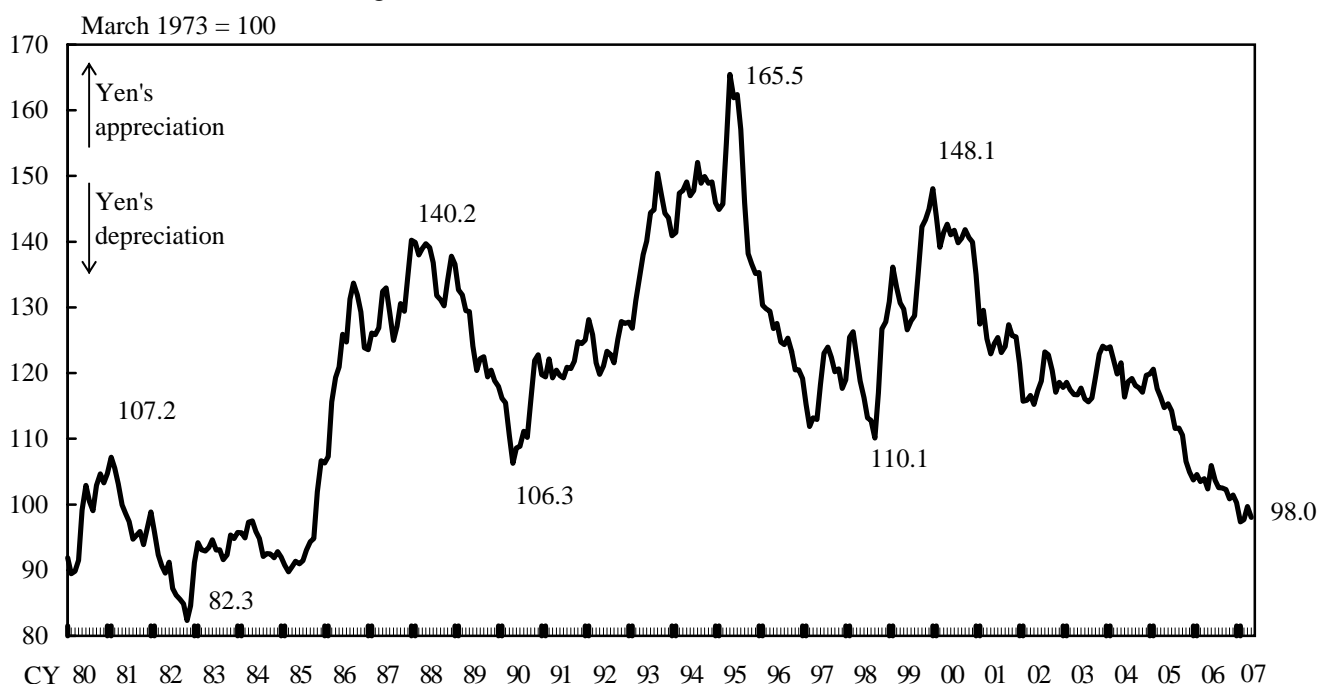
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q1 figures are January-February averages converted into quarterly amount.

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

## Real Effective Exchange Rate and Overseas Economies

### (1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for April 2007 is the average up to April 9.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (27 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

### (2) Real GDP Growth Rates in Overseas Economies

		CY2004	2005	2006	2006 Q1	Q2	Q3	Q4	
United States <sup>1</sup>		3.9	3.2	3.3	5.6	2.6	2.0	2.5	
European Union <sup>1</sup>		2.2	1.8	3.0	3.5	3.9	2.6	3.6	
	Germany	0.8	1.1	2.9	3.4	4.8	3.2	3.5	
	France	2.0	1.2	2.1	2.0	4.6	0.4	2.9	
	United Kingdom	3.3	1.9	2.8	3.3	3.1	2.7	2.7	
East Asia <sup>2</sup>	China	10.1	10.4	10.7	10.4	11.5	10.6	10.4	
	NIEs	Korea	4.7	4.2	5.0	6.3	5.1	4.8	4.0
		Taiwan	6.1	4.0	4.6	4.9	4.6	5.0	4.0
		Hong Kong	8.6	7.5	6.8	8.0	5.5	6.7	7.0
		Singapore	8.8	6.6	7.9	10.1	8.0	7.0	6.6
	ASEAN4	Thailand	6.3	4.5	5.0	6.1	5.0	4.7	4.2
		Indonesia	5.0	5.7	5.5	5.0	5.0	5.9	6.1
		Malaysia	7.2	5.2	5.9	5.9	6.2	5.8	5.7
Philippines		6.2	5.0	5.4	5.7	5.8	5.3	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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q1	Q2	Q3	Q4	2007 Q1	2006 Dec.	2007 Jan.	Feb.
United States	<11.8>	3.6	6.6	4.2	-3.2	5.3	-2.9	-4.1	0.6	-0.4	-1.3
EU	<10.3>	2.1	1.4	1.7	-0.0	0.1	0.5	-4.2	11.2	-12.0	6.6
East Asia	<41.4>	11.2	9.7	4.2	0.6	2.6	1.6	2.4	7.0	-9.6	18.4
China	<20.5>	18.8	11.2	4.9	0.6	3.3	1.8	7.7	7.2	-10.4	31.0
NIEs	<9.8>	9.3	13.3	4.0	1.1	1.8	-0.2	-4.1	9.7	-9.7	2.8
Korea	<4.7>	8.3	11.2	-1.2	3.3	0.9	-0.2	-5.4	16.9	-13.6	2.7
Taiwan	<3.5>	11.0	18.8	8.3	-0.6	6.3	0.5	-4.2	4.7	-6.3	-0.9
ASEAN4 <sup>4</sup>	<11.1>	0.2	3.2	2.7	-0.2	1.9	3.2	-2.1	4.0	-7.9	8.1
Thailand	<2.9>	12.8	7.0	1.2	3.5	0.2	2.6	-3.1	4.7	-10.1	8.5
Others	<36.4>	1.8	2.1	-2.0	4.1	-2.3	-1.1	-2.1	6.9	-5.6	0.6
Real imports		5.4	4.5	1.8	0.1	0.6	-0.5	1.9	2.8	-2.7	7.6

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q1	Q2	Q3	Q4	2007 Q1	2006 Dec.	2007 Jan.	Feb.
Raw materials <sup>5</sup>	<34.6>	-3.9	0.6	0.5	2.9	-1.6	-1.9	-1.2	10.2	-8.7	6.4
Intermediate goods	<14.0>	4.6	2.2	0.4	2.0	-0.4	-1.7	-0.8	6.4	-9.3	10.8
Foodstuffs	<8.5>	2.6	-3.4	2.5	-3.0	-3.8	3.7	0.3	4.8	-6.4	7.6
Consumer goods <sup>6</sup>	<8.8>	8.6	2.5	1.4	-2.4	1.4	1.8	-0.5	9.9	-18.3	33.7
IT-related goods <sup>7</sup>	<12.2>	15.4	14.9	6.8	0.2	4.9	-2.9	0.2	-2.3	-1.5	8.1
Capital goods and parts <sup>8</sup>	<12.4>	13.6	16.9	7.3	-0.3	5.7	0.9	5.8	7.7	-1.4	8.9
Excluding aircraft	<11.6>	13.7	18.0	5.7	3.3	3.6	1.4	1.2	7.3	-8.9	12.9
Real imports		5.4	4.5	1.8	0.1	0.6	-0.5	1.9	2.8	-2.7	7.6

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

2. 2007/Q1 figures are January-February averages converted into quarterly amount.

3. Shares of each region and goods in 2006 are shown in angle brackets.

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

5. Raw materials are mainly composed of woods, ores and mineral fuel.

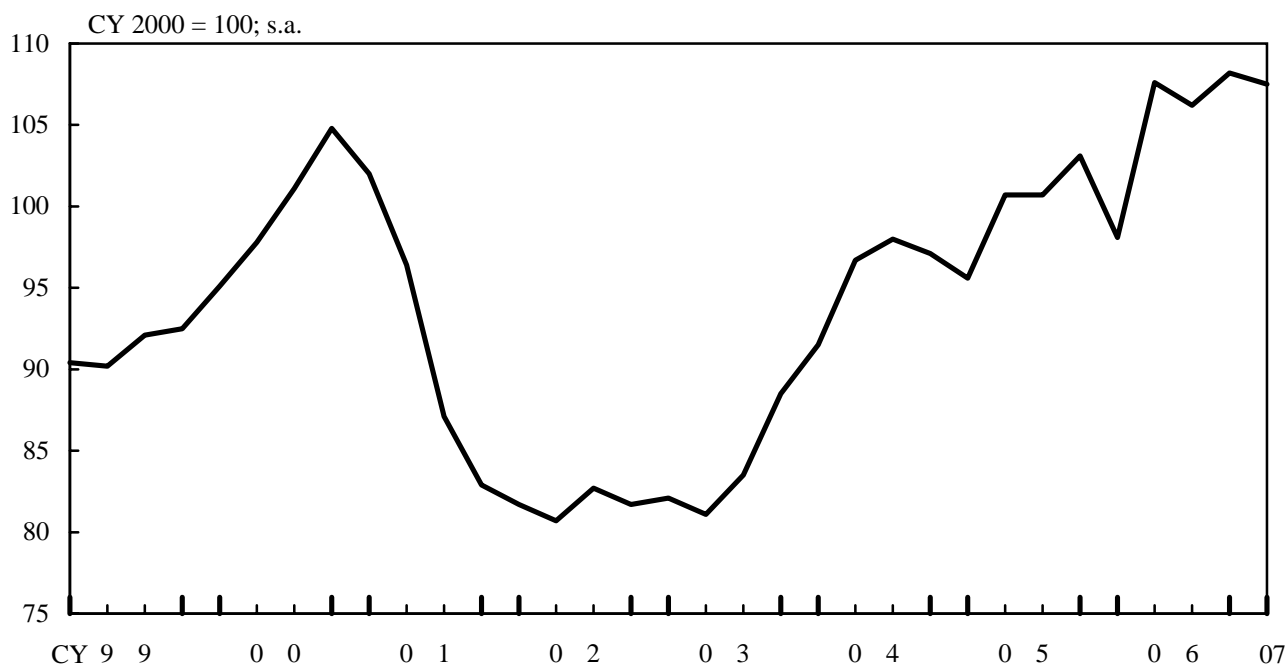
6. Excludes foodstuffs.

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

8. Excludes IT-related goods.

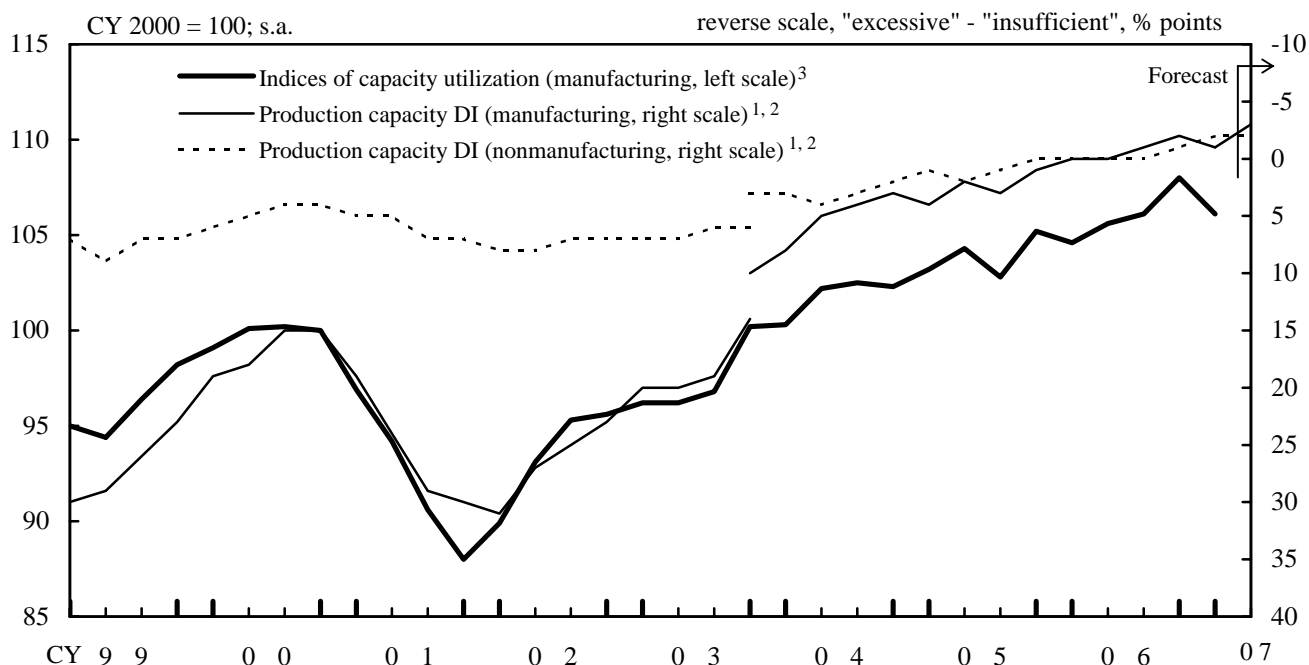
## Coincident Indicators for Business Fixed Investment

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



Note: The figure for 2007/Q1 is as of January-February average.

## (2) Indices of Capacity Utilization and Production Capacity DI



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

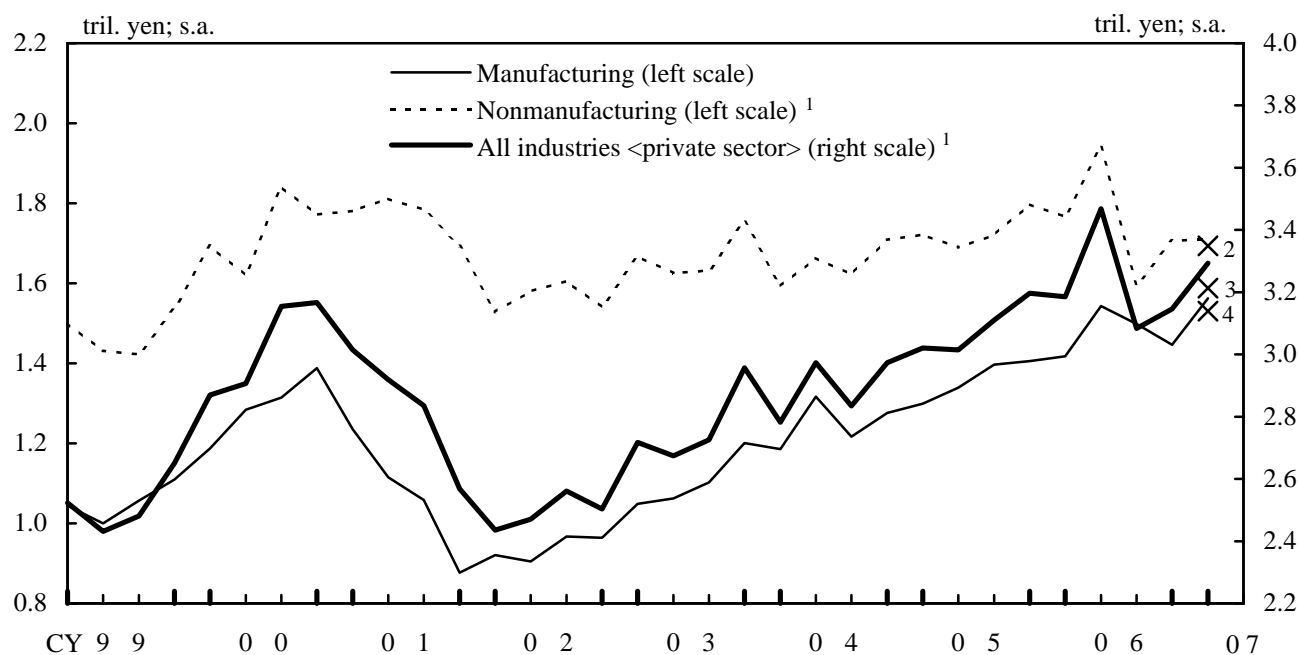
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/Q1 is as of January.

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.

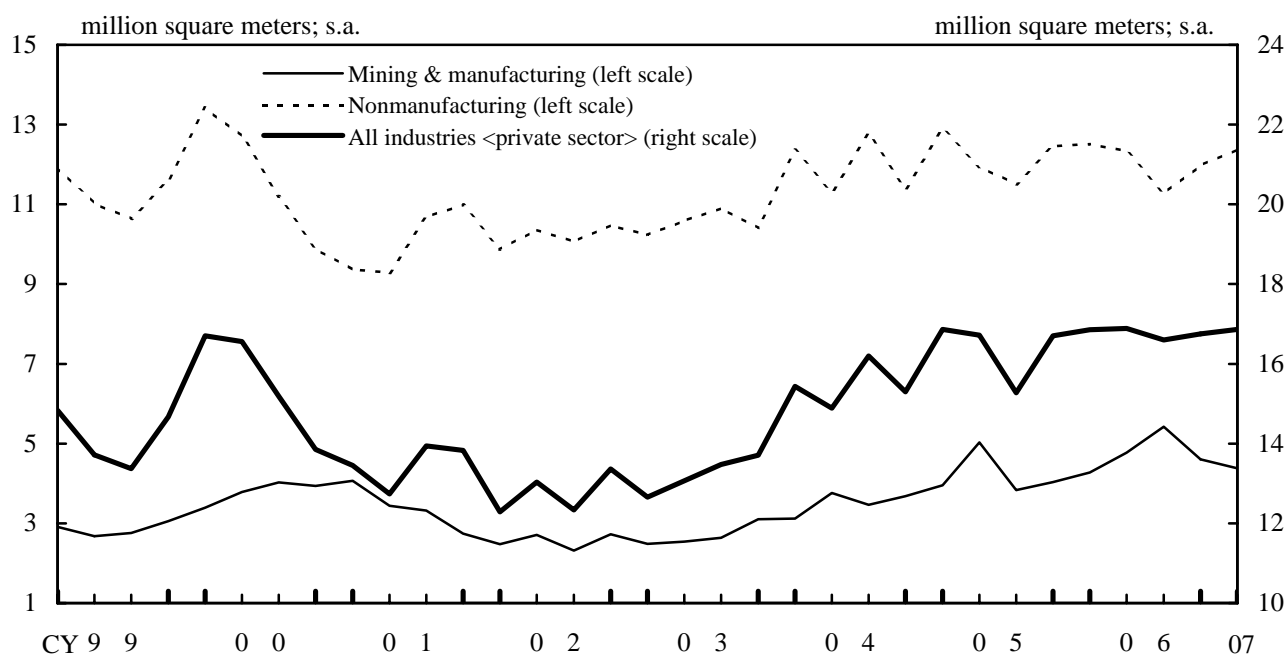
2. Forecast of nonmanufacturing industries for 2007/Q1.

3. Forecast of all industries for 2007/Q1.

4. Forecast of manufacturing industries for 2007/Q1.

5. Figures for 2007/Q1 are those of January 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 2007/Q1 are averages of January-February in terms of quarterly amount.

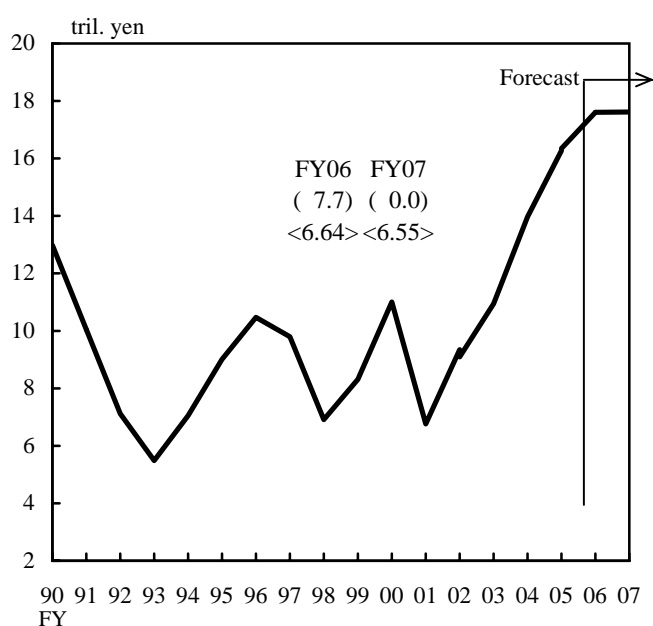
Sources: Cabinet Office, "Machinery Orders Statistics";

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

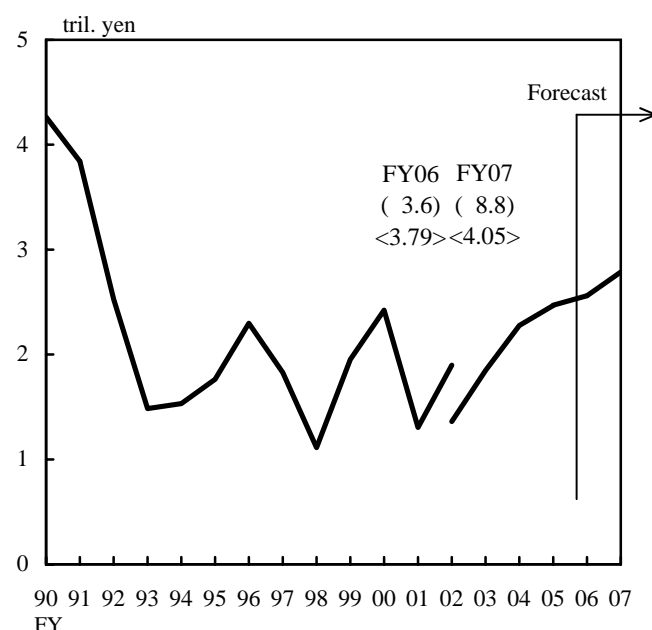


## Current Profits

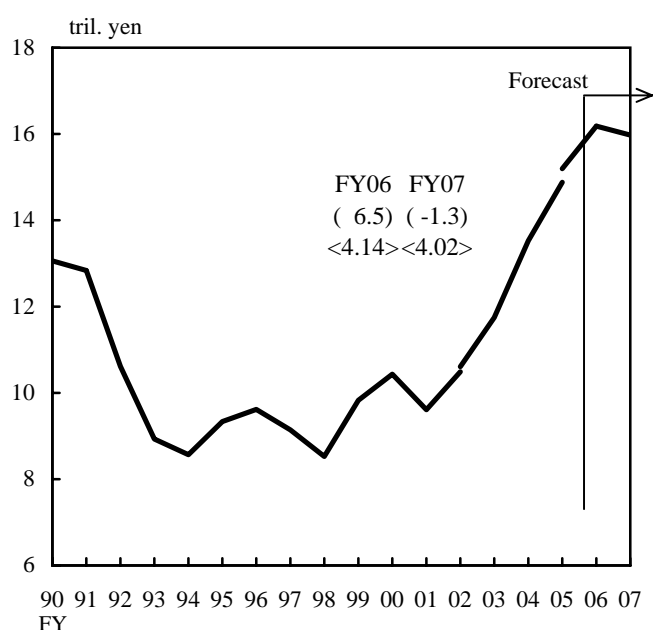
(1) Manufacturing Large Enterprises



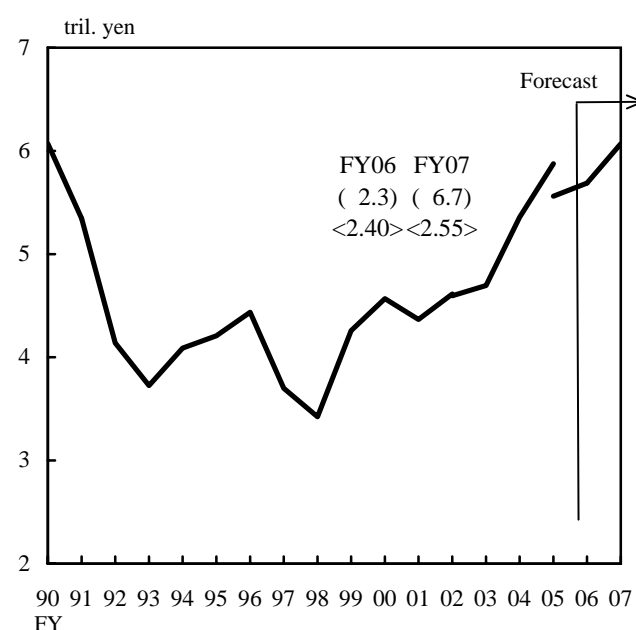
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



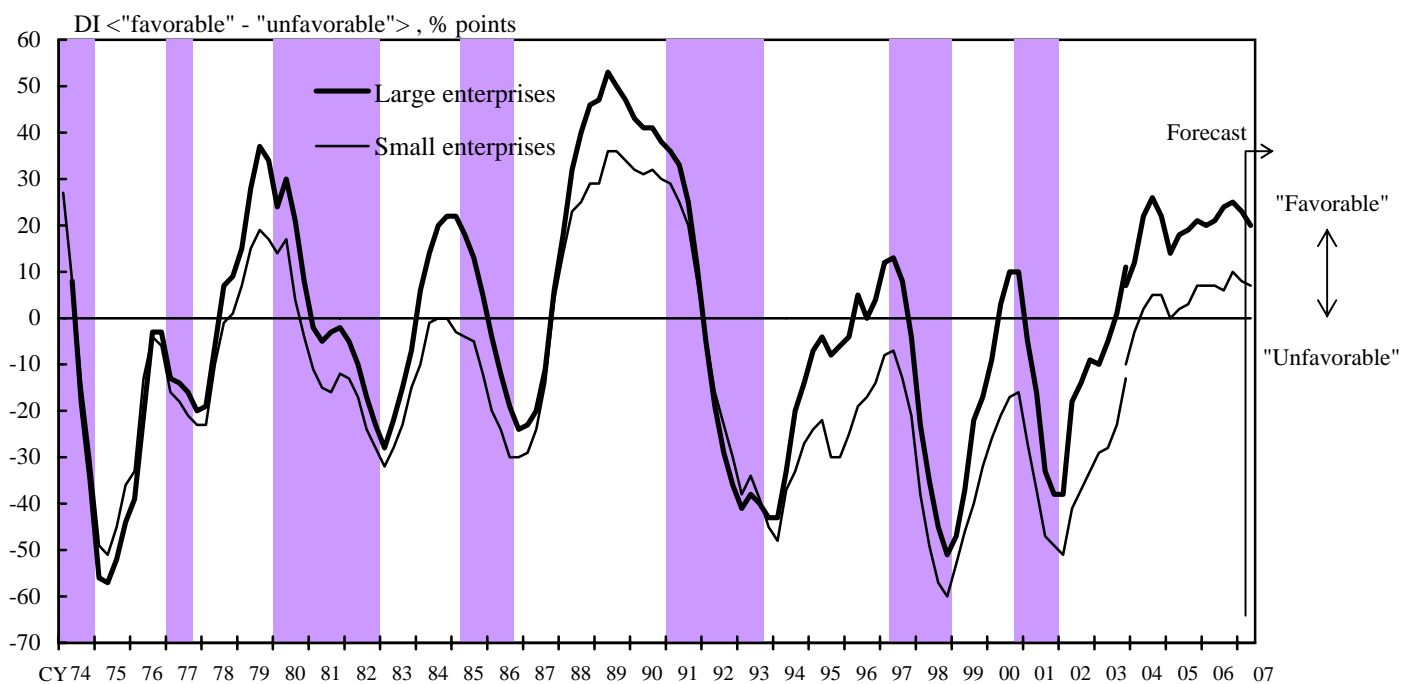
Notes: 1. ( ): Current profits (y/y % chg.), <>: Ratio of current profit to sales (%).

2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

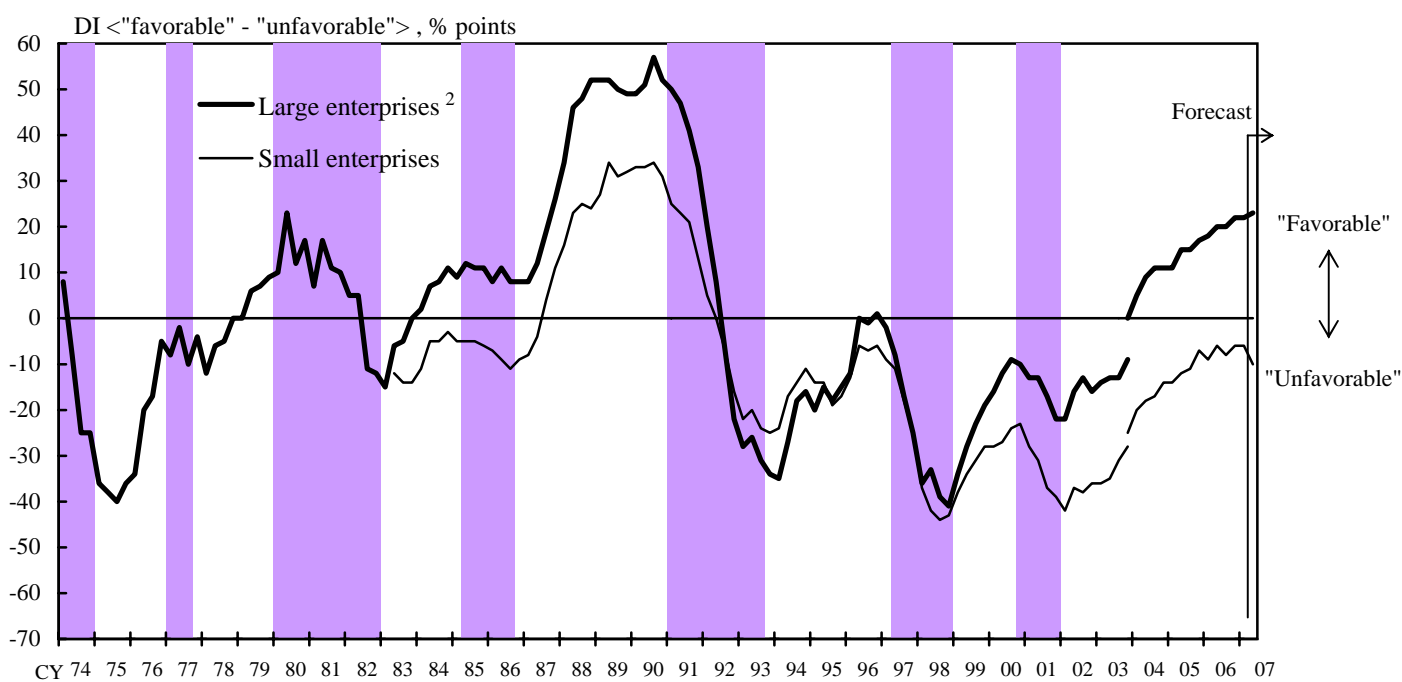
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## Business Conditions

## (1) Manufacturing



## (2) Nonmanufacturing



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.

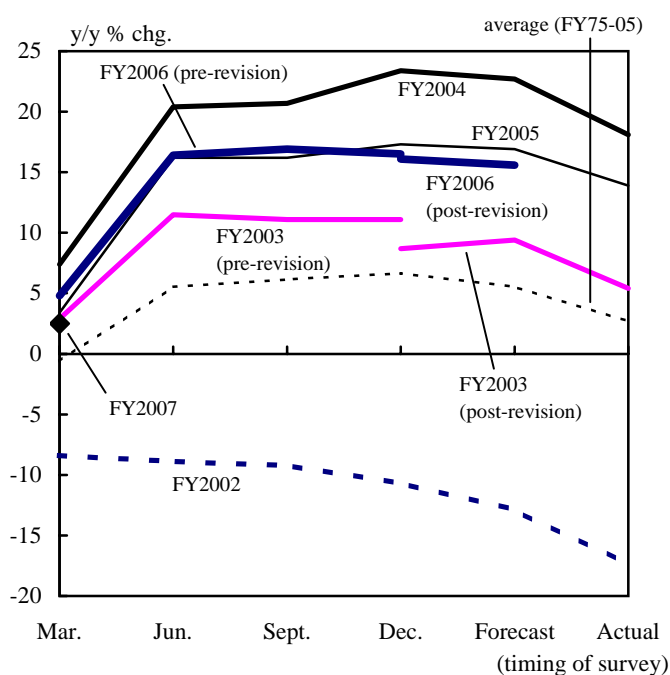
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

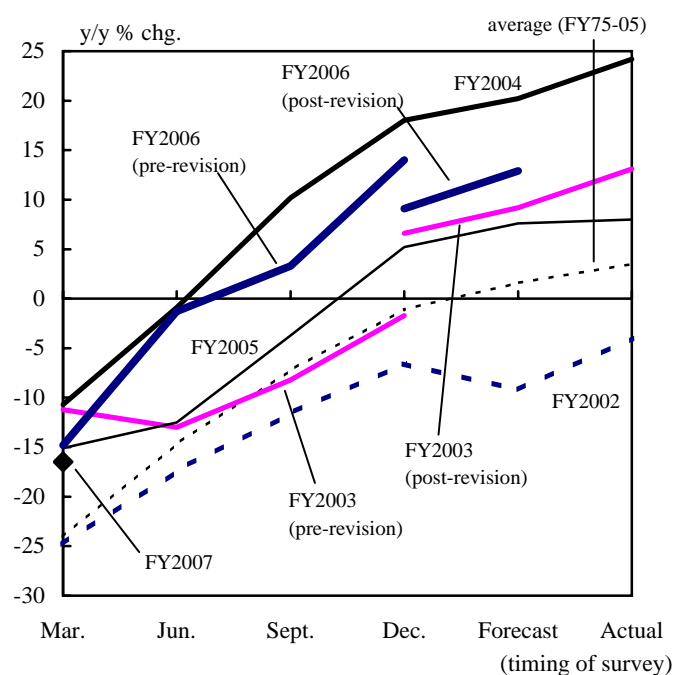
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## Business Fixed Investment Plans as Surveyed

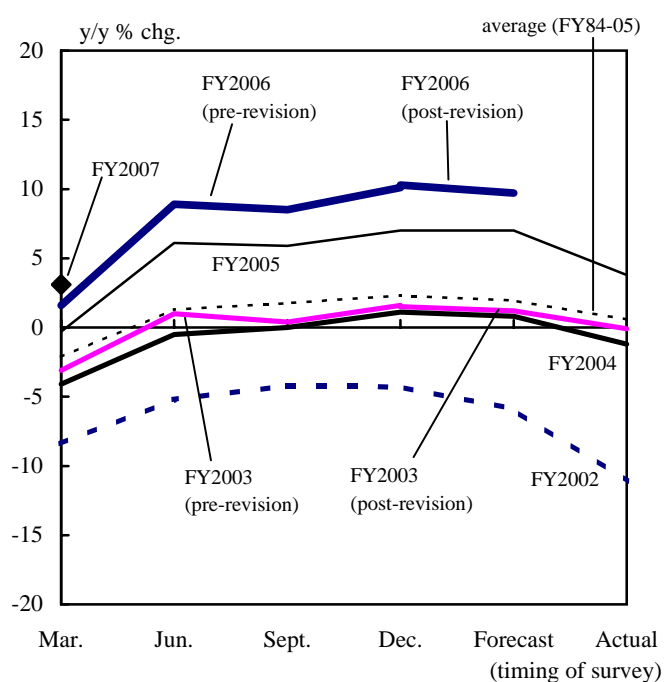
(1) Manufacturing Large Enterprises



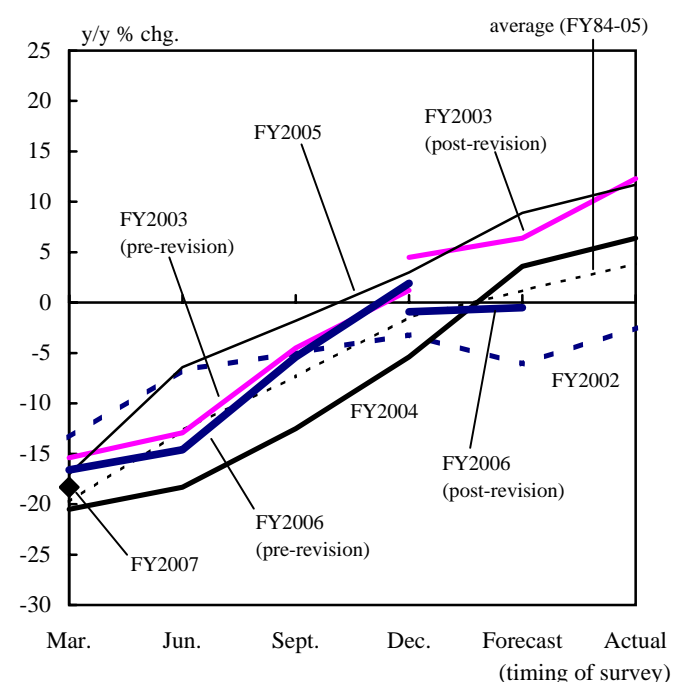
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



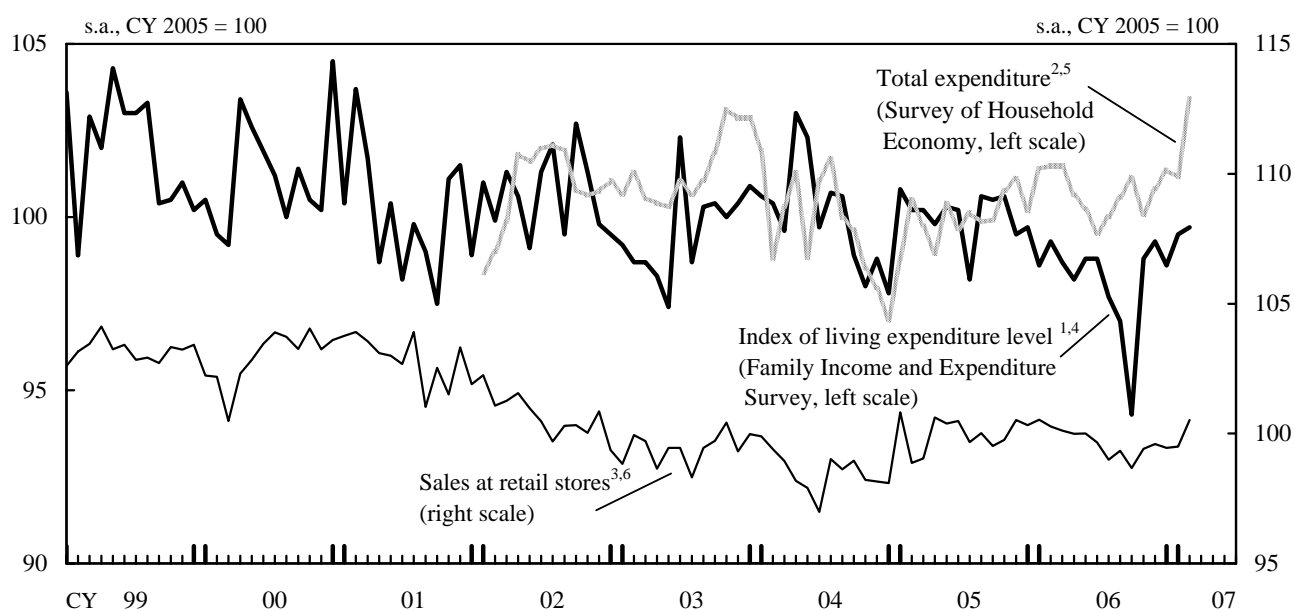
Notes: 1. Includes land purchasing expenses and excludes software investment.

2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

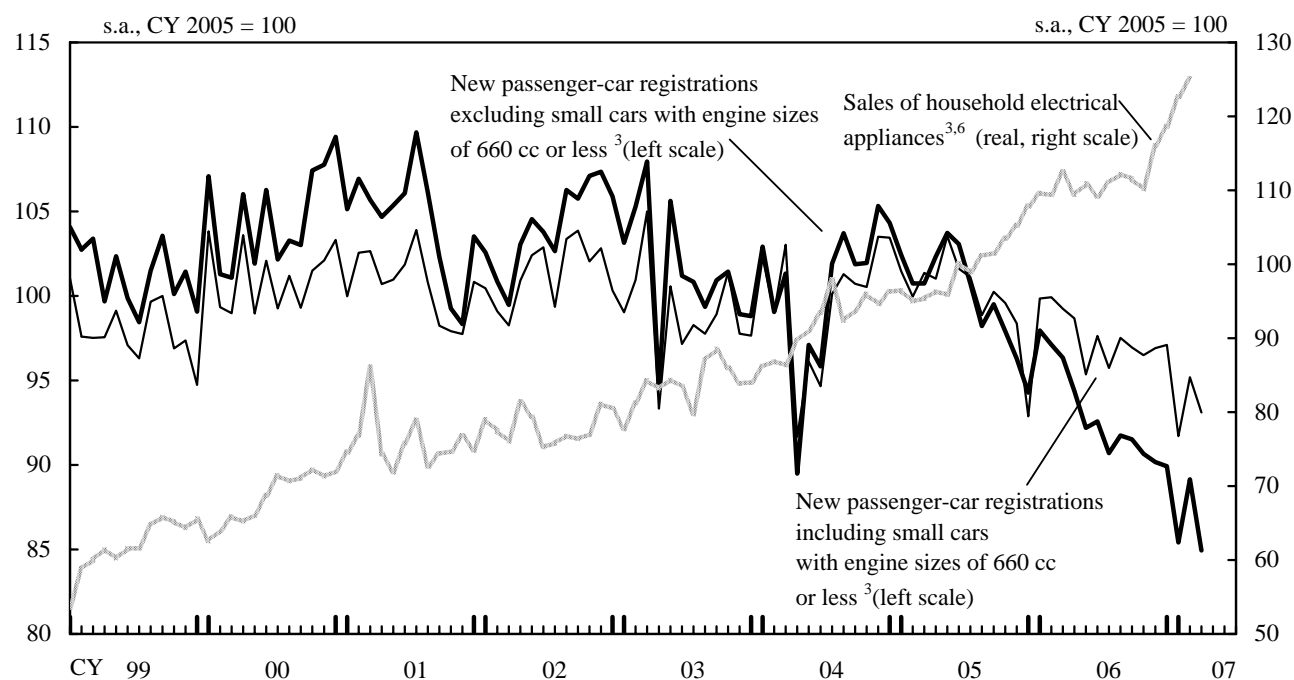
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

## Indicators for Private Consumption (1)

## (1) Household Spending (Real)

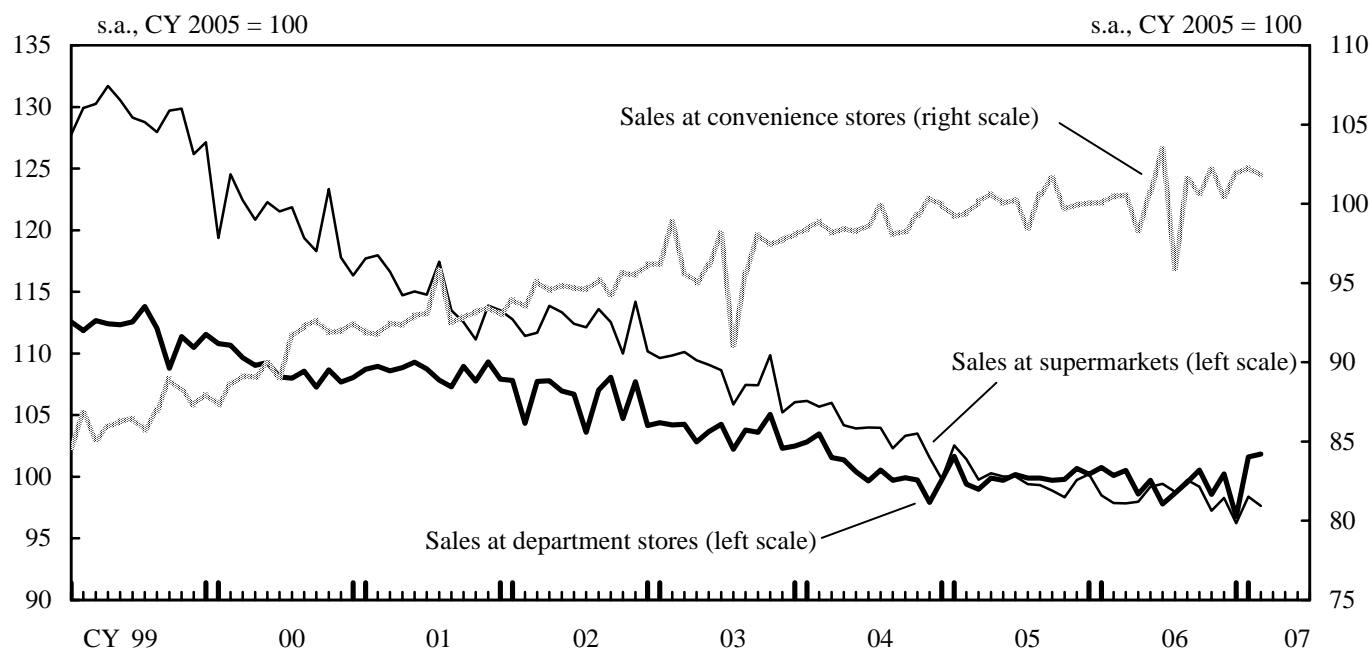


## (2) Sales of Durable Goods

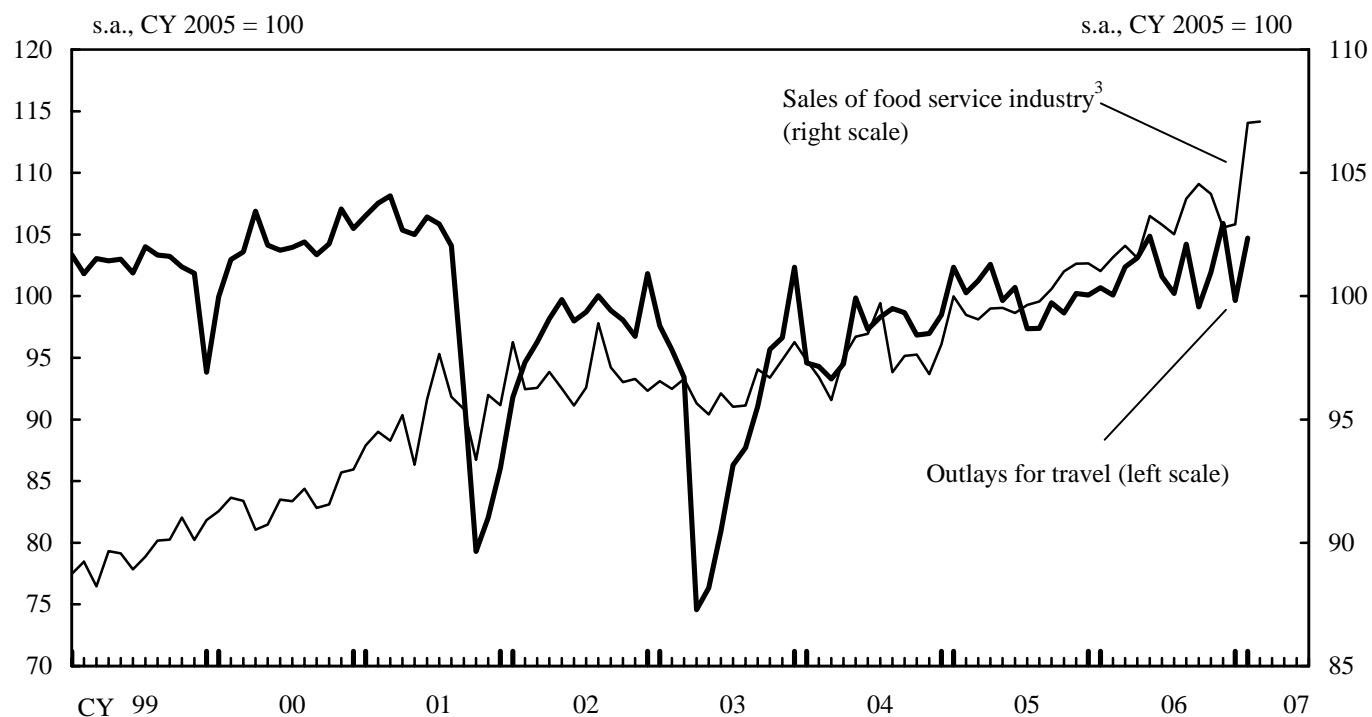


- Notes:
1. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
  2. Total expenditure is seasonally adjusted by X-11.
  3. All the other indicators are seasonally adjusted by X-12-ARIMA.
  4. Index of living expenditure level is based on two-or-more-person households excluding agricultural, forestry, and fisheries households.
  5. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.
  6. 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," "Survey of Household Economy"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators for Private Consumption<sup>1</sup> (2)(3) Sales at Retail Stores (Nominal)<sup>2</sup>

## (4) Consumption of Services (Nominal)



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

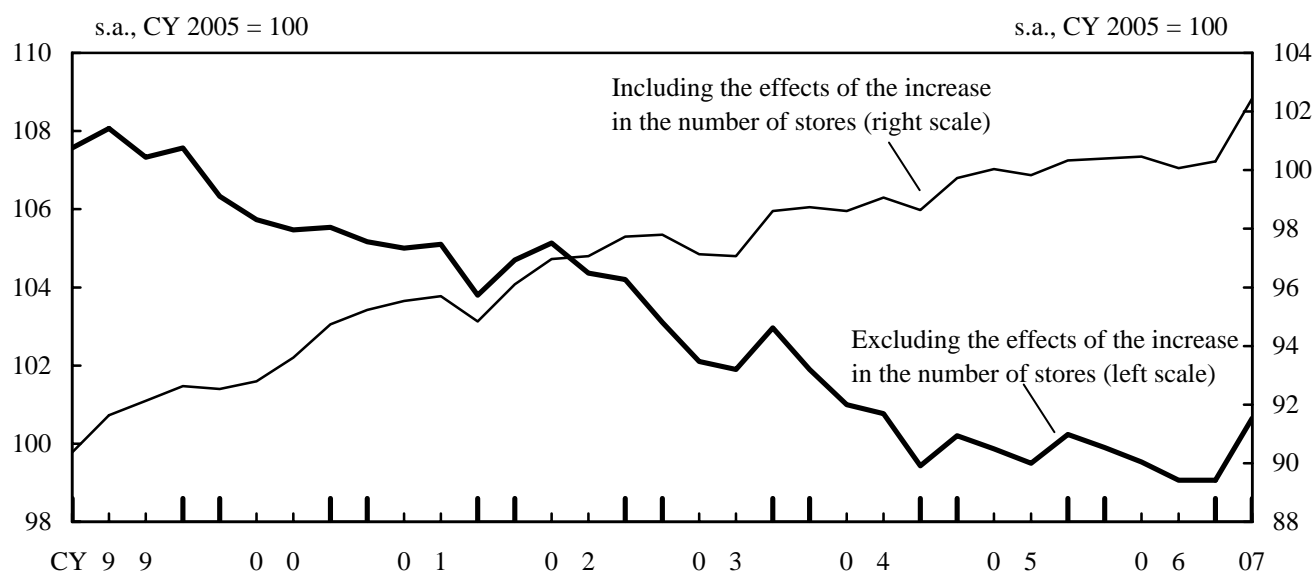
2. Adjusted to exclude the effect of the increase in the number of stores (except convenience stores).

3. 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)."

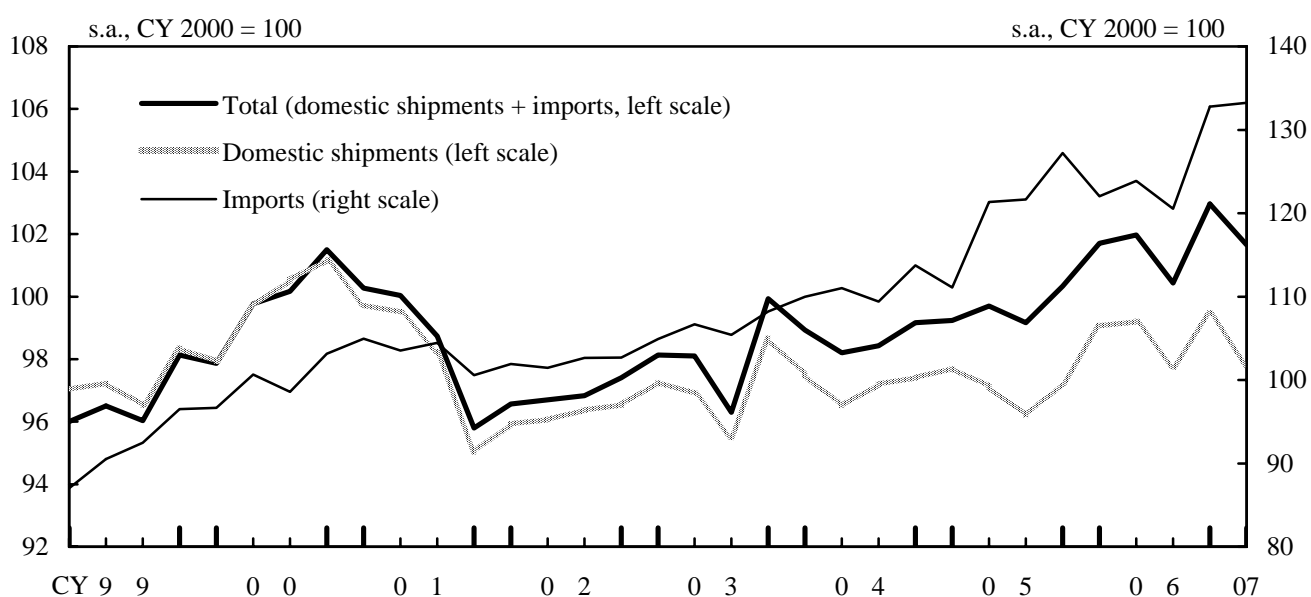
## Indicators for Private Consumption (3)

## (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 2007/Q1 figures are those of Jan.-Feb. averages in terms of quarterly amount.

## (2) Aggregate Supply of Consumer Goods

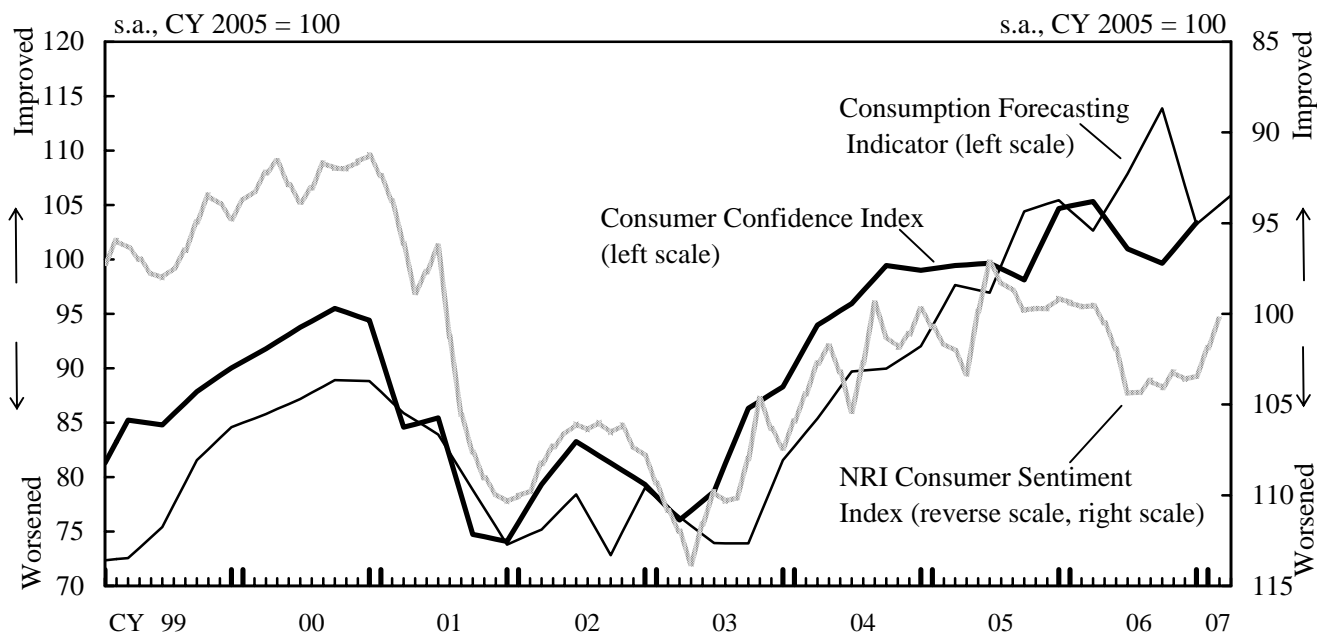


Notes: Data for 2007/Q1 figures are those of Jan.-Feb. averages in terms of quarterly amount.

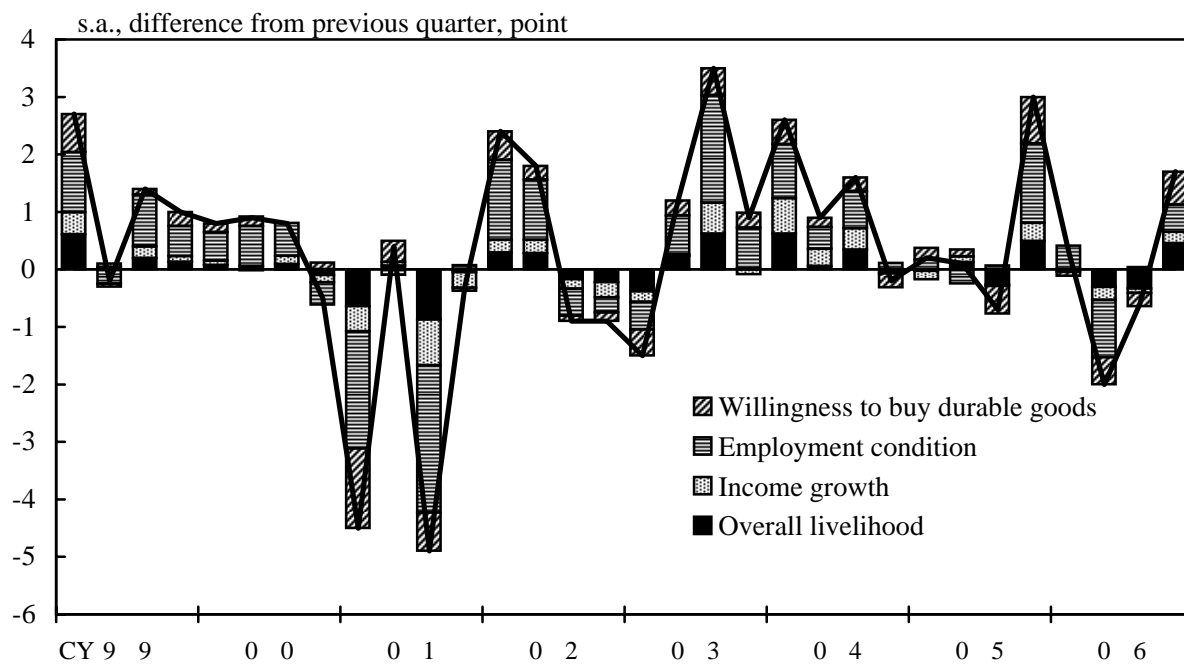
Source: Bank of Japan, "Indices of Aggregated Sales";  
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

(1) Surveys on Consumer Confidence



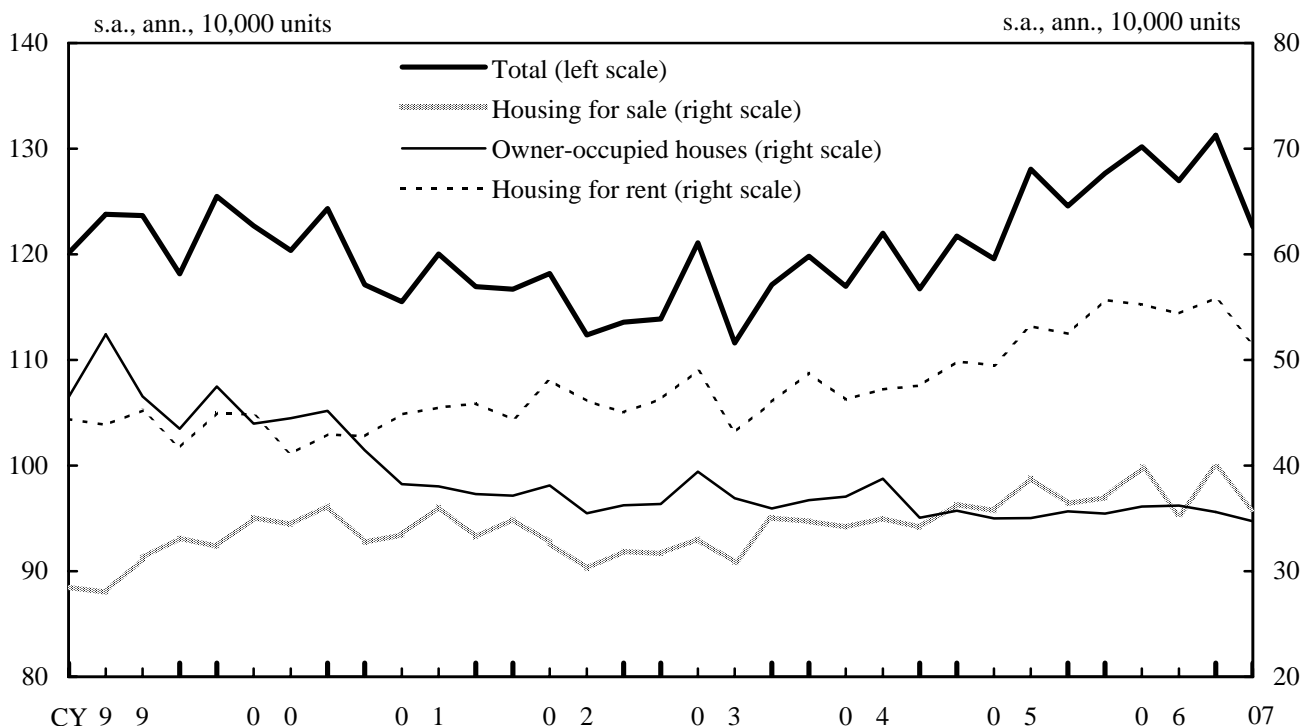
(2) Contribution of Each Item in the Consumer Confidence Index



- Notes: 1. Seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. The 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.
4. The NRI Consumer Sentiment Index has undergone changes in its sampling method and the data have become discontinuous at the time of the February 2007 survey. Figures up to December 2006 are calculated by retroactively applying the rates of change based on the old sampling method.
- Sources: Cabinet Office, "Consumer Confidence Survey"; Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

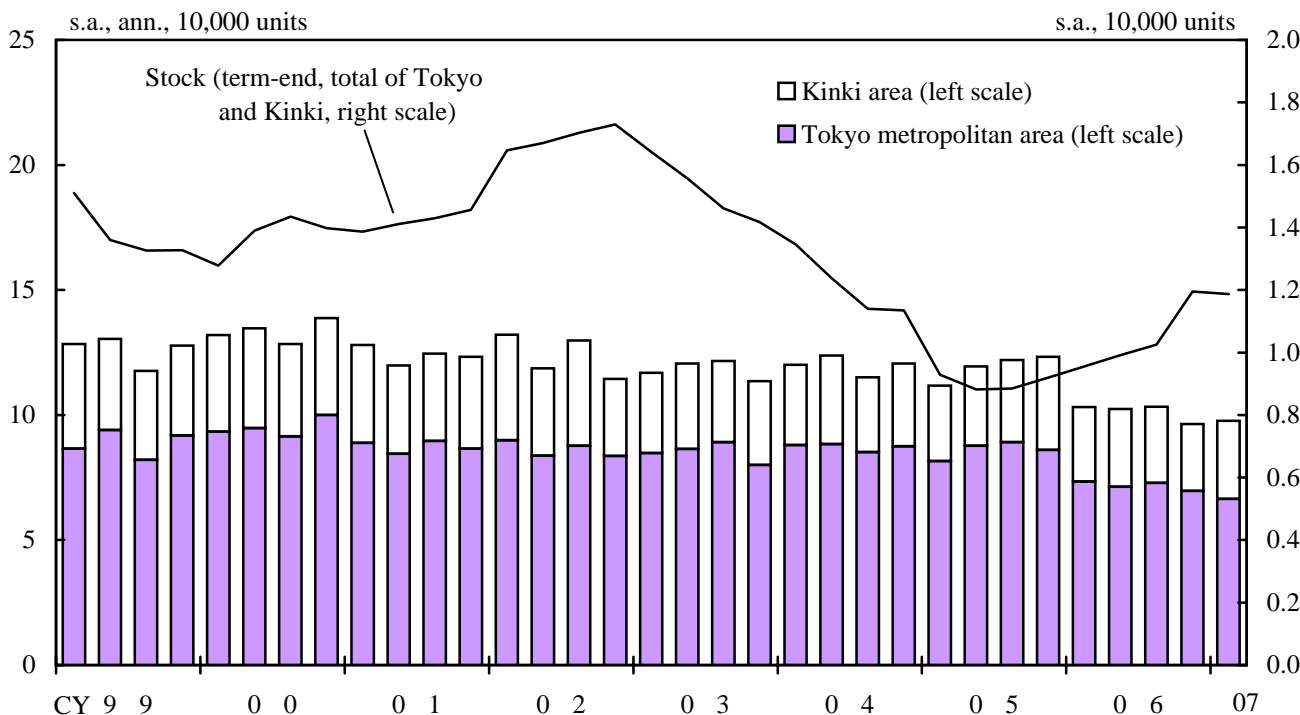
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2007/Q1 are those of January-February averages.

(2) Sales of Apartments



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

2. Figures of total apartments sales for 2007/Q1 are those of January-February averages.

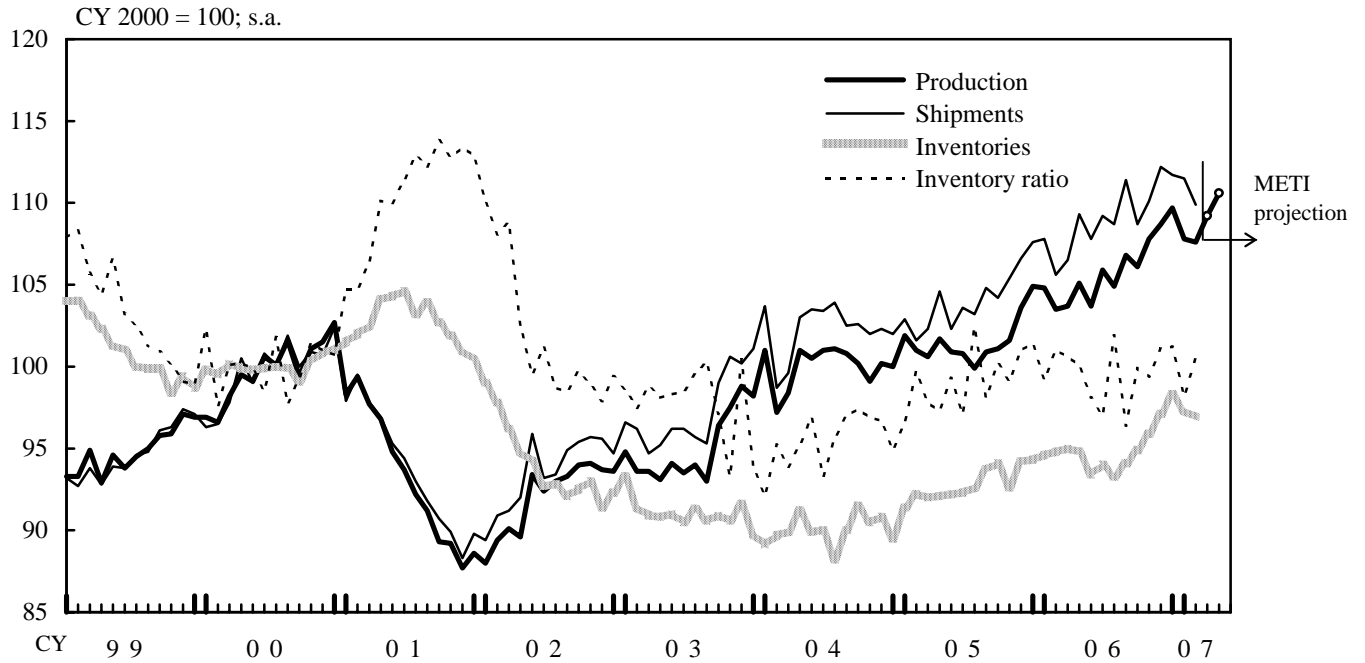
Term-end stocks for 2007/Q1 are those of February.

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

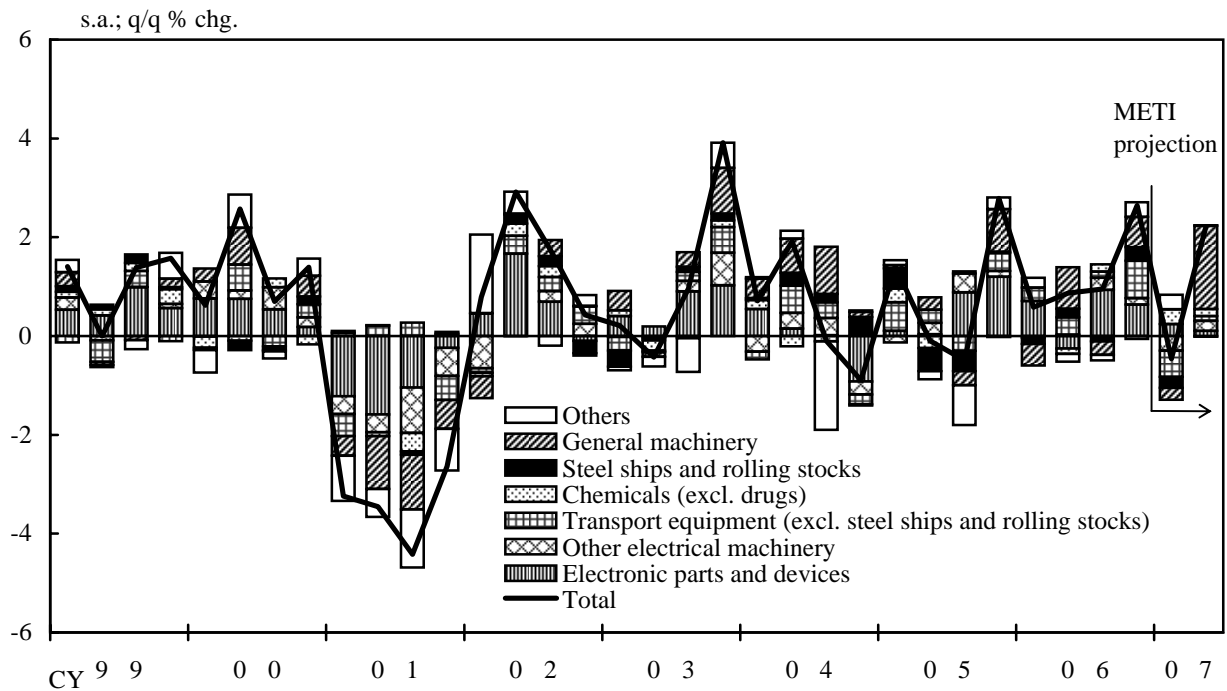


Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries



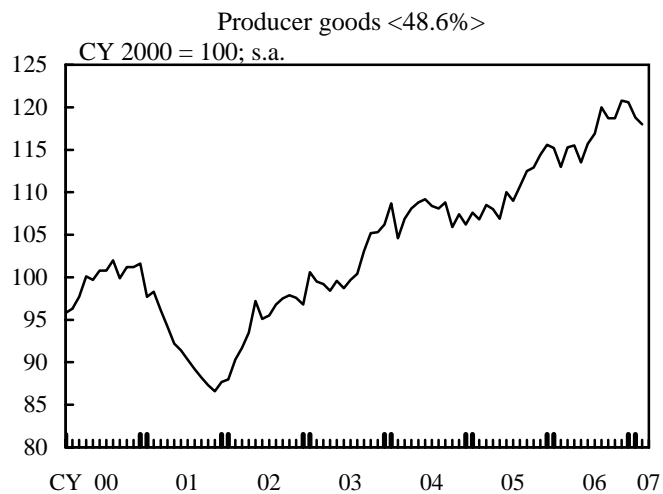
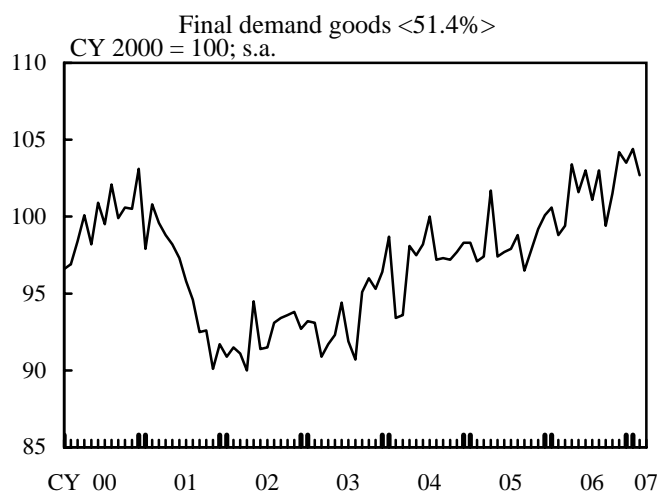
Notes:1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

2. 2007/Q1 figures are based on the actual levels in January and February, and the METI projection level in March. 2007/Q2 figures are based on the assumption that production level in May and June is the same as that of April.

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

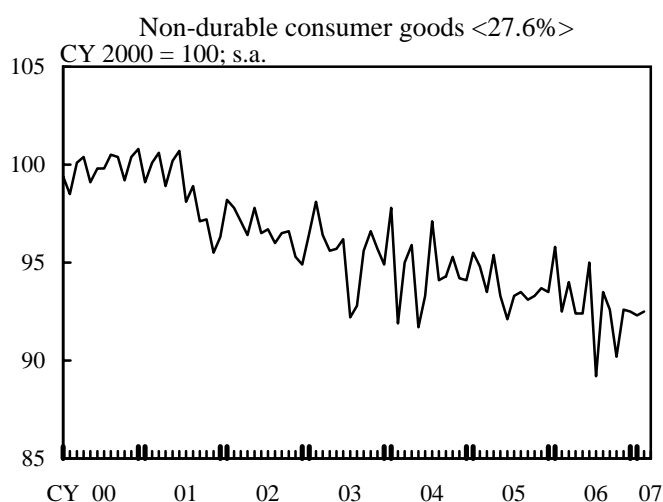
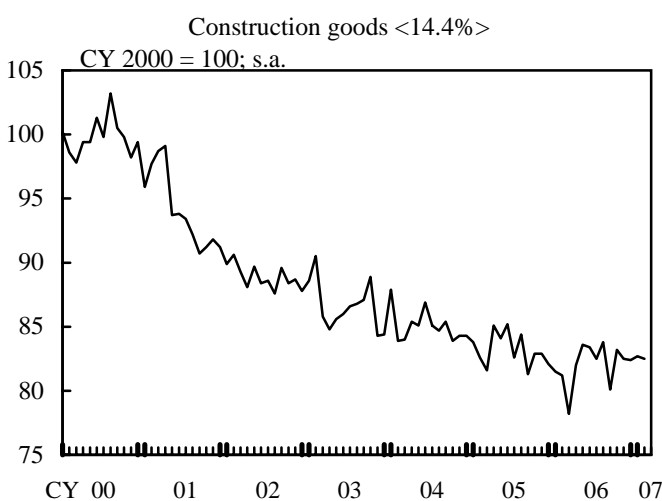
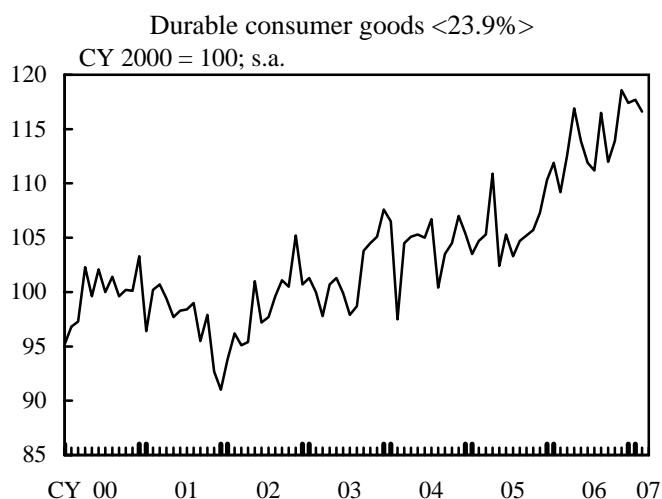
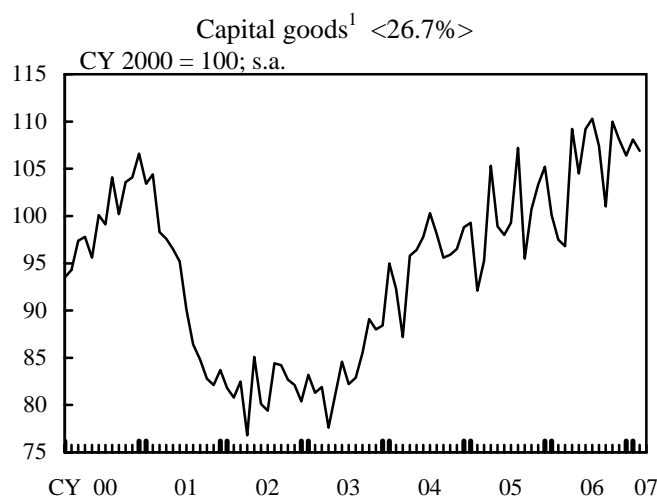
## Shipments Breakdown by Type of Goods

### (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



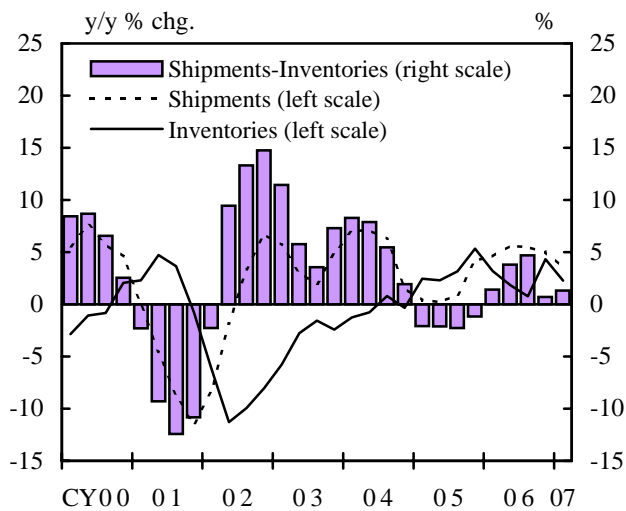
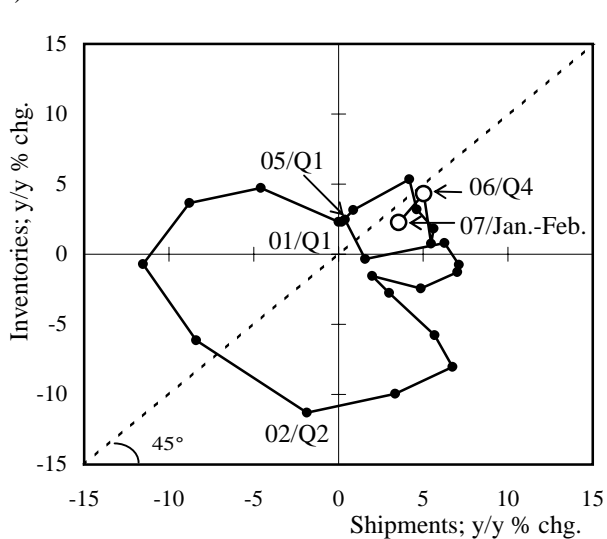
Notes: 1. Excluding transport equipment.

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

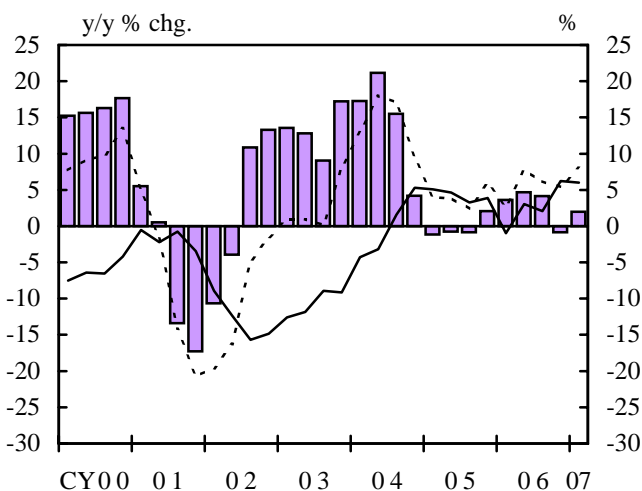
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

# Inventory Cycle

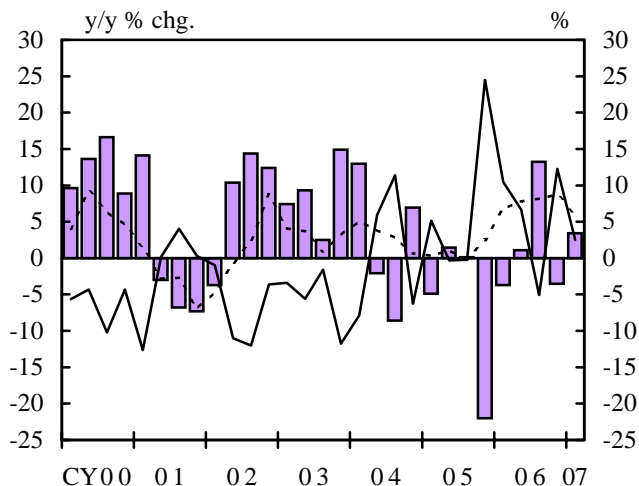
(1) Total



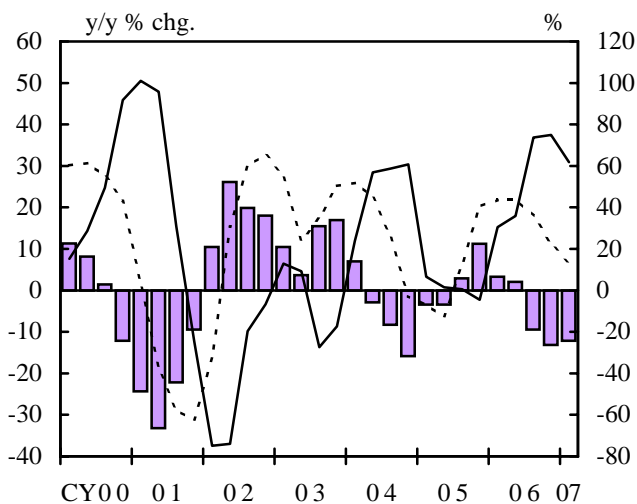
(2) Capital Goods (Excluding Transport Equipment)



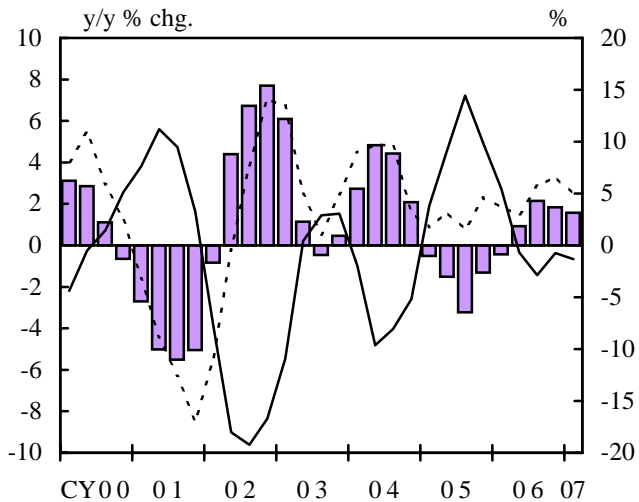
(3) Durable Consumer Goods



(4) Electronic Parts and Devices



(5) Producer Goods Excluding Electronic Parts and Devices



Note: Figures of Shipments for 2007/Q1 are those of January-February averages.  
Inventories for 2007/Q1 are those of February.

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

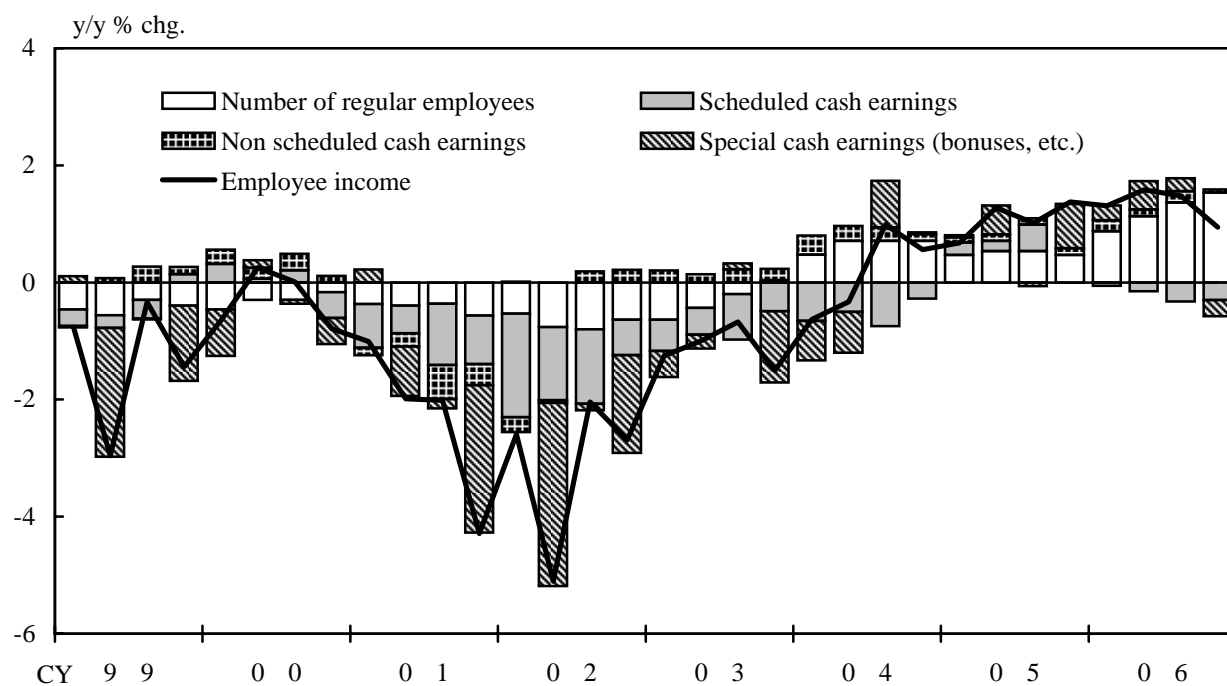
## Employee Income

## (1) Employee Income



- Notes: 1. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.  
2. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.  
3. Data are for establishments with at least five employees.

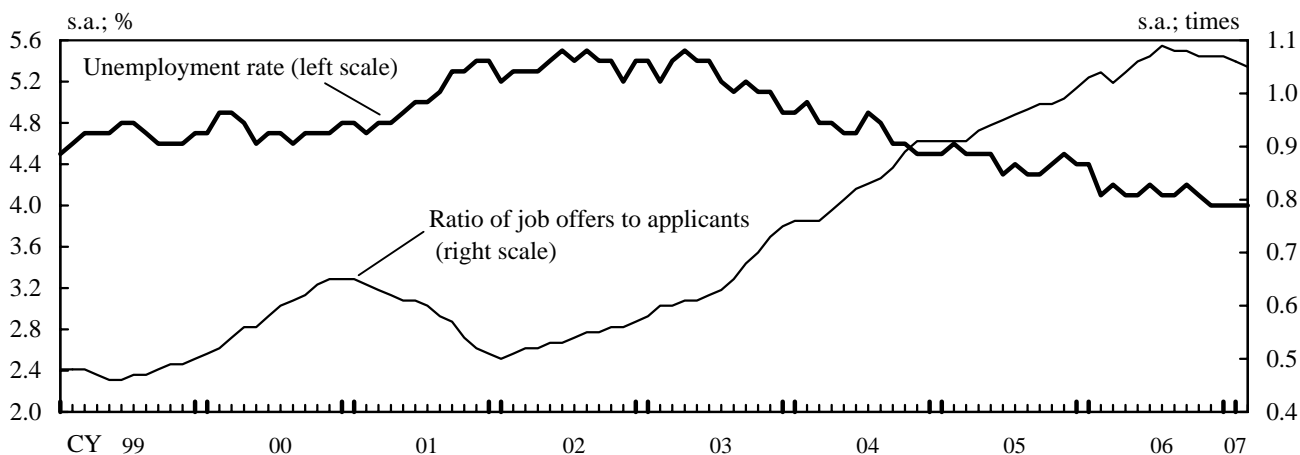
## (2) Breakdown of Employee Income



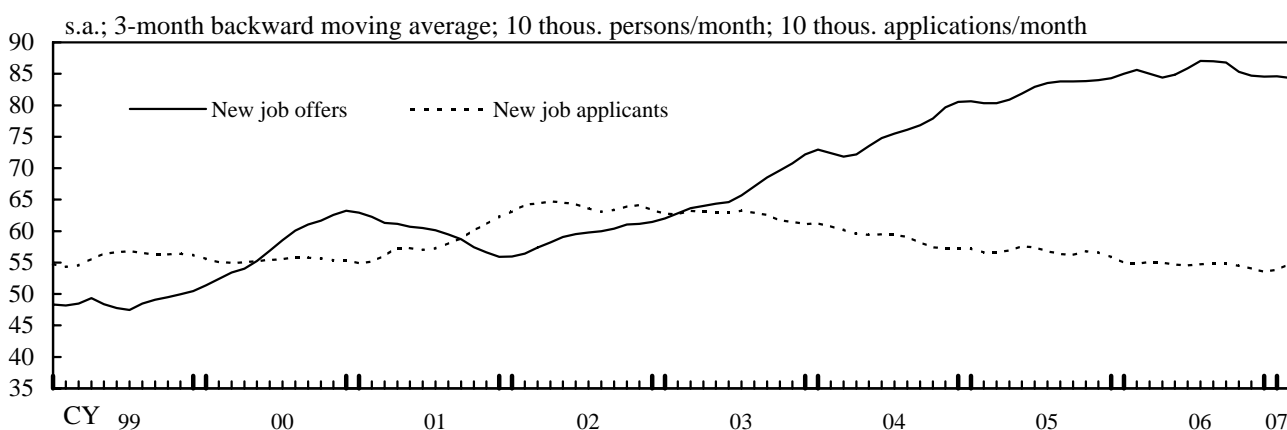
- Notes: 1. Data are for establishments with at least five employees.  
2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

Labor Market (1)

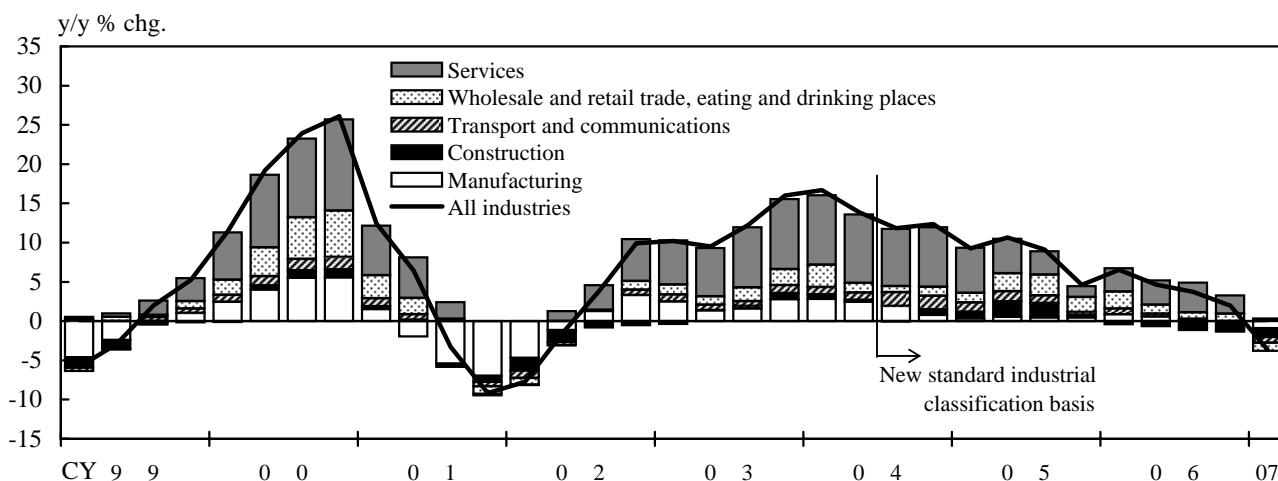
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants<sup>1</sup>



(3) Breakdown of New Job Offers<sup>1,2,3</sup>



- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.  
 2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on 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 2007/Q1 are those of January-February averages.

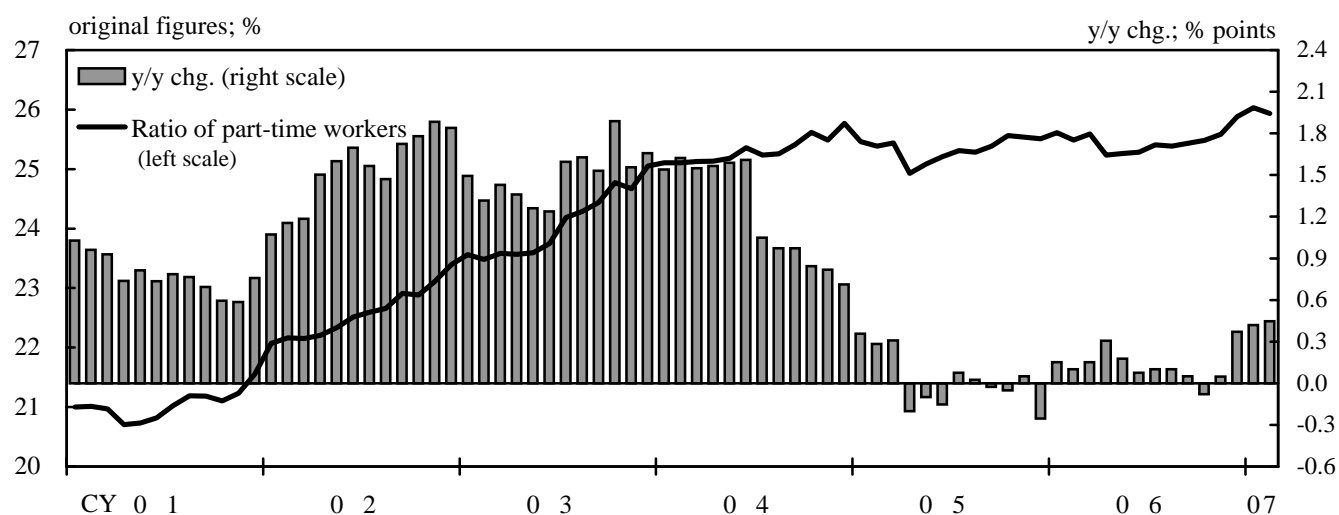
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

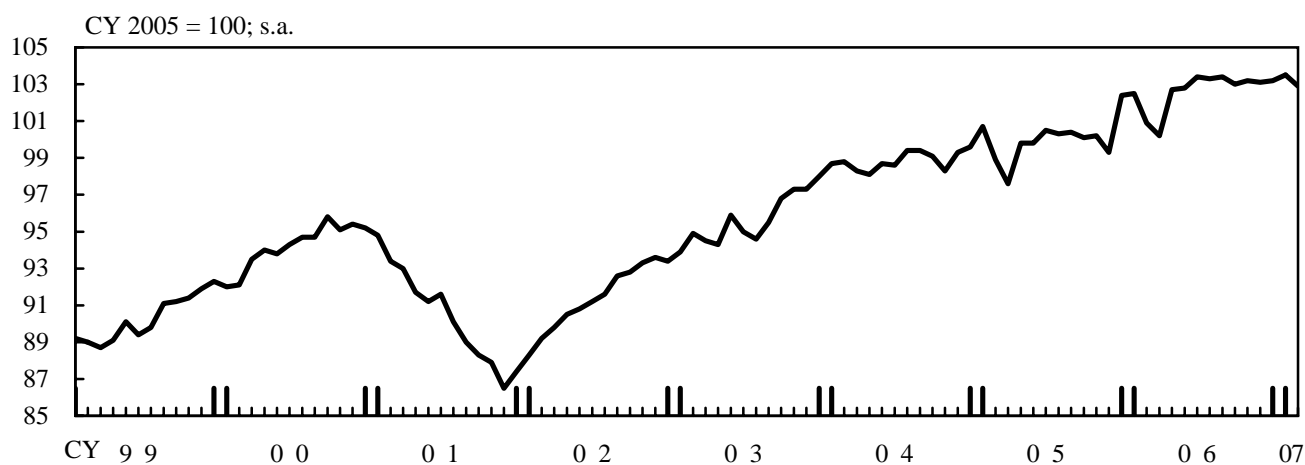
(1) Number of Employees<sup>3</sup>



(2) Ratio of Part-Time Workers<sup>1,2</sup> (Monthly Labour Survey)



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



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

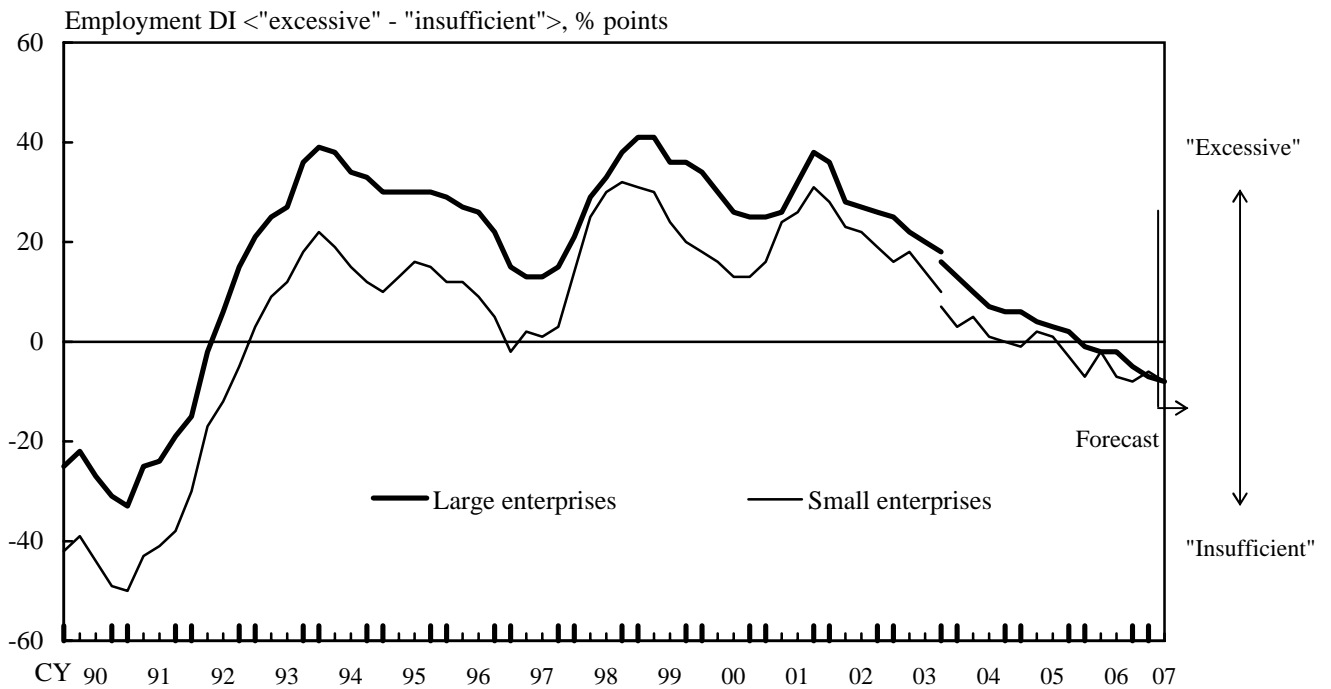
2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.

3. Figures for 2007/Q1 are those of January-February averages.

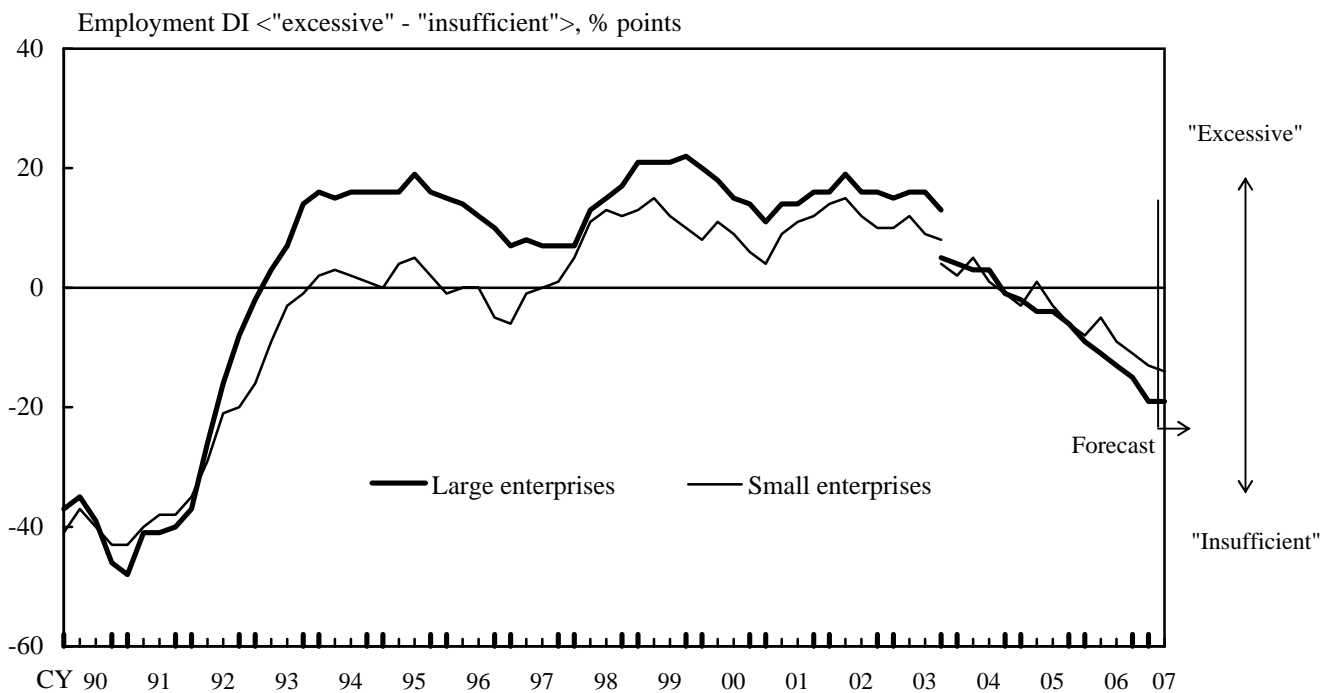
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

## Employment Conditions

### (1) Manufacturing



### (2) Nonmanufacturing

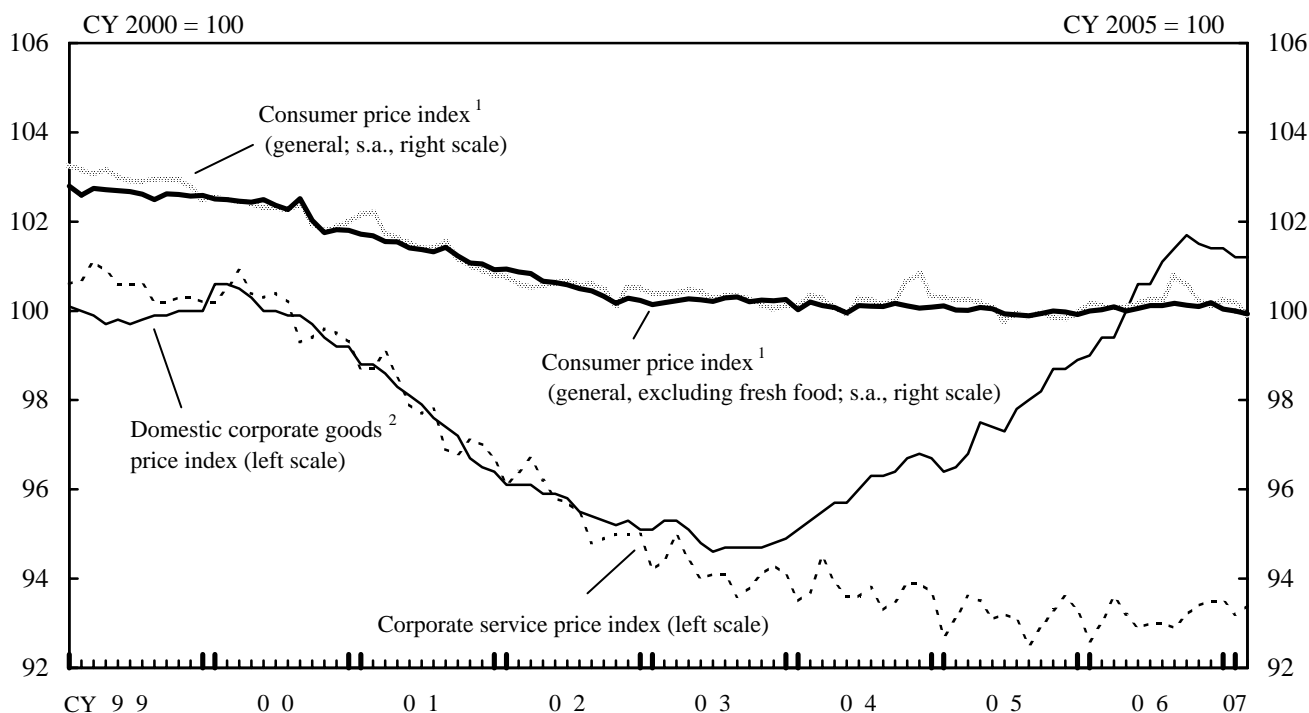


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

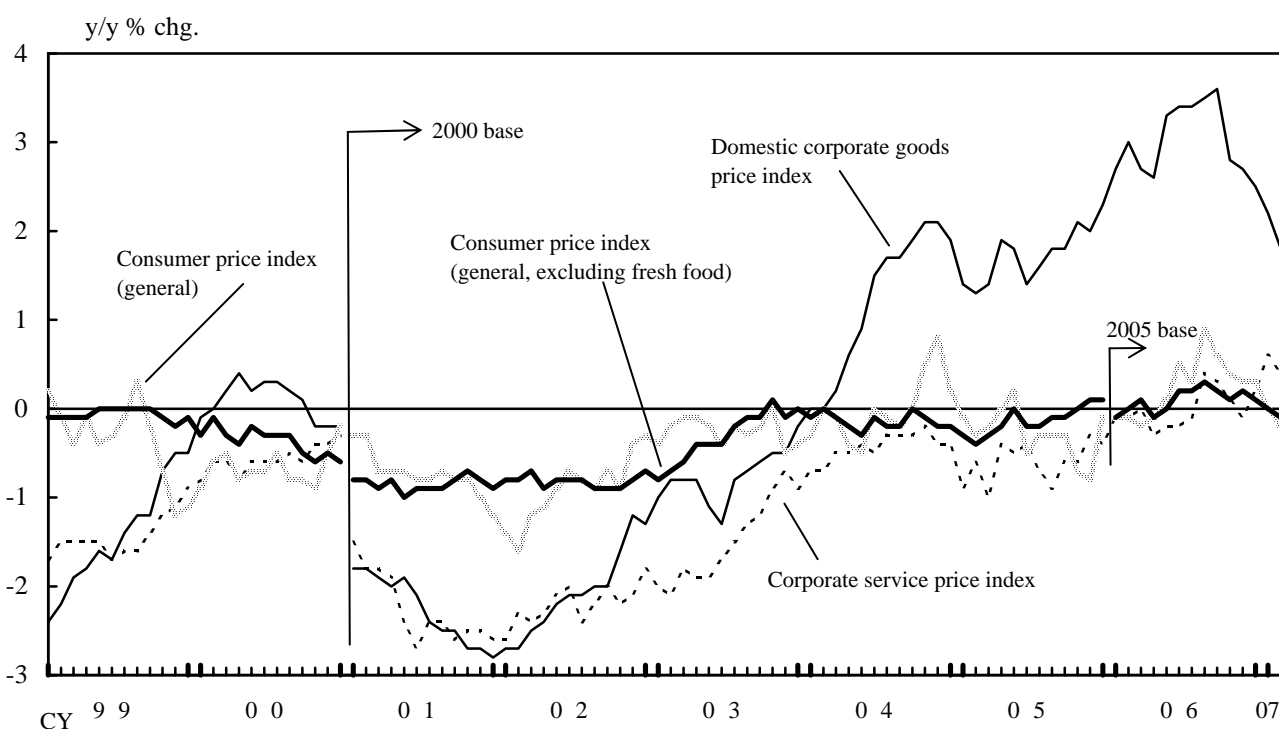
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Prices<sup>3</sup>

(1) Level



(2) Changes from a Year Earlier<sup>3</sup>



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. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

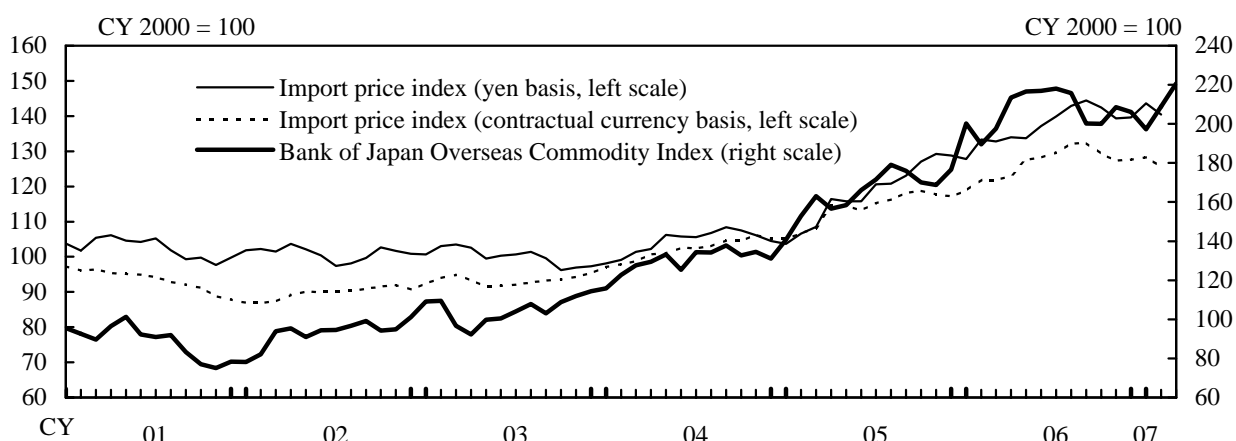
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";

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



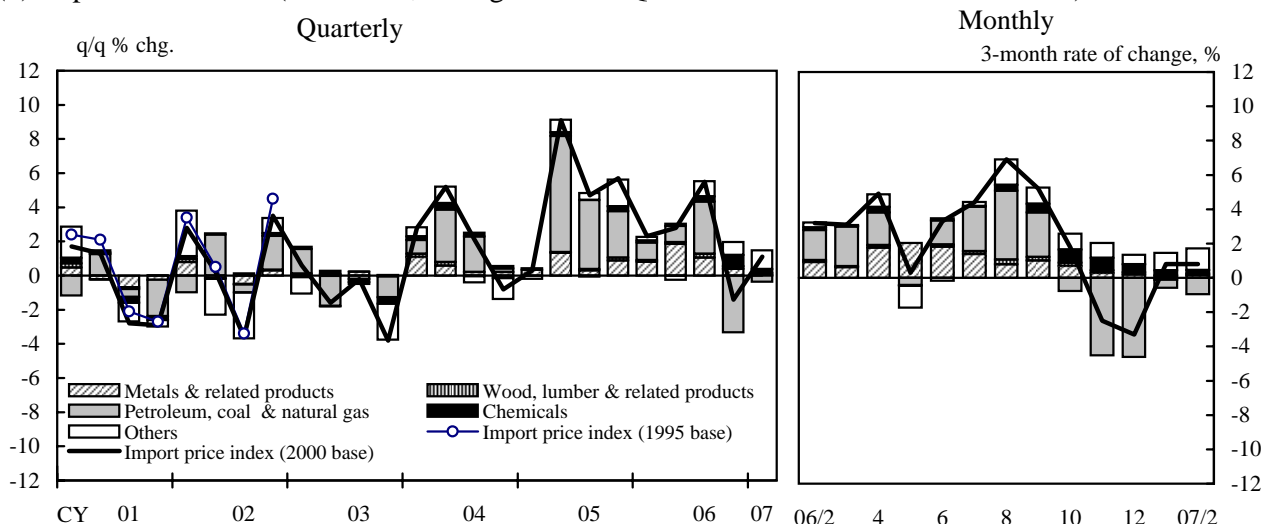
## Import Prices and International Commodity Prices

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



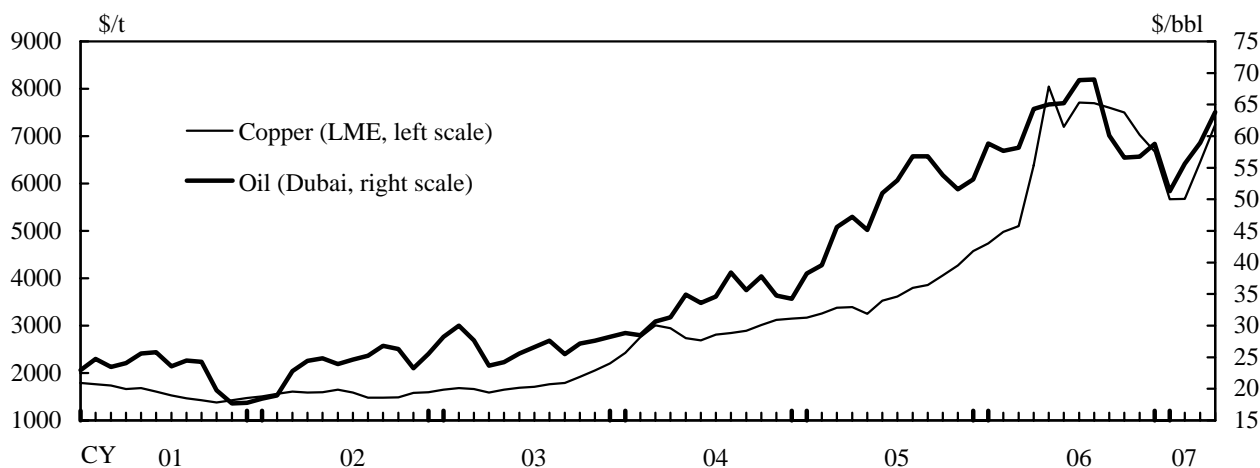
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: Figures for 2007/Q1 are January-February averages. 1995 base figure for 2002/Q4 is October-November average.

### (3) Oil Price and Copper Price

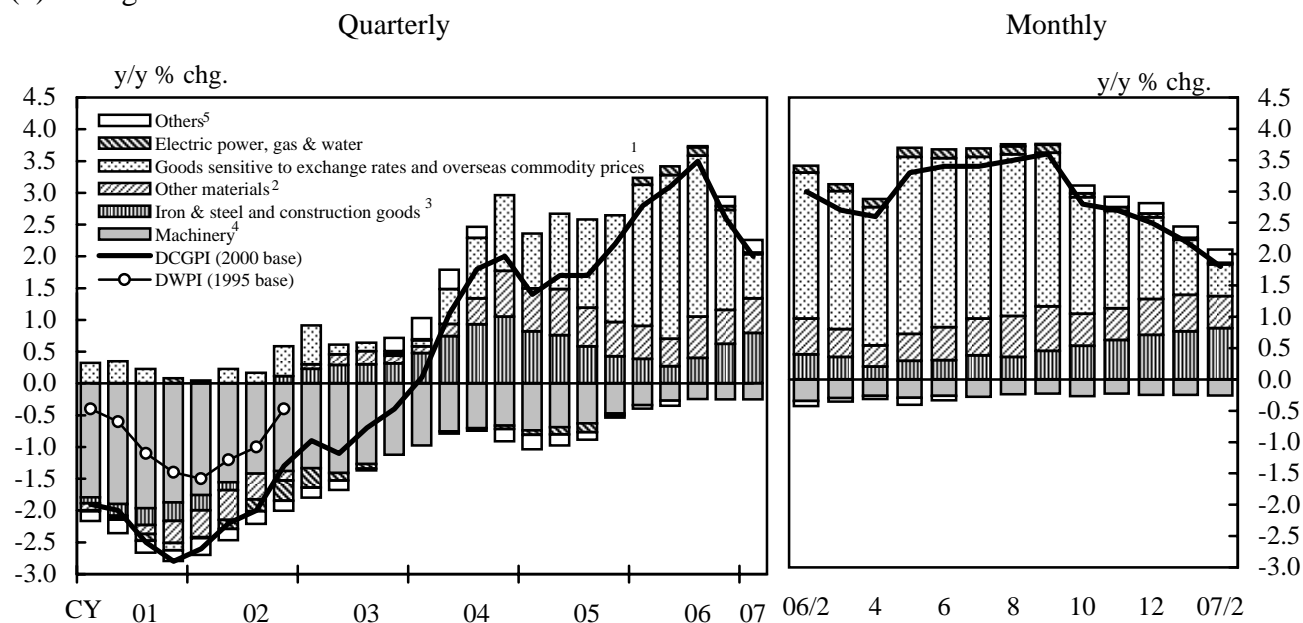
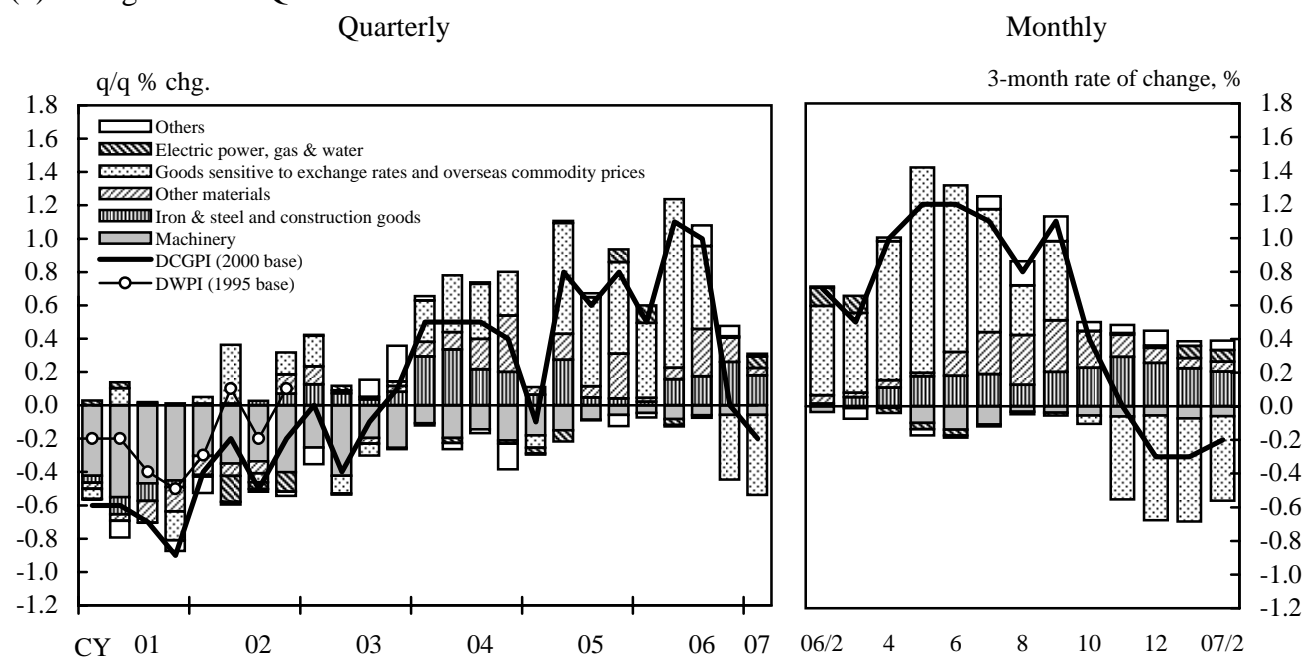


Note: Monthly averages. Figures for April 2007 are the averages up to April 9.

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

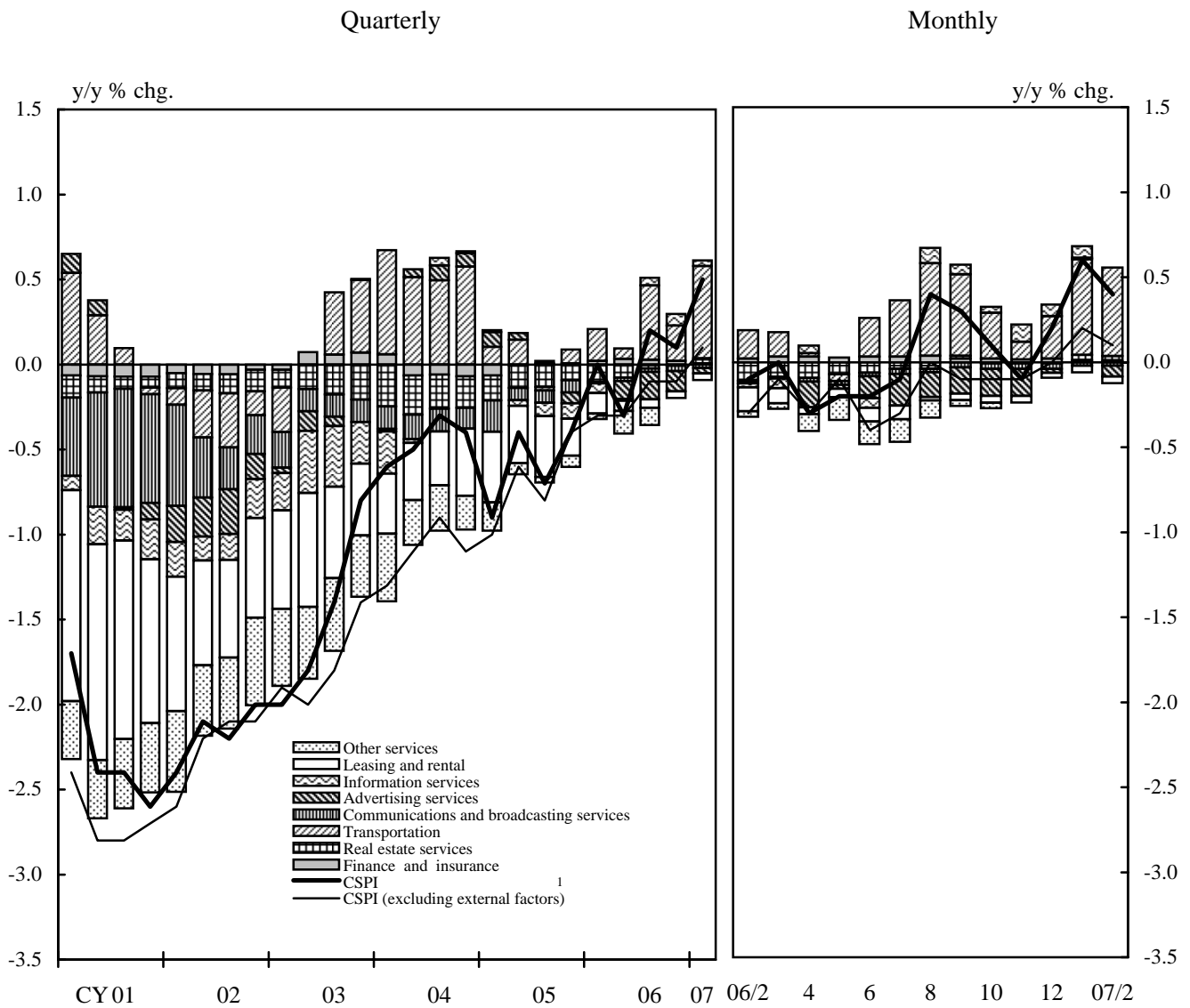
Domestic Corporate Goods Price Index<sup>7</sup>

## (1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier<sup>6</sup>

- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.
2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.
4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.
6. Adjusted to exclude a hike of electric power charges in summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
7. Figures for 2007/Q1 are January-February averages. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index



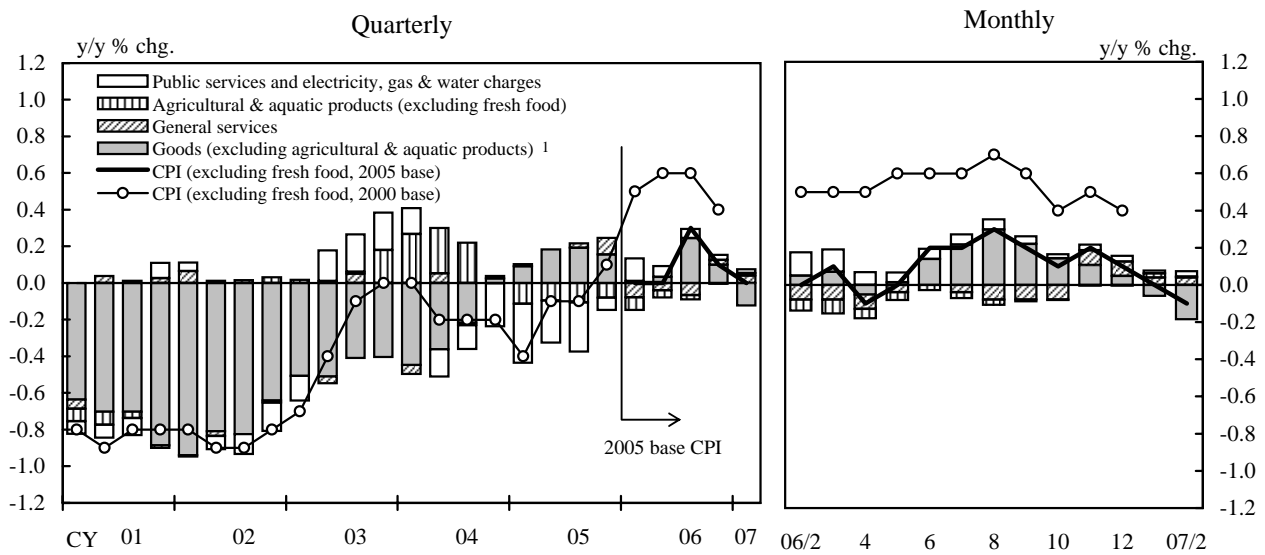
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2007/Q1 are January-February averages.

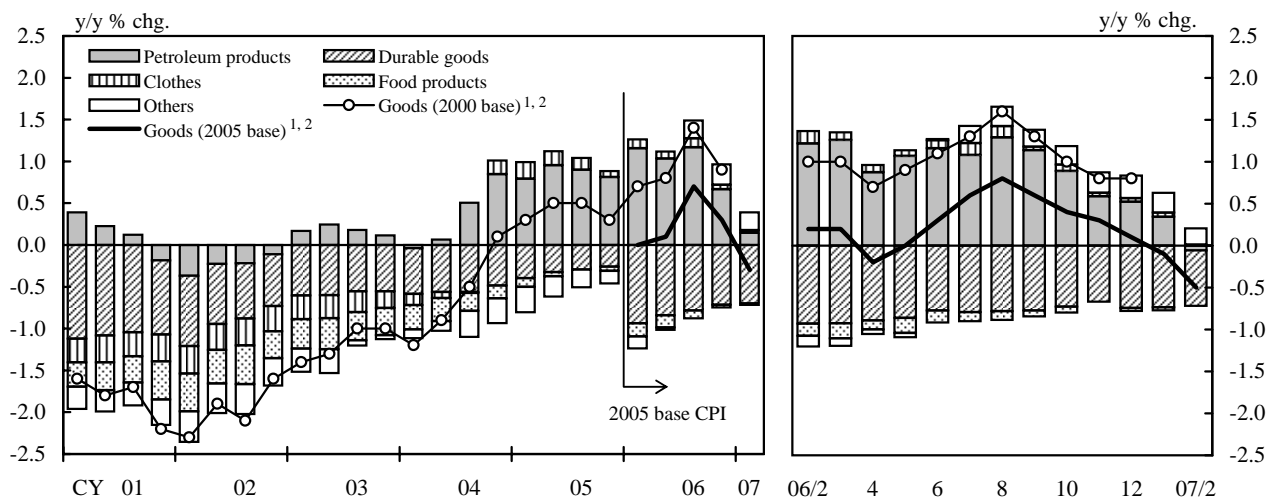
Source: Bank of Japan, "Corporate Service Price Index."

# Consumer Price Index (Excluding Fresh Food)

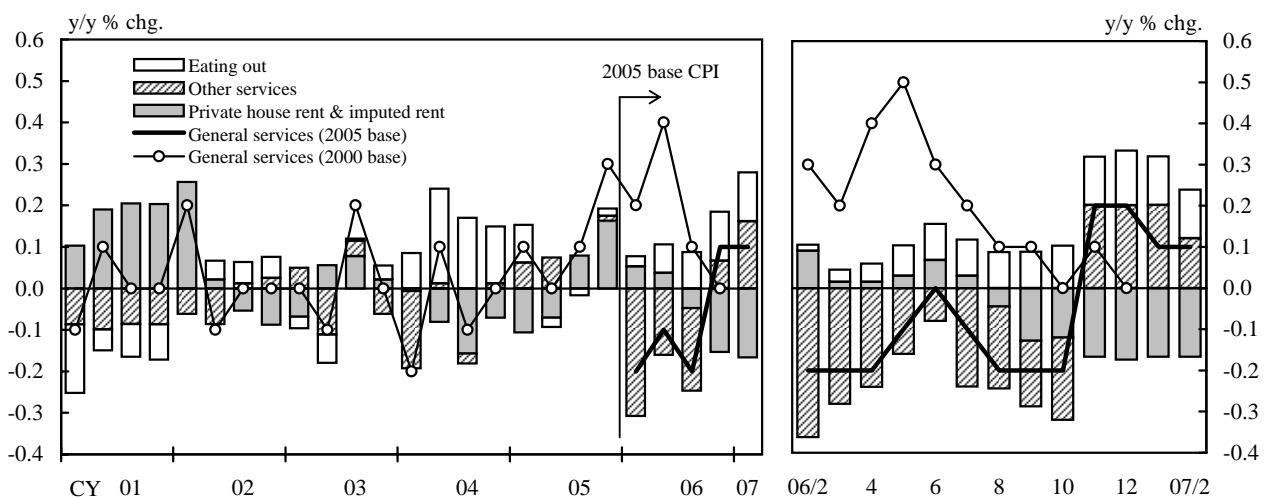
## (1) Consumer Price Index (Excluding Fresh Food)



## (2) Goods (Excluding Agricultural & Aquatic Products) <sup>1</sup>



## (3) General Services



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

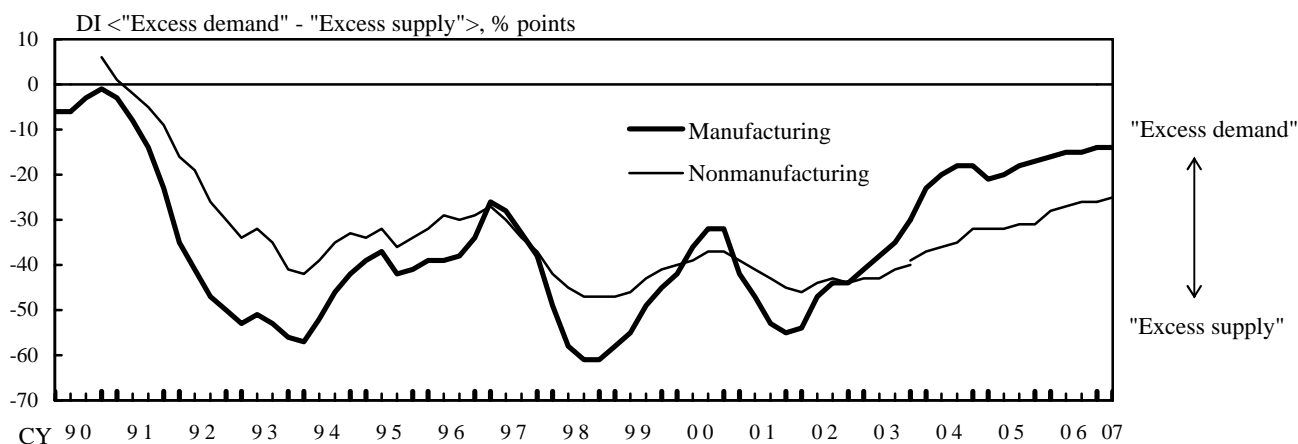
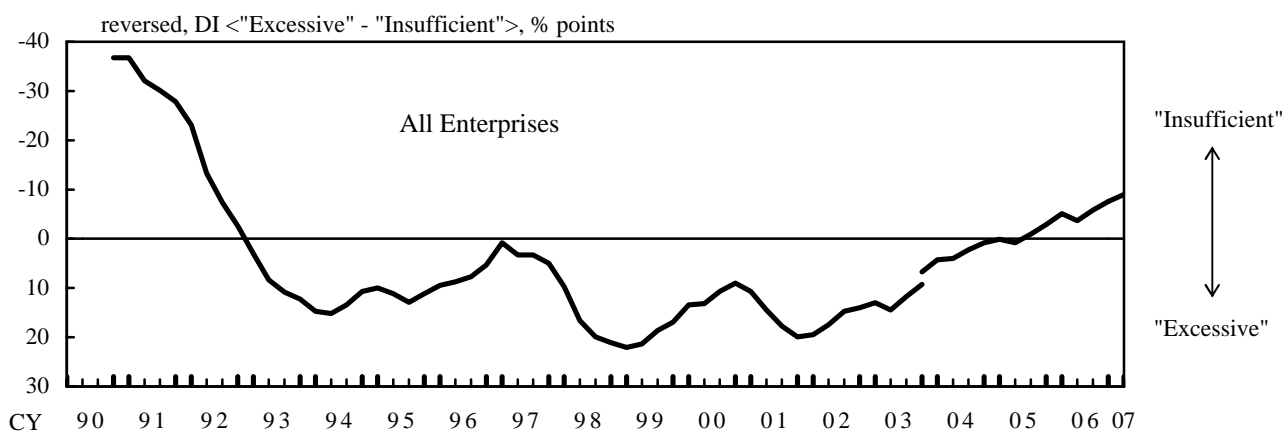
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q1 are January-February averages.

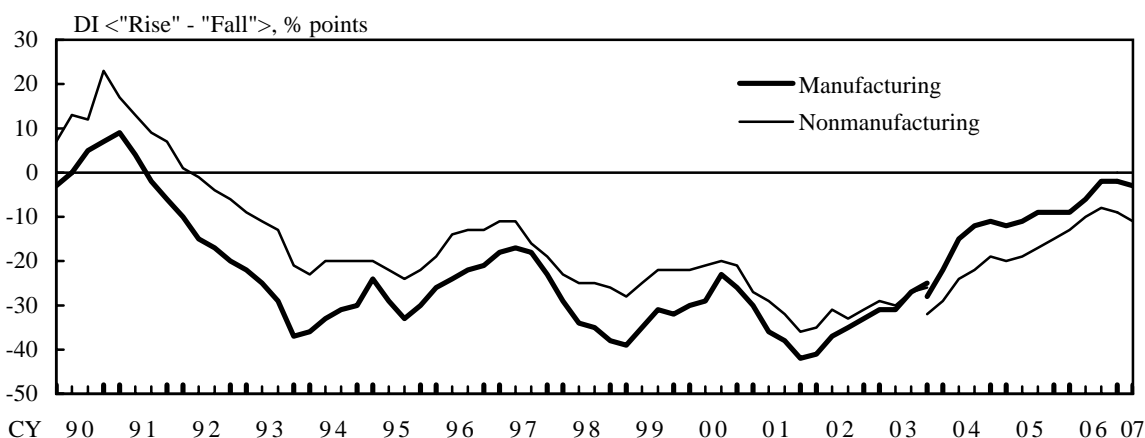
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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

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

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

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



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

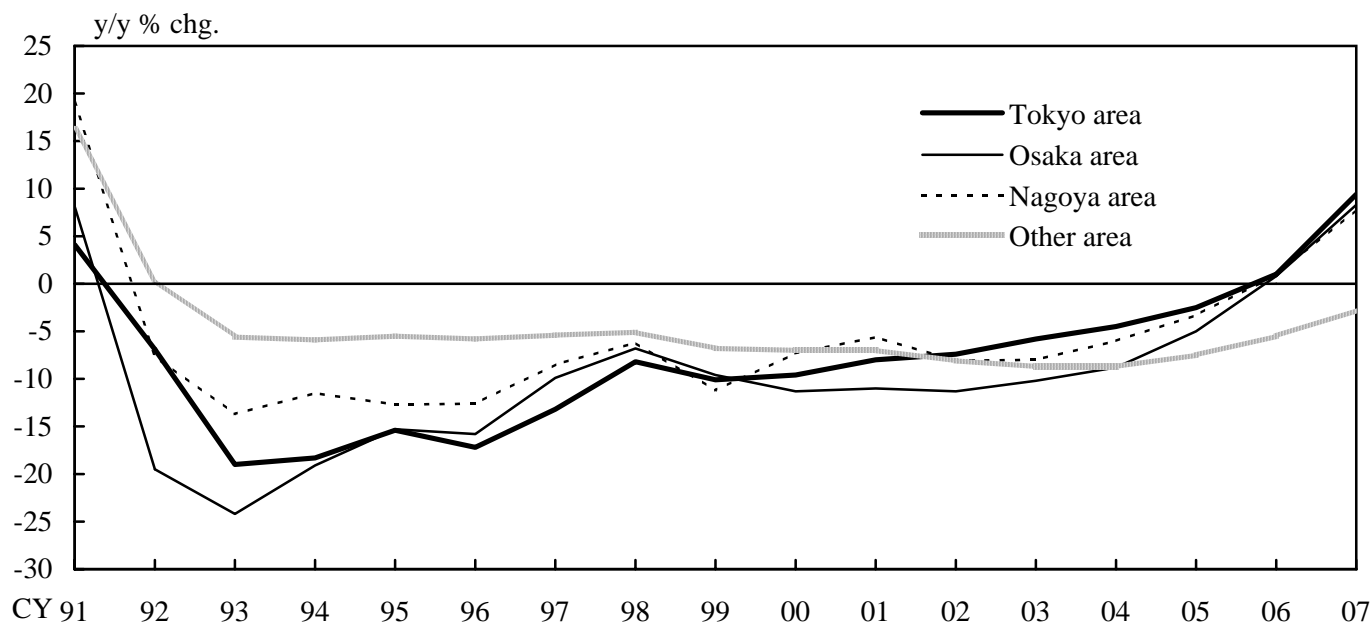
2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2005 averages of capital and labor shares in national accounts are used as the weight.

Sources: Cabinet Office, "National Accounts";

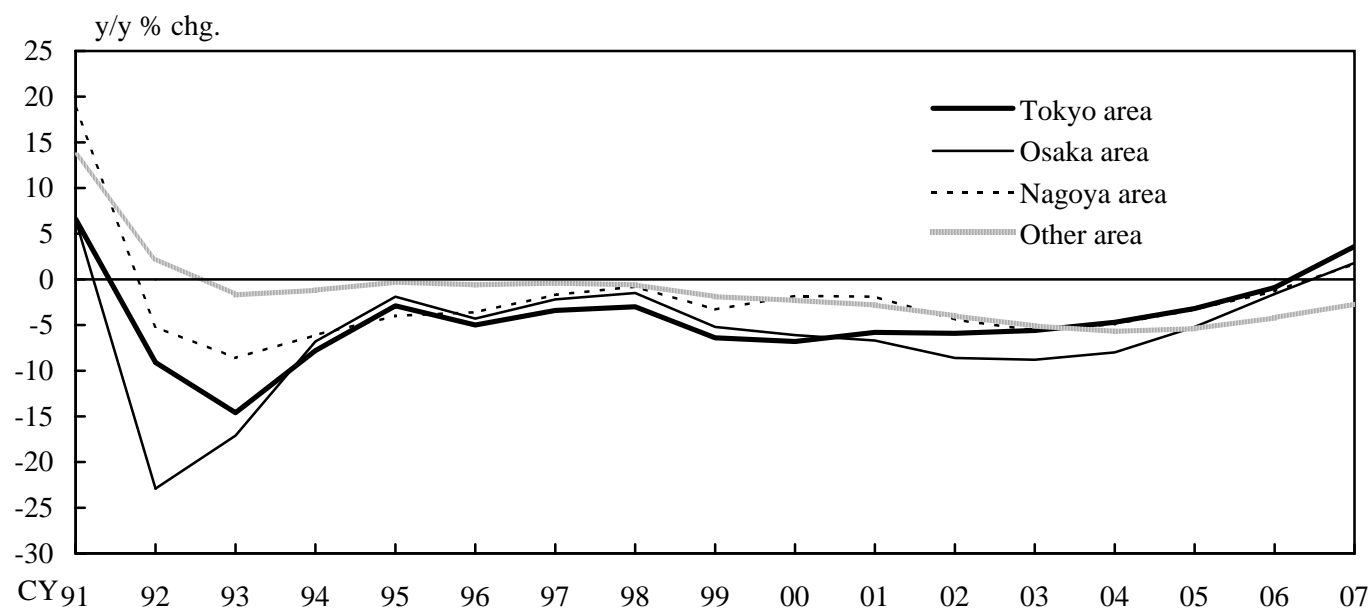
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan."

## Land Prices

## (1) Commercial land (Average change &lt;as of January 1st&gt;)



## (2) Residential land (Average change &lt;as of January 1st&gt;)

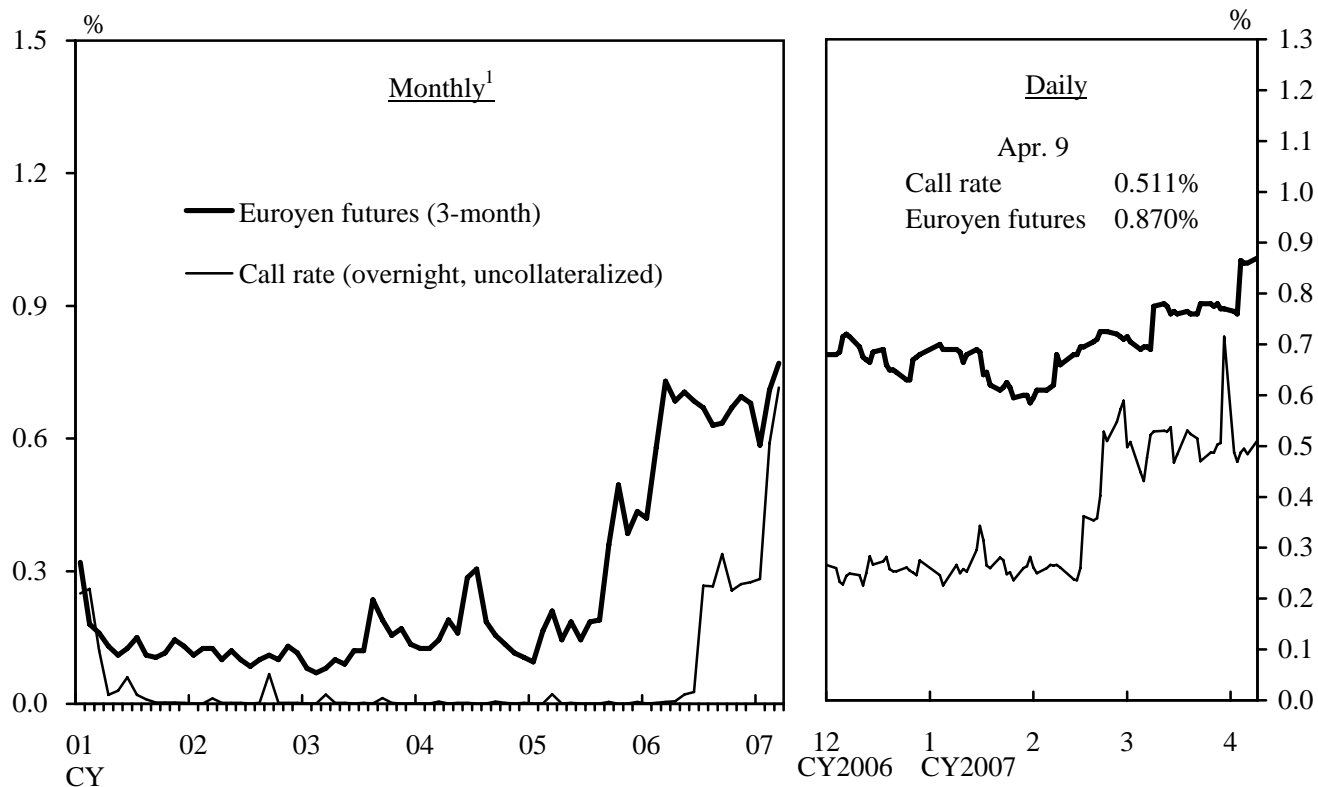


Note: Publication of Land Price, surveyed by the Ministry of Land, Infrastructure and Transport, shows the land prices as of January 1st.

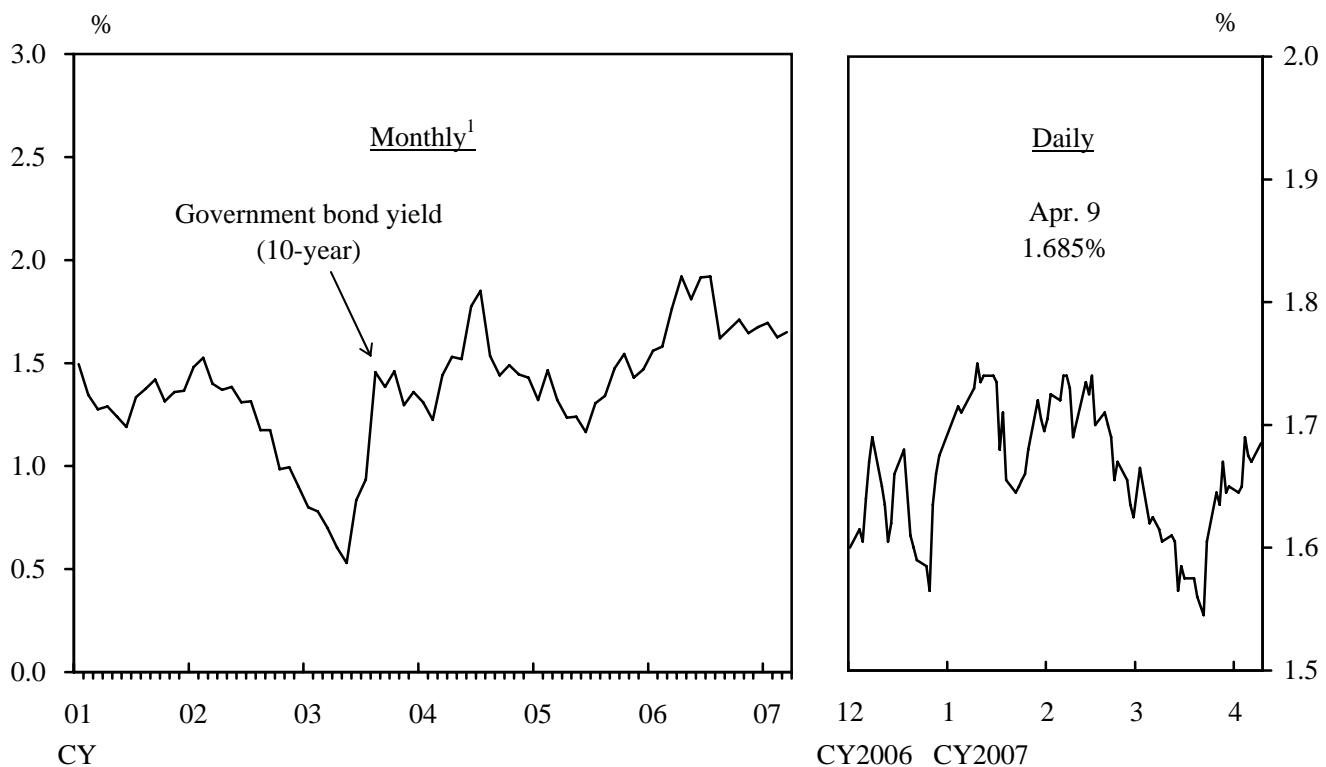
Sources: Ministry of Land, Infrastructure and Transport, "Publication of Land Price."

Interest Rates

(1) Short-Term



(2) Long-Term

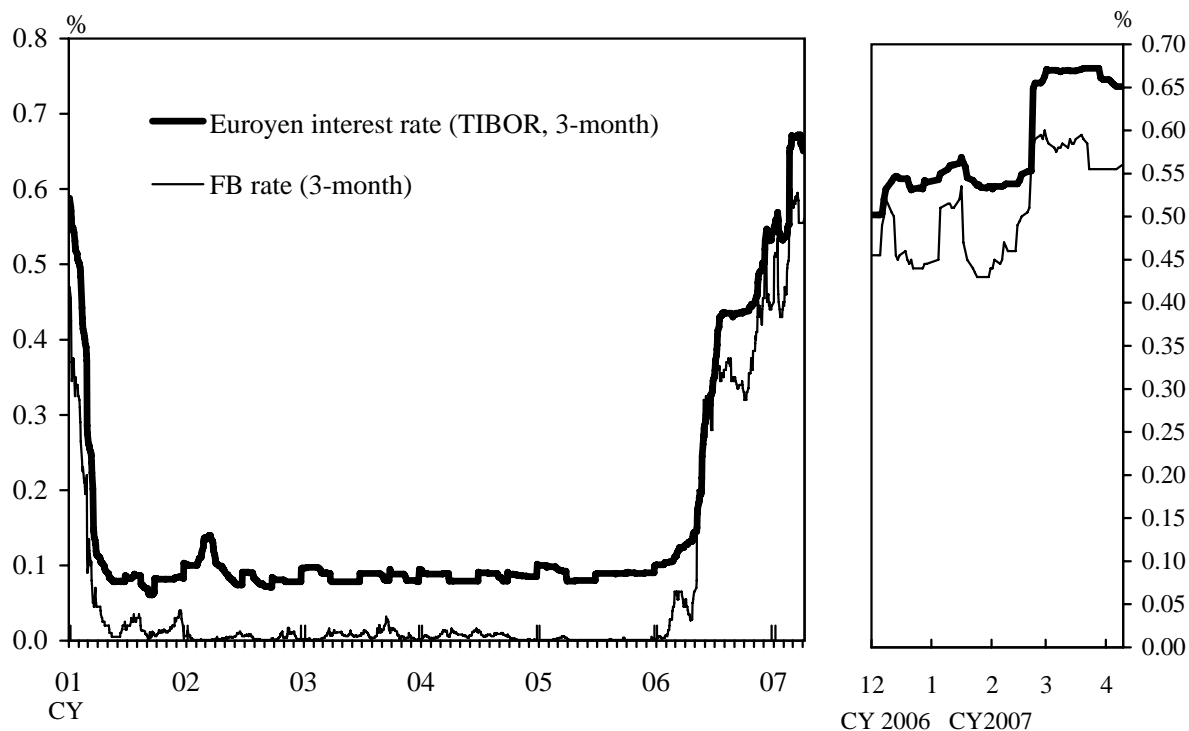


Note: 1. End of month.

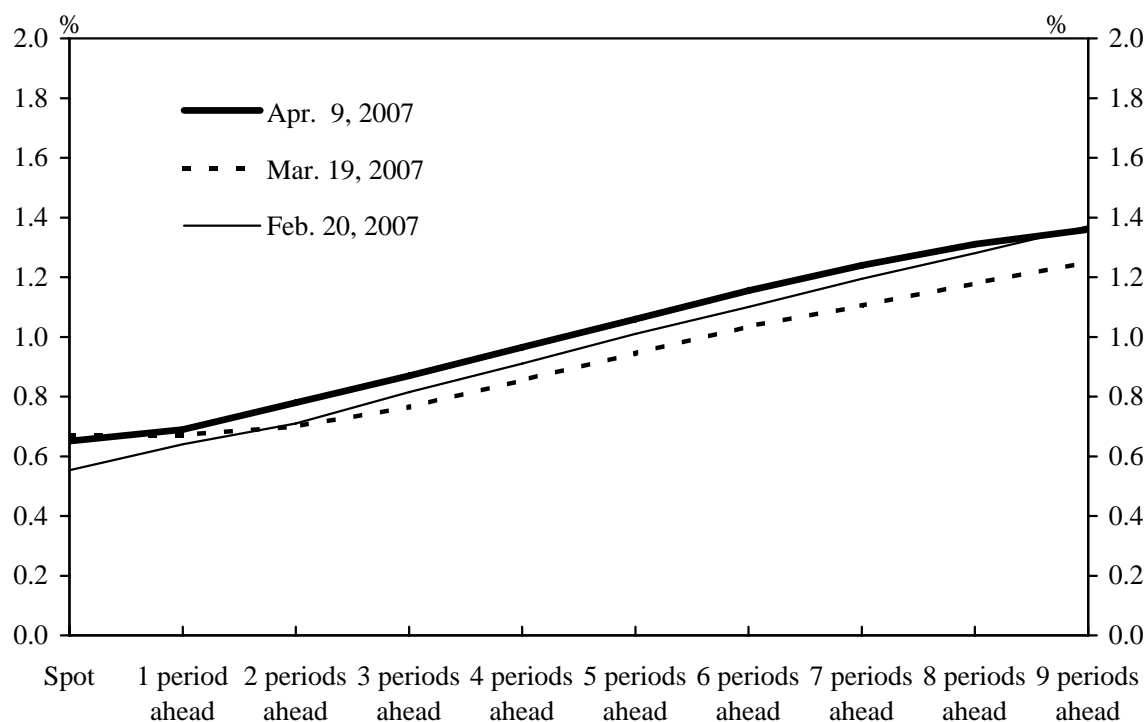
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



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

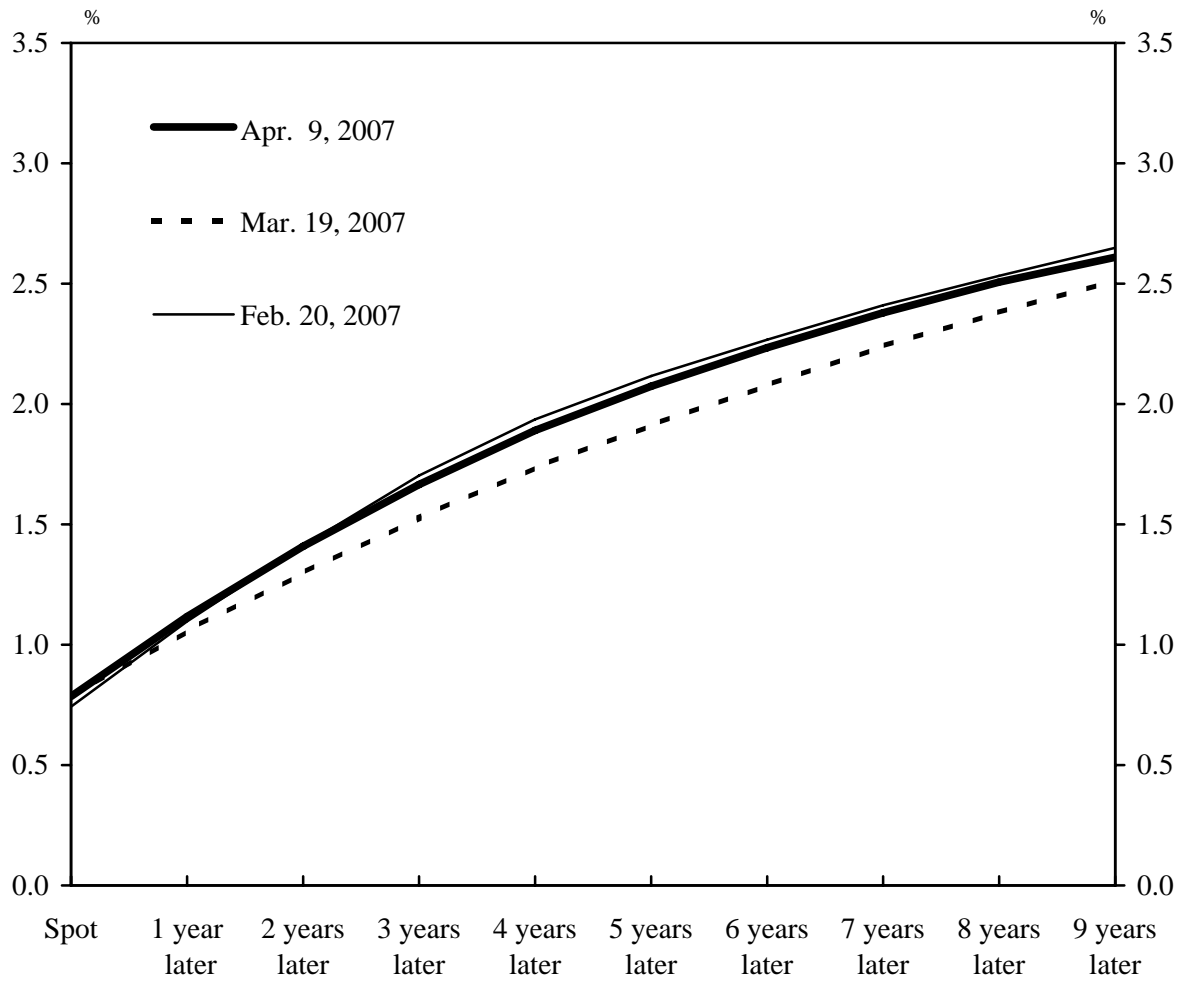


Note: 1. Contract months in the figure (2) exclude "serial months," the months other than March, June, September and December.

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



Implied Forward Rates (1-Year)

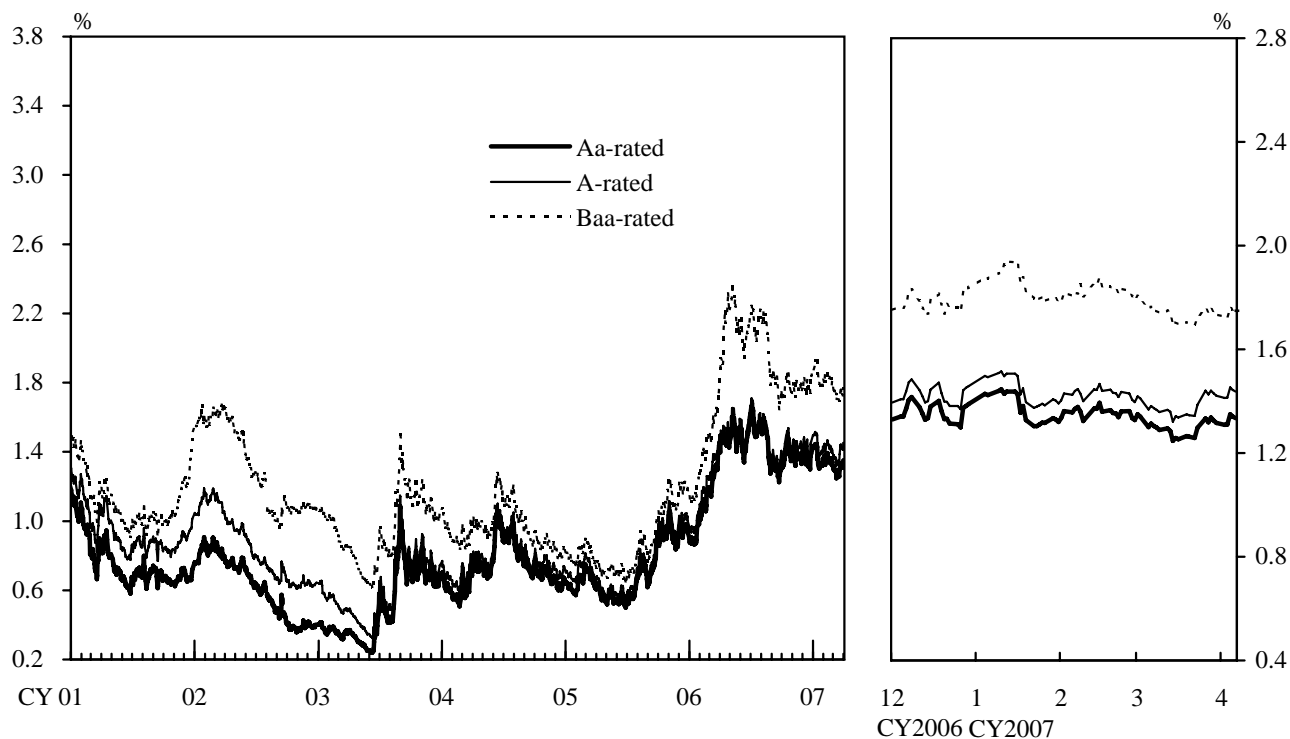


Note: Calculated from yen-yen swap rates.

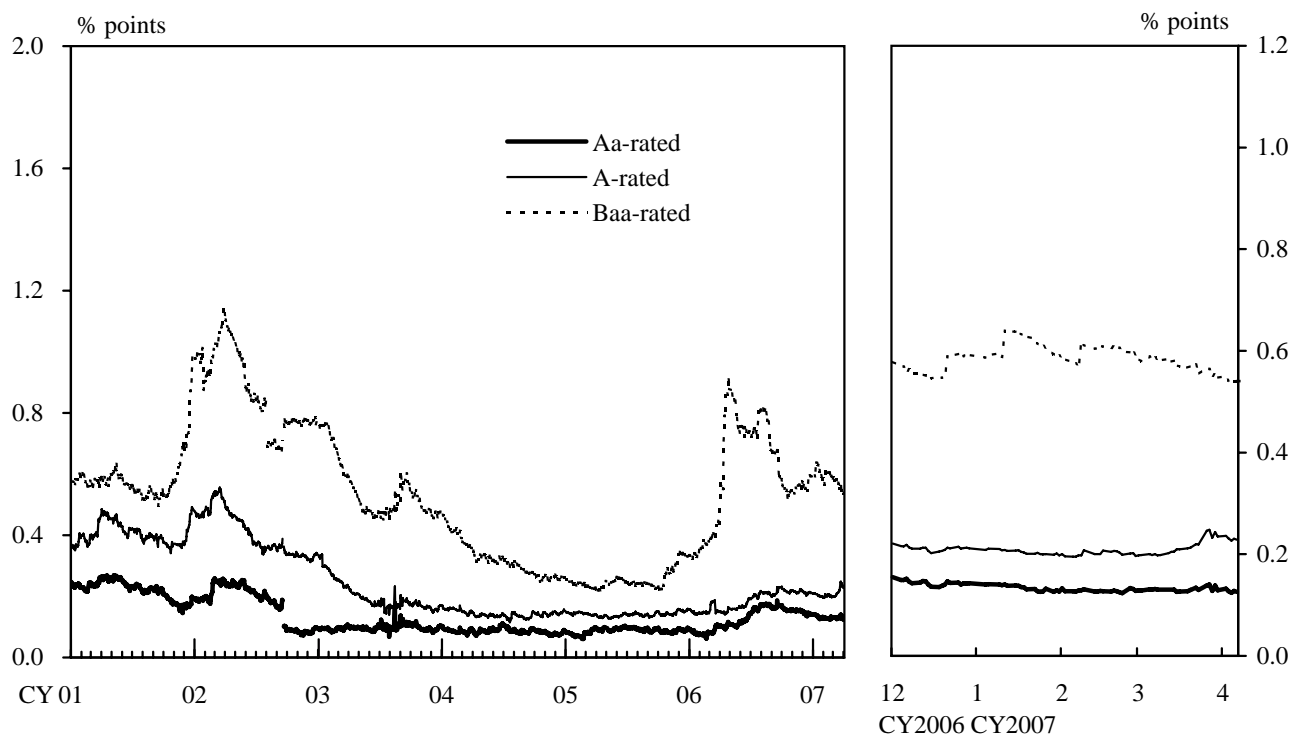
Source: Reuters.

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.

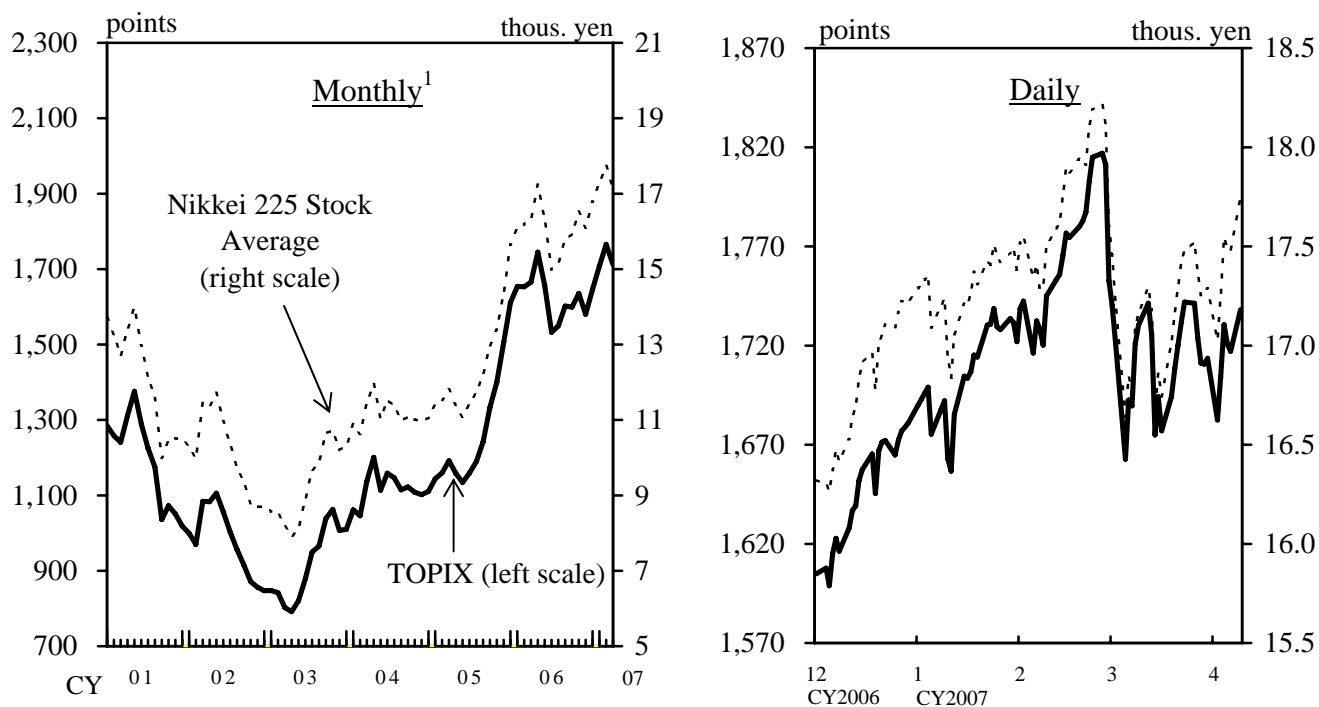
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

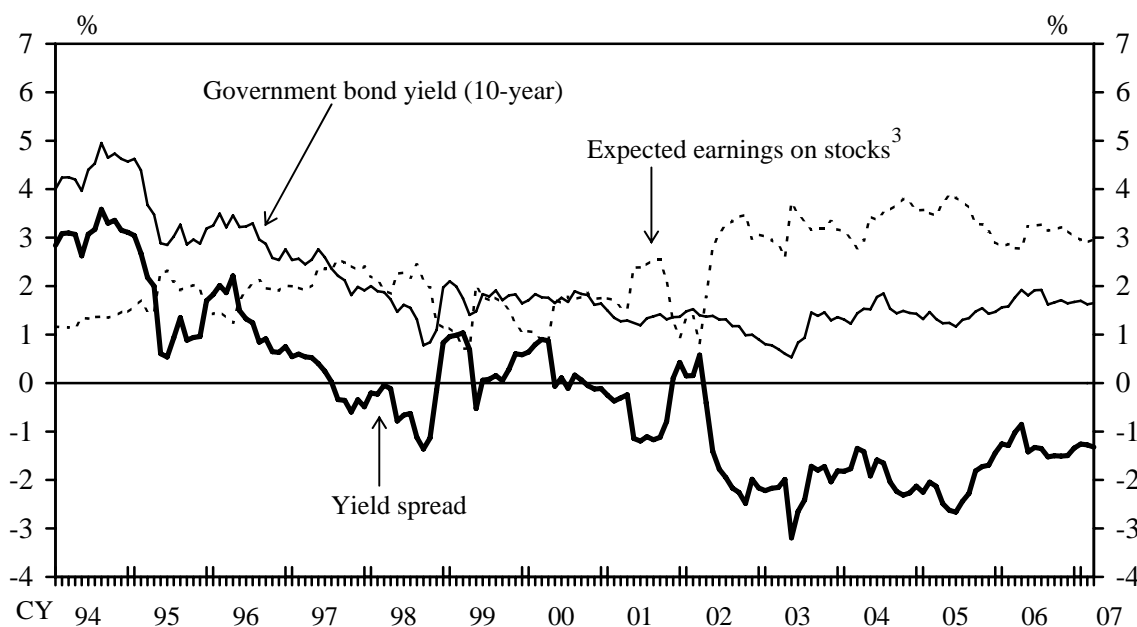
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



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



Notes: 1. Data are monthly averages.

2. Data are at end of period.

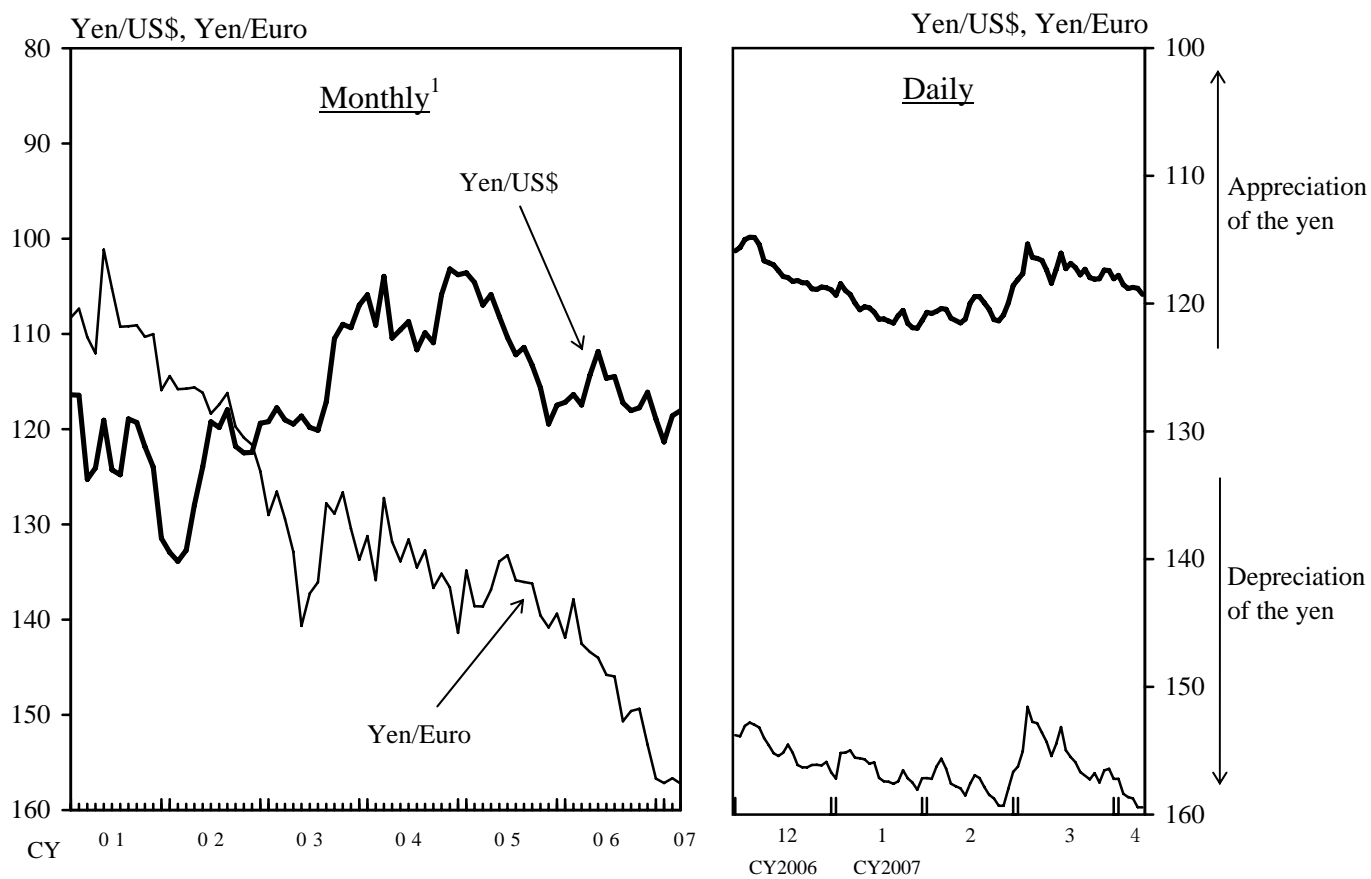
Yield spread = government bond yields - expected earnings on stocks,  
 where expected earnings on stocks = 1/expected price earnings ratio.

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

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

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

## Exchange Rates

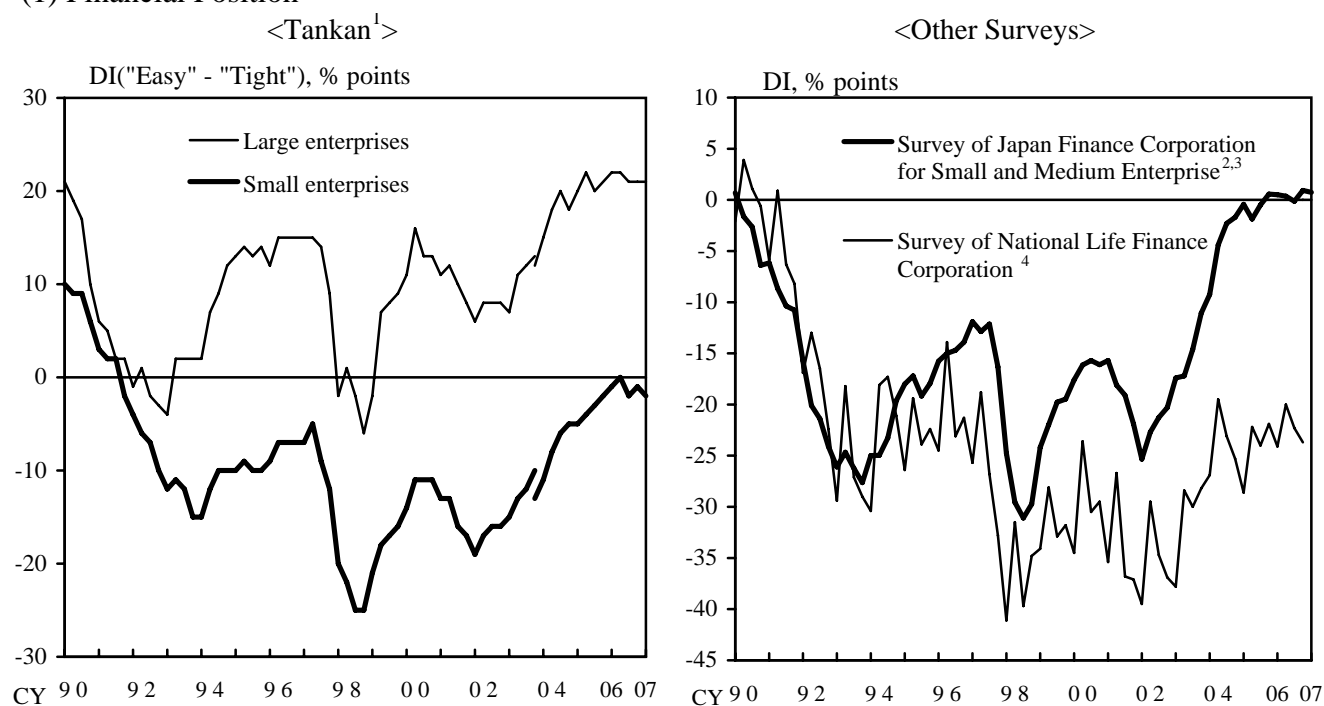


Note: 1. End of month.

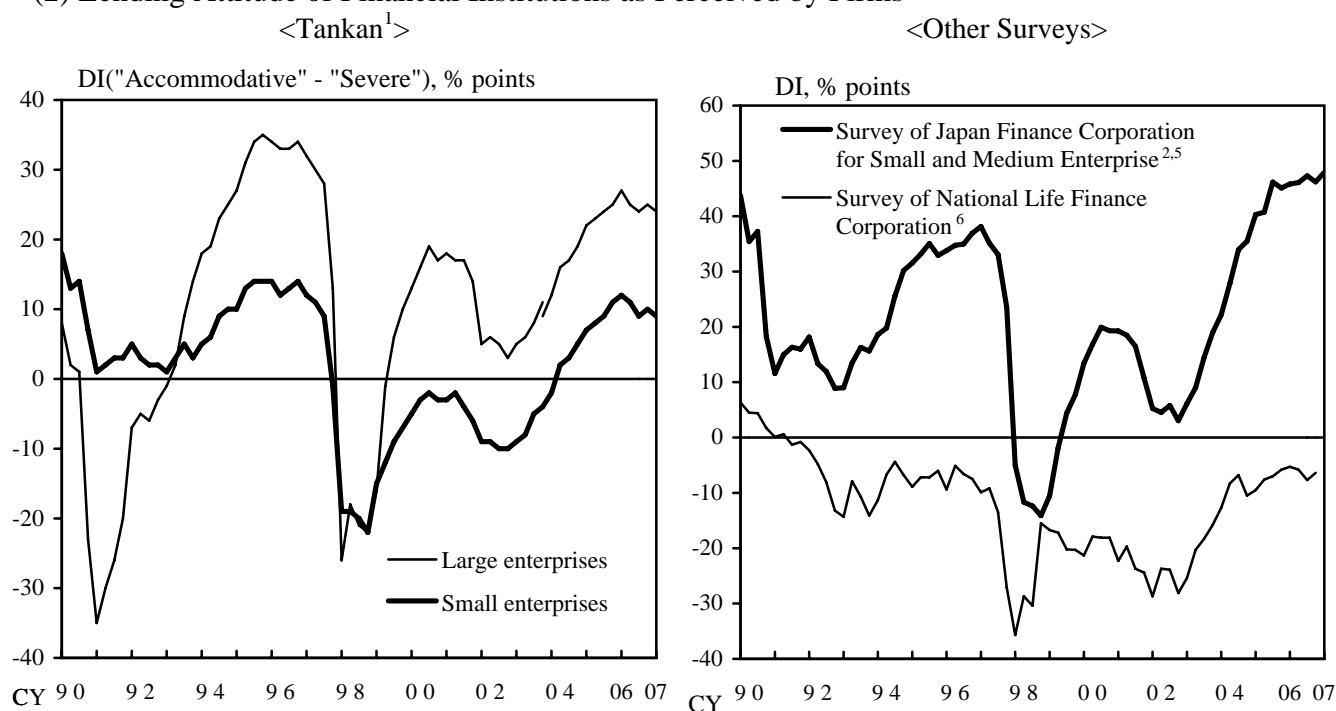
Source: Bank of Japan.

## Corporate Finance-Related Indicators

## (1) Financial Position



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



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

2. Figures are quarterly averages of monthly data.

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

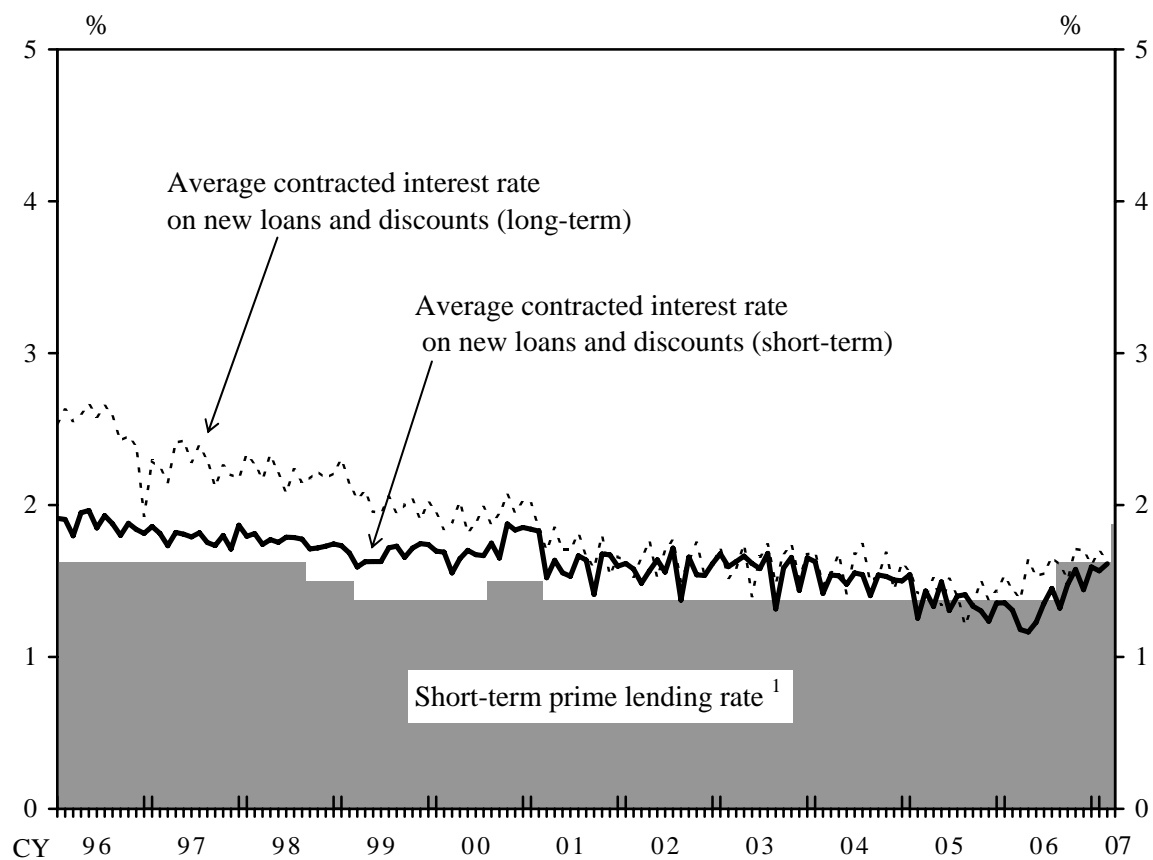
4. DI of "Easier" - "Tighter."

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

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

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

## Lending Rates

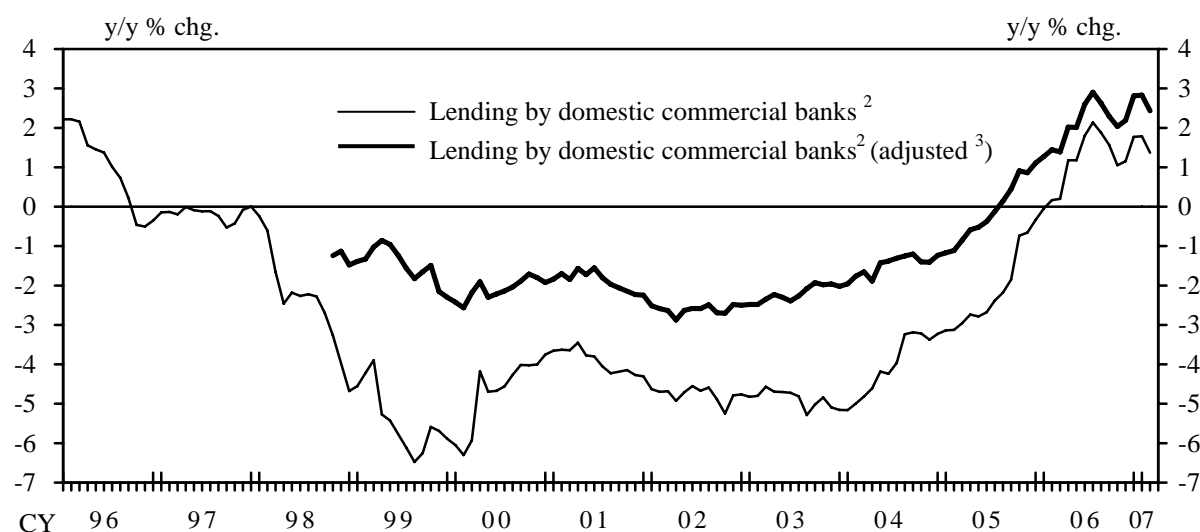


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

### (1) Lending by Domestic Commercial Banks<sup>1</sup>



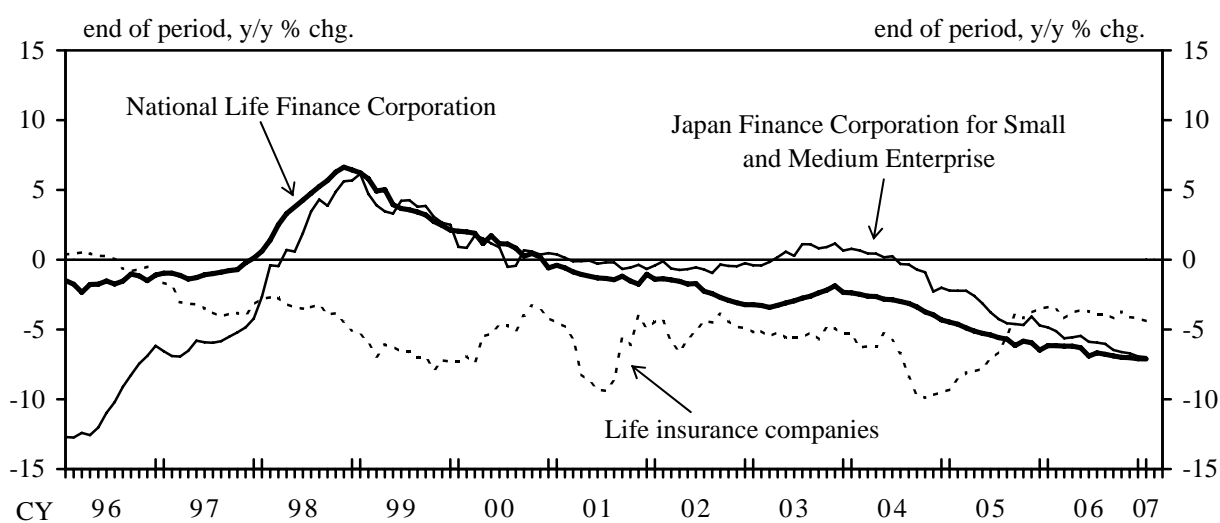
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

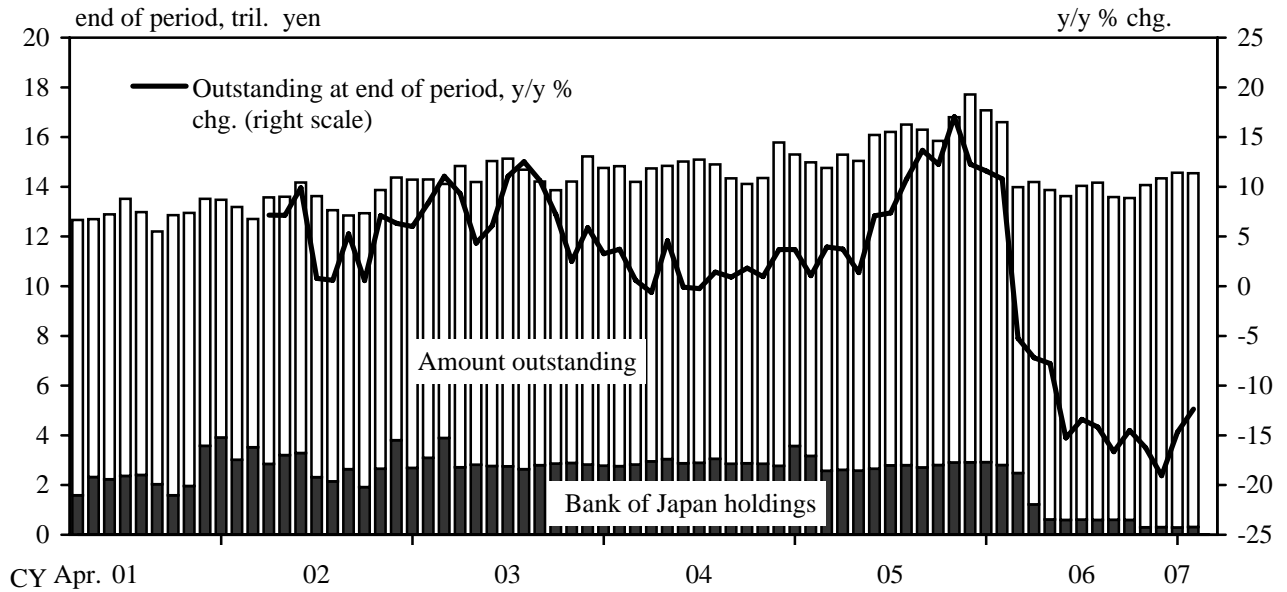
### (2) Lending by Other Financial Institutions



Source: Bank of Japan.

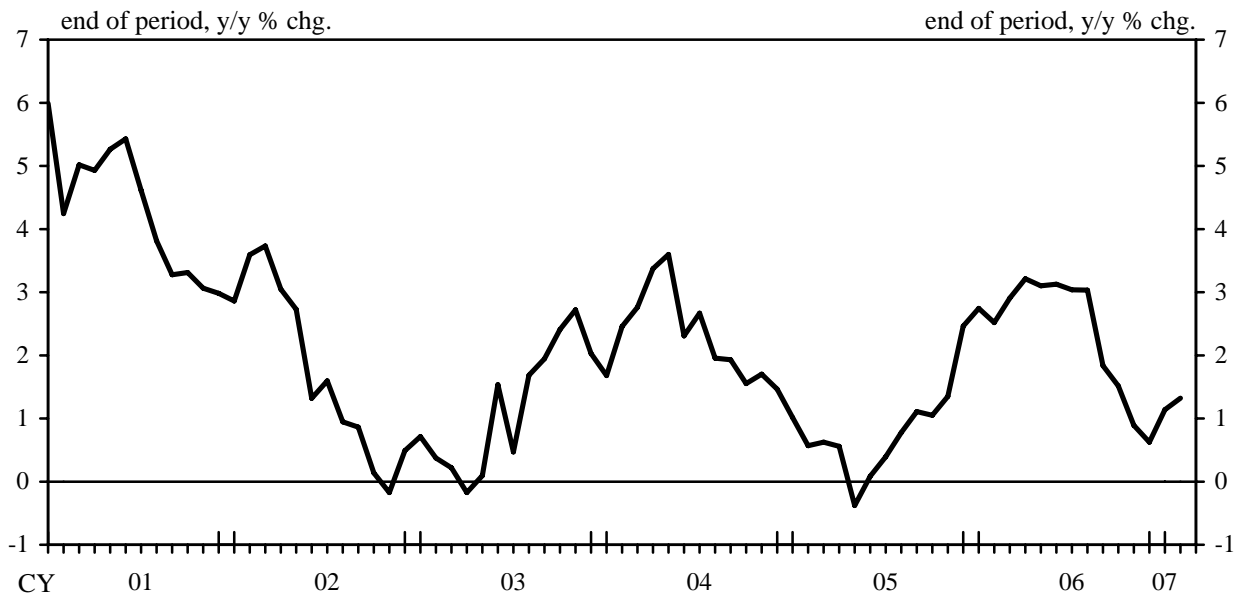
Private-Sector Fund-Raising in the Capital Markets

(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)



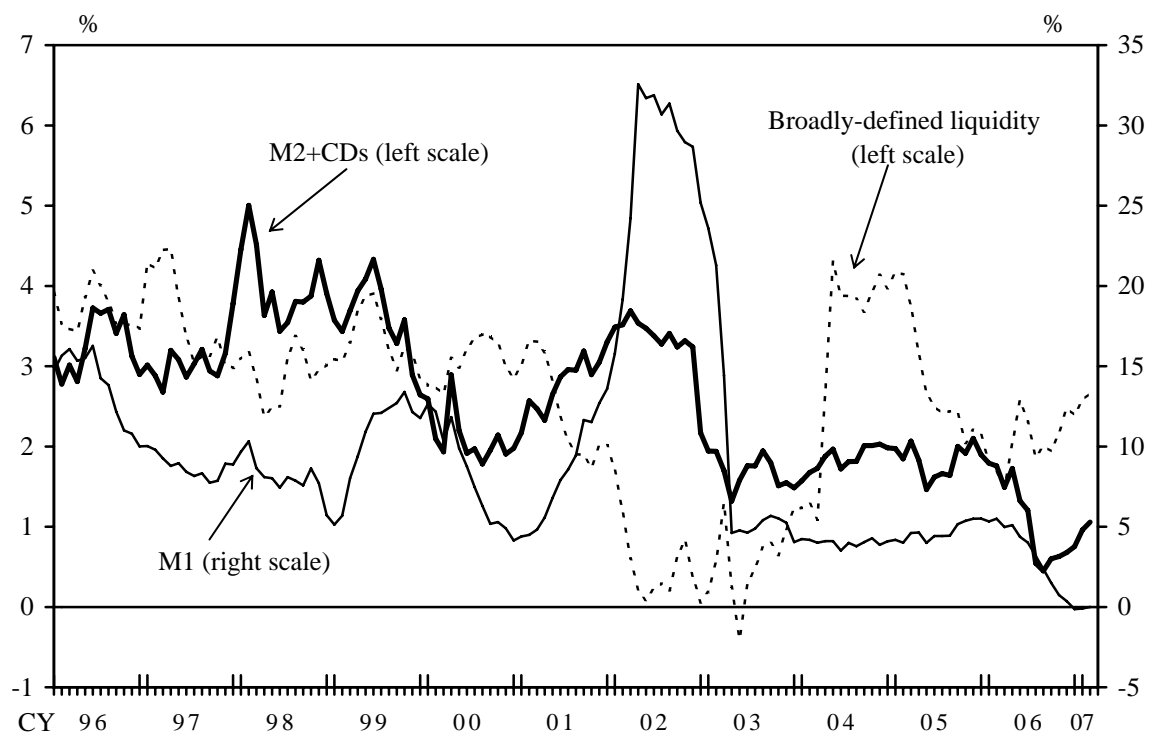
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:  
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.  
 (2) Bonds issued by banks are included.  
 (3) The figure as of the 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."

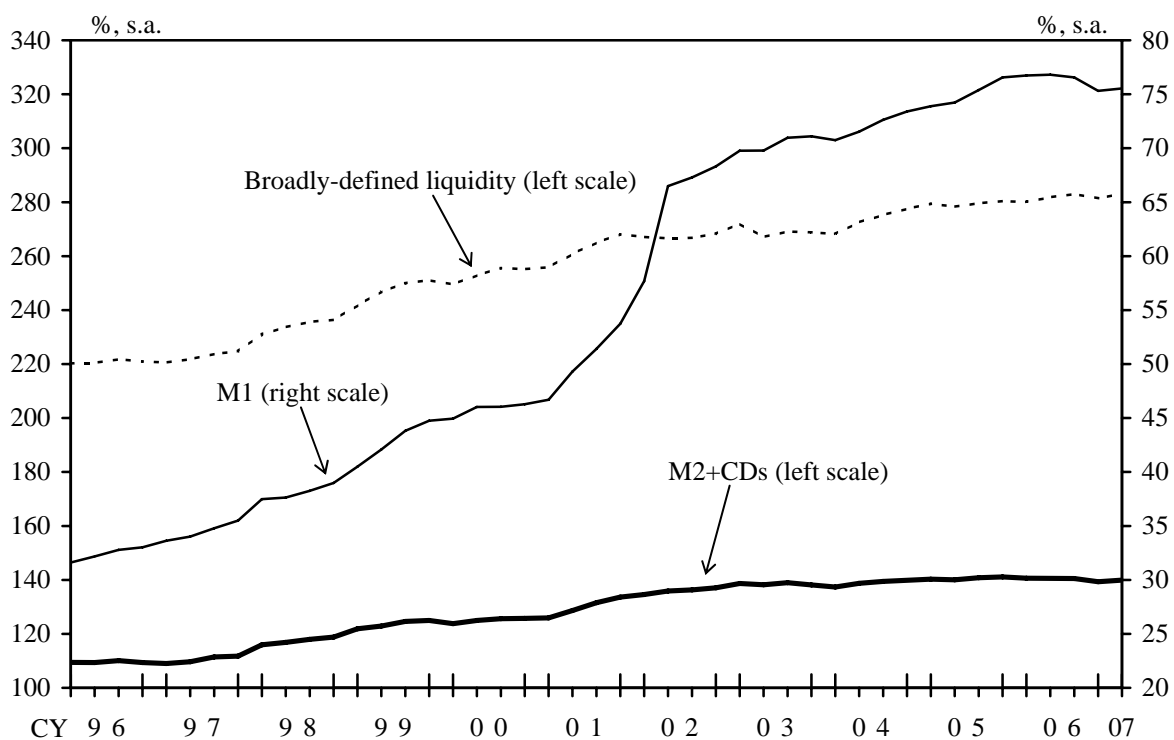


## Money Stock

## (1) Changes from a Year Earlier



## (2) Ratio of Money Stock to Nominal GDP

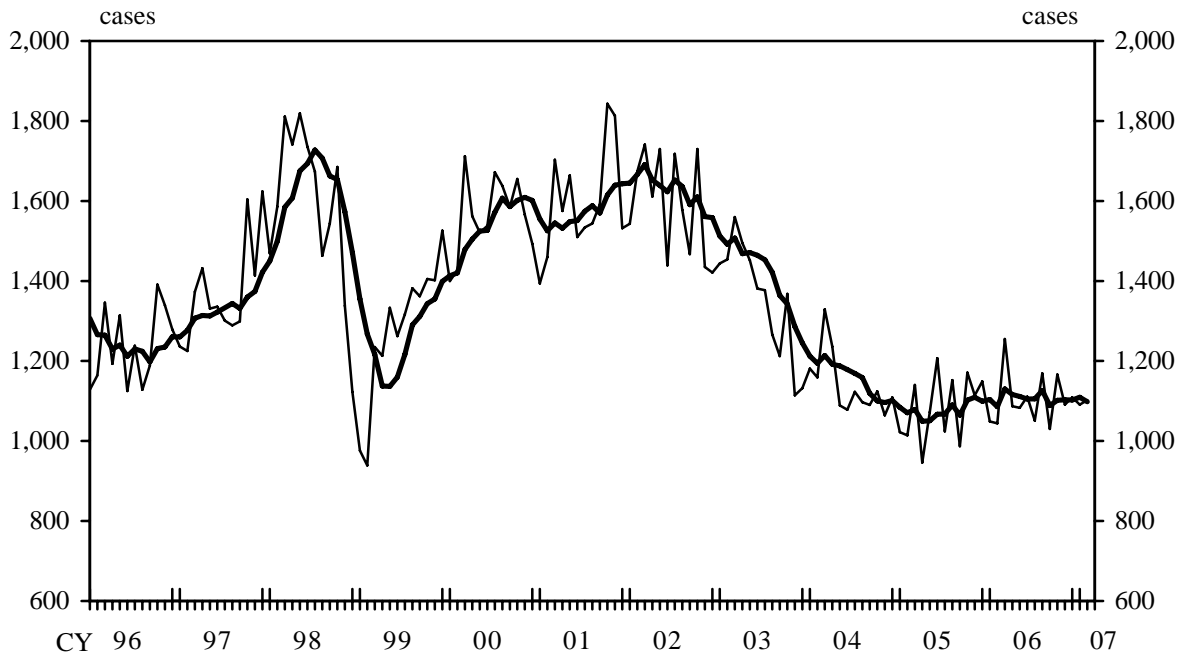


Note: Figures for money stock in 2007/Q1 are those of Jan.-Feb. averages, and the nominal GDP in 2007/Q1 is assumed to be unchanged from the previous quarter.

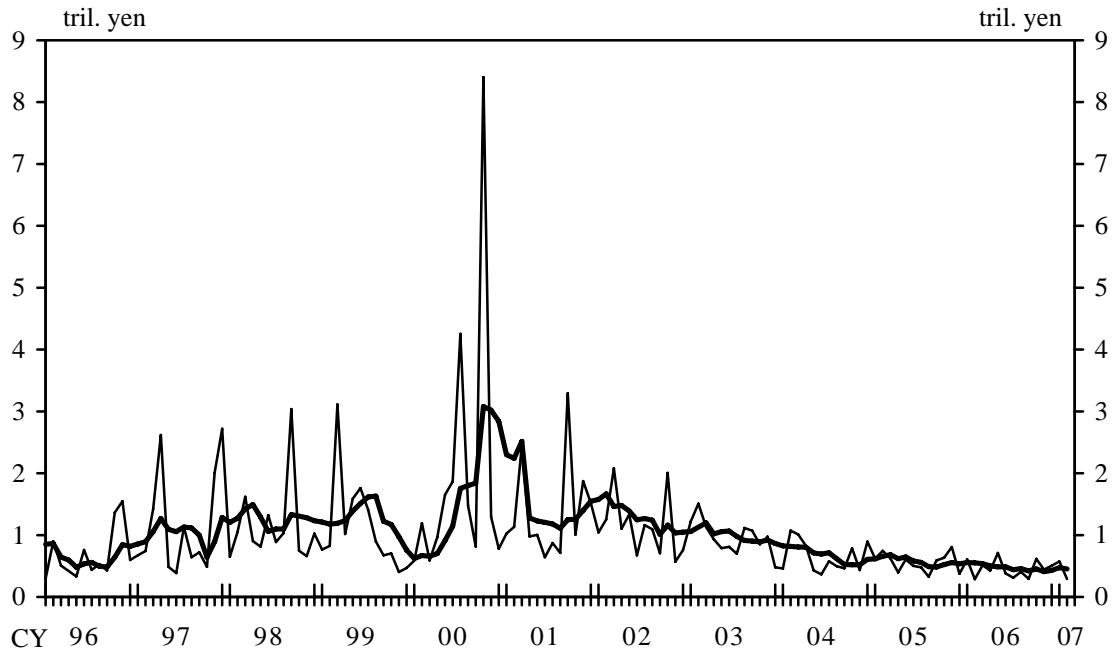
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."