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Bank of Japan

Monthly Report of Recent Economic and Financial Developments

June 2007

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Secretariat of the Policy Board, Bank of Japan
C.P.O. Box 203, Tokyo 100-8630, Japan

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Monthly Report of Recent Economic and Financial Developments¹

June 2007

The Bank's View²

Japan's economy is expanding moderately.

Public investment has been declining as a trend, although it has recently been flat. Meanwhile, exports have continued to increase, and business fixed investment has also continued to increase against the background of high corporate profits. 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, the three-month rate of change in domestic corporate goods prices has been positive, mainly due to the rise in international commodity prices. The year-on-year rate of change in consumer prices (excluding fresh food) has been around zero percent, due to earlier declines in crude oil prices.

Domestic corporate goods prices are expected to continue increasing in the immediate future, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is expected to be around zero

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 14 and 15, 2007.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on June 14 and 15, 2007.

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 somewhat above 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 in the range of 1.0-2.0 percent. As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.5 percent. Interest rates on term instruments have risen compared with last month. In the foreign exchange and capital markets, long-term interest rates have risen compared with last month, while the yen's exchange rate against the U.S. dollar has fallen compared with last month. Stock prices have been around the same level as last month.

The Background

1. Economic Developments

Public investment has been declining as a trend, although it has recently been flat (Chart 4). On a GDP basis (the second preliminary figures), real public investment dropped marginally in the first quarter, after an increase in the fourth quarter last year (Chart 3). Looking at monthly indicators, both the value of public works contracted—a measure that reflects public orders—and the amount of public construction completed—which reflects the progress of public works—have recently been more or less flat (Chart 4). 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 dropped by 2.5 percent in April alone from the first quarter. This decline, however, is largely in reaction to the relatively high quarter-on-quarter growth of 3.0 percent in the first quarter, and is also considered to be a fluctuation of a single month.

As for real exports by destination (Chart 6[1]), exports to the United States were affected by the economic slowdown, and remained somewhat weak, primarily in automobiles and capital goods; they marked a sizeable drop in April alone, mainly in automobile-related goods.³ On the other hand, exports to the EU have continued their solid increases. Exports to East Asia have been trending upward on average, although they dropped in April compared with the first quarter in reaction to the high growth in the first quarter (Chart 9). Meanwhile, exports to other regions (such as the Middle East, Mexico, and Russia) have been registering high growth, albeit with some fluctuations, chiefly in capital goods and parts and in automobile-related goods. By goods (Chart 6[2]), exports of automobile-related goods have been steady as a whole, with some fluctuations. While exports to the United States have been somewhat weak, those to Europe and other regions have continued their uptrend (Chart 7[1]). Exports of IT-related goods have continued to increase as a trend, with

³ Exports of automobiles to the United States dropped in April, responding to an increase in inventory in the United States. It appears, however, to be also caused by difficulties related to the assignment of ships.

global demand generally steady, although they seem to have retreated lately from their high growth, mainly to China, in the latter half of last fiscal year (Charts 8[1] and 9[2]).⁴ 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]). Moreover, exports of intermediate goods have been on a gradual uptrend, mainly in high value-added goods used for IT-related goods and automobiles (Chart 7[3]). Exports of consumer goods have also been on a moderate uptrend, mainly in digital home appliances, with the fluctuations smoothed out.

Real imports have been more or less level, despite the expansion of the domestic economy; they have been affected by the increase in import prices due to the rise in international commodity prices and the depreciation of the yen (Charts 5[1] and 11). Real imports dropped, by 0.5 percent, in the fourth quarter last year, but inched up, by 0.4 percent, in the first quarter on a quarter-on-quarter basis. They fell back, by 3.8 percent, in April compared with the first quarter. The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued their increasing trend, albeit at a slower pace. On the other hand, imports of consumer goods and foodstuffs have been sluggish from the rise in prices of imported goods caused by the yen's depreciation. 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. Meanwhile, those of IT-related goods have been rising as a trend, although they have been somewhat weak since the end of last year; they were affected by the deterioration in the domestic shipment-inventory balance.

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 has increased lately.

⁴ The large increase in exports of IT-related goods to China in the fourth and first quarters was 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 since the end of last year. Imports of game consoles fall outside the categorization by goods shown in Chart 11(2).

Exports are expected to continue to rise, supported in part by the depreciation of the yen, as overseas economies overall continue to expand (Chart 10[2]). As for the environment surrounding exports, in the United States, uncertainty regarding the outlook for housing investment persists, but 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, particularly in digital home appliances, has continued to be steady, and global semiconductor shipments have also continued to advance as a trend, albeit with fluctuations (Chart 8[2]).⁵ 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 be more or less flat for the time being, since the effects of the rise in import prices remain.

Business fixed investment has continued to increase. On a GDP basis (the second preliminary figures), real business fixed investment in the first quarter was revised upward from the first preliminary figures; it has increased, albeit marginally, for the fifth consecutive quarter (Chart 3). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms has also continued to increase (Chart 12[1]). By industry and size (Chart 13), in the manufacturing sector, investment by both large-sized and small-and-medium-sized firms has continued an uptrend. As for the nonmanufacturing sector, investment by large-sized firms has been on an uptrend, while that by small-and-medium-sized firms has remained essentially flat. Looking at monthly indicators, shipments of capital goods (excluding transport equipment)—a

⁵ Global semiconductor shipments also dropped in April from the first quarter, when they declined on a quarter-on-quarter basis. These declines, however, seem to be largely attributable to the drop in market prices during those times, mainly in DRAM, rather than a decrease in quantity.

coincident indicator of machinery investment—have continued their increasing trend on average, but at a reduced pace (Chart 14[1]). Machinery orders (private demand, excluding shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—have recently been more or less flat at high levels with some fluctuations (Chart 15[1]).⁶ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have also continued to be flat at high levels (Chart 15[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been high. Profits of listed firms in fiscal 2006 have resulted in an increase for the fifth consecutive year.⁷ According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales has been high on the whole (Chart 12[2]), although it appears to be affected by the rise in raw materials costs and in selling and general administrative expenses.

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.⁸

Private consumption has been firm. On a GDP basis (the second preliminary figures), real private consumption marked a sizeable drop in the third quarter last year, but then registered somewhat high growth in the fourth and first quarters (Chart 3). Looking at individual indicators on consumption (Charts 16 and 17), sales at department stores and supermarkets were steady in January-February, but were relatively weak in March-April, particularly in spring apparel, due in part to the

⁶ Forecasts for the second quarter—for private demand, excluding shipbuilding and orders from electric power companies—show that orders are projected to drop significantly, by 11.8 percent on a quarter-on-quarter basis. In the past few years, however, the actual results of the second quarter have turned out to be considerably higher than the forecasts. Hence, the rate of decline in the forecasts should be discounted.

⁷ According to the *Nihon Keizai Shimbun, Inc.*, current profits of listed firms nationwide (1,626 non-financial corporations; on a consolidated basis; final results as of June 1) rose by 11.2 percent in fiscal 2006 on a year-on-year basis.

⁸ According to the fixed investment survey (as of April 25) by the *Nihon Keizai Shimbun, Inc.*, business fixed investment plans of large firms in fiscal 2007 are projected to move up by 8.7 percent on a year-on-year basis. This is the fifth consecutive annual increase, although the pace has moderated from the double-digit increases of fiscal years 2004-2006.

somewhat low temperatures. Sales at convenience stores have been more or less flat of late. As for sales of household electrical appliances, sales of digital home appliances such as flat panel TVs and digital cameras have continued to advance. Those of cellular phones and game consoles have also increased, aided by the introduction of new products. Sales of personal computers still appear to be lackluster, although they have picked up slightly since the end of January with the introduction of a new operating system. 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 firm, 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.

The *Indices of Aggregated Sales* (in real terms), which are comprised of major sales indicators of goods and services mentioned above,⁹ advanced in the fourth and first quarters on a quarter-on-quarter basis, but they dropped slightly in April compared with the first quarter (Chart 18[1]). The aggregate supply of consumer goods—which comprehensively captures producers’ supply of goods—has been on a moderate uptrend, albeit with some fluctuations (Chart 18[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) was almost flat in April compared with the first quarter, after having risen in the fourth and first quarters (Chart 16[1]). Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms), which covers more households than the *Family Income and Expenditure Survey* does, has been on a gradual uptrend since around the end of 2004 (Chart 16[1]).¹⁰

⁹ The *Indices of Aggregated Sales* are the weighted average of each sales indicator. Outlays for travel in April 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 April were at the same level as those for March.

¹⁰ 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.

Indicators for consumer sentiment overall have been at favorable levels (Chart 19).

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 20[1]). In detail, starts of housing for rent have continued to be on an increasing trend, although they have recently been flat. Starts of housing for sale have inched up lately, with fluctuations caused by the ups and downs in the number of large-scale starts. Starts of owner-occupied housing had been mostly flat, but they have recently been somewhat weak. 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 registered high growth of 2.2 percent in the fourth quarter last year on a quarter-on-quarter basis, but then dropped, by 1.3 percent, in the first quarter, and remained flat in April compared with the first quarter (Chart 21). As for recent developments by industry, production of general machinery has followed an uptrend on average, with firms having substantial unfilled orders on hand. Meanwhile, that of transport equipment appears to be on a gradual uptrend, supported by the rise in exports of motor vehicle parts and of automobiles to countries other than the United States. However, it has dropped lately, in reaction to the sharp rise in production in the fourth quarter, along with a drop in exports of automobiles to the United States. Production of electronic parts and devices—which rose in the third and fourth quarters last year—has been essentially level since the start of this year, due partly to the high level of domestic inventories. On the other hand, production of information and communication electronics equipment has recently increased, primarily in new products of digital home appliances.

Shipments have also been increasing as a trend. By goods (Chart 22), shipments of capital goods have been on an uptrend, although at a slightly slower

pace. 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. In response to these movements in final demand goods, shipments of producer goods have been on an uptrend overall, and those of electronic parts and devices, which had been sluggish since the end of last year, seem to have picked up 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 remained at a high level relative to shipments. The inventory cycle (Chart 23) 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, inventories of producer goods excluding electronic parts and devices (such as iron and steel) have remained relatively low, while shipments rose persistently. Moreover, the shipment-inventory balance of transport equipment (automobiles), which deteriorated at the end of last year, has been improving assisted mainly by production cutbacks aimed at trimming inventories.¹¹ On the other hand, in electronic parts and devices, the year-on-year rate of increase in inventories has still continued to clearly exceed that in shipments; it has been affected by the build-ups of new products and by the increase in production capacity with new production lines having come into operation. While global IT-related demand remains solid overall, adjustments have started to take place in domestic cellular phones, which seem to have triggered the rise in inventories. Under these circumstances, inventory adjustments in electronic parts and devices are expected gradually to come to an end. However, because the pace of increase in the supply capacity tends to be rapid for this sector and because some softness still remains in market prices, such as in DRAM, 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

¹¹ Inventories of capital goods (excluding transport equipment) have been climbing lately, mainly in construction machinery. This increase, however, is considered to be of only temporary nature in view of generally steady demand at home and abroad.

more or less in balance with shipments. Anecdotal information also suggests that production in the second quarter is projected to turn up.¹²

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 (Charts 24[2] and [3]).

In the labor market, overtime hours worked have been flat, at a high level (Chart 26[3]). The ratio of job offers to applicants has been at a high level, above 1.00.¹³ The unemployment rate has followed a gradual downtrend (Chart 25).¹⁴

In terms of employment (Chart 26[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 recently been essentially level (Chart 24[1]). Regular payments have been somewhat weak lately, since firms have persisted in labor cost restraints; they have been held down by the retirement of the high-wage earning baby-boomers and by an increase in hiring of relatively low-wage

¹² Production in the second quarter, based on the production forecast index of May and June, is calculated to increase by 1.6 percent compared with the first quarter.

¹³ The year-on-year 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*.

¹⁴ The unemployment rate (seasonally adjusted) remained unchanged at 4.0 percent for five straight months. It then moved down in April by 0.2 percentage points to 3.8 percent, marking below 4.0 percent for the first time since March 1998 (3.8 percent).

earning new graduates.¹⁵ In contrast, overtime payments have continued to trend up mildly, although their pace has recently decelerated slightly. Special payments have been increasing as a trend, supported by favorable corporate profits.¹⁶

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; the three-month rate of change) have been increasing, due mainly to the rise in international commodity prices (Chart 28). Looking at recent developments in international commodity prices in more detail, crude oil prices dropped sharply toward the start of this year, but then have been increasing, mainly due to increasing concerns over geopolitical risks. Prices of nonferrous metals have continued to trend upward overall.¹⁷

¹⁵ With regard to the demographic composition in more detail, the retirement of baby-boomers started to increase in the second half of last year. To compensate for the loss of the labor force, an increasing number of new graduates has been hired, and some workers of the baby-boom generation themselves have been rehired with lower compensation. A combination of these factors seems to have exerted downward pressure on year-on-year changes in wages. Recently, the ratio of part-time workers (their wages per person are lower) has turned to a year-on-year increase, and increasingly more part-timers are working only short hours. These increases are possibly attributable to: (1) the aforementioned rehiring of baby-boomers with reduced working hours and days, and (2) the hiring of the elderly and women through various forms of employment aimed at easing the labor shortage. In terms of labor supply, there has been a rise in the labor force participation rate of men age 55-64, including the baby-boom generation, and of women. Furthermore, by industry, education and learning support—which comprises many local government employees—has contributed significantly to the weakness in overall wages, affected by the wage reduction of local government employees.

¹⁶ According to survey results released by the *Nihon Keizai Shimbun, Inc.* (interim results as of April 26; 247 firms), the Japan Business Federation (primary results as of May 24; 99 firms), and The Institute of Labor Administration (results as of April 18; 165 firms), summer bonuses this year are projected to continue rising firmly on a year-on-year basis (the year-on-year increases are 3.1 percent, 2.8 percent, and 2.2 percent, respectively).

¹⁷ Meanwhile, domestic commodity prices have been rising, in response to the tightening of supply-demand conditions and to developments in international commodity prices and the foreign exchange market.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁸ has been positive, mainly due to the rise in international commodity prices (Chart 29). The pace of increase has recently been somewhat fast,¹⁹ partly because earlier increases in prices of raw materials and of energy appear to have been passed on to prices of a broad range of goods at the start of the new fiscal year. In detail, prices of petroleum and coal products and of nonferrous metals have exhibited particularly high growth lately, in response to the rise in international commodity prices (both are categorized as “goods sensitive to exchange rates and overseas commodity prices” in the chart). Changes in prices of chemical products (categorized as “other materials” in the chart) have moved up, mainly due to the rise 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 supply-demand conditions. Meanwhile, machinery prices had been declining marginally as a trend, but they have recently been essentially level. By stages of demand, prices of raw materials and of intermediate goods have been increasing in response to developments in international commodity prices. Final goods prices have been level on the whole, although gasoline prices have risen.

The year-on-year rate of change in corporate services prices (excluding external factors, same hereafter) has improved mildly; it has recently been somewhat positive (Chart 30).²⁰ The year-on-year changes in prices, excluding external factors, increased by 0.3 percent in April following an increase of 0.2 percent in the first quarter.²¹ Looking at recent developments by category, the year-on-year

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

¹⁹ The month-on-month increase stood at 0.9 percent in April. Disregarding the effects of seasonal changes in electricity rates and the consumption tax, this was the largest month-on-month increase since May 1980, when an increase of 0.9 percent was registered. In May, the month-on-month increase was also relatively high, at 0.5 percent.

²⁰ “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.

²¹ All items including external factors have been increasing at a faster pace, since oceangoing ship chartering services surged in response to increased cargo movements around the world.

changes in prices of “other services” have turned positive; improvements in supply-demand conditions as well as cost increases such as labor costs have led to an increase in the prices at the beginning of the new fiscal year in April. Prices of real estate services have continued to edge up, 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 somewhat. On the other hand, prices of advertising services have remained somewhat weak, 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 earlier declines in crude oil prices (Chart 31). Looking at developments in the past few months in more detail, the year-on-year changes in prices of goods overall have been posting 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 been registering a slight year-on-year decline. In the meantime, services prices have been moving around zero percent overall; mobile telephone charges have been falling (categorized as “other services” in the chart), and housing rents have remained somewhat weak, although the rate of increase in prices of eating out has been expanding, albeit moderately.

Domestic corporate goods prices are expected to continue increasing in the immediate future, primarily reflecting the rise in international commodity prices. 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.

Corporate services prices of all items rose 1.1 percent in April on a year-on-year basis. Disregarding the effects from the rise in the consumption tax, it was the largest year-on-year increase since February 1993 (a year-on-year increase of 1.1 percent).

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized; Chart 32[1]) has been at around 0.5 percent. Regarding interest rates on term instruments (Chart 33[1]), the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have risen. Under these circumstances, interest rates on Euroyen futures have risen, mainly in distant contracts (Chart 33[2]).

Yields on 10-year government bonds (newly issued 10-year JGB; Chart 32 [2]) have increased, mainly due to the rise in U.S. interest rates and firm domestic economic indicators. They have recently been moving at around 1.95 percent.

Yield spreads between corporate bonds and government bonds (Chart 35) have been more or less flat on the whole.

Stock prices (Chart 36) rose in response to firm domestic economic indicators and earnings announcements by firms, but then dropped in view of the decline in U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 17,500-18,000 yen.

In the foreign exchange market (Chart 37), the yen has fallen, mainly in view of U.S. economic indicators. The yen is being traded in the range of 121-123 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 38).

Lending rates have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have risen moderately (Chart 39). The long-term prime lending rate was raised by 0.20 percent on June 8 to 2.45 percent.

The amount outstanding of lending by private banks (monthly average outstanding balance basis, after adjustment for extraordinary factors²²) has continued to increase. (The year-on-year change was 2.1 percent in March, 1.9 percent in April, and 1.8 percent in May; Chart 40.)

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 been around the same levels as last month. The amount outstanding of CP and corporate bonds issued is somewhat above the previous year's level. (The year-on-year change was 0.2 percent in March, 0.0 percent in April, and 1.5 percent in May; Chart 41.)

According to business surveys, the financial positions of firms have continued to be favorable (Chart 38).

The year-on-year rate of change in the money stock ($M_2 + \text{CDs}$) is in the range of 1.0-2.0 percent. (The year-on-year change was 1.1 percent in March, 1.1 percent in April, and 1.4 percent in May; Chart 42.)

The number of corporate bankruptcies increased by 21.0 percent year-on-year in May, to 1,310 cases (Chart 43).

²² The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2006/Q3	Q4	2007/Q1	2007/Feb.	Mar.	Apr.	May
Index of living expenditure level (two-or-more-person households)	-2.3	2.7	0.5	0.2	-0.7	0.3	n.a.
Sales at department stores	0.2	-0.4	0.2	-0.1	-2.6	0.8	n.a.
Sales at supermarkets	0.1	-1.0	-0.0	-0.4	-0.2	-0.8	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 308>	< 304>	< 291>	< 300>	< 286>	< 285>	< 291>
Sales of household electrical appliances (real, Current Survey of Commerce)	2.4	3.0	6.6	2.0	0.7	-2.1	n.a.
Outlays for travel	0.1	0.8	1.3	0.4	0.5	-2.7	n.a.
Housing starts <s.a., ann. 10,000 units>	< 127>	< 131>	< 125>	< 120>	< 130>	< 129>	<n.a.>
Machinery orders (from private sector ⁴)	-7.8	0.3	-0.7	-4.9	-4.5	2.2	n.a.
Manufacturing	-2.5	-2.8	-1.4	-8.4	-7.5	-1.3	n.a.
Nonmanufacturing ⁴	-13.3	4.0	-1.1	-1.5	-2.5	5.9	n.a.
Construction Starts (private, nondwelling use)	-1.4	0.6	-6.6	2.3	-19.0	16.6	n.a.
Mining & manufacturing	12.0	-13.9	-9.1	0.8	-12.5	10.4	n.a.
Nonmanufacturing ⁵	-7.0	4.3	-5.0	1.4	-20.3	23.1	n.a.
Value of public works contracted	0.6	1.9	-2.2	0.3	3.0	-2.2	n.a.
Real exports	2.8	1.0	3.0	-1.6	1.9	-3.2	n.a.
Real imports	0.6	-0.5	0.4	7.7	-8.0	-0.7	n.a.
Industrial production	1.3	2.2	-1.3	0.7	-0.3	-0.2	n.a.
Shipments	1.1	1.5	-0.5	0.0	-1.1	1.0	n.a.
Inventories	0.7	3.8	-2.0	-0.6	-0.4	0.4	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 99.4>	< 100.7>	<101.0>	< 99.6>	< 101.0>	<101.0>	< n.a.>
Real GDP	0.1	1.3	0.8	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.8	-0.2	0.8	-1.4	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2006/Q3	Q4	2007/Q1	2007/Feb.	Mar.	Apr.	May
Ratio of job offers to applicants <s.a., times>	<1.08>	<1.07>	<1.05>	<1.05>	<1.03>	<1.05>	<n.a.>
Unemployment rate <s.a., %>	<4.1>	<4.0>	<4.0>	<4.0>	<4.0>	<3.8>	<n.a.>
Overtime working hours ⁶	3.0	2.5	1.9	1.9	2.7	p 0.7	n.a.
Number of employees	1.2	1.1	1.0	1.1	1.1	1.6	n.a.
Number of regular employees ⁶	1.3	1.4	1.6	1.6	1.5	p 1.6	n.a.
Nominal wages per person ⁶	0.1	0.0	-0.7	-1.0	-0.1	p -0.7	n.a.
Domestic corporate goods price index ⁷ <q/q % chg., 3-month rate of change>	3.6 <1.1>	2.6 <-0.1>	1.9 <-0.2>	1.7 <-0.2>	2.0 <0.0>	2.3 <1.2>	p 2.2 <p 1.7>
Consumer price index ⁸	0.3	0.1	-0.1	-0.1	-0.3	-0.1	n.a.
Corporate service price index	0.3	0.1	0.5	0.4	0.6	p 1.1	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	0.5	0.7	1.0	1.1	1.1	1.1	p 1.4
Number of corporate bankruptcies <cases>	<1,083>	<1,122>	<1,147>	<1,102>	<1,247>	<1,121>	<1,310>

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

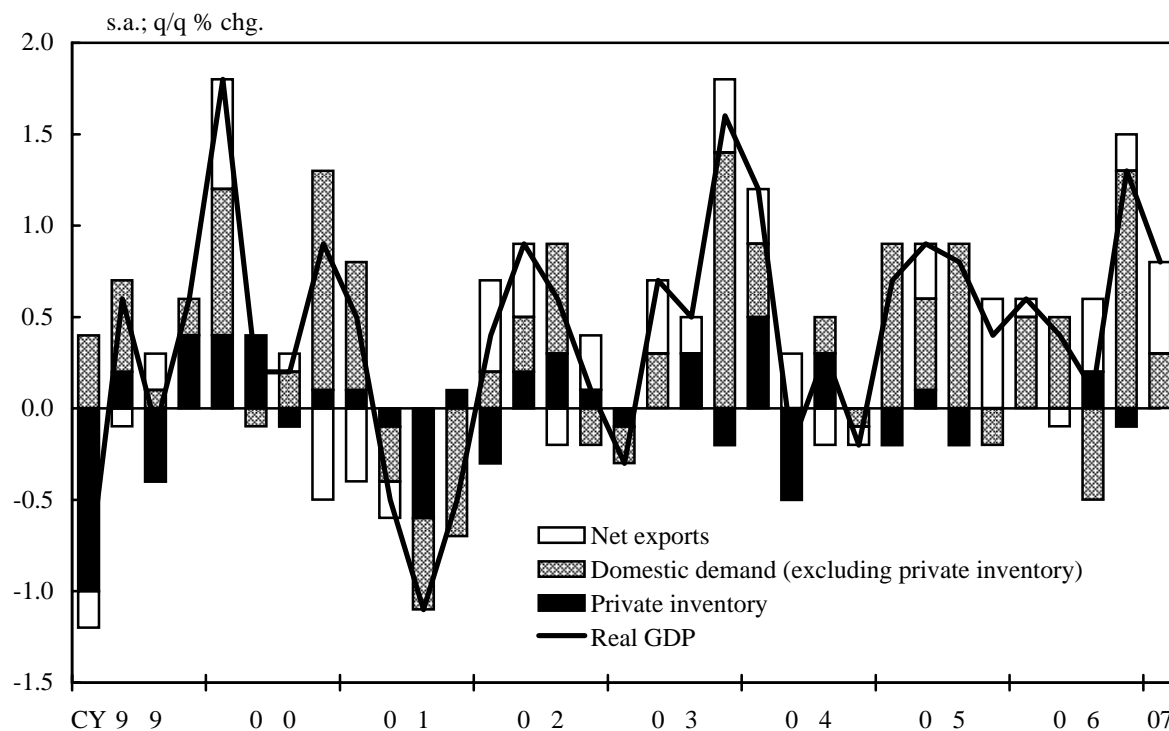
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.

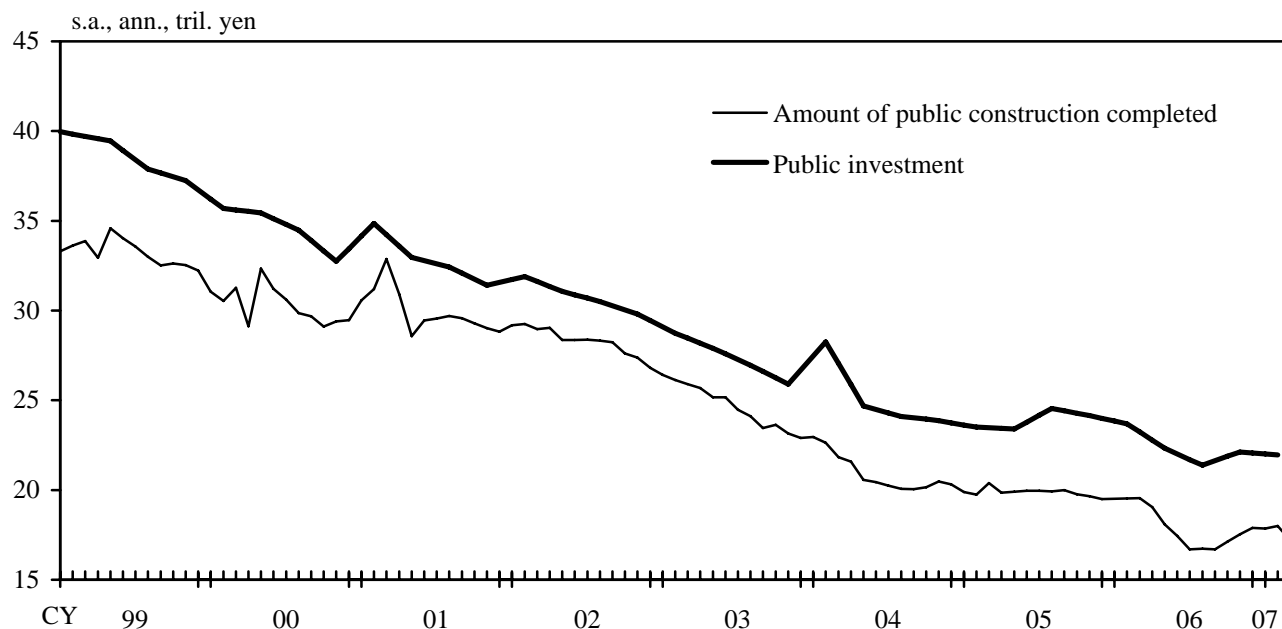
	2006				2007
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.6	0.4	0.1	1.3	0.8
Domestic demand	0.5	0.5	-0.3	1.2	0.3
Private consumption	-0.1	0.6	-1.0	1.1	0.8
Non-Resi. investment	4.0	2.9	1.1	2.7	0.3
Residential investment	0.9	-1.9	-0.3	2.2	-0.5
Private inventory	(0.0)	(-0.0)	(0.2)	(-0.1)	(-0.0)
Public demand	-0.5	-0.8	-0.4	0.8	-0.4
Public investment	-2.1	-6.2	-4.7	3.7	-1.2
Net exports of goods and services	(0.1)	(-0.1)	(0.4)	(0.2)	(0.5)
Exports	2.2	0.8	2.3	0.8	3.3
Imports	2.0	1.3	-0.4	-0.2	0.4
Nominal GDP	0.3	0.3	-0.1	1.4	0.5

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

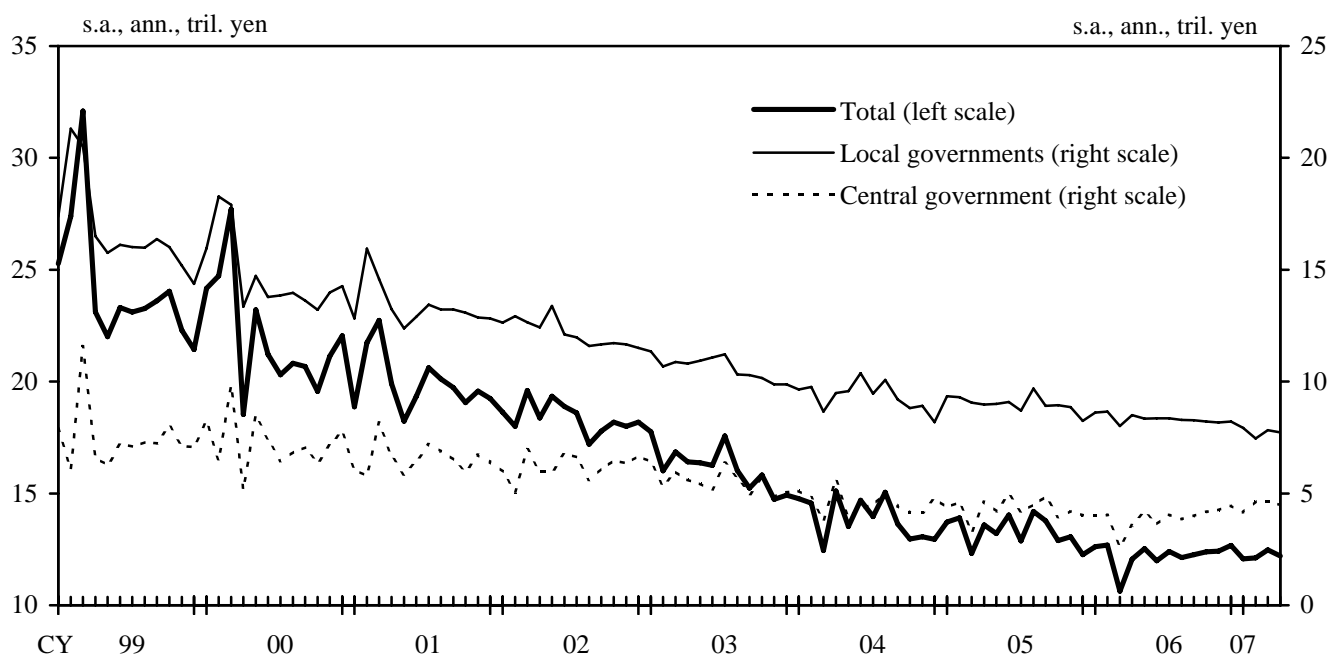
Source: Cabinet Office, "National Accounts."

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.

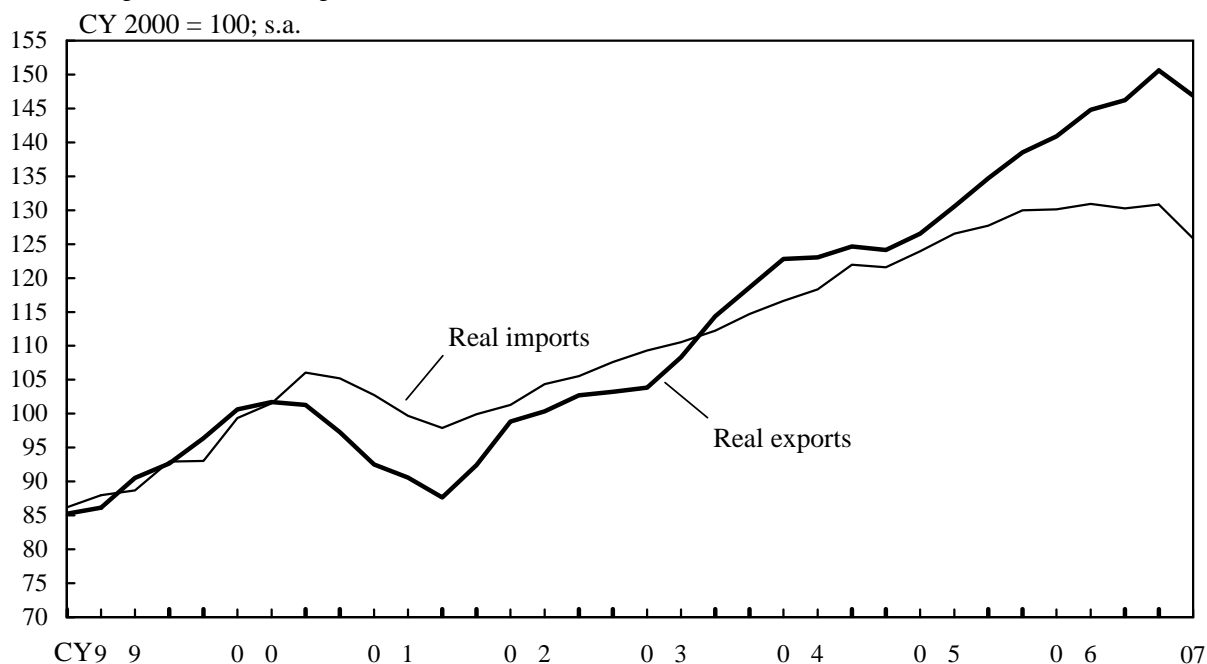
Sources: Cabinet Office, "National Accounts";

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

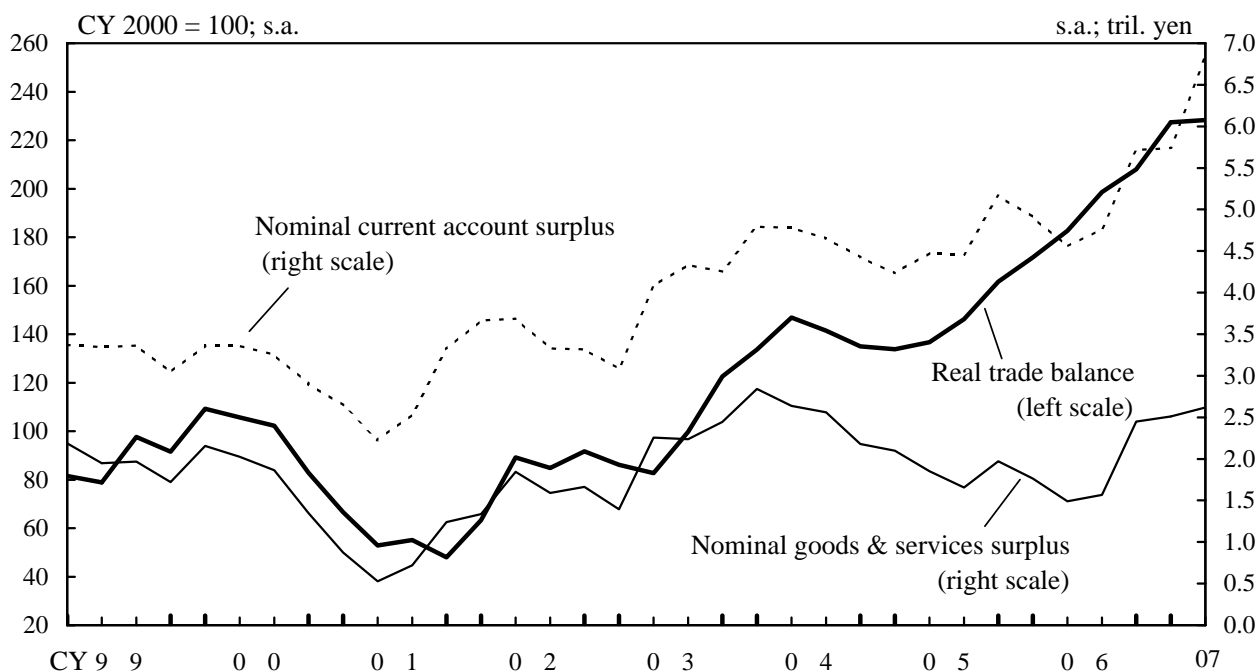
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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.

3. 2007/Q2 figures are April 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 ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Feb.	Mar.	Apr.
United States	<22.5>	7.3	10.3	1.6	2.1	-0.7	-0.9	-5.1	2.4	-1.9	-4.6
EU	<14.5>	3.3	10.3	4.7	2.1	0.9	3.7	1.6	2.9	-1.4	1.6
East Asia	<45.7>	6.1	9.1	0.6	2.7	2.3	4.3	-3.3	-5.6	4.3	-4.1
China	<14.3>	9.6	20.1	3.0	5.1	6.6	5.5	-7.9	-11.5	8.1	-8.9
NIEs	<23.2>	5.0	5.7	0.0	0.5	0.2	3.9	-1.9	-4.6	3.5	-2.6
Korea	<7.8>	4.5	7.7	2.6	-1.7	1.2	5.1	1.9	-0.5	-0.6	2.5
Taiwan	<6.8>	4.4	3.7	-1.0	-1.1	-3.5	0.1	2.0	-7.9	6.5	0.6
ASEAN ⁴	<8.1>	4.4	2.8	-1.6	4.9	0.9	3.6	1.3	3.0	0.2	0.1
Thailand	<3.5>	10.0	5.2	-1.1	4.4	0.5	3.8	1.5	5.1	-1.8	1.0
Others	<17.3>	11.5	19.5	2.6	4.2	2.4	4.4	-0.6	-0.2	1.9	-1.8
Real exports		5.3	10.5	1.7	2.8	1.0	3.0	-2.5	-1.6	1.9	-3.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Feb.	Mar.	Apr.
Intermediate goods	<17.9>	1.8	6.4	-1.1	0.4	0.5	1.9	-0.6	-0.1	-0.3	-0.4
Motor vehicles and their related goods	<23.4>	8.2	13.6	2.8	1.3	4.0	2.7	-3.4	0.9	1.3	-4.5
Consumer goods ⁴	<5.0>	5.2	7.1	4.7	0.4	0.4	-3.0	6.3	-3.2	7.1	2.6
IT-related goods ⁵	<11.5>	5.4	7.7	0.8	2.5	5.1	5.5	-3.2	-1.9	-2.5	-0.8
Capital goods and parts ⁶	<29.4>	7.1	12.4	2.3	4.0	-1.1	3.0	-1.7	-4.1	3.0	-2.2
Real exports		5.3	10.5	1.7	2.8	1.0	3.0	-2.5	-1.6	1.9	-3.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q2 figures are April figures converted into quarterly amount.

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

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

4. Excludes motor vehicles.

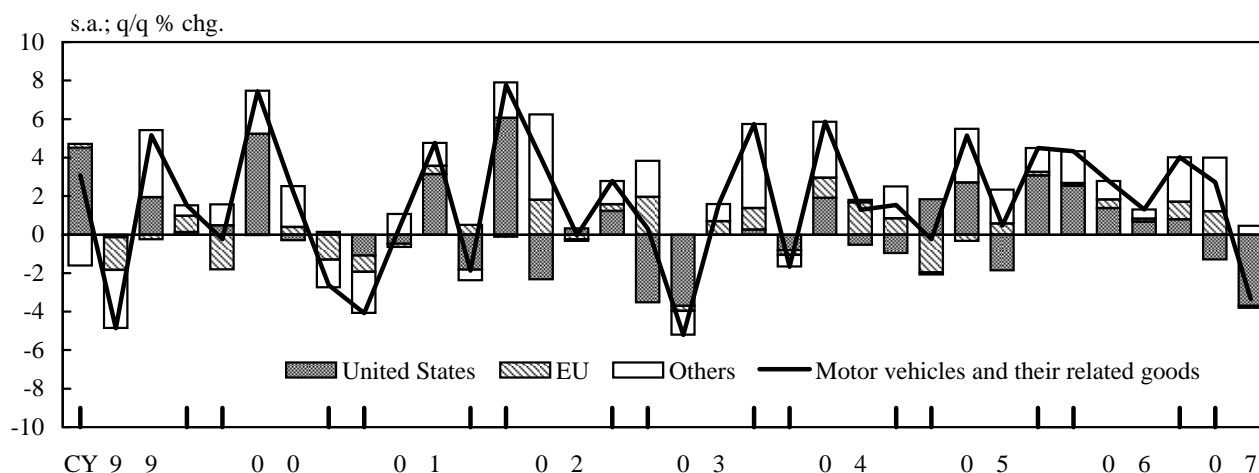
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

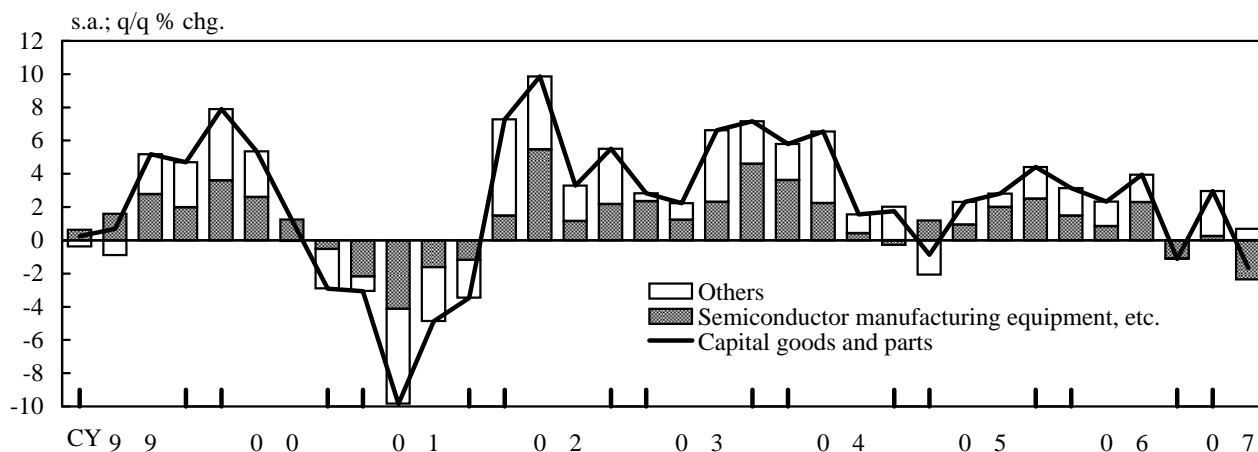
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

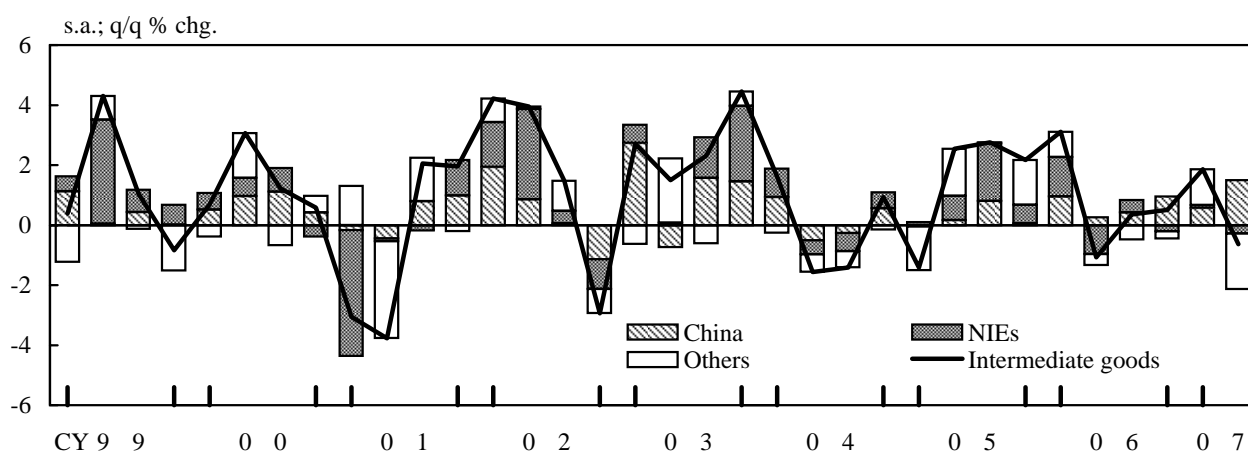
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



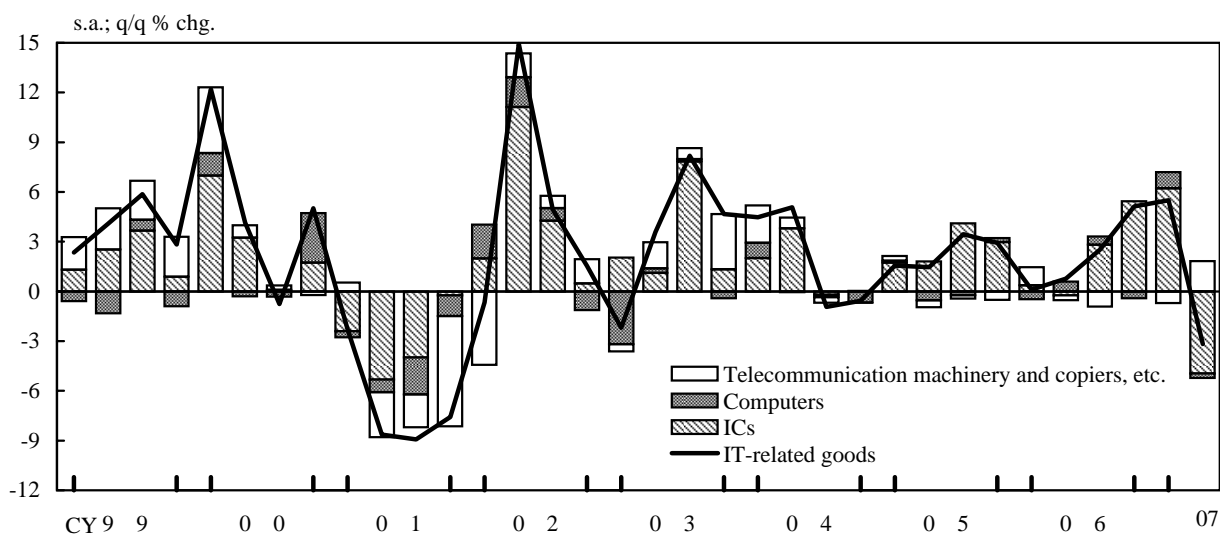
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q2 figures are April figures converted into quarterly amount.

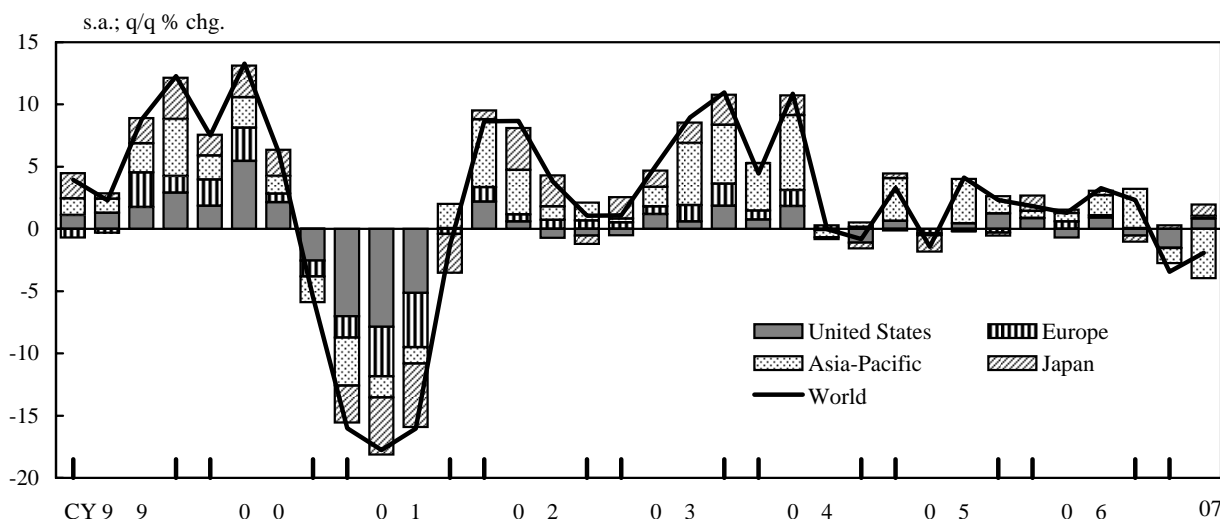
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

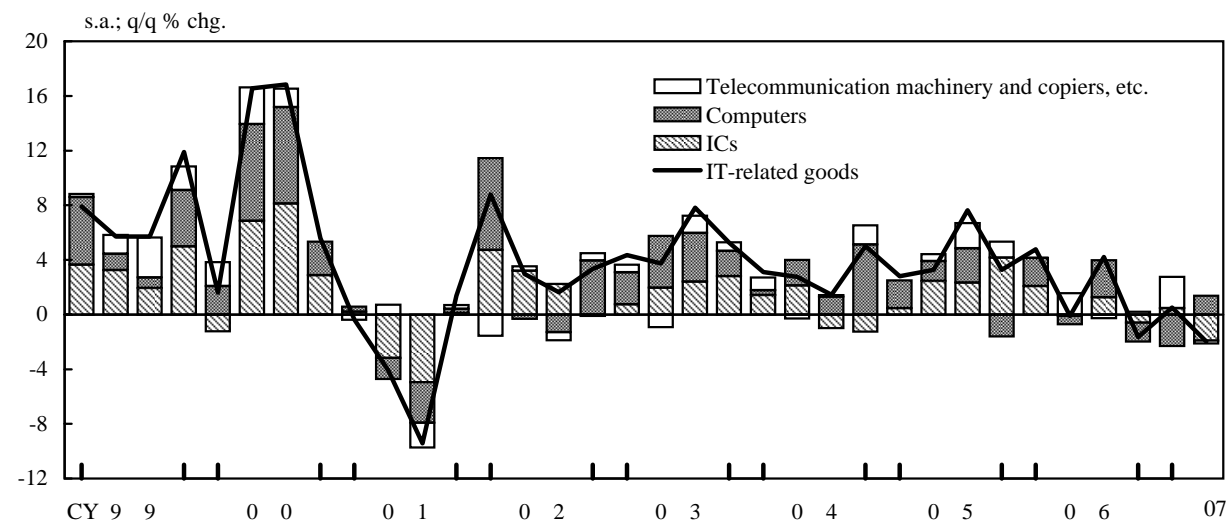
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

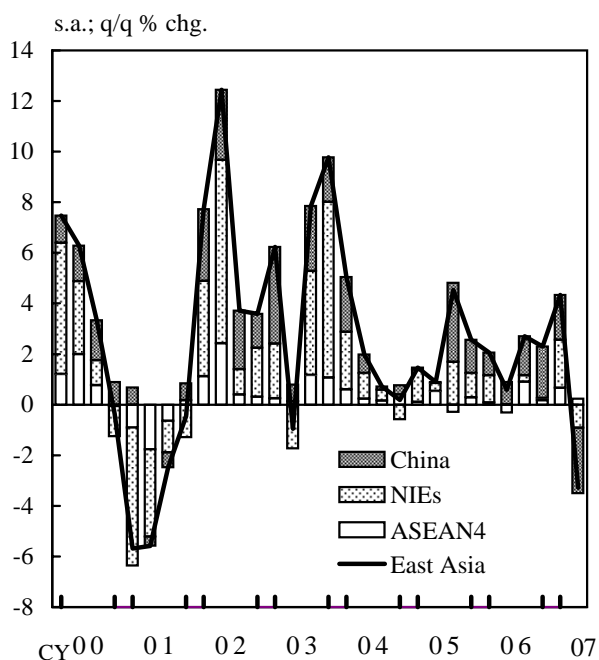
2. 2007/Q2 figures are April figures converted into quarterly amount.

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

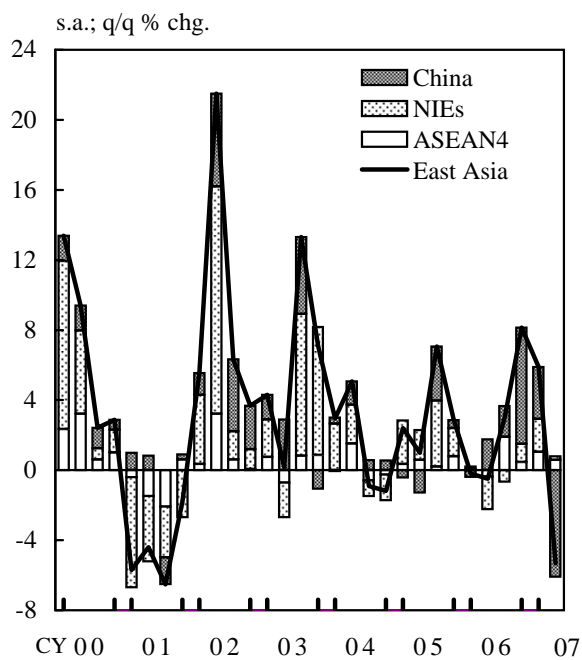
Bank of Japan, "Corporate Goods Price Index"; WSTS (World Semiconductor Trade Statistics).

Real Exports to East Asia

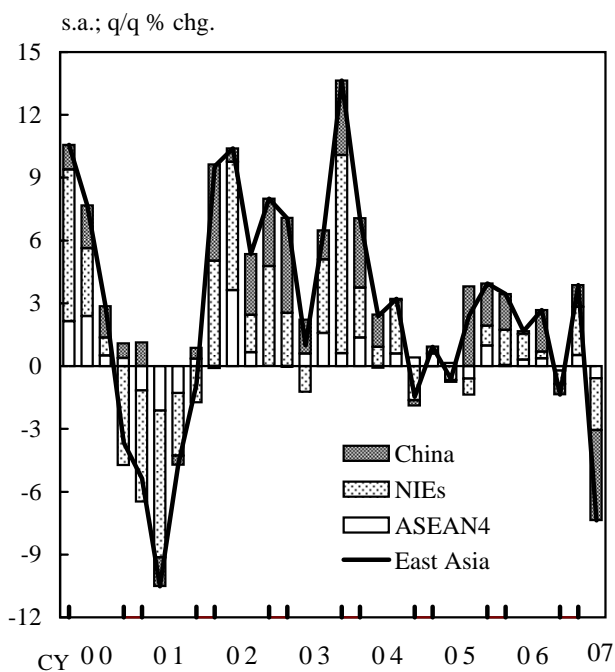
(1) All Goods (Real, Breakdown by Region)



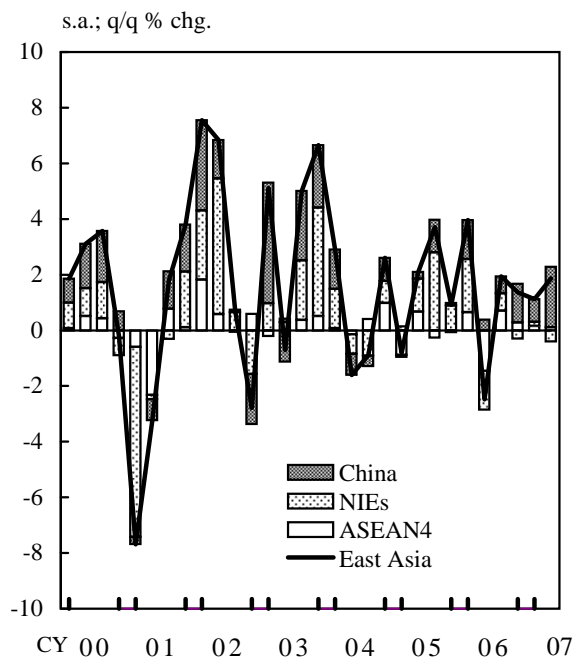
(2) IT-Related Goods (Real, Breakdown by Region)



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



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



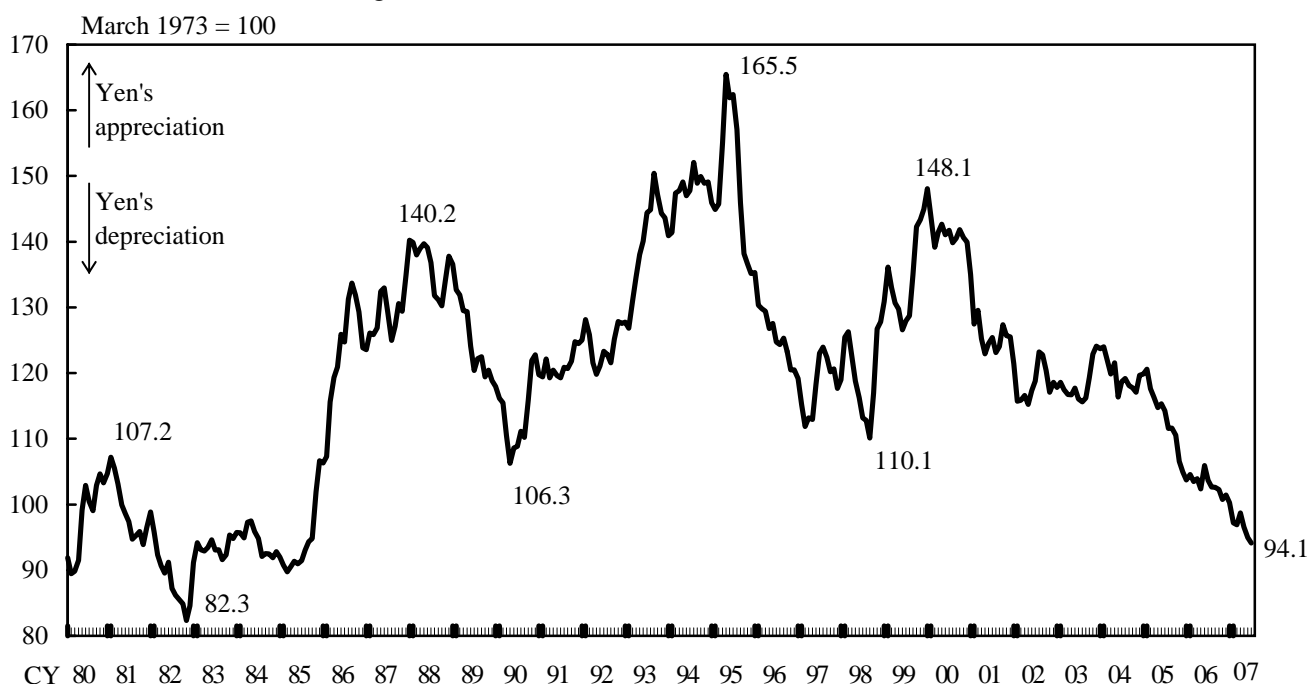
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q2 figures are April figures converted into quarterly amount.

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for June 2007 is the average up to June 14.

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 Q2	Q3	Q4	2007 Q1	
United States ¹		3.9	3.2	3.3	2.6	2.0	2.5	0.6	
European Union ¹		2.3	1.9	3.1	3.8	2.7	3.5	2.6	
East Asia ²	Germany	0.8	1.1	3.0	5.0	3.3	4.0	2.1	
	France	2.3	1.7	2.2	3.8	0.3	1.9	2.0	
	United Kingdom	3.3	1.9	2.8	3.1	2.7	2.7	2.9	
	China		10.1	10.4	10.7	11.5	10.6	10.4	11.1
	NIEs	Korea	4.7	4.2	5.0	5.1	4.8	4.0	4.0
		Taiwan	6.2	4.1	4.7	4.7	5.1	4.0	4.2
		Hong Kong	8.6	7.5	6.9	5.6	6.8	7.3	5.6
		Singapore	8.8	6.6	7.9	8.0	7.0	6.6	6.1
	ASEAN4	Thailand	6.3	4.5	5.0	5.0	4.7	4.3	4.3
Indonesia		5.0	5.7	5.5	5.0	5.9	6.1	6.0	
Malaysia		6.8	5.0	5.9	6.1	6.0	5.7	5.3	
Philippines		6.4	4.9	5.4	5.5	5.1	5.5	6.9	

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Feb.	Mar.	Apr.
United States	<11.7>	3.6	6.6	-3.6	4.5	-2.4	-2.2	0.1	-2.7	0.6	0.6
EU	<10.3>	2.1	1.4	-0.1	-0.4	-0.2	1.7	-1.5	4.4	8.2	-7.8
East Asia	<41.4>	11.2	9.5	1.1	2.3	1.8	0.1	-4.2	12.6	-15.0	2.9
China	<20.5>	18.8	11.2	1.9	3.1	2.2	1.4	-2.5	20.1	-24.9	11.8
NIEs	<9.8>	9.3	12.7	0.4	1.5	-0.2	-1.6	-8.1	2.1	-1.9	-7.5
Korea	<4.7>	8.3	11.4	2.7	1.3	-1.6	-1.7	-7.2	-0.7	1.2	-7.7
Taiwan	<3.5>	11.0	16.9	0.2	4.2	2.3	-3.3	-10.3	-0.9	-1.7	-9.0
ASEAN4 ³	<11.1>	0.2	3.4	0.0	1.5	3.1	-1.0	-3.9	7.1	-3.9	-3.5
Thailand	<2.9>	12.8	7.1	2.9	0.7	2.0	1.7	-1.8	5.5	4.6	-6.3
Others	<36.5>	1.8	2.5	2.6	-1.7	-2.3	1.3	-6.9	2.0	0.5	-7.9
Real imports		5.4	4.4	0.1	0.6	-0.5	0.4	-3.8	7.7	-8.0	-0.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2005	2006	2006 Q2	Q3	Q4	2007 Q1	Q2	2007 Feb.	Mar.	Apr.
Raw materials ⁴	<34.7>	-3.9	1.0	2.4	-2.2	-2.0	0.9	-6.2	4.7	1.4	-8.5
Intermediate goods	<14.0>	4.6	2.3	1.3	-0.4	-1.4	0.5	-3.7	8.0	-4.3	-3.3
Foodstuffs	<8.5>	2.6	-3.3	-2.4	-2.3	1.7	0.4	-7.7	4.6	-6.0	-5.3
Consumer goods ⁵	<8.8>	8.6	2.6	-1.2	0.1	1.9	-5.1	3.5	21.9	-24.7	17.9
IT-related goods ⁶	<12.0>	15.4	14.1	-0.1	4.2	-1.6	0.5	-2.0	5.2	-6.9	1.1
Capital goods and parts ⁷	<12.4>	13.6	16.9	2.2	4.9	1.3	1.7	-2.6	3.5	-8.0	1.9
Excluding aircraft	<11.5>	13.7	18.0	4.5	2.9	1.8	0.3	0.7	8.1	-6.7	2.9
Real imports		5.4	4.4	0.1	0.6	-0.5	0.4	-3.8	7.7	-8.0	-0.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q2 figures are April figures converted into quarterly amount.

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

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

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

5. Excludes foodstuffs.

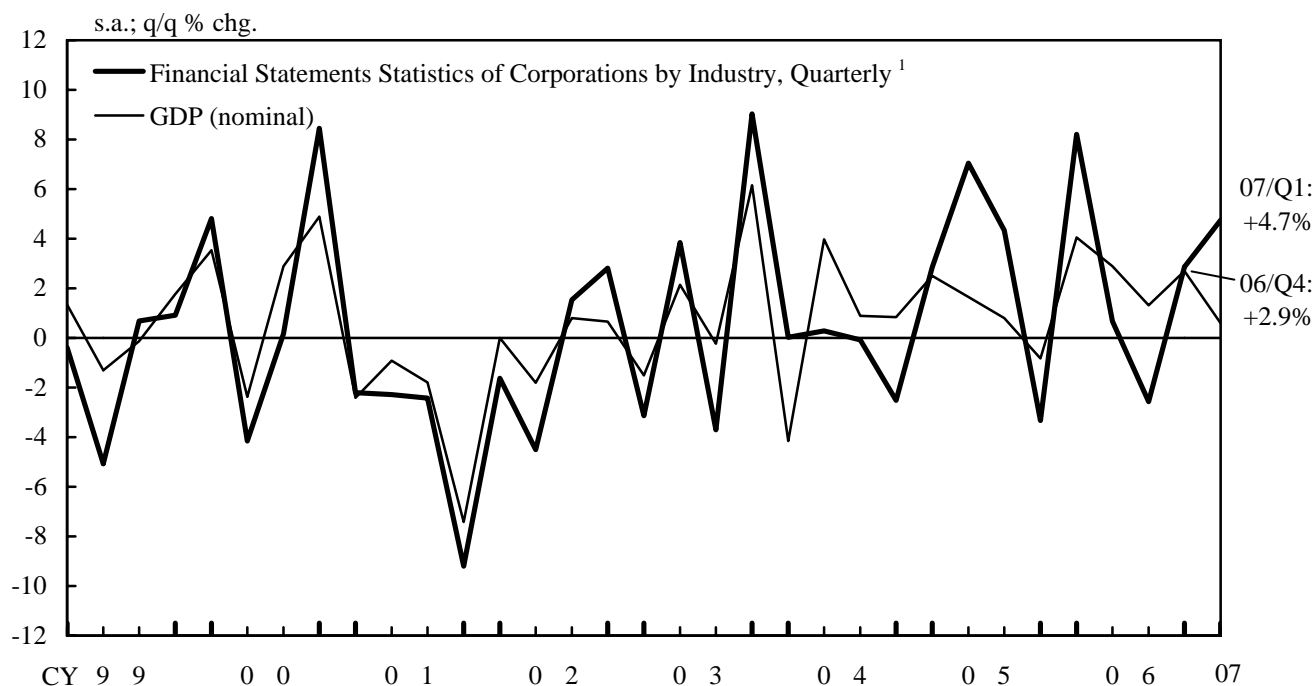
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

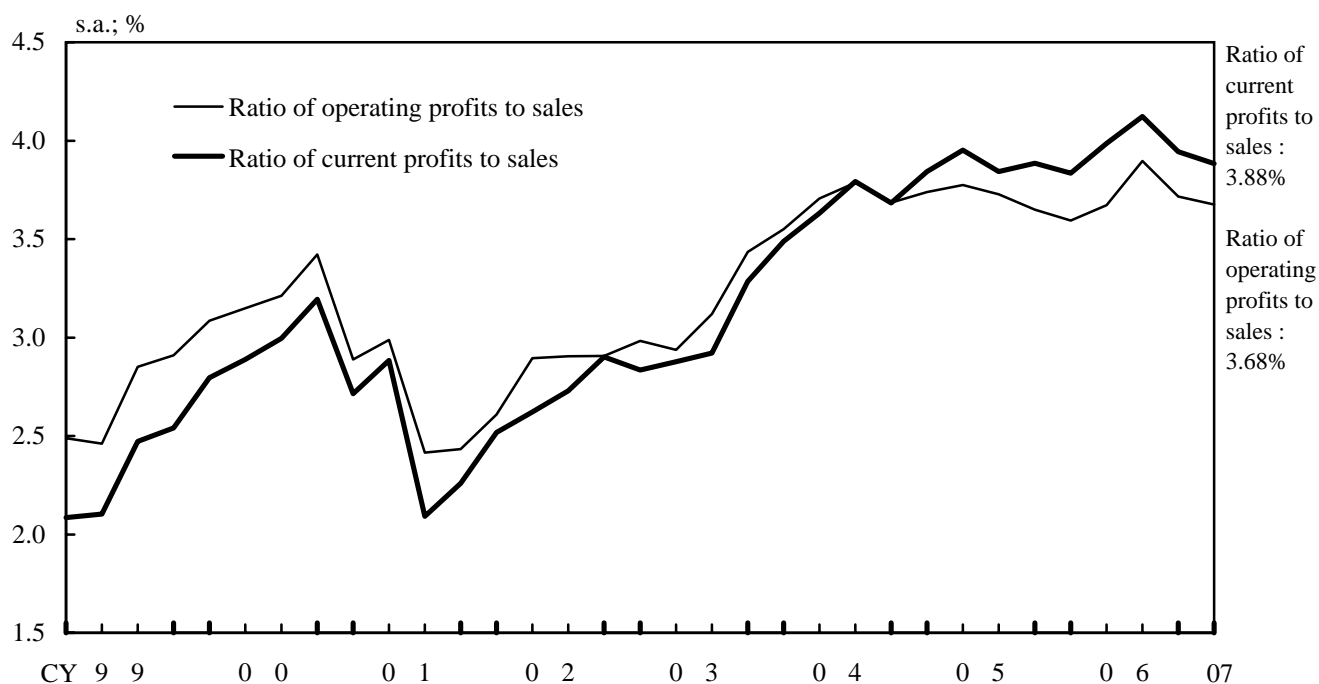
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Fixed Investment



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



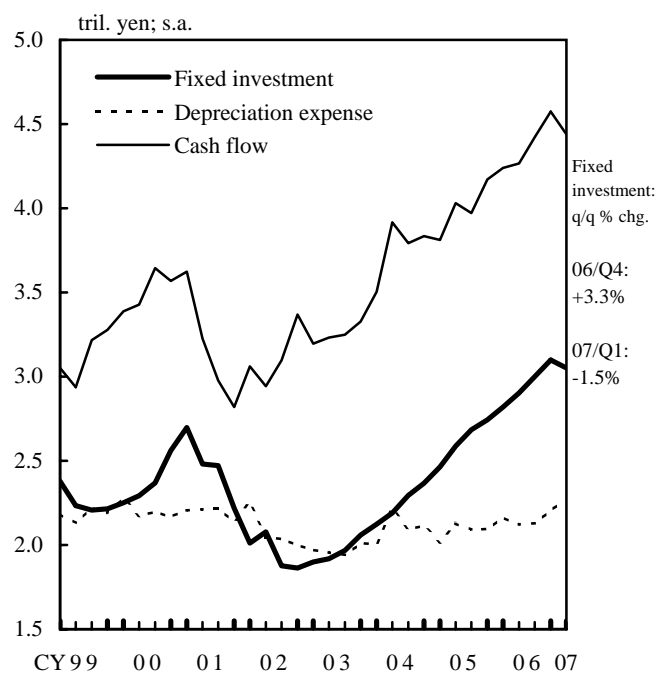
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references.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

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

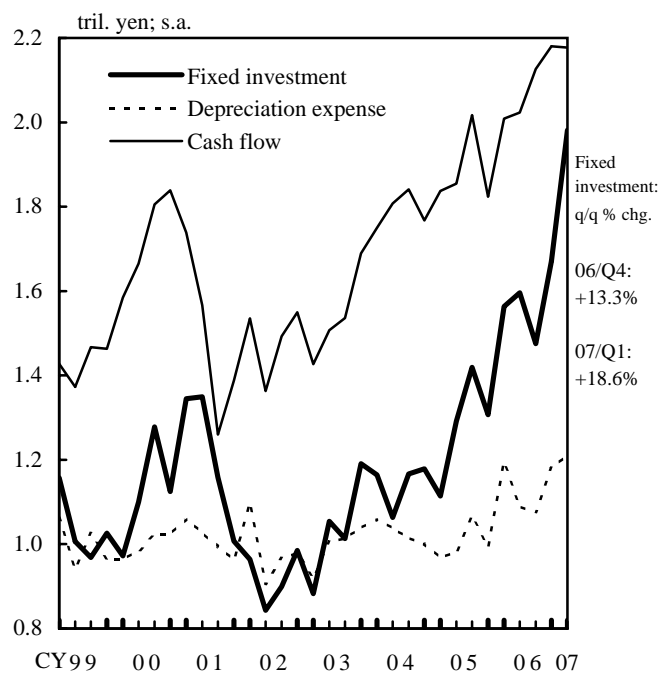
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

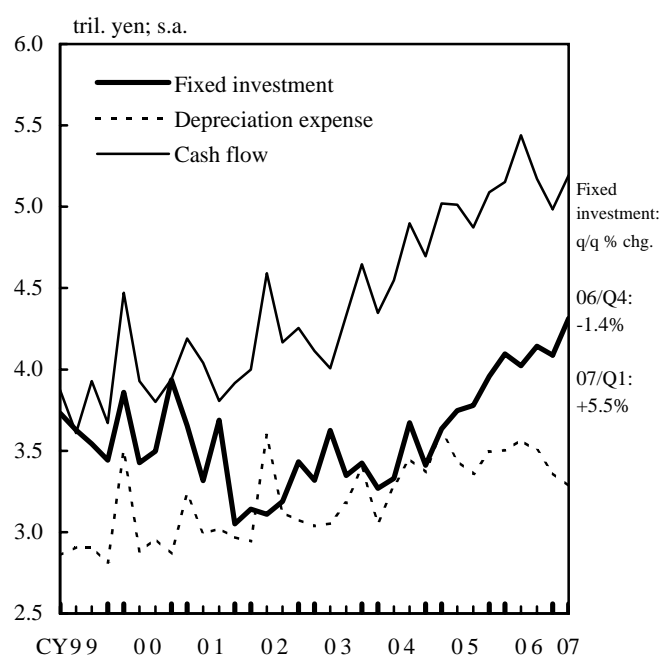
(1) Large Manufacturing Firms



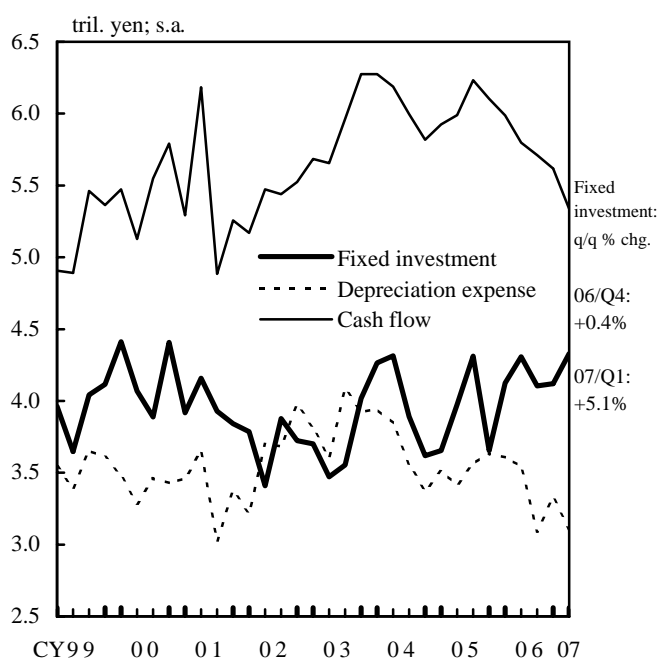
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



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

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

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

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

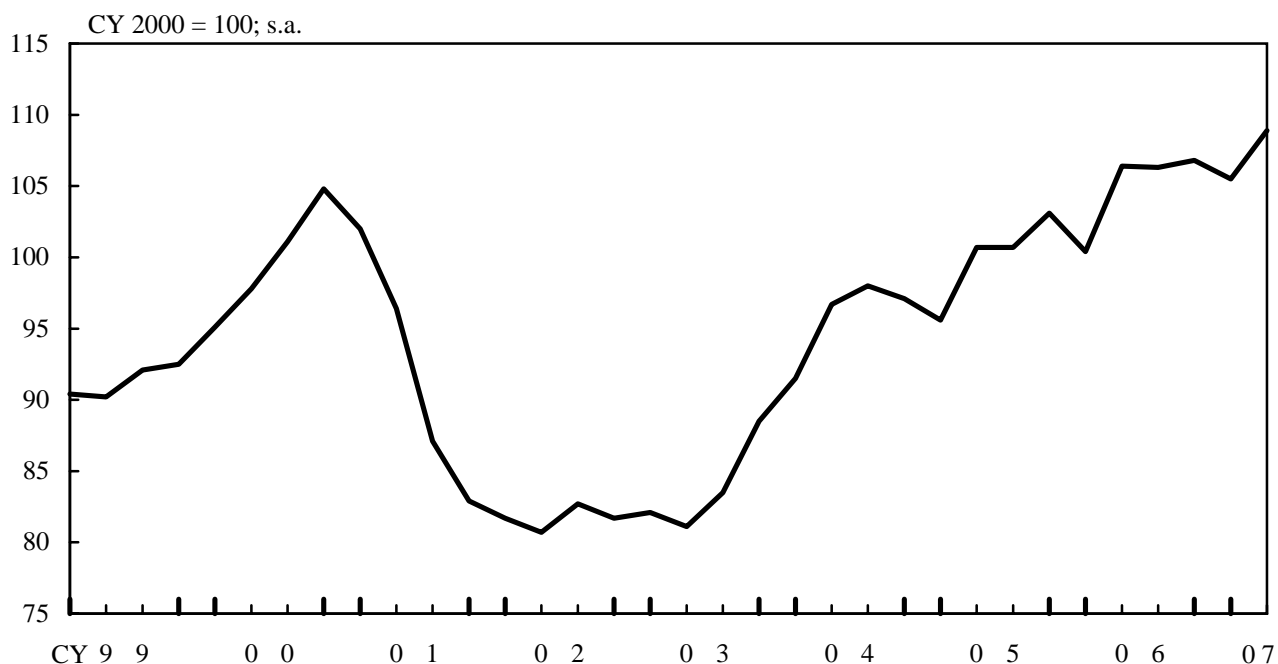
5. Cash flow = current profits / 2 + depreciation expense.

6. Seasonally adjusted by X-11.

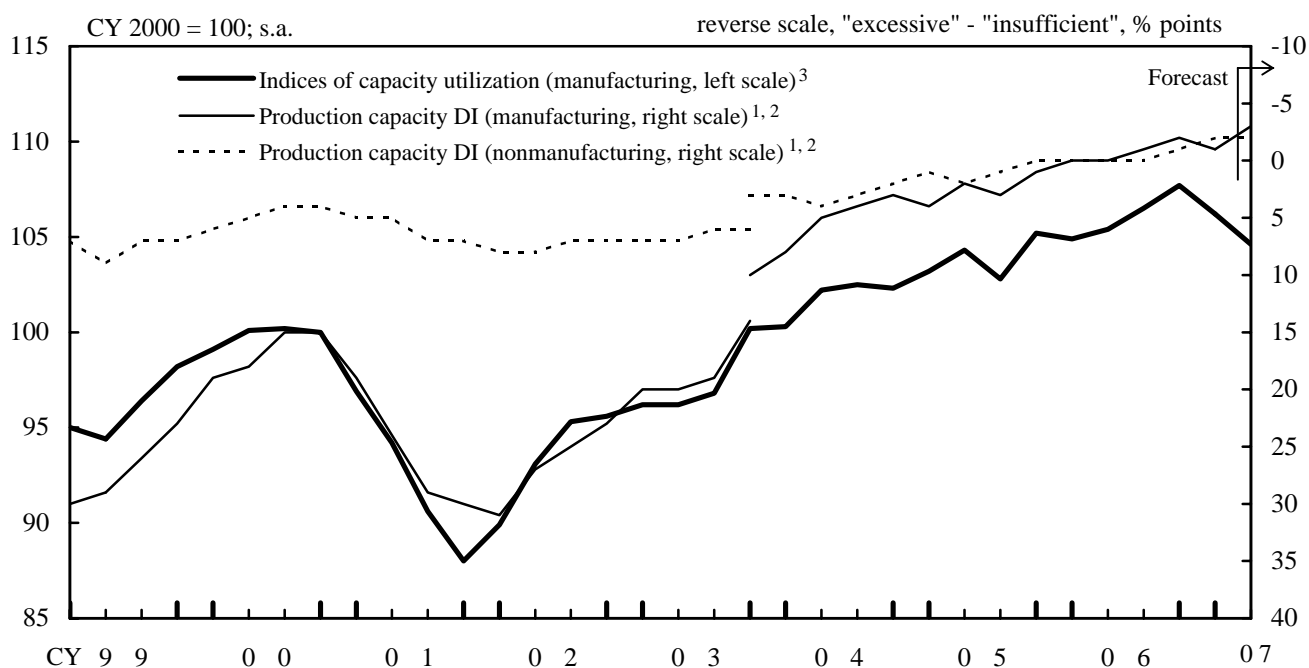
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Coincident Indicators for Business Fixed Investment

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



(2) Indices of Capacity Utilization and Production Capacity DI



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

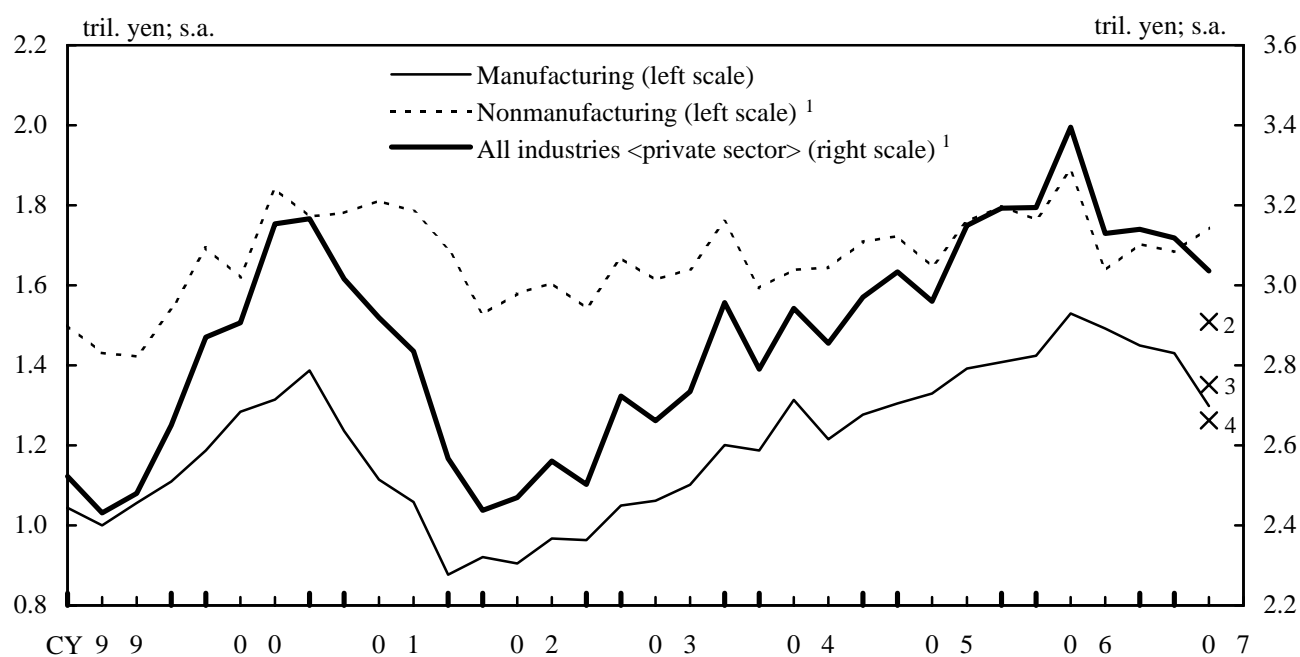
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/Q2 is as of April.

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.

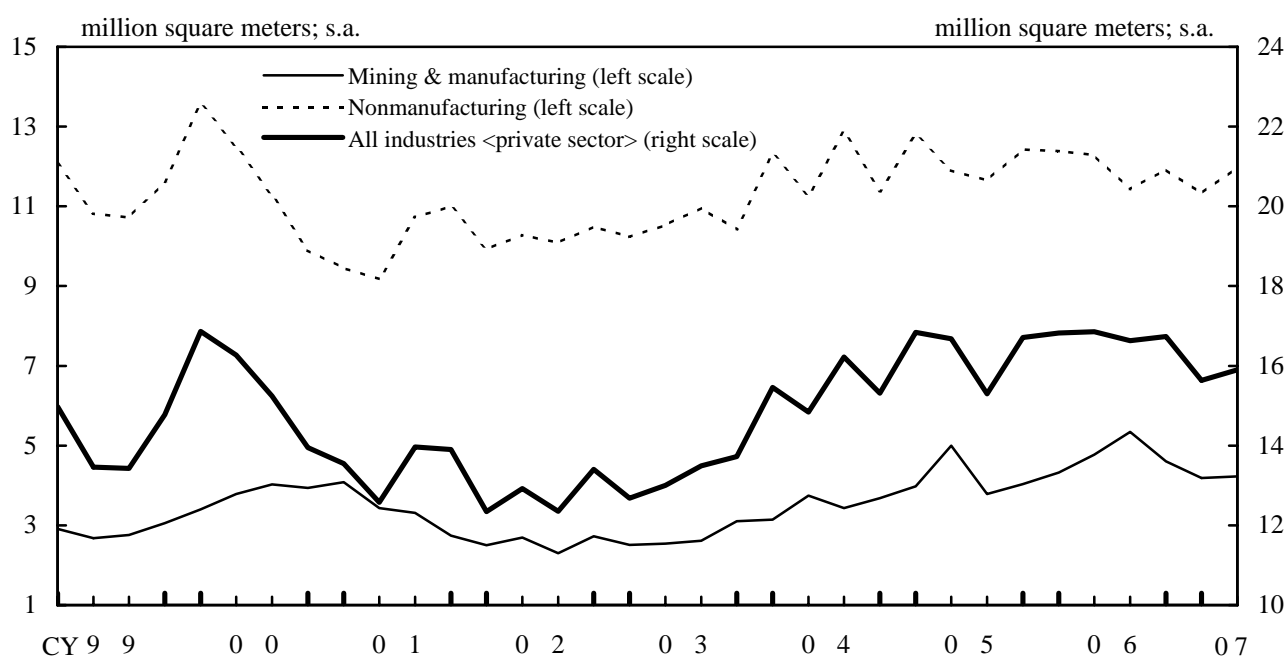
2. Forecast of nonmanufacturing industries for 2007/Q2.

3. Forecast of all industries <private sector> for 2007/Q2.

4. Forecast of manufacturing industries for 2007/Q2.

5. Figures for 2007/Q2 are those of April 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.

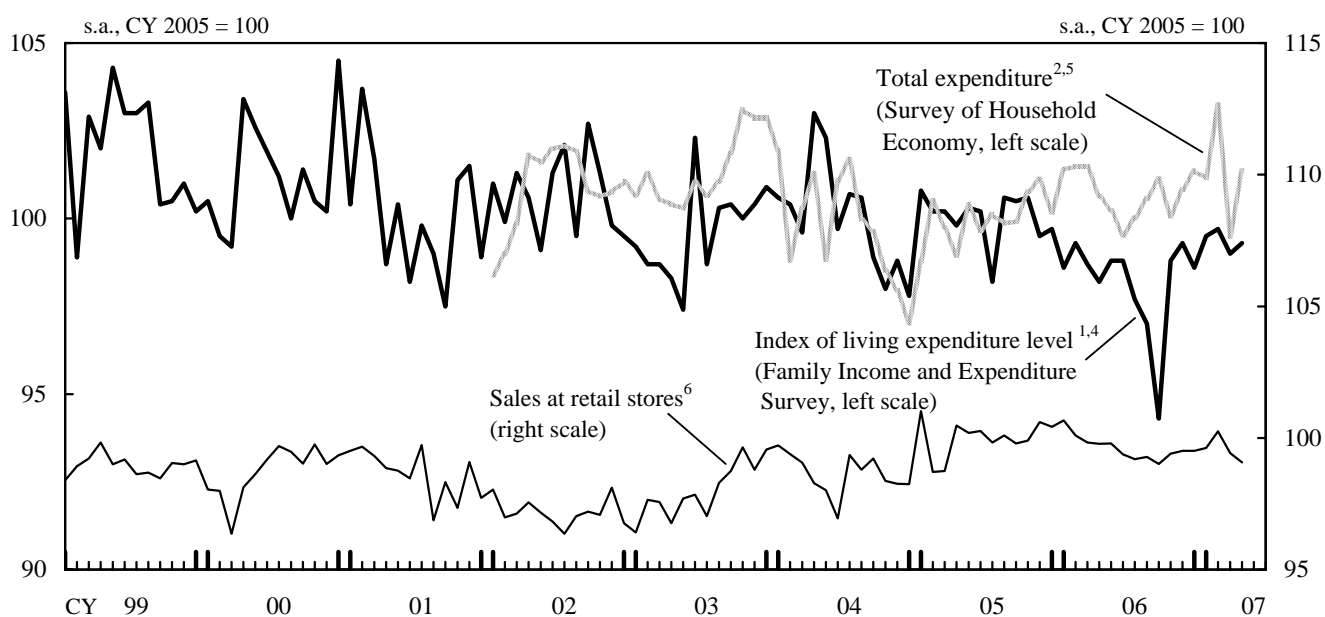
3. Figures for 2007/Q2 are those of April in terms of quarterly amount.

Sources: Cabinet Office, "Machinery Orders Statistics";

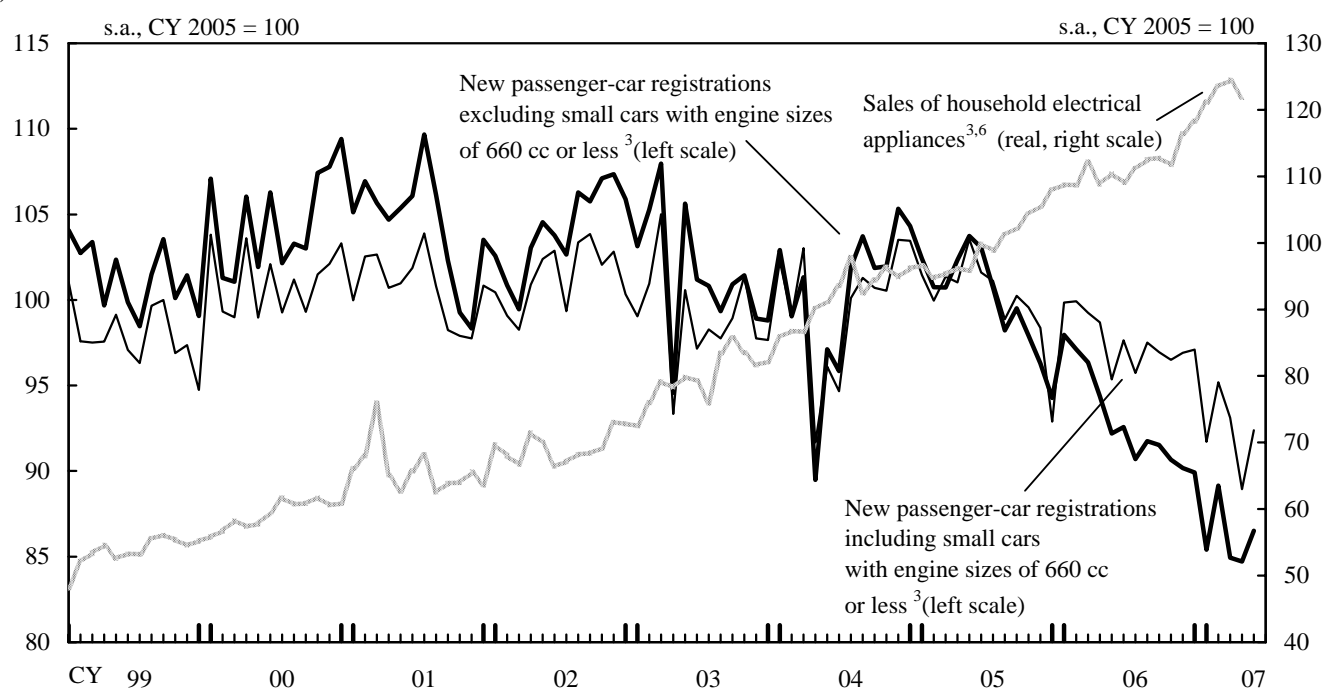
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

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,"

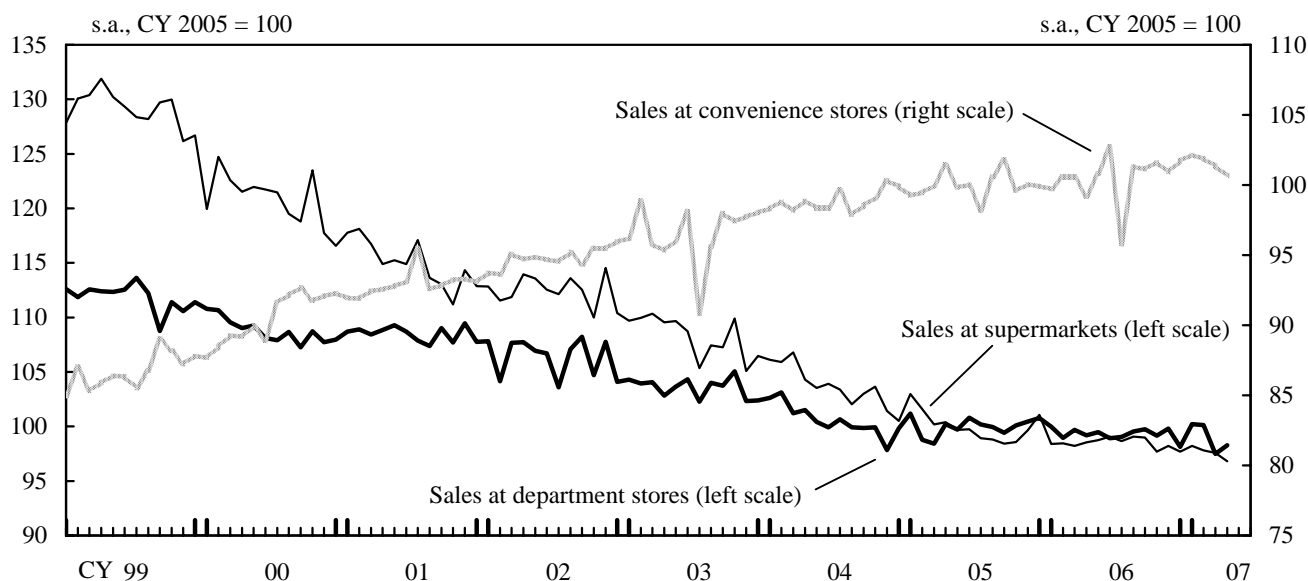
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";

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

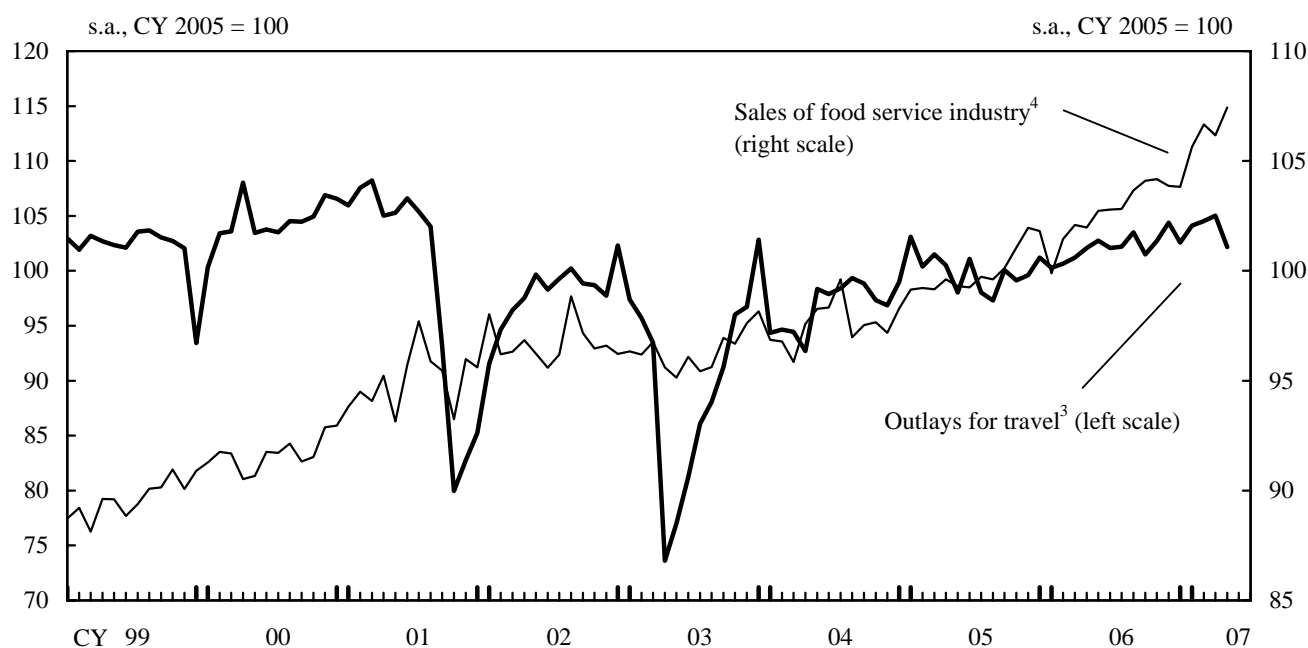
Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index";

Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators for Private Consumption¹ (2)(3) Sales at Retail Stores (Nominal)²

(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).

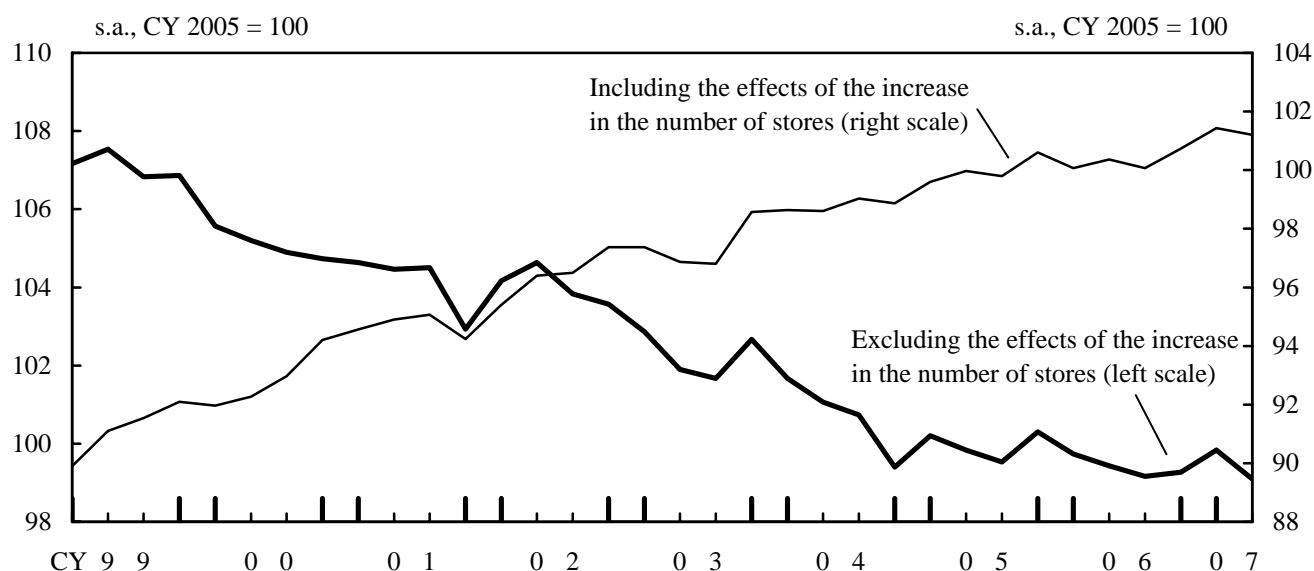
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

4. Sales of food service industry are calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on monthly sales amounts in 1993 released by the Food Service Industry Survey & Research Center.

Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (The Research of Food Service Industry)."

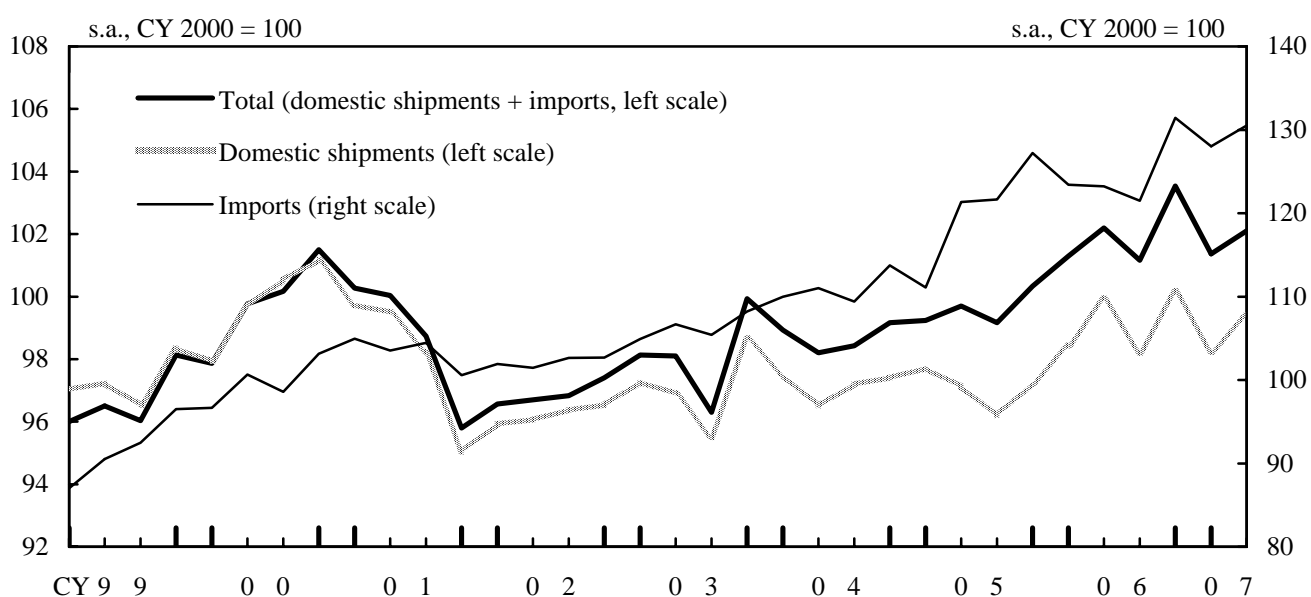
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- Notes: 1. The 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/Q2 figures are those of April in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

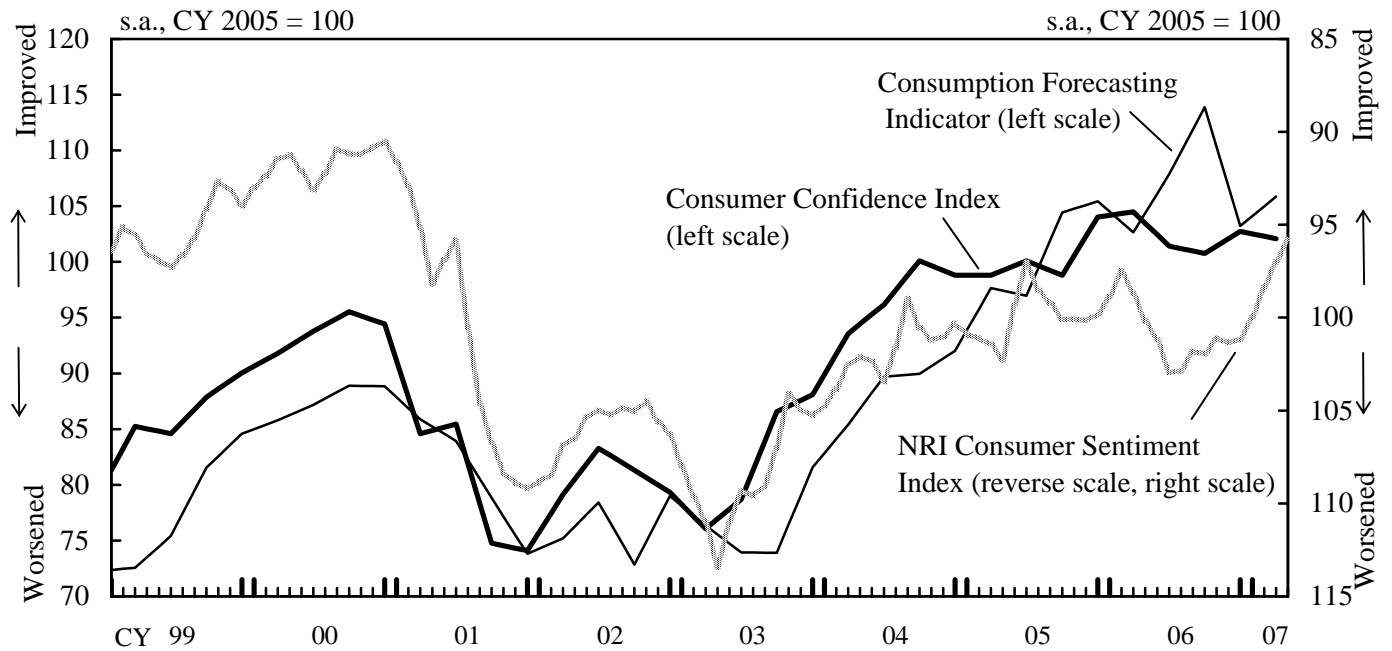


Notes: Data for 2007/Q2 figures are those of April in terms of quarterly amount.

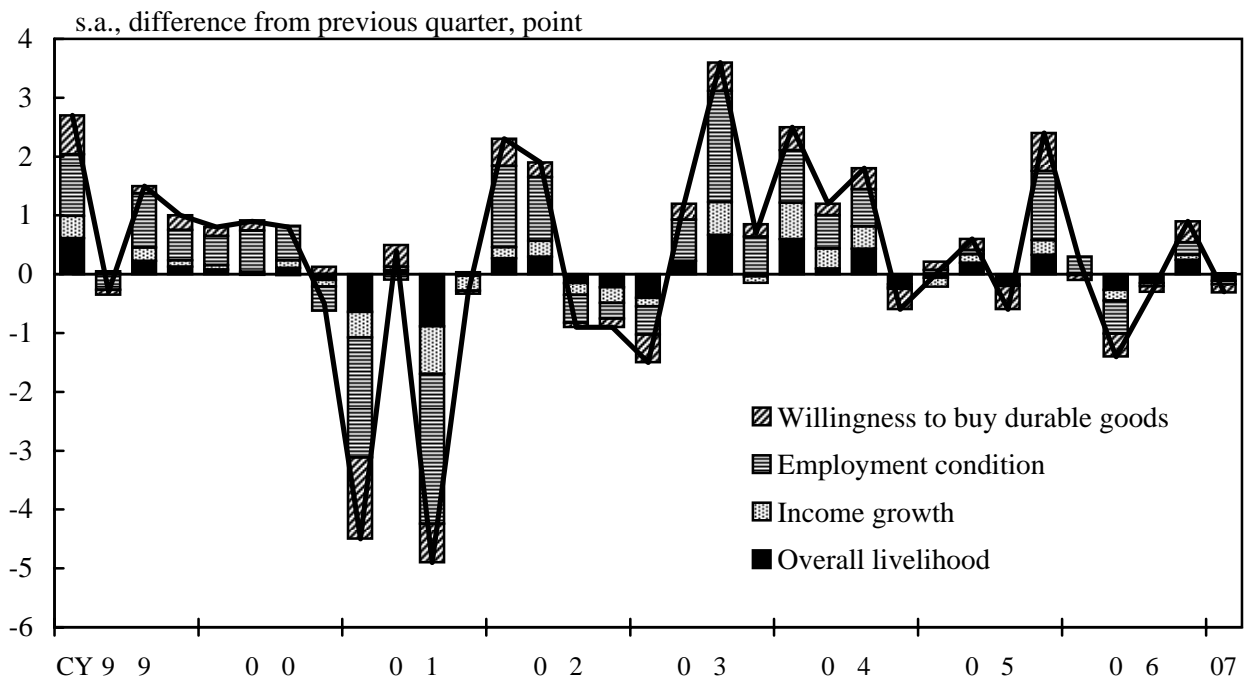
Source: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

(1) Surveys on Consumer Confidence



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

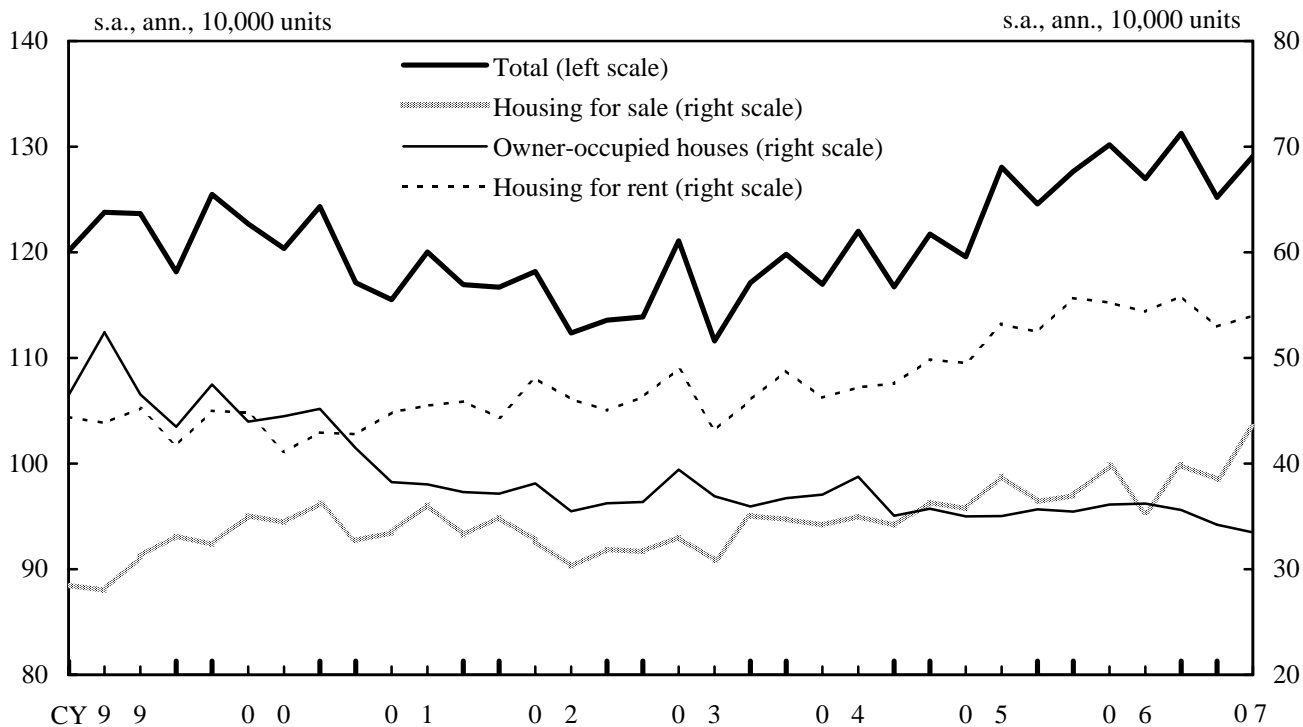


- Notes: 1. Seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. The Consumer Confidence Index (with 5,040 samples in a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 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 is revised retroactively due to the changes in its sampling method.

Sources: Cabinet Office, "Consumer Confidence Survey"; Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

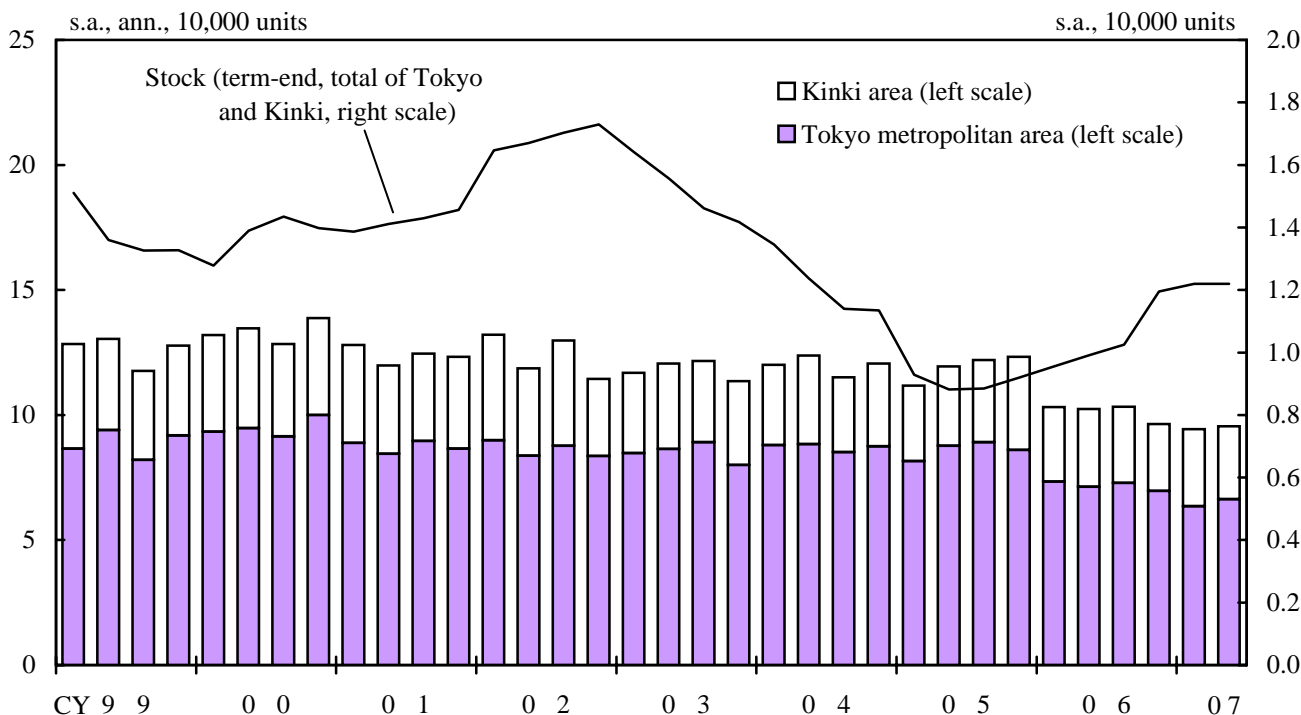
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2007/Q2 are those of April.

(2) Sales of Apartments



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

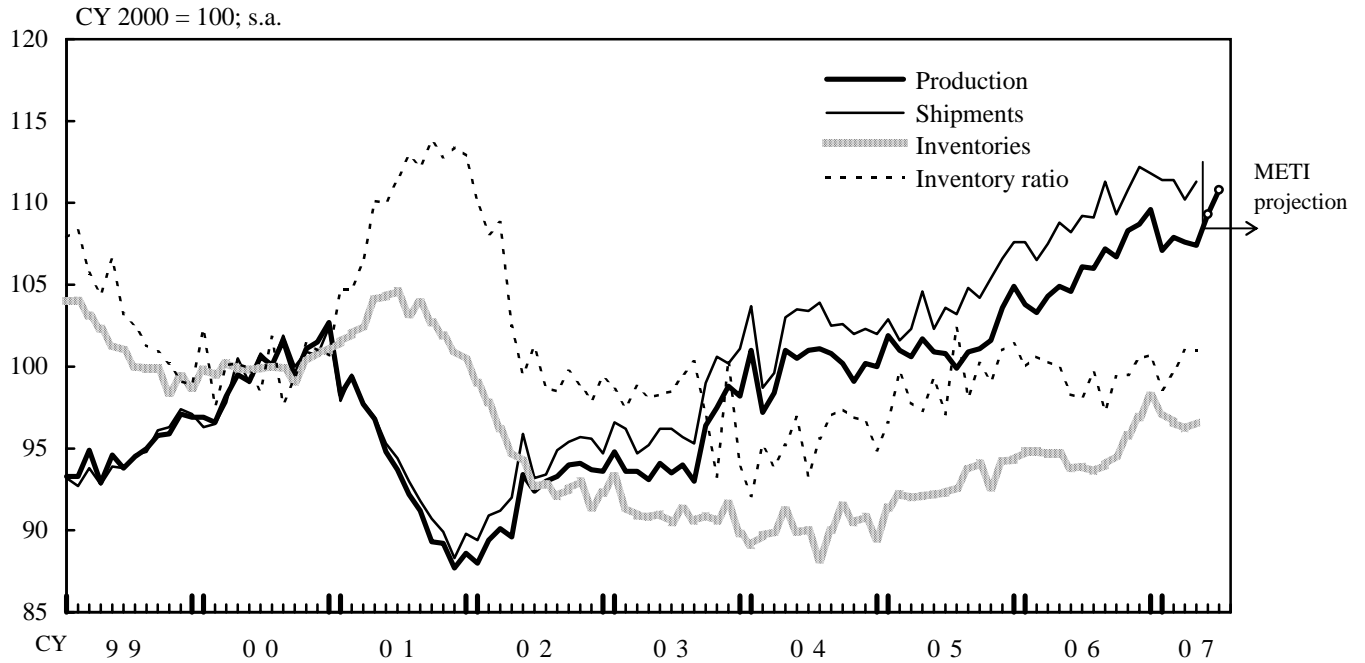
2. Figures of total apartments sales for 2007/Q2 are those of April-May averages.

Term-end stocks for 2007/Q2 are those of May.

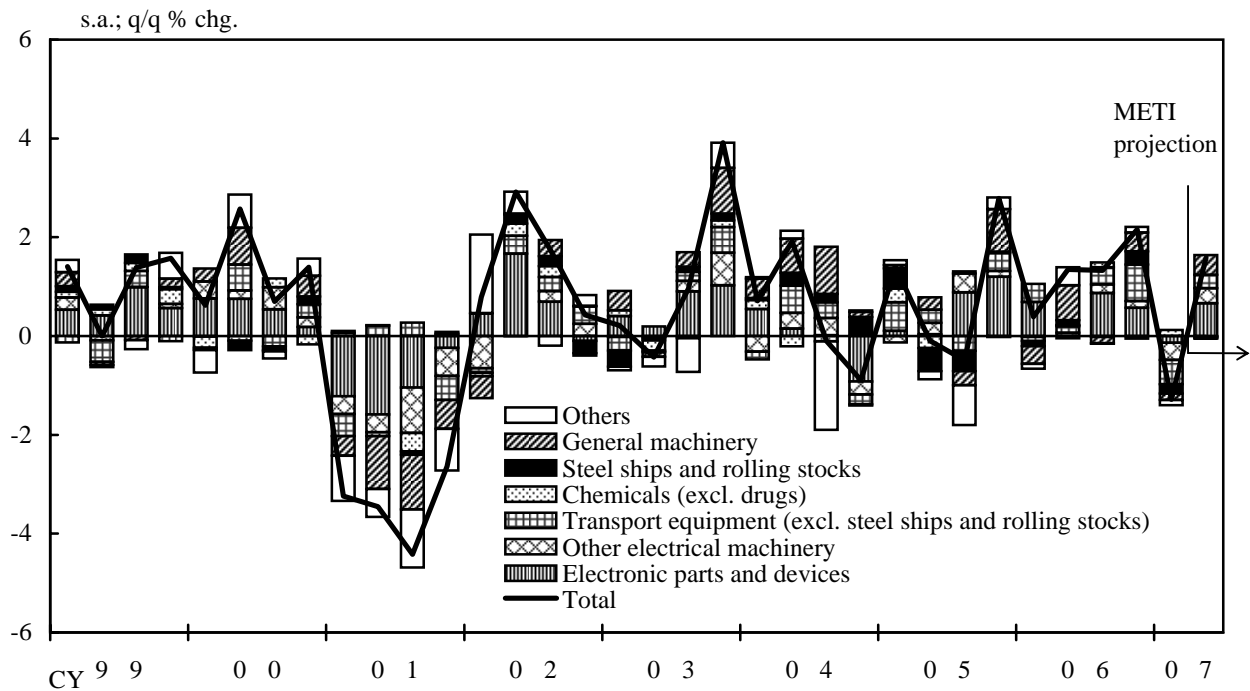
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

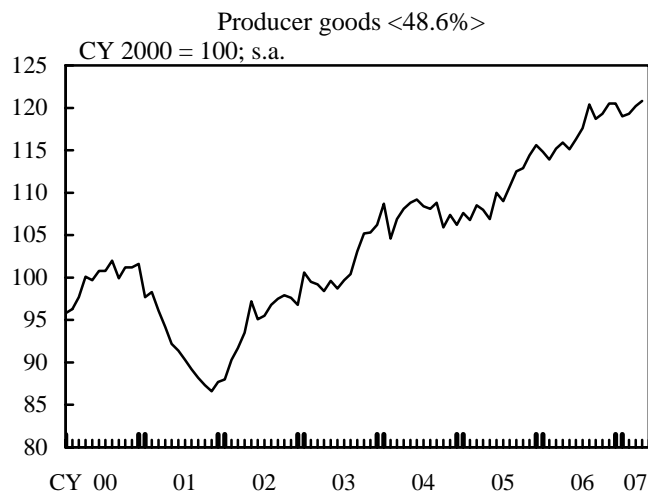
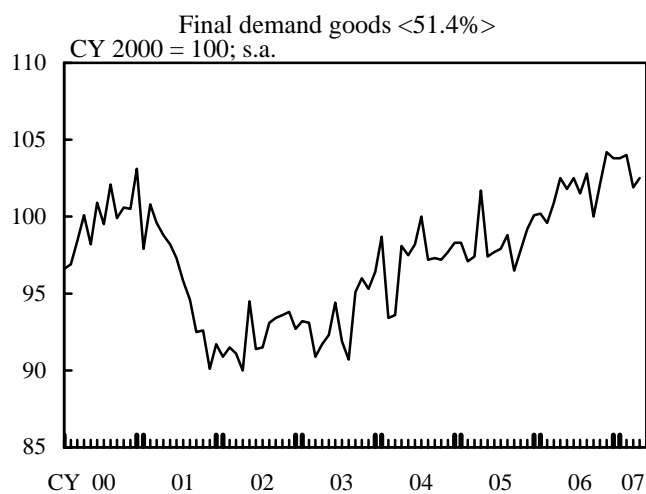


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

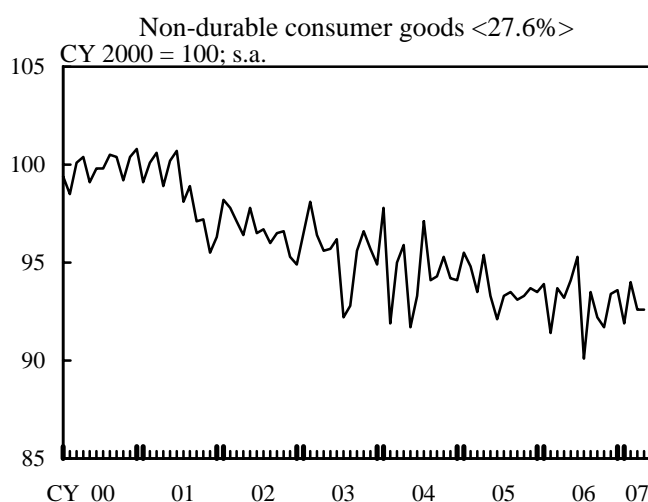
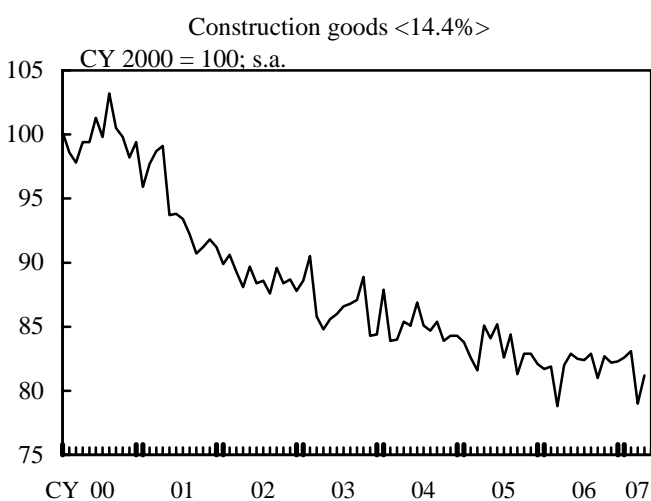
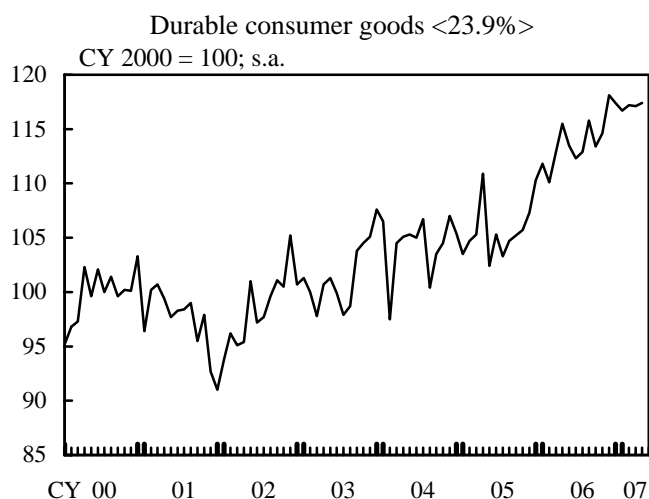
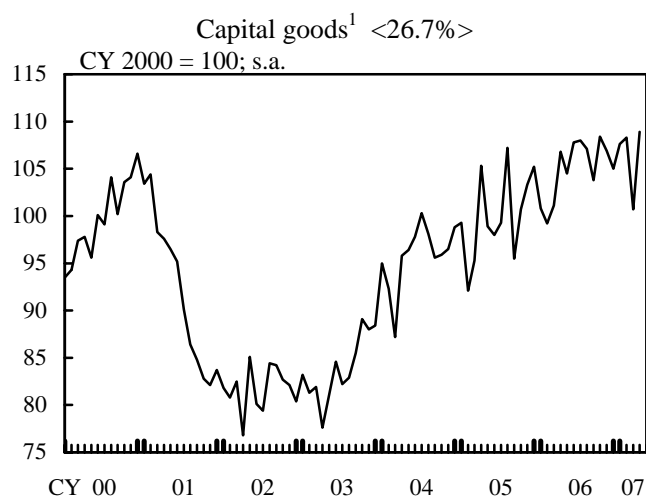
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods



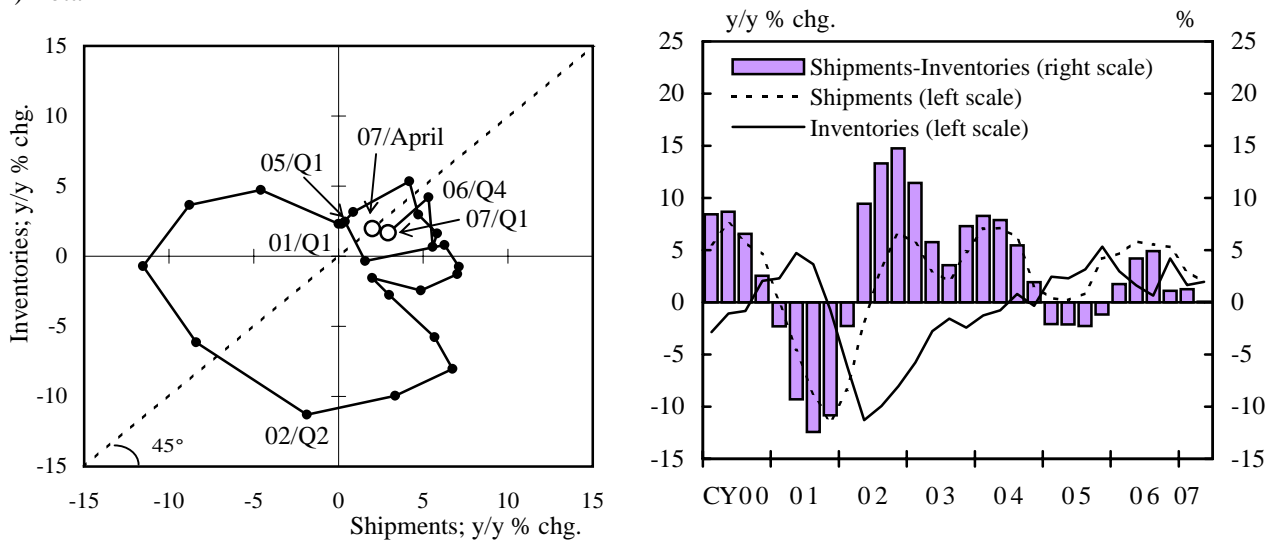
Notes: 1. Excluding transport equipment.

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

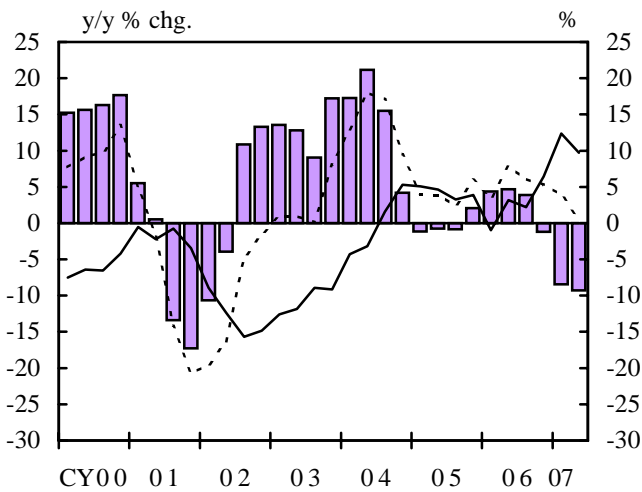
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle

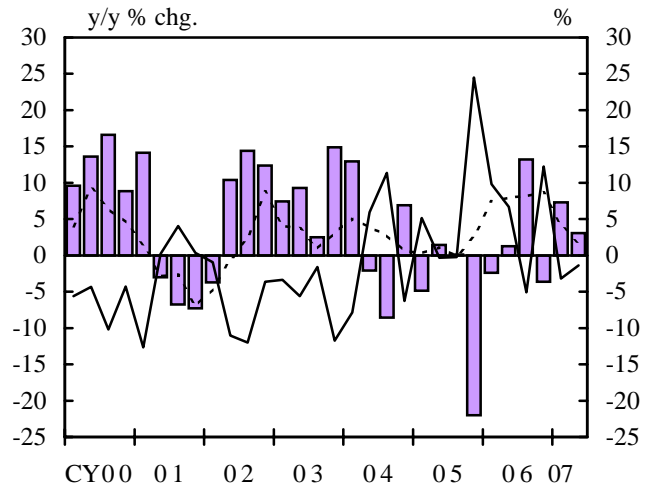
(1) Total



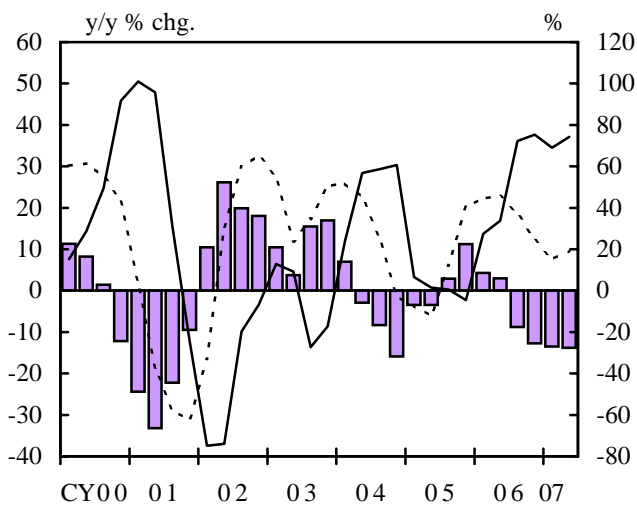
(2) Capital Goods (Excluding Transport Equipment)



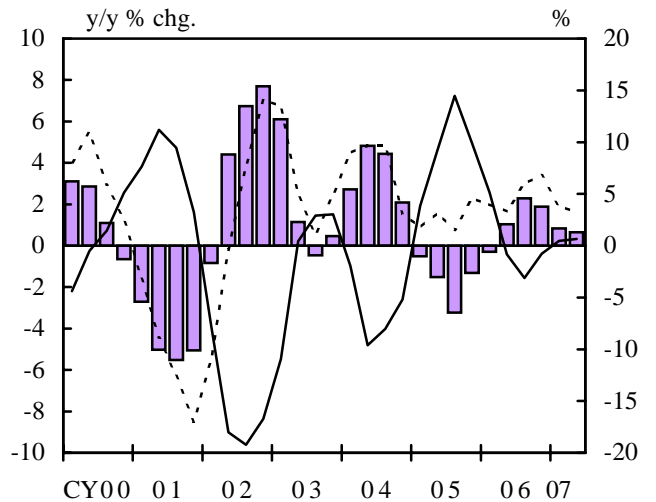
(3) Durable Consumer Goods



(4) Electronic Parts and Devices



(5) Producer Goods Excluding Electronic Parts and Devices

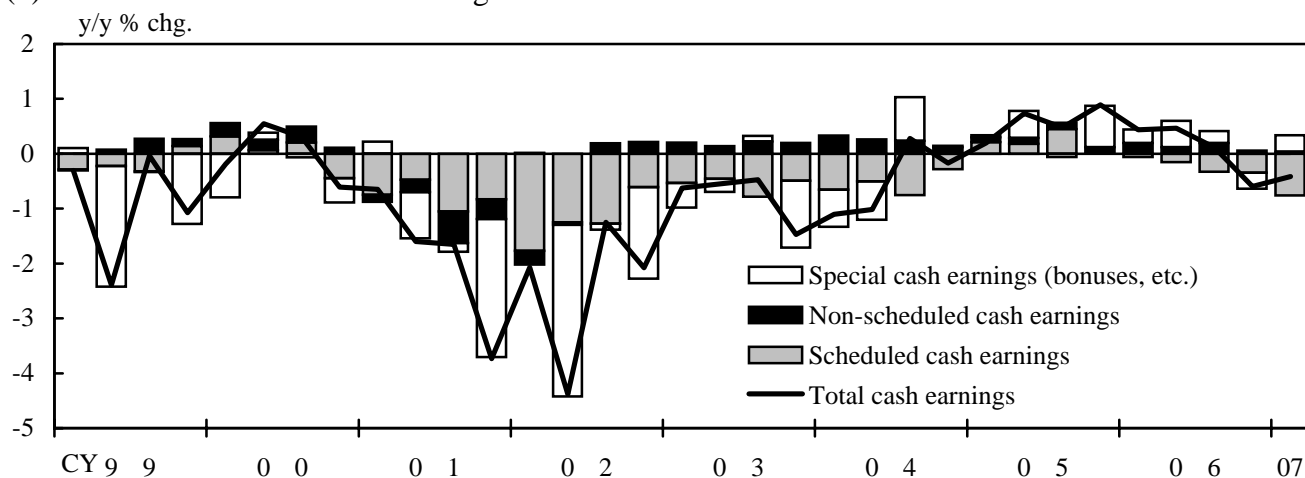


Note: Figures for 2007/Q2 are those of April.

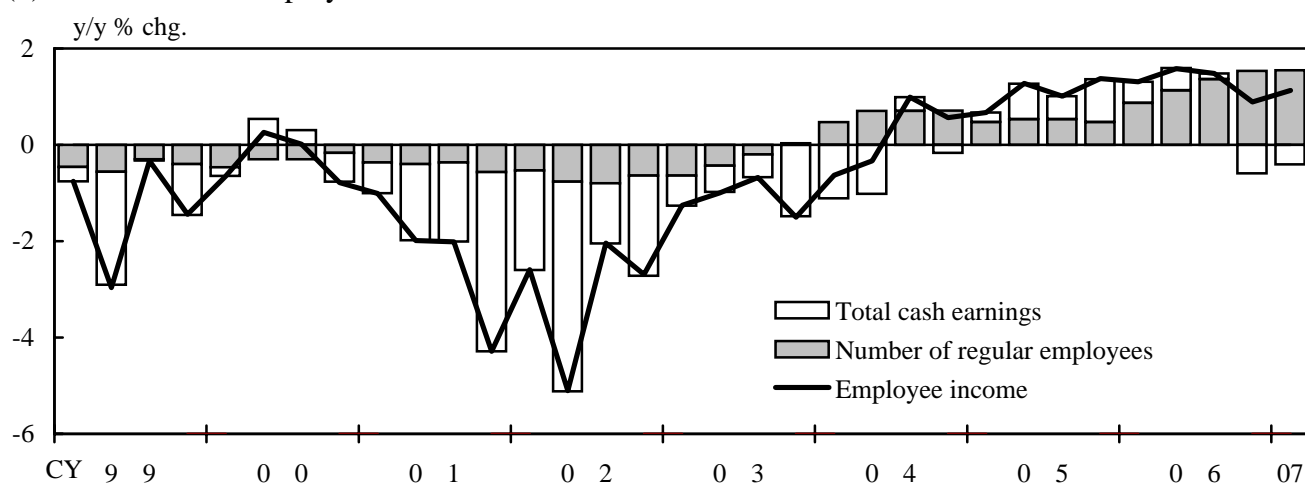
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

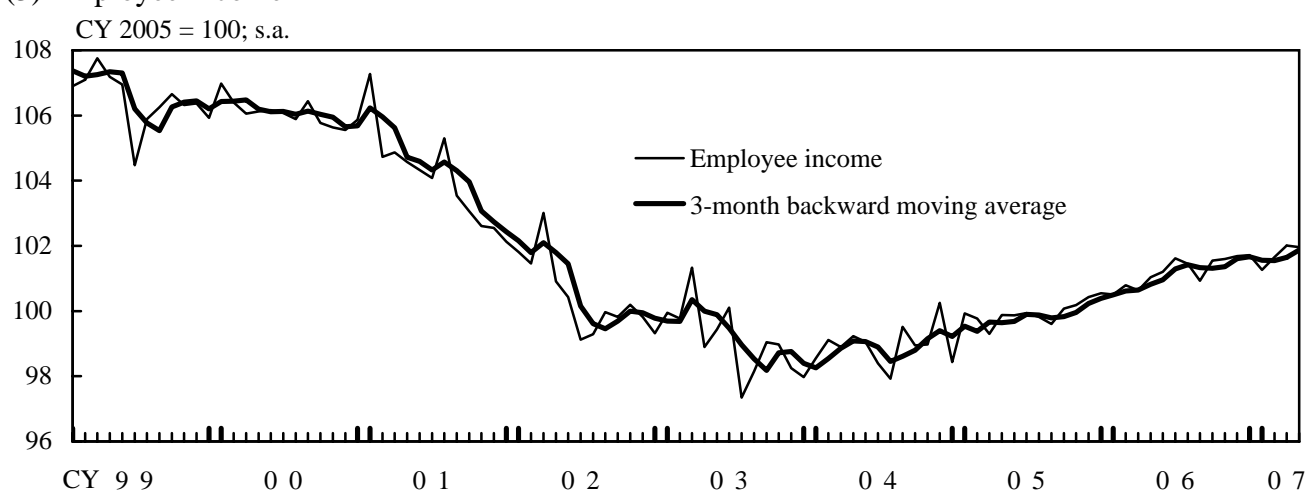
(1) Breakdown of Total Cash Earnings^{1,2,3}



(2) Breakdown of Employee Income^{1,2,3}



(3) Employee Income^{1,4,5}

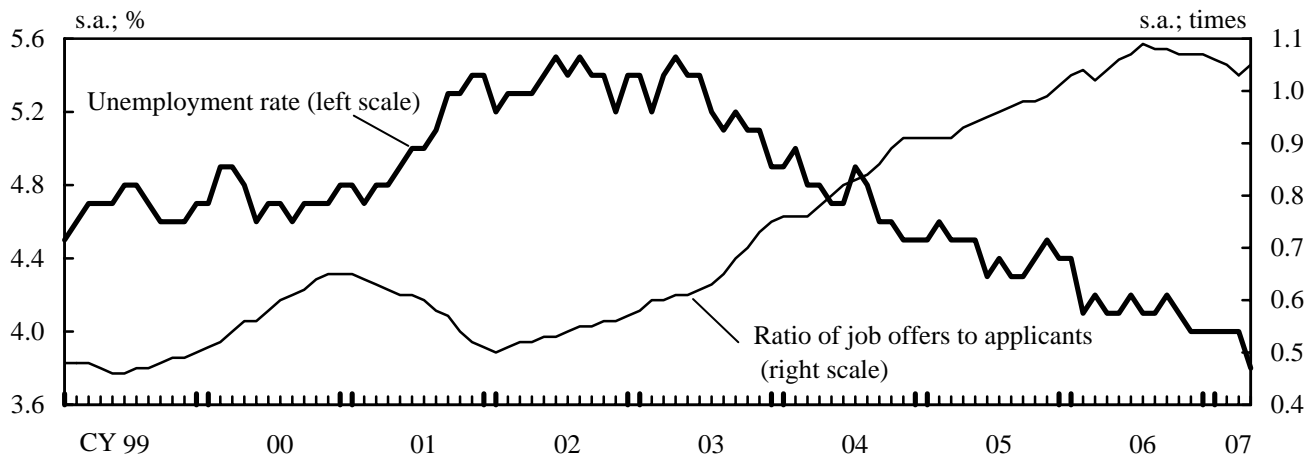


- Notes:
1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Figures for 2007/Q1 are those of March-April averages.
 4. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided by 100.
 5. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.

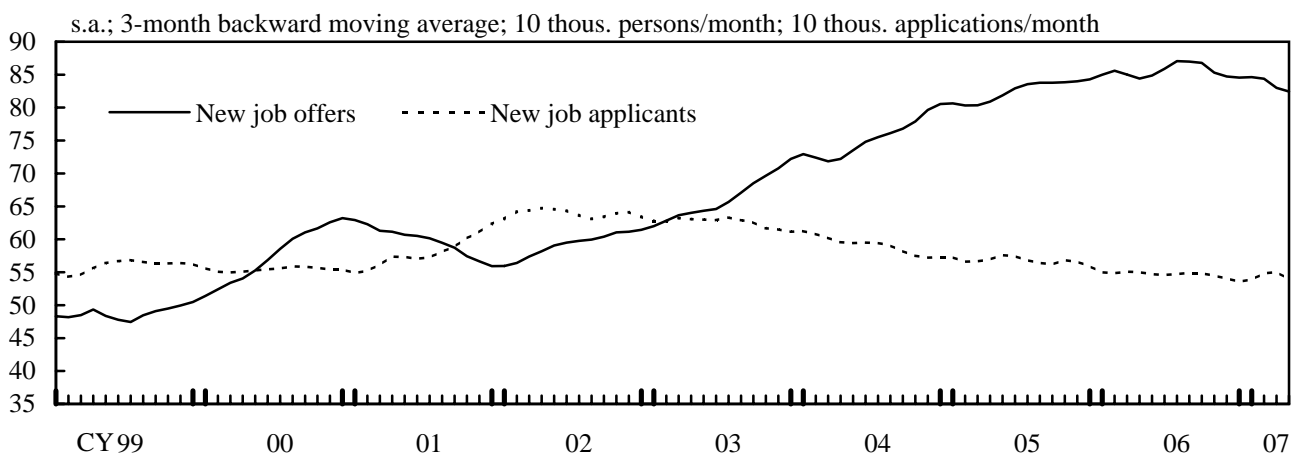
Source: Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Labor Market (1)

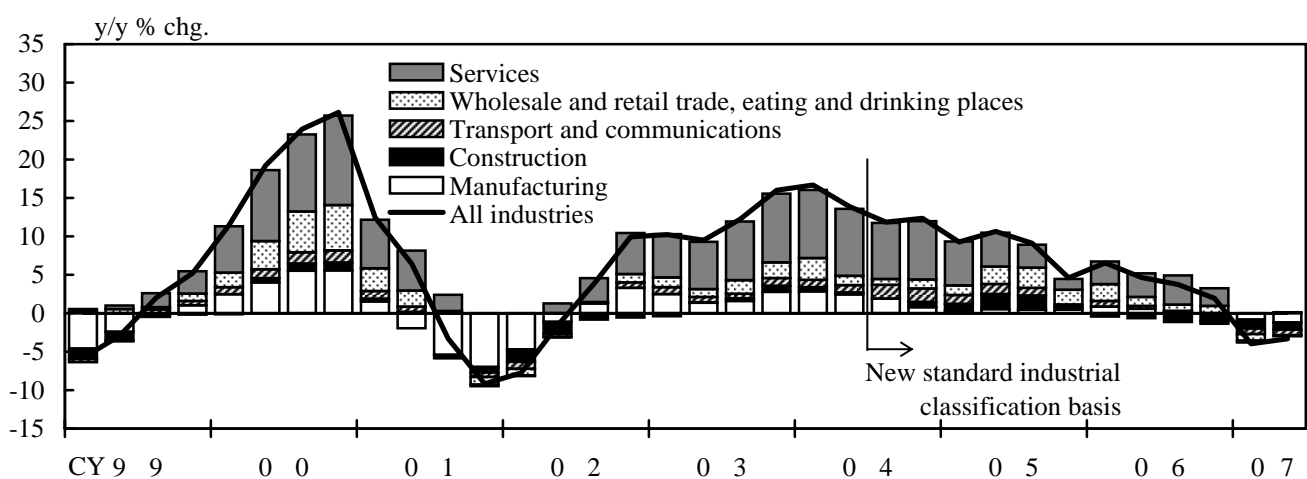
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



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

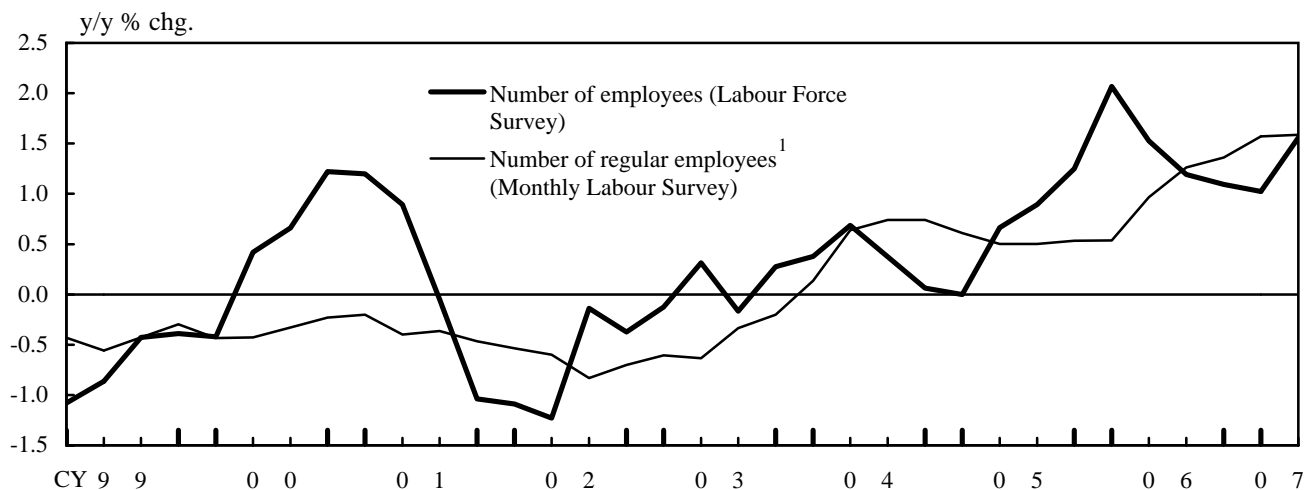


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum of "electricity and gas," "information and communications" and "transport." "Wholesale and retail trade, eating and drinking places" are the sum of "wholesale and retail trade" and "eating and drinking places, accommodations." "Services" are the sum of "medical, health care and welfare," "education, learning support," "compound services" and "services (not elsewhere classified)."
 3. Figures for 2007/Q2 are those of April.

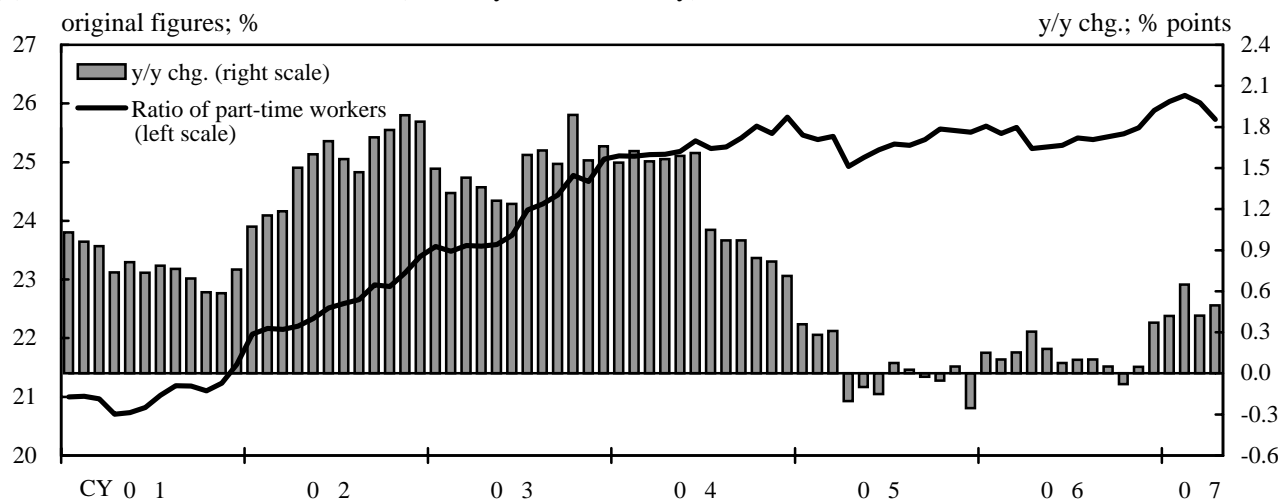
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (2)

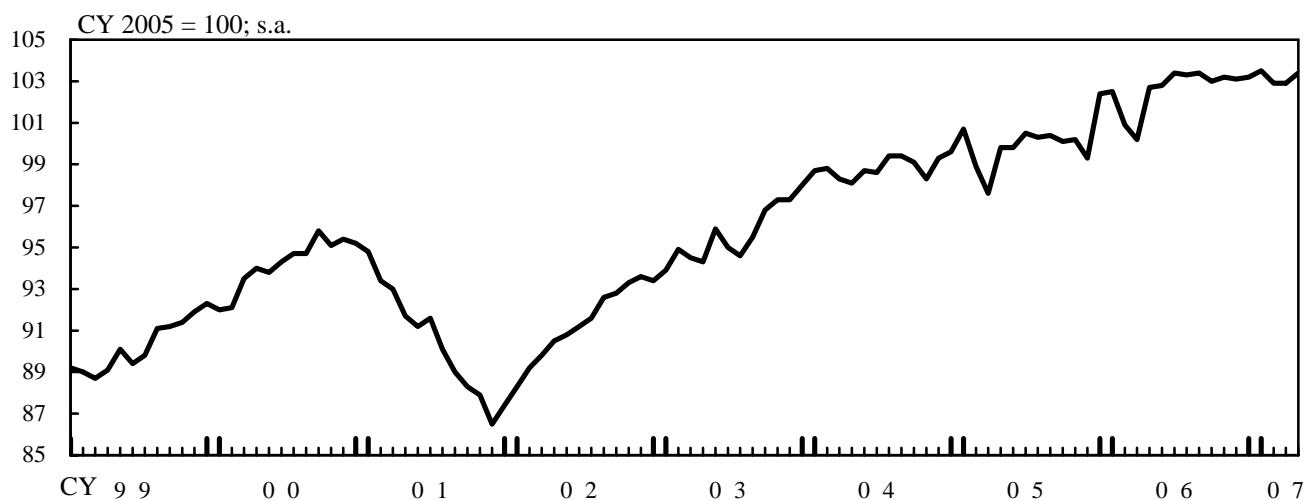
(1) Number of Employees³



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



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

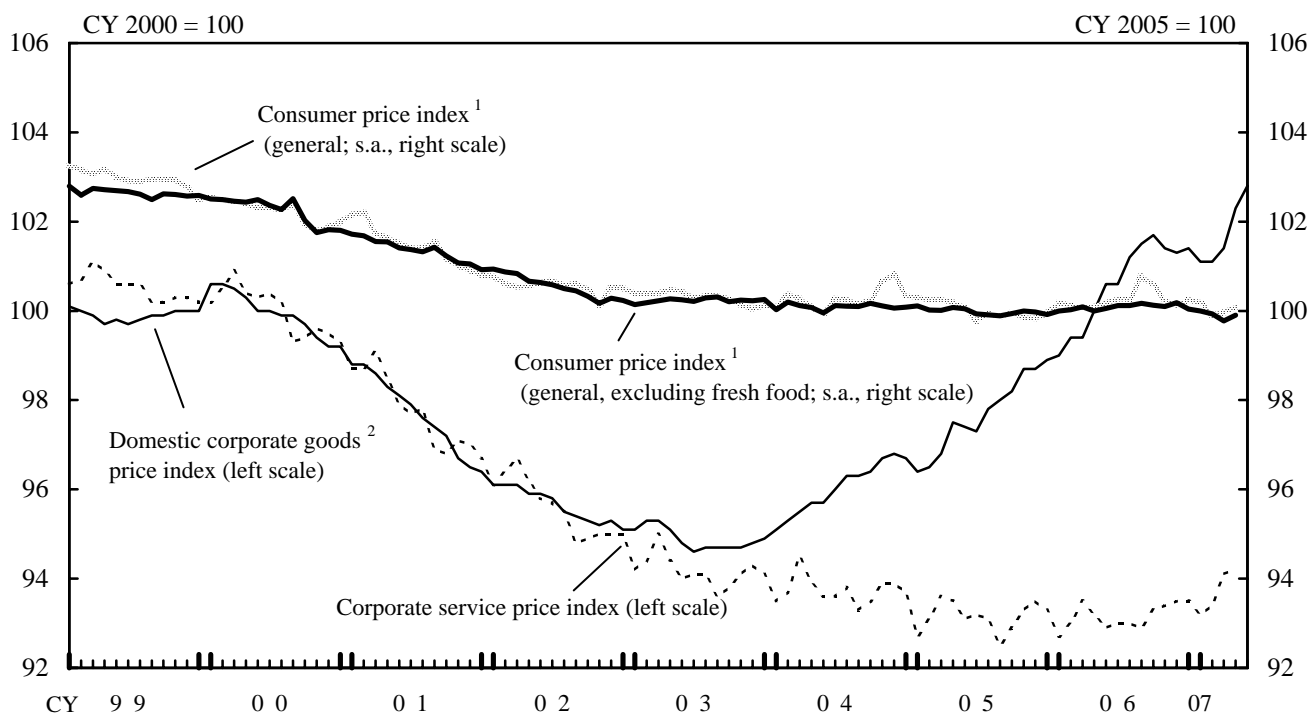


- Notes: 1. Data are for establishments with at least five employees.
- 2. Ratio of part-time workers is calculated as number of part-time workers divided by number of regular employees times 100.
- 3. Figures for 2007/Q2 are those of April.

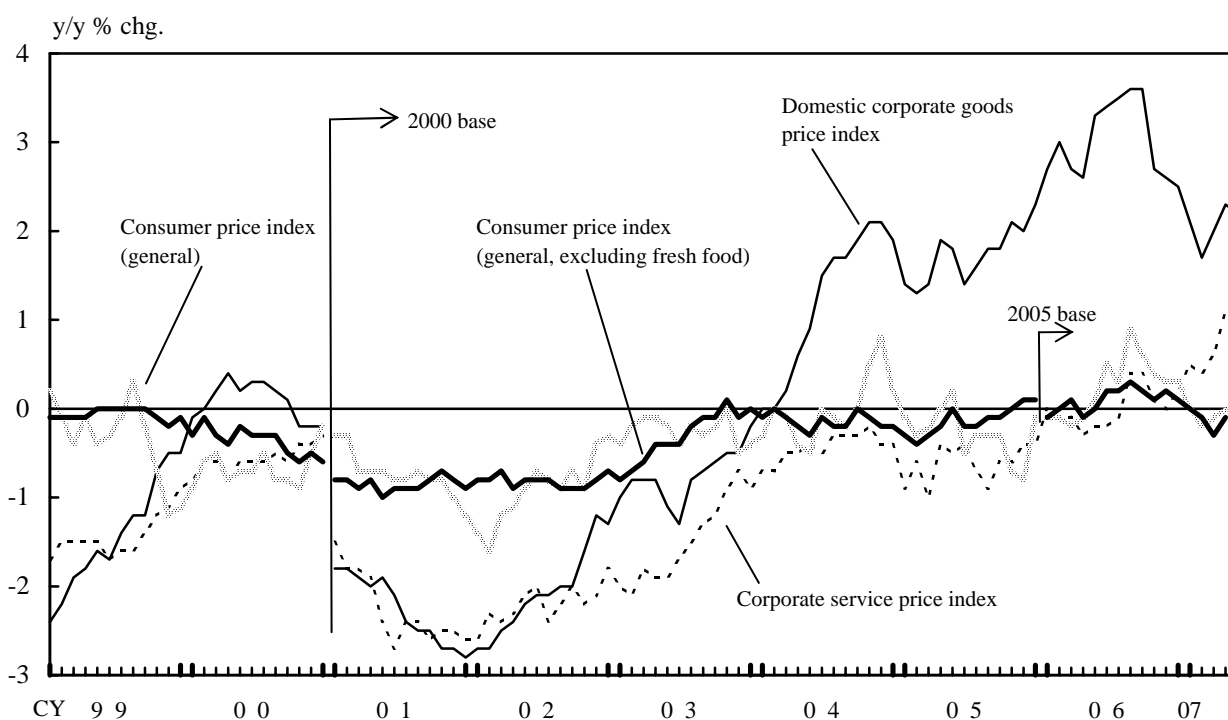
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices³

(1) Level



(2) Changes from a Year Earlier³



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

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

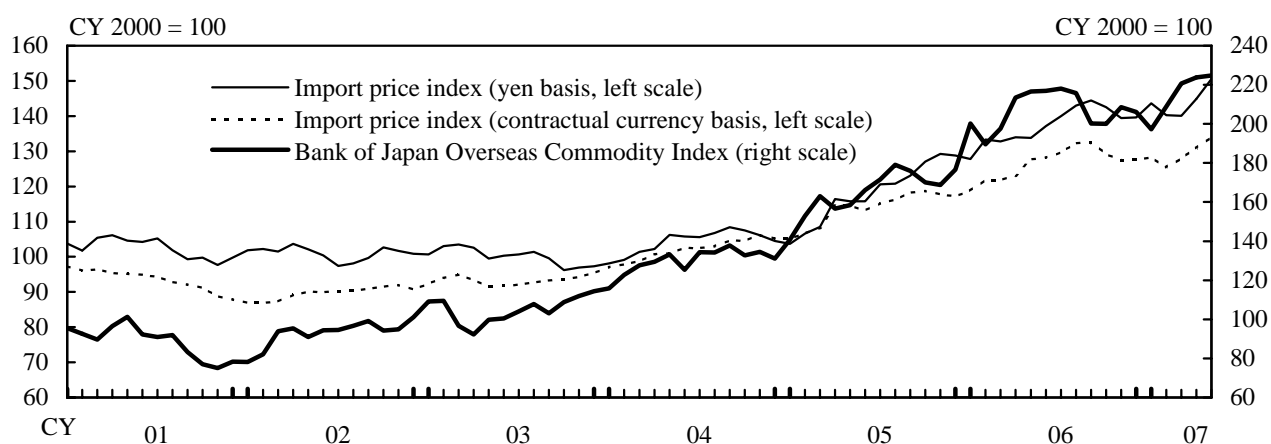
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CPI have been calculated on the 2000 base.

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

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

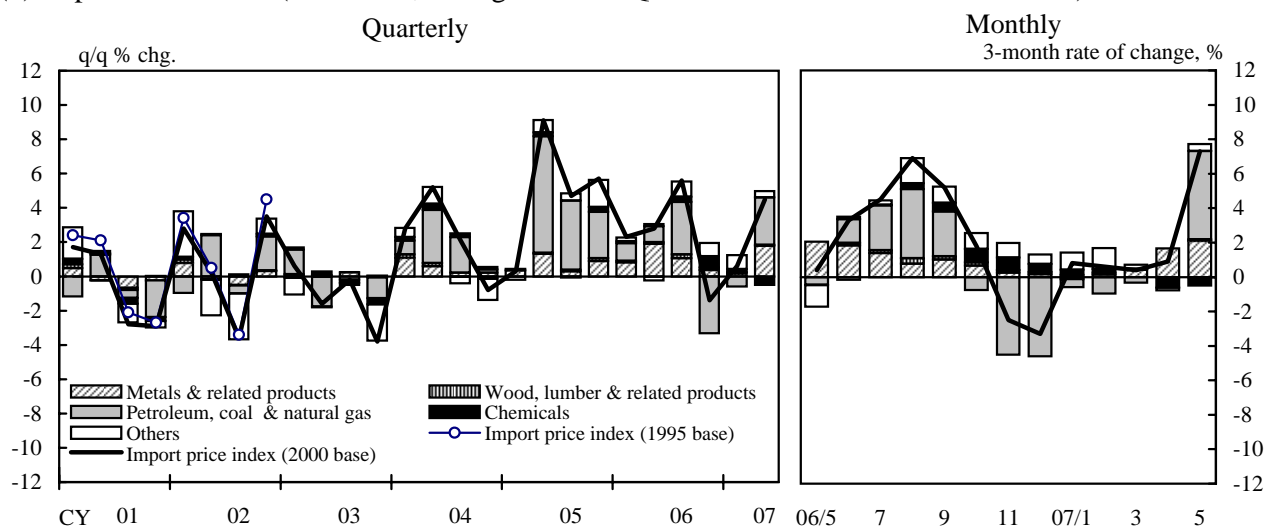
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



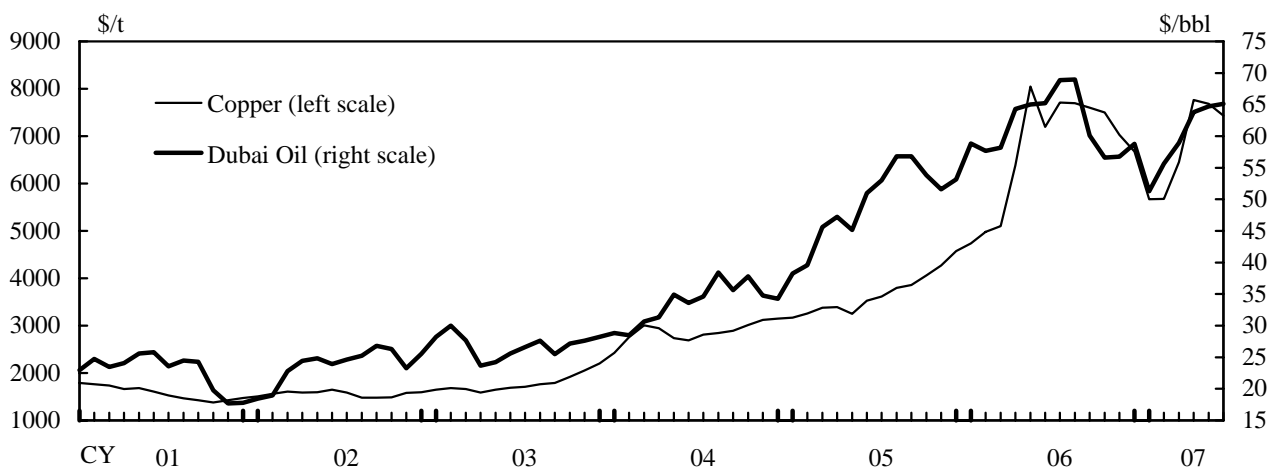
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Note: Figures for 2007/Q2 are April-May averages. 1995 base figure for 2002/Q4 is October-November average.

(3) Oil Price and Copper Price

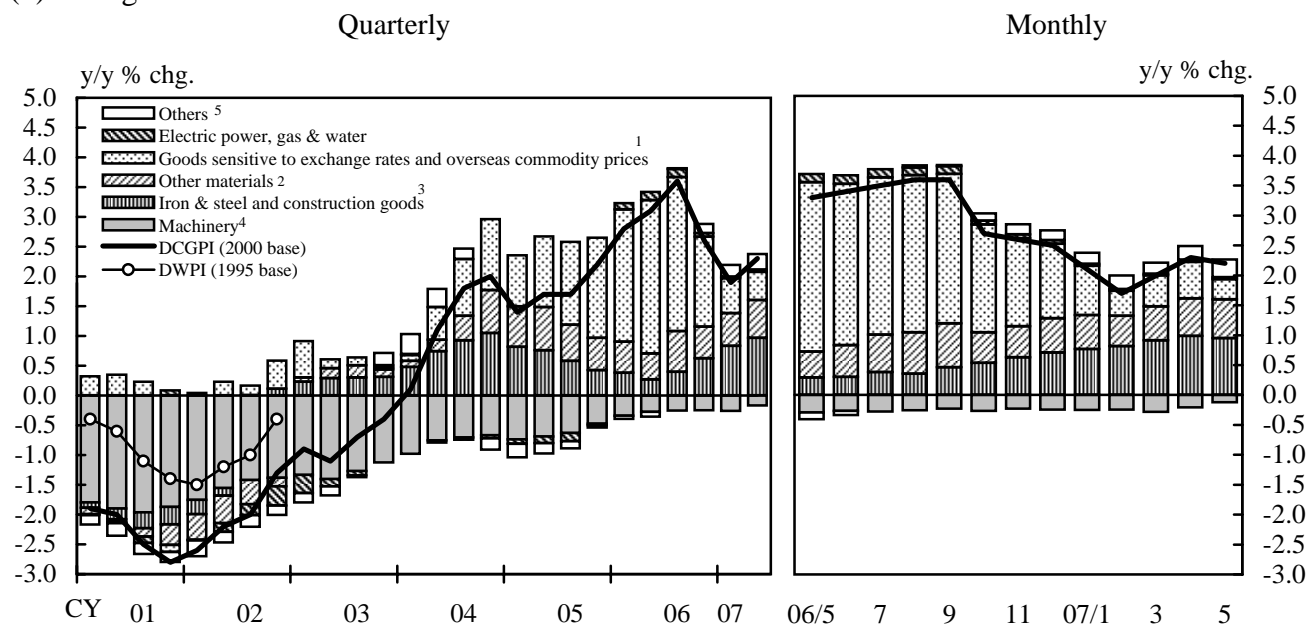
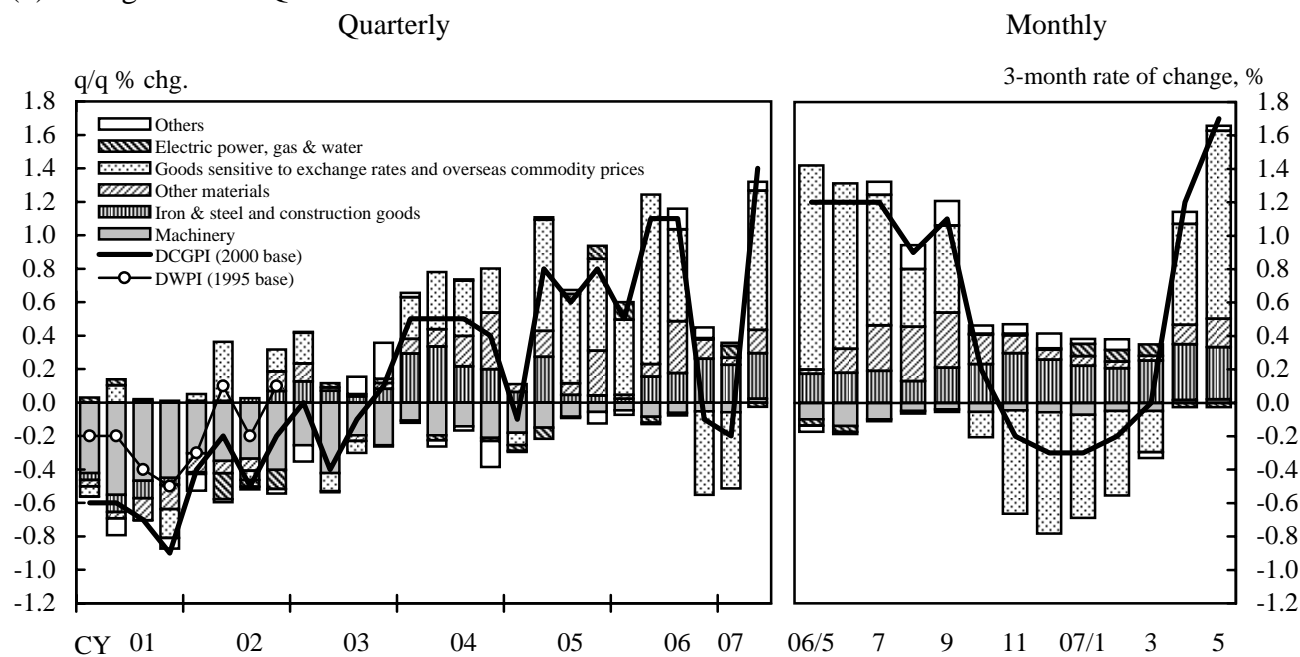


Note: Monthly averages. Figures for June 2007 are the averages up to June 14.

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

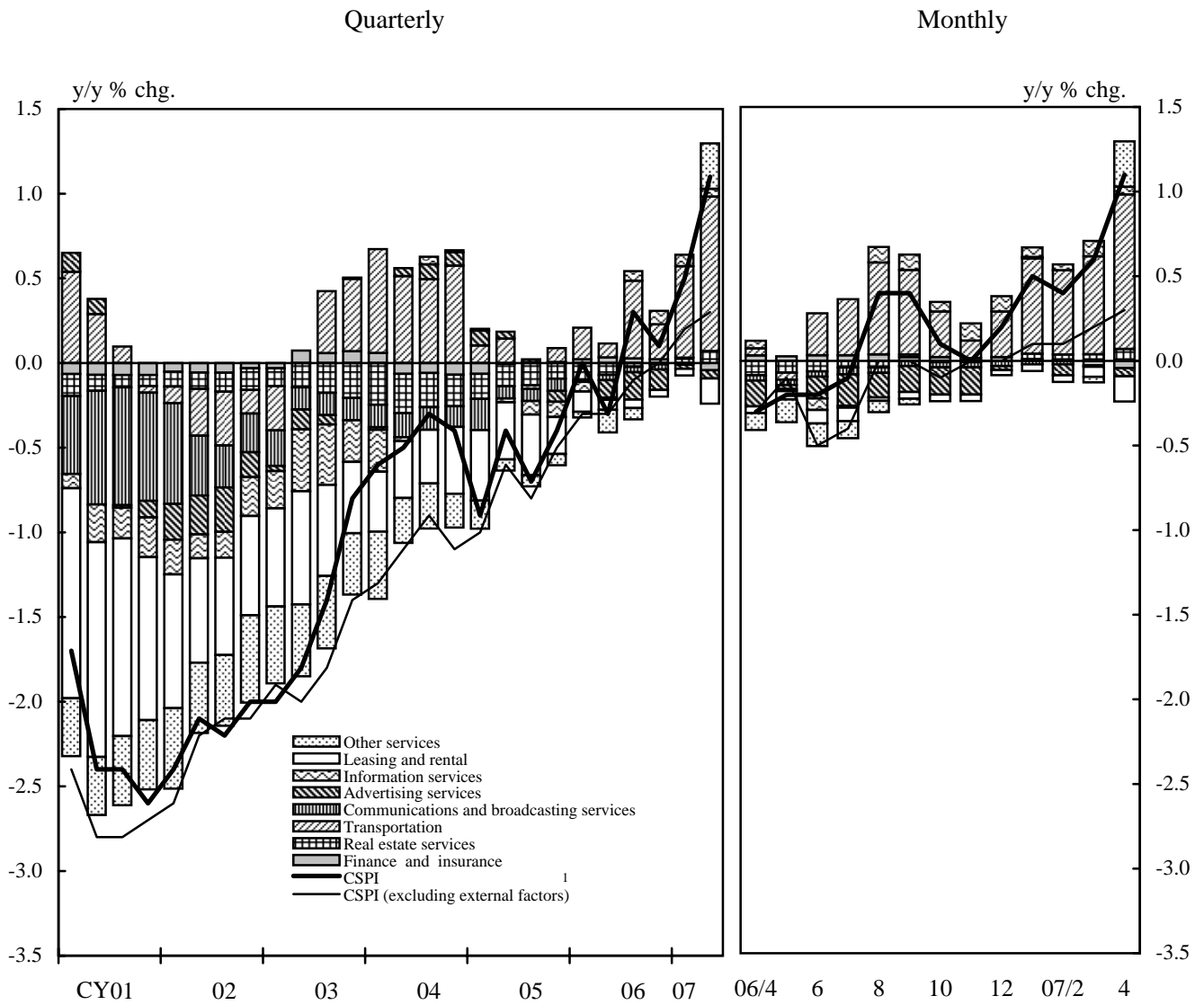
Domestic Corporate Goods Price Index⁷

(1) Changes from a Year Earlier

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

- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.
2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.
4. Machinery: electrical machinery, general machinery, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.
6. Adjusted to exclude a hike of electric power charges in summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
7. Figures for 2007/Q2 are April-May averages. 1995 base figures for 2002/Q4 are October-November averages.

Corporate Service Price Index

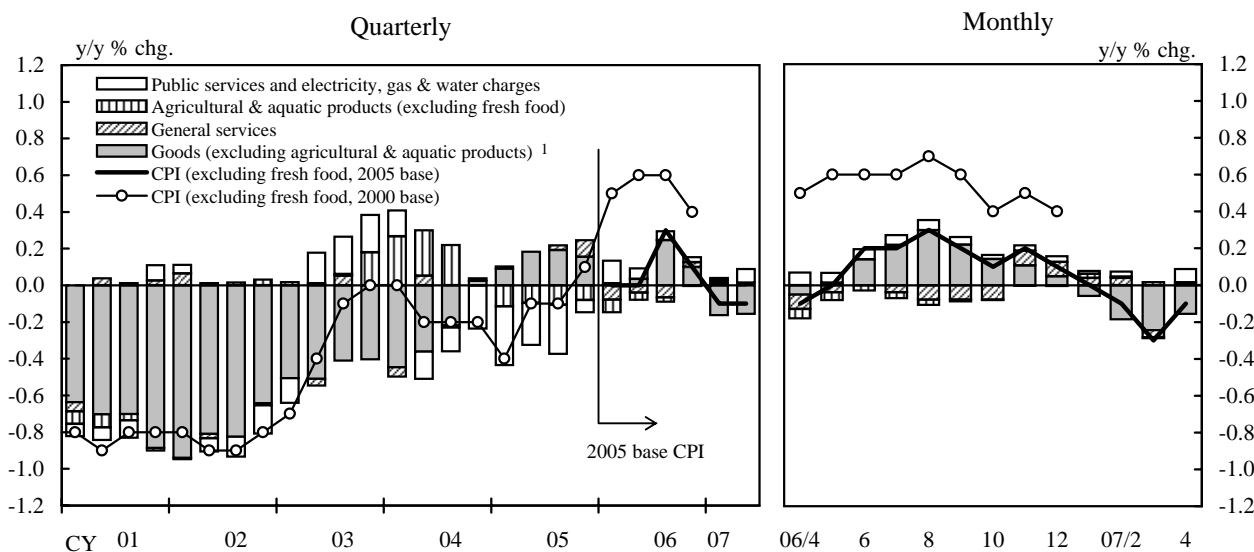


Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures for 2007/Q2 are those of April.

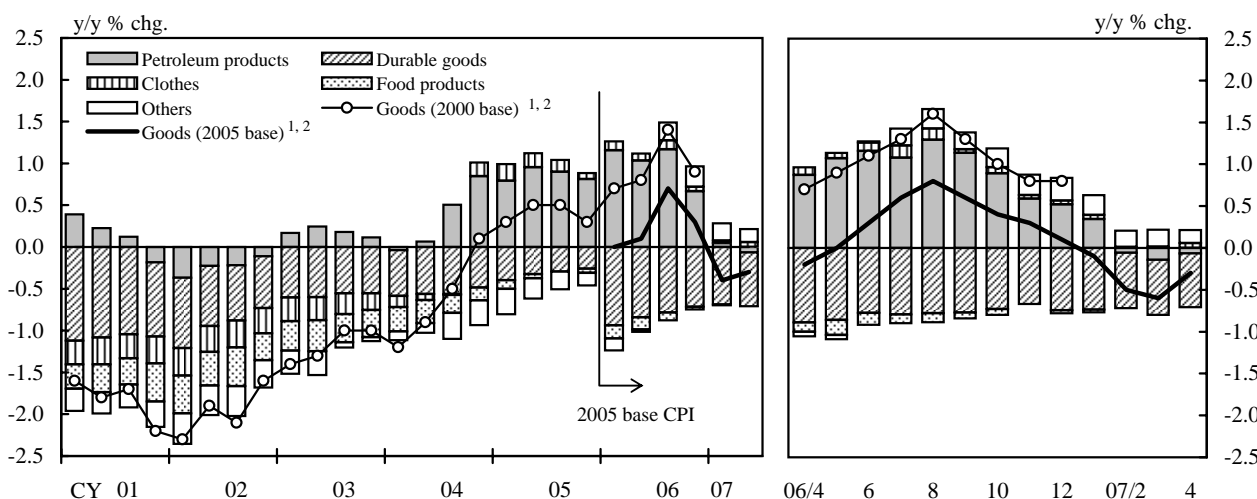
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

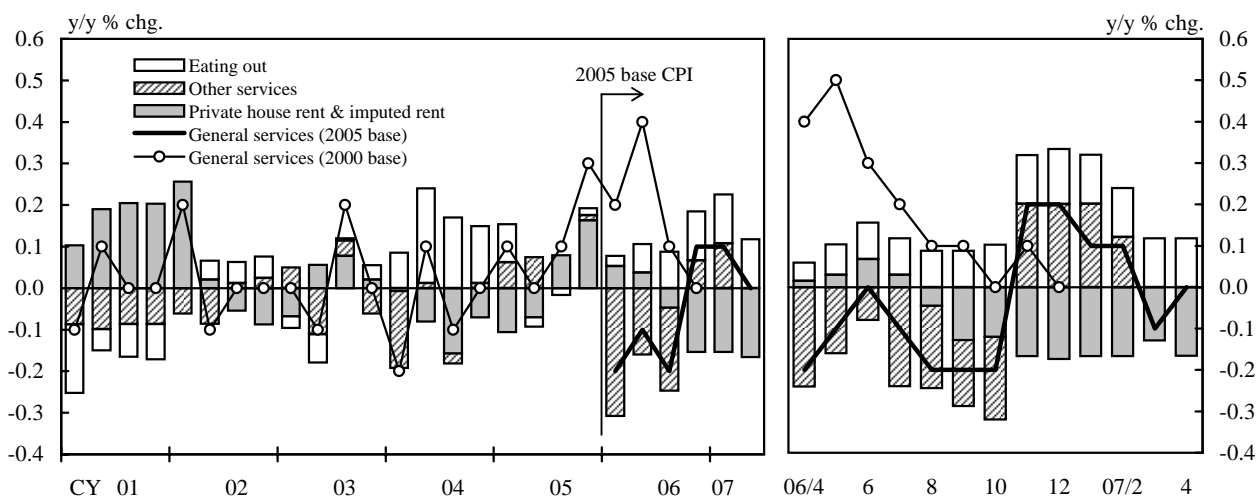
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



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

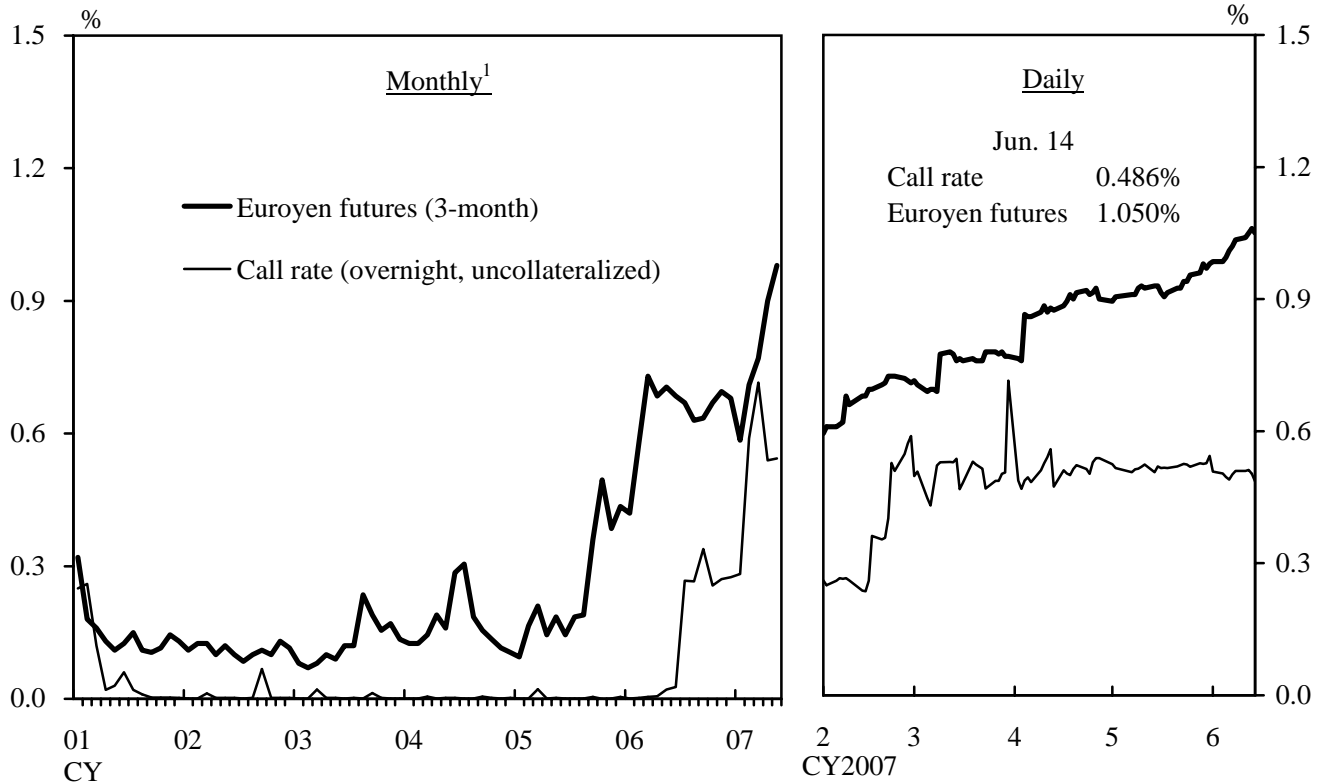
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q2 are those of April.

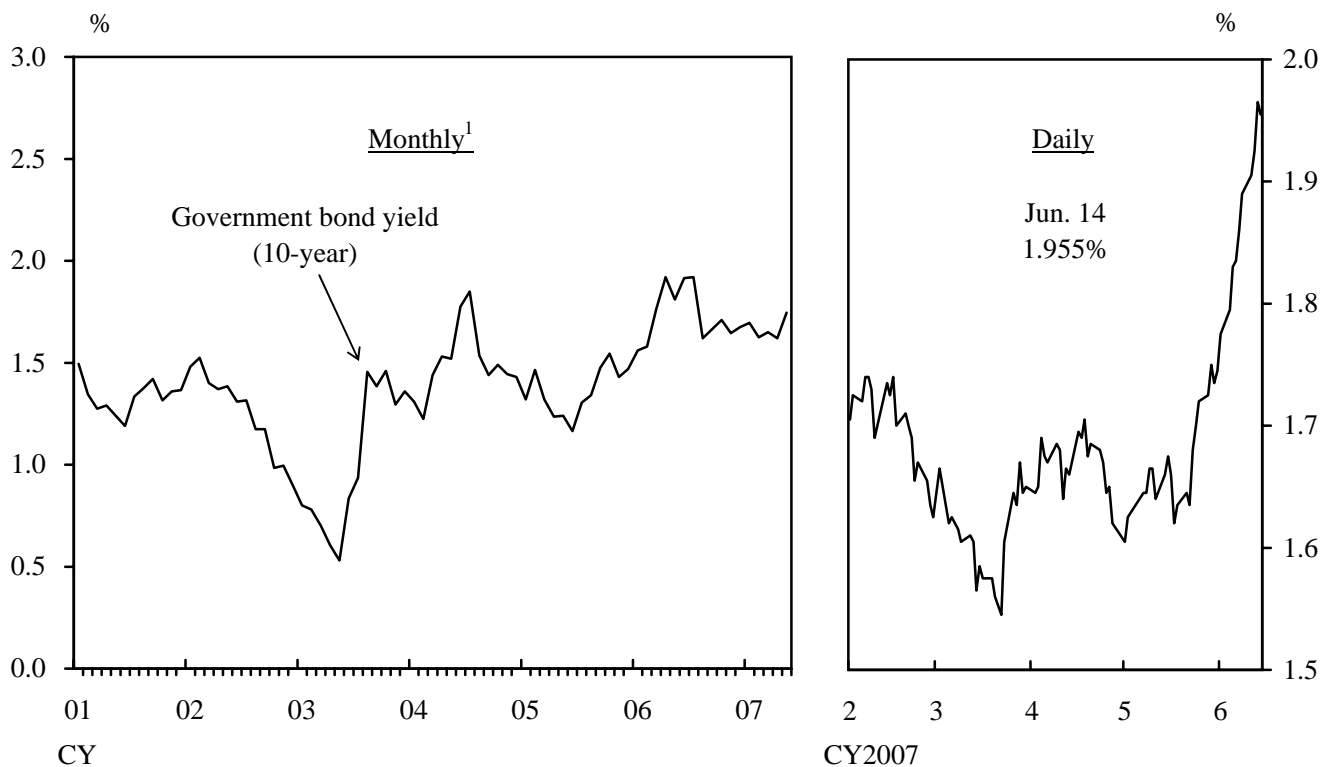
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

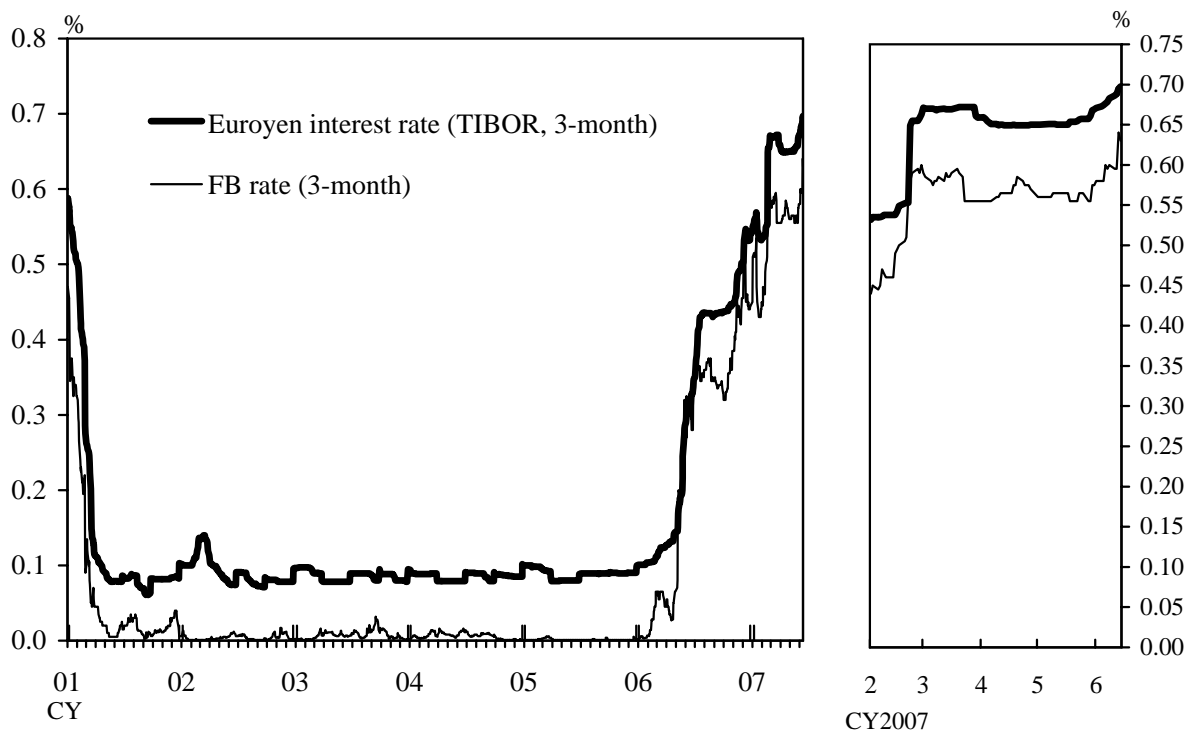


Note: 1. End of month.

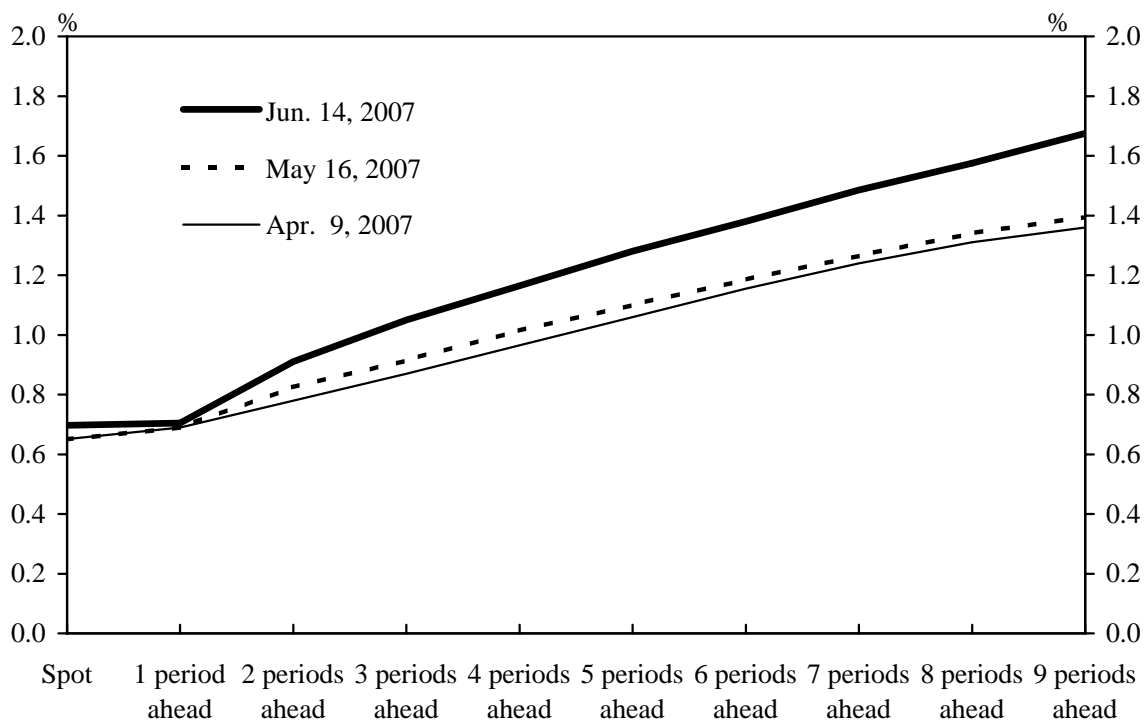
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



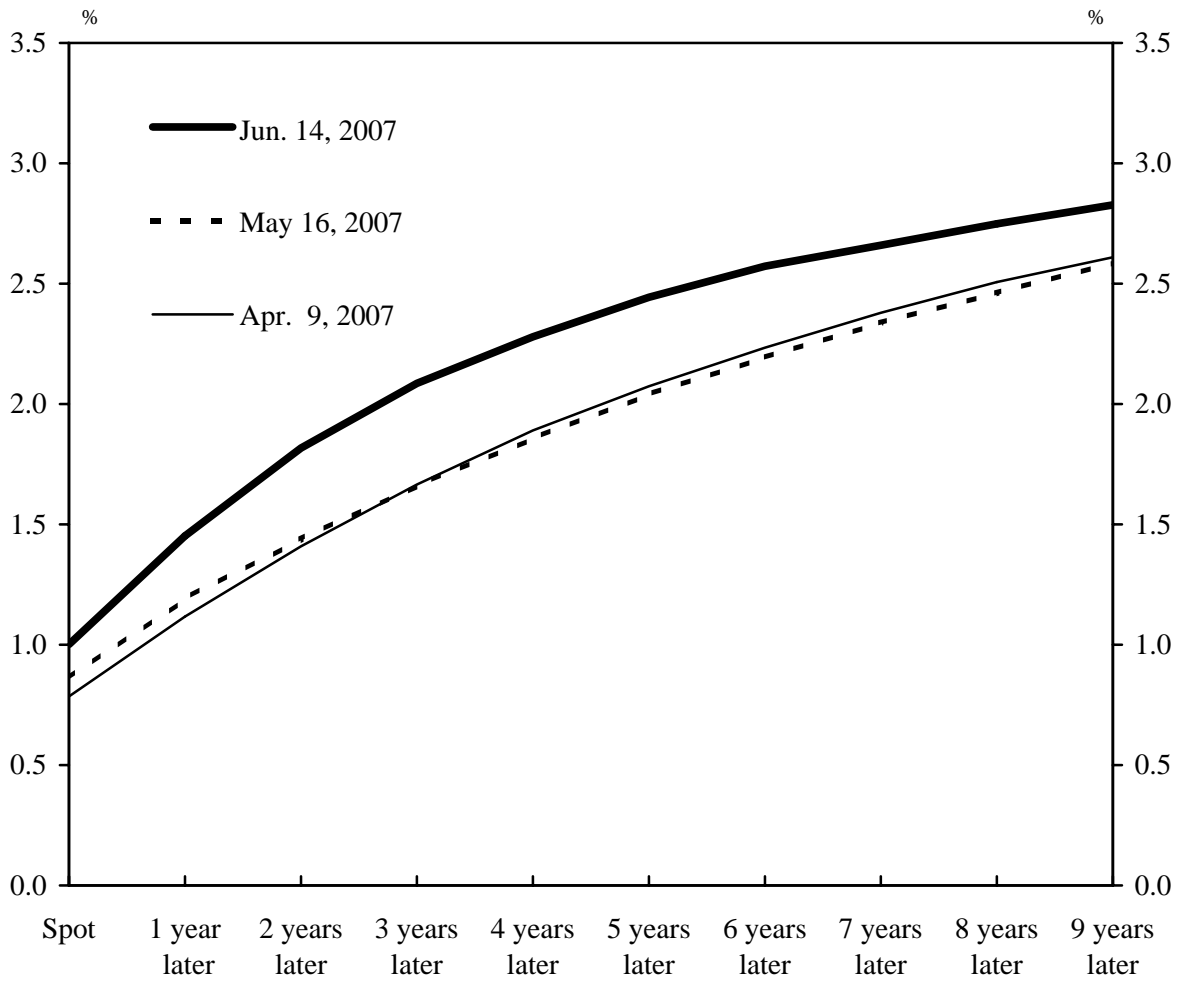
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

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

Implied Forward Rates (1-Year)

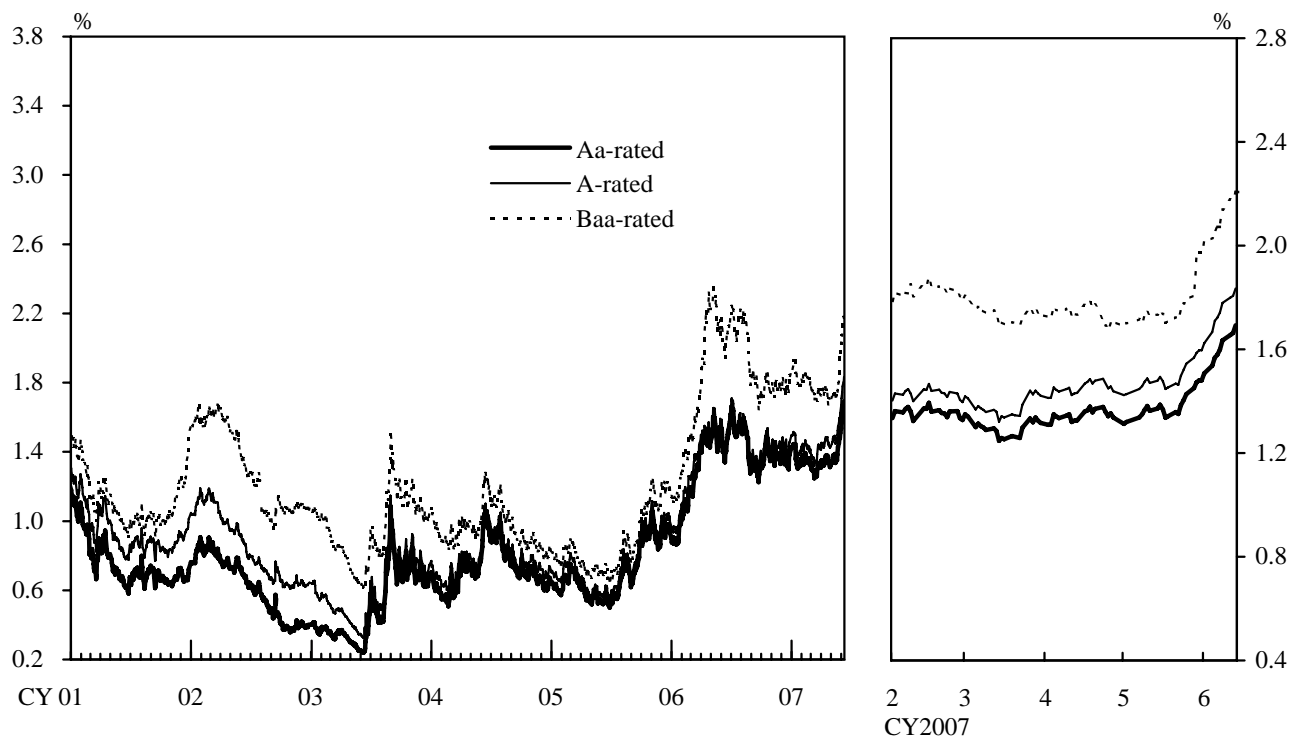


Note: Calculated from yen-yen swap rates.

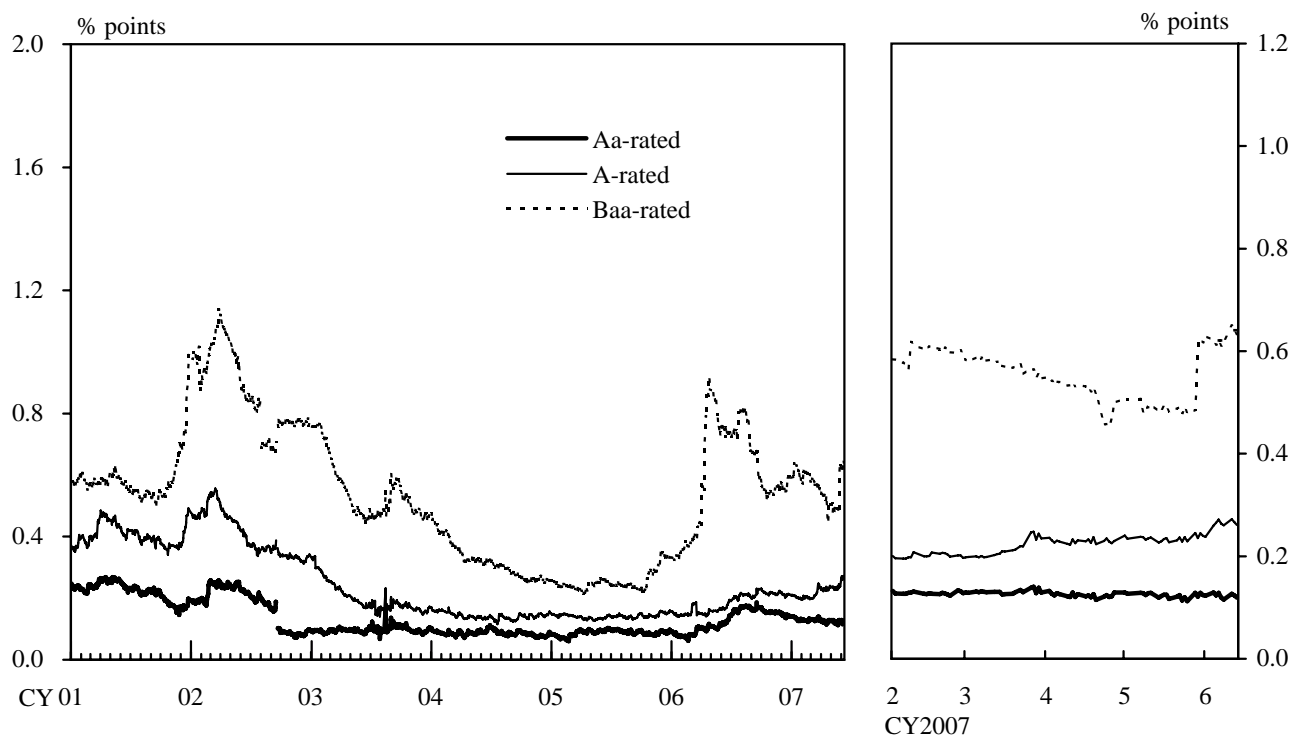
Source: Reuters.

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.

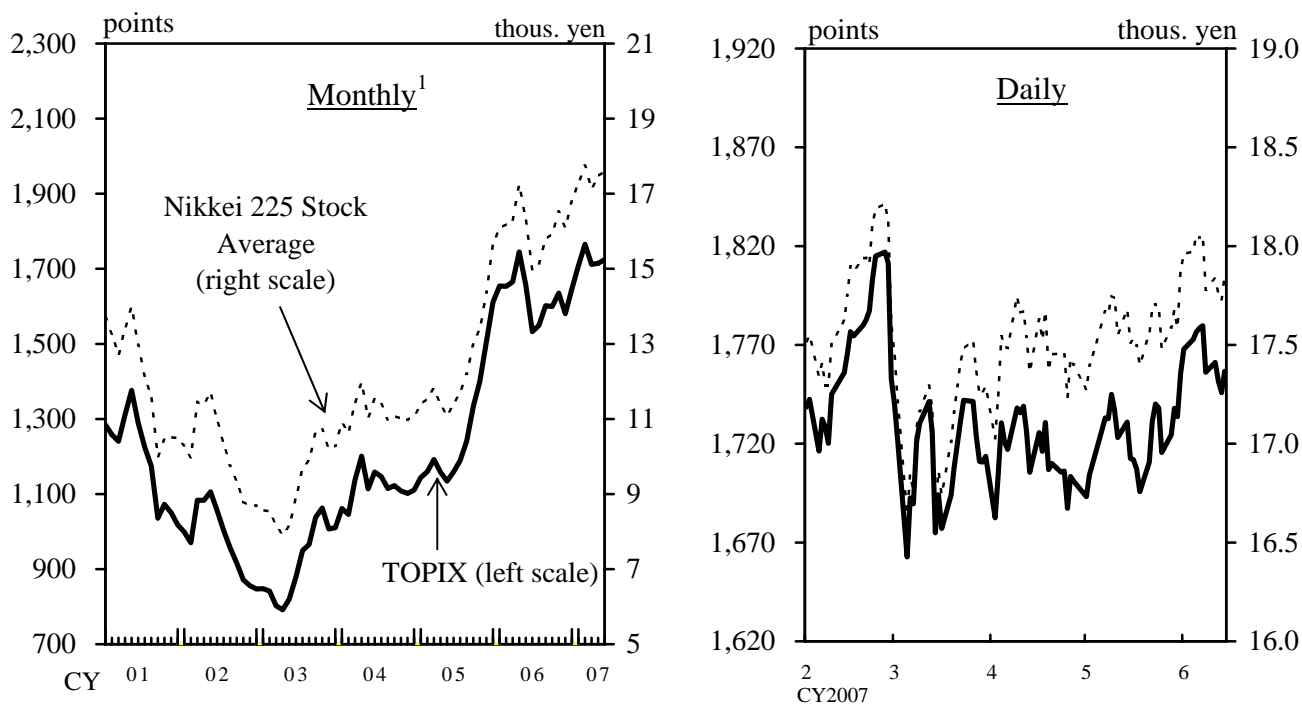
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

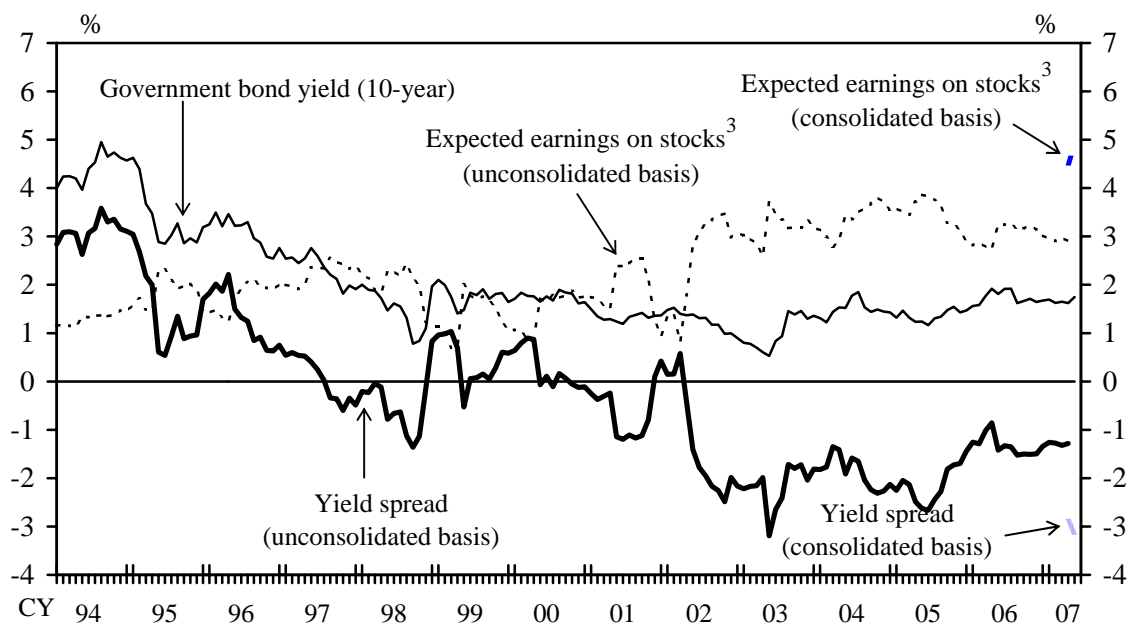
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

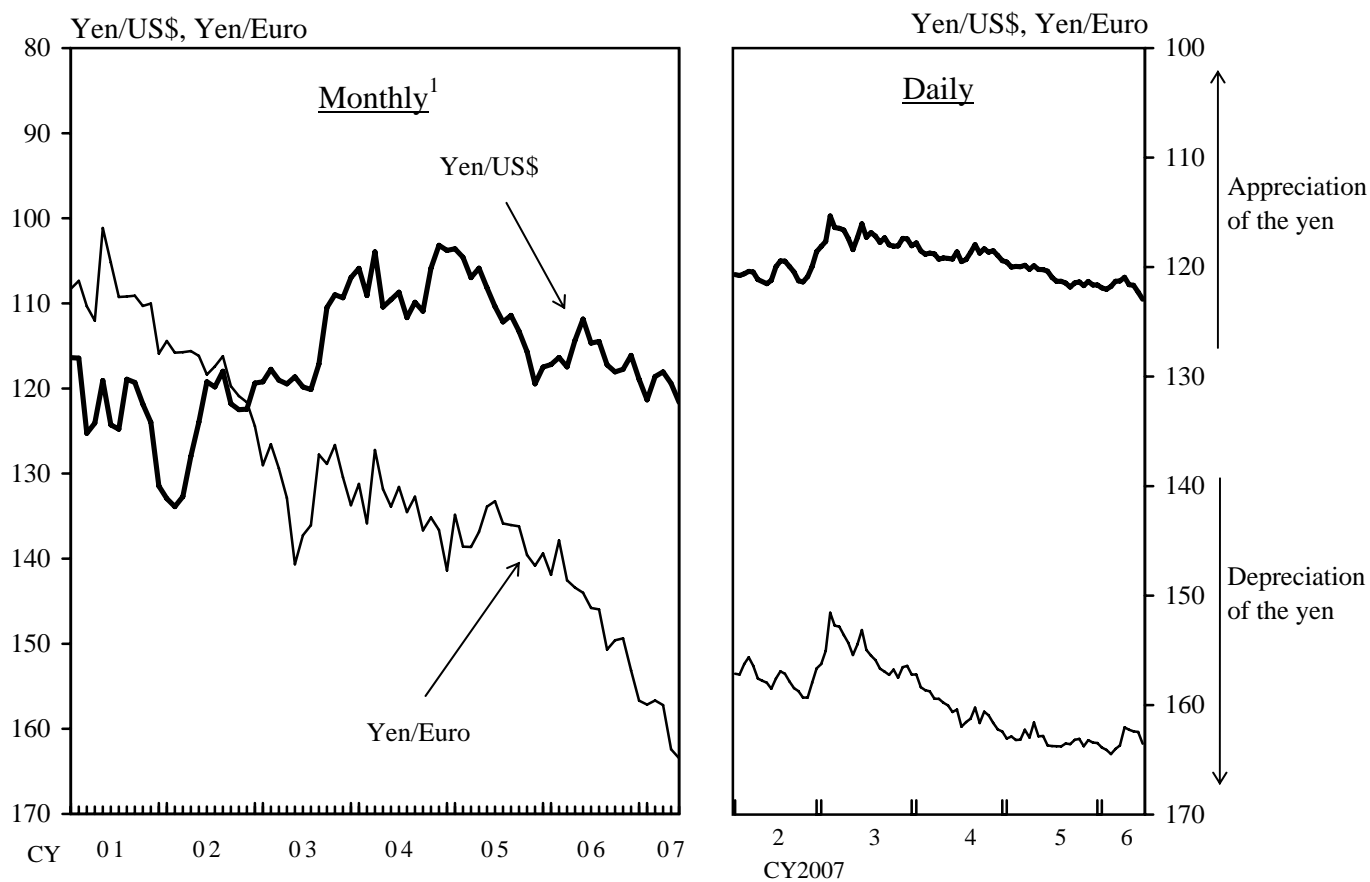
Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

Figures are on an unconsolidated basis up to April 2007, and on a consolidated basis from April 2007. Data are calculated by Daiwa Institute of Research.

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

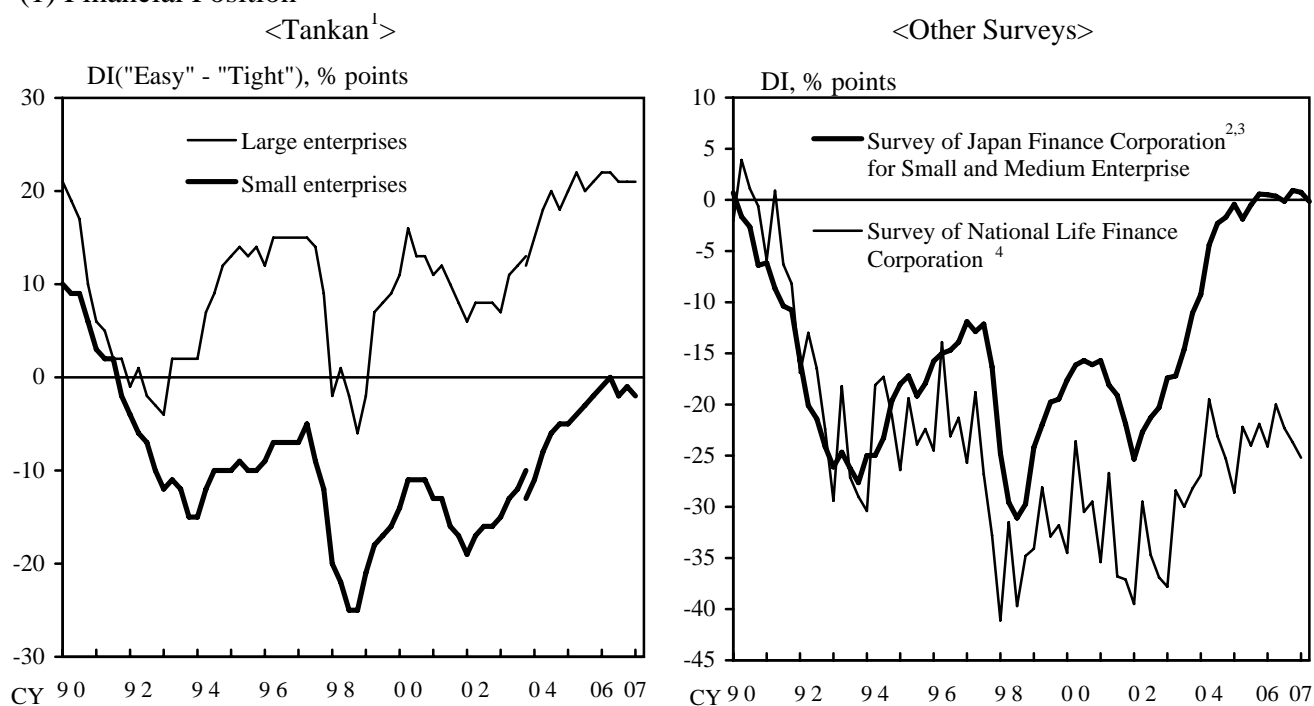
Exchange Rates



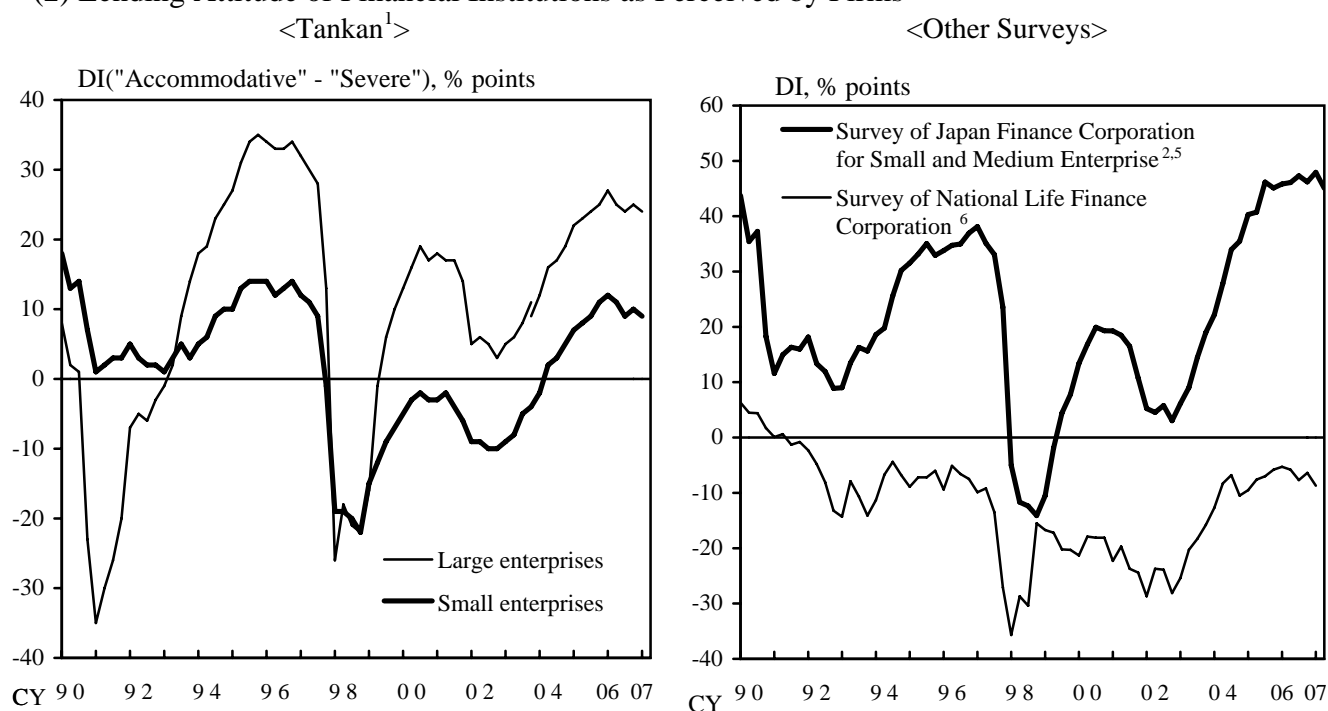
Note: 1. End of month.
 Source: Bank of Japan.

Corporate Finance-Related Indicators

(1) Financial Position



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



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

2. Figures are quarterly averages of monthly data. Figures for 2007/Q2 are those of Apr.-May averages.

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

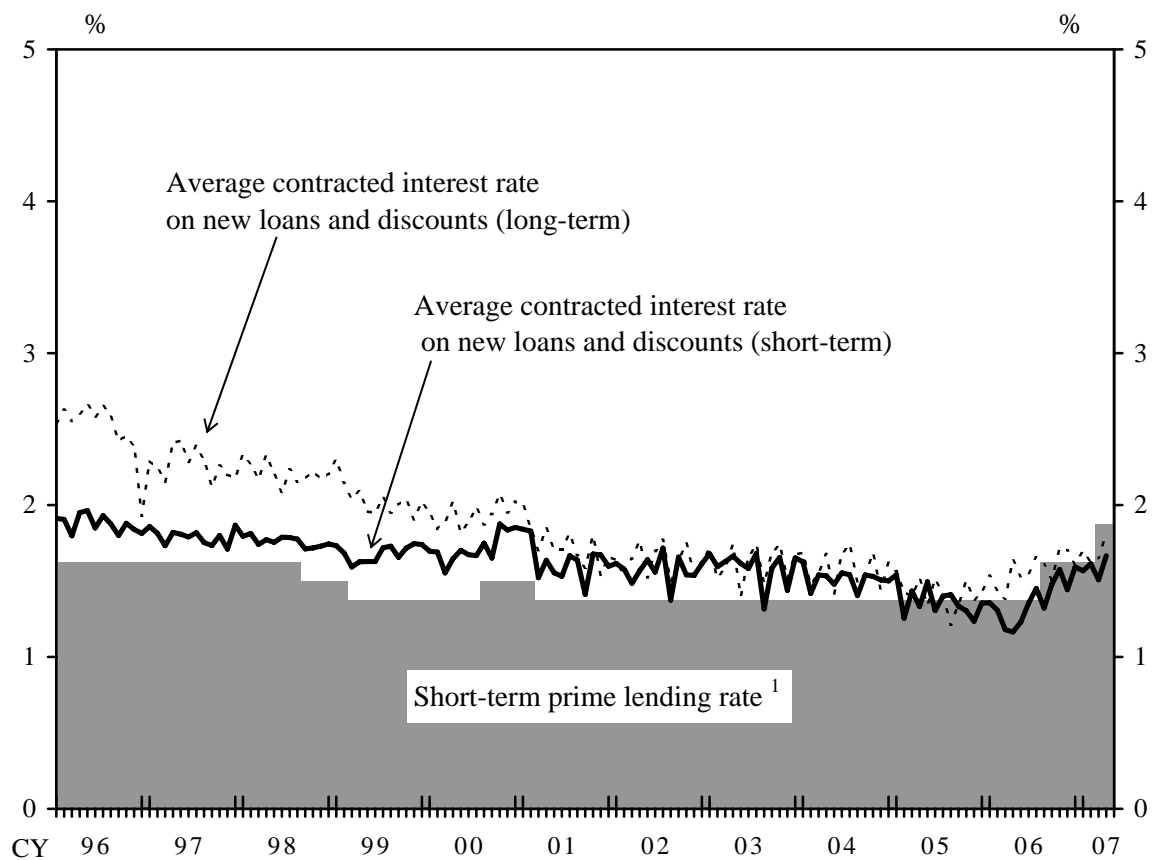
4. DI of "Easier" - "Tighter."

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

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

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

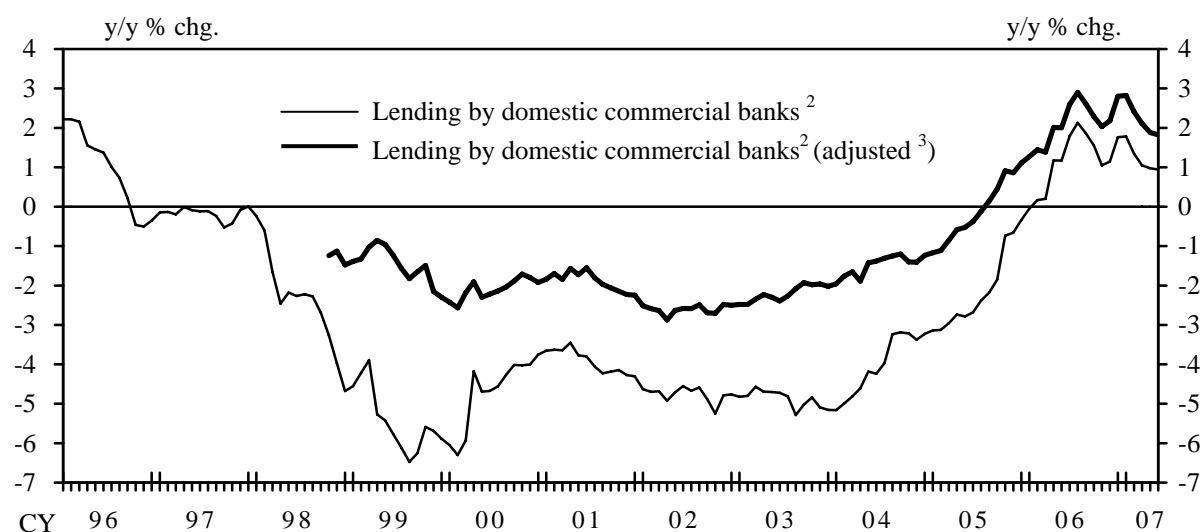
Lending Rates



Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹

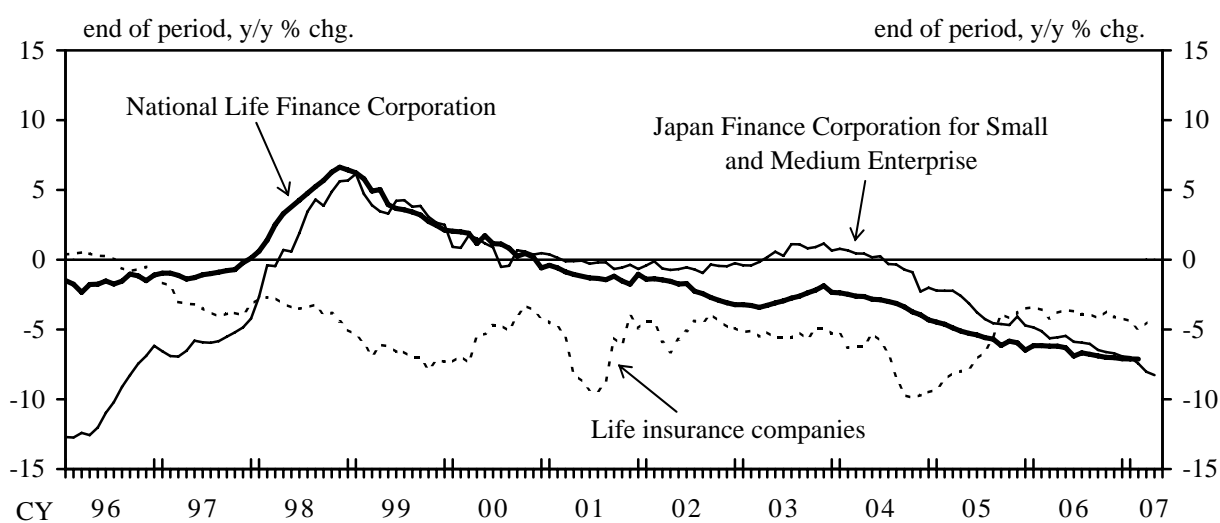
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

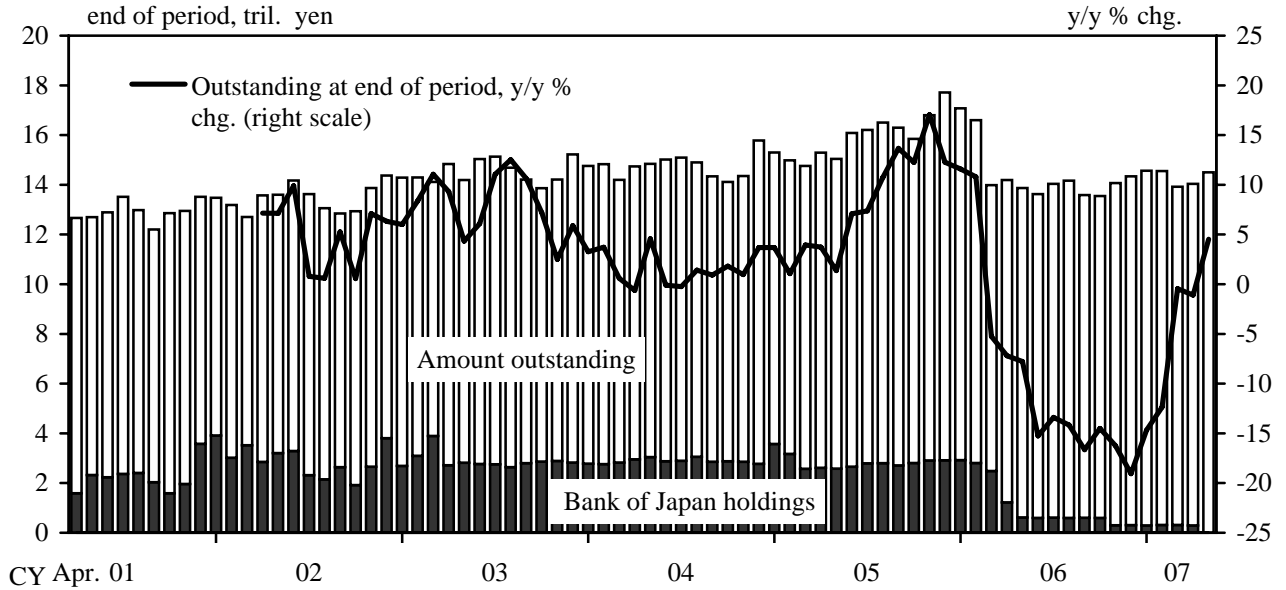
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

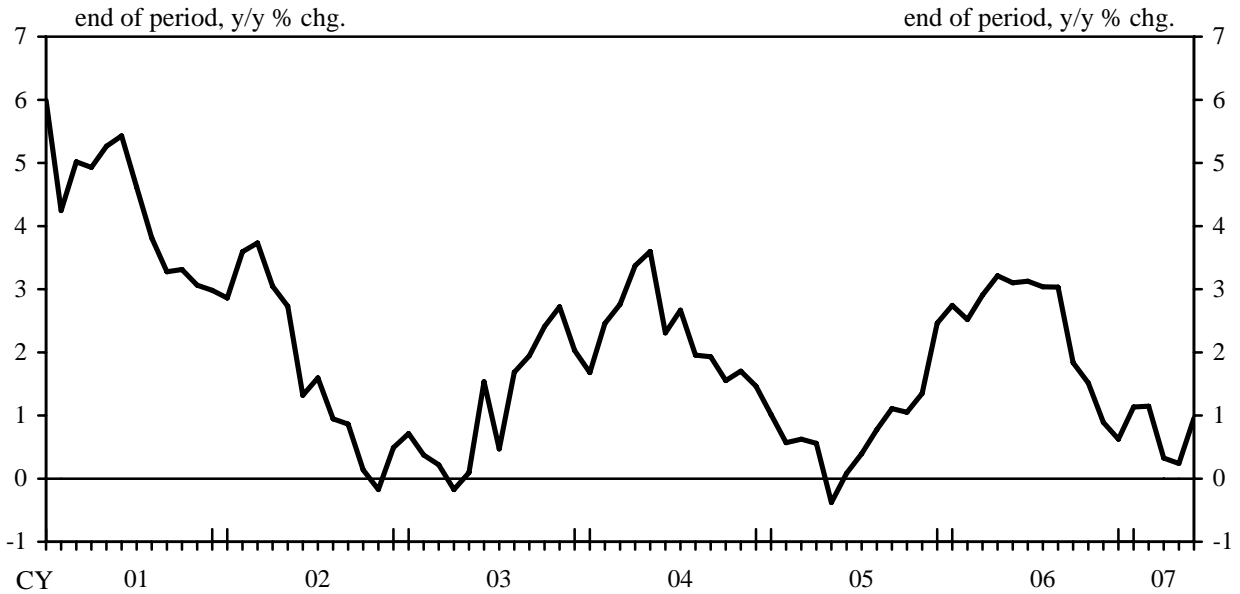
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.
 2. Excludes those issued by banks.

(2) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier)



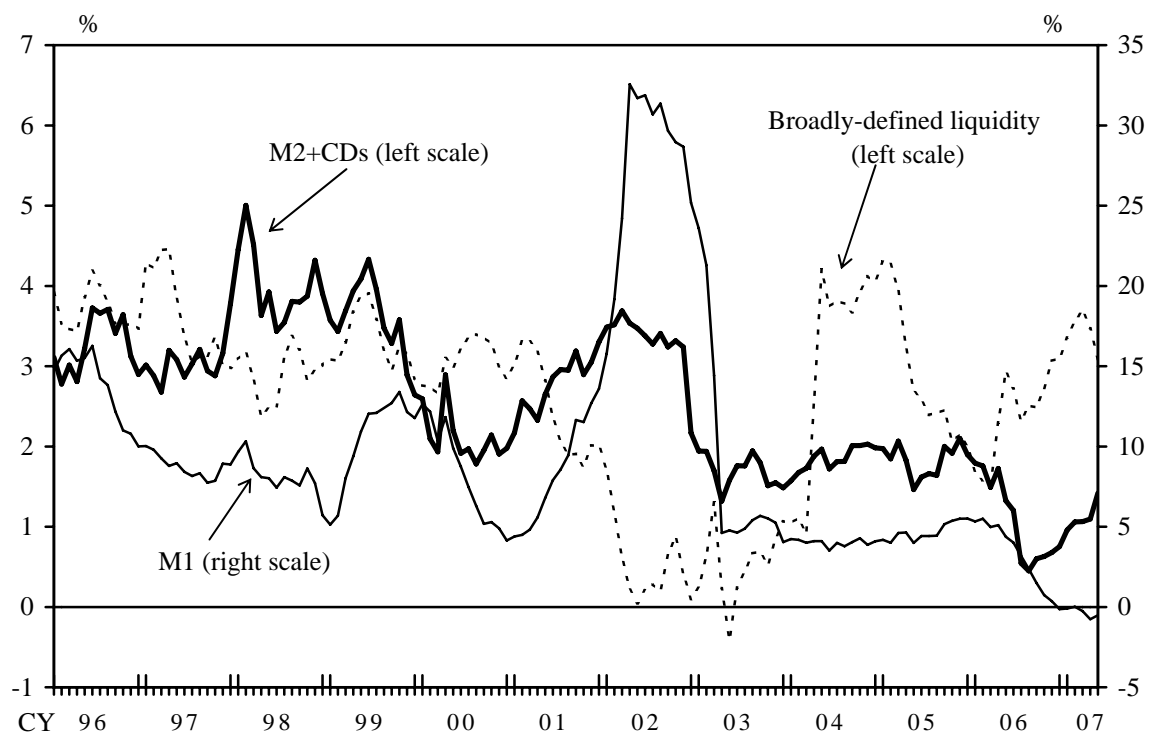
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) The figure as of the latest month is a preliminary one, using estimates for the amount of the domestically issued private placement bonds, etc.

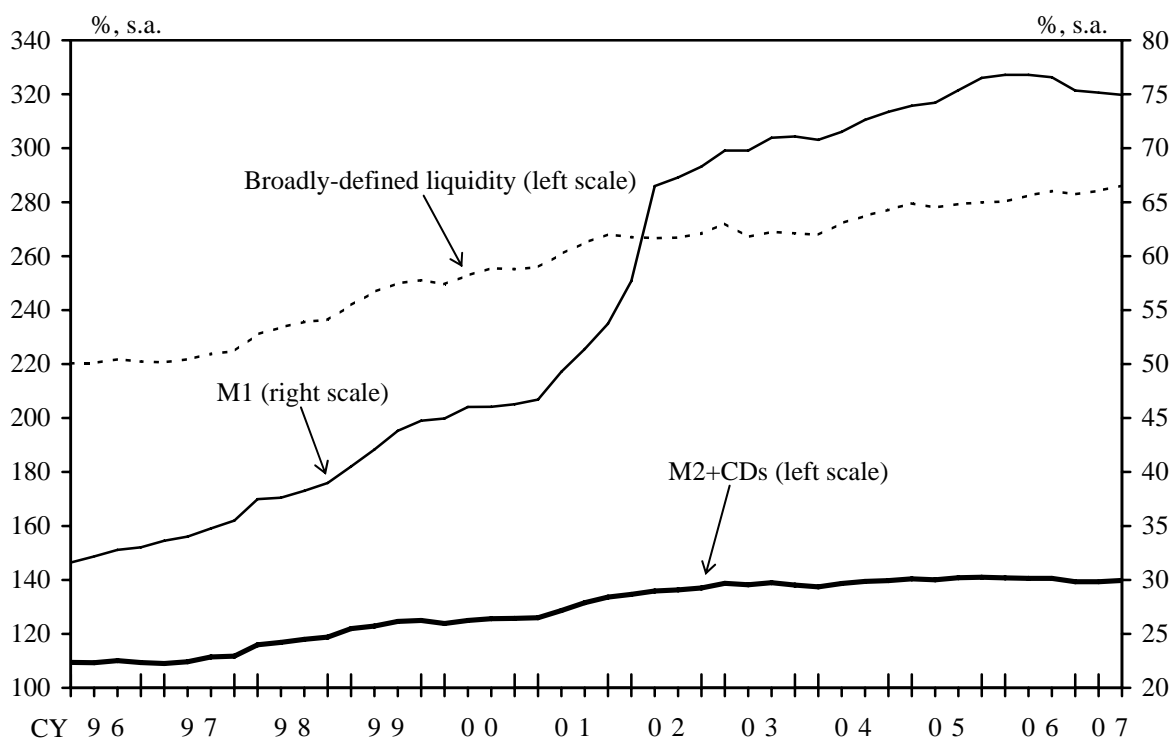
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

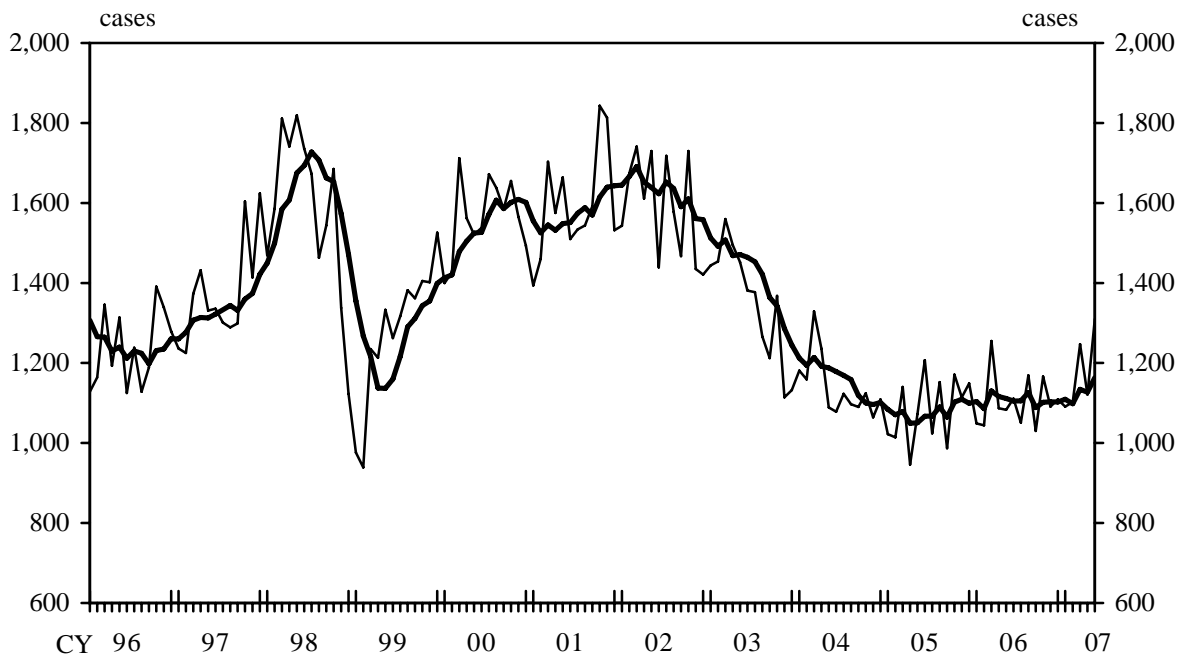


Note: Figures for money stock in 2007/Q2 are those of Apr.-May. averages, and the nominal GDP in 2007/Q2 is assumed to be unchanged from the previous quarter.

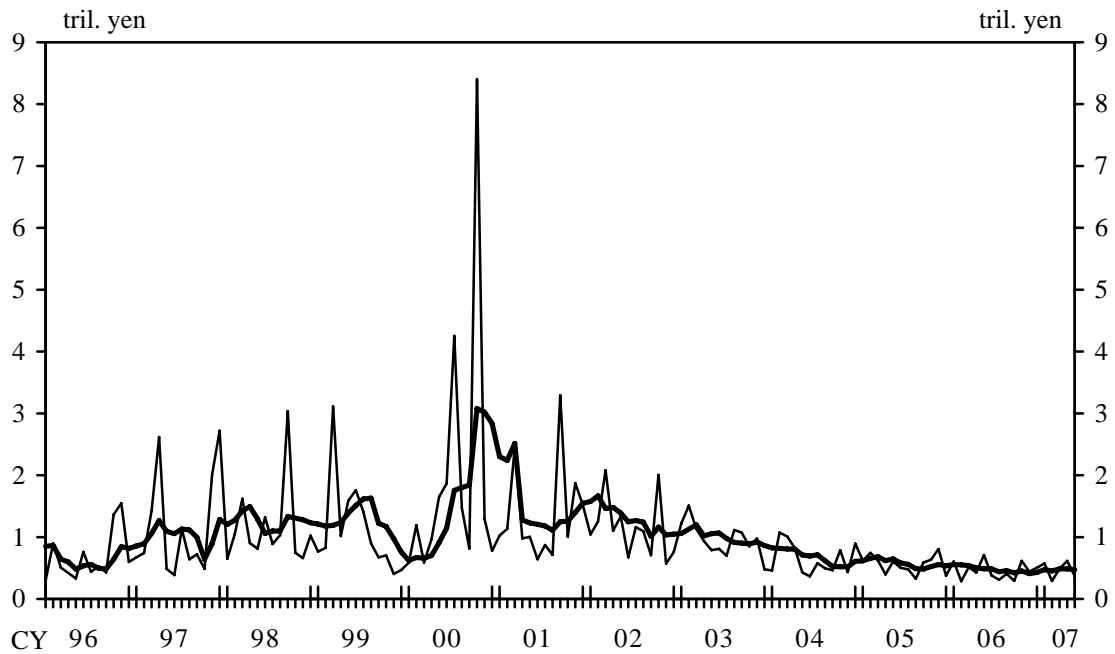
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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