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Bank of Japan

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

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The Bank's View²

Japan's economy is expanding moderately as a trend, although the pace of growth seems to be slowing mainly due to the drop in housing investment.

Exports and production have continued to increase. Business fixed investment has also continued to trend upward against the background of generally high corporate profits. Private consumption has been firm in a situation where household income has continued rising moderately. Meanwhile, public investment has been sluggish and housing investment has dropped substantially. Under these circumstances and with higher material costs, business sentiment has become somewhat cautious.

Japan's economy is expected to continue expanding moderately, although the pace of growth is likely to slow for the time being.

Exports are expected to continue rising against the background of the expansion of overseas economies as a whole. Business fixed investment and private consumption are likely to follow an uptrend against the background of high corporate profits and the moderate rise in household income. Housing investment is expected to recover gradually, although it is likely to remain sluggish for the time being. 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 be 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.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on December 19 and 20, 2007.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on December 19 and 20, 2007.

The year-on-year rate of change in consumer prices (excluding fresh food) has been around zero percent.

Domestic corporate goods prices are likely to continue increasing for the time being, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run.

As for the financial environment, the environment for corporate finance is accommodative. Credit demand in the private sector has been more or less flat. The issuing environment for CP and corporate bonds has been favorable as a whole, although issuance spreads on those issued by firms with low credit ratings have expanded slightly. Lending attitudes of private banks have continued to be accommodative. Under these circumstances, the amount outstanding of lending by private banks has been increasing moderately, and the amount outstanding of CP and corporate bonds issued has been 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 around 2 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, the yen has depreciated against the U.S. dollar compared with last month, while long-term interest rates and stock prices have been around the same level as last month.

The Background

1. Economic Developments

Public investment has been sluggish (Chart 4). Looking at monthly indicators, the amount of public construction completed—which reflects the progress of public works—has been more or less flat, at low levels, since around the middle of last year. The value of public works contracted—a measure that reflects public orders—had been more or less flat through the middle of this year, but has recently dropped. On a GDP basis (second preliminary figures), real public investment has continued to decrease since the start of this fiscal year, after having risen temporarily in the fourth quarter last year and the first quarter this year (Chart 3). Public investment is projected to be on a downtrend due to tight national and local fiscal conditions.

Real exports have continued to increase against the background of the expansion of overseas economies (Charts 5[1] and 6). They rose substantially, by 6.0 percent, in the third quarter on a quarter-on-quarter basis, and continued to increase, albeit marginally, in October by 0.4 percent compared with the third quarter.

As for real exports by destination (Chart 6[1]), exports to the United States have remained relatively weak as a trend since the end of last year: they declined mainly in capital goods and parts and in IT-related goods in October compared to the third quarter when they rose in many goods. Exports to East Asia have continued to increase as a trend, although they were flat in October following the sharp rise in the third quarter. Exports to the EU and to other regions (such as the Middle East and Russia) have continued their solid increases.

By goods (Chart 6[2]), exports of automobile-related goods have continued their solid increases, despite fluctuations in those to the United States, mainly due to the high growth in exports to regions other than the United States (Chart 7[1]). Exports of IT-related goods continued to rise in October following the increase in the third quarter, assisted by steady global IT-related demand (Chart 8[1]). Exports of capital goods and parts have continued to trend upward to a wide range of regions (Chart 7[2]); those of intermediate goods have also been on an 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 an uptrend, mainly in digital home appliances, albeit with somewhat large fluctuations.

Real imports have been on a gradual uptrend assisted by the rise in domestic demand and production, although they have been more or less flat recently (Chart 5[1]). Real imports increased by 1.8 percent in the third quarter on a quarter-on-quarter basis, but then decreased by 1.9 percent in October compared with the third quarter.

The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued their increasing trend, reflecting the uptrend in domestic business fixed investment. Meanwhile, imports of IT-related goods dropped again in October compared with the third quarter, after having increased in the third quarter due to the improvement in the domestic shipment-inventory balance (Chart 8[3]). Imports of raw materials and intermediate goods have remained more or less flat, since firms have cut back on imports of raw materials in response to the trend of rising import prices. Imports of foodstuffs and other consumer goods have dropped lately, mainly due to the rise 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 expanded considerably in October mainly due to the increase in credits of services, but it has remained on a moderate uptrend affected by the rise in crude oil prices.

Exports are expected to continue to rise, due to the expansion of overseas economies as a whole and due in part to the yen's depreciation from a somewhat longer-term perspective (Chart 9[2]).

As for the environment surrounding exports, in the United States, adjustments in the housing market have deepened, and uncertainty about the outlook has been growing. In these circumstances, there have been signs of a slowdown in private consumption partly due to elevated energy prices. At this stage, however, even though the economic deceleration may continue for some time, the economy is most

likely to manage a gradual soft landing, avoiding a downturn, supported by solid employment and steady income and by the effects of previous interest rate cuts. In the EU, the economy is expected to continue expanding moderately, although the pace of growth is likely to slow. As for East Asia, the Chinese economy is expected to maintain its high growth, and the NIEs and ASEAN economies are also projected to continue their expansions, notwithstanding a modest slowdown in their pace of growth. Other regions are also expected to maintain high growth on the whole. Regarding the environment surrounding exports of IT-related goods, global demand—particularly for digital home appliances—has continued to expand, and global semiconductor shipments have also resumed their increase since the middle of this year (Chart 8[2]). Meanwhile, in the foreign exchange market, the yen has appreciated slightly since the summer, but from a long-term perspective it 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 9[1]).

Imports are expected to follow a moderate uptrend, assisted by the expansion of the domestic economy.

Business fixed investment has continued to trend upward. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms has continued to trend upward on average, albeit with some fluctuations: it fell significantly in the second quarter on a quarter-on-quarter basis, but then registered rather high growth in the third quarter (Chart 11[1]). On a GDP basis (second preliminary figures), real business fixed investment rose in the third quarter after having dropped in the second quarter, primarily reflecting developments in the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 3). Looking at business fixed investment by industry and size in the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 12), investment by large manufacturing firms has been at a high level, despite some slowdown. Meanwhile, investment by small and medium-sized manufacturing firms has been fluctuating sharply: it fell back in the second and third quarters from the upsurge through the first quarter. As for the nonmanufacturing sector, investment by large firms has been on an increasing trend, while that by small and medium-sized firms has been essentially flat. Looking at monthly indicators, the aggregate supply

of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—continued to increase in October compared with the third quarter, following increases in the second and third quarters (Chart 13[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—declined in the second quarter, but bounced back in the third quarter and retained its momentum in October compared with the third quarter. With these fluctuations smoothed out, they have been more or less flat, at high levels (Chart 14[1]).³ Meanwhile, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—rose substantially in the second quarter from a rush in demand just before the revised Building Standard Law took effect, but retreated sharply in the third quarter and dropped slightly further in October compared with the third quarter, as the effects of the revised Law persisted (Chart 14[2]).⁴

Looking at the environment surrounding business fixed investment, corporate profits have generally been high. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 11[2]), the ratio of current profits to sales has remained high on the whole, although it dropped in the third quarter compared with the second quarter when it recorded a historical high.⁵ By size, the ratio of current profits to sales of small and medium-sized firms has risen at a slower pace compared to that of large firms due to the effects of the rise in material costs, although it continued to be at favorable levels overall. In the December *Tankan* (Chart 15), current profits of large firms for fiscal 2007 were revised slightly upward from the September *Tankan* in both the manufacturing and nonmanufacturing sectors; as a whole, they are projected to be somewhat higher than the level of fiscal 2006, when they recorded a historical high as a result of large profit increases. On the other

³ Forecasts for the fourth quarter show that orders are projected to increase somewhat for both manufacturing and nonmanufacturing firms (the quarter-on-quarter increase stands at 3.1 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

⁴ According to the revised Building Standard Law—which took effect on June 20—a more stringent review of applications for building permits has been introduced, and the procedure has also changed significantly. It has been pointed out that construction starts—including housing starts, mentioned below—were delayed, since those related to the construction business were not fully prepared for these changes to the system.

⁵ The decline in the ratio of current profits to sales in the third quarter on a quarter-on-quarter basis was caused by the drop in interests received (such as dividends from overseas subsidiaries) of large manufacturing firms following the upsurge in the second quarter.

hand, current profits among small firms are projected to be somewhat lower than the level of fiscal 2006 since they were revised slightly downward from the September *Tankan*, mainly due to the rise in materials prices. In these circumstances, business sentiment in the December *Tankan* has become somewhat cautious overall, since sentiment has continued to deteriorate among small firms, and that of large firms—which had remained favorable—has also become slightly cautious (Chart 16).

Business fixed investment is projected to trend upward, since the expansion in domestic and external demand and the high levels of corporate profits are likely to be maintained. According to the December *Tankan* (Chart 17), the business fixed investment plans of large firms for fiscal 2007 were revised slightly upward from the September *Tankan*; they marked a solid year-on-year increase of 10.5 percent, albeit with some deceleration relative to the plans during the same period of fiscal 2006. Meanwhile, the investment plans of small firms are slightly weaker than past averages, even though they have been revised upward from the September *Tankan*.⁶

Private consumption has been firm. On a GDP basis (second preliminary figures), real private consumption showed an increase in the third quarter, albeit marginally, for the fourth consecutive quarter (Chart 3). Looking at individual indicators on consumption (Charts 18 and 19), sales at department stores and supermarkets have recently been essentially level on average, despite fluctuations caused by weather factors. Sales at convenience stores have also been more or less flat on average, although they have been fluctuating sharply due to weather factors. As for sales of household electrical appliances, sales of digital home appliances such as flat panel TVs and of game consoles have continued to be strong. Meanwhile, the number of new passenger-car registrations has picked up since August, supported mainly by the rapid introduction of new models. As for services consumption, sales in the food service industry have continued to trend upward, albeit with large

⁶ Based on "software and fixed investment excluding land purchasing expenses," which is close to the concept of GDP (value added), business fixed investment of all industries and enterprises for fiscal 2007 was projected to rise by 6.9 percent compared with the previous year. This figure shows that investment will maintain an increase, though at a slightly slower rate than in fiscal 2006 (an increase of 10.0 percent for projections as of last December and 7.9 percent for actual results).

fluctuations caused by weather factors. 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 above⁷—have been firm (Chart 20[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been trending up mildly, mainly due to favorable conditions for durable consumer goods, albeit with some fluctuations (Chart 20[2]). Meanwhile, looking at private consumption from the demand side, both the index of living expenditure level (two-or-more-person households, in real terms) in the *Family Income and Expenditure Survey*, and 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*—registered a quarter-on-quarter decline in the third quarter. In October, the index of living expenditure level picked up, whereas total expenditure in the *Survey of Household Economy* remained relatively weak (Chart 18[1]).⁸

Consumer sentiment has recently deteriorated slightly due to the rise in prices of gasoline and food (Chart 21).

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

As for housing investment, housing starts have recently dropped sharply, affected by the enforcement of the revised Building Standard Law (Chart 22[1]). Real housing investment on a GDP basis (second preliminary figures)—which reflects the progress in construction—has also decreased significantly in the third quarter (Chart 3). Looking at housing starts in detail, owner-occupied housing—in which the effects from the revised Law have been relatively minor—has regained its

⁷ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in October were not released at the time these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for October were at the same level as those for September.

⁸ 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.

pre-June level, but housing for rent and housing for sale have hardly shown any recovery. Looking ahead, housing investment is expected to recover gradually, although it is likely to remain sluggish for the time being, since the effects from the revised Law will persist. From a somewhat longer-term perspective, it will regain its firmness, against the background of the rise in household income and favorable financial conditions.

Industrial production has continued to increase against the background of the growth in domestic and external demand. Production also rose by 1.9 percent in October compared with the third quarter, when it marked an increase of 2.2 percent on a quarter-on-quarter basis (Chart 23). As for recent developments by industry, production of general machinery has been on an uptrend; information and communication electronics equipment has also continued to increase, primarily in new digital home appliances. Production of transport equipment has increased, supported by the pickup in domestic sales and by favorable exports. Meanwhile, production of electronic parts and devices—which had remained essentially level during the first half of this year—has resumed its solid increase, as both domestic and external demand have regained firmness and as domestic inventory adjustment has come to an end.

Shipments have also continued to increase. By goods (Chart 24), shipments of capital goods have been on an uptrend, albeit with some fluctuations, in light of steady demand at home and abroad. On the other hand, as for consumer goods, shipments of nondurable goods have trended downward whereas those of durable goods have been on the rise, chiefly in digital home appliances and automobiles. In response to these movements in final demand goods, even though the increase had been modest over the first half of this year, shipments of producer goods have recently gained momentum, especially in electronic parts and devices. Meanwhile, shipments of construction goods have registered a marked decline lately affected by the revised Building Standard Law, while public investment continues to be sluggish.

Inventories have been essentially in balance with shipments. The inventory cycle (Chart 25) shows 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. Inventories of capital goods (excluding transport equipment) had risen, chiefly in construction machinery, but the shipment-inventory balance has improved, assisted by generally solid exports. In electronic parts and devices, while final goods manufacturers continue to introduce new products at a good pace, shipments have registered a year-on-year increase, and inventories have marked a noticeable year-on-year decline. As a result, inventories have become essentially in balance with shipments. However, because the pace of increase in the supply capacity tends to be rapid for this sector and because some weakness has been observed in some market prices of semiconductors, future developments—including those in global supply-demand conditions—continue to require close monitoring. As for construction goods—which have been affected by the revised Building Standard Law—inventory adjustment pressures have built up as the year-on-year rate of decline in shipments has expanded and inventories have risen substantially on a year-on-year basis.

As for the outlook, production is expected to follow an increasing trend, reflecting the rise in domestic and external demand, with inventories being essentially in balance with shipments. Anecdotal information also suggests that production will continue to increase in the fourth quarter.⁹

As for the employment and income situations, household income has continued rising moderately supported by the increase in the number of employees, while labor shortage continues to exist (Charts 26[2] and [3]).

In the labor market, overtime hours worked have been at high levels (Chart 28[3]). The ratio of job offers to applicants has been at a high level, above 1, although it has recently inched down (Chart 27[1]).¹⁰ The unemployment rate has

⁹ Production in the fourth quarter, based on the production forecast index for November and December, is calculated to increase by 1.8 percent on a quarter-on-quarter basis. When the differences in the coverage of the original series and the forecast index are taken into account, however, latitude should be allowed for this calculation.

¹⁰ New job offers have been declining at a modest pace since last autumn, largely due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring

followed a downtrend thus far, but the decline seems to have ceased recently (Chart 27[1]). Meanwhile, the employment conditions DI in the *Tankan* shows that the labor shortage has continued (Chart 29).

In terms of employment (Chart 28[1]), the number of employees in the *Labour Force Survey* had marked an increase of around 1.0 percent on a year-on-year basis until summer this year, but the rate of increase has dropped slightly of late. On the other hand, the number of regular employees in the *Monthly Labour Survey* has continued to increase steadily at around 1.5 percent or in the range of 1.5-2.0 percent on a year-on-year basis. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, while full-time employees have continued to increase at around 1.0 percent, the growth in part-time employees has accelerated since around the end of last year, resulting in a year-on-year rise in the ratio of part-time employees (Charts 28[1] and [2]).

Nominal wages per employee have remained somewhat lackluster (Chart 26[1]). Regular payments have continued to be somewhat weak, 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 earning new graduates.¹¹ In contrast, overtime payments have continued to trend up mildly. Although special payments seem to be moving up as a trend, supported by

overstatements in the number of job offers. Nevertheless, the number of job advertisements listed in the media of the private sector has been on the rise (Chart 27[3]).

¹¹ 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 at lower compensation. A combination of these factors seems to have exerted downward pressure on year-on-year changes in wages.

Both the rise in the ratio of part-time workers—whose wage levels are low—and the increasing number of part-timers working only short hours have pushed wages per person downward. These movements 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 fact, the labor force participation rates of men age 55-64—including the baby-boom generation—and a wide range of women seem to have trended upward.

Furthermore, by industry, "education and learning support"—which comprises many local government employees—had a significant impact on the weakness in overall wages.

favorable corporate profits, they recently seem to have weakened slightly chiefly among small firms.¹²

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

2. Prices

Import prices (on a yen basis; the three-month rate of change) had dropped since summer this year, due mainly to the yen's appreciation, but they have recently turned upward, reflecting developments in international commodity prices (Chart 31). Looking at recent developments in international commodity prices in more detail, crude oil prices have been high, although they have recently inched downward after the post-summer upsurge. Prices of nonferrous metals have been softening slightly of late compared with the high level until early fall. Prices of crops such as wheat have been on an increasing trend, due to the ongoing rise in global demand and adverse weather in major production centers.¹³

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁴ has been positive, mainly due to the rise in international commodity prices (Chart 32).

¹² According to survey results covering large firms released by (1) the *Nihon Keizai Shimbun*, Inc. (final results as of November 30; 735 firms), (2) the Japan Business Federation (final results as of December 13; 193 firms), and (3) The Institute of Labor Administration (final results as of September 5; 267 firms), winter bonuses this year are projected to continue rising, although the growth rate has dropped depending on the survey ([1] showed year-on-year increases of 2.5 percent for summer bonuses this year and 0.7 percent for winter bonuses this year, [2] 3.0 percent for summer and 0.9 percent for winter, and [3] 2.2 percent for summer and 2.2 percent for winter). It is pointed out that the decrease in the growth rate was attributable to the retirement of the highly paid baby-boom generation as well as somewhat weak corporate profits due to elevated material costs.

¹³ Domestic commodity prices have also been high, reflecting developments in international commodity prices.

¹⁴ 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.

In detail, prices of petroleum and coal products have increased at a faster pace (categorized as "goods sensitive to exchange rates and overseas commodity prices" in the chart), in response to the aforementioned rise in crude oil prices. Prices of chemical products, plastic products, and pulp, paper and related products (all categorized as "other materials" in the chart) have continued to increase mildly, mainly as a result of high material costs to date. The rate of increase in prices of "iron and steel and construction goods" has been subdued; they have recently been almost level. Machinery prices, meanwhile, have been weakening. Looking at domestic demand products as a whole including imports, the uptrend in prices of raw materials and of intermediate goods had been pausing since the summer, but they have recently resumed their increase. Final goods prices have turned up marginally, reflecting movements in petroleum products and processed foodstuffs.

The year-on-year rate of change in corporate services prices (excluding external factors) has been around zero percent lately (Chart 33).¹⁵ The year-on-year changes in prices, excluding external factors, stood at 0.0 percent in October after having registered an increase of 0.3 percent in both the second and third quarters.¹⁶ Looking at recent developments by category, the year-on-year changes in prices of "other services" have been positive since the start of this fiscal year, reflecting improvements in supply-demand conditions as well as increases in costs such as labor costs. Moreover, prices of real estate services have continued to move 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. Prices of information services have been on an increasing trend, due to tightening supply-demand conditions as a result of active software investment by firms, but they have been increasing at a somewhat slower pace lately. On the other hand, prices of advertising services have been somewhat weak as a trend, since firms have been cautious about increasing advertisement placements. Meanwhile, prices of

¹⁵ "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.

¹⁶ All items, including external factors, have continued to increase at around 1 percent on a year-on-year basis or at a slightly faster pace, since oceangoing ship chartering services surged in response to increased cargo movements around the world.

communications and broadcasting services have been falling, due to the reduction in cellular phone services charges.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has been around zero percent (Chart 34). Looking at recent developments in more detail, prices of goods overall have been declining at a reduced pace and the rate of decline has diminished to around zero percent on a year-on-year basis, due to the upturn in prices of petroleum products and of food products, along with the slowing pace of decline in durable consumer goods. Services prices have been moving at around zero percent overall, mainly since mobile telephone charges have been falling (categorized as "other services" in the chart), while prices of "eating out" have continued to increase moderately and housing rents have also declined at a slower pace.

With regard to domestic supply and demand conditions in the December *Tankan* (Chart 35), the weighted average DI in both production capacity and employment conditions as perceived by firms shows that the shortage has remained marginal, while excess production capacity has been dispelled and the labor shortage has persisted. The supply and demand conditions DI has also remained favorable overall in both the manufacturing and nonmanufacturing sectors, although the recovery trend seems to have been at a standstill since the start of this year. In this environment, the decline in the output prices DI has become marginal to a considerable degree compared with some time ago, due to the rise in input prices.

Domestic corporate goods prices are likely to continue increasing for the time being, primarily reflecting the rise in international commodity prices. The year-on-year rate of change in consumer prices is projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run.

Regarding developments in land prices (in terms of the Urban Land Price Index; Chart 36), both commercial and residential land prices in the six large city areas have continued to increase compared to six months ago, although the pace of increase has come to a pause. Meanwhile, land prices in areas other than the six

large city areas have continued to fall, although the rate of decline has been diminishing.

3. Financial Developments

(1) Financial Markets

As for interest rate developments in the money markets, the overnight call rate (uncollateralized) has been at around 0.5 percent (Chart 37[1]). Regarding interest rates on term instruments, the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have been more or less flat on the whole (Chart 38[1]). Interest rates on Euroyen futures have fallen, mainly in distant contracts (Chart 38[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) have fluctuated mainly in view of interest rate movements in the United States; they were temporarily down to the 1.40-1.45 percent range, but have recently been moving at around 1.5 percent (Chart 37[2]).

Yield spreads between corporate bonds and government bonds have been more or less flat on the whole (Chart 40).

Stock prices have fluctuated mainly in view of U.S. stock prices. The Nikkei 225 Stock Average is moving in the range of 15,000-15,500 yen (Chart 41).

In the foreign exchange market, the yen temporarily rose to 107 yen against the U.S. dollar, due to growing uncertainty about the outlook for the financial environment and real economy in the United States (Chart 42). The yen then fell back and is currently being traded in the range of 112-114 yen to the U.S. dollar.

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector has been more or less flat. Ample cash flow has slowed the increase in corporate demand for external funds.

Regarding credit supply, private banks have remained accommodative in their loan provision. Firms have perceived the lending attitudes of financial institutions as accommodative; related DIs have been at their mid-1990s level, although those of small and medium enterprises have become slightly less accommodative (Chart 43).

Lending rates have been at extremely low levels on the whole, although the average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have risen gradually (Chart 44).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,¹⁷ grew by 1.3 percent in November on a year-on-year basis, compared to 1.3 percent in October and 1.4 percent in September (Chart 45).

In the corporate bond and CP markets, the issuing environment continues to be favorable as a whole. Issuance spreads on corporate bonds and CP issued by firms with low credit ratings have expanded slightly, while they have remained tight chiefly for firms with high credit ratings. The amount outstanding of CP and corporate bonds issued has been above the previous year's level. It increased by 4.4 percent in November, on a year-on-year basis, up from 2.8 percent in October and 2.5 percent in September (Chart 46).

According to business surveys, the financial positions of firms have continued to be favorable (Chart 43).

The money stock ($M_2 + \text{CDs}$) has increased by around 2 percent annually. Its November reading was 2.0 percent on a year-on-year basis, following 1.9 percent in October and 1.7 percent in September (Chart 47).

The number of corporate bankruptcies was up by 11.2 percent in November compared to the year-ago level, to 1,213 cases (Chart 48).

¹⁷ 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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Chart 24	Shipments Breakdown by Type of Goods		
Chart 25	Inventory Cycle		
Chart 26	Employee Income		
Chart 27	Labor Market (1)		
Chart 28	Labor Market (2)		
Chart 29	Employment Conditions		

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q1	Q2	Q3	2007/Aug.	Sep.	Oct.	Nov.
Index of living expenditure level (two-or-more-person households)	0.5	-0.4	-1.2	0.3	-0.7	2.3	n.a.
Sales at department stores	0.2	1.0	-3.0	5.0	-4.0	2.7	n.a.
Sales at supermarkets	-0.0	-0.7	-0.8	2.7	-2.0	1.0	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 291>	< 288>	< 297>	< 308>	< 302>	< 315>	< 322>
Sales of household electrical appliances (real, Current Survey of Commerce)	6.6	-0.7	4.5	8.9	-1.1	-3.1	n.a.
Outlays for travel	1.3	-1.5	1.5	6.3	1.6	-6.0	n.a.
Housing starts <s.a., ann. 10,000 units>	< 125>	< 127>	< 80>	< 73>	< 72>	< 85>	<n.a.>
Machinery orders (from private sector ⁴)	-0.7	-2.4	2.5	-7.7	-7.6	12.7	n.a.
Manufacturing	-1.4	-4.0	2.7	-8.6	5.7	10.2	n.a.
Nonmanufacturing ⁴	-1.1	0.1	1.6	-7.6	-17.1	13.7	n.a.
Construction Starts (private, nondwelling use)	-6.6	24.5	-48.0	-24.8	-23.7	28.9	n.a.
Mining & manufacturing	-9.1	20.0	-49.8	-26.8	-47.4	175.0	n.a.
Nonmanufacturing ⁵	-5.0	29.0	-47.4	-22.7	-16.3	-3.9	n.a.
Value of public works contracted	-2.2	-0.7	-4.8	-0.5	-1.6	0.3	1.5
Real exports	3.0	-0.4	6.0	7.0	-3.4	0.6	n.a.
Real imports	0.4	0.5	1.8	-2.5	-0.6	-0.7	n.a.
Industrial production	-1.3	0.2	2.2	3.5	-1.4	1.7	n.a.
Shipments	-0.5	0.7	2.1	4.9	-2.0	2.4	n.a.
Inventories	-2.0	-0.3	1.3	0.2	1.1	0.6	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 101.0>	< 100.5>	< 103.8>	< 98.2>	< 103.8>	< 98.2>	<n.a.>
Real GDP	0.8	-0.5	0.4	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.6	-0.1	1.0	-1.7	1.2	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q1	Q2	Q3	2007/Aug.	Sep.	Oct.	Nov.
Ratio of job offers to applicants <s.a., times>	< 1.05>	< 1.06>	< 1.06>	< 1.06>	< 1.05>	< 1.02>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 3.8>	< 3.8>	< 3.8>	< 4.0>	< 4.0>	<n.a.>
Overtime working hours ⁶	1.9	0.6	0.4	0.1	1.0	0.9	n.a.
Number of employees	1.0	1.1	0.8	1.1	0.2	0.4	n.a.
Number of regular employees ⁶	1.6	1.7	1.7	1.6	1.7	1.7	n.a.
Nominal wages per person ⁶	-0.7	-0.6	-0.6	0.6	-0.6	-0.1	n.a.
Domestic corporate goods price index ⁹ <q/q % chg., 3-month rate of change> ⁷	1.4 <-0.1>	1.7 < 1.1>	1.6 < 0.7>	1.5 < 0.6>	1.3 < 0.4>	2.0 < 0.4>	p 2.3 <p 0.6>
Consumer price index ⁸	-0.1	-0.1	-0.1	-0.1	-0.1	0.1	n.a.
Corporate service price index	0.5	1.3	1.3	1.1	1.3	p 1.4	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.0	1.5	1.9	1.8	1.7	1.9	p 2.0
Number of corporate bankruptcies <cases>	<1,147>	<1,205>	<1,155>	<1,203>	<1,047>	<1,260>	<1,213>

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

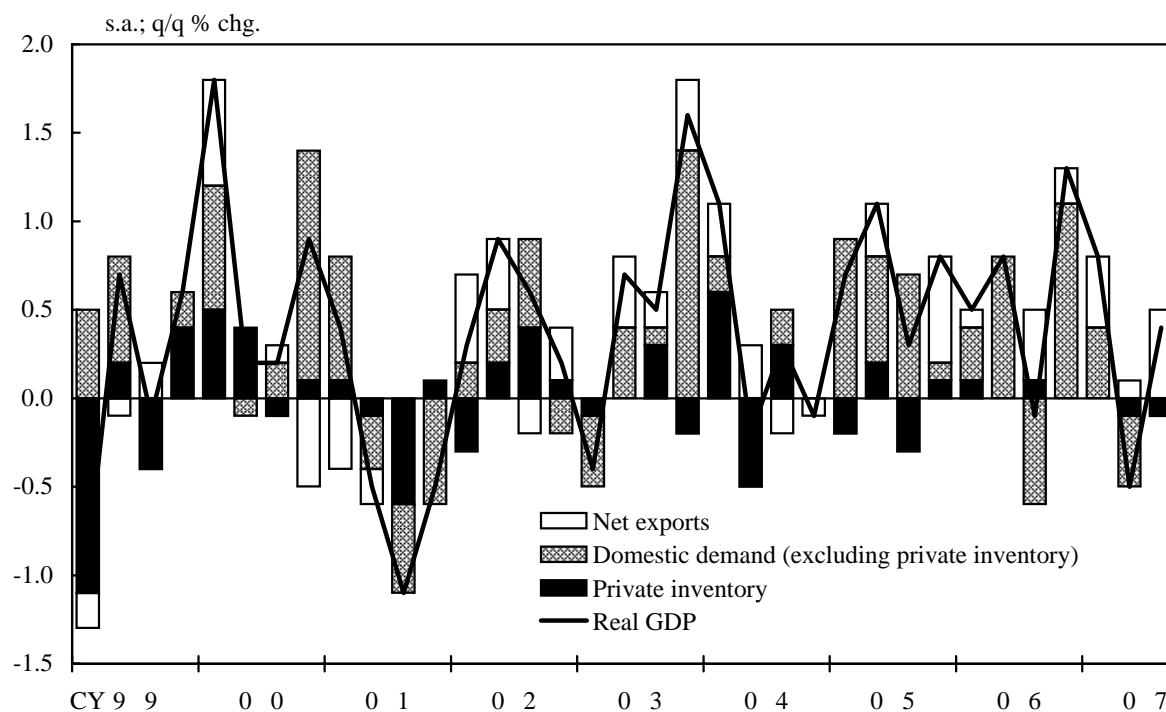
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

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.
9. Data have been revised to the 2005 base.

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, "Orders Received for Machinery," "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.

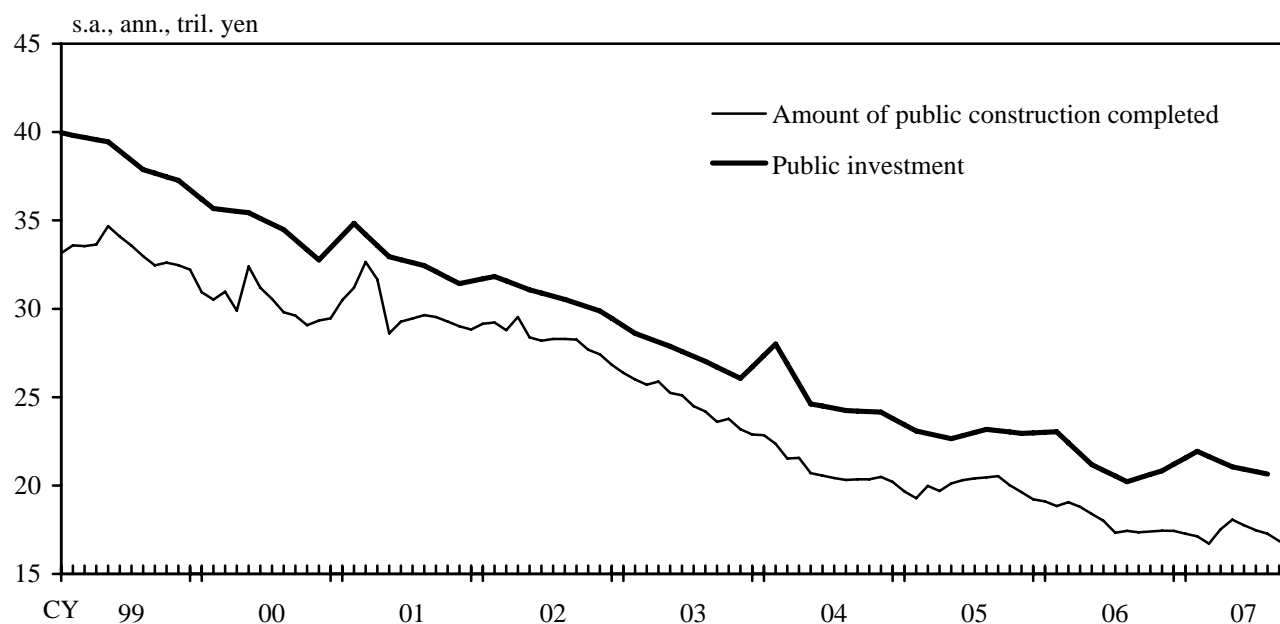
	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Real GDP	-0.1	1.3	0.8	-0.5	0.4
Domestic demand	-0.5	1.1	0.5	-0.5	-0.1
Private consumption	-0.9	1.2	0.6	0.2	0.3
Non-Resi. investment	0.4	1.9	-0.4	-1.7	1.1
Residential investment	0.9	1.9	-1.6	-3.8	-7.9
Private inventory	(0.1)	(-0.0)	(0.0)	(-0.1)	(-0.1)
Public demand	-0.6	0.3	0.9	-0.5	-0.4
Public investment	-5.0	3.0	4.9	-4.6	-2.3
Net exports of goods and services	(0.4)	(0.2)	(0.4)	(0.1)	(0.5)
Exports	2.2	1.0	3.2	1.0	2.6
Imports	-0.2	-0.3	1.0	0.7	-0.2
Nominal GDP	-0.1	1.3	0.5	-0.5	0.2

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

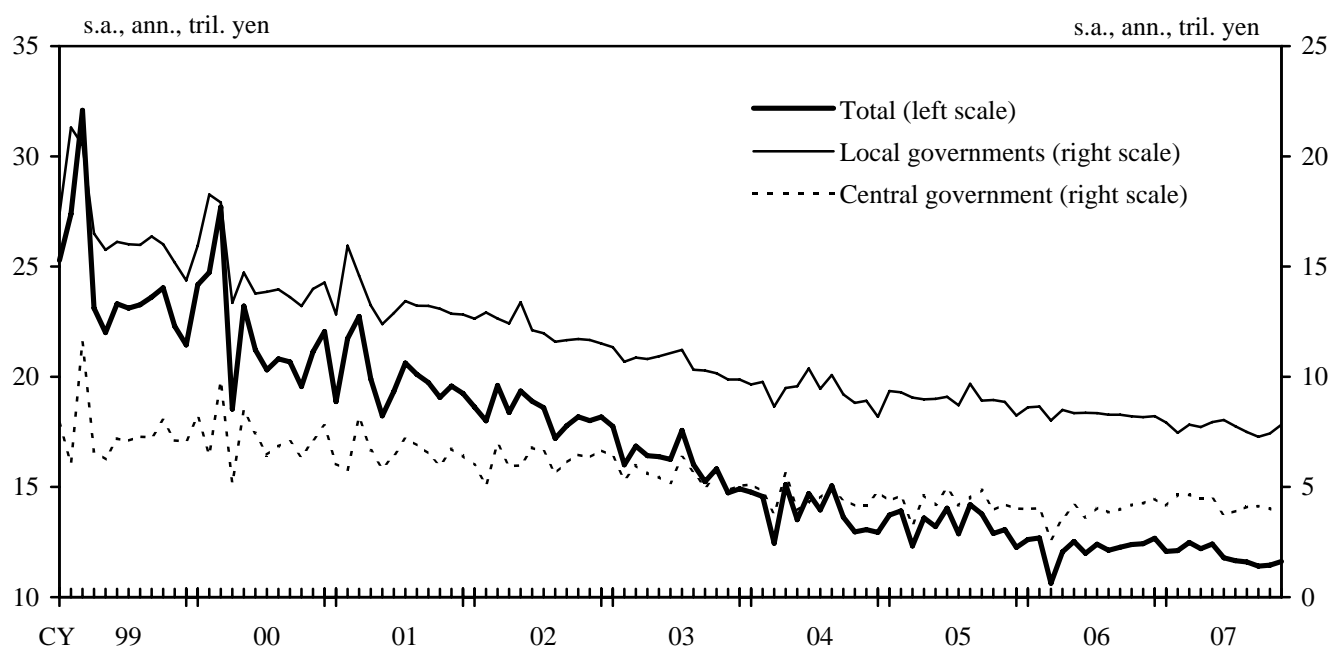
Source: Cabinet Office, "National Accounts."

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.

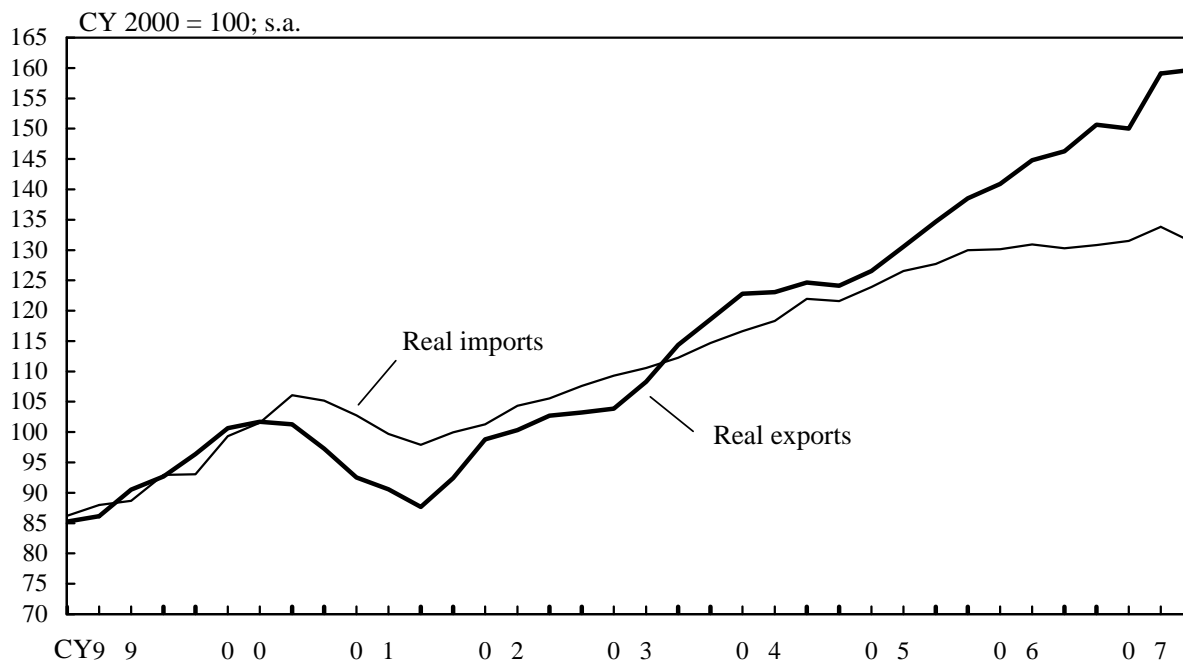
Sources: Cabinet Office, "National Accounts";

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

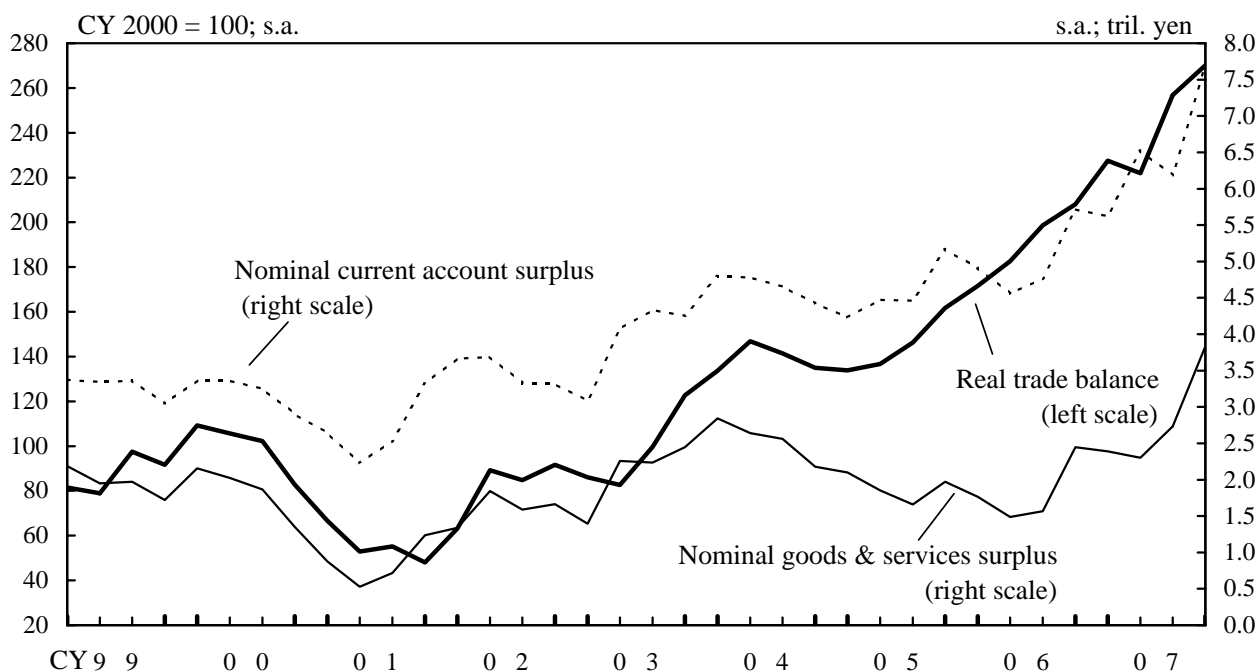
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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/Q4 figures are October figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q4	2007 Q1	Q2	Q3	Q4	2007 Aug.	Sep.	Oct.
United States	<22.5>	7.3	10.3	-0.7	-0.9	-3.7	5.4	-1.8	7.6	-7.3	0.9
EU	<14.5>	3.3	10.3	0.9	3.7	2.3	6.8	5.7	3.8	2.1	3.0
East Asia	<45.7>	6.1	9.1	2.3	4.3	-1.4	5.6	-0.3	7.4	-2.3	-1.1
China	<14.3>	9.6	20.1	6.6	5.5	-3.0	10.1	1.8	11.0	0.3	-1.8
NIEs	<23.2>	5.0	5.7	0.2	3.9	-1.6	2.9	-2.2	6.0	-4.8	-0.9
Korea	<7.8>	4.5	7.7	1.2	5.1	-2.5	0.2	6.2	6.0	-2.1	5.7
Taiwan	<6.8>	4.4	3.7	-3.5	0.1	1.6	5.8	-12.5	6.4	-3.6	-12.1
ASEAN ⁴	<8.1>	4.4	2.8	0.9	3.6	2.1	4.7	0.7	5.2	-0.6	-0.5
Thailand	<3.5>	10.0	5.2	0.5	3.8	0.8	5.1	-2.0	6.1	2.3	-5.4
Others	<17.3>	11.5	19.5	2.4	4.4	4.1	6.3	6.9	8.9	-6.2	8.5
Real exports		5.3	10.5	1.0	3.0	-0.4	6.0	0.4	7.0	-3.4	0.6

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q4	2007 Q1	Q2	Q3	Q4	2007 Aug.	Sep.	Oct.
Intermediate goods	<17.9>	1.8	6.4	0.5	1.9	-0.0	6.2	2.8	5.0	-0.6	1.5
Motor vehicles and their related goods	<23.4>	8.2	13.6	4.1	2.7	1.0	5.8	6.1	13.1	-8.1	7.9
Consumer goods ⁴	<5.0>	5.2	7.1	0.4	-3.0	5.4	5.0	-3.1	3.1	7.1	-8.3
IT-related goods ⁵	<11.5>	5.4	7.7	5.1	5.5	-4.0	6.2	1.2	3.3	1.1	-0.6
Capital goods and parts ⁶	<29.4>	7.1	12.4	-1.1	2.9	0.2	3.7	-0.6	3.8	-3.7	0.7
Real exports		5.3	10.5	1.0	3.0	-0.4	6.0	0.4	7.0	-3.4	0.6

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q4 figures are October 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.

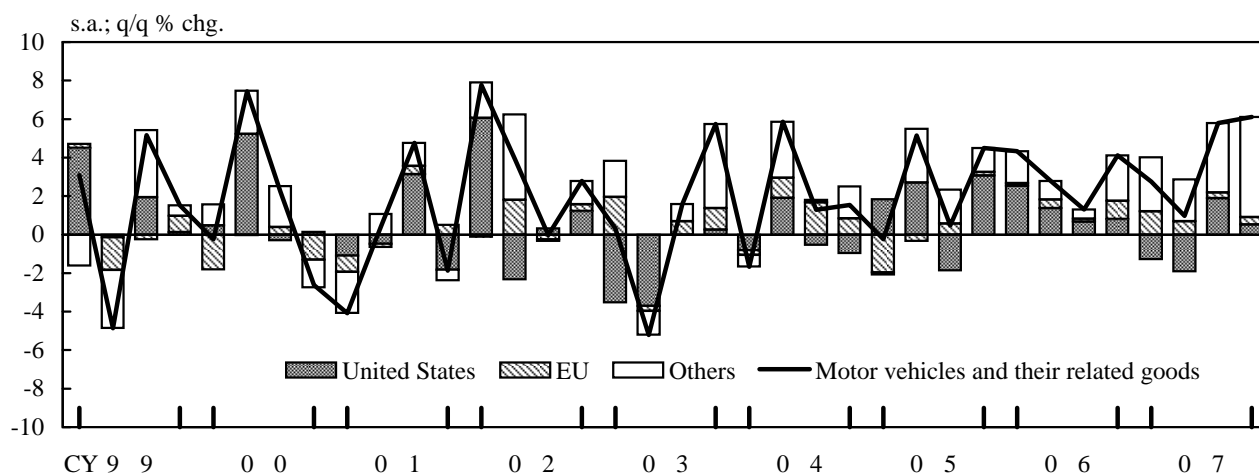
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

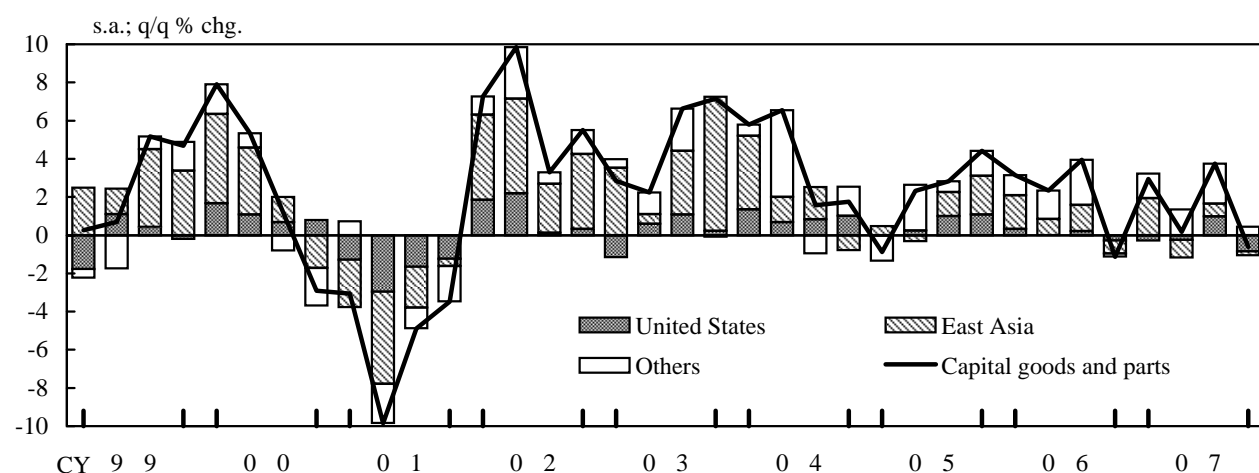
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Real Exports Breakdown by Goods

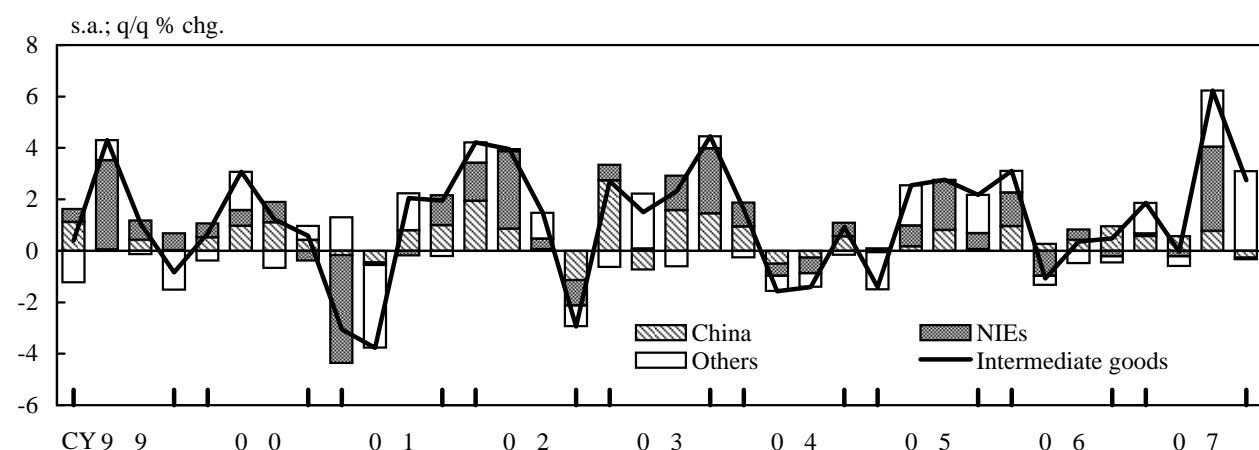
(1) Motor Vehicles and Their Related Goods (Real, Breakdown by Region)



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



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



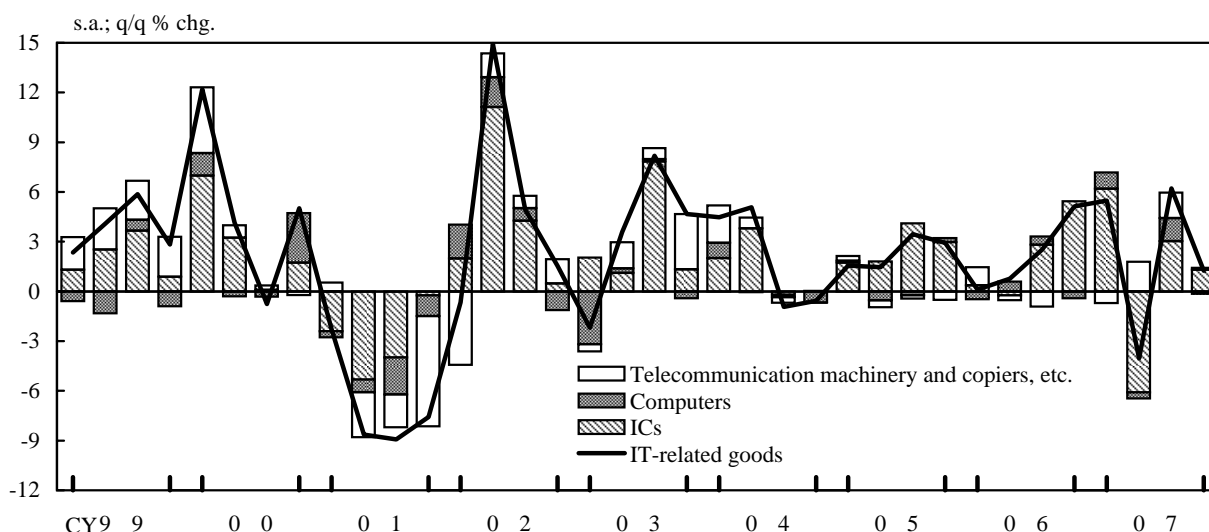
Notes: 1. Seasonally adjusted by X-12-ARIMA.

2. 2007/Q4 figures are October figures converted into quarterly amount.

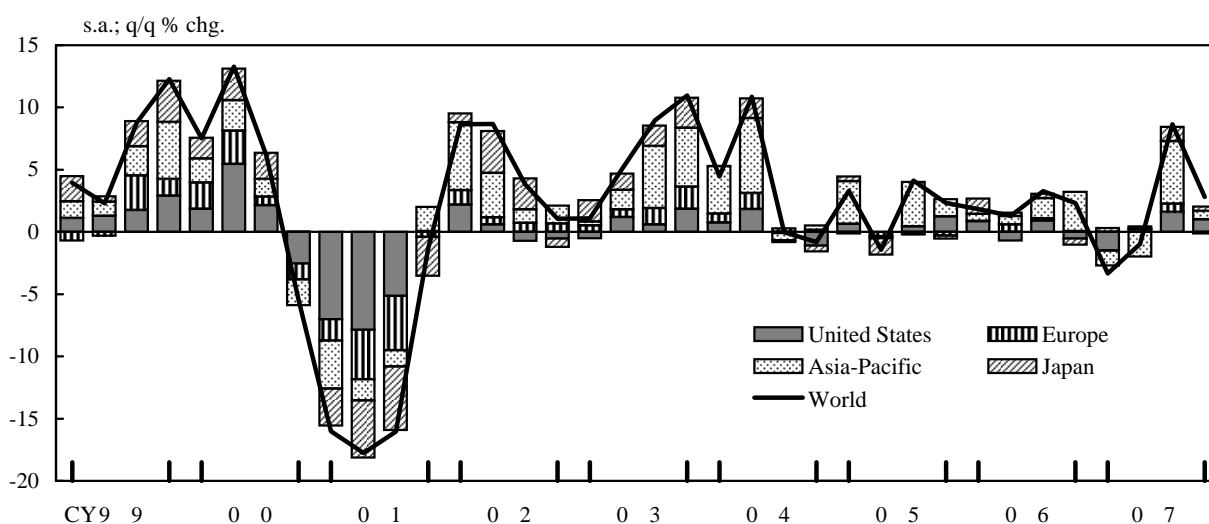
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

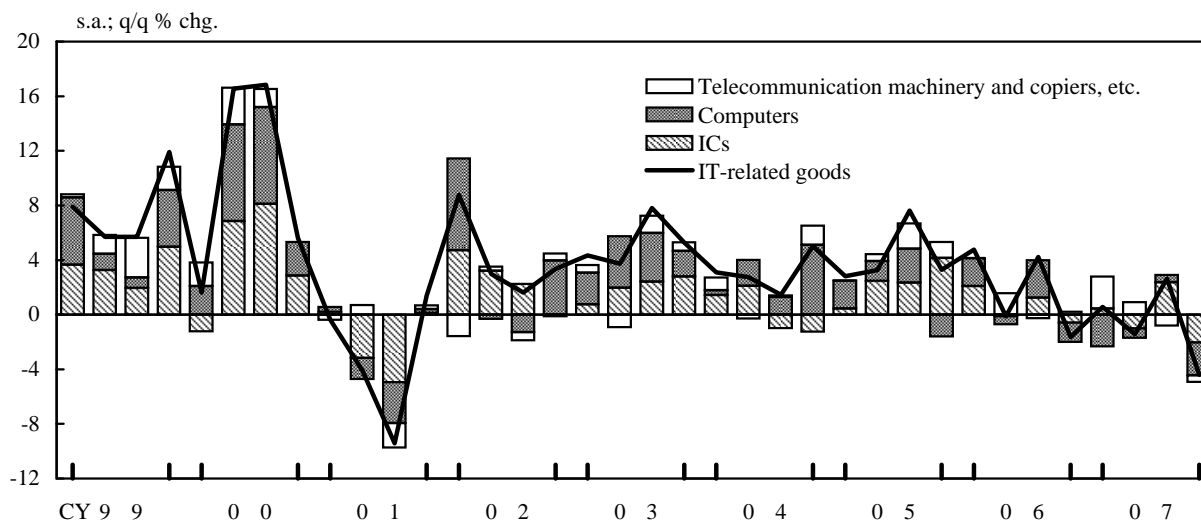
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



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



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



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

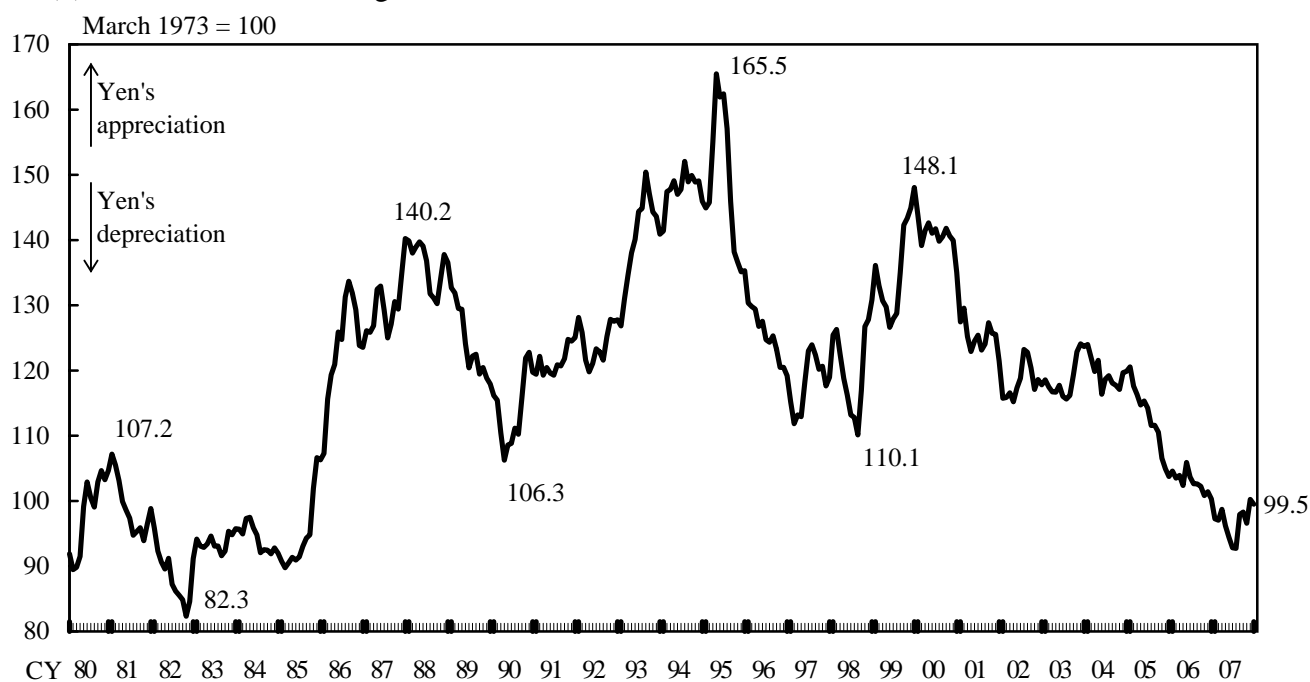
2. 2007/Q4 figures are October figures converted into quarterly amount.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for December 2007 is the average up to December 19.
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 Q4	2007 Q1	Q2	Q3	
United States ¹		3.6	3.1	2.9	2.1	0.6	3.8	4.9	
European Union ¹		2.3	1.9	3.1	3.5	3.3	1.8	3.0	
	Germany	0.6	1.0	3.1	4.0	2.2	1.0	2.8	
	France	2.3	1.7	2.2	1.9	2.3	1.4	2.9	
	United Kingdom	3.3	1.8	2.8	3.3	3.2	3.3	3.0	
East Asia ²	China	10.1	10.4	11.1	10.4	11.1	11.9	11.5	
	NIEs	Korea	4.7	4.2	5.0	4.0	4.0	5.0	5.2
		Taiwan	6.2	4.2	4.9	4.1	4.2	5.2	6.9
		Hong Kong	8.5	7.1	6.8	6.9	5.6	6.6	6.2
		Singapore	8.8	6.6	7.9	6.6	6.5	8.7	8.9
	ASEAN4	Thailand	6.3	4.5	5.1	4.3	4.2	4.3	4.9
		Indonesia	5.0	5.7	5.5	6.1	6.0	6.3	6.5
		Malaysia	6.8	5.0	5.9	5.7	5.5	5.8	6.7
Philippines		6.4	4.9	5.4	5.5	7.1	7.5	6.6	

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 Q4	2007 Q1	Q2	Q3	Q4	2007 Aug.	Sep.	Oct.
United States	<11.7>	3.6	6.6	-2.4	-2.2	1.7	-2.4	6.6	-0.4	-0.5	7.2
EU	<10.3>	2.1	1.4	-0.2	1.6	3.7	4.0	-5.1	-1.4	-2.8	-2.8
East Asia	<41.4>	11.2	9.5	1.8	0.1	-0.8	2.1	-2.0	-2.2	-0.6	-0.9
China	<20.5>	18.8	11.2	2.2	1.4	0.6	1.5	-1.4	-1.1	-0.5	-0.7
NIEs	<9.8>	9.3	12.7	-0.2	-1.6	-4.5	3.6	-2.1	1.7	-4.0	0.0
Korea	<4.7>	8.3	11.4	-1.6	-1.7	1.3	2.2	-0.3	-0.5	-7.3	5.1
Taiwan	<3.5>	11.0	16.9	2.3	-3.3	-10.3	7.9	-6.2	4.5	1.5	-8.5
ASEAN4 ³	<11.1>	0.2	3.4	3.1	-0.9	-0.0	1.8	-3.2	-8.2	2.5	-1.9
Thailand	<2.9>	12.8	7.1	2.0	1.7	-1.6	2.3	-2.3	-1.5	-2.6	-0.0
Others	<36.5>	1.8	2.5	-2.3	1.4	-1.2	3.5	-5.2	0.7	-4.5	-2.5
Real imports		5.4	4.4	-0.5	0.4	0.5	1.8	-1.9	-2.5	-0.6	-0.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q4	2007 Q1	Q2	Q3	Q4	2007 Aug.	Sep.	Oct.
Raw materials ⁴	<34.7>	-3.9	1.0	-2.0	1.0	-0.5	3.5	-4.7	-2.5	0.0	-3.9
Intermediate goods	<14.0>	4.6	2.3	-1.4	0.4	1.8	3.4	-2.5	0.2	-1.5	-1.6
Foodstuffs	<8.5>	2.6	-3.3	1.7	0.5	-4.4	-0.8	-8.0	5.4	-5.7	-6.0
Consumer goods ⁵	<8.8>	8.6	2.6	1.9	-5.1	5.5	-0.0	-3.4	-0.3	-3.8	-0.7
IT-related goods ⁶	<12.0>	15.4	14.1	-1.6	0.6	-1.4	2.6	-4.4	0.9	-6.5	-0.3
Capital goods and parts ⁷	<12.4>	13.6	16.9	1.3	1.8	1.7	2.9	2.8	-5.5	5.4	1.2
Excluding aircraft	<11.5>	13.7	18.0	1.8	0.4	3.1	4.4	-1.5	-2.5	-0.7	-0.2
Real imports		5.4	4.4	-0.5	0.4	0.5	1.8	-1.9	-2.5	-0.6	-0.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2007/Q4 figures are October 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.

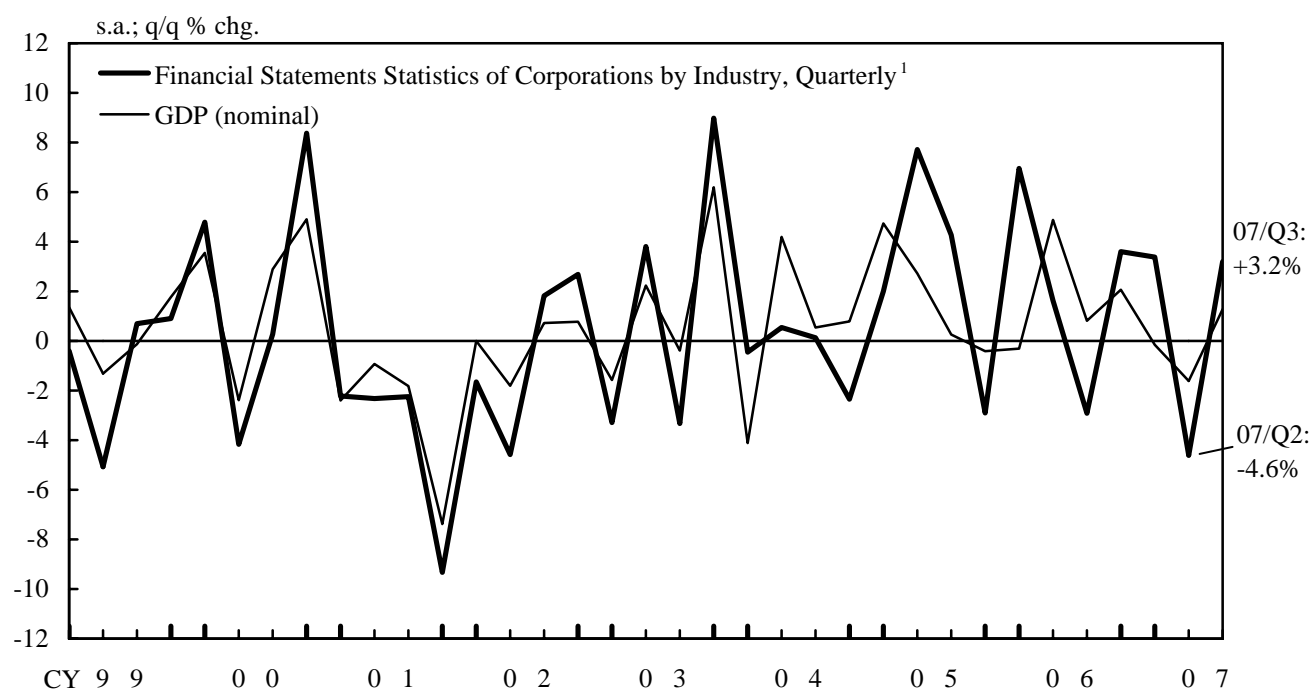
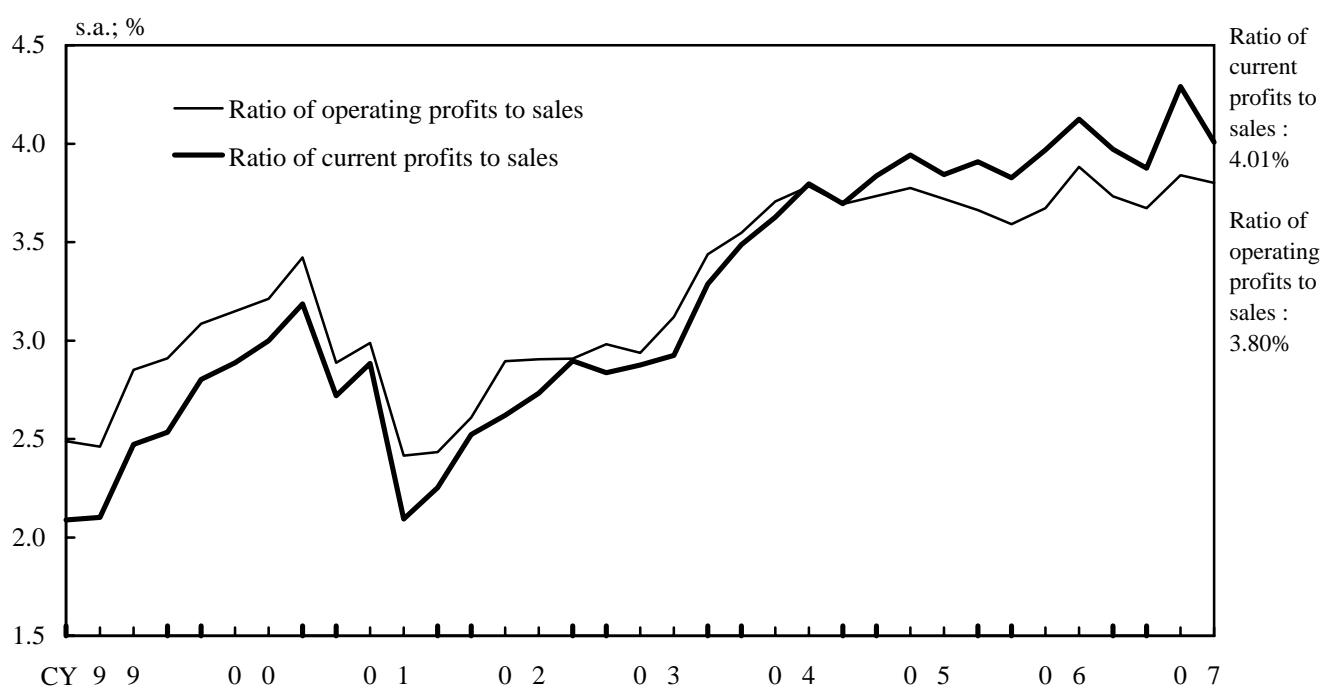
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

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}

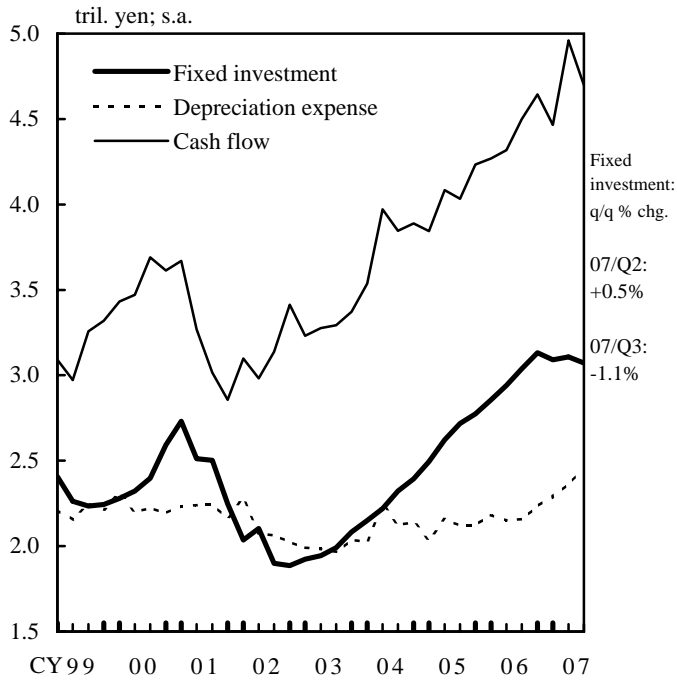
Notes: 1. All enterprises. Figures are adjusted for sample change, and seasonally adjusted by X-11. Adjustment for sample change aims to correct a bias in figures caused by sample change. The method is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. 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.

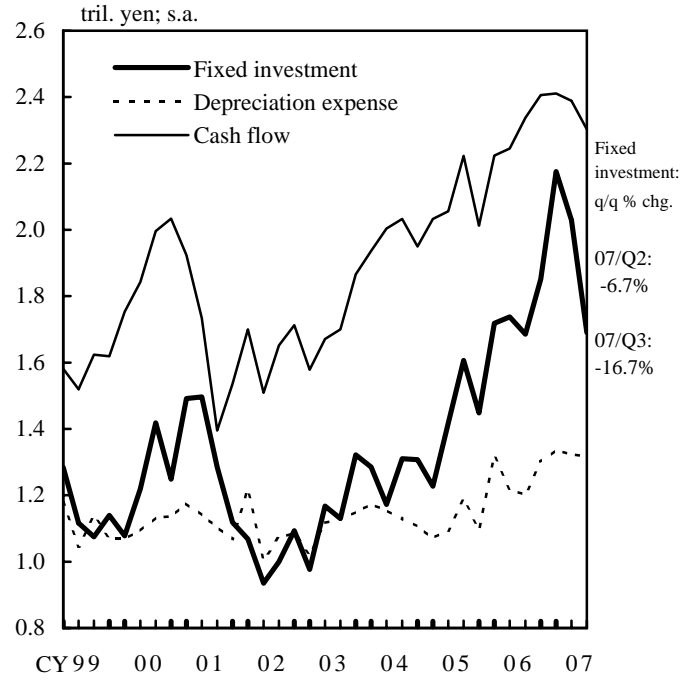
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

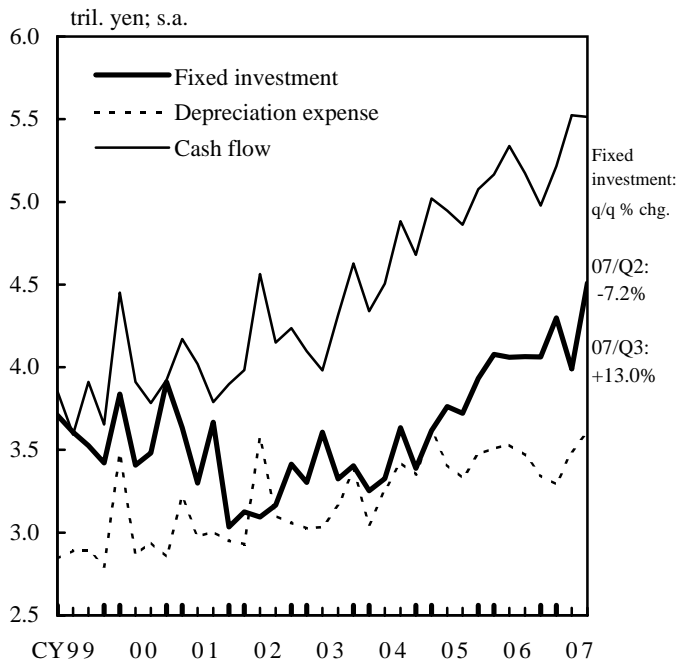
(1) Large Manufacturing Firms



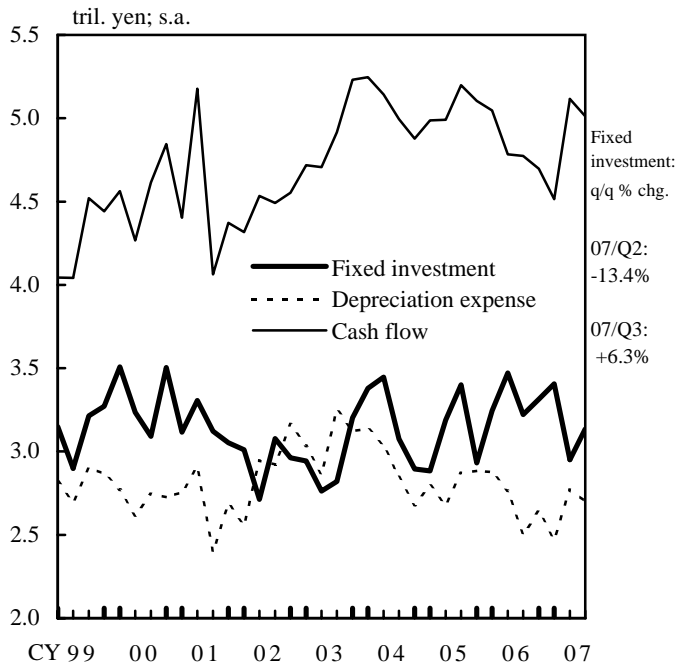
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

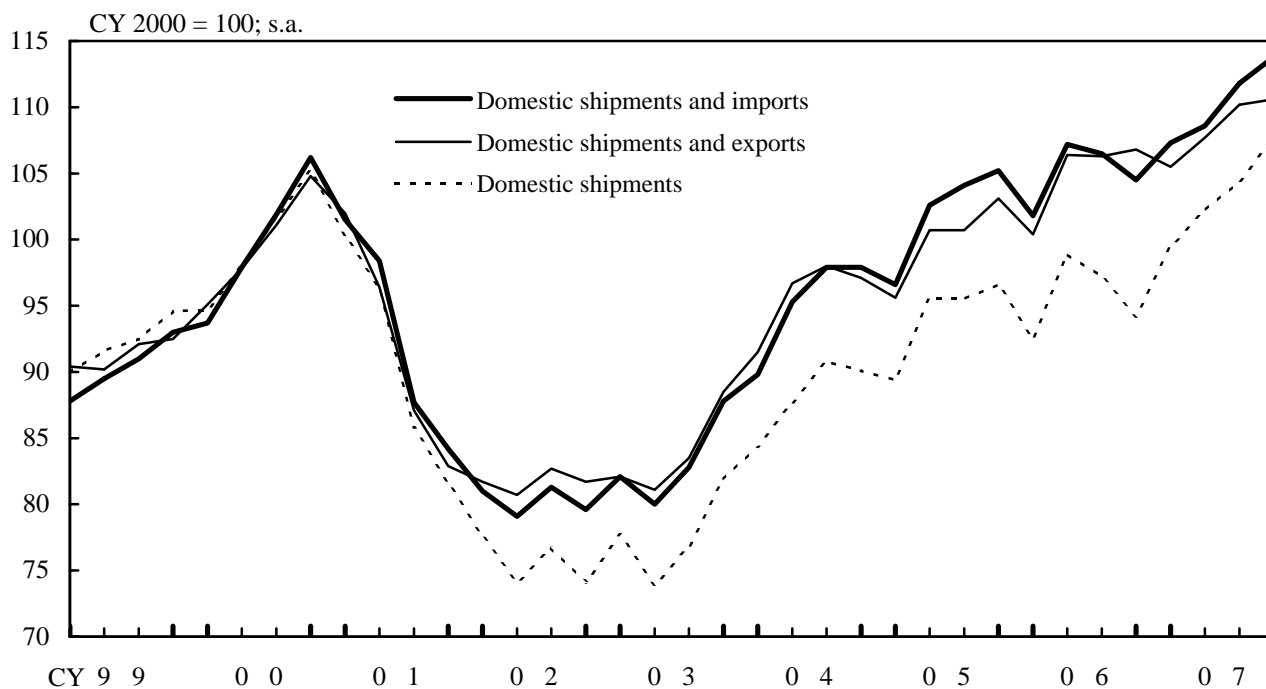


- Notes: 1. On a "Financial Statements Statistics of Corporations by Industry, Quarterly" basis.
 2. Sample change is adjusted (see note of Chart 11).
 3. Electric and gas are excluded from large nonmanufacturing firms.
 4. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "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."

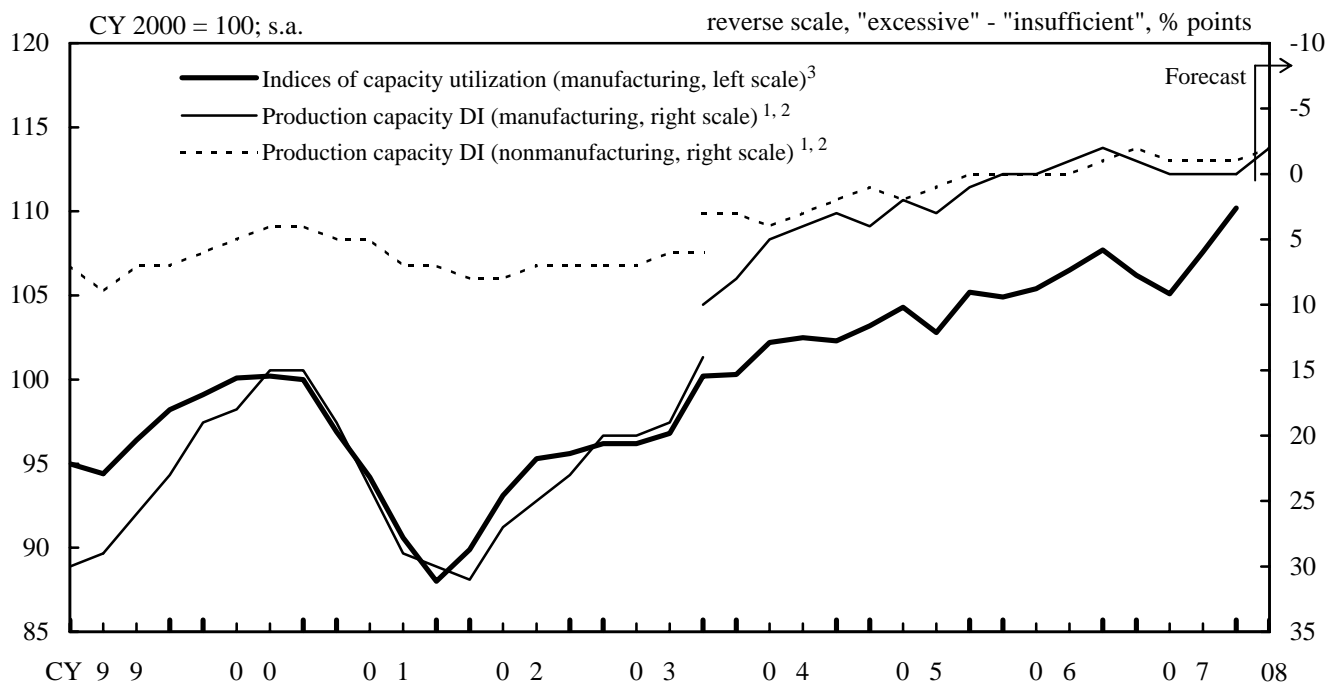
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods (Excluding Transport Equipment)



Note: The figure for 2007/Q4 is as of October.

(2) Indices of Capacity Utilization and Production Capacity DI



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

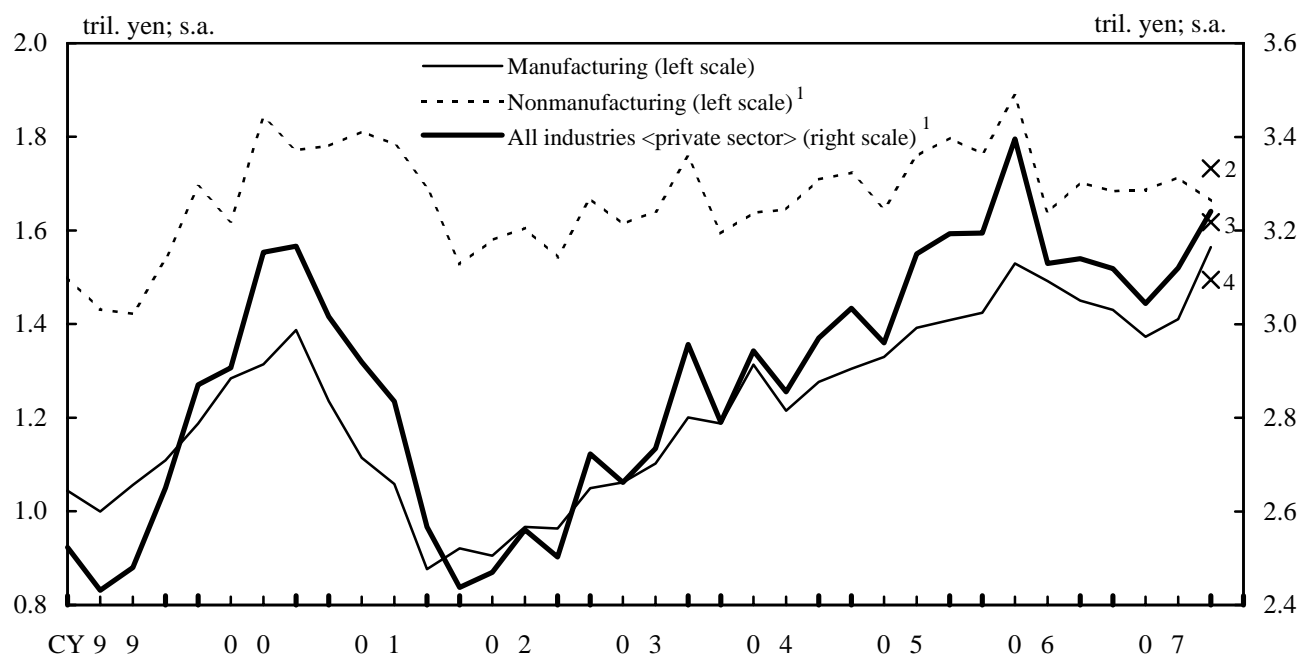
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/Q4 is as of October.

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production," "Indices of Industrial Domestic Shipments and Exports," "Indices of Industrial Domestic Shipments and Imports"; 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.

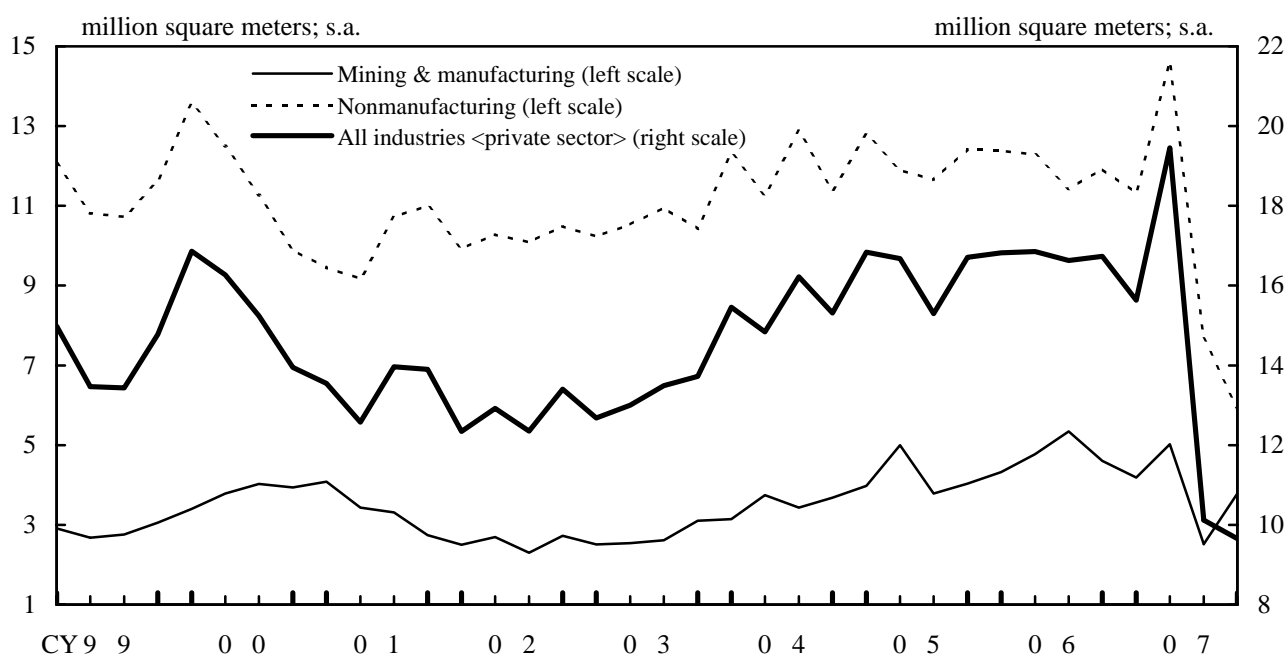
2. Forecast of nonmanufacturing industries for 2007/Q4.

3. Forecast of all industries <private sector> for 2007/Q4.

4. Forecast of manufacturing industries for 2007/Q4.

5. Figures for 2007/Q4 are those of October in terms of quarterly amount.

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



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

2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

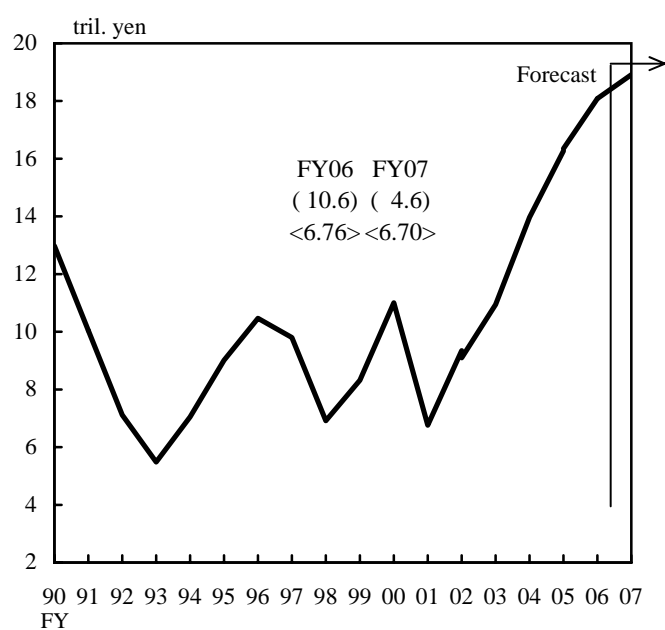
3. Figures for 2007/Q4 are those of October in terms of quarterly amount.

Sources: Cabinet Office, "Orders Received for Machinery";

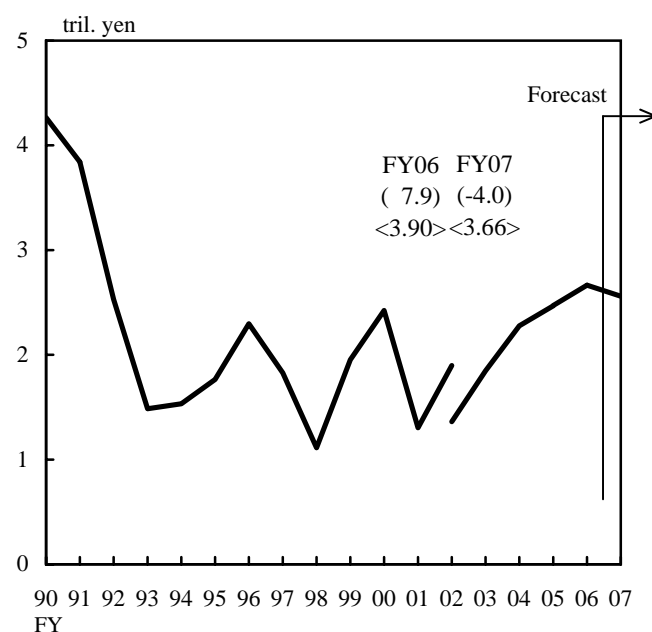
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

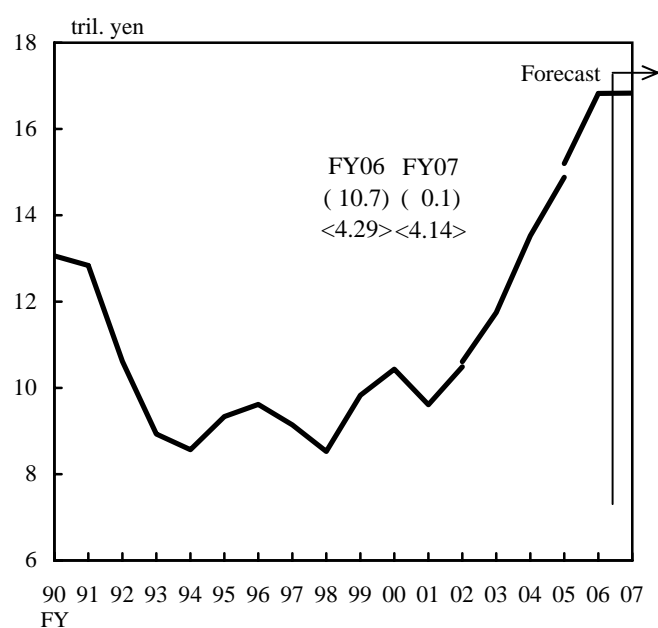
(1) Manufacturing Large Enterprises



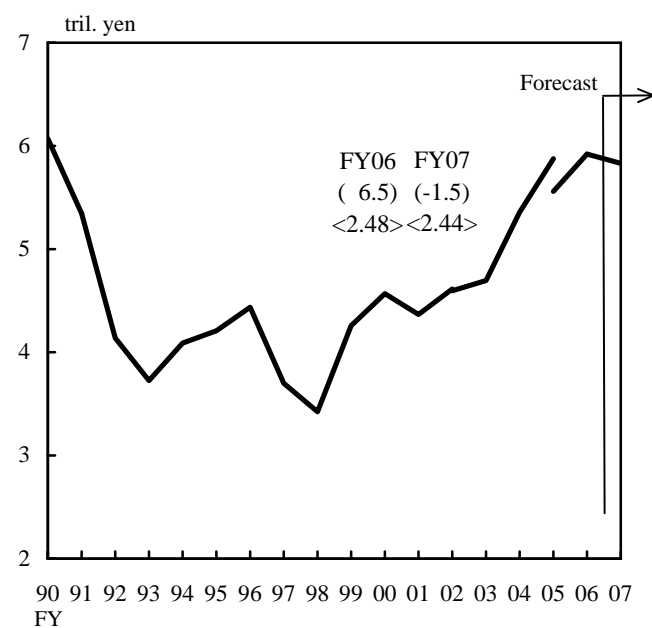
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



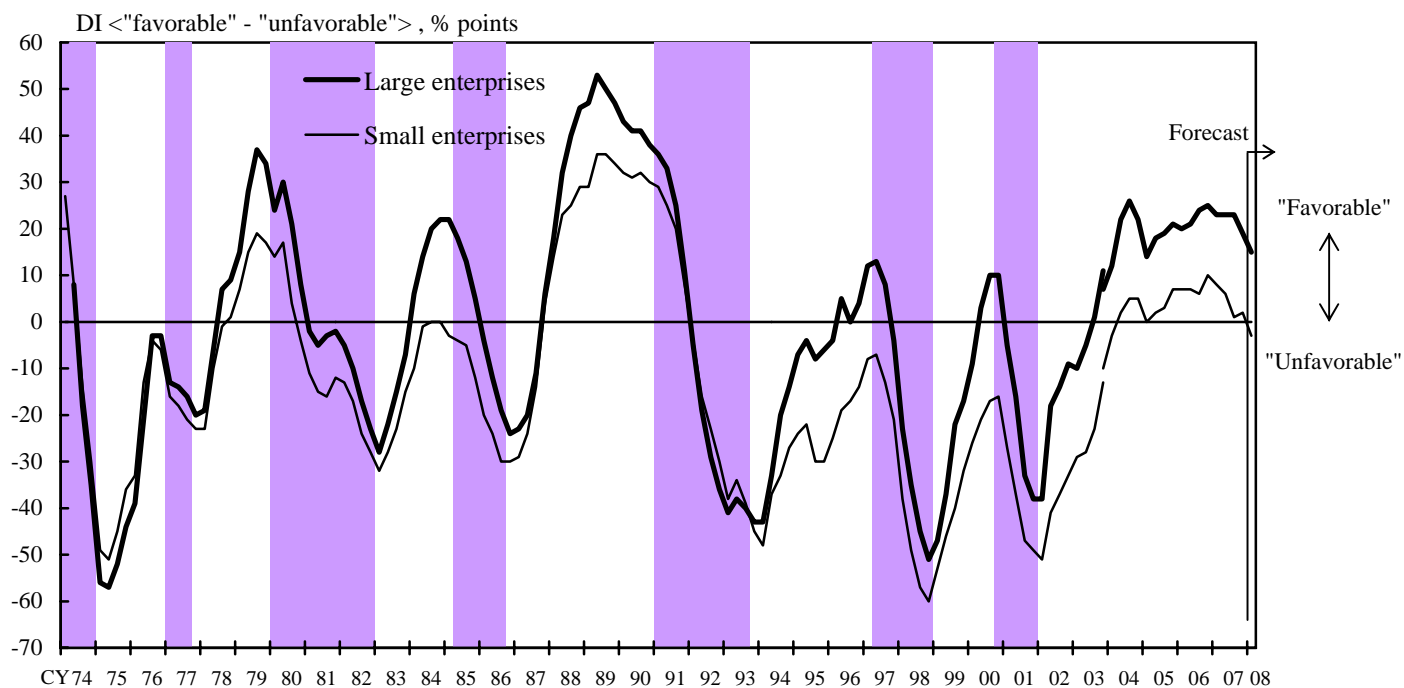
Notes: 1. (): Current profits (y/y % chg.), <>: Ratio of current profit to sales (%).

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.

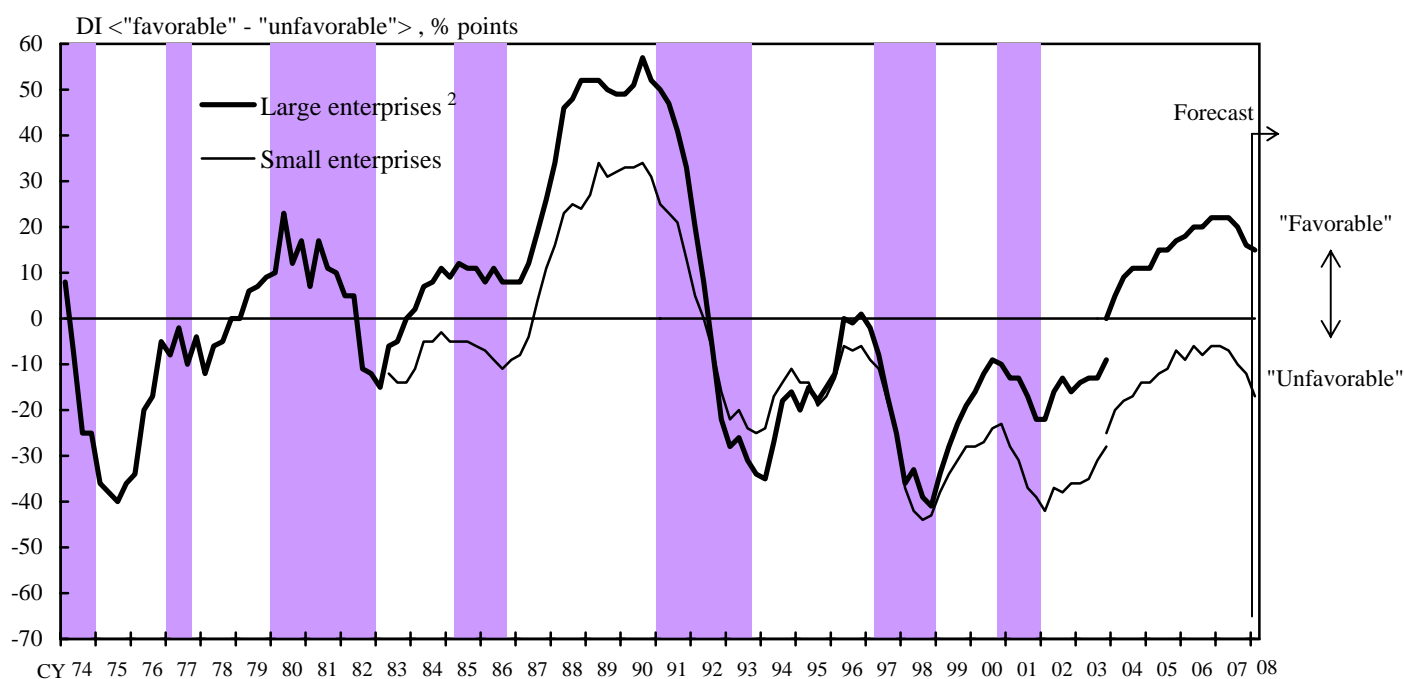
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

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.

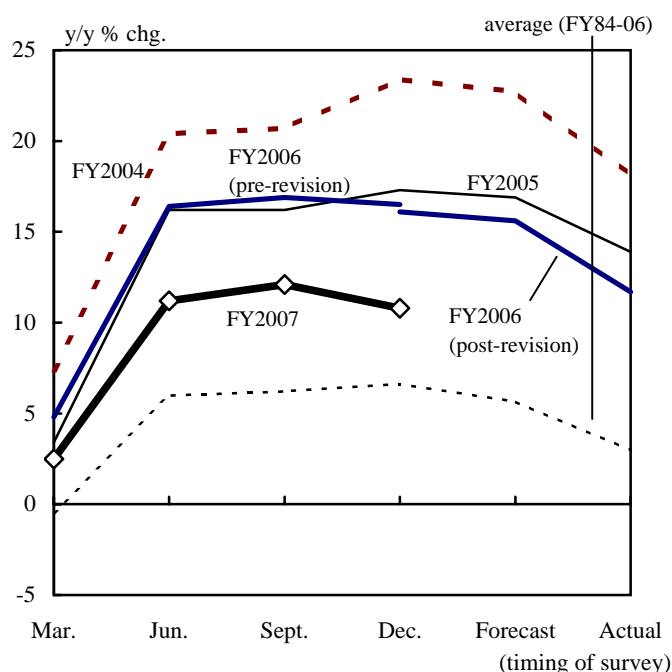
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

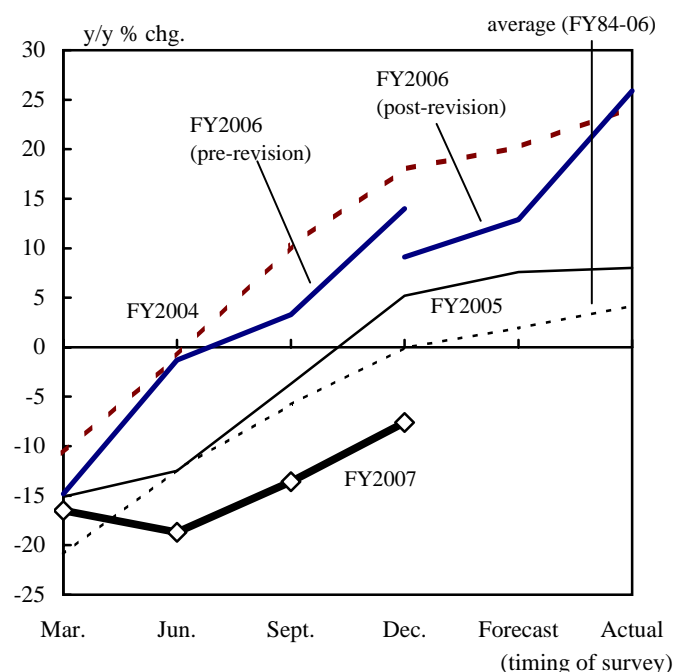
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

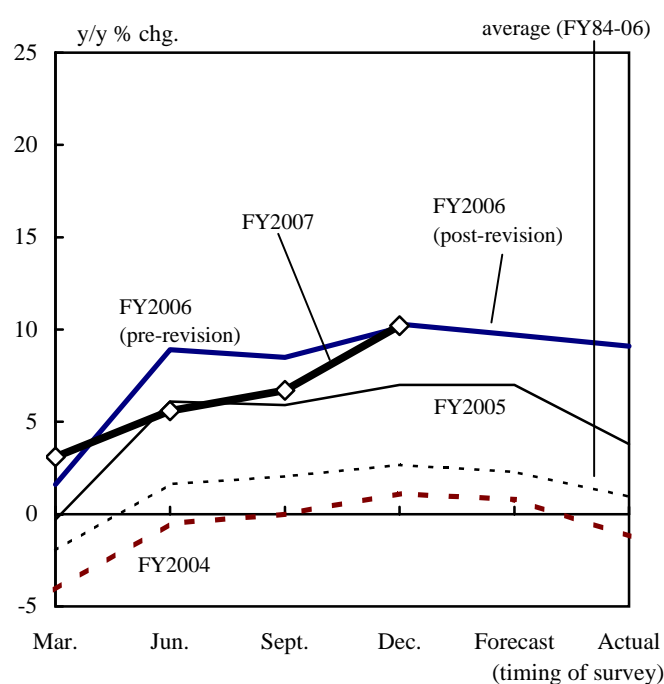
(1) Manufacturing Large Enterprises



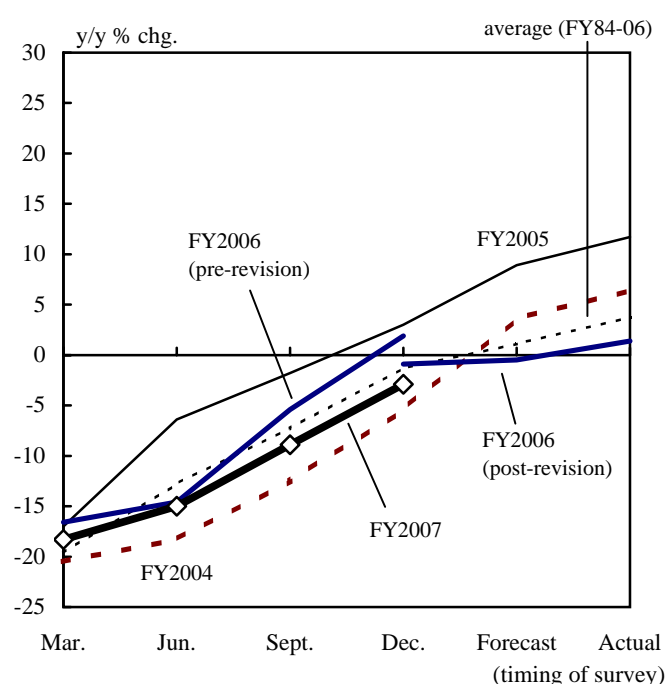
(2) Manufacturing Small Enterprises



(3) Nonmanufacturing Large Enterprises



(4) Nonmanufacturing Small Enterprises



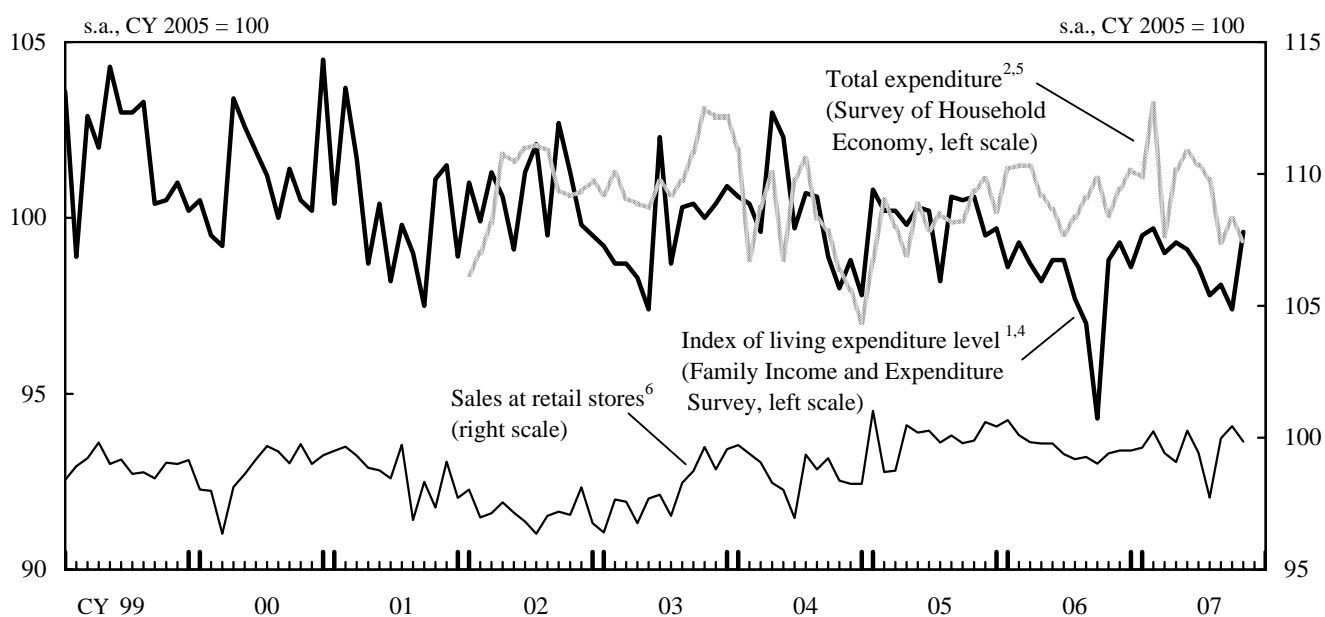
Notes: 1. Includes land purchasing expenses and excludes software investment.

2. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with this timing.

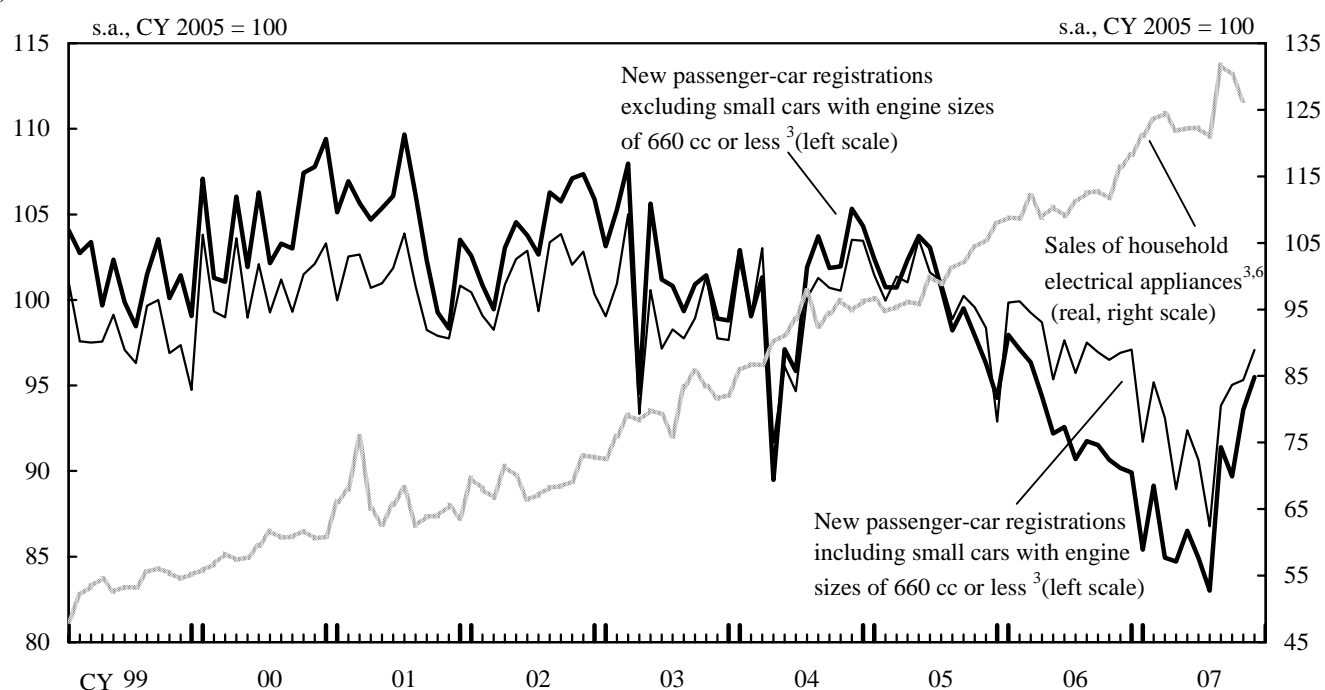
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

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,"

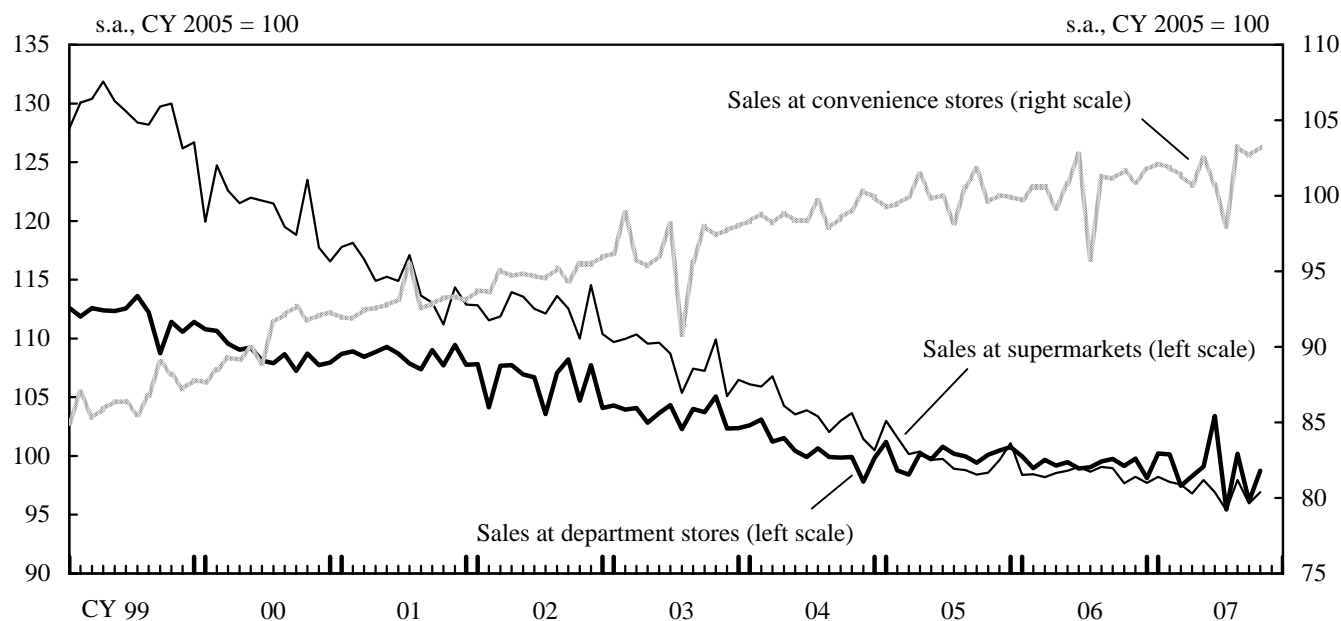
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";

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

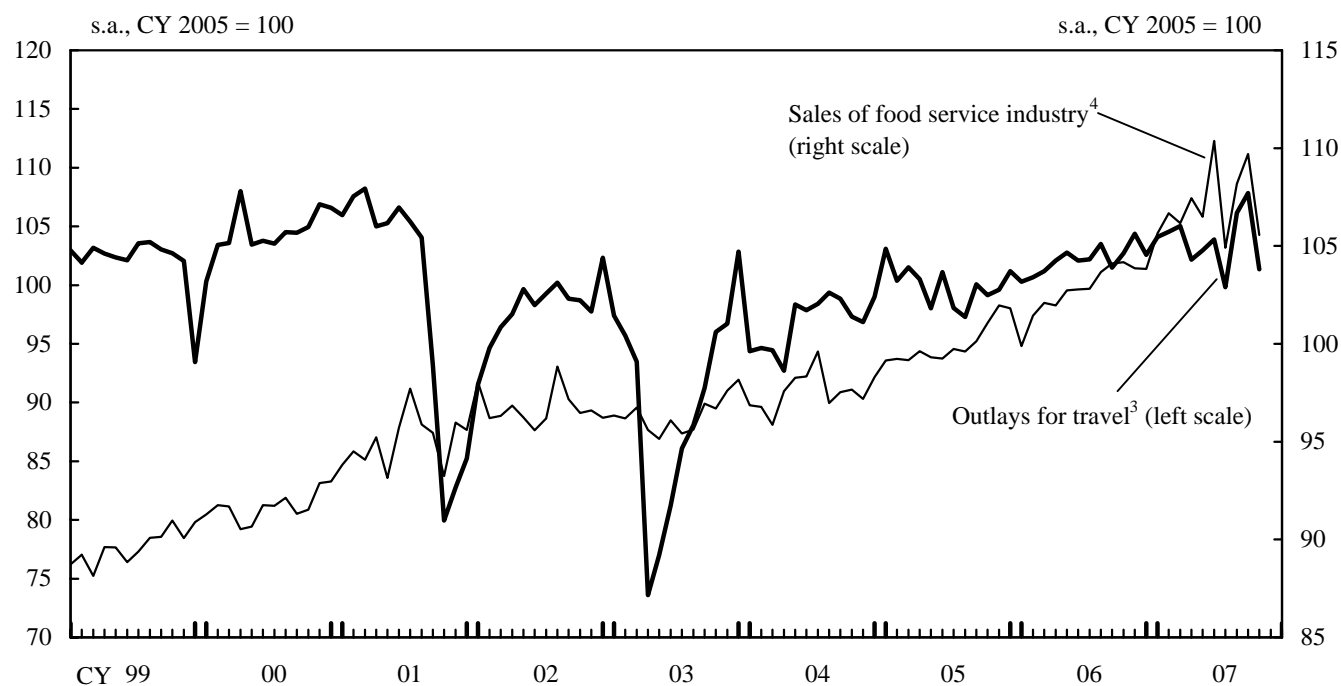
Bank of Japan, "Wholesale Price Indexes," "Corporate Goods Price Index";

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

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

Indicators for Private Consumption¹ (2)(1) Sales at Retail Stores (Nominal)²

(2) 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).

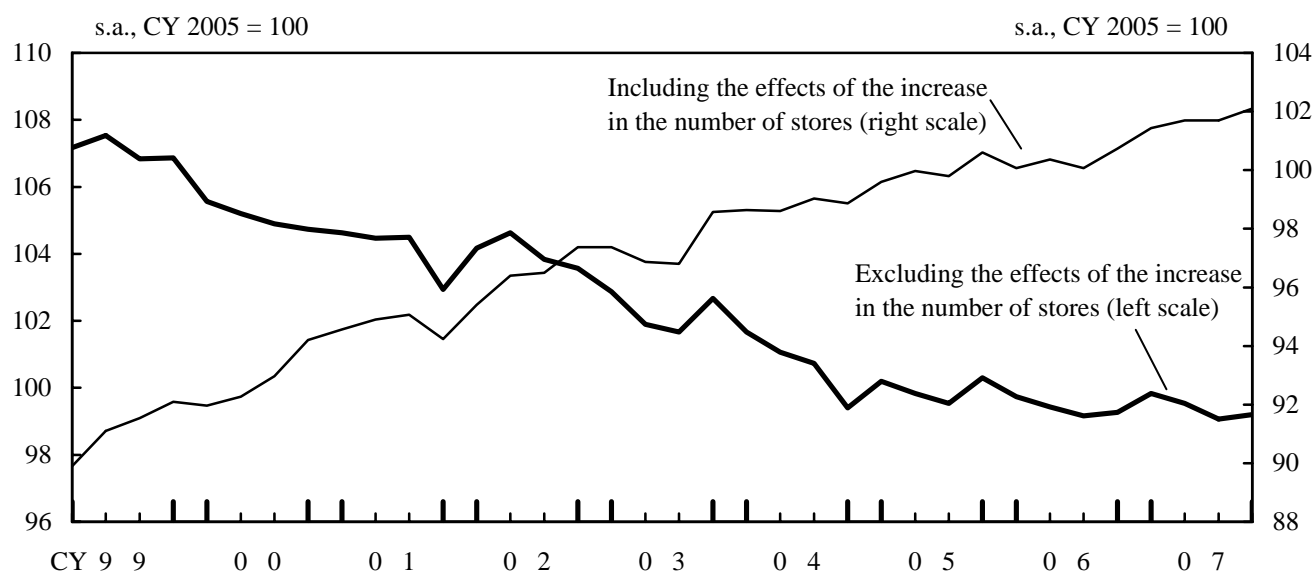
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

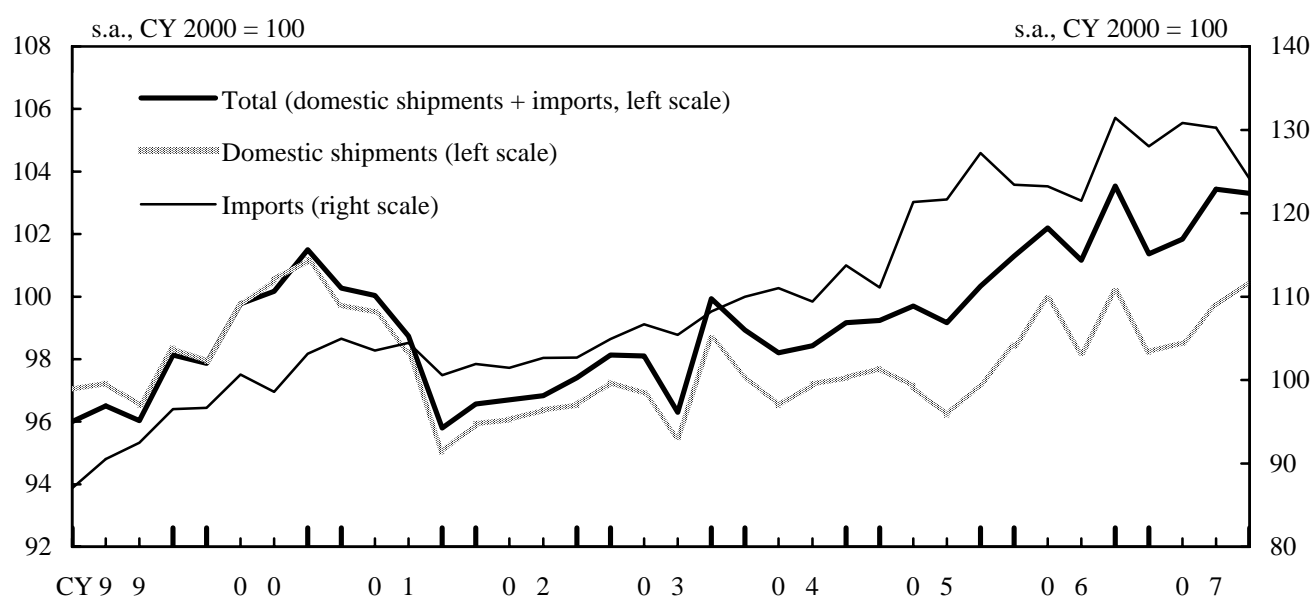
Indicators for Private Consumption (3)

(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/Q4 figures are those of October in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

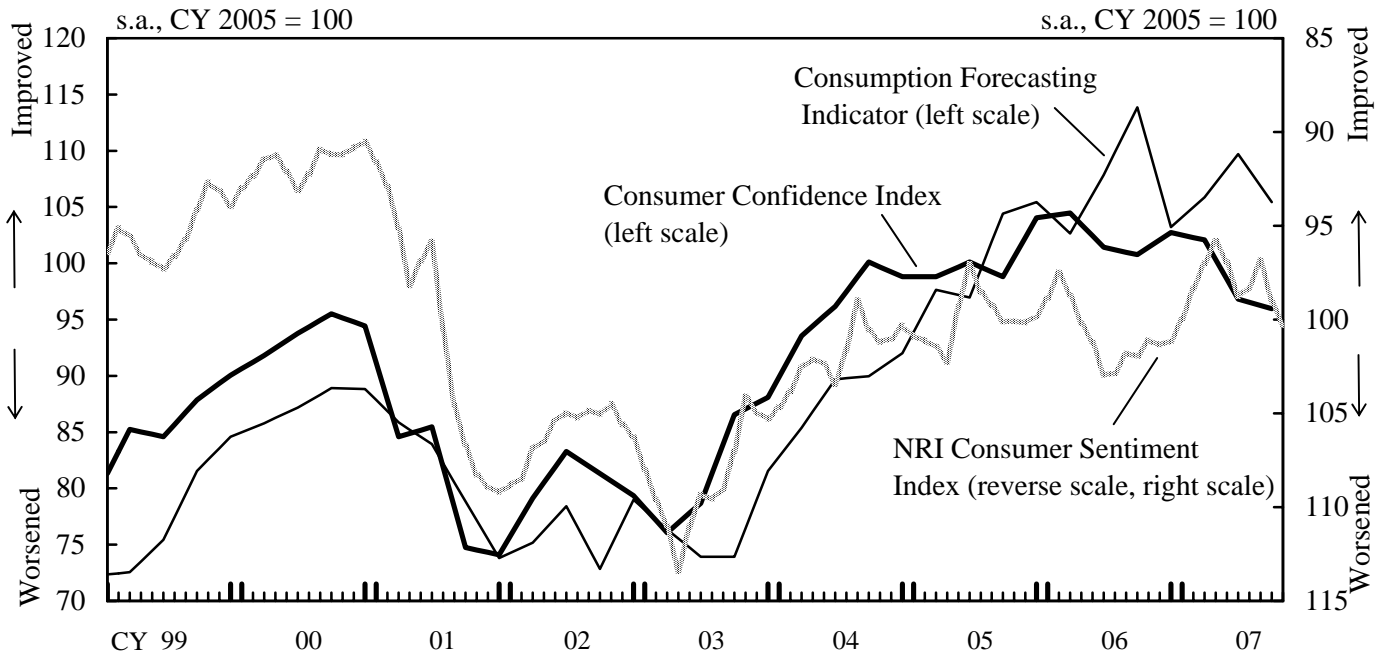


Note: Data for 2007/Q4 figures are those of October in terms of quarterly amount.

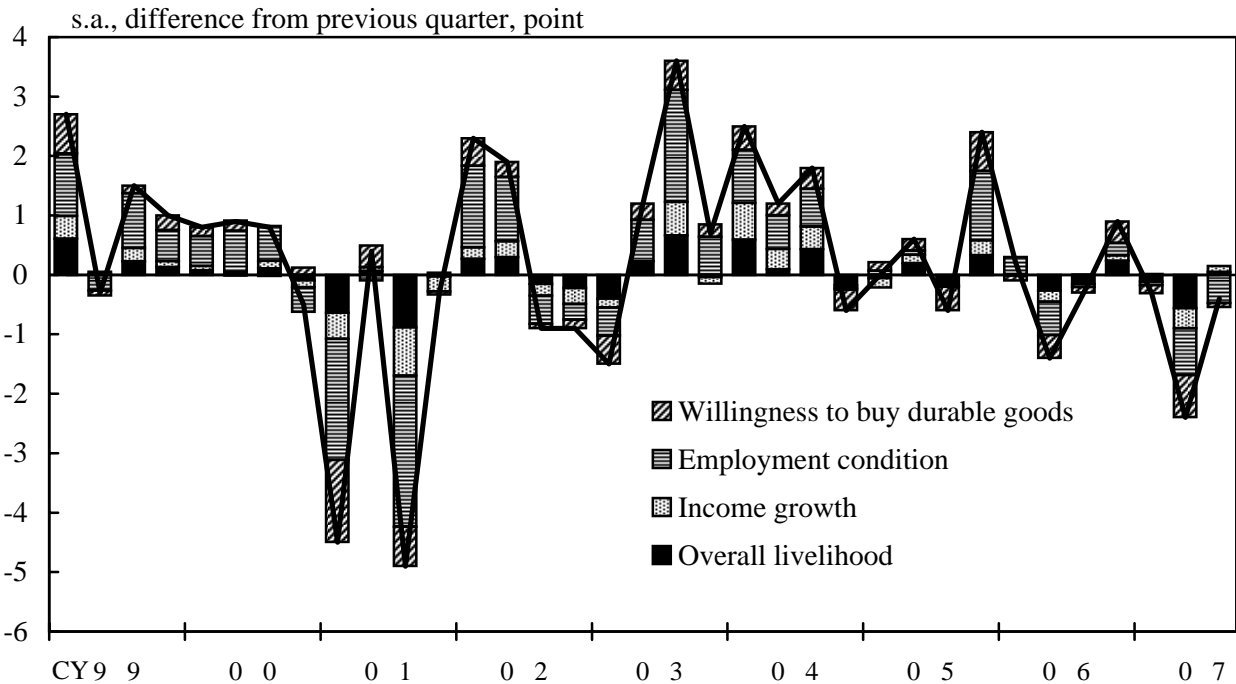
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

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.

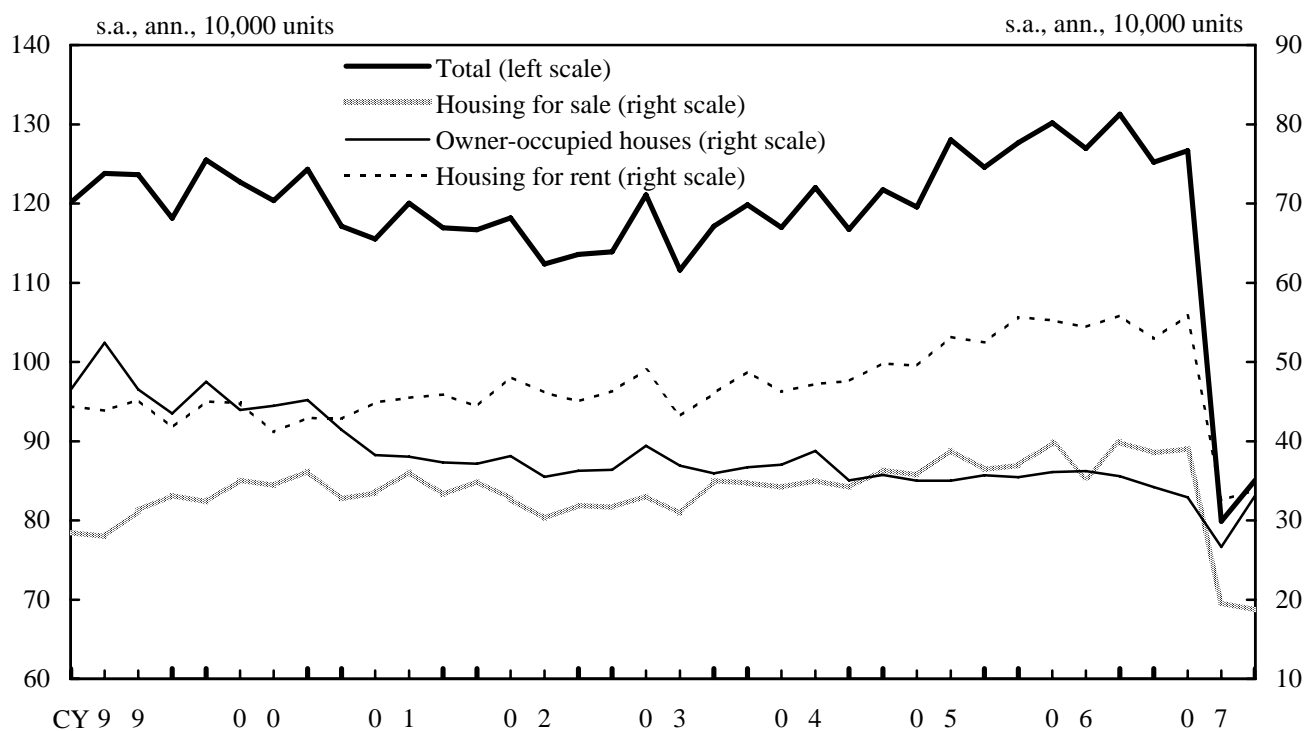
2. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.

3. Data are plotted at the months of each survey.

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

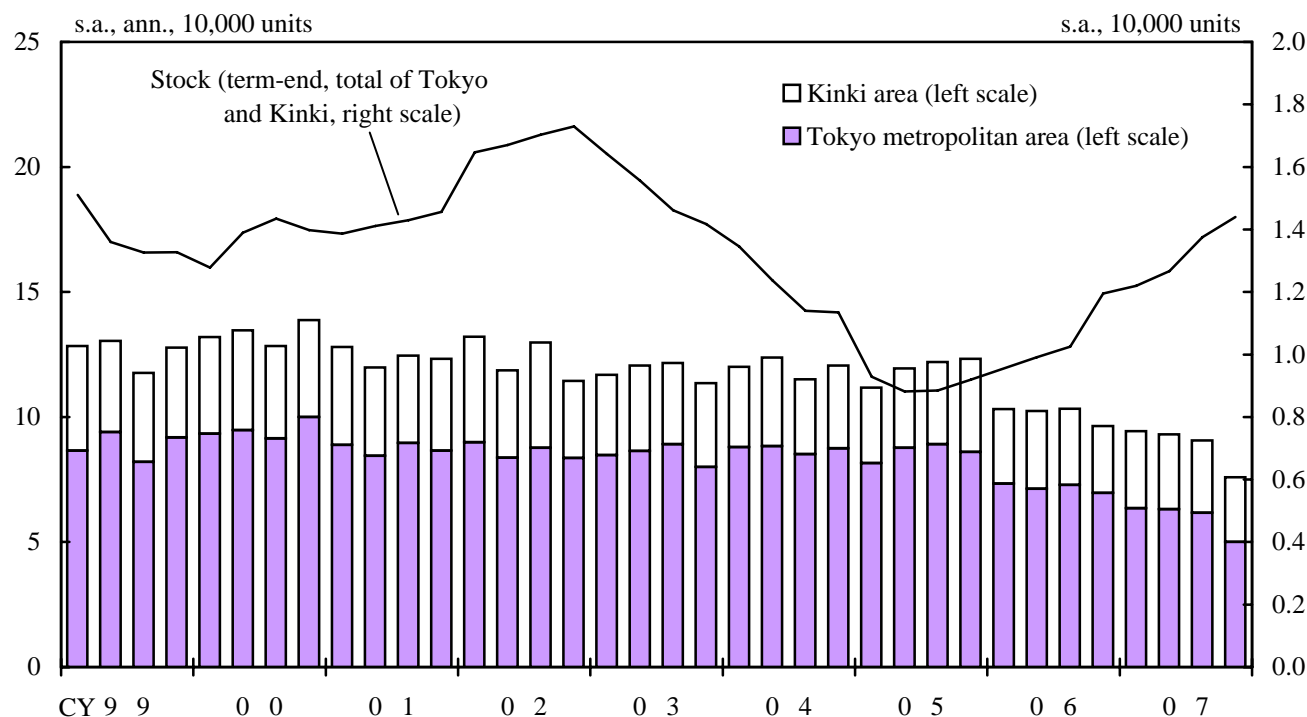
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2007/Q4 are those of October.

(2) Sales of Apartments



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

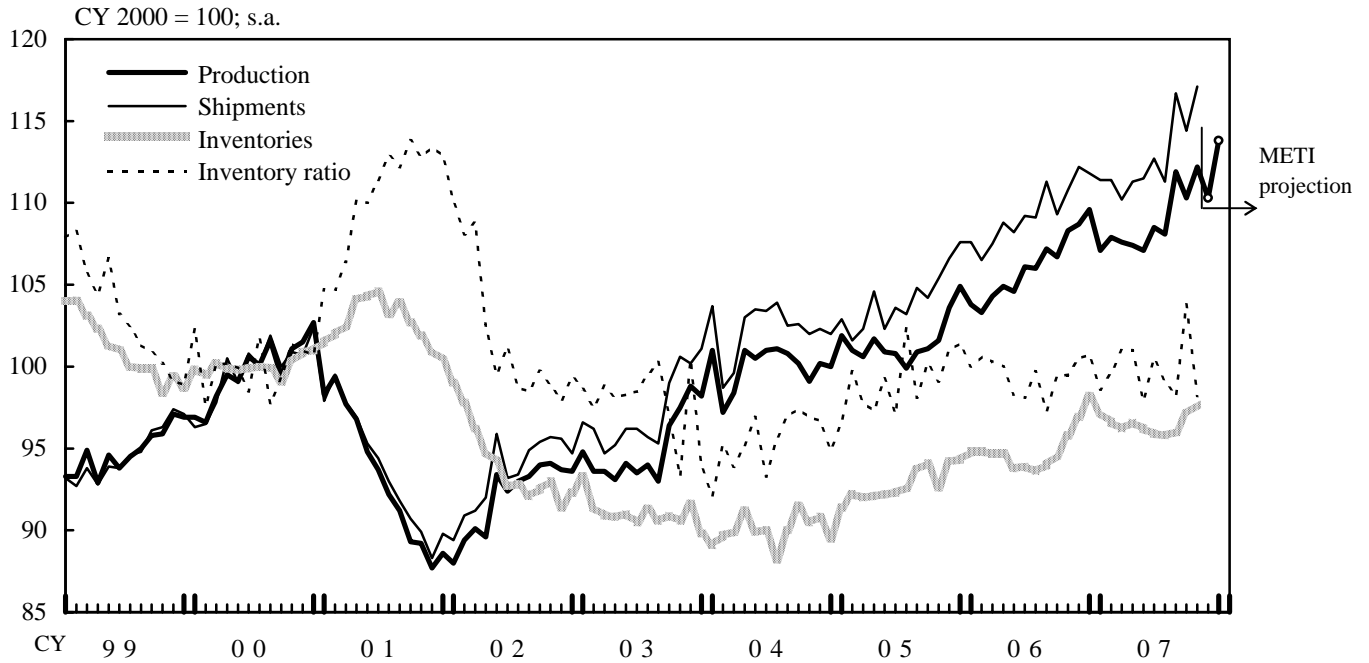
2. Figures of total apartments sales for 2007/Q4 are those of October-November averages.

Term-end stocks for 2007/Q4 are those of November.

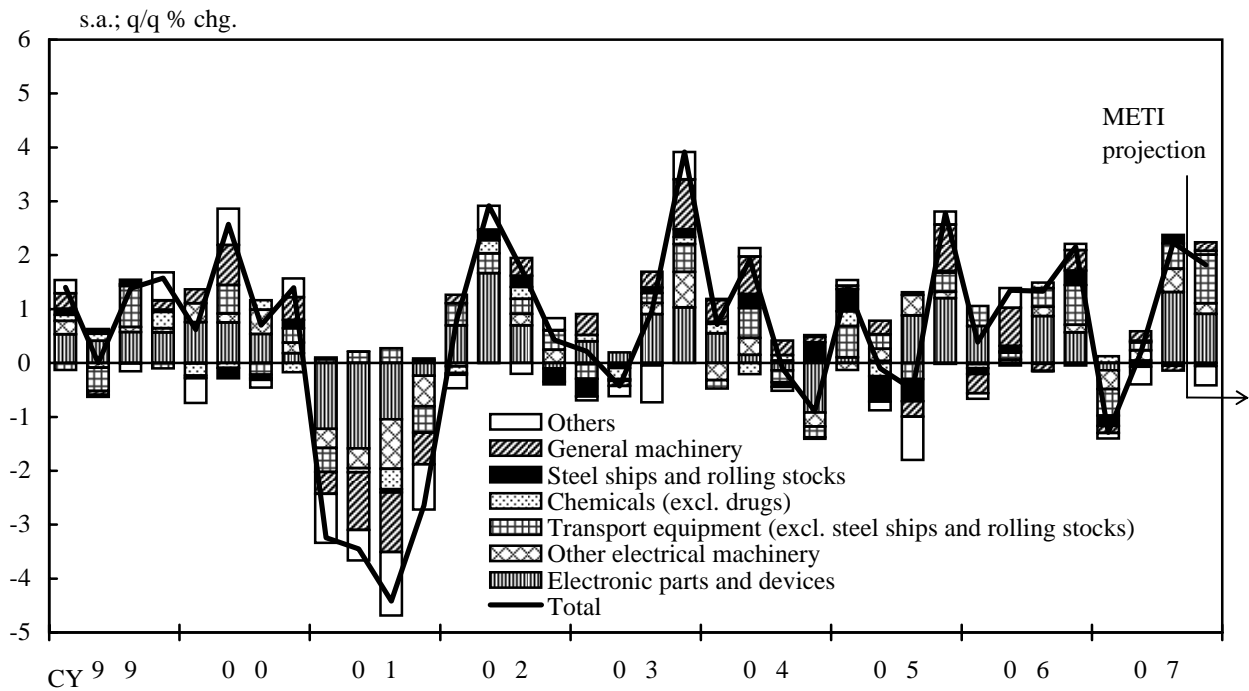
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

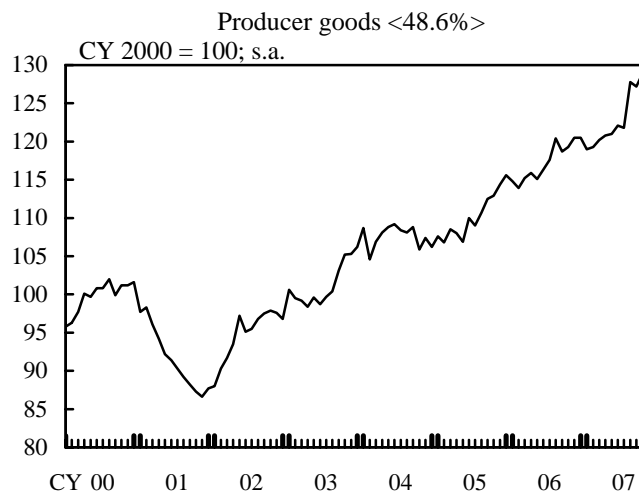
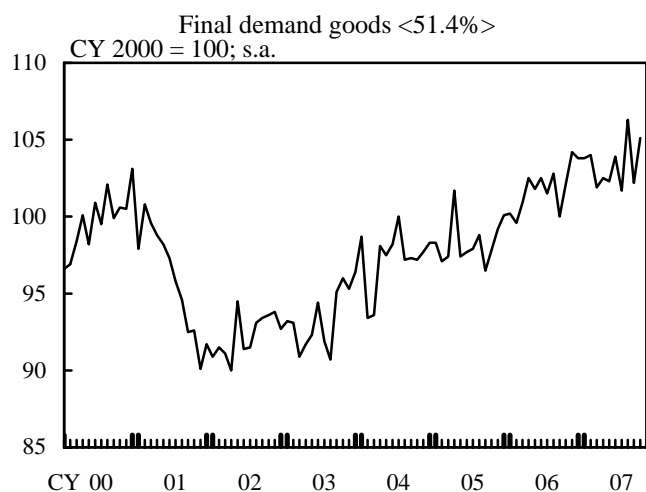


Note: "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

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

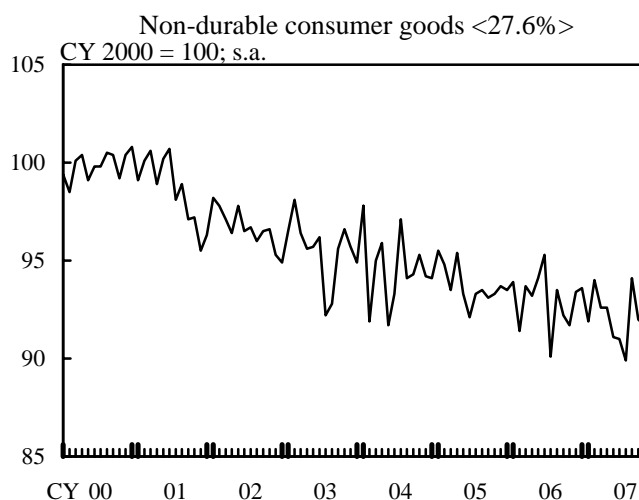
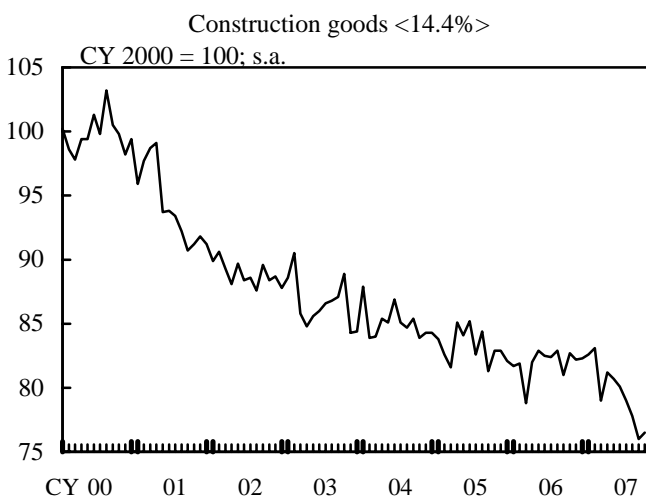
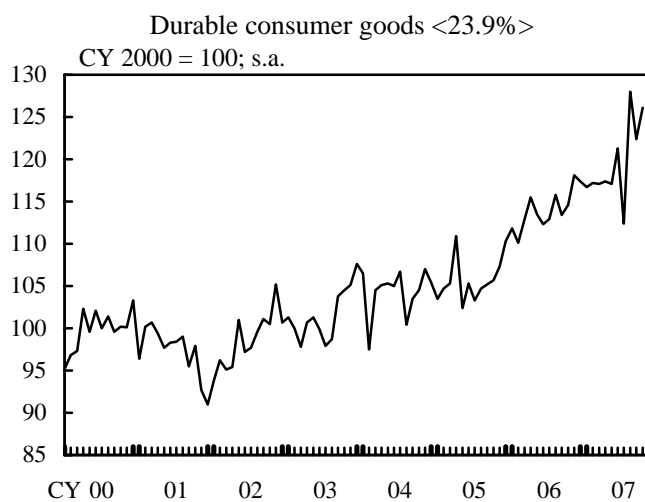
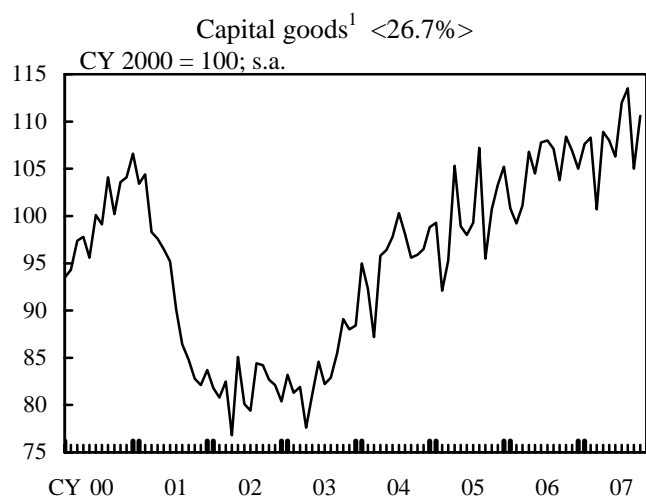
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

(2) Breakdown of Final Demand Goods

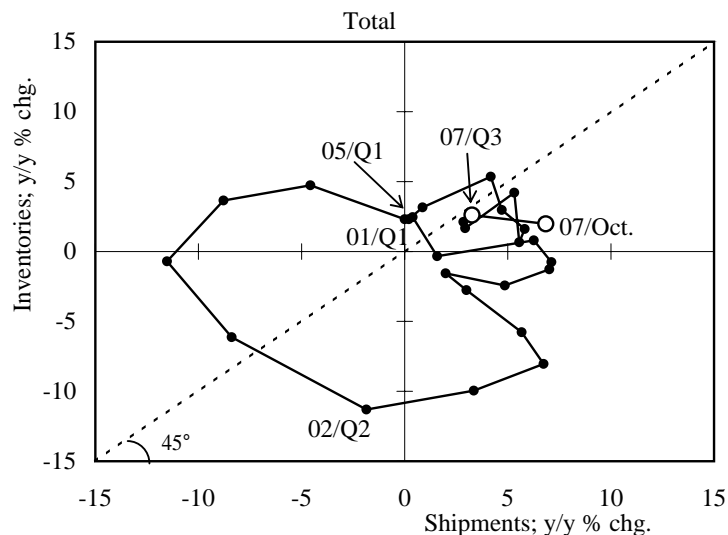


Notes: 1. Excluding transport equipment.

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

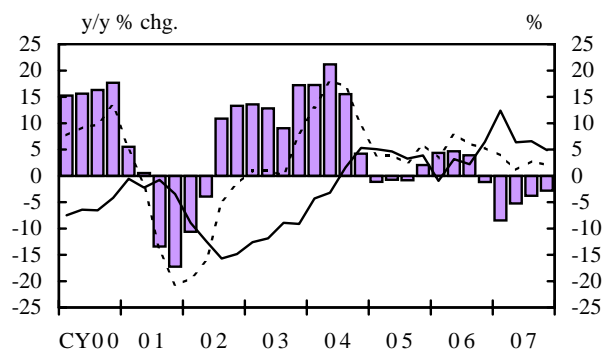
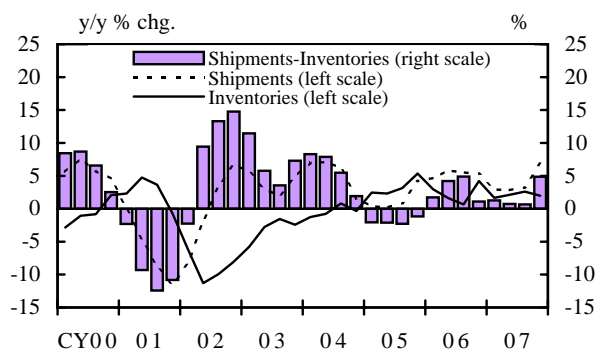
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



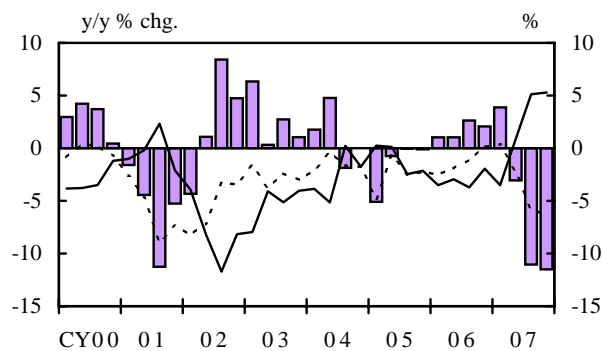
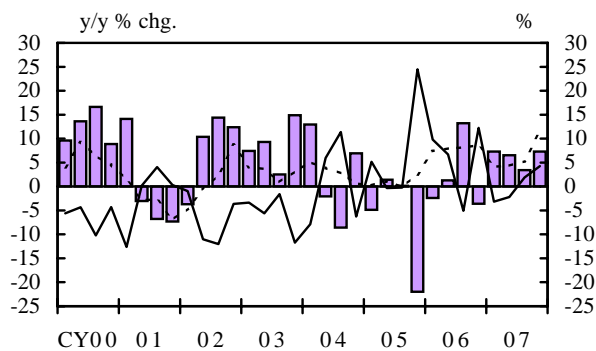
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



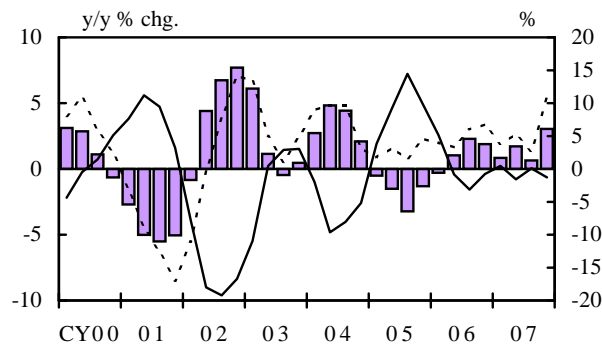
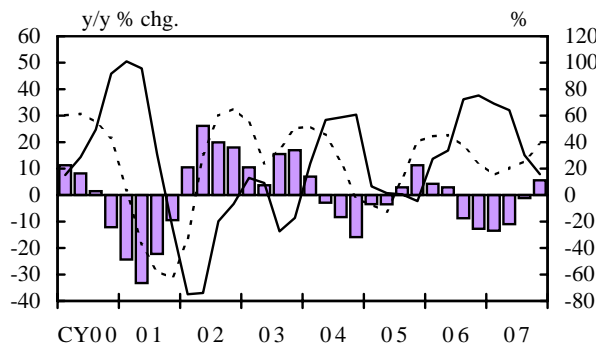
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

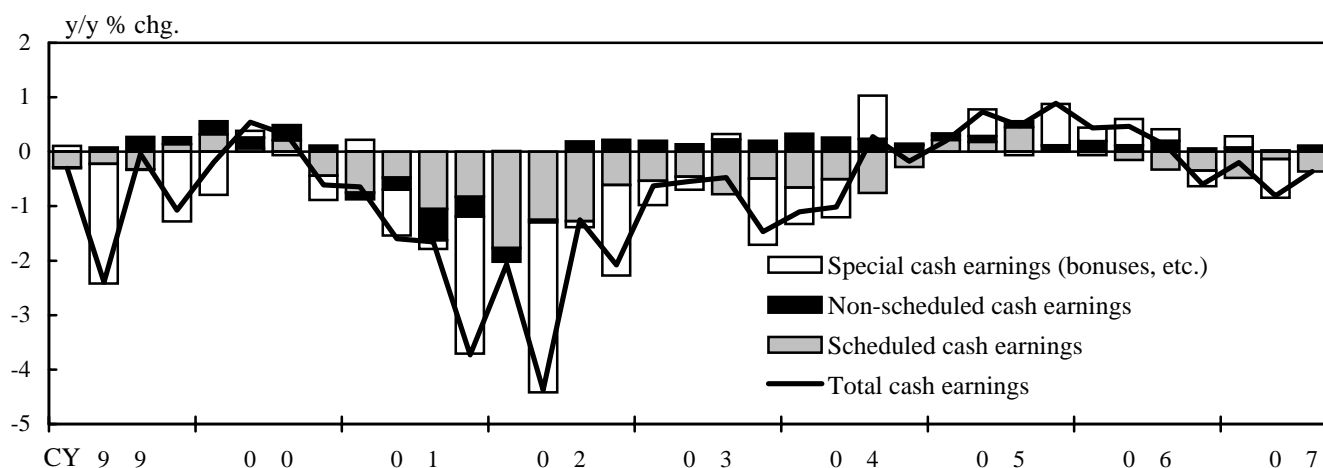
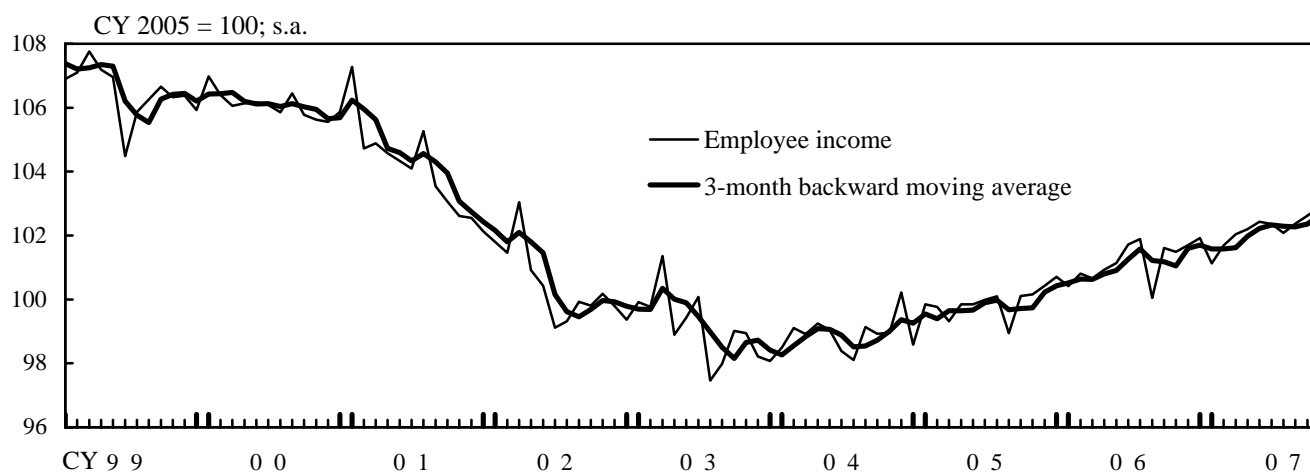
(6) Producer Goods Excluding Electronic Parts and Devices



Note: Figures for 2007/Q4 are those of October.

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

Employee Income

(1) Breakdown of Total Cash Earnings^{1,2,5}(2) Breakdown of Employee Income^{1,2,5}(3) Employee Income^{1,3,4}

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. 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.

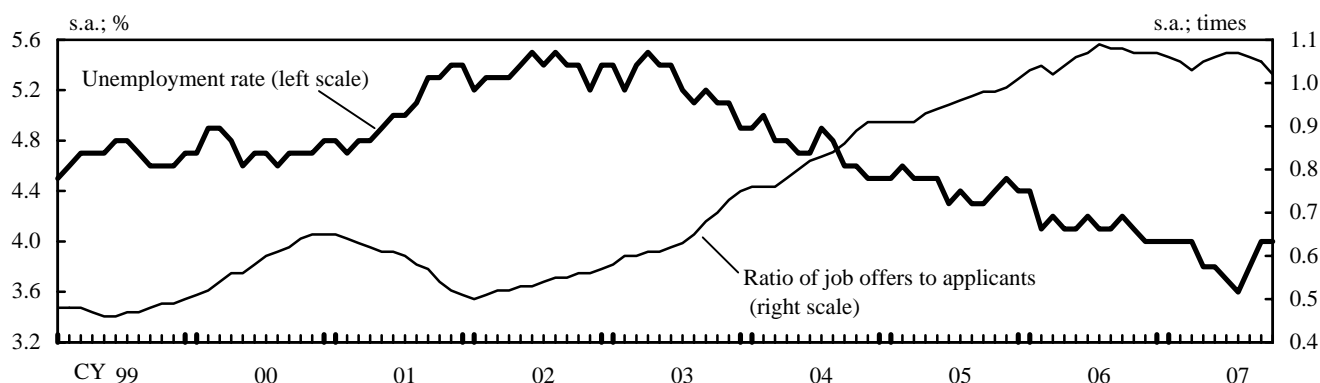
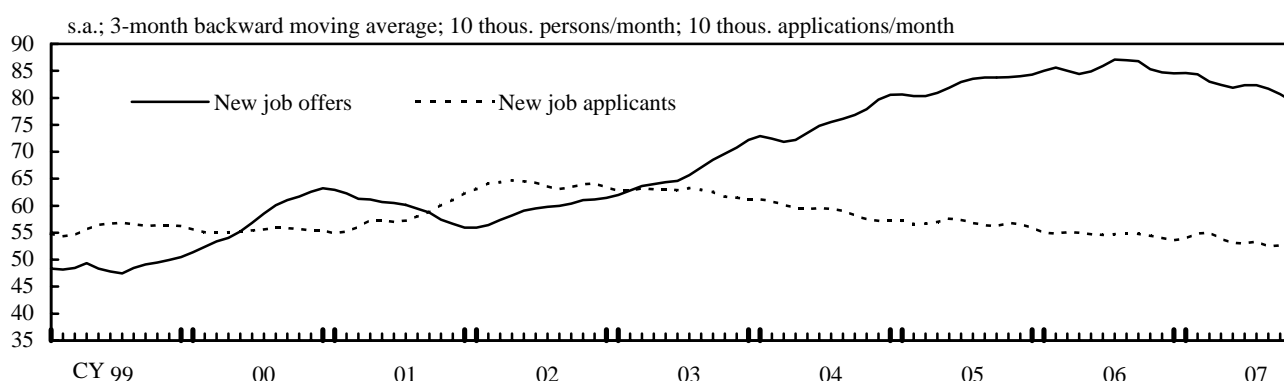
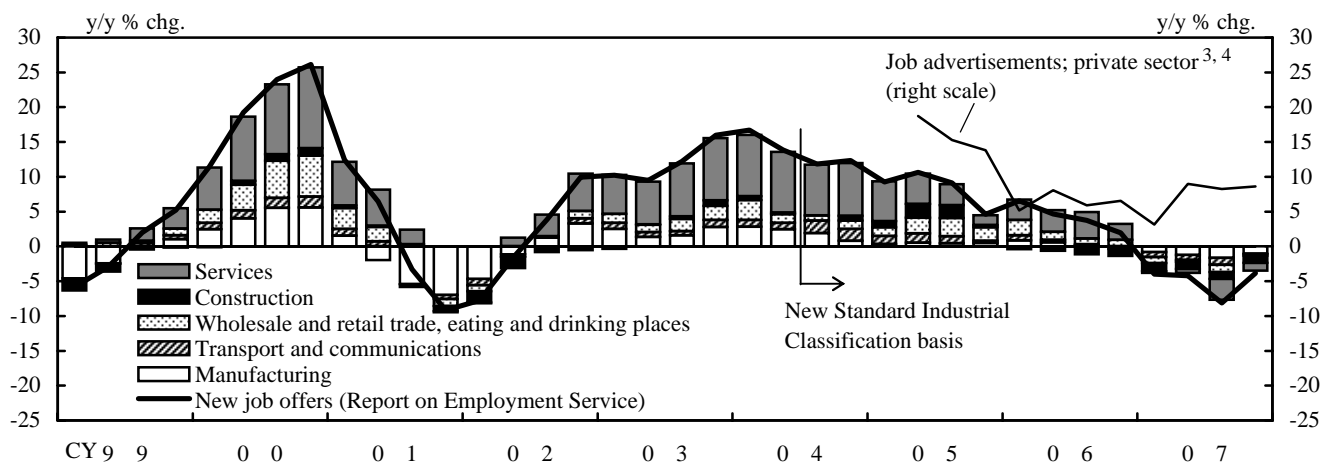
4. Figures are seasonally adjusted by X-12-ARIMA on a monthly basis, and so those are retroactively revised each month.

5. Figures for 2007/Q3 are those of September-October averages.

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

Labor Market (1)

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

(2) New Job Offers and New Job Applicants¹(3) Breakdown of Job Offers^{1,2,5}

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 are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.

4. The y/y % changes in job advertisements for 2005/Q2-2006/Q1, 2006/Q2-2007/Q1 and 2007/Q2-2007/Q4 are calculated on the basis of 45, 64 and 67 companies, respectively.

5. Figures for 2007/Q4 are those of October.

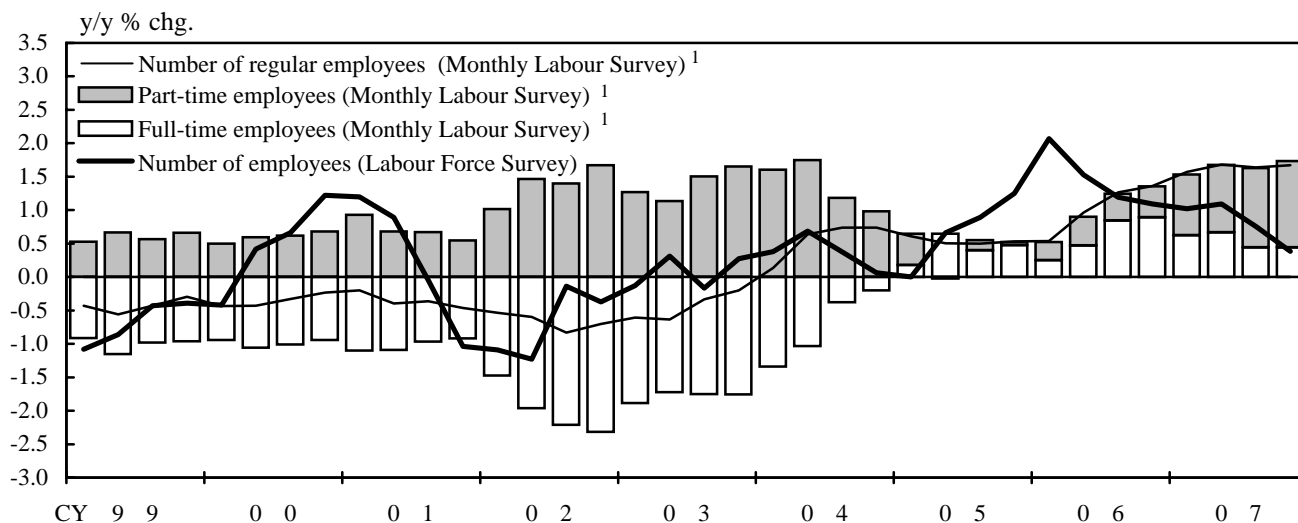
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

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

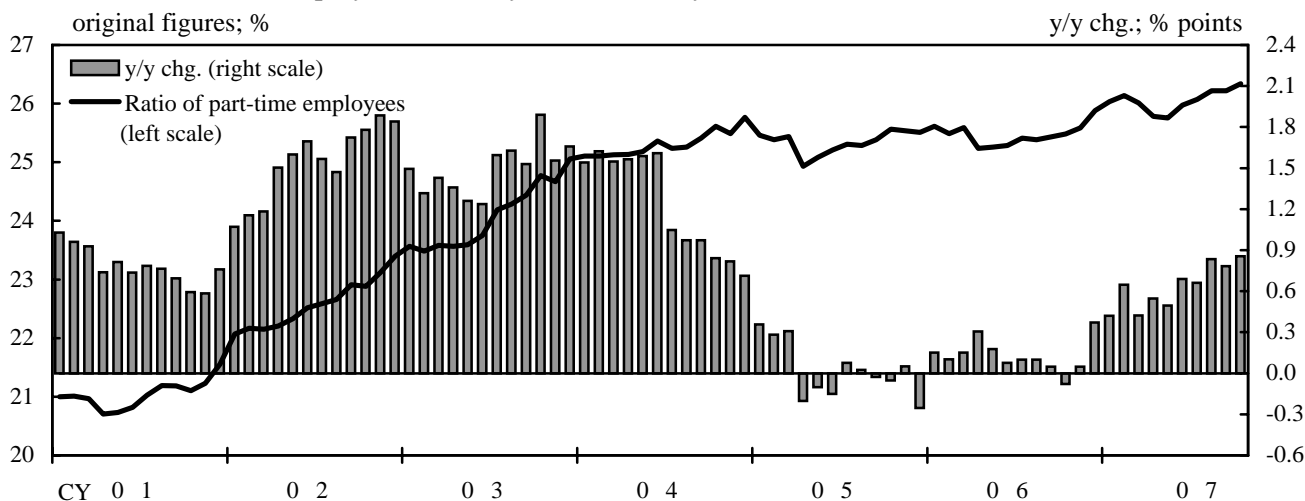
Association of Job Information of Japan, "Kyujin Koukoku Keisaikensu (Survey of Job Advertisements)."

Labor Market (2)

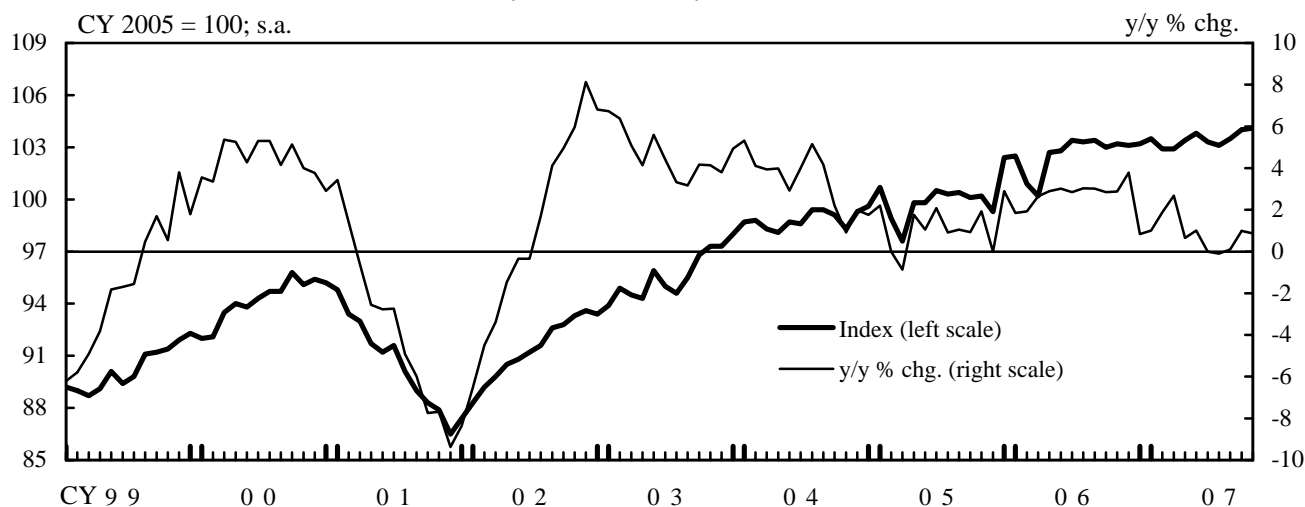
(1) Number of Employees³



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



(3) Non Scheduled Hours Worked (Monthly Labour Survey)¹



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

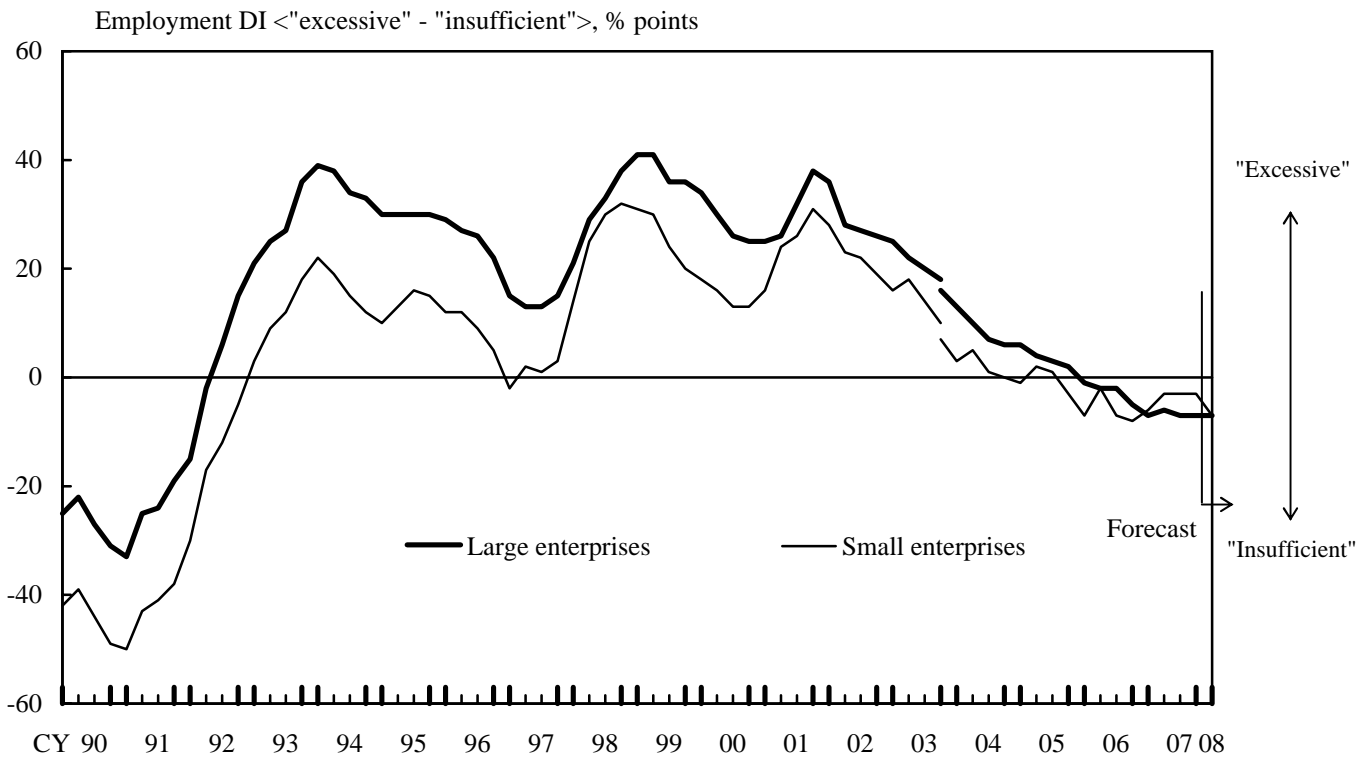
2. Ratio of part-time employees is calculated as number of part-time employees divided by number of regular employees times 100.

3. Figures for 2007/Q4 are those of October.

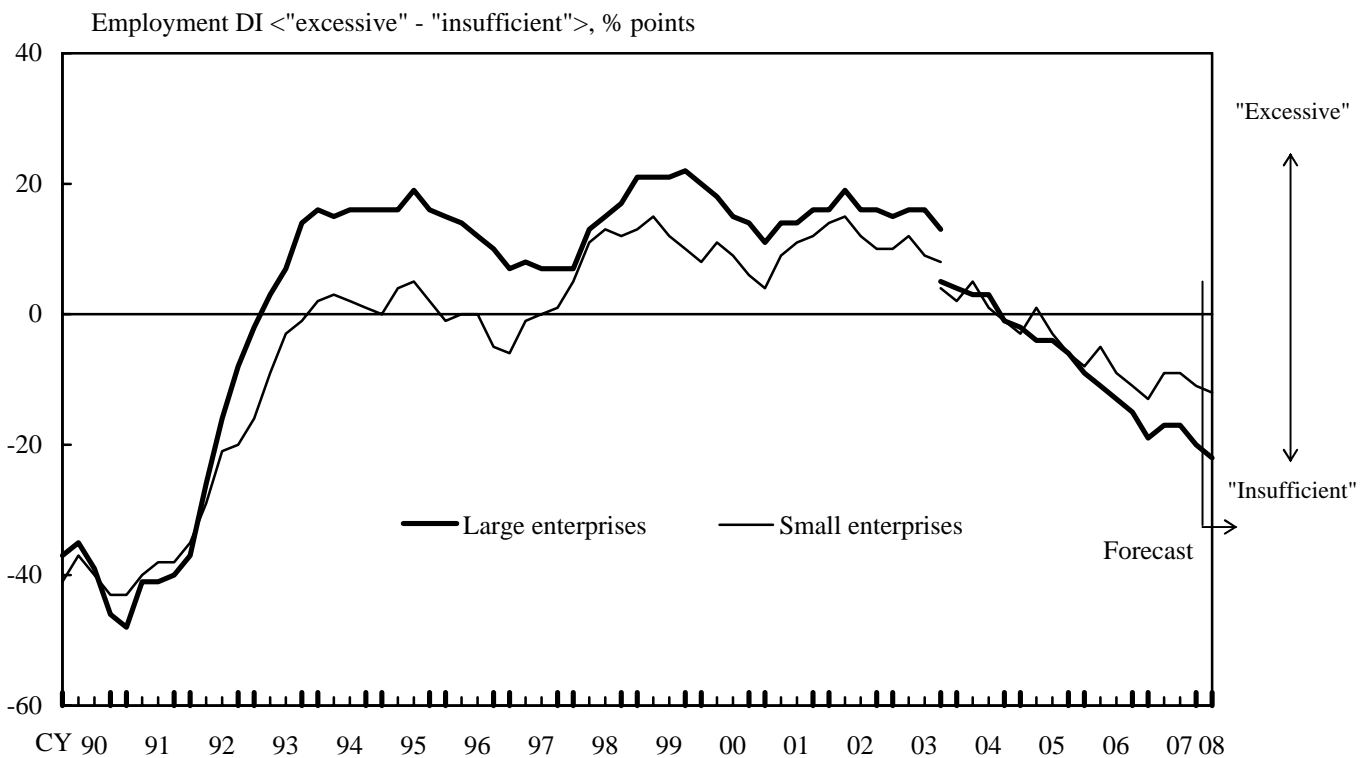
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

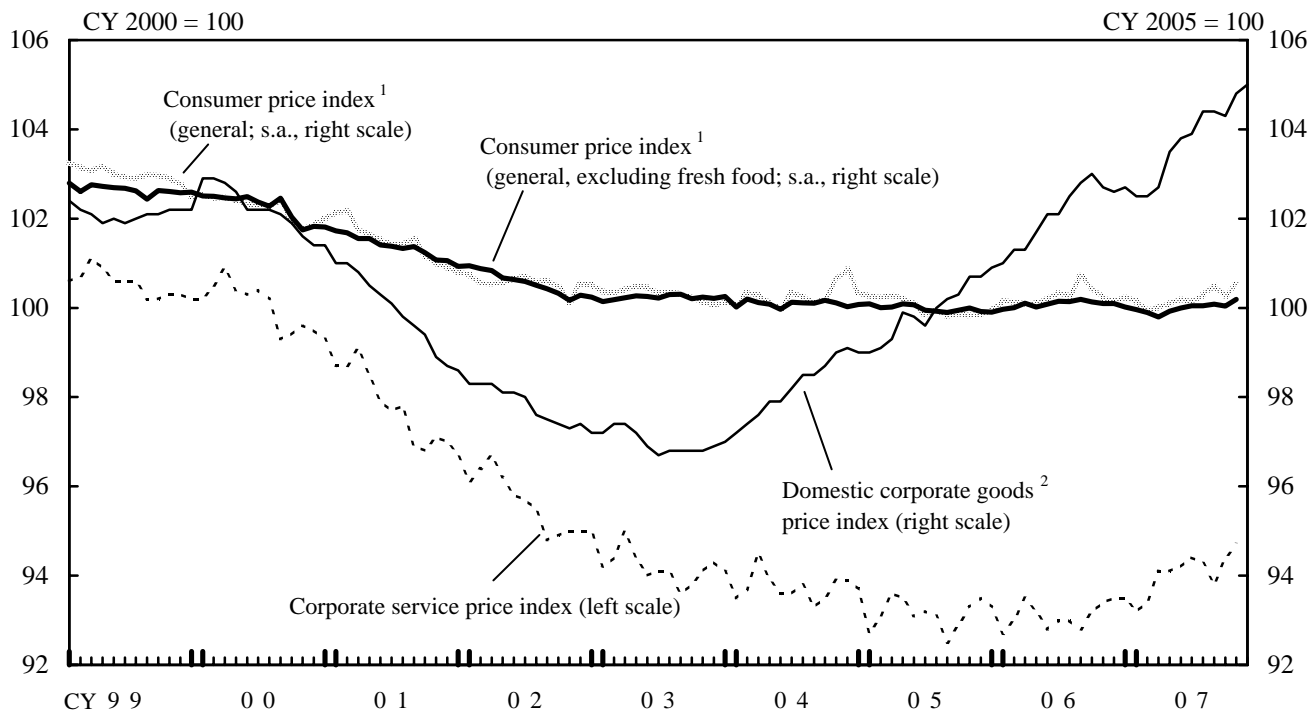


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

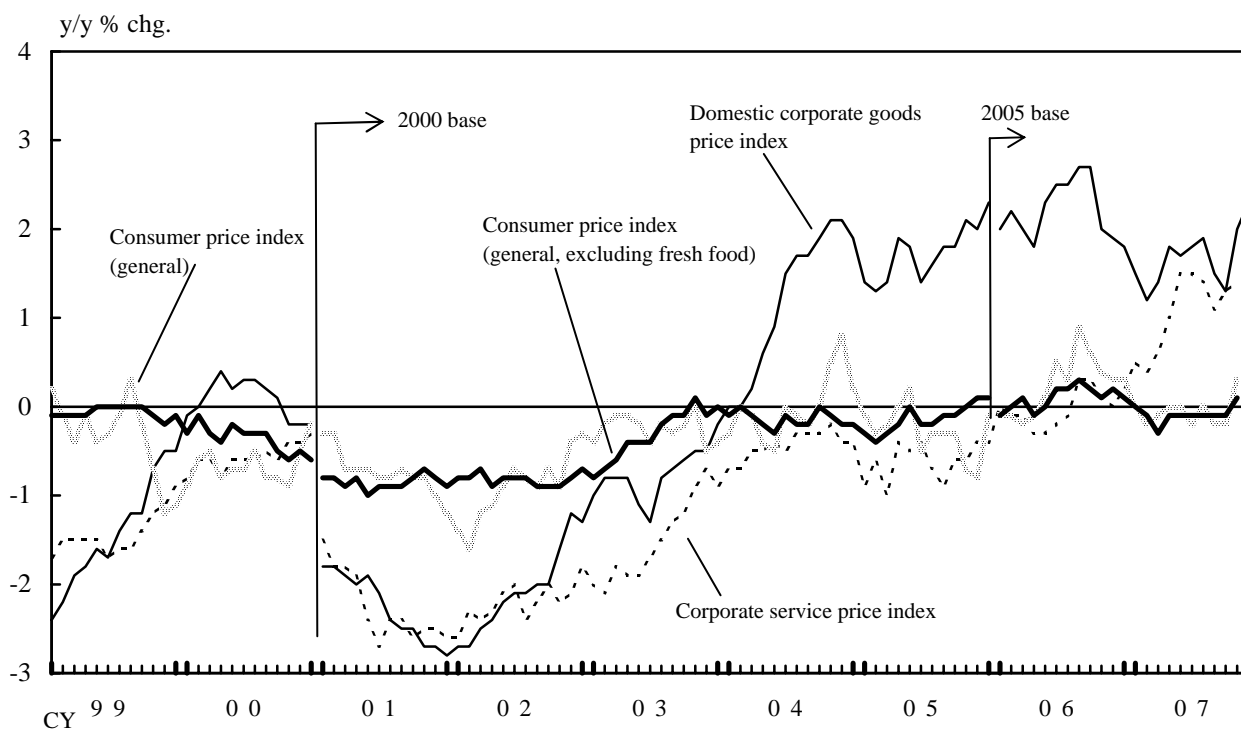
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Prices³

(1) Level



(2) Changes from a Year Earlier³



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

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

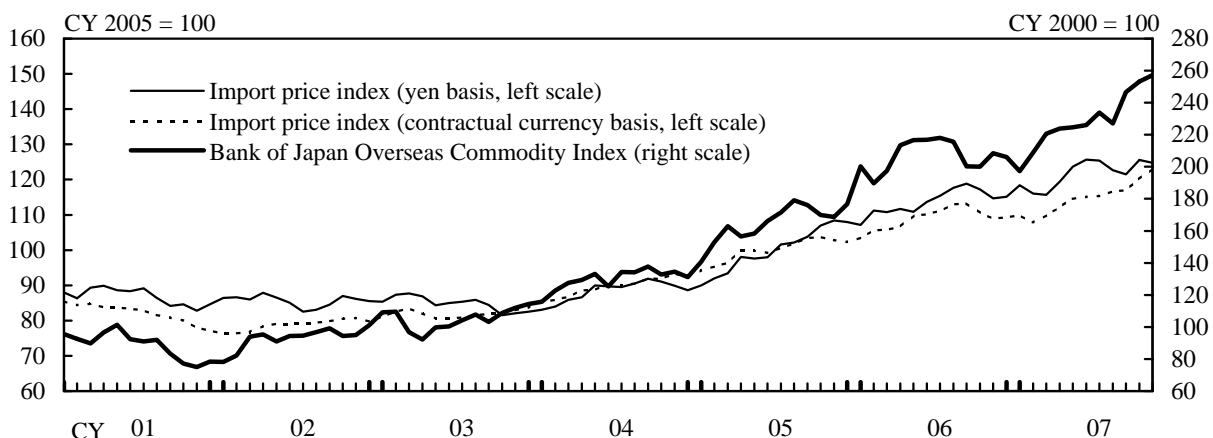
3. The base year of Domestic Corporate Goods Price Index has been switched from the 2000 base to the 2005 base. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

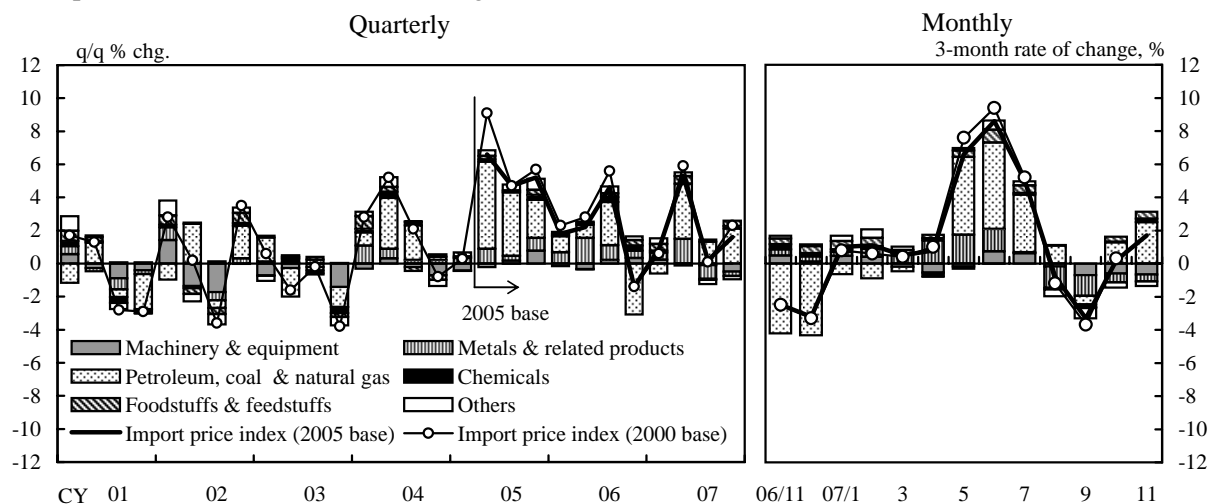
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



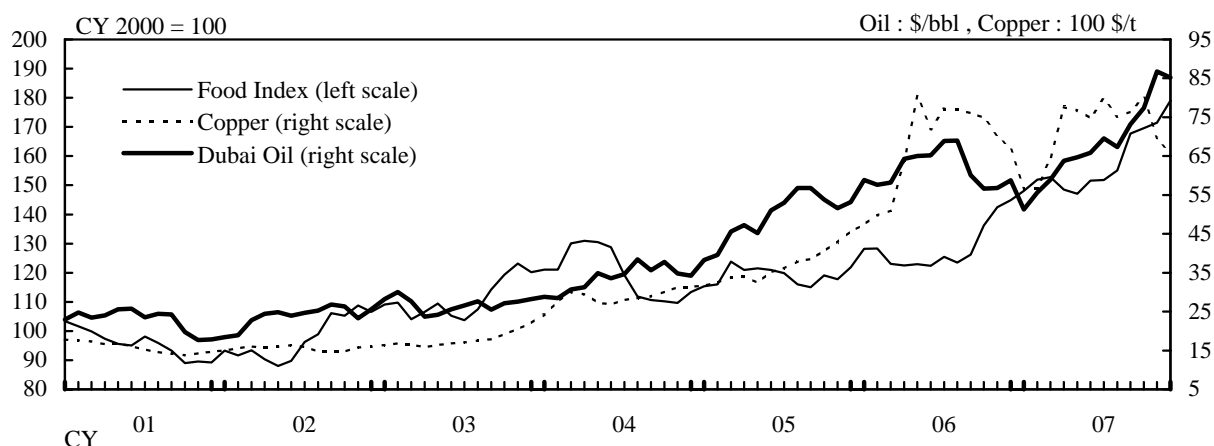
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments
 2. Figures for 2007/Q4 are October-November averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

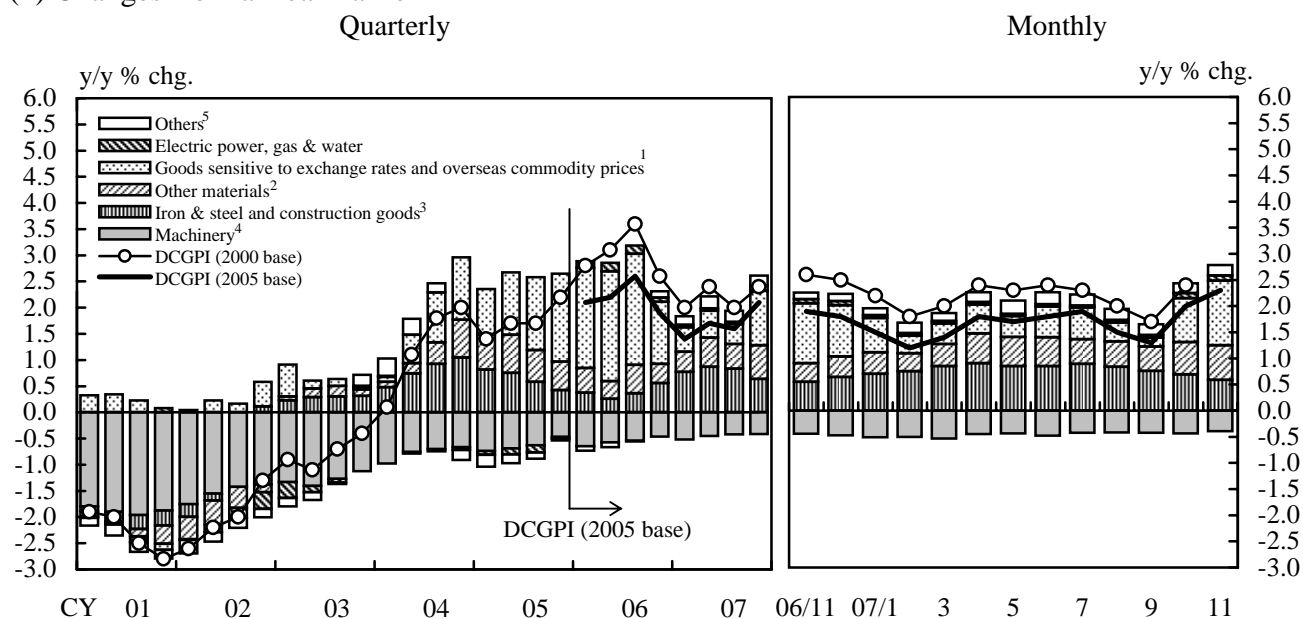
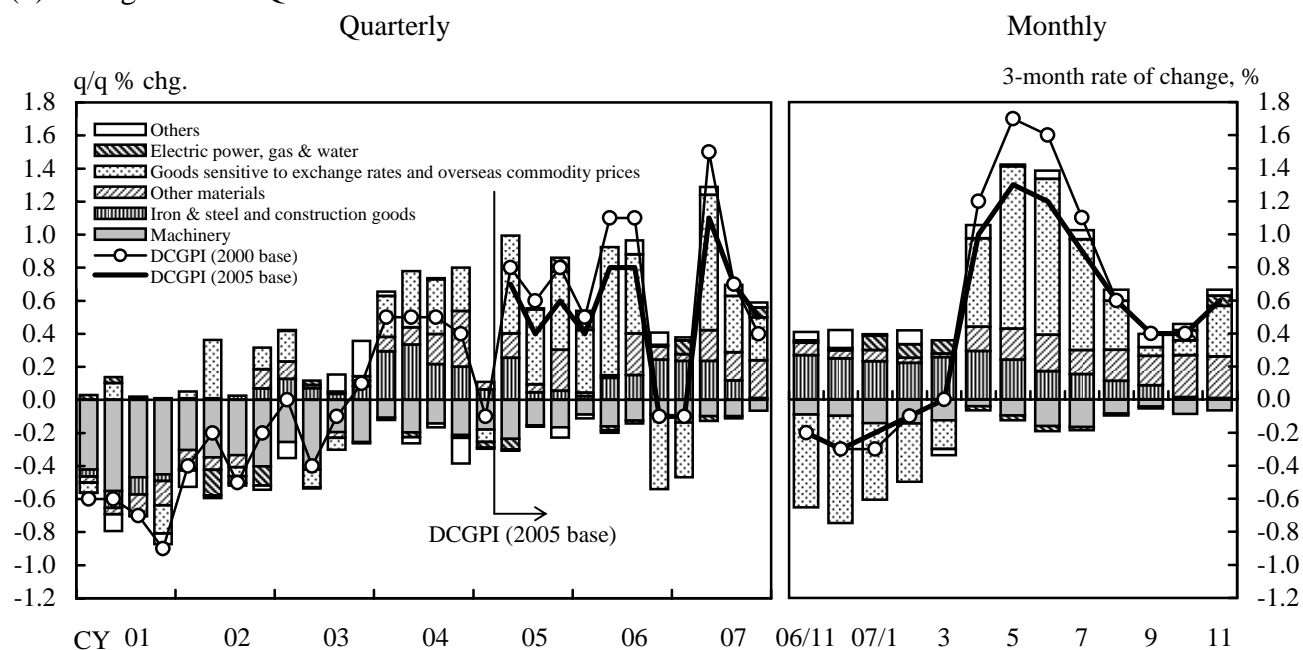


Notes: 1. The Food Index is the weighted average of prices of six selected items (wheat, soybeans, corn, sugar, coffee, live cattle) in overseas commodity markets. The weights are based on the value of imports in 2000 reported in "Japan Exports & Imports."
 2. Monthly averages. Figures for December 2007 are the averages up to December 19.

Source: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index." Japan Tariff Association, "Japan Exports & Imports", etc.

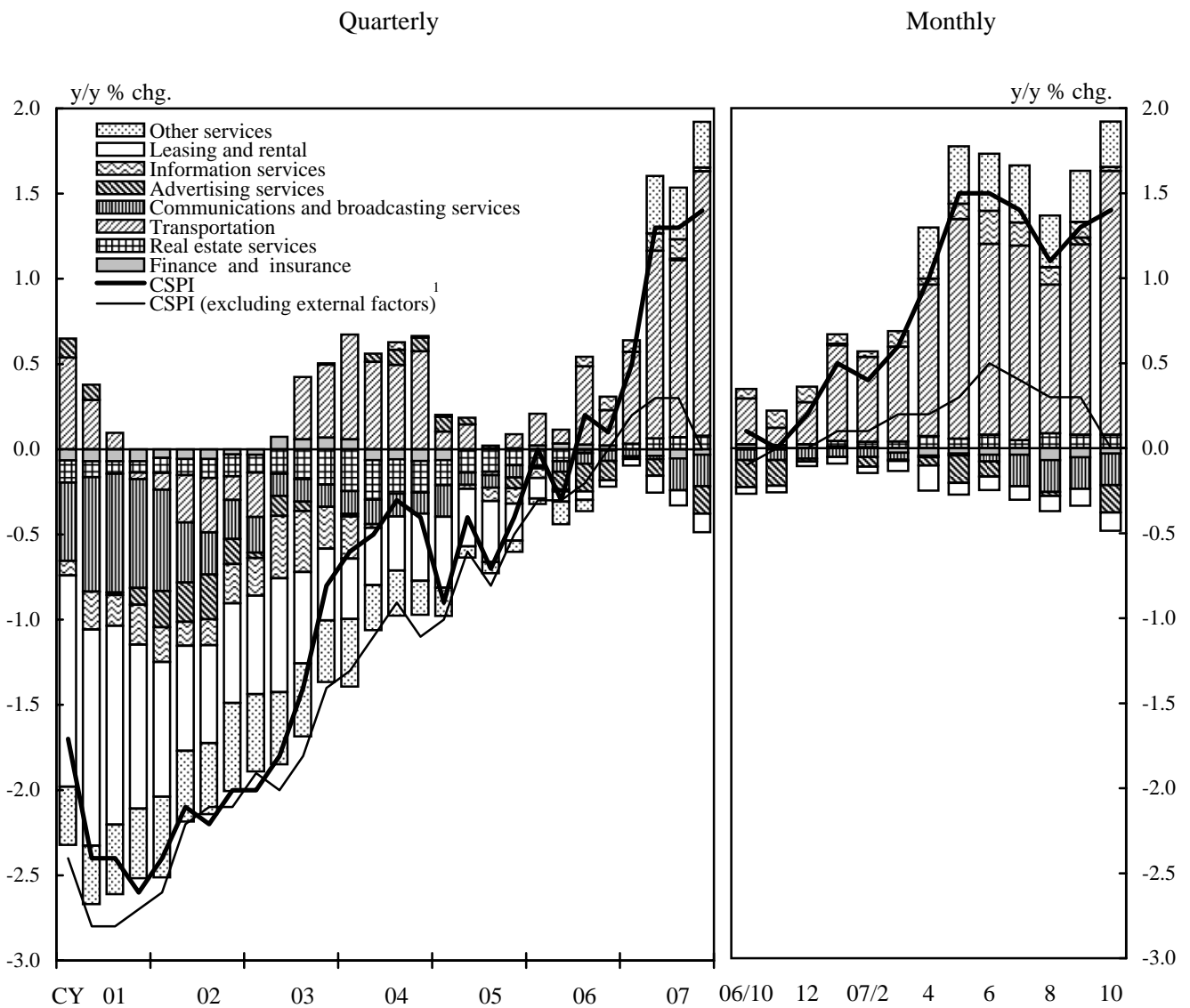
Domestic Corporate Goods Price Index⁷

(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, information & communications equipment, electronic components & devices, 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/Q4 are October-November averages. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Service Price Index



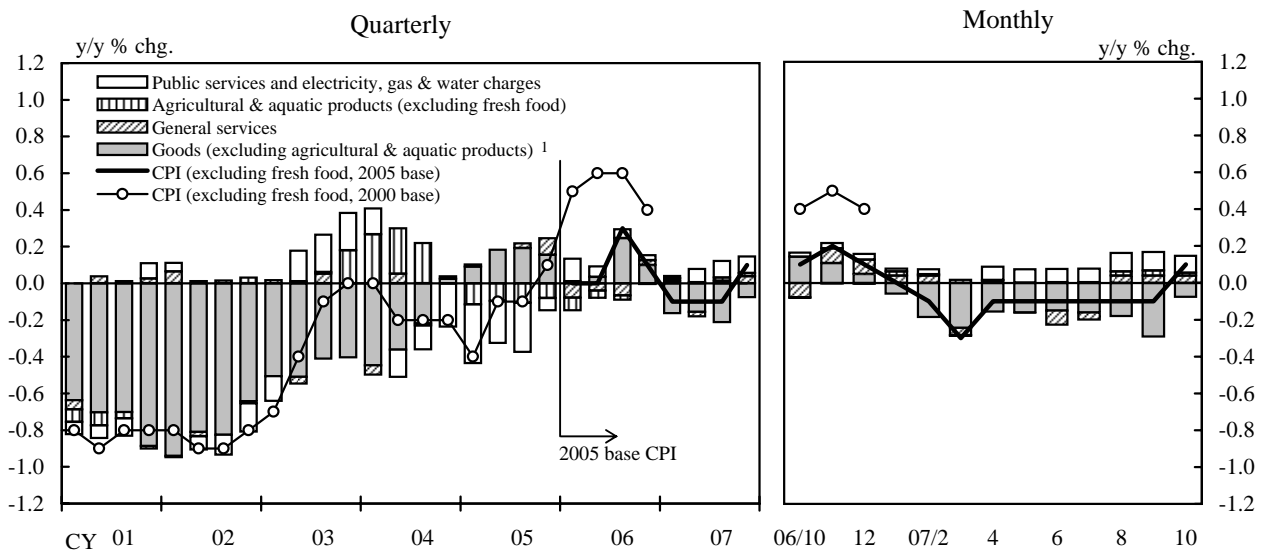
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2007/Q4 are those of October.

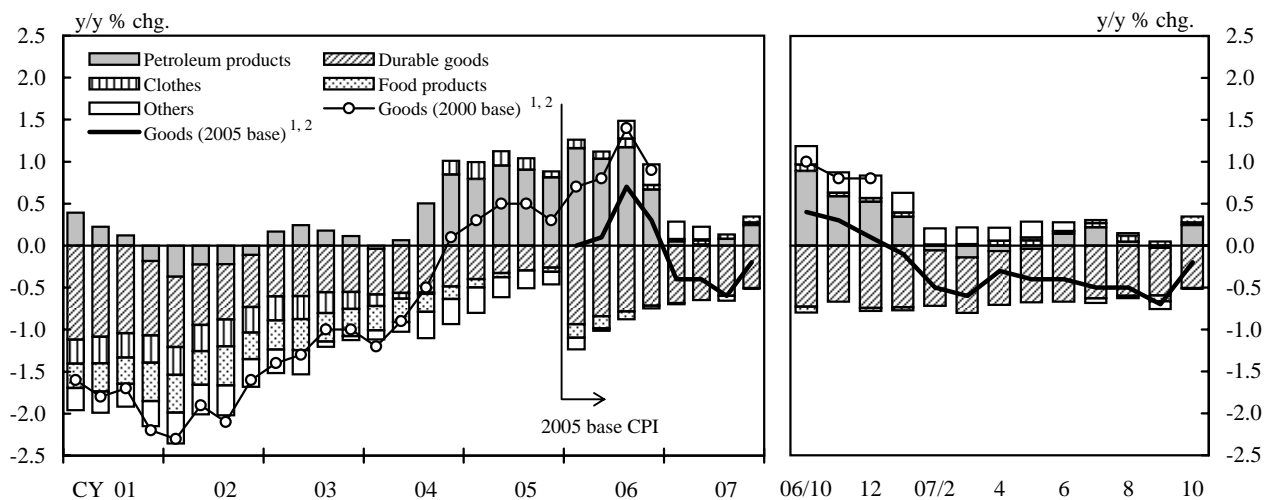
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

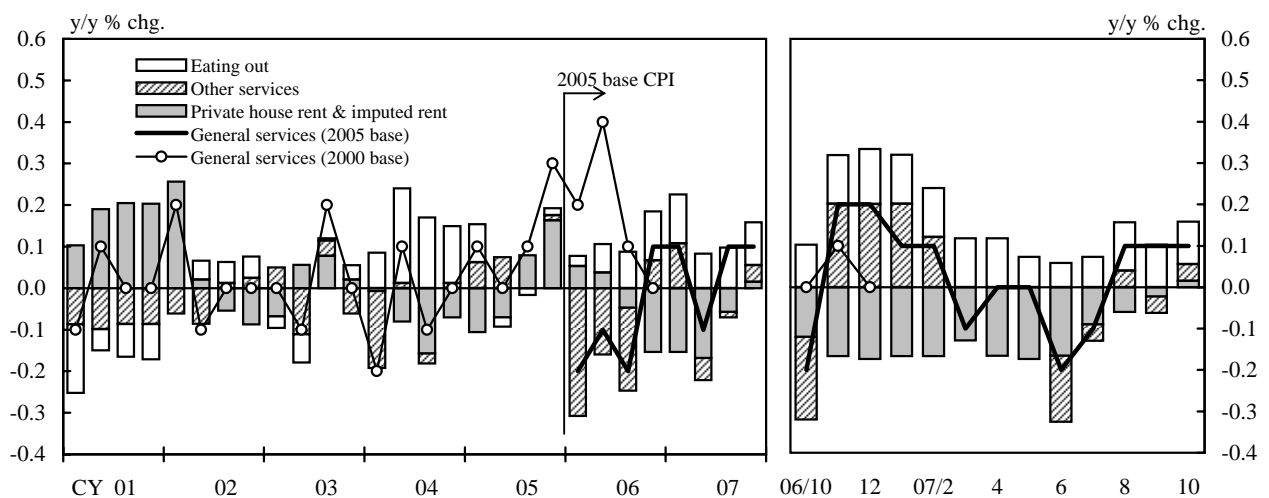
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



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

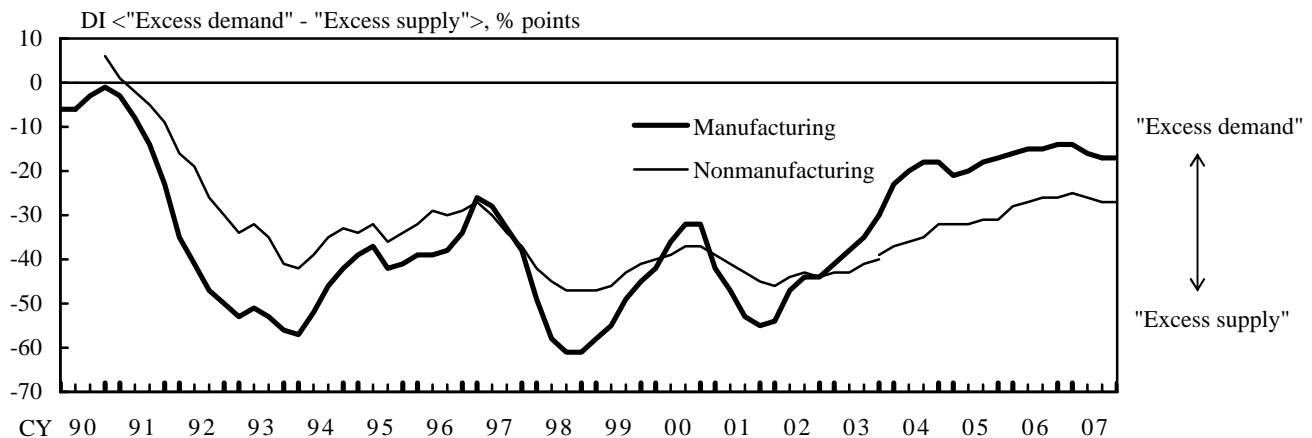
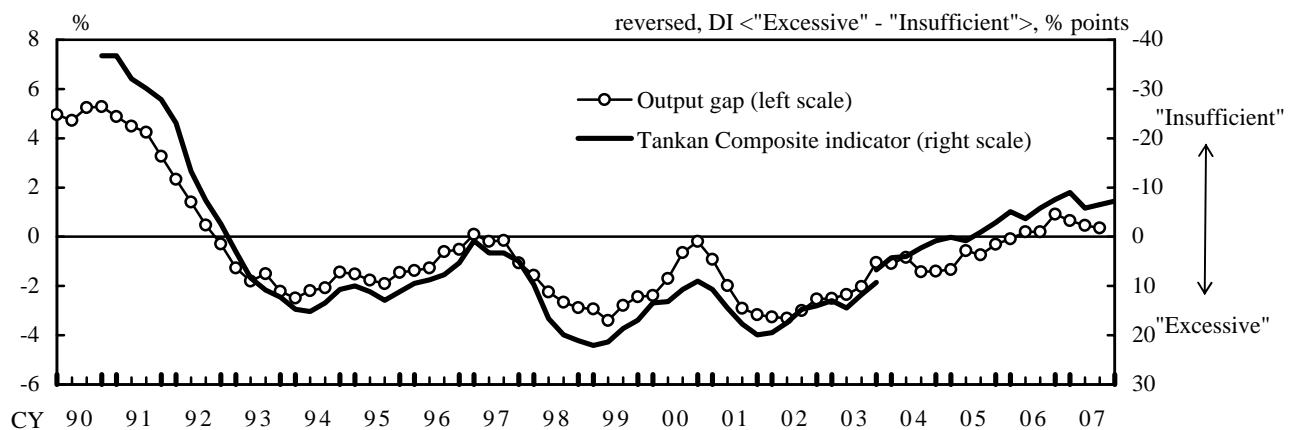
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q4 are those of October.

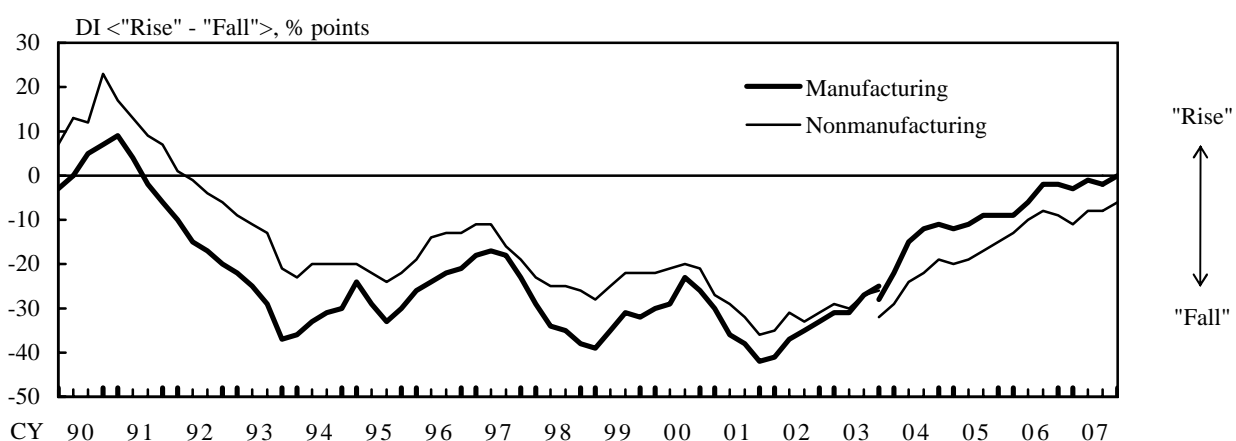
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

(2) *Tankan* Composite Indicator² (All Enterprises) and Output Gap³

(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.

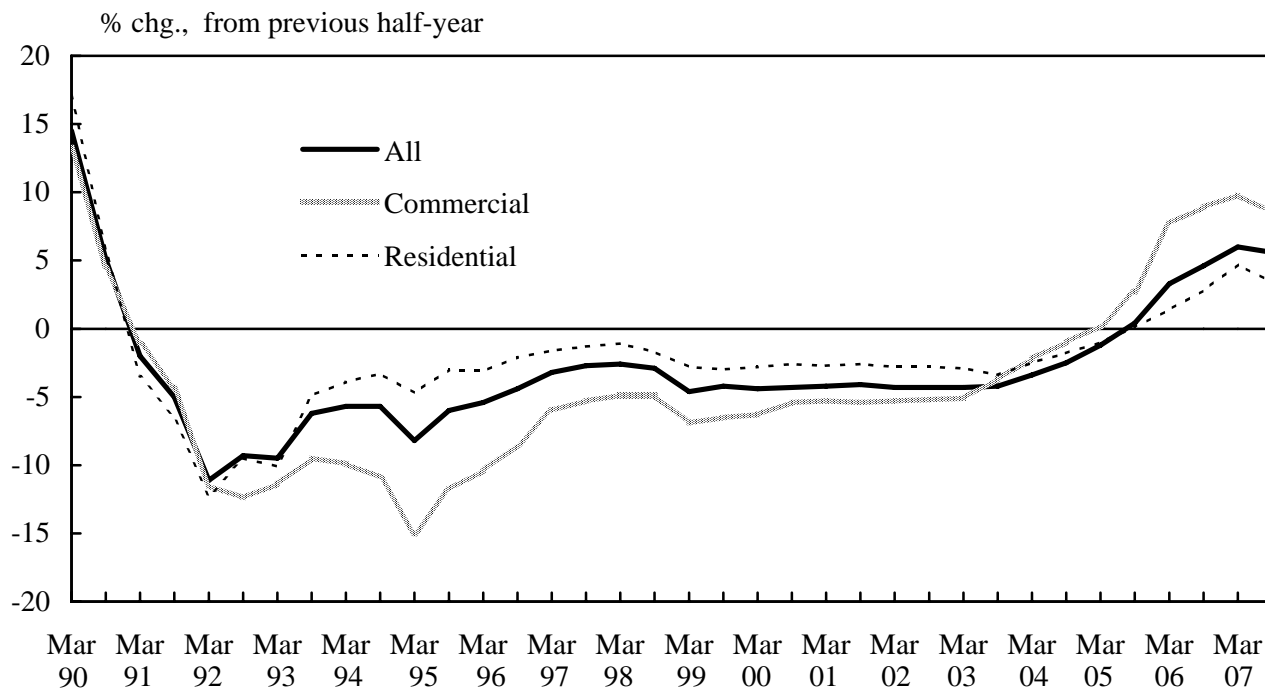
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

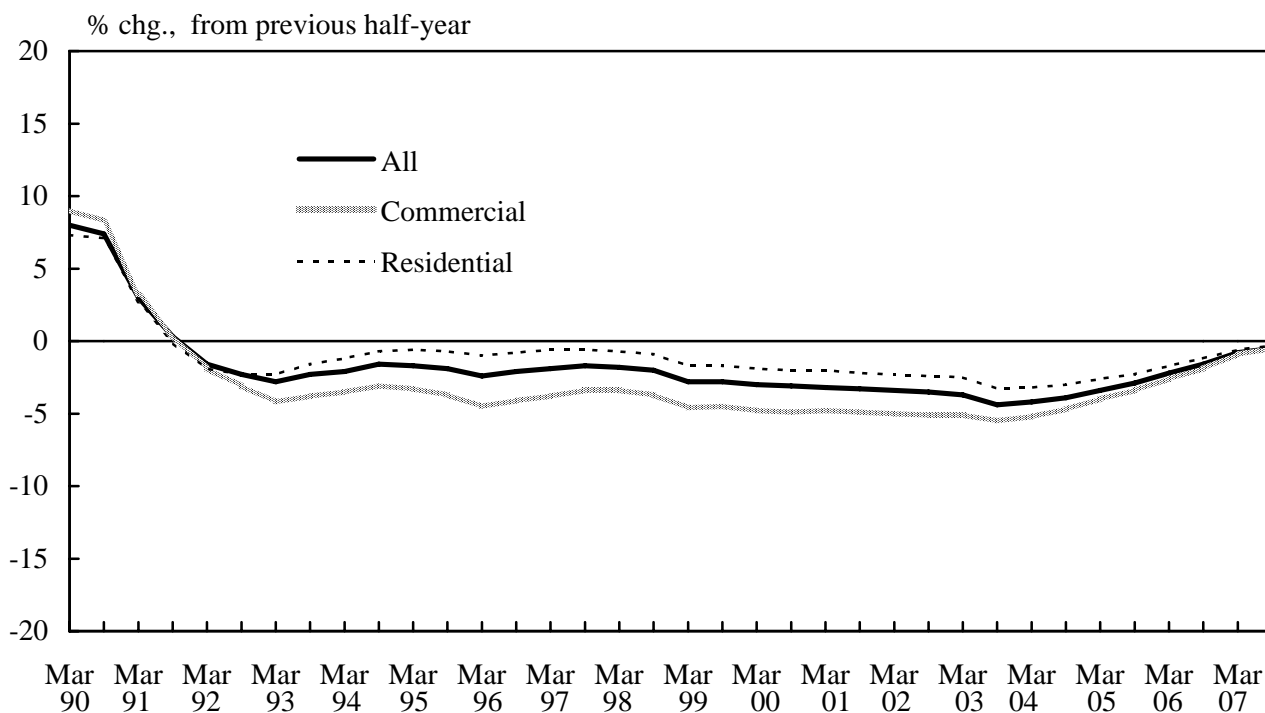
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

 Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas



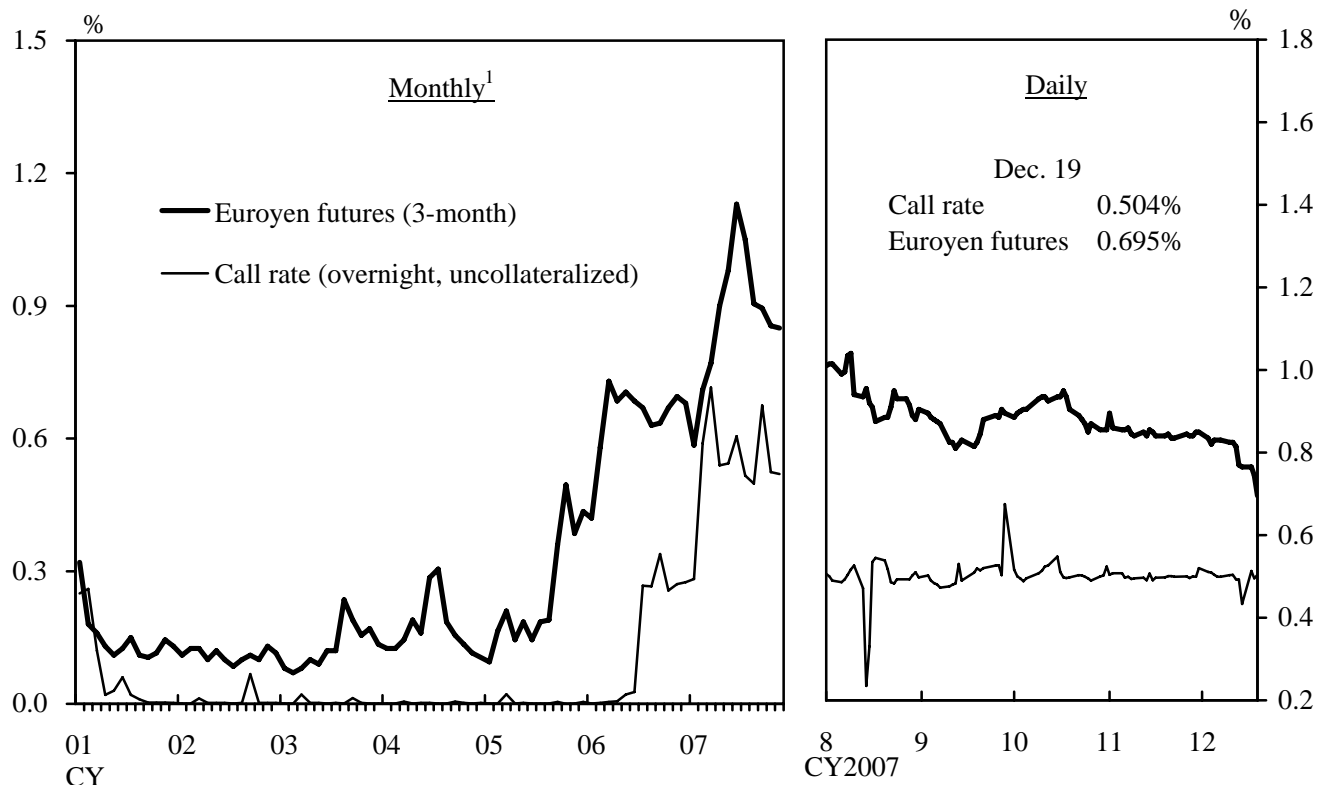
Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.

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

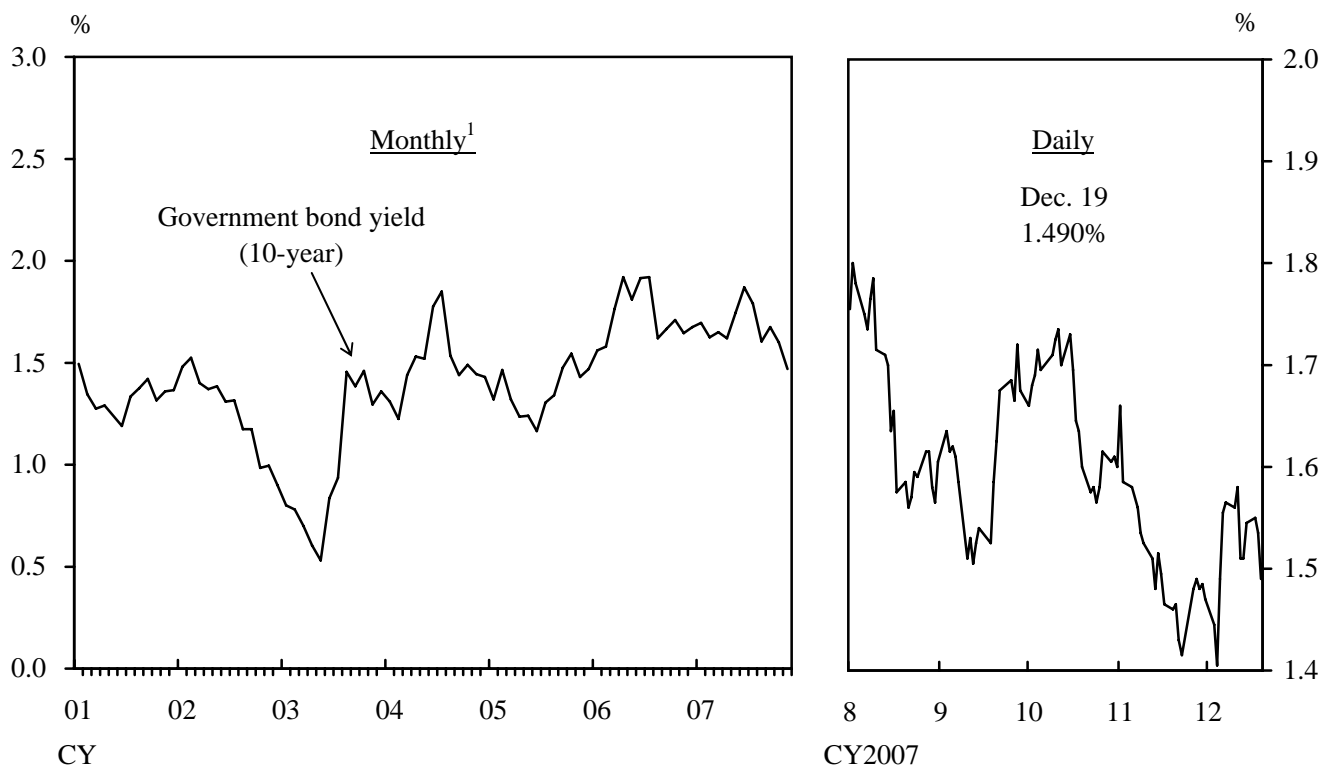
Source: Japan Real Estate Institute, "Urban Land Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

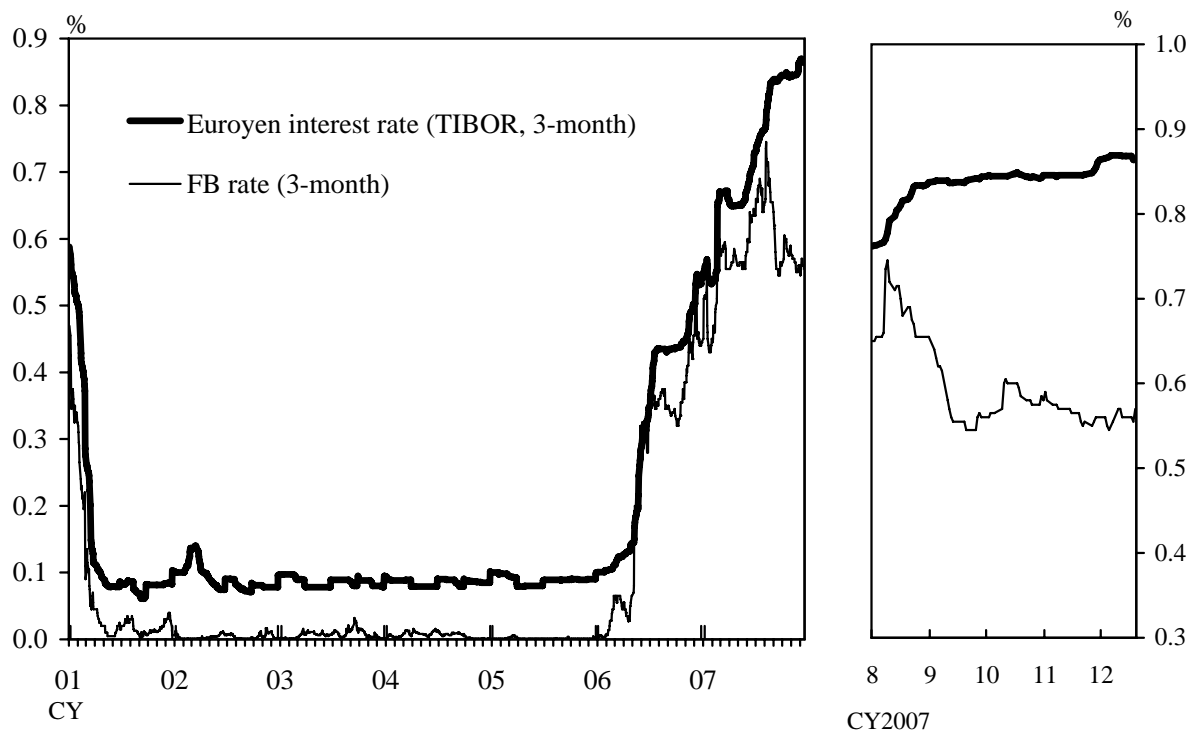


Note: 1. End of month.

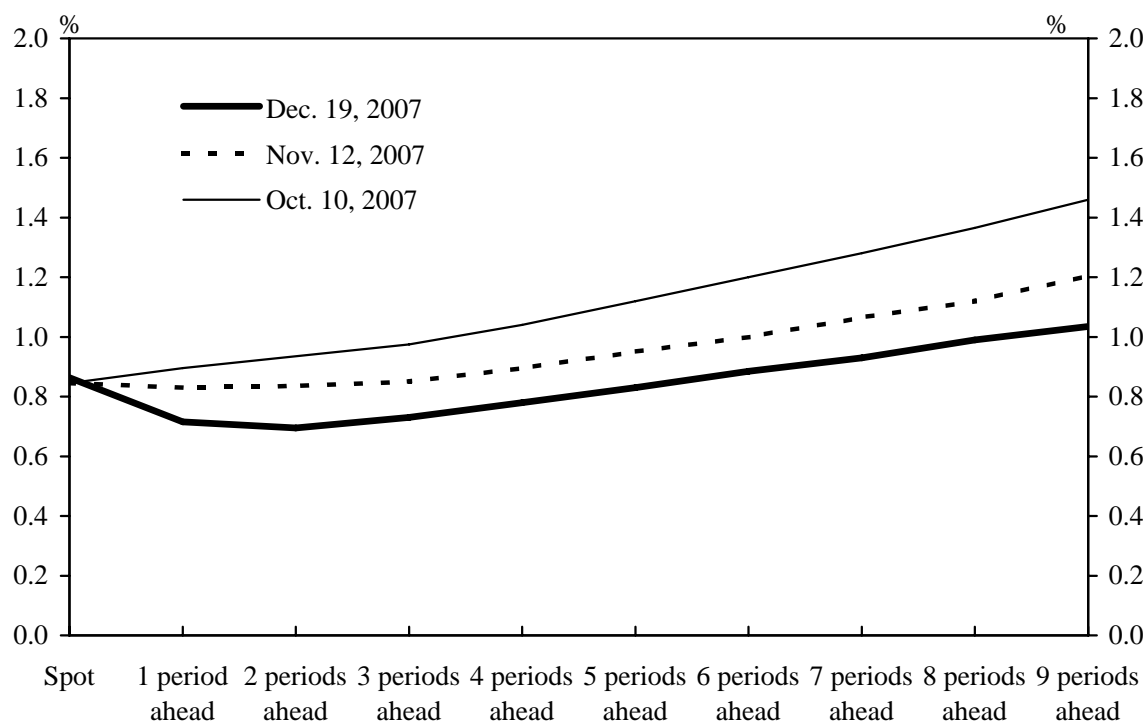
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



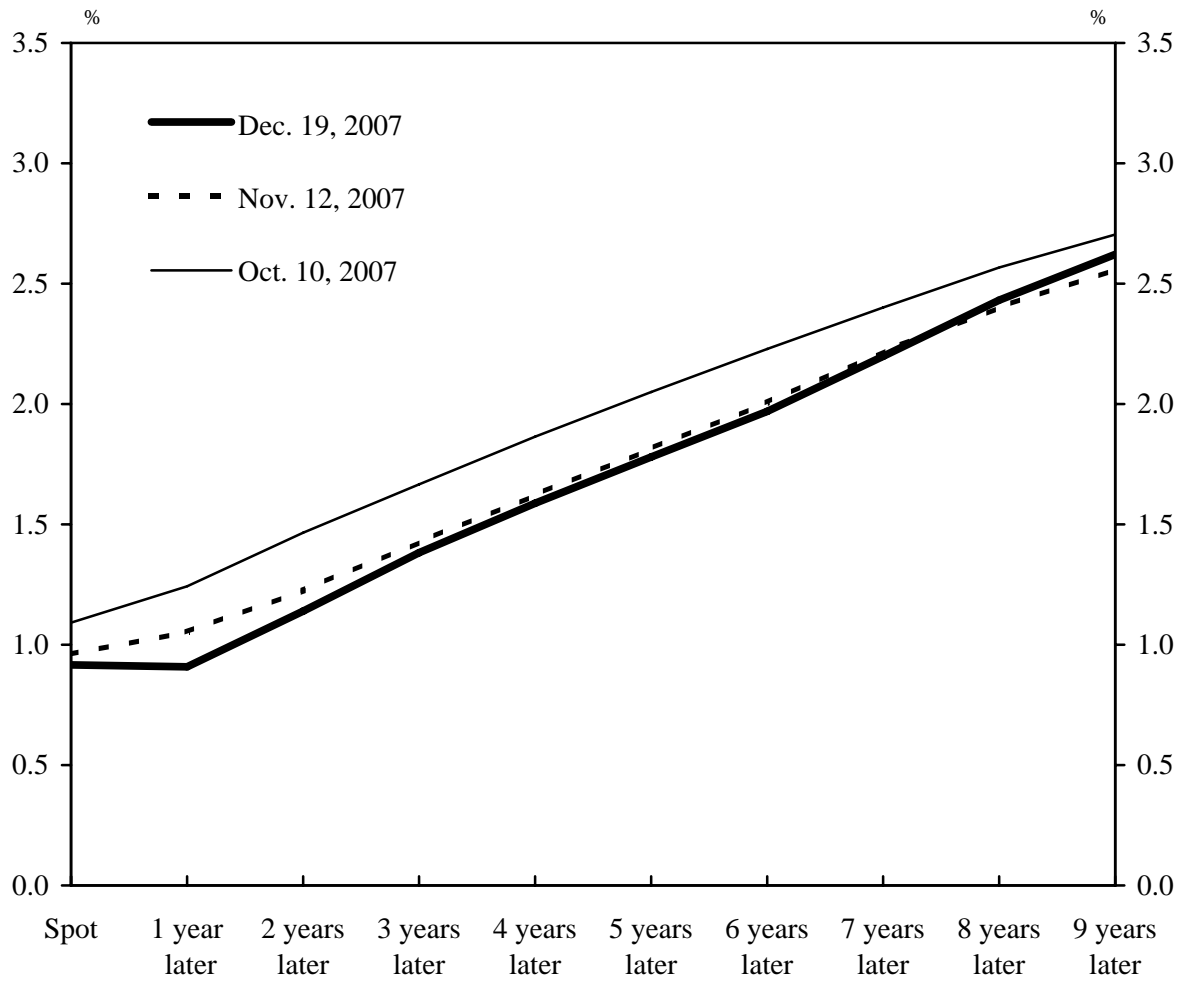
(2) Euroyen Interest Rates Futures (3-Month) ¹



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

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

Implied Forward Rates (1-Year)

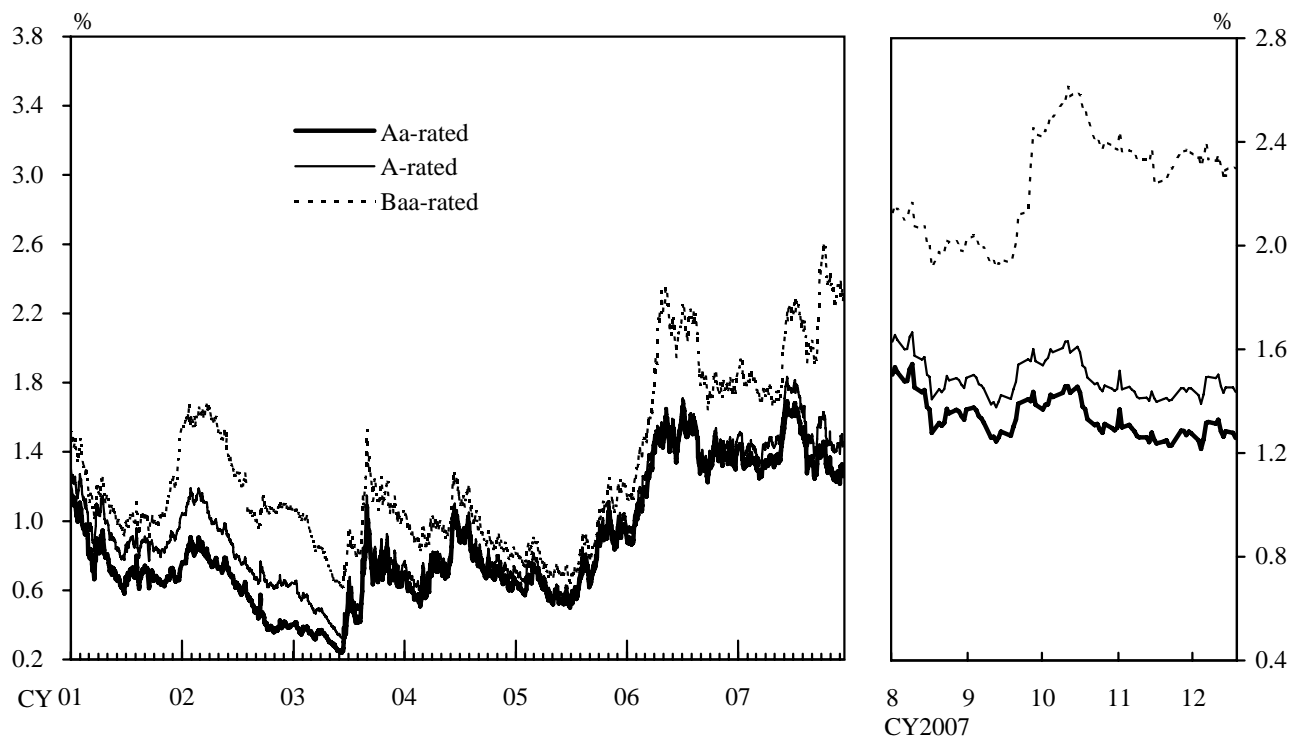


Note: Calculated from yen-yen swap rates.

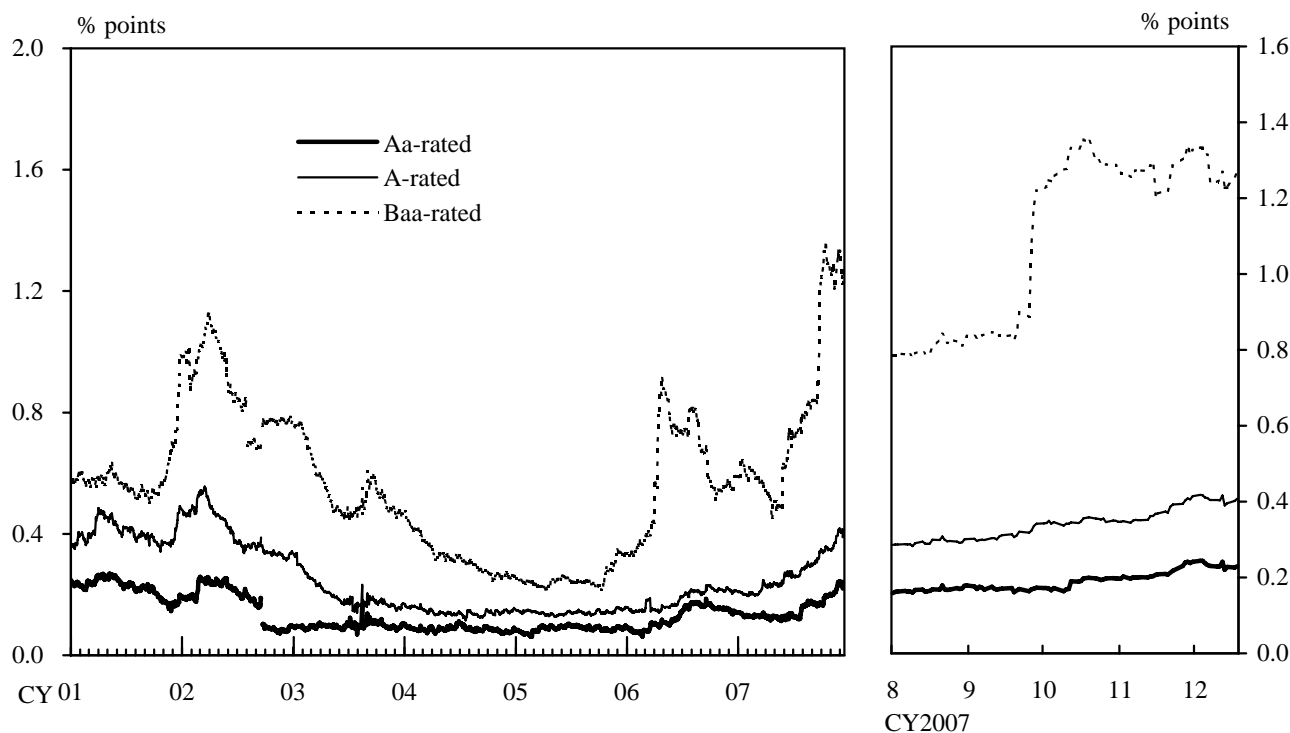
Source: Reuters.

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.

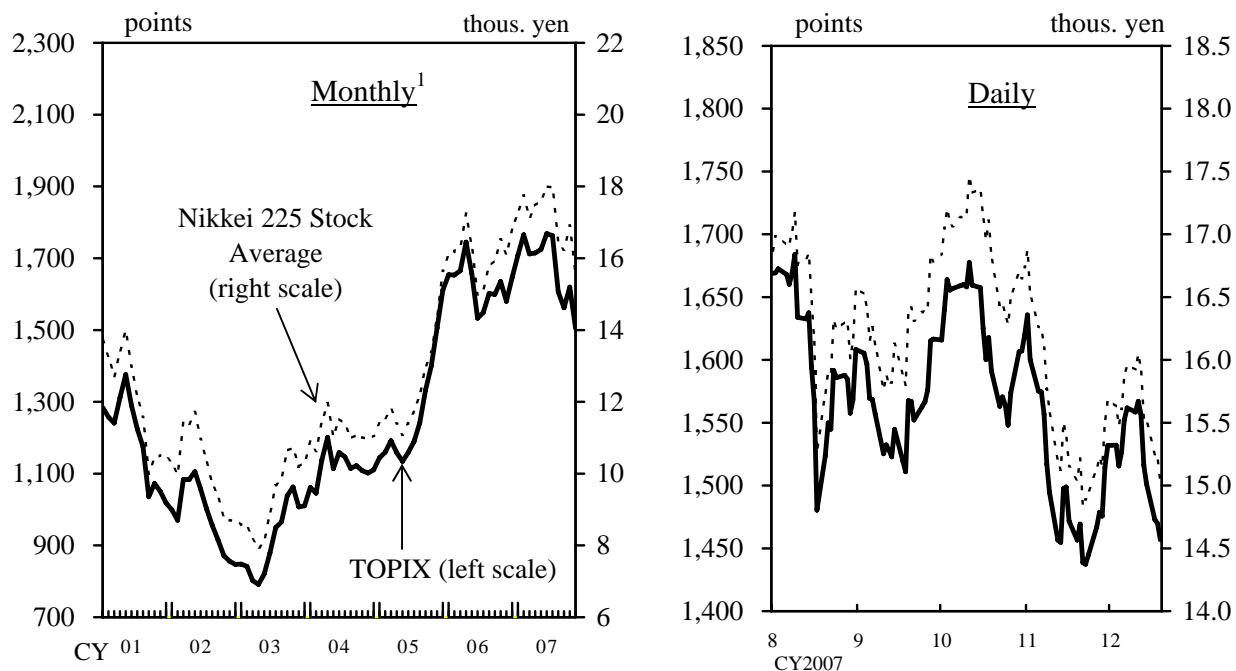
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

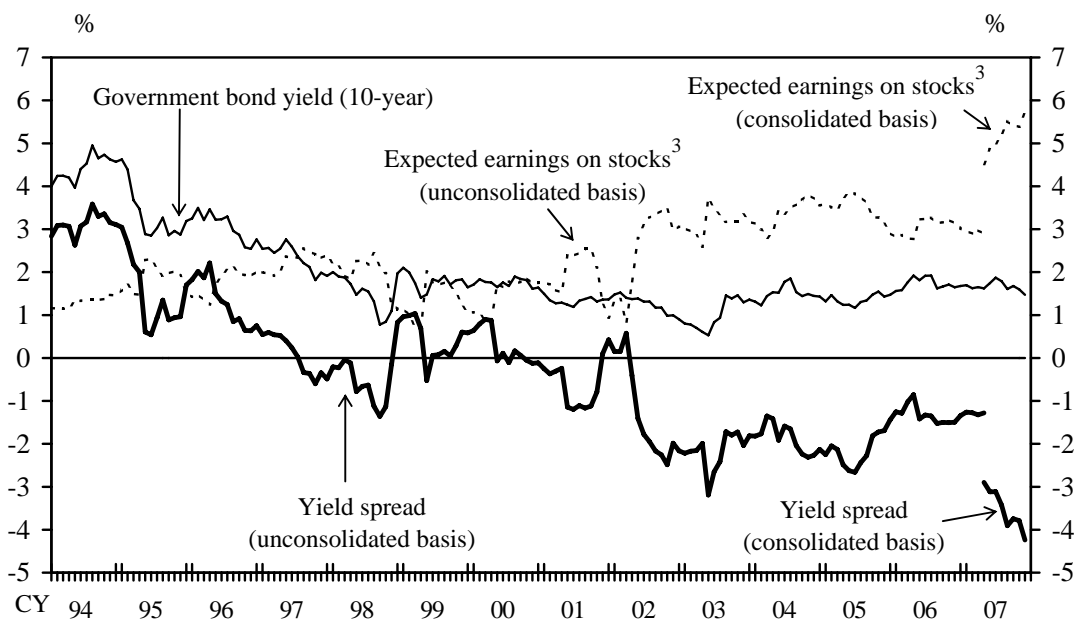
Sources: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations." "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread ^{2, 4}



Notes: 1. Data are monthly averages.

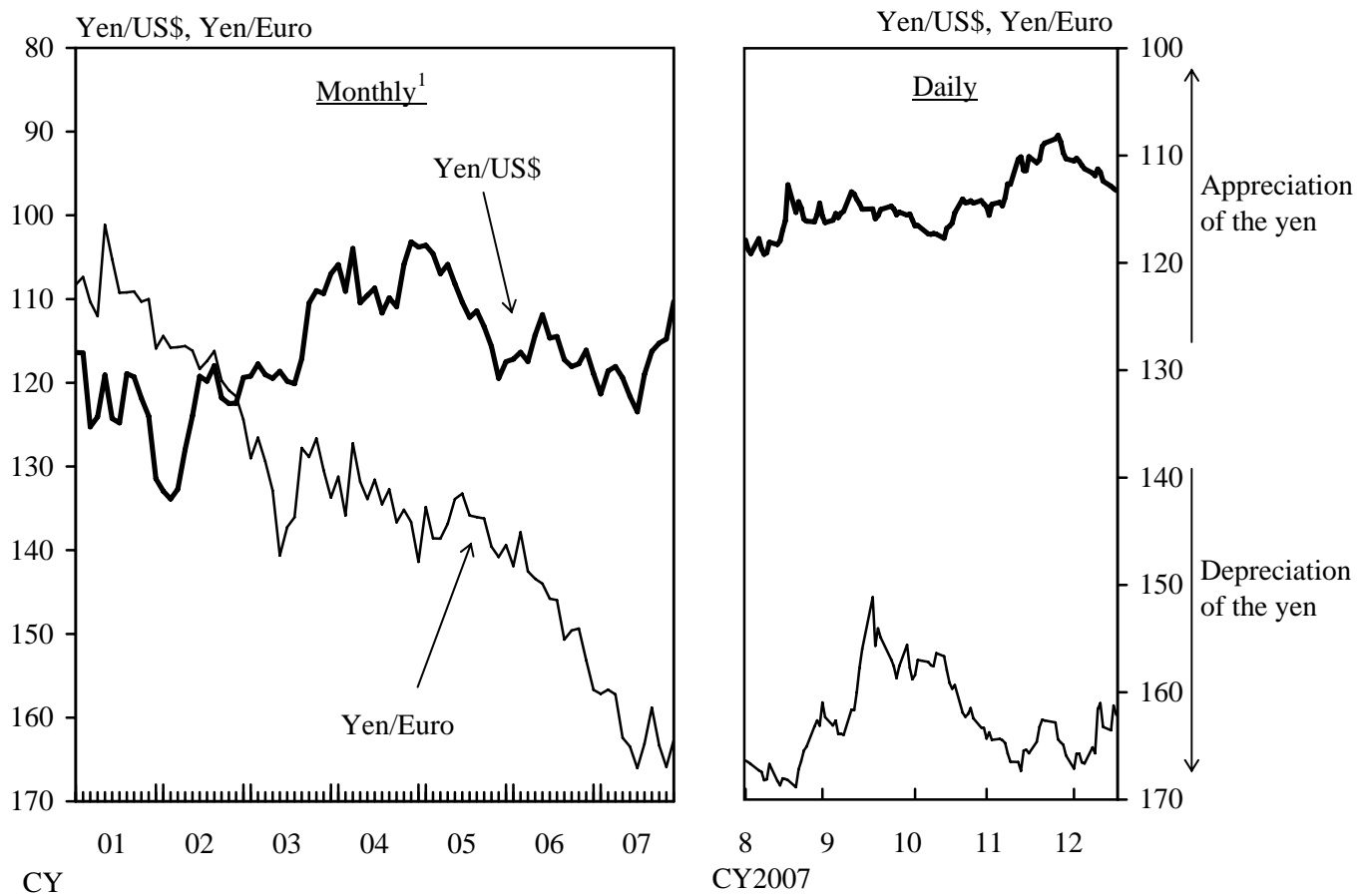
2. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

3. Based on stocks listed on the TSE First Section. Excludes bank stocks. Data are calculated by Daiwa Institute of Research.

4. Data are at end of period. Figures except for the government bond yield are on an unconsolidated basis up to April 2007, and on a consolidated basis from April 2007.

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

Exchange Rates

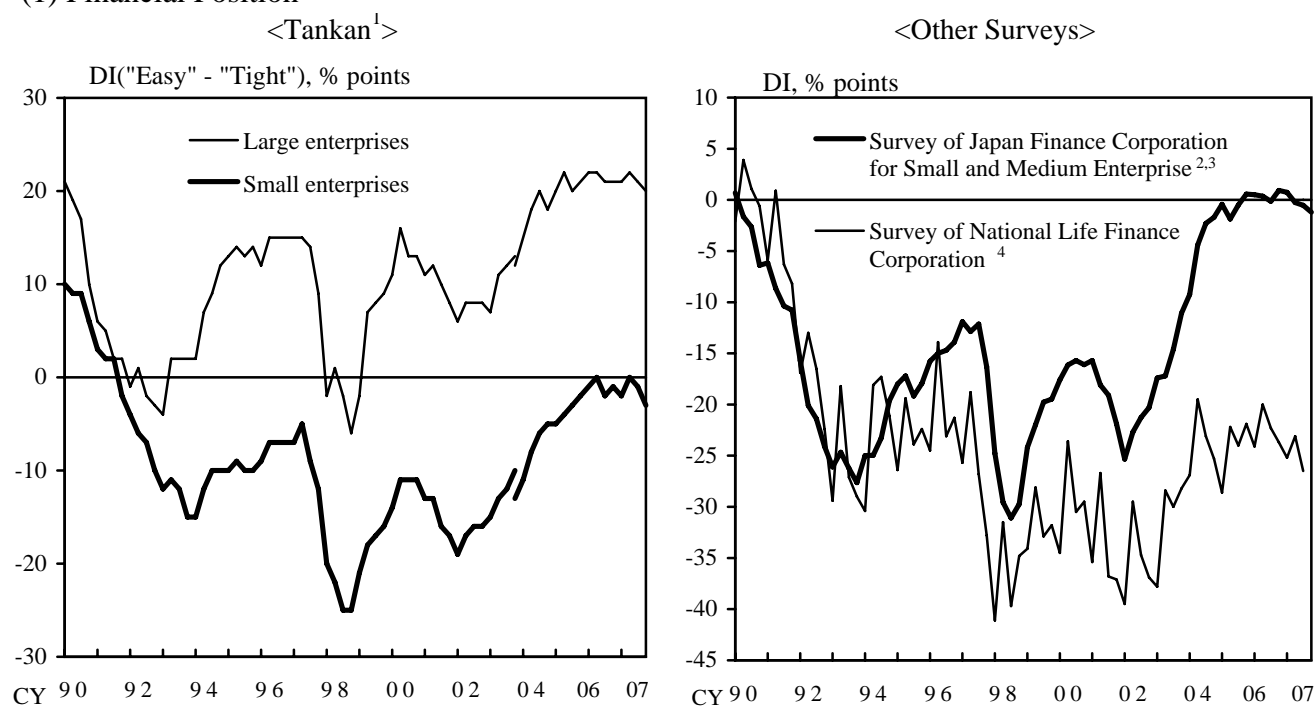


Note: 1. End of month.

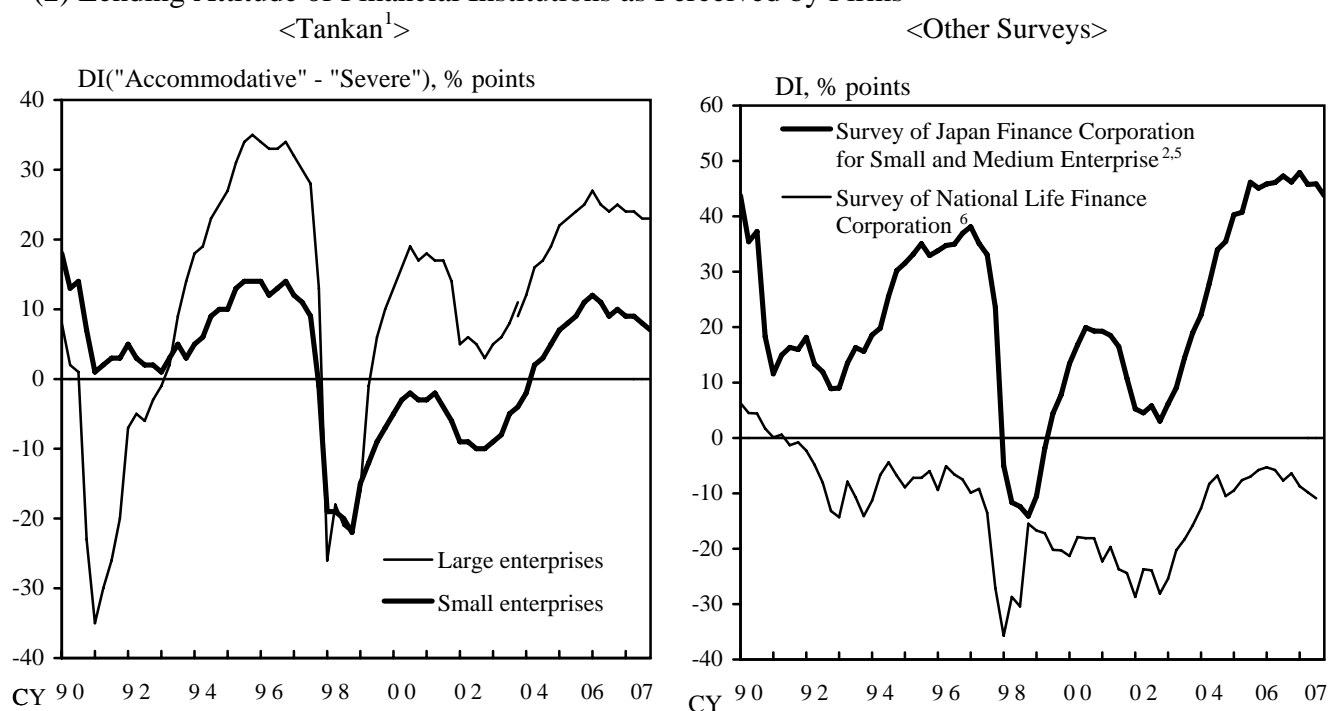
Source: Bank of Japan.

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. Figures for 2007/Q4 are those of Oct.-Nov. averages.

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

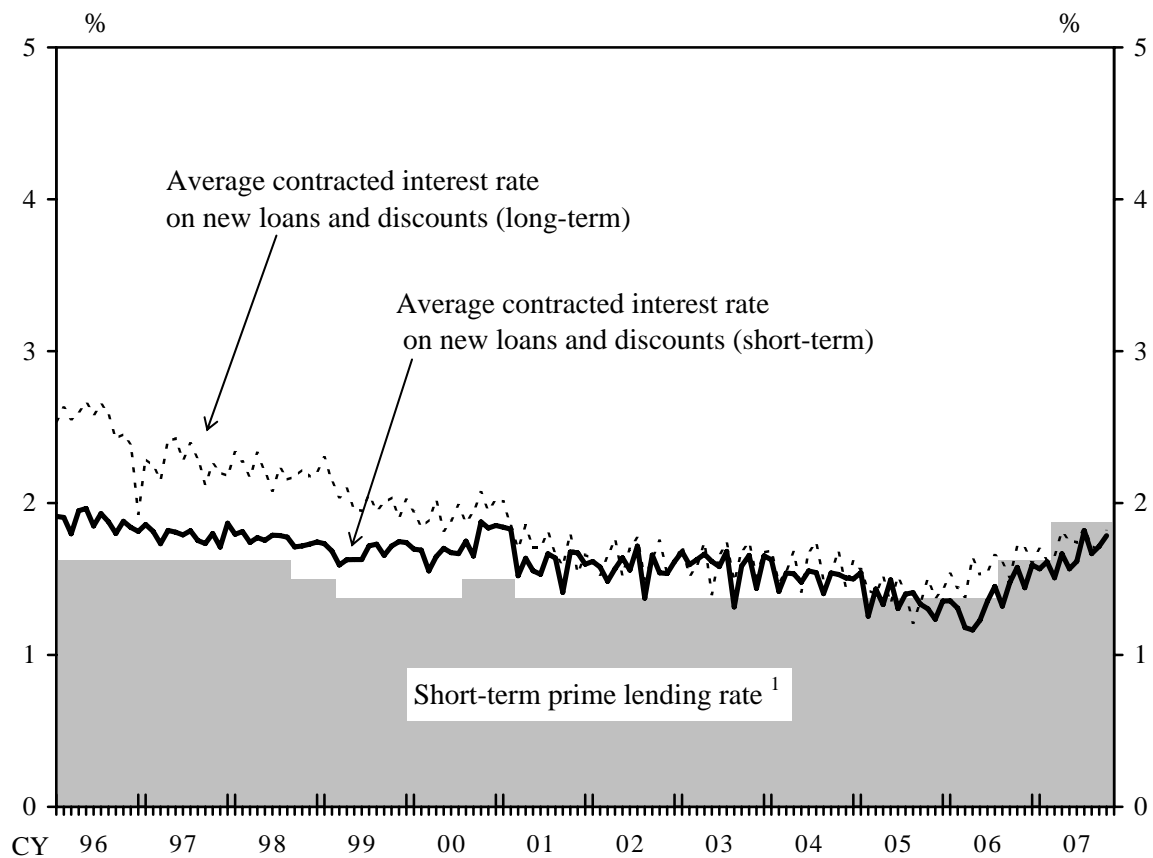
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

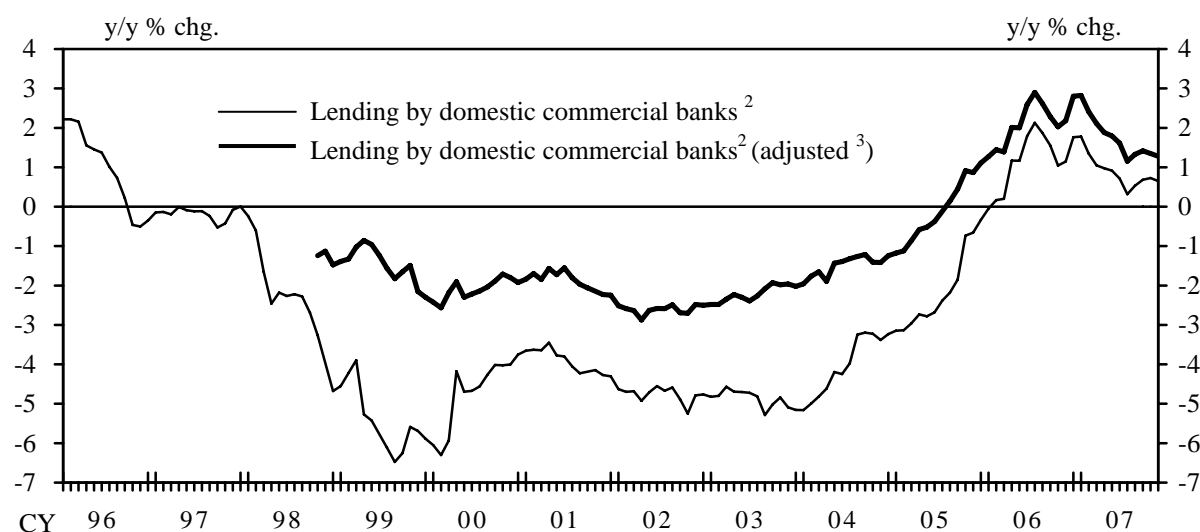


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



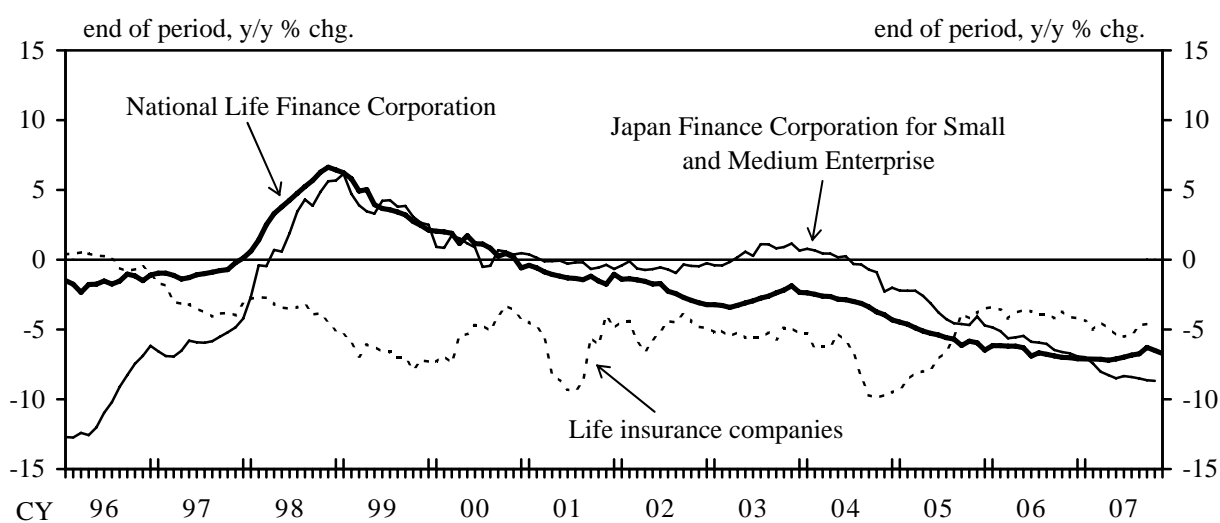
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

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

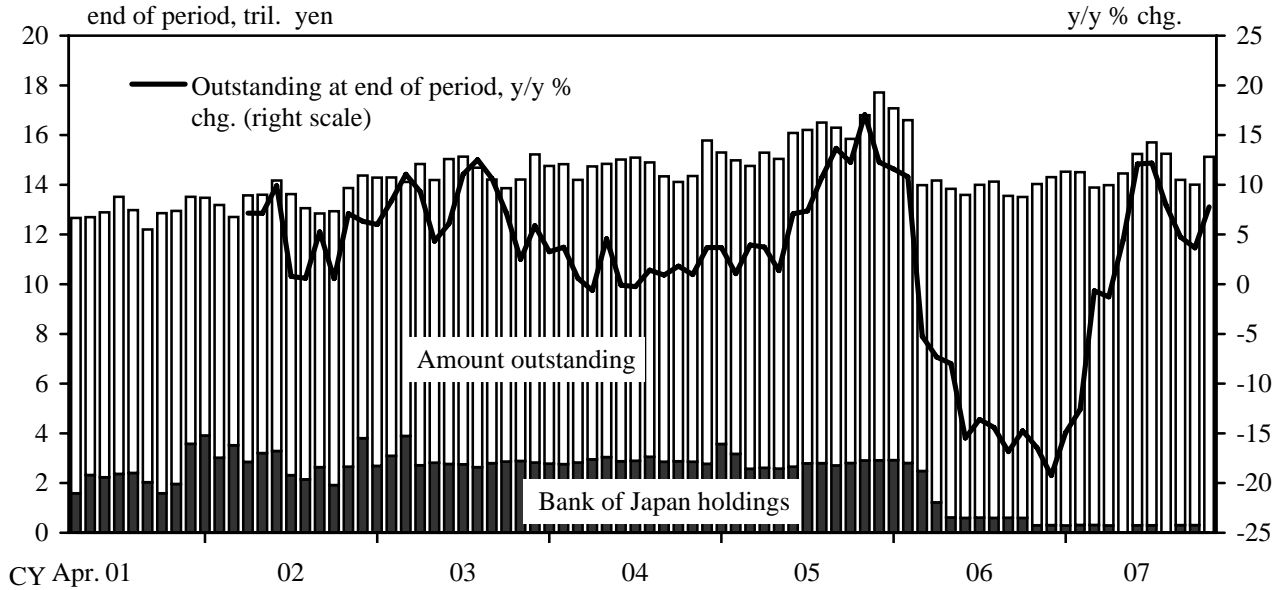
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

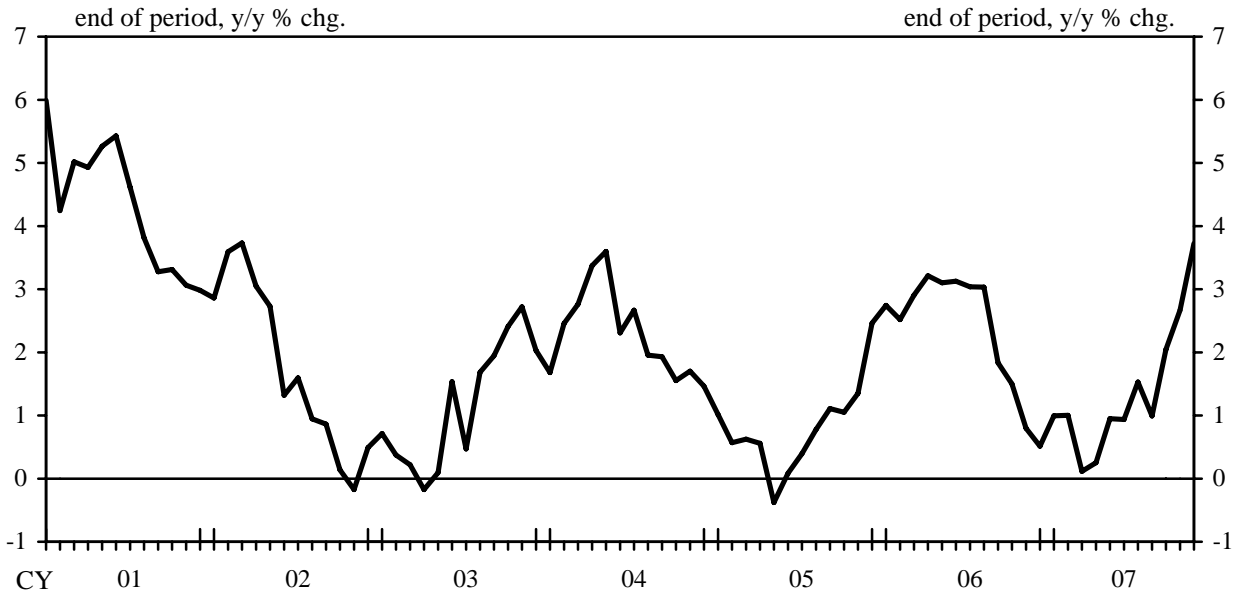
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

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

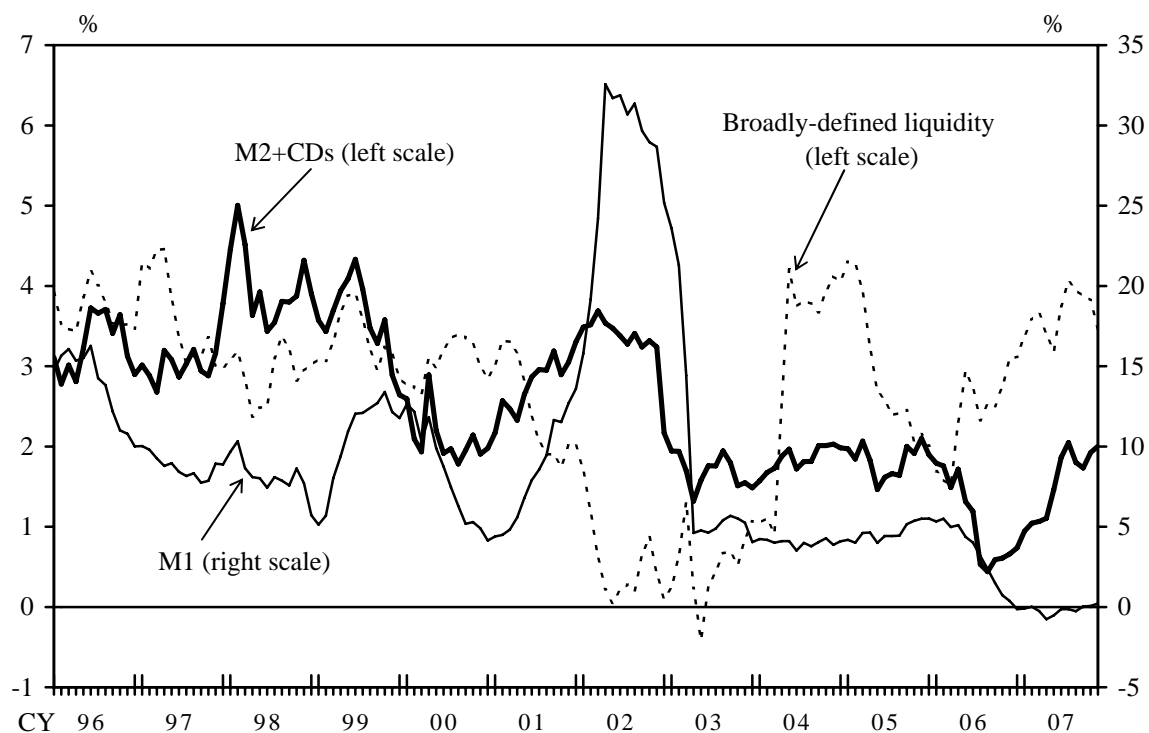


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

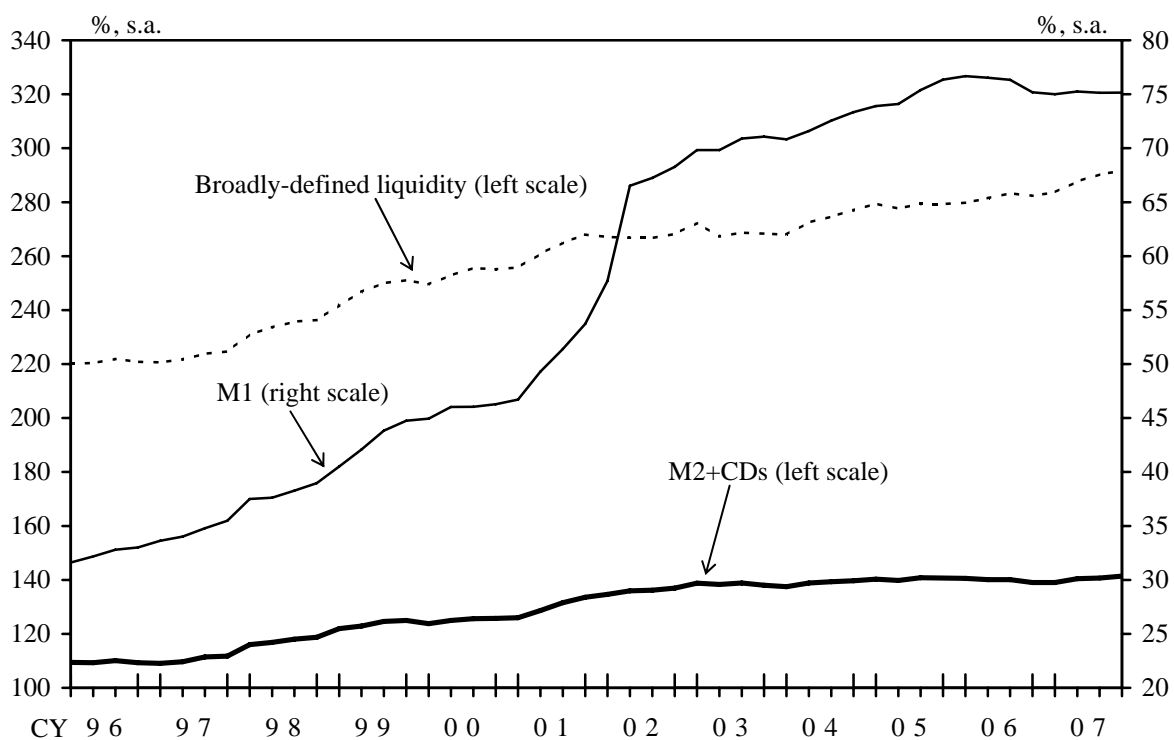
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

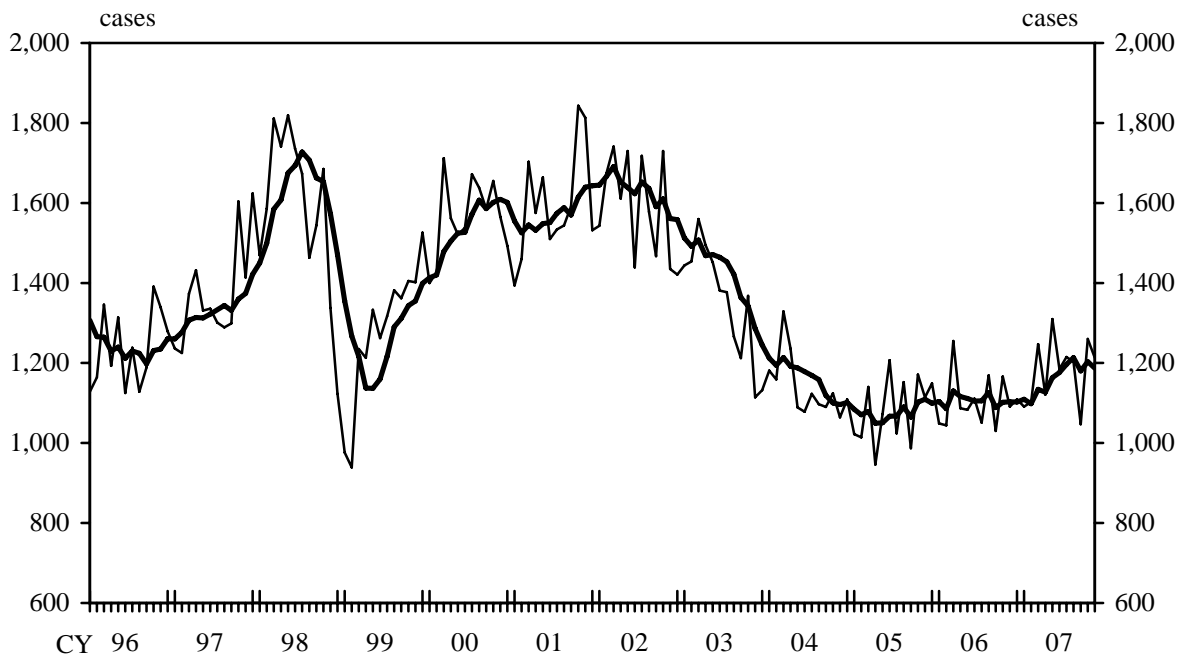


Note: Figures for money stock in 2007/Q4 are those of Oct.-Nov. averages, and the nominal GDP in 2007/Q4 is assumed to be unchanged from the previous quarter.

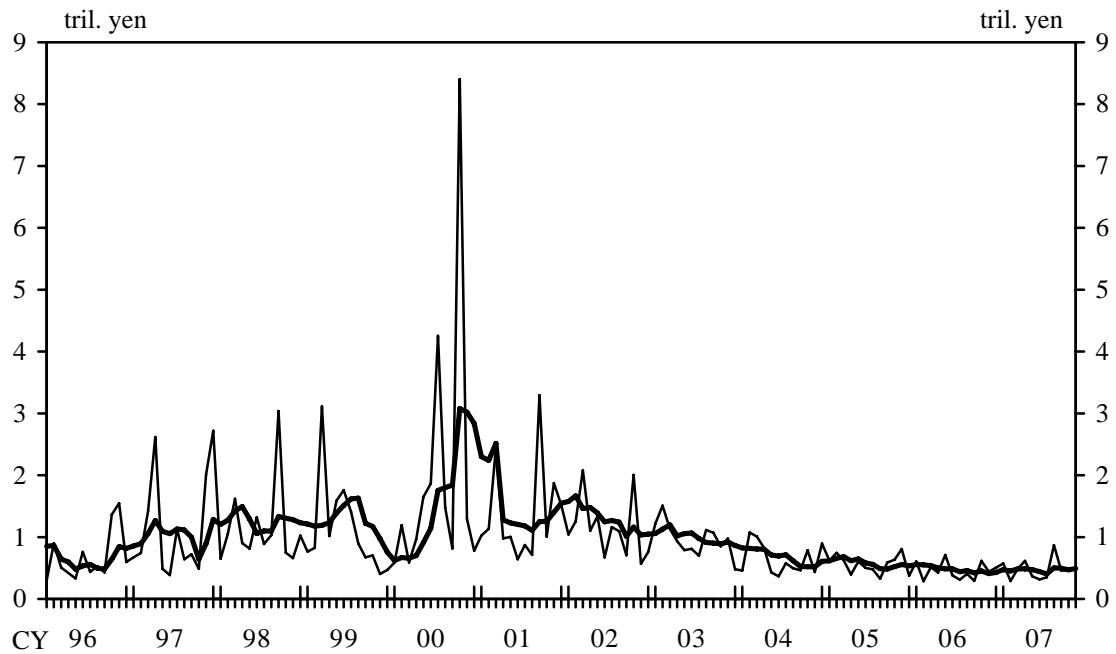
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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