

January 24, 2008  
Bank of Japan

**Monthly Report of  
Recent Economic and Financial Developments**  
January 2008

(English translation prepared by the Bank's staff based on the Japanese original  
released on January 23, 2008)

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

January 2008

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

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.

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. The year-on-year rate of change in consumer prices (excluding fresh food) has become positive.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on January 21 and 22, 2008.

<sup>2</sup> The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on January 21 and 22, 2008.

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 been more or less unchanged. 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 appreciated against the U.S. dollar compared with last month, while long-term interest rates and stock prices have fallen compared with last month.

Developments in Japan's economy have so far deviated somewhat downward from the projection presented in the *Outlook for Economic Activity and Prices* (the Outlook Report) released in October 2007, mainly due to the protracted decline in housing investment. As a result, the rate of real GDP growth in fiscal 2007 is likely to be slightly lower than the potential growth rate. However, with a virtuous circle of growth in production, income, and spending remaining basically intact, in fiscal 2008 the rate of real GDP growth is likely to be broadly as projected and slightly higher than the potential growth rate, as housing investment is expected to recover gradually. Due attention should be paid to factors that will affect this outlook, such as uncertainties regarding future developments in overseas economies and global financial markets, as well as the effects of high energy and materials prices. As for prices, the rate of increase in domestic corporate goods prices for both fiscal 2007 and

2008 is likely to be higher than the projection in the Outlook Report, mainly due to the rise in international commodity prices.<sup>3</sup> Meanwhile, the rate of increase in consumer prices for fiscal 2007 is likely to be somewhat higher than the projection in the Outlook Report due to the increase in prices of petroleum products and food products. In fiscal 2008, consumer prices are likely to be broadly as projected, since it is likely that the effects of the increase in prices of petroleum products and food products will remain while the effects of a temporary slowdown in the economy will emerge.

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<sup>3</sup> The base year for the domestic corporate goods price index has been changed from the 2000 base to the 2005 base since the release in December 2007. The year-on-year rate of increase in domestic corporate goods prices forecasted in the Outlook Report is subject to this base-year change, and the extent of a possible downward revision is likely to be about 0.5 percentage point for fiscal 2007 and slightly less than 0.5 percentage point for fiscal 2008.

## **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—declined in the third quarter on a quarter-on-quarter basis, and fell also in October-November compared with the third quarter. The value of public works contracted—a measure that reflects public orders—registered a sizeable decline in the third quarter, then inched up in the fourth quarter on a quarter-on-quarter basis. 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 in October-November by 1.2 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 2006: they declined in October-November compared with the third quarter when they rose in many goods. By contrast, exports to the EU and East Asia increased in October-November, following the high growth in the third quarter. Exports to other regions (such as the Middle East, Latin America, and Russia) have grown at a faster pace lately, mainly in automobile-related goods to the Middle East.

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. Exports of capital goods and parts have continued to trend upward to a wide range of regions, notwithstanding the weakness in those to the United States. Exports of IT-related goods have continued to rise as a trend, assisted by steady global IT-related demand, although they were flat in October-November after having surged in the third quarter (Chart 7[1]). Exports of intermediate goods have also been on an uptrend, mainly in high value-added goods used for IT-related goods and automobiles. Exports of

consumer goods have 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 (Charts 5[1] and 9). Real imports increased by 1.8 percent in the third quarter on a quarter-on-quarter basis, but then decreased by 1.0 percent in October-November compared with the third quarter.

The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued to be on an increasing trend, reflecting the uptrend in domestic business fixed investment. Meanwhile, imports of IT-related goods dropped again in October-November, after having increased in the third quarter due to the improvement in the domestic shipment-inventory balance (Chart 7[3]). Imports of raw materials and intermediate goods have remained more or less flat, since firms have cut back on imports of 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.

Net exports in terms of the real trade balance have continued to be on an upward trend, reflecting the aforementioned movements in imports and exports (Chart 5[2]). The surplus of the nominal balance on goods and services expanded considerably in October-November 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 8[2]).

As for the environment surrounding exports, in the United States, signs of an economic slowdown have become evident with protracted adjustments in the housing market and the somewhat elevated unemployment rate. In China and other regions, however, those economies are likely to maintain their high growth. The EU, NIEs, and ASEAN economies are also expected to continue expanding moderately, although

the pace of growth is likely to slow. Regarding the environment surrounding exports of IT-related goods, global demand—particularly for digital home appliances—seems to be continuing to expand. Meanwhile, in the foreign exchange market, the yen has appreciated slightly since summer last year, 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 8[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. Looking at monthly indicators, the aggregate supply of capital goods (excluding transport equipment)—a coincident indicator of machinery investment—inched downward in October-November compared with the third quarter, after having increased for three consecutive quarters. With these fluctuations smoothed out, it has continued to be on an upward trend (Chart 10[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 increased in October-November compared with the third quarter. With these fluctuations smoothed out, they have been more or less flat, at high levels (Chart 11[1]).<sup>4</sup> Meanwhile, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—fell sharply in the third quarter due to the enforcement of the revised Building Standard Law.<sup>5</sup> However, they picked up somewhat in October-November compared with the third quarter, aided by large-scale construction starts in the manufacturing and retailing sectors (Chart 11[2]).

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<sup>4</sup> 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).

<sup>5</sup> 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.



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.

Private consumption has been firm. Looking at individual indicators on consumption (Charts 12 and 13), 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. Sales of household electrical appliances have continued to trend upward, assisted by strong sales of digital home appliances such as flat panel TVs and of game consoles. Meanwhile, the number of new passenger-car registrations had picked up since August, supported mainly by the rapid introduction of new models, but fell back considerably in December. As for services consumption, sales in the food service industry and outlays for travel have been firm on average.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above<sup>6</sup>—have been firm (Chart 14[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 14[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*—rose slightly in October-November after having registered a quarter-on-quarter decline in the third quarter (Chart 12[1]).<sup>7</sup>

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<sup>6</sup> The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in November 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 November were at the same level as those for October.

<sup>7</sup> In the *Family Income and Expenditure Survey*, the number of samples is about 8,000 households, while that of the *Survey of Household Economy* is about 30,000.

Consumer sentiment has become cautious as a whole, due to the rise in prices of petroleum products and food (Chart 15).

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

Housing investment has dropped substantially, affected by the enforcement of the revised Building Standard Law. However, the number of housing starts (Chart 16[1])—whose movements precede the actual progress of construction—has started to show signs of recovery, primarily in small-scale property on which the effects from the revised Law have been relatively minor. Looking at the number of housing starts in detail according to the type of housing, owner-occupied housing—consisting mostly of small-scale property—has regained its pre-June level, but the recovery in housing for rent and housing for sale has lacked vigor. 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 rose by 1.1 percent in October-November compared with the third quarter, when it marked an increase of 2.2 percent on a quarter-on-quarter basis (Chart 17).<sup>8</sup> As for recent developments by industry, production of electronic parts and devices rose firmly, assisted by strong production in those for digital home appliances and game consoles, as well as by the pickup in those for personal computers. Production of transport equipment has increased, supported by favorable exports and by the pickup in domestic sales. Moreover, communication electronics equipment (categorized as "other electrical machinery" in the chart) has also continued to increase. Meanwhile, although their contribution to overall production is small, production of ceramics, stone, and clay

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<sup>8</sup> Production in the fourth quarter, based on the production forecast index for December, is calculated to increase by 2.2 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.

products (such as cement, sheet glass, and sanitary ceramic wares) has dropped markedly from the effects of the revised Building Standard Law.

Shipments have also continued to increase. By goods (Chart 18), shipments of capital goods (excluding transport equipment) 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 and to the increase in exports, shipments of producer goods have increased firmly, especially in electronic parts and devices. Meanwhile, shipments of construction goods have registered a marked decline lately, affected by the ongoing sluggishness in public investment and the revised Building Standard Law.

Inventories have been essentially in balance with shipments. The inventory cycle (Chart 19) 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 have risen persistently. As for capital goods (excluding transport equipment), although inventories have remained at a somewhat high level, the shipment-inventory balance has improved as a trend, assisted by generally solid exports. In electronic parts and devices, while final goods manufacturers have continued 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 been well-balanced with shipments. However, because the pace of increase in the supply capacity tends to be rapid for this sector and because 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 moderately in the first quarter.

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 20[2] and [3]).

In the labor market, overtime hours worked have been virtually flat at high levels (Chart 22[3]). The ratio of job offers to applicants has been at a relatively high level, although it has recently inched downward (Chart 21[1]).<sup>9</sup> The unemployment rate has recently been marking a level slightly below 4 percent on average (Chart 21[1]).

In terms of employment (Chart 22[1]), the year-on-year growth rate in the number of employees in the *Labour Force Survey* has generally been moving somewhat below 1.0 percent. The year-on-year growth rate in the number of regular employees in the *Monthly Labour Survey* has been moving in the range of 1.5-2.0 percent on average. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, while both full-time and part-time employees have continued to increase, the growth in part-time employees, in particular, has accelerated since around the end of 2006, resulting in a rise in the ratio of part-time employees from the previous year (Charts 22[1] and [2]).

Nominal wages per employee have remained somewhat lackluster (Chart 20[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 the hiring of relatively

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<sup>9</sup> New job offers have been on a downtrend since autumn 2006, largely due to the moves by Labour Bureaus across Japan to promote appropriate posting by deterring overstatements in the number of job offers. Nevertheless, the number of job advertisements listed in the media of the private sector has been increasing steadily (Chart 21[3]).

low-wage-earning new graduates.<sup>10</sup> In contrast, overtime payments have continued to trend up mildly. Although special payments seem to be moving up as a trend, supported by generally favorable corporate profits, they recently seem to have weakened slightly chiefly among small firms.<sup>11</sup>

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) have increased, mainly due to the rise in crude oil prices (Chart 24). Looking at recent developments in international commodity prices in more detail, crude oil prices have continued to be strong, partly due to the influx of speculative funds. Prices of crops such as wheat have also continued to increase, due to the ongoing rise in global demand and adverse weather in major production centers. On the other hand, prices of nonferrous metals have been softening since fall last year, due to concerns over a slowdown in the U.S.

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<sup>10</sup> The retirement of baby-boomers has started to increase since the second half of 2006. 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 per person.

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.

<sup>11</sup> 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 fiscal 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 fiscal year and 0.7 percent for winter bonuses this fiscal 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.

economy. Meanwhile, domestic commodity prices have been high, reflecting developments in international commodity prices.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>12</sup> has been positive, mainly due to the rise in international commodity prices (Chart 25). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have increased at a faster pace due to the upsurge in prices of petroleum and coal products, although nonferrous metals have dropped marginally. Prices of "other materials" have continued to increase mildly, notably in prices of chemical products, plastic products, and pulp, paper, and related products, mainly as a result of high material costs to date. Prices of "others" have also edged up, aided by the rise in processed foodstuffs. Prices of "iron and steel and construction goods" have been more or less flat and those of "machinery" have been soft. Looking at domestic demand products as a whole including imports, prices of raw materials and of intermediate goods have risen, mainly in petroleum-related products. 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)<sup>13</sup> has been around zero percent lately (Chart 26).<sup>14</sup> 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

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<sup>12</sup> The figures are adjusted to exclude a large seasonal fluctuation in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when consumption increases substantially.

<sup>13</sup> "Excluding external factors" means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

<sup>14</sup> 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.

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, since firms have been cautious about increasing advertisement placements. Meanwhile, prices of communications and broadcasting services have continued to fall, due to the reduction in cellular phone services charges. Prices of leasing and rental have also been declining, affected by the drop in prices of office automation equipment leasing.

The year-on-year rate of change in consumer prices (excluding fresh food, same hereafter) has become positive (Chart 27). Looking at recent developments in more detail, prices of goods overall have started to register a year-on-year increase, due to the faster pace of increase in prices of petroleum products, in addition to the upswing in prices of food products. Services prices have recently risen at a slightly faster pace, due to the movements of both "package tours to overseas" and "hotel charges" (categorized as "other services" in the chart), which tend to show large fluctuations, along with the ongoing moderate increase in prices of "eating out."

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.

### **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 28[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 29[1]). Interest rates on Euroyen futures have fallen further, mainly in distant contracts (Chart 29[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) have fallen in line with long-term interest rates in the United States and Europe. They have recently been moving in the range of 1.3-1.4 percent (Chart 28[2]).

Yield spreads between corporate bonds and government bonds have been more or less flat on the whole (Chart 31).

Stock prices have fallen in response to concerns over an economic slowdown in the United States and to the yen's appreciation. The Nikkei 225 Stock Average is moving at around 13,000 yen (Chart 32).

In the foreign exchange market, the yen has risen, mainly because U.S. economic indicators were weaker than market forecasts. The yen is currently being traded in the range of 105-108 yen to the U.S. dollar (Chart 33).

## **(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. Related DIs of business surveys, which have been at their mid-1990s levels, indicate that firms have perceived the lending attitudes of financial institutions as accommodative. Nevertheless, those of small and medium enterprises have become slightly less accommodative (Chart 34).

Lending rates have been at extremely low levels on the whole, whereas the average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have been more or less unchanged (Chart 35).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,<sup>15</sup> grew by

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<sup>15</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.



0.8 percent in December on a year-on-year basis, compared to 1.3 percent in November and 1.3 percent in October (Chart 36).

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 4.2 percent in December, on a year-on-year basis, compared to 4.5 percent in November and 2.8 percent in October (Chart 37).

According to business surveys, the financial positions of firms have continued to be favorable (Chart 34).

The money stock ( $M_2 + \text{CDs}$ ) has increased by around 2 percent annually. Its December reading was 2.1 percent on a year-on-year basis, following 2.0 percent in November and 1.9 percent in October (Chart 38).

The number of corporate bankruptcies declined by 1.1 percent in December compared to the year-ago level, to 1,097 cases (Chart 39).

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### Supplementary Chart

Forecasts in the *Outlook for Economic Activity and Prices* released in October 2007

## Main Economic Indicators (1)

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

	2007/Q2	Q3	Q4	2007/Sep.	Oct.	Nov.	Dec.
Index of living expenditure level (two-or-more-person households)	-0.4	-1.2	n.a.	-0.7	2.3	-1.6	n.a.
Sales at department stores	1.0	-3.0	n.a.	-4.0	2.7	1.3	n.a.
Sales at supermarkets	-0.7	-0.8	n.a.	-2.0	1.0	2.0	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 288>	< 297>	< 310>	< 302>	< 315>	< 322>	< 292>
Sales of household electrical appliances (real, Current Survey of Commerce)	-0.7	4.5	n.a.	-1.1	-3.1	3.9	n.a.
Outlays for travel	-1.5	1.5	n.a.	1.6	-6.0	5.3	n.a.
Housing starts <s.a., ann. 10,000 units>	< 127>	< 80>	<n.a.>	< 72>	< 85>	< 97>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	-2.4	2.5	n.a.	-7.6	12.7	-2.8	n.a.
Manufacturing	-4.0	2.7	n.a.	5.7	10.2	-1.7	n.a.
Nonmanufacturing <sup>4</sup>	0.1	1.6	n.a.	-17.1	13.7	3.1	n.a.
Construction Starts (private, nondwelling use)	24.5	-48.0	n.a.	-23.7	28.9	60.5	n.a.
Mining & manufacturing	20.0	-49.8	n.a.	-47.4	175.0	-15.4	n.a.
Nonmanufacturing <sup>5</sup>	29.0	-47.4	n.a.	-16.3	-3.9	104.2	n.a.
Value of public works contracted	-0.7	-4.8	2.5	-1.6	0.3	1.5	7.2
Real exports	-0.4	6.0	n.a.	-3.4	0.6	1.6	n.a.
Real imports	0.5	1.8	n.a.	-0.6	-0.6	1.7	n.a.
Industrial production	0.2	2.2	n.a.	-1.4	1.7	-1.6	n.a.
Shipments	0.7	2.1	n.a.	-2.0	2.4	-1.7	n.a.
Inventories	-0.3	1.3	n.a.	1.1	0.6	1.7	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 100.5>	< 103.8>	<n.a.>	< 103.8>	< 98.2>	< 100.9>	<n.a.>
Real GDP	-0.5	0.4	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.6	-0.1	n.a.	-1.7	1.2	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2007/Q2	Q3	Q4	2007/Sep.	Oct.	Nov.	Dec.
Ratio of job offers to applicants <s.a., times>	< 1.06>	< 1.06>	<n.a.>	< 1.05>	< 1.02>	< 0.99>	<n.a.>
Unemployment rate <s.a., %>	< 3.8>	< 3.8>	<n.a.>	< 4.0>	< 4.0>	< 3.8>	<n.a.>
Overtime working hours <sup>6</sup>	0.6	0.4	n.a.	1.0	0.9	-0.2	n.a.
Number of employees	1.1	0.8	n.a.	0.2	0.4	1.2	n.a.
Number of regular employees <sup>6</sup>	1.7	1.7	n.a.	1.7	1.7	2.2	n.a.
Nominal wages per person <sup>6</sup>	-0.6	-0.6	n.a.	-0.6	-0.1	0.1	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	1.7 < 1.1>	1.6 < 0.7>	p 2.3 <p 0.7>	1.3 < 0.4>	2.0 < 0.4>	2.3 < 0.6>	p 2.6 <p 1.1>
Consumer price index <sup>8</sup>	-0.1	-0.1	n.a.	-0.1	0.1	0.4	n.a.
Corporate service price index	1.3	1.3	n.a.	1.3	1.4	p 1.4	n.a.
Money Stock (M <sub>2</sub> +CDs) <average outstanding, y/y % chg.>	1.5	1.9	p 2.0	1.7	1.9	2.0	p 2.1
Number of corporate bankruptcies <cases>	<1,205>	<1,155>	<1,190>	<1,047>	<1,260>	<1,213>	<1,097>

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

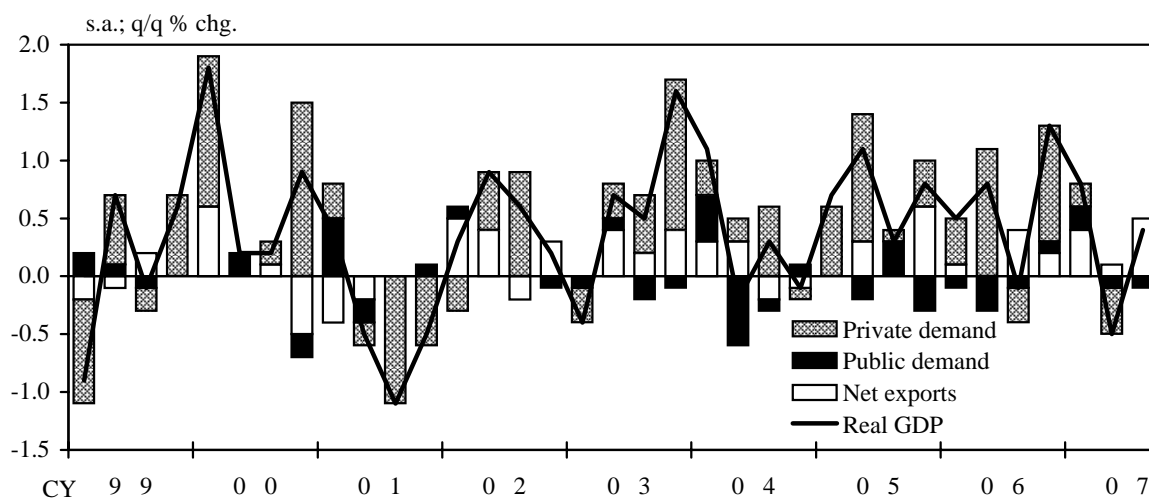
All figures in Chart 2 except figures in angle brackets are year-on-year change. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes to the respective charts.

2. Figure with "p" indicates preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Excludes orders of shipbuilding and orders from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.
6. Data for establishments with at least five regular employees.
7. Adjusts to exclude a hike of electric power charges in summer season.
8. Excludes fresh food.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey," "Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index"; Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production," "Indices of All Industry Activity"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Ministry of Land, Infrastructure and Transport, "Major Travel Agents' Revenue," "Statistics on Building Construction Starts"; Ministry of Finance, "The Summary Report on Trade of Japan"; Cabinet Office, "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 and Indexes of Business Conditions

(1) Real GDP

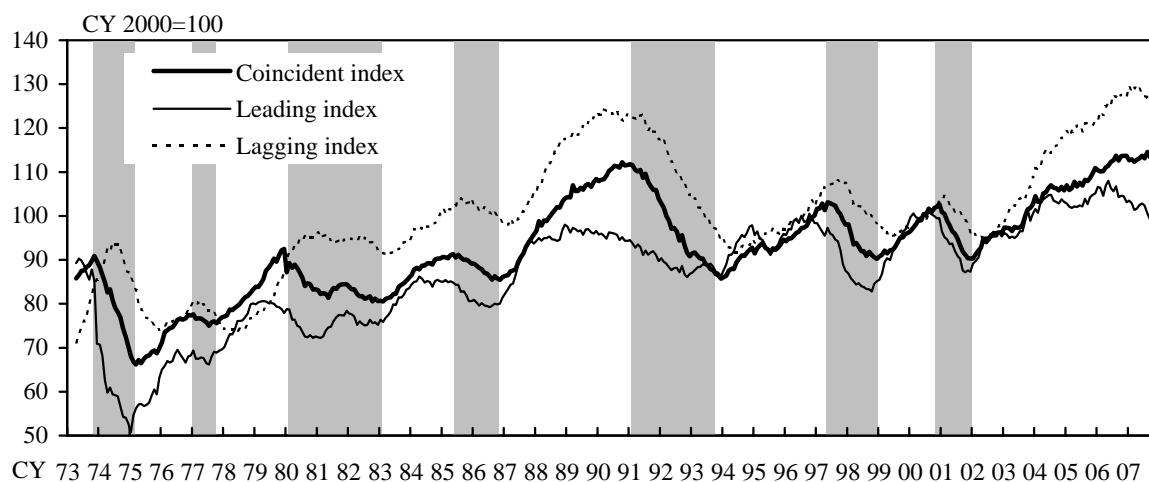


(2) Components

	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	0.4	-0.5	-0.1
Private demand	-0.3	1.0	0.2	-0.4	-0.0
Private consumption	-0.5	0.7	0.4	0.1	0.2
Non-Resi. investment	0.1	0.3	-0.1	-0.3	0.2
Residential investment	0.0	0.1	-0.1	-0.1	-0.3
Private inventory	0.1	-0.0	0.0	-0.1	-0.1
Public demand	-0.1	0.1	0.2	-0.1	-0.1
Public investment	-0.2	0.1	0.2	-0.2	-0.1
Net exports of goods and services	0.4	0.2	0.4	0.1	0.5
Exports	0.3	0.2	0.5	0.2	0.4
Imports	0.0	0.0	-0.1	-0.1	0.0
Nominal GDP	-0.1	1.3	0.5	-0.5	0.2

Note: Figures of components in real GDP indicate contributions to changes in GDP.

(3) Indexes of Business Conditions (Composite Indexes)



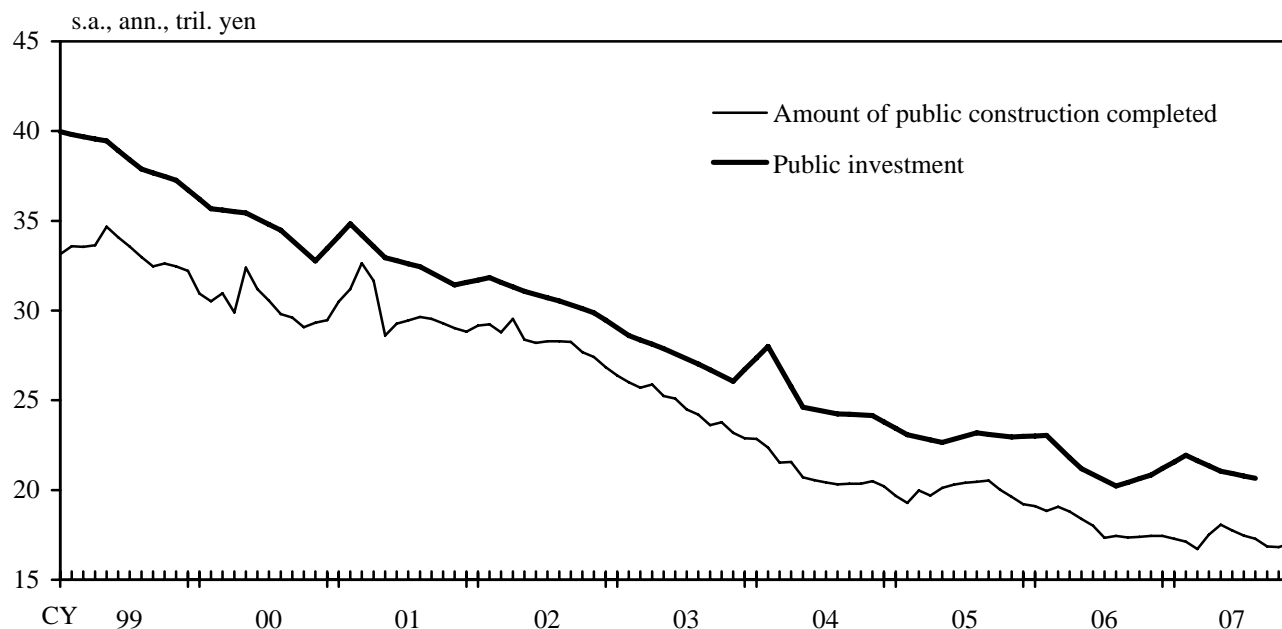
CY 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07

Note: Shaded areas indicate recession periods.

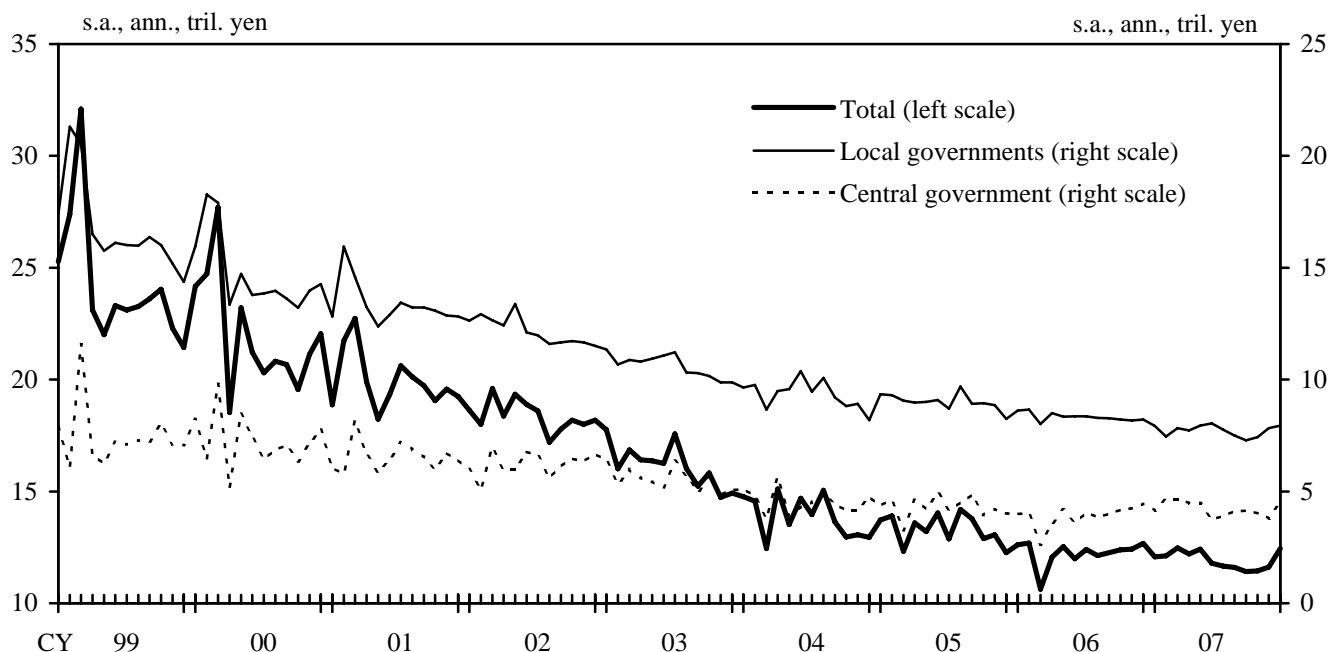
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

## 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.

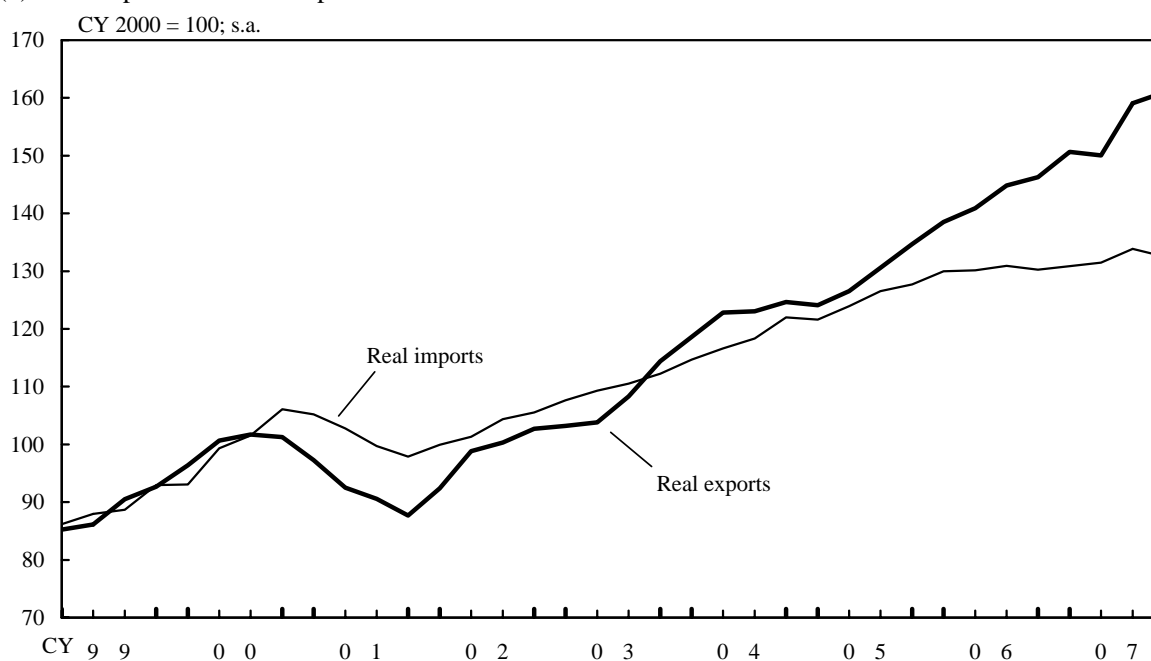
Sources: Cabinet Office, "National Accounts";

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

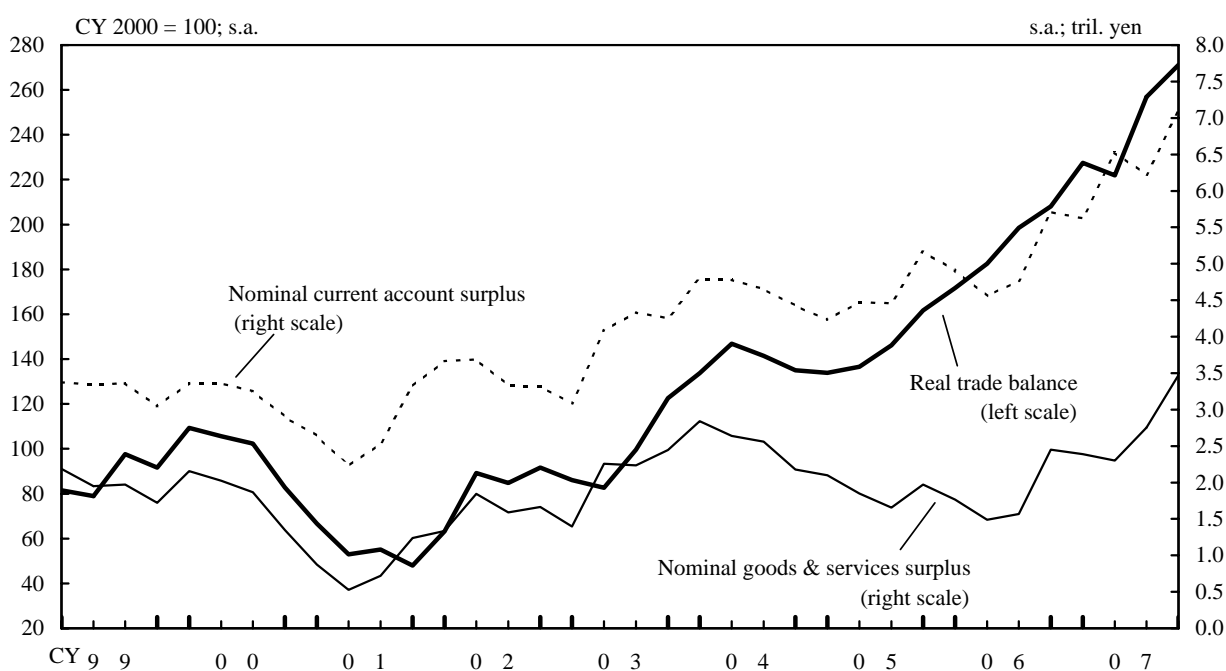
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

## 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." Deflators for November 2007 figures are calculated by extending the 2000 base deflators using monthly changes of the 2005 base deflators. All the deflators regarding real exports/imports are similarly calculated in the following charts.
2. Figures are seasonally adjusted by X-12-ARIMA.
3. 2007/Q4 figures are October-November averages converted into quarterly amount.

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

Real Exports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2005	2006	2006 Q4	2007 Q1	Q2	Q3	Q4	2007 Sep.	Oct.	Nov.
United States	<22.5>	7.3	10.3	-0.7	-0.9	-3.7	5.4	-2.9	-7.3	0.9	-2.2
EU	<14.5>	3.3	10.3	0.9	3.7	2.3	6.8	2.3	2.1	3.0	-6.6
East Asia	<45.7>	6.1	9.1	2.3	4.3	-1.4	5.6	1.9	-2.3	-1.1	4.5
China	<14.3>	9.6	20.1	6.6	5.5	-3.0	10.1	2.0	0.3	-1.8	0.5
NIEs	<23.2>	5.0	5.7	0.2	3.9	-1.6	2.9	1.3	-4.8	-0.9	7.1
Korea	<7.8>	4.5	7.7	1.2	5.1	-2.5	0.2	7.5	-2.1	5.7	2.4
Taiwan	<6.8>	4.4	3.7	-3.5	0.1	1.6	5.8	-6.8	-3.6	-12.1	13.0
ASEAN <sup>4</sup>	<8.1>	4.4	2.8	0.9	3.6	2.1	4.7	3.3	-0.6	-0.5	5.1
Thailand	<3.5>	10.0	5.2	0.5	3.8	0.8	5.1	0.6	2.3	-5.4	5.4
Others	<17.3>	11.5	19.5	2.4	4.4	4.1	6.3	10.0	-6.2	8.5	5.8
Real exports		5.3	10.5	1.0	3.0	-0.4	6.0	1.2	-3.4	0.6	1.6

## (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 Sep.	Oct.	Nov.
Intermediate goods	<17.9>	1.8	6.4	0.5	1.9	-0.0	6.2	1.6	-0.6	1.5	-2.1
Motor vehicles and their related goods	<23.4>	8.2	13.6	4.1	2.7	1.0	5.8	6.1	-8.1	7.9	0.0
Consumer goods <sup>4</sup>	<5.0>	5.2	7.1	0.4	-3.0	5.4	5.0	-0.6	7.1	-8.3	5.2
IT-related goods <sup>5</sup>	<11.5>	5.4	7.7	5.1	5.5	-4.0	6.2	-0.4	1.1	-0.6	-3.3
Capital goods and parts <sup>6</sup>	<29.4>	7.1	12.4	-1.1	2.9	0.2	3.7	1.1	-3.7	0.7	3.4
Real exports		5.3	10.5	1.0	3.0	-0.4	6.0	1.2	-3.4	0.6	1.6

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

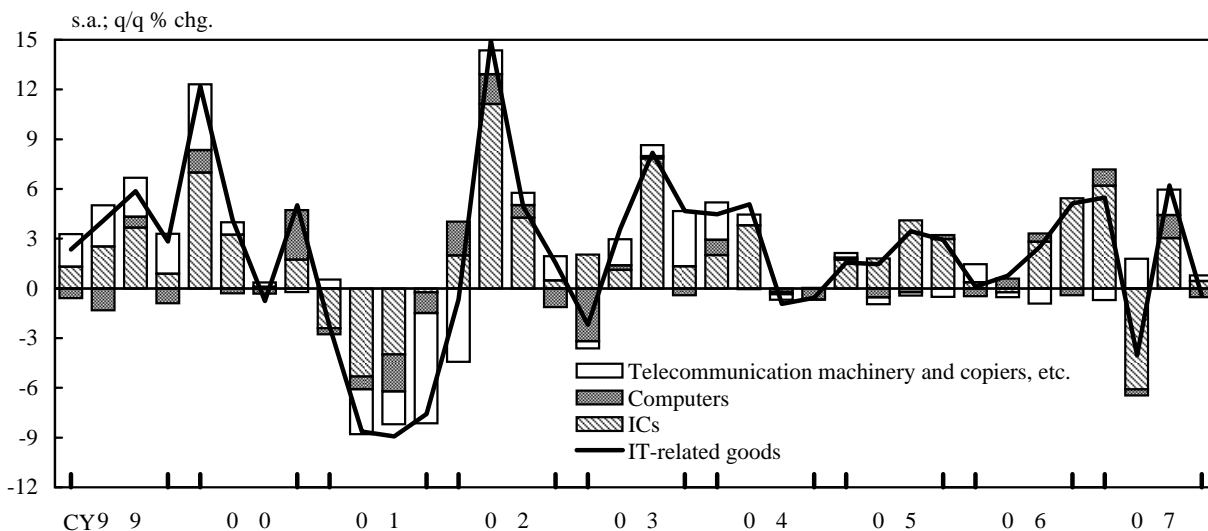
6. Excludes IT-related goods, power generating machinery and parts of motor vehicles.

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

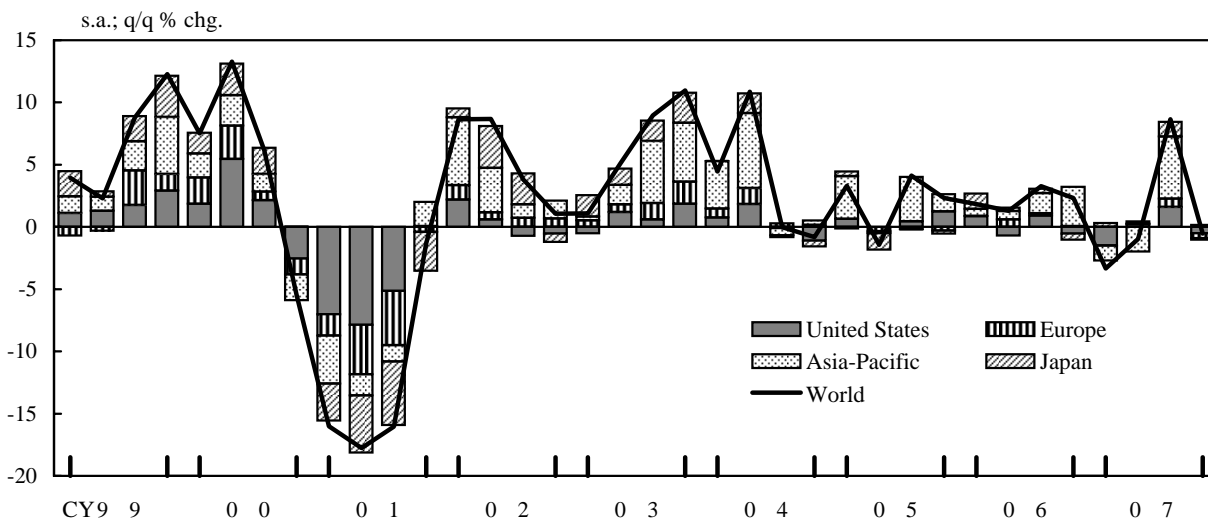


Exports and Imports of IT-Related Goods

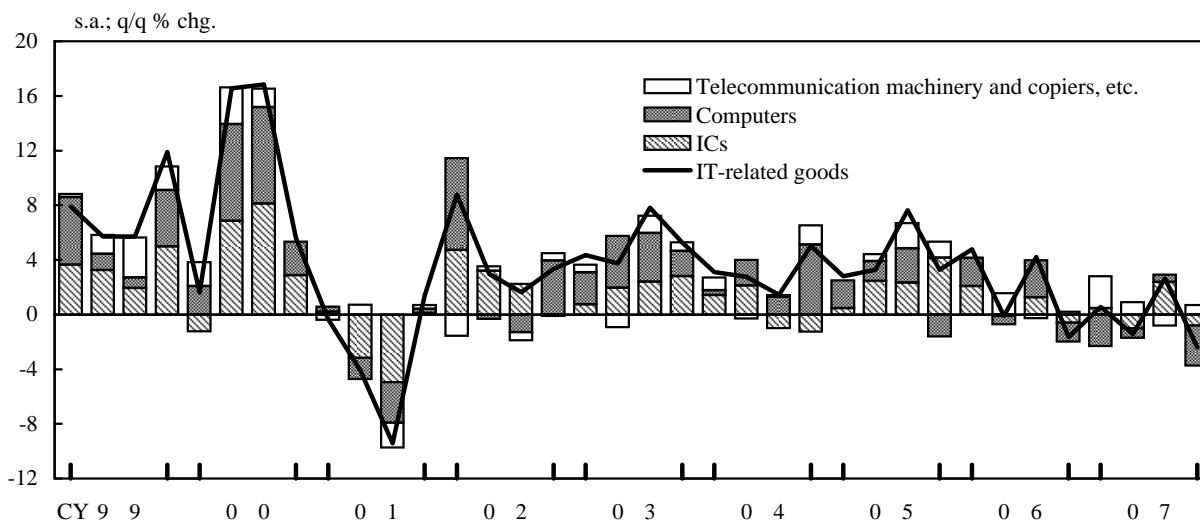
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

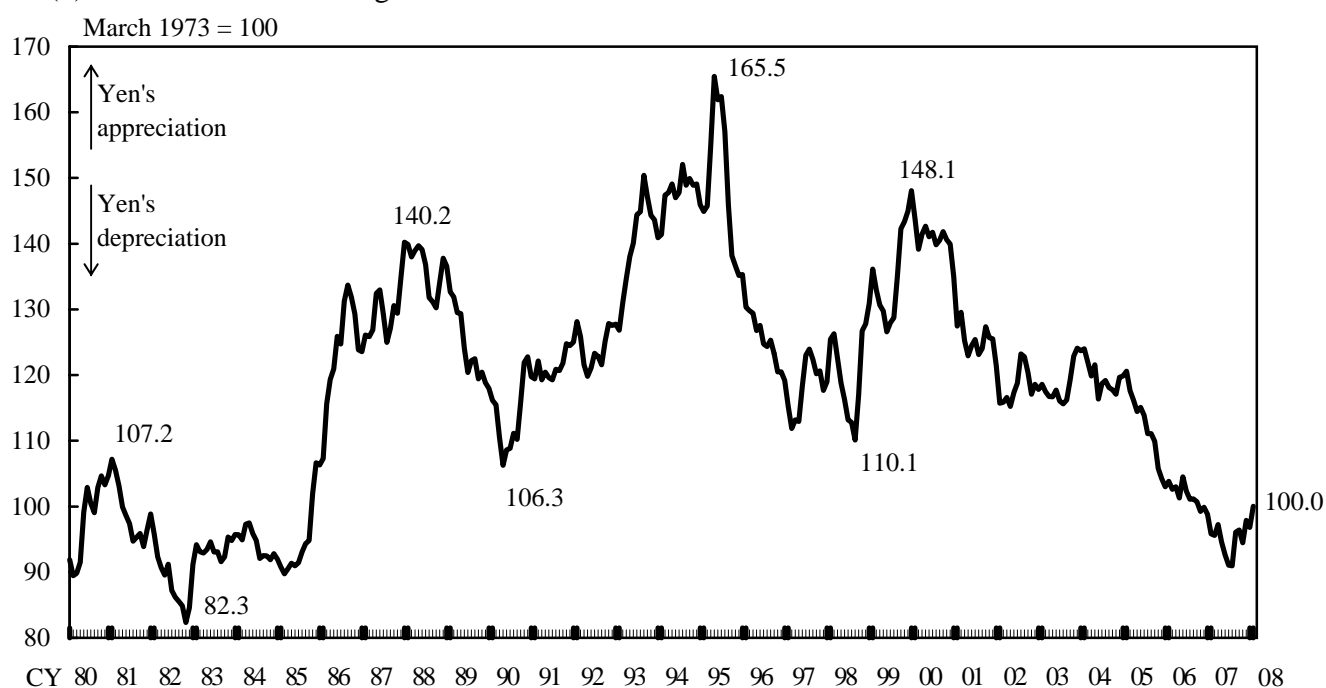
2. 2007/Q4 figures are October-November averages converted into quarterly amount.

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

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

## Real Effective Exchange Rate and Overseas Economies

### (1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for January 2008 is the average up to January 21.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (29 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

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

		CY2005	2006	2007	2007 Q1	Q2	Q3	Q4	
United States <sup>1</sup>		3.1	2.9	n.a.	0.6	3.8	4.9	n.a.	
European Union <sup>1</sup>		1.9	3.1	n.a.	3.3	1.8	3.2	n.a.	
	Germany	1.0	3.1	2.6	2.2	1.0	2.8	n.a.	
	France	1.7	2.2	n.a.	2.4	1.4	3.2	n.a.	
	United Kingdom	1.8	2.9	n.a.	3.1	3.4	2.7	n.a.	
East Asia <sup>2</sup>	China	10.4	11.1	n.a.	11.1	11.9	11.5	n.a.	
	NIEs	Korea	4.2	5.0	n.a.	4.0	5.0	5.2	n.a.
		Taiwan	4.2	4.9	n.a.	4.2	5.2	6.9	n.a.
		Hong Kong	7.1	6.8	n.a.	5.6	6.6	6.2	n.a.
		Singapore	6.6	7.9	7.5	6.4	8.8	9.0	6.0
	ASEAN4	Thailand	4.5	5.1	n.a.	4.2	4.3	4.9	n.a.
		Indonesia	5.7	5.5	n.a.	6.0	6.3	6.5	n.a.
		Malaysia	5.0	5.9	n.a.	5.5	5.8	6.7	n.a.
Philippines		4.9	5.4	n.a.	7.1	7.5	6.6	n.a.	

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

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

Real Imports <sup>1</sup>

## (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 Sep.	Oct.	Nov.
United States	<11.7>	3.6	6.6	-2.4	-2.2	1.7	-2.4	4.9	-0.5	7.2	-3.3
EU	<10.3>	2.1	1.4	-0.2	1.6	3.7	4.0	-4.1	-2.8	-2.8	2.0
East Asia	<41.4>	11.2	9.5	1.8	0.1	-0.8	2.1	-1.7	-0.6	-0.7	0.3
China	<20.5>	18.8	11.2	2.2	1.4	0.6	1.5	-1.4	-0.5	-0.5	-0.5
NIEs	<9.8>	9.3	12.7	-0.2	-1.6	-4.5	3.6	-1.2	-4.0	0.0	1.8
Korea	<4.7>	8.3	11.4	-1.6	-1.7	1.3	2.2	2.3	-7.3	5.1	5.2
Taiwan	<3.5>	11.0	16.9	2.3	-3.3	-10.3	7.9	-6.3	1.5	-8.5	-0.1
ASEAN4 <sup>3</sup>	<11.1>	0.2	3.4	3.1	-0.9	-0.0	1.8	-2.8	2.5	-1.8	0.5
Thailand	<2.9>	12.8	7.1	2.0	1.7	-1.6	2.3	-2.8	-2.6	0.0	-1.3
Others	<36.5>	1.8	2.5	-2.3	1.4	-1.2	3.5	-3.2	-4.5	-2.5	4.1
Real imports		5.4	4.4	-0.5	0.4	0.5	1.8	-1.0	-0.6	-0.6	1.7

## (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 Sep.	Oct.	Nov.
Raw materials <sup>4</sup>	<34.7>	-3.9	1.0	-2.0	1.0	-0.5	3.5	-2.0	0.0	-3.8	5.3
Intermediate goods	<14.0>	4.6	2.3	-1.4	0.4	1.8	3.4	-3.6	-1.5	-1.6	-2.3
Foodstuffs	<8.5>	2.6	-3.3	1.7	0.5	-4.4	-0.8	-7.8	-5.7	-6.0	0.6
Consumer goods <sup>5</sup>	<8.8>	8.6	2.6	1.9	-5.1	5.5	-0.0	-2.3	-3.8	-0.7	2.4
IT-related goods <sup>6</sup>	<12.0>	15.4	14.1	-1.6	0.6	-1.4	2.6	-2.4	-6.5	0.0	3.6
Capital goods and parts <sup>7</sup>	<12.4>	13.6	16.9	1.3	1.8	1.7	2.9	3.2	5.4	1.3	0.7
Excluding aircraft	<11.5>	13.7	18.0	1.8	0.4	3.1	4.4	-0.1	-0.7	-0.1	2.8
Real imports		5.4	4.4	-0.5	0.4	0.5	1.8	-1.0	-0.6	-0.6	1.7

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

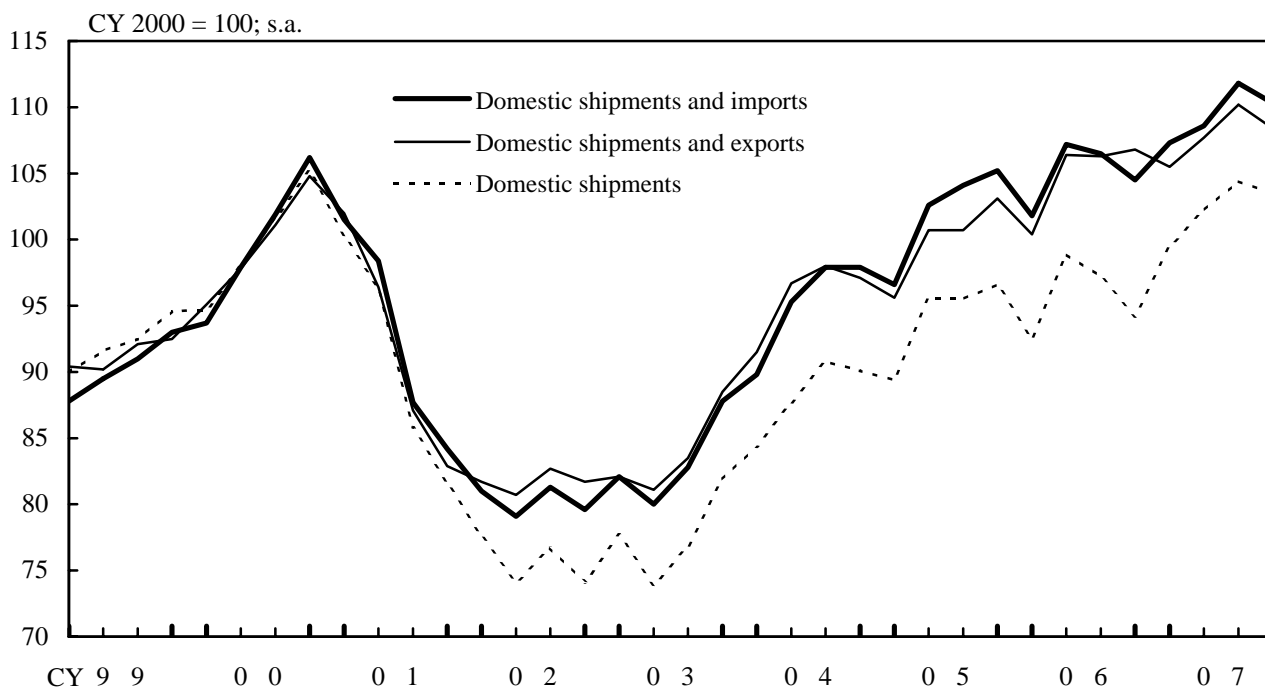
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

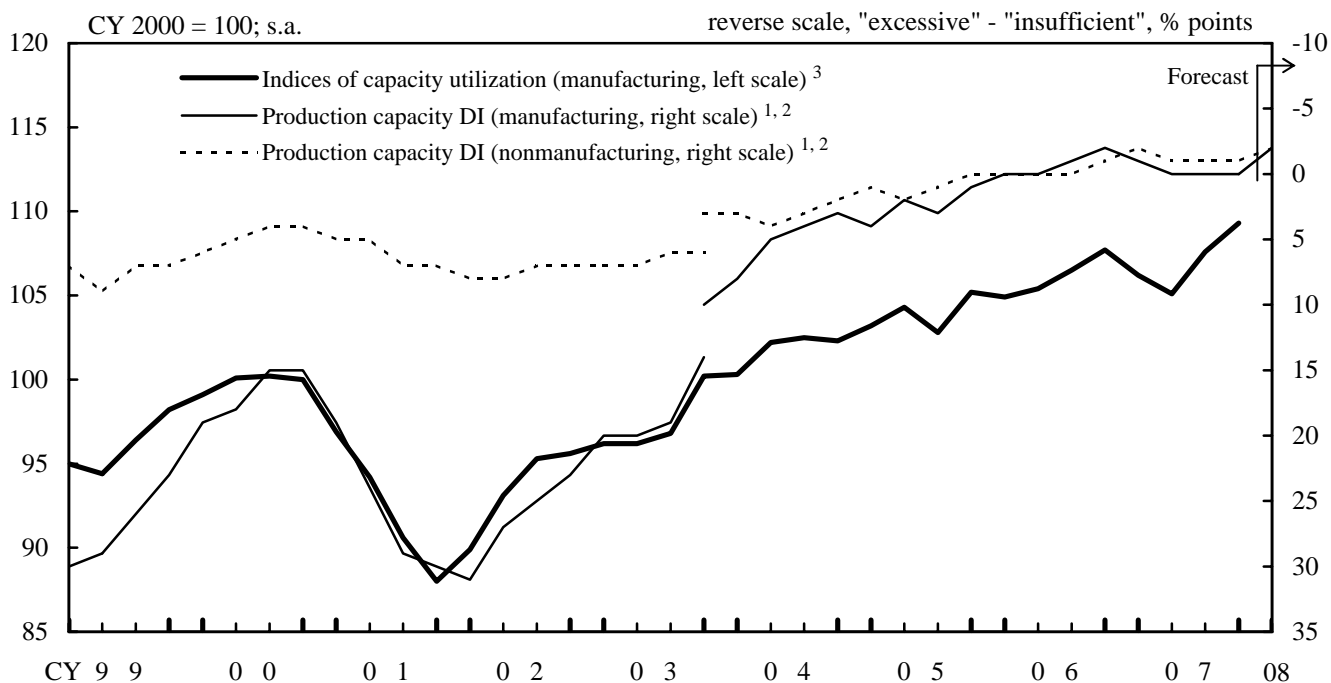
## Coincident Indicators for Business Fixed Investment

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



Note: Figures for 2007/Q4 are October-November averages.

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



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

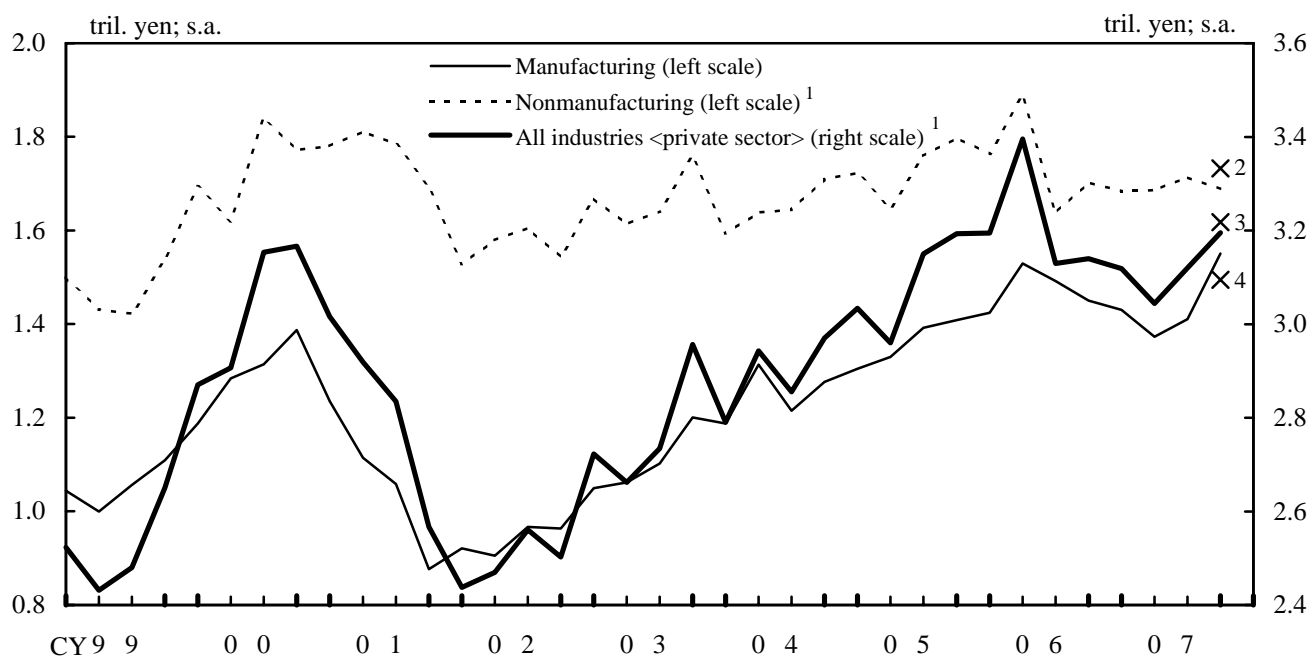
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2007/Q4 is October-November average.

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.

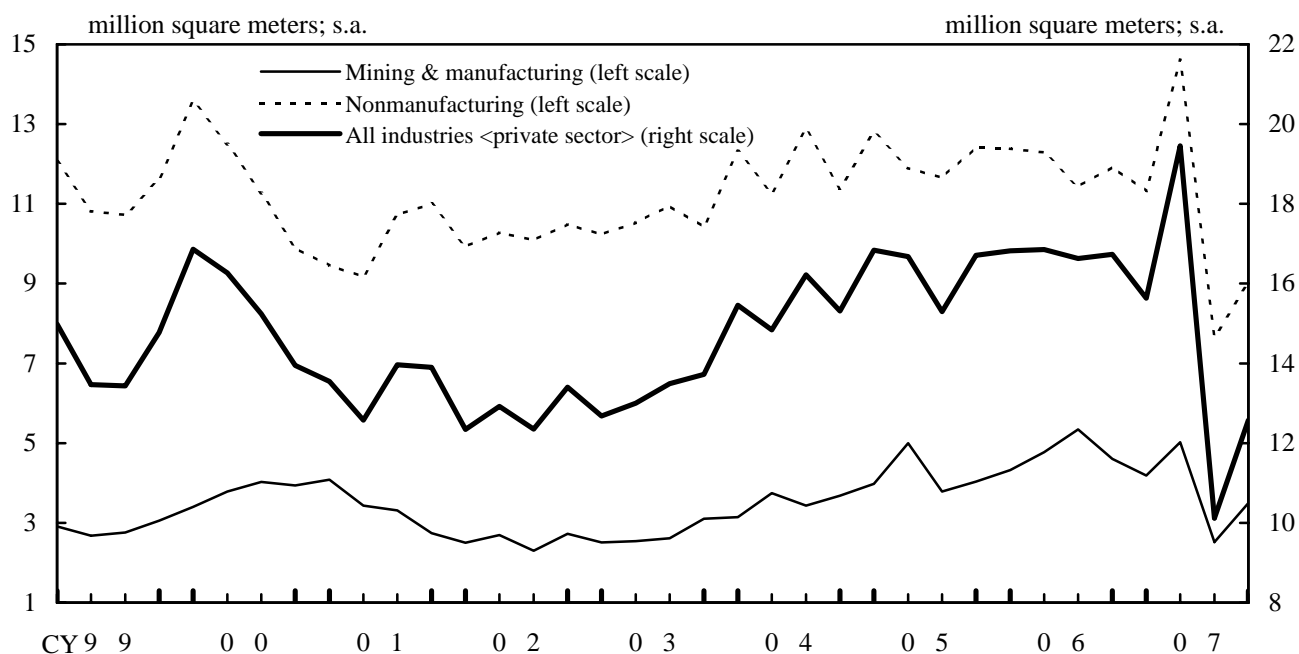
2. Forecast of nonmanufacturing industries for 2007/Q4.

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

4. Forecast of manufacturing industries for 2007/Q4.

5. Figures for 2007/Q4 are averages of October-November 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.

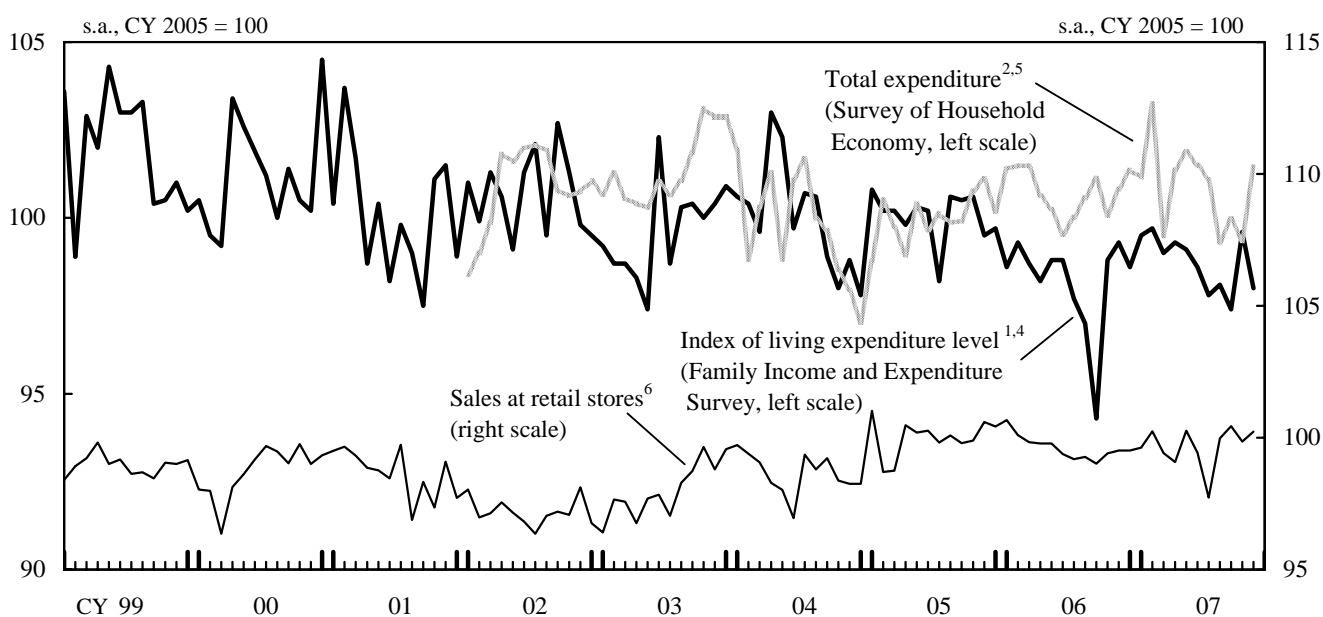
3. Figures for 2007/Q4 are averages of October-November in terms of quarterly amount.

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

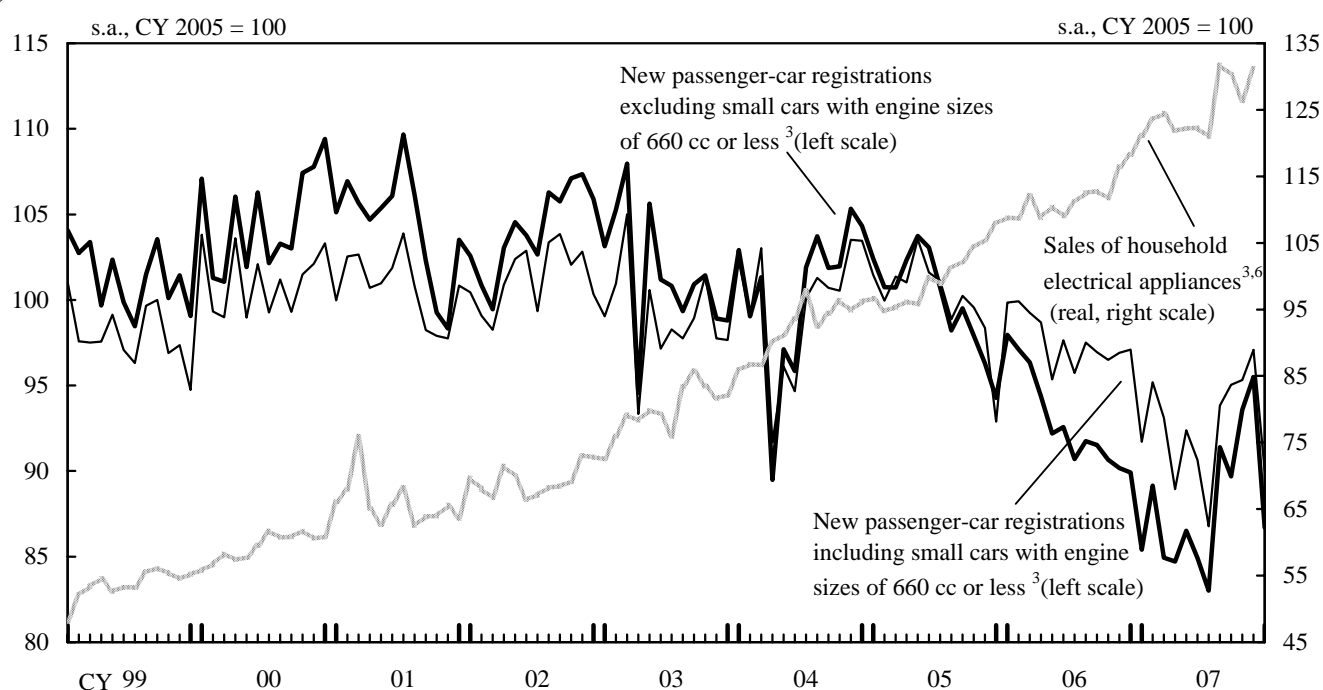
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

## Indicators for Private Consumption (1)

## (1) Household Spending (Real)

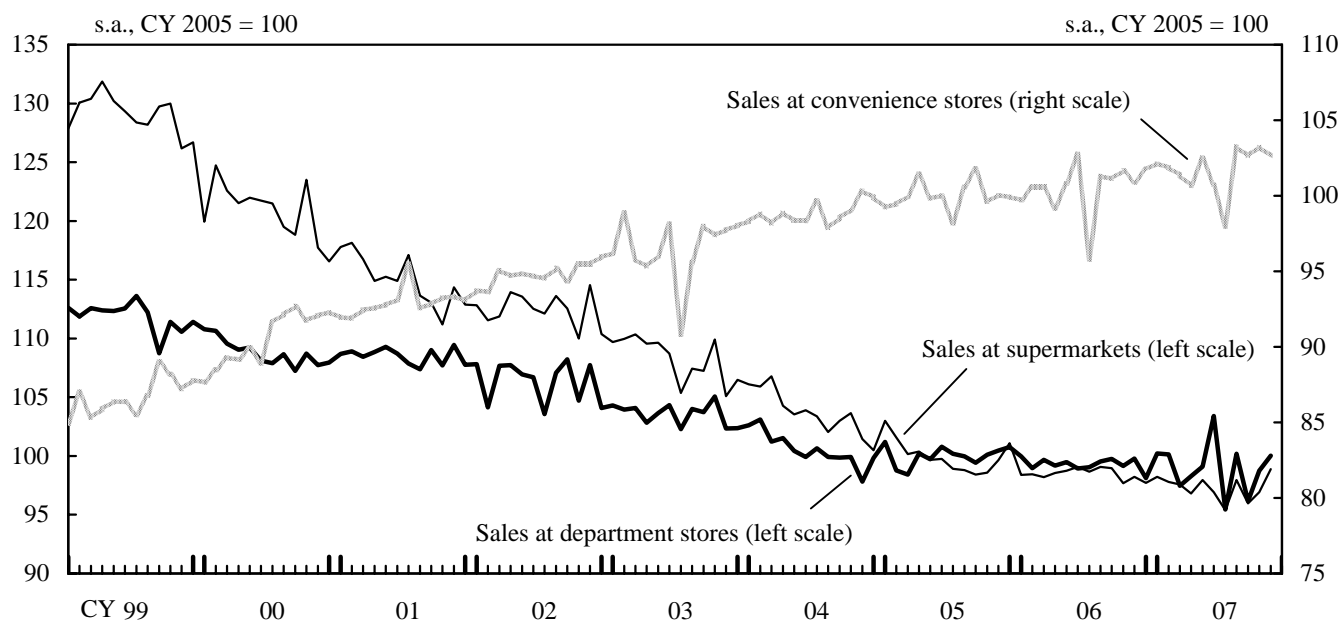


## (2) Sales of Durable Goods

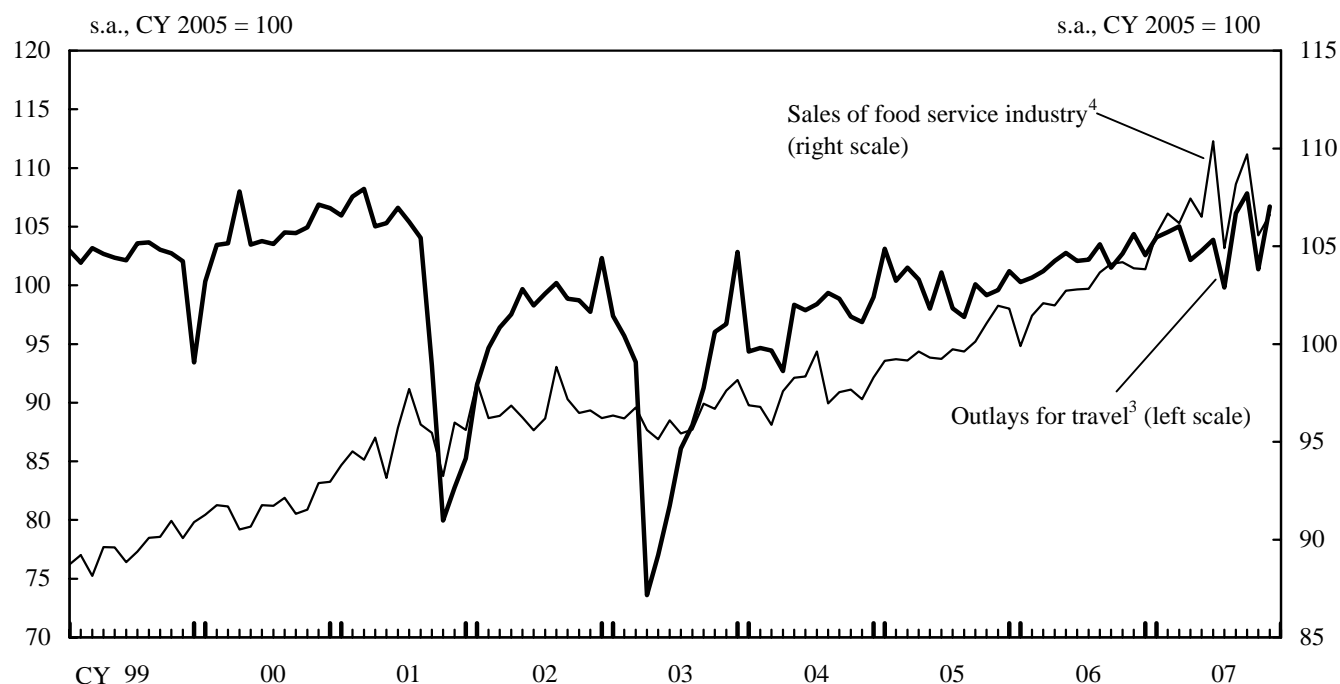


- Notes: 1. Index of living expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.  
 2. Total expenditure is seasonally adjusted by X-11.  
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.  
 4. Index of living expenditure level is based on two-or-more-person households excluding agricultural, forestry, and fisheries households.  
 5. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.  
 6. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges). Sales of household electrical appliances are calculated as follows; the sales of household machinery retail stores in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the wholesale price index and the corporate goods price index for personal computers before 1999 and PC printers before 2002).

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

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

## (4) Consumption of Services (Nominal)



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

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

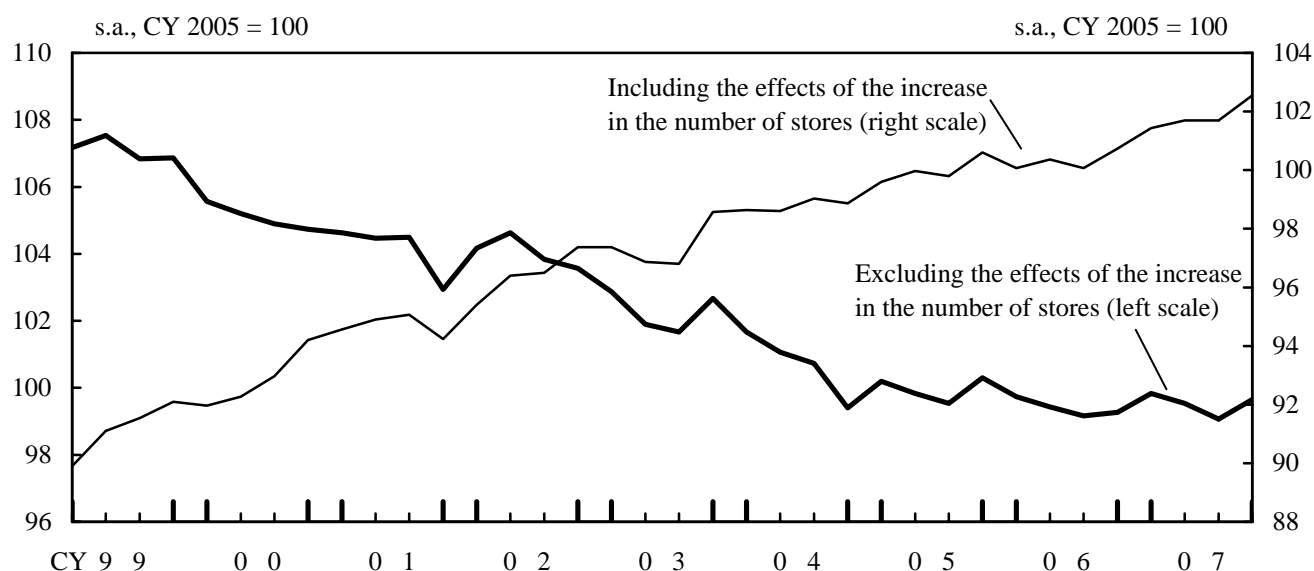
3. As for "outlays for travel", there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

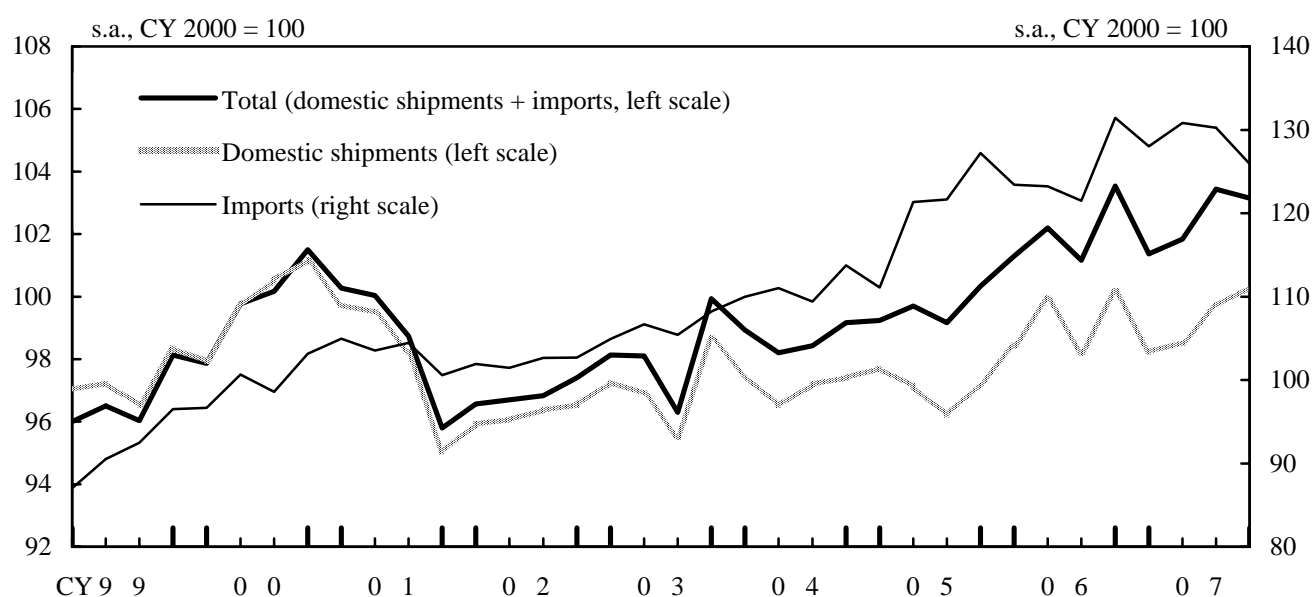
## Indicators for Private Consumption (3)

## (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 Oct.-Nov. averages in terms of quarterly amount.

## (2) Aggregate Supply of Consumer Goods



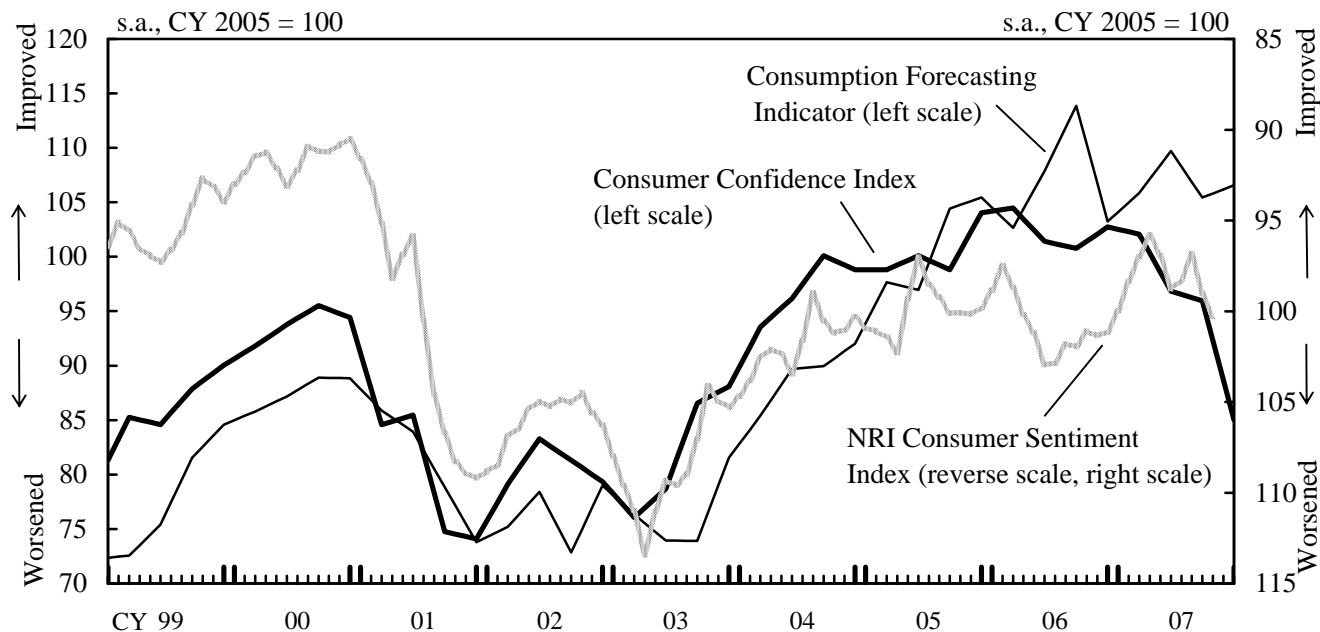
Note: Data for 2007/Q4 figures are those of Oct.-Nov. averages in terms of quarterly amount.

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

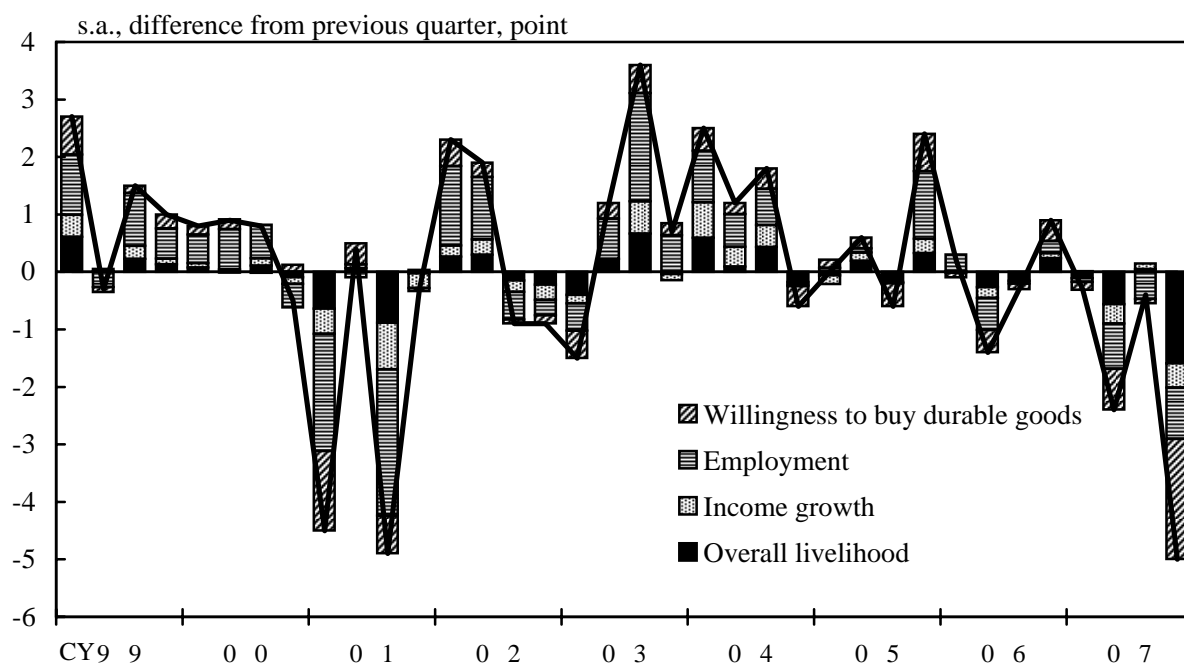


Consumer Confidence

(1) Surveys on Consumer Confidence



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

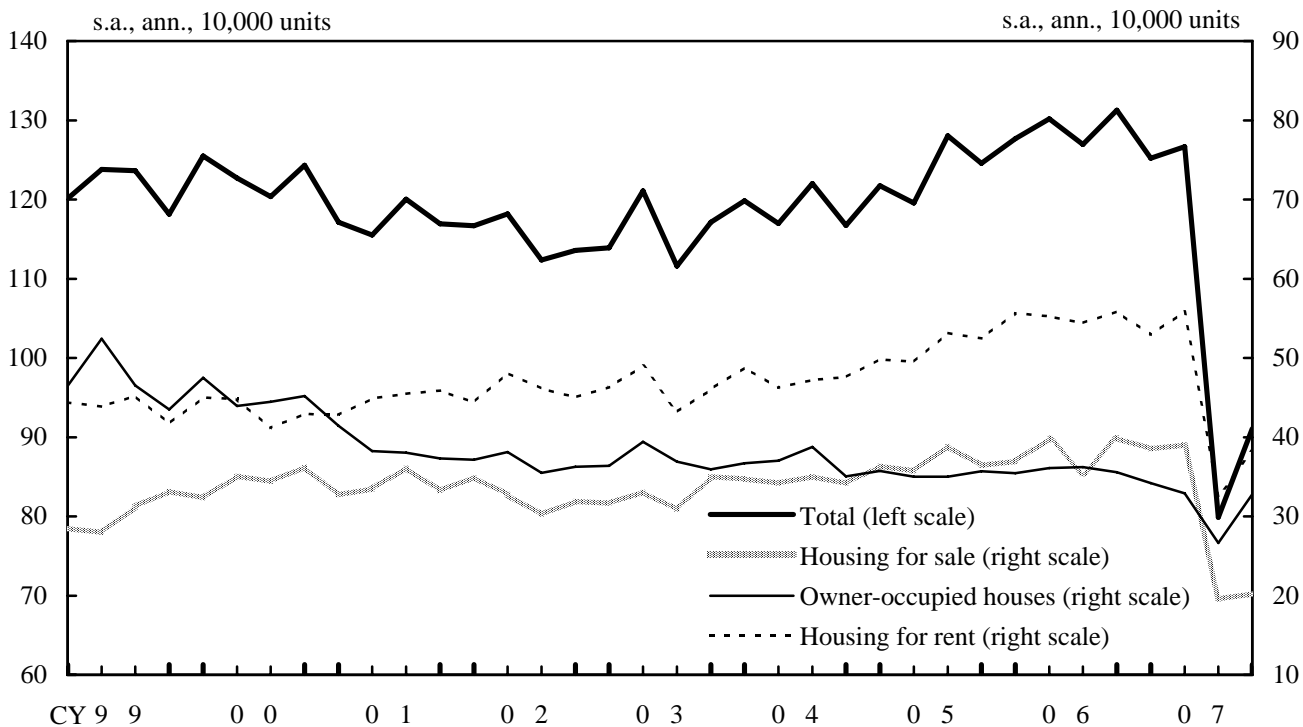


- Notes: 1. Seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.
2. The Consumer Confidence Index (with about 5,000 samples 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.
4. Difference from the previous quarter in (1) does not coincide with that in (2), because the former calculates the difference using the series which are adjusted to make the 2005 average equal to 100, while the latter calculates the difference using the original series.

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

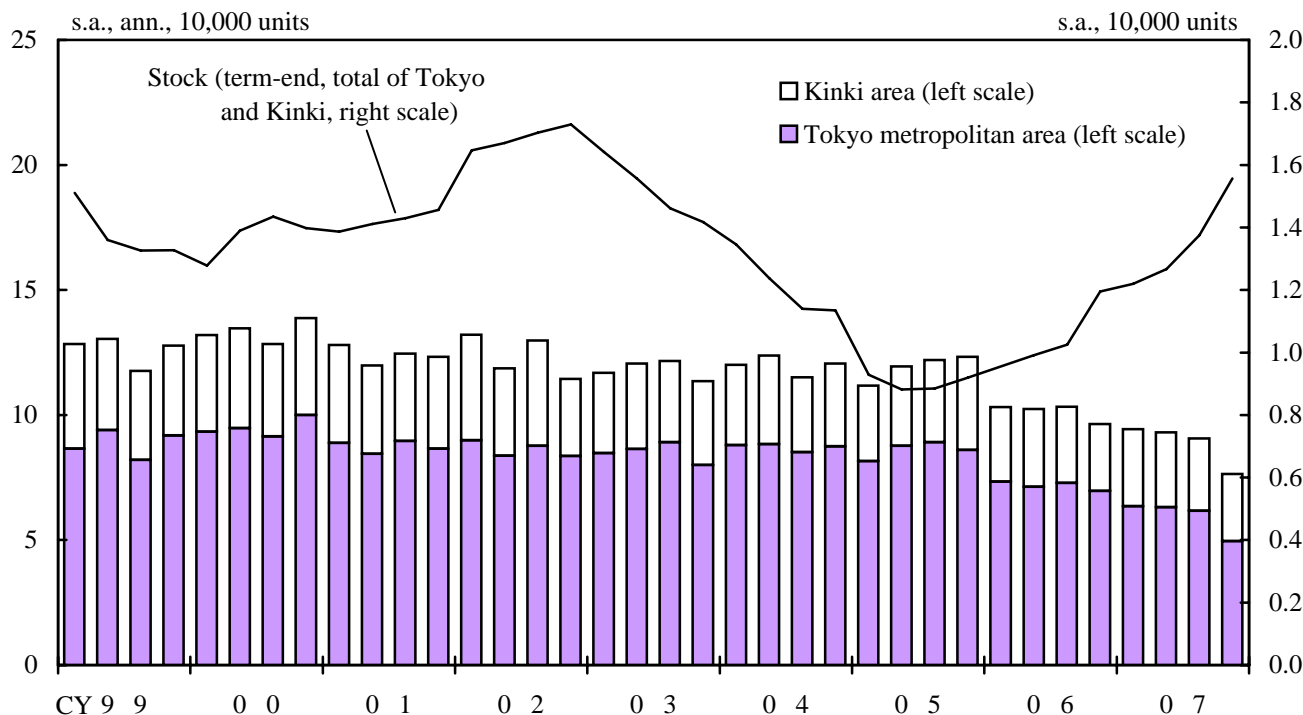
Indicators for Housing Investment

(1) Housing Starts



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

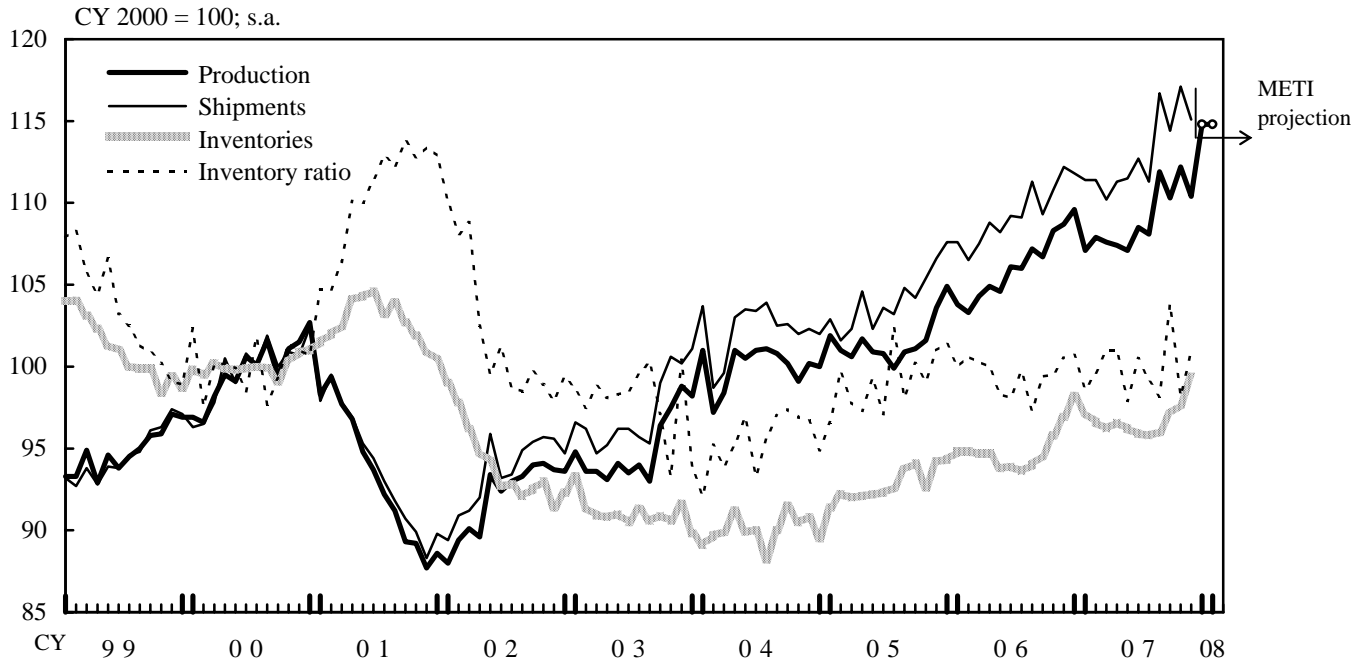
(2) Sales of Apartments



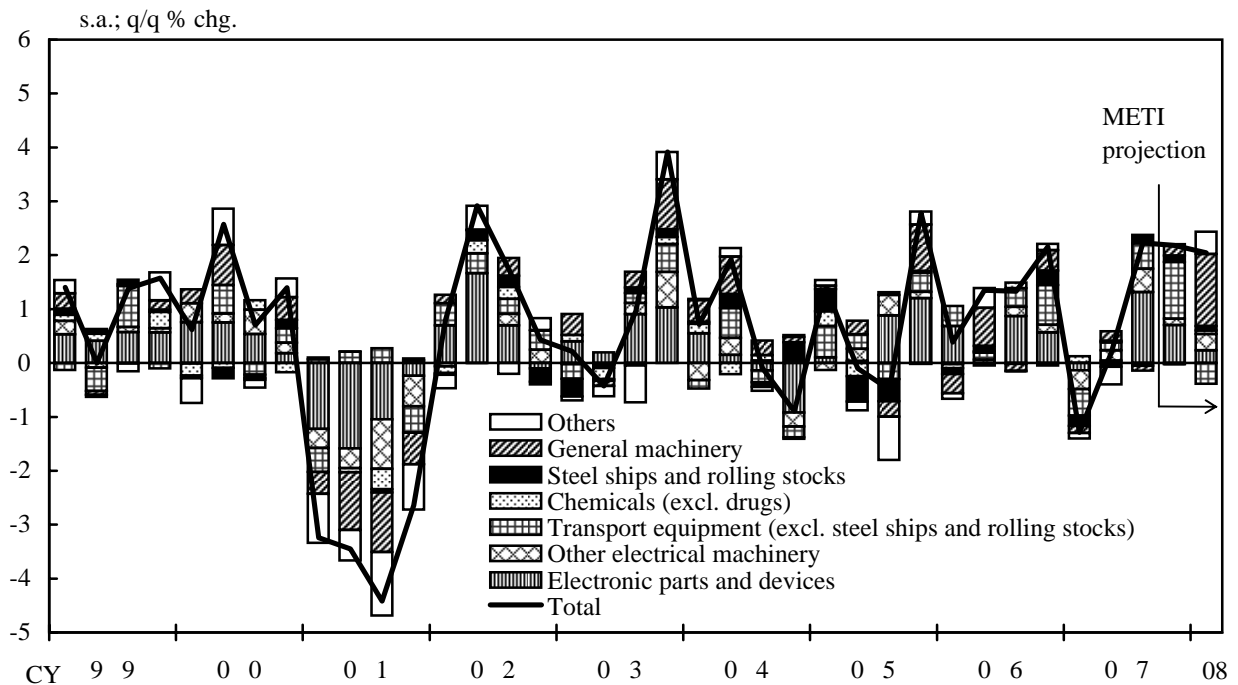
Note: Seasonally adjusted by X-12-ARIMA.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industries

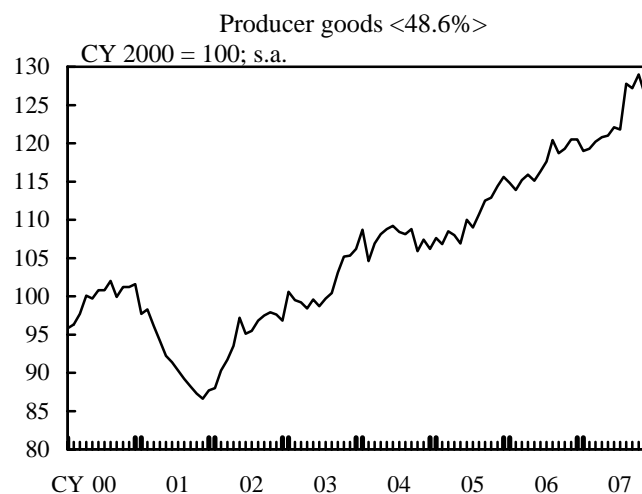
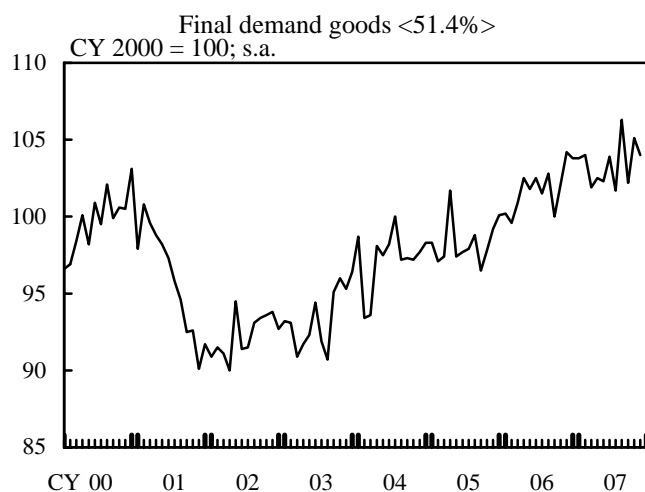


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."  
 2. 2007/Q4 figures are based on the actual levels in October and November, and the METI projection level in December. 2008/Q1 figures are based on the assumption that each production level in February and March is the same as that of January.

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

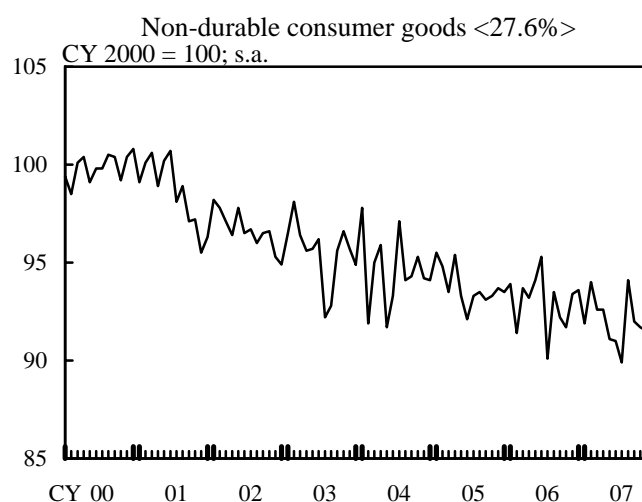
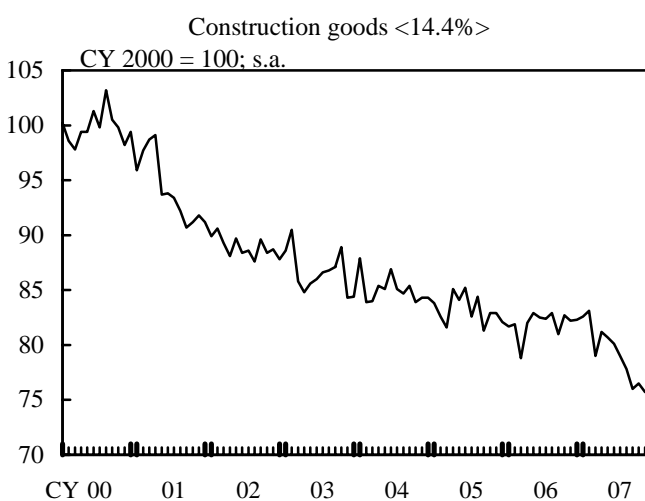
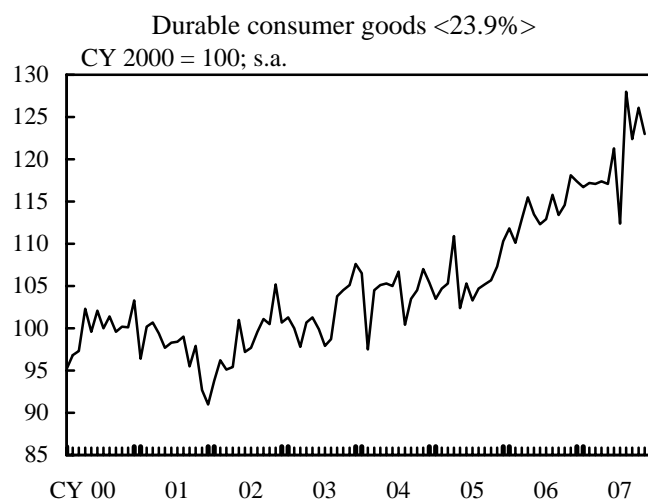
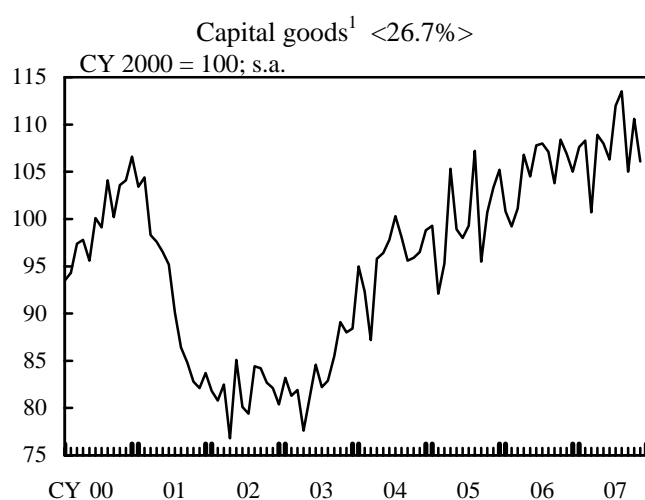
## Shipments Breakdown by Type of Goods

### (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

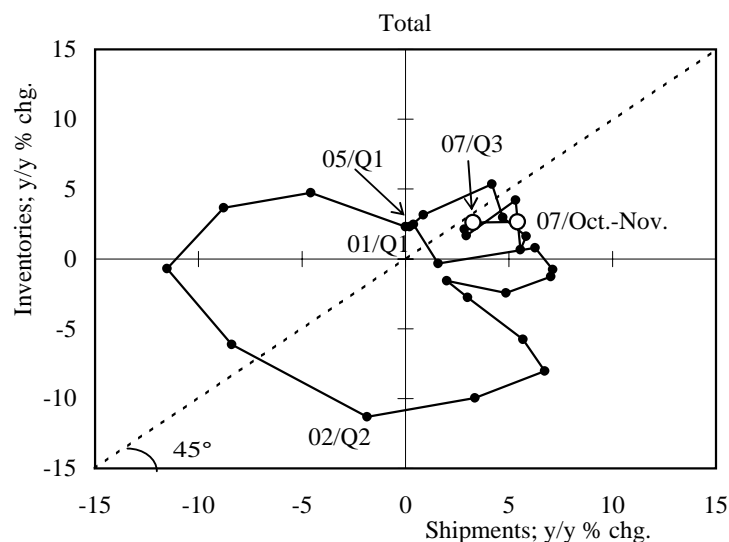


Notes: 1. Excluding transport equipment.

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

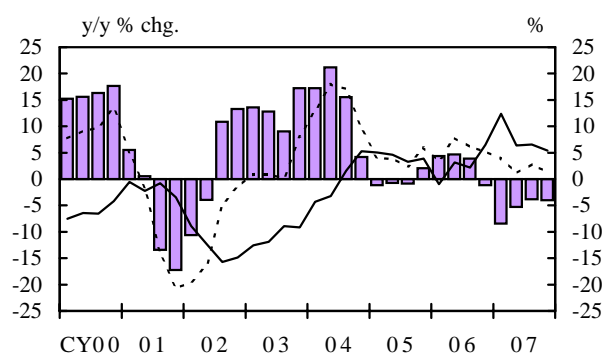
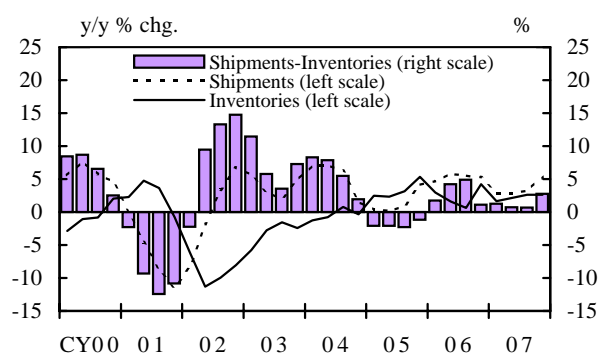
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



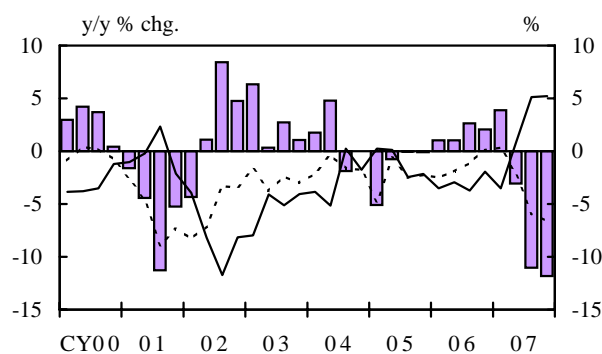
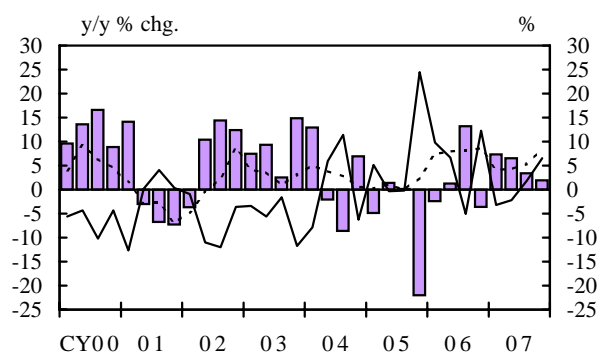
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



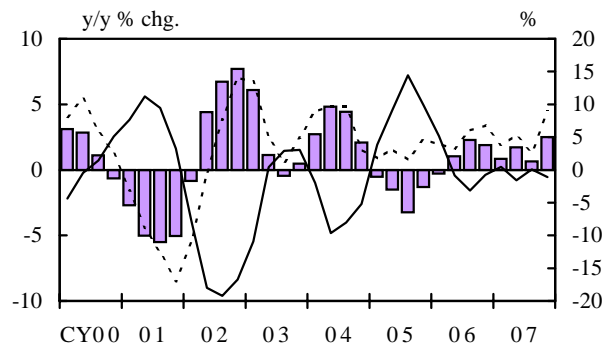
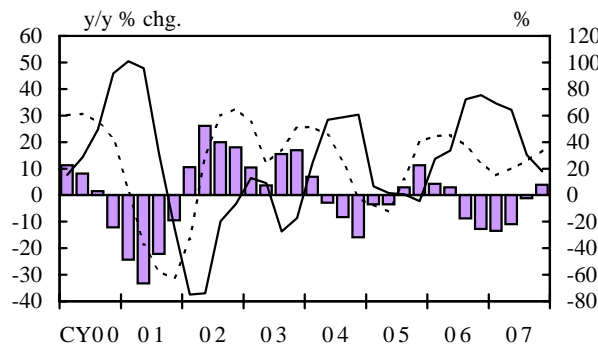
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

(6) Producer Goods Excluding Electronic Parts and Devices



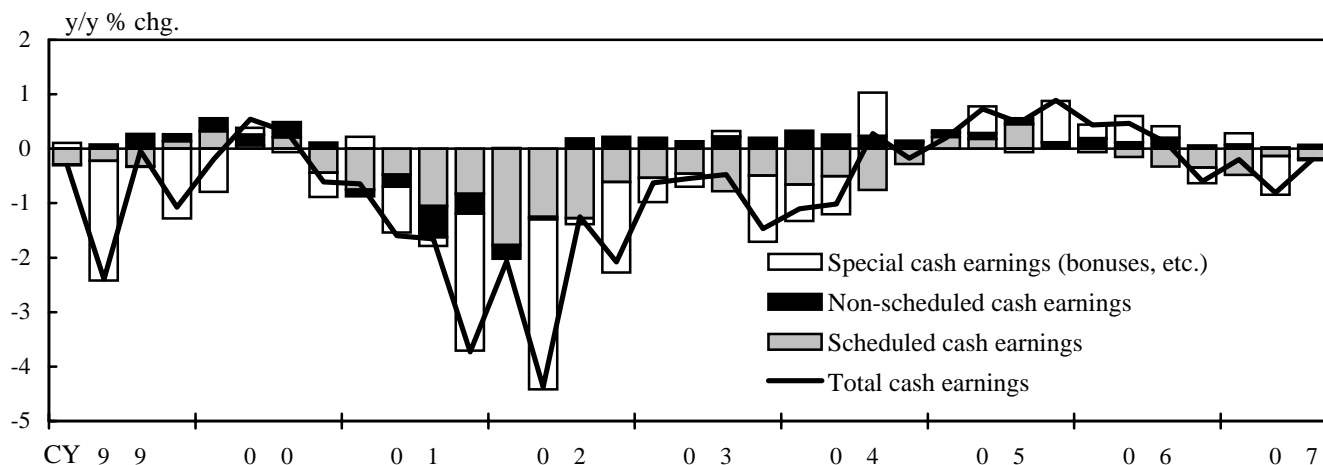
Note: Figures of Shipments for 2007/Q4 are those of October-November averages.

Inventories for 2007/Q4 are those of November.

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

# Employee Income

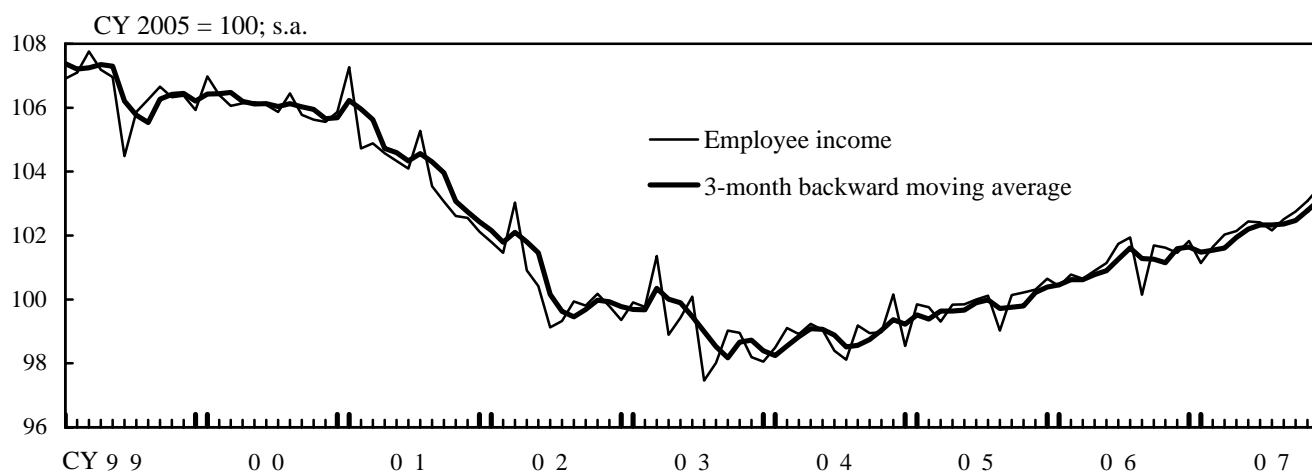
(1) Breakdown of Total Cash Earnings<sup>1,2</sup>



(2) Breakdown of Employee Income<sup>1,2</sup>



(3) Employee Income<sup>1,3,4</sup>

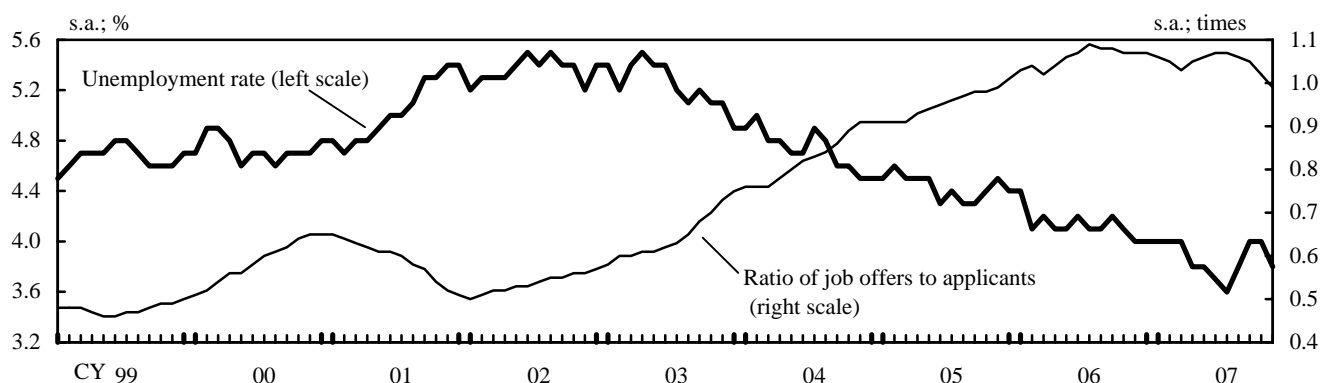
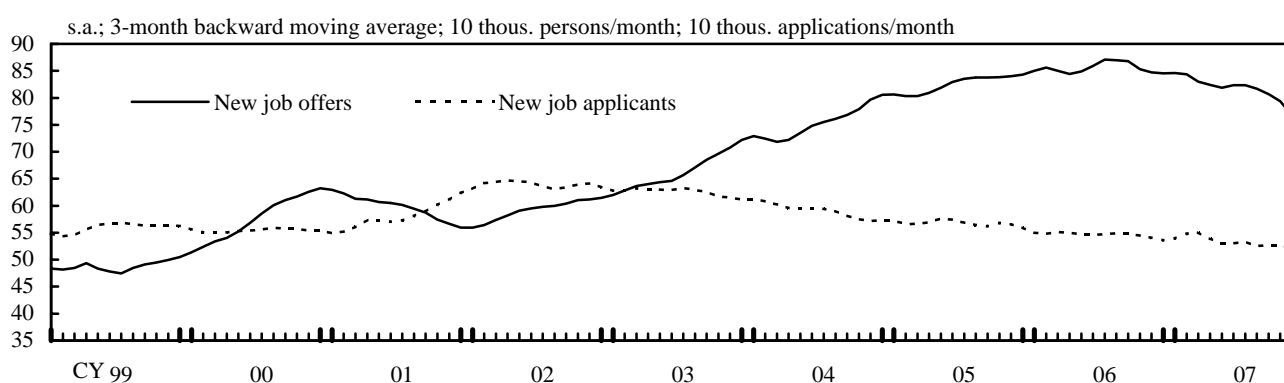
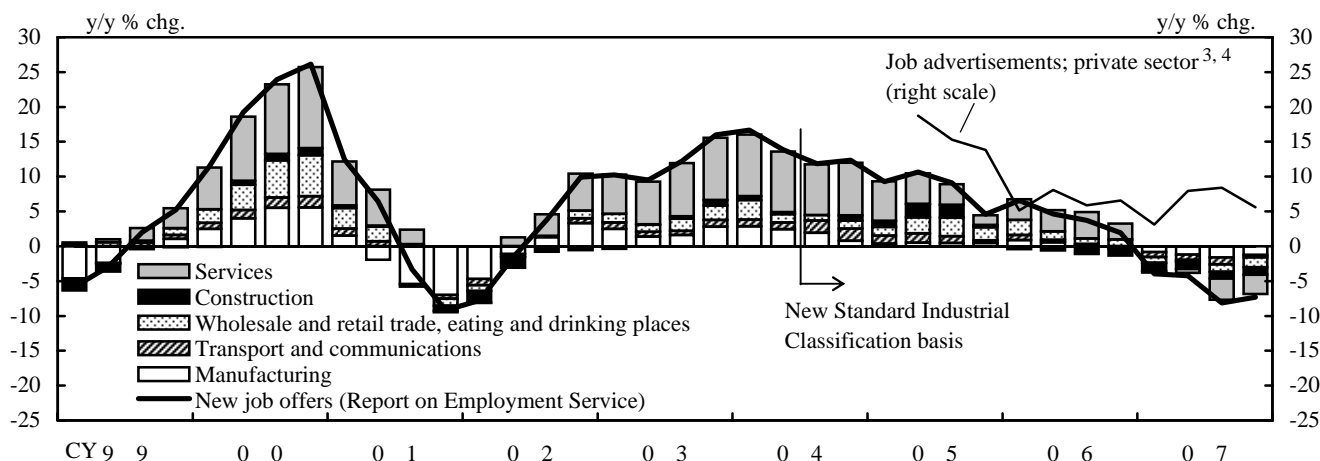


- Notes: 1. Data are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 3. Employee income's figure is calculated by the Bank of Japan as the index of total cash earnings times the index of regular employees divided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

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 Applicants<sup>1</sup>(3) Breakdown of Job Offers<sup>1,2,5</sup>

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

2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum of "electricity and gas," "information and communications" and "transport." "Wholesale and retail trade, eating and drinking places" are the sum of "wholesale and retail trade" and "eating and drinking places, accommodations." "Services" are the sum of "medical, health care and welfare," "education, learning support," "compound services" and "services (not elsewhere classified)."

3. Figures 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 66 companies, respectively.

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

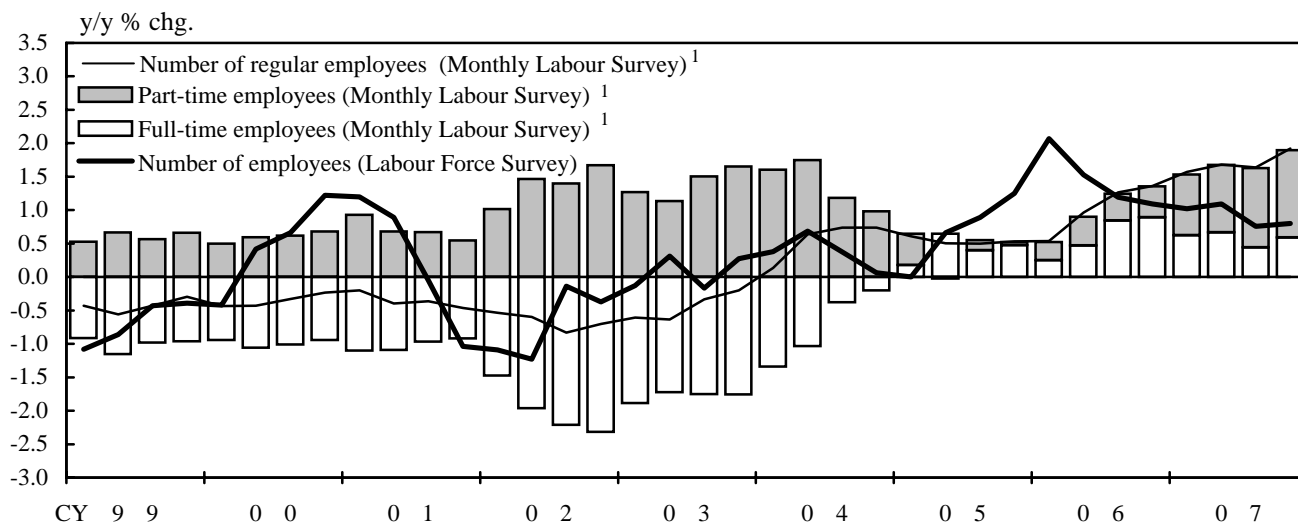
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

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

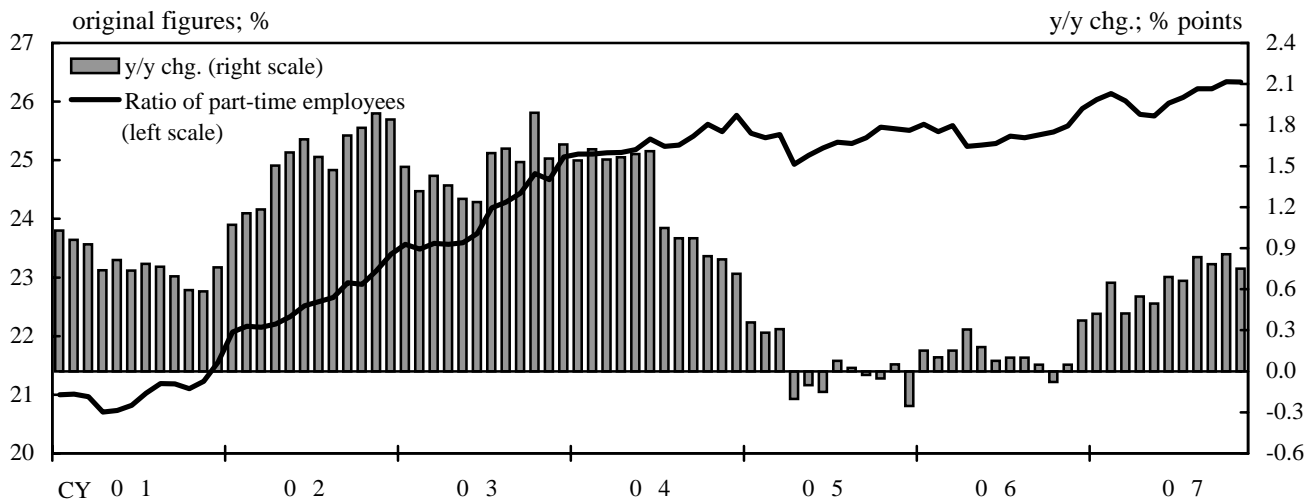
Association of Job Information of Japan, "Kyujin Koukoku Keisaikensu (Survey of Job Advertisements)."

Labor Market (2)

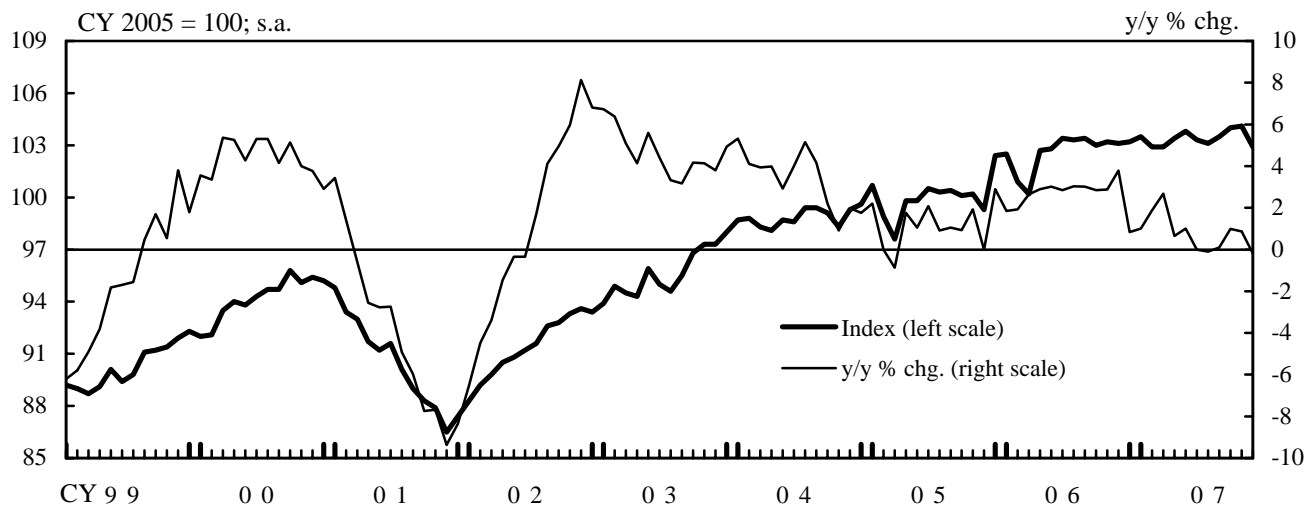
(1) Number of Employees<sup>3</sup>



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



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



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.

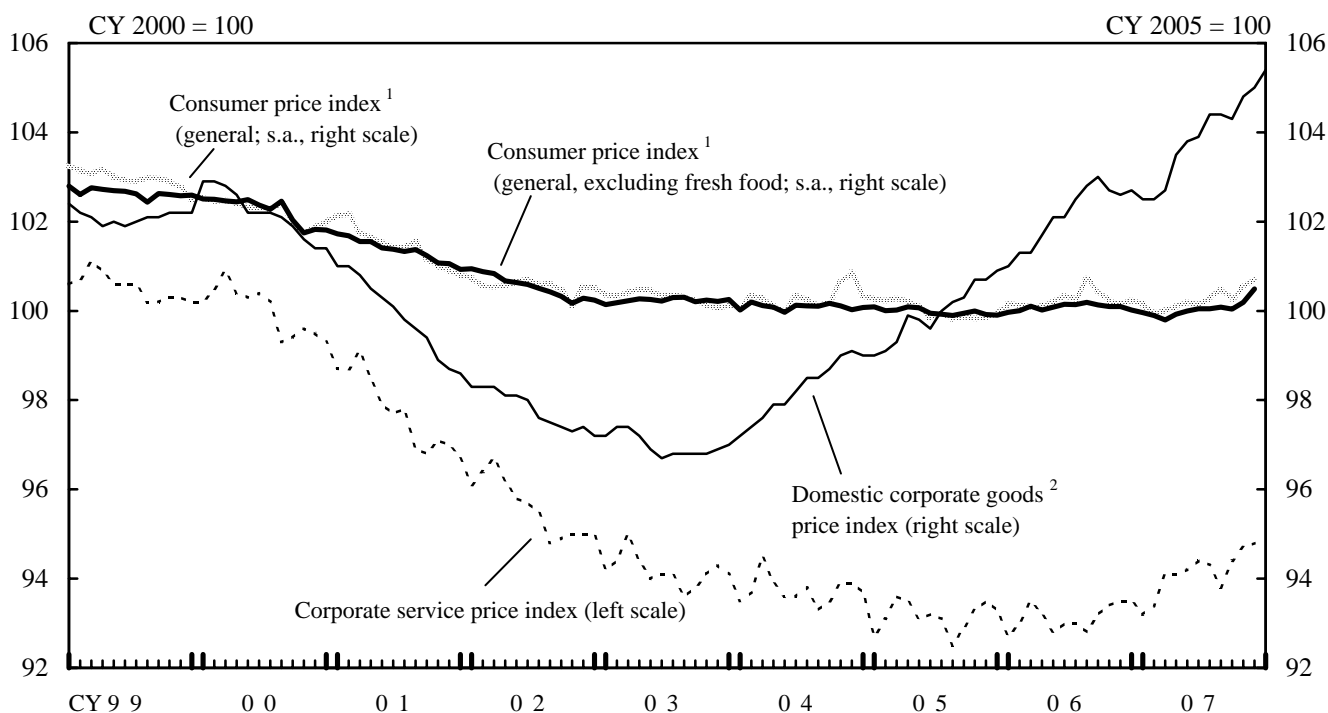
3. Figures for 2007/Q4 are those of October-November.

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

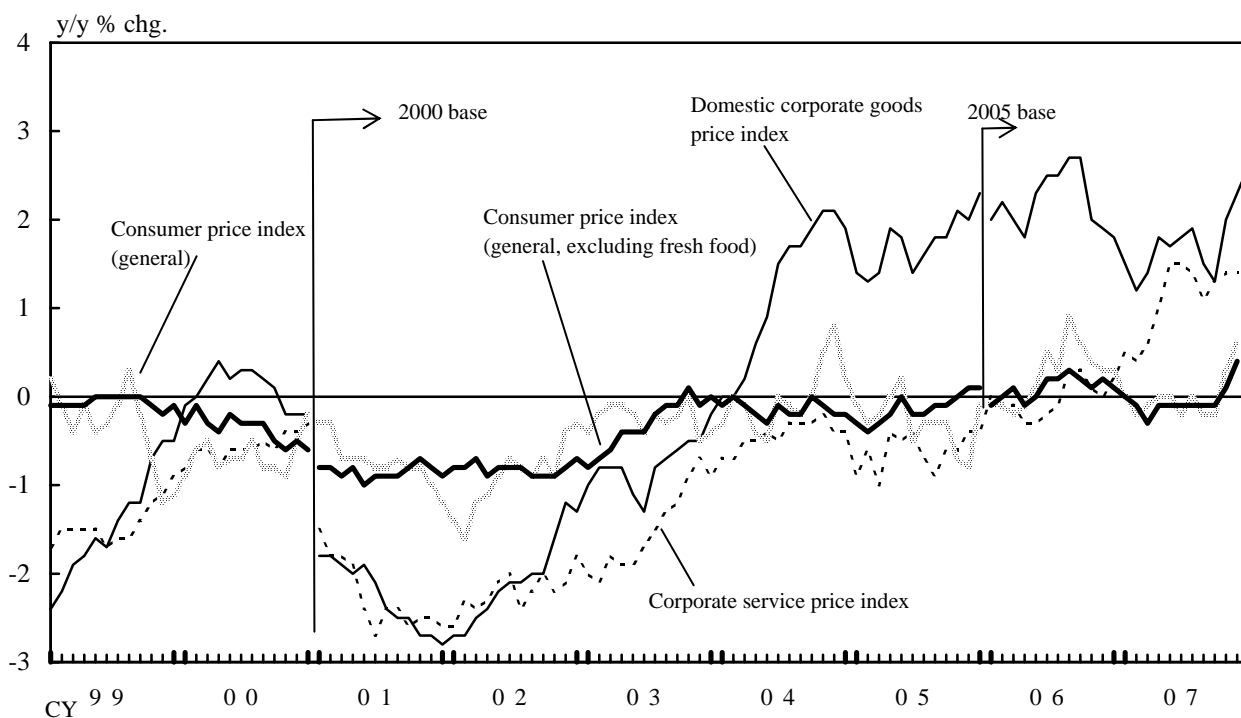


Prices<sup>3</sup>

(1) Level



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



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

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

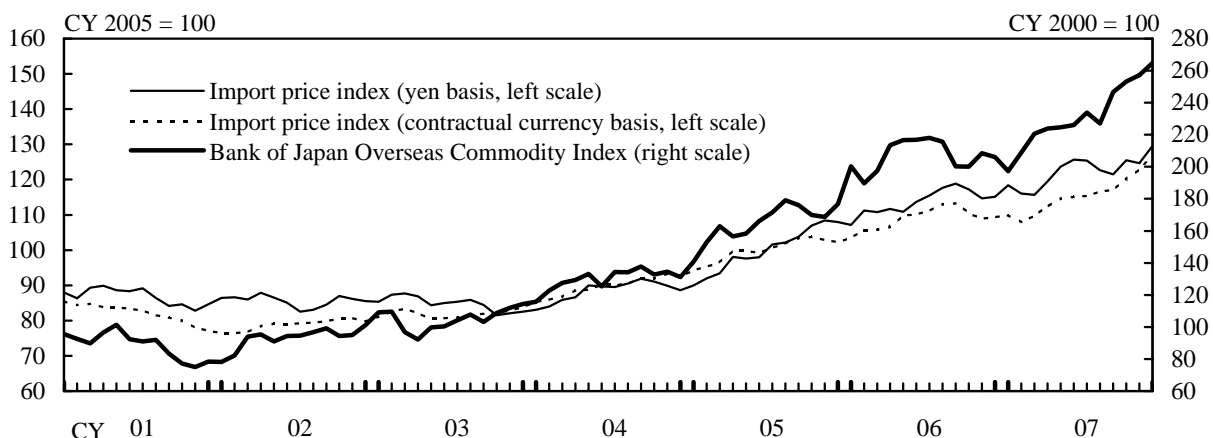
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

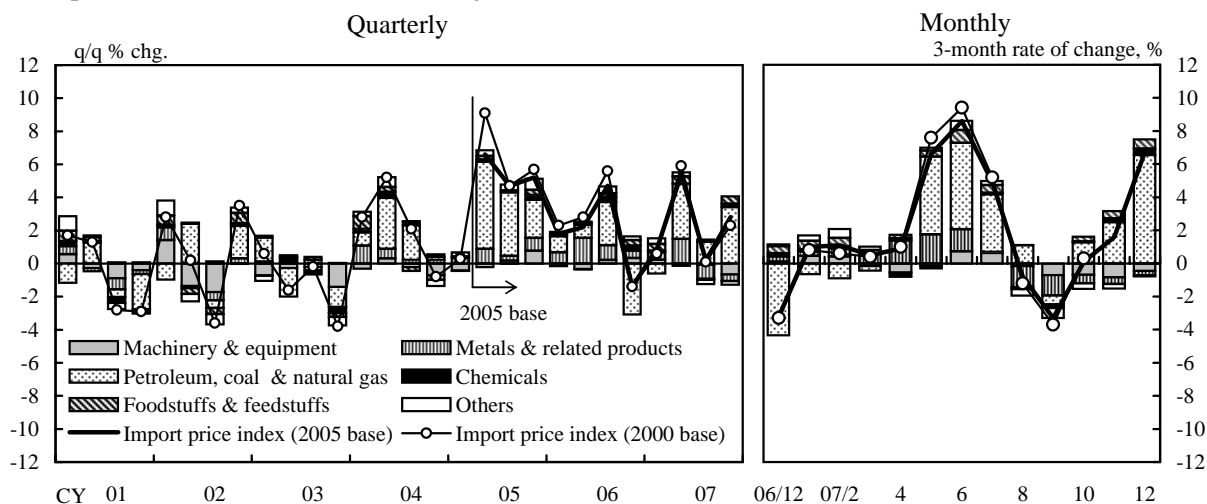
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



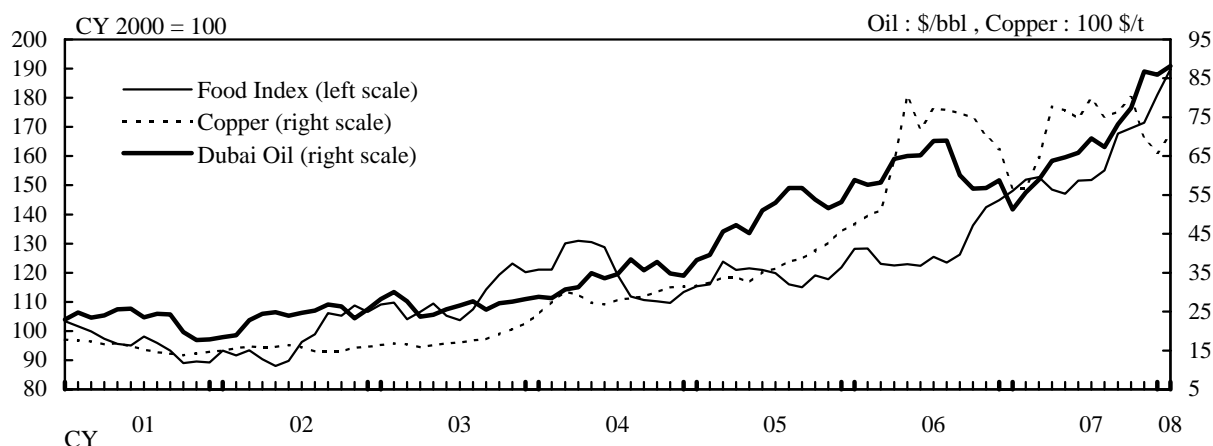
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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 on the 2000 base are those of October.

(3) International Commodity Prices

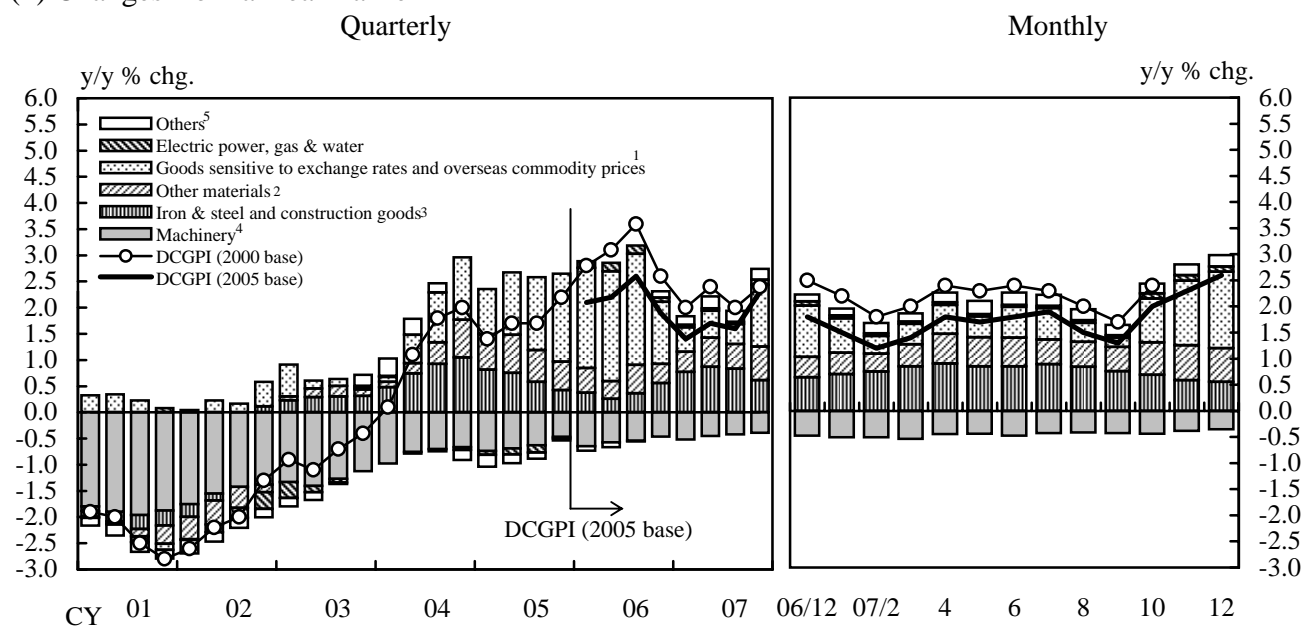
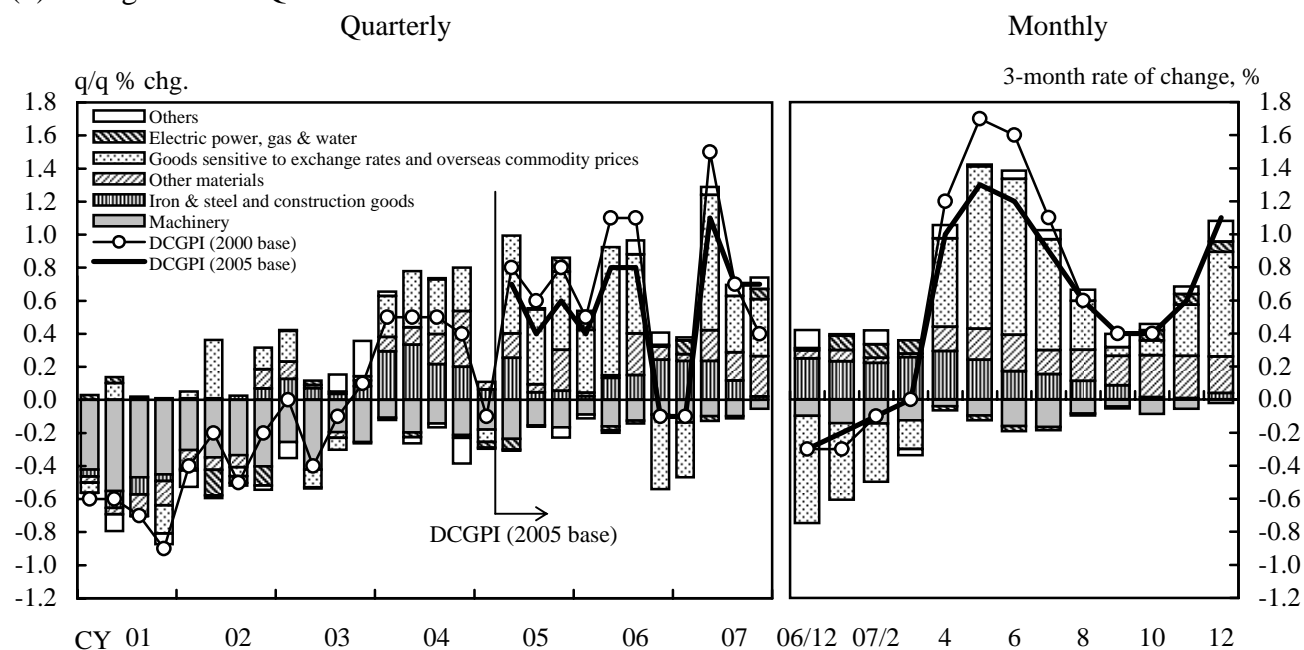


Notes: 1. The Food Index is the weighted average of prices of six selected items (wheat, soybeans, corn, sugar, coffee, live cattle) in overseas commodity markets. The weights are based on the value of imports in 2000 reported in "Japan Exports & Imports."  
 2. Monthly averages. Figures for January 2008 are the averages up to January 21.

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 Index<sup>7</sup>

## (1) Changes from a Year Earlier

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

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.

2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.

3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.

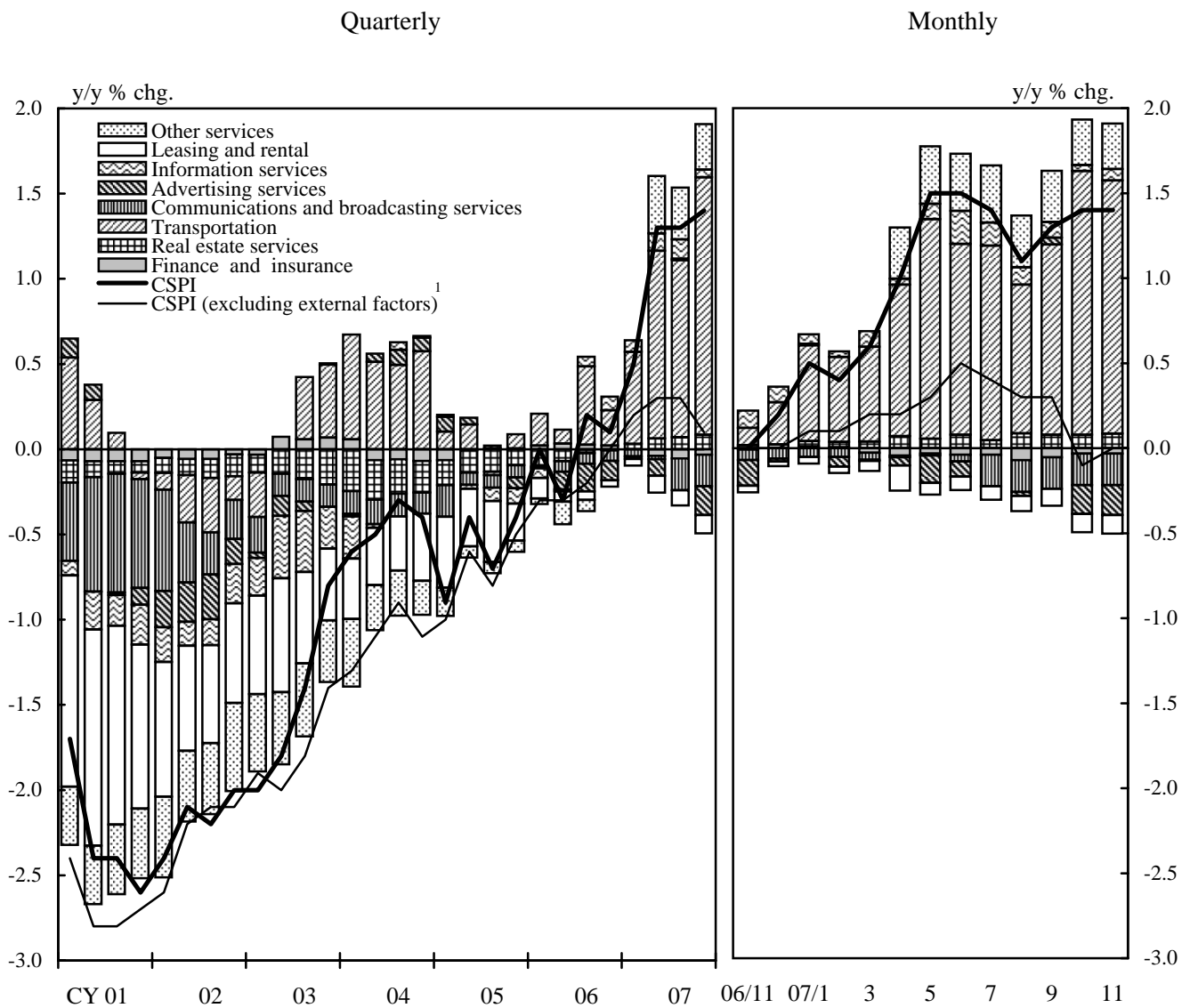
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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 on the 2000 base are those of October.

Corporate Service Price Index



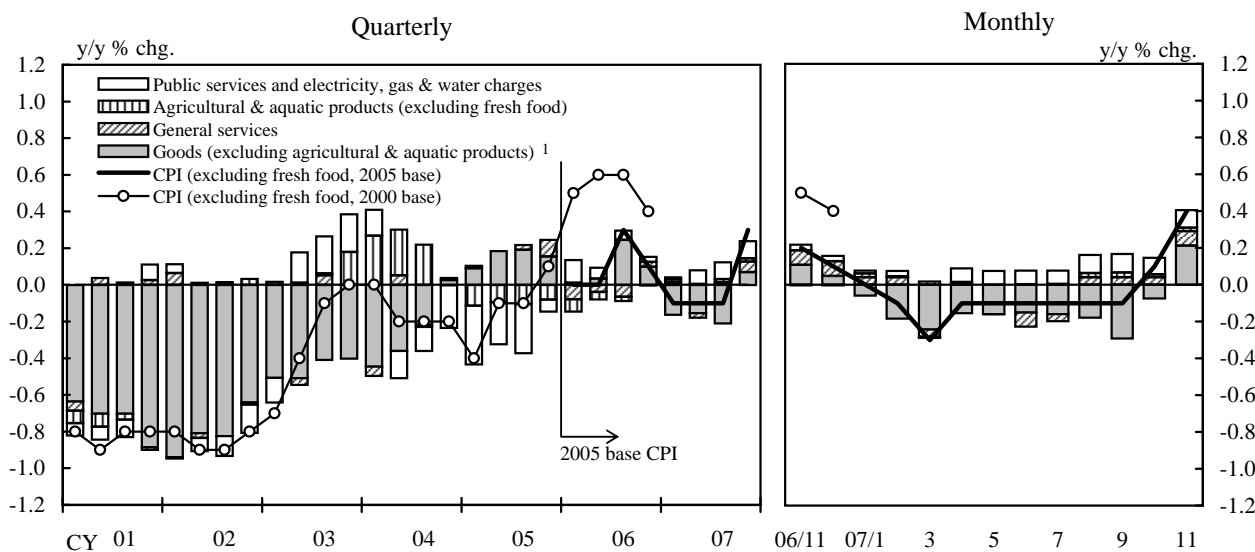
Notes: 1. External factors; international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2007/Q4 are October-November averages.

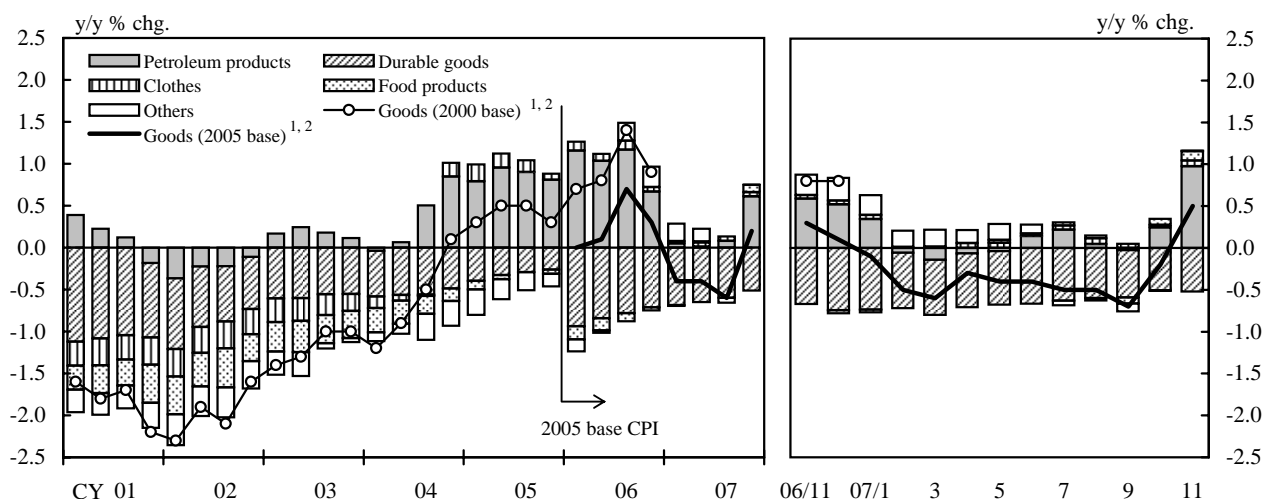
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

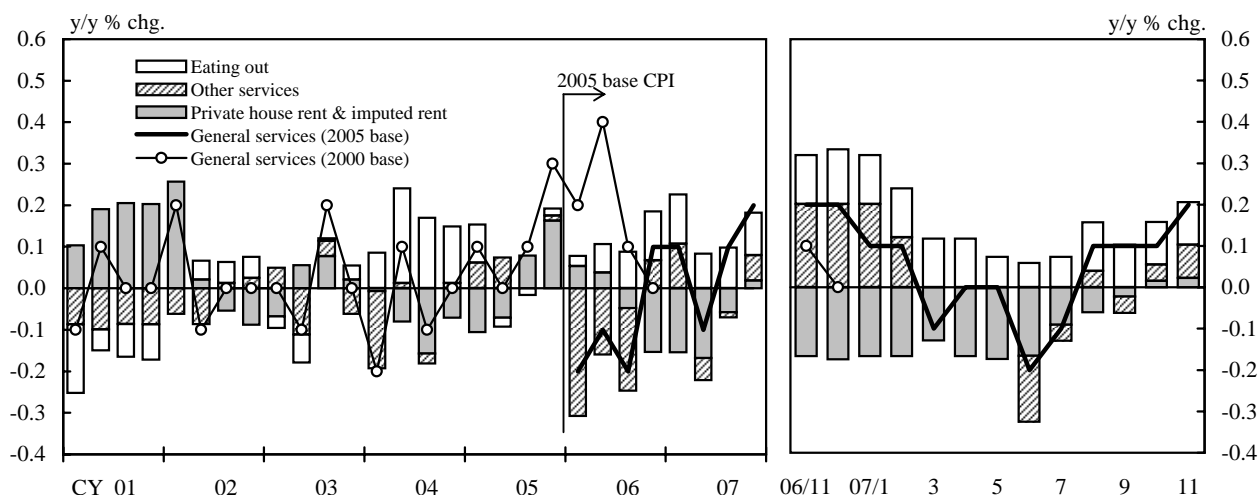
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



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

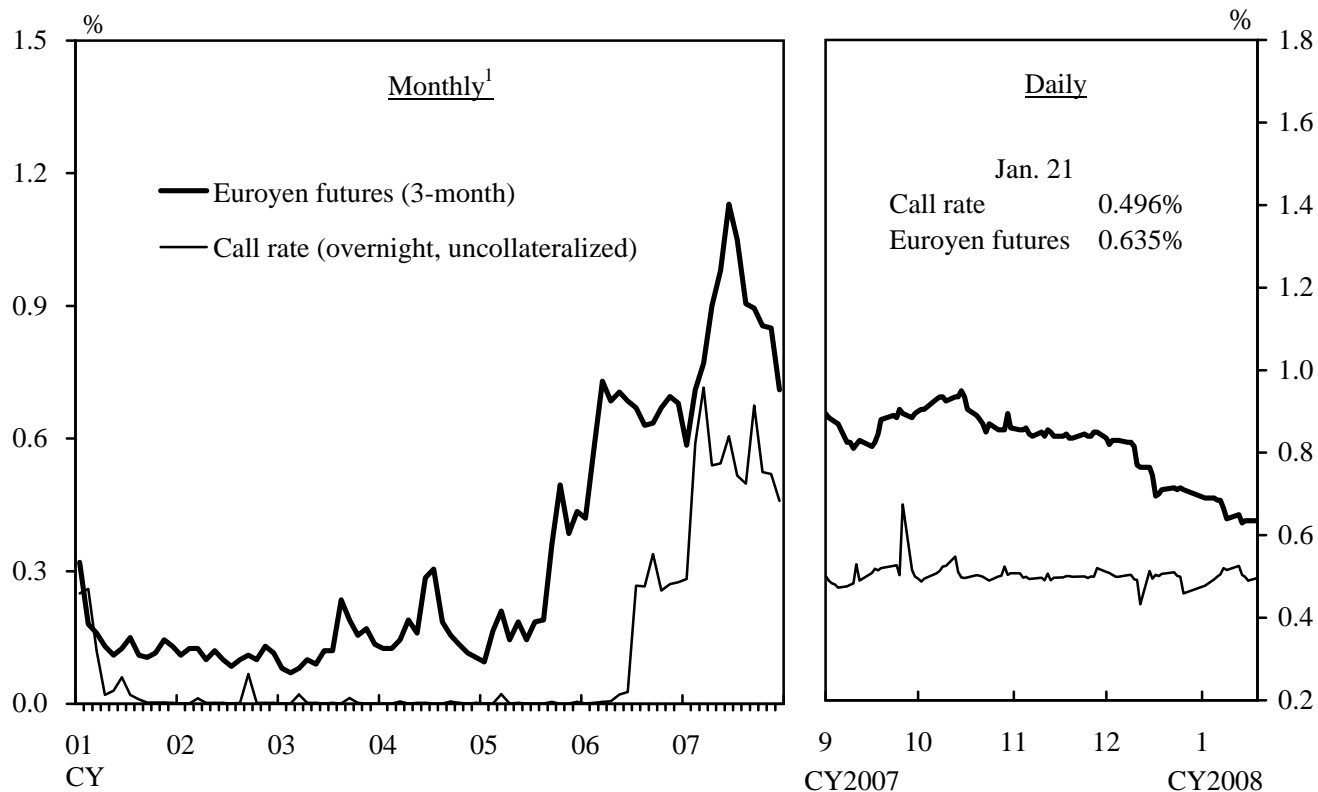
2. Excluding agricultural & aquatic products.

3. Figures for 2007/Q4 are October-November averages.

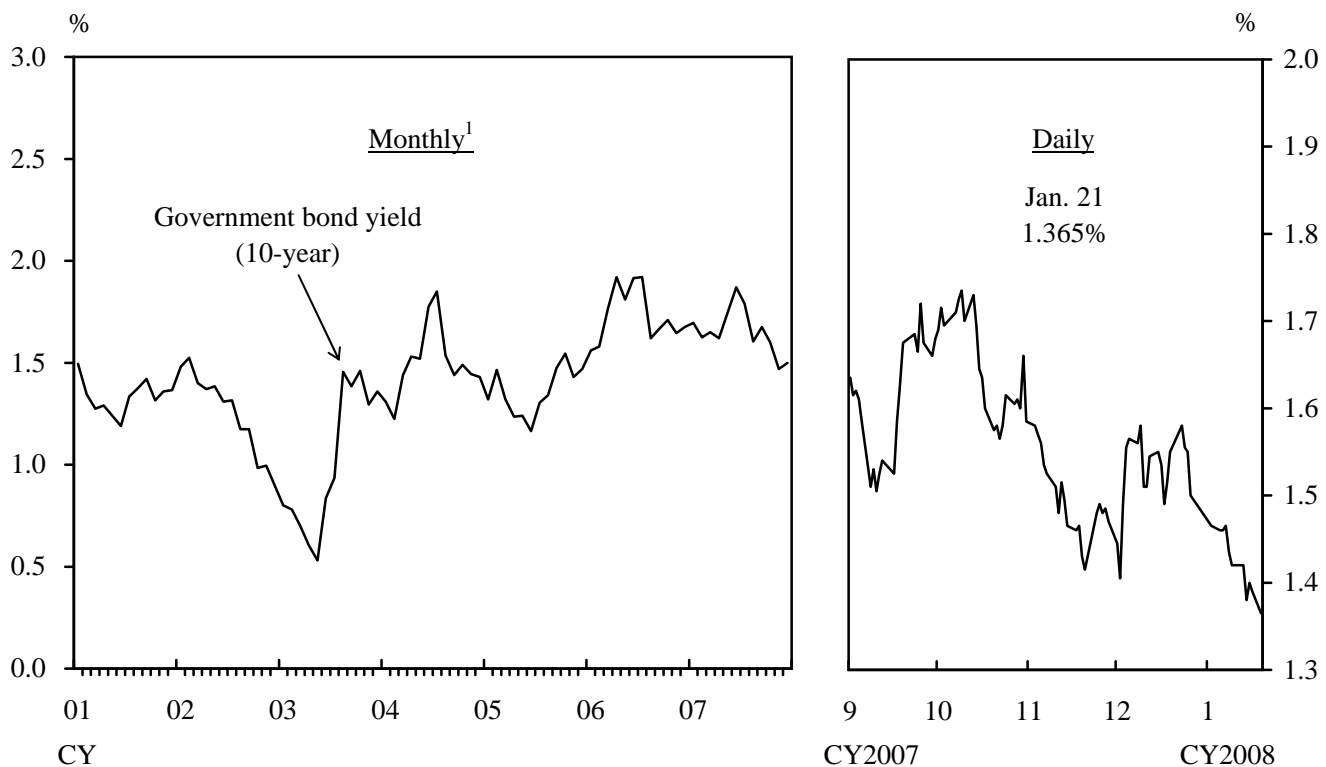
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term

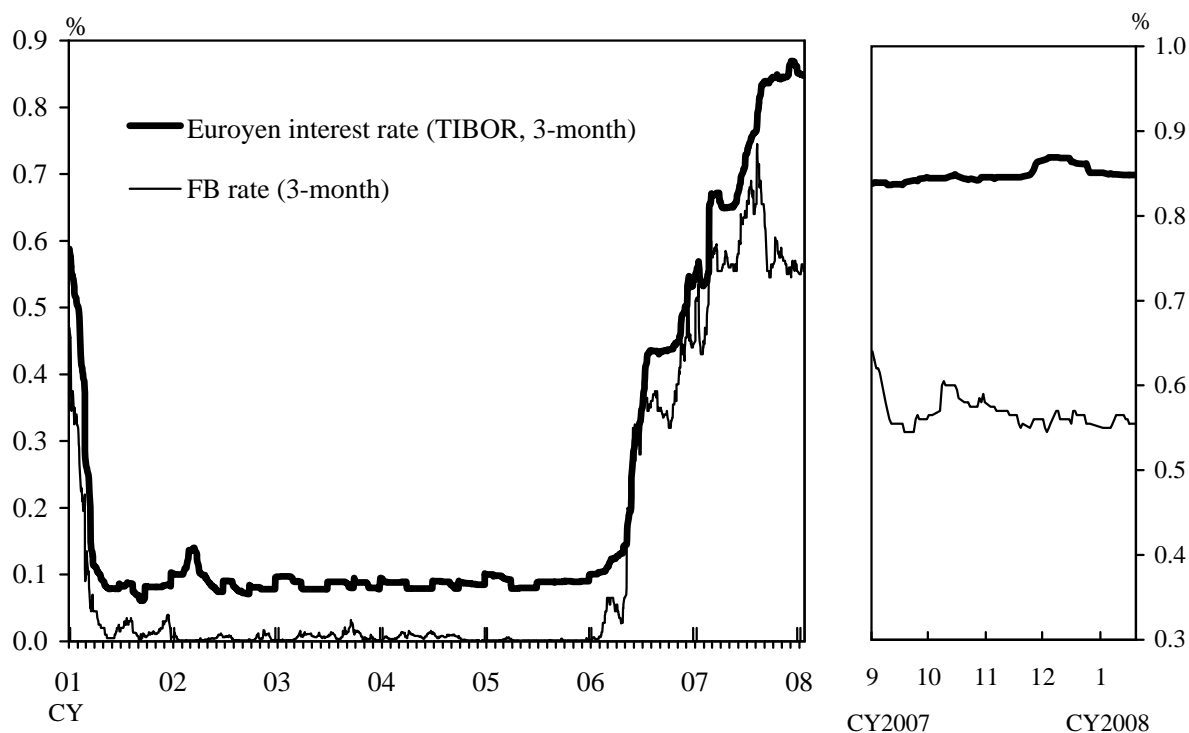


Note: 1. End of month.

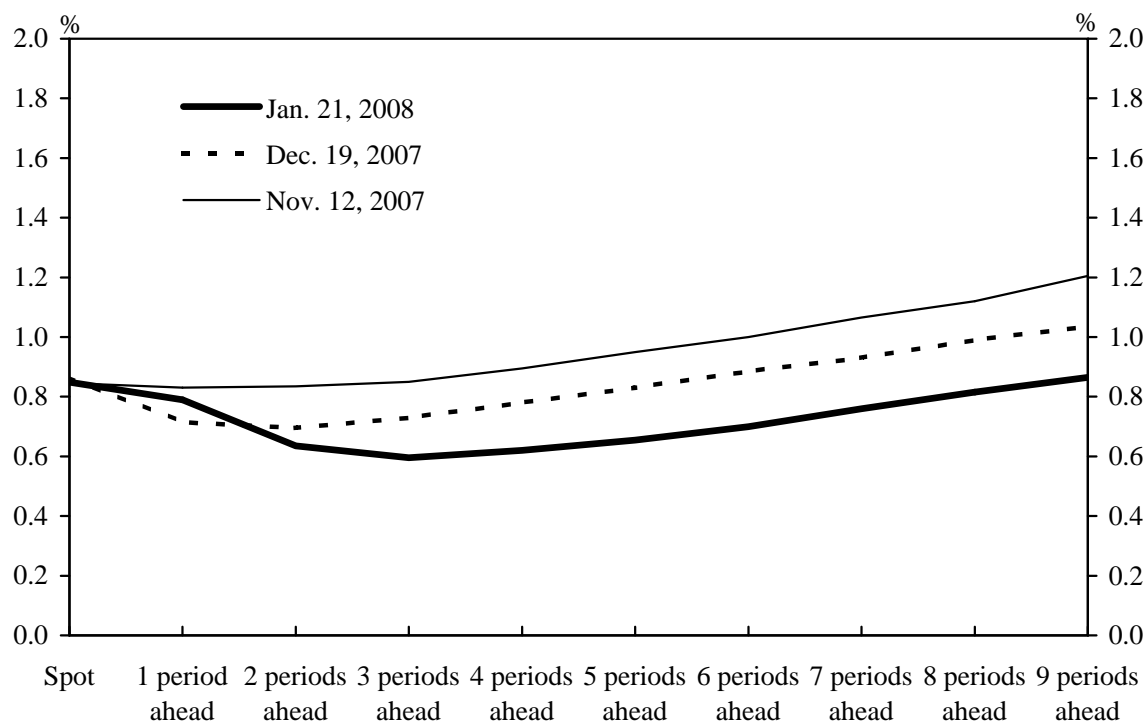
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



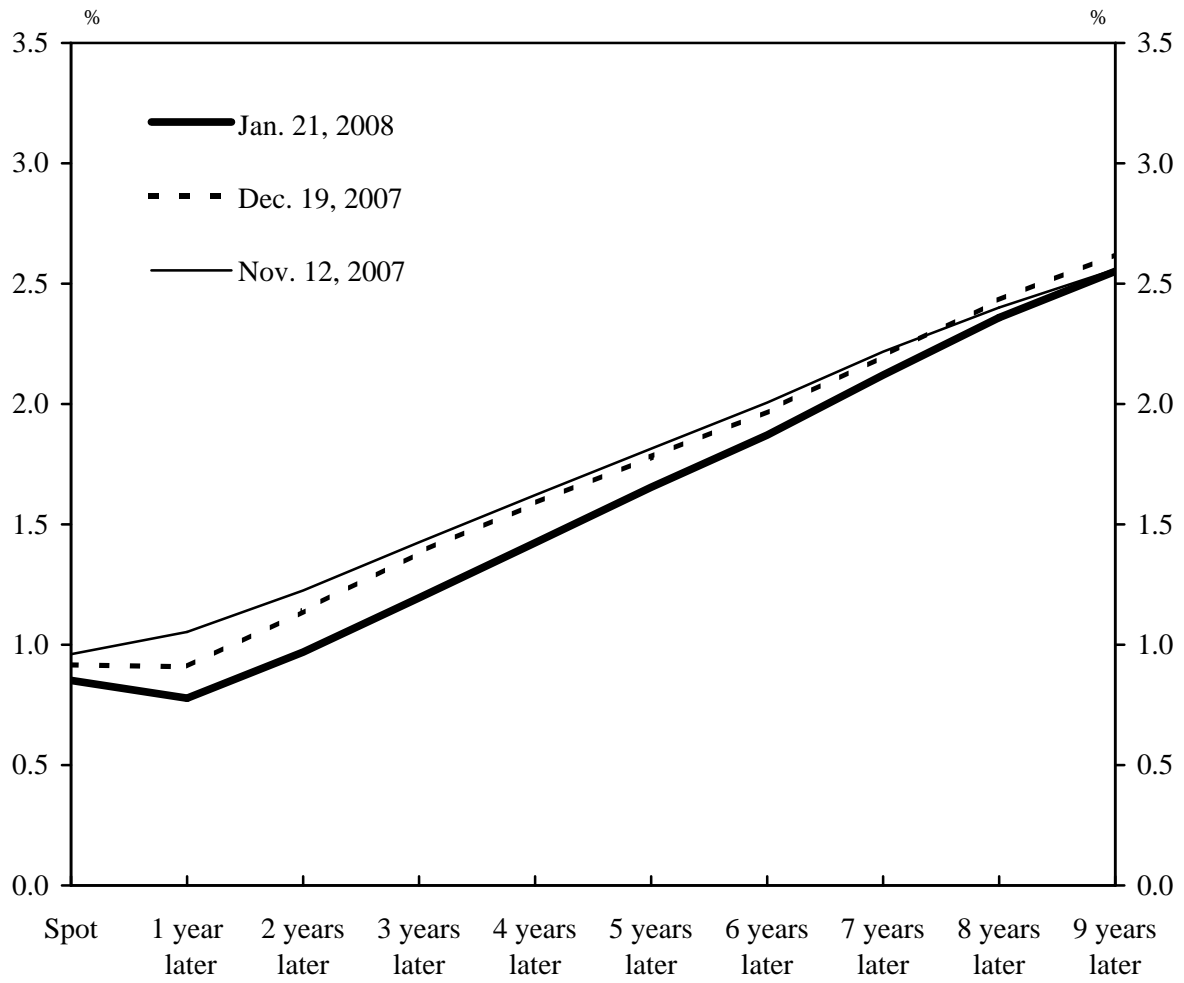
(2) Euroyen Interest Rates Futures (3-Month) <sup>1</sup>



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

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

Implied Forward Rates (1-Year)



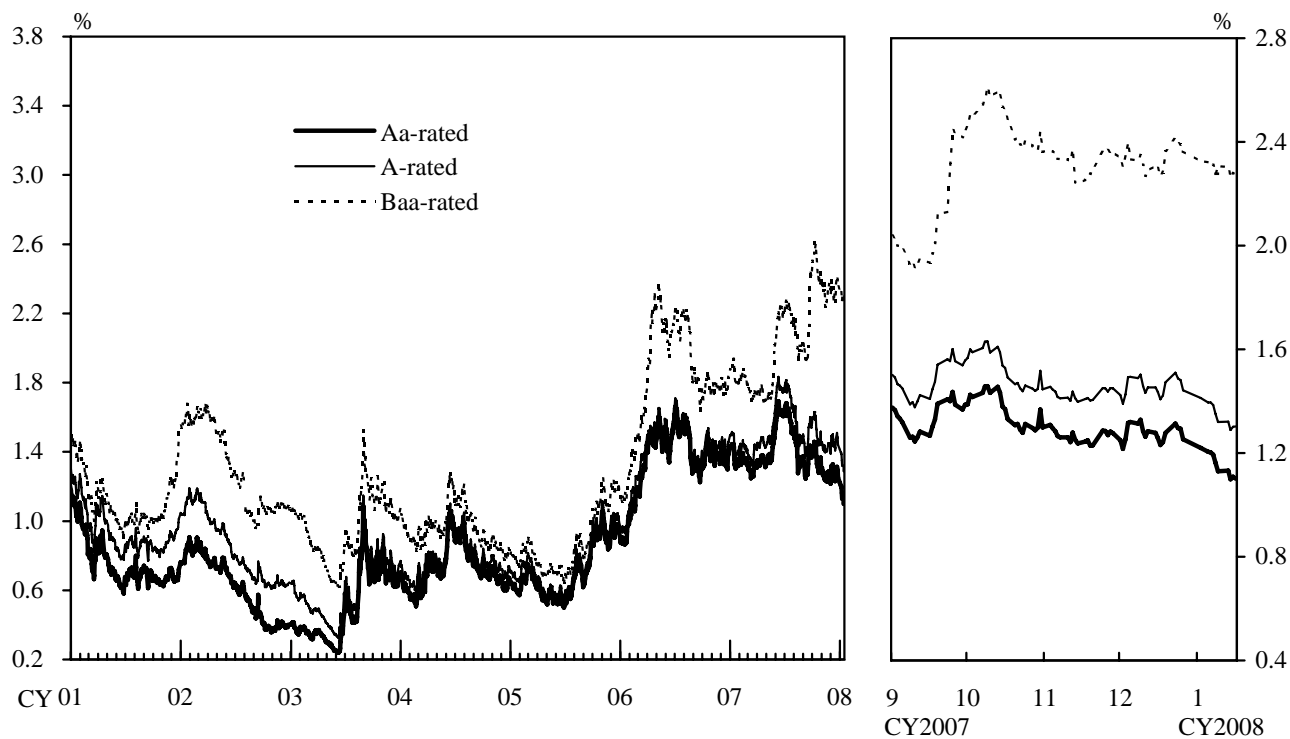
Note: Calculated from yen-yen swap rates.

Source: Reuters.

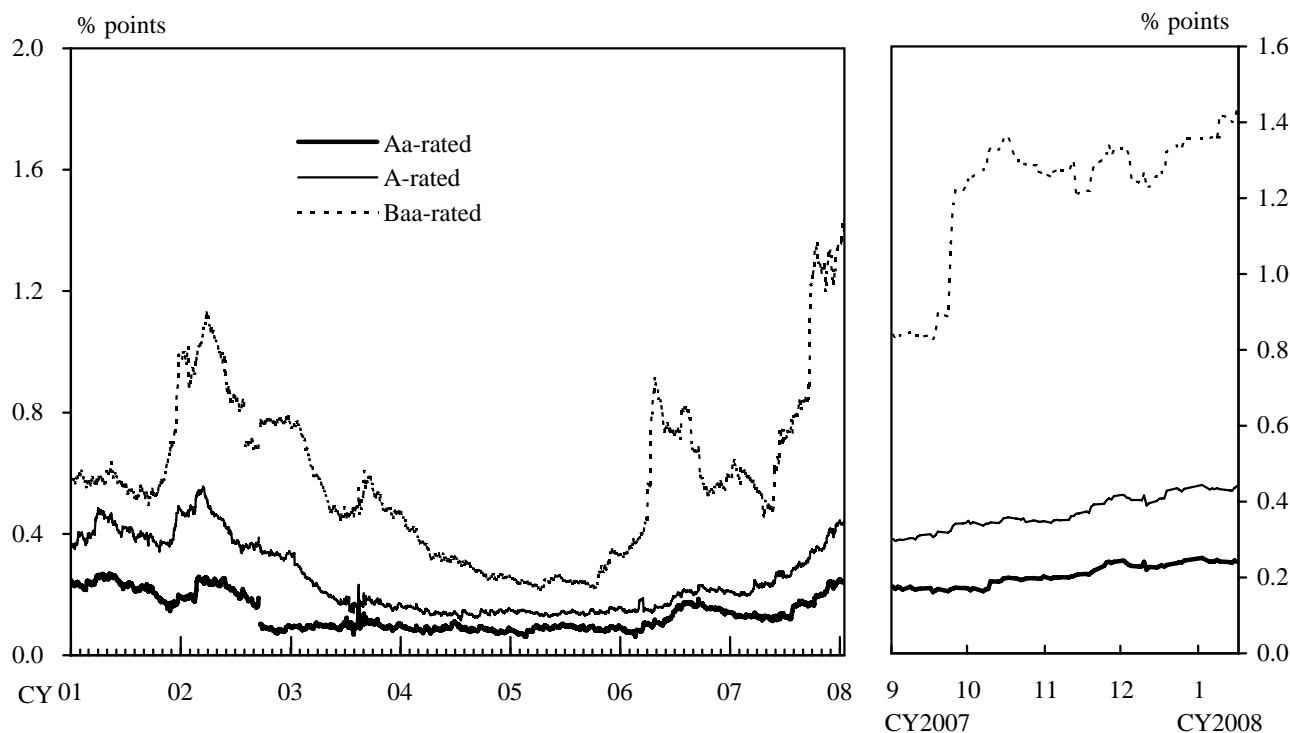


Yields of Corporate Bonds

(1) Corporate Bond Yields



(2) Spreads of Corporate Bond Yields over Government Bond Yields



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

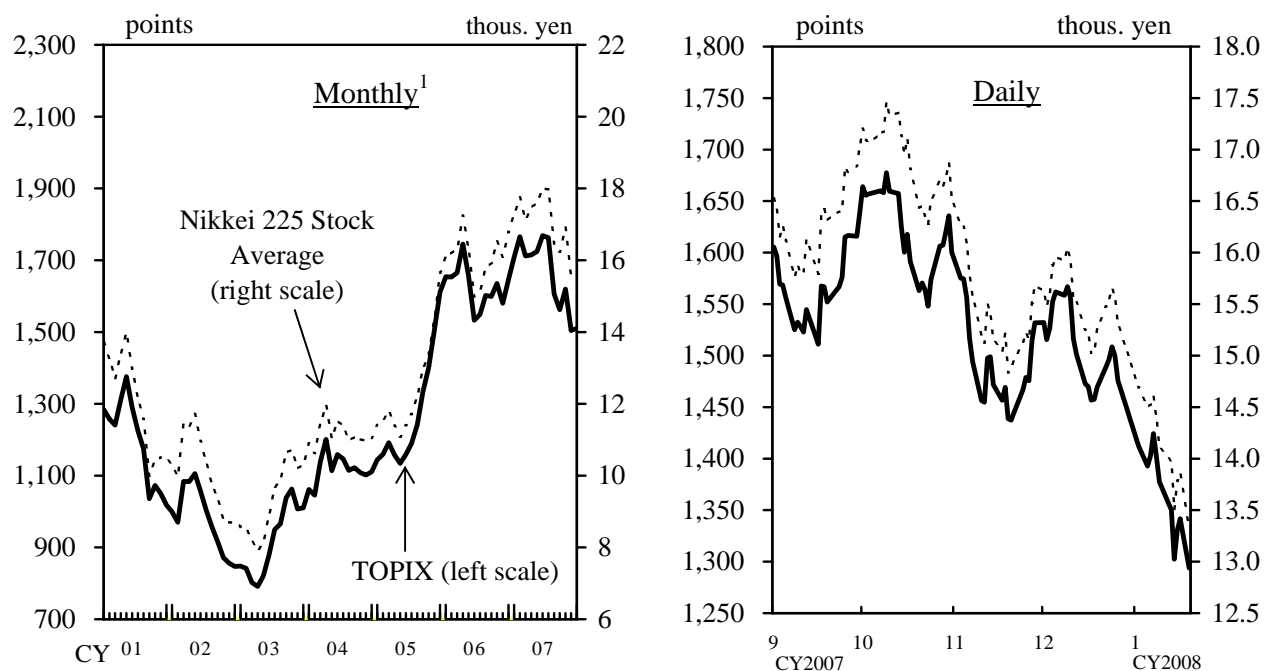
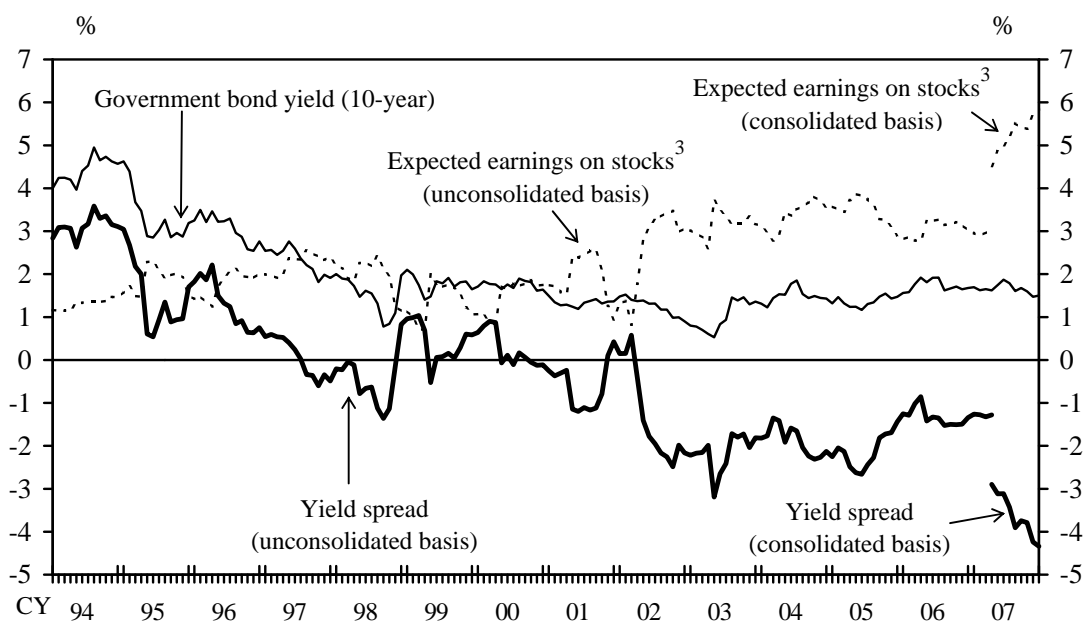
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

2. The indicated ratings are of Moody's.

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

## Stock Prices

## (1) Stock Prices

(2) Yield Spread<sup>2,4</sup>

Notes: 1. Data are monthly averages.

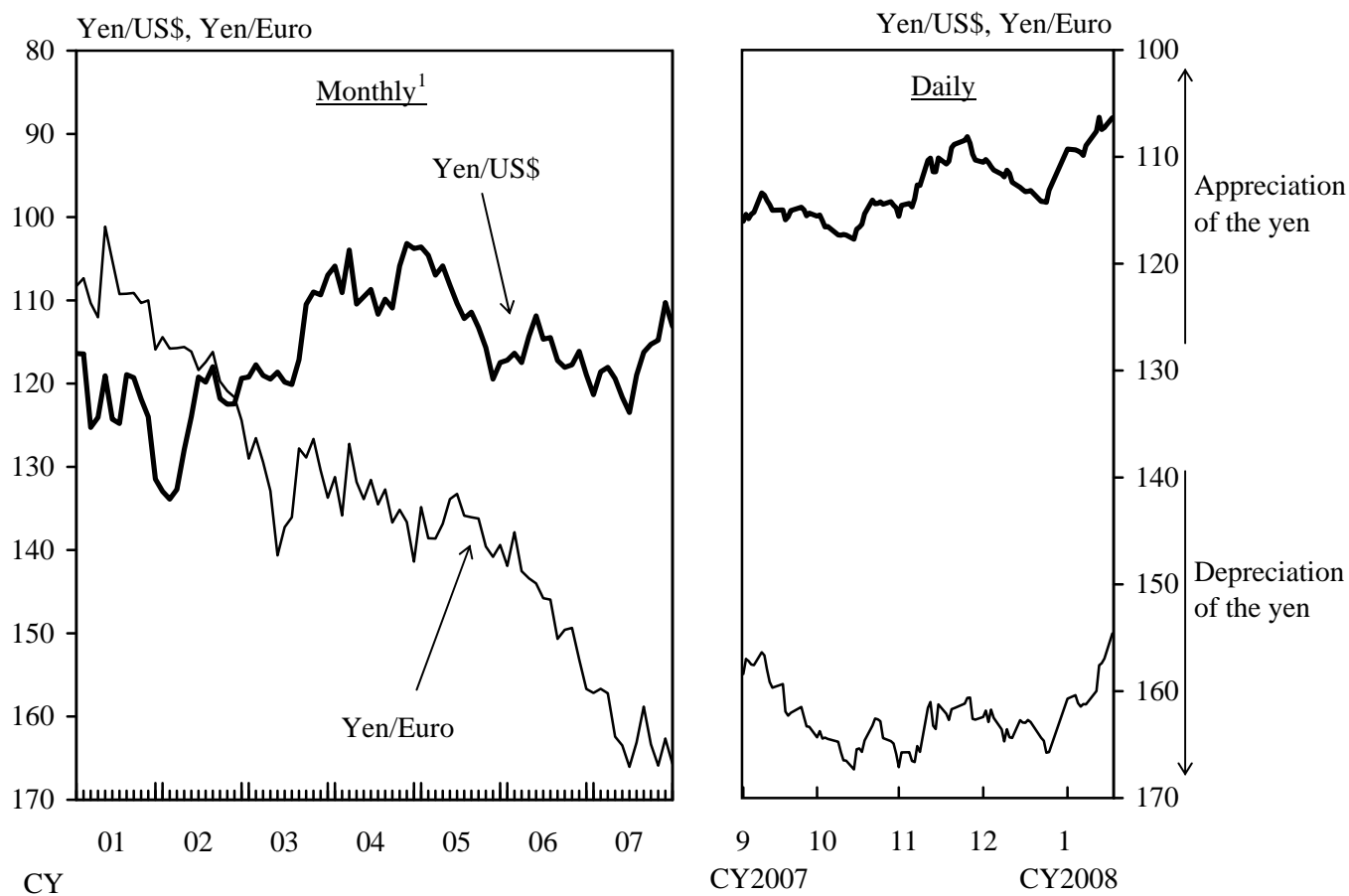
2. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

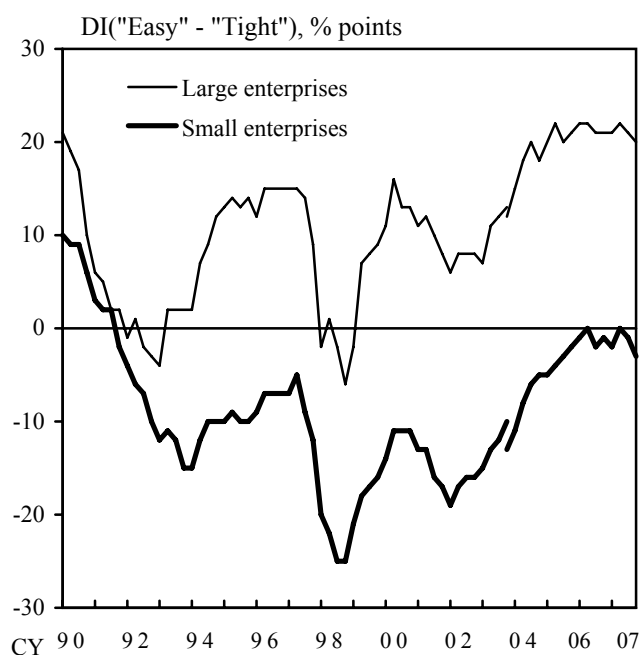


Note: 1. End of month.

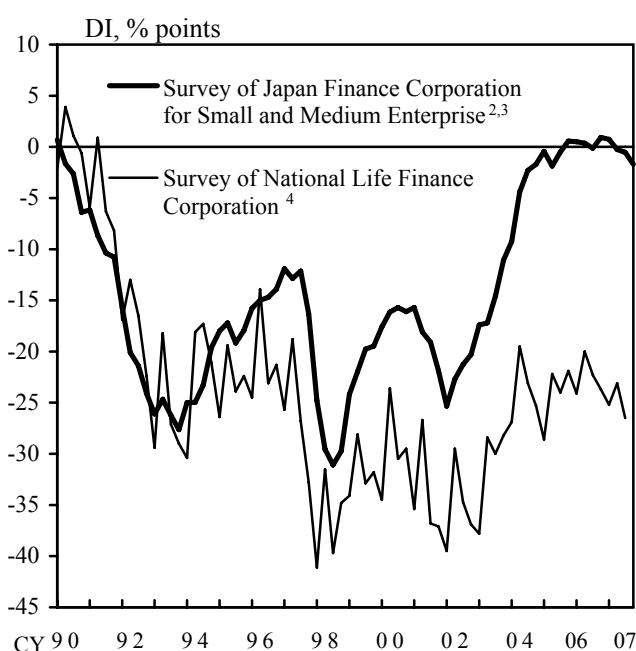
Source: Bank of Japan.

## Corporate Finance-Related Indicators

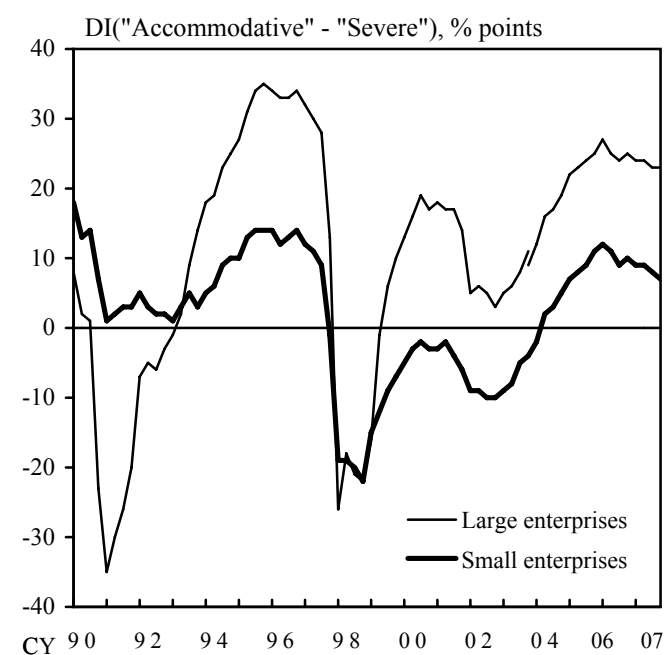
## (1) Financial Position

<Tankan<sup>1</sup>>

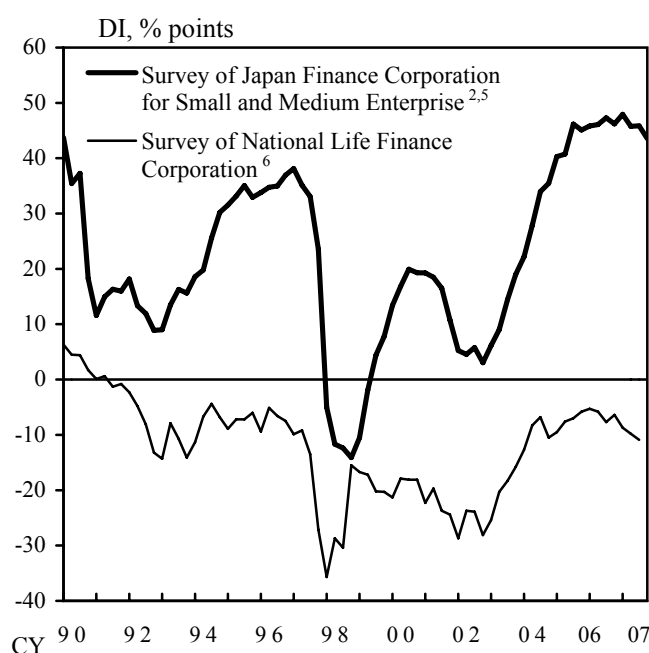
&lt;Other Surveys&gt;



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

<Tankan<sup>1</sup>>

&lt;Other Surveys&gt;



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

2. Figures are quarterly averages of monthly data.

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

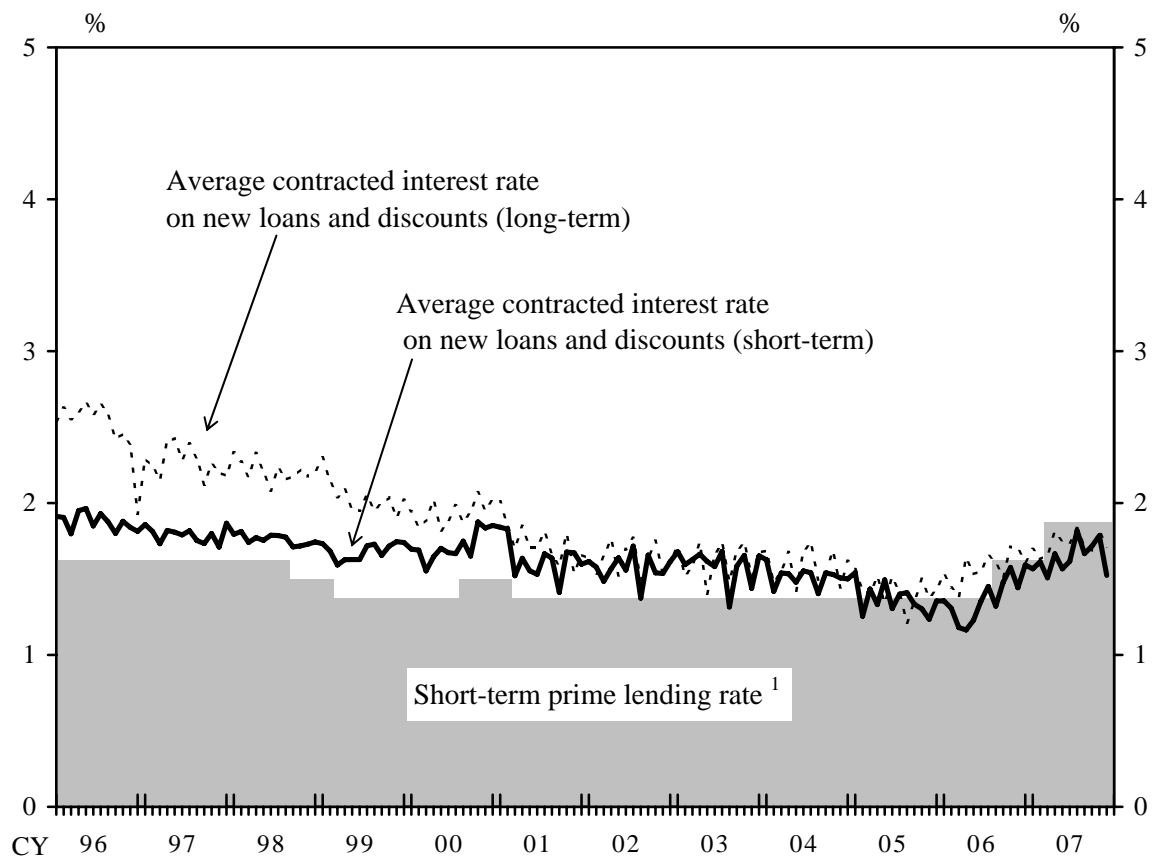
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

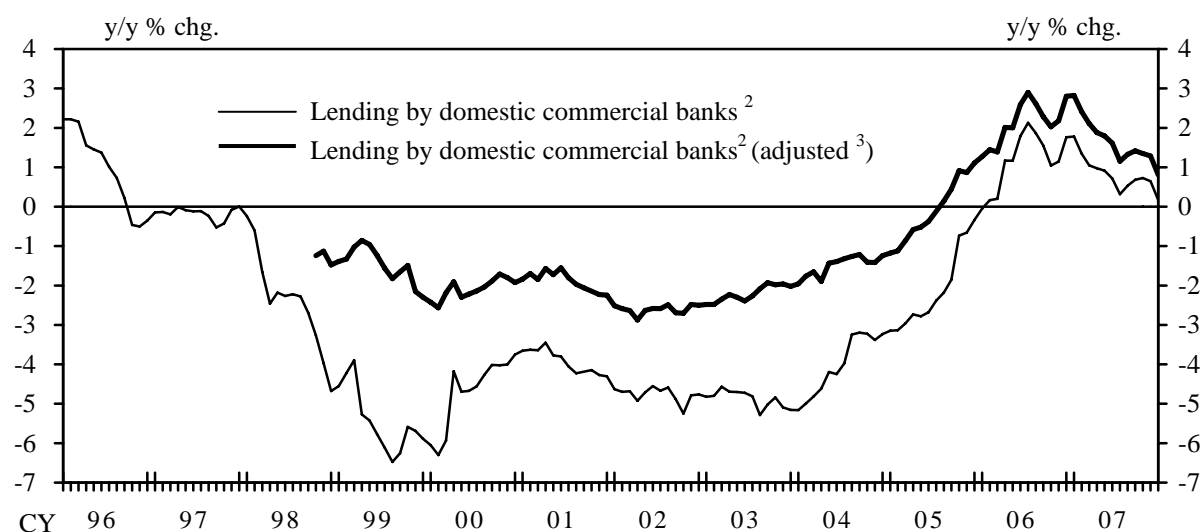


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

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



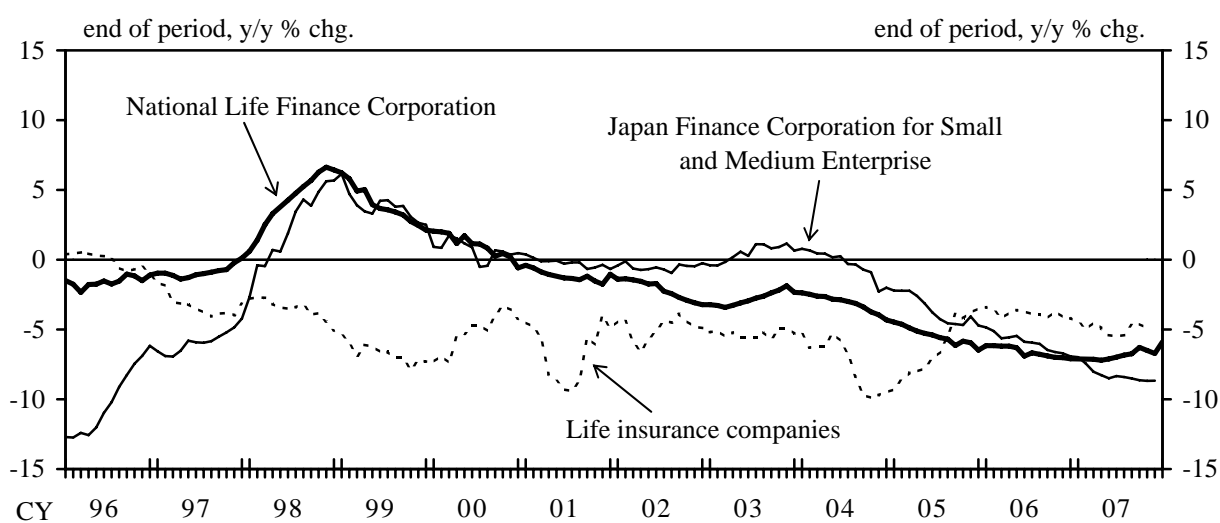
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

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

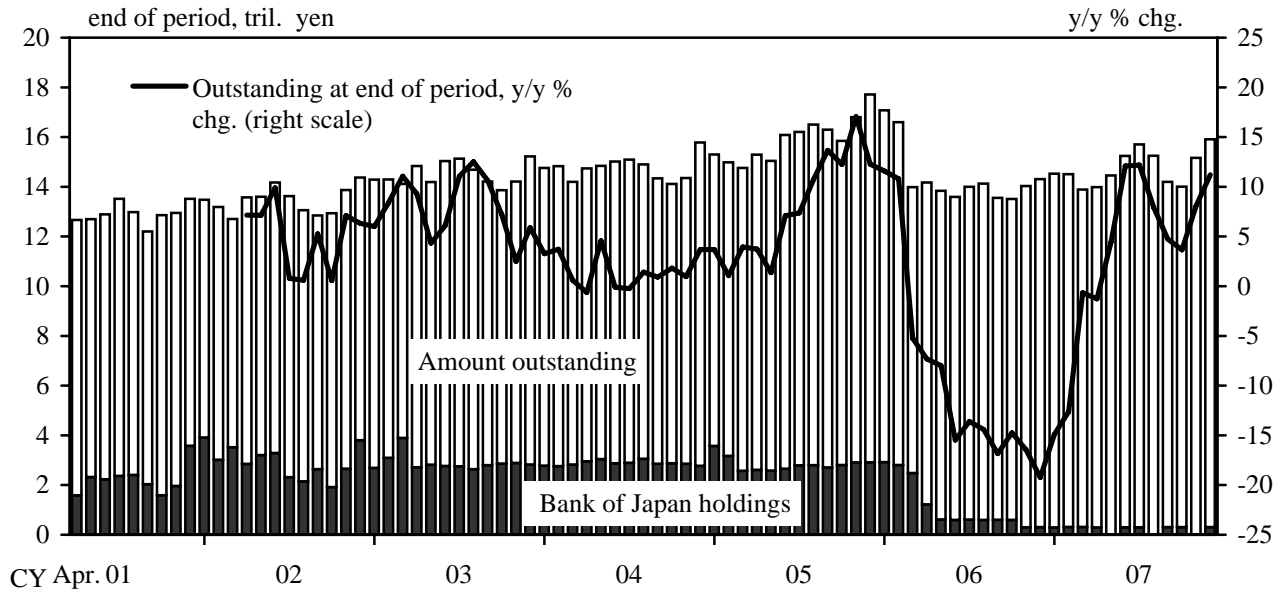
### (2) Lending by Other Financial Institutions



Source: Bank of Japan.

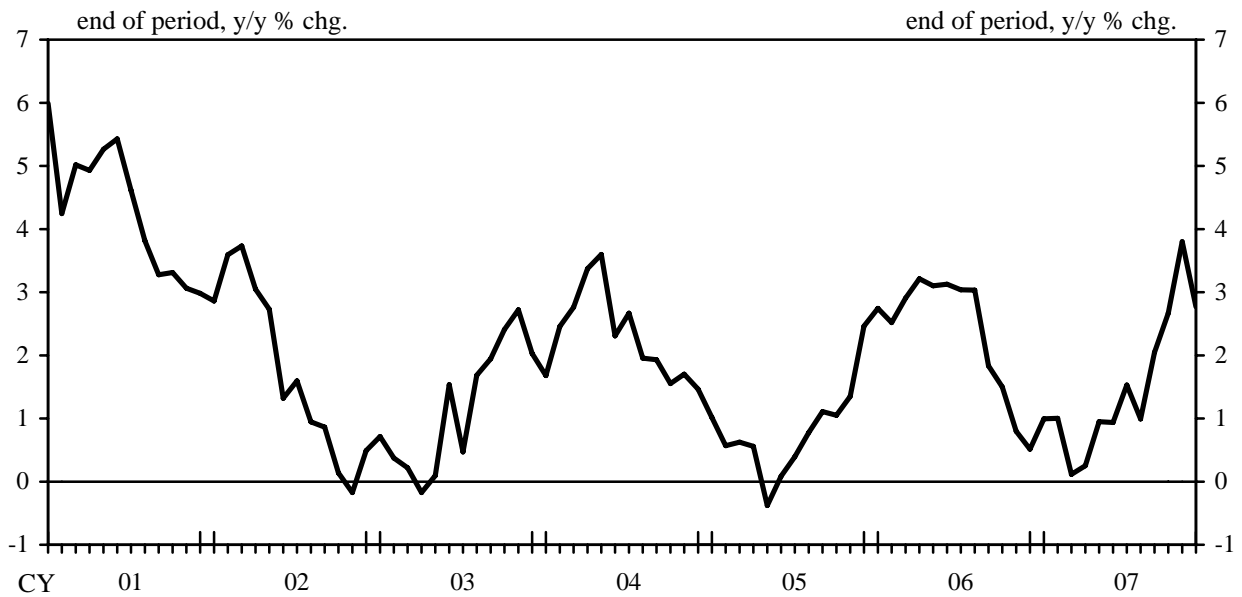
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



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

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

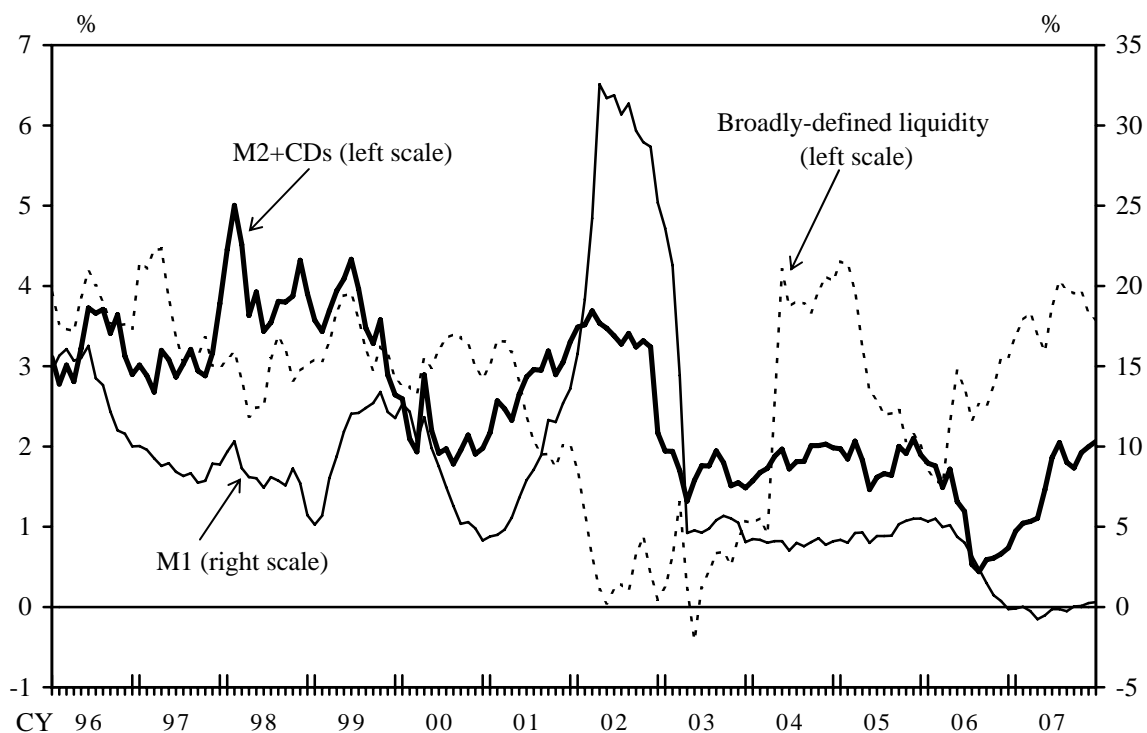


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:  
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.  
 (2) Bonds issued by banks are included.  
 (3) The figure as of the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

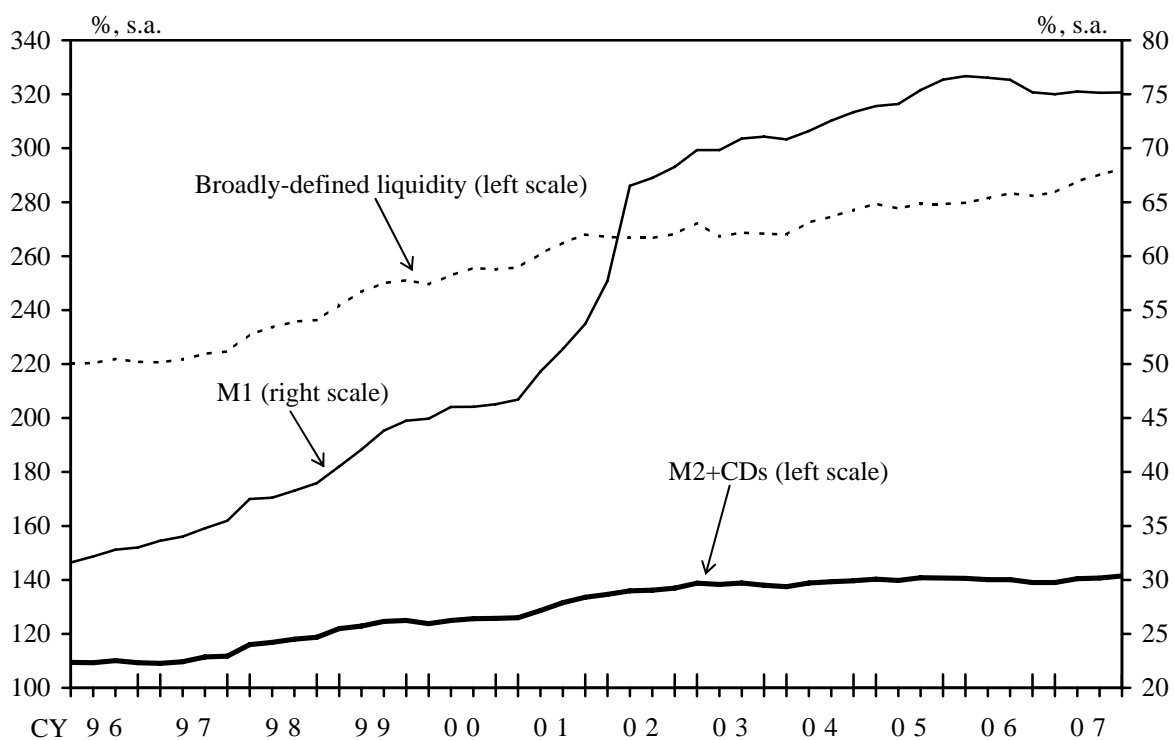
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP



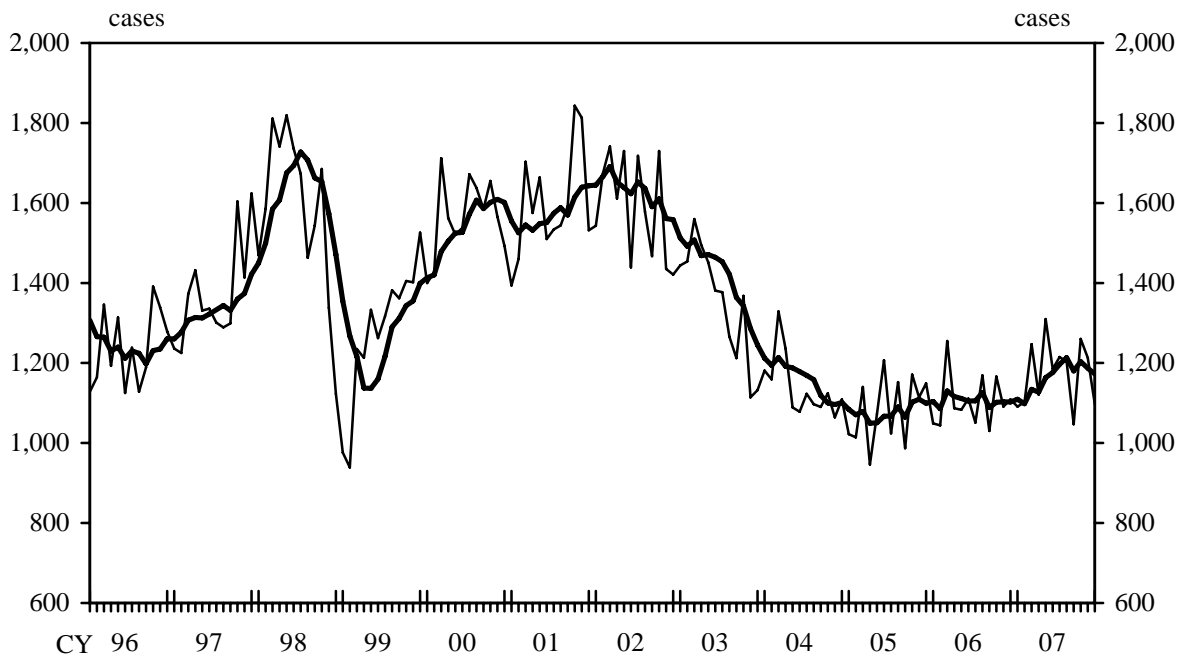
Note: Figure for the nominal GDP in 2007/Q4 is assumed to be unchanged from the previous quarter.

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

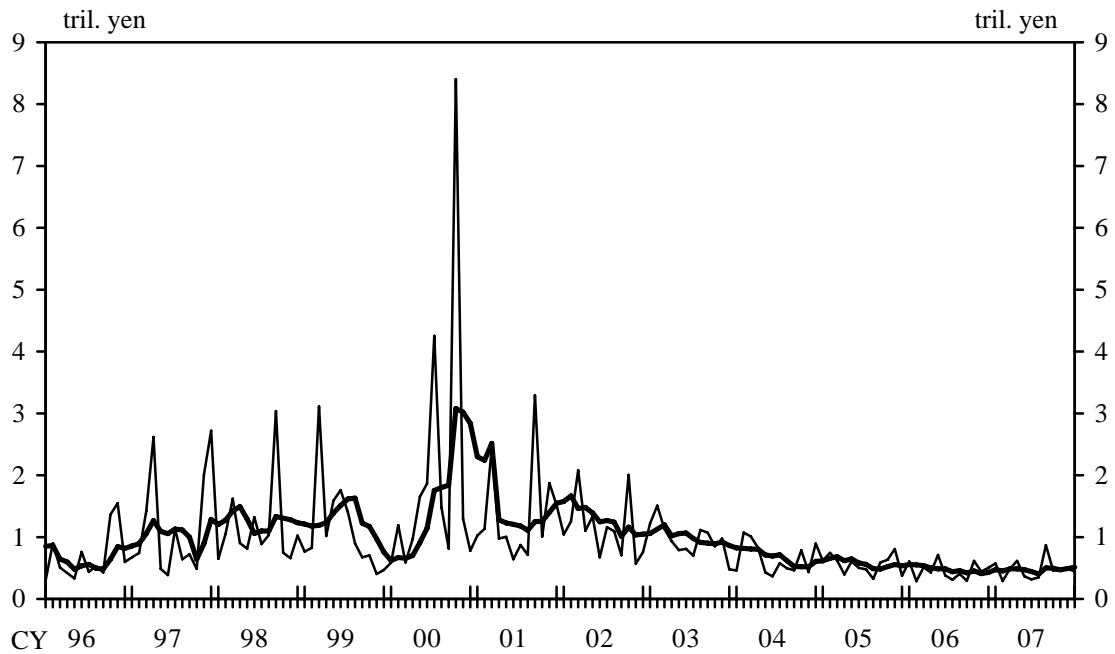


Corporate Bankruptcies

(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)."

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 Forecasts in the *Outlook for Economic Activity and Prices* released in October 2007
 

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**Forecasts of the Majority of Policy Board Members<sup>1,2</sup>**

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2007	+1.7 to +1.8 [+1.8]	+1.9 to +2.1 [+2.0]	0.0 to +0.1 [0.0]
Forecasts made in April 2007	+2.0 to +2.1 [+2.1]	+0.7 to +0.8 [+0.7]	0.0 to +0.2 [+0.1]
Fiscal 2008	+1.9 to +2.3 [+2.1]	+0.9 to +1.2 [+1.0]	+0.2 to +0.4 [+0.4]
Forecasts made in April 2007	+2.0 to +2.3 [+2.1]	+0.8 to +1.0 [+1.0]	+0.4 to +0.6 [+0.5]

Notes: 1. Figures in brackets indicate forecast medians.

2. Individual Policy Board members make the above forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.

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<sup>1</sup> The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely the figure to which he or she attaches the highest probability. These forecasts are then shown as a range, with the highest and lowest figures excluded. It should be noted that the range does not indicate the forecast errors.

<sup>2</sup> The forecasts of all Policy Board members may be summarized as follows.

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2007	+1.7 to +2.0	+1.8 to +2.2	0.0 to +0.1
Forecasts made in April 2007	+1.9 to +2.5	+0.5 to +1.5	-0.1 to +0.2
Fiscal 2008	+1.9 to +2.4	+0.8 to +1.5	+0.2 to +0.5
Forecasts made in April 2007	+1.9 to +2.4	+0.7 to +1.2	+0.3 to +0.6