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Bank of Japan

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

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April 2008

The Bank's View²

Japan's economic growth is slowing, mainly due to the effects of high energy and materials prices.

Exports have continued to increase. Corporate profits have been leveling off, albeit at a high level, and business sentiment has recently become cautious. Under these circumstances, the pace of increase in business fixed investment has become slower. Private consumption has been firm in a situation where household income has continued rising moderately. Meanwhile, public investment has been sluggish. Housing investment has remained at a low level, although there have been signs of recovery. With these developments in demand both at home and abroad, production has been more or less flat lately, partly in reaction to the relatively large increase in the second half of last year.

Japan's economy is expected to grow at a slower pace for the time being and follow a moderate growth path thereafter.

Exports are expected to continue rising, as overseas economies are likely to expand although at a slower pace. Business fixed investment and private consumption are likely to remain firm against the background of generally high, but slightly reduced, corporate profits and the moderate rise in household income. Housing investment is expected to recover, although the pace is likely to be modest. In light of these developments in demand both at home and abroad, production is expected to increase, after being more or less flat in the short run. Public investment, meanwhile, is projected to be on a downtrend. Due attention should continue to be paid to factors such as uncertainties regarding future developments in

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on April 8 and 9, 2008.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on April 8 and 9, 2008.

overseas economies and global financial markets, as well as the effects of high energy and materials prices.

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 increase in consumer prices (excluding fresh food) has been rising since around the end of last year, due to the increase in prices of petroleum products and food products.

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 a situation where overall supply and demand in the economy are more or less balanced.

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. Lending attitudes of private banks have continued to be generally 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. The financial positions of firms have continued to be favorable as a whole, although those of small and medium firms have somewhat deteriorated. Meanwhile, the year-on-year rate of change in the money stock is in the range of 2-3 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, stock prices have risen compared with last month, while the yen's exchange rate against the U.S. dollar and long-term interest rates have been around the same level as last month.

The Background

1. Economic Developments

Public investment has been sluggish (Chart 4). On a GDP basis (second preliminary figures), real public investment rose temporarily in the second half of fiscal 2006, but has decreased moderately since the start of fiscal 2007 (Chart 3). Looking at monthly indicators, the amount of public construction completed—which reflects the progress of public works—has followed a moderate downtrend. The value of public works contracted—a measure that reflects public orders—has been on a modest declining trend with fluctuations smoothed out, although it has inched up lately. 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 steadily, by 2.6 percent, in January-February compared with the fourth quarter, after having exhibited high growth throughout the second half of last year.

As for real exports by destination (Chart 6[1]), exports to the United States have remained relatively weak since around the end of 2006: they dropped marginally in January-February compared with the fourth quarter following the quarter-on-quarter decline in the fourth quarter. By contrast, exports to the EU and East Asia rose in the fourth quarter and continued to increase in January-February compared with the fourth quarter.³ Exports to other regions (such as the Middle East, Latin America, and Russia) have remained high, albeit with some fluctuations, mainly in automobile-related goods.

By goods (Chart 6[2]), exports of IT-related goods and consumer goods (such as digital home appliances) have been more or less flat, after having surged in the third quarter (Chart 7[1]). Meanwhile, exports of capital goods and parts have continued to increase to a wide range of regions. Exports of automobile-related goods have been on the rise as a whole, due to the high growth in exports to other

³ Exports to East Asia tend to rise just before the Luna New Year's day in China and other countries and fall after that day. The fact that February 7 was Luna New Year's day had placed upward pressure on exports in January, whereas it seems to have exerted some downward pressure on exports in February.

regions, even though those to the United States have dropped. Exports of intermediate goods have been on an uptrend, mainly in high value-added goods used for IT-related goods and automobiles.

Real imports have been more or less flat (Charts 5[1] and 9). They increased by 1.7 percent in the third quarter on a quarter-on-quarter basis, but then decreased by 0.5 percent in the fourth quarter and also dropped by 0.5 percent in January-February compared with the fourth quarter.

The recent trend by goods shows that imports of capital goods and parts (excluding aircraft) have continued to be on an increasing trend, although the pace of increase has become moderate lately. Imports of IT-related goods have been trending upward since around the middle of last year, when domestic inventory adjustments were completed (Chart 7[3]). Imports of raw materials and intermediate goods have been relatively weak, due to firms' ongoing cutbacks in imports of materials in response to the trend of rising import prices and due also to the effects of sluggish industrial production. Imports of foodstuffs and consumer goods have been on a declining trend, 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 has leveled off, mainly due to the rise in crude oil prices.

Exports are expected to continue rising, as overseas economies are likely to expand although at a slower pace (Chart 8[2]).⁴ Attention, however, should be paid to developments in exports for the time being to see whether signs of deceleration will appear from the slowdown in the U.S. economy and from the yen's appreciation.

As for the environment surrounding exports, the U.S. economy seems to be slowing down further and has recently come to a standstill, as adjustments in the

⁴ The DI of overseas supply and demand conditions for products of large manufacturing firms in the March *Tankan* indicates that excess demand has remained in place, although it has eased slightly (rate of excess demand: +4 in September, +6 in December, +2 in March, and +2 for forecast).

housing market have intensified and the financial environment has deteriorated sharply. In the EU, the economy has also slowed down mildly. In China and other regions, however, the economies are likely to maintain high growth as a whole. The 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 for finished products such as that for digital home appliances seems to have continued to expand. However, uncertainty has increased slightly since market prices of electronic parts such as memories have continued to be soft and global semiconductor shipments seem to have weakened somewhat (Chart 7[2]). Meanwhile, in the foreign exchange market, the yen has appreciated since last 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 8[1]).

Imports are expected to be somewhat sluggish for the time being and follow a moderate uptrend thereafter, reflecting developments in the domestic economy.

The pace of increase in business fixed investment has become slower. On a GDP basis (second preliminary figures), real business fixed investment rose for two consecutive quarters (the third and fourth quarters), but taking into account the decline prior to these increases, the pace of increase has become considerably moderate on average (Chart 3). Looking at monthly indicators, the aggregate supply of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—has dropped lately, although it has been 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—surged in January compared with the fourth quarter, assisted by the sharp increase in large orders. As a trend, they have been more or less flat at high levels (Chart 11[1]).⁵ Meanwhile, construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—fell sharply in the

⁵ Forecasts for the first quarter show that orders are projected to increase (the quarter-on-quarter increase stands at 3.5 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

third quarter due to the enforcement of the revised Building Standard Law,⁶ but then picked up in the fourth quarter, supported by large-scale construction starts in the manufacturing and retailing sectors. They have been fluctuating sharply, however, as they dropped again in January-February compared with the fourth quarter (Chart 11[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been leveling off, albeit at a high level. According to business plans in the March *Tankan* (Chart 12), current profits for fiscal 2007 were revised downward in all sectors, especially in small firms, mainly due to high energy and materials prices. As a result, they are projected to decrease for the first time in six years. Meanwhile, profits are projected to turn up, albeit marginally, throughout fiscal 2008, although they are projected to register a year-on-year decline in the first half of the year following the decrease in the second half of fiscal 2007. In these circumstances, the March *Tankan* shows that business sentiment has recently become cautious: small firms have continued its deteriorating trend, and large firms—which have been in relatively favorable conditions—have seen a noticeable narrowing in the gap between "favorable" and "unfavorable" (Chart 13).

Business fixed investment is projected to remain firm against the background of generally high, but slightly reduced, corporate profits. According to the March *Tankan* (Chart 14), the business fixed investment plan of large firms for fiscal 2008 is lower than the initial plan for fiscal 2007 which indicated relatively solid growth, and it is comparable to the initial plan of the past average (FYs 1984-2006) which showed slightly negative growth. Meanwhile, the initial plan of small firms for fiscal 2008 has showed somewhat weaker growth than those for fiscal 2007 and the past average (FYs 1984-2006).⁷ Attention should be paid to the extent to which these annual projections will be revised upward after the June *Tankan*.

⁶ According to the revised Building Standard Law—which took effect on June 20, 2007—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.

⁷ Based on "software and fixed investment excluding land purchasing expenses," which is close to the concept of GDP, business fixed investment of all industries and enterprises (including financial institutions) for fiscal 2008 is projected to drop by 1.6 percent compared with the

Private consumption has been firm. On a GDP basis (second preliminary figures), real private consumption showed an increase in the fourth quarter, albeit marginally, for the fifth consecutive quarter (Chart 3). Looking at individual indicators on consumption (Charts 15 and 16), sales at department stores have been slightly weak lately, notably in apparel and general merchandise. Sales at supermarkets and convenience stores—which consist mainly of foodstuffs—have 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. The number of new passenger-car registrations has been essentially level lately, after having picked up in the second half of last year supported mainly by the introduction of new models. As for services consumption, outlays for travel have been firm. By contrast, sales in the food service industry have recently lost momentum.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above⁸—have been firm (Chart 17[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been trending up mildly, albeit with some fluctuations, mainly due to favorable conditions for durable consumer goods (Chart 17[2]). Meanwhile, looking at private consumption from the demand side, the index of consumption expenditure level (two-or-more-person households, in real terms) in the *Family Income and Expenditure Survey* registered a quarter-on-quarter decline in the third quarter, then picked up in the fourth quarter, and also increased in January-February compared with the fourth quarter. Total expenditure in the *Survey of Household Economy* (two-or-more-person households, in real terms) fell in the third and fourth quarters on a quarter-on-quarter basis, and then rose in January-February compared with the fourth quarter (Chart 15[1]).⁹

previous year. Looking at fiscal 2007 on a year-on-year basis, the initial plan as of March last year projected an increase of 3.3 percent and the projected actual result this time stood at a positive 4.2 percent.

⁸ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in February were not released at the time these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for February were at the same level as those for January.

⁹ 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 as well as the weakness in stock prices (Chart 18).

Private consumption is expected to remain firm, with the gradual increase in household income.

Housing investment has remained at a low level, although there have been signs of recovery. On a GDP basis (second preliminary figures), real housing investment decreased significantly in the fourth quarter following the plunge in the third quarter, due to the enforcement of the revised Building Standard Law (Chart 3). Meanwhile, the number of housing starts (Chart 19[1])—a leading indicator of housing investment—has been on a recovery trend after having bottomed in September last year. Its level, however, has remained relatively low compared to that prior to the enforcement of the revised Law. Looking at the number of housing starts in detail according to the type of housing, owner-occupied housing—consisting mostly of small-scale properties—has been more or less flat, since the effects from the revised law have faded faster. Housing for sale and housing for rent have continued to pick up, lagging somewhat behind owner-occupied housing. Looking ahead, housing investment is expected to recover, since the effects from the enforcement of the revised Law are likely to wane. Nevertheless, taking into consideration the softness in sales of condominiums and further increases in materials prices, the pace of recovery is likely to be modest.

Industrial production has been more or less flat lately, partly in reaction to the relatively large increase in the second half of last year. Production rose firmly for two quarters in a row by marking an increase of 2.2 percent and 1.3 percent in the third and fourth quarters respectively on a quarter-on-quarter basis, and then dropped by 2.3 percent in January-February compared with the fourth quarter (Chart 20).¹⁰ As for developments in January-February by industry, production of many industries dropped. In detail, the drop in production of electronic parts and devices was more

¹⁰ Production in the first quarter—based on the production forecast index for March—is calculated to decrease by 1.9 percent on a quarter-on-quarter basis. However, since the adopted items, weights, and seasonal adjustment will be changed in line with release of the 2005-base revised figures in mid-April, it should be noted that there could be changes in the quarter-on-quarter figures starting from 2003.

or less due to the sharp rise in the second half of last year that took place after the completion of inventory adjustments, and the decline in production of transport equipment was more or less due to the end of the ramped-up production of automobiles that was required to recover the loss caused by the earthquakes.

Shipments rose by 2.1 percent in the third quarter and by 2.0 percent in the fourth quarter on a quarter-on-quarter basis, and then fell by 1.9 percent in January-February compared with the fourth quarter. Looking at the trend by goods (Chart 21), shipments of capital goods have been relatively weak lately, although they have been on an uptrend. As for consumer goods, shipments of durable goods have been fluctuating sharply due to movements in automobiles, but they have been on an uptrend on average, chiefly in digital home appliances, whereas those of nondurable goods have continued to trend downward. Shipments of construction goods plunged in the second half of last year, affected mainly by the revised Building Standard Law, but have been flat thereafter. Meanwhile, shipments of producer goods had been increasing until around the end of last year, but they have been relatively weak lately due to the decline in shipments of electronic parts and devices.

Inventories have been essentially in balance with shipments. The inventory cycle (Chart 22) 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. In durable consumer goods, inventories have been in balance with shipments. On the other hand, in capital goods (excluding transport equipment), inventories have remained at relatively high levels, whereas shipments have been somewhat sluggish. As for construction goods, inventory adjustment pressures have continued to be strong. Meanwhile, in electronic parts and devices, the year-on-year rate of increase in shipments has fallen somewhat lately, but the shipment-inventory balance has remained favorable. However, because the pace of increase in the supply capacity tends to be rapid for this sector and because market prices of electronic parts such as memories and global semiconductor shipments have recently shown weakness, future developments in the supply-demand balance continue to require close monitoring.

As for the outlook, production is expected to increase, after being more or less flat in the short run, in light of developments in demand both at home and abroad. Anecdotal information suggests that production in the second quarter is likely to be essentially flat after having decreased slightly in the first quarter.¹¹

As for the employment and income situations, household income has continued rising moderately, while the labor shortage continues to exist (Chart 23[3]).¹²

In the labor market, overtime hours worked have been virtually flat at high levels (Chart 25[3]). The ratio of job offers to applicants has been at a relatively high level, although it has recently inched downward (Chart 24[1]).¹³ The unemployment rate has been marking a level slightly below 4 percent on average (Chart 24[1]). Meanwhile, the employment conditions DI in the *Tankan* has been more or less level in the "insufficient employment" territory (Chart 26).

In terms of employment (Chart 25[1]), the year-on-year growth rate in the number of employees in the *Labour Force Survey* has generally been moving at around 1 percent, but it has recently slowed. The year-on-year growth rate in the number of regular employees in the *Monthly Labour Survey* has recently been moving at around 2 percent. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, full-time employees have grown at a faster pace, whereas part-time employees—which had been trending upward to date—have noticeably

¹¹ Based on a single month's information, the production forecast index of April is calculated to decrease by 0.1 percent compared with the first quarter (the index of March is based on the forecast index).

¹² Household income based on the *Monthly Labour Survey* has grown at a somewhat faster pace, partly due to solid increases in the number of regular employees. On the other hand, when using the number of employees in the *Labour Force Survey*—whose coverage is wide but shows significant short-term fluctuations—household income has increased at a modest pace since the middle of last year.

¹³ New job offers have been on a downtrend since autumn 2006. This downtrend seems to be partly due to decreasing motivations of small firms to seek new workers and is partly due to the continuing effects from 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 24[3]).

slowed their pace of increase (Chart 25[1]).¹⁴ Hence, the ratio of part-time employees had been rising last year from the year before, but it has been around the previous year's level lately (Chart 25[2]).

The year-on-year rate of change in nominal wages per employee has recently been around zero percent (Chart 23[1]). The year-on-year rate of change in regular payments has stayed slightly positive, as firms have persisted in labor cost restraints, but payments have started to pick up, albeit gradually, from their marginal decline until the middle of last year.¹⁵ Meanwhile, overtime payments have increased very mildly. On the other hand, special payments have been relatively weak as a trend, due to sluggish corporate profits. Winter bonuses (special payments in November-January) continued to decline following the decrease in summer bonuses (special payments in June-August).¹⁶

Looking ahead, the gradual increase in household income is likely to continue against the background of the persisting labor shortage and the generally high, but slightly reduced, corporate profits.

¹⁴ Part-time workers had been trending upward mainly due to (1) the 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. Recently, however, the pace of increase has slowed noticeably. This is because the number of retiring baby-boomers has tended to peak and an increasing number of part-timer workers has switched to regular employment in a situation in which the revised Part-time Work Law has taken effect in April.

¹⁵ This was mainly due to the following three factors: (1) the prolonged labor shortage has gradually exerted upward pressure on wages; (2) the increase in the number of retiring baby-boomers since the second half of 2006 has come to a halt, and this has consequently eased the downward pressure on regular payments; and (3) the number of part-time workers switching to regular employment has increased, as mentioned above.

¹⁶ Winter bonuses (special payments in November-January) in the *Monthly Labour Survey* dropped by 2.5 percent on a year-on-year basis; the decline was about the same as in summer bonuses (a decline of 2.4 percent in special payments for June-August). This weakness was possibly attributable to: (1) downward pressure on special payments caused by the retirement of the baby-boom generation and by the rise in the ratio of part-time workers was larger than that on regular payments and (2) sluggish profits induced by the rise in materials prices forced small and medium-sized firms to restrain bonuses somewhat strongly.

2. Prices

Import prices (on a yen basis; the three-month rate of change) have increased, due to the rise in international commodity prices (Chart 28). Looking at recent developments in international commodity prices in more detail, crude oil prices have continued to be high. Prices of crops such as wheat have been on an increasing trend, due to the ongoing rise in global demand such as that for alternative energy sources and to the adverse weather in major production centers, but they have decreased slightly of late. Prices of nonferrous metals had been softening since fall last year, due to concerns over a slowdown in the U.S. economy, but they have rebounded since the start of this year and have generally been high. 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)¹⁷ has been positive, mainly due to the rise in international commodity prices (Chart 29).¹⁸ In detail, prices of "iron and steel and construction goods" have recently increased at a faster pace, mainly since prices of scrap and waste have risen and since the increase in materials prices—including those of scrap and waste—has been passed on. Prices of "others" have also accelerated its pace of increase lately, aided by the rise in prices of processed foodstuffs and prices of agricultural, forestry and fishery products. Prices of "goods sensitive to exchange rates and overseas commodity prices" have increased at a somewhat reduced pace compared to the previous high growth, but they have continued to increase notably in prices of petroleum and coal products. Prices of "electric power, gas and water" and "other materials" have continued to increase mildly, mainly as a result of high fuel and material costs to date. Meanwhile, prices of "machinery" have been flat lately. Looking at domestic demand products as a whole including imports, prices of raw materials and prices of intermediate goods have risen, mainly in products related to petroleum as well as iron and steel. Final

¹⁷ The figures are adjusted to exclude large seasonal fluctuations 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.

¹⁸ In terms of year-on-year comparisons, prices rose by 3.4 percent in February, registering the largest increase for the first time since March 1981 (an increase of 3.8 percent).

goods prices have been flat lately as a whole, since prices of domestic products have risen reflecting movements in prices of petroleum products and processed foodstuffs, while prices of imports have fallen in response to the yen's appreciation.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁹ has been moving around zero percent recently (Chart 30).²⁰ Looking at recent developments by category, the year-on-year changes in prices of "other services" have been positive since spring last 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 continued to increase as a trend, albeit with some fluctuations, due to tightening supply-demand conditions as a result of active software investment by firms. 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 increase in consumer prices (excluding fresh food, same hereafter) has been rising since around the end of last year, due to the increase in prices of petroleum products and food products (Chart 31).²¹ Looking at recent developments in more detail, prices of goods have increased at a faster pace on a

¹⁹ "Excluding external factors" means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

²⁰ All items, including external factors, had continued to increase at a pace slightly faster than 1 percent on a year-on-year basis since April last year, but the growth rate has recently slowed somewhat. This is largely attributable to the moderation in ocean freight transportation (such as ocean tramper) and oceangoing ship chartering services in reaction to the upsurge caused by the rapid tightening of supply-demand conditions in shipping capacity last year.

²¹ In February, prices rose by 1.0 percent on a year-on-year basis; they registered the largest increase for the first time since March 1998 (an increase of 1.8 percent) when the effects of the rise in the consumption tax were observed. Disregarding the effects of the rise in the consumption tax, it was the largest increase since May 1994 (an increase of 1.0 percent).

year-on-year basis, chiefly in petroleum products and food products. As for services prices, the pace of increase has accelerated moderately, partly due to the increase in prices of services related to domestic duties and partly due to the diminished negative contributions from mobile telephone charges, along with the ongoing moderate rise in prices of "eating out." Public utility charges have increased marginally, mainly in electricity charges.

With regard to domestic supply and demand conditions in the March *Tankan* (Chart 32), the weighted average DI—which reflects both production capacity and employment conditions as perceived by firms—showed that the shortage has remained marginal reflecting the labor shortage, while production capacity has been neither excessive nor insufficient. The supply and demand conditions DI of both manufacturing and nonmanufacturing has eased somewhat lately, but the rate of "excess supply" has remained small. As for the output prices DI, due to the rise in input prices, that for manufacturing has turned to "rise" albeit slightly, and for nonmanufacturing, the rate of "fall" in the output prices DI has become marginal to a considerable degree compared with some time ago.

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 a situation where overall supply and demand in the economy are more or less balanced.

Regarding developments in land prices (in terms of published land prices) as of January (Chart 33), the national average rose for the second straight year in both commercial and residential land, since the prices in the three metropolitan areas have continued to increase at a faster pace, and those in the other areas have continued to decline at a slower pace.

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 34[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 35[1]). Interest rates on Euroyen futures have risen slightly, in response to expectations that the Euroyen interest rate will remain high for the time being (Chart 35[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) had fallen to 1.25 percent in line with long-term interest rates in the United States and Europe, but then rebounded. They have recently been moving at around 1.35 percent (Chart 34[2]).

Yield spreads between corporate bonds and government bonds have widened significantly for those with low credit ratings and have also expanded for those with high credit ratings (Chart 37).

Stock prices have dropped sharply, led by unstable U.S. and European stock price movements that reflect concerns over a recession in the United States and by the rapid appreciation of the yen. The Nikkei 225 Stock Average temporarily fell below 12,000 yen, but it is moving in the range of 13,000-13,500 yen of late (Chart 38).

In the foreign exchange market, the yen appreciated sharply to the 95-96 yen range, mainly due to uncertainty regarding the U.S. financial system. The yen depreciated thereafter and is currently being traded in the range of 102-103 yen to the U.S. dollar (Chart 39).

(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 generally accommodative in their loan provision. Related DIs of business surveys indicate that firms have perceived the lending attitudes of financial institutions as becoming a little less accommodative, notably in those of small and medium enterprises. Nevertheless, they have remained considerably accommodative compared to past levels (Chart 40).

Lending rates have been at extremely low levels on the whole. The average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have been more or less unchanged (Chart 41).

The amount outstanding of lending by private banks has continued to increase at a moderate pace. Its monthly average outstanding, after adjustment,²² grew by 1.4 percent in February on a year-on-year basis, compared to 1.1 percent in January and 0.8 percent in December (Chart 42).

In the corporate bond and CP markets, the issuing environment continues to be favorable as a whole. Issuance spreads on corporate bonds and CP have expanded, chiefly for those issued by firms with low credit ratings, while they have remained tight 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 3.0 percent in February on a year-on-year basis, compared to 3.8 percent in the previous two months (Chart 43).

According to business surveys, the financial positions of firms have continued to be favorable as a whole, although those of small and medium enterprises have shown some deterioration (Chart 40).

The money stock ($M_2 + \text{CDs}$) has increased in the range of 2-3 percent annually. Its February reading was 2.3 percent on a year-on-year basis, following 2.1 percent in the previous two months (Chart 44).

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

The number of corporate bankruptcies was up by 8.0 percent in March compared to the year-ago level, to 1,347 cases (Chart 45).

Charts

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q3	Q4	2008/Q1	2007/Dec.	2008/Jan.	Feb.	Mar.
Index of consumption expenditure level (two-or-more-person households ⁹)	-0.6	0.7	n.a.	1.4	2.8	-6.0	n.a.
Sales at department stores	-1.3	0.3	n.a.	-1.2	0.5	p -0.3	n.a.
Sales at supermarkets	-0.5	0.5	n.a.	-1.0	-0.8	p 1.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 295>	< 300>	< 301>	< 293>	< 317>	< 289>	< 297>
Sales of household electrical appliances (real, Current Survey of Commerce)	4.1	1.8	n.a.	1.3	1.5	p 0.7	n.a.
Outlays for travel	1.5	0.7	n.a.	1.2	-0.2	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 81>	< 95>	<n.a.>	< 105>	< 119>	< 115>	<n.a.>
Machinery orders (from private sector ⁴)	2.5	0.9	n.a.	-3.2	19.6	n.a.	n.a.
Manufacturing	2.7	6.8	n.a.	-7.8	13.8	n.a.	n.a.
Nonmanufacturing ⁴	1.6	-2.7	n.a.	-5.2	25.9	n.a.	n.a.
Construction Starts (private, nondwelling use)	-48.0	39.1	n.a.	10.3	-16.0	-15.3	n.a.
Mining & manufacturing	-49.8	44.1	n.a.	22.0	-23.5	10.4	n.a.
Nonmanufacturing ⁵	-47.4	34.3	n.a.	6.9	-12.4	-23.4	n.a.
Value of public works contracted	-4.8	2.5	n.a.	7.2	-5.4	11.3	n.a.
Real exports	5.1	1.9	n.a.	0.3	4.6	-5.0	n.a.
Real imports	1.7	-0.5	n.a.	-0.6	0.9	-3.1	n.a.
Industrial production	2.2	1.3	n.a.	1.4	-2.2	p -1.2	n.a.
Shipments	2.1	2.0	n.a.	1.6	-1.0	p -2.6	n.a.
Inventories	1.3	2.0	n.a.	-0.4	-1.4	p 0.1	n.a.
Inventory Ratio <s.a., CY 2000 = 100>	< 103.8>	< 102.3>	<n.a.>	< 102.3>	< 98.3>	<p 96.9>	<n.a.>
Real GDP	0.3	0.9	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	0.0	n.a.	-0.4	0.0	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q3	Q4	2008/Q1	2007/Dec.	2008/Jan.	Feb.	Mar.
Ratio of job offers to applicants <s.a., times>	< 1.05>	< 1.00>	<n.a.>	< 0.98>	< 0.98>	< 0.97>	<n.a.>
Unemployment rate <s.a., %>	< 3.8>	< 3.8>	<n.a.>	< 3.8>	< 3.8>	< 3.9>	<n.a.>
Overtime working hours ⁶	0.4	0.2	n.a.	-0.2	-0.9	p 1.8	n.a.
Number of employees	0.8	0.9	n.a.	1.1	0.5	-0.3	n.a.
Number of regular employees ⁶	1.7	2.0	n.a.	2.0	1.9	p 2.0	n.a.
Nominal wages per person ⁶	-0.6	-0.9	n.a.	-1.7	1.6	p 1.3	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	1.6 < 0.7>	2.3 < 0.7>	n.a. <n.a.>	2.6 < 1.1>	3.0 < 0.8>	p 3.4 <p 0.9>	n.a. <n.a.>
Consumer price index ⁸	-0.1	0.5	n.a.	0.8	0.8	1.0	n.a.
Corporate service price index	1.3	1.4	n.a.	1.5	0.6	p 0.7	n.a.
Money Stock (M ₂ +CDs) <average outstanding, y/y % chg.>	1.9	2.0	n.a.	2.1	2.1	p 2.3	n.a.
Number of corporate bankruptcies <cases>	<1,155>	<1,190>	<1,238>	<1,097>	<1,174>	<1,194>	<1,347>

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

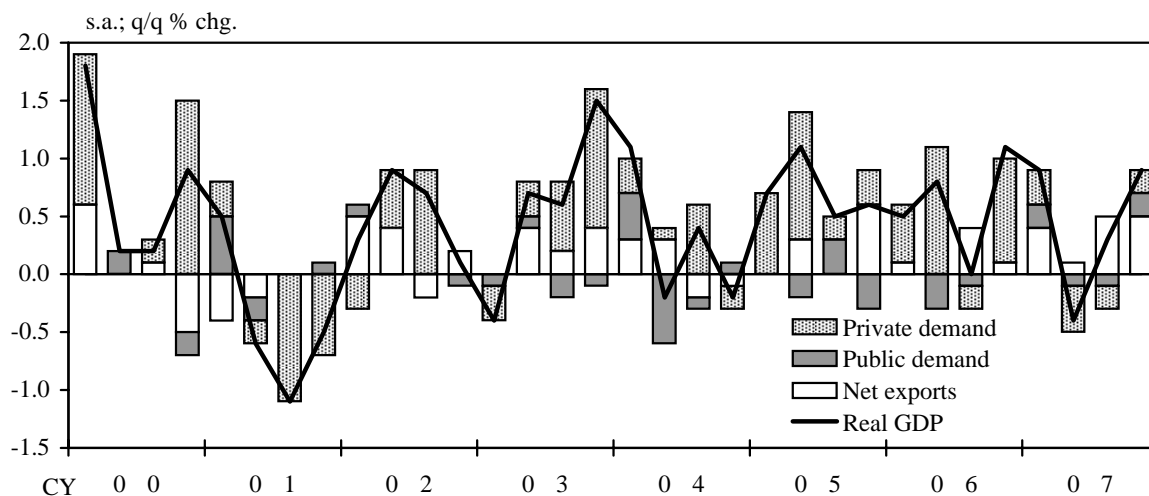
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

2. Figures with "p" indicate 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. Adjusted to exclude a hike in electric power charges during the summer season.
8. Excludes fresh food.
9. Data have been changed to the base of two-or-more-person household adjusted by the distribution of household by number of household members and age group of household head.

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

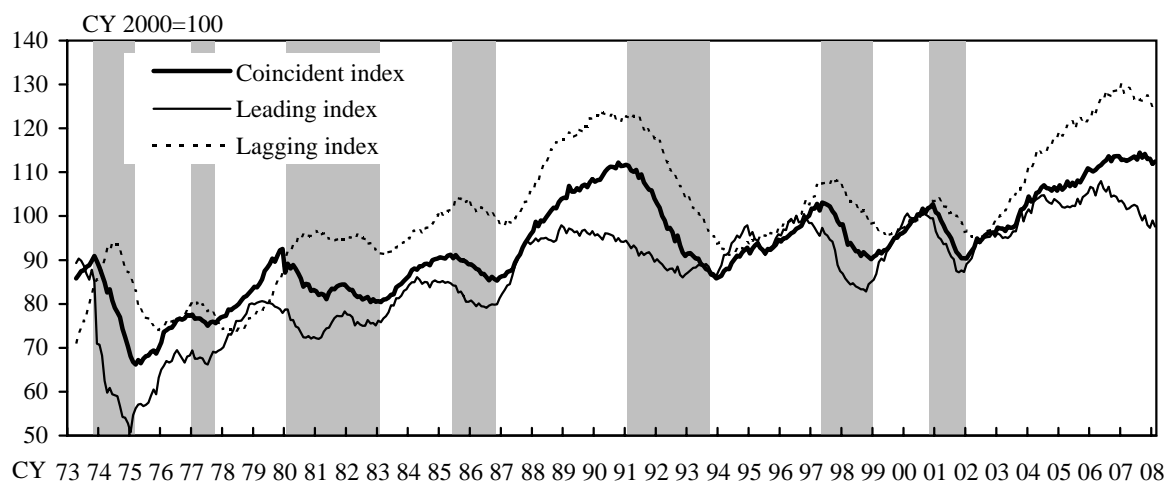


(2) Components

	s.a.; q/q % chg.				
	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
Real GDP	1.1	0.9	-0.4	0.3	0.9
Domestic demand	1.0	0.5	-0.5	-0.2	0.4
Private demand	0.9	0.3	-0.4	-0.2	0.2
Private consumption	0.6	0.4	0.1	0.1	0.1
Non-Resi. investment	0.3	-0.1	-0.3	0.1	0.3
Residential investment	0.1	-0.0	-0.2	-0.3	-0.3
Private inventory	-0.0	0.0	-0.1	-0.1	0.1
Public demand	0.0	0.2	-0.1	-0.1	0.2
Public investment	0.1	0.2	-0.2	-0.1	-0.0
Net exports of goods and services	0.1	0.4	0.1	0.5	0.5
Exports	0.1	0.6	0.2	0.5	0.5
Imports	-0.0	-0.1	-0.1	0.0	-0.1
Nominal GDP	1.1	0.7	-0.5	0.0	0.2

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

(3) Indexes of Business Conditions (Composite Indexes)

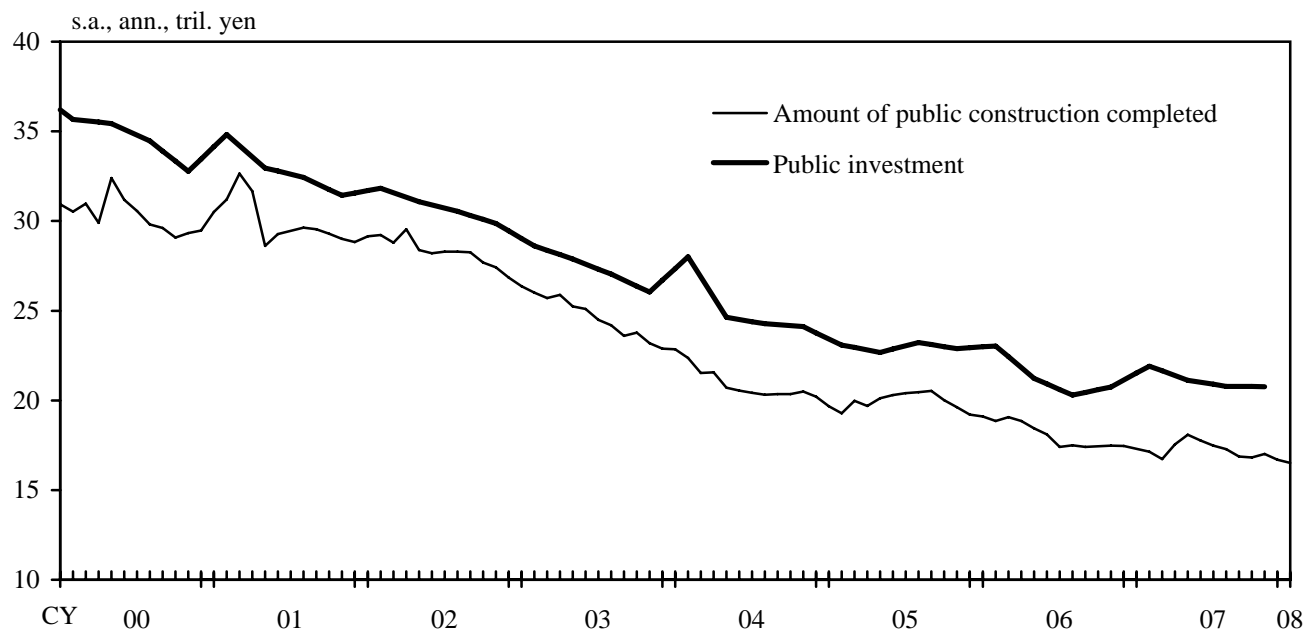


Note: Shaded areas indicate recession periods.

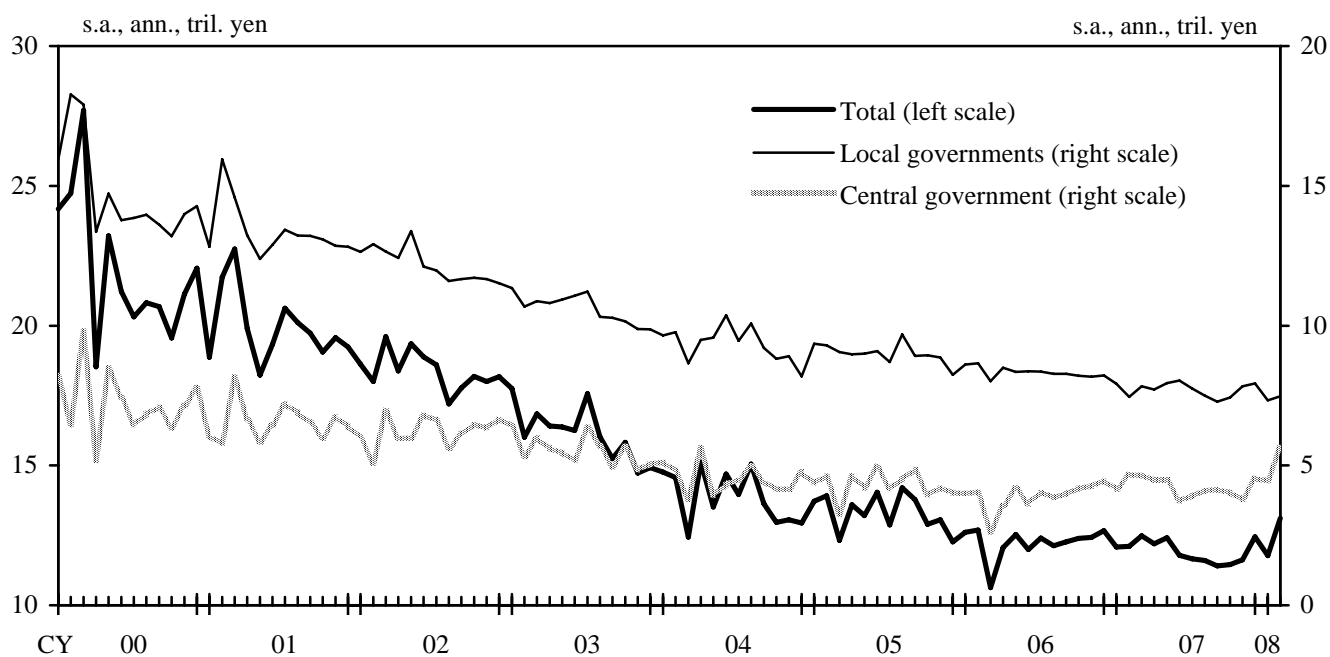
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

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.

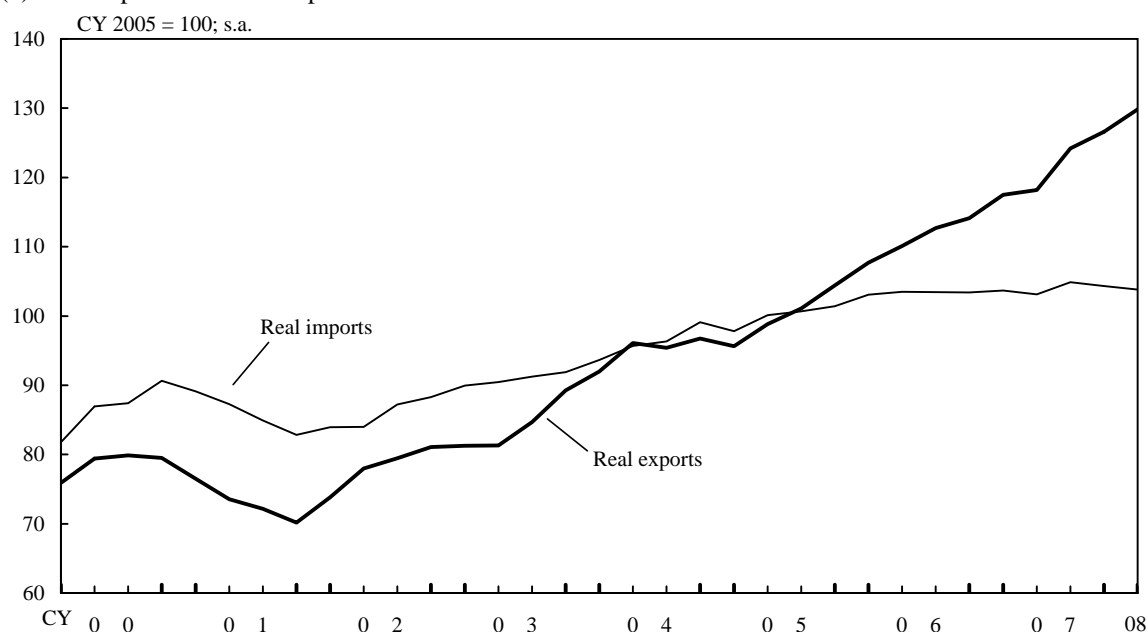
Sources: Cabinet Office, "National Accounts";

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

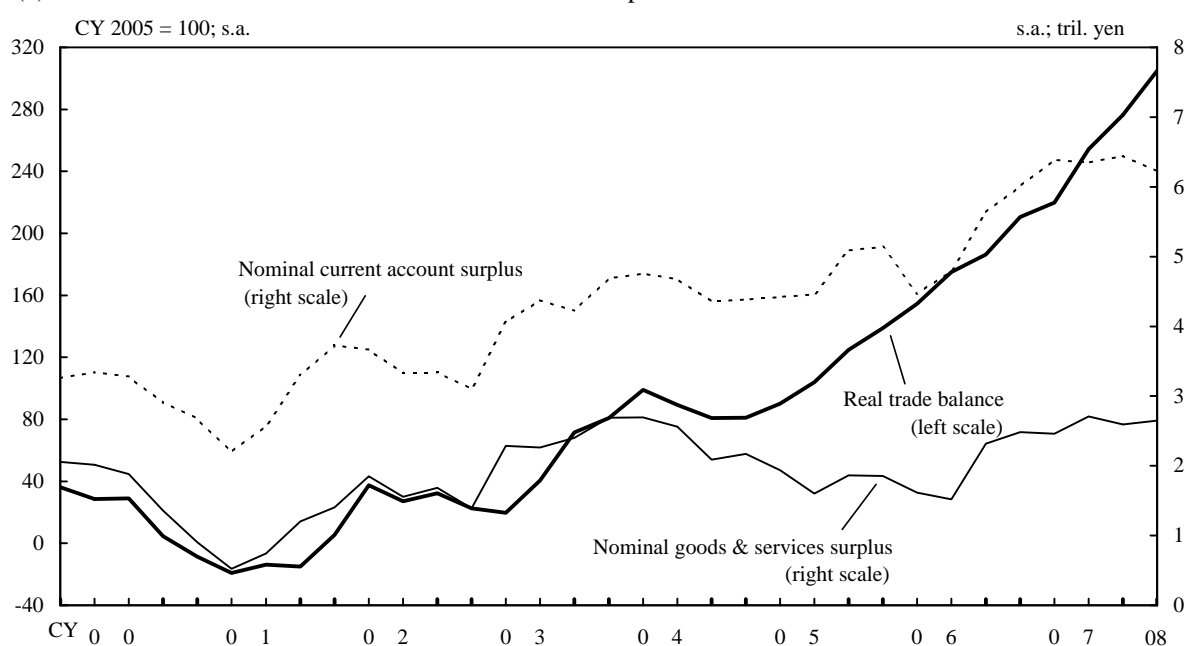
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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 2005. 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.
The seasonally adjusted figures for real exports, real imports, and real trade balance have been retroactively revised due to incorporation of (a) the regular annual revision for the previous year's data in the Trade Statistics and (b) the revision for the "Export and Import Price Index" following the base year change in the CGPI from 2000 base to 2005 base. Figures by region or goods will incorporate these revisions next month. These also apply to Charts 6, 7, and 9.
3. 2008/Q1 figures for Real exports/imports and the real trade balance are January - February averages converted into quarterly amount.
4. 2008/Q1 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are January figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Dec.	2008 Jan.	Feb.
United States	<20.1>	10.3	-1.0	-0.9	-3.7	5.4	-1.7	-0.3	4.0	-0.3	-3.8
EU	<14.8>	10.3	12.0	3.7	2.3	6.8	1.5	1.5	0.7	5.1	-3.5
East Asia	<46.0>	9.1	9.7	4.3	-1.4	5.6	2.3	4.1	-1.8	5.8	-4.0
China	<15.3>	20.1	16.8	5.5	-3.0	10.1	0.7	2.9	-4.8	9.1	-5.5
NIEs	<22.4>	5.7	4.4	3.9	-1.6	2.9	1.8	5.6	-2.6	7.1	-4.2
Korea	<7.6>	7.7	5.0	5.1	-2.5	0.2	6.5	1.7	-4.8	5.2	-2.0
Taiwan	<6.3>	3.7	-0.8	0.1	1.6	5.8	-4.7	10.7	-0.2	14.6	-14.1
ASEAN ³	<8.3>	2.8	12.1	3.6	2.1	4.7	6.4	2.3	5.2	-2.3	-0.9
Thailand	<3.6>	5.2	9.6	3.8	0.8	5.1	1.8	4.2	0.0	5.6	-6.3
Others	<19.1>	19.5	19.2	4.4	4.1	6.3	9.9	1.4	-4.0	5.1	-5.6
Real exports		11.2	9.1	3.0	0.6	5.1	1.9	2.6	0.3	4.6	-5.0

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Dec.	2008 Jan.	Feb.
Intermediate goods	<18.4>	6.4	5.5	1.9	-0.0	6.2	1.9	0.1	1.7	-0.0	-0.6
Motor vehicles and their related goods	<24.1>	13.6	12.9	2.7	1.0	5.8	7.7	0.9	3.0	2.6	-7.6
Consumer goods ⁴	<4.5>	7.1	4.9	-3.0	5.4	5.0	-0.9	0.0	-3.4	2.1	-2.8
IT-related goods ⁵	<11.0>	7.7	10.7	5.5	-4.0	6.2	0.8	-1.7	2.6	-0.0	-5.4
Capital goods and parts ⁶	<28.4>	12.4	6.6	2.9	0.2	3.7	1.8	3.4	-0.1	3.3	-2.0
Real exports		11.2	9.1	3.0	0.6	5.1	1.9	2.6	0.3	4.6	-5.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q1 figures are January-february averages converted into quarterly amount.

2. Shares of each region and goods in 2007 are shown in angle brackets.

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

4. Excludes motor vehicles.

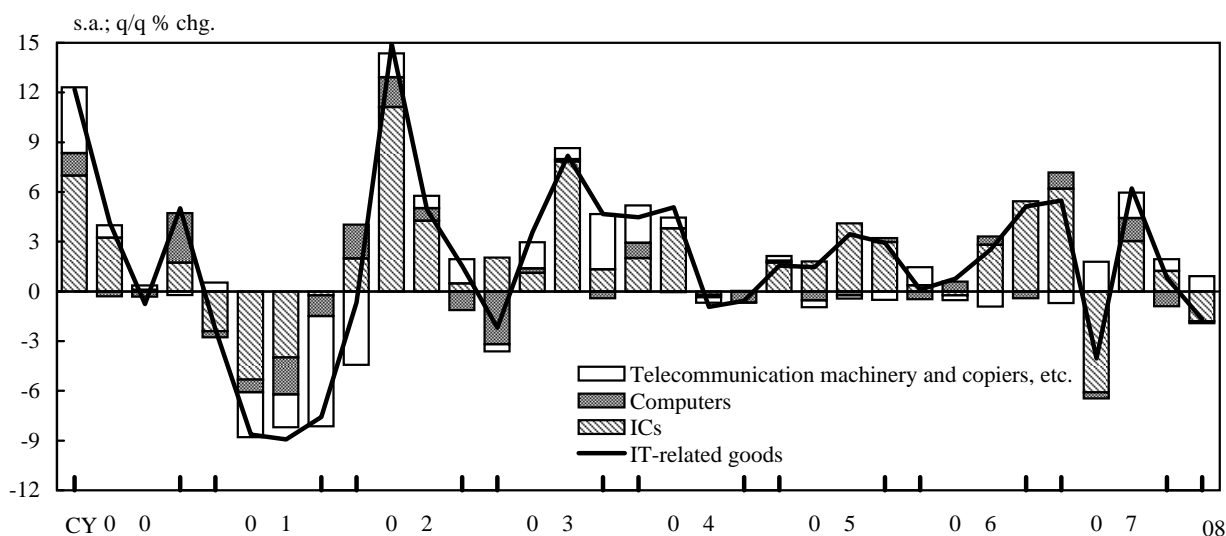
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

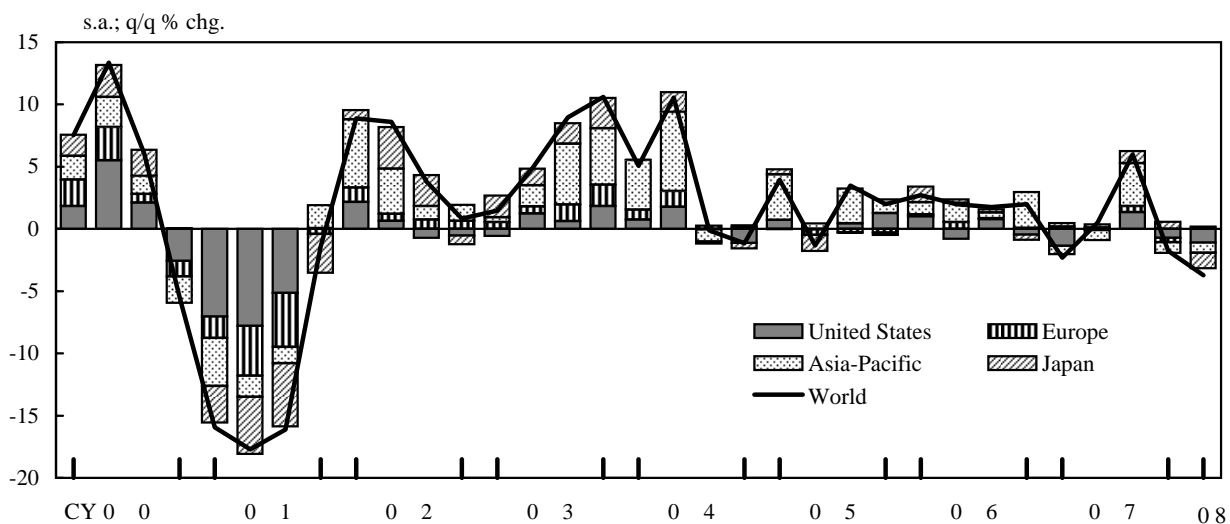
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

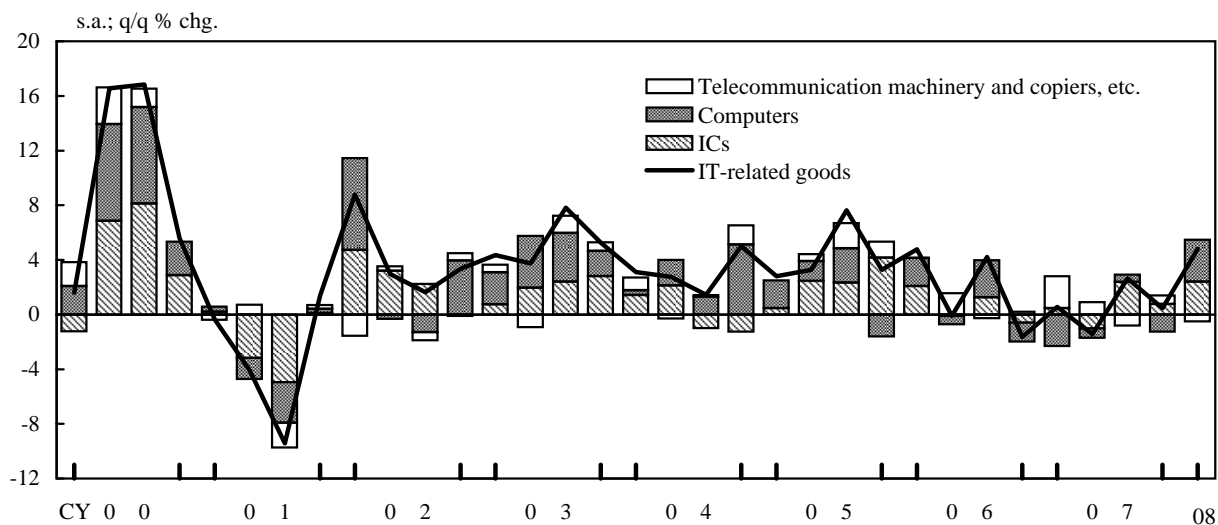
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

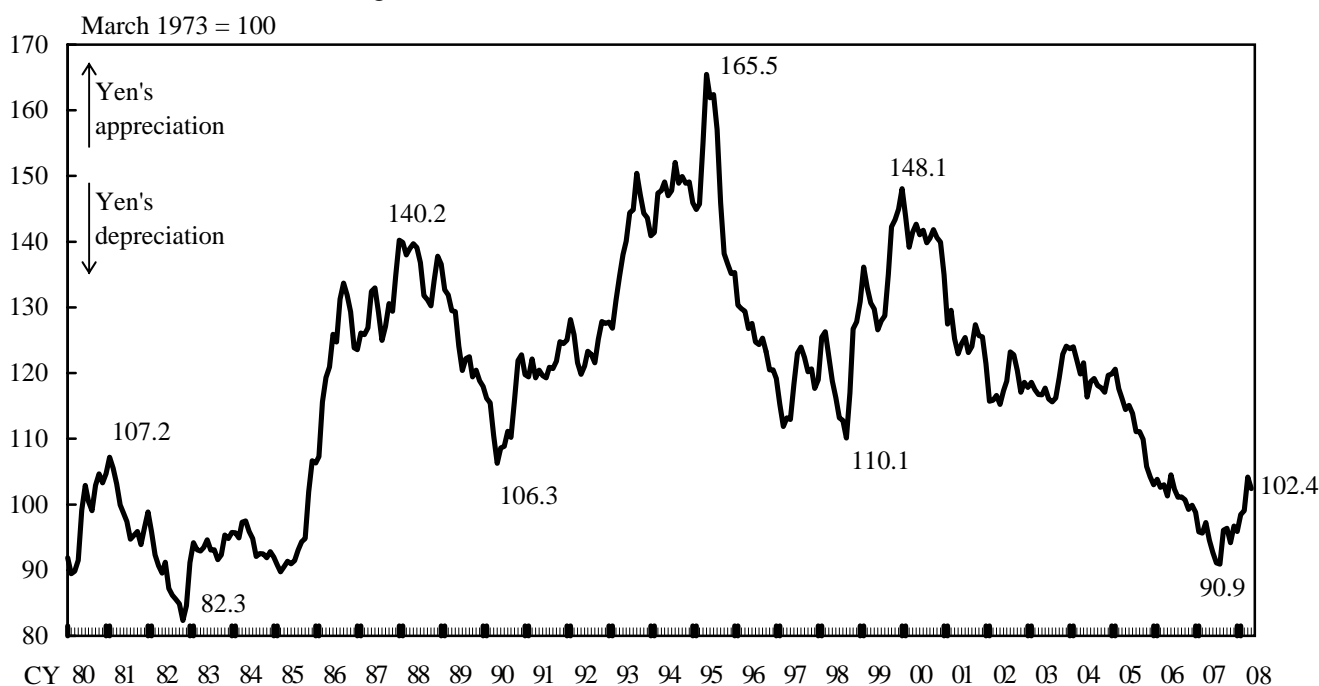
2. 2008/Q1 figures are January-February averages converted into quarterly amount.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for April 2008 is the average up to April 8.

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 ¹		3.1	2.9	2.2	0.6	3.8	4.9	0.6	
European Union ¹		1.9	3.1	2.9	3.3	1.7	3.2	2.0	
	Germany	1.0	3.1	2.6	2.6	0.7	2.7	1.1	
	France	1.7	2.2	1.9	2.3	1.4	3.1	1.5	
	United Kingdom	1.8	2.9	3.0	2.8	3.4	2.6	2.5	
East Asia ²	China	10.4	11.1	11.4	11.1	11.9	11.5	11.2	
	NIEs	Korea	4.2	5.1	5.0	4.0	4.9	5.1	5.7
		Taiwan	4.2	4.9	5.7	4.2	5.2	6.9	6.4
		Hong Kong	7.1	7.0	6.3	5.5	6.4	6.3	6.7
		Singapore	7.3	8.2	7.7	7.0	9.1	9.5	5.4
	ASEAN4	Thailand	4.5	5.1	4.8	4.2	4.3	4.8	5.7
		Indonesia	5.7	5.5	6.3	6.1	6.4	6.5	6.3
		Malaysia	5.0	5.9	6.3	5.5	5.8	6.6	7.3
Philippines		4.9	5.4	7.3	7.1	7.5	7.4	7.4	

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

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 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Dec.	2008 Jan.	Feb.
United States	<11.4>	6.6	-2.2	-2.2	1.7	-2.4	2.8	-0.6	-4.8	5.7	-3.5
EU	<10.5>	1.4	5.1	1.6	3.7	4.0	-3.9	-3.9	-0.9	-0.1	-7.9
East Asia	<40.9>	9.5	3.1	0.1	-0.8	2.1	0.4	1.9	5.1	-0.1	-3.1
China	<20.6>	11.2	6.0	1.4	0.6	1.5	0.8	0.8	6.1	-0.6	-4.9
NIEs	<8.9>	12.7	-2.7	-1.6	-4.5	3.6	-0.2	3.9	1.0	2.5	-0.2
Korea	<4.4>	11.4	0.6	-1.7	1.3	2.2	1.9	3.7	-4.8	7.7	-4.7
Taiwan	<3.2>	16.9	-4.6	-3.3	-10.3	7.9	-3.1	2.1	8.7	-3.4	-0.3
ASEAN4 ³	<11.4>	3.4	3.0	-0.9	-0.0	1.8	-0.1	2.4	7.0	-1.4	-2.0
Thailand	<2.9>	7.1	4.2	1.7	-1.6	2.3	0.6	1.8	10.3	-5.0	1.7
Others	<37.2>	2.5	-0.5	1.4	-1.2	3.5	-2.1	0.1	1.4	-0.6	-3.3
Real imports		3.6	0.6	0.3	-0.5	1.7	-0.5	-0.5	-0.6	0.9	-3.1

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q1	Q2	Q3	Q4	2008 Q1	2007 Dec.	2008 Jan.	Feb.
Raw materials ⁴	<35.4>	1.0	-0.1	1.0	-0.5	3.5	-1.3	-2.1	-0.6	-4.2	1.6
Intermediate goods	<14.8>	2.3	1.6	0.4	1.8	3.4	-2.8	-2.5	4.0	-2.0	-4.6
Foodstuffs	<8.3>	-3.3	-5.7	0.5	-4.4	-0.8	-7.1	-0.4	2.4	-2.0	-0.2
Consumer goods ⁵	<8.1>	2.6	-1.5	-5.1	5.5	-0.0	-3.1	-0.4	-4.0	1.1	0.7
IT-related goods ⁶	<11.3>	14.1	1.4	0.6	-1.4	2.6	0.5	4.8	4.5	4.0	-7.3
Capital goods and parts ⁷	<12.8>	16.9	9.7	1.8	1.7	2.9	3.6	2.3	-0.2	7.8	-10.6
Excluding aircraft	<11.8>	18.0	9.5	0.4	3.1	4.4	1.5	-1.3	2.4	-0.1	-7.5
Real imports		3.6	0.6	0.3	-0.5	1.7	-0.5	-0.5	-0.6	0.9	-3.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q1 figures are January-February averages converted into quarterly amount.

2. Shares of each region and goods in 2007 are shown in angle brackets.

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

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

5. Excludes foodstuffs.

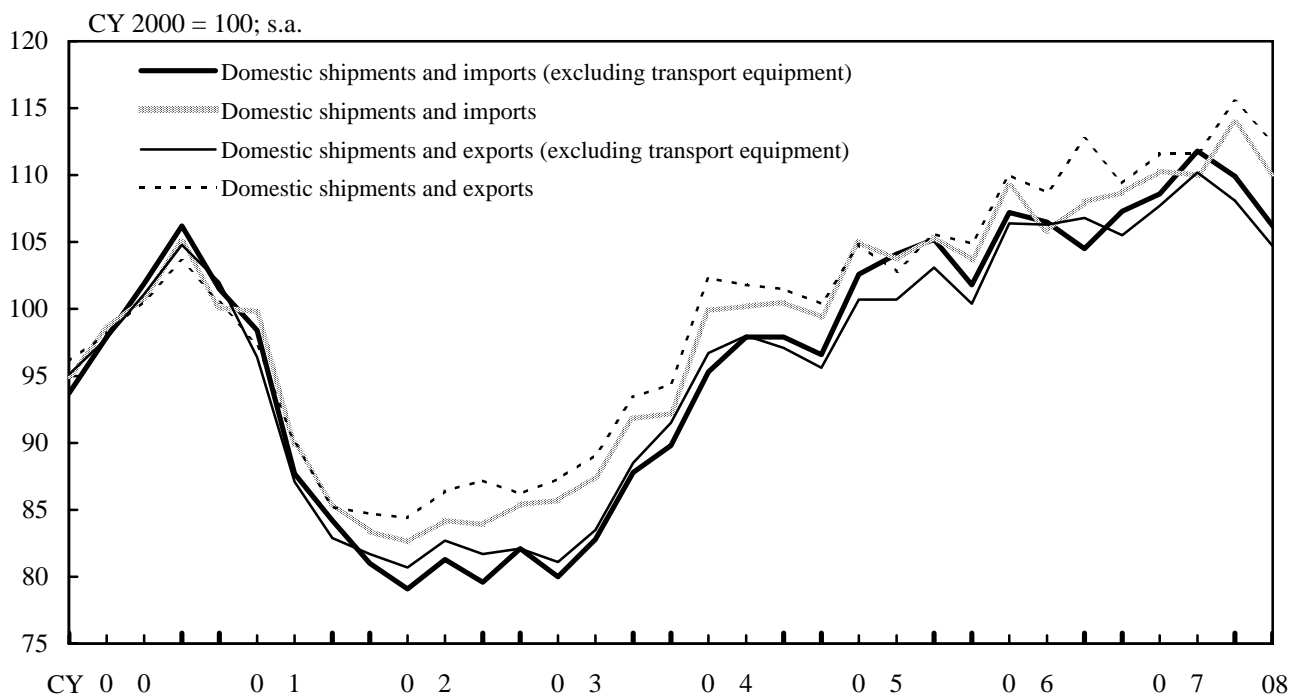
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

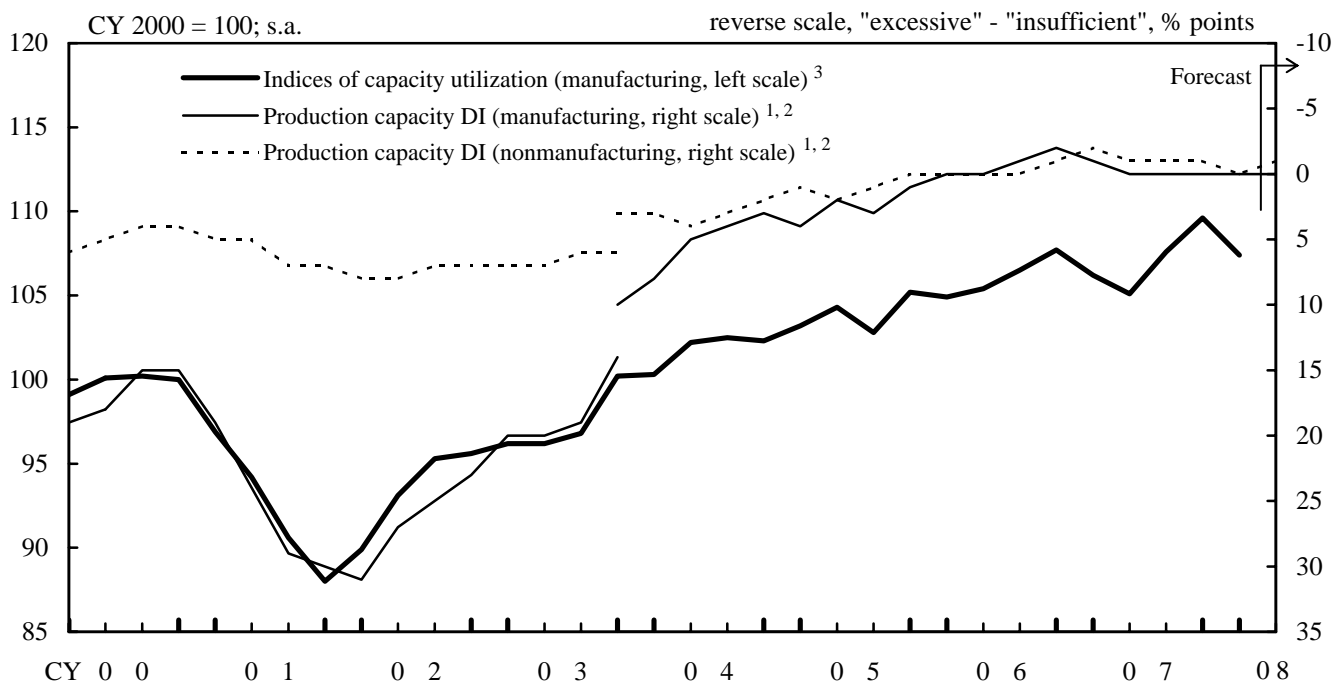
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2008/Q1 are January-February averages.

(2) Indices of Capacity Utilization and Production Capacity DI



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

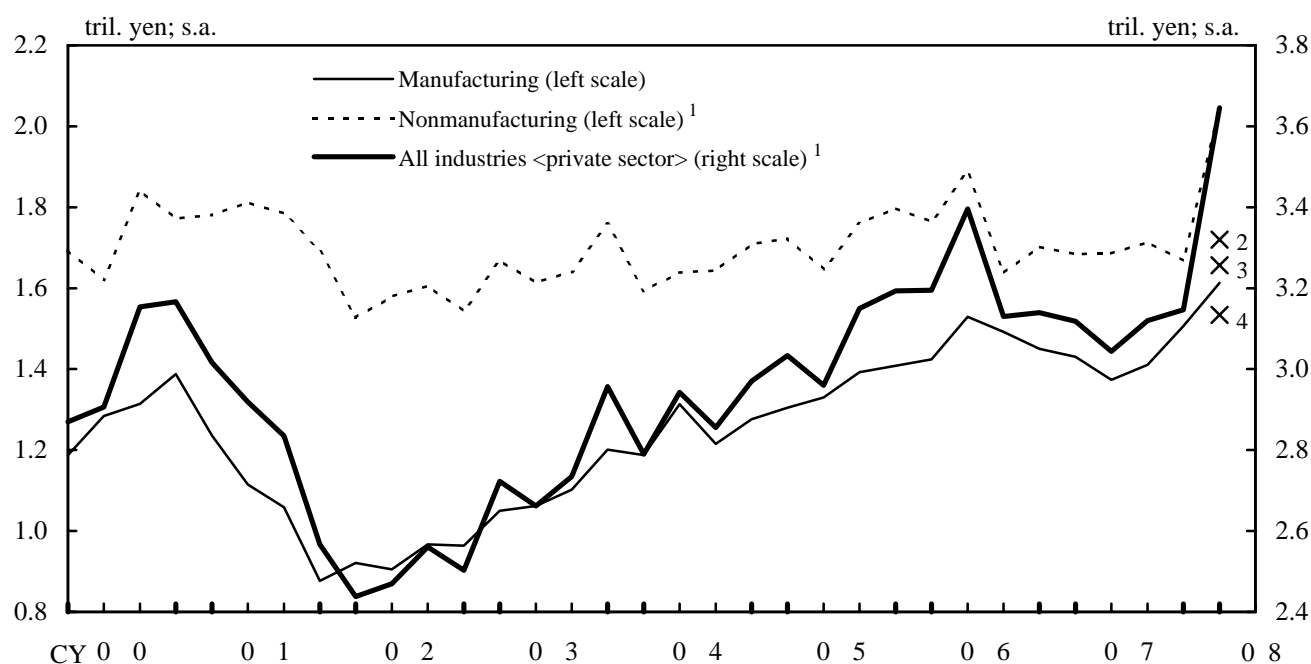
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2008/Q1 is January.

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

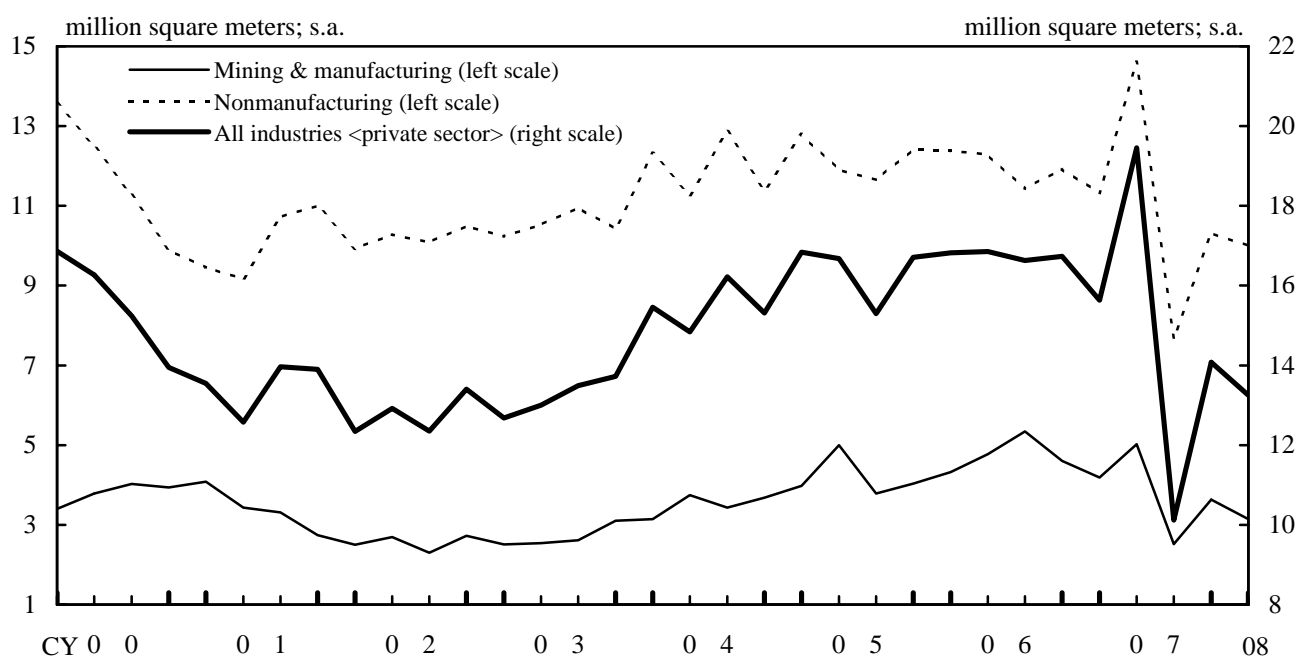
2. Forecast of nonmanufacturing industries for 2008/Q1.

3. Forecast of all industries <private sector> for 2008/Q1.

4. Forecast of manufacturing industries for 2008/Q1.

5. Figures for 2008/Q1 are those of January in terms of quarterly amount.

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



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

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

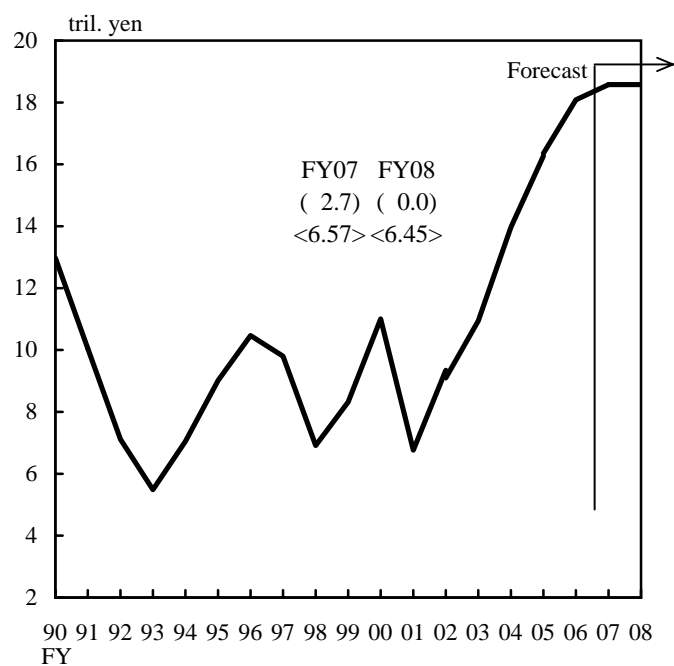
3. Figures for 2008/Q1 are averages of January-February in terms of quarterly amount.

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

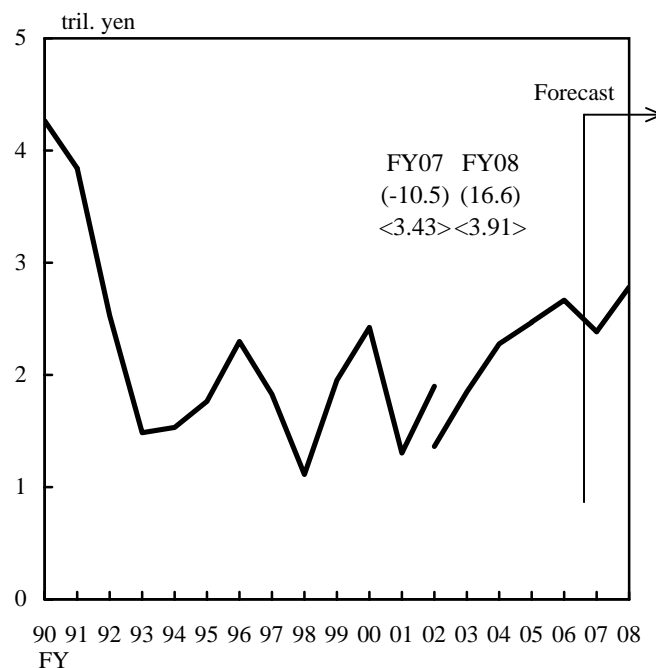
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

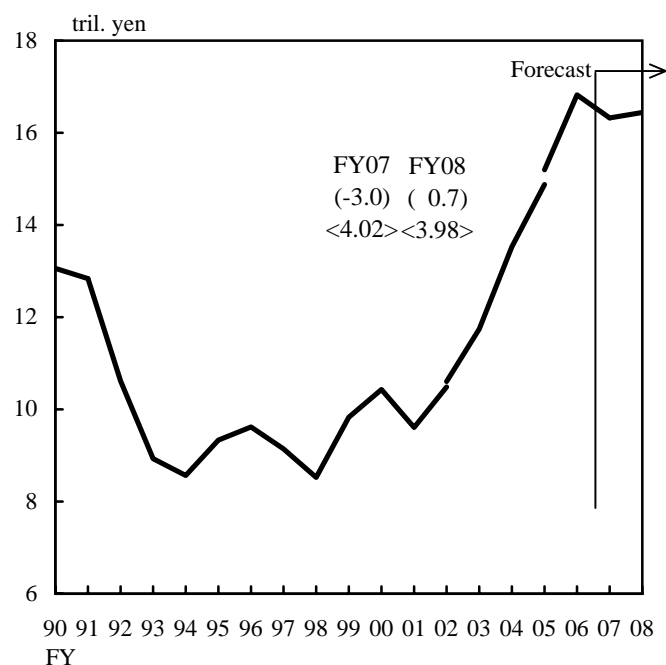
(1) Large Manufacturing Enterprises



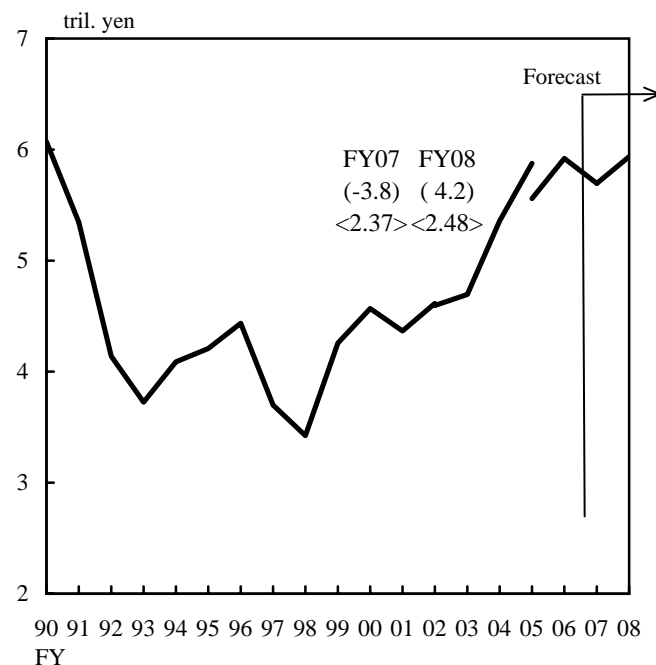
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



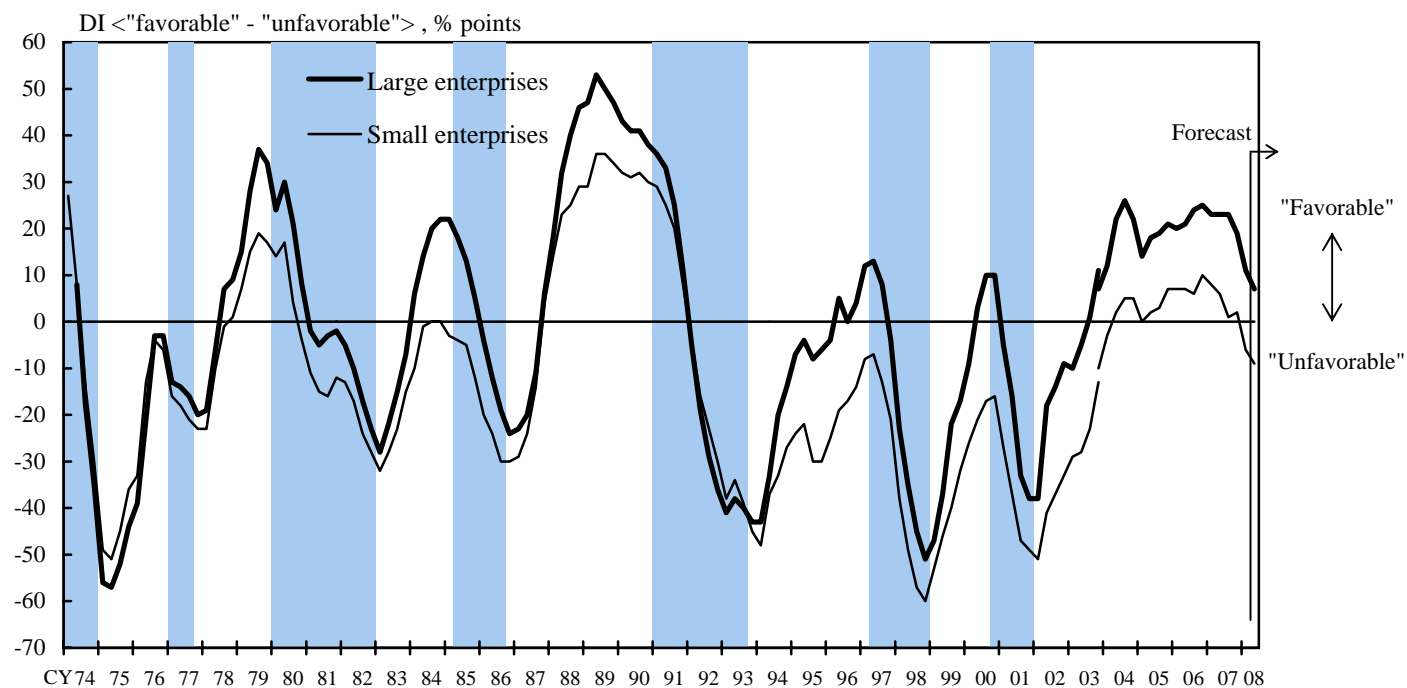
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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.

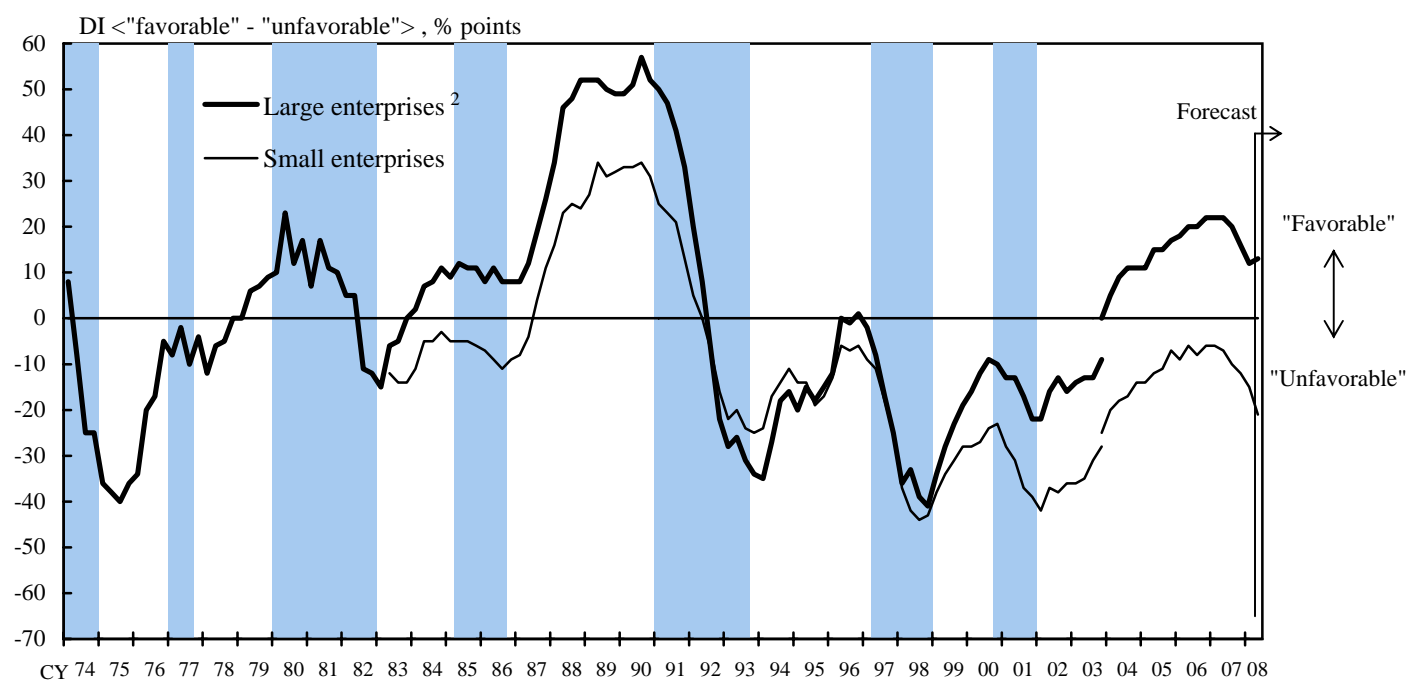
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

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.

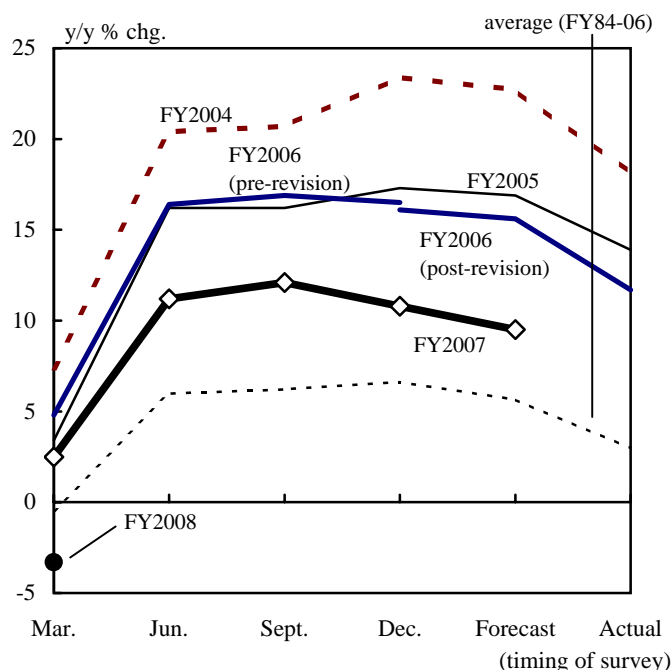
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

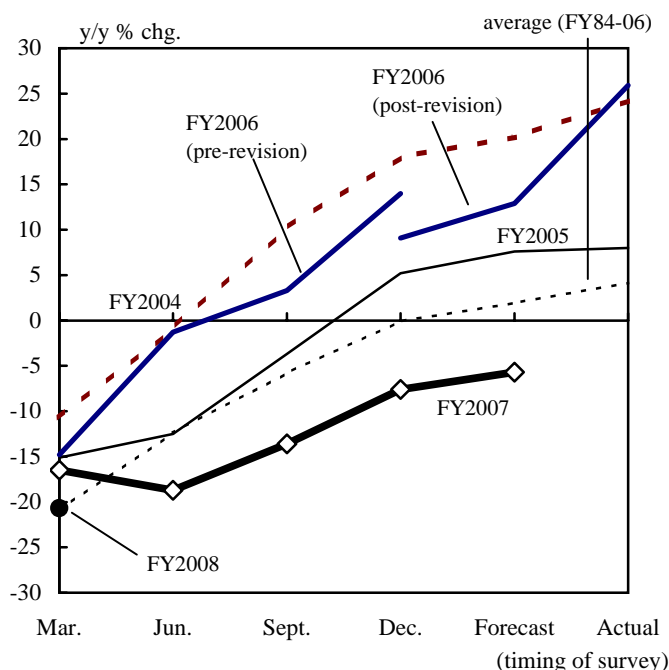
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

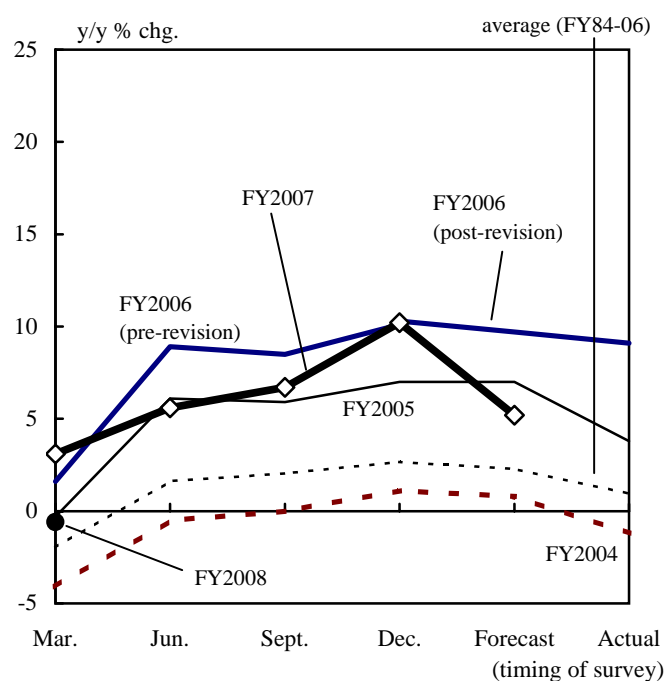
(1) Large Manufacturing Enterprises



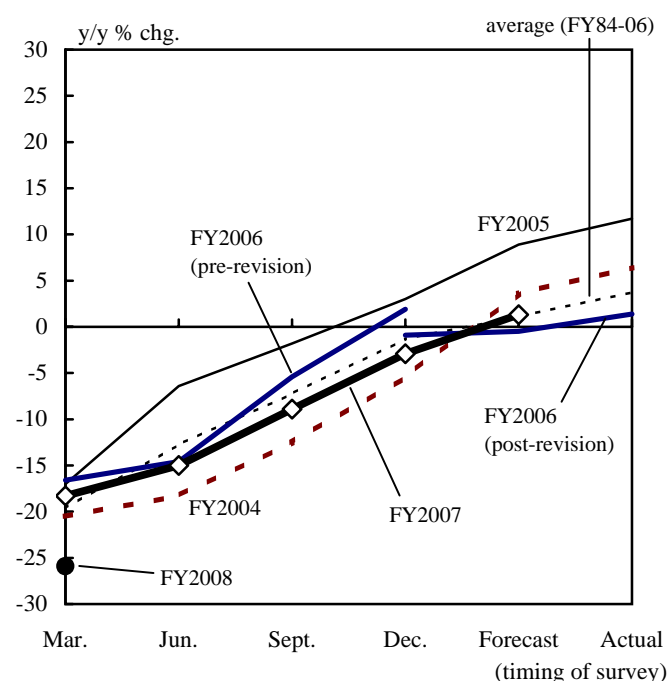
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



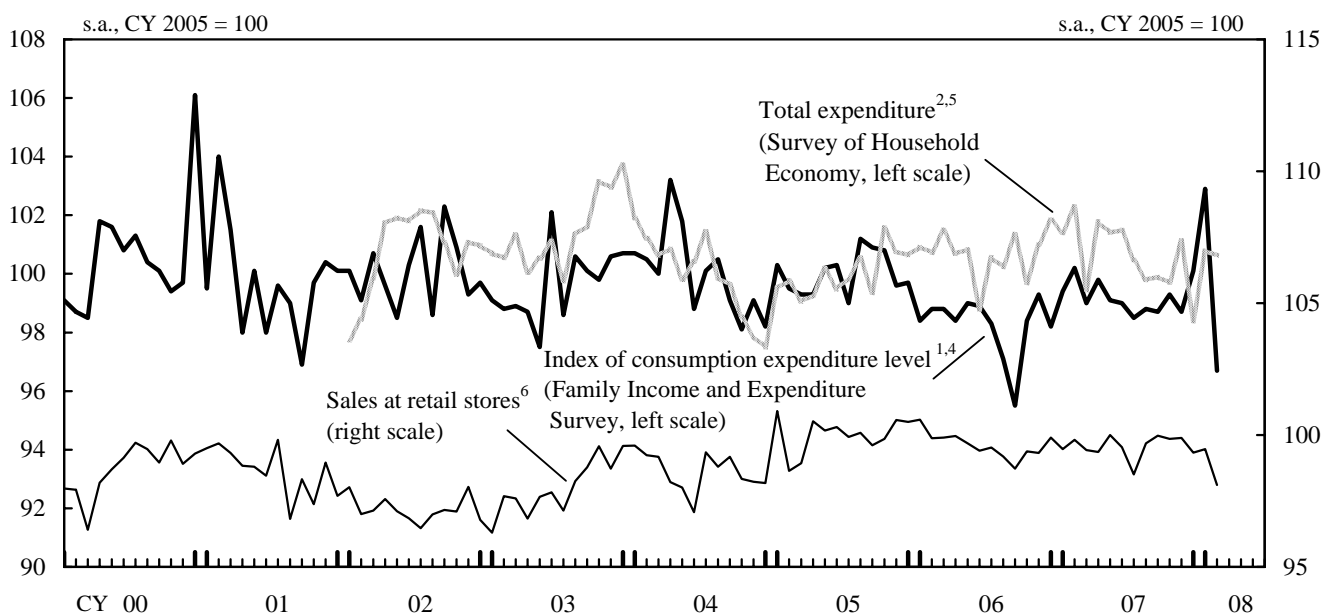
Notes: 1. Includes land purchasing expenses and excludes software investment.

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

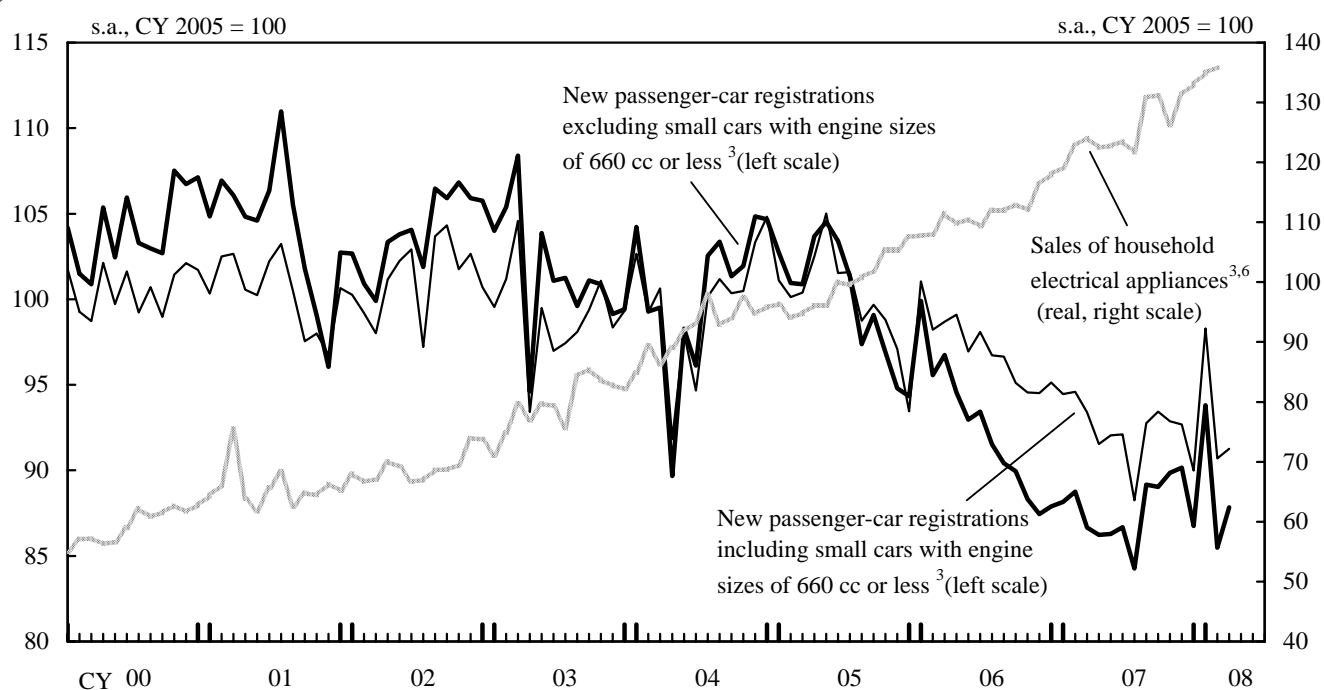
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

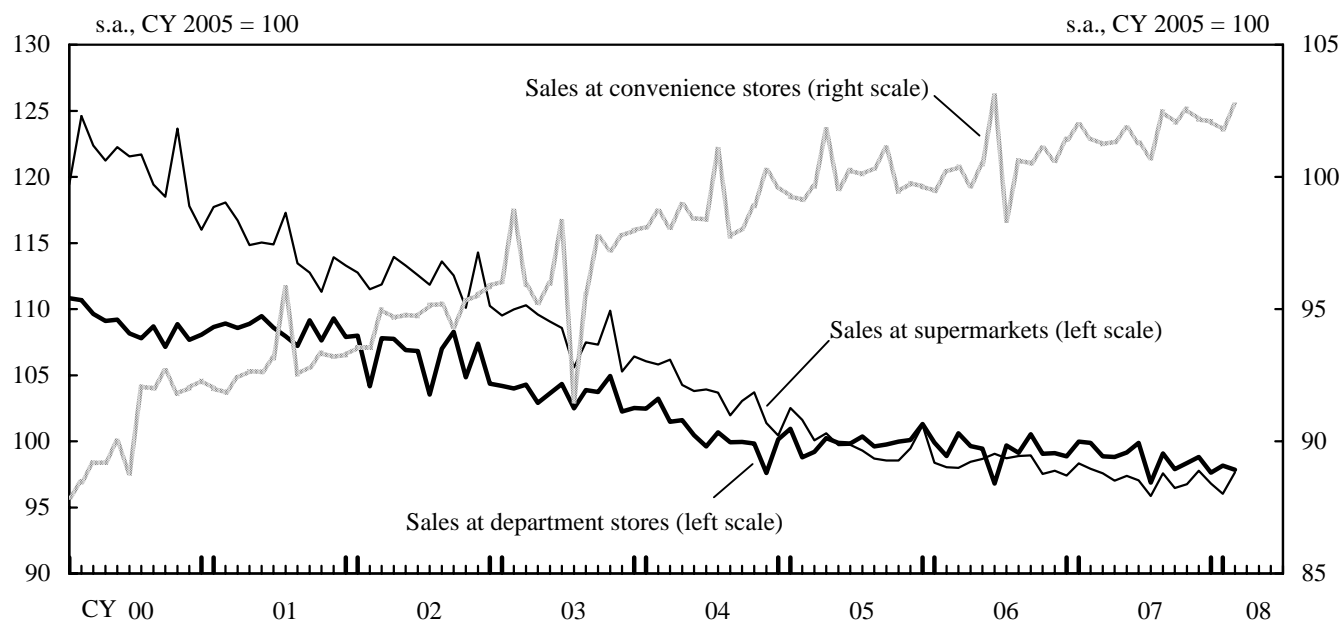


(2) Sales of Durable Goods

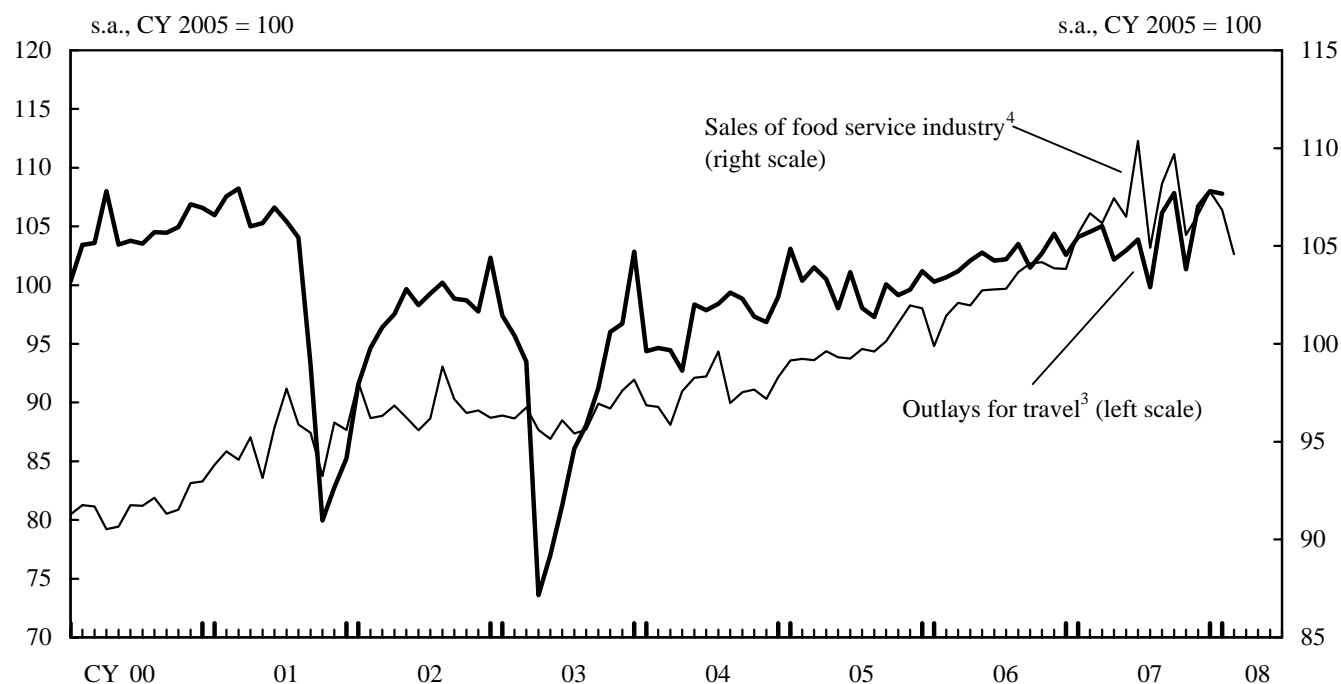


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of consumption expenditure level is based 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: indices of retail sales of machinery and equipment in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the corporate goods price index for 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, "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 effects of the increase in the number of stores (except convenience stores).

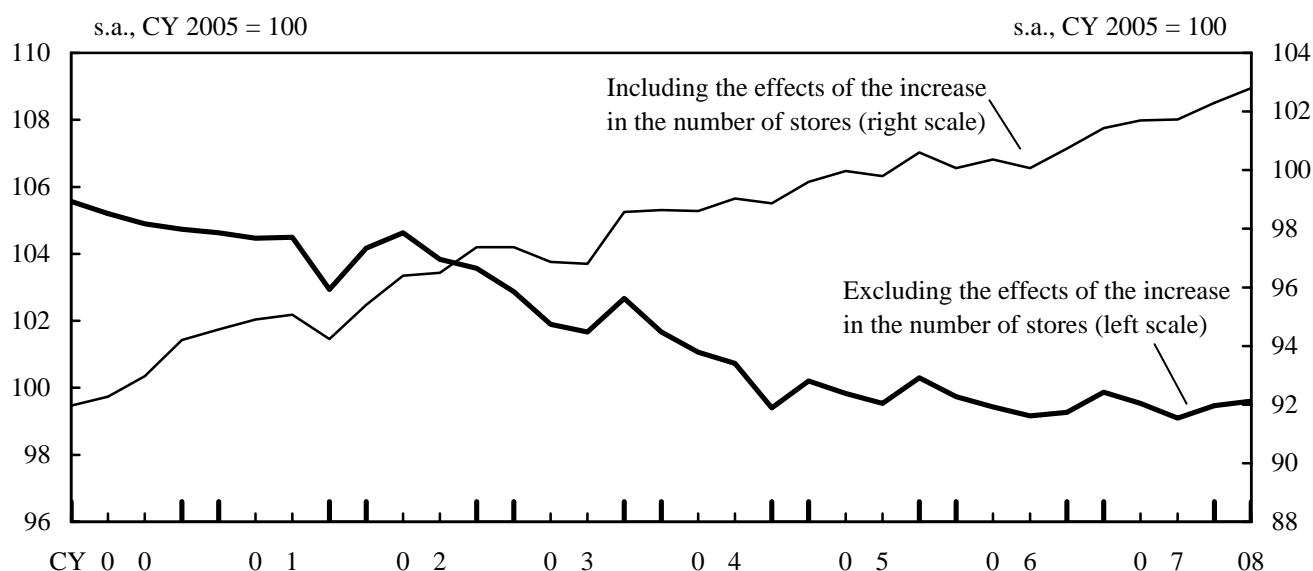
3. As for "outlays for travel," there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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 (Research on the Food Service Industry)."

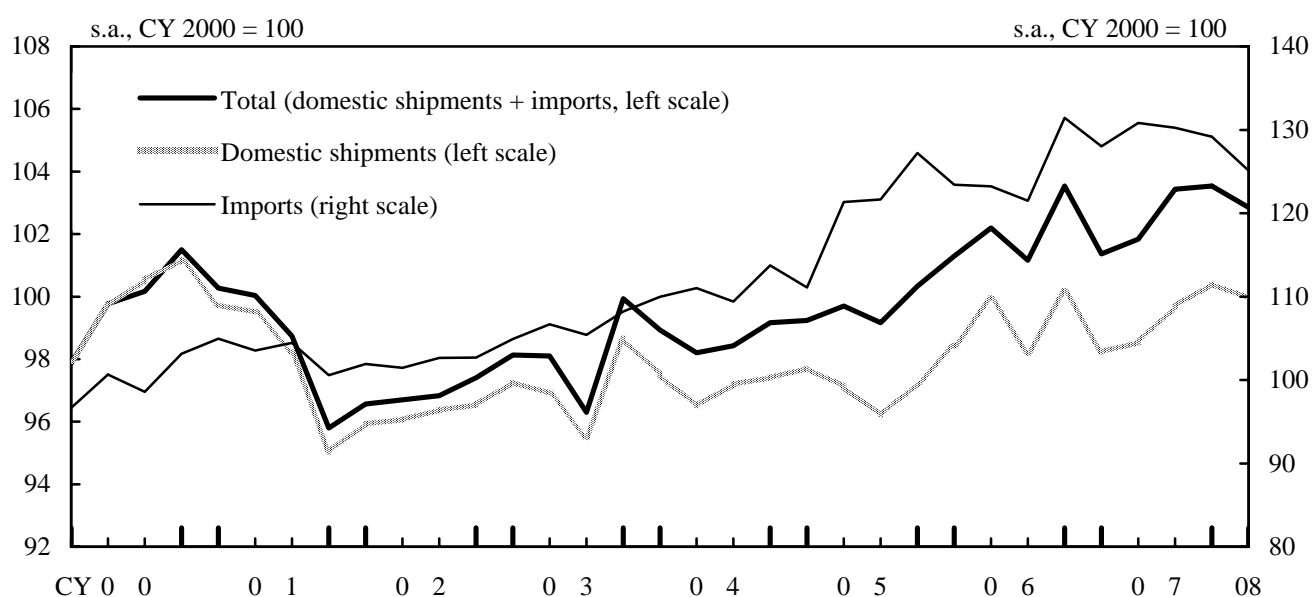
Indicators for Private Consumption (3)

(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 2008/Q1 figures are those of January-February averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

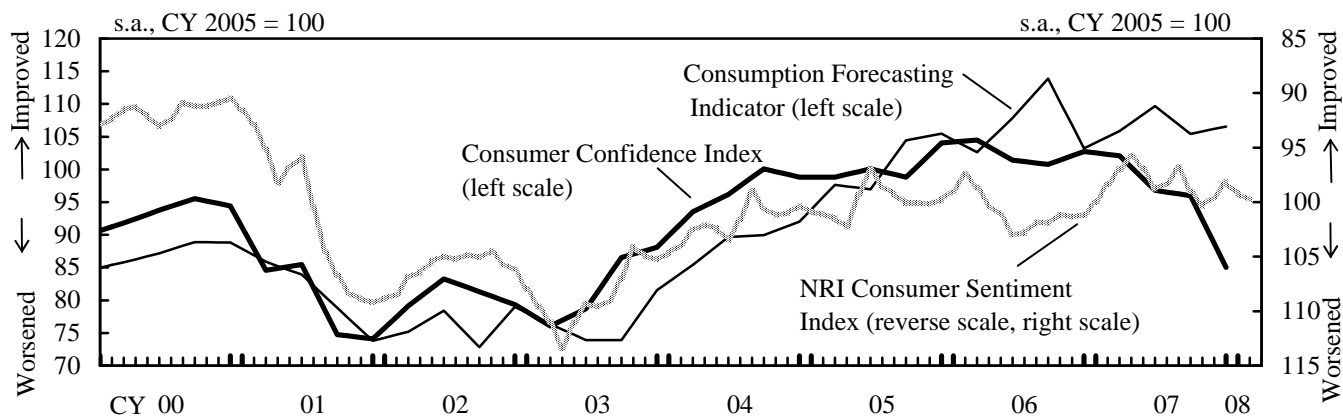


Note: Data for 2008/Q1 figures are those of January-February averages in terms of quarterly amount.

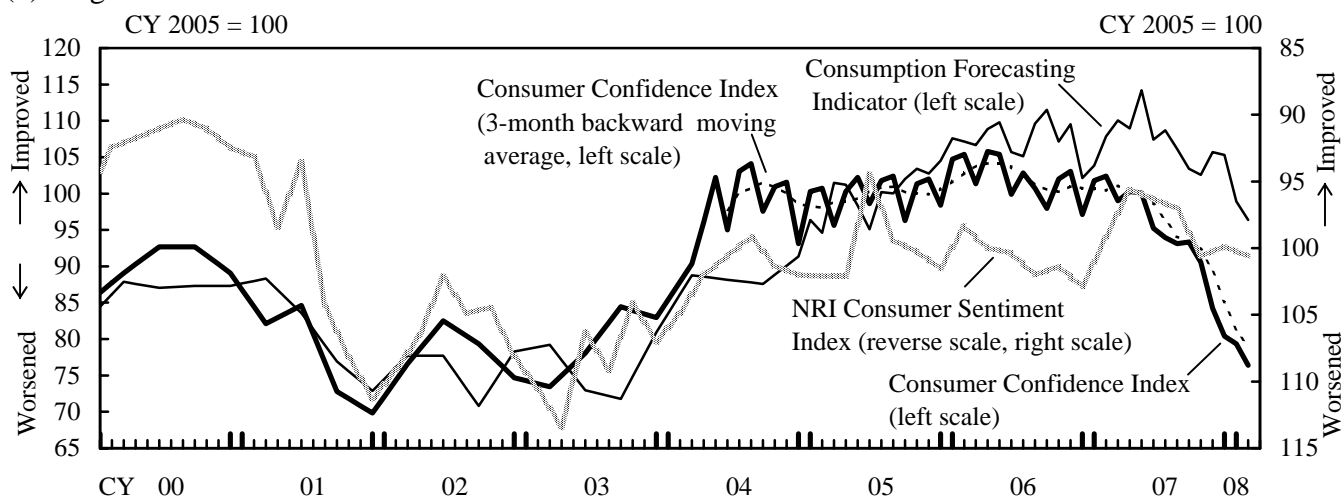
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

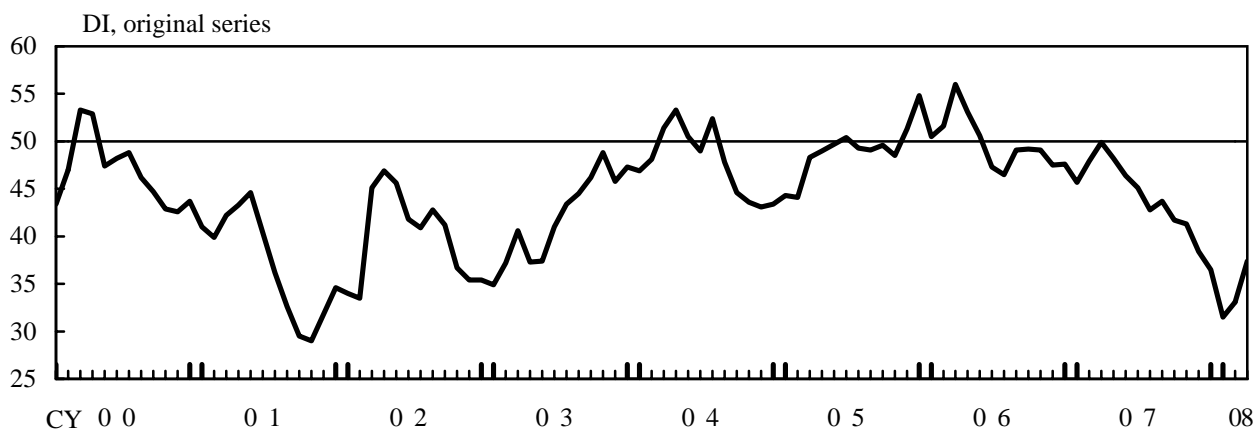
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity, Current Conditions)

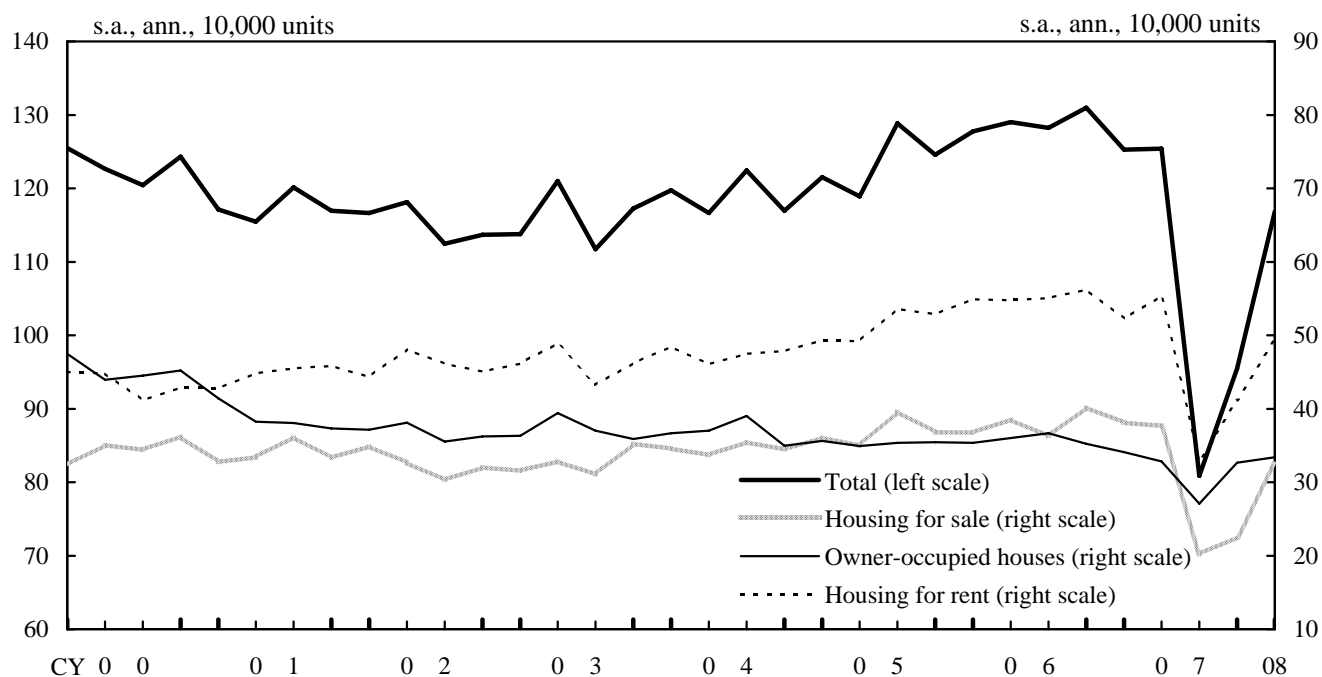


- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
- 2. Figures are plotted for each surveyed months and the data for intervening months are linearly interpolated.
- 3. (1) is 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.

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

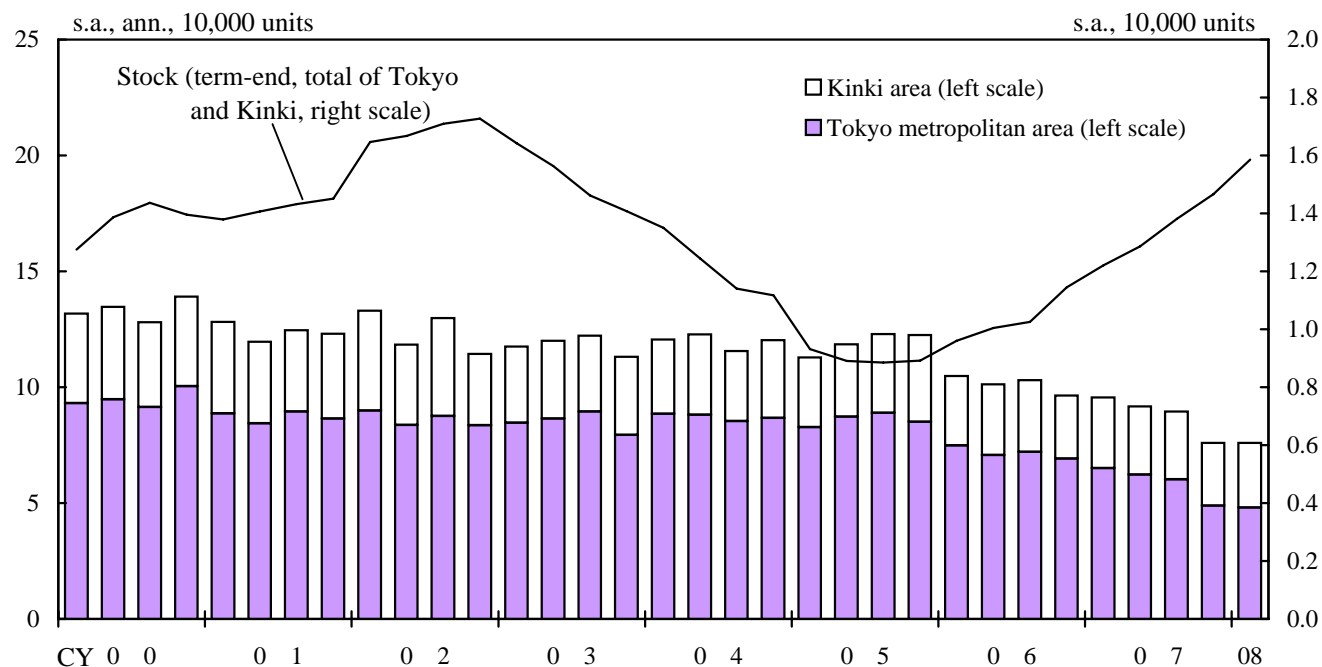
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2008/Q1 are those of January-February averages.

(2) Sales of Apartments



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

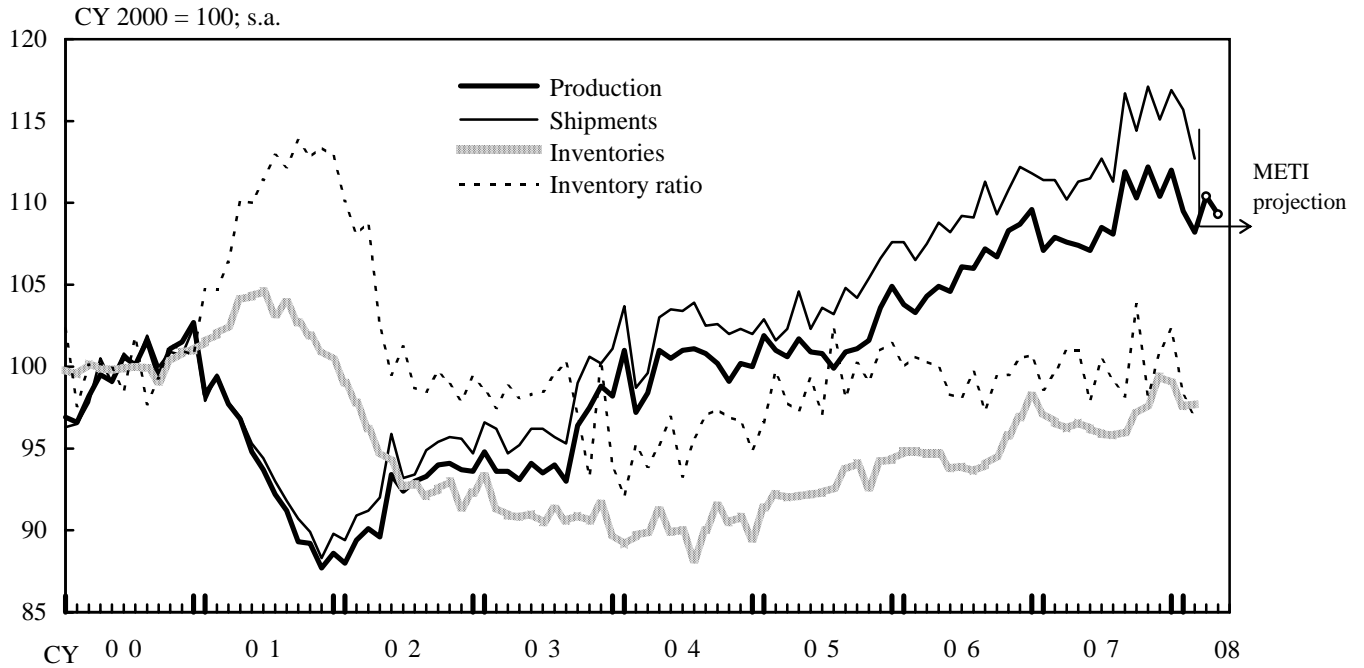
2. Figures of total apartments sales for 2008/Q1 are those of January-February averages.

Term-end stocks for 2008/Q1 are those of February.

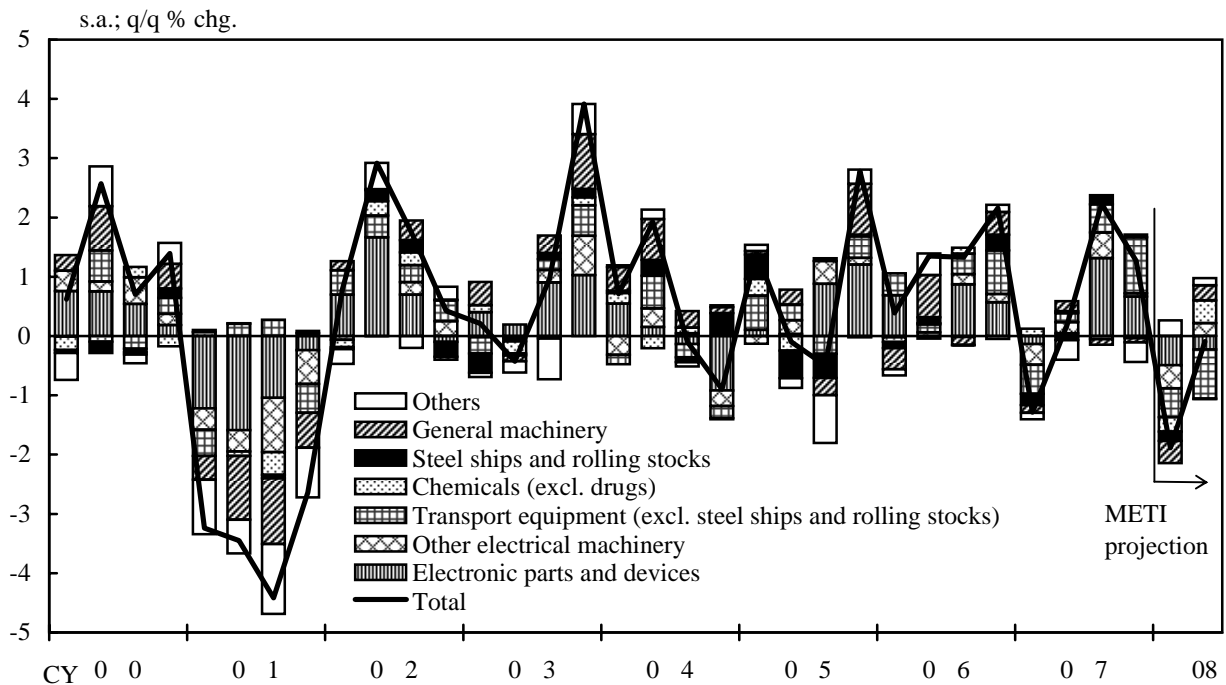
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry



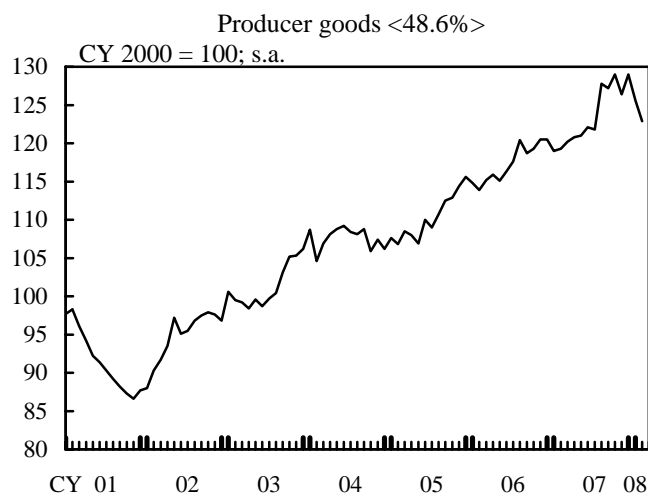
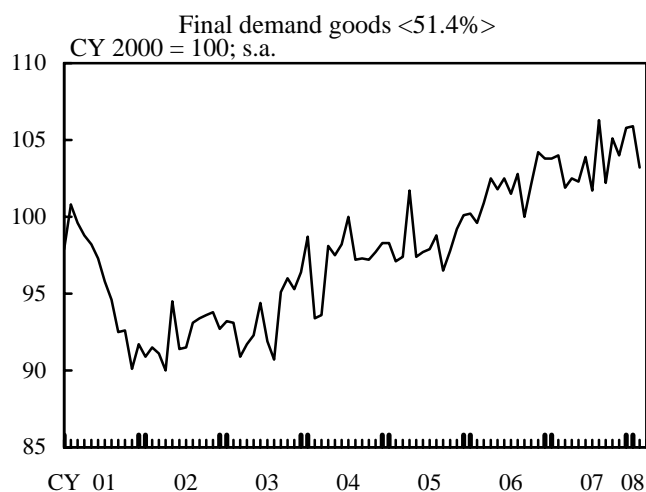
Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

2. 2008/Q1 figures are based on the actual levels in January and February, and the METI projection level in March. 2008/Q2 figures are based on the assumption that each production level in May and June is the same as that of April.

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

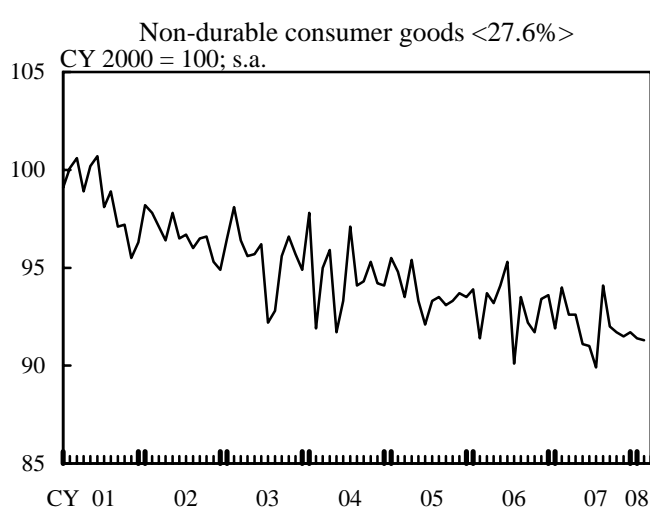
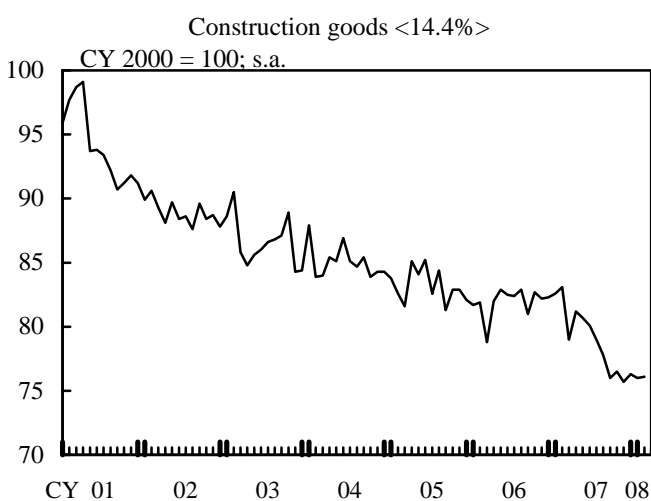
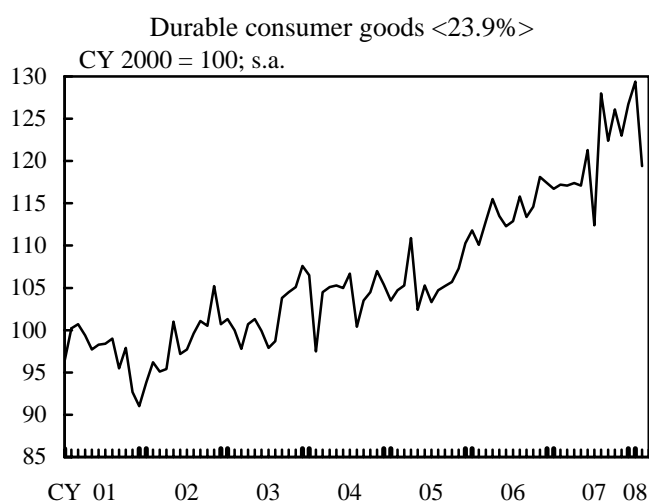
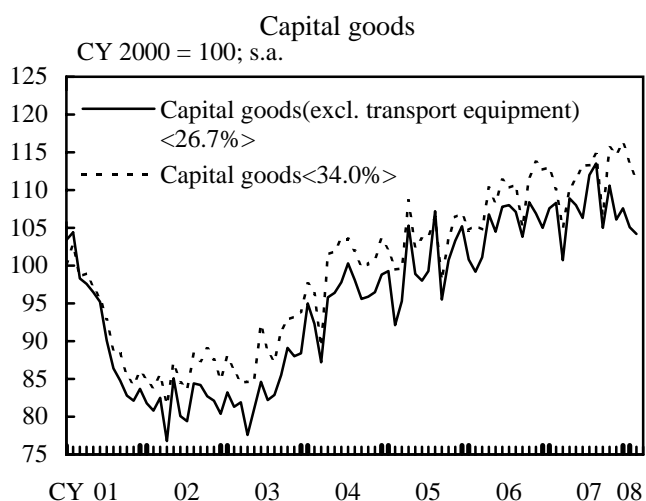
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



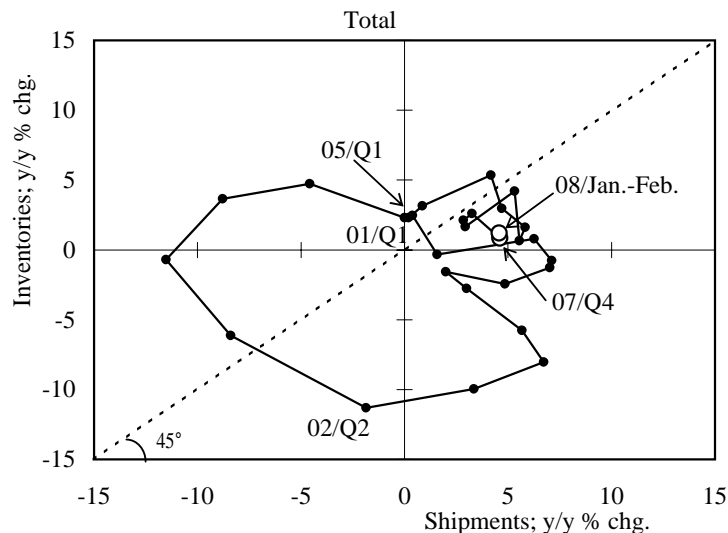
Note: Shares of shipments of mining and manufacturing are shown in angle brackets.

(2) Breakdown of Final Demand Goods



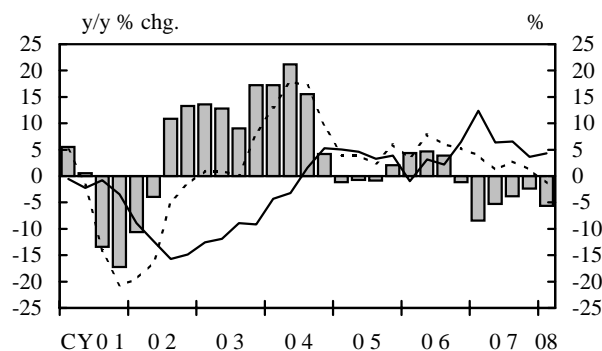
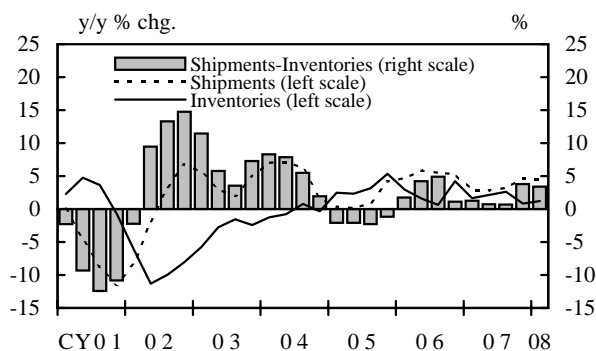
Note: Shares of shipments of final demand goods are shown in angle brackets.

Inventory Cycle



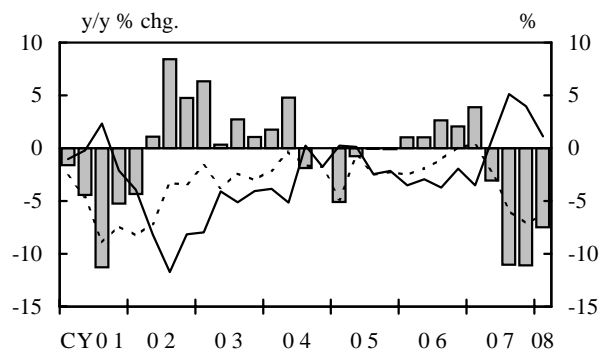
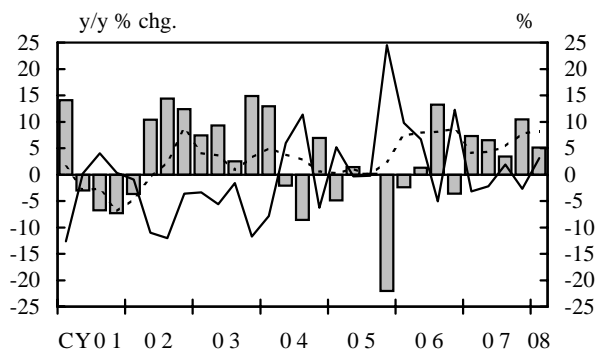
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



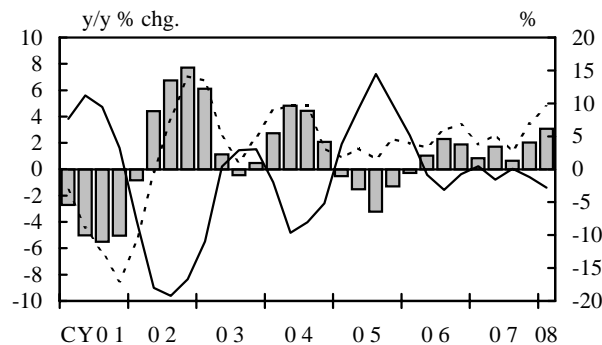
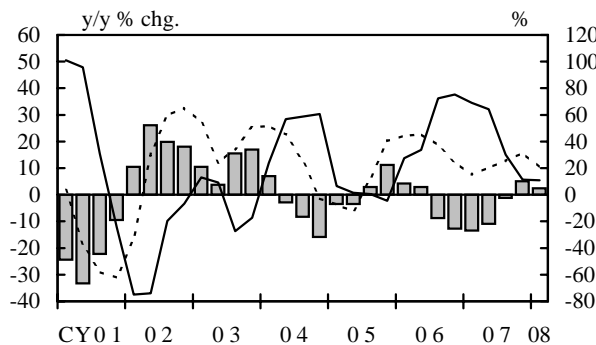
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

(6) Producer Goods Excluding Electronic Parts and Devices



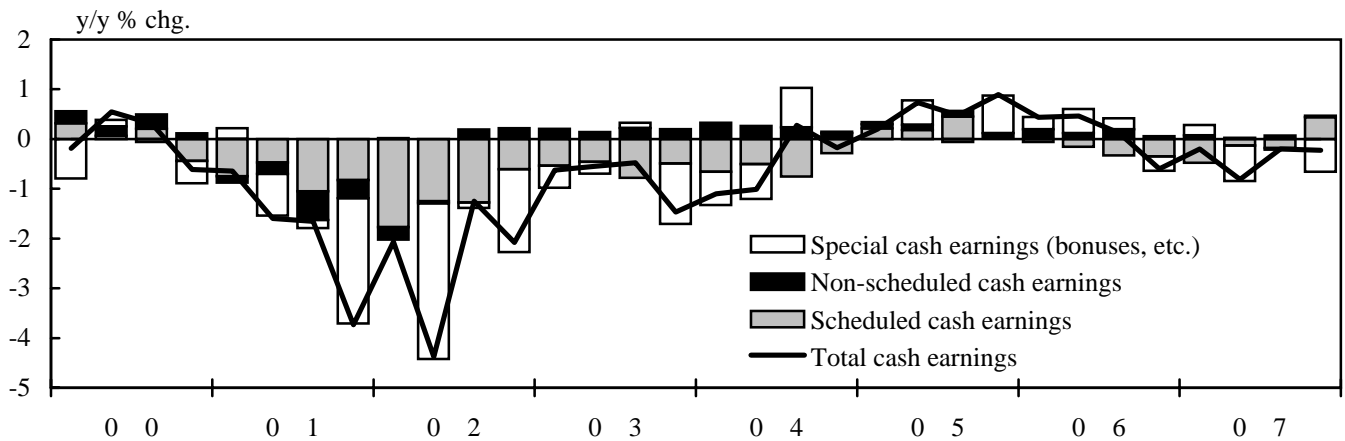
Note: Figures of Shipments for 2008/Q1 are those of January-February averages.

Inventories for 2008/Q1 are those of February.

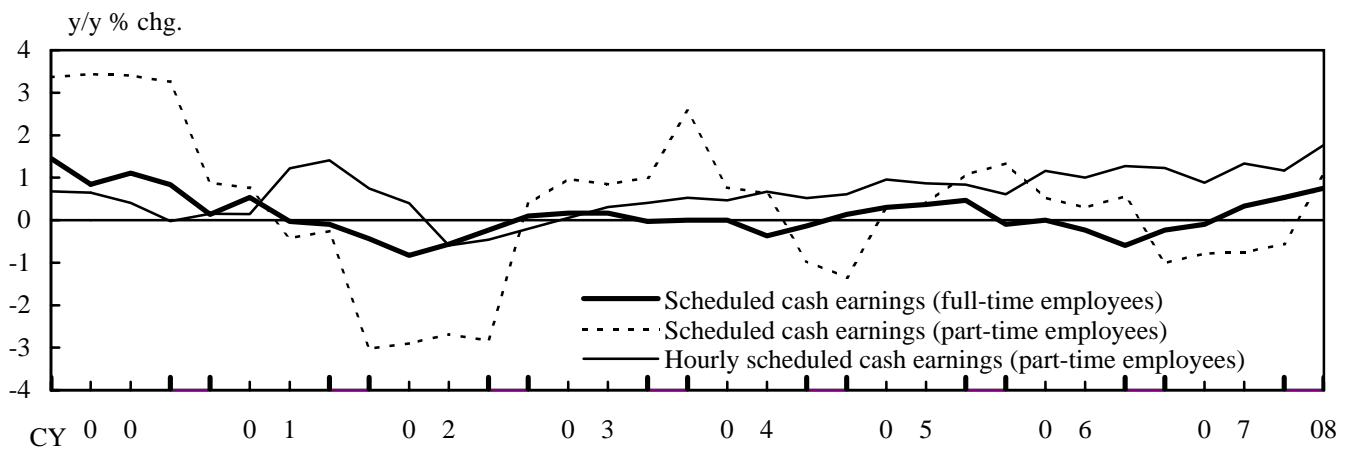
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

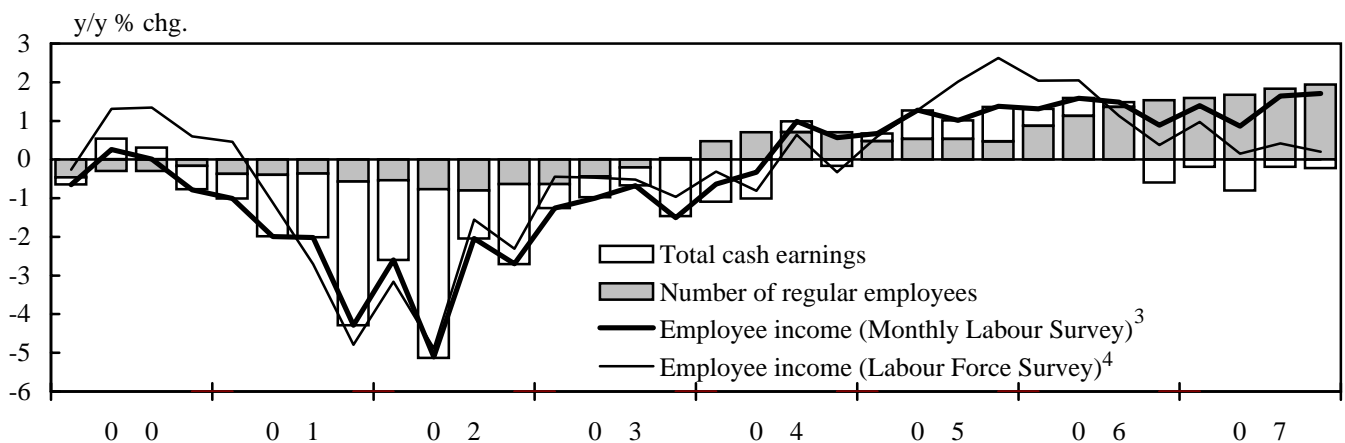
(1) Breakdown of Total Cash Earnings^{1,2}



(2) Scheduled Cash Earnings^{1,5}



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



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. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey.)

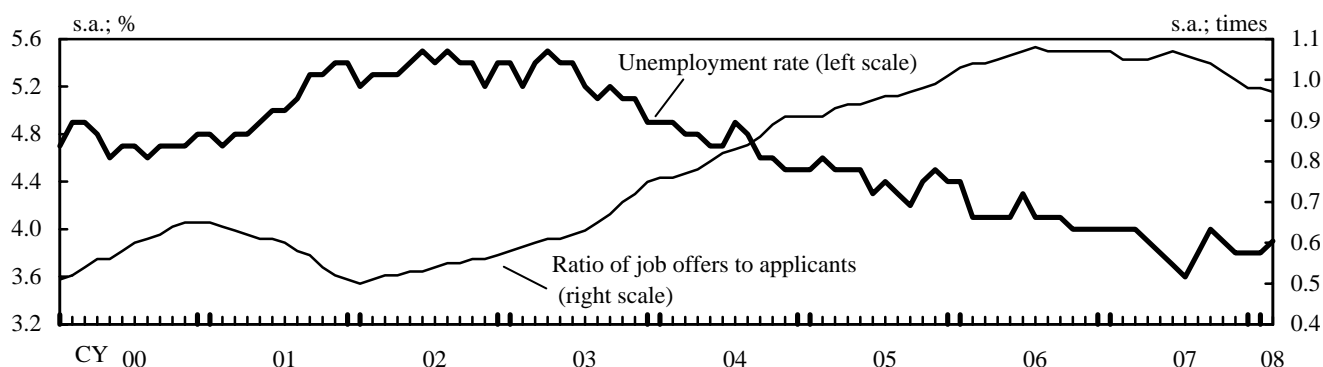
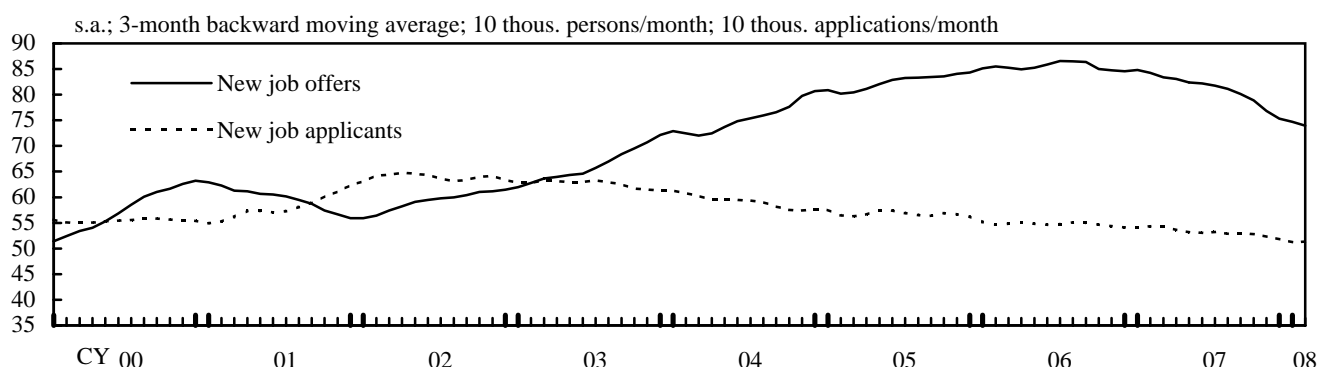
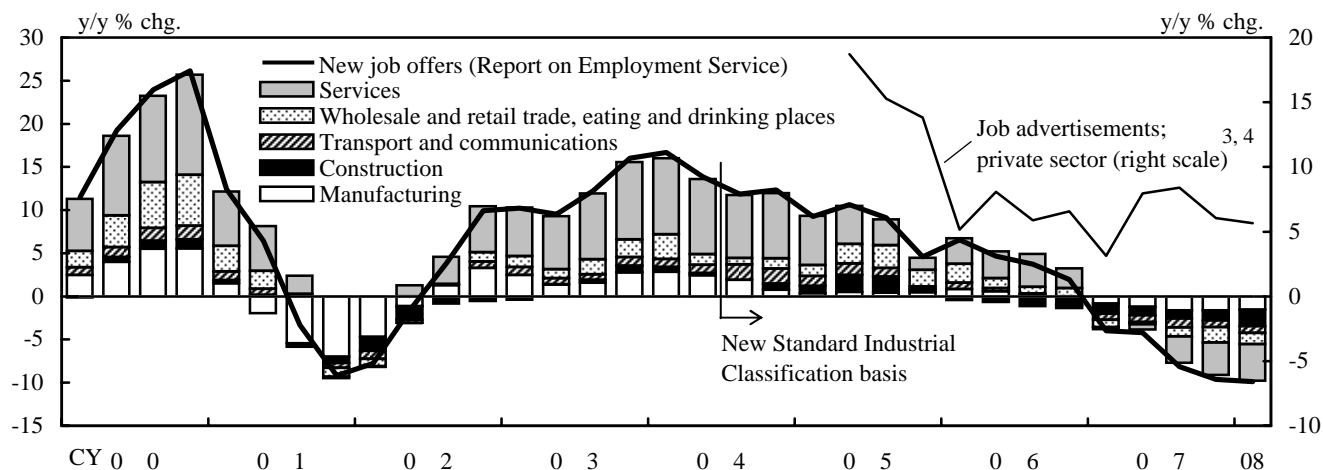
4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey.)

5. Figures for 2008/Q1 are those of January-February averages.

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

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/Q2-2008/Q1 are calculated on the basis of 45, 64 and 66 companies, respectively.

5. Figures for 2008/Q1 are those of January-February averages.

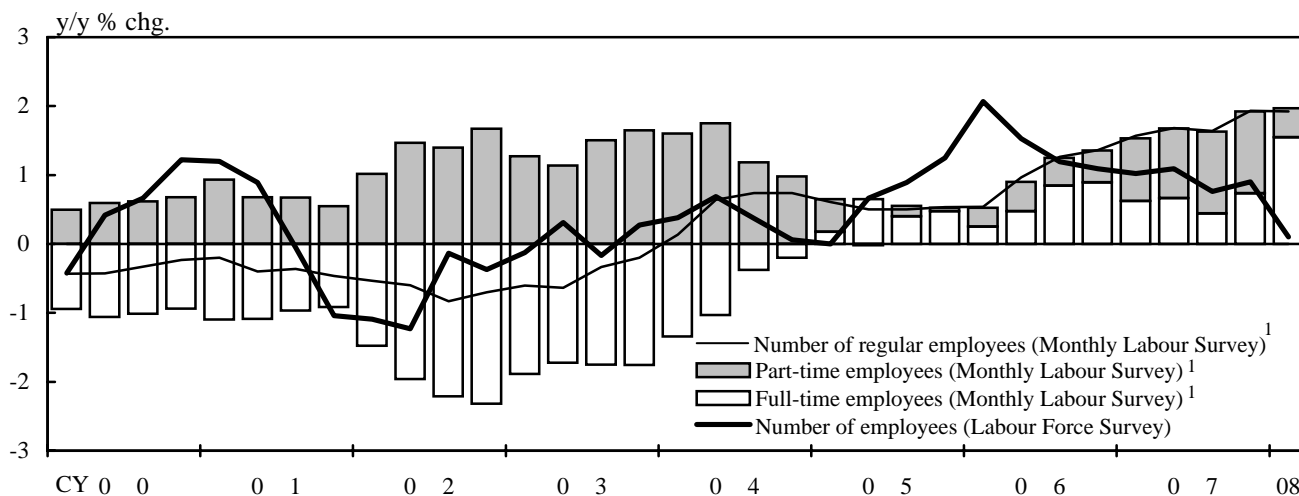
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

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

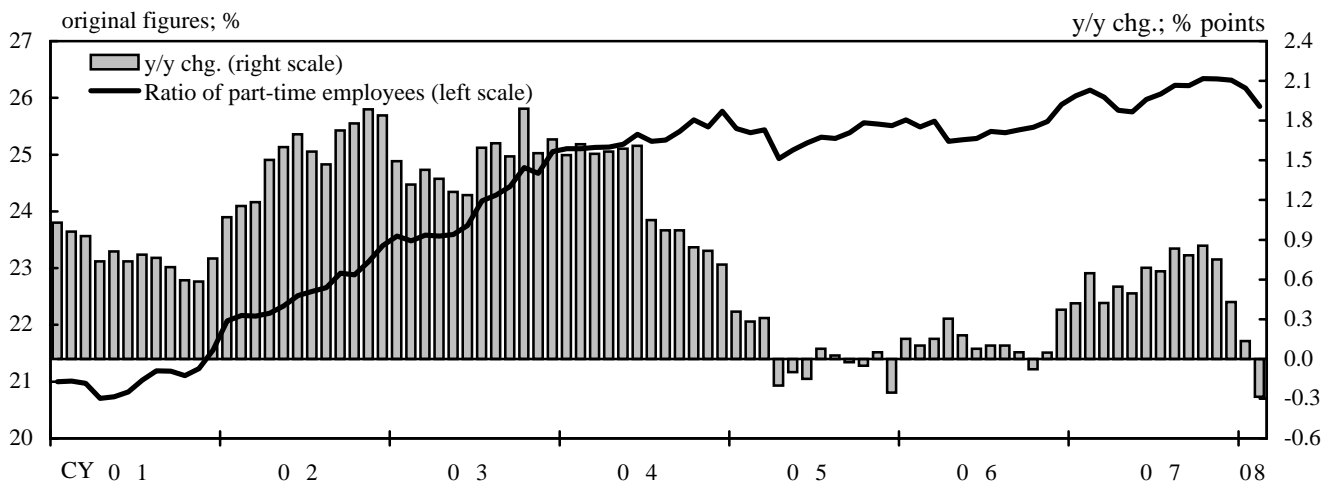
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

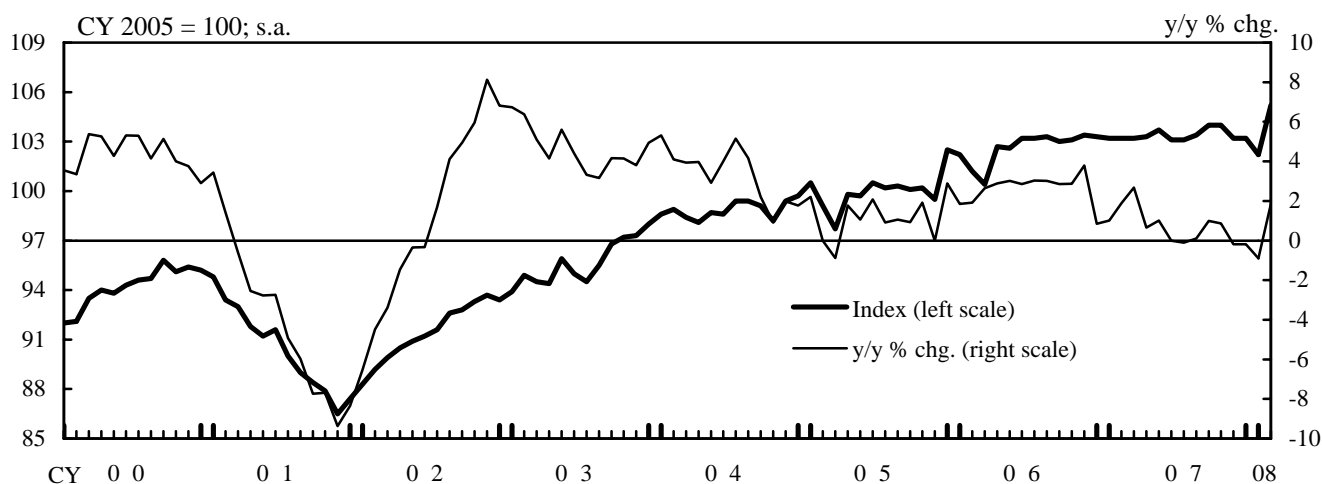
(1) Number of Employees³



(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.

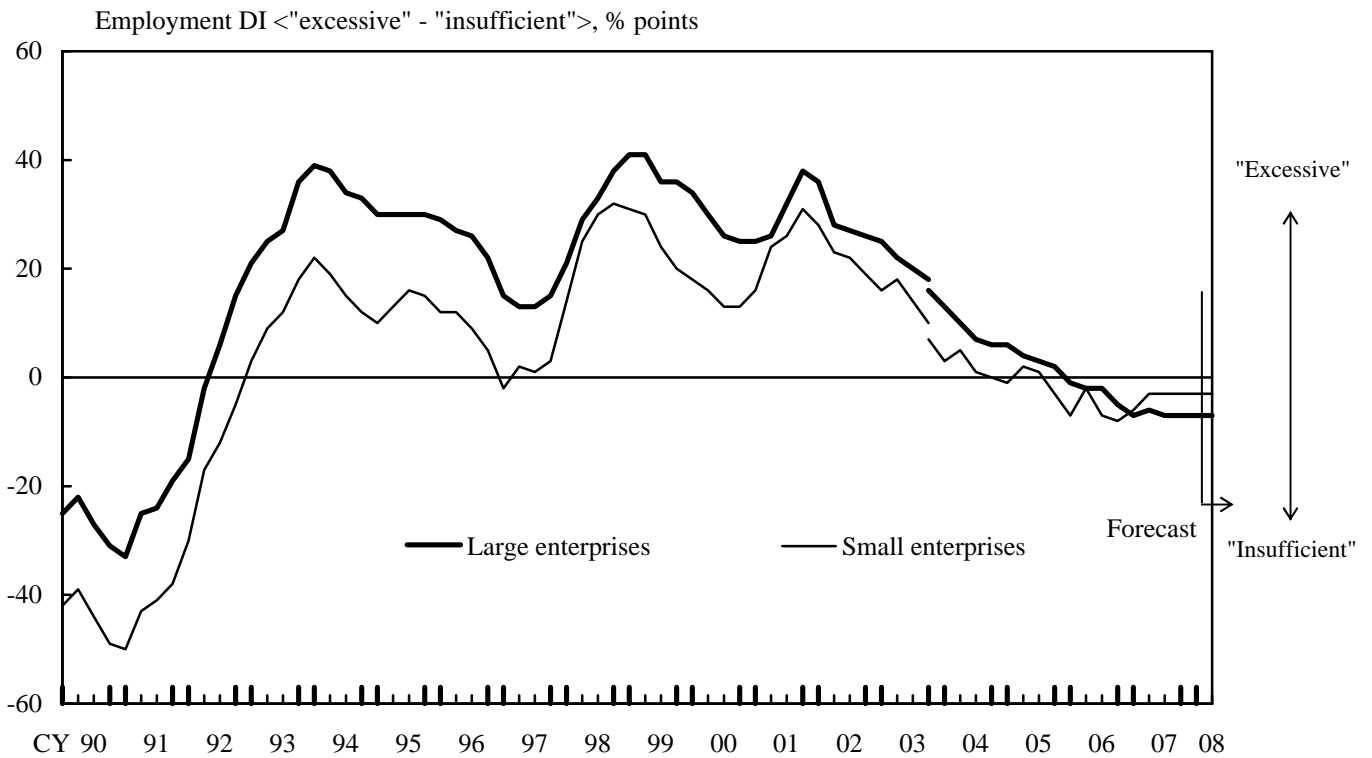
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2008/Q1 are those of January-February averages.

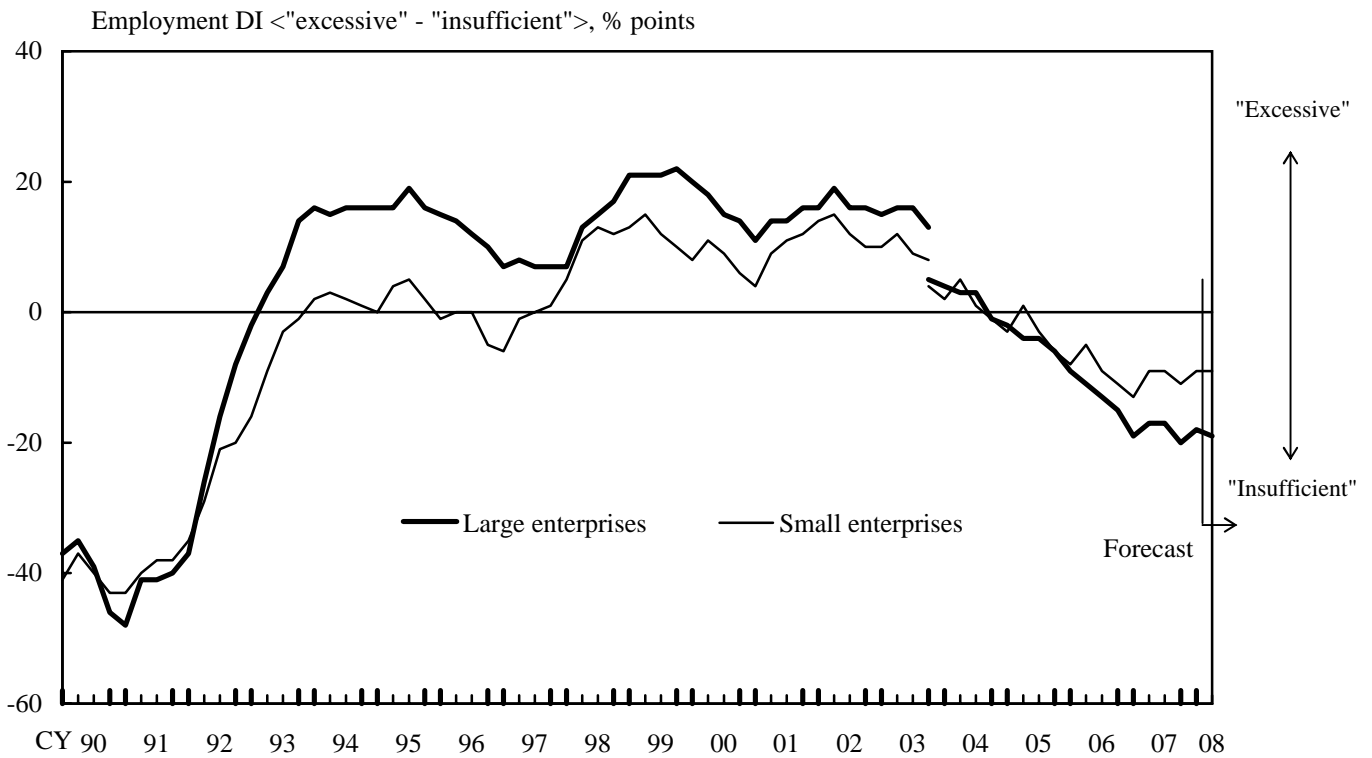
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

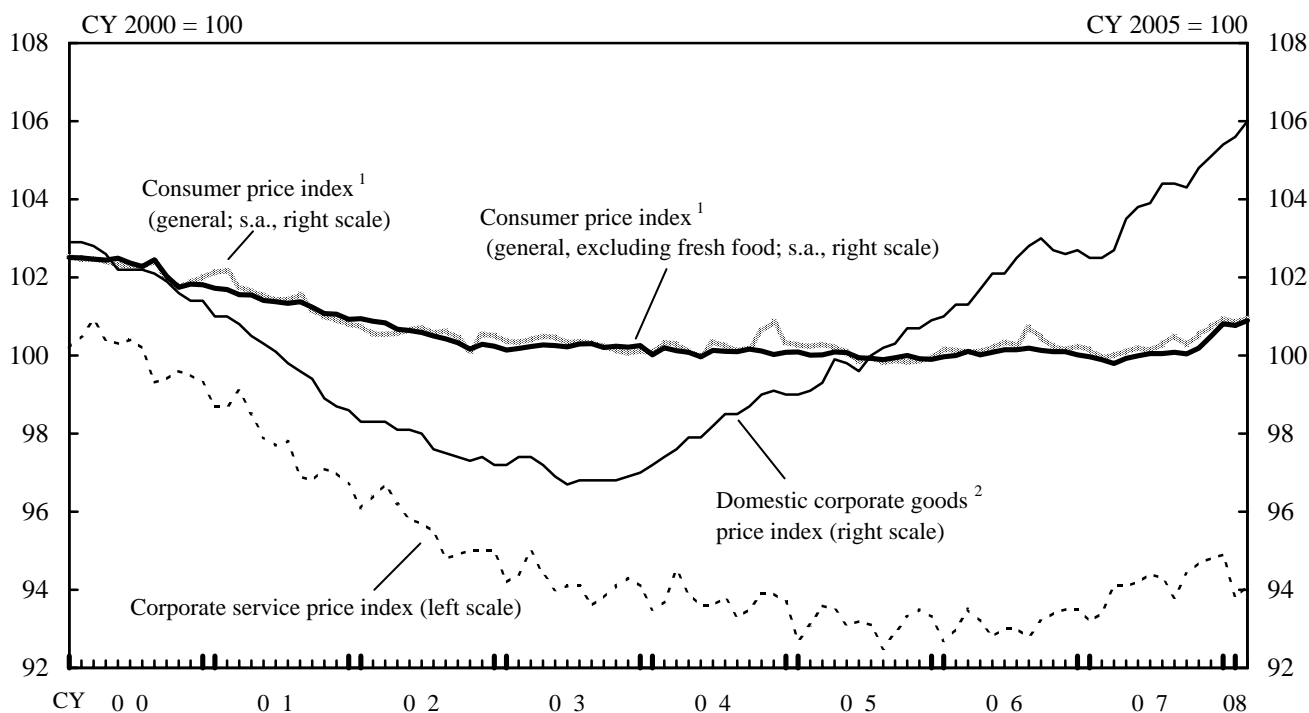


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

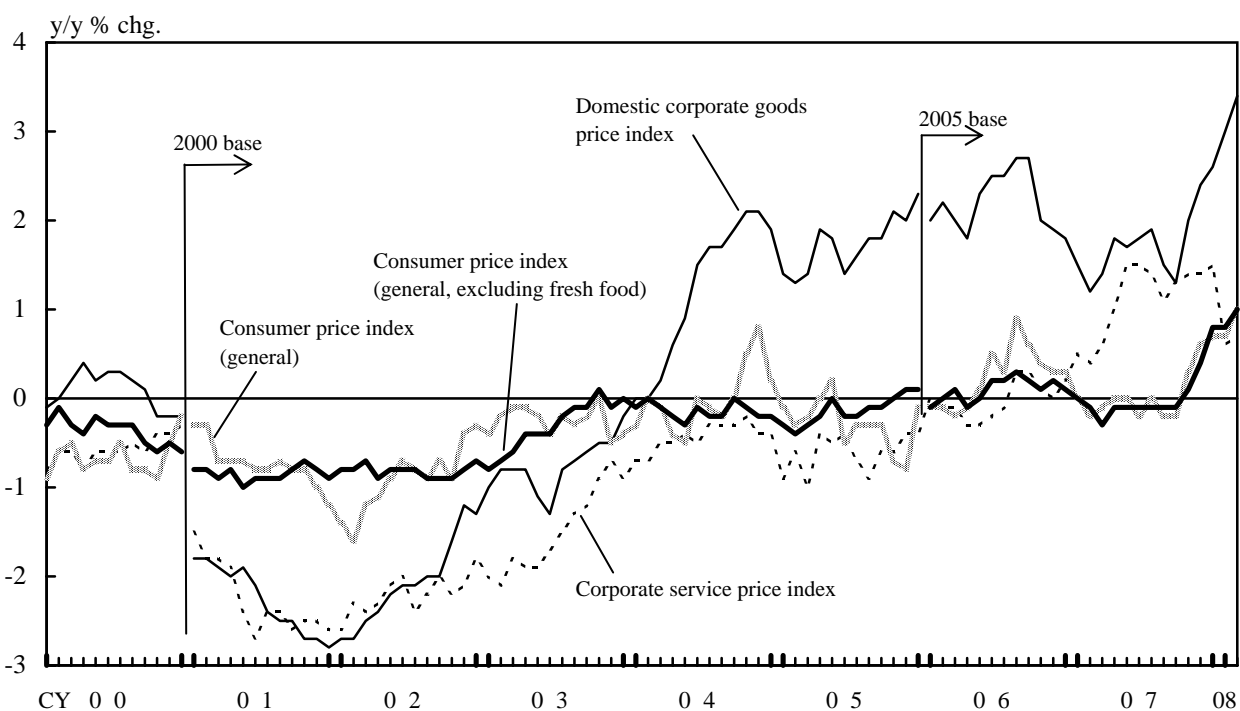
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Prices³

(1) Level



(2) Changes from a Year Earlier³



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

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

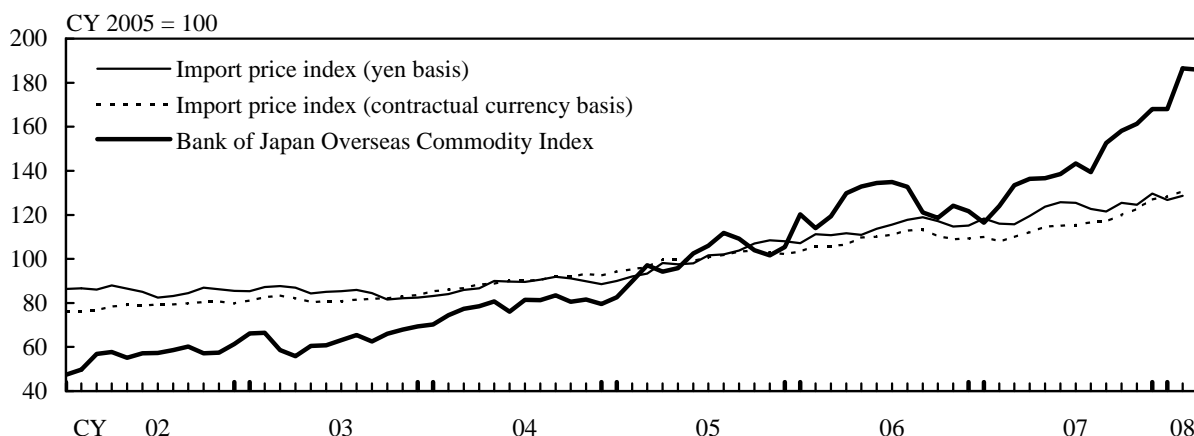
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

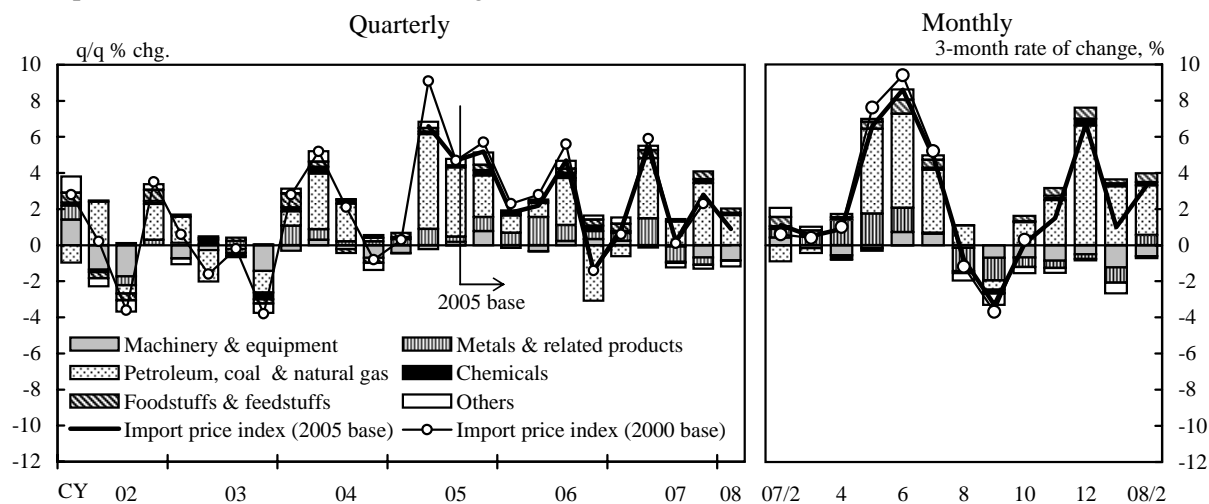
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



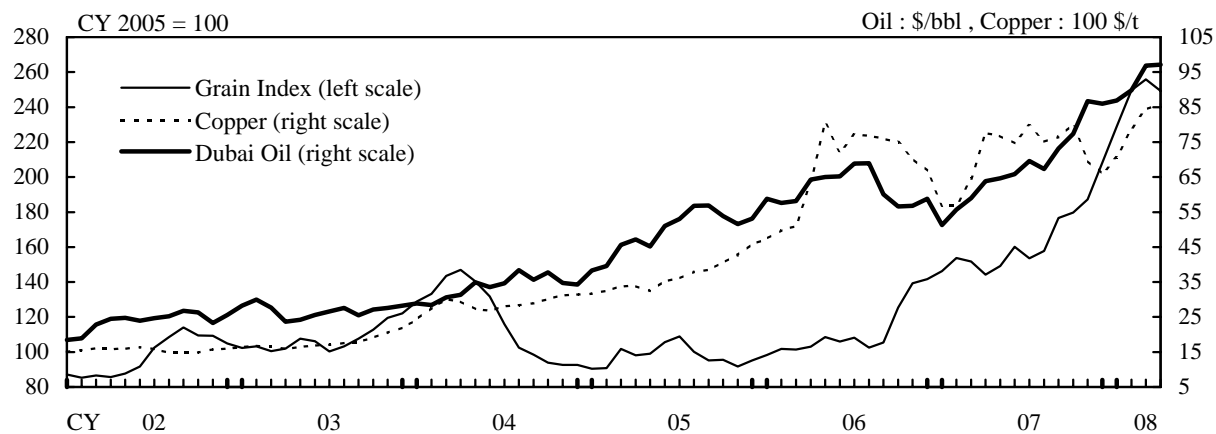
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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 2008/Q1 are January-February averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

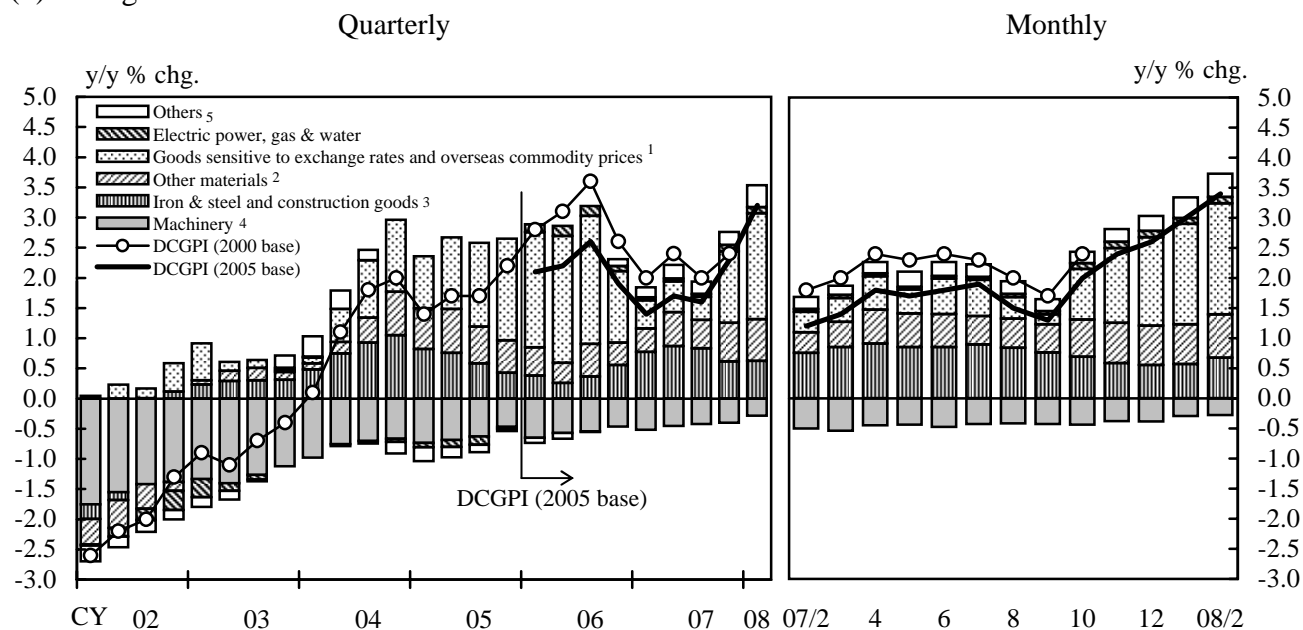
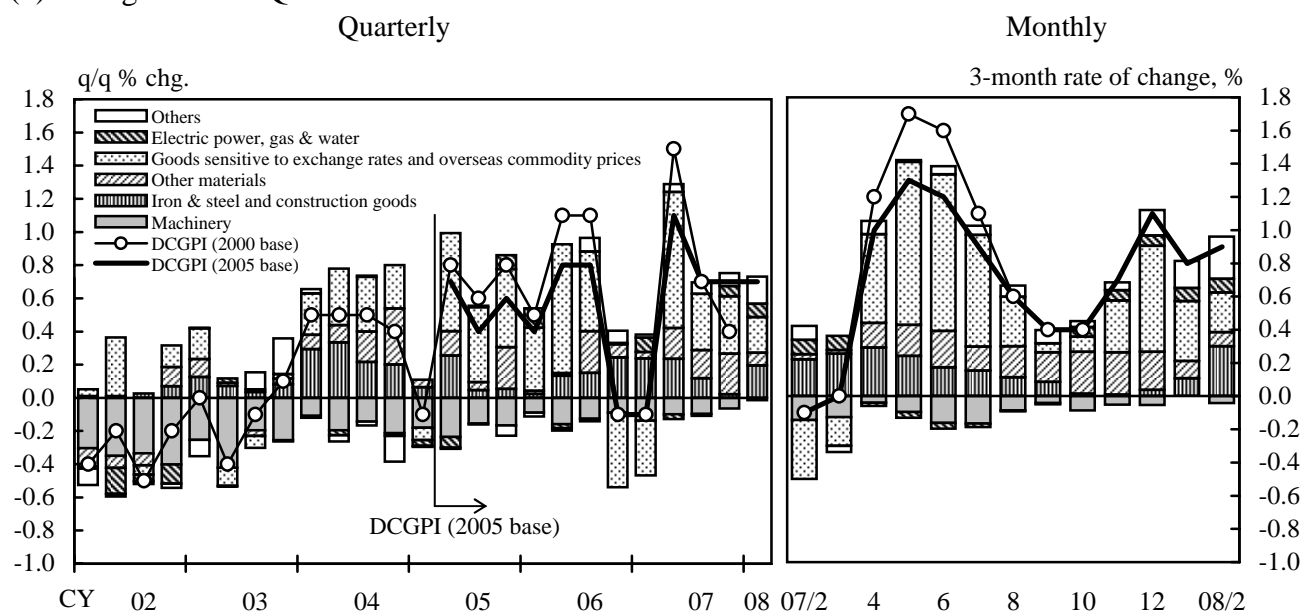


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for April 2008 are the averages up to April 8.

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

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.

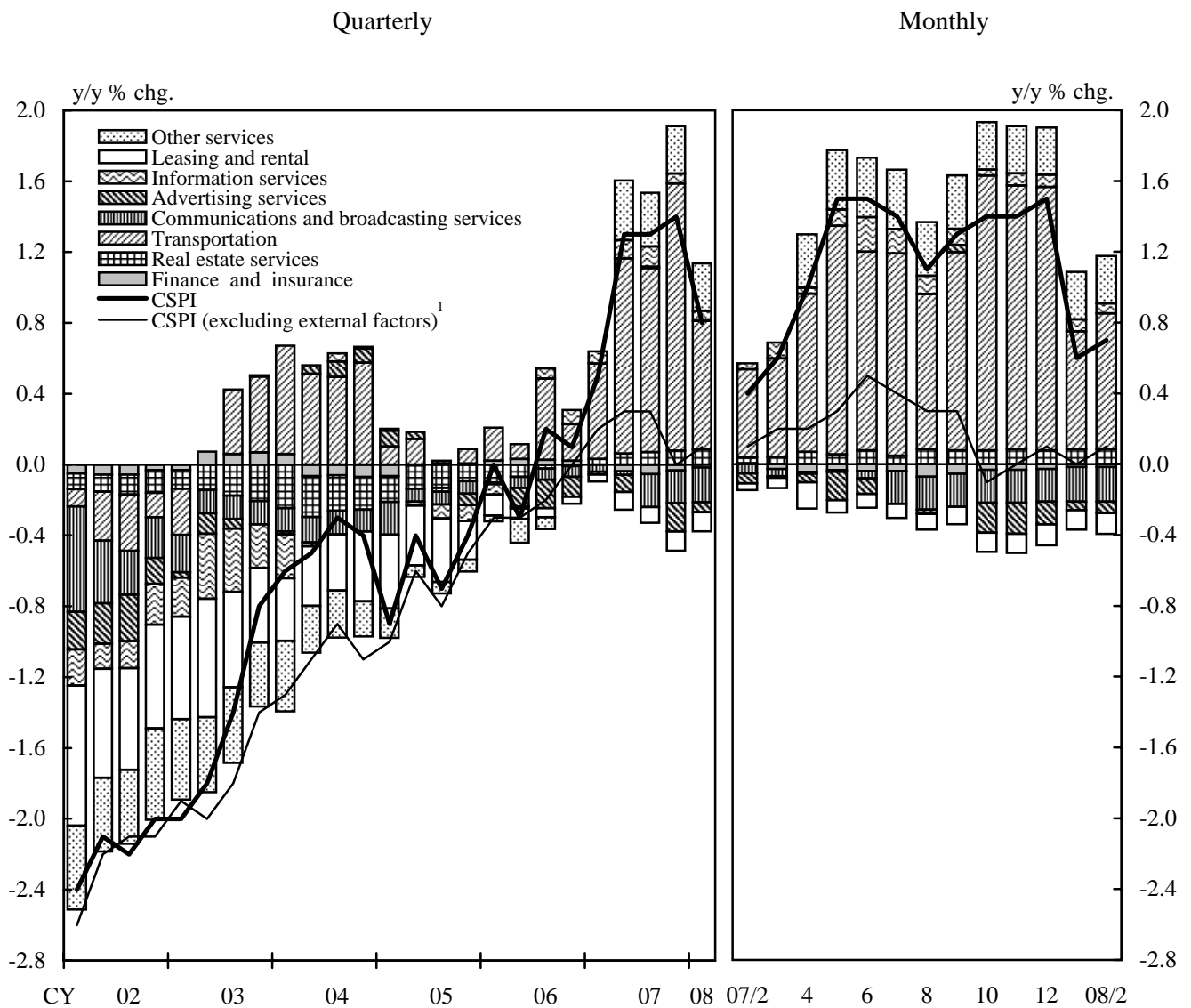
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.

6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.

7. Figures for 2008/Q1 are January-February averages. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Service Price Index



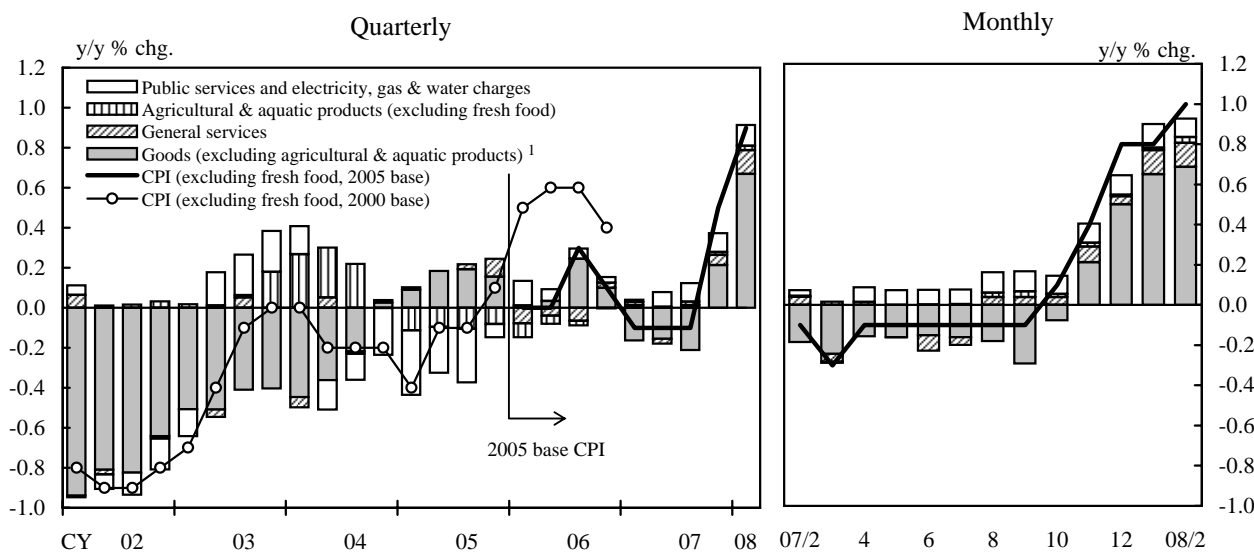
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2008/Q1 are January-February averages.

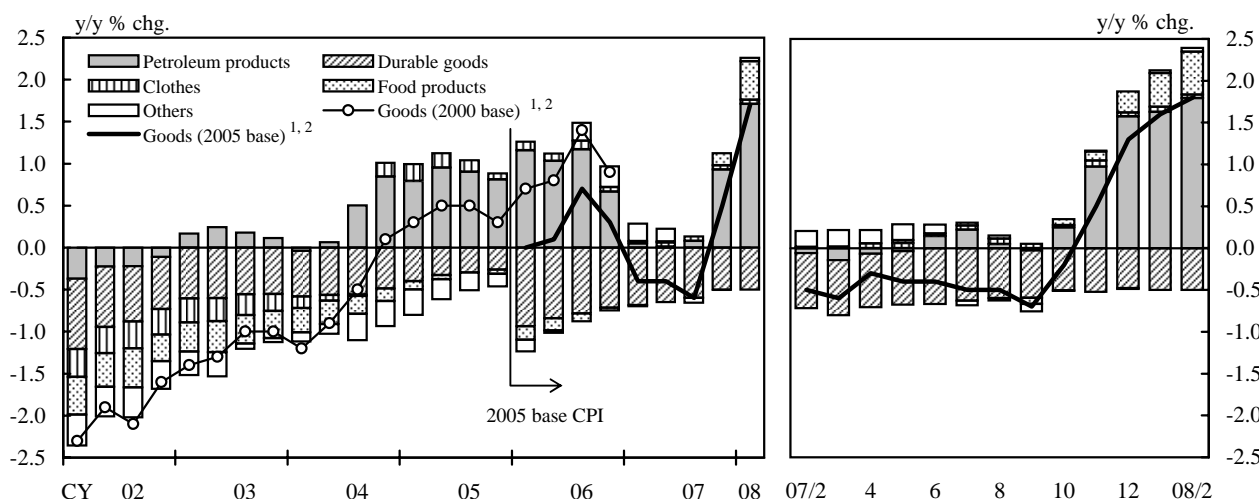
Source: Bank of Japan, "Corporate Service Price Index."

Consumer Price Index (Excluding Fresh Food)

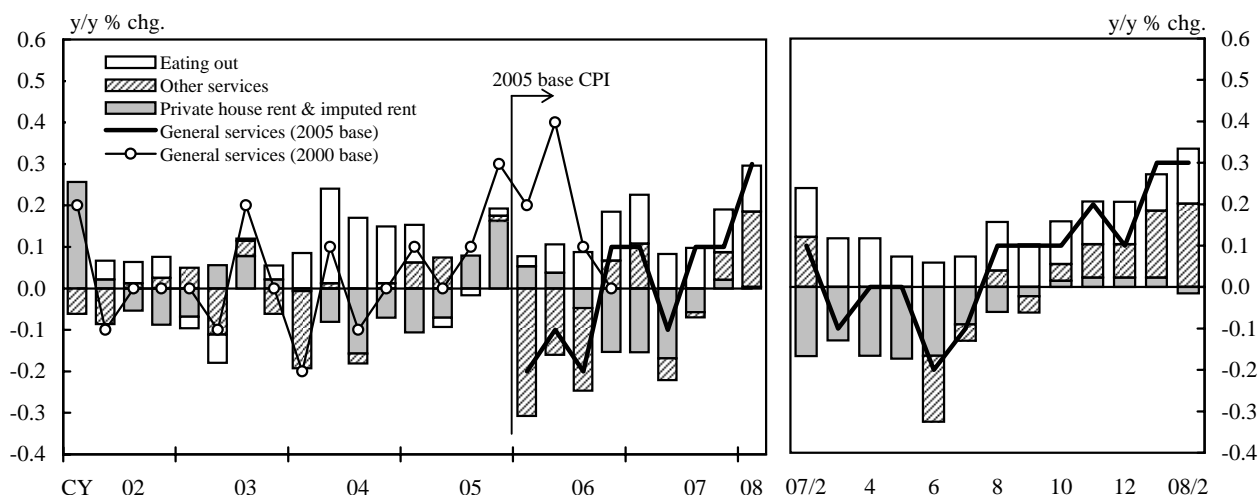
(1) Consumer Price Index (Excluding Fresh Food)



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

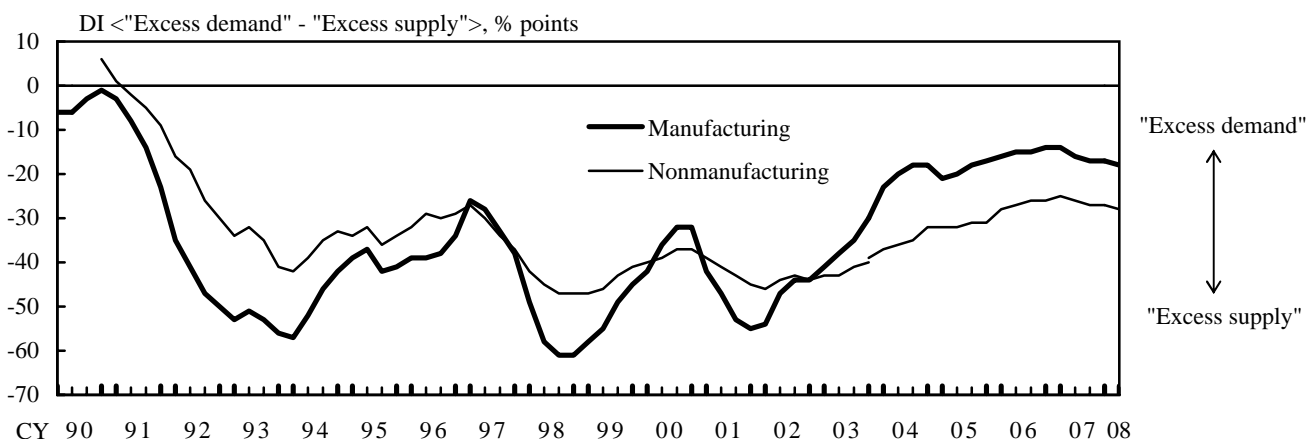
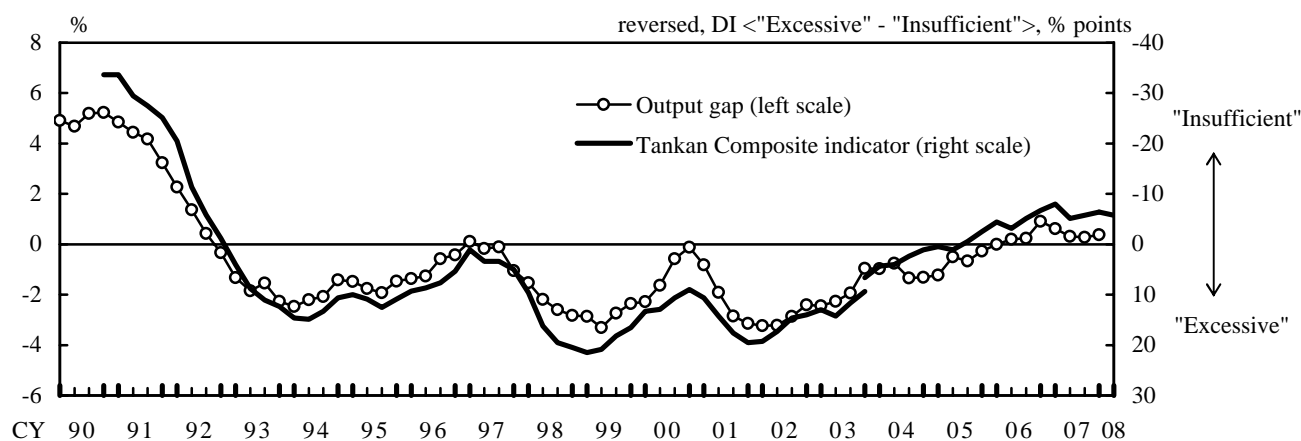
2. Excluding agricultural & aquatic products.

3. Figures for 2008/Q1 are January-February averages.

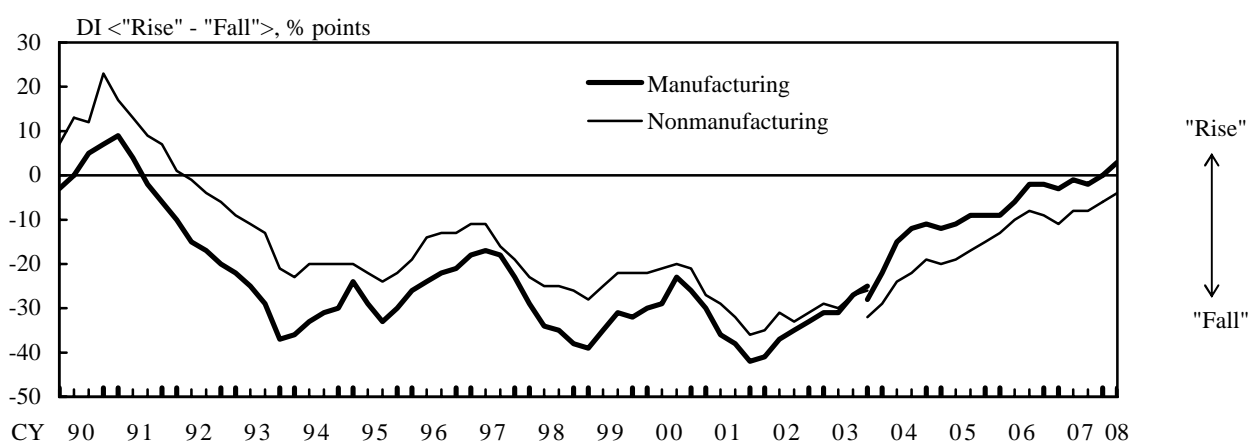
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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 1990-2006 averages of capital and labor shares in national accounts are used as the weight.

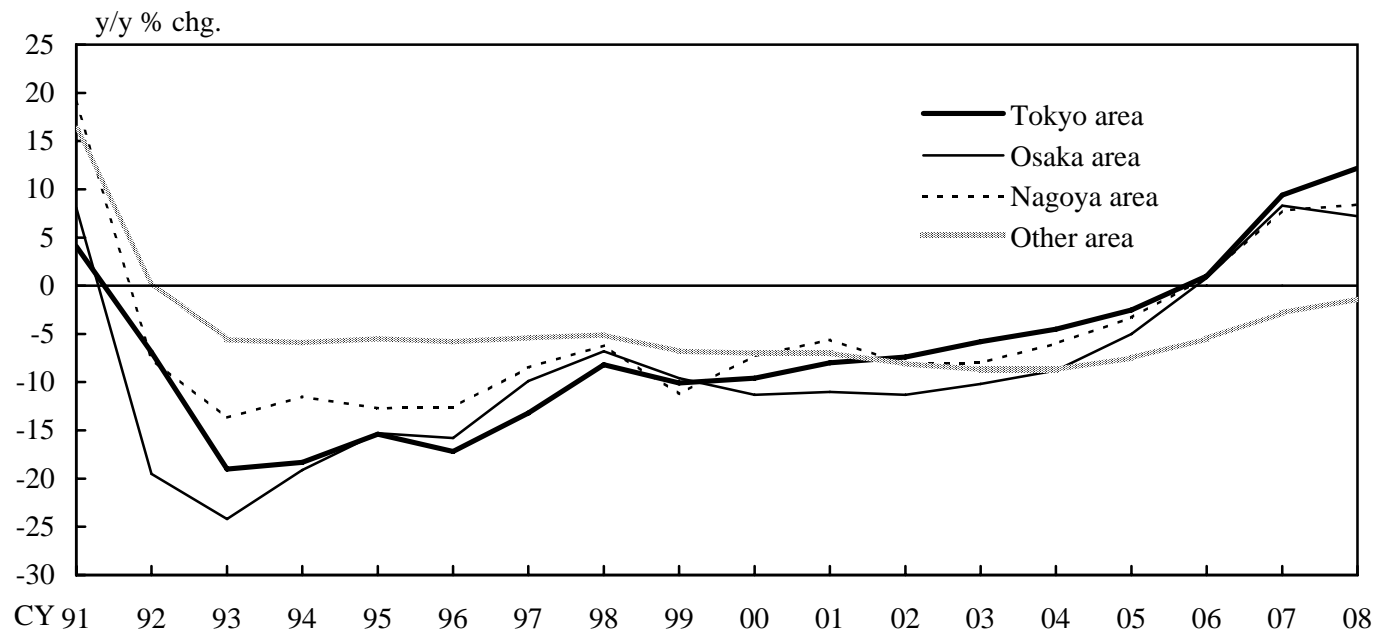
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

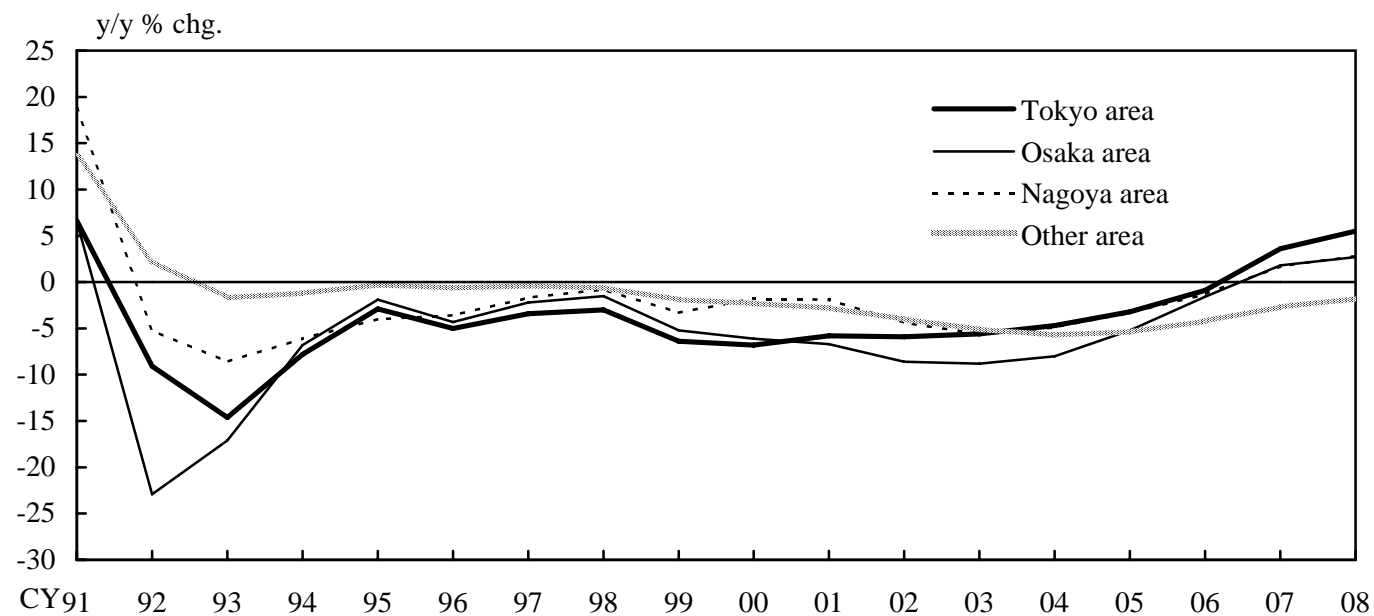
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Land Prices

(1) Commercial land



(2) Residential land

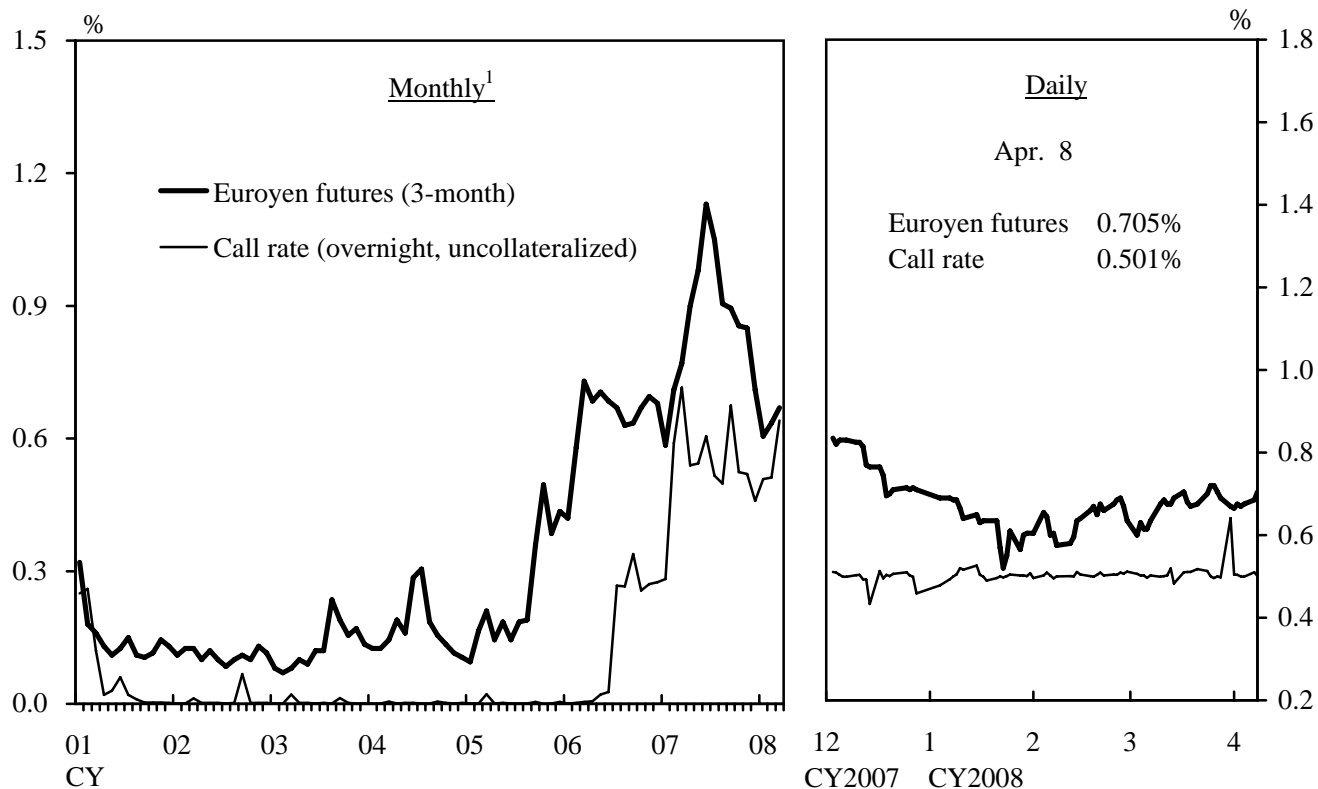


Note: Publication of Land Price, surveyed by the Ministry of Land, Infrastructure and Transport, shows the land prices as of January 1st.

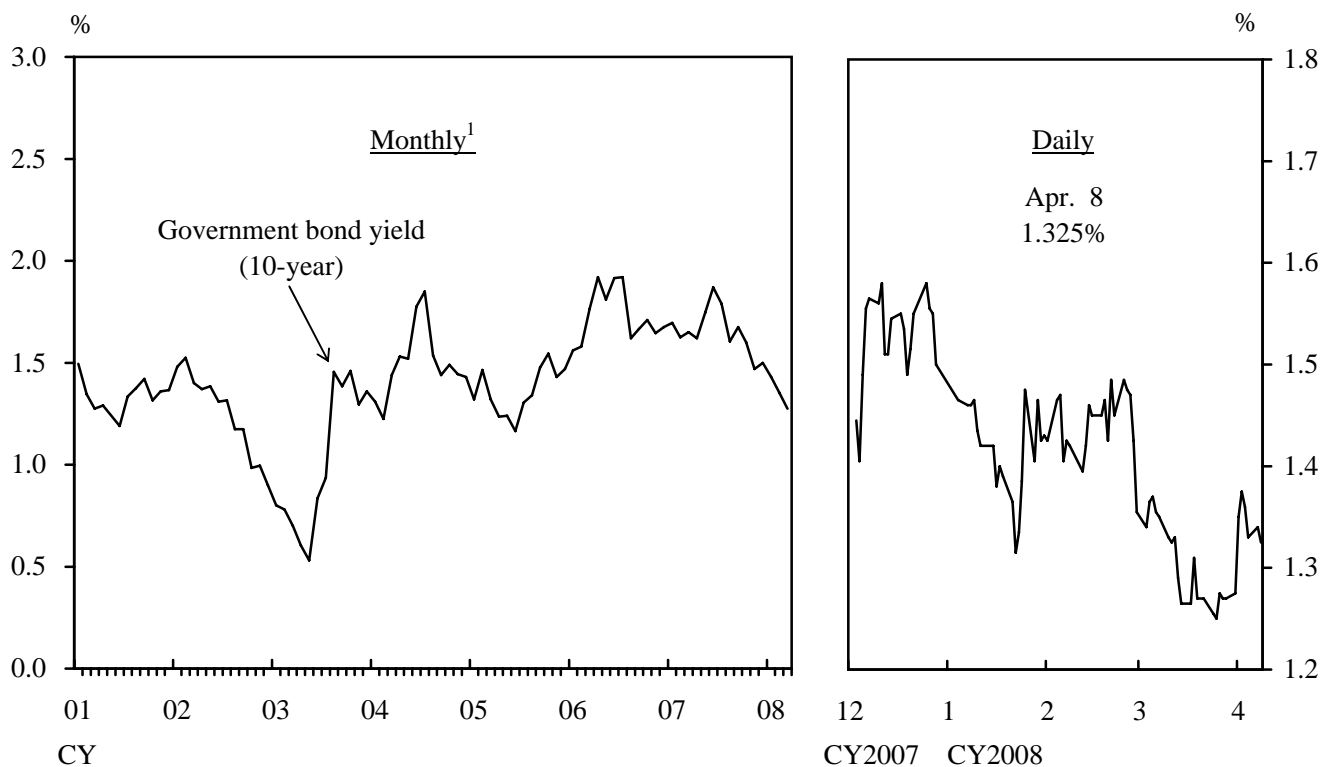
Source: Ministry of Land, Infrastructure and Transport, "Publication of Land Price."

Interest Rates

(1) Short-Term



(2) Long-Term

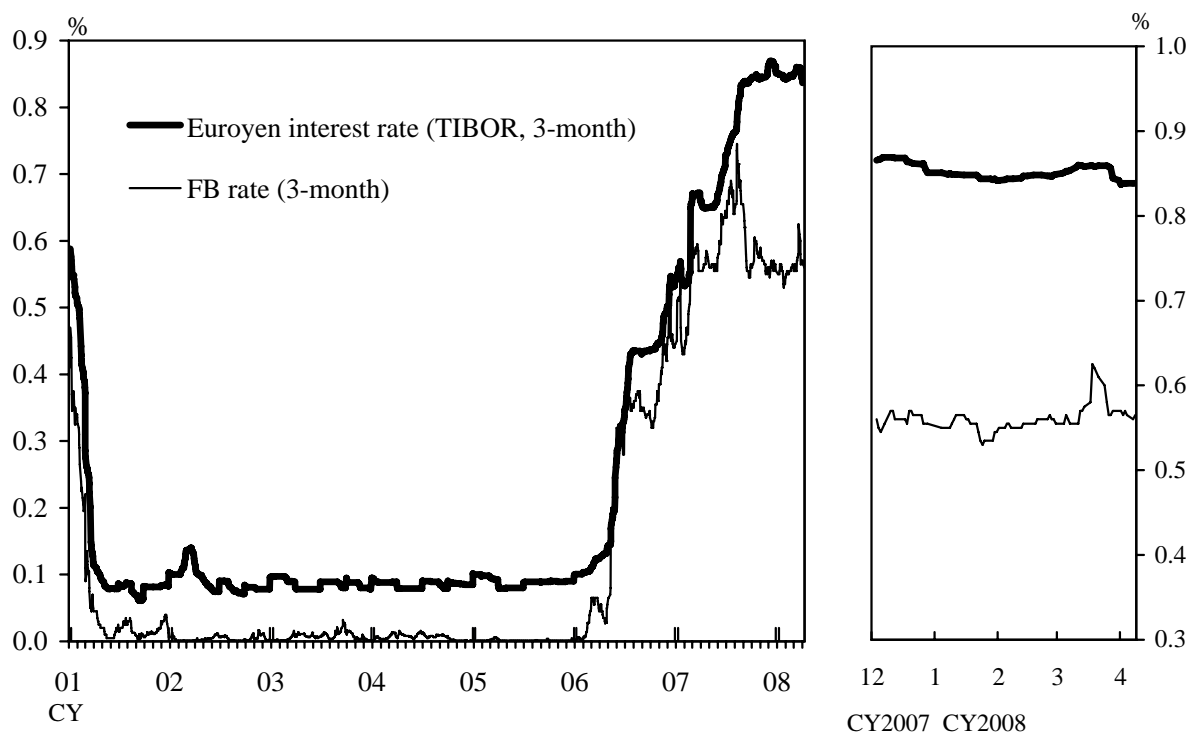


Note: 1. End of month.

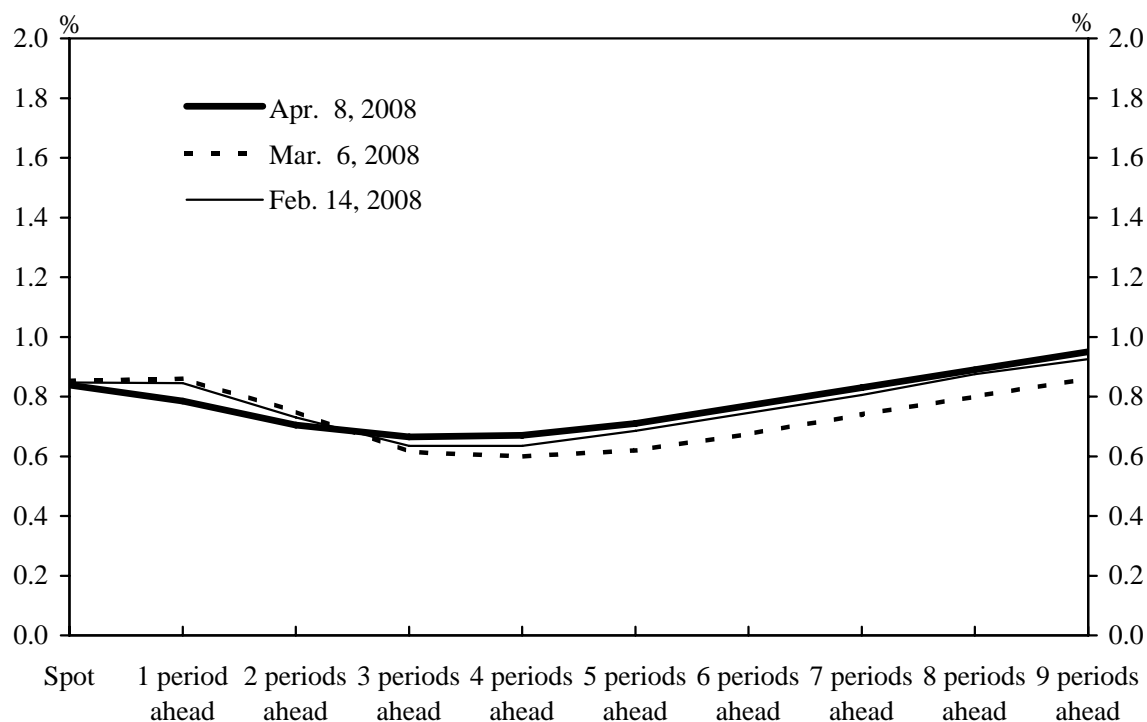
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



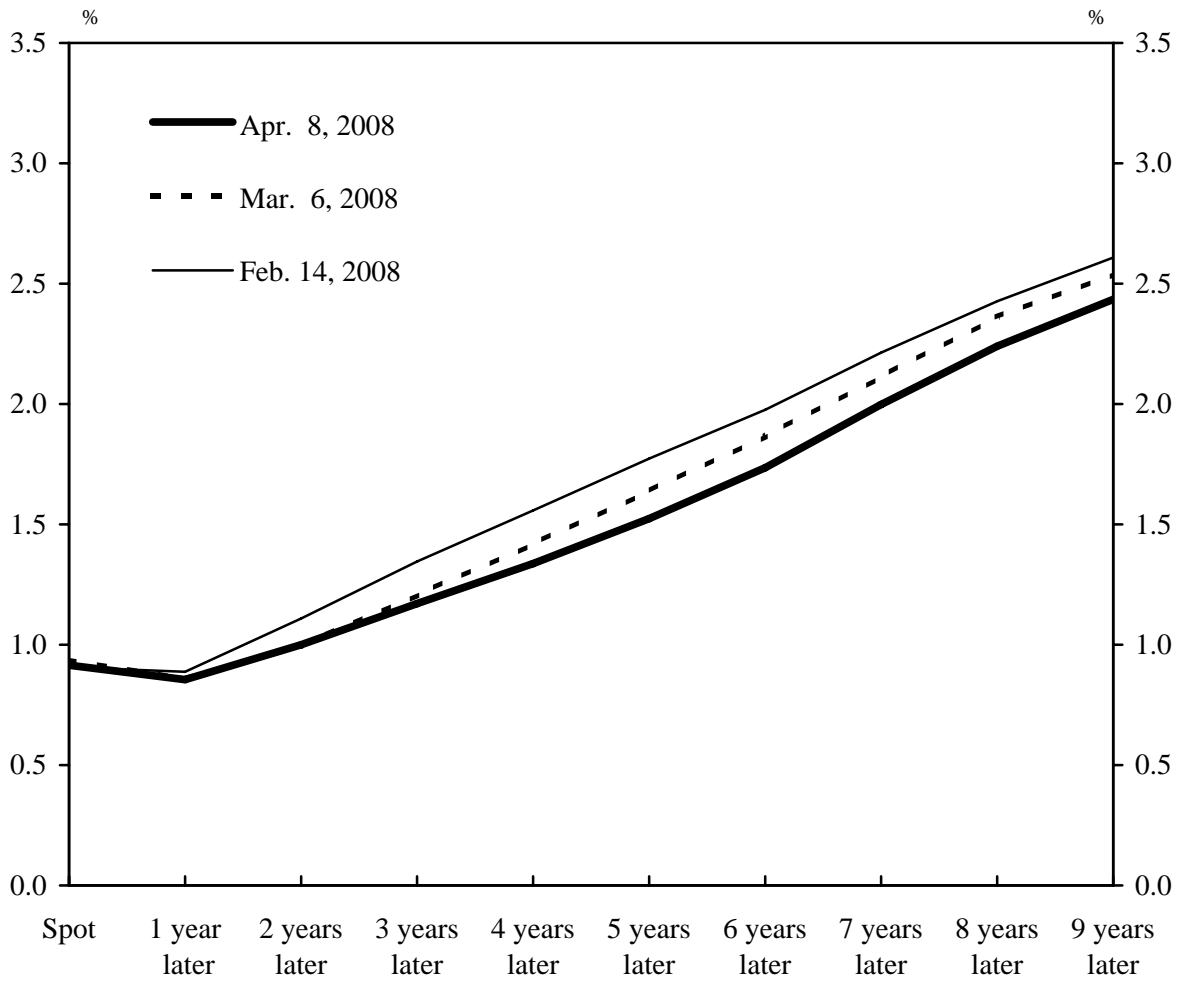
(2) Euroyen Interest Rates Futures (3-Month) ¹



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)

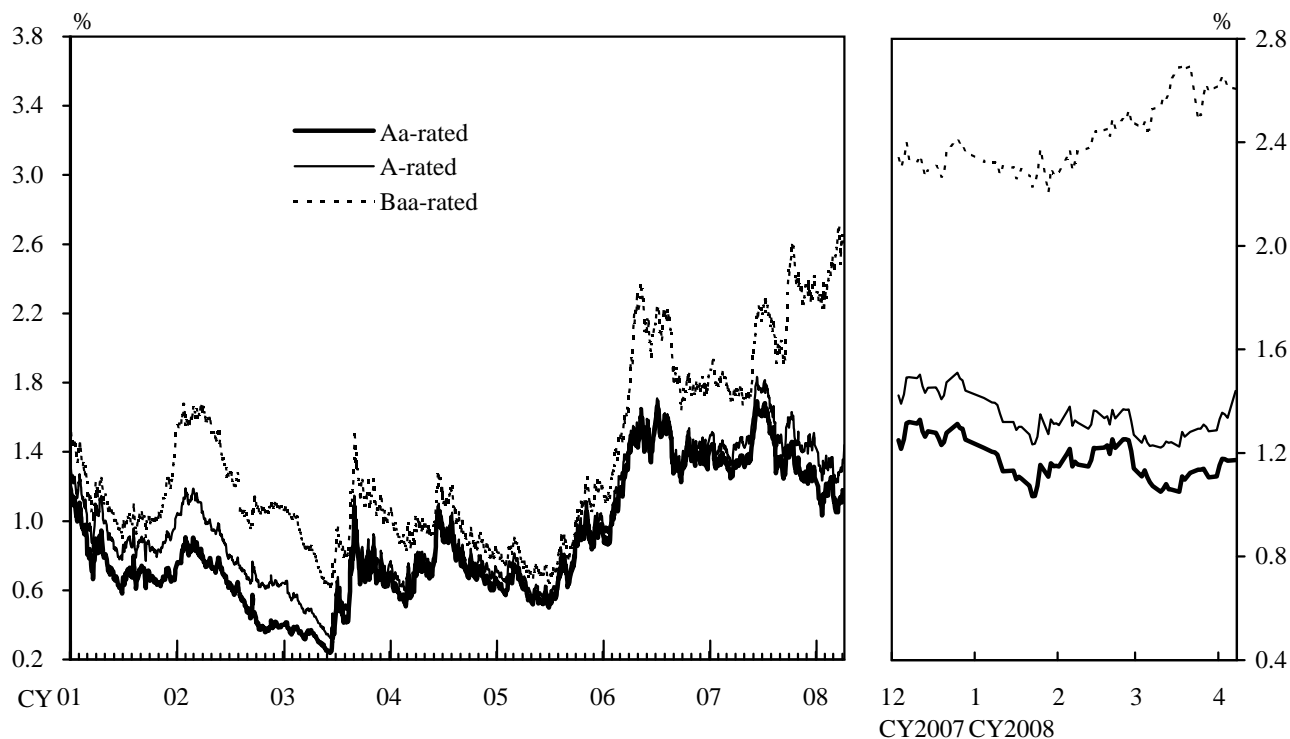


Note: Calculated from yen-yen swap rates.

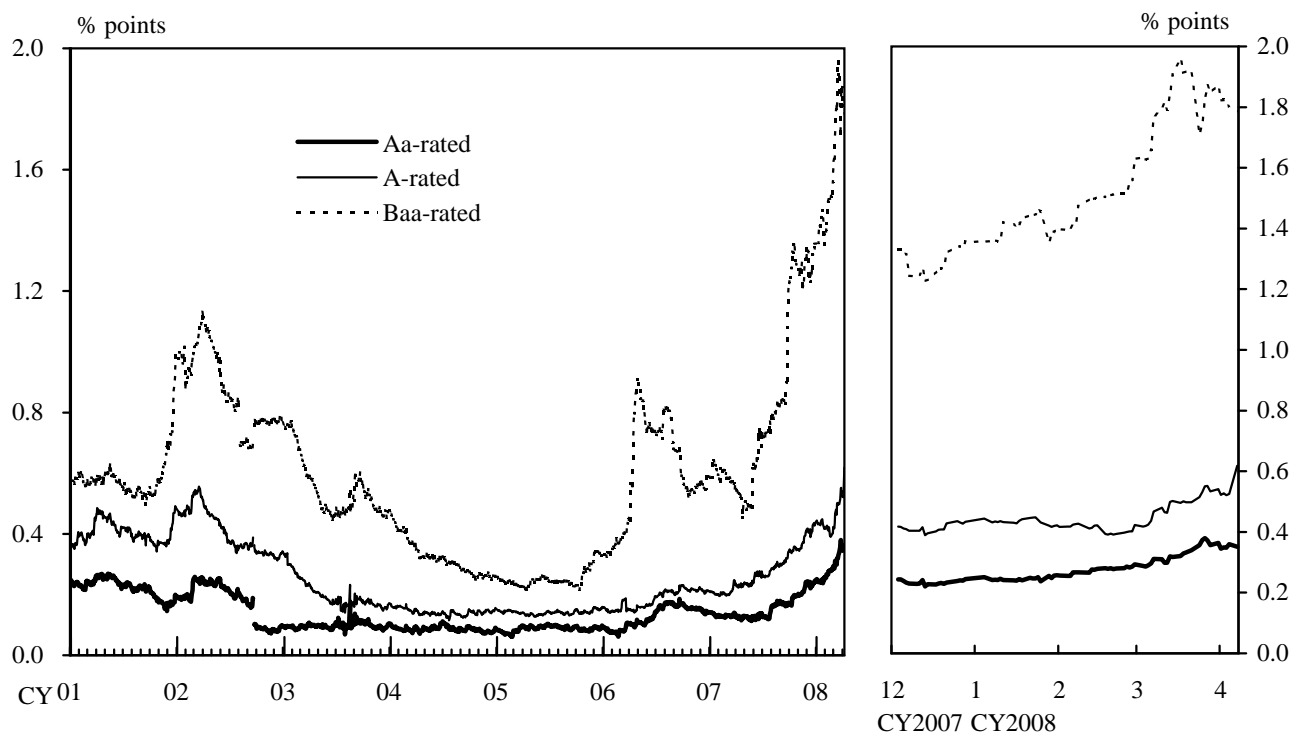
Source: Reuters.

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.

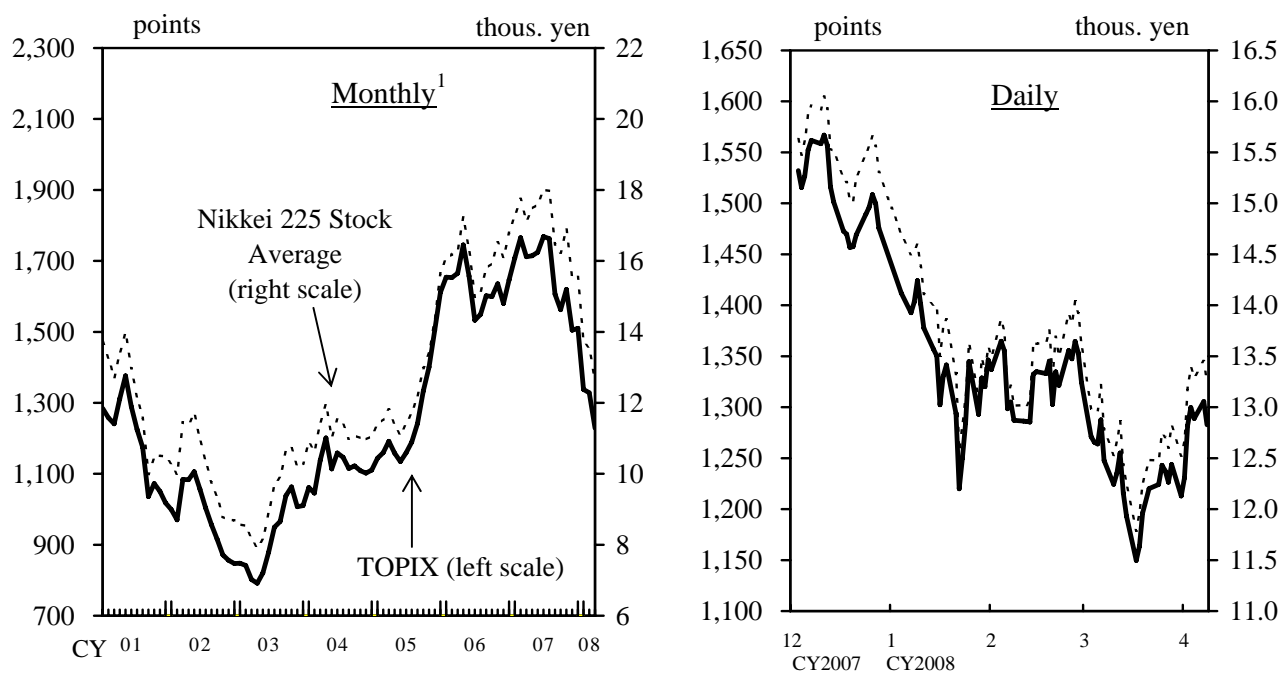
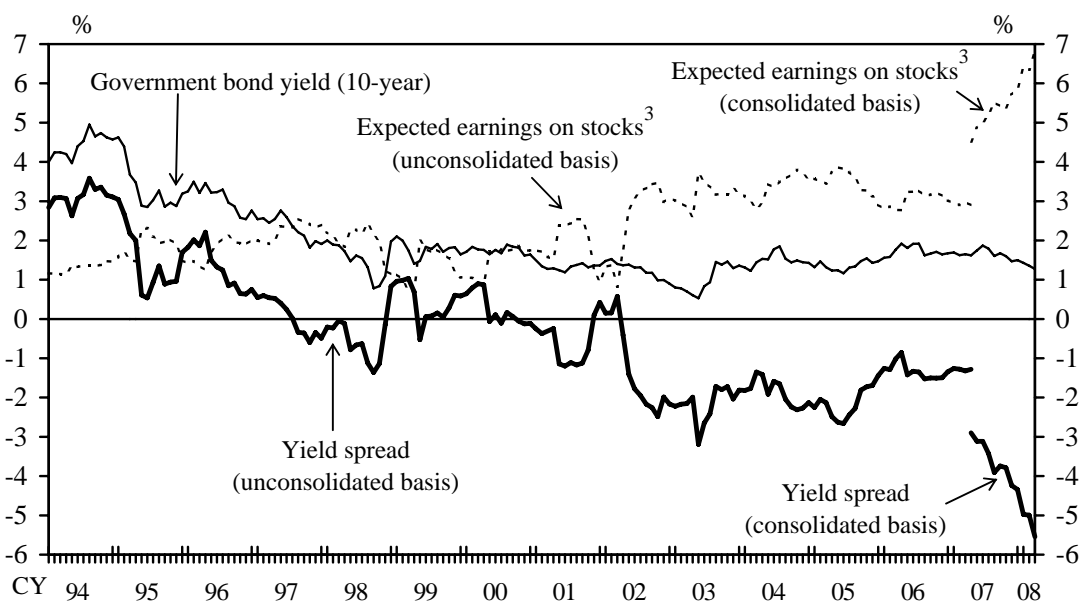
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years since Sep. 24, 2002.

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.

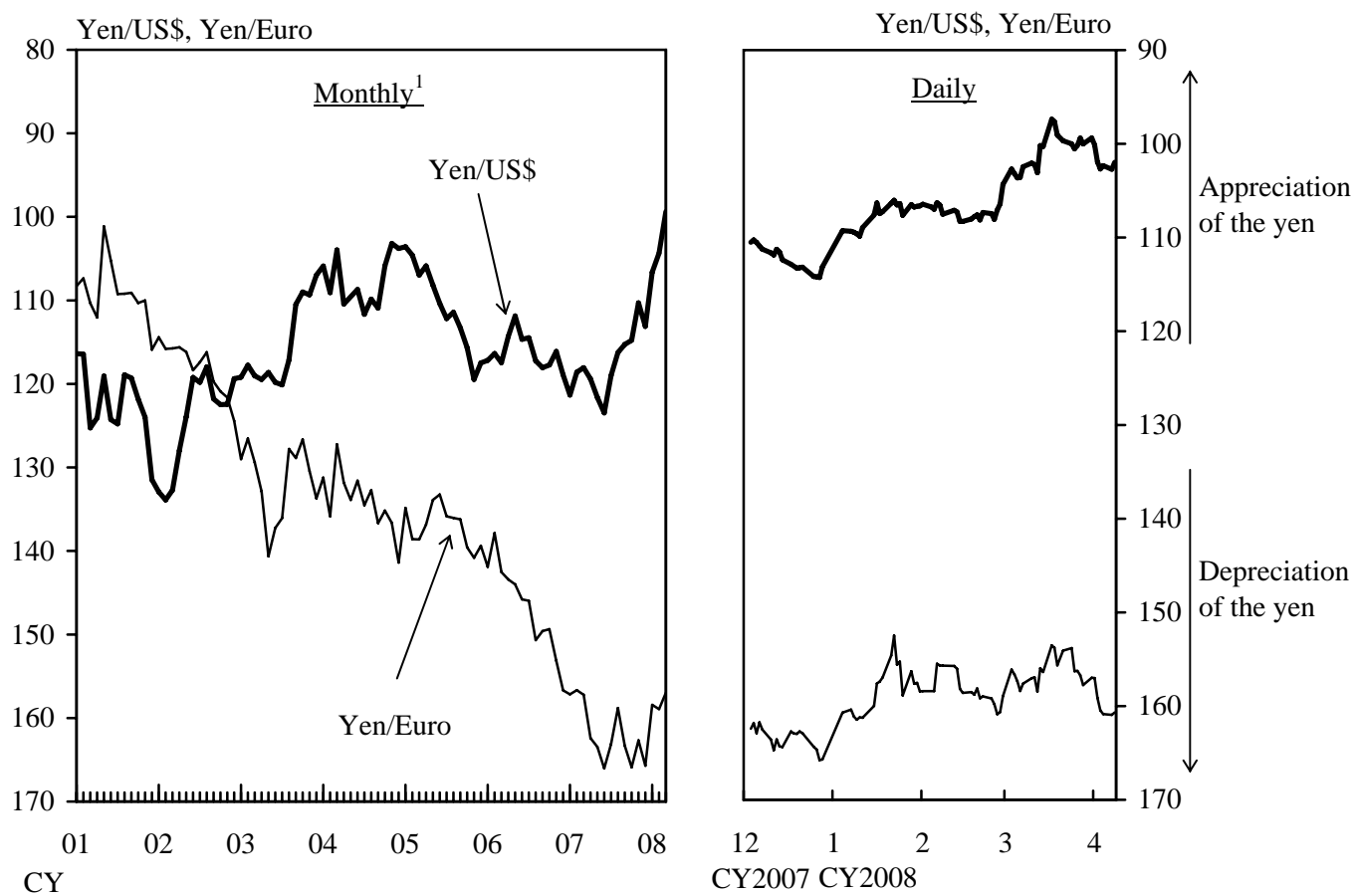
2. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

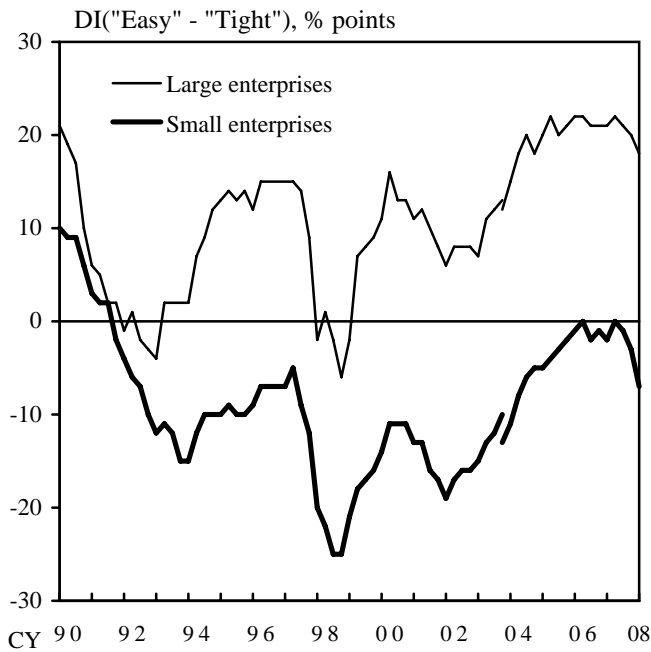


Note: 1. End of month.

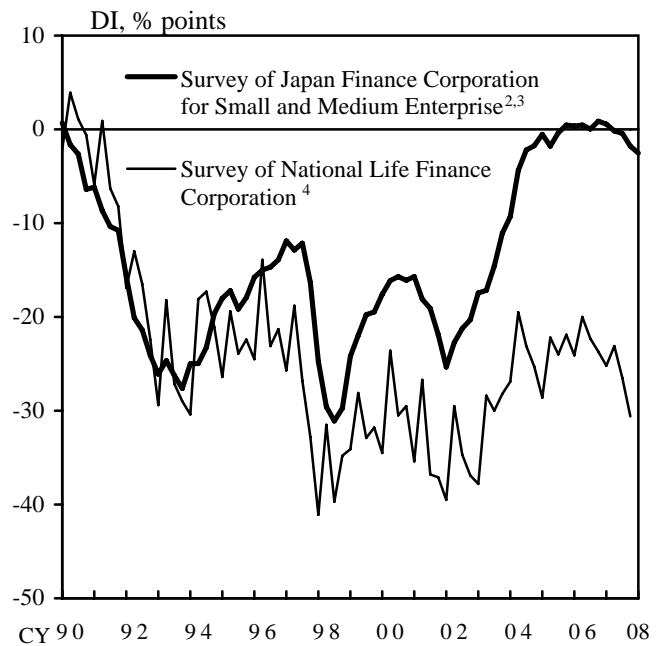
Source: Bank of Japan.

Corporate Finance-Related Indicators

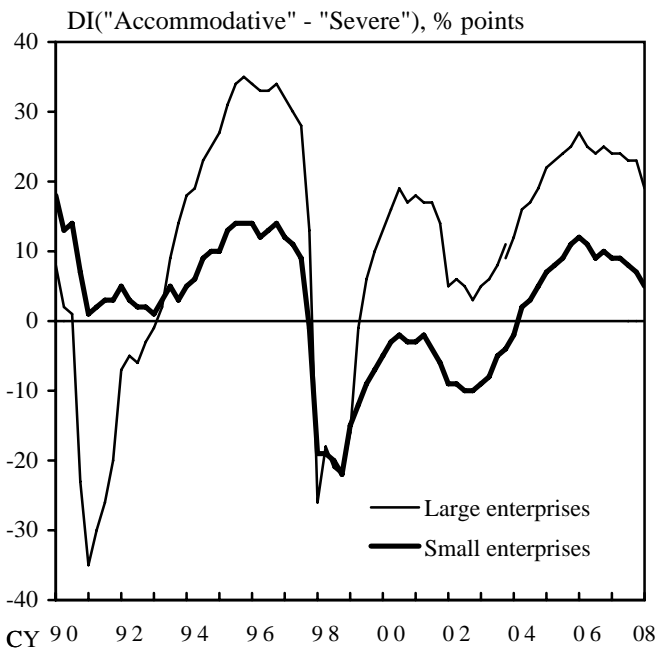
(1) Financial Position

<Tankan¹>

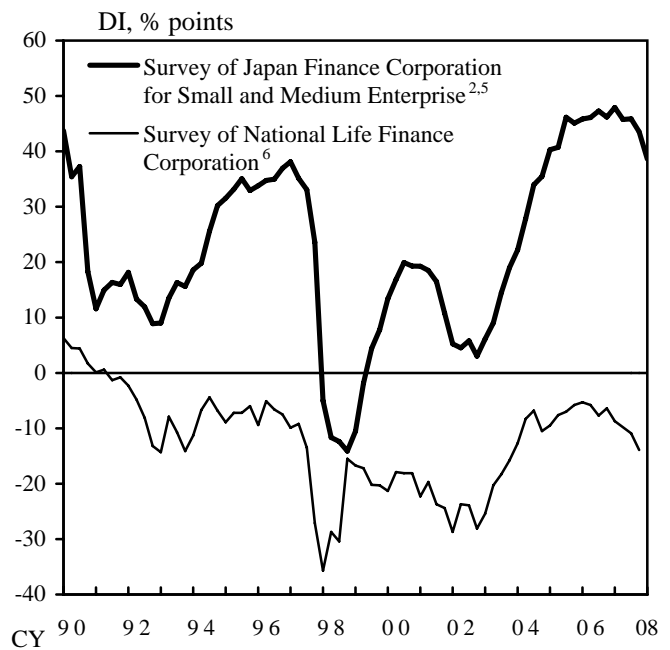
<Other Surveys>



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

<Tankan¹>

<Other Surveys>



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."

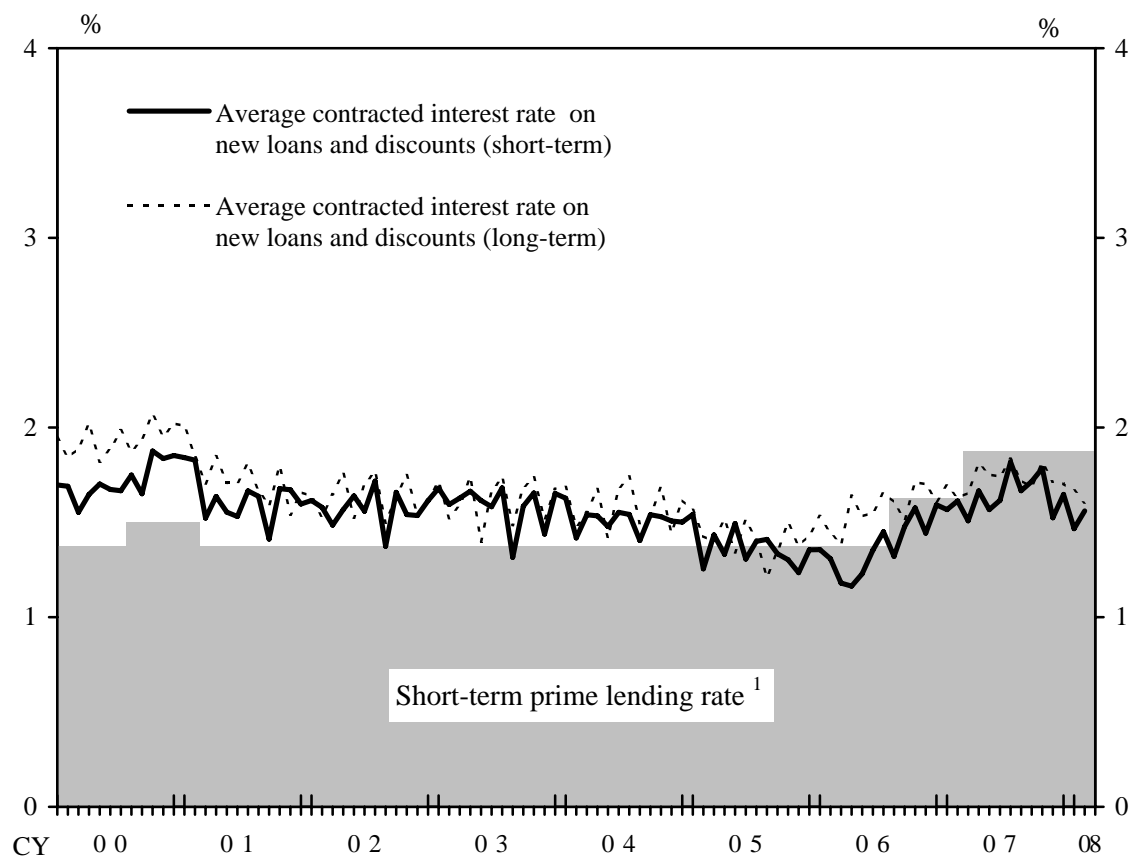
4. DI of "Easier" - "Tighter."

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

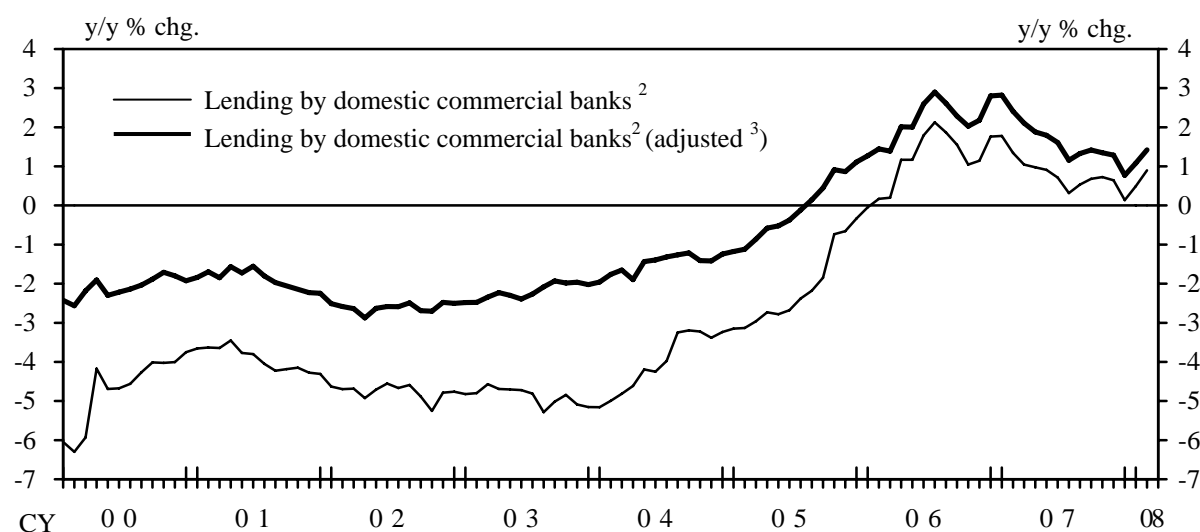


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



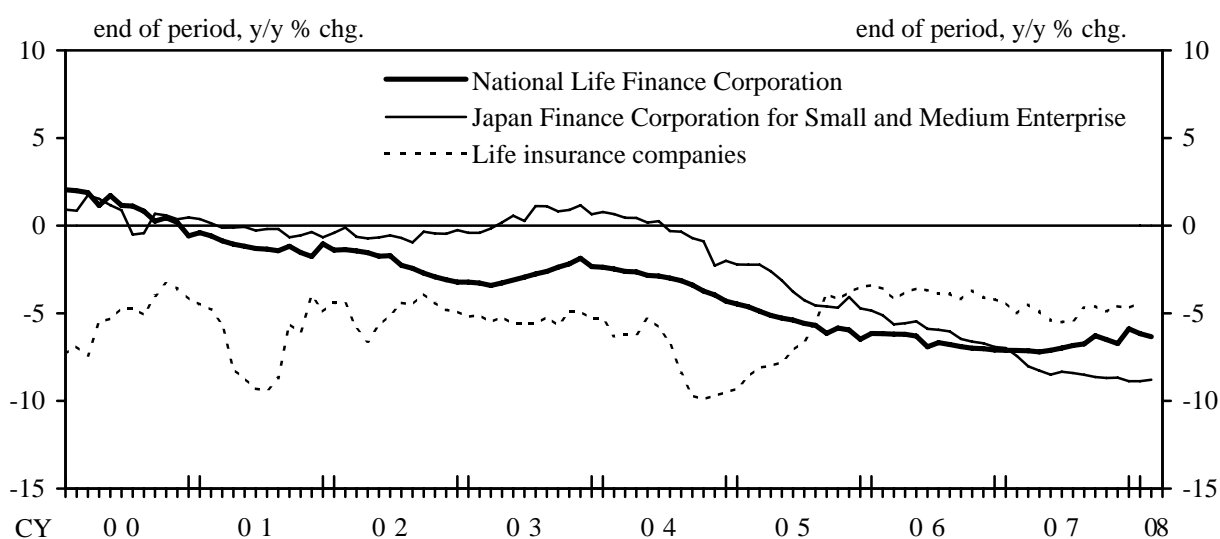
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

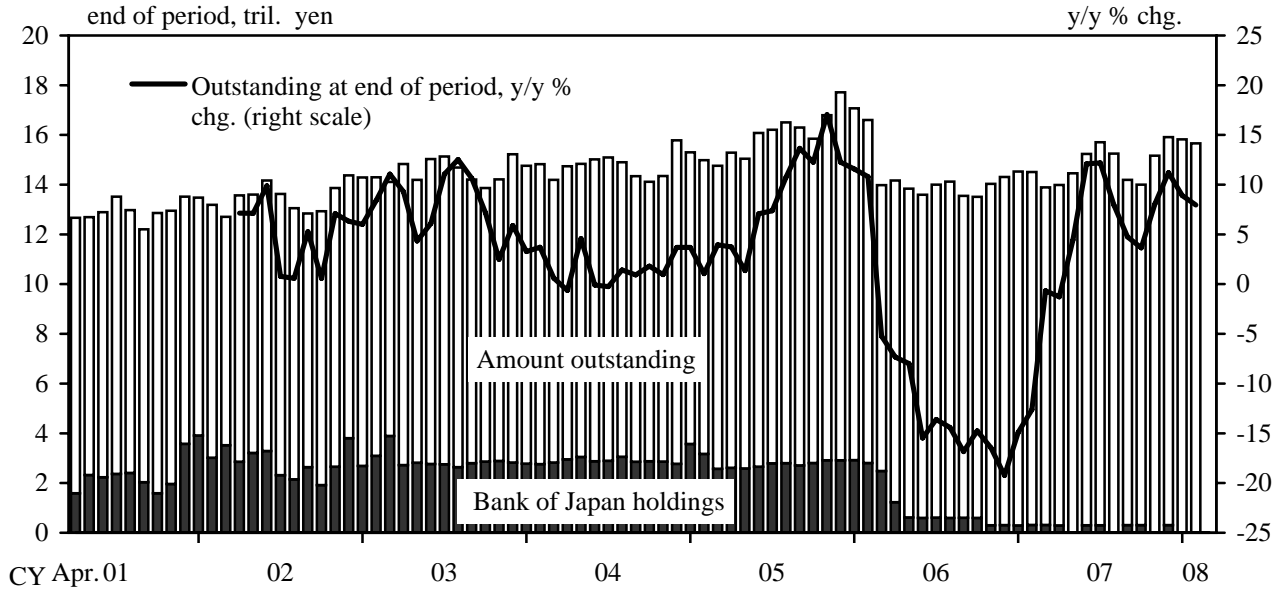
(2) Lending by Other Financial Institutions



Source: Bank of Japan.

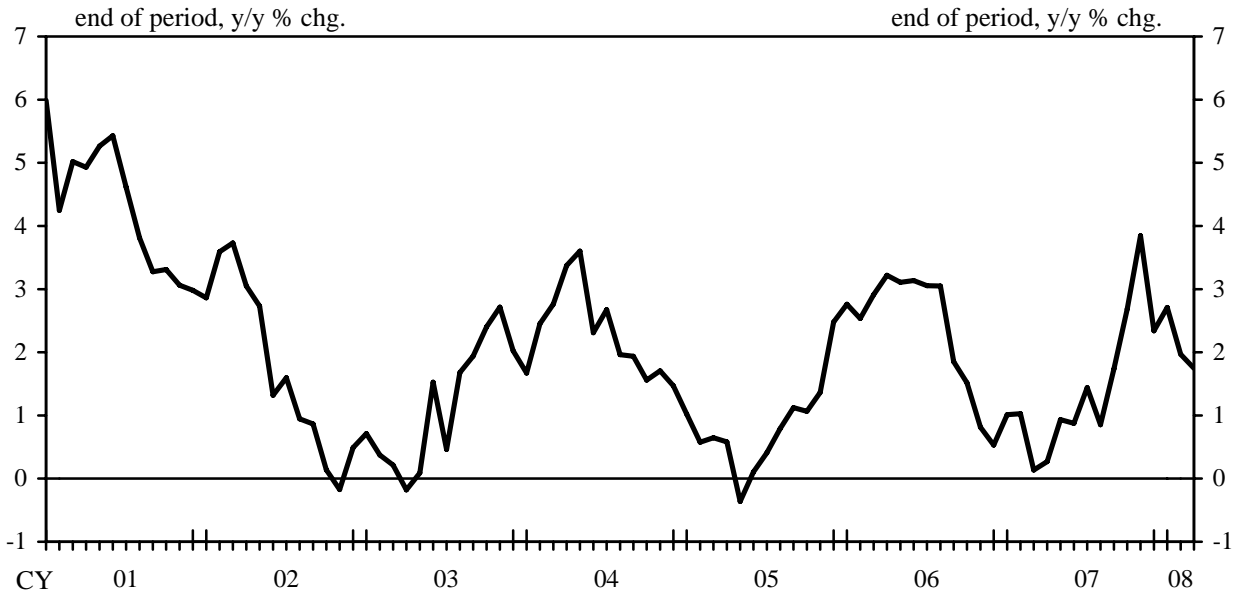
Private-Sector Fund-Raising in the Capital Markets

(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)

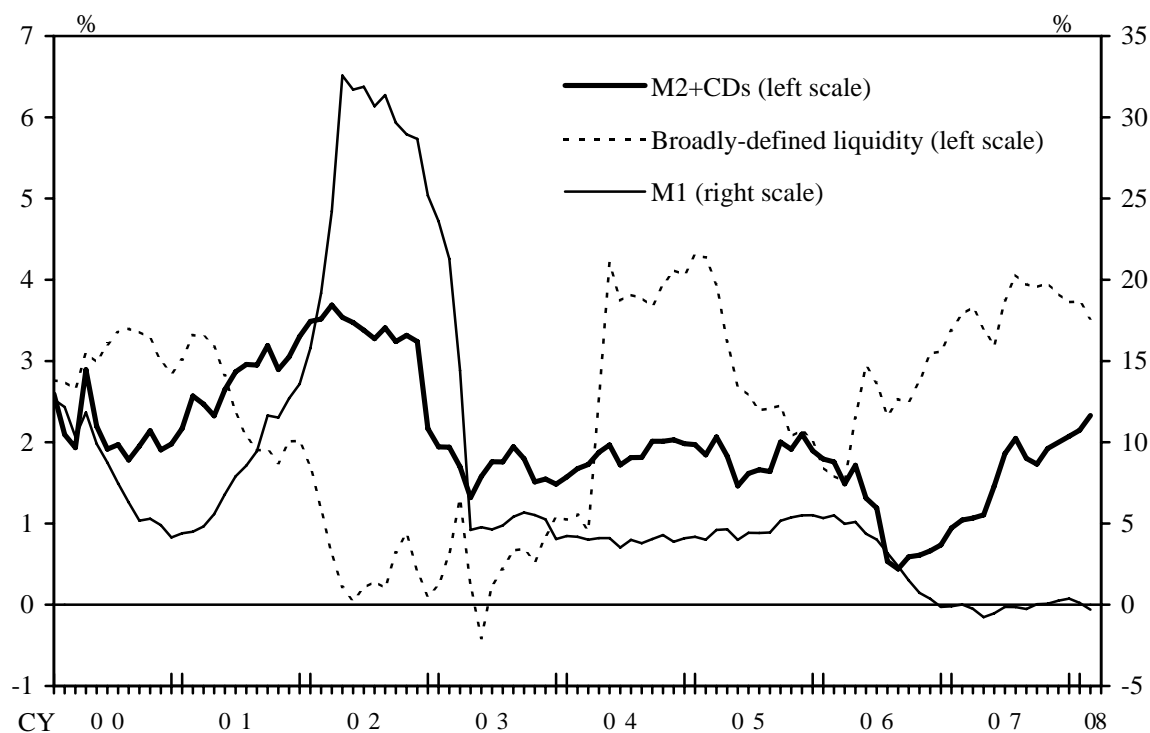


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

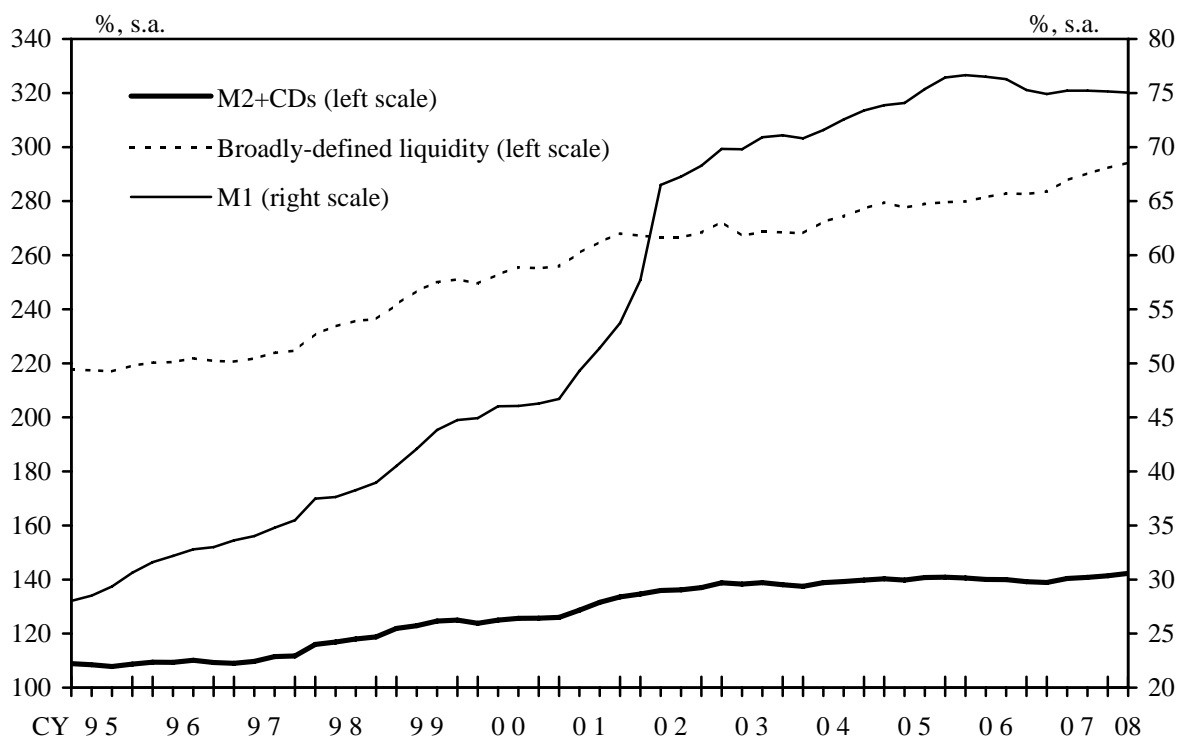
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

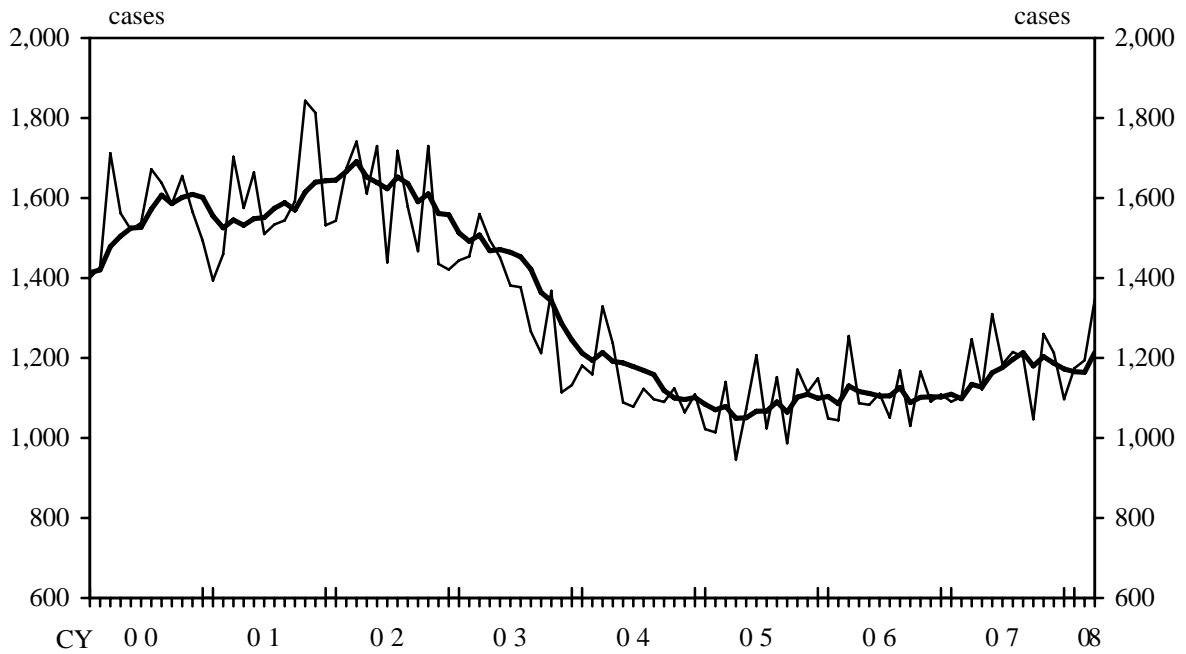


Note: Figures for money stock in 2008/Q1 are those of Jan.-Feb. averages, and the nominal GDP in 2008/Q1 is assumed to be unchanged from the previous quarter.

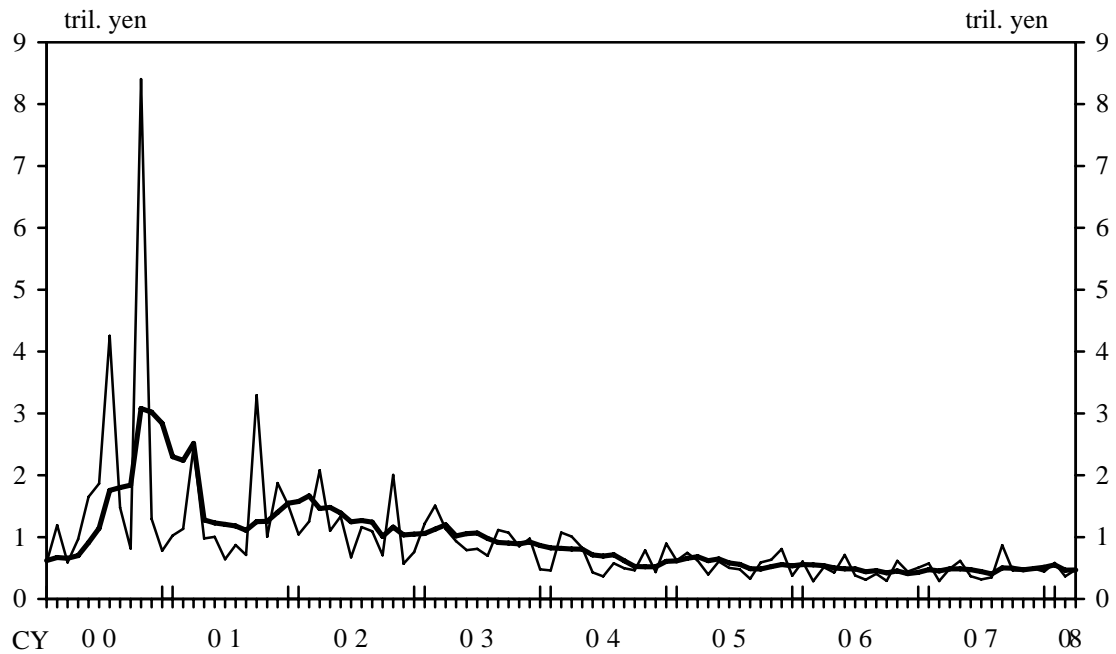
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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