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Bank of Japan

Monthly Report of Recent Economic and Financial Developments

June 2008

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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, although the pace of increase has somewhat slowed lately. Corporate profits have been decreasing recently, mainly due to the deterioration in the terms of trade. In this situation, 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. On the other hand, public investment has been sluggish. Meanwhile, housing investment has been recovering moderately. With these developments in demand both at home and abroad, production has been more or less flat.

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. Corporate profits are expected to continue decreasing for the time being, but return to an upward trend thereafter as the rise in energy and materials prices moderates. Household income is expected to continue rising moderately. Under these circumstances, business fixed investment and private consumption are likely to remain firm. On the other hand, the process of recovery in housing investment is expected to gradually come to an end. Public investment is projected to be on a downtrend. In light of these overall developments in demand, production is expected to increase, after being more or less flat in the short run. Due attention should continue to be paid to factors such as uncertainties regarding future

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on June 12 and 13, 2008.

² The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on June 12 and 13, 2008.

developments in 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 around 1 percent against the background of 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 continue to be positive 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 increasing moderately. 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 remained relatively high. 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, 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-sized firms have somewhat deteriorated. Meanwhile, the year-on-year rate of change in the money stock (M2) is around 2 percent.

As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.5 percent, and interest rates on term instruments have been around the same level as last month. In the foreign exchange and capital markets, long-term interest rates have risen compared with last month, while the yen has depreciated against the U.S. dollar. Meanwhile, stock prices 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 has continued to be at low levels, although it inched up in the second half of fiscal 2007 after having dropped in the first half (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 sluggish. 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, although the pace of increase has somewhat slowed lately (Charts 5[1] and 6). They exhibited high growth of 3.2 percent in the first quarter on a quarter on quarter basis, but fell back sharply by 4.2 percent in April compared with the first quarter.³

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 substantially in April compared with the first quarter. Exports to the EU plunged in April after having risen toward the first quarter. Exports to East Asia and other regions (such as the Middle East, Latin America, and Russia) have continued to increase firmly as a trend, although they dropped in April.

By goods (Chart 6[2]), exports of IT-related goods dropped in the first quarter and also inched down in April compared with the first quarter, after having registered relatively high growth throughout the second half of last year (Chart 7[1]). Exports of consumer goods rose in the first quarter, notably in digital home appliances, but declined in April. Exports of capital goods and parts decreased in April, mainly in those to the United States, but they have been on an increasing trend to a wide range of regions. Exports of automobile-related goods dropped in April but, as a trend,

³ Monthly fluctuations have been significant lately. Looking at the trend in real exports with fluctuations smoothed out, exports have continued to increase on balance, but the pace of increase seems to have somewhat slowed. The effects of the slowdown in overseas economies and the appreciation of the yen may have appeared.

they have been on the rise due to the high growth in exports to other regions. Exports of intermediate goods also declined in April, but they 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 inched up by 0.9 percent in the first quarter on a quarter-on-quarter basis, but dropped again by 2.8 percent in April compared with the first quarter.

By goods (Chart 9[2]), imports of capital goods and parts (excluding aircraft) have continued to be on an increasing trend, although the pace of increase has moderated lately. Imports of IT-related goods have been trending upward since around the middle of last year, when domestic inventory adjustments were completed, but they were flat in April compared with the first quarter (Chart 7[3]). Imports of raw materials and intermediate goods have been relatively weak, due to firms' ongoing cutbacks in imports of materials 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 increase, although the pace of increase has somewhat slowed lately, reflecting the aforementioned movements in imports and exports (Chart 5[2]). However, the surplus of the nominal balance on goods and services has diminished since around the end of last year, 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]). As for developments in exports for the time being, however, attention should be paid to the effects of the slowdown in overseas economies, chiefly in the United States.

As for the environment surrounding exports, in the United States, the economy has been losing momentum, as adjustments in the housing market have intensified and the financial environment has deteriorated sharply. In the EU, the economy has also slowed down mildly. On the other hand, in China and other regions, 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. However, since inflation rates have elevated lately, mainly in emerging economies and countries that export natural resources, attention should be paid to their effects on the real economy. Regarding the environment surrounding exports of IT-related goods, global demand for finished products such as that for digital home appliances has continued to expand. However, with strong pressure from the increase of supply in place, market prices have shown ups and downs as a whole; memory-related prices have stopped declining, whereas prices of some liquid crystal panels have shown signs of softening again.⁴ Meanwhile, in the foreign exchange market, the yen has appreciated by around 10 percent compared to about a year ago, 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 only slightly in the first quarter on a quarter-on-quarter basis, although it was revised upward from the first preliminary figures; as a trend, it has increased at a slower pace (Chart 3). Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms increased by 2.5 percent in the first quarter on a quarter-on-quarter basis after being flat in the fourth quarter (Chart 10). By industry and size (Chart 11), investment by large manufacturing firms was temporarily level in the first half of fiscal 2007, but then rose mildly in the second half. Investment by small and medium-sized manufacturing firms has shown large fluctuations, and has been flat recently. Investment by large nonmanufacturing firms dropped significantly in the fourth quarter, but inched upward in the first quarter. Investment by small and medium-sized nonmanufacturing firms rose for three

⁴ According to the *WSTS* (World Semiconductor Trade Statistics) released recently, shipments this year are projected to continue increasing, although forecasts have been revised downward (the projected year-on-year growth of shipments in 2008 was 9.1 percent in November last year and 4.7 percent in May this year).

quarters in a row, but it has fluctuated sharply. Meanwhile, the aggregate supply of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—has been weak lately; it registered a sizeable drop in the first quarter and also declined in April compared with the first quarter (Chart 12[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—have been more or less flat at high levels (Chart 13[1]).⁵ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—fell sharply in the third quarter due to the enforcement of the revised Building Standard Law,⁶ but then picked up to a certain extent in the fourth quarter. They have since been more or less flat at a level lower than that prior to the enforcement of the revised Law (Chart 13[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been decreasing recently, mainly due to the deterioration in the terms of trade.⁷ According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales dropped markedly in the first quarter due to the rise in costs, especially raw materials costs, as well as selling and general administrative expenses, and due also to the yen's appreciation.⁸

⁵ Forecasts for the second quarter show that orders are projected to drop significantly (the quarter-on-quarter decline stands at 10.3 percent for private demand, excluding orders of shipbuilding and orders from electric power companies). However, the actual result for the second quarter tends to turn out to be considerably higher than the forecast.

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 According to the *Nihon Keizai Shimbun, Inc.*, current profits of listed firms nationwide (1,633 corporations excluding financial corporations and firms listed in markets for venture businesses; on a consolidated basis; final results as of May 30) rose by 2.7 percent in fiscal 2007, the sixth consecutive annual increase. Nevertheless, with the effects of the rise in prices of energy and materials, the growth rate of current profits remained relatively low, while sales registered a year-on-year increase of 7.0 percent. As for fiscal 2008, sales are projected to increase only 3.6 percent on a year-on-year basis and current profits are expected to turn negative by marking a year-on-year decrease of 5.6 percent.

⁸ The plunge in the ratio of current profits to sales in large manufacturing firms in the first quarter was attributable to the drop in sales led by the yen's appreciation, as well as to the rise in non-operating expenses caused by the foreign exchange loss in assets denominated in foreign currency and by the depreciation of marketable securities.

Business fixed investment is projected to remain firm since the global economy is expected to continue expanding and since corporate profits are projected to return to an upward trend as the rise in energy and materials prices moderates.⁹

Private consumption has been firm. On a GDP basis (second preliminary figures), real private consumption showed an increase in the first quarter for the sixth consecutive quarter (Chart 3). Looking at individual indicators on consumption (Charts 14 and 15), 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 climb steadily, assisted by strong sales of digital home appliances such as flat panel TVs. The number of new passenger-car registrations has been essentially level, with the fluctuations smoothed out, 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. On the other hand, sales in the food service industry have been leveling off since the second half of last year.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above¹⁰—have been firm (Chart 16[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been trending up mildly, mainly due to favorable conditions for durable consumer goods, but the pace of increase has slowed lately (Chart 16[2]). Looking at statistics on the demand side, as for the index of consumption expenditure level (in real terms) in the *Family Income and Expenditure Survey*, the index on an "excluding housing, automobiles, money gifts and remittance" basis—which is mostly limited to items used for estimating the GDP—increased in

⁹ According to the business fixed investment survey (1,523 non-financial corporations; on a consolidated basis; as of April 25) by the *Nihon Keizai Shimbun, Inc.*, business fixed investment of large firms in fiscal 2008 is projected to increase by 3.7 percent on a year-on-year basis. Investment plans were higher than the actual results of the previous year for the sixth straight year, although the growth rate was lower than the actual projected increase of 7.6 percent in fiscal 2007.

¹⁰ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in April were not released at the time these indices were compiled, and hence were incorporated into the indices under the assumption that the seasonally adjusted figures for April were at the same level as those for March.

the first quarter, but declined in April compared with the first quarter (Chart 14[1]). Total expenditure in the *Survey of Household Economy* (in real terms) increased in the first quarter, but dropped in April compared with the first quarter (Chart 14[1]).¹¹

Consumer sentiment has become more cautious, as a result of the widespread rise in prices of petroleum products and food (Chart 17).

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

Housing investment has been recovering moderately. On a GDP basis (second preliminary figures), real housing investment turned upward in the first quarter after having plunged in the third and fourth quarters (Chart 3). Meanwhile, the number of housing starts (Chart 18[1])—a leading indicator of housing investment—fell toward September last year from the effects of the enforcement of the revised Building Standard Law. It then continued to pick up until January this year, but the recovery has since come to a halt. Looking at the number of housing starts in detail according to the type of housing, owner-occupied housing, housing for sale, and housing for rent have only recovered to levels slightly lower than those prior to the enforcement of the revised Law. This stagnant recovery is attributable to the softness in sales of condominiums and to further increases in prices of steel products. Looking ahead, the process of recovery in housing investment is expected to gradually come to an end, considering the number of housing starts.

Industrial production has been more or less flat. Production dropped by 0.7 percent in the first quarter on a quarter-on-quarter basis and then registered a sizeable decline of 2.0 percent in April compared with the first quarter (Chart 19). As for developments in April compared with the first quarter by industry, production of petroleum and coal products rose because of the temporary expiration of the provisional extra taxes, whereas production of electronic parts and devices, as well as transportation equipment, dropped markedly, and that of general machinery remained more or less flat.

¹¹ 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.

Shipments fell by 0.5 percent in the first quarter on a quarter-on-quarter basis, and then dropped by 1.6 percent in April compared with the first quarter. Looking at the trend by goods (Chart 20), shipments of capital goods rose toward the end of last year, but they have continued to be weak since the start of this year, mainly due to the drop in semiconductor products machinery. As for shipments of consumer goods on average, durable consumer goods have been on an uptrend, whereas those of nondurable consumer goods have been trending slightly downward. Shipments of construction goods plunged in the second half of last year, affected mainly by the revised Building Standard Law, and they have been recovering thereafter only at a modest pace. Meanwhile, shipments of producer goods had been increasing until around the end of last year, but they have been somewhat weak since the start of this year due to the decline in shipments of electronic parts and devices.

Inventories have been essentially in balance with shipments. The inventory cycle (Chart 21) 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 continued to rise. In durable consumer goods, inventories have been in balance with shipments. However, in electronic parts and devices, the year-on-year rate of increase in shipments has fallen somewhat lately, whereas inventories have risen slightly, partly in anticipation of a future increase in shipments. In capital goods (excluding transport equipment), shipments have been weak, and inventories have been relatively high. As for construction goods, inventory adjustment pressures have eased with the rise in inventories coming to a halt, but the recovery in shipments has lacked vigor.

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 will be essentially flat.¹²

¹² Production in the second quarter—based on the production forecast index for May and June—is calculated to increase by 0.7 percent on a quarter-on-quarter basis.

As for the employment and income situations, household income has continued rising moderately, while the labor shortage continues to exist (Chart 22[3]).¹³

In the labor market, overtime hours worked have been virtually flat at high levels (Chart 24[3]). The unemployment rate has been marking a level slightly below 4 percent on average (Chart 23[1]). The ratio of job offers to applicants has declined lately (Chart 23[1]). The decrease in the number of new job offers has continued to be partly caused by the moves of Labour Bureaus across Japan to promote appropriate posting by deterring overstatements in the number of job offers. However, labor demand among small firms may have declined slightly as a result of the economic slowdown, mainly in construction and services, where the decrease in job offers are noticeable.¹⁴

In terms of employment (Chart 24[1]), the year-on-year growth rate in the number of employees in the *Labour Force Survey* has been slowing as a trend; it has been moving around zero percent lately. As for the number of regular employees in the *Monthly Labour Survey*—whose coverage of small business establishments is limited—the year-on-year growth rate has continued to be relatively high; it has been moving in the range of 1.5-2.0 percent.¹⁵ Recently, however, the growth rate has

¹³ 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*, household income has increased at a modest pace. The main differences between the number of employees in the *Labour Force Survey* and the number of regular employees in the *Monthly Labour Survey* are: (1) the former survey is conducted on individuals and half of its samples are rearranged every month, whereas the latter survey is conducted on the same business establishments for a fairly long period; and (2) the former covers small business establishments with four persons or fewer, while these establishments are not included in the latter. Although monthly data of the *Labour Force Survey* are rather erratic, the survey, when fluctuations are smoothed out, appears to better reflect overall developments in the supply-demand conditions, including those of very small firms.

¹⁴ The number of job advertisements listed in the media of the private sector, which had been firm thus far, was weak in April (Chart 23[3]).

¹⁵ When looking at the two surveys by size of business establishment or firm, the number of regular employees in the *Monthly Labour Survey* in establishments with 30 employees or more has continued to rise solidly; the growth rate in the number of regular employees has also been positive in those with 5-29 employees, despite at a moderate pace. Meanwhile, the number of employees in the *Labour Force Survey* has dropped markedly for small firms with 1-29 persons since the second half of last year. These facts show that the number of those employed at establishments with four persons or fewer has fallen sharply.

inched down because of the slower growth in business establishments with 5-29 employees. Looking at the number of regular employees in the *Monthly Labour Survey* in detail, full-time employees have continued to grow at a relatively fast pace, whereas part-time employees have slowed their pace of increase. Hence, the year-on-year difference in the ratio of part-time employees, which had been positive last year, has recently turned negative (Chart 24[2]).¹⁶

Nominal wages per employee have been positive lately compared with the previous year (Chart 22[1]). In detail, the year-on-year rate of change in regular payments has been positive lately. This has been due mainly 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 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. Meanwhile, overtime payments have increased mildly. On the other hand, special payments have been relatively weak as a trend, since corporate profits have been decreasing.¹⁷

Looking ahead, the gradual increase in household income is likely to continue as the labor shortage persists and as production increases gradually after being flat in the short run.

¹⁶ The ratio of part-time workers has declined mainly since (1) the number of retiring baby-boomers—who are rehired as part-time workers in many cases—has almost peaked out, and (2) part-time workers have switched to regular employment as a result of firms' measures to impede the outflow of human resources and the enforcement of the revised Part-time Work Law (effective in April 2008).

¹⁷ According to surveys on large firms released by (1) the *Nihon Keizai Shimbun*, Inc. (interim results as of April 24, 234 firms), (2) the Japan Business Federation (interim results as of May 22, 86 firms), and (3) The Institute of Labor Administration (results as of April 14, 175 firms), the year-on-year rate of increase in summer bonuses for this fiscal year is projected to be lower than that of winter bonuses last fiscal year. (1) shows year-on-year increases of 0.7 percent for winter bonuses last fiscal year and 0.2 percent for summer bonuses this fiscal year, (2) shows 0.9 percent for last winter and 0.6 percent for this summer, and (3) shows 2.2 percent for last winter and 0.9 percent for this summer. The decrease in the growth rate is possibly due to the fact that corporate profits have been weakening caused mainly by high materials prices.

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 26). Looking at recent developments in international commodity prices in more detail, crude oil prices have continued to be strong; they have recorded historical highs, mainly due to rising concerns over tightening supply-demand conditions. Prices of nonferrous metals and crops have been generally high, but those of items such as nickel and wheat—whose supply has been expanding—seem to have softened. Meanwhile, domestic commodity prices have risen, mainly 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)¹⁸ has been positive, mainly due to the rise in international commodity prices (Chart 27). 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 "goods sensitive to exchange rates and overseas commodity prices" have risen at a faster pace lately, primarily in petroleum and coal products. Prices of "others" have continued to increase, chiefly in prices of processed foodstuffs. Prices of "other materials" and "electric power, gas and water" 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 have increased due to the rise in international commodity prices. Prices of intermediate goods have increased, mainly in products related to iron and steel and construction goods. Final goods prices have recently increased marginally, since the decline in prices of imports has moderated with the yen's appreciation having come to a halt and also since prices of domestic products have risen notably in petroleum products and processed foodstuffs.

¹⁸ 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.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁹ has been moving around zero percent recently (Chart 28).²⁰ Looking at recent developments by category, the rate of increase in prices of real estate services has risen moderately, 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. The year-on-year changes in prices of "other services" have remained positive, reflecting increases in costs such as labor costs, but the rate of increase has decreased slightly since price revisions at the start of the fiscal year were only marginal in response to firms' cost-cutting. Prices of advertising services have been weak, since firms have been cautious about increasing advertisement placements. 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. Meanwhile, prices of finance and insurance have declined at an accelerated pace as a result of the reduction in the premiums of compulsory motor vehicle insurance.

The year-on-year rate of increase in consumer prices (excluding fresh food, same hereafter) has been around 1 percent against the background of the increase in prices of petroleum products and food products (Chart 29). In April, consumer prices rose at a reduced pace by marking an increase of 0.9 percent compared with that of 1.2 percent in March, mainly since the positive contribution from petroleum products diminished as a result of the temporary expiration of the provisional extra taxes. Looking at recent developments in more detail, prices of goods have increased at a faster pace as a trend on a year-on-year basis, due in part to the rise in

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 slowed since the start of this year. This is because the reactionary fall from the upsurge last year and the effects of the yen's appreciation are observed in ocean freight transportation (such as ocean tramper) and oceangoing ship chartering services.

food products, even though the positive contributions from petroleum products have diminished temporarily. The rate of increase in services prices has also risen modestly, chiefly in prices of "eating out." Public utility charges have increased marginally, mainly in electricity charges.²¹

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 continue to be positive 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 the Urban Land Price Index; Chart 30), both commercial and residential land prices have continued to rise in the six large city areas compared to six months before, but the pace of increase has slowed since September last year. Land prices in areas other than the six large city areas, meanwhile, have continued to fall, albeit marginally.

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 31[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 32[1]). Interest rates on Euroyen futures have risen further with some fluctuations, mainly in distant contracts (Chart 32[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) have risen further due to developments in long-term interest rates in the United States and

²¹ In April, public utility charges as a whole registered the same rate of increase as that in March. This was because the positive contributions from electricity charges and city gas charges in April—which were boosted by the rise in the power rates based on the fuel cost adjustment system—were offset by the negative contributions from the reduction in the premiums of compulsory motor vehicle insurance.

Europe and to position adjustments by some financial institutions. They have recently been moving at around 1.80 percent (Chart 31[2]).

As for yield spreads between corporate bonds and government bonds, spreads for those with high credit ratings have been narrowing moderately, whereas spreads for those with low credit ratings have remained high (Chart 34).

Stock prices have continued to move in line with U.S. and European stock prices. The Nikkei 225 Stock Average is moving at around 14,000 yen of late (Chart 35).

In the foreign exchange market, the yen continued to depreciate moderately with some fluctuations. The yen is currently being traded in the range of 107-108 yen to the U.S. dollar (Chart 36).

(2) Corporate Finance and Monetary Aggregates

Credit demand in the private sector, such as that for working capital, has been increasing moderately.

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-sized enterprises. Nevertheless, they have remained considerably accommodative compared to past levels (Chart 37).

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 38).

The amount outstanding of lending by private banks has increased. Its monthly average outstanding, after adjustment,²² grew by 2.1 percent in May on a year-on-year basis, compared to 1.7 percent in the previous two months (Chart 39).

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 still been relatively high, 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 1.6 percent in April on a year-on-year basis, compared to 0.9 percent March and 3.0 percent in February (Chart 40).

According to business surveys, the financial positions of firms have continued to be favorable as a whole, although those of small and medium-sized enterprises have shown some deterioration (Chart 37).

The money stock (M2) has increased by around 2 percent annually. Its May reading was 2.0 percent on a year-on-year basis, following 1.9 percent in April and 2.2 percent in March (Chart 41).²³

The number of corporate bankruptcies was down by 1.5 percent in May compared to the year-ago level, to 1,290 cases (Chart 42).

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.

²³ The Bank of Japan has started the release of the "Money Stock Statistics" on a new basis; it now takes account of changes in the financial environment such as the recent launch of the Japan Post Bank, in response to the privatization of Japan Post. On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate was 0.7 percent in May (following 0.5 percent in April and 0.8 percent in March).

Charts

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q3	Q4	2008/Q1	2008/Feb.	Mar.	Apr.	May.
Index of consumption expenditure level (two-or-more-person households)	-0.6	0.7	-0.4	-6.0	0.7	-0.1	n.a.
Sales at department stores	-1.3	0.3	-0.7	-0.3	-1.1	p 0.0	n.a.
Sales at supermarkets	-0.5	0.5	0.2	1.6	0.7	p -1.9	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 295>	< 300>	< 301>	< 289>	< 297>	< 317>	< 278>
Sales of household electrical appliances (real, Current Survey of Commerce)	4.1	1.8	5.7	0.6	4.8	p -4.1	n.a.
Outlays for travel	1.5	0.7	0.1	-3.9	1.3	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 81>	< 95>	< 114>	< 115>	< 109>	< 115>	<n.a.>
Machinery orders (from private sector ⁴)	1.4	0.6	2.2	-12.3	-8.3	5.5	n.a.
Manufacturing	1.8	6.1	-5.9	-9.2	-7.0	1.9	n.a.
Nonmanufacturing ⁴	1.0	-1.1	6.5	-13.6	-9.5	8.8	n.a.
Construction Starts (private, nondwelling use)	-48.1	40.8	1.2	-14.5	25.6	-15.0	n.a.
Mining & manufacturing	-49.8	47.2	-1.0	11.5	24.1	3.4	n.a.
Nonmanufacturing ⁵	-46.4	34.2	1.9	-21.6	30.1	-20.3	n.a.
Value of public works contracted	-1.5	1.4	-0.5	3.9	-3.5	-7.4	n.a.
Real exports	5.1	1.9	3.2	-4.9	4.5	-5.4	n.a.
Real imports	1.7	-0.6	0.9	-3.1	5.9	-5.4	n.a.
Industrial production	1.7	0.9	-0.7	1.6	-3.4	p -0.3	n.a.
Shipments	1.3	1.4	-0.5	1.2	-3.9	p 0.7	n.a.
Inventories	1.1	1.2	0.0	0.1	0.1	p -0.9	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 103.4>	< 101.3>	< 105.3>	< 98.3>	< 105.3>	<p 101.4>	<n.a.>
Real GDP	0.2	0.7	1.0	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.1	-0.1	-0.9	-1.3	0.5	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q3	Q4	2008/Q1	2008/Feb.	Mar.	Apr.	May.
Ratio of job offers to applicants <s.a., times>	< 1.05>	< 1.00>	< 0.97>	< 0.97>	< 0.95>	< 0.93>	<n.a.>
Unemployment rate <s.a., %>	< 3.8>	< 3.8>	< 3.9>	< 3.9>	< 3.8>	< 4.0>	<n.a.>
Overtime working hours ⁶	0.4	0.2	0.7	1.8	0.9	p -0.8	n.a.
Number of employees	0.8	0.9	0.0	-0.3	-0.1	-0.1	n.a.
Number of regular employees ⁶	1.7	2.0	1.9	2.0	1.9	p 1.7	n.a.
Nominal wages per person ⁶	-0.6	-0.9	1.6	1.5	1.5	p 0.6	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	1.6 < 0.7>	2.4 < 0.7>	3.4 < 1.0>	3.5 < 1.0>	3.9 < 1.2>	3.9 < 1.8>	p 4.7 <p 2.5>
Consumer price index ⁸	-0.1	0.5	1.0	1.0	1.2	0.9	n.a.
Corporate services price index	1.3	1.4	0.5	0.7	0.4	p 0.5	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	1.8	2.0	2.2	2.4	2.2	1.9	p 2.0
Number of corporate bankruptcies <cases per month>	<1,155>	<1,190>	<1,238>	<1,194>	<1,347>	<1,215>	<1,290>

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

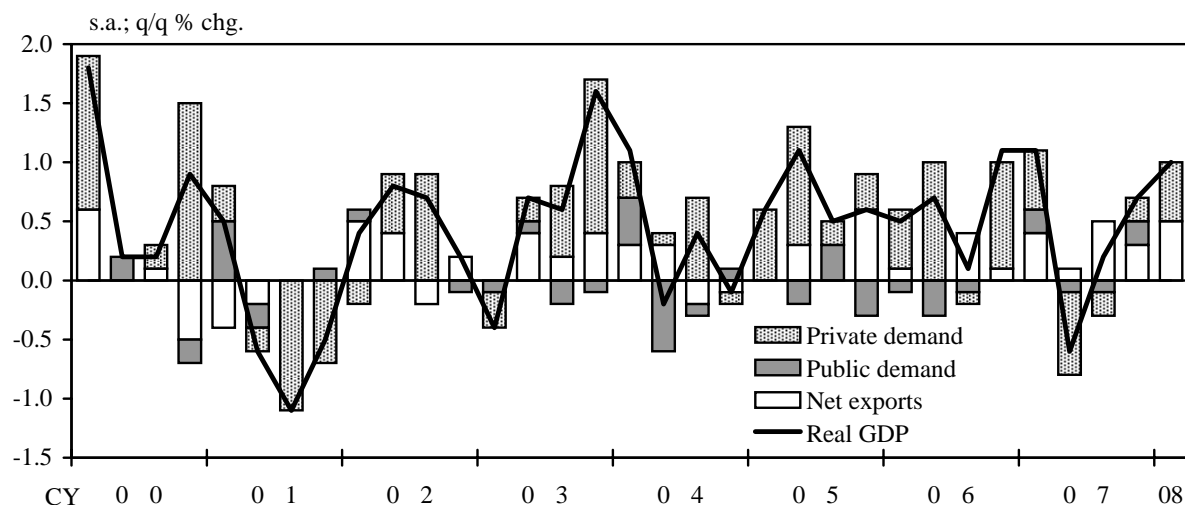
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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.

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 Services 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



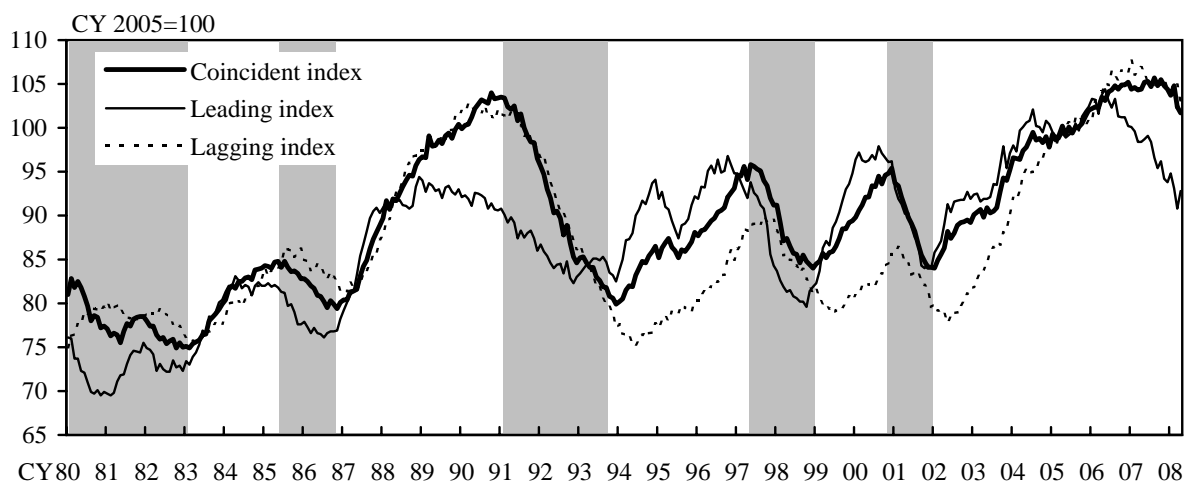
(2) Components

s.a.; q/q % chg.

	2007				2008
	Q1	Q2	Q3	Q4	Q1
Real GDP	1.1	-0.6	0.2	0.7	1.0
Domestic demand	0.7	-0.7	-0.3	0.4	0.5
Private demand	0.5	-0.7	-0.2	0.2	0.5
Private consumption	0.3	0.1	0.0	0.2	0.5
Non-Resi. investment	0.1	-0.4	0.1	0.2	0.0
Residential investment	-0.1	-0.2	-0.3	-0.3	0.1
Private inventory	0.2	-0.2	-0.1	0.1	-0.1
Public demand	0.2	-0.1	-0.1	0.2	-0.0
Public investment	0.1	-0.2	-0.1	0.0	0.1
Net exports of goods and services	0.4	0.1	0.5	0.3	0.5
Exports	0.5	0.2	0.5	0.5	0.7
Imports	-0.1	-0.1	0.0	-0.1	-0.2
Nominal GDP	0.8	-0.8	0.1	-0.1	0.5

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

(3) Indexes of Business Conditions (Composite Indexes)

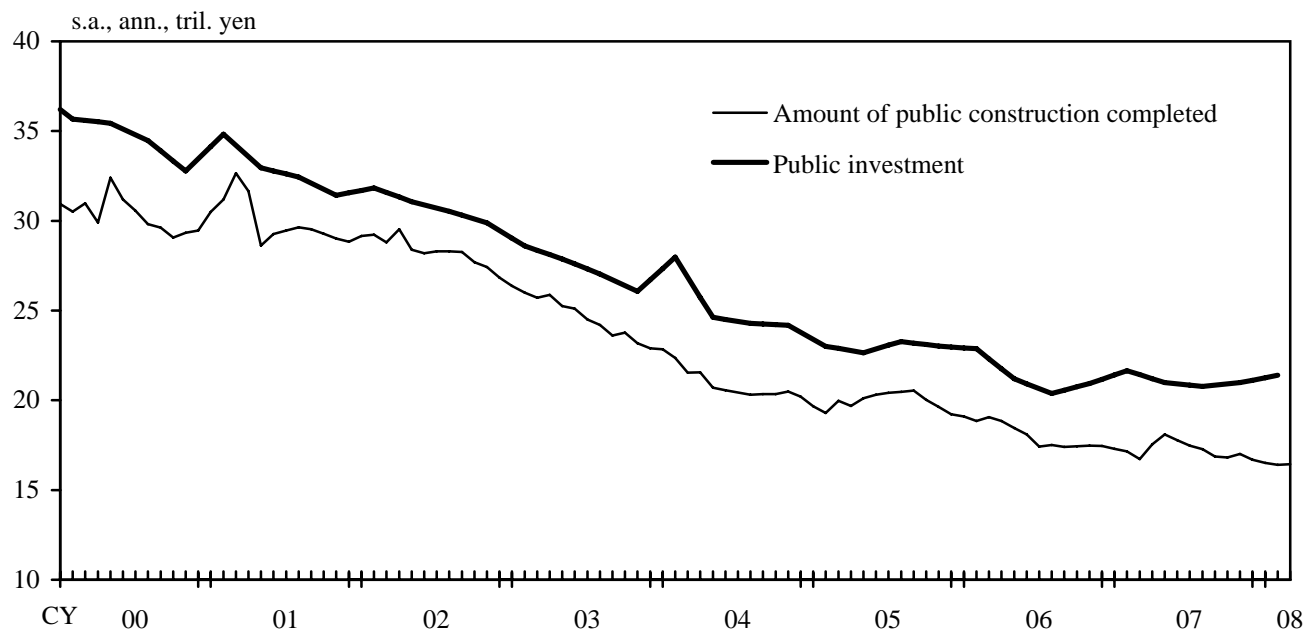


Note: Shaded areas indicate recession periods.

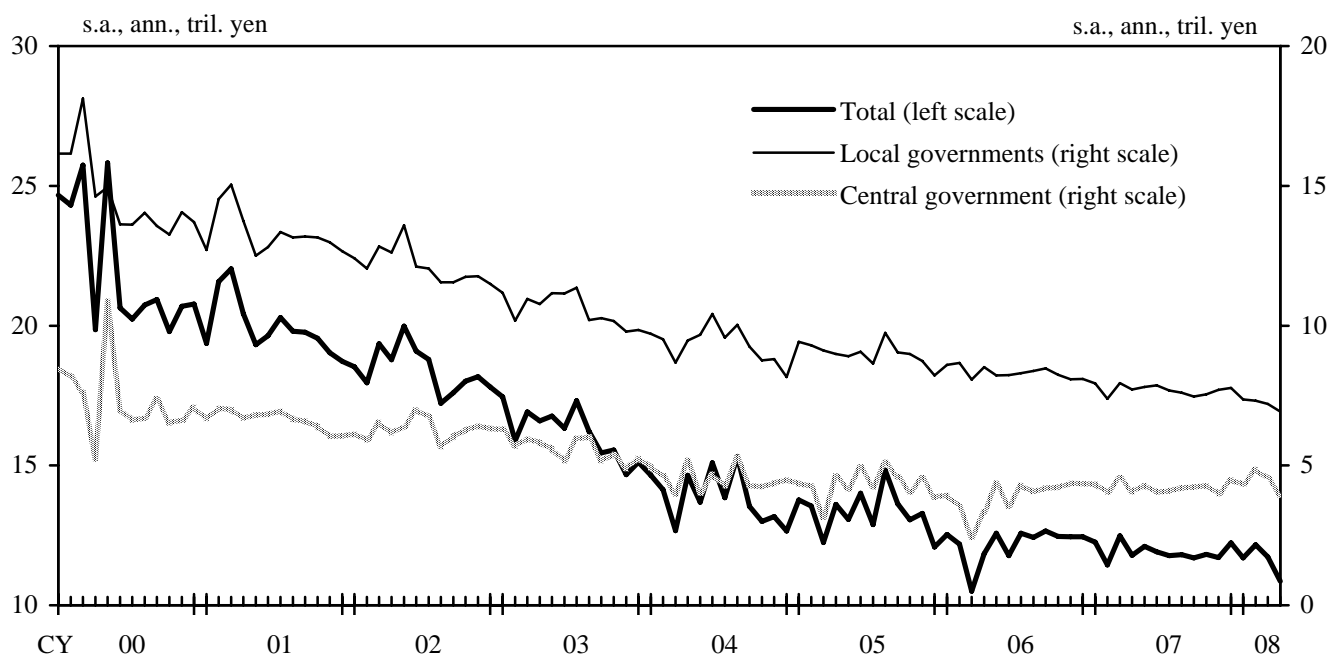
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

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

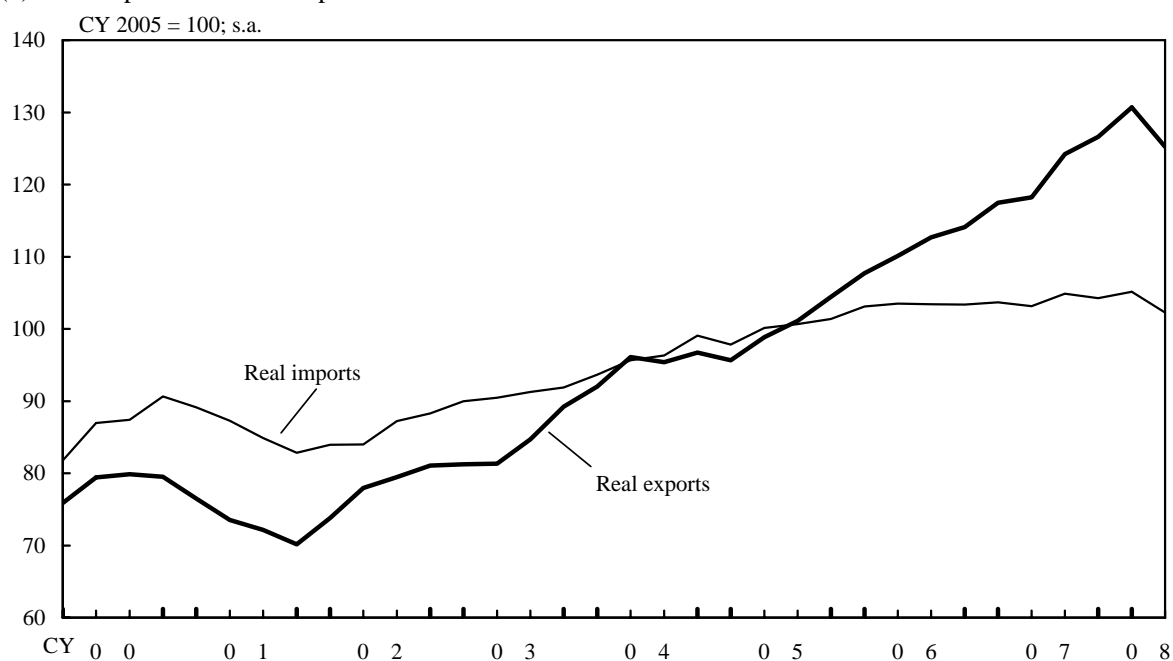
Sources: Cabinet Office, "National Accounts";

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

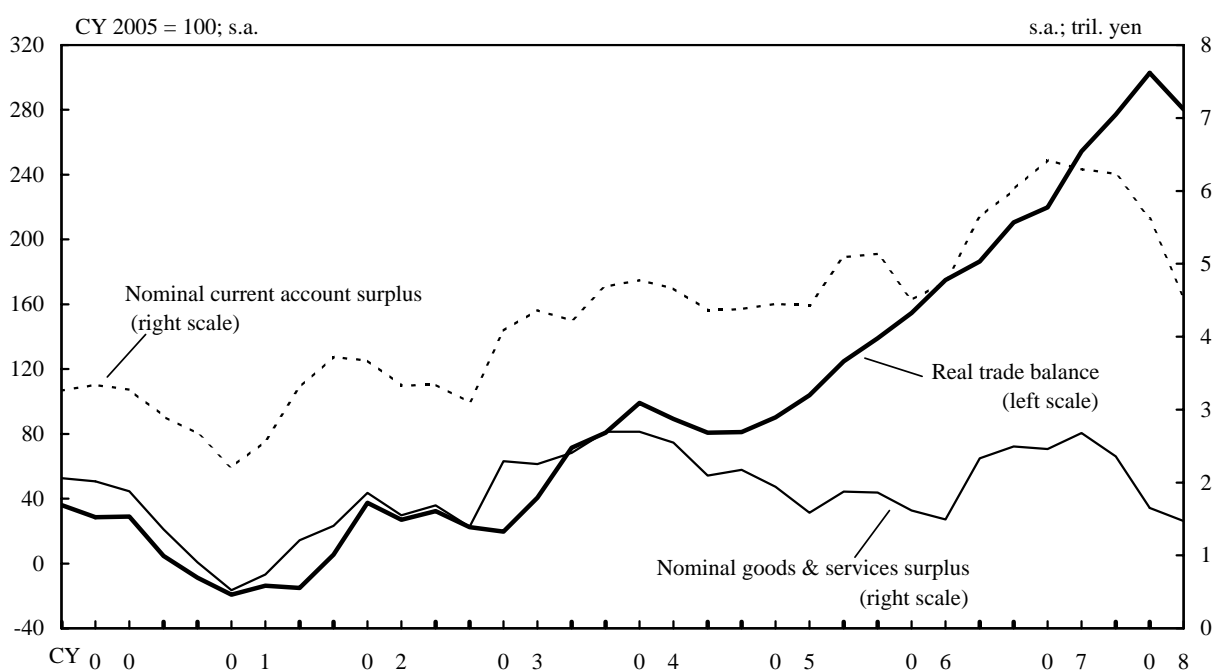
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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.

3. 2008/Q2 figures are April figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q2	Q3	Q4	2008 Q1	Q2	2008 Feb.	Mar.	Apr.
United States	<20.1>	11.7	-1.2	-3.0	4.4	-1.3	-0.2	-7.8	-4.8	4.5	-9.0
EU	<14.8>	11.1	13.0	2.0	5.3	2.6	4.2	-7.1	-4.0	8.0	-10.5
East Asia	<46.0>	8.9	10.3	-0.1	4.4	2.8	4.9	-3.8	-4.0	-0.5	-2.1
China	<15.3>	18.8	16.8	-1.0	6.7	1.9	5.1	-0.1	-7.0	-0.9	3.1
NIEs	<22.4>	6.3	5.2	-0.8	3.1	2.0	5.3	-6.8	-3.8	-0.1	-5.5
Korea	<7.6>	9.6	5.3	-1.8	0.8	4.7	3.6	-2.7	-2.1	2.9	-3.9
Taiwan	<6.3>	2.7	0.0	2.8	4.8	-3.8	8.7	-10.6	-15.3	2.7	-6.9
ASEAN ⁴	<8.3>	1.8	13.2	3.5	4.0	6.3	3.6	-2.7	0.8	-0.9	-2.3
Thailand	<3.6>	4.1	9.8	1.4	4.9	2.1	5.1	-9.7	-5.6	4.2	-10.4
Others	<19.1>	20.2	19.9	5.1	5.6	9.2	4.8	-3.2	-6.3	11.1	-7.7
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-4.2	-4.9	4.5	-5.4

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q2	Q3	Q4	2008 Q1	Q2	2008 Feb.	Mar.	Apr.
Intermediate goods	<18.4>	6.9	5.3	0.6	4.9	1.6	2.2	-6.1	-0.3	4.7	-8.8
Motor vehicles and their related goods	<24.1>	14.2	13.2	1.8	5.9	6.6	3.0	-5.0	-7.4	9.5	-8.2
Consumer goods ⁴	<4.5>	9.8	6.4	4.5	3.4	-0.2	4.3	-2.2	-1.8	9.9	-7.5
IT-related goods ⁵	<11.0>	7.5	12.1	-1.8	4.2	2.3	-1.2	-0.6	-5.6	4.3	-1.5
Capital goods and parts ⁶	<28.4>	13.3	8.0	1.7	3.2	2.8	4.3	-2.4	-2.8	3.0	-3.5
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-4.2	-4.9	4.5	-5.4

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q2 figures are April figures 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.

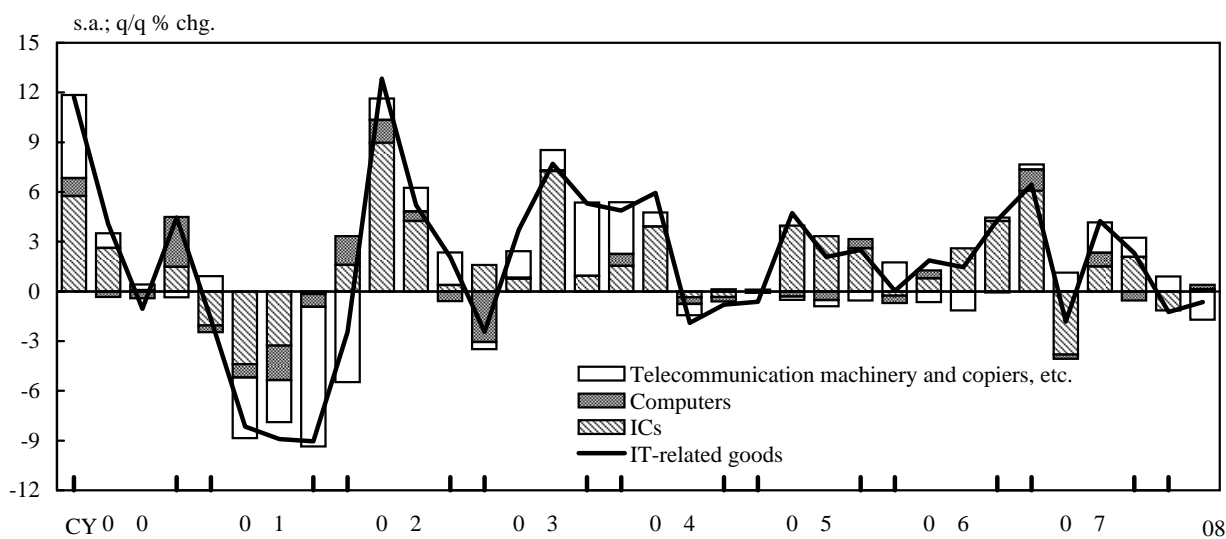
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

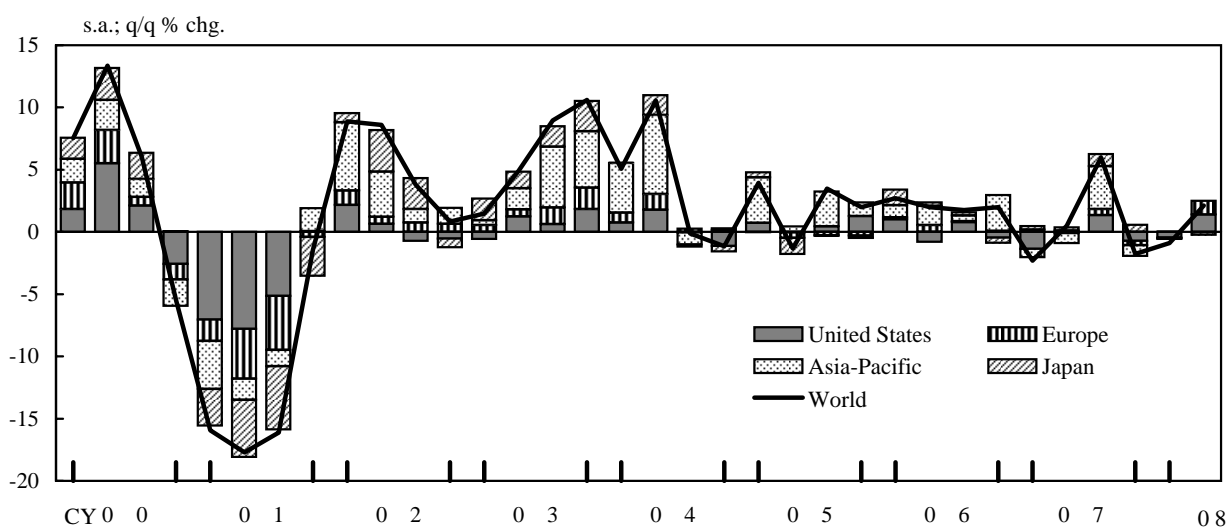
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

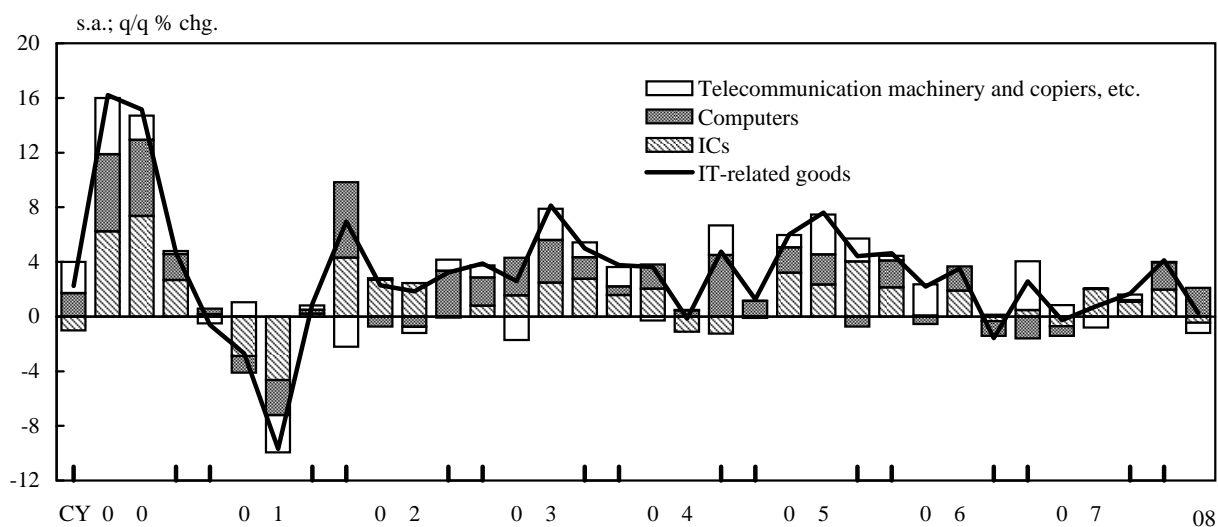
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

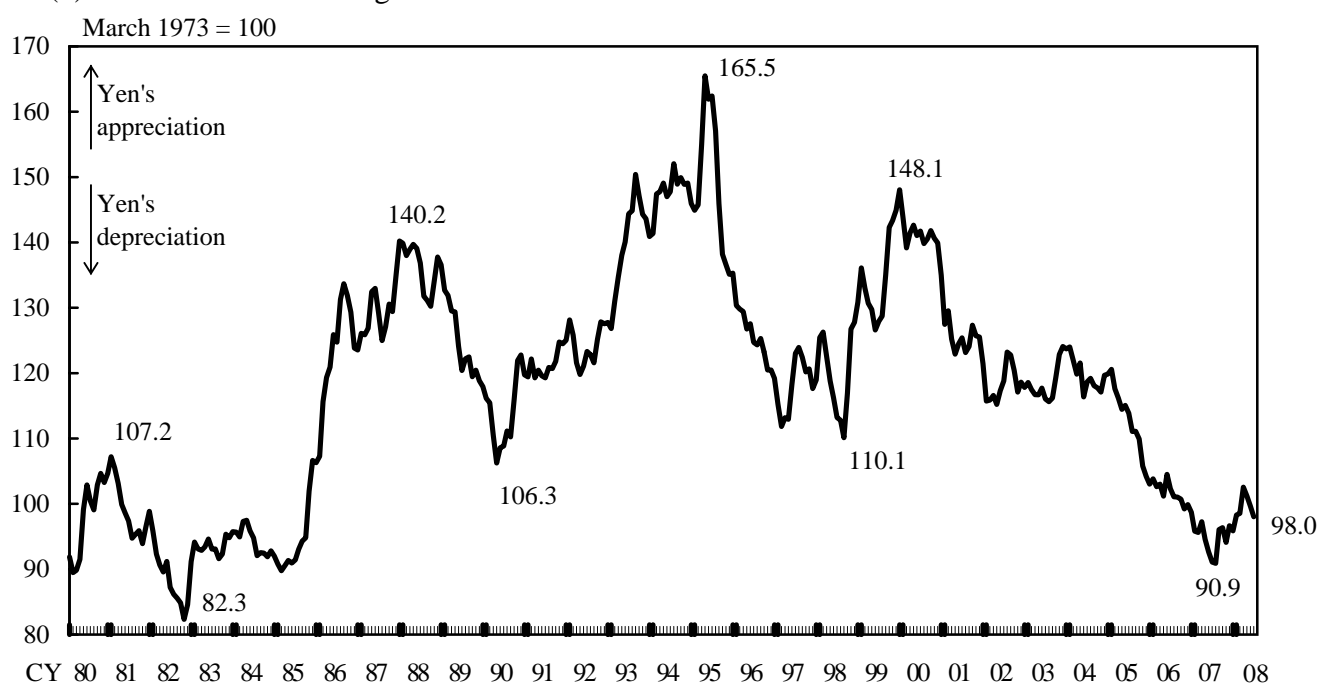
2. 2008/Q2 figures are April figures converted into quarterly amount.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for June 2008 is the average up to June 12.

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 Q2	Q3	Q4	2008 Q1	
United States ¹		3.1	2.9	2.2	3.8	4.9	0.6	0.9	
European Union ¹		2.0	3.2	2.9	2.0	2.9	1.8	3.1	
	Germany	1.0	3.1	2.6	0.7	2.7	1.1	6.3	
	France	1.9	2.4	2.1	2.3	2.8	1.4	2.6	
	United Kingdom	1.8	2.9	3.0	3.4	2.6	2.5	1.6	
East Asia ²	China	10.4	11.6	11.9	11.9	11.5	11.2	10.6	
	NIEs	Korea	4.2	5.1	5.0	4.9	5.1	5.7	5.8
		Taiwan	4.2	4.9	5.7	5.2	6.9	6.5	6.1
		Hong Kong	7.1	7.0	6.4	6.2	6.8	6.9	7.1
		Singapore	7.3	8.2	7.7	9.1	9.5	5.4	6.7
	ASEAN4	Thailand	4.5	5.1	4.8	4.3	4.8	5.7	6.0
		Indonesia	5.7	5.5	6.3	6.4	6.5	6.3	6.3
		Malaysia	5.3	5.8	6.3	5.7	6.7	7.3	7.1
Philippines		5.0	5.4	7.2	8.3	7.1	6.4	5.2	

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 Q2	Q3	Q4	2008 Q1	Q2	2008 Feb.	Mar.	Apr.
United States	<11.4>	5.3	-1.5	-1.1	-2.0	3.2	-1.0	-9.0	-4.7	-1.5	-6.6
EU	<10.5>	0.8	4.0	3.1	2.7	-3.3	-1.0	-2.7	-5.7	14.3	-9.1
East Asia	<40.9>	8.8	3.2	-0.9	1.4	0.0	2.2	-2.4	0.3	4.0	-5.0
China	<20.6>	10.9	5.7	-0.3	1.3	-0.1	0.8	-2.6	-0.2	2.3	-4.0
NIEs	<8.9>	12.3	-3.9	-3.0	1.1	0.4	3.0	0.9	0.8	1.7	-0.5
Korea	<4.4>	10.7	-3.5	0.7	-1.1	0.4	3.3	-1.5	-1.0	-3.6	1.3
Taiwan	<3.2>	15.6	-3.1	-7.4	4.4	-1.8	4.2	3.1	3.8	5.3	-1.6
ASEAN4 ³	<11.4>	2.7	4.6	-0.1	1.8	-0.0	4.1	-4.7	0.6	8.8	-10.0
Thailand	<2.9>	8.7	4.3	-0.1	3.3	-0.5	1.2	-2.1	0.4	0.3	-2.4
Others	<37.2>	2.9	-0.5	-1.1	2.7	-0.4	0.9	-2.3	-1.8	7.0	-6.1
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-2.8	-3.1	5.9	-5.4

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2006	2007	2007 Q2	Q3	Q4	2008 Q1	Q2	2008 Feb.	Mar.	Apr.
Raw materials ⁴	<35.4>	1.2	0.2	-0.5	3.7	-0.4	1.6	-3.6	1.2	10.1	-9.8
Intermediate goods	<14.8>	3.1	2.0	-0.3	2.2	-1.9	-1.7	-0.4	-2.3	6.1	-3.4
Foodstuffs	<8.3>	-4.0	-9.6	-6.0	-2.0	-6.2	-1.0	-2.6	-0.6	3.1	-4.4
Consumer goods ⁵	<8.1>	4.3	-0.1	6.1	-1.2	-2.8	0.6	-6.8	1.3	7.3	-11.4
IT-related goods ⁶	<11.3>	17.2	4.2	-0.3	0.7	1.7	4.1	0.3	-6.6	4.0	-0.0
Capital goods and parts ⁷	<12.8>	16.8	8.4	1.0	1.1	4.5	1.2	0.0	-9.5	0.0	3.5
Excluding aircraft	<11.8>	17.7	7.8	2.7	3.3	1.8	0.1	4.0	-6.9	8.7	0.9
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-2.8	-3.1	5.9	-5.4

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q2 figures are April figures 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.

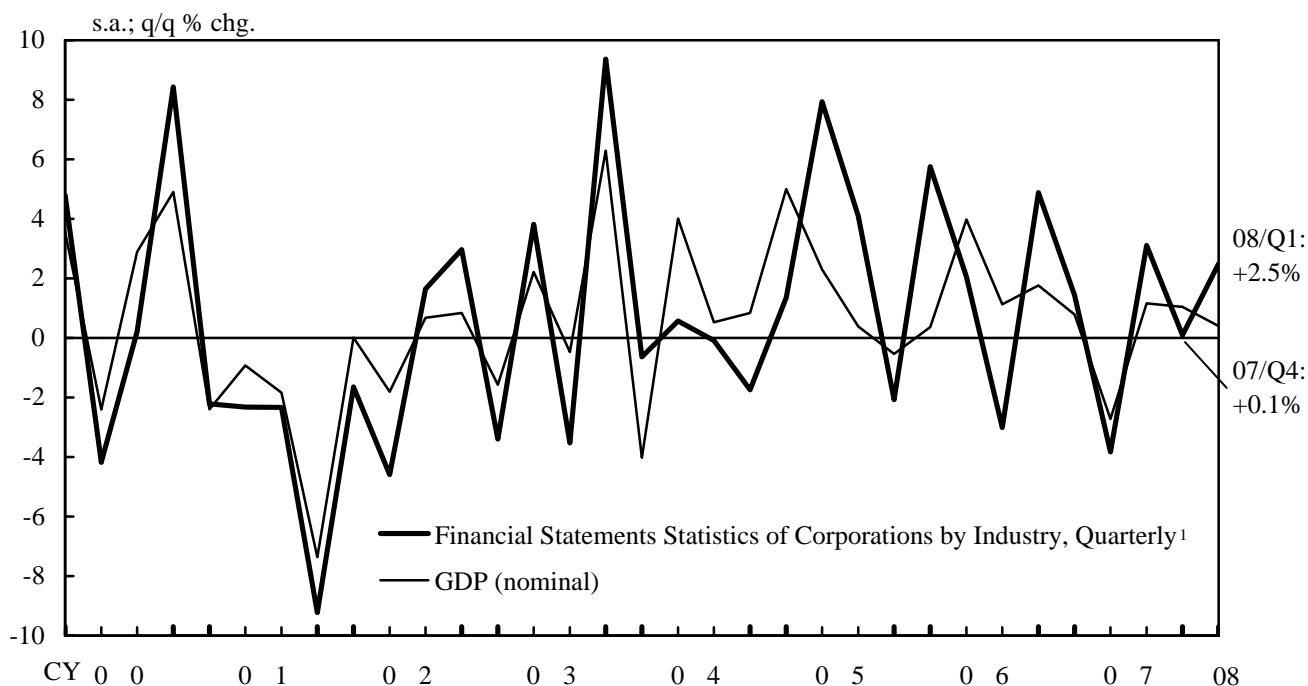
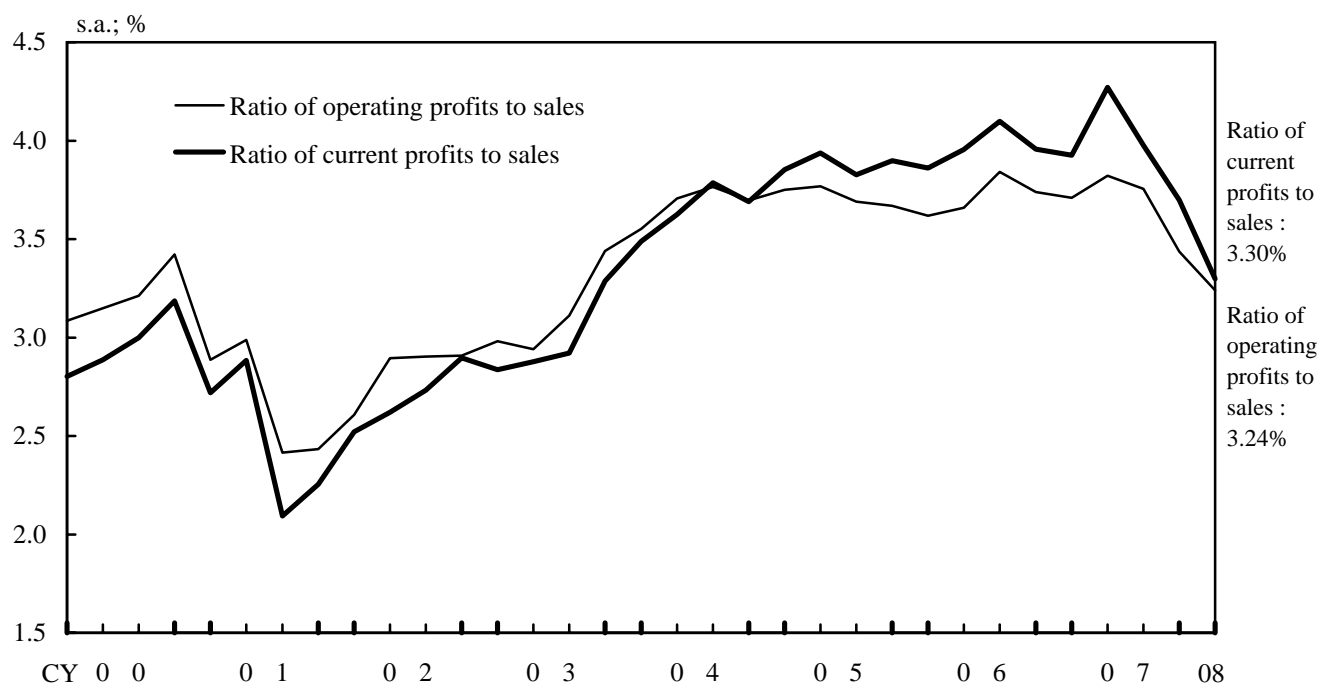
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

Business Fixed Investment and Corporate Profits

(1) Fixed Investment

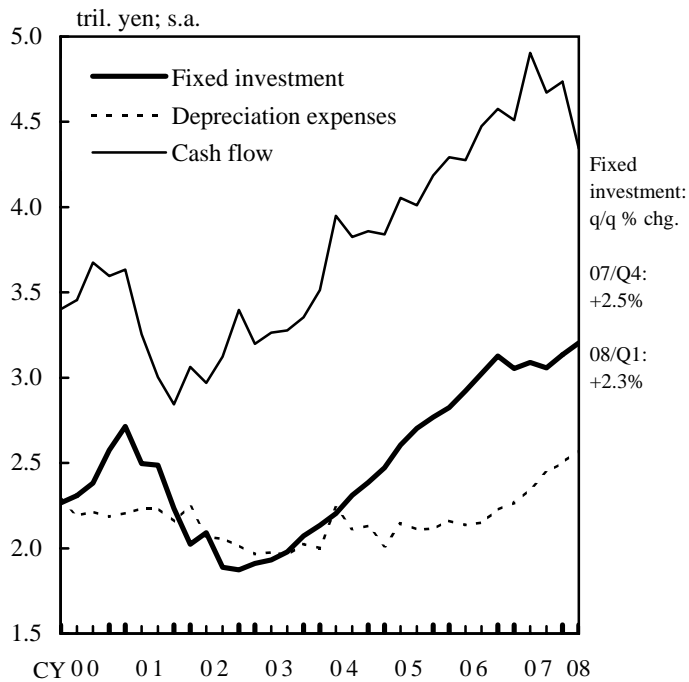
(2) Corporate Profits (Ratio of Profits to Sales)^{1,2}

- Notes: 1. All enterprises. Figures are adjusted to correct biases in figures caused by sample changes, and are seasonally adjusted by X-11. The method of adjustment for sample changes is to adjust the figures proportionally to the shift in the aggregated capital stock and other references. Sample changes are caused by (i) a changes in sampling firms in the second quarter every year, and (ii) changes in the respondent firms in each quarter.
2. On "Financial Statements Statistics of Corporations by Industry, Quarterly" basis.

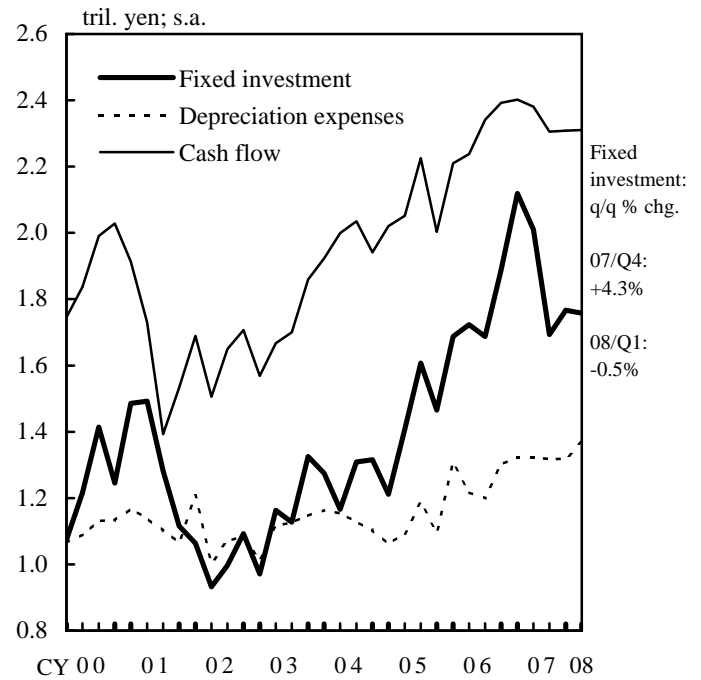
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

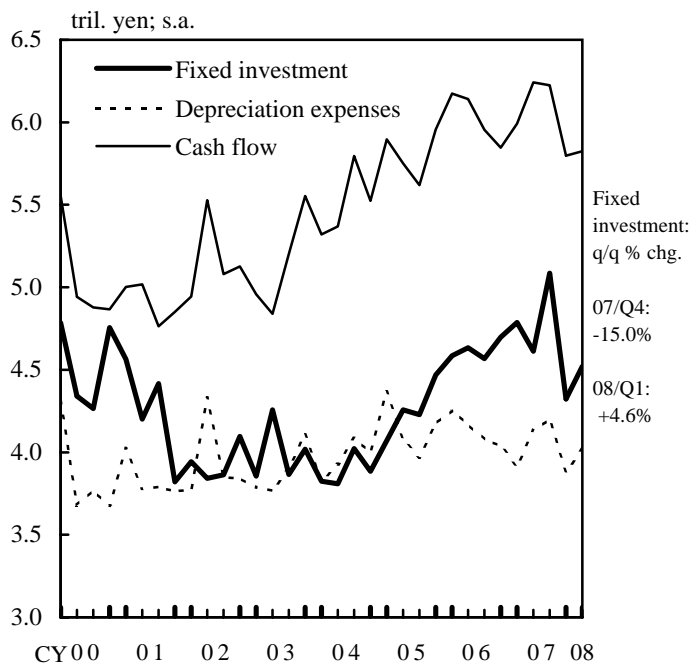
(1) Large Manufacturing Firms



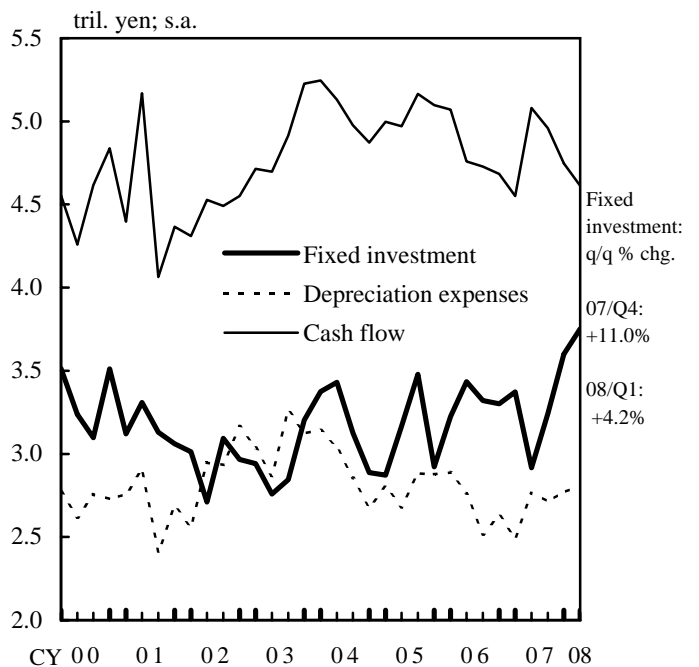
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



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

2. Figures are adjusted for sample changes (see note of Chart 10).

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

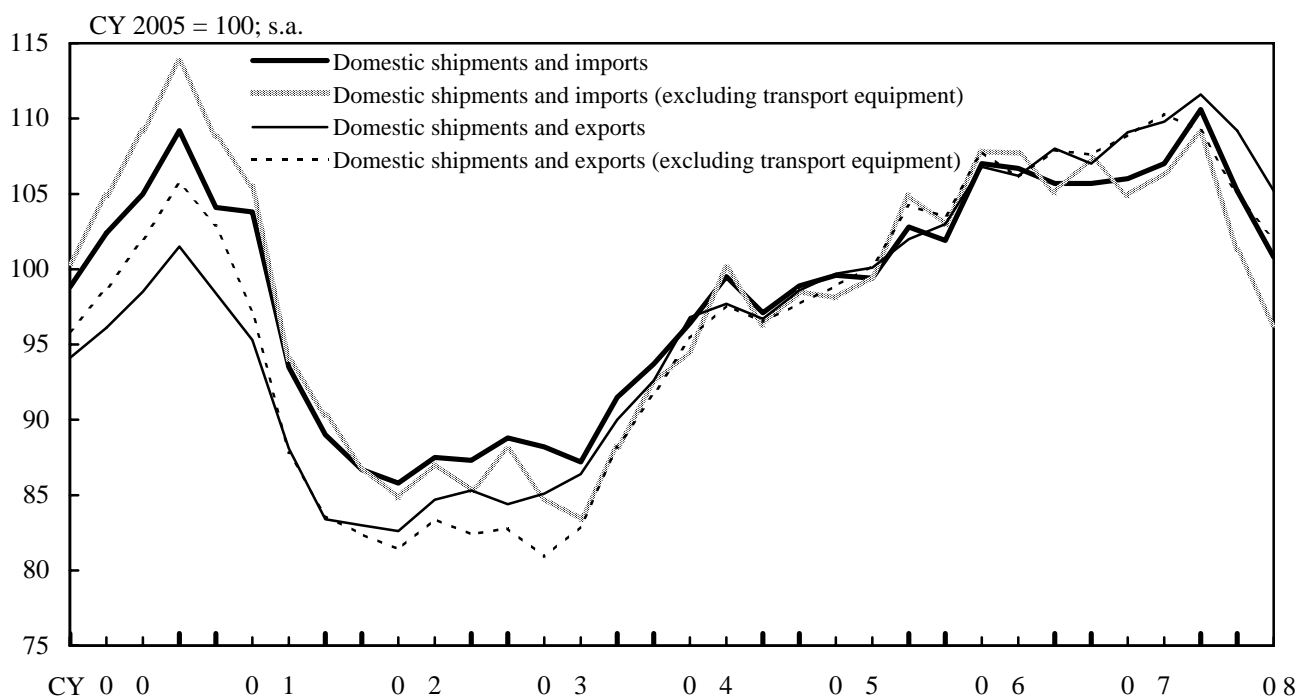
4. Cash flow = current profits / 2 + depreciation expenses.

5. Seasonally adjusted by X-11.

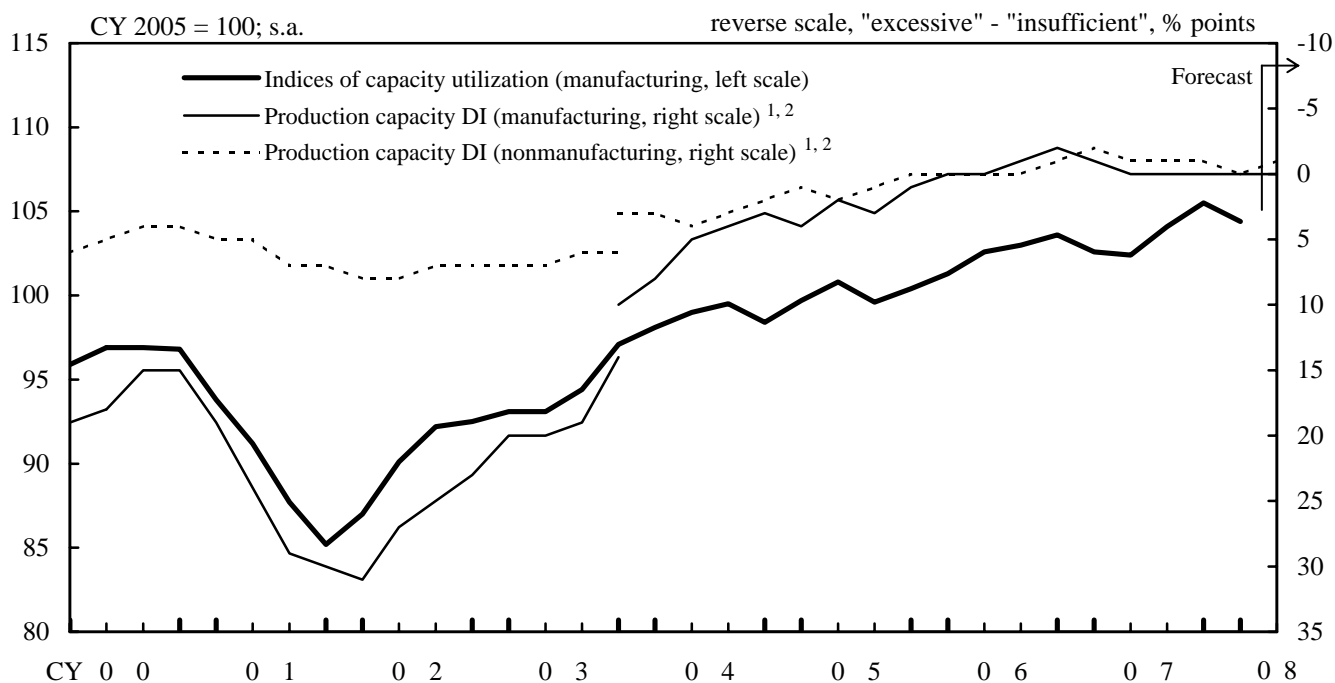
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



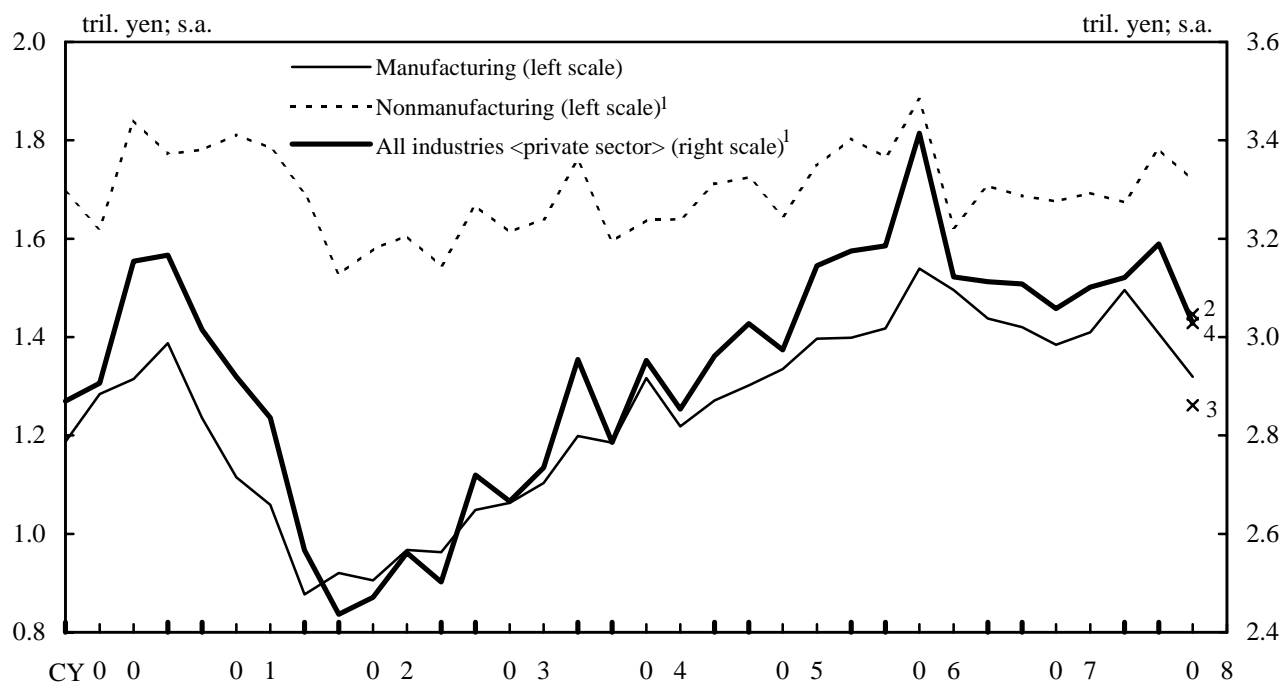
Notes: 1. Production capacity DIs are those of all enterprises.

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.

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.

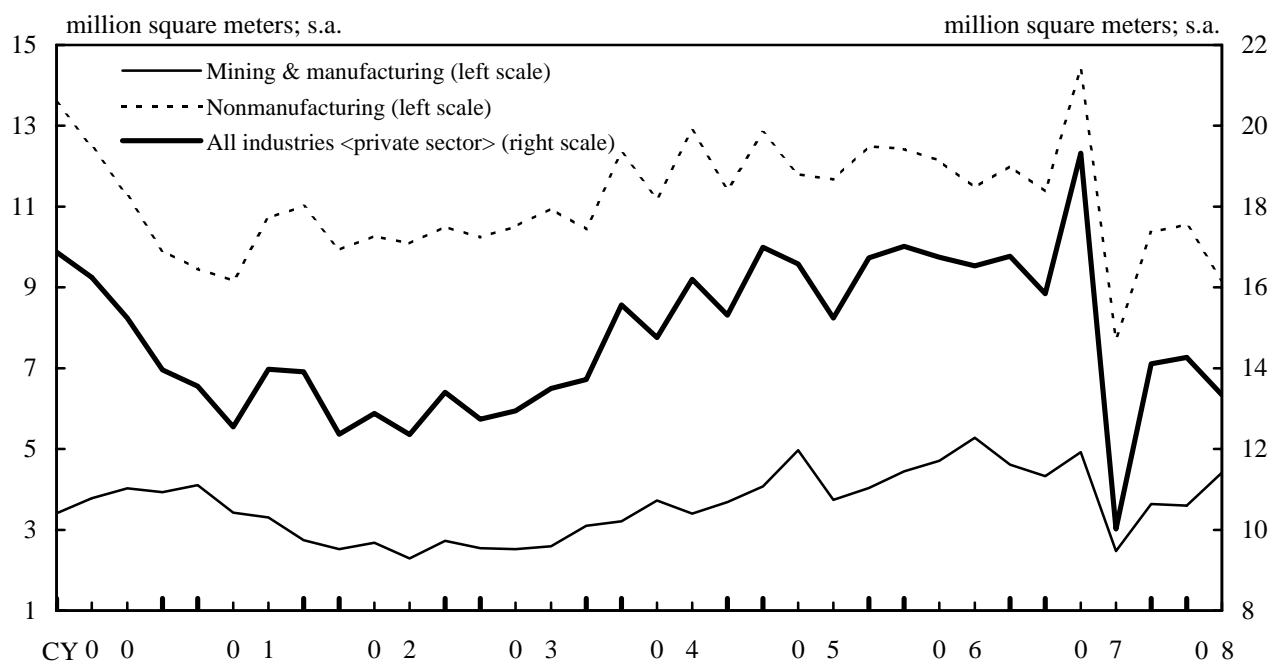
2. Forecast of nonmanufacturing industries for 2008/Q2.

3. Forecast of all industries <private sector> for 2008/Q2.

4. Forecast of manufacturing industries for 2008/Q2.

5. Figures for 2008/Q2 are those of April in terms of quarterly amount.

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



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

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

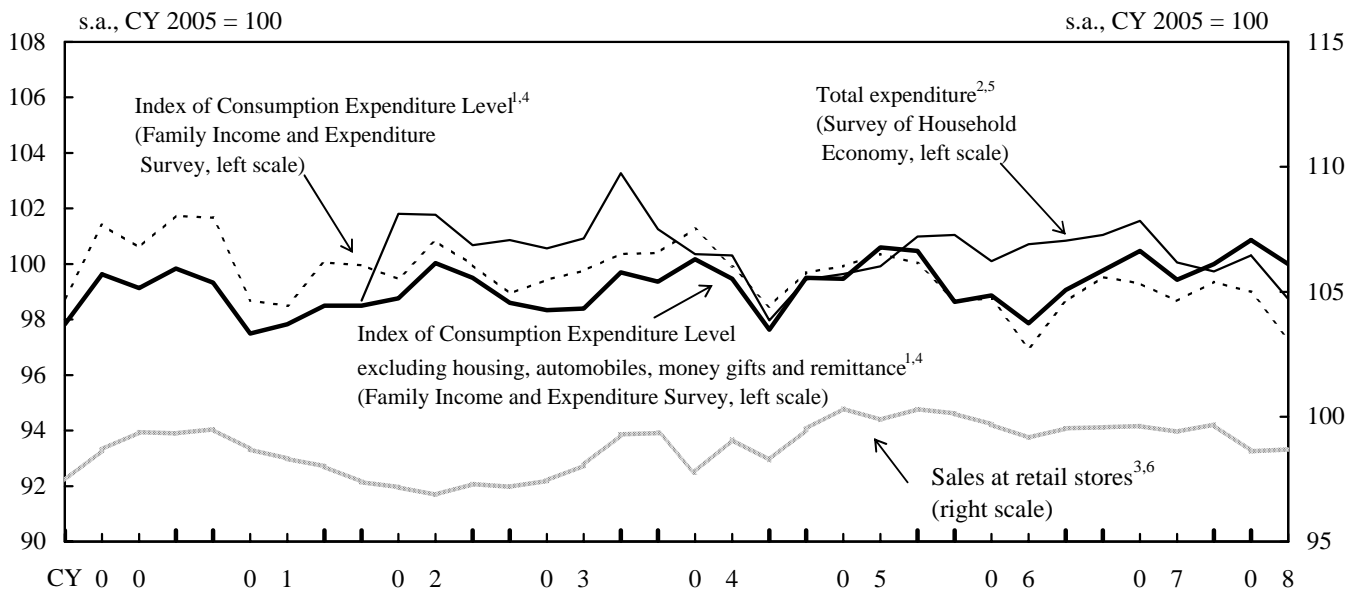
3. Figures for 2008/Q2 are those of April in terms of quarterly amount.

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

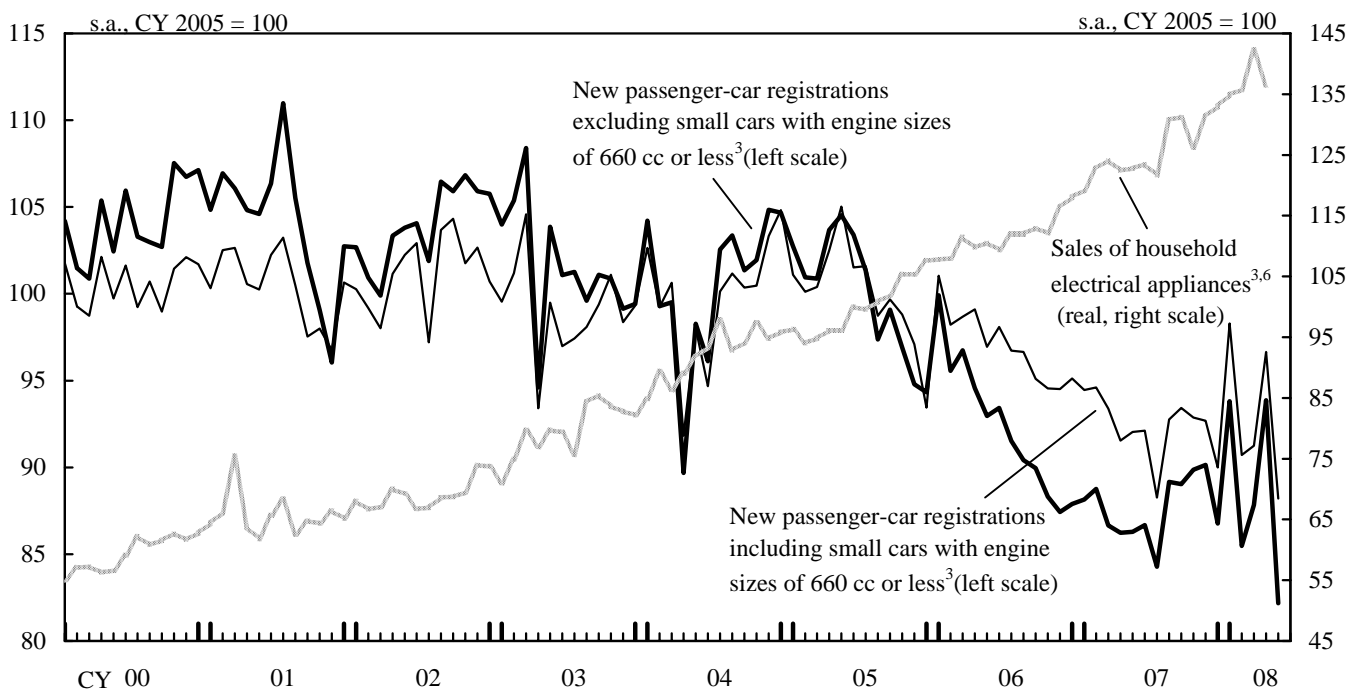
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

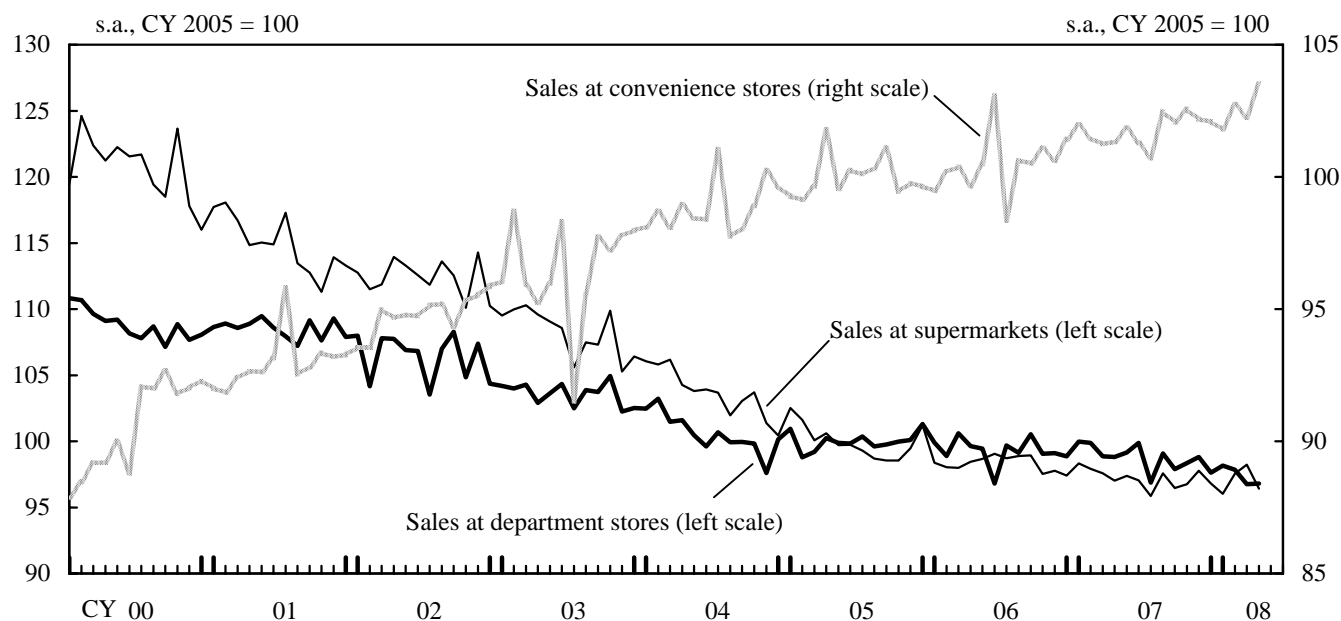


(2) Sales of Durable Goods

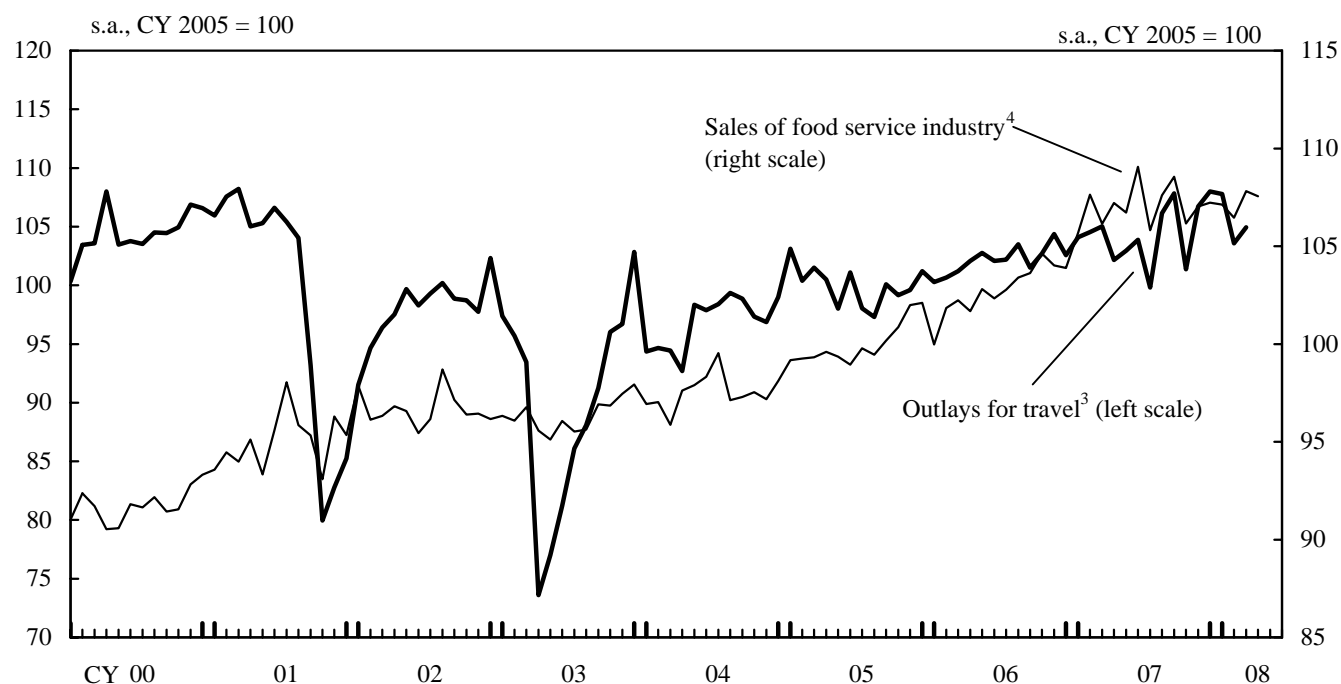


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household by number of household members and age group of household head.
 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).
 7. Figures of Index of Consumption Expenditure Level, Total expenditure and Sales at retail stores for 2008/Q2 are those of April.

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).

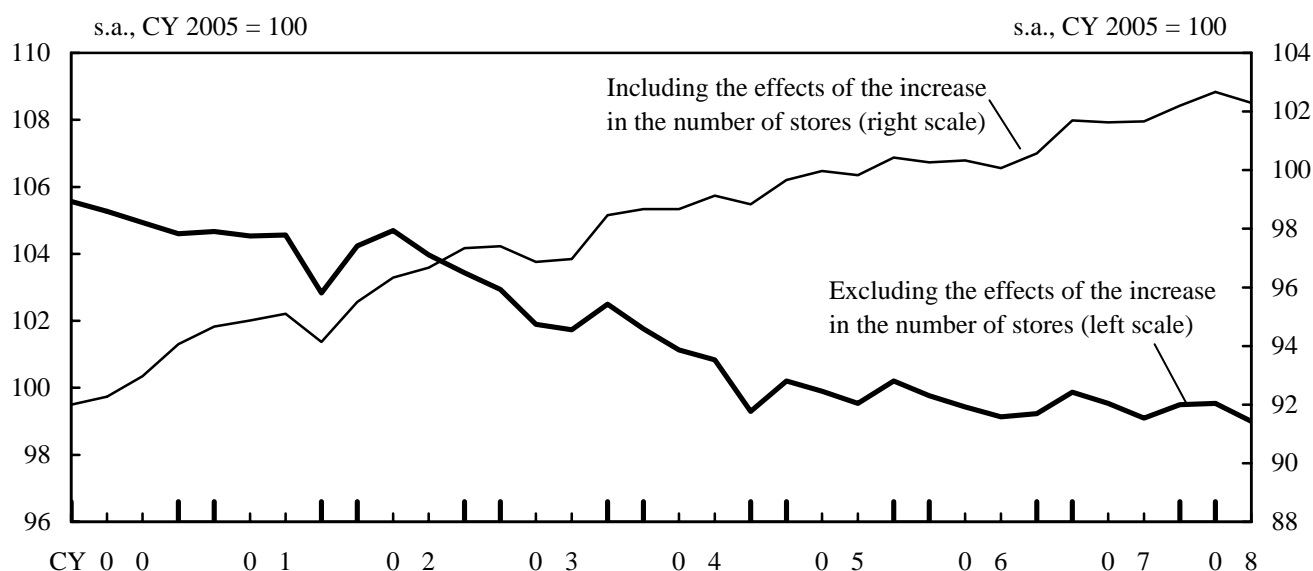
3. As for "outlays for travel," there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

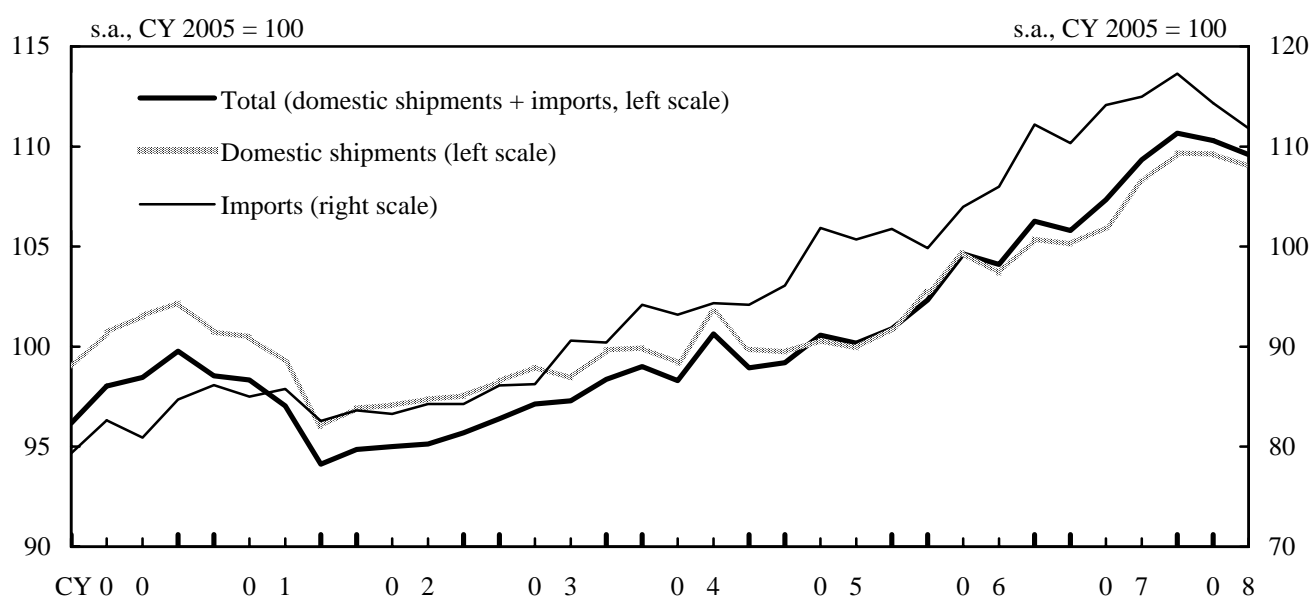
Indicators for Private Consumption (3)

(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/Q2 figures are those of April in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

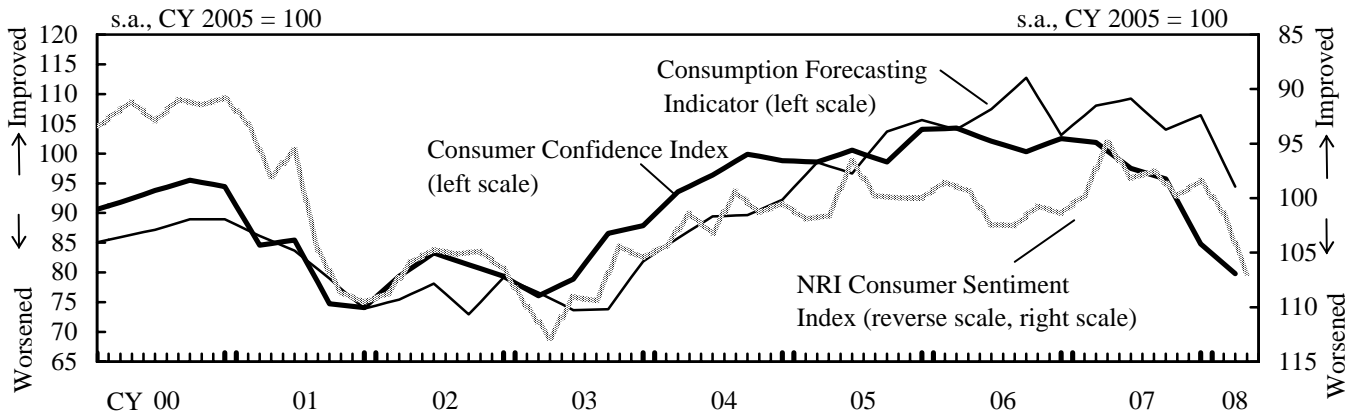


Note: Data for 2008/Q2 figures are those of April in terms of quarterly amount.

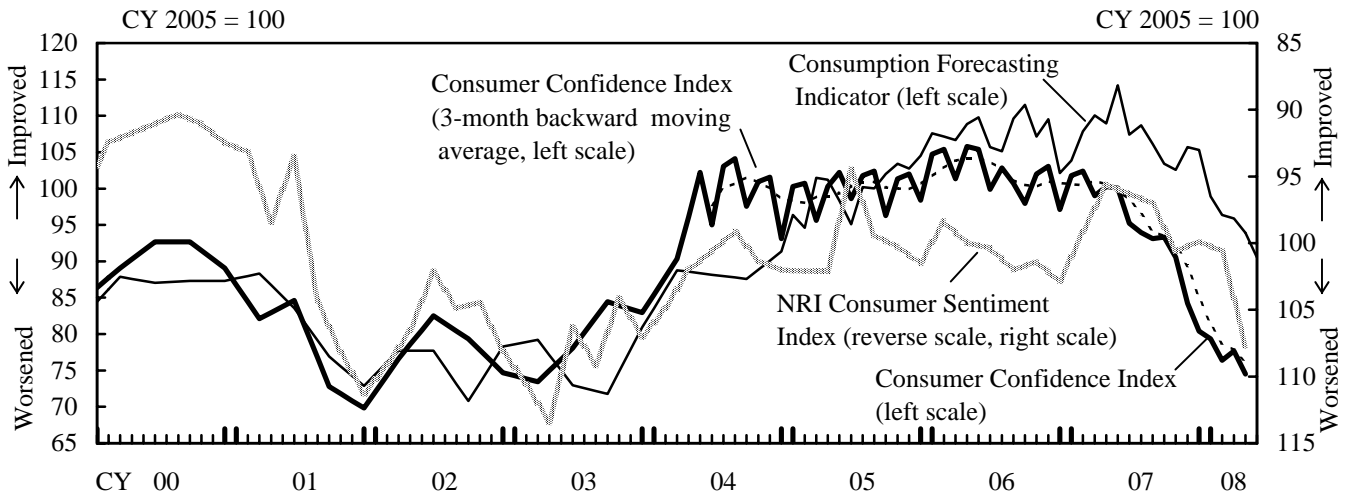
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

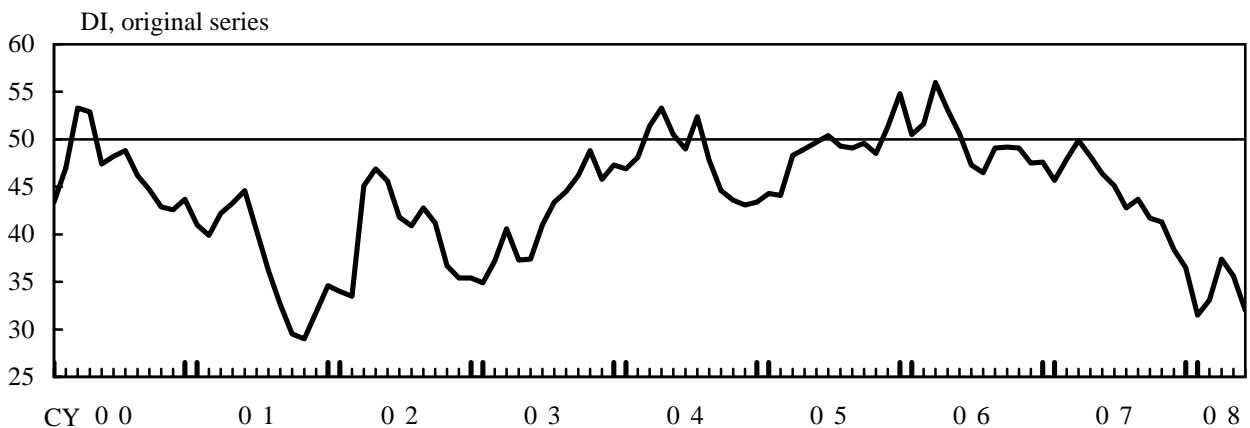
(1) Seasonally Adjusted Series



(2) Original Series



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

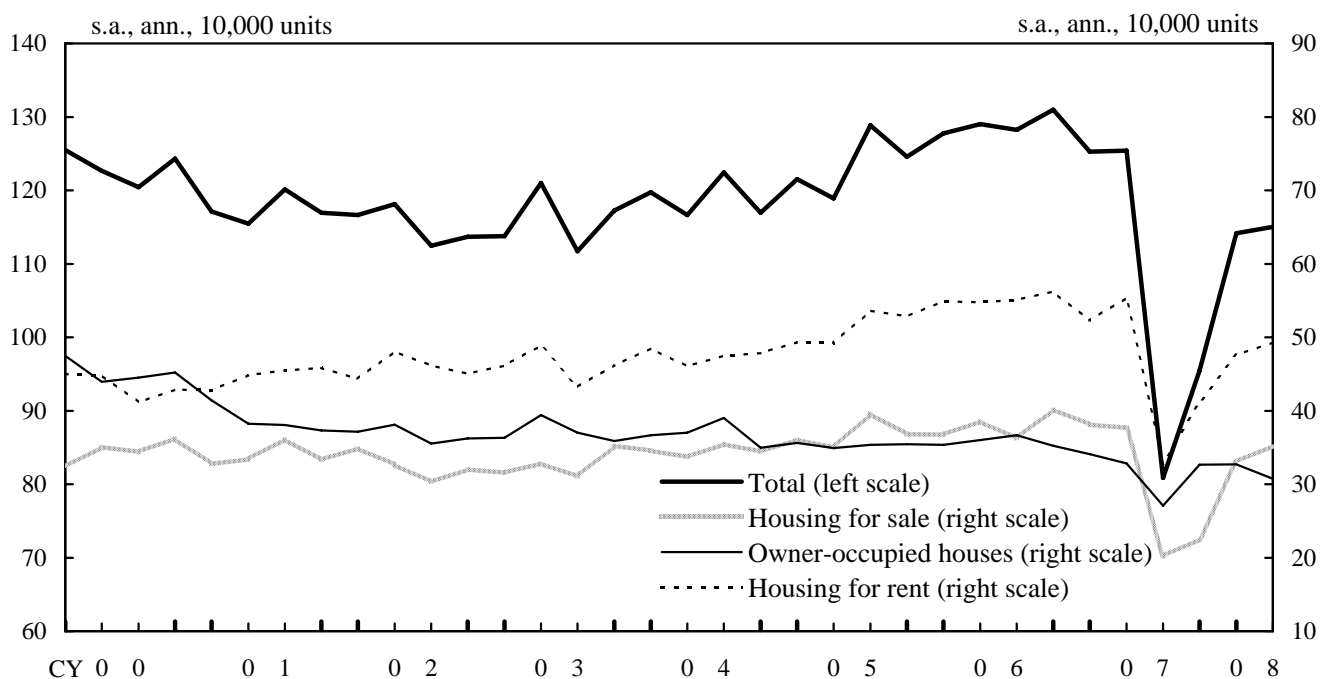


- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures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

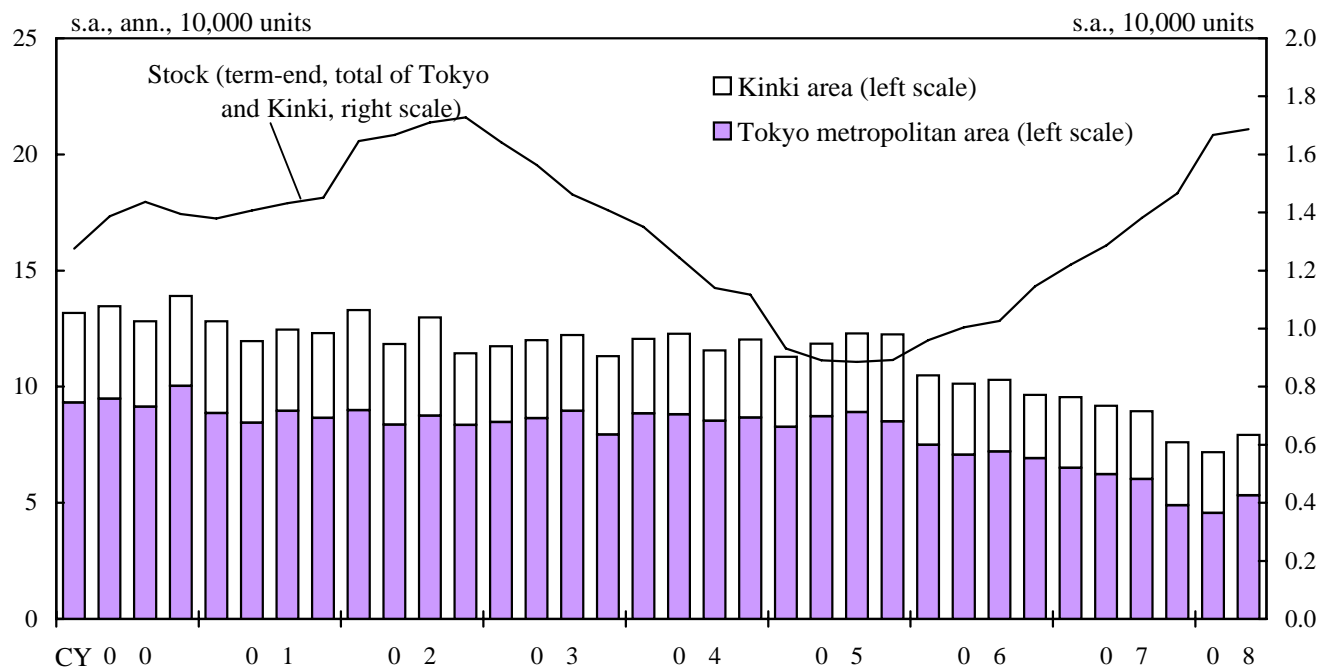
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2008/Q2 are those of April.

(2) Sales of Apartments

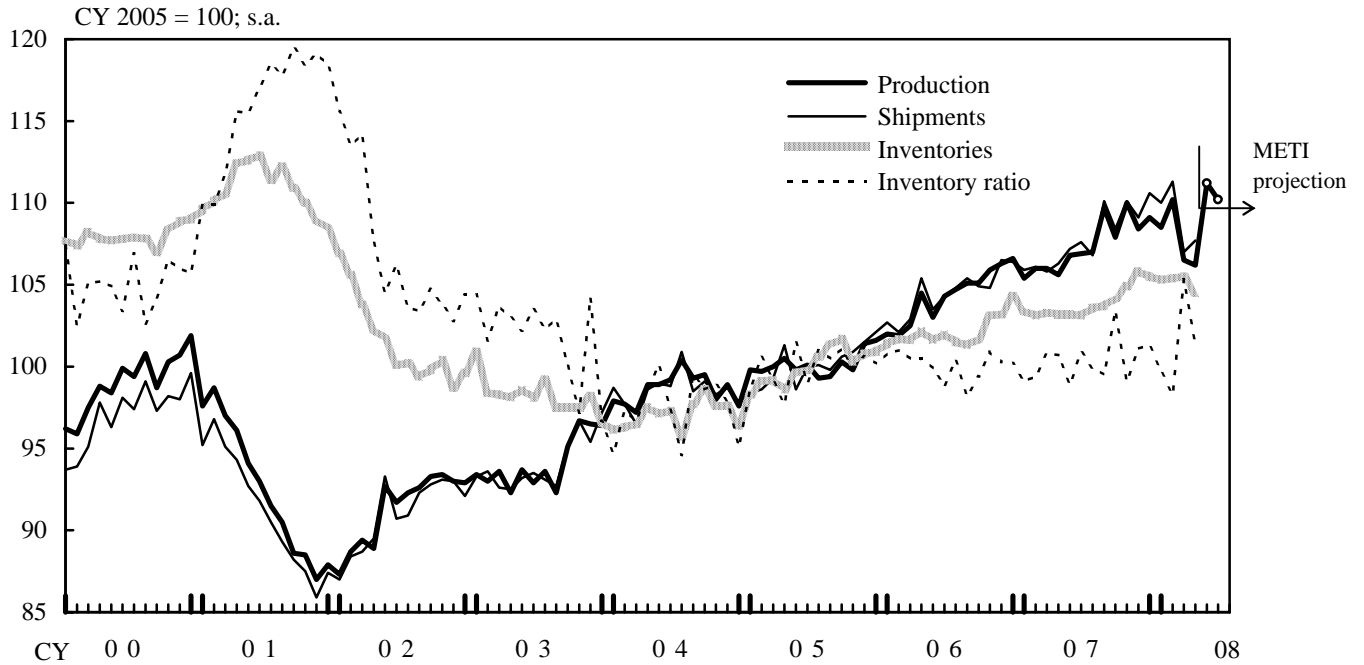


Notes: 1. Seasonally adjusted by X-12-ARIMA.
2. Figures for 2008/Q2 are those of April.

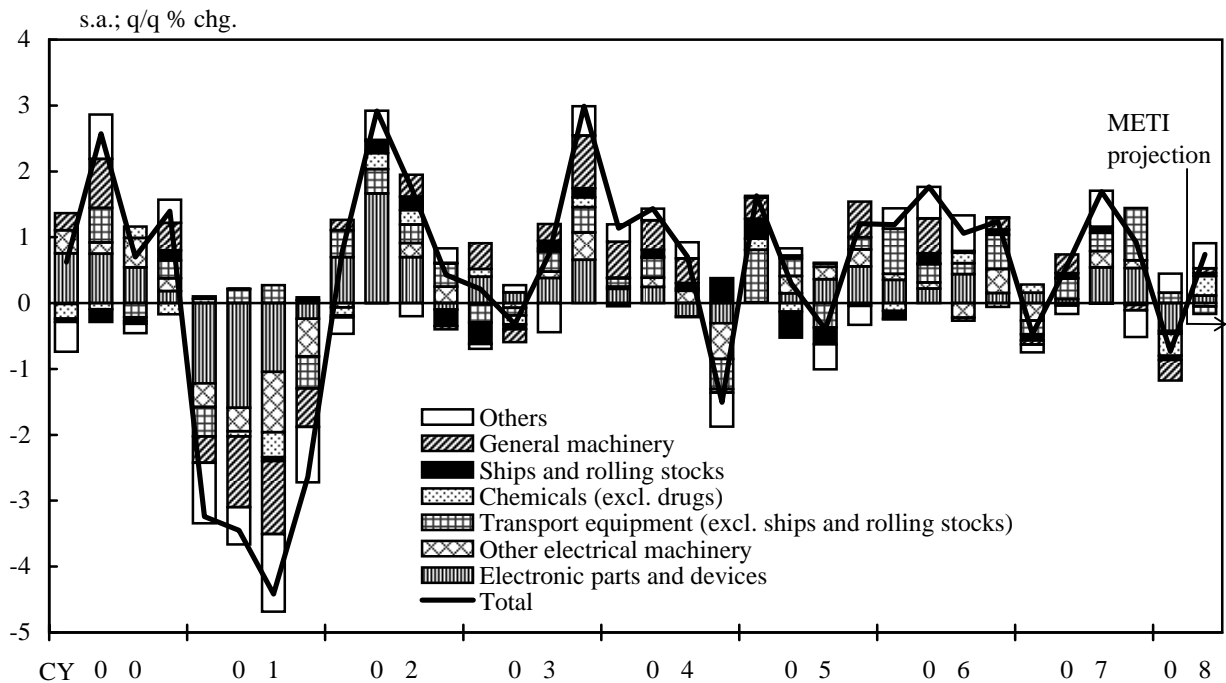
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry



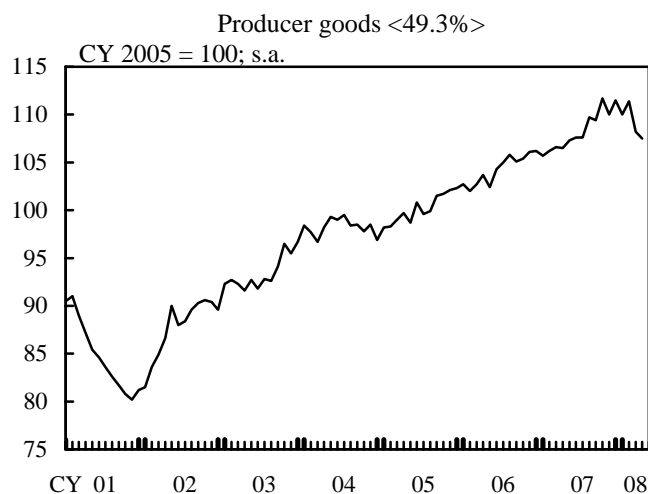
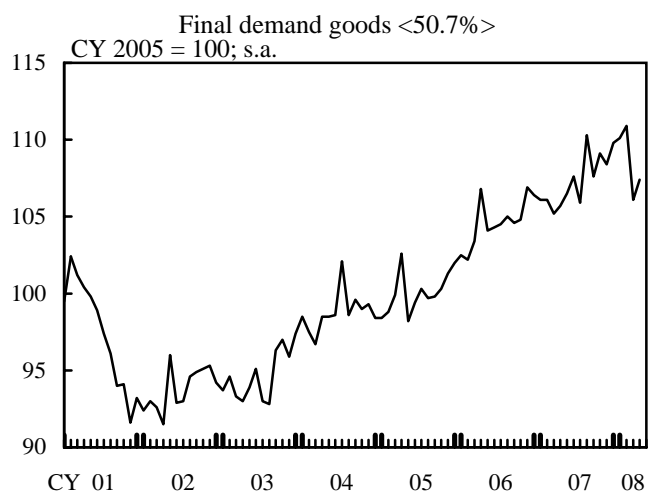
Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."

2. Figures up to 2003/Q1 are on the 2000 base.

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

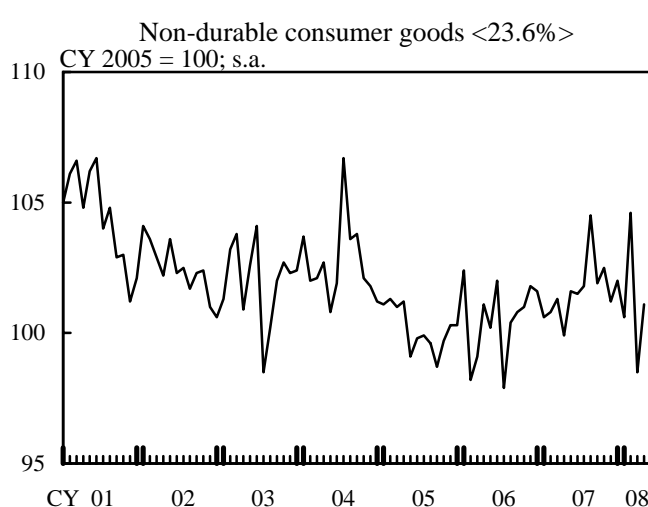
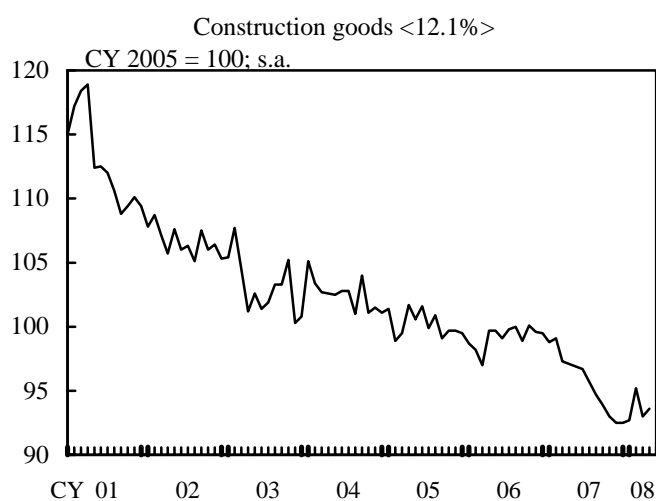
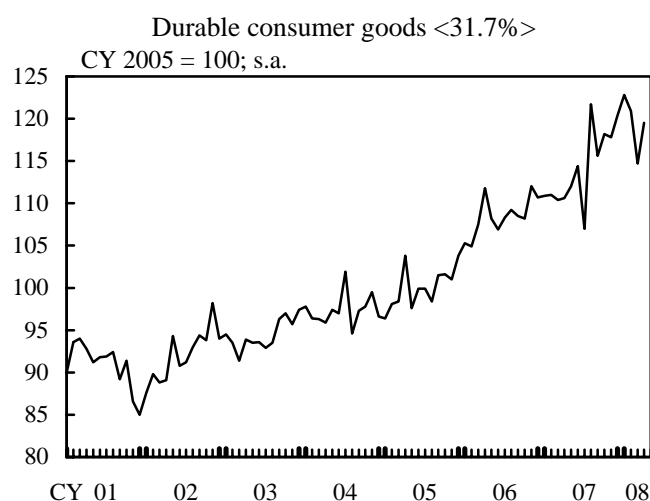
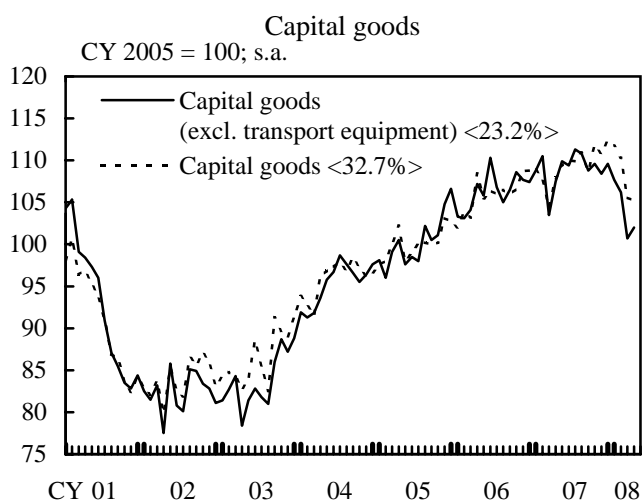
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

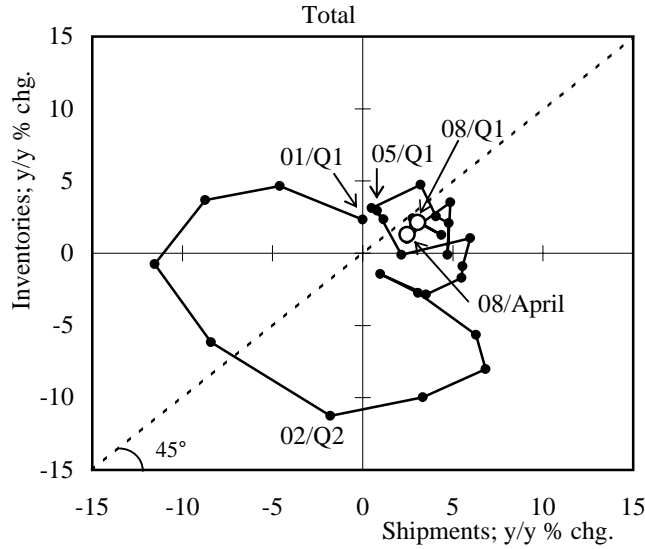
(2) Breakdown of Final Demand Goods



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

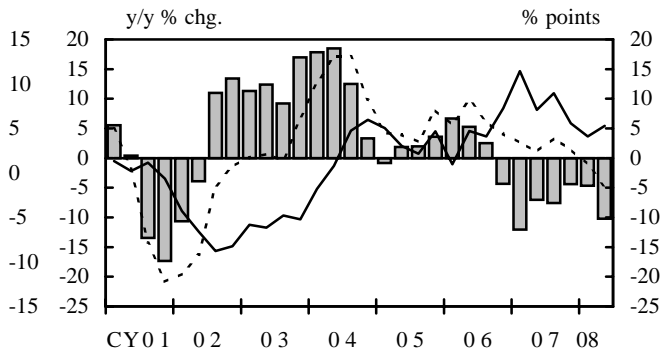
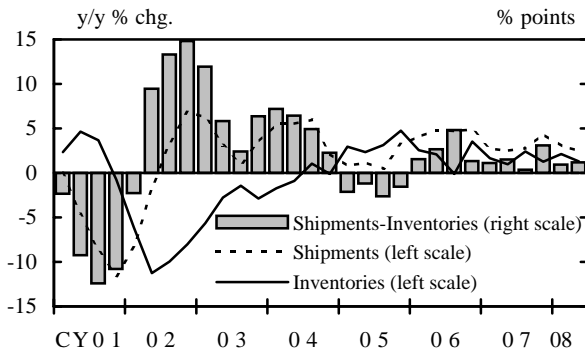
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



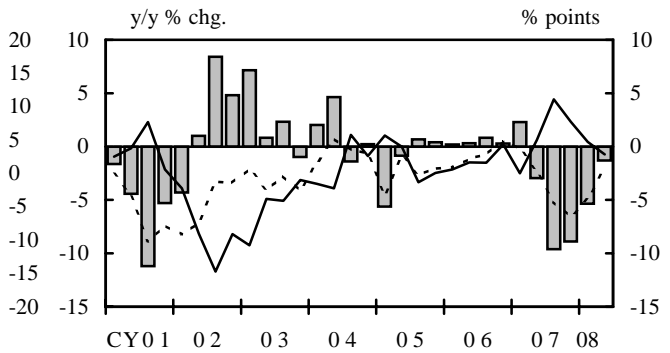
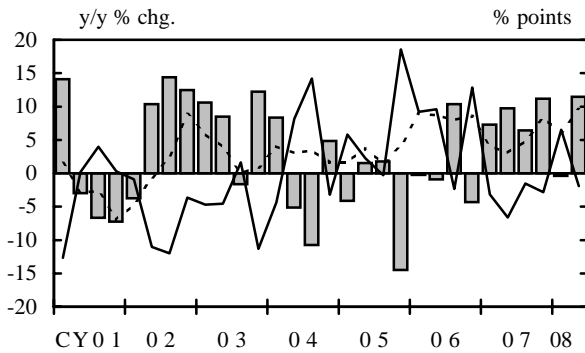
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



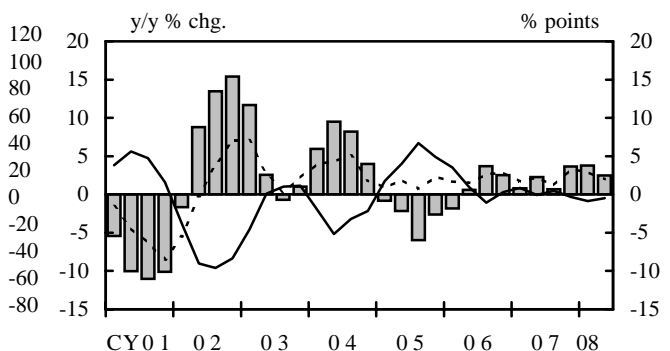
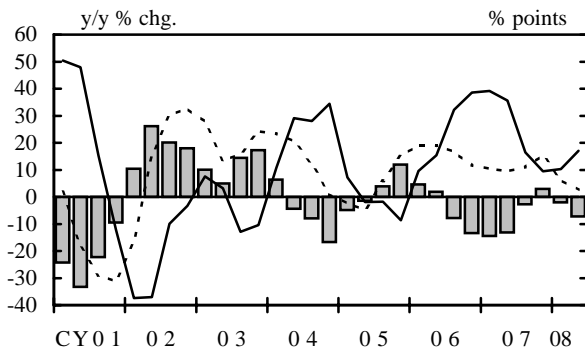
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

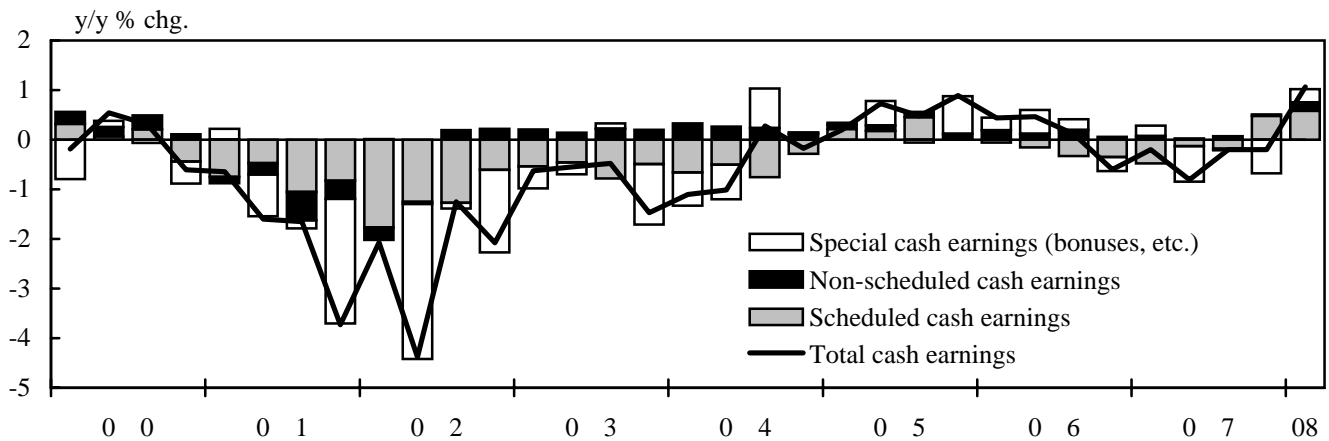
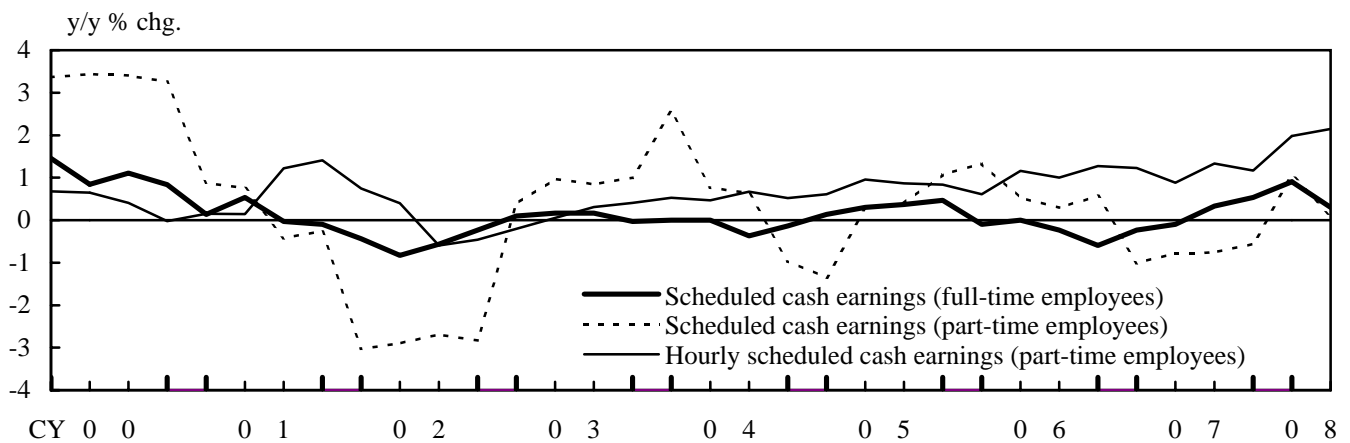
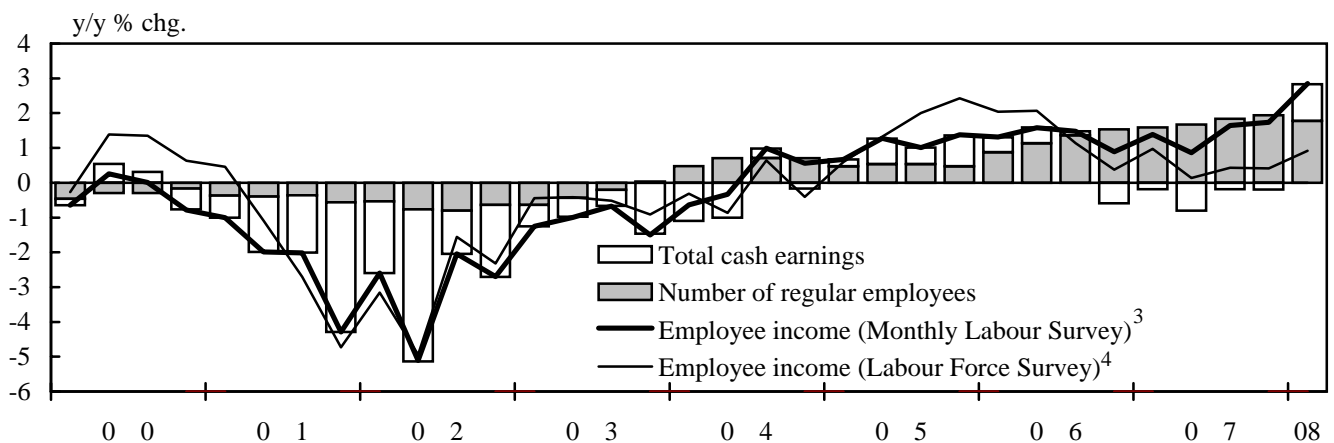
(6) Producer Goods Excluding Electronic Parts and Devices



Note: Figures for 2008/Q2 are those of April.

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

Employee Income

(1) Breakdown of Total Cash Earnings^{1,2,6}(2) Scheduled Cash Earnings^{1,5}(3) Breakdown of Employee Income^{1,2,6}

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/Q2 are those of April.

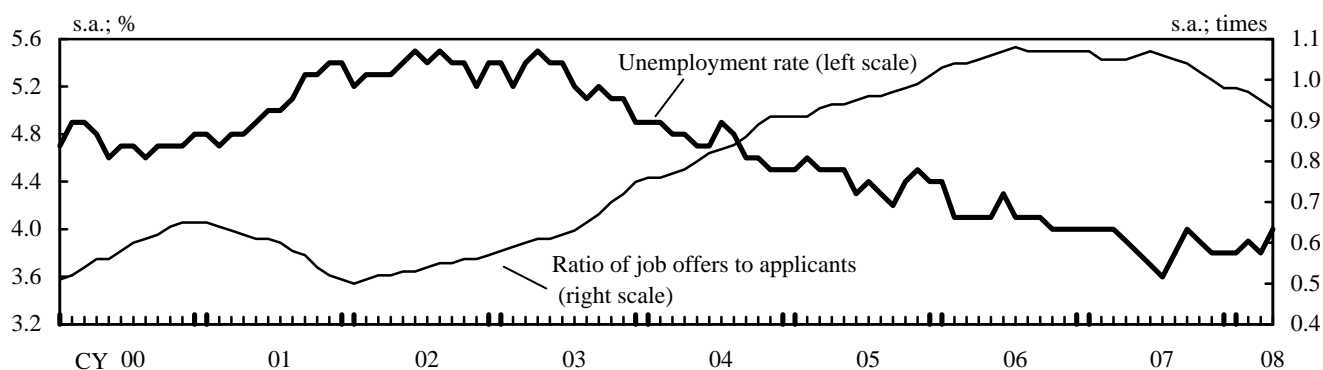
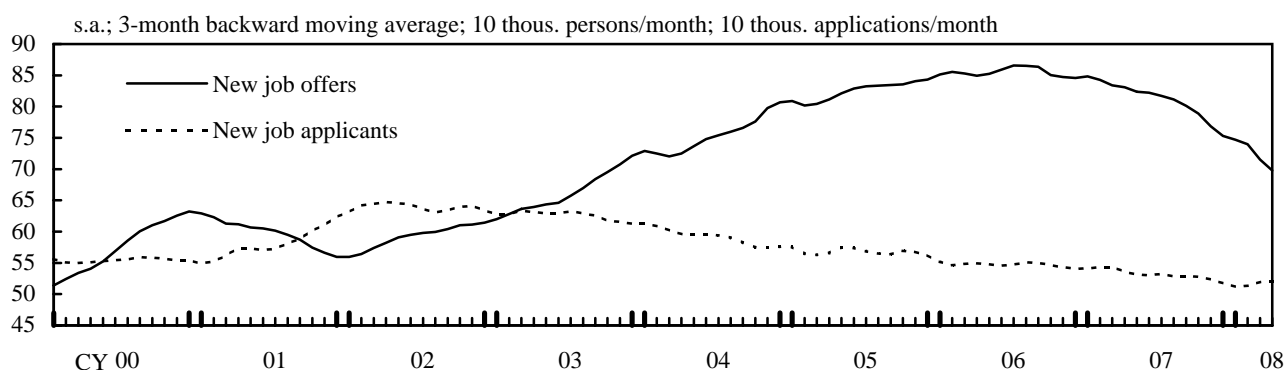
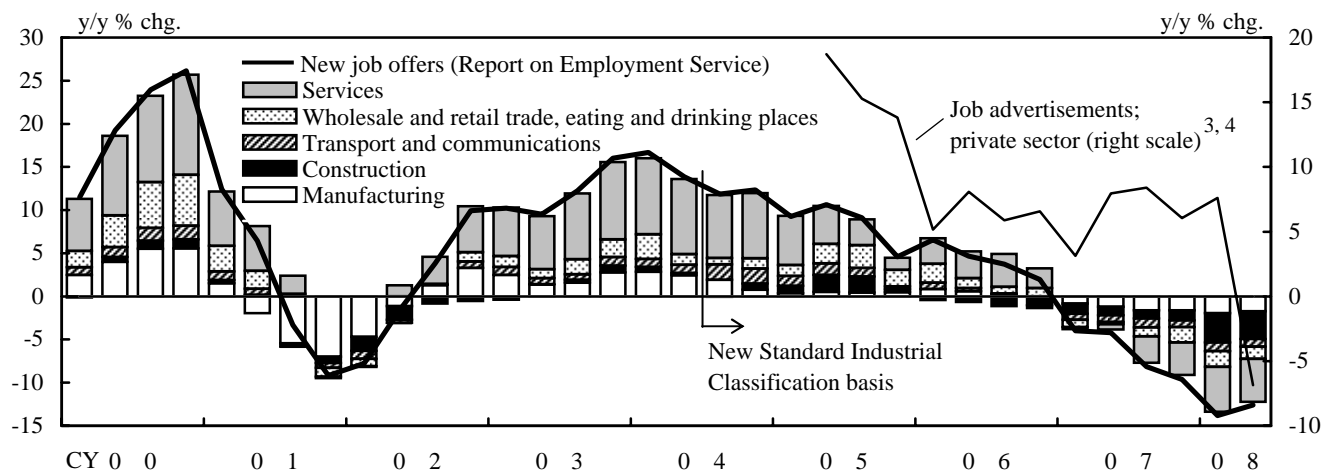
6. Figures for 2008/Q1 are those of March-April averages.

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, 2007/Q2-2008/Q1 and 2008/Q2 are calculated on the basis of 45, 64, 66 and 67 companies, respectively.

5. Figures for 2008/Q2 are those of April.

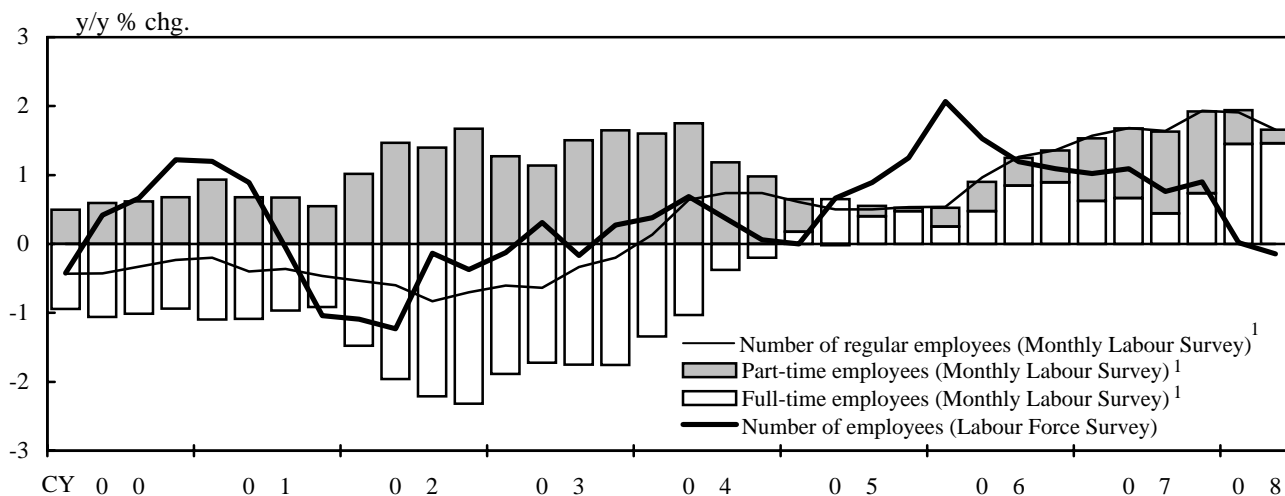
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

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

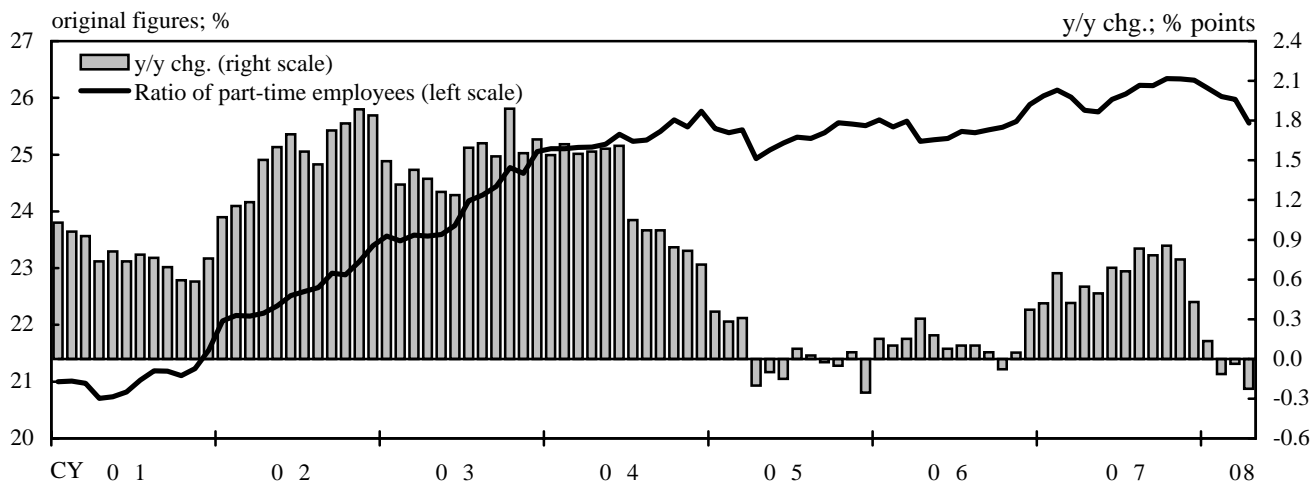
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

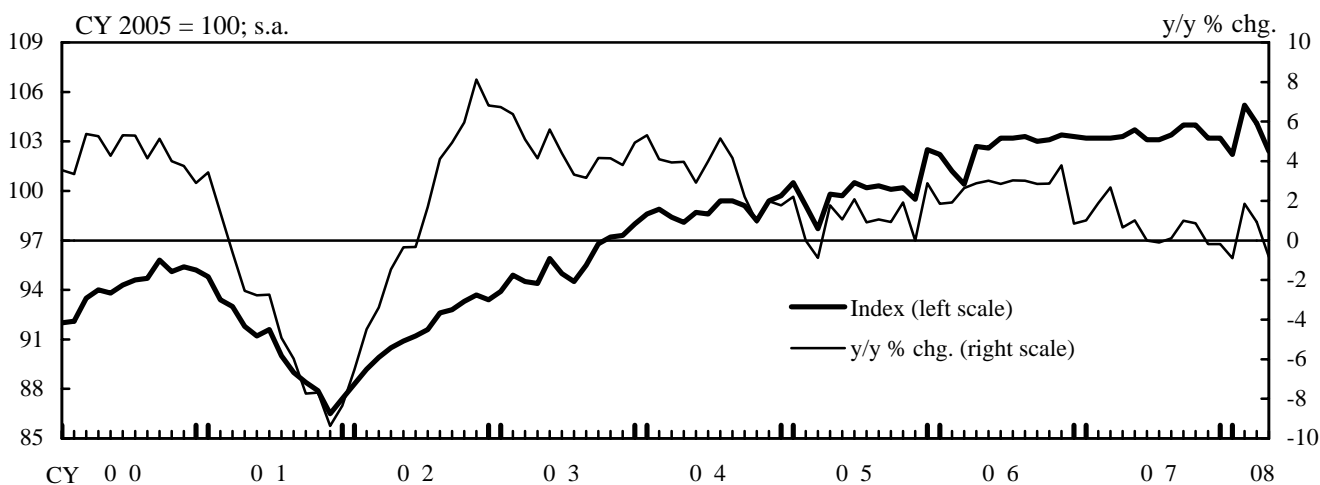
(1) Number of Employees³



(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.

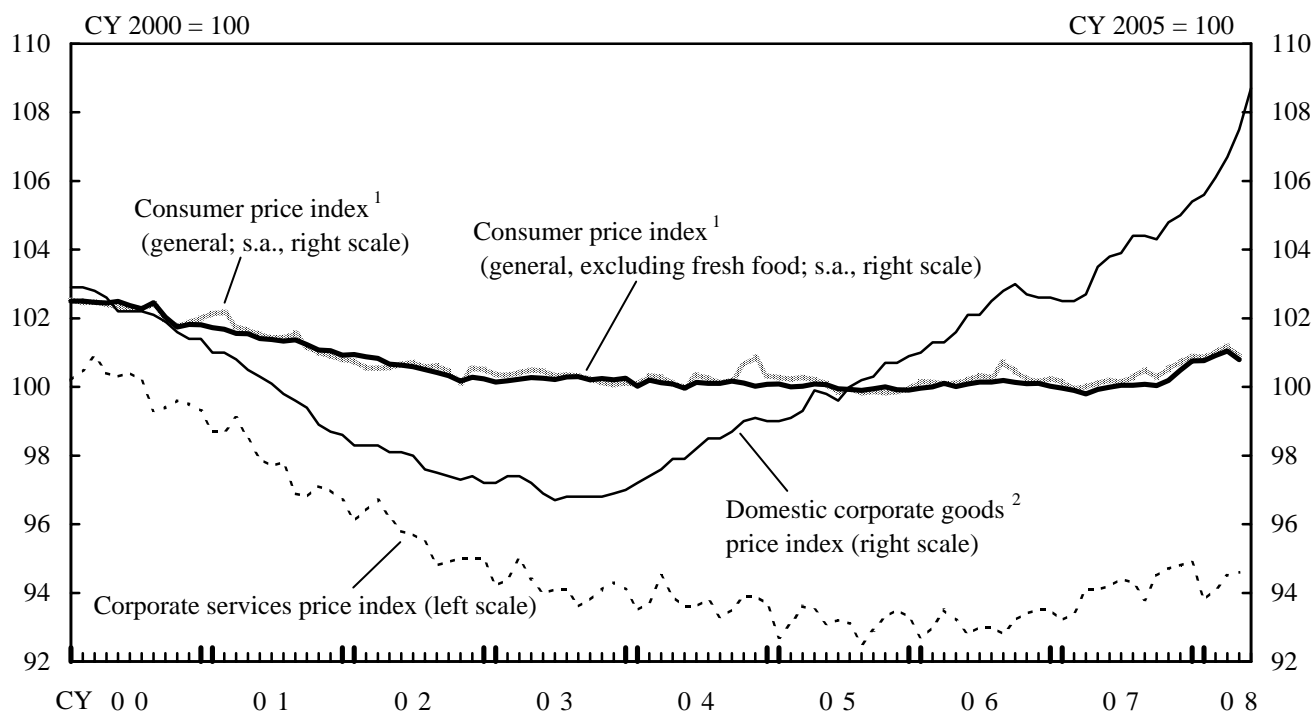
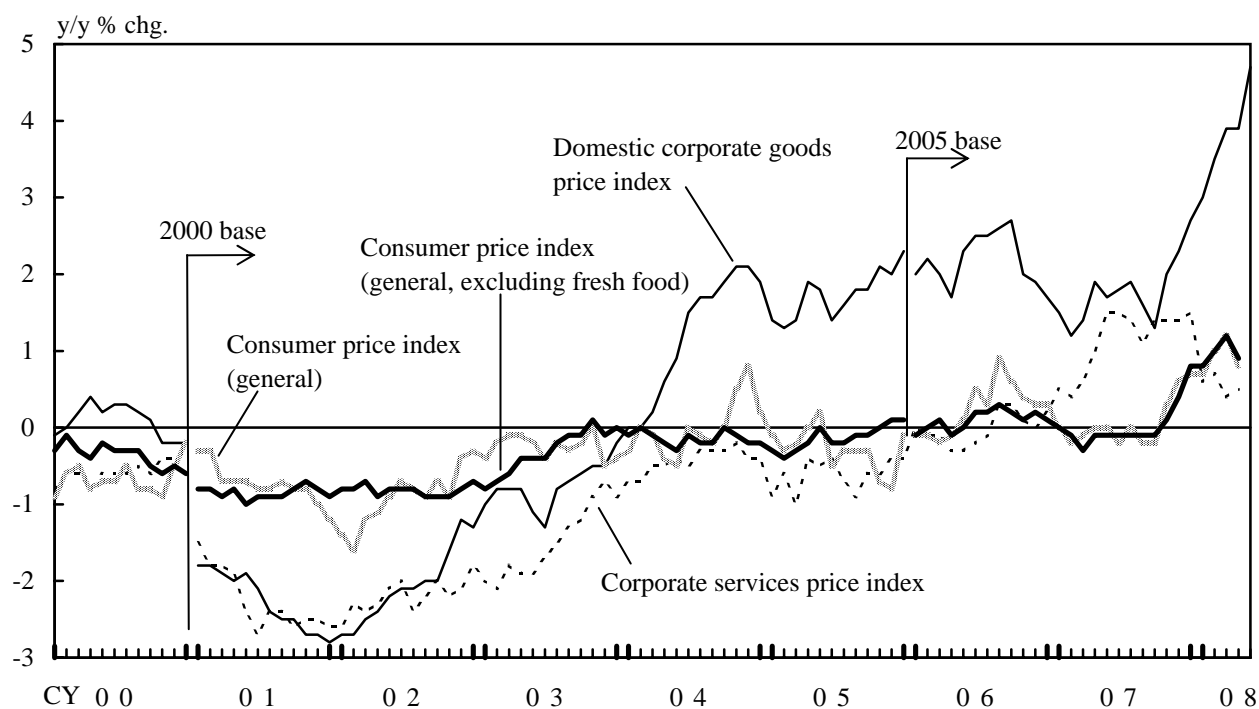
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2008/Q2 are those of April.

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

Prices³

(1) Level

(2) Changes from a Year Earlier³

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

2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

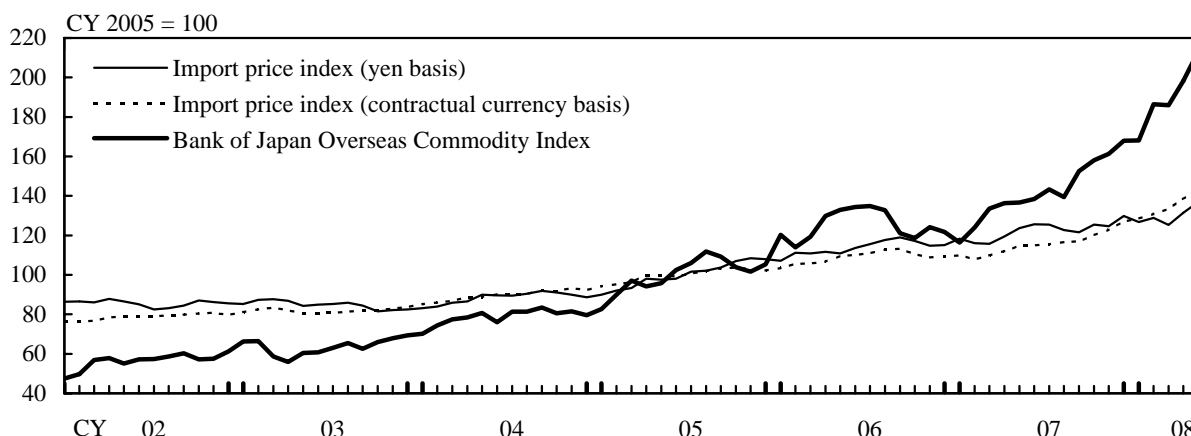
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

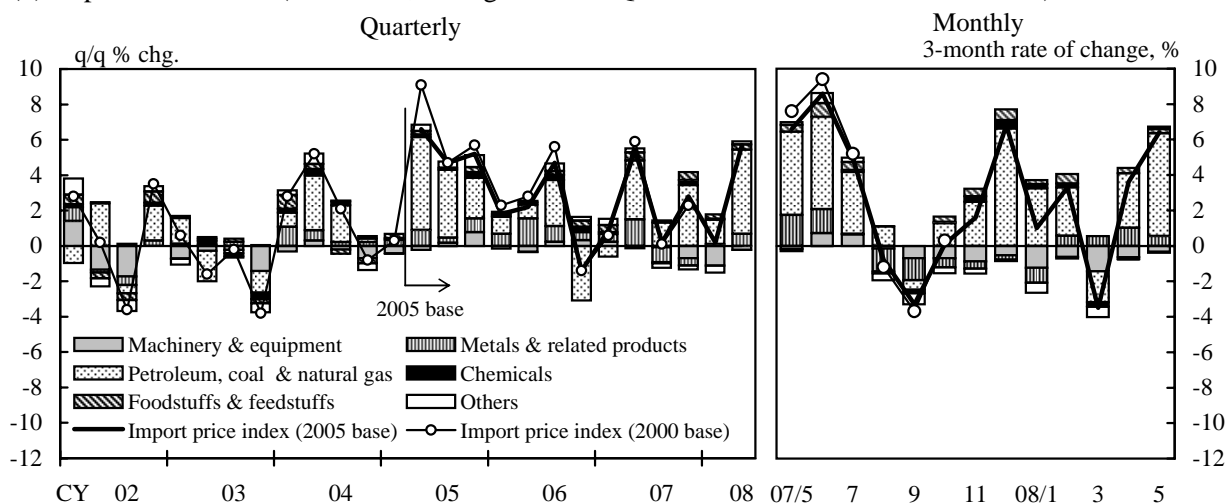
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



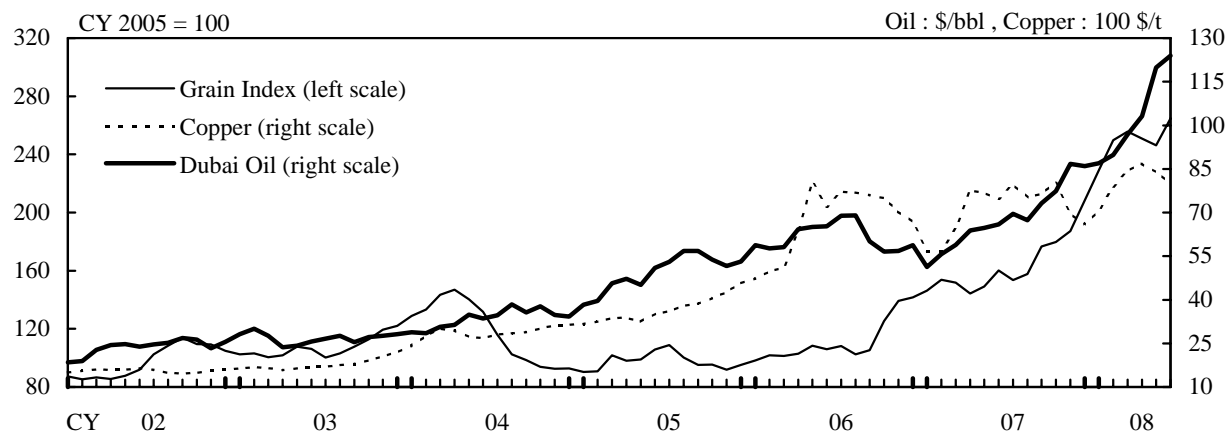
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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/Q2 are April-May averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

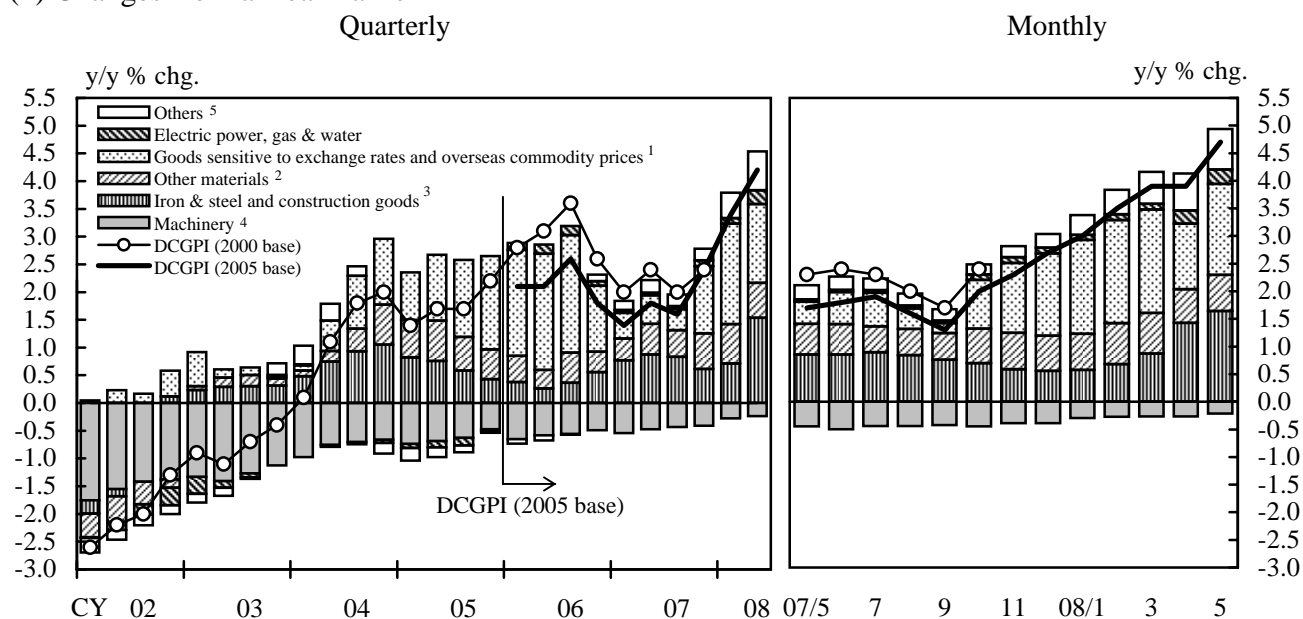
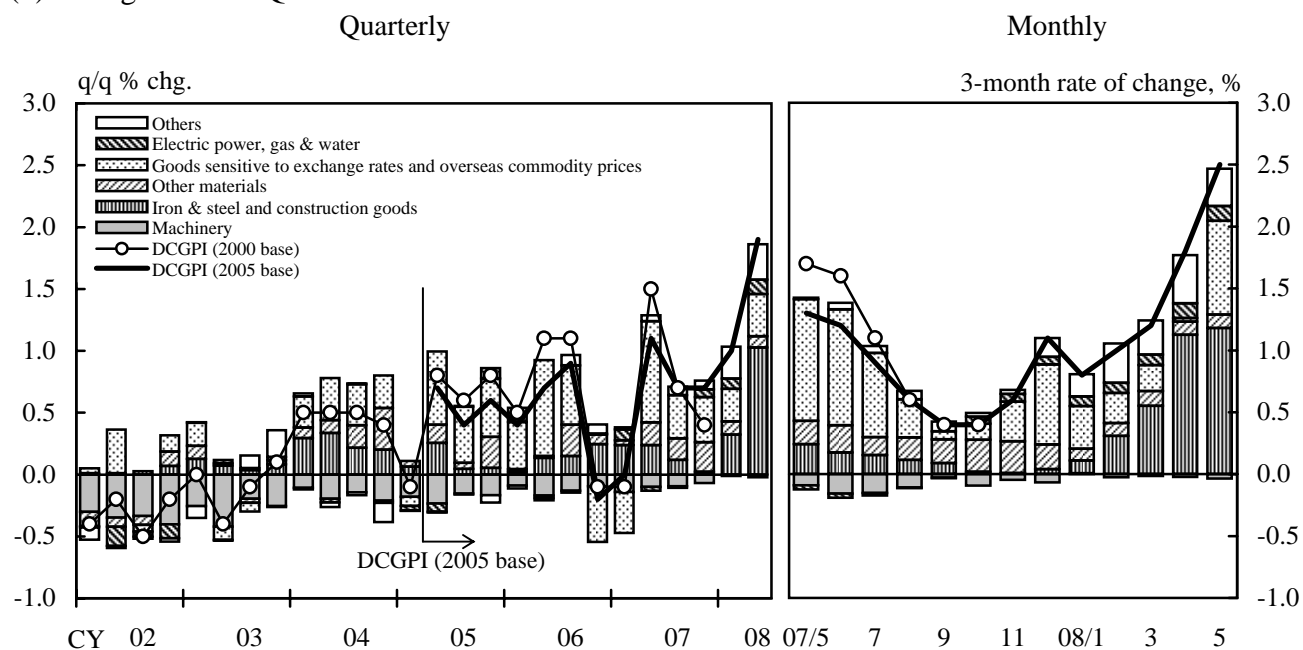


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for June 2008 are the averages up to June 12.

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.

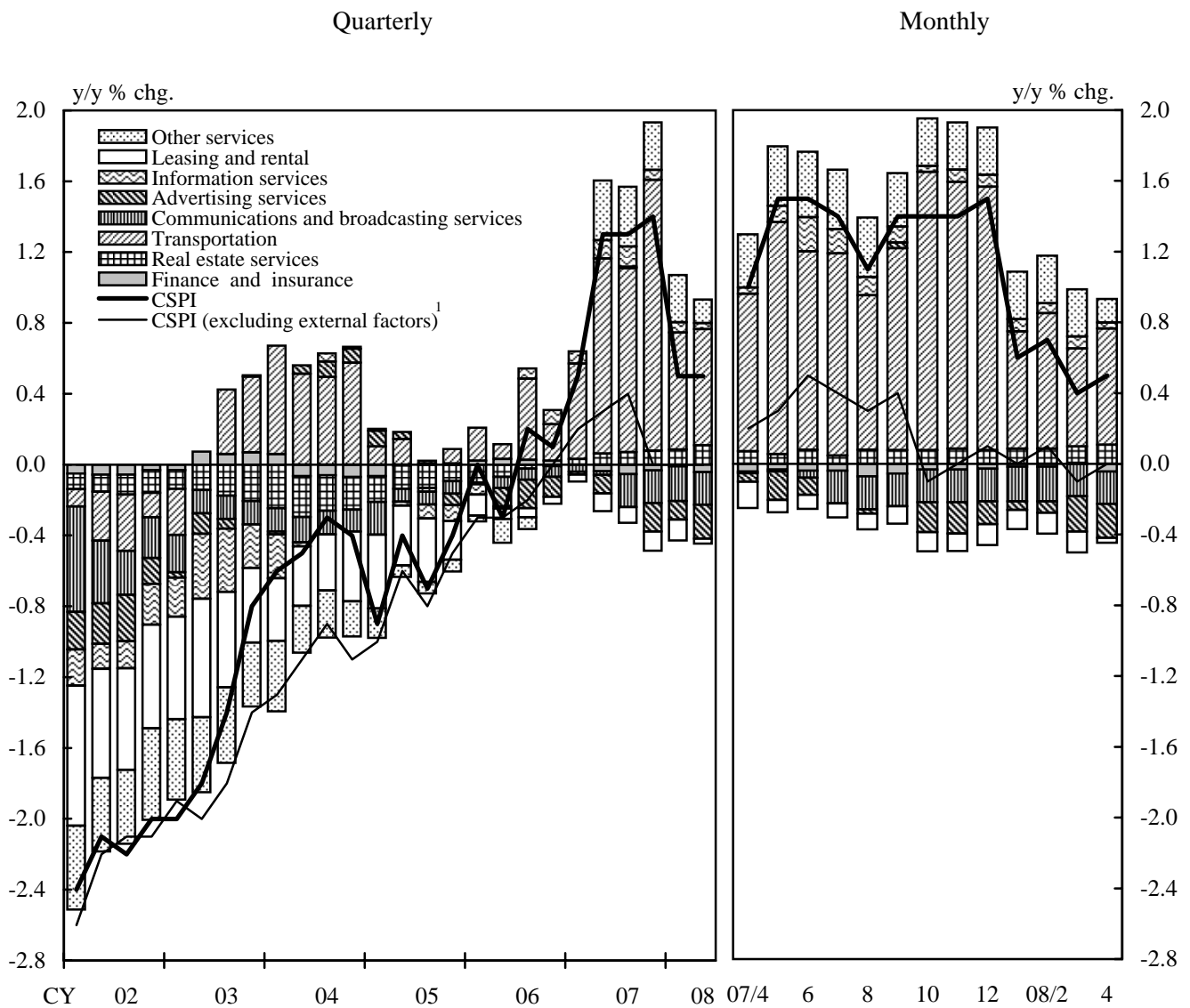
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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/Q2 are April-May averages. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index



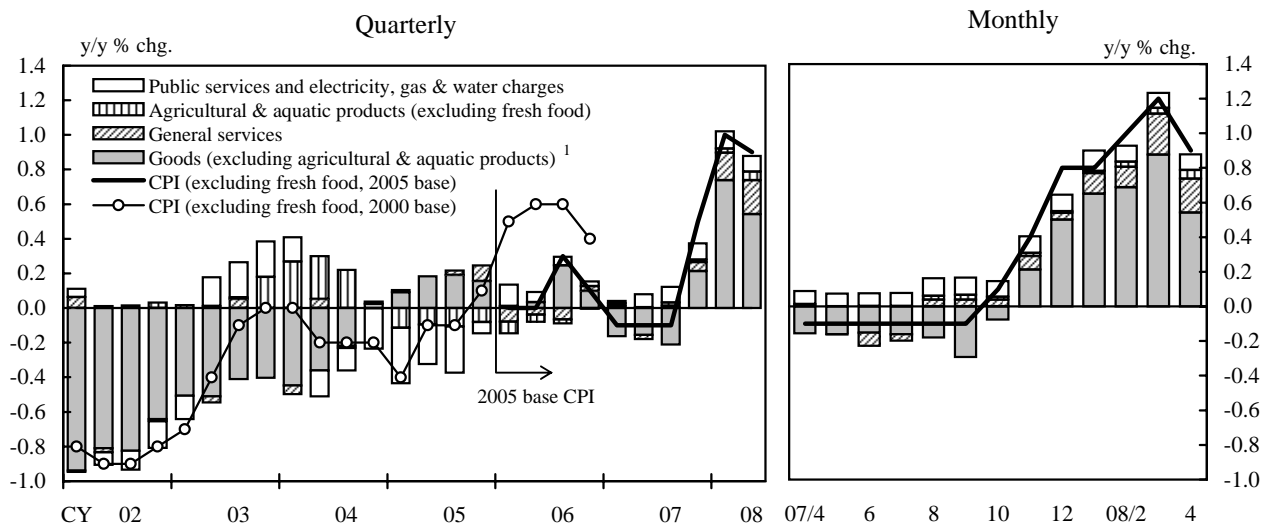
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2008/Q2 are those of April.

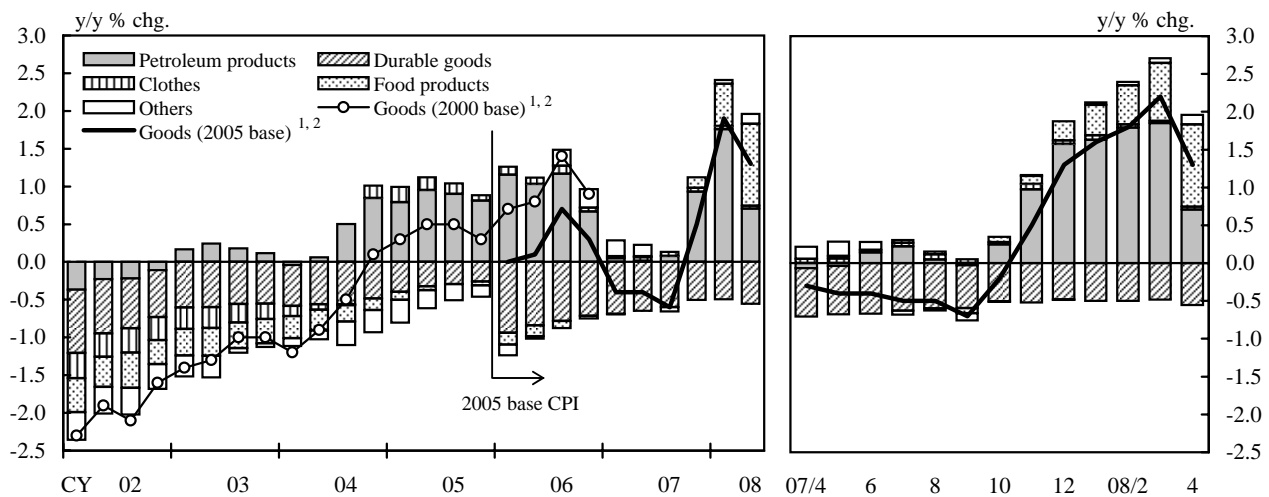
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

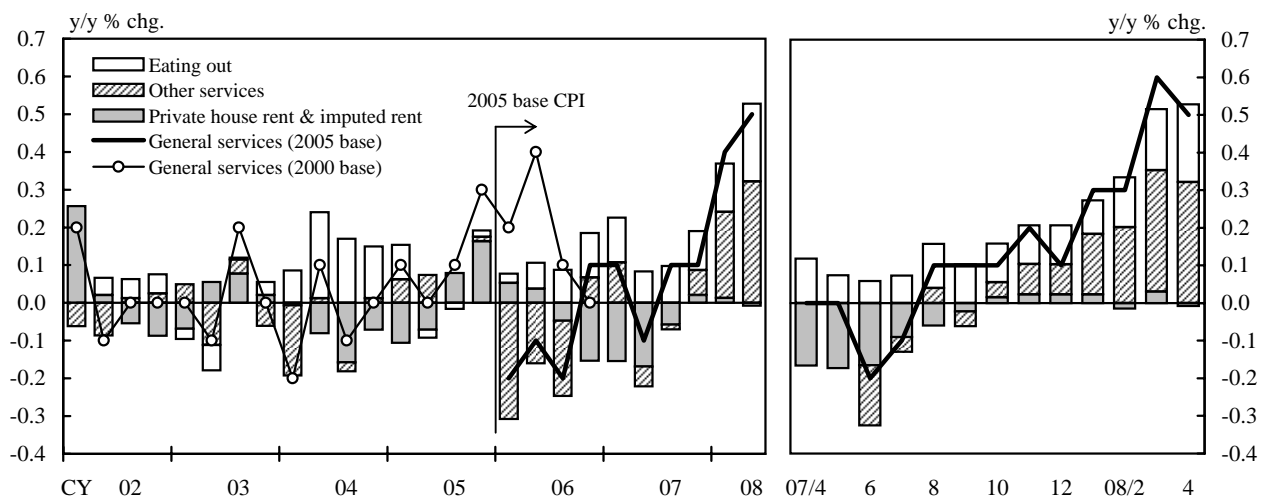
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

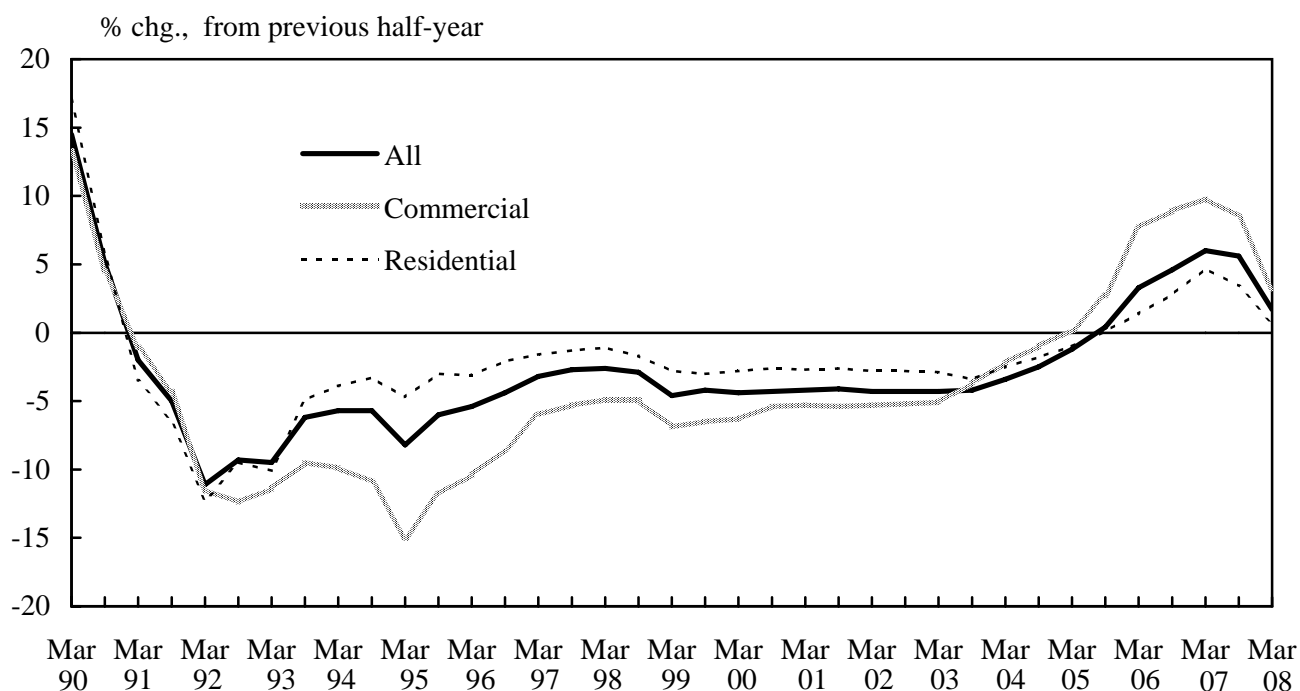


Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Excluding agricultural & aquatic products.
 3. Figures for 2008/Q2 are those of April.

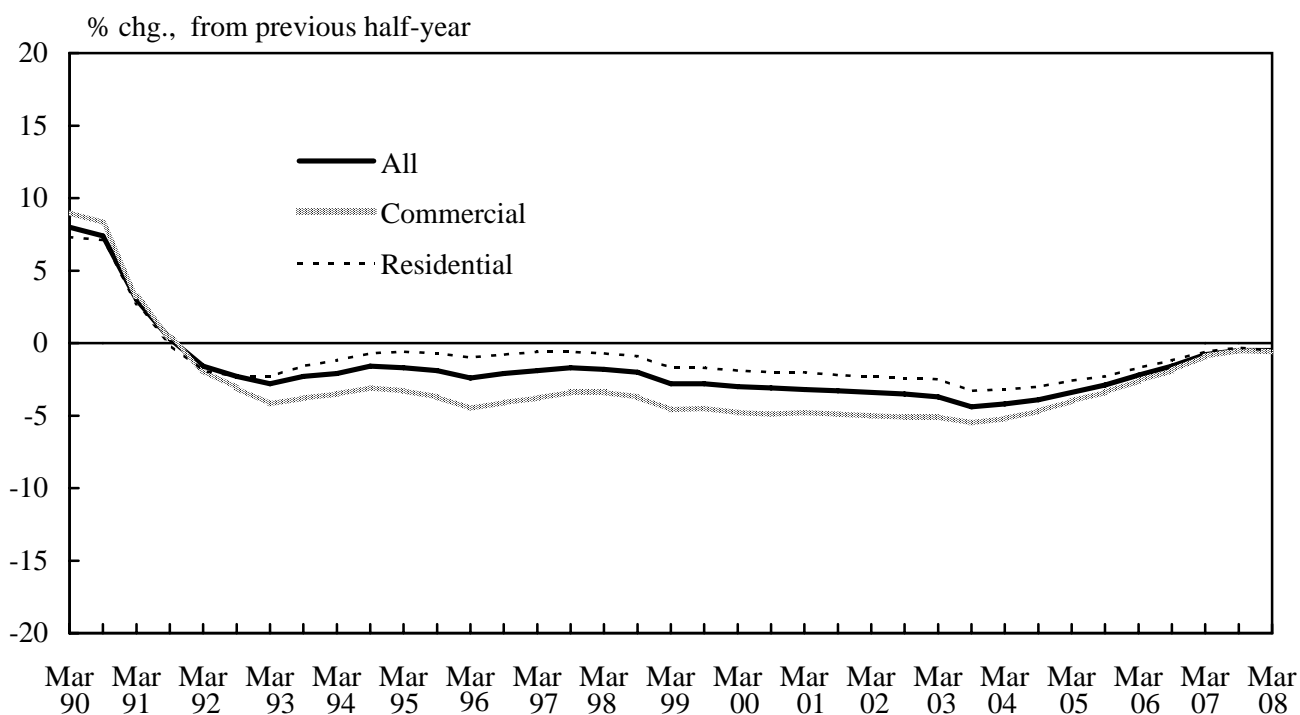
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

 Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas



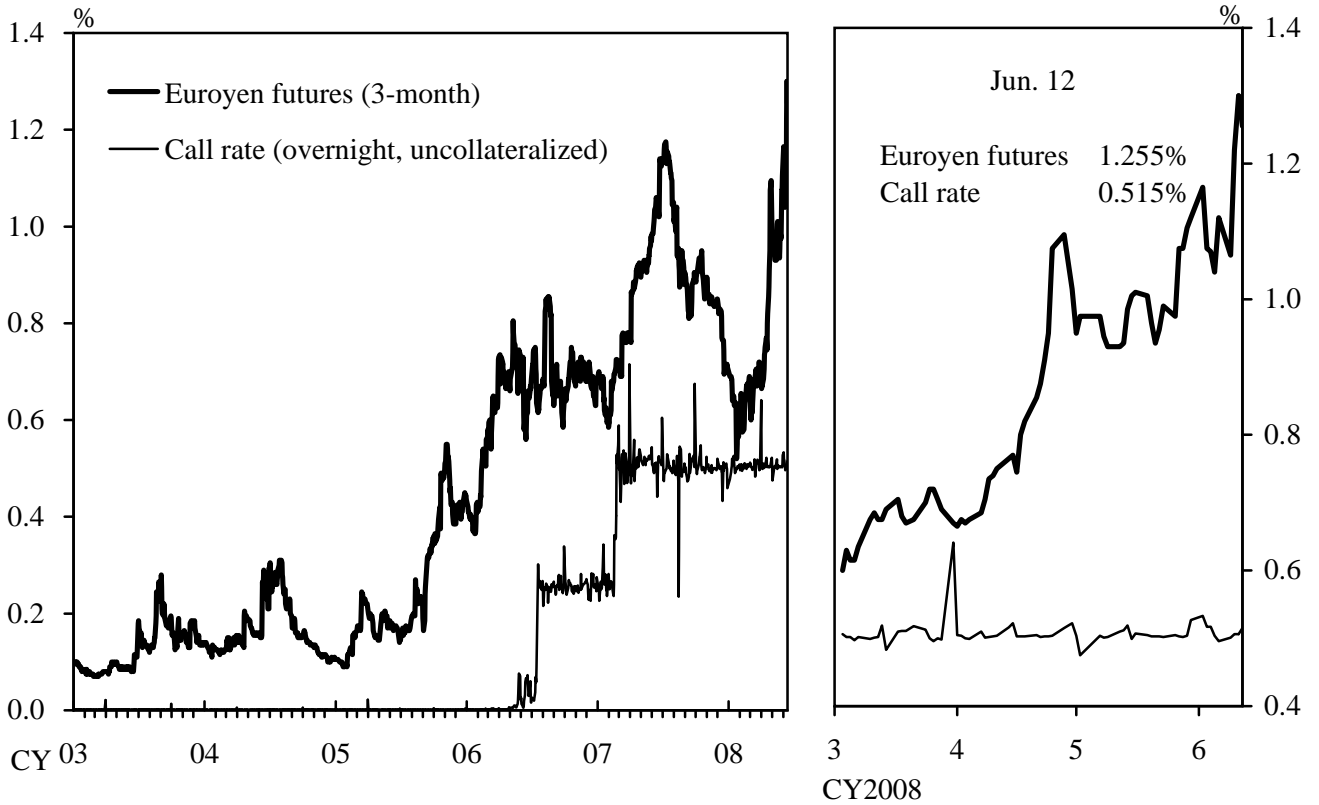
Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.

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

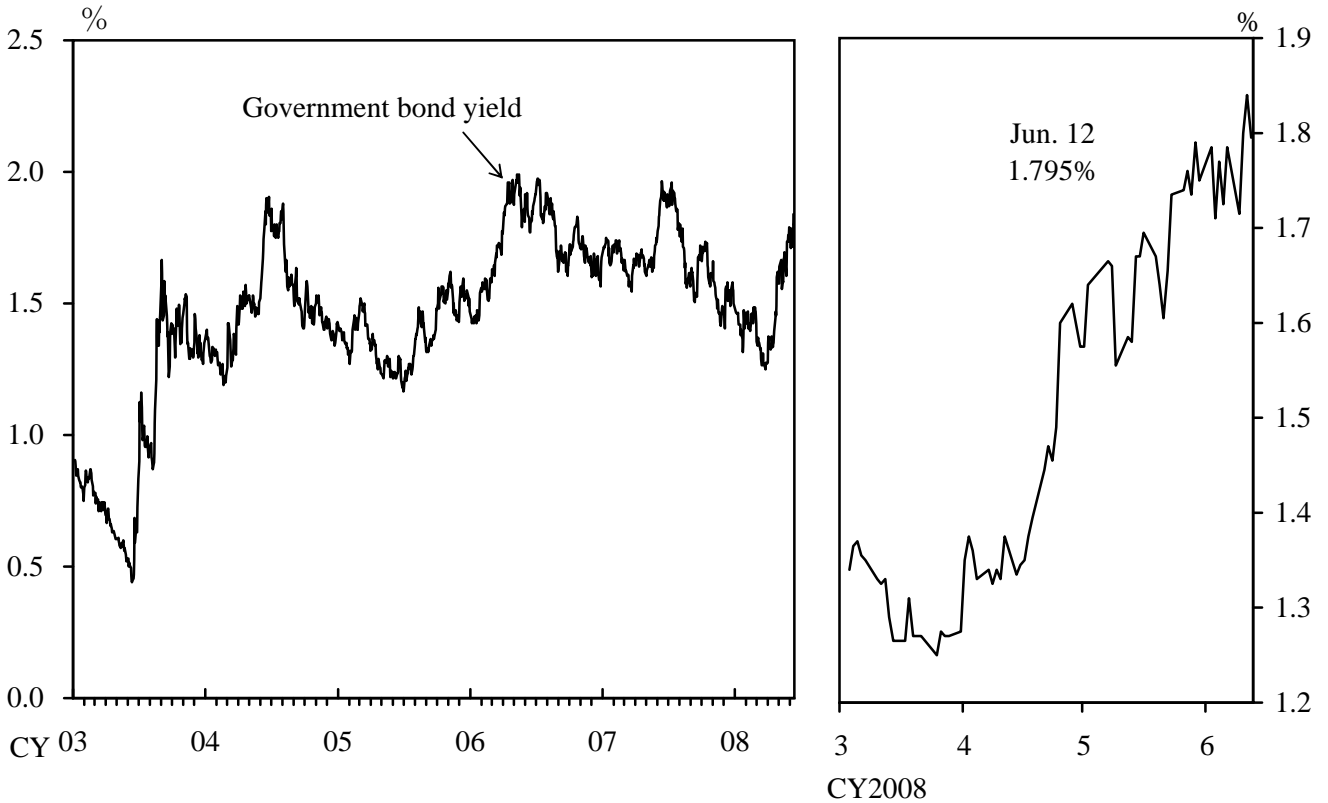
Source: Japan Real Estate Institute, "Urban Land Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term¹

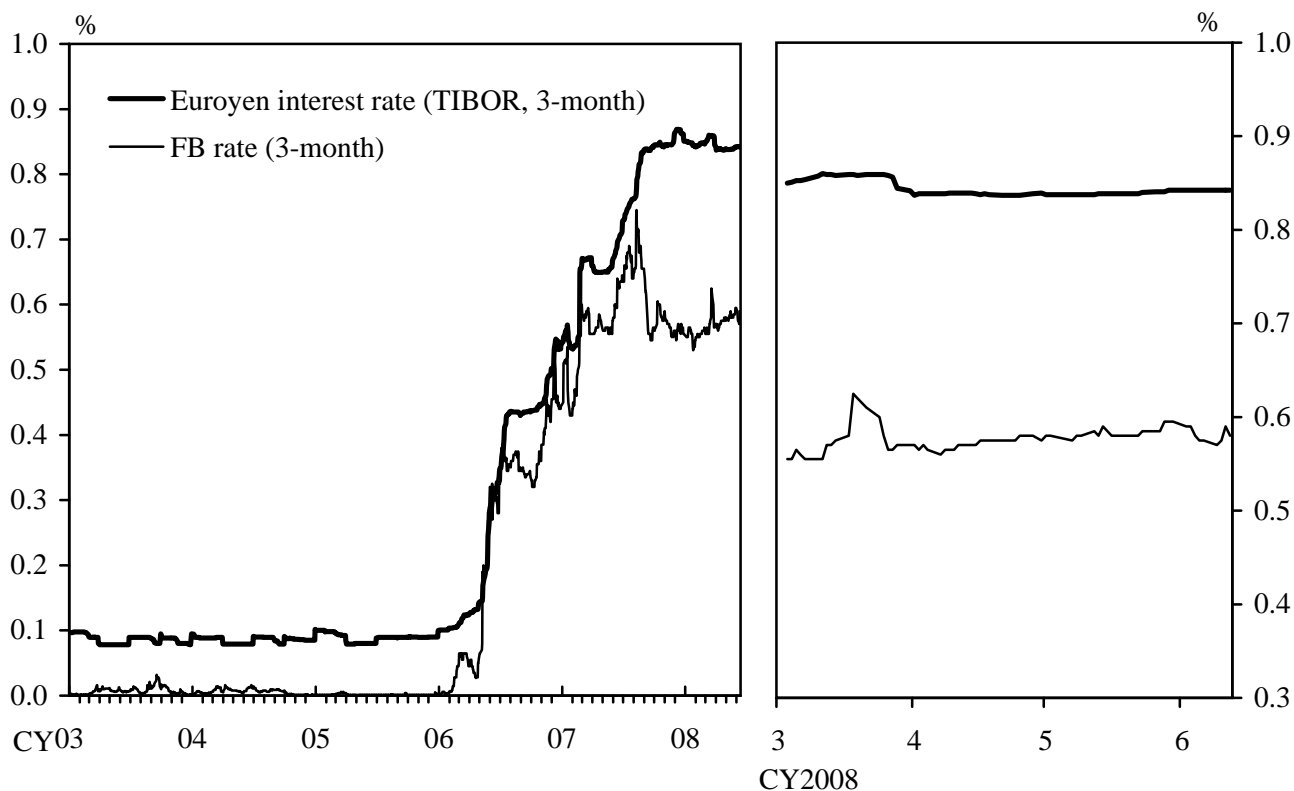


Note: 1. Yields on newly issued bonds with 10-year maturity.

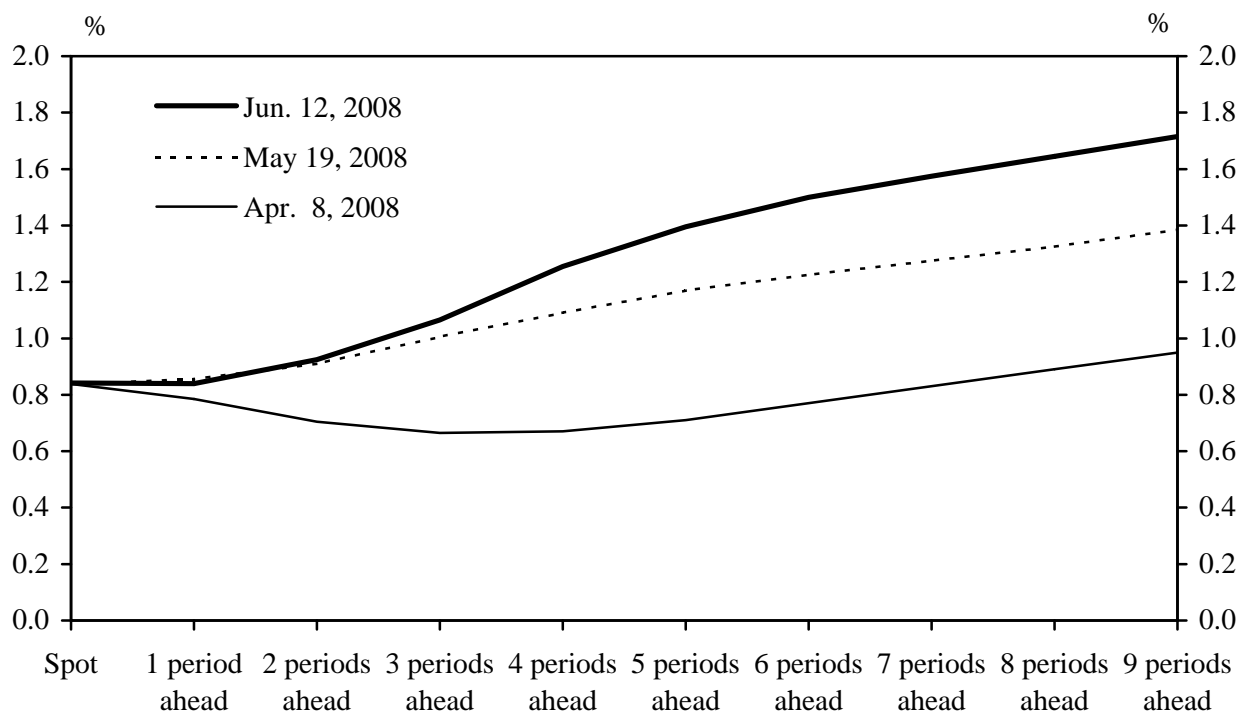
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



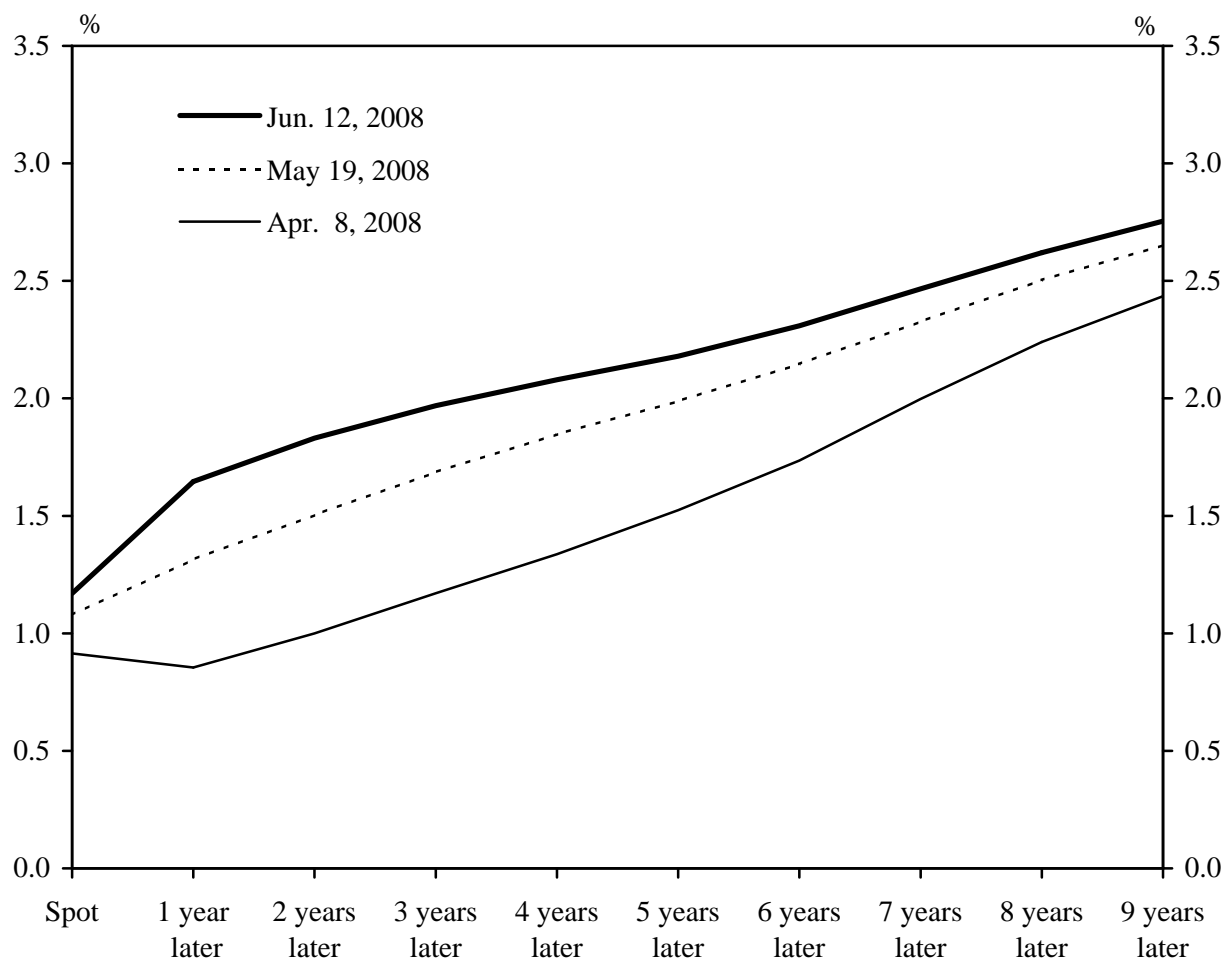
(2) Euroyen Interest Rates Futures (3-Month)¹



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.

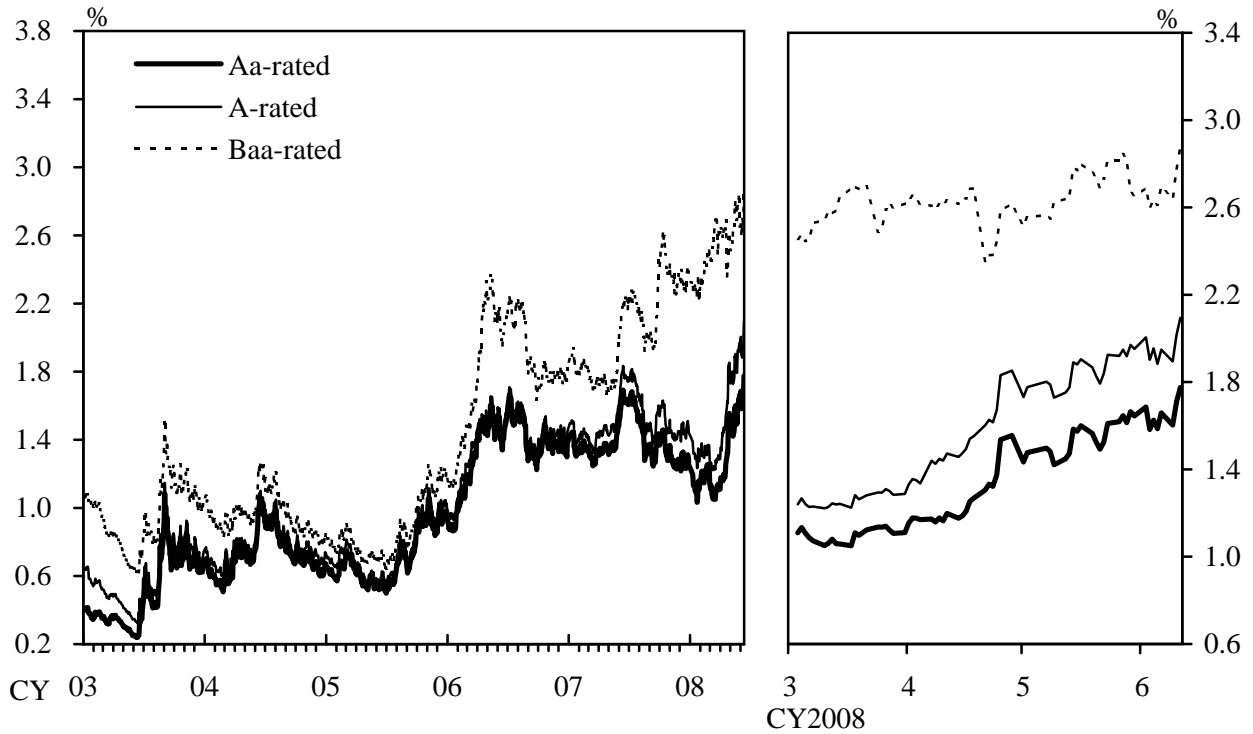
Implied Forward Rates (1-Year)



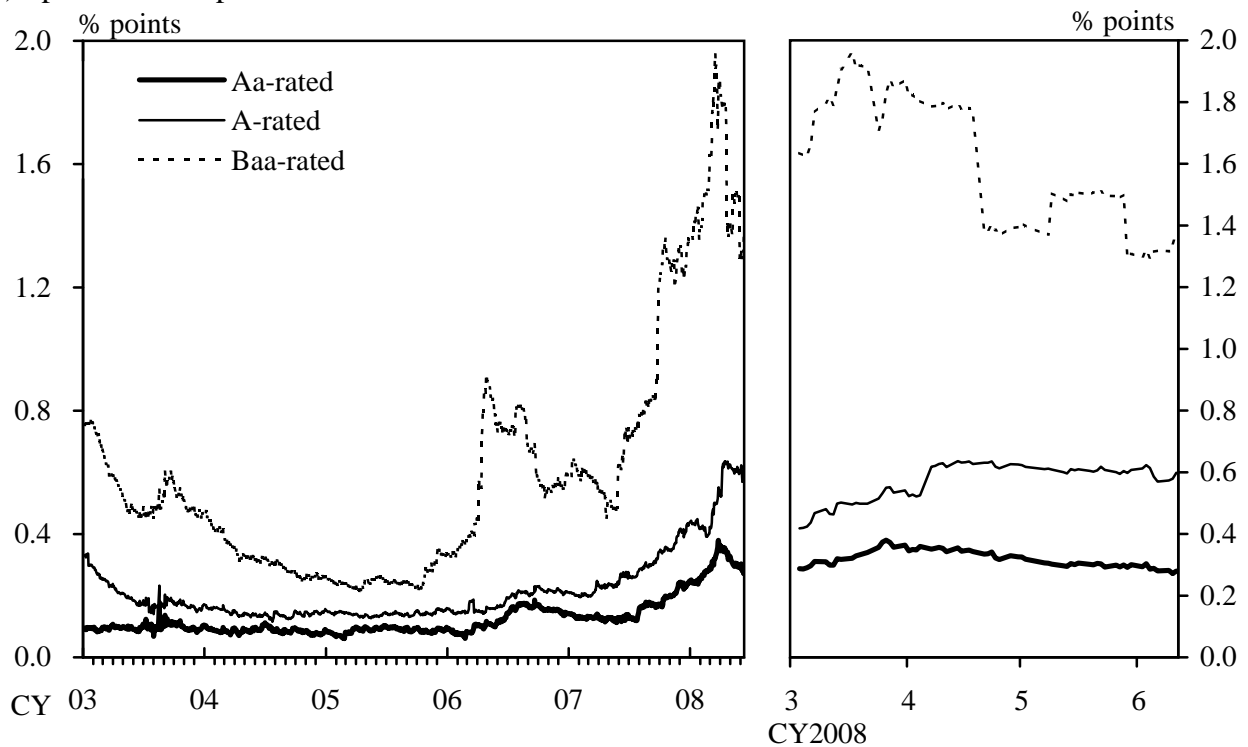
Note: Calculated from yen-yen swap rates.
 Source: Reuters.

Yields of Corporate Bonds

(1) Corporate Bond Yields^{1,2}



(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



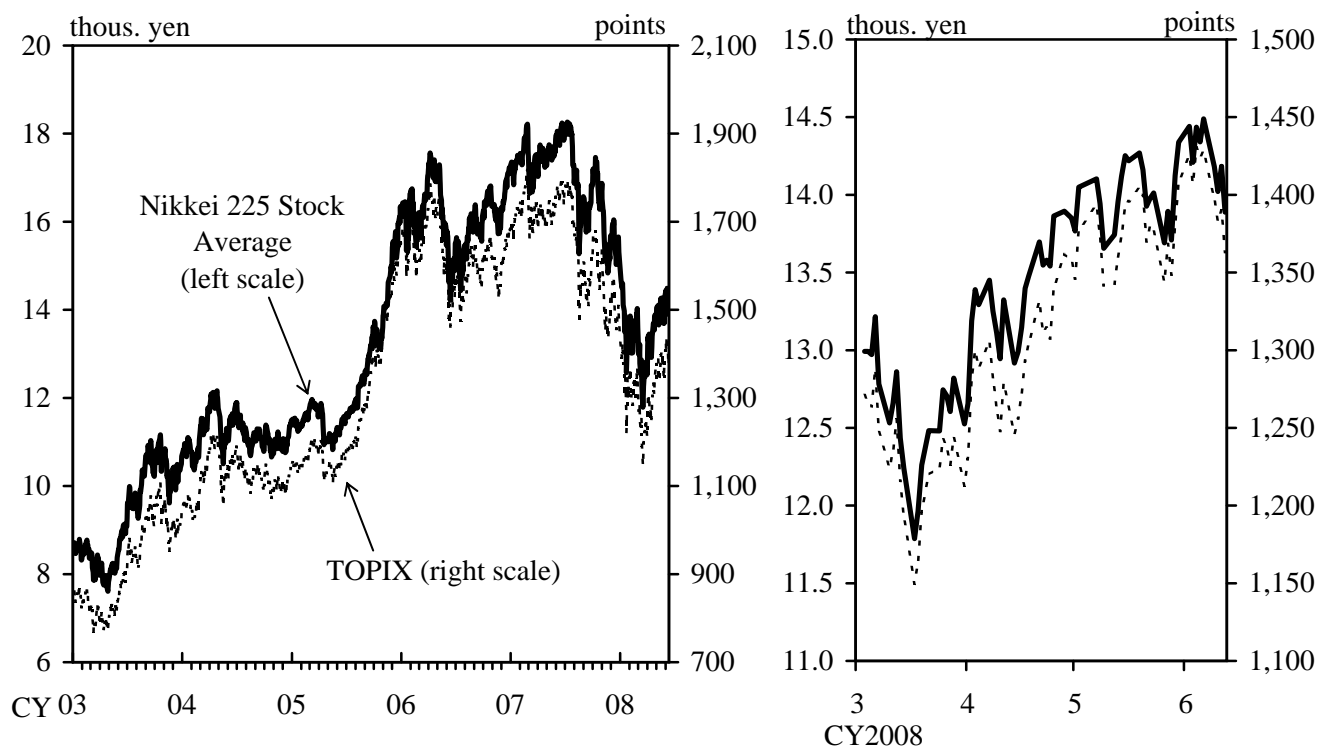
Notes: 1. Yields on bonds with 5-year maturity.
 Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of four to six years.

2. The indicated ratings are of Moody's.

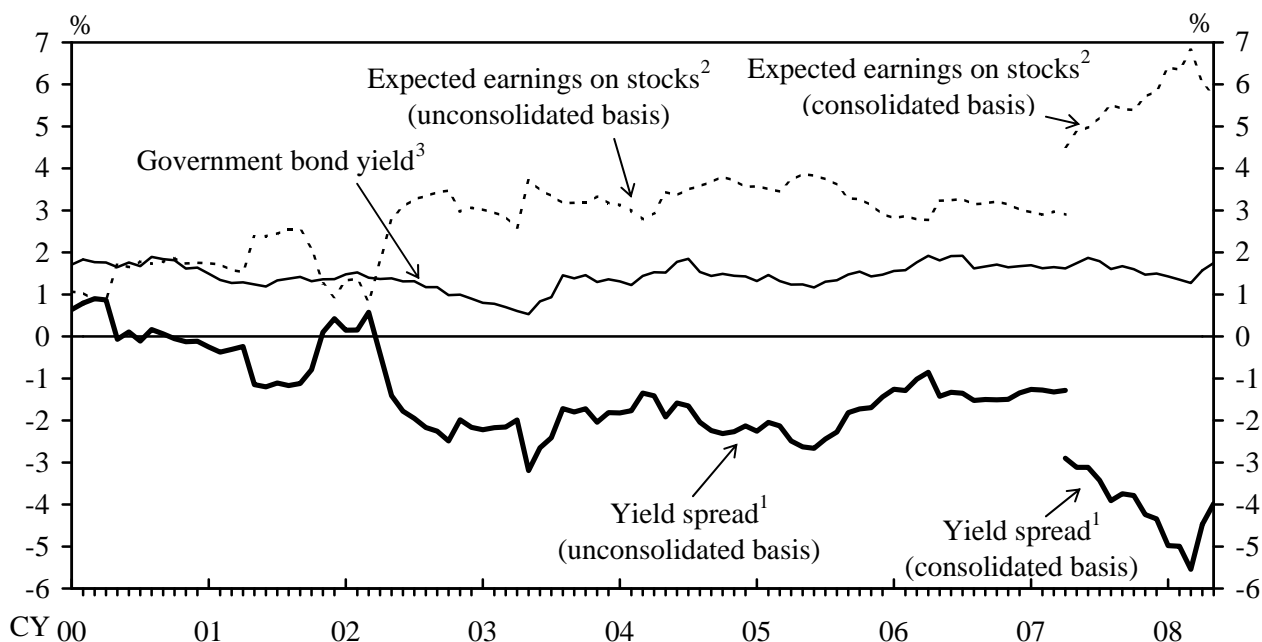
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread



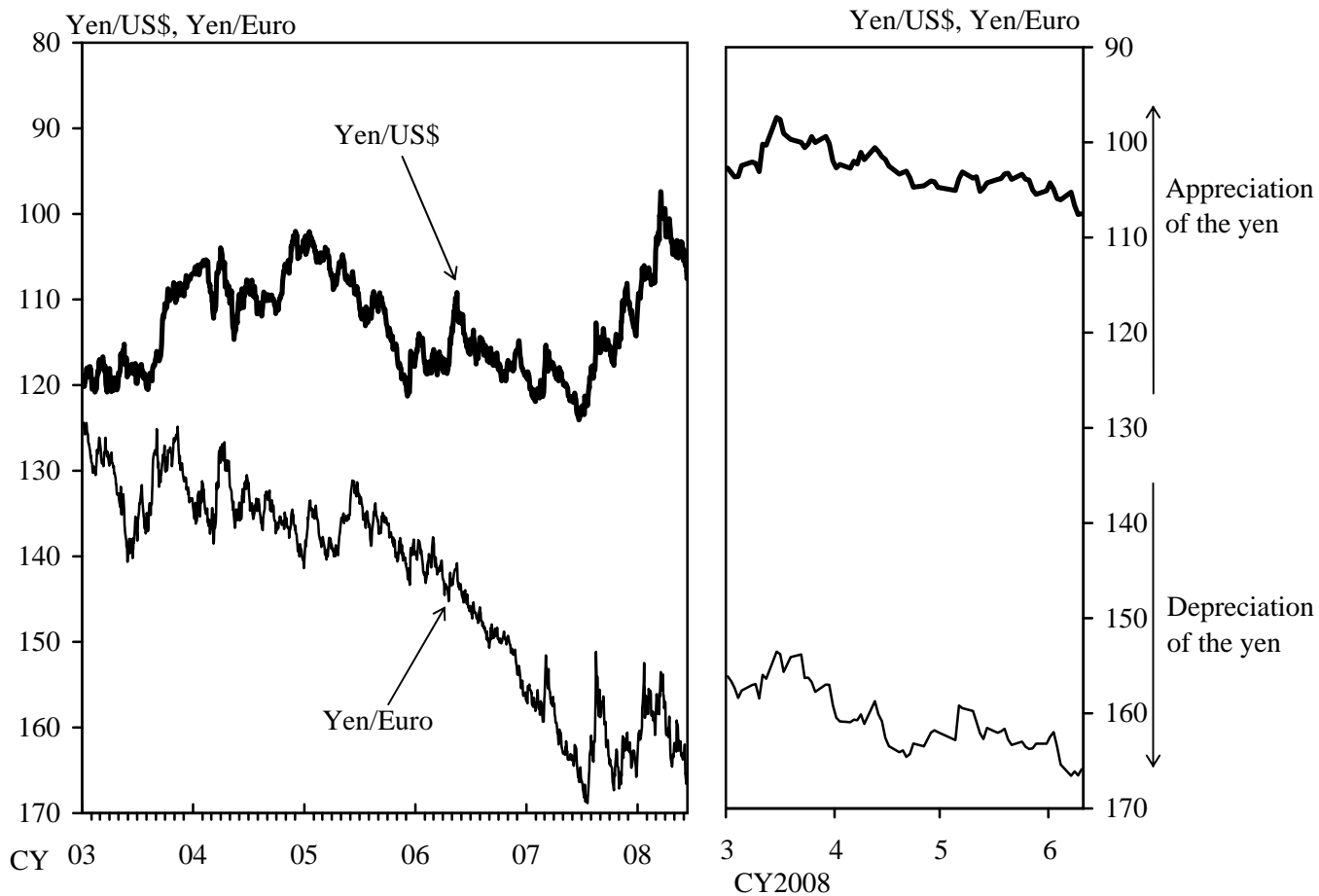
Notes: 1. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

3. Yields on newly issued bonds with 10-year maturity.

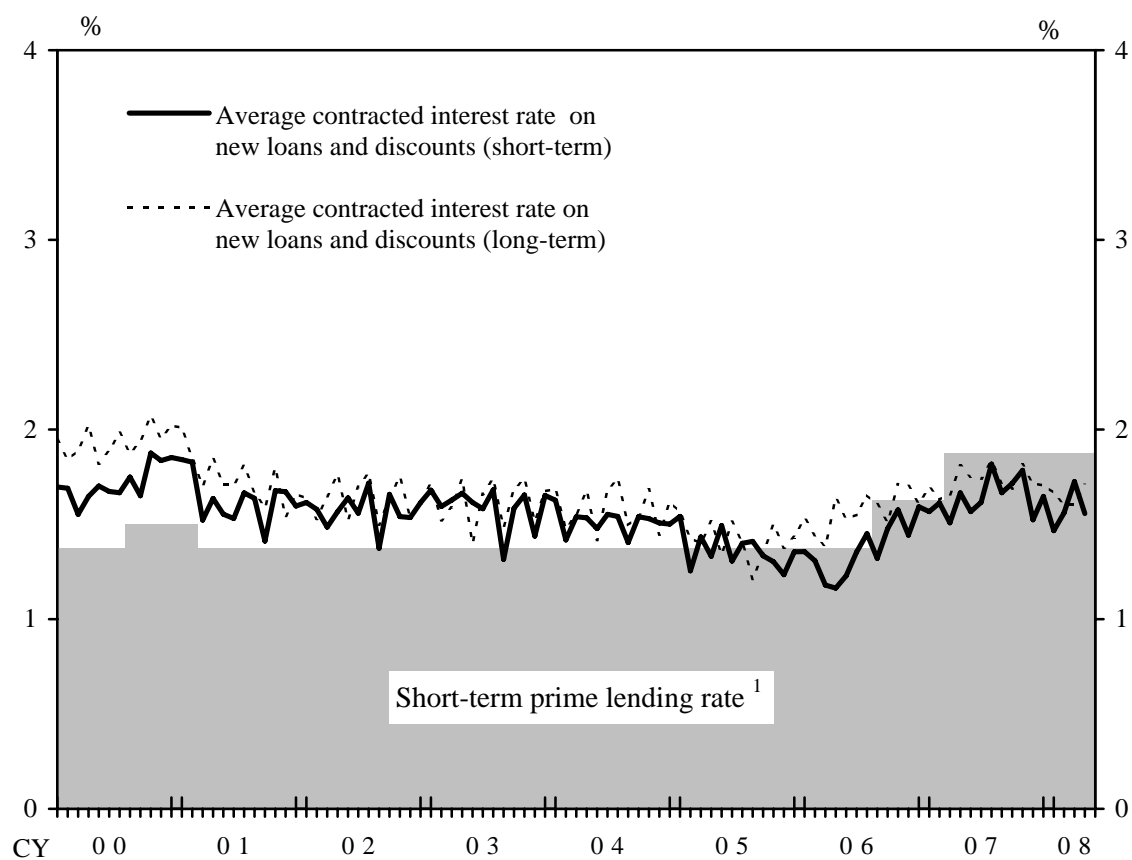
Sources: The *Nihon Keizai Shimbun*; Tokyo Stock Exchange; Daiwa Institute of Research, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates



Source: Bank of Japan.

Lending Rates

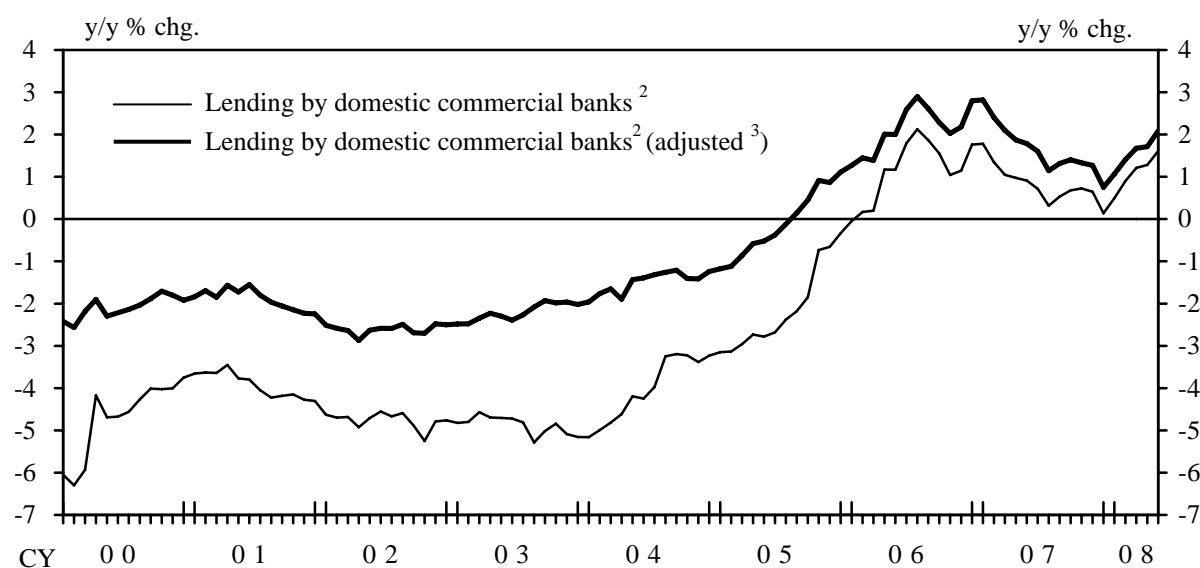


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



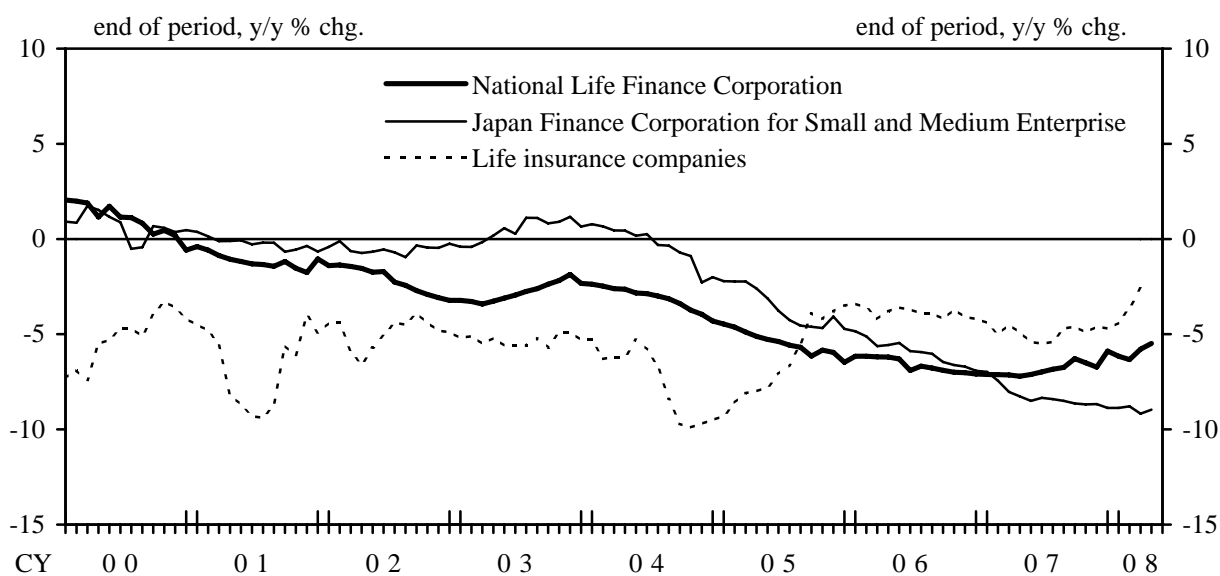
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

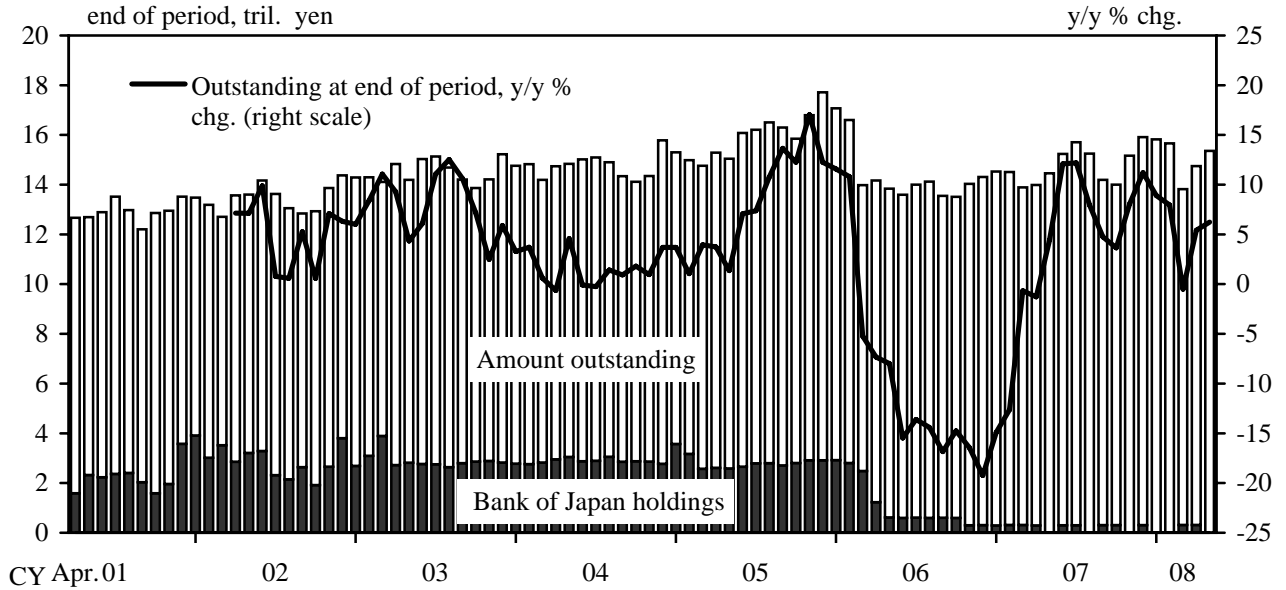
- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General 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



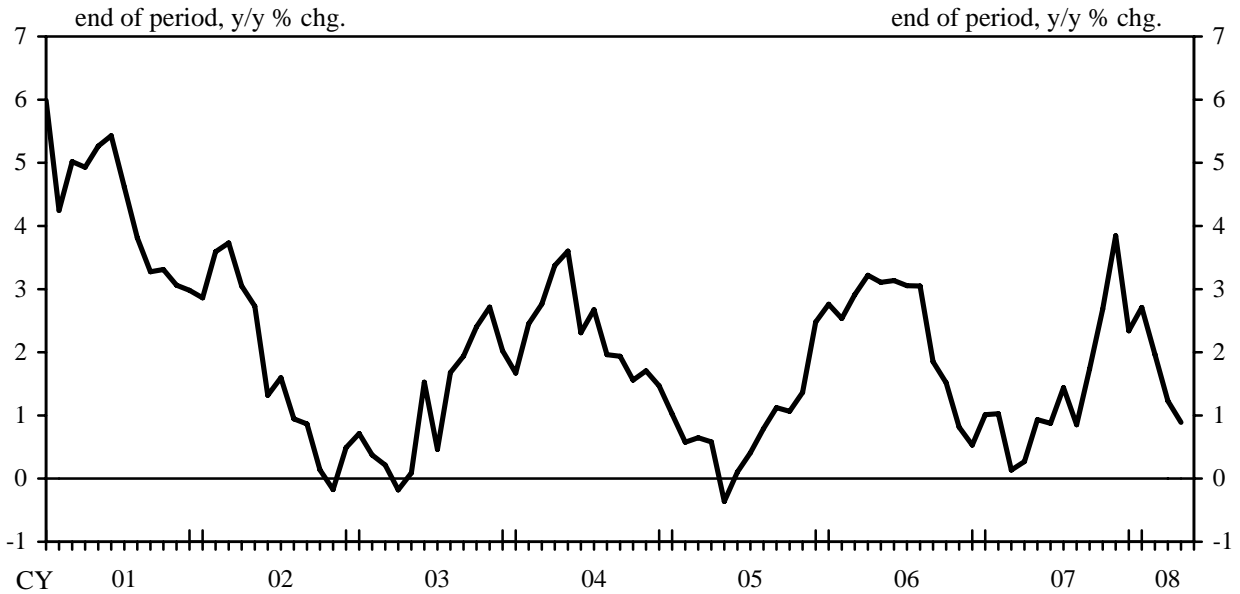
Private-Sector Fund-Raising in the Capital Markets

(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)

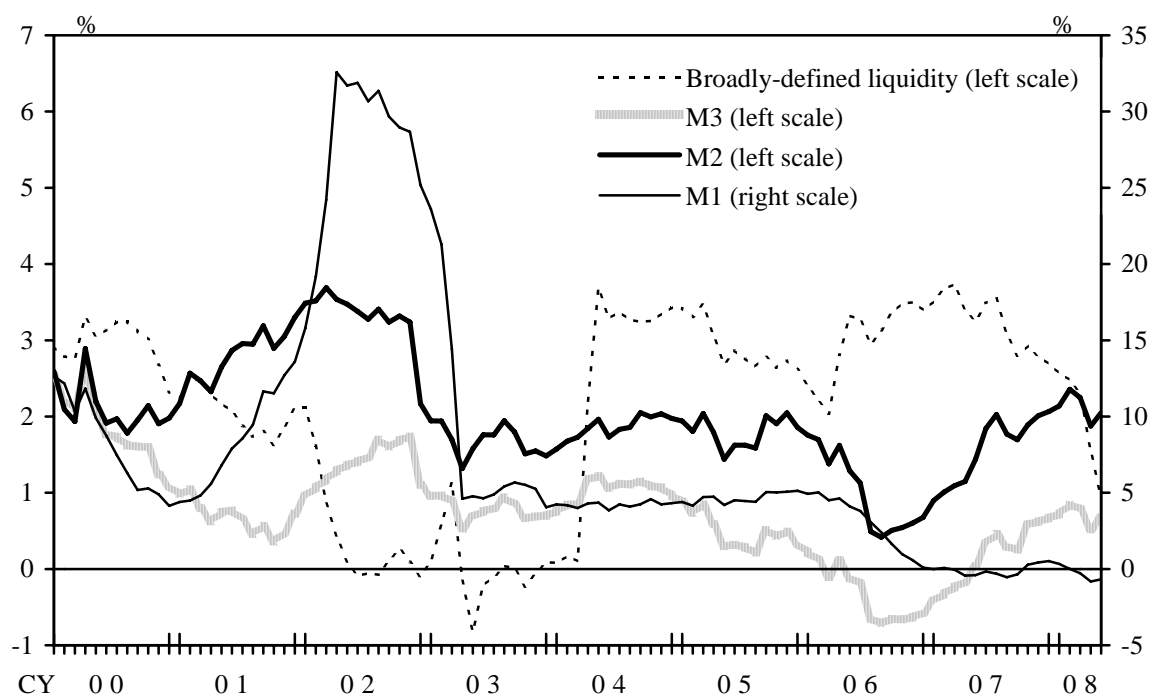


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

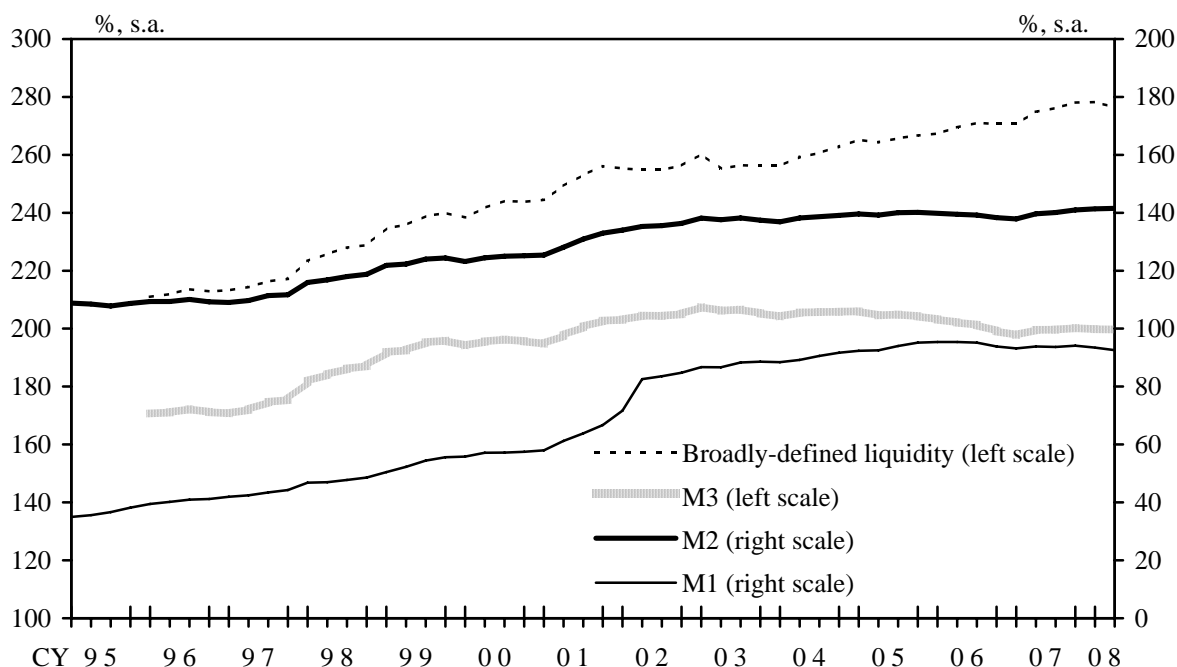
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP



Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.

2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.

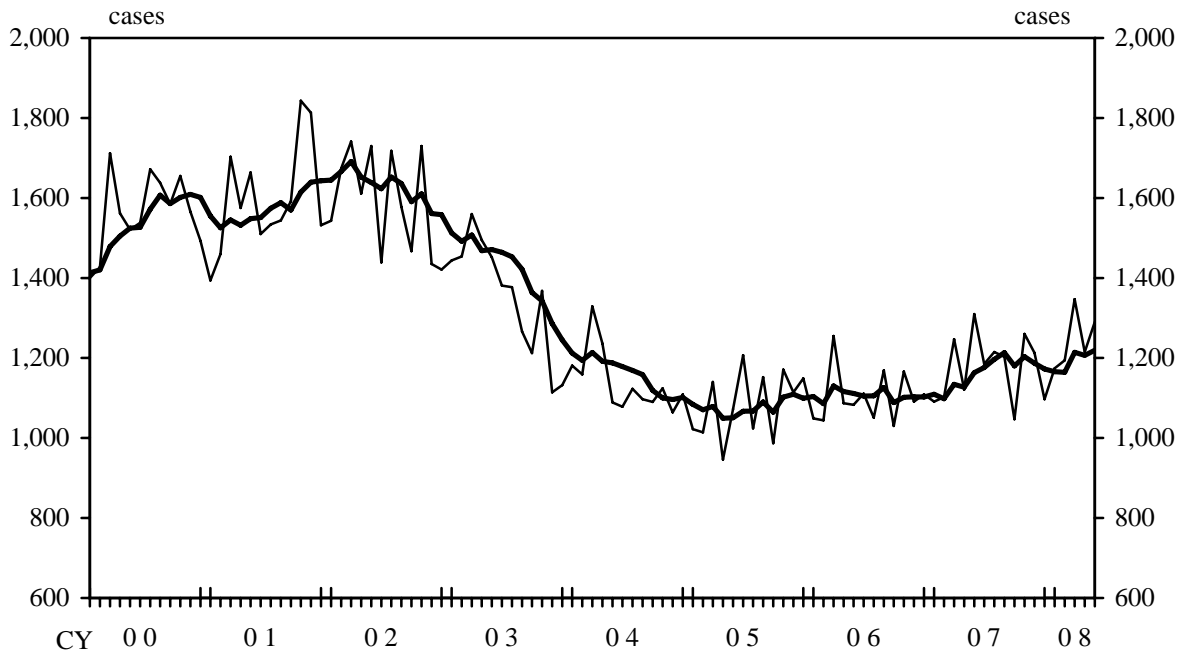
3. The current series are spliced by the former series at March 2003.

4. Figures for money stock in 2008/Q2 are those of Apr.-May averages, and the nominal GDP in 2008/Q2 is assumed to be unchanged from the previous quarter.

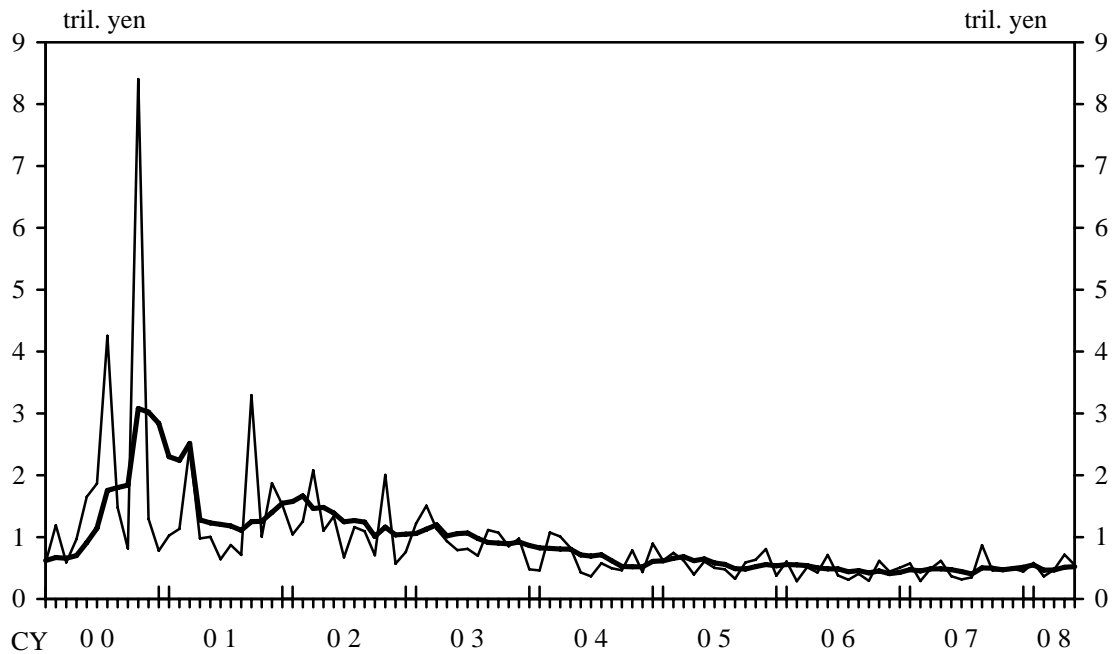
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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