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Bank of Japan

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

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Summary

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

Exports have continued to be on an increasing trend, although the pace of increase has slowed lately. Corporate profits have been decreasing mainly due to the deterioration in the terms of trade, and business sentiment has become more cautious. In this situation, the pace of increase in business fixed investment has become slower. Household income has continued rising moderately, but growth in private consumption has recently been somewhat sluggish against the background of the continued increase in prices mainly of petroleum products and food. The recovery in housing investment has come to a halt. Public investment, meanwhile, has been sluggish. With these developments in demand both at home and abroad, production has recently been somewhat weak.

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

Exports are expected to stay on an increasing trend, 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 follow a moderate rising trend. Under these circumstances, growth in domestic private demand is likely to be somewhat sluggish for the time being but gradually gain firmness thereafter. Public investment, meanwhile, is projected to be on a downtrend. In light of these overall developments in demand, production is expected to return to an increasing trend, after being more or less flat in the short run. Due attention should continue to be paid to factors such as uncertainties regarding

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on July 14 and 15, 2008.

future 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 1.5 percent against the background of the increase in prices of petroleum products and food.

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 be positive at around the current level or somewhat higher for the time being, due to the rise in prices of petroleum products and food, 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 remain more or less unchanged. The financial positions of firms have continued to be favorable as a whole, but those of small and medium-sized firms have deteriorated somewhat. Meanwhile, the year-on-year rate of change in the money stock is around 2 percent.

As for developments in financial markets, in the money markets, the overnight call rate has been at around 0.5 percent, and interest rates on term instruments have been around the same level as last month. In the foreign exchange and capital markets, the yen has appreciated against the U.S. dollar compared with last month, while long-term interest rates and stock prices have fallen compared with last month.

1. Economic Developments

Public investment has been sluggish (Chart 4). Looking at monthly indicators, the amount of public construction completed—which reflects the progress of public works—has followed a moderate downtrend. The value of public works contracted—a measure that reflects public orders—has also been on a moderate declining trend. Public investment is projected to be on a downtrend due to tight national and local fiscal conditions.

Real exports have continued to be on an increasing trend against the background of the expansion of overseas economies, although the pace of increase has 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 dropped considerably, by 3.5 percent, in April-May compared with the first quarter.²

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-May compared with the first quarter. Exports to the EU plunged in April-May after having risen toward the first quarter. As for exports to East Asia, exports to China have continued to climb, whereas those to the NIEs and ASEAN economies have turned downward lately. Exports to other regions (such as the Middle East, Latin America, and Russia) have continued to increase firmly as a trend, although they dropped in April-May.

By goods (Chart 6[2]), exports of IT-related goods dropped temporarily in the first quarter, but rebounded in April-May (Chart 7[1]). Exports of consumer goods rose in April-May following the increase in the first quarter, notably in digital home appliances. Exports of capital goods and parts decreased in April-May, 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-May but, as a trend, they have been on the rise due to the high growth in exports to other regions.

² Monthly fluctuations have been significant lately. Looking at real exports with fluctuations smoothed out, it seems that exports have continued to be on an increasing trend, but the pace of increase has slowed. Overseas economies as a whole, including emerging economies, may have started to slow down compared to a while ago, and the effects on exports may have been observed gradually.

Exports of intermediate goods also declined in April-May, but they have been on an uptrend, mainly in high value-added goods used for IT-related goods and automobiles.

Real imports have been somewhat weak (Charts 5[1] and 9). They had been more or less flat, but dropped by 4 percent in April-May 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 dropped in April-May, partly in reaction to the relatively high growth in 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 stay on an increasing trend, as overseas economies are likely to expand although at a slower pace (Chart 8[2]).³ 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.

³ The DI of overseas supply and demand conditions for products of large manufacturing firms in the June *Tankan* indicates that the rate of "excess demand" in the automobile sector has recently narrowed to a considerable degree. As a whole, however, demand has continued to be slightly excessive (rate of "excess demand": +6 in December, +2 in March, +1 in June, and +2 for forecast). Forecasts for exports of large manufacturing firms for fiscal 2008 were revised upward, albeit marginally, by 0.8 percent relative to the previous survey, even though the predicted exchange rate was revised toward the yen's appreciation with an increase of 1.7 percent on a year-on-year basis (109.21 yen to the U.S. dollar in March and 102.74 yen in June).

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 as a whole, even though demand in the United States has shown signs of deceleration. However, with strong pressure from the increase of supply in place, market prices as a whole have shown ups and downs; memory-related prices have stopped declining, whereas prices of some liquid crystal panels have shown signs of softening. Meanwhile, in the foreign exchange market, the yen has remained at significantly low levels from a long-term perspective in terms of the real effective exchange rate, which incorporates differentials in the inflation rates between home and abroad. In the short run, the yen's appreciation since summer last year has come to a halt partly due to the rise in prices overseas (Chart 8[1]).

Imports are expected to remain somewhat weak for the time being, reflecting a slowdown in the domestic economy and the rise in import prices.

The pace of increase in business fixed investment has become slower. Looking at monthly indicators, 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 then declined marginally in April-May compared with the first quarter (Chart 10[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 11[1]).⁴ Construction

⁴ 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

starts (floor area, private, nondwelling use)—a leading indicator of construction investment—recovered from the plunge last summer due to the enforcement of the revised Building Standard Law,⁵ but they have recently been more or less flat at a level lower than that prior to the enforcement of the revised Law (Chart 11[2]).

Looking at the environment surrounding business fixed investment, corporate profits have been decreasing mainly due to the deterioration in the terms of trade. According to business plans in the June *Tankan*, current profits for fiscal 2007 decreased in all sectors, albeit marginally, for the first time in six years, mainly due to high energy and materials prices (a year-on-year decline of 1.0 percent). As for fiscal 2008, profits are projected to drop for the second straight year (a year-on-year decline of 4.4 percent), since the substantial decline in the first half of the year is unlikely to be regained from an increase in the second half. By size (Chart 12), large firms saw an increase in profits in fiscal 2007 for the sixth consecutive year, whereas profits for fiscal 2008 were revised substantially downward from the March survey and projected to drop markedly. As for small firms, profits dropped in fiscal 2007 for the first time in six years. Profits for fiscal 2008 are projected to rise marginally, but they were revised considerably downward from the March survey. In these circumstances, business sentiment in the June *Tankan* has become more cautious: small firms have continued their deteriorating trend, and large firms—which have been in relatively favorable conditions—have seen a further narrowing in the rate of "favorable" (Chart 13).

Growth in business fixed investment is projected to remain somewhat sluggish for the time being but gradually gain firmness thereafter, 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. According to

shipbuilding and orders from electric power companies). The actual result for the second quarter, however, tends to turn out to be considerably higher than the forecast. In fact, machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies) dropped by 0.1 percent in April-May compared with the first quarter.

⁵ 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.

business fixed investment plans in the June *Tankan* (Chart 14), investment of large firms for fiscal 2008 is projected to stay firm, albeit at a slower pace, by marking a year-on-year increase of 2.4 percent. In contrast, that of small firms for fiscal 2008 is still projected to register a large negative, with a decline of 20.2 percent on a year-on-year basis. The investment plans of small firms have been revised upward in comparison to the March survey, but the initial plans of March were considerably weak and furthermore the rate of upward revision was relatively small compared with past averages (FYs 1984-2007).⁶

Household income has been rising moderately, but growth in private consumption has recently been somewhat sluggish against the background of the continued increase in prices of petroleum products and food. Looking at individual indicators on consumption (Charts 15 and 16), sales at department stores have continued to be relatively weak, notably in apparel and general merchandise. Sales at supermarkets have remained more or less flat, supported by the rise in sales of foodstuffs. Meanwhile, sales at convenience stores have recently increased somewhat, aided mainly by the rise in cigarettes sales.⁷ Sales of household electrical appliances have continued to climb steadily, assisted by strong sales of digital home appliances such as flat panel TVs. Growth in the number of new passenger-car registrations has recently been sluggish, since the introduction of new models has decreased compared to a while ago and partly since gasoline prices have been high. As for services consumption, outlays for travel seem to have peaked out due to a further rise in fuel surcharges added to airfares. Sales in the food service industry have continued to level off since the second half of last year.

⁶ Meanwhile, software investment is projected to continue registering high growth for both small and large firms. Based on "software and fixed investment excluding land purchasing expenses," a concept similar to GDP, business fixed investment of all industries and enterprises (including financial institutions) for fiscal 2008 is projected to increase by 3.6 percent on a year-on-year basis. Looking at fiscal 2007 on a year-on-year basis, the plan as of June last year marked an increase of 7.3 percent and the actual results stood at a positive 2.7 percent.

⁷ From this spring, age-verifying equipment has started to be attached to cigarette vending machines. However, IC cards—needed for verification—are not yet in widespread use. As a result, this has possibly attributed to the rise in cigarettes sold over the counter, since this IC card is not required for over-the-counter sales.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above⁸—have recently been somewhat weak (Chart 17[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—had been trending upward until around the end of last year, but it has been level since the start of this year (Chart 17[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 the first quarter, but declined considerably in April-May compared with the first quarter (Chart 15[1]). Total expenditure in the *Survey of Household Economy* (in real terms) increased in the first quarter, but dropped in April-May compared with the first quarter (Chart 15[1]).⁹

Consumer sentiment has become more cautious, as a result of the widespread rise in prices of petroleum products and food (Chart 18).

Growth in private consumption is likely to be somewhat sluggish for the time being, but, with household income on a gradual uptrend, it is expected to gradually gain firmness thereafter as the rise in prices comes to a halt.

The recovery in housing investment has come to a halt. The number of housing starts (Chart 19[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

⁸ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in May 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 May were at the same level as those for April.

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.

softness in sales of condominiums and to further increases in prices of steel products. Looking ahead, housing investment is expected to be more or less flat for the time being, considering the number of housing starts.

Industrial production has recently been somewhat weak. Production dropped by 0.7 percent in the first quarter on a quarter-on-quarter basis and also declined by 0.6 percent in April-May compared with the first quarter (Chart 20).¹⁰ As for developments in April-May 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 information and communication electronics equipment (such as cellular telephones), transportation equipment, electronic parts and devices, and general machinery dropped.

Shipments fell by 0.5 percent in the first quarter on a quarter-on-quarter basis, and then dropped by 0.3 percent in April-May compared with the first quarter. Looking at the trend by goods (Chart 21), 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 more or less flat. 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 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 continued to rise. In durable consumer goods,

¹⁰ Production in the second quarter, simply calculated from the production forecast index of June, posted a 0.4 percent decrease on a quarter-on-quarter basis; based on this calculation, this is the second straight quarter decline.

inventories have been in balance with shipments. Meanwhile, in electronic parts and devices, the year-on-year rate of increase in shipments has fallen somewhat lately, and inventories have risen slightly. 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 return to an increasing trend, 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 third quarter will move up marginally or stay flat.¹¹

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

In the labor market, overtime hours worked have been virtually flat at high levels (Chart 25[3]). The unemployment rate has been moving at around 4 percent on average (Chart 24[1]). The ratio of job offers to applicants has continued to decline (Chart 24[1]). The decrease in the number of 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. It seems, however, that labor demand among small firms has declined slightly as a result of the economic

¹¹ The production forecast index of July is calculated to increase by 2.5 percent compared with the second quarter (the index of June is based on the forecast index). Some latitude should be allowed for this calculation, however, since it is based on a single month's information.

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*, 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 or fewer persons, 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.

slowdown.¹³ Meanwhile, the employment conditions DI in the *Tankan* shows that the labor shortage among firms is projected to become somewhat severe after having moderated in June.¹⁴ As a trend, the shortage has eased slightly, notably among small firms (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 been moving around zero percent on average since the start of this year. 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, moving in the range of 1.5-2.0 percent, but it has started to decrease moderately because of the slower growth in business establishments with 5-29 employees.¹⁵ 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 been negative or around zero (Chart 25[2]).¹⁶

Nominal wages per employee have been positive lately compared with the previous year (Chart 23[1]). In detail, the year-on-year rate of change in regular payments has been positive since around the end of last year. This has been due mainly to the following three factors: (1) the prolonged labor shortage has gradually

¹³ The number of job advertisements listed in the media of the private sector, which had been firm thus far, has been weak since April (Chart 24[3]).

¹⁴ This recent movement was partly due to the fact that the labor shortage eased temporarily, assisted by the increase in the hiring of new graduates.

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 5-29 employees has been positive on a year-on-year basis, although the pace of increase has slowed. Meanwhile, the number of employees in the *Labour Force Survey* has continued to post a year-on-year negative for small firms with 1-29 persons since the first half of last year. These facts show that the number of those employed at establishments with four or fewer persons has been weak.

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 of the enforcement of the revised Part-time Work Law (effective in April 2008).

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. Most recently, however, the year-on-year rate of increase in regular payments has declined somewhat; it has not shown signs of further growth since the start of this fiscal year. Meanwhile, overtime payments have increased mildly on average. On the other hand, special payments have been relatively weak as a trend, since corporate profits have been decreasing.¹⁷

Looking ahead, household income is expected to follow a moderate rising trend as the labor shortage persists and as production gradually returns to an increasing trend after being flat.

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 strong; they have recorded historical highs, mainly due to rising concerns over tightening supply-demand conditions. Prices of nonferrous metals and crops—which had been soft a while ago—have strengthened again. Meanwhile, domestic commodity prices have risen, mainly reflecting developments in international commodity prices.

¹⁷ According to surveys on large firms released by (1) the *Nihon Keizai Shimbun*, Inc. (final results as of July 2, 748 firms), (2) the Japan Business Federation (interim results as of June 25, 146 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 a year-on-year increase of 0.7 percent for winter bonuses last fiscal year and a decrease of 0.3 percent for summer bonuses this fiscal year, (2) shows an increase of 0.9 percent for last winter and a decrease of 0.4 percent for this summer, and (3) shows increases of 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 declining, caused mainly by high materials 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 29). In detail, prices of "iron and steel and construction goods" have recently continued to register a large increase, 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 recently been more or less flat. 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 as well as petroleum-related products. Final goods prices have also increased lately affected by movements in prices of petroleum products and processed foodstuffs.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁹ has recently been somewhat negative (Chart 30).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 marginally as a

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.

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; the recent weakness such as in advertisement services has exerted a negative influence as well.

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 the start of this fiscal year as price revisions at the start of the fiscal year were only marginal in response to firms' cost-cutting. Prices of advertising services have recently declined at a faster pace, 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 since April 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 1.5 percent against the background of the increase in prices of petroleum products and food (Chart 31). In May, consumer prices rose at an accelerated pace by marking an increase of 1.5 percent compared with that of 0.9 percent in April,²¹ mainly since (1) the positive contribution from petroleum products expanded sharply as a result of the resurgence of the provisional extra taxes and the rise in crude oil prices, and (2) cost increases were further passed on to prices of food products and "eating out." Looking at recent developments in more detail, prices of goods have increased at a faster pace on a year-on-year basis due to the rise in prices of petroleum products and food. The rate of increase in services prices has also risen modestly as a trend on a year-on-year basis, chiefly in prices of "eating out." Public utility charges have been positive on a year-on-year basis, assisted by the rise in electricity charges and city gas charges. Meanwhile, the year-on-year rate of change in consumer prices, excluding food and energy, has continued to be around zero percent.

²¹ Prices rose by 1.5 percent on a year-on-year basis; it was the largest increase since March 1998, when it rose 1.8 percent in the wake of the rise in the consumption tax. Disregarding the effects of that tax hike, it was the largest increase since March 1993 (an increase of 1.6 percent).

With regard to domestic supply and demand conditions in the June *Tankan* (Chart 32), the weighted average of the production capacity DI and employment conditions DI showed that the shortage has remained marginal, although the rate of "shortage" has narrowed somewhat. 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 somewhat expanded its rate of "rise." For nonmanufacturing, the rate of "fall" has diminished to zero.

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 be positive at around the current level or somewhat higher for the time being, due to the rise in prices of petroleum products and food, in a situation where overall supply and demand in the economy are more or less balanced.

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 33[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 34[1]). Interest rates on Euroyen futures have dropped, mainly in distant contracts (Chart 34[2]).

Yields on 10-year government bonds (newly issued 10-year JGB) have moved in line with long-term interest rates in the United States. They rose to 1.875 percent, last recorded in July last year, but have fallen back thereafter. They have recently dropped to around 1.55 percent (Chart 33[2]).

Yield spreads between corporate bonds and government bonds have been more or less flat on the whole, although the widening of spreads has been observed for some industries (Chart 36).

Stock prices have remained weak in response to unstable U.S. and European stock prices. The Nikkei 225 Stock Average has dropped for 12 business days in a row and is moving at around 13,000 yen of late (Chart 37).

In the foreign exchange market, the yen dropped to the 108-109 yen level toward mid-June, but it has risen thereafter; it is currently being traded at around 106 yen to the U.S. dollar (Chart 38).

(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 accommodative compared to past levels (Chart 39).

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 40).

The amount outstanding of lending by private banks has increased. Its monthly average outstanding, after adjustment,²² grew by 2.4 percent in June on a year-on-year basis, compared to 2.1 percent in May and 1.7 percent in April (Chart 41).

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

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.

CP and corporate bonds issued has been above the previous year's level. It increased by 1.3 percent in May on a year-on-year basis, compared to 1.3 percent in April and 0.7 percent in March (Chart 42).

According to business surveys, the financial positions of firms have continued to be favorable as a whole, but those of small and medium-sized enterprises have shown some deterioration (Chart 39).

The money stock (M2) has increased by around 2 percent annually. Its June reading was 2.3 percent on a year-on-year basis, following 2.1 percent in May and 1.9 percent in April (Chart 43).²³

The number of corporate bankruptcies was up by 11.7 percent in June compared to the year-ago level, to 1,324 cases (Chart 44).

²³ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate was around 1 percent in June—it increased by 0.9 percent in June following 0.7 percent in May and 0.5 percent in April.

Charts

Chart 1	Main Economic Indicators (1)	Chart 27	Prices
Chart 2	Main Economic Indicators (2)	Chart 28	Import Prices and International Commodity Prices
Chart 3	Real GDP and Indexes of Business Conditions	Chart 29	Domestic Corporate Goods Price Index
Chart 4	Public Investment	Chart 30	Corporate Services Price Index
Chart 5	External Balance	Chart 31	Consumer Price Index (Excluding Fresh Food)
Chart 6	Real Exports	Chart 32	Domestic Supply and Demand Conditions
Chart 7	Exports and Imports of IT-Related Goods	Chart 33	Interest Rates
Chart 8	Real Effective Exchange Rate and Overseas Economies	Chart 34	Short-Term Money Market Rates
Chart 9	Real Imports	Chart 35	Implied Forward Rates (1-Year)
Chart 10	Coincident Indicators for Business Fixed Investment	Chart 36	Yields of Corporate Bonds
Chart 11	Leading Indicators for Business Fixed Investment	Chart 37	Stock Prices
Chart 12	Current Profits	Chart 38	Exchange Rates
Chart 13	Business Conditions	Chart 39	Corporate Finance-Related Indicators
Chart 14	Business Fixed Investment Plans as Surveyed	Chart 40	Lending Rates
Chart 15	Indicators for Private Consumption (1)	Chart 41	Lending by Financial Institutions
Chart 16	Indicators for Private Consumption (2)	Chart 42	Private-Sector Fund-Raising in the Capital Markets
Chart 17	Indicators for Private Consumption (3)	Chart 43	Money Stock
Chart 18	Consumer Confidence	Chart 44	Corporate Bankruptcies
Chart 19	Indicators for Housing Investment		
Chart 20	Production, Shipments, and Inventories		
Chart 21	Shipments Breakdown by Type of Goods		
Chart 22	Inventory Cycle		
Chart 23	Employee Income		
Chart 24	Labor Market (1)		
Chart 25	Labor Market (2)		
Chart 26	Employment Conditions		

Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2007/Q4	2008/Q1	Q2	2008/Mar.	Apr.	May	Jun.
Index of consumption expenditure level (two-or-more-person households)	0.7	-0.4	n.a.	0.7	-0.1	-1.2	n.a.
Sales at department stores	0.3	-0.7	n.a.	-1.1	0.0	-1.4	n.a.
Sales at supermarkets	0.5	0.2	n.a.	0.7	-2.0	-0.7	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 300>	< 301>	< 295>	< 297>	< 317>	< 278>	< 290>
Sales of household electrical appliances (real, Current Survey of Commerce)	1.8	5.7	n.a.	4.8	-3.8	3.8	n.a.
Outlays for travel	0.2	0.6	n.a.	0.3	-5.6	6.1	n.a.
Housing starts <s.a., ann. 10,000 units>	< 95>	< 114>	<n.a.>	< 109>	< 115>	< 107>	<n.a.>
Machinery orders (from private sector ⁴)	0.6	2.2	n.a.	-8.3	5.5	10.4	n.a.
Manufacturing	6.1	-5.9	n.a.	-7.0	1.9	12.2	n.a.
Nonmanufacturing ⁴	-1.1	6.5	n.a.	-9.5	8.8	8.8	n.a.
Construction Starts (private, nondwelling use)	40.8	1.2	n.a.	25.6	-15.0	7.9	n.a.
Mining & manufacturing	47.2	-1.0	n.a.	24.1	3.4	-7.6	n.a.
Nonmanufacturing ⁵	34.2	1.9	n.a.	30.1	-20.3	10.8	n.a.
Value of public works contracted	1.4	-0.5	n.a.	-3.5	-7.4	0.7	n.a.
Real exports	1.9	3.2	n.a.	4.5	-5.3	1.1	n.a.
Real imports	-0.6	0.9	n.a.	5.9	-5.7	-1.7	n.a.
Industrial production	0.9	-0.7	n.a.	-3.4	-0.2	2.8	n.a.
Shipments	1.4	-0.5	n.a.	-3.9	0.9	2.0	n.a.
Inventories	1.2	0.0	n.a.	0.1	-1.2	0.5	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 101.3>	< 105.3>	<n.a.>	< 105.3>	< 101.2>	< 101.2>	<n.a.>
Real GDP	0.7	1.0	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	-0.9	n.a.	0.3	0.8	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q4	2008/Q1	Q2	2008/Mar.	Apr.	May	Jun.
Ratio of job offers to applicants <s.a., times>	< 1.00>	< 0.97>	<n.a.>	< 0.95>	< 0.93>	< 0.92>	<n.a.>
Unemployment rate <s.a., %>	< 3.8>	< 3.9>	<n.a.>	< 3.8>	< 4.0>	< 4.0>	<n.a.>
Overtime working hours ⁶	0.2	0.7	n.a.	0.9	-0.8	p -0.9	n.a.
Number of employees	0.9	0.0	n.a.	-0.1	-0.1	0.1	n.a.
Number of regular employees ⁶	2.0	1.9	n.a.	1.9	1.8	p 1.7	n.a.
Nominal wages per person ⁶	-0.9	1.6	n.a.	1.5	0.8	p 0.2	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	2.4 < 0.7>	3.4 < 1.0>	p 4.8 <p 2.5>	3.9 < 1.2>	3.9 < 1.8>	4.8 < 2.5>	p 5.6 <p 2.8>
Consumer price index ⁸	0.5	1.0	n.a.	1.2	0.9	1.5	n.a.
Corporate services price index	1.4	0.5	n.a.	0.4	0.5	p 0.6	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.0	2.2	p 2.1	2.2	1.9	2.1	p 2.3
Number of corporate bankruptcies <cases per month>	<1,190>	<1,238>	<1,276>	<1,347>	<1,215>	<1,290>	<1,324>

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

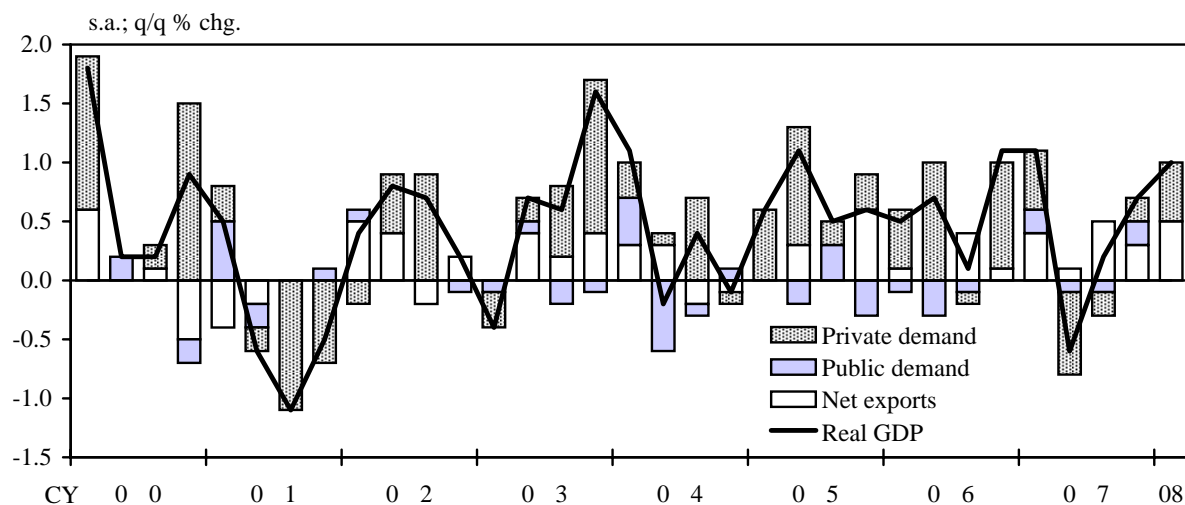
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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



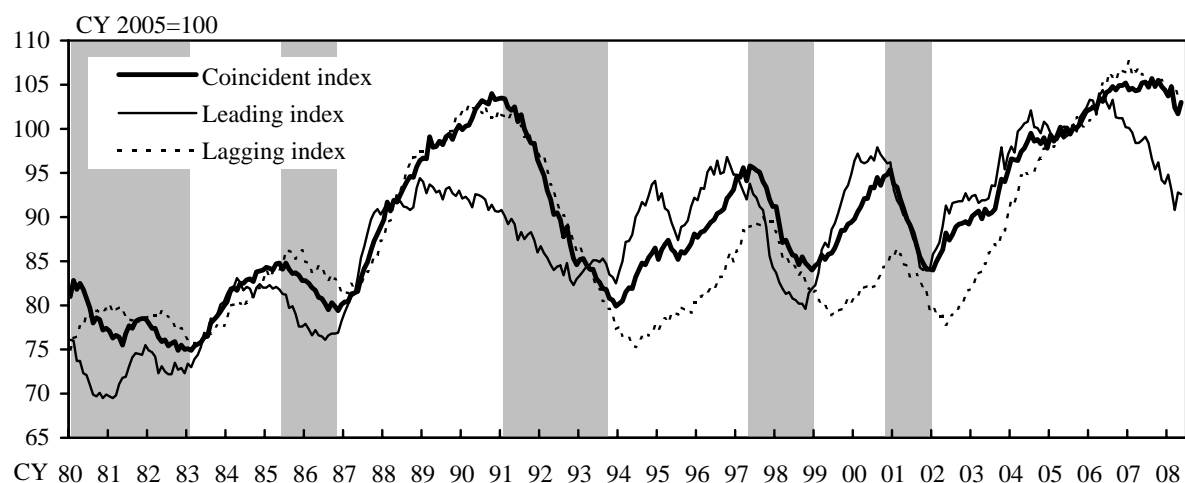
(2) Components

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)

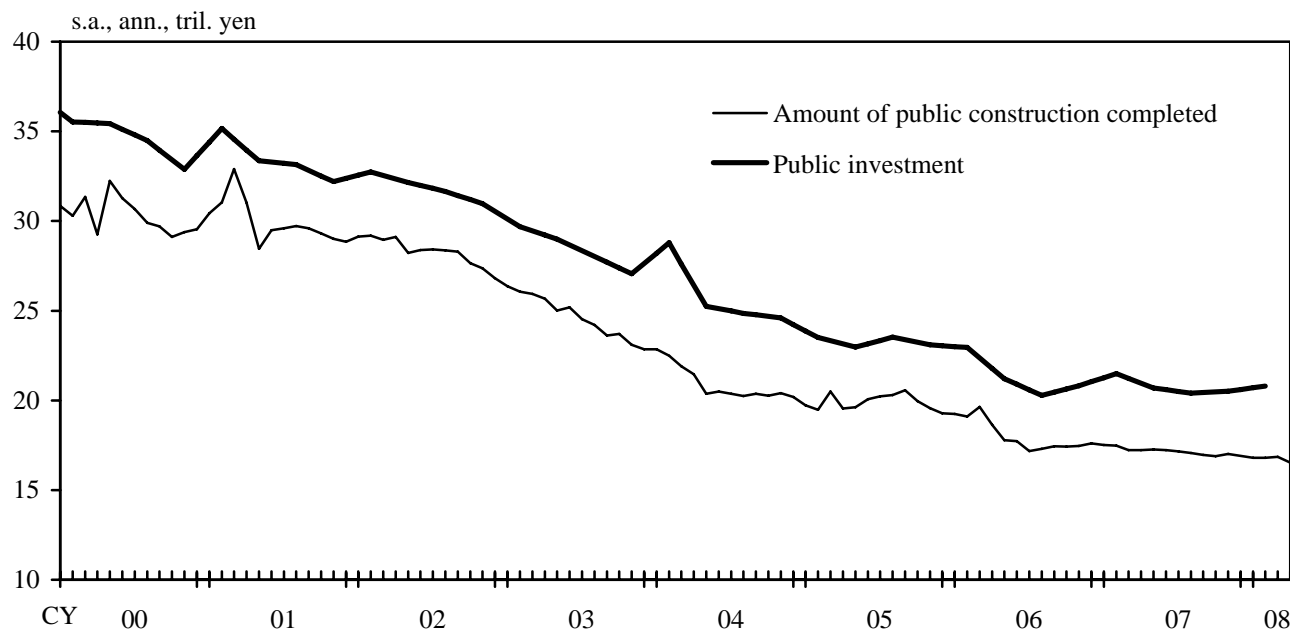


Note: Shaded areas indicate recession periods.

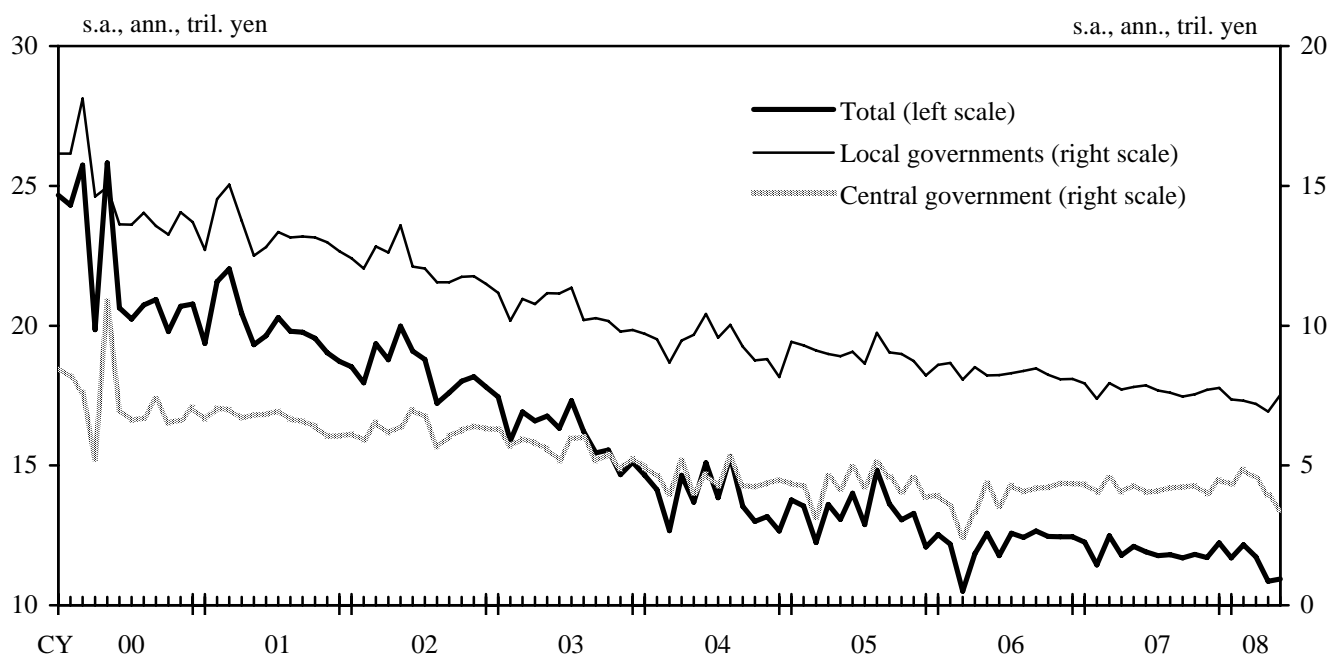
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

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.

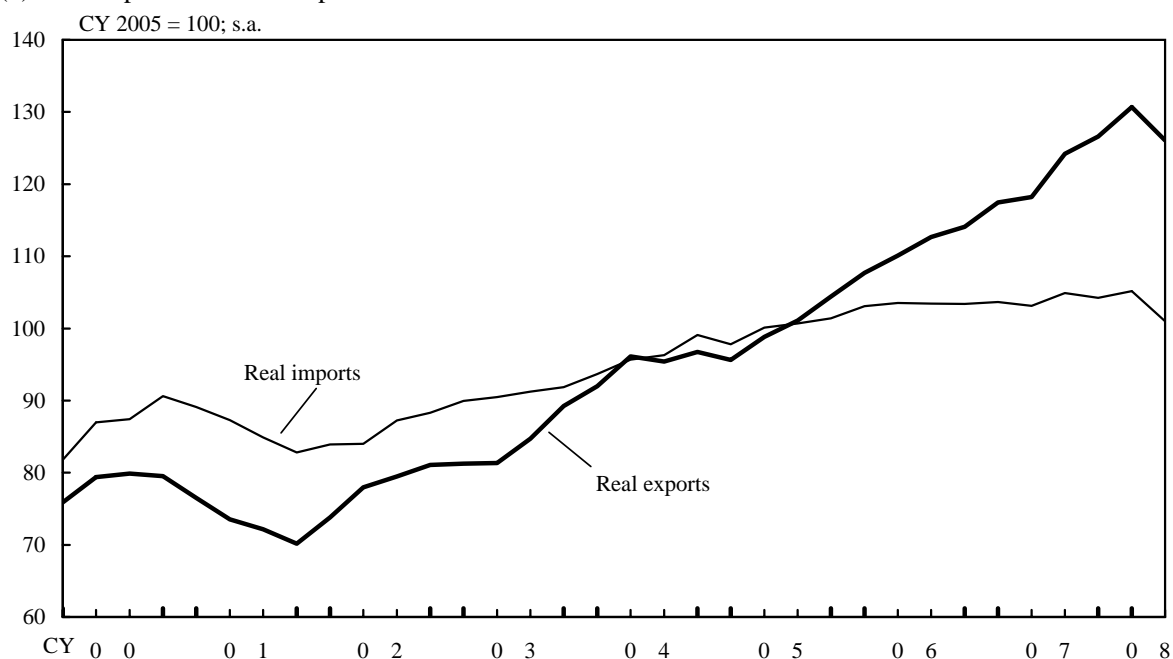
Sources: Cabinet Office, "National Accounts";

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

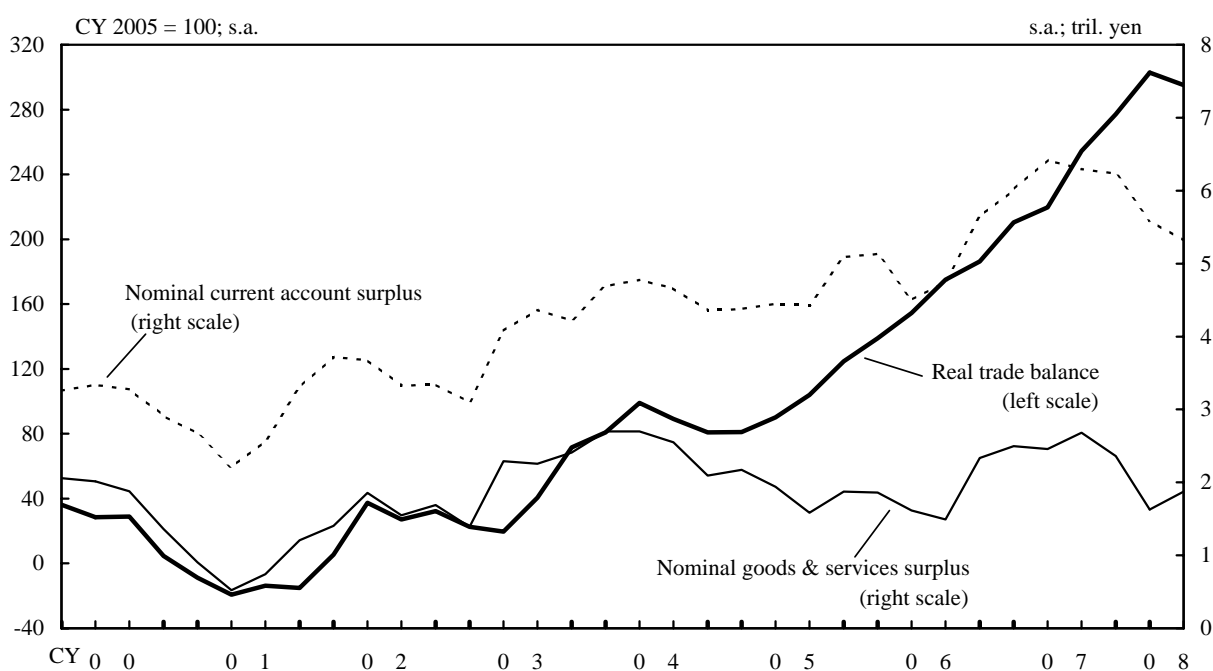
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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 for Nominal Current Account Surplus and Nominal Goods & Services Surplus are April-May averages converted into quarterly amount.
 4. 2008/Q2 figures for Real exports/imports and the real trade balance are April-May averages converted into quarterly amount.

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

Real Exports 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 Mar.	Apr.	May
United States	<20.1>	11.7	-1.2	-3.0	4.4	-1.3	-0.2	-7.2	4.5	-8.7	0.7
EU	<14.8>	11.1	13.0	2.0	5.3	2.6	4.2	-7.0	8.0	-10.1	-0.6
East Asia	<46.0>	8.9	10.3	-0.1	4.4	2.8	4.9	-2.0	-0.5	-1.9	3.3
China	<15.3>	18.8	16.8	-1.0	6.7	1.9	5.1	2.7	-0.9	3.3	5.1
NIEs	<22.4>	6.3	5.2	-0.8	3.1	2.0	5.3	-5.9	-0.1	-5.3	1.5
Korea	<7.6>	9.6	5.3	-1.8	0.8	4.7	3.6	-4.3	2.9	-3.7	-3.5
Taiwan	<6.3>	2.7	0.0	2.8	4.8	-3.8	8.7	-9.7	2.7	-6.8	1.9
ASEAN ⁴	<8.3>	1.8	13.2	3.5	4.0	6.3	3.6	-0.4	-0.9	-2.1	4.2
Thailand	<3.6>	4.1	9.8	1.4	4.9	2.1	5.1	-6.2	4.2	-10.3	7.4
Others	<19.1>	20.2	19.9	5.1	5.6	9.2	4.8	-1.5	11.1	-7.7	3.4
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-3.5	4.5	-5.3	1.1

(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 Mar.	Apr.	May
Intermediate goods	<18.4>	6.9	5.3	0.6	4.9	1.6	2.2	-5.7	4.7	-8.8	0.9
Motor vehicles and their related goods	<24.1>	14.2	13.2	1.8	5.9	6.6	3.0	-5.3	9.5	-8.2	-0.5
Consumer goods ⁴	<4.5>	9.8	6.4	4.5	3.4	-0.2	4.3	2.3	9.9	-6.8	7.6
IT-related goods ⁵	<11.0>	7.5	12.1	-1.8	4.2	2.3	-1.2	4.2	4.3	-0.6	7.8
Capital goods and parts ⁶	<28.4>	13.3	8.0	1.7	3.2	2.8	4.3	-2.1	3.0	-3.0	-0.2
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-3.5	4.5	-5.3	1.1

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

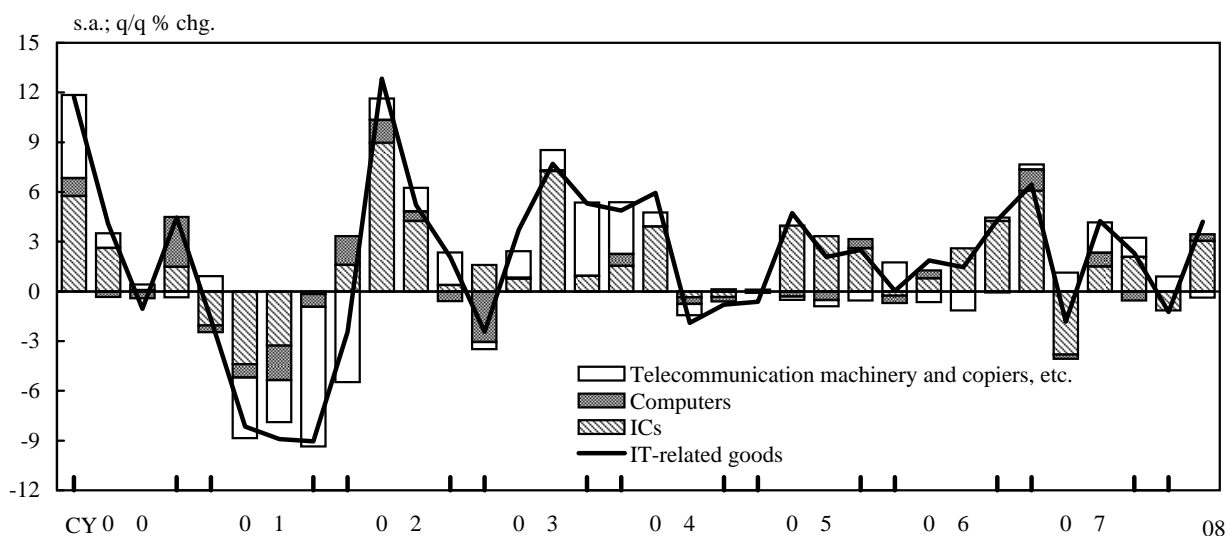
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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

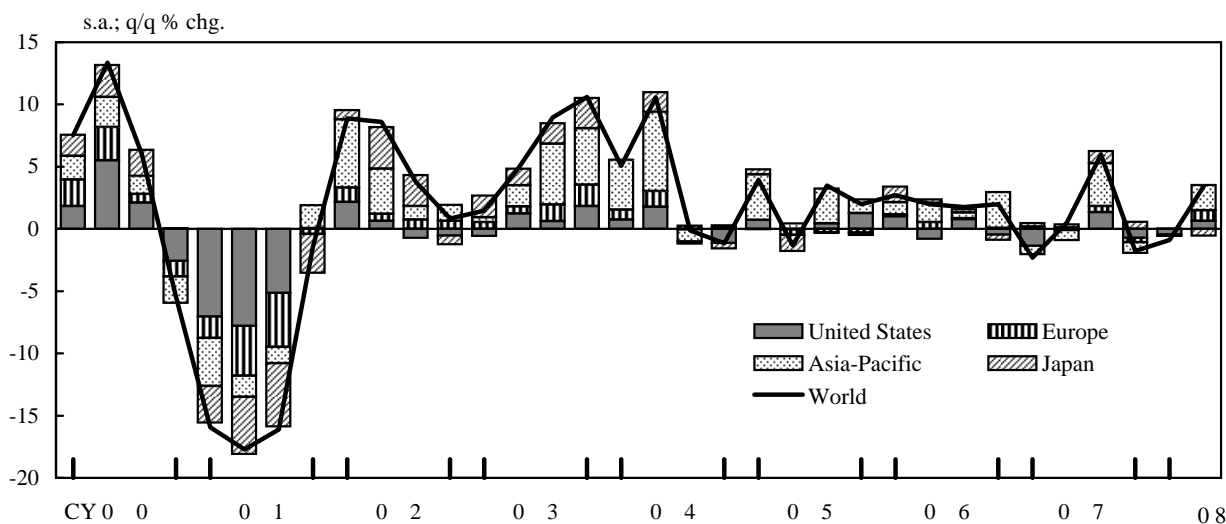
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Exports and Imports of IT-Related Goods

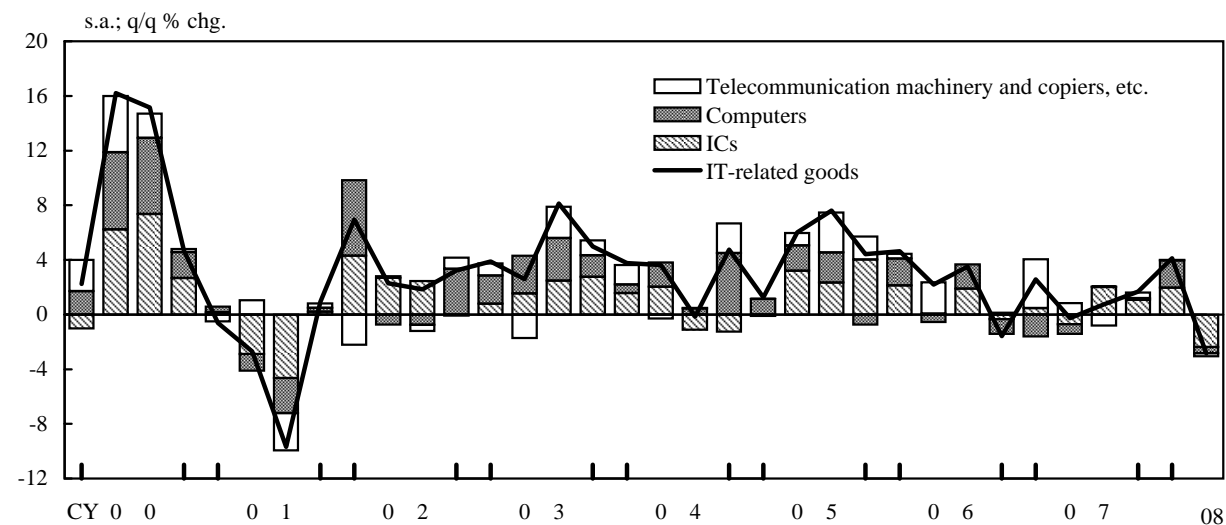
(1) Exports of IT-Related Goods (Real, Breakdown by Goods)



(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.

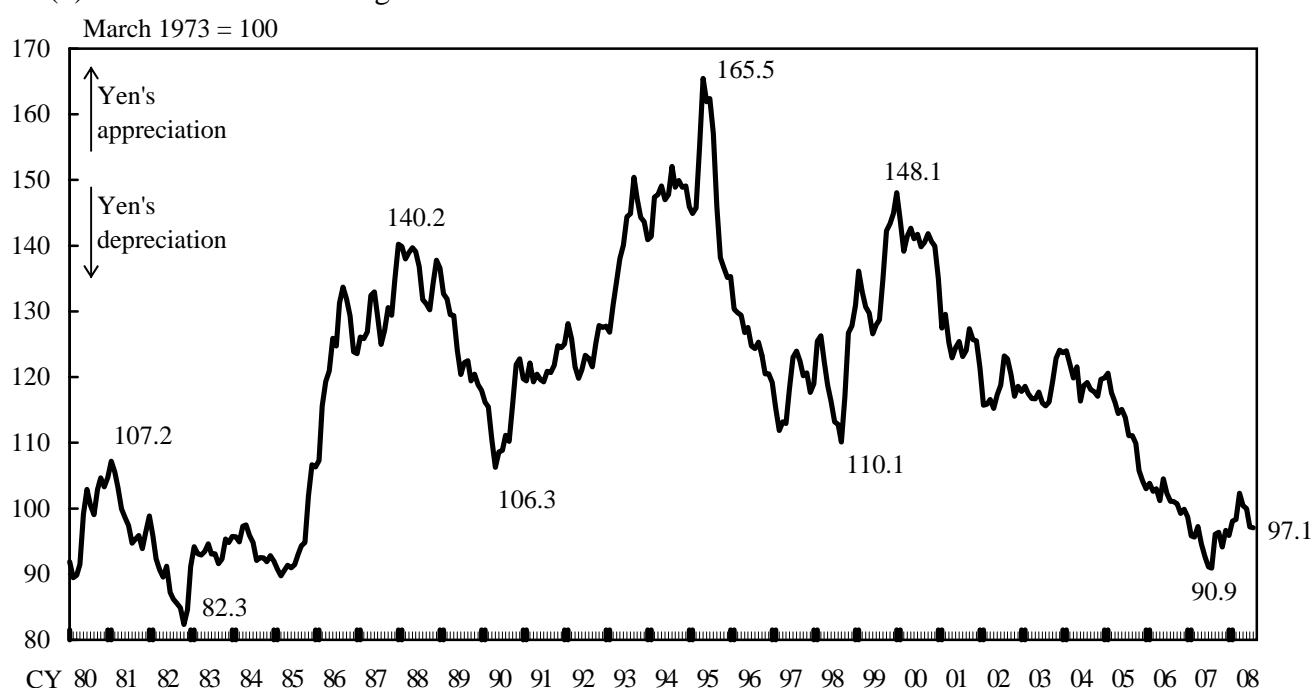
2. 2008/Q2 figures are April-May averages converted into quarterly amount.

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 July 2008 is the average up to July 14.

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	1.0	
European Union ¹		2.0	3.2	2.9	1.9	2.8	1.9	2.7	
	Germany	1.0	3.1	2.6	0.7	2.7	1.1	6.3	
	France	1.9	2.4	2.1	1.9	2.9	1.4	1.8	
	United Kingdom	1.8	2.9	3.1	3.5	2.3	2.2	1.1	
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 Mar.	Apr.	May
United States	<11.4>	5.3	-1.5	-1.1	-2.0	3.2	-1.0	-8.4	-1.5	-6.7	1.5
EU	<10.5>	0.8	4.0	3.1	2.7	-3.3	-1.0	-2.4	14.3	-9.1	0.5
East Asia	<40.9>	8.8	3.2	-0.9	1.4	0.0	2.2	-3.6	4.0	-5.1	-2.2
China	<20.6>	10.9	5.7	-0.3	1.3	-0.1	0.8	-2.0	2.3	-4.0	1.2
NIEs	<8.9>	12.3	-3.9	-3.0	1.1	0.4	3.0	-3.7	1.7	-0.7	-8.7
Korea	<4.4>	10.7	-3.5	0.7	-1.1	0.4	3.3	-8.1	-3.6	1.0	-13.0
Taiwan	<3.2>	15.6	-3.1	-7.4	4.4	-1.8	4.2	1.8	5.3	-1.8	-2.0
ASEAN4 ³	<11.4>	2.7	4.6	-0.1	1.8	-0.0	4.1	-6.4	8.8	-10.3	-3.0
Thailand	<2.9>	8.7	4.3	-0.1	3.3	-0.5	1.2	-4.6	0.3	-2.4	-5.2
Others	<37.2>	2.9	-0.5	-1.1	2.7	-0.4	0.9	-3.3	7.0	-6.9	-0.2
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-4.0	5.9	-5.7	-1.7

(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 Mar.	Apr.	May
Raw materials ⁴	<35.4>	1.2	0.2	-0.5	3.7	-0.4	1.6	-5.3	10.1	-10.8	-1.4
Intermediate goods	<14.8>	3.1	2.0	-0.3	2.2	-1.9	-1.7	0.9	6.1	-3.5	2.7
Foodstuffs	<8.3>	-4.0	-9.6	-6.0	-2.0	-6.2	-1.0	-1.8	3.1	-4.3	1.4
Consumer goods ⁵	<8.1>	4.3	-0.1	6.1	-1.2	-2.8	0.6	-7.1	7.3	-11.4	-0.6
IT-related goods ⁶	<11.3>	17.2	4.2	-0.3	0.7	1.7	4.1	-2.8	4.0	-0.1	-6.1
Capital goods and parts ⁷	<12.8>	16.8	8.4	1.0	1.1	4.5	1.2	-3.4	0.0	3.5	-6.9
Excluding aircraft	<11.8>	17.7	7.8	2.7	3.3	1.8	0.1	1.7	8.7	0.8	-4.5
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-4.0	5.9	-5.7	-1.7

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

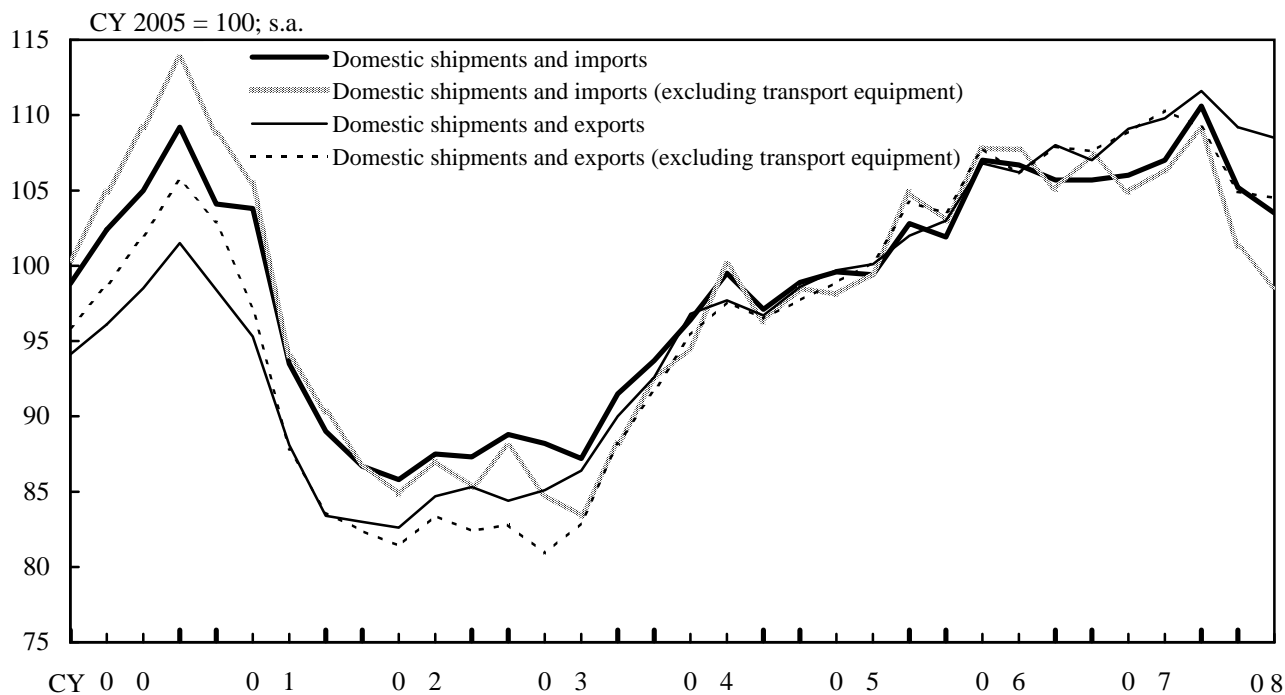
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

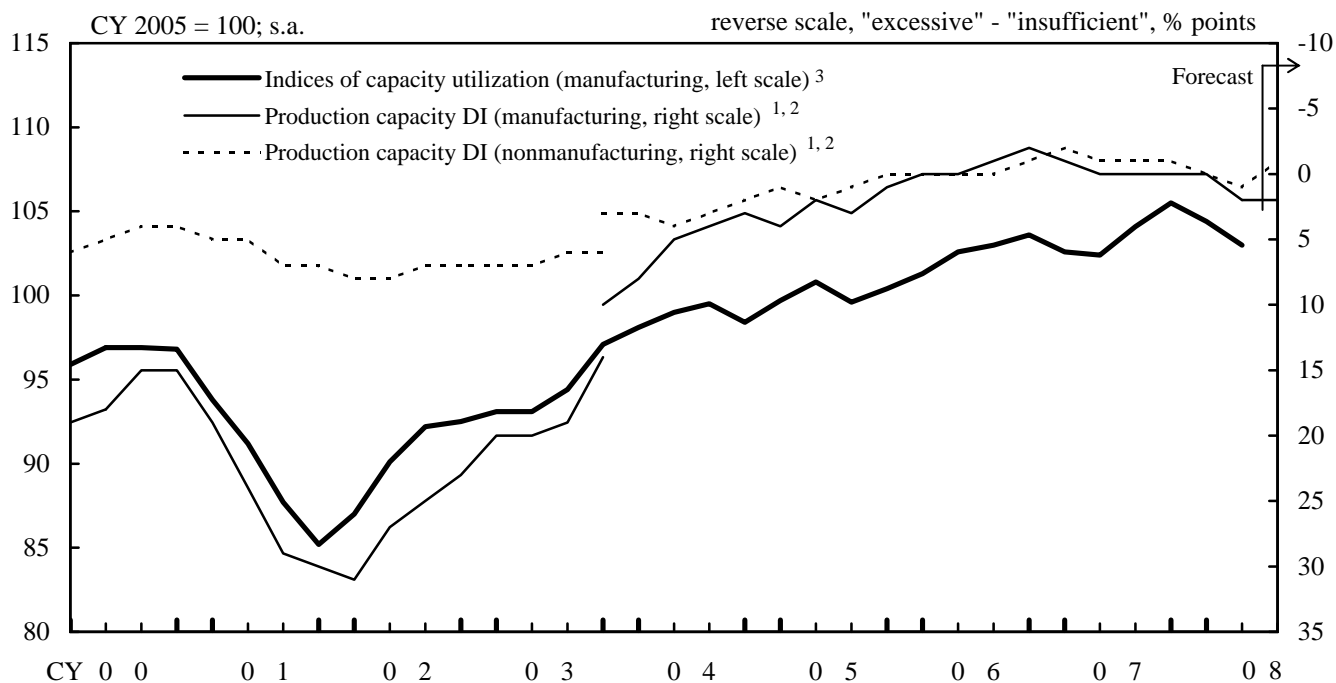
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2008/Q2 are April-May averages.

(2) Indices of Capacity Utilization and Production Capacity DI



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

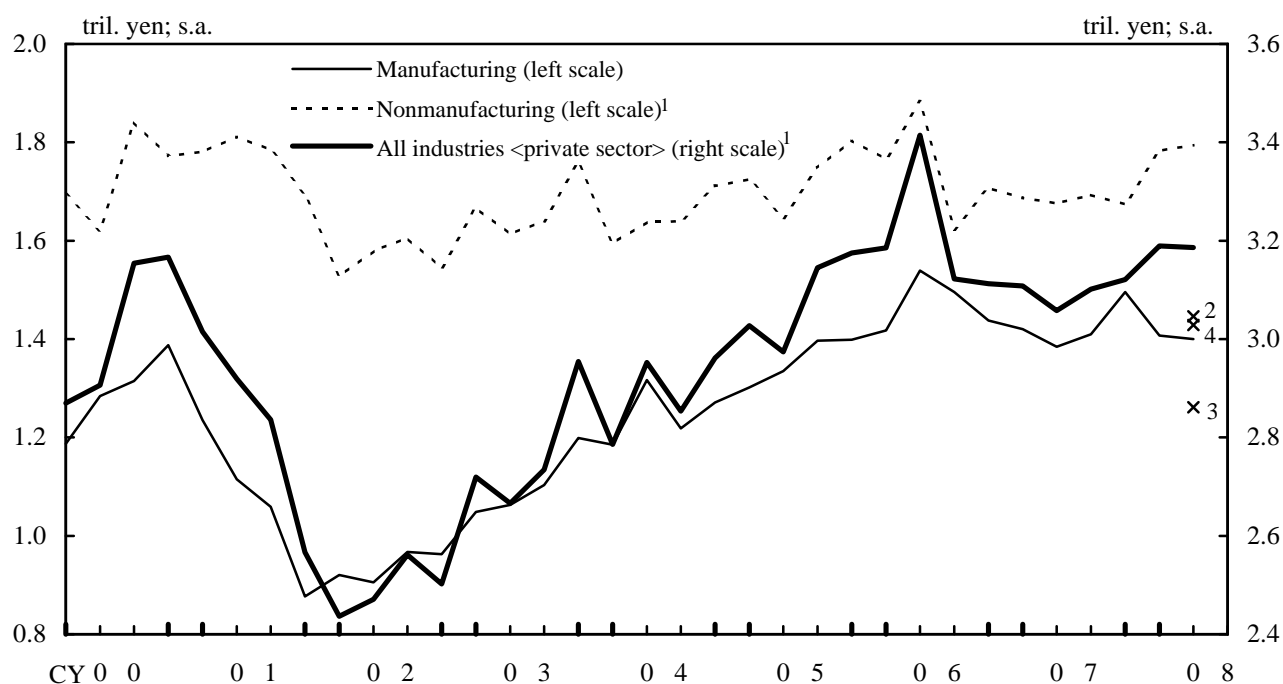
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2008/Q2 is April-May average.

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."

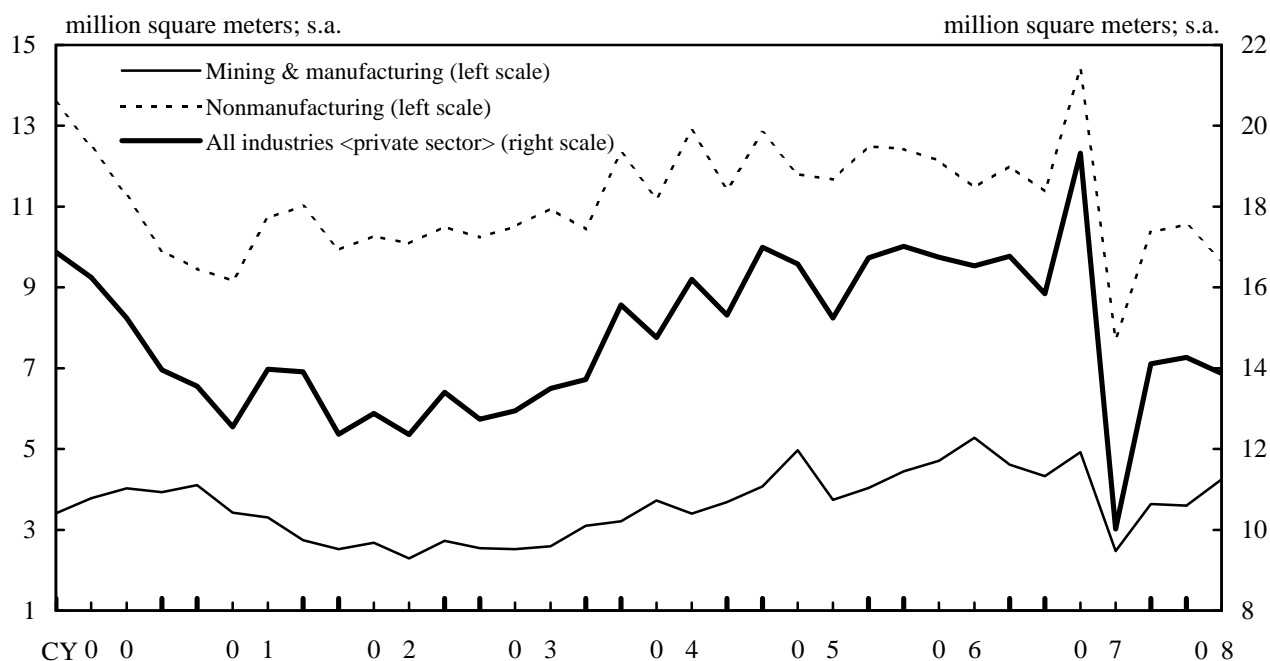
Leading Indicators for Business Fixed Investment

(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 averages of April-May in terms of quarterly amount.

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

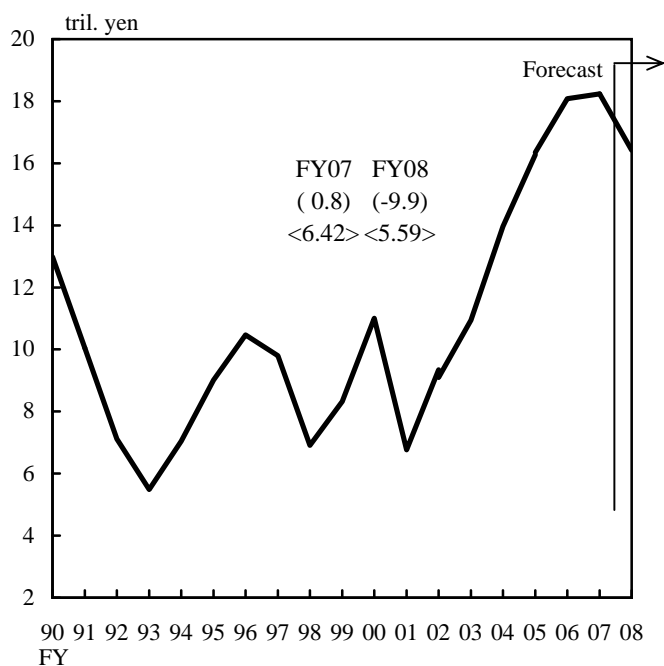


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.
 3. Figures for 2008/Q2 are averages of April-May in terms of quarterly amount.

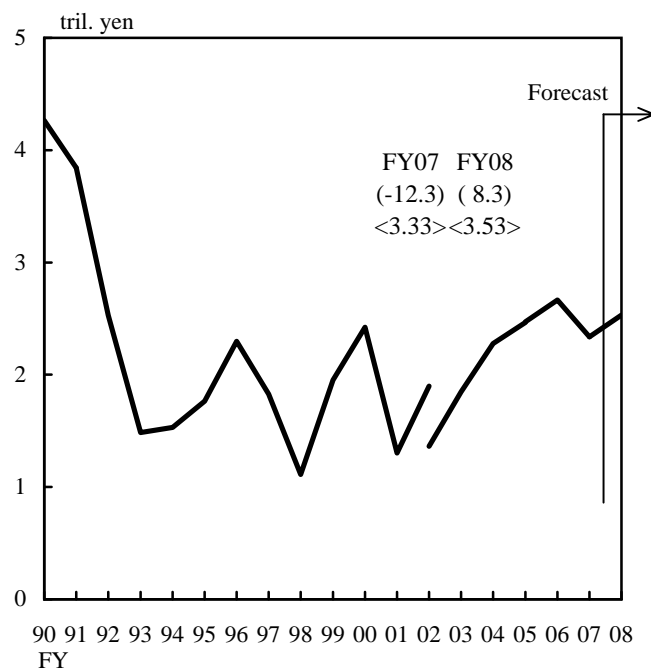
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

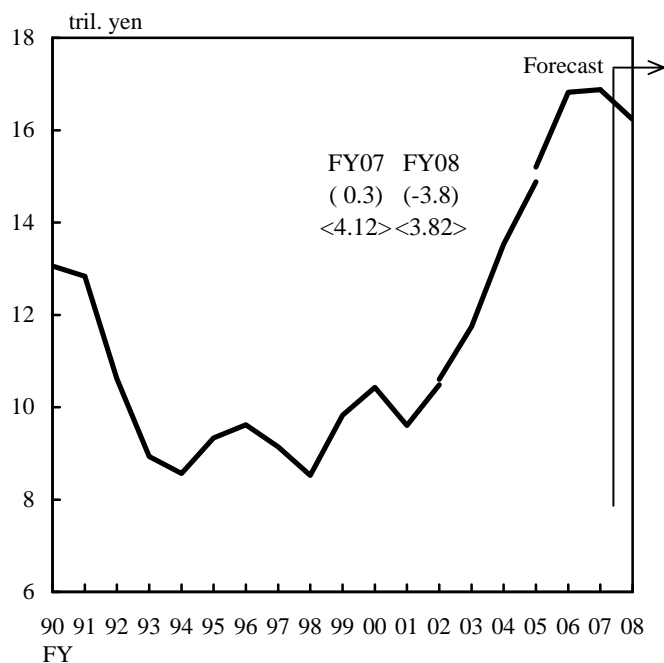
(1) Large Manufacturing Enterprises



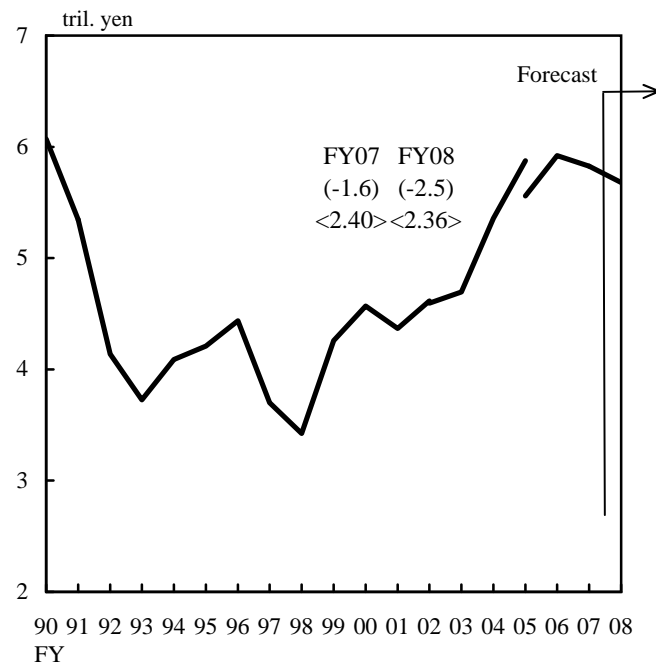
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



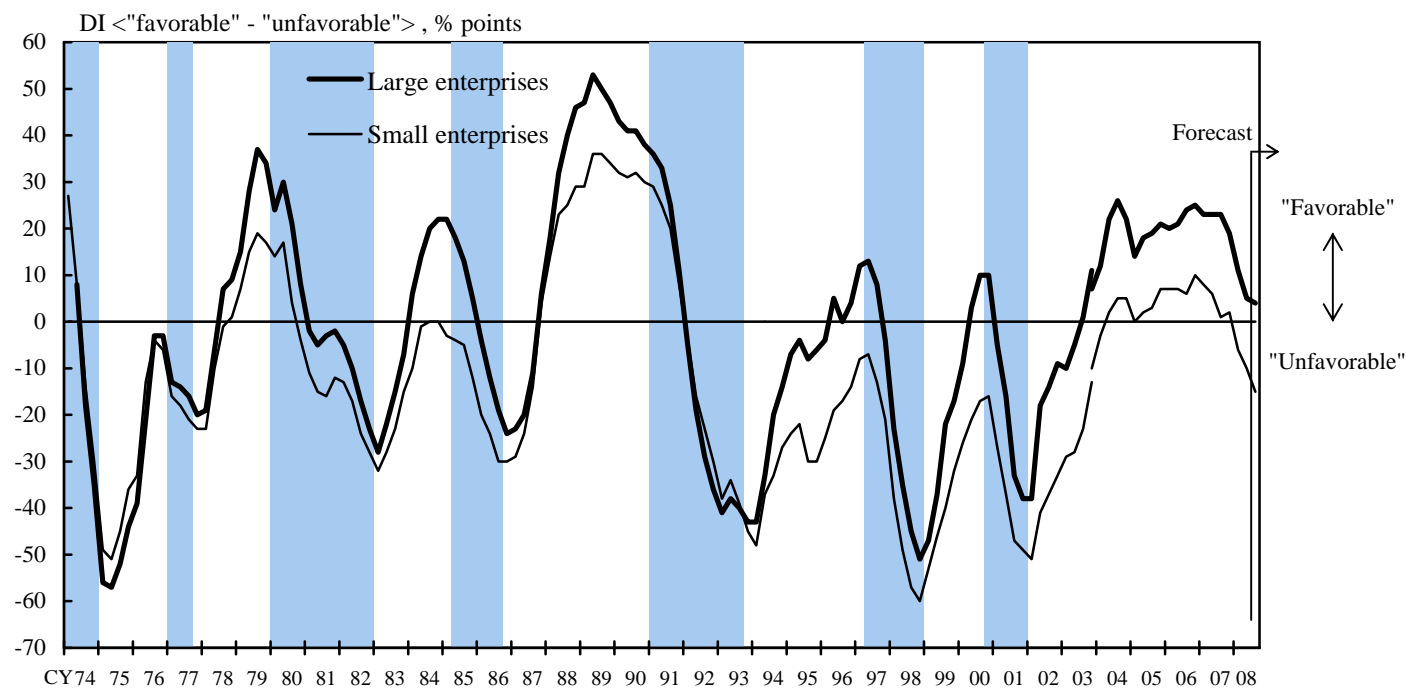
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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.

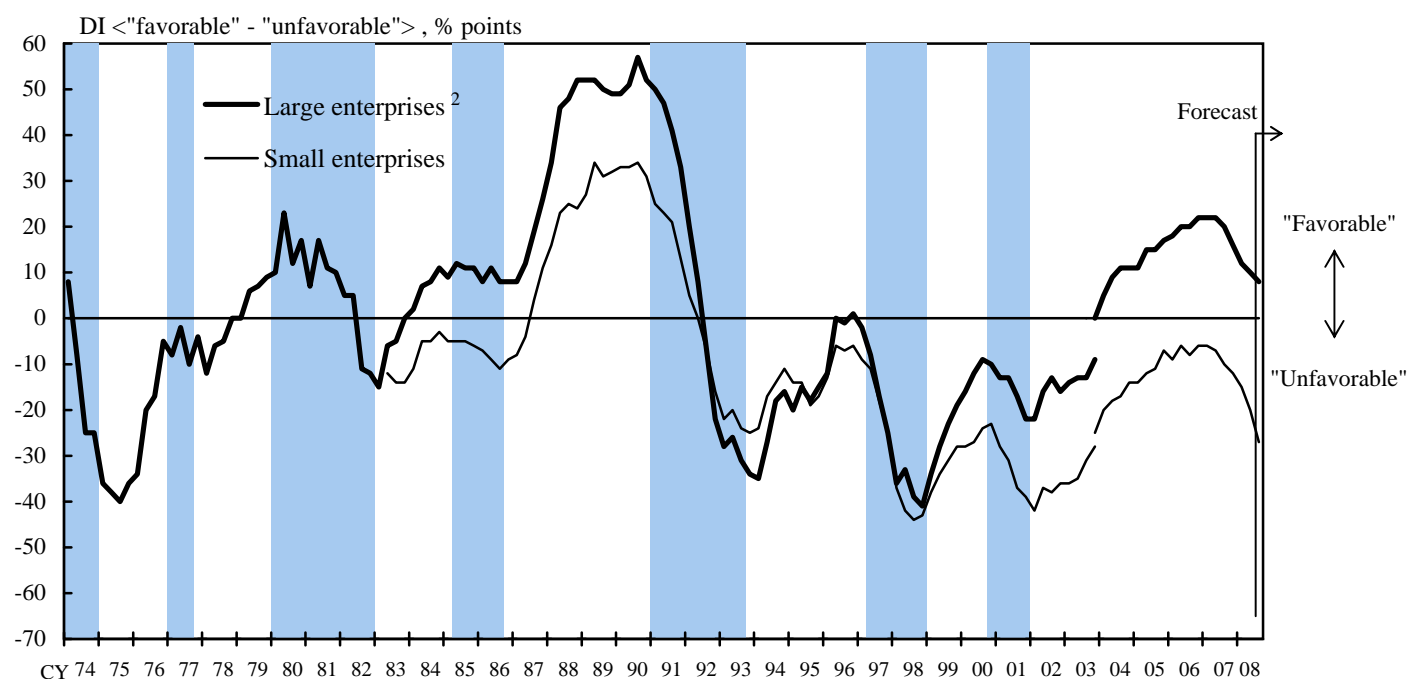
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

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.

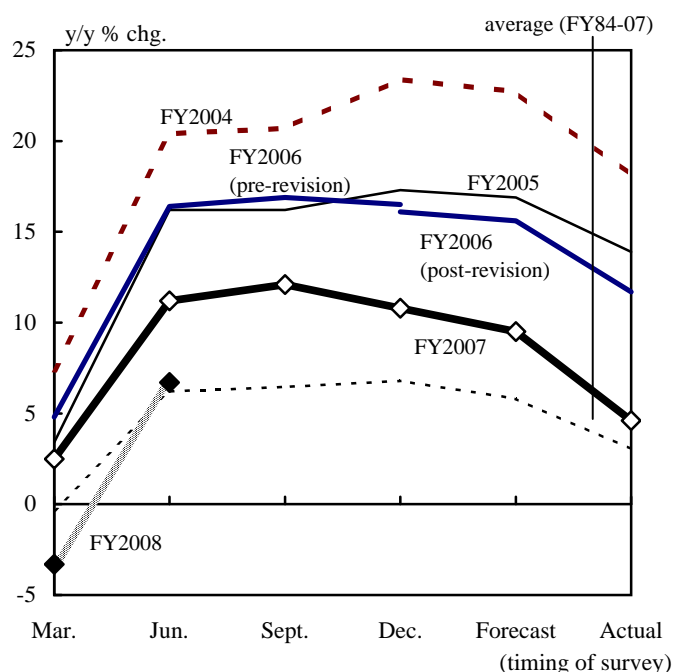
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

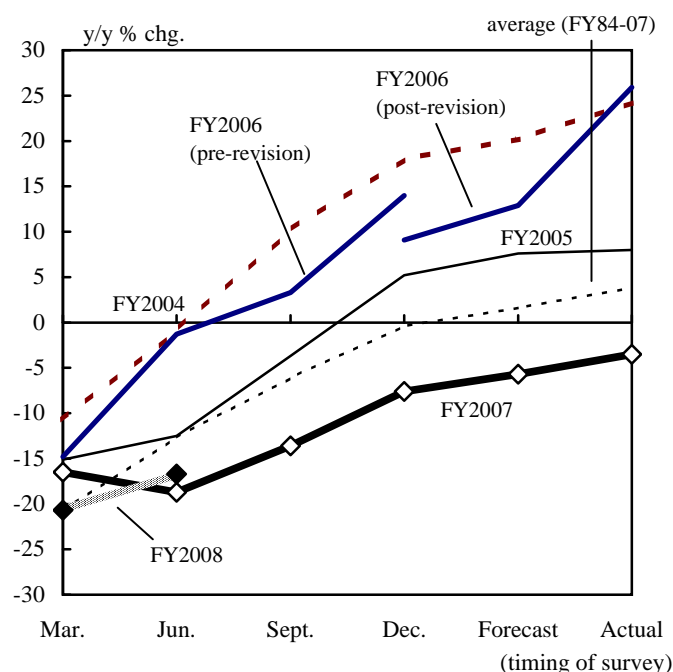
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

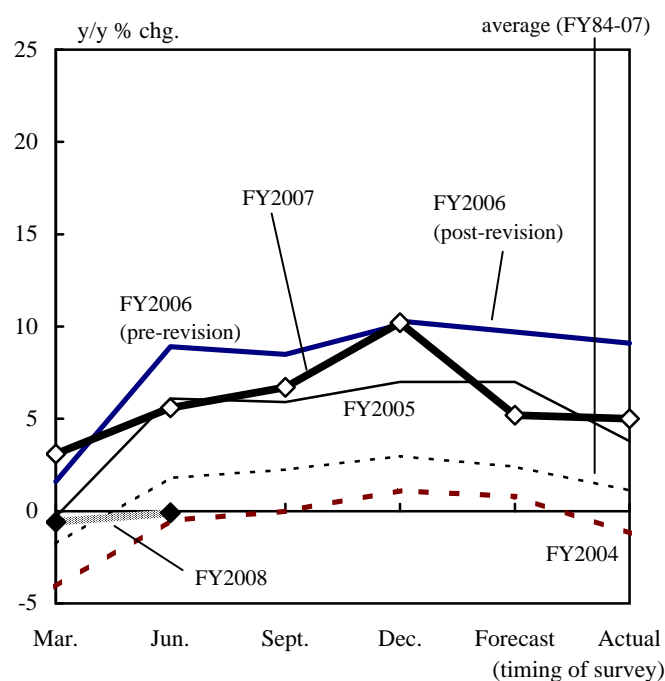
(1) Large Manufacturing Enterprises



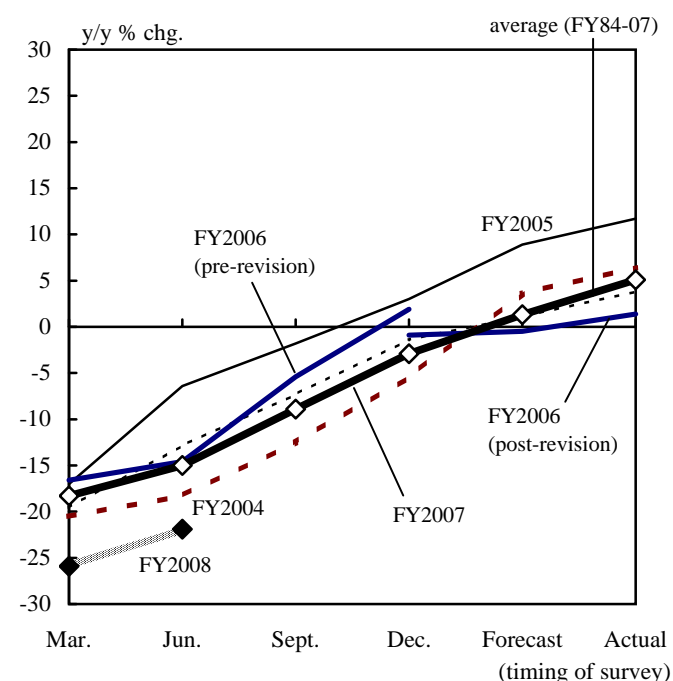
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



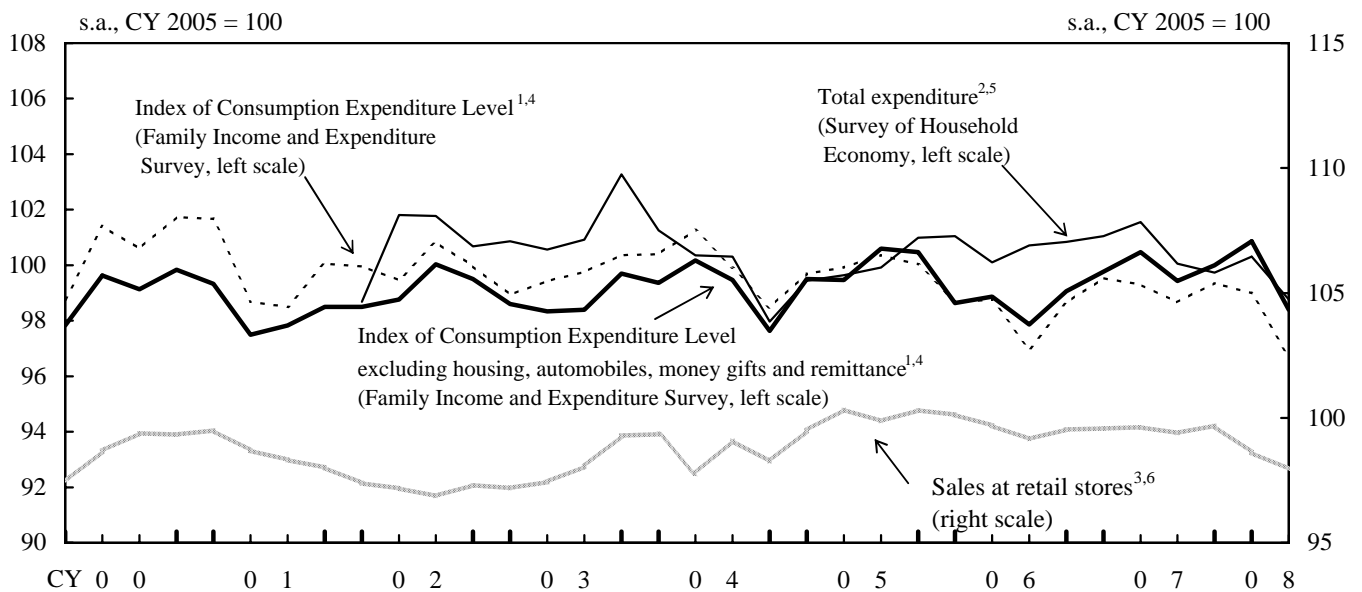
Notes: 1. Includes land purchasing expenses and excludes software investment.

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

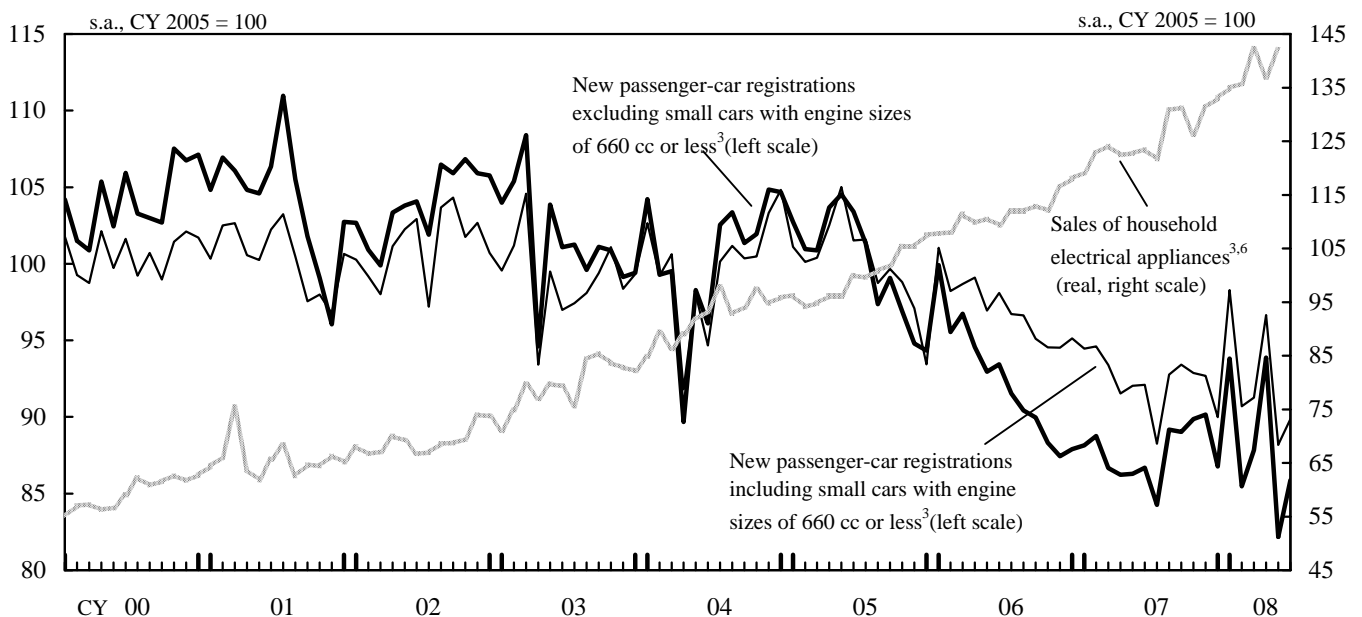
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

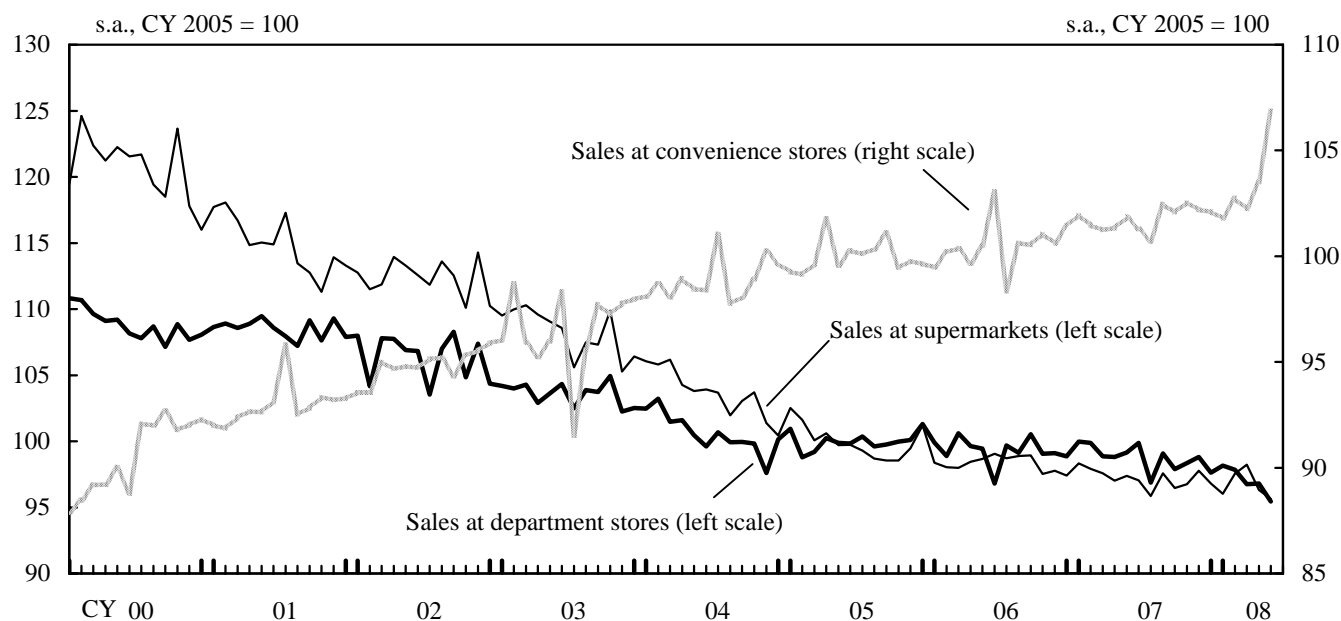


(2) Sales of Durable Goods

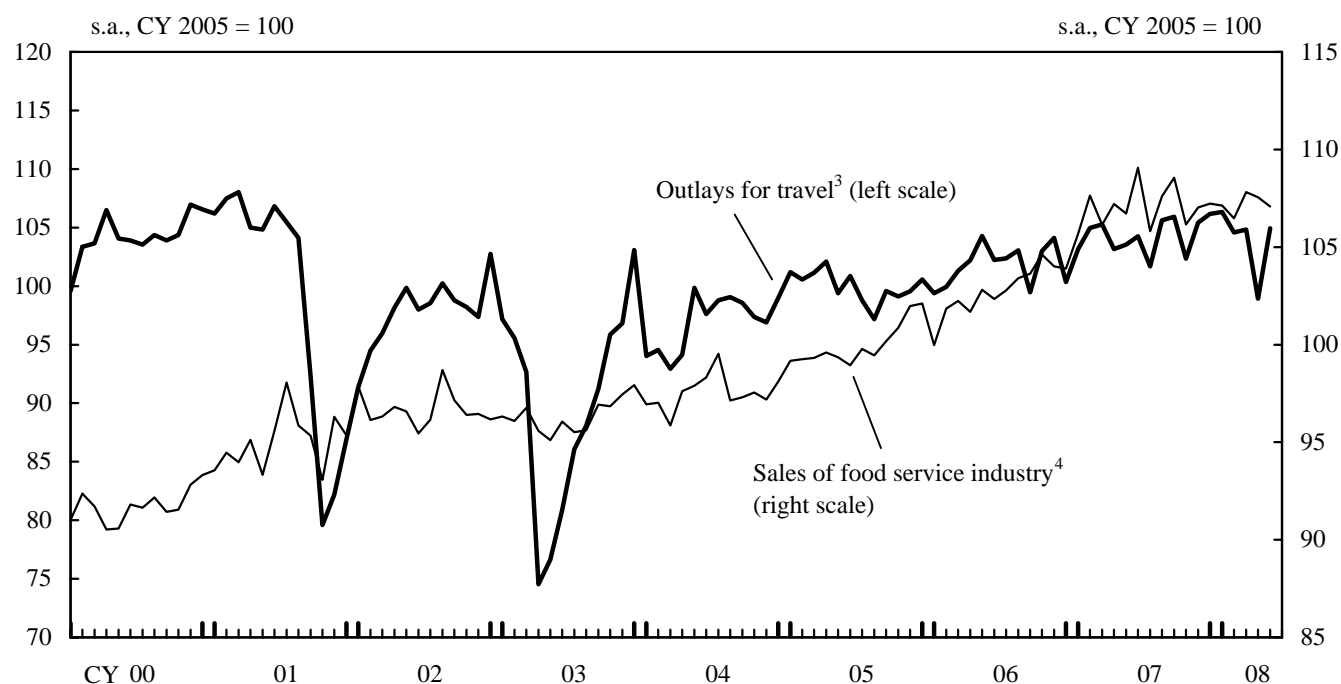


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of consumption expenditure level is based on two-or-more-person households, 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-May averages in terms of quarterly amount.

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).

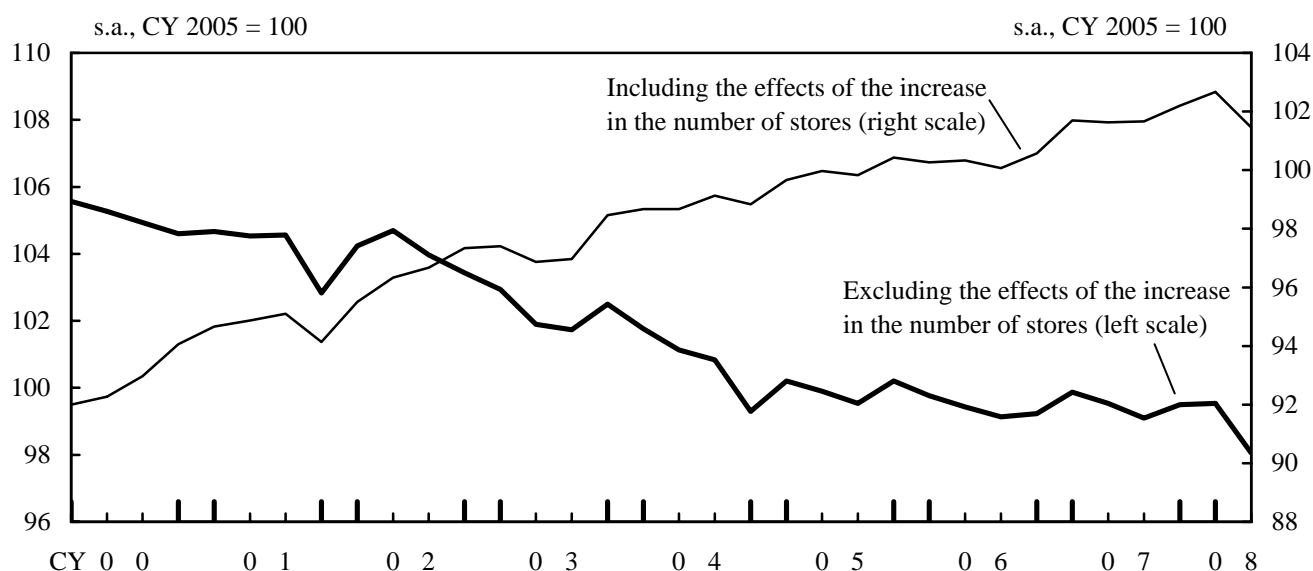
3. As for "outlays for travel," there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

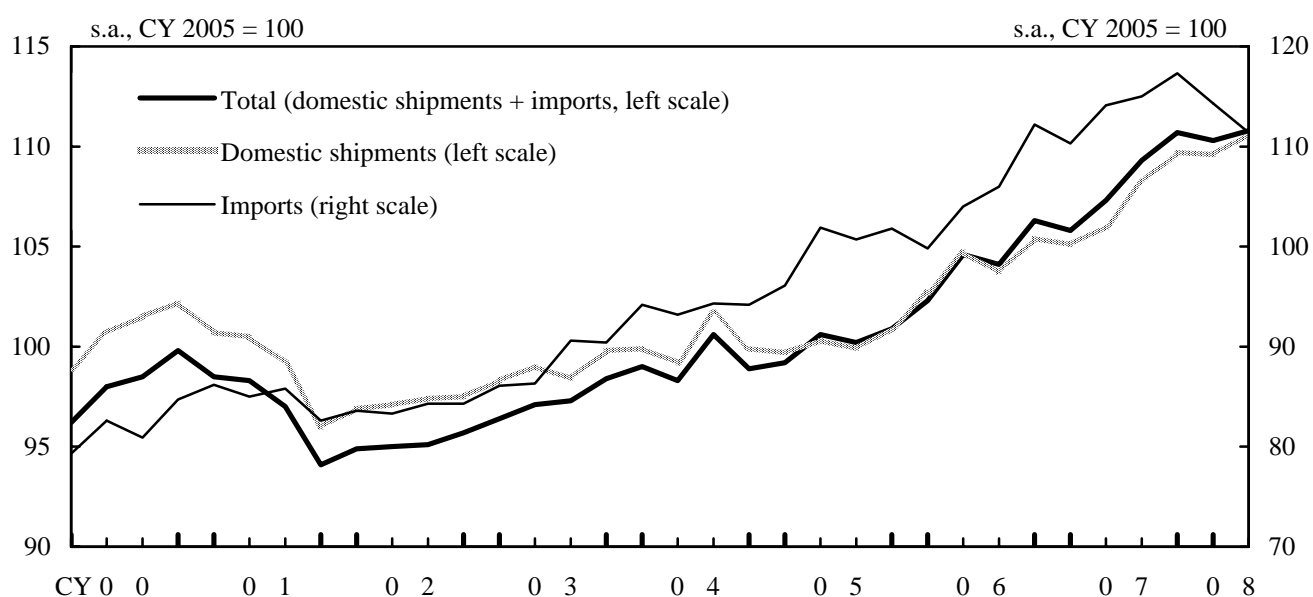
Indicators for Private Consumption (3)

(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-May averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

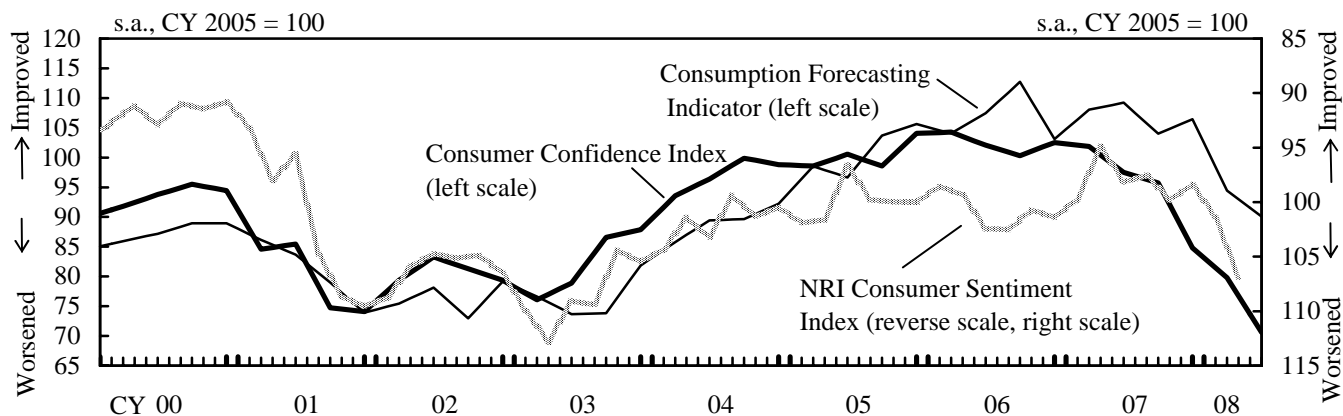


Note: Data for 2008/Q2 figures are those of April-May averages in terms of quarterly amount.

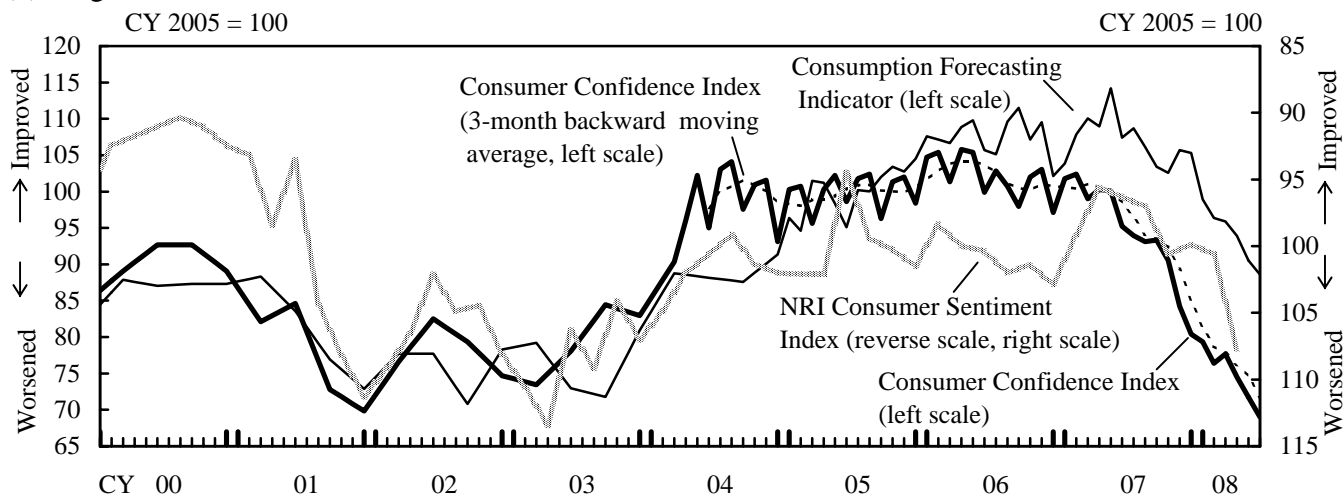
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

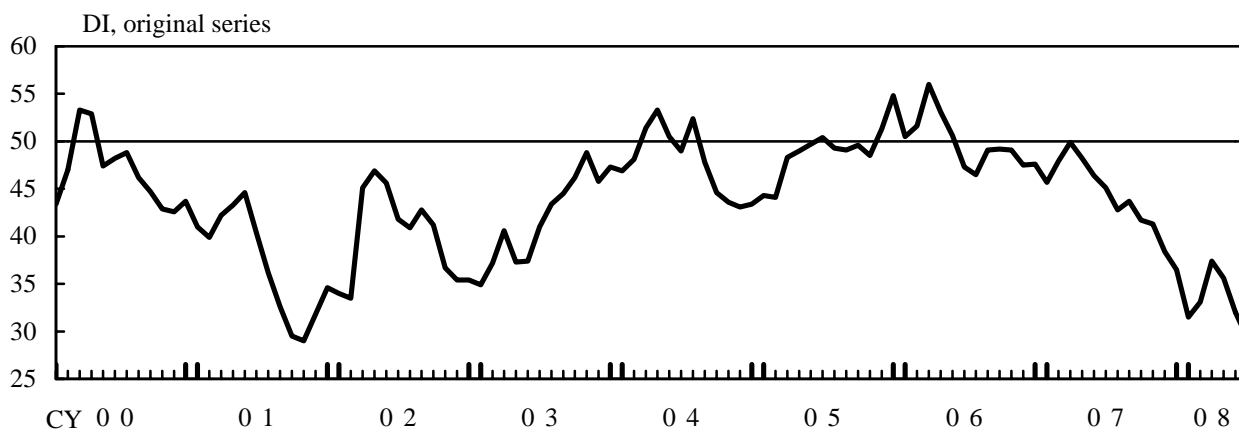
(1) Seasonally Adjusted Series



(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."

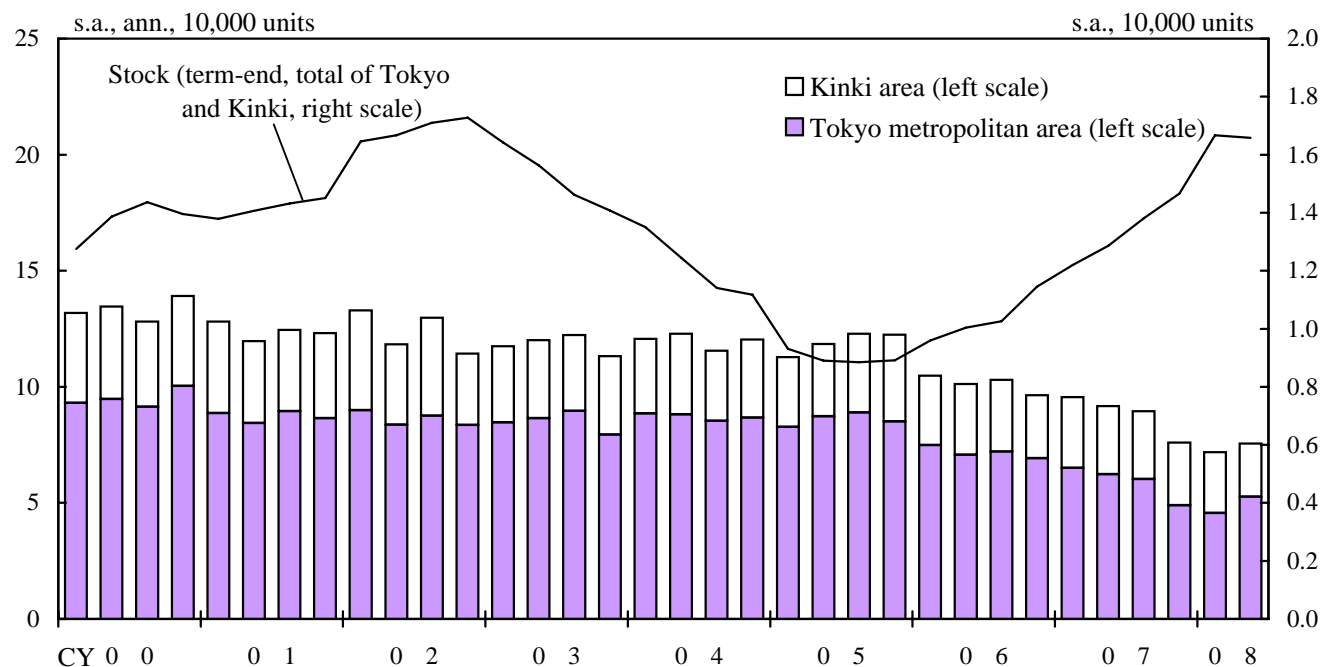
Indicators for Housing Investment

(1) Housing Starts



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

(2) Sales of Apartments



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

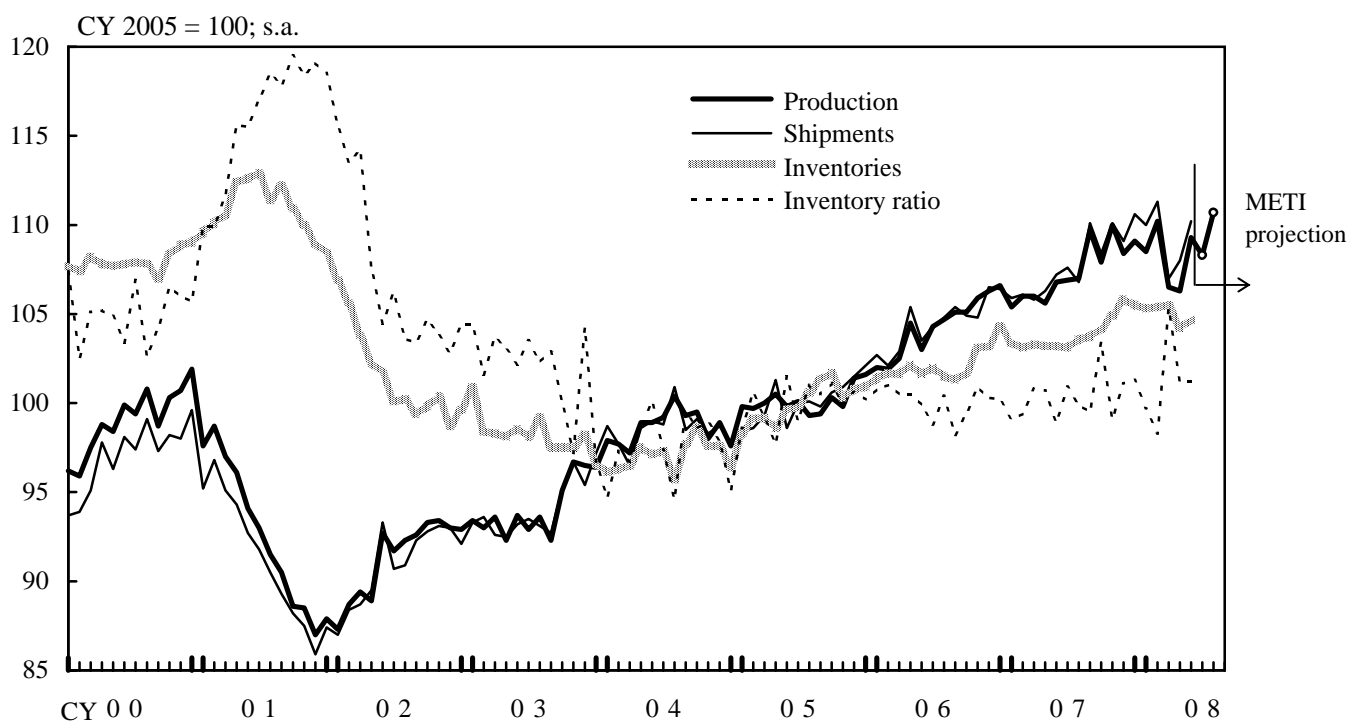
2. Figures of total apartments sales for 2008/Q2 are those of April-May averages.

Term-end stocks for 2008/Q2 are those of May.

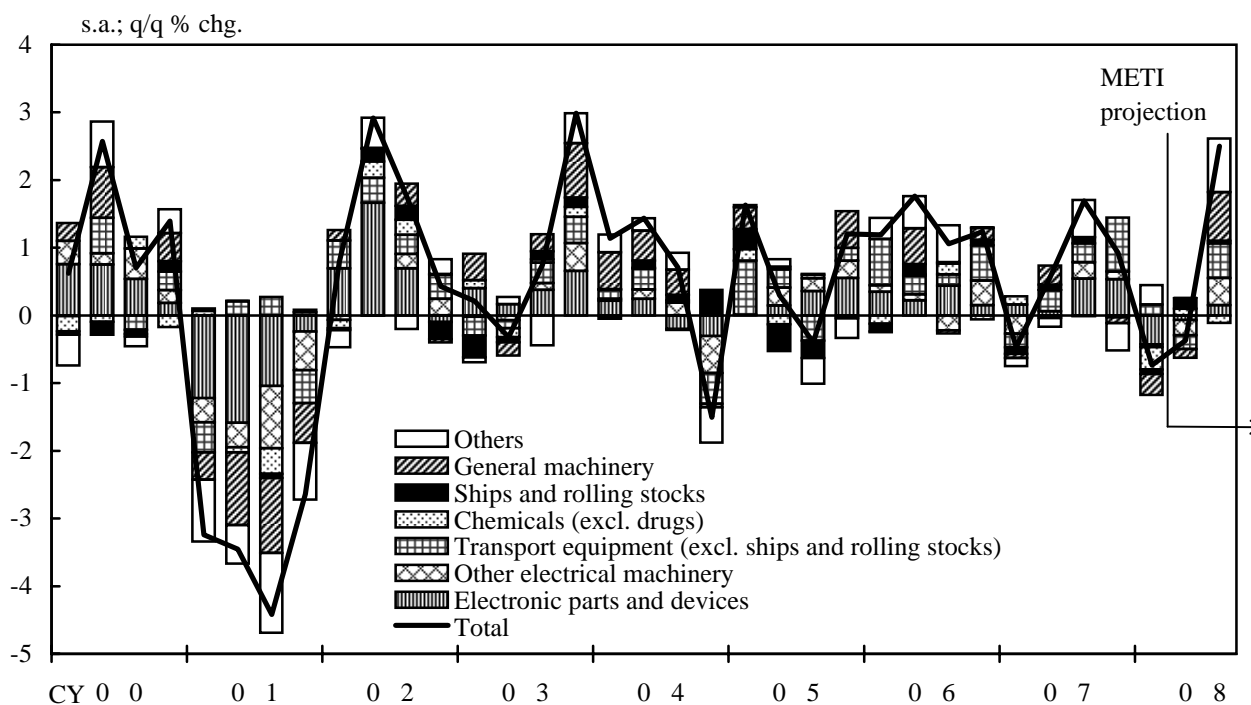
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry



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

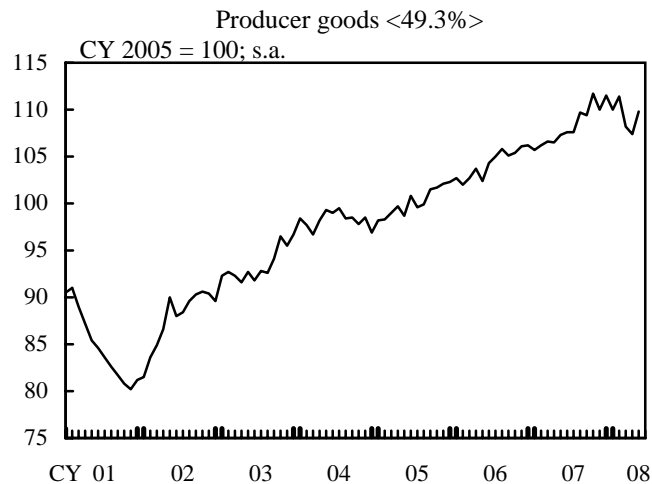
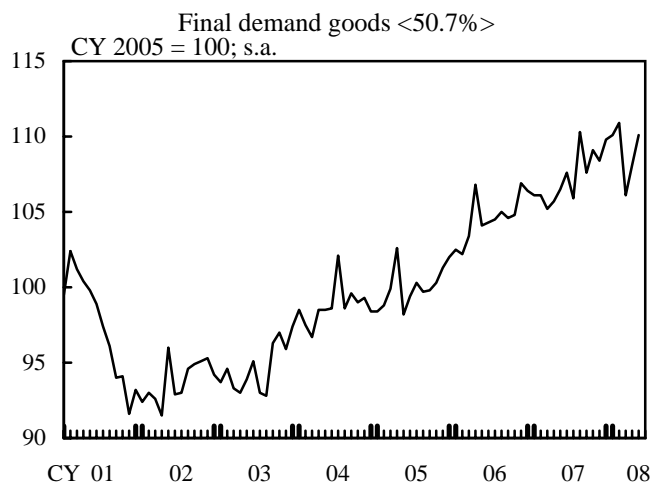
2. Figures up to 2003/Q1 are on the 2000 base.

3. 2008/Q2 figures are based on the actual levels in April and May, and the METI projection level in June. 2008/Q3 figures are based on the assumption that each production level in August and September is the same as that of July.

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

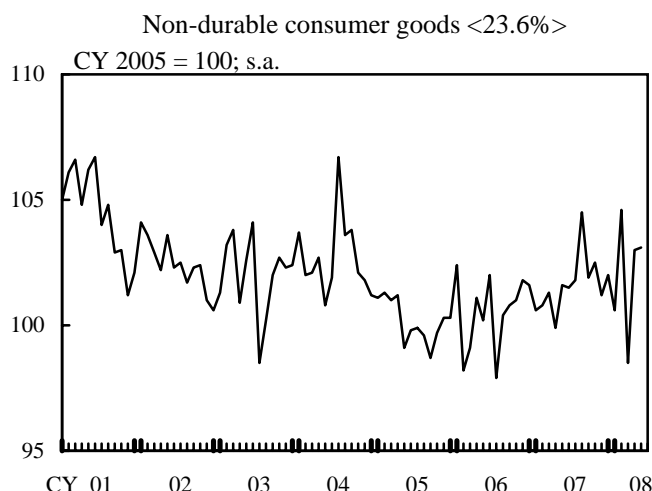
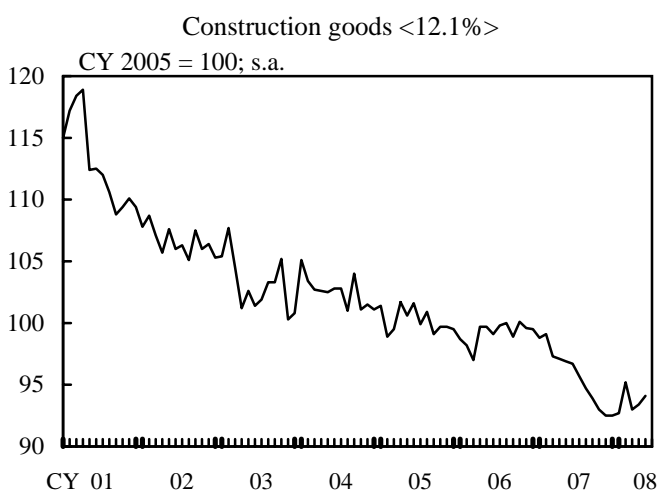
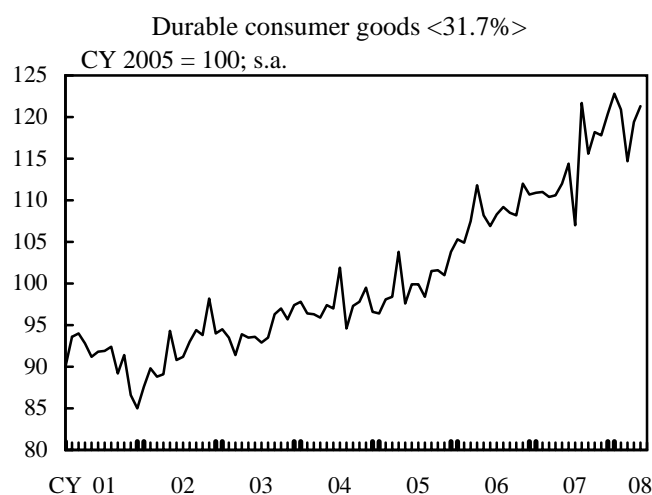
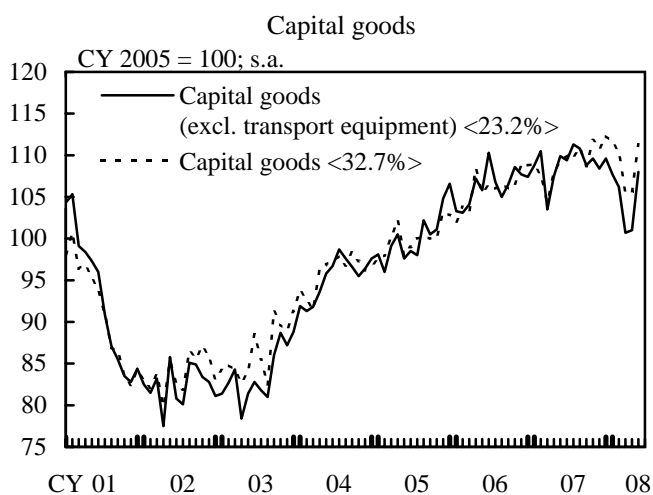
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

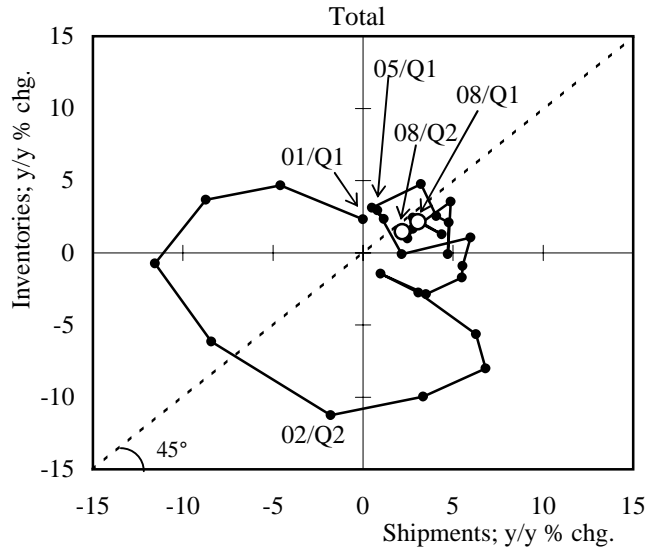
(2) Breakdown of Final Demand Goods



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

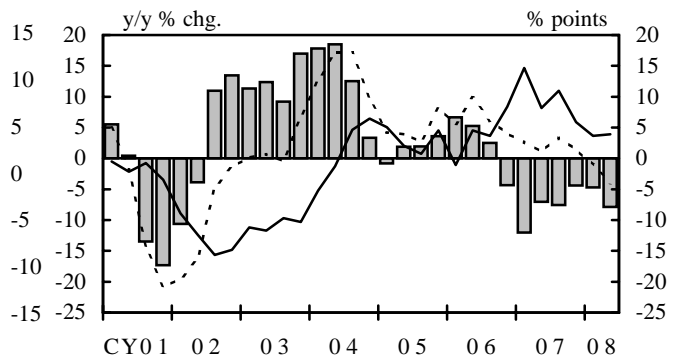
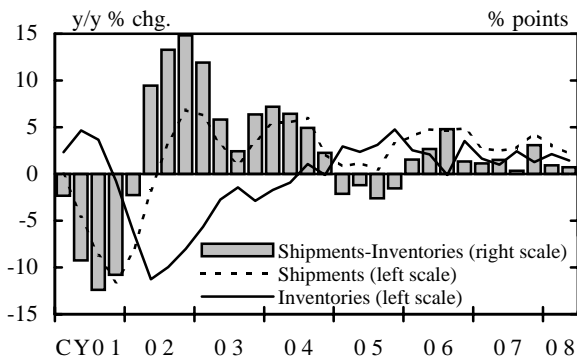
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



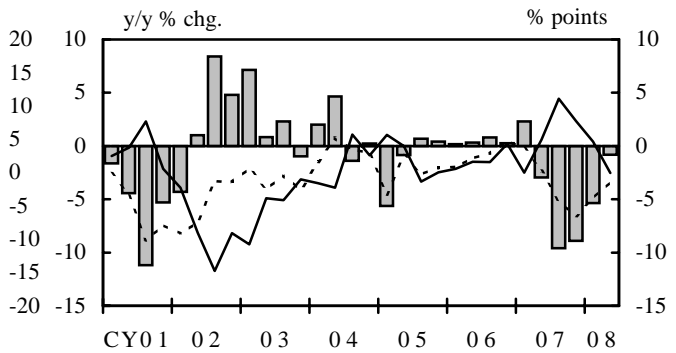
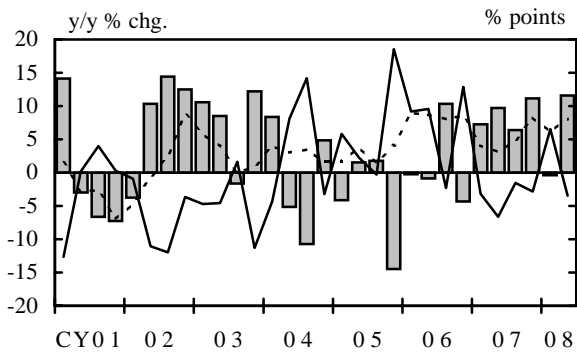
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



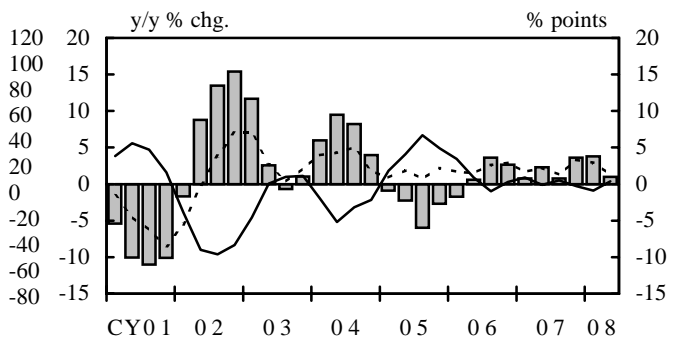
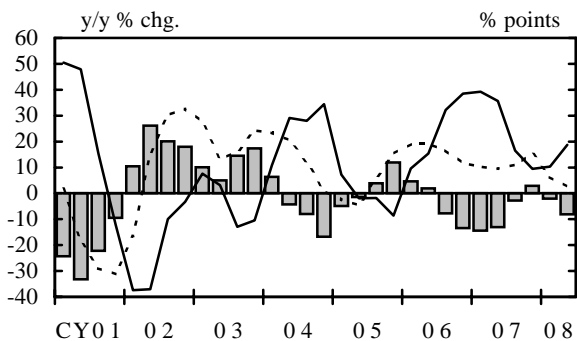
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

(6) Producer Goods Excluding Electronic Parts and Devices

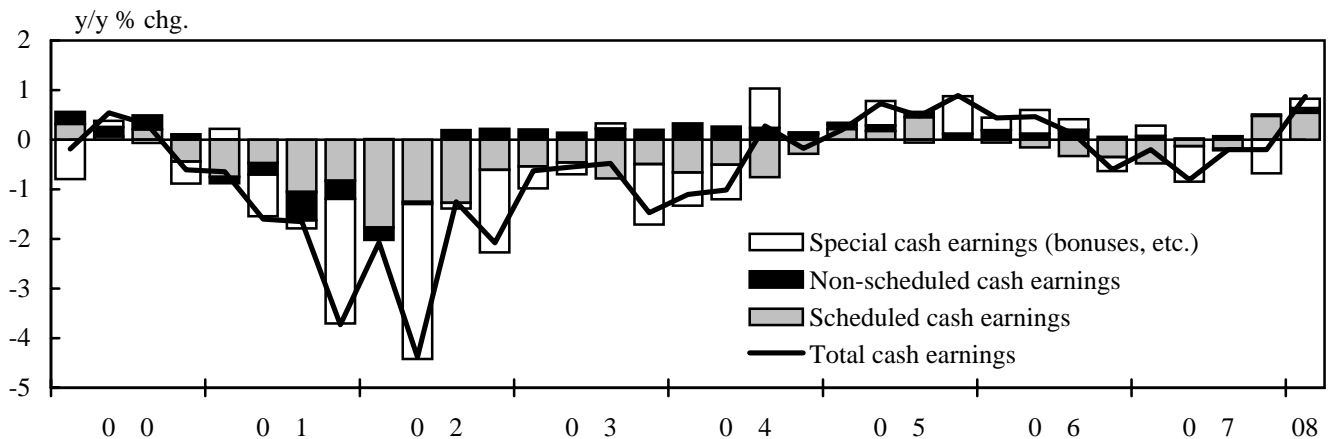
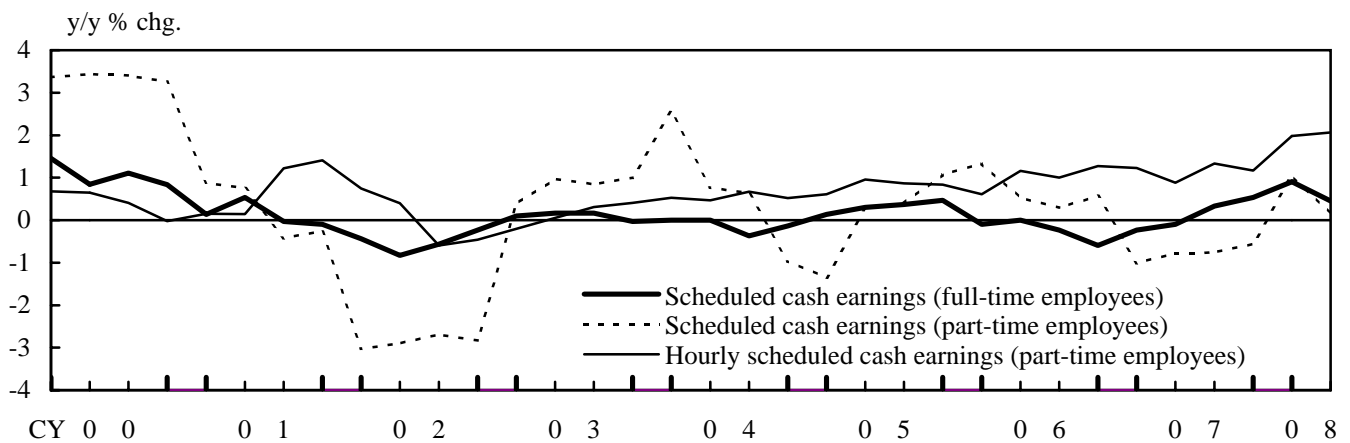
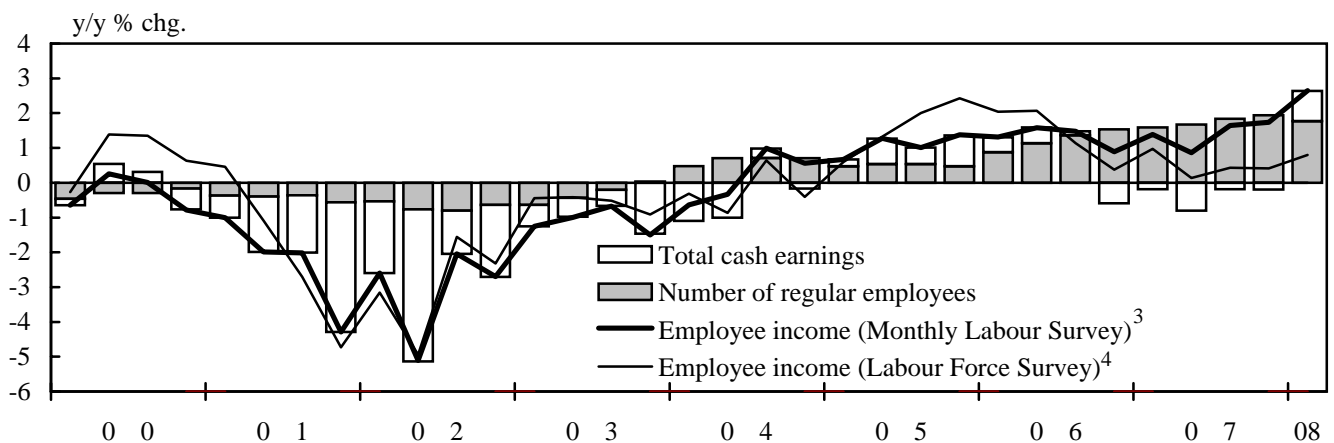


Note: Figures of Shipments for 2008/Q2 are those of April-May averages.

Inventories for 2008/Q2 are those of May.

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).

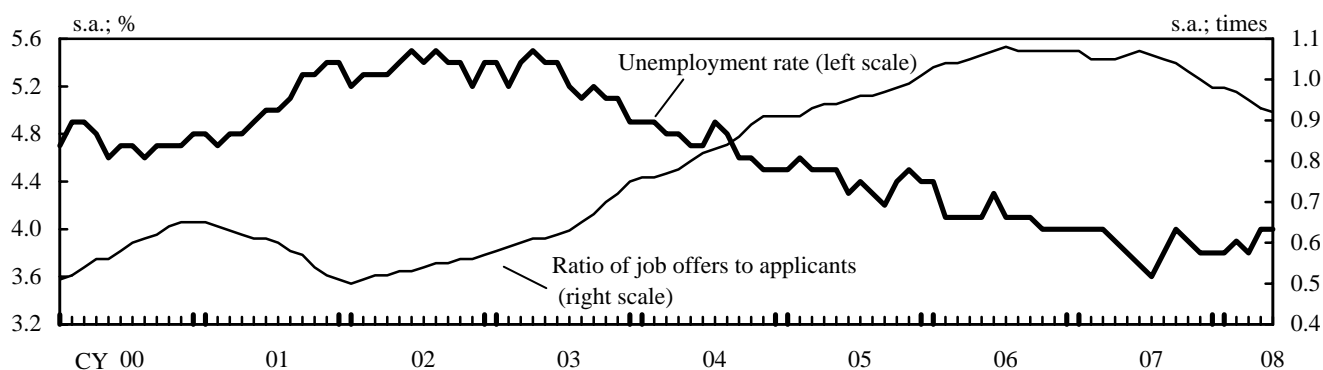
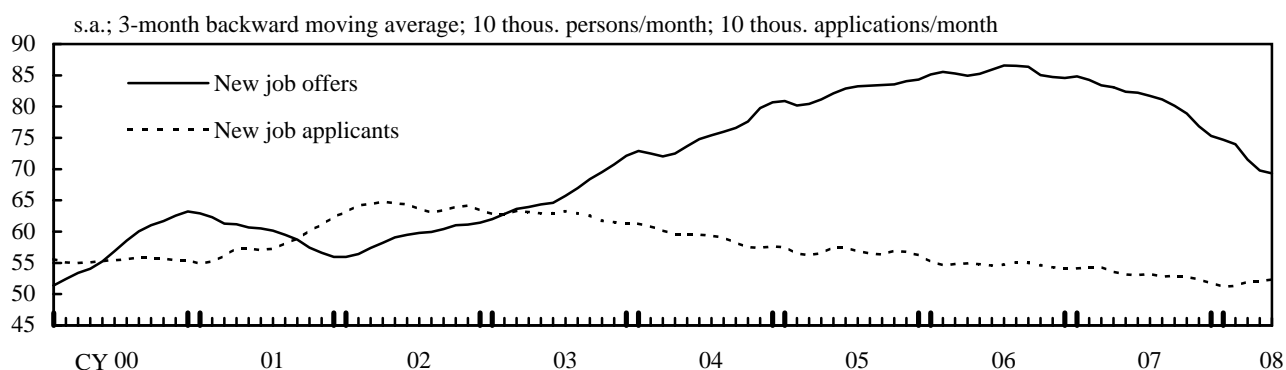
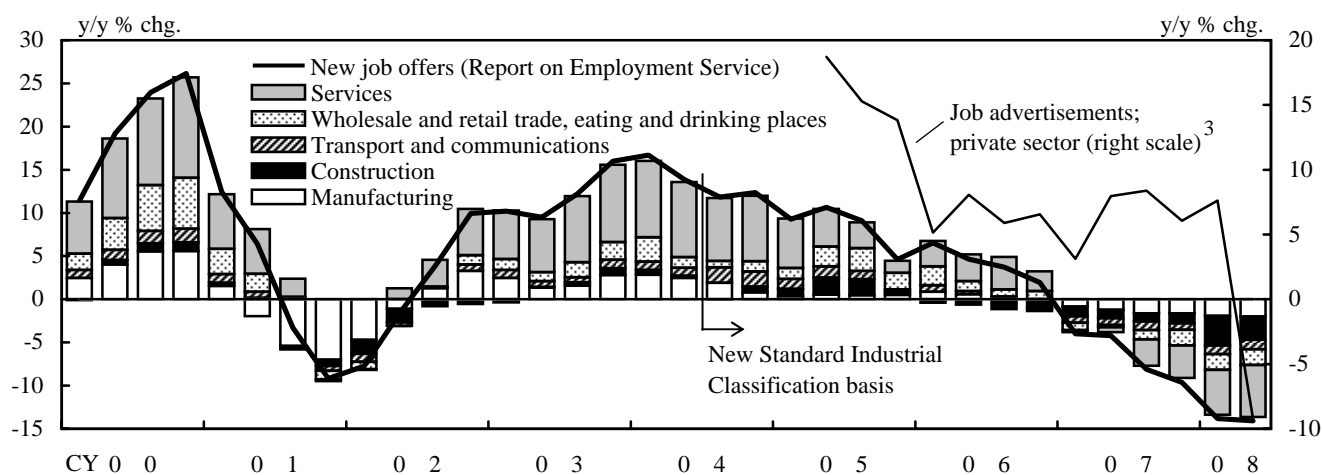
4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).

5. Figures for 2008/Q2 are those of April-May 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^{1,2,4}

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. Figures for 2008/Q2 are those of April-May averages.

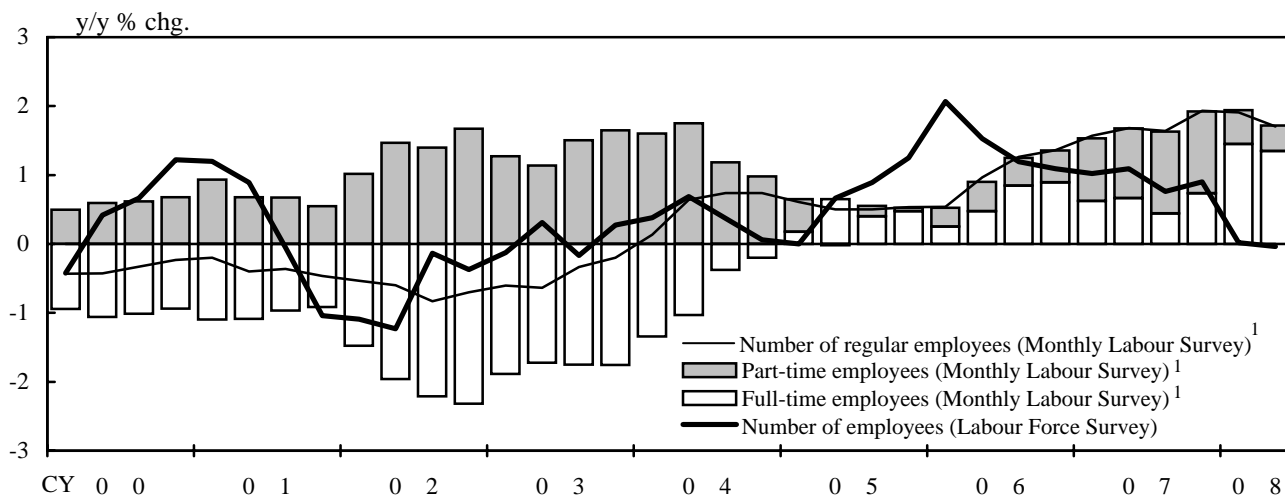
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";

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

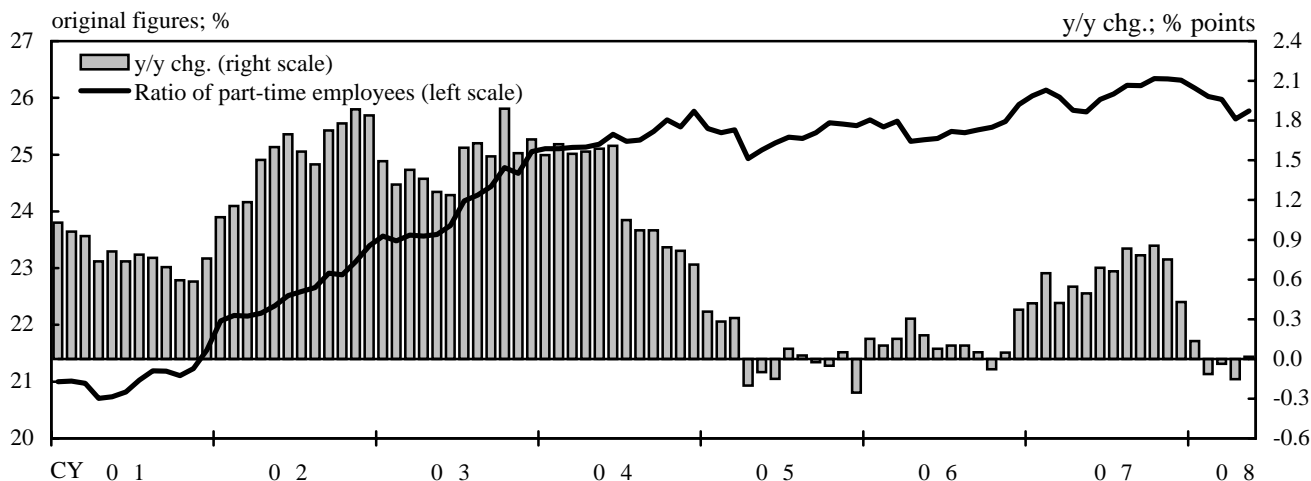
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

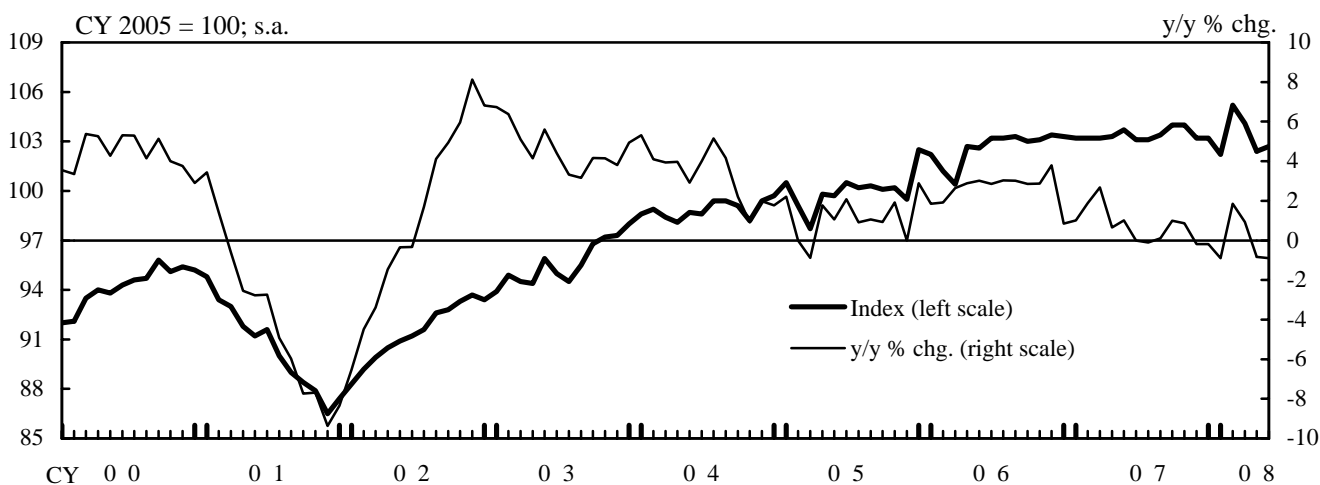
(1) Number of Employees³



(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.

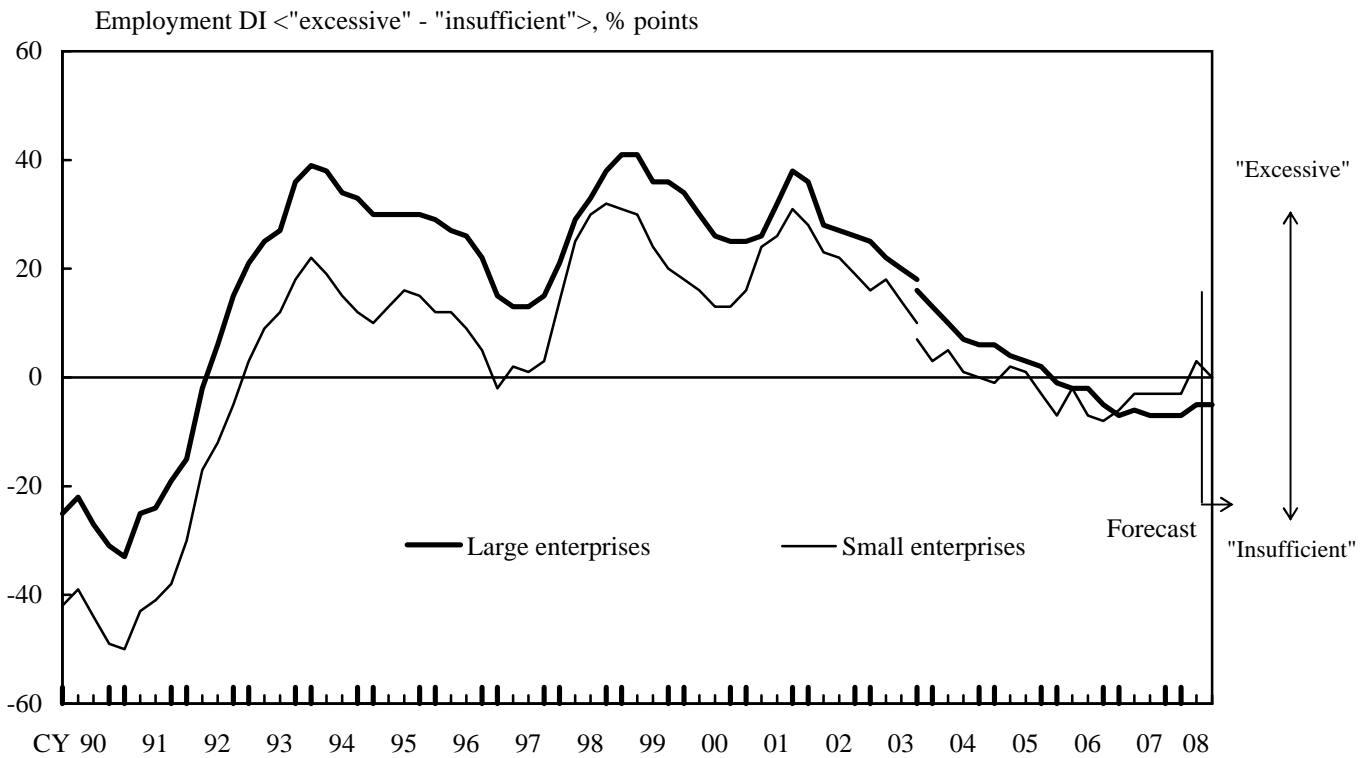
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2008/Q2 are those of April-May averages.

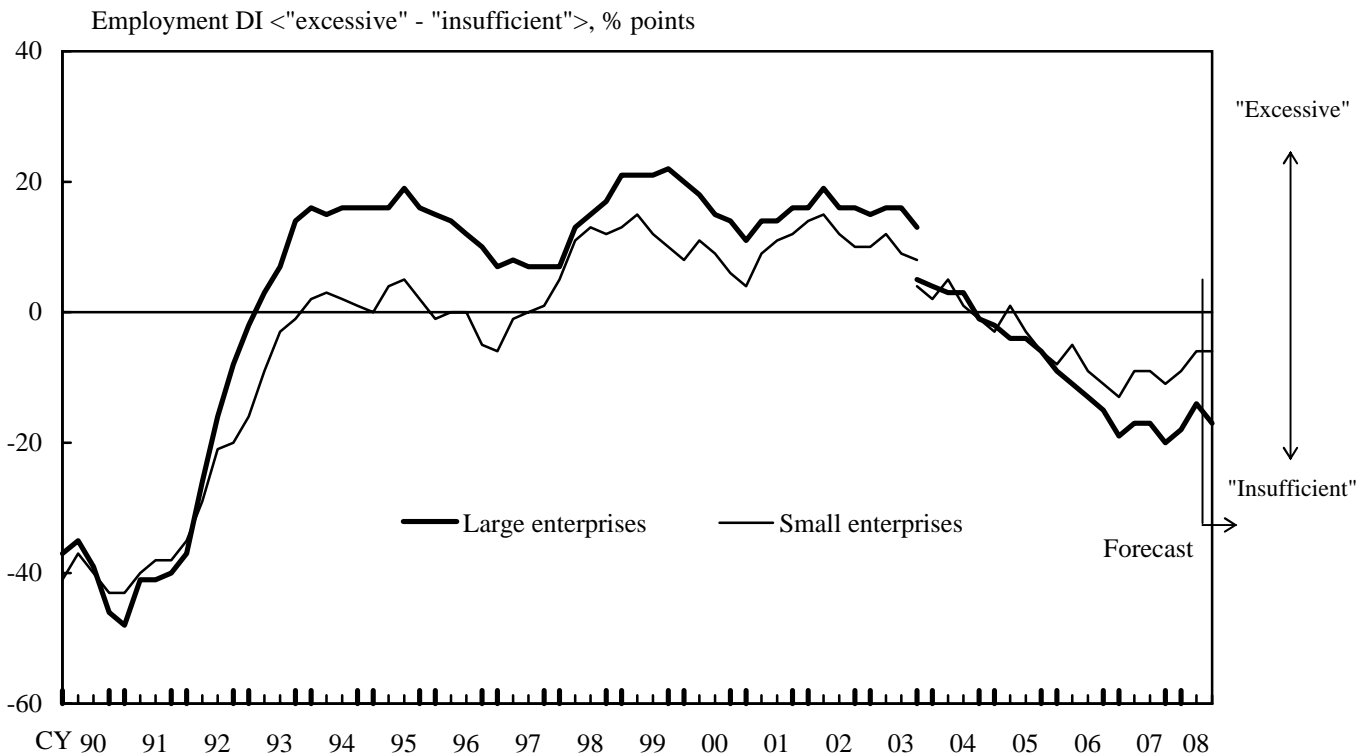
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

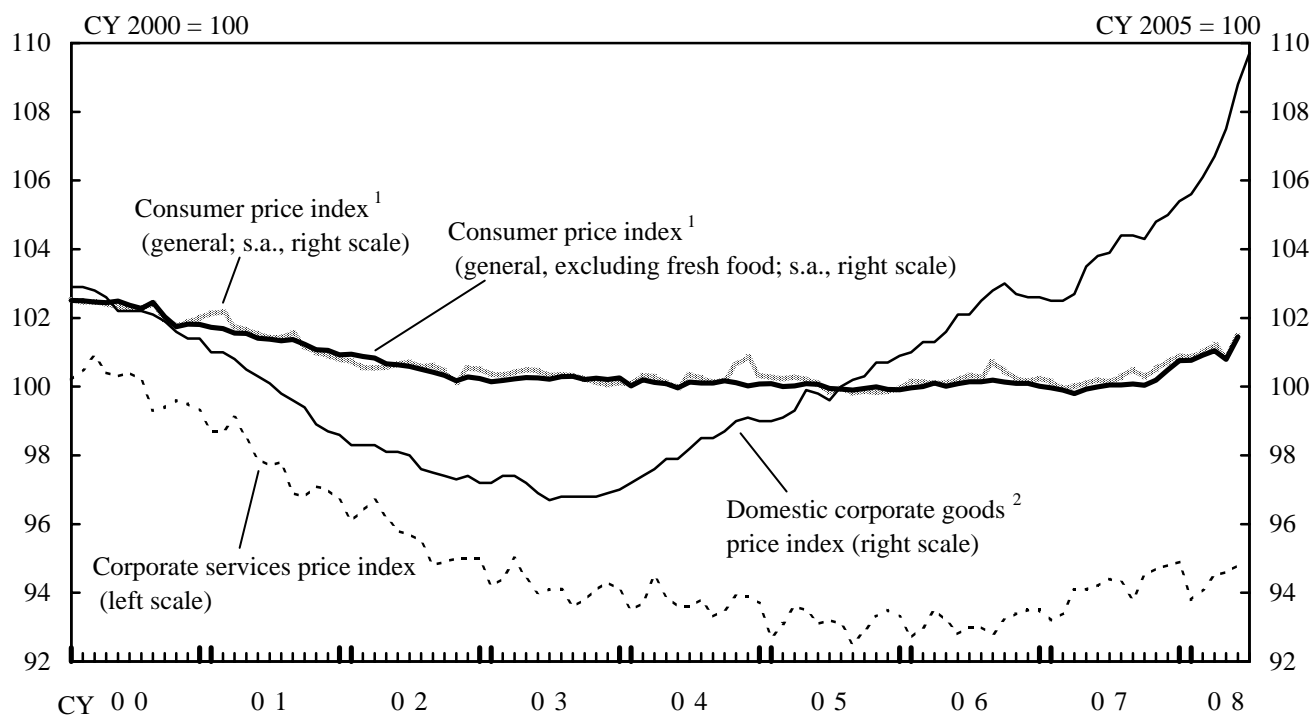


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

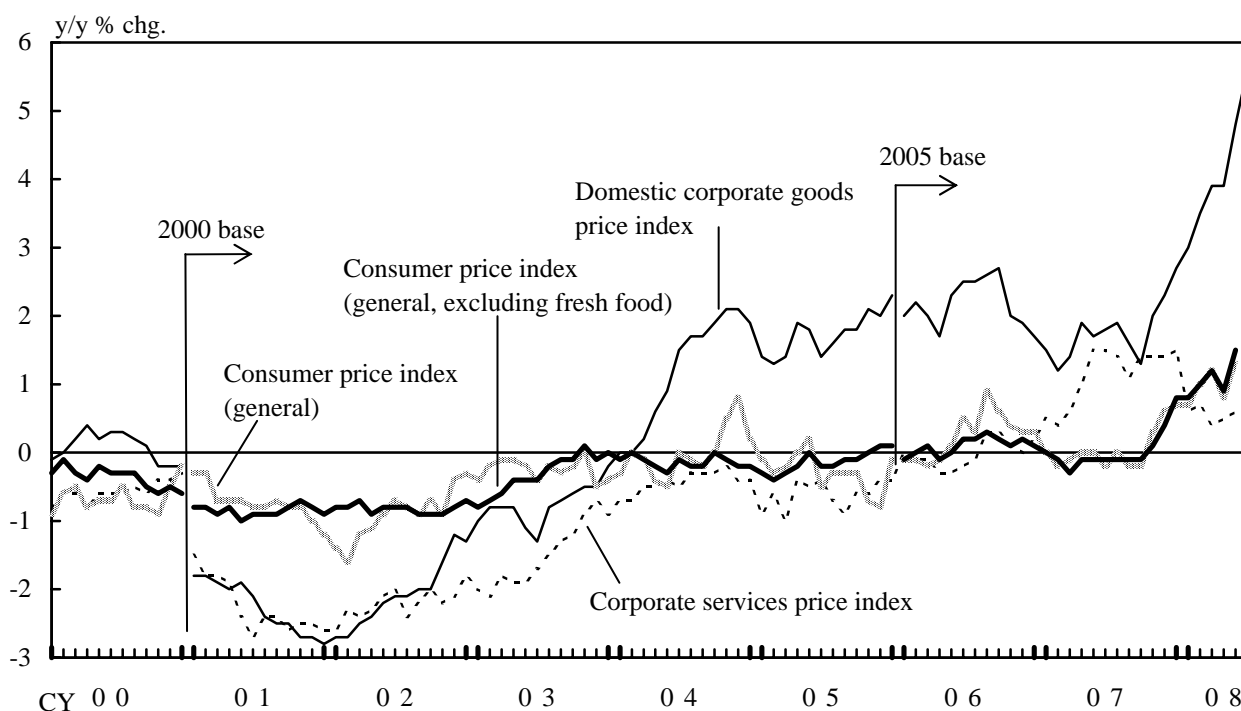
Source: Bank of Japan, "*Tankan* , Short-term Economic Survey of Enterprises in Japan."

Prices

(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.

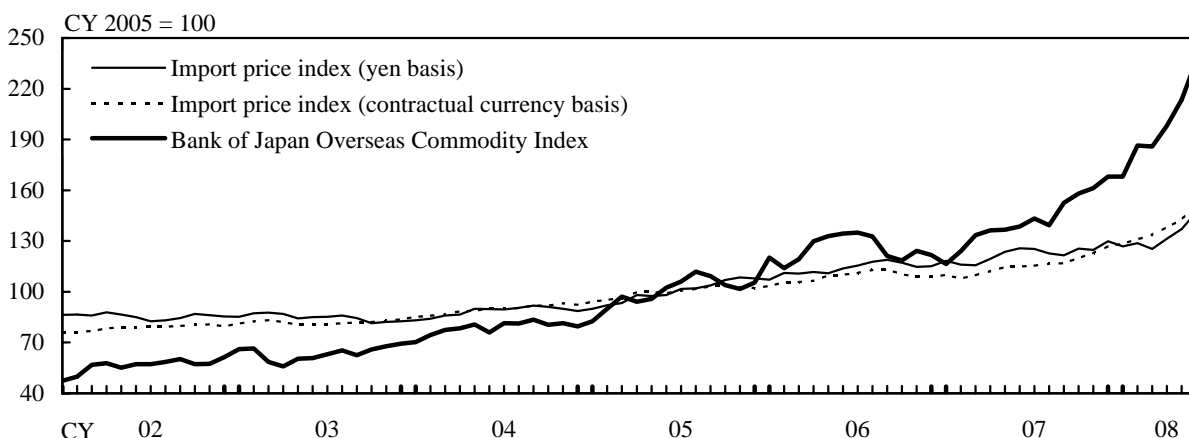
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

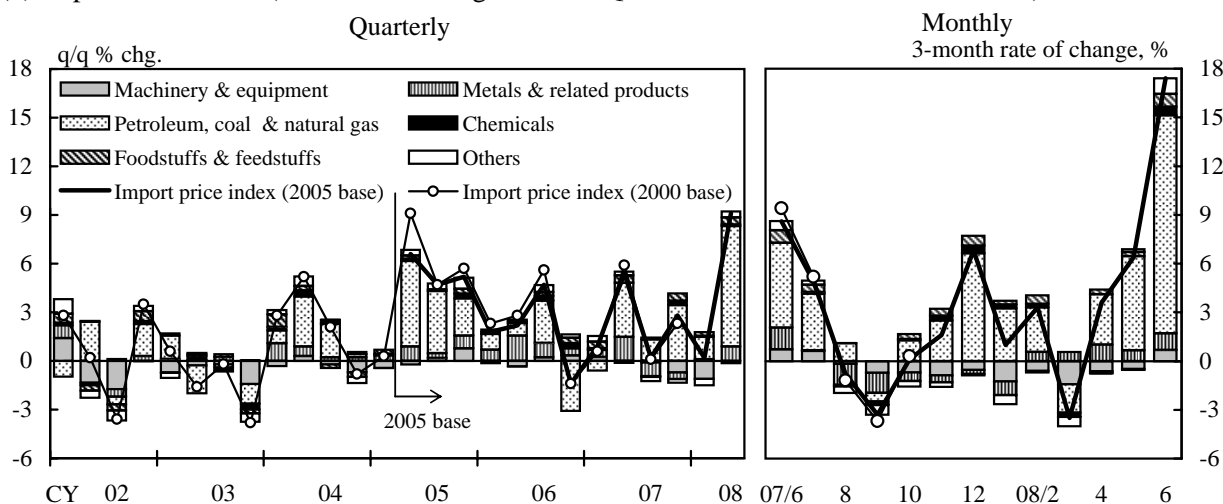
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



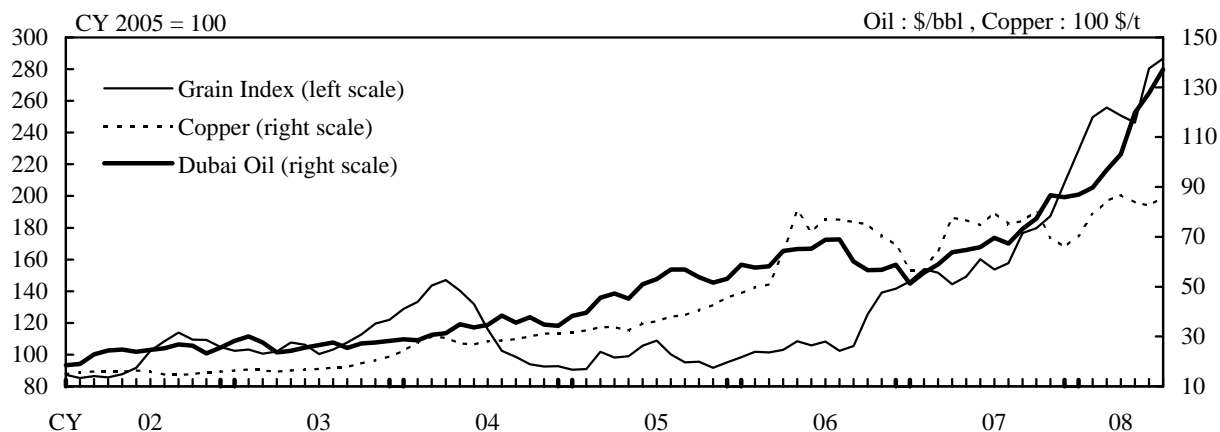
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

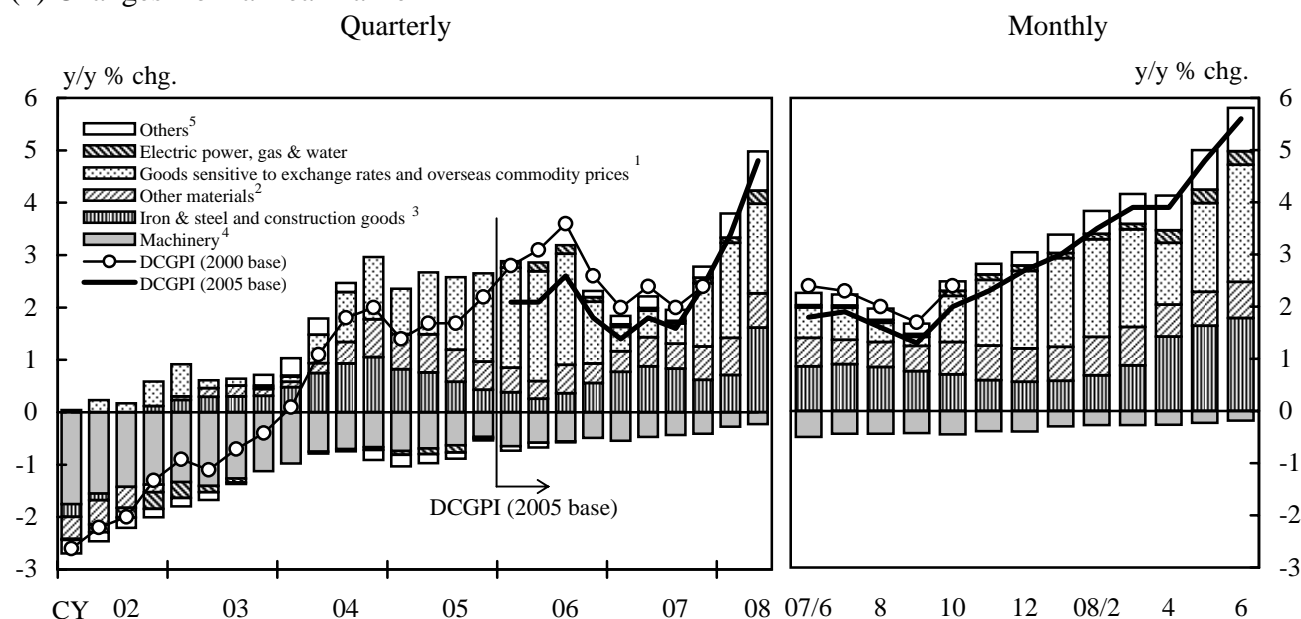
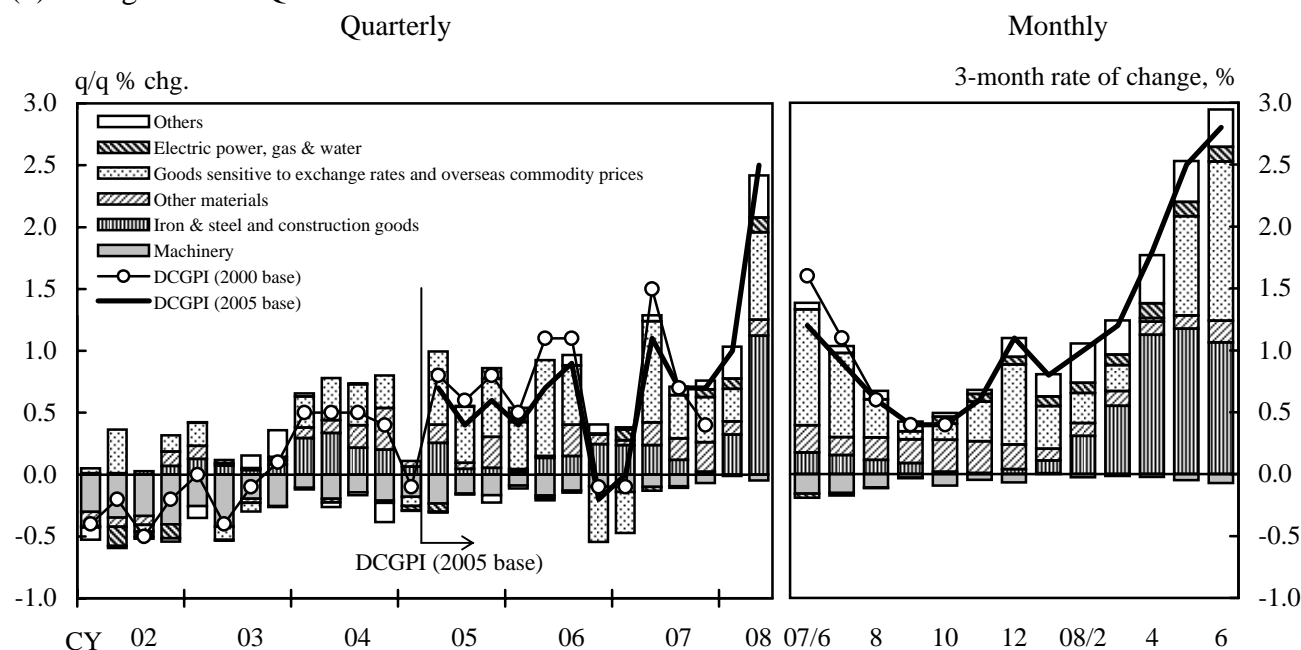


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for July 2008 are the averages up to July 14.

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.

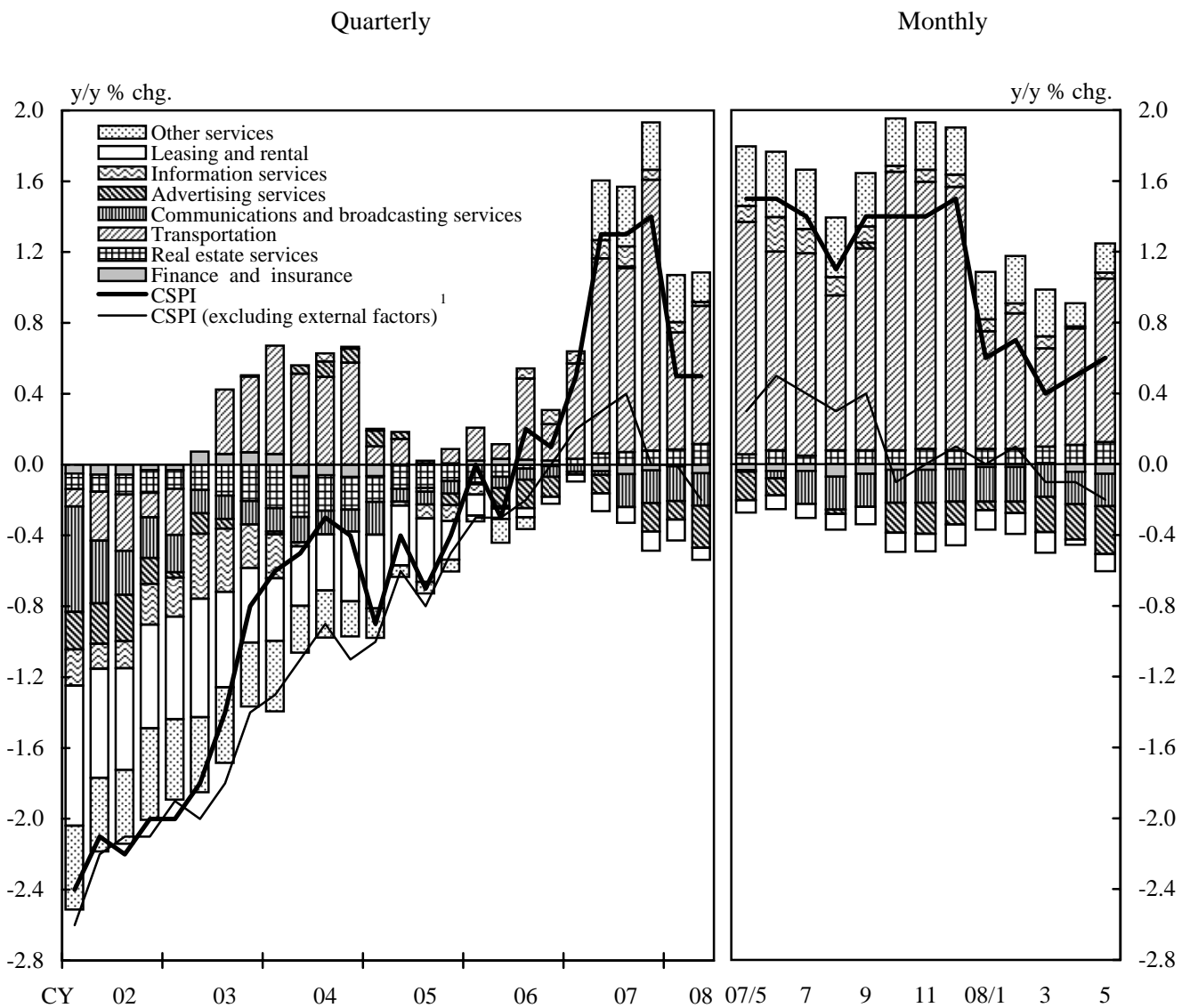
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index



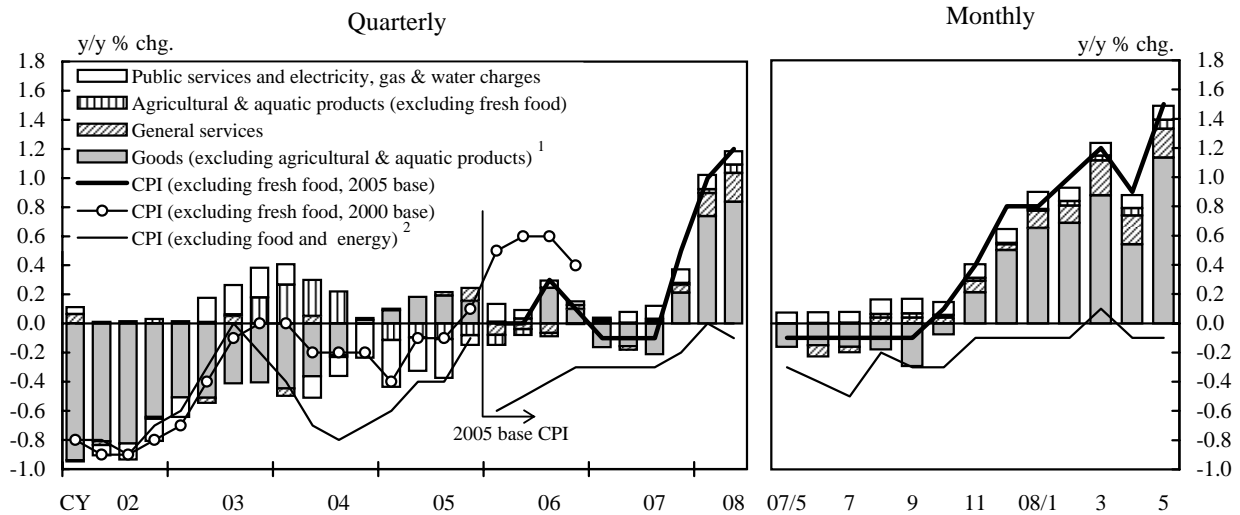
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2008/Q2 are April-May averages.

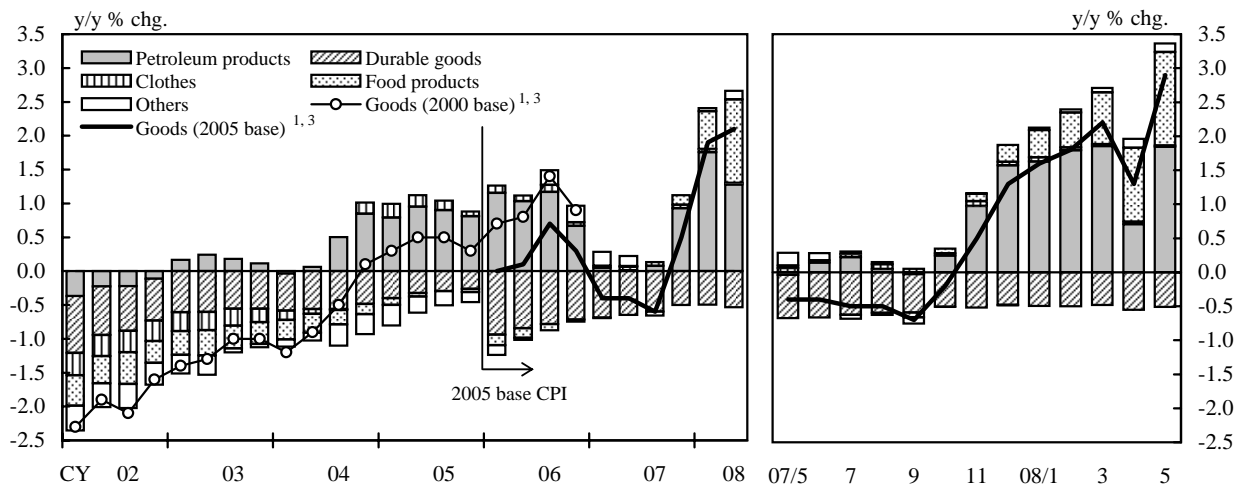
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

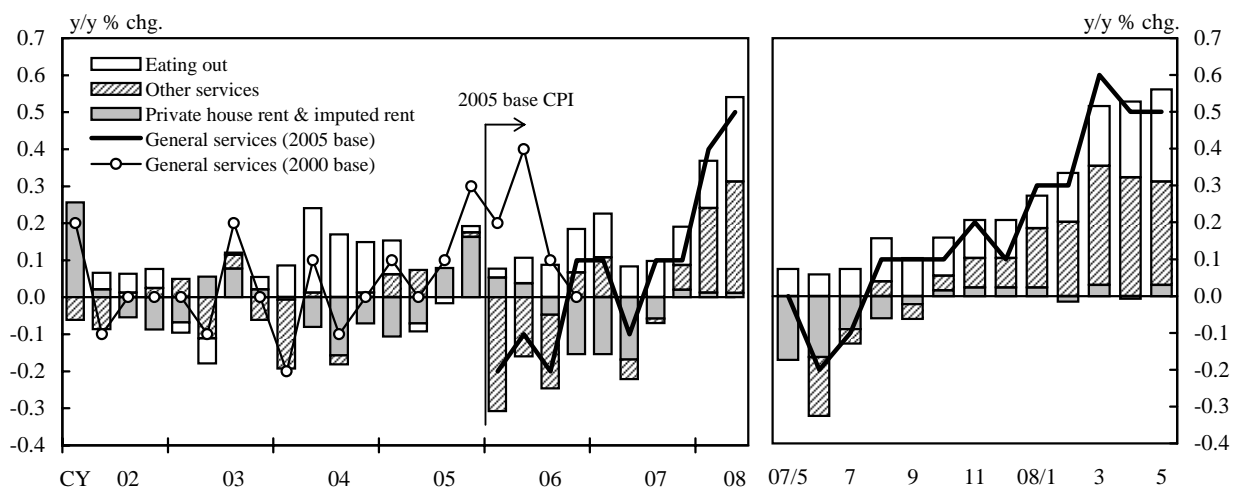
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

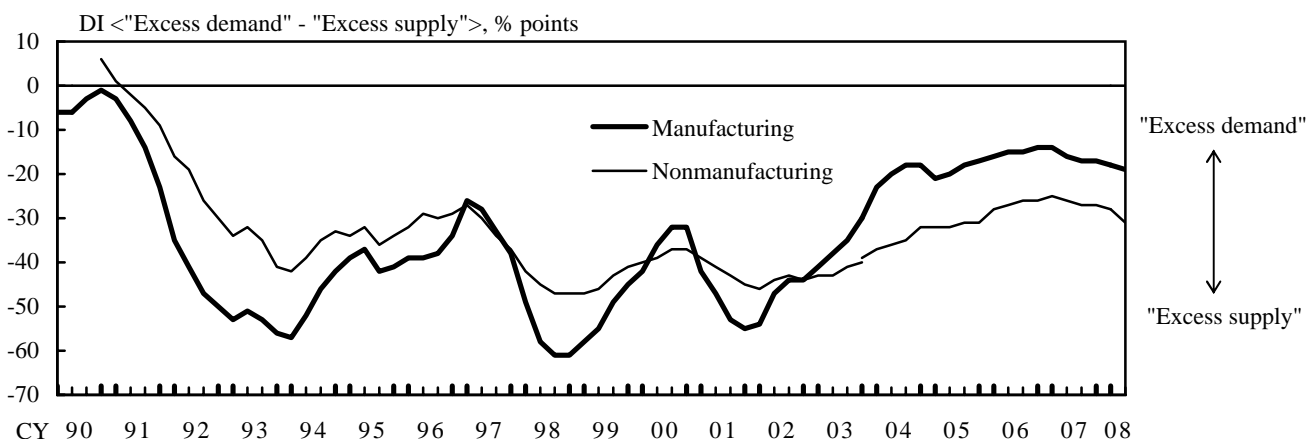


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.
 3. Excluding agricultural & aquatic products.
 4. Figures for 2008/Q2 are April-May averages.

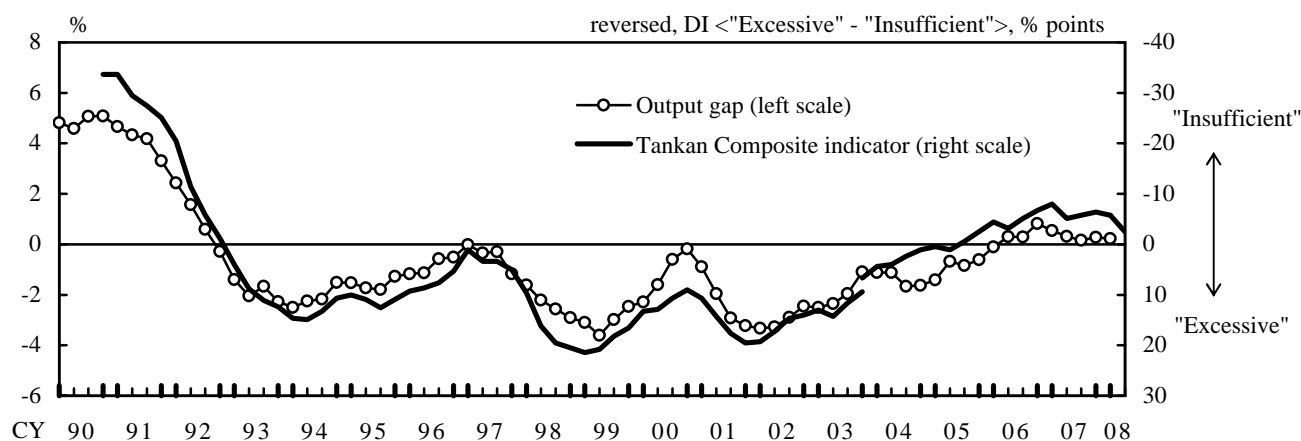
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

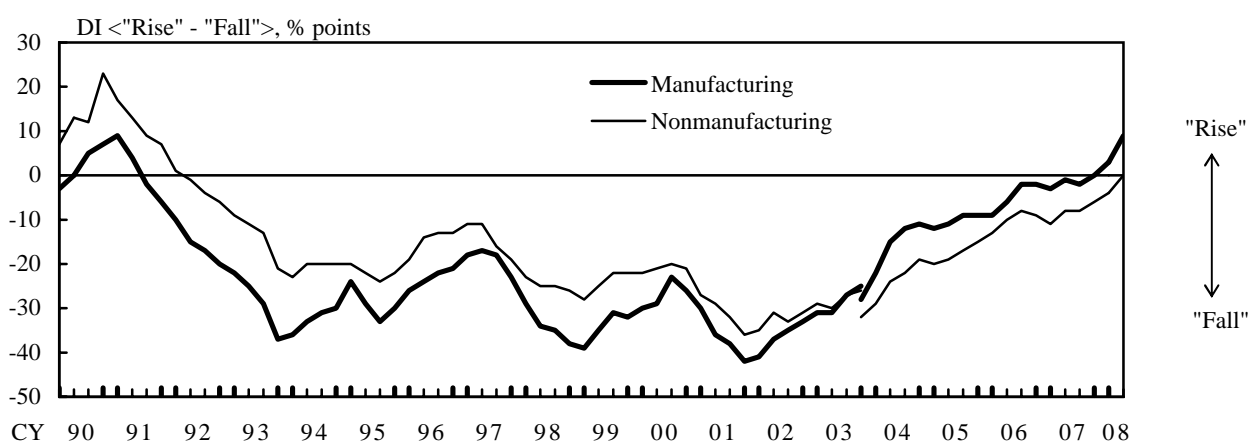
(1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)



(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.

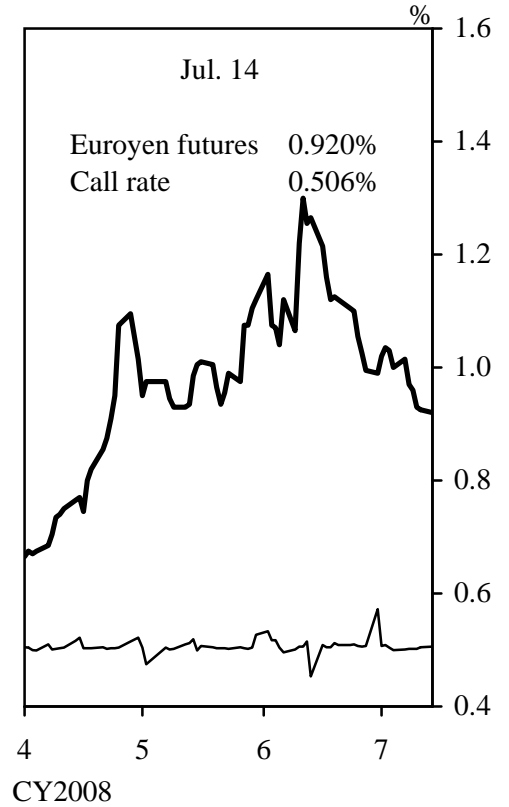
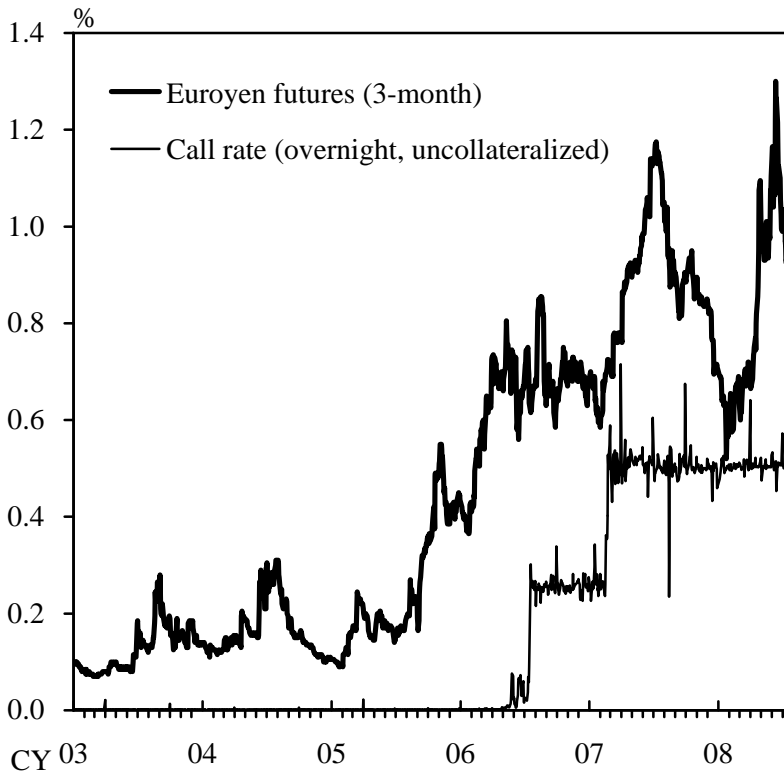
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

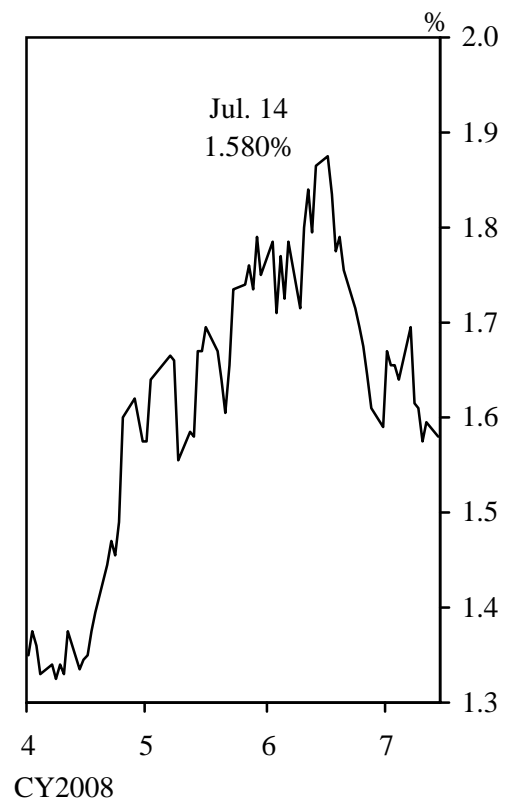
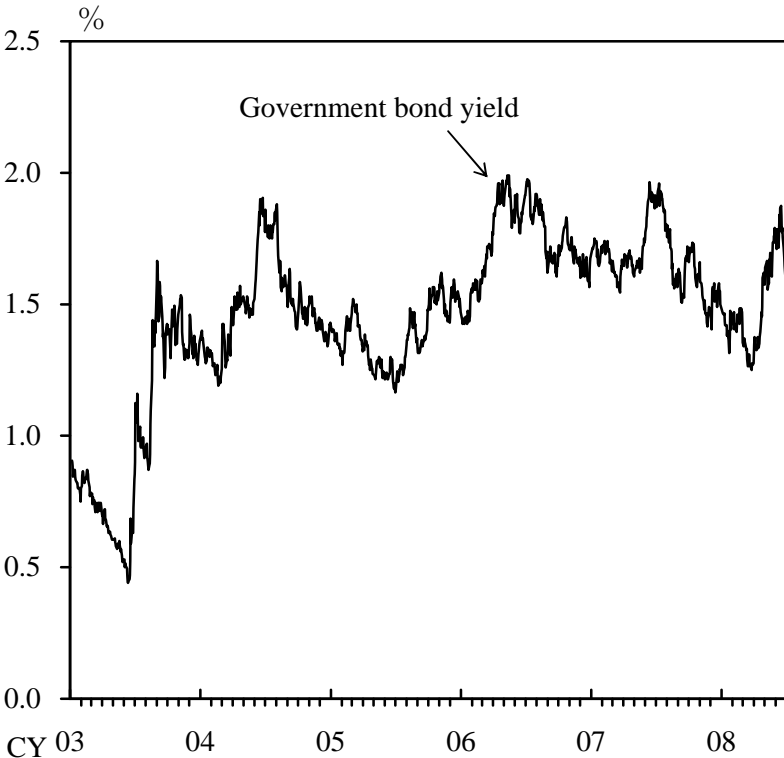
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Interest Rates

(1) Short-Term



(2) Long-Term¹

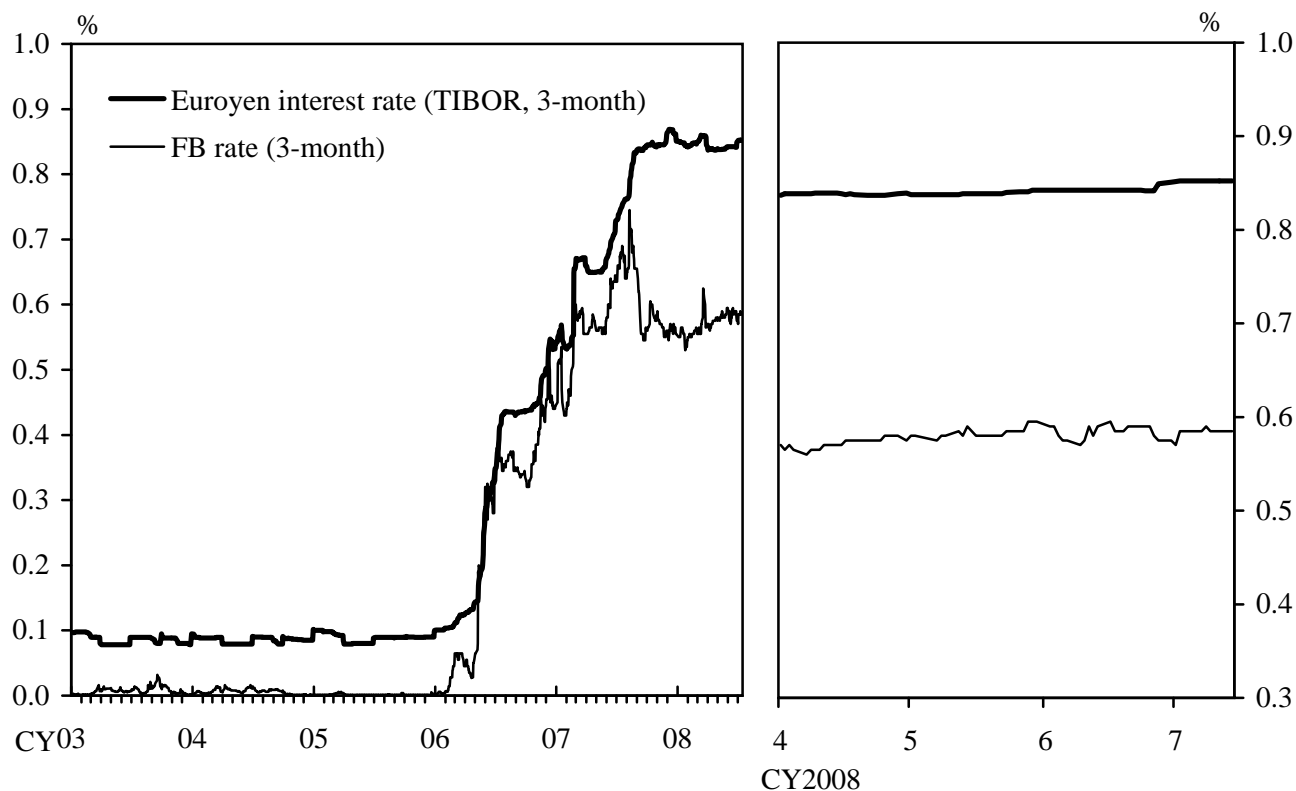


Note: 1. Yields on newly issued bonds with 10-year maturity.

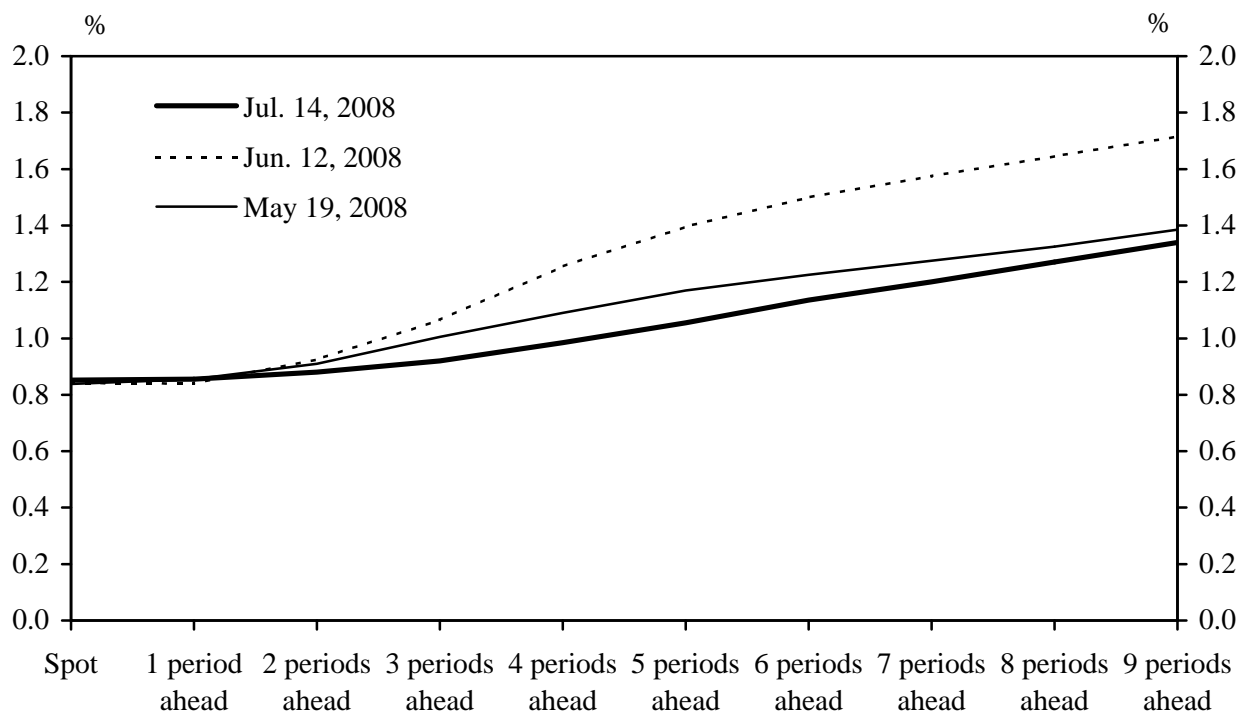
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



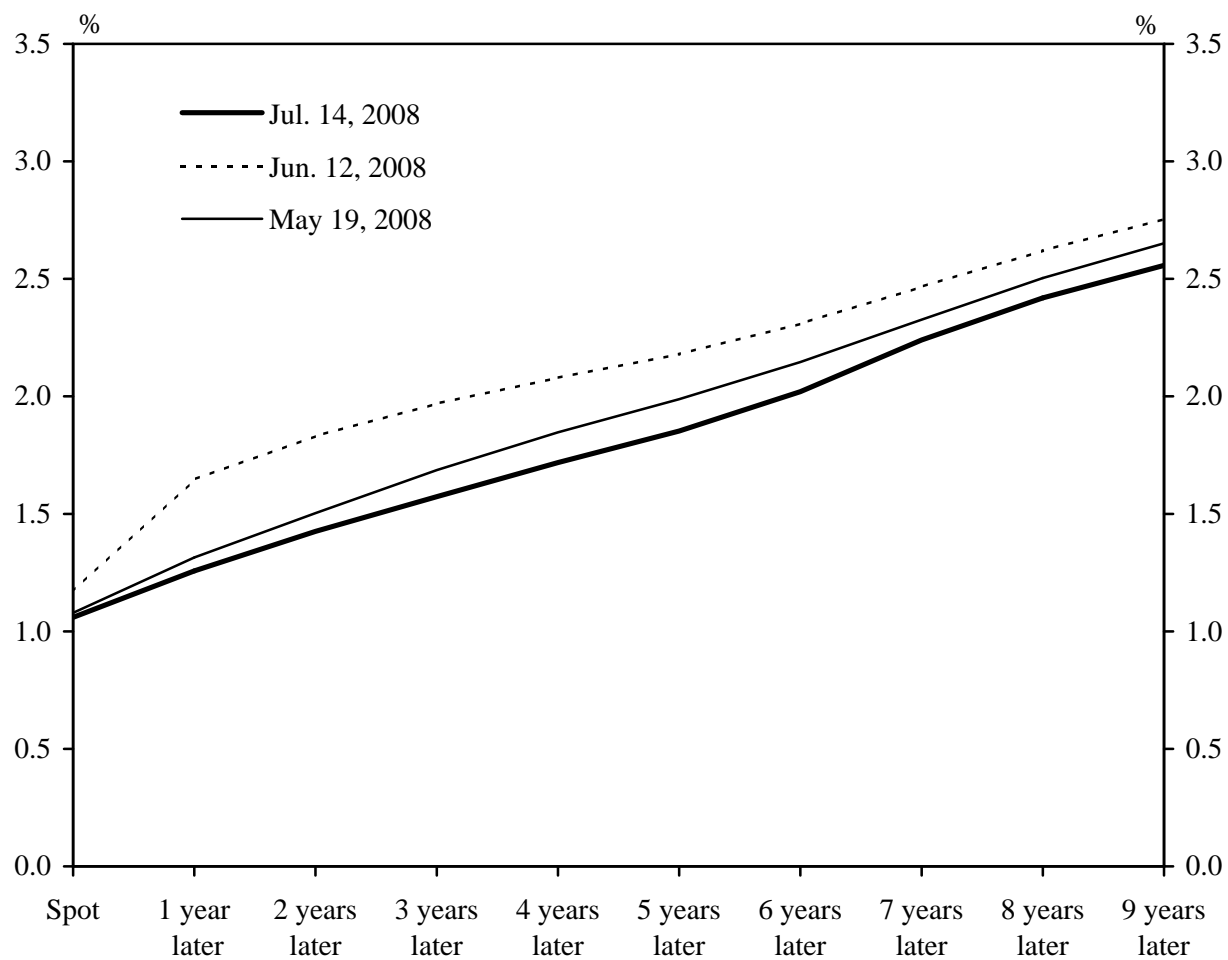
(2) Euroyen Interest Rates Futures (3-Month)¹



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)

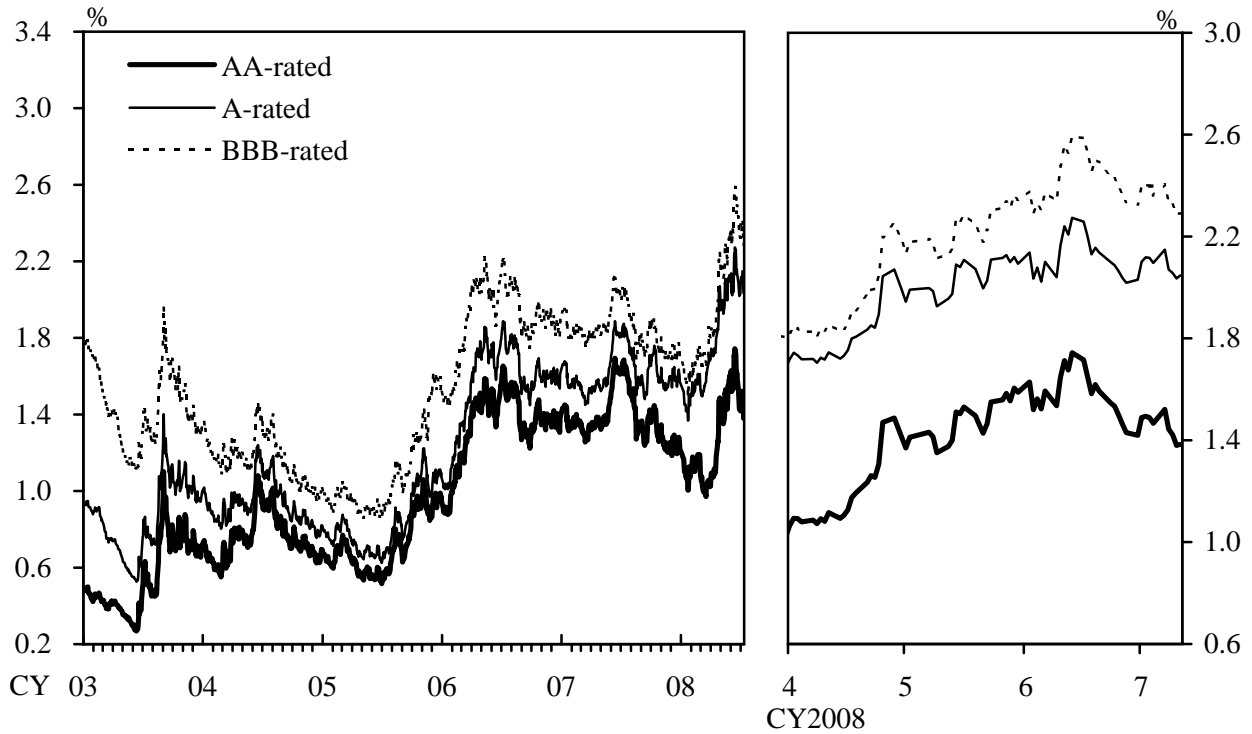


Note: Calculated from yen-yen swap rates.

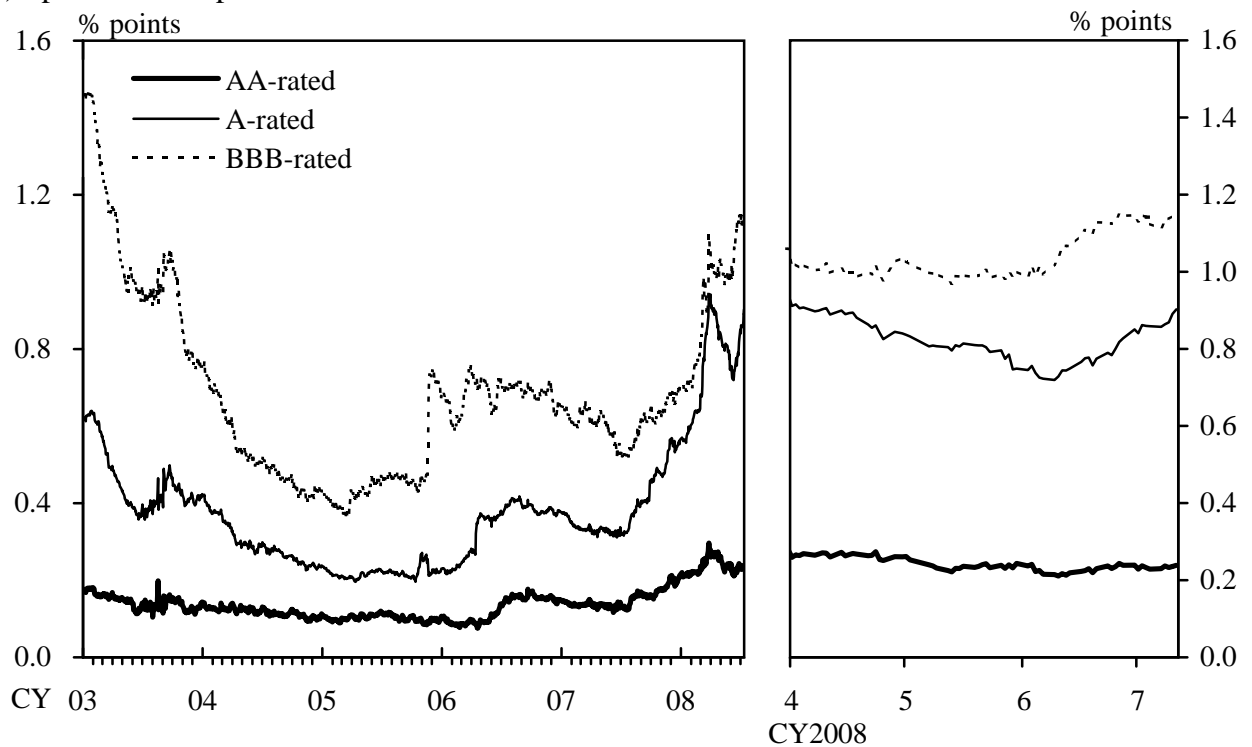
Source: Reuters.

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.

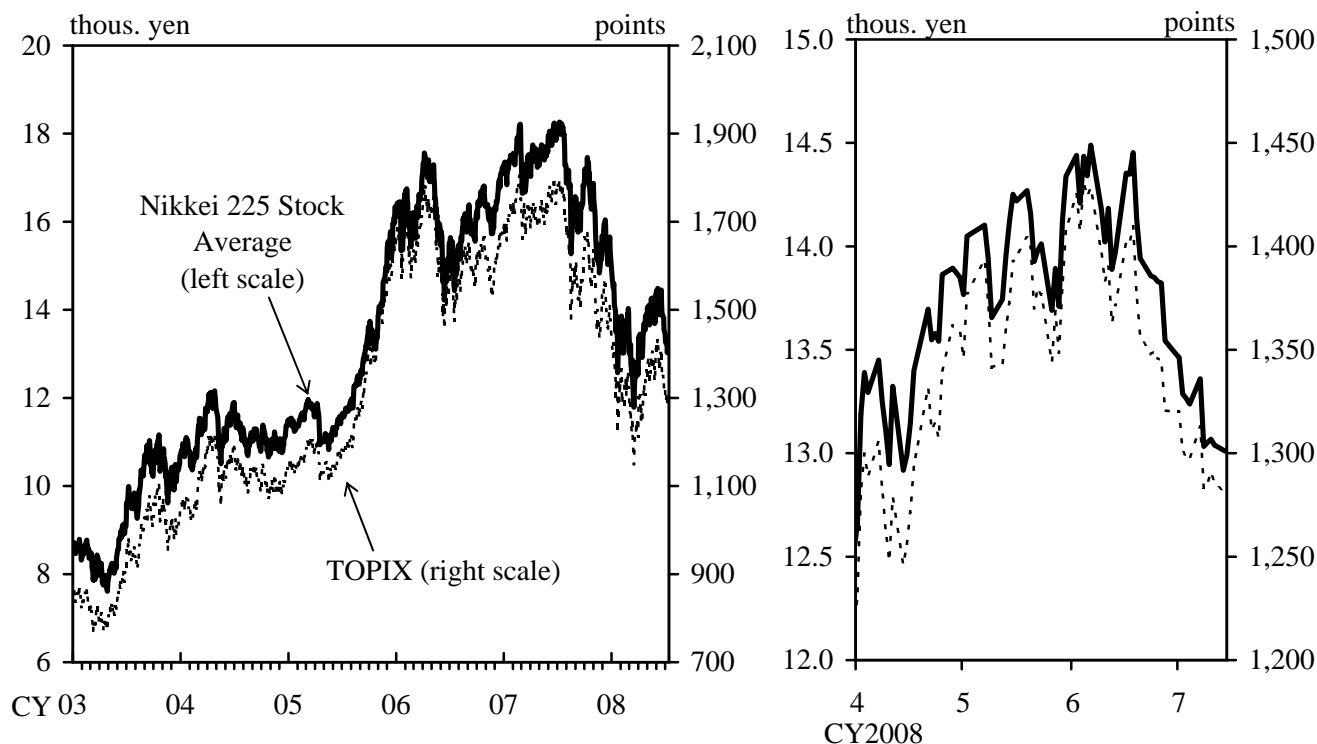
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

2. The indicated ratings are of Rating and Investment Information, Inc.

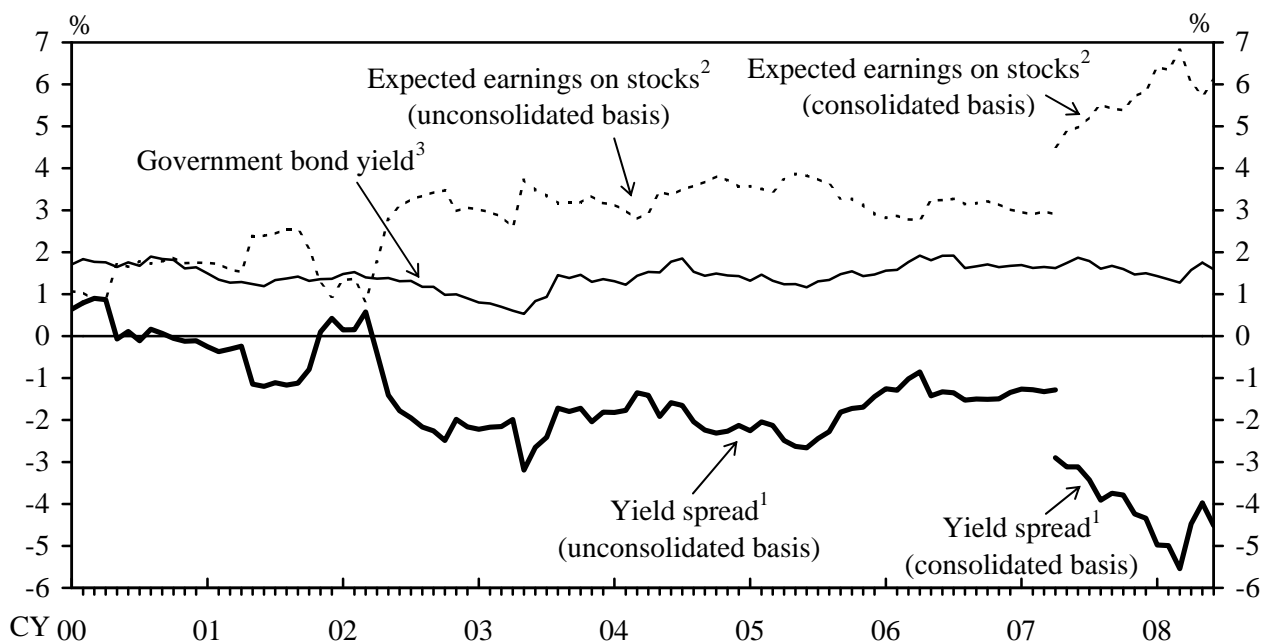
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread



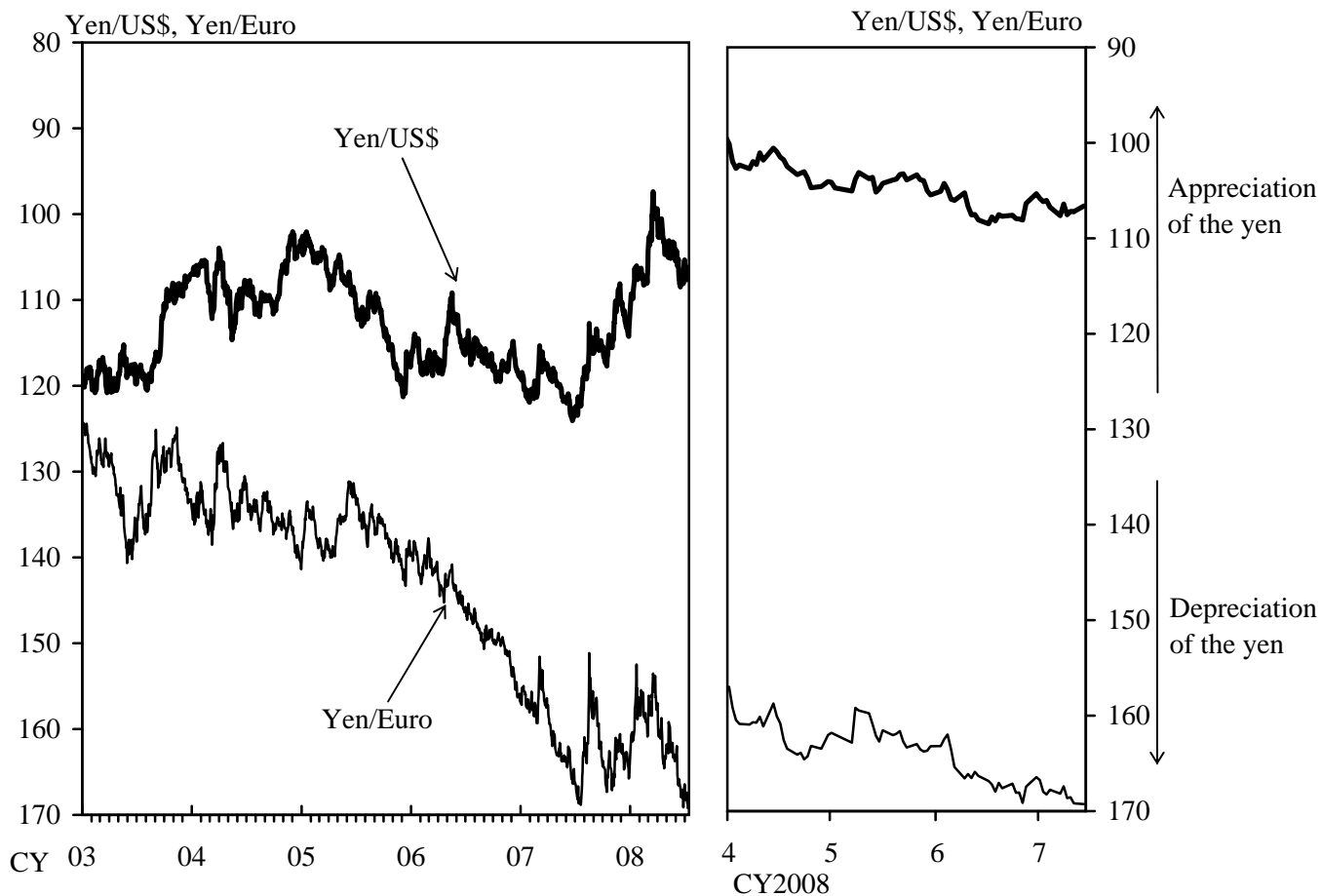
Notes: 1. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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.

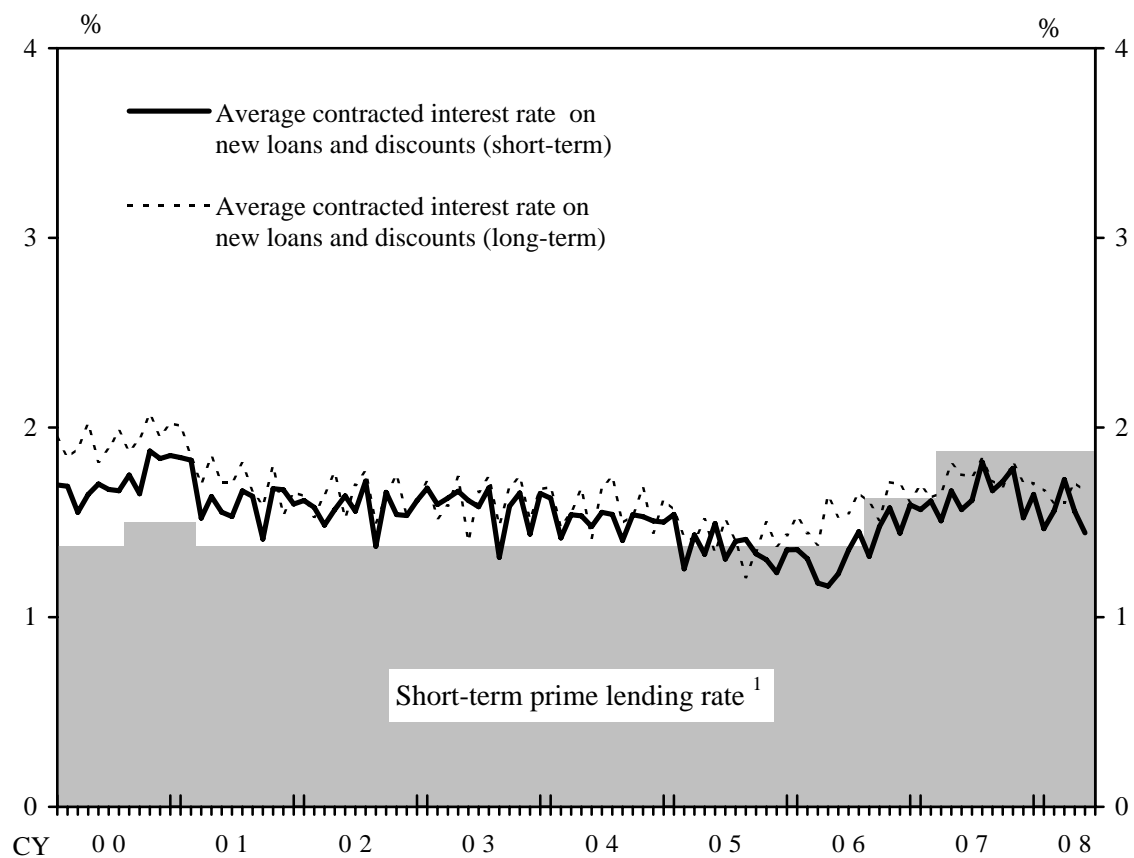
Sources: The *Nihon Keizai Shimbun*; Tokyo Stock Exchange; Daiwa Institute of Research, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates



Source: Bank of Japan.

Lending Rates

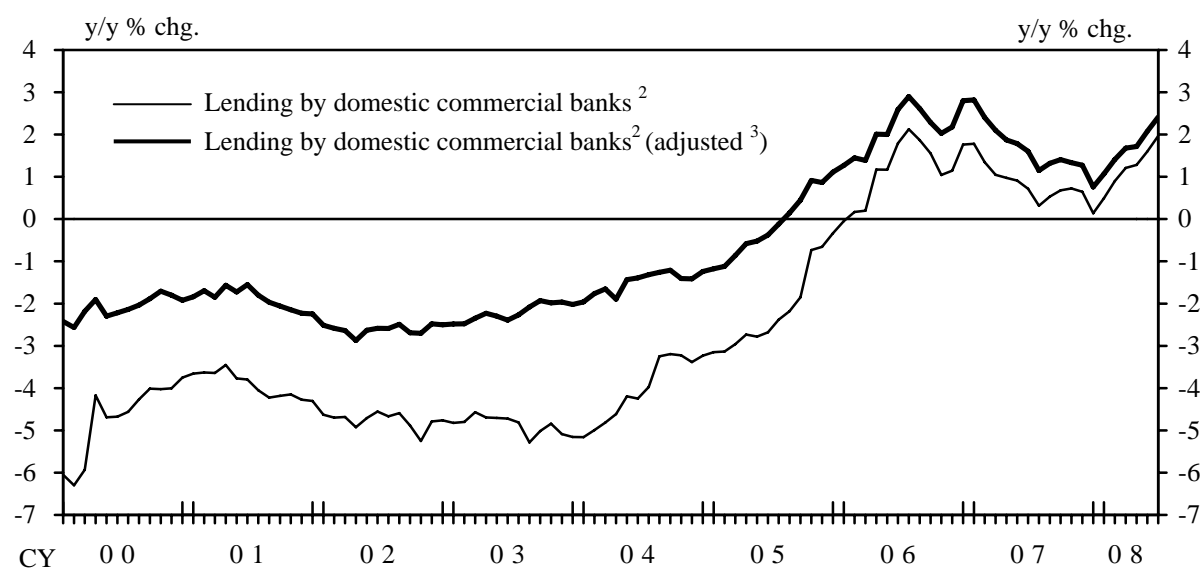


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



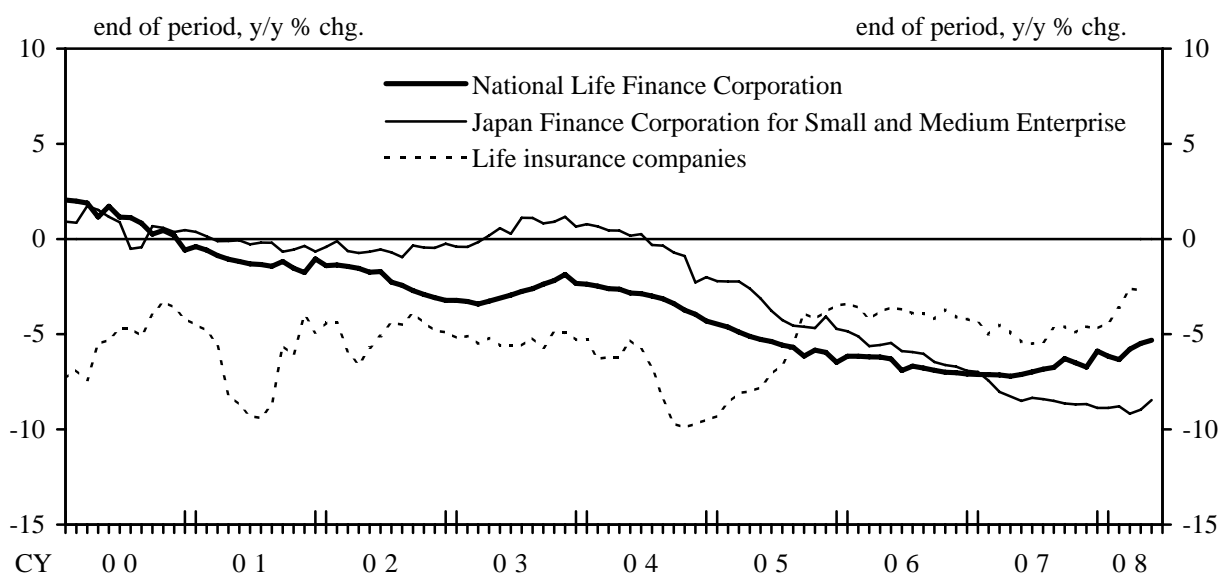
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

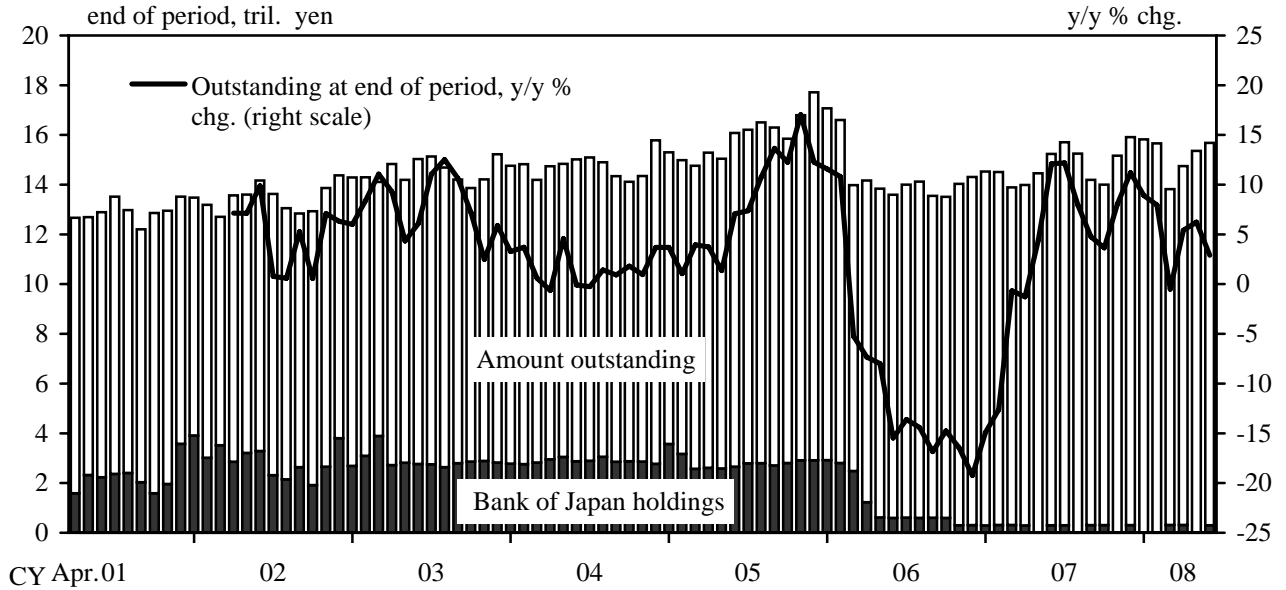
- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General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



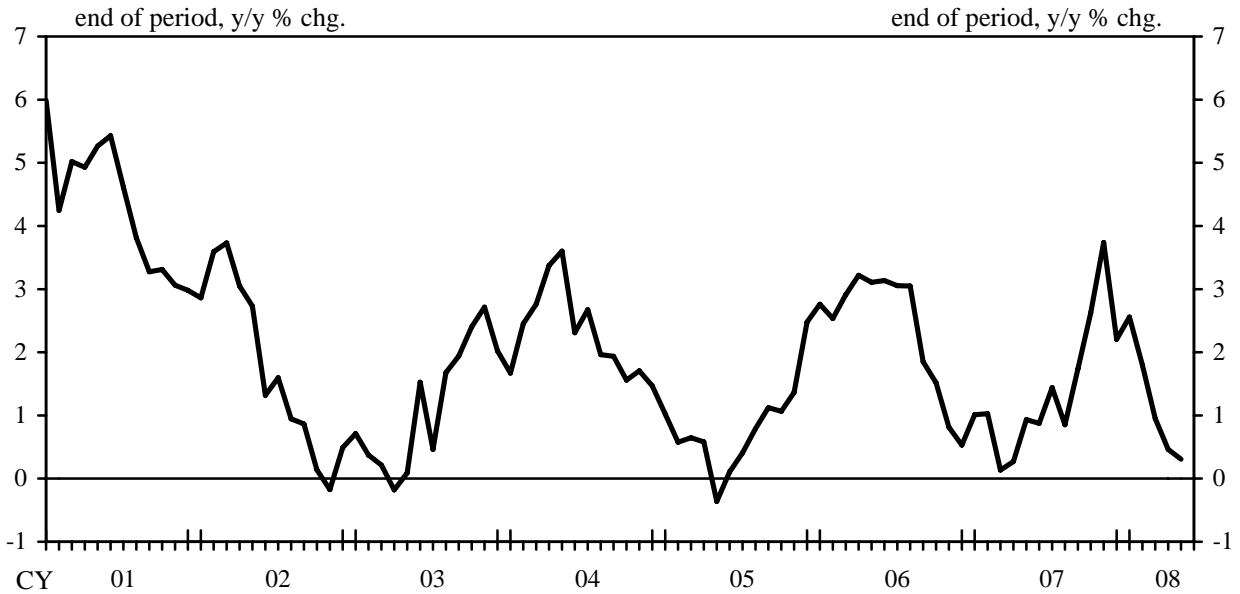
Private-Sector Fund-Raising in the Capital Markets

(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)

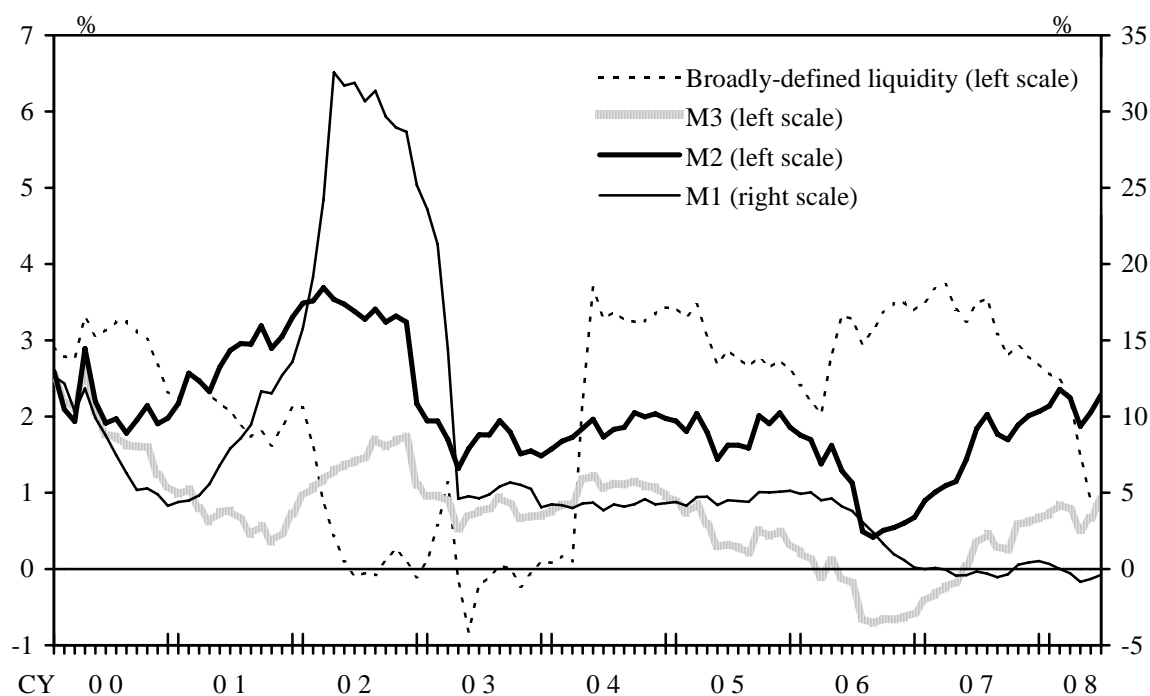


Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:
 (1) The sum of straight bonds issued in both domestic and overseas markets is used.
 (2) Bonds issued by banks are included.
 (3) The figure as of the latest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

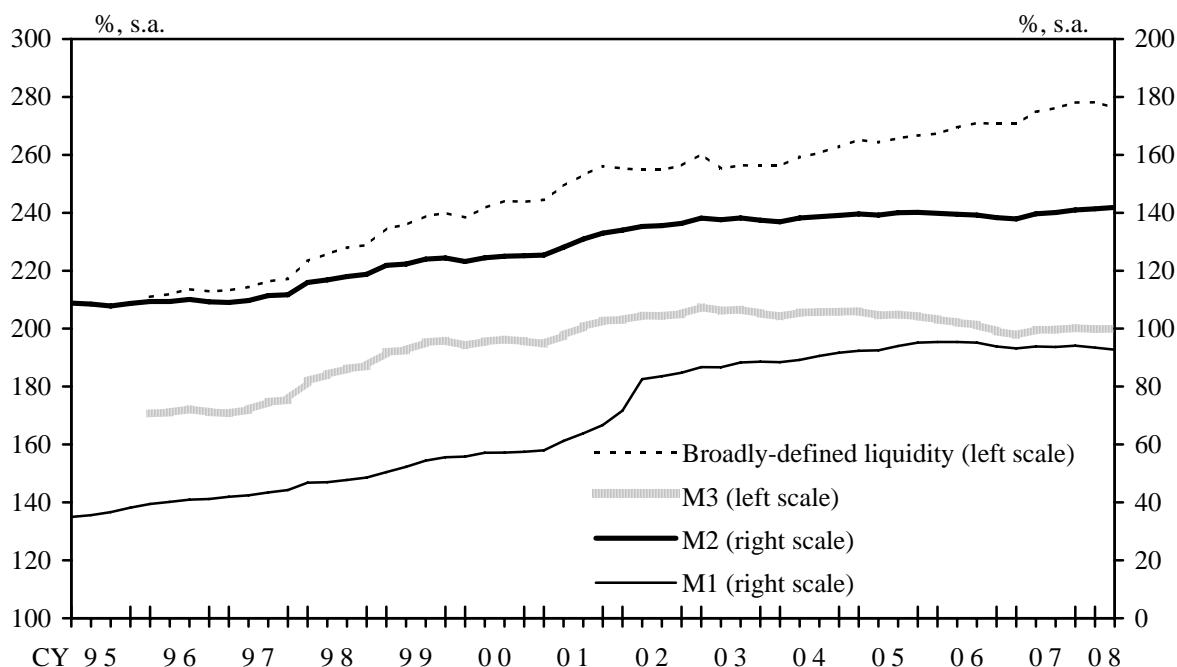
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems, "Funding Eye."

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.

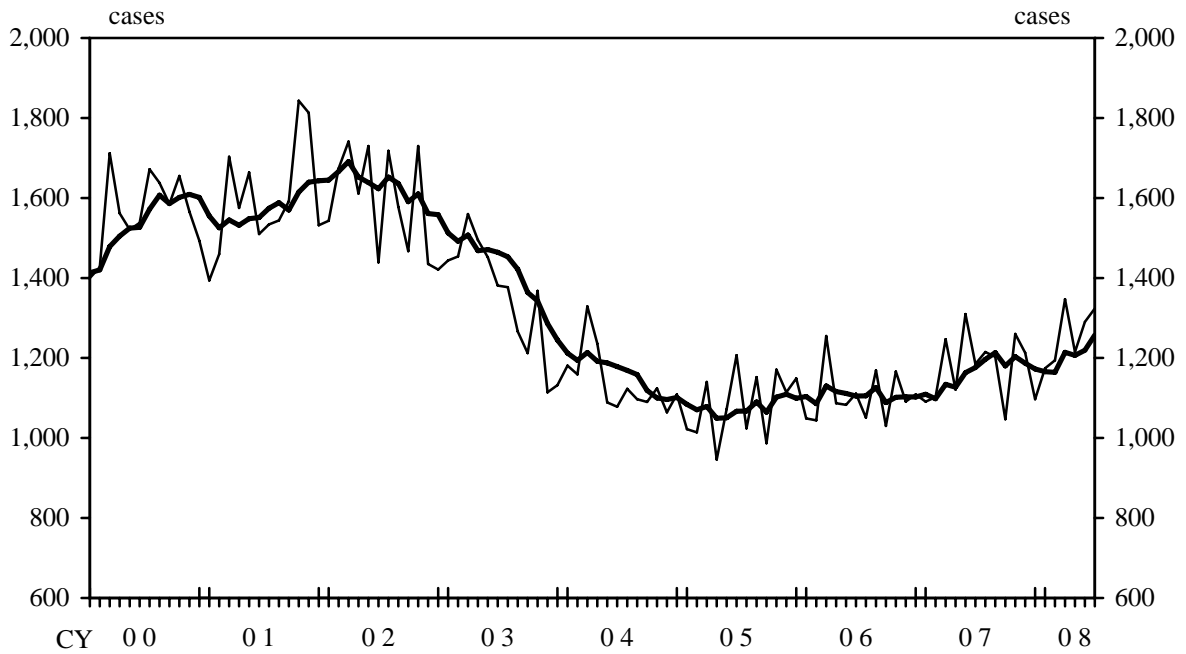
3. The current series are spliced by the former series at March 2003.

4. Figure for the nominal GDP in 2008/Q2 is assumed to be unchanged from the previous quarter.

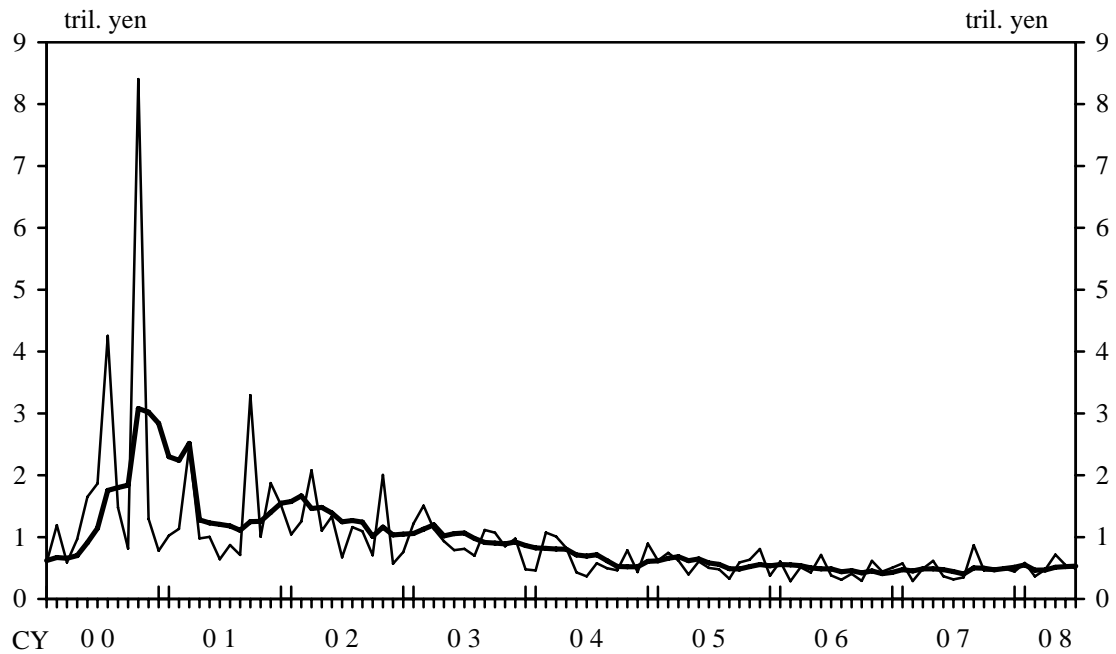
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."