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

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

August 2008

## Summary

Japan's economic growth has been sluggish against the backdrop of high energy and materials prices and weaker growth in exports.

The pace of increase in exports has slowed. Business fixed investment has been leveling off, as corporate profits have been decreasing mainly due to the deterioration in the terms of trade. Private consumption has been relatively weak, mainly due to sluggish growth in household income and the increase in prices of petroleum products and food. The recovery in housing investment has been stalled. Public investment, meanwhile, has been sluggish. With these developments in demand both at home and abroad, production has been relatively weak.

While growth will likely remain sluggish for the time being, Japan's economy is expected to gradually return onto a moderate growth path as international commodity prices level out and overseas economies move out of their deceleration phase.

Growth in exports is expected to remain only modest for the time being, due to the slowdown in overseas economies. Growth in domestic private demand is likely to be sluggish for the time being, as corporate profits are expected to decrease and real household income is likely to remain relatively weak. Public investment, meanwhile, is projected to be on a downtrend. In light of these developments in demand, production is expected to remain relatively weak for the time being.

On the price front, the three-month rate of increase in domestic corporate goods prices has been high, mainly due to the rise in international commodity prices. The year-on-year rate of increase in consumer prices (excluding fresh food) is currently around 2 percent against the background of the increase in prices of petroleum products and food.

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on August 18 and 19, 2008.

Domestic corporate goods prices are likely to continue increasing for the time being, with the effects of the rise in international commodity prices remaining, but the pace of increase is likely to slow. The year-on-year rate of increase in consumer prices is expected to be somewhat higher over the coming months but to moderate gradually thereafter, reflecting developments in prices of energy and food.

As for the financial environment, the environment for corporate finance is accommodative on the whole. Credit demand in the private sector has been increasing moderately. Issuing conditions for CP and corporate bonds have been favorable as a whole, although they have tightened for firms with low credit ratings and in some industries. Lending attitudes of private banks have continued to be generally accommodative. The amount outstanding of lending by private banks, notably of lending to large firms, has been increasing, although that of lending to small and medium-sized firms has been below the previous year's level. The amount outstanding of CP and corporate bonds issued has been around the previous year's level. Funding costs for firms have remained 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, long-term interest rates have fallen and the yen has depreciated against the U.S. dollar compared with last month. Meanwhile, stock prices have been around the same level as last month.

## 1. Economic Developments

Public investment has been sluggish (Chart 5). On a GDP basis (first preliminary figures), real public investment dropped substantially in the second quarter, partly in reaction to the marginal increase in the first quarter. 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.

The pace of increase in real exports has slowed (Charts 6[1] and 7). On a quarter-on-quarter basis, they exhibited high growth of 3.2 percent in the first quarter, but dropped considerably, by 3.3 percent, in the second quarter.<sup>2</sup>

As for real exports by destination (Chart 7[1]), exports to the United States have remained relatively weak since around the end of 2006; they dropped substantially in the second quarter on a quarter-on-quarter basis. Exports to the EU exhibited high growth until the first quarter, but plunged in the second quarter. As for exports to East Asia, exports to China have continued to climb, whereas those to the NIEs and ASEAN economies have fallen lately. Exports to other regions (such as the Middle East, Latin America, and Russia) continued to increase significantly until the first quarter, but were flat in the second quarter.

By goods (Chart 7[2]), exports of IT-related goods dropped temporarily in the first quarter, but rebounded in the second quarter. Exports of consumer goods rose in the second quarter following the increase in the first quarter, notably in digital home appliances. Exports of capital goods and parts, meanwhile, continued to increase toward the first quarter to a wide range of regions, but declined in the second quarter, chiefly in semiconductor products machinery. Exports of automobile-related goods increased firmly, led mainly by the high growth in exports to other regions, but dropped in the second quarter, chiefly in those to the United

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<sup>2</sup> Monthly fluctuations have been significant lately. Looking at real exports with fluctuations smoothed out, slower growth in exports has become evident. Overseas economies as a whole, including not only the United States and Europe but also emerging economies, seem to have started to slow down, and the effects on exports have been observed gradually.

States. Exports of intermediate goods were on the rise, mainly in high value-added goods used for IT-related goods and automobiles, but they plunged in the second quarter.

Real imports have been relatively weak (Charts 6[1] and 9). They had been more or less flat, but dropped by 2.2 percent in the second quarter on a quarter-on-quarter basis.

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. Imports of IT-related goods had been increasing since around the middle of last year, but they dropped in the second quarter, partly in reaction to the relatively high growth in the first quarter. 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 from the restraints on production. Imports of foodstuffs and consumer goods have been on a declining trend, mainly due to the rise in import prices and weakness in private consumption.

The pace of increase in net exports in terms of the real trade balance has slowed somewhat, reflecting the aforementioned movements in imports and exports (Chart 6[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.

Growth in exports is expected to remain only modest for the time being, due to the slowdown in overseas economies (Chart 8[2]).

As for the environment surrounding exports, in the United States, the economy has been losing momentum, as the housing market has undergone significant adjustments and financial institutions have taken tighter lending stances. In this situation, sales of automobiles—which have a large impact on Japan's exports—have fallen noticeably, affected mainly by the rise in gasoline prices. In the EU, the economic slowdown has also become evident. Economic expansion has continued in emerging economies including China and countries that export natural resources, but the recent rise in inflation rates seems to have started to become a

restraint on growth in some economies. Regarding the environment surrounding exports of IT-related goods, global demand for finished products such as digital home appliances has continued to expand as a whole, but demand, particularly that associated with the Beijing Olympics, was not as strong as market expectations. In these circumstances, market prices as a whole have been softening slightly, partly due to strong pressure from the increase of supply. 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—which had been appreciating since summer last year—began to depreciate in the spring of this year (Chart 8[1]).

Imports are expected to remain relatively weak for the time being, mainly reflecting the sluggish growth in the domestic economy and the rise in import prices.

Business fixed investment has been leveling off, as corporate profits have been decreasing mainly due to the deterioration in the terms of trade. On a GDP basis (first preliminary figures), real business fixed investment was essentially flat in the second quarter, following the first quarter. 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; it registered a sizeable drop in the first quarter and then declined marginally in the second 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 continued to be more or less flat at high levels (Chart 11[1]).<sup>3</sup> Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—recovered from their plunge last summer due to the enforcement of the revised Building Standard Law,<sup>4</sup> but they have recently

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<sup>3</sup> Forecasts for the third quarter show that orders are projected to drop for the first time in five quarters (the quarter-on-quarter decline stands at 3.0 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

<sup>4</sup> 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.

been more or less flat at a level lower than that prior to the enforcement of the revised Law (Chart 11[2]).

Growth in business fixed investment is likely to remain sluggish for the time being, as corporate profits are expected to continue decreasing.

Private consumption has been relatively weak, mainly due to sluggish growth in household income and the rise in prices of petroleum products and food. On a GDP basis (first preliminary figures), real private consumption dropped in the second quarter for the first time in seven quarters, partly in reaction to the high growth in the first quarter caused mainly by the leap year factor. Looking at individual indicators on consumption (Charts 12 and 13), sales at department stores have declined, notably in apparel and general merchandise. Sales at supermarkets have recently been relatively weak, mainly due to the drop in apparel sales, despite positive contributions from the rise in sales of foodstuffs. Meanwhile, sales at convenience stores have recently increased somewhat, aided mainly by the rise in cigarettes sales.<sup>5</sup> Sales of household electrical appliances have continued to climb steadily, assisted by strong sales of digital home appliances such as flat panel TVs. The number of new passenger-car registrations has been sluggish, partly since gasoline prices have been high. As for services consumption, outlays for travel have been weak lately in light of further increases in fuel surcharges added to airfares. Sales in the food service industry have continued to level off since the second half of last year.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above<sup>6</sup>—have recently been relatively weak (Chart 14[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—had been trending upward

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<sup>5</sup> 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.

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



until around the end of last year, but it has been level since the start of this year (Chart 14[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 significantly in the second quarter (Chart 12[1]). Total expenditure in the *Survey of Household Economy* (in real terms) rose in the first quarter, but plunged in the second quarter (Chart 12[1]).<sup>7</sup>

Consumer sentiment has become more cautious and many indicators have deteriorated to their previous bottoms, as a result of the ongoing rise in prices of petroleum products and food (Chart 15).

Growth in private consumption is likely to be sluggish for the time being, as household income is expected to remain more or less flat and prices are likely to continue rising.

The recovery in housing investment has been stalled. On a GDP basis (first preliminary figures), real housing investment dropped significantly in the second half of 2007 and then registered a marked recovery in the first quarter, but declined again in the second quarter. The number of housing starts (Chart 16[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 been stalled. 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 lower than those prior to the enforcement of the revised Law. This stagnant recovery is attributable to the softness in sales of condominiums and to further increases in prices of steel products. Looking ahead, housing investment is expected to be more or less flat for the time being, considering the number of housing starts.

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

Industrial production has been relatively weak. On a quarter-on-quarter basis, production dropped by 0.7 percent in the first quarter and also declined by 0.8 percent in the second quarter (Chart 17). As for developments in the second quarter on a quarter-on-quarter basis by industry, although production of ships and rolling stocks rose, production of transportation equipment (excluding ships and rolling stocks) and that of information and communication electronics equipment (such as cellular telephones) turned down; and production of electronic parts and devices and that of general machinery dropped following the decline in the first quarter.

Shipments fell by 0.5 percent in the first quarter on a quarter-on-quarter basis, and also dropped by 0.9 percent in the second quarter. Looking at the trend by goods (Chart 18), shipments of capital goods have fallen since the start of this year, notably in semiconductor products machinery. Shipments of durable consumer goods have peaked due to the decline in automobiles. 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 remained sluggish thereafter without showing any noticeable recovery. Meanwhile, shipments of producer goods had been increasing until around the end of last year, but they have been relatively weak since the start of this year due to the decline in shipments of electronic parts and devices.

Inventories have risen somewhat as shipments have remained relatively weak; the shipment-inventory balance (the year-on-year rate of change in shipments minus that in inventories) has deteriorated slightly (Chart 19). By goods, inventories of construction goods and those of capital goods (excluding transport equipment) have been relatively high as shipments have been weak. Inventories of electronic parts and devices have piled up somewhat, while the year-on-year rate of increase in shipments has fallen. Moreover, while inventories of producer goods excluding electronic parts and devices (such as iron and steel, chemicals, and fabricated metals) have been essentially in balance with shipments, supply-demand conditions have eased compared to a while ago. On the other hand, a buildup in inventories has not been observed in durable consumer goods.

As for the outlook, production is expected to remain relatively weak for the time being, in light of developments in demand both at home and abroad. Anecdotal information suggests that production in the third quarter will decrease marginally.<sup>8</sup>

As for the employment and income situations, growth in household income has recently been sluggish (Chart 20[3]).

In the labor market, overtime hours worked had been at high levels, but they have recently been below the year-ago level notably in the manufacturing sector (Chart 22[3]). The unemployment rate has moved up somewhat since the start of this year (Chart 21[1]). The ratio of job offers to applicants has continued to decline (Chart 21[1]). Part of the decrease in the number of job offers seems to have continued to be caused by the moves of Labour Bureaus across Japan to promote appropriate posting by deterring overstatements in the number of job offers. An increasing part of this decline, however, seems to have been caused by the moderate decrease in labor demand among small firms as a result of the sluggish economic growth.<sup>9</sup>

In terms of employment (Chart 22[1]), the year-on-year growth rate in the number of employees in the *Labour Force Survey* has been moving around zero percent since the start of this year. As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year growth rate has been moving at around 1.5 percent, but it has recently decreased slightly, primarily in business establishments with 5-29 employees.<sup>10</sup> Looking at the number of regular employees in the *Monthly*

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<sup>8</sup> Production in the third quarter, based on the production forecast index of July and August (on the assumption that the September figure will be unchanged from August), is calculated to decrease by 1.1 percent compared with the second quarter.

<sup>9</sup> The number of job advertisements listed in the media of the private sector, which had been steady until earlier this year, has been weak since April (Chart 21[3]).

<sup>10</sup> 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. Recently, the number of regular employees in the *Monthly Labour Survey* at establishments with 5-29 employees and the number of employees in the *Labour Force Survey* at firms with 1-29 persons have shown distinct differences; the

*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 change in the ratio of part-time employees, which had been positive last year, has recently been around zero (Chart 22[2]).<sup>11</sup>

The year-on-year rate of change in nominal wages per employee has been positive since the start of the year, but the pace of increase has slowed lately (Chart 20[1]). In detail, regular payments and overtime payments had been on a slight year-on-year positive as a trend since the start of the year, but they remained around the previous year's level in June. As for special payments in June—which represent 60 percent of summer bonuses—the rate of increase has remained marginal even for this year, after having registered a marked decline in June last year.<sup>12</sup>

Looking ahead, household income is projected to remain more or less level.

## 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 24). Looking at recent developments in international commodity prices in more detail, crude oil prices marked a record high in the first half of July. They have fallen back lately reflecting

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employment situation at establishments with four or fewer employees, which are not covered in the *Monthly Labour Survey*, is likely to be weak in particular.

<sup>11</sup> These developments in the ratio of part-time worker are partly attributed to (1) part-time workers switching 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). It is also likely that these developments have recently been affected by (2) movements of firms to refrain from hiring part-time workers, including the rehiring of retiring baby-boomers in response to the sluggish economic growth.

<sup>12</sup> 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 (final results as of July 22, 173 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 0.1 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.

views that supply-demand conditions will ease as a result of the slowdown in the global economy, but they have still been at considerably high levels. Prices of nonferrous metals and crops have continued to be high, although they have fallen back lately. Meanwhile, domestic commodity prices have risen, mainly reflecting the rise in international commodity prices and the yen's depreciation.

The three-month rate of increase in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>13</sup> has been high, mainly due to the rise in international commodity prices (Chart 25). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have risen at a faster pace, primarily in petroleum and coal products; prices of "other materials" have also increased at an accelerated pace, mainly in chemical products. Prices of "iron and steel and construction goods" have continued to climb significantly, mainly since prices of scrap and waste have risen and since the increase in materials prices—including those of scrap and waste—has been passed on. Prices of "others" have continued to increase, chiefly in prices of processed foodstuffs. Prices of "electric power, gas and water" have continued to increase, primarily as a result of high fuel 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 at a faster pace lately affected by the rise in prices of domestic products, chiefly of petroleum products and processed foodstuffs, as well as by the increase in prices of imports due to the yen's depreciation.

The year-on-year rate of change in corporate services prices (excluding external factors)<sup>14</sup> has recently been somewhat negative (Chart 26).<sup>15</sup> Looking at

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<sup>13</sup> 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.

<sup>14</sup> "Excluding external factors" means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

recent developments by category, prices of real estate services have been positive, assisted by the rise in office space rental against the background of improved supply-demand conditions of office spaces in the Tokyo metropolitan area. The year-on-year rate of change in prices of "other services" has remained positive, reflecting increases in costs, but the rate of increase has diminished slightly since the start of this fiscal year in response to firms' cost-cutting. Prices of information services had continued to increase marginally due to tightening supply-demand conditions as a result of active software investment by firms, but their year-on-year rate of change has recently been around zero percent. Prices of advertising services have continued to decline, 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; and prices of leasing and rental have also continued to decrease, affected by the drop in prices of office automation equipment leasing. The year-on-year rate of change in prices of finance and insurance has been negative, partly due to the reduction in the premiums of compulsory motor vehicle insurance in April.

The year-on-year rate of increase in consumer prices (excluding fresh food, same hereafter) is currently around 2 percent against the background of the increase in prices of petroleum products and food (Chart 27). In June, consumer prices rose at an accelerated pace by marking an increase of 1.9 percent compared with that of 1.5 percent in May,<sup>16</sup> mainly since (1) the positive contribution from petroleum products expanded as a result of the rise in crude oil prices, and (2) the rise in input costs continued to be passed on to retail prices of food products and "eating out." Looking at recent developments in more detail on a year-on-year basis, prices of goods have increased at a faster pace, notably in prices of petroleum products and food; services prices have also risen at an accelerated pace, chiefly in prices of "eating out." Public utility charges have been positive on a year-on-year basis, assisted by the rise in

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<sup>15</sup> All items, including external factors, had increased at a slower pace since the start of this year. Recently, however, they have accelerated their pace of increase again due to the reactionary rise in ocean freight transportation (such as ocean tramper) and oceangoing ship chartering services.

<sup>16</sup> Prices rose by 1.9 percent on a year-on-year basis; it was the largest increase since January 1998, when it rose 2.0 percent in the wake of the rise in the consumption tax. Disregarding the effects of that tax hike, it was the largest increase since December 1992 (an increase of 2.0 percent).

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.

Domestic corporate goods prices are likely to continue increasing for the time being, with the effects of the rise in international commodity prices remaining, but the pace of increase is likely to slow. The year-on-year rate of increase in consumer prices is expected to be somewhat higher over the coming months but to moderate gradually thereafter, reflecting developments in prices of energy and food.

### **3. Financial Developments**

#### **(1) Financial Markets**

As for interest rate developments in the money markets, the overnight call rate (uncollateralized) has been at around 0.5 percent (Chart 28[1]). Regarding interest rates on term instruments, the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have been more or less flat on the whole (Chart 29[1]). Interest rates on Euroyen futures have dropped, mainly in distant contracts (Chart 29[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 and Europe; they have fallen to around 1.45 percent, reflecting more cautious views on the economic outlook (Chart 28[2]).

Yield spreads between corporate bonds and government bonds have been more or less flat on the whole, although spreads for some industries have been under expansionary pressure (Chart 31).

Stock prices have continued to show large fluctuations in response to unstable U.S. and European stock prices. The Nikkei 225 Stock Average is moving around 13,000 yen of late (Chart 32).

In the foreign exchange market, the yen rose to the 103-104 yen level toward mid-July, but the U.S. dollar has risen thereafter; the yen is currently being traded near the range of 109-110 yen to the U.S. dollar (Chart 33).

## **(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 small and medium-sized firms have perceived the lending attitudes of financial institutions as becoming less accommodative. However, the levels of these indicators suggest that the lending attitudes have remained accommodative for most firms (Chart 34).

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 35).

The amount outstanding of lending by private banks has increased. Its monthly average outstanding, after adjustment,<sup>17</sup> grew by 2.5 percent in July on a year-on-year basis, compared to 2.4 percent in June and 2.1 percent in May (Chart 36). The amount outstanding of lending to small and medium-sized firms, however, has been below the year-ago level. It declined by 2.0 percent in June following a 0.4 percent decline in May on a year-on-year basis.

In the corporate bond and CP markets, issuing conditions have continued to be favorable as a whole. Issuance spreads on corporate bonds and CP have remained tight for firms with high credit ratings. However, these spreads have been relatively wide for firms with low credit ratings and in some industries, whose bond issuance has decreased compared to a while ago. Against this backdrop, the amount

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<sup>17</sup> The figures are adjusted for (1) fluctuations due to the liquidation of loans, (2) fluctuations in the yen value of foreign-currency-denominated loans due to changes in exchange rates, and (3) fluctuations due to loan write-offs.



outstanding of CP and corporate bonds issued has fallen to the previous year's level, as the large amount of bonds issued ten years ago have come to maturity. It increased by 0.2 percent in July on a year-on-year basis, compared to 0.6 percent in June and 1.3 percent in May (Chart 37).

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 34).

The money stock (M2) has increased by around 2 percent annually. Its July reading was 2.1 percent on a year-on-year basis, following 2.2 percent in June and 2.1 percent in May (Chart 38).<sup>18</sup>

The number of corporate bankruptcies was up by 12.9 percent in July compared to the year-ago level, to 1,372 cases (Chart 39).

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<sup>18</sup> On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate was around 1 percent in July—it increased by 0.8 percent in July following 0.9 percent in June and 0.7 percent in May.

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## Main Economic Indicators (1)

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

	2007/Q4	2008/Q1	Q2	2008/Apr.	May	Jun.	Jul.
Index of consumption expenditure level (two-or-more-person households)	0.7	-0.4	-2.0	-0.1	-1.2	1.7	n.a.
Sales at department stores	0.3	-0.7	-3.0	0.0	-1.4	-3.8	n.a.
Sales at supermarkets	0.5	0.2	-1.7	-2.0	-0.7	-0.9	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 300>	< 301>	< 295>	< 317>	< 278>	< 290>	< 309>
Sales of household electrical appliances (real, Current Survey of Commerce)	1.8	5.7	1.8	-3.8	3.8	-0.4	n.a.
Outlays for travel	0.2	0.6	-2.9	-5.6	6.1	-2.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 95>	< 114>	< 112>	< 115>	< 107>	< 113>	<n.a.>
Machinery orders (from private sector <sup>4</sup> )	0.6	2.2	0.6	5.5	10.4	-2.6	n.a.
Manufacturing	6.1	-5.9	2.7	1.9	12.2	3.9	n.a.
Nonmanufacturing <sup>4</sup>	-1.1	6.5	1.0	8.8	8.8	-3.3	n.a.
Construction Starts (private, nondwelling use)	40.8	1.2	-2.8	-15.0	7.9	-3.7	n.a.
Mining & manufacturing	47.2	-1.0	7.6	3.4	-7.6	-23.5	n.a.
Nonmanufacturing <sup>5</sup>	34.2	1.9	-5.4	-20.3	10.8	4.4	n.a.
Value of public works contracted	1.4	-0.5	-8.3	-7.4	0.7	-0.9	18.4
Real exports	1.9	3.2	-3.3	-5.3	0.9	0.8	n.a.
Real imports	-0.6	0.9	-2.2	-5.7	-1.6	6.2	n.a.
Industrial production	0.9	-0.7	-0.8	-0.2	2.8	-2.2	n.a.
Shipments	1.4	-0.5	-0.9	0.9	2.0	-3.0	n.a.
Inventories	1.2	0.0	0.4	-1.2	0.5	1.1	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 101.3>	< 105.3>	< 105.0>	< 101.2>	< 101.2>	< 105.0>	<n.a.>
Real GDP	0.6	0.8	-0.6	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.1	-0.9	n.a.	0.8	0.4	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2007/Q4	2008/Q1	Q2	2008/Apr.	May	Jun.	Jul.
Ratio of job offers to applicants <s.a., times>	< 1.00>	< 0.97>	< 0.92>	< 0.93>	< 0.92>	< 0.91>	<n.a.>
Unemployment rate <s.a., %>	< 3.8>	< 3.9>	< 4.0>	< 4.0>	< 4.0>	< 4.1>	<n.a.>
Overtime working hours <sup>6</sup>	0.2	0.7	-1.2	-0.8	-0.9	-1.8	n.a.
Number of employees	0.9	0.0	-0.0	-0.1	0.1	0.0	n.a.
Number of regular employees <sup>6</sup>	2.0	1.9	1.7	1.8	1.7	1.5	n.a.
Nominal wages per person <sup>6</sup>	-0.9	1.6	0.7	0.8	0.8	0.4	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	2.4 < 0.7>	3.4 < 1.0>	4.8 < 2.5>	3.9 < 1.8>	4.8 < 2.5>	5.7 < 2.9>	p 7.1 <p 4.0>
Consumer price index <sup>8</sup>	0.5	1.0	1.5	0.9	1.5	1.9	n.a.
Corporate services price index	1.6	0.6	p 0.8	0.5	0.7	p 1.2	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.0	2.2	2.1	1.9	2.1	2.2	p 2.1
Number of corporate bankruptcies <cases per month>	<1,190>	<1,238>	<1,276>	<1,215>	<1,290>	<1,324>	<1,372>

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

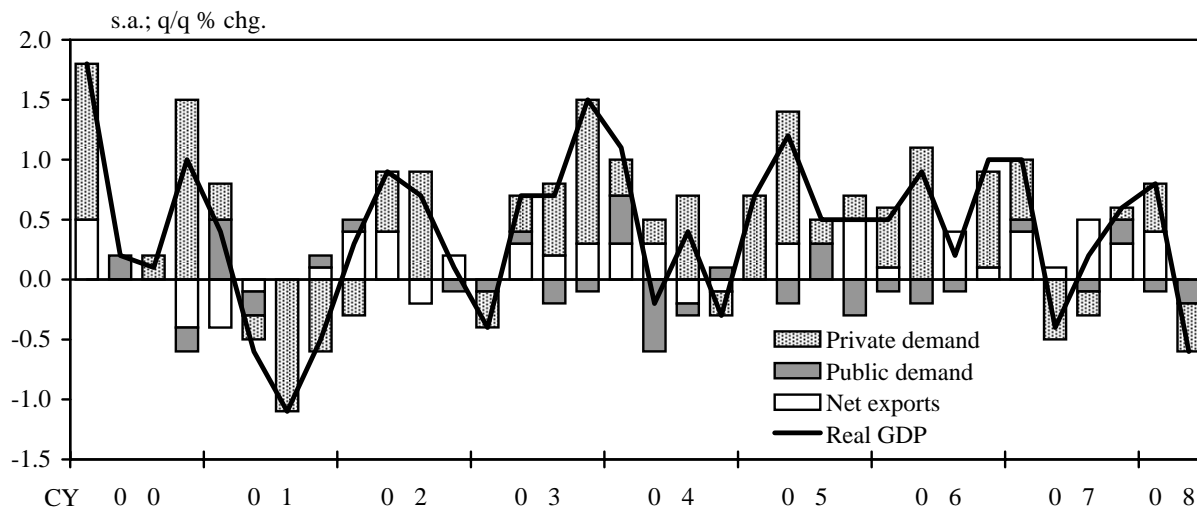
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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

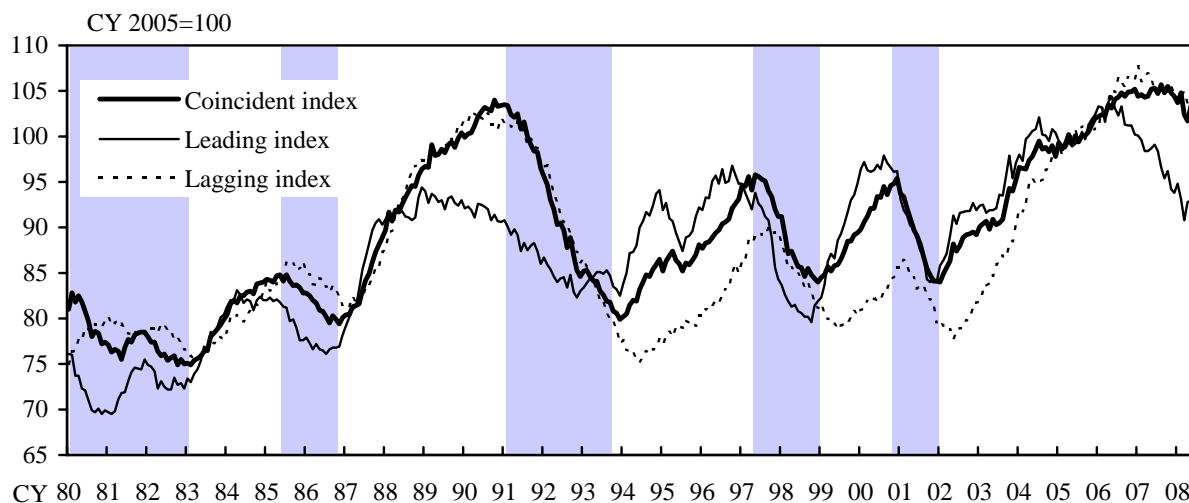


(2) Components

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

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

(3) Indexes of Business Conditions (Composite Indexes)

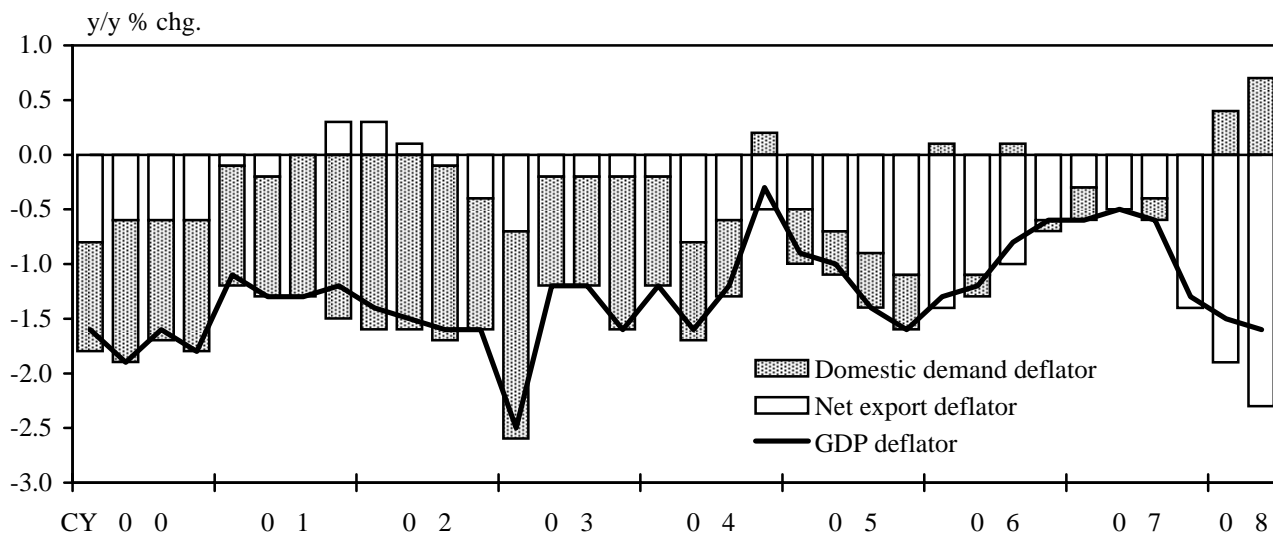


Note: Shaded areas indicate recession periods.

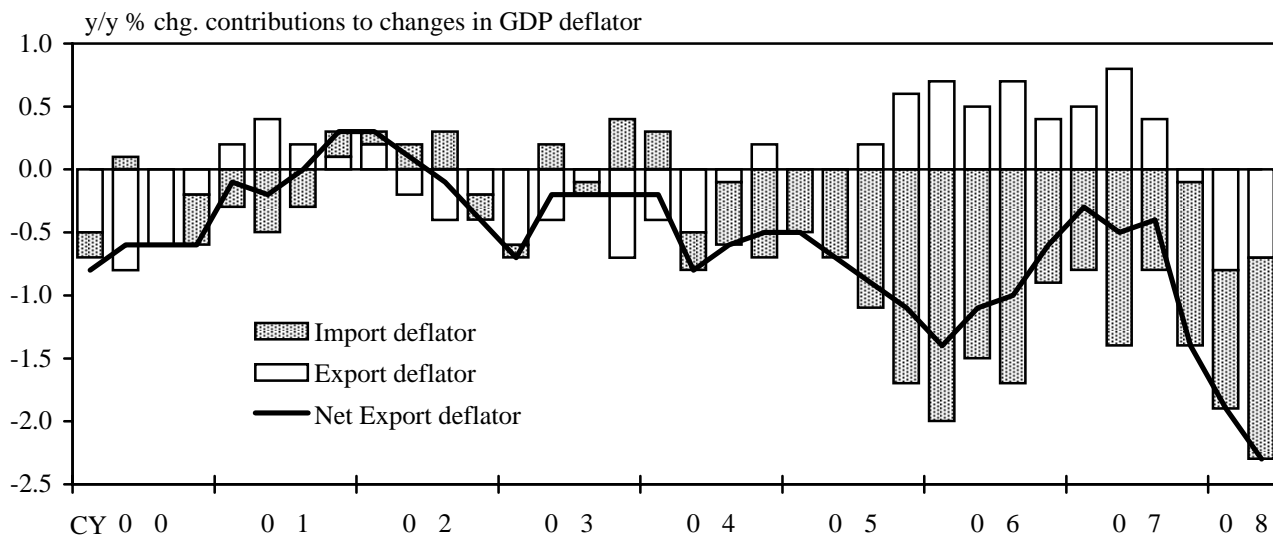
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

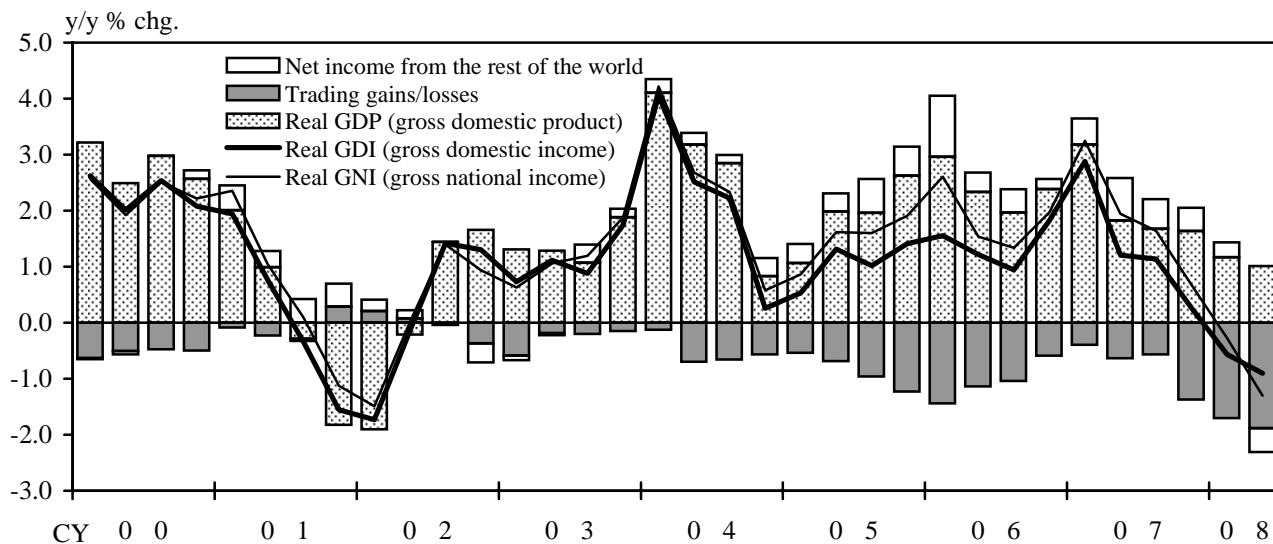
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



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

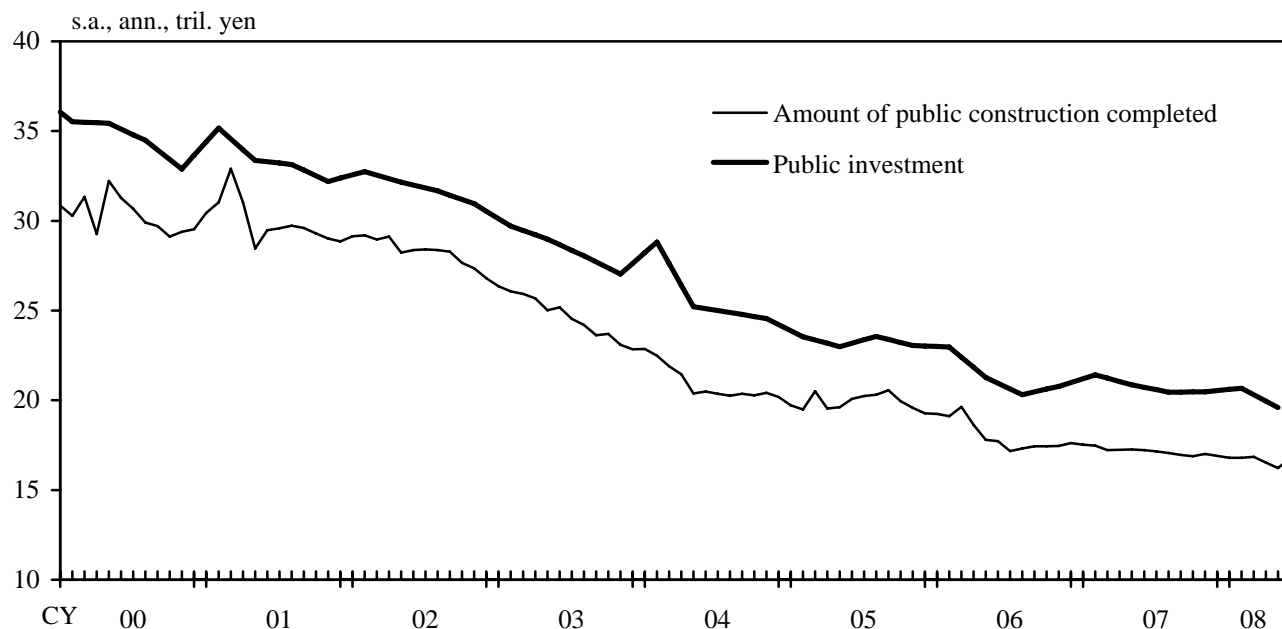
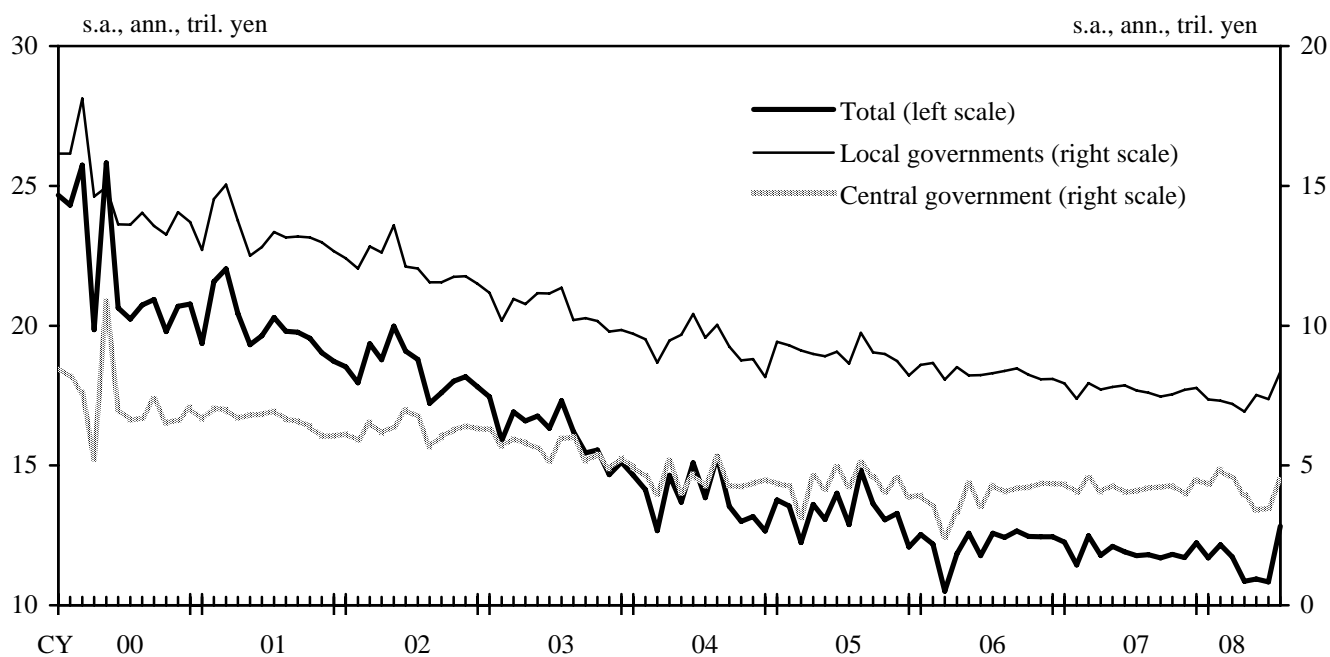
Trading gains/losses = nominal net exports / weighted average of export and import deflators - real net exports

Source: Cabinet Office, "National Accounts."

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**Public Investment**


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**(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.

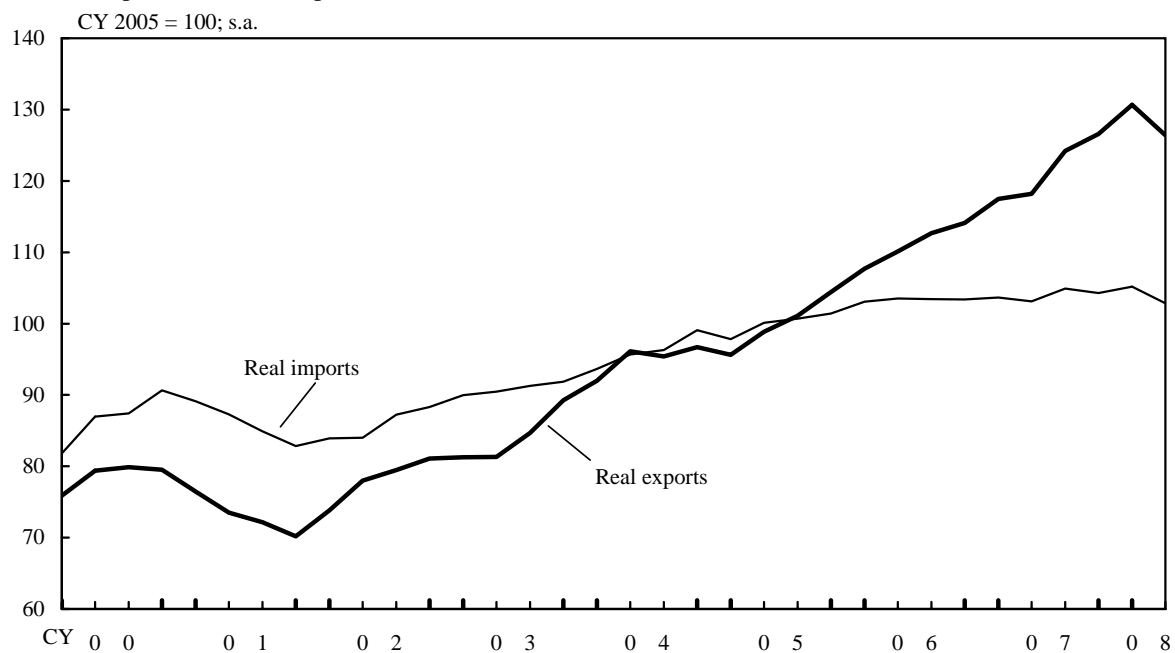
Sources: Cabinet Office, "National Accounts";

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

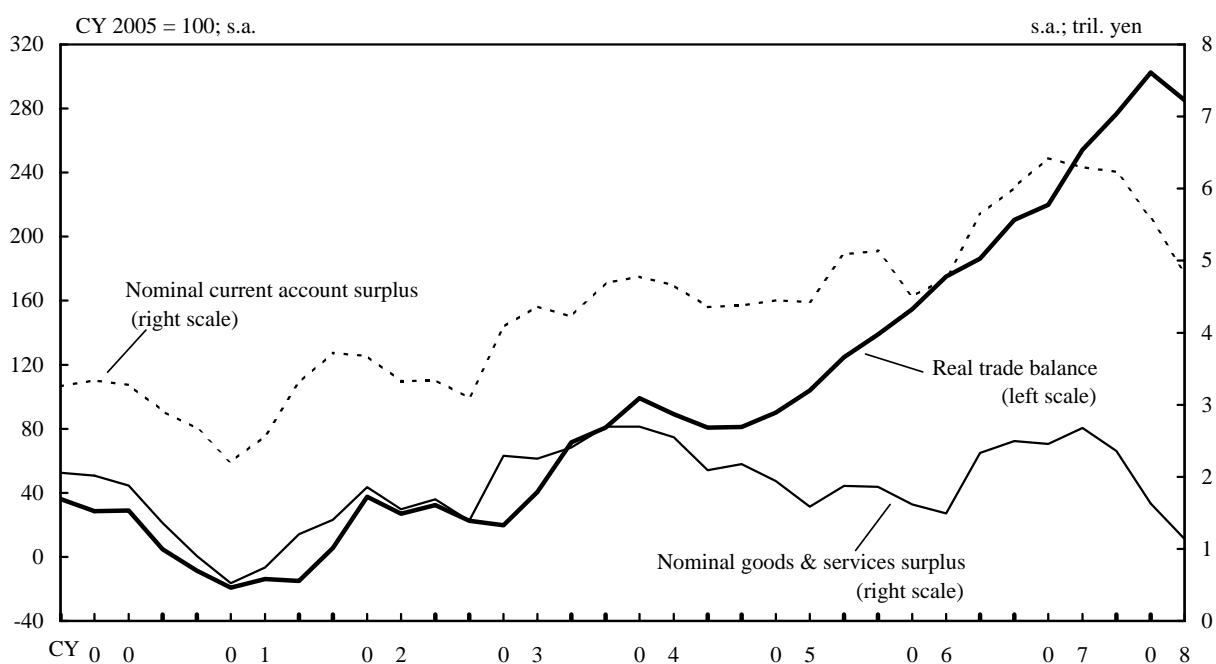
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

## 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.

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



Real Exports <sup>1</sup>

## (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 Apr.	May	Jun.
United States	<20.1>	11.7	-1.2	-3.0	4.4	-1.3	-0.2	-6.8	-8.7	0.5	1.3
EU	<14.8>	11.1	13.0	2.0	5.2	2.6	4.2	-7.3	-10.1	-0.7	-0.5
East Asia	<46.0>	8.9	10.3	-0.1	4.4	2.8	4.9	-2.3	-1.9	3.2	-2.1
China	<15.3>	18.8	16.8	-1.0	6.6	1.9	5.1	1.8	3.3	5.0	-4.8
NIEs	<22.4>	6.3	5.2	-0.8	3.1	2.0	5.3	-5.8	-5.3	1.4	-0.1
Korea	<7.6>	9.6	5.3	-1.8	0.7	4.7	3.6	-4.7	-3.8	-3.6	0.7
Taiwan	<6.3>	2.7	0.0	2.8	4.8	-3.8	8.7	-8.8	-6.9	1.7	2.5
ASEAN <sup>4</sup>	<8.3>	1.8	13.2	3.5	4.0	6.3	3.6	-0.6	-2.2	4.1	-2.2
Thailand	<3.6>	4.1	9.8	1.4	4.9	2.1	5.1	-6.8	-10.3	7.3	-4.9
Others	<19.1>	20.2	19.8	5.1	5.5	9.2	4.8	-0.1	-7.7	3.0	3.5
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-3.3	-5.3	0.9	0.8

## (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 Apr.	May	Jun.
Intermediate goods	<18.4>	6.9	5.3	0.6	4.8	1.6	2.2	-5.7	-8.8	0.4	0.4
Motor vehicles and their related goods	<24.1>	14.2	13.2	1.8	5.9	6.6	3.0	-4.8	-8.2	-1.0	2.7
Consumer goods <sup>4</sup>	<4.5>	9.8	6.4	4.5	3.4	-0.2	4.3	3.3	-6.8	7.6	-0.5
IT-related goods <sup>5</sup>	<11.0>	7.5	12.1	-1.8	4.2	2.3	-1.2	4.4	-0.7	8.0	-2.8
Capital goods and parts <sup>6</sup>	<28.4>	13.3	8.0	1.7	3.2	2.8	4.3	-2.0	-3.0	-0.2	0.4
Real exports		11.2	9.1	0.6	5.1	1.9	3.2	-3.3	-5.3	0.9	0.8

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

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.

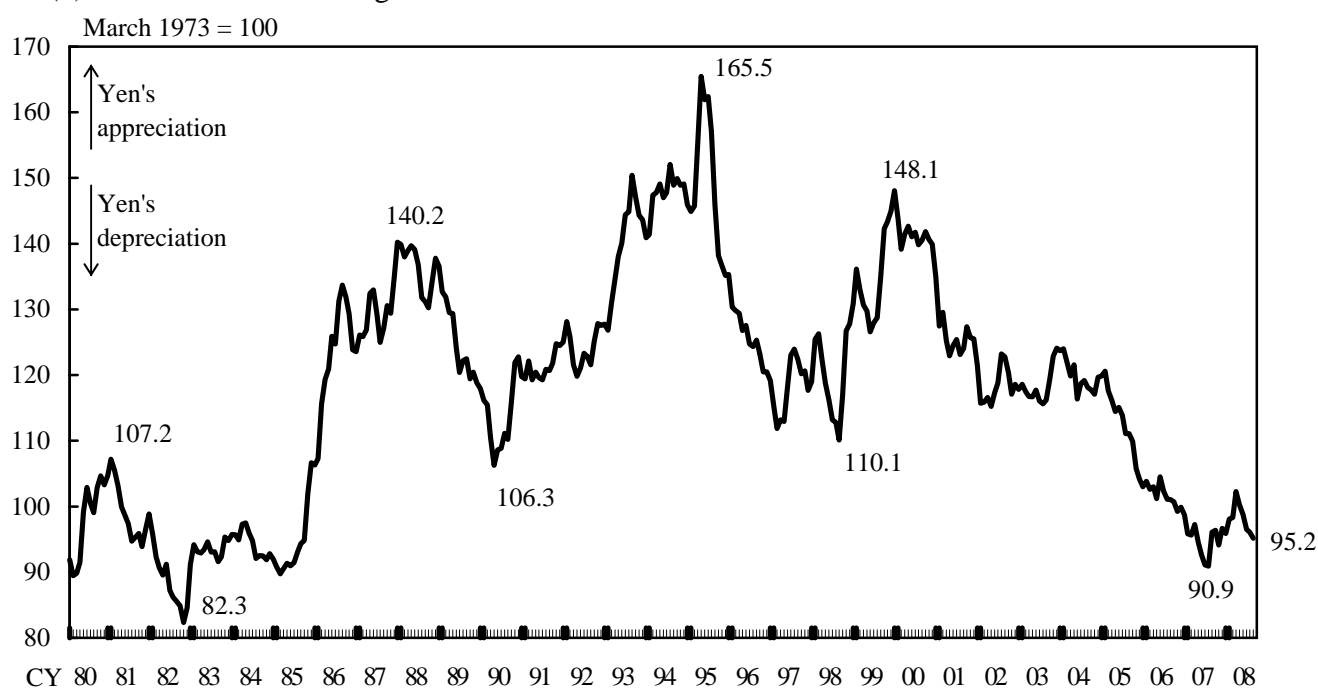
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs and medical and optical instruments.

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."

## Real Effective Exchange Rate and Overseas Economies

### (1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for August 2008 is the average up to August 18.

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 Q3	Q4	2008 Q1	Q2	
United States <sup>1</sup>		2.9	2.8	2.0	4.8	-0.2	0.9	1.9	
European Union <sup>1</sup>		2.0	3.2	2.9	2.8	1.9	2.7	-0.4	
	Germany	0.9	3.2	2.6	2.4	1.4	5.2	-2.0	
	France	1.9	2.4	2.1	2.7	1.5	1.6	-1.2	
	United Kingdom	1.8	2.9	3.0	2.3	2.2	1.1	0.8	
East Asia <sup>2</sup>	China	10.4	11.6	11.9	11.5	11.3	10.6	10.1	
	NIEs	Korea	4.2	5.1	5.0	5.1	5.7	5.8	4.8
		Taiwan	4.2	4.9	5.7	6.9	6.5	6.1	n.a.
		Hong Kong	7.1	7.0	6.4	6.8	6.9	7.3	4.2
		Singapore	7.3	8.2	7.7	9.5	5.4	6.9	2.1
	ASEAN4	Thailand	4.5	5.1	4.8	4.8	5.7	6.0	n.a.
		Indonesia	5.7	5.5	6.3	6.5	6.3	6.3	6.4
		Malaysia	5.3	5.8	6.3	6.7	7.3	7.1	n.a.
Philippines		5.0	5.4	7.2	7.1	6.4	5.2	n.a.	

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 <sup>1</sup>

## (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 Apr.	May	Jun.
United States	<11.4>	5.3	-1.5	-1.1	-2.0	3.2	-1.1	-3.9	-6.7	1.7	13.5
EU	<10.5>	0.8	4.0	3.1	2.7	-3.3	-1.0	0.1	-9.1	0.7	7.2
East Asia	<40.9>	8.8	3.2	-0.9	1.5	0.0	2.2	-2.9	-5.1	-1.6	2.2
China	<20.6>	10.9	5.7	-0.3	1.4	-0.1	0.8	-1.0	-4.0	2.0	1.0
NIEs	<8.9>	12.3	-3.8	-3.0	1.2	0.5	3.0	-4.2	-0.7	-8.3	2.3
Korea	<4.4>	10.7	-3.4	0.7	-1.0	0.5	3.3	-8.9	1.1	-12.7	4.2
Taiwan	<3.2>	15.6	-3.0	-7.4	4.5	-1.7	4.2	1.7	-1.8	-1.5	-0.4
ASEAN4 <sup>3</sup>	<11.4>	2.7	4.6	-0.1	1.8	-0.0	4.1	-5.1	-10.3	-2.5	4.5
Thailand	<2.9>	8.7	4.3	-0.1	3.3	-0.5	1.2	-3.3	-2.4	-4.8	6.3
Others	<37.2>	2.9	-0.5	-1.1	2.7	-0.4	0.9	-1.9	-6.9	-0.4	5.0
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-2.2	-5.7	-1.6	6.2

## (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 Apr.	May	Jun.
Raw materials <sup>4</sup>	<35.4>	1.2	0.2	-0.5	3.7	-0.4	1.6	-3.9	-10.8	-1.6	5.8
Intermediate goods	<14.8>	3.1	2.0	-0.3	2.2	-1.9	-1.7	2.7	-3.5	2.7	3.7
Foodstuffs	<8.3>	-4.0	-9.6	-6.0	-2.0	-6.2	-1.0	-0.7	-4.3	1.1	3.3
Consumer goods <sup>5</sup>	<8.1>	4.3	-0.1	6.1	-1.2	-2.8	0.6	-3.2	-11.4	-0.6	12.9
IT-related goods <sup>6</sup>	<11.3>	17.2	4.3	-0.3	0.9	1.8	4.1	-2.6	-0.1	-4.4	0.6
Capital goods and parts <sup>7</sup>	<12.8>	16.8	8.5	1.0	1.1	4.6	1.2	-1.4	3.5	-6.5	9.4
Excluding aircraft	<11.8>	17.7	7.9	2.7	3.4	1.9	0.0	2.4	0.8	-4.0	3.7
Real imports		3.6	0.6	-0.5	1.7	-0.6	0.9	-2.2	-5.7	-1.6	6.2

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

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.

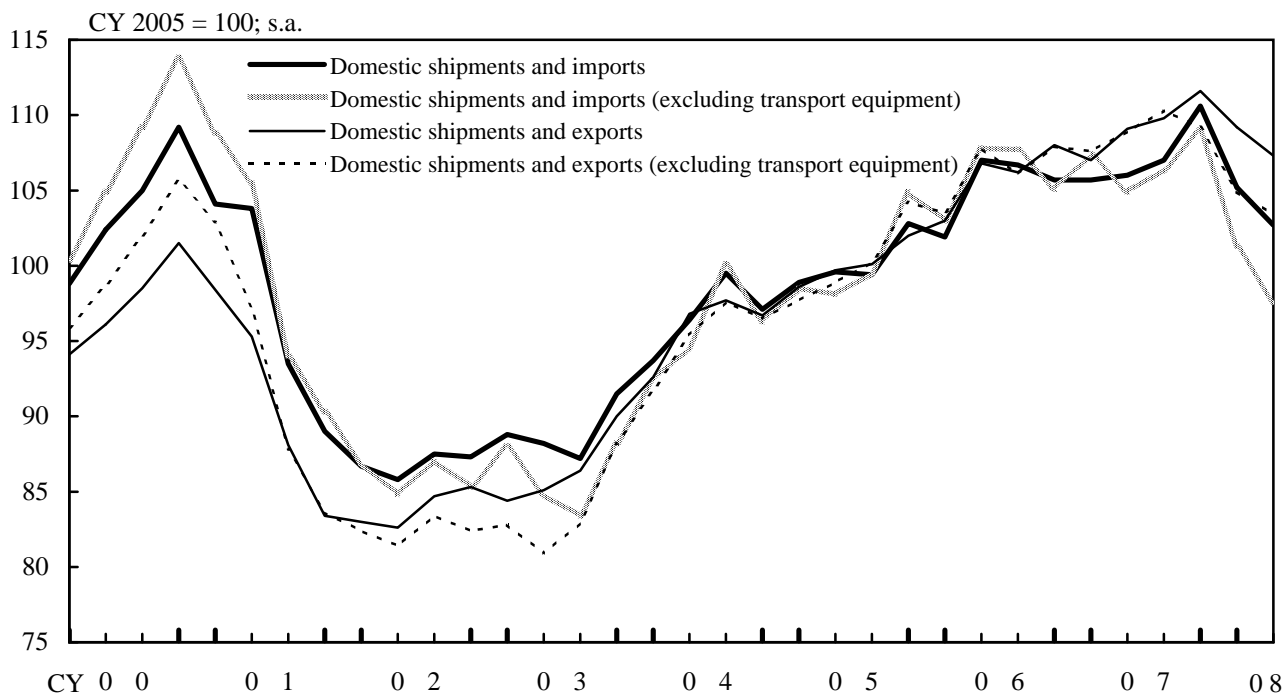
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

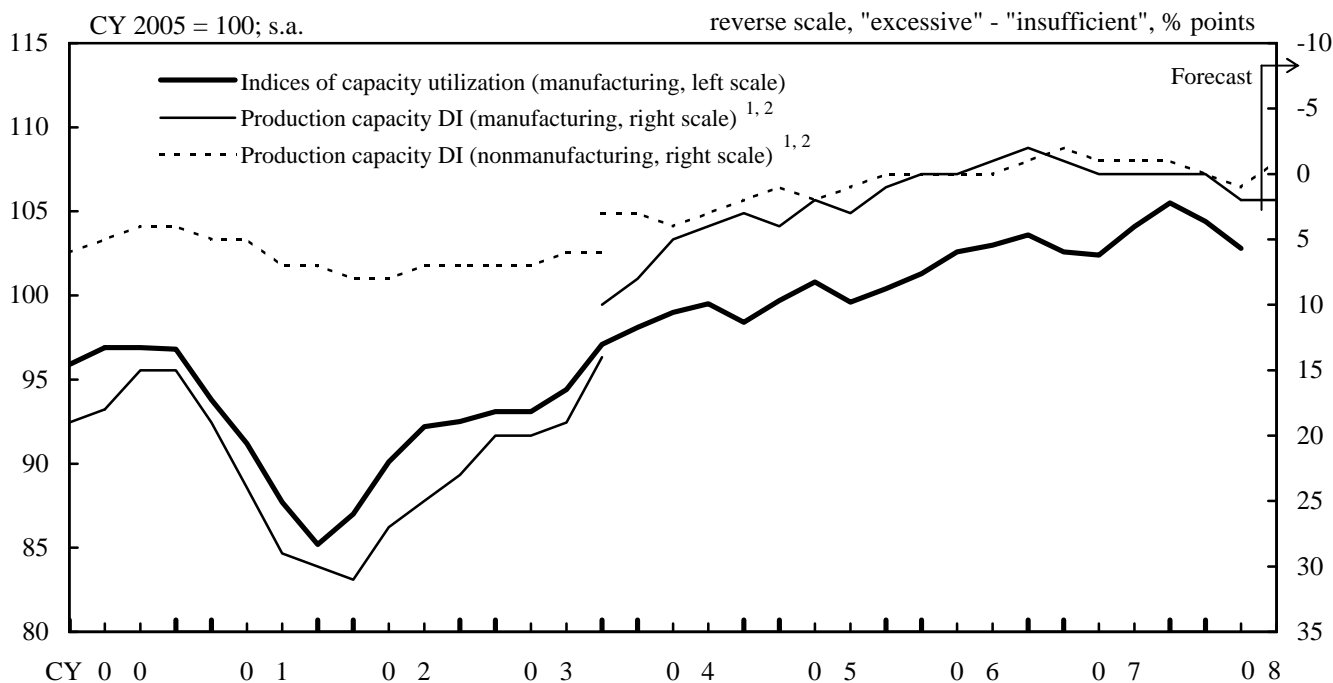
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

## Coincident Indicators for Business Fixed Investment

## (1) Aggregate Supply and Shipments of Capital Goods



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



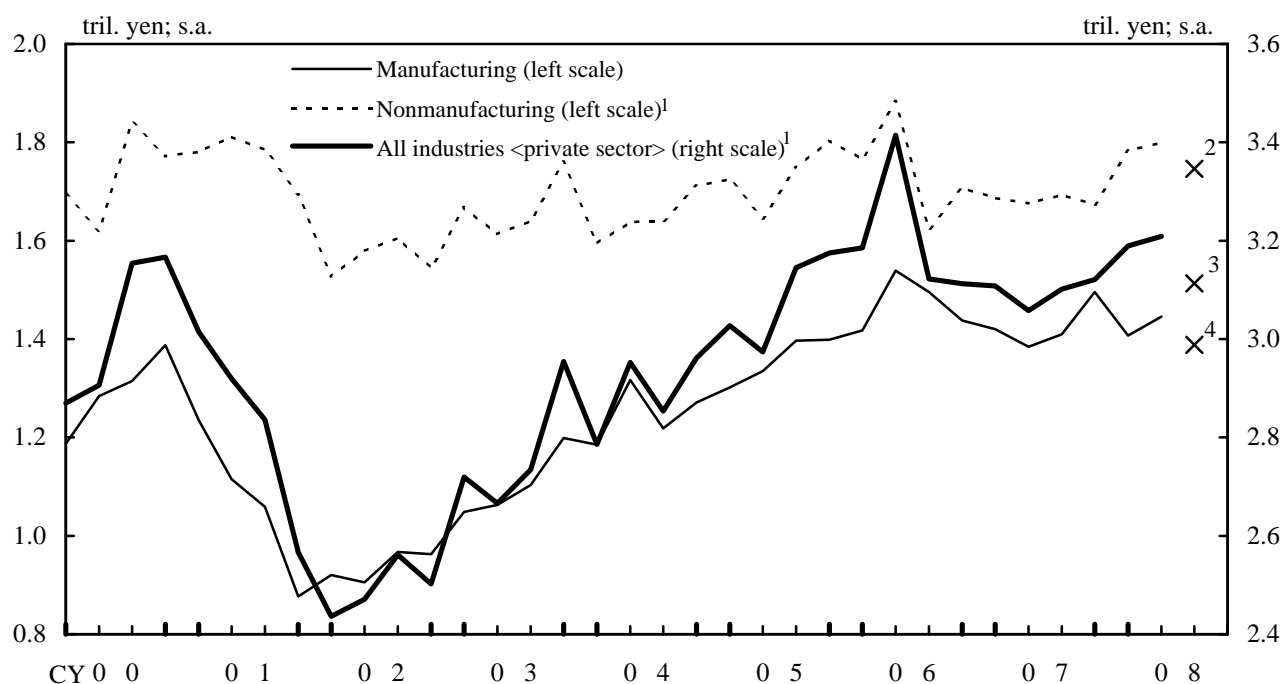
Notes: 1. Production capacity DIs are those of all enterprises.

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

Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production,"  
 "Indices of Industrial Domestic Shipments and Imports";  
 Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

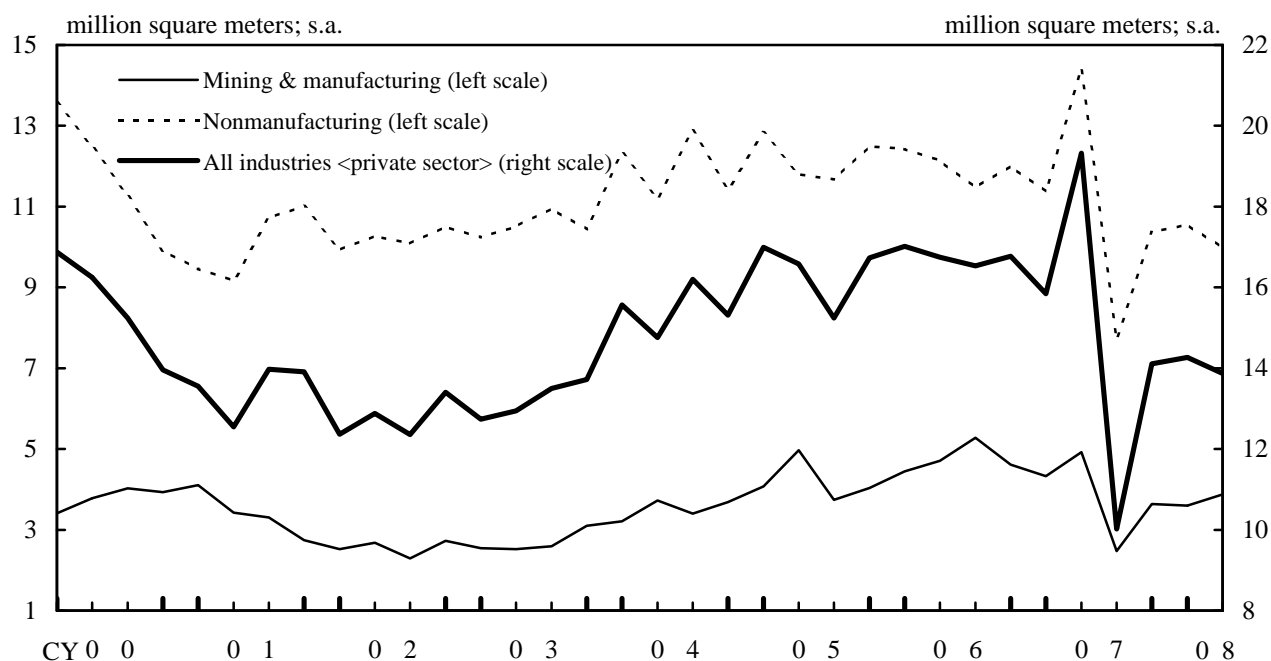
## Leading Indicators for Business Fixed Investment

### (1) Machinery Orders



- Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.  
 2. Forecast of nonmanufacturing industries for 2008/Q3.  
 3. Forecast of all industries <private sector> for 2008/Q3.  
 4. Forecast of manufacturing industries for 2008/Q3.

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

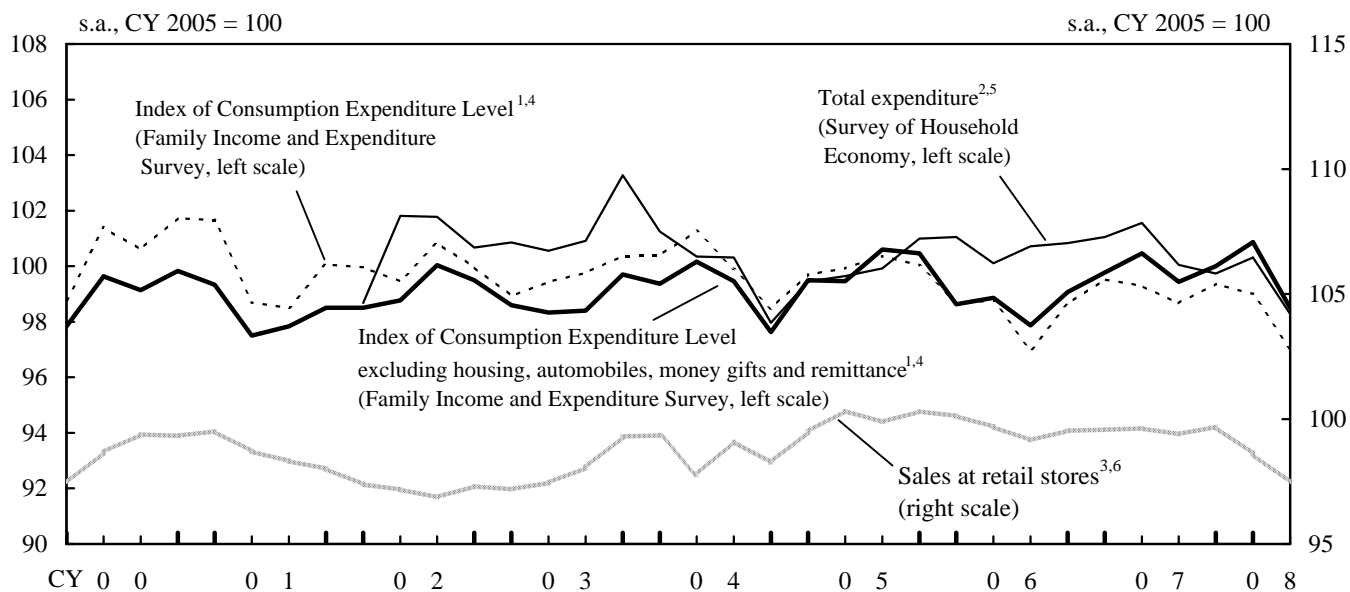


- Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

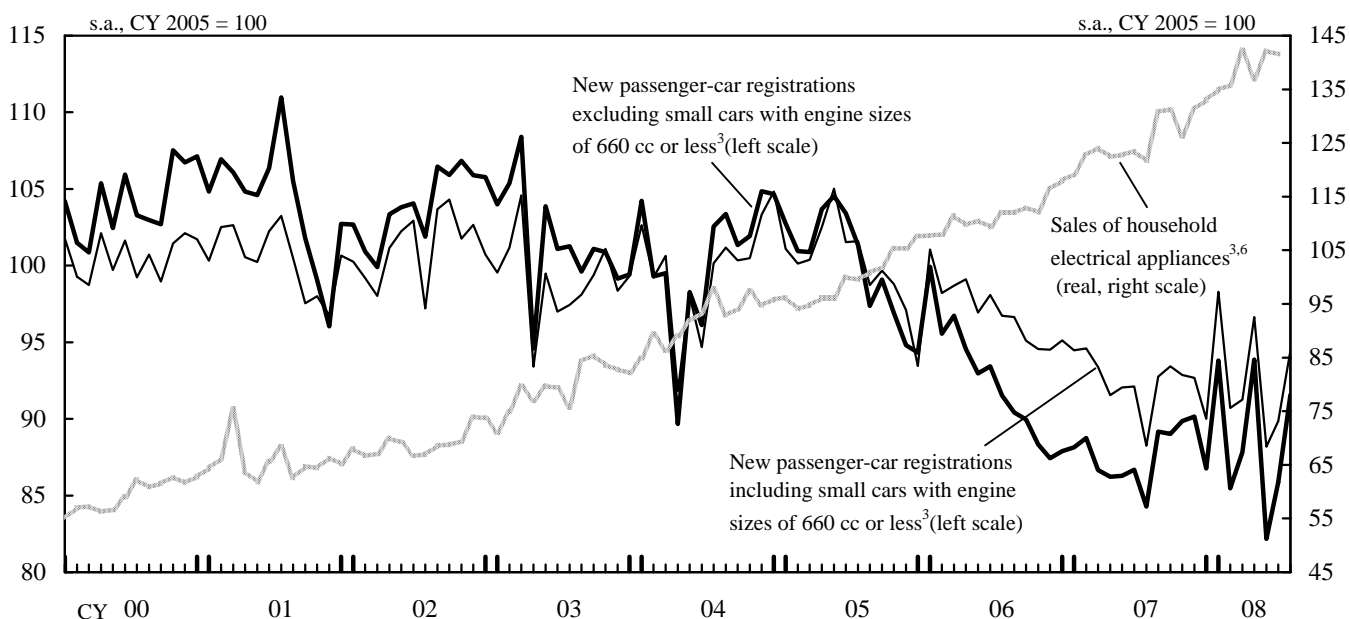
Sources: Cabinet Office, "Orders Received for Machinery";  
 Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

## Indicators for Private Consumption (1)

## (1) Household Spending (Real)

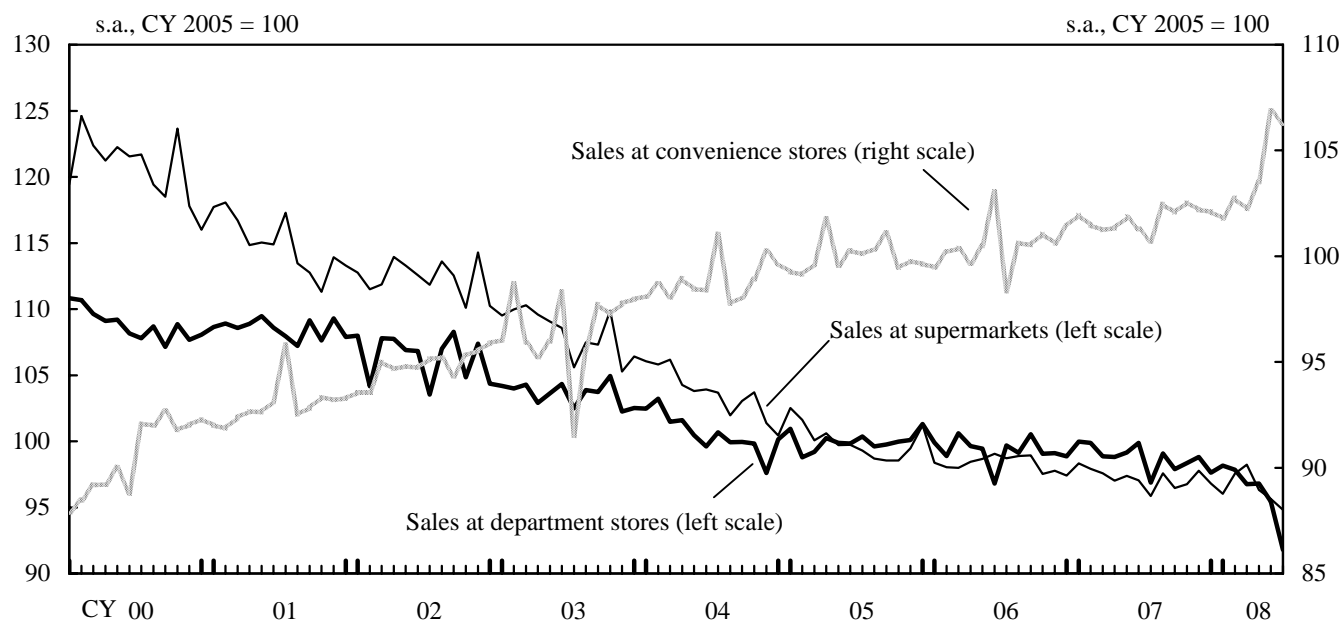


## (2) Sales of Durable Goods

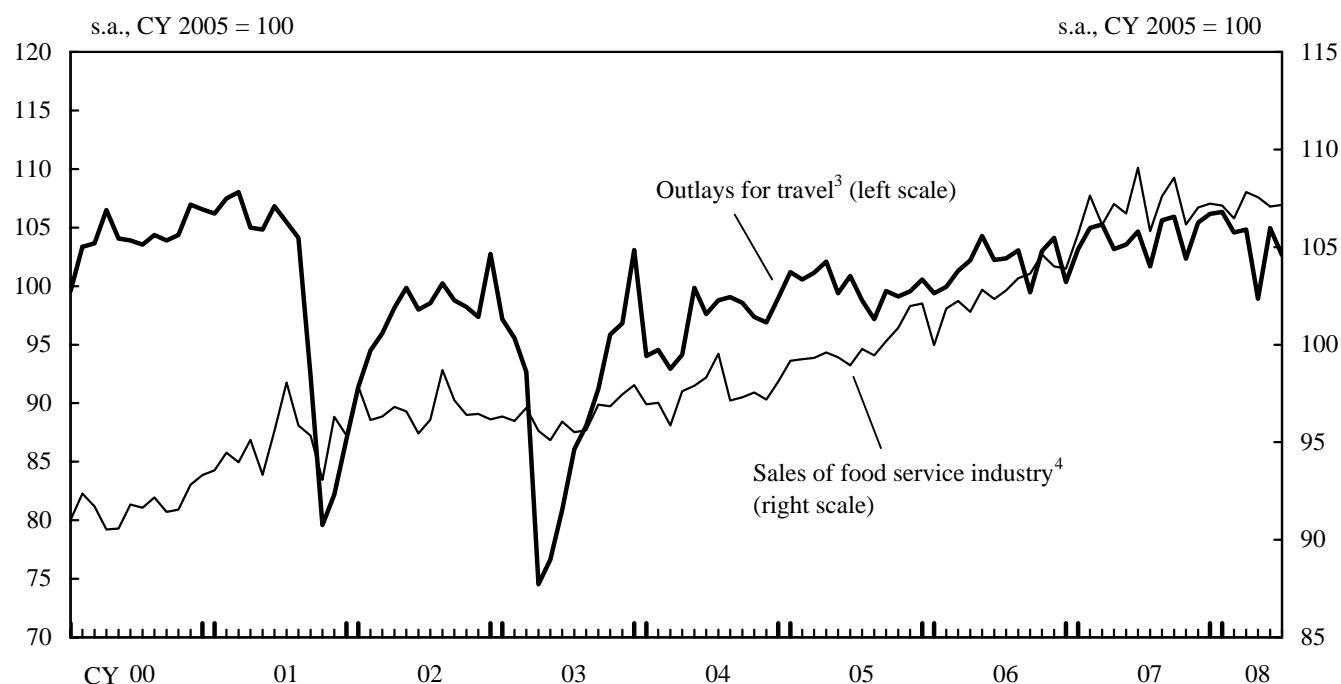


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.  
 2. Total expenditure is seasonally adjusted by X-11.  
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.  
 4. Index of consumption expenditure level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

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 Consumption<sup>1</sup> (2)(1) Sales at Retail Stores (Nominal)<sup>2</sup>

## (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).

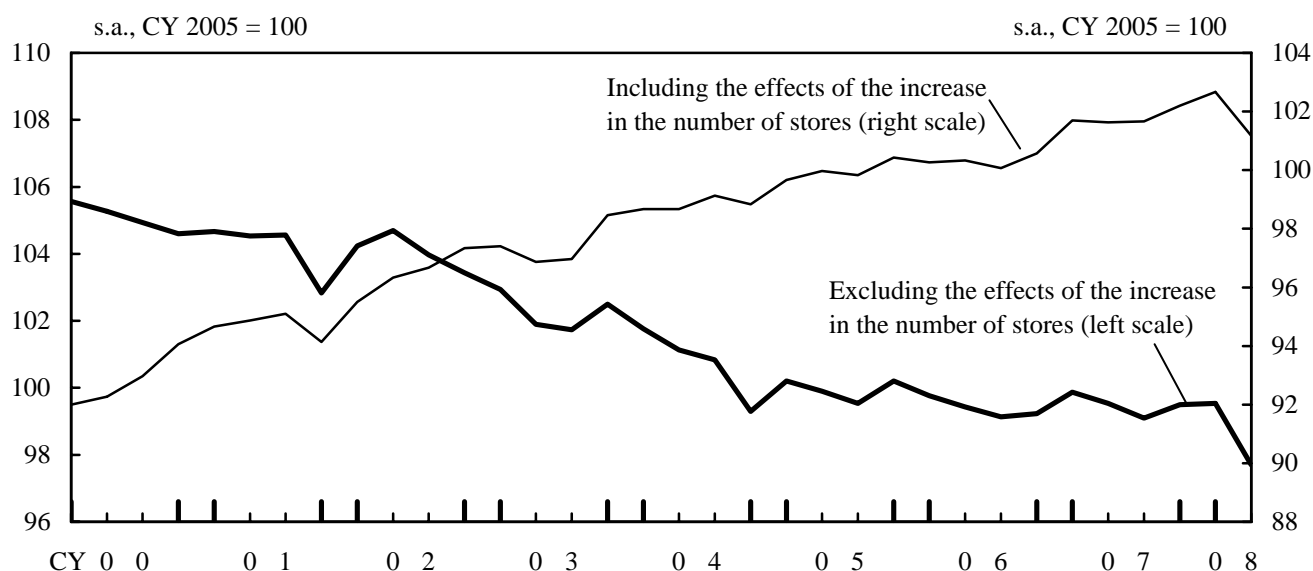
3. As for "outlays for travel," there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

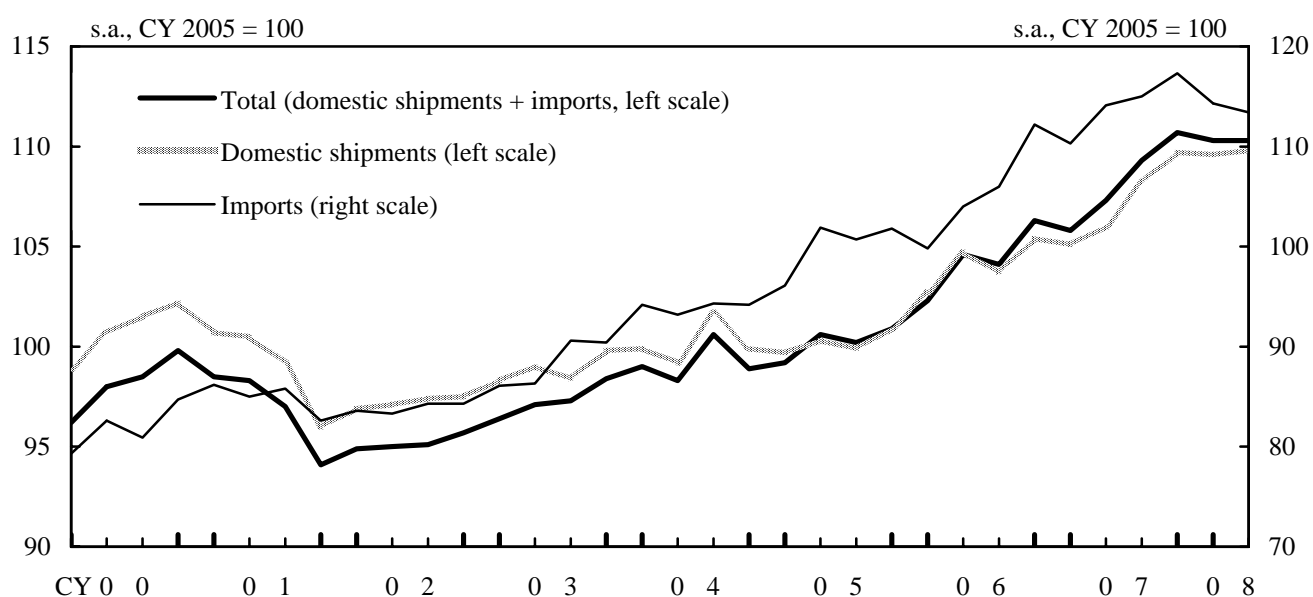
## Indicators for Private Consumption (3)

## (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.

## (2) Aggregate Supply of Consumer Goods

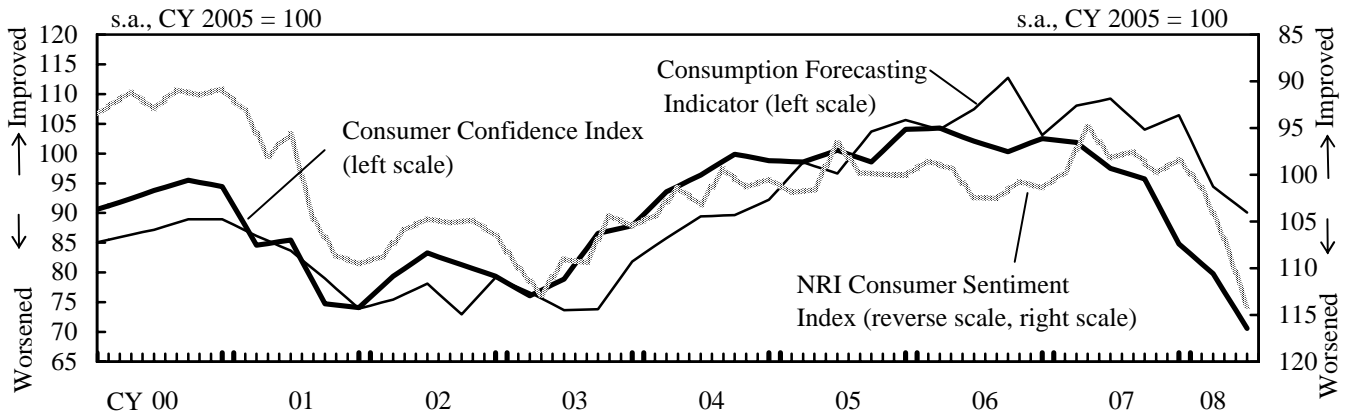


Sources: Bank of Japan, "Indices of Aggregated Sales";  
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

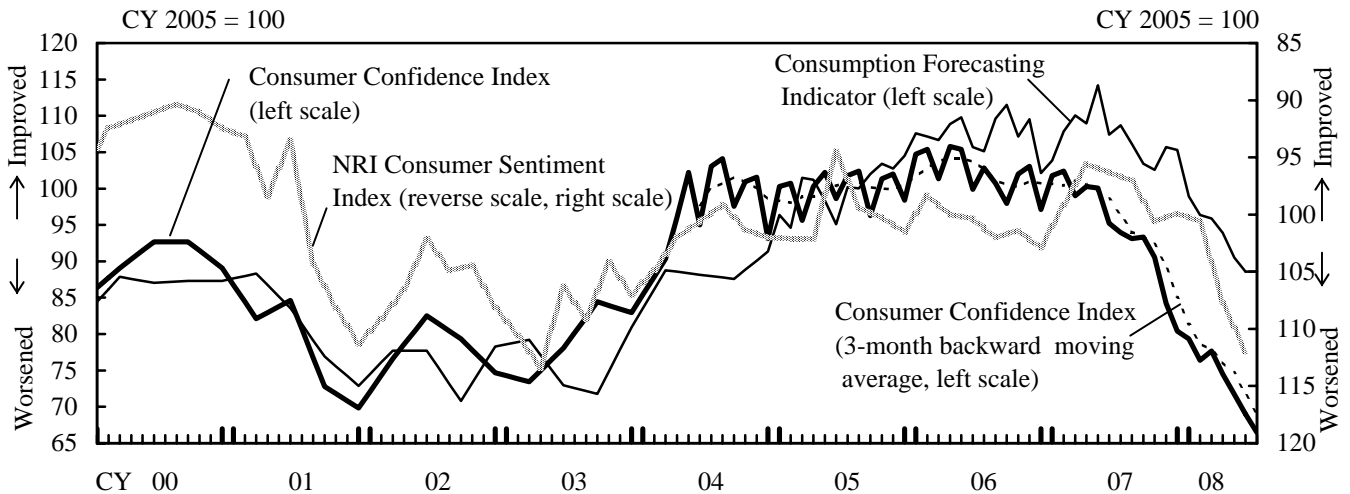


Consumer Confidence

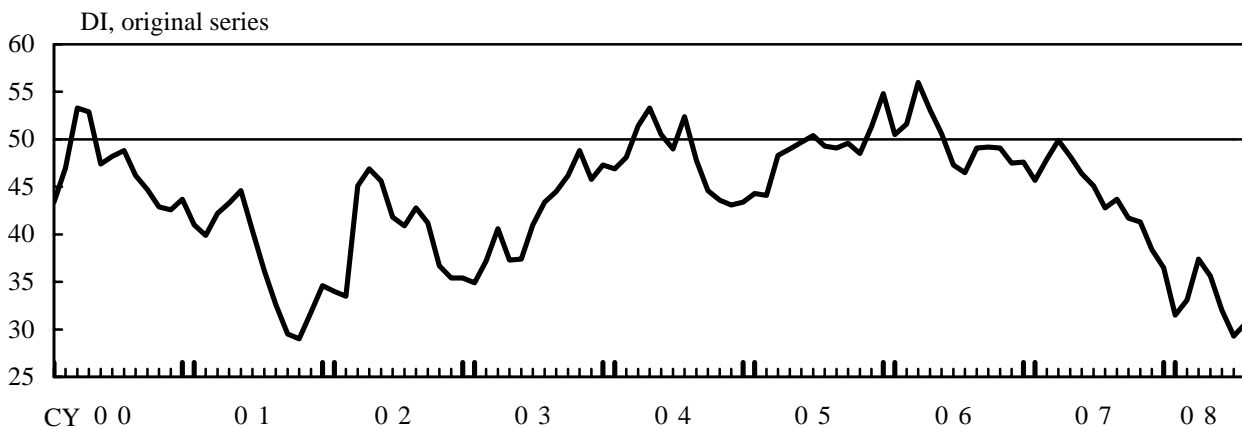
(1) Seasonally Adjusted Series



(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.

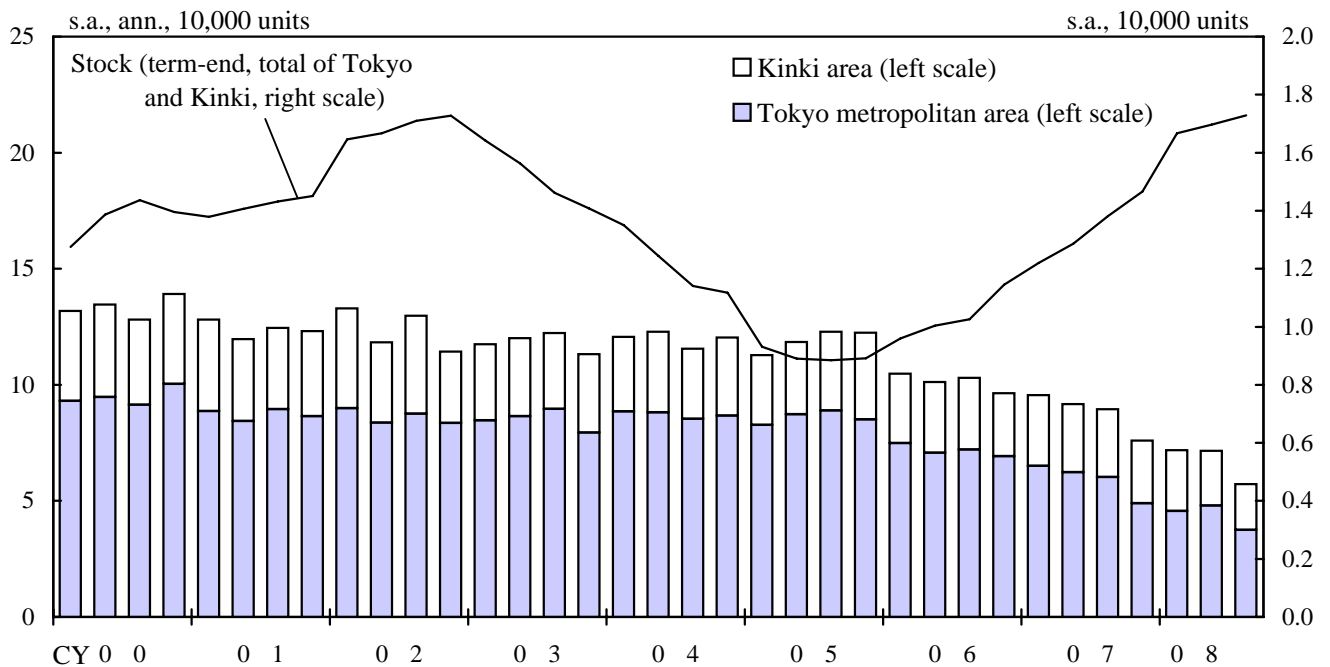
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey"; Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Apartments

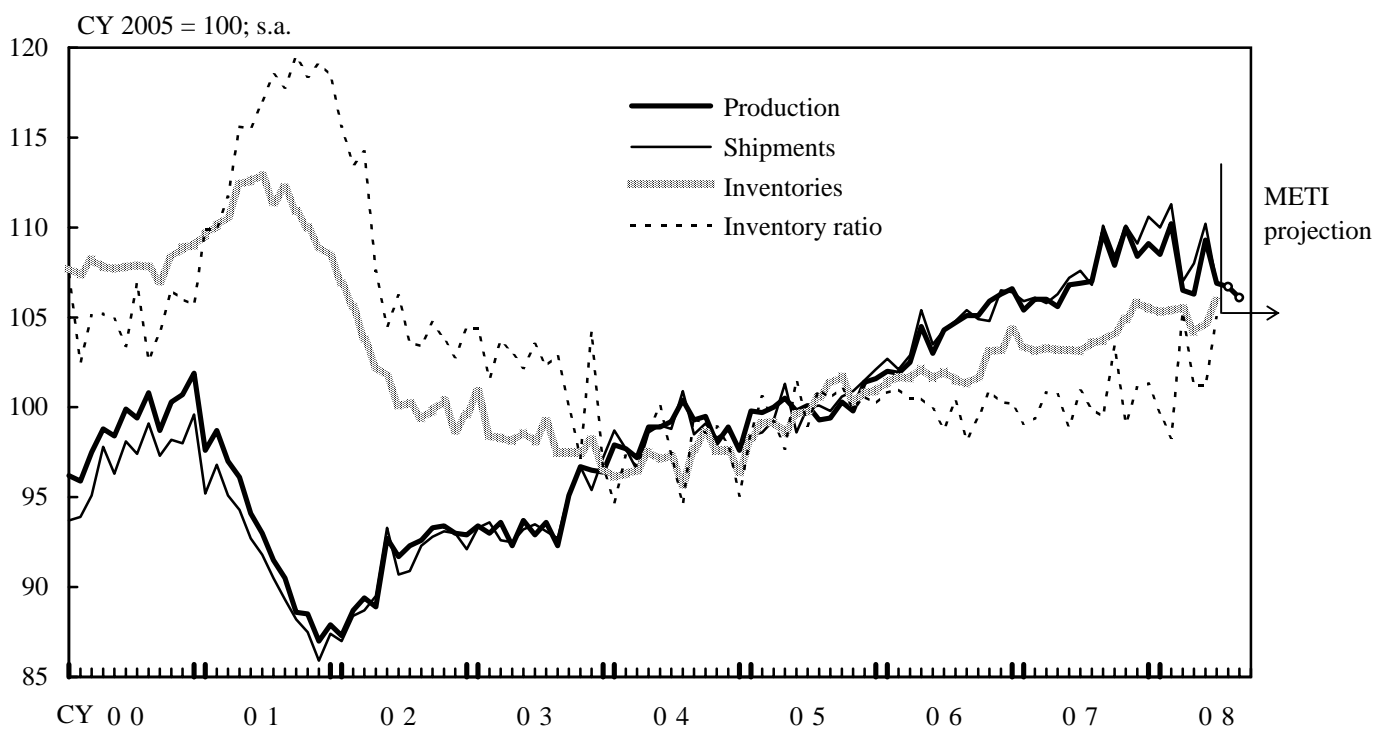


Notes: 1. Seasonally adjusted by X-12-ARIMA.  
 2. Figures for 2008/Q3 are those of July.

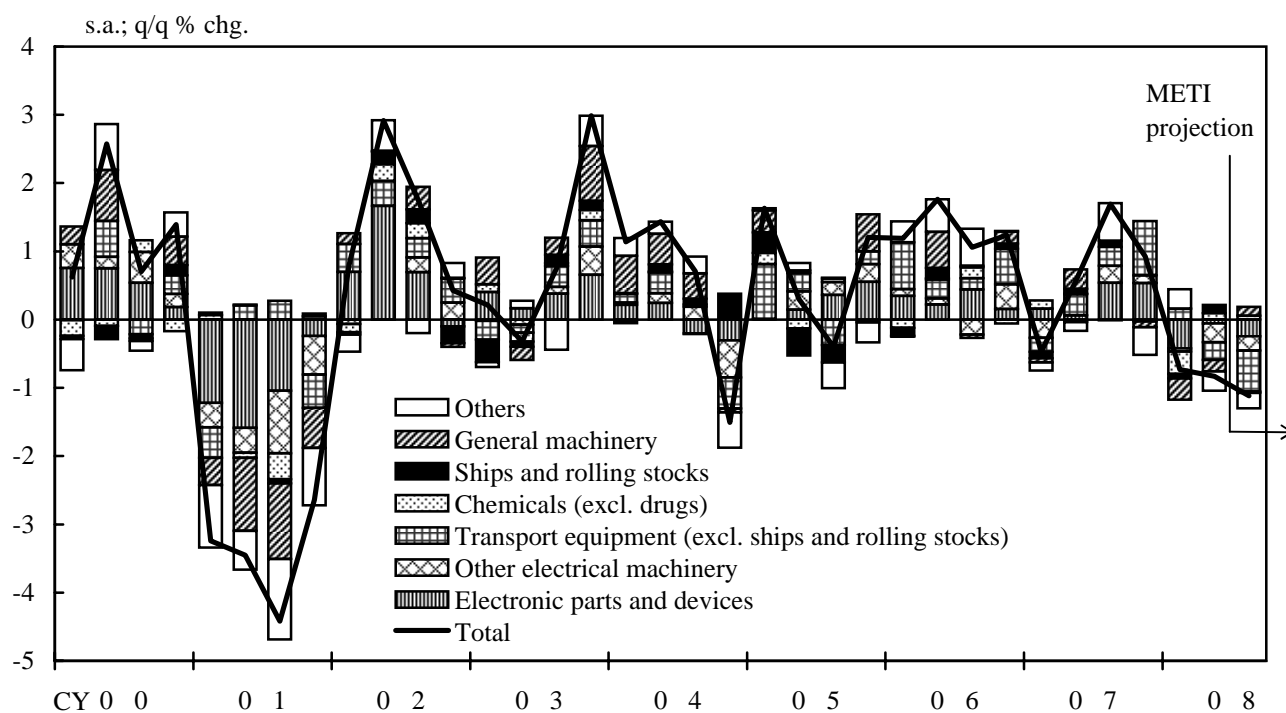
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

## Production, Shipments and Inventories

### (1) Production, Shipments and Inventories



### (2) Production by Industry

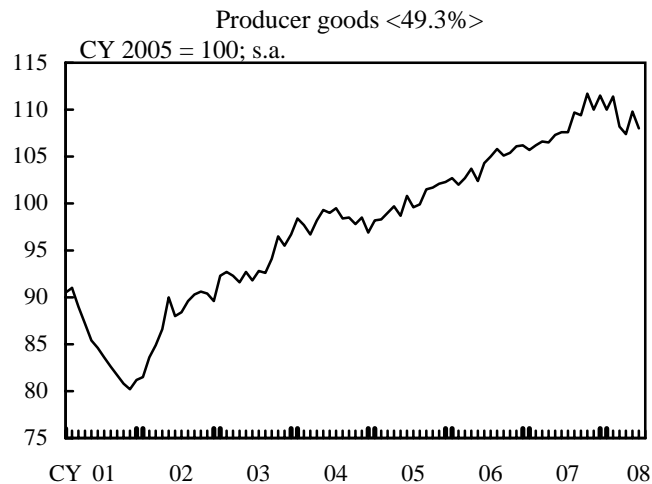
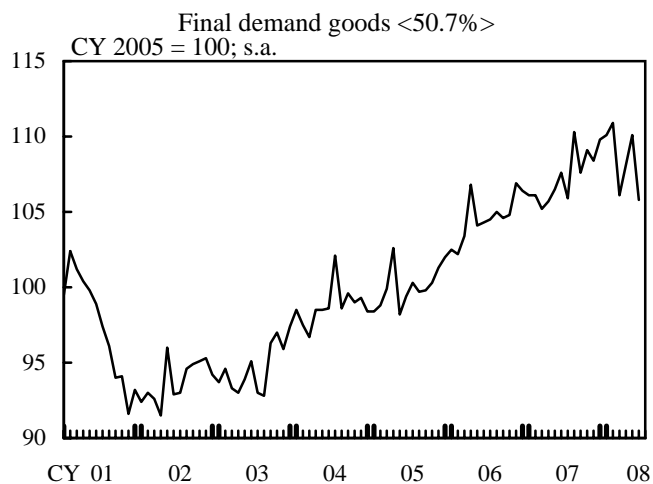


- Notes:
- "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
  - Figures up to 2003/Q1 are on the 2000 base.
  - 2008/Q3 figures are based on the assumption that production level in September is the same as that of August.

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

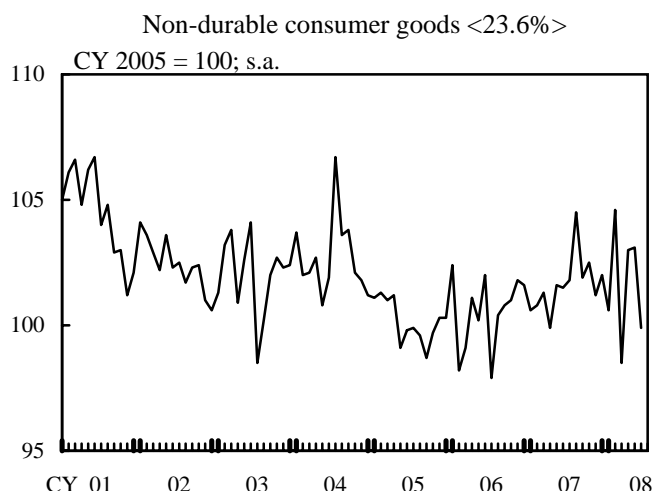
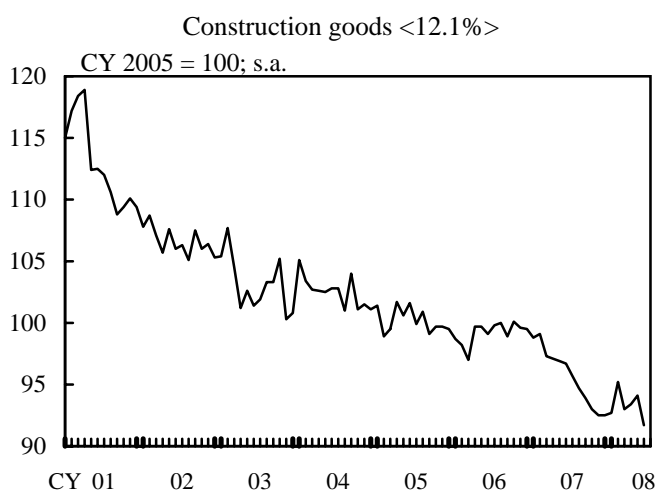
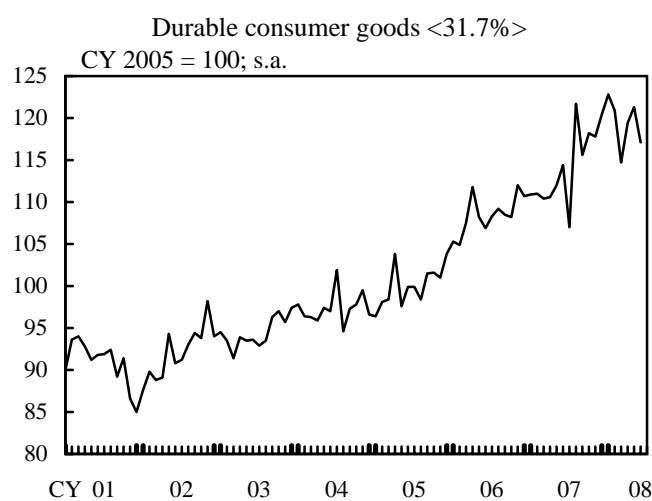
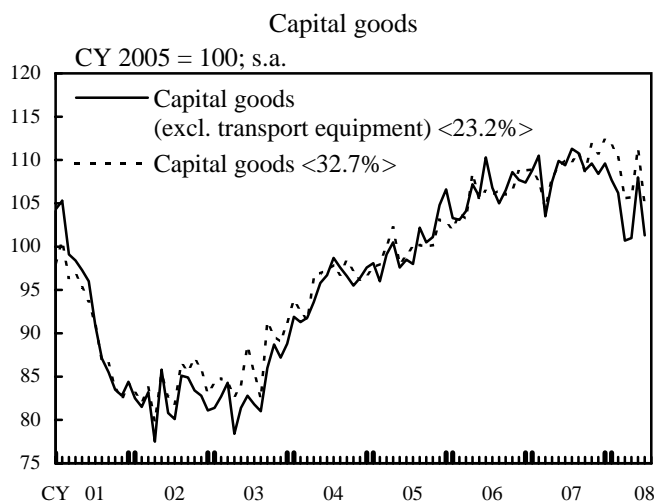
## Shipments Breakdown by Type of Goods

### (1) Final Demand Goods and Producer Goods



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

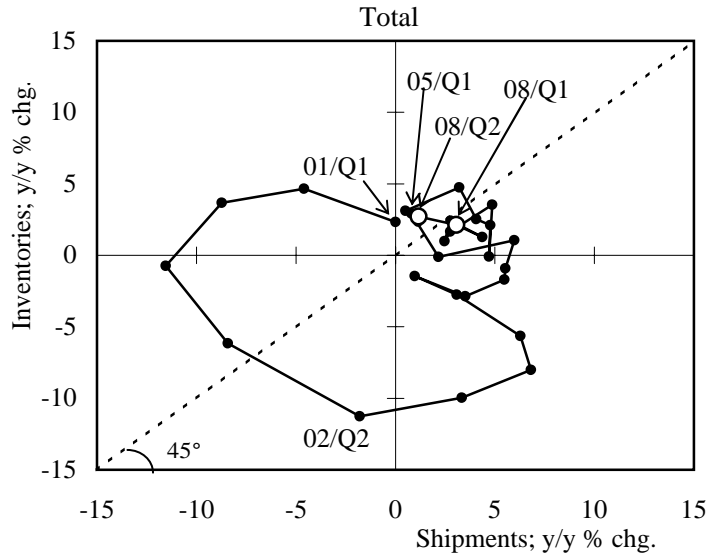
### (2) Breakdown of Final Demand Goods



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

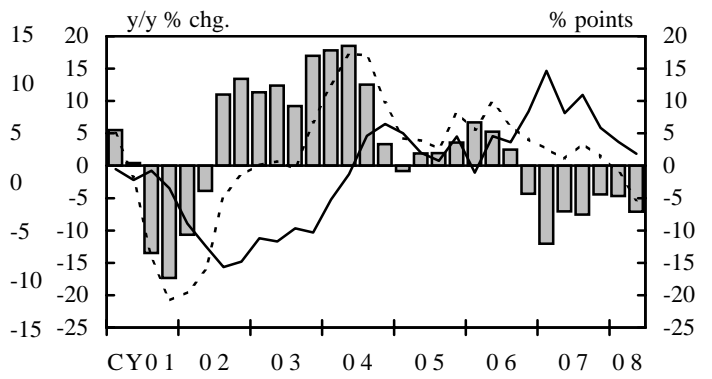
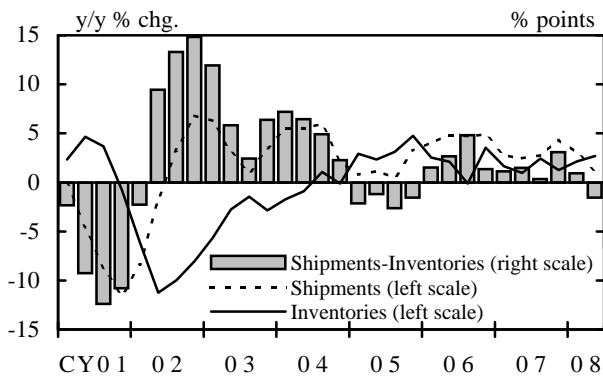
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



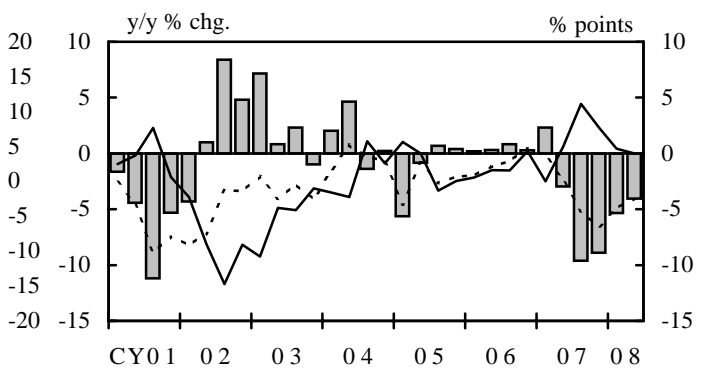
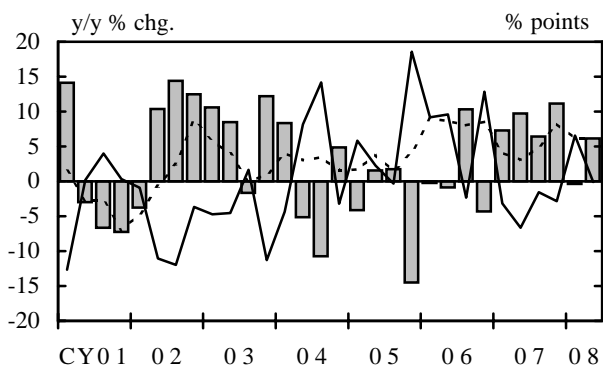
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



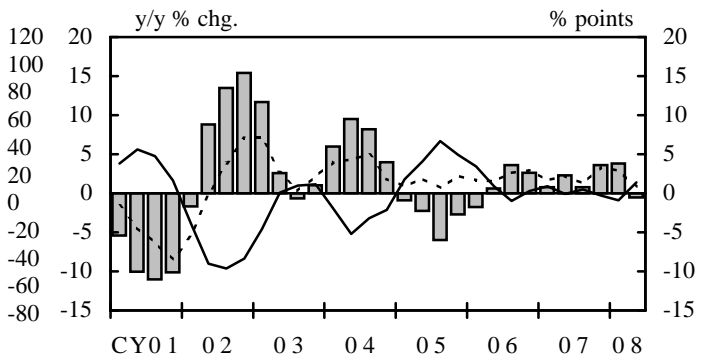
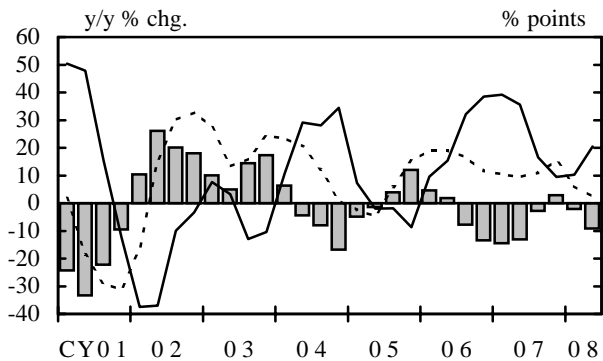
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

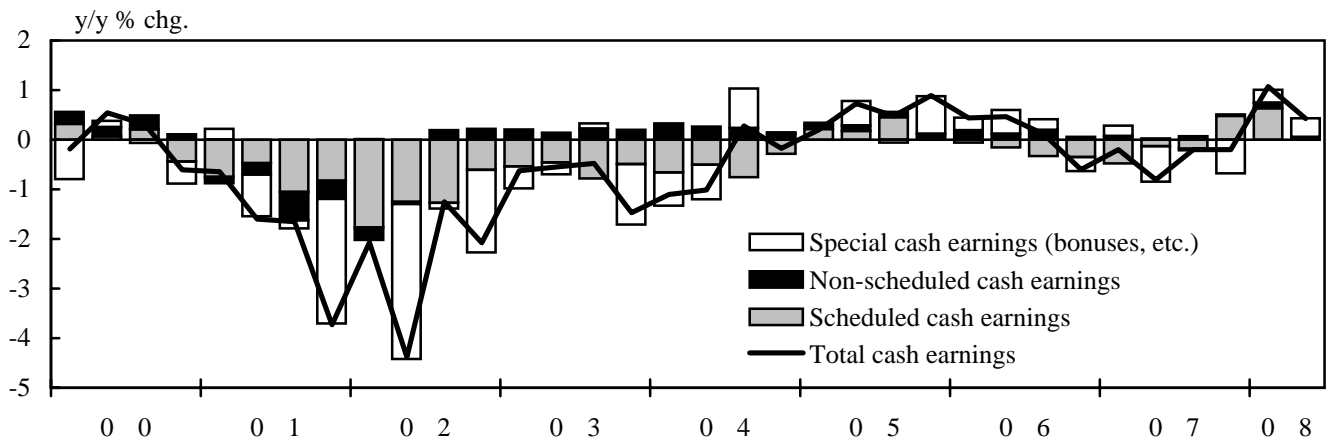
(6) Producer Goods Excluding Electronic Parts and Device



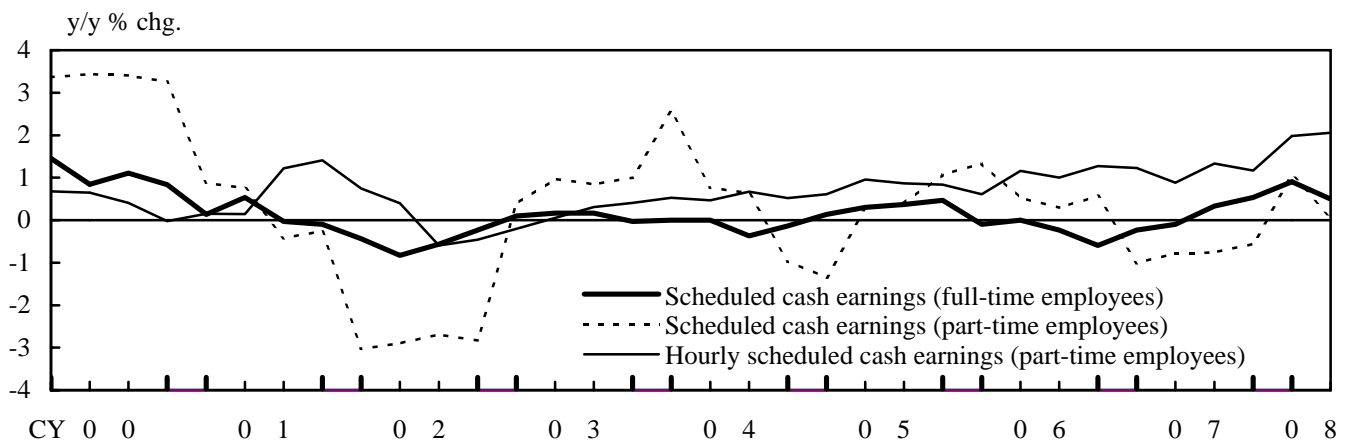
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

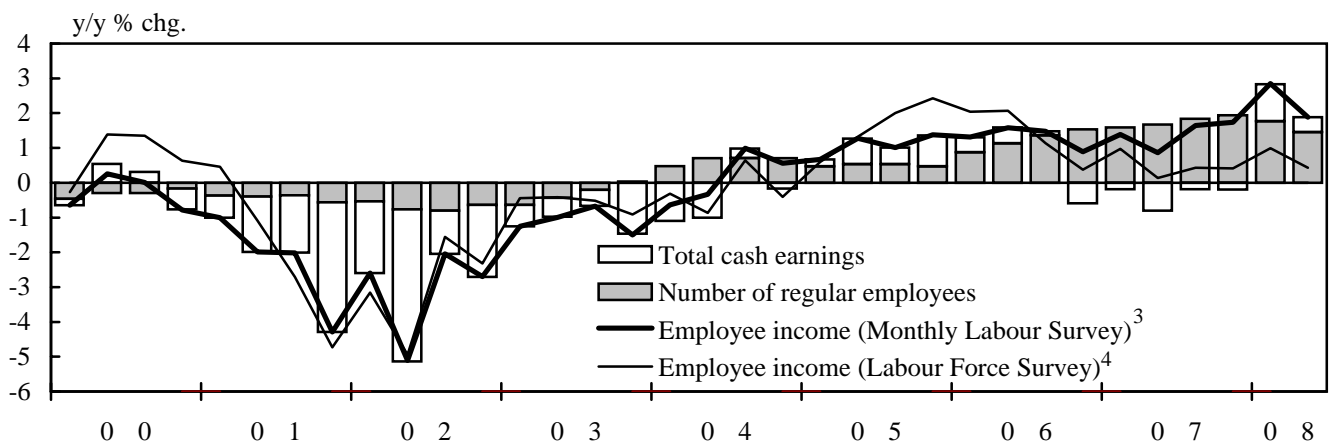
(1) Breakdown of Total Cash Earnings<sup>1,2,5</sup>



(2) Scheduled Cash Earnings<sup>1</sup>



(3) Breakdown of Employee Income<sup>1,2,5</sup>

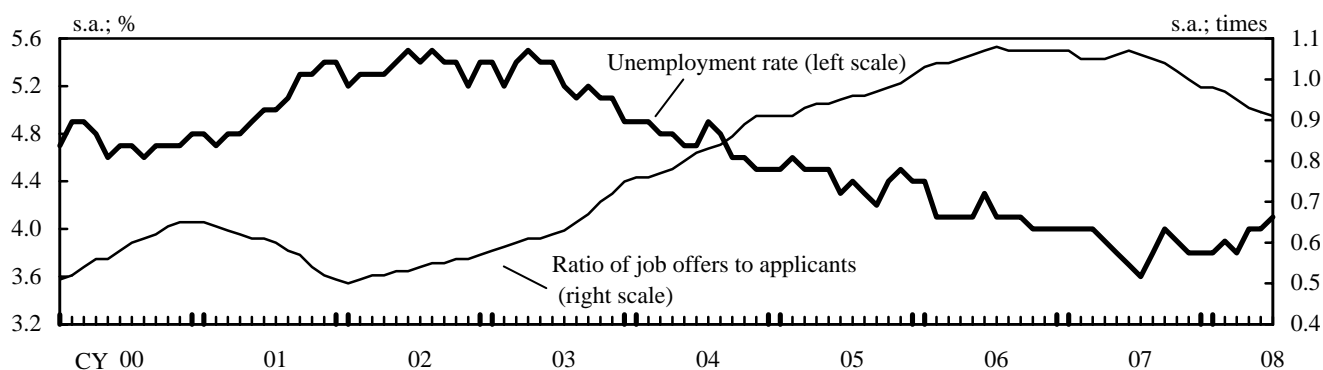
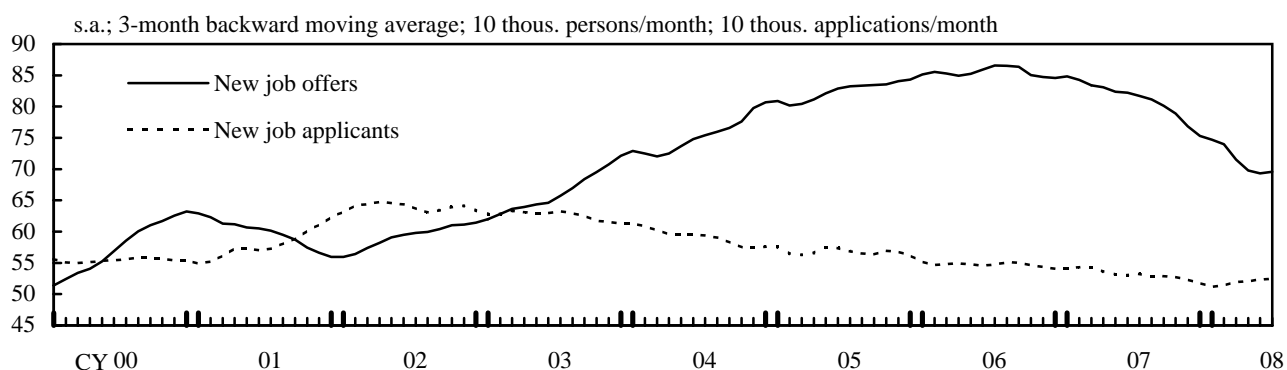
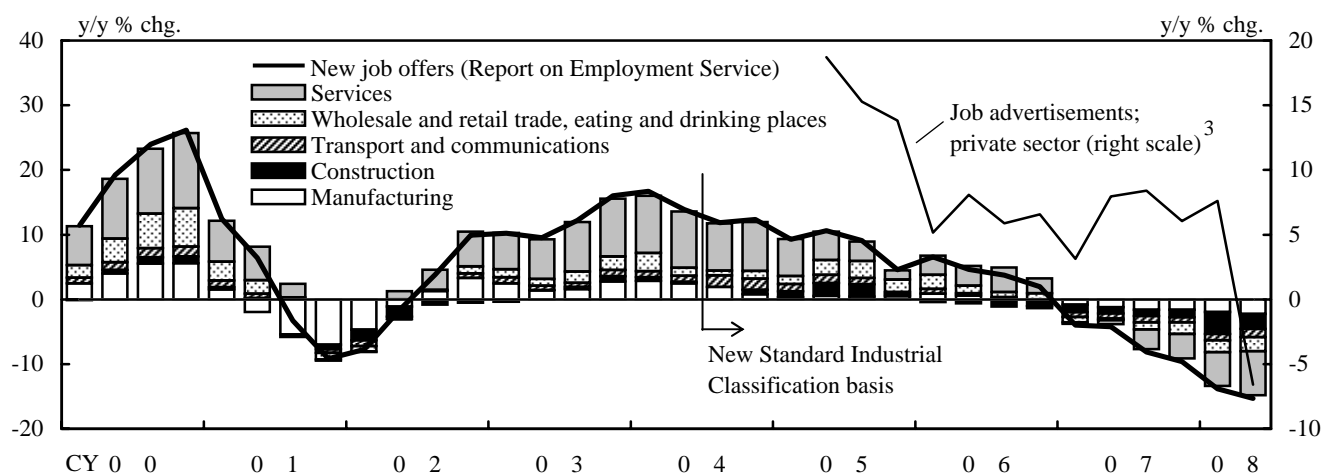


- Notes: 1. Data are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).  
 4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).  
 5. Figures for 2008/Q2 are those of June.

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

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

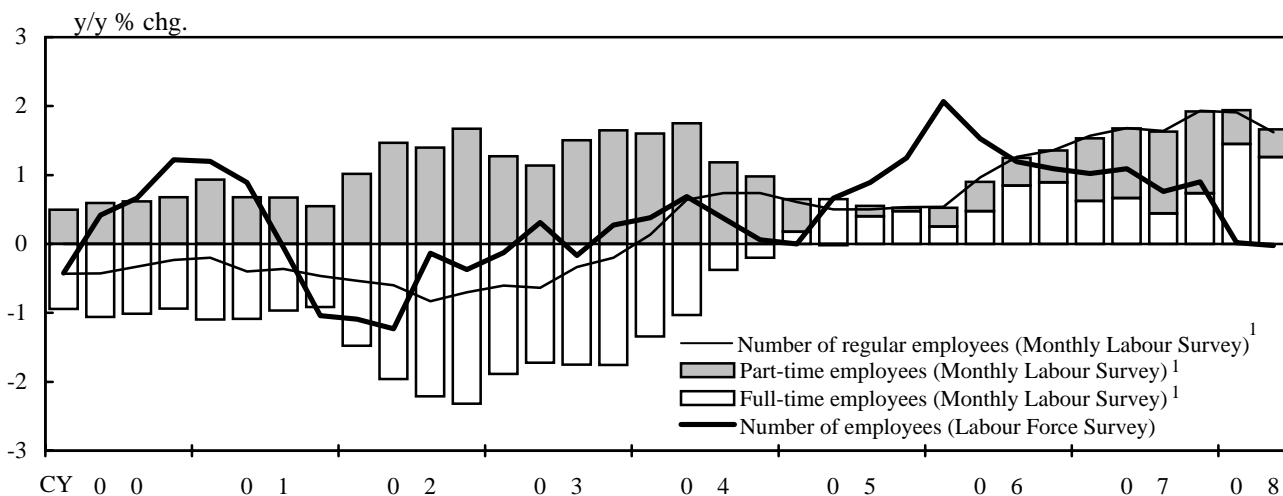
2. Figures up to 2004/Q2 are based on the previous Standard Industrial Classification. Figures from 2004/Q3 are based on the new Standard Industrial Classification. To keep the continuation of the data, some industries from 2004/Q3 are rearranged as follows. "Transport and communications" are the sum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

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

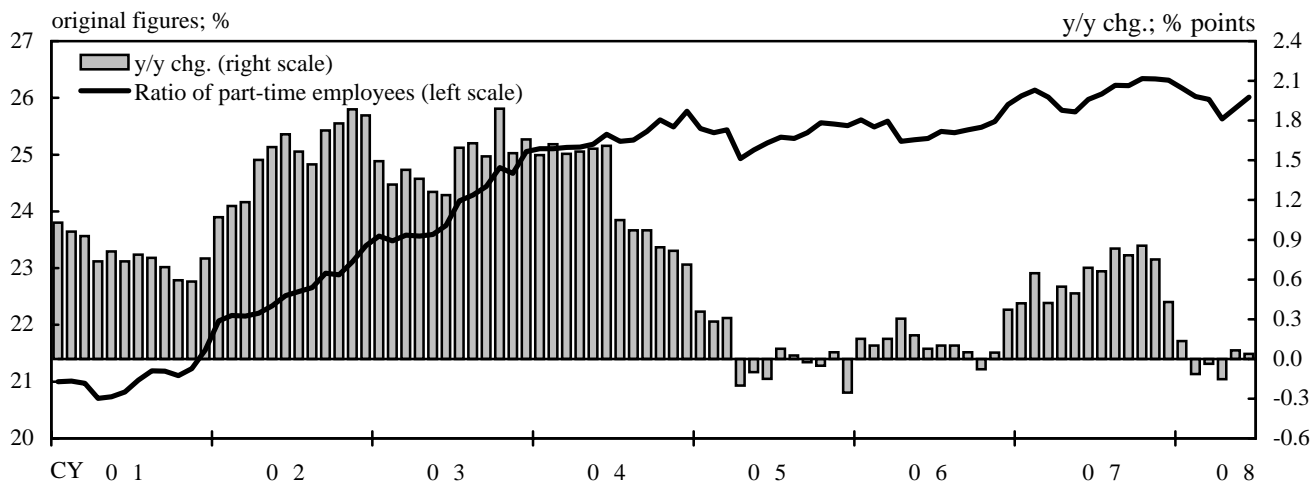
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";  
Ministry of Internal Affairs and Communications, "Labour Force Survey";  
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

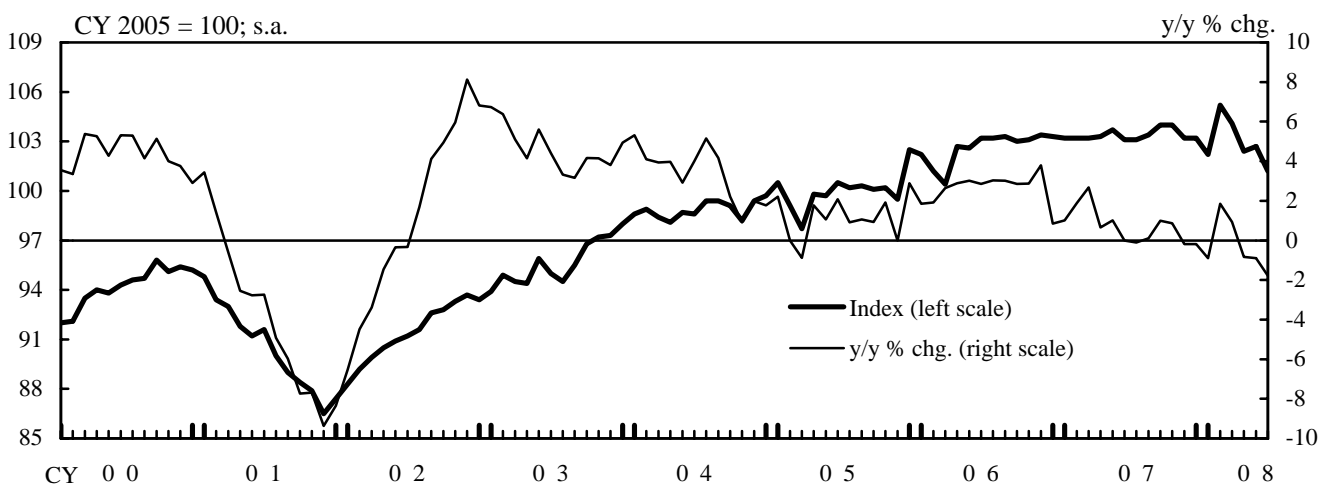
(1) Number of Employees



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



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



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

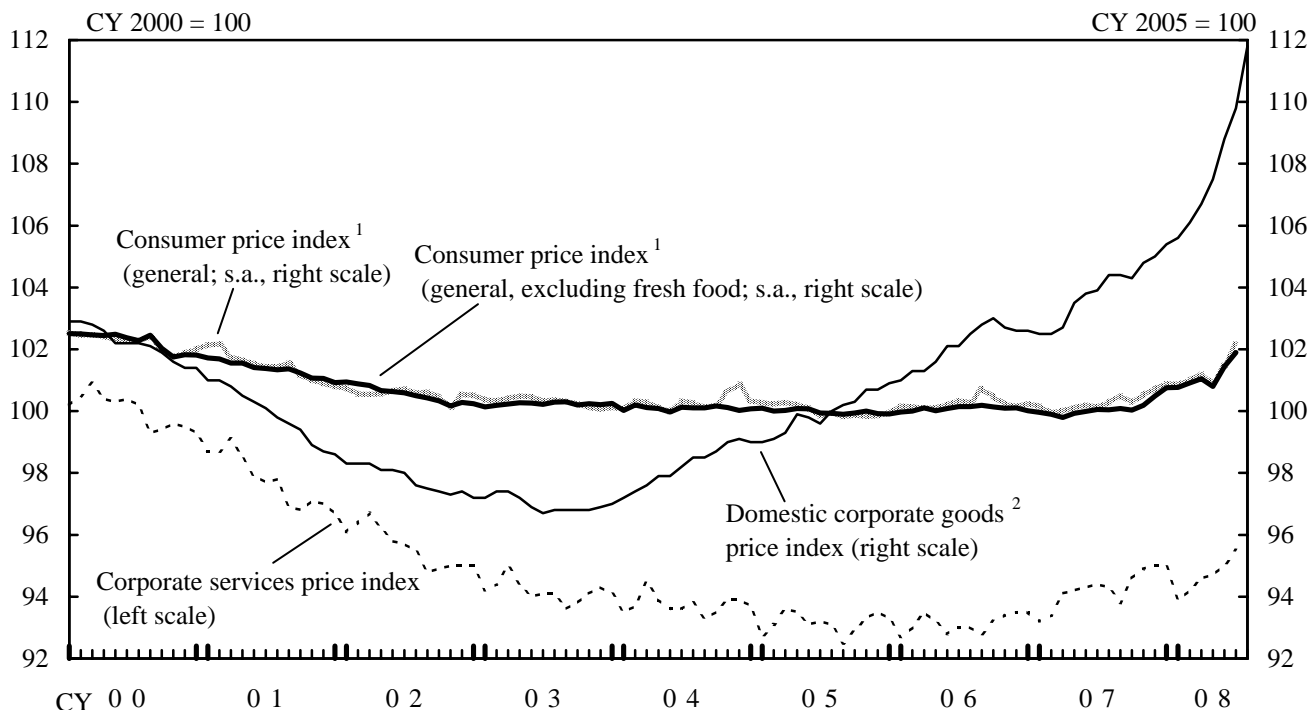
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

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

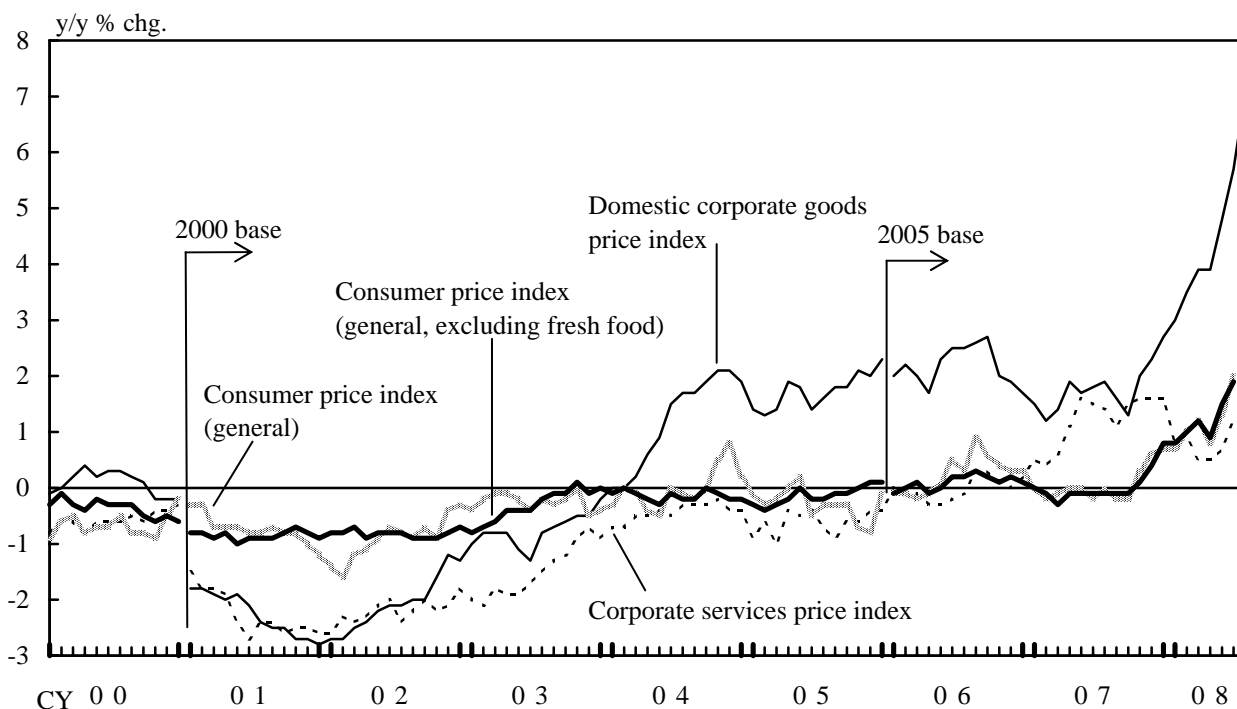


Prices

(1) Level



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



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

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

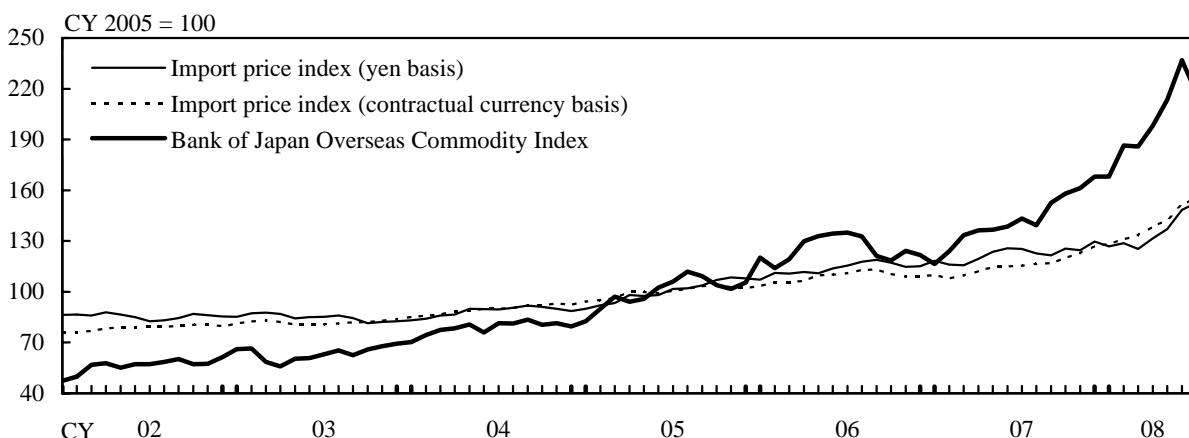
3. Figures up to CY 2000 are on the 1995 base. From CY2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

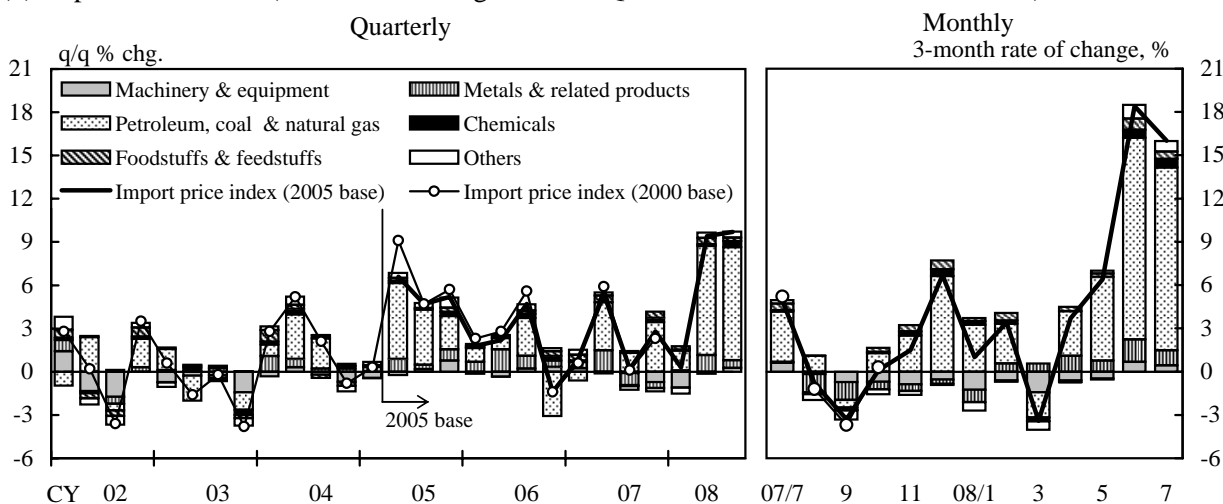
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



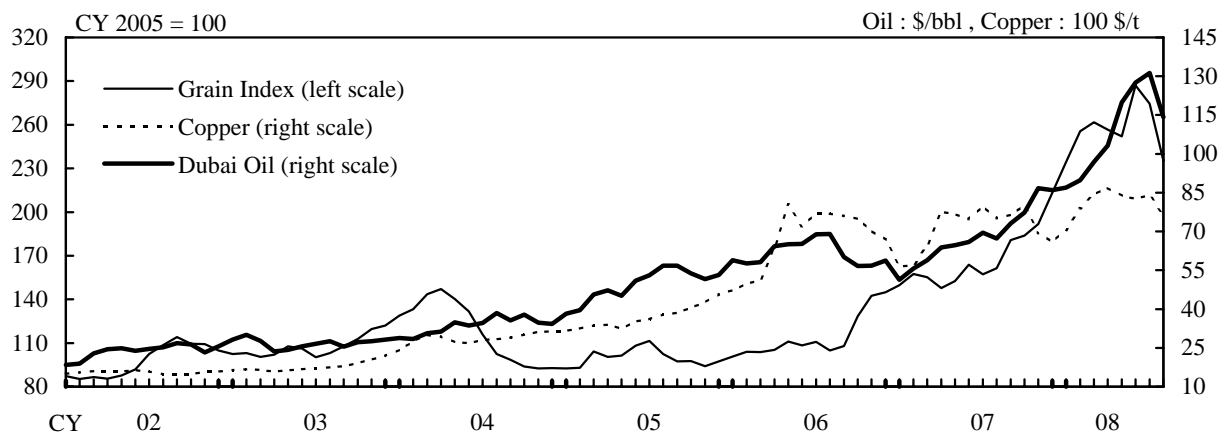
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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



Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments  
 2. Figures for 2008/Q3 are those of July. 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 August 2008 are the averages up to August 18.

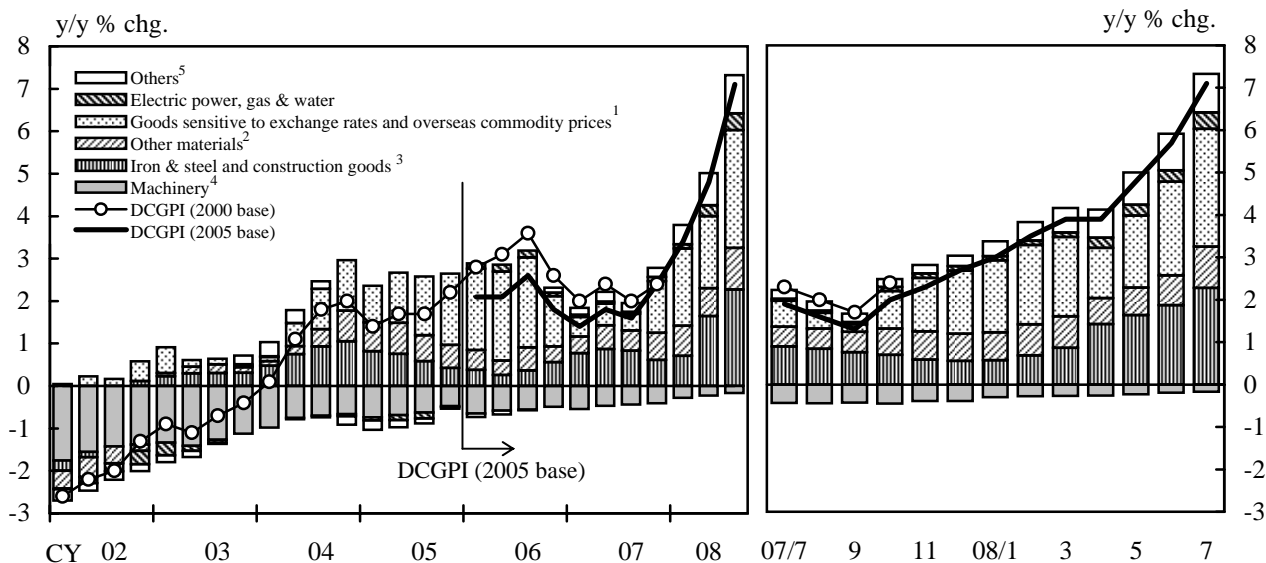
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index<sup>7</sup>

## (1) Changes from a Year Earlier

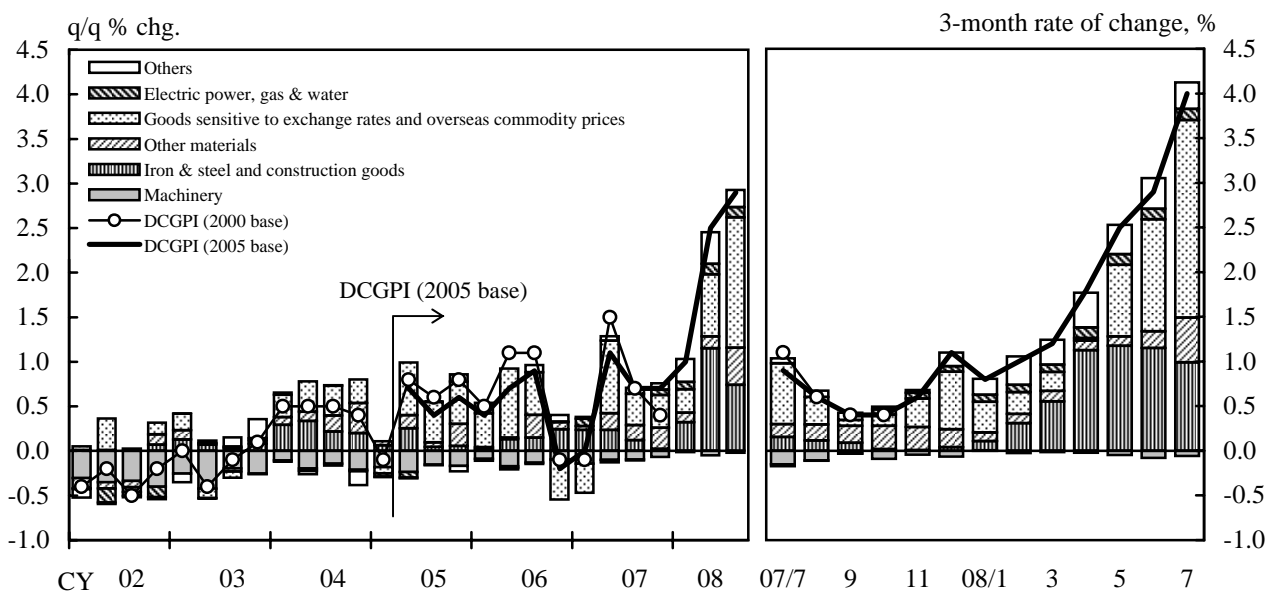
Quarterly

Monthly

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

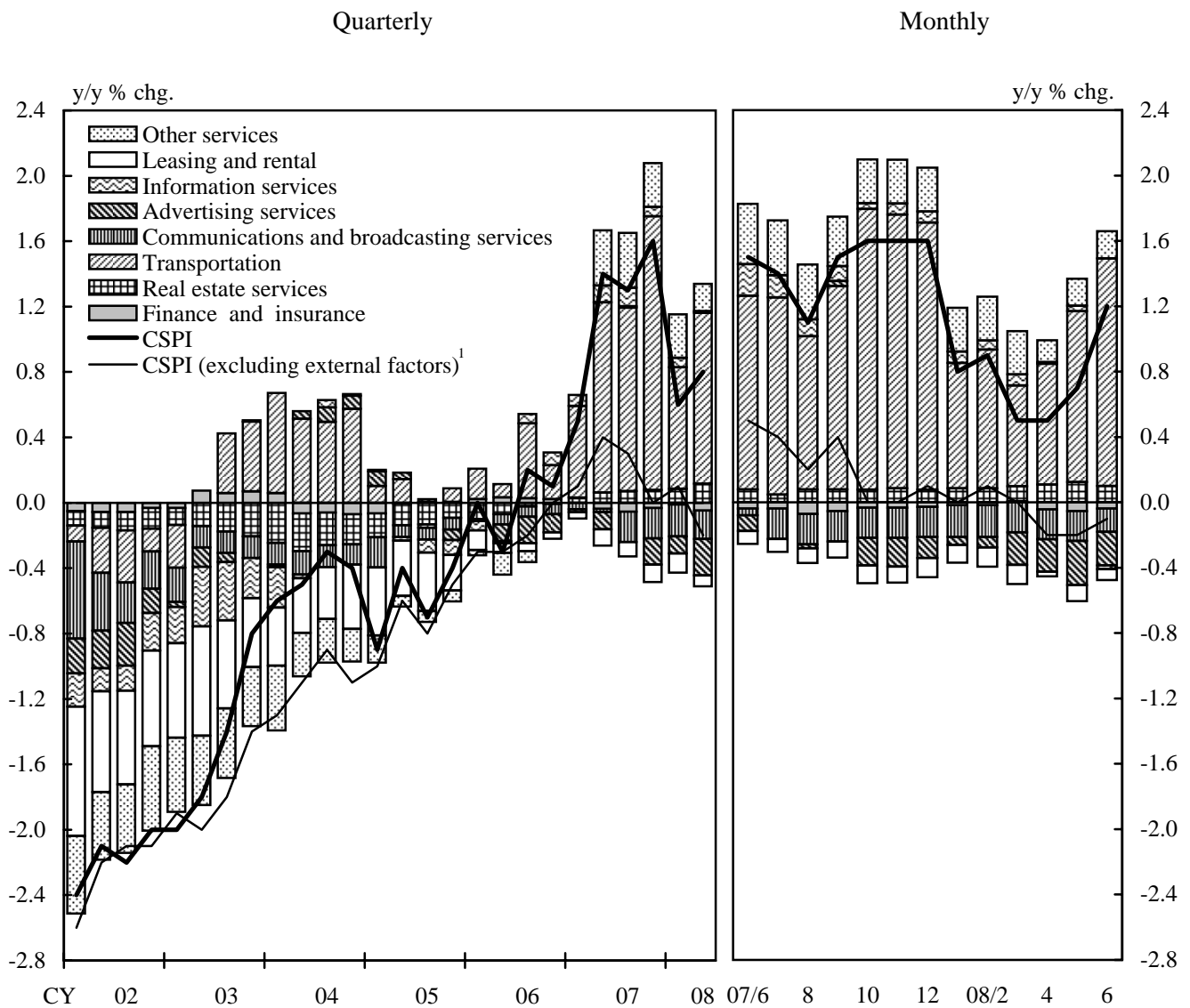
Quarterly

Monthly



- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.  
 2. Other materials: chemicals, plastic products, textile products, pulp, paper & related products.  
 3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.  
 4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.  
 5. Others: processed foodstuffs, other manufacturing industry products, agricultural, forestry & fishery products, mining products.  
 6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.  
 7. Figures for 2008/Q3 are those of July. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index

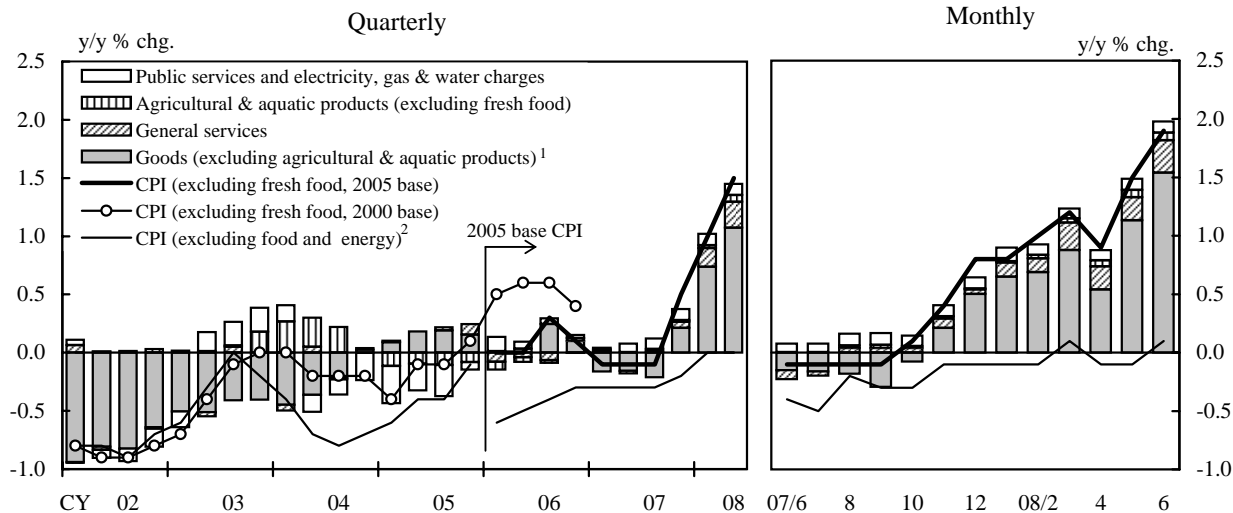


Note: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

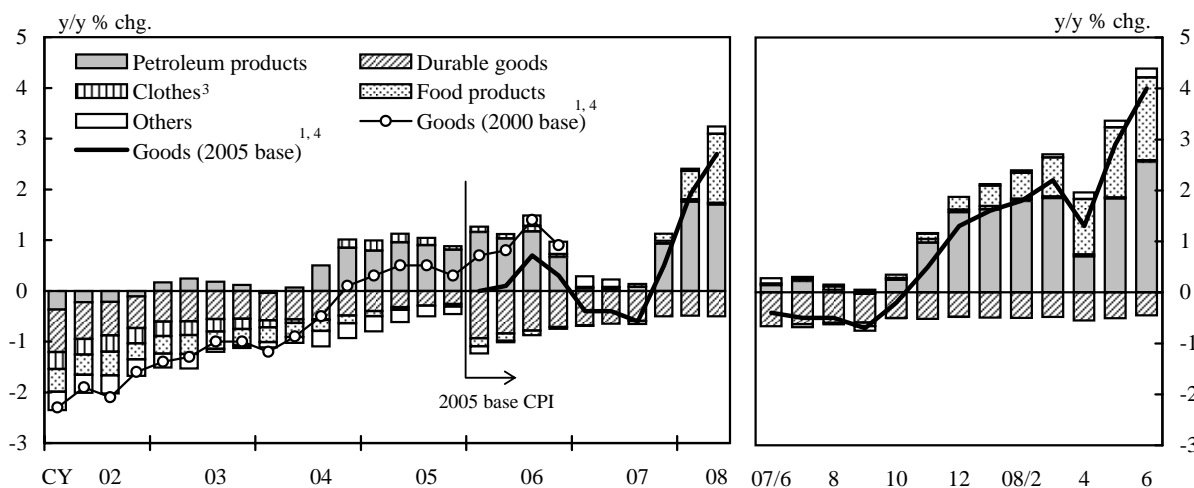
Source: Bank of Japan, "Corporate Services Price Index."

# Consumer Price Index (Excluding Fresh Food)

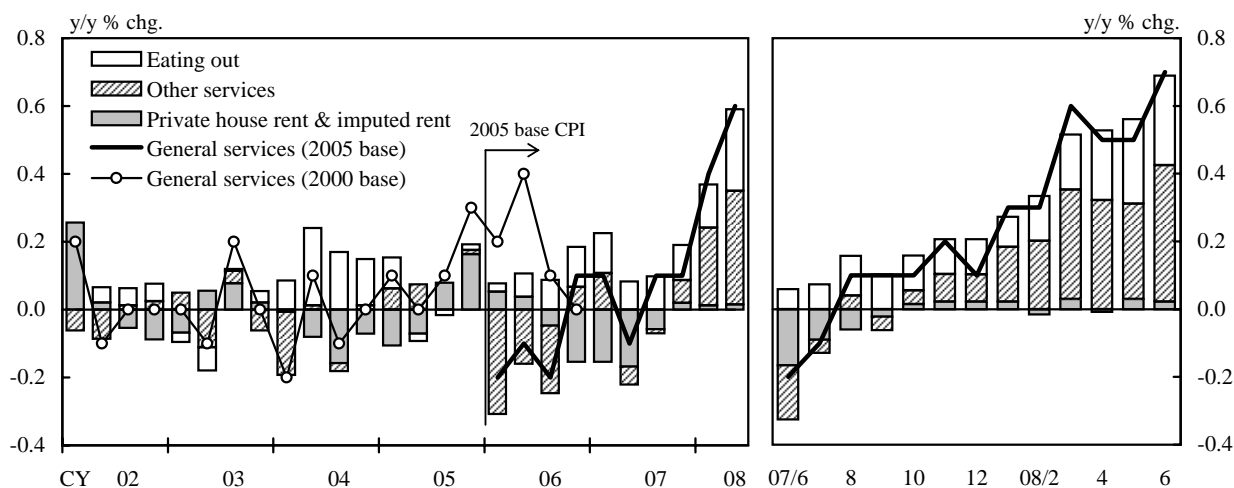
## (1) Consumer Price Index (Excluding Fresh Food)



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



## (3) General Services

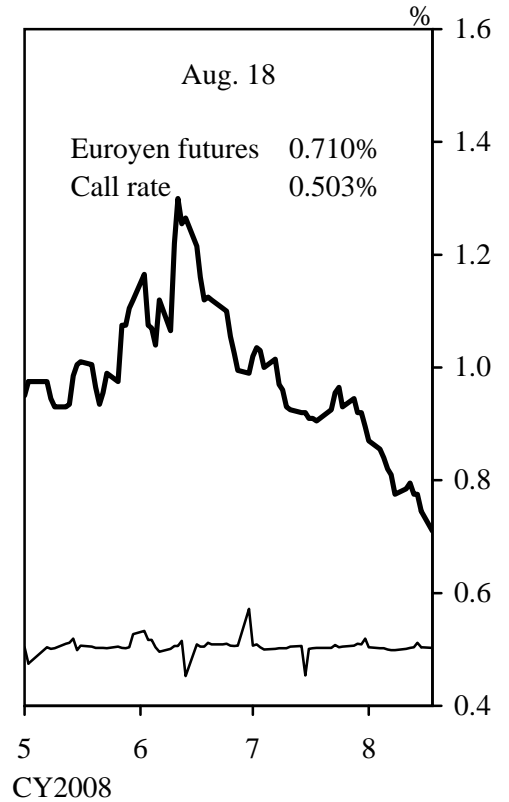
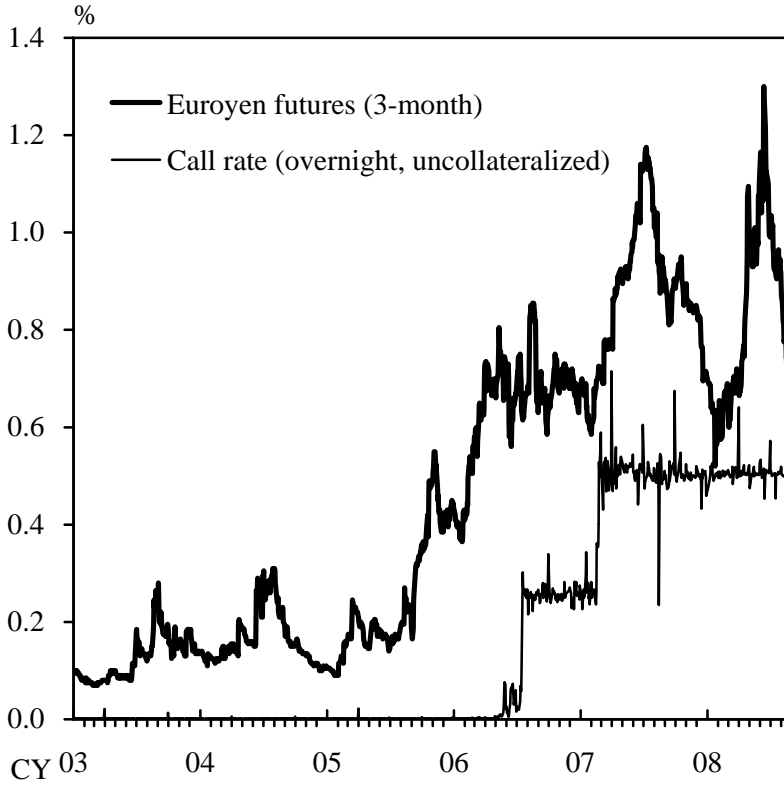


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.  
 2. Alcoholic beverages are excluded from food.  
 Energy: electricity, gas manufactured & piped, liquefied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

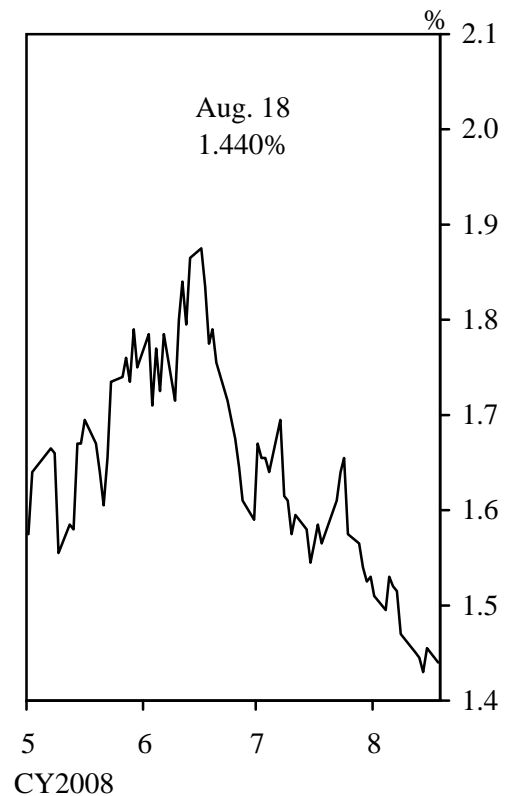
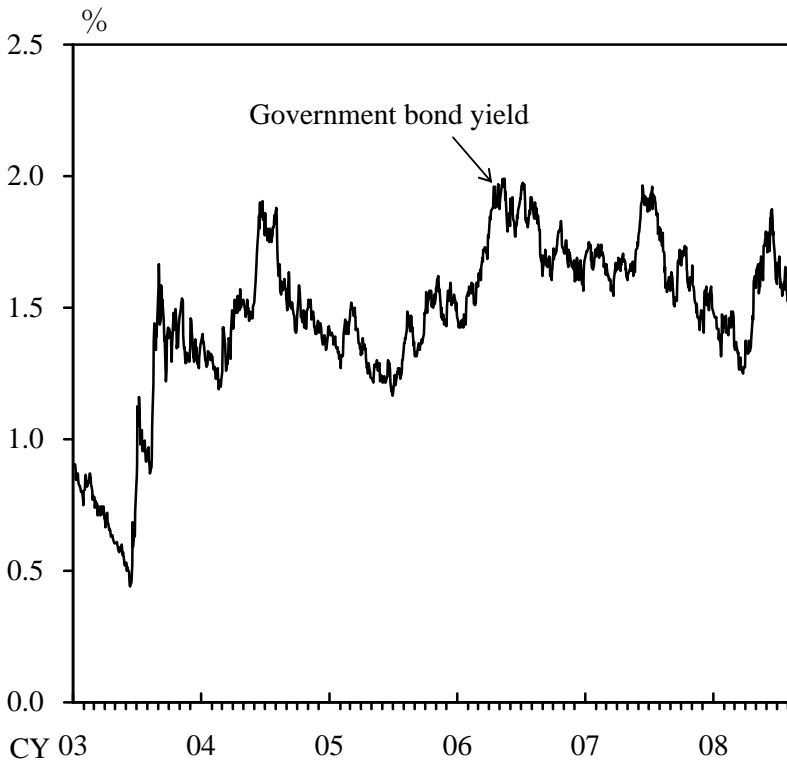
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term<sup>1</sup>

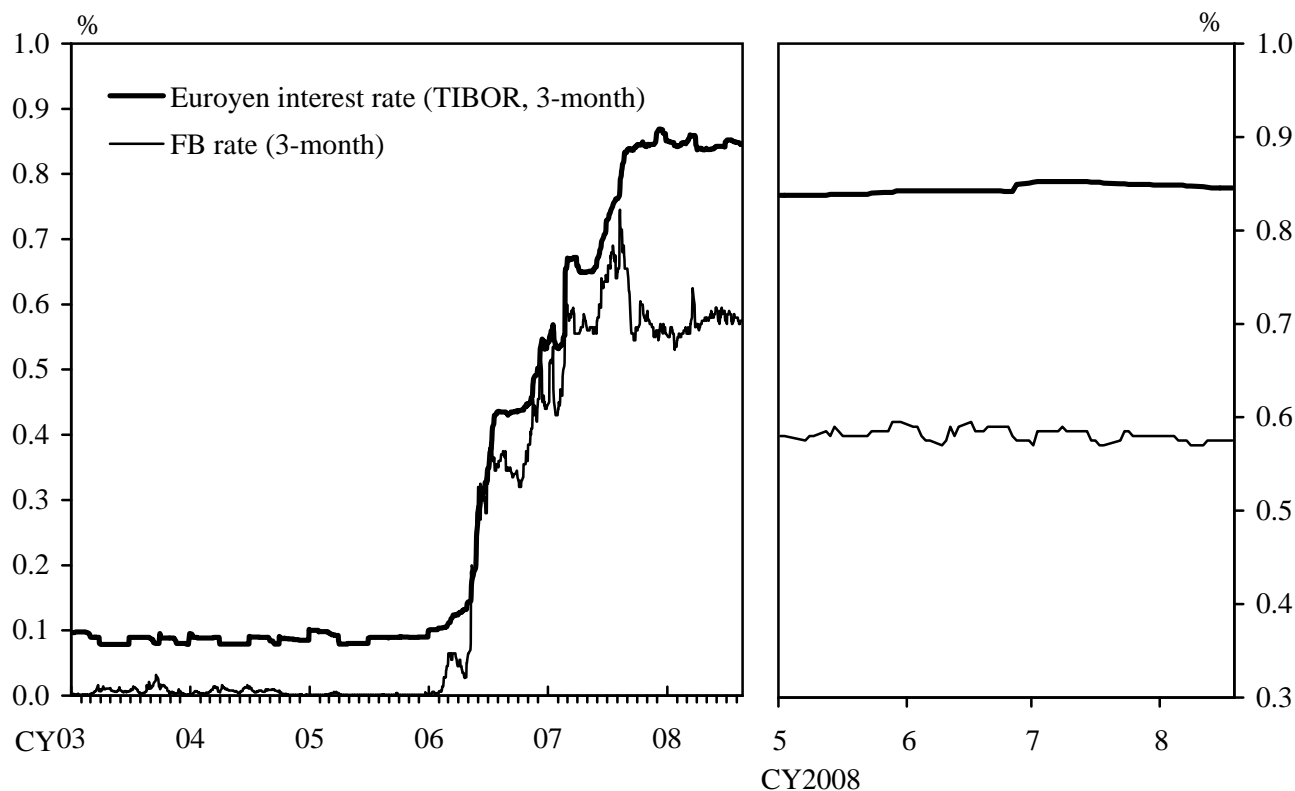


Note: 1. Yields on newly issued bonds with 10-year maturity.

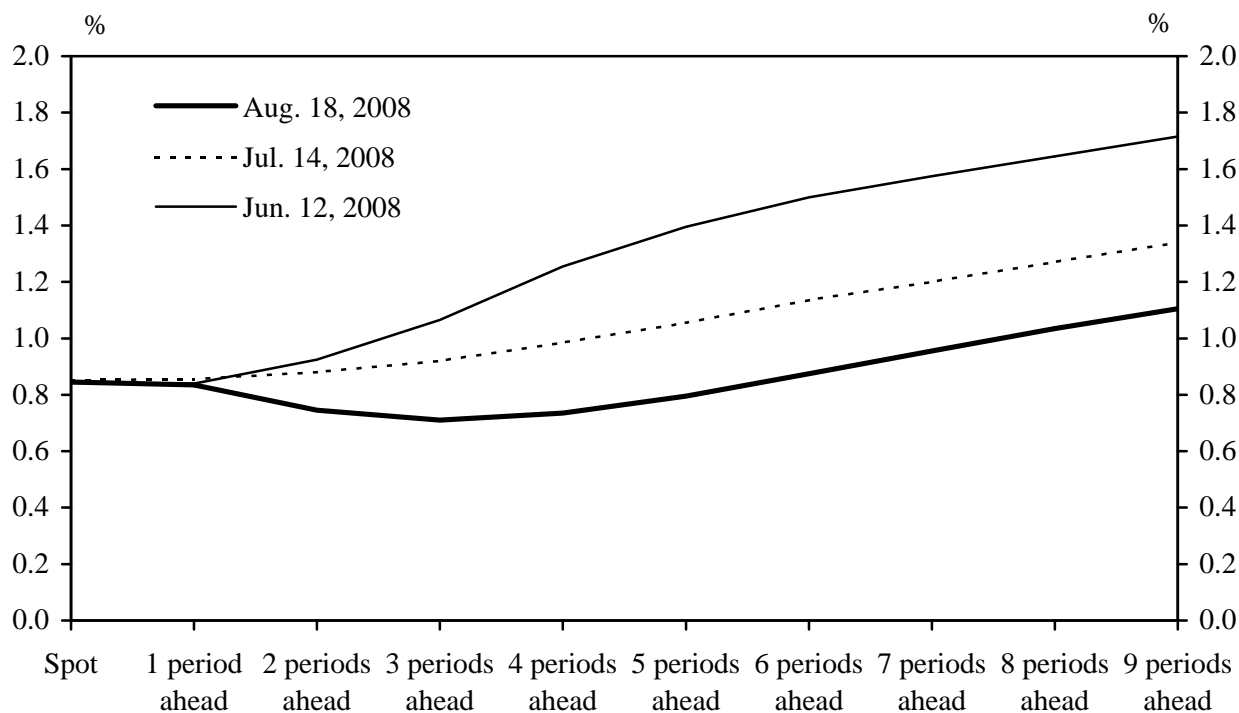
Sources: Bank of Japan; Tokyo Financial Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments



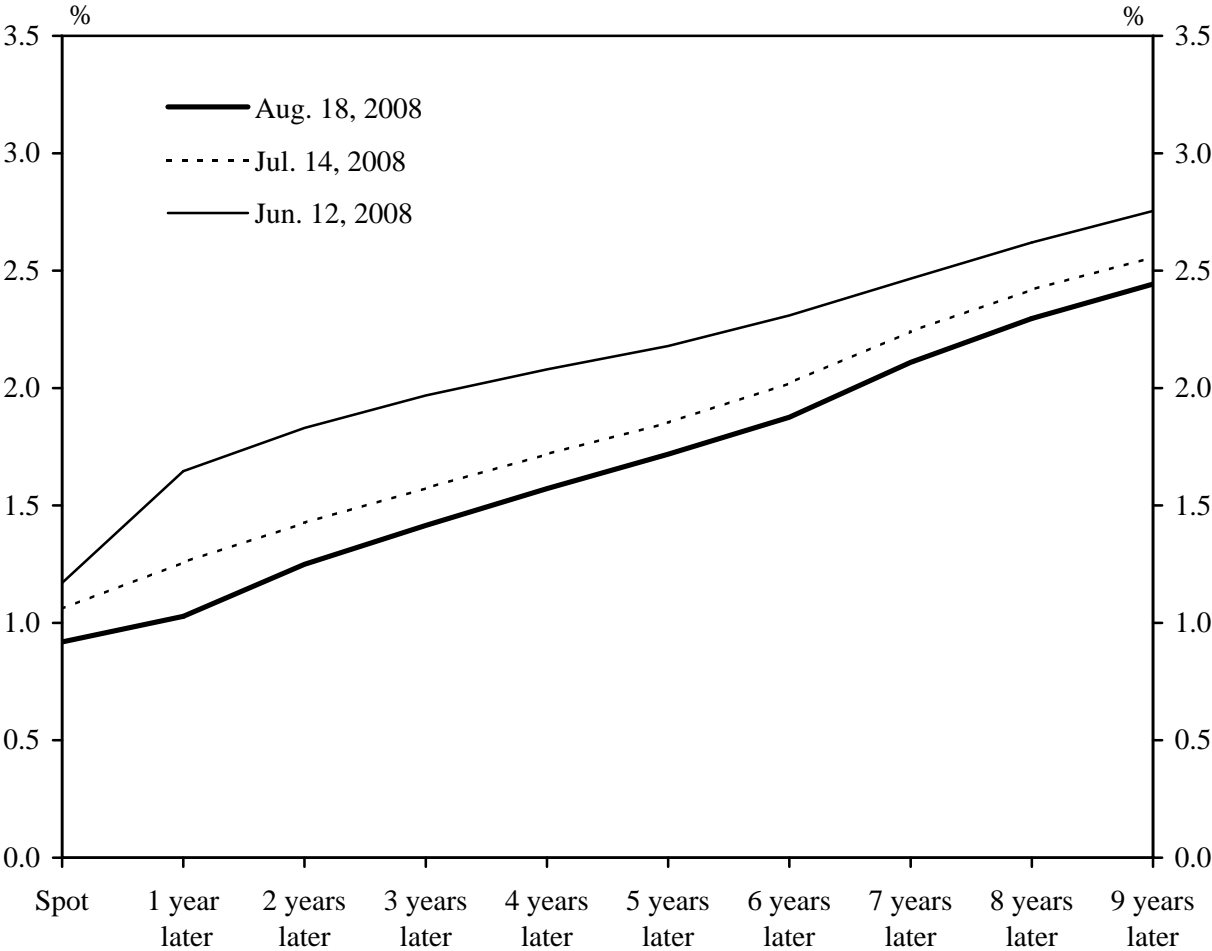
(2) Euroyen Interest Rates Futures (3-Month)<sup>1</sup>



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

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

Implied Forward Rates (1-Year)

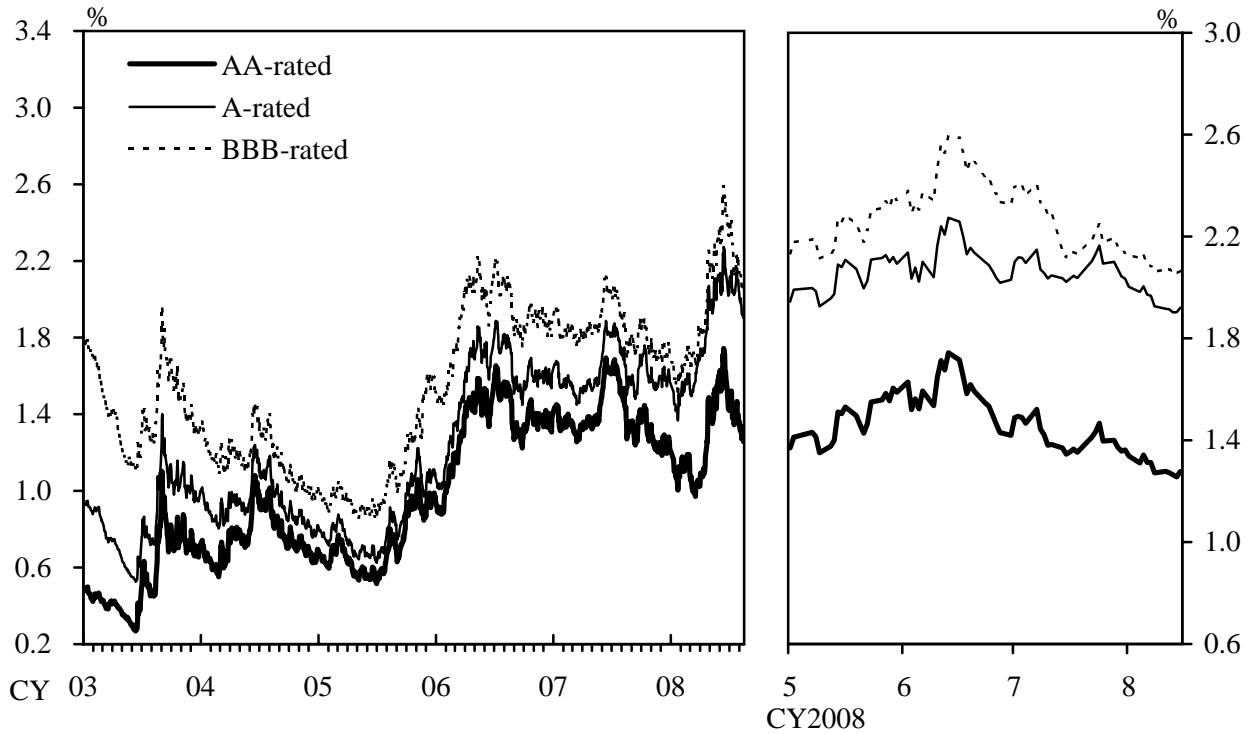


Note: Calculated from yen-yen swap rates.  
Source: Reuters.

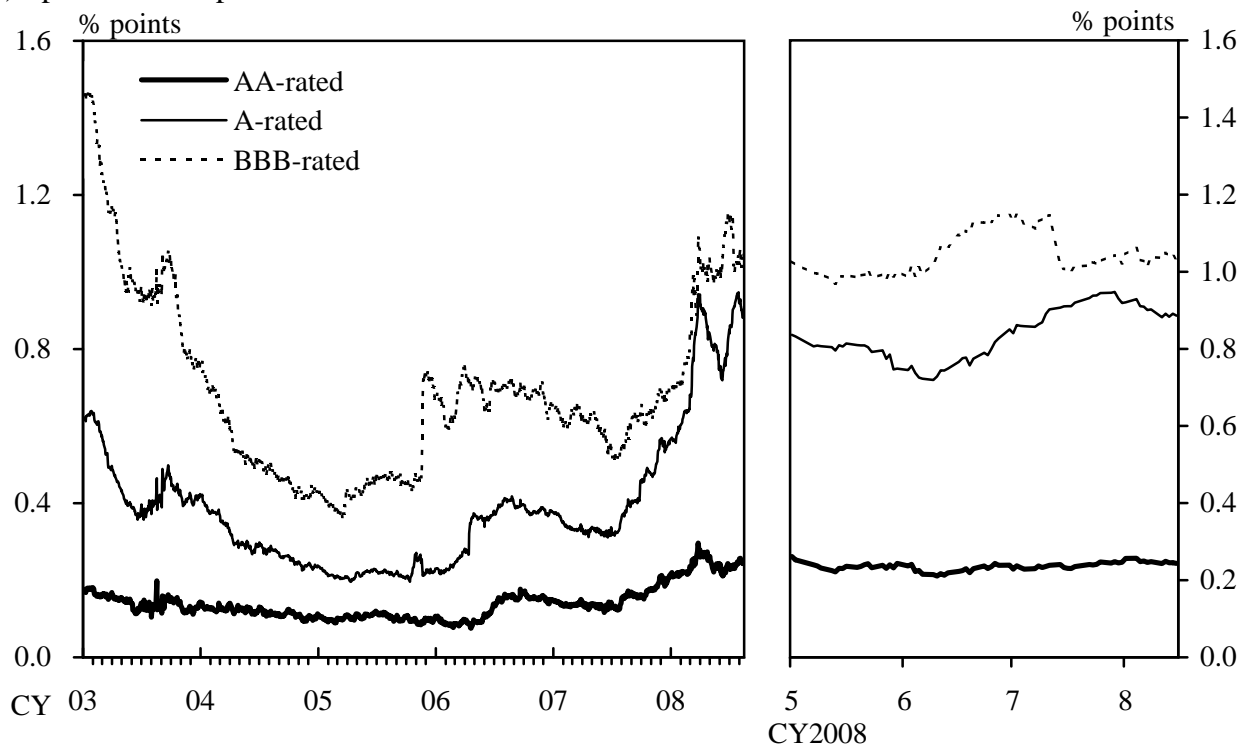


Yields of Corporate Bonds

(1) Corporate Bond Yields<sup>1,2</sup>



(2) Spreads of Corporate Bond Yields over Government Bond Yields<sup>1,2</sup>



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

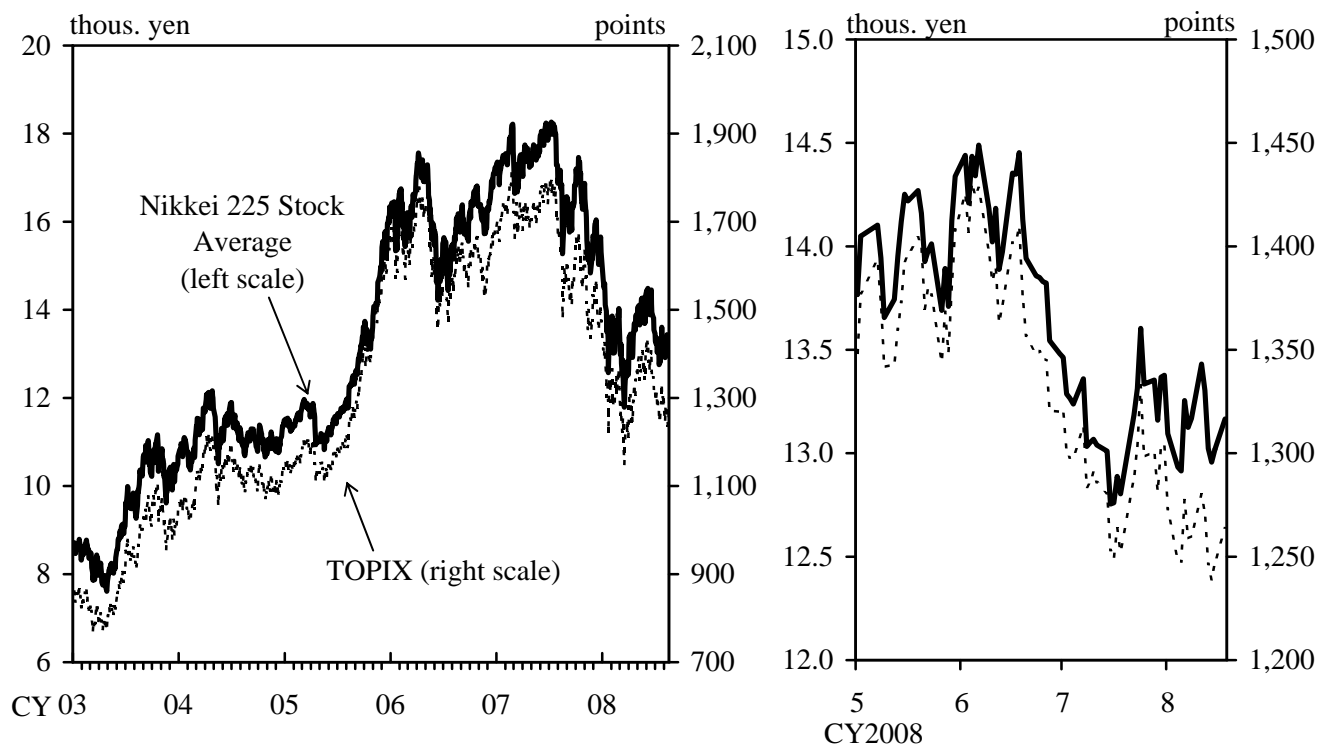
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

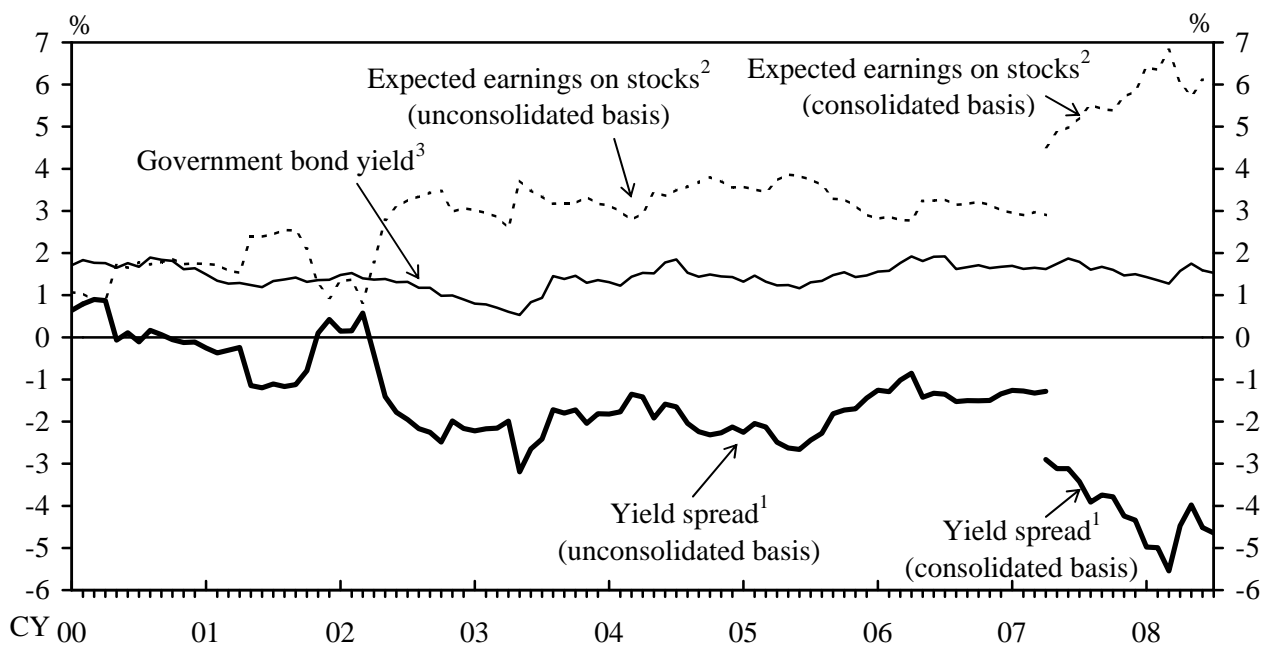
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Stock Prices



(2) Yield Spread



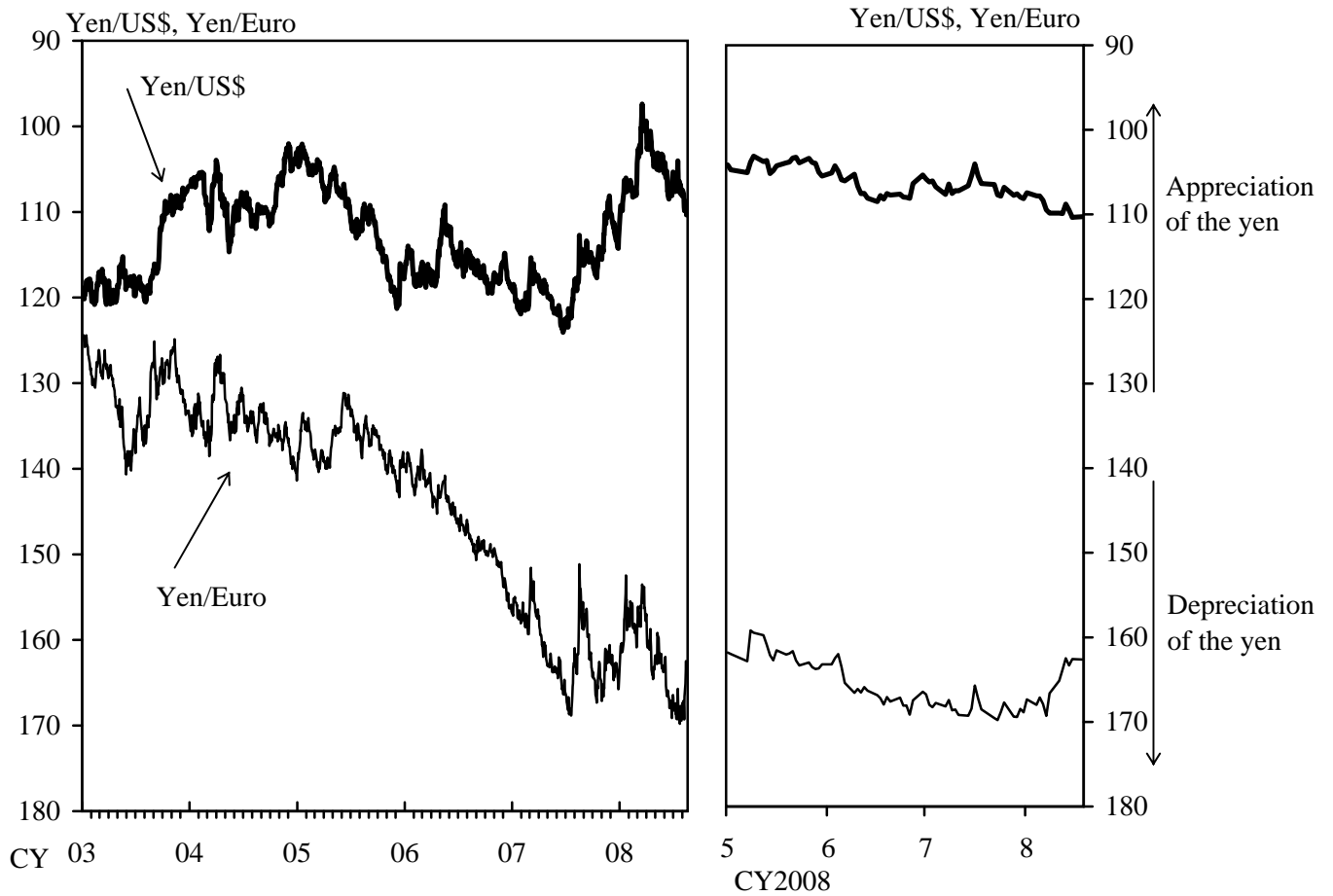
Notes: 1. Yield spread = government bond yield - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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)."

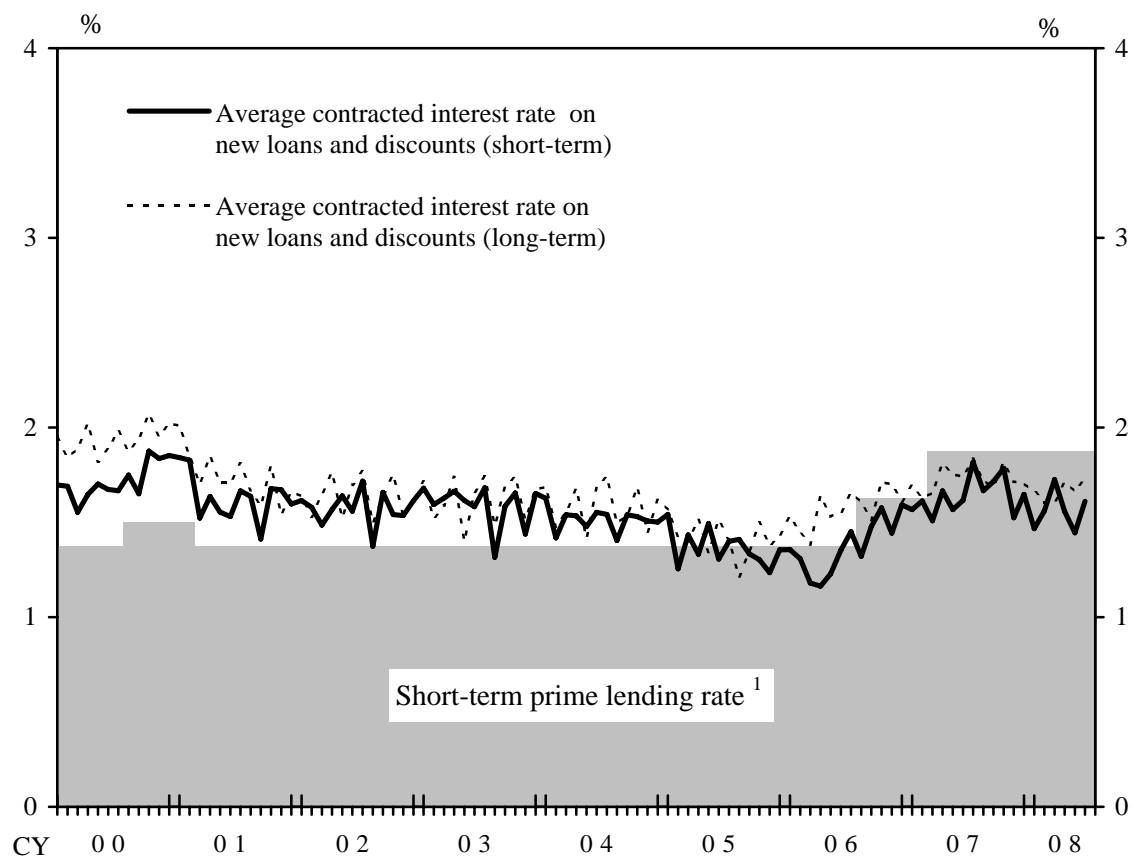
Exchange Rates



Source: Bank of Japan.



## Lending Rates

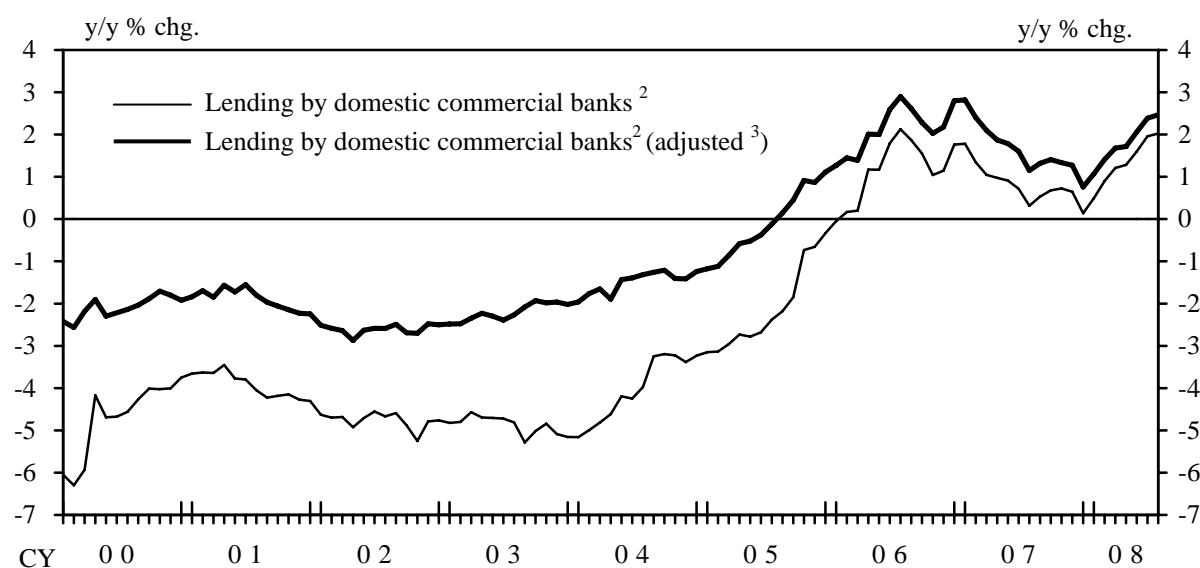


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

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



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

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

3. Adjusted to exclude

(1) fluctuations due to the liquidation of loans,

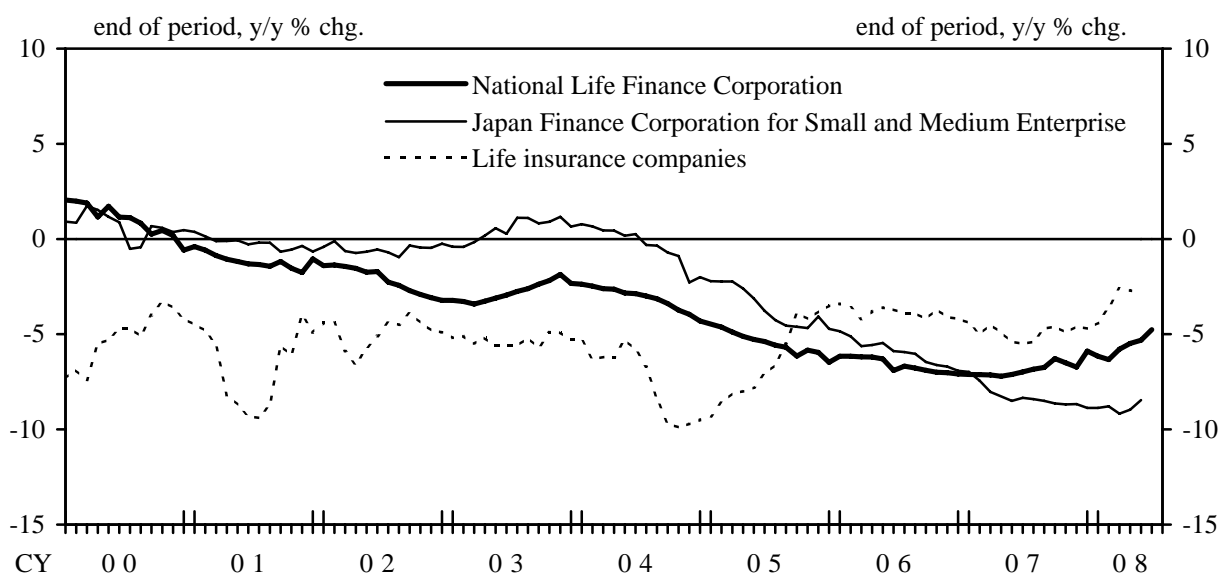
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,

(3) fluctuations due to loan write-offs,

(4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and

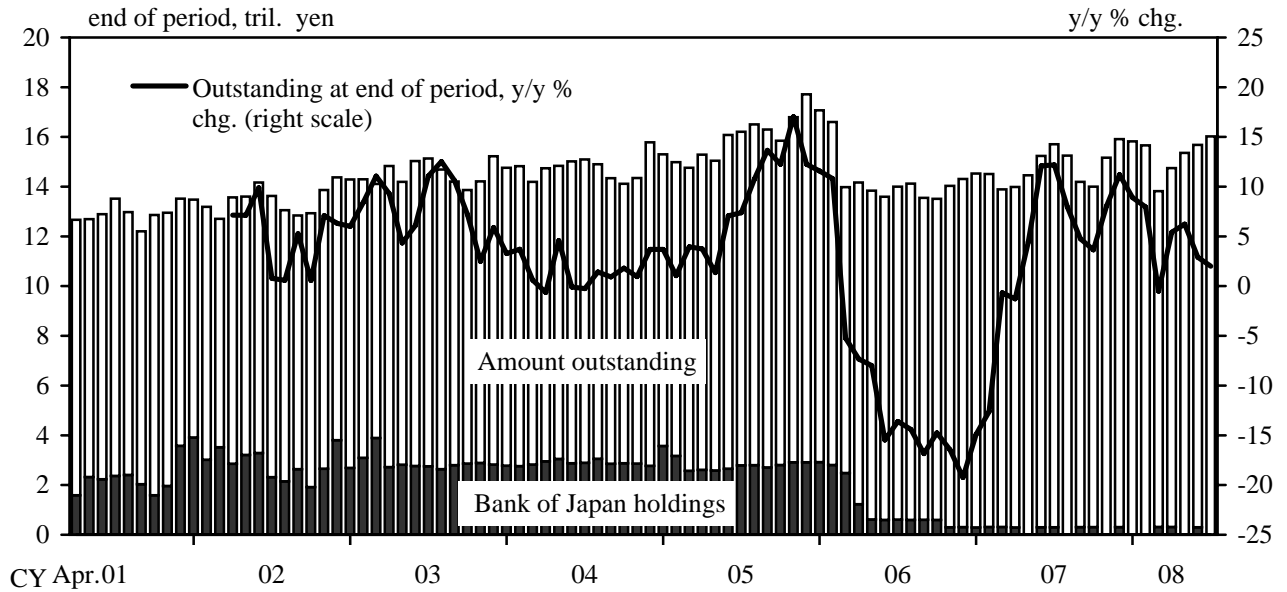
(5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

### (2) Lending by Other Financial Institutions



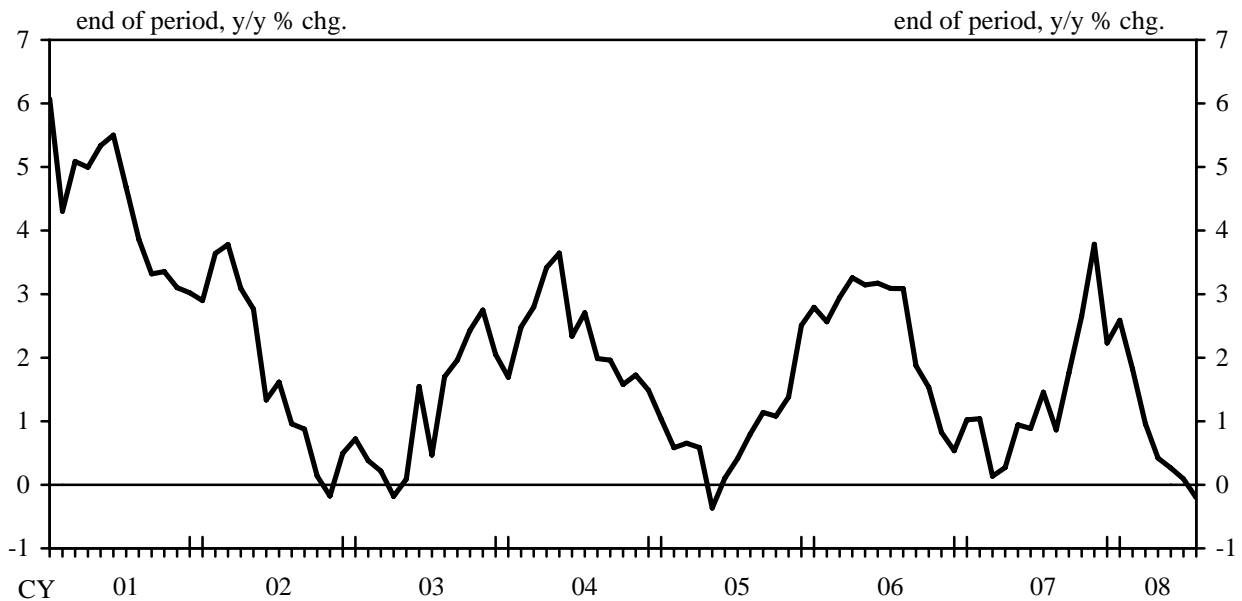
Private-Sector Fund-Raising in the Capital Markets

(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)



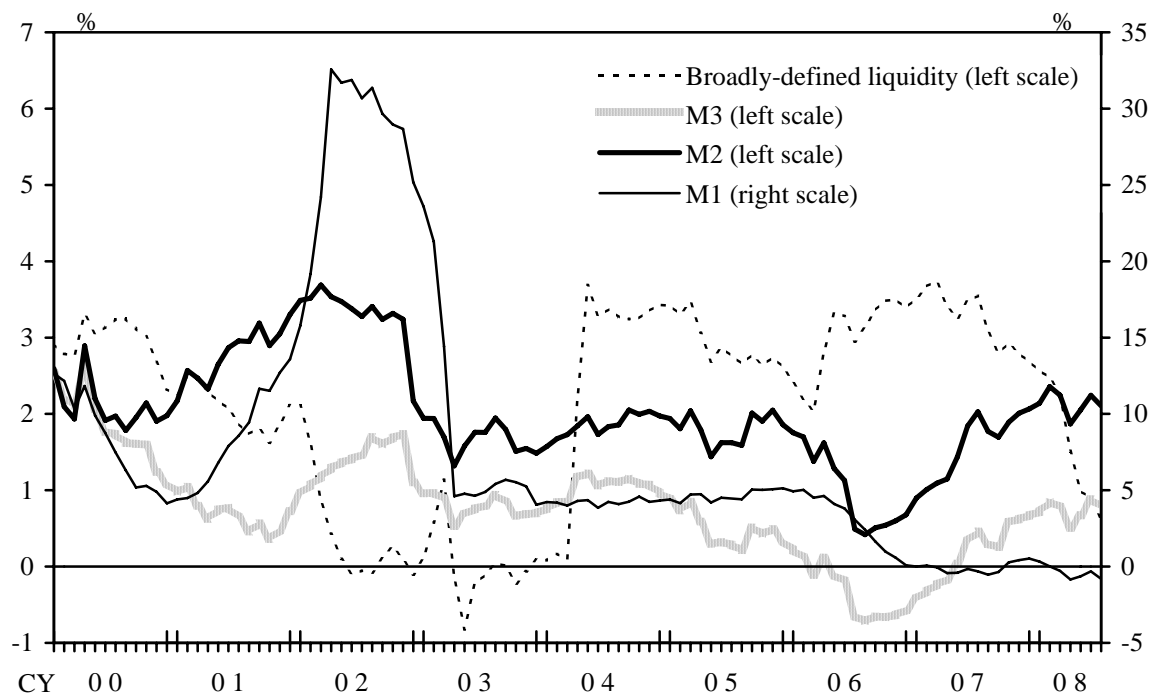
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

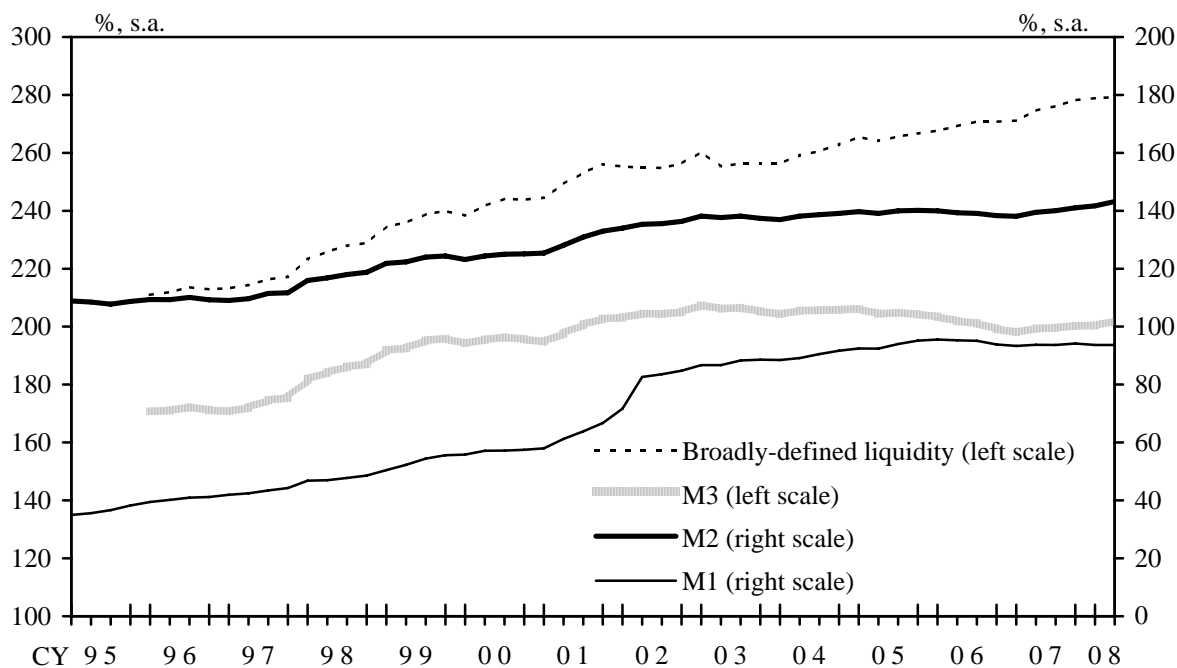
Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Depository Center, "Issue, Redemption and Outstanding"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds," "Kisai-Jouhou (Issuance Information)"; I-N Information Systems,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

## Money Stock

## (1) Changes from a Year Earlier



## (2) Ratio of Money Stock to Nominal GDP



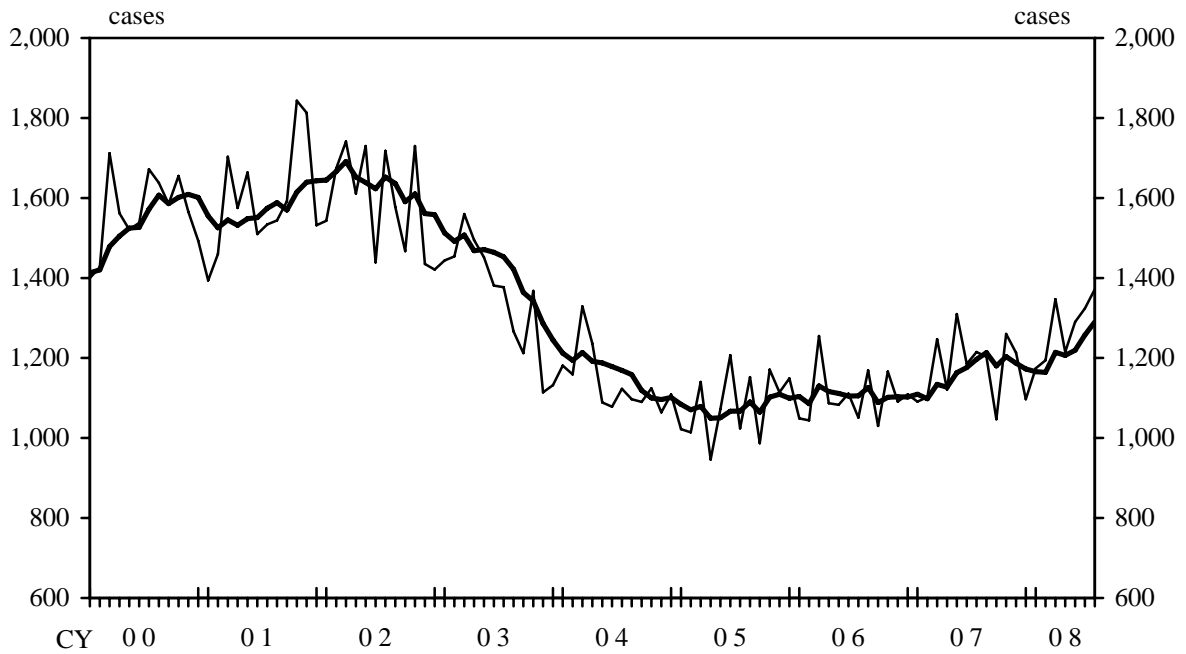
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.  
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.  
 3. The current series are spliced by the former series at March 2003.

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

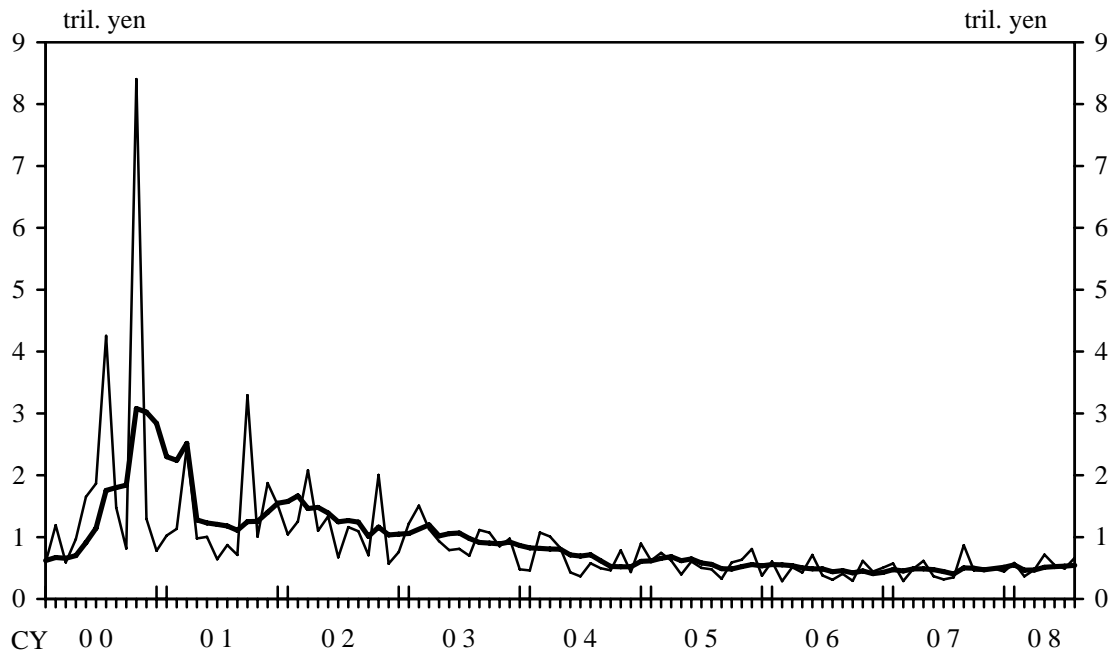


Corporate Bankruptcies

(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)."