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Bank of Japan

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

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economic growth has been sluggish due to the effects of earlier increases in energy and materials prices and weaker growth in exports.

The pace of increase in exports has slowed. Corporate profits have continued to decrease mainly due to the deterioration in the terms of trade, and business sentiment has become even more cautious. In this situation, business fixed investment has declined. Private consumption has been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. Housing investment has been more or less flat. Public investment, meanwhile, has been sluggish. With these developments in demand both at home and abroad, production has been relatively weak.

Japan's economic growth will likely remain sluggish for the time being as a slowdown in overseas economies becomes more evident. Although there are substantial uncertainties, the economy, in the longer run, is expected to return gradually onto a moderate growth path as the effects of earlier increases in energy and materials prices abate and overseas economies move out of their deceleration phase.

Exports are expected to remain more or less flat for the time being as a slowdown in overseas economies becomes more evident. Domestic private demand is likely to remain relatively weak, due to the decrease in corporate profits and real household income. 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 declined somewhat, due to the setback in international commodity prices. The year-on-year rate of increase in consumer prices (excluding fresh food) is currently around 2.5 percent against the background of the increase in prices of energy and food.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 6 and 7, 2008.

The pace of increase in domestic corporate goods prices is expected to slow for the time being, mainly due to the setback in international commodity prices. The year-on-year rate of increase in consumer prices is expected to remain at around the current level over the coming months but to moderate gradually thereafter, reflecting developments in prices of energy and food.

The turmoil in global financial markets in the wake of failures and rescues of U.S. and European financial institutions has, to some extent, affected Japan's money markets, although they have remained relatively stable. The weighted average of the overnight call rate has remained at around 0.5 percent. However, the dispersion of the rates at which individual call transactions are made has increased and interbank rates on term instruments have edged up, due to increased risk aversion among market participants. Meanwhile, the yen has appreciated against the U.S. dollar and stock prices have fallen compared with last month. Yields on long-term government bonds have been around the same level as last month.

Japan's financial environment has remained generally accommodative, but the financial positions of small firms and firms in certain industries have shown deterioration.

The overnight call rate, the policy interest rate, has been at a low level relative to the state of economic activity and price developments. In line with this, funding costs for firms have remained more or less flat, at low levels. The funding of firms—large firms in particular—has increased, reflecting an increase in their demand for working capital to cover the rise in materials prices and generally accommodative lending attitudes maintained by financial institutions. However, an increasing number of small firms have reported that their financial positions are weak, and lending attitudes of financial institutions are severe. In addition, certain industries have faced a worsening in funding conditions, as conditions for their bond issuance have deteriorated and financial institutions have become more cautious in extending credit. Since mid-September, credit spreads on CP and corporate bonds have widened and the issuance of corporate bonds has declined. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2-3 percent.

1. Economic Developments

Public investment has been sluggish (Chart 5). 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—dropped sharply in the second quarter, but increased in July-August due to the upsurge in large orders. On average, however, it has 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). They dropped considerably, by 3.3 percent, in the second quarter on a quarter-on-quarter basis, and marked a relatively small increase of 1.9 percent in July-August compared with the second quarter. With these fluctuations smoothed out, the slower growth in exports has become more evident. It seems to be basically because the slowdown in overseas economies as a whole, mainly in the United States and Europe, has become noticeable.

As for real exports by destination (Chart 7[1]), exports to the United States dropped substantially in the second quarter on a quarter-on-quarter basis and also in July-August compared with the second quarter, mainly due to the drop in automobiles. Exports to the EU and NIEs plunged in the second quarter, but rose in July-August; their pace of increase has slowed on average despite large fluctuations. Exports to the ASEAN economies have started to peak out since they were almost flat in July-August following the second quarter. Meanwhile, exports to China have continued to climb. Exports to other regions (such as the Middle East, Latin America, and Russia) have continued to increase firmly, although they have been losing momentum compared to a while ago.

By goods (Chart 7[2]), exports of IT-related goods increased in the second quarter and continued to rise in July-August compared with the second quarter. On the other hand, exports of automobile-related goods have started to peak out as a trend, mainly because of the drop in exports to the United States; they dropped substantially in the second quarter and flattened in July-August. Exports of capital goods and parts and of intermediate goods declined markedly in the second quarter,

but inched up in July-August. On average, however, their pace of increase has started to slow. Exports of consumer goods rose in both the first and second quarters, notably in digital home appliances, but they fell back in July-August, as demand associated with the Beijing Olympics came to a halt.

Real imports have been relatively weak (Charts 6[1] and 9). They declined considerably, by 2.5 percent, in the second quarter on a quarter-on-quarter basis and rose only slightly in July-August, with an increase of 0.8 percent, compared with the second quarter.

By goods (Chart 9[2]), imports of IT-related goods registered relatively high growth in July-August, partly in reaction to the decline in the second quarter. On the other hand, imports of capital goods and parts (excluding aircraft) had continued to increase, but turned downward in July-August compared with the second quarter for the first time in 14 quarters. 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]). 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 remain more or less flat for the time being as a slowdown in overseas economies becomes more evident (Chart 8[2]).²

² In the September *Tankan*, exports of large manufacturing firms for fiscal 2008 are projected to increase by 2.4 percent on a year-on-year basis, indicating a distinct slowdown in growth relative to the actual results for fiscal 2007 (a year-on-year increase of 9.9 percent). The DI of overseas supply and demand conditions for products of large manufacturing firms has also turned to net "excess supply" for the first time in 11 quarters, since the December 2005 survey (+6% points in December 2007, +2% points in March 2008, +1% point in June, and -6% points in September). This shows that firms have gradually become cautious about external demand.

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 apparently been sluggish, 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 and countries that export natural resources, but the pace of expansion has decelerated even in these economies, mainly due to the high inflation rates and to the effects of monetary tightening to date. Considering that this slowdown in overseas economies as a whole is expected to continue for the time being and that the U.S. and European financial markets have been under increased stress, attention should be paid to the downside risks to Japan's economy. Regarding the environment surrounding exports of IT-related goods, global demand for finished products has continued to be on an upward trend, but the pace of increase has slowed as a whole. Furthermore, it is widely viewed that year-end demand will lack vigor. International market prices for semiconductors have softened further since the summer, 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 (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 declined. Looking at monthly indicators, the aggregate supply of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—has continued to fall (Chart 10[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—dropped in July compared with the second quarter, but they have been

more or less flat, at high levels on average (Chart 11[1]).³ Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—registered a sizeable increase in July-August, since large construction starts were included. As a trend, however, they have been more or less flat as a whole; the manufacturing sector has been firm, whereas the nonmanufacturing sector has been somewhat weak (Chart 11[2]).

Looking at the environment surrounding business fixed investment, corporate profits have continued to decrease mainly due to the deterioration in the terms of trade. According to business plans in the September *Tankan* (all industries and enterprises), current profits for fiscal 2008 are projected to drop for the second straight year (a year-on-year decline of 8.1 percent). By size (Chart 12), profit projections among large firms were revised slightly downward from the previous survey, resulting in a near double-digit decline. Profits of small firms are projected to decline for the second consecutive year. In these circumstances, business sentiment in the September *Tankan* has become even more cautious: small firms have continued their deteriorating trend and the DI level of large firms has also dropped to zero (Chart 13).

Business fixed investment is likely to remain relatively weak for the time being, as corporate profits are expected to continue decreasing. According to business fixed investment plans in the September *Tankan* (Chart 14), those of large firms for fiscal 2008 have been revised somewhat downward in comparison to the June survey, resulting in a year-on-year increase of 1.7 percent. Those of small firms show a large negative, with a decline of 12.9 percent on a year-on-year basis.⁴

³ 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).

⁴ Meanwhile, software investment is projected to remain firm 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 2.9 percent on a year-on-year basis. Looking at fiscal 2007 on a year-on-year basis, the plans as of September last year marked an increase of 7.6 percent and the actual results stood at a positive 2.7 percent.

Private consumption has been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. Looking at individual indicators on consumption (Charts 15 and 16), sales at department stores and supermarkets picked up in July, due to decent summer clearance sales assisted by the heat wave and favorable weather, but they dropped again in August, partly due to the heavy rain in late August. On balance, sales have been relatively weak, notably at department stores, since consumers have further curtailed their purchases. Meanwhile, sales at convenience stores were relatively strong as a trend assisted mainly by the special factor of cigarettes,⁵ albeit with fluctuations caused by weather factors. Sales of household electrical appliances have continued to climb steadily, mainly in digital home appliances such as flat panel TVs.⁶ The number of new passenger-car registrations has become more 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 on average since the second half of last year, despite fluctuations caused mainly by weather factors.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above⁷—have been relatively weak on average, despite fluctuations caused mainly by weather factors (Chart 17[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has continued to be generally level (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

⁵ From July 1, 2008, the attachment of age-verifying equipment to cigarette vending machines has become mandatory. Currently, most vending machines throughout the country require IC cards for verification. These IC cards, however, are not yet in widespread use, and 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.

⁶ Sales in July-August registered high growth, since sales of air conditioners and refrigerators surged due to the heat wave and demand associated with the Beijing Olympics—such as flat panel TVs—increased.

⁷ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in August 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 August were at the same level as those for July.

limited to items used for estimating the GDP—declined significantly in the second quarter and also dropped in July-August compared with the second quarter (Chart 15[1]). Total expenditure in the *Survey of Household Economy* (in real terms) declined in the second quarter and continued to decrease in July-August compared with the second quarter (Chart 15[1]).⁸

Consumer sentiment has become more cautious and many indicators have deteriorated to their previous bottoms, mainly due to the rise in prices of energy and food (Chart 18).

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 the effects of the rise in prices are likely to remain.

Housing investment has been more or less flat. 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 and has since been more or less flat. 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 the rise in materials prices. 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 been relatively weak. Production inched down in both the first and second quarters, and also dropped, by 1.0 percent, in July-August compared with the second quarter (Chart 20).⁹ As for developments in July-August compared with the second quarter by industry, production of many industries such as general machinery, electronic parts and devices, information and communication

⁸ 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.

⁹ Production in the third quarter, simply calculated from the production forecast index of September, posted a 1.1 percent decrease on a quarter-on-quarter basis; based on this calculation, this is the third straight quarter decline.

electronics equipment (such as cellular telephones), and transportation equipment (excluding ships and rolling stocks) continued to decline following the second quarter.

Shipments dropped marginally in both the first and second quarters, and also declined, by 1.4 percent, in July-August compared with the second quarter. Looking at the trend by goods (Chart 21), shipments of capital goods have been on a downtrend since the start of this year. The downtrend is notable in semiconductor products machinery, but lately an increasing number of items, such as engineering and construction machinery, molds and dies, and metal cutting machinery, have declined. 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, mainly due to the decline in shipments of electronic parts and devices.

Inventories have been more or less flat. However, the shipment-inventory balance has deteriorated slightly of late, since shipments have continued to be relatively weak (Chart 22). By goods, as for capital goods (excluding transport equipment), inventory adjustment pressures have been building up, mainly in engineering and construction machinery, while shipments have declined at an accelerated pace. As for producer goods, shipments of electronic parts and devices as well as those of other goods (such as chemicals, nonferrous metals, and iron and steel) have been weak and inventories of these goods have started to pile up somewhat. On the other hand, the shipment-inventory balance of durable consumer goods has been generally favorable. Meanwhile, as for construction goods, even though demand has remained sluggish, inventories have become almost in balance with shipments due to the continued restraints on production.

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 fourth quarter will also decrease.¹⁰

As for the employment and income situations, growth in household income has recently been sluggish (Chart 23[3]).

In the labor market, overtime hours worked had been at high levels, but they have recently been well below the year-ago level notably in the manufacturing sector (Chart 25[3]). The unemployment rate has been on a moderate uptrend (Chart 24[1]). The ratio of job offers to applicants has continued to decline, mainly due to the decrease in the number of job offers among small firms (Chart 24[1]). Meanwhile, the employment conditions DI in the *Tankan* shows that the labor shortage has eased, mainly in the manufacturing sector (Chart 26).

In terms of employment (Chart 25[1]), the number of employees in the *Labour Force Survey* has been around or slightly below the previous year's level since the start of this year. As for the number of regular employees in the *Monthly Labour Survey*, with fluctuations smoothed out, the year-on-year growth rate has fallen after having peaked at around the end of last year. 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 change in the ratio of part-time employees, which had been positive last year, has recently been around zero (Chart 25[2]).¹¹

¹⁰ The production forecast index of October is calculated to decrease by 0.2 percent compared with the third quarter (the production index of September is based on the forecast index). Considerable latitude, however, should be allowed for this calculation, since it is based on a single month's information.

¹¹ 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 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.

The year-on-year rate of increase in nominal wages per employee has diminished (Chart 23[1]). In detail, the year-on-year rate of increase in regular payments and overtime payments has been slowing as a trend on balance. Summer bonuses (special payments in June-August) remained around the previous year's level.

Looking ahead, household income is projected to remain more or less level for the time being.

2. Prices

Import prices (on a yen basis; the three-month rate of change) have slowed their pace of increase since international commodity prices have fallen back (Chart 28). Looking at recent developments in international commodity prices in more detail, crude oil prices have fallen back as the slowdown in the global economy has become evident, after having marked a record high in the first half of July. Prices of nonferrous metals and crops have softened markedly compared to a while ago. Meanwhile, domestic commodity prices have fallen back somewhat lately in response to movements in international commodity prices, but they have continued to be at high levels.

The three-month rate of increase in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹² has declined somewhat, due to the setback in international commodity prices (Chart 29). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have slowed their pace of increase, primarily in petroleum and coal products; and prices of "iron and steel and construction goods" have increased at a reduced pace, mainly in prices of scrap and waste. Prices of "others" have also increased at a somewhat slower pace, chiefly in prices of processed foodstuffs. On the other hand, prices of "other materials" and those of "electric power, gas and water" have continued to climb, due to high fuel costs thus far. Meanwhile, prices of

¹² 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.

"machinery" have recently been more or less flat. Looking at domestic demand products as a whole, including imports, prices of raw materials have increased at a reduced pace in reaction to the drop in international commodity prices. Prices of intermediate goods have peaked out, mainly due to the setback in prices of petroleum-related products. The pace of increase in final goods prices has slowed, chiefly in petroleum products and processed foodstuffs.

The year-on-year rate of change in corporate services prices (excluding external factors)¹³ has been around zero percent (Chart 30).¹⁴ Looking at recent developments by category, the year-on-year rate of change in prices of real estate services has been positive, assisted by the rise in office space rentals in the Tokyo metropolitan area. On the other hand, the year-on-year rate of increase in prices of "other services" has diminished as a trend in response to firms' cost-cutting. Prices of information services have been relatively weak, since firms have tightened the reins somewhat on their software investment. Prices of advertising services have continued to decline, since firms have been cautious about increasing advertisement placements, and prices of leasing and rental have also continued to decrease, affected by the drop in prices of office automation equipment leasing. Meanwhile, prices of finance and insurance as a whole have turned up marginally since the rate of increase in financial services has risen due to the disappearance of the effects of the previous year's sharp decline in financial agency services, although property and casualty insurance services have continued to fall, mainly due to 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) is currently around 2.5 percent against the background of the increase in prices of energy and food (Chart 31). In August, consumer prices marked a

¹³ "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.

¹⁴ "All items including external factors" has marked a year-on-year positive boosted by transportation.

year-on-year increase of 2.4 percent, the same rate as of July.¹⁵ Looking at recent developments in more detail on a year-on-year basis, prices of goods have increased, notably in prices of petroleum products and food; services prices have risen, chiefly in prices of "eating out"; and public utility charges have increased, mainly in electricity charges and city gas charges. Meanwhile, the year-on-year rate of change in consumer prices, excluding food and energy, has been around zero percent.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 32), the weighted average of the production capacity DI and employment conditions DI shows that the supply and demand conditions have been easing, although it still remains high. The supply and demand conditions DI of both manufacturing and nonmanufacturing indicates that the supply and demand conditions have been easing slightly further lately, although the rate of net "excess supply" has remained small. In this environment, the output prices DI for manufacturing has slightly expanded its rate of "rise." On the other hand, that for nonmanufacturing has turned down again to the rate of "fall."

The pace of increase in domestic corporate goods prices is expected to slow for the time being, mainly due to the setback in international commodity prices. The year-on-year rate of increase in consumer prices is expected to remain at around the current level over the coming months but to moderate gradually thereafter, reflecting developments in prices of energy and food.

With respect to developments in land prices in terms of the Prefectural Land Price Survey as of July (Chart 33), the rate of increase in land prices in the three metropolitan areas has diminished noticeably, and the rate of decline in other areas has almost stopped narrowing.

¹⁵ Prices rose by 2.4 percent on a year-on-year basis; it was the largest increase since October 1997, when it rose 2.4 percent in the wake of the rise in the consumption tax. Disregarding the effects of that tax hike, it was the largest increase since June 1992 (an increase of 2.5 percent).

3. Financial Developments

(1) Financial Markets

Japan's money markets have remained relatively stable compared to those of the United States and Europe, but they have been made increasingly nervous by the turmoil in global financial markets. The overnight call rate (uncollateralized) has been at around 0.5 percent, although its intraday volatility has increased (Chart 34[1]). Regarding interest rates on term instruments, the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month) have risen somewhat. Interest rates on Euroyen futures have been around the same level as last month (Chart 34[2]). Meanwhile, U.S. dollar funding has become more difficult due to the tightening of liquidity conditions against the backdrop of the developments among U.S. financial institutions (see BOX).¹⁶

Yields on 10-year government bonds (newly issued 10-year JGB) have been more or less flat; they have recently been at around 1.4 percent (Chart 35).

Yield spreads between corporate bonds and government bonds have continued to expand, mainly for those with low credit ratings, since investors have become more selective about bond issues for investment (Chart 36).

Stock prices have continued to show large fluctuations in response to unstable U.S. and European stock prices. The Nikkei 225 Stock Average has recently fallen to the 10,000-10,500 yen level (Chart 37).

In the foreign exchange market, the yen has fluctuated sharply, depending mainly on market sentiment regarding the various measures taken toward economic stabilization in the United States, including the passage of the Emergency Economic Stabilization Act. The yen has been traded in the range of 104-108 yen to the U.S. dollar; it has recently risen to around 102 yen (Chart 38).

¹⁶ On September 18, the Bank of Japan, together with other major overseas central banks, announced coordinated measures designed to address the continued elevated pressures in the U.S. dollar short-term funding markets. On September 24, the first offer for U.S. dollar funds-supplying operations was made. Further coordinated actions were also announced on September 29.

(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 to be at accommodative levels as a whole. However, an increasing number of small firms and firms in certain industries have perceived them as "severe" (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,¹⁷ grew by 2.4 percent in August on a year-on-year basis, compared to 2.5 percent in July and 2.4 percent in June (Chart 41). The amount outstanding of lending to small and medium-sized firms, however, has been below the year-ago level. It declined by 1.6 percent in August, following a 1.5 percent decline in July on a year-on-year basis.

In the CP and corporate bond markets, issuance spreads on CP and corporate bonds have remained tight for firms with high credit ratings, and the amount outstanding of CP and corporate bonds issued has been above the previous year's level. It increased by 0.8 percent in September on a year-on-year basis, compared to 0.6 percent in August and 0.4 percent in July (Chart 42). However, issuance spreads have been relatively wide for firms with low credit ratings and in certain industries, whose bond issuance has decreased compared to a while ago. Since mid-September, when tension in the global financial markets mounted, credit spreads on CP and corporate bonds have widened and the issuance of corporate bonds has declined.

¹⁷ 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.

According to business surveys, the financial positions of firms have started to weaken, and those of small firms and firms in the construction and real estate industries have shown further deterioration (Chart 39).

The money stock (M2) has been in the range of 2-3 percent annually. Its August reading was 2.4 percent on a year-on-year basis, following 2.1 percent in July and 2.2 percent in June (Chart 43).¹⁸

The number of corporate bankruptcies was up by 4.2 percent in August compared to the year-ago level, to 1,254 cases (Chart 44).

¹⁸ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate was around 1 percent in August—it increased by 1.0 percent in August following 0.8 percent in July and 0.9 percent in June.

BOX: Tightening of U.S. Dollar Funding Markets

Credit conditions have remained tight in global money markets. For example, the London Inter-Bank Offered Rates (LIBORs) have been moving higher than the comparable Overnight Index Swap (OIS) rates, which mainly reflect expectations about future policy target rates of each currency (Box Chart 1[1]).

LIBOR reflects not only current and expected future policy target rates but also the premium associated with counterparty credit risk and liquidity risk.¹⁹ Counterparty credit risk premium is inherent because LIBOR is the rate on unsecured interbank lending. Liquidity premium exists because financial institutions have incentives to protect their liquidity positions when uncertainty about funding rises. Since August 2007, when the subprime mortgage problem emerged, LIBOR-OIS spreads have widened due to an increase in interbank counterparty credit risk and liquidity risk. The U.S. dollar spread, in particular, has increased sharply. In September 2008, against the backdrop of growing concern about systemic risk in the U.S. financial sector, strains increased steeply in U.S. dollar markets, and funding needs for U.S. dollars rose rapidly. Japanese yen markets, though relatively calm compared with U.S. dollar and euro markets, have also been nervous, and the LIBOR-OIS spread for the Japanese yen has remained higher than before.

The tightening in U.S. dollar markets has spilled over to foreign exchange (FX) swap markets. FX swap transactions are bilateral contracts in which different currencies are exchanged by combining FX spot and forward contracts. For example, financial institutions can in effect obtain U.S. dollars against yen collateral by buying U.S. dollar/Japanese yen in the spot market while selling U.S. dollar/Japanese yen in the forward market. In a similar manner, financial institutions can in effect obtain U.S. dollars against euro collateral by selling euro/U.S. dollar in the spot market while buying euro/U.S. dollar in the forward market.

Under normal market conditions, financial institutions try to conduct arbitrage transactions between unsecured money markets and FX swap markets (Box Chart 1[2]). When credit conditions become tight in the U.S. dollar unsecured market and U.S. dollar funding cost (LIBOR) rises, financial institutions (shown as Bank X in the chart) shift their funding source to FX swap markets, while lenders of

¹⁹ On the other hand, OIS rates include a rather limited premium for credit and liquidity risks, because the OIS is an interest rate agreement that involves the exchange of the overnight rate (compounded over a specified term) and a fixed interest rate, and its transaction does not involve a cash flow.

U.S. dollars (shown as Banks Y and Z in the chart) shift their loans from FX swap markets to the U.S. dollar unsecured market with higher lending rates. Such arbitrage transactions exert upward pressure on the "FX swap implied dollar rate," i.e. the cost of raising U.S. dollar funds in FX swap markets (Box Chart 2[1]).

In a perfect arbitrage case, the FX swap implied dollar rate moves along with U.S. dollar LIBOR. Since August 2007, however, the former has been higher than the latter. As shown in the light gray shadow in Box Chart 2 (1), the spread between the two has been increasing, with some fluctuations; it widened significantly in September 2008. This is because the arbitrage between the U.S. dollar unsecured market and FX swap markets has become imperfect. Having faced difficulties in raising funds in the U.S. dollar unsecured market, financial institutions (such as Bank X in Box Chart 1[2]) have become highly dependent on U.S. dollar funding in FX swap markets, whose size is smaller than that of the U.S. dollar unsecured market. Moreover, lenders (such as Banks Y and Z) have increased precautionary demand for U.S. dollars because of growing concern about funding, and have become highly reluctant to provide U.S. dollars, even in the secured markets. This has led to excess demand for U.S. dollars in FX swap markets. In such situations of stress, the FX swap implied dollar rate for financial institutions facing difficulties in raising U.S. dollar funds in unsecured markets becomes higher than the opportunity cost for the limited lenders of U.S. dollars to invest in the unsecured market, i.e. U.S. dollar LIBOR (see the equation in Box Chart 1[2]). This funding premium—the difference between the FX swap implied dollar rate and U.S. dollar LIBOR—increases as the market liquidity of FX swaps declines. As the bid-ask spreads widen due to a decrease in the number of U.S. dollar lenders and hence swap transaction, the FX swap implied dollar rate increases with the rise in the funding premium (Box Chart 2[2]).

To raise U.S. dollar funds in FX swap markets, financial institutions (such as Bank X in Box Chart 1[2]) need to borrow other currency-denominated funds such as the yen or euro. This is one reason why the tightening in U.S. dollar markets has spilled over to yen or euro markets.

A series of liquidity provision measures taken by the Federal Reserve and U.S. dollar funds-supplying operations conducted by several central banks in a coordinated manner aim to address the tightening in U.S. dollar markets as well as to mitigate the spill-over effect to other currency-denominated money markets.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q1	Q2	Q3	2008/Jun.	Jul.	Aug.	Sep.
Index of consumption expenditure level (two-or-more-person households)	-0.4	-2.0	n.a.	1.7	0.4	-3.3	n.a.
Sales at department stores	-0.7	-3.0	n.a.	-3.8	5.5	p -2.7	n.a.
Sales at supermarkets	0.2	-1.7	n.a.	-0.9	2.4	p -2.4	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 301>	< 295>	< 285>	< 290>	< 309>	< 273>	< 271>
Sales of household electrical appliances (real, Current Survey of Commerce)	5.7	1.8	n.a.	-0.4	4.3	p 4.7	n.a.
Outlays for travel	0.6	-2.9	n.a.	-2.2	0.8	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 114>	< 112>	<n.a.>	< 113>	< 114>	< 113>	<n.a.>
Machinery orders (from private sector ⁴)	2.2	0.6	n.a.	-2.6	-3.9	n.a.	n.a.
Manufacturing	-5.9	2.7	n.a.	3.9	-10.4	n.a.	n.a.
Nonmanufacturing ⁴	6.5	1.0	n.a.	-3.3	-2.4	n.a.	n.a.
Construction Starts (private, nondwelling use)	1.2	-2.8	n.a.	-3.7	7.0	-4.2	n.a.
Mining & manufacturing	-1.0	7.6	n.a.	-23.5	73.5	-22.5	n.a.
Nonmanufacturing ⁵	1.9	-5.4	n.a.	4.4	-5.6	-1.5	n.a.
Value of public works contracted	-0.5	-8.3	n.a.	-0.9	18.4	-7.2	n.a.
Real exports	3.2	-3.3	n.a.	0.7	2.0	-1.7	n.a.
Real imports	0.9	-2.5	n.a.	5.5	-2.7	1.2	n.a.
Industrial production	-0.7	-0.8	n.a.	-2.2	1.3	p -3.5	n.a.
Shipments	-0.5	-0.9	n.a.	-3.0	1.9	p -3.8	n.a.
Inventories	0.0	0.4	n.a.	1.1	-0.1	p -0.2	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 105.3>	< 105.0>	<n.a.>	< 105.0>	< 101.2>	<p 108.7>	<n.a.>
Real GDP	0.7	-0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.9	0.5	n.a.	-1.0	0.8	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2007/Q4	2008/Q1	Q2	2008/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 1.00>	< 0.97>	< 0.92>	< 0.92>	< 0.91>	< 0.89>	< 0.86>
Unemployment rate <s.a., %>	< 3.8>	< 3.9>	< 4.0>	< 4.0>	< 4.1>	< 4.0>	< 4.2>
Overtime working hours ⁶	0.2	0.7	-1.2	-0.9	-1.8	-1.0	p -2.9
Number of employees	0.9	0.0	-0.0	0.1	0.0	-0.2	0.0
Number of regular employees ⁶	2.0	1.9	1.7	1.7	1.5	1.5	p 1.6
Nominal wages per person ⁶	-0.9	1.6	0.7	0.8	0.4	0.3	p -0.3
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	2.4 < 0.7>	3.4 < 1.0>	4.8 < 2.5>	4.7 < 2.5>	5.7 < 2.9>	7.3 < 4.2>	p 7.2 <p 2.9>
Consumer price index ⁸	0.5	1.0	1.5	1.5	1.9	2.4	2.4
Corporate services price index	1.7	0.9	1.1	1.0	1.3	1.3	p 1.4
Money Stock (M2) <average outstanding, y/y % chg.>	2.0	2.3	2.1	2.1	2.2	2.1	p 2.4
Number of corporate bankruptcies <cases per month>	<1,190>	<1,238>	<1,276>	<1,290>	<1,324>	<1,372>	<1,254>

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

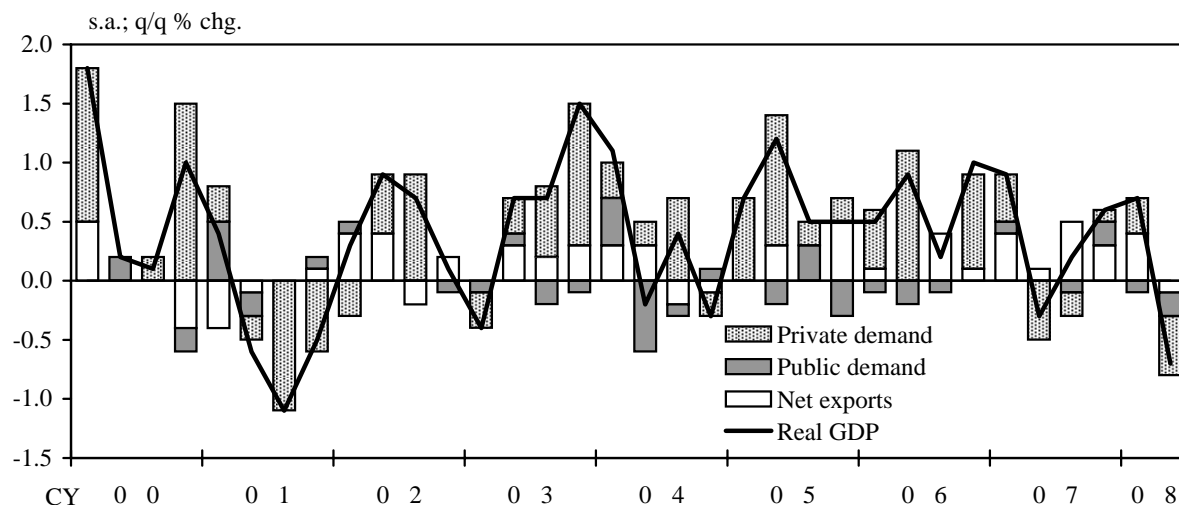
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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

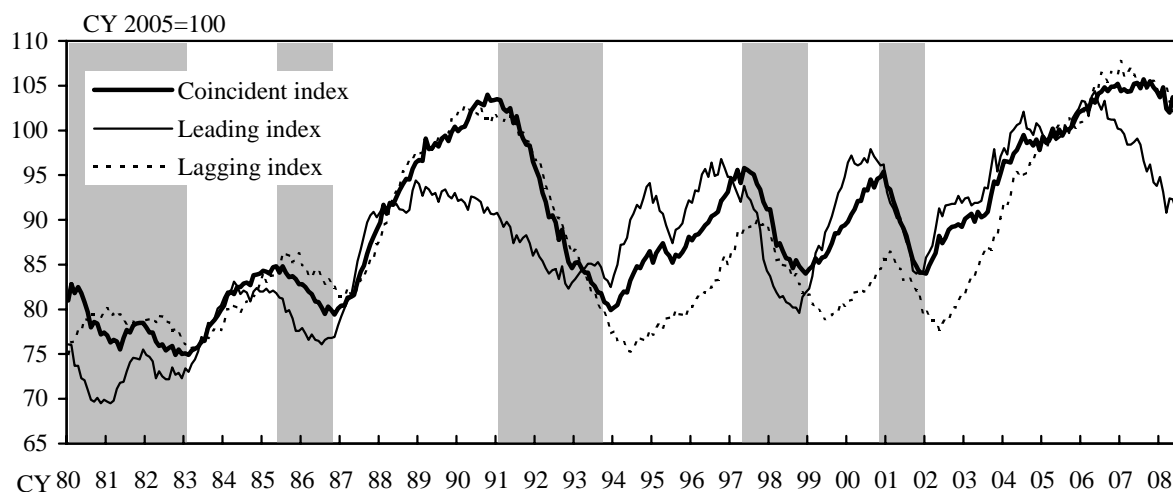


(2) Components

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

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

(3) Indexes of Business Conditions (Composite Indexes)

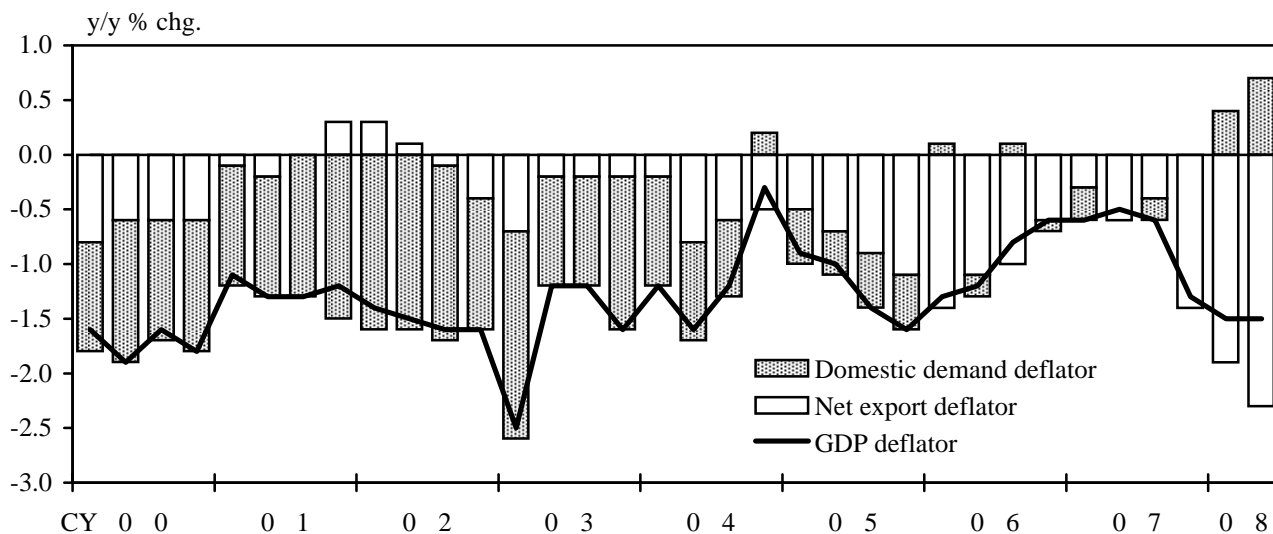


Note: Shaded areas indicate recession periods.

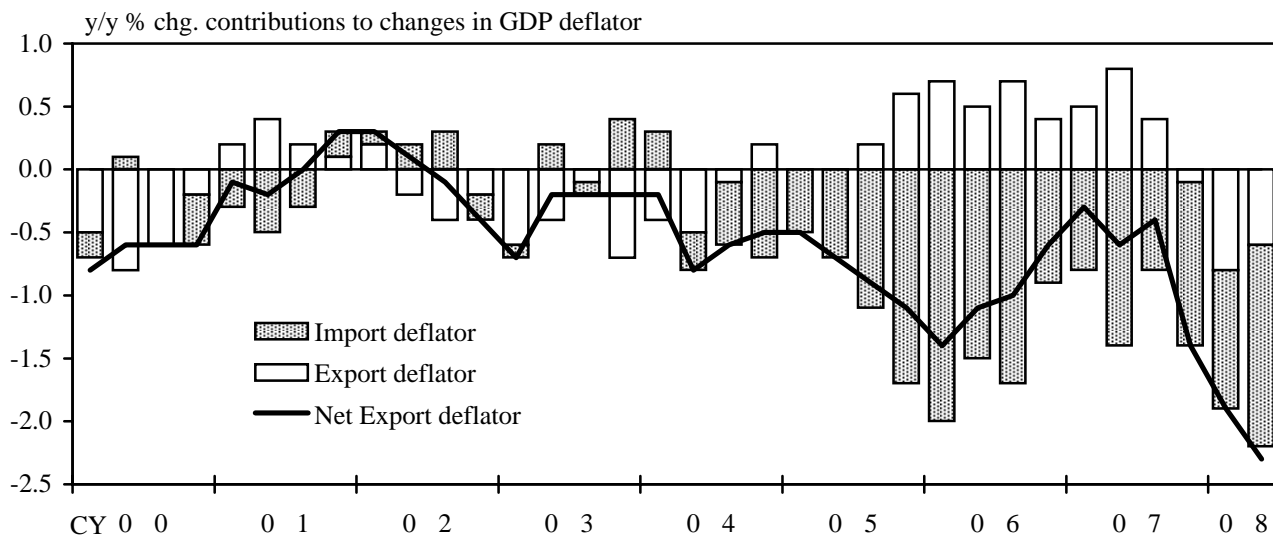
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

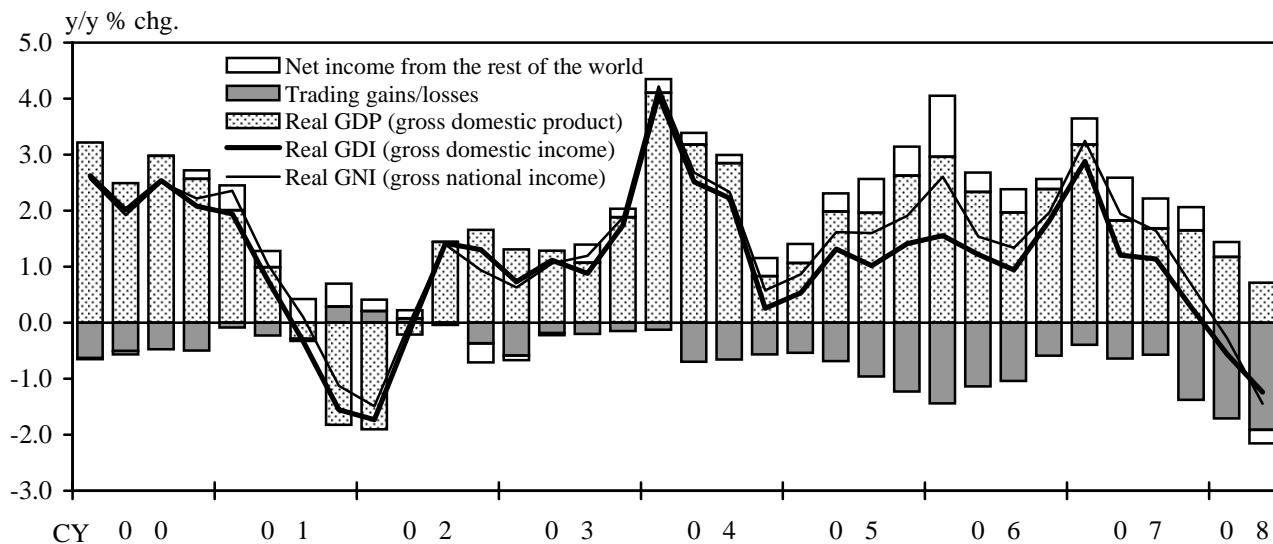
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



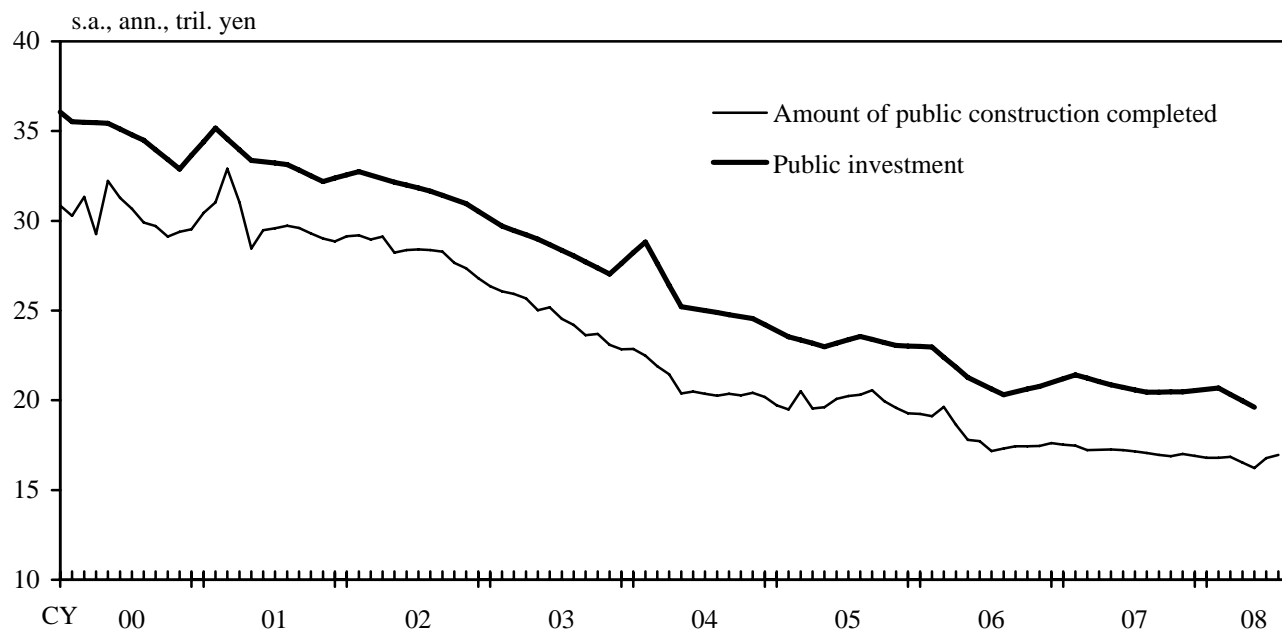
Note: Figures of components indicate contributions to changes in real GNI.

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

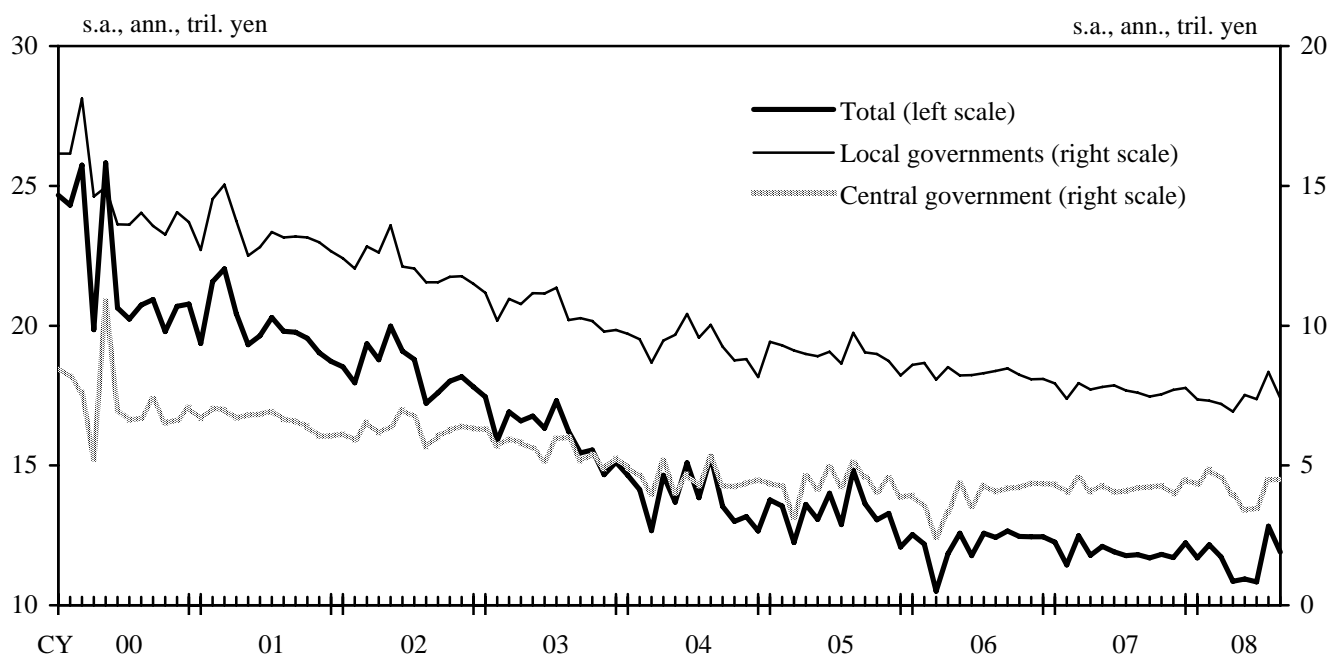
Source: Cabinet Office, "National Accounts."

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.

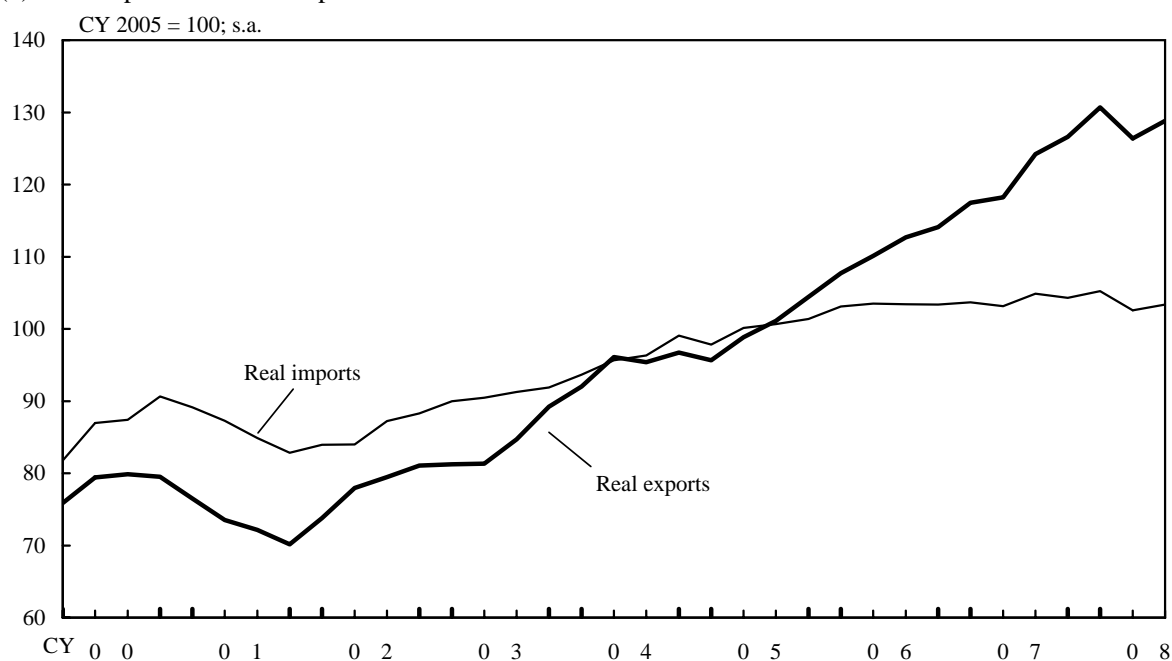
Sources: Cabinet Office, "National Accounts";

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

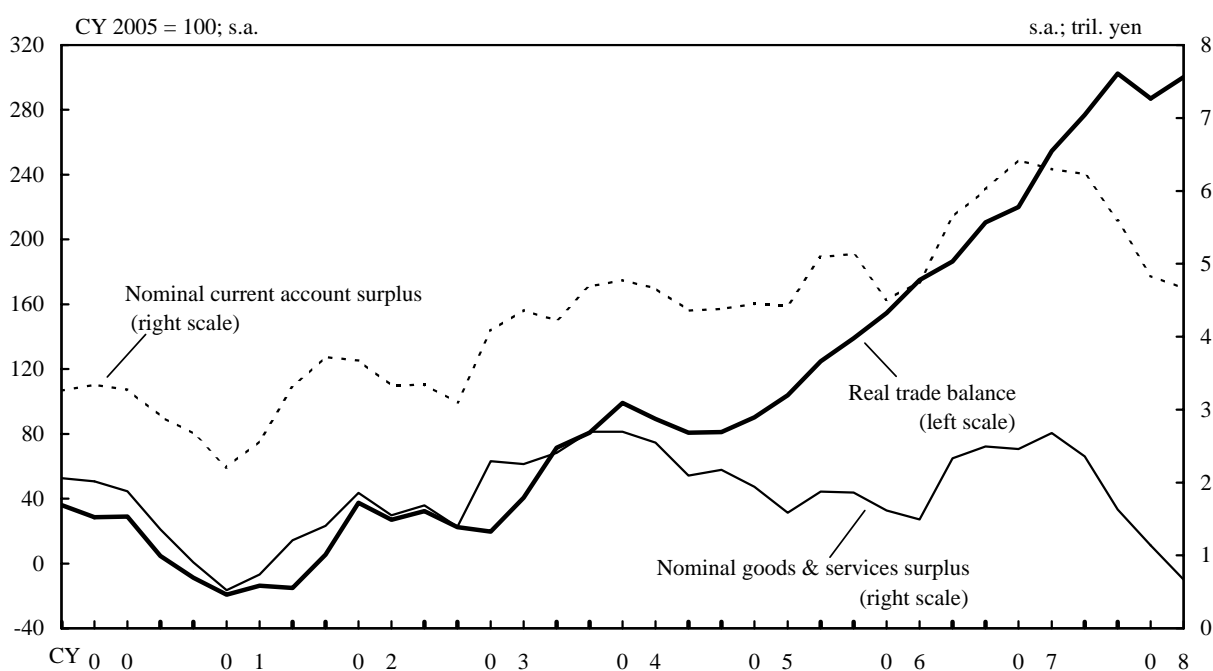
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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/Q3 figures for Real exports/imports and the real trade balance are July-August averages converted into quarterly amount.
 4. 2008/Q3 figures for Nominal Current Account Surplus and Nominal Goods & Services Surplus are July figures converted into quarterly amount.

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 ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q3	2008 Q4	2008 Q1	Q2	Q3	2008 Jun.	Jul.	Aug.
United States	<20.1>	11.7	-1.2	4.4	-1.3	-0.2	-6.8	-5.6	1.3	-4.9	-3.6
EU	<14.8>	11.1	13.0	5.2	2.6	4.2	-7.3	3.2	-0.6	4.7	-1.8
East Asia	<46.0>	8.9	10.3	4.4	2.8	4.9	-2.3	3.3	-2.3	2.9	1.8
China	<15.3>	18.8	16.8	6.6	1.9	5.1	1.7	3.4	-5.0	5.1	0.5
NIEs	<22.4>	6.3	5.2	3.1	2.0	5.3	-5.8	4.3	-0.3	3.3	1.5
Korea	<7.6>	9.6	5.3	0.7	4.7	3.6	-4.8	4.3	0.5	3.2	3.8
Taiwan	<6.3>	2.7	0.0	4.8	-3.8	8.7	-8.8	2.8	2.3	-3.2	7.9
ASEAN ⁴	<8.3>	1.8	13.2	4.0	6.3	3.6	-0.6	0.8	-2.3	-1.5	5.1
Thailand	<3.6>	4.1	9.8	4.9	2.1	5.1	-6.8	5.6	-5.0	1.9	9.5
Others	<19.1>	20.2	19.9	5.5	9.2	4.8	-0.1	2.8	3.3	3.3	-7.1
Real exports		11.2	9.1	5.1	1.9	3.2	-3.3	1.9	0.7	2.0	-1.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q3	2008 Q4	2008 Q1	Q2	Q3	2008 Jun.	Jul.	Aug.
Intermediate goods	<18.4>	6.9	5.3	4.8	1.6	2.2	-5.8	1.4	0.1	0.1	2.2
Motor vehicles and their related goods	<24.1>	14.2	13.2	5.9	6.6	3.0	-4.8	0.4	2.7	2.0	-6.0
Consumer goods ⁴	<4.5>	9.8	6.4	3.4	-0.2	4.3	3.2	-2.3	-0.8	-7.0	6.3
IT-related goods ⁵	<11.0>	7.5	12.1	4.2	2.3	-1.2	4.5	1.9	-2.8	0.9	0.7
Capital goods and parts ⁶	<28.4>	13.3	8.0	3.2	2.8	4.3	-2.0	1.0	0.5	2.1	-2.7
Real exports		11.2	9.1	5.1	1.9	3.2	-3.3	1.9	0.7	2.0	-1.7

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q3 figures are July-August 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,

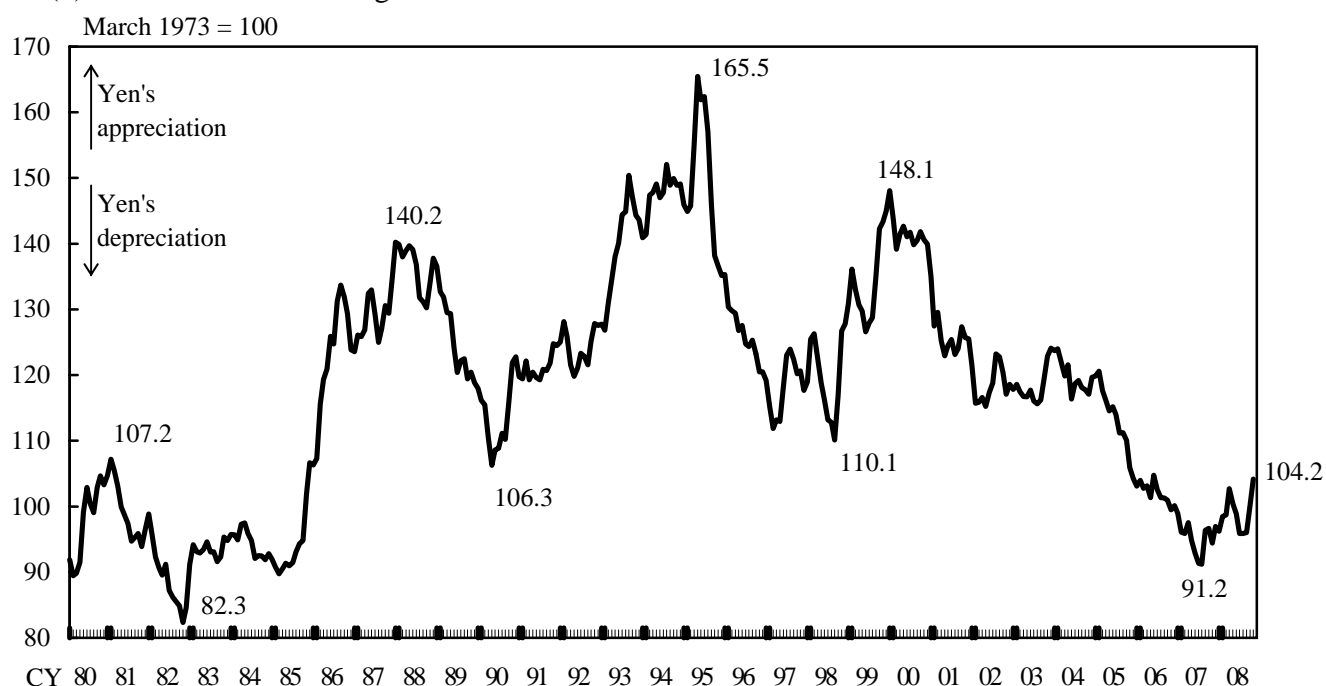
ICs, and medical and optical instruments.

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."

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for October 2008 is the average up to October 6.

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 ¹		2.9	2.8	2.0	4.8	-0.2	0.9	2.8	
European Union ¹		2.0	3.2	2.9	2.6	1.9	2.4	-0.2	
	Germany	0.9	3.2	2.6	2.4	1.4	5.2	-2.0	
	France	1.9	2.4	2.1	2.8	1.5	1.7	-1.3	
	United Kingdom	2.1	2.8	3.0	3.1	2.0	1.1	0.0	
East Asia ²	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	6.3	4.3
		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	6.1	5.3
		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	6.3
Philippines		5.0	5.4	7.2	7.1	6.4	4.7	4.6	

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 Q3	2008 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Jun.	2008 Jul.	2008 Aug.
United States	<11.4>	5.3	-1.5	-2.0	3.3	-1.0	-3.9	-0.0	13.4	-13.5	11.9
EU	<10.5>	0.8	4.0	2.7	-3.2	-0.9	0.1	-3.8	7.2	-9.6	2.9
East Asia	<40.9>	8.8	3.2	1.5	0.1	2.2	-2.9	2.6	2.2	1.5	0.2
China	<20.6>	10.9	5.7	1.4	-0.1	0.8	-1.0	5.3	1.2	4.4	-1.2
NIEs	<8.9>	12.3	-3.8	1.2	0.6	3.0	-4.4	2.2	2.0	3.9	-0.1
Korea	<4.4>	10.7	-3.4	-1.0	0.6	3.3	-9.3	2.7	3.9	5.2	-0.5
Taiwan	<3.2>	15.6	-3.0	4.5	-1.6	4.2	1.5	3.8	-0.7	3.4	2.6
ASEAN4 ³	<11.4>	2.7	4.7	1.8	0.1	4.1	-5.2	-2.1	4.3	-5.5	3.2
Thailand	<2.9>	8.7	4.3	3.3	-0.4	1.2	-3.3	0.5	6.4	-4.2	4.8
Others	<37.2>	2.9	-0.5	2.7	-0.4	0.9	-2.5	1.2	3.2	-1.8	2.2
Real imports		3.6	0.6	1.7	-0.5	0.9	-2.5	0.8	5.5	-2.7	1.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q3	2008 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Jun.	2008 Jul.	2008 Aug.
Raw materials ⁴	<35.4>	1.2	0.2	3.7	-0.3	1.6	-4.5	1.7	3.8	-1.6	2.8
Intermediate goods	<14.8>	3.1	2.0	2.2	-1.9	-1.7	2.2	-0.4	3.6	-4.1	1.2
Foodstuffs	<8.3>	-4.0	-9.6	-2.0	-6.2	-1.0	-0.7	-0.5	3.3	-7.5	9.9
Consumer goods ⁵	<8.1>	4.3	-0.1	-1.2	-2.8	0.6	-3.2	1.5	13.0	-6.3	0.5
IT-related goods ⁶	<11.3>	17.2	4.3	0.9	1.8	4.1	-2.5	4.9	0.7	6.7	-1.2
Capital goods and parts ⁷	<12.8>	16.8	8.5	1.1	4.6	1.2	-1.4	-0.9	9.5	-5.8	2.7
Excluding aircraft	<11.8>	17.7	7.9	3.4	1.9	0.0	2.4	-4.4	3.8	-4.6	-1.9
Real imports		3.6	0.6	1.7	-0.5	0.9	-2.5	0.8	5.5	-2.7	1.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q3 figures are July-August 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.

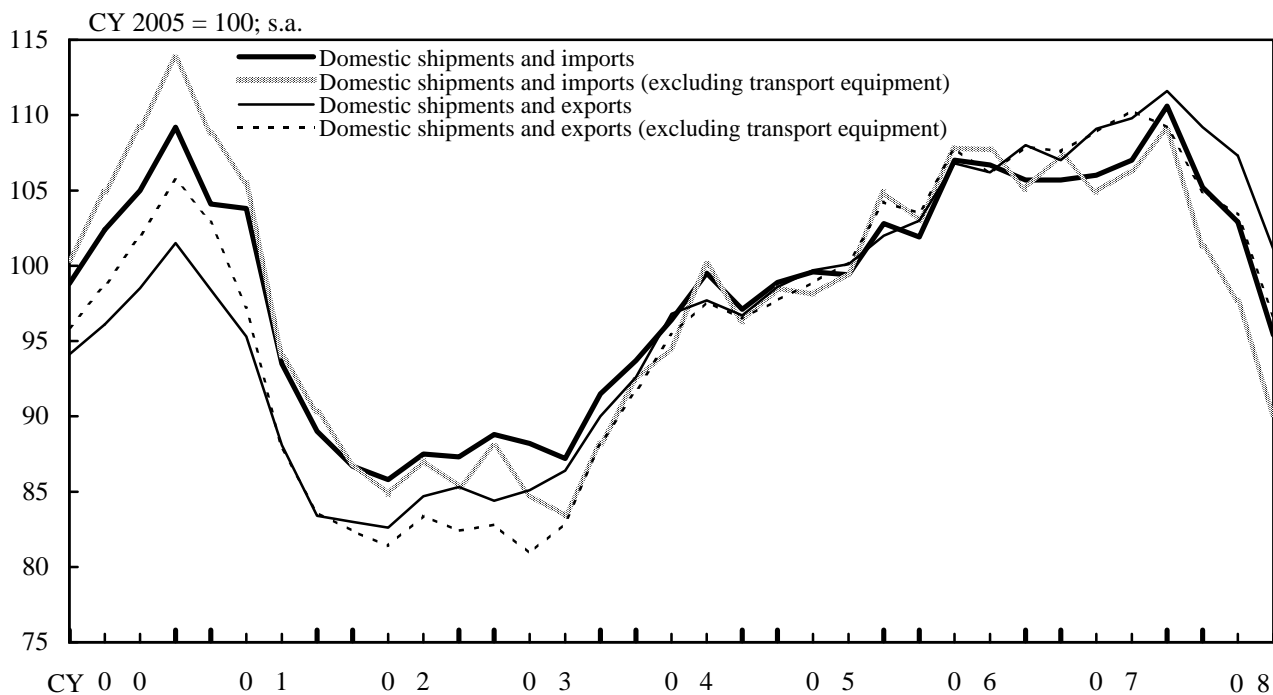
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

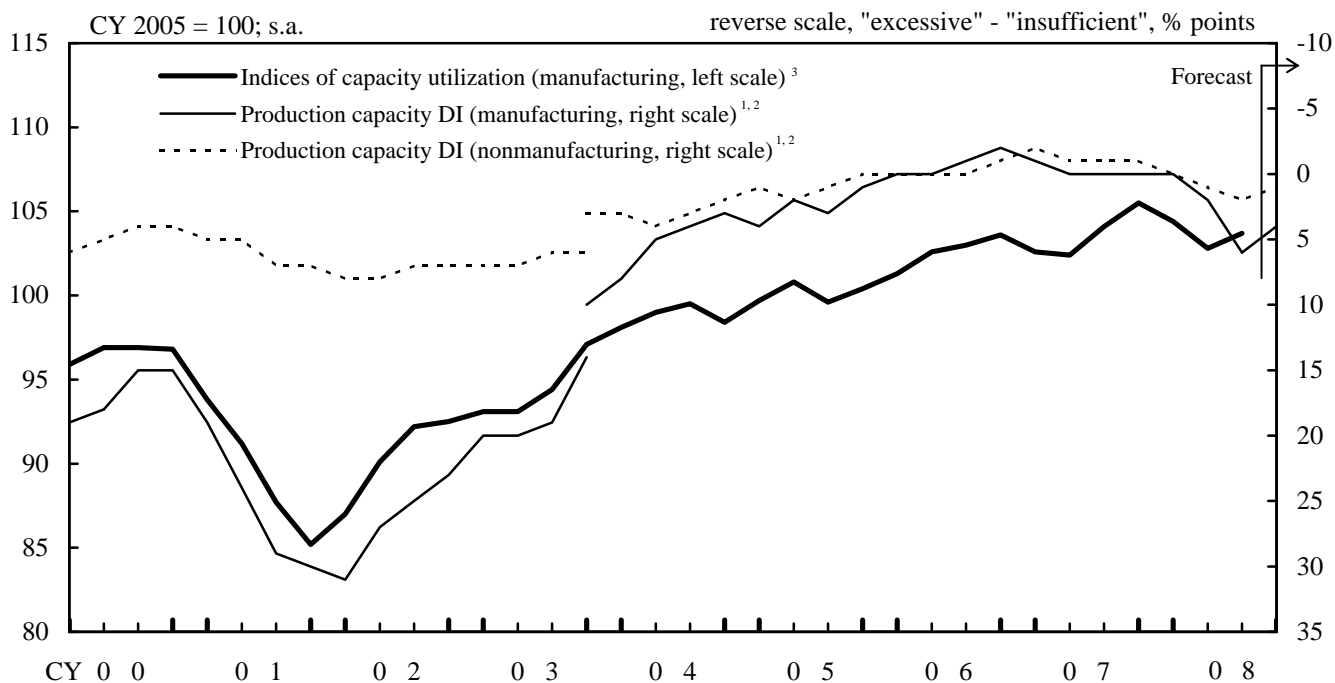
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2008/Q3 are July-August averages.

(2) Indices of Capacity Utilization and Production Capacity DI



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

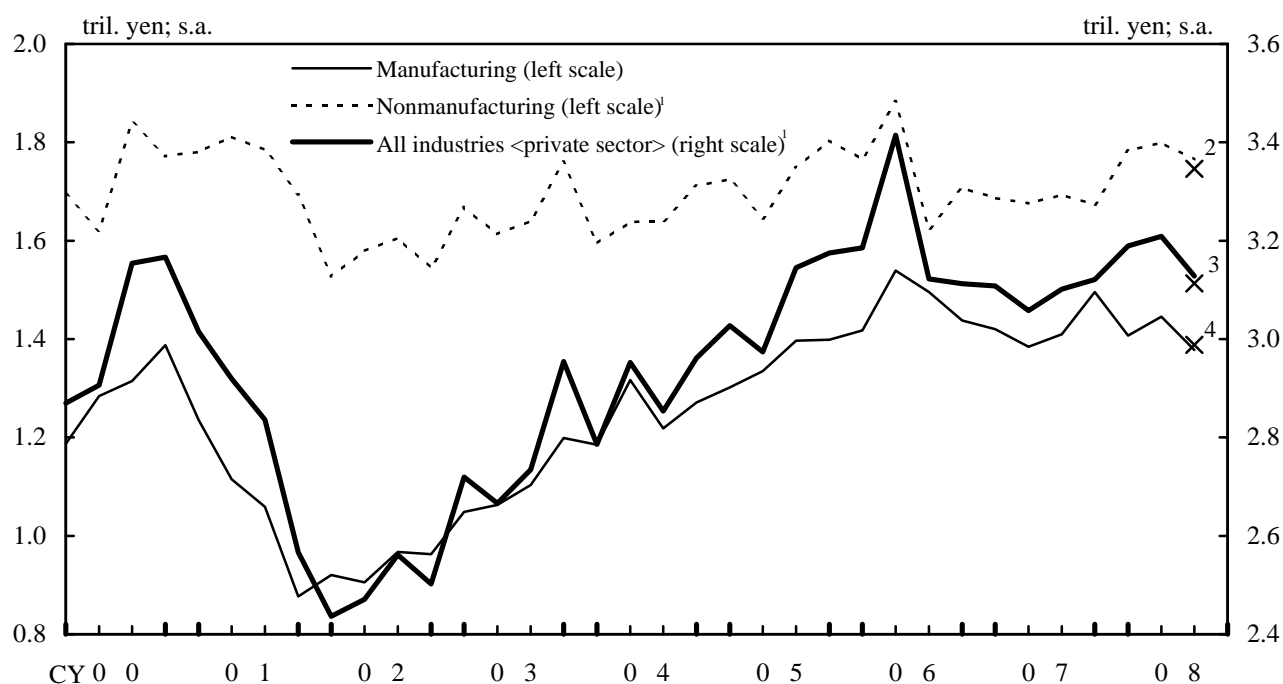
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2008/Q3 is July.

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.

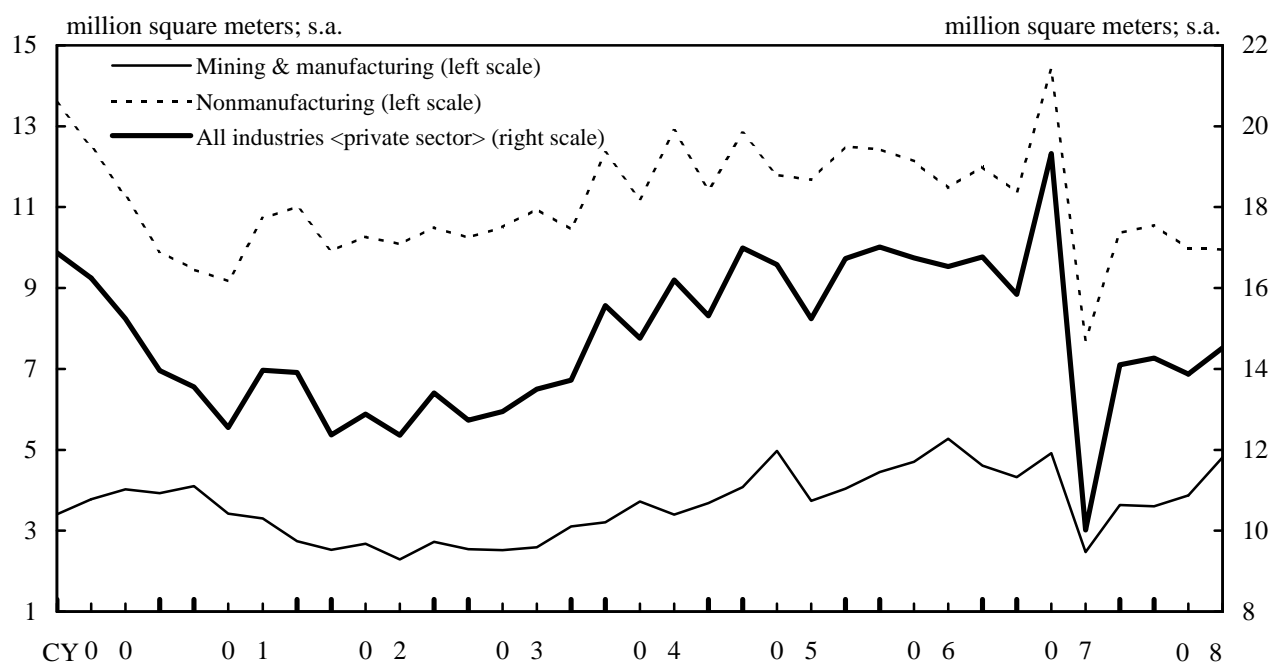
2. Forecast of nonmanufacturing industries for 2008/Q3.

3. Forecast of all industries <private sector> for 2008/Q3.

4. Forecast of manufacturing industries for 2008/Q3.

5. Figures for 2008/Q3 are those of July 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.

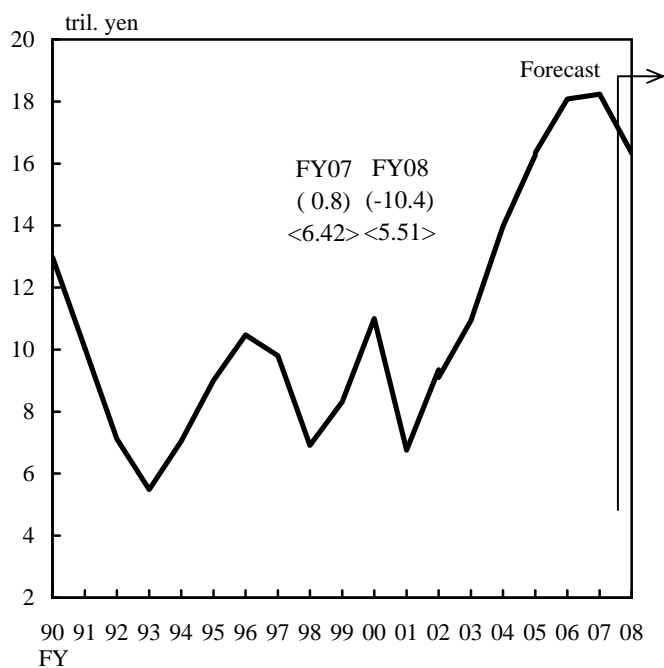
3. Figures for 2008/Q3 are averages of July-August in terms of quarterly amount.

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

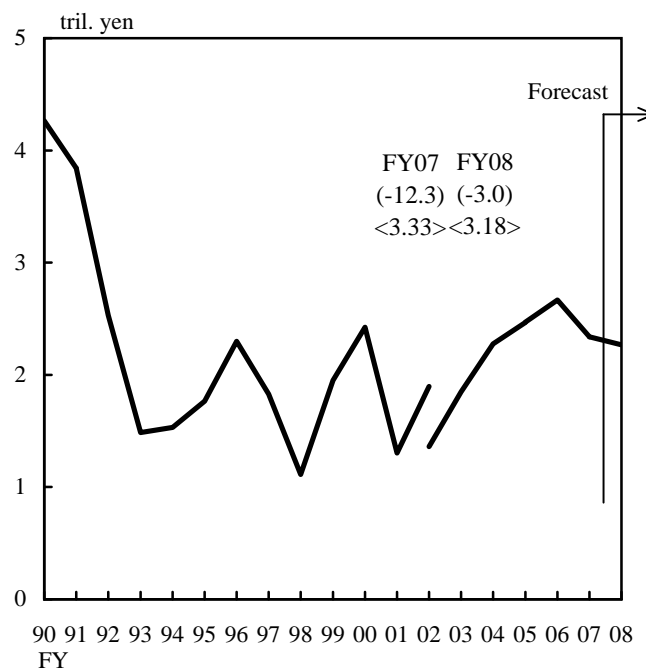
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Current Profits

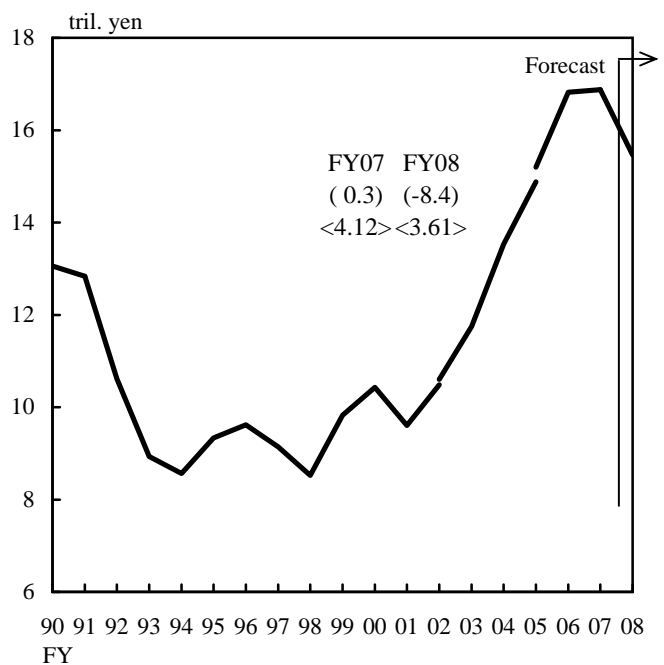
(1) Large Manufacturing Enterprises



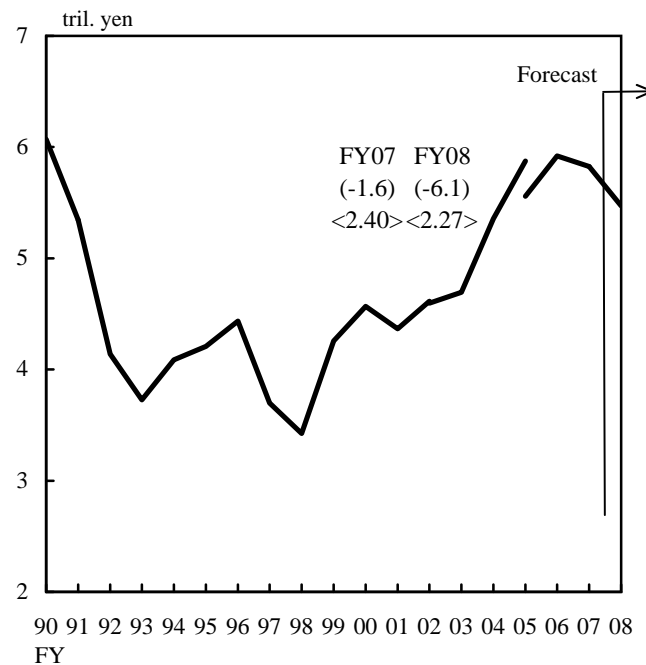
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



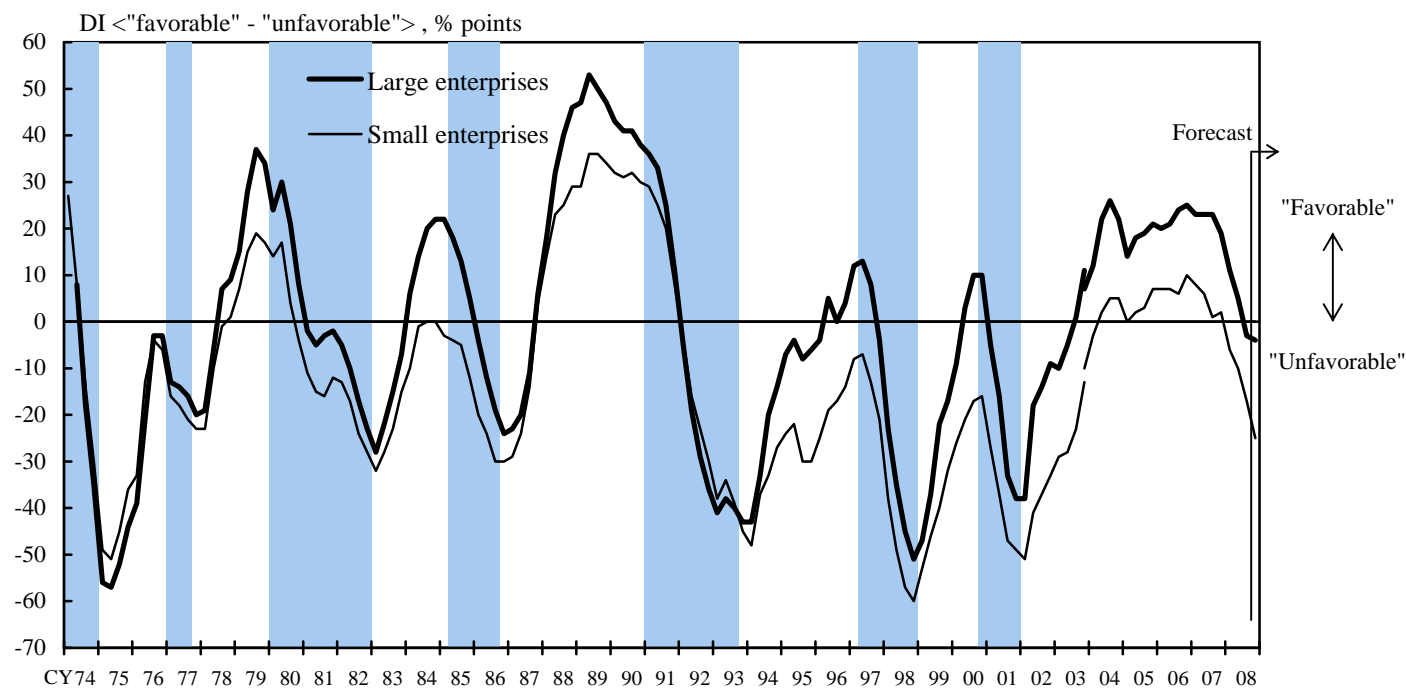
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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.

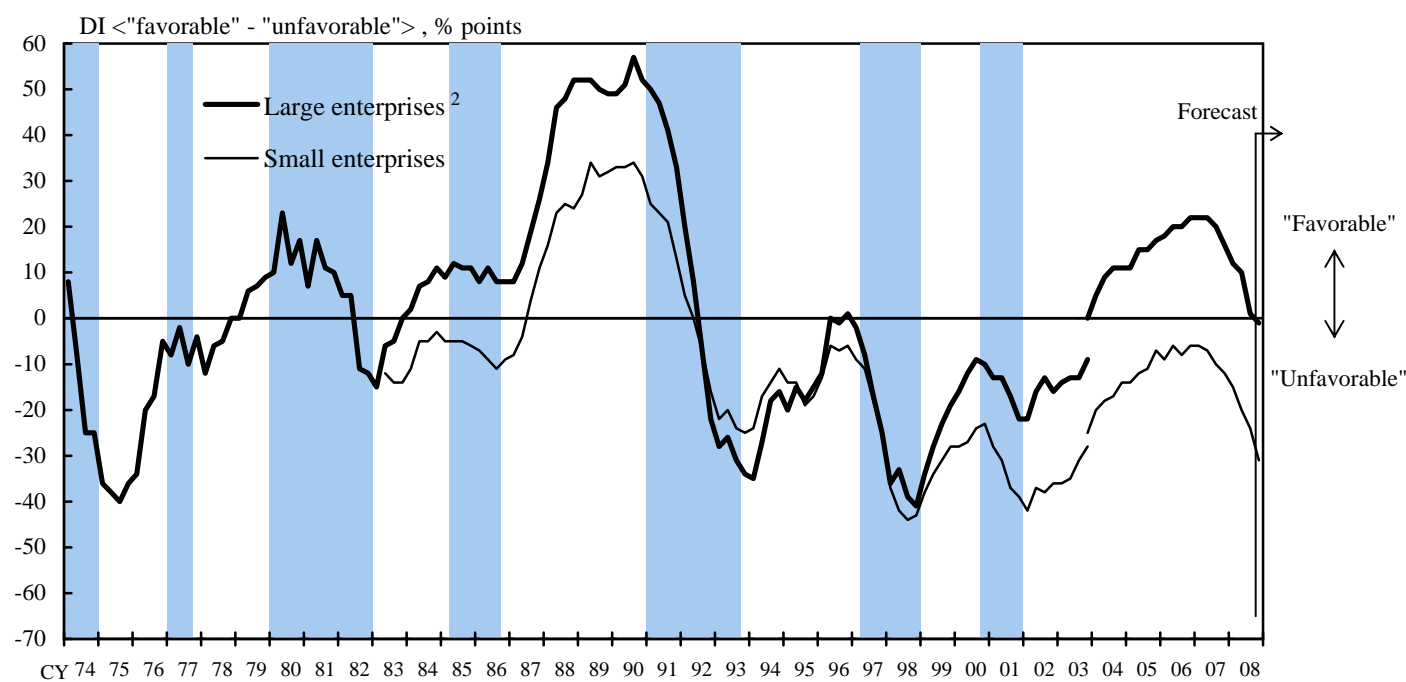
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

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.

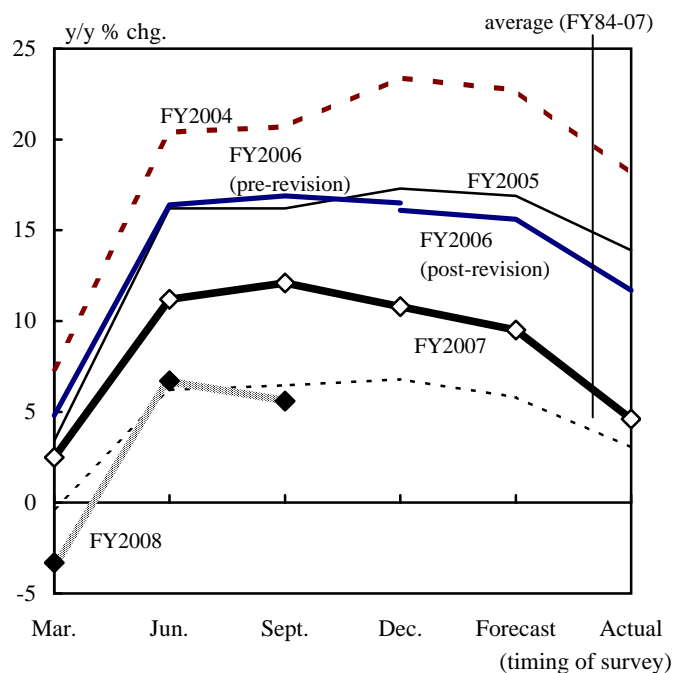
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

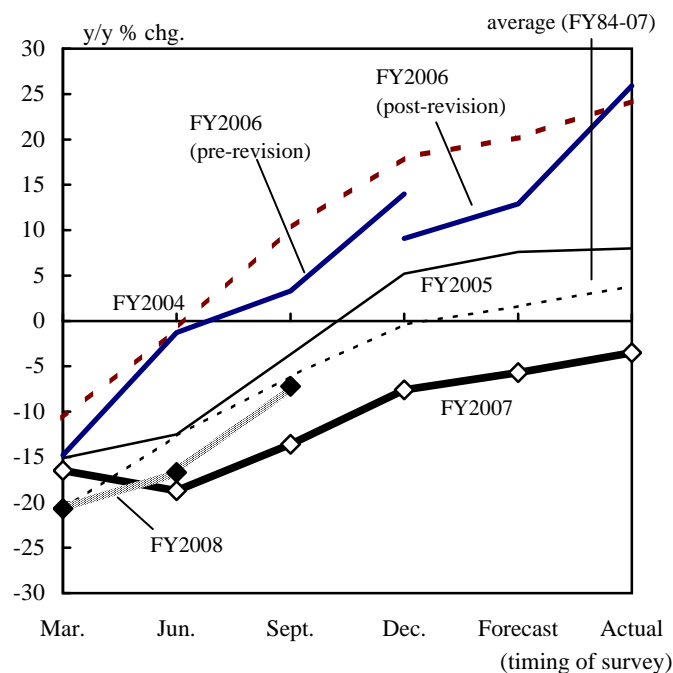
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

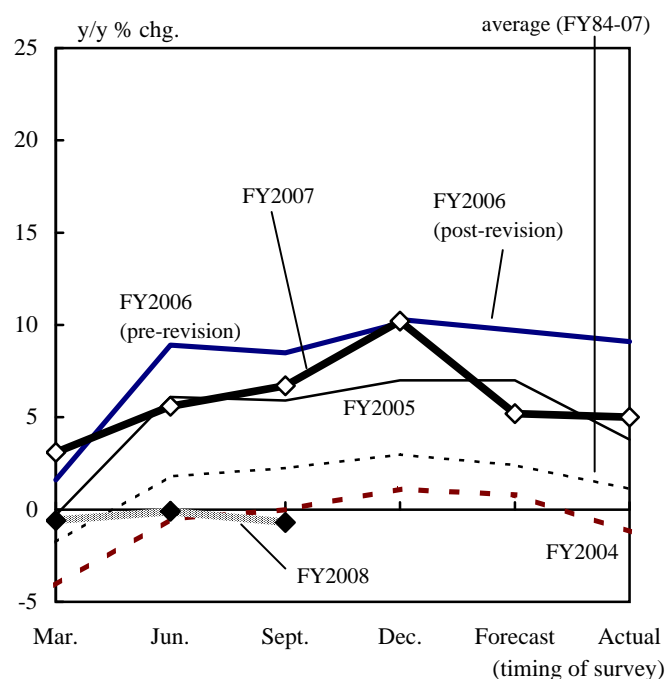
(1) Large Manufacturing Enterprises



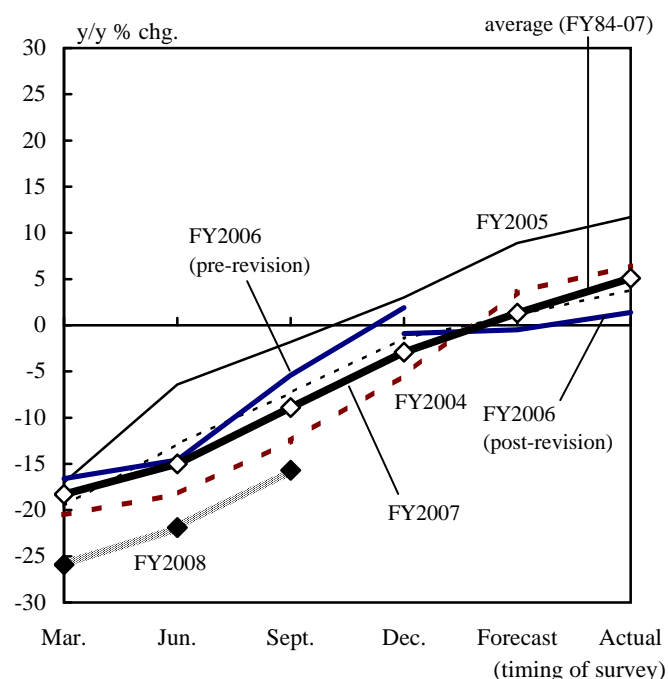
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises

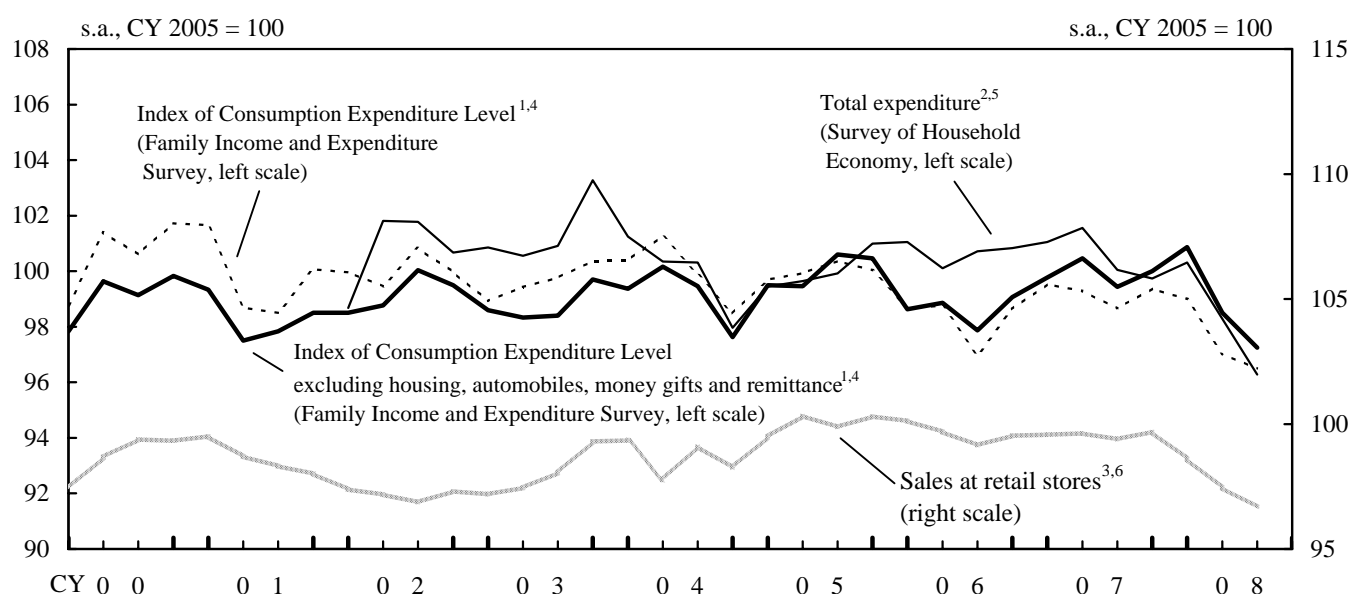


Notes: 1. Includes land purchasing expenses and excludes software investment.
 2. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with this timing.

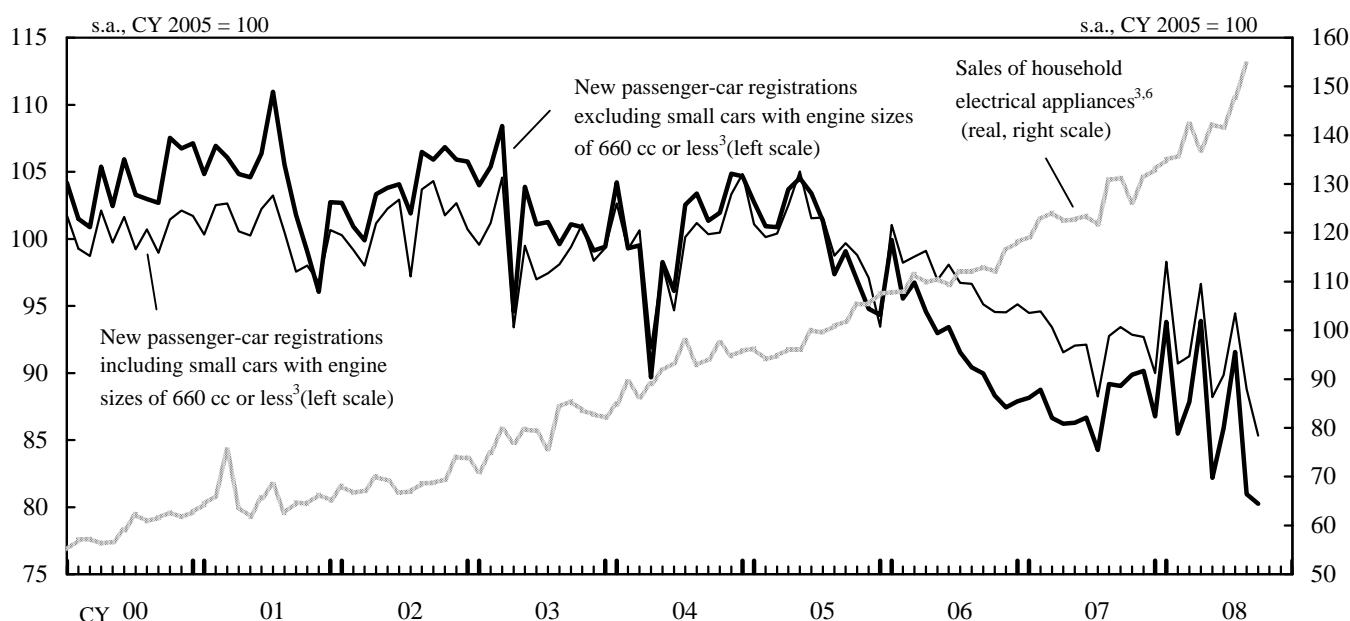
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

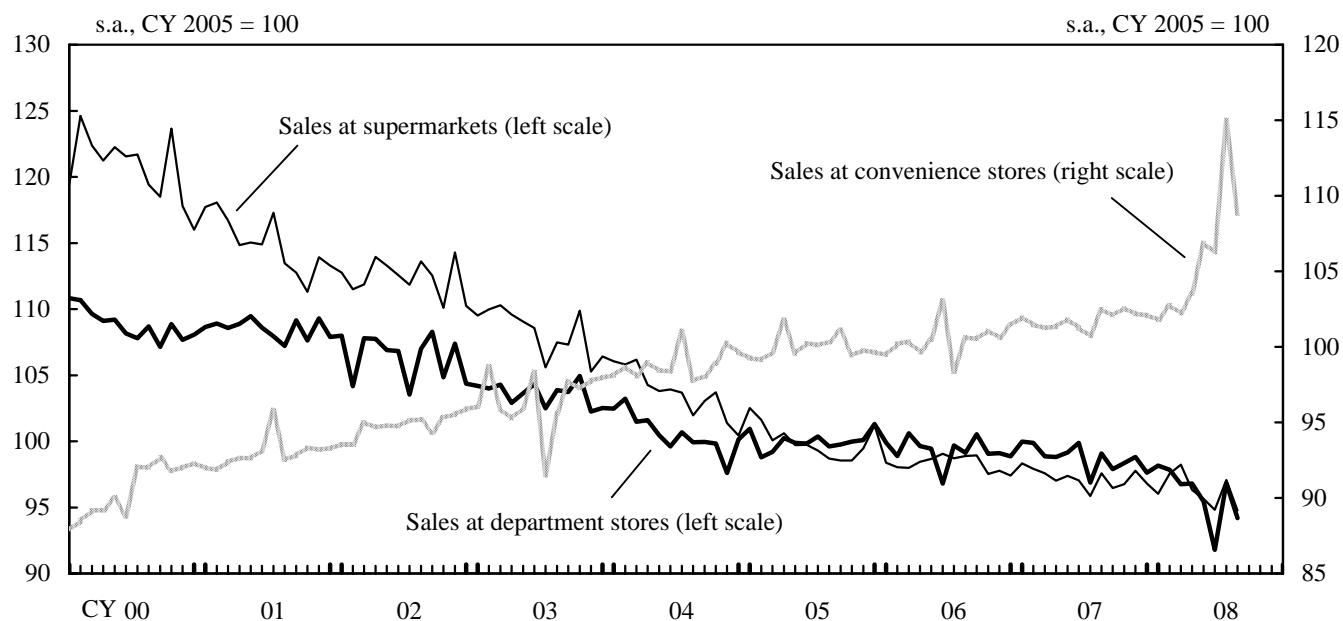


(2) Sales of Durable Goods

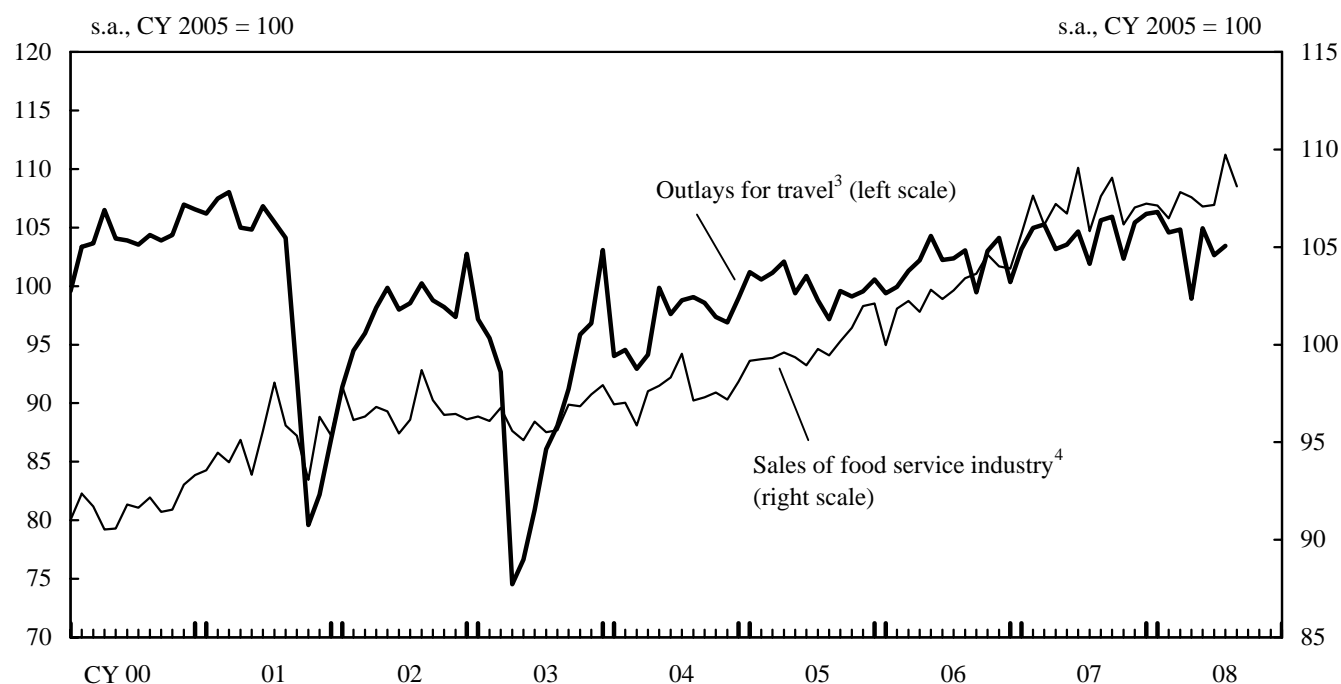


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of consumption expenditure level is based 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/Q3 are those of July-August 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).

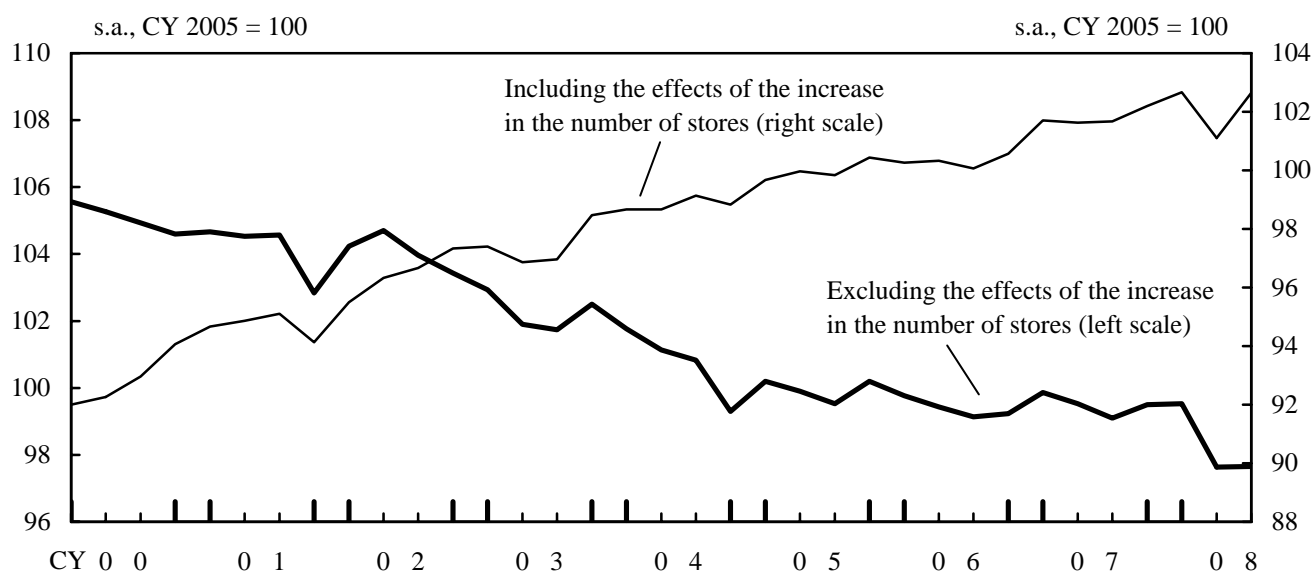
3. As for "outlays for travel," there is a discontinuity in the underlying data as of April 2007 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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)."

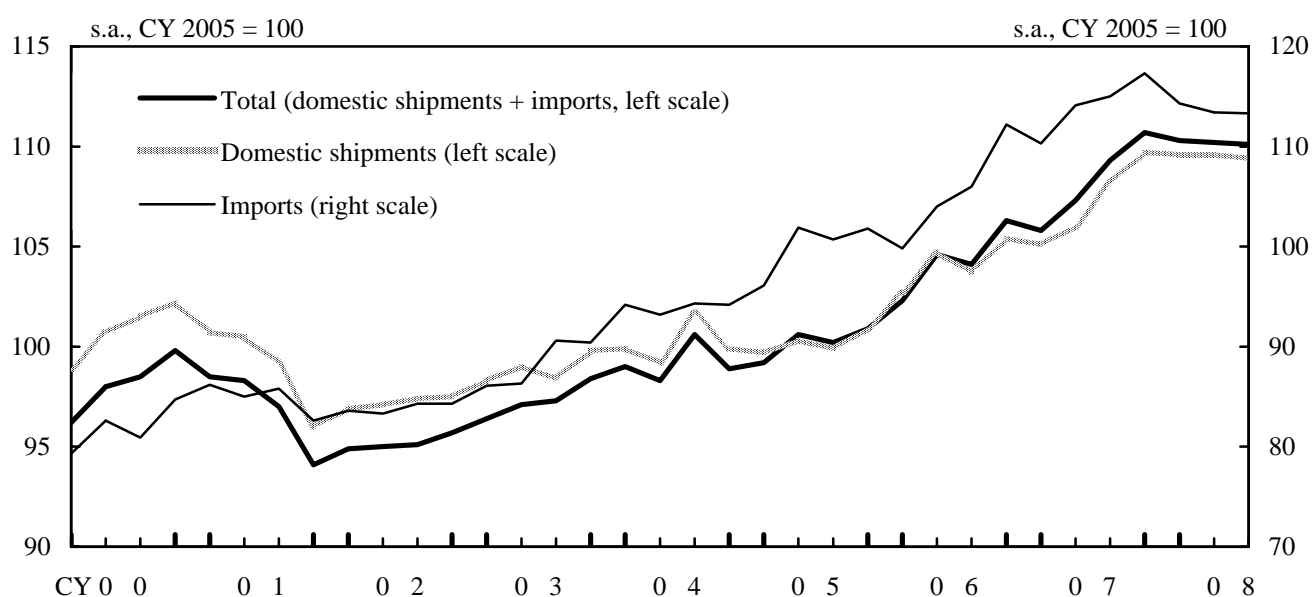
Indicators for Private Consumption (3)

(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/Q3 figures are those of July-August averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

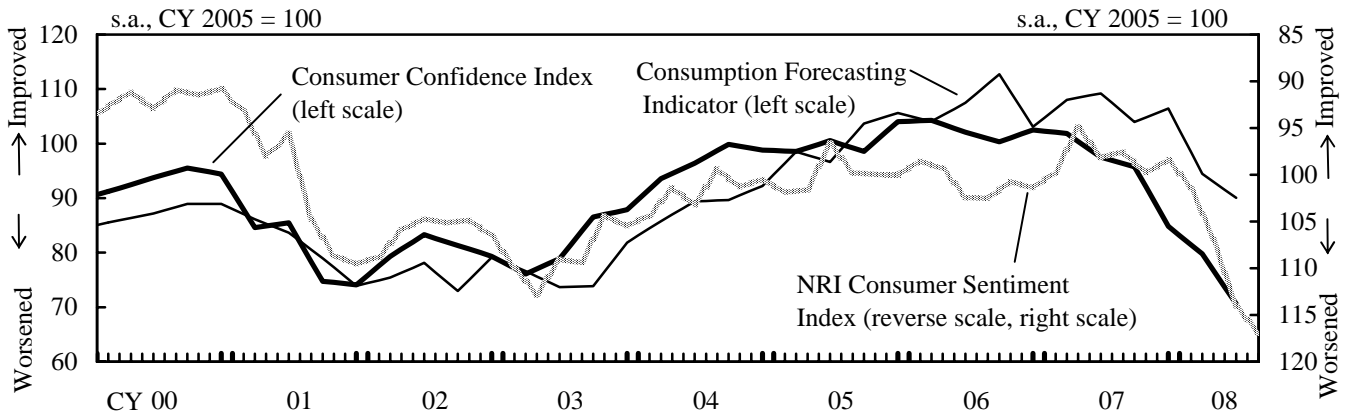


Note: Data for 2008/Q3 figures are those of July-August averages in terms of quarterly amount.

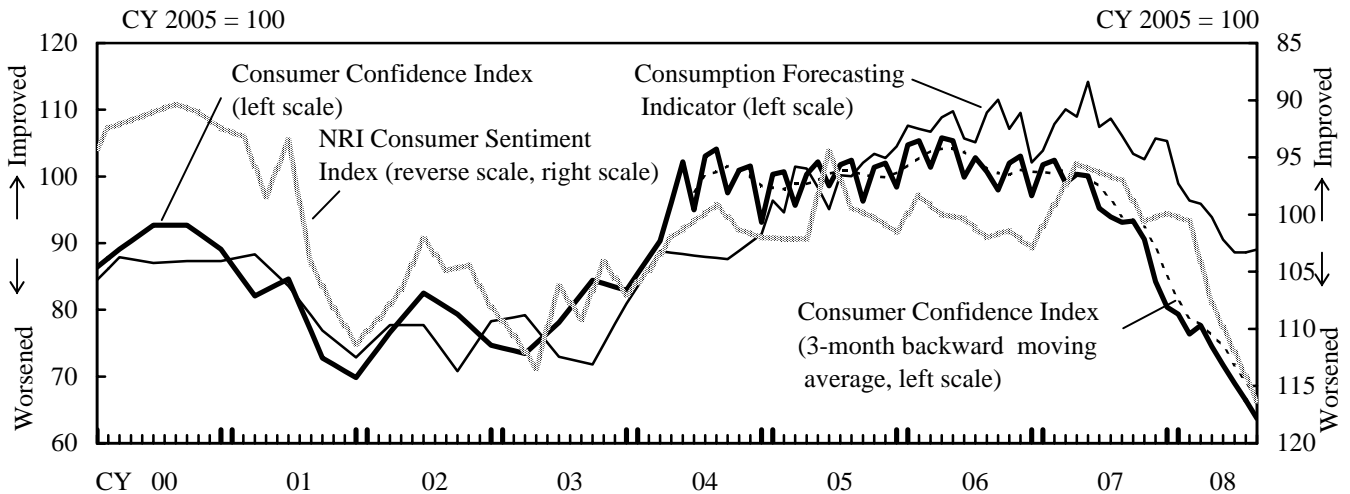
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

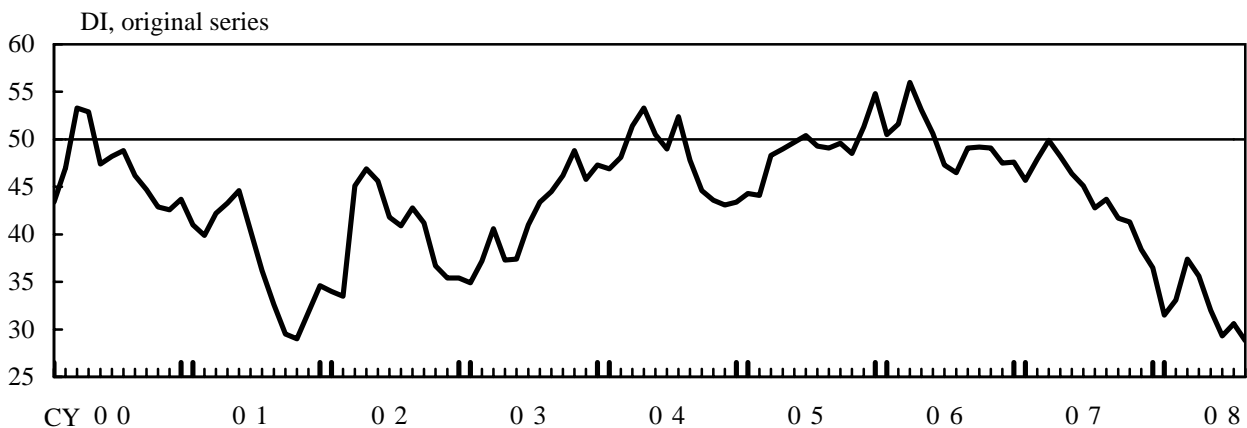
(1) Seasonally Adjusted Series



(2) Original Series



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

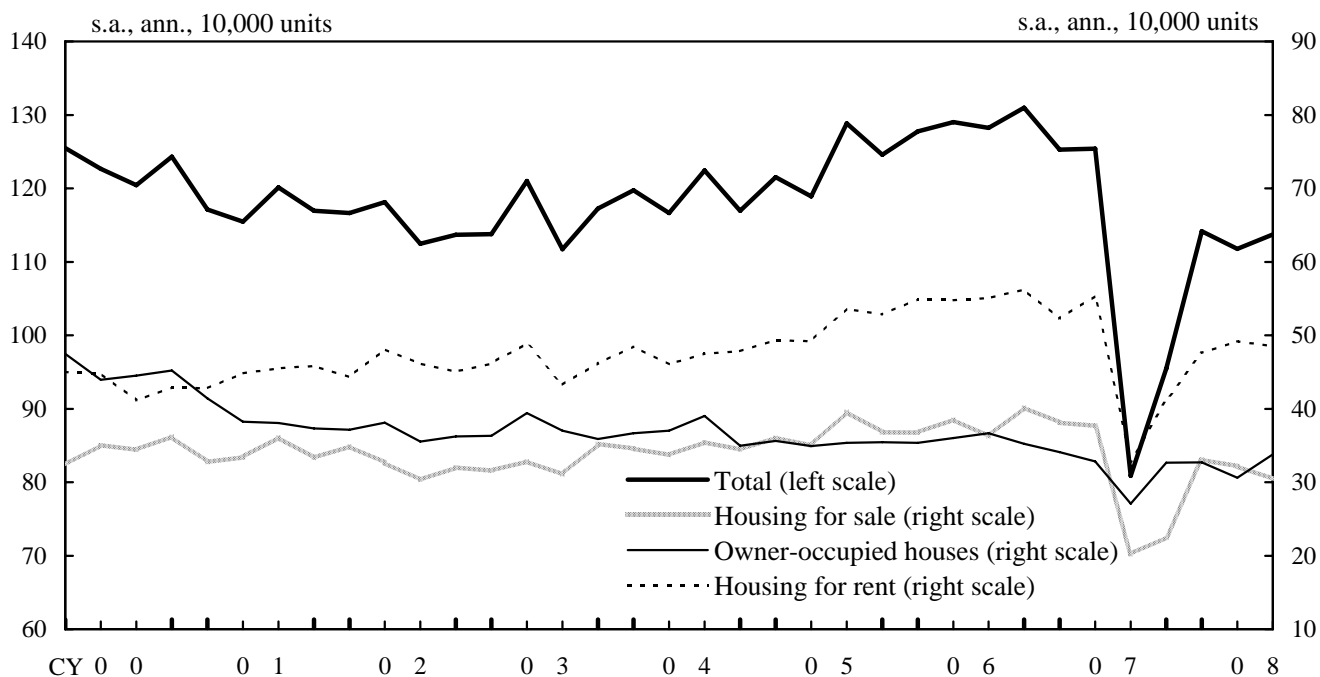


- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
- 2. Figures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

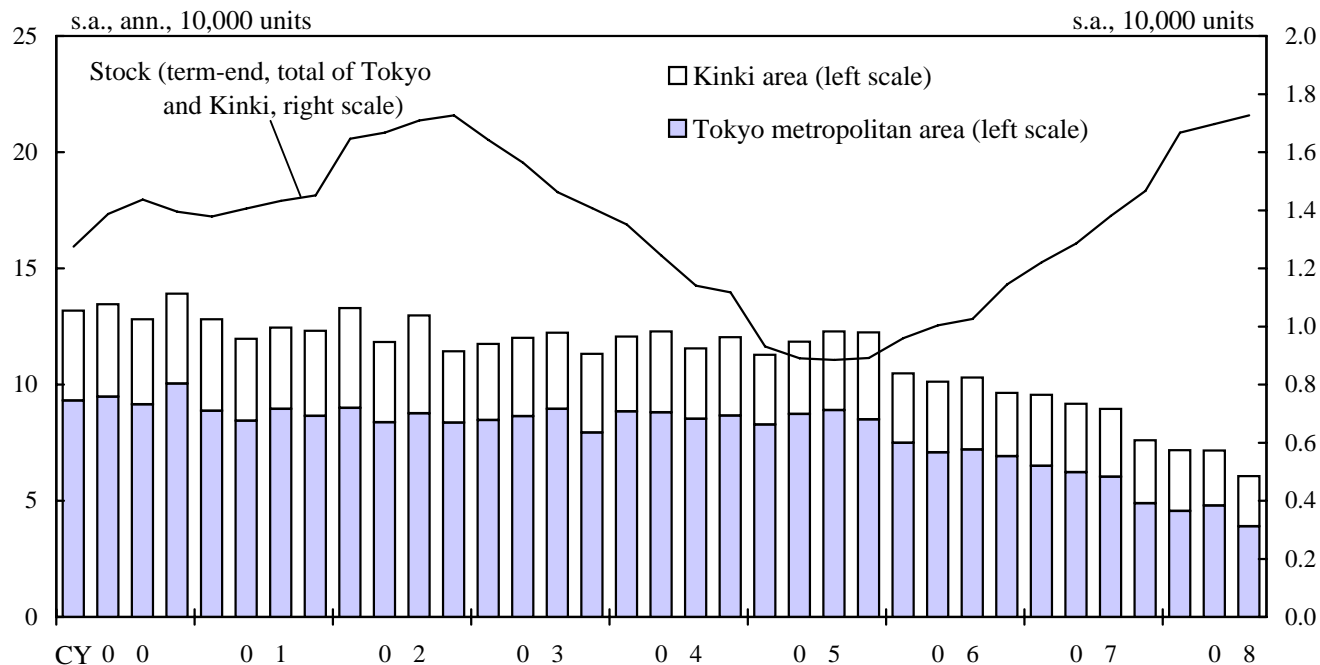
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2008/Q3 are those of July-August averages.

(2) Sales of Apartments



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

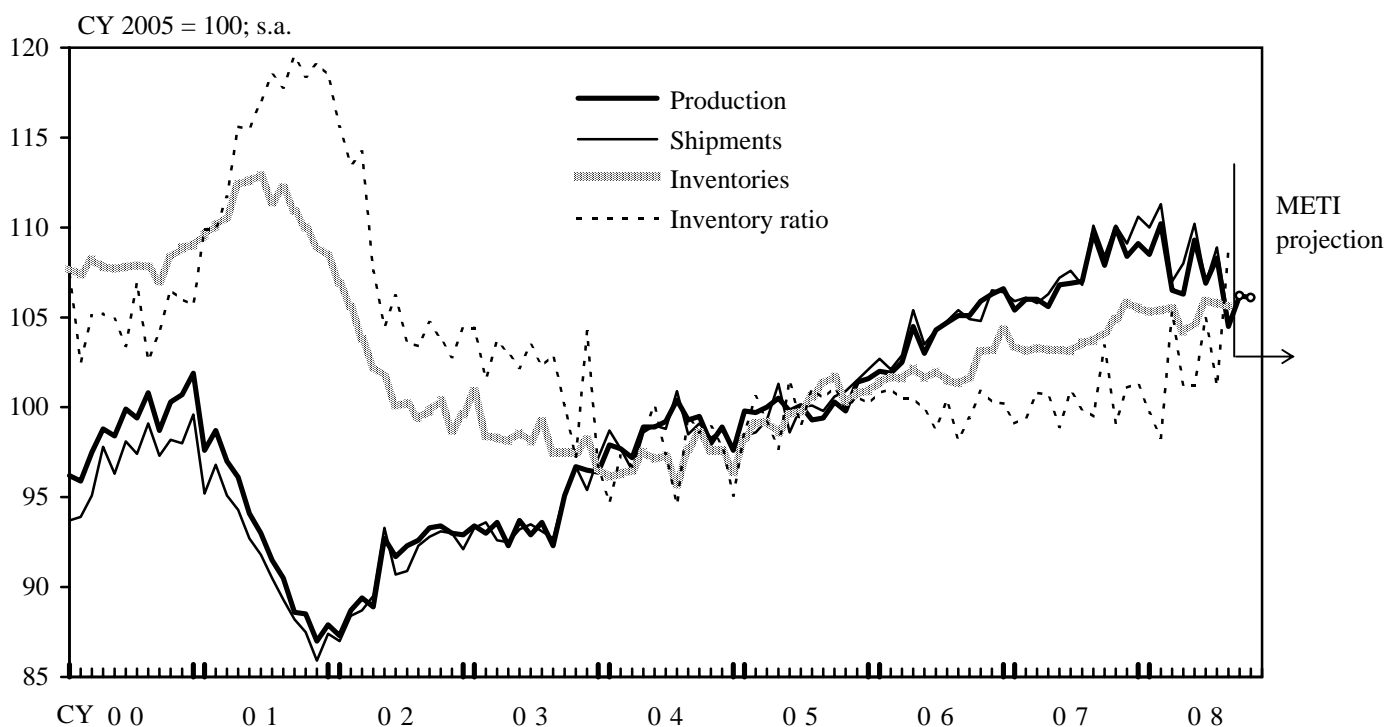
2. Figures of total apartments sales for 2008/Q3 are those of July-August averages.

Term-end stocks for 2008/Q3 are those of August.

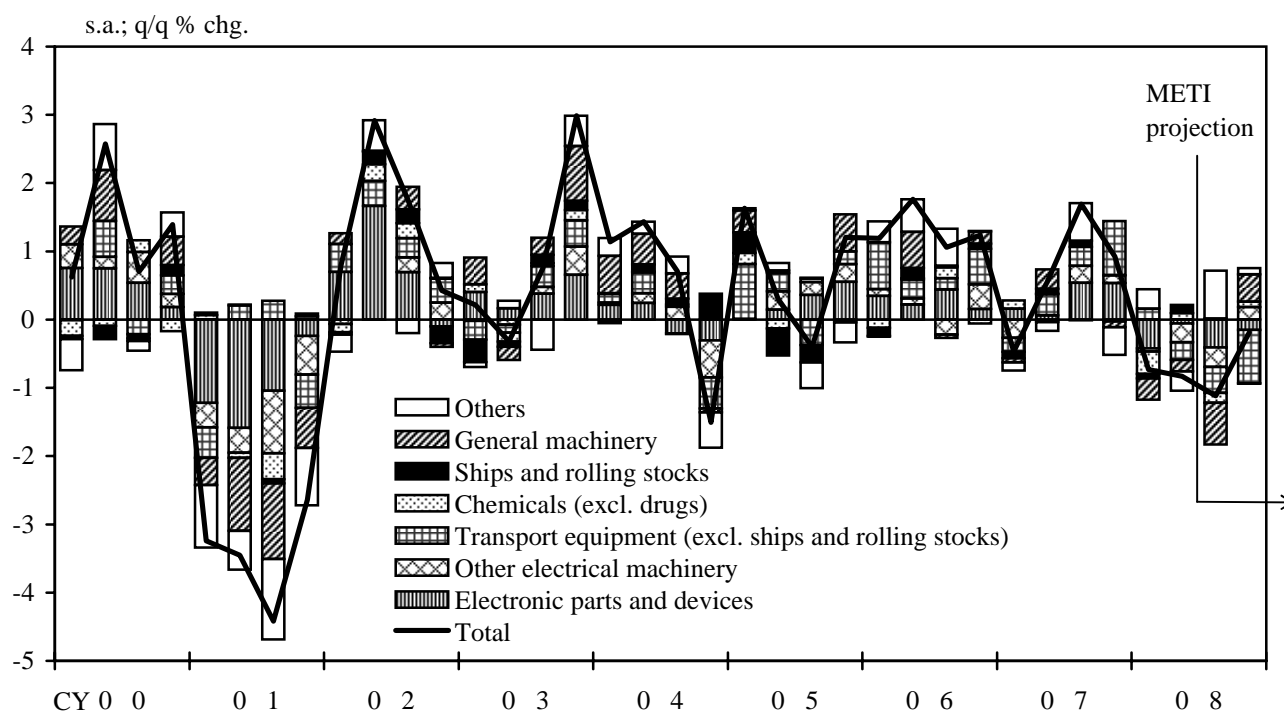
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

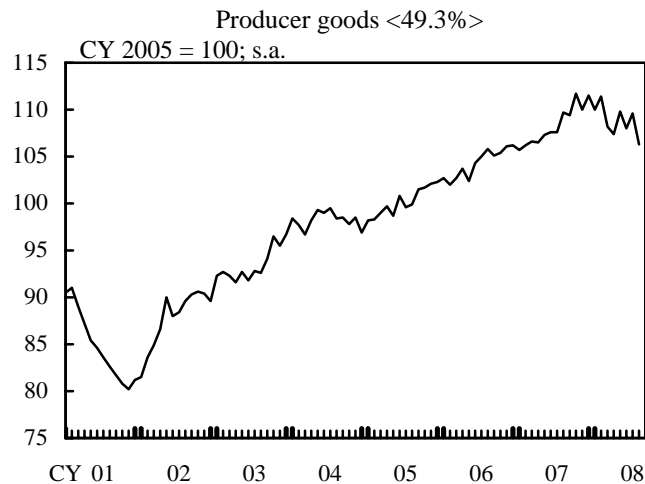
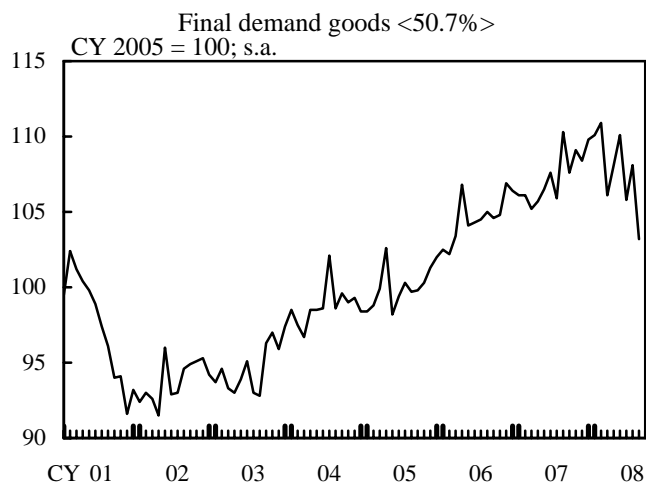


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. Figures up to 2003/Q1 are on the 2000 base.
 3. 2008/Q3 figures are based on the actual levels in July and August, and the METI projection level in September. 2008/Q4 figures are based on the assumption that each production level in November and December is the same as that of October.

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

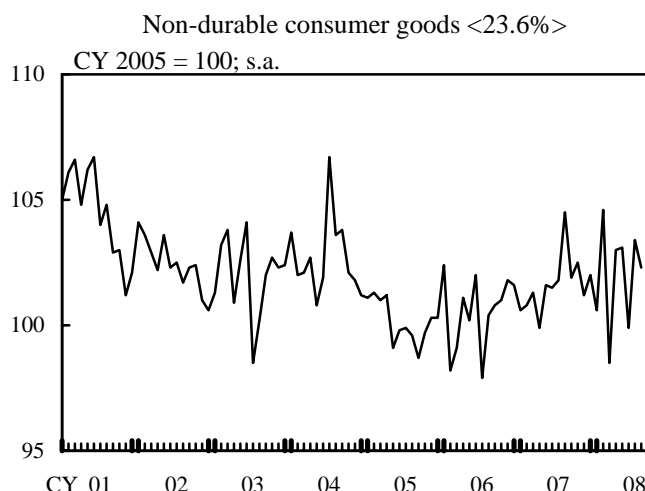
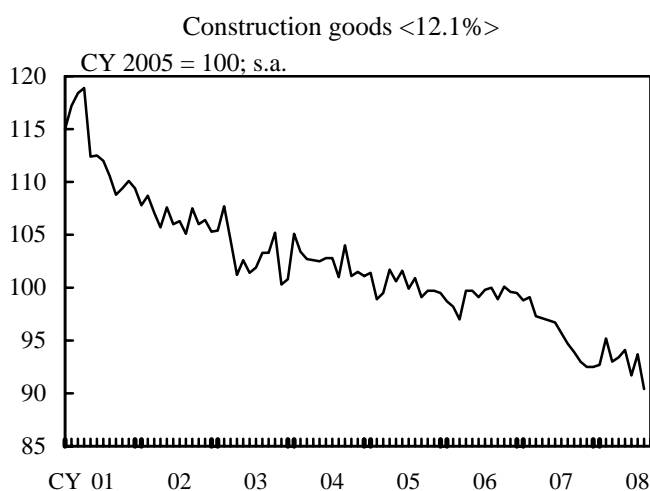
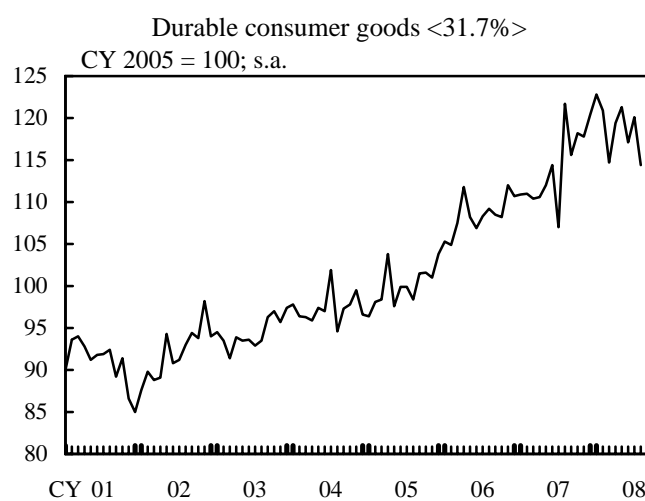
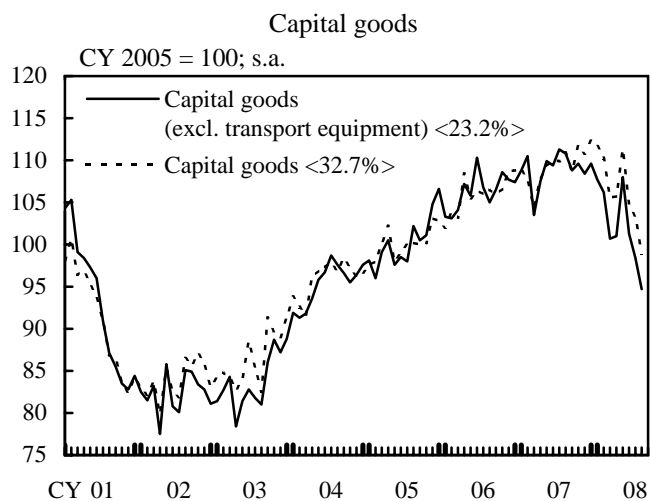
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

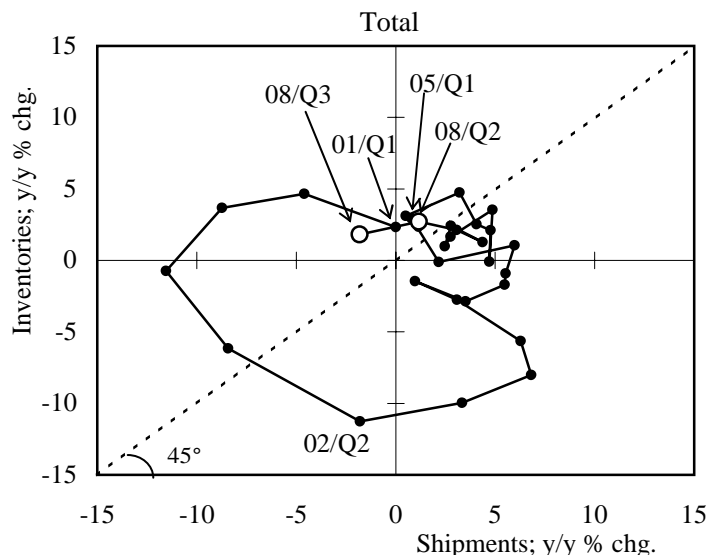
(2) Breakdown of Final Demand Goods



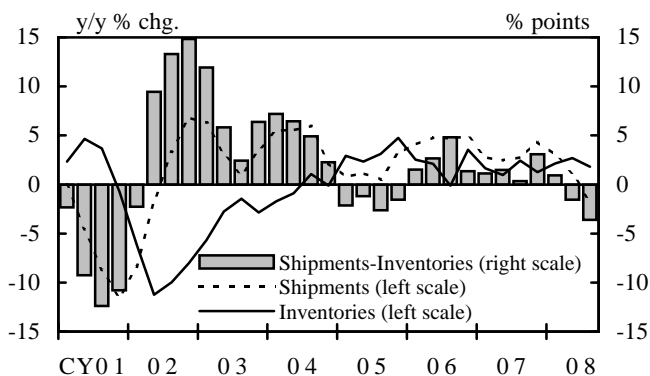
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

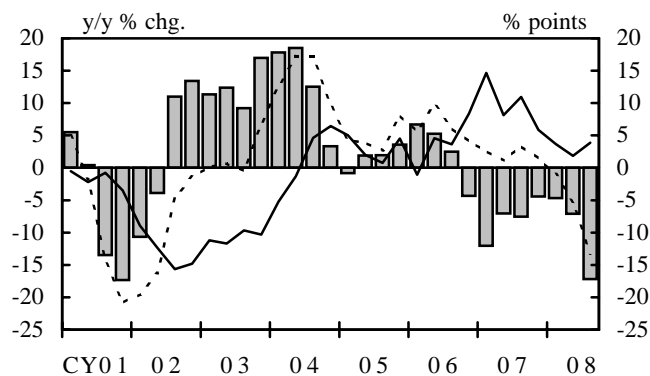
Inventory Cycle



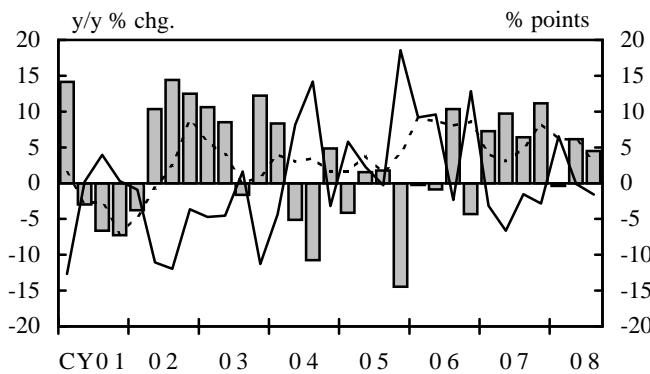
(1) Total



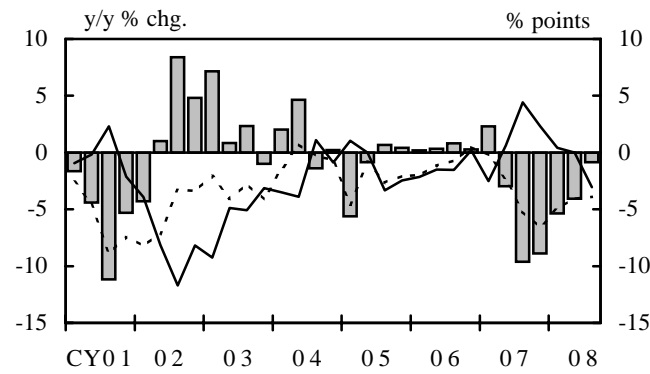
(2) Capital Goods (Excluding Transport Equipment)



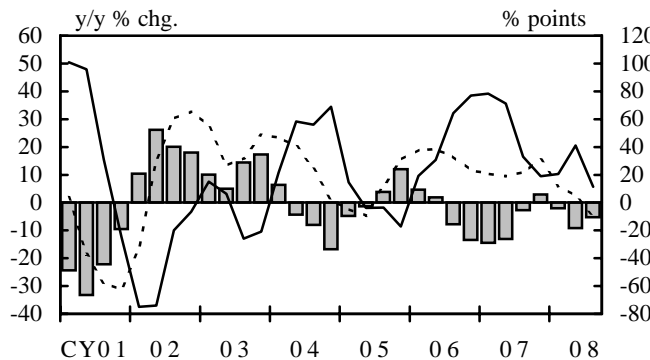
(3) Durable Consumer Goods



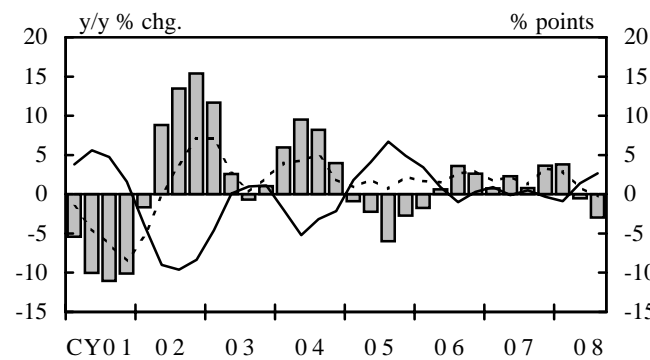
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices

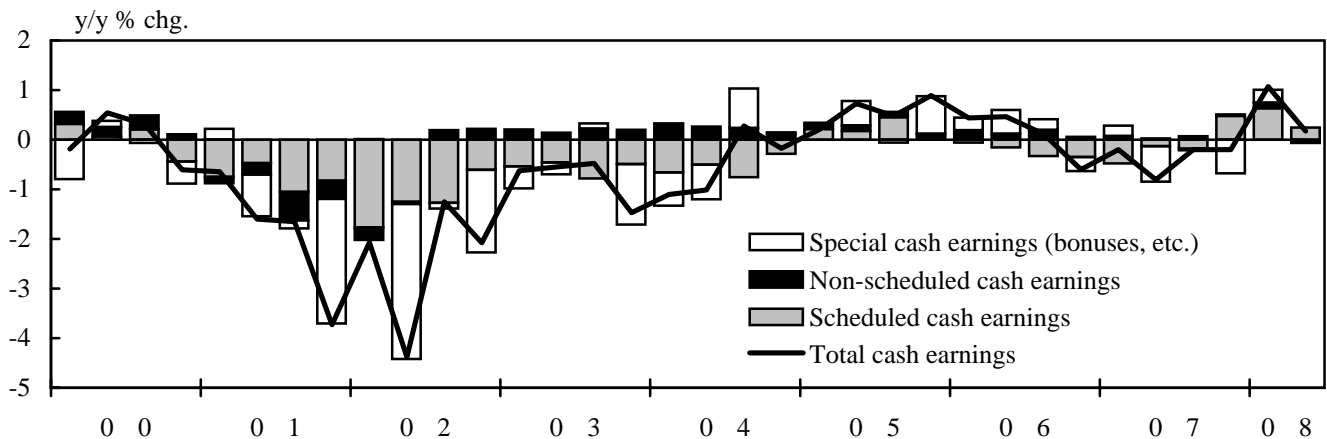


Note: Figures of Shipments for 2008/Q3 are those of July-August averages.
Inventories for 2008/Q3 are those of August.

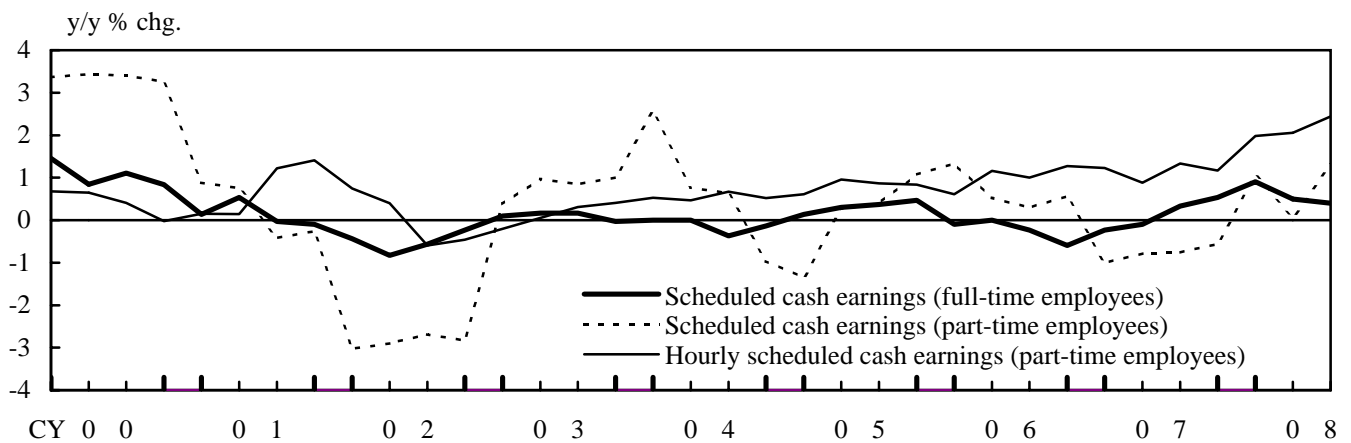
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

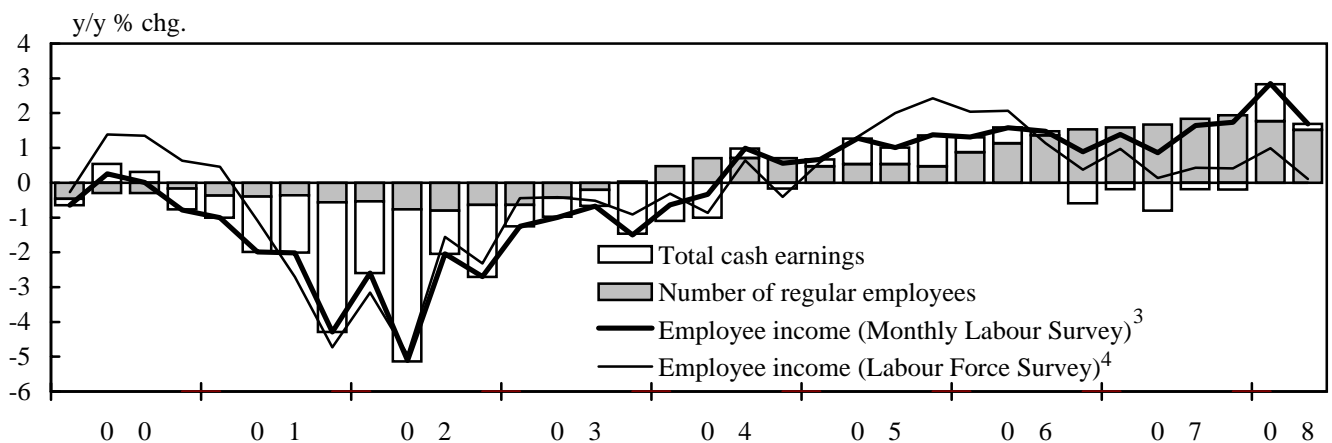
(1) Breakdown of Total Cash Earnings^{1,2}



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



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

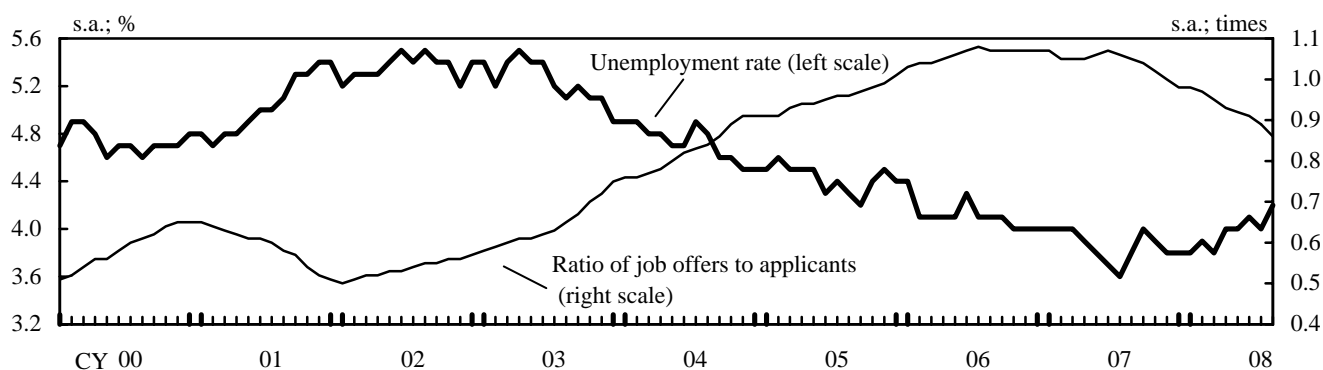
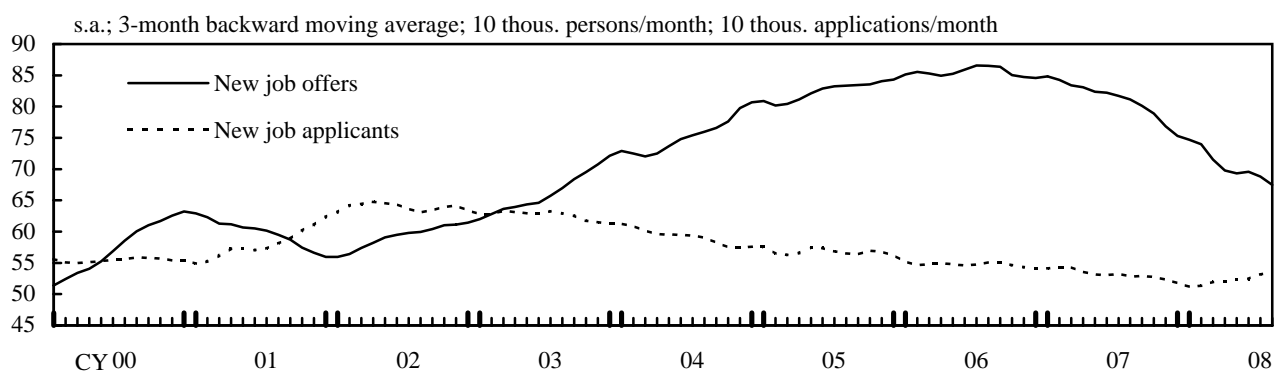
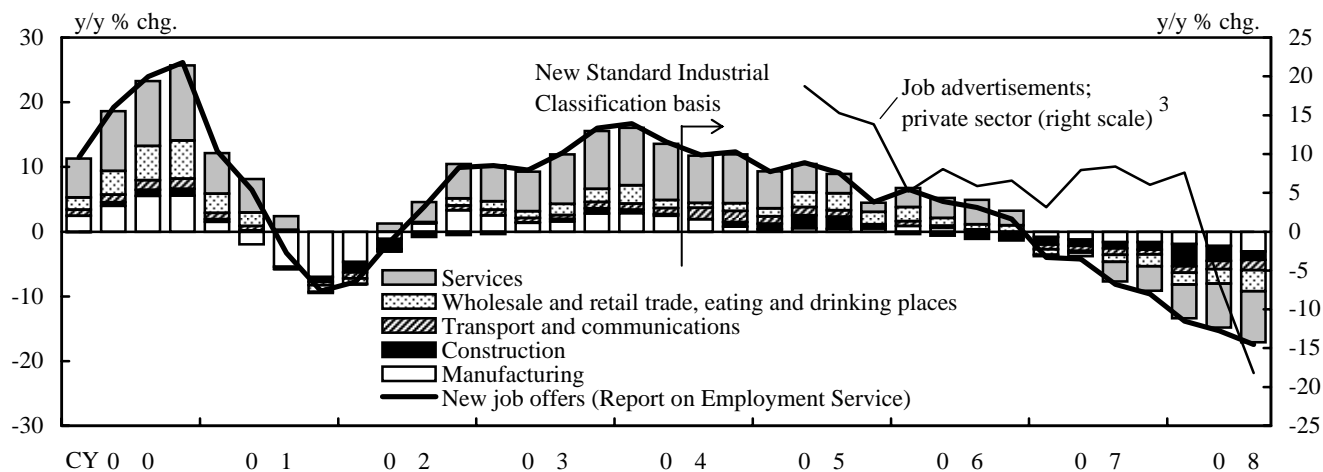


- Notes: 1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).
 4. Calculated as the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

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

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

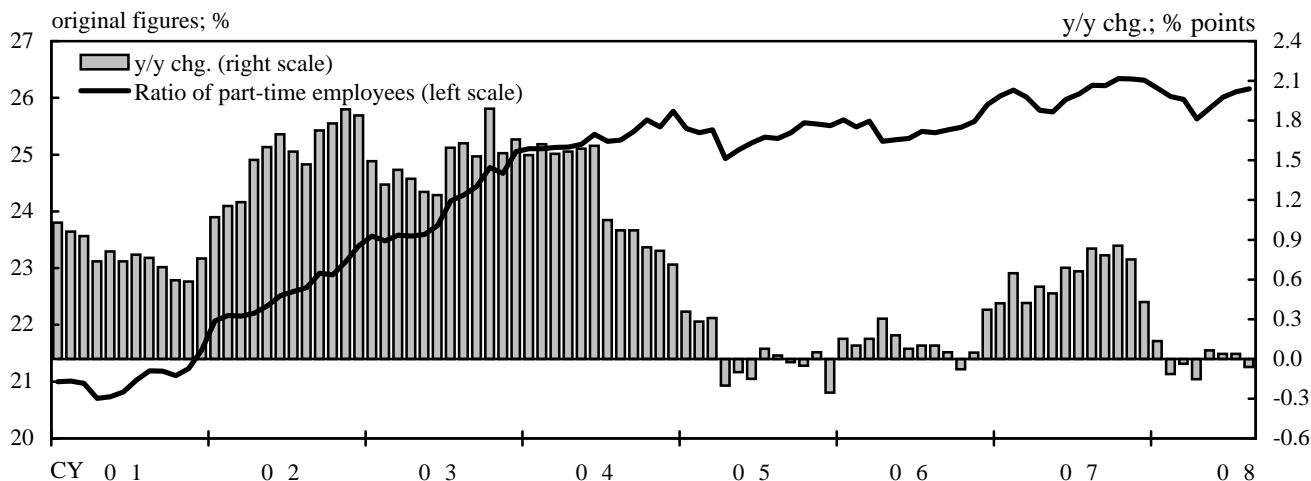
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

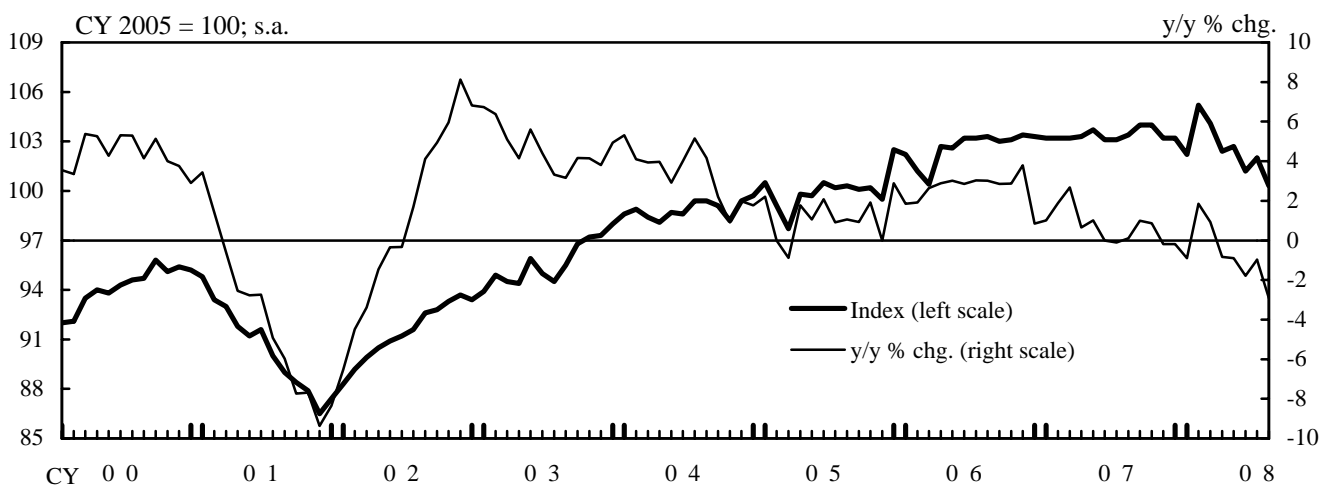
(1) Number of Employees³



(2) Ratio of Part-Time Employees^{1,2}



(3) Non Scheduled Hours Worked¹



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

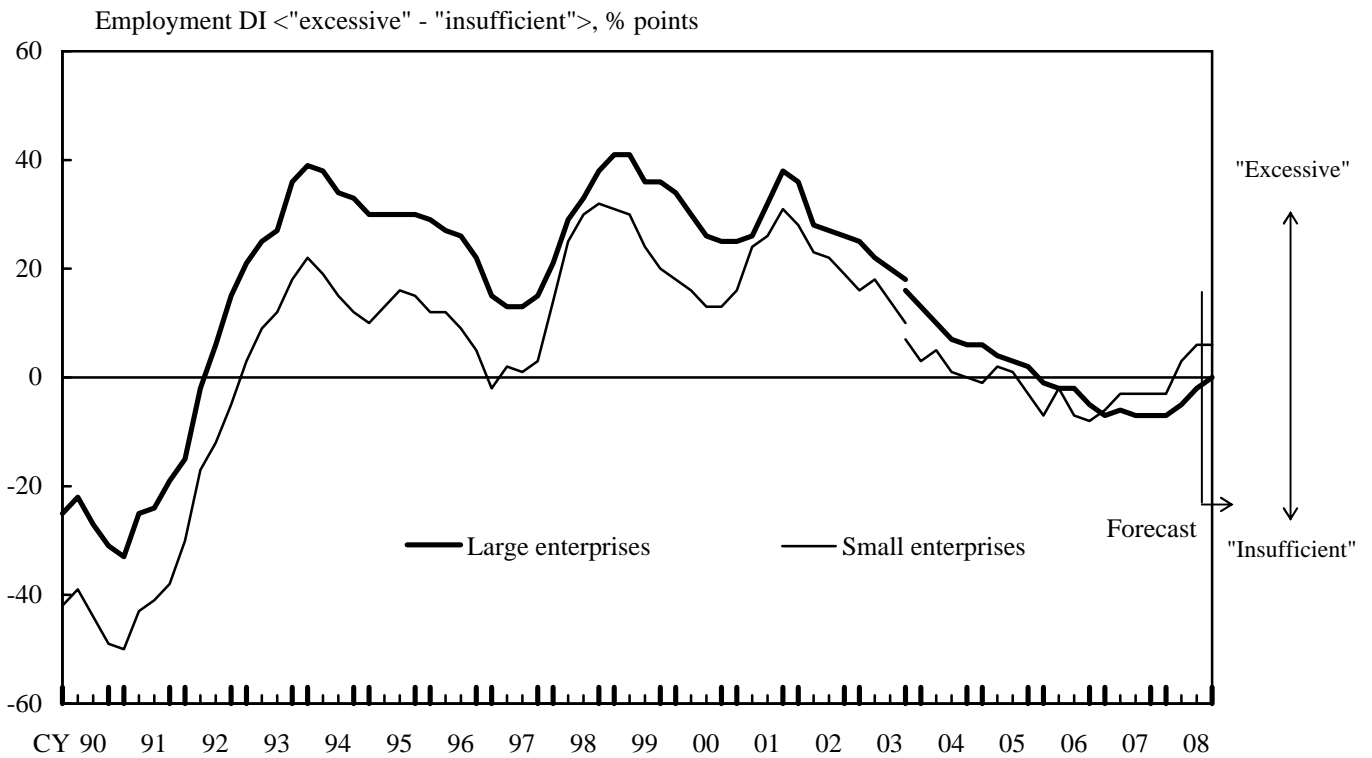
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2008/Q3 are those of July-August averages.

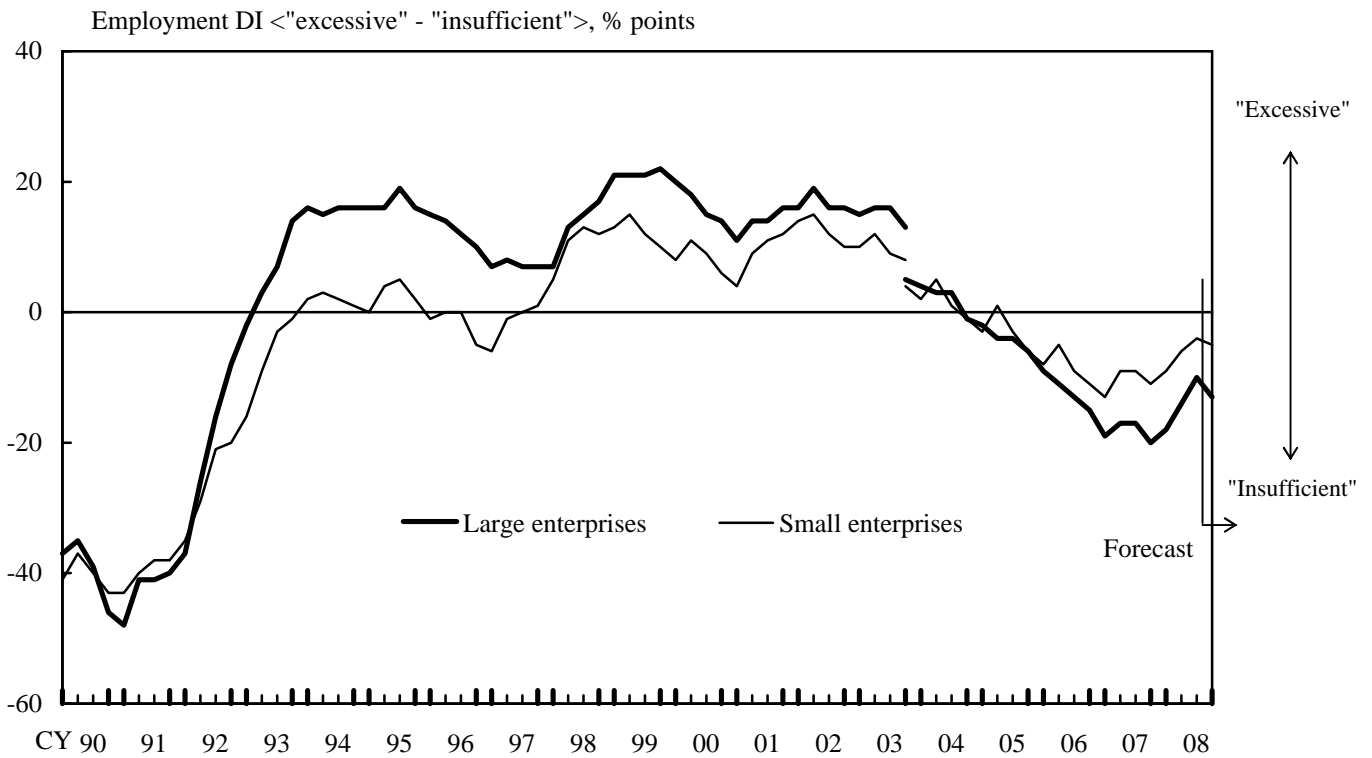
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

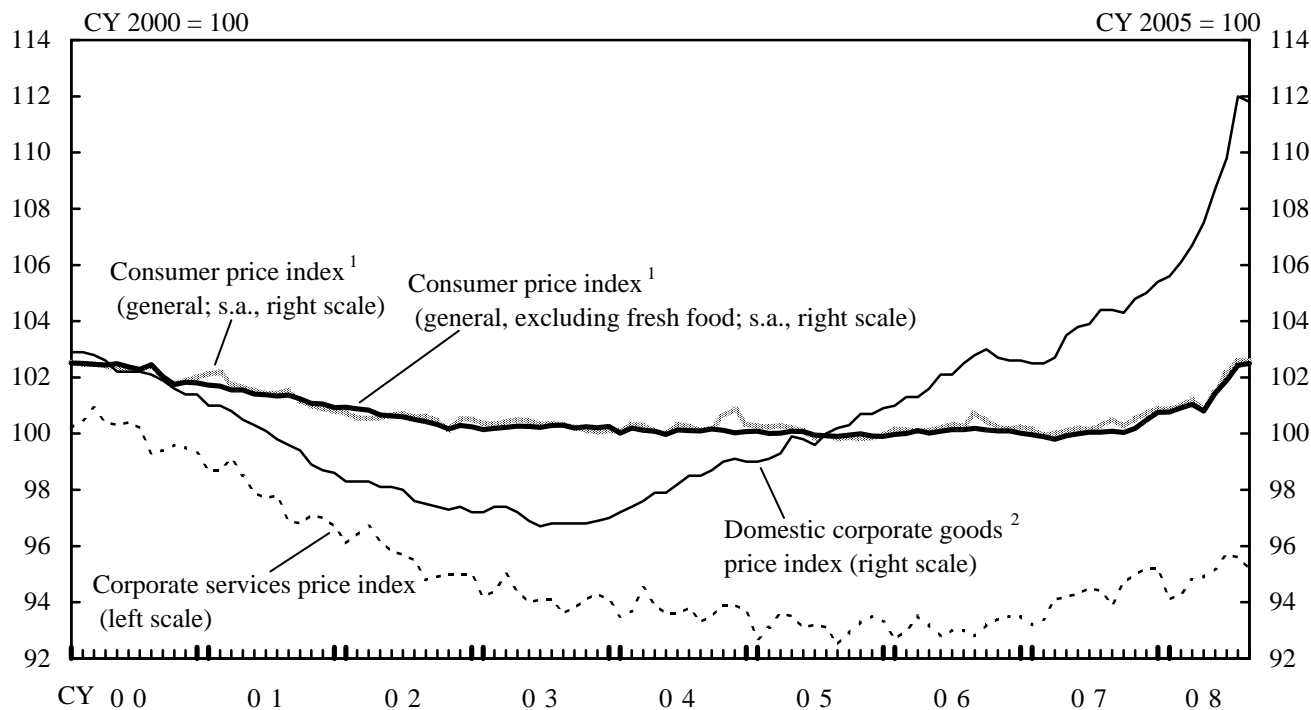
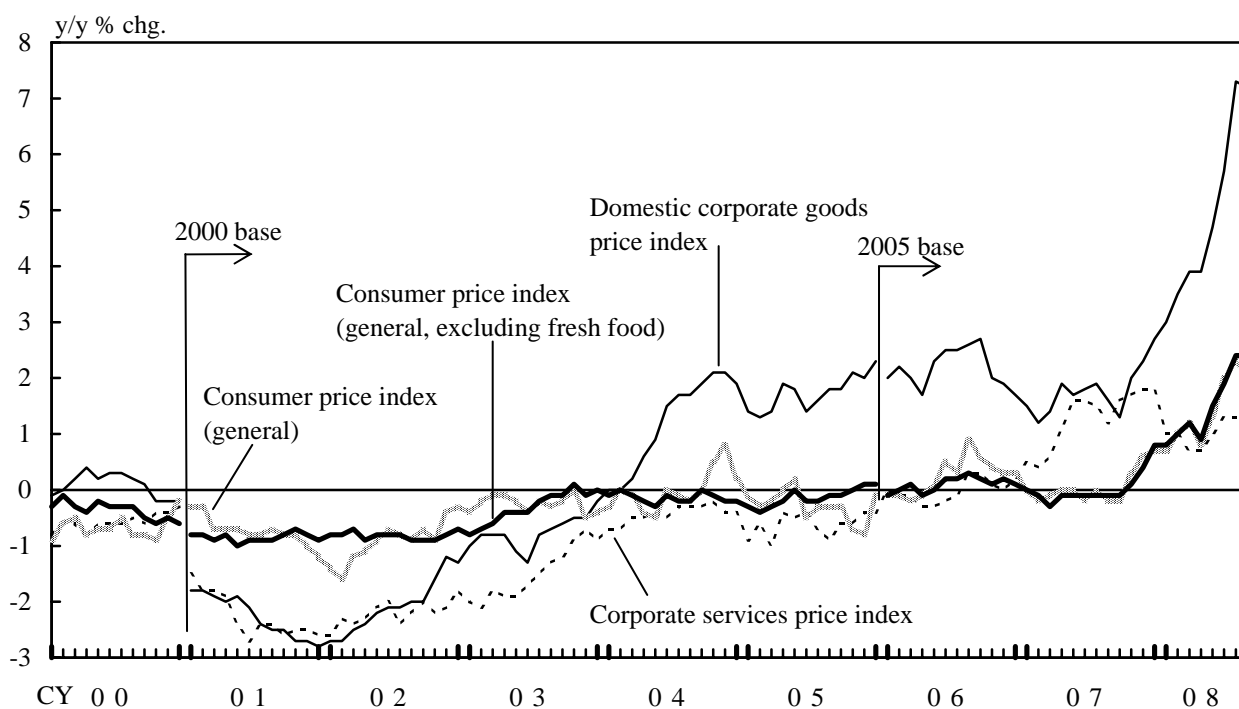


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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.

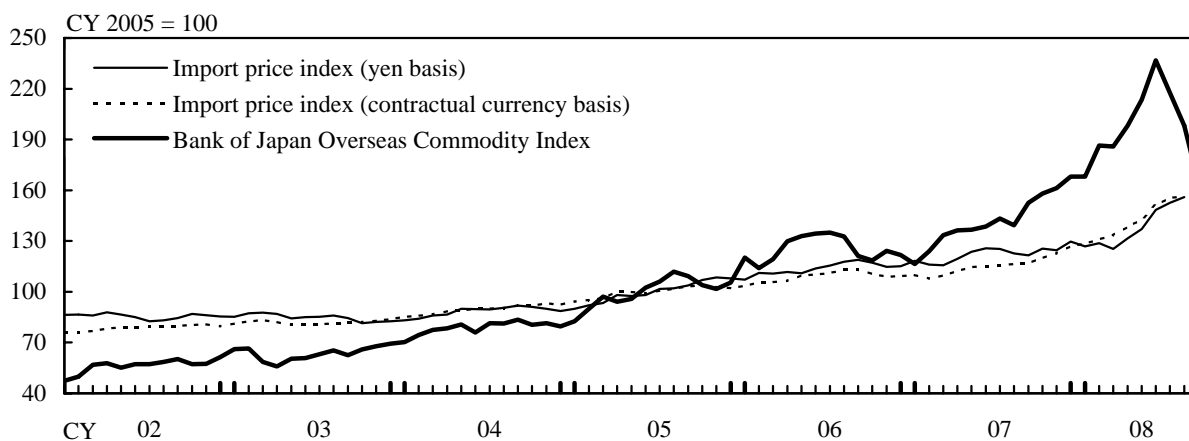
3. Figures up to CY 2000 are on the 1995 base. From CY 2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

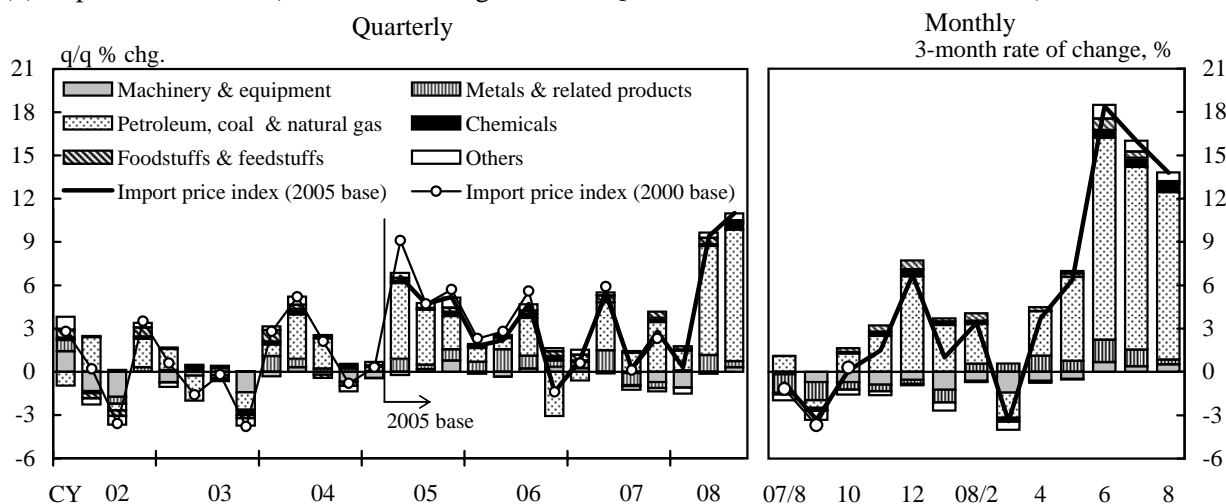
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



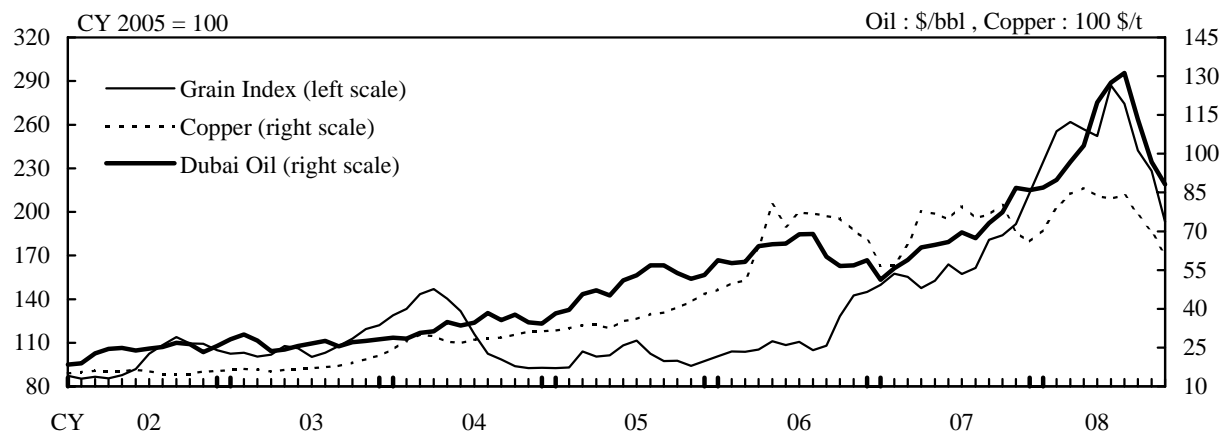
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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 July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices

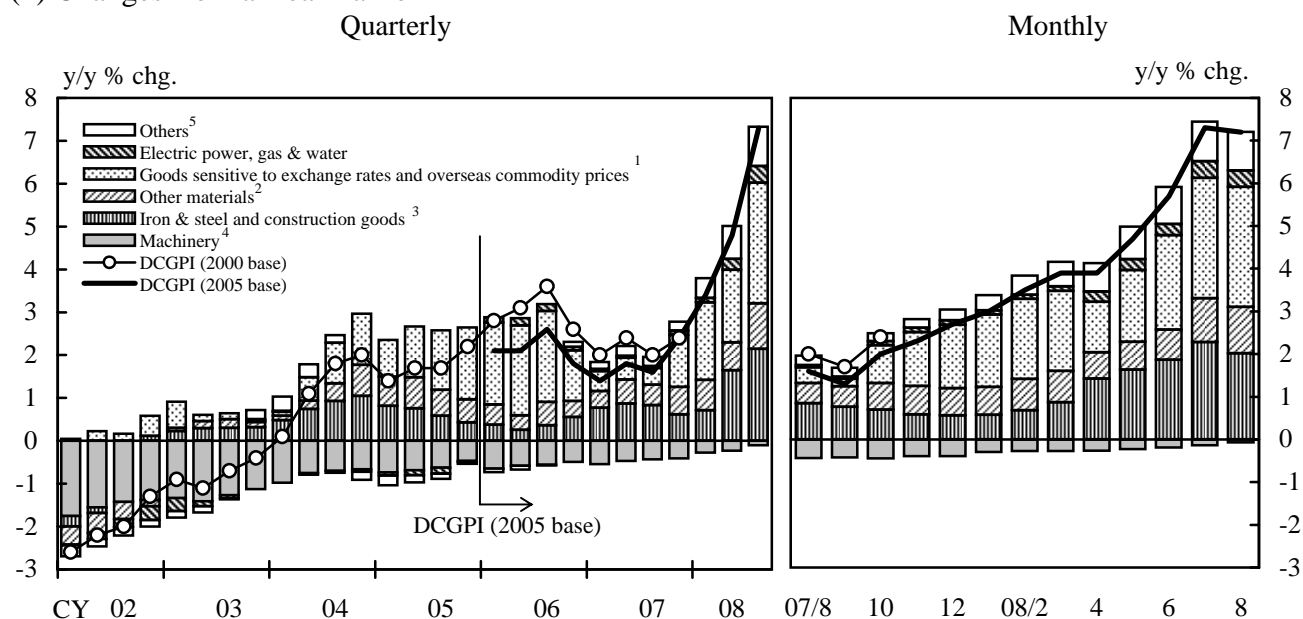
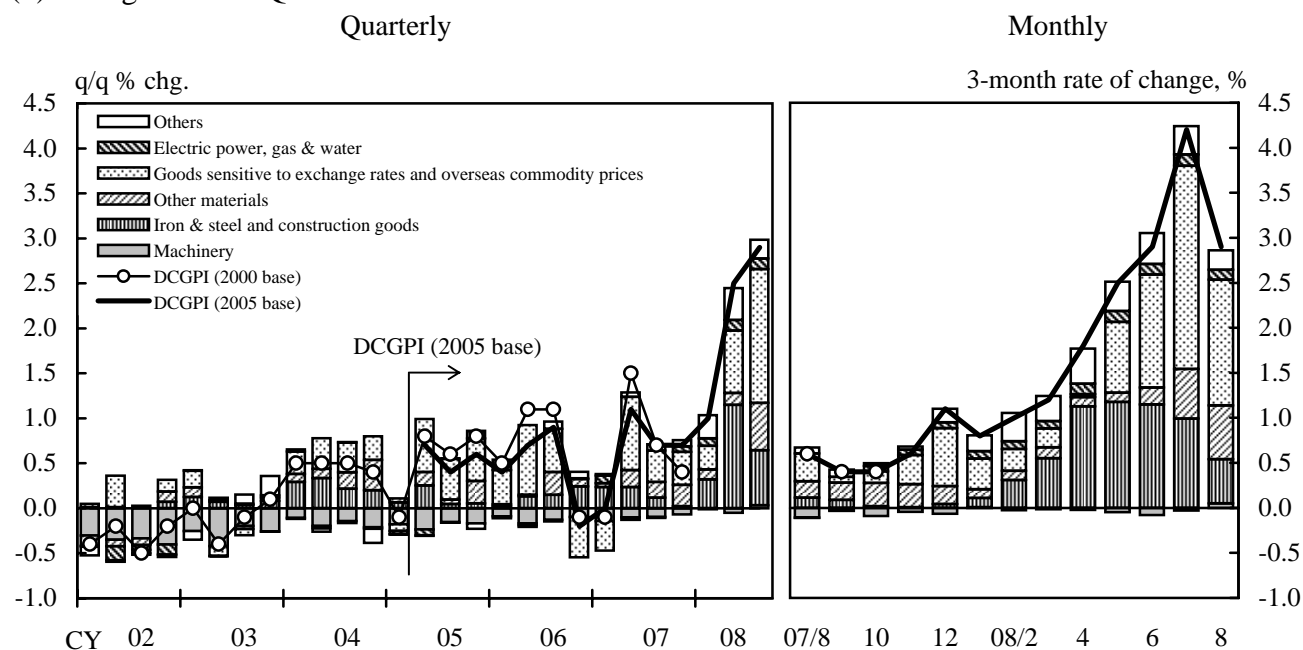


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for October 2008 are the averages up to October 6.

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

Domestic Corporate Goods Price Index⁷

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

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

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

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

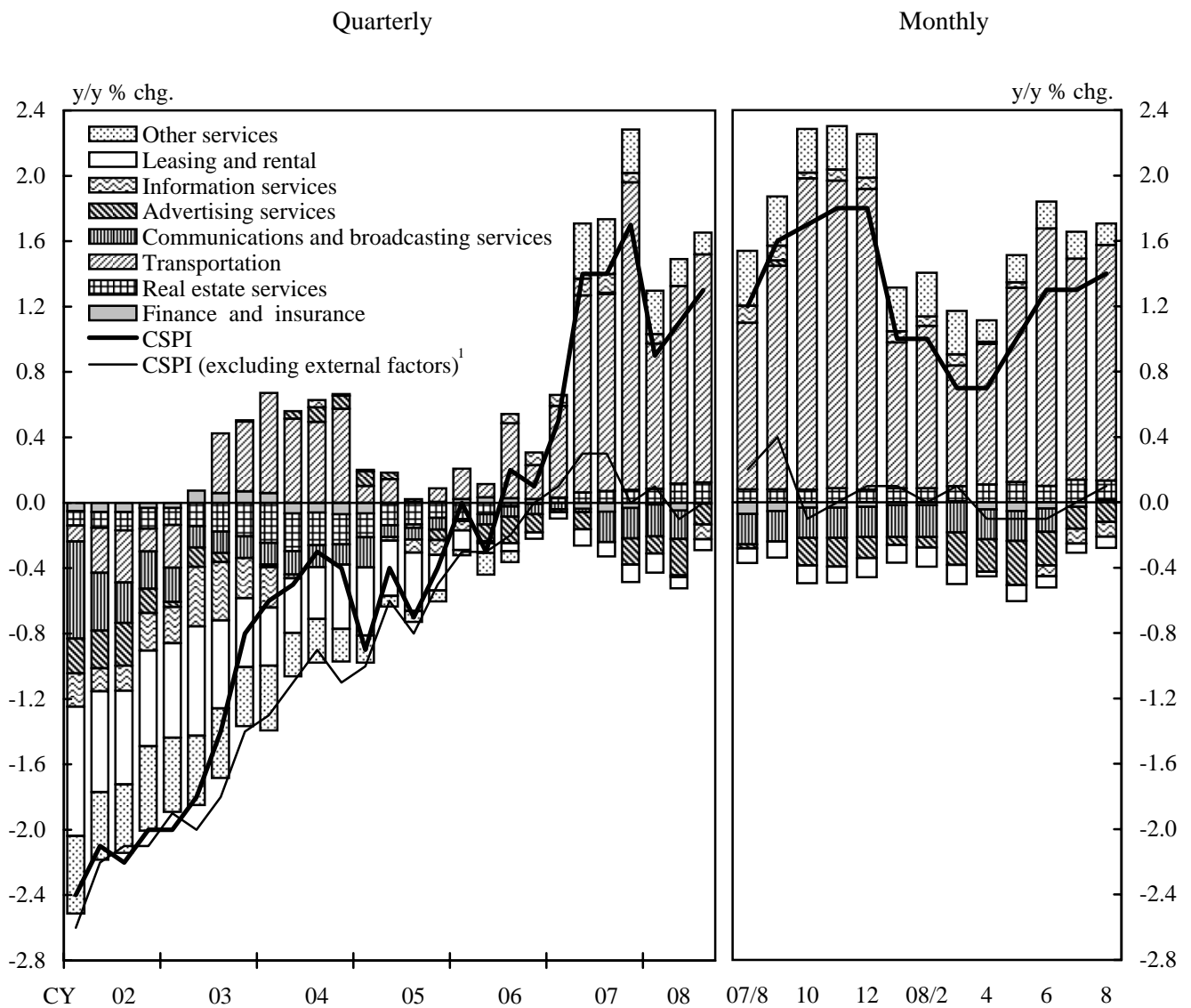
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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

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

7. Figures for 2008/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index



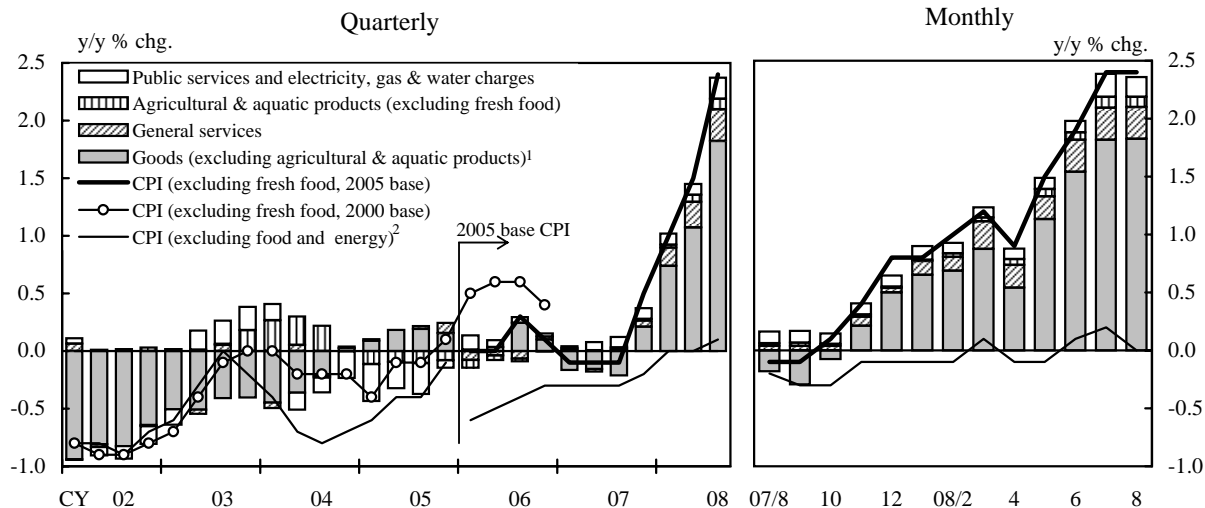
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures for 2008/Q3 are July-August averages.

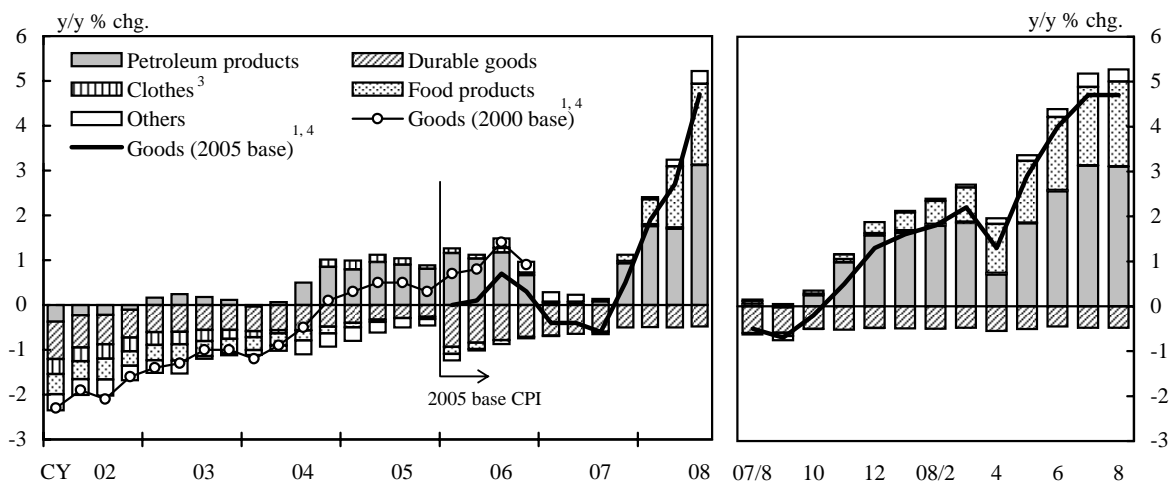
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

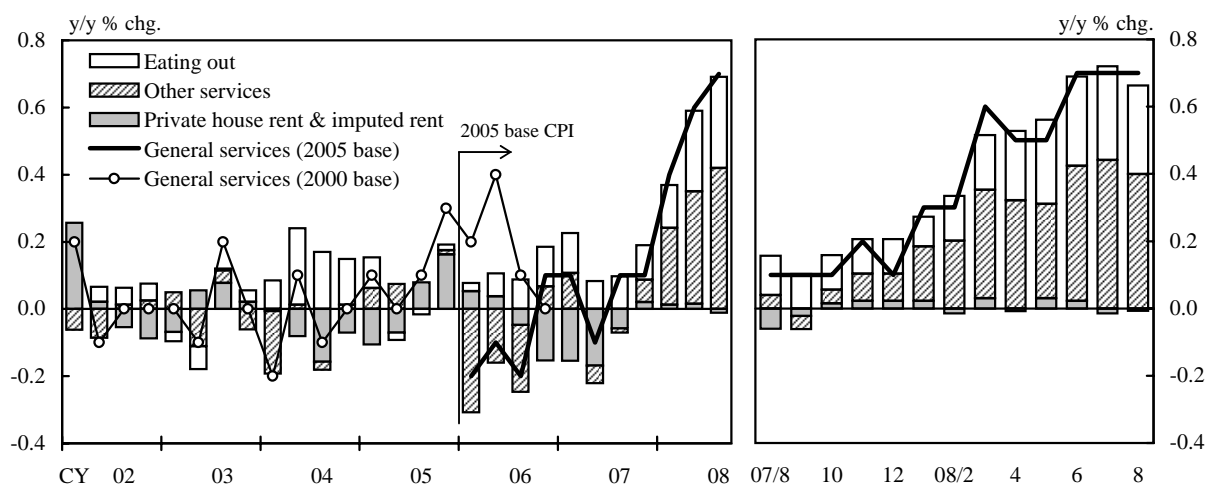
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

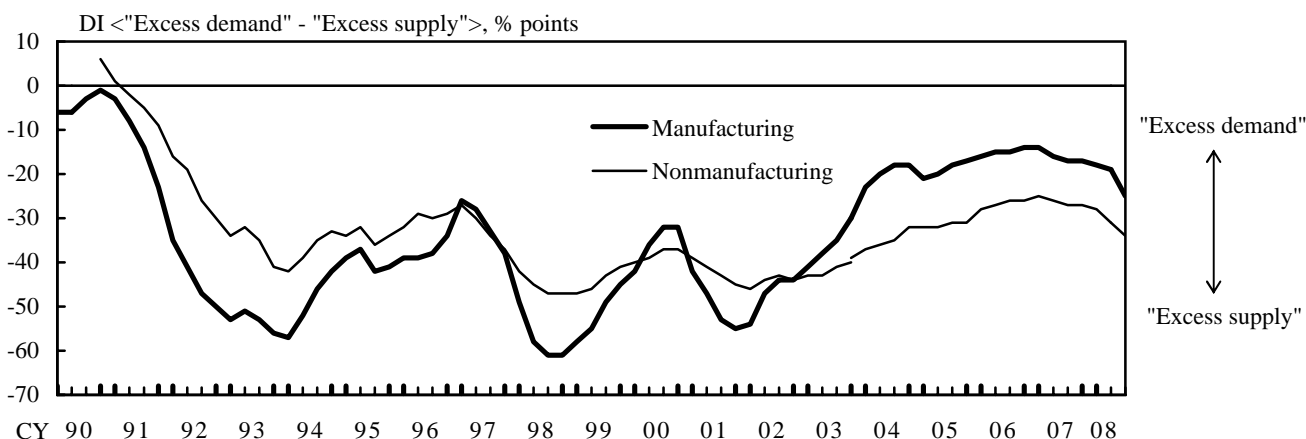


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.
 3. Including shirts, sweaters & underwear.
 4. Excluding agricultural & aquatic products.
 5. Figures for 2008/Q3 are July-August averages.

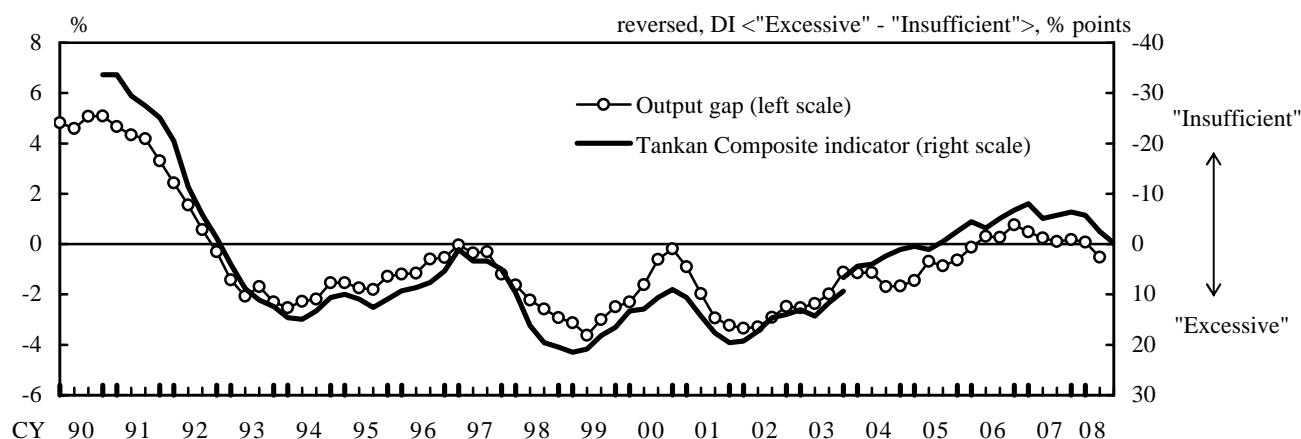
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

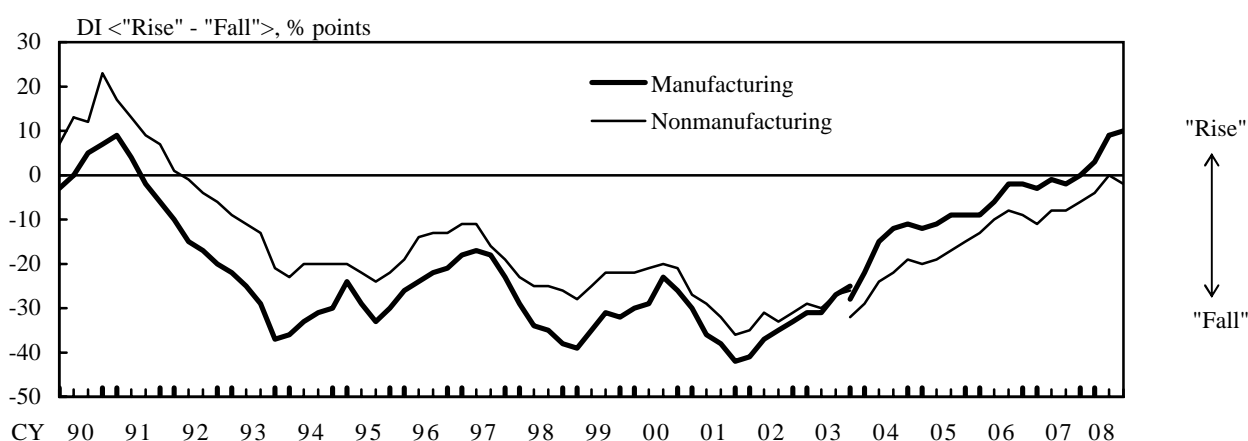
(1) Domestic Supply and Demand Conditions for Products and Services (All Enterprises)



(2) *Tankan* Composite Indicator² (All Enterprises) and Output Gap³



(3) Change in Output Prices (All Enterprises)



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

2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2006 averages of capital and labor shares in national accounts are used as the weight.

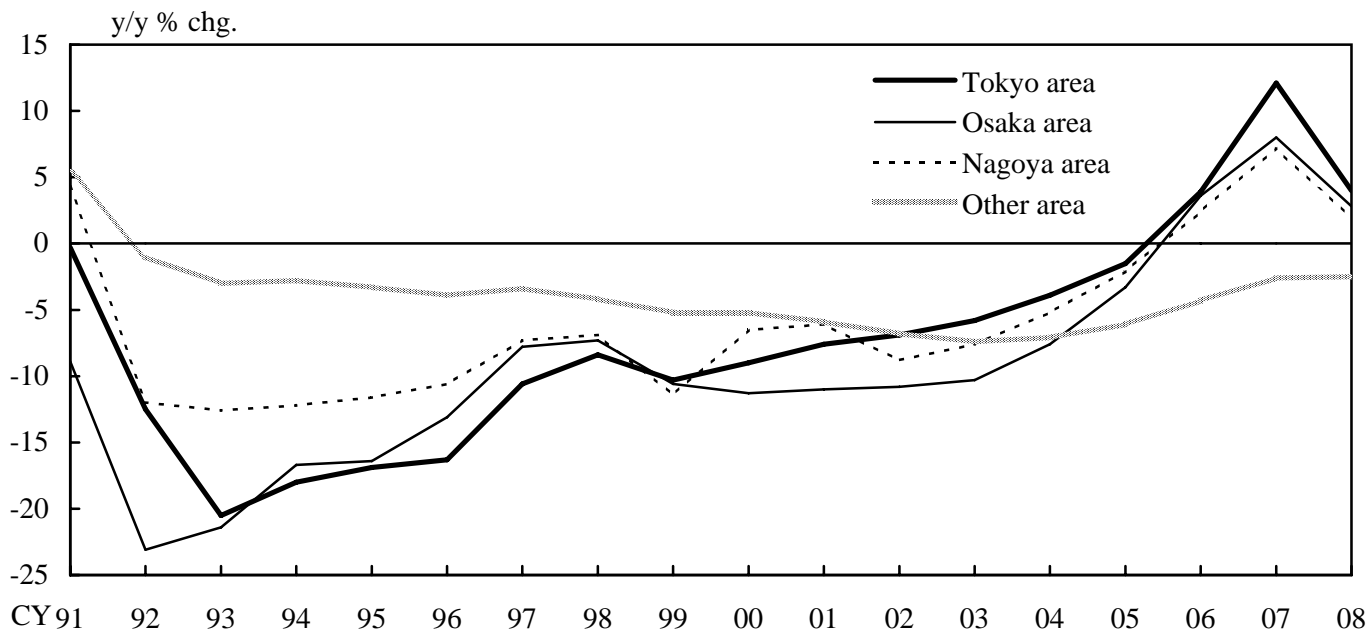
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

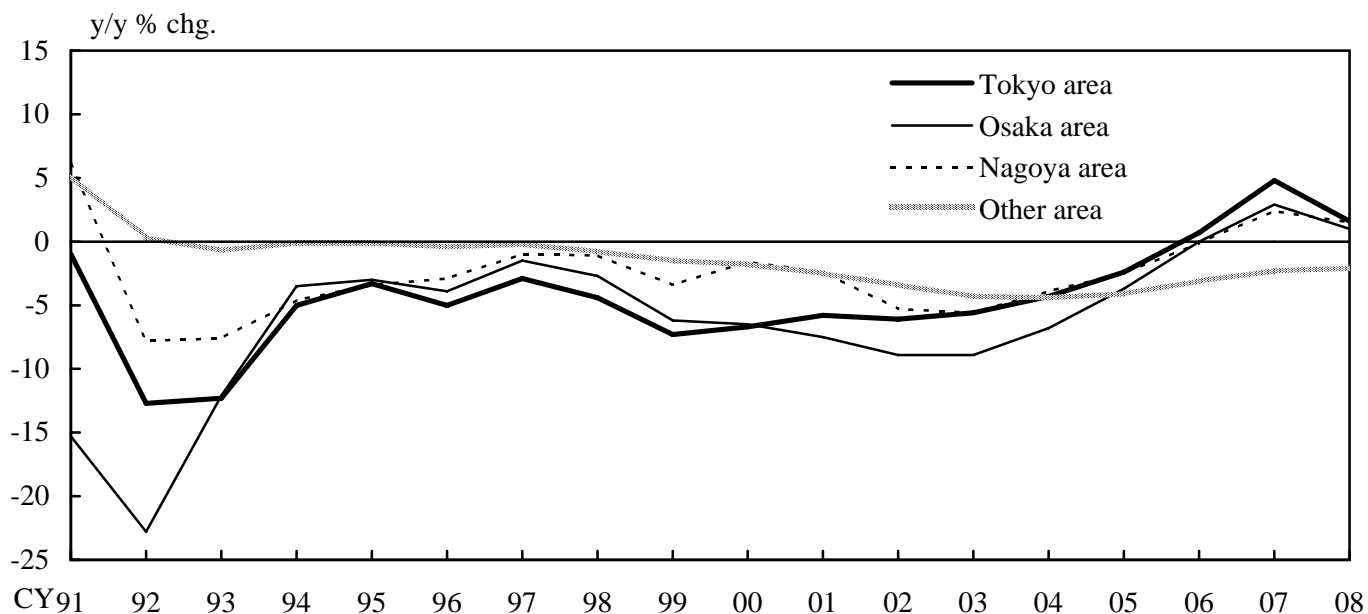
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Land Prices

(1) Commercial land



(2) Residential land

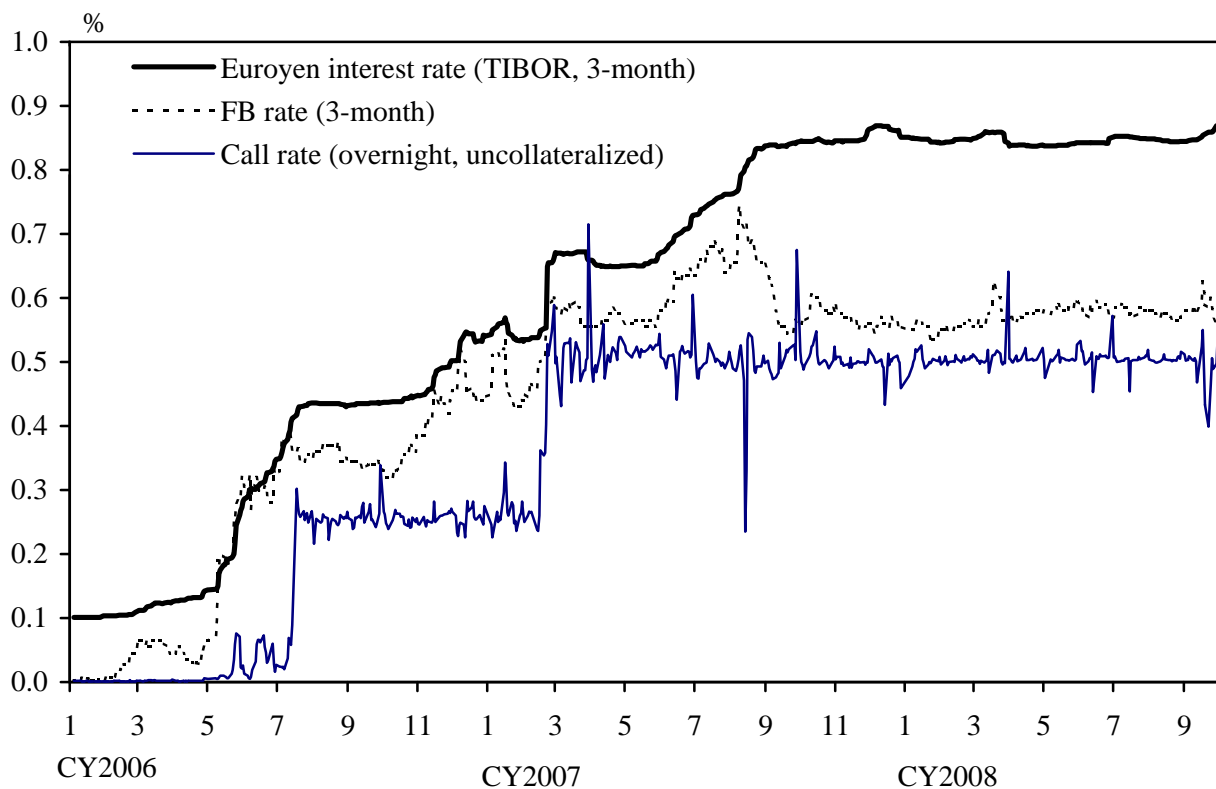


Note: Prefectural Land Price Survey, surveyed by prefecture officials, shows the land prices as of July 1st.

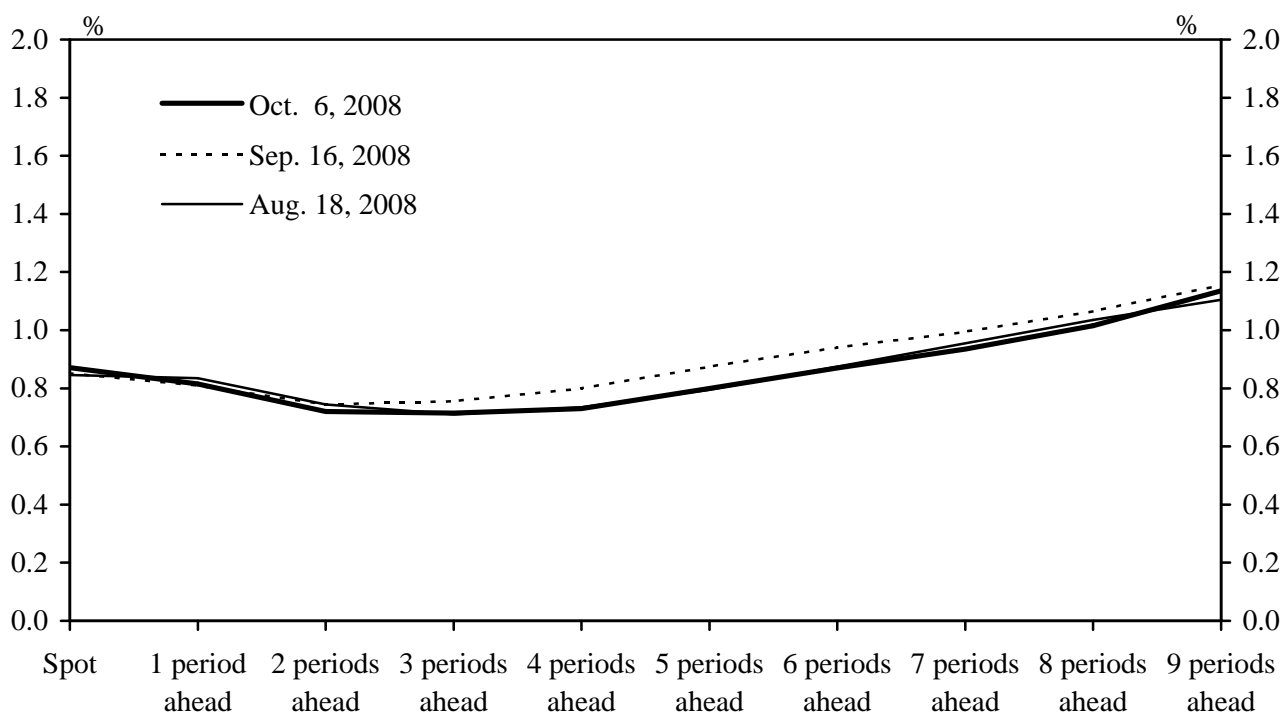
Source: Ministry of Land, Infrastructure and Transport, "Prefectural Land Price Survey."

Short-Term Interest Rates

(1) Short-Term Interest Rates



(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.

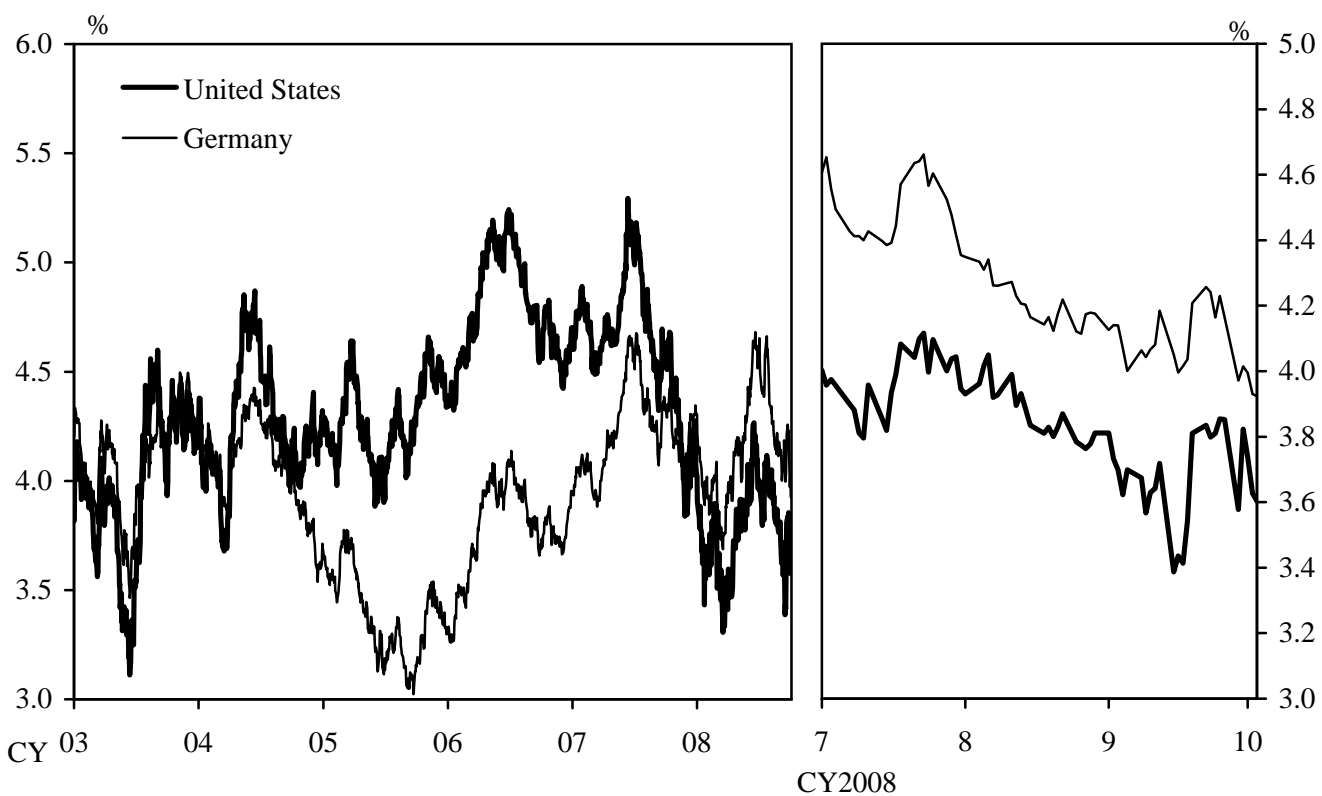
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



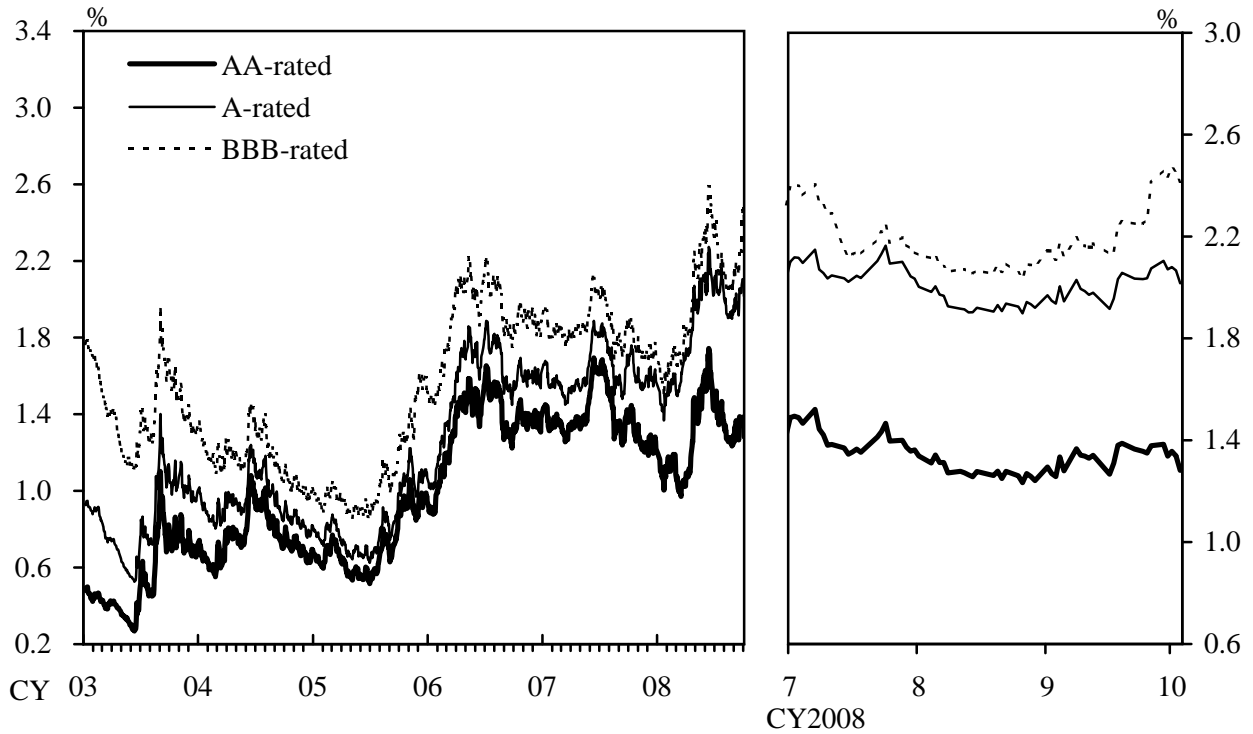
(2) Overseas Government Bond Yields (10-Year)



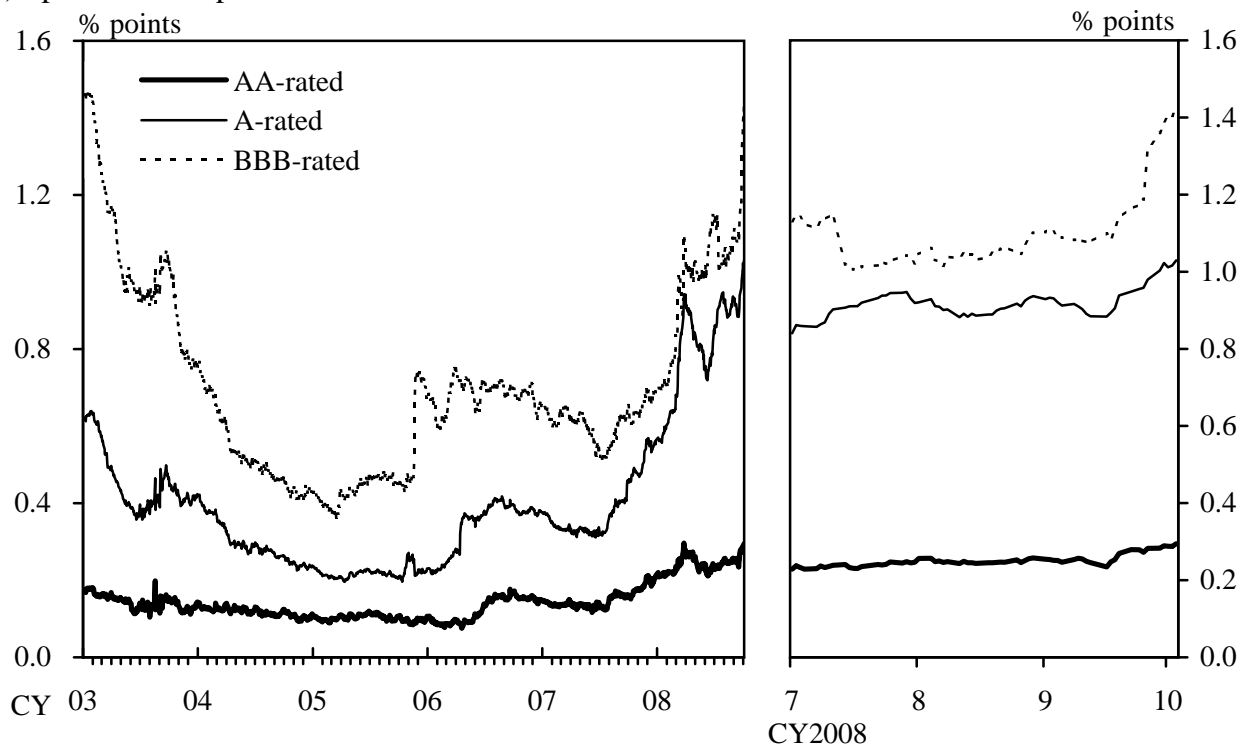
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd; Bloomberg.

Yields of Corporate Bonds

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



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



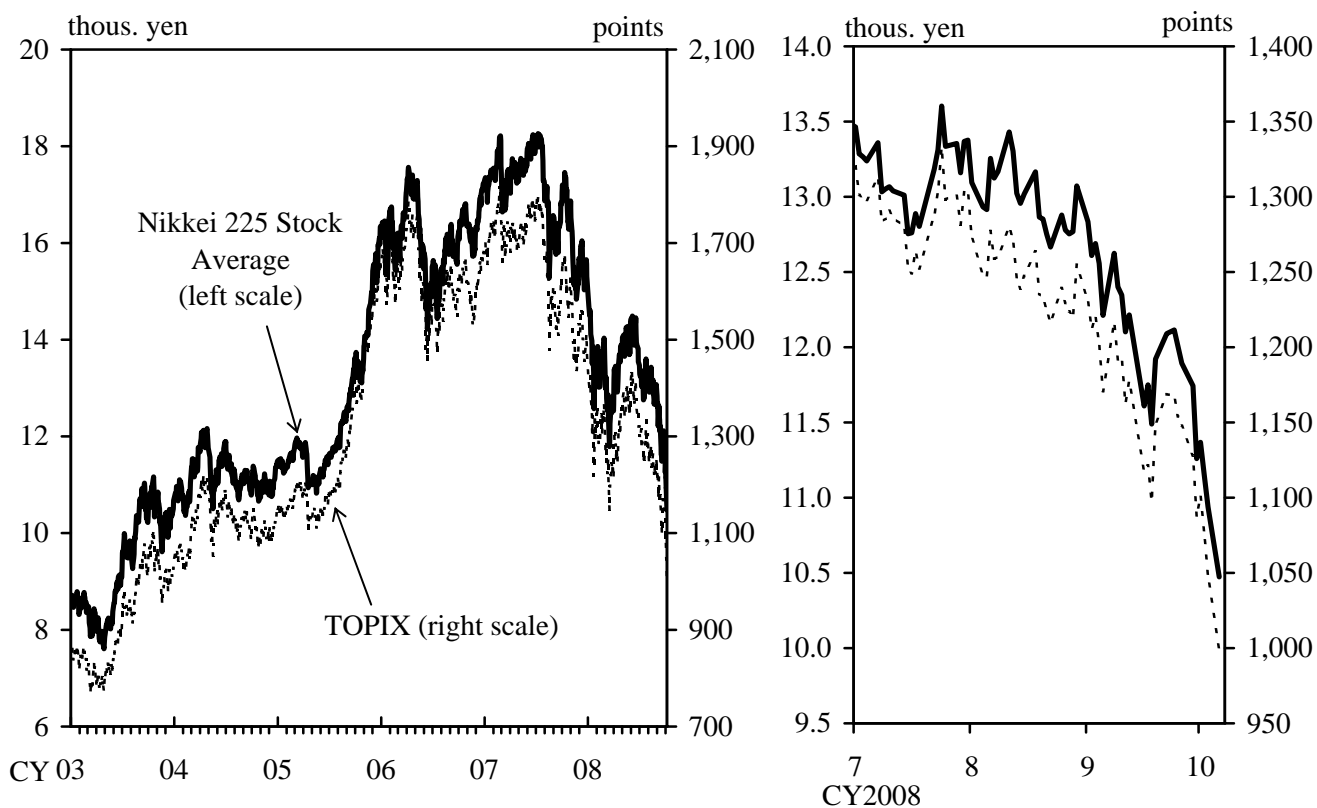
Notes: 1. Yields on bonds with 5-year maturity.
 Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

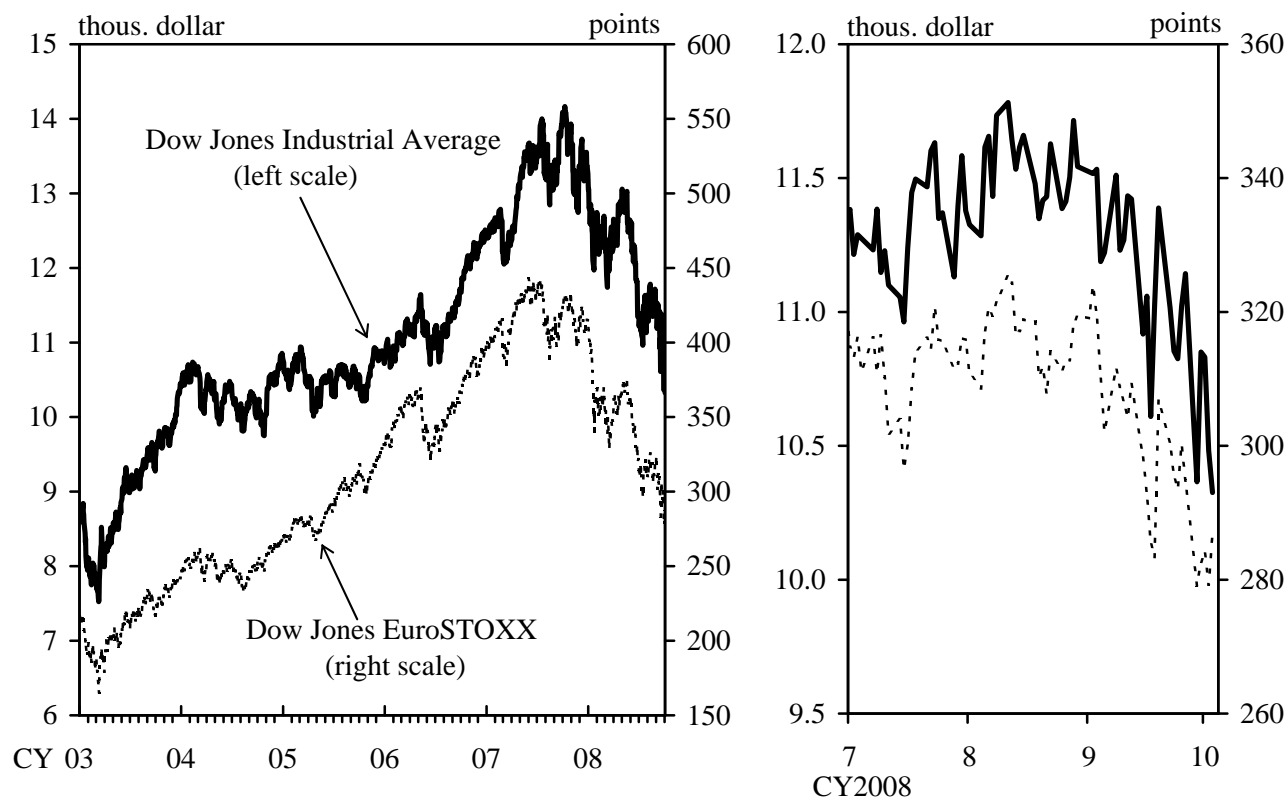
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices

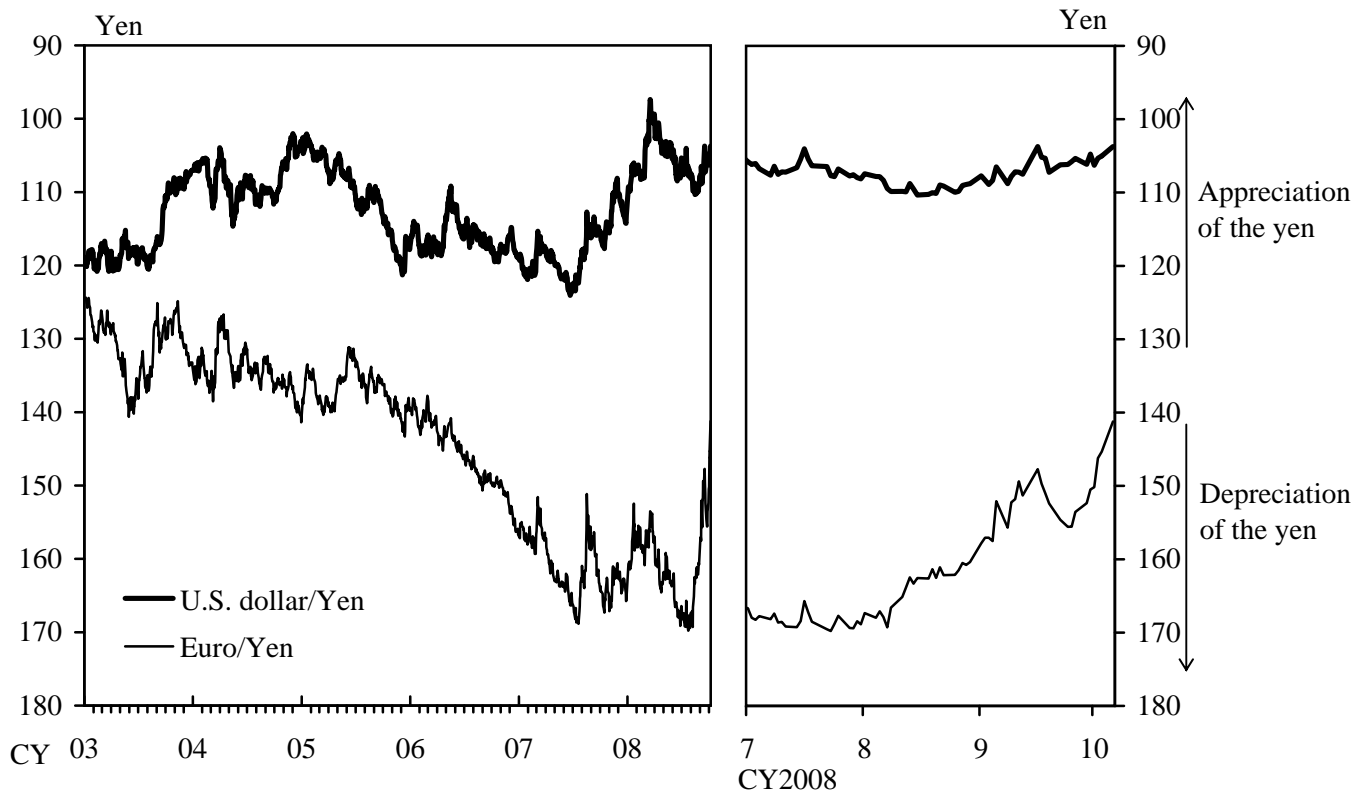


(2) Overseas Stock Prices

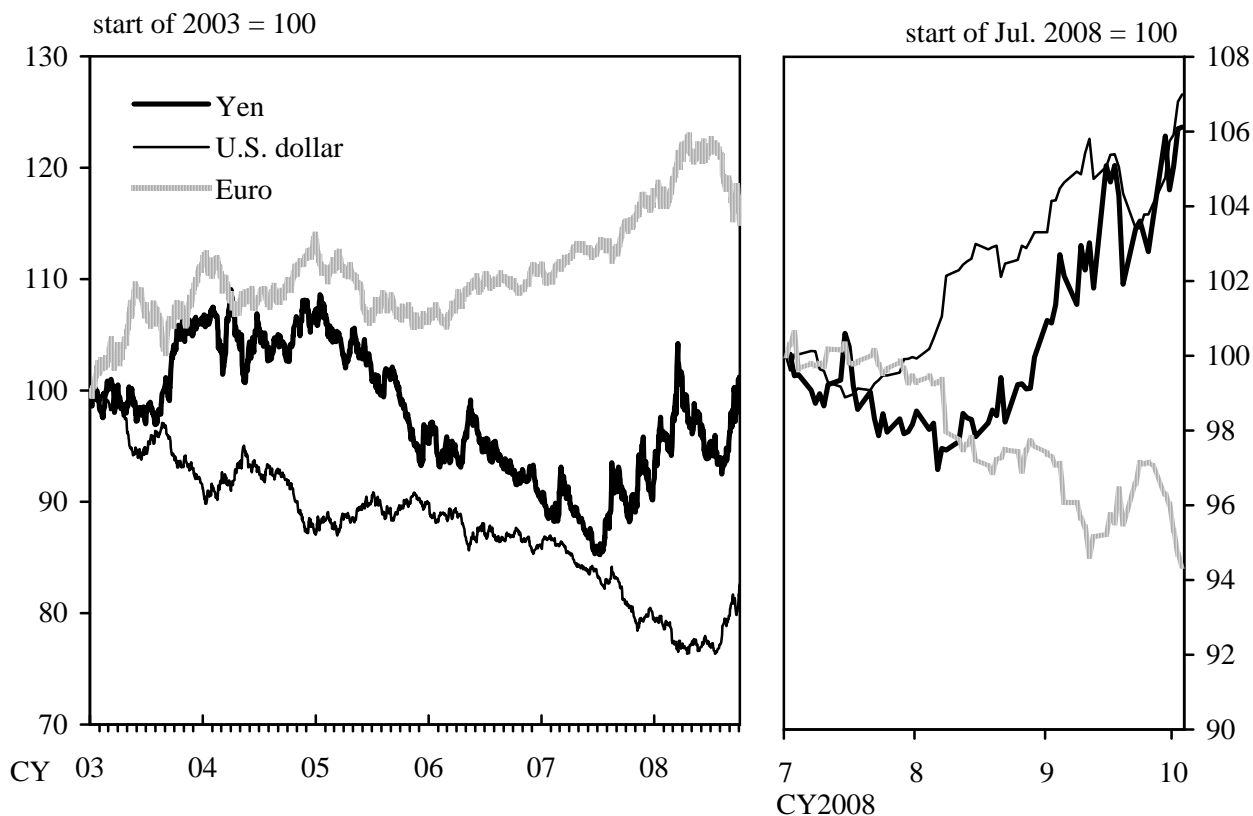


Exchange Rates

(1) Bilateral Exchange Rates



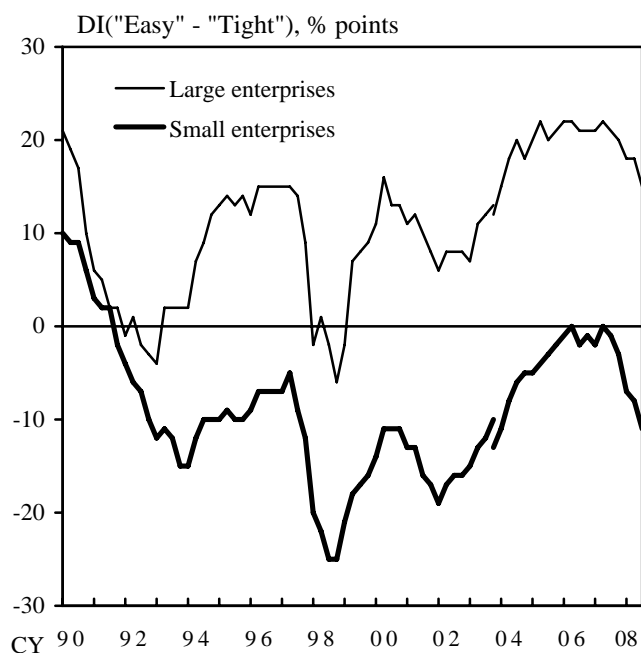
(2) Nominal Effective Exchange Rates



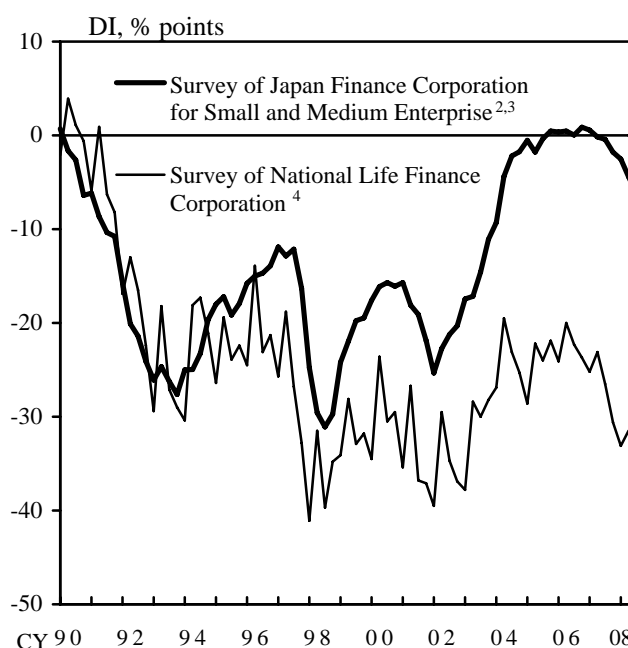
Sources: Bank of Japan; Federal Reserve System; European Central Bank.

Corporate Finance-Related Indicators

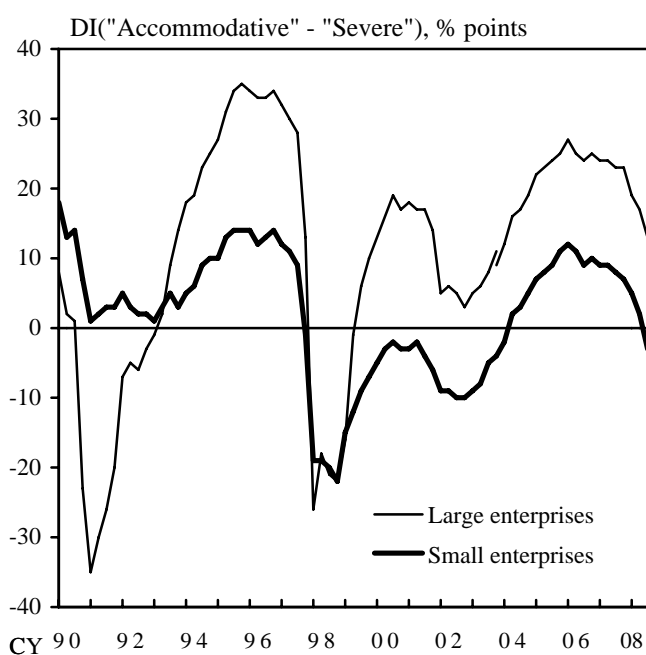
(1) Financial Position

<Tankan¹>

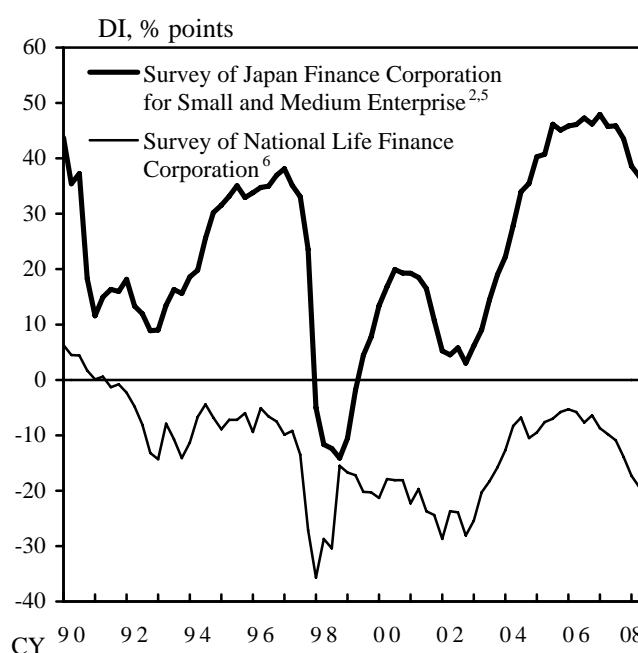
<Other Surveys>



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

<Tankan¹>

<Other Surveys>



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

2. Figures are quarterly averages of monthly data.

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

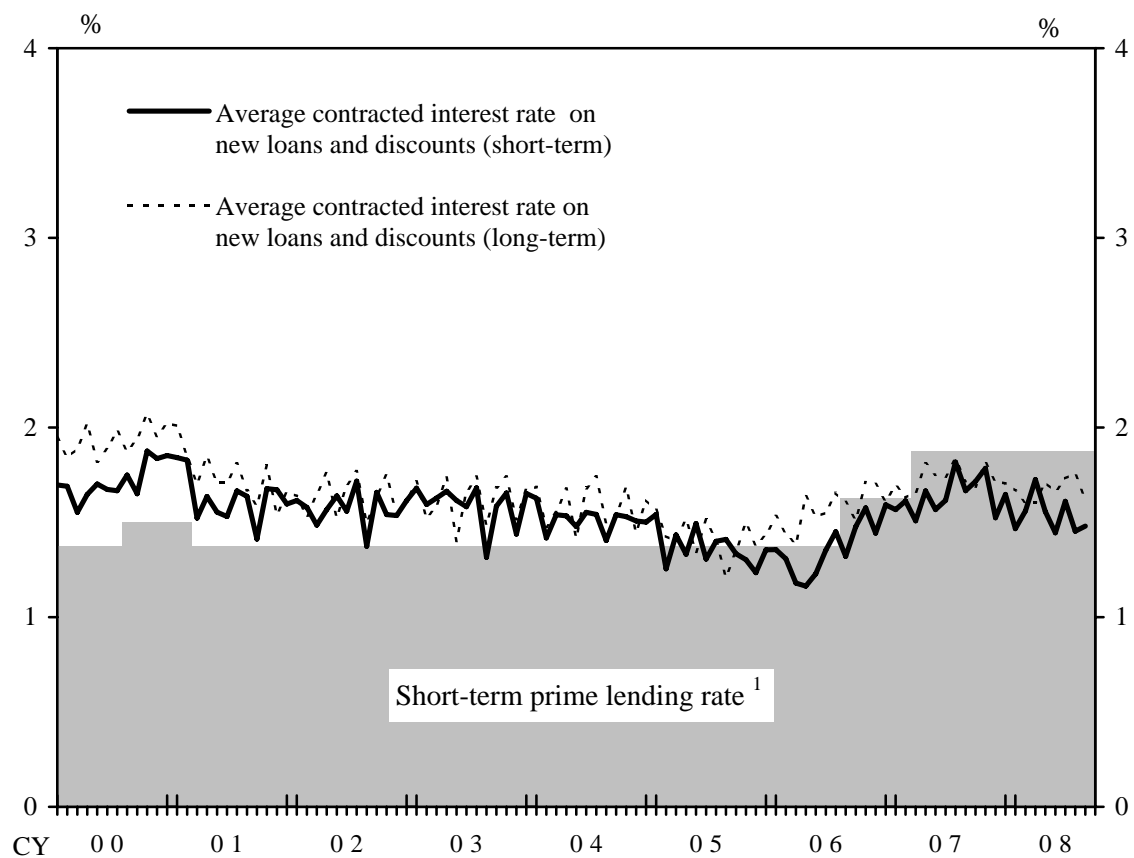
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

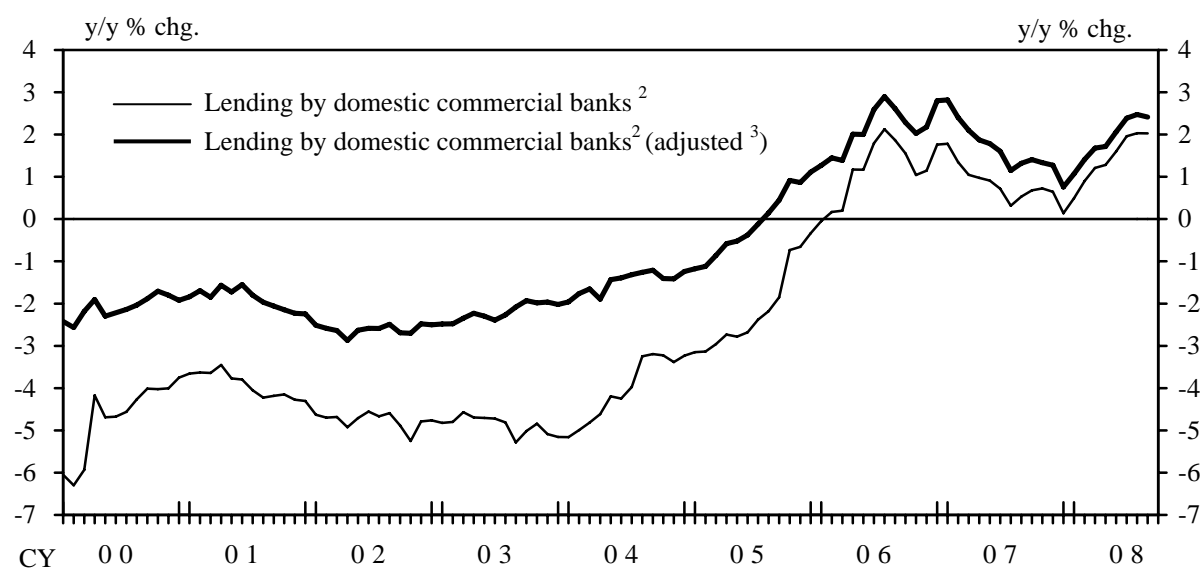


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



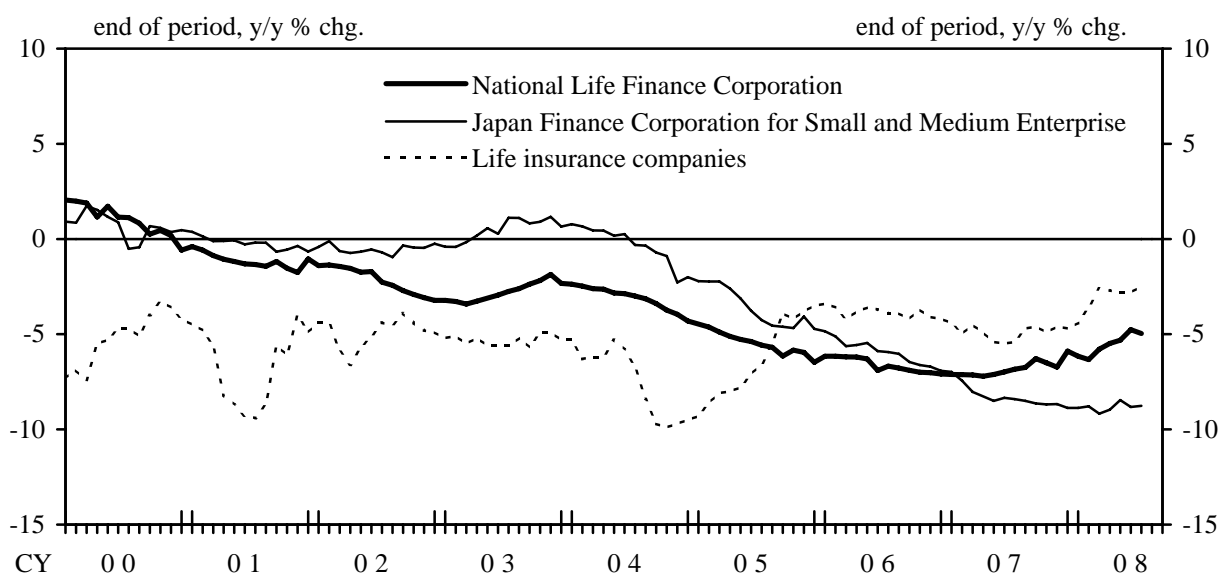
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

3. Adjusted to exclude

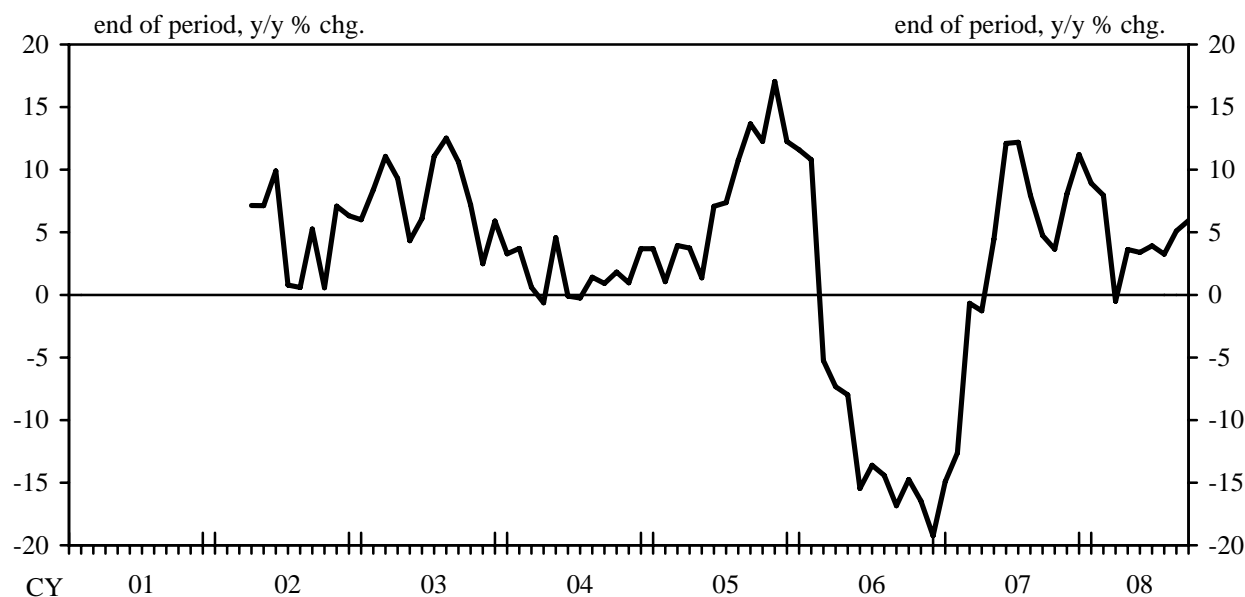
- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General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

(2) Lending by Other Financial Institutions



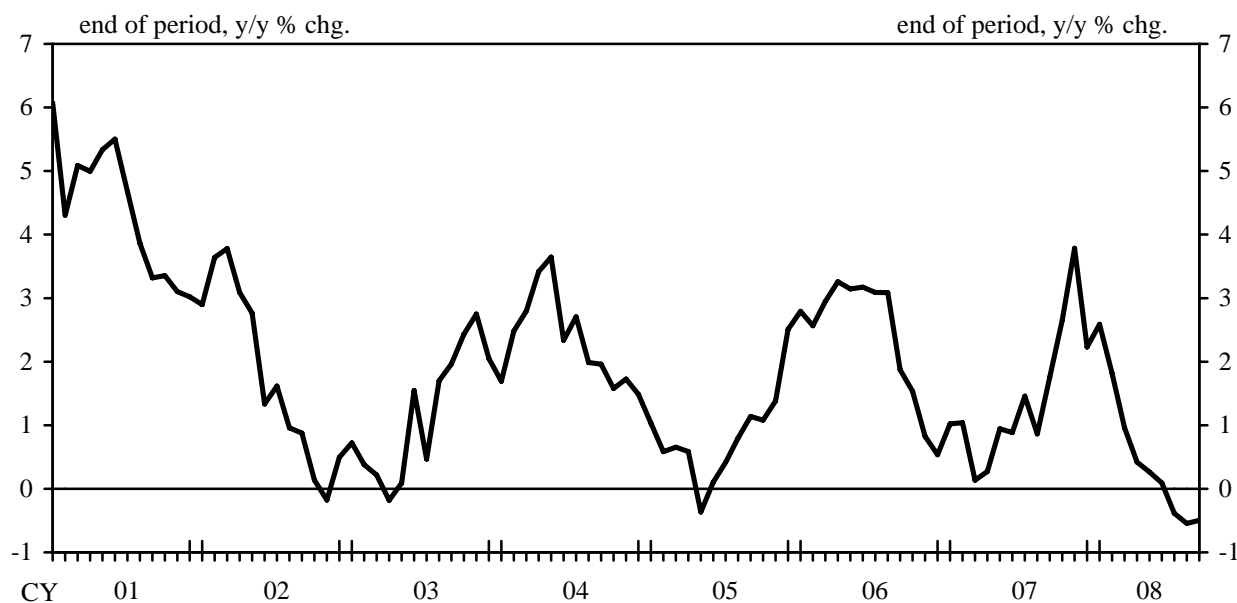
Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures before March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



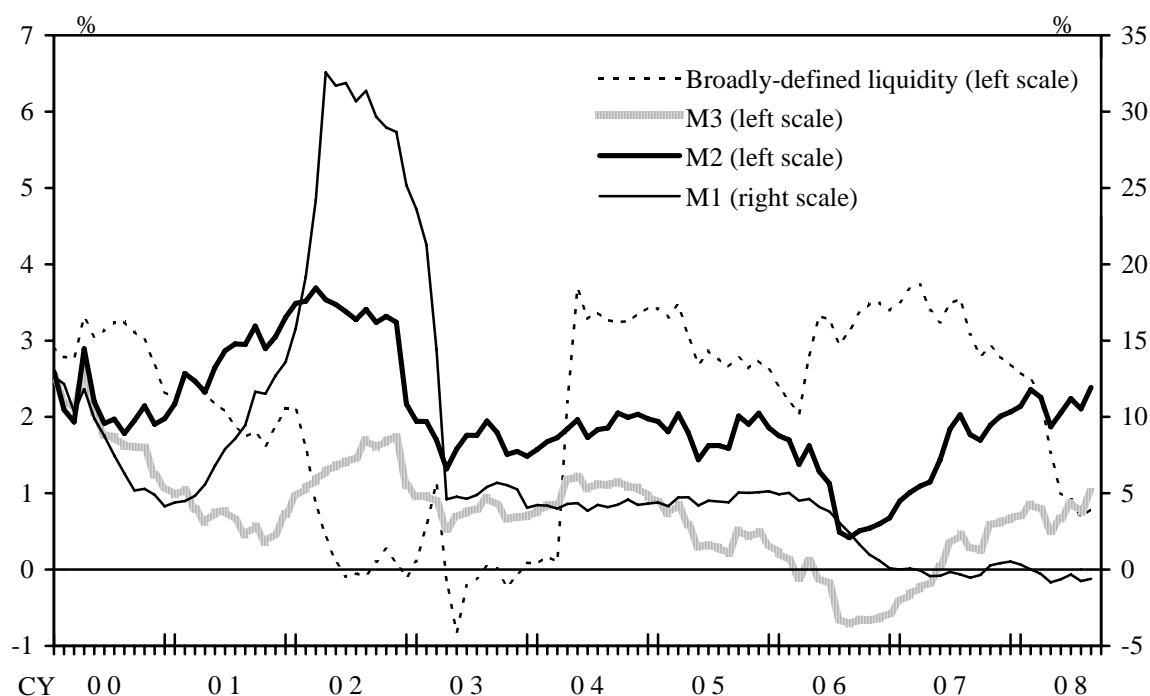
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

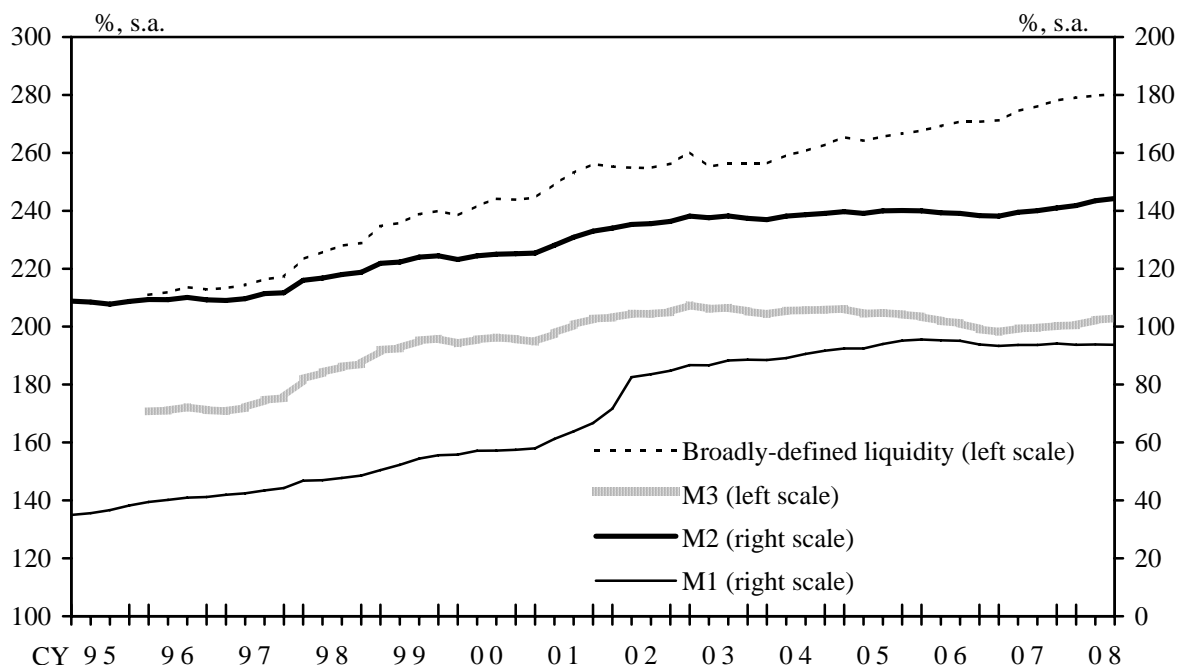
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category"; Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of Bonds"; I-N Information Systems, "Funding Eye."

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP



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

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

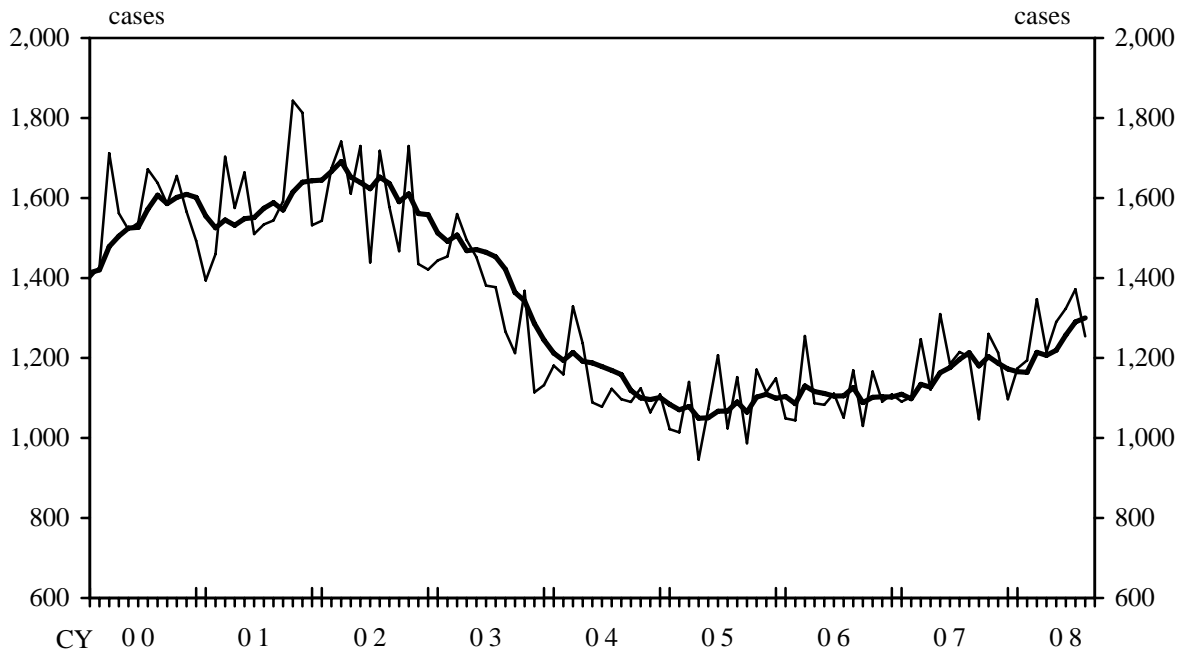
3. The current series are spliced by the former series at March 2003.

4. Figures for money stock in 2008/Q3 are those of Jul.-Aug. averages, and the nominal GDP in 2008/Q3 is assumed to be unchanged from the previous quarter.

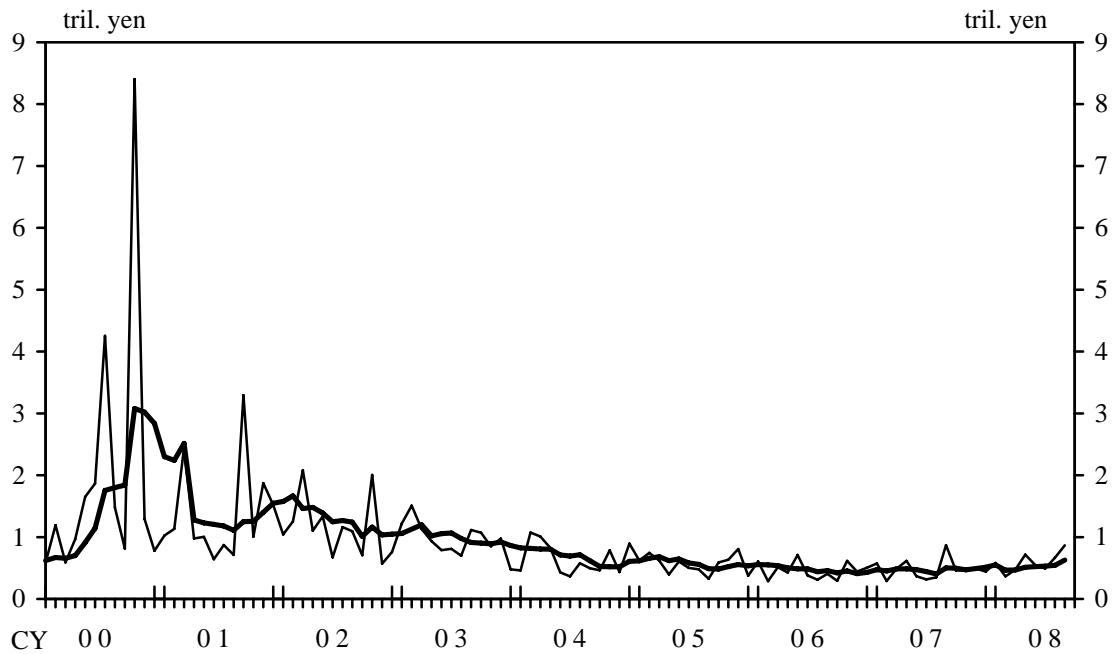
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities

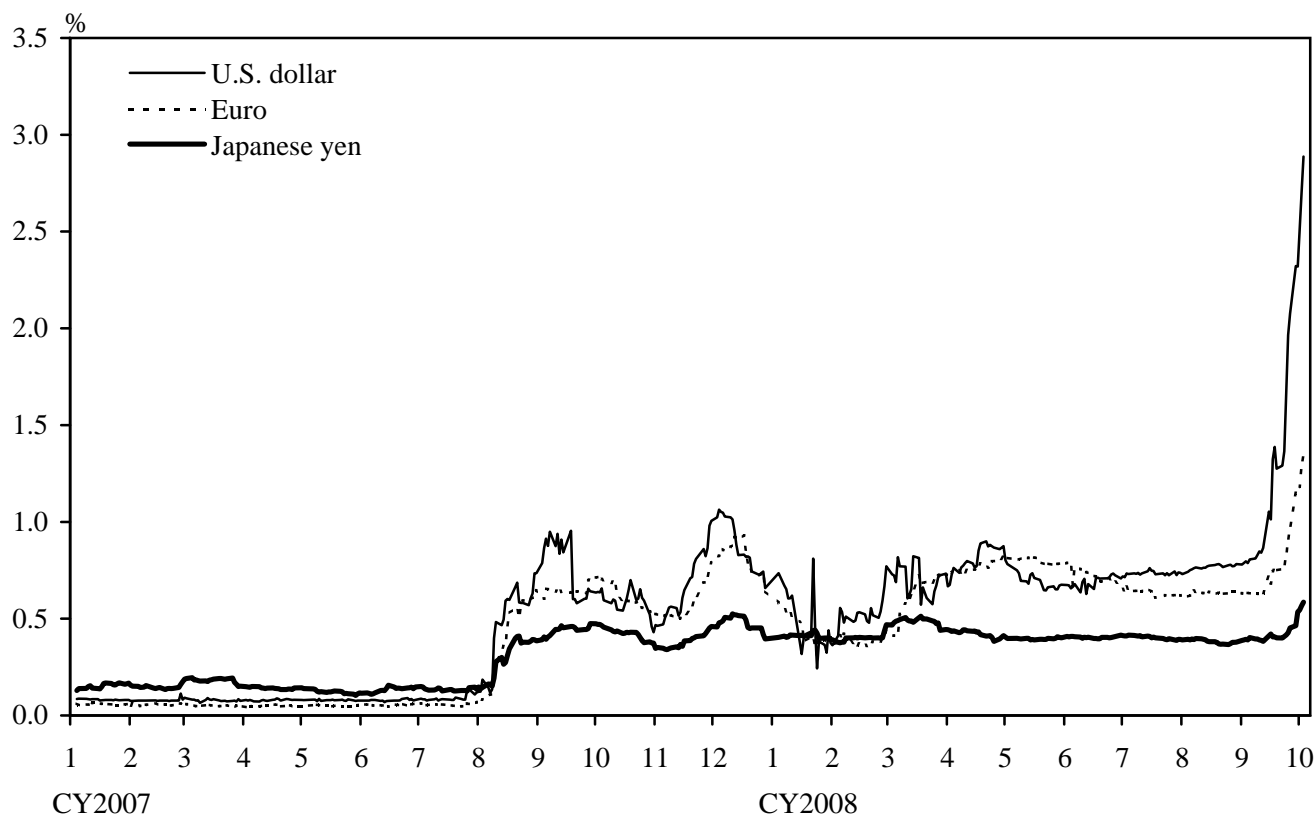


Note: Bold lines are the six-month moving average.

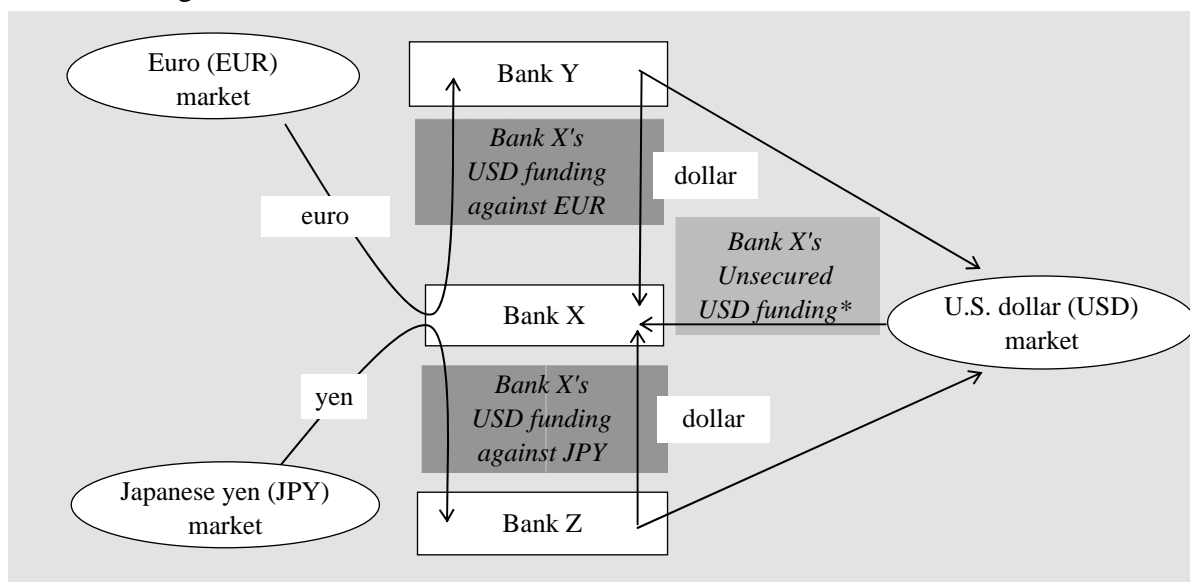
Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."

Global Money Markets

(1) LIBOR-OIS spreads (3-month)



(2) U.S. dollar funding



* In a stressed situation where Bank X faces difficulties in unsecured USD funding, the relationship between the FX swap implied dollar rate and USD LIBOR is given as follows:

$$\underbrace{\text{FX swap implied dollar rate} - \text{OIS rate}}_{\text{Bank X's funding cost (over OIS rate) in FX swap markets}} = \underbrace{\text{FX swap implied dollar rate} - \text{USD LIBOR}}_{\text{USD funding premium of FX swaps caused by excess demand for U.S. dollars}} + \underbrace{\text{USD LIBOR} - \text{OIS}}_{\text{Banks Y and Z's opportunity cost (over OIS rate) of investing in USD market}}$$

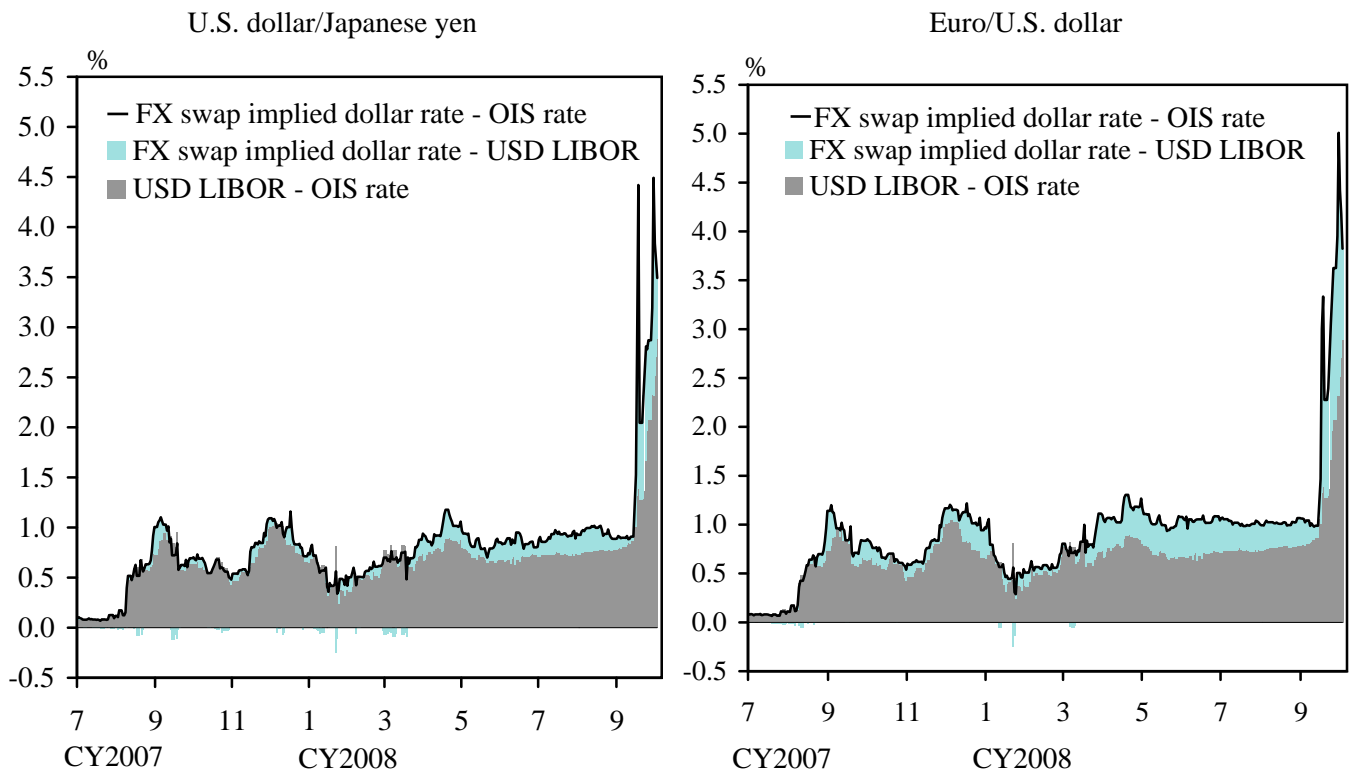
Bank X's funding cost (over OIS rate) in FX swap markets

USD funding premium of FX swaps caused by excess demand for U.S. dollars

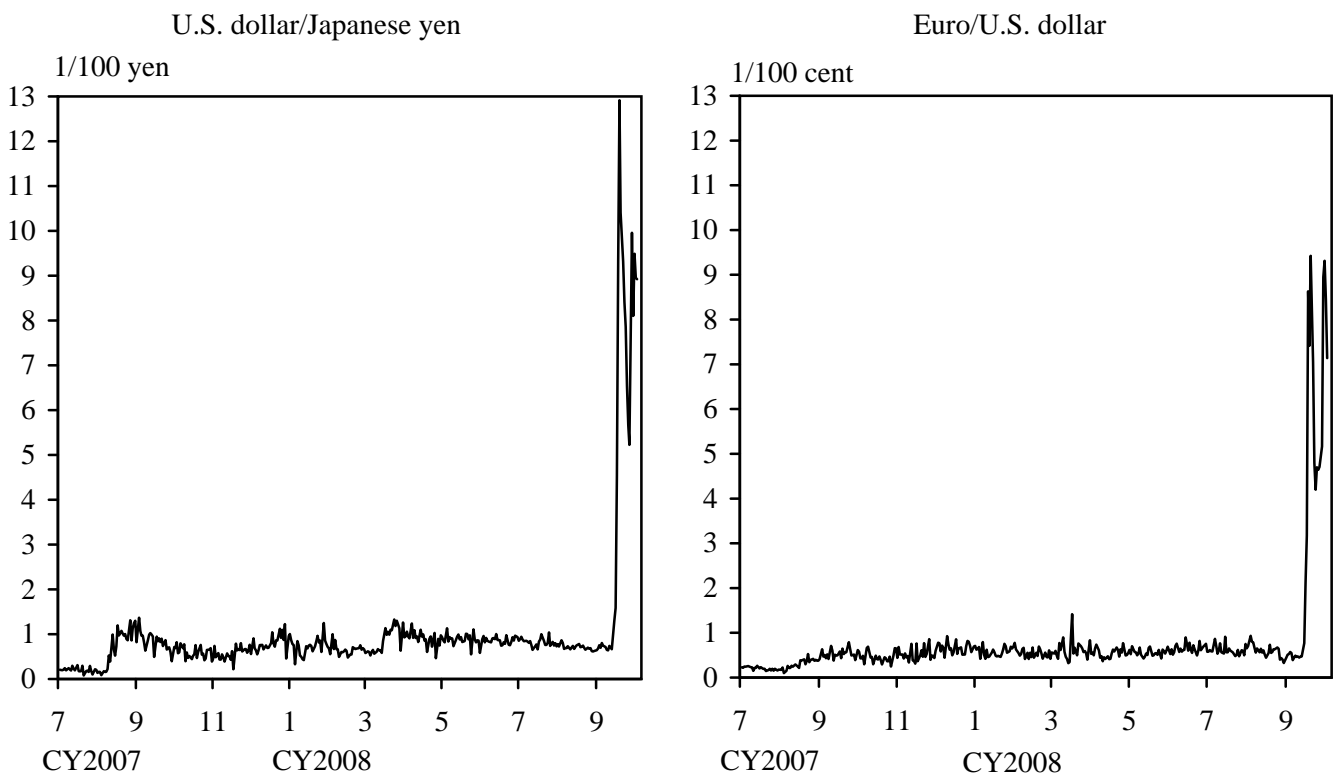
Banks Y and Z's opportunity cost (over OIS rate) of investing in USD market

Foreign Exchange Swap Markets

(1) FX swap implied dollar rate - OIS spreads (3-month)



(2) Market liquidity of FX swaps: bid-ask spreads¹



Note: 1. Quoted bid-ask spreads for 3-month FX forward discount rates.
Source: Bloomberg.