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Bank of Japan

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

(English translation prepared by the Bank's staff based on the Japanese original released on November 25, 2008)

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Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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Summary

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

Exports have decreased. Business fixed investment has also declined, mainly due to the deterioration in corporate profits. 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. Reflecting these developments in demand both at home and abroad, production has continued to decrease.

The increased sluggishness in Japan's economic activity will likely persist over the next several quarters as the slowdown in overseas economies becomes more evident.

Exports are expected to continue decreasing due to the slowdown in overseas economies and the appreciation of the yen. 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. With these developments in demand, it is likely that production will continue decreasing and the pace of decrease will be faster in the immediate future.

On the price front, the three-month rate of change in domestic corporate goods prices has become negative, mainly 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.

Looking at price developments for the time being, domestic corporate goods prices are likely to continue decreasing, mainly due to the setback in international

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on November 20 and 21, 2008.

commodity prices. The year-on-year rate of increase in consumer prices is expected to moderate reflecting the declines in the prices of petroleum products and stabilization in the prices of food.

In the midst of the ongoing turmoil in global financial markets, the yen appreciated rapidly and stock prices plunged toward the end of last month. Since then, the yen has depreciated and stock prices have recovered slightly, but they have continued to be volatile. In money markets, since the Bank of Japan changed the guideline for money market operations, the weighted average of the overnight call rate has remained at around 0.3 percent. However, interbank rates on term instruments and JGB repo market rates have remained high, indicating increased risk aversion among market participants. Meanwhile, yields on long-term government bonds have been around the same level as last month.

Financial conditions in Japan have become less accommodative on the whole, as the financial positions of small firms have deteriorated and an increasing number of large firms have faced a worsening in funding conditions in the markets.

The overnight call rate has been at a low level relative to the state of economic activity and price developments. However, funding conditions in the markets have deteriorated, as suggested by the fact that credit spreads on CP and corporate bonds have widened and an increasing number of firms have postponed issuing them. As a result, the amount outstanding of CP and corporate bonds issued has fallen below the previous year's level. Large firms have increased their borrowing from banks to cover the decline in the issuance of CP and corporate bonds, although credit demand for working capital has stopped increasing due to the drop in materials prices. As for small firms, an increasing number of these firms have reported that their financial positions are weak and lending attitudes of financial institutions are severe. This relates to the expansion in the year-on-year rate of decline in the amount outstanding of lending to them. Meanwhile, the money stock has increased by around 2 percent from a year earlier.

1. Economic Developments

Public investment has been sluggish (Chart 5). On a GDP basis (first preliminary figures), real public investment increased only marginally in the third quarter, after having dropped sharply in the second quarter (Chart 3). Looking at monthly indicators, both the amount of public construction completed—which reflects the progress of public works—and the value of public works contracted—a measure that reflects public orders—have been sluggish on average. Public investment is projected to be on a downtrend due to tight national and local fiscal conditions.

Real exports have decreased (Charts 6[1] and 7). On a quarter-on-quarter basis, they dropped, by 3.3 percent, in the second quarter and then inched up temporarily, by 1.7 percent, in the third quarter, but dropped again, by 3.8 percent, in October compared with the third quarter.

By destination (Chart 7[1]), exports to the United States dropped substantially in the second and third quarters on a quarter-on-quarter basis, mainly due to the drop in automobiles; they also decreased in October compared with the third quarter. Exports to the EU and NIEs plunged in the second quarter followed by a marginal increase in the third quarter, and dropped significantly again in October. Exports to the ASEAN economies remained almost level in October following the second and third quarters. Exports to China have started to level off, as they declined marginally in October after having just inched up in the third quarter. The pace of increase in exports to other regions (such as the Middle East, Latin America, and Russia) has started to moderate on balance.

By goods (Chart 7[2]), the decline in exports of automobile-related goods as a whole has become more evident since exports to the United States have continued to drop and added to this, those to the EU have also turned downward. Exports of IT-related goods plunged in October, mainly to NIEs, after having increased in the second and third quarters. Exports of consumer goods also dropped sharply in October following the marginal decline in the third quarter. Exports of capital goods and parts and of intermediate goods have started to lose momentum on average.

Real imports have been more or less flat (Charts 6[1] and 9). On a quarter-on-quarter basis, they dropped considerably, by 3.2 percent, in the second quarter, but rose, by 2.9 percent, in the third quarter followed by an increase of 3.3 percent in October compared with the third quarter. However, the upsurge mainly in raw materials and foodstuffs, which seems to be a temporary phenomenon, contributed to this recent increase.

By goods (Chart 9[2]), imports of IT-related goods and consumer goods declined in the second quarter and then increased temporarily in the third quarter, but fell down again in October compared with the third quarter. Imports of capital goods and parts (excluding aircraft) declined in the third quarter but bounced back in October; on balance, however, they have started to lose momentum. Imports of raw materials, intermediate goods, and foodstuffs seem to have been more or less flat as a trend, despite the upsurge in October compared with the third quarter.

Net exports in terms of the real trade balance have decreased, reflecting the aforementioned movements in imports and exports (Chart 6[2]). A deficit in the nominal balance on goods and services was recorded in the third quarter on a quarter-on-quarter basis for the first time since the current statistics started to be released in 1996, mainly due to the rise in crude oil prices.

Exports are expected to continue decreasing for the time being, due to the slowdown in overseas economies and the appreciation of the yen.

As for the environment surrounding exports, in the United States, the economy has been stagnant with ongoing adjustments in the housing market. With tighter financial conditions having exerted downward pressure on the U.S. economy, sales of automobiles—which have a large impact on Japan's exports—have declined further. In the EU, the economy has also been stagnant, mainly affected by tighter lending stances of financial institutions. Emerging economies and countries that export natural resources have still maintained relatively high growth. However, the slowdown has become evident as exports have slowed in response to the stagnant U.S. and European economies, and domestic demand in the NIEs and ASEAN economies has also shown weakness (Chart 8[2]). 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 slowed its pace of increase as a whole, and 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 appreciated lately mainly against European and NIEs currencies 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 more or less flat for the time being, affected mainly by the sluggish activity in the domestic economy.

Business fixed investment has declined. On a GDP basis (first preliminary figures), real business fixed investment decreased markedly in the third quarter following the second quarter (Chart 3). Looking at monthly indicators, the aggregate supply of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—has continued to decrease (Chart 10[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—had been more or less flat at high levels until the second quarter, but dropped significantly, by 10.4 percent, in the third quarter (Chart 11[1]).^{2,3} Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—remained flat in the third quarter, partly since large construction starts were included. As a trend, however, they seem to have become relatively weak (Chart 11[2]).

² Recently, machinery orders have been moving with a slight lag compared to the aggregate supply of capital goods. This seems to be mainly attributable to the following two factors: (1) among recent machinery orders, those of boilers and power units as well as rolling machines—whose process from orders to delivery is long and thus associated with sales far ahead—were solid and (2) a rising number of past orders has been either postponed or cancelled.

³ The rate of decrease in the third quarter was the same as that in the second quarter of 1998 when it marked the largest-ever decrease. Forecasts for the fourth quarter show that orders are projected to increase only marginally (the quarter-on-quarter increase stands at 1.2 percent for private demand, excluding orders of shipbuilding and orders from electric power companies).

Business fixed investment is likely to continue declining for the time being, mainly due to the slowdown in overseas economies and the decrease in corporate profits.

Private consumption has been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. On a GDP basis (first preliminary figures), real private consumption rose, by 0.3 percent, in the third quarter on a quarter-on-quarter basis, although this was partly in reaction to the drop (of 0.6 percent) in the second quarter (Chart 3). Looking at individual indicators on consumption (Charts 12 and 13), sales at department stores and supermarkets dropped in August partly due to the heavy rain, and then picked up only marginally in September. 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,⁴ 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.⁵ The number of new passenger-car registrations has dropped sharply. As for services consumption, outlays for travel have continued to be weak, mainly in overseas travel, 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 above⁶—have continued to be

⁴ 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.

⁵ Sales in September decreased compared with the previous month, partly since the effects of the heat wave (such as air conditioners and refrigerators) and demand associated with the Beijing Olympics (such as flat panel TVs) disappeared.

⁶ The *Indices of Aggregated Sales* are the weighted average of individual sales indicators. Outlays for travel in September 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 September were at the same level as those for August.

relatively weak (Chart 14[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has been level or weakening somewhat (Chart 14[2]). Looking at statistics on the demand side, as for the index of consumption expenditure level (in real terms) in the *Family Income and Expenditure Survey*, the index on an "excluding housing, automobiles, money gifts and remittance" basis—which is mostly limited to items used for estimating the GDP—dropped significantly in the second quarter and also decreased in the third quarter. Total expenditure in the *Survey of Household Economy* (in real terms) marked a pronounced decrease for two quarters in a row (Chart 12[1]).⁷

Consumer sentiment has become more cautious partly due to the rise in prices of energy and food as well as to the recent drop in stock prices; related indicators have deteriorated to their previous bottoms or have been below these levels (Chart 15).

Growth in private consumption is likely to be sluggish for the time being, as household income is expected to weaken somewhat and the effects of the rise in prices are likely to remain.

Housing investment has been more or less flat. On a GDP basis (first preliminary figures), real housing investment increased substantially, by 4.0 percent, in the third quarter on a quarter-on-quarter basis aided by the lagged contributions from the pick-up in housing starts in the second half of fiscal 2007, after having dropped, by 3.1 percent, in the second quarter (Chart 3). The number of housing starts (Chart 16[1])—a leading indicator of housing investment—fell toward September last year from the effects of the enforcement of the revised Building Standard Law. It then continued to pick up until January this year 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. Looking ahead, housing investment is expected to be more or less flat for the time being, considering the number of housing starts.

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

Industrial production has continued to decrease. Production has declined for three consecutive quarters since the first quarter of 2008 (Chart 17). As for developments in the third quarter on a quarter-on-quarter basis by industry, production of many industries such as transportation equipment (excluding ships and rolling stocks), information and communication electronics equipment (such as cellular telephones), electronic parts and devices, and general machinery continued to decrease following the second quarter.

Shipments declined marginally in both the first and second quarters, and then decreased at a faster pace, by 1.8 percent, in the third quarter on a quarter-on-quarter basis. By goods (Chart 18), shipments of capital goods have fallen in many items such as semiconductor products machinery, and also engineering and construction machinery, and metal cutting machinery. Shipments of durable consumer goods have decreased, notably 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 then stopped declining temporarily, but they have decreased again lately. Meanwhile, shipments of producer goods have started to be on a pronounced downtrend lately, partly due to the drop in electronic parts and devices in conjunction with the weakness in other goods (such as chemicals, nonferrous metals, and iron and steel).

Inventories have risen somewhat noticeably, while shipments have decreased; the shipment-inventory balance has deteriorated (Chart 19). 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 fallen and inventories of these goods have piled up. On the other hand, inventories of durable consumer goods have been essentially in balance with shipments. Meanwhile, as for construction goods, both shipments and inventories have continued to decrease even though inventories are still in balance with shipments.

As for the outlook for the time being, it is likely that production will continue decreasing and the pace of decrease will be faster in the immediate future, since the weakness in domestic and external demand has become evident and also since inventory adjustment pressures have mounted slightly. Anecdotal information suggests that production in the fourth quarter will decrease at a significantly faster pace.⁸

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

In the labor market, overtime hours worked have recently been well below the year-ago level, notably in the manufacturing sector (Chart 22[3]). The ratio of job offers to applicants has continued to decrease and the unemployment rate has been on a moderate uptrend (Chart 21[1]).

In terms of employment (Chart 22[1]), the number of employees in the *Labour Force Survey* has continued to be around zero percent on a year-on-year basis. 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. The ratio of part-time employees dropped temporarily at around the time of the enforcement of the revised Part-time Work Law (effective in April 2008), but then rose. On average, it has been essentially level (Chart 22[2]).

The year-on-year rate of increase in nominal wages per employee has been diminishing (Chart 20[1]). In detail, regular payments have maintained a slight positive, whereas overtime payments have turned negative and special payments have also been relatively weak.⁹

⁸ Production in the fourth quarter, based on the production forecast index of October and November (on the assumption that the December figure will be unchanged from November), is calculated to decrease by 4.1 percent compared with the third quarter.

⁹ According to surveys on winter bonuses released by the Japan Business Federation (second results as of November 21) and the *Nihon Keizai Shimbun*, Inc. (interim results as of November 5), winter bonuses are projected to decrease for the first time in six years. On a year-on-year basis, the former survey showed an increase of 0.63 percent for last year and shows a decrease of 0.07 percent for this year, and the latter showed an increase of 0.86 percent last year and shows a decrease of 0.63 percent this year.

Looking ahead, household income is likely to weaken somewhat for the time being, in response to the decrease in corporate profits and production.

2. Prices

Import prices (on a yen basis; the three-month rate of change) have dropped significantly since international commodity prices have fallen back (Chart 24). Looking at recent developments in international commodity prices in more detail, crude oil prices have continued to fall partly due to risk aversion among investors 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 also dropped substantially. Meanwhile, domestic commodity prices have fallen back markedly in response to movements in international commodity prices and to the yen's appreciation.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁰ has become negative, mainly due to the setback in international commodity prices (Chart 25). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" have turned down sharply due to the drop in prices of petroleum and coal products and of nonferrous metals. Prices of "iron and steel and construction goods" have also turned down, since prices of iron and steel have increased at a reduced pace and those of scrap and waste have declined at a faster pace. Prices of "others" have increased at a slower pace, in response to developments in prices of processed foodstuffs and of agriculture, forestry and fishery products. Prices of "other materials" have also slowed their pace of increase due to developments in prices of chemical products. On the other hand, prices of "electric power, gas and water" have continued to climb, due to high fuel costs thus far. Prices of "machinery" have risen lately, since past cost increases have been passed on, notably in transportation equipment. Looking at domestic demand products as a whole, including imports,

¹⁰ 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.

prices of raw materials have decreased at a faster pace in reaction to the drop in international commodity prices. Prices of intermediate goods and final goods have started to decrease, mainly due to the setback in prices of petroleum products.

The year-on-year rate of change in corporate services prices (excluding external factors)¹¹ has been around zero percent (Chart 26).¹² 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 been diminishing as a trend in response to firms' cost-cutting. Prices of information services have decreased lately, since firms have tightened the reins on their software investment. Prices of advertising services have marked a relatively large negative, since firms have been more cautious about increasing advertisement placements. Prices of leasing and rental have 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 27). 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. In September, however, consumer prices somewhat reduced their pace of increase to 2.3 percent on a year-on-year basis compared to an increase of 2.4

¹¹ "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.

¹² "All items including external factors" had continued to register a noticeable year-on-year positive due to the increase in transportation since early last year, but it dropped sharply to around zero percent in September.

percent in August, since the upward contribution from petroleum products decreased. Meanwhile, the year-on-year rate of change in consumer prices, excluding food and energy, has been around zero percent.

Looking at price developments for the time being, domestic corporate goods prices are likely to continue decreasing, mainly due to the setback in international commodity prices. The year-on-year rate of increase in consumer prices is expected to moderate reflecting the declines in the prices of petroleum products and stabilization in the prices of food.

Regarding developments in land prices in terms of the Urban Land Price Index (Chart 28), both commercial and residential land prices have started to drop in the six large city areas compared to six months before. Land prices in areas other than the six large city areas have fallen at a somewhat faster pace.

3. Financial Developments

(1) Financial Markets

Japan's money markets have continued to be nervous with thin trading in interbank markets in response to the turmoil in global financial markets. Although the overnight call rate (uncollateralized) was at around 0.5 percent in October and has been at around 0.3 percent since October 31,¹³ interest rates on term instruments, such as the Euroyen interest rate (TIBOR, 3-month) and FB rate (3-month), have been somewhat high (Chart 29[1]). Interest rates on Euroyen futures have fallen, mainly in distant contracts (Chart 29[2]). Meanwhile, since major central banks started to provide U.S. dollar funds at a fixed interest rate, U.S. dollar funding has been improving, mainly due to the easing of liquidity conditions (Chart 30).¹⁴

¹³ On October 31, the Bank of Japan lowered the target for the uncollateralized overnight call rate by 20 basis points. The basic loan rate was also lowered by 25 basis points and the applied interest rate of the newly introduced Complementary Deposit Facility was set at 0.1 percent.

¹⁴ Based on "Further Measures to Improve Liquidity in Short-Term U.S. Dollar Funding Markets" announced on October 13, the Bank introduced U.S. dollar funds-supplying operations on October 14 whereby funds are provided at a fixed rate set for each operation for unlimited amounts against pooled collateral. This operation was conducted from the offer made on October 21.

Yields on 10-year government bonds (newly issued 10-year JGB) have been more or less flat; they have recently been moving in the range of 1.4-1.5 percent (Chart 31).

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; and furthermore they also have expanded in some of those with high credit ratings (Chart 32).

Stock prices have continued to show large fluctuations in response to unstable U.S. and European stock prices. The Nikkei 225 Stock Average dropped to the 7,000-7,500 yen level in late October. It has appreciated temporarily, but then recently declined again to around 7,500 yen (Chart 33).

In the foreign exchange market, the yen has fluctuated sharply, pressured by increased risk aversion among market participants. The yen rose to the 92-93 yen level to the U.S. dollar toward late October; it has recently been traded at around 95 yen (Chart 34).

(2) Corporate Finance and Monetary Aggregates

Funding costs are thought to have remained flat, at low levels. The average contracted interest rates on new loans and discounts, with the monthly fluctuations smoothed out, have been more or less unchanged (Chart 36). However, CP issuance rates have risen, a reflection of the recent increase in the degree of risk aversion among investors.

The funding of the private sector has risen moderately. In response to heightened uncertainty about the outlook, an increasing number of firms have attempted to secure year-end funds in advance, although credit demand for working capital has stopped increasing due to a drop in materials prices. The amount outstanding of CP and corporate bonds issued has fallen below the previous year's level, decreasing by 2.1 percent in October on a year-on-year basis, compared to an increase of 0.7 percent in the previous two months (Chart 38), as funding conditions in the markets have tightened, reflecting increased risk aversion among investors. In

contrast, lending by private banks has increased, mainly to large firms, which have covered the decline in the issuance of CP and corporate bonds. Its monthly average outstanding, after adjustment,¹⁵ grew by 3.0 percent in October on a year-on-year basis, compared to 2.2 percent in September and 2.4 percent in August (Chart 37). However, lending to small and medium-sized firms has declined more rapidly. Its month-end outstanding, prior to adjustment, dropped by 3.2 percent in September, following a 1.6 percent decline in August on a year-on-year basis.

Private banks are thought to have maintained a generally accommodative stance on credit supply. Related DIs of business surveys, however, indicate that an increasing number of small firms and firms in the construction and real estate industries have perceived the lending attitudes of financial institutions as "severe" (Chart 35). The financial positions of firms have weakened. In particular, those of small firms and firms in the construction and real estate industries have further deteriorated.

The money stock (M2) has increased by around 2 percent from a year earlier, at a pace somewhat slower than before. Its October reading was 1.8 percent on a year-on-year basis, following 2.2 percent in September and 2.4 percent in August (Chart 39).¹⁶

The number of corporate bankruptcies was up by 13.4 percent in October compared to the year-ago level, to 1,429 cases (Chart 40).

¹⁵ 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.

¹⁶ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate decreased to 0.6 percent in October from 0.9 percent in September. Moreover, broadly-defined liquidity fell below the previous year's level for the first time since November 2003—it declined by 0.1 percent in October following a 0.7 percent increase in September.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q1	Q2	Q3	2008/Jul.	Aug.	Sep.	Oct.
Index of consumption expenditure level (two-or-more-person households)	-0.4	-2.0	-0.5	0.4	-3.3	1.7	n.a.
Sales at department stores	-0.7	-3.0	0.7	5.5	-2.7	0.8	n.a.
Sales at supermarkets	0.2	-1.7	0.3	2.4	-2.4	1.1	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 301>	< 295>	< 285>	< 309>	< 273>	< 271>	< 258>
Sales of household electrical appliances (real, Current Survey of Commerce)	5.7	1.8	7.2	4.3	4.9	-4.3	n.a.
Outlays for travel	0.6	-2.9	-1.6	0.8	-2.7	-3.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 114>	< 112>	< 113>	< 114>	< 113>	< 113>	<n.a.>
Machinery orders (from private sector ⁴)	2.2	0.6	-10.4	-3.9	-14.5	5.5	n.a.
Manufacturing	-5.9	2.7	-10.9	-10.4	-13.9	9.7	n.a.
Nonmanufacturing ⁴	6.5	1.0	-12.0	-2.4	-14.9	-1.3	n.a.
Construction Starts (private, nondwelling use)	1.2	-2.8	0.2	7.0	-4.2	-10.9	n.a.
Mining & manufacturing	-1.0	7.6	10.0	73.5	-22.5	-24.8	n.a.
Nonmanufacturing ⁵	1.9	-5.4	-1.2	-5.6	-1.5	-1.9	n.a.
Value of public works contracted	-0.5	-8.3	11.3	18.4	-7.2	-2.7	-0.6
Real exports	3.2	-3.3	1.7	2.1	-1.4	-0.3	p -3.1
Real imports	0.8	-3.2	2.9	-2.7	1.3	3.5	p 0.5
Industrial production	-0.7	-0.8	-1.3	1.3	-3.5	1.1	n.a.
Shipments	-0.5	-0.9	-1.8	1.9	-3.7	0.4	n.a.
Inventories	0.0	0.4	1.6	-0.1	-0.3	2.0	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 105.3>	< 105.0>	< 108.3>	< 101.2>	< 109.0>	< 108.3>	<n.a.>
Real GDP	0.6	-0.9	-0.1	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-0.9	0.5	-0.8	0.8	-1.7	-0.1	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q1	Q2	Q3	2008/Jul.	Aug.	Sep.	Oct.
Ratio of job offers to applicants <s.a., times>	< 0.97>	< 0.92>	< 0.86>	< 0.89>	< 0.86>	< 0.84>	<n.a.>
Unemployment rate <s.a., %>	< 3.9>	< 4.0>	< 4.1>	< 4.0>	< 4.2>	< 4.0>	<n.a.>
Overtime working hours ⁶	0.7	-1.2	-2.3	-1.0	-2.9	-2.7	n.a.
Number of employees	0.0	-0.0	0.1	-0.2	0.0	0.4	n.a.
Number of regular employees ⁶	1.9	1.7	1.5	1.5	1.5	1.4	n.a.
Nominal wages per person ⁶	1.6	0.7	0.2	0.3	0.1	0.2	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	3.5 < 1.0>	4.9 < 2.4>	7.1 < 2.8>	7.3 < 4.1>	7.4 < 2.9>	6.8 < 1.4>	p 4.8 <p -2.0>
Consumer price index ⁸	1.0	1.5	2.3	2.4	2.4	2.3	n.a.
Corporate services price index	0.9	1.0	p 1.0	1.4	1.4	p 0.1	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.3	2.1	2.2	2.1	2.4	2.2	p 1.8
Number of corporate bankruptcies <cases per month>	<1,238>	<1,276>	<1,345>	<1,372>	<1,254>	<1,408>	<1,429>

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

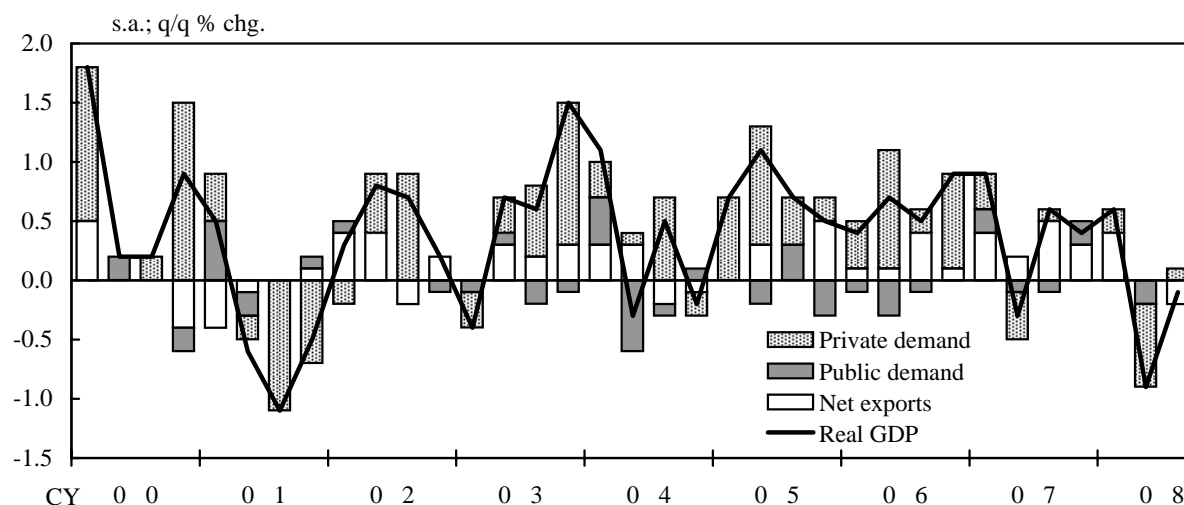
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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";
 Japan Tourism Agency, "Major Travel Agents' Revenue";
 Ministry of Land, Infrastructure and Transport, "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

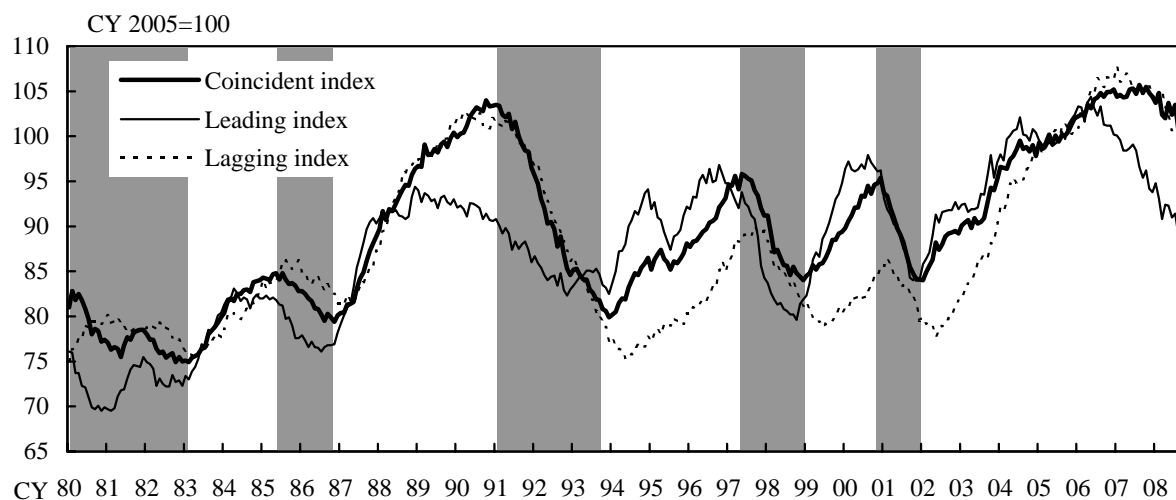


(2) Components

	2007		2008		
	Q3	Q4	Q1	Q2	Q3
Real GDP	0.6	0.4	0.6	-0.9	-0.1
Domestic demand	0.0	0.1	0.2	-0.9	0.1
Private demand	0.1	-0.0	0.2	-0.7	0.1
Private consumption	0.1	0.1	0.3	-0.3	0.2
Non-Resi. investment	0.3	0.1	-0.0	-0.2	-0.3
Residential investment	-0.3	-0.3	0.1	-0.1	0.1
Private inventory	0.0	0.0	-0.2	-0.0	0.0
Public demand	-0.1	0.2	-0.0	-0.2	0.0
Public investment	-0.1	0.0	0.0	-0.2	0.0
Net exports of goods and services	0.5	0.3	0.4	-0.0	-0.2
Exports	0.4	0.5	0.6	-0.5	0.1
Imports	0.1	-0.1	-0.2	0.5	-0.3
Nominal GDP	0.2	-0.1	0.2	-1.2	-0.5

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

(3) Indexes of Business Conditions (Composite Indexes)

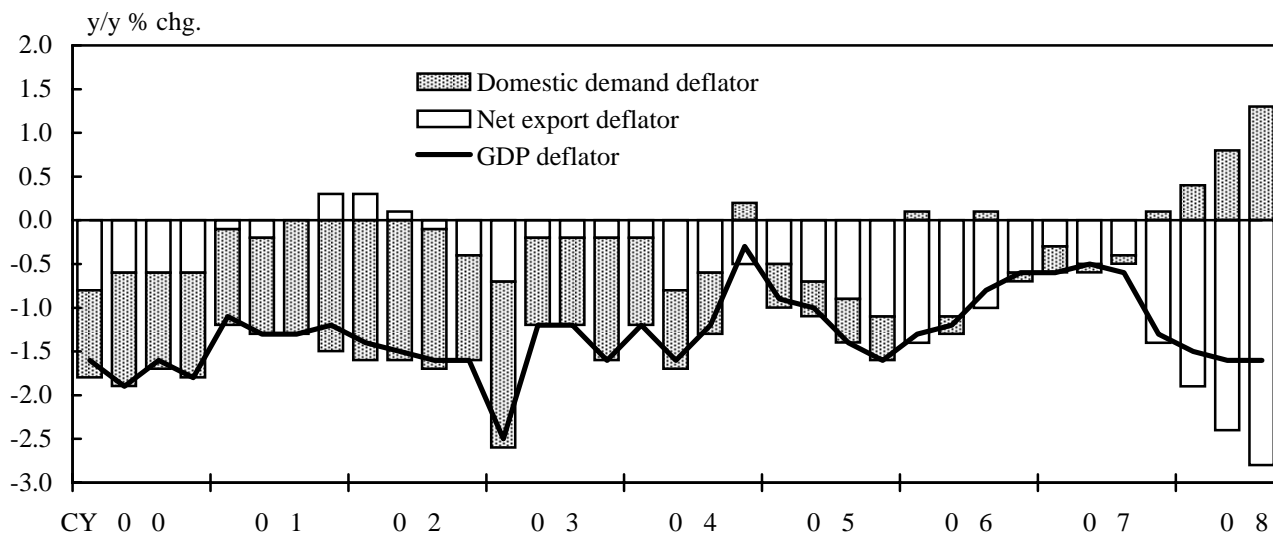


Note: Shaded areas indicate recession periods.

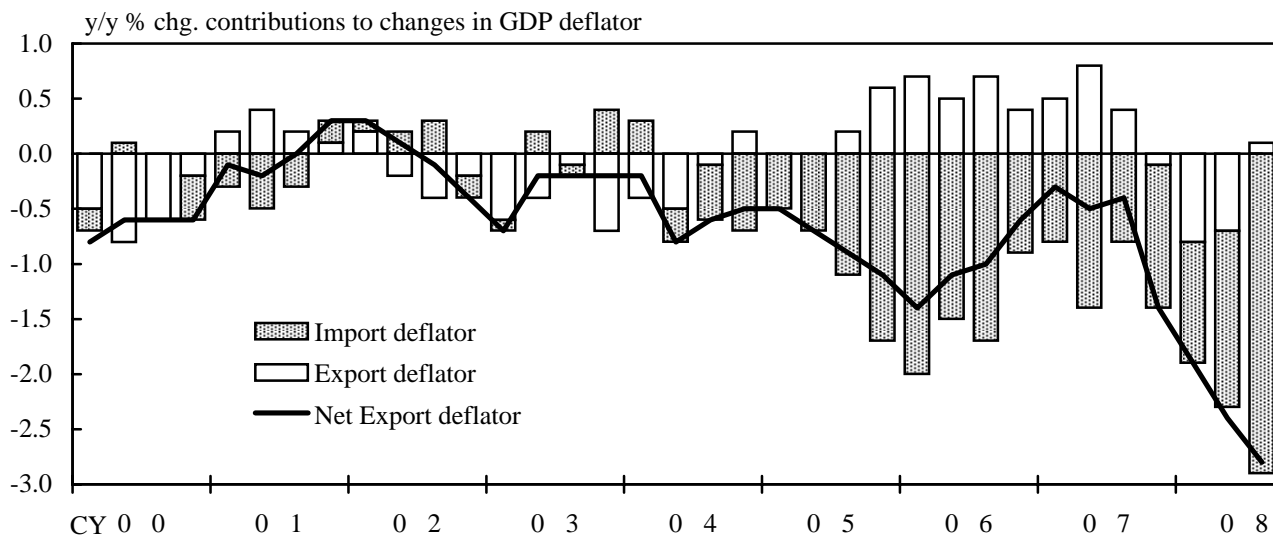
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

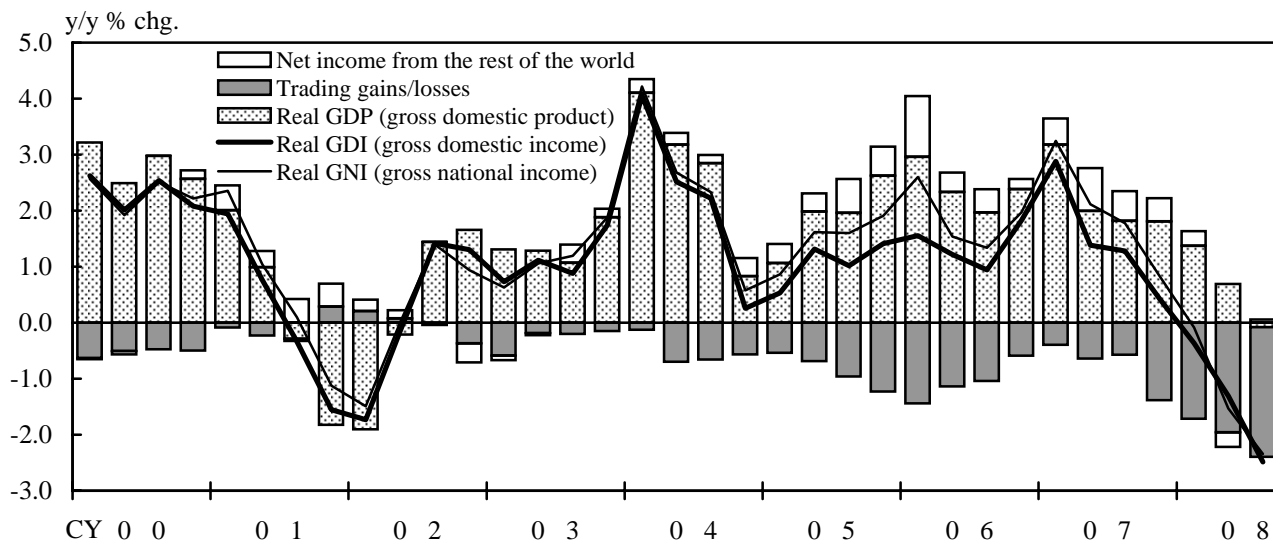
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



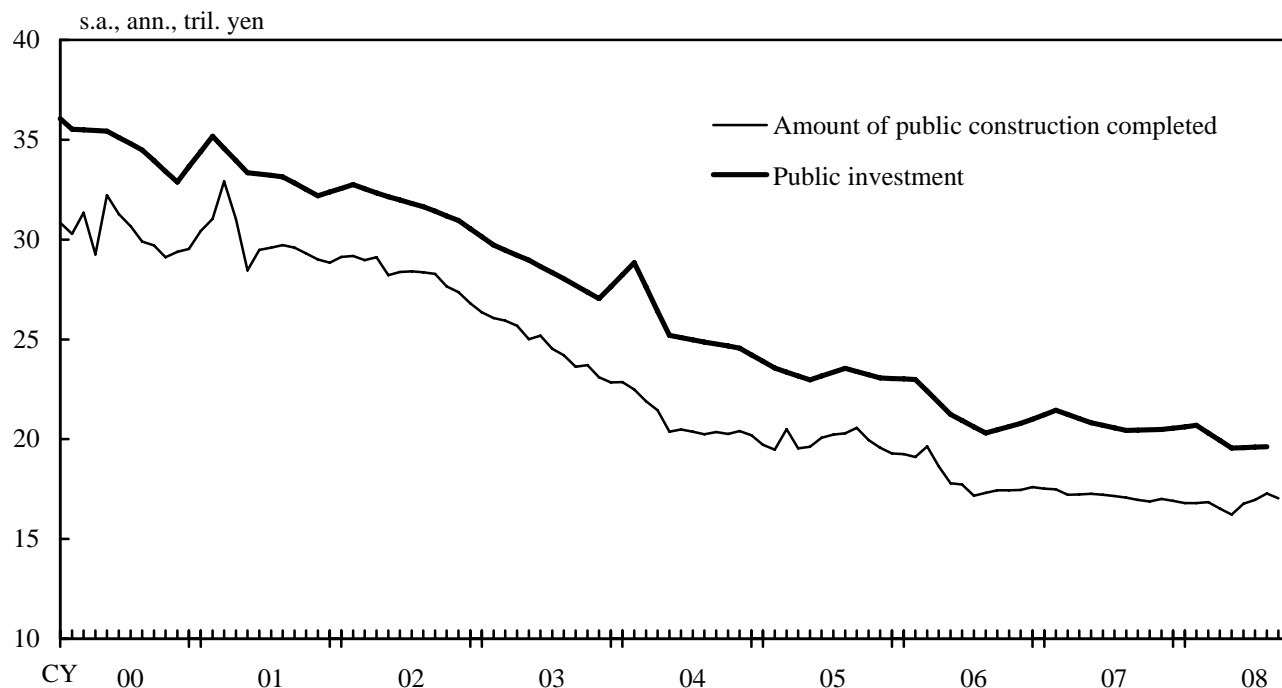
Note: Figures of components indicate contributions to changes in real GNI.

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

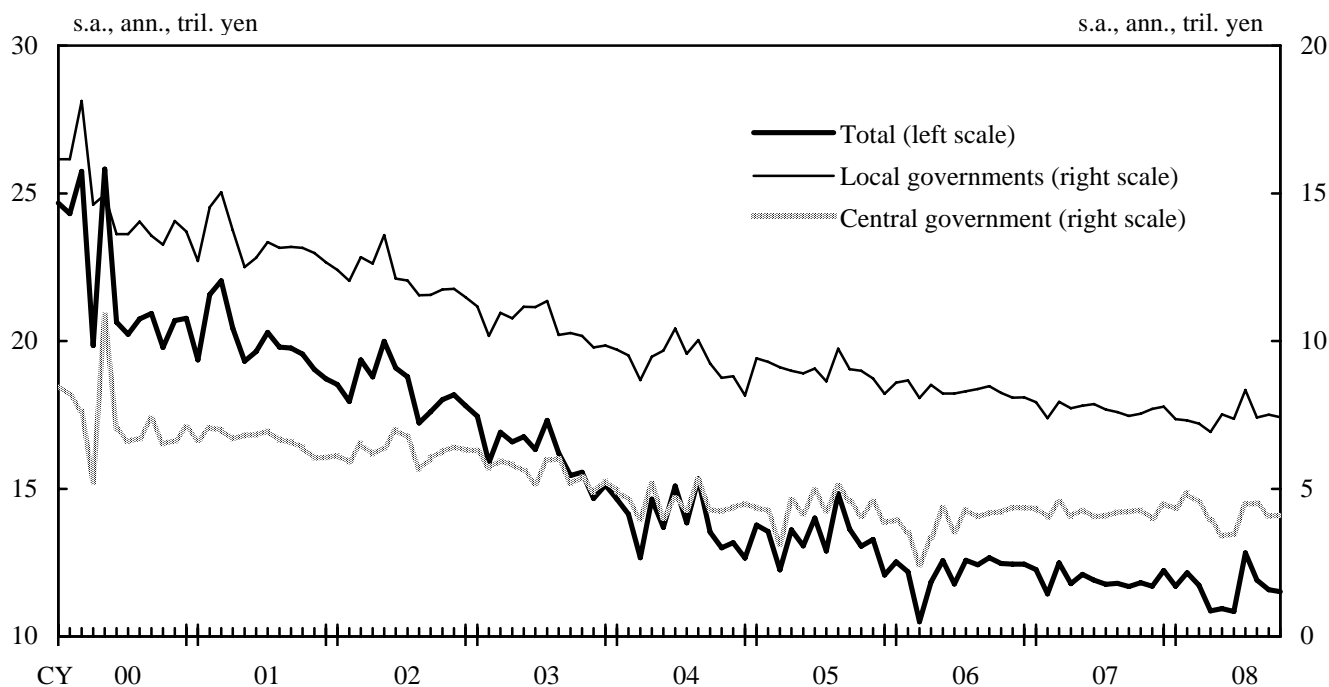
Source: Cabinet Office, "National Accounts."

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

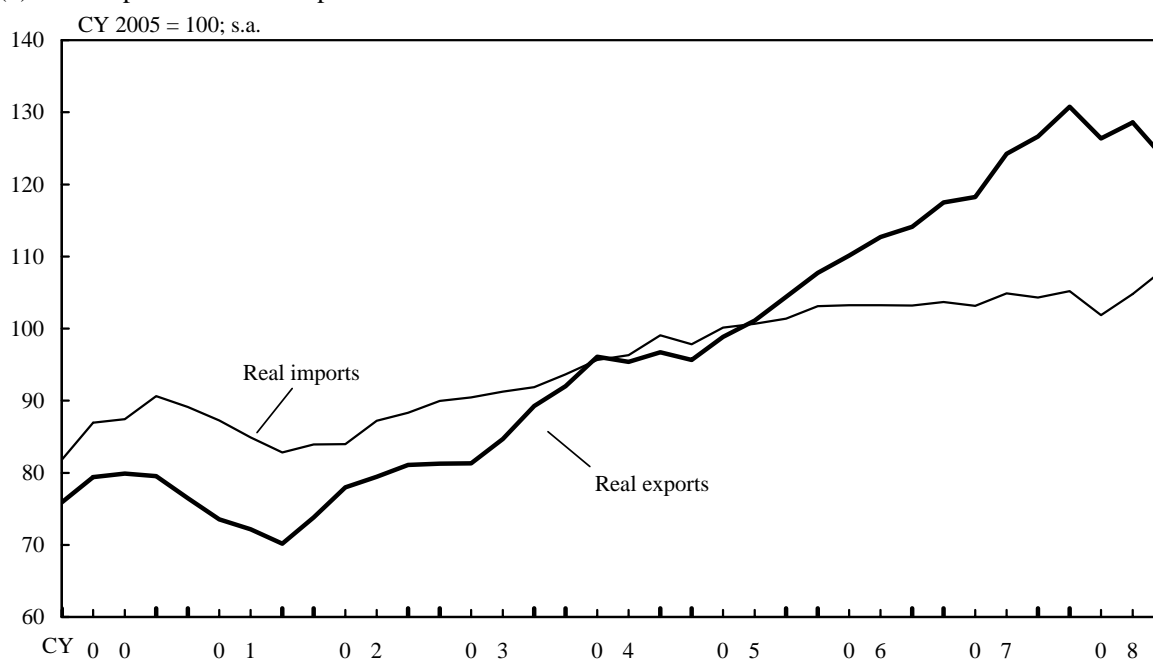
Sources: Cabinet Office, "National Accounts";

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

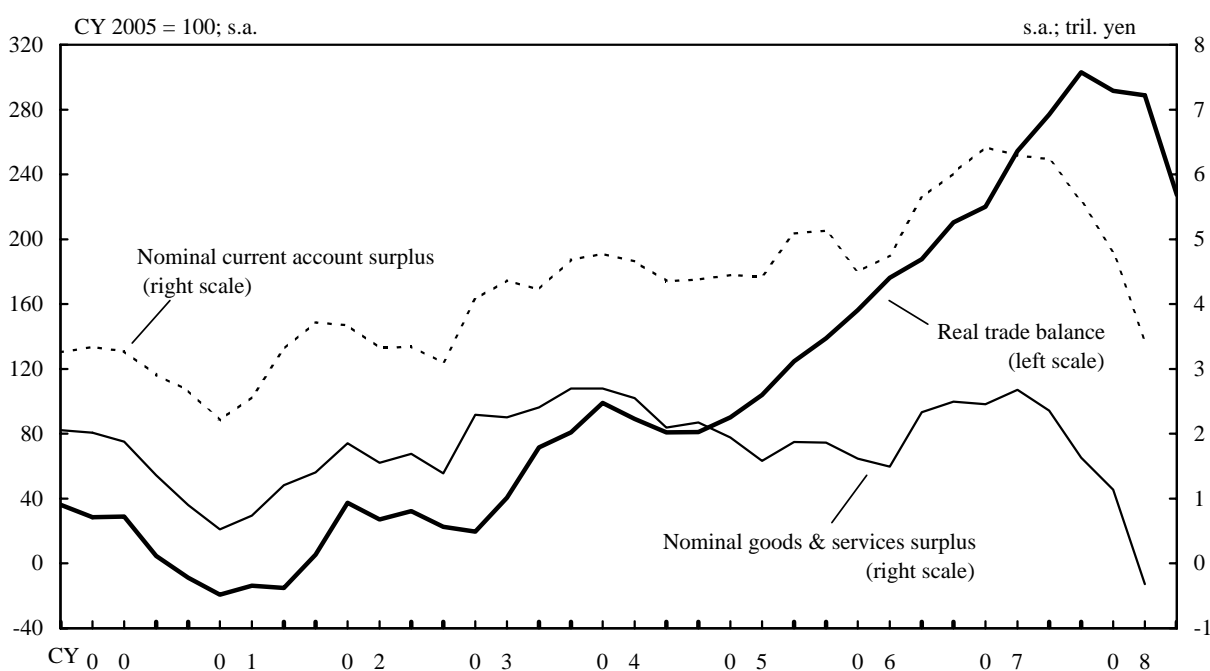
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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/Q4 figures for Real exports/imports and the real trade balance are October 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 Q4	2008 Q1	Q2	Q3	Q4	2008 Aug.	Sep.	Oct.
United States	<20.1>	11.7	-1.2	-1.3	-0.2	-6.9	-4.0	-1.5	-3.4	6.6	-4.5
EU	<14.8>	11.1	13.0	2.6	4.2	-7.4	2.1	-6.8	-1.5	-2.8	-4.5
East Asia	<46.0>	8.9	10.3	2.9	4.9	-2.4	1.8	-4.5	2.4	-6.5	-0.9
China	<15.3>	18.8	16.8	2.0	5.1	1.7	0.9	-0.9	1.0	-8.6	5.0
NIEs	<22.4>	6.3	5.2	2.0	5.3	-5.9	3.1	-9.0	2.1	-5.5	-6.1
Korea	<7.6>	9.6	5.3	4.7	3.6	-4.9	6.0	-14.8	4.4	1.5	-16.9
Taiwan	<6.3>	2.7	0.0	-3.8	8.7	-8.9	0.5	-11.2	8.6	-11.6	-6.1
ASEAN ⁴	<8.3>	1.8	13.2	6.4	3.6	-0.7	0.2	-0.2	5.6	-5.3	1.6
Thailand	<3.6>	4.1	9.8	2.1	5.1	-6.9	4.8	3.6	10.0	-7.5	5.8
Others	<19.1>	20.2	19.9	9.2	4.8	-0.1	4.1	1.4	-7.0	7.2	-0.8
Real exports		11.2	9.1	1.9	3.2	-3.3	1.7	-3.8	-1.4	-0.3	-3.1

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Aug.	Sep.	Oct.
Intermediate goods	<18.4>	6.9	5.3	1.6	2.1	-6.0	2.1	-1.8	2.8	-1.0	-2.0
Motor vehicles and their related goods	<24.1>	14.2	13.2	6.6	3.1	-4.8	0.0	-4.4	-6.0	2.1	-3.7
Consumer goods ⁴	<4.5>	9.8	6.4	-0.2	4.3	3.1	-1.1	-6.8	6.3	0.6	-9.0
IT-related goods ⁵	<11.0>	7.5	12.2	2.5	-1.3	4.4	2.4	-9.6	1.9	-1.3	-9.4
Capital goods and parts ⁶	<28.4>	13.3	8.0	2.8	4.3	-2.0	1.7	0.9	-2.5	3.0	-0.2
Real exports		11.2	9.1	1.9	3.2	-3.3	1.7	-3.8	-1.4	-0.3	-3.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q4 figures are October figures converted into quarterly amount.

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

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

4. Excludes motor vehicles.

5. IT-related goods are composed of computers and units, telecommunication machinery,

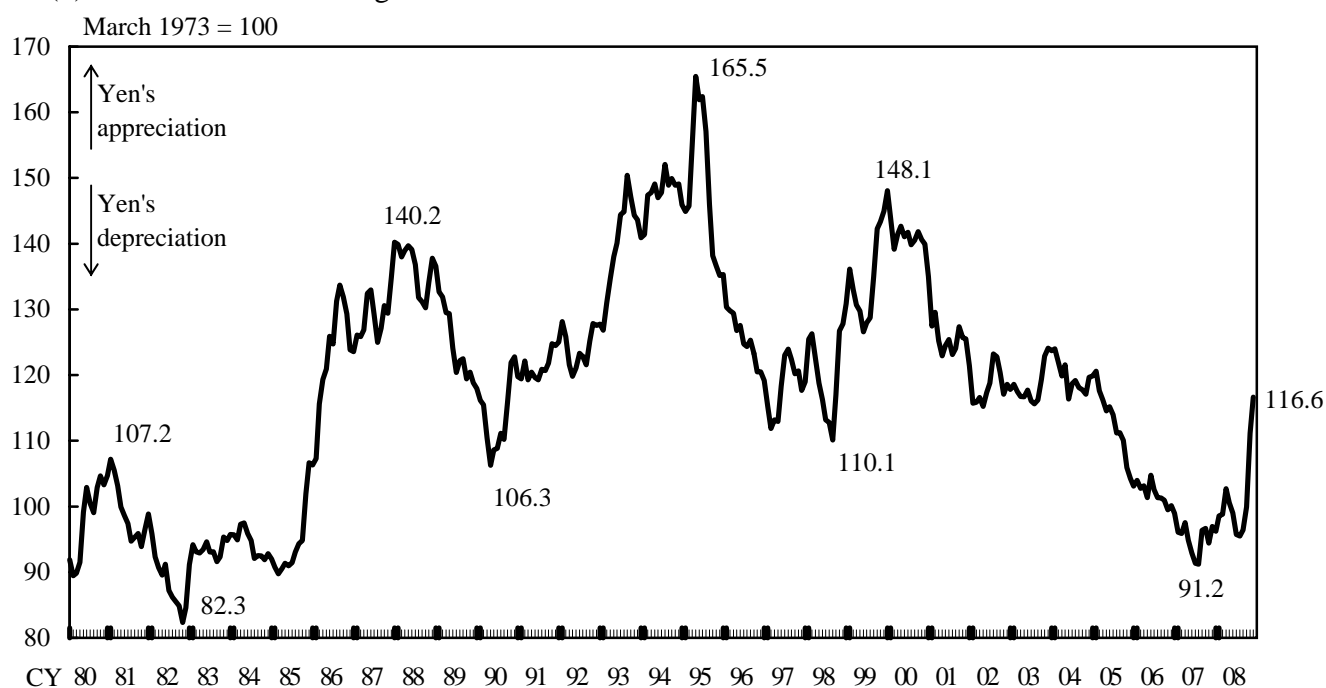
ICs, and medical and optical instruments.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for November 2008 is the average up to November 20.

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 Q4	2008 Q1	Q2	Q3	
United States ¹		2.9	2.8	2.0	-0.2	0.9	2.8	-0.3	
European Union ¹		2.0	3.2	2.9	1.8	2.4	-0.1	-0.9	
	Germany	0.9	3.2	2.6	1.4	5.7	-1.7	-2.1	
	France	1.9	2.4	2.1	1.4	1.6	-1.1	0.6	
	United Kingdom	2.1	2.8	3.0	2.0	1.1	0.0	-2.0	
East Asia ²	China	10.4	11.6	11.9	11.3	10.6	10.1	9.0	
	NIEs	Korea	4.2	5.1	5.0	5.7	5.8	4.8	3.9
		Taiwan	4.2	4.8	5.7	6.4	6.2	4.6	-1.0
		Hong Kong	7.1	7.0	6.4	6.9	7.3	4.2	1.7
		Singapore	7.3	8.2	7.7	5.4	6.9	2.3	-0.6
	ASEAN4	Thailand	4.5	5.1	4.8	5.7	6.1	5.3	n.a.
		Indonesia	5.7	5.5	6.3	6.3	6.3	6.4	6.1
		Malaysia	5.3	5.8	6.3	7.3	7.1	6.3	n.a.
Philippines		5.0	5.4	7.2	6.4	4.7	4.6	n.a.	

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

2. Quarterly data of East Asia are percent changes from a year earlier.

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Aug.	Sep.	Oct.
United States	<11.4>	5.2	-1.5	3.3	-1.1	-3.9	2.3	2.2	11.9	1.2	-2.2
EU	<10.5>	0.8	4.0	-3.3	-1.0	0.2	-3.0	-2.1	2.9	1.0	-3.6
East Asia	<40.9>	8.7	3.3	0.1	2.2	-3.0	4.2	4.9	0.6	3.7	2.2
China	<20.6>	10.9	5.7	-0.1	0.8	-0.9	7.1	3.7	-0.7	4.9	0.7
NIEs	<8.9>	12.2	-3.8	0.5	3.0	-4.4	1.8	-1.3	0.3	-1.9	-0.1
Korea	<4.4>	10.6	-3.3	0.5	3.3	-9.2	1.3	-0.6	-0.3	-4.1	2.3
Taiwan	<3.2>	15.6	-3.0	-1.7	4.2	1.6	3.2	7.0	3.0	-3.6	8.6
ASEAN4 ³	<11.4>	2.5	4.8	0.0	4.1	-5.5	0.8	12.0	3.5	5.8	6.8
Thailand	<2.9>	8.7	4.4	-0.5	1.2	-3.2	5.4	14.6	5.0	11.4	5.2
Others	<37.2>	2.5	-0.1	-0.4	0.9	-3.8	3.4	3.5	2.2	1.6	1.6
Real imports		3.4	0.7	-0.5	0.8	-3.2	2.9	3.3	1.3	3.5	0.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Aug.	Sep.	Oct.
Raw materials ⁴	<35.4>	0.7	0.7	-0.3	1.6	-5.9	3.3	5.7	2.8	-1.1	5.5
Intermediate goods	<14.8>	3.1	2.0	-1.8	-1.7	2.3	1.3	5.8	1.1	5.3	1.9
Foodstuffs	<8.3>	-4.0	-9.6	-6.2	-1.0	-0.7	2.4	15.5	9.6	4.1	9.2
Consumer goods ⁵	<8.1>	4.3	-0.1	-2.8	0.6	-3.2	2.2	-0.8	0.6	1.4	-1.9
IT-related goods ⁶	<11.3>	17.2	4.2	1.7	4.1	-2.3	4.6	-1.4	-0.2	-2.0	0.0
Capital goods and parts ⁷	<12.8>	16.8	8.5	4.5	1.2	-1.3	2.4	-5.2	3.0	8.2	-10.9
Excluding aircraft	<11.8>	17.7	7.9	1.9	0.0	2.5	-2.2	1.5	-1.6	7.6	-2.8
Real imports		3.4	0.7	-0.5	0.8	-3.2	2.9	3.3	1.3	3.5	0.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2008/Q4 figures are October figures converted into quarterly amount.

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

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

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

5. Excludes foodstuffs.

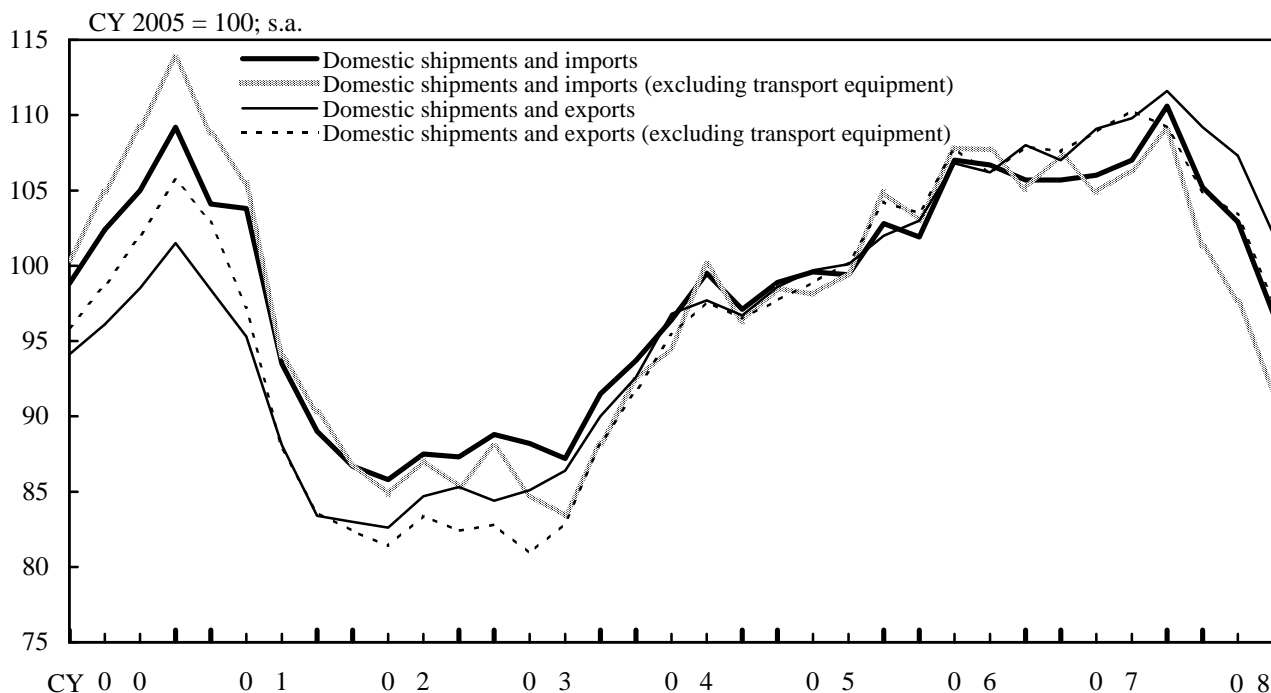
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

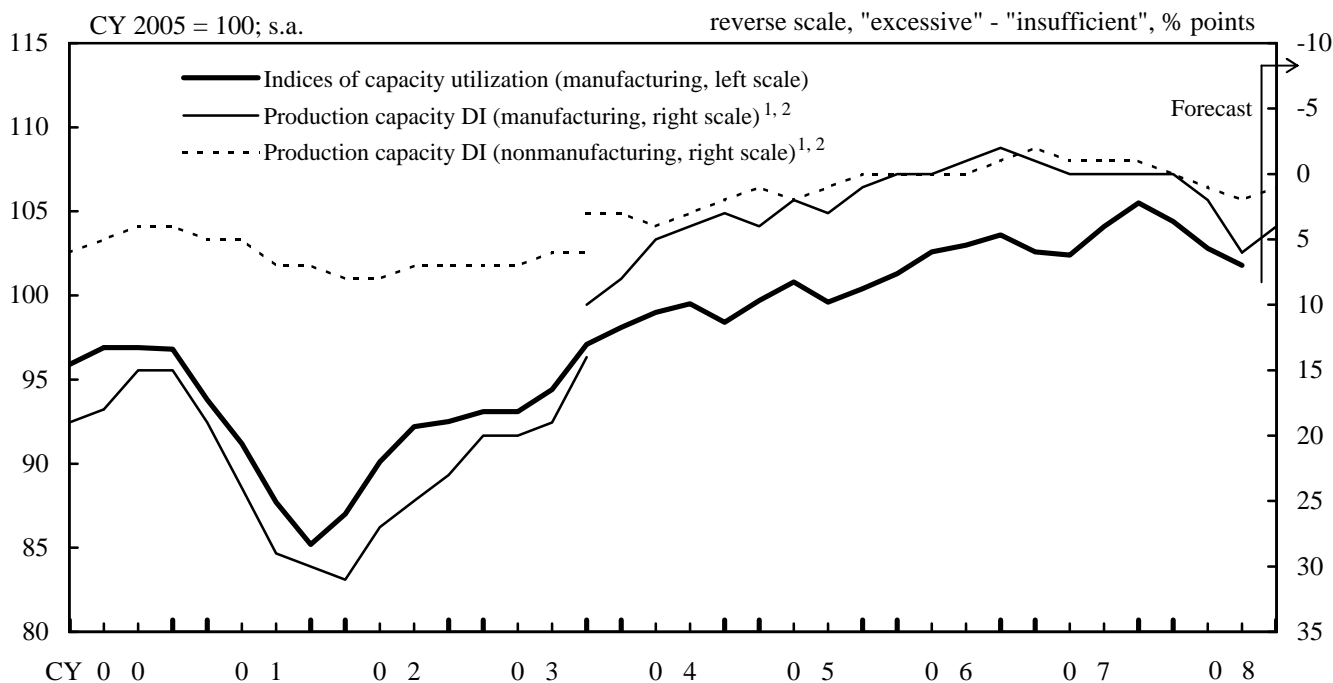
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



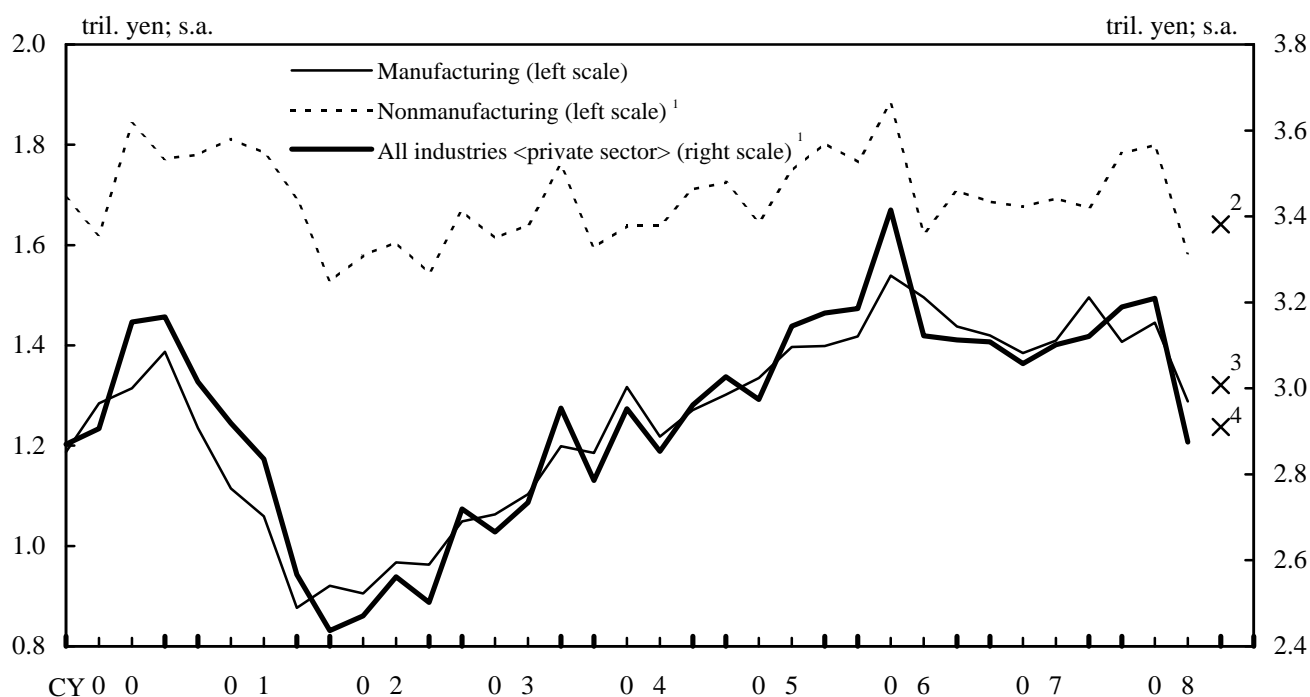
Notes: 1. Production capacity DIs are those of all enterprises.

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

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



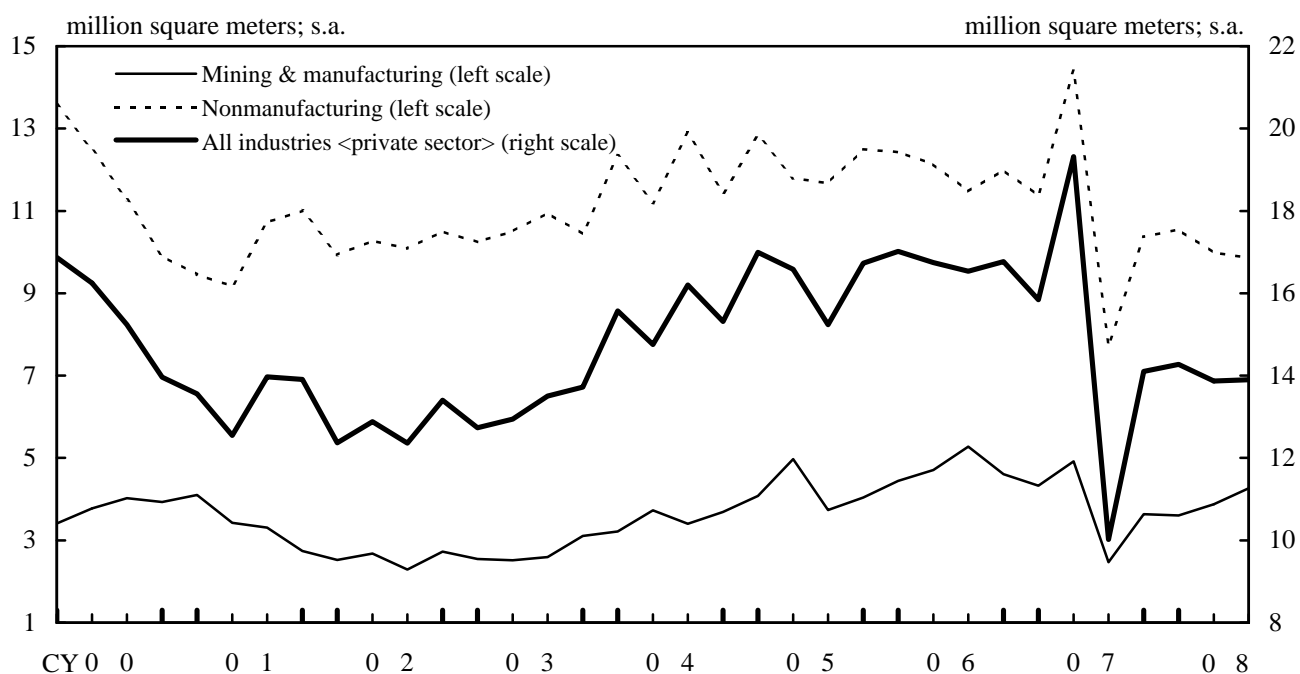
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2008/Q4.

3. Forecast of manufacturing industries for 2008/Q4.

4. Forecast of all industries <private sector> for 2008/Q4.

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



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

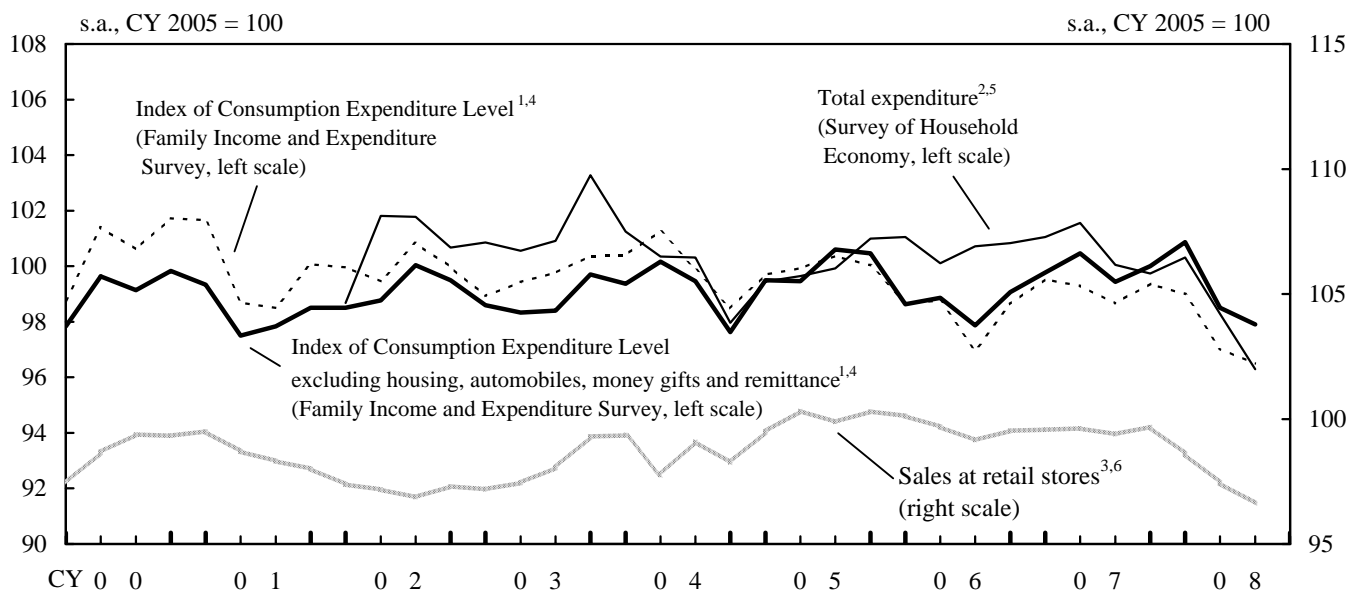
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

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

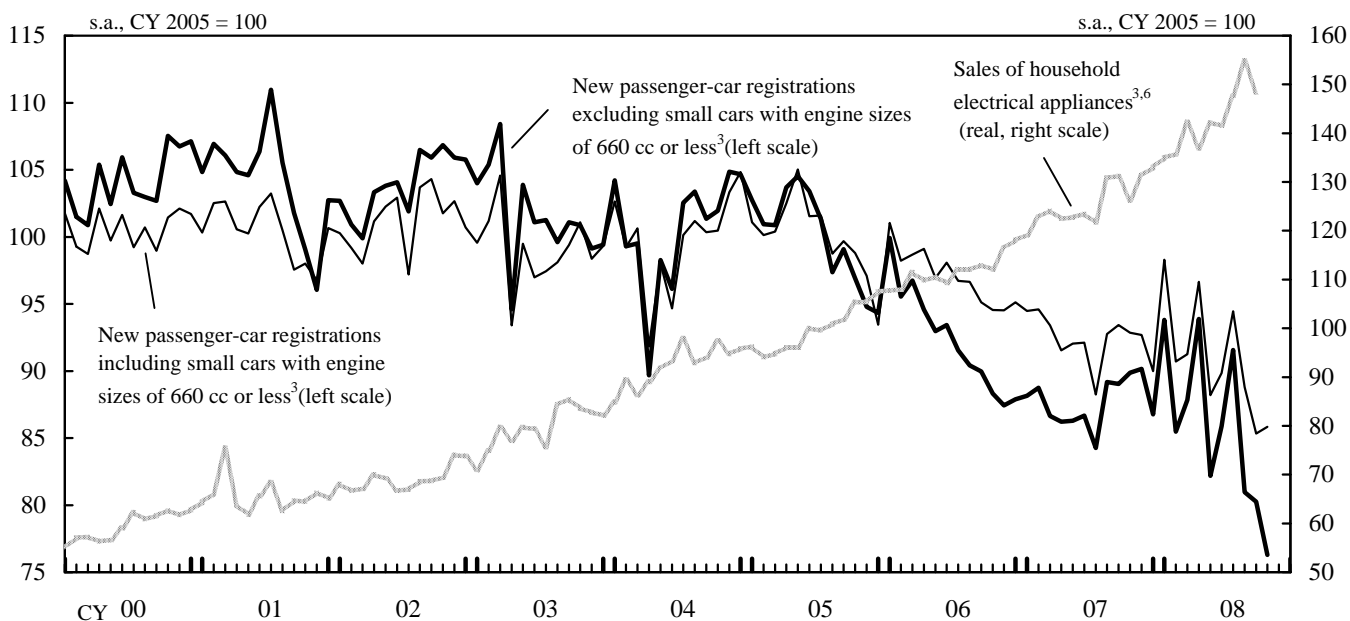
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

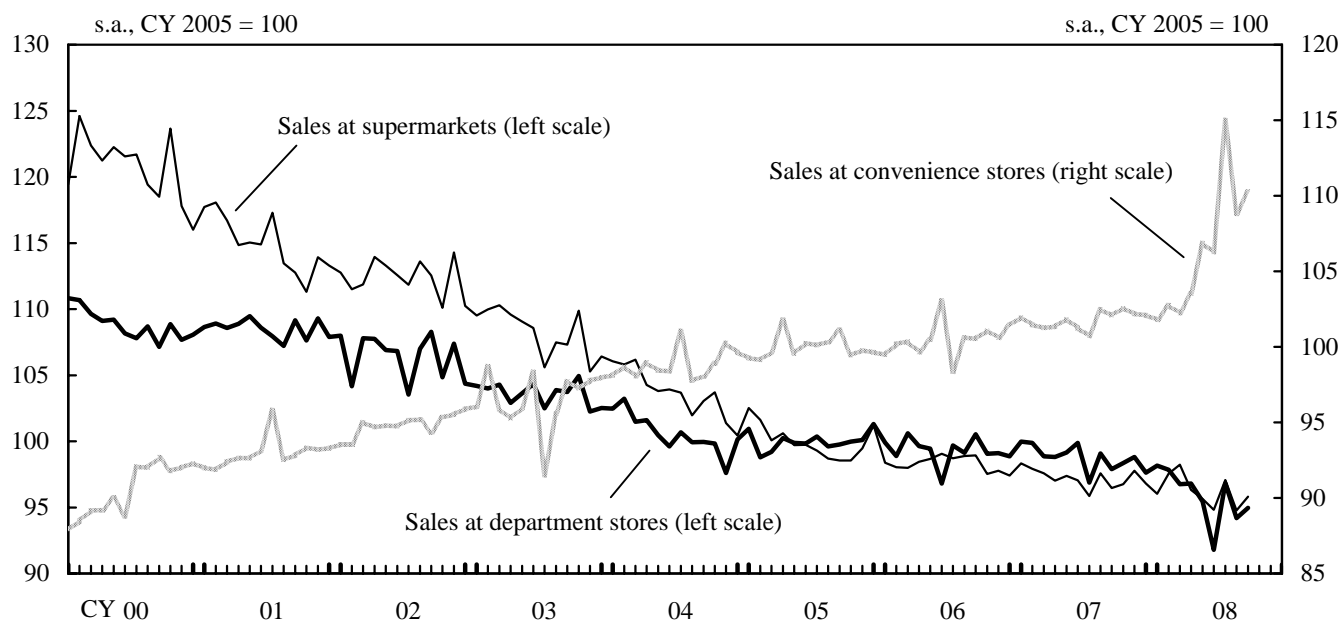


(2) Sales of Durable Goods

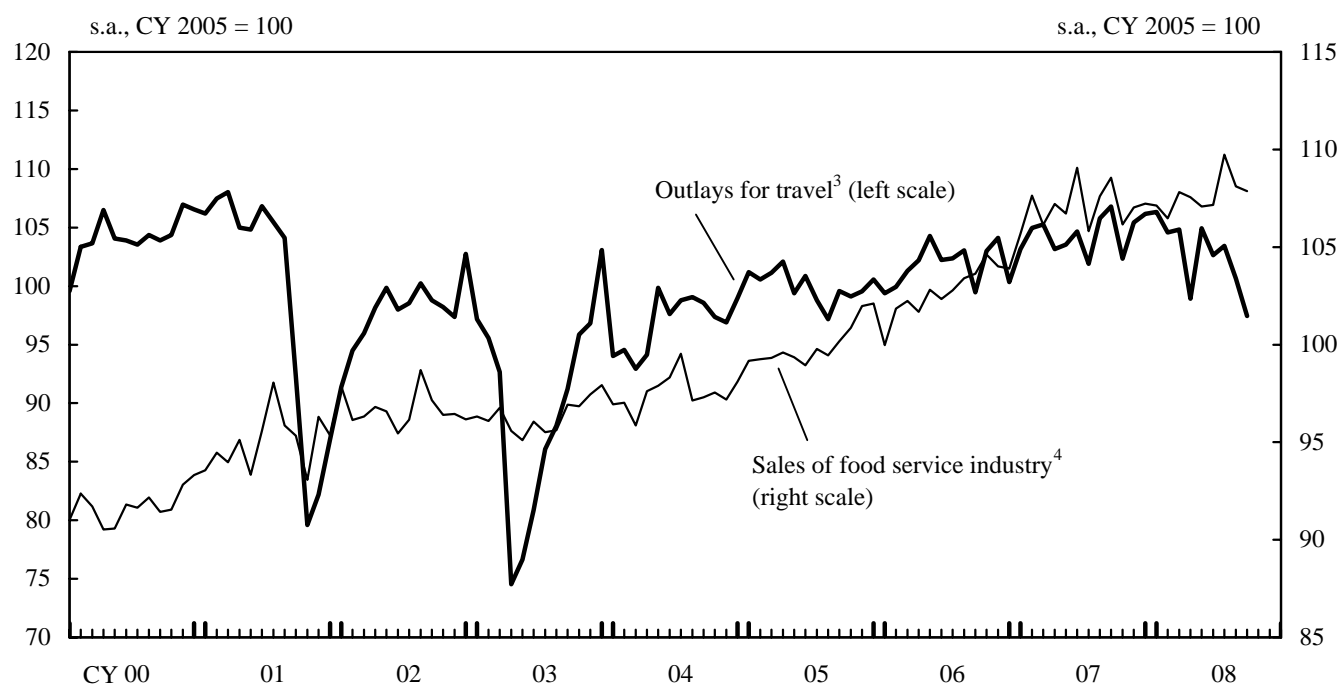


- Notes: 1. Index of consumption expenditure level is seasonally adjusted by the Ministry of Internal Affairs and Communications.
 2. Total expenditure is seasonally adjusted by X-11.
 3. All the other indicators are seasonally adjusted by X-12-ARIMA.
 4. Index of consumption expenditure level is based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

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index,"
 "Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";
 Ministry of Economy, Trade and Industry, "Current Survey of Commerce";
 Bank of Japan, "Corporate Goods Price Index";
 Japan Automobile Dealers Association, "Domestic Sales of Automobiles";
 Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators for Private 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";

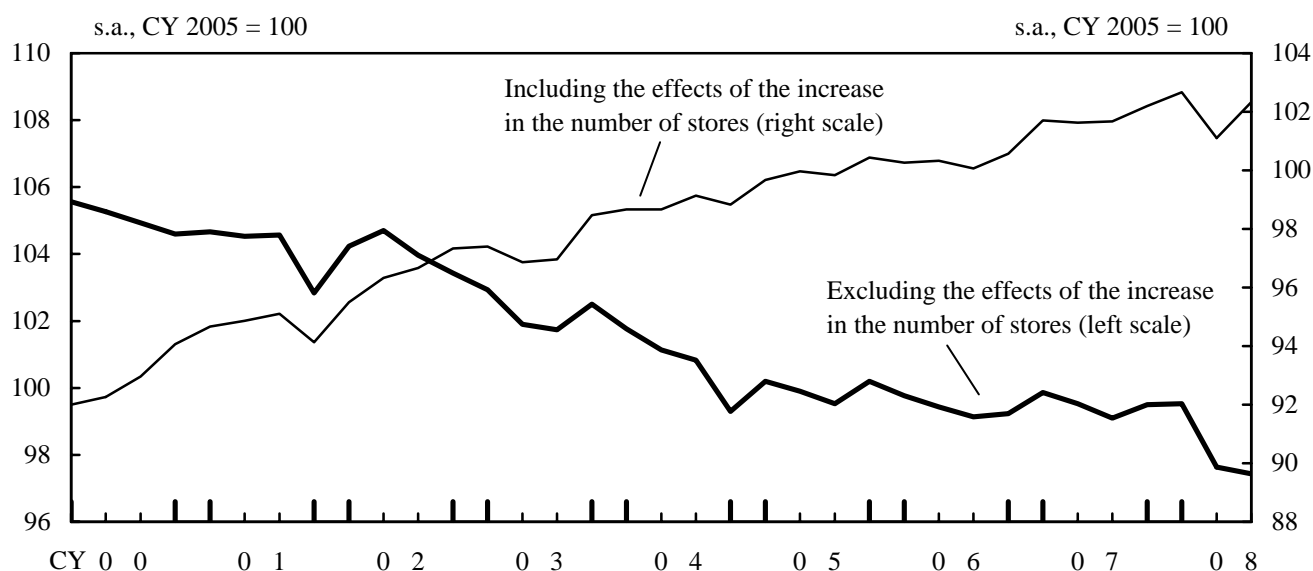
Japan Tourism Agency, "Major Travel Agents' Revenue";

Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa

(Research on the Food Service Industry)."

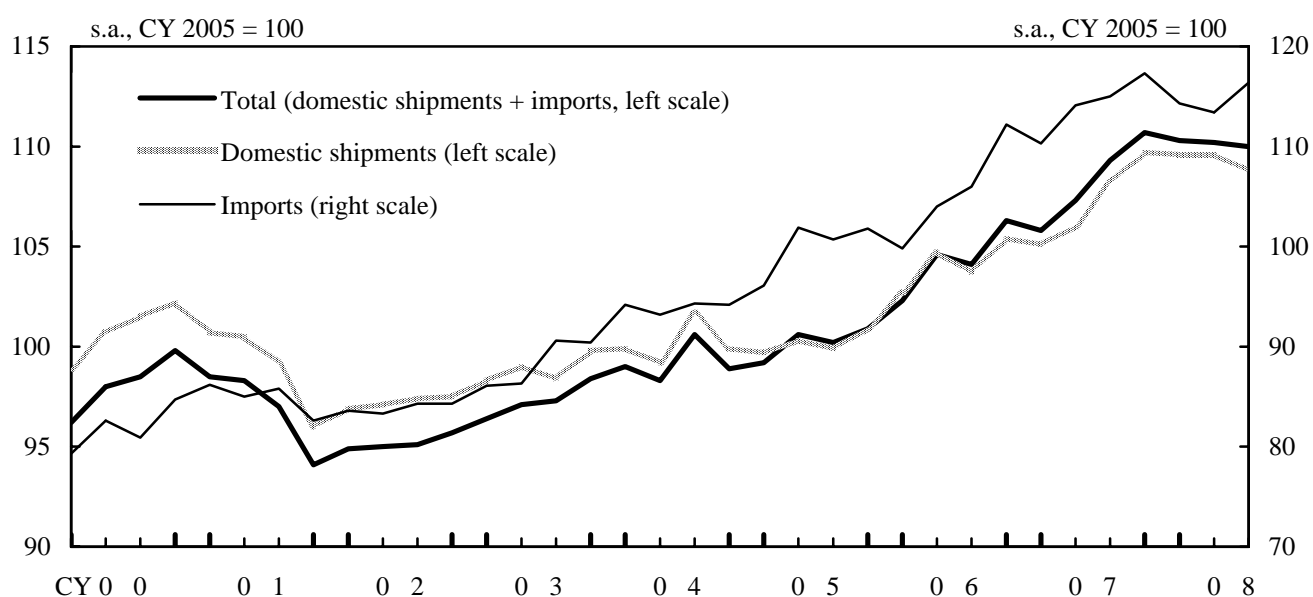
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- Notes: 1. The Indices of Aggregated Sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in the Family Income and Expenditure Survey. These indices of aggregated sales consist of the series including and excluding the effects of the increase in the number of stores. Indices "including the effects of the increase in the number of stores" reflect the fluctuations in sales due to changes in the number of stores caused by the opening and closing down of businesses (indices "including the effects of the increase in the number of stores" include sales at convenience stores). On the other hand, those "excluding the effects of the increase in the number of stores" aim to capture consumption trends only from stores for which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the price indices.
3. Seasonally adjusted by X-12-ARIMA.

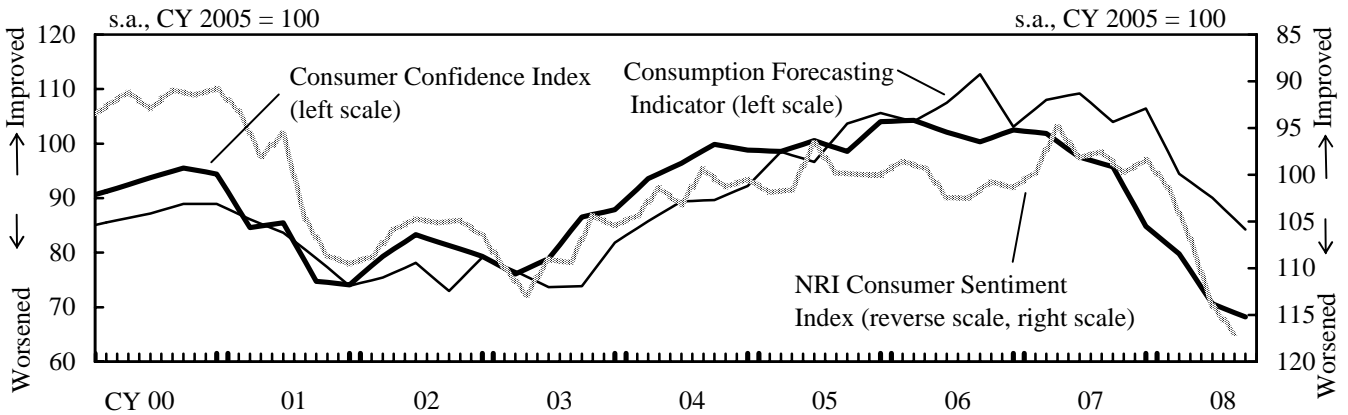
(2) Aggregate Supply of Consumer Goods



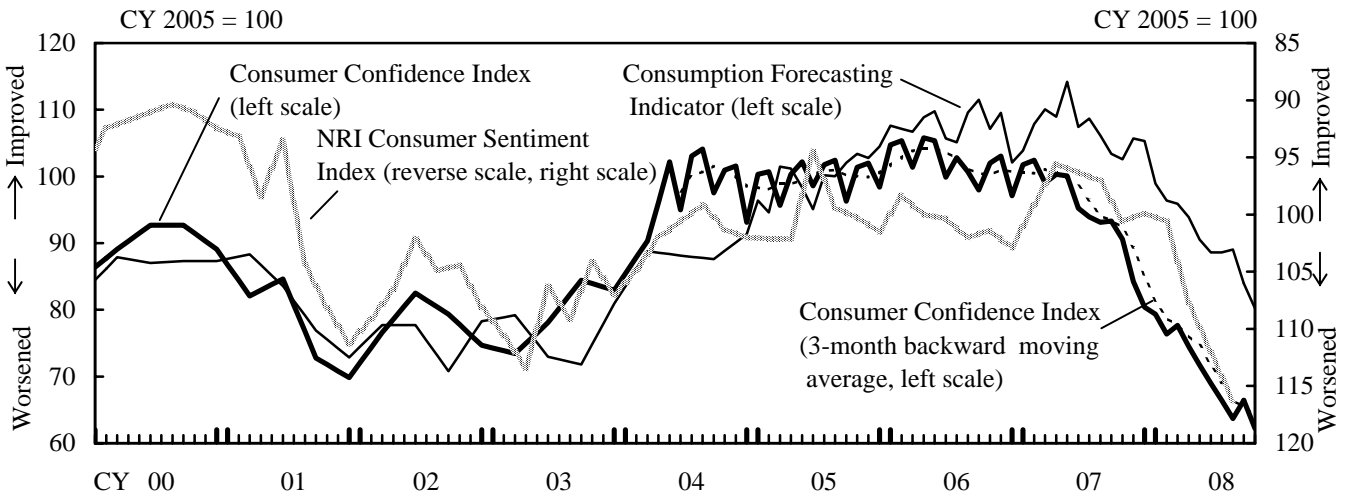
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence

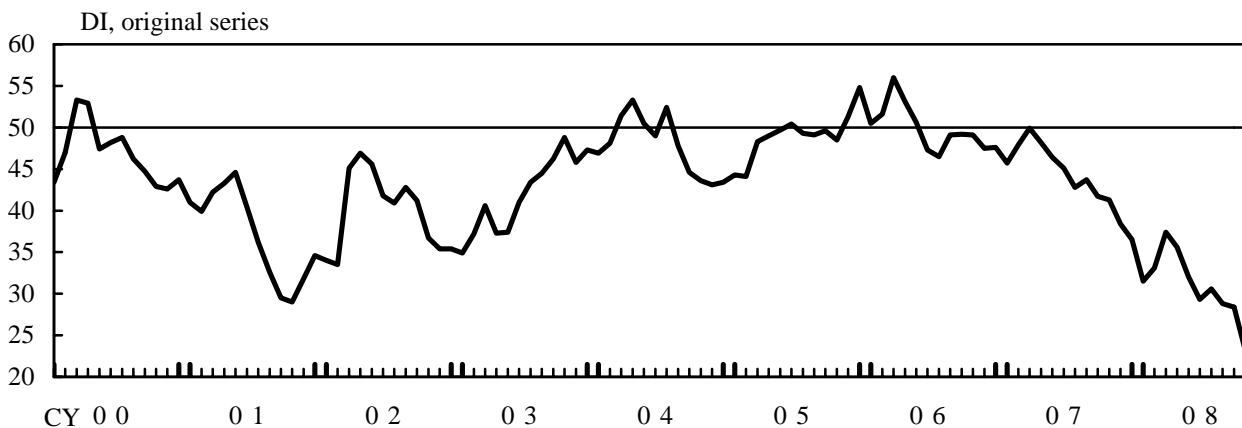
(1) Seasonally Adjusted Series



(2) Original Series



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



- Notes: 1. The Consumer Confidence Index (with about 5,000 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
- 2. Figures are plotted for each surveyed months and the data for intervening months are linearly interpolated.
- 3. (1) is seasonally adjusted by X-11. The Consumer Confidence Index is seasonally adjusted by the Cabinet Office. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.

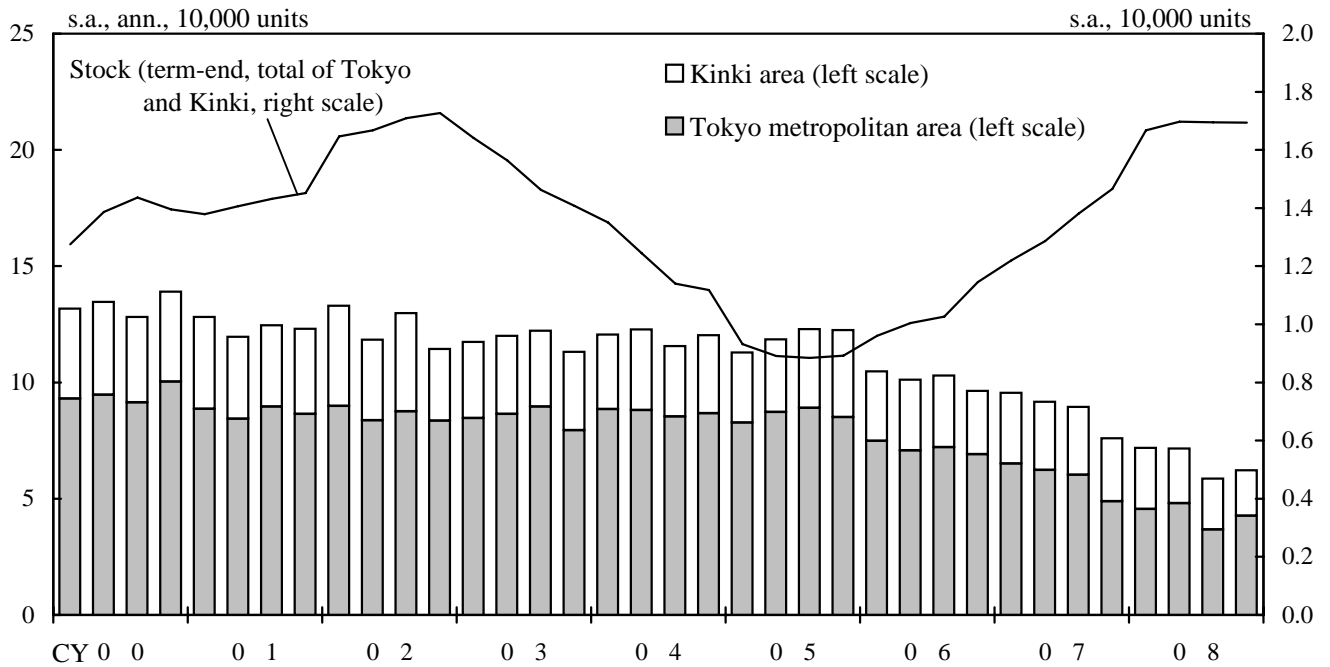
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey";
Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Apartments

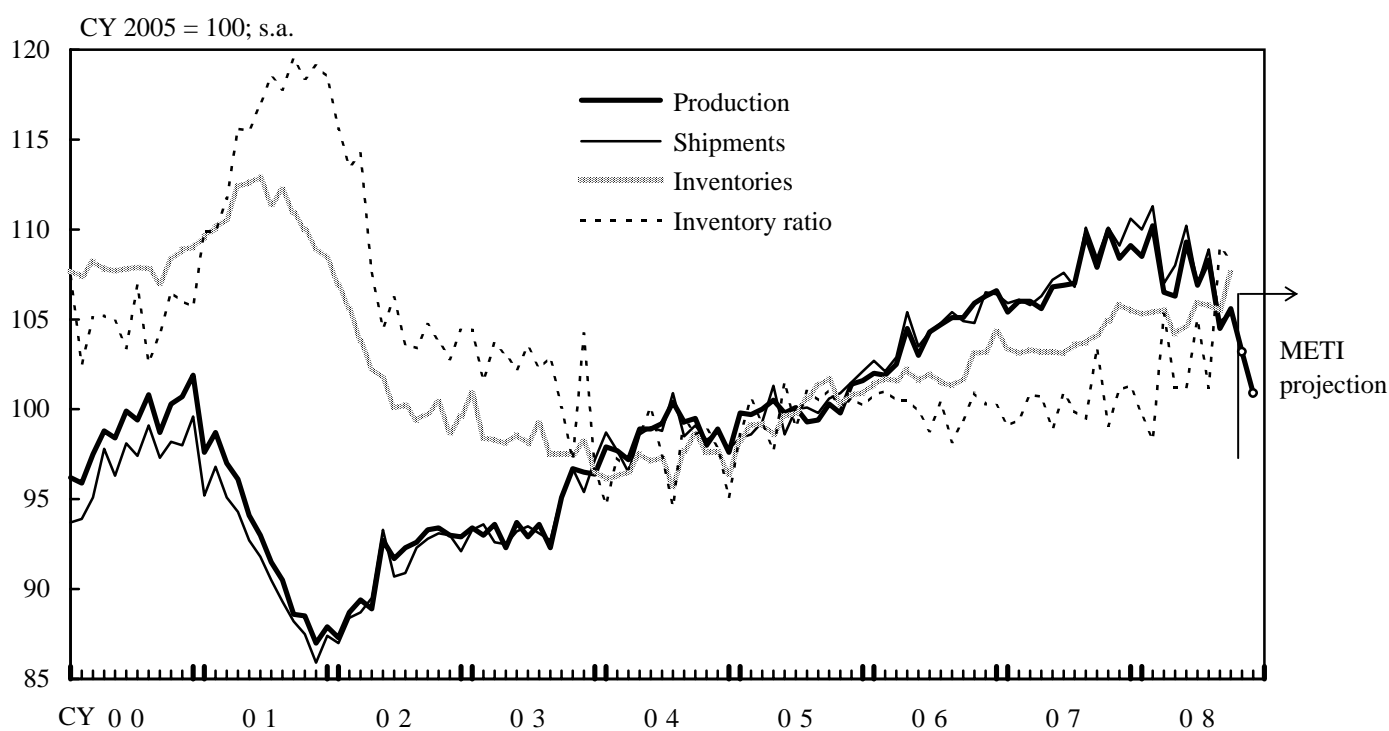


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2008/Q4 are those of October.

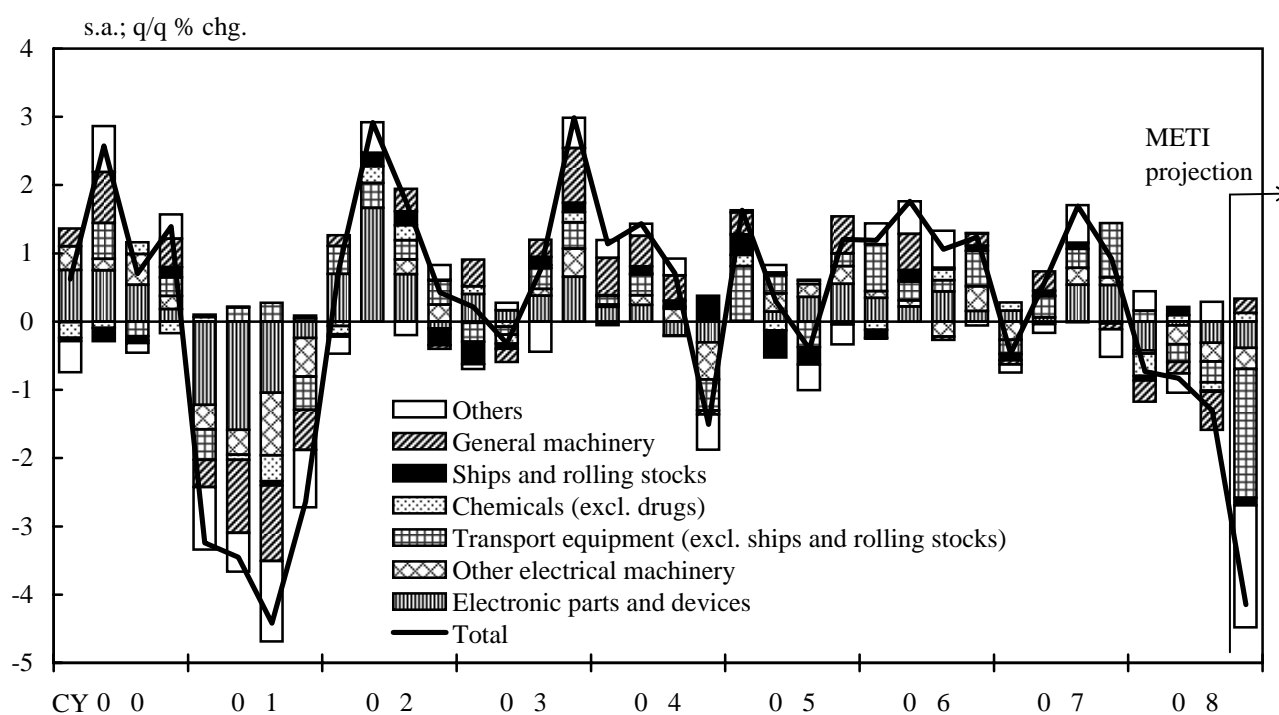
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

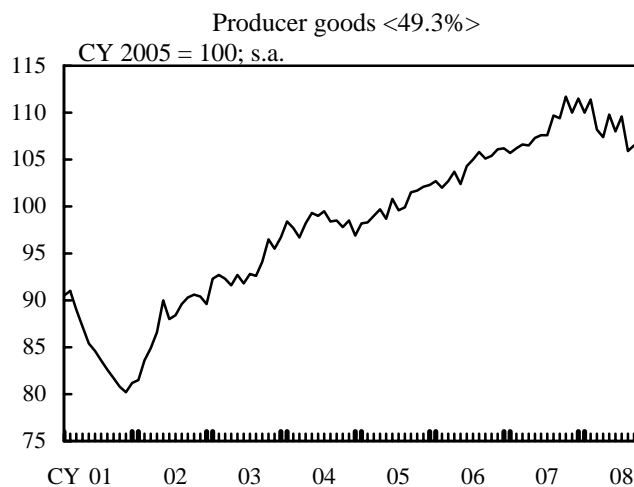
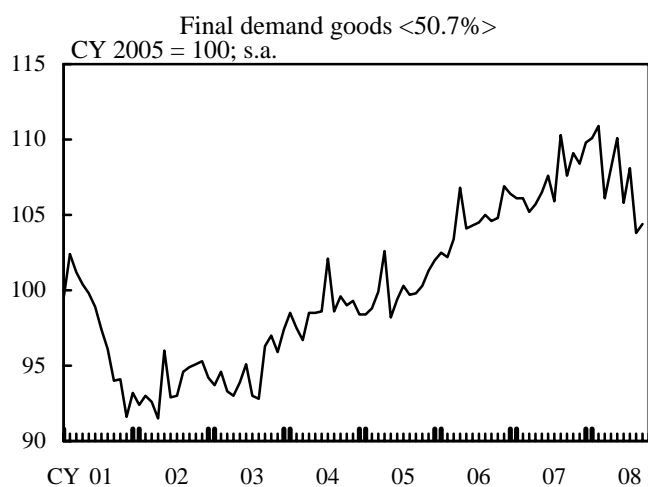


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. Figures up to 2003/Q1 are on the 2000 base.
 3. 2008/Q4 figures are based on the assumption that production level in December is the same as that of November.

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

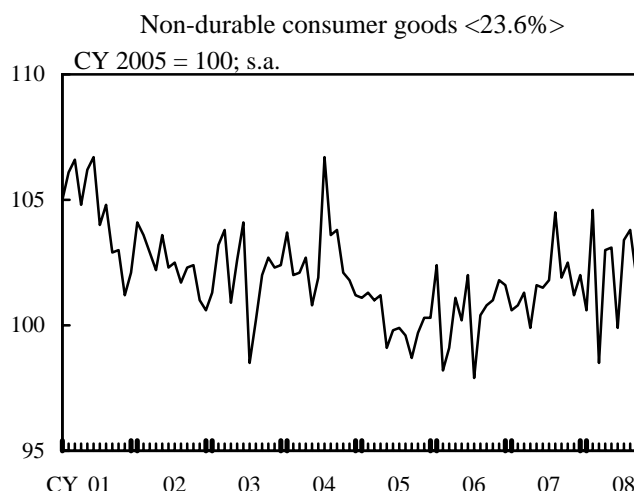
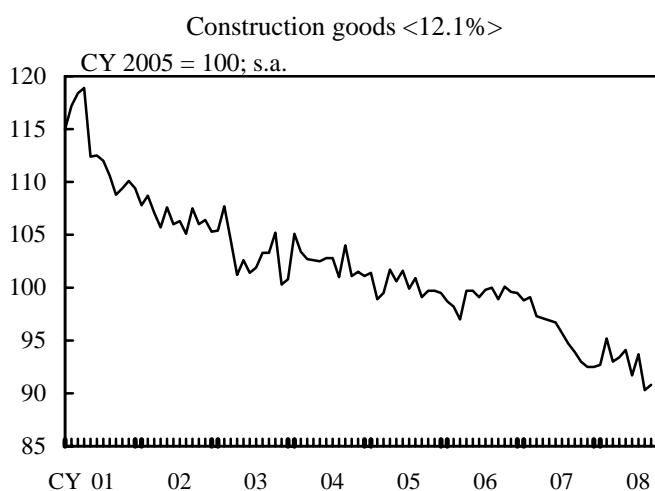
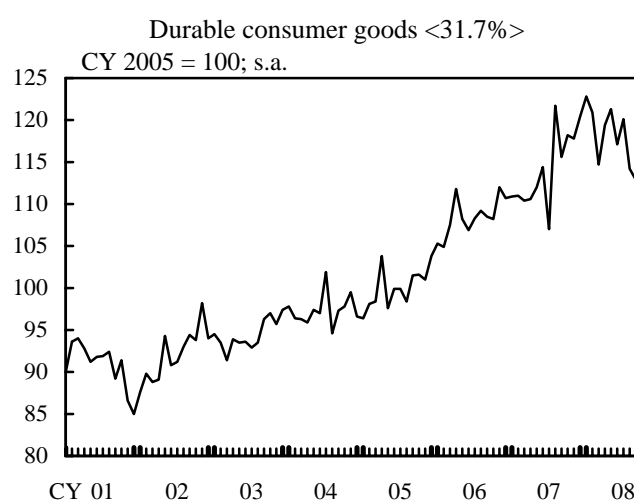
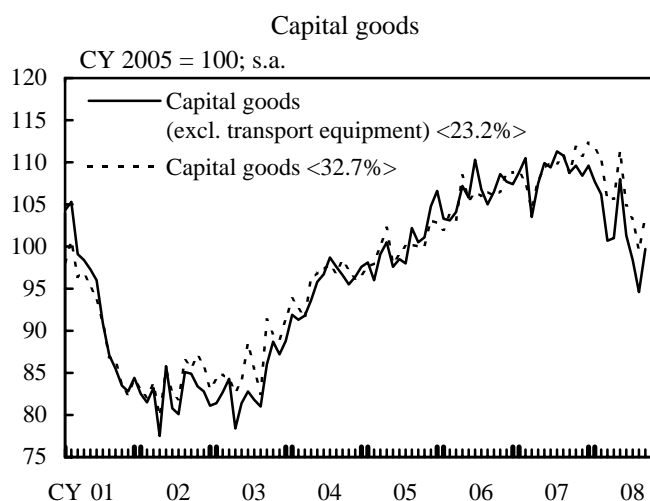
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

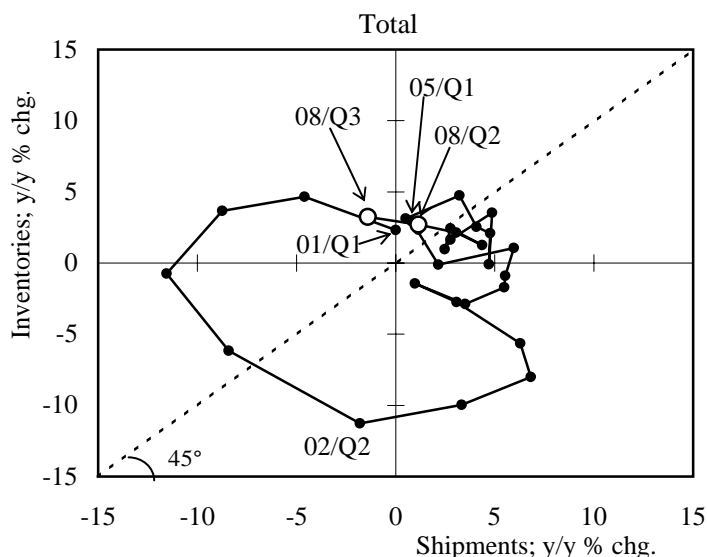
(2) Breakdown of Final Demand Goods



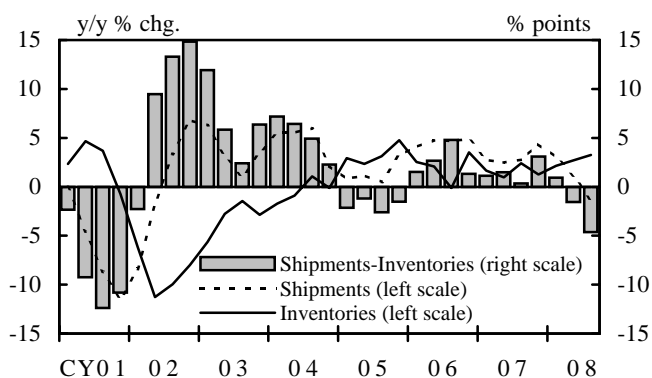
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

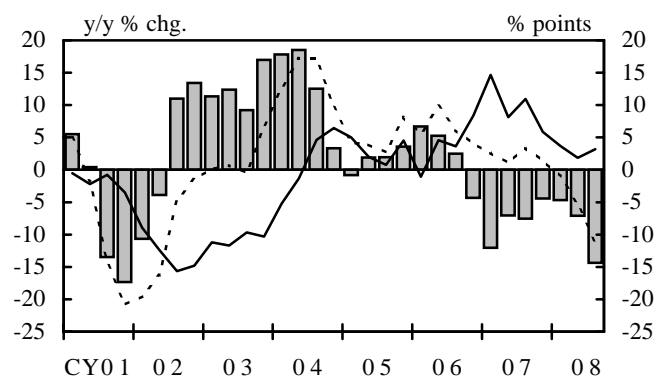
Inventory Cycle



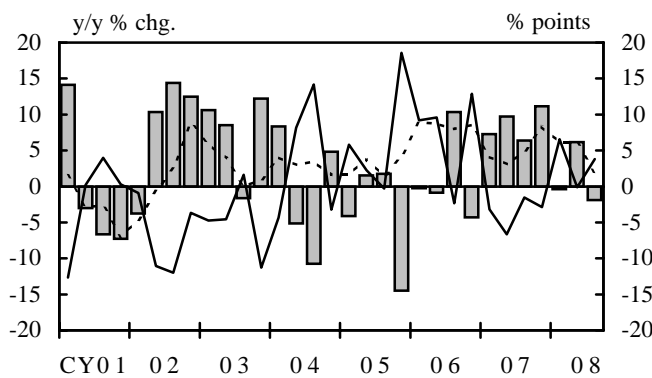
(1) Total



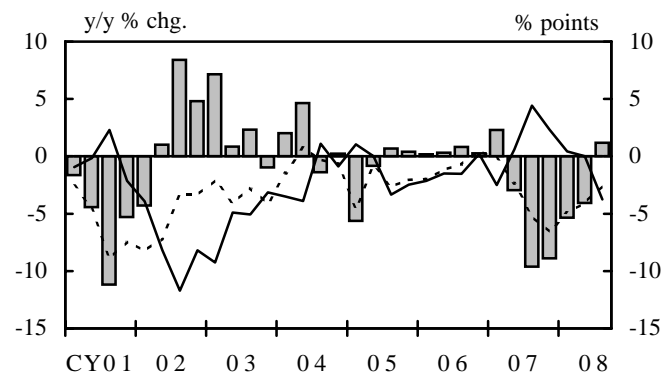
(2) Capital Goods (Excluding Transport Equipment)



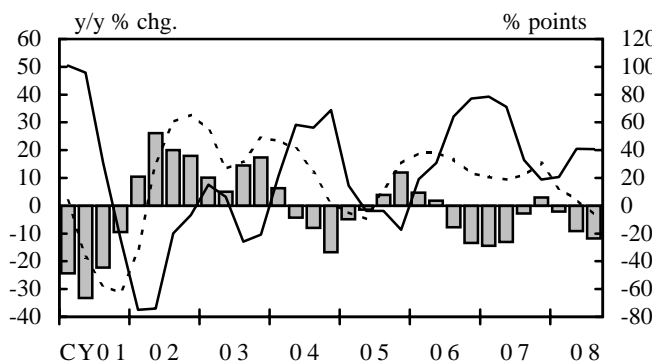
(3) Durable Consumer Goods



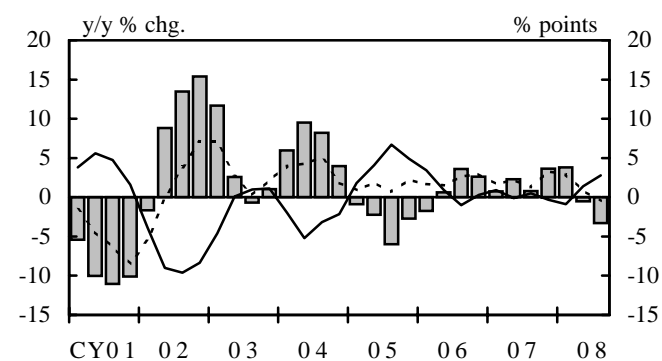
(4) Construction Goods



(5) Electronic Parts and Devices

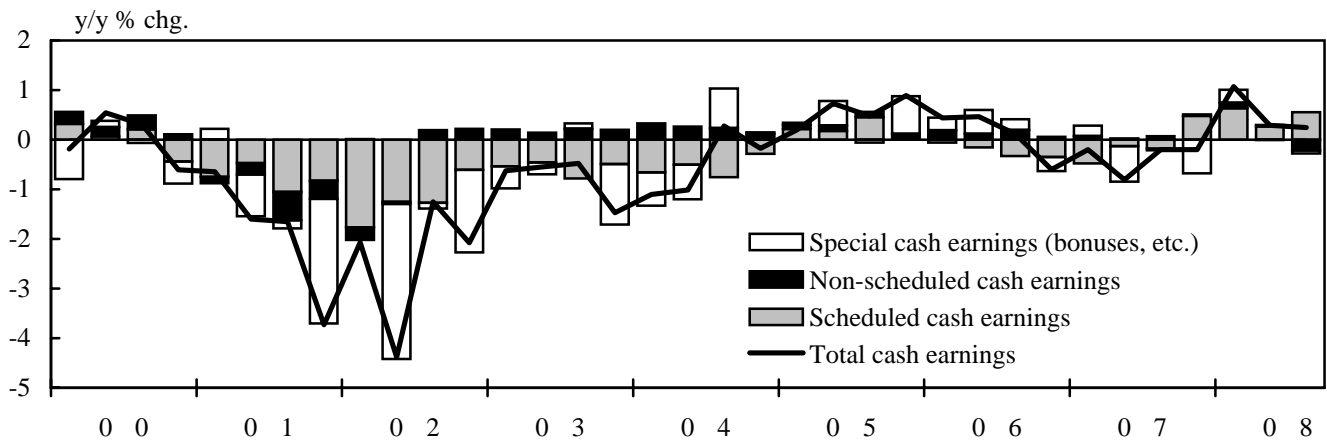


(6) Producer Goods Excluding Electronic Parts and Devices

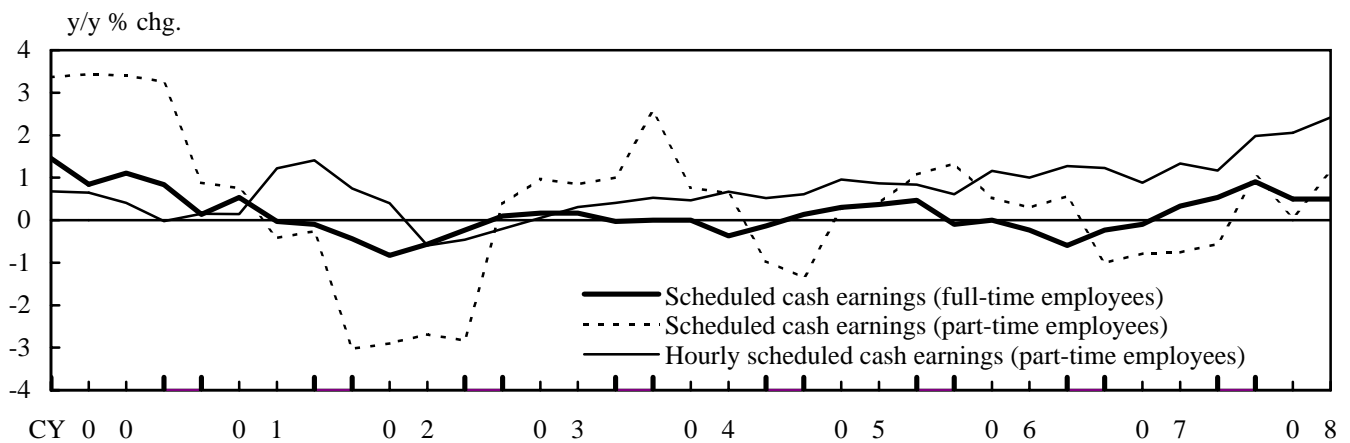


Employee Income

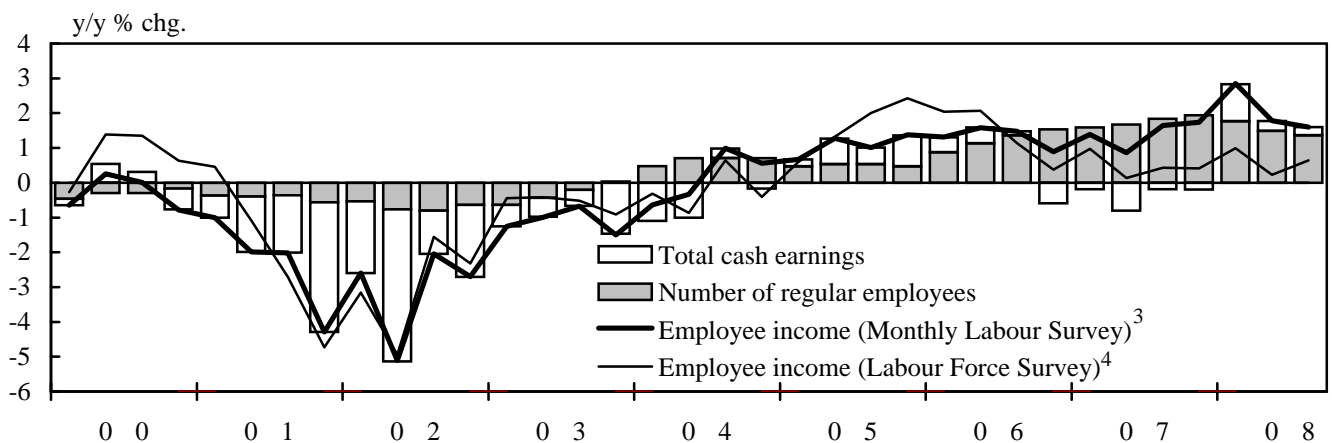
(1) Breakdown of Total Cash Earnings^{1,2,5}



(2) Scheduled Cash Earnings¹



(3) Breakdown of Employee Income^{1,2,5}



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).

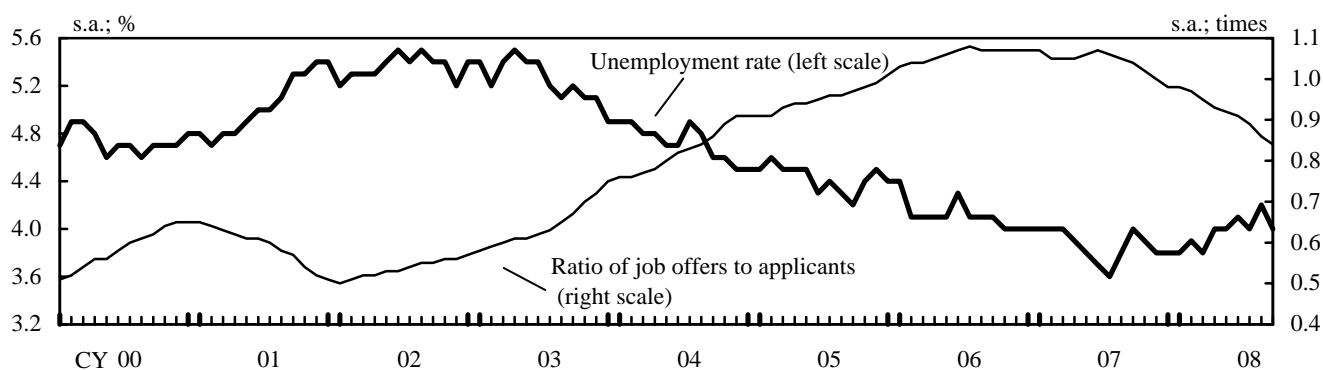
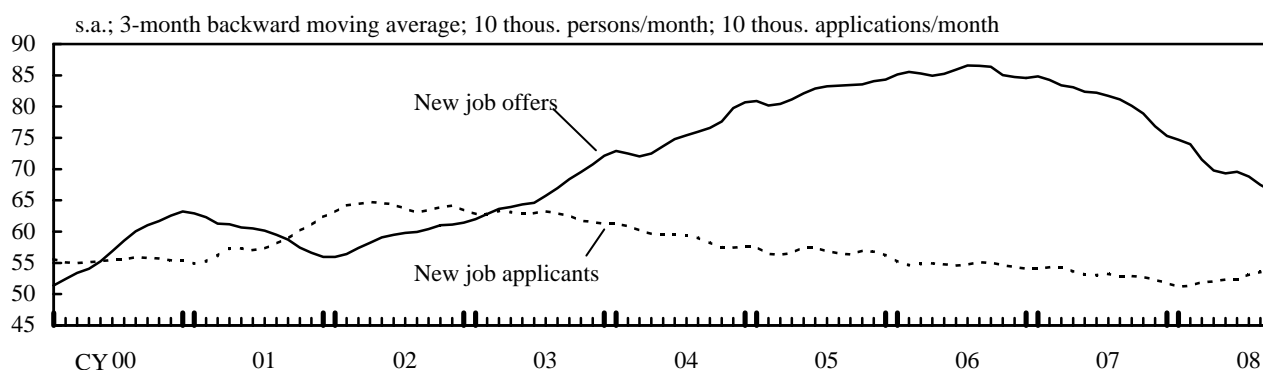
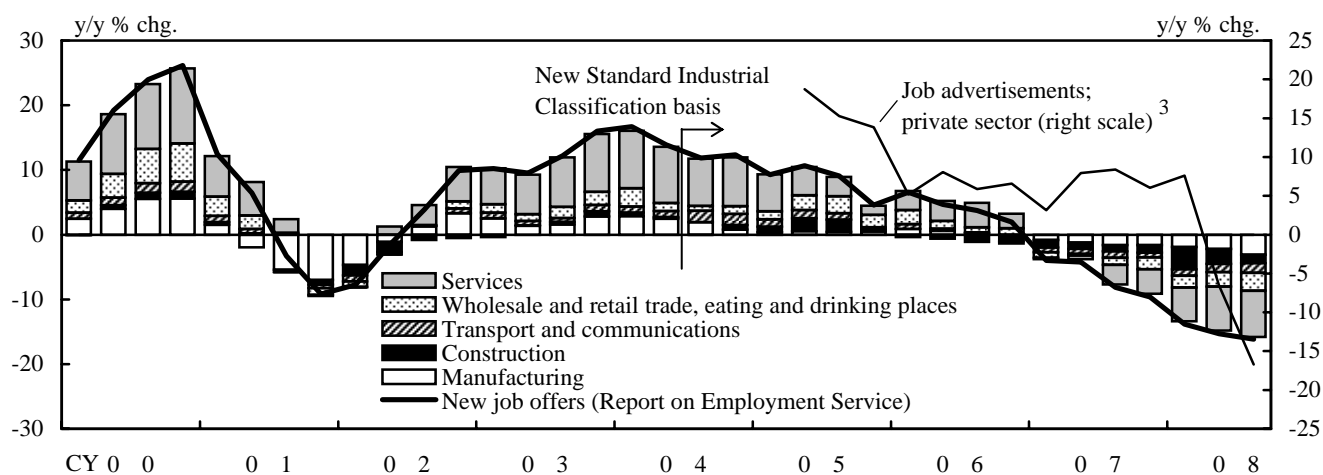
4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).

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

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}

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

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

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

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

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

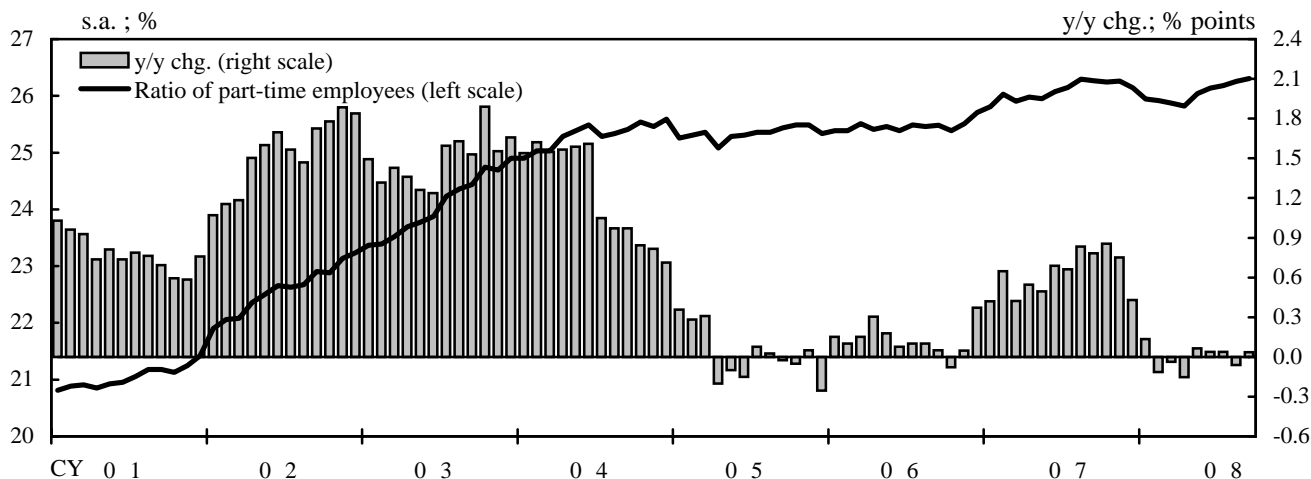
Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

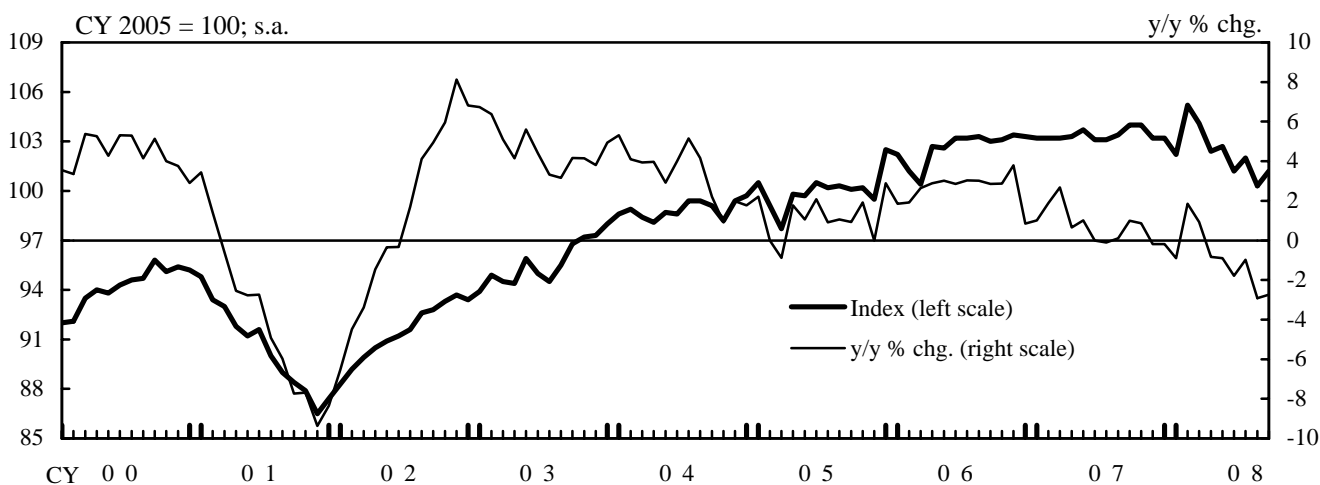
(1) Number of Employees



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



(3) Non Scheduled Hours Worked¹



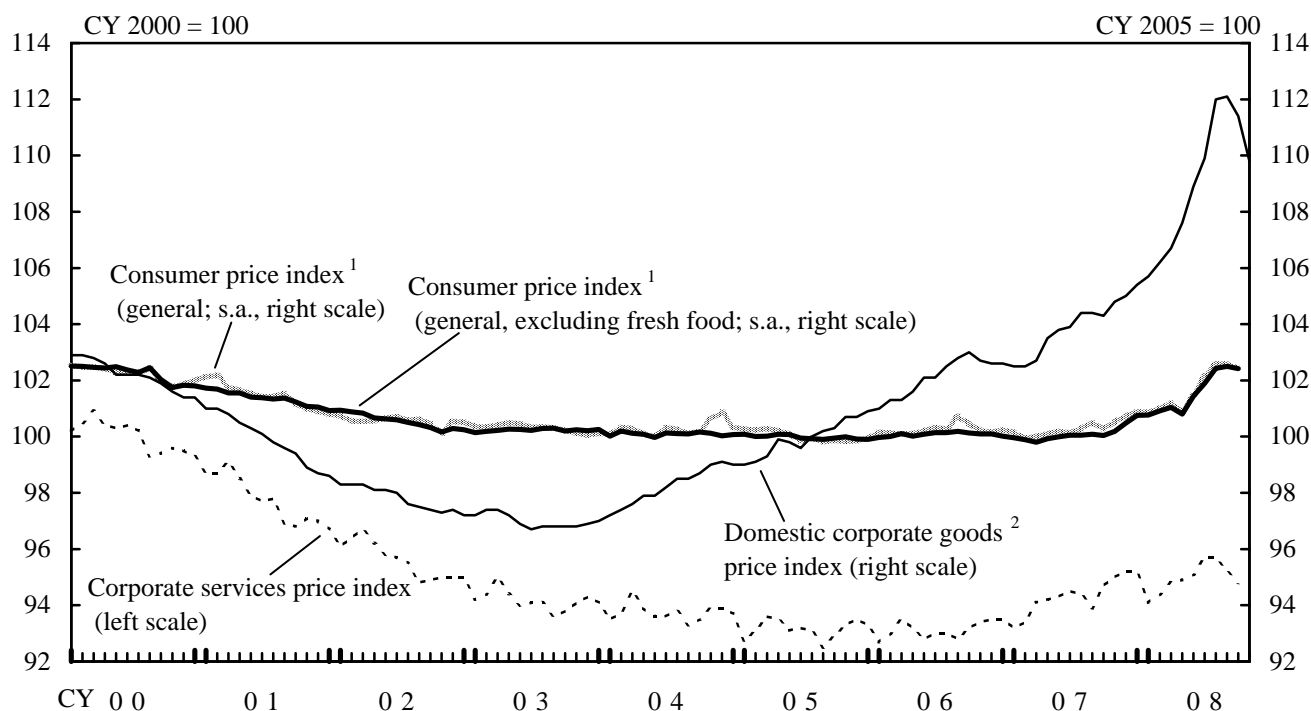
Notes: 1. Data are for establishments with at least five employees.

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.

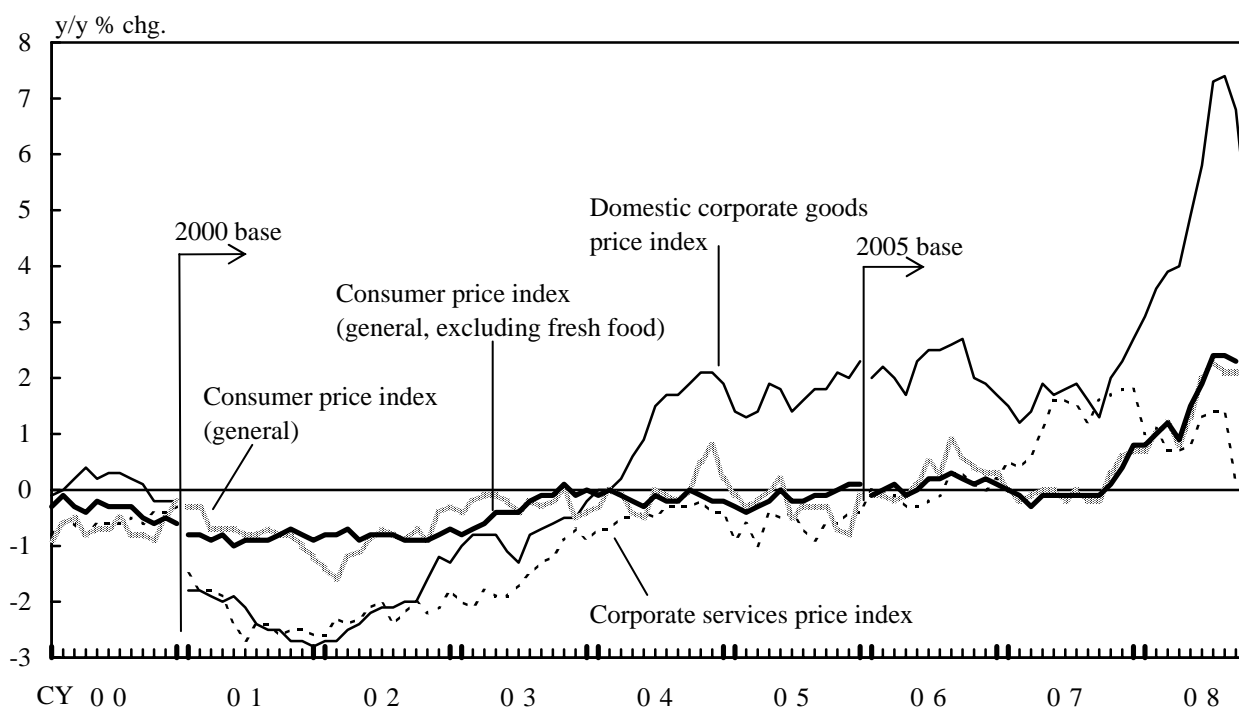
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year 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.

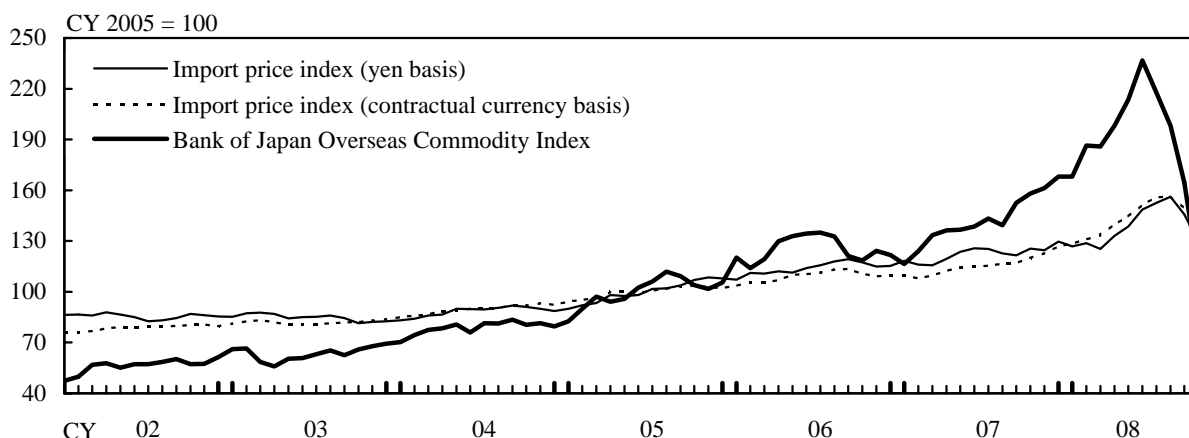
3. Figures up to CY 2000 are on the 1995 base. From CY 2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

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

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

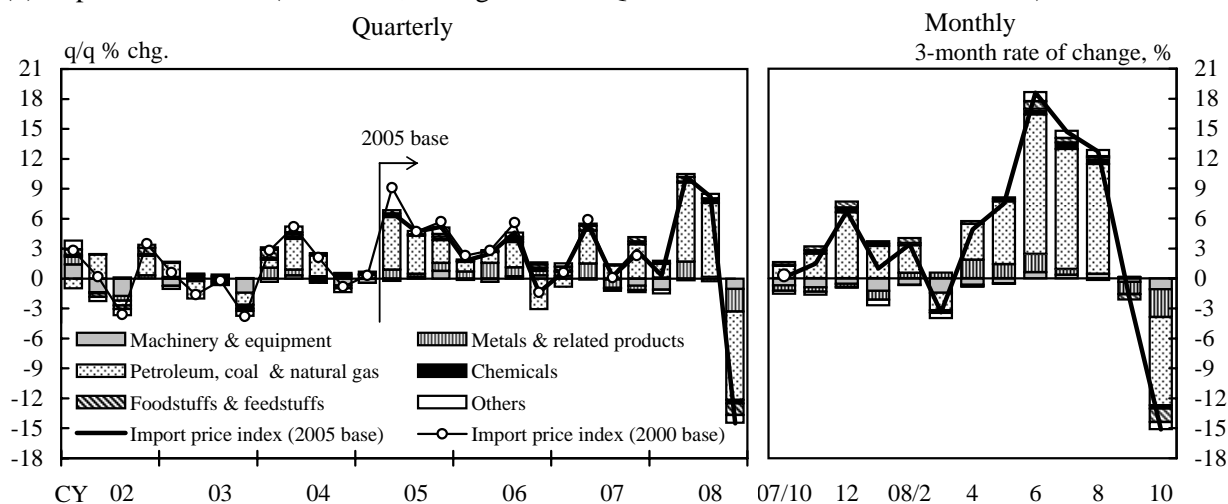
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



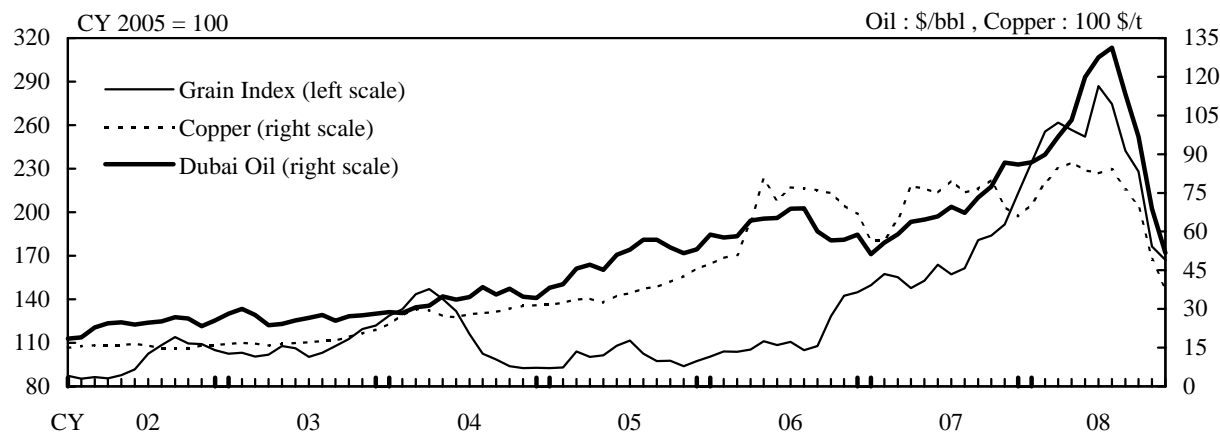
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

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

(3) International Commodity Prices



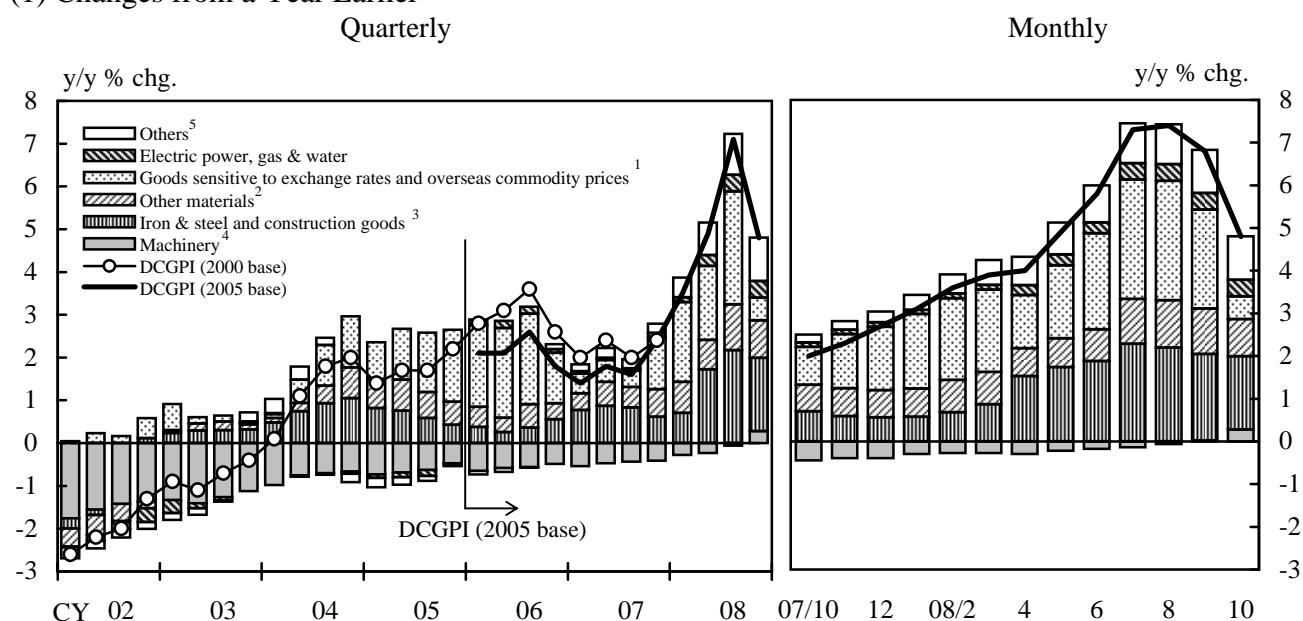
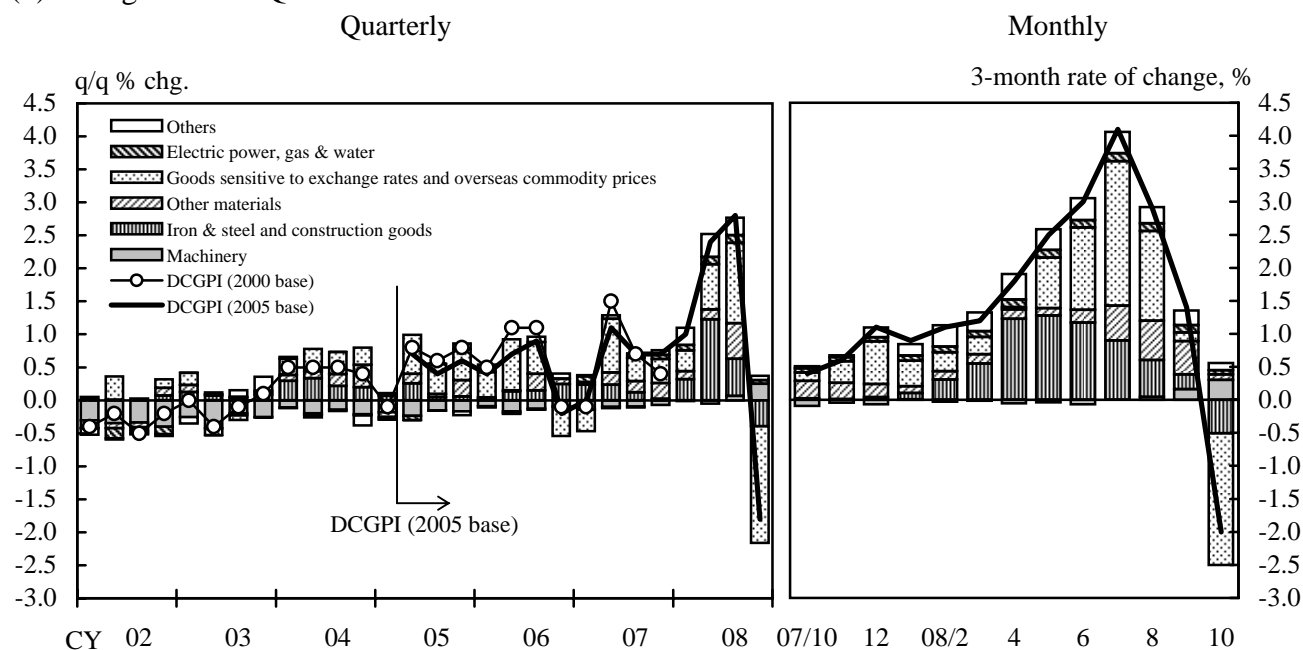
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for November 2008 are the averages up to November 20.

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.

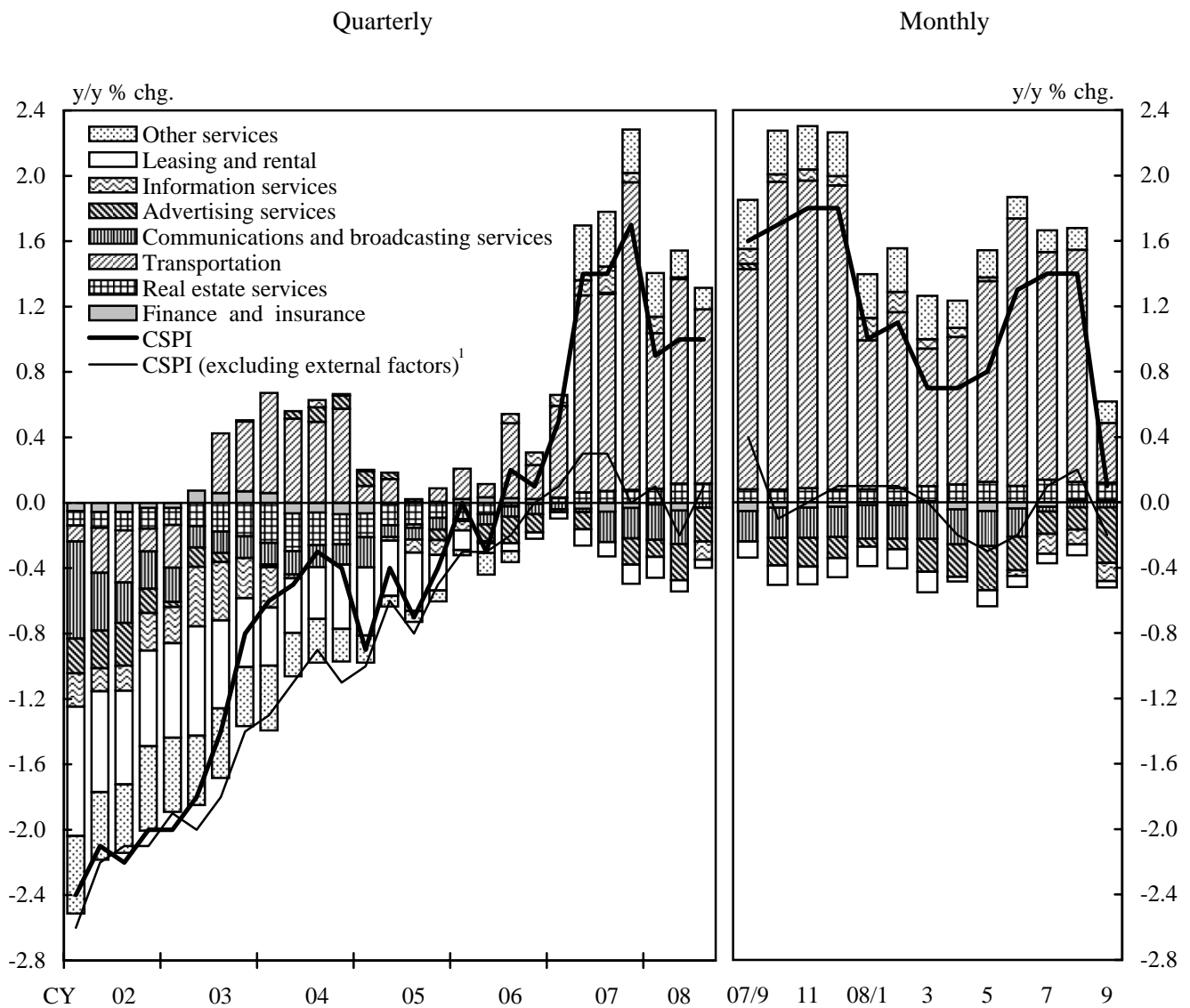
4. Machinery: electrical machinery, information & communications equipment, electronic components & devices, general machinery, transportation equipment, precision instruments.

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

Corporate Services Price Index



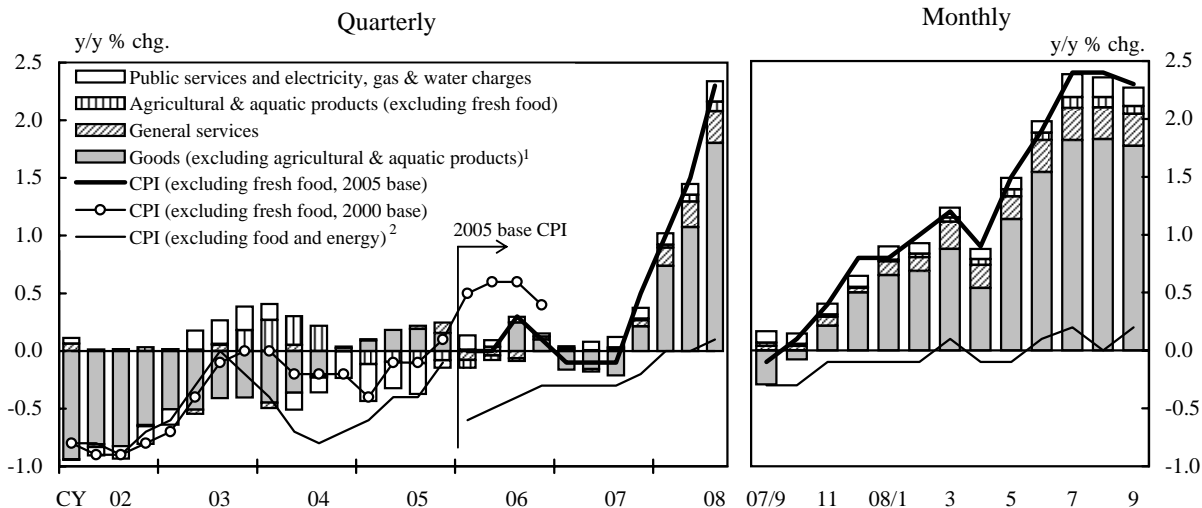
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

2. Figures of components indicate contributions to changes in CSPI.

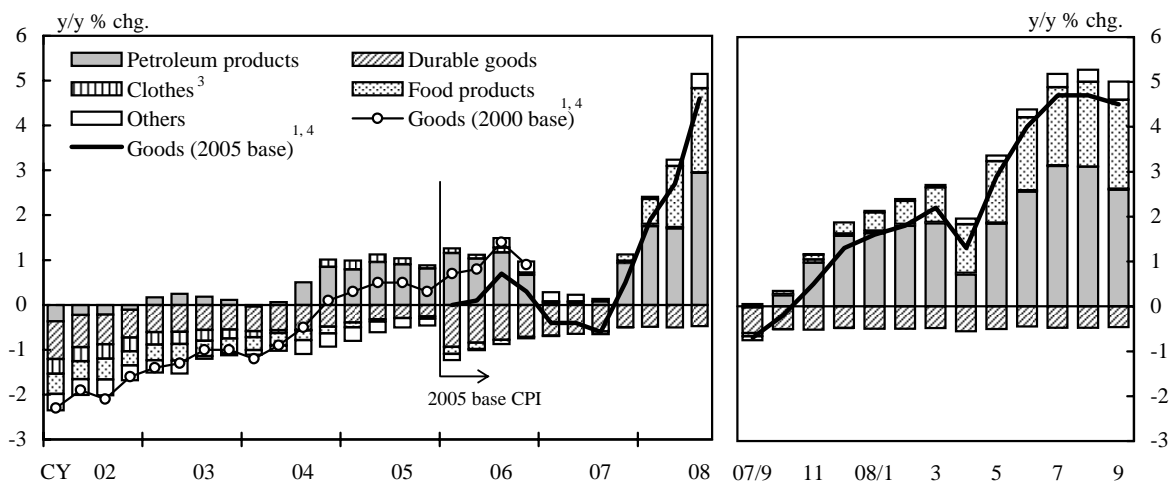
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

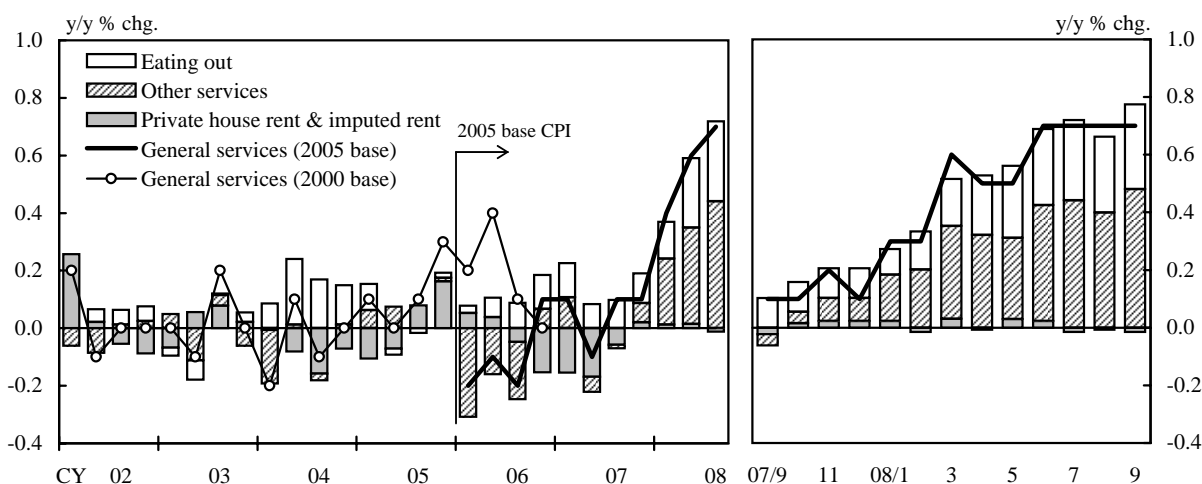
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

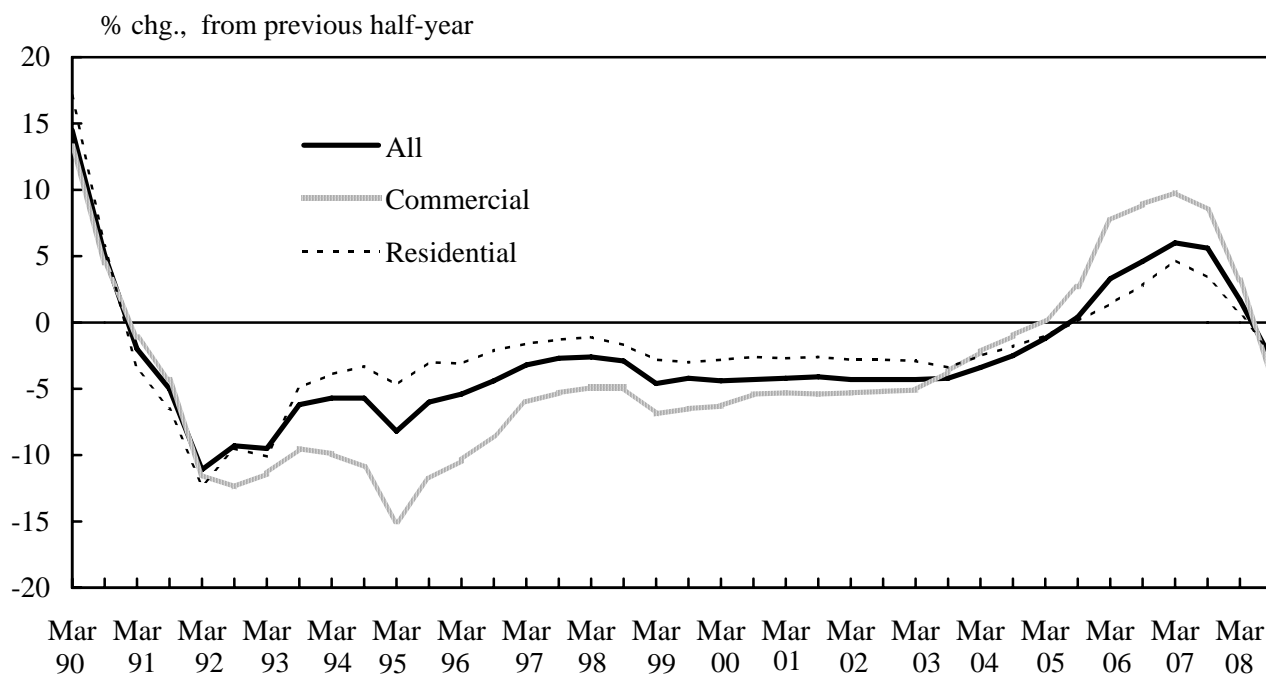


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
2. Alcoholic beverages are excluded from food.
Energy: electricity, gas manufactured & piped, liquefied propane,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

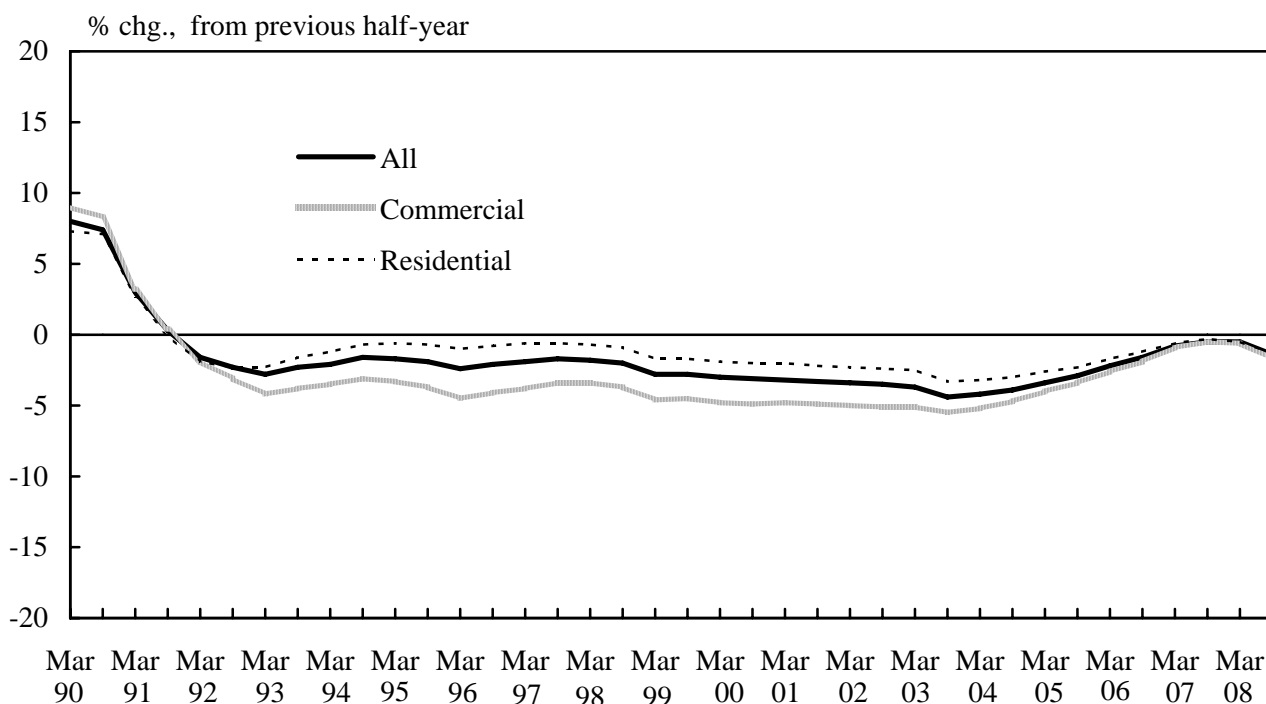
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Urban Land Price Index

(1) Six Large City Areas



(2) Excluding Six Large City Areas

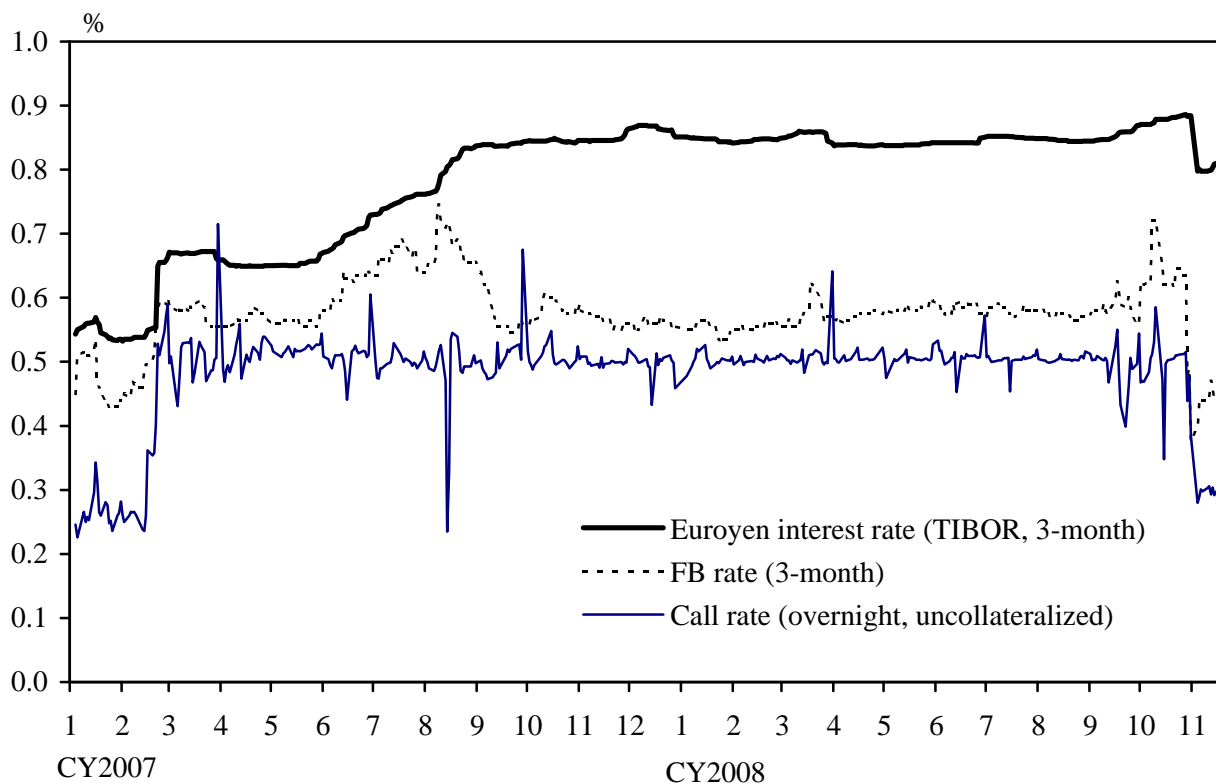


Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.
 2. Six Large City Areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.

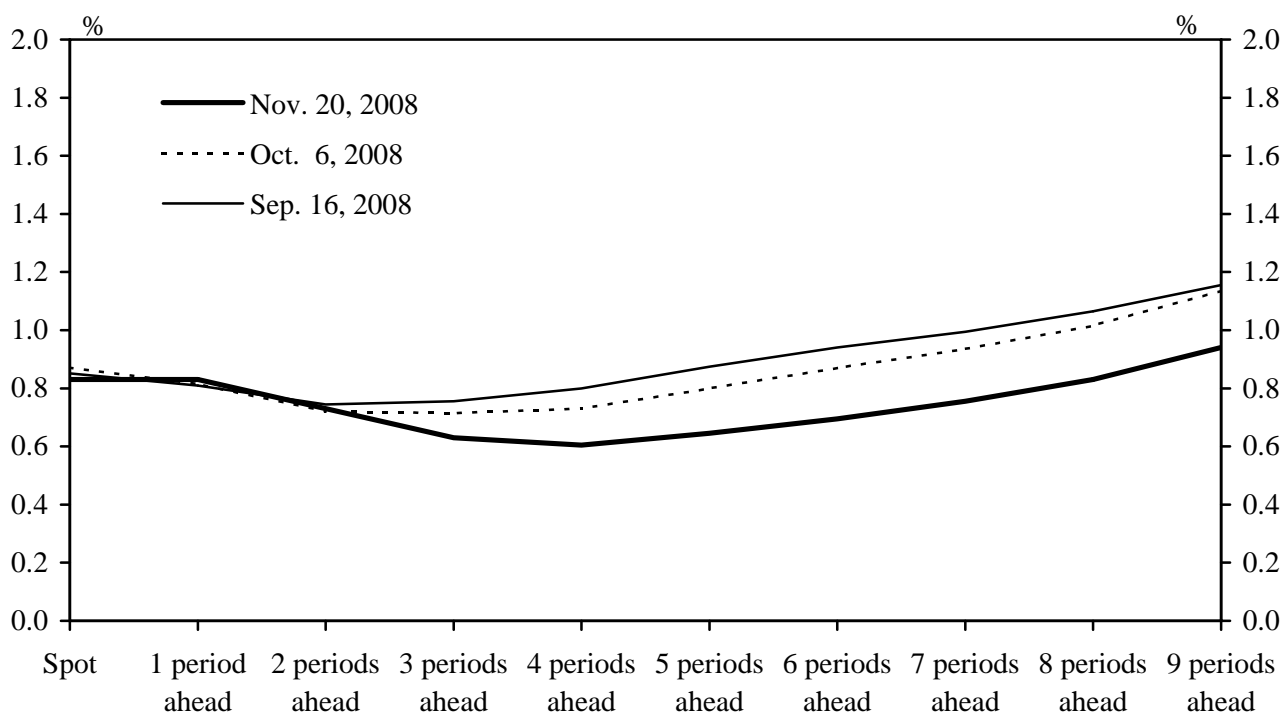
Source: Japan Real Estate Institute, "Urban Land Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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

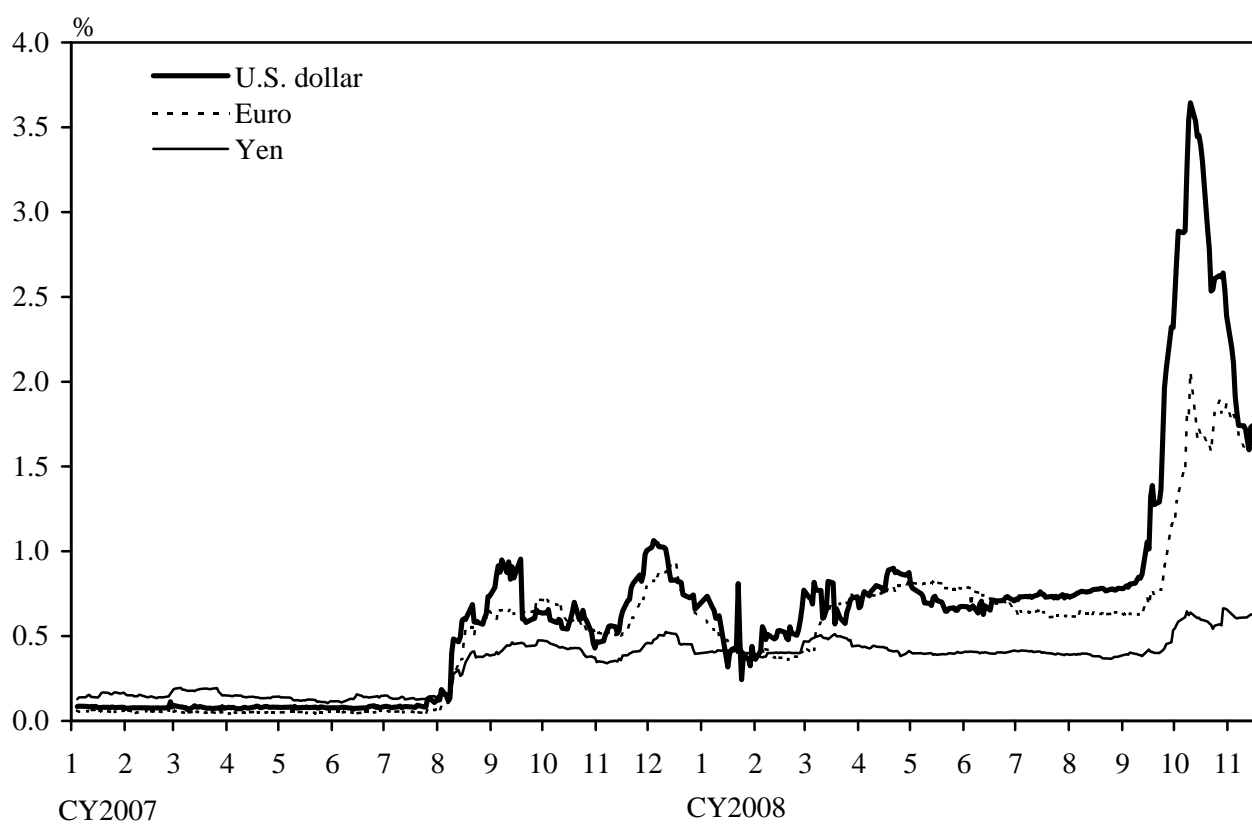


Note: 1. Contract months in the figure (2) exclude "serial months," the months other than March, June, September and December.

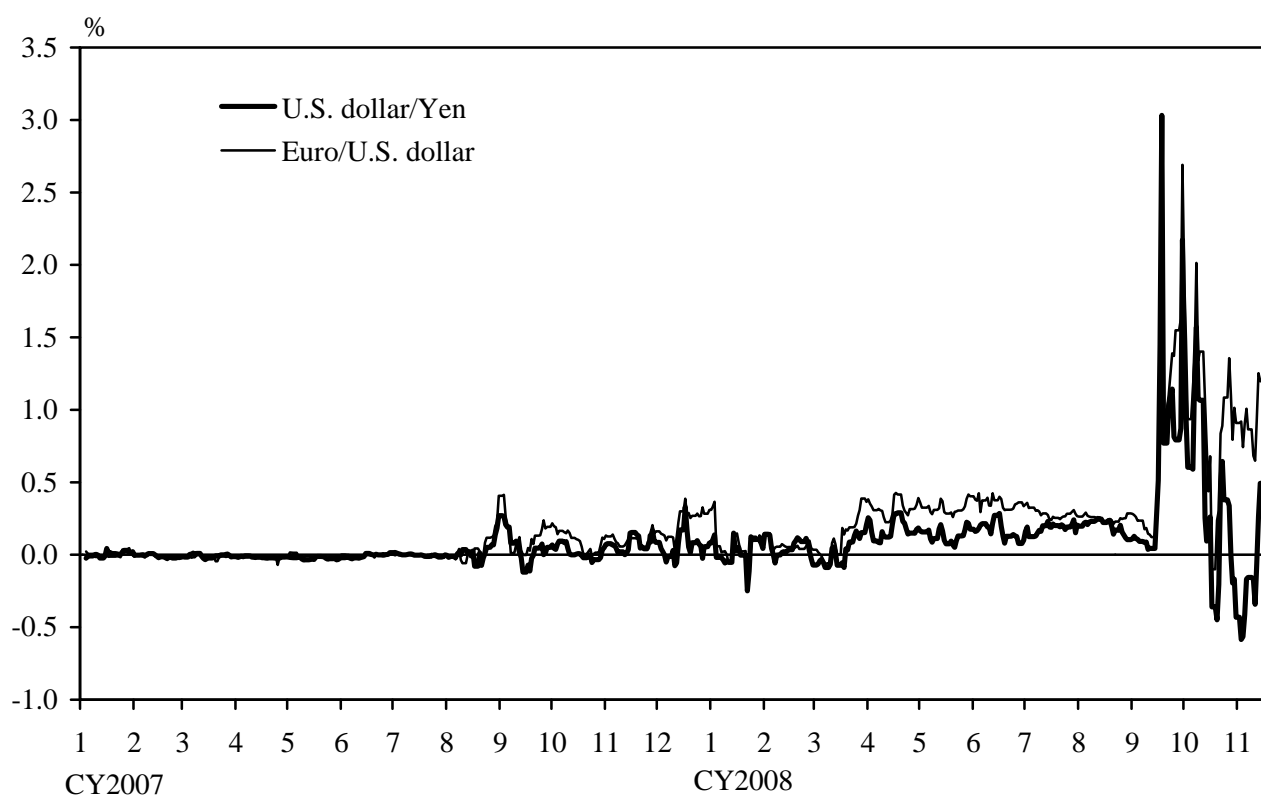
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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

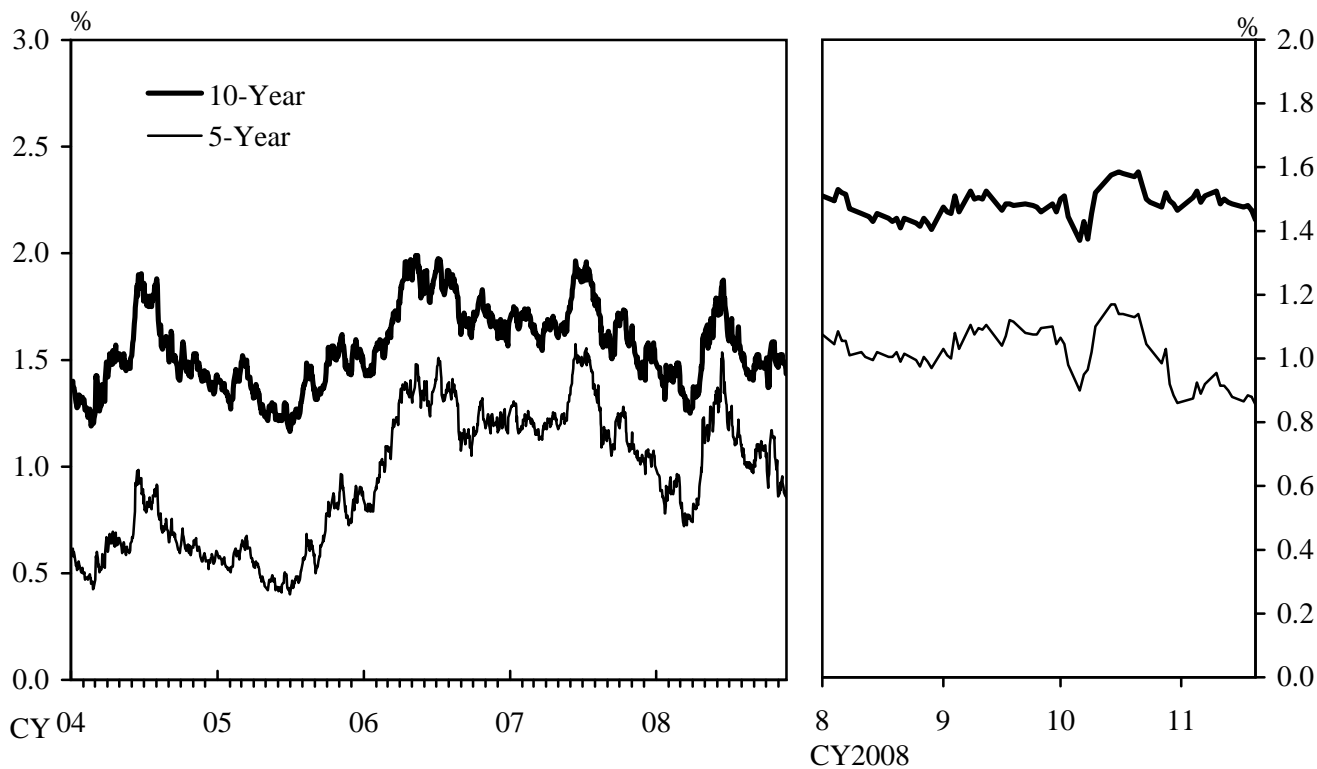


(2) FX swap implied dollar rate - LIBOR spreads (3-month)

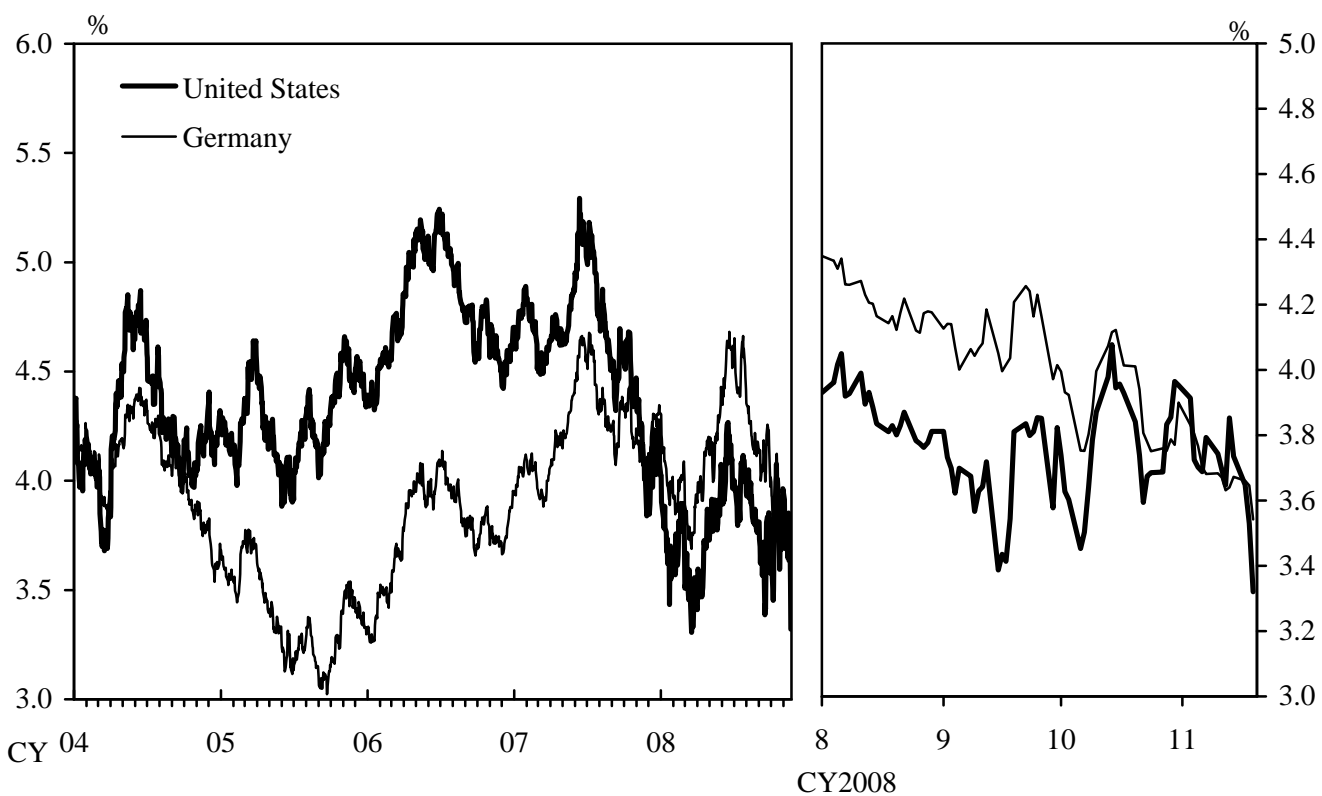


Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



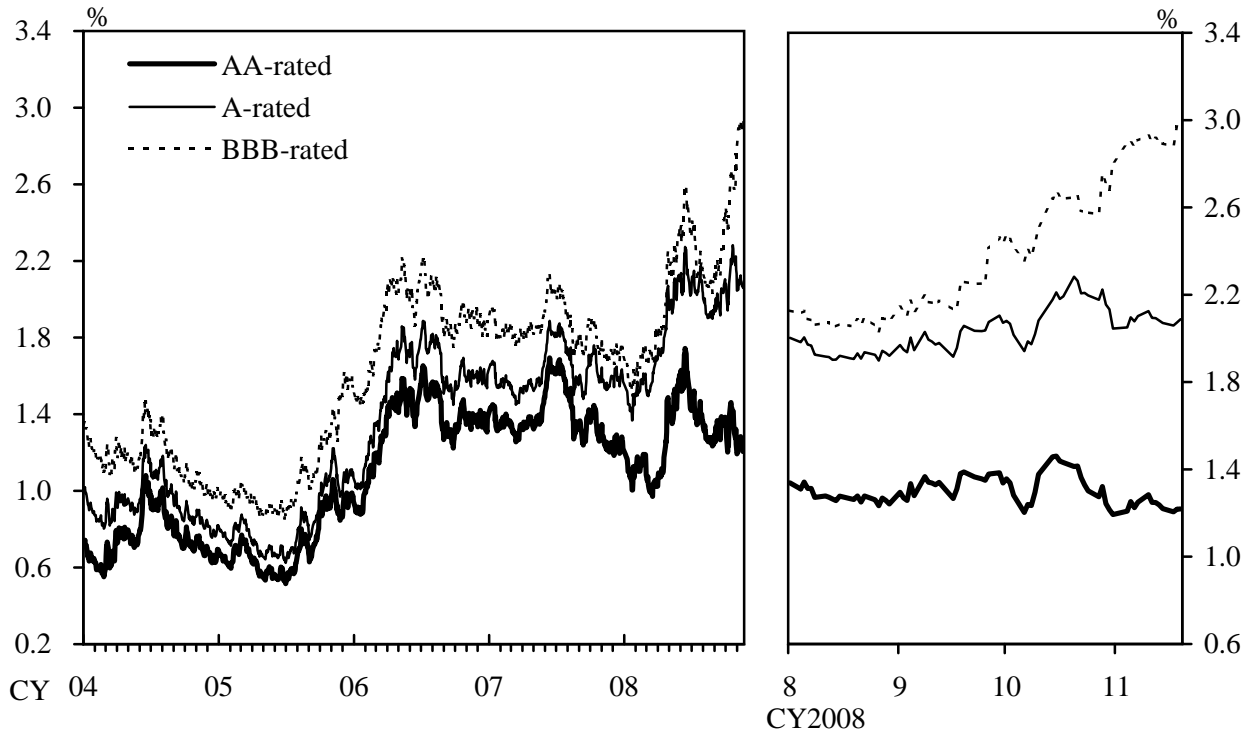
(2) Overseas Government Bond Yields (10-Year)



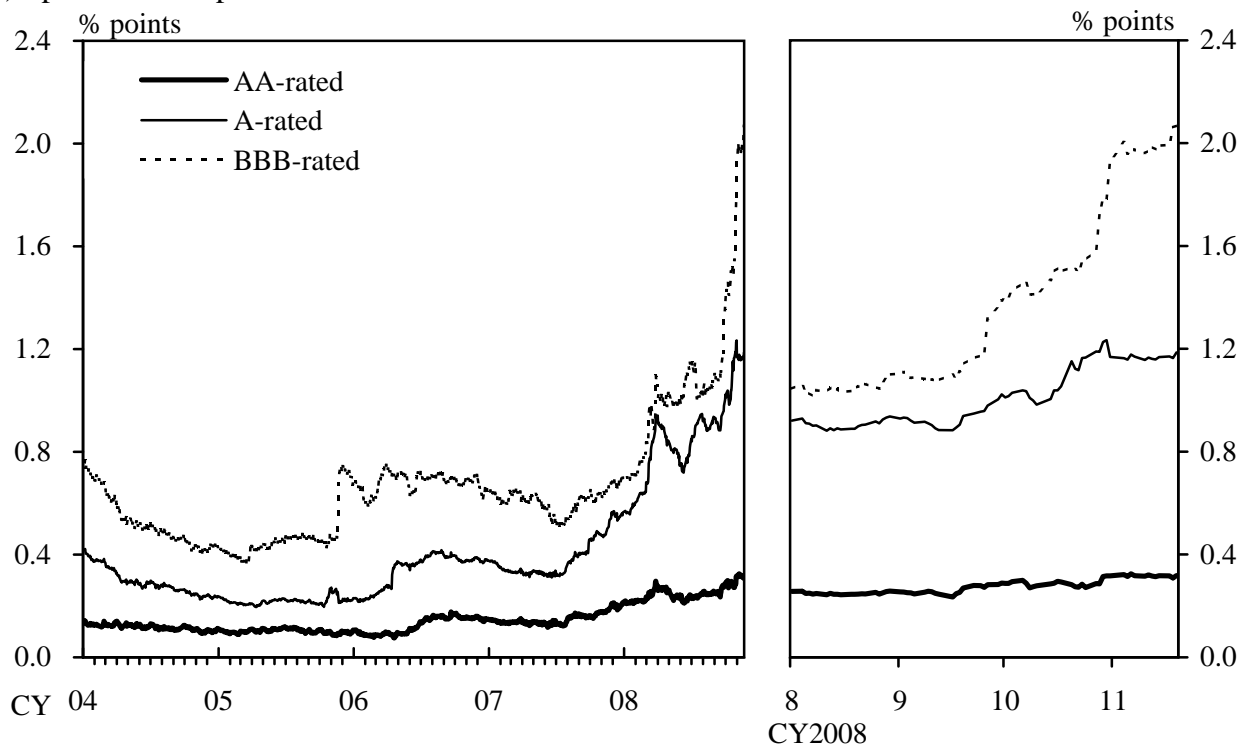
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd; Bloomberg.

Yields of Corporate Bonds

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



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



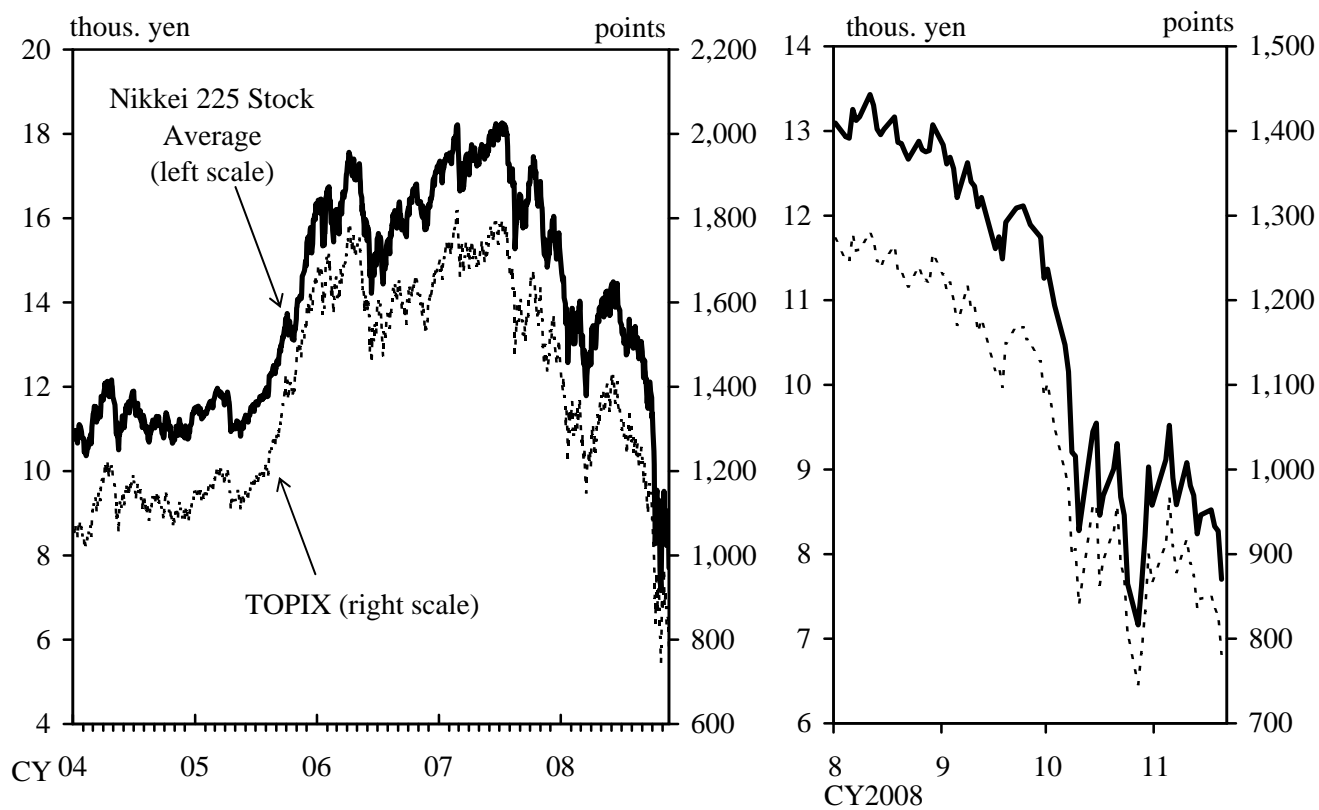
Notes: 1. Yields on bonds with 5-year maturity.
 Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

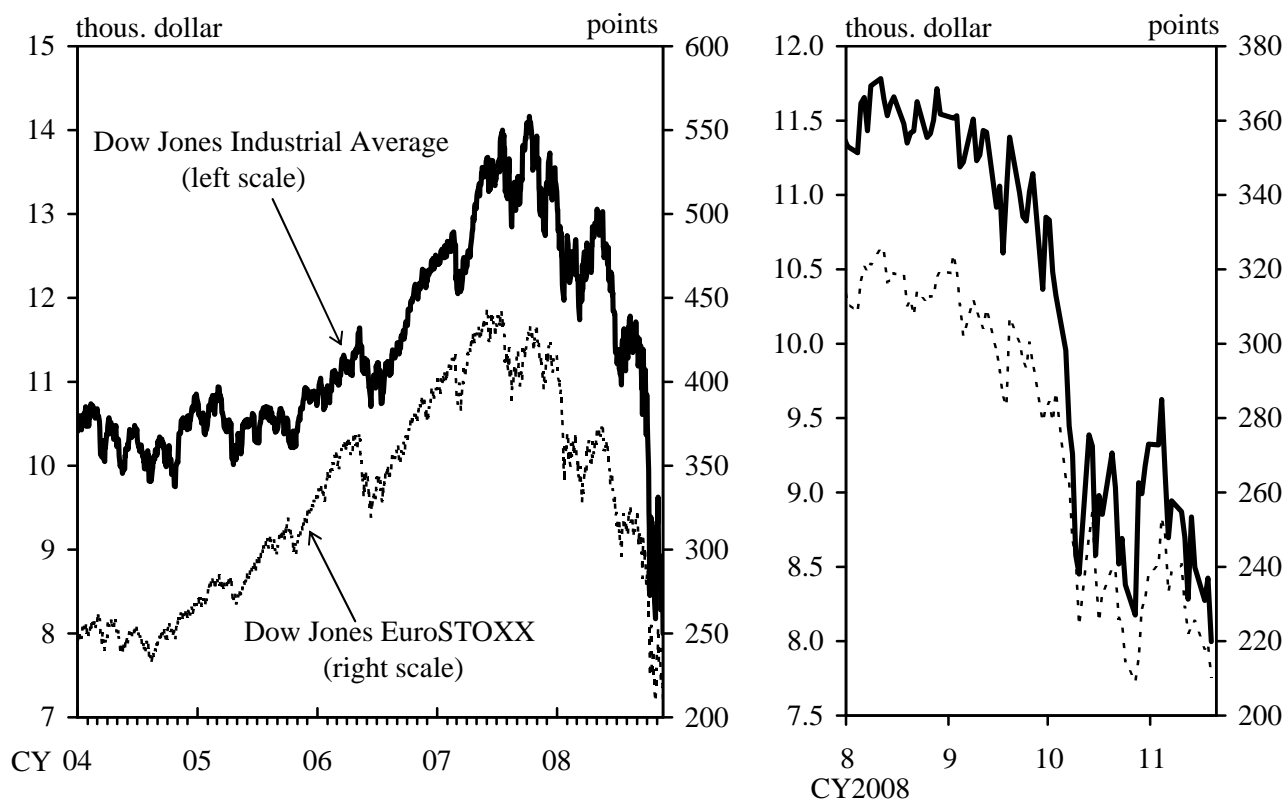
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



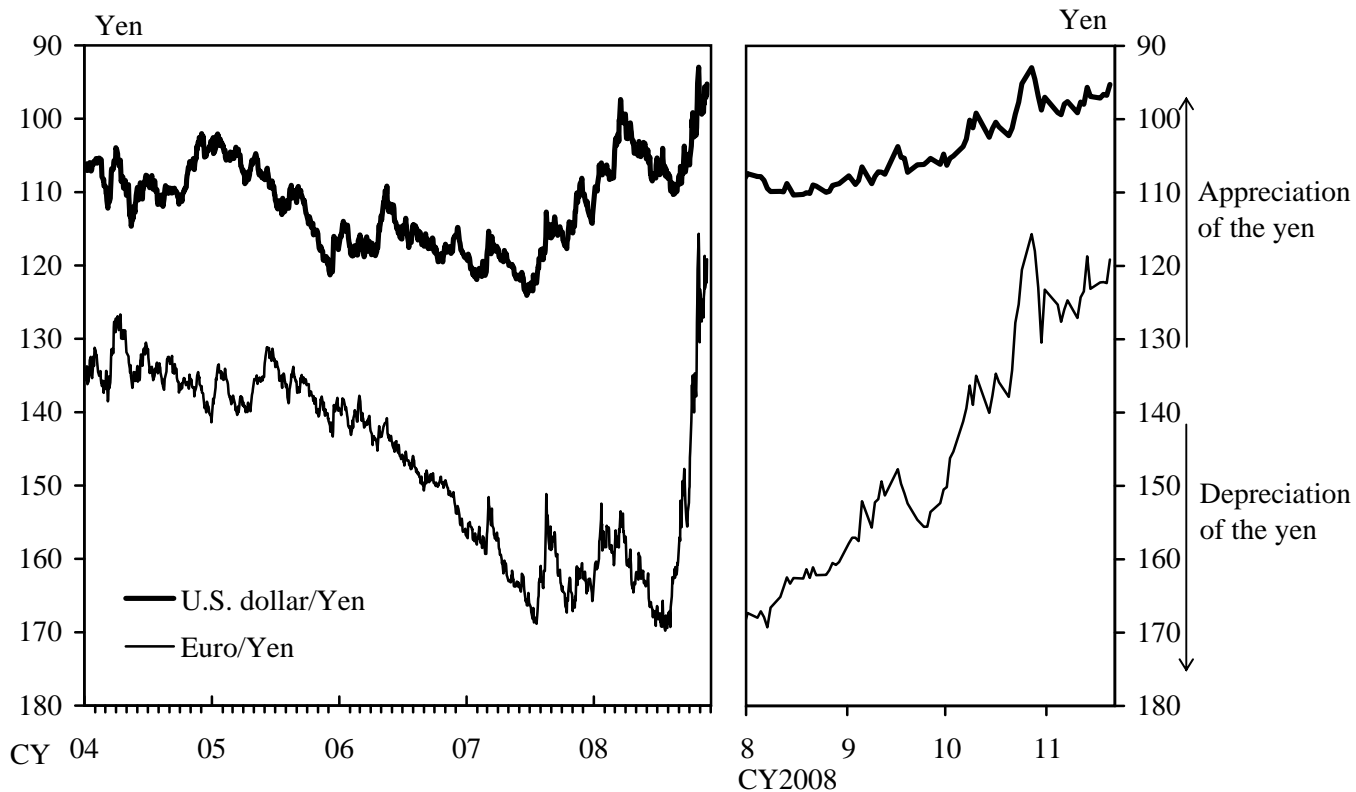
(2) Overseas Stock Prices



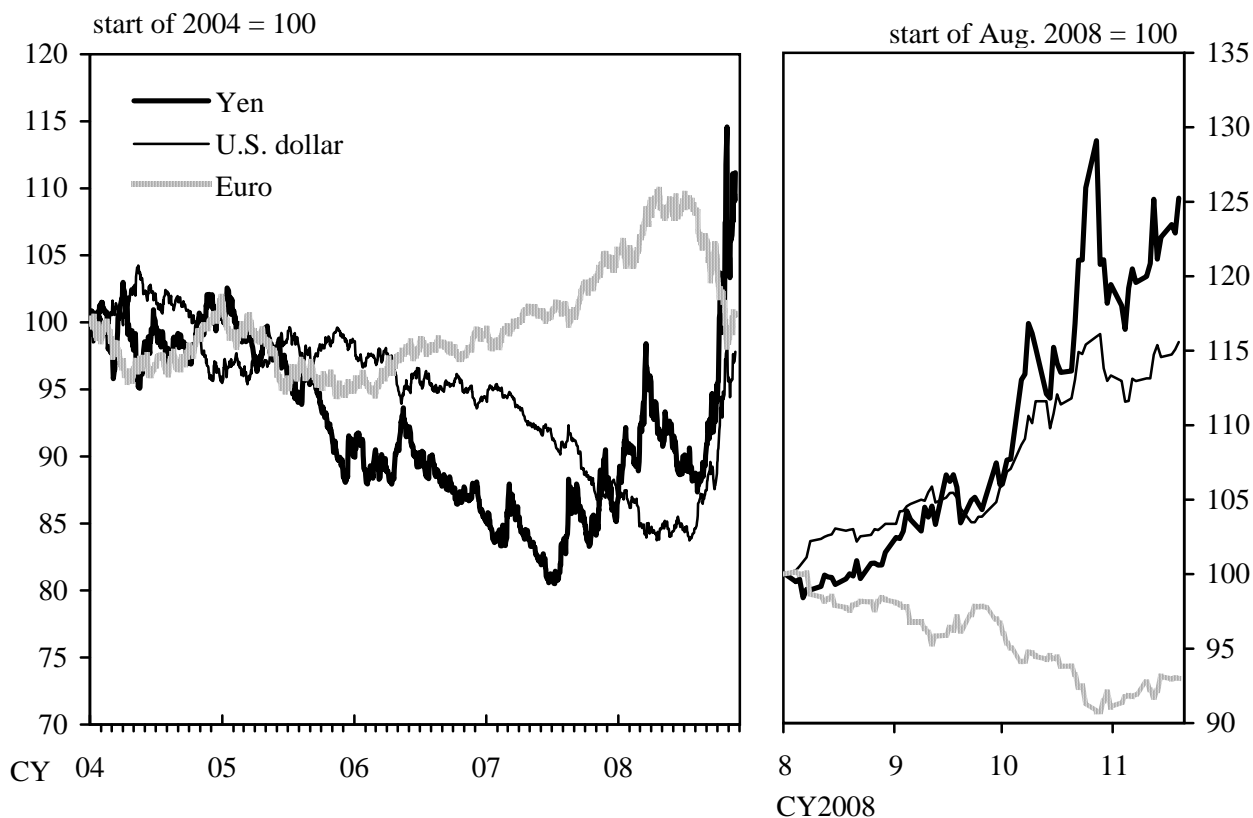
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



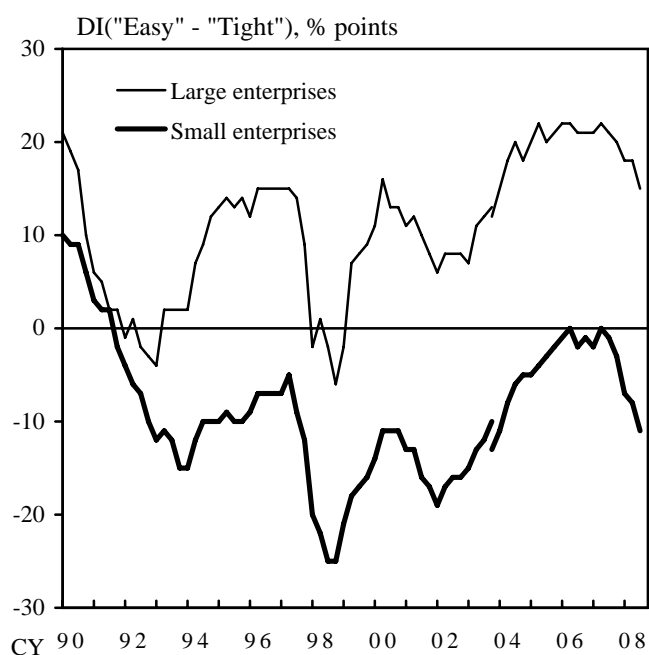
(2) Nominal Effective Exchange Rates



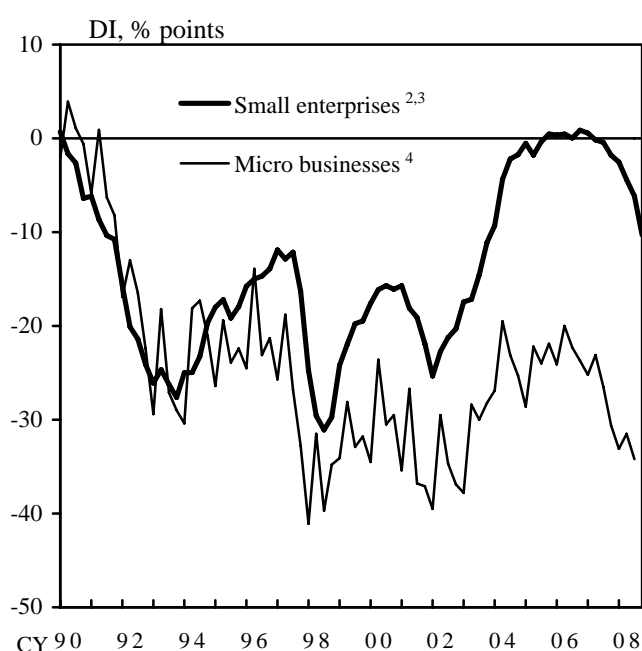
Sources: Bank of Japan; Federal Reserve System; European Central Bank.

Corporate Finance-Related Indicators

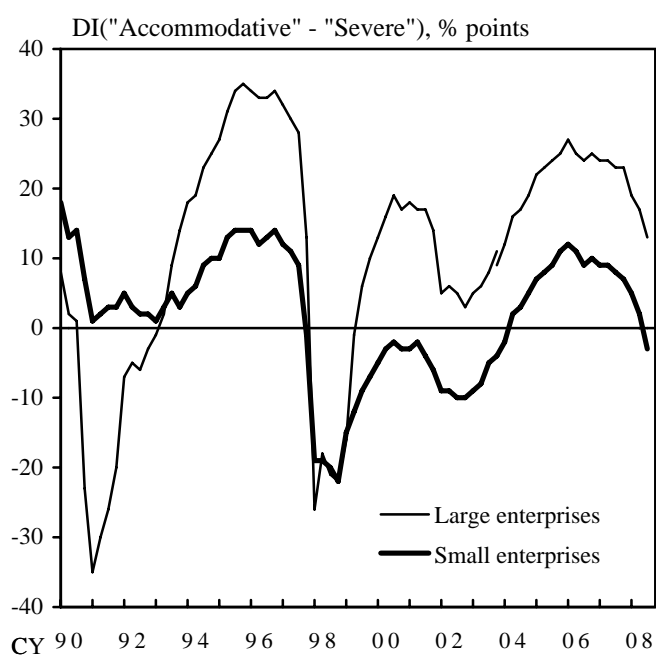
(1) Financial Position

<Tankan¹>

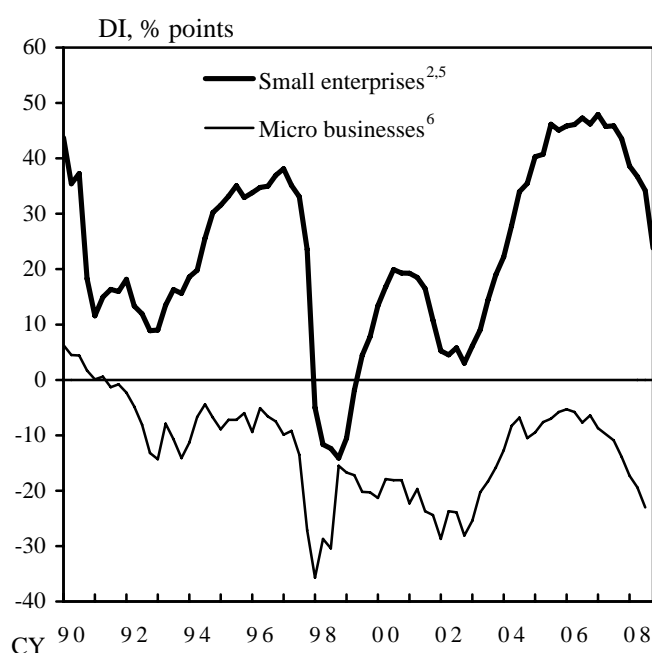
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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. Figures for 2008/Q4 are those of October.

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

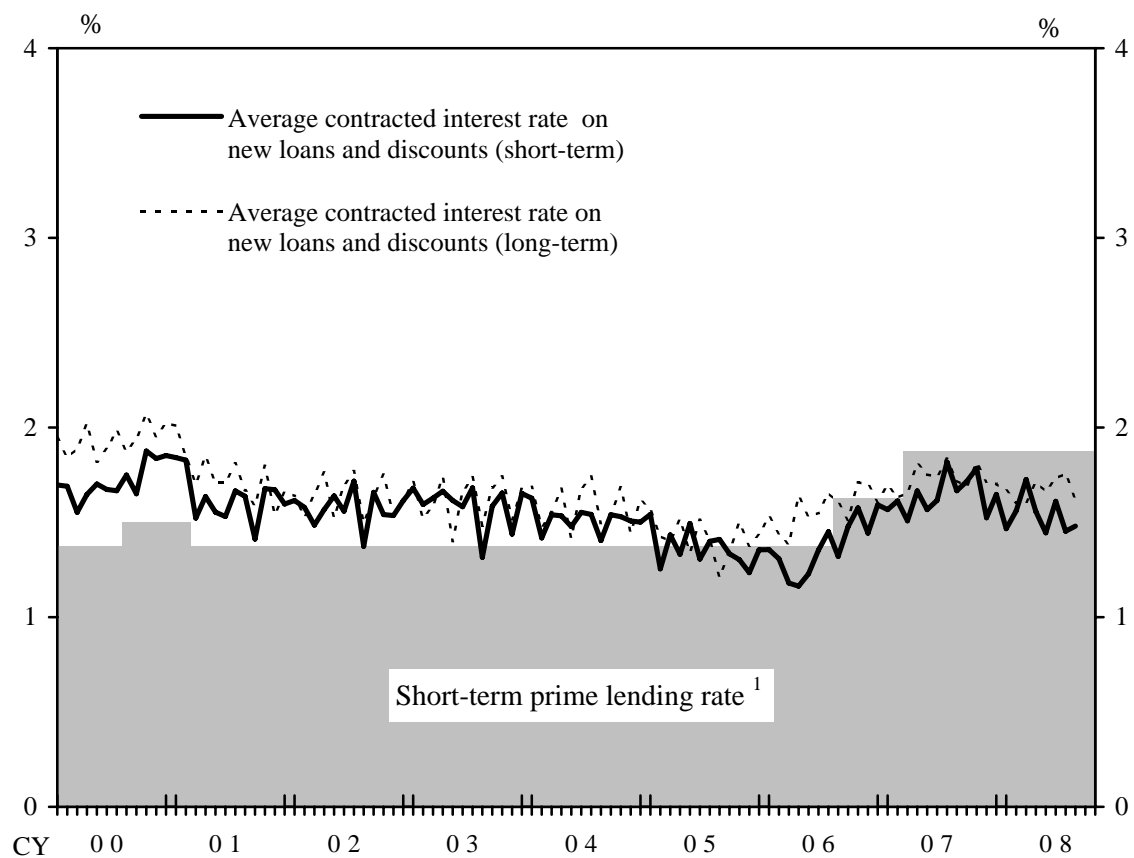
4. DI of "Easier" - "Tighter."

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, "Monthly Survey of Small Businesses in Japan," "Quarterly Survey of Small Businesses in Japan (for micro businesses)."

Lending Rates

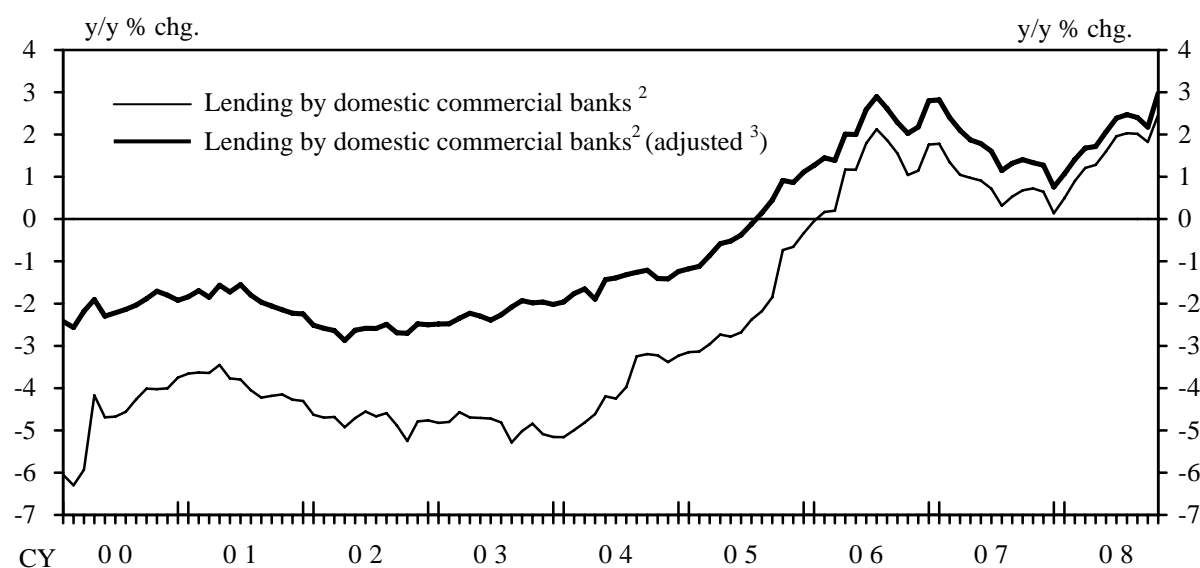


Note: 1. Data are at end of period.

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,

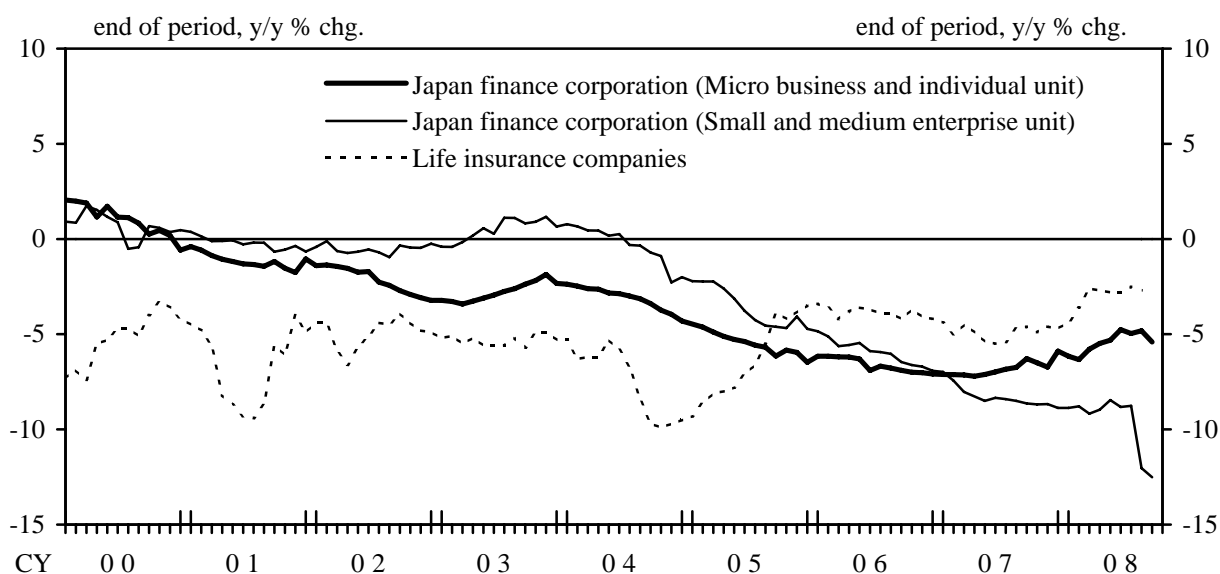
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,

(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

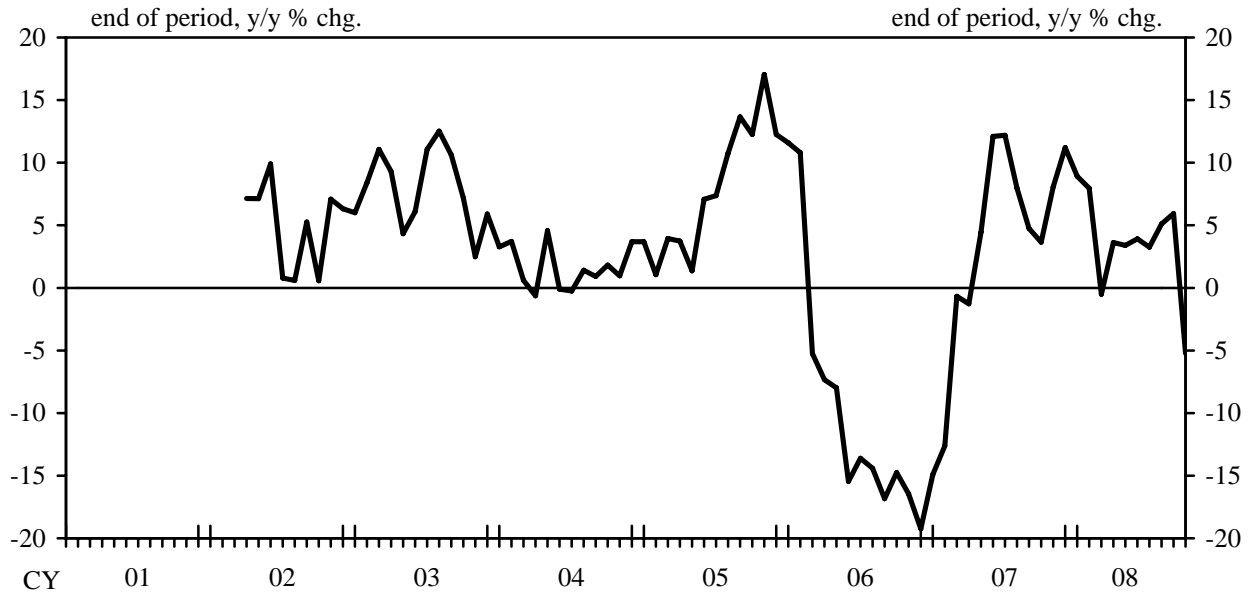
(5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

(2) Lending by Other Financial Institutions



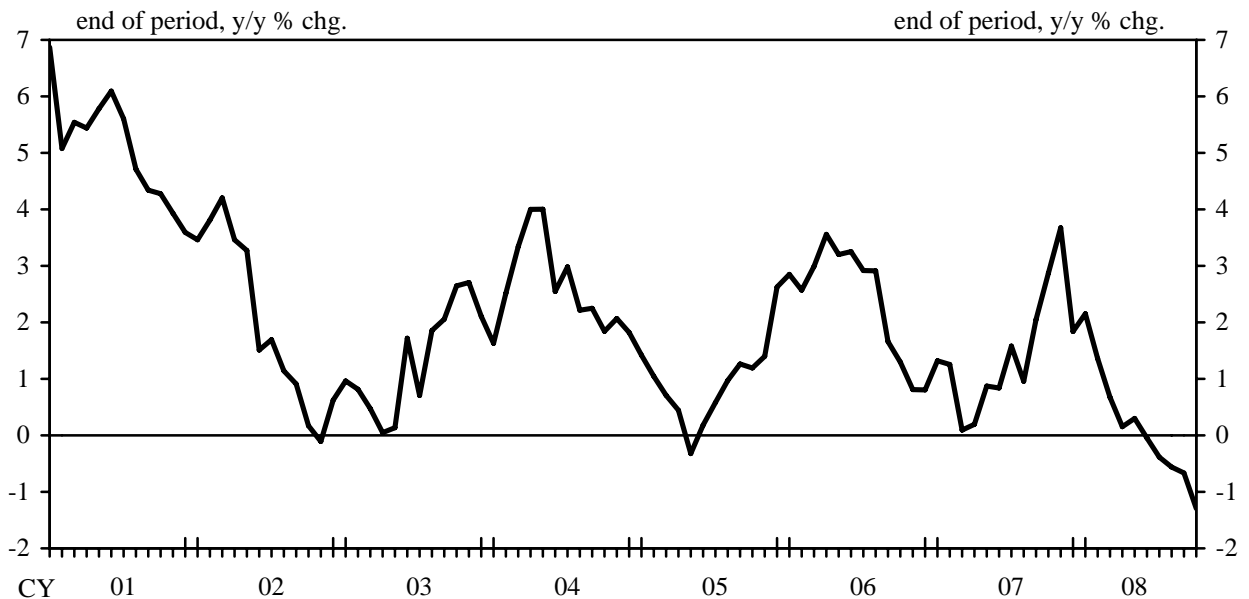
 Private-Sector Fund-Raising in the Capital Markets

(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



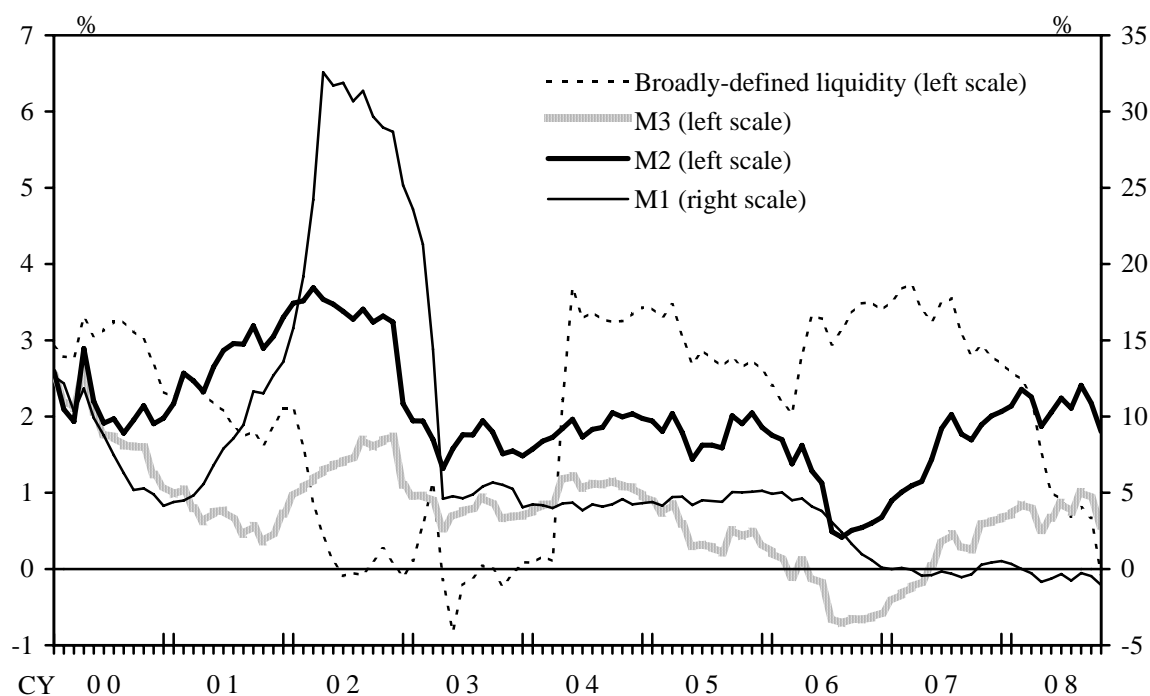
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

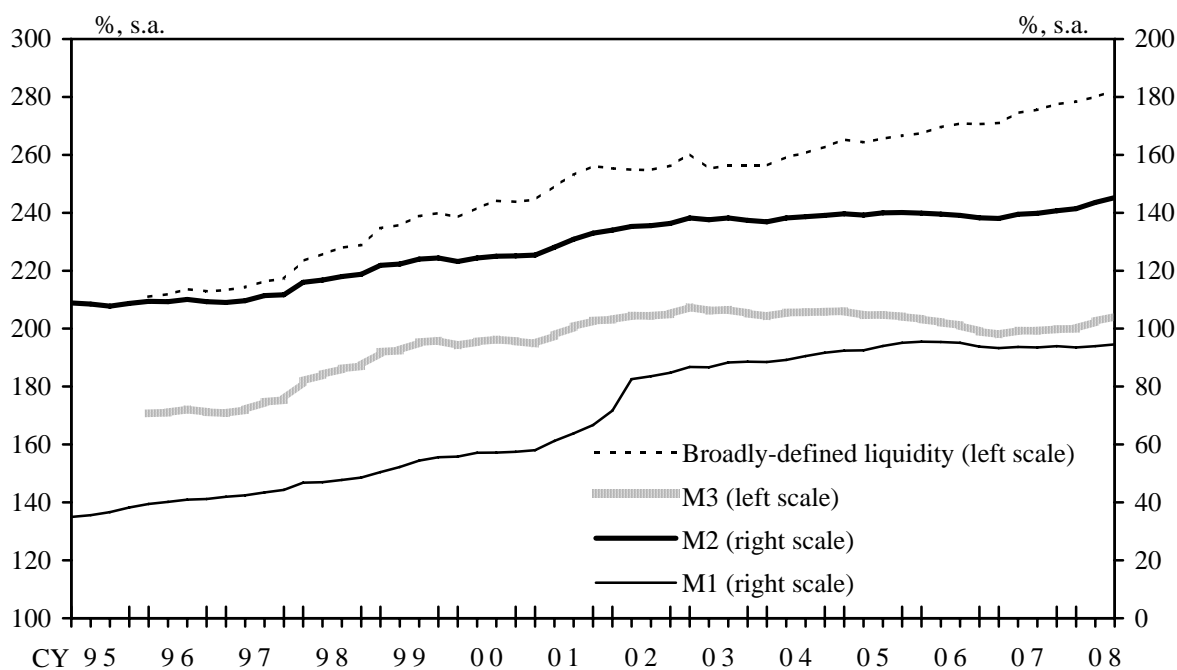
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

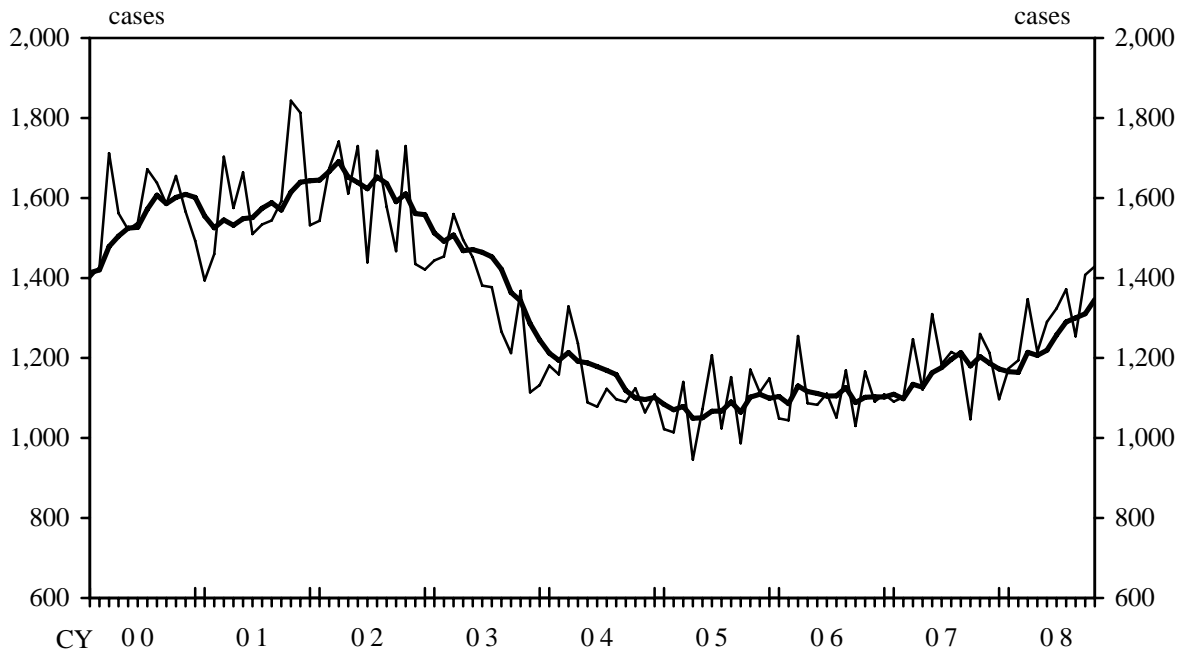


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
 3. The current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

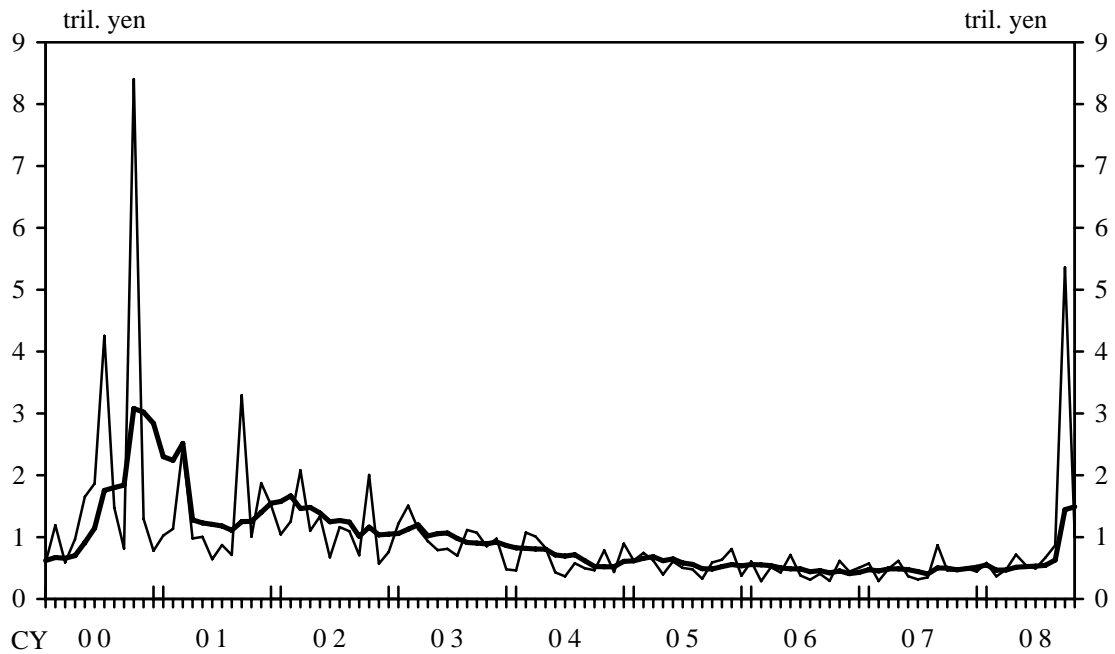
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."