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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
February 2009

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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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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economic conditions have deteriorated significantly.

Exports have decreased substantially. Corporate profits have deteriorated at a faster pace, and business fixed investment has declined substantially. Private consumption has weakened, as the employment and income situation has become increasingly severe. As for housing investment, the number of housing starts has begun decreasing again. Public investment, meanwhile, has been sluggish. Reflecting these developments in demand both at home and abroad, production has decreased at a much faster pace.

Japan's economic conditions are likely to continue deteriorating for the time being.

Exports are expected to continue to decrease due to the slowdown in overseas economies and the appreciation of the yen. Domestic private demand is also likely to weaken further as corporate profits and firms' funding conditions deteriorate and the employment and income situation becomes increasingly severe. Public investment, meanwhile, is projected to be sluggish. Reflecting these developments in demand and growing adjustment pressures on inventories, production is expected to continue to decrease.

On the price front, the three-month rate of decrease in domestic corporate goods prices has been large, mainly due to the drop in international commodity prices. The year-on-year rate of increase in consumer prices (excluding fresh food) has moderated to around 0 percent, mainly reflecting the declines in the prices of petroleum products and the stabilization of food prices.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on February 18 and 19, 2009.

Domestic corporate goods prices are likely to continue decreasing for the time being, mainly due to the drop in international commodity prices and the easing of supply-demand conditions for products. The year-on-year rate of increase in consumer prices is expected to become negative, mainly due to the declines in the prices of petroleum products and the stabilization of food prices and also to increasing slackness in supply and demand conditions in the overall economy.

In money markets, the weighted average of the overnight call rate has been at around 0.1 percent. JGB repo market rates, however, have tended to fluctuate, and interbank rates on term instruments have remained at high levels. Meanwhile, the yen's exchange rate against the U.S. dollar has depreciated and stock prices have fallen compared with last month. Yields on long-term government bonds have been around the same level as last month.

Financial conditions in Japan have remained tight.

The overnight call rate has been at an extremely low level, but the stimulative effects from this have become increasingly limited given the significant deterioration in economic activity. It seems that funding costs have declined compared to the levels at around the end of last year, mainly reflecting the reductions in the policy interest rate, although credit spreads on corporate debt have generally remained wide. In response to various policy measures, some firms have increased issuance of CP, and the amount outstanding of bank lending, especially to large firms, has continued to increase rapidly. However, the amount outstanding of CP and corporate bonds issued by firms with low credit ratings has been below the previous year's level, and an increasing number of firms, especially small firms, have reported that their financial positions are weak and lending attitudes of financial institutions are severe. Meanwhile, the year-on-year rate of change in the money stock has been around 2 percent.

1. Economic Developments

Public investment has been sluggish (Chart 5). On a GDP basis, real public investment has been essentially flat (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 sluggish for the time being due to tight national and local fiscal conditions.²

Real exports have decreased substantially (Charts 6[1] and 7). They decreased sharply by 15.2 percent, the largest-ever decrease, in the fourth quarter.³

By destination (Chart 7[1]), exports to most countries and regions have decreased sharply. Exports to the United States dropped substantially in the second and third quarters on a quarter-on-quarter basis, and decreased at a much faster pace in the fourth quarter, mainly due to the drop in automobiles. Exports to the EU and NIEs plunged in the second quarter, followed by a temporary increase in the third quarter and a decline of approximately 20 percent in the fourth quarter. Exports to the ASEAN economies were almost level in the second and third quarters, but dropped sharply in the fourth quarter. Exports to China and other regions (such as the Middle East, Latin America, and Russia)—which had been steady—also plunged in the fourth quarter.

By goods (Chart 7[2]), almost all goods have decreased substantially. Exports of automobile-related goods marked a double-digit decline in the fourth quarter since exports to other regions—which had been firm—started to fall, in addition to those to the United States and the EU. Exports of IT-related goods registered a decline of over 20 percent in the fourth quarter, mainly to NIEs and China, after having increased in the second and third quarters. Exports of consumer

² The decreasing trend is expected to end, and public investment is likely to be essentially flat at a low level, given factors such as the increase in the supplementary budget.

³ The largest rate of decline on a quarter-on-quarter basis used to be 6.0 percent, recorded in the third quarter of 1995.

goods marked a decrease close to 20 percent in the fourth quarter, following the marginal decline in the third quarter. Exports of capital goods and parts and of intermediate goods have declined substantially.

Real imports have been more or less flat (Charts 6[1] and 9). On a quarter-on-quarter basis, real imports had ups and downs, with a drop of 3.2 percent in the second quarter, followed by a rise of 2.9 percent in the third quarter; they were more or less flat in the fourth quarter—marking an increase of 0.5 percent—despite the substantial drop in domestic demand and production. Developments mainly in raw materials and foodstuffs—which seem to be a temporary phenomenon—contributed to this recent increase.

By goods (Chart 9[2]), in the fourth quarter, imports of consumer goods, IT-related goods, and capital goods and parts (excluding aircraft) declined, whereas those of raw materials, intermediate goods, and foodstuffs have been firm.

Net exports in terms of the real trade balance have decreased substantially, reflecting the aforementioned developments in imports and exports (Chart 6[2]). A deficit in the nominal balance on goods and services was recorded in the third quarter; it then expanded in the fourth quarter in response to the rapid deterioration in the real trade balance.

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

As for the environment surrounding exports, overseas economic growth overall has decelerated rapidly, and many countries and regions have recently been marking negative growth. In the United States, economic conditions have deteriorated substantially, with ongoing adjustments in the housing market. With tighter financial conditions having exerted downward pressure on the U.S. economy and the increasingly severe employment situation, sales of automobiles—which have a large impact on Japan's exports—have declined substantially. In the EU, economic conditions have also deteriorated substantially; they have been affected mainly by tighter lending stances of financial institutions. In emerging economies and

countries that export natural resources, economic adjustments have deepened due to the decrease in exports in response to the deteriorating U.S. and European economic conditions and to the deterioration in the financial environment caused mainly by the outflow of funds (Chart 8[2]). While fiscal and monetary policies are expected to have effects on the economies in the future, there is great uncertainty about how much these policies will mitigate the strong negative synergy between the financial markets and the real economies. Regarding the environment surrounding exports of IT-related goods, global demand for finished products has been reaching a plateau as a whole, as shown in the rapid deceleration in digital cameras and PCs, and also in the further slowdown in flat-panel TVs and cellular phones. Meanwhile, in the foreign exchange market, the yen has appreciated by about 40 percent compared to the middle of 2007, 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 head toward a decline for the time being, mainly because the domestic economy is likely to continue to deteriorate, despite the positive contribution from the yen's appreciation.⁴

Business fixed investment has declined substantially. On a GDP basis, real business fixed investment decreased at a faster pace in the fourth 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—decreased sharply in the fourth quarter following the third quarter (Chart 10[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—dropped significantly in the third quarter, and declined at a much faster pace in the fourth quarter (Chart 11[1]).⁵ Construction starts (floor area, private,

⁴ Imports of raw materials and other items that have a strong connection to production are influenced by a certain time lag from placing orders and ship loading abroad to entering Japanese ports. This means imports tend to be reduced with some time lag when production plans are significantly revised downward, as at present. This mechanism appears to cause a temporary piling up in domestic inventories of raw materials. Therefore, it is projected that firms will reduce imports on a full-scale basis from now on.

⁵ The decrease rate of 16.7 percent marked in the fourth quarter was the largest on a quarterly basis since the statistics were first compiled in 1987 (the previous record was a decrease by 10.4

nondwelling use)—a leading indicator of construction investment—remained flat in the third quarter, partly because large construction starts were included, but then dropped noticeably in the fourth quarter (Chart 11[2]).⁶

Business fixed investment is likely to continue declining significantly for the time being, given the ongoing deterioration in corporate profits and firms' funding conditions, as well as the growing sense of excessive capacity.

Private consumption has weakened, as the employment and income situation has become increasingly severe. On a GDP basis, real private consumption decreased in the second quarter, followed by a temporary increase in the third quarter, and decreased again in the fourth quarter (Chart 3). Looking at individual indicators of consumption (Charts 12 and 13), sales at department stores and supermarkets have continued to be relatively weak, since consumers have further curtailed their purchases. Sales at department stores in particular—in which the shares of apparel and high-end products are large—have softened further. Meanwhile, sales at convenience stores have continued to be relatively strong, assisted mainly by the special factor of cigarettes (the so-called "Taspo" effect). As for durable consumer goods, sales of household electrical appliances seem to have been losing steam compared to a while ago, although they have remained steady. The drop in the number of new passenger-car registrations has become even larger. As for services consumption, outlays for travel have continued to be weak, mainly in overseas travel, partly affected by the deterioration in the employment and income situation with persistently high fuel surcharges added to airfares. Sales in the food service industry have been sluggish, albeit with fluctuations.

percent, marked in the second quarter of 1998 and the third quarter of 2008). The forecast survey shows a marginal increase of 4.1 percent in the first quarter, but this should be viewed with reservation. The forecast figures are calculated by multiplying the sum of corporate forecasts by the average achievement ratio in the past three quarters (92.9 percent in the first quarter), but sometimes the actual achievement ratio turns out to be significantly different. As for the fourth quarter, the average achievement ratio used for calculation at the time of forecast was 97.7 percent, but the actual achievement ratio was 80.0 percent.

⁶ The number of cases, in which construction starts are recognized in the statistics but actual constructions are on halt, tends to increase in times of economic recession.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above⁷—have started to become noticeably weak lately (Chart 14[1]). The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—has recently decreased substantially due to the decrease in durable goods consumption and to the reduction in distributors' inventories (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—decreased in the second and third quarters, and was almost flat in the fourth quarter, which is associated with a reaction against restrained purchasing when food and gasoline prices were on the rise. Meanwhile, total expenditure in the *Survey of Household Economy* (in real terms) also decreased in the fourth quarter following the second and third quarters (Chart 12[1]).⁸

Consumer sentiment has deteriorated further, mainly due to the drop in stock prices and to growing employment uncertainty; the levels of related indicators have started to become lower than the previous bottoms (Chart 15).

Private consumption is likely to continue weakening for the time being, as the employment and income situation becomes increasingly severe.

Housing investment has been more or less flat, but the number of housing starts has recently begun decreasing again. On a GDP basis, real housing investment increased in the fourth quarter, following the third quarter, aided by lagged contributions from the pickup in housing starts toward the spring of 2008 (Chart 3). The number of housing starts (Chart 16[1])—a leading indicator of housing investment—had been more or less flat since the beginning of 2008, when

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

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.

the effects of the revised Building Standard Law waned, but dropped again in the fourth quarter.

Looking ahead, housing investment is expected to weaken somewhat for the time being, considering the number of housing starts.

Industrial production has decreased at a much faster pace. Production registered a decline of around 1 percent on a quarter-on-quarter basis for three consecutive quarters through the third quarter, and then dropped sharply, by 12.0 percent, in the fourth quarter (Chart 17).⁹ By industry, production in many industries continued to decrease following the third quarter. In particular, industries such as transport equipment (excluding ships and rolling stocks), and electronic parts and devices dropped significantly.

Shipments also decreased substantially, by 11.8 percent, in the fourth quarter, after having declined for three quarters in a row. By goods (Chart 18), shipments of capital goods have fallen sharply in many items such as semiconductor products machinery, and also engineering and construction machinery, and metal cutting machinery. The decline in shipments of durable consumer goods has recently become significant, notably in automobiles. Shipments of non-durable consumer goods, mainly foods and cosmetics, have remained more or less flat, but have recently been slightly weak. Shipments of construction goods stopped declining temporarily as the effects of the revised Building Standard Law waned, but they have started to decrease again lately. Meanwhile, as for producer goods, along with shipments of electronic parts and devices, those of iron and steel, chemicals, non-ferrous metals, and fabricated metals have dropped significantly.

Inventories have risen noticeably, while shipments have decreased substantially; the shipment-inventory balance has deteriorated rapidly (Chart 19). By goods, as for capital goods (excluding transport equipment) and durable consumer goods, inventory adjustment pressures have been building up further, as shipments

⁹ On a quarterly basis, currently released connected indexes—which have been available since 1953—show that the largest rate of decline used to be 6.7 percent, recorded in the first quarter of 1975. The drop in production in Japan is larger than that in the United States, the origin of the global economic adjustment. See BOX for this point.

have declined at an accelerated pace. As for construction goods, the shipment-inventory balance has started to deteriorate again due to the faster pace of decline in shipments. As for producer goods, shipments of electronic parts and devices as well as those of other goods (such as chemicals, non-ferrous metals, and iron and steel) have fallen sharply, and inventories of these goods have further piled up. This shows that the shipment-inventory balance has deteriorated rapidly across a wide range of industries, and this will contribute to pressing production downward for the time being.

As for the outlook, production is expected to continue decreasing for the time being, since the weakness in domestic and external demand has become evident and also since inventory adjustment pressures have mounted. According to anecdotes from firms, production in the first quarter is projected to register a significant decline that will be larger than that in the fourth quarter.¹⁰

The employment and income situation has become increasingly severe, with the easing of the labor market and relatively weak employee income (Chart 20[3]).

In the labor market, overtime hours worked have decreased substantially, notably in manufacturing industries (Chart 22[3]). The ratio of job offers to applicants has continued to decline (Chart 21[1]). The unemployment rate, on balance, has been on a moderate uptrend.

In terms of employment (Chart 22[1]), the growth rate of the number of employees in the *Labour Force Survey* has been around 0 percent on a year-on-year basis; it exhibited a marginal decrease in December, following that in November. As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year growth rate has continued to fall after having peaked near the end of 2007. The ratio of part-time employees has been essentially level (Chart 22[2]).

¹⁰ According to calculations assuming that the production level in March is the same as the production forecast index of February, production in the first quarter is expected to decrease by 20.4 percent on a quarter-on-quarter basis. In this case, the index level of production will record 74.3, the lowest level since the fourth quarter of 1983.

The year-on-year growth rate of nominal wages per employee has been on a downtrend; the wages registered a decrease in December, following that in November (Chart 20[1]). In detail, regular payments have stayed around the previous year's level, whereas overtime payments have declined at a much faster pace and special payments have started to decrease markedly.¹¹

Looking ahead, employee income is likely to continue declining 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 in response to the declines in international commodity prices and the yen's appreciation (Chart 24). As for international commodity prices, prices of crude oil, nonferrous metals, and crops have recently been essentially flat, at low levels, after having dropped substantially since last summer. Meanwhile, domestic commodity prices have been soft, in response to developments in international commodity prices and to the yen's appreciation.

The three-month rate of decrease in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹² has been large, mainly due to the drop in international commodity prices (Chart 25). In detail, the pace of decrease in prices of "iron and steel and construction goods" overall has slowed slightly, since prices of scrap and waste have slowed their pace of decrease, although prices of iron and steel have declined at a faster pace. Prices of "goods sensitive to exchange rates and overseas commodity prices" have declined

¹¹ Summer bonuses in 2008 (special payments in June to August) were flat on a year-on-year basis, with an increase of 0.1 percent, whereas special payments in November and December—which make up most of winter bonuses—showed a decrease of 1.1 percent on a year-on-year basis.

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 electric power consumption increases substantially.

substantially, at around the same pace as last month, reflecting price movements of petroleum and coal products and of nonferrous metals. Prices of "other materials" have increased their pace of decline due to the drop in prices of chemicals and related products. Prices of "others" started to decrease due to the drop in prices of other manufacturing industry products (such as formula feeds) and of agriculture, forestry and fishery products. Prices of "machinery," particularly transportation equipment, have slowed their pace of increase. Meanwhile, prices of "electric power, gas and water" have risen at a faster pace, mainly due to the increase in electric power charges in response to earlier high fuel costs. Looking at domestic demand products as a whole, including imports, prices of raw materials, intermediate goods, and finished goods have all continued to drop significantly, even though the pace of decline has slowed slightly.

The year-on-year rate of change in corporate services prices (excluding external factors)¹³ has been around 0 percent (Chart 26).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. Prices of leasing and rental have started to increase, influenced mainly by the rise in prices of some machinery equipment and by the increase in leasing rates in response to rising credit costs. On the other hand, the year-on-year rate of increase in prices of "other services" has shown a gradual diminishing trend in response to firms' cost-cutting, even though the passing on of earlier high fuel costs has contributed to an upward pressure. Prices of information services have shown a relatively weak trend, since firms have tightened the reins on their software investment. Prices of advertising services have marked a relatively large decrease, albeit with fluctuations, since firms have been more cautious about increasing advertisement placements. Meanwhile, prices of finance and insurance have recently declined at a faster pace, partly because the rate of increase in prices of

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 decreased at a much faster pace on a year-on-year basis, mainly because ocean freight transportation has decreased at a faster pace.

financial services has moderated, as prices of property and casualty insurance services continue to fall.

The year-on-year rate of increase in consumer prices (excluding fresh food, same hereafter) has moderated to around 0 percent, mainly reflecting the declines in the prices of petroleum products and the stabilization of food prices (Chart 27). In detail, on a year-on-year basis, prices of goods have started to decrease, since the negative contribution of petroleum products has increased and the positive contribution of food products has moderated. The year-on-year rate of increase in prices of general services, chiefly "eating out," has started to reach a plateau. Public utility charges, mainly electricity charges and city gas charges, have increased on a year-on-year basis. Meanwhile, the year-on-year rate of change in consumer prices, excluding food and energy, has continued to be around 0 percent.

Domestic corporate goods prices are likely to continue decreasing for the time being, mainly due to the drop in international commodity prices and the easing of supply-demand conditions for products. The year-on-year rate of increase in consumer prices is expected to become negative, mainly due to the declines in the prices of petroleum products and the stabilization of food prices and also to increasing slackness in supply and demand conditions in the overall economy.

3. Financial Developments

(1) Financial Markets

Japan's money markets have continued to be nervous, mainly in interbank trading of term instruments, reflecting the cautious stance of financial institutions on investment and funding. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 28[1]). Regarding interest rates on term instruments, however, the T-Bill rate (3-month) has risen somewhat; the Euroyen interest rate (LIBOR, 3-month) has remained at a high level relative to OIS rates—which mainly reflect expectations about future policy interest rates—and it has been in a very tense situation with risk premiums added (Chart 29). Under these circumstances, interest rates on Euroyen futures in nearby contracts have remained high (Chart 28[2]). In

U.S. dollar funding, liquidity conditions have remained tight, although they have shown improvements compared to those toward the end of last year.

Yields on 10-year government bonds (newly issued 10-year JGB) have been unstable under mixed developments of worsening global business sentiment and concern over increasing fiscal deficit. They have temporarily inched up to 1.30-1.40 percent range, mainly in response to profit-taking sales toward the fiscal year-end; they have been moving at around 1.25 percent (Chart 30).

Yield spreads between corporate bonds and government bonds have continued to widen, mainly in those with low credit ratings and those of some industries, in response to further deterioration in corporate performances, given that investors have become even more selective about bond issues for investment (Chart 31).¹⁵

Stock prices have continued to show unstable movements in response to the ongoing deterioration in economic and earnings outlook. The Nikkei 225 Stock Average has recently declined to around 7,500 yen (Chart 32).

In the foreign exchange market, the yen has fluctuated against the U.S. dollar on concerns for a prolonged recession in the U.S. economy and expectations to renewed U.S. measures taken toward economic stabilization. The yen has recently declined to the range of 93-94 yen (Chart 33).

(2) Corporate Finance and Monetary Aggregates

Funding costs seem to have declined compared to levels at around the end of last year, a reflection mainly of the reductions in the policy interest rate. CP issuance rates, which heightened toward the end of last year, have declined since then. Issuance rates of corporate bonds have also declined for firms with high credit ratings. Short-term prime lending rates were lowered in November and January, and the average contracted interest rates on new loans and discounts have declined lately (Chart 35). However, the decline in the average rates was also likely amplified by

¹⁵ Spreads on A-rated corporate bonds have narrowed, whereas those on BBB-rated corporate bonds have widened due to the downgrading of some bond issues with large spreads. Both spreads widen slightly when this factor is adjusted.

the increased share of lending to large firms, for which interest rates are relatively low.

Credit spreads have remained wide, as the decline in funding costs has been largely attributable to the reductions of the base rates. Issuance spreads on CP have remained at high levels, especially for firms with low credit ratings, even though these spreads have been narrowed somewhat from around the end of last year. Issuance spreads on corporate bonds have continued to widen. Lending spreads have recently risen with the monthly fluctuations smoothed out.

The funding of the private sector has risen against the backdrop of firms' demands to cover the decline in operating cash inflow and to secure additional liquidity. Although some firms have increased issuance of CP in response to various policy measures, the overall amount outstanding of CP issued has remained below the previous year's level (Chart 37). Firms with low credit ratings have continued to face difficulties in issuing corporate bonds. In contrast, lending by private banks, especially to large firms, has continued to increase, more than that to offset the decrease in the amount outstanding of CP and corporate bonds issued (Chart 36).

Despite the increase in funding of the private sector, an increasing number of firms have reported that their financial positions are weak, and the lending attitudes of financial institutions are severe (Chart 34). In particular, the DI for small firms on their financial positions has deteriorated to the levels experienced in 1998 and 2002, as has that on the lending attitudes of financial institutions. The number of corporate bankruptcies has continued to increase—it was up by 15.8 percent in January compared to the year-ago level, to 1,360 cases (Chart 39).

The money stock (M2) has continued to increase by around 2 percent, year-on-year. Its January reading was 1.9 percent on a year-on-year basis, following 1.8 percent in December (Chart 38).¹⁶

¹⁶ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been around 1 percent—it increased by 0.9 percent in January following 0.7 percent in December. Broadly-defined liquidity has continued to be below the previous year's level. In January, it declined by 0.3%, year-on-year, following a 0.2% decline in December.

BOX: Recent Substantial Decrease in Industrial Production

The global economy has been in a severe adjustment phase, with the spreading of negative synergy between the financial markets and the real economy, since the collapse of Lehman Brothers last September. In this situation, Japan's economy has deteriorated significantly. This is largely because the manufacturing industries have been facing rapid production adjustments. The drop in production in Japan has become much larger than that in the United States, the origin of the global economic adjustment.

Industrial Production in Japan and the United States

	q/q % chg.			
	2008/Q1	Q2	Q3	Q4
Japan	-0.7 (2.3)	-0.8 (1.0)	-1.3 (-1.4)	-12.0 (-14.8)
United States	0.1 (1.6)	-0.9 (0.3)	-2.3 (-2.9)	-3.2 (-6.1)

Note: Figures in brackets are year-on-year changes.

As mentioned below, this is largely influenced by the structural differences in the manufacturing industries between Japan and the United States.

First, the industry weights are different. Looking at a breakdown of industrial production in Japan, production in the three industries—transport equipment (such as automobiles), electrical machinery and related machinery (electronic parts and devices, electrical machinery, and information and communication electronics equipment), and general machinery (such as business equipment)—has dropped sharply. The three industries together have a weight of approximately 50 percent in the index. In contrast, the corresponding industries in the United States account for only about 20 percent; food, beverage, and tobacco products, and mining—whose drop is small—have considerable weights, and utilities (electric and natural gas) are included in the index (BOX Chart 1).¹⁷

Second, the effects of exports are different. In Japan, in addition to weights, the decline in production in the three industries such as transport equipment is larger than that in the United States due to the substantial decrease in exports. The ratio of manufacturing exports to production in Japan has been higher than that in the United States, notably in the three industries; the ratio has risen further in recent years in response to expanding demand in emerging economies and countries that export

¹⁷ In Japan, electricity and gas are included in the *Indices of Tertiary Industry Activity*, and not in the *Indices of Industrial Production*.

natural resources and to the yen's depreciation (BOX Chart 2 [1] and [2]). Exports to emerging economies and countries that export natural resources have been steady until lately, even though those to advanced economies such as the United States have continued to decrease. Quite recently, however, the economic growth of emerging economies and countries that export natural resources has also decelerated rapidly; durable goods consumption and business fixed investment in particular—which increased sharply, assisted partly by the global expansion of risk money—have dropped, largely due to the strong negative effect from the financial sector. Efforts to reduce inventories abroad and the yen's appreciation have made a negative impact on Japan's exports by amplifying the effects of the drop in final demand overseas.

Third, the spillover effects of demand shocks are different. An increase in exports spills over to production in a wide range of manufacturing industries through domestic transactions of goods and services essential for producing export goods. As a result, domestic production that is several times larger than an initial demand increase is induced. In Japan, the domestic procurement rate for parts and materials is high, thus final demand strongly induces manufacturing production (BOX Chart 2 [1]). In contrast, in the United States, demand shocks are likely to spread overseas due to the high dependency on imported goods for procuring production parts and other items. This indicates that Japan—which exports many high quality production parts and related items, particularly electronic parts and devices—is susceptible to demand shocks in the United States. This point also applies to economies such as South Korea and Taiwan, and it appears to be one reason why the recent drops in production in these economies have been as large as that in Japan.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q2	Q3	Q4	2008/Oct.	Nov.	Dec.	2009/Jan.
Index of consumption expenditure level (two-or-more-person households)	-2.0	-0.5	0.2	-0.6	2.5	-2.3	n.a.
Sales at department stores	-3.0	0.7	-4.7	-3.6	-0.8	-0.9	n.a.
Sales at supermarkets	-1.7	0.3	-1.4	-2.2	2.2	-1.6	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 292>	< 277>	< 249>	< 260>	< 248>	< 238>	< 221>
Sales of household electrical appliances (real, Current Survey of Commerce)	1.8	7.2	-2.1	-3.0	6.7	-5.9	n.a.
Outlays for travel	-2.9	-1.6	-1.4	3.5	-1.6	-2.1	n.a.
Housing starts <s.a., ann. 10,000 units>	< 112>	< 110>	< 101>	< 104>	< 99>	< 100>	<n.a.>
Machinery orders (from private sector ⁴)	0.6	-10.4	-16.7	-4.4	-16.2	-1.7	n.a.
Manufacturing	2.7	-10.9	-21.5	-2.2	-33.2	7.0	n.a.
Nonmanufacturing ⁴	1.0	-12.0	-10.8	-2.3	0.5	-8.3	n.a.
Construction Starts (private, nondwelling use)	-2.8	0.2	-7.7	-1.1	-3.9	16.0	n.a.
Mining & manufacturing	7.6	10.0	-2.8	23.6	-4.8	29.0	n.a.
Nonmanufacturing ⁵	-5.4	-1.2	-11.9	-10.5	-2.2	4.9	n.a.
Value of public works contracted	-8.3	11.3	-4.3	-0.6	9.0	-15.1	13.7
Real exports	-3.3	1.8	-15.2	-2.8	-14.0	-9.9	n.a.
Real imports	-3.2	2.9	0.5	0.4	-2.3	-3.6	n.a.
Industrial production	-0.8	-1.3	-12.0	-3.1	-8.5	-9.8	n.a.
Shipments	-0.9	-1.8	-11.8	-3.0	-8.4	-8.1	n.a.
Inventories	0.4	1.6	2.7	1.8	0.8	0.1	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 105.0>	< 108.3>	< 135.2>	< 112.5>	< 127.0>	< 135.2>	<n.a.>
Real GDP	-0.9	-0.6	-3.3	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	0.5	-0.8	n.a.	-0.4	-2.3	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q2	Q3	Q4	2008/Oct.	Nov.	Dec.	2009/Jan.
Ratio of job offers to applicants <s.a., times>	< 0.92>	< 0.86>	< 0.76>	< 0.80>	< 0.76>	< 0.72>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.1>	< 4.0>	< 3.7>	< 3.9>	< 4.4>	<n.a.>
Overtime working hours ⁶	-1.2	-2.3	-7.7	-4.5	-7.0	-11.3	n.a.
Number of employees	-0.0	0.1	0.0	0.3	-0.2	-0.1	n.a.
Number of regular employees ⁶	1.7	1.5	1.1	1.3	1.0	1.1	n.a.
Nominal wages per person ⁶	0.7	0.2	-0.5	0.1	-0.7	-0.8	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	4.9 < 2.4>	7.1 < 2.8>	2.9 <-3.2>	5.0 <-1.8>	2.8 <-3.7>	1.1 <-4.3>	p -0.2 <p -4.1>
Consumer price index ⁸	1.5	2.3	1.0	1.9	1.0	0.2	n.a.
Corporate services price index	1.0	1.0	p -2.0	-1.5	-2.0	p -2.5	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.1	2.2	1.8	1.8	1.8	1.8	p 1.9
Number of corporate bankruptcies <cases per month>	<1,276>	<1,345>	<1,356>	<1,429>	<1,277>	<1,362>	<1,360>

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

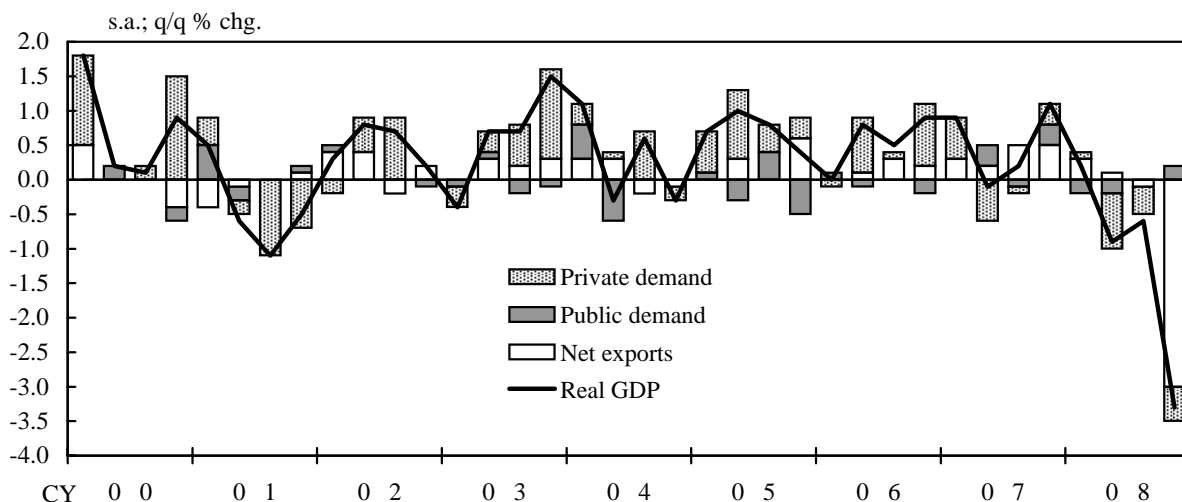
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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



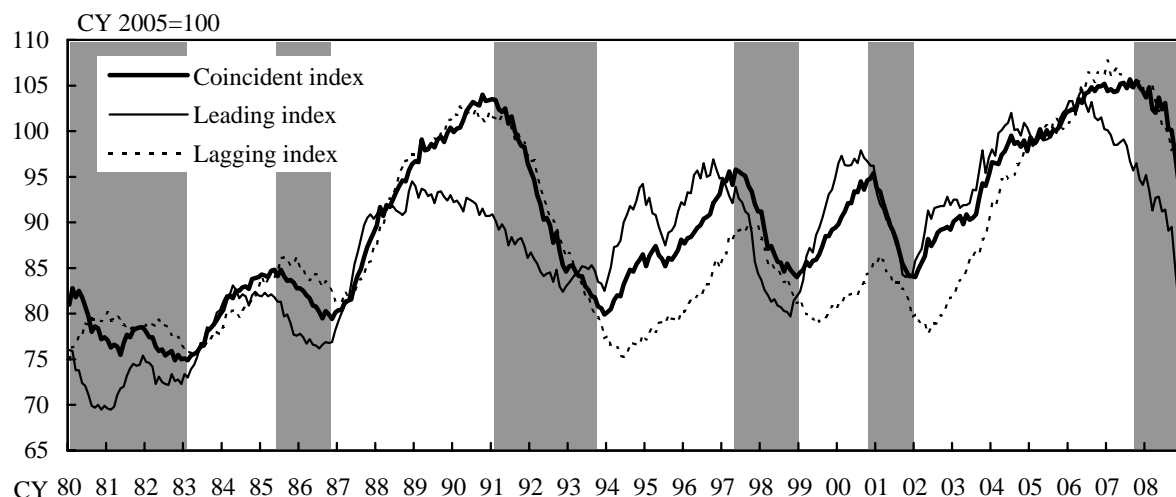
(2) Components

s.a.; q/q % chg.

	2007	2008			
	Q4	Q1	Q2	Q3	Q4
Real GDP	1.1	0.2	-0.9	-0.6	-3.3
Domestic demand	0.6	-0.2	-1.0	-0.4	-0.3
Private demand	0.3	0.1	-0.8	-0.4	-0.5
Private consumption	0.2	0.4	-0.4	0.2	-0.2
Non-Resi. investment	0.3	-0.1	-0.4	-0.5	-0.8
Residential investment	-0.3	0.1	-0.1	0.1	0.2
Private inventory	0.1	-0.4	0.1	-0.2	0.4
Public demand	0.3	-0.2	-0.2	-0.0	0.2
Public investment	-0.0	-0.2	-0.0	0.0	-0.0
Net exports of goods and services	0.5	0.3	0.1	-0.1	-3.0
Exports	0.5	0.5	-0.4	0.1	-2.6
Imports	-0.1	-0.2	0.5	-0.3	-0.5
Nominal GDP	0.5	-0.1	-1.4	-0.7	-1.7

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

(3) Indexes of Business Conditions (Composite Indexes)

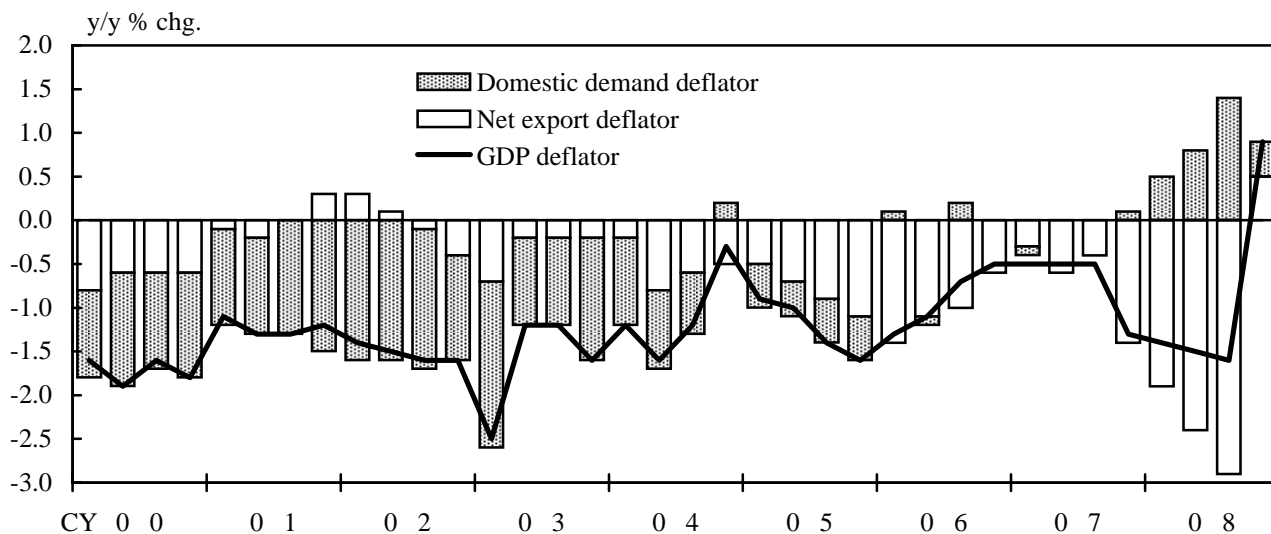


Note: Shaded areas indicate recession periods.

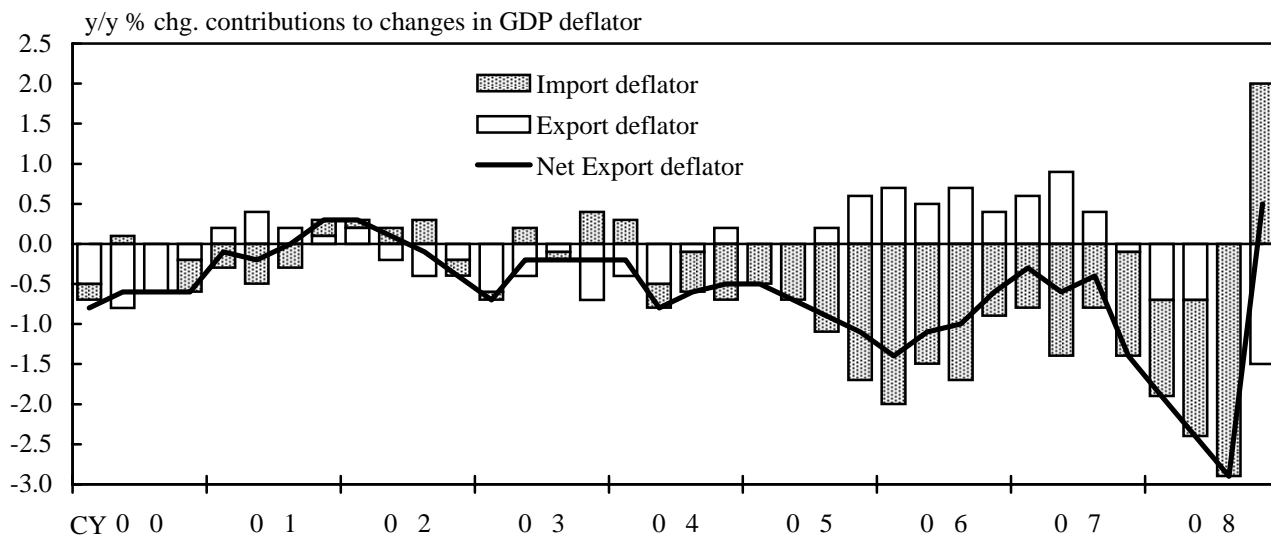
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

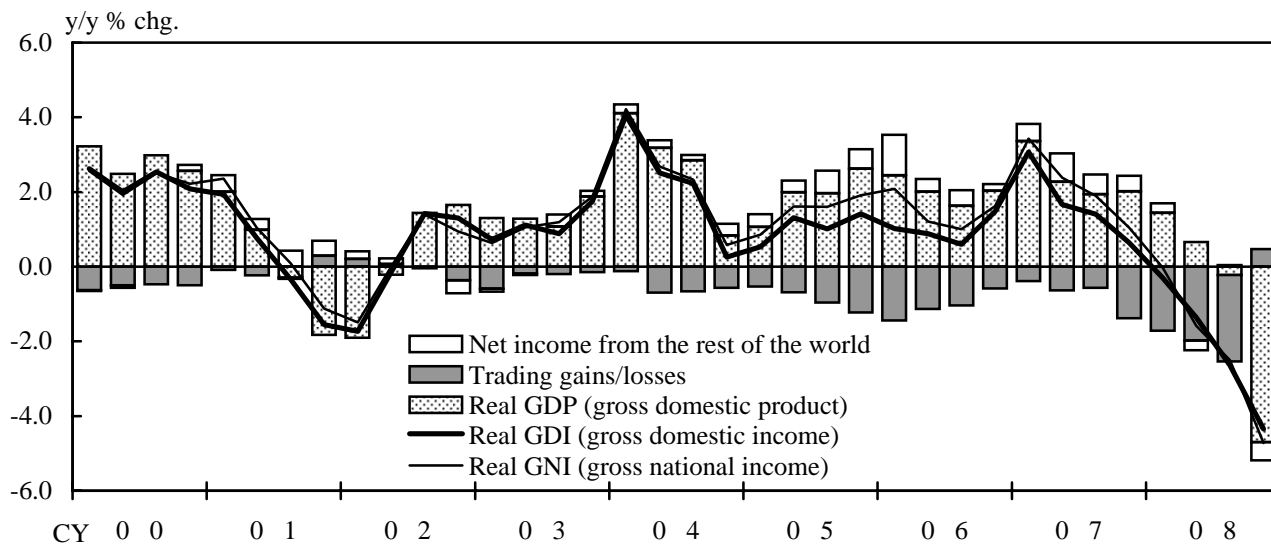
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



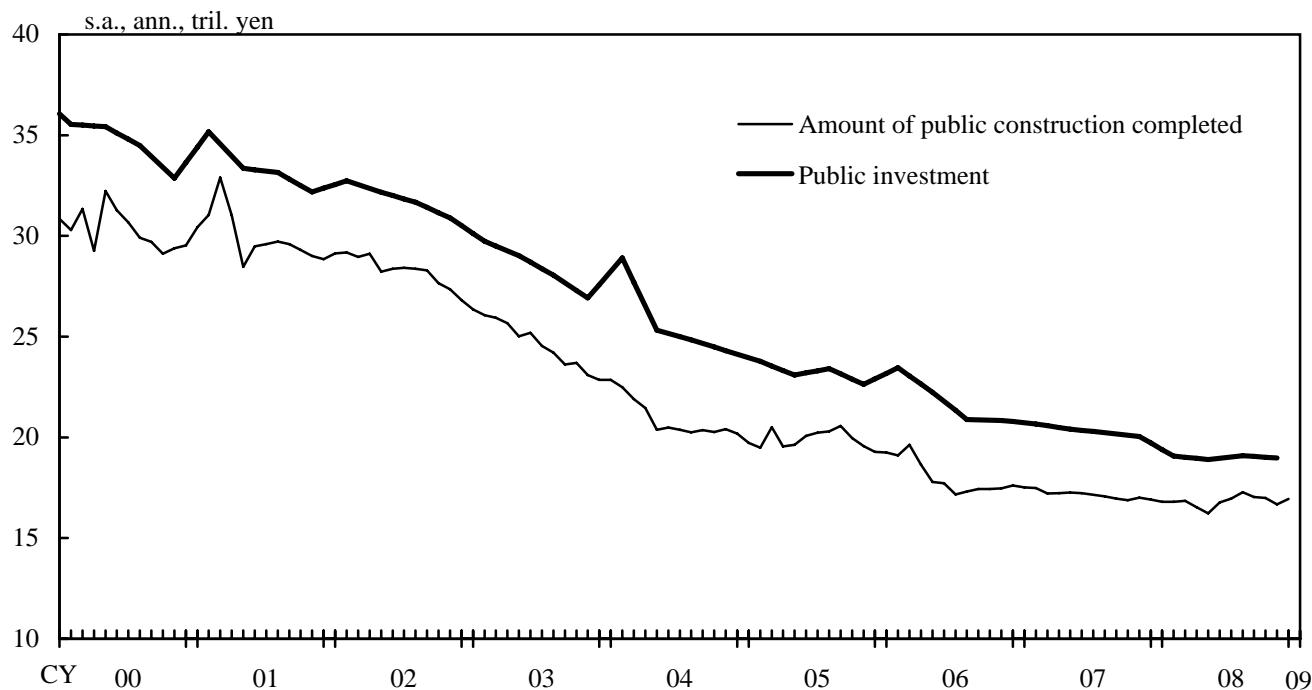
Note: Figures of components indicate contributions to changes in real GNI.

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

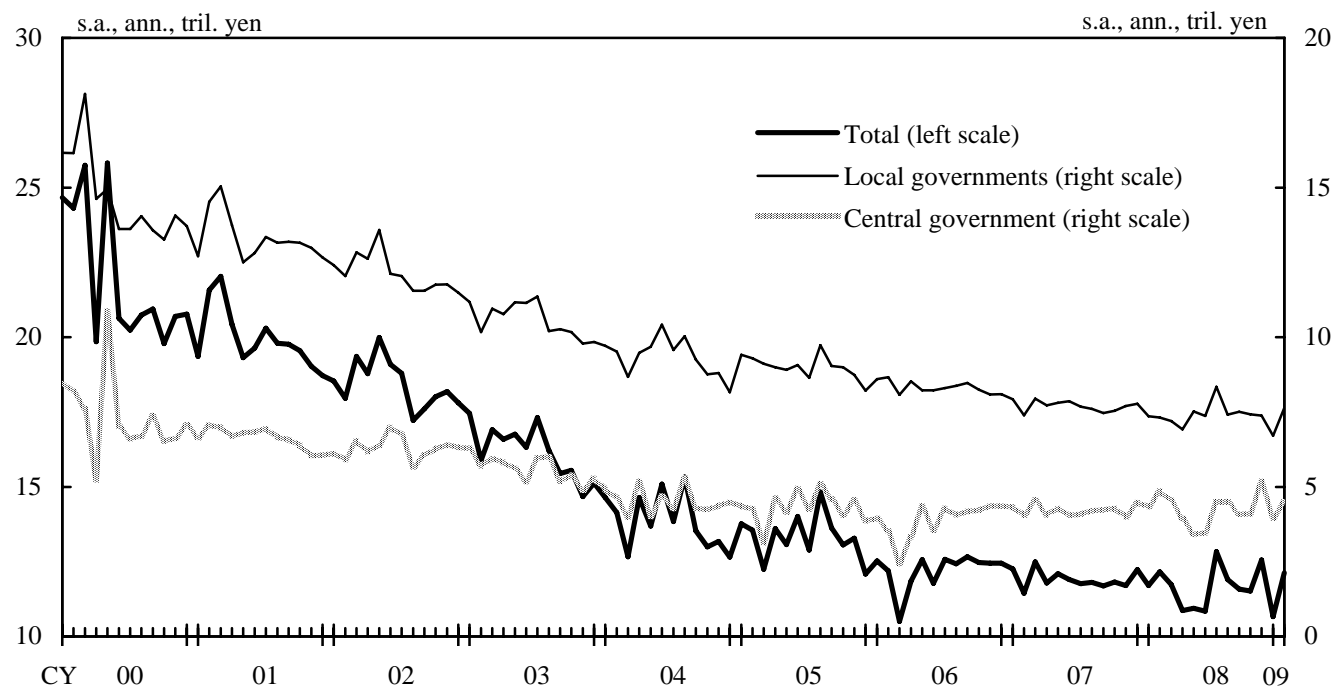
Source: Cabinet Office, "National Accounts."

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.

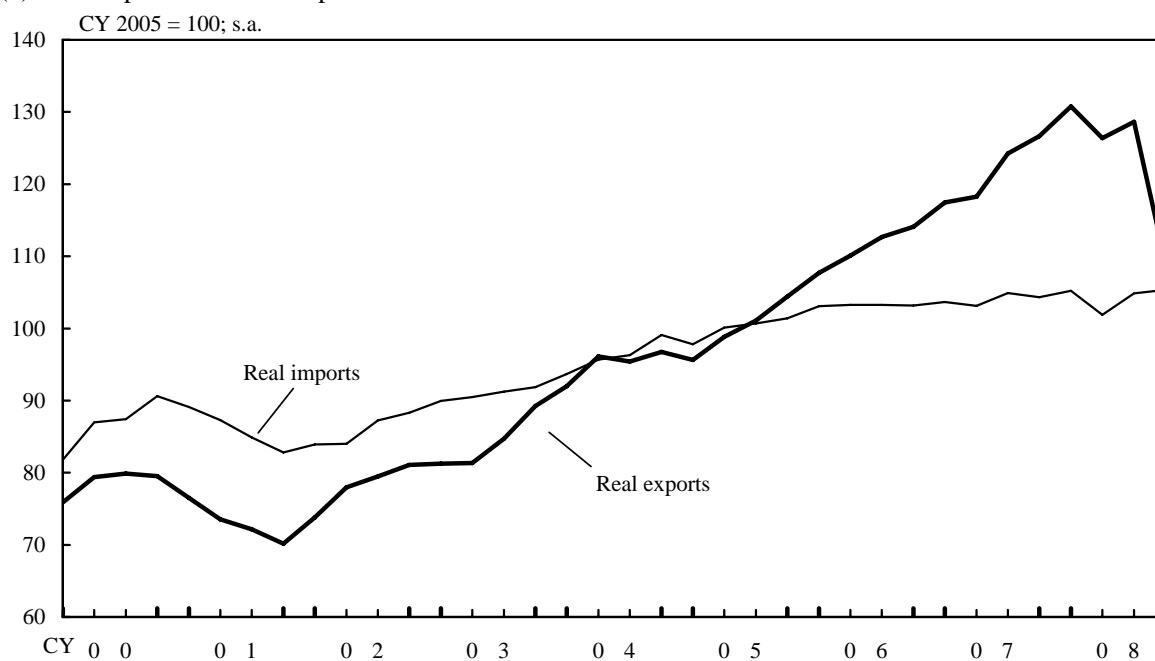
Sources: Cabinet Office, "National Accounts";

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

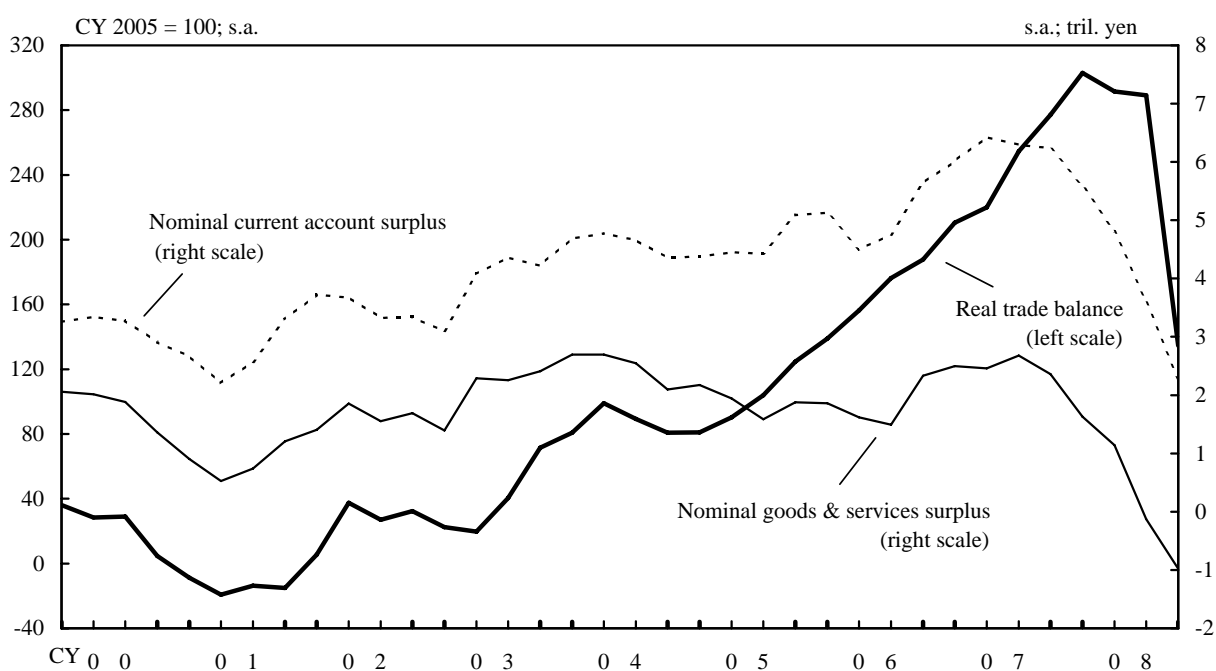
Ministry of Land, Infrastructure and Transport, "Integrated Statistics on Construction Works."

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.

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 2007	2008	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Oct.	Nov.	Dec.
United States	<17.5>	-1.2	-8.8	-1.3	-0.2	-6.9	-4.0	-9.6	-4.2	-11.9	-2.2
EU	<14.1>	13.0	-0.1	2.6	4.2	-7.4	2.1	-18.8	-4.1	-13.0	-15.7
East Asia	<46.8>	10.3	3.7	2.9	4.9	-2.4	1.8	-17.0	-0.2	-14.7	-13.4
China	<16.0>	16.8	6.7	2.0	5.1	1.7	0.9	-16.7	5.5	-17.4	-17.0
NIEs	<22.1>	5.2	-0.1	2.0	5.3	-5.9	3.2	-20.0	-5.6	-14.6	-10.3
Korea	<7.6>	5.3	-0.4	4.7	3.6	-4.9	6.0	-24.3	-14.8	-13.8	-14.5
Taiwan	<5.9>	0.0	-4.5	-3.8	8.7	-8.9	0.5	-23.9	-6.7	-14.1	-15.5
ASEAN ⁴	<8.8>	13.2	8.3	6.4	3.6	-0.7	0.3	-10.3	2.7	-10.3	-13.9
Thailand	<3.8>	9.8	4.9	2.1	5.1	-6.9	4.8	-5.5	5.5	-6.8	-12.9
Others	<21.5>	19.9	15.6	9.2	4.8	-0.1	4.1	-9.5	-0.9	-12.3	-8.2
Real exports		9.1	1.8	1.9	3.2	-3.3	1.8	-15.2	-2.8	-14.0	-9.9

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Oct.	Nov.	Dec.
Intermediate goods	<18.9>	5.3	0.0	1.6	2.1	-6.0	2.1	-9.4	-1.0	-6.9	-13.6
Motor vehicles and their related goods	<23.8>	13.2	3.2	6.6	3.1	-4.8	0.0	-16.6	-3.9	-13.3	-13.1
Consumer goods ⁴	<4.1>	6.4	3.5	-0.2	4.3	3.1	-1.1	-17.4	-8.8	-12.2	-11.7
IT-related goods ⁵	<10.2>	12.2	0.7	2.5	-1.3	4.4	2.4	-22.5	-9.3	-14.5	-16.4
Capital goods and parts ⁶	<28.3>	8.0	5.2	2.8	4.3	-2.0	1.7	-10.9	-0.3	-15.1	-5.5
Real exports		9.1	1.8	1.9	3.2	-3.3	1.8	-15.2	-2.8	-14.0	-9.9

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

2. Shares of each region and goods in 2008 are shown in angle brackets.

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

4. Excludes motor vehicles.

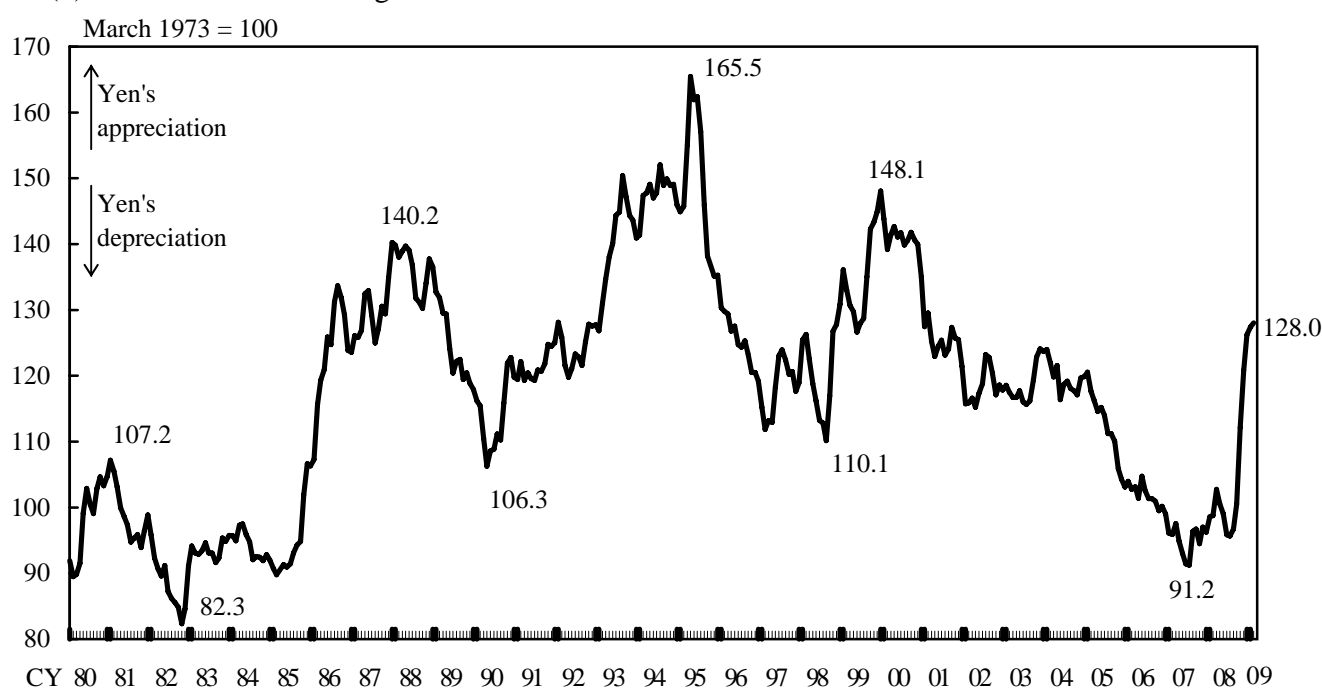
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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 February 2009 is the average up to February 18.

Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (30 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY2006	2007	2008	2008 Q1	Q2	Q3	Q4	
United States ¹		2.8	2.0	1.3	0.9	2.8	-0.5	-3.8	
European Union ¹		3.2	2.9	0.9	2.4	-0.2	-0.7	-5.8	
	Germany	3.2	2.6	1.0	6.2	-2.0	-2.1	-8.2	
	France	2.4	2.1	0.7	1.6	-1.2	0.4	-4.6	
	United Kingdom	2.8	3.0	0.7	1.5	0.0	-2.6	-5.9	
East Asia ²	China	11.6	13.0	9.0	10.6	10.1	9.0	6.8	
	NIEs	Korea	5.1	5.0	2.5	5.8	4.8	3.8	-3.4
		Taiwan	4.8	5.7	0.1	6.2	4.6	-1.0	-8.4
		Hong Kong	7.0	6.4	n.a.	7.3	4.2	1.7	n.a.
		Singapore	8.2	7.7	1.2	6.9	2.2	-0.2	-3.7
	ASEAN4	Thailand	5.2	4.9	n.a.	6.0	5.3	4.0	n.a.
		Indonesia	5.5	6.3	6.1	6.2	6.4	6.4	5.2
		Malaysia	5.8	6.3	n.a.	7.4	6.7	4.7	n.a.
Philippines		5.4	7.2	4.6	4.7	4.4	5.0	4.5	

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 2007	2008	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Oct.	Nov.	Dec.
United States	<10.2>	-1.5	-2.6	3.3	-1.1	-3.9	2.3	-2.6	-2.1	-4.5	-5.5
EU	<9.2>	4.0	-3.1	-3.3	-1.0	0.2	-3.0	-2.7	-3.5	-0.0	-2.6
East Asia	<38.0>	3.3	3.0	0.1	2.2	-3.0	4.3	0.5	1.8	-2.4	-7.0
China	<18.8>	5.7	4.2	-0.1	0.8	-0.9	7.2	-1.4	0.3	-3.4	-7.1
NIEs	<8.0>	-3.8	-1.1	0.5	3.0	-4.4	1.8	-6.6	-0.1	-2.3	-11.9
Korea	<3.9>	-3.3	-5.3	0.5	3.3	-9.2	1.4	-7.4	-1.0	-2.2	-7.0
Taiwan	<2.9>	-3.0	3.6	-1.7	4.2	1.6	3.2	-7.7	1.8	-3.0	-18.4
ASEAN4 ³	<11.2>	4.8	3.9	0.0	4.1	-5.5	0.8	9.5	6.1	-0.8	-3.5
Thailand	<2.7>	4.4	2.2	-0.5	1.2	-3.2	5.4	-0.9	-2.6	-8.9	-2.4
Others	<42.6>	-0.1	1.2	-0.4	0.9	-3.8	3.4	2.2	1.8	-1.0	-2.4
Real imports		0.7	0.4	-0.5	0.8	-3.2	2.9	0.5	0.4	-2.3	-3.6

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2007 Q4	2008 Q1	Q2	Q3	Q4	2008 Oct.	Nov.	Dec.
Raw materials ⁴	<42.0>	0.7	1.4	-0.3	1.6	-5.9	3.3	4.6	5.4	-0.9	-1.5
Intermediate goods	<14.1>	2.0	1.6	-1.8	-1.7	2.3	1.4	4.8	2.3	1.4	-6.8
Foodstuffs	<7.9>	-9.6	-3.8	-6.2	-1.0	-0.7	2.4	14.3	9.1	-3.2	3.9
Consumer goods ⁵	<6.9>	-0.1	-2.7	-2.8	0.6	-3.2	2.3	-4.0	-2.8	-0.9	-5.5
IT-related goods ⁶	<9.5>	4.2	4.2	1.7	4.1	-2.3	4.7	-7.9	-0.5	-4.8	-9.5
Capital goods and parts ⁷	<11.2>	8.5	2.7	4.5	1.2	-1.3	2.4	-9.5	-10.7	-3.6	-7.3
Excluding aircraft	<10.5>	7.9	3.5	1.9	0.0	2.5	-2.1	-4.4	-2.6	-2.9	-12.7
Real imports		0.7	0.4	-0.5	0.8	-3.2	2.9	0.5	0.4	-2.3	-3.6

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

2. Shares of each region and goods in 2008 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.

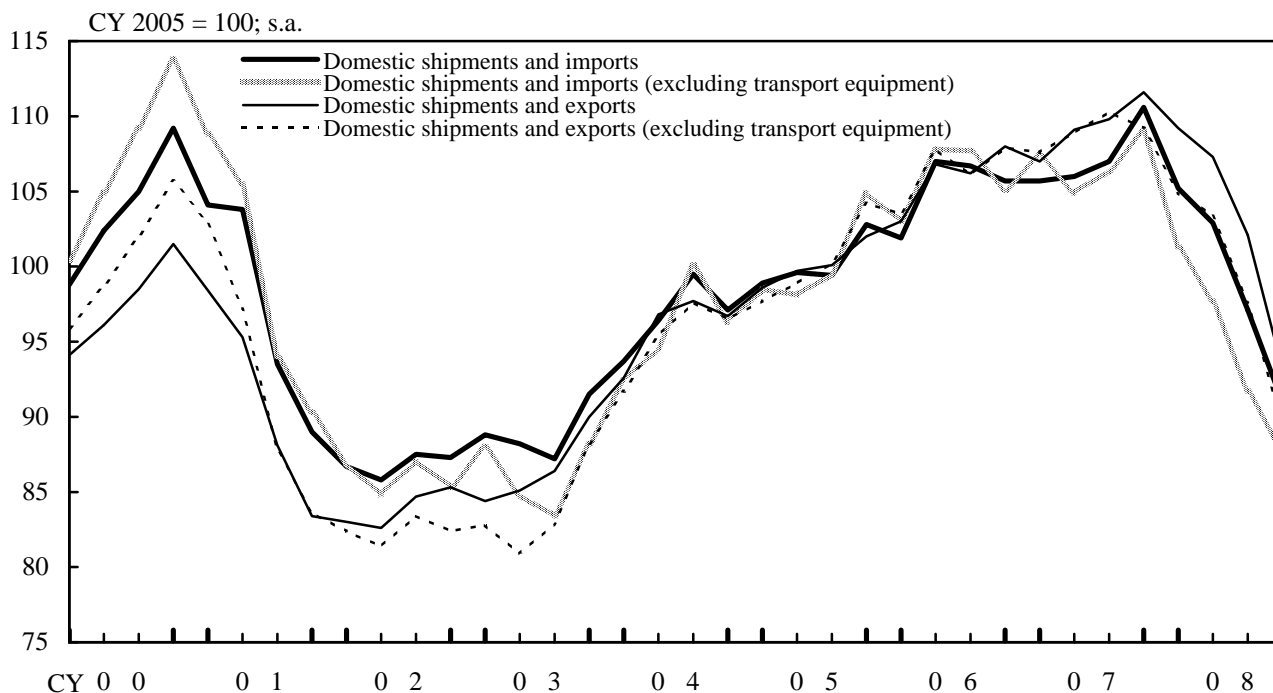
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

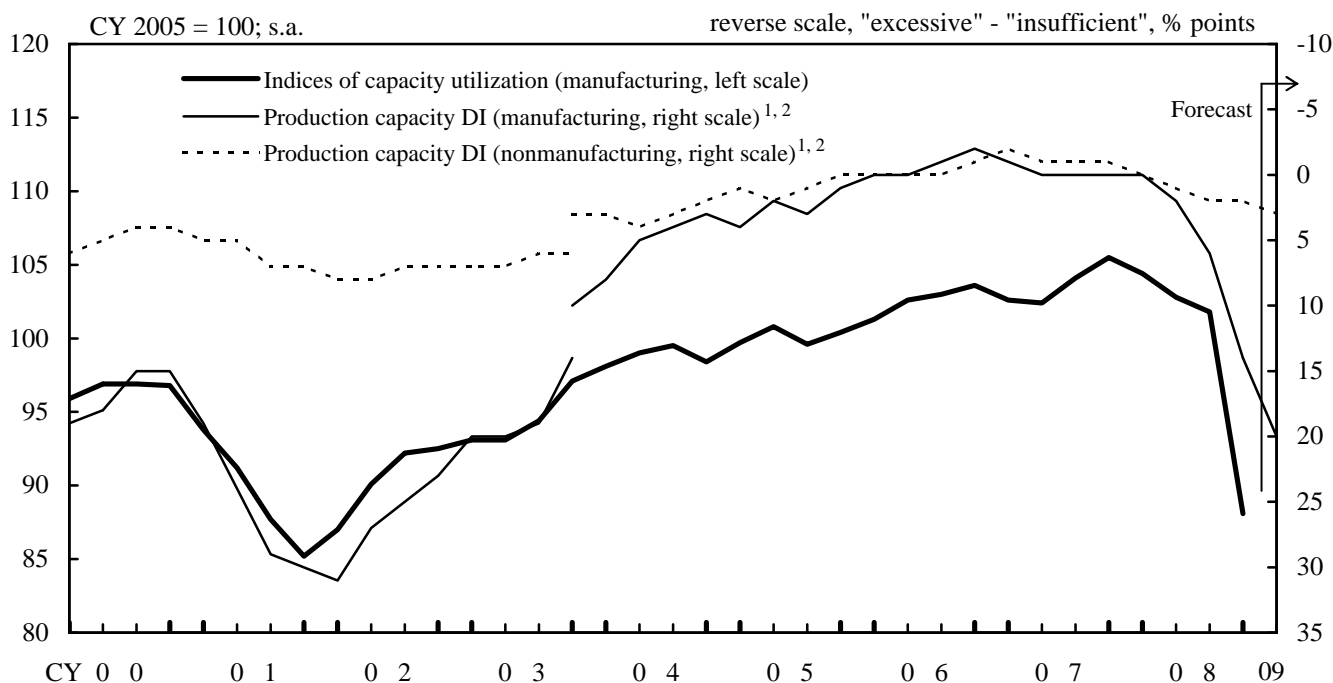
Sources: Ministry of Finance, "The Summary Report on Trade of Japan"; Bank of Japan, "Corporate Goods Price Index."

Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



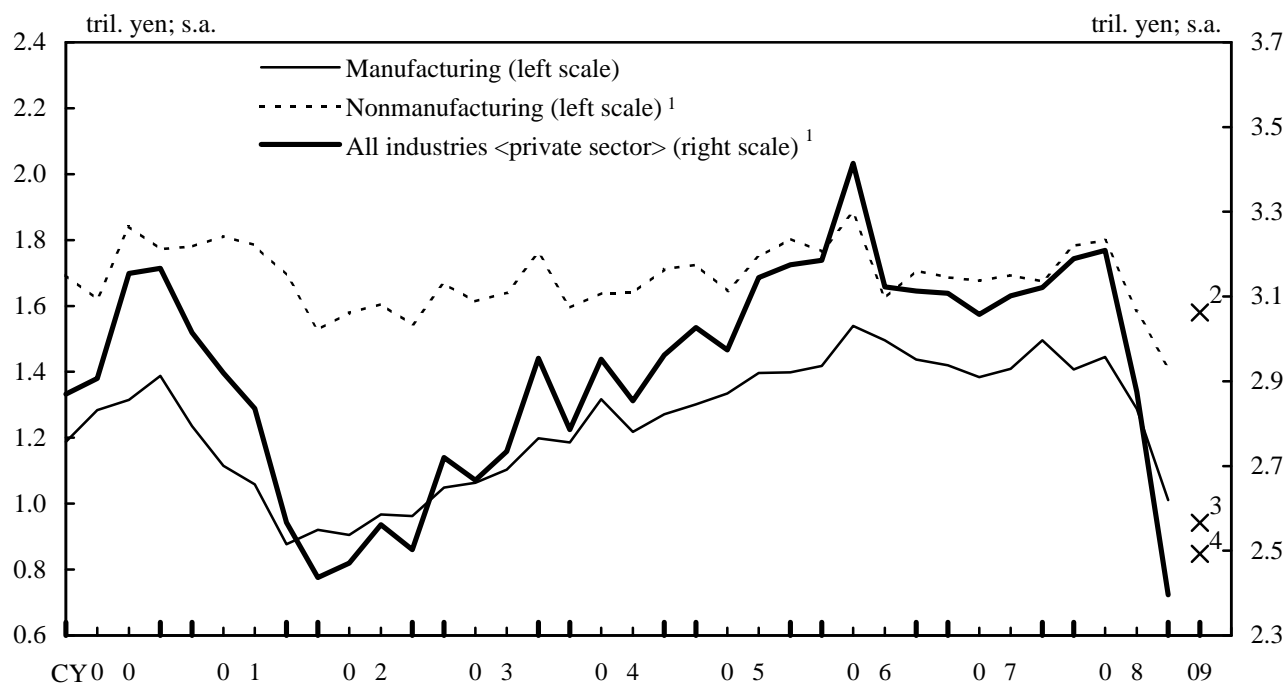
Notes: 1. Production capacity DIs are those of all enterprises.

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



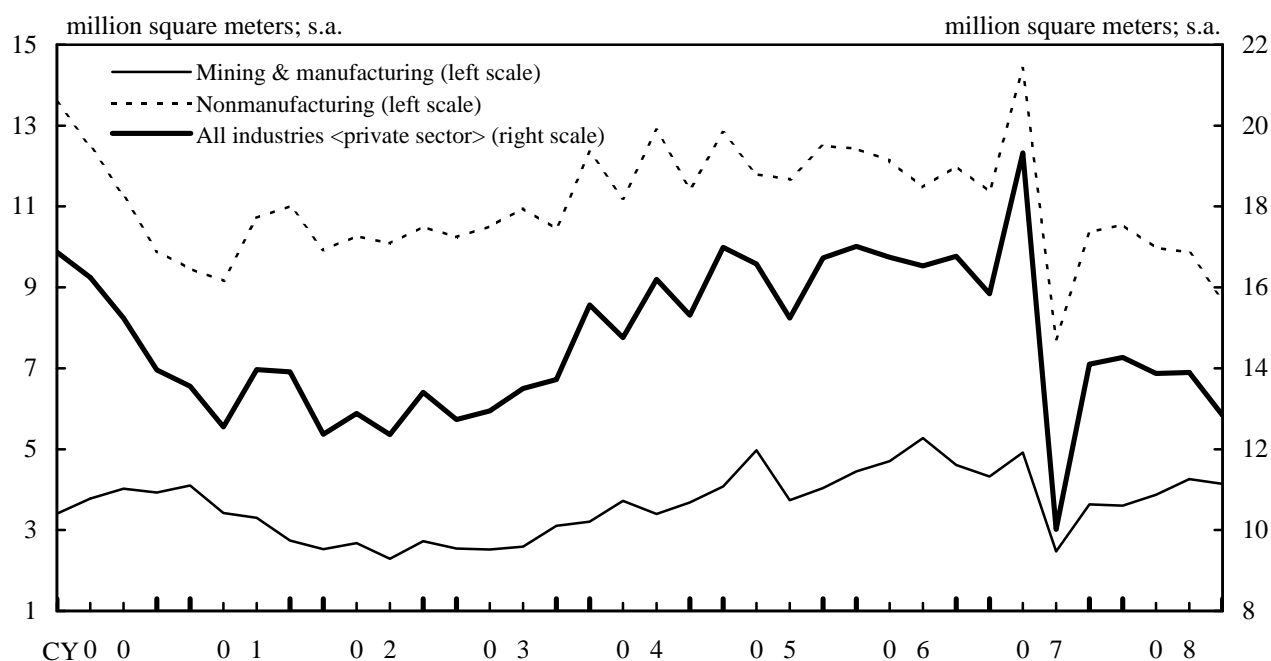
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2009/Q1.

3. Forecast of manufacturing industries for 2009/Q1.

4. Forecast of all industries <private sector> for 2009/Q1.

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



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

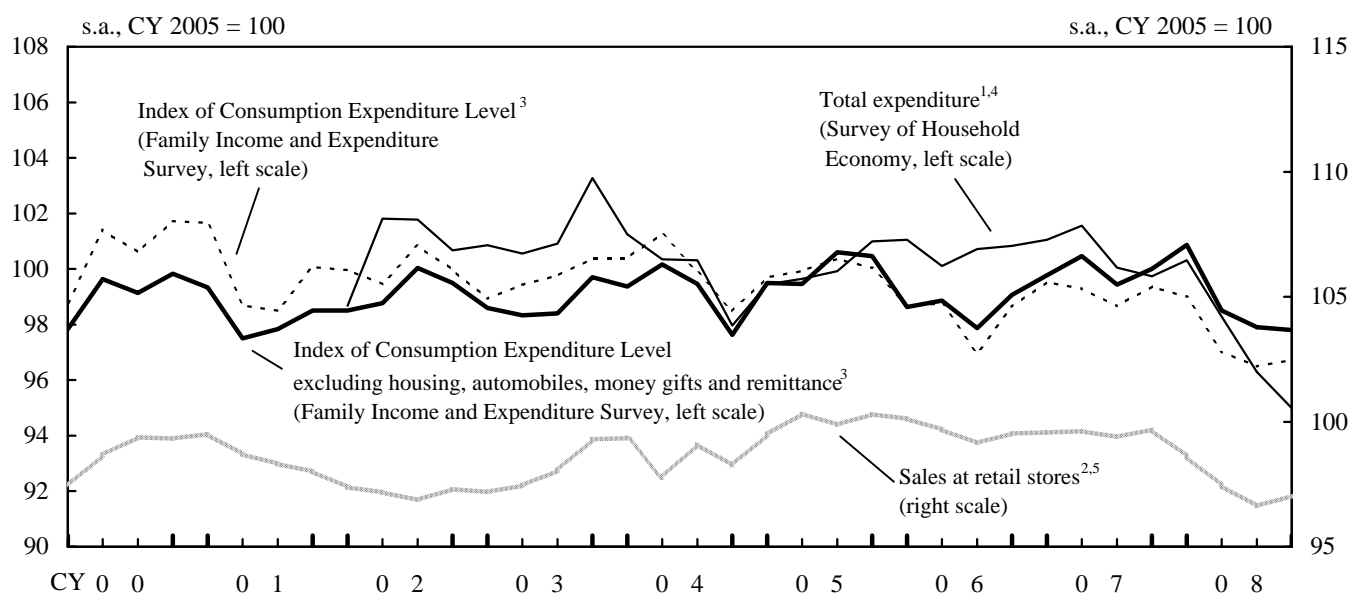
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

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

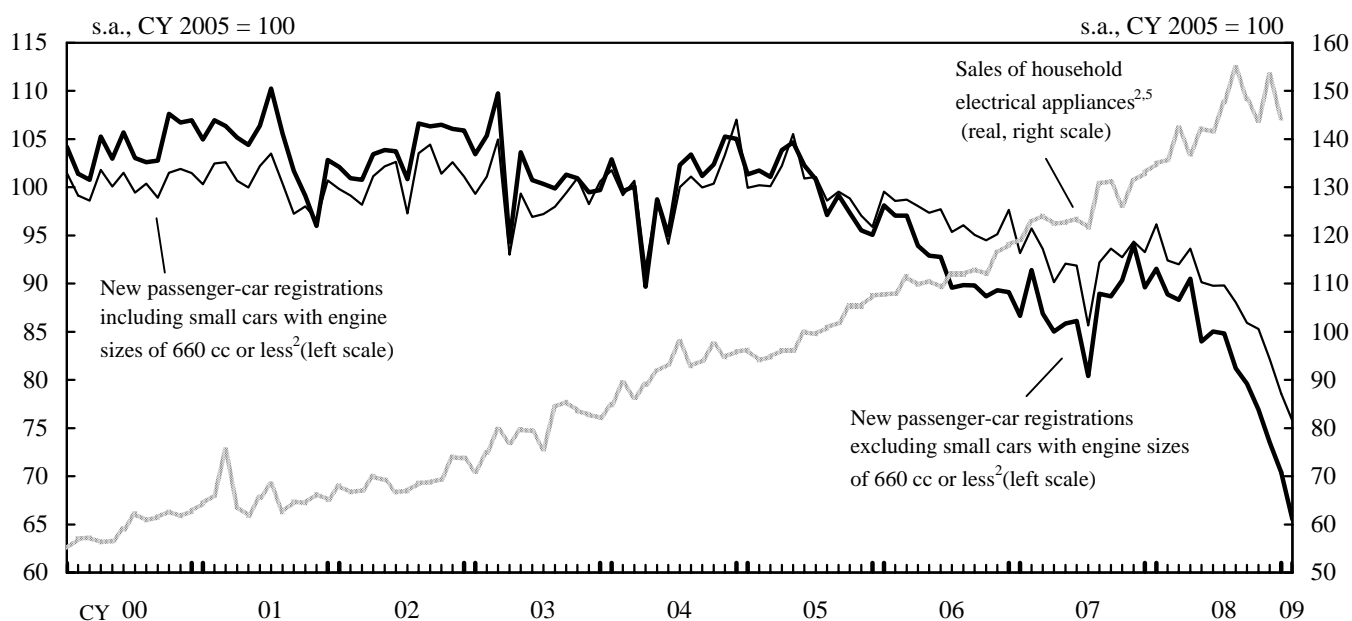
Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts."

Indicators for Private Consumption (1)

(1) Household Spending (Real)



(2) Sales of Durable Goods



Notes: 1. Total expenditure is seasonally adjusted by X-11.

2. Seasonally adjusted by X-12-ARIMA.

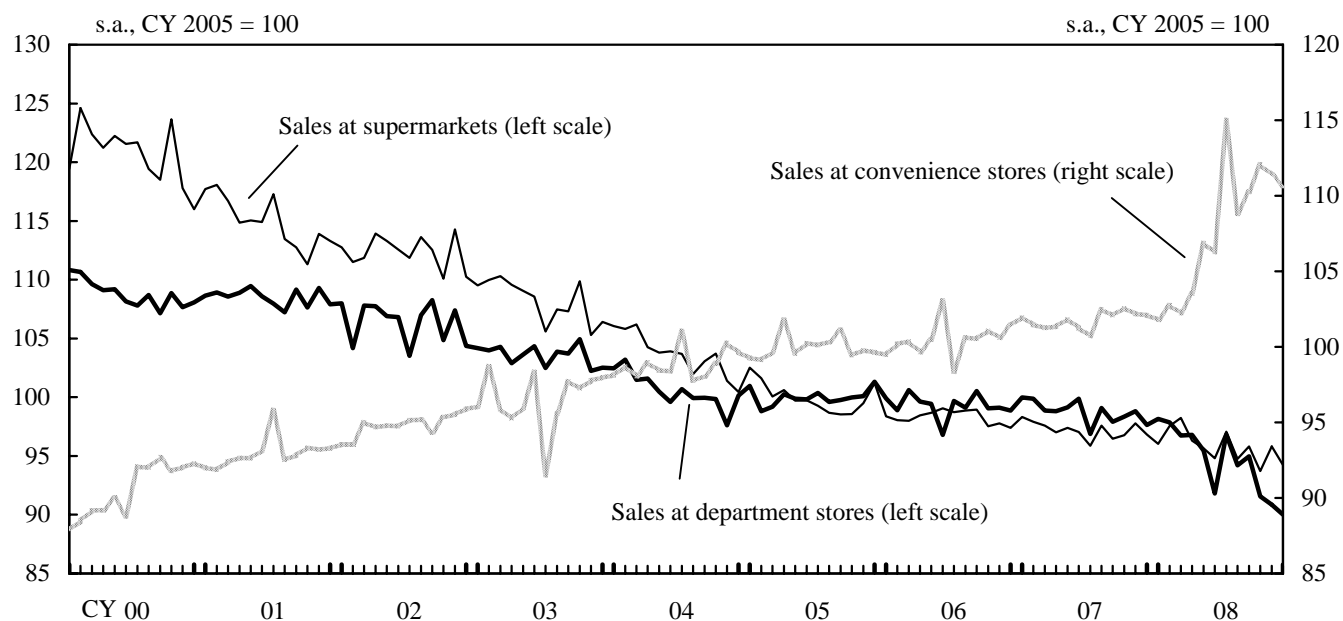
3. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household by number of household members and age group of household head.

4. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.

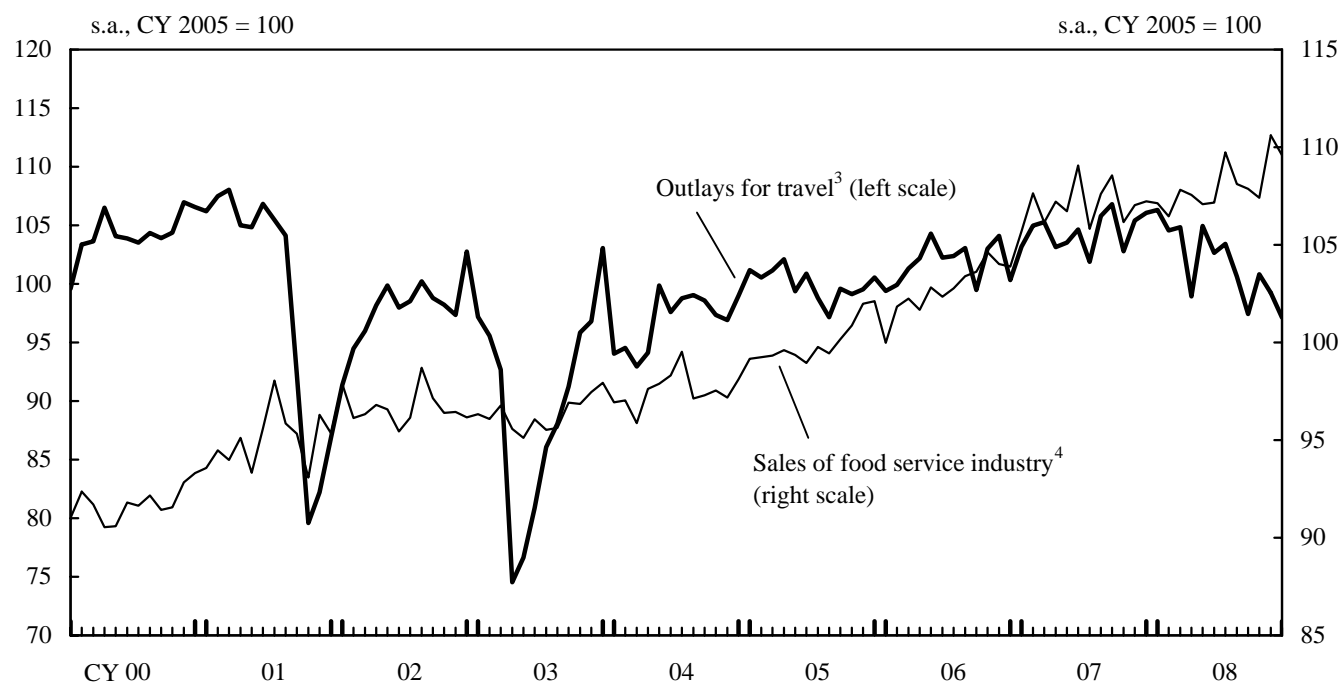
5. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges).

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";

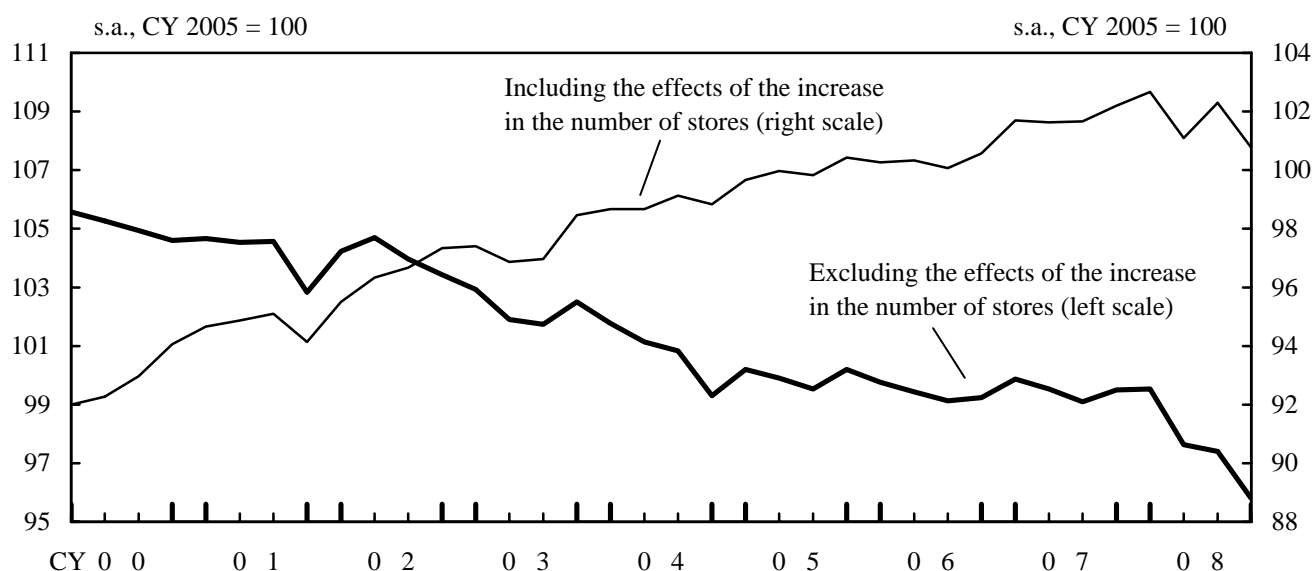
Japan Tourism Agency, "Major Travel Agents' Revenue";

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)."

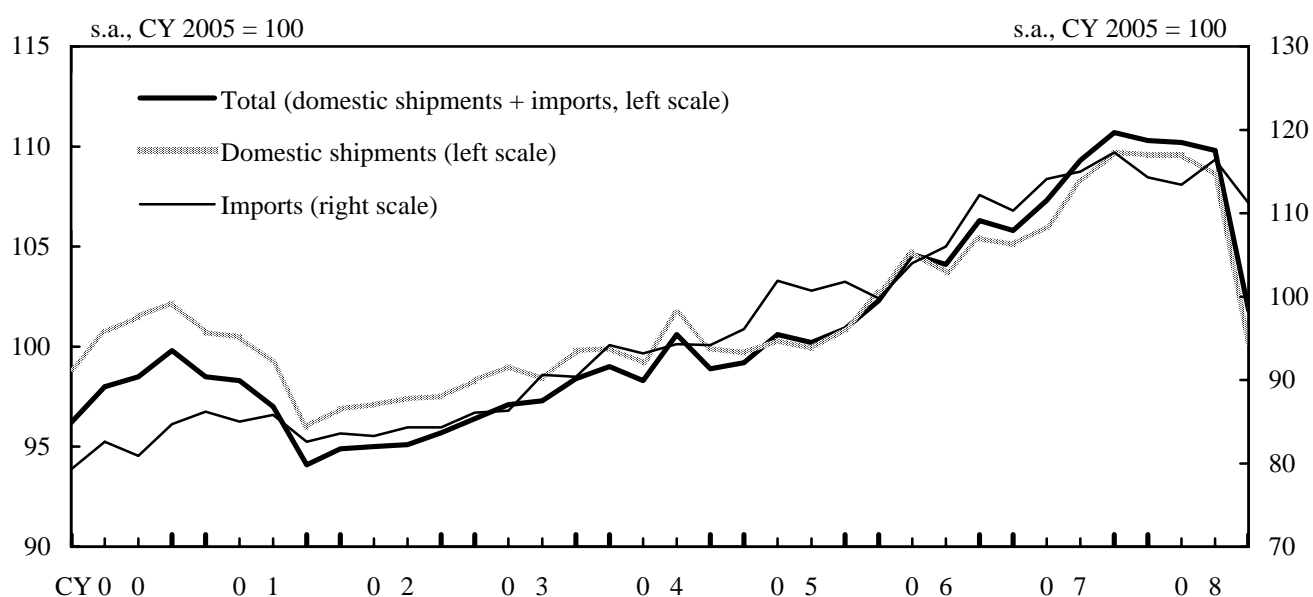
Indicators for Private Consumption (3)

(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.

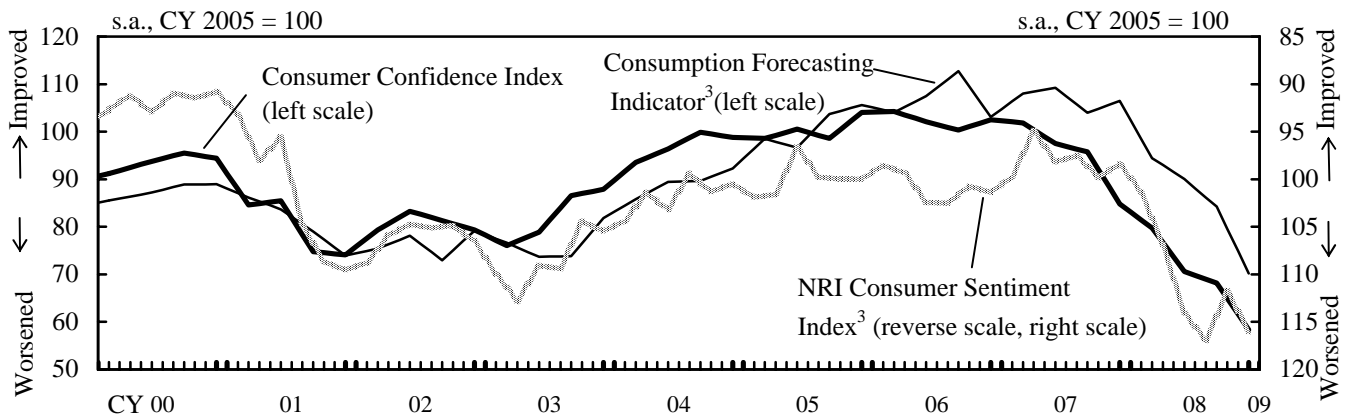
(2) Aggregate Supply of Consumer Goods



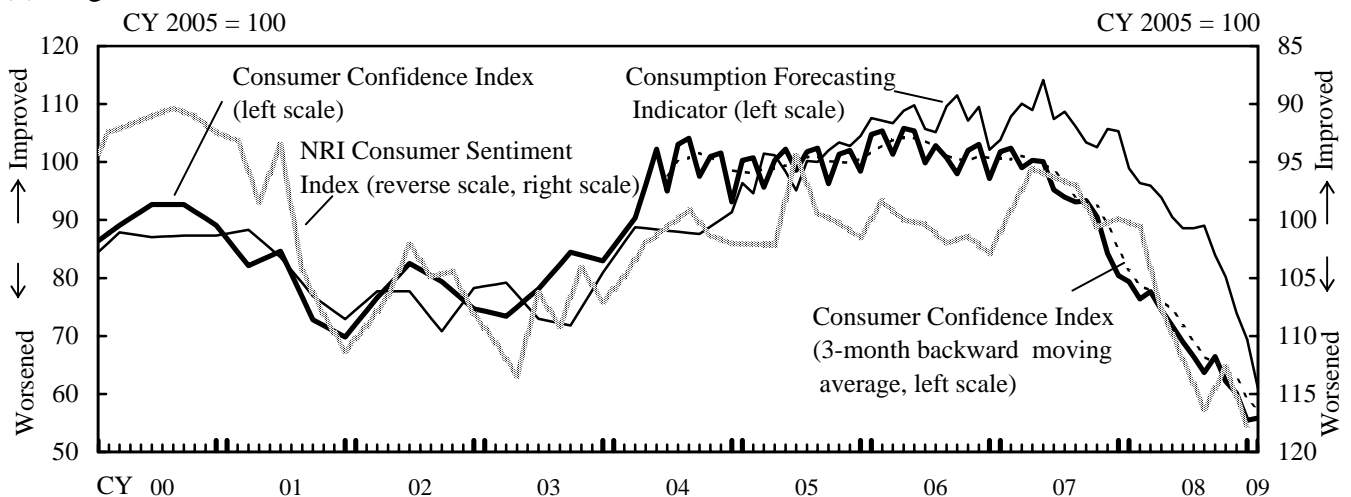
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

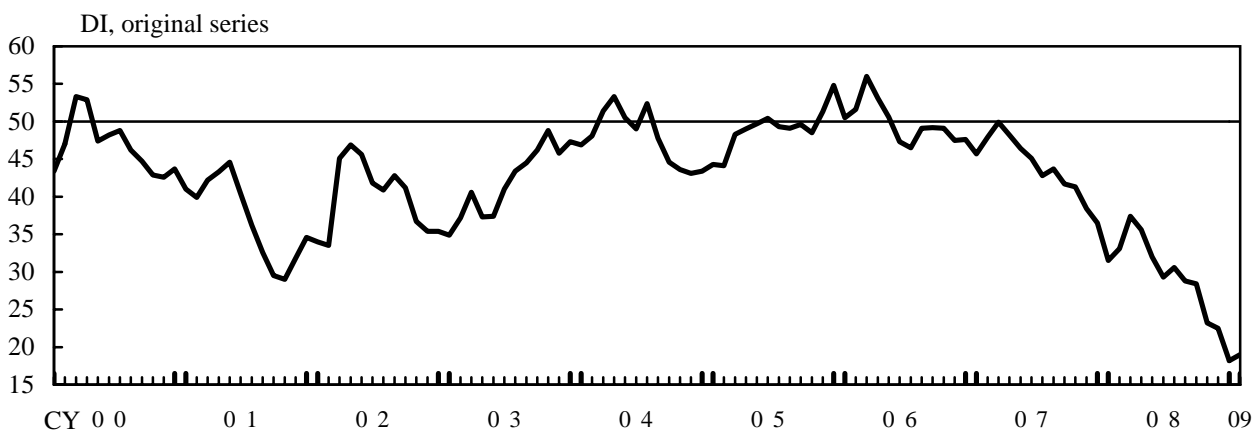
(1) Seasonally Adjusted Series



(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.

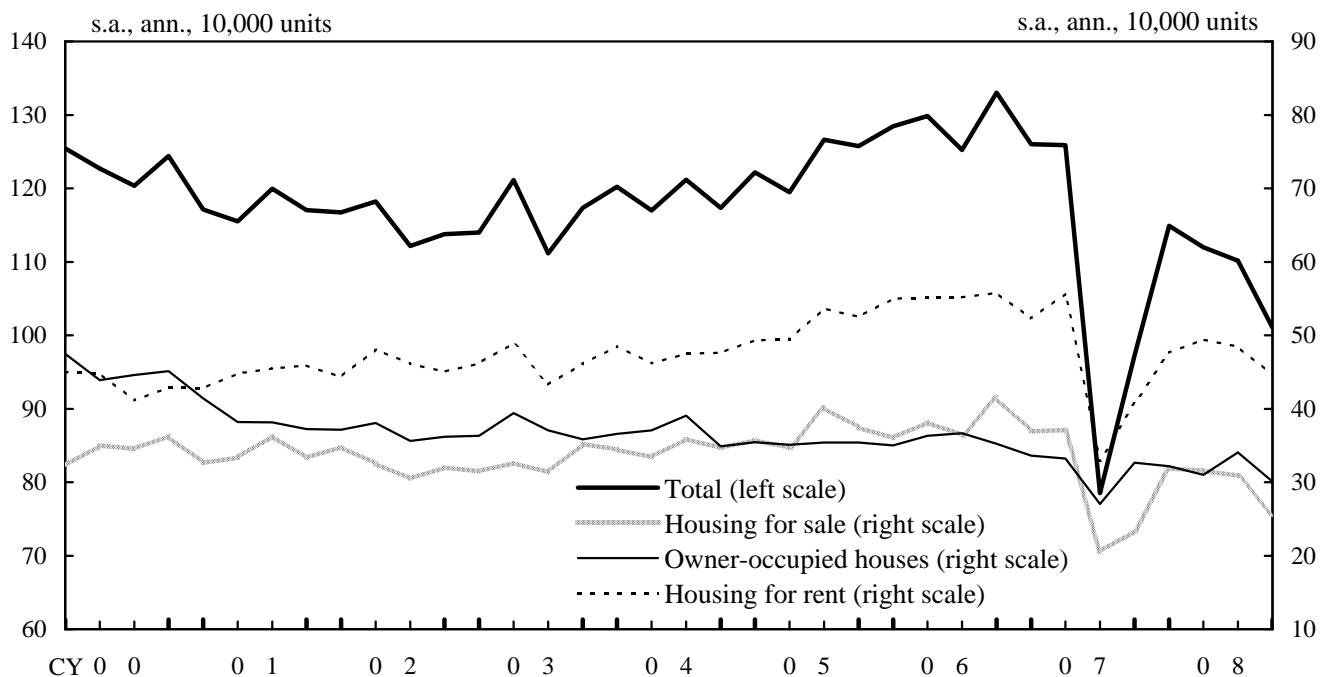
3. Figures are seasonally adjusted by X-11. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.

Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey";

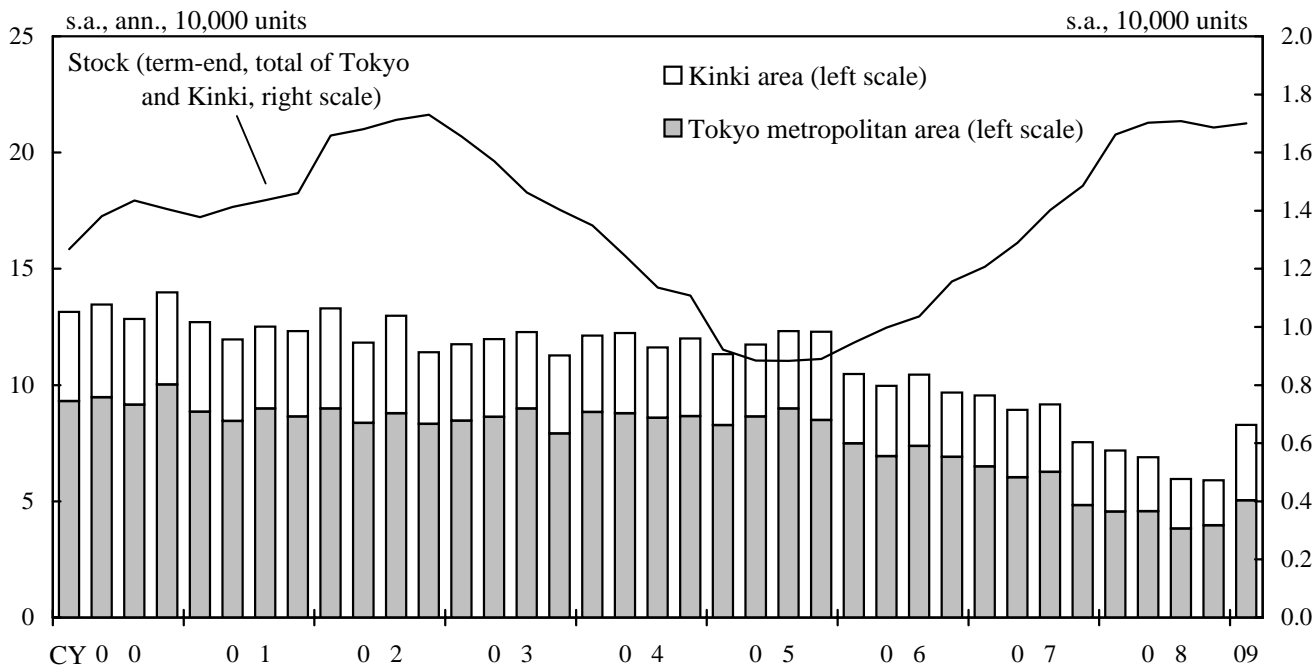
Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Apartments

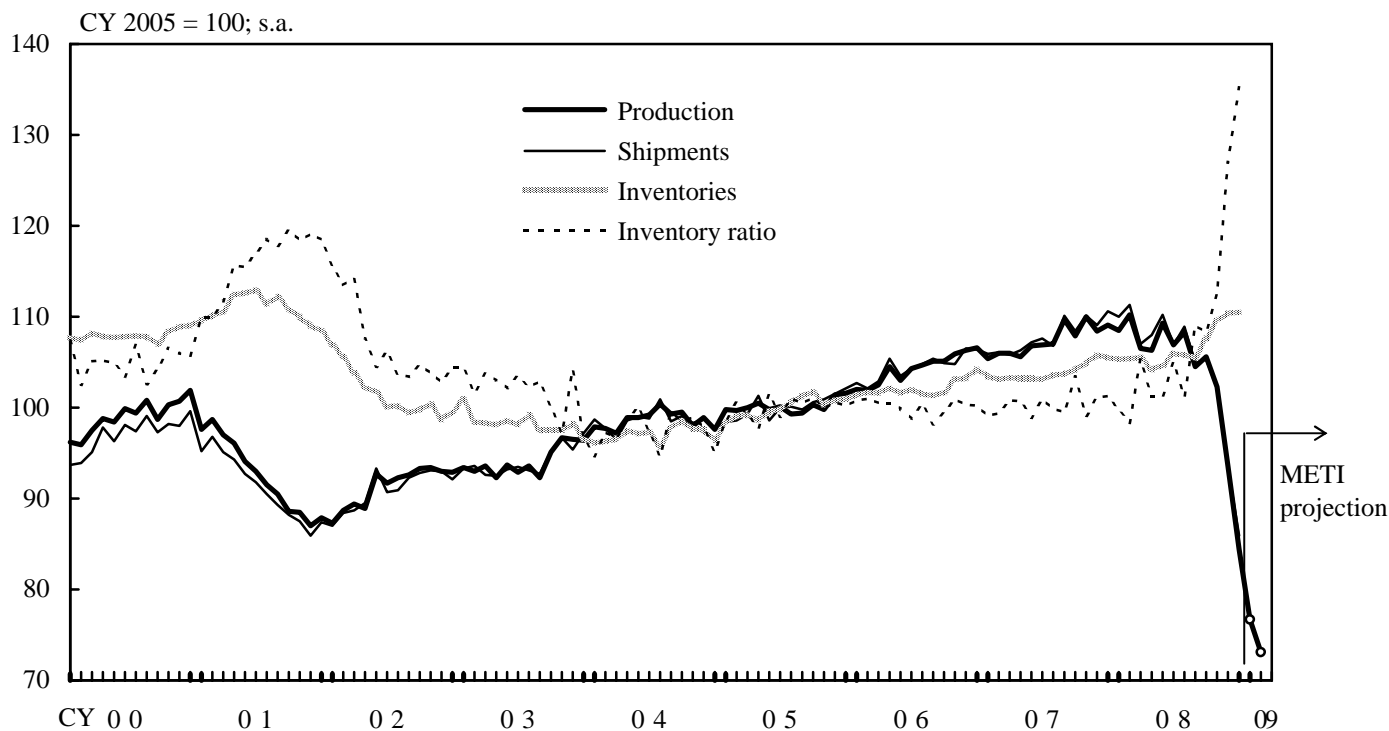


Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Figures for 2009/Q1 are those of January.

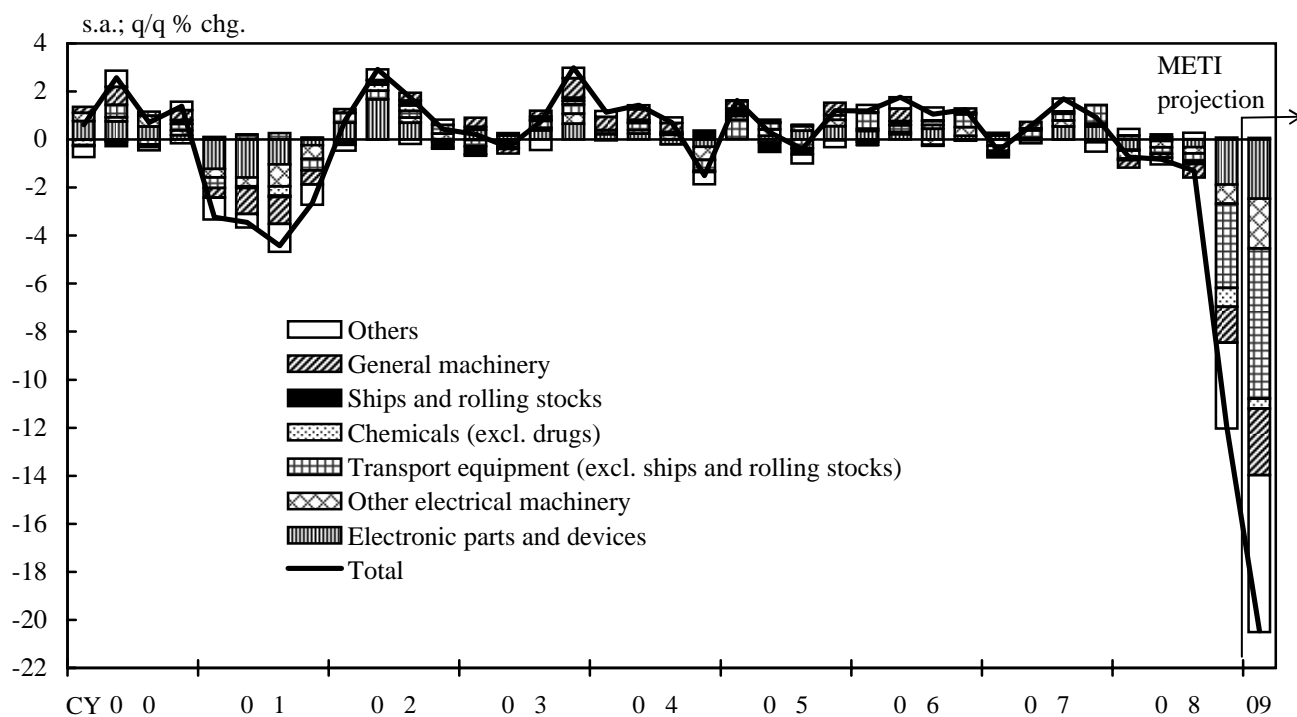
Source: Ministry of Land, Infrastructure and Transport, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

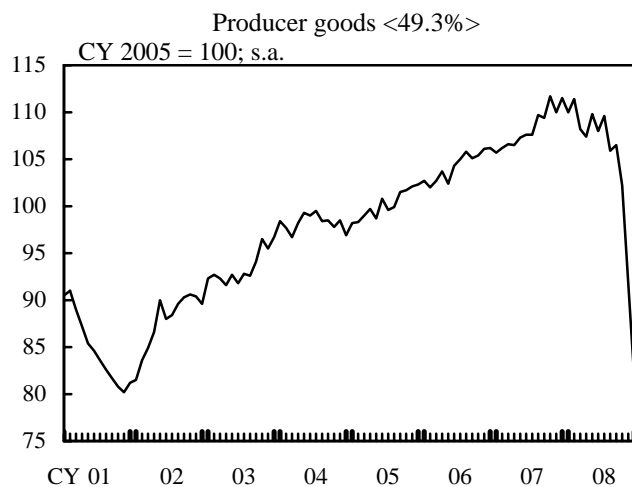
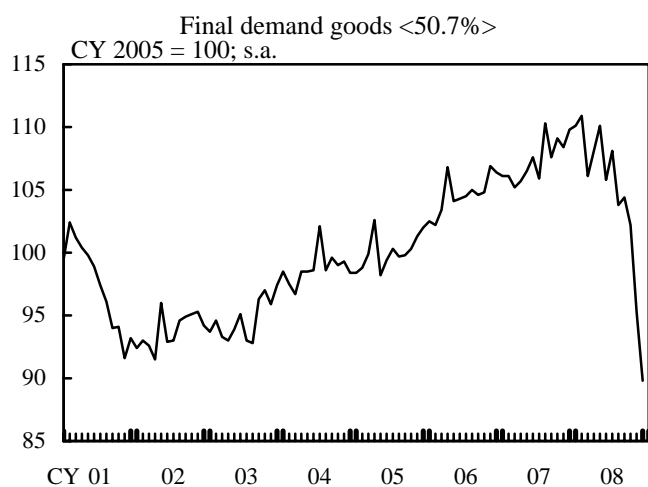


- Notes:
- "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 - Figures up to 2003/Q1 are on the 2000 base.
 - 2009/Q1 figures are based on the assumption that each production level in March is the same as that of February.

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

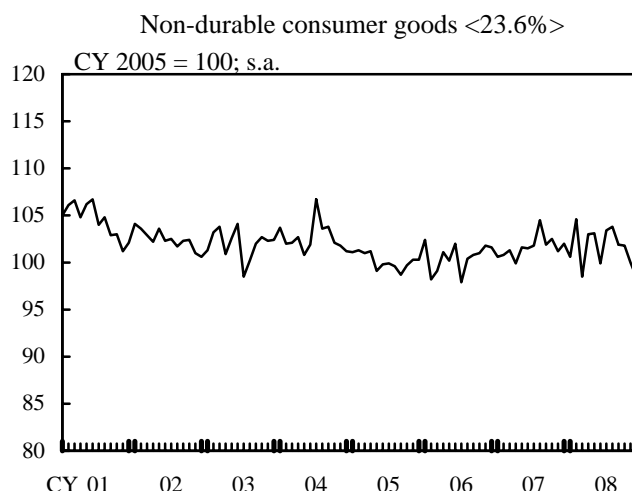
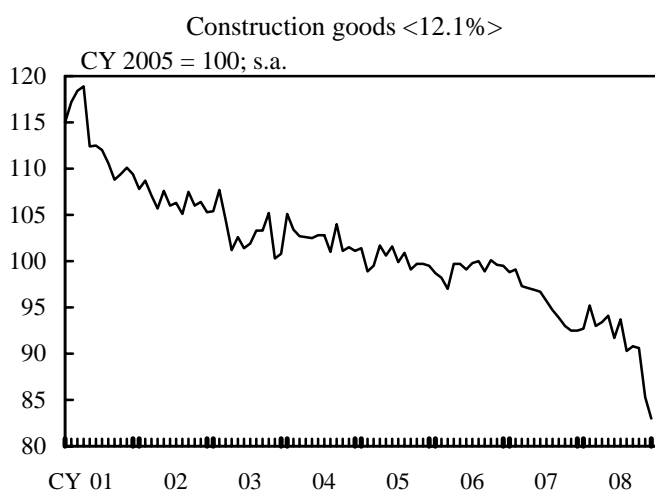
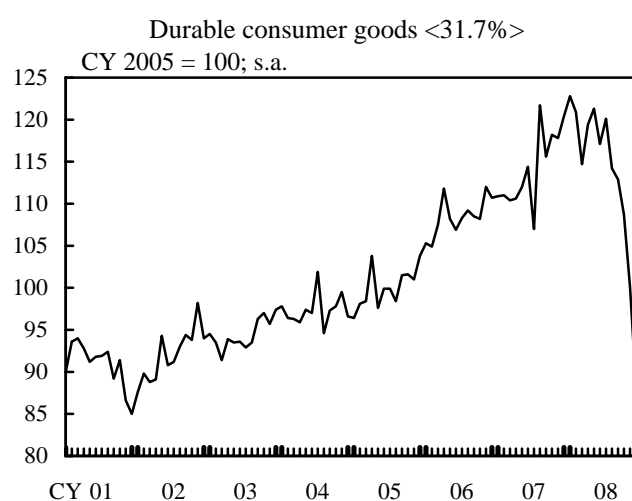
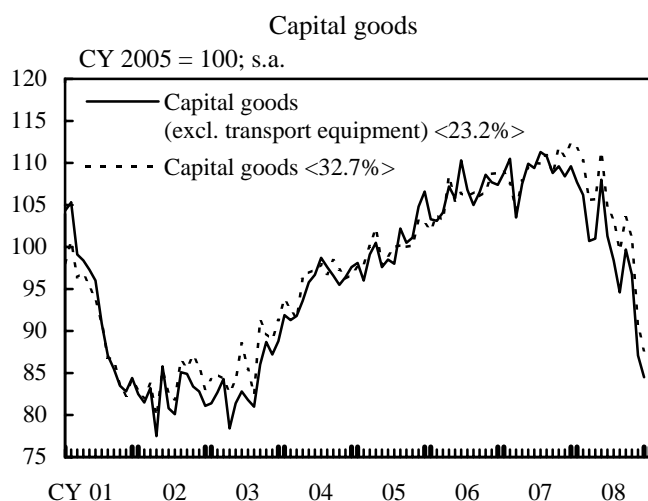
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

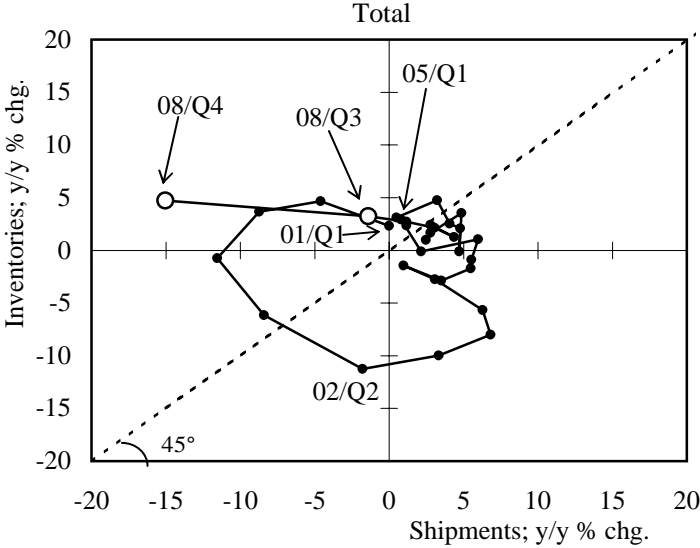
(2) Breakdown of Final Demand Goods



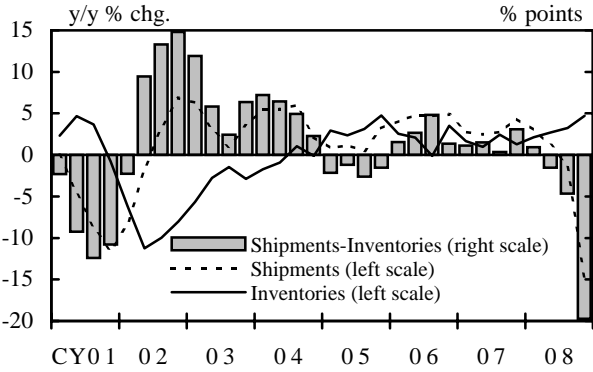
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

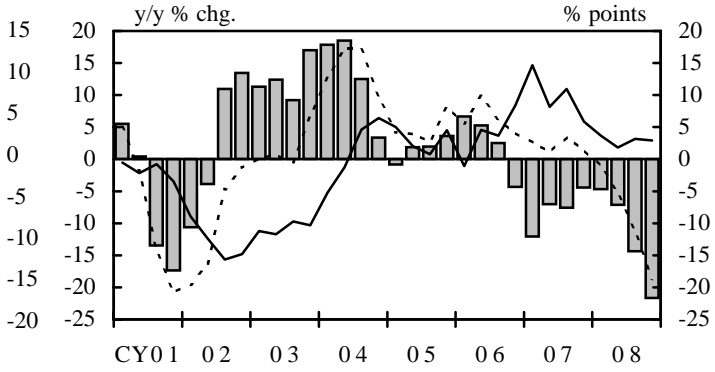
Inventory Cycle



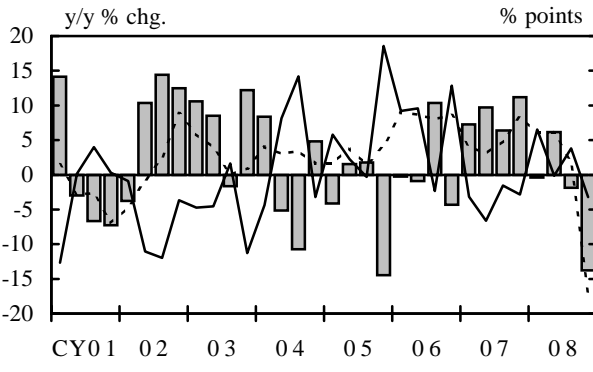
(1) Total



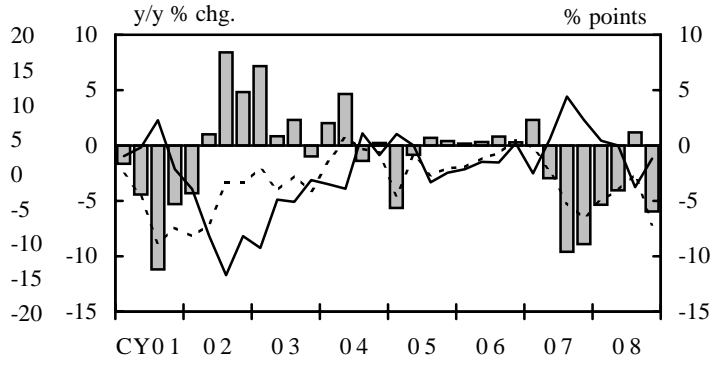
(2) Capital Goods (Excluding Transport Equipment)



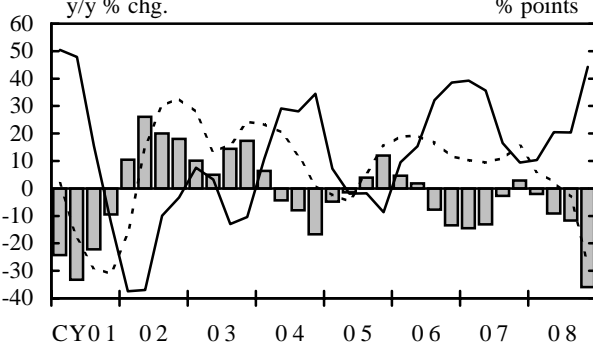
(3) Durable Consumer Goods



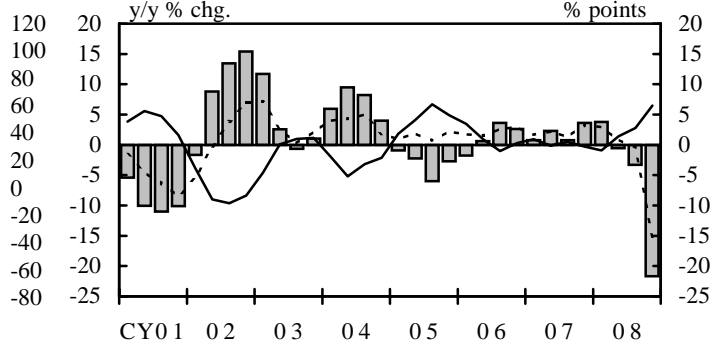
(4) Construction Goods



(5) Electronic Parts and Devices



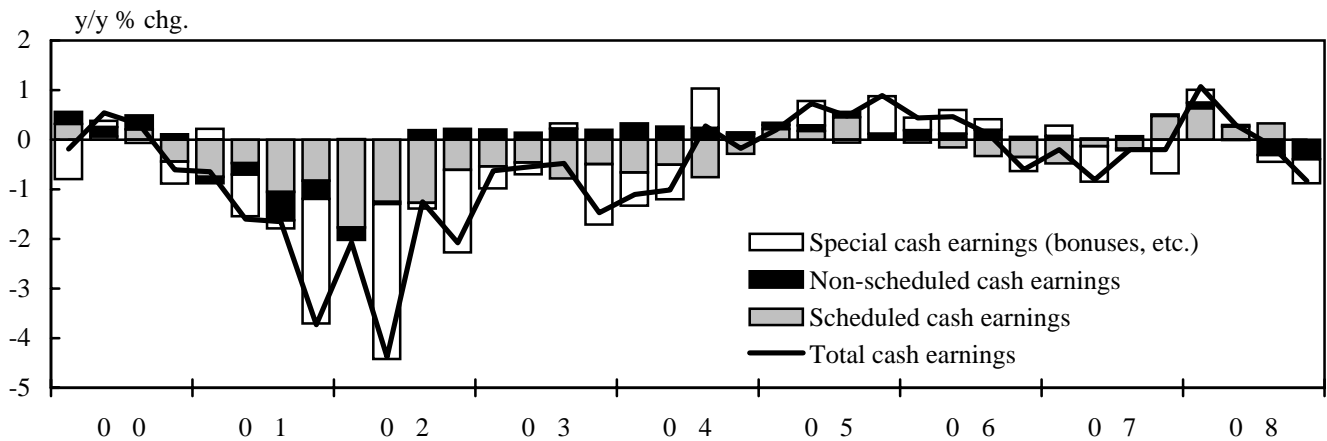
(6) Producer Goods Excluding Electronic Parts and Devices



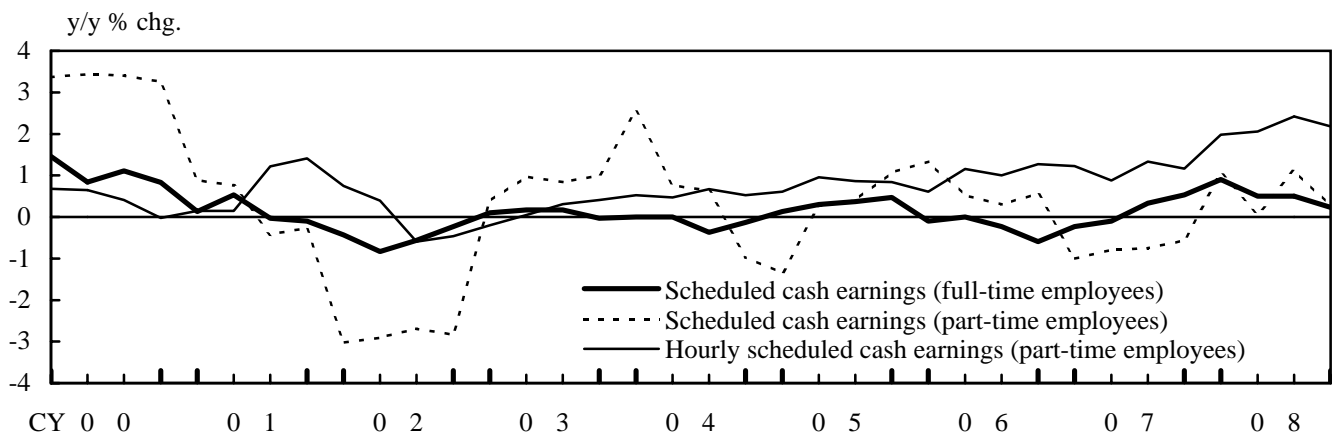
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Employee Income

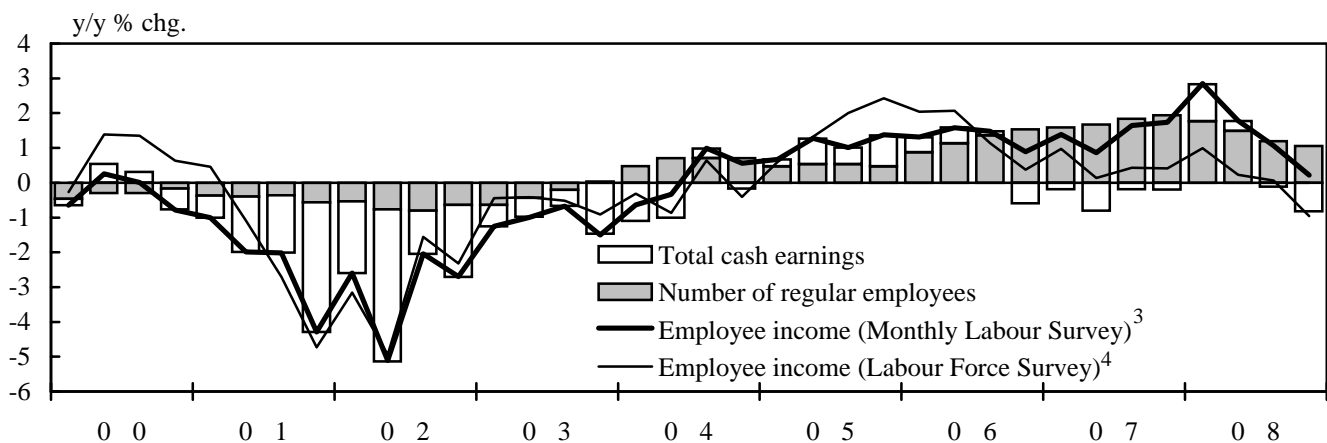
(1) Breakdown of Total Cash Earnings^{1,2,5}



(2) Scheduled Cash Earnings¹



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

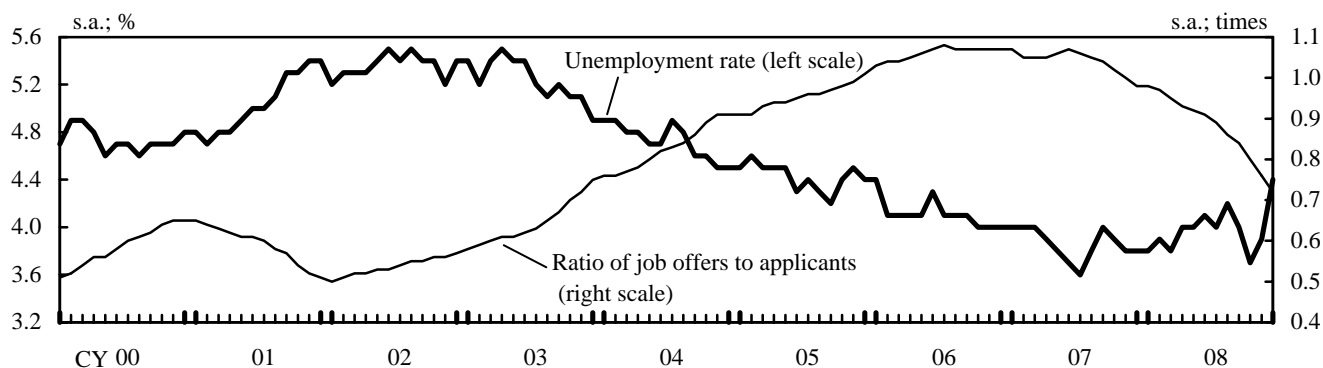


- Notes: 1. Data are for establishments with at least five employees.
- 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
- 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).
- 4. Calculated as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

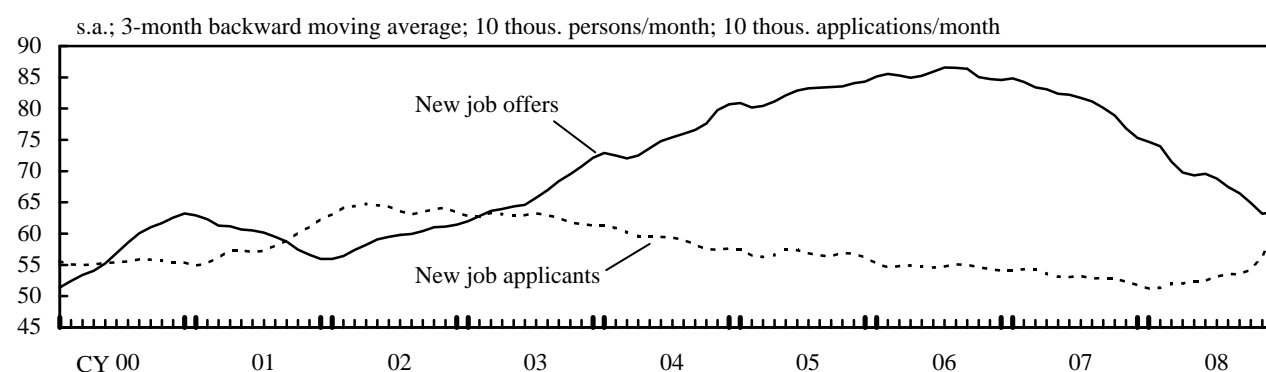
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Labor Market (1)

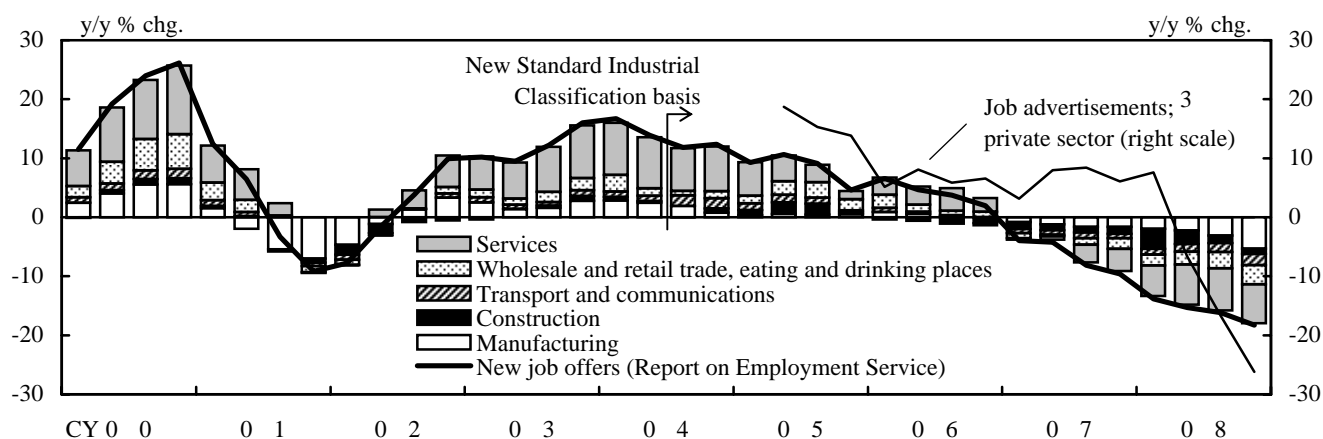
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(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.

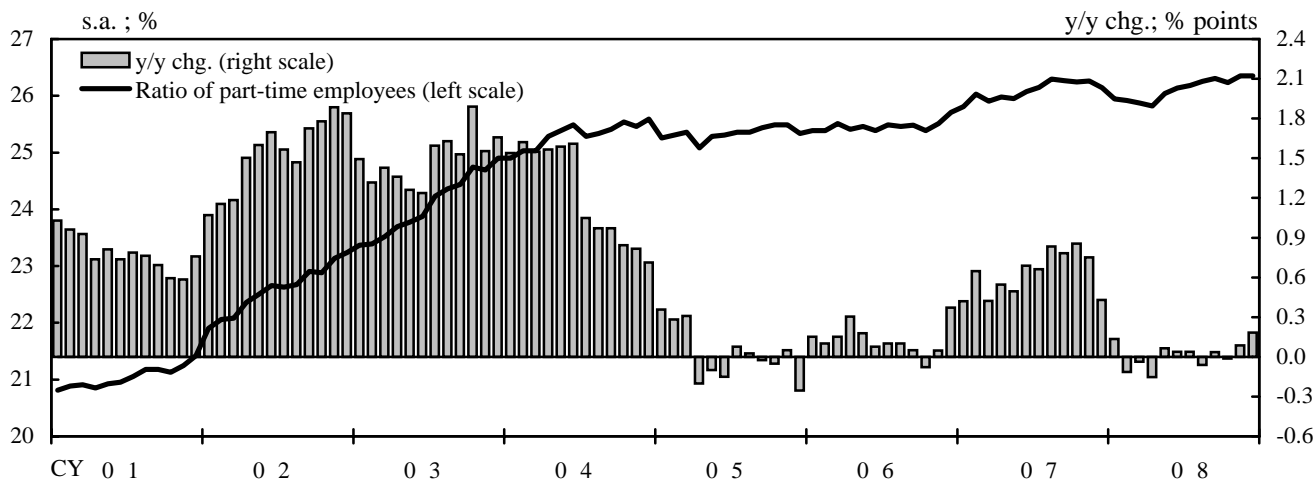
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

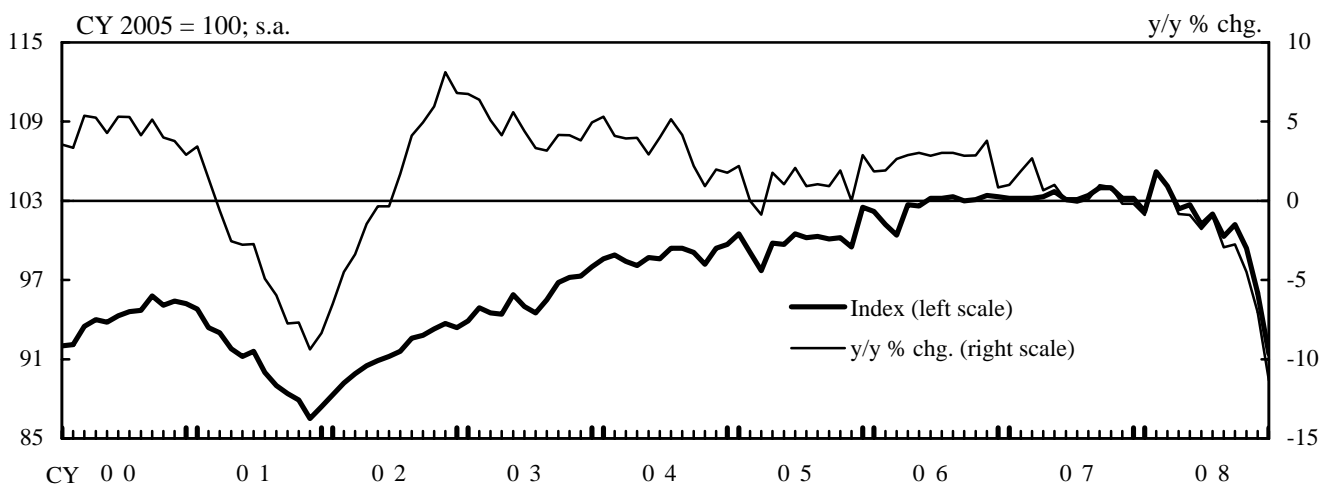
(1) Number of Employees



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



(3) Non Scheduled Hours Worked¹



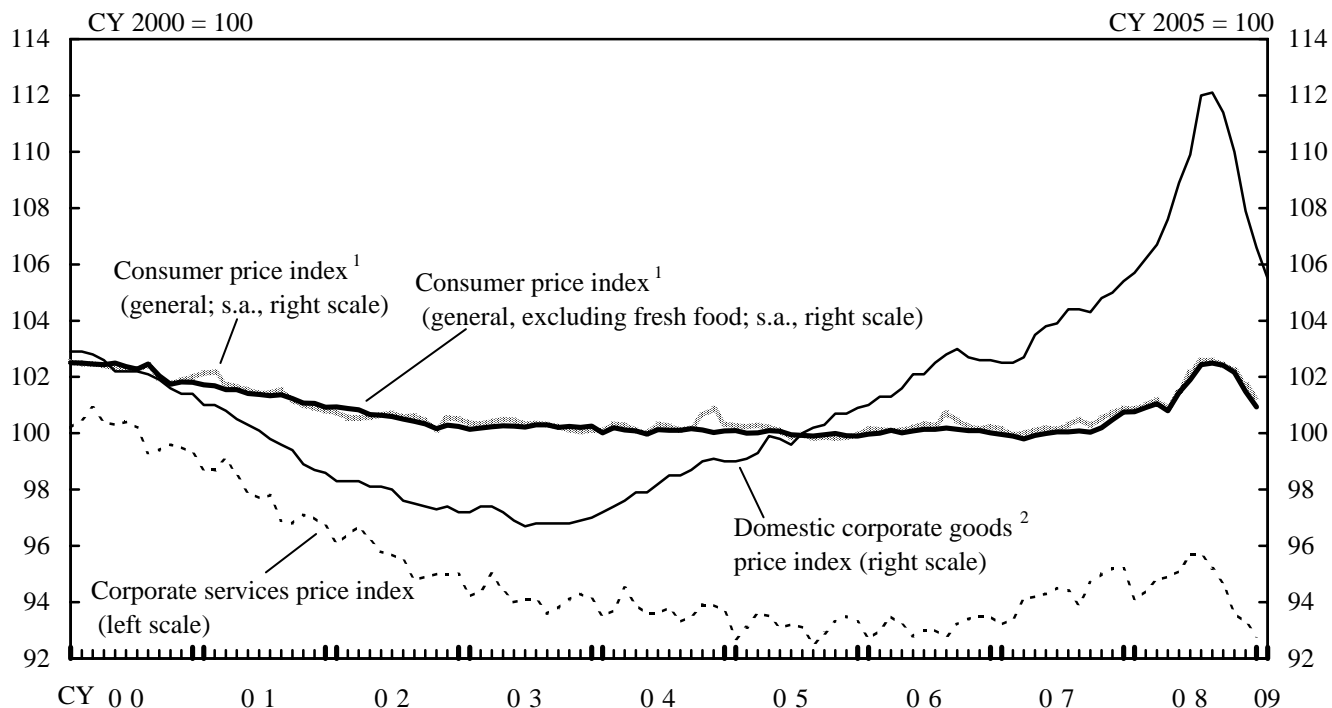
Notes: 1. Data are for establishments with at least five employees.

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.

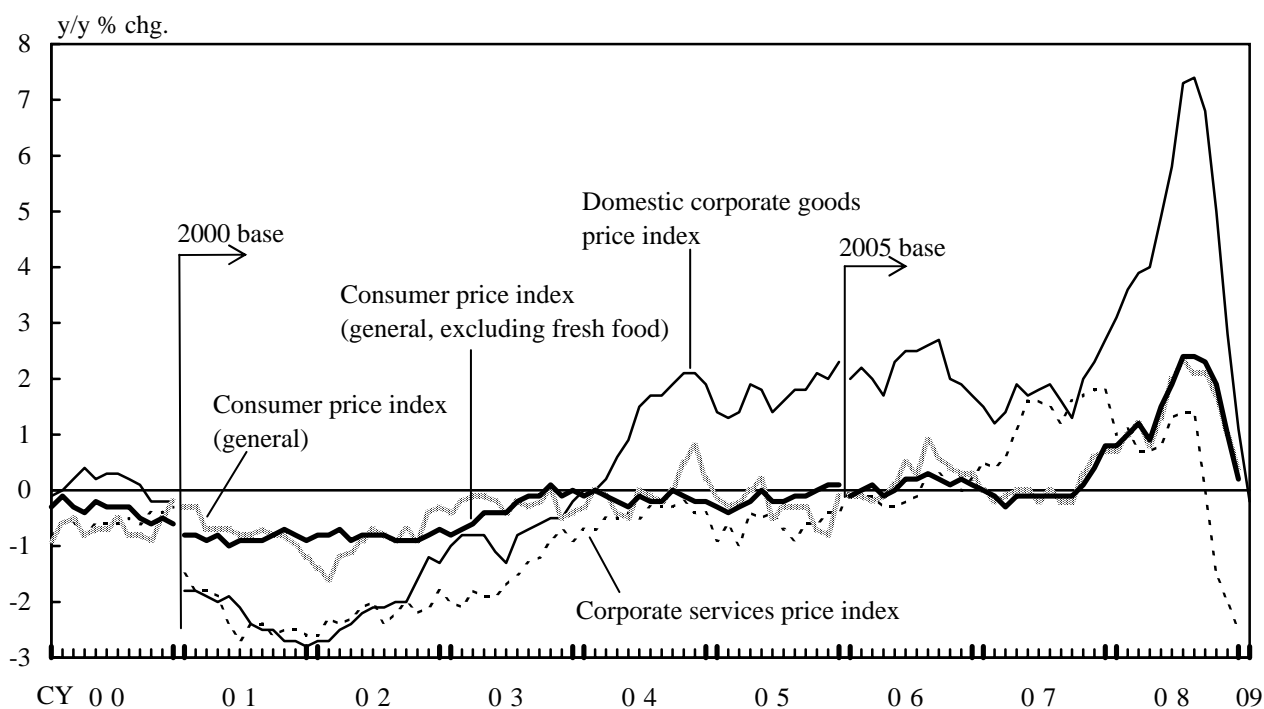
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier³

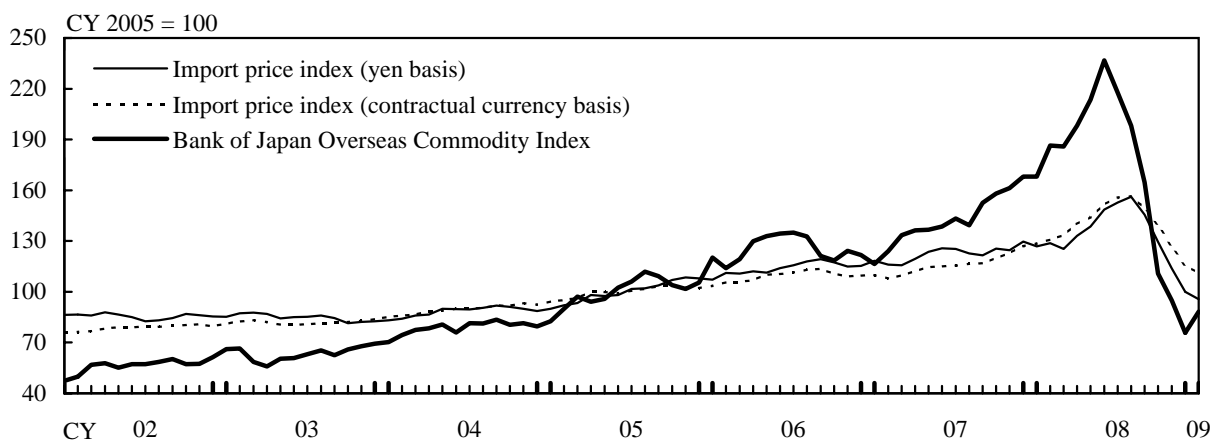


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.
 3. Figures up to CY 2000 are on the 1995 base. From CY 2001 up to CY 2005, CGPI and CPI are calculated on the 2000 base.

Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Wholesale Price Indexes," "Corporate Services Price Index."

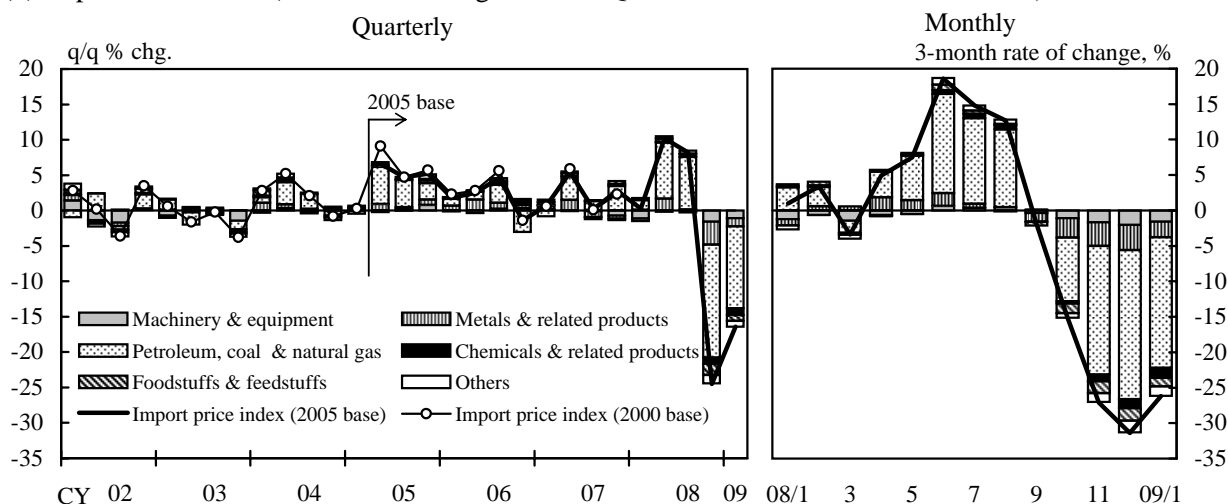
Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



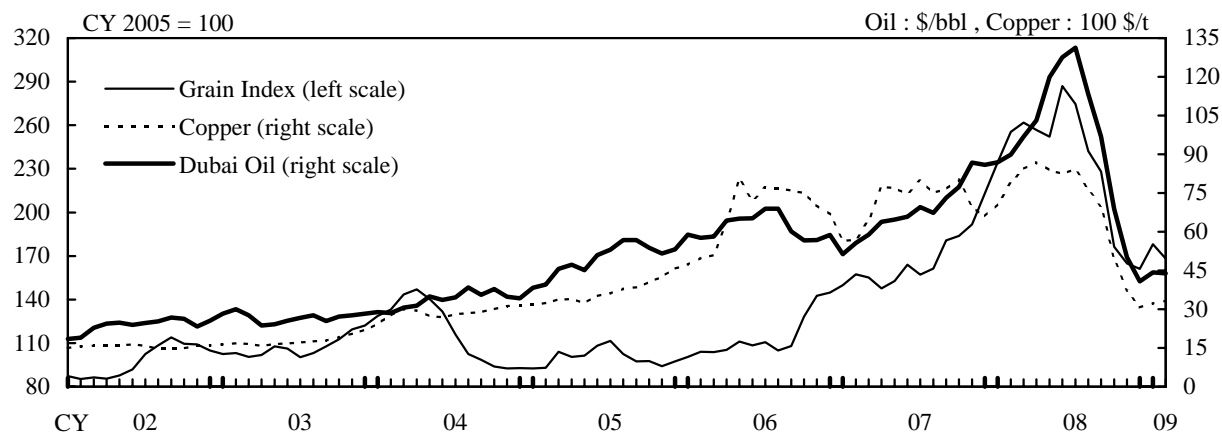
Note: Bank of Japan Overseas Commodity Index is the end-of-month figure.

(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 2009/Q1 are those of January. Figures for 2007/Q4 on the 2000 base are those of October.

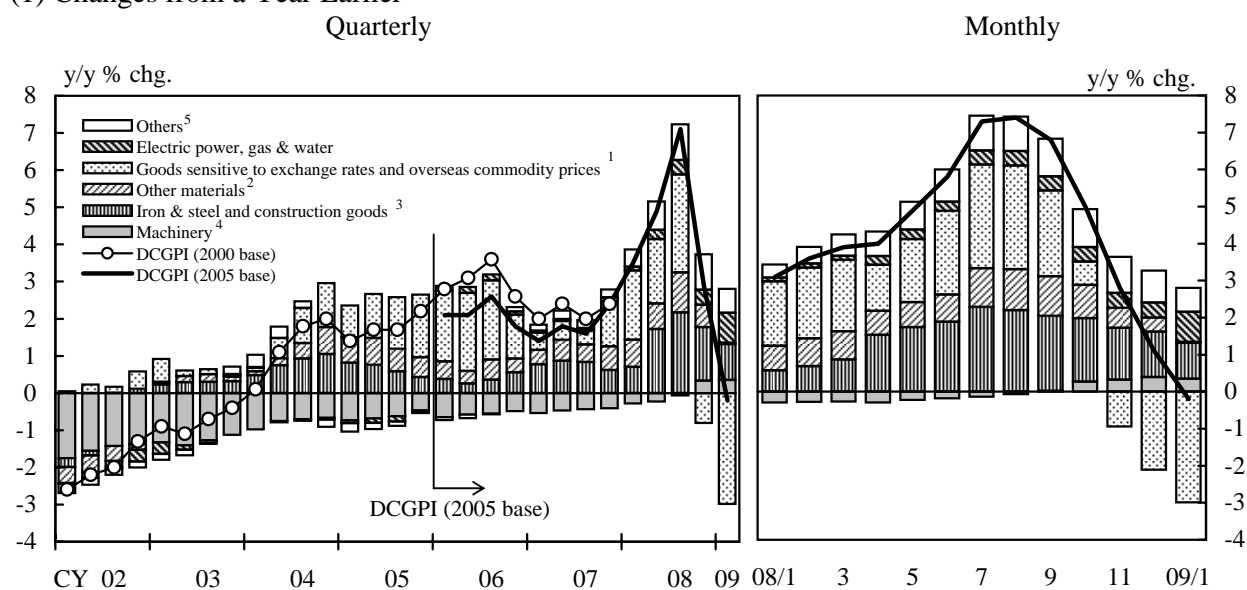
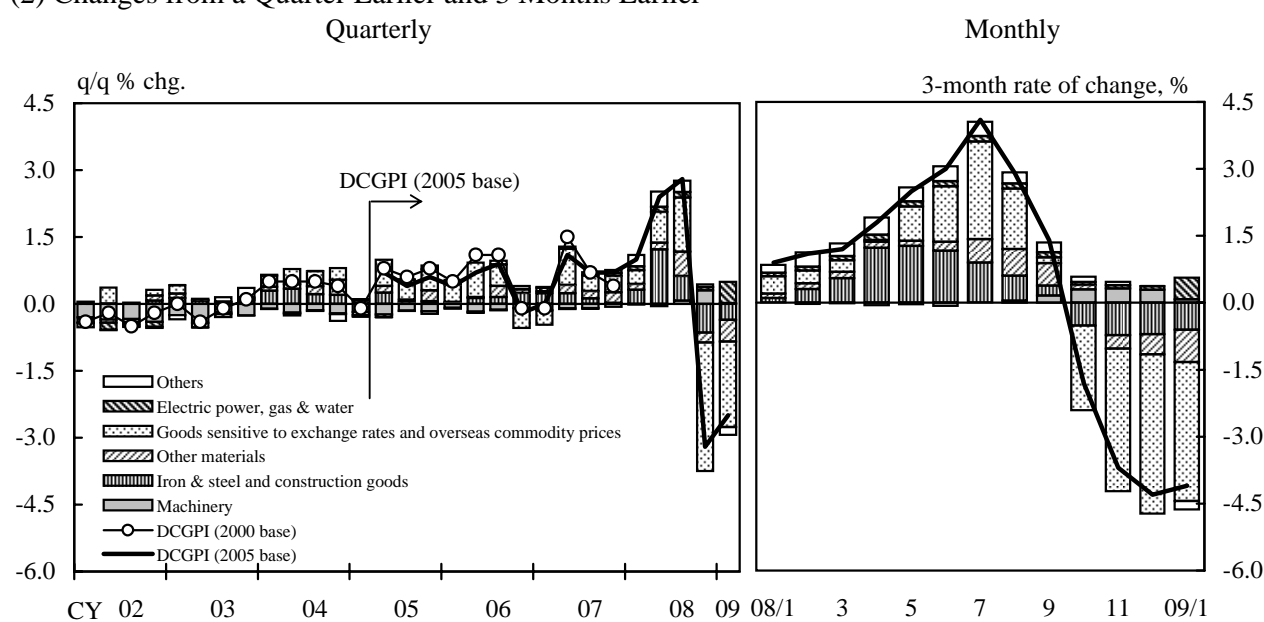
(3) International Commodity Prices



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 February 2009 are the averages up to February 18.
 Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

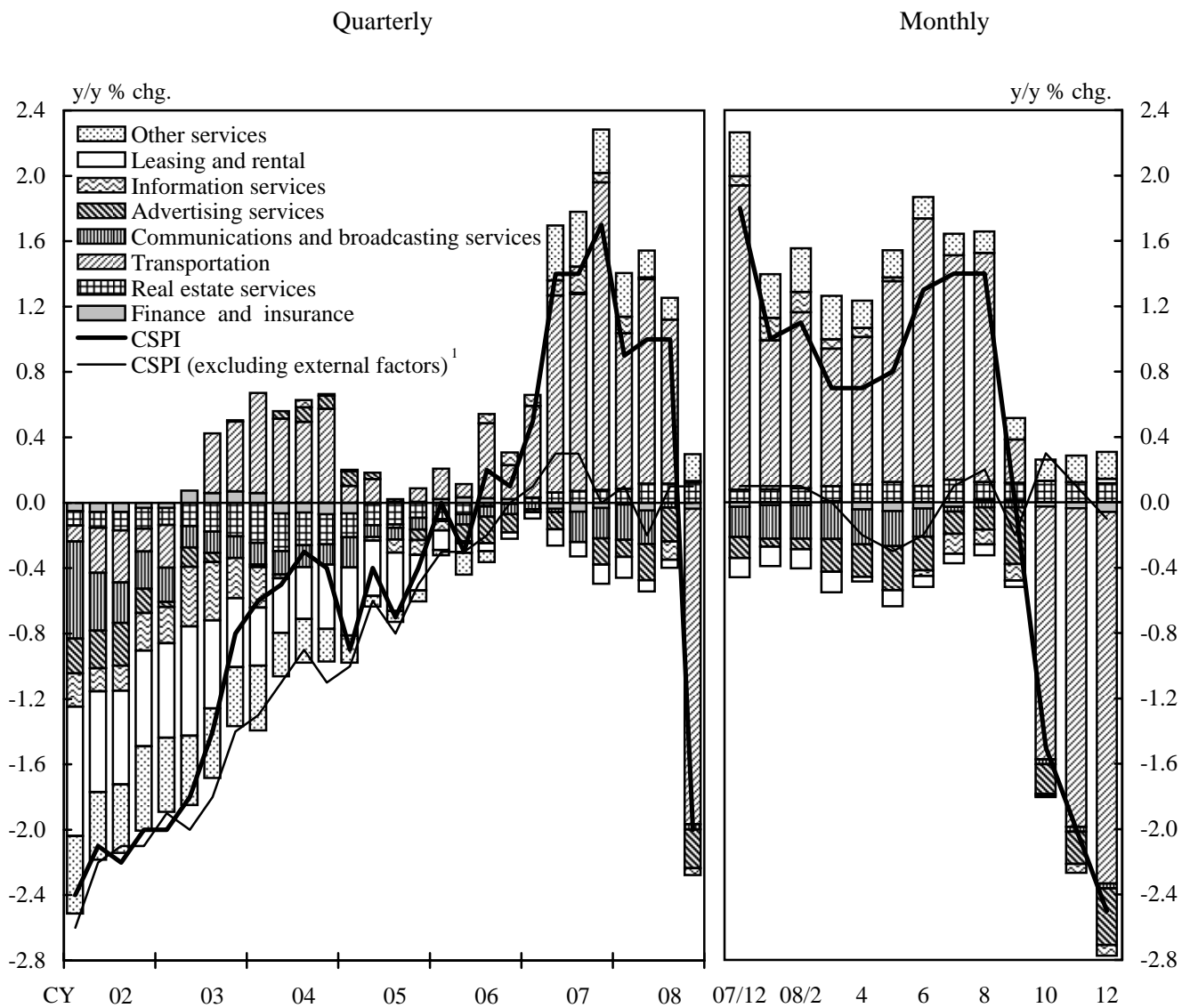
Domestic Corporate Goods Price Index⁷

(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 & related products, 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 & equipment, information & communications equipment, electronic components & devices, general machinery & equipment, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agriculture, forestry & fishery products, minerals.
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 2009/Q1 are those of January. Figures for 2007/Q4 on the 2000 base are those of October.

Corporate Services Price Index



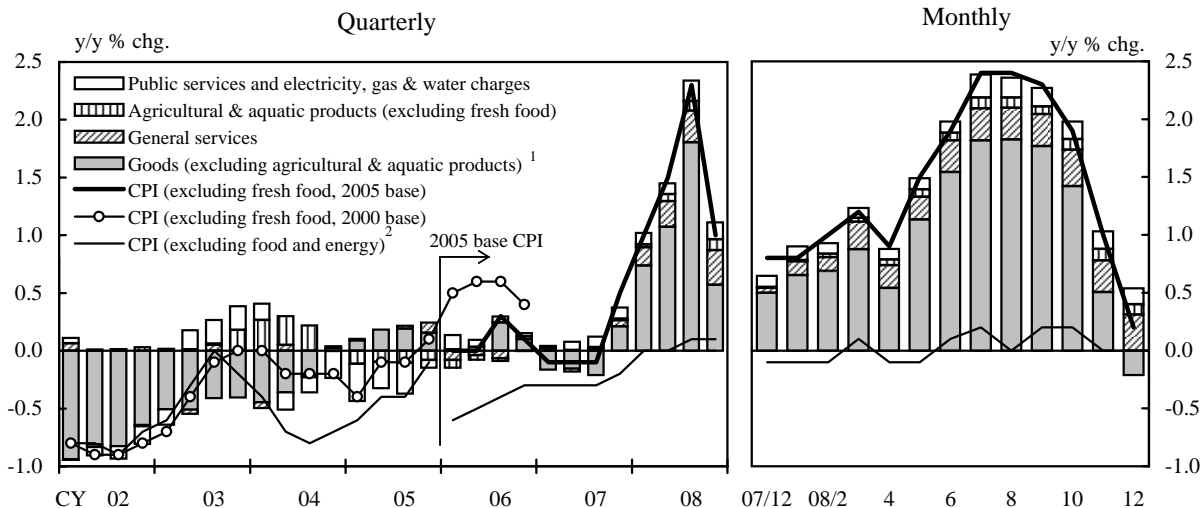
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

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

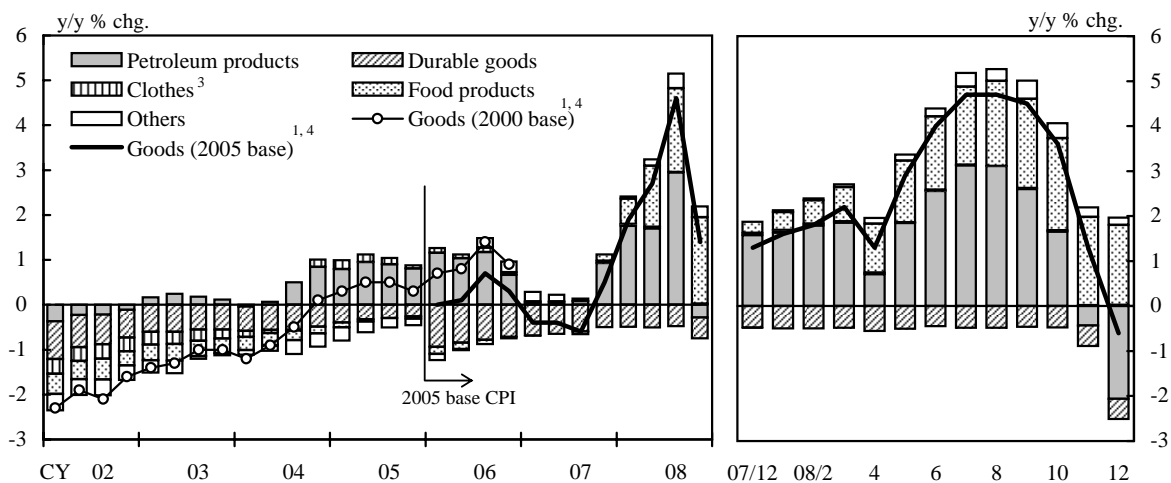
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

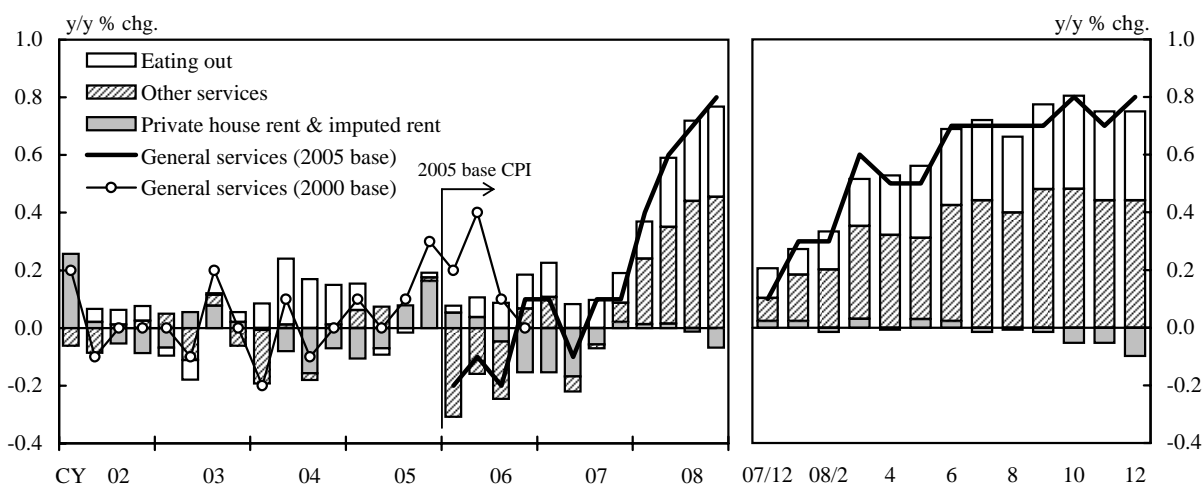
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

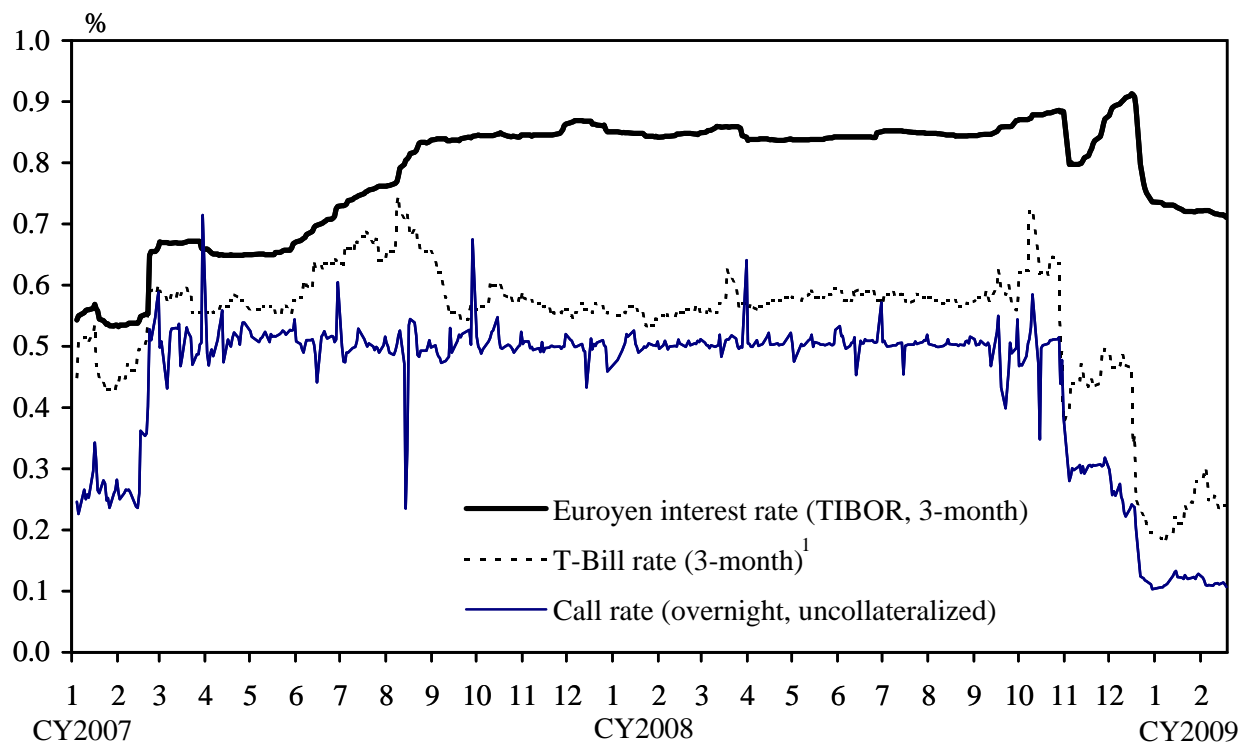


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied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

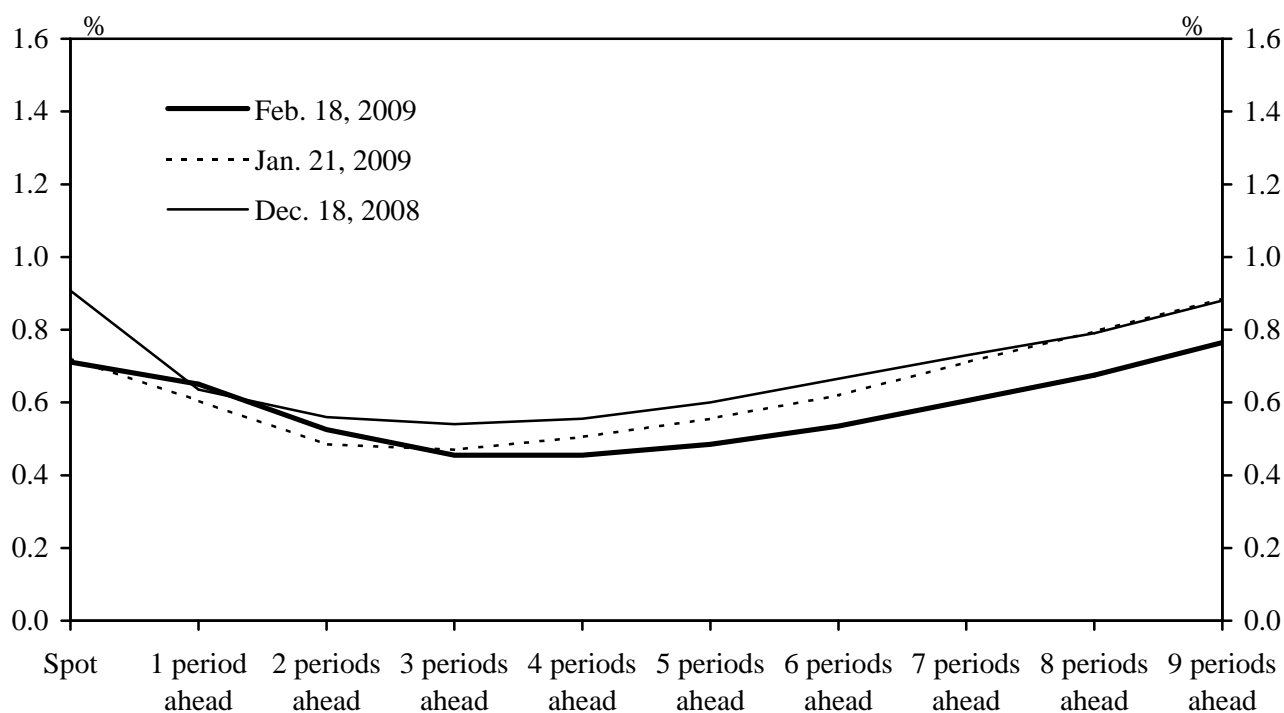
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



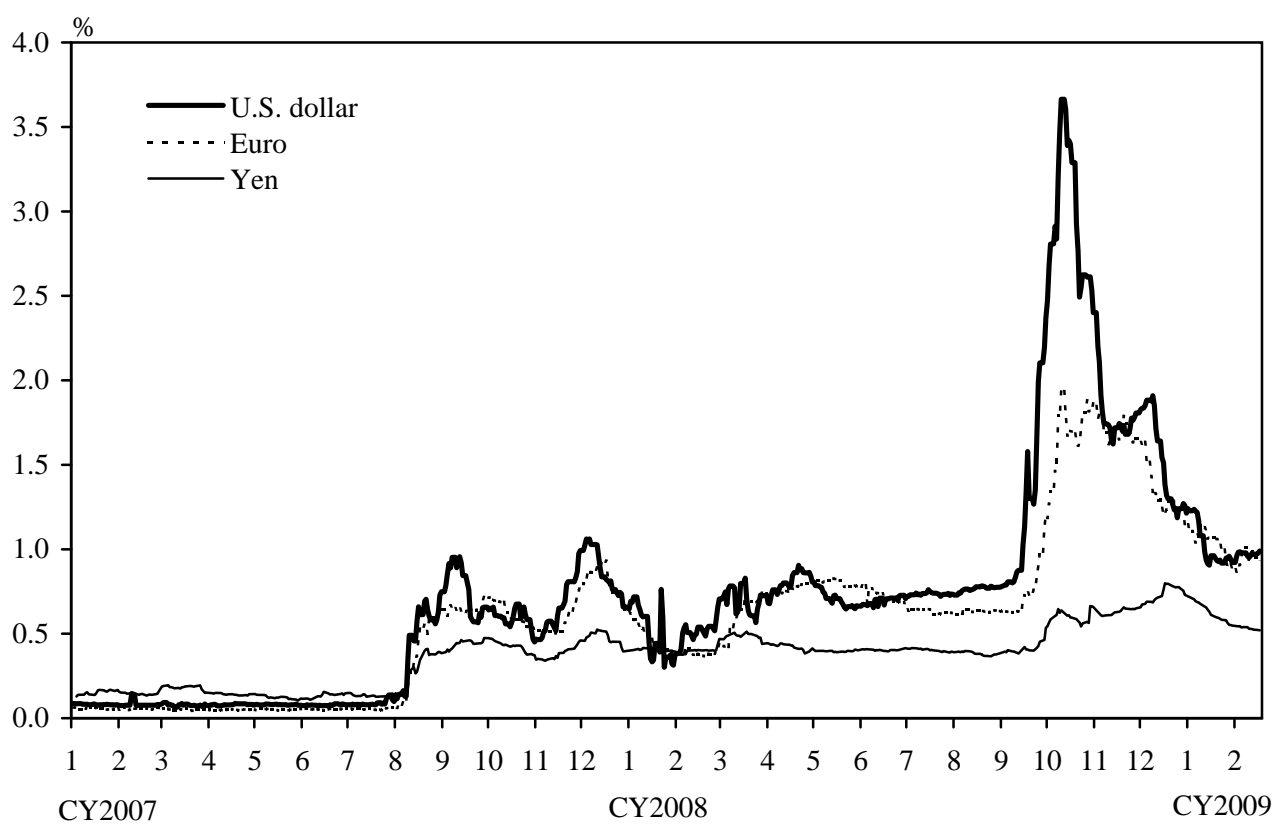
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

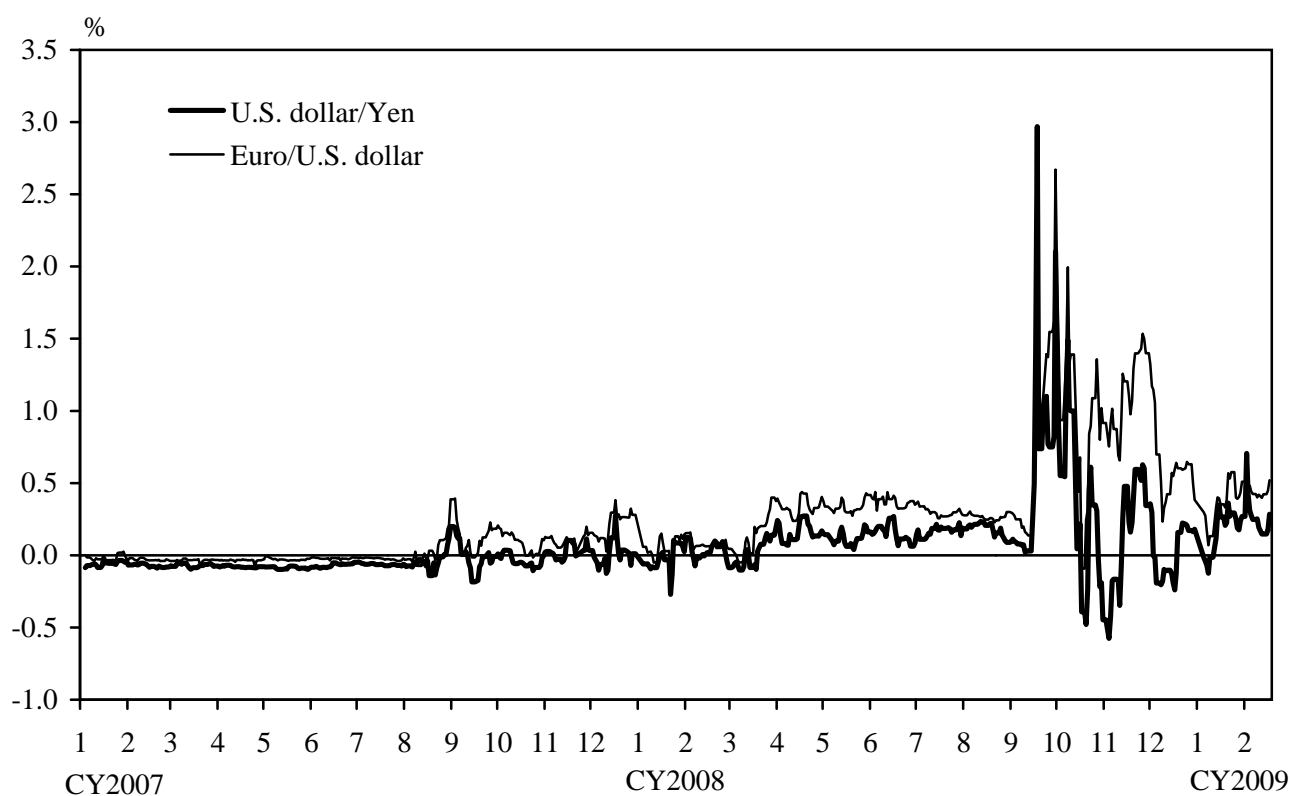
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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

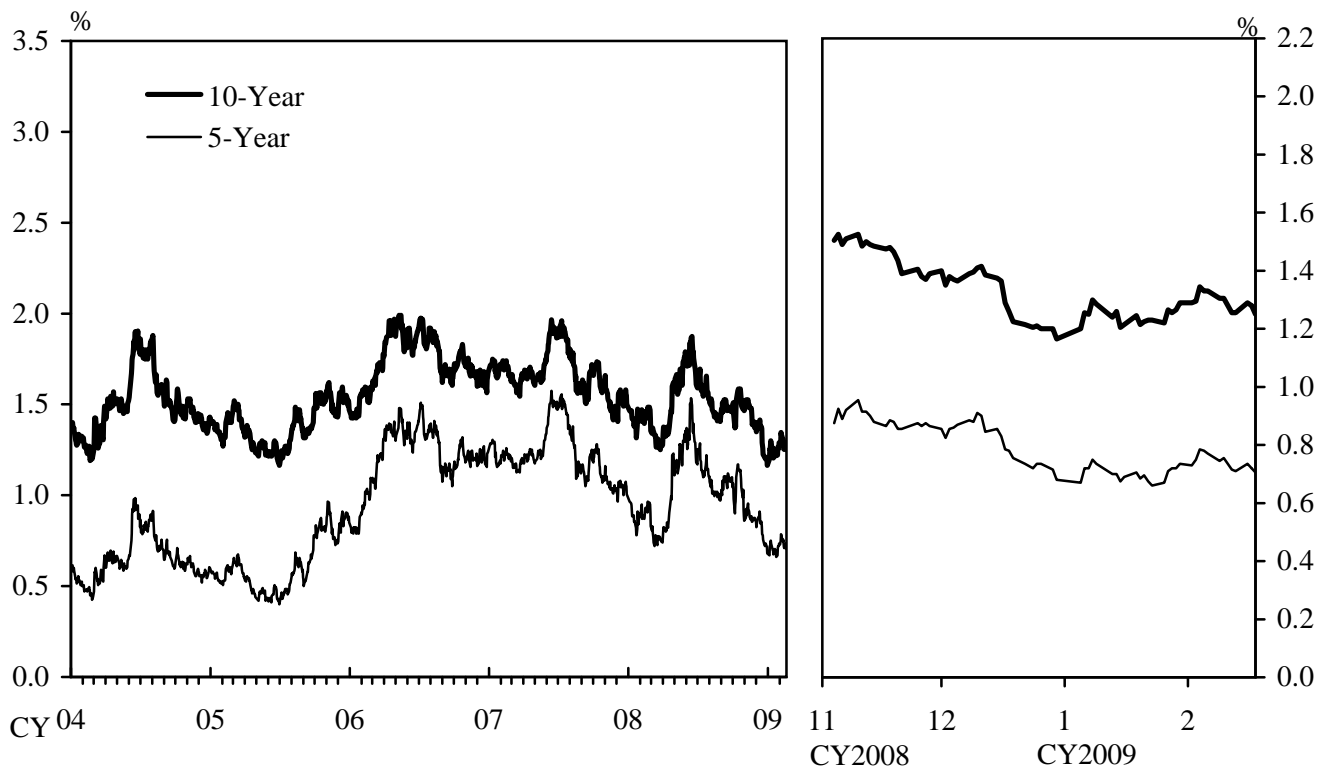


(2) FX swap implied dollar rate - LIBOR spreads (3-month)

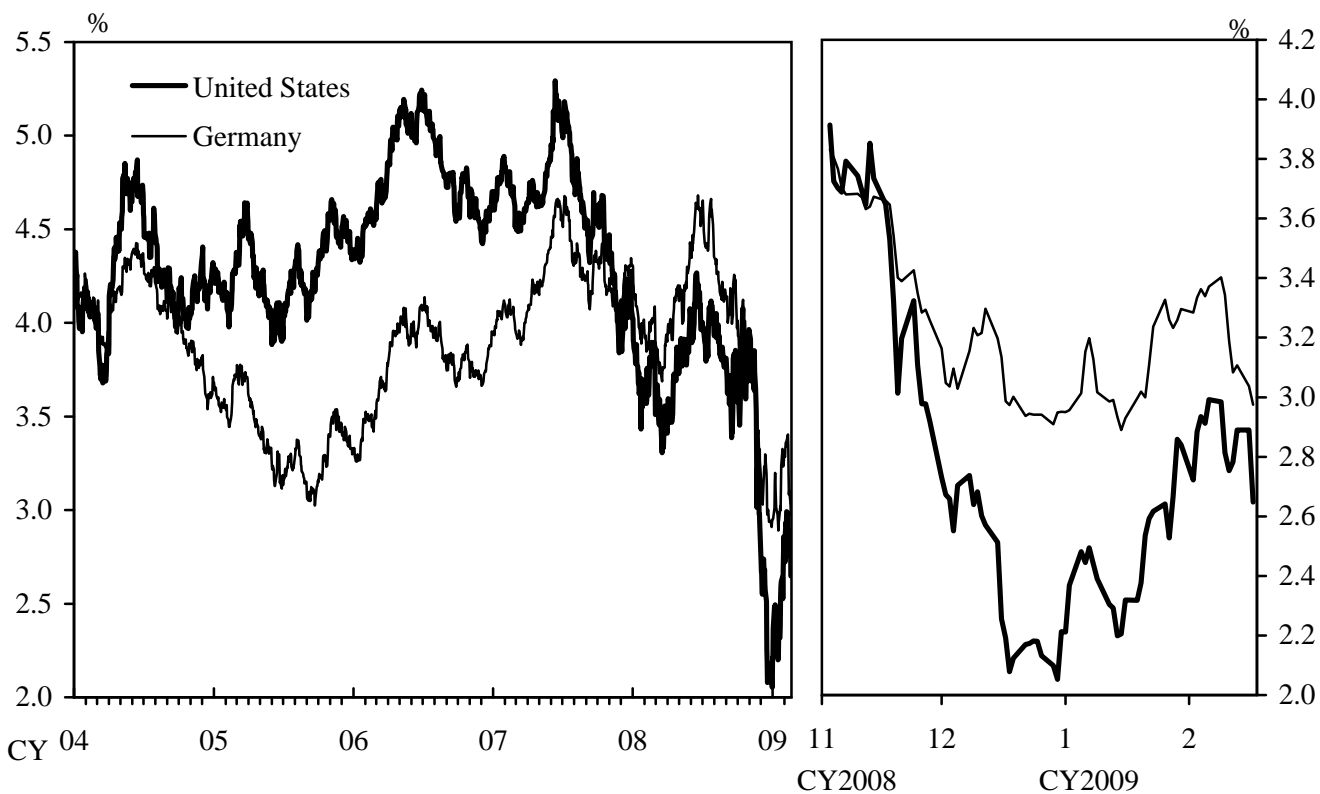


Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



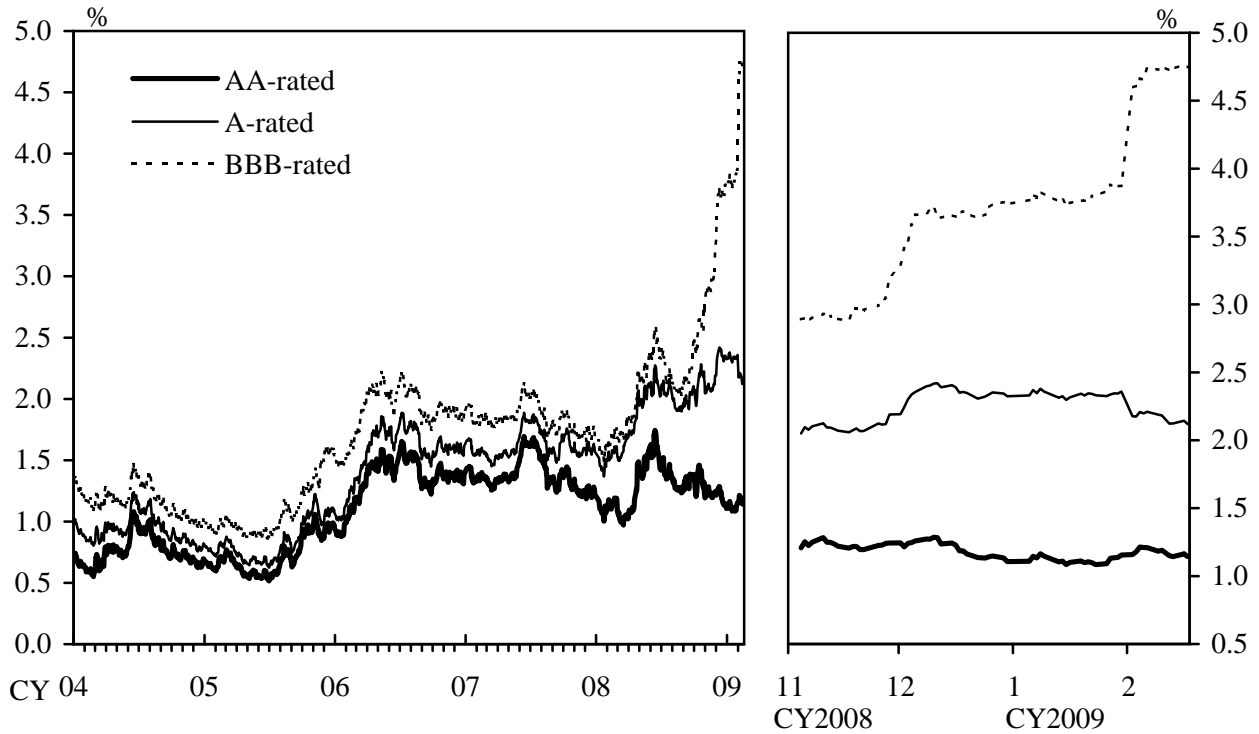
(2) Overseas Government Bond Yields (10-Year)



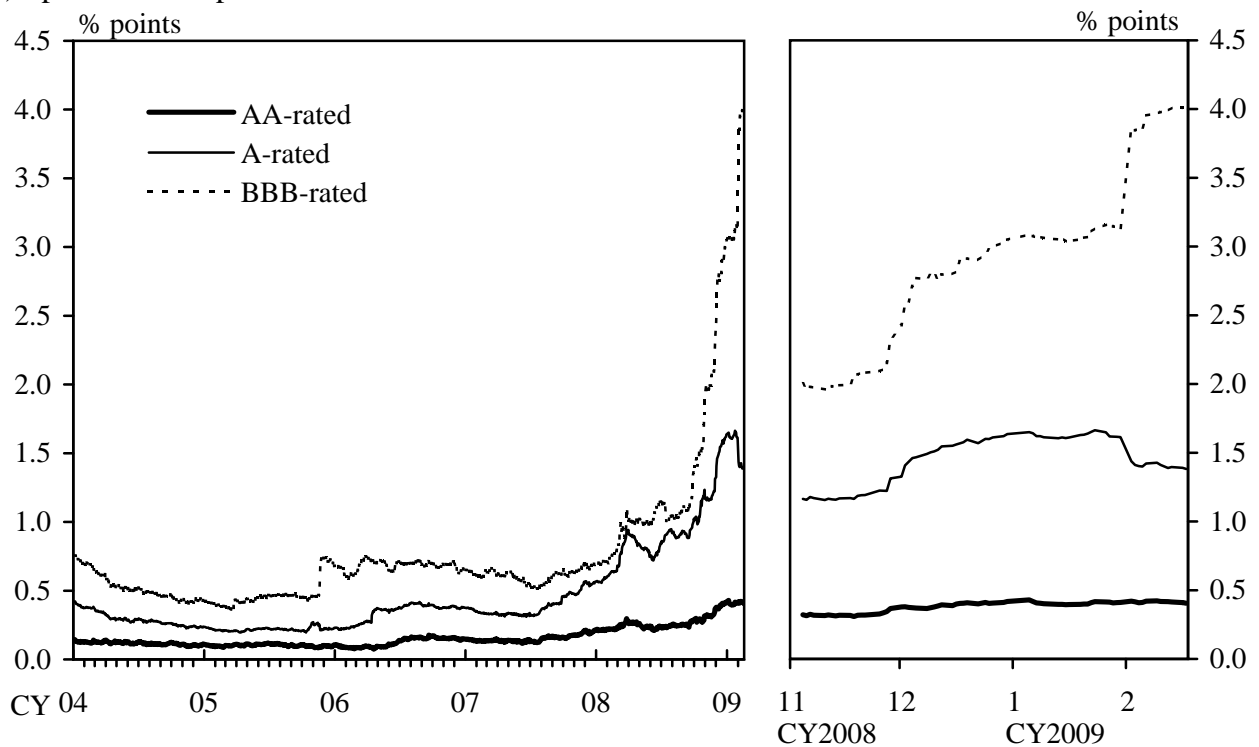
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

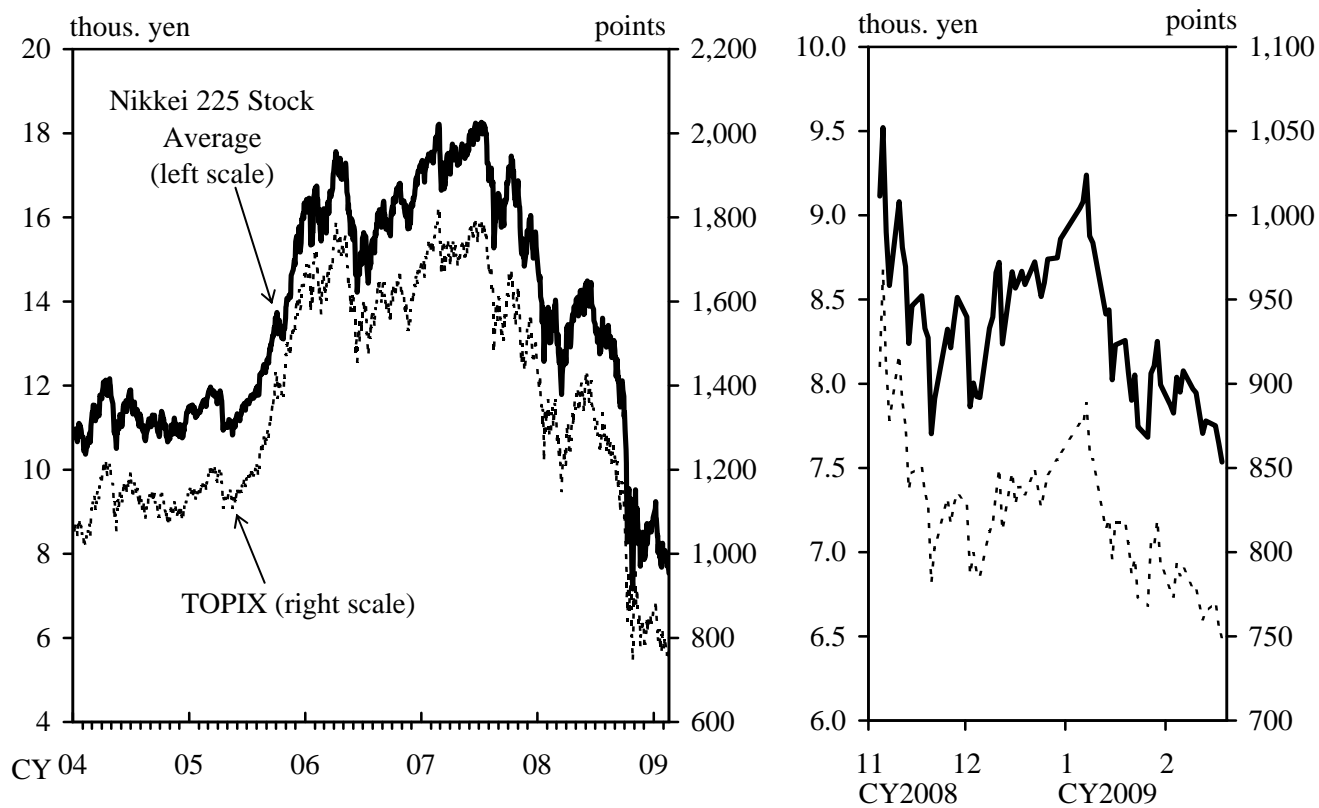
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

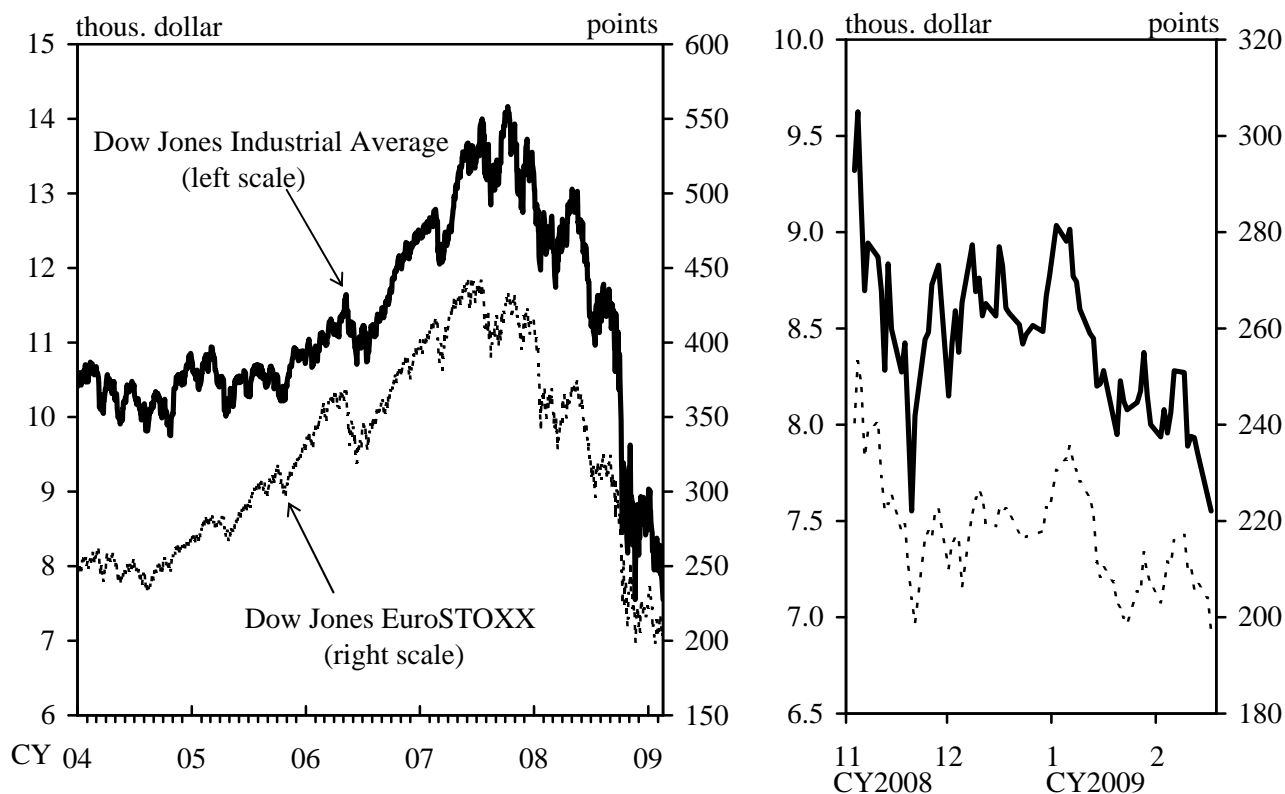
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



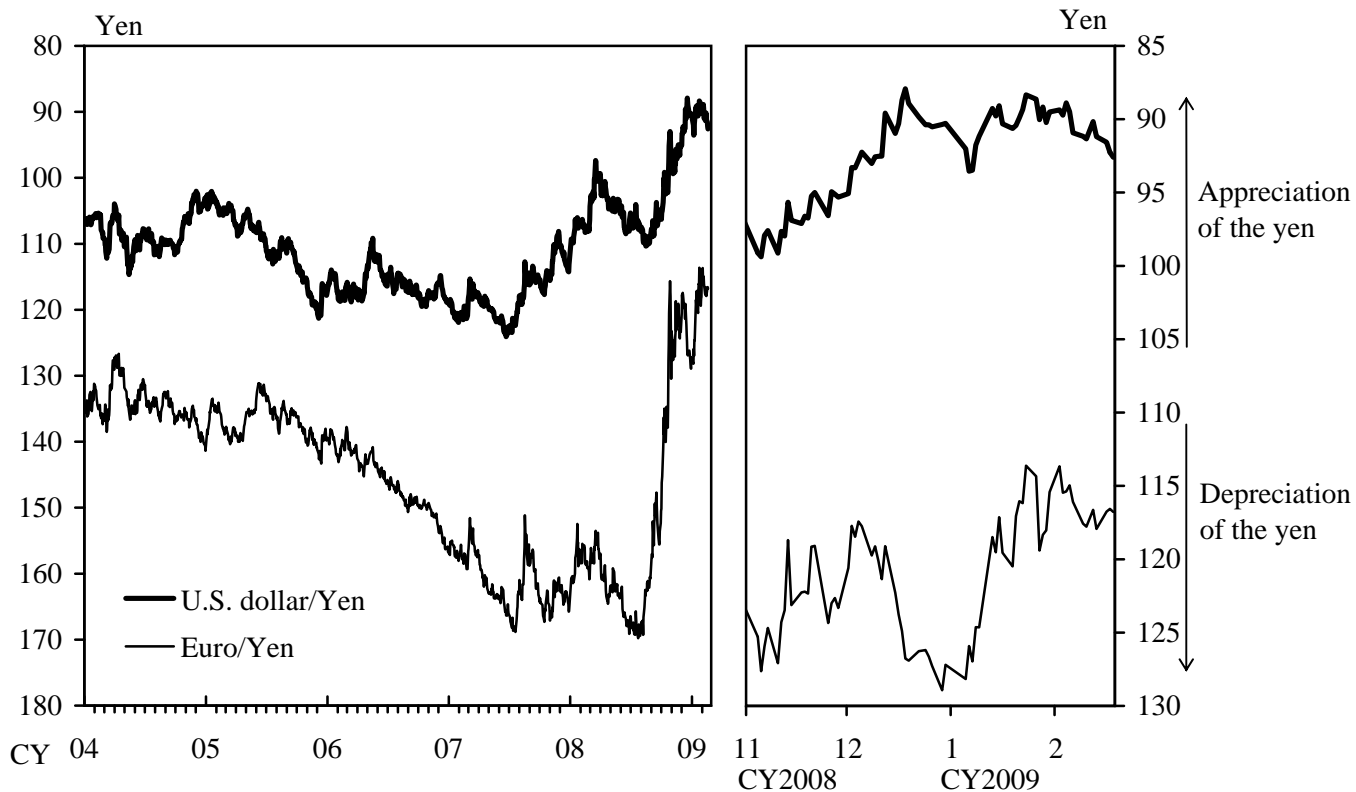
(2) Overseas Stock Prices



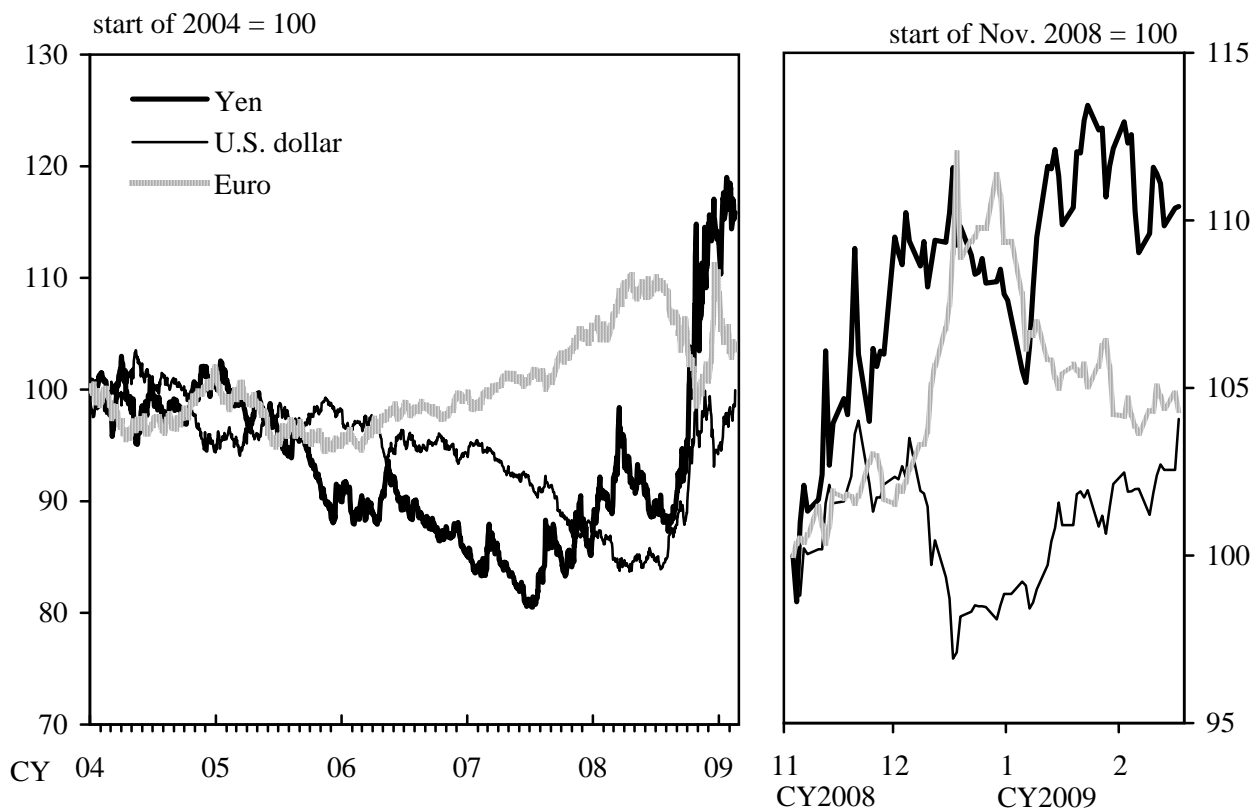
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



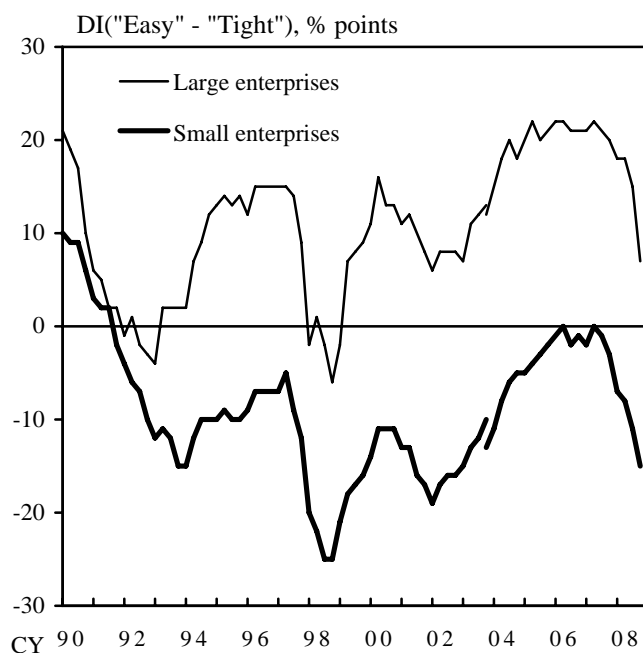
(2) Nominal Effective Exchange Rates



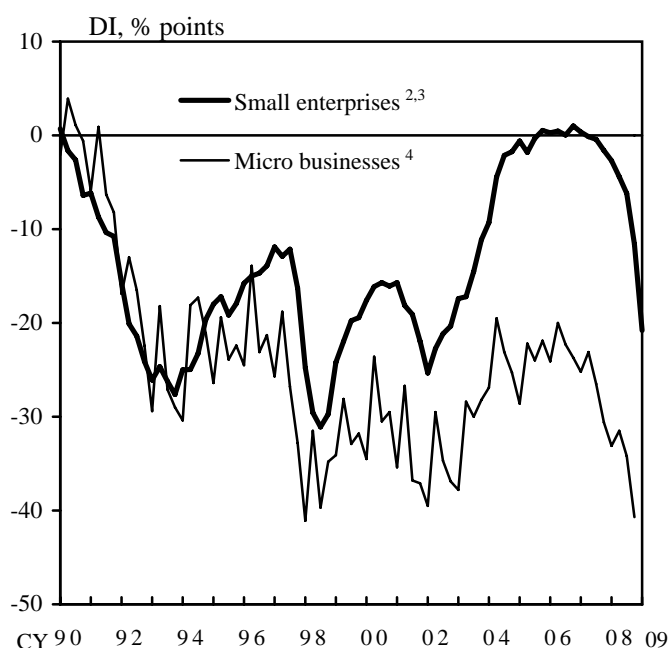
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

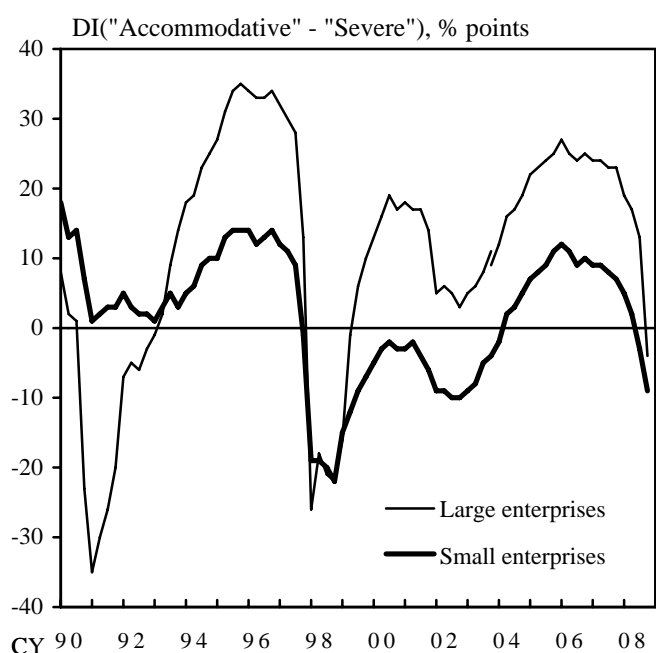
(1) Financial Position

<Tankan¹>

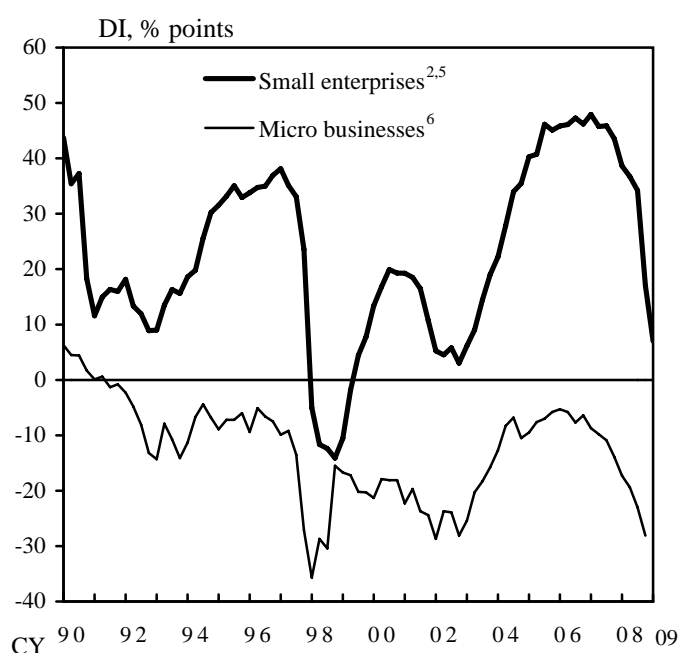
<Japan Finance Corporation Survey>



(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 2009/Q1 are those of January.

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

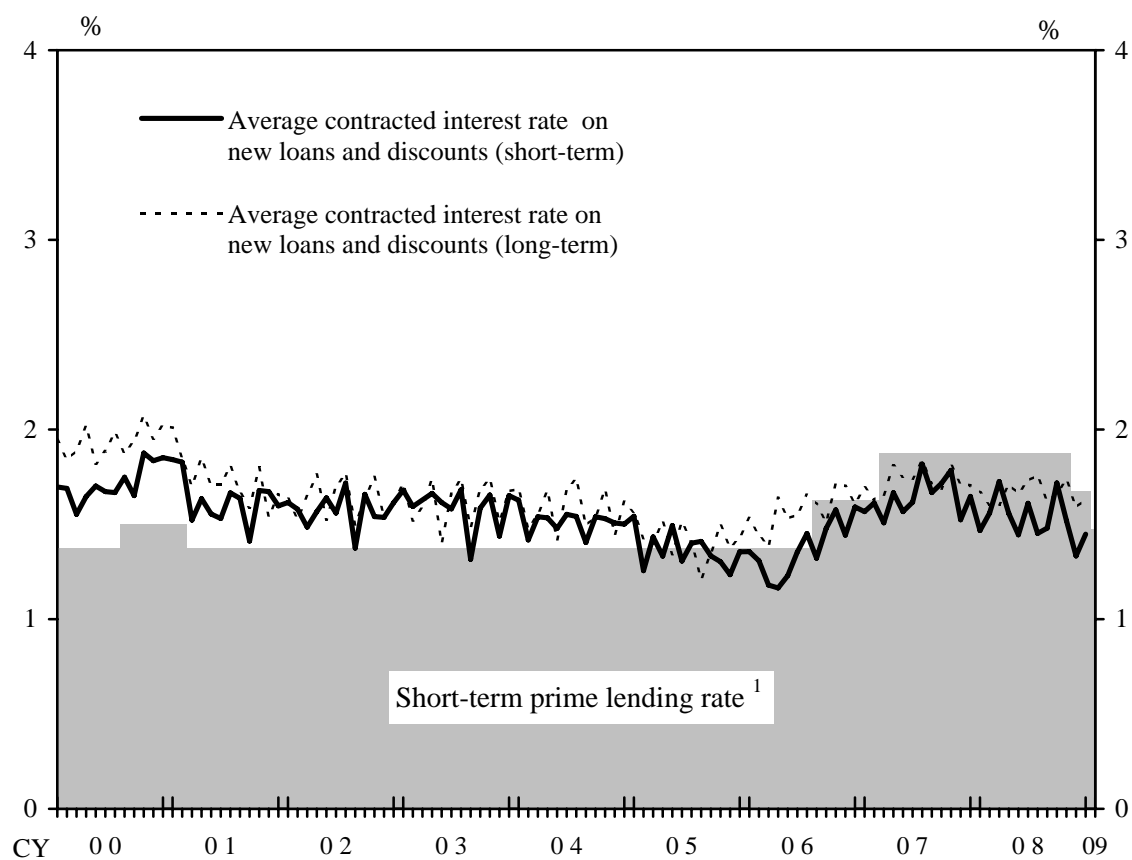
4. DI of "Easier" - "Tighter."

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

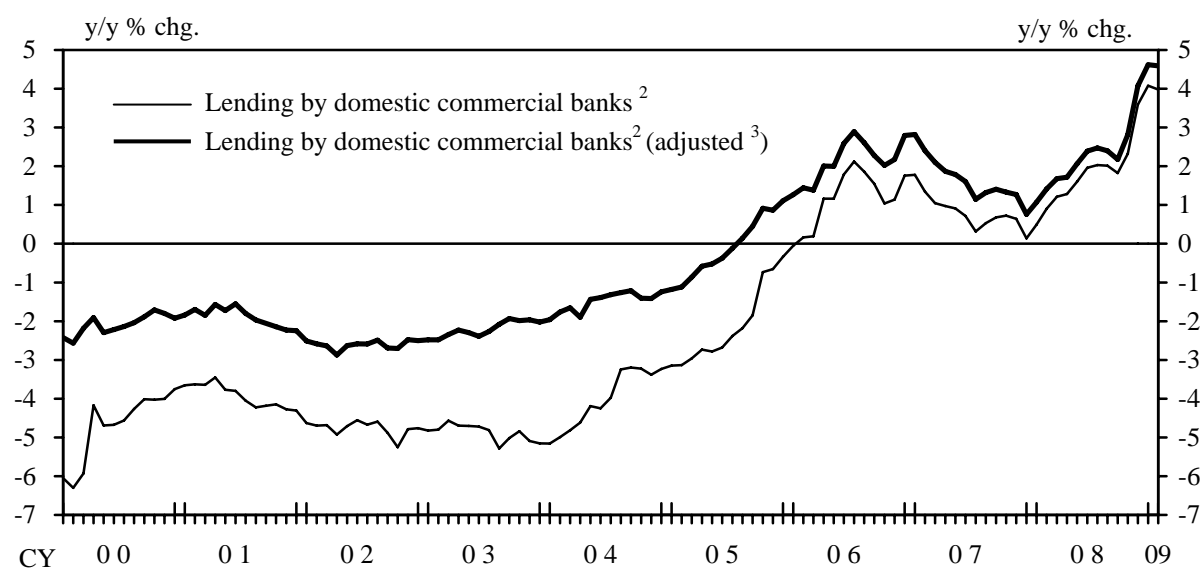


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



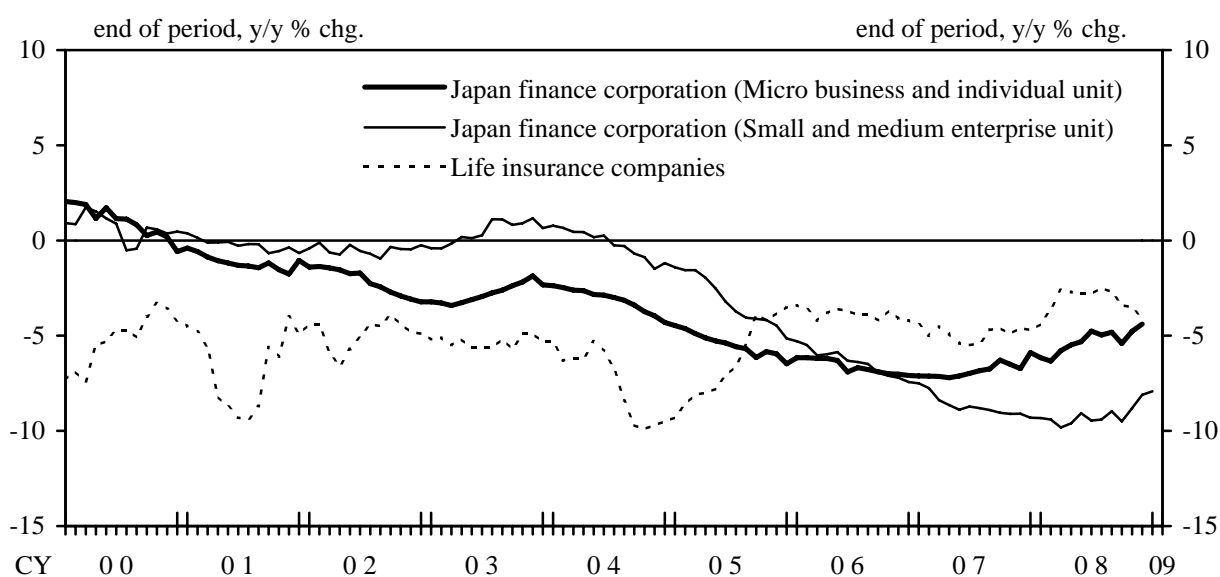
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

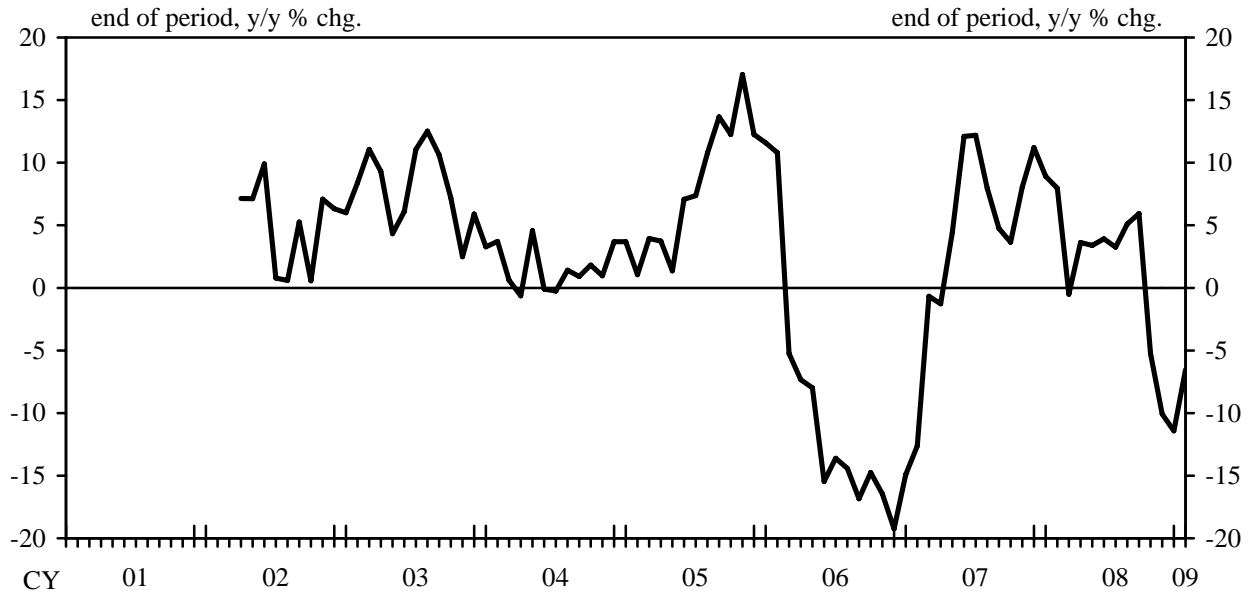


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

Sources: Bank of Japan; Japan Finance Corporation; The Life Insurance Association of Japan.

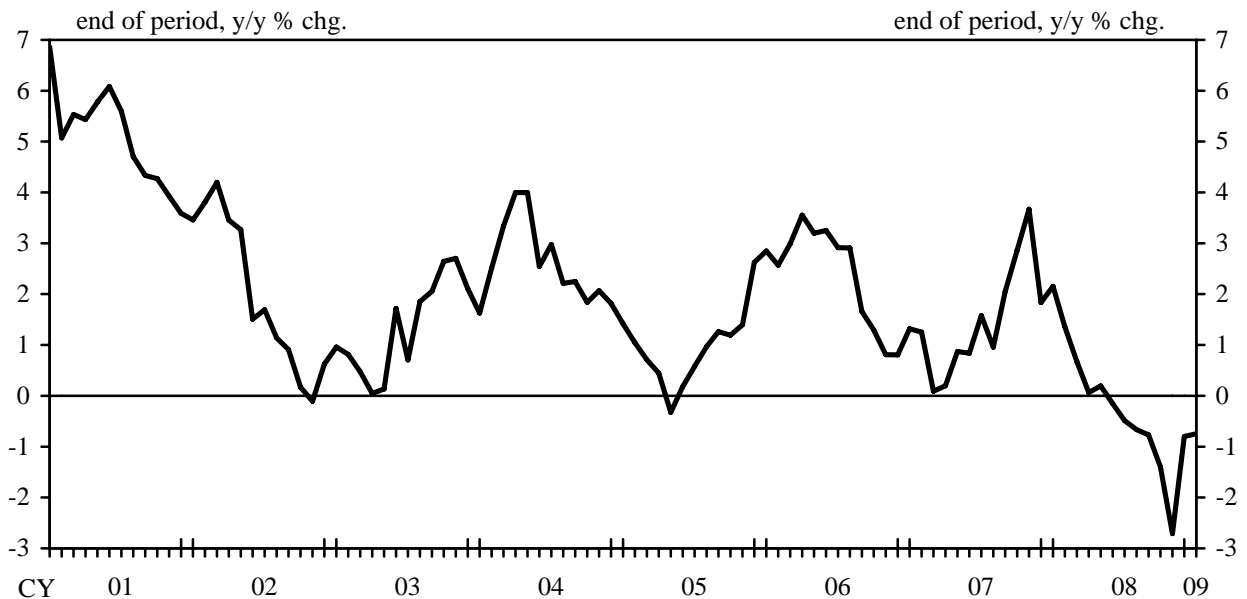
 Private-Sector Fund-Raising in the Capital Markets

(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 up to March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



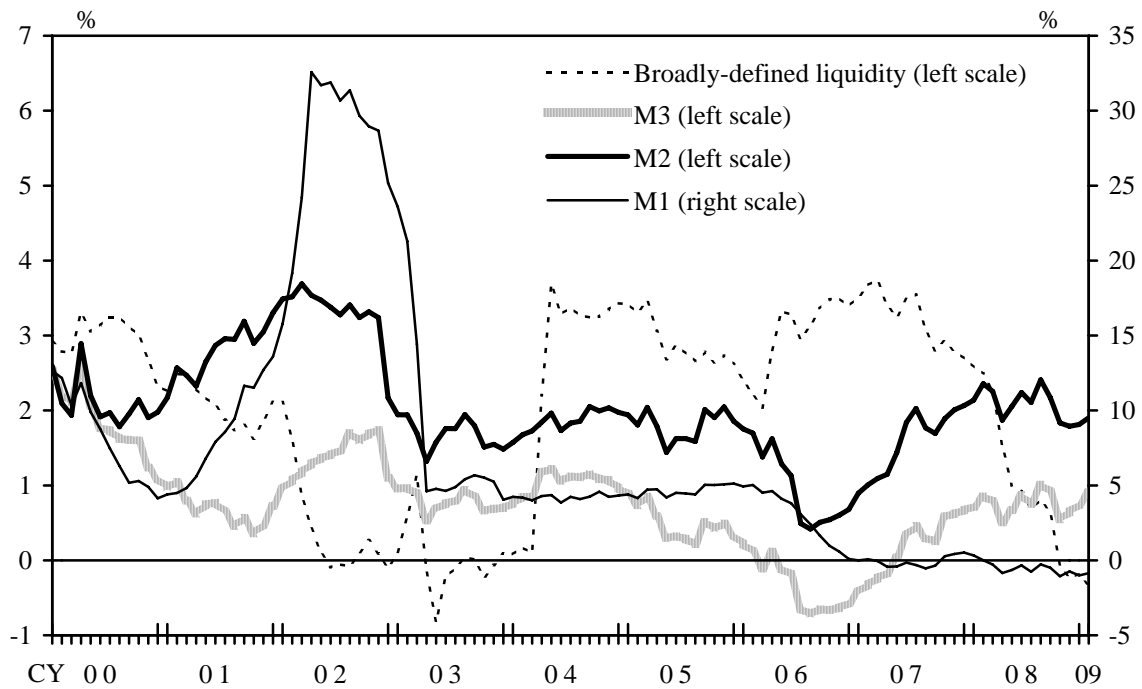
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

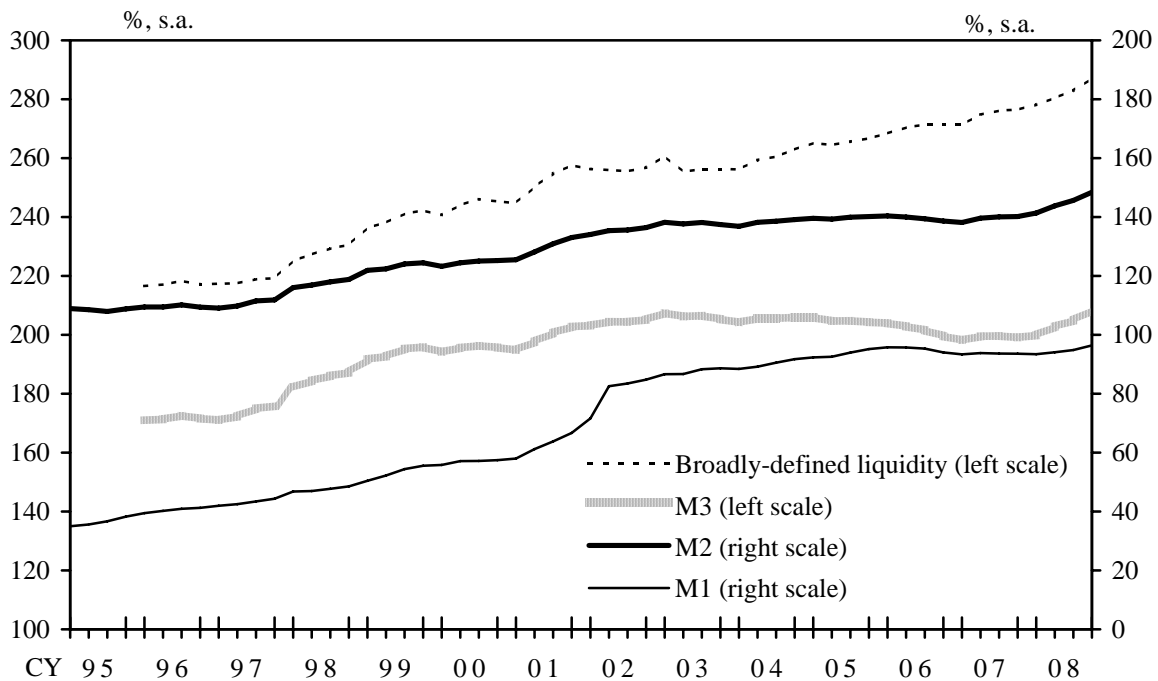
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

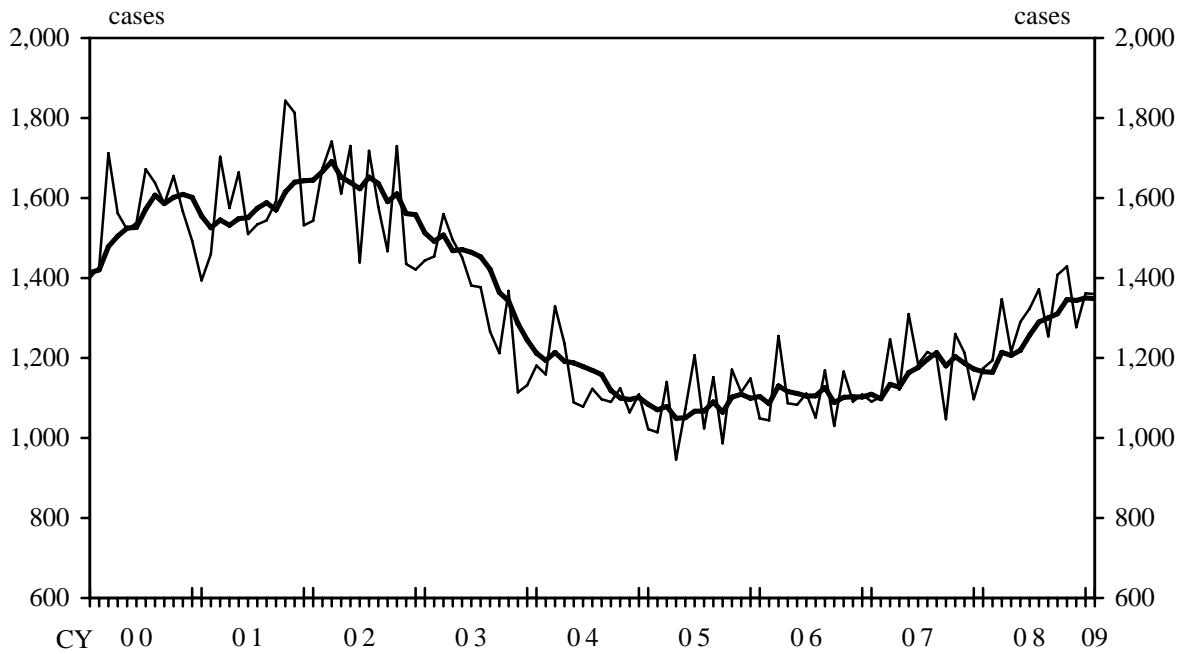


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.

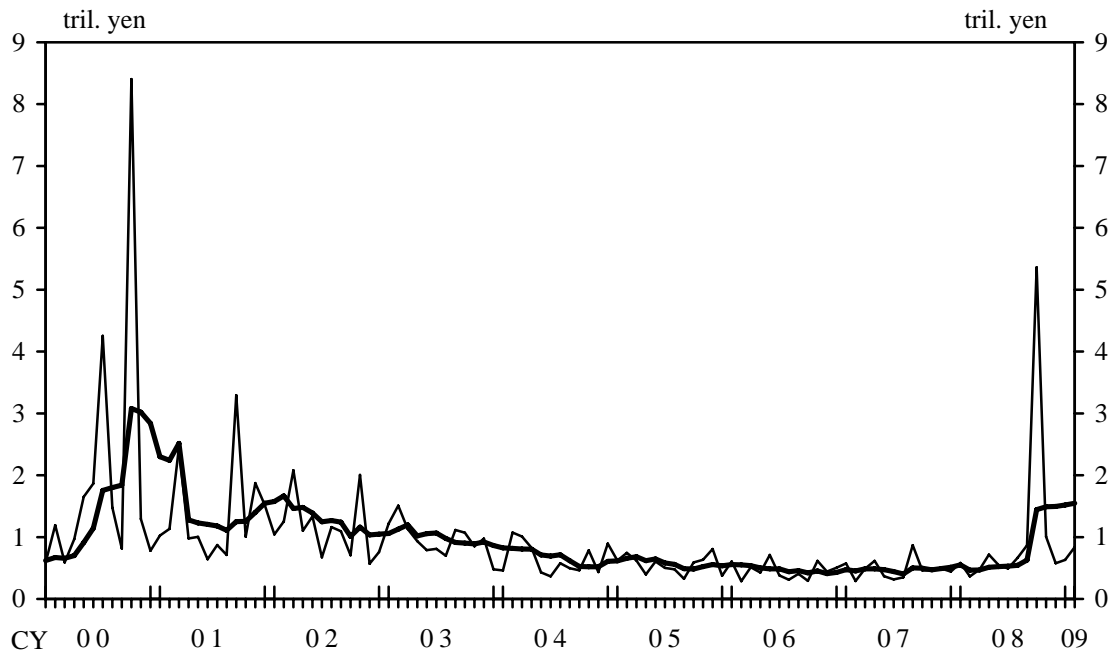
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."

Industrial Production in Japan and the United States

(1) Japan

	%					s.a.; q/q % chg.
	2005 Weight	2008 Q1	Q2	Q3	Q4	
Mining and manufacturing	<100.0>	- 0.7	- 0.8	- 1.3	-12.0	
Manufacturing	< 99.8>	- 0.7	- 0.8	- 1.2	-12.1	
Transport equipment	< 16.9>	0.4	- 0.7	- 1.8	-18.7	
Electronic parts and devices	< 8.0>	- 4.1	- 0.6	- 3.1	-19.3	
Information and communication electronics equipment	< 4.3>	0.3	- 5.1	- 7.1	- 7.9	
Electrical machinery	< 6.1>	- 1.0	- 0.8	0.6	- 8.2	
General machinery	< 13.2>	- 2.4	- 1.3	- 4.4	-11.9	
Fabricated metals	< 5.7>	2.4	- 0.9	- 2.0	- 7.2	
Iron and steel	< 6.0>	1.9	- 0.4	- 0.9	-15.0	
Non-ferrous metals	< 2.1>	- 0.1	- 2.9	- 0.4	-13.4	
Chemicals	< 11.8>	- 2.8	1.5	0.6	- 8.3	
Petroleum and coal products	< 1.0>	- 2.1	3.5	- 6.5	- 0.3	
Foods and tobacco	< 7.2>	- 0.6	0.8	1.0	- 2.9	
Mining	< 0.2>	- 5.8	2.6	2.9	- 5.6	

(2) United States

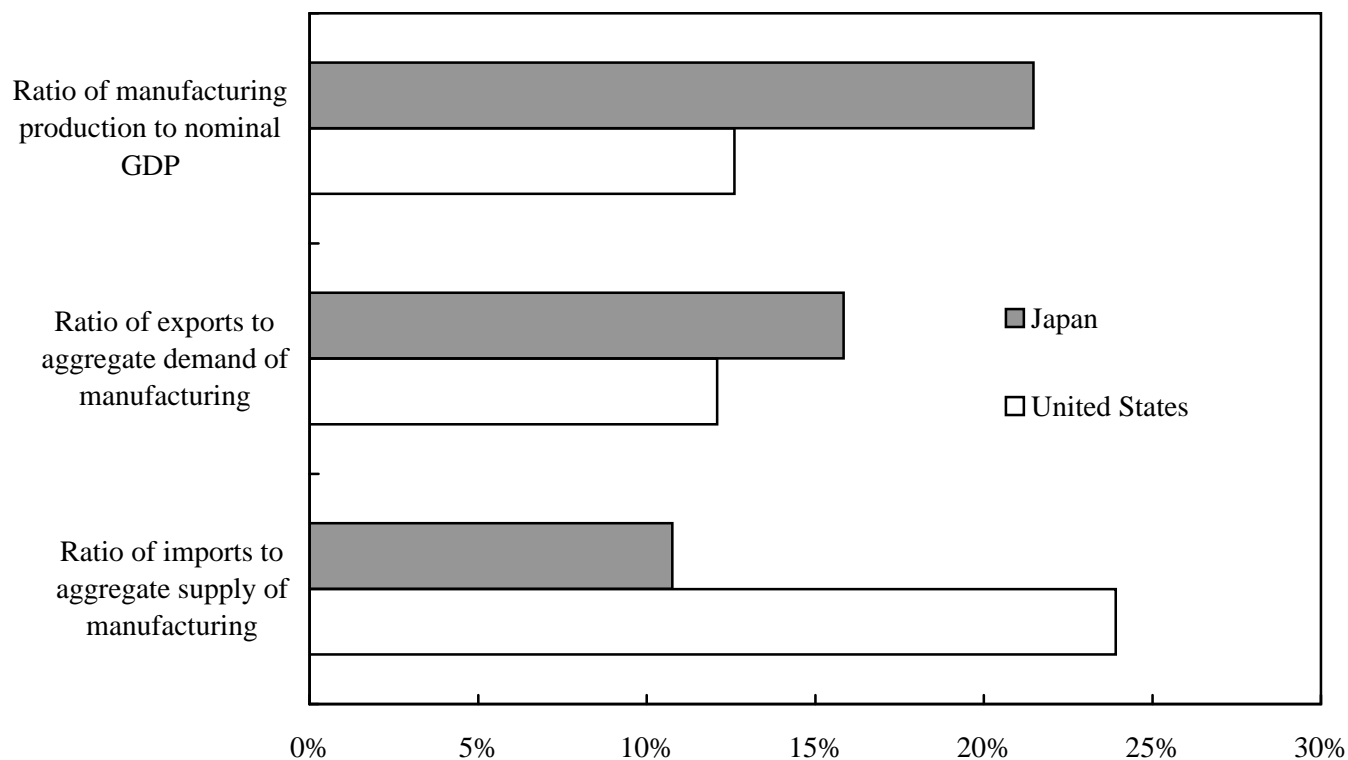
	%					s.a.; q/q % chg.
	2008 Weight	2008 Q1	Q2	Q3	Q4	
Mining, manufacturing, and utilities	<100.0>	0.1	- 0.9	- 2.3	- 3.2	
Manufacturing	< 77.4>	- 0.2	- 1.0	- 2.2	- 4.7	
Motor vehicles and parts	< 4.3>	- 3.8	- 8.1	- 2.0	-11.0	
Aerospace and miscellaneous transportation equipment	< 3.4>	- 0.2	- 1.0	- 6.5	- 5.4	
Computer and electronic products	< 6.5>	3.3	3.5	- 0.5	- 6.8	
Electrical equip., appliances, and components	< 2.0>	0.4	0.8	- 1.5	- 4.6	
Machinery	< 4.6>	- 0.3	- 2.5	- 1.2	- 6.0	
Fabricated metal products	< 5.5>	0.2	- 1.9	- 1.8	- 4.4	
Primary metal	< 2.7>	2.3	- 3.1	- 1.3	-21.7	
Chemical	< 11.6>	- 0.7	- 0.6	- 3.8	- 3.3	
Petroleum and coal products	< 6.5>	1.9	- 0.0	- 4.8	3.5	
Food, beverage, and tobacco products	< 10.9>	0.0	0.1	- 1.1	- 0.2	
Mining	< 12.9>	0.9	0.5	- 2.0	1.7	
Utilities	< 9.7>	2.0	- 1.2	- 3.0	2.5	

Note: Shaded areas indicate industries expressed as "three industries" in the text.

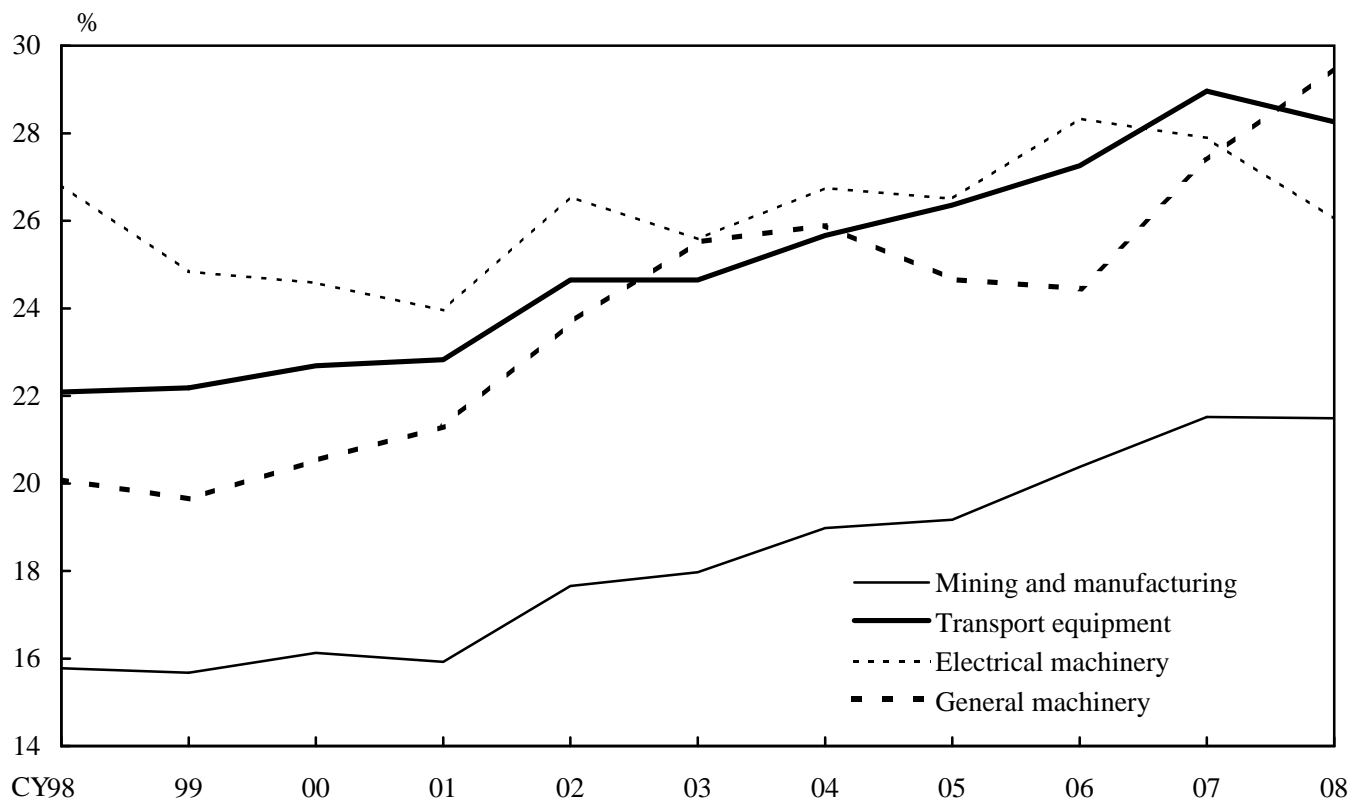
Sources: Ministry of Economy, Trade and Industry, "Indices of Industrial Production";
FRB, "Industrial Production and Capacity Utilization."

Comparison of Manufacturing Between Japan and the United States

(1) Comparison Manufacturing between Japanese and the U.S. on a SNA Basis <CY2007>



(2) Ratio of Exports to Industrial Shipments in Japan on an IIP Basis



Note: Aggregate demand = intermediate consumption + domestic demand + exports
 Aggregate supply = outturn + imports

Sources: Cabinet Office, "National Accounts"; U.S. Bureau of Economic Analysis, "Industry Economic Accounts"; Ministry of Economy, Trade and Industry, "The Indices of Industrial Domestic Shipments and Exports."