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Bank of Japan

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

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released on August 12, 2009)

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economic conditions have stopped worsening.

Public investment has increased. Exports and production have picked up, after falling substantially. On the other hand, business fixed investment has declined substantially, mainly reflecting weak corporate profits. Private consumption has remained generally weak and housing investment has decreased amid the worsening employment and income situation.

Japan's economic conditions are likely to turn upward over time.

Exports and production are expected to continue recovering, mainly due to progress in inventory adjustments both at home and abroad as well as improvement in overseas economic conditions. Public investment is expected to continue increasing. On the other hand, domestic private demand is likely to remain relatively weak with corporate profits and firms' funding conditions remaining severe and a worsening employment and income situation.

On the price front, the three-month rate of change in domestic corporate goods prices has continued to be slightly negative, mainly due to the easing of supply and demand conditions for products. The year-on-year decline in consumer prices (excluding fresh food) has accelerated mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole.

Domestic corporate goods prices are likely to continue decreasing gradually for the time being, as supply and demand conditions for products are likely to remain slack. The year-on-year decline in consumer prices is expected to continue

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on August 10 and 11, 2009.

accelerating for the time being, mainly due to the prices of petroleum products being lower than the high levels of a year earlier.

The weighted average of the overnight call rate has been at around 0.1 percent, and interest rates on term instruments have remained more or less unchanged. Meanwhile, compared with last month, yields on long-term government bonds and stock prices have risen, while the yen has depreciated against the U.S. dollar.

Financial conditions, while remaining generally tight, have continued to show signs of improvement.

The overnight call rate has remained at an extremely low level, and firms' funding costs have remained more or less unchanged at low levels. However, the stimulative effects from low interest rates have been limited given the low level of economic activity and corporate profits. With regard to credit supply, although many firms still see financial institutions' lending attitudes as severe, firms as a whole regard the situation as improving somewhat. Issuing conditions for CP and corporate bonds, although remaining severe for firms with low credit ratings, have continued to improve on the whole, as reflected in the narrowing of credit spreads and the increase of firms issuing corporate bonds. As for credit demand, firms' demand for working capital and funds for fixed investment has declined, and some firms have reduced on-hand liquidity that they had accumulated. Against such a backdrop, the pace of increase in bank lending has slowed. Issuance of corporate bonds has been at a high level, while that of CP has declined. In these circumstances, firms' financial positions, although many firms still see them as weak, have continued to improve. Meanwhile, the year-on-year rate of change in the money stock has been at around 2.5 percent.

1. Economic Developments

Public investment has increased. Looking at monthly indicators (Chart 5), the value of public works contracted—a measure that reflects public orders—turned to an increase in the first quarter on a quarter-on-quarter basis, and continued to increase in the second quarter. The amount of public construction completed—which reflects the progress of public works—increased marginally in the first quarter, and then marked a large increase in April-May compared with the first quarter.

Public investment is expected to continue increasing due to the implementation of various economic measures.

Real exports, after dropping substantially, have picked up, mainly due to the effects of the policy measures of various countries and to progress in adjustments in overseas local inventories (Charts 6[1] and 7). Exports decreased substantially in the fourth and first quarters, by 14.6 and 28.9 percent respectively on a quarter-on-quarter basis, but then increased by double digits (12.3 percent) in the second quarter. Looking at monthly developments, exports have continued to increase markedly since April.

By destination (Chart 7[1]), exports to all countries and regions excluding "other regions" increased in the second quarter. In particular, those to East Asia, especially to China, increased significantly. On a monthly basis, exports to East Asia increased for the fifth consecutive month and those to the United States and the EU also increased for the fourth and third consecutive month, respectively. Meanwhile, recovery in exports to "other regions" (such as the Middle East, Latin America, and Russia) has been sluggish, but exports registered an increase in June.

By goods (Chart 7[2]), exports of goods other than capital goods and parts increased in the second quarter. On a monthly basis, exports of IT-related goods increased noticeably for the fifth consecutive month, mainly due to the rapid progress in inventory adjustments and to an increase in demand for household electrical appliances in China; those of intermediate goods (such as chemicals) also increased, mainly to East Asia, for four straight months. Exports of motor vehicles and their related goods turned to an increase in April, and then increased by double digits for

two consecutive months due to the effects of policies to prompt consumers into trading in their old cars and to good progress in local inventories.²

Real imports have stopped declining, mainly because production has picked up (Charts 6[1] and 9). Real imports in the first quarter decreased substantially, by 17.9 percent on a quarter-on-quarter basis, as domestic demand and production dropped substantially. They were essentially flat in the second quarter, however; they marked a decrease of 1.8 percent compared with the first quarter. Looking at monthly developments, imports have continued to increase marginally since March.

Looking at imports in the second quarter compared with the first quarter by goods (Chart 9[2]), those of IT-related goods increased by double digits, and consumer goods also increased. Imports of raw materials, intermediate goods, capital goods and parts (excluding aircraft), and foodstuffs, however, continued to decrease.

Net exports, in terms of the real trade balance, have recently shown a large rebound, after decreasing substantially, in response to the aforementioned developments in imports and exports (Chart 6[2]). A deficit in the nominal balance on goods and services was recorded in the fourth and first quarters, but the balance returned to a surplus in the second quarter, reflecting the improvement in the real trade balance.

Exports are expected to continue recovering, mainly due to progress in adjustments in overseas local inventories and to improvement in overseas economic conditions.

As for the environment surrounding exports, overseas economic conditions have stopped worsening in general (Chart 8[2]). In the United States and Europe, economic conditions have continued to deteriorate amid severe financial conditions,

² Policies to prompt consumers into trading in their old cars ("scrap incentives") have been introduced in a wide range of countries such as China, South Korea, and Malaysia, in addition to: France (December 2008 to December 2009), Germany (January to December 2009), Italy (February to December 2009), the United Kingdom (May 2009 to March 2010), and the United States (beginning of July to the beginning of November 2009).

but the pace of deterioration has moderated, reflecting the progress in inventory adjustments and the improvement in business and household sentiments. In China, domestic demand has become stronger, mainly due to the effects of fiscal policies. In other East Asian countries, there has been an increase in the amount of data indicating that economic conditions have turned upward. Economic conditions are expected to stop worsening and to turn upward on a global scale, as fiscal and monetary policies continue to exert positive effects. However, there is significant uncertainty on the continuity of the improving trend, since a considerable amount of time seems to be required to adjust for significant excesses. Meanwhile, in the foreign exchange market, in terms of the real effective exchange rate—which incorporates differentials in the inflation rates between home and abroad—the yen appreciated substantially toward the beginning of the year, but has depreciated slightly since then (Chart 8[1]).

Imports are expected to turn to a gradual increase, as domestic economic conditions turn upward over time.

Business fixed investment has declined substantially. Looking at monthly indicators, the aggregate supply of capital goods and shipments of capital goods (both including and excluding transport equipment)—a coincident indicator of machinery investment—decreased substantially (Chart 10[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—has been decreasing since the second quarter of last year, but the pace of decrease slowed in the second quarter compared with the previous quarter, a development which was also seen in the first quarter (Chart 11[1]).³ By industry, in the manufacturing industry, machinery orders increased in the second quarter, after dropping substantially. On the other hand, in the nonmanufacturing industry, machinery orders decreased in the second quarter, after increasing mainly in infrastructure-related orders in the first quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—was essentially flat in the first quarter, but decreased significantly in the second quarter (Chart 11[2]). In detail, in the nonmanufacturing

³ According to the forecast survey on the third quarter, however, the pace of decrease in machinery orders are forecasted to accelerate again, by 8.6 percent.

industry, after marking a temporary increase of a marginal size in the first quarter, investment decreased substantially in the second quarter in a wide range of buildings, notably real estate buildings, wholesale and retail trade buildings, and transportation buildings. In the manufacturing industry, investment decreased substantially in the second quarter following the first quarter. However, these sudden decreases seem to have appeared in response to the lagged recognition in the statistics since the end of last year, of the actual fall in the number of construction starts.

Business fixed investment is likely to be relatively weak for the time being, in response to the severe conditions in corporate profits and firms' funding and to the strong sense of excess capacity, although it is expected to gradually stop worsening.

Private consumption has remained generally weak, although there have been some signs of picking up with the support of various measures and price declines (Charts 12 and 13). Sales at department stores have continued to decrease significantly in response to the slowdown in food as well as to a slump in sales of apparel and high-end products, reflecting the further curtail on purchases by consumers.⁴ Sales at supermarkets have continued to decrease gradually. Sales at convenience stores were steady compared to those at department stores and supermarkets, but they have recently begun to show some sluggishness. As for durable consumer goods, sales of household electrical appliances (in real terms) increased in the second quarter, after marking a high increase in the first quarter mainly due to price declines.⁵ The number of new passenger-car registrations dropped sharply until March, but has recovered noticeably since April, mainly due to the effects of the reduction in automobile taxes and subsidies.⁶ As for services

⁴ Sales in June alone recovered somewhat compared with the previous month, but this seems to have been largely influenced by early sales.

⁵ The eco-point system, which is part of the "Countermeasures to Address the Economic Crisis" (of April 10), began on May 15, and ends at the end of March 2010. Under this system, when consumers purchase air conditioners, refrigerators, and televisions with an energy efficiency higher than a certain level, part of the original price is returned to them in the form of "eco-points." According to anecdotes from firms, sales of products that apply to the system—especially flat panel televisions that are adapted to terrestrial digital broadcasting—seem to have increased considerably since the system started.

⁶ According to the fiscal 2009 tax reform, during fiscal 2009 to 2011, the automobile acquisition tax and automobile weight tax will be either exempted or reduced for eco-friendly cars. Usually, the automobile acquisition tax is imposed on the price of the car at the time of purchase, and the

consumption, outlays for travel dropped markedly, partly due to the effects of the expansion of the new strain of influenza, in addition to the deterioration in the employment and income situation. Sales in the food service industry were sluggish, albeit with fluctuations.

The *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above—had been noticeably weak since last fall, but have recently been essentially flat because durable consumer goods have picked up (Chart 14[1]).⁷ The aggregate supply of consumer goods—which comprehensively captures producers' supply of goods—decreased substantially in the first quarter, and then increased in the second quarter (Chart 14[2]), reflecting developments in durable goods consumption (automobiles). 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 GDP—was essentially flat in the second quarter compared with the first quarter.⁸ On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms) increased noticeably in the second quarter compared with the first quarter, mainly due to an increase in durable consumer goods (Chart 12[1]).

Meanwhile, indicators related to consumer sentiment have continued to remain at low levels, but they have recovered in general due to various demand-boosting policy measures and to the decline in retail prices (Chart 15).

automobile weight tax is imposed at the time of purchase and automobile inspection, based on the weight of the car. However, from April, these taxes have been exempted for electric, fuel cell, and hybrid cars; normal gasoline cars are also subject to tax reduction, but the amount of reduction depends on their level of energy efficiency. Also, as a measure to promote the purchasing of eco-friendly cars—a measure included in the "Countermeasures to Address the Economic Crisis"—subsidies are granted to eco-friendly cars purchased since April 10.

⁷ The *Indices of Aggregated Sales* are the weighted averages of individual sales indicators. "Outlays for travel" in June was not released at the time these indices were compiled, and hence was incorporated into the indices under the assumption that the seasonally adjusted figure for June was at the same level as that for May.

⁸ Items in the index are not completely limited to those used for estimating GDP. For example, education is not used for estimating GDP.

Private consumption is likely to remain generally weak amid the worsening employment and income situation.

Housing investment has decreased. The number of housing starts (Chart 16[1])—a leading indicator of housing investment—marked an annual rate of 904,000 units in the first quarter, but then registered an annual rate of 762,000 units in the second quarter. It has dropped significantly since last fall, as the employment and income situation has become increasingly severe and the financial environment surrounding the real estate-related sector has further deteriorated.

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

Industrial production, after dropping significantly, has picked up reflecting progress in inventory adjustments both at home and abroad and policy effects. Production increased for the fourth consecutive month in June, marking a 2.4 percent increase on a month-on-month basis. On a quarterly basis, production dropped by 11.3 percent in the fourth quarter and by 22.1 percent in the first quarter, but then marked a large rebound, increasing by 8.3 percent in the second quarter (Chart 17). By industry, production in general machinery and precision instruments has continued to decrease due to the global reduction in business fixed investment. Production, however, has increased widely in other industries, notably in electronic parts and devices and transportation equipment. This increase in production reflects the progress in inventory adjustments and the effects of the production increase in motor vehicles.

Shipments increased by 6.4 percent in the second quarter, after decreasing substantially by 11.0 percent in the fourth quarter and 21.0 percent in the first quarter on a quarter-on-quarter basis. By goods (Chart 18), shipments of durable consumer goods and producer goods have increased noticeably, after having dropped largely since last fall. On the other hand, shipments of capital goods and construction goods have remained sluggish after their substantial decrease. Meanwhile, shipments of non-durable consumer goods have remained more or less flat.

Inventories have continued to fall in response to the effects of the substantial cutback in production (Chart 19). Looking at the shipment-inventory balance by goods, inventory adjustment pressures have remained strong for capital goods (excluding transport equipment) and construction goods, reflecting the substantial decrease in shipments. On the other hand, for electronic parts and devices, signs of inventory adjustment pressures seem to have almost disappeared, partly because shipments have picked up; inventories of other producer goods (such as chemicals and iron and steel) have also improved gradually as a whole. As for durable consumer goods, adjustments have progressed well in inventories, including overseas inventories which are not reflected in this statistics.

As for the outlook, production is expected to continue recovering, mainly due to progress in inventory adjustments both at home and abroad and to policy effects. According to anecdotes from firms, production in the third quarter is expected to show a steady increase.⁹

The employment and income situation has become increasingly severe, with the substantial easing of the labor market and the significant decrease in employee income.

In the labor market, the ratio of job offers to applicants has continued to decline (Chart 20[1]); the ratio in June was 0.43 times, a decrease of 0.01 point from the previous month. The ratio decreased for the thirteenth consecutive month, and recorded its worst-ever level for the second consecutive month. The unemployment rate has continued to rise at a fast pace; it registered 5.4 percent in June.

In terms of employment (Chart 21[1]), the year-on-year growth rate of the number of employees in the *Labour Force Survey* had been around 0 percent until February, but a downtrend has become evident since March; the rate marked a decline

⁹ Looking at the production forecast index, production in July and August is expected to mark an increase of 1.6 percent and 3.3 percent respectively, on a month-on-month basis. Under the assumption that the production level in September will be the same as that in August, production in the third quarter is expected to increase by 7.4 percent compared with the second quarter.

of 2.0 percent in June on a year-on-year basis.¹⁰ As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year rate of increase decelerated rapidly, marking decreases in May and June, and the ratio of part-time employees has risen gradually (Chart 21[2]). Meanwhile, overtime hours worked have begun to stop declining, after a substantial decrease especially in the manufacturing industry (Chart 21[3]).

The year-on-year decline in nominal wages per employee has accelerated; the rate marked a substantial decrease of 7.1 percent in June (Chart 22[1]). In detail, regular and overtime payments have continued to be below last year's level, mainly reflecting the decrease in the number of working hours especially in the manufacturing industry. Under these circumstances, special payments in June—which make up 60 percent of summer bonuses—decreased substantially, by 14.5 percent on a year-on-year basis. This decrease reflects the significant deterioration in corporate profits.¹¹

Employee income has decreased substantially, reflecting the aforementioned developments in employment and wages (Chart 22[3]).

Looking ahead, employee income is likely to continue decreasing substantially for the time being, mainly due to the lagged effects of the earlier drop in corporate profits and production.

¹⁰ The decline in the number of employees has remained marginal compared with the drop in economic activities. This can be attributed to factors such as efforts to maintain employment through the use of the Employment Adjustment Subsidy—whose conditions to grant subsidies have been eased as part of an economic measure—and a large decline in hours worked per employee, which has reflected a decrease in the number of operating days and an increase in the number of short-time part-time workers. The number of applications for the subsidy decreased slightly in May-June, after rising sharply toward April, but it still marked 2.38 million employees in June, which is over 4.0 percent of all employees.

¹¹ Surveys by the Nihon Keizai Shimbun, Inc. (final results as of June 30) and the Nippon Keidanren (final results as of July 31) show that summer bonuses among major firms are expected to decrease substantially (16.6 and 17.2 percent respectively, on a year-on-year basis).

2. Prices

Import prices (on a yen basis; the three-month rate of change) have been around 0 percent (Chart 24). International commodity prices, in general, have been essentially flat recently. Domestic commodity prices have been more or less flat in general, although they have been pushed up by the past rise in international commodity prices, because domestic supply and demand conditions have remained slack.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹² has continued to be slightly negative, mainly due to the easing of supply and demand conditions for products (Chart 25). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" rose for the third consecutive month, reflecting price developments of petroleum and coal products and of nonferrous metals. Prices of "iron and steel and construction goods" and "other materials" have continued to decline. Prices of "machinery" and "others" have continued to decline marginally; the former has declined mainly in electrical appliances and the latter has declined mainly in processed foodstuffs. Meanwhile, prices of "electric power, gas and water" have declined at a faster pace due to the reduction in electric power charges, which have reflected past cost declines such as natural gas prices. Looking at domestic demand products as a whole, including imports, prices of raw materials and final products have been flat, but those of intermediate goods have continued to decline, reflecting price developments of goods such as electric power charges and iron and steel.

The year-on-year rate of change in corporate services prices (excluding external factors)¹³ has continued to be negative, mainly reflecting cost cutting among

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.

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.

firms (Chart 26).¹⁴ In detail, the year-on-year rate of decline in prices of advertising services has continued to be substantial, since firms have been cautious about placing advertisements; the rate of change in prices of information services and leasing and rental has been negative. As for prices of temporary employment agency services, in June, they marked a substantial negative that had not been seen recently, but this might have been caused by a fluctuation in the prices.

The year-on-year rate of decline in consumer prices (excluding fresh food, same hereafter) has accelerated mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole (Chart 27). Consumer prices in June (excluding fresh food) marked a decrease of 1.7 percent on a year-on-year basis, a decline of 0.6 percent point from the previous month; they also registered the largest-ever pace of decrease for the second consecutive month. Looking at the recent trend in detail, the pace of decline in prices of goods has largely accelerated, mainly because prices of petroleum products have declined at a faster pace and because prices of food products have increased at a moderated pace. The year-on-year decline in prices of general services has accelerated mainly because prices of package tours to overseas have decreased at a faster pace, the year-on-year rate of change in mobile telephone charges has turned negative, and prices of "eating out" and services related to domestic duties have increased at a moderated pace. As for public utility charges—mainly electricity charges and city gas charges—the year-on-year rate of change has turned negative due to the reduction in electricity charges.

Domestic corporate goods prices are likely to continue decreasing gradually for the time being, as supply and demand conditions for products are likely to remain slack. The year-on-year decline in consumer prices is expected to continue accelerating for the time being, mainly due to the prices of petroleum products being lower than the high levels of a year earlier.

¹⁴ "All items including external factors" has continued to decrease significantly on a year-on-year basis, mainly in ocean freight transportation.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have been stable at low levels, since supply-demand conditions have recently become eased further, mainly against the backdrop of the Bank of Japan's ample provision of funds. Meanwhile, sentiments in these markets have remained nervous, with the volume of transactions in some markets still low. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 28[1]). Regarding interest rates on term instruments, although the issuance of T-Bills has remained high, the T-Bill rate (3-month) has been stable in the range of 0.10-0.19 percent, partly because banks have been investing their excess funds in them. The Euroyen interest rate (3-month) has declined gradually, partly due to the expansion of fund-supplying measures by the Bank of Japan, but the rate has still remained high relative to the OIS rates, which mainly reflect expectations about future policy interest rates (Chart 29[1]). Interest rates on Euroyen futures have suggested that term funding rates have been expected to remain more or less flat for the time being (Chart 28[2]). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has narrowed to the same level as that for the Japanese yen (Chart 29).

Yields on 10-year government bonds (newly issued 10-year JGB) have turned upward; they have recently been at around 1.45 percent (Chart 30), partly because cautious views on the economic outlook have been eased somewhat. The pace of increase in these yields has been moderate, since market concerns over supply-demand conditions have eased with successful bond auctions for increased issuance in July amid continuing improvement in banks' loan-deposit balances.

Yield spreads of corporate bonds over government bonds have been more or less flat for those with high credit ratings, despite high levels of new bond issuance, due to steady demand among investors. Spreads of those with low credit ratings and those in some industries, however, have widened slightly, reflecting investors' selective stances on their investment in corporate bonds (Chart 31).¹⁵

¹⁵ The temporary narrowing in spreads of BBB-rated corporate bonds was influenced by the fact that a bond with a relatively small spread was newly included in the calculation; the spreads would have widened slightly without this effect.

Stock prices have risen, along with those in the United States and Europe, driven mainly by announcements on solid corporate earnings. The Nikkei 225 Stock Average has recently been at around 10,500 yen (Chart 32).

In the foreign exchange market, the yen has depreciated against the U.S. dollar amid a weakening of concerns on corporate earnings in the United States; the yen has recently been traded at around 97 yen to the U.S. dollar (Chart 33).

(2) Corporate Finance and Monetary Aggregates

Funding costs have recently remained more or less unchanged at low levels, after decreasing markedly since the beginning of the year, against the background that the overnight call rate has remained at an extremely low level. Issuance rates on CP have continued to be on a declining trend in response to various policy measures—the average issuance rate on three-month CP with ratings of A-1 or higher was 0.29 percent in June and July, following 0.39 percent in May. Issuance rates on corporate bonds have declined, mainly because of the narrowing of their issuance spreads, especially for firms with high credit ratings. On the other hand, the average contracted interest rates on new loans and discounts have been on a declining trend, but they were more or less unchanged in June (Chart 35).

With regard to credit supply, although many firms still see financial institutions' lending attitudes as severe, firms as a whole regard the situation as improving somewhat (Chart 34). Issuing conditions for CP and corporate bonds, although remaining severe for firms with low credit ratings, have continued to improve on the whole, as reflected in the narrowing of credit spreads and the increase of firms issuing corporate bonds. In these circumstances, funding of the private sector has increased at a slower pace partly due to the decline in firms' demand for working capital and funds for fixed investment. The pace of increase in bank lending has slowed (Chart 36). The amount outstanding of CP issued has decreased, partly because of the decline in firms' demand for working capital. The amount outstanding of corporate bonds issued—although firms with low credit ratings and those in some industries have continued to face difficulties in issuing corporate bonds—has been above the previous year's level as a whole (Chart 37).

In these circumstances, firms' financial positions, although many firms still see them as weak, have continued to improve (Chart 34). The number of corporate bankruptcies has been more or less flat on average (Chart 39).

Meanwhile, the money stock (M2) has been at around 2.5 percent, year-on-year. Its July reading was 2.7 percent on a year-on-year basis, following 2.5 percent in June (Chart 38).¹⁶

¹⁶ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been at around 2 percent. Its July reading was 1.9 percent, following 1.7 percent in June. Broadly-defined liquidity has been below the previous year's level. It declined by 0.1 percent in July, year-on-year, following a decline of 0.1 percent in June.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2008/Q4	2009/Q1	Q2	2009/Apr.	May	Jun.	Jul.
Index of consumption expenditure level (two-or-more-person households)	-0.3	1.0	-0.2	-1.0	0.5	0.7	n.a.
Sales at department stores	-3.1	-3.9	p -2.2	1.2	-3.0	p 4.7	n.a.
Sales at supermarkets	-1.3	-1.3	p -1.3	-0.6	-0.7	p -0.4	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 249>	< 213>	< 241>	< 218>	< 250>	< 255>	< 280>
Sales of household electrical appliances (real, Current Survey of Commerce)	-0.0	7.1	p 5.1	-0.7	4.3	p 3.3	n.a.
Outlays for travel	-2.5	-5.0	n.a.	-6.2	-7.2	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 101>	< 90>	< 76>	< 78>	< 76>	< 75>	<n.a.>
Machinery orders (from private sector ⁴)	-15.1	-9.9	-4.9	-5.4	-3.0	9.7	n.a.
Manufacturing	-22.4	-31.1	10.8	-9.4	5.4	14.6	n.a.
Nonmanufacturing ⁴	-10.0	4.9	-12.1	-8.8	-6.9	7.3	n.a.
Construction Starts (private, nondwelling use)	-10.6	-1.1	-34.9	-27.3	-9.6	23.5	n.a.
Mining & manufacturing	-0.2	-25.8	-41.0	-32.5	-29.0	35.3	n.a.
Nonmanufacturing ⁵	-8.9	7.5	-34.5	-24.8	-8.7	20.6	n.a.
Value of public works contracted	-1.4	3.7	5.4	11.8	-10.9	-1.0	n.a.
Real exports	-14.6	-28.9	12.3	7.8	5.1	5.7	n.a.
Real imports	0.7	-17.9	-1.8	0.8	2.6	0.7	n.a.
Industrial production	-11.3	-22.1	p 8.3	5.9	5.7	p 2.4	n.a.
Shipments	-11.0	-21.0	p 6.4	3.0	4.8	p 3.5	n.a.
Inventories	1.9	-9.0	p -4.4	-2.7	-0.7	p -1.0	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 132.1>	< 150.1>	<p 129.1>	< 143.0>	< 143.1>	<p 129.1>	<n.a.>
Real GDP	-3.6	-3.8	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-2.7	-6.2	n.a.	2.6	0.7	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q4	2009/Q1	Q2	2009/Apr.	May	Jun.	Jul.
Ratio of job offers to applicants <s.a., times>	< 0.76>	< 0.59>	< 0.45>	< 0.46>	< 0.44>	< 0.43>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.5>	< 5.2>	< 5.0>	< 5.2>	< 5.4>	<n.a.>
Overtime working hours ⁶	-6.6	-19.7	p -18.5	-18.9	-18.4	p -18.5	n.a.
Number of employees	0.0	-0.3	-1.7	-1.3	-1.8	-2.0	n.a.
Number of regular employees ⁶	1.0	0.6	p 0.1	0.3	-0.1	p -0.1	n.a.
Nominal wages per person ⁶	-1.2	-3.0	p -4.7	-2.7	-2.5	p -7.1	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	2.6 <-3.8>	-1.8 <-3.2>	p -5.3 <p -1.2>	-4.0 <-1.2>	-5.5 <-1.3>	p -6.6 <p -1.3>	n.a. <n.a.>
Consumer price index ⁸	1.0	-0.1	-1.0	-0.1	-1.1	-1.7	n.a.
Corporate services price index	-2.1	-2.4	p -2.9	-2.4	-3.0	p -3.2	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	1.8	2.1	2.6	2.7	2.7	2.5	p 2.7
Number of corporate bankruptcies <cases per month>	<1,356>	<1,405>	<1,318>	<1,329>	<1,203>	<1,422>	<1,386>

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

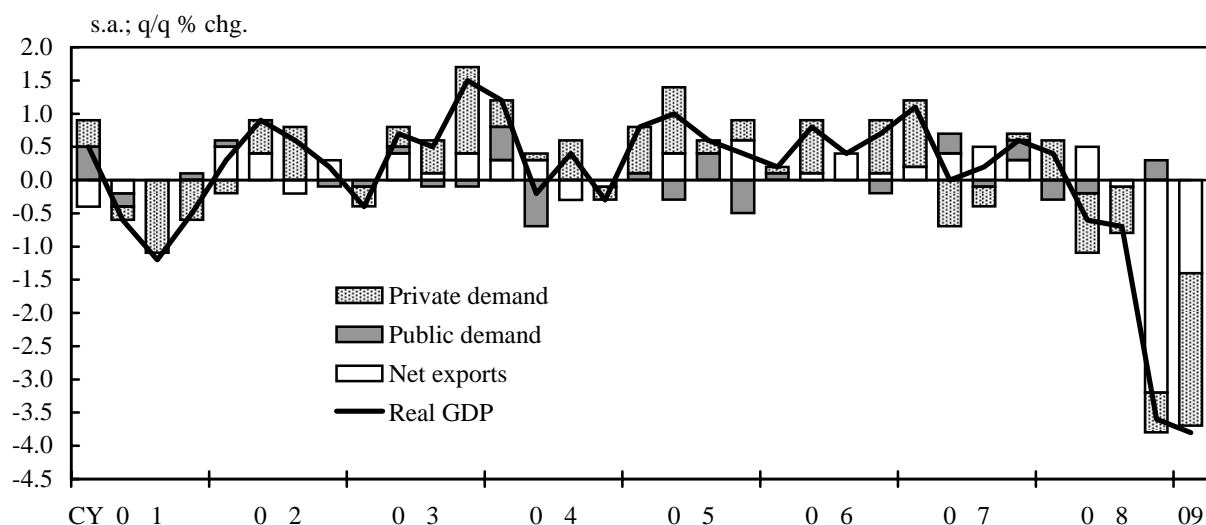
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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, Transport and Tourism, "Statistics on Building Construction Starts";
 Ministry of Finance, "Trade Statistics";
 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



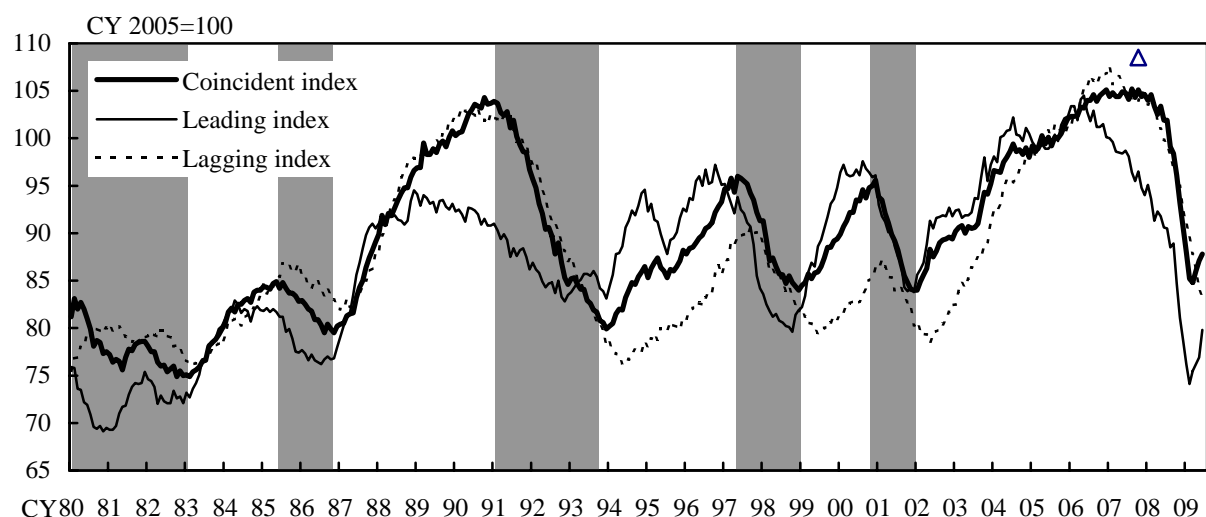
(2) Components

s.a.; q/q % chg.

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Real GDP	0.4	-0.6	-0.7	-3.6	-3.8
Domestic demand	0.3	-1.1	-0.7	-0.3	-2.3
Private demand	0.6	-0.9	-0.7	-0.6	-2.3
Private consumption	0.8	-0.5	0.1	-0.4	-0.6
Non-Resi. investment	0.2	-0.5	-0.7	-1.0	-1.3
Residential investment	0.1	-0.1	0.1	0.2	-0.2
Private inventory	-0.5	0.1	-0.2	0.7	-0.2
Public demand	-0.3	-0.2	-0.0	0.3	0.0
Public investment	-0.2	-0.0	0.0	-0.0	0.0
Net exports of goods and services	0.0	0.5	-0.1	-3.2	-1.4
Exports	0.4	-0.2	0.2	-2.8	-4.2
Imports	-0.4	0.7	-0.2	-0.5	2.7
Nominal GDP	1.0	-1.8	-1.7	-1.3	-2.7

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

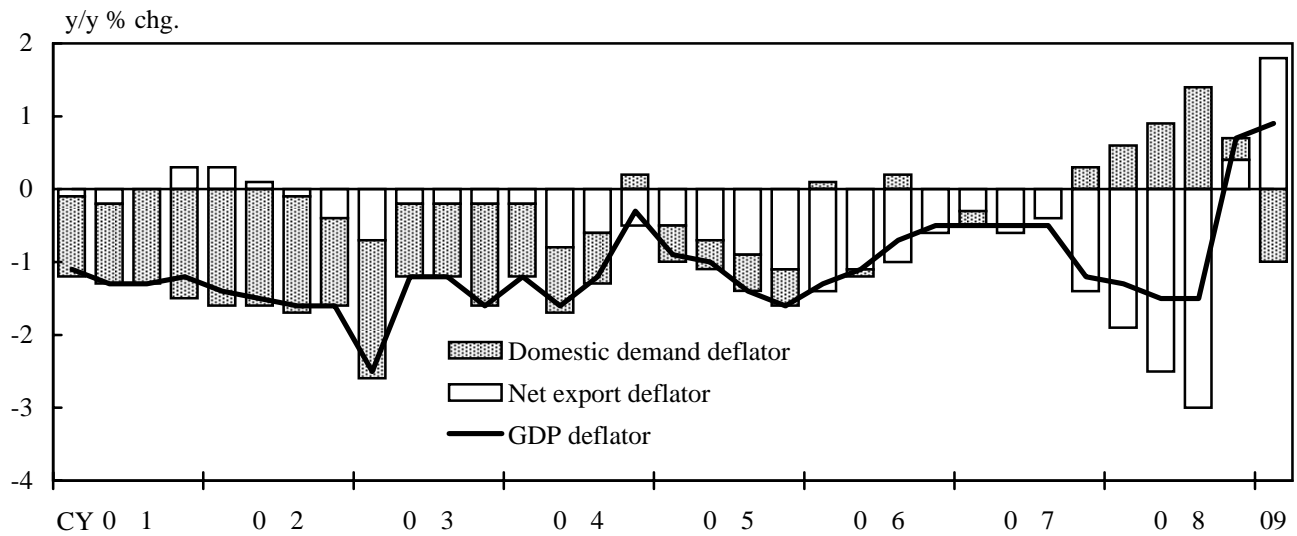
(3) Indexes of Business Conditions (Composite Indexes)



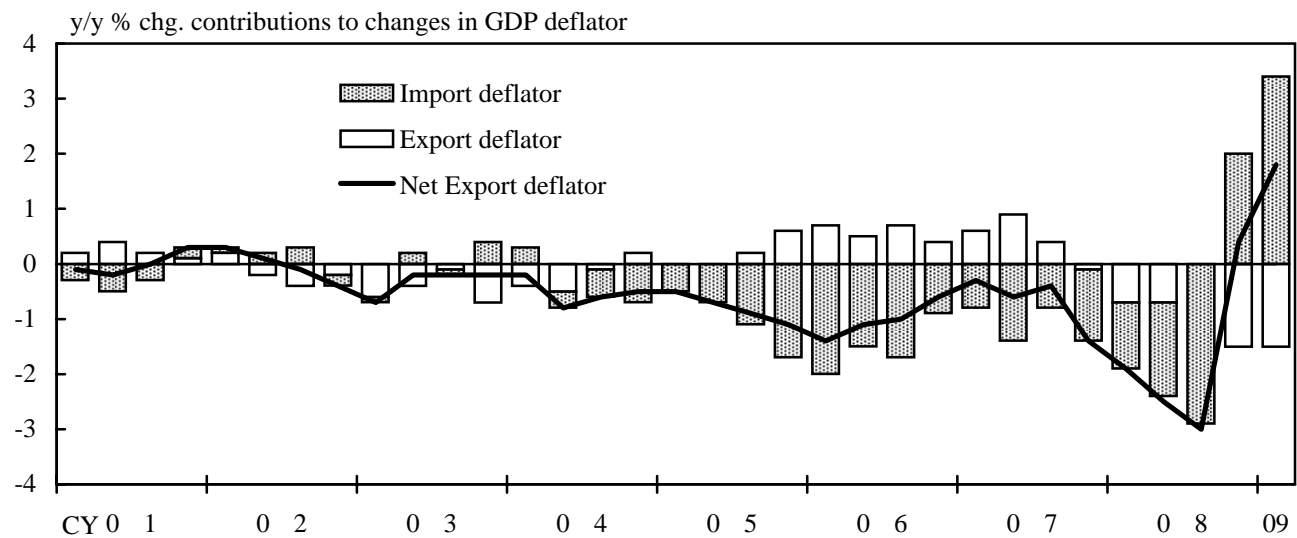
Note: Shaded areas indicate recession periods. Triangle shows the last peak.
 Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

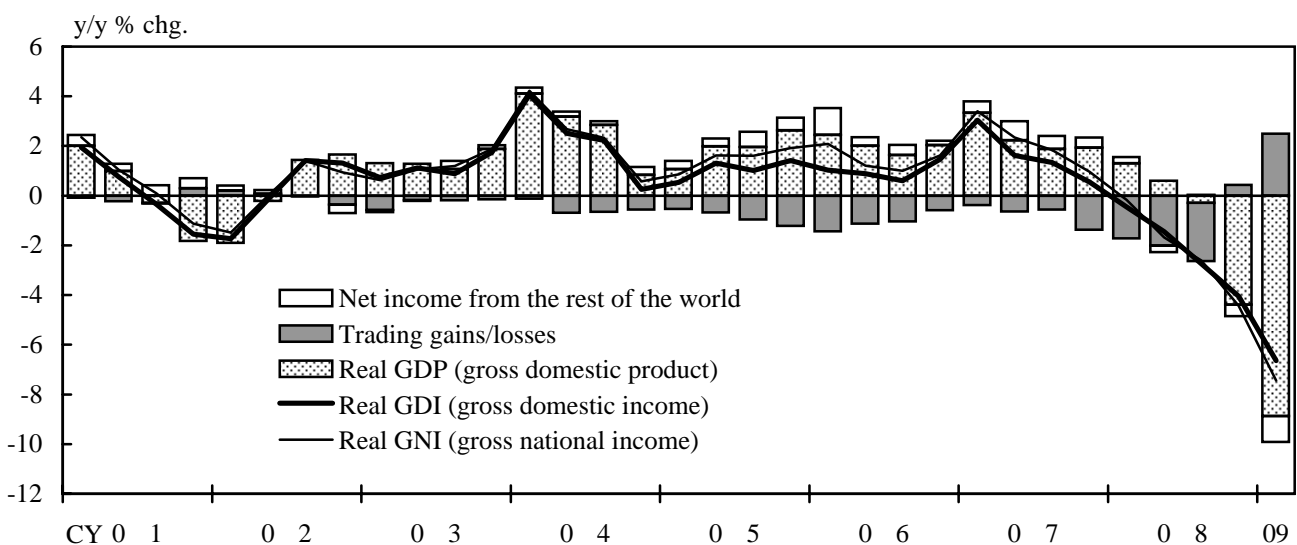
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



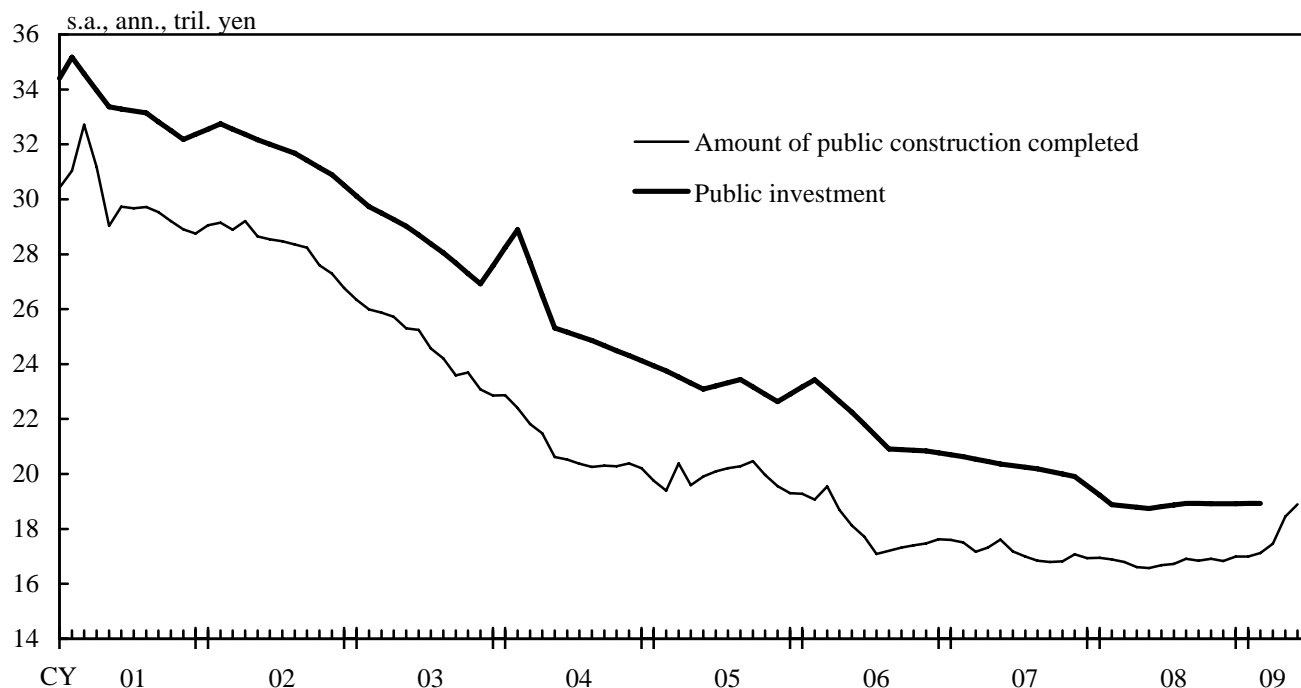
Note: Figures of components indicate contributions to changes in real GNI.

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

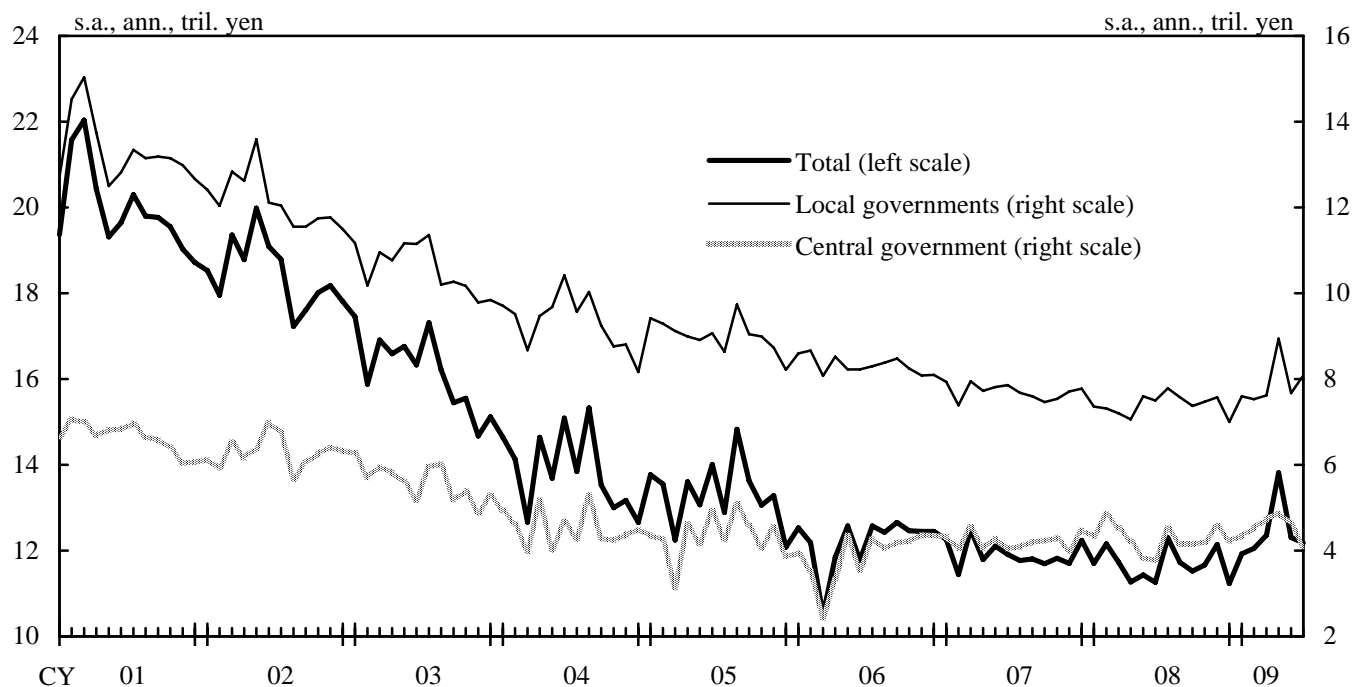
Source: Cabinet Office, "National Accounts."

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."

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

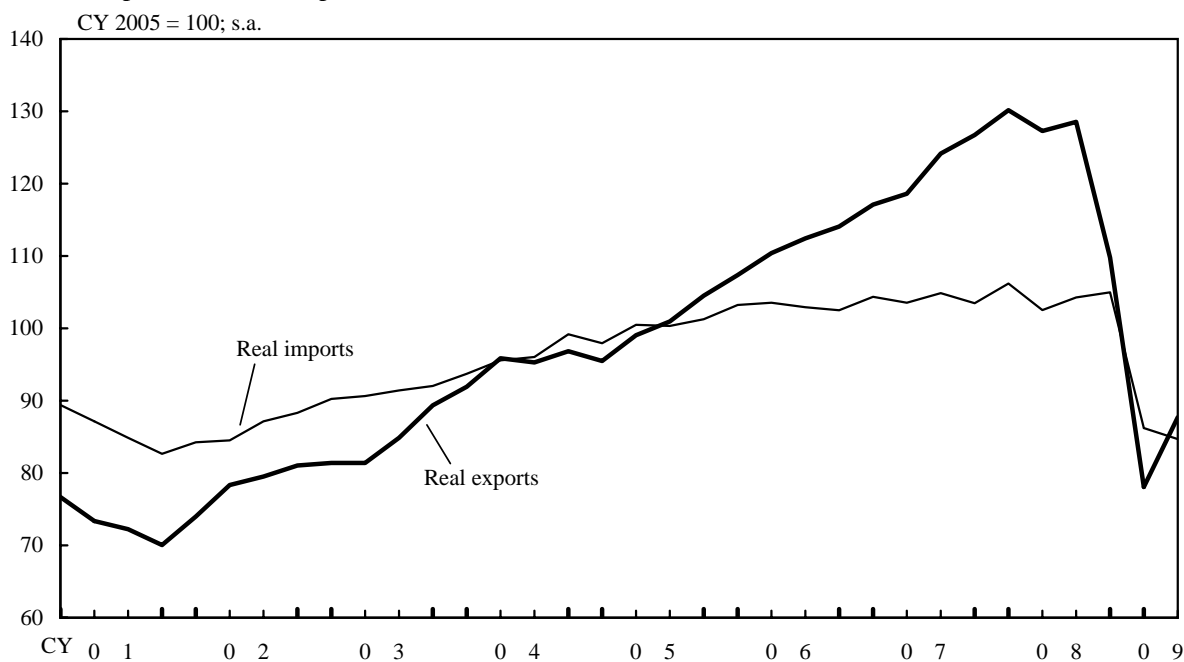
Sources: Cabinet Office, "National Accounts";

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

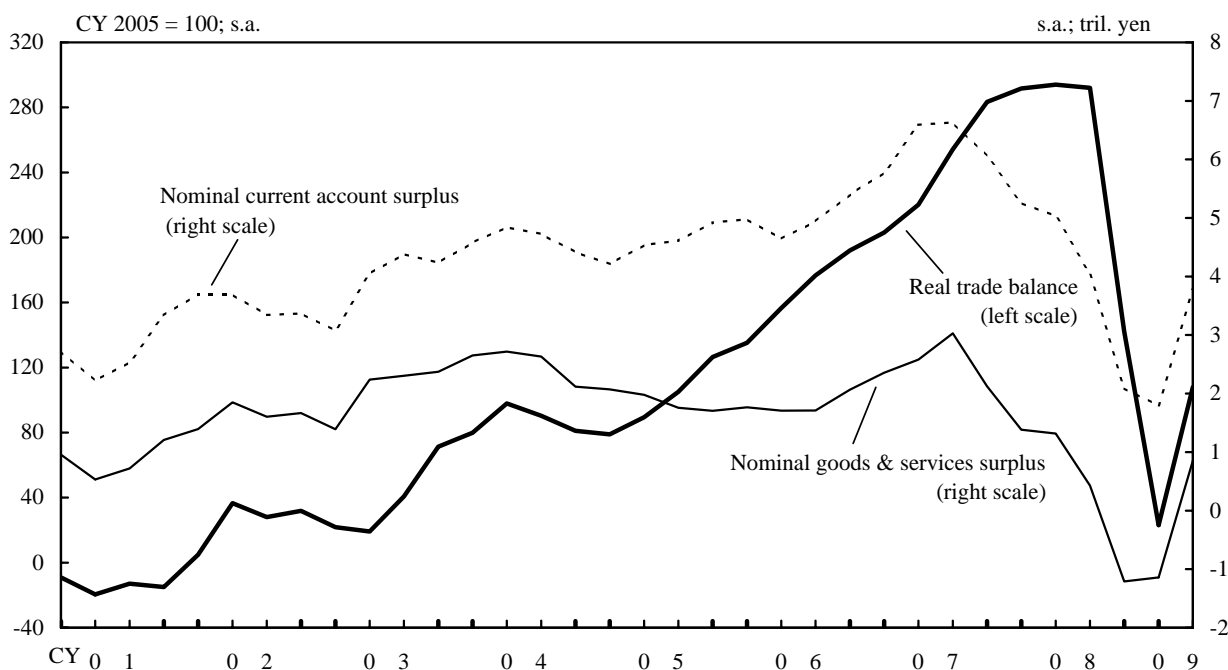
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

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, "Trade Statistics";
 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	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Apr.	May	Jun.
United States	<17.5>	-1.2	-8.9	-7.2	-4.9	-9.0	-35.7	11.9	0.4	11.2	8.0
EU	<14.1>	13.0	-0.1	-7.8	-2.8	-17.2	-27.0	4.9	14.8	3.1	2.3
East Asia	<46.8>	9.9	3.3	-2.5	-0.4	-15.6	-22.2	18.2	10.2	6.0	3.4
China	<16.0>	16.8	6.7	-0.0	-1.3	-14.8	-17.1	19.7	13.0	3.1	2.9
NIEs	<22.1>	5.2	-0.1	-4.8	0.8	-18.4	-22.4	19.3	12.4	4.7	2.9
Korea	<7.6>	5.3	-0.3	-4.8	2.2	-21.6	-13.5	12.9	8.1	2.0	4.2
Taiwan	<5.9>	0.0	-4.4	-9.0	-2.5	-21.9	-19.7	22.2	7.4	8.8	1.6
ASEAN4 ³	<8.8>	11.4	6.3	-1.1	-1.5	-9.9	-30.7	12.2	-1.7	17.6	5.7
Thailand	<3.8>	9.8	4.9	-5.4	1.2	-6.6	-36.1	12.0	7.0	11.3	9.4
Others	<21.5>	20.4	16.1	-0.9	1.9	-7.9	-30.7	-6.1	5.9	-4.3	9.1
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.9	12.3	7.8	5.1	5.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Apr.	May	Jun.
Intermediate goods	<18.9>	5.3	0.3	-4.4	0.8	-8.2	-16.4	18.3	6.3	4.3	5.5
Motor vehicles and their related goods	<23.8>	13.2	3.2	-3.7	-1.4	-14.5	-50.7	20.2	5.6	21.1	12.7
Consumer goods ⁴	<4.1>	6.4	3.5	0.9	-4.4	-12.1	-26.9	8.9	14.7	-2.5	-0.1
IT-related goods ⁵	<10.2>	12.2	0.7	2.7	-0.3	-20.8	-25.9	35.4	20.3	6.6	6.9
Capital goods and parts ⁶	<28.3>	8.0	5.2	-0.7	-1.0	-9.9	-26.5	-0.8	5.3	0.9	0.4
Real exports		9.1	1.8	-2.2	1.0	-14.6	-28.9	12.3	7.8	5.1	5.7

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.

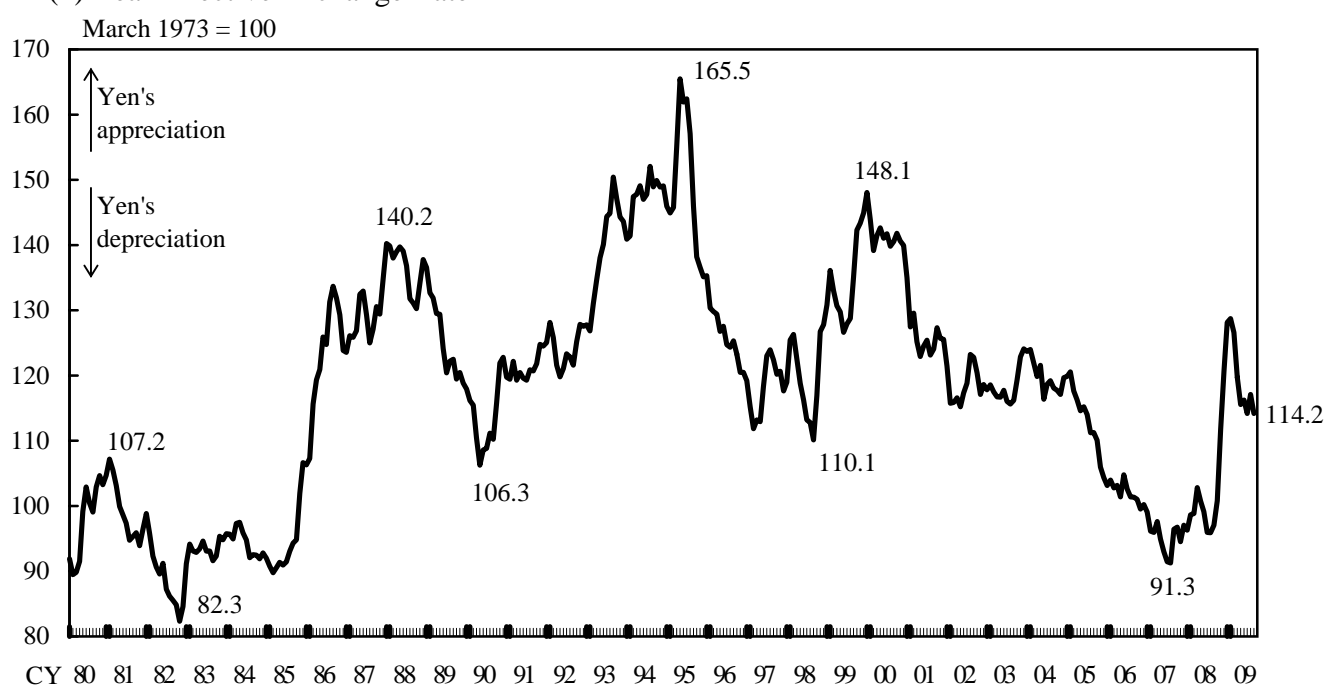
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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

Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for August 2009 is the average up to August 10.

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 Q3	Q4	2009 Q1	Q2	
United States ¹		2.7	2.1	0.4	-2.7	-5.4	-6.4	-1.0	
European Union ¹		3.2	2.8	0.9	-1.6	-7.0	-9.2	n.a.	
	Germany	3.0	2.5	1.3	-2.1	-8.6	-14.4	n.a.	
	France	2.4	2.3	0.3	-0.8	-5.7	-4.8	n.a.	
	United Kingdom	2.9	2.6	0.7	-2.9	-7.0	-9.3	-3.2	
East Asia ²	China	11.6	13.0	9.0	9.0	6.8	6.1	7.9	
	NIEs	Korea	5.2	5.1	2.2	3.1	-3.4	-4.2	-2.5
		Taiwan	4.8	5.7	0.1	-1.0	-8.6	-10.2	n.a.
		Hong Kong	7.0	6.4	2.4	1.5	-2.6	-7.8	n.a.
		Singapore	8.4	7.8	1.1	0.0	-4.2	-9.5	-3.5
	ASEAN4	Thailand	5.2	4.9	2.6	3.9	-4.2	-7.1	n.a.
		Indonesia	5.5	6.3	6.1	6.4	5.2	4.4	4.0
		Malaysia	5.8	6.2	4.6	4.8	0.1	-6.2	n.a.
Philippines		5.3	7.1	3.8	4.6	2.9	0.4	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 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Apr.	May	Jun.
United States	<10.2>	-1.5	-2.6	-4.6	1.1	-2.7	-14.4	-7.8	-5.7	-5.4	8.5
EU	<9.2>	4.0	-3.0	-0.3	-3.4	-2.3	-10.4	-2.8	-1.5	10.6	2.2
East Asia	<37.9>	3.1	2.3	-2.3	1.1	-0.2	-17.6	0.7	1.2	2.5	2.1
China	<18.8>	5.7	4.3	-0.7	3.1	-1.2	-15.1	-0.7	-2.4	2.6	0.9
NIEs	<8.0>	-3.8	-1.2	-4.1	-0.9	-6.3	-20.6	9.9	10.8	5.0	5.2
Korea	<3.9>	-3.3	-5.4	-9.5	-1.1	-6.6	-20.5	6.0	3.3	9.6	2.9
Taiwan	<2.9>	-3.0	3.5	1.2	0.2	-6.4	-22.0	14.3	12.5	11.6	4.7
ASEAN4 ³	<11.1>	4.5	1.1	-3.9	-1.5	7.4	-20.6	-3.3	2.2	0.0	2.1
Thailand	<2.7>	4.4	2.3	-3.6	2.5	-1.9	-21.8	-0.3	7.1	-0.3	0.5
Others	<42.7>	0.2	2.0	-4.1	2.0	3.1	-18.8	-4.0	4.7	4.0	-6.8
Real imports		0.7	0.2	-3.4	1.7	0.7	-17.9	-1.8	0.8	2.6	0.7

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.				s.a.; m/m % chg.			
		CY 2007	2008	2008 Q2	Q3	Q4	2009 Q1	Q2	2009 Apr.	May	Jun.
Raw materials ⁴	<42.0>	0.7	1.0	-5.9	1.9	4.4	-20.3	-5.4	4.1	2.7	-5.6
Intermediate goods	<14.1>	2.0	1.7	1.9	0.9	4.3	-19.1	-8.1	2.3	-5.8	7.8
Foodstuffs	<7.9>	-9.5	-3.7	0.6	2.0	11.2	-2.9	-4.9	-3.9	1.7	1.0
Consumer goods ⁵	<6.9>	-0.1	-2.7	-1.4	0.6	-2.7	-16.2	3.6	-2.1	4.4	2.3
IT-related goods ⁶	<9.5>	4.2	4.3	-1.5	1.0	-7.9	-17.2	12.4	14.4	-0.6	0.4
Capital goods and parts ⁷	<11.2>	8.5	2.8	-3.0	0.6	-9.2	-18.7	-6.3	-5.5	5.5	3.6
Excluding aircraft	<10.5>	7.9	3.6	0.4	-2.4	-4.5	-23.7	-1.3	-0.9	10.3	0.1
Real imports		0.7	0.2	-3.4	1.7	0.7	-17.9	-1.8	0.8	2.6	0.7

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.

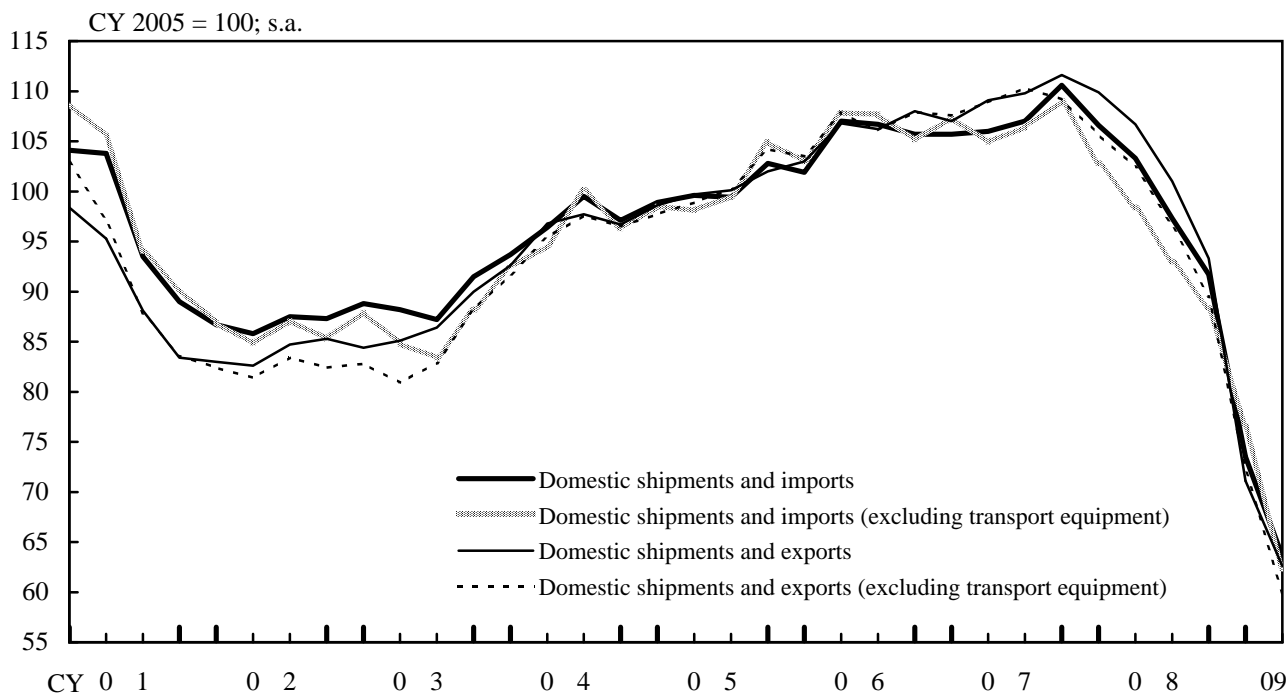
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

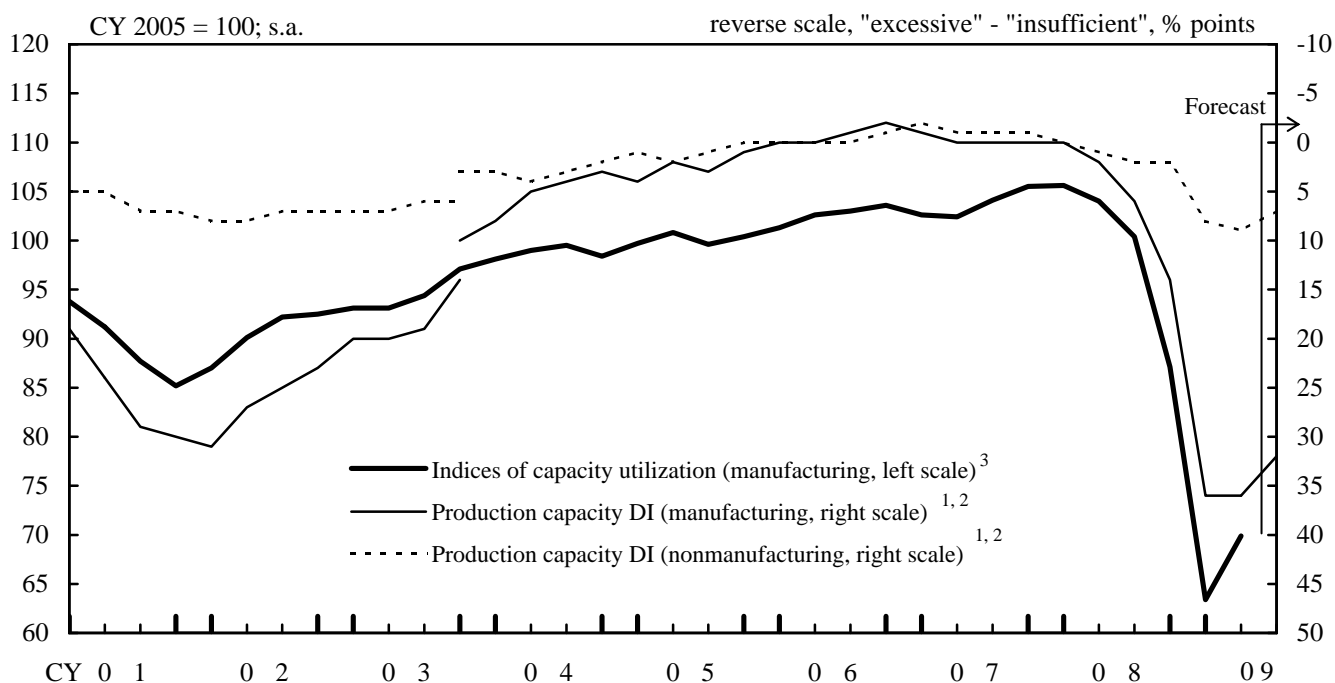
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

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.

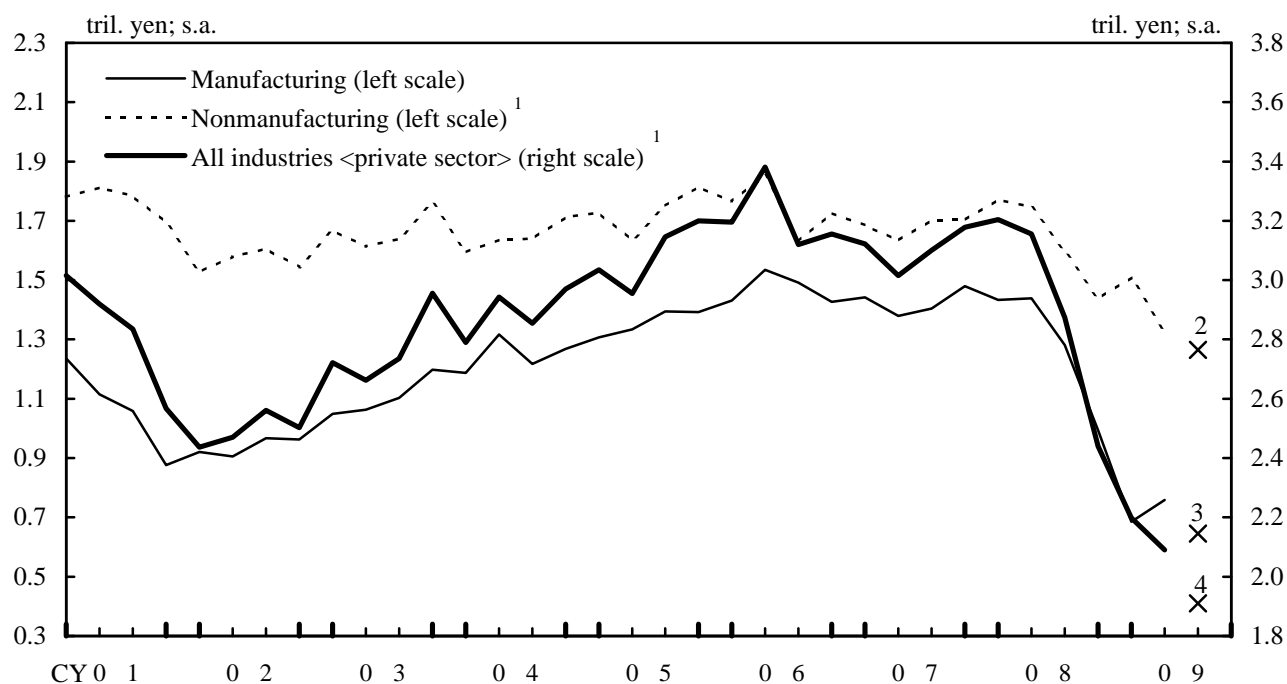
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2009/Q2 is April-May average.

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



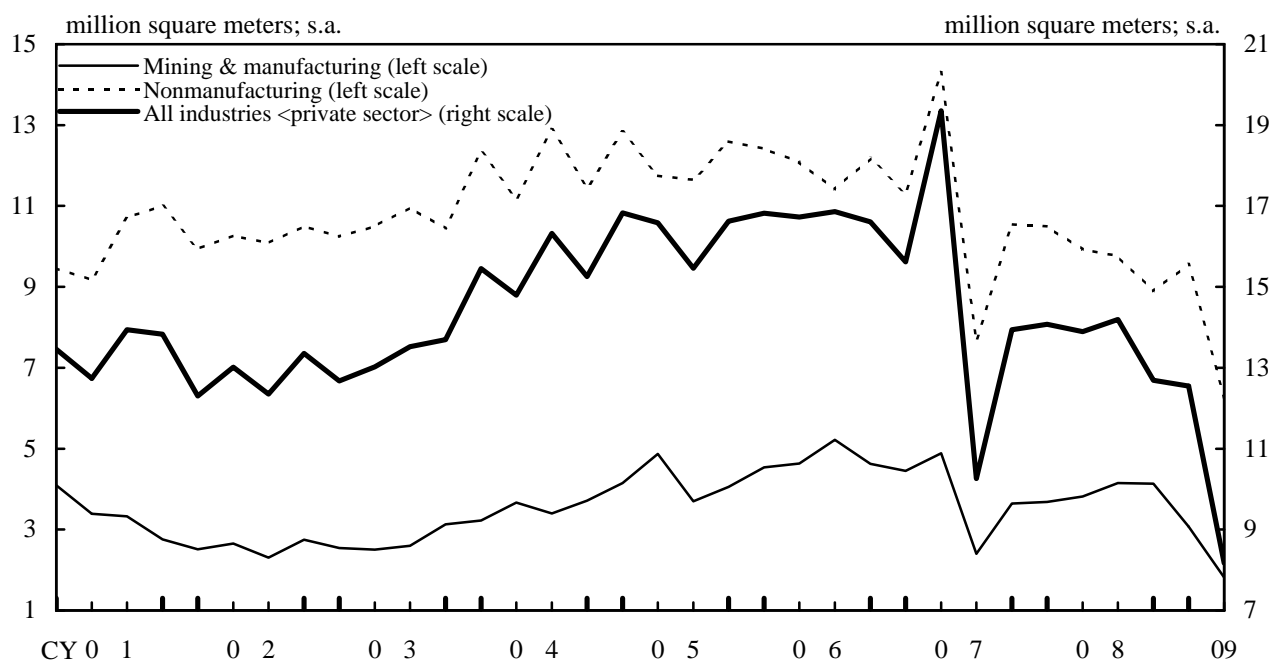
Notes: 1. Excludes orders of shipbuilding and orders from electric power companies.

2. Forecast of nonmanufacturing industries for 2009/Q3.

3. Forecast of manufacturing industries for 2009/Q3.

4. Forecast of all industries <private sector> for 2009/Q3.

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



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

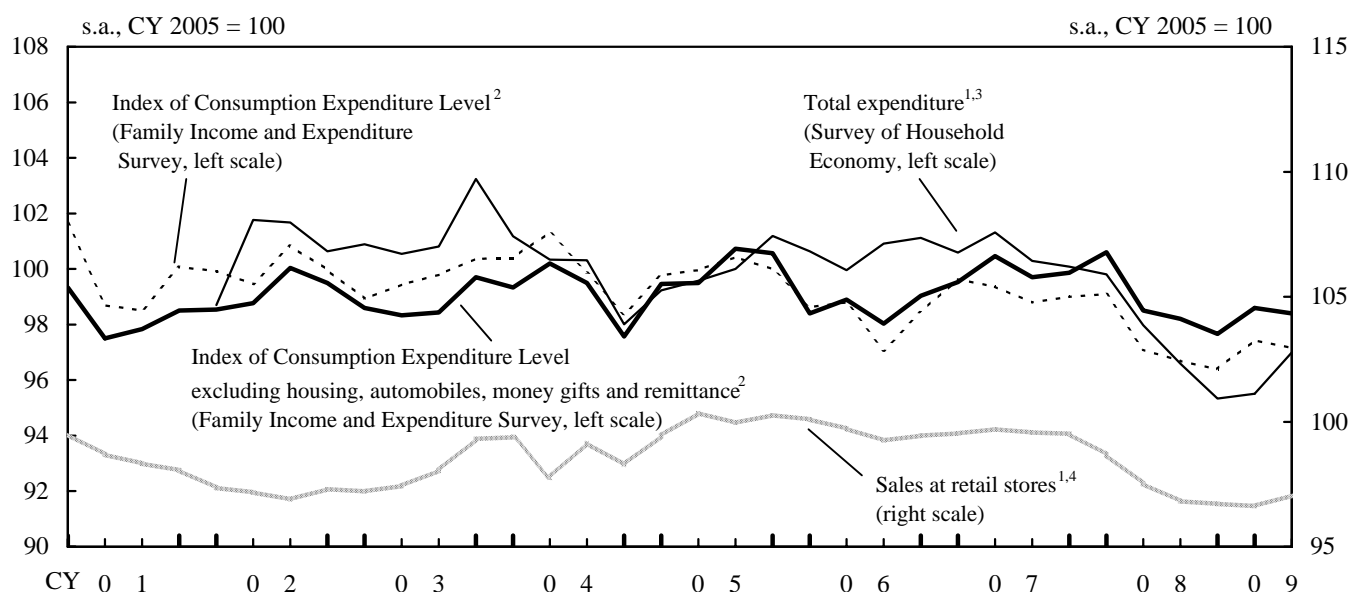
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

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

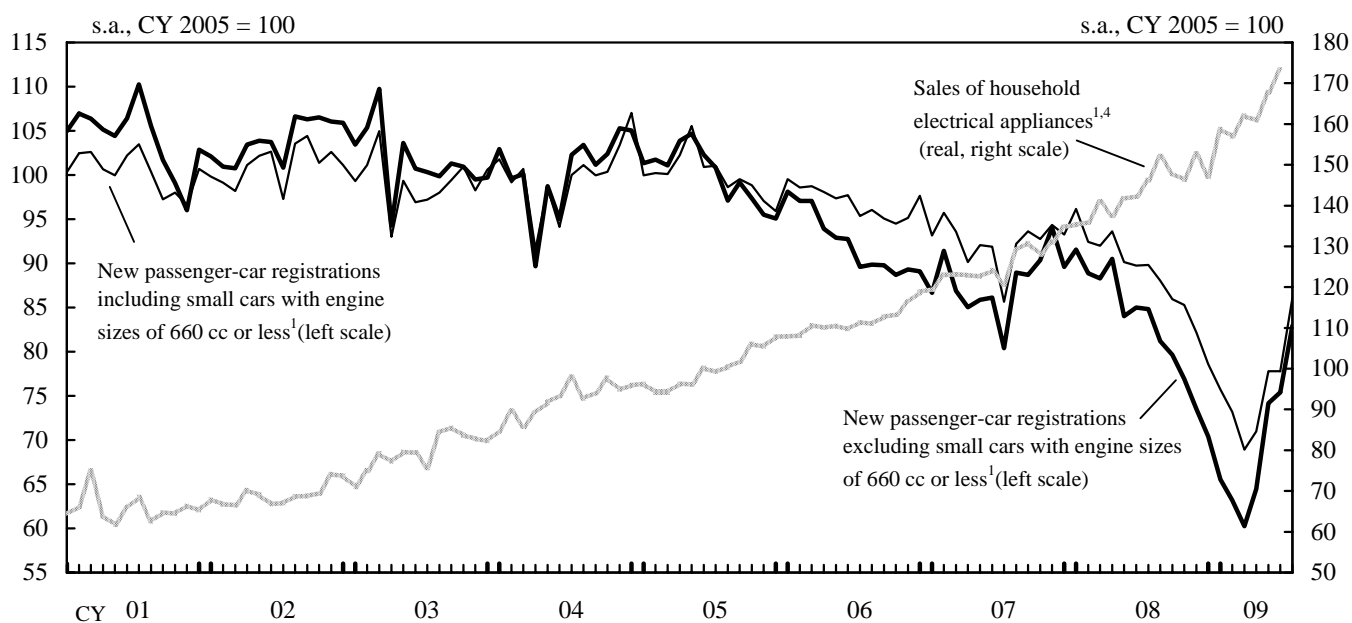
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Indicators for Private Consumption (1)

(1) Household Spending (Real)

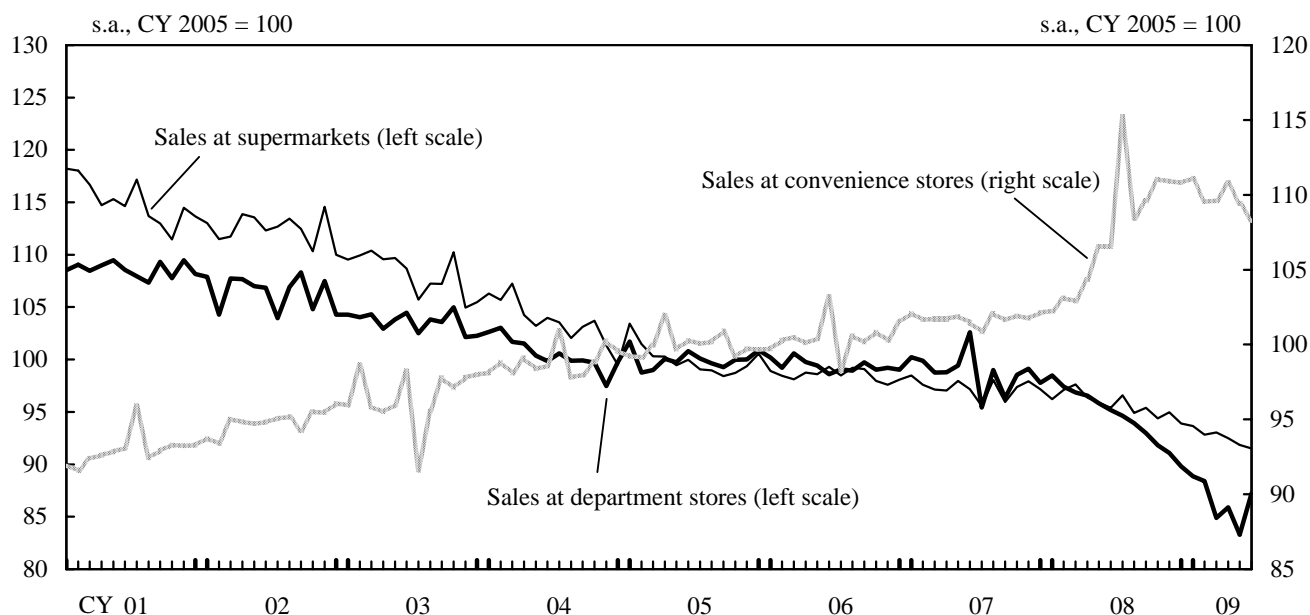


(2) Sales of Durable Goods

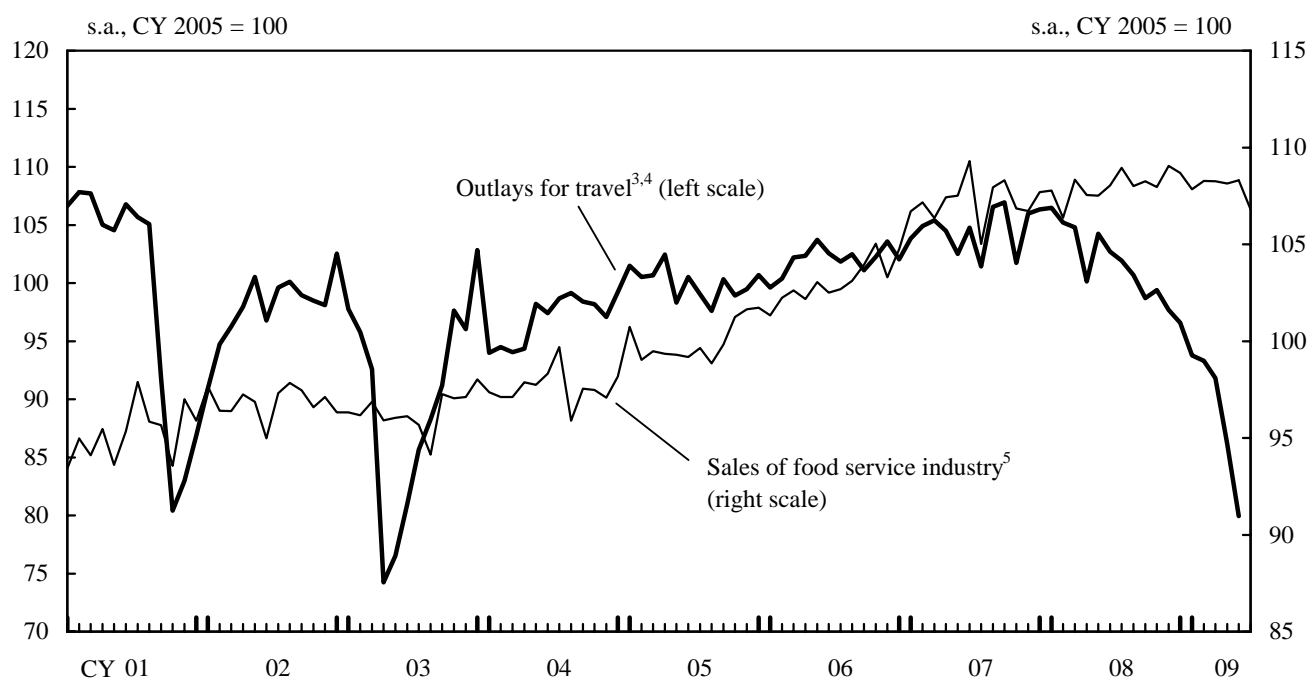


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household by number of household members and age group of household head.
3. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.
4. 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. Excluding those by foreign travelers.

4. 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.

5. 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";

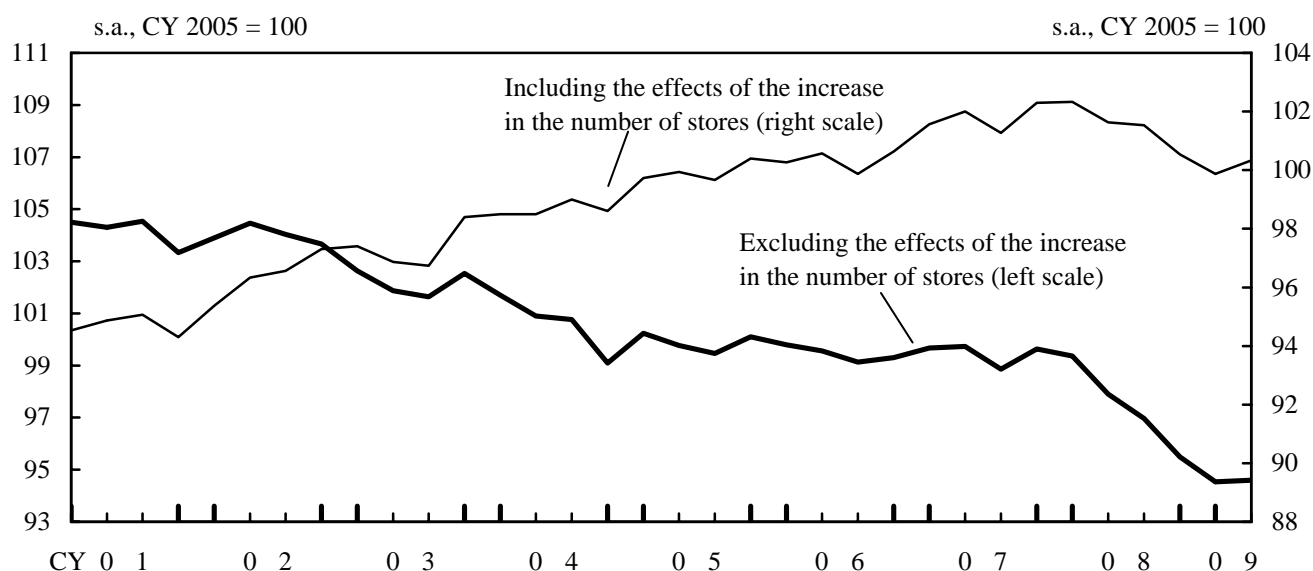
Japan Tourism Agency, "Major Travel Agents' Revenue";

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)."

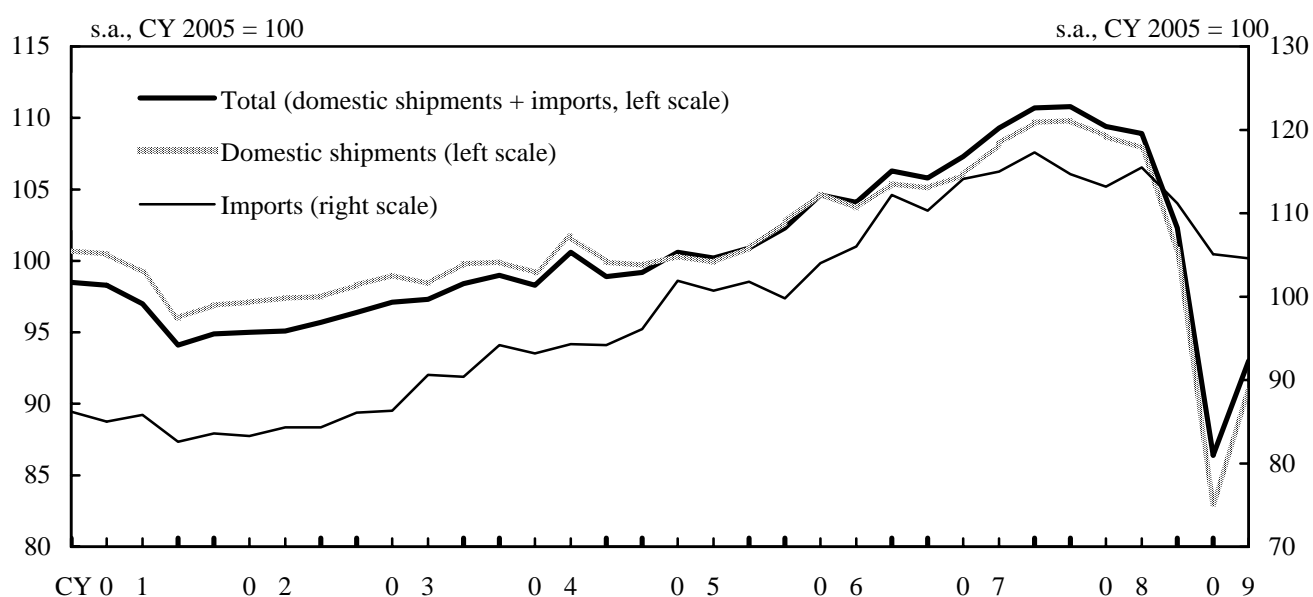
Indicators for Private Consumption (3)

(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 indexes.
3. Seasonally adjusted by X-12-ARIMA.

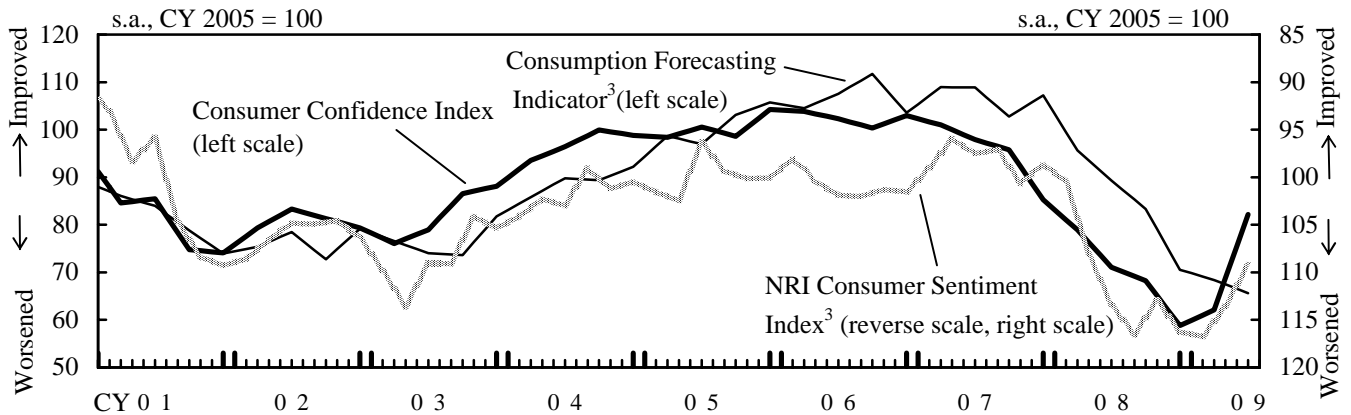
(2) Aggregate Supply of Consumer Goods



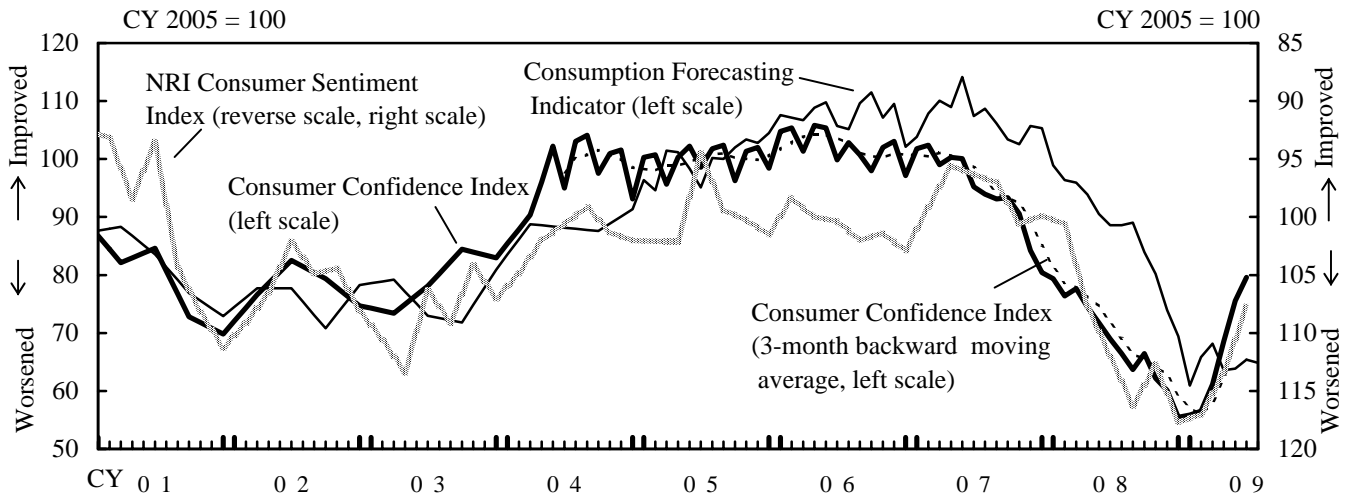
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

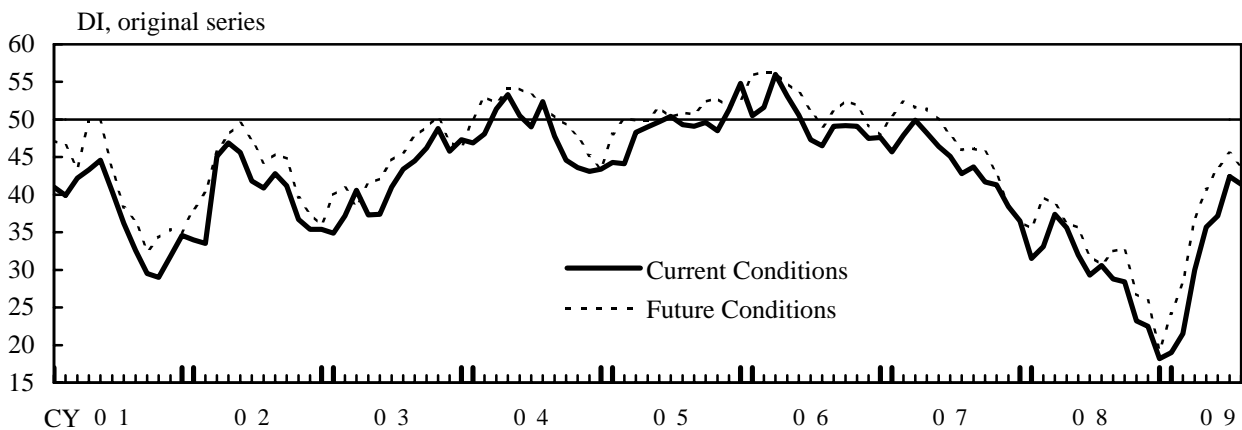
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

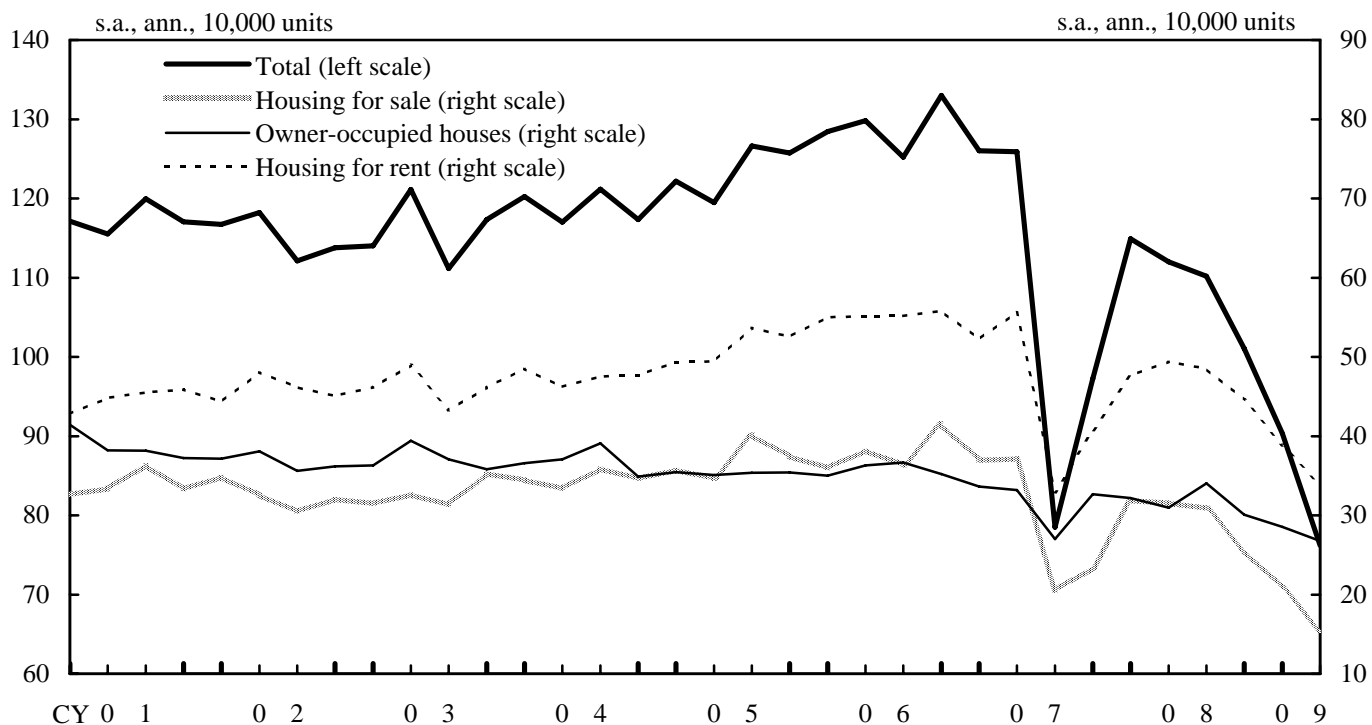


- Notes: 1. The Consumer Confidence Index (with about 4,700 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures are plotted for each surveyed months and the data for intervening months are linearly interpolated.
3. Figures are seasonally adjusted by X-12-ARIMA. The Consumption Forecasting Indicator is seasonally adjusted using quarterly figures because the survey was quarterly until 2004.

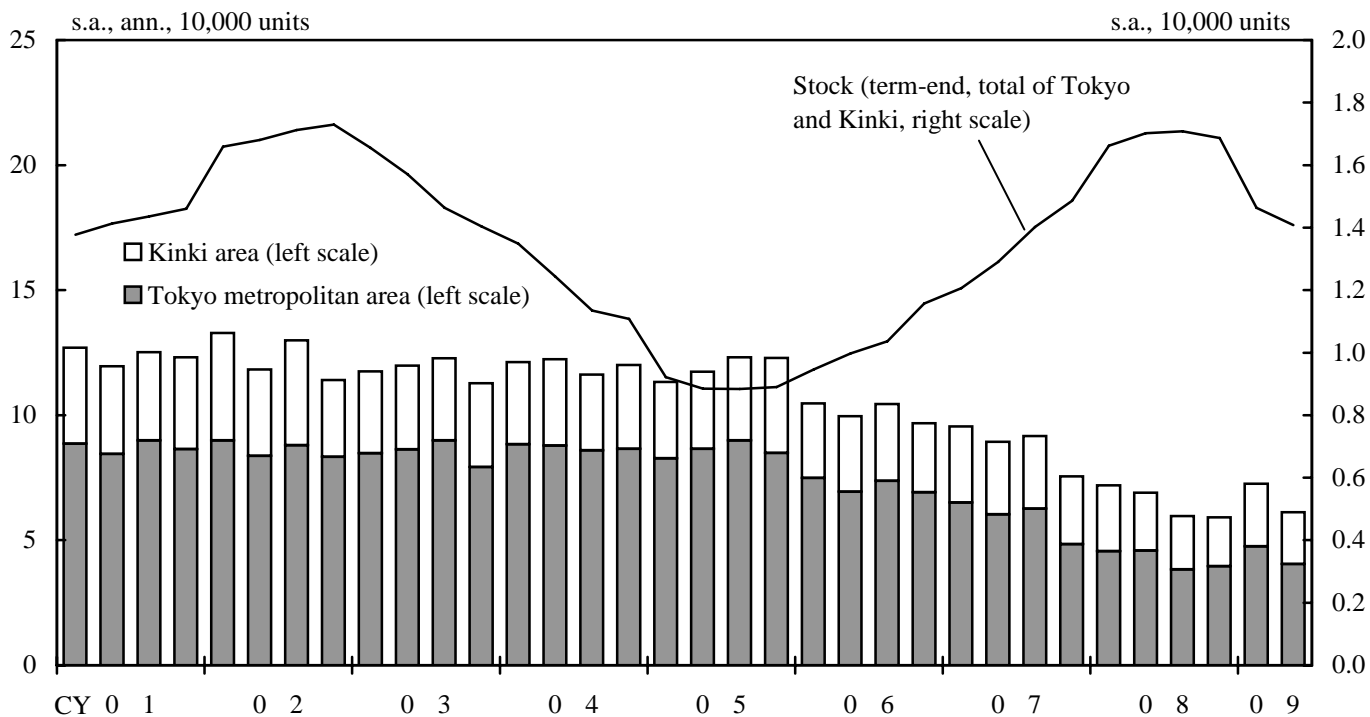
Sources: Cabinet Office, "Consumer Confidence Survey," "Economy Watchers Survey";
Nikkei inc., "Consumption Forecasting Indicator"; Nippon Research Institute (NRI), "Consumer Sentiment Survey."

Indicators for Housing Investment

(1) Housing Starts



(2) Sales of Apartments

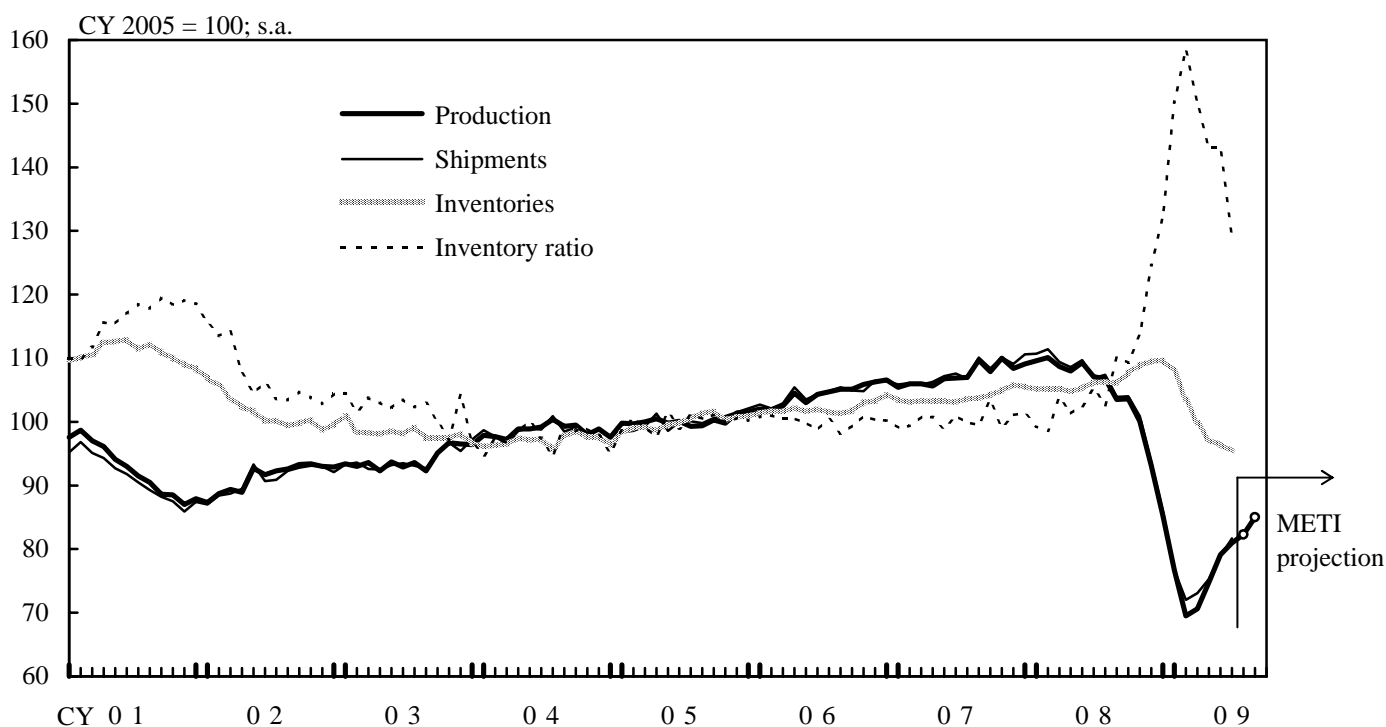


Notes: Seasonally adjusted by X-12-ARIMA.

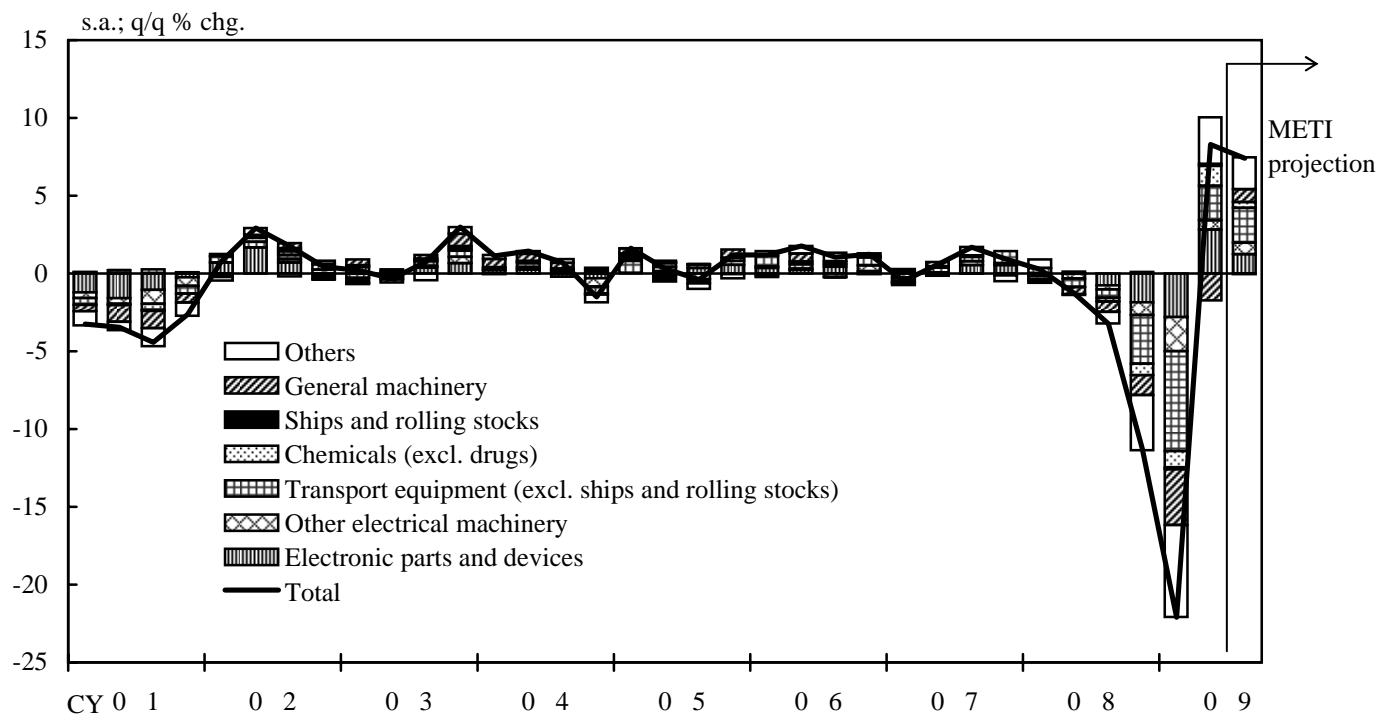
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

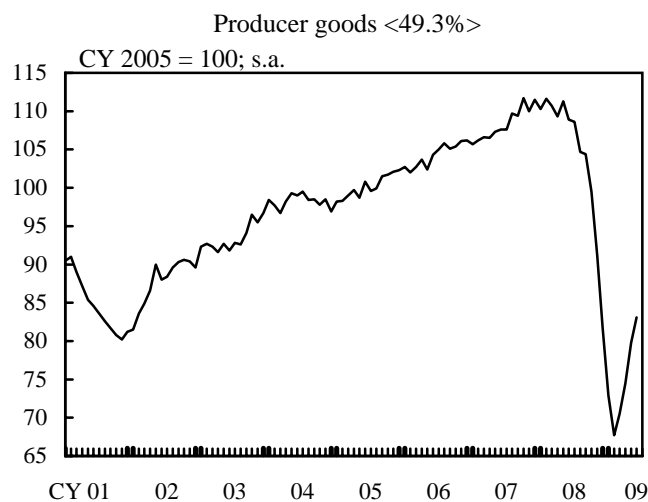
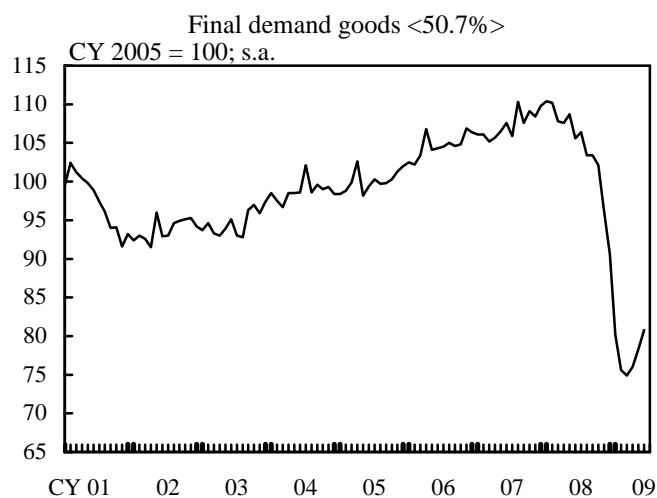


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. Figures up to 2003/Q1 are on the 2000 base.
 3. 2009/Q3 figures are based on the assumption that each production level in September is the same as that of August.

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

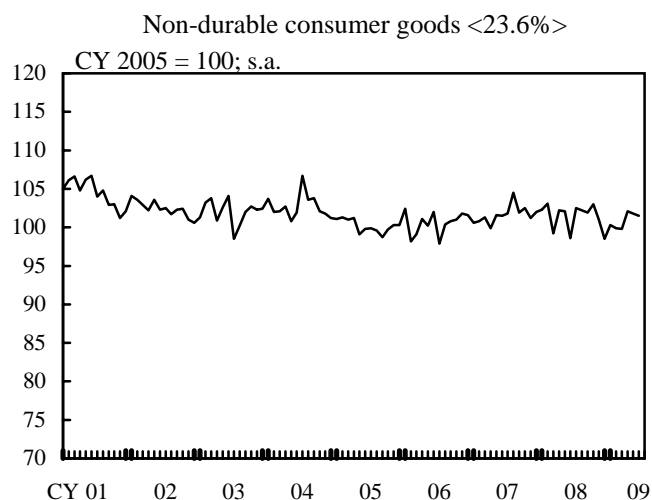
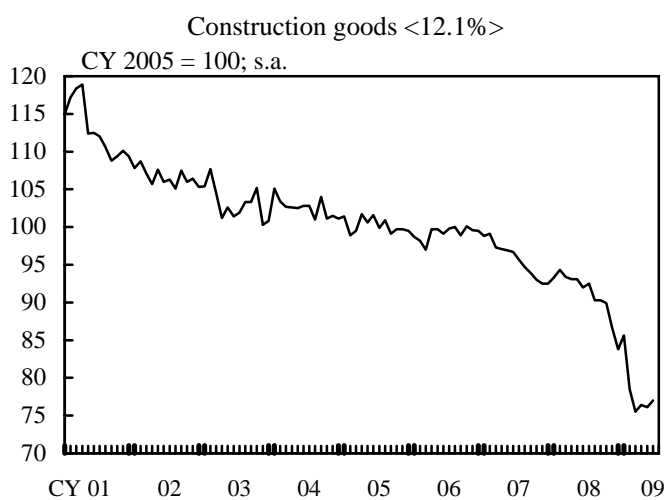
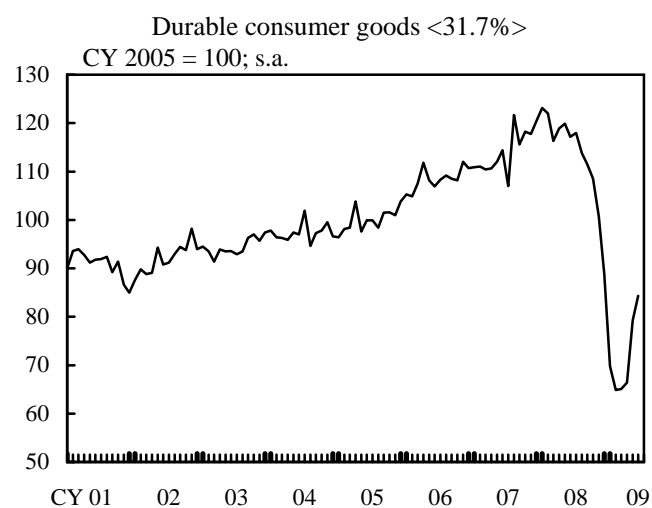
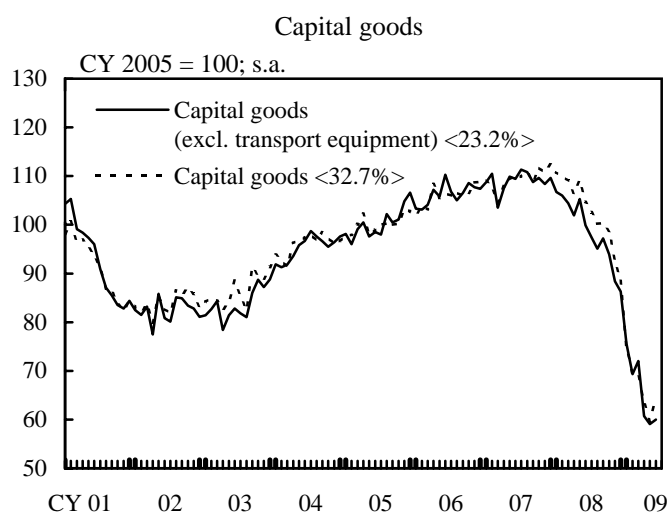
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

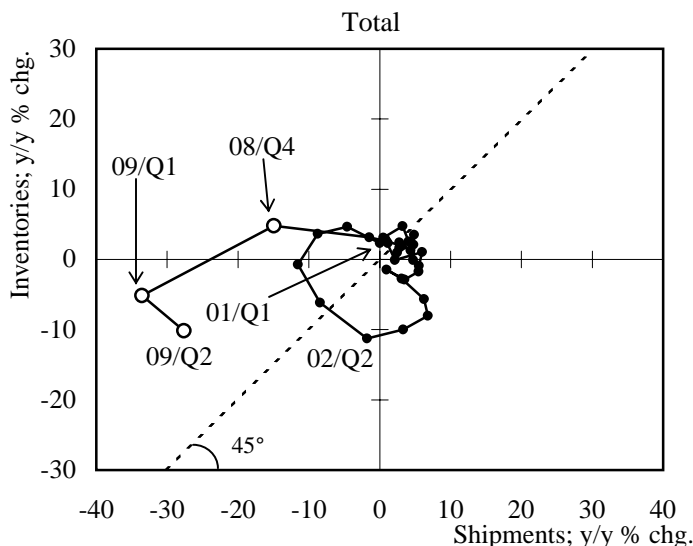
(2) Breakdown of Final Demand Goods



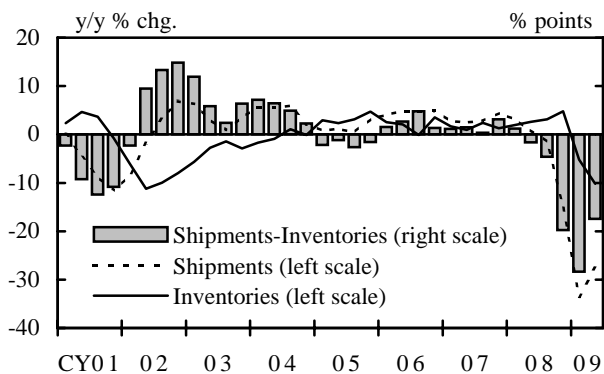
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

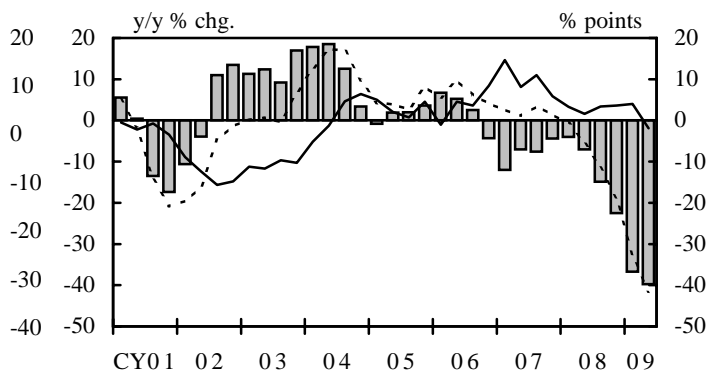
Inventory Cycle



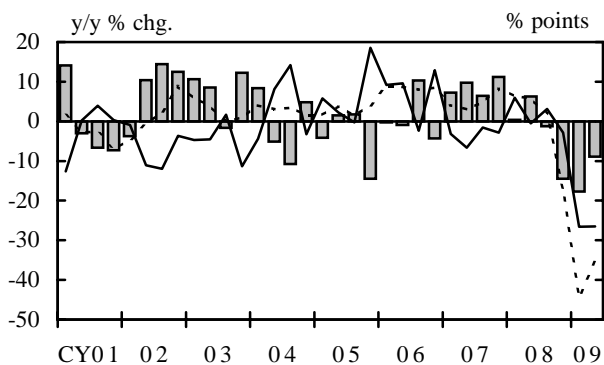
(1) Total



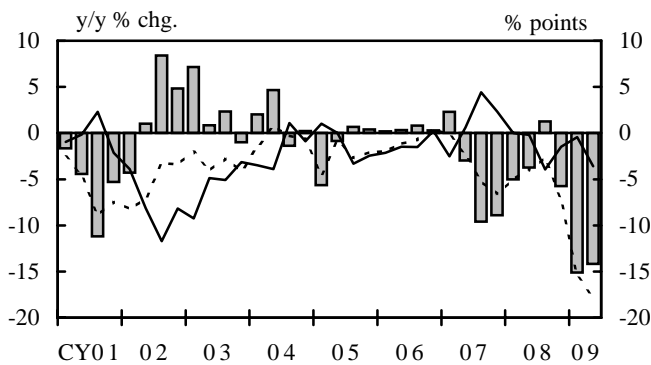
(2) Capital Goods (Excluding Transport Equipment)



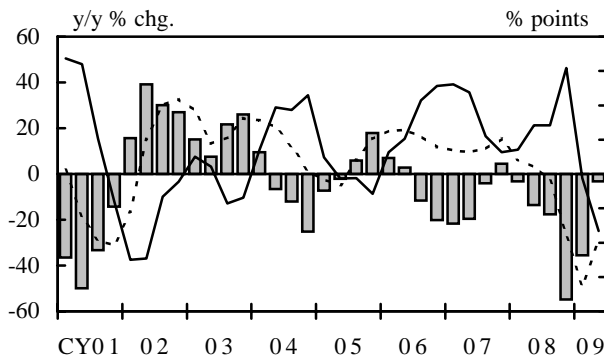
(3) Durable Consumer Goods



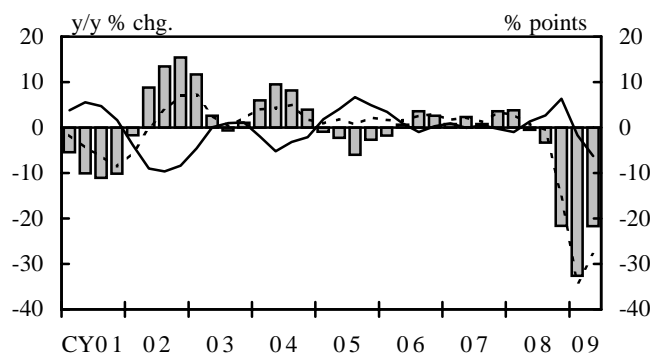
(4) Construction Goods



(5) Electronic Parts and Devices



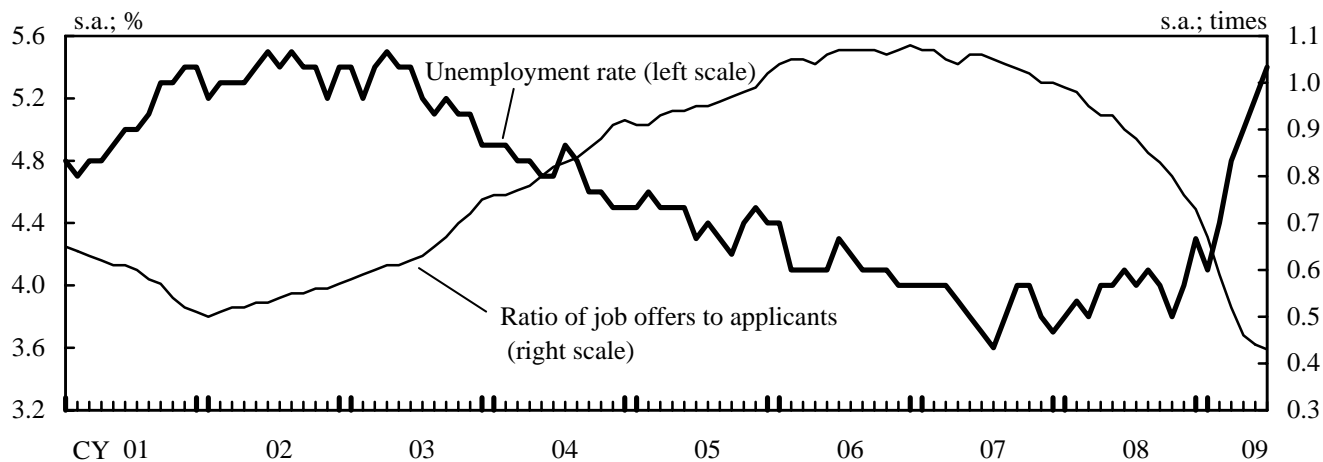
(6) Producer Goods Excluding Electronic Parts and Devices



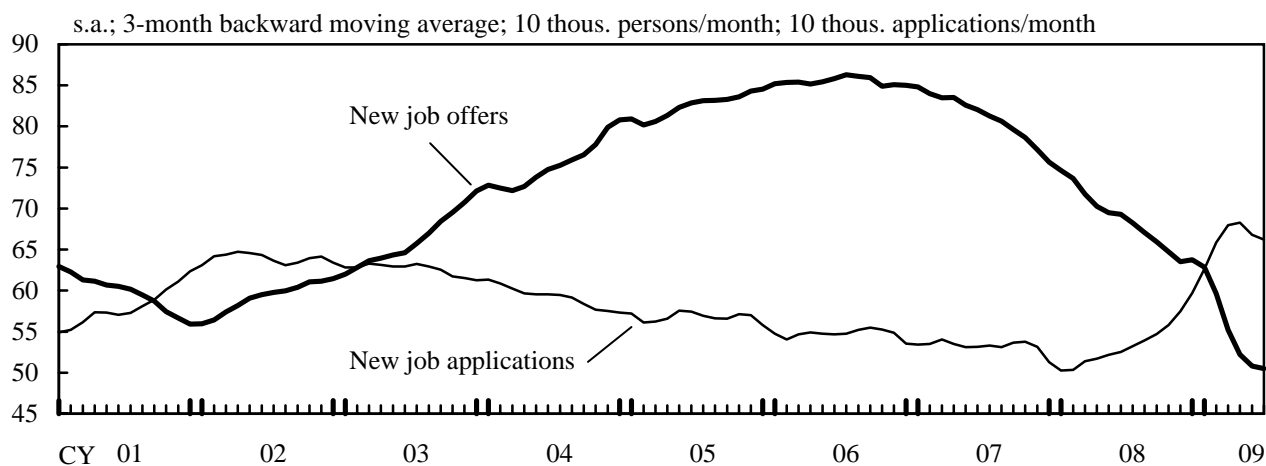
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market (1)

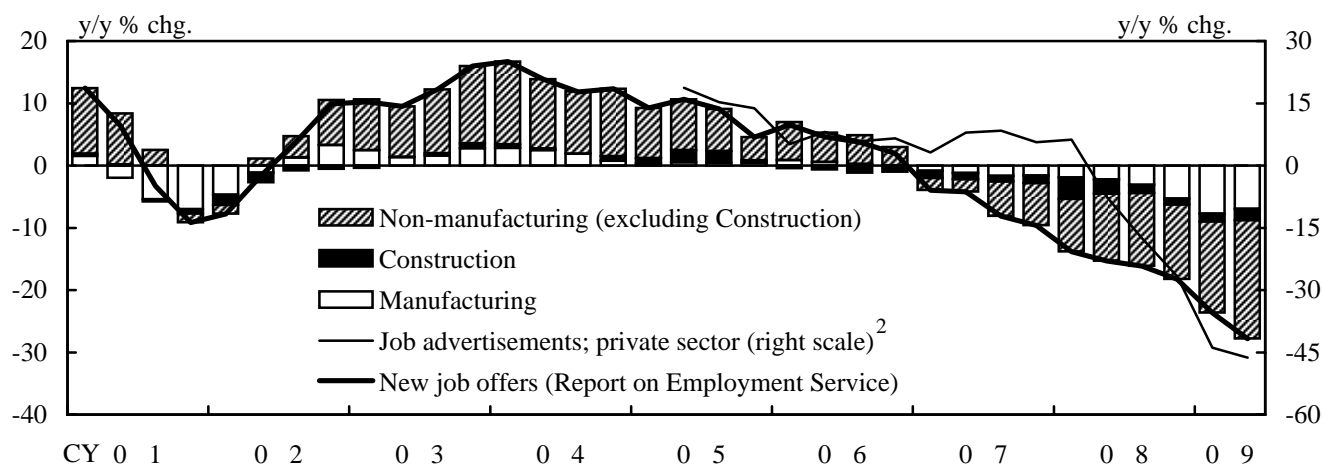
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



(3) Breakdown of Job Offers¹

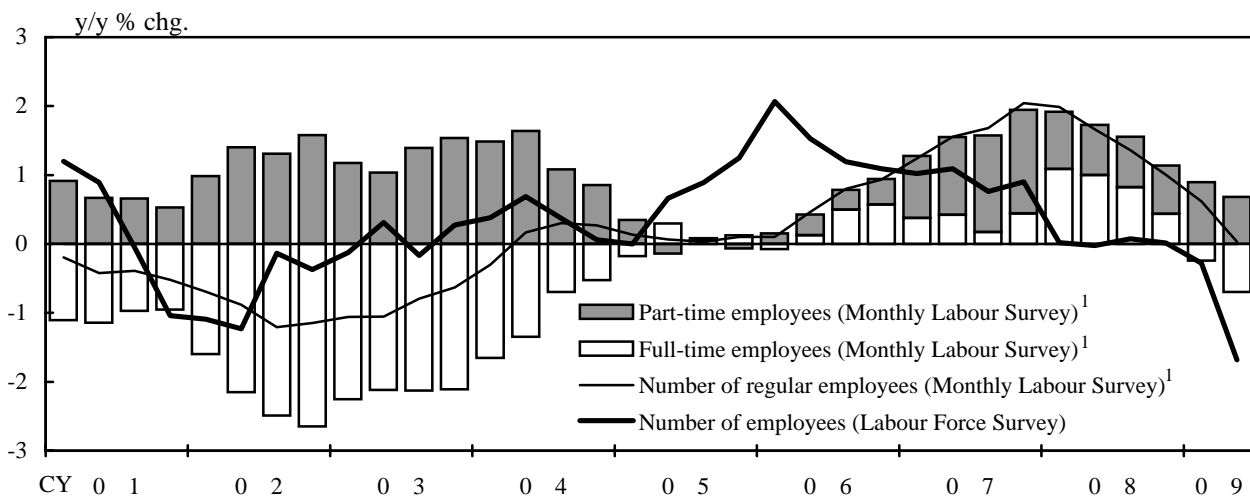


Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.

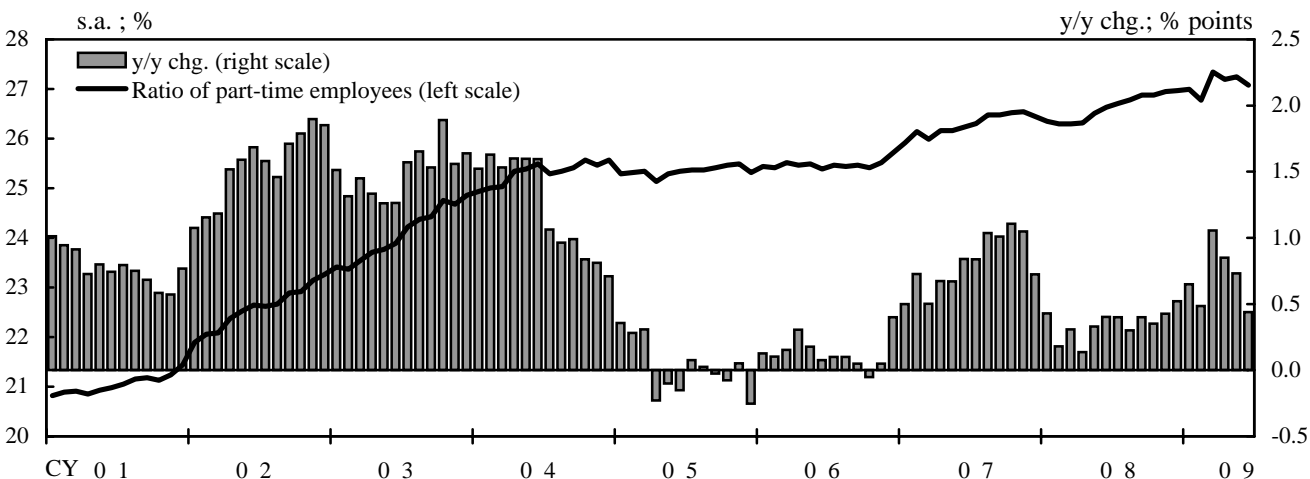
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Association of Job Information of Japan, "Kyujin Koukoku Keisaiensu (Survey of Job Advertisements)."

Labor Market (2)

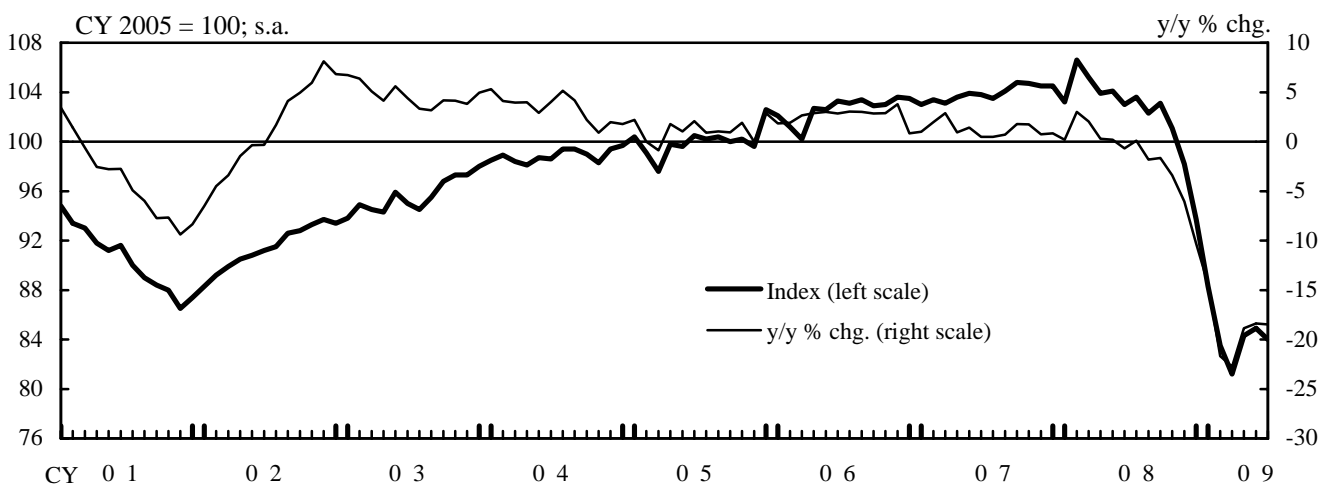
(1) Number of Employees



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



(3) Non Scheduled Hours Worked¹



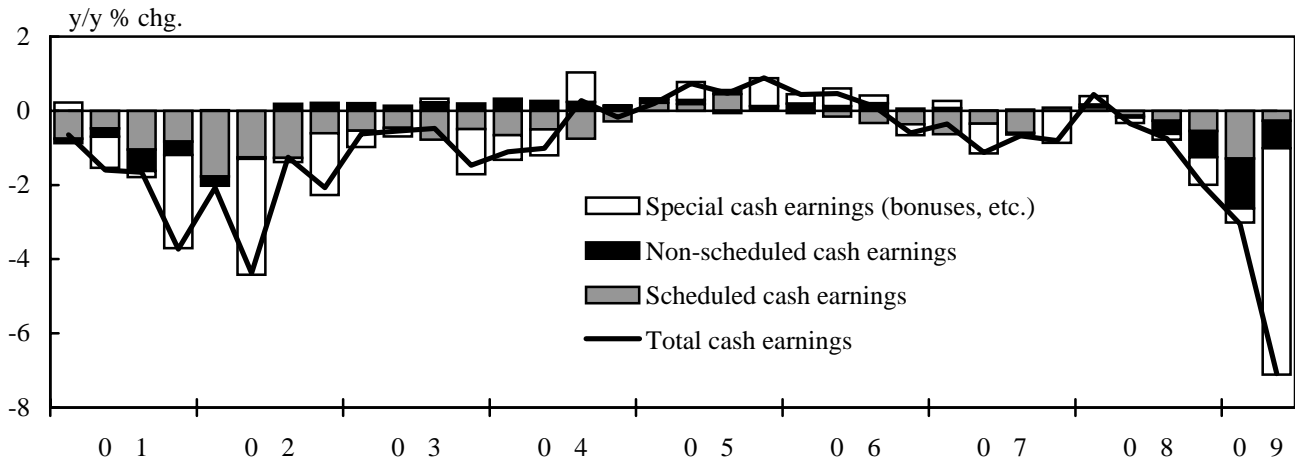
Notes: 1. Data are for establishments with at least five employees.

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.

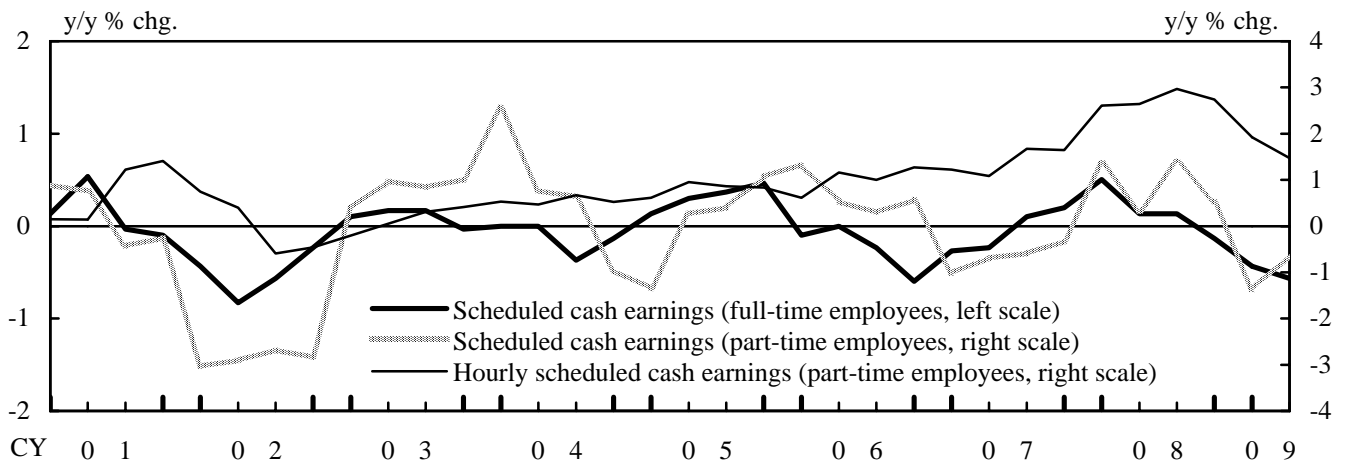
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employee Income

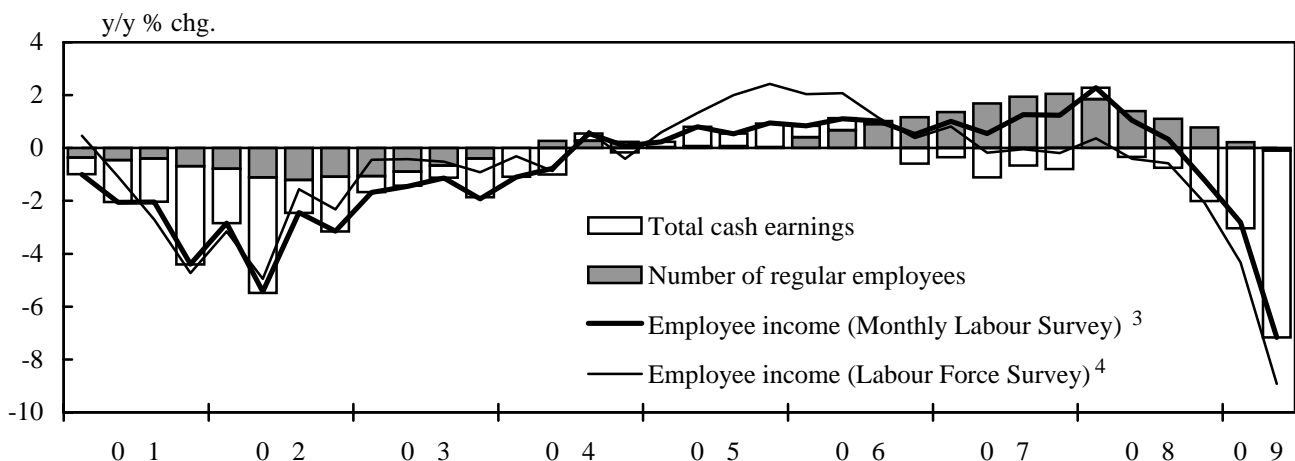
(1) Breakdown of Total Cash Earnings^{1,2,5}



(2) Scheduled Cash Earnings¹



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

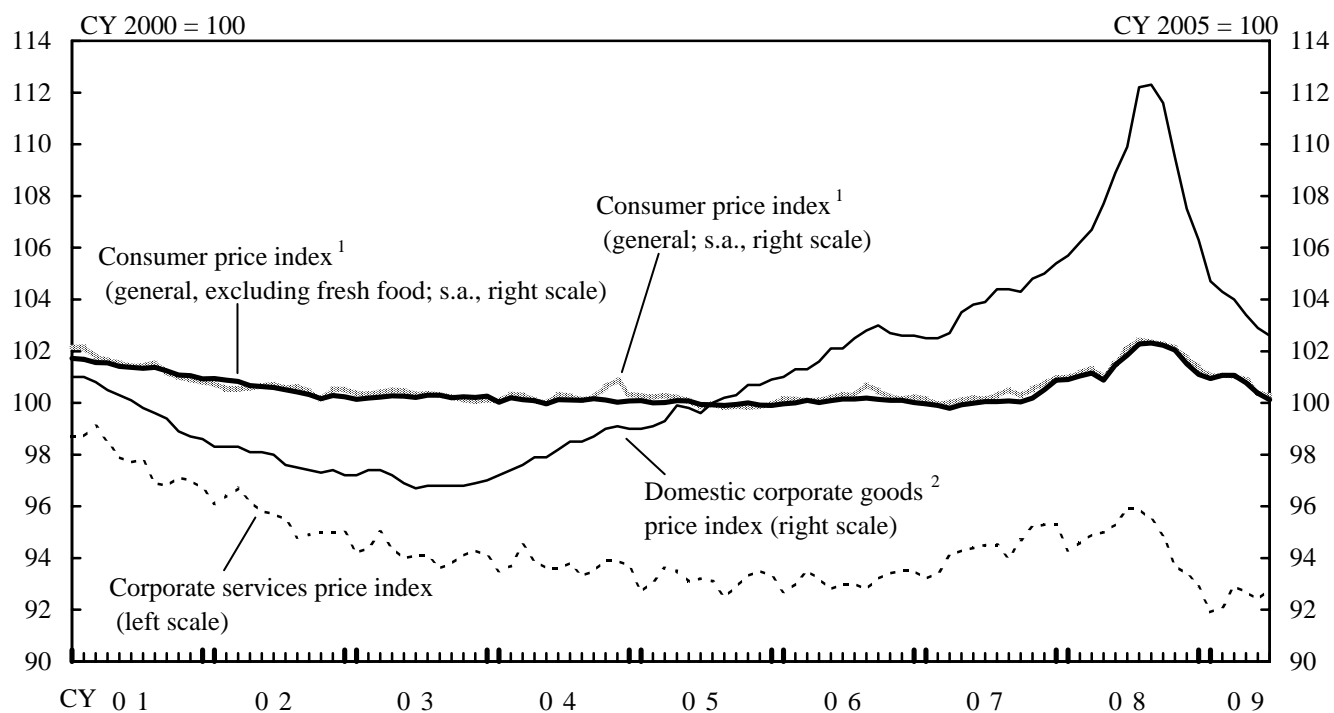
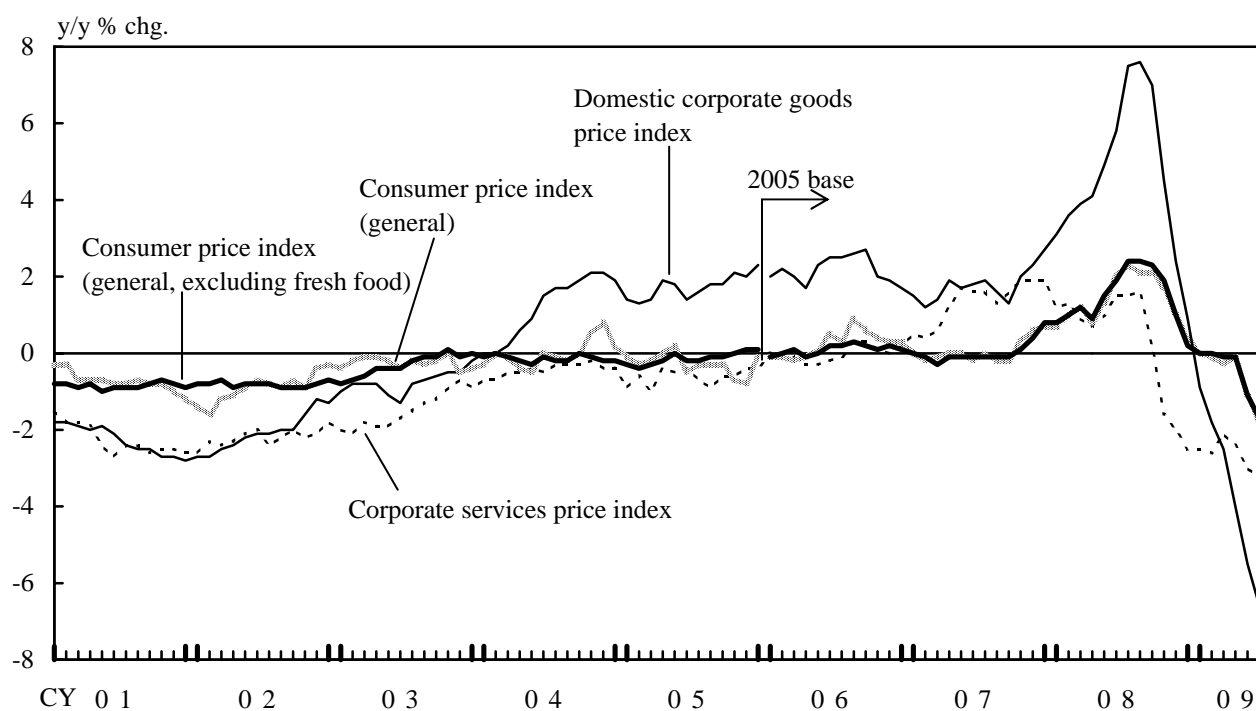


- Notes: 1. Data are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).
 4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).
 5. Figures for 2009/Q2 are those of June.

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.

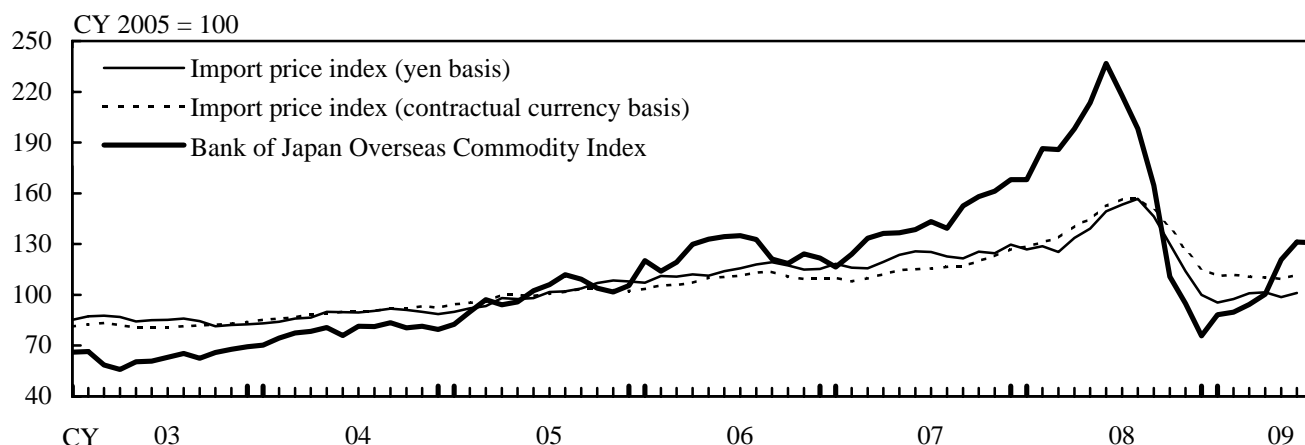
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

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

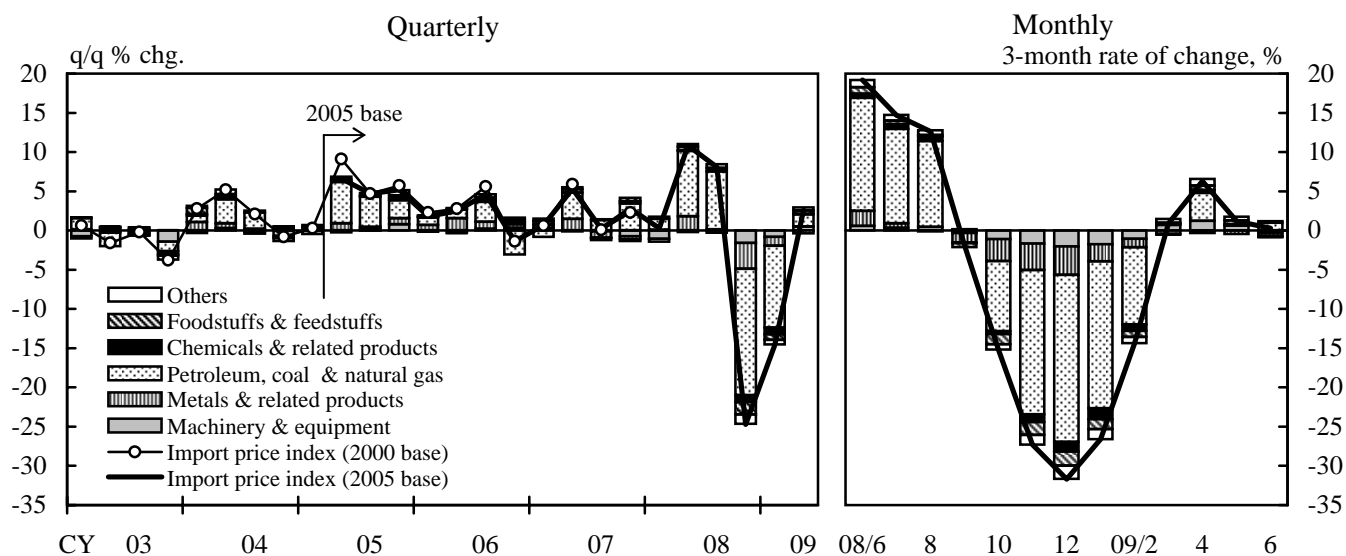
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";
Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



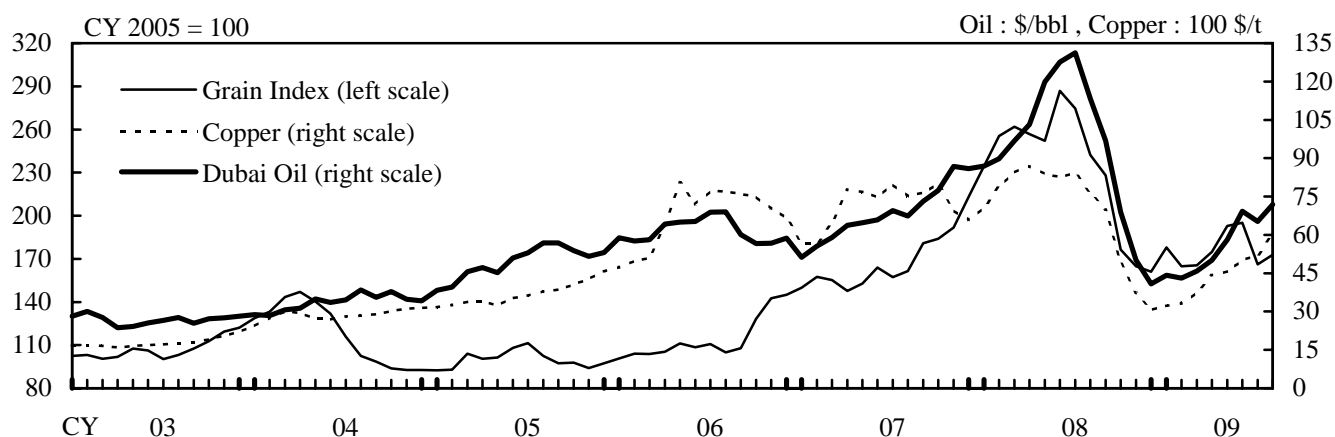
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments.

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

(3) International Commodity Prices



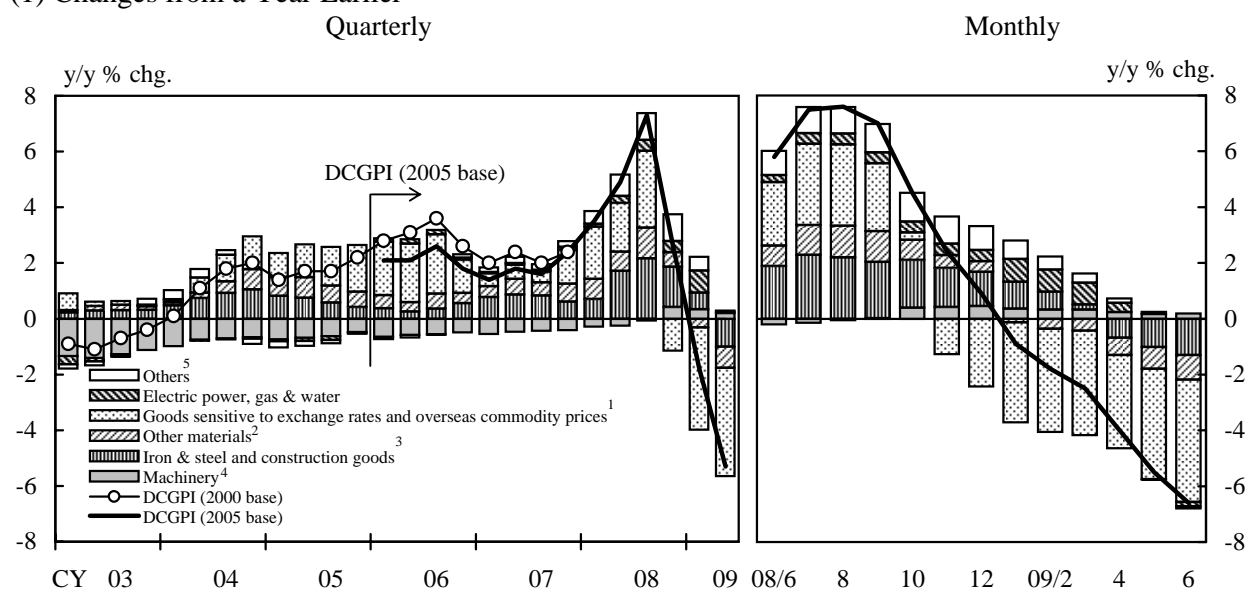
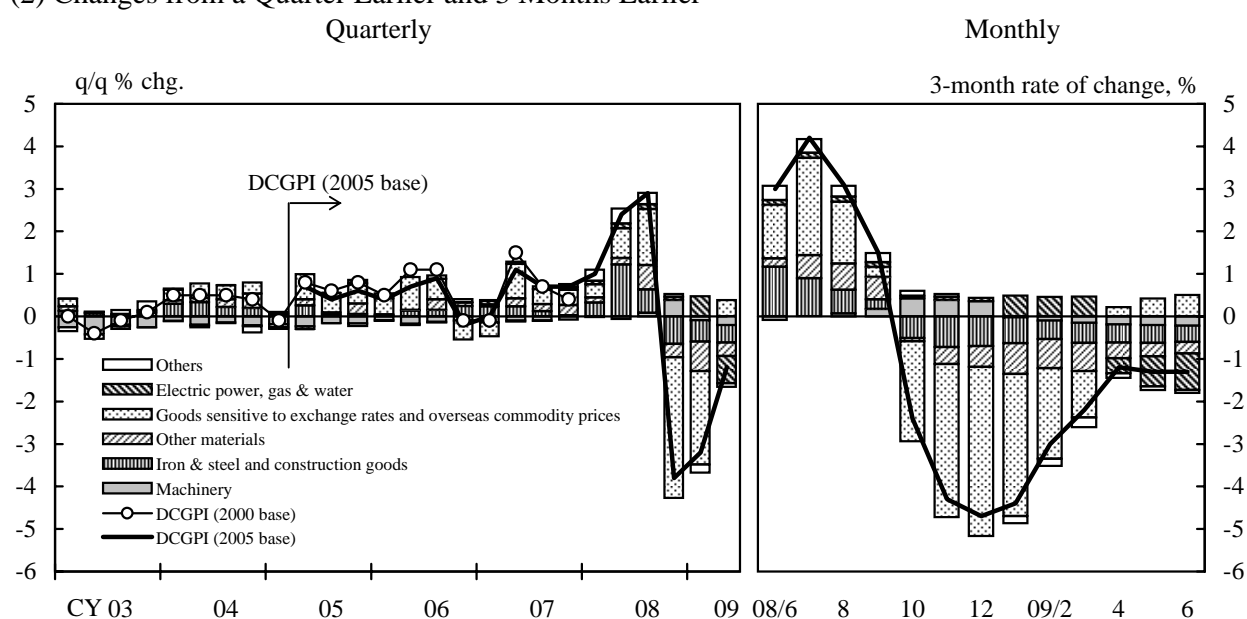
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for August 2009 are the averages up to August 10.

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

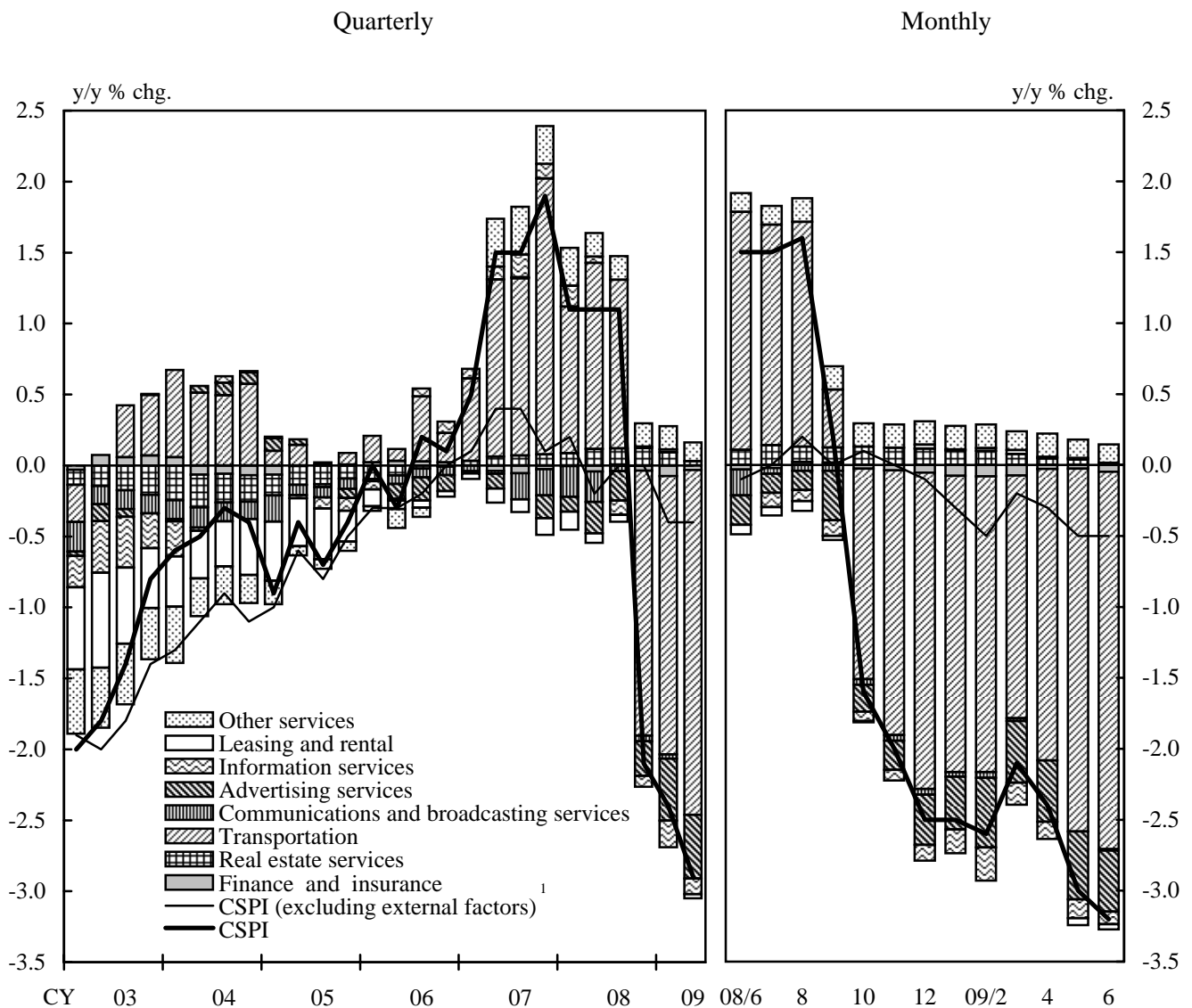
Domestic Corporate Goods Price Index⁷

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

Corporate Services Price Index



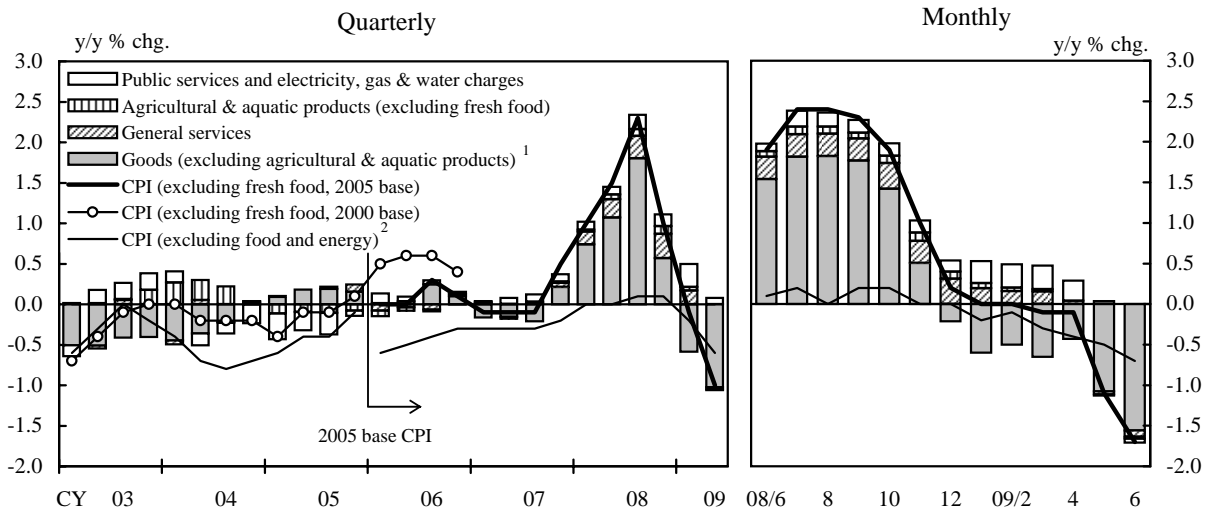
Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.

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

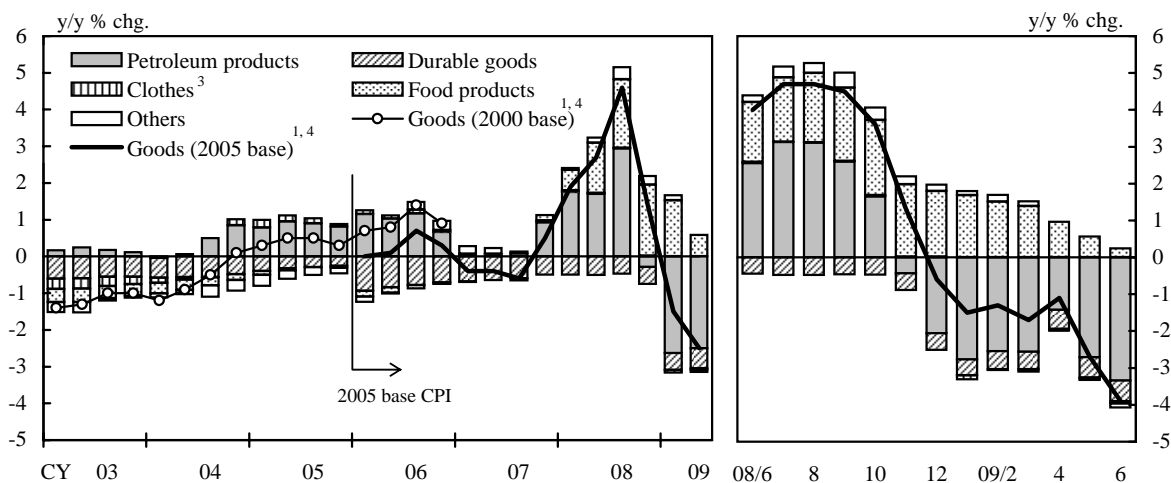
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

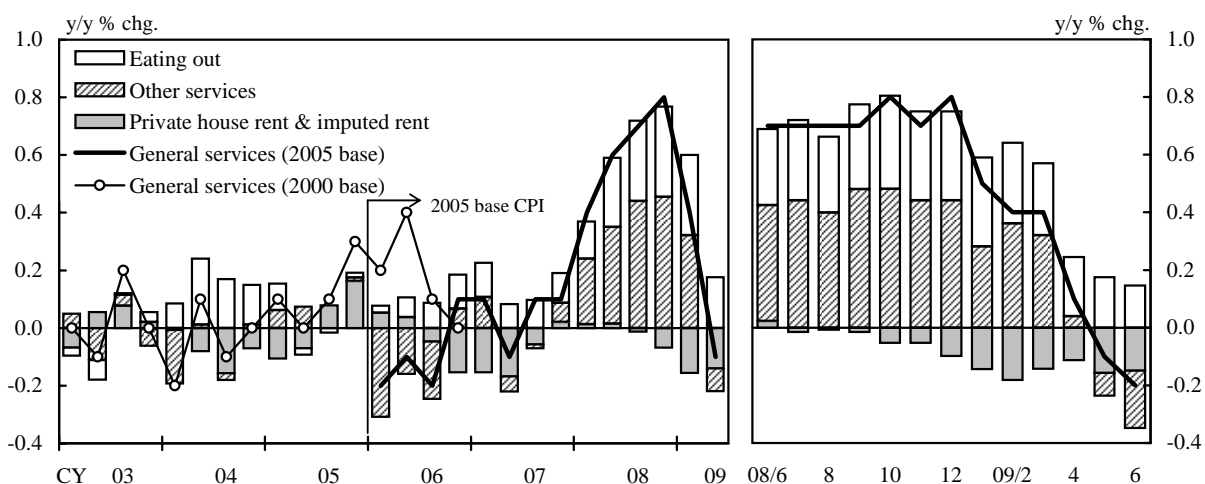
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services

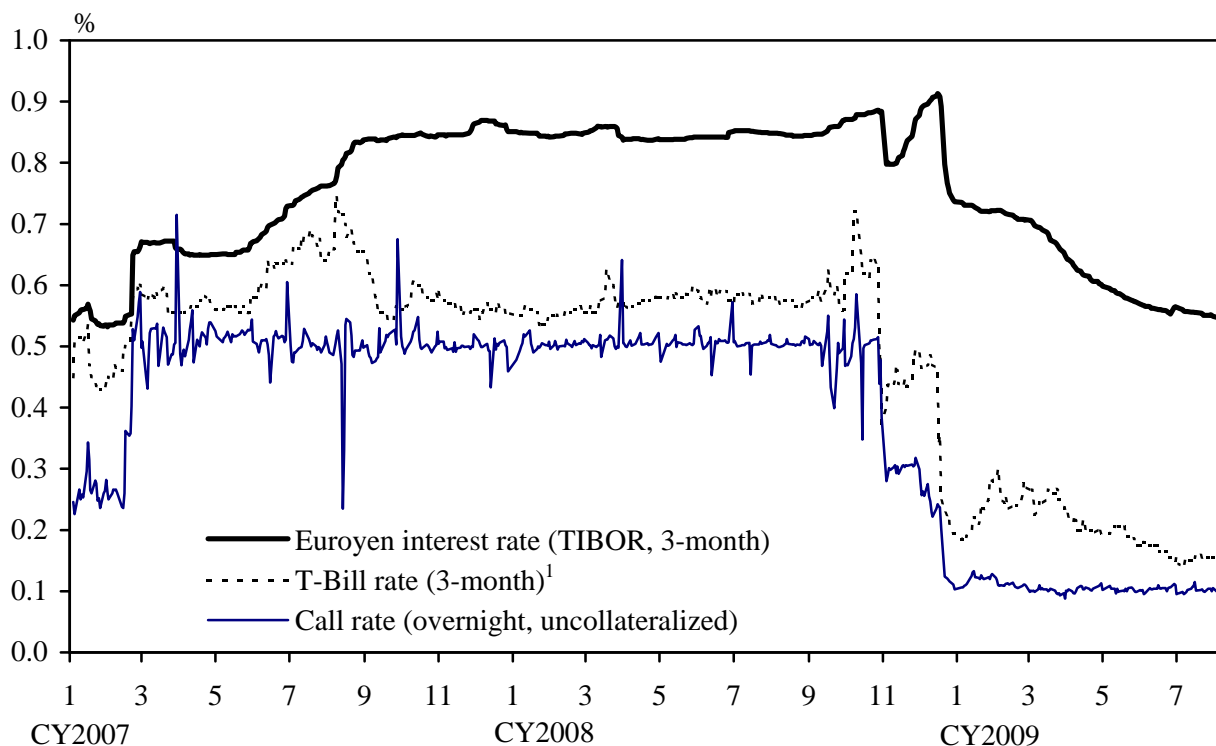


- Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food.
 Energy: electricity, gas manufactured & piped, liquefied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

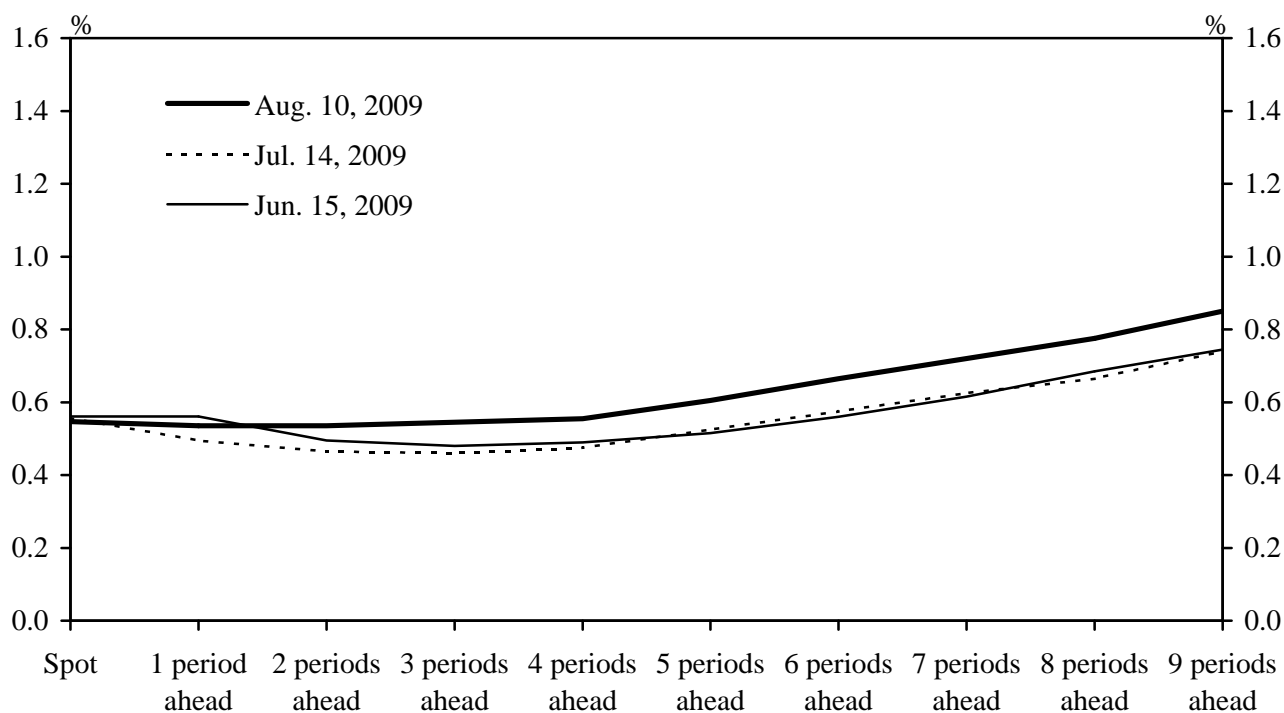
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



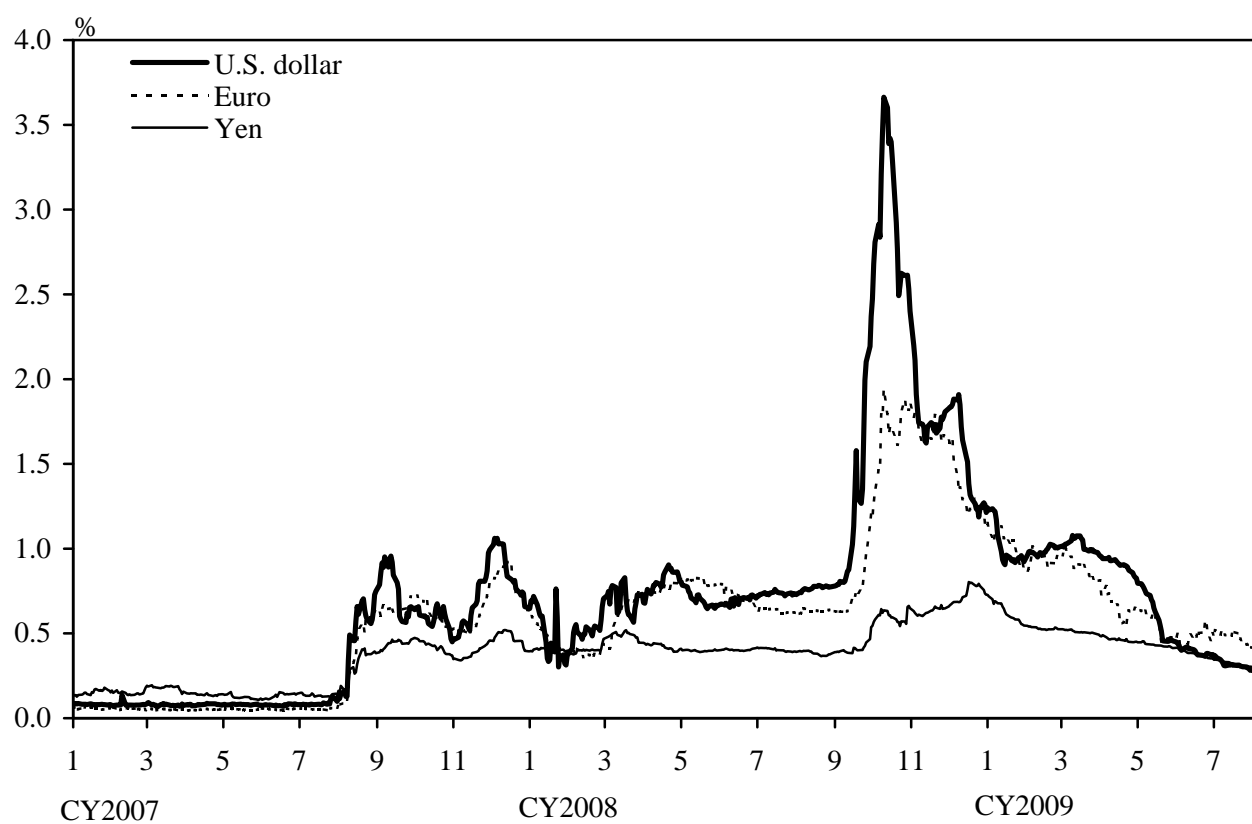
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

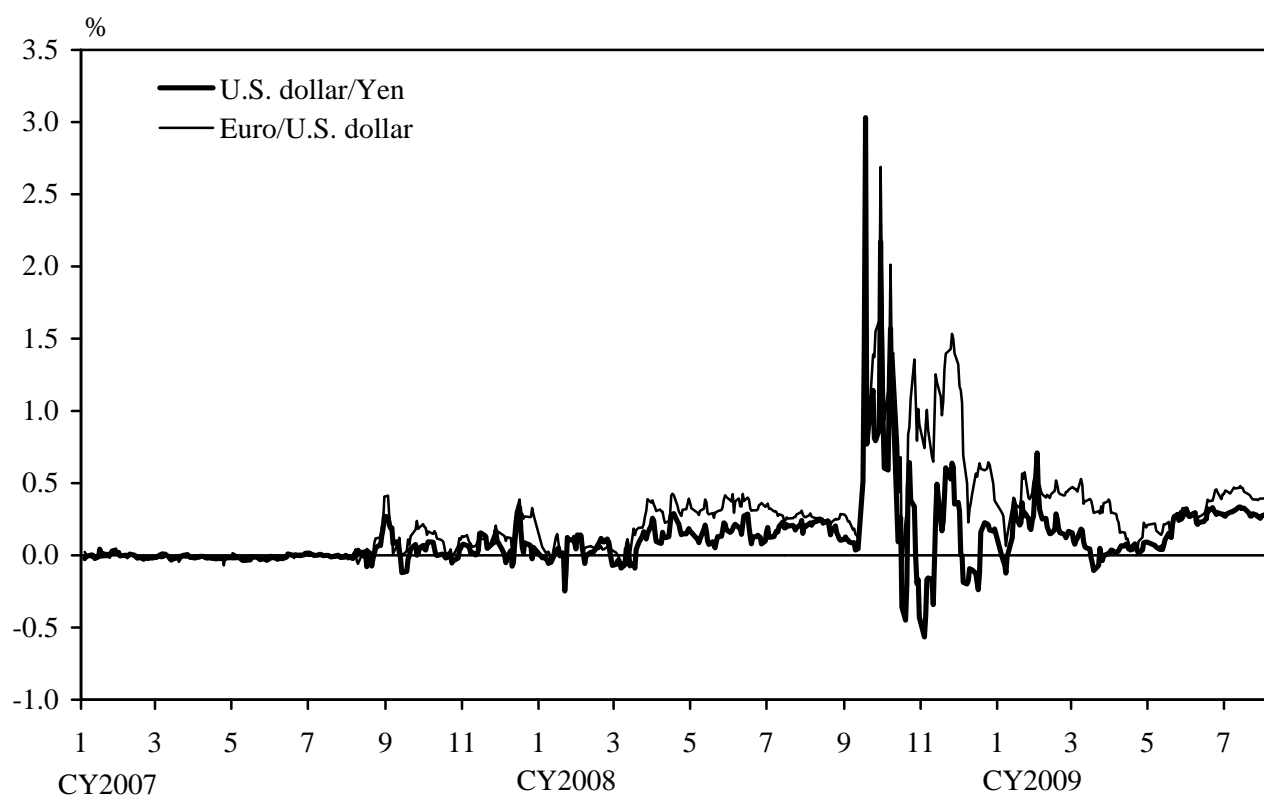
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



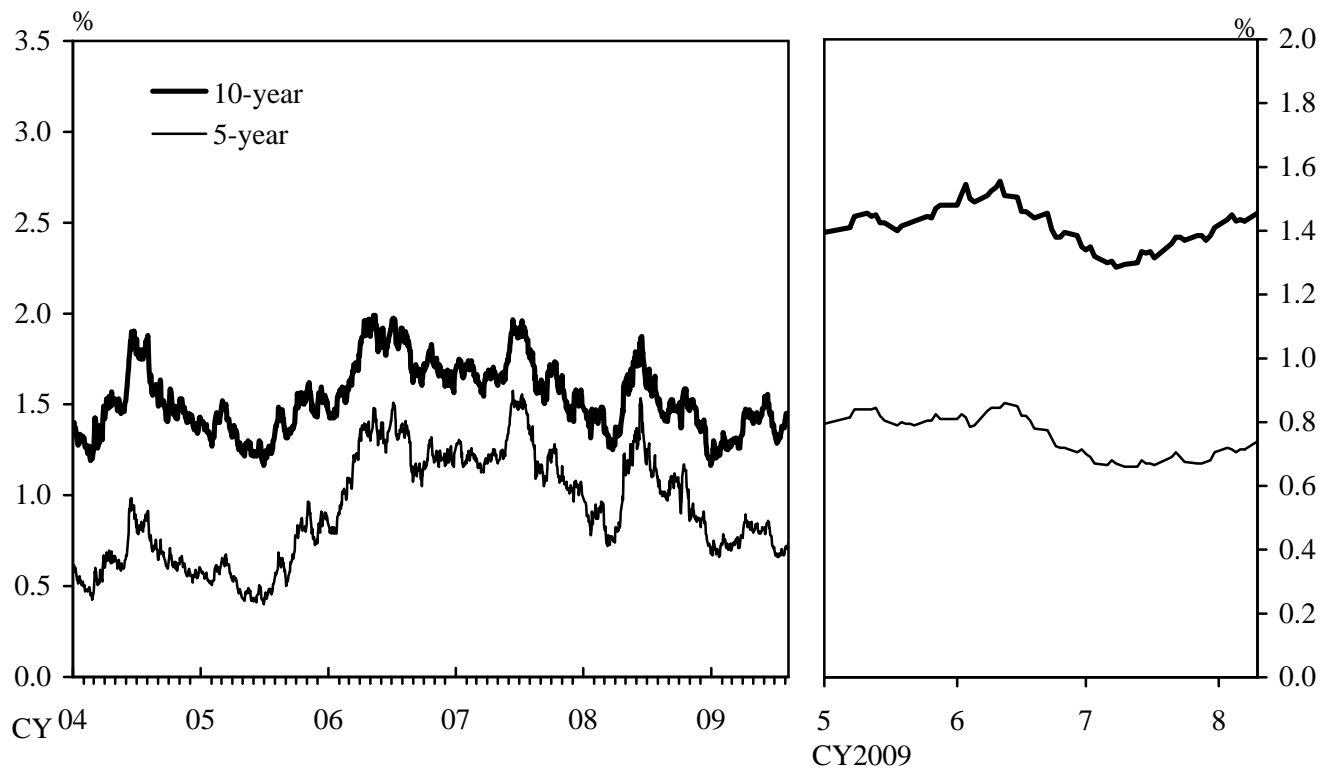
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



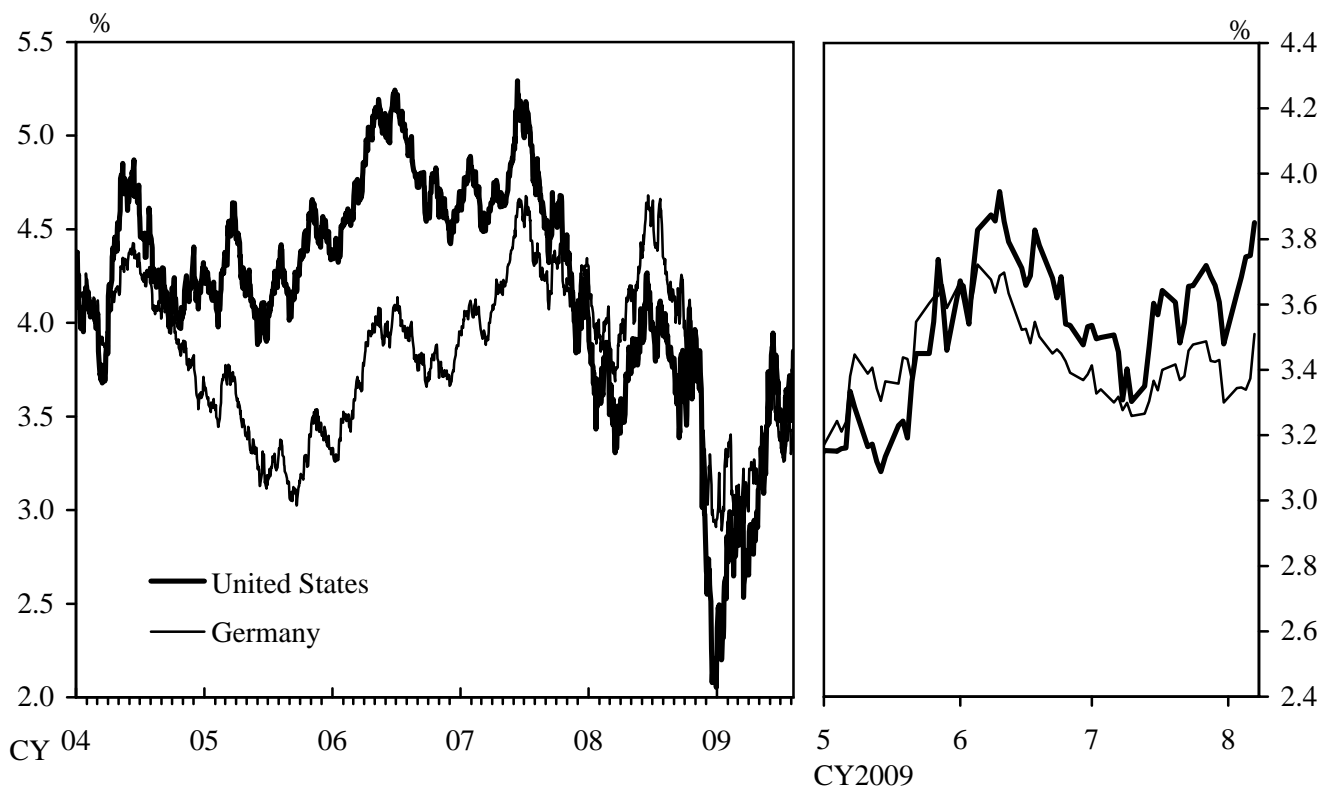
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



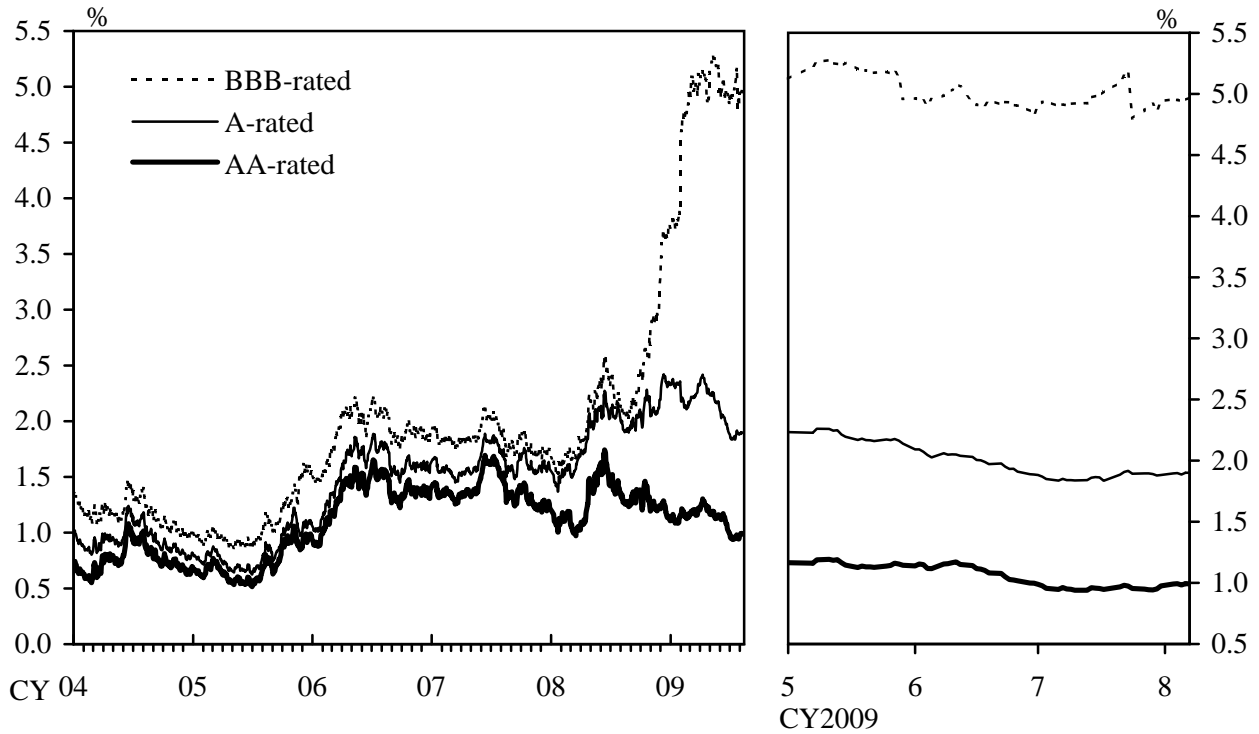
(2) Overseas Government Bond Yields (10-Year)



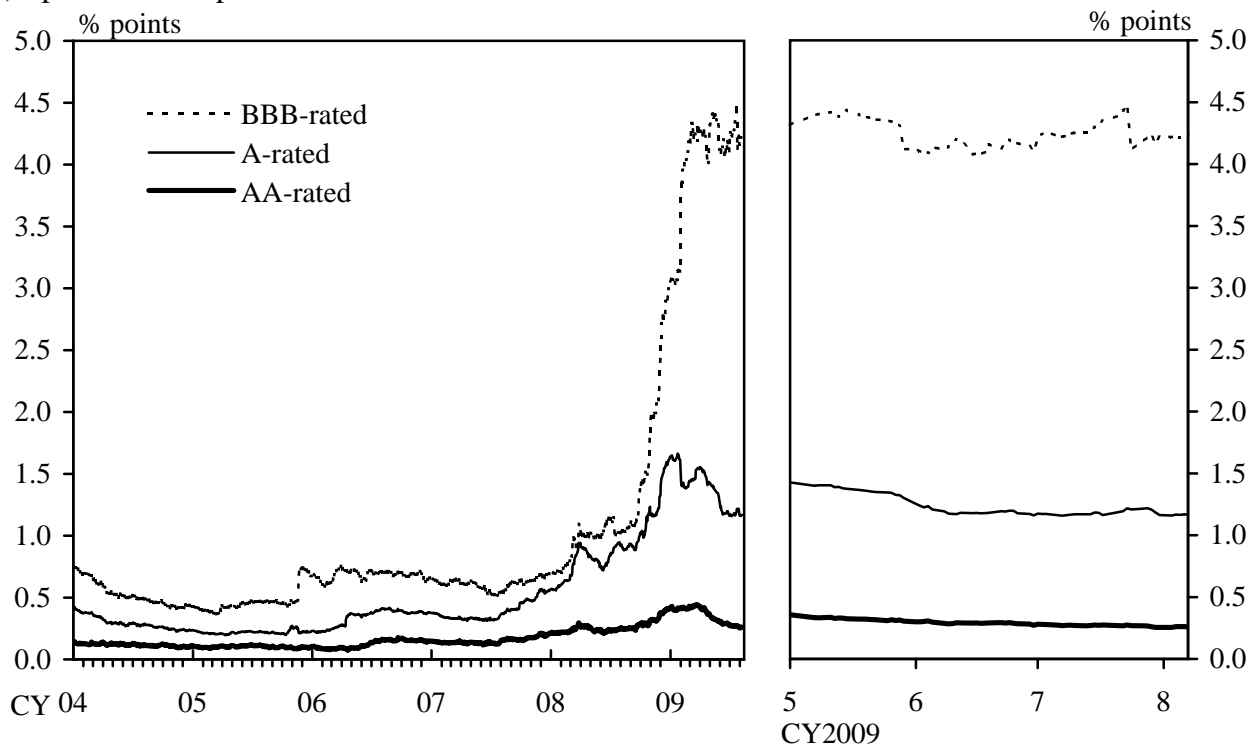
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

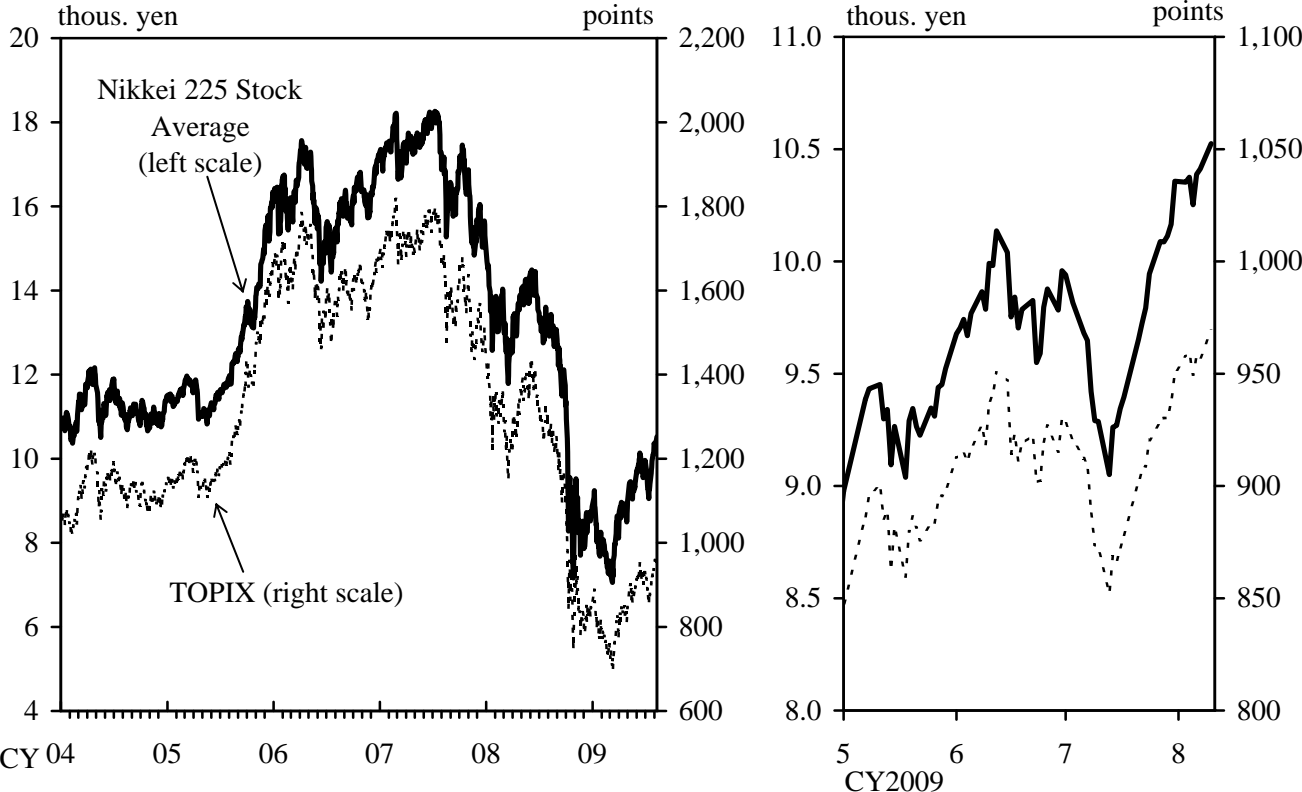
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

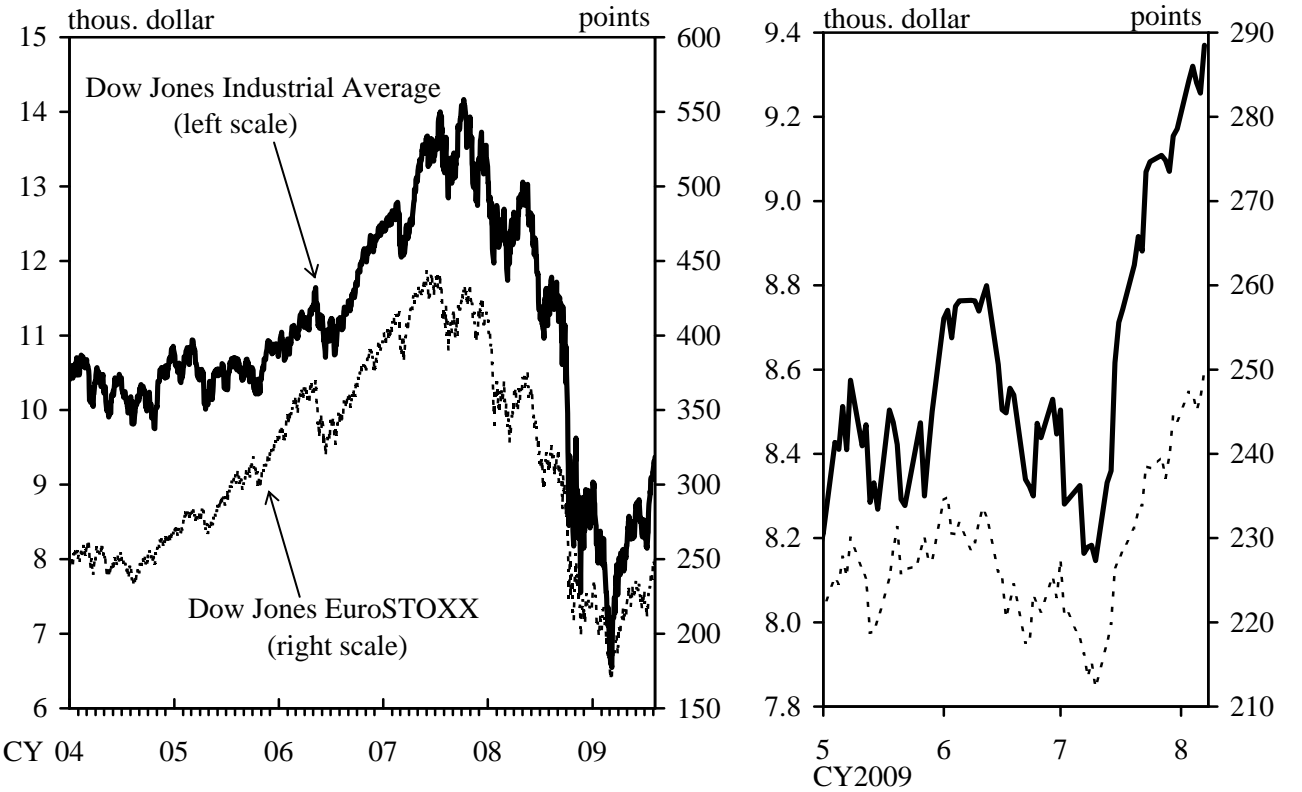
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



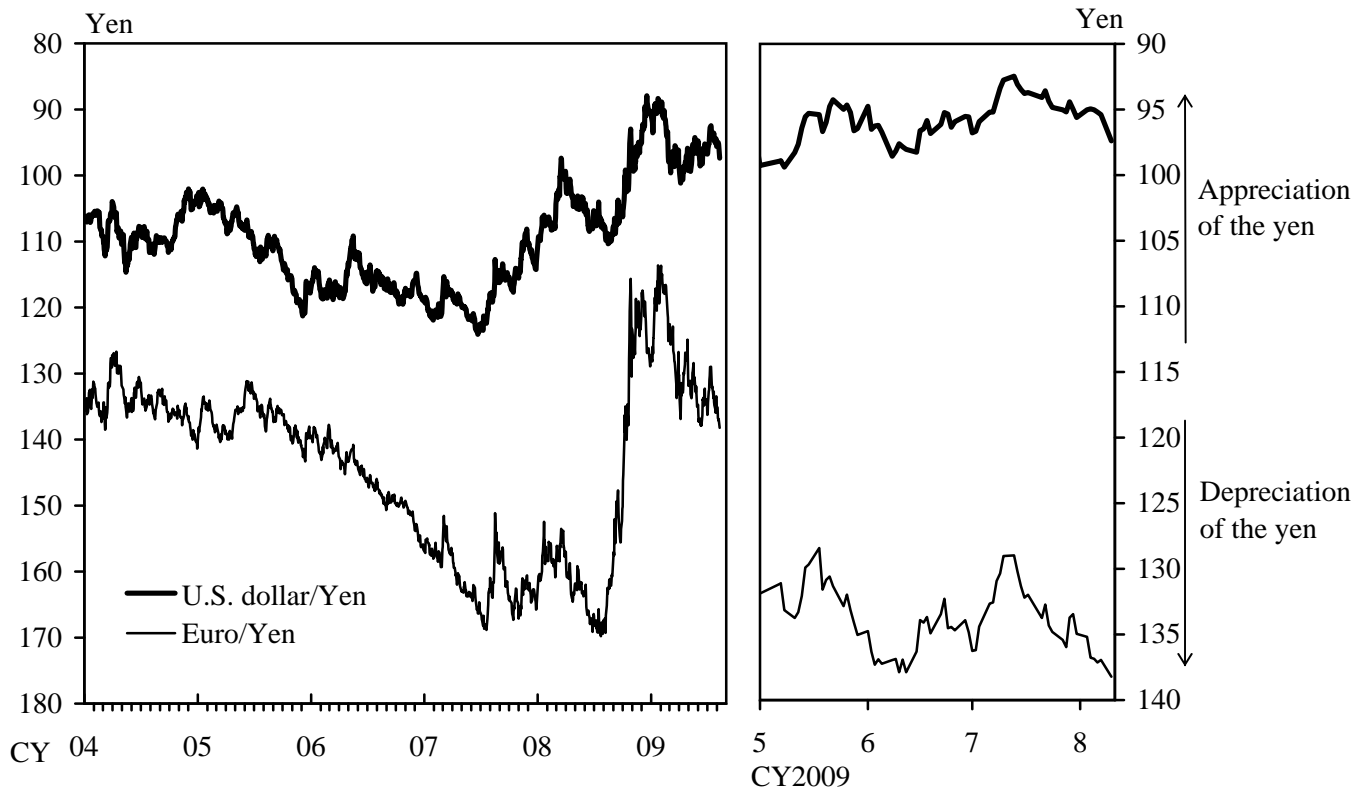
(2) Overseas Stock Prices



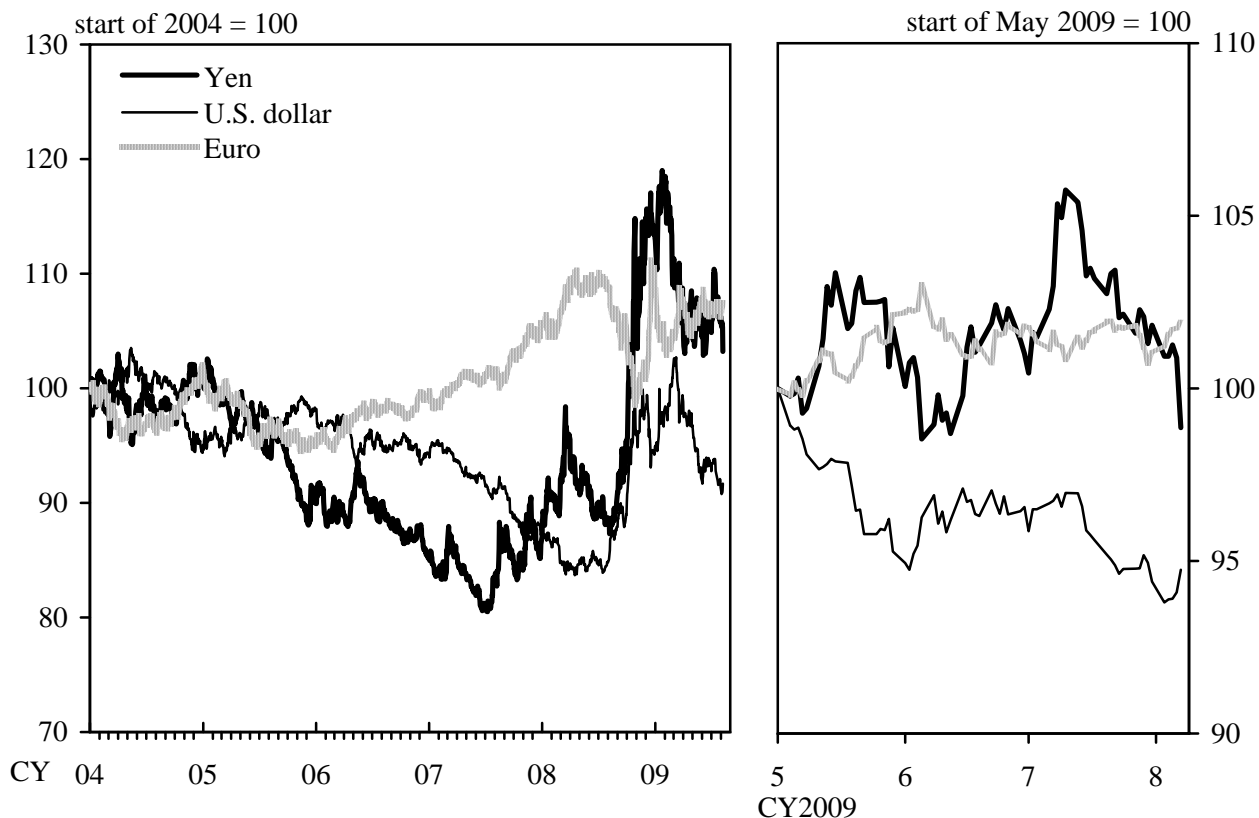
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



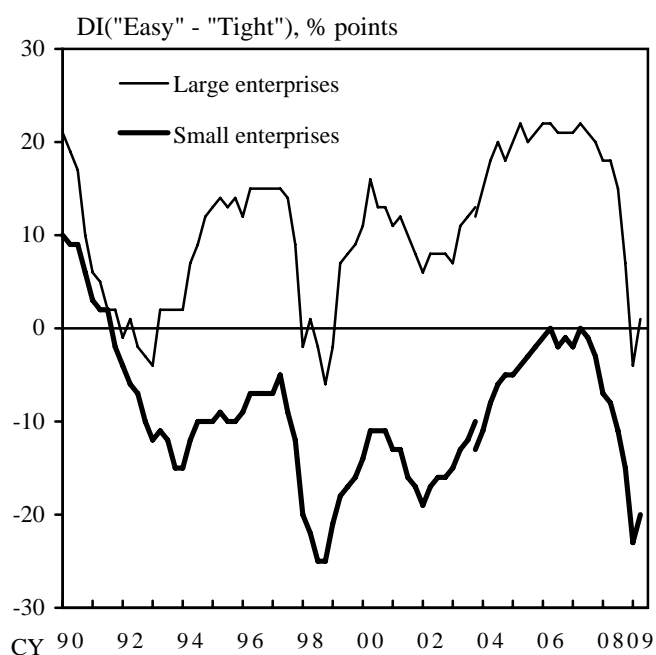
(2) Nominal Effective Exchange Rates



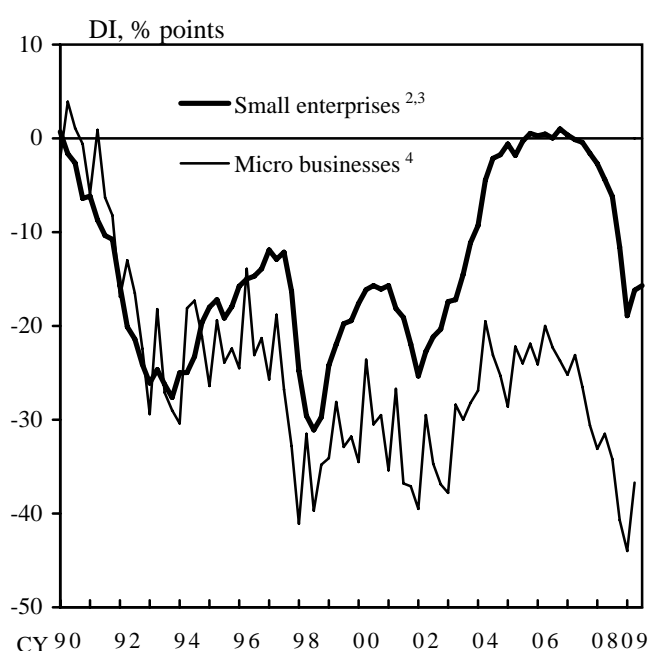
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

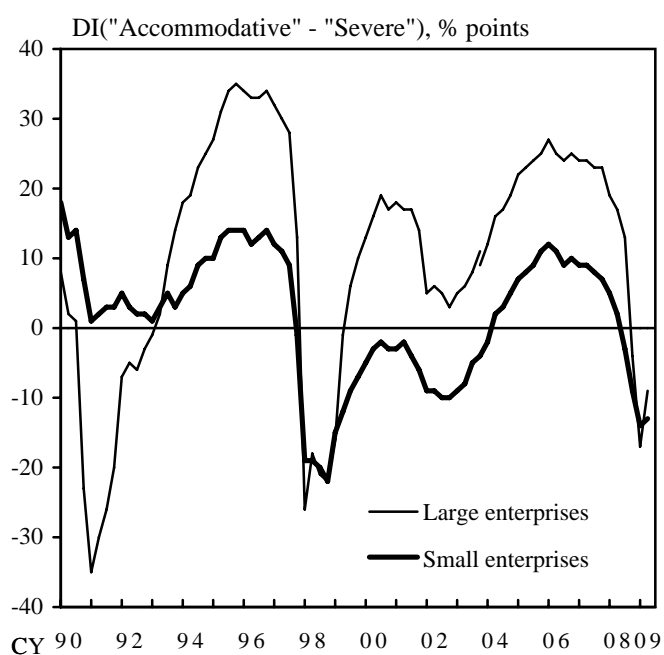
(1) Financial Position

<Tankan¹>

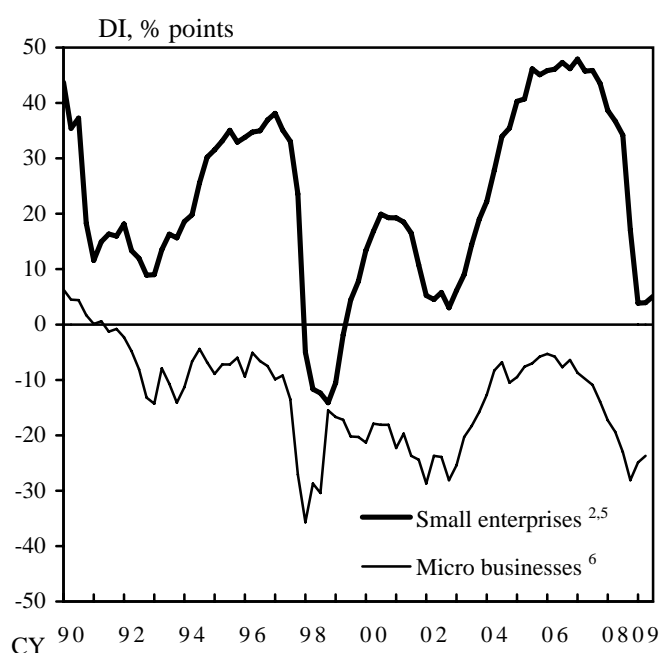
<Japan Finance Corporation Survey>



(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/Q3 are those of July.

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

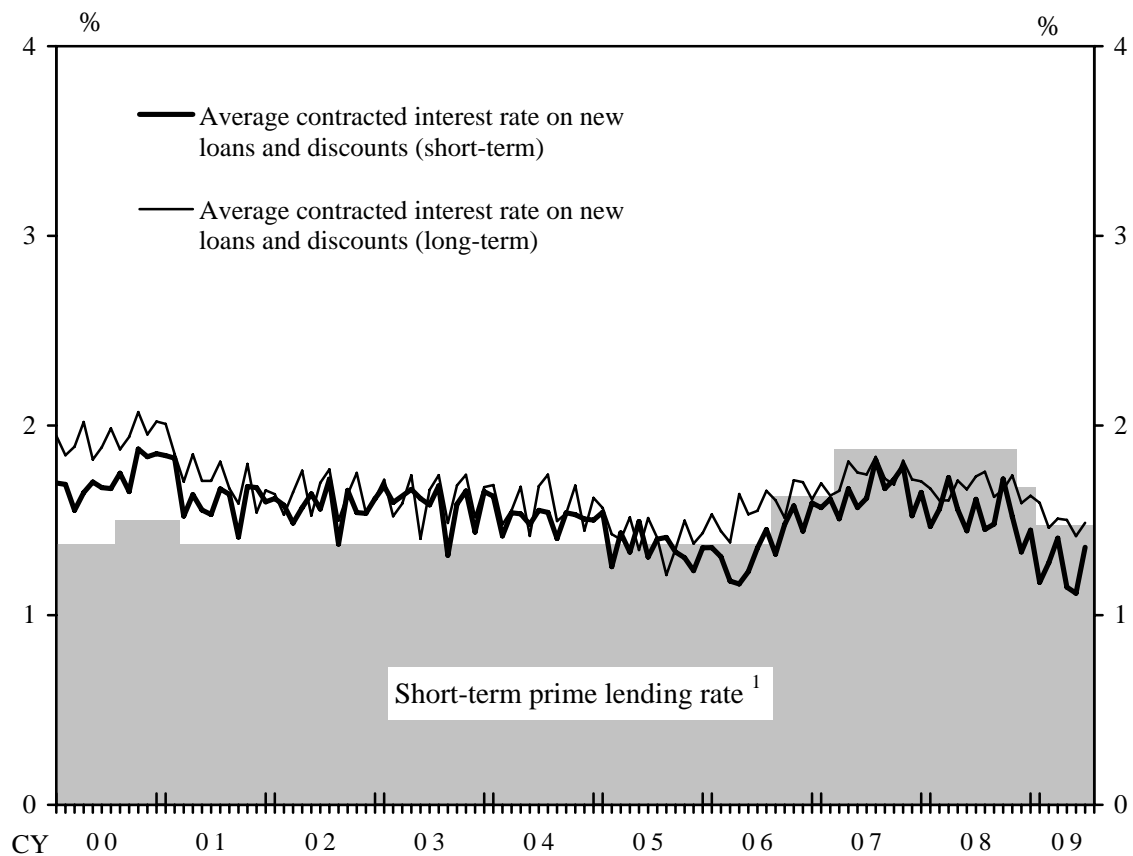
4. DI of "Easier" - "Tighter."

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

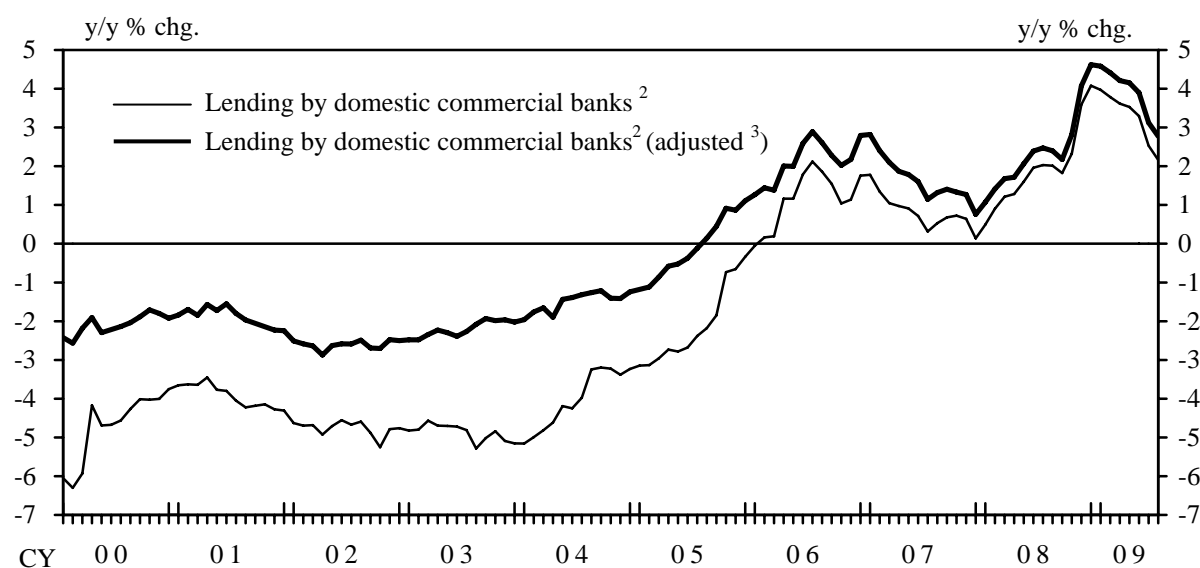


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



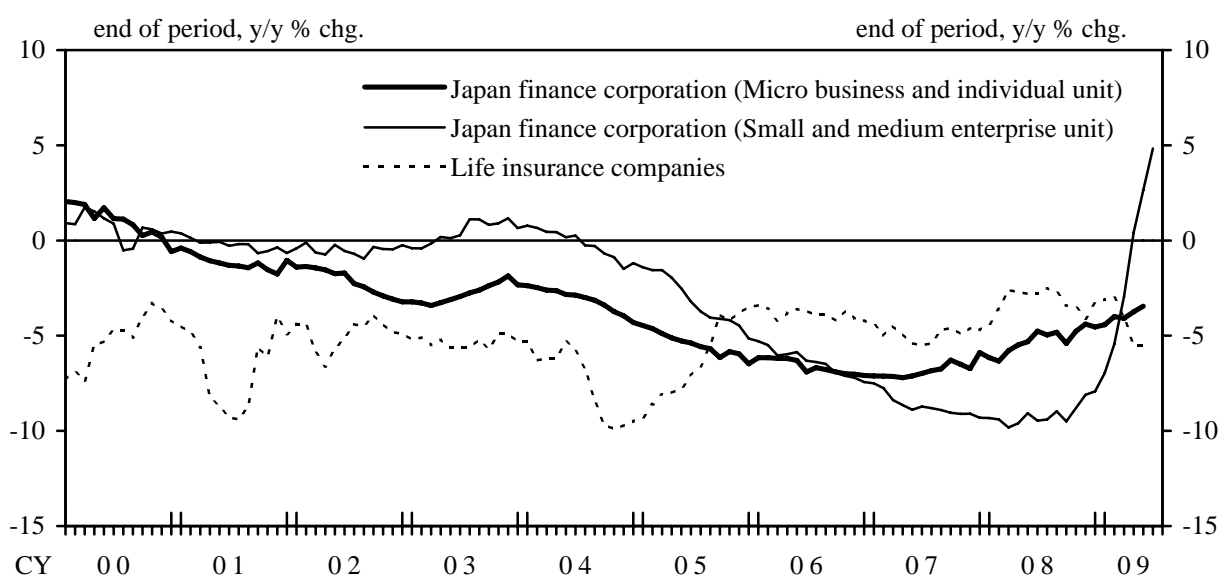
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

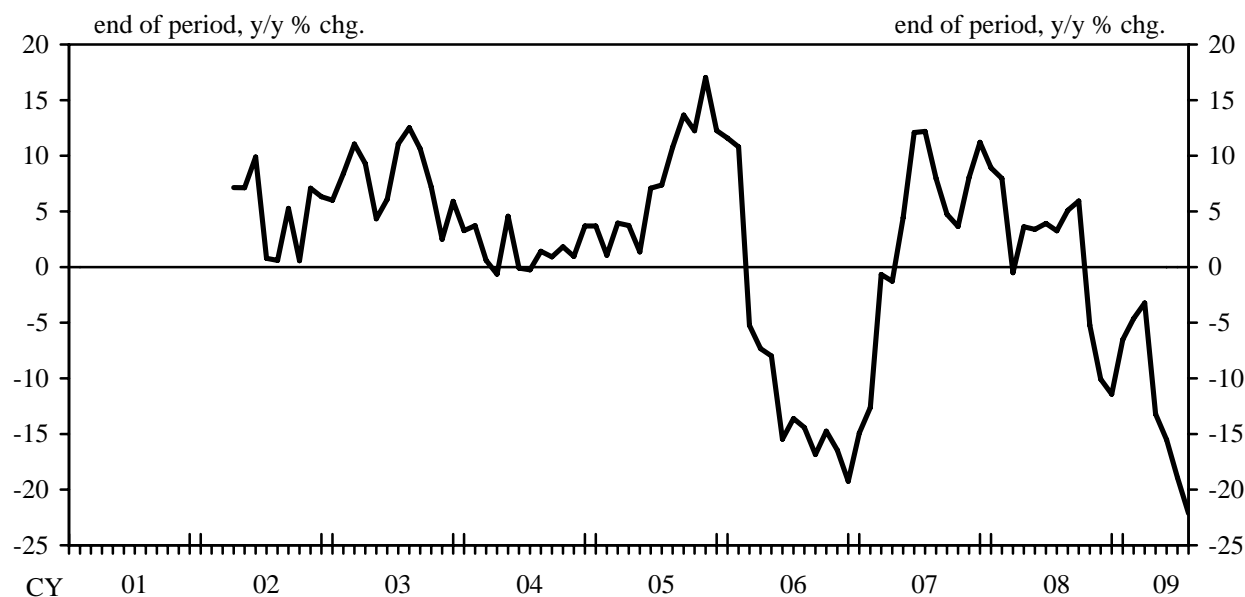


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

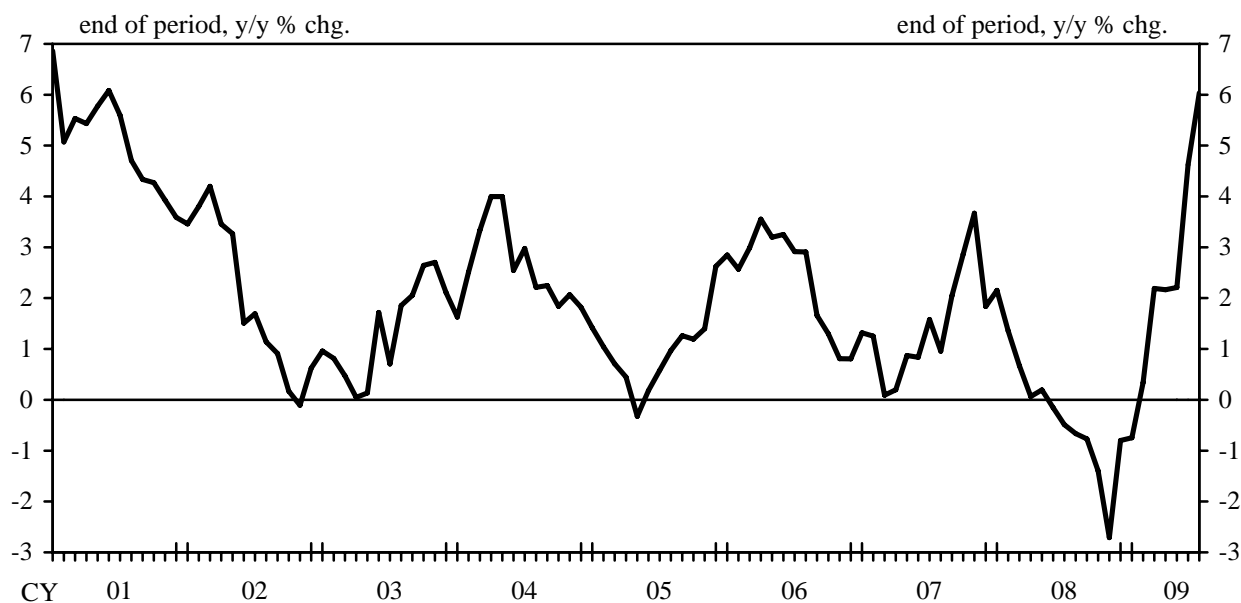
 Private-Sector Fund-Raising in the Capital Markets

(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



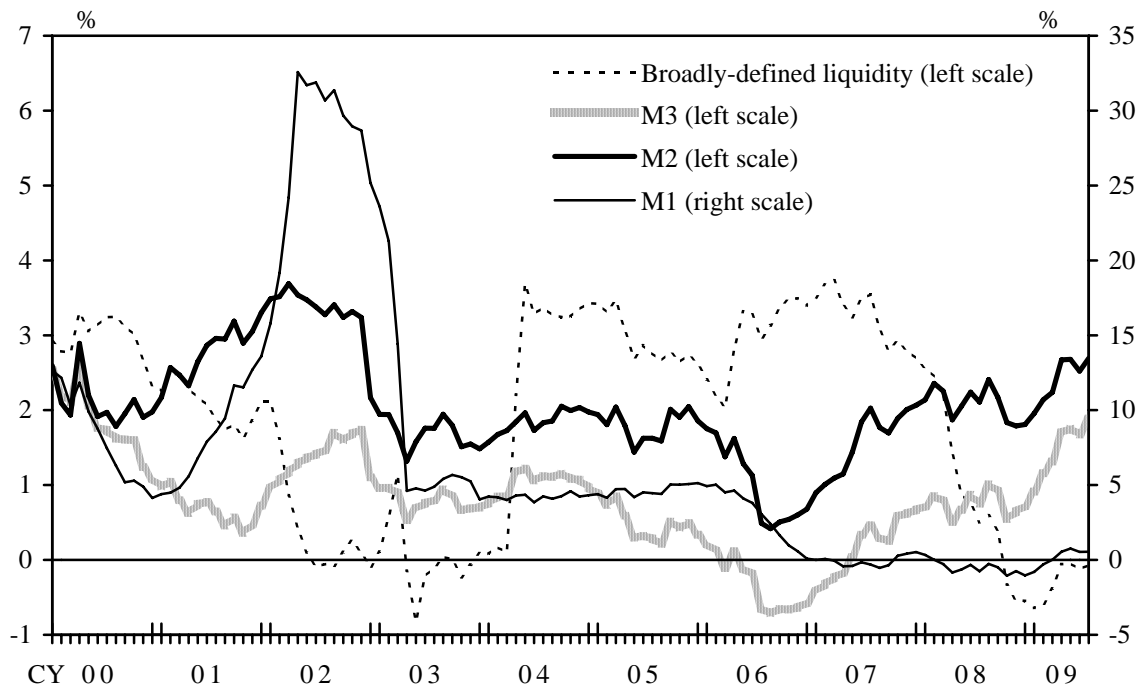
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

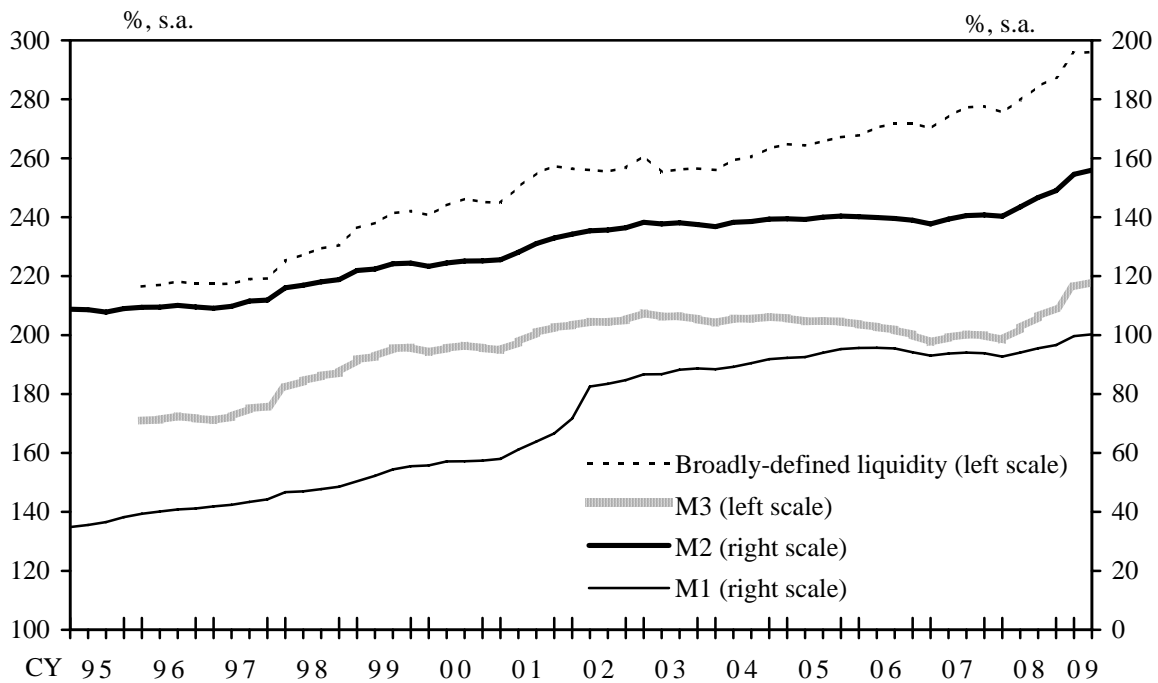
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

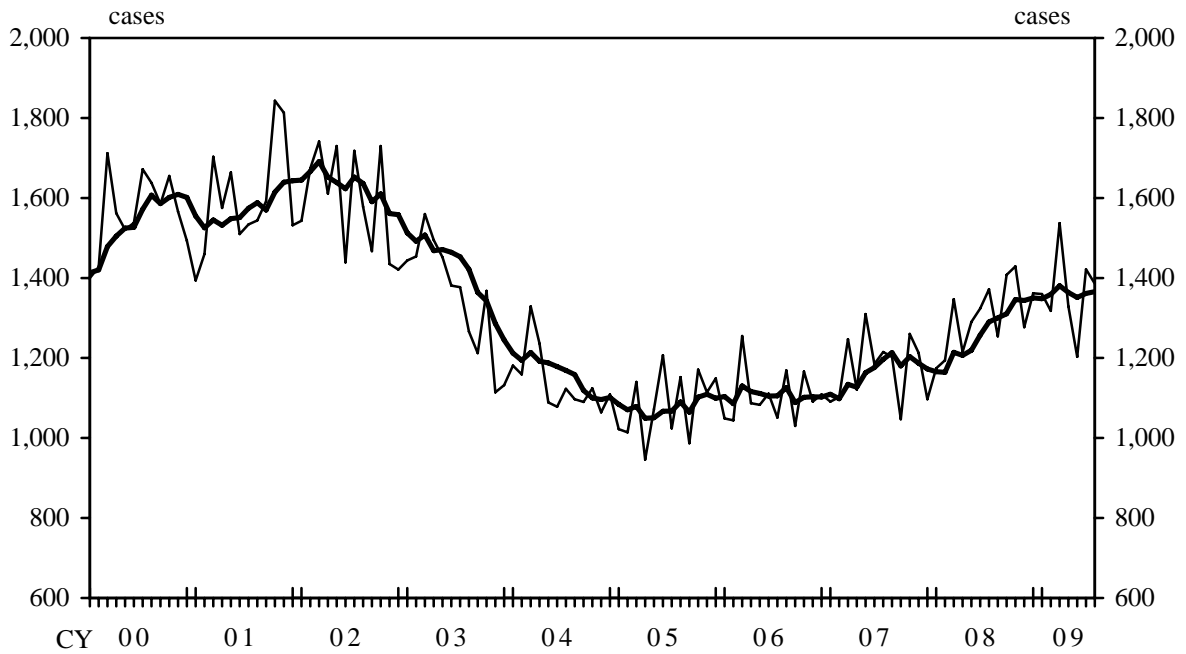


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
- 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
- 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
- 4. The figure for nominal GDP in 2009/Q2 is assumed to be unchanged from the previous quarter.

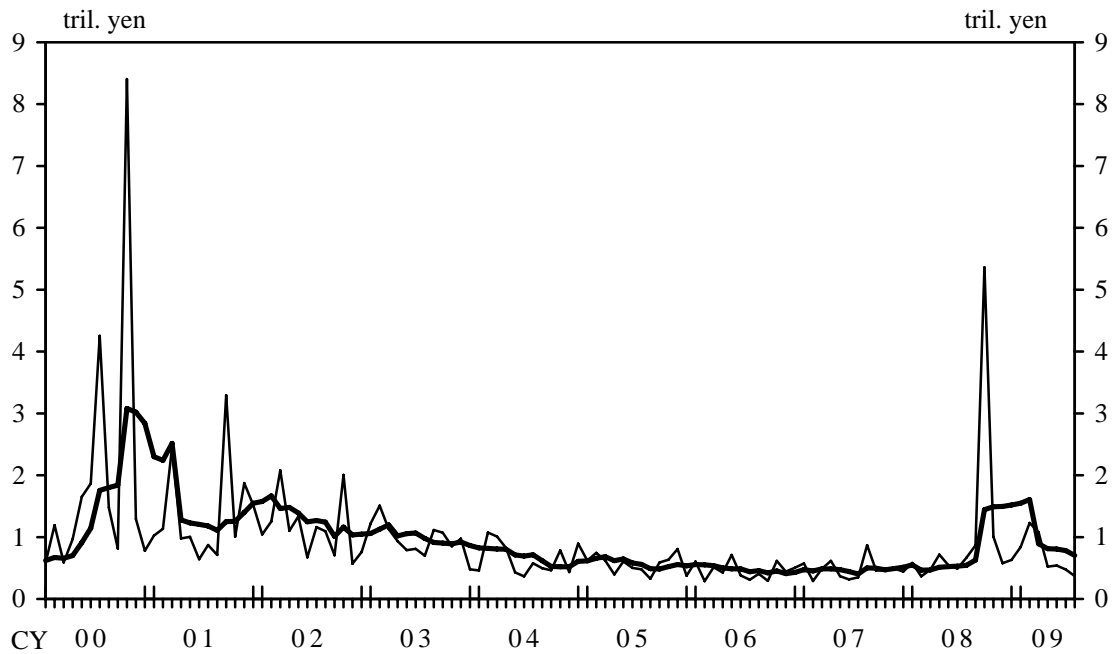
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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