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Bank of Japan

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

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released on October 15, 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 economy has started to pick up.

Public investment has been increasing, and exports and production have also been rising. In these circumstances, business sentiment, especially of large manufacturing firms, has shown some improvement. The decline in business fixed investment, which mainly reflects weak corporate profits, has been moderating. Meanwhile, private consumption has remained generally weak and housing investment has decreased amid the severe employment and income situation.

Japan's economic conditions are likely to improve gradually.

Exports and production are expected to continue increasing, mainly reflecting continued improvement in overseas economic conditions. Public investment is also expected to continue increasing for the time being. On the other hand, with the exception of durable goods consumption, which is expected to remain firm for the time being mainly due to the effects of various measures, domestic private demand as a whole is likely to remain relatively weak with corporate profits and the employment and income situation remaining severe.

On the price front, although there has been persistent slack in supply and demand conditions for products, the three-month rate of change in domestic corporate goods prices has been around 0 percent due to the past rise in international commodity prices. The year-on-year decline in consumer prices (excluding fresh food) has accelerated mainly due to the prices of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 13 and 14, 2009.

Domestic corporate goods prices are likely to remain more or less unchanged for the time being. The pace of decline in consumer prices is expected to stabilize at around the current level of the year-on-year rate, and moderate over time as the effects of the prices of petroleum products, which are lower than their high levels a year ago, abate.

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, the yen's exchange rate against the U.S. dollar, long-term interest rates, and stock prices have remained at more or less the same level as last month.

The financial environment, with some lingering severity, is increasingly showing 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. Issuing conditions for CP and corporate bonds have been favorable, except for low-rated corporate bonds. As for credit demand, firms' needs to fund working capital and fixed investment have declined, and some firms have reduced the 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, mainly small ones, still see them as weak, have continued to improve as a whole. Meanwhile, the year-on-year rate of change in the money stock has been at around 3.0 percent.

1. Economic Developments

Public investment has been increasing. Looking at monthly indicators (Chart 5), the value of public works contracted—a measure that reflects public orders—decreased in July-August compared with the second quarter, in part due to a reaction to the past increase, after increasing markedly in the first and second quarters. On a monthly basis, however, it has increased for two straight months. The amount of public construction completed—which reflects the progress of public works—marked a decrease in July compared with the second quarter, in part due to a reaction to the past increase, after increasing in the first and second quarters.

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

Real exports have been increasing, mainly due to the improvement in overseas economies (Charts 6[1] and 7). Exports, after increasing by double digits (12.4 percent) in the second quarter, also increased in July-August, by 8.8 percent, compared with the second quarter. Looking at monthly developments, exports have increased for the six consecutive months since March.

By destination (Chart 7[1]), exports to the United States and East Asia increased in July-August compared with the second quarter, after turning to an increase in the second quarter compared with the previous quarter. Those to "other regions" turned to an increase in July-August compared with the second quarter, after they continued to decrease until the second quarter. On the other hand, exports to the EU turned to an increase in the second quarter, but remained more or less unchanged in July-August compared with the second quarter. On a monthly basis, exports to East Asia increased for the seventh consecutive month.

By goods (Chart 7[2]), exports of all goods, with the exception of capital goods and parts, turned to an increase in the second quarter compared with the previous quarter; in July-August, exports of all goods—including capital goods and parts—increased compared with the second quarter. On a monthly basis, exports of intermediate goods increased for the sixth consecutive month; those of motor vehicles

and their related goods and capital goods and parts increased for the fifth consecutive month.

Real imports have turned to an increase, mainly due to the increase in production (Charts 6[1] and 9). The pace of decrease in imports moderated noticeably in the second quarter, and imports turned to an increase in July-August compared with the second quarter. Looking at monthly developments, imports have increased for the six consecutive months since March.

Looking at imports in July-August compared with the second quarter by goods (Chart 9[2]), those of IT-related goods and consumer goods continued to increase, and those of raw materials, intermediate goods, and foodstuffs turned to an increase. Imports of capital goods and parts continued to decrease, but they turned to an increase on an excluding aircraft basis.

Net exports—in terms of the real trade balance—rebounded largely in the second quarter and continued to increase in the third quarter (Chart 6[2]). The nominal balance on goods and services, after returning to a surplus in the second quarter, marked a surplus in July-August on par with the second quarter.

Exports are expected to continue increasing as economic conditions overseas continue to improve. According to large manufacturing firms' DI for overseas supply and demand conditions for products in the September *Tankan*, improvement was forecast to continue over the next three months; the net "excess demand" was -43 in June; -33 in September; -27 for the December forecast.

As for the environment surrounding exports, economic conditions overseas have picked up (Chart 8[2]). In the United States and Europe, economic conditions had been deteriorating amid severe financial conditions, but they have stopped worsening in response to the progress in inventory adjustments and to the improvement in business and household sentiments. In China, the economy has continued to grow at a fast pace, notably in domestic demand, due to the effects of fiscal policies. In other East Asian countries, economic conditions have also picked up. Economic conditions overseas are expected to continue improving as fiscal and

monetary policies continue to exert their positive effects. Significant uncertainty regarding economic conditions overseas does, however, exist. In the United States and the EU, economic conditions might diverge downward, since adjustment for significant excesses seems to require a considerable amount of time. On the other hand, in emerging countries, they might diverge upward. 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 has recently been moving somewhat toward appreciation (Chart 8[1]).

Imports are expected to continue increasing gradually in response to the improvement in domestic economic conditions.

The decline in business fixed investment, which mainly reflects weak corporate profits, has been moderating. Looking at monthly indicators, the aggregate supply of capital goods and shipments of capital goods (both including and excluding transport equipment)—coincident indicators of machinery investment—had been decreasing rapidly after peaking at the end of 2007; recently, however, they seem to have begun to stop decreasing (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 is becoming moderate (Chart 11[1]). By industry, in manufacturing, machinery orders—after increasing in the second quarter compared with the first quarter—decreased in July-August compared with the second quarter, in part as a reaction to the increase in the second quarter. On the other hand, in nonmanufacturing, machinery orders remained essentially unchanged in July-August compared with the second quarter, after decreasing in the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—remained more or less unchanged in July-August compared with the second quarter, after decreasing substantially in the second quarter (Chart 11[2]).

Looking at the environment surrounding business fixed investment, corporate profits have turned upward, despite being at extremely low levels, partly due to the progress in cost cutting among firms in areas such as personnel expenses. According

to business plans in the September *Tankan* (all industries and enterprises), current profits in fiscal 2009 were forecast to decrease for the third consecutive fiscal year, by 19.3 percent. Looking at the ratio of current profit to sales by industry and firm size on a semi-annual basis, the ratio of large firms of both manufacturing and nonmanufacturing was forecast to continue improving toward the second half of fiscal 2009 from their previous bottom, which occurred in the second half of fiscal 2008. The ratio of small firms of both manufacturing and nonmanufacturing was also forecast to turn upward in the first half of fiscal 2009—their previous bottom—a little later than large firms.² Under these circumstances, firms' business sentiment in the September *Tankan* has shown some improvement, mainly among large manufacturing firms (Chart 13).

Although business fixed investment is expected to stop worsening gradually, it is likely to be relatively weak for the time being, with corporate profits remaining severe and the sense of excess capacity still strong. According to business fixed investment plans for fiscal 2009 (excluding software investment and including land purchasing expenses, year-on-year basis) in the September *Tankan* (Chart 14), plans of large firms declined, by 10.8 percent; they were revised downward by 1.5 percent compared with the June survey, and the size of revision was somewhat smaller than the average revising pattern usually seen in September surveys. Plans of small firms declined substantially, by 33.3 percent; they were revised upward by 5.1 percent compared with the June survey, but the size of revision was also somewhat smaller than the average revising pattern.³

Private consumption has remained generally weak, with the exception of durable consumer goods, which have been firm mainly because various measures have taken effect (Charts 15 and 16). Sales at department stores have remained on a decreasing trend, but recently, at a somewhat softer pace. On the other hand, the decreasing trend in sales at supermarkets has become somewhat stronger. Sales at convenience stores have also become weak recently. As for durable consumer

² The average of predicted exchange rates by large manufacturing firms, however, was 94.50 yen to the US dollar.

³ On a "software and fixed investment excluding land purchasing expenses" basis—a concept close to that of GDP—business fixed investment of all industries and enterprises (including financial institutions, year-on-year basis) for fiscal 2009 was projected to decline by 12.7 percent.

goods, sales of household electrical appliances (in real terms) have continued to increase substantially, especially in flat panel televisions, mainly due to the eco-point system.⁴ The number of new passenger-car registrations had been dropping sharply until March, but it has recovered rapidly since April, mainly due to the effects of tax reduction and subsidies; it marked an increase in September following August, on a year-on-year basis.⁵ As for services consumption, outlays for travel have continued to drop due to the deterioration in the employment and income situation, but they picked up somewhat in July-August. Sales in the food service industry have recently decreased markedly, partly due to the decline in customer transaction.

Looking at the *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above—they were both relatively weak as a trend, even though recent movements of indices including and excluding the effects of the increase in the number of stores were somewhat different (Chart 17[1]).⁶ The aggregate supply of consumer goods (Chart 17[2])—which comprehensively captures producers' supply of goods—increased in July-August compared with the second quarter following an increase in the second quarter, as a reflection of developments in durable consumer goods (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—remained essentially unchanged in

⁴ According to the eco-point 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." The system began on May 15, and ends at the end of March 2010.

⁵ 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 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 being granted to eco-friendly cars purchased since April 10. This measure will end with the registration of new passenger-cars in March 2010.

⁶ The *Indices of Aggregated Sales* are the weighted averages of individual sales indicators. "Outlays for travel" in August 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 August was at the same level as that for July.

July-August compared with the second quarter, following the second quarter.⁷ On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms) increased noticeably in July-August compared with the second quarter following a rise in the second quarter, mainly due to the increase in durable consumer goods (Chart 15[1]).

Meanwhile, indicators related to consumer sentiment have continued to remain at low levels, but they have generally improved, mainly due to various demand-boosting policy measures, in addition to the decline in retail prices (Chart 18).

Private consumption is likely to remain generally weak amid the severe employment and income situation, with the exception of durable consumer goods, which should be supported by the effects of various measures for the time being.

Housing investment has decreased. The number of housing starts (Chart 19[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 and 711,000 units in July-August. It has been decreasing significantly since last fall, as the employment and income situation has become increasingly severe and as 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 has been increasing, reflecting progress in inventory adjustments and policy effects both at home and abroad. On a monthly basis, production increased for the sixth consecutive month in August, marking a 1.8 percent rise. On a quarterly basis, after decreasing substantially in the first quarter, by 22.1 percent, production rebounded, marking an increase of 8.3 percent in the second quarter and 6.5 percent in July-August compared with the second quarter (Chart 20).

⁷ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

However, the level of production in August was still at 76.4 percent compared with its latest peak (February 2008). Looking at production in July-August compared with the second quarter by industry, production increased in a wide range of industries, notably in transport equipment, iron and steel, and electronic parts and devices, in response to the increase in exports and to the recovery in domestic automobile sales.

Shipments increased by 6.4 percent in the second quarter and 7.0 percent in July-August compared with the second quarter, after decreasing substantially by 21.0 percent in the first quarter. Looking at recent developments in shipments by goods (Chart 21), those of durable consumer goods and producer goods have been increasing noticeably, after dropping largely since last fall. Shipments of capital goods and construction goods have begun to stop decreasing. Those of non-durable consumer goods, meanwhile, have remained more or less unchanged.

The pace of decline in inventories has moderated (Chart 22). Looking at the shipment-inventory balance by goods, inventory adjustment pressures for electronic parts and devices and durable consumer goods have disappeared, partly because shipments have picked up. Inventories of capital goods (excluding transport equipment) and other producer goods (such as chemicals and iron and steel) have also improved gradually as a whole. On the other hand, inventory adjustment pressures have remained strong for construction goods, reflecting the drop in shipments.

As for the outlook, production is expected to continue increasing for the time being, mainly due to policy effects both at home and abroad. According to anecdotes from firms, production is expected to essentially maintain the pace of increase on par with that of the second quarter, in the third quarter; in the fourth quarter, production is expected to continue increasing, although at a slower pace.⁸ However, firms' views on production toward the next fiscal year have remained cautious due to the large uncertainty concerning economic conditions overseas and to

⁸ Looking at the production forecast index, production in September and October is expected to mark an increase of 1.1 percent and 2.2 percent, respectively, on a month-on-month basis. Based on this forecast, production in the third quarter is expected to increase by 7.2 percent compared with the second quarter. Also, production in the fourth quarter is expected to increase by 3.6 percent compared with the third quarter, when calculated under the assumption that the production level of November-December is the same as that of October.

domestic sales of automobiles, whose subsidies are scheduled to be cut off at the end of this fiscal year.

The employment and income situation has continued to remain severe with the high unemployment rate and the significant decrease in employee income.

In the labor market, the ratio of job offers to applicants in August marked the same figure as July (0.42 times), after decreasing for fourteen consecutive months and marking new worst-ever levels for three consecutive months (Chart 23[1]); The unemployment rate registered 5.7 percent in July, which was the highest ever level. In August, the unemployment rate decreased marginally to 5.5 percent, but attention should be paid to the possibility that the decrease might be a temporary phenomenon. Looking at the employment conditions DI in the September *Tankan*, for manufacturing, the pace of expansion in the net "excessive employment" in large and small firms moderated; it was forecast to continue moderating over the next three months. As for nonmanufacturing, the pace of expansion in the net "excessive employment" in large firms accelerated but, looking ahead, the pace in large and small firms was forecast to moderate (Chart 25).

In terms of employment (Chart 24[1]), the year-on-year decline in the number of employees in the *Labour Force Survey* decelerated in July and August, after accelerating in June; the number of employees in July and August declined by 1.4 percent and 1.3 percent, after declining to 2.0 percent in June.⁹ As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year rate of increase has recently continued to be around 0 percent, after decelerating rapidly. The ratio of part-time employees has risen gradually (Chart 24[2]). Meanwhile, overtime hours worked, after decreasing substantially, have begun to stop declining, especially in the manufacturing industry (Chart 24[3]).

⁹ When looking at the *Monthly Labour Survey*, data, including those released in the future, need to be averaged, as half of the samples are newly extracted every month. Meanwhile, with regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that in August, the number of applications for the subsidy decreased compared with July, although the level remained high (2.43 million employees in July, 2.11 million employees in August).

Nominal wages per employee declined by 4.5 percent in July-August, after a 4.7 percent decrease in the second quarter—when the pace of decline accelerated—on a yearly basis (Chart 26[1]). In detail, regular and overtime payments have continued to drop, mainly reflecting the decrease in the number of working hours especially in the manufacturing industry. Special payments in June-August decreased substantially, by 13.9 percent on a year-on-year basis, in response to the significant deterioration in corporate profits.

Employee income has decreased substantially, reflecting the aforementioned developments in employment and wages (Chart 26[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.

2. Prices

The three-month rate of change in import prices (on a yen basis) was around 0 percent in September, although it had continued increasing since spring in response to developments in international commodity prices (Chart 28). International commodity prices have recently remained more or less unchanged. Domestic commodity prices have also remained more or less unchanged in response to the developments in international commodity prices.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹⁰ has been around 0 percent due to the past rise in international commodity prices, although the slack in supply and demand conditions for products has persisted (Chart 29). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" rose for the sixth consecutive month, reflecting price developments of petroleum and

¹⁰ The figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when electric power consumption increases substantially.

coal products and of nonferrous metals. Prices of "other materials" have increased, mainly due to the rise in prices of chemicals and related products. The pace of decline in prices of "iron and steel and construction goods" and "electric power, gas and water" has decelerated. On the other hand, prices of "machinery" and "others" have continued to decline marginally; the former has declined, mainly in general machinery & equipment and transportation equipment, as has the latter, mainly in processed foodstuffs. Looking at domestic demand products as a whole, including imports, the pace of increase in prices of raw materials has decelerated in response to the developments in international commodity prices. Prices of intermediate goods have stopped declining due to the deceleration in the pace of decline in prices of iron and steel, as well as to the increase in prices of electric power charges. Prices of final products, meanwhile, have remained more or less unchanged.

The year-on-year rate of change in corporate services prices (excluding external factors)¹¹ has continued to be negative, mainly reflecting cost cutting among firms (Chart 30).¹² In detail, prices of advertising services have fallen largely below the previous year's level because firms have been cautious about placing advertisements; prices of items such as information services and leasing and rental have fallen below the previous year's level, mainly due to weak demand.

The year-on-year decline in consumer prices (excluding fresh food, same hereafter) has accelerated mainly due to the prices of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole (Chart 31). Consumer prices in August marked a decrease of 2.4 percent on a year-on-year basis, a decline of 0.2 percent point from the previous month; they also marked the largest-ever pace of decrease for the fourth 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 turned to a decline. Recently, the pace of decline in prices of durable consumer goods and other goods including

¹¹ "Excluding external factors" means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

¹² "All items including external factors" has continued to decrease significantly on a year-on-year basis, mainly in ocean freight transportation.

daily necessities has also accelerated. The year-on-year decline in prices of general services has accelerated, mainly because mobile telephone charges, prices of package tours to overseas, and prices of services related to domestic duties have declined at a faster pace and because the pace of increase in prices of "eating out" has moderated. As for public utility charges—mainly electricity charges and city gas charges—the pace of decline has accelerated on a year-on-year basis, mainly due to the reduction in electricity charges and city gas charges.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 32), the net "excess supply" of the supply and demand conditions DI for products and services continued to be substantially large, but the pace of expansion slowed. The weighted average of the production capacity DI and employment conditions DI improved somewhat, after its net "excessive" expanded rapidly, to a point near the bottom marked in the past economic slowdown.¹³ In this circumstance, the net "fall" of the output prices DI continued to expand significantly.

Domestic corporate goods prices are likely to remain more or less unchanged for the time being. The pace of decline in consumer prices is expected to stabilize at around the current level of the year-on-year rate, and moderate over time as the effects of the prices of petroleum products, which are lower than their high levels a year ago, abate.

Meanwhile, looking at developments in land prices through the *Land Price Survey by Prefectural Governments* as of July (Chart 33), the year-on-year decline in average land prices in Japan accelerated compared with last year; this year, prices declined by 4.4 percent, while those of last year marked a decline of 1.2 percent. Average land prices in Japan have declined for the eighteen consecutive years since 1992.

¹³ The supply-demand gap—calculated by the Research and Statistics Department of the Bank of Japan—and the weighted average DI of the *Tankan* have recently shown a large discrepancy. It is highly possible that the level of "excess" of the weighted average DI might be under-rated, as two things are not reflected in the DI: (i) the size of "excess" because reporting firms are only asked to select either "excess" or "lack;" and (ii) unemployment etc. at organizations other than firms. On the other hand, it is also highly possible that the recent pace of decrease in the supply-demand gap might be over-rated, as calculation errors tend to be large, particularly at times when there are large changes in the economy.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have remained stable at low levels, since supply-demand conditions have remained eased, mainly against the backdrop of the Bank of Japan's ample provision of funds. Meanwhile, sentiments in these markets have remained nervous to some extent, with the volume of transactions in some markets still low. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 34[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 of steady demand among banks for investing their excess funds. 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 35[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 34[2]). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has been below the level for that of the Japanese yen (Chart 35).

Yields on 10-year government bonds (newly issued 10-year JGB) have continued to decline somewhat, as loan-deposit balances of banks, investors in JGBs, have continued to improve and cautious views on the durability and the pace of improvement in economic conditions have strengthened somewhat. The yields have recently been at around 1.3 percent (Chart 36).

Yield spreads between corporate bonds and government bonds have been more or less flat for those with high credit ratings due to steady demand among investors. As for those with low credit ratings, spreads of some corporate bonds, mainly in some industries, have remained more or less unchanged at relatively high levels, with selective stances on investment in corporate bonds persisting among investors (Chart 37).¹⁴

¹⁴ The substantial narrowing in spreads of BBB-rated corporate bonds was due to the fact that some bonds with large spreads were downgraded and excluded from the calculation; the spreads would have remained more or less unchanged without this effect.

Stock prices have been relatively weak, compared with those in the United States and Europe, partly reflecting concerns about negative effects of the appreciation of the yen on corporate profits as well as the uncertainty surrounding a future tightening of regulations against financial institutions. The Nikkei 225 Stock Average has recently been at around 10,000 yen (Chart 38).

In the foreign exchange market, the yen has continued to appreciate against the U.S. dollar, mainly reflecting narrowing spreads between U.S. and Japanese interest rates; the yen has recently been traded at around 89 yen to the U.S. dollar (Chart 39).

(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 0.24 percent in September, following 0.26 percent in August. Issuance rates on corporate bonds have declined somewhat, especially for firms with high credit ratings. On the other hand, the average contracted interest rates on new loans and discounts have recently been more or less unchanged (Chart 41).

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 (Chart 40). Issuing conditions for CP and corporate bonds have been favorable, except for low-rated corporate bonds. In these circumstances, funding of the private sector has increased at a slower pace, partly due to the decline in firms' needs to fund working capital and fixed investment. The pace of increase in bank lending has slowed (Chart 42). The amount outstanding of CP issued has decreased, partly because of the decline in firms' needs to fund 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 43).

In these circumstances, firms' financial positions, although many firms, mainly small ones, still see them as weak, have continued to improve as a whole (Chart 40). The number of corporate bankruptcies was down by 18.0 percent in September compared to the previous year's level (Chart 45).

Meanwhile, the money stock (M2) has been at around 3.0 percent, year-on-year. Its September reading was 3.0 percent on a year-on-year basis, following 2.8 percent in August (Chart 44).¹⁵

¹⁵ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been at around 2 percent. Its September reading was 2.2 percent, following 2.0 percent in August. Broadly-defined liquidity was at around 0.5 percent, year-on-year; it increased by 0.5 percent in September, year-on-year, following an increase of 0.1 percent in August.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2009/Q1	Q2	Q3	2009/Jun.	Jul.	Aug.	Sep.
Index of consumption expenditure level (two-or-more-person households)	1.0	-0.2	n.a.	0.7	-1.4	2.0	n.a.
Sales at department stores	-3.9	-2.3	n.a.	4.5	-4.5	p 3.0	n.a.
Sales at supermarkets	-1.3	-1.3	n.a.	-0.4	-1.2	p -0.4	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 213>	< 241>	< 291>	< 255>	< 280>	< 296>	< 298>
Sales of household electrical appliances (real, Current Survey of Commerce)	7.1	4.8	n.a.	2.5	2.5	p 4.2	n.a.
Outlays for travel	-5.0	-14.2	n.a.	-8.6	12.9	0.2	n.a.
Housing starts <s.a., ann. 10,000 units>	< 90>	< 76>	<n.a.>	< 75>	< 75>	< 68>	<n.a.>
Machinery orders (from private sector ⁴)	-9.9	-4.9	n.a.	9.7	-9.3	0.5	n.a.
Manufacturing	-31.1	10.8	n.a.	14.6	-20.4	4.9	n.a.
Nonmanufacturing ⁴	4.9	-12.1	n.a.	7.3	-2.8	-0.6	n.a.
Construction Starts (private, nondwelling use)	-1.1	-34.9	n.a.	23.5	1.0	-17.8	n.a.
Mining & manufacturing	-25.8	-41.0	n.a.	35.3	14.0	-46.2	n.a.
Nonmanufacturing ⁵	7.5	-34.5	n.a.	20.6	-2.5	-6.1	n.a.
Value of public works contracted	3.7	5.4	n.a.	-1.0	2.0	4.6	n.a.
Real exports	-28.9	12.4	n.a.	5.8	2.4	1.5	n.a.
Real imports	-17.9	-1.7	n.a.	0.8	3.3	1.0	n.a.
Industrial production	-22.1	8.3	n.a.	2.3	2.1	p 1.8	n.a.
Shipments	-21.0	6.4	n.a.	3.5	2.4	p 1.0	n.a.
Inventories	-9.0	-4.5	n.a.	-1.1	-0.3	p 0.0	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 150.1>	< 128.8>	<n.a.>	< 128.8>	< 123.6>	<p 122.6>	<n.a.>
Real GDP	-3.3	0.6	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-6.2	0.4	n.a.	0.2	0.5	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2009/Q1	Q2	Q3	2009/Jun.	Jul.	Aug.	Sep.
Ratio of job offers to applicants <s.a., times>	< 0.59>	< 0.45>	<n.a.>	< 0.43>	< 0.42>	< 0.42>	<n.a.>
Unemployment rate <s.a., %>	< 4.5>	< 5.2>	<n.a.>	< 5.4>	< 5.7>	< 5.5>	<n.a.>
Overtime working hours ⁶	-19.7	-18.2	n.a.	-17.6	-16.4	p -15.2	n.a.
Number of employees	-0.3	-1.7	n.a.	-2.0	-1.4	-1.3	n.a.
Number of regular employees ⁶	0.6	0.1	n.a.	0.0	-0.1	p -0.1	n.a.
Nominal wages per person ⁶	-3.0	-4.7	n.a.	-7.0	-5.6	p -3.1	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	-1.8 <-3.2>	-5.4 <-1.3>	p -8.3 <p -0.2>	-6.7 <-1.3>	-8.5 <-0.7>	-8.5 <-0.1>	p -7.9 <p 0.2>
Consumer price index ⁸	-0.1	-1.0	n.a.	-1.7	-2.2	-2.4	n.a.
Corporate services price index	-2.4	-2.9	n.a.	-3.2	-3.4	p -3.5	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.1	2.6	p 2.8	2.5	2.7	2.8	p 3.0
Number of corporate bankruptcies <cases per month>	<1,405>	<1,318>	<1,261>	<1,422>	<1,386>	<1,241>	<1,155>

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

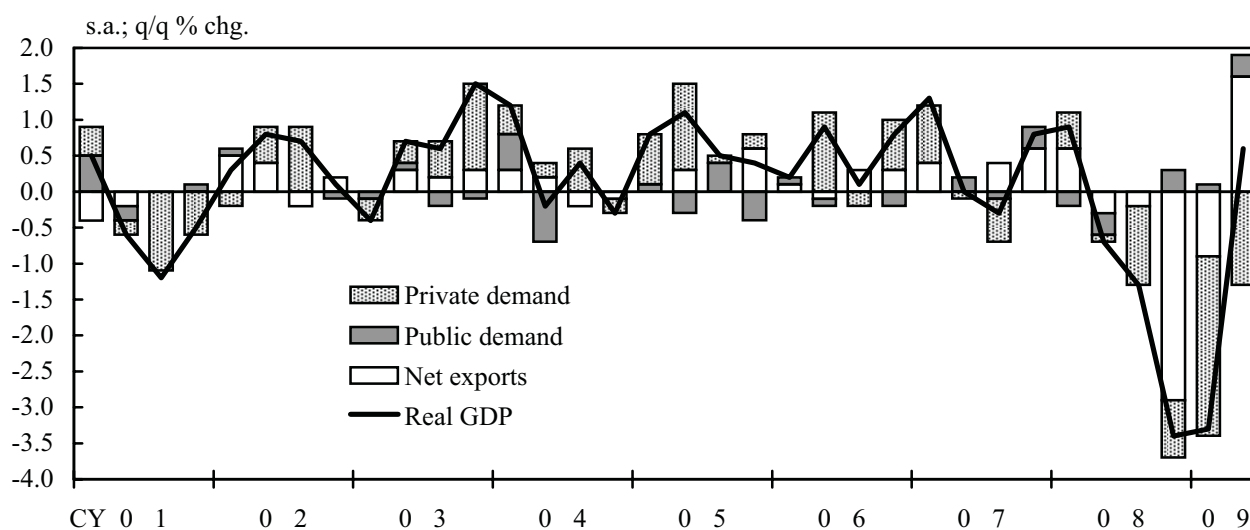
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

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



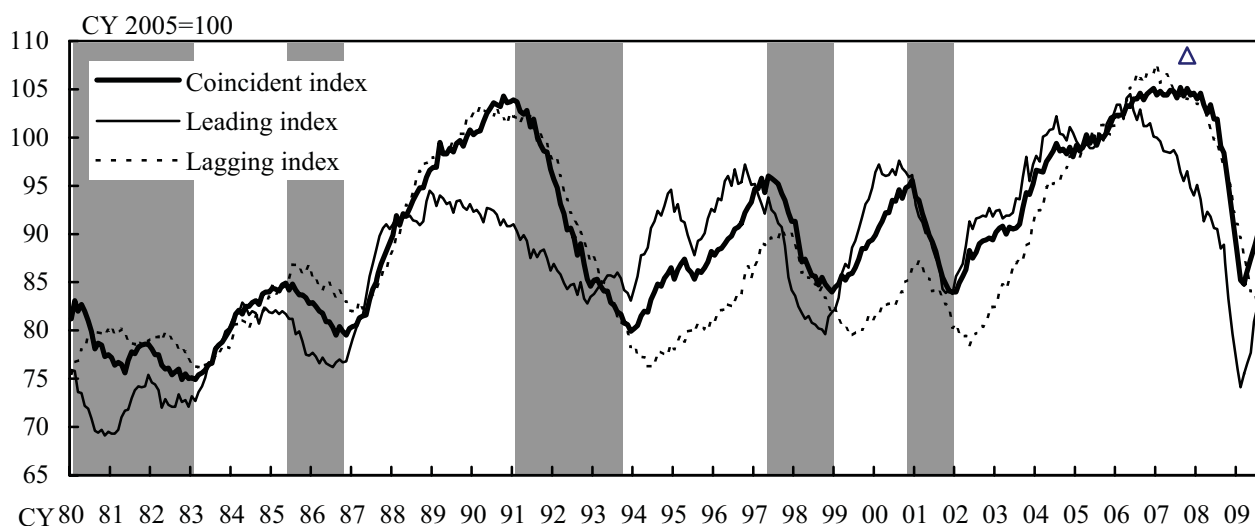
(2) Components

s.a.; q/q % chg.

	2008			2009	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.7	-1.3	-3.4	-3.3	0.6
Domestic demand	-0.4	-1.1	-0.5	-2.4	-1.1
Private demand	-0.1	-1.1	-0.8	-2.5	-1.3
Private consumption	-0.5	0.1	-0.4	-0.7	0.5
Non-Resi. investment	-0.2	-0.8	-1.1	-1.3	-0.7
Residential investment	0.0	0.1	0.1	-0.2	-0.3
Private inventory	0.6	-0.5	0.6	-0.3	-0.8
Public demand	-0.3	0.0	0.3	0.1	0.3
Public investment	-0.2	0.1	0.1	0.1	0.3
Net exports of goods and services	-0.3	-0.2	-2.9	-0.9	1.6
Exports	-0.8	-0.1	-2.5	-3.6	0.8
Imports	0.5	-0.0	-0.4	2.7	0.8
Nominal GDP	-1.1	-2.6	-1.2	-2.7	-0.5

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

(3) Indexes of Business Conditions (Composite Indexes)

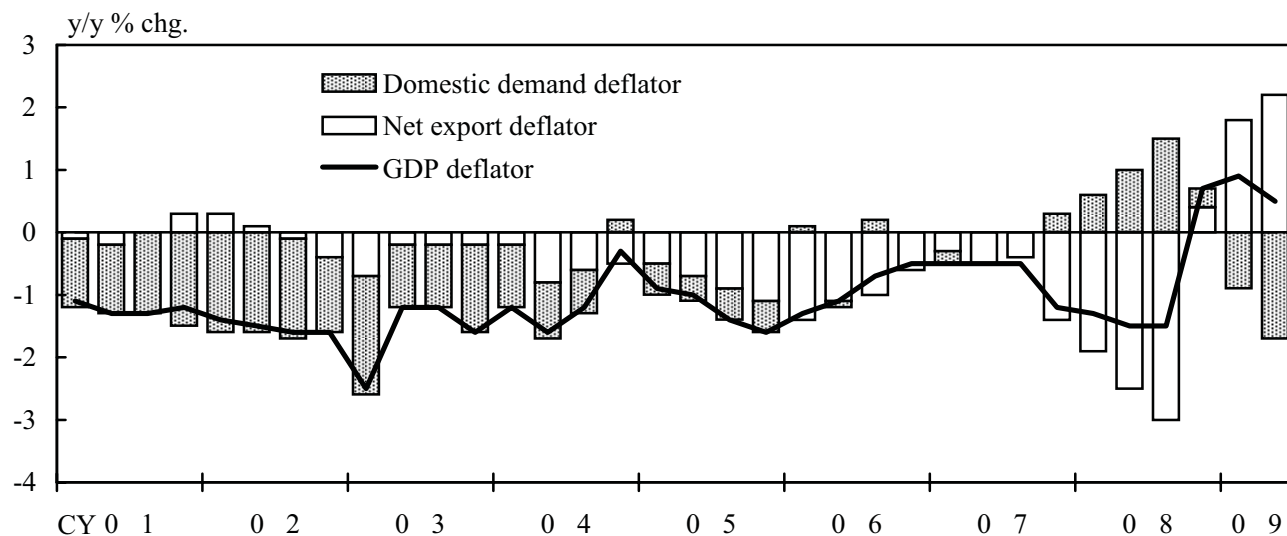


Note: Shaded areas indicate recession periods. Triangle shows the last peak.

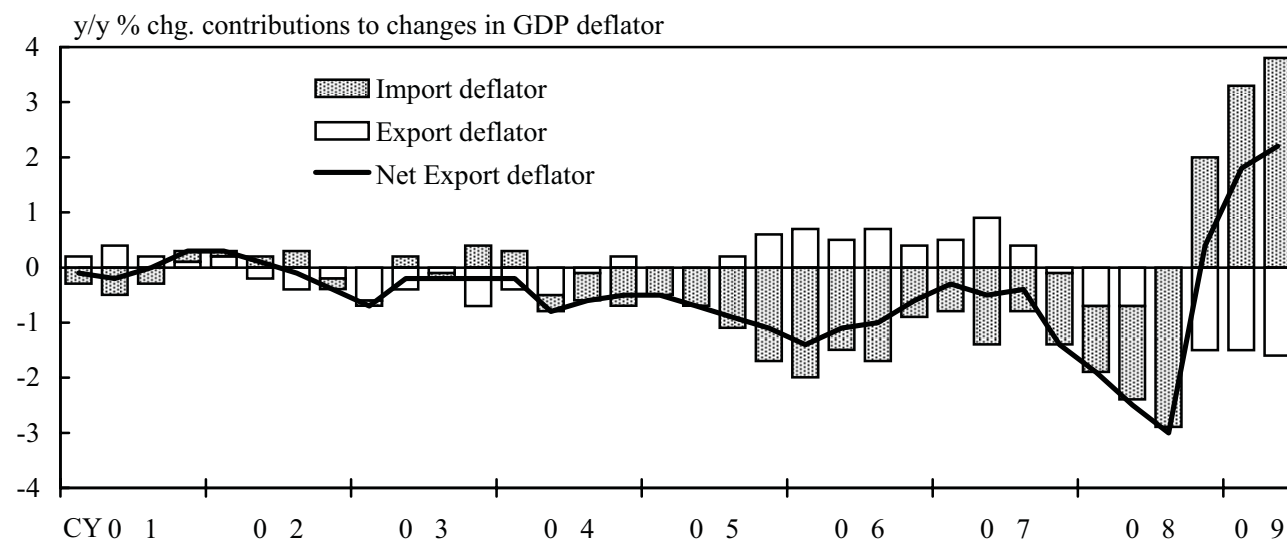
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

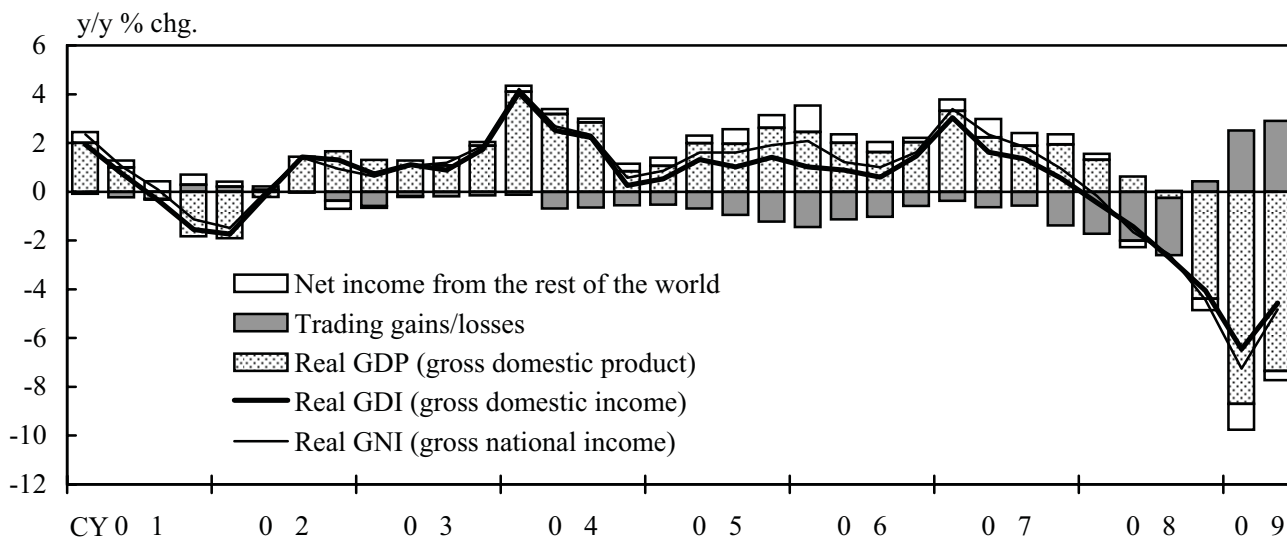
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



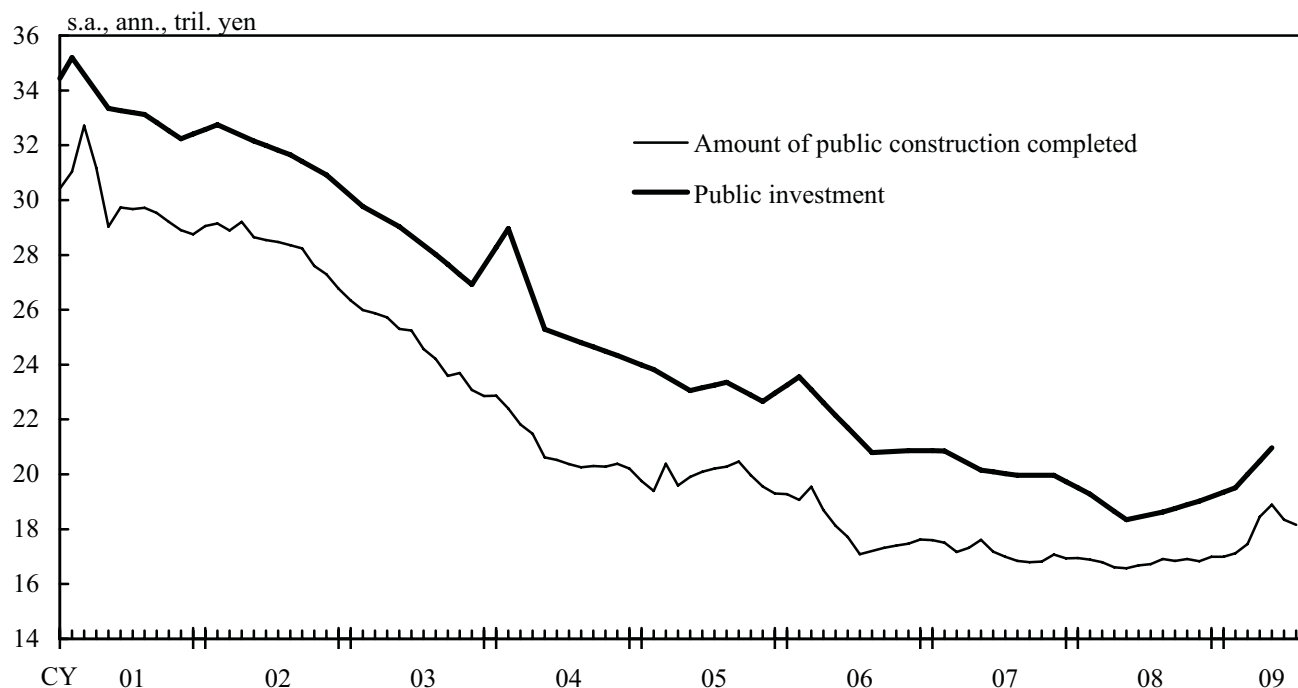
Note: Figures of components indicate contributions to changes in real GNI.

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

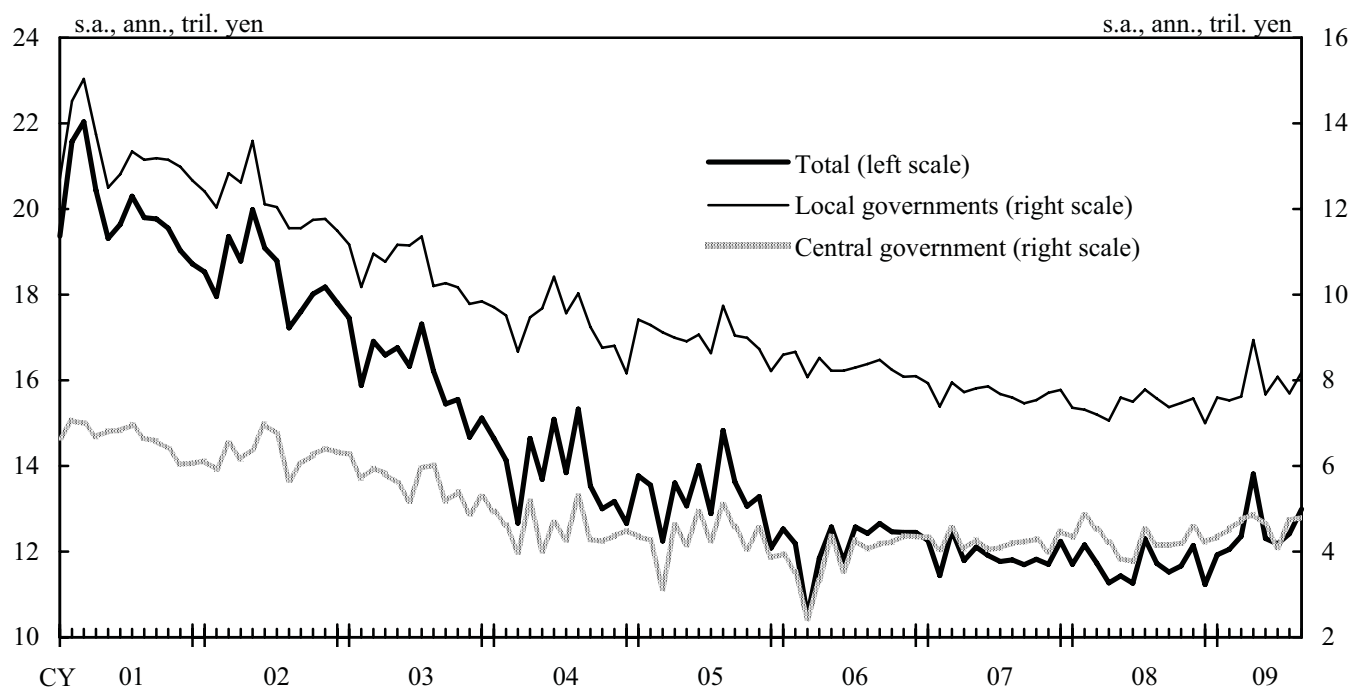
Source: Cabinet Office, "National Accounts."

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.

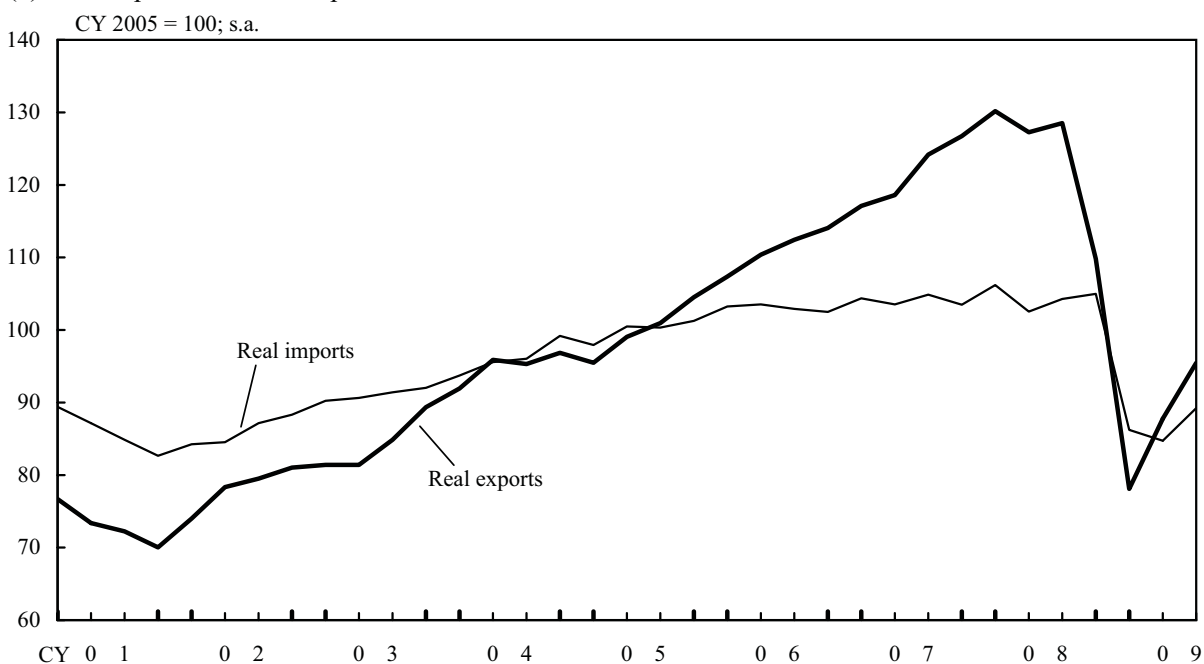
Sources: Cabinet Office, "National Accounts";

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

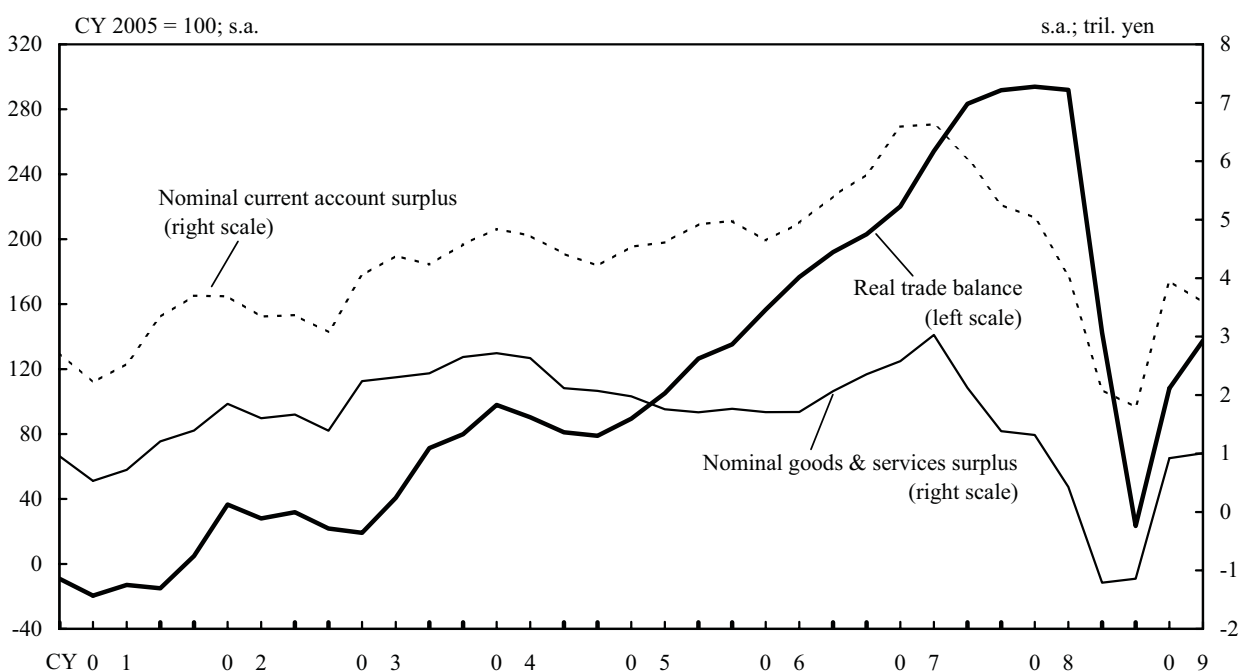
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

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.
 3. 2009/Q3 figures are July-August averages converted into quarterly amount.

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 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Jun.	2009 Jul.	2009 Aug.
United States	<17.5>	-1.2	-8.9	-4.9	-9.0	-35.7	11.9	8.1	8.1	-4.5	8.1
EU	<14.1>	13.0	-0.1	-2.8	-17.1	-27.0	4.9	0.0	2.3	-3.1	1.4
East Asia	<46.8>	9.9	3.3	-0.4	-15.6	-22.2	18.2	10.5	3.5	5.9	0.2
China	<16.0>	16.8	6.7	-1.3	-14.7	-17.1	19.7	5.9	3.0	4.2	-2.5
NIEs	<22.1>	5.2	-0.1	0.8	-18.4	-22.4	19.3	11.3	3.0	6.3	2.3
Korea	<7.6>	5.3	-0.3	2.2	-21.5	-13.5	12.9	8.1	4.4	1.2	6.3
Taiwan	<5.9>	0.0	-4.4	-2.5	-21.8	-19.7	22.1	10.0	1.6	4.5	2.6
ASEAN4 ³	<8.8>	11.4	6.3	-1.5	-9.9	-30.7	12.3	18.7	5.9	8.4	0.6
Thailand	<3.8>	9.8	4.9	1.2	-6.5	-36.1	12.1	25.7	9.6	10.6	6.8
Others	<21.5>	20.4	16.1	1.9	-7.9	-30.7	-6.0	7.7	9.4	6.7	-6.9
Real exports		9.1	1.8	1.0	-14.6	-28.9	12.4	8.8	5.8	2.4	1.5

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Jun.	2009 Jul.	2009 Aug.
Intermediate goods	<18.9>	5.3	0.3	0.8	-7.9	-16.4	18.4	6.8	5.9	1.2	0.5
Motor vehicles and their related goods	<23.8>	13.2	3.2	-1.4	-14.5	-50.7	20.3	20.1	12.9	2.7	4.2
Consumer goods ⁴	<4.1>	6.4	3.5	-4.4	-12.1	-26.9	8.9	3.7	-0.0	8.3	-6.8
IT-related goods ⁵	<10.2>	12.2	0.7	-0.3	-20.8	-25.9	35.3	4.9	6.8	-2.5	1.8
Capital goods and parts ⁶	<28.3>	8.0	5.2	-1.0	-9.9	-26.5	-0.8	6.3	0.3	4.9	1.5
Real exports		9.1	1.8	1.0	-14.6	-28.9	12.4	8.8	5.8	2.4	1.5

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q3 figures are July-August averages converted into quarterly amount.

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.

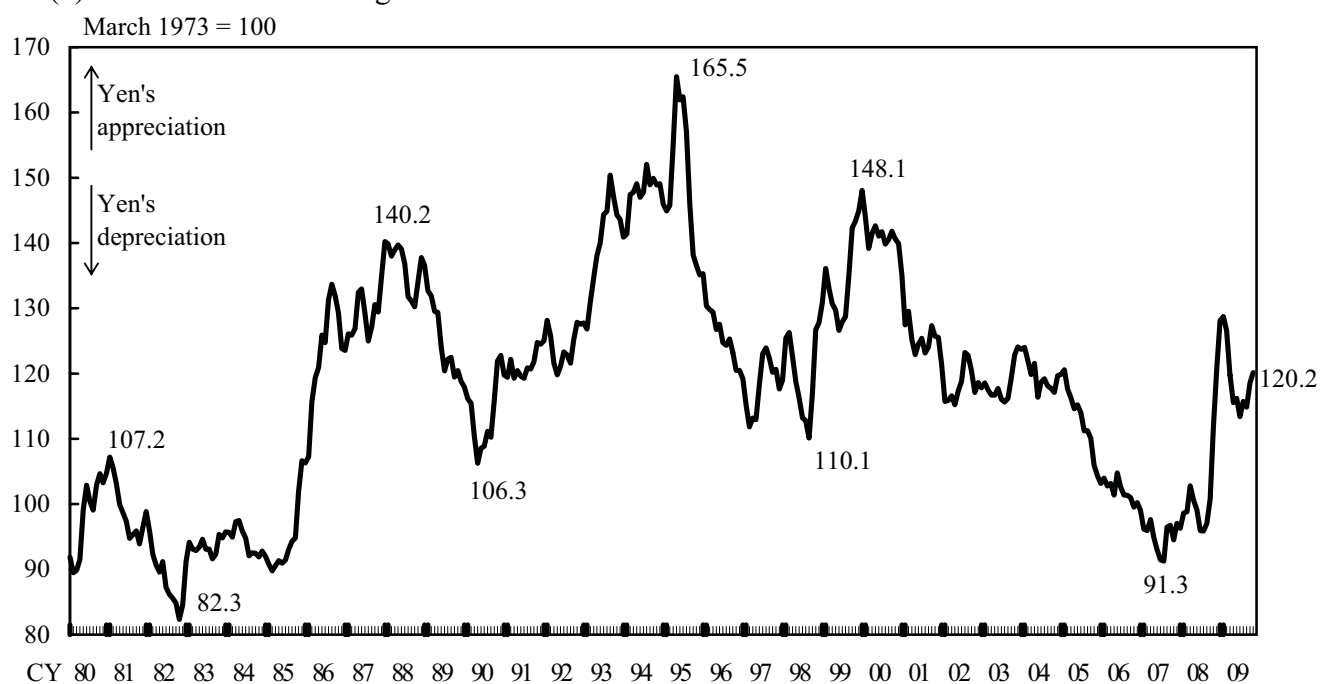
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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 October 2009 is the average up to October 13.
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 Q4	2009 Q1	Q2	Q3	
United States ¹		2.7	2.1	0.4	-5.4	-6.4	-0.7	n.a.	
European Union ¹		3.2	2.9	0.8	-7.2	-9.4	-1.2	n.a.	
	Germany	3.2	2.5	1.3	-9.4	-13.4	1.3	n.a.	
	France	2.4	2.3	0.3	-5.7	-5.4	1.1	n.a.	
	United Kingdom	2.9	2.6	0.6	-6.9	-9.6	-2.3	n.a.	
East Asia ²	China	11.6	13.0	9.0	6.8	6.1	7.9	n.a.	
	NIEs	Korea	5.2	5.1	2.2	-3.4	-4.2	-2.2	n.a.
		Taiwan	4.8	5.7	0.1	-8.6	-10.1	-7.5	n.a.
		Hong Kong	7.0	6.4	2.4	-2.6	-7.8	-3.8	n.a.
		Singapore	8.4	7.8	1.1	-4.2	-9.5	-3.2	0.8
	ASEAN4	Thailand	5.2	4.9	2.6	-4.2	-7.1	-4.9	n.a.
		Indonesia	5.5	6.3	6.1	5.2	4.4	4.0	n.a.
		Malaysia	5.8	6.2	4.6	0.1	-6.2	-3.9	n.a.
Philippines		5.3	7.1	3.8	2.9	0.6	1.5	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 Q3	2009 Q4	2009 Q1	Q2	Q3	2009 Jun.	Jul.	Aug.
United States	<10.2>	-1.5	-2.6	1.1	-2.7	-14.4	-7.7	0.4	8.7	-4.1	1.9
EU	<9.2>	4.0	-3.0	-3.4	-2.3	-10.4	-2.7	2.0	2.3	-7.0	9.3
East Asia	<37.9>	3.1	2.3	1.1	-0.2	-17.6	0.8	5.4	2.4	2.1	1.7
China	<18.8>	5.7	4.3	3.1	-1.2	-15.1	-0.7	4.8	1.1	3.0	0.3
NIEs	<8.0>	-3.8	-1.2	-0.9	-6.3	-20.6	10.0	4.9	5.5	-2.9	5.2
Korea	<3.9>	-3.3	-5.4	-1.1	-6.6	-20.5	6.1	8.5	3.2	-0.7	7.9
Taiwan	<2.9>	-3.0	3.5	0.2	-6.4	-22.0	14.5	4.0	5.1	-3.8	2.2
ASEAN4 ³	<11.1>	4.5	1.1	-1.5	7.4	-20.6	-3.2	7.1	2.3	4.4	2.0
Thailand	<2.7>	4.4	2.3	2.5	-1.9	-21.8	-0.3	8.1	0.7	5.1	4.8
Others	<42.7>	0.2	2.0	2.0	3.1	-18.8	-4.0	6.7	-6.6	9.7	1.1
Real imports		0.7	0.2	1.7	0.7	-17.9	-1.7	5.3	0.8	3.3	1.0

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2008 Q3	2009 Q4	2009 Q1	Q2	Q3	2009 Jun.	Jul.	Aug.
Raw materials ⁴	<42.0>	0.7	1.0	1.9	4.4	-20.3	-5.4	9.2	-5.4	11.0	2.5
Intermediate goods	<14.1>	2.0	1.7	0.9	4.3	-19.1	-8.0	11.0	7.9	3.5	8.0
Foodstuffs	<7.9>	-9.5	-3.7	2.0	11.2	-2.9	-4.9	0.5	1.1	1.0	-3.5
Consumer goods ⁵	<6.9>	-0.1	-2.7	0.6	-2.7	-16.2	3.7	3.5	2.4	0.4	0.1
IT-related goods ⁶	<9.5>	4.2	4.3	1.0	-7.9	-17.2	12.5	3.4	0.8	2.4	1.4
Capital goods and parts ⁷	<11.2>	8.5	2.8	0.6	-9.2	-18.7	-6.2	-3.0	3.9	-6.6	-0.8
Excluding aircraft	<10.5>	7.9	3.6	-2.4	-4.5	-23.7	-1.2	1.2	0.3	-3.9	3.7
Real imports		0.7	0.2	1.7	0.7	-17.9	-1.7	5.3	0.8	3.3	1.0

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2009/Q3 figures are July-August averages converted into quarterly amount.

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.

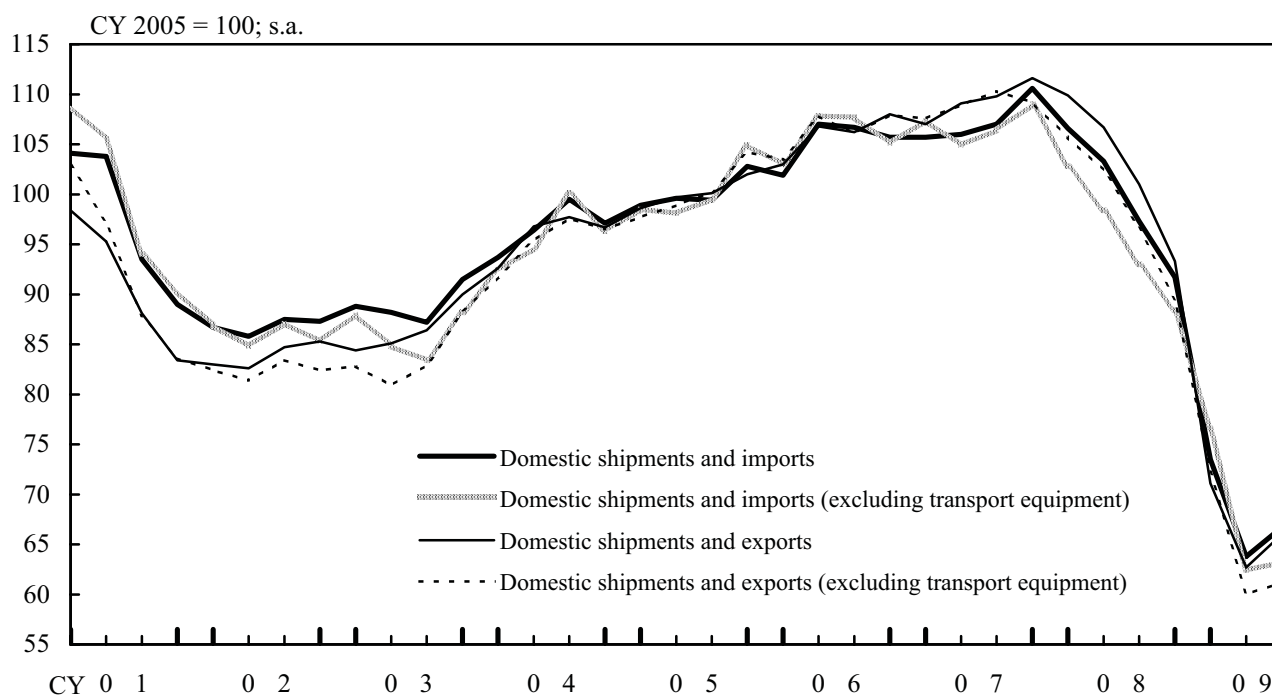
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

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

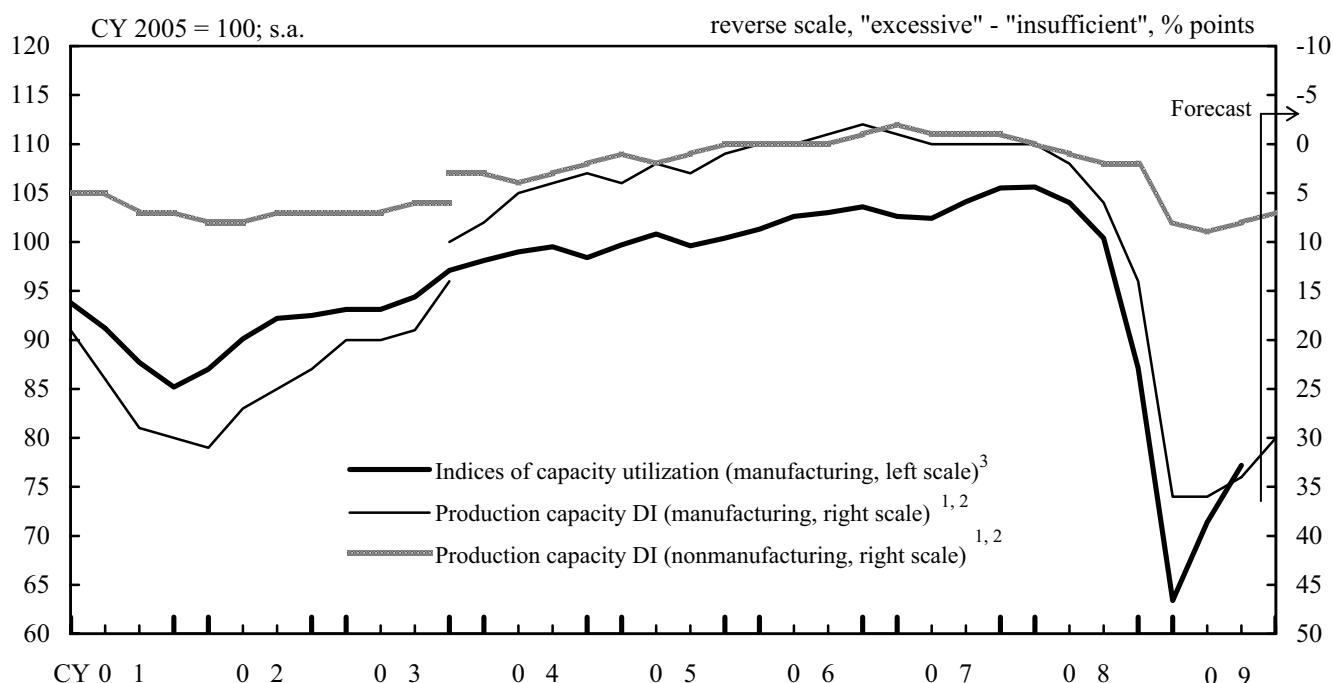
Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2009/Q3 are those of July-August averages.

(2) Indices of Capacity Utilization and Production Capacity DI



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

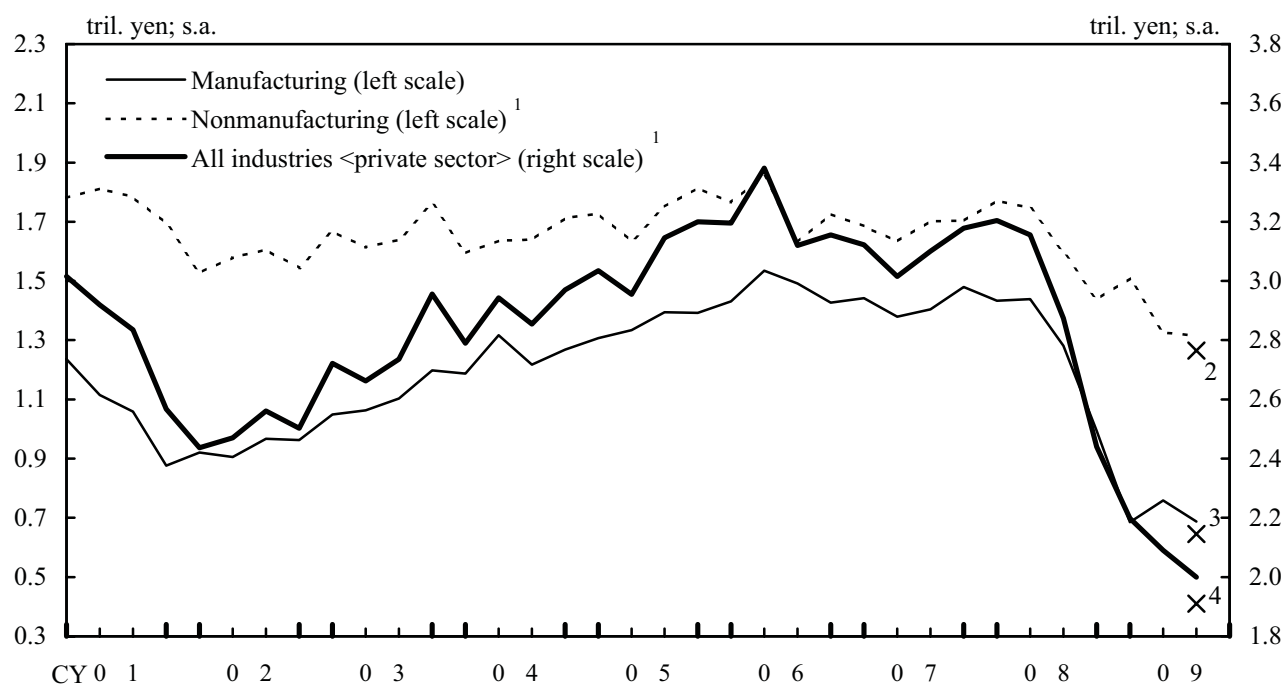
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2009/Q3 is that of July.

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



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

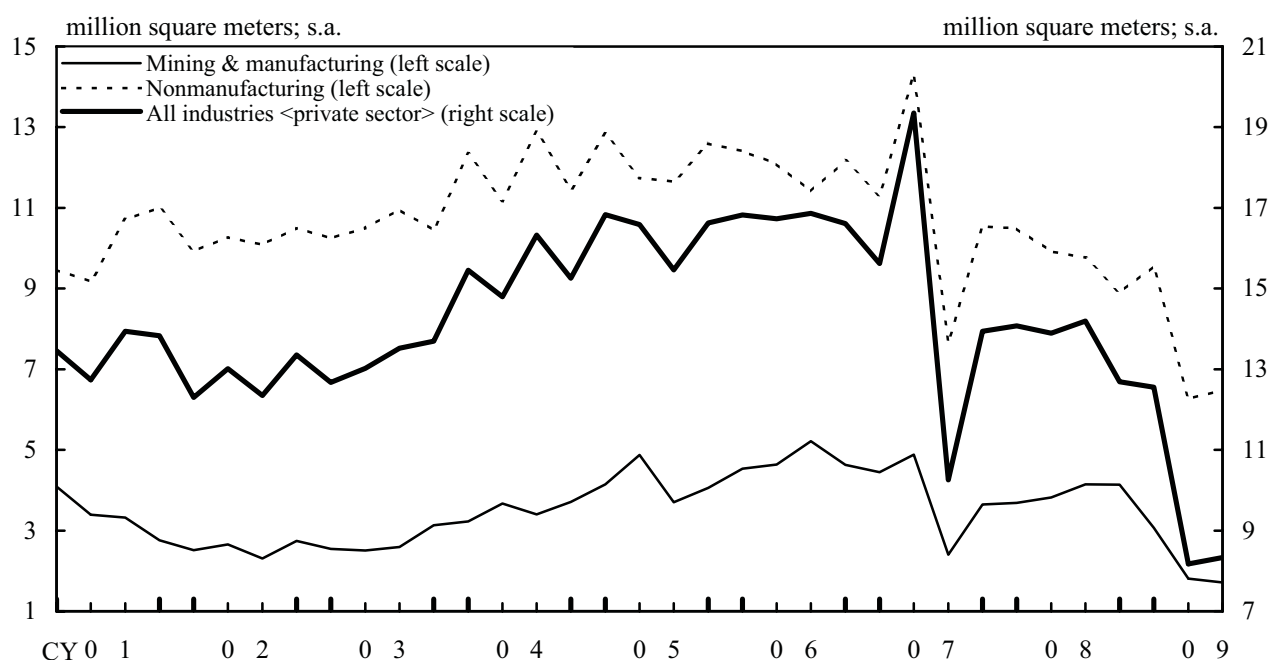
2. Forecast of nonmanufacturing industries for 2009/Q3.

3. Forecast of manufacturing industries for 2009/Q3.

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

5. Figures for 2009/Q3 are those of July-August in terms of quarterly amount.

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



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

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

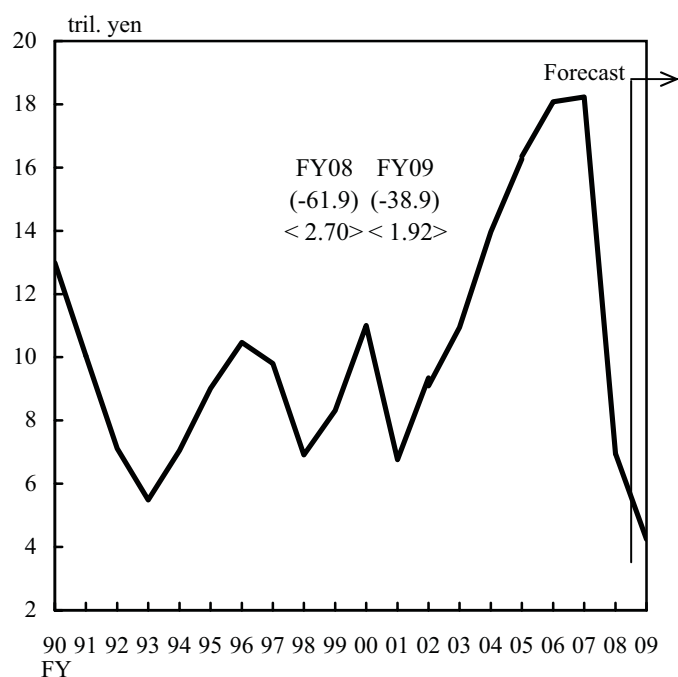
3. Figures for 2009/Q3 are those of July-August in terms of quarterly amount.

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

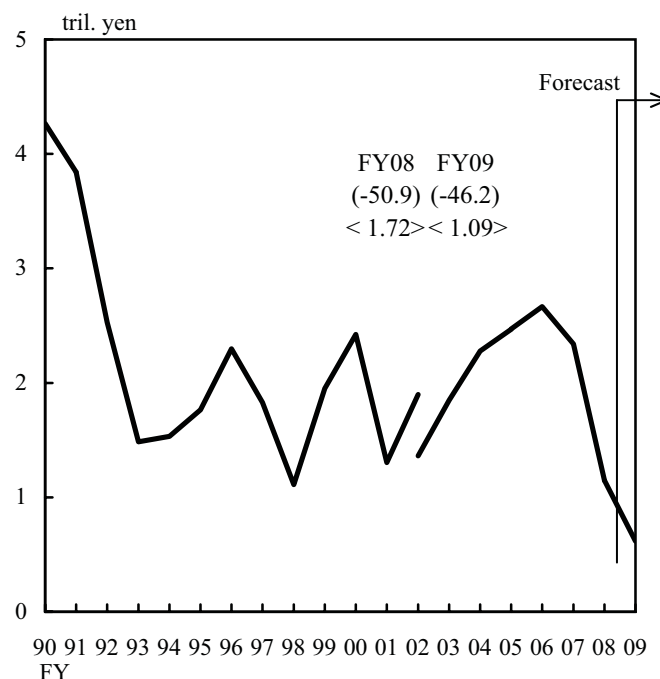
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

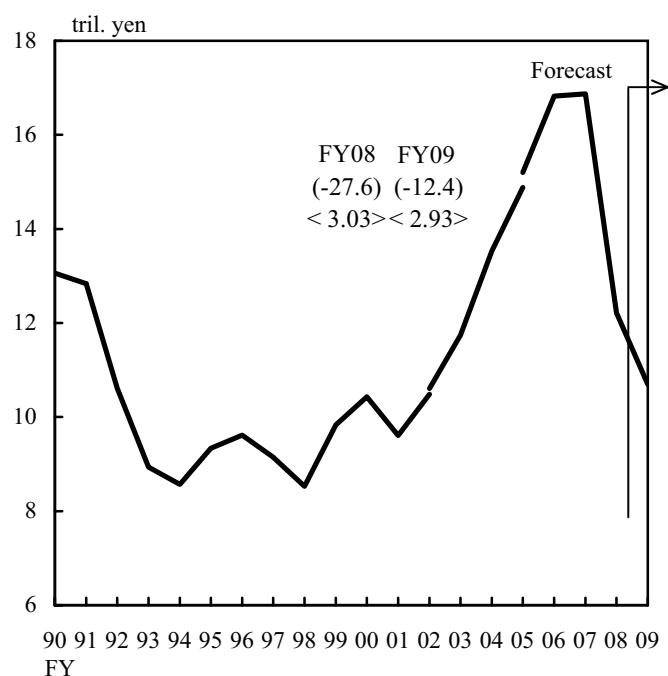
(1) Large Manufacturing Enterprises



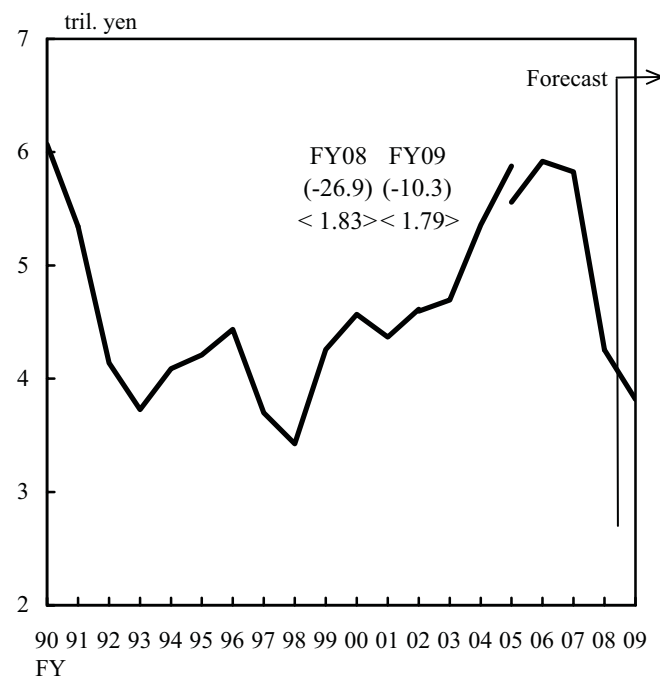
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



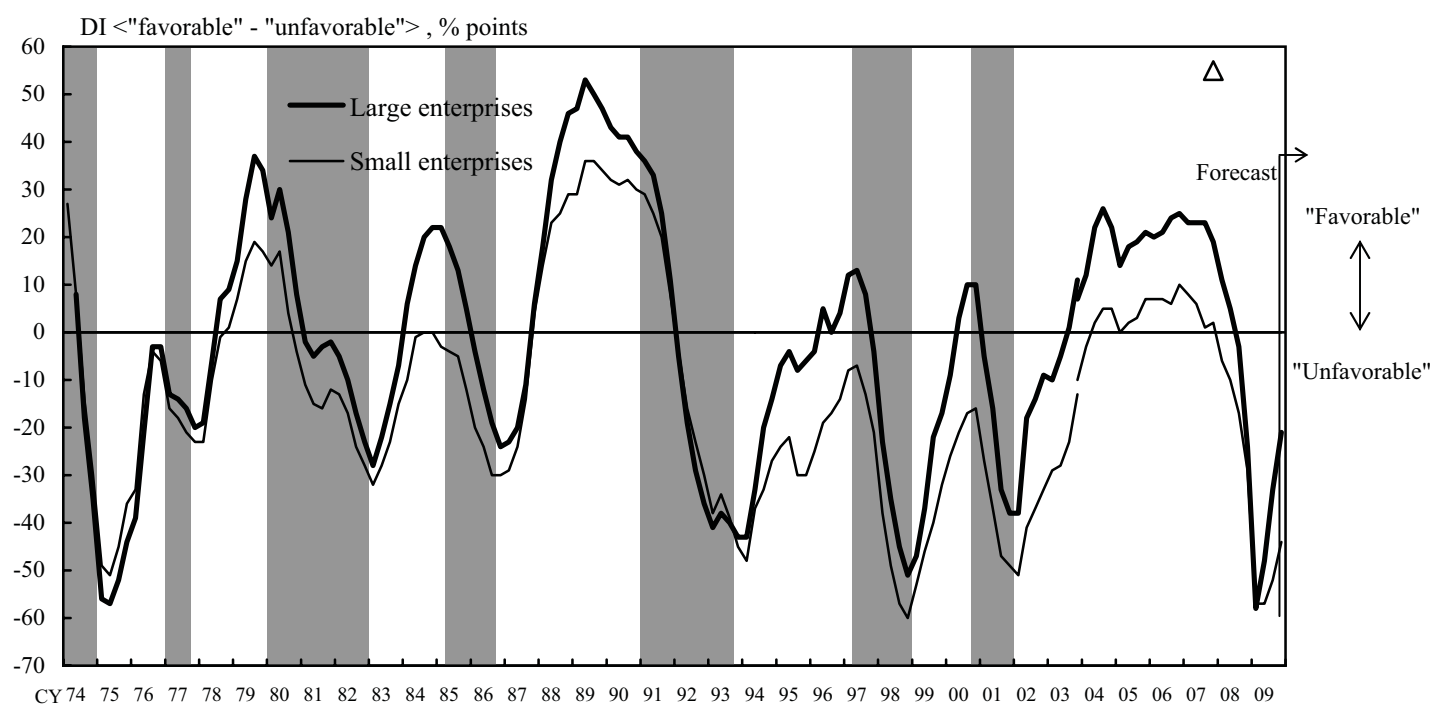
Notes: 1. (): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. In the March 2007 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

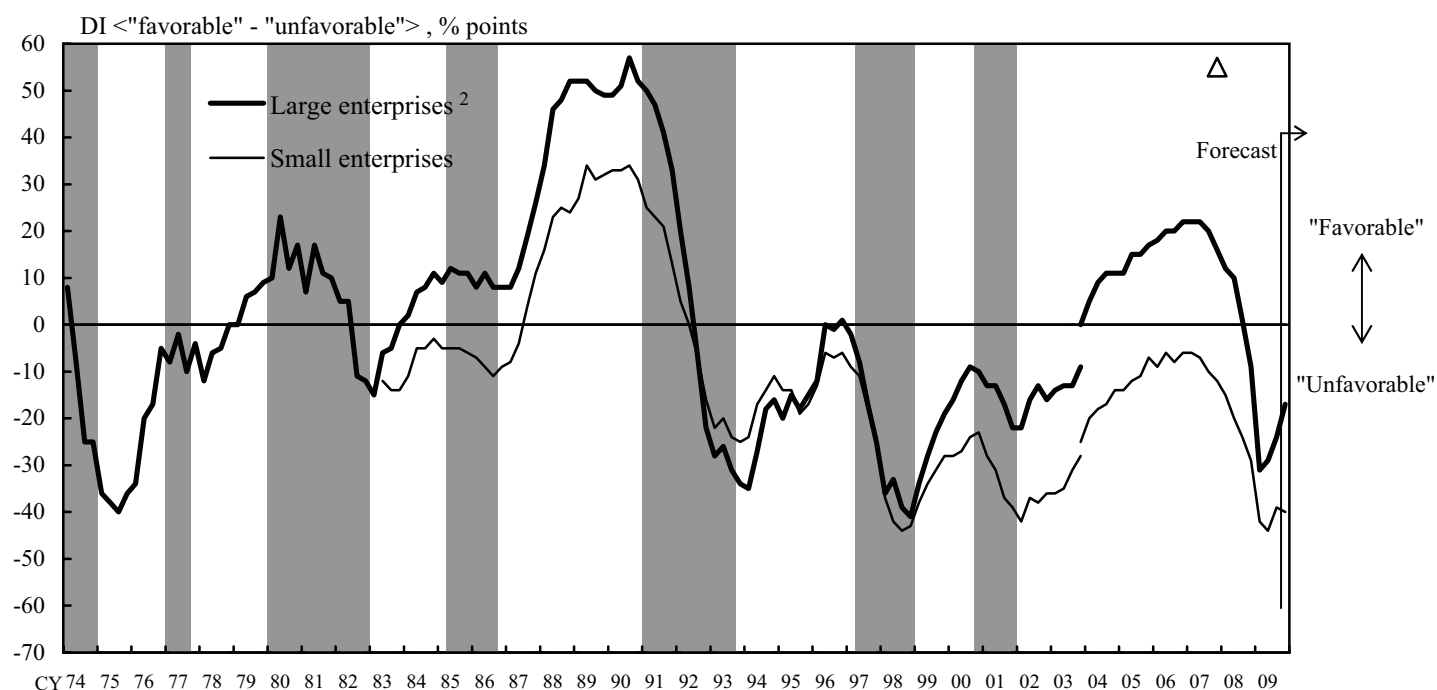
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Conditions

(1) Manufacturing



(2) Nonmanufacturing



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

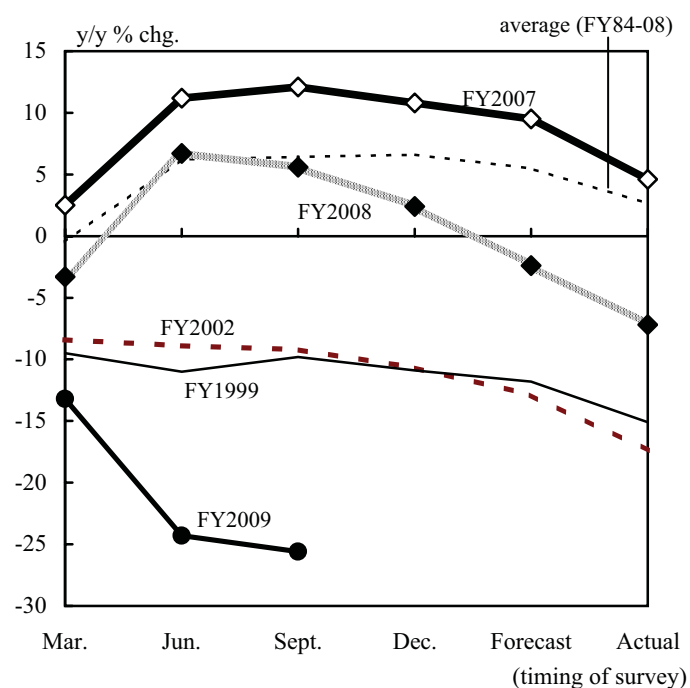
2. Data prior to Feb. 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods. Triangle shows the last peak.

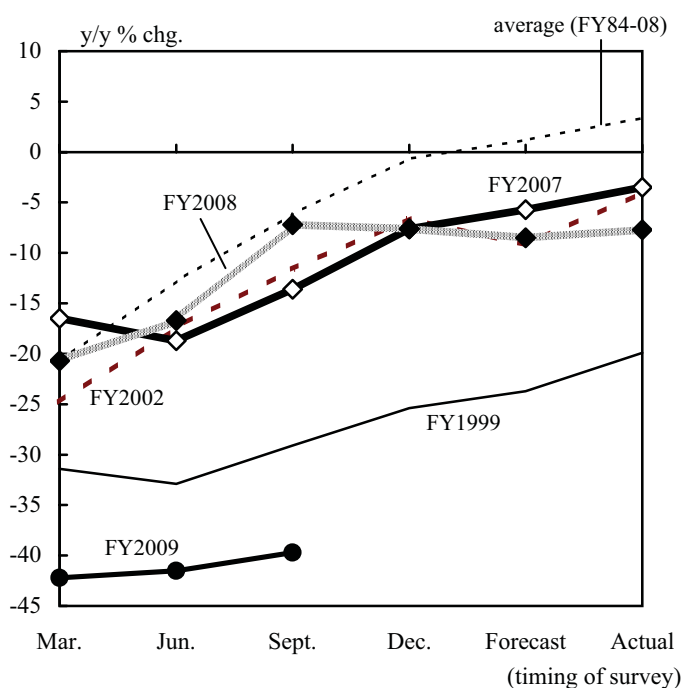
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

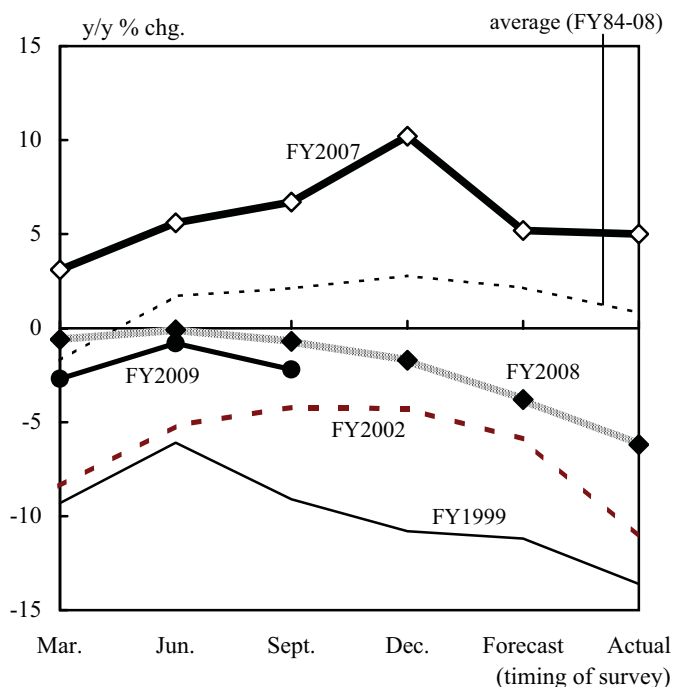
(1) Large Manufacturing Enterprises



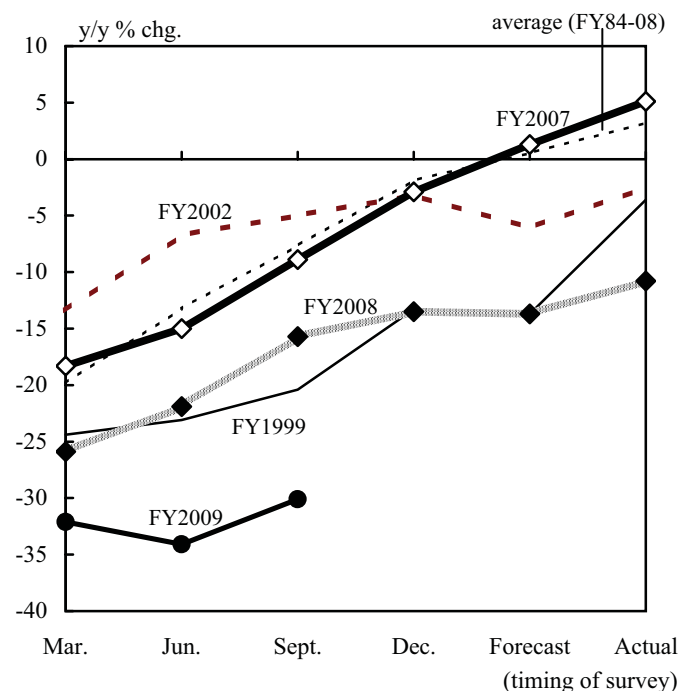
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



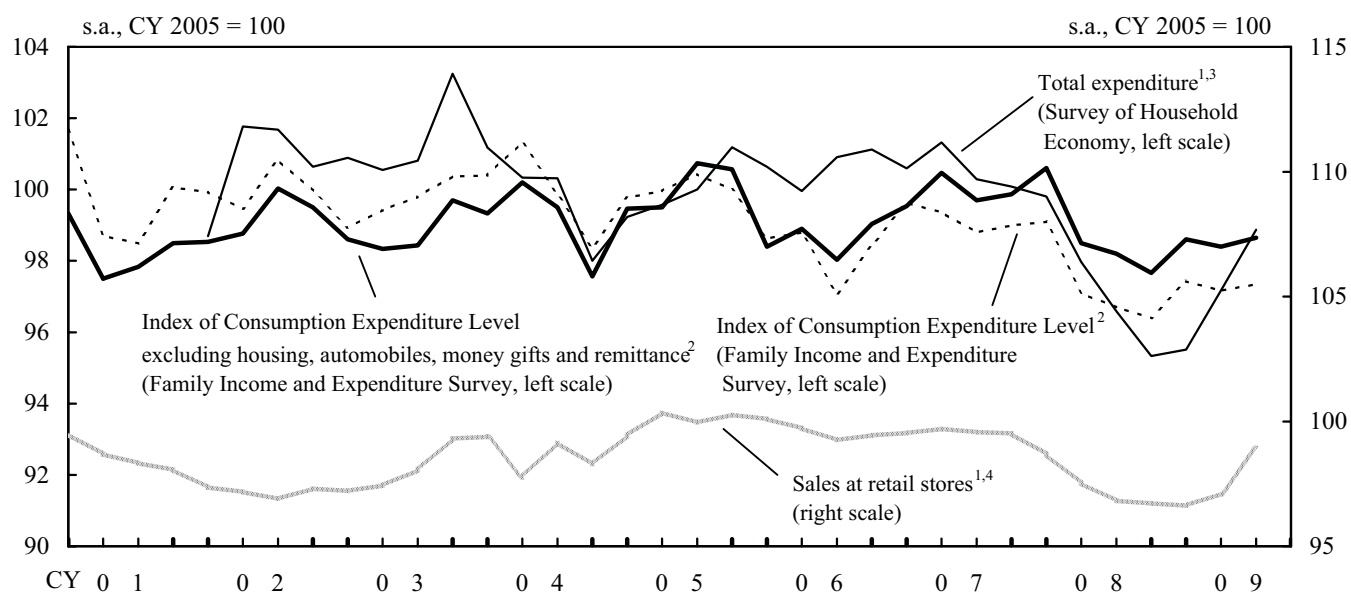
(4) Small Nonmanufacturing Enterprises



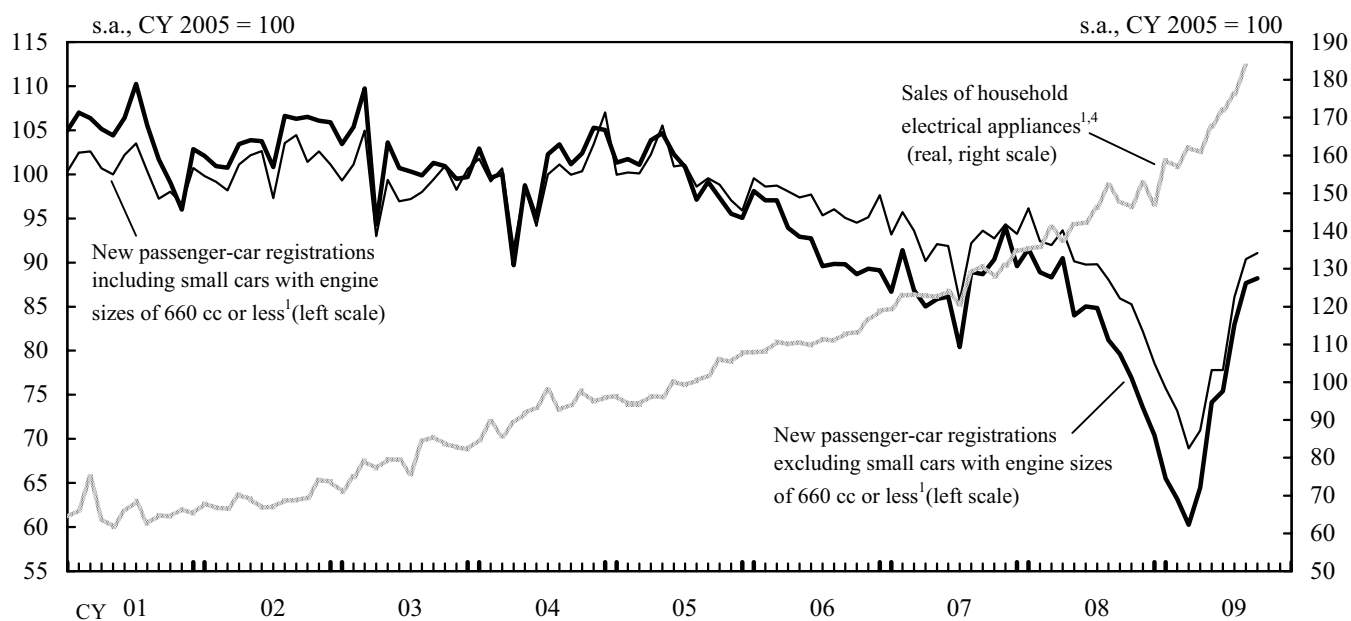
Note : Includes land purchasing expenses and excludes software investment.

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

Indicators for Private Consumption (1)

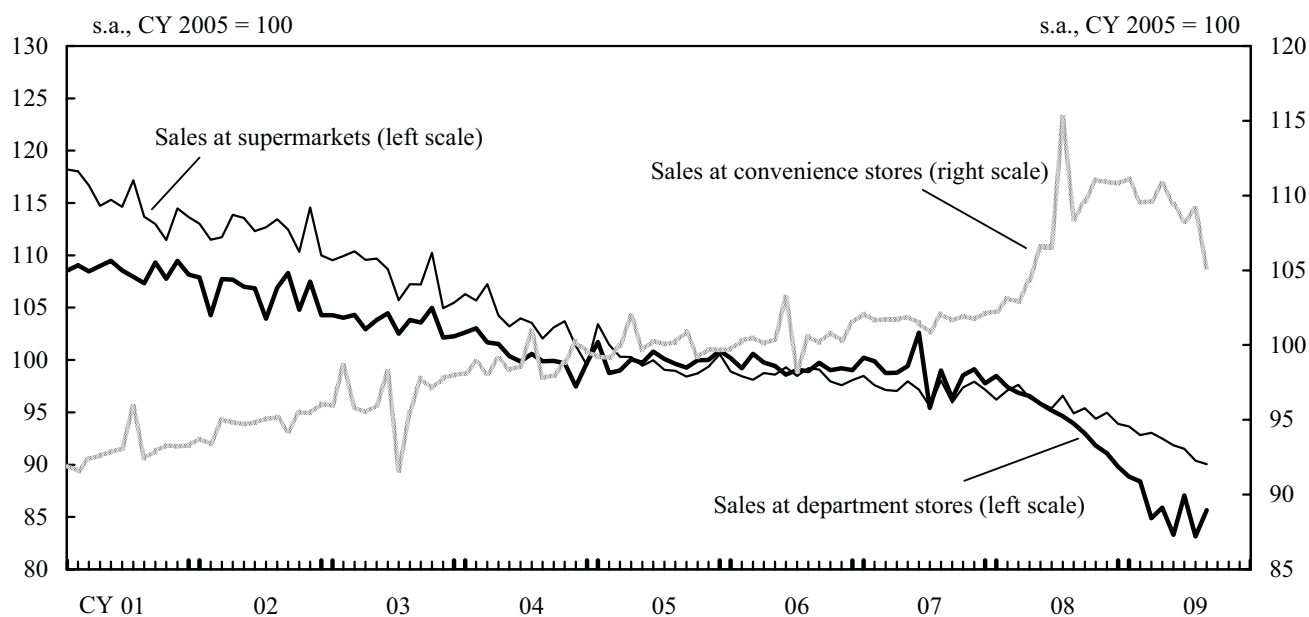
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

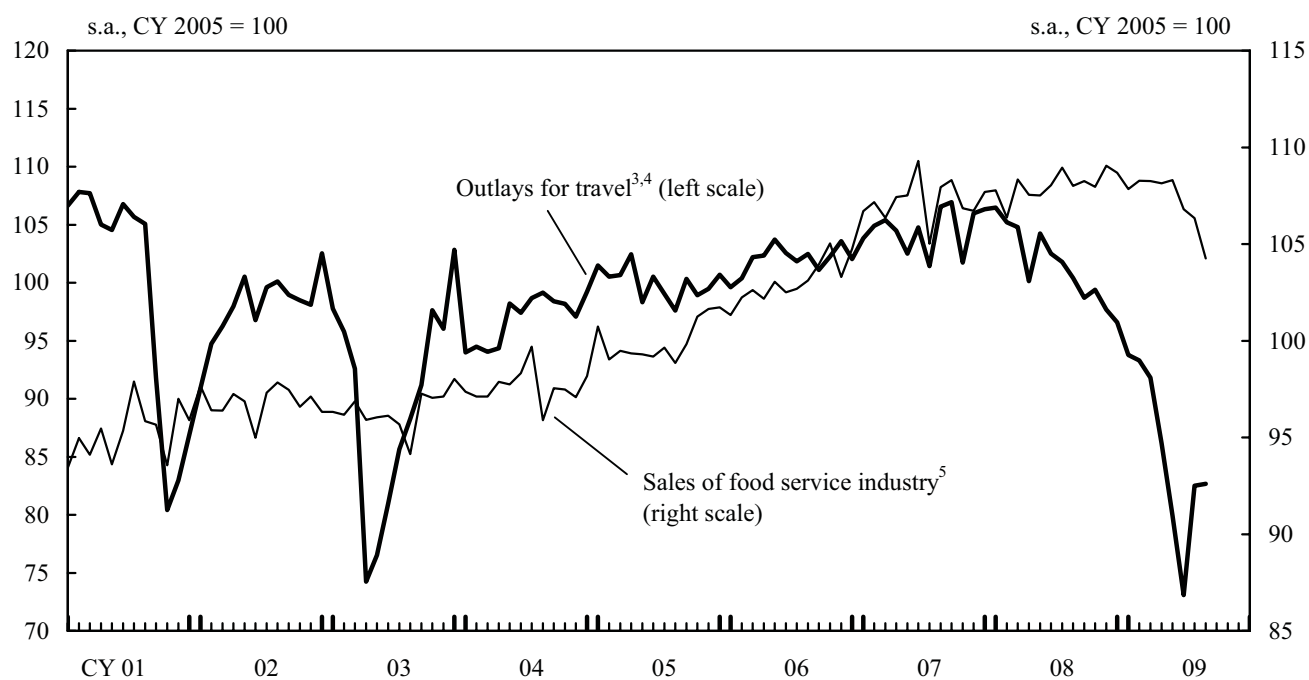


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household 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).
5. Figures for 2009/Q3 are those of July-August averages in terms of quarterly amount.

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

Indicators for Private Consumption¹ (2)(1) Sales at Retail Stores (Nominal)²

(2) Consumption of Services (Nominal)



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

2. Adjusted to exclude the effects of the increase in the number of stores (except convenience stores).

3. 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";

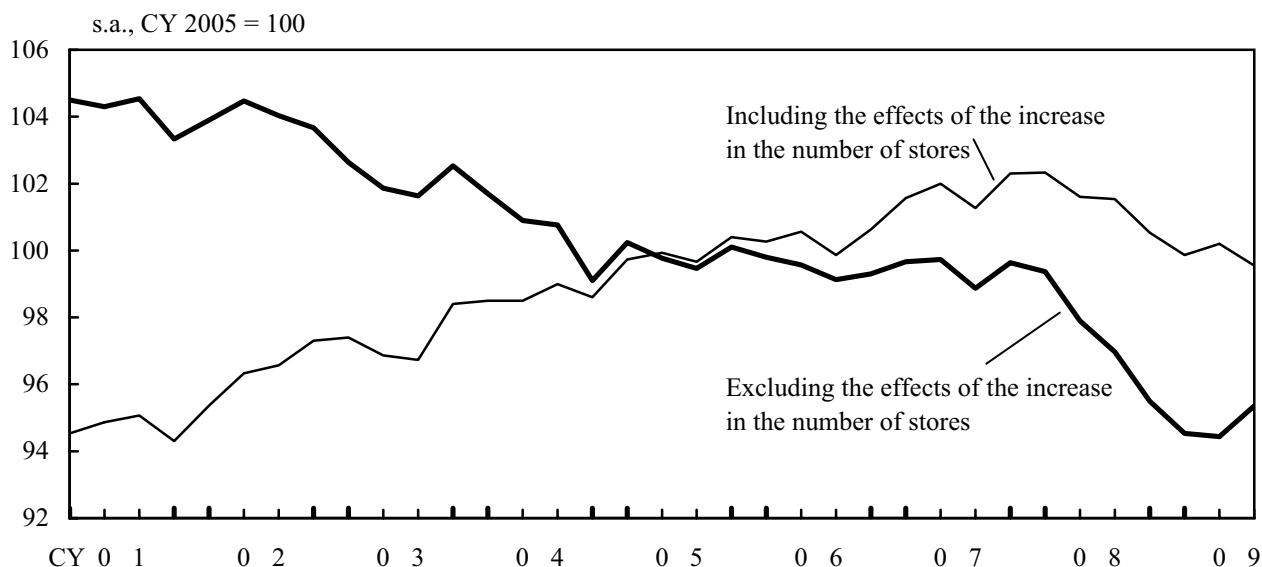
Japan Tourism Agency, "Major Travel Agents' Revenue";

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)."

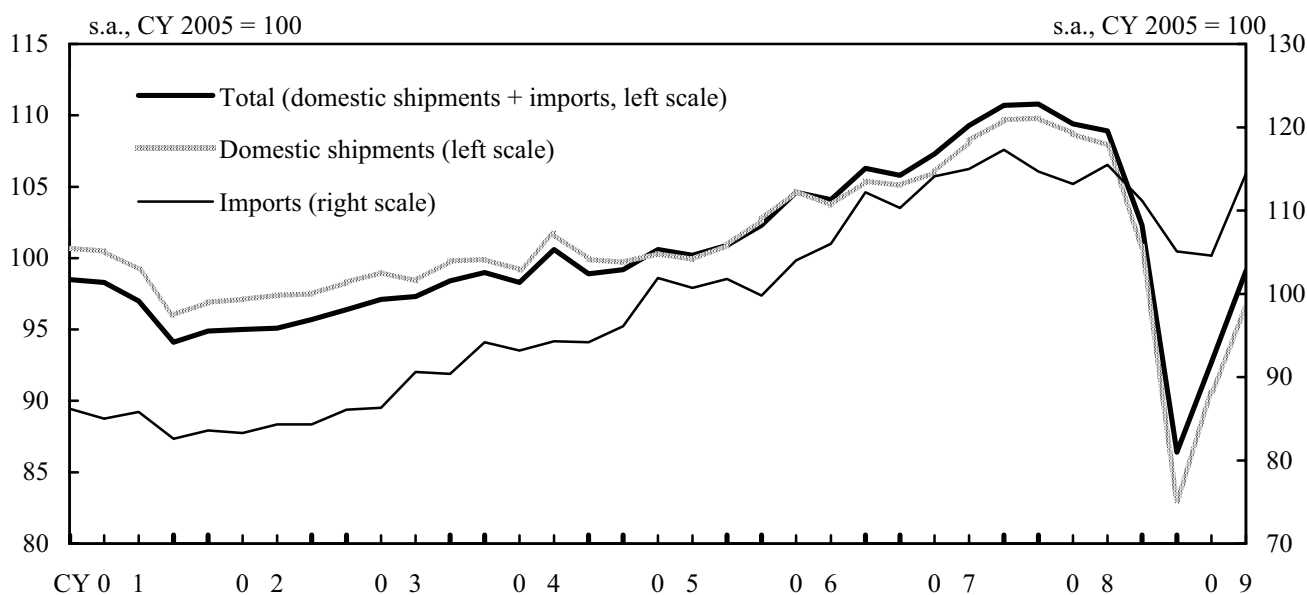
Indicators for Private Consumption (3)

(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.
4. Data for 2009/Q3 figures are those of July-August averages in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

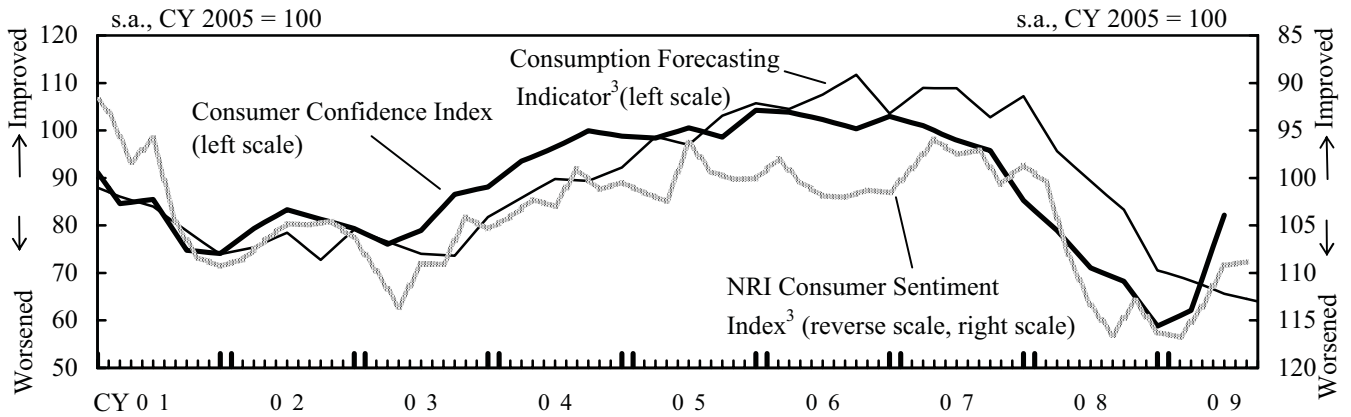


Note: Data for 2009/Q3 figures are those of July-August averages in terms of quarterly amount.

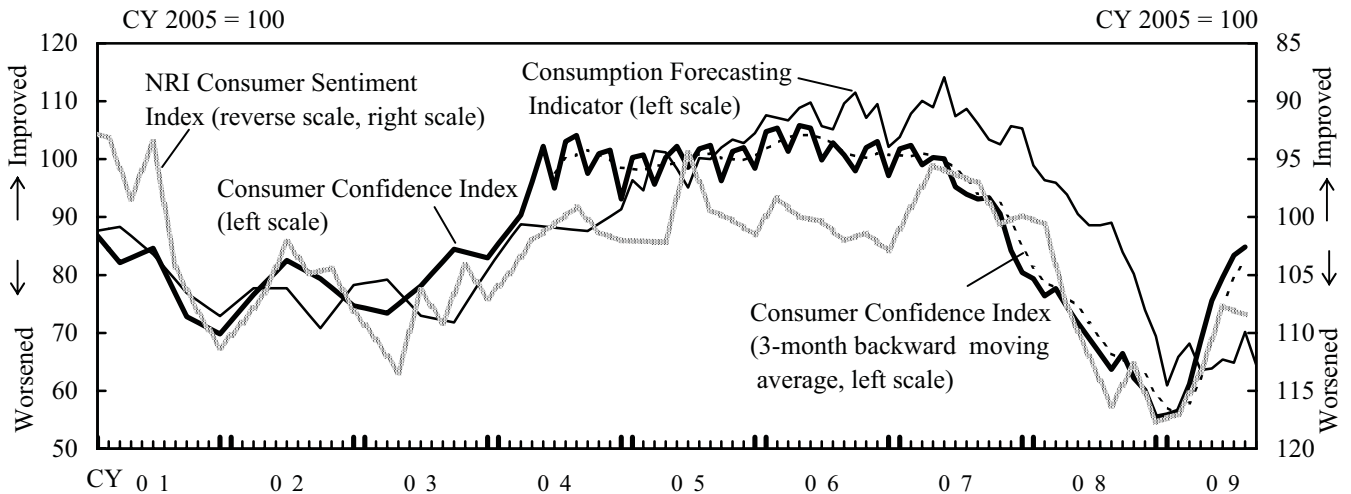
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

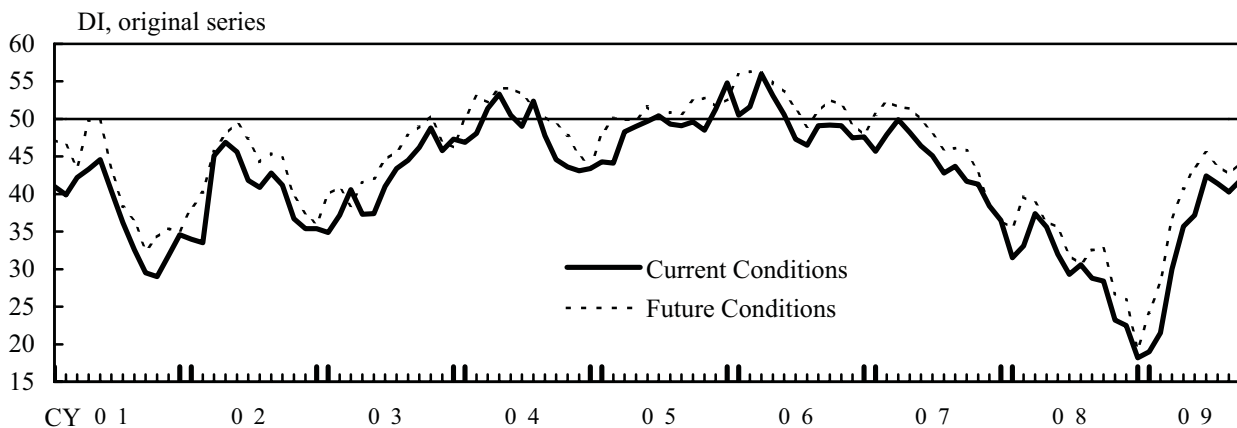
(1) Seasonally Adjusted Series



(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."

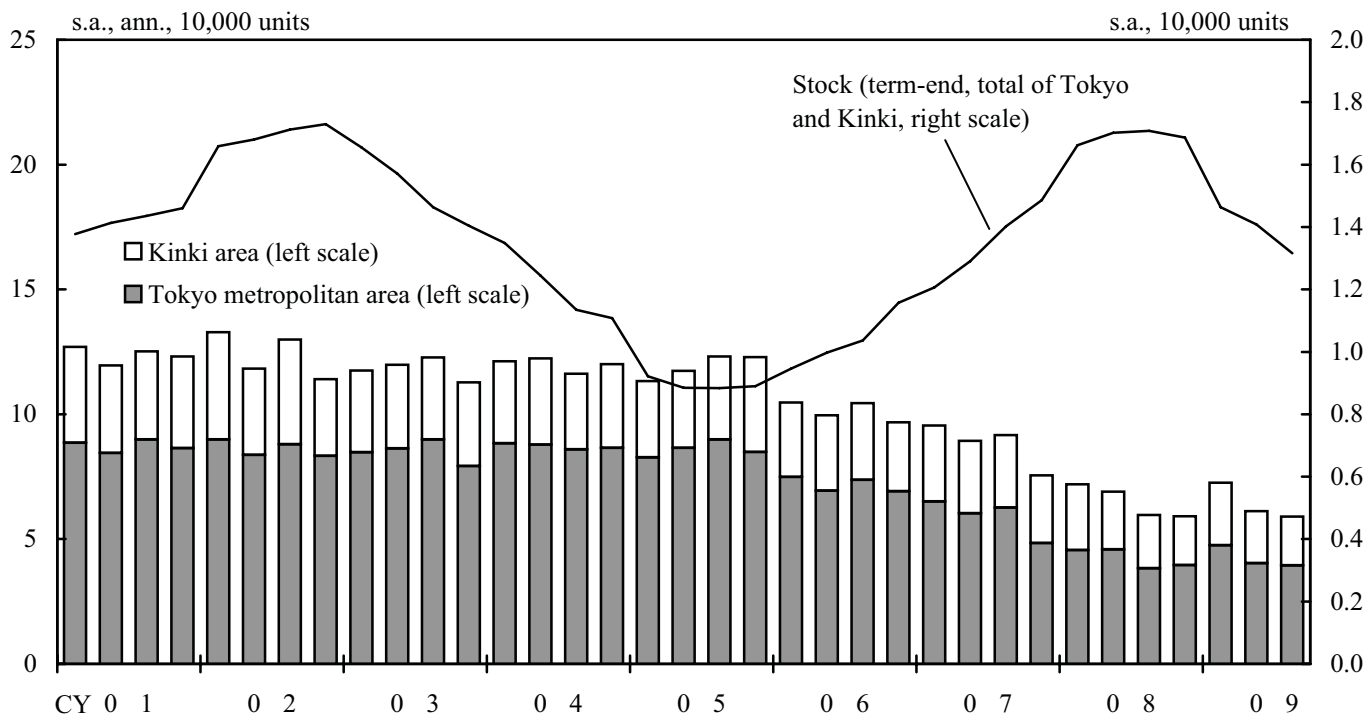
Indicators for Housing Investment

(1) Housing Starts



Note: Figures for 2009/Q3 are those of July-August averages.

(2) Sales of Apartments



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

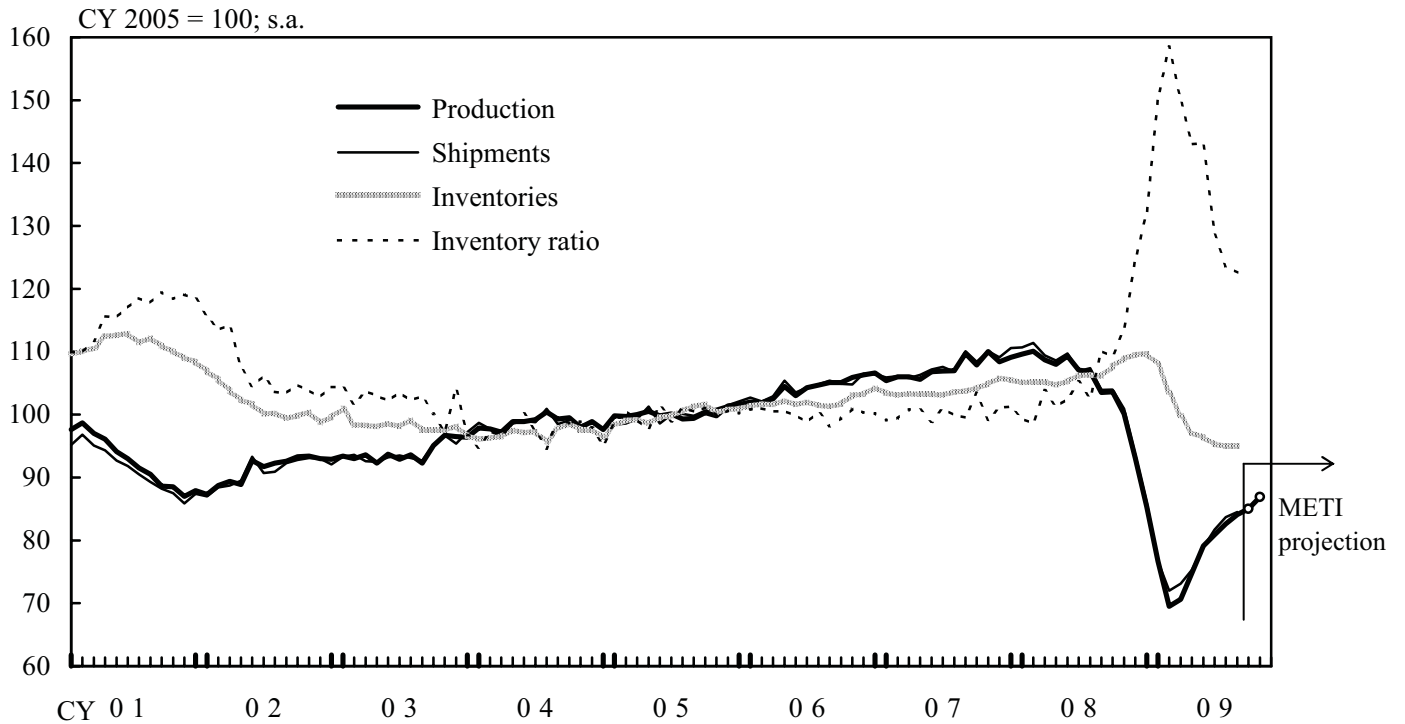
2. Figures of total apartments sales for 2009/Q3 are those of July-August averages.

Term-end stocks for 2009/Q3 are those of August.

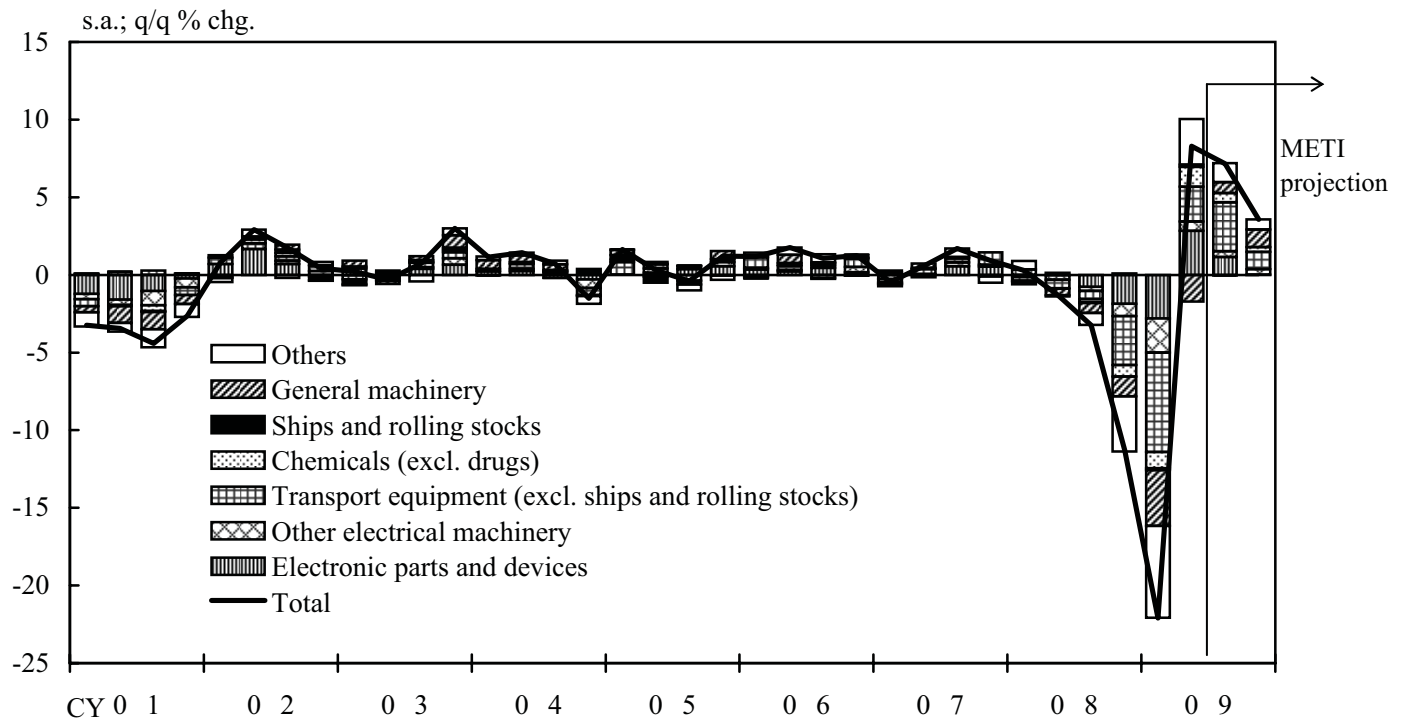
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

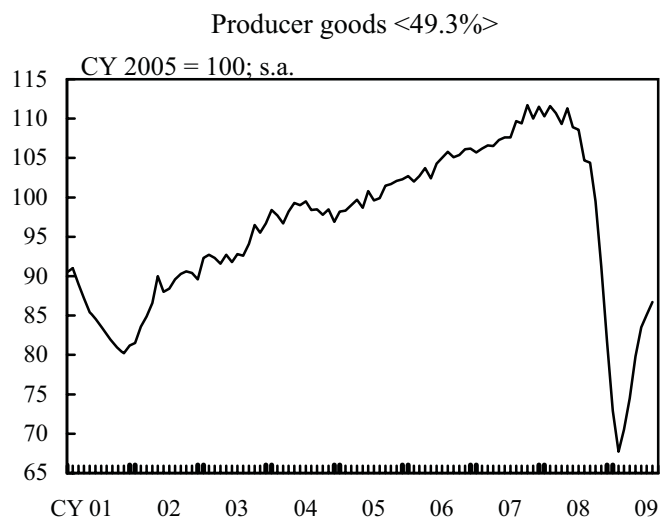
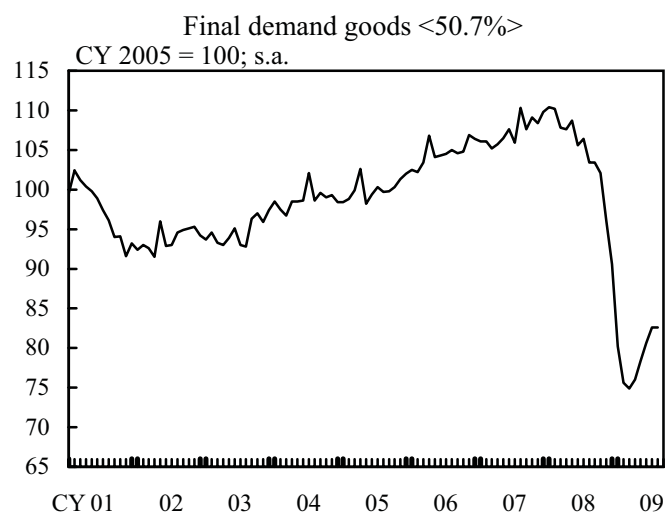


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. Figures up to 2003/Q1 are on the 2000 base.
 3. 2009/Q3 figures are based on the actual production levels in July and August, and the METI projection of September. 2009/Q4 figures are based on the assumption that each production level in November and December is the same as that of October.

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

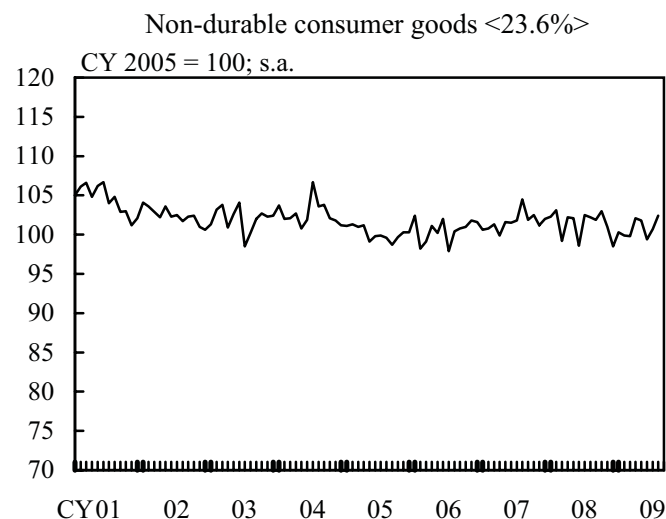
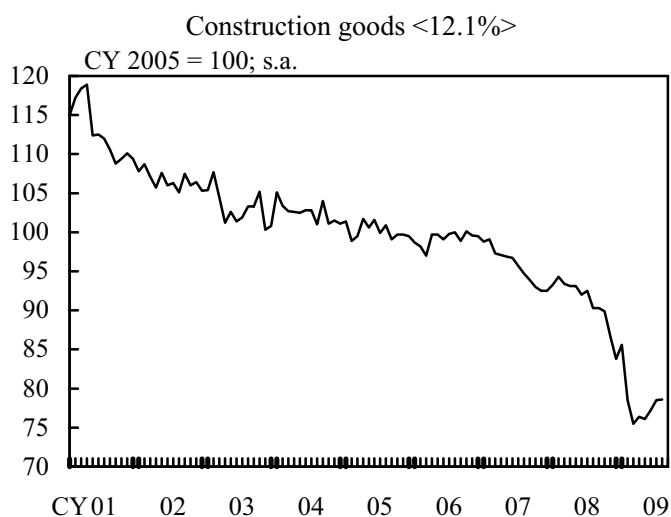
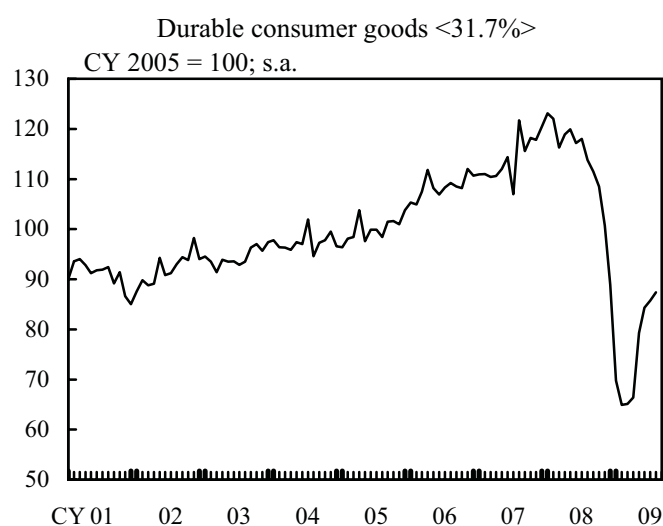
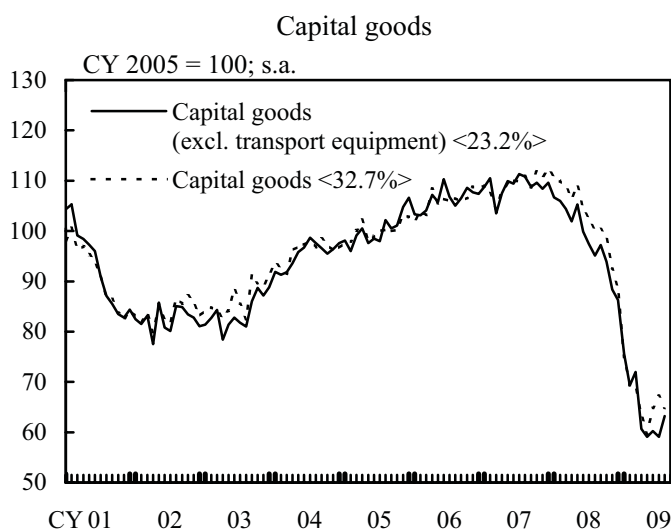
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



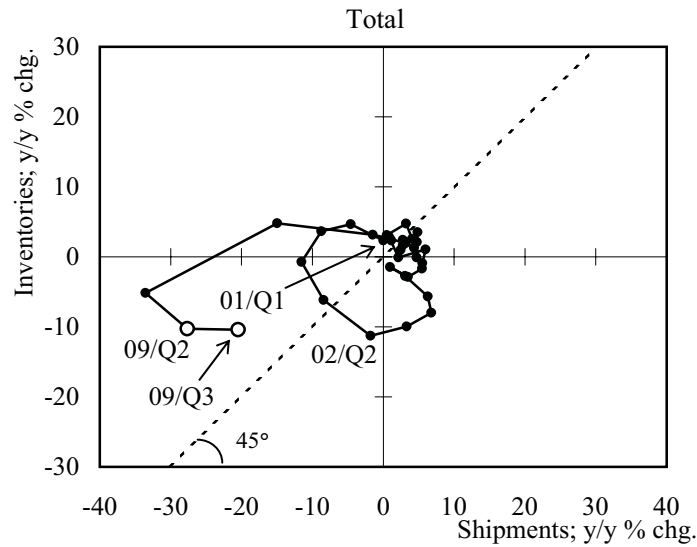
Note: Figures in angle brackets show the shares among shipments of mining and manufacturing.

(2) Breakdown of Final Demand Goods

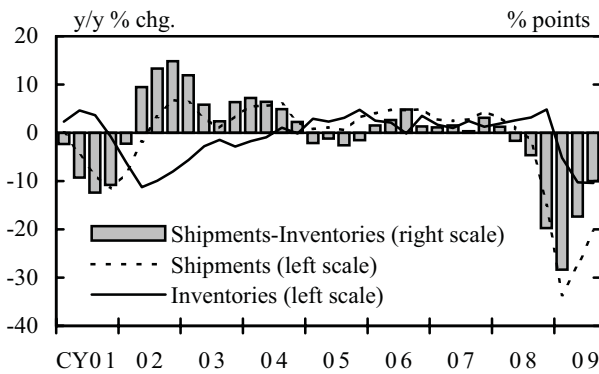


Note: Figures in angle brackets show the shares among shipments of final demand goods.

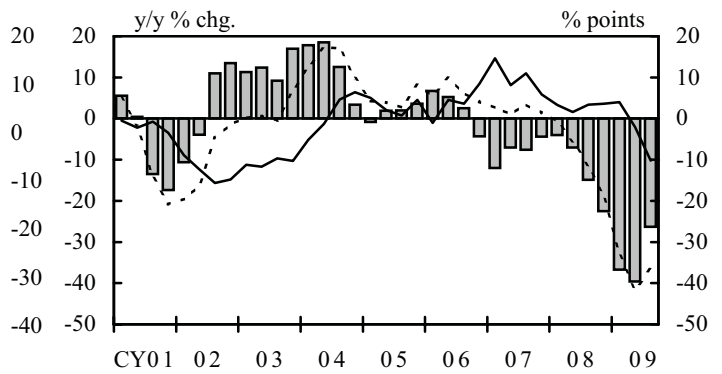
Inventory Cycle



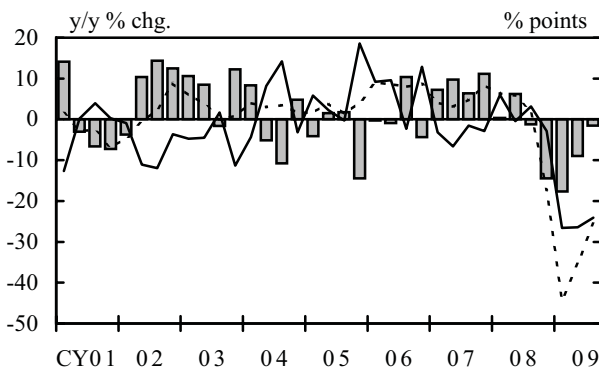
(1) Total



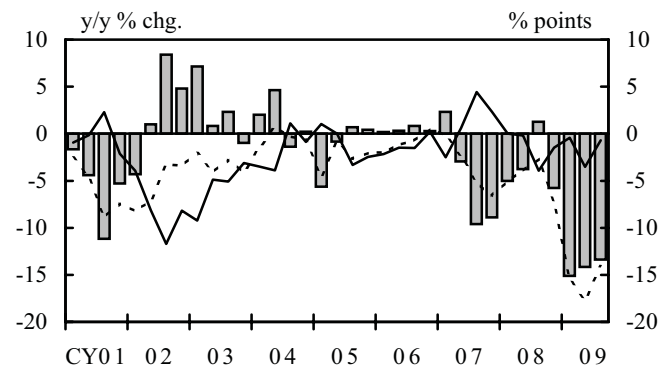
(2) Capital Goods (Excluding Transport Equipment)



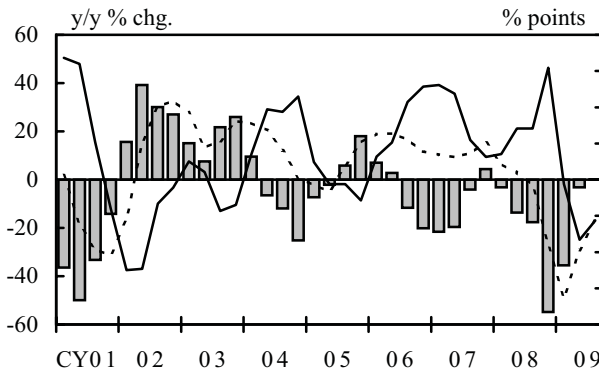
(3) Durable Consumer Goods



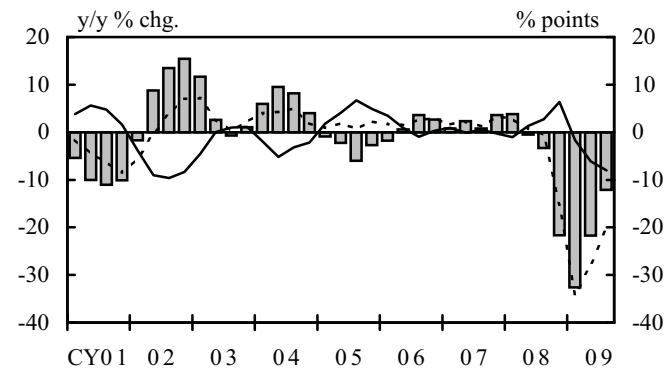
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices



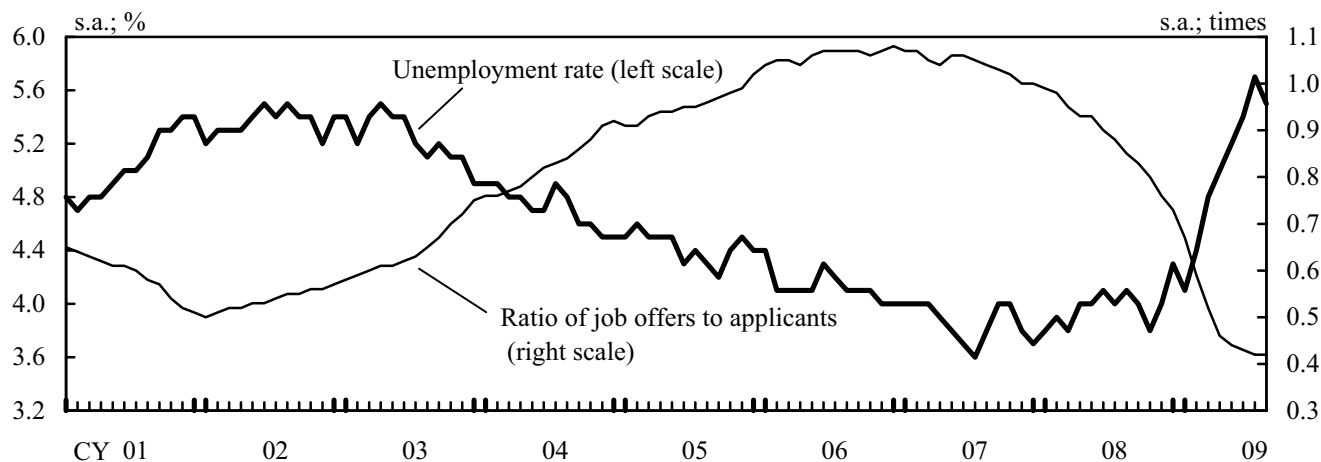
Note: Figures of Shipments for 2009/Q3 are those of July-August averages.

Inventories for 2009/Q3 are those of August.

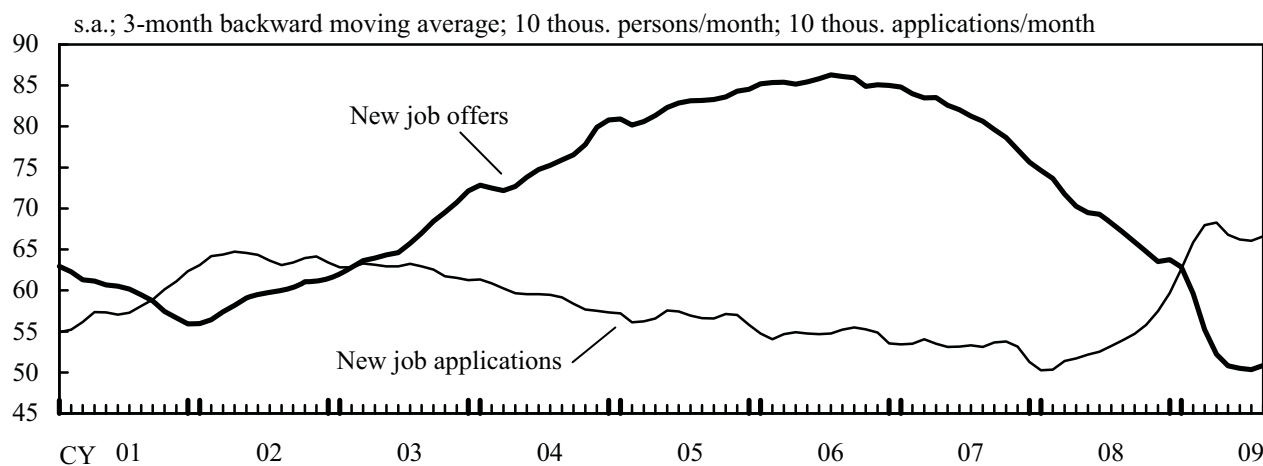
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market (1)

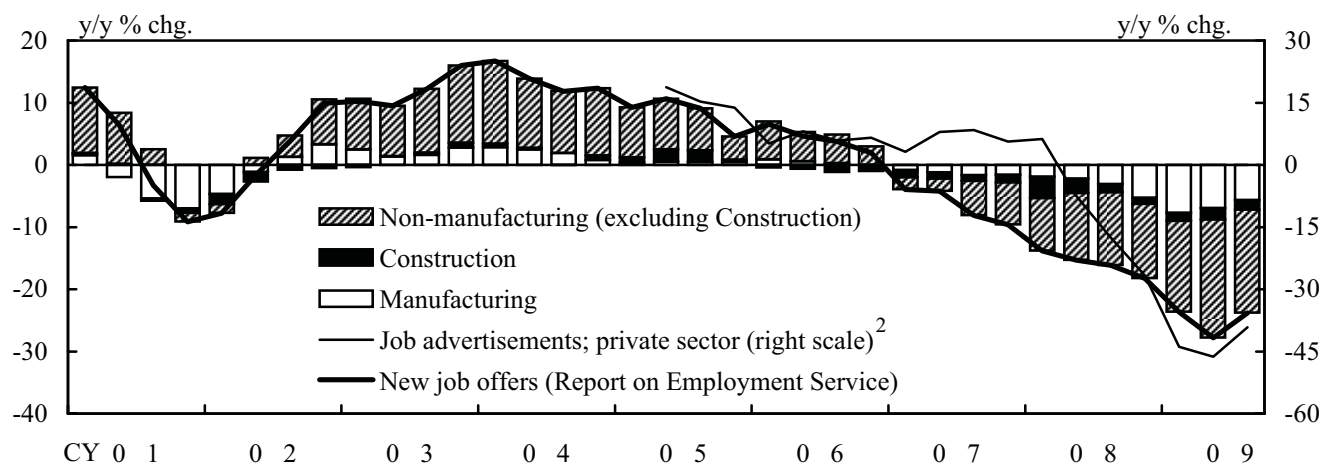
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants¹



(3) Breakdown of Job Offers^{1,3}

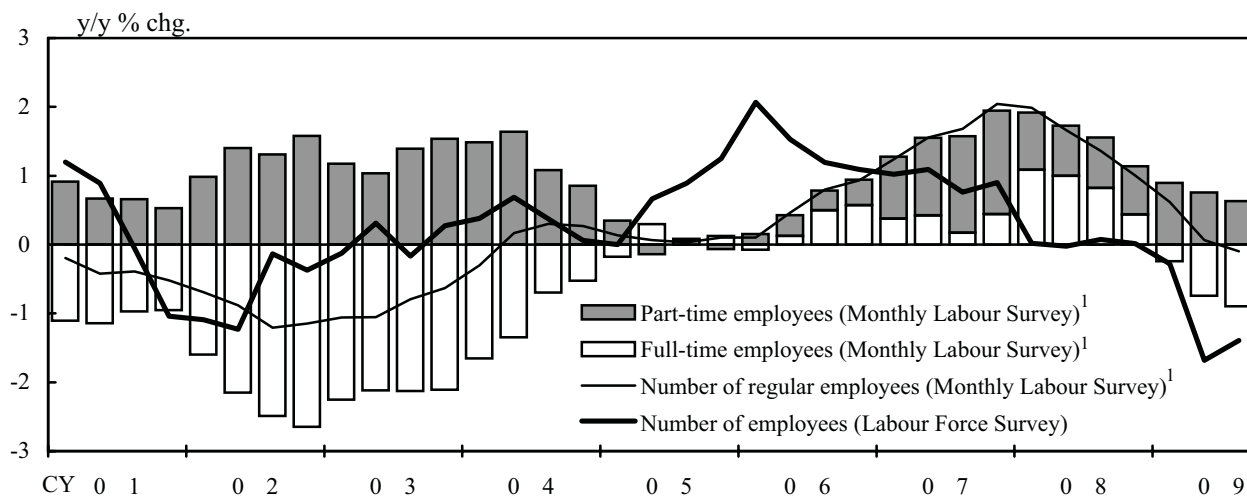


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.
 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.
 3. Figures for 2009/Q3 are those of July-August averages.

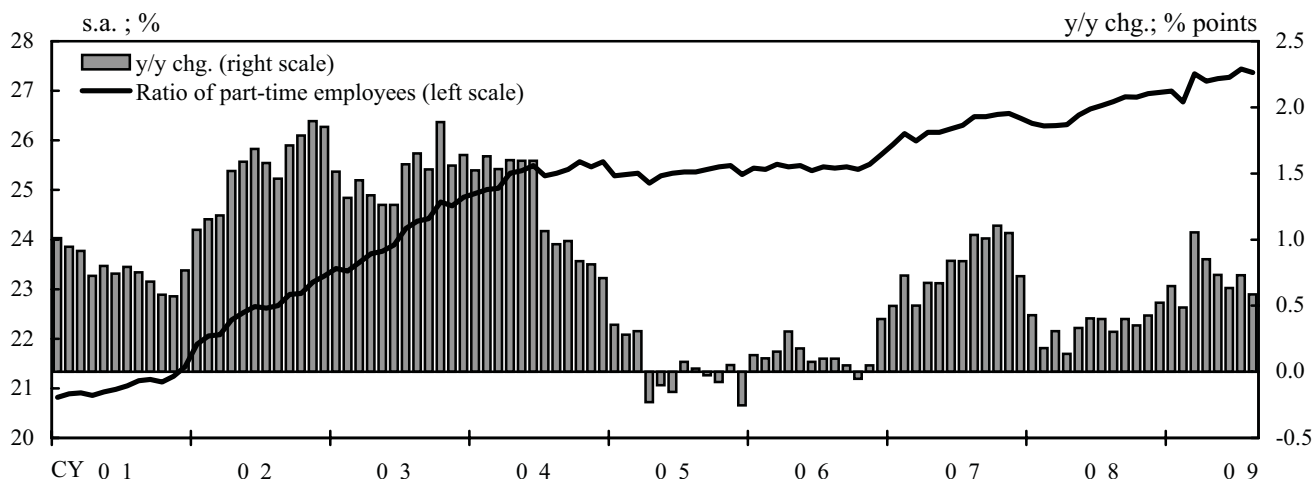
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
 Ministry of Internal Affairs and Communications, "Labour Force Survey";
 Association of Job Information of Japan, "Kyujin Koukoku Keisaikensu (Survey of Job Advertisements)."

Labor Market (2)

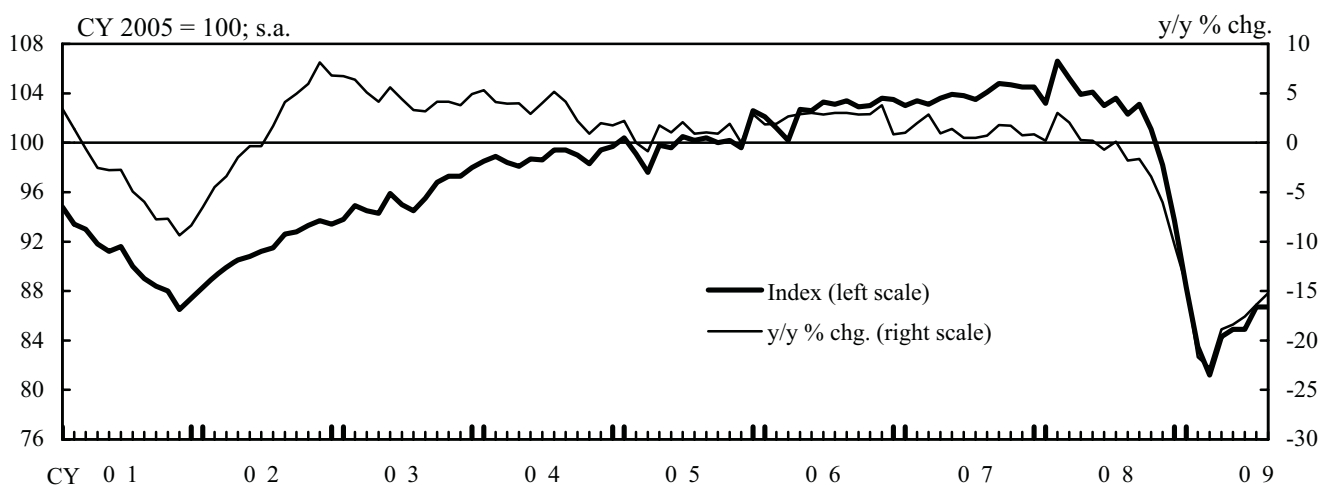
(1) Number of Employees³



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



(3) Non Scheduled Hours Worked¹



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

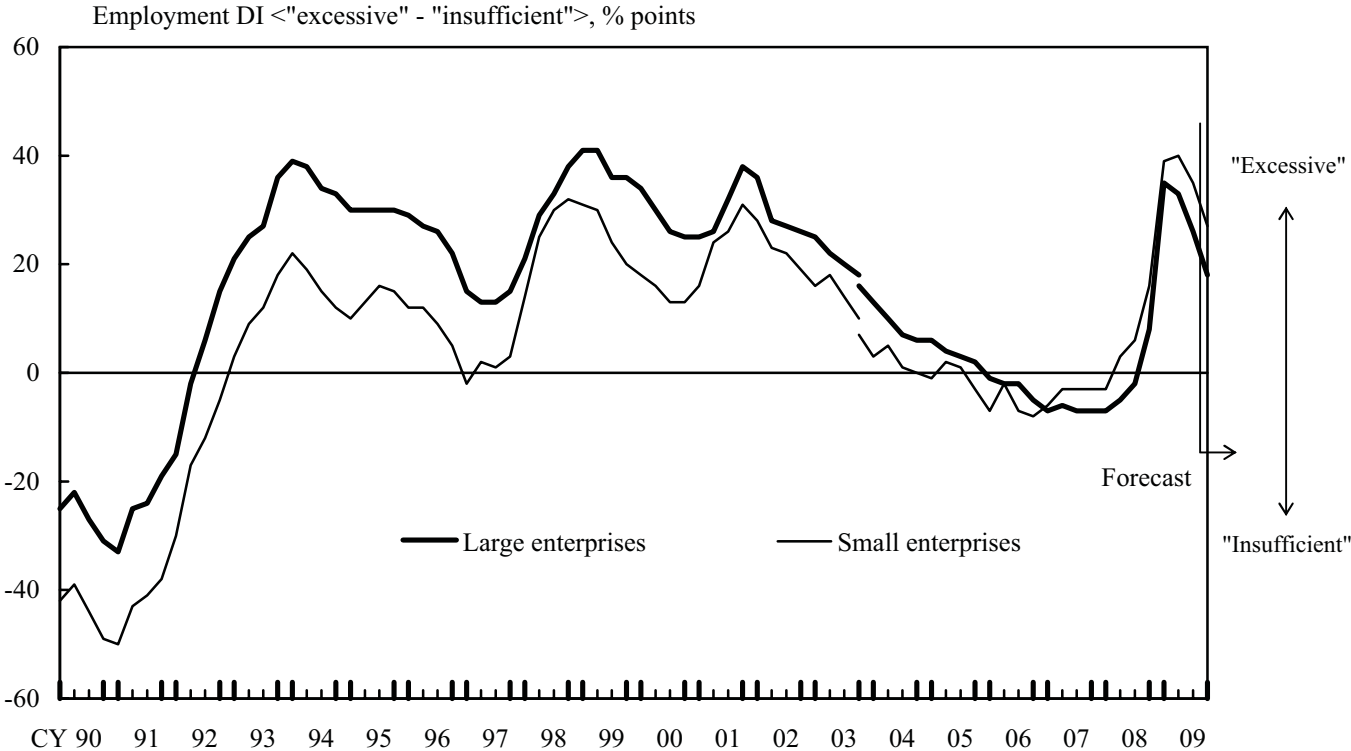
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2009/Q3 are those of July-August averages.

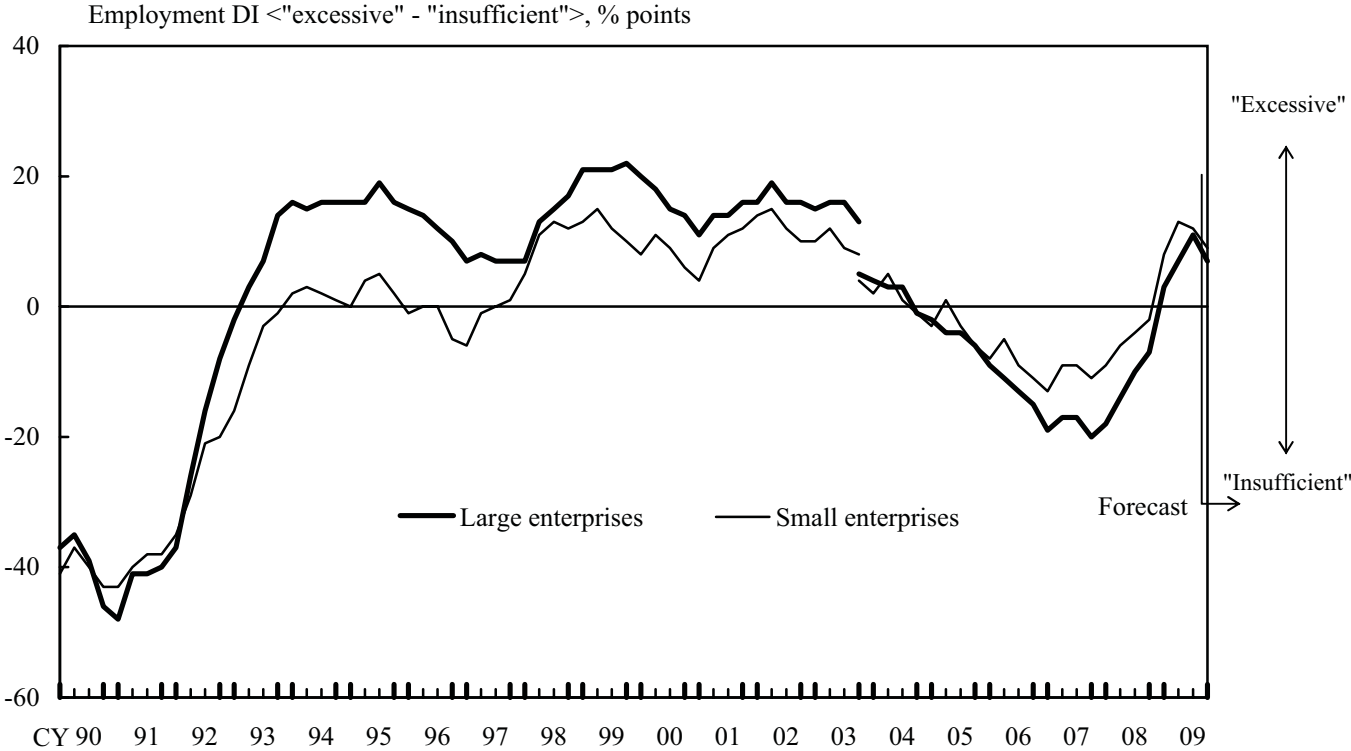
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



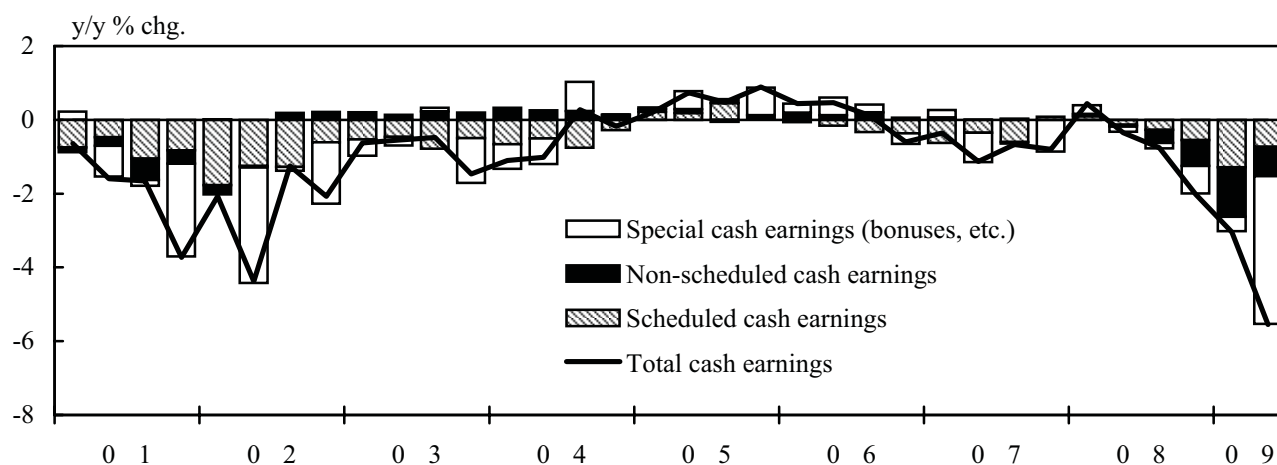
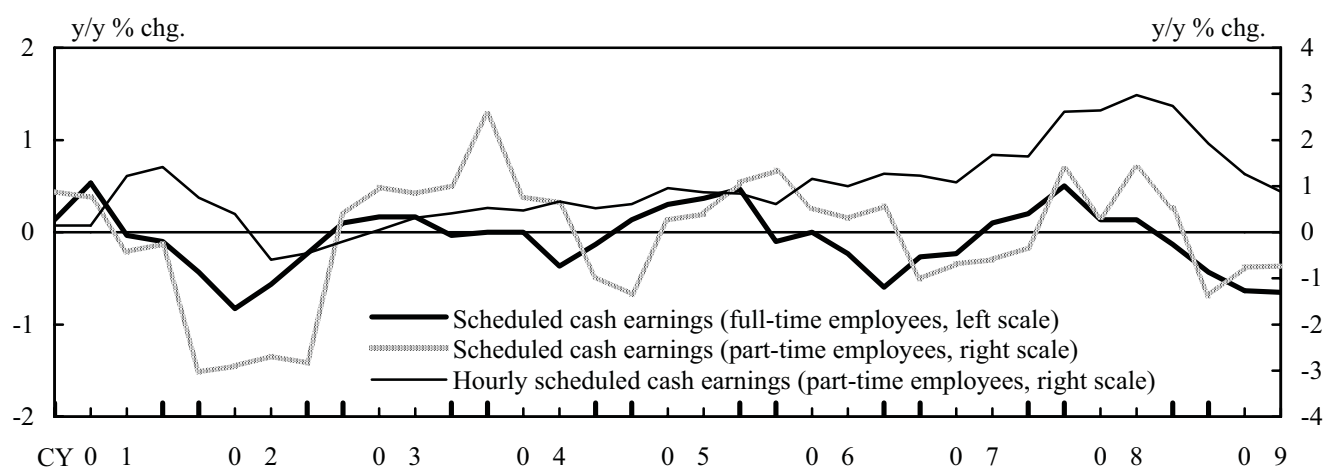
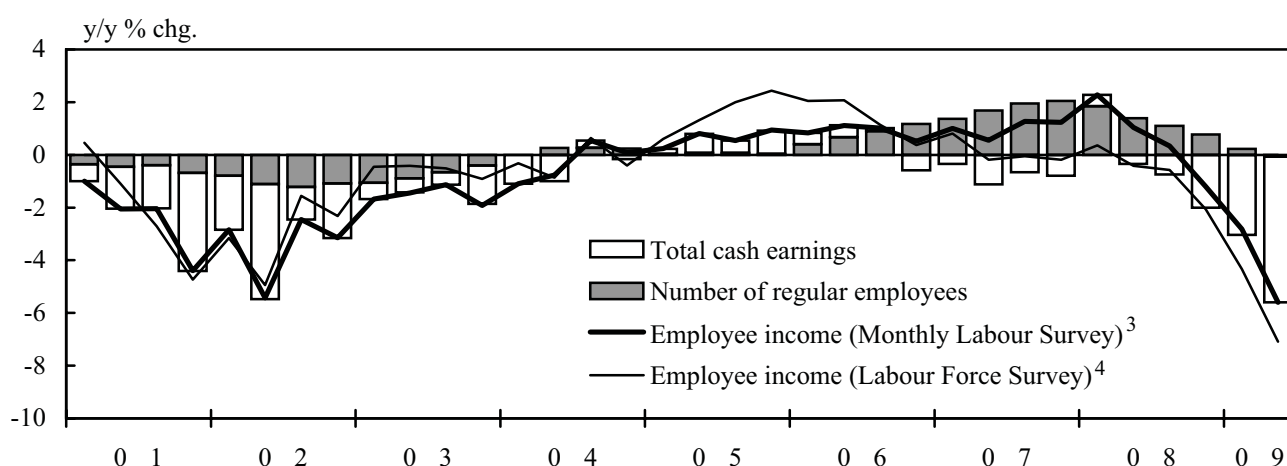
(2) Nonmanufacturing



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

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

Employee Income

(1) Breakdown of Total Cash Earnings^{1,2}(2) Scheduled Cash Earnings^{1,5}(3) Breakdown of Employee Income^{1,2}

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

2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

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

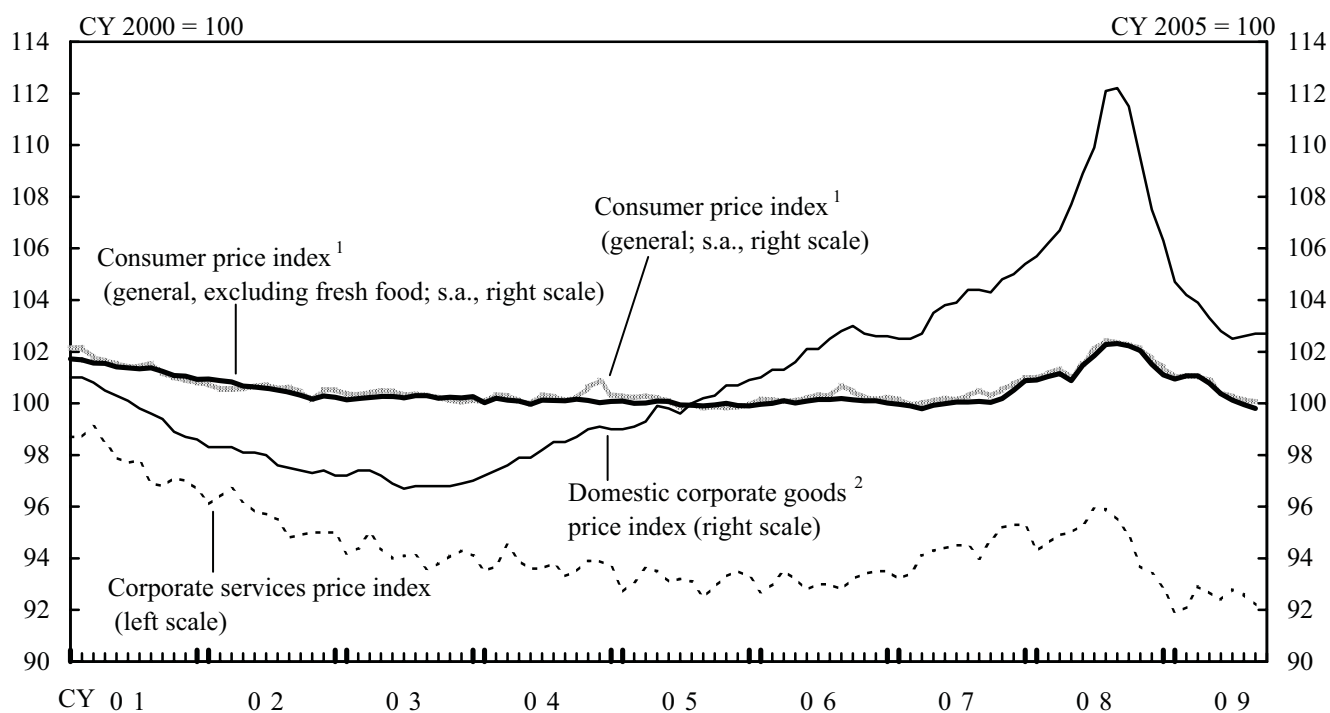
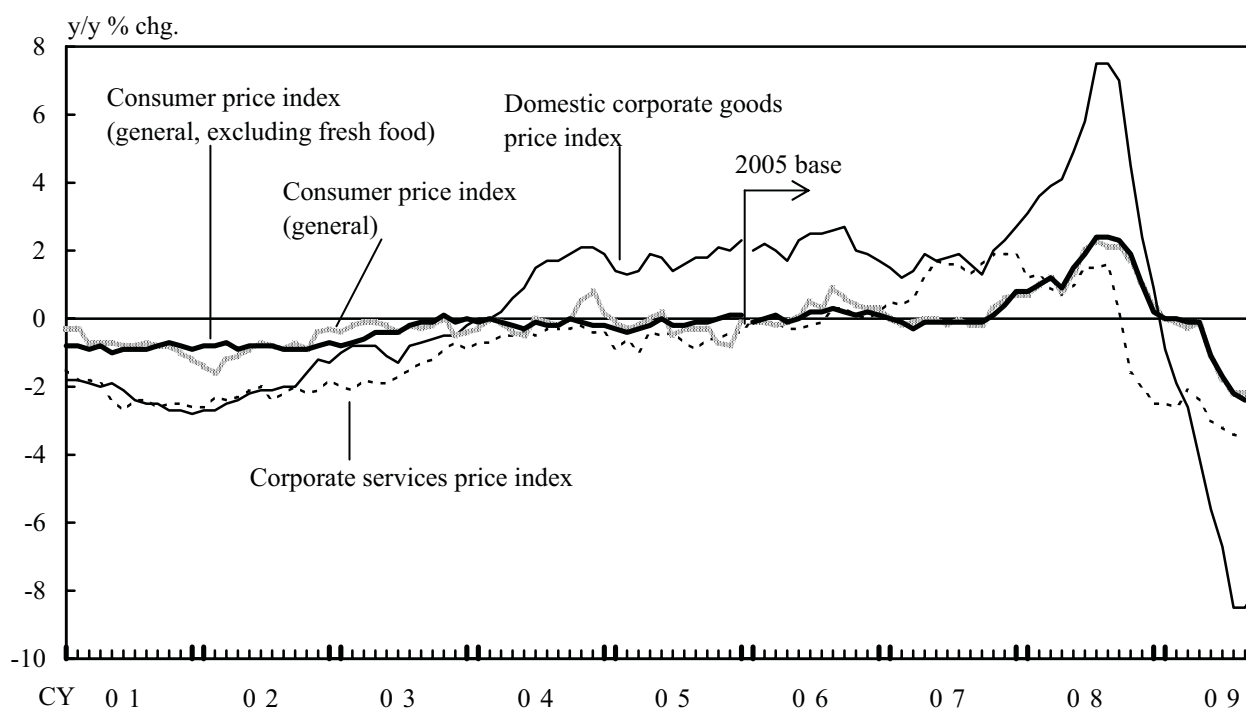
4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).

5. Figures for 2009/Q3 are those of July-August averages.

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

Prices

(1) Level

(2) Changes from a Year Earlier³

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

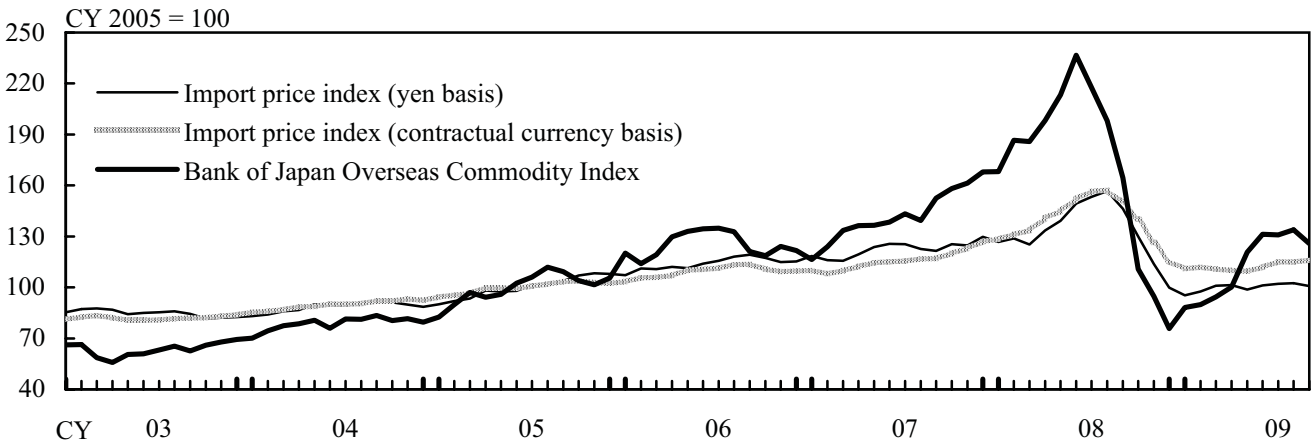
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

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

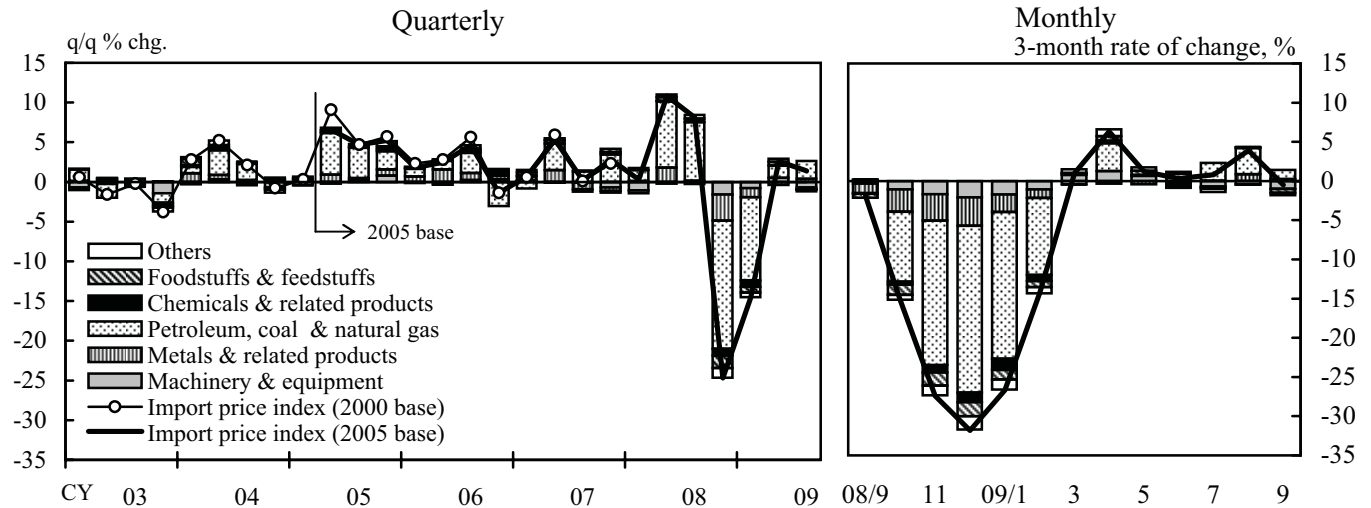
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";
Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

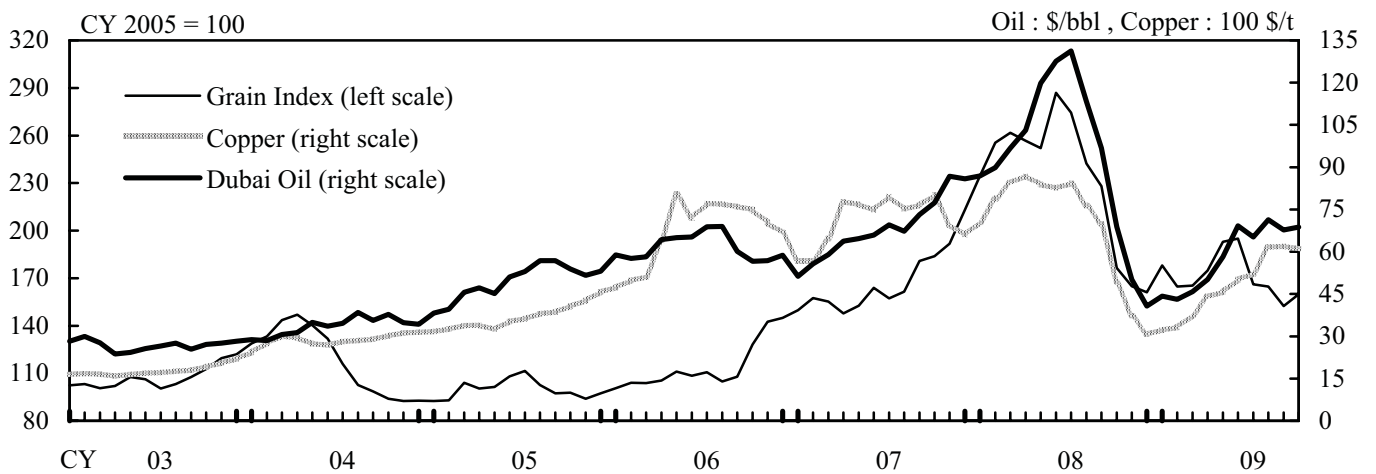


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

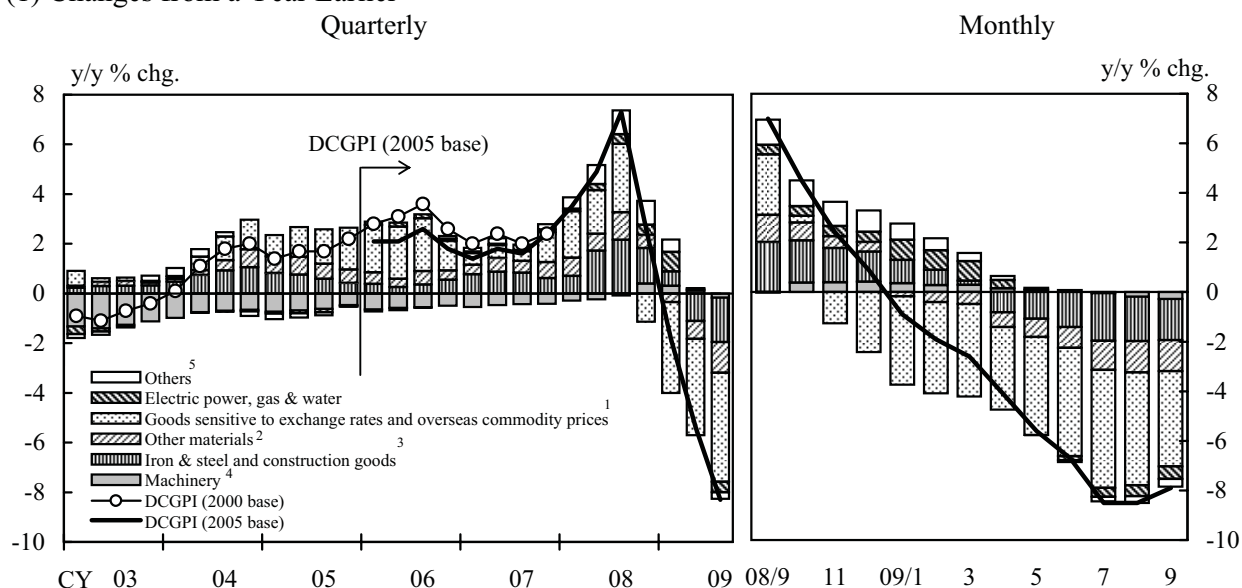
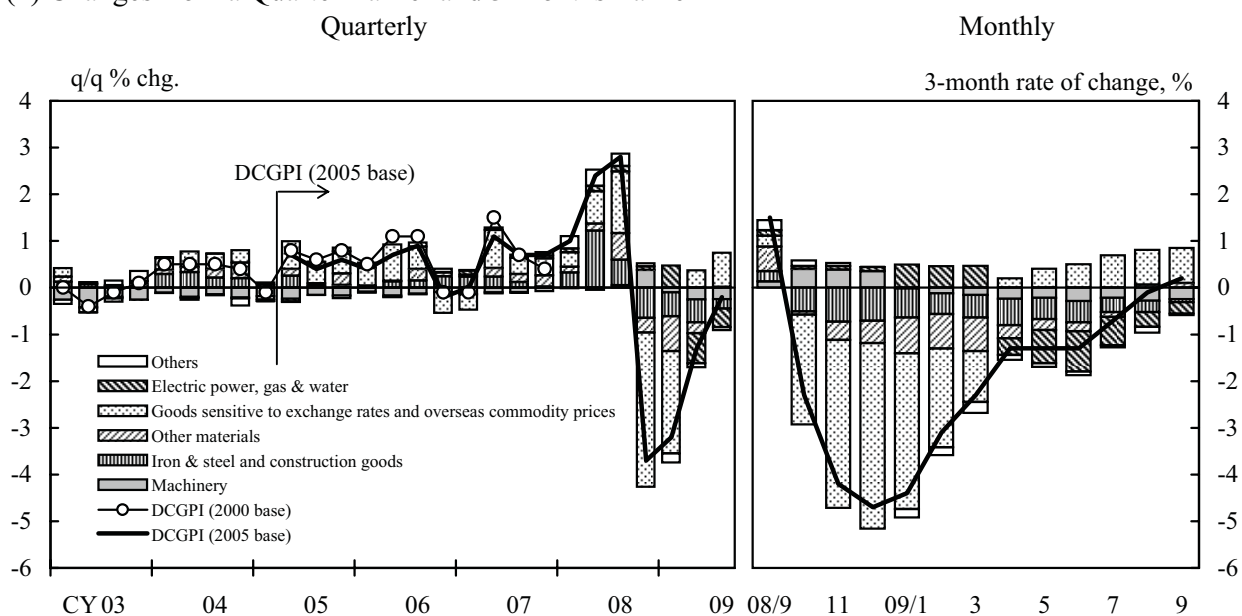


Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for October 2009 are the averages up to October 13.

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

Domestic Corporate Goods Price Index⁷

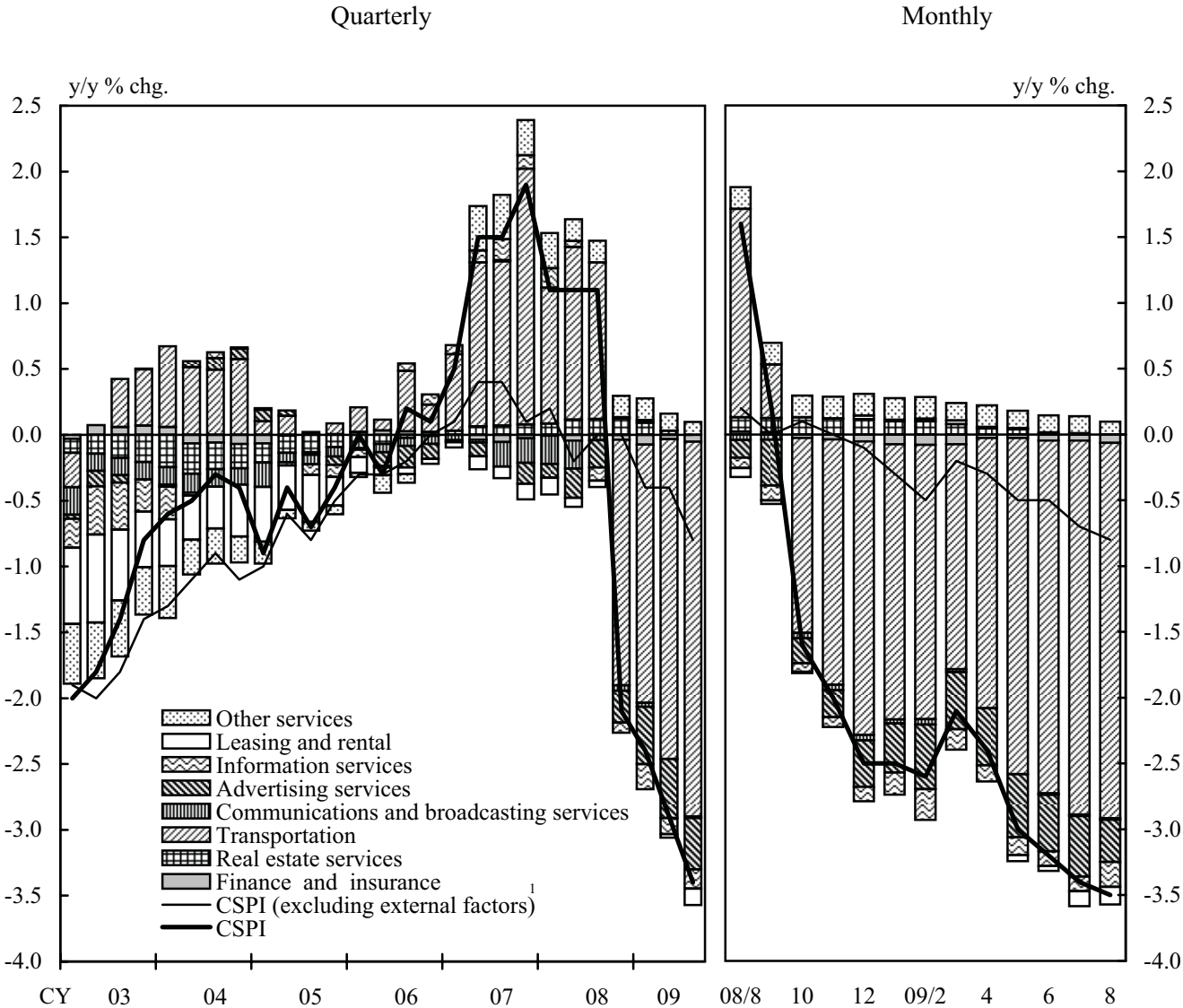
(1) Changes from a Year Earlier

(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.

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

Corporate Services Price Index

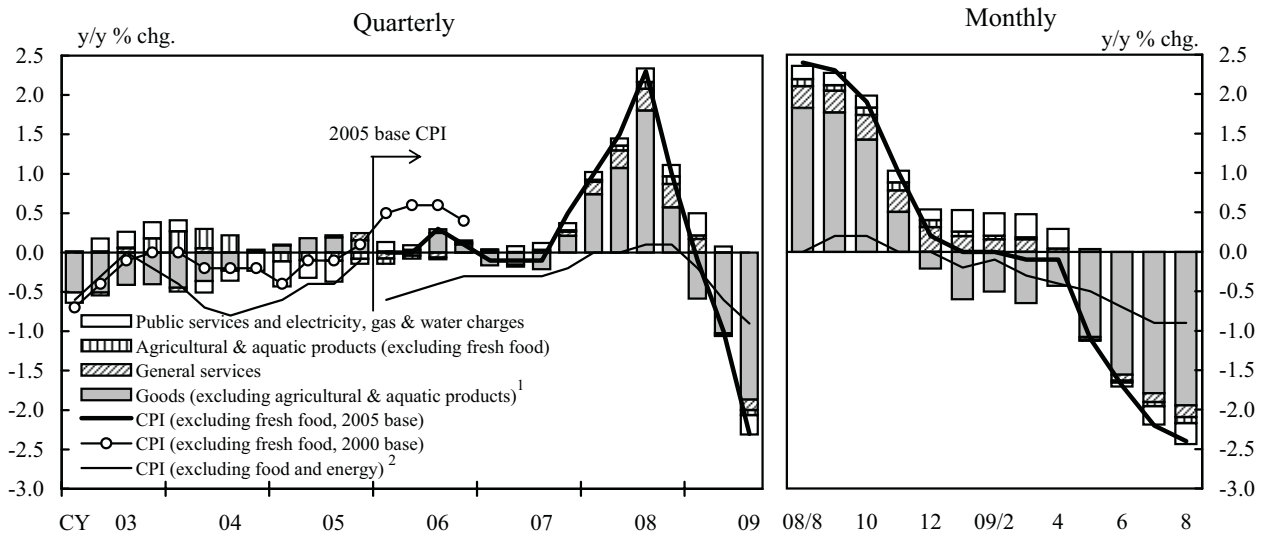


- Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
- 2. Figures of components indicate contributions to changes in CSPI.
- 3. Figures for 2009/Q3 are July-August averages.

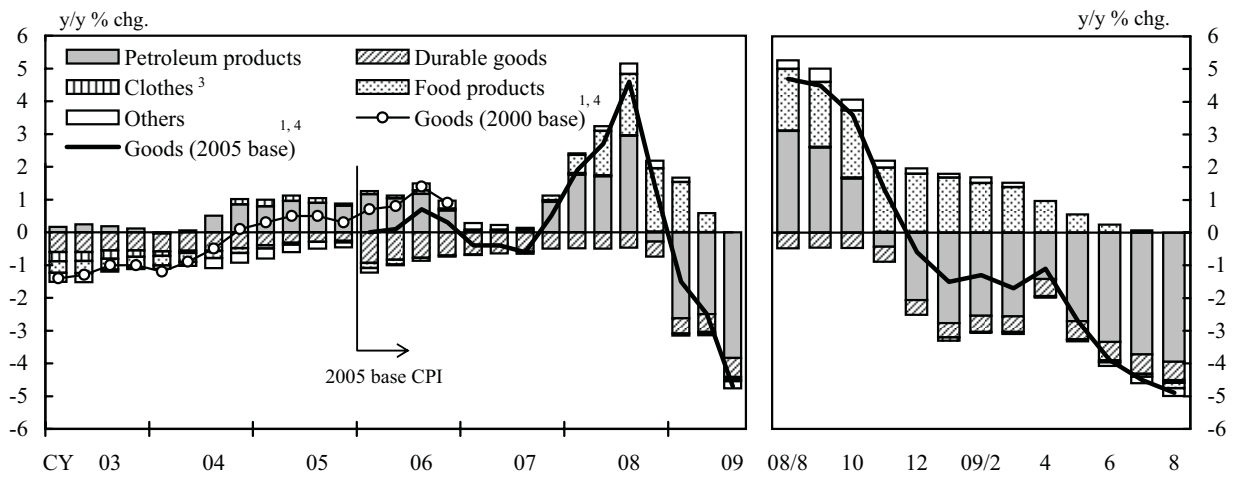
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

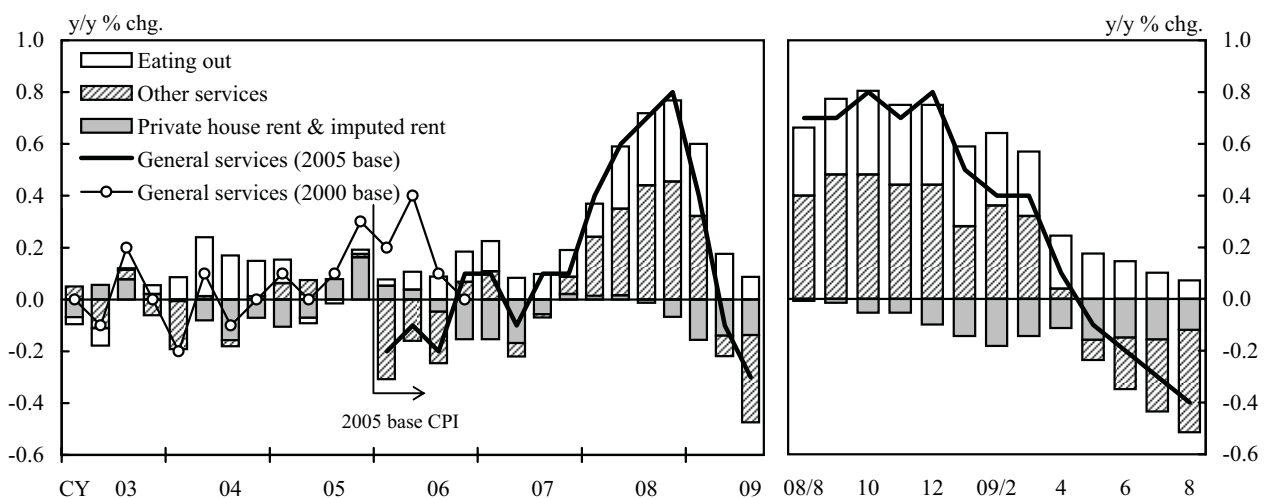
(1) Consumer Price Index (Excluding Fresh Food)



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



(3) General Services



Notes:1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.

2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.

3. Including shirts, sweaters & underwear.

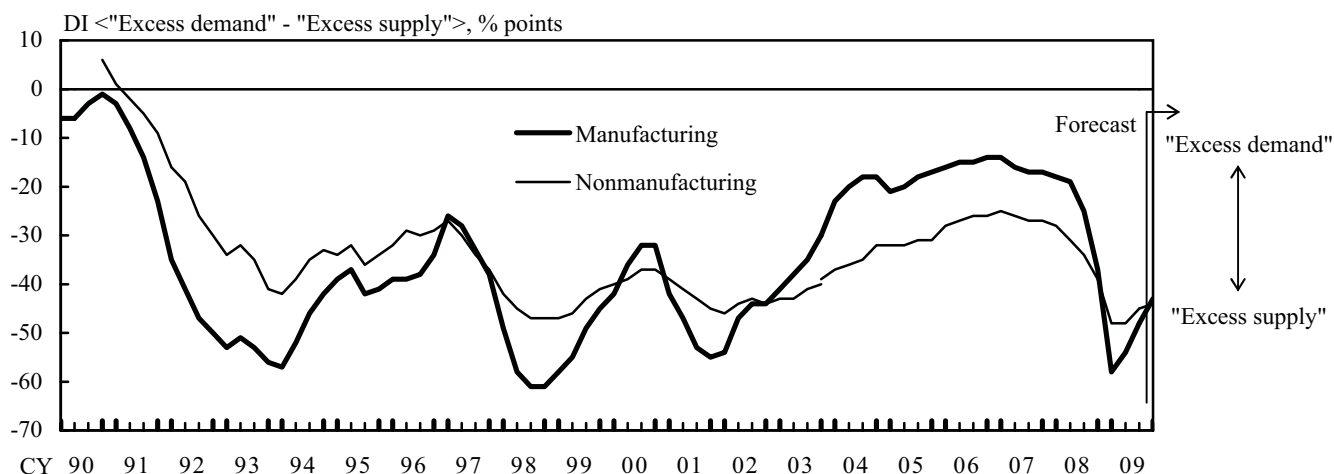
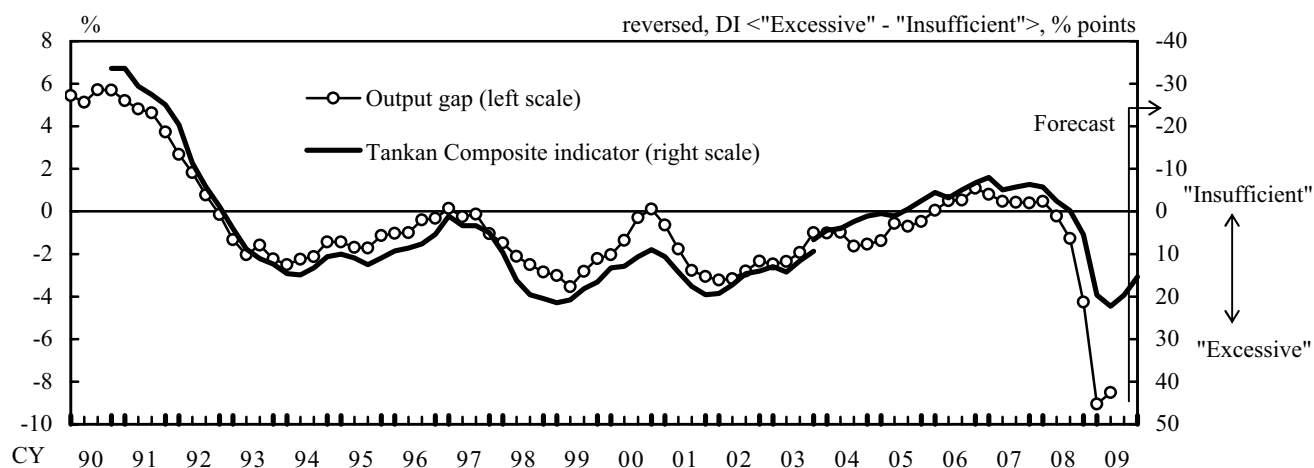
4. Excluding agricultural & aquatic products.

5. Figures for 2009/Q3 are July-August averages.

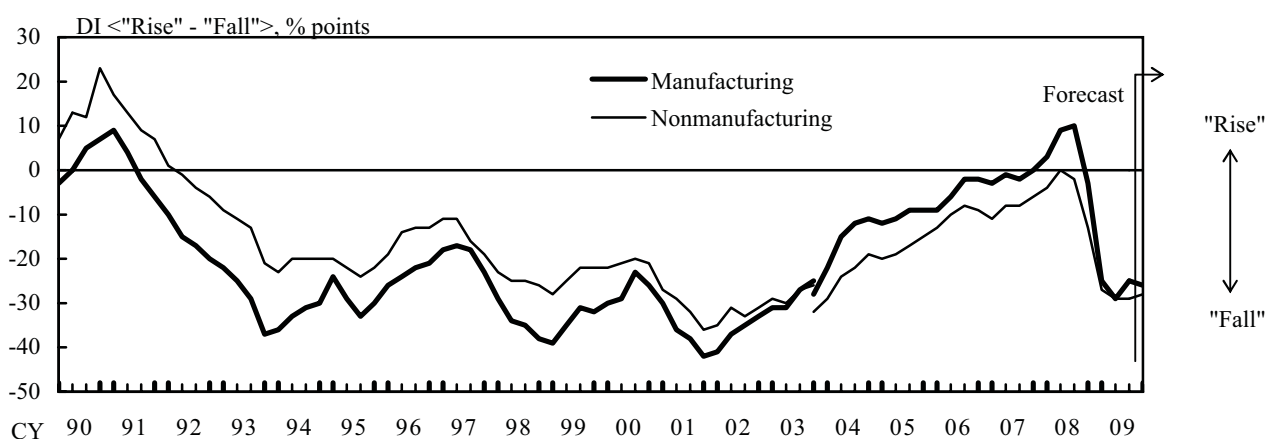
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

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

(3) Change in Output Prices (All Enterprises)



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

2. Figures are weighted averages of Production Capacity DI and Employment DI which show excessiveness. The FY 1990-2007 averages of capital and labor shares in national accounts are used as the weight.

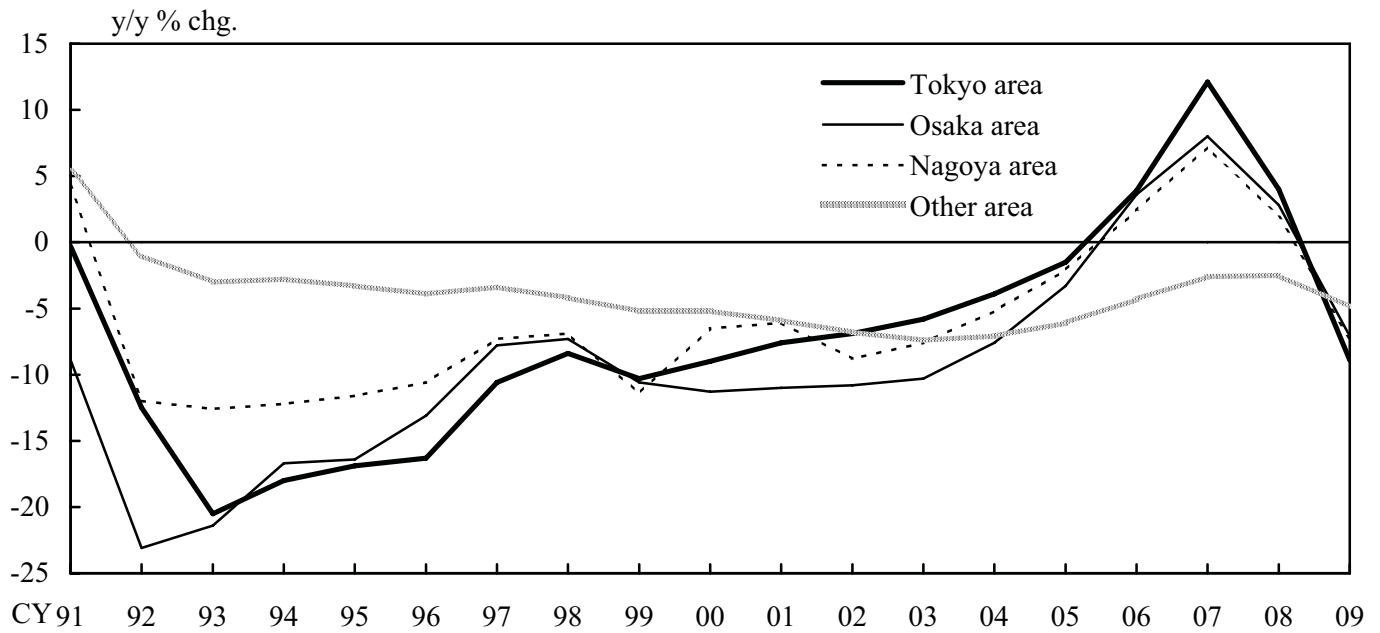
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

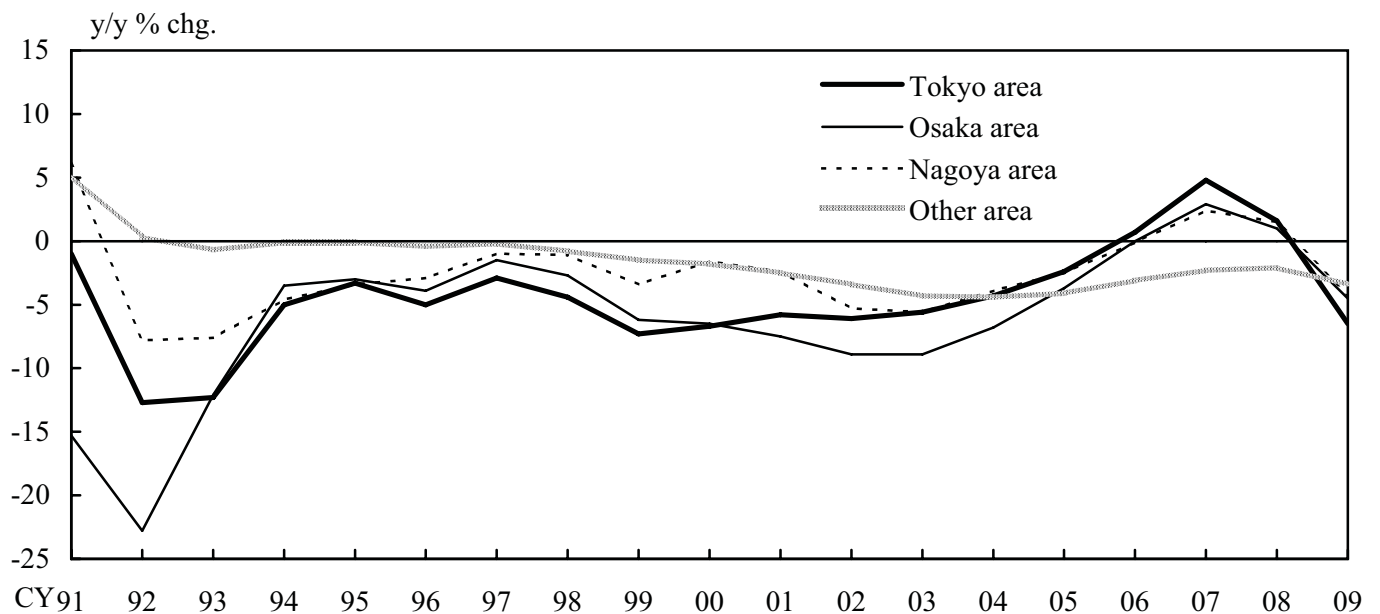
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

Land Prices

(1) Commercial land



(2) Residential land

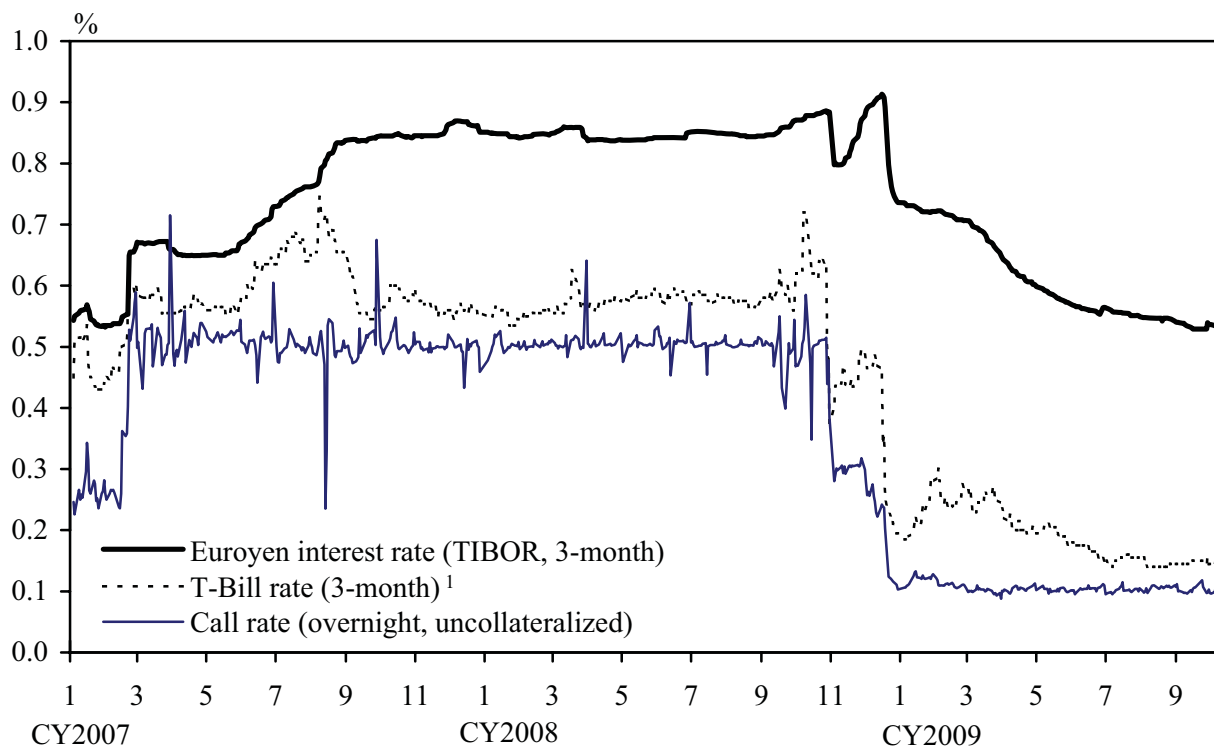


Note: Prefectural Land Price Survey, surveyed by prefecture officials, shows the land prices as of July 1st.

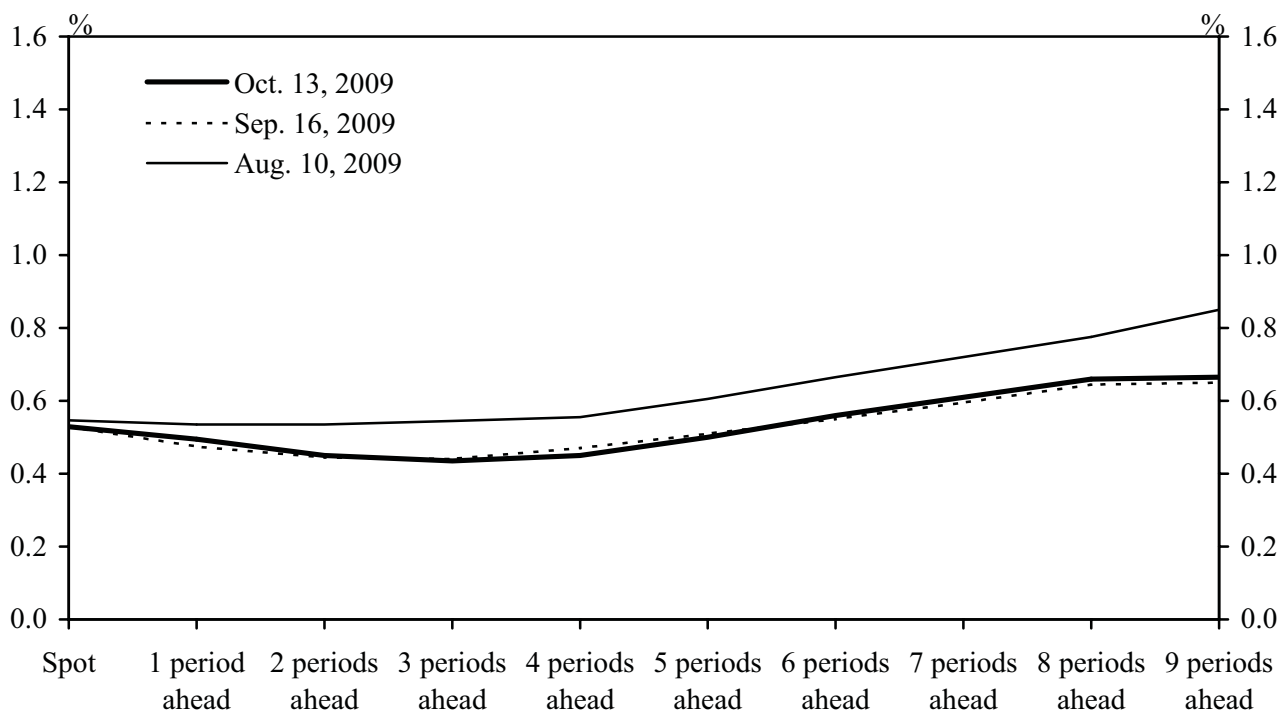
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Prefectural Land Price Survey."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



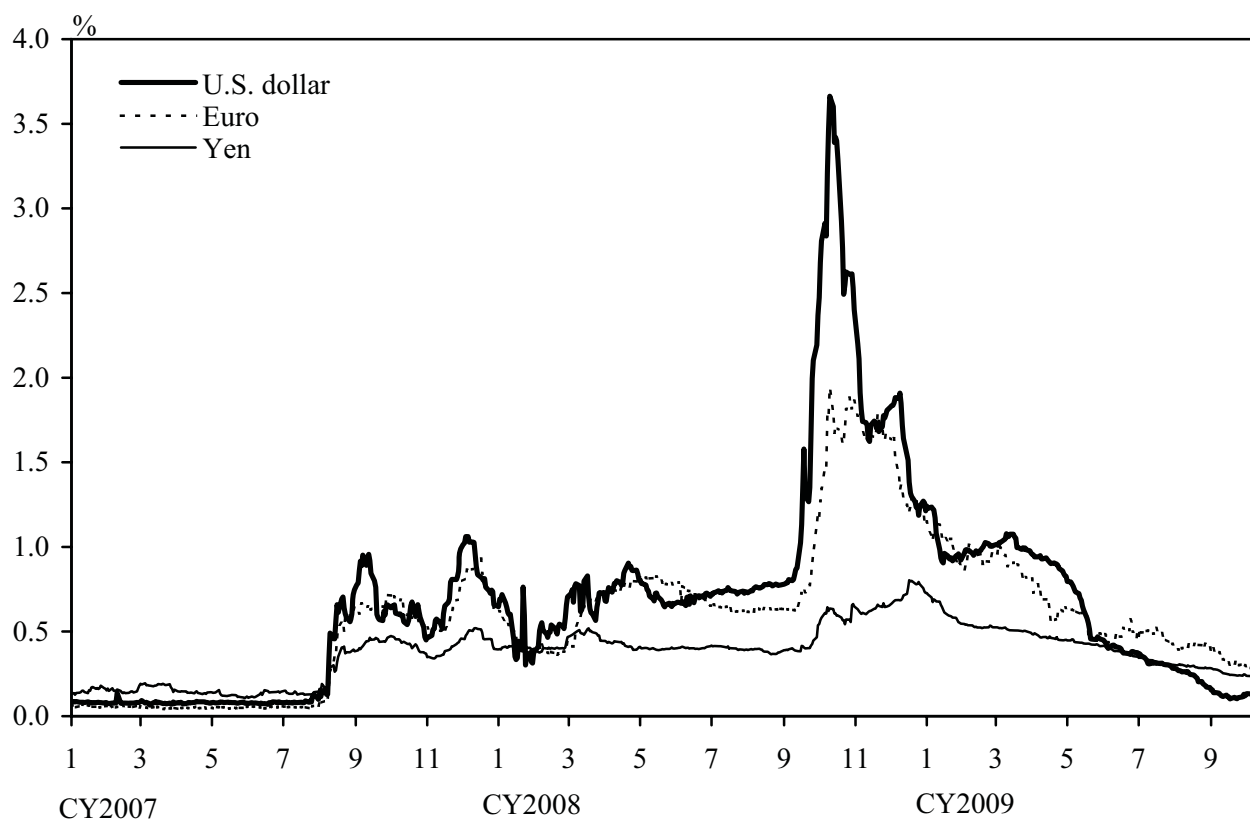
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

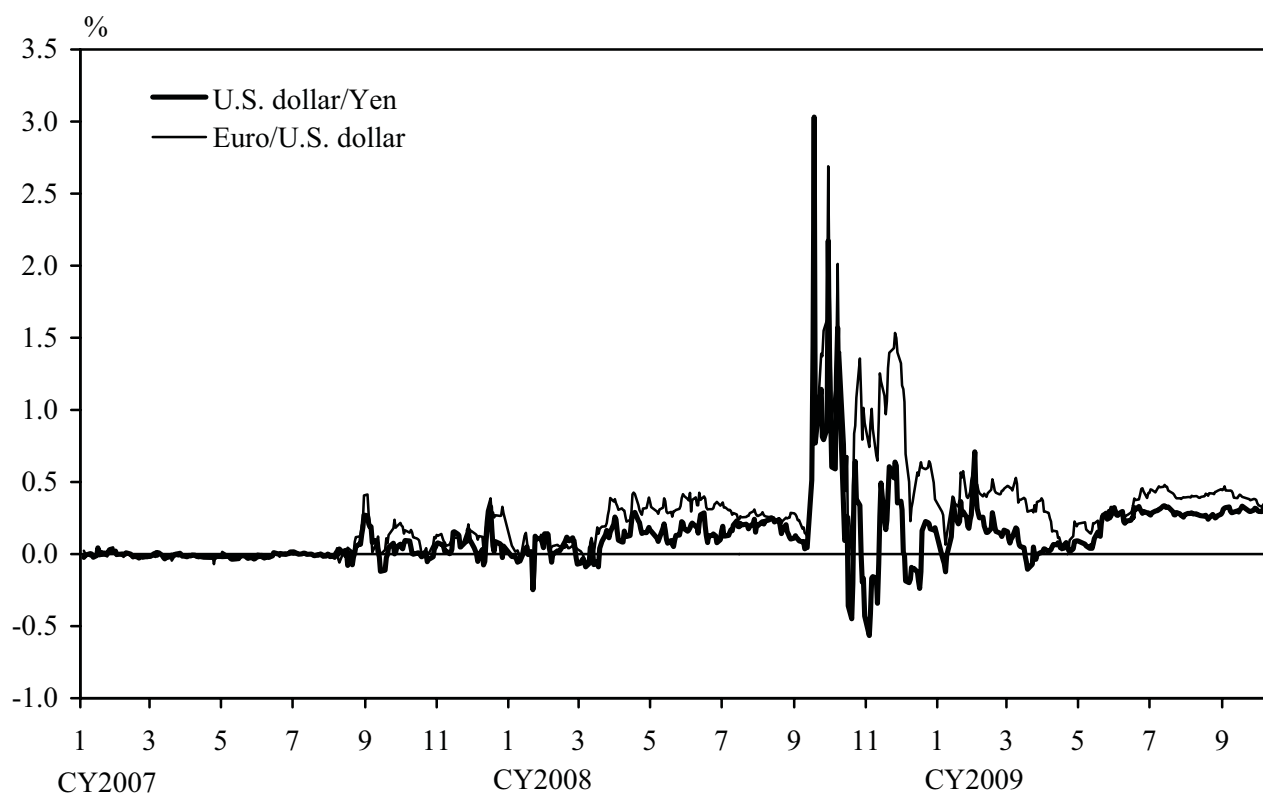
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



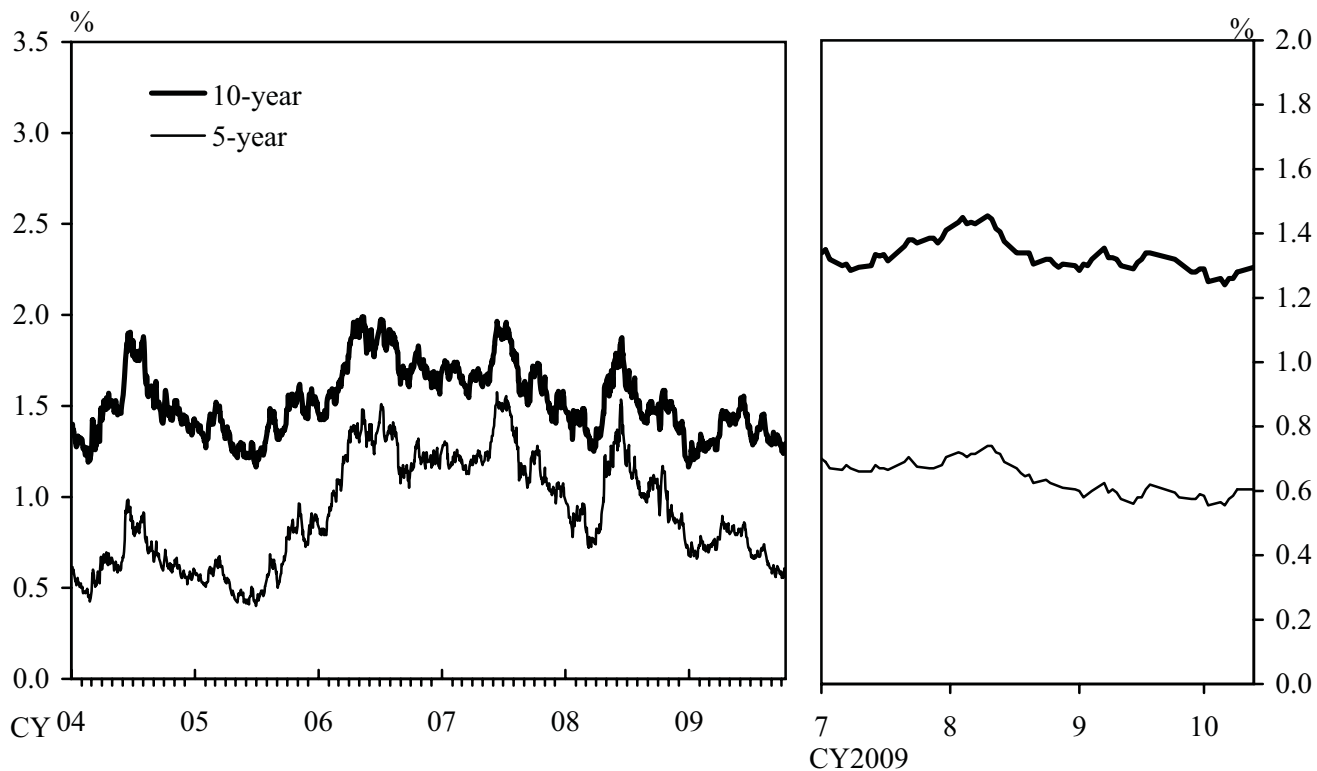
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



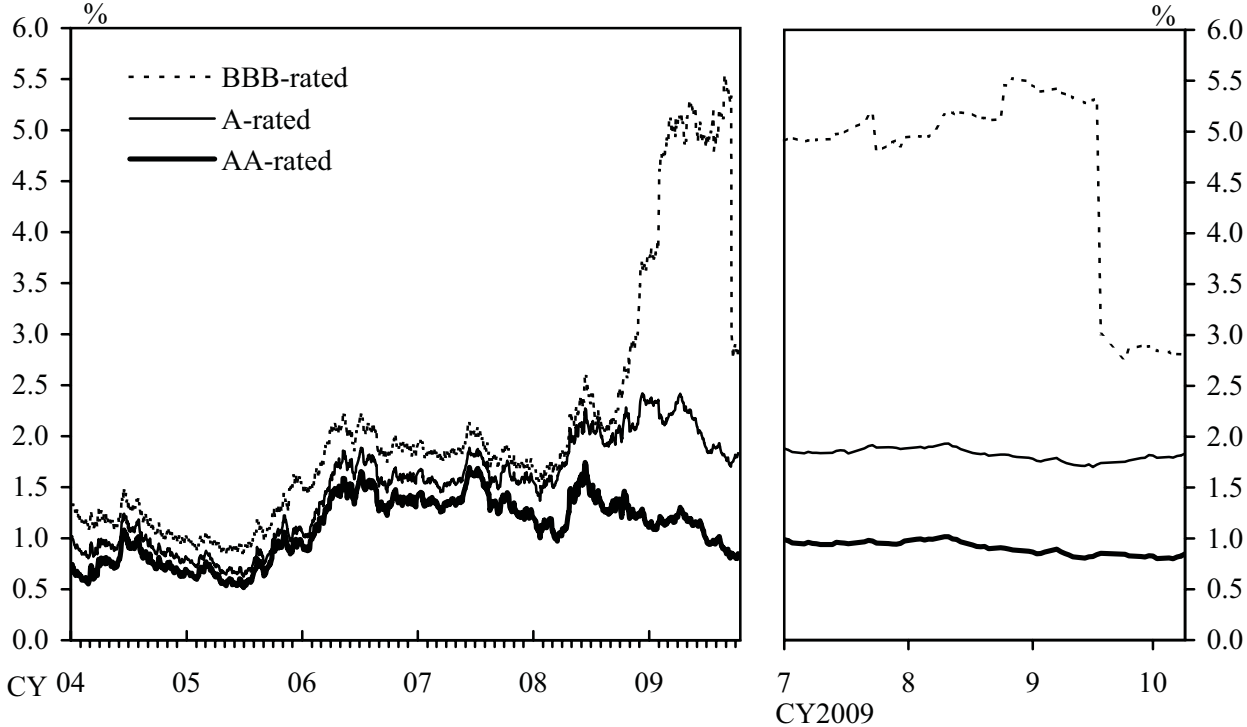
(2) Overseas Government Bond Yields (10-Year)



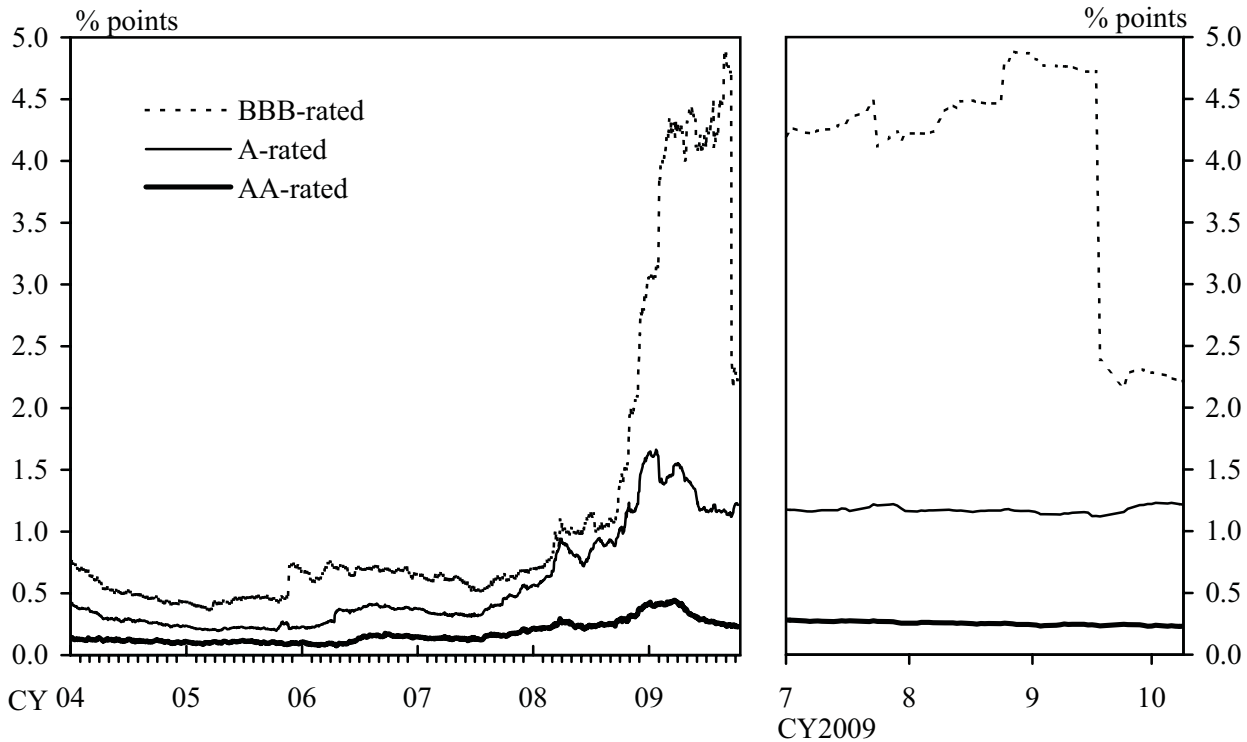
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



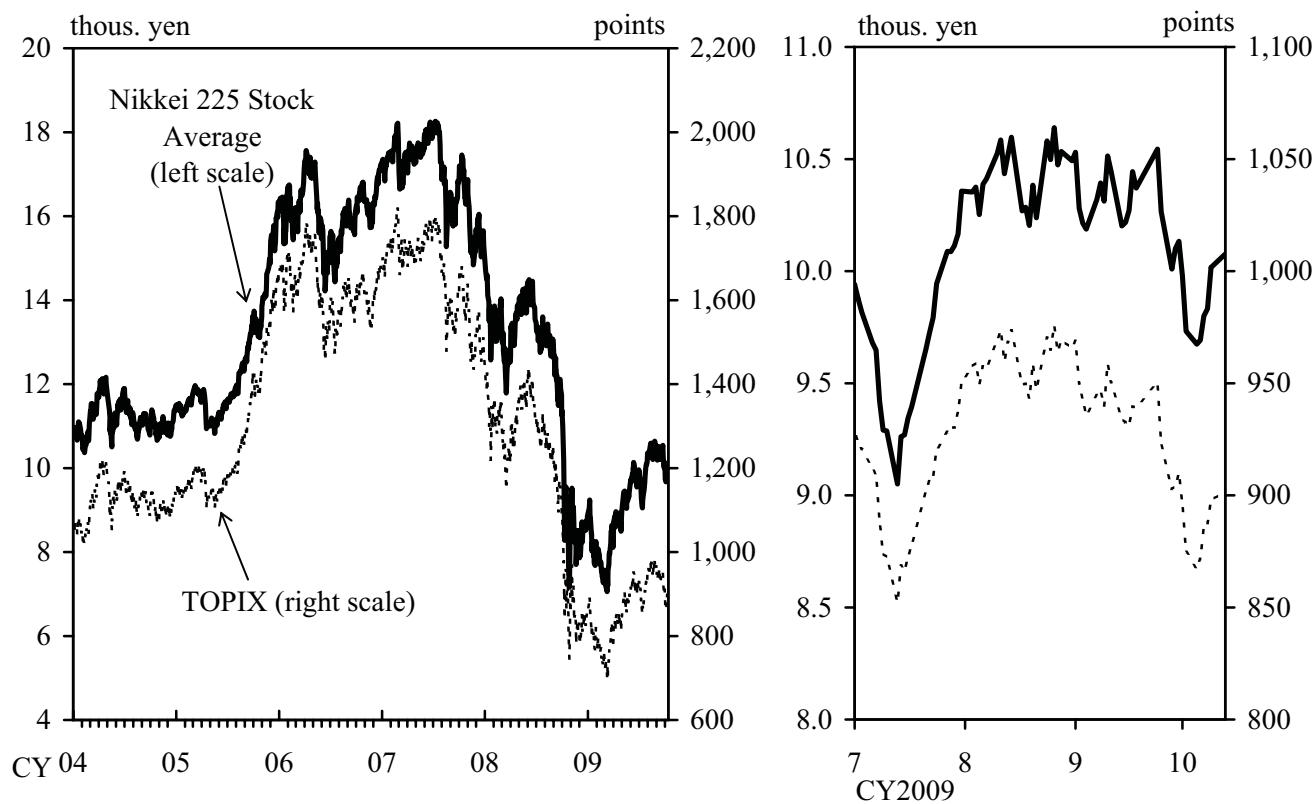
(2) Spreads of Corporate Bond Yields over Government Bond Yields^{1,2}



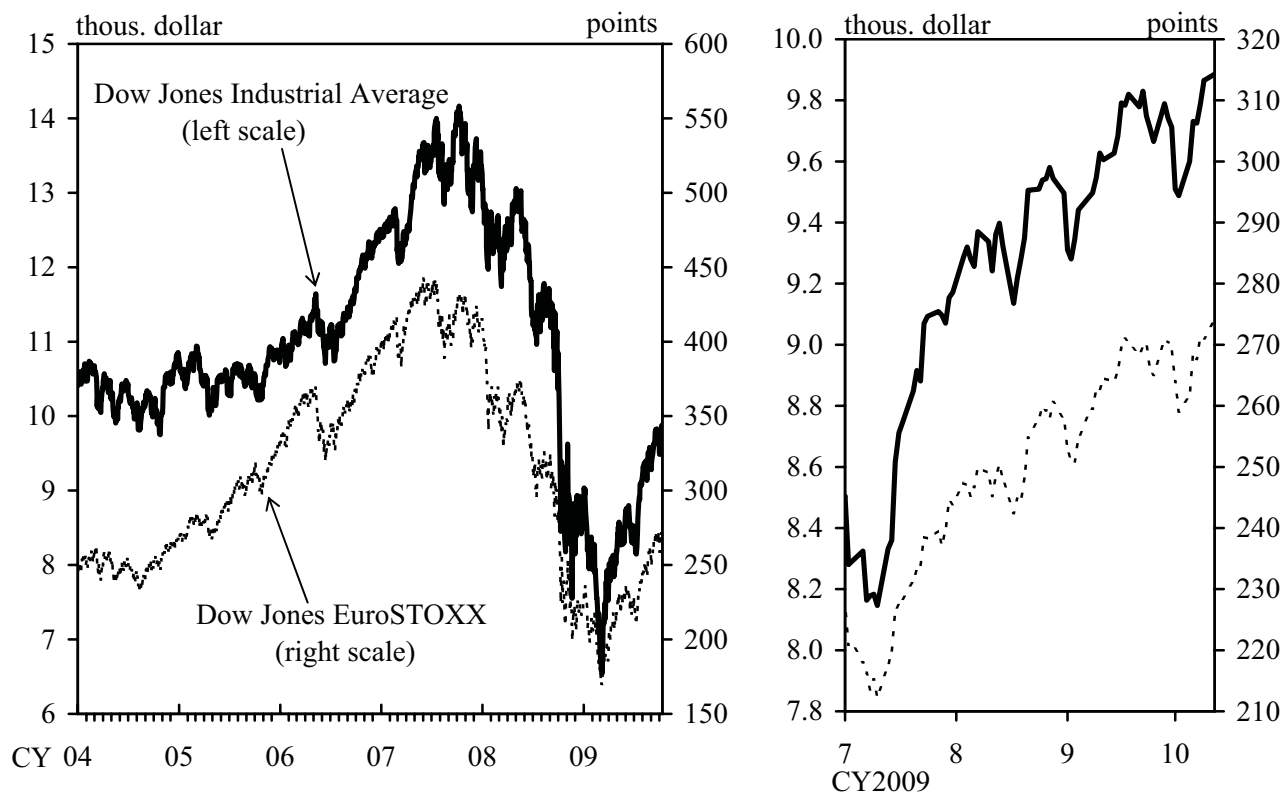
Notes: 1. Yields on bonds with 5-year maturity.
 Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.
 2. The indicated ratings are of Rating and Investment Information, Inc.
 Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



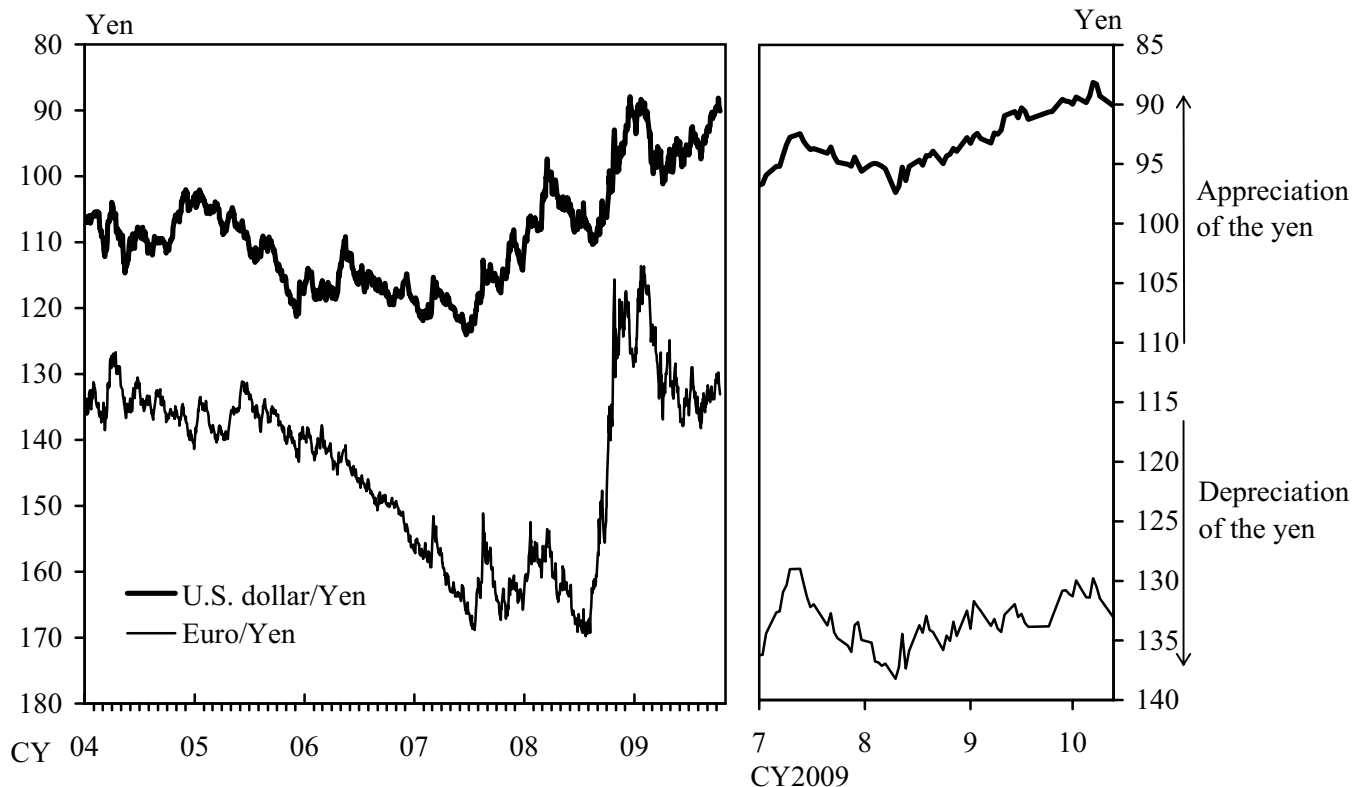
(2) Overseas Stock Prices



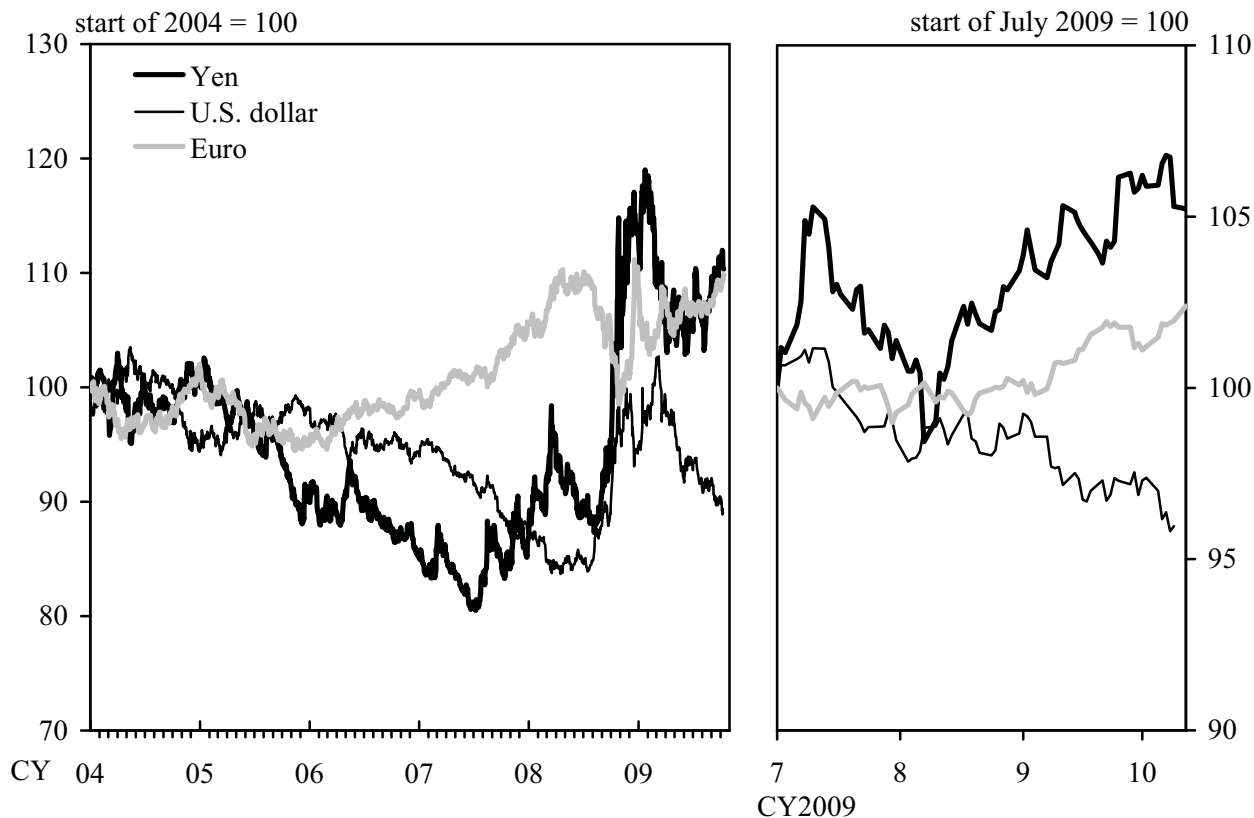
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



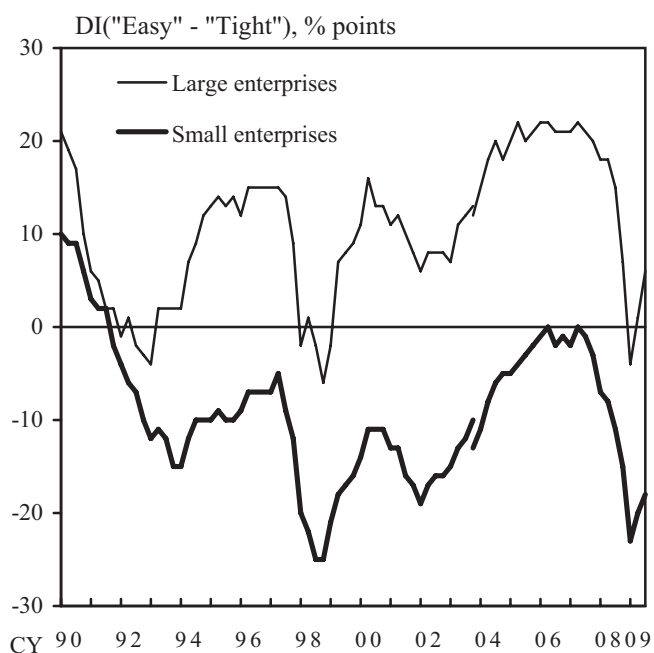
(2) Nominal Effective Exchange Rates



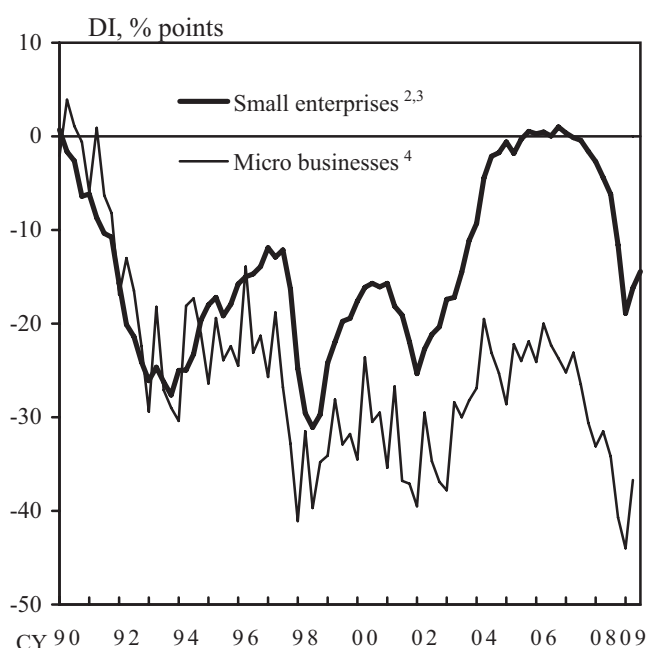
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

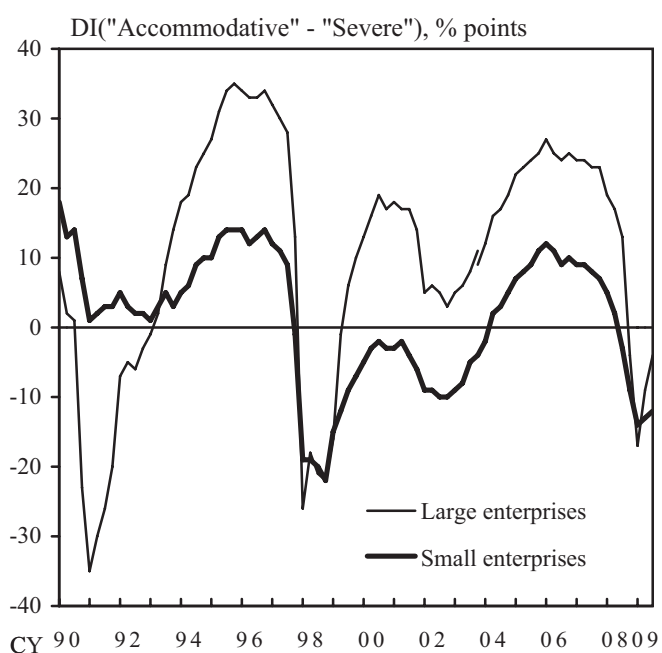
(1) Financial Position

<Tankan¹>

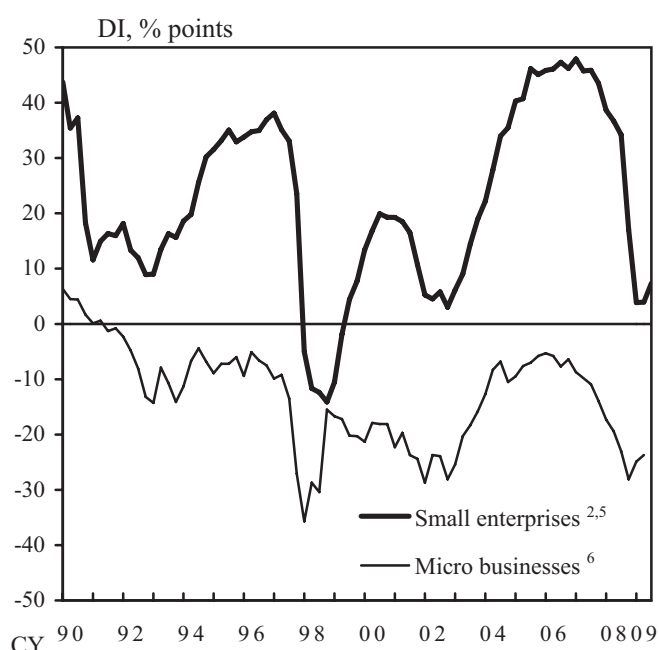
<Japan Finance Corporation Survey>



(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.

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

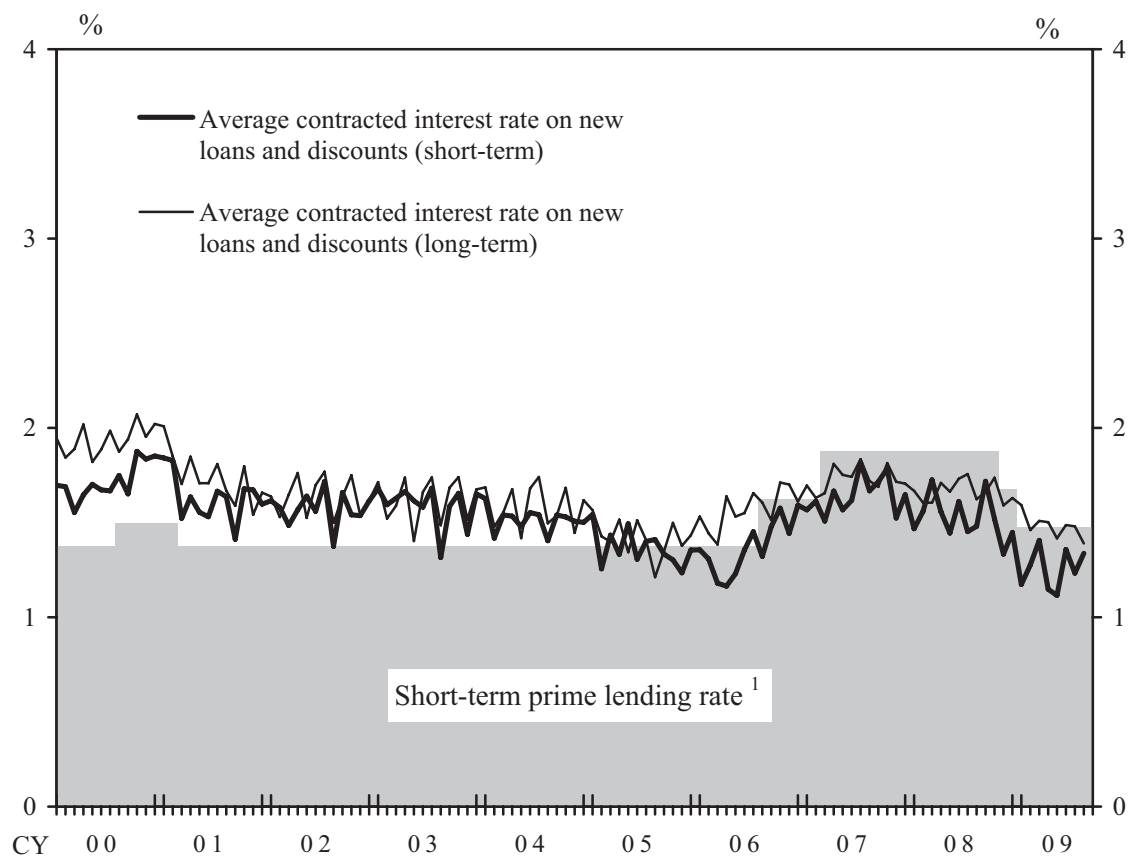
4. DI of "Easier" - "Tighter."

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

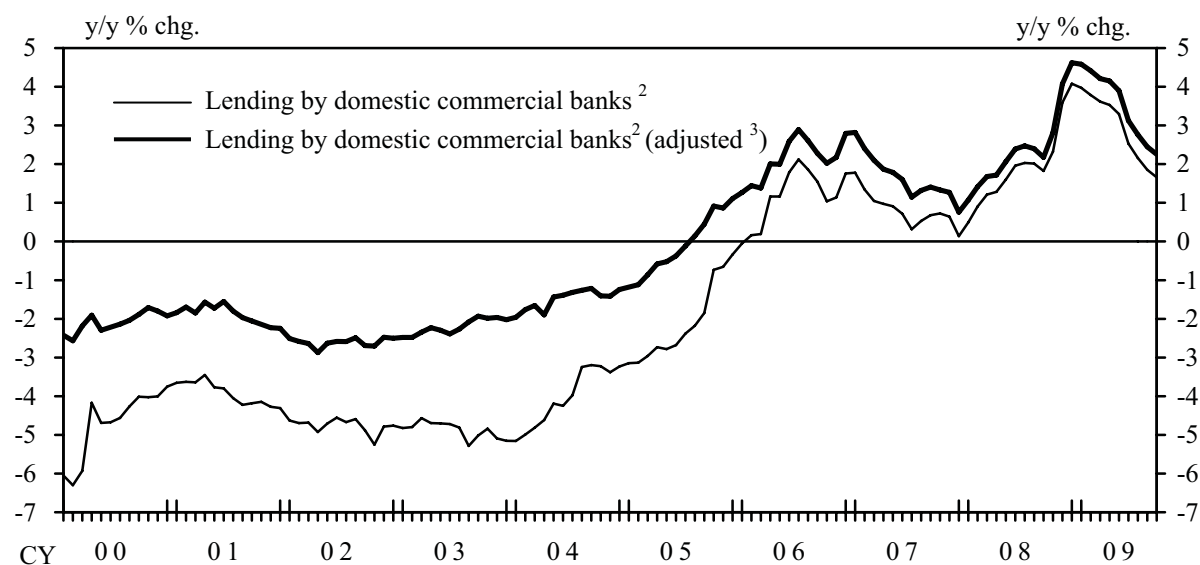


Note: 1. Data are at end of period.

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,

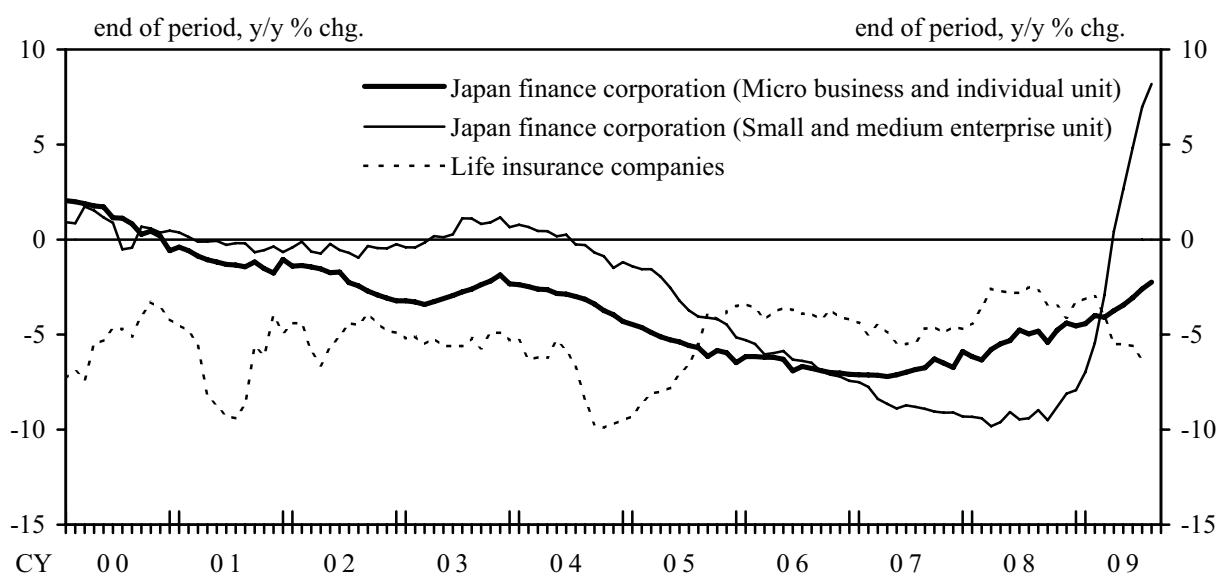
(2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,

(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

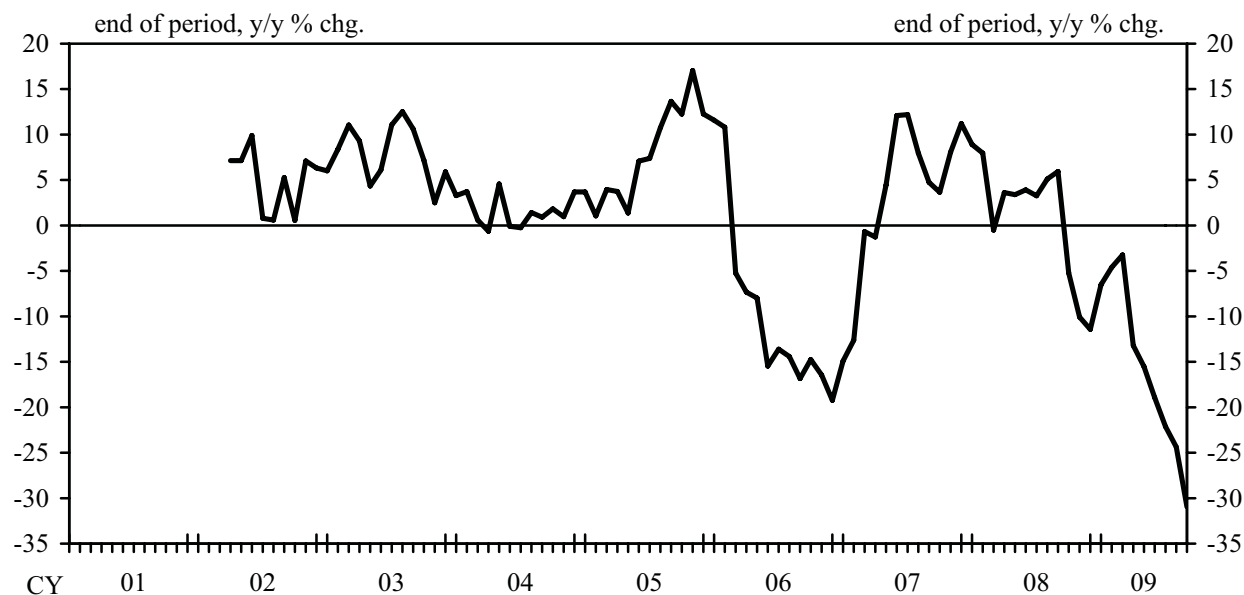


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

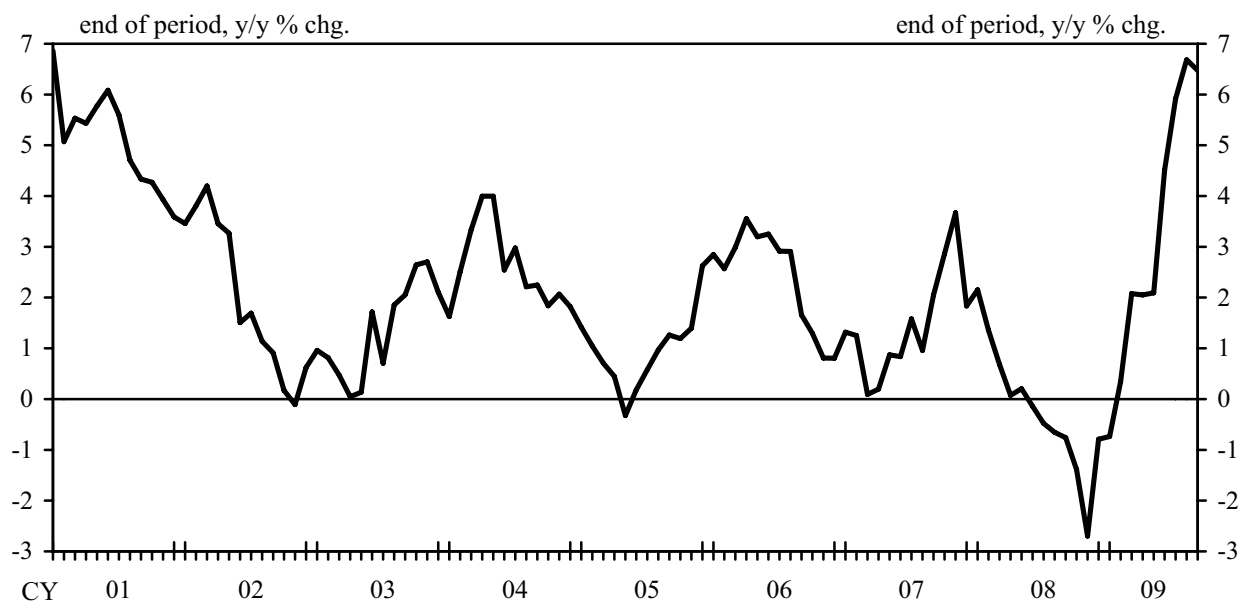
Private-Sector Fund-Raising in the Capital Markets

(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



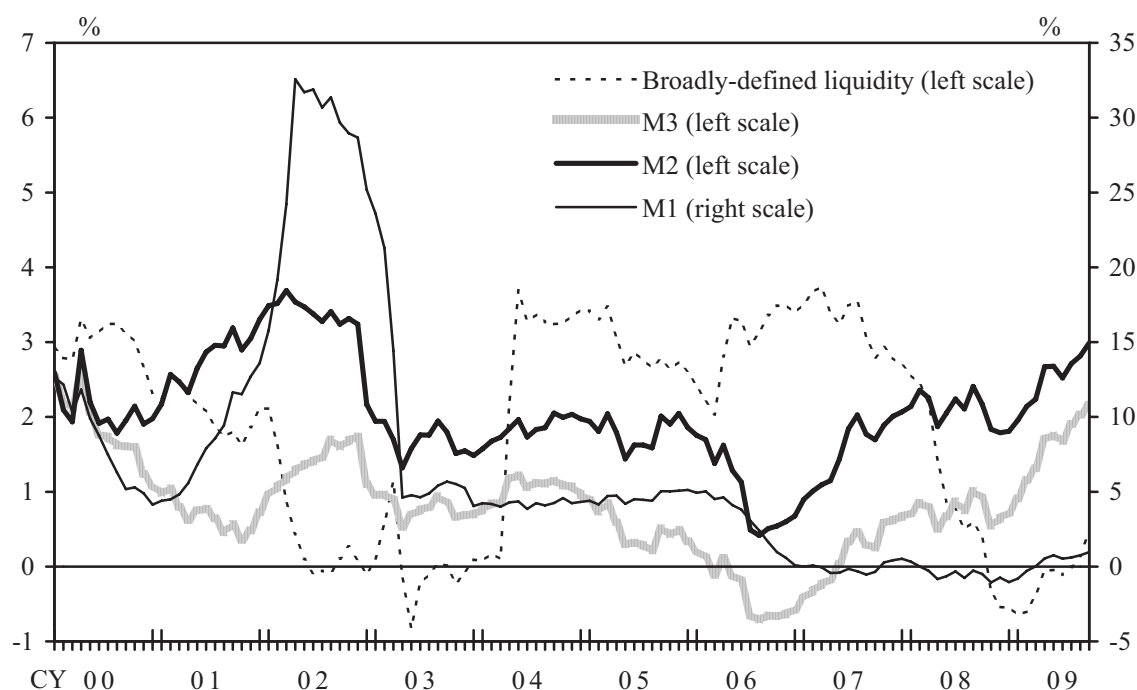
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

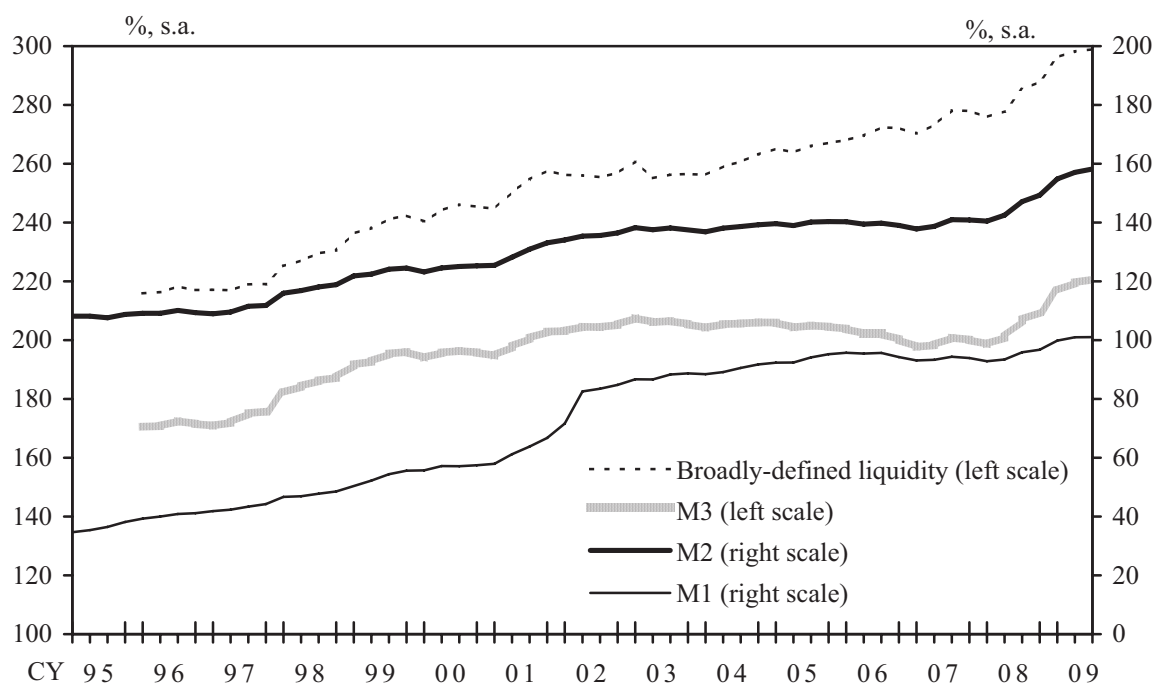
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
Bank of Japan, "Principal Figures of Financial Institutions";
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



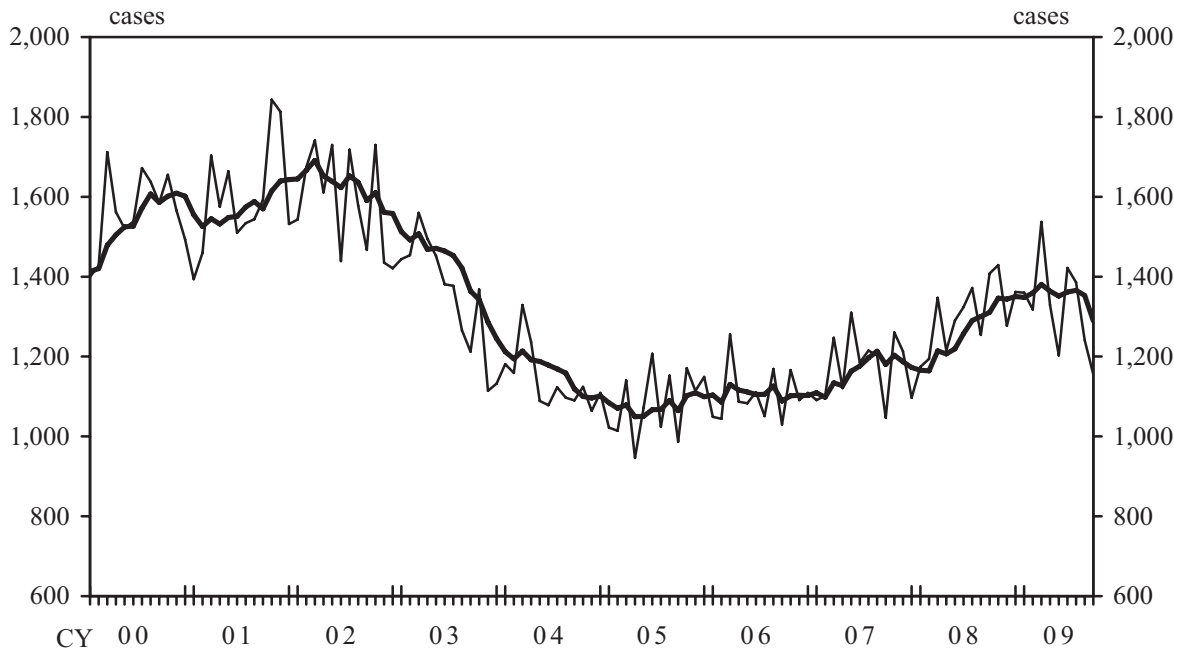
(2) Ratio of Money Stock to Nominal GDP



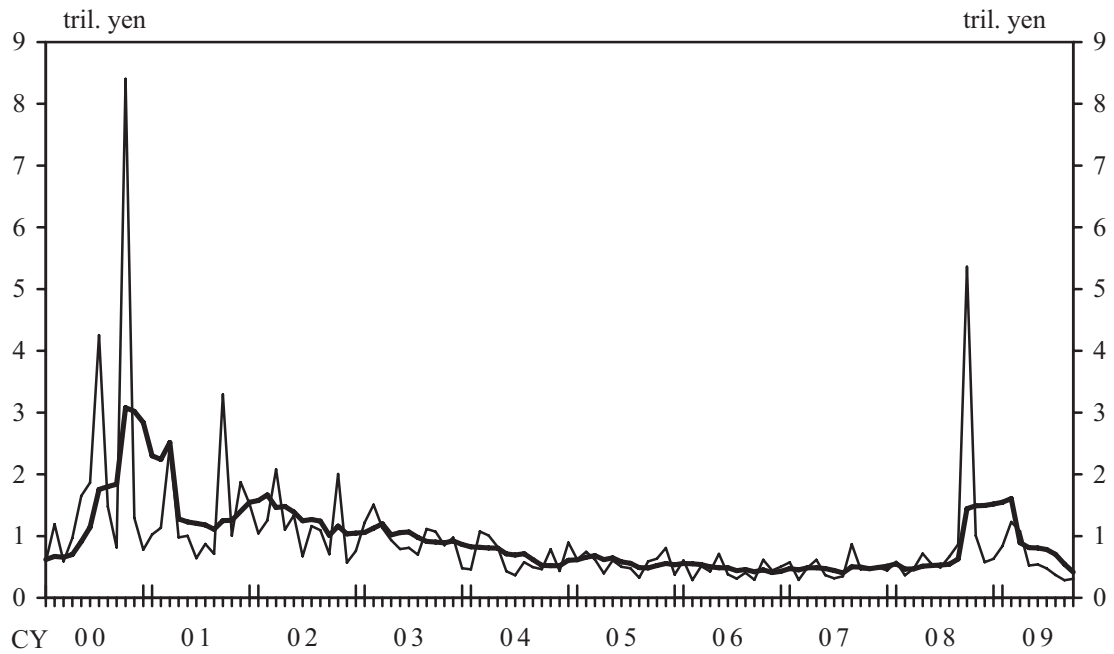
- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures 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/Q3 is assumed to be unchanged from the previous quarter.

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)."