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**Monthly Report of  
Recent Economic and Financial Developments**  
October 2010

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# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

October 2010

## Summary

Japan's economy still shows signs of a moderate recovery, but the pace of recovery is slowing down.

Growth in exports and production has recently been decelerating. Corporate profits and business sentiment have been improving, and business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. In these circumstances, private consumption has been generally picking up. Housing investment has leveled out. Meanwhile, public investment is declining.

Japan's economy is likely to recover at a moderate pace after a temporary slowdown.

Exports are expected to continue increasing, albeit moderately for the time being, reflecting continued improvement in overseas economic conditions. Signs of picking up in business fixed investment are expected to gradually become more evident as the improvement in corporate profits continues. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment is likely to remain moderate for the time being. Private consumption is likely to weaken temporarily mainly due to the ending of the boost from the extremely hot weather and the expiration of subsidies for purchasing energy efficient cars, but is expected to pick up again thereafter. Meanwhile, the decline in public investment is likely to continue. In these circumstances, production is expected to increase, after showing temporary weakness primarily in durable consumer goods.

On the price front, domestic corporate goods prices have been somewhat lower than three months earlier, mainly due to the earlier drop in commodity prices and the appreciation of the yen, amid the persistent slack in supply and demand

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<sup>1</sup> This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 4 and 5, 2010.

conditions for products. Consumer prices (excluding fresh food) are declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the slowing trend in the pace of decline has continued.

Domestic corporate goods prices are expected to be somewhat weak for the time being, since the effects of the yen's appreciation to date are likely to remain. The year-on-year pace of decline in consumer prices is expected to slow as a trend as the aggregate supply and demand balance improves gradually.

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

Financial conditions have continued to show signs of easing.

The overnight call rate has remained at an extremely low level, and the declining trend in firms' funding costs has continued. While stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices, such effects are beginning to strengthen in light of improved corporate profits. With regard to credit supply, firms see financial institutions' lending attitudes as improving. Issuing conditions for CP and corporate bonds have remained favorable. As for credit demand, firms' need to fund working capital and fixed investment has declined, and some firms have reduced the on-hand liquidity that they had accumulated. Against this backdrop, bank lending has declined on a year-on-year basis. The amount outstanding of corporate bonds has exceeded the previous year's level, while that of CP has declined. In these circumstances, the financial positions of firms have continued to show signs of improvement as a whole. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.

## 1. Economic Developments

Public investment is declining. Monthly indicators (Chart 5) show that the value of public works contracted—a measure that reflects public orders—have continued to be relatively weak; it dropped in July-August compared with the second quarter. The amount of public construction completed—which reflects the progress of public works—was flat in July relative to the second quarter, after having dropped sharply in the second quarter.

The decline in public investment is likely to continue.

The pace of increase in real exports has recently been slowing (Charts 6[1] and 7). Exports registered high growth of 9.5 percent in the second quarter on a quarter-on-quarter basis, followed by a slower pace of increase of 0.4 percent in July-August relative to the second quarter.

Looking at exports in July-August by destination (Chart 7[1]), as for exports to East Asia, those to China posted somewhat high growth compared with the second quarter, whereas those to the NIEs and ASEAN economies increased only slightly. Exports to the United States—which had continued their relatively high growth—rose at a reduced pace, mainly in motor vehicles and their related goods. Exports to "other regions" declined partly due to fluctuations that appear to have been caused by the decline in exports of ships. Exports to the EU continued to increase firmly.

By goods (Chart 7[2]), exports decelerated for all goods in July-August compared with the second quarter. Exports of motor vehicles and their related goods—which exhibited strong growth in the second quarter—increased at a much slower pace in July-August, notably for those to "other regions" and to the United States. Growth in exports of capital goods and parts also slowed significantly in July-August compared with the second quarter, partly due to the decline in ships to "other regions." The increase in exports of IT-related goods appears to have come to a halt.

Real imports have been on a moderate uptrend (Charts 6[1] and 9). Imports rose at a reduced pace in July-August compared with the second quarter by posting an

increase of 1.6 percent, after having registered high growth of 6.1 percent in the second quarter on a quarter-on-quarter basis.

By goods (Chart 9[2]), imports of IT-related goods—which registered high growth in the second quarter—have almost leveled out, and those of consumer goods have dropped marginally, whereas imports of other goods have been on the rise.

Net exports—in terms of the real trade balance—have been increasing as a reflection of the aforementioned developments in exports and imports, but the pace of increase has slowed (Chart 6[2]). The surplus of the nominal balance on goods and services has been more or less flat, albeit with fluctuations.

Exports are expected to continue increasing, albeit moderately for the time being, reflecting continued improvement in overseas economic conditions. The growth rate of overseas economies, which had been expanding at a considerably fast pace—mainly attributable to emerging countries—is slowing, partly due to adjustments to accommodative monetary policies in emerging economies (Chart 8[2]). The real effective exchange rate of the yen has been rising since the summer (Chart 8[1]).

Imports are expected to continue increasing gradually, thanks to the recovery trend of the domestic economy.

Business fixed investment is showing signs of picking up. Shipments of capital goods—a coincident indicator of machinery investment—dropped marginally in July-August compared with the second quarter, partly due to the decline in ships that show large fluctuations, but, excluding transport equipment, they rose marginally (Chart 10[1]). As for leading indicators, machinery orders (private demand, excluding orders for ships, those from electric power companies, and those for cell phones)—a leading indicator of machinery investment—increased in July compared with the second quarter, after having been level in the second quarter on a quarter-on-quarter basis (Chart 11[1]). By industry, in manufacturing, machinery orders registered a somewhat sizeable increase in July relative to the second quarter, after having declined in the second quarter. On the other hand, in nonmanufacturing

(excluding orders for ships, those from electric power companies, and those for cell phones), machinery orders increased in the second quarter and continued to do so in July compared with the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—have been influenced by large-scale projects mainly in nonmanufacturing; they increased in July-August relative to the second quarter (Chart 11[2]).

Regarding the environment surrounding business fixed investment, corporate profits have been improving. According to business plans in the September *Tankan* (all industries and enterprises), current profits in fiscal 2010 were forecast to increase substantially by 24.6 percent on a year-on-year basis. Compared with the June *Tankan*, business plans of manufacturing were revised significantly upward for the first half of the fiscal year in both large and small firms, while those for the second half were about the same as those in the June *Tankan* (Chart 12).<sup>2</sup> Under these circumstances, business sentiment among firms has been improving. The business conditions DI in the September *Tankan* improved in all industries and enterprises for the sixth consecutive quarter. For the outlook, however, firms are projecting business conditions to deteriorate (Chart 13). By industry, the motor vehicles industry is projecting a sharp deterioration due to concern over a likely plunge in sales with the expiration of subsidies for purchasing energy efficient cars. Moreover, the appreciation of the yen, concern over a slowdown in overseas economies, and a drop in sales in response to the effects of the extremely hot weather are mainly attributable to the deterioration projected across a wide range of industries.

Signs of picking up in business fixed investment are expected to gradually become more evident as the improvement in corporate profits continues. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment is likely to remain moderate for the time being (Chart 10[2]). According to business fixed investment plans (excluding software investment and including land purchasing expenses, year-on-year basis) in the

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<sup>2</sup> Attention should be paid to a possible downside risk to profits, since the yen has recently been moving above the average of predicted exchange rates by large manufacturing firms (89.44 yen to the U.S. dollar for the second half of the fiscal year). On the other hand, the increase in exports and private consumption through the summer may still not be fully incorporated into the profit plans of firms.

September *Tankan* (Chart 14), those of large firms for fiscal 2010 are projected to increase by 2.4 percent.<sup>3</sup> In detail, both manufacturing and nonmanufacturing are projecting an increase. Business fixed investment plans (same as above) of small firms for fiscal 2010 showed a decrease of 15.0 percent; the rate of upward revision from the June *Tankan* was more or less the same as the past average. 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 for fiscal 2010 was revised marginally upward relative to the June *Tankan* with a projected increase of 2.4 percent on a year-on-year basis.<sup>4</sup>

Private consumption has been generally picking up (Chart 15). Consumption of goods—as seen through sales at retail stores (in real terms)—increased in July-August compared with the second quarter, after having dropped marginally in the second quarter (Chart 16[1]). As for durable consumer goods, sales of household electrical appliances (in real terms) rose in August due to the effects of the extremely hot weather mainly in air conditioners, with steady sales of flat panel televisions assisted mainly by the eco-point system (Chart 16[2]).<sup>5</sup> The number of new passenger-car registrations—which had spiked in August propelled by a last-minute increase in demand prior to the expiration of subsidies for purchasing energy efficient cars—fell back sharply in September.<sup>6</sup> Sales at convenience stores continued to be robust in August, after having risen in both June and July assisted mainly by the

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<sup>3</sup> From the September *Tankan*, figures are based on the new accounting standard for lease transactions. Basically, for all finance lease transactions, leased assets are booked as business fixed investment on the lessee's side (firms), whereas these assets are not treated as business fixed investment on the lessor's side (leasing companies). Since the difference is the side on which business fixed investment is counted, the aggregate amount of business fixed investment will basically be unaffected in terms of the corporate sector as a whole. However, in cases in which the lessee is a small firm or in which the price of the leased property is low, lessees do not have to book them as business fixed investment. This indicates that the aggregate amount of business fixed investment on the new basis is undervalued as a whole.

<sup>4</sup> Business fixed investment of all industries and enterprises (including financial institutions) is projected to increase by 2.8 percent on a year-on-year basis.

<sup>5</sup> "The Three-Step Economic Measures for the Realization of the New Growth Strategy" released on September 10 revealed a three-month extension to the end of March 2011 for the eco-point system for household electrical appliances, with limiting the number of eligible types of appliances.

<sup>6</sup> Subsidies for purchasing energy efficient cars ended earlier than the original end-of-September expiry since allocated funds ran out in early September.



effects of the extremely hot weather (Chart 17[1]). Sales at both supermarkets and department stores have been seesawing. As for services consumption (Chart 17[2]), outlays for travel have been on an improving trend. Sales in the food service industry increased in July-August, mainly at fast-food restaurants, buoyed mainly by the extremely hot weather.

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—increased in July-August relative to the second quarter after having decreased in the second quarter (Chart 16[1]).<sup>7</sup> The total expenditure in the *Survey of Household Economy* (in real terms) rose in July compared with the second quarter.

Indicators related to consumer sentiment have recently shown somewhat weak movements (Chart 18).

Private consumption is likely to weaken temporarily mainly due to the ending of the boost from the extremely hot weather and the expiration of subsidies for purchasing energy efficient cars, but is expected to pick up again thereafter.

Housing investment has leveled out. The number of housing starts (Chart 19[1]; annualized)—a leading indicator of housing investment—rose marginally in July-August compared with the second quarter. Housing investment has tended to pick up—notably in housing for sale—which mainly reflected the progress in inventory and price adjustments amid further declines in borrowing rates.

Housing investment is expected to gradually head for a recovery, considering the number of housing starts. Housing investment, however, is likely to require more time to show clearer evidence of improvement, mainly because the employment and income situation is expected to remain severe.

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

The pace of increase in industrial production has recently been slowing. Production dropped by 0.3 percent in August on a monthly basis, posting a decline for three consecutive months. On a quarterly basis, production registered a strong 7.0 percent growth in the first quarter, followed by a rapid slowdown to an increase of 1.5 percent in the second quarter; it declined by 1.0 percent in July-August compared with the second quarter (Chart 20). It should be noted, however, that this rapid deceleration in the second quarter as well as the marginal decline in July-August was influenced by a distortion in seasonal adjustments.<sup>8</sup> In fact, the pace of increase in production seems to have been decelerating gradually from the middle of 2009; production has continued to increase modestly, even in the most recent July-August period.

Shipments increased by 1.6 percent in the second quarter on a quarter-on-quarter basis, but fell back marginally by 0.7 percent in July-August compared with the second quarter, partly due to a distortion in seasonal adjustments. By goods (Chart 21), shipments of producer goods have recently been weak, mainly in iron and steel and in electronic parts and devices, after having recovered significantly. Those of durable consumer goods have risen marginally, mainly due to an increase in shipments of air conditioners boosted by the extremely hot weather on top of growing shipments of flat panel televisions. Capital goods (excluding transport equipment) have trended upward. Construction goods have remained sluggish in general. Non-durable consumer goods have recently edged up, partly due to the effects of the extremely hot weather.

Inventories have been more or less flat. Looking at the shipment-inventory balance (Chart 22), the year-on-year rate of increase in inventories has remained almost level, whereas that in shipments has narrowed slightly. By goods, the year-on-year rates of increase in shipments of capital goods (excluding transport equipment) and other producer goods have continued to be well above those of

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<sup>8</sup> As a result of the revision on seasonal adjustments—which was conducted at the time of the annual revision on April 15—a part of the significant drop in production in the first quarter of 2009 was systematically recognized as a seasonal movement. Once the seasonal adjustment method recognizes that production in the first quarter is seasonally weak, it will push future growth rates for the first quarter—in this case the growth rate for the first quarter of 2010—upward, whereas it will exert downward pressure on those for the second and third quarters.

inventories. On the other hand, in durable consumer goods, electronic parts and devices, and construction goods, the year-on-year rates of increase in shipments and inventories have been almost the same.

Production is expected to increase, after showing temporary weakness primarily in durable consumer goods. According to anecdotes by firms and other information, production, in fact, is projected to temporarily show weakness for the fourth quarter, due to a likely plunge in production of transport equipment following the expiration of subsidies for purchasing energy efficient cars and also to the ending of the boost from the extremely hot weather.

The employment and income situation has remained severe, but the degree of severity has eased somewhat.

In the labor market, the ratio of job offers to applicants rose for the fourth month running, recording 0.54 times in August (Chart 23[1]). It has generally recovered moderately after hitting bottom in August 2009. The unemployment rate in August moved down by 0.1 percentage point from July to 5.1 percent. Looking at the employment conditions DI in the September *Tankan* (Chart 25), the net "excessive" employment has tended to narrow, mainly in medium-sized and small firms.

In terms of employment (Chart 24[1]), the year-on-year growth rate of the number of employees in the *Labour Force Survey* has been around 0 percent.<sup>9</sup> The number of regular employees in the *Monthly Labour Survey* has increased, albeit marginally, from the previous year's level. The ratio of part-time employees has been on a moderate rising trend (Chart 24[2]). Overtime hours worked, meanwhile, have been recovering, although the pace has somewhat slowed (Chart 24[3]).

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<sup>9</sup> With regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that the number of applicants for this subsidy has been decreasing moderately as a trend, although it remains at a high level. The number of applicants was 2.53 million at its peak in April 2009, while it was 1.12 million this past August.

Nominal wages per employee have inched up lately on a year-on-year basis, but the preliminary figure for August posted a year-on-year growth of 0 percent (Chart 26[1]). In detail, the pace of decline in regular payments has been moderating, assisted mainly by the pick-up in regular hours worked. Overtime payments have registered a year-on-year increase, facilitated by the increase in overtime hours worked. Special payments in June-August—which basically corresponds to summer bonuses—have also been above the year-ago level.<sup>10</sup>

Employee income—which had been decreasing on a year-on-year basis—has marked a marginal year-on-year increase lately as a reflection of the aforementioned developments in employment and wages (Chart 26[3]).

The increase in employee income is likely to lack vigor for the time being, mainly due to the persistent sense among firms of excessive employment, although the decline is expected to come to a gradual and clear halt.

## **2. Prices**

The three-month rate of change in import prices (on a yen basis) has decreased as a reflection of the earlier drop in international commodity prices and the appreciation of the yen (Chart 28). International commodity prices have generally been more or less flat, but, most recently, they have shown some upward movement.

Domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>11</sup> have been somewhat lower than three months earlier, mainly due to the earlier drop in international commodity prices and the appreciation of the yen, amid the persistent slack in supply and demand conditions for products (Chart 29). In detail, the three-month rate of change in prices of "goods

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<sup>10</sup> Surveys by the Nihon Keizai Shimbun, Inc. (final results as of June 29) and the Japan Business Federation (final results as of July 20) show that summer bonuses among major firms will increase marginally (0.75 and 0.55 percent respectively, on a year-on-year basis).

<sup>11</sup> 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.

sensitive to exchange rates and overseas commodity prices" has fallen due to the earlier drop in international commodity prices and the yen's appreciation. Prices of "raw materials (other goods)" have been somewhat lower than three months earlier, mainly in prices of chemicals and related products. Meanwhile, the three-month rate of decline in prices of "machinery" has narrowed slightly.

Corporate services prices (excluding international transportation; year-on-year basis, same hereafter) have been declining, a reflection mainly of cost cutting among firms, but the rate of decline has tended to moderate (Chart 30). In August, corporate services prices fell for 22 months in a row. The pace of decline has been slowing since the start of this year. Looking at recent developments in detail, the pace of decline has more or less leveled off in the following three prices: prices related to selling, general and administrative expenses; those related to fixed investment; and IT-related prices. The rate of decrease in prices related to domestic transportation has narrowed since the negative effects of highway tolls—which were reduced in the previous year—have waned. On the other hand, prices related to real estate have dropped at a faster pace, affected by a slack in supply and demand conditions with a time lag.

Consumer prices (excluding fresh food; year-on-year basis, same hereafter) are declining due to the substantial slack in the economy as a whole, but the slowing trend in the pace of decline has continued (Charts 31 and 32). In August, the rate of decline in consumer prices narrowed by 0.1 percentage point from July, registering a decrease of 1.0 percent. Looking at developments on a basis that excludes food and energy, consumer prices dropped by 1.5 percent, posting the same rate of decline as in July. Excluding high school fees,<sup>12</sup> the rate of decline in consumer prices—excluding fresh food—narrowed by 0.1 percentage point from July with a decrease of 0.5 percent. The rate of decline—excluding food and energy—marked a decrease of 0.7 percent, posting the same rate of decline as in July. The year-on-year rate of decline in the trimmed mean index—which systematically discards a certain percentage of the highest and lowest marks of the price fluctuation distribution by

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<sup>12</sup> In terms of high school fees, households with public high school students are exempt from paying the annual tuition fee of about 120,000 yen, while those with private high school students receive subsidies equivalent to the annual tuition fee of public high schools.

item (the index which eliminates large relative price fluctuations)—has been narrowing mildly.

Looking at recent movements in detail, the pace of decline in prices of goods (excluding agricultural and aquatic products) has more or less leveled off. On the other hand, the pace of decline in prices of general services—with private high school fees excluded—has been moderating as a whole. The pace of decline in public utility charges—with public high school fees excluded—has also been slowing.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 33), the net "excess supply" of the supply and demand conditions DI for products and services moderated marginally in both manufacturing and nonmanufacturing. The net "fall" of the output prices DI was more or less the same as that in the June *Tankan* for both manufacturing and nonmanufacturing. The weighted average of the production capacity DI and employment conditions DI continued to improve, but the improvement is projected to come to a halt.<sup>13</sup>

Domestic corporate goods prices are expected to be somewhat weak for the time being, since the effects of the yen's appreciation to date are likely to remain. The year-on-year pace of decline in consumer prices is expected to slow as a trend as the aggregate supply and demand balance improves gradually.

Looking at developments in land prices through the *Land Price Survey by Prefectural Government* as of July (Chart 34), the year-on-year decline in average land prices in Japan slowed compared with last year; this year, prices declined by 3.7 percent, while those of last year marked a decline of 4.4 percent.

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<sup>13</sup> The discrepancy between the supply-demand gap—calculated by the Research and Statistics Department of the Bank of Japan—and the weighted average DI of the *Tankan* has been wide since the end of 2008. As for the DI, it is likely that adjustment pressures of the economy as a whole are underestimated, mainly due to the following two factors: (i) the size of "excess" has not been incorporated because reporting firms are only asked to select either "excess" or "lack;" and (ii) labor conditions, such as unemployment, outside each firm have not been taken into account. On the other hand, it is also likely that the recent negative supply-demand gap might be overestimated, since calculation errors tend to be significant, particularly at times when there are great changes to the economy.

### **3. Financial Developments**

#### **(1) Financial Markets**

Japan's money markets have continued to be stable amid the Bank of Japan's provision of ample funds. The overnight call rate (uncollateralized) has been at around 0.1 percent. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been in the range of 0.10-0.15 percent. The Euroyen interest rate (3-month) has remained somewhat high relative to the OIS rates—the OIS rates mainly reflect expectations about future policy interest rates. The volume of transactions in some markets has remained low. Interest rates on Euroyen futures have suggested that term funding rates are expected to decline moderately for the time being (Chart 35). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has been at a low level (Chart 36).

Yields on 10-year government bonds (newly issued 10-year JGB)—which had shown large fluctuations partly due to profit-realizing sales by investors—have gradually become less volatile; they have recently been in the range of 0.9-1.0 percent (Chart 37).

Yield spreads between corporate bonds and government bonds, except for some industries, have been more or less unchanged against the backdrop of firm demand among investors (Chart 38).

Stock prices have risen, amid rises in U.S. and European stock prices and the yen's depreciation following the foreign exchange intervention. The Nikkei 225 Stock Average has recently been at around 9,500 yen (Chart 39).

In the foreign exchange market, the yen—which had appreciated against the U.S. dollar—depreciated in response to the foreign exchange intervention and then appreciated somewhat; it has recently been traded in the range of 83-84 yen (Chart 40).

#### **(2) Corporate Finance and Monetary Aggregates**

The declining trend in firms' funding costs has continued, against the background that the overnight call rate has remained at an extremely low level.

Issuance rates on CP, meanwhile, have remained more or less unchanged at low levels, and those on corporate bonds have also remained more or less unchanged. The average contracted interest rates on new loans and discounts have been on a declining trend, albeit with some fluctuations (Chart 42).

With regard to credit supply, firms see financial institutions' lending attitudes as improving (Chart 41). Issuing conditions for CP and corporate bonds have remained favorable. In these circumstances, funding of the private sector has declined on a year-on-year basis, mainly due to the decline in firms' need to fund working capital and fixed investment. Bank lending has declined on a year-on-year basis (Chart 43). The amount outstanding of CP issued has decreased, partly because of the decline in firms' need to fund working capital. On the other hand, the amount outstanding of corporate bonds issued has been above the previous year's level (Chart 44).

In these circumstances, the financial positions of firms have continued to show signs of improvement as a whole (Chart 41). The number of corporate bankruptcies has continued to decrease; it was down by 14.3 percent in August compared to the previous year's level (Chart 46).

Meanwhile, the year-on-year growth rate of the money stock (M2) has recently been in the range of 2.5-3.0 percent. Its August reading was 2.8 percent on a year-on-year basis, following 2.7 percent in July (Chart 45).<sup>14</sup>

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<sup>14</sup> On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has recently been at around 2 percent; its August reading was 2.1 percent, following 2.0 percent in July. The year-on-year growth rate of broadly-defined liquidity (L) has recently been at around 0.5 percent; it increased by 0.4 percent in August, following an increase of 0.7 percent in July.



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## Main Economic Indicators (1)

s.a., q/q (m/m) % chg.<sup>1</sup>

	2010/Q1	Q2	Q3	2010/Jun.	Jul.	Aug.	Sep.
Index of consumption expenditure level (two-or-more-person households)	0.3	-2.0	n.a.	1.6	0.0	2.6	n.a.
Sales at department stores	1.2	-1.5	n.a.	-3.3	2.0	p 0.2	n.a.
Sales at supermarkets	-0.3	0.1	n.a.	1.9	-0.1	p 0.0	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 314>	< 320>	< 334>	< 312>	< 319>	< 417>	< 265>
Sales of household electrical appliances (real, Current Survey of Commerce)	14.1	1.7	n.a.	0.7	3.9	p 7.6	n.a.
Outlays for travel	4.3	3.1	n.a.	-3.7	3.1	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 84>	< 76>	<n.a.>	< 75>	< 77>	< 83>	<n.a.>
Machinery orders (from private sector) excluding volatile orders 1 <sup>4</sup>	2.9	0.3	n.a.	1.6	8.8	n.a.	n.a.
excluding volatile orders 2 <sup>4</sup>	4.8	-0.1	n.a.	6.1	6.4	n.a.	n.a.
Construction Starts (private, nondwelling use)	24.6	-19.4	n.a.	3.6	13.3	-10.1	n.a.
Mining & manufacturing	24.0	-11.2	n.a.	79.5	-22.3	5.1	n.a.
Nonmanufacturing <sup>5</sup>	18.9	-20.1	n.a.	-11.1	24.2	-5.6	n.a.
Value of public works contracted	-6.5	5.2	n.a.	-3.4	-0.4	-2.9	n.a.
Real exports	5.2	9.5	n.a.	-0.3	2.4	-4.2	n.a.
Real imports	2.5	6.1	n.a.	1.1	-0.6	-1.6	n.a.
Industrial production	7.0	1.5	n.a.	-1.1	-0.2	p -0.3	n.a.
Shipments	7.2	1.6	n.a.	0.2	-0.1	p -0.5	n.a.
Inventories	1.1	3.4	n.a.	0.7	-0.5	p 0.7	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 102.3>	< 106.7>	<n.a.>	< 106.7>	< 108.2>	<p 107.2>	<n.a.>
Real GDP	1.2	0.4	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.4	0.8	n.a.	0.2	1.0	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2009/Q4	2010/Q1	Q2	2010/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 0.43>	< 0.47>	< 0.50>	< 0.50>	< 0.52>	< 0.53>	< 0.54>
Unemployment rate <s.a., %>	< 5.2>	< 4.9>	< 5.2>	< 5.2>	< 5.3>	< 5.2>	< 5.1>
Overtime working hours <sup>6</sup>	-7.7	10.0	10.8	10.4	10.2	11.1	p 8.9
Number of employees	-1.4	-0.3	-0.3	-0.4	-0.1	0.1	-0.0
Number of regular employees <sup>6</sup>	-0.2	0.1	0.2	0.4	0.2	0.5	p 0.5
Nominal wages per person <sup>6</sup>	-4.1	0.0	1.3	0.1	1.8	1.4	p 0.0
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	-5.2 <-0.5>	-1.7 < 0.3>	0.2 < 0.6>	0.4 < 0.8>	0.4 < 0.2>	0.0 <-0.4>	p 0.0 <p -0.6>
Consumer price index <sup>8</sup>	-1.8	-1.2	-1.2	-1.2	-1.0	-1.1	-1.0
Corporate services price index <sup>9</sup>	-1.6	-1.6	-1.3	-1.2	-1.1	-1.1	p -1.1
Money Stock (M2) <average outstanding, y/y % chg.>	3.3	2.8	3.0	3.1	2.9	2.7	p 2.8
Number of corporate bankruptcies <cases per month>	<1,176>	<1,156>	<1,108>	<1,021>	<1,148>	<1,066>	<1,064>

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

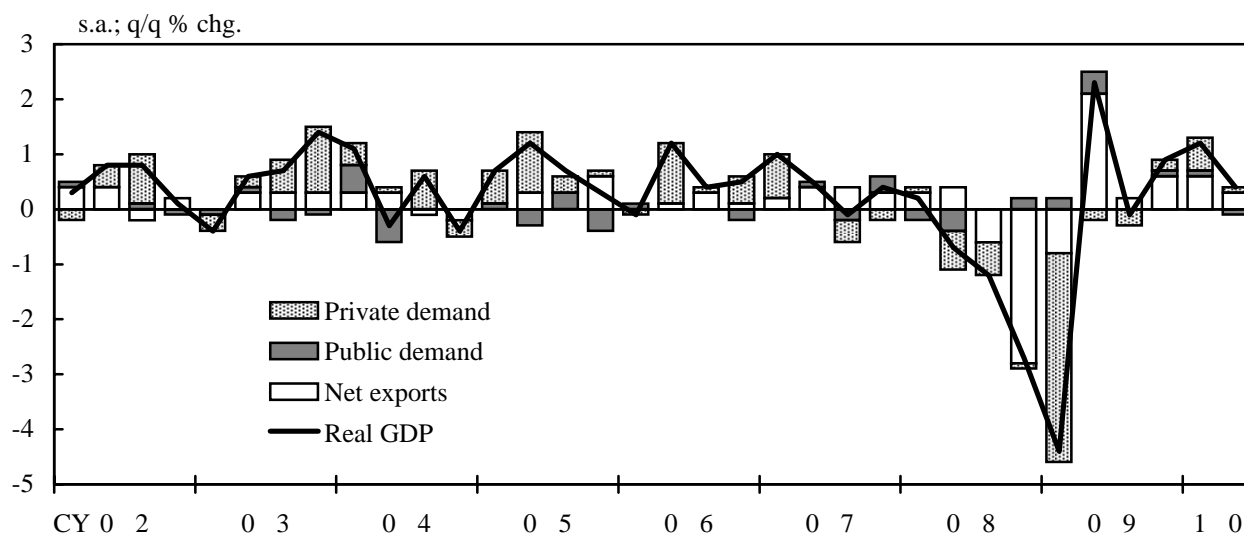
All figures in Chart 2 except figures in angle brackets are year-on-year changes. For details on seasonal adjustments and data processing/compilation conducted by the Bank of Japan, see notes of the respective charts.

2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders 1: Orders for ships and those from electric power companies.  
Volatile orders 2: Volatile orders 1 and orders for cellphones.
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.
9. Excludes international transportation.

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



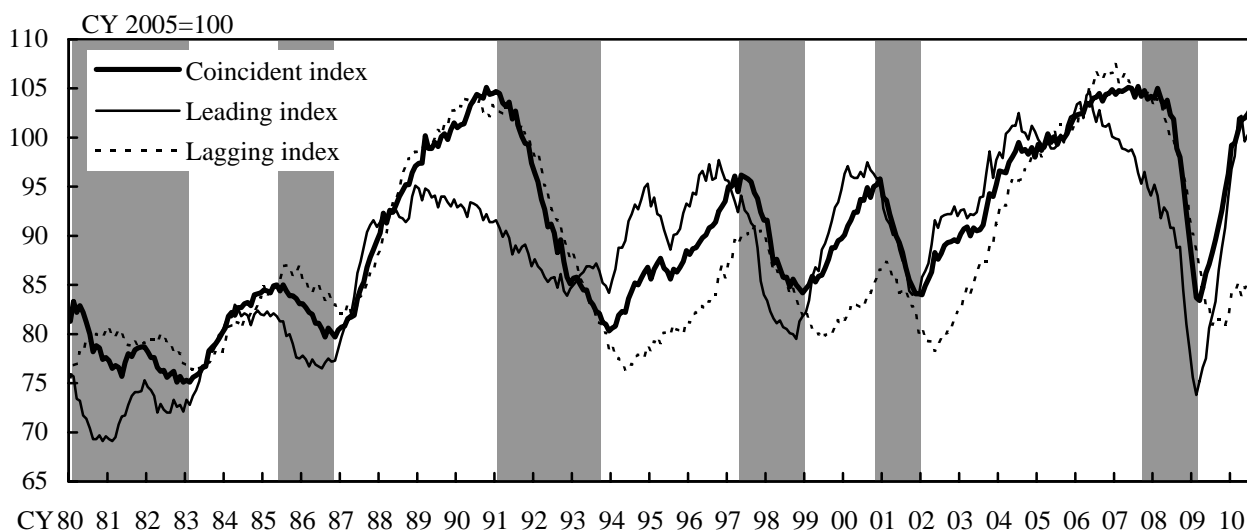
## (2) Components

s.a.; q/q % chg.

	2009			2010	
	Q2	Q3	Q4	Q1	Q2
Real GDP	2.3	-0.1	0.9	1.2	0.4
Domestic demand	0.3	-0.3	0.2	0.6	0.0
Private demand	-0.2	-0.3	0.2	0.6	0.1
Private consumption	0.8	0.4	0.4	0.3	0.0
Non-Resi. investment	-0.8	-0.2	0.2	0.1	0.2
Residential investment	-0.3	-0.2	-0.1	0.0	-0.0
Private inventory	0.1	-0.2	-0.4	0.1	-0.1
Public demand	0.4	-0.0	0.1	0.1	-0.1
Public investment	0.4	-0.1	-0.1	-0.0	-0.1
Net exports of goods and services	2.1	0.2	0.6	0.6	0.3
Exports	1.3	1.1	0.8	1.0	0.9
Imports	0.8	-0.9	-0.2	-0.4	-0.5
Nominal GDP	0.4	-0.5	0.2	1.6	-0.6

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

## (3) Indexes of Business Conditions (Composite Indexes)

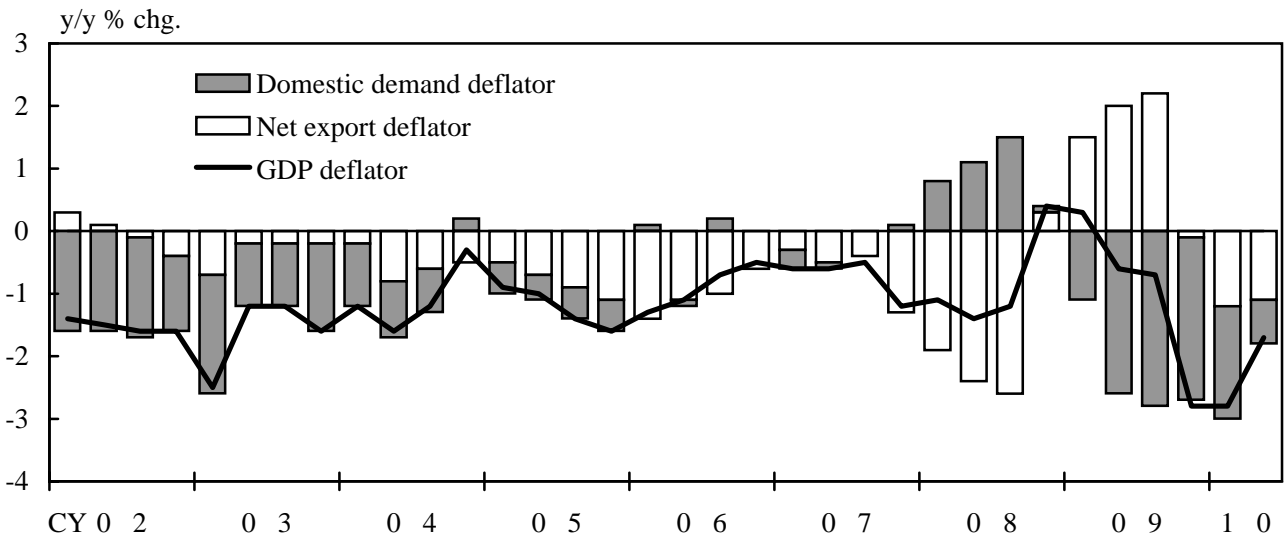


Note: Shaded areas indicate recession periods.

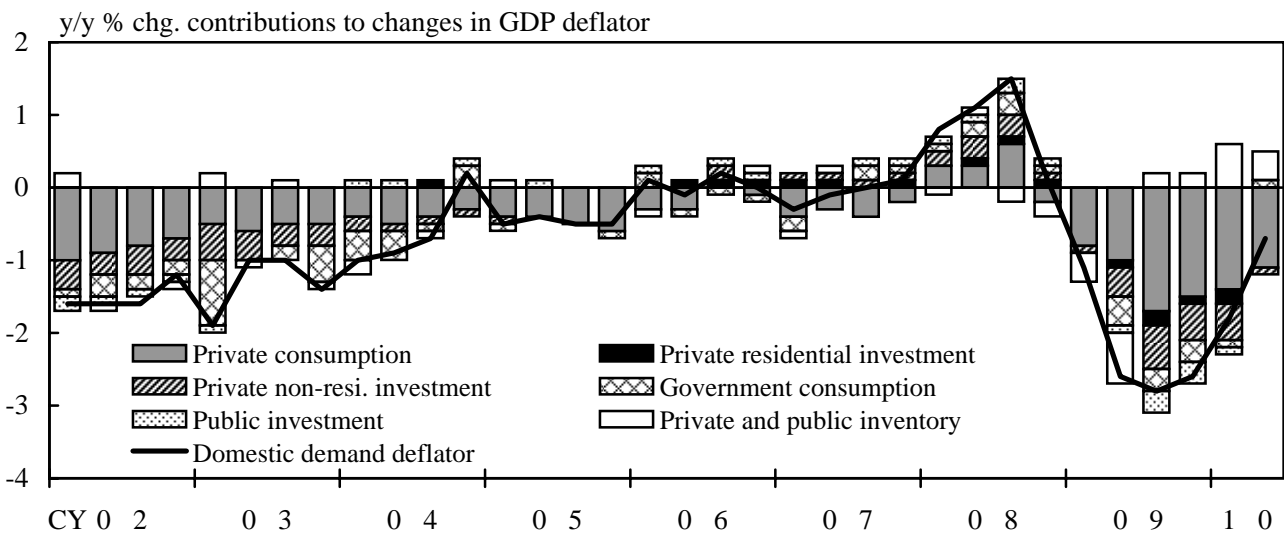
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

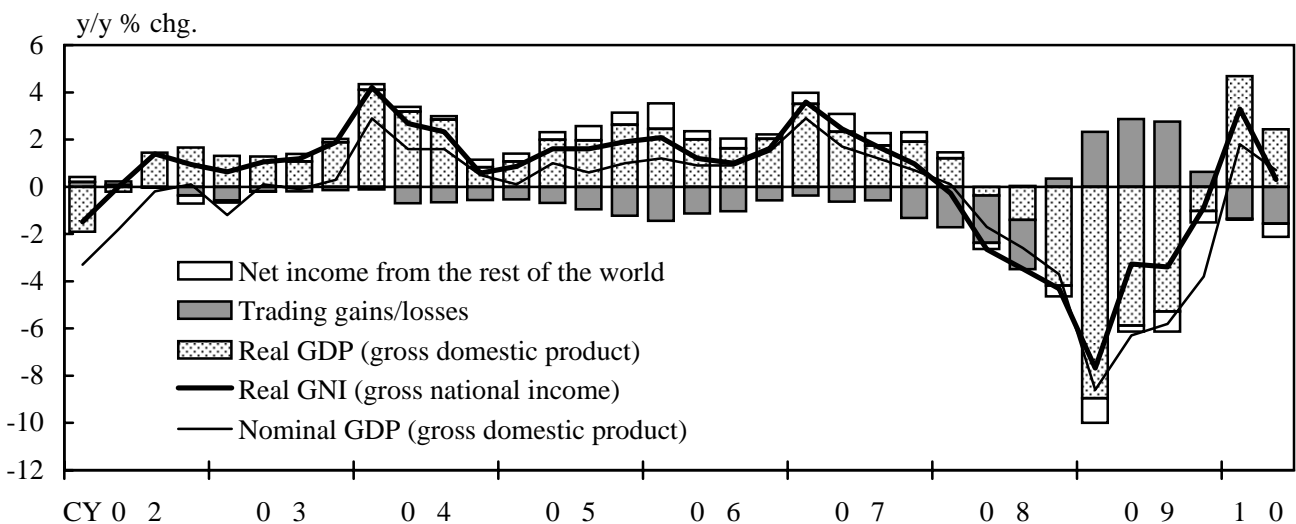
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



Notes: 1. Figures of components indicate contributions to changes in real GNI.

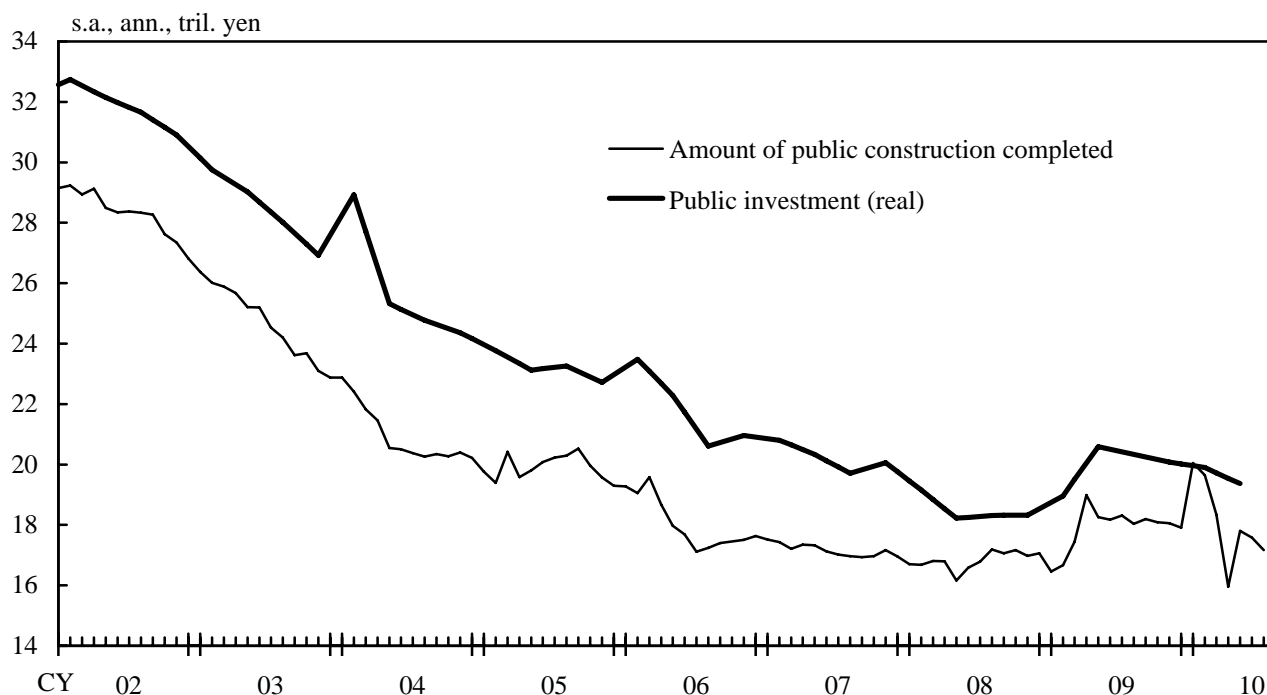
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

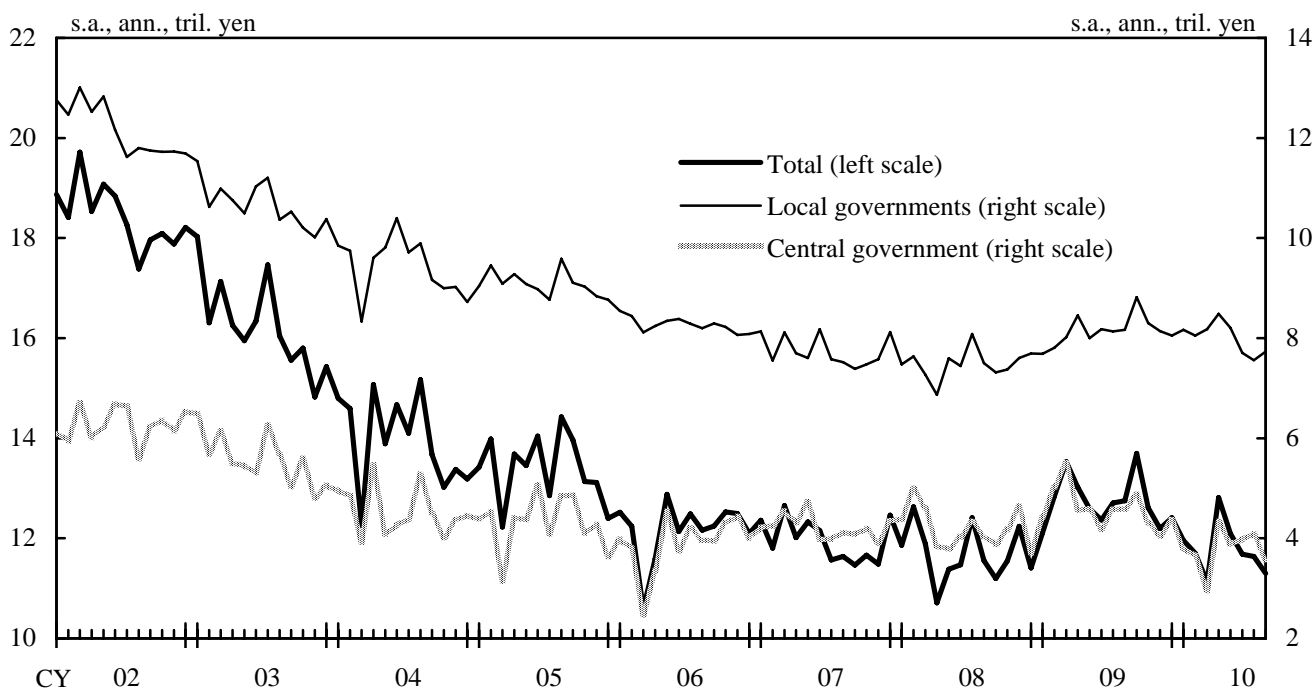
Source: Cabinet Office, "National Accounts."

## 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. The amount of public construction completed is based on the general tables in the *Integrated Statistics on Construction Works*.

3. Figures of the value of public works contracted and the amount of public construction completed are seasonally adjusted by X-12-ARIMA. As figures of the amount of public construction completed are seasonally adjusted on a monthly basis, the data are retroactively revised every month.

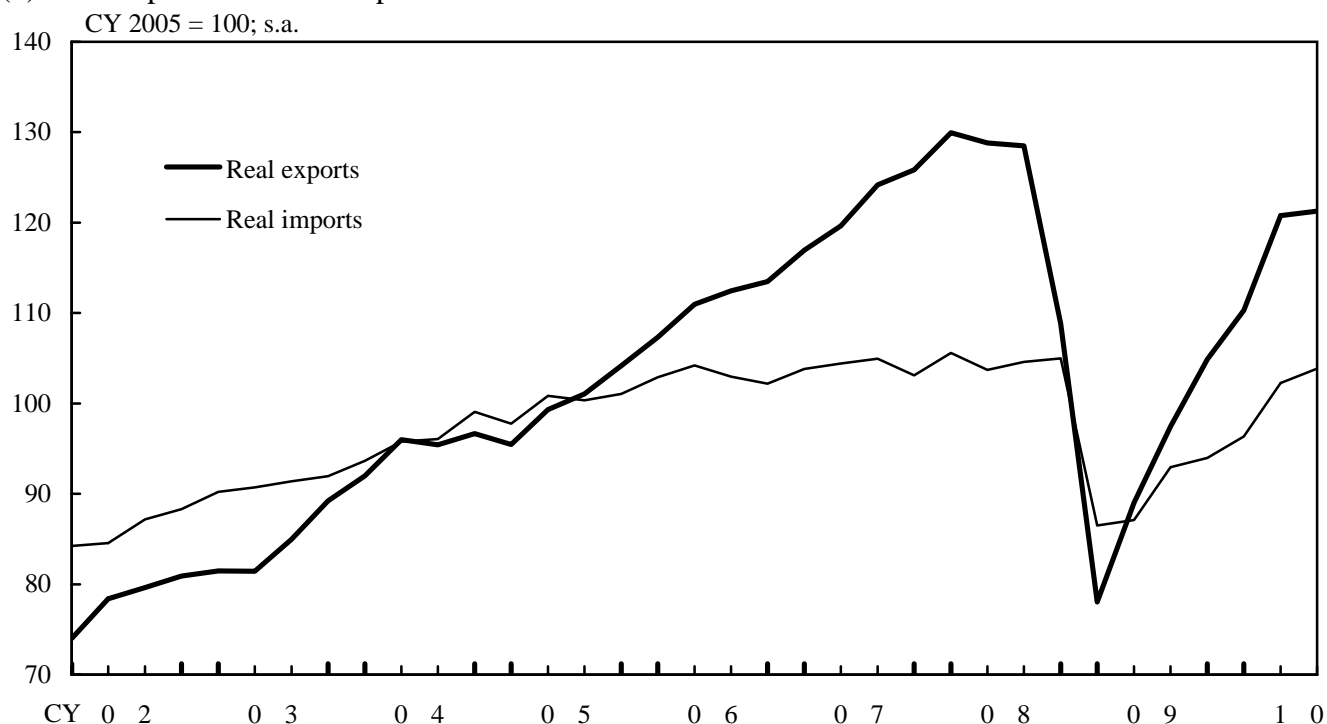
Sources: Cabinet Office, "National Accounts";

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

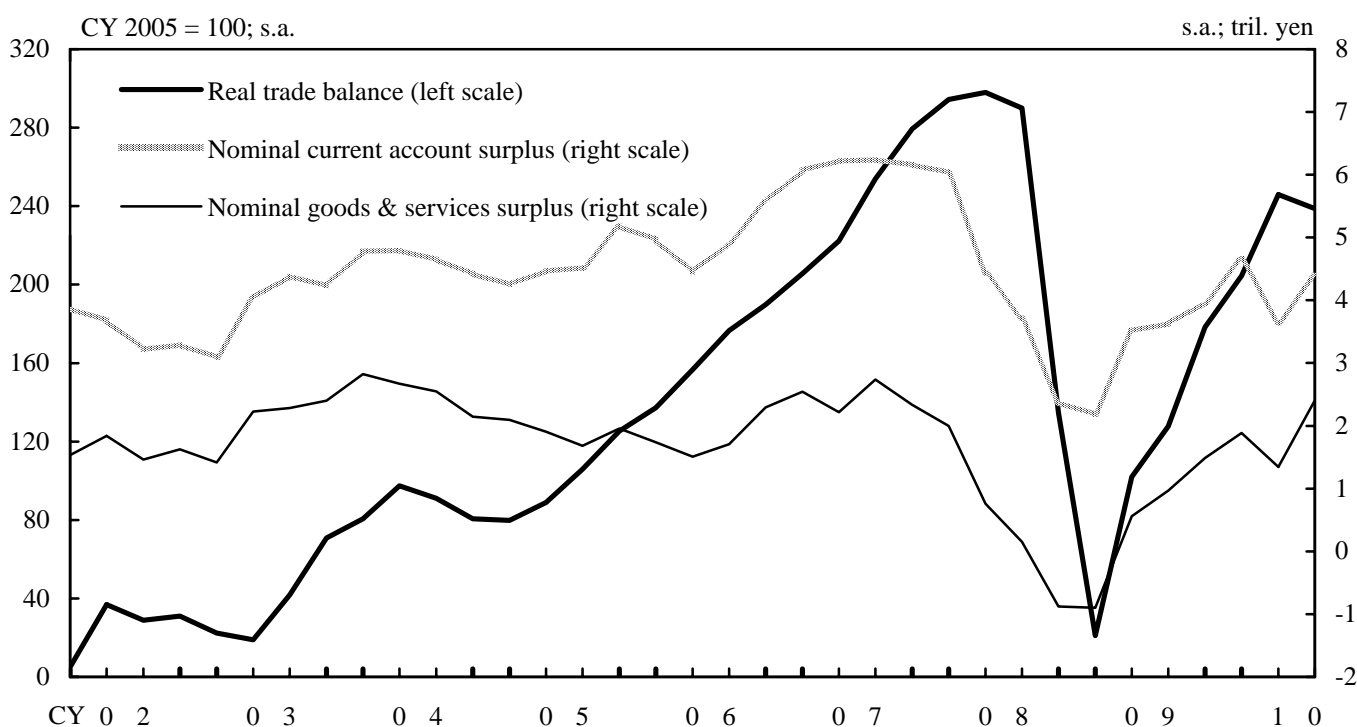
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

## 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 the base year of 2005. Real exports /imports are the "Value of Exports and Imports in the Trade Statistics" deflated by the "Export and Import Price Index."  
 2. Figures are seasonally adjusted by X-12-ARIMA.  
 3. 2010/Q3 figures for real exports/imports and the real trade balance are July-August averages converted into quarterly amounts.  
 4. 2010/Q3 figures for the nominal current account surplus and nominal goods & services surplus are July figures converted into quarterly amounts.

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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Jun.	2010 Jul.	2010 Aug.
United States	<16.1>	-8.8	-32.6	11.2	7.1	-1.1	11.2	4.7	6.7	5.7	-9.1
EU	<12.5>	-0.1	-34.6	4.8	9.6	-4.0	8.5	4.3	-8.9	5.1	5.7
East Asia	<51.4>	3.4	-15.8	13.2	7.8	7.9	4.9	1.9	-1.0	3.0	-1.7
China	<18.9>	6.7	-10.2	10.3	6.4	9.1	2.5	4.4	-1.6	7.8	-1.3
NIEs	<23.5>	-0.0	-18.0	12.5	6.7	6.9	5.3	0.5	0.4	0.3	-1.4
Korea	<8.1>	-0.3	-16.0	11.2	5.0	5.9	5.8	3.8	3.3	-0.9	2.5
Taiwan	<6.3>	-4.3	-17.7	13.3	11.8	9.7	6.8	2.3	-2.0	1.4	0.7
Hong Kong	<5.5>	-2.4	-18.8	9.6	8.0	4.9	9.9	-3.8	2.1	0.5	-12.4
Singapore	<3.6>	13.3	-21.6	22.2	-4.7	13.3	-11.1	3.1	3.6	0.8	8.4
ASEAN4 <sup>3</sup>	<9.1>	6.4	-20.5	21.8	13.7	8.1	9.0	0.4	-3.2	0.7	-3.2
Thailand	<3.8>	5.0	-20.9	27.8	16.0	4.9	11.2	2.1	2.5	-0.3	-3.2
Others	<20.0>	16.1	-32.1	9.3	11.3	11.3	9.0	-4.8	2.1	-1.8	-10.3
Real exports		1.8	-25.6	9.5	7.6	5.2	9.5	0.4	-0.3	2.4	-4.2

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Jun.	2010 Jul.	2010 Aug.
Intermediate goods	<20.7>	0.4	-5.6	10.0	4.6	0.9	5.4	2.8	-1.9	2.9	-2.0
Motor vehicles and their related goods	<20.0>	3.2	-41.4	25.3	11.3	5.2	10.6	1.0	6.5	-0.0	-5.0
Consumer goods <sup>4</sup>	<4.1>	3.5	-28.8	3.5	0.3	-0.5	9.1	1.3	3.3	-0.8	-2.7
IT-related goods <sup>5</sup>	<11.3>	0.8	-17.0	9.0	5.8	5.8	7.1	0.7	0.4	-0.2	-1.1
Capital goods and parts <sup>6</sup>	<27.9>	5.2	-28.1	7.7	9.9	8.7	14.7	1.1	-1.9	5.2	-7.4
Real exports		1.8	-25.6	9.5	7.6	5.2	9.5	0.4	-0.3	2.4	-4.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2010/Q3 figures are July-August averages converted into quarterly amount.

2. Shares of each region and goods in 2009 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.

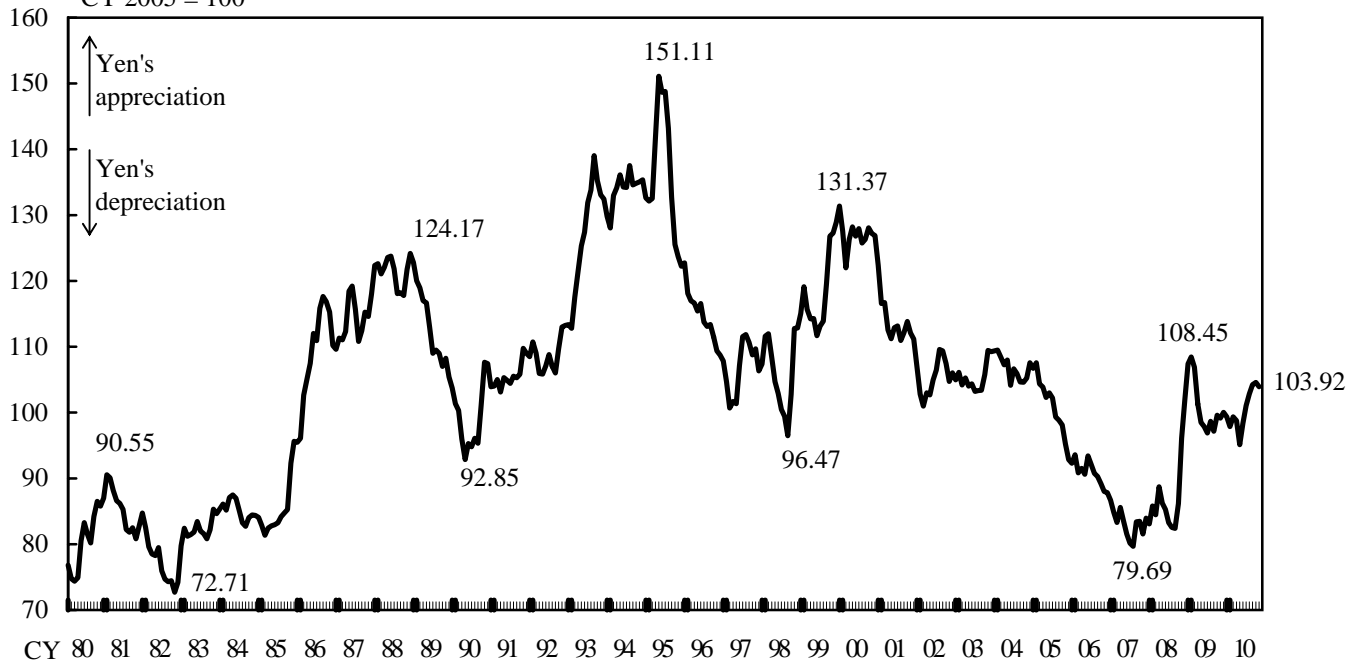
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."



## Real Effective Exchange Rate and Overseas Economies

## (1) Real Effective Exchange Rate

CY 2005 = 100



Notes: 1. Figures are based on the broad indices of the BIS effective exchange rate and prior to 1994 are calculated using the narrow indices.

2. Figures for September and October (that of October 1) 2010 have been calculated using the monthly average of the BOJ's Nominal effective exchange rate (the Yen Index).

## (2) Real GDP Growth Rates in Overseas Economies

		CY2007	2008	2009	2009 Q3	Q4	2010 Q1	Q2	
United States <sup>1</sup>		1.9	0.0	-2.6	1.6	5.0	3.7	1.7	
European Union <sup>1</sup>		3.0	0.5	-4.2	1.3	0.9	1.4	4.0	
	Germany	2.7	1.0	-4.7	3.0	1.2	1.9	9.0	
	France	2.3	0.1	-2.5	1.1	2.4	0.7	2.8	
	United Kingdom	2.7	-0.1	-5.0	-1.2	1.4	1.8	4.7	
East Asia <sup>2</sup>	China		14.2	9.6	9.1	9.6	11.3	11.9	10.3
	NIEs	Korea	5.1	2.3	0.2	1.0	6.0	8.1	7.2
		Taiwan	6.0	0.7	-1.9	-1.0	9.1	13.7	12.5
		Hong Kong	6.4	2.2	-2.8	-2.4	2.5	8.0	6.5
		Singapore	8.5	1.8	-1.3	1.8	3.8	16.9	18.8
	ASEAN4	Thailand	4.9	2.5	-2.2	-2.7	5.9	12.0	9.1
		Indonesia	6.3	6.0	4.5	4.2	5.4	5.7	6.2
Malaysia		6.5	4.7	-1.7	-1.2	4.4	10.1	8.9	
Philippines		7.1	3.7	1.1	0.2	2.1	7.8	7.9	

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 <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Jun.	2010 Jul.	2010 Aug.
United States	<10.7>	-2.5	-18.7	3.3	6.5	-0.2	4.4	1.1	-3.3	3.5	-4.3
EU	<10.7>	-3.0	-13.2	4.8	1.6	-0.7	4.1	3.6	1.9	-1.6	0.2
East Asia	<41.9>	2.4	-13.1	8.4	3.1	4.2	11.2	1.3	0.9	-2.1	-1.0
China	<22.2>	4.4	-11.1	8.8	3.9	3.1	13.8	1.2	2.6	-4.7	0.0
NIEs	<8.6>	-1.1	-15.9	8.6	2.2	7.1	6.9	1.1	-1.8	-0.0	-1.1
Korea	<4.0>	-5.3	-19.1	9.1	-0.5	4.0	10.6	2.6	1.4	-0.3	-3.0
Taiwan	<3.3>	3.5	-12.4	9.3	5.6	6.4	4.6	1.5	-5.6	2.9	0.8
Hong Kong	<0.2>	-1.7	-29.7	-10.8	-4.4	55.9	-7.5	-7.8	2.2	-22.0	0.4
Singapore	<1.1>	1.5	-12.5	0.6	5.1	12.7	7.6	-4.7	5.0	-10.3	2.5
ASEAN4 <sup>3</sup>	<11.0>	1.4	-15.0	7.3	2.2	4.3	9.1	1.4	-0.5	2.2	-3.1
Thailand	<2.9>	2.4	-17.5	10.3	5.9	3.7	11.0	6.8	6.5	1.5	-0.7
Others	<36.7>	2.5	-14.1	6.4	-1.0	2.4	2.9	2.5	-1.3	3.8	-2.5
Real imports		0.5	-14.1	6.7	1.1	2.5	6.1	1.6	1.1	-0.6	-1.6

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Jun.	2010 Jul.	2010 Aug.
Raw materials <sup>4</sup>	<34.2>	1.6	-15.1	8.2	-3.1	2.9	2.5	1.6	-0.9	3.8	-3.7
Intermediate goods	<14.2>	1.7	-15.3	11.2	2.7	5.9	7.4	1.4	-0.8	-1.4	-0.9
Foodstuffs	<9.7>	-3.6	1.0	-0.0	-4.7	3.1	8.3	4.7	2.2	-0.2	3.1
Consumer goods <sup>5</sup>	<8.9>	-2.4	-10.3	8.9	6.1	1.1	11.4	-1.9	-0.3	-2.1	-6.4
IT-related goods <sup>6</sup>	<11.0>	4.3	-12.4	5.1	4.6	6.2	10.0	0.4	-2.9	1.0	-2.5
Capital goods and parts <sup>7</sup>	<11.8>	2.9	-23.8	6.0	11.3	-0.4	6.8	1.9	3.8	0.6	-5.0
Excluding aircraft	<11.0>	3.7	-24.4	5.7	6.9	4.8	6.7	3.4	3.6	0.8	-2.4
Real imports		0.5	-14.1	6.7	1.1	2.5	6.1	1.6	1.1	-0.6	-1.6

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2010/Q3 figures are July-August averages converted into quarterly amount.

2. Shares of each region and goods in 2009 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.

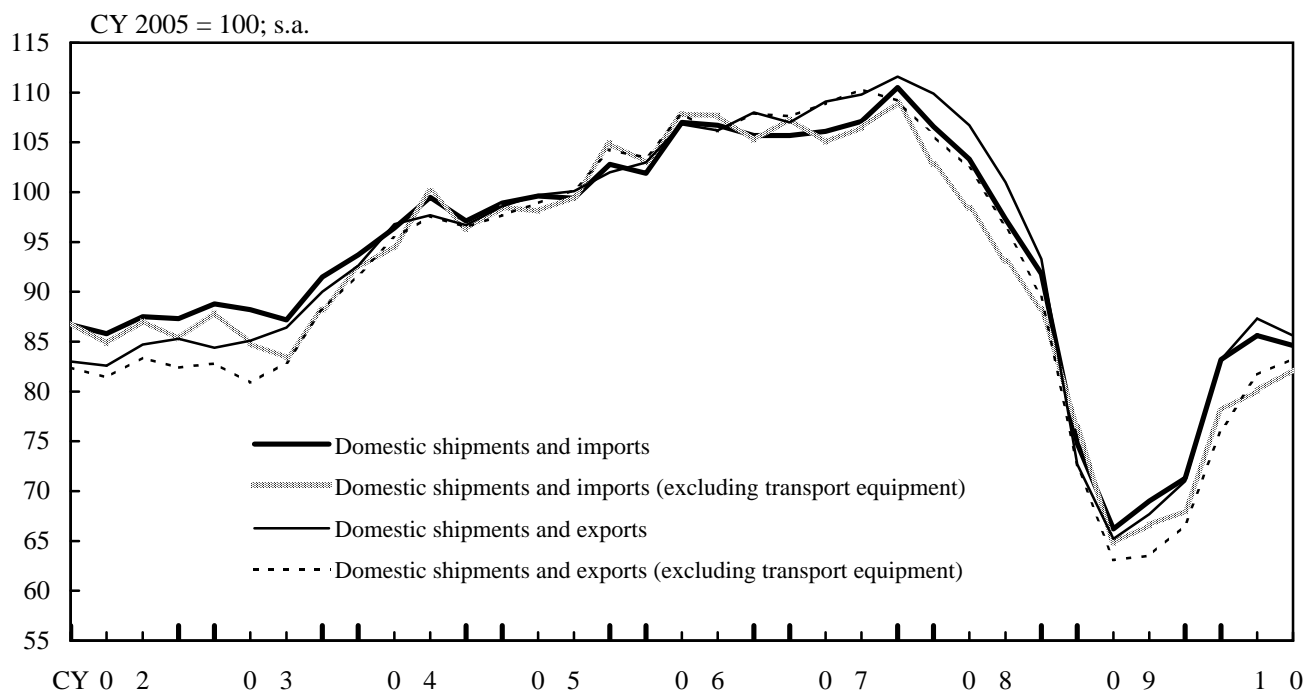
5. Excludes foodstuffs.

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.

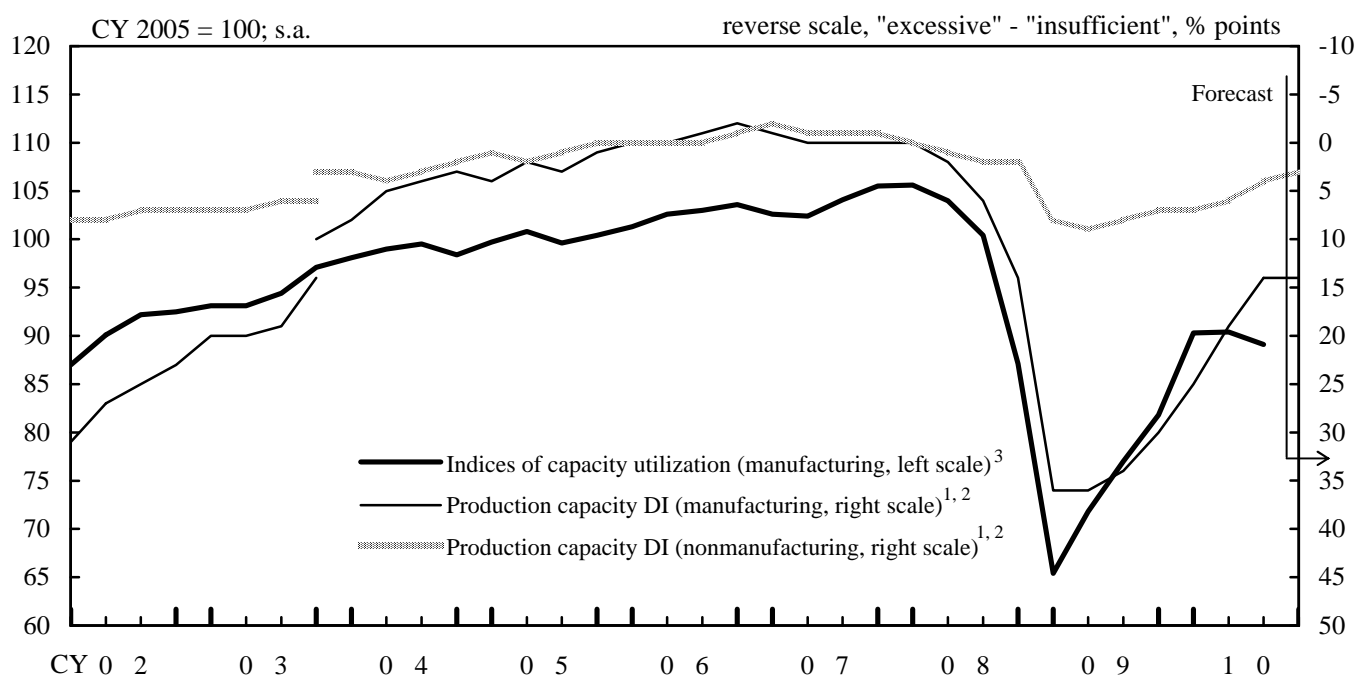
## Coincident Indicators for Business Fixed Investment

## (1) Aggregate Supply and Shipments of Capital Goods



Note: Figures of Domestic shipments and exports for 2010/Q3 are those of July-August averages.  
 Figures of Domestic shipments and imports for 2010/Q3 are those of July.

## (2) Indices of Capacity Utilization and Production Capacity DI



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

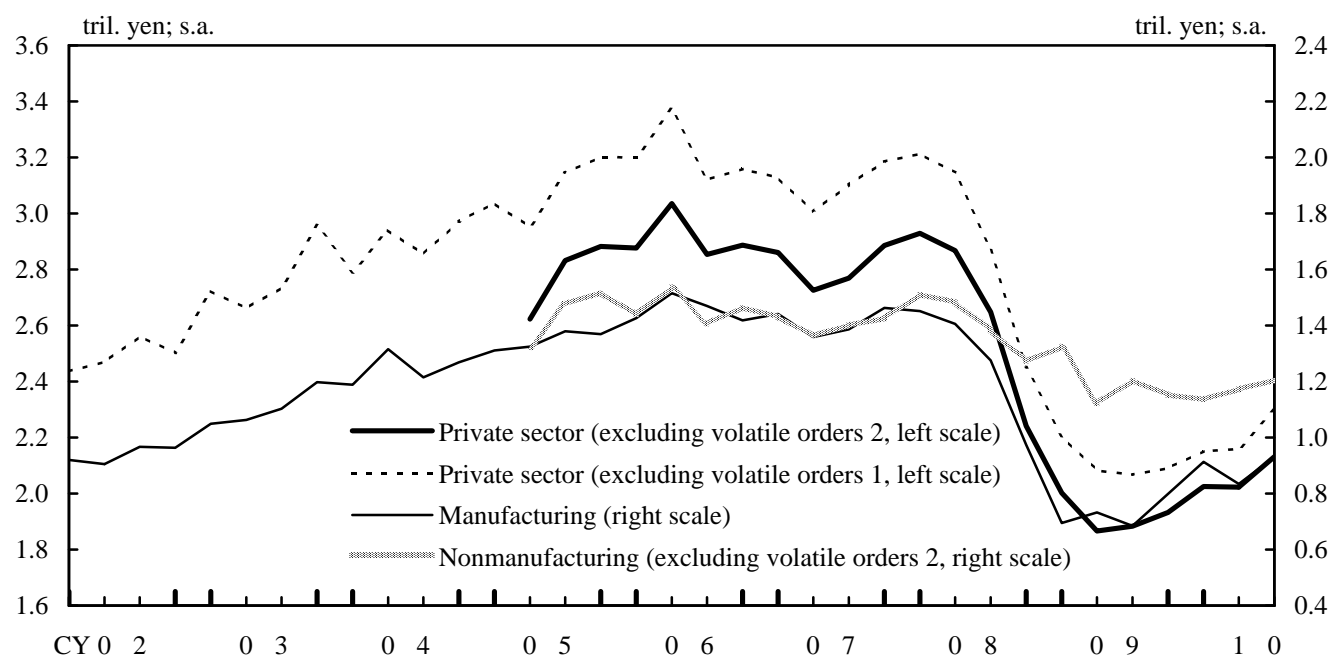
2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2010/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

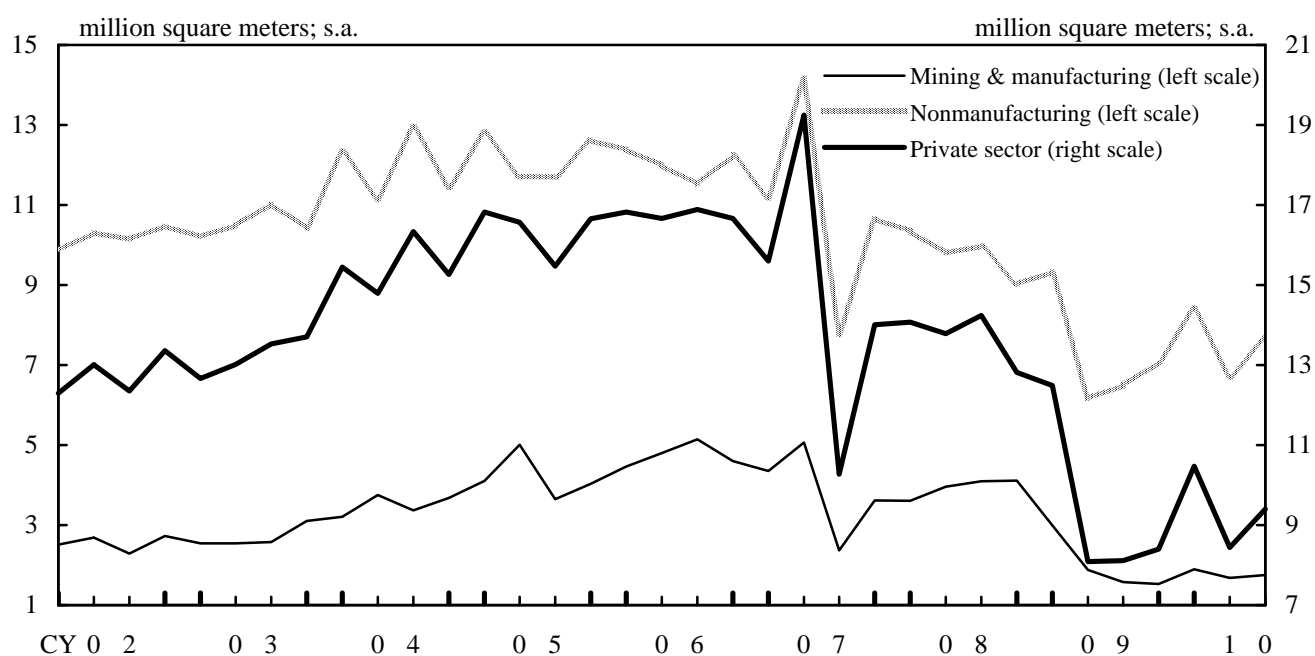


Notes: 1. Volatile orders 1: Orders for ships and those from electric power companies.

Volatile orders 2: Volatile orders 1 and orders for cellphones.

2. Figures for 2010/Q3 are those of July in terms of quarterly amount.

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



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

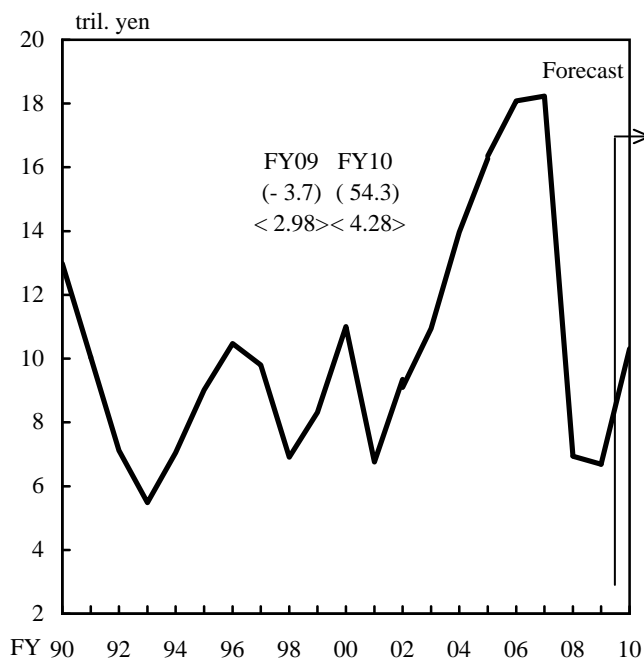
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

3. Figures for 2010/Q3 are averages of July-August in terms of quarterly amount.

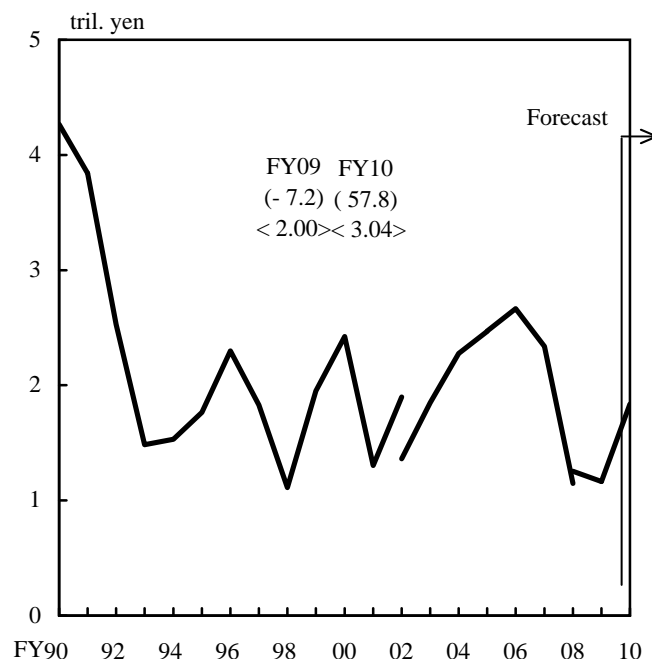
Sources: Cabinet Office, "Orders Received for Machinery";  
Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

## Current Profits

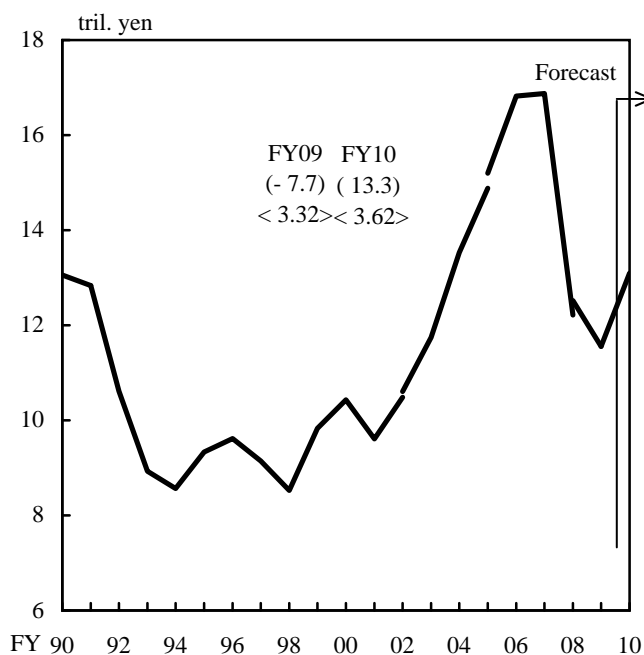
(1) Large Manufacturing Enterprises



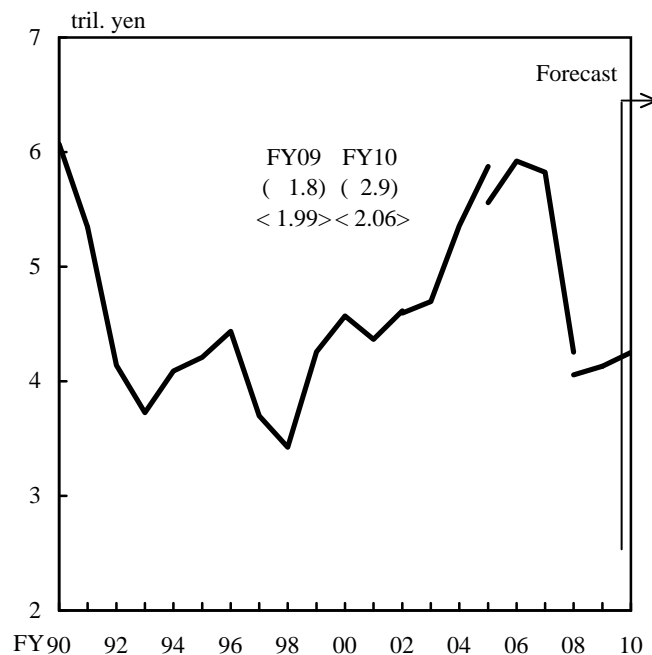
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



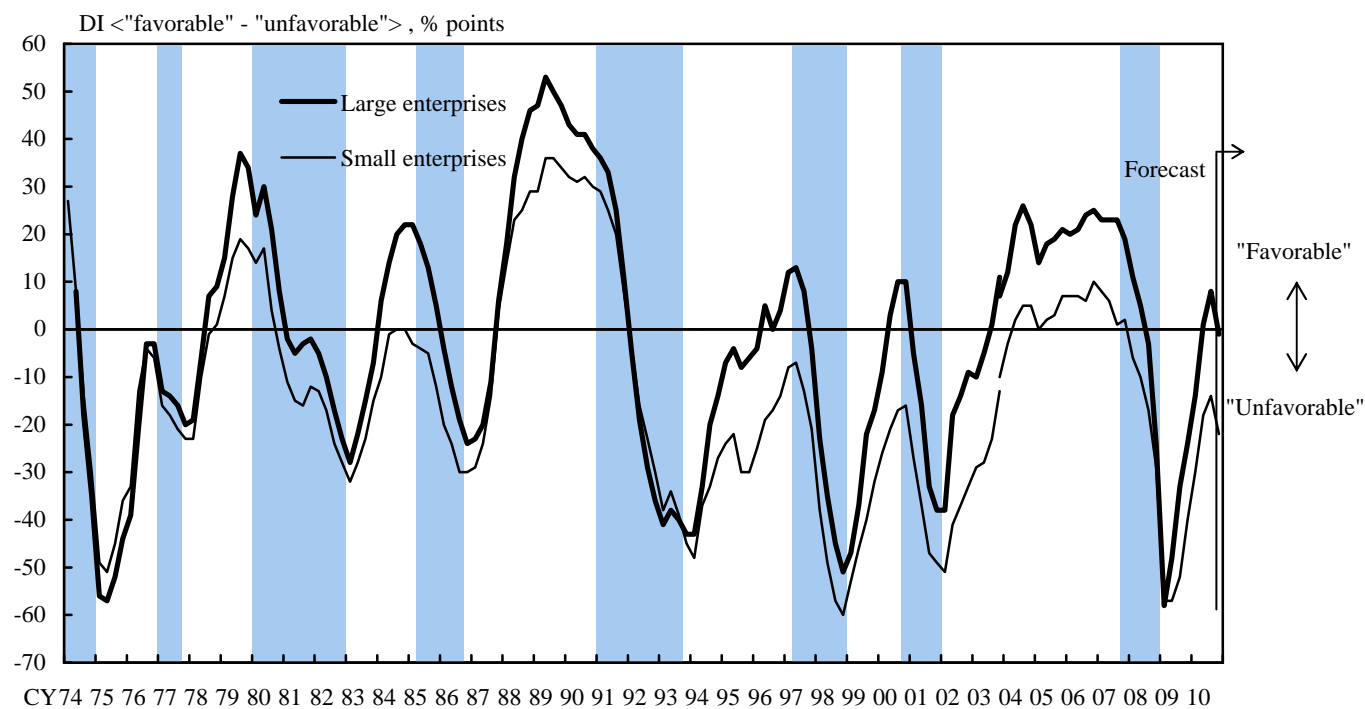
Notes: 1. ( ): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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 and the March 2010 survey, regular revisions were made to the sample enterprises. The data show some discontinuities coincided with these timings.

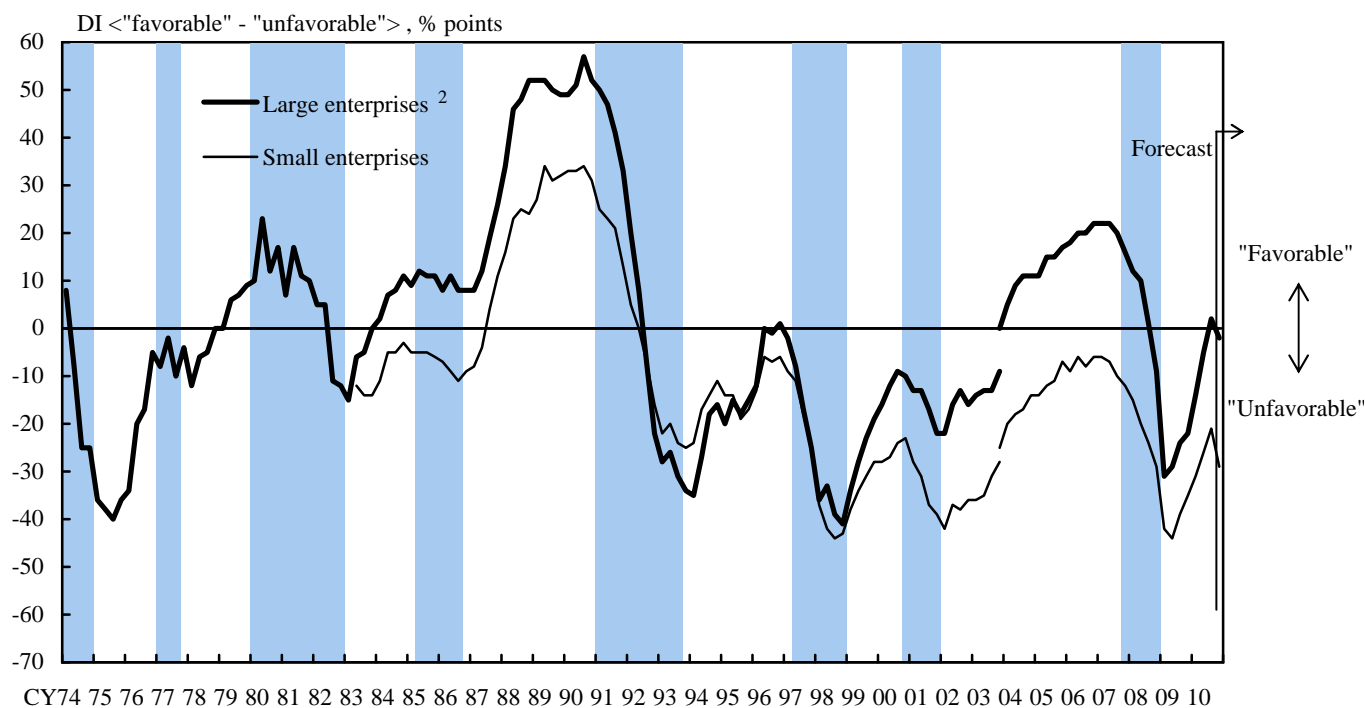
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## 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.

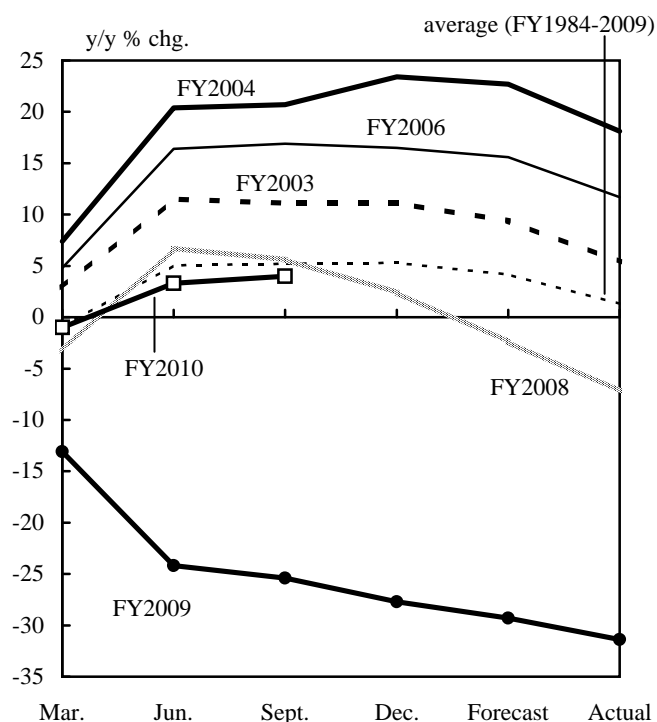
2. Data prior to February 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

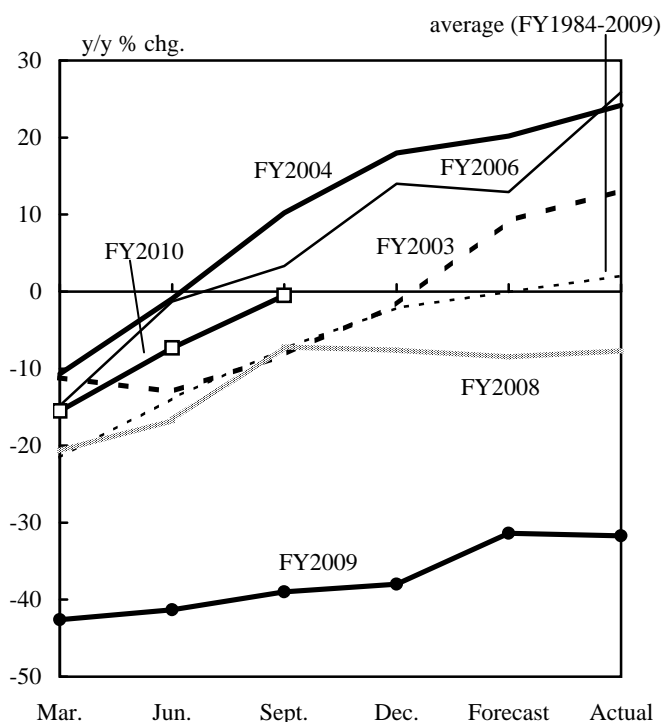
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## Business Fixed Investment Plans as Surveyed

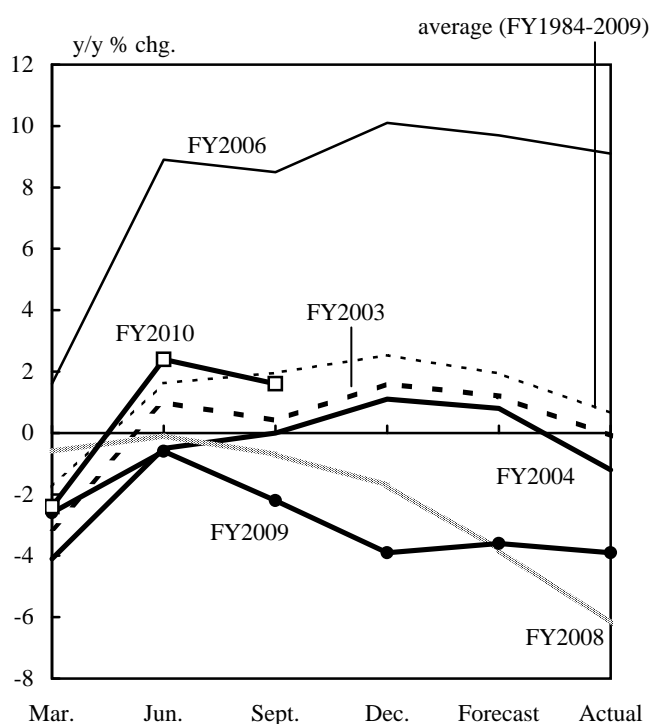
(1) Large Manufacturing Enterprises



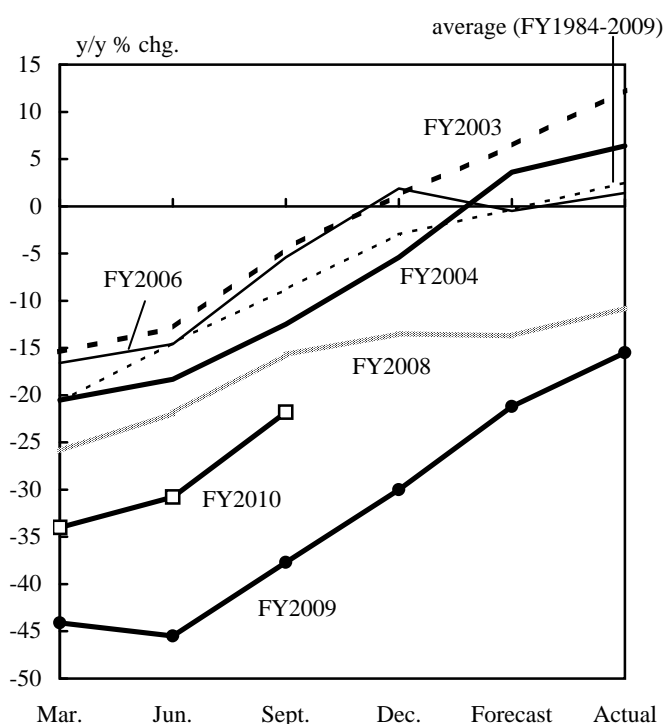
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



Notes: 1. Includes land purchasing expenses and excludes software investment.

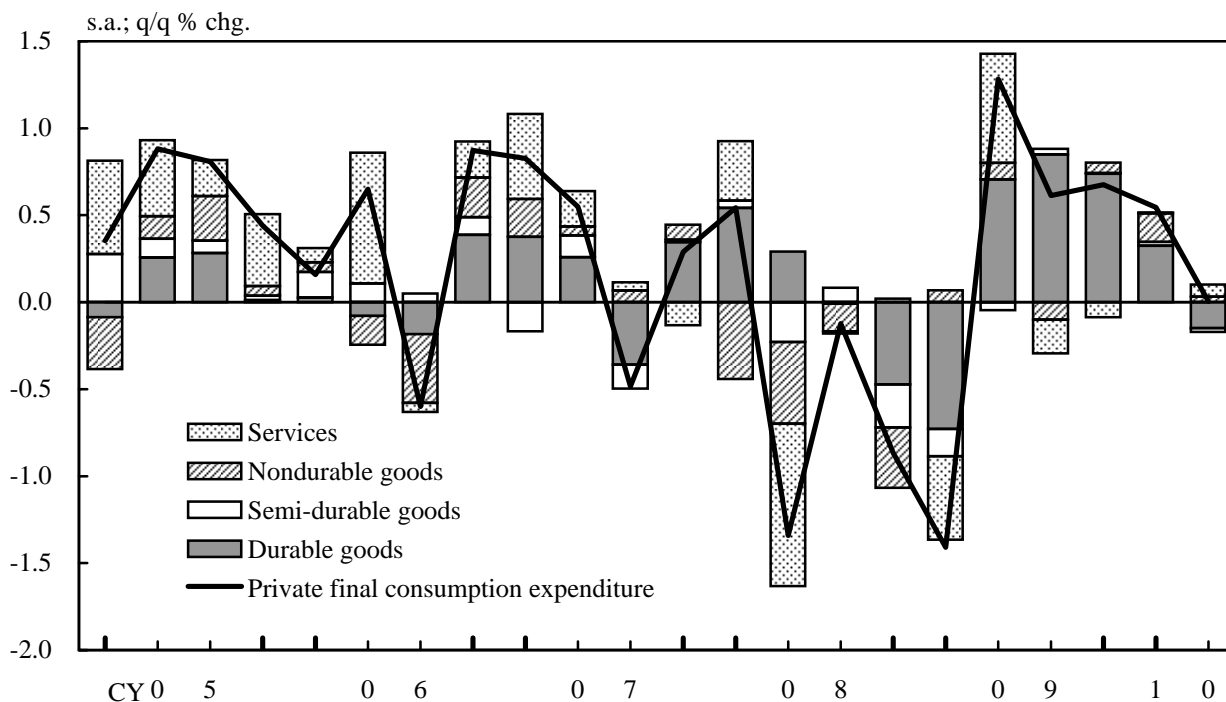
2. Sample enterprises were revised in the March 2004 survey, March 2007 survey, and March 2010 survey. Therefore, as for FYs 2003, 2006, and 2009, figures up to the December survey are based on the previous data sets, and the figures of forecast and actual result are based on the new basis.

3. Since the introduction of the new accounting standard for lease transactions beginning April 1, 2008, figures up to FY2008 are based on the previous standard and figures from FY2009 onward are based on the new standard. Past averages (FYs 1984-2009) are calculated using these figures.

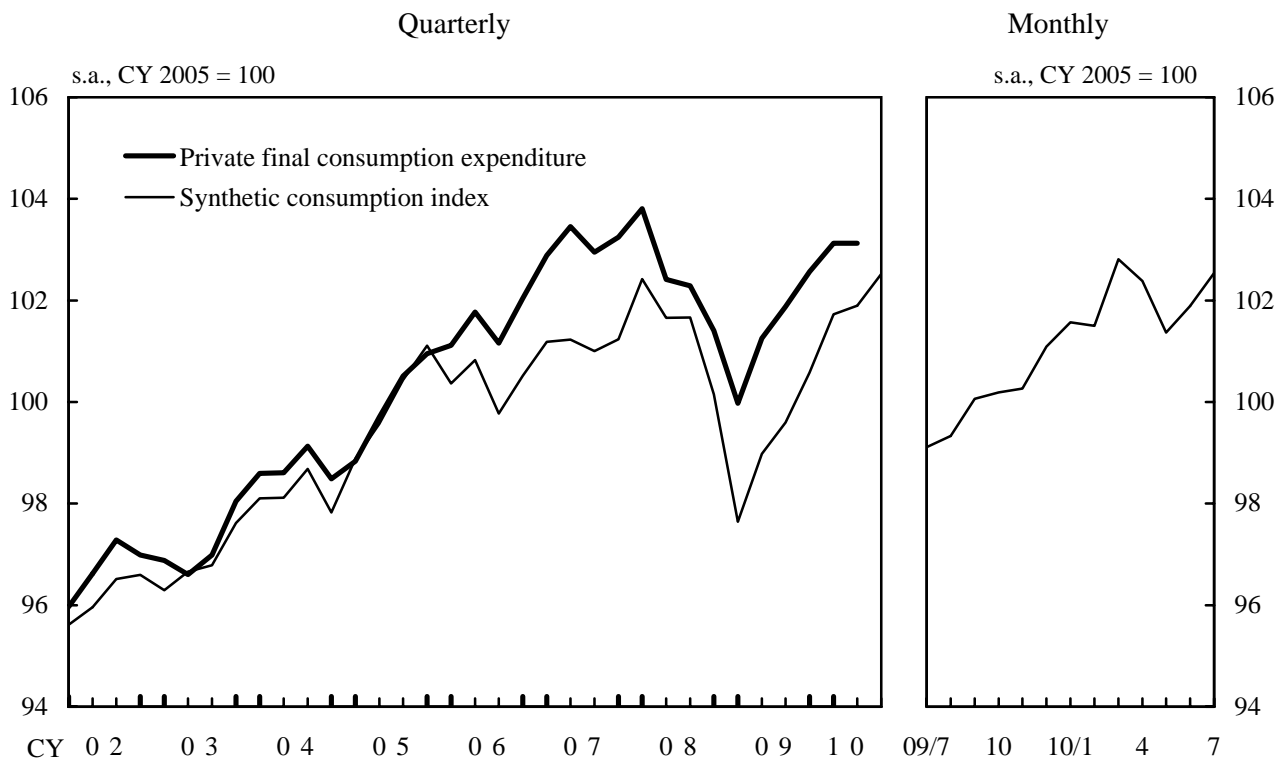
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

(1) Breakdown of Private Final Consumption Expenditure (Real)



(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)

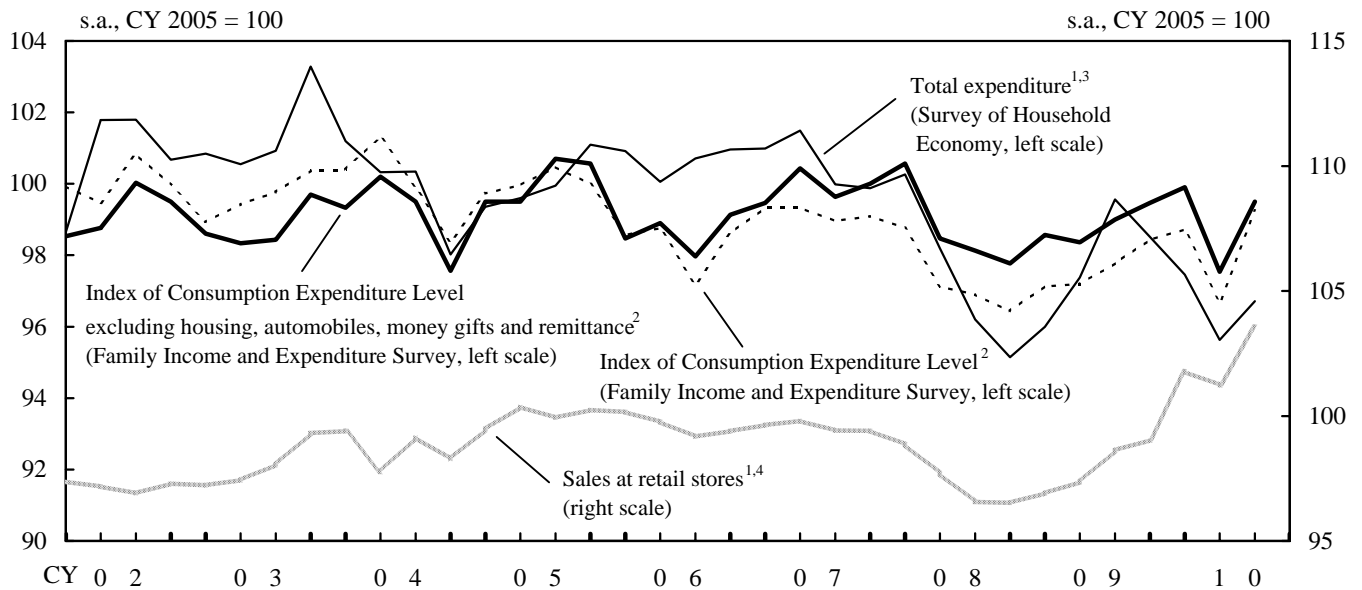


Note: The figure of synthetic consumption index for 2010/Q3 is that of July in terms of quarterly amount.

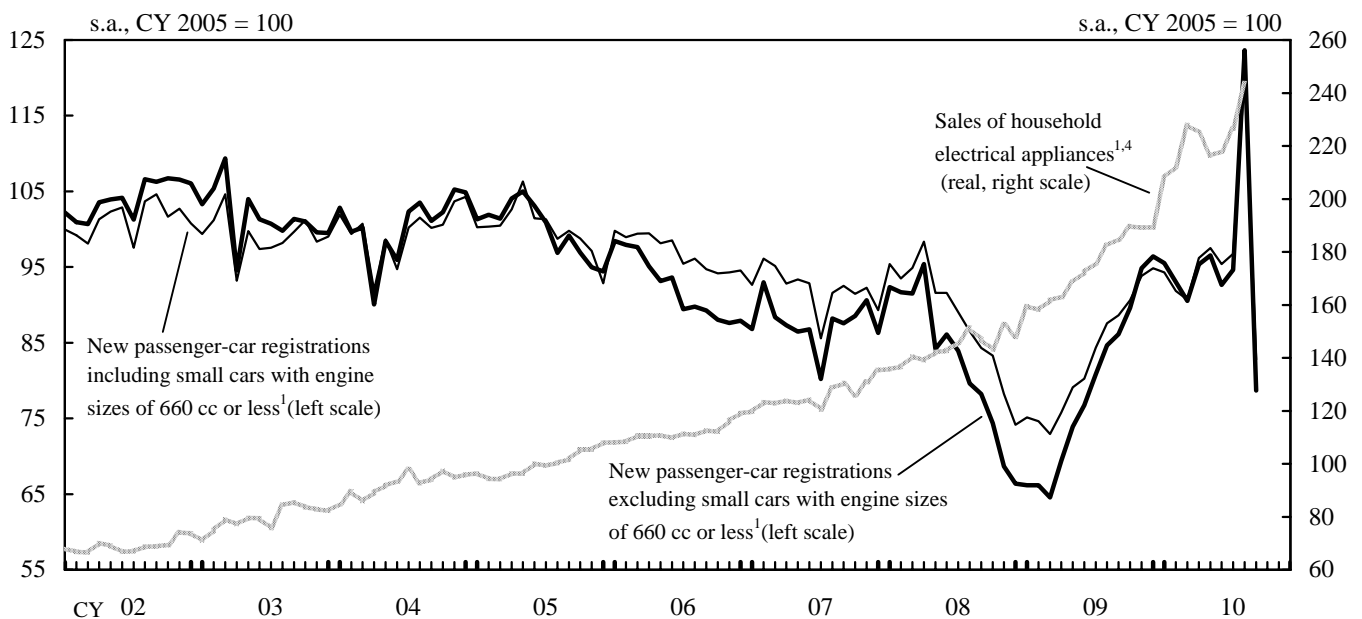
Source: Cabinet Office, "National Accounts," "Synthetic Consumption Index."



## Indicators for Private Consumption (2)

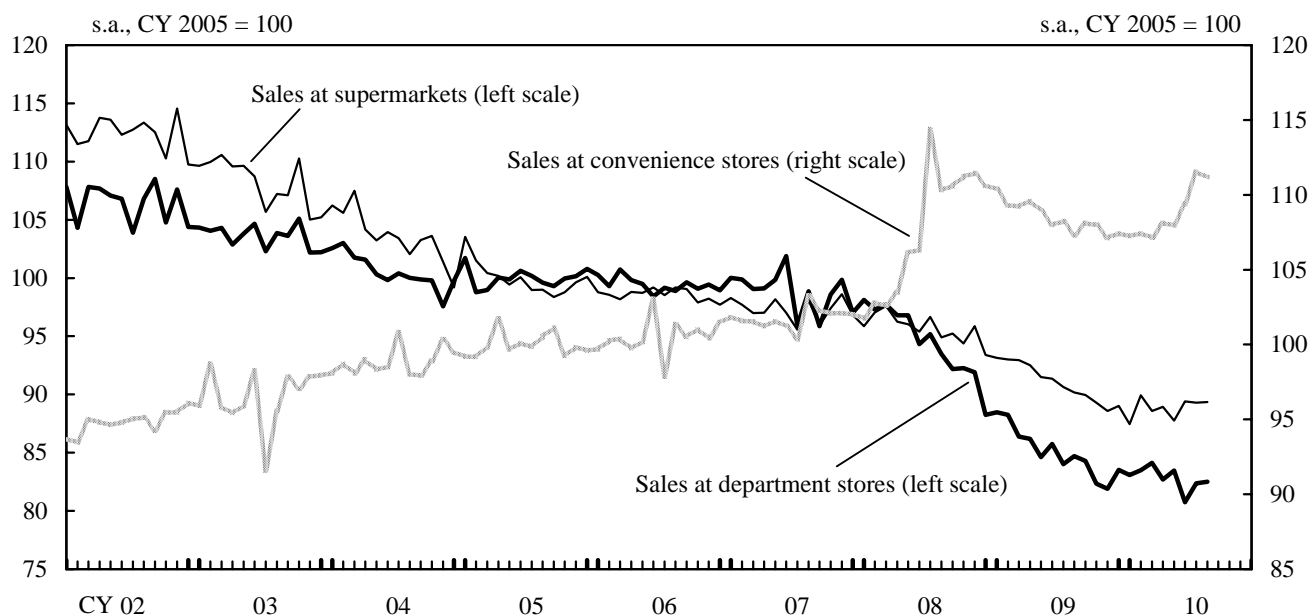
(1) Household Spending (Real)<sup>5</sup>

## (2) Sales of Durable Goods

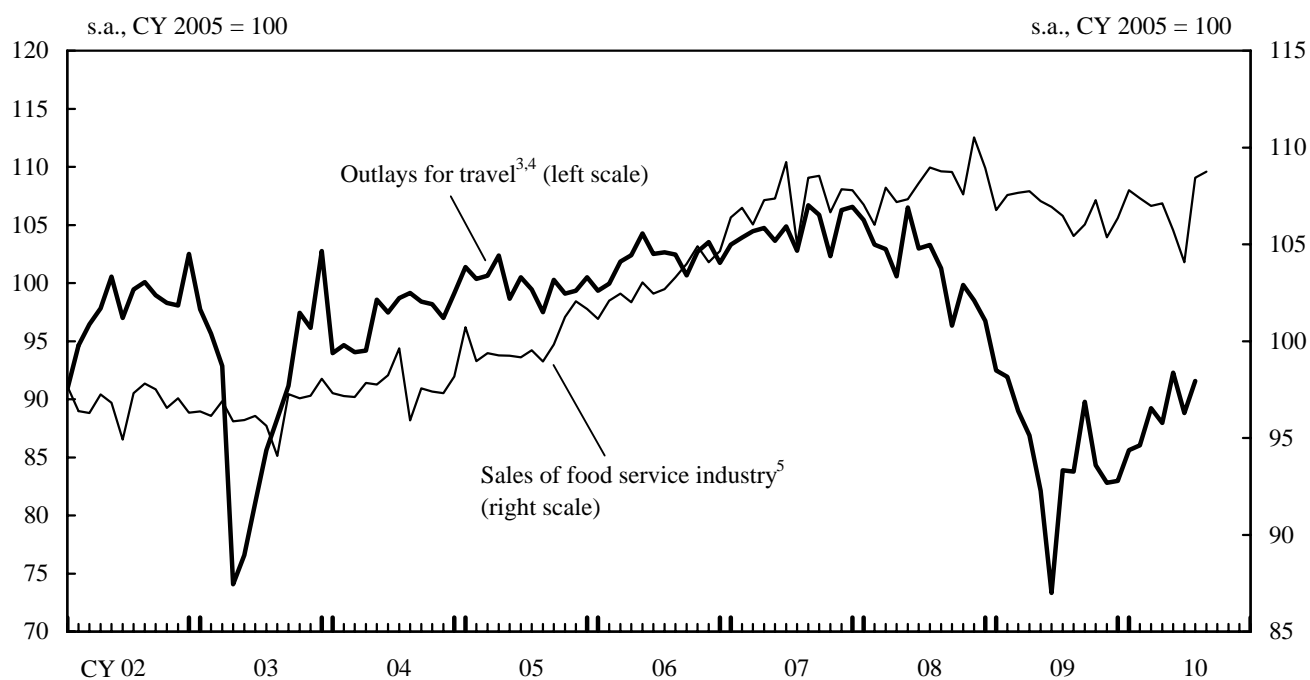


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household 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 of Total expenditure for 2010/Q3 are those of July; Figures of Index of Consumption Expenditure Level and Sales at retail stores for 2010/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 Consumption<sup>1</sup> (3)(1) Sales at Retail Stores (Nominal)<sup>2</sup>

## (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.

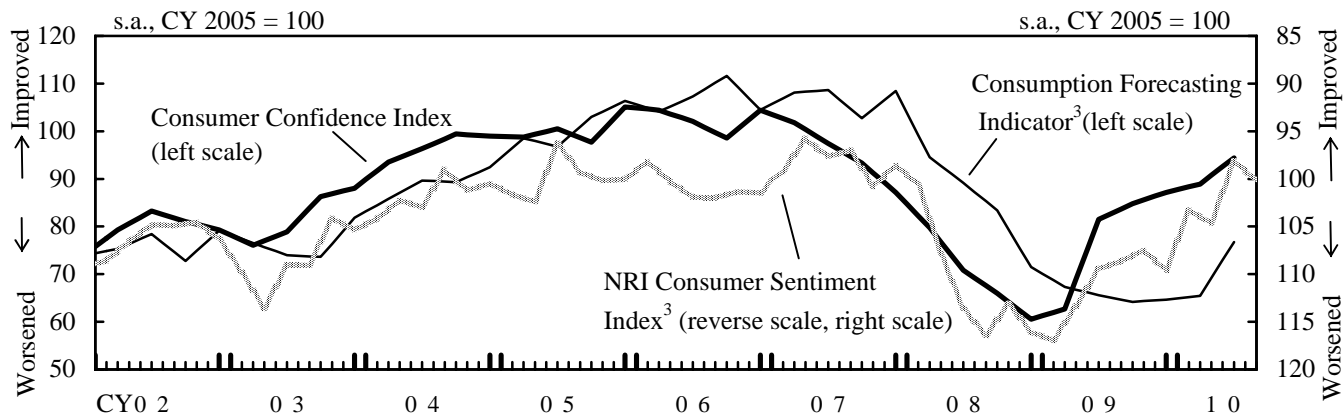
4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes.

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.

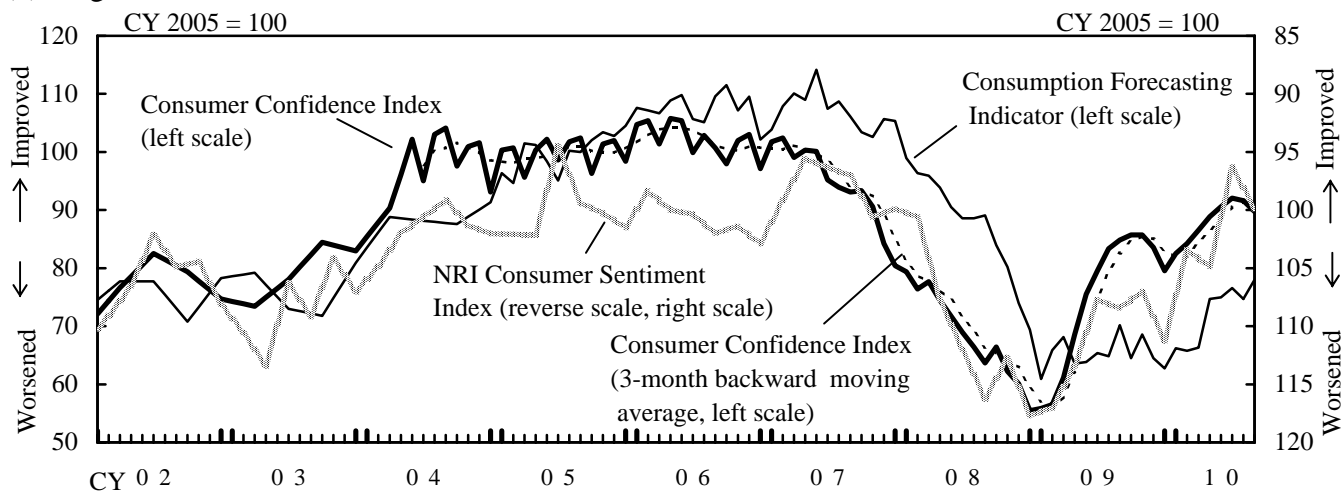
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou Shijou Doukou Chousa (Research on the Food Service Industry)."

# Consumer Confidence<sup>1,2</sup>

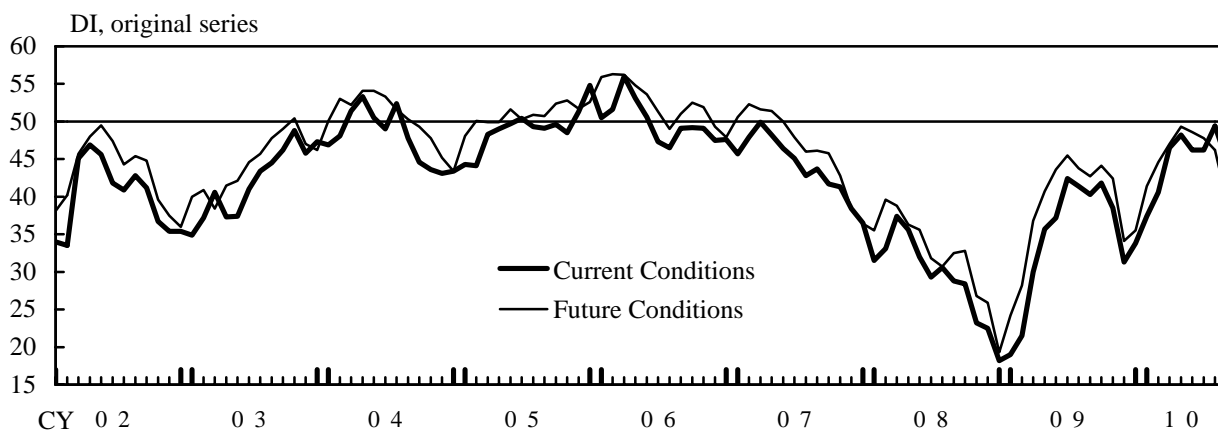
## (1) Seasonally Adjusted Series



## (2) Original Series



## Reference: Economy Watchers Survey (Household Activity)

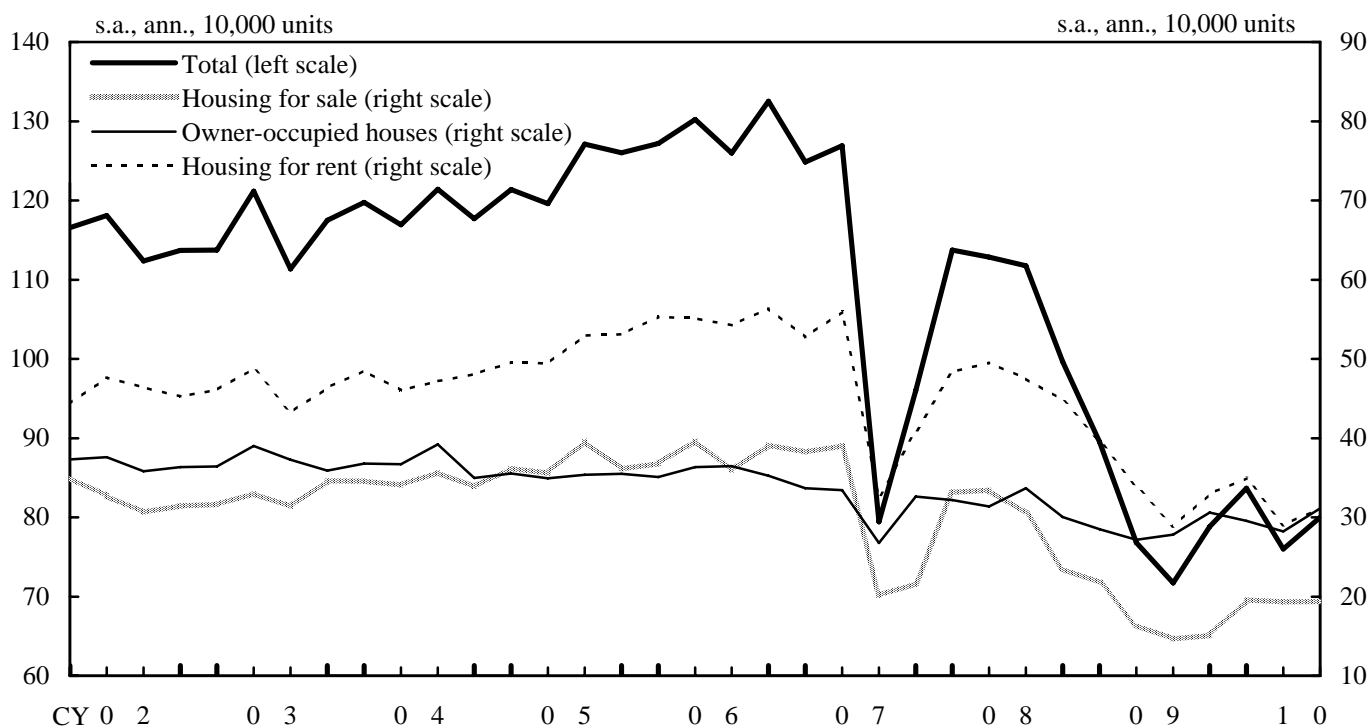


- Notes: 1. The Consumer Confidence Index (with about 4,700 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures 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."

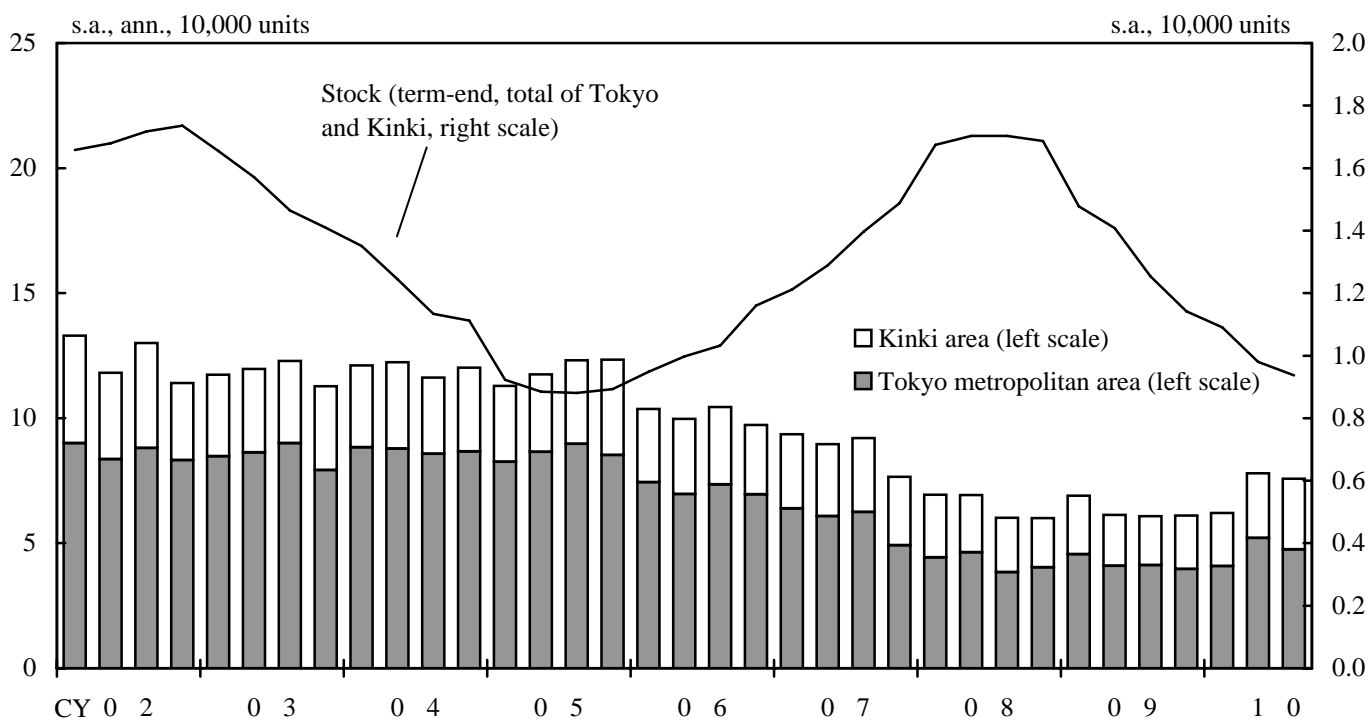
## Indicators for Housing Investment

### (1) Housing Starts



Note: Figures for 2010/Q3 are those of July-August averages.

### (2) Sales of Apartments



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

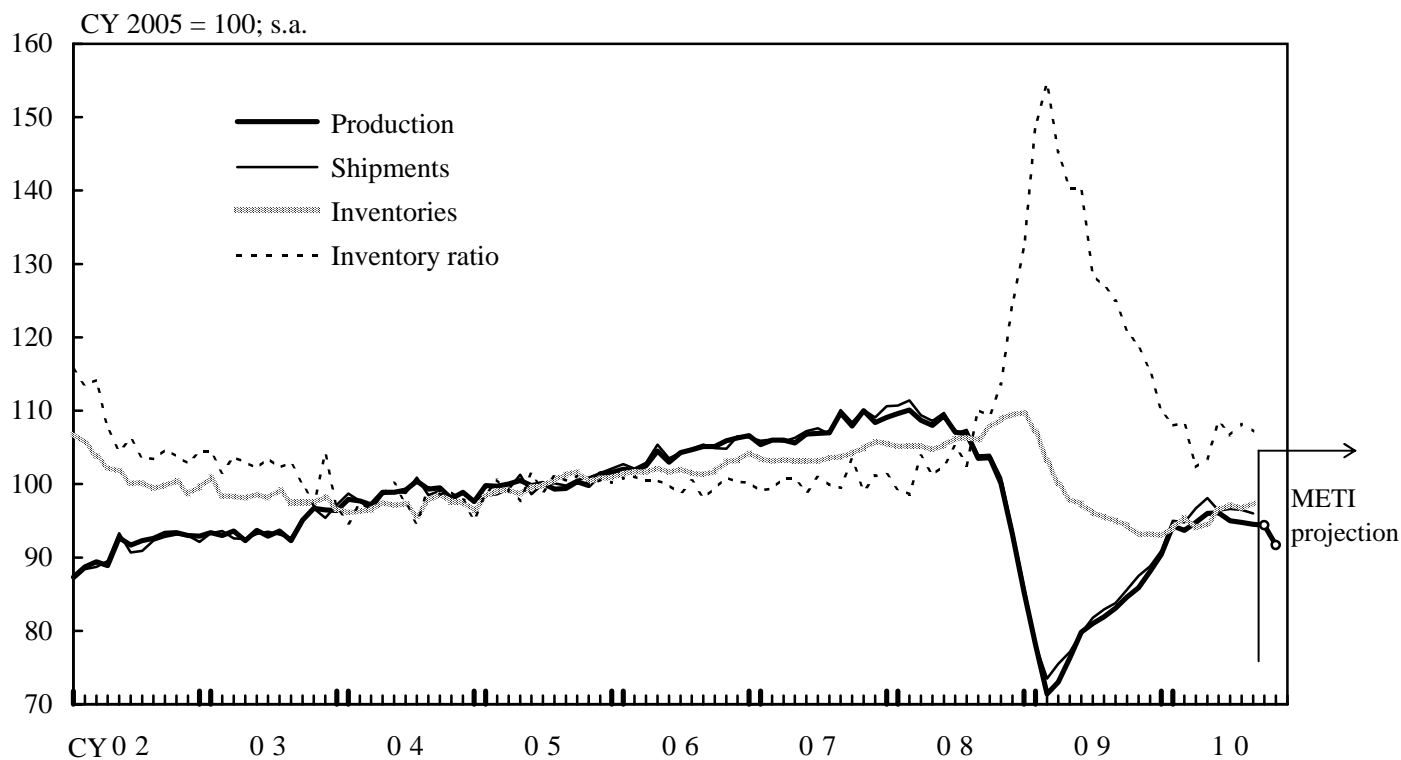
2. Figures of total apartments sales for 2010/Q3 are those of July-August averages.

Term-end stocks for 2010/Q3 are those of August.

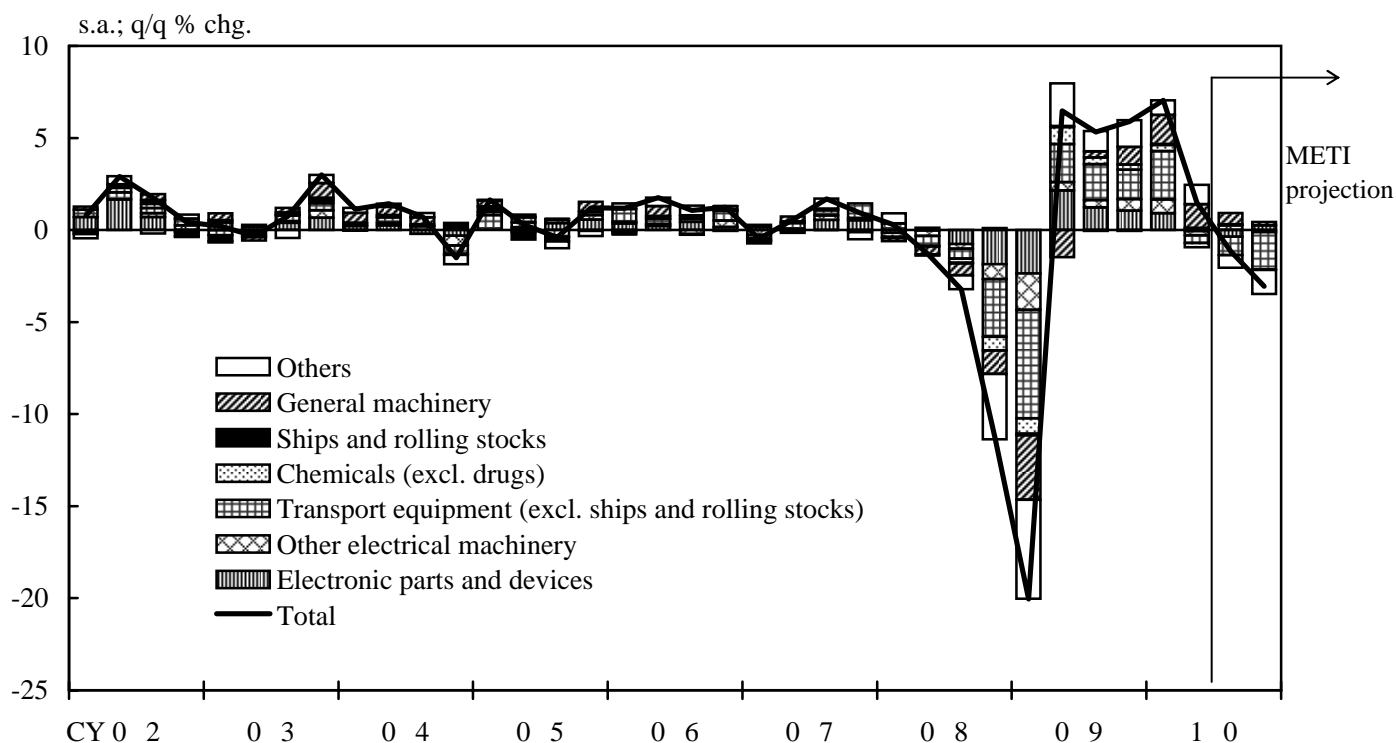
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

## 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."

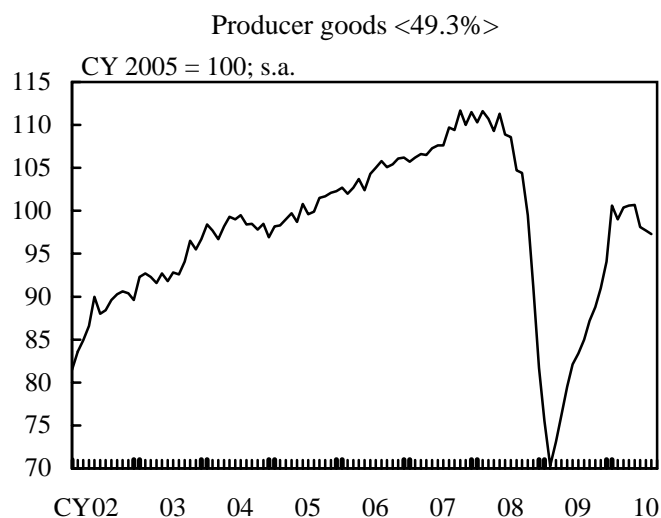
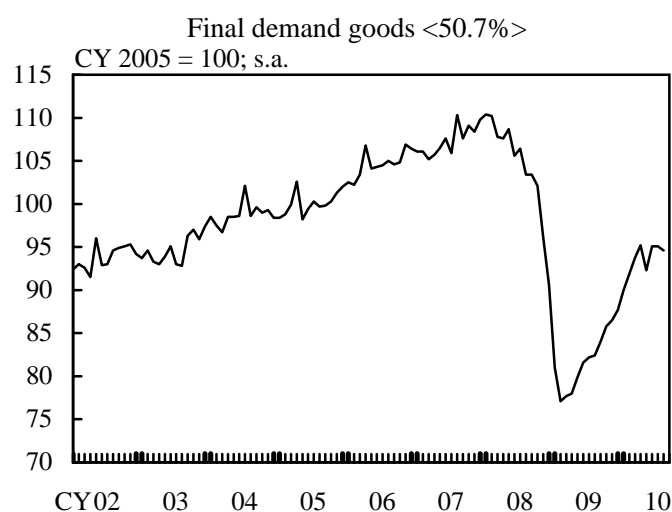
2. Figures up to 2003/Q1 are on the 2000 base.

3. 2010/Q3 figures are based on the actual production levels in July and August, and the METI projection of September. 2010/Q4 figures are based on the assumption that each production level in November and December is the same as that of October.

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

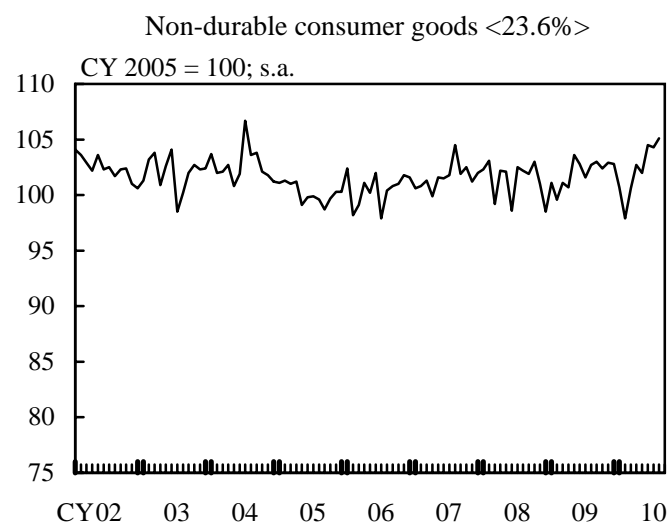
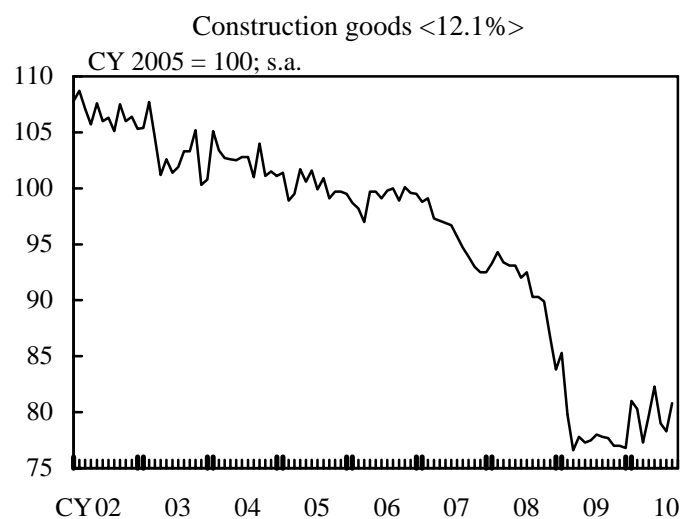
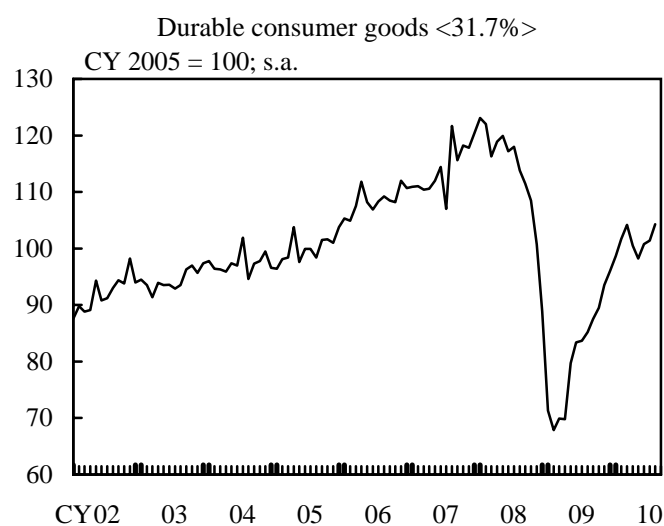
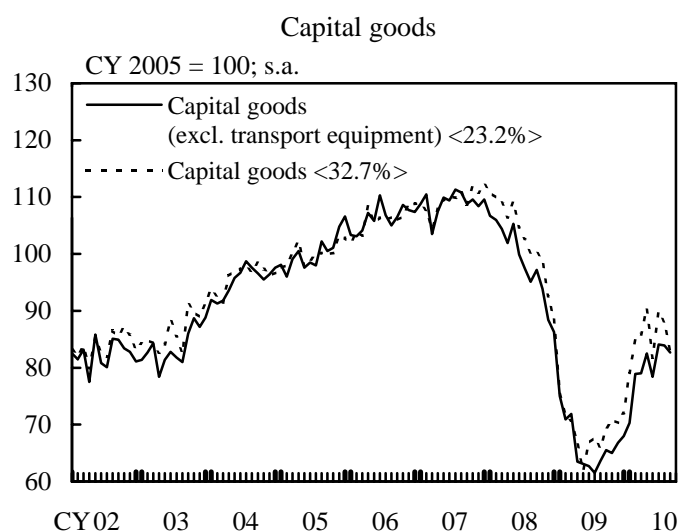
## Shipments Breakdown by Type of Goods

### (1) Final Demand Goods and Producer Goods



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

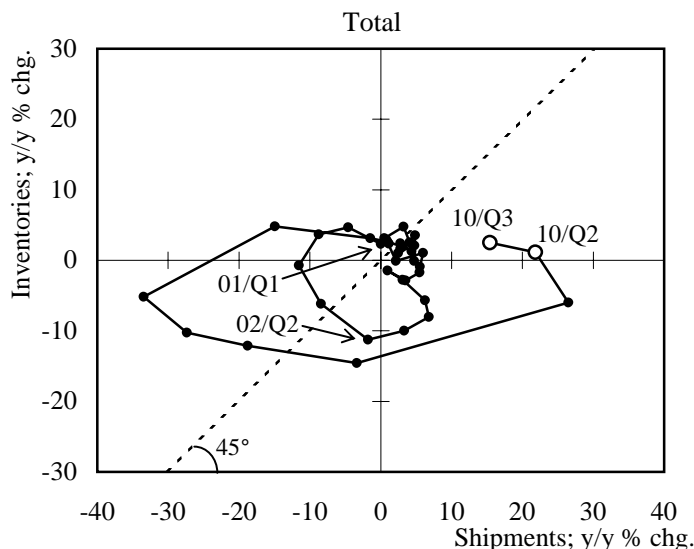
### (2) Breakdown of Final Demand Goods



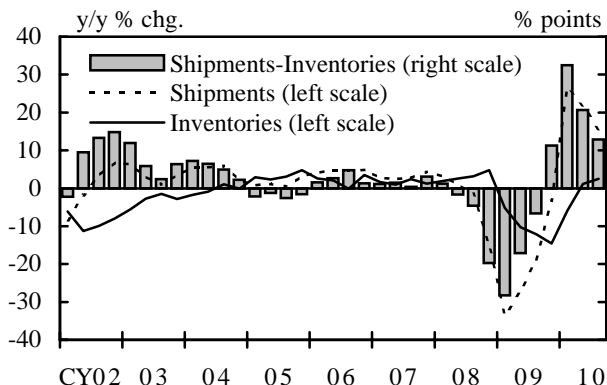
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

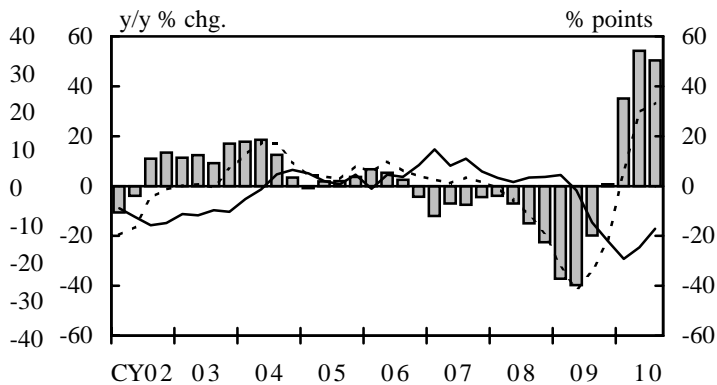
Inventory Cycle



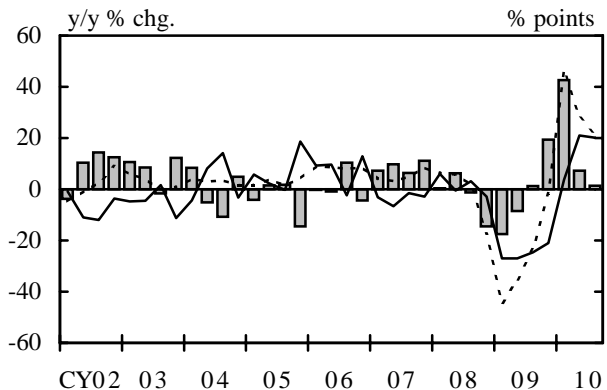
(1) Total



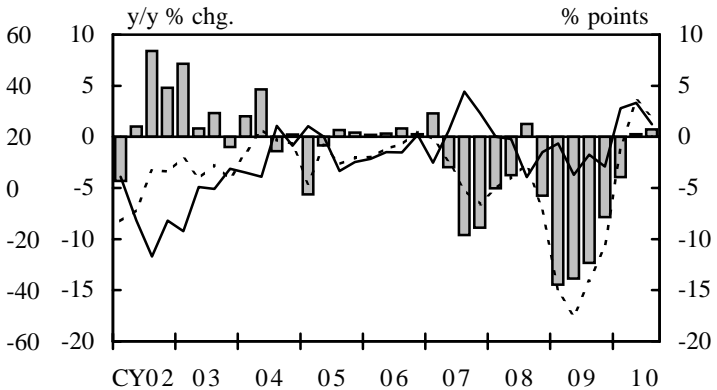
(2) Capital Goods (Excluding Transport Equipment)



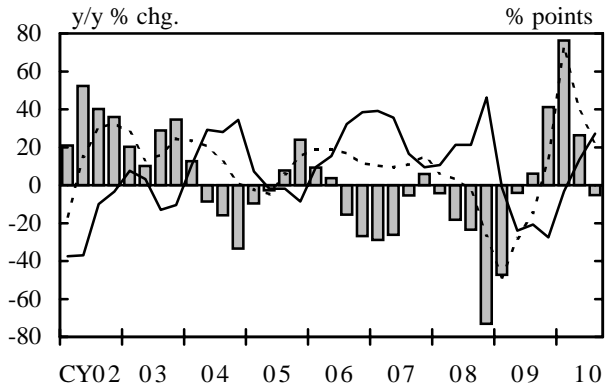
(3) Durable Consumer Goods



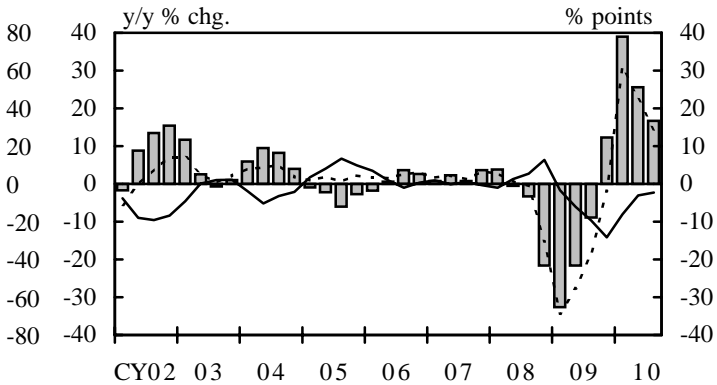
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices



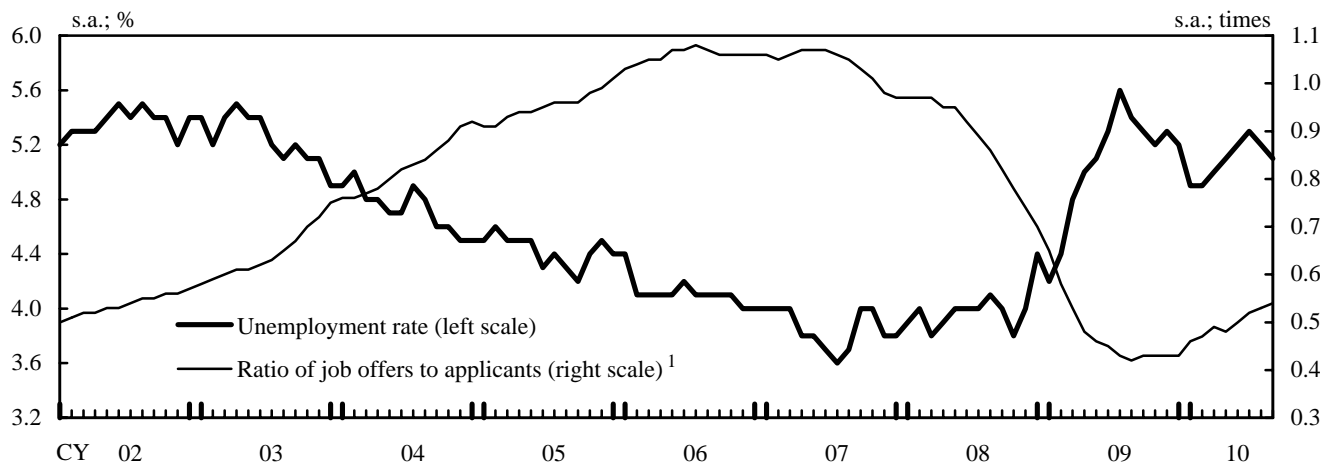
Note: Figures of Shipments for 2010/Q3 are those of July-August averages.

Inventories for 2010/Q3 are those of August.

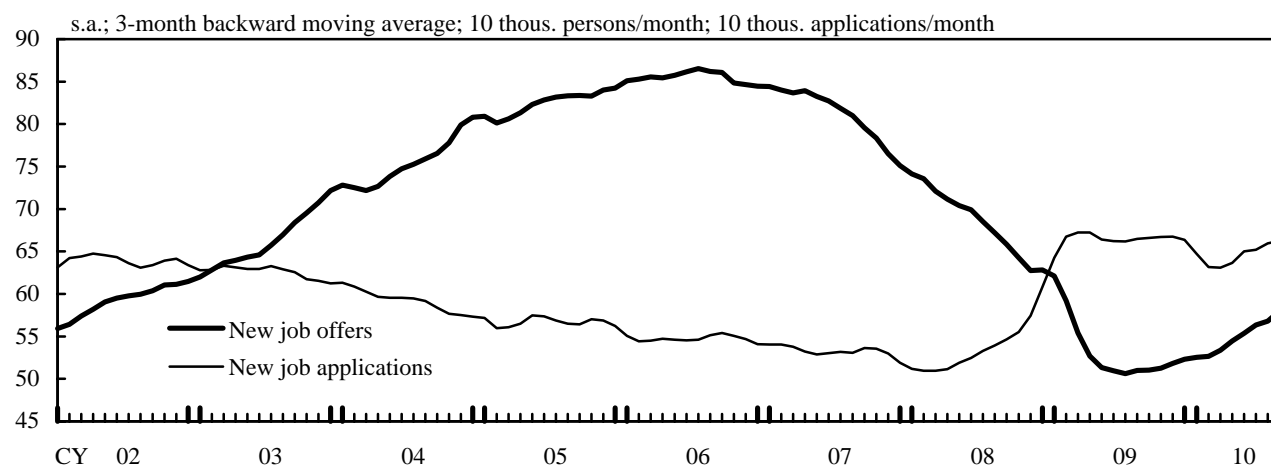
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market (1)

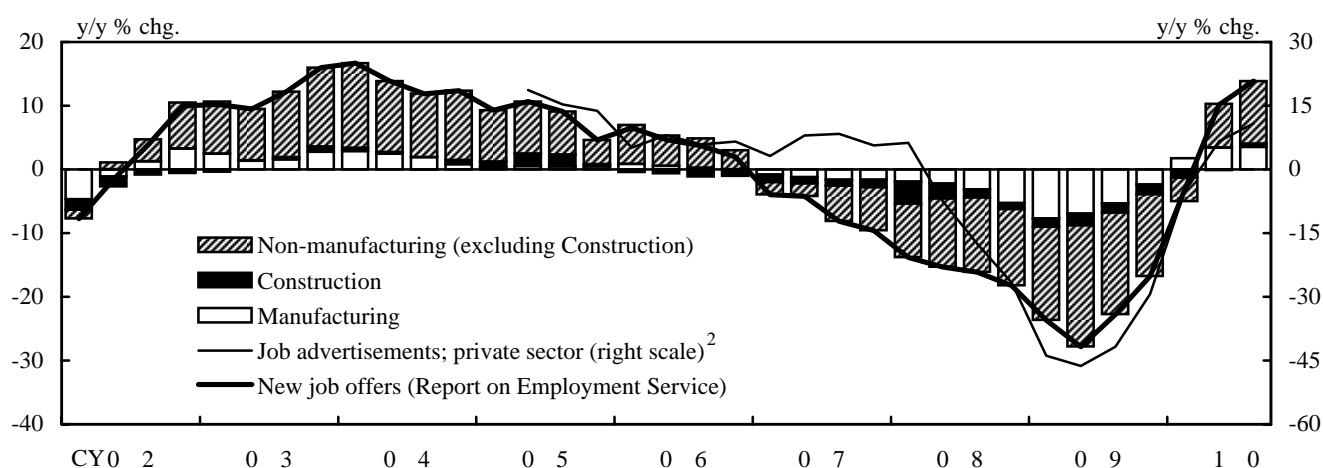
(1) Unemployment Rate and Ratio of Job Offers to Applicants



(2) New Job Offers and New Job Applicants<sup>1</sup>



(3) Breakdown of Job Offers<sup>1,3</sup>



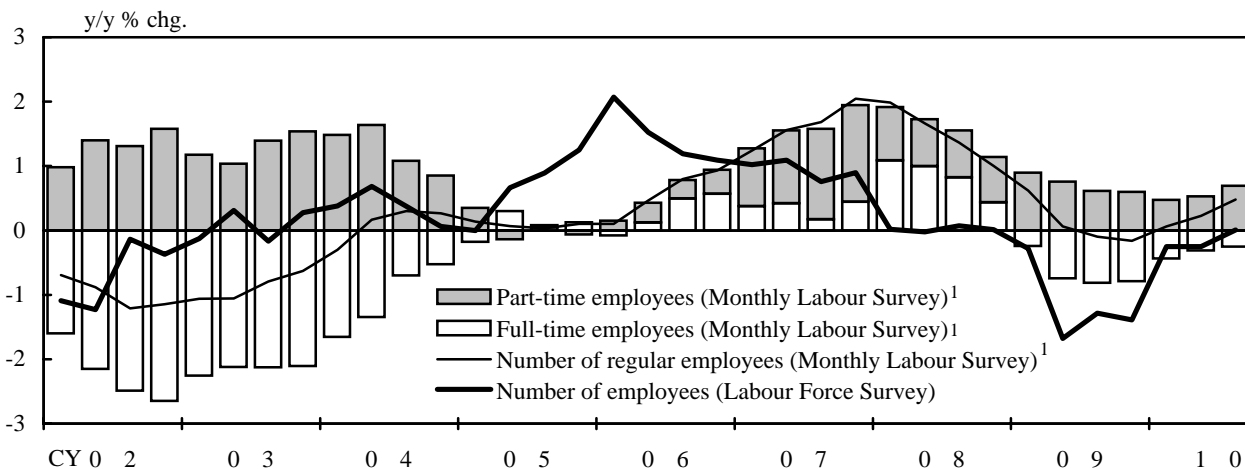
- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.  
 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.  
 3. Figures for 2010/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)."

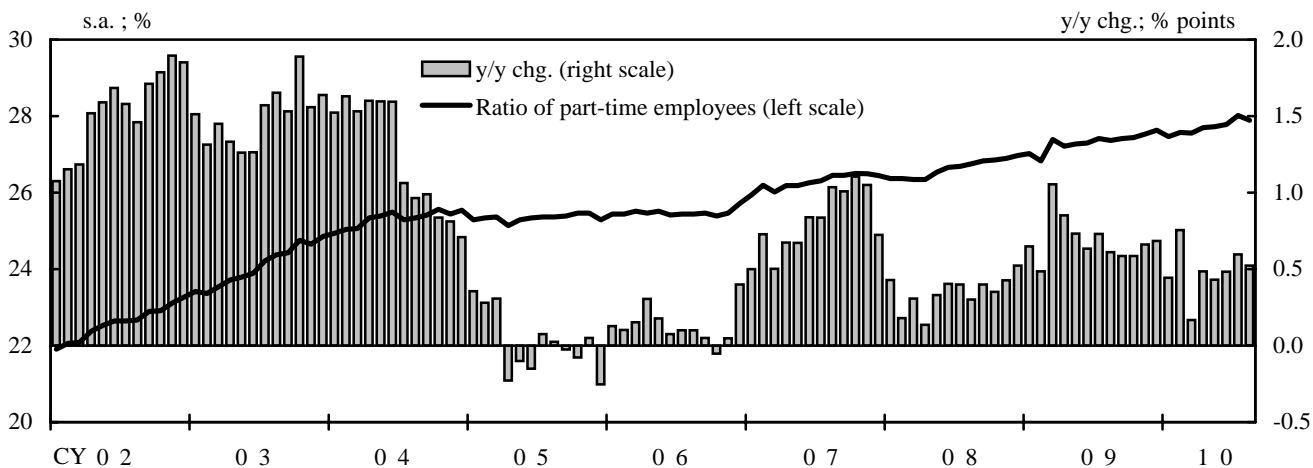


Labor Market (2)

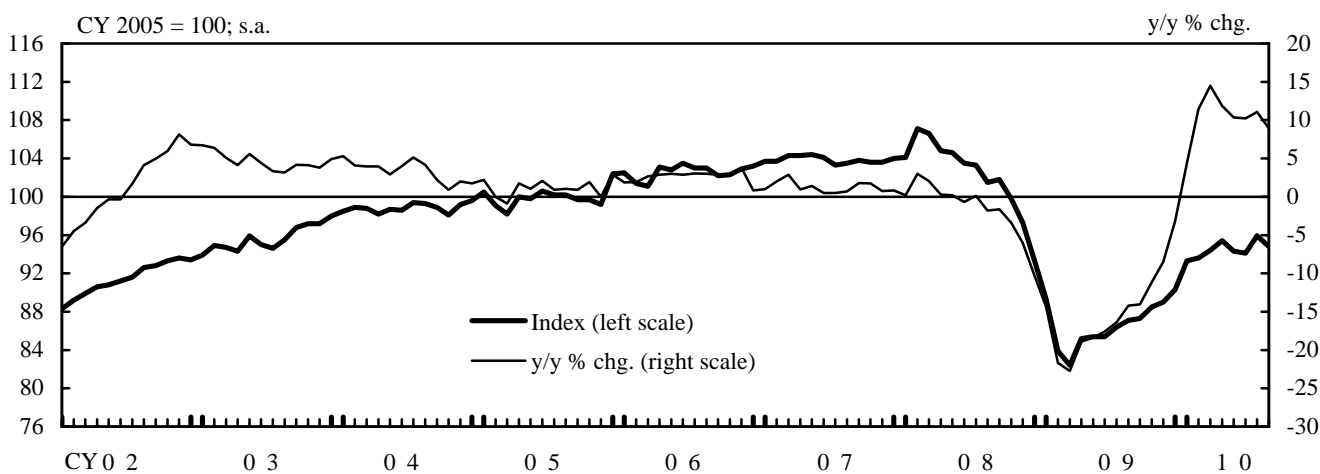
(1) Number of Employees<sup>3</sup>



(2) Ratio of Part-Time Employees<sup>1,2</sup>



(3) Non Scheduled Hours Worked<sup>1</sup>



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

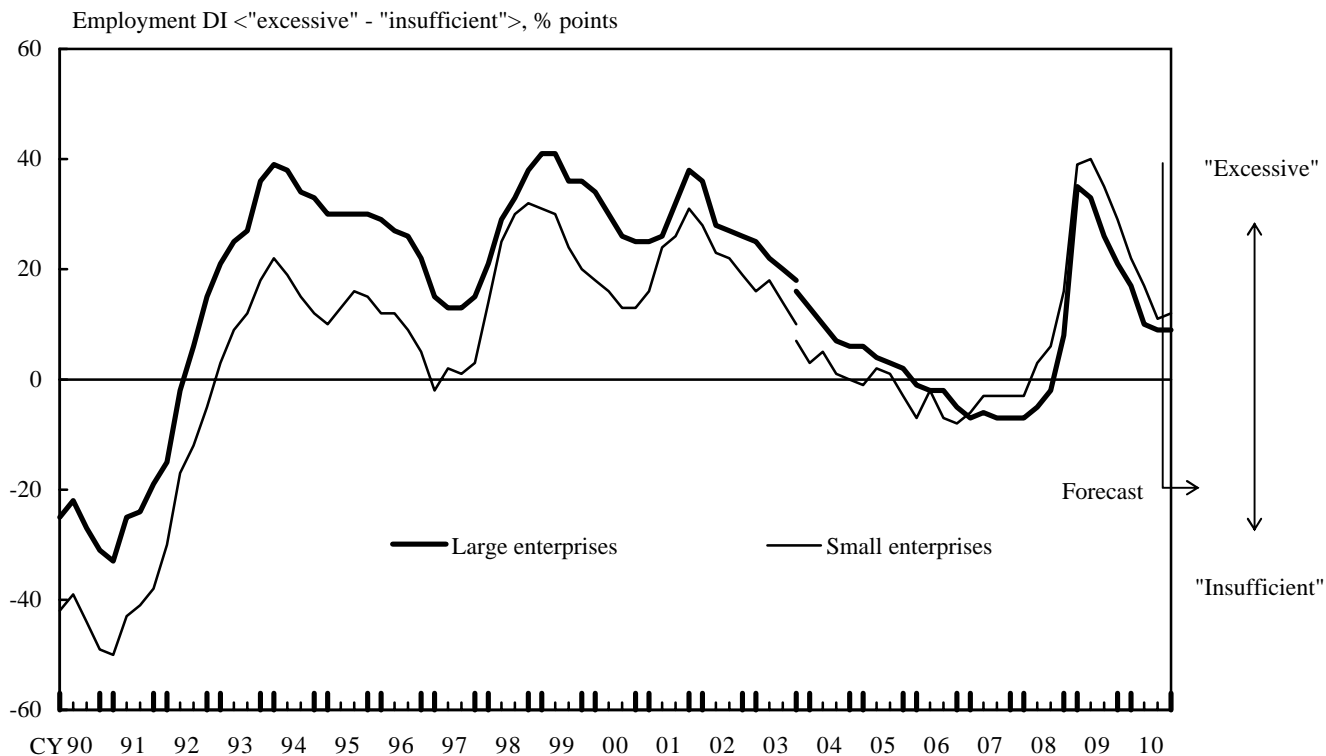
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2010/Q3 are those of July-August averages.

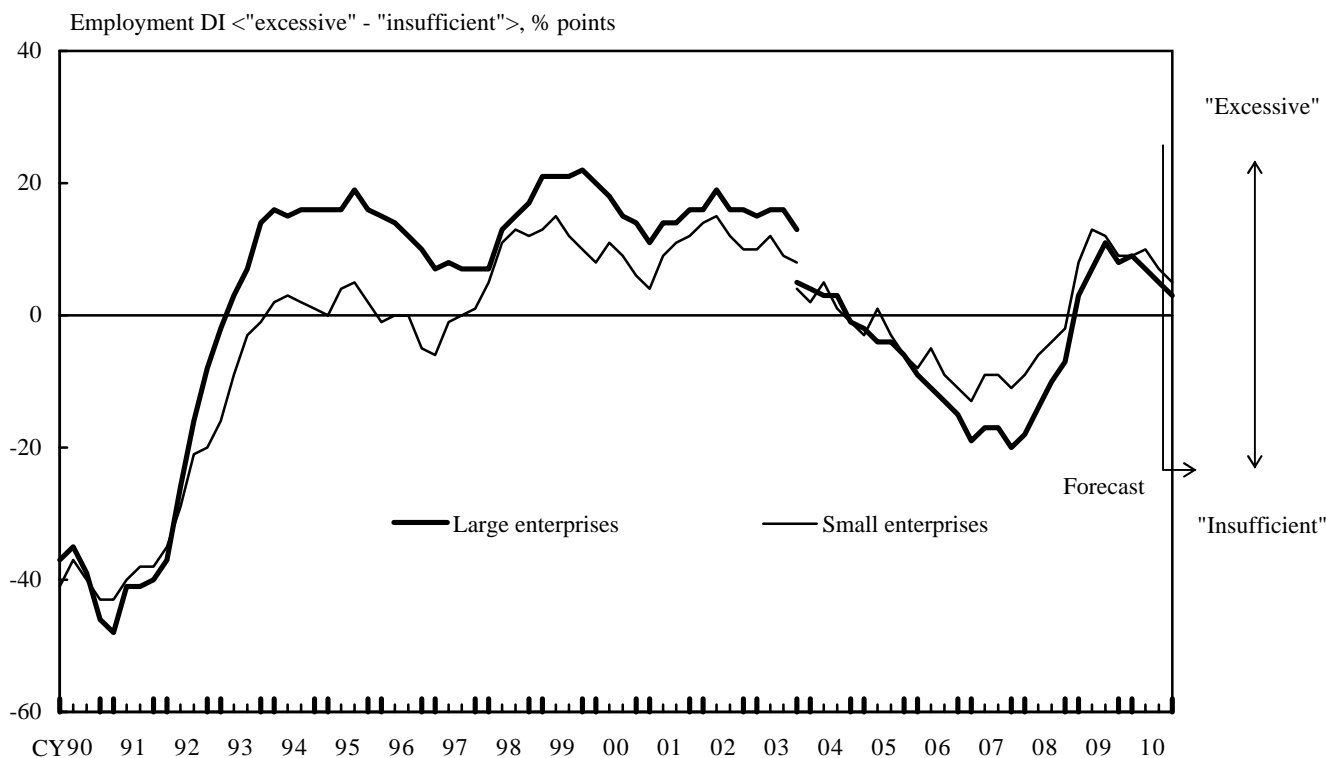
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

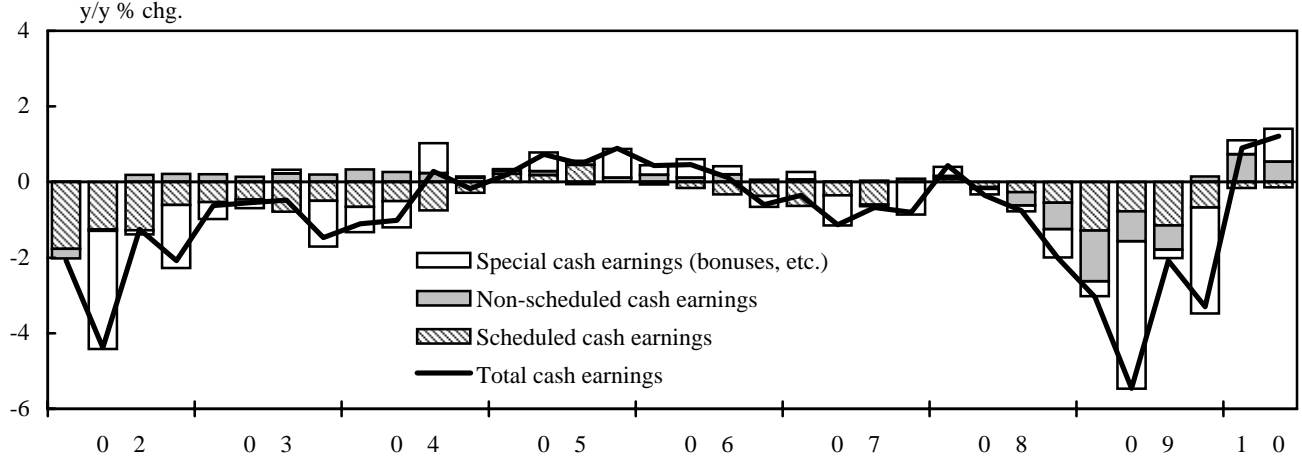


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

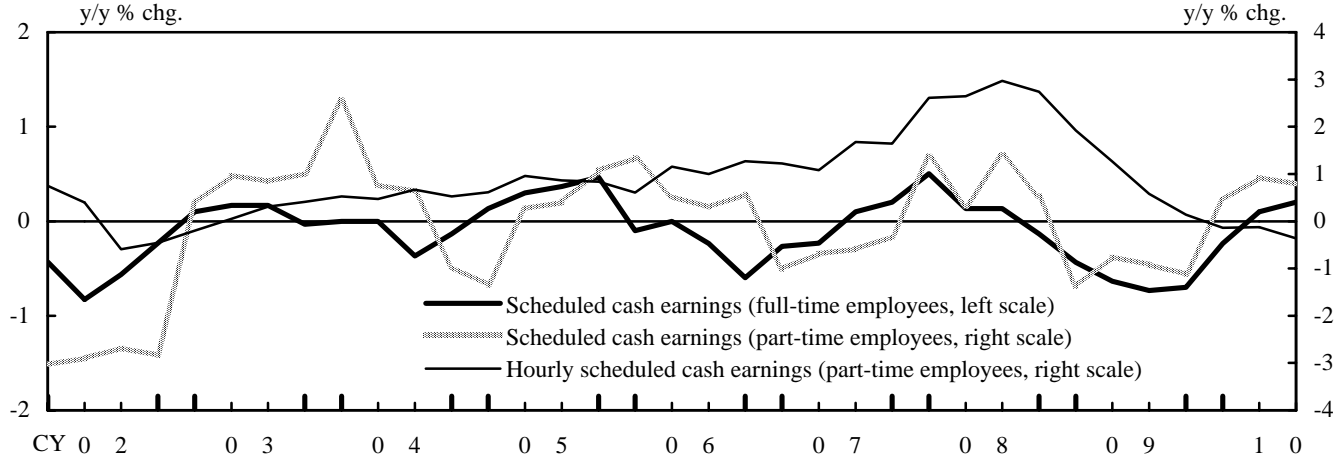
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Employee Income

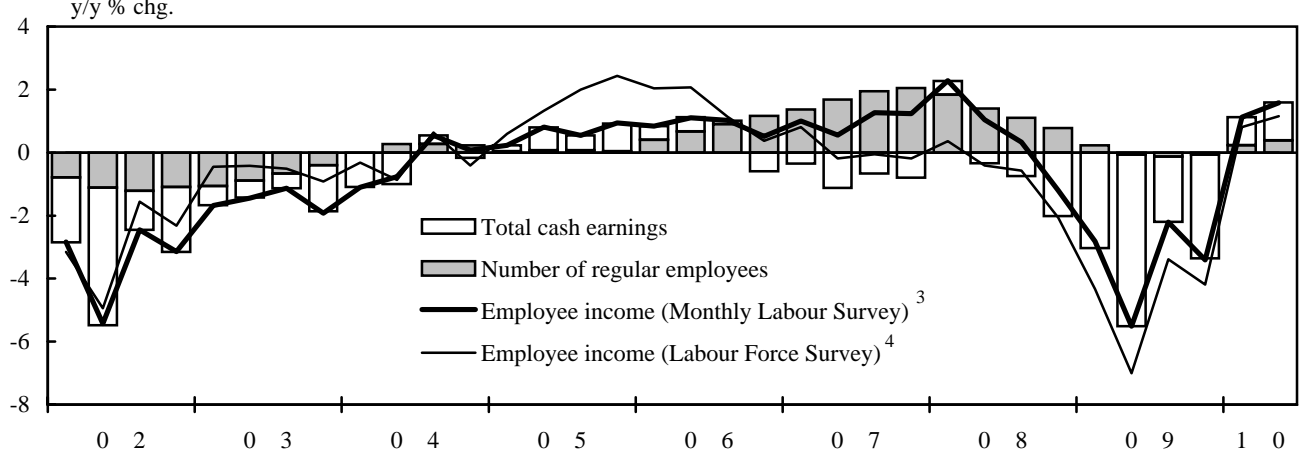
(1) Breakdown of Total Cash Earnings<sup>1,2</sup>



(2) Scheduled Cash Earnings<sup>1,5</sup>



(3) Breakdown of Employee Income<sup>1,2</sup>

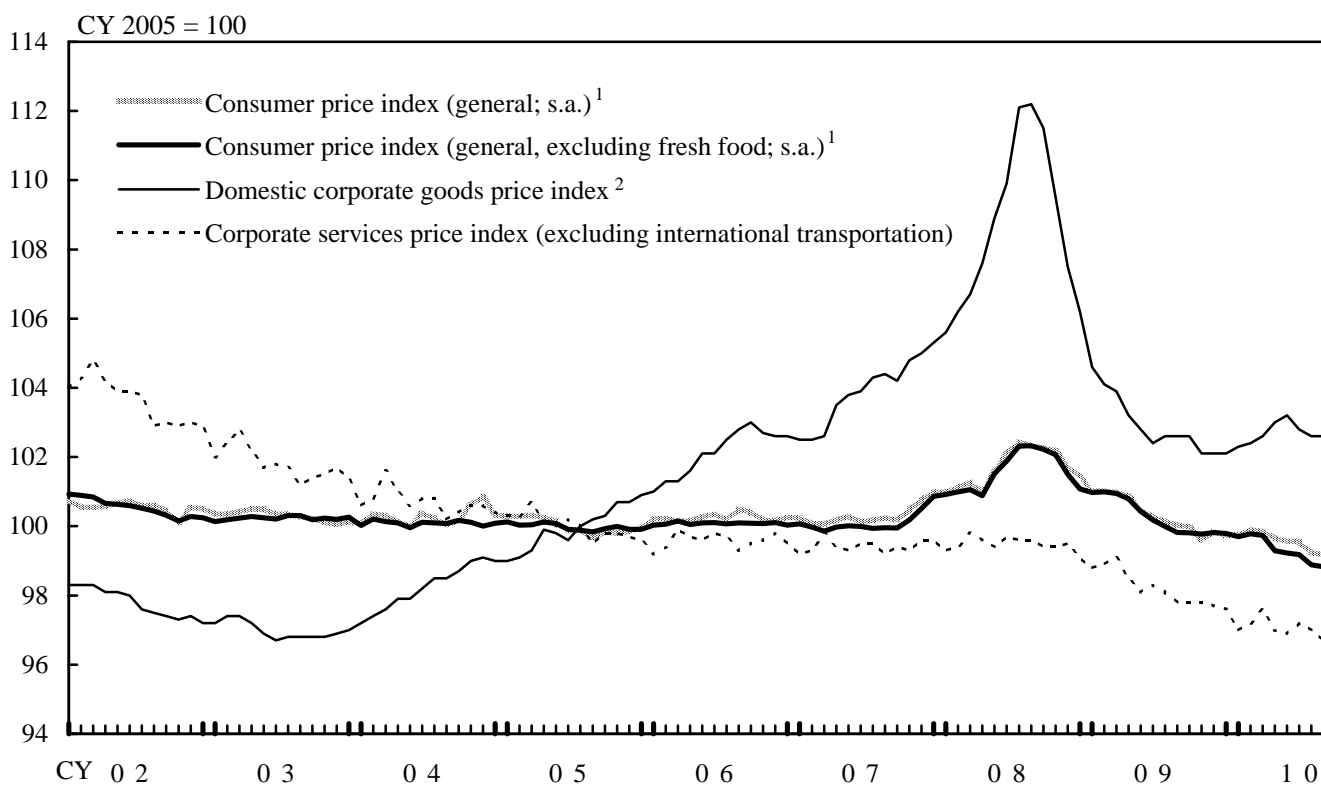


Notes: 1. Data of the Monthly Labour Survey are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour Survey).  
 4. Calculated as the number of employees (Labour Force Survey) times total cash earnings (Monthly Labour Survey).  
 5. Figures for 2010/Q3 are those of July-August averages.

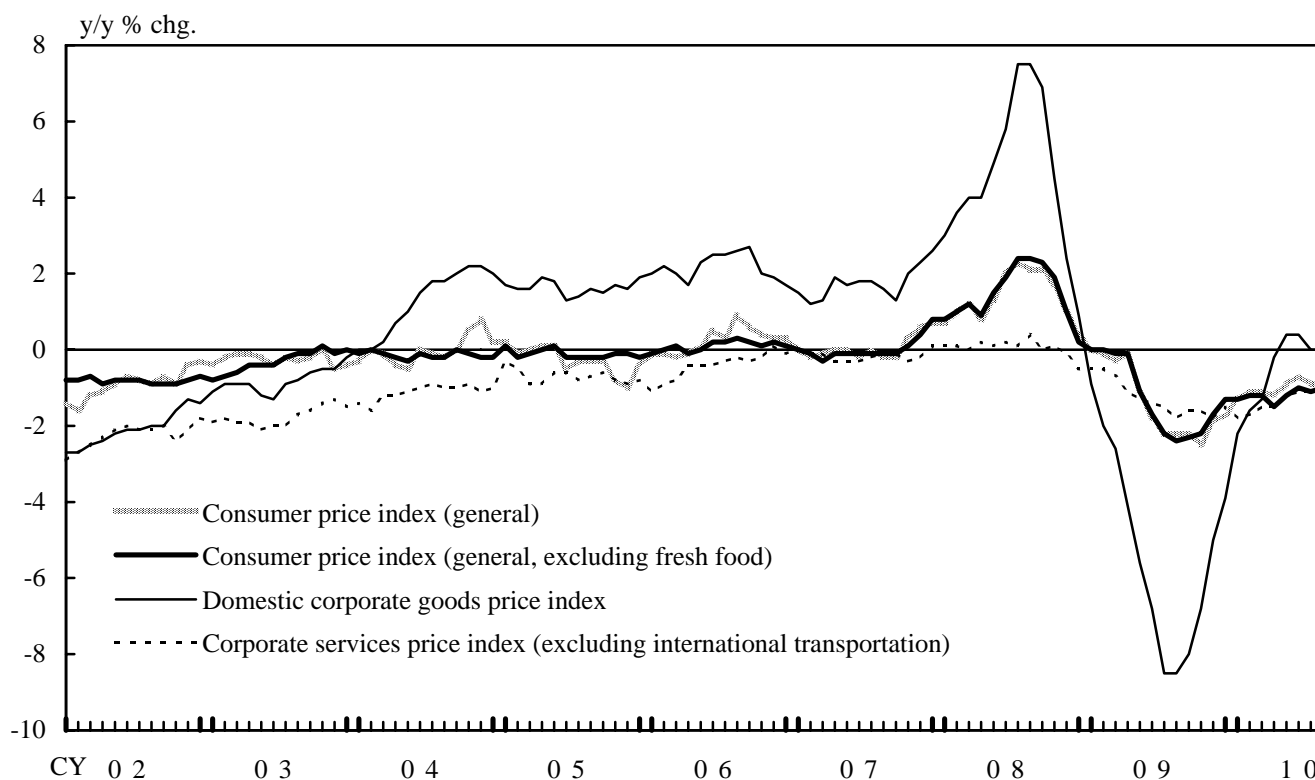
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

## Prices

## (1) Level



## (2) Changes from a Year Earlier



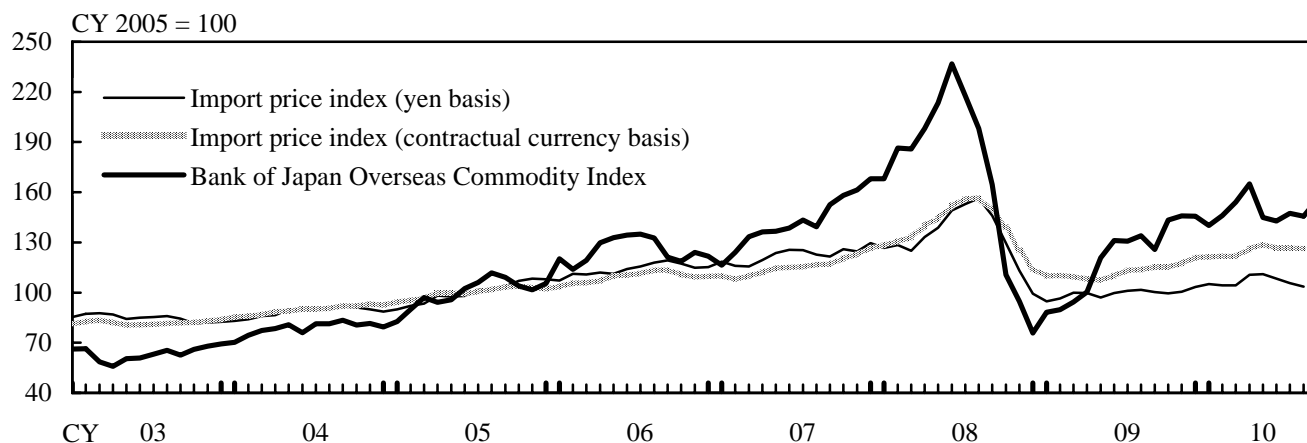
Notes: 1. Seasonally adjusted by X-12-ARIMA.

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

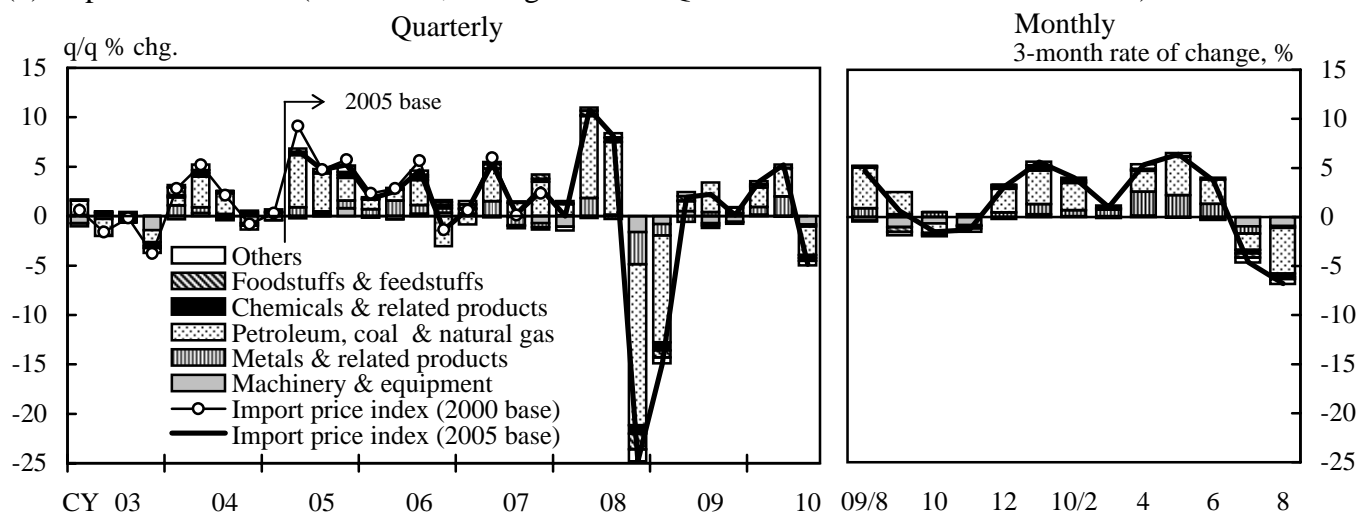
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

## Import Prices and International Commodity Prices

### (1) Import Price Index and Overseas Commodity Index



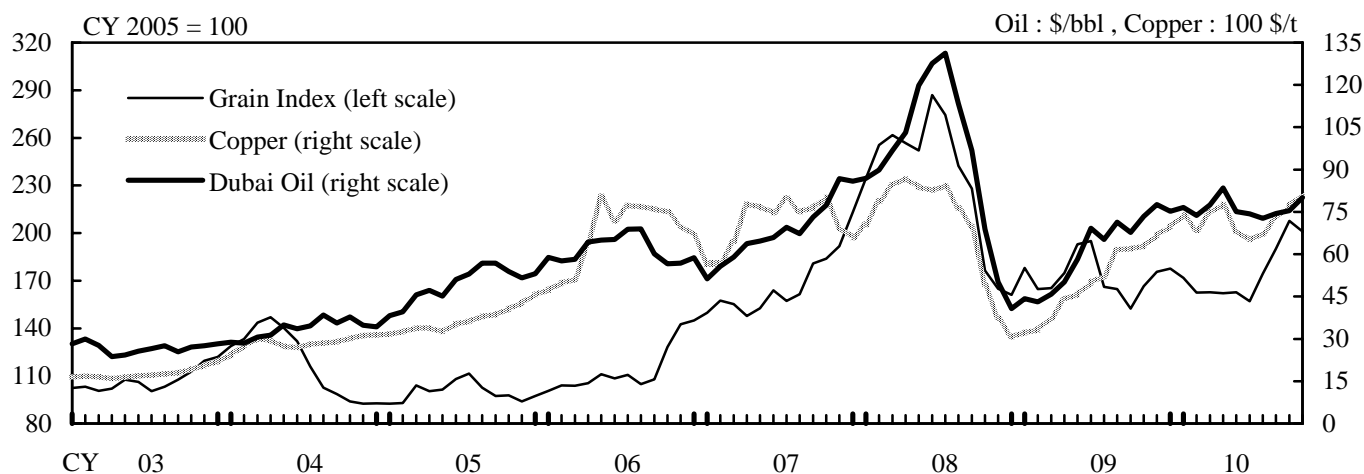
### (2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

2. Figures for 2010/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

### (3) International Commodity Prices



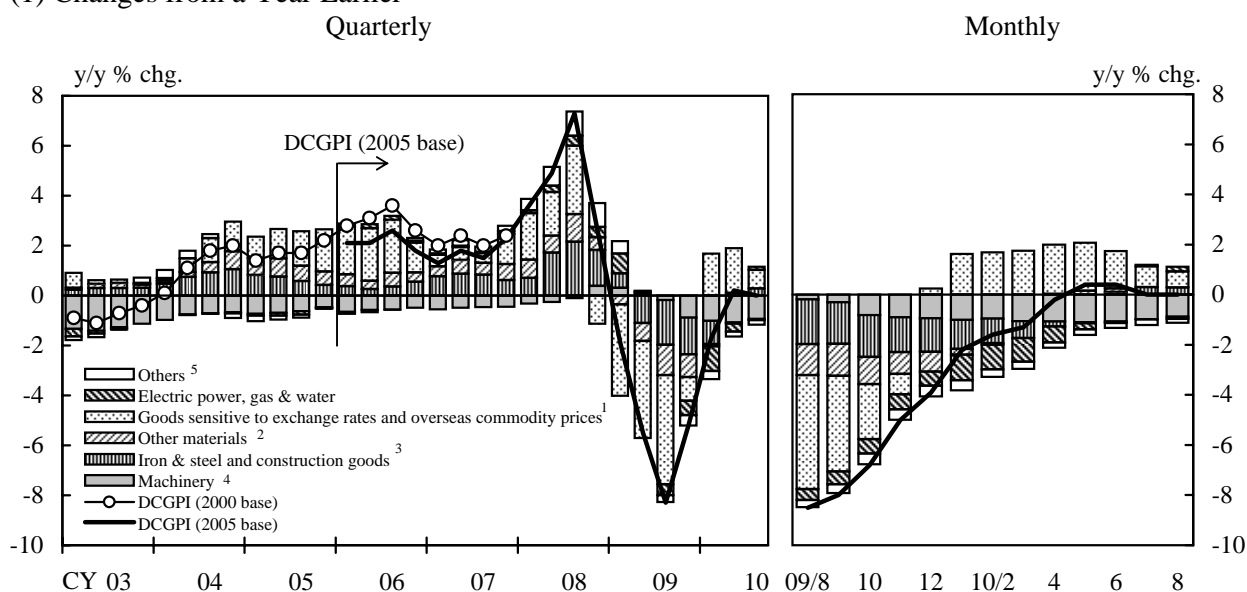
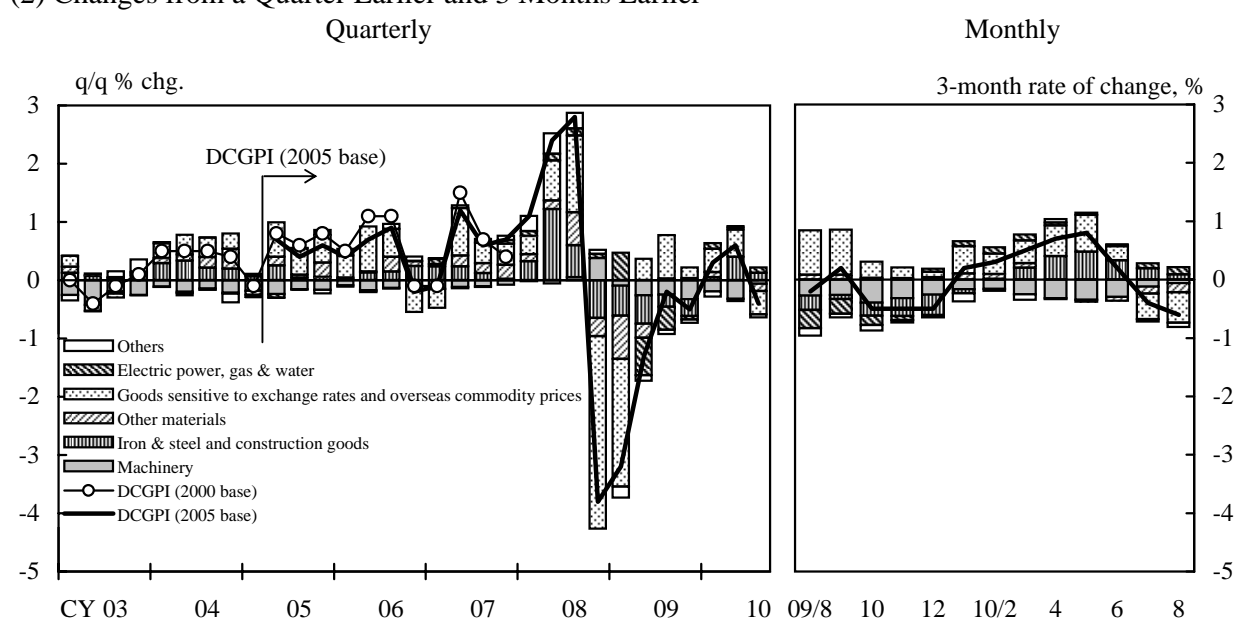
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for October 2010 are the averages up to October 4.

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

Domestic Corporate Goods Price Index<sup>7</sup>

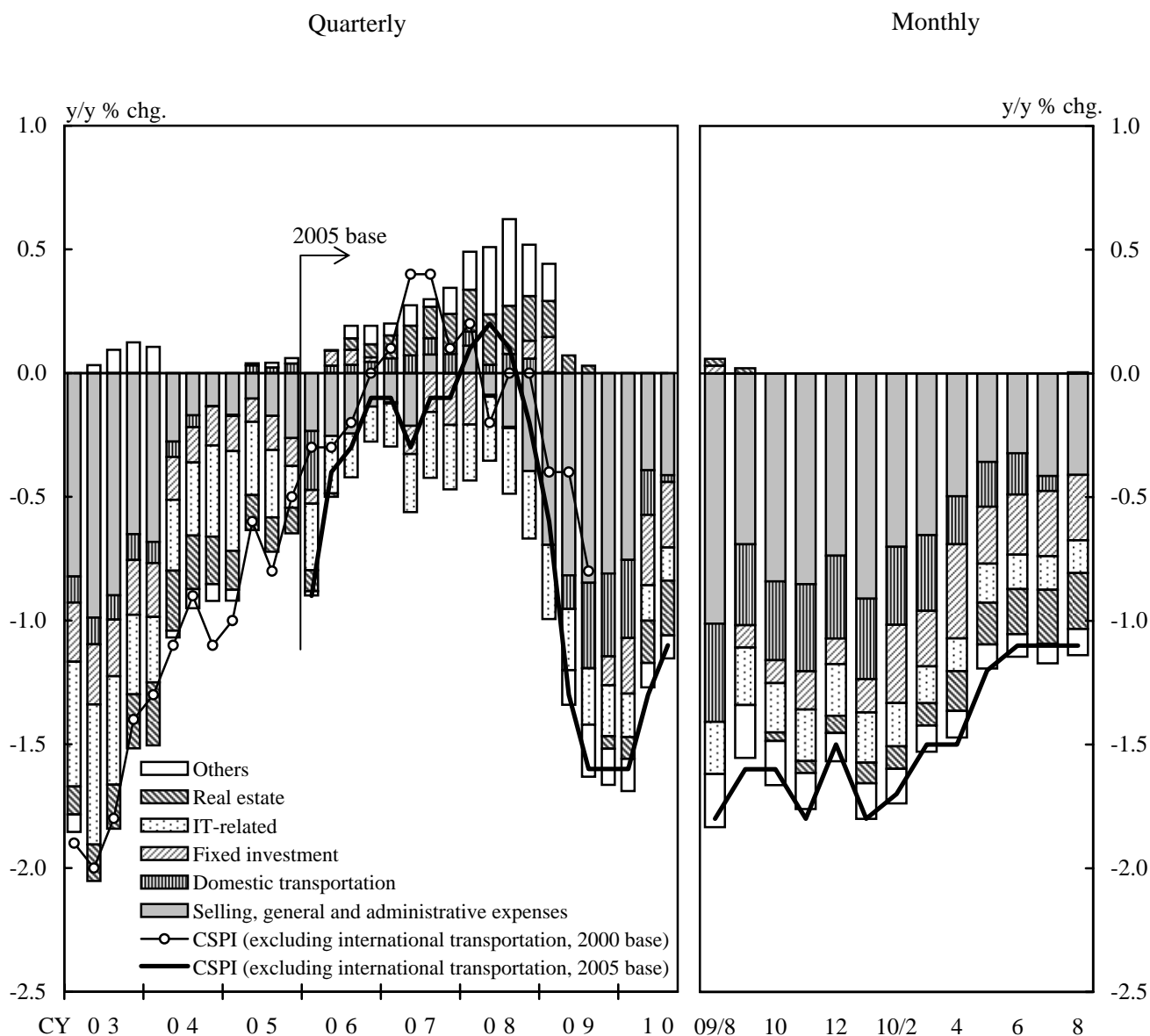
## (1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier<sup>6</sup>

- 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 2010/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

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

## Corporate Services Price Index

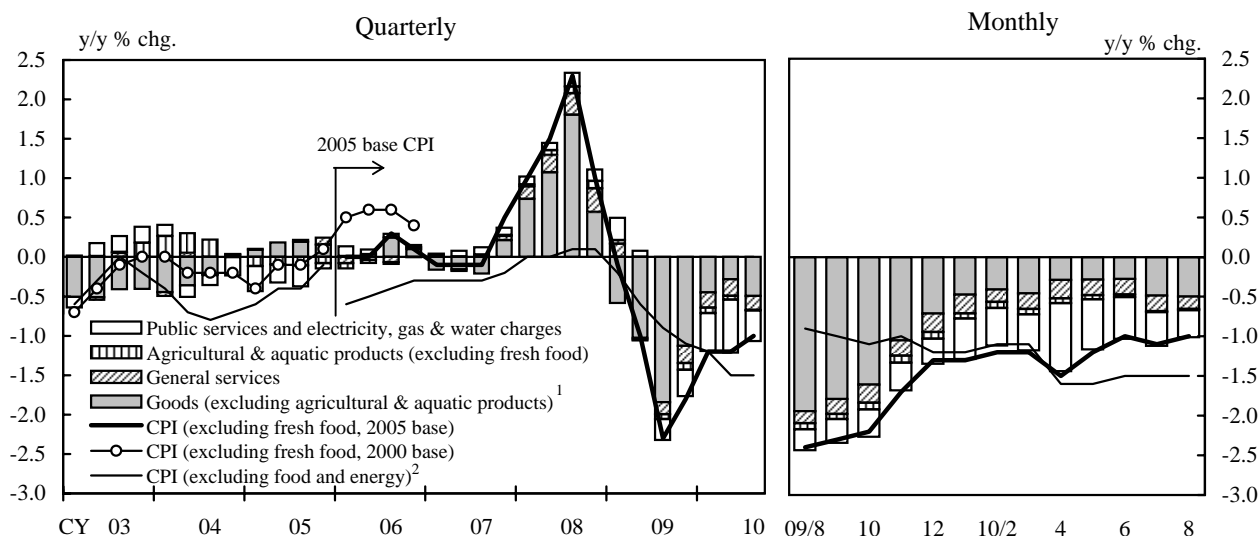


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, civil engineering and architectural services).  
 2. Domestic transportation: transportation (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation).  
 3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment, computer rental), civil engineering and architectural services.  
 4. IT-related: leasing of computer related equipment, computer rental.  
 5. Real estate: real estate services.  
 6. Others: finance and insurance, railroad passenger transportation, road passenger transportation, water passenger transportation, domestic air passenger transportation, newspapers and publishing, plant engineering.  
 7. Figures for 2010/Q3 are July-August averages. Figures for 2009/Q3 on the 2000 base are July-August averages.

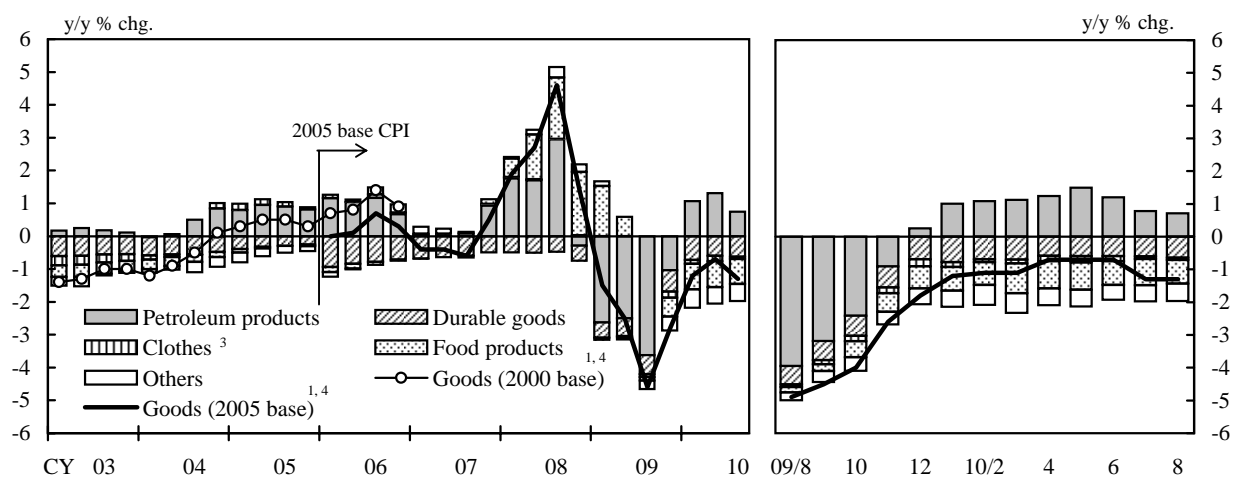
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

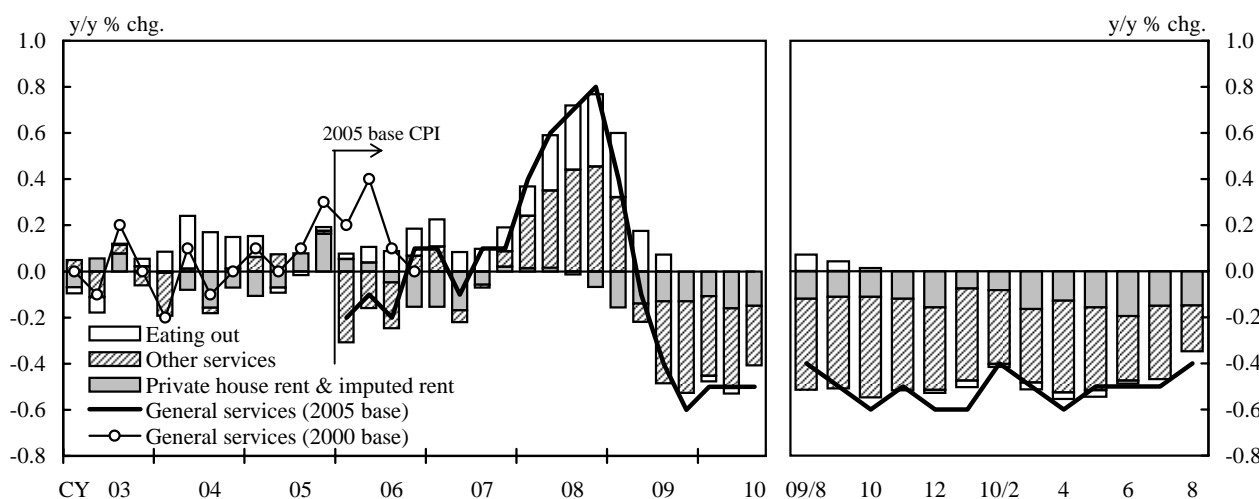
(1) Consumer Price Index (Excluding Fresh Food)



(2) Goods (Excluding Agricultural & Aquatic Products)<sup>1</sup>



(3) General Services



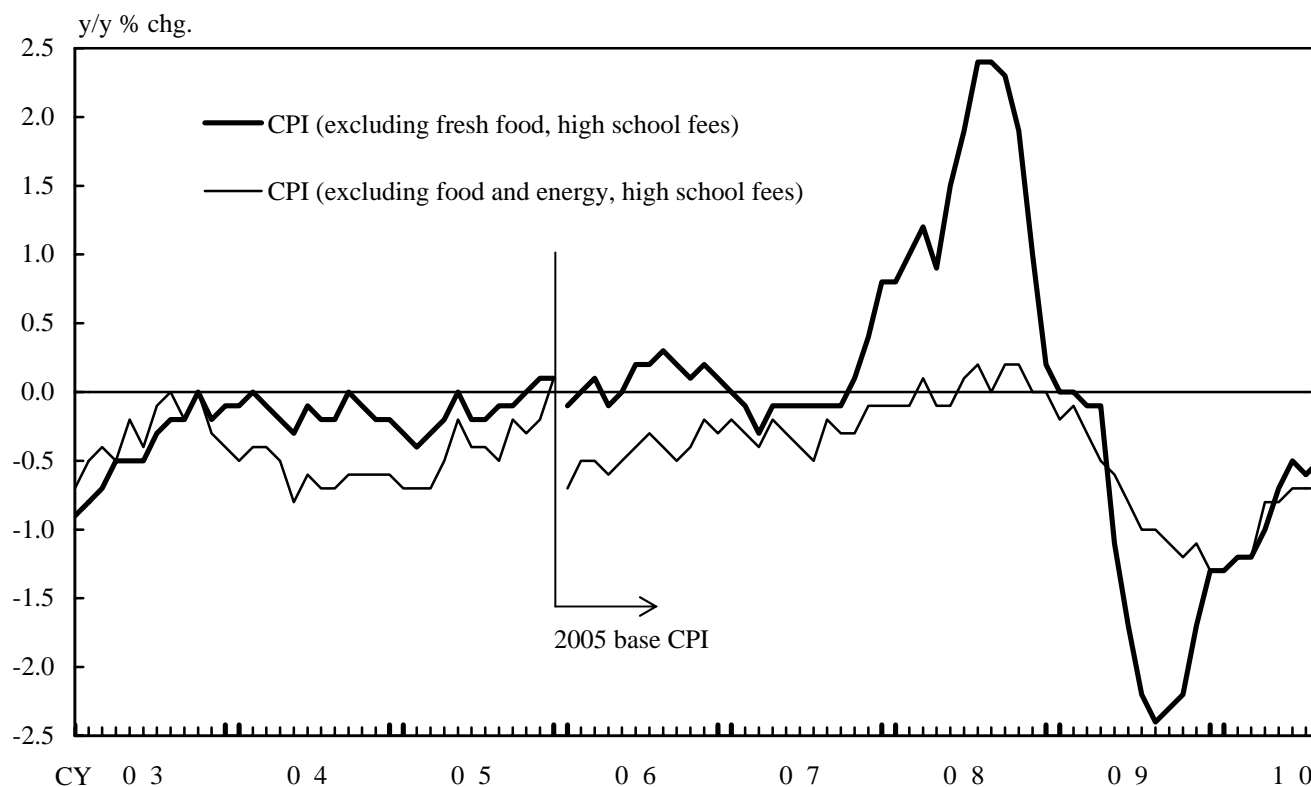
- Notes:1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communications. However, electricity, gas & water charges are excluded from goods.  
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.  
 3. Including shirts, sweaters & underwear.  
 4. Excluding agricultural & aquatic products.  
 5. Figures for 2010/Q3 are July-August averages.

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

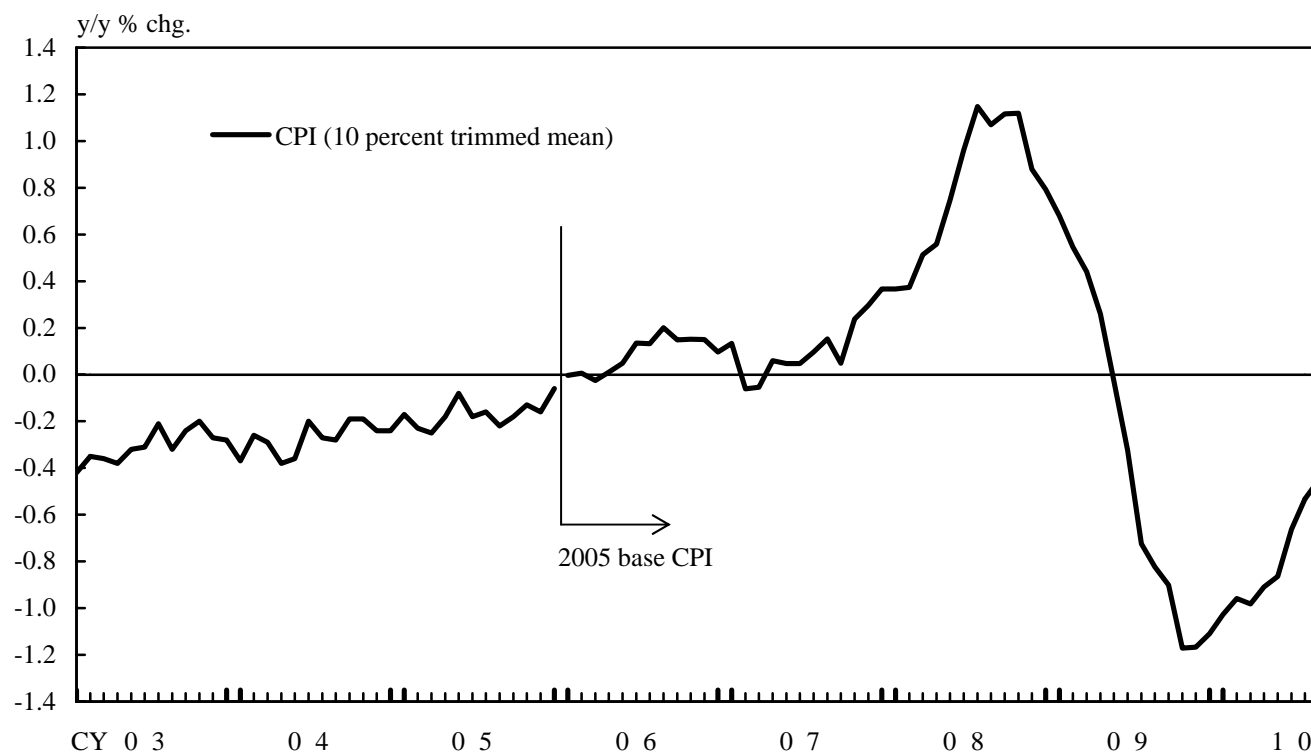


## Trend Changes in Consumer Prices

## (1) CPI Excluding High School Fees



## (2) Trimmed Mean



Notes: 1. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, liquefied propane, kerosene, and gasoline.

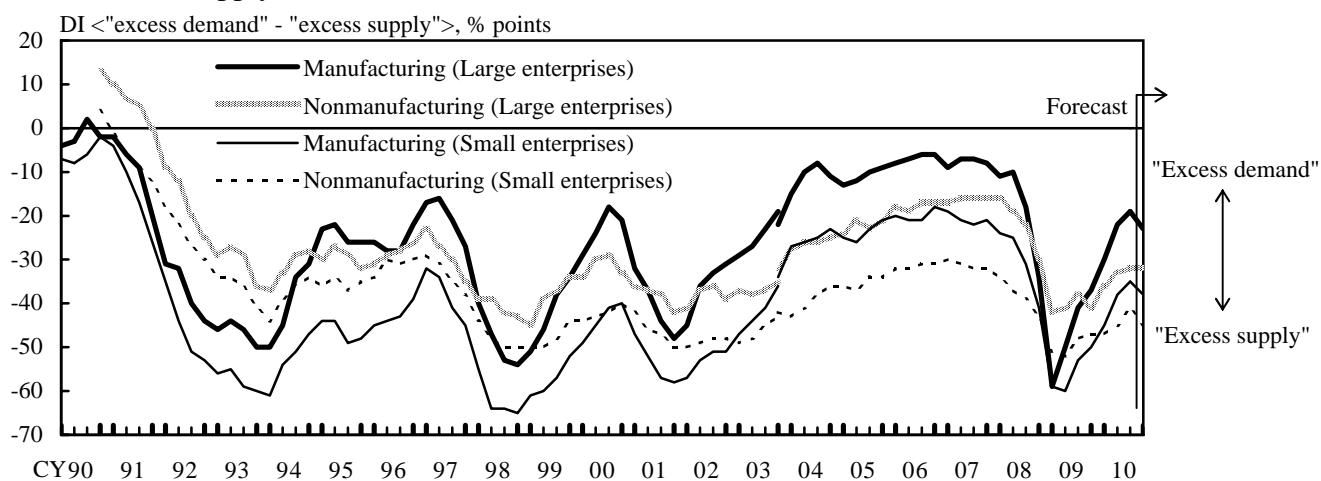
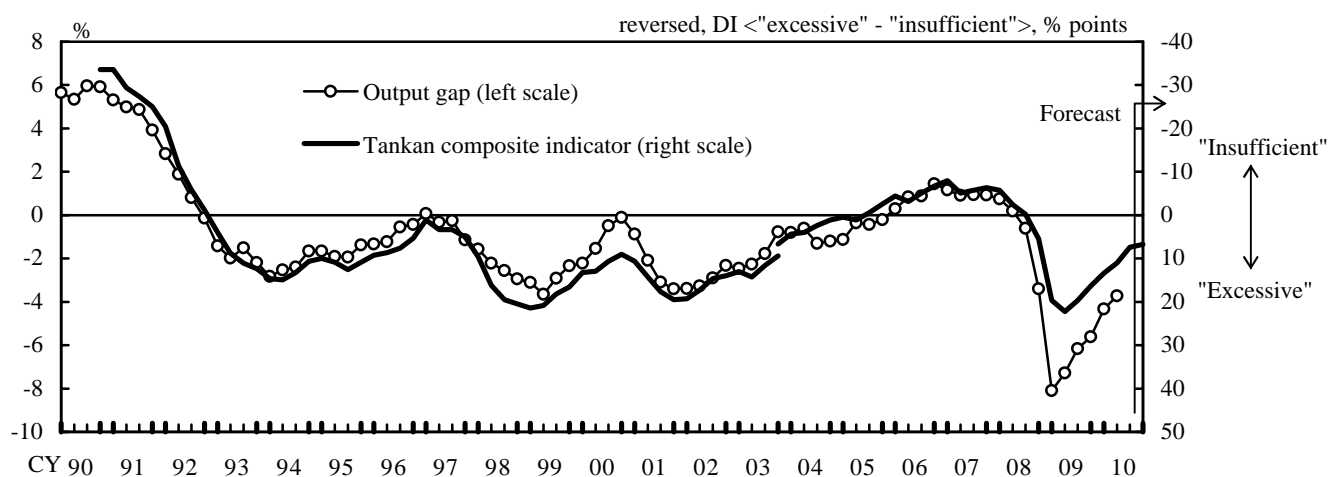
2. High school fees: high school fees (public), and high school fees (private).

3. Figures for the 10 percent trimmed mean are weighted averages of items after excluding (trimming) items in both the upper and lower 10 percent tails by weight with the highest and lowest year-on-year rates of price changes.

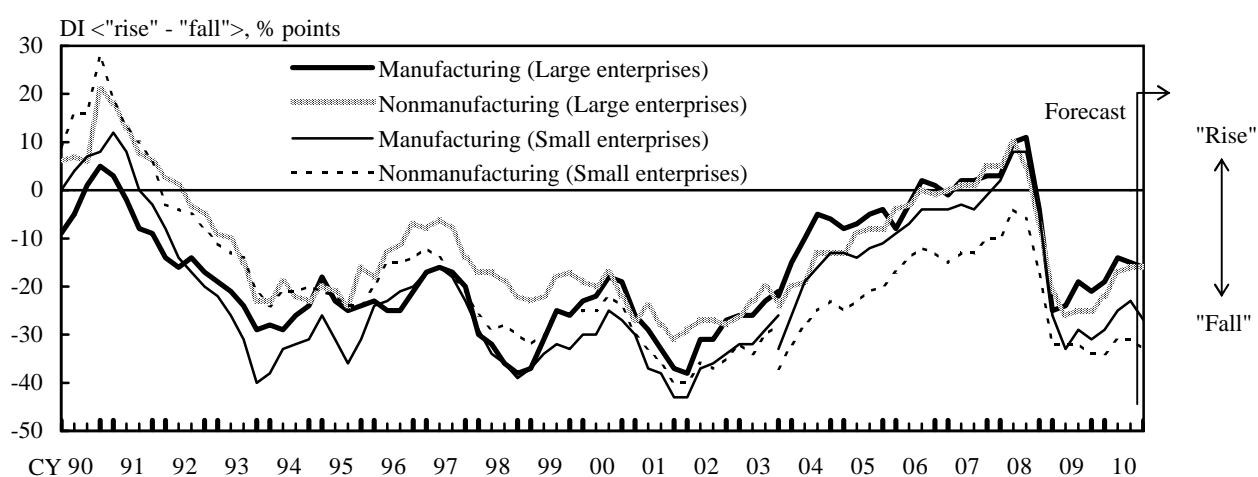
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions<sup>1</sup>

## (1) Domestic Supply and Demand Conditions for Products and Services

(2) *Tankan* Composite Indicator<sup>2</sup> (All Enterprises) and Output Gap<sup>3</sup>

## (3) Change in Output Prices



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 1990-2008 averages of capital and labor shares in national accounts are used as the weight.

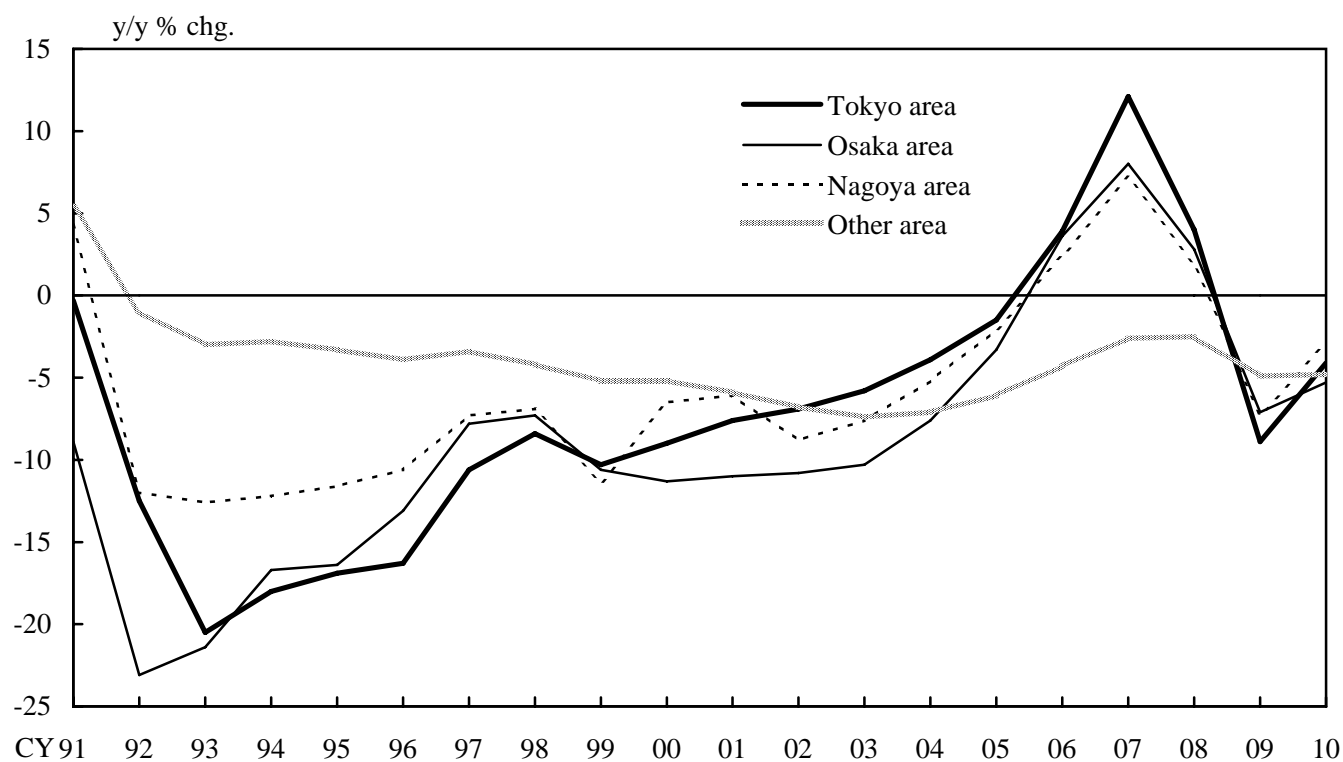
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

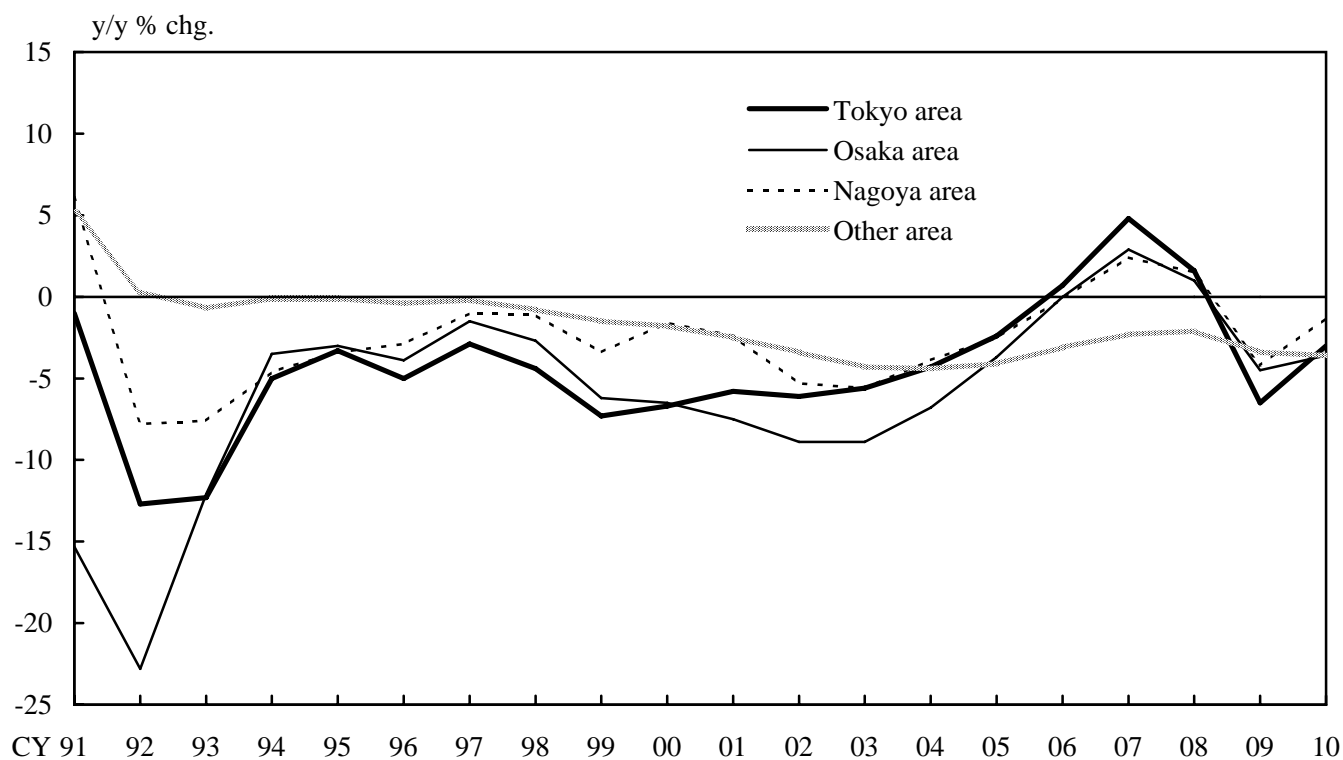
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

## Land Prices

## (1) Commercial land



## (2) Residential land

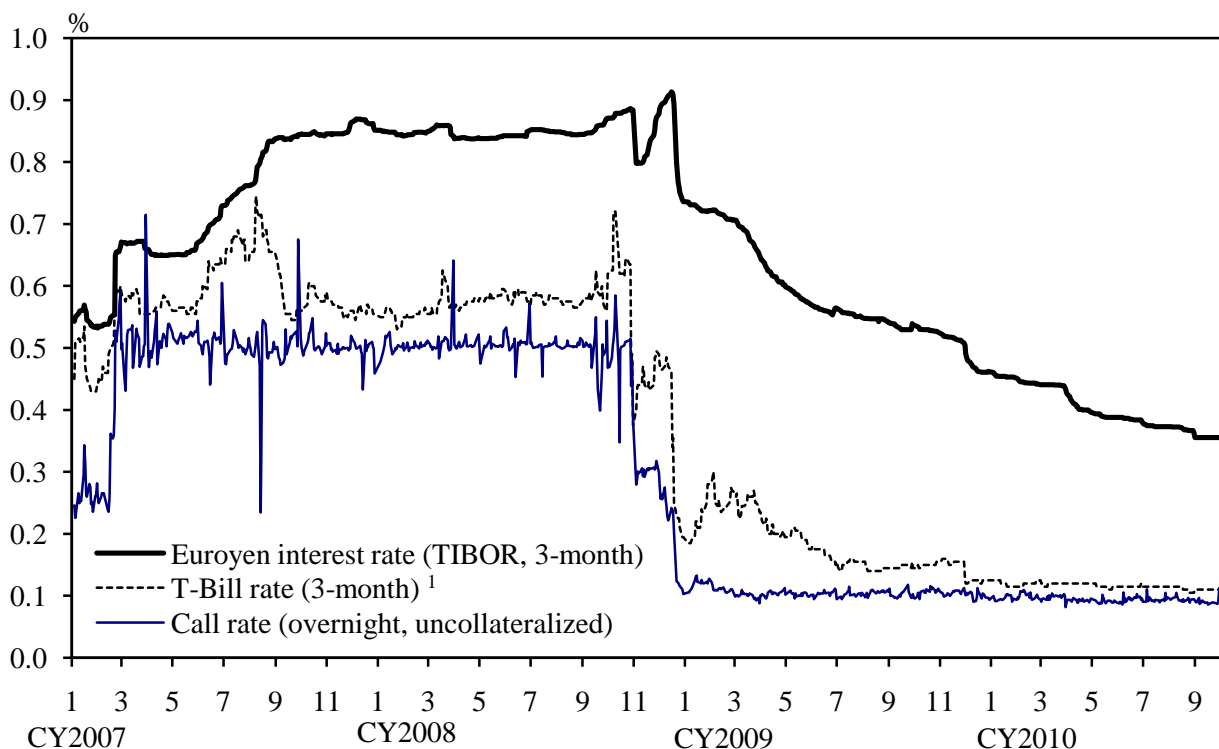


Note: Prefectural Land Price Survey, surveyed by prefecture officials, shows the land prices as of July 1st.

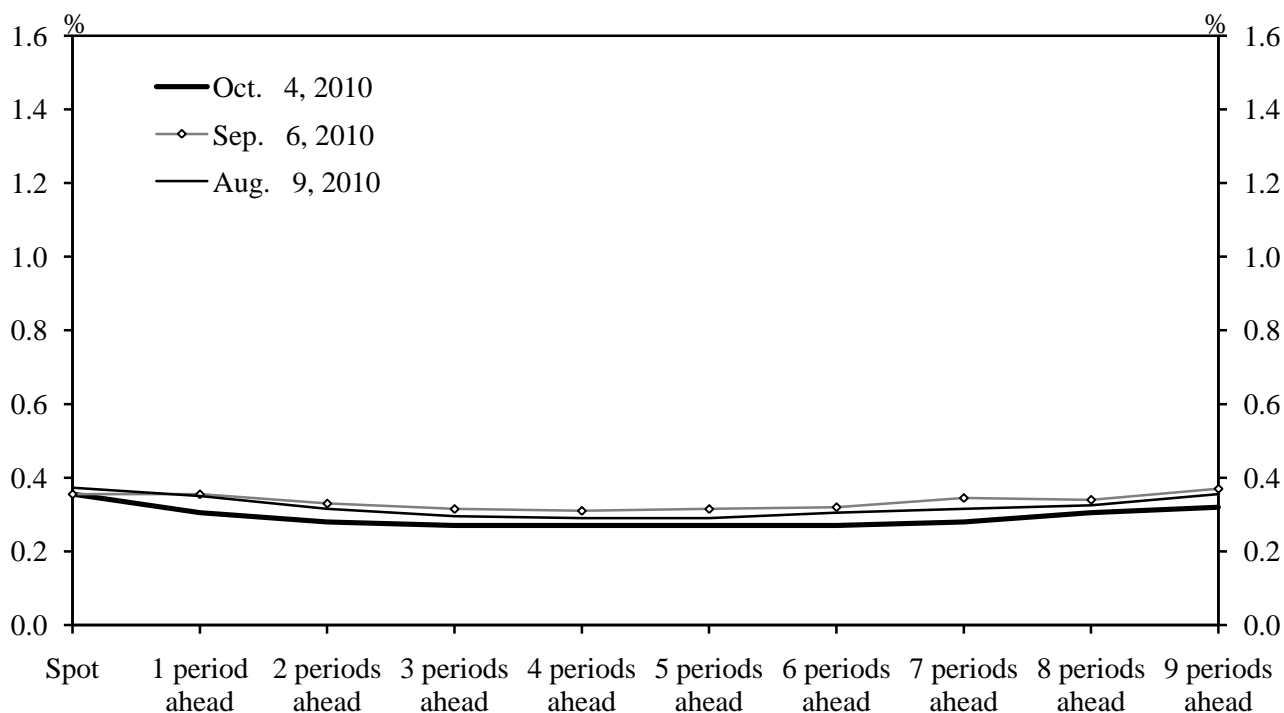
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Prefectural Land Price Survey."

Short-Term Interest Rates

(1) Short-Term Interest Rates



(2) Euroyen Interest Rate Futures (3-Month) <sup>2</sup>



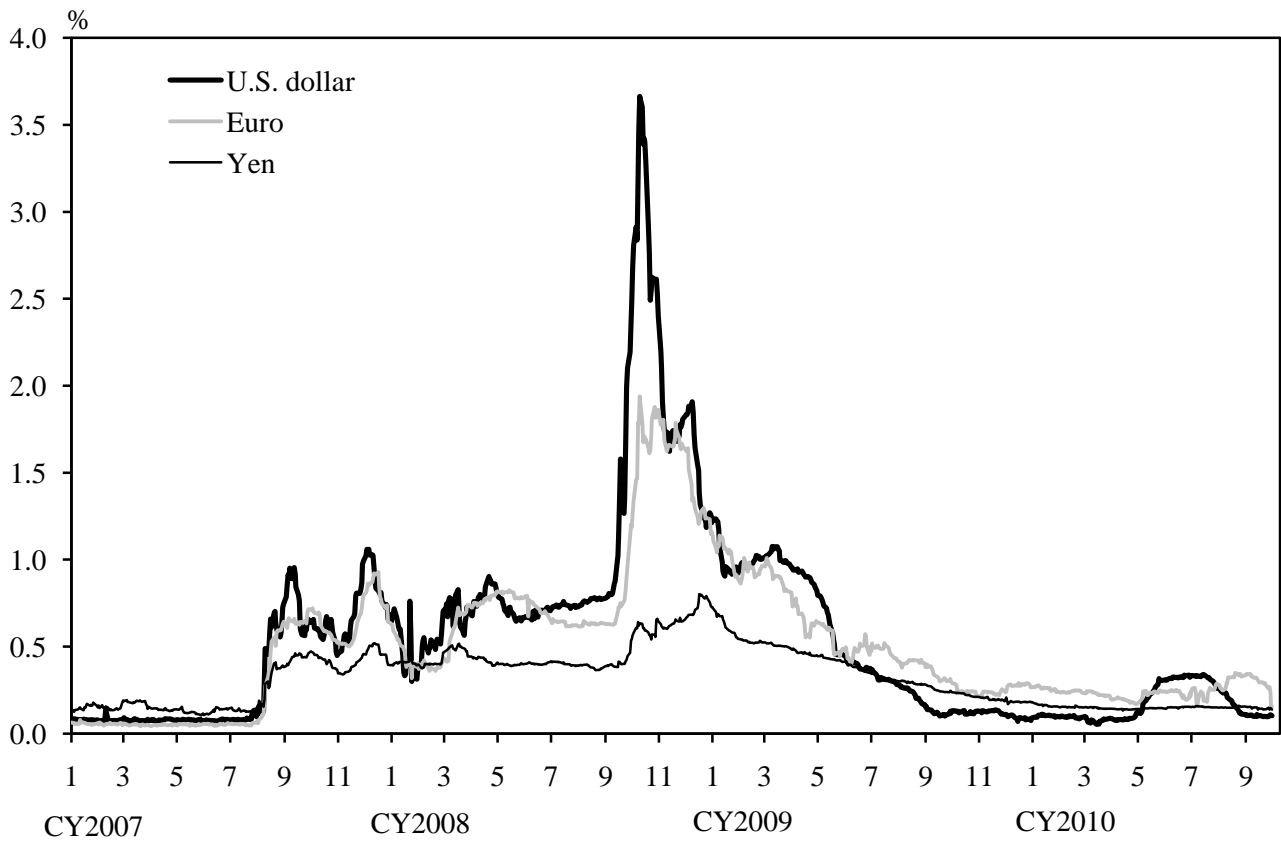
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

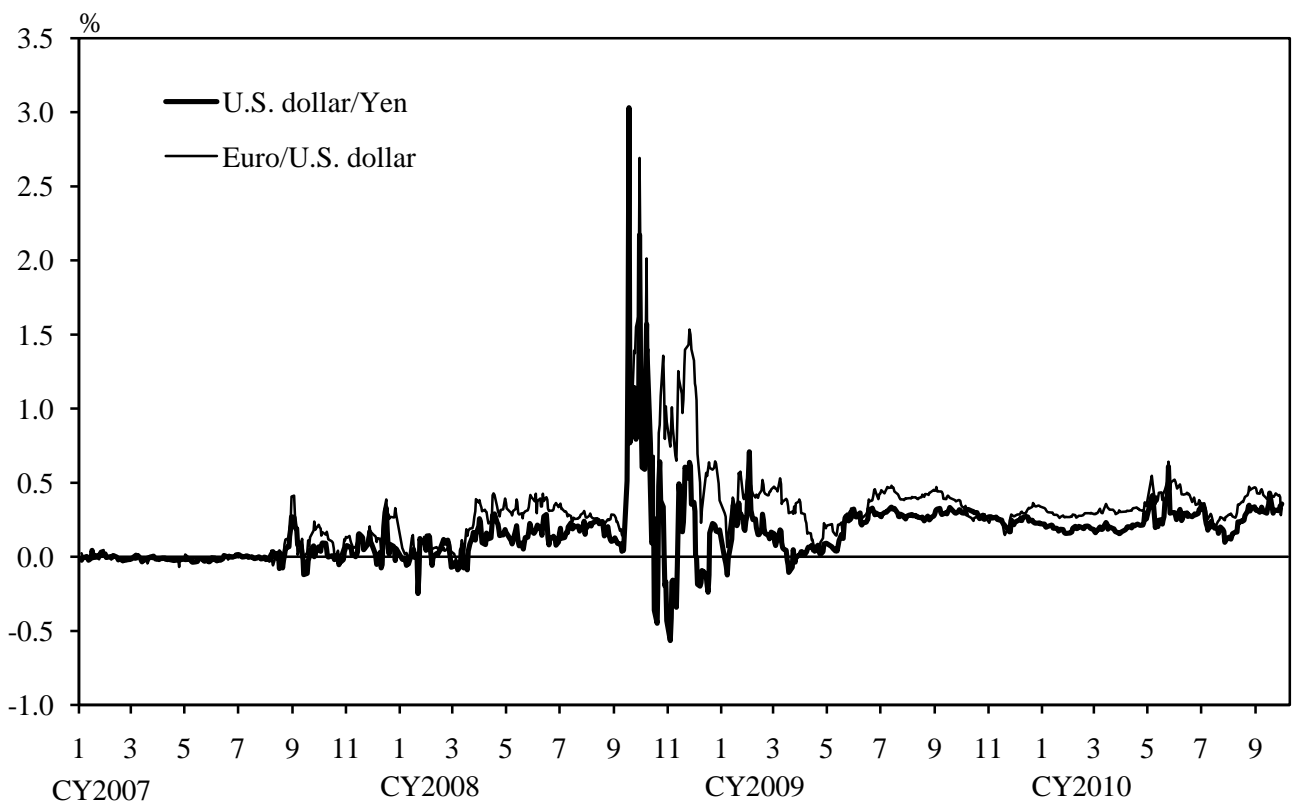
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



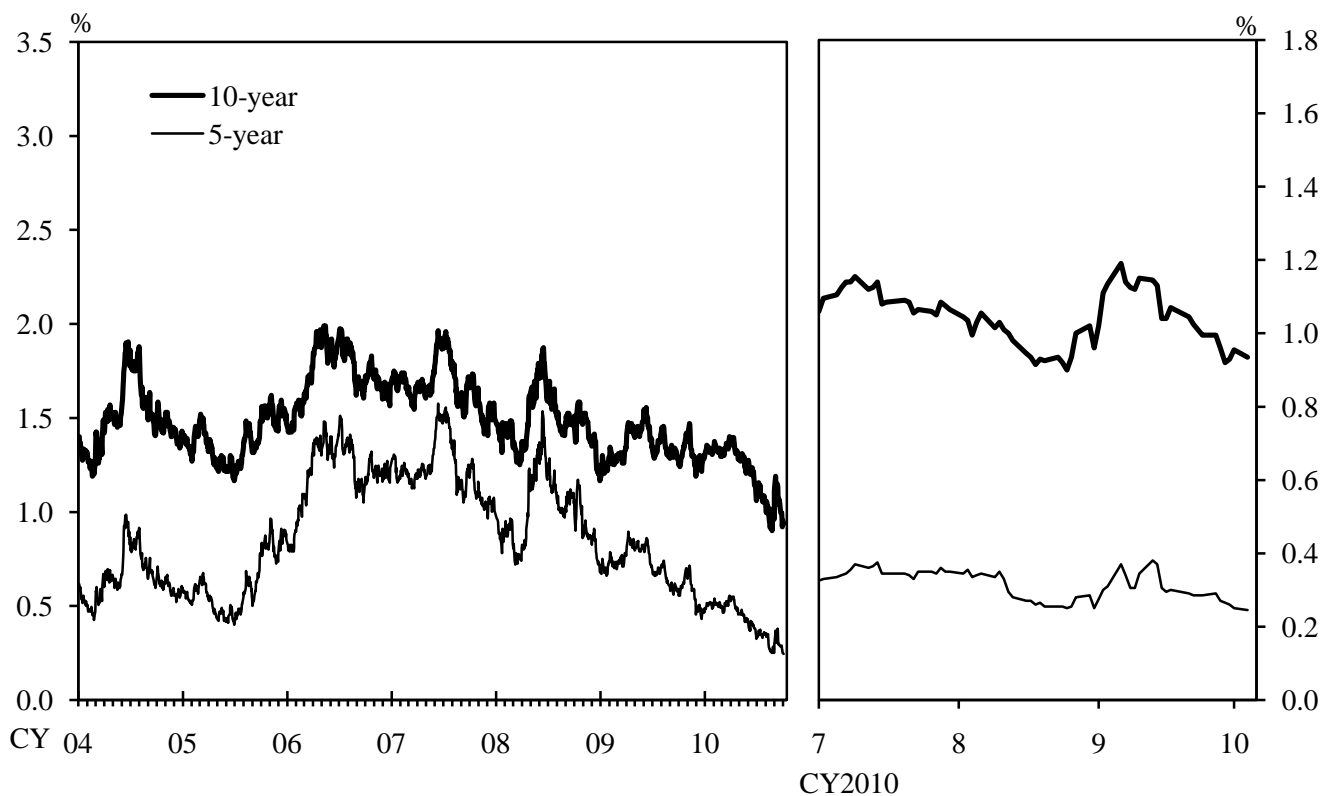
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



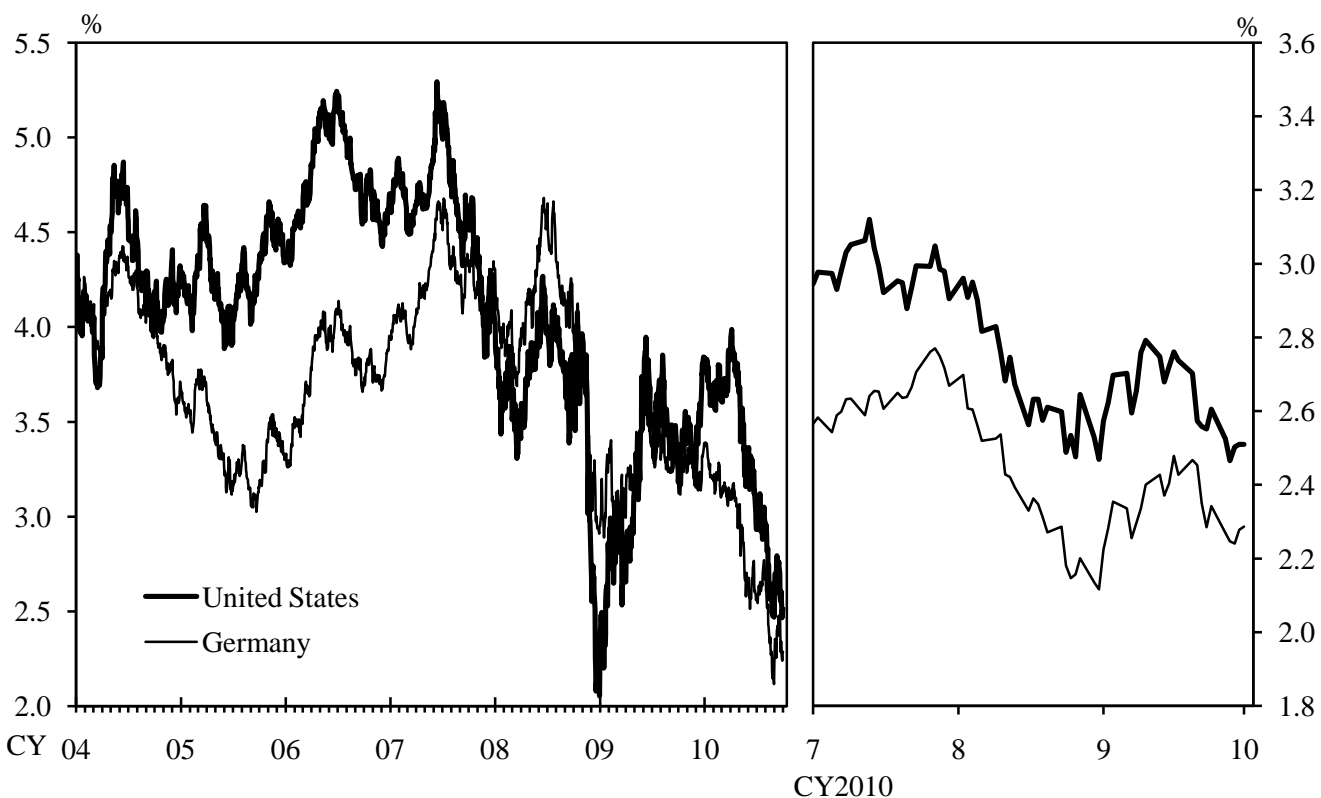
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields<sup>1</sup>



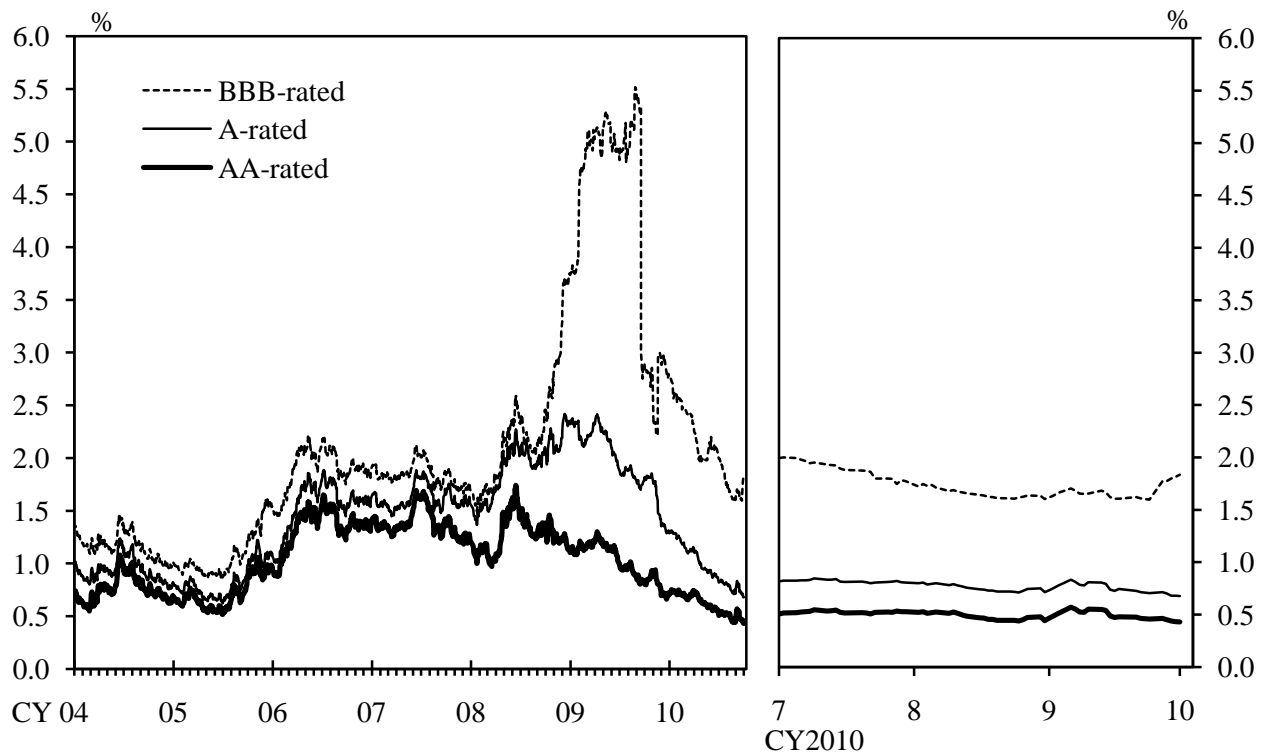
(2) Overseas Government Bond Yields (10-Year)



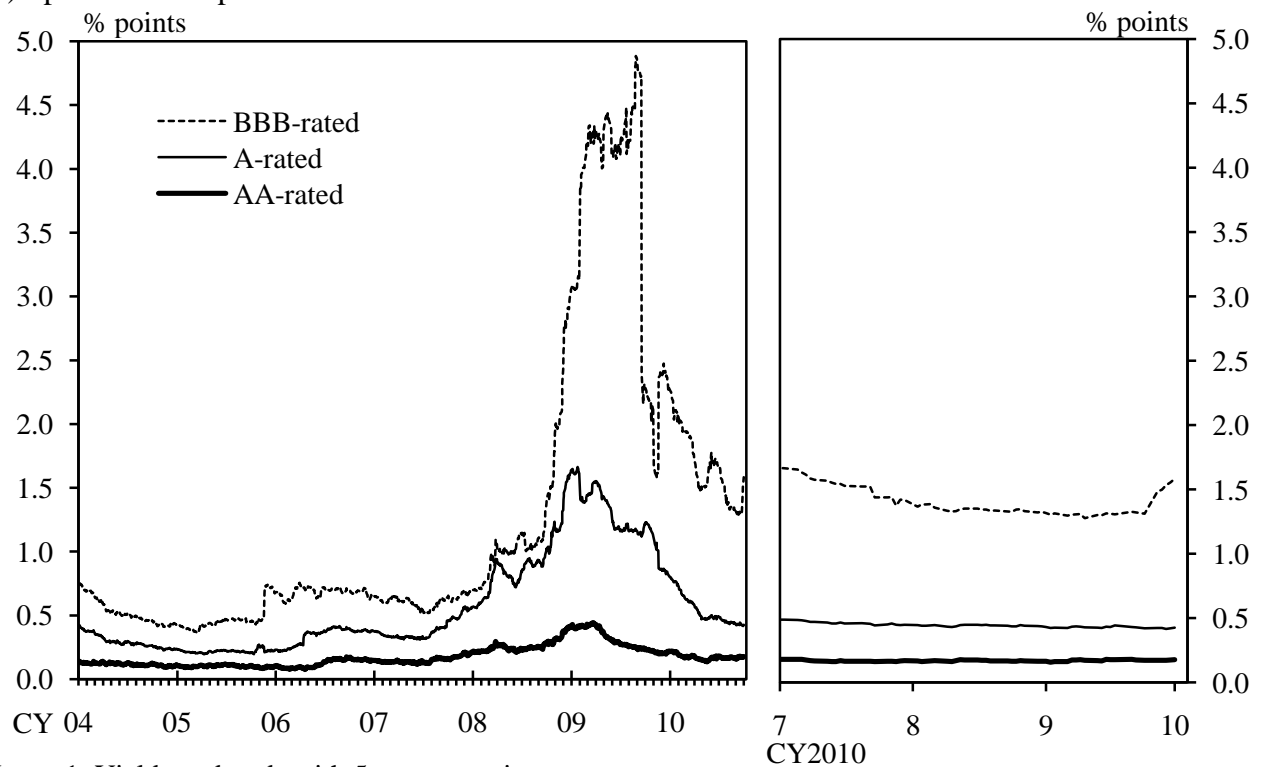
Note: 1. Yields on newly issued bonds.  
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

(1) Corporate Bond Yields<sup>1,2</sup>



(2) Spreads of Corporate Bond Yields over Government Bond Yields<sup>1,2</sup>



Notes: 1. Yields on bonds with 5-year maturity.

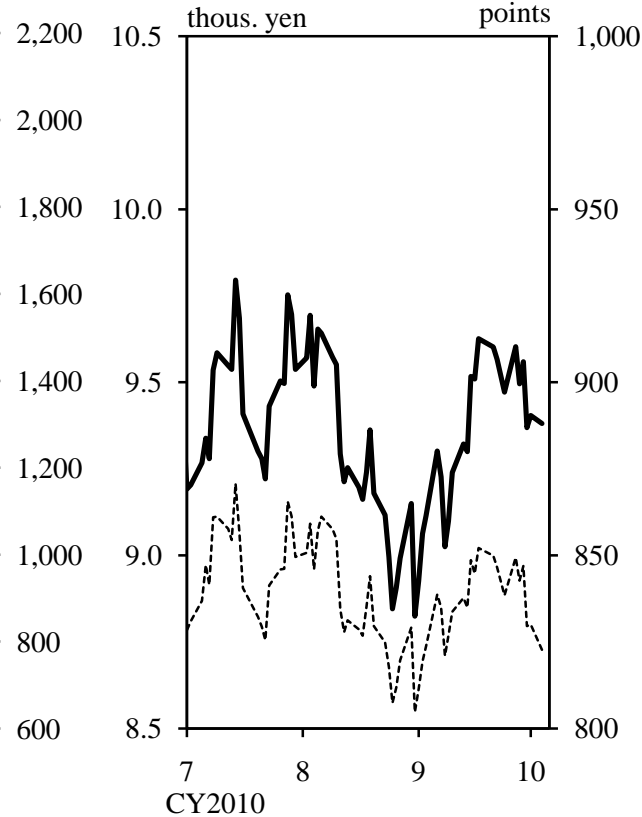
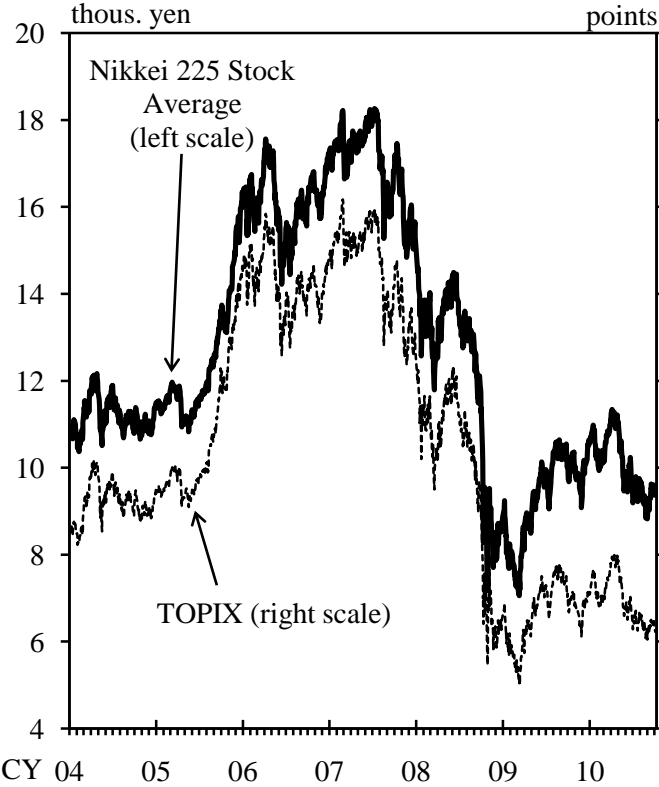
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

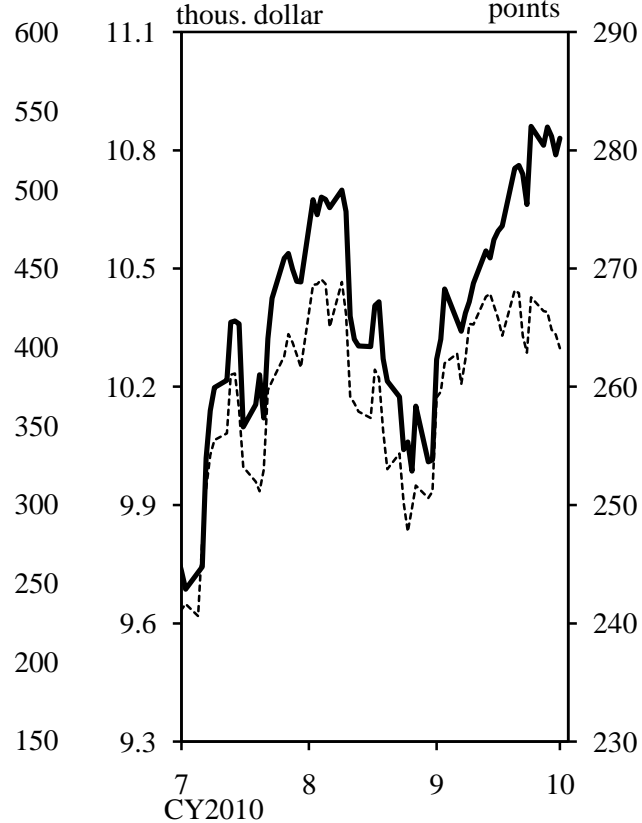
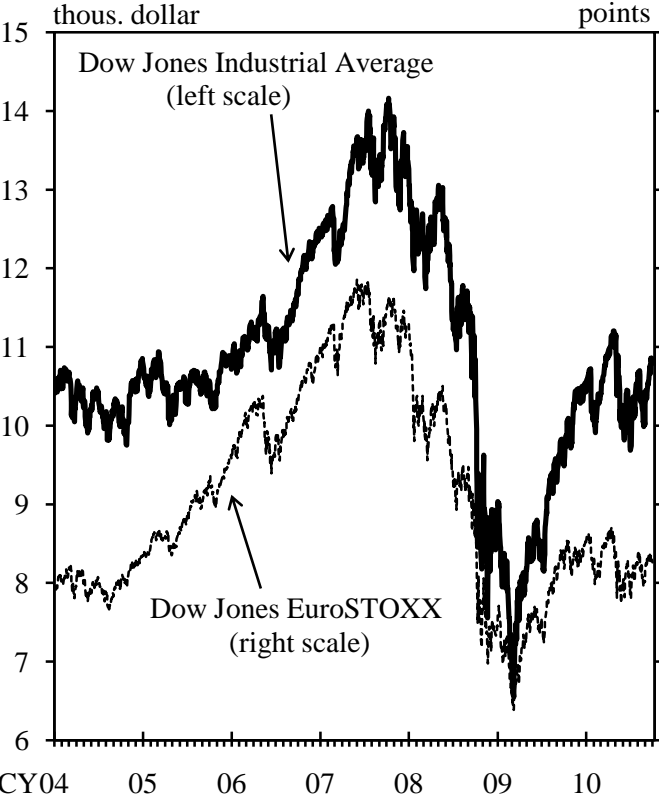
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



(2) Overseas Stock Prices



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

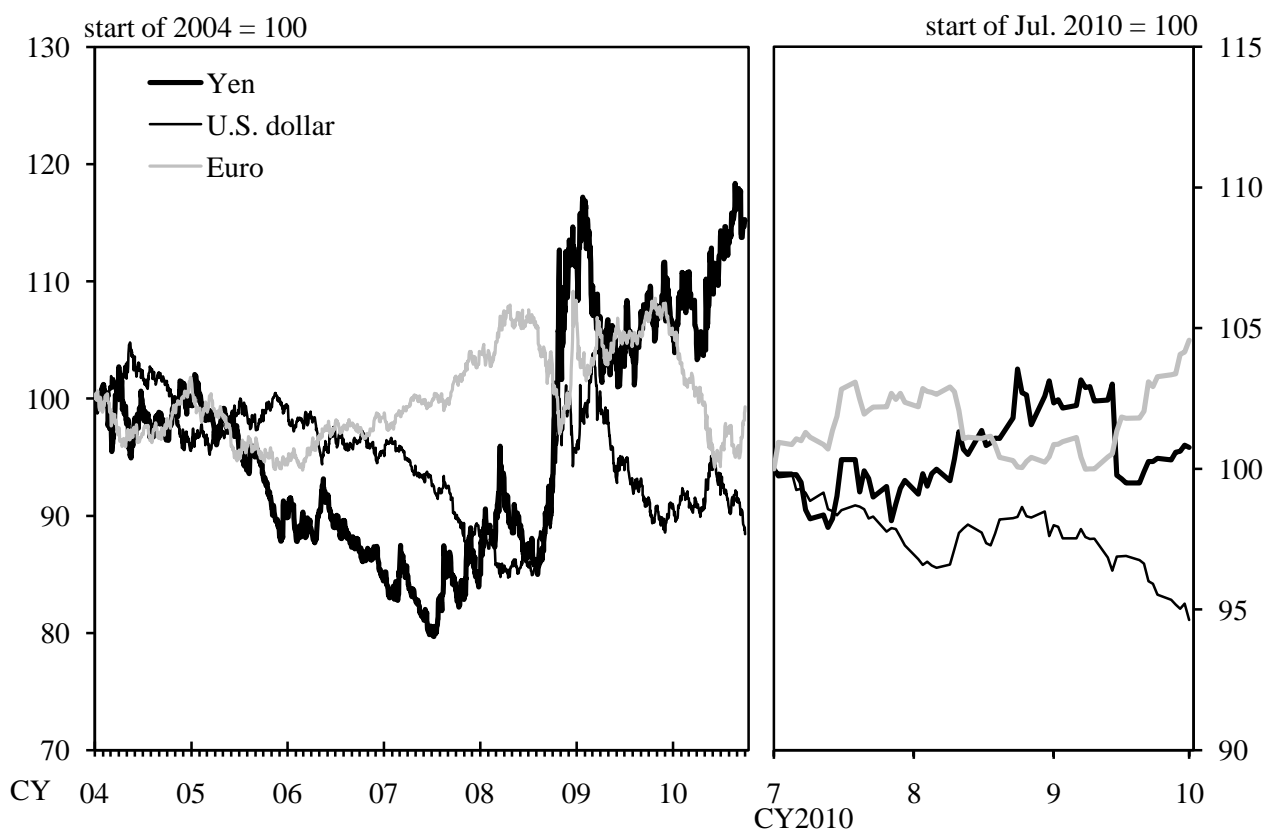


Exchange Rates

(1) Bilateral Exchange Rates



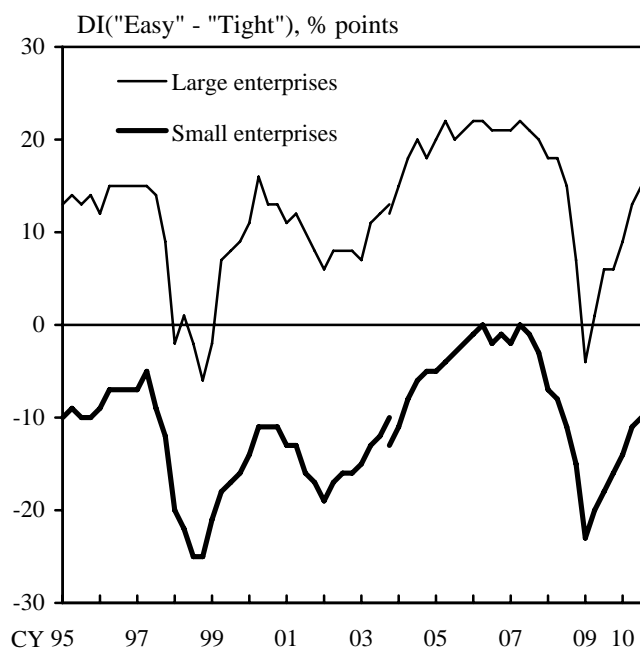
(2) Nominal Effective Exchange Rates



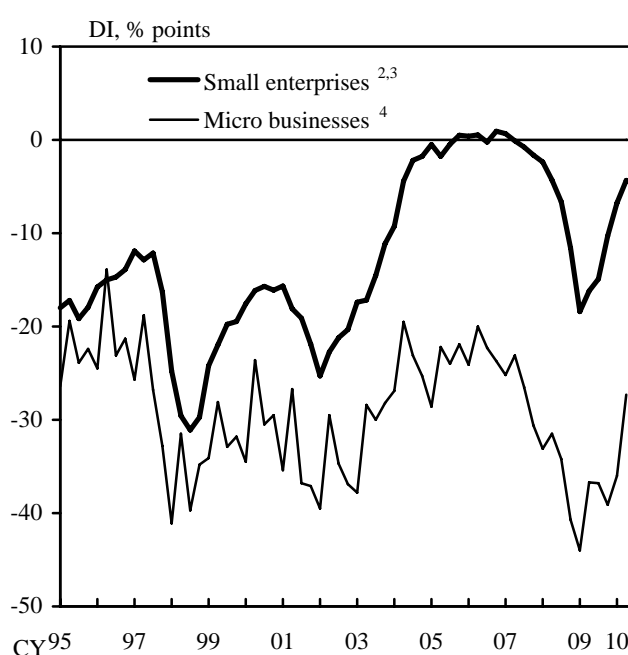
Sources: Bank of Japan; European Central Bank; Bloomberg.

## Corporate Finance-Related Indicators

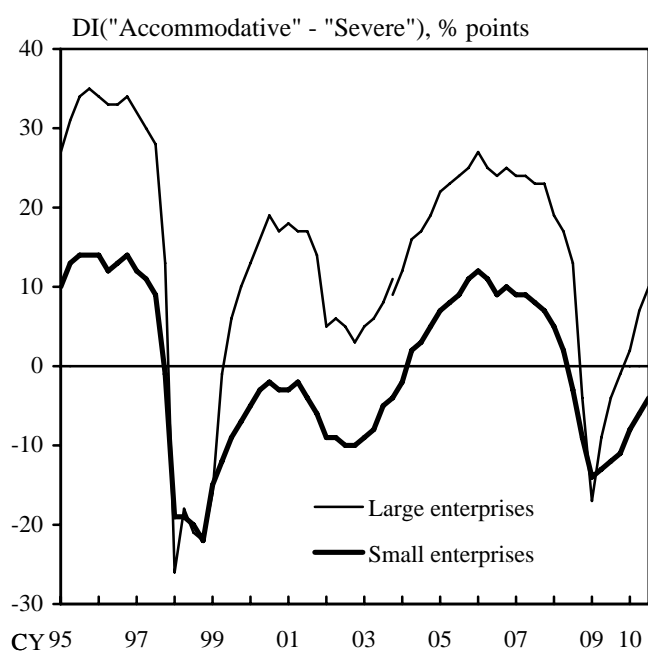
## (1) Financial Position

<Tankan<sup>1</sup>>

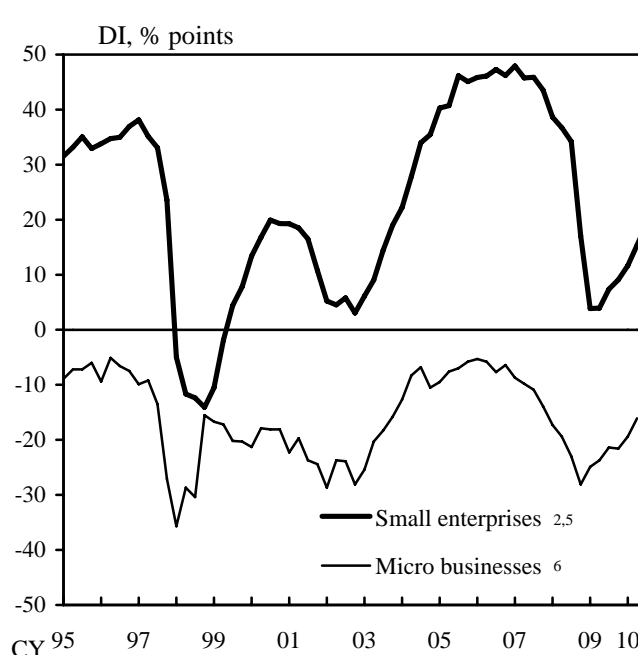
&lt;Japan Finance Corporation Survey&gt;



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

<Tankan<sup>1</sup>>

&lt;Japan Finance Corporation Survey&gt;



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."

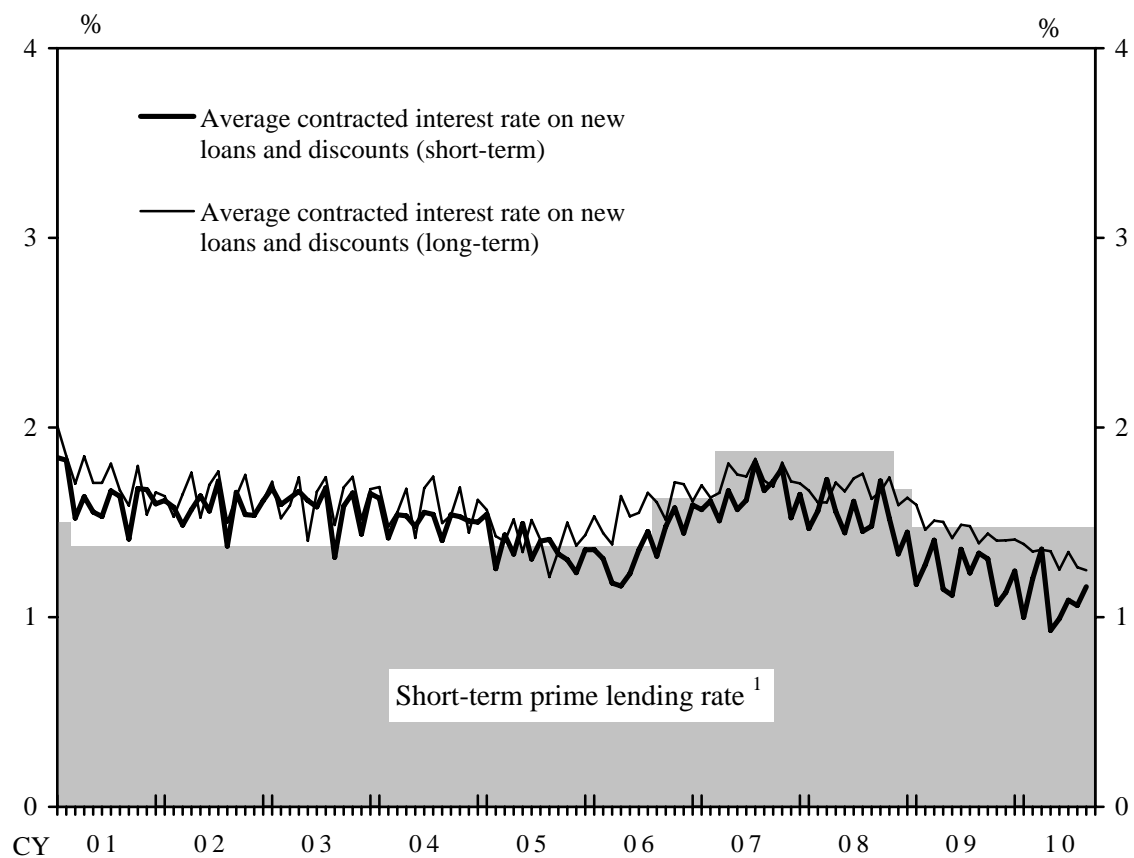
4. DI of "Easier" - "Tighter."

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

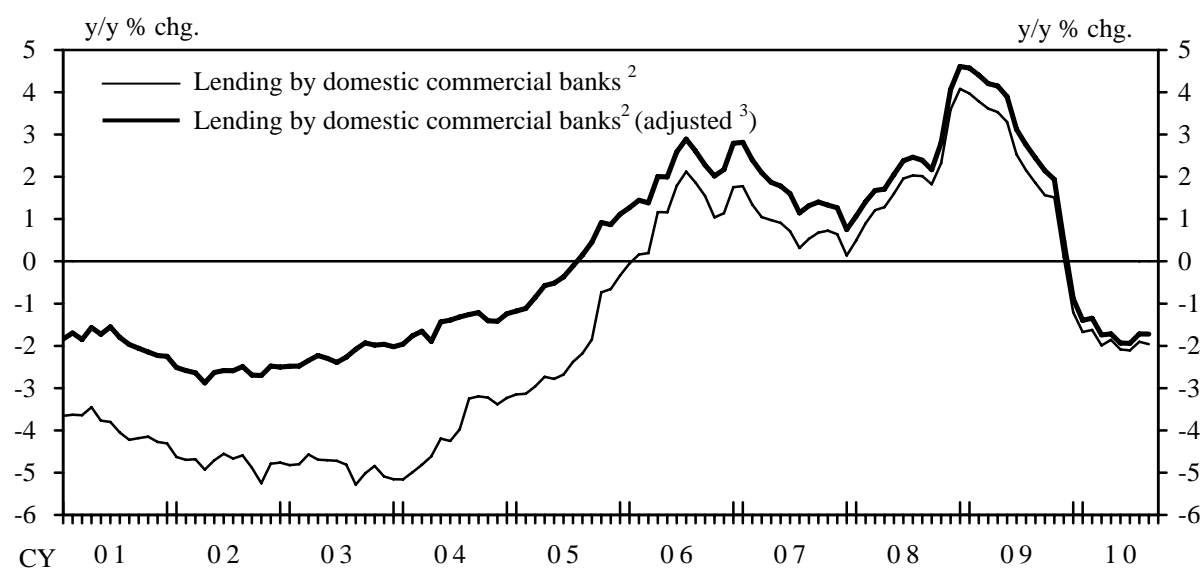


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

### (1) Lending by Domestic Commercial Banks<sup>1</sup>



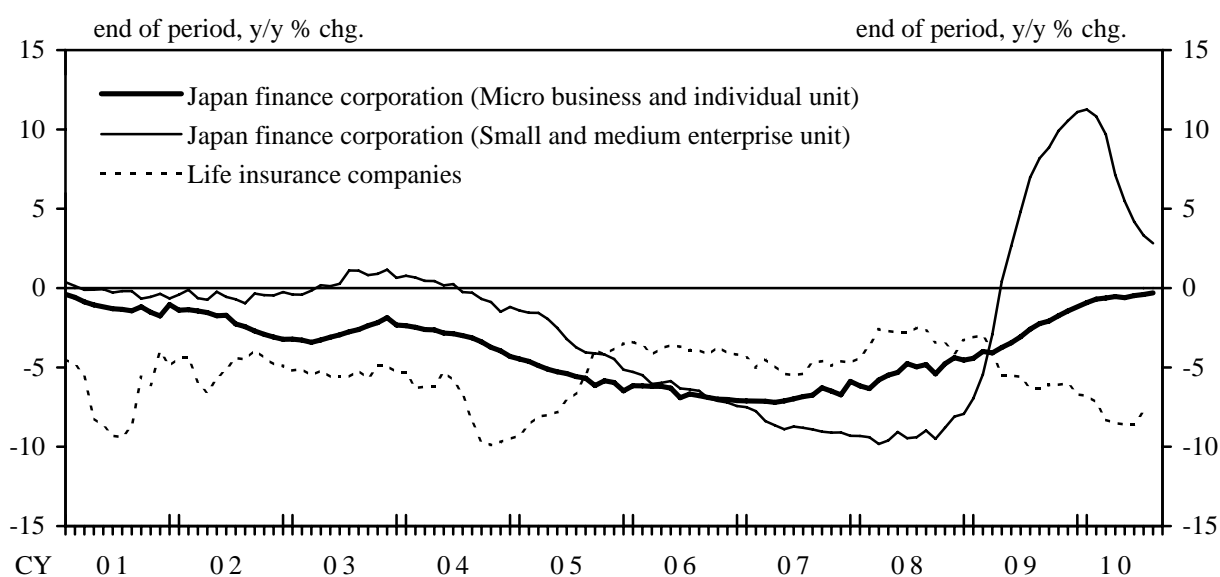
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

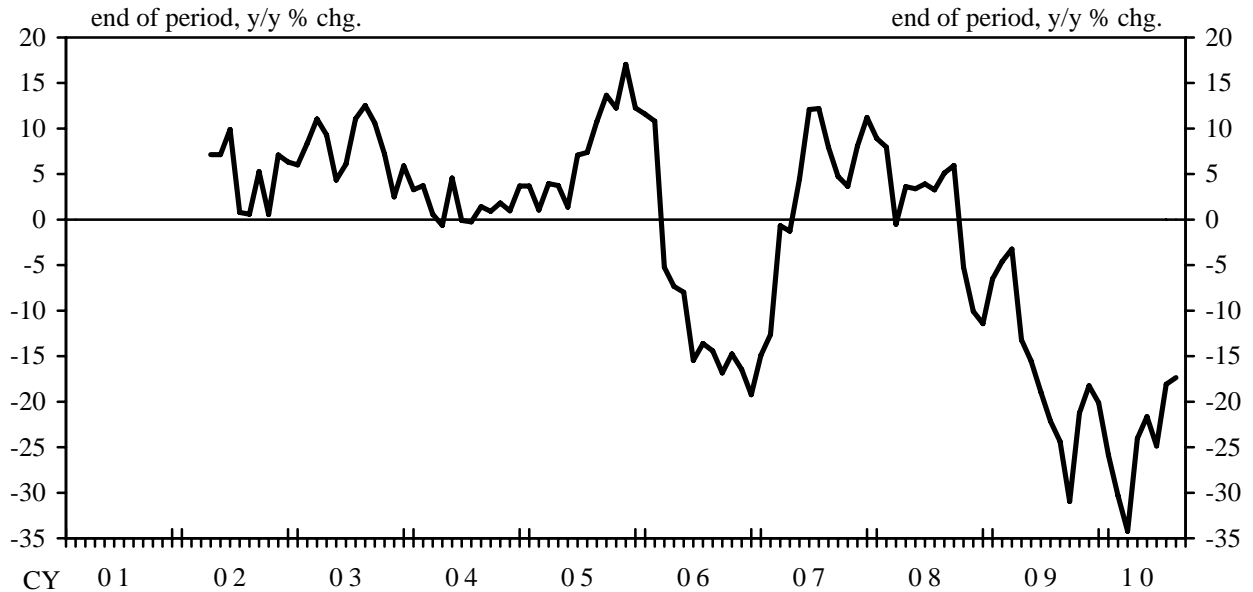
Sources: Bank of Japan; Japan Finance Corporation; The Life Insurance Association of Japan.

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 Private-Sector Fund-Raising in the Capital Markets
 

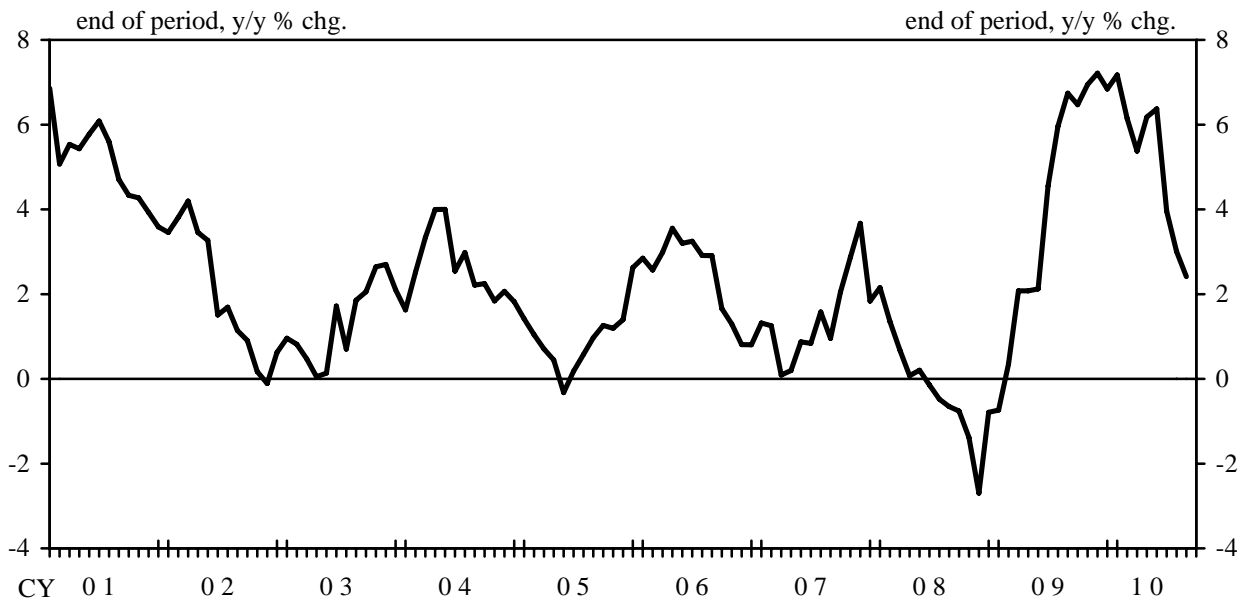
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## (1) Amount Outstanding of Commercial Paper



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



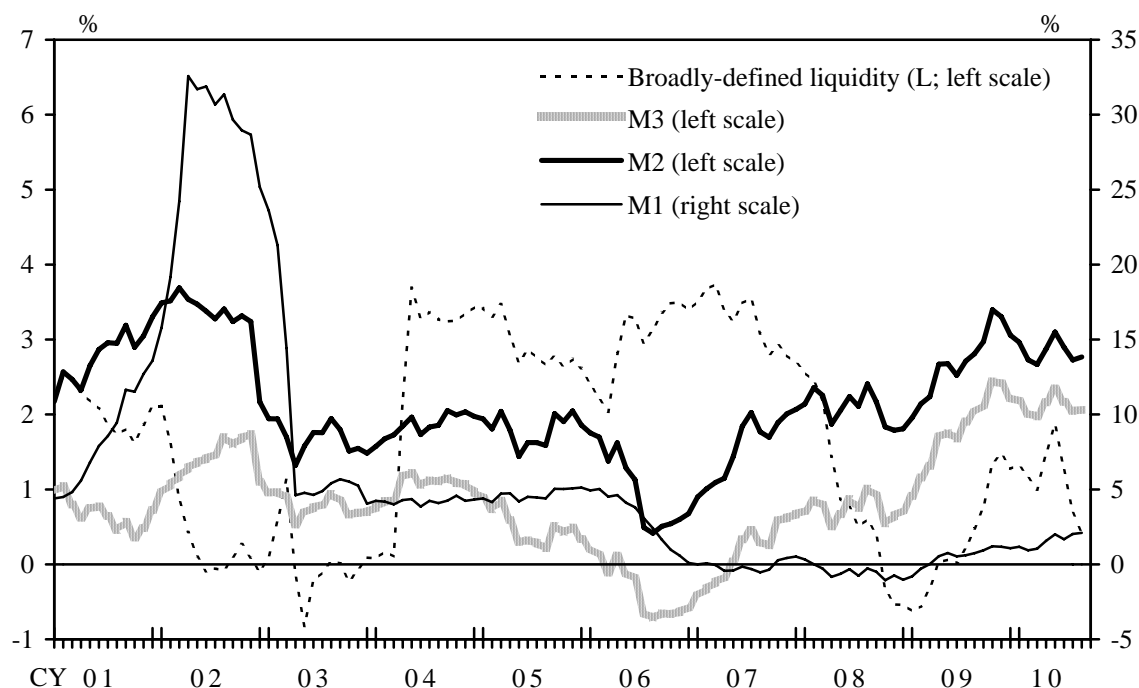
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

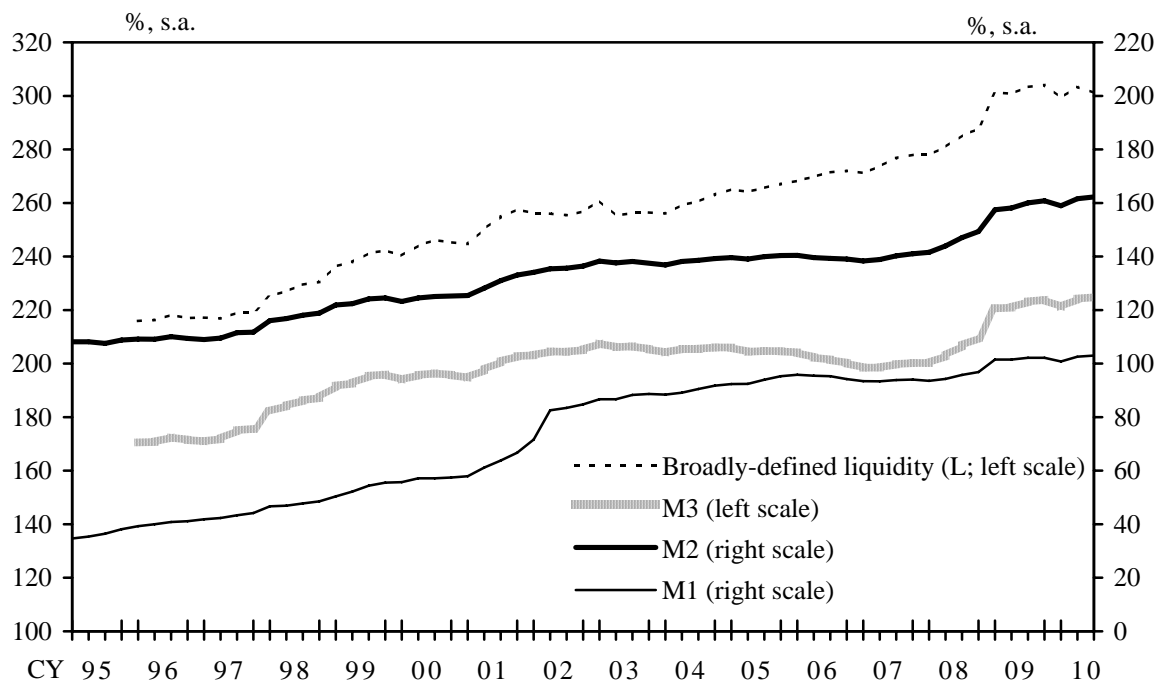
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";  
 Bank of Japan, "Principal Figures of Financial Institutions";  
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

## Money Stock

## (1) Changes from a Year Earlier



## (2) Ratio of Money Stock to Nominal GDP

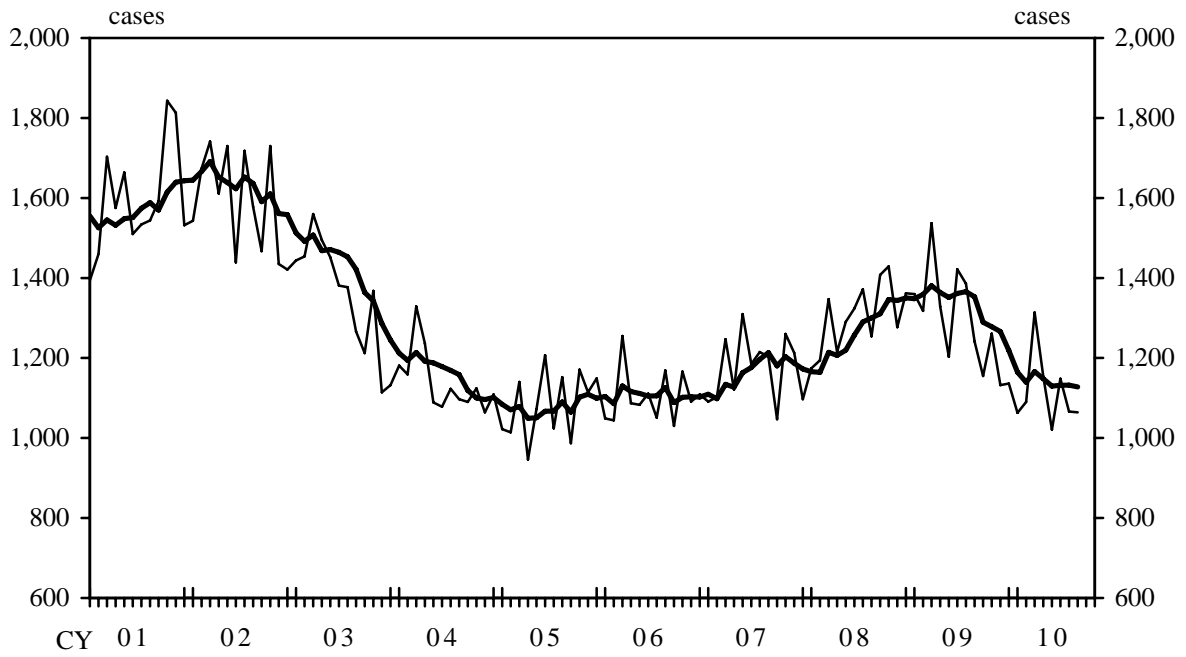


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.  
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.  
 3. The 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. Figures for money stock in 2010/Q3 are those of Jul.-Aug. averages, and nominal GDP in 2010/Q3 is assumed to be unchanged from the previous quarter.

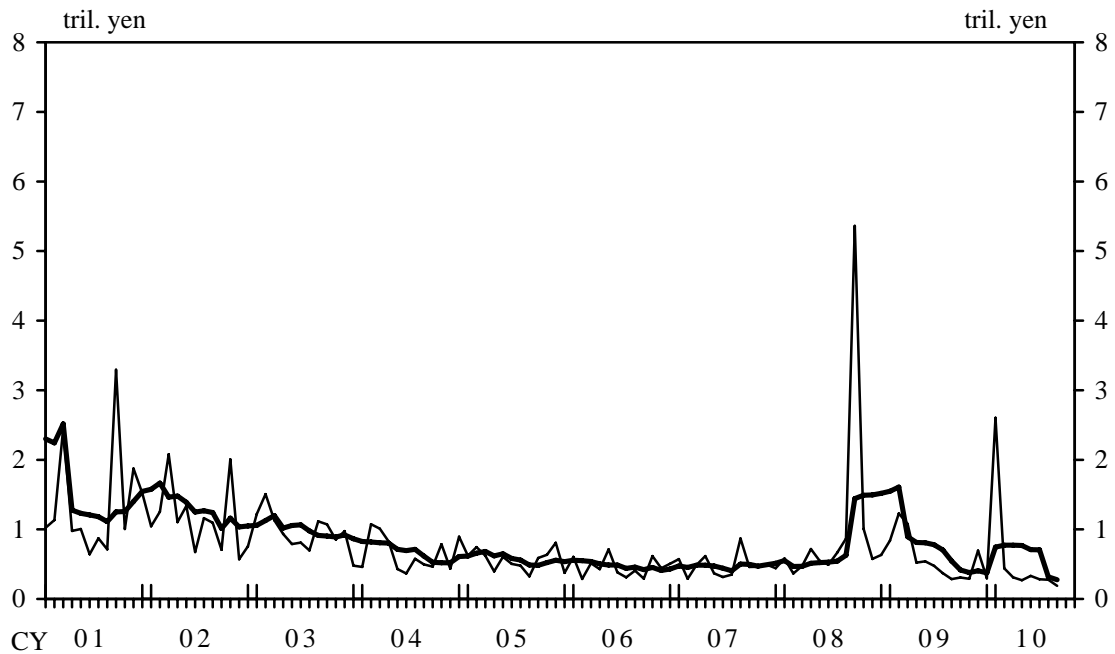
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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