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

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released on December 22, 2010)

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

December 2010

## Summary

Japan's economy still shows signs of a moderate recovery, but the recovery seems to be pausing.

Exports have been more or less flat. Corporate profits have continued to grow, albeit at a slower pace. In this situation, business fixed investment has started to pick up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. As for private consumption, demand for some goods has suffered a reverse after the sharp increase seen previously. Housing investment has leveled out. Meanwhile, public investment is declining. Reflecting these developments in demand both at home and abroad, production has recently declined slightly and business sentiment has also been somewhat weak, particularly in the manufacturing sector.

Japan's economy is likely to grow at a slower pace for some time, but is expected to return to a moderate recovery path thereafter.

Exports are likely to remain more or less flat for the time being, but they are expected to increase moderately again, reflecting the improvement in overseas economic conditions. Private consumption is expected to pick up again as the reverse following the sharp increase in demand becomes less pronounced. Meanwhile, 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. In these circumstances, production is expected to increase, after showing temporary weakness primarily in durable consumer goods.

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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 December 20 and 21, 2010.

On the price front, the three-month rate of change in domestic corporate goods prices is rising moderately, mainly due to the increase in international commodity prices. 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 on a moderate uptrend for the time being, reflecting movements in international commodity prices. 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 slightly below the 0.1 percent level. Interest rates on term instruments have generally been at low levels, although some of these rates have increased somewhat. Meanwhile, compared with last month, long-term interest rates and stock prices have risen, while the value of the yen against the U.S. dollar has fallen.

Financial conditions have shown further signs of easing, as seen in the declining trend in firms' funding costs and the improvement in lending attitudes of financial institutions.

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 further 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. On the other hand, the amount outstanding of corporate bonds has exceeded the previous year's level, and the pace of decline in the amount outstanding of CP has decelerated. In these circumstances, the financial

positions of firms have been improving as a whole. Meanwhile, the year-on-year rate of change in the money stock has been at around 2.5 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—has continued to be relatively weak; it also dropped in October-November compared with the third quarter. The amount of public construction completed—which reflects the progress of public works—declined in October relative to the third quarter.

The decline in public investment is likely to continue.

Real exports have been more or less flat (Charts 6[1] and 7). Exports—which had been growing at a fast pace until the second quarter—declined by 0.4 percent in the third quarter on a quarter-on-quarter basis, followed by a decrease of 2.7 percent in October compared with the third quarter.

Looking at exports in October relative to the third quarter by destination (Chart 7[1]), as for exports to East Asia, those to China registered somewhat sizeable gains, mainly in capital goods and parts, whereas those to the NIEs and ASEAN economies edged down, notably in IT-related goods and in capital goods and parts. Exports to the United States were relatively weak across a wide range of goods, chiefly in motor vehicles and their related goods. Exports to the EU—which had been firm—have recently declined, mainly in capital goods and parts. Exports to "other regions" declined in a wide range of goods such as in motor vehicles and their related goods as well as in capital goods and parts, on top of the decline in ships which fluctuates sharply.

By goods (Chart 7[2]), exports of IT-related goods have been declining modestly since the third quarter. Exports of intermediate goods, consumer goods, and capital goods and parts—which had been increasing until the third quarter—decreased in October compared with the third quarter. Those of motor vehicles and their related goods, meanwhile, have been essentially level.

Real imports have been more or less flat (Charts 6[1] and 9). Imports increased by 1.2 percent in the third quarter on a quarter-on-quarter basis, but

decreased by 1.2 percent in October relative to the third quarter, after having risen considerably in the second quarter.

Looking at imports in October compared with the third quarter by goods (Chart 9[2]), imports of foodstuffs plunged, mainly due to the drop in tobacco in response to the rush in demand. Imports of intermediate goods and of capital goods and parts also fell, reflecting production declines. On the other hand, imports of consumer goods registered strong growth assisted mainly by the rush in demand for flat panel televisions; those of IT-related goods were also steady, primarily in PCs and liquid crystal panels.

Net exports—in terms of the real trade balance—have been more or less flat as a reflection of the aforementioned developments in exports and imports (Chart 6[2]). The surplus of the nominal balance on goods and services has also essentially been flat.

Exports are likely to remain more or less flat for the time being, but they are expected to increase moderately again, reflecting the improvement in overseas economic conditions. In light of inventory adjustments in IT-related goods and the appreciation of the yen to date, exports are expected to remain more or less flat for the time being. However, since the improvement in overseas economic conditions is expected to continue, notably in emerging economies, exports are expected to rise moderately again as the effects of inventory adjustments in IT-related goods and the yen's appreciation to date start to wane.

Imports are expected to remain more or less flat for the time being, but in the somewhat long run, they are projected to continue increasing gradually, thanks mainly to the recovery trend of the domestic economy.

Business fixed investment has started to pick up. According to the *Financial Statements of Corporations by Industry, Quarterly*, business fixed investment in nominal terms rose marginally in the third quarter on a quarter-on-quarter basis; it increased for the second consecutive quarter (Chart 10[1]). By industry and company size (Chart 11), investment continued to increase in manufacturing for large

firms as well as for medium-sized and small firms. On the other hand, in nonmanufacturing, investment by large firms declined, while that by medium-sized and small firms was essentially level. The aggregate supply of capital goods—a coincident indicator of machinery investment—dropped in October compared with the third quarter, mainly due to the decline in transport equipment, but, excluding transport equipment, it was basically flat (Chart 12[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—had risen considerably in the third quarter on a quarter-on-quarter basis aided partly by large orders, but dropped in October relative to the third quarter, partly in response to this prior increase (Chart 13[1]). By industry, in manufacturing, machinery orders fell back in October compared with the third quarter from the upsurge in the third quarter on a quarter-on-quarter basis. In nonmanufacturing (excluding orders for ships, those from electric power companies, and those for cell phones), machinery orders increased in the third quarter on a quarter-on-quarter basis, but decreased in October relative to the third quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—rose significantly in the third quarter on a quarter-on-quarter basis, but inched down in October compared with the third quarter. Looking at construction starts by industry in October relative to the third quarter, mining and manufacturing increased noticeably, influenced partly by large-scale projects. In contrast, nonmanufacturing saw a decrease in response to the rise in the third quarter supported by large-scale projects (Chart 13[2]).

Regarding the environment surrounding business fixed investment, corporate profits have continued to grow, albeit at a slower pace. According to the *Financial Statements of Corporations by Industry, Quarterly* (Chart 10[2]), the ratio of current profits to sales has recently reduced its pace of improvement. By industry and company size, the ratio is improving at a slower pace in manufacturing for large firms as well as for medium-sized and small firms due to the slowdown in exports and to the yen's appreciation. On the other hand, in nonmanufacturing, the ratio for large firms has improved, chiefly in electricity, assisted mainly by the extremely hot weather during the summer, but that for medium-sized and small firms has been seesawing. In these circumstances, business sentiment has been somewhat weak,



particularly in the manufacturing sector. The business conditions DI in the December *Tankan* deteriorated in all industries and enterprises for the first time in seven quarters (Chart 15).<sup>2</sup> As for large firms by industry, motor vehicles deteriorated as a reflection of the slump in sales following the ending of subsidies for purchasing energy efficient cars; electrical machinery also deteriorated affected by inventory adjustments in IT-related goods. Basic materials such as nonferrous metals and chemicals have turned to deteriorate in response to the plunge in processing such as motor vehicles and electrical machinery. Meanwhile, as for nonmanufacturing, the deterioration in the DI was modest as a whole. The DI, however, is projected to deteriorate across a wide range of industries with motor vehicles projecting a sharp deterioration.<sup>3</sup> On a fiscal year basis, current profits (for all industries and firms) in fiscal 2010 were forecasted to grow strongly, by 28.2 percent on a year-on-year basis, according to firms' business plans in the December *Tankan* (Chart 14). In comparison to the September *Tankan*, plans of manufacturing were revised upward for the first half of the fiscal year in small and large firms alike, whereas they have been revised downward for the second half-year. These revision patterns are commonly observed in the December *Tankan*, although the downward revision this time for the second half-year was partly attributable to revisions made to the average of predicted exchange rates expected by firms to set the value of the yen higher against the U.S. dollar. Nonmanufacturing also revised their plans upward for the first half of the fiscal year, whereas those for the second half-year were revised downward.

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 (Chart 12[2]). According to

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<sup>2</sup> The deterioration, however, was marginal compared to that projected by firms at the time of the September survey. This was possibly attributable to favorable corporate profits recorded in the first half of fiscal 2010.

<sup>3</sup> As for the forecast, not only small firms—which tend to project unfavorable—but also large firms projected that business conditions will continue to deteriorate, notably in manufacturing. This shows that firms are taking a cautious view on economic conditions for the time being. However, the deterioration in the forecast of large firms is mostly attributable to the decline in the number of firms projecting "favorable"; the number of firms projecting "unfavorable" has in fact inched downward.

business fixed investment plans for fiscal 2010 (excluding software investment and including land purchasing expenses; year-on-year basis) in the December *Tankan* (Chart 16), plans of large firms were revised upward compared with the September survey with an increase of 2.9 percent. In detail, both manufacturing and nonmanufacturing are projecting an increase in their plans. Plans of small firms declined by 8.3 percent, but they were revised upward—which is the usual trend—compared with the September survey. 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 is projected to increase by 2.3 percent.

As for private consumption, demand for some goods has suffered a reverse after the sharp increase seen previously. Consumption of goods—as seen through sales at retail stores (in real terms)—dropped in October compared with the third quarter, notably in automobile sales, after having registered a quarter-on-quarter increase in the third quarter (Chart 18 [1]). As for durable consumer goods, the number of new passenger-car registrations fell back sharply in both September and October from the last-minute increase in demand prior to the expiration of subsidies for purchasing energy efficient cars; it edged down further in November (Chart 18[2]). In contrast, sales of household electrical appliances (in real terms) jumped in October, notably in flat panel televisions, propelled by a rush in demand prior to revisions in the eco-point system.<sup>4</sup> Sales at convenience stores fell back sharply in October relative to the third quarter, mainly in response to a rush in demand prior to the rise in the tobacco tax (Chart 19[1]). Sales at supermarkets also dropped due to the waning effects of the extremely hot weather and in response to the rush in demand prior to the rise in the tobacco tax. On the other hand, sales at department stores climbed marginally in October compared with the third quarter, assisted mainly by steady sales of fall and winter apparel. As for services consumption (Chart 19[2]), outlays for travel and sales in the food service industry have been more or less level.

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<sup>4</sup> In the "Gist of Comprehensive Emergency Economic Measure in Response to the Yen's Appreciation and Deflation" and other measures, the following two revisions were made to the eco-point system for household electrical appliances: (i) the number of eco-points granted will be reduced by about half for products purchased from December 1 this year; and (ii) the number of eligible types of household electrical appliances will be limited and eco-points will be granted only on the basis that the old product is to be recycled for appliances purchased through the January-to-March period next year.

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 marginally in October compared with the third quarter since "automobiles," which show large fluctuations, were excluded (Chart 18[1]).<sup>5</sup> On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms)—which includes "automobiles"—decreased in October relative to the third quarter.

Indicators related to consumer sentiment have been virtually flat as a whole, although they have shown mixed movements. (Chart 20).

Private consumption is expected to pick up again as the reverse following the sharp increase in demand becomes less pronounced.

Housing investment has leveled out. The number of housing starts (Chart 21[1])—a leading indicator of housing investment—was level in October compared with the third quarter, after having risen in the third quarter on a quarter-on-quarter basis. Housing investment has tended to pick up, notably in owner-occupied houses and housing for sale, mainly due to the progress in inventory and price adjustments and to government measures to support home purchases, amid declines in borrowing rates.

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

Industrial production has recently declined slightly. Production dropped by 2.0 percent in October on a monthly basis, mainly due to the decline in production of motor vehicles and of electronic parts and devices. On a quarterly basis (Chart 22), production dropped by 3.3 percent in October compared with the third quarter,

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<sup>5</sup> Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

following the quarter-on-quarter decline of 1.8 percent in the third quarter. Although this weak figure for the third quarter was partly due to a distortion in seasonal adjustments, the actual pace of increase slowed markedly in the third quarter, and production, in fact, declined in October relative to the third quarter.<sup>6</sup>

Shipments decreased by 1.2 percent in the third quarter on a quarter-on-quarter basis partly due to the distortion in seasonal adjustments; they registered a steeper decline of 3.7 percent in October compared with the third quarter. By goods (Chart 23), shipments of producer goods have dropped, mainly in electronic parts and devices, motor vehicle parts, and iron and steel. Those of durable consumer goods have declined as a whole due to the plunge in motor vehicles, notwithstanding the increase in flat panel televisions. Construction goods have remained sluggish in general. Non-durable consumer goods have declined, mainly since tobacco fell back from the sharp increase in demand. On the other hand, capital goods (excluding transport equipment) have trended upward.

Inventories have declined somewhat as a whole in October, mainly due to the sharp drop in inventories of flat panel televisions due to the last-minute increase in demand. Looking at the shipment-inventory balance on a year-on-year basis (Chart 24), growth in both shipments and inventories was at around the same level as a whole. Electronic parts and devices, however, have been in an inventory adjustment phase with growth in inventories outpacing that in shipments.

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 drop in the fourth quarter, primarily in transport equipment and its related industries, affected mainly by the expiration of subsidies for purchasing energy efficient cars. On the other hand, production in the first quarter is actually projected to turn upward as the decline in transport equipment in response to the sharp increase in demand becomes less pronounced and also as

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<sup>6</sup> As a result of the revision on seasonal adjustments conducted in April 2010, it is likely that a part of the significant drop in production in the fourth quarter of 2008 and the first quarter of 2009 has been recognized as a seasonal movement. This seasonal adjustment method pushes future growth rates for the fourth and first quarters upward, whereas it exerts downward pressure on those for the second and third quarters.

inventory adjustment in electronic parts and devices progresses. However, this projection continues to entail great uncertainty.

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 has tended to improve gradually by recording 0.56 times in October (Chart 25[1]). The unemployment rate, although still at a high level, has been more or less flat. Looking at the employment conditions DI in the December *Tankan* (Chart 27), the net "excessive" employment has tended to narrow at a slower pace lately.

In terms of employment (Chart 26[1]), the year-on-year growth rate of the number of employees in the *Labour Force Survey* has recently risen marginally. The number of regular employees in the *Monthly Labour Survey* has increased from the previous year's level. 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.<sup>7</sup> Overtime hours worked, meanwhile, have continued to increase on a year-on-year basis, but the level has moved down lately, chiefly in manufacturing (Chart 26[3]).

Nominal wages per employee have inched up lately on a year-on-year basis (Chart 28[1]). In detail, regular payments have been at about 0 percent on a year-on-year basis. Overtime payments have continued to register a year-on-year increase, facilitated by movements in overtime hours worked. Several surveys

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<sup>7</sup> The Ministry of Health, Labour and Welfare has once again eased the conditions to receive the Employment Adjustment Subsidy—the original deadline was December this year—to provide businesses facing a slow recovery in their production volumes due to the rapid appreciation of the yen the support to maintain their employment. Subsidies are also paid for one year only starting from December this year to firms, on the condition that they meet each of the following requirements: (i) a decline in the production volume caused by the yen's appreciation; (ii) a production volume decrease of 15 percent or more in the most recent three months compared with that marked during the same period three years ago; and (iii) a deficit in their current profits of the latest statement etc.

covering large firms show that the pace of increase in winter bonuses is expected to be on par with that in summer bonuses on a year-on-year basis.

Employee income has marked a marginal year-on-year increase lately as a reflection of the aforementioned developments in employment and wages (Chart 28[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 employee income is expected to be more or less flat.

## **2. Prices**

International commodity prices have increased. The three-month rate of change in import prices (on a yen basis) have turned marginally upward, as a reflection of movements in international commodity prices (Chart 30).

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)<sup>8</sup> is rising moderately, mainly due to the increase in international commodity prices (Chart 31). In detail, the three-month rate of change in prices of "goods sensitive to exchange rates and overseas commodity prices" has risen marginally; it reflects the increase in international commodity prices. Prices of "others" have increased affected by the rise in the tobacco tax.<sup>9</sup>

Corporate services prices (excluding international transportation; year-on-year basis, same hereafter) have been declining, a reflection mainly of cost cutting among firms (Chart 32). The pace of decline—which had been slowing on a year-on-year basis since the start of this year—has somewhat accelerated lately. Looking at

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<sup>8</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.

<sup>9</sup> The rise in the tobacco tax in October will temporarily push the three-month rate of change in domestic corporate goods prices upward by 0.4 percentage points until the end of the year.

recent developments in detail, prices related to selling, general and administrative expenses have declined at a slightly slower pace, mainly in advertising services and hotels. On the other hand, as for prices related to fixed investment, the pace of decline in civil engineering and architectural services has accelerated due to sluggish demand. 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 33 and 34). In October, the rate of decline in consumer prices narrowed by 0.5 percentage points from September—registering a decrease of 0.6 percent—mainly since the tobacco tax and accident insurance premiums were raised.<sup>10</sup> Looking at developments on a basis that excludes food and energy, the rate of decline in consumer prices narrowed by 0.7 percentage points from September to a decline of 0.8 percent. Excluding high school fees,<sup>11</sup> the rate of decline in consumer prices narrowed by 0.5 percentage points from September with a decrease of 0.1 percent. The year-on-year rate of decline—excluding food and energy—narrowed by 0.7 percentage points from September to 0.0 percent. Even excluding special factors such as the tobacco tax and accident insurance premiums, the rates of decline have narrowed in all indicators. Regarded as a method for capturing trend changes, the year-on-year rate of decline in the trimmed mean—which systematically discards a certain percentage of the highest and lowest marks of the price fluctuation distribution by item (which eliminates large relative price fluctuations)—has been narrowing mildly.

Looking at recent movements in detail other than high school fees, cigarettes, and accident insurance premiums, prices of agricultural and aquatic products (mainly rice) have declined at a slightly faster pace, whereas prices of food products and daily

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<sup>10</sup> The rise in the tobacco tax has pushed consumer prices (nationwide; excluding fresh food) upward by about 0.3 percentage points on a year-on-year basis. The increase in accident insurance premiums has also exerted upward pressure on consumer prices by about 0.1 percentage point.

<sup>11</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.

necessities have tended to decline moderately. The rate of decline in clothes—despite large fluctuations—has been narrowing on average. As for general services, the rate of decline for house rent has expanded somewhat, but other than that, the rates of decrease have tended to slow, notably in package tours to overseas. The pace of decline in public utility charges has also been slowing, particularly in electricity, gas, and airplane fares.

With regard to domestic supply and demand conditions in the December *Tankan* (Chart 35), the net "excess supply" of the supply and demand conditions DI for products and services expanded slightly in manufacturing, whereas it moderated marginally in nonmanufacturing. The net "fall" of the output prices DI expanded slightly in both large manufacturing and nonmanufacturing, while it narrowed somewhat in both small manufacturing and nonmanufacturing. Meanwhile, the weighted average of the production capacity DI and employment conditions DI has been on a moderate improving trend, but the improvement recently seems to have come to a pause.<sup>12</sup>

Domestic corporate goods prices are expected to be on a moderate uptrend for the time being, reflecting movements in international commodity prices. 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.

Meanwhile, looking at developments in land prices through the *Urban Land Price Index* (Chart 36), both commercial and residential land prices in the six major cities had been falling sharply since the Lehman Shock, but the rates of decline have recently narrowed rapidly. On the other hand, the pace of decline in commercial and residential land prices outside the six major cities has narrowed mildly.

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<sup>12</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

In Japan's money markets, although interest rates—mainly those for somewhat longer terms—have risen somewhat, they have been at low levels on the whole. The overnight call rate (uncollateralized) has been slightly below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has risen somewhat, though it has still remained in the range of 0.10-0.15 percent. The Euroyen interest rate (3-month) has been more or less flat, but it 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, mainly those with distant contract months, have risen somewhat (Chart 37). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has been at a low level (Chart 38).

Yields on 10-year government bonds (newly issued 10-year JGB) have increased somewhat sharply, mainly due to rises in U.S. interest rates and subsequently to investors' position adjustments triggered by them; they have recently been in the range of 1.1-1.2 percent (Chart 39).

Yield spreads between corporate bonds and government bonds have decreased, mainly those with relatively short remaining maturities—the maturities which have satisfied the conditions of the Bank of Japan's asset purchase program—amid firm demand among investors (Chart 40).

Stock prices have risen, against the background that the yen's appreciating trend has paused. The Nikkei 225 Stock Average has recently been in the range of 10,000-10,500 yen (Chart 41).

In the foreign exchange market, the U.S. dollar has been bought back, as market expectations of further monetary easing have receded in the United States. The yen's appreciating trend against the U.S. dollar has come to a halt; the yen has recently been traded in the range of 83-84 yen (Chart 42).

## **(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 and those on corporate bonds, meanwhile, have been at low levels. The average contracted interest rates on new loans and discounts have been on a declining trend, albeit with some fluctuations (Chart 44).

With regard to credit supply, firms see financial institutions' lending attitudes as further improving (Chart 43). 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 45). On the other hand, the amount outstanding of corporate bonds issued has exceeded the previous year's level, and the pace of decline in the amount outstanding of CP issued has decelerated (Chart 46).

In these circumstances, the financial positions of firms have been improving as a whole (Chart 43). The number of corporate bankruptcies has continued to decrease. It was down by 6.3 percent on a year-on-year basis in November, following a decline of 9.9 percent in October (Chart 48).

Meanwhile, the year-on-year growth rate of the money stock (M2) has recently been at around 2.5 percent. Its November reading was 2.6 percent on a year-on-year basis, following 2.8 percent in October (Chart 47).<sup>13</sup>

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<sup>13</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 November reading was 2.0 percent, following 2.1 percent in October. The year-on-year growth rate of broadly-defined liquidity (L) has recently been in the range of 0.0-0.5 percent; it increased by 0.3 percent in November, following an increase of 0.4 percent in October.

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## Main Economic Indicators (1)

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

	2010/Q1	Q2	Q3	2010/Aug.	Sep.	Oct.	Nov.
Index of consumption expenditure level (two-or-more-person households)	0.3	-2.0	2.5	2.6	-1.7	-0.9	n.a.
Sales at department stores	1.2	-1.5	-0.7	0.2	-2.7	2.5	n.a.
Sales at supermarkets	-0.3	0.1	1.2	0.0	1.4	-2.3	n.a.
New passenger-car registrations <sup>3</sup> <s.a., ann. 10,000 units>	< 314>	< 320>	< 334>	< 417>	< 265>	< 219>	< 207>
Sales of household electrical appliances (real, Current Survey of Commerce)	14.1	1.7	8.5	8.0	-0.0	11.4	n.a.
Outlays for travel	4.3	3.1	-1.0	-2.1	-5.0	5.9	n.a.
Housing starts <s.a., ann. 10,000 units>	< 84>	< 76>	< 82>	< 83>	< 84>	< 81>	<n.a.>
Machinery orders (from private sector) excluding volatile orders 1 <sup>4</sup>	2.9	0.3	9.6	10.1	-10.3	-1.4	n.a.
excluding volatile orders 2 <sup>4</sup>	4.8	-0.1	7.7	11.2	-14.2	0.6	n.a.
Construction Starts (private, nondwelling use)	24.6	-19.4	17.6	-10.0	23.1	-12.5	n.a.
Mining & manufacturing	24.0	-11.2	7.7	5.1	6.9	13.6	n.a.
Nonmanufacturing <sup>5</sup>	18.9	-20.1	21.1	-5.5	21.3	-16.4	n.a.
Value of public works contracted	-6.5	5.2	-7.9	-2.9	-4.9	0.1	0.4
Real exports	5.2	9.6	-0.4	-4.2	-0.2	-1.2	n.a.
Real imports	2.5	6.3	1.2	-1.6	-0.3	-0.5	n.a.
Industrial production	7.0	1.5	-1.8	-0.5	-1.6	-2.0	n.a.
Shipments	7.2	1.6	-1.2	-0.8	-0.5	-3.0	n.a.
Inventories	1.1	3.4	0.4	0.8	0.1	-1.0	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 102.3>	< 106.7>	< 108.8>	< 107.4>	< 108.8>	< 117.9>	<n.a.>
Real GDP	1.7	0.7	1.1	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	1.4	0.8	0.6	-0.2	-0.8	n.a.	n.a.

## Main Economic Indicators (2)

	y/y % chg. <sup>1</sup>						
	2010/Q1	Q2	Q3	2010/Aug.	Sep.	Oct.	Nov.
Ratio of job offers to applicants <s.a., times>	< 0.47>	< 0.50>	< 0.54>	< 0.54>	< 0.55>	< 0.56>	<n.a.>
Unemployment rate <s.a., %>	< 4.9>	< 5.2>	< 5.1>	< 5.1>	< 5.0>	< 5.1>	<n.a.>
Overtime working hours <sup>6</sup>	10.0	10.8	9.6	10.1	7.6	6.2	n.a.
Number of employees	-0.3	-0.3	0.3	-0.0	0.7	0.7	n.a.
Number of regular employees <sup>6</sup>	0.1	0.2	0.5	0.5	0.6	0.7	n.a.
Nominal wages per person <sup>6</sup>	0.0	1.3	0.9	0.4	0.9	0.5	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> <sup>7</sup>	-1.7 < 0.3>	0.2 < 0.6>	-0.1 <-0.4>	0.0 <-0.7>	-0.1 <-0.2>	0.8 < 0.3>	p 0.9 <p 0.4>
Consumer price index <sup>8</sup>	-1.2	-1.2	-1.0	-1.0	-1.1	-0.6	n.a.
Corporate services price index <sup>9</sup>	-1.6	-1.3	-1.1	-1.1	-1.2	p -1.3	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	2.8	3.0	2.8	2.8	2.8	2.8	p 2.6
Number of corporate bankruptcies <cases per month>	<1,156>	<1,108>	<1,077>	<1,064>	<1,102>	<1,136>	<1,061>

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";

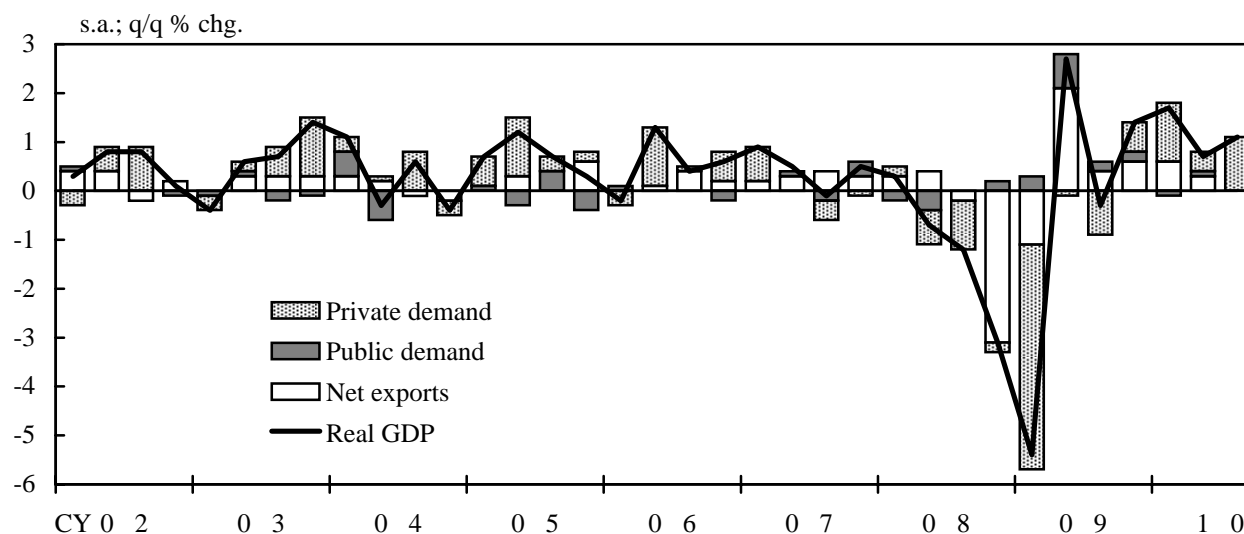
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

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



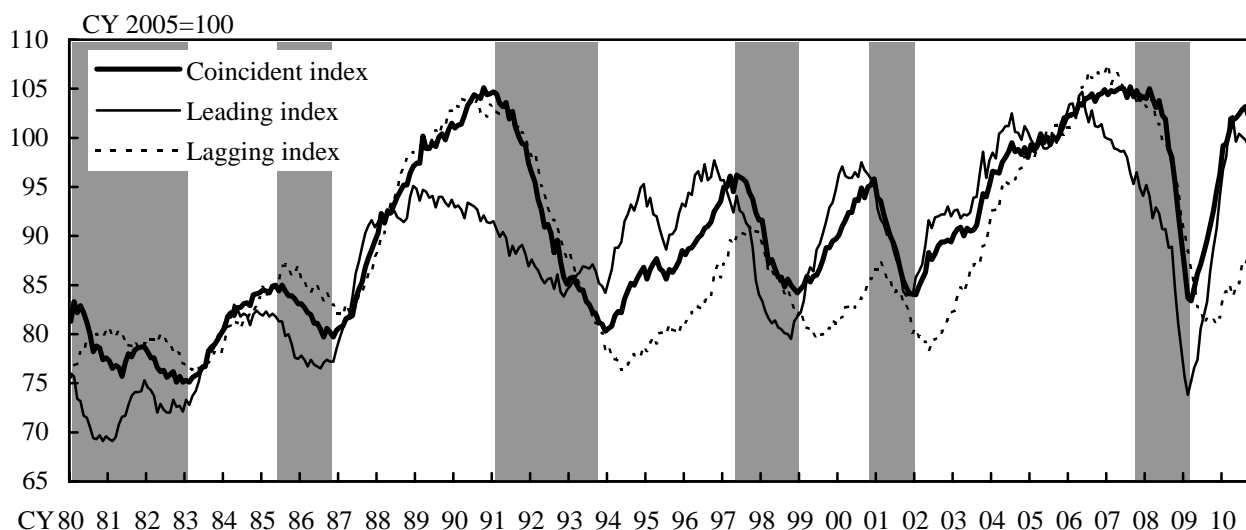
## (2) Components

s.a.; q/q % chg.

	2009		2010		
	Q3	Q4	Q1	Q2	Q3
Real GDP	-0.3	1.4	1.7	0.7	1.1
Domestic demand	-0.7	0.8	1.1	0.5	1.1
Private demand	-0.9	0.6	1.2	0.4	1.1
Private consumption	0.1	0.4	0.3	0.2	0.7
Non-Resi. investment	-0.3	0.2	0.1	0.4	0.2
Residential investment	-0.2	-0.1	0.0	-0.0	0.0
Private inventory	-0.5	0.1	0.6	-0.1	0.2
Public demand	0.2	0.2	-0.1	0.1	-0.0
Public investment	-0.0	0.0	-0.1	-0.1	-0.0
Net exports of goods and services	0.4	0.6	0.6	0.3	-0.0
Exports	1.3	0.7	1.0	0.8	0.4
Imports	-0.8	-0.1	-0.4	-0.5	-0.4
Nominal GDP	-0.7	0.4	1.7	-0.3	0.6

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

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

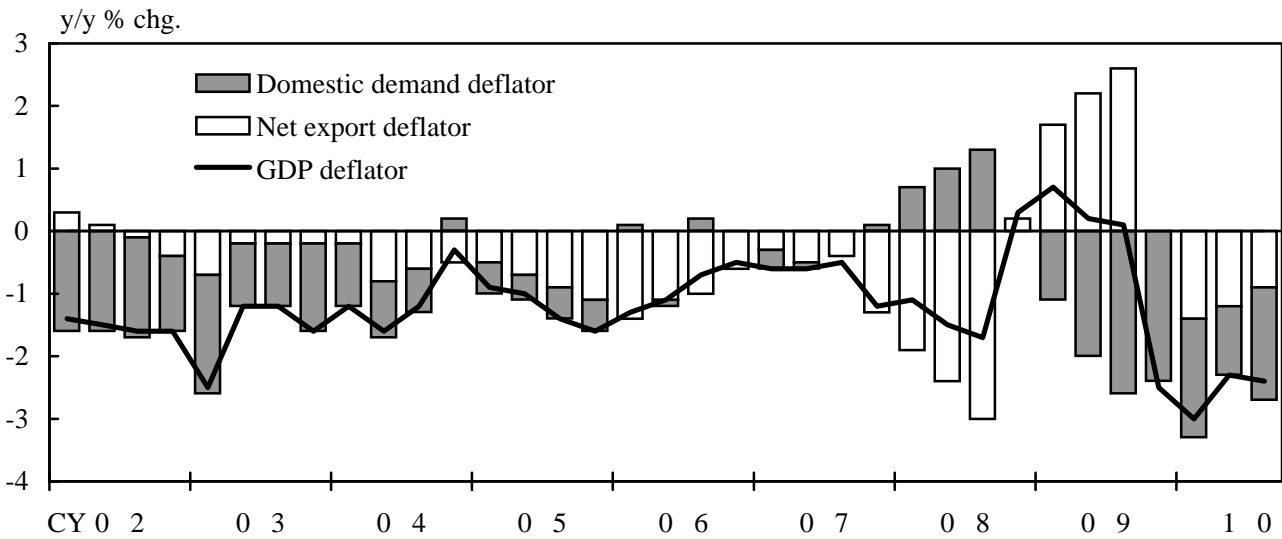


Note: Shaded areas indicate recession periods.

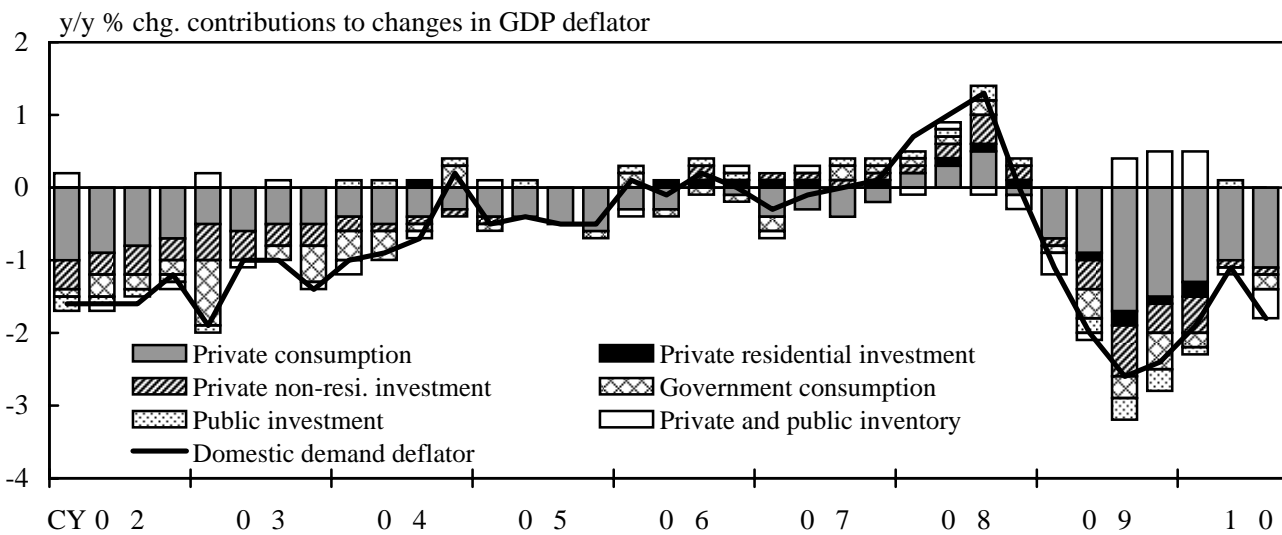
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

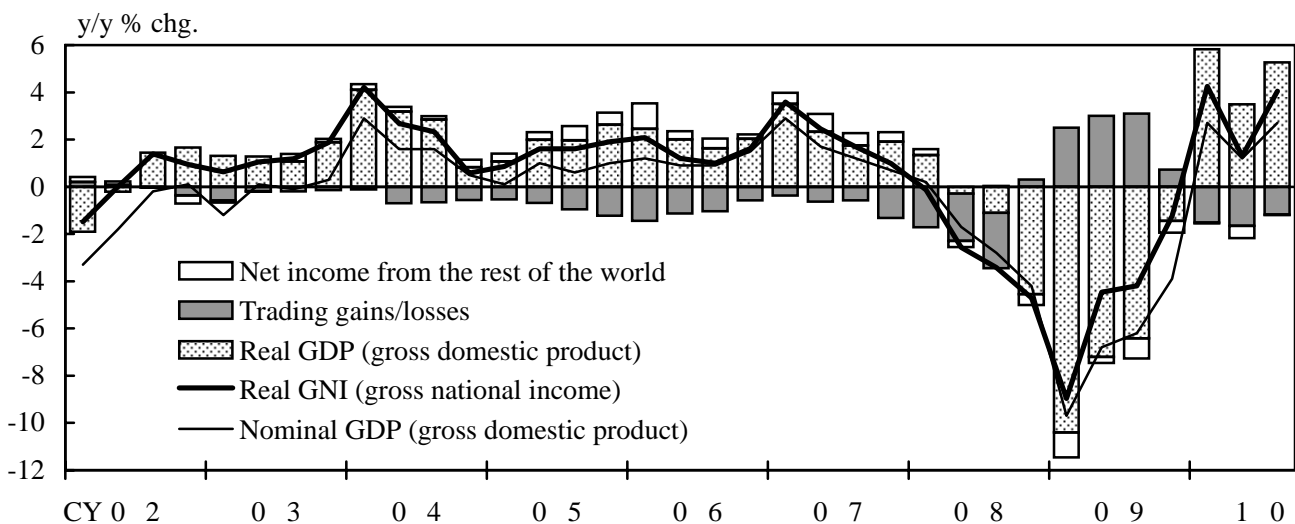
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

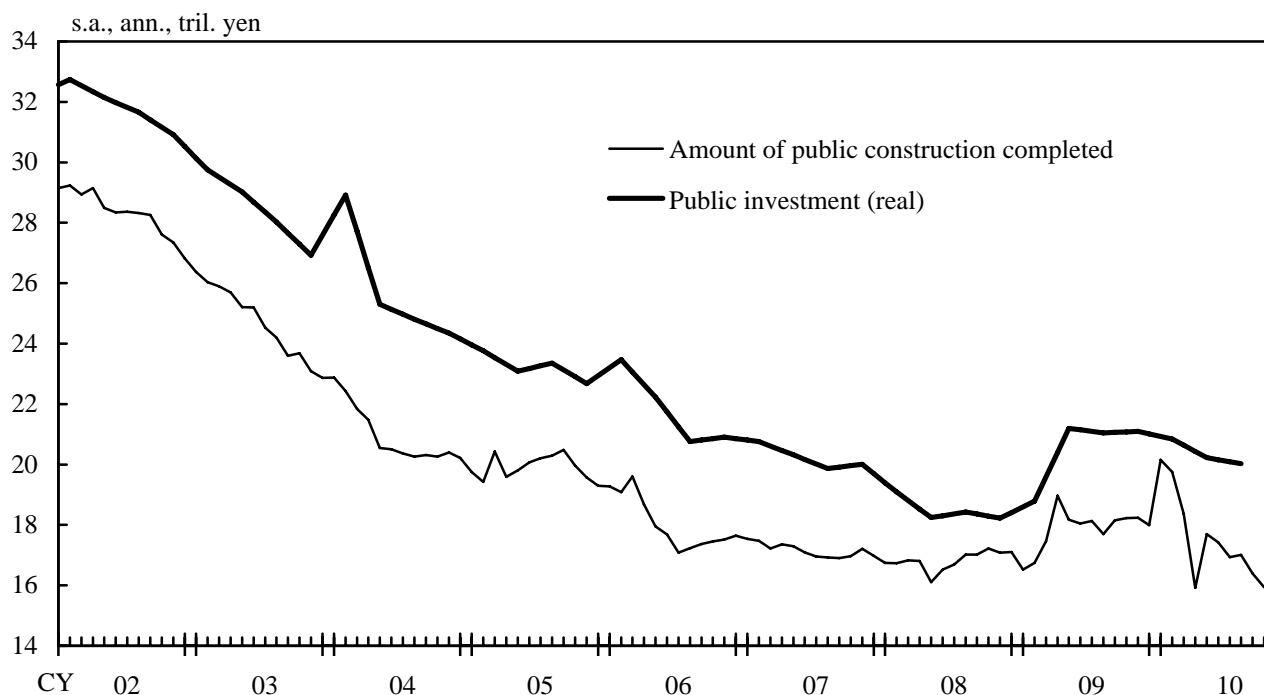
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

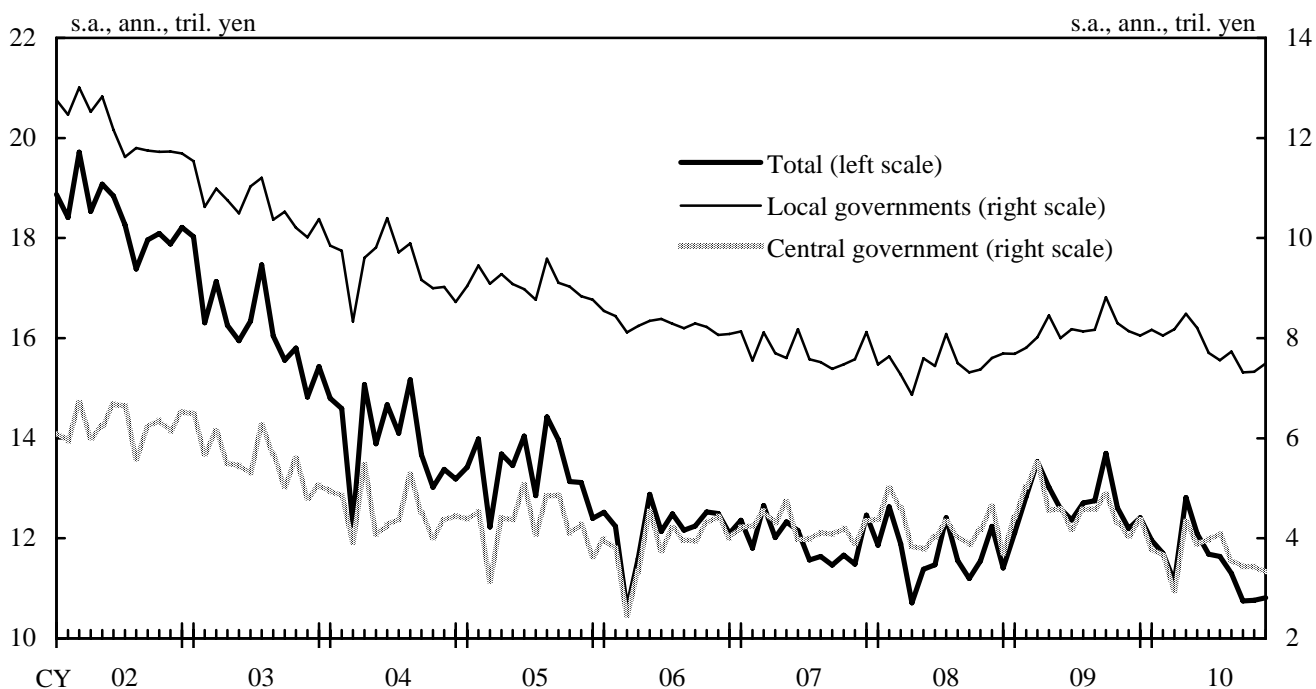
Source: Cabinet Office, "National Accounts."

## 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";

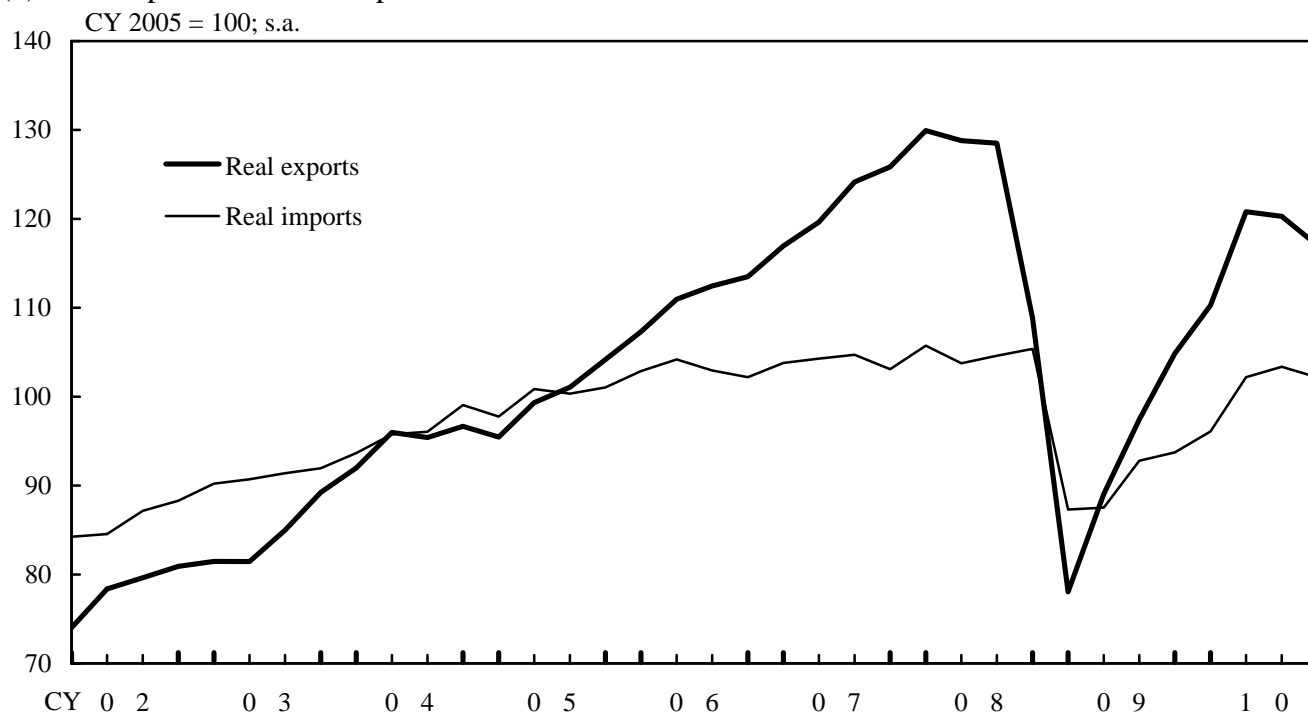
East Japan Construction Surety etc., "Public Works Prepayment Surety Statistics";

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

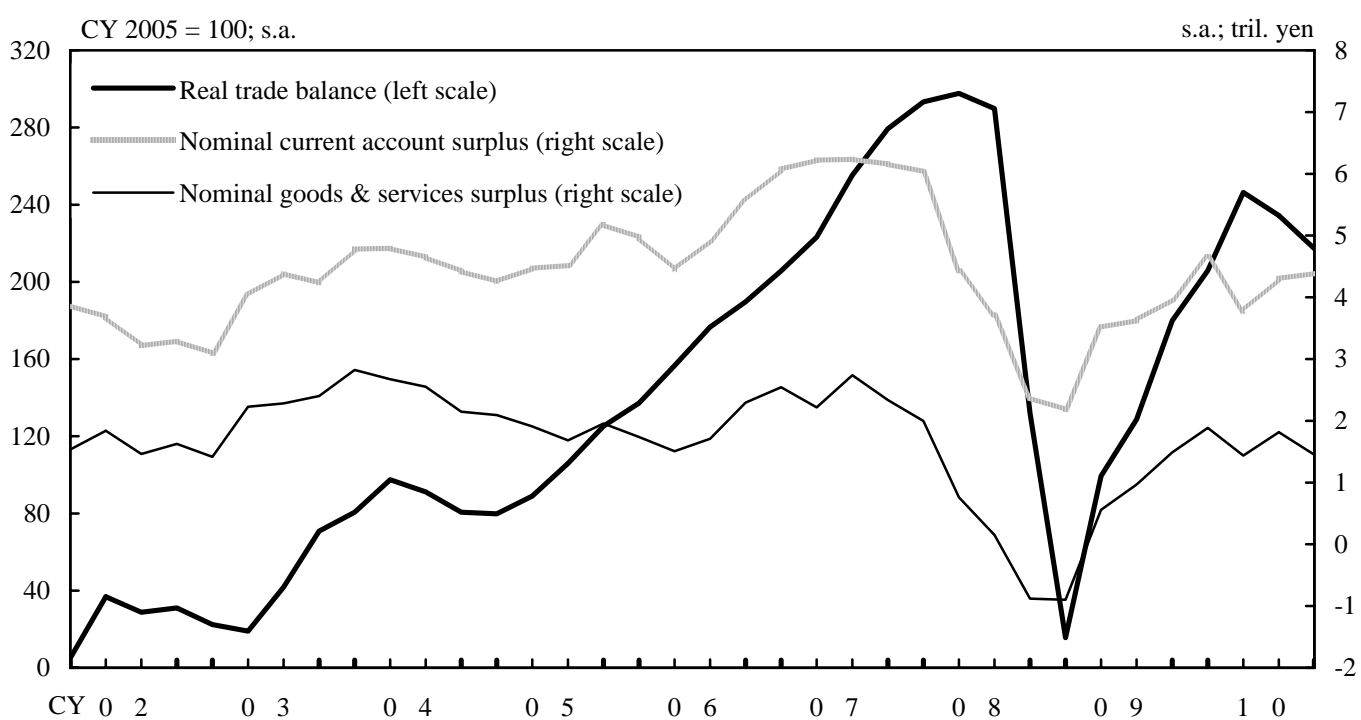


## External Balance

## (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/Q4 figures are October 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 Q4	2010 Q1	Q2	Q3	Q4	2010 Aug.	Sep.	Oct.
United States	<16.1>	-8.8	-32.6	7.1	-1.2	11.3	3.4	-2.5	-9.1	1.5	-0.3
EU	<12.5>	-0.1	-34.6	9.6	-4.0	8.5	4.2	-3.1	5.7	-2.7	-3.1
East Asia	<51.4>	3.4	-15.8	7.8	7.9	5.0	0.8	1.0	-1.7	-2.4	3.3
China	<18.9>	6.7	-10.2	6.4	9.1	2.5	2.7	6.2	-1.3	-4.2	9.7
NIEs	<23.5>	-0.0	-18.0	6.7	6.9	5.3	-0.6	-2.6	-1.4	-2.8	-0.3
Korea	<8.1>	-0.3	-16.0	5.0	5.9	5.8	1.6	-10.2	2.5	-7.5	-6.2
Taiwan	<6.3>	-4.3	-17.7	11.8	9.7	6.8	-0.8	-3.0	0.7	-9.5	3.5
Hong Kong	<5.5>	-2.4	-18.8	8.0	4.9	10.0	-3.9	1.7	-12.3	6.5	2.0
Singapore	<3.6>	13.3	-21.6	-4.7	13.3	-11.0	6.0	0.4	8.5	4.0	-4.7
ASEAN4 <sup>3</sup>	<9.1>	6.4	-20.5	13.7	8.1	9.0	0.6	-0.4	-3.1	1.7	-0.5
Thailand	<3.8>	5.0	-20.9	16.1	4.9	11.1	1.2	-0.8	-3.1	-1.4	1.2
Others	<20.0>	16.1	-32.1	11.3	11.1	9.1	-4.0	-4.0	-10.3	8.7	-5.7
Real exports		1.8	-25.6	7.6	5.2	9.6	-0.4	-2.7	-4.2	-0.2	-1.2

## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q4	2010 Q1	Q2	Q3	Q4	2010 Aug.	Sep.	Oct.
Intermediate goods	<20.7>	0.4	-5.6	4.6	0.9	5.4	1.3	-1.9	-2.1	-3.5	1.2
Motor vehicles and their related goods	<20.0>	3.2	-41.4	11.3	4.9	10.7	0.5	-0.4	-5.0	1.9	0.1
Consumer goods <sup>4</sup>	<4.1>	3.5	-28.8	0.3	-0.5	9.2	1.0	-6.7	-2.7	0.3	-6.0
IT-related goods <sup>5</sup>	<11.3>	0.8	-17.0	5.7	5.9	7.2	-1.5	-1.9	-0.8	-6.6	3.0
Capital goods and parts <sup>6</sup>	<27.9>	5.2	-28.1	9.9	8.7	14.7	1.2	-4.2	-7.4	4.4	-4.5
Real exports		1.8	-25.6	7.6	5.2	9.6	-0.4	-2.7	-4.2	-0.2	-1.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2010/Q4 figures are October figures 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.

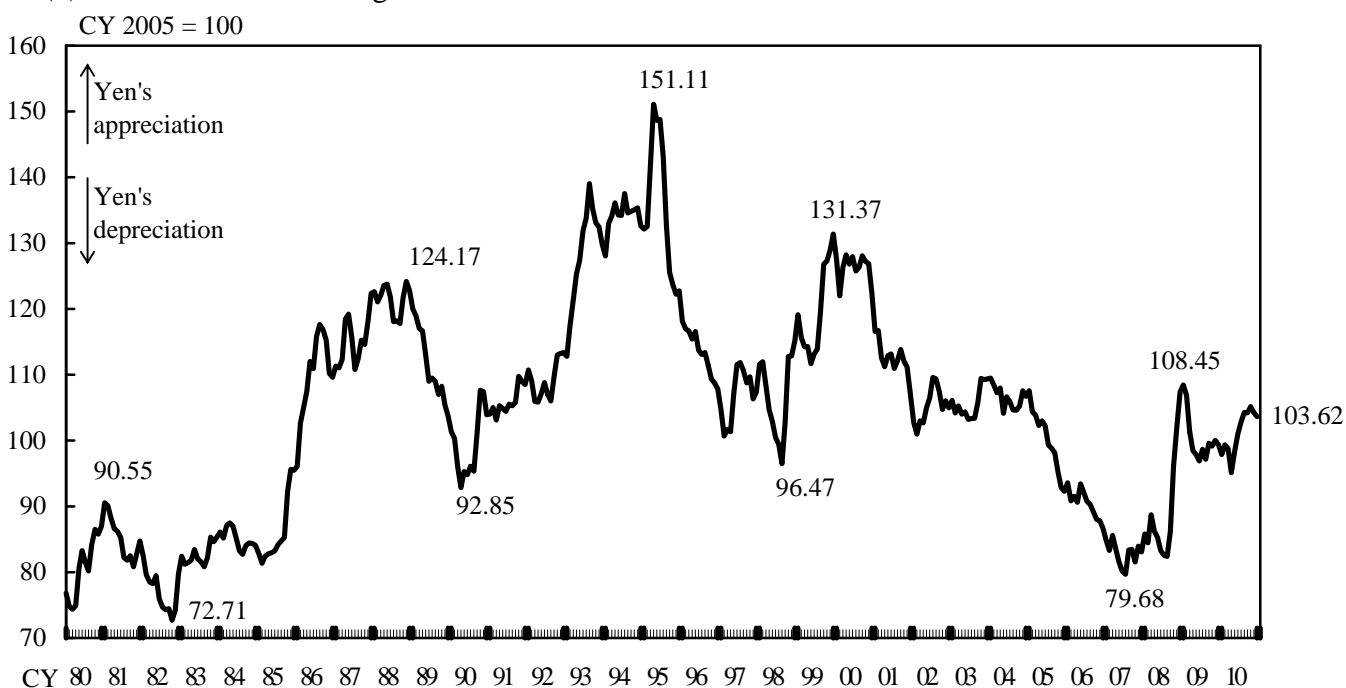
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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



- Notes: 1. The figure is based on the broad index of the BIS effective exchange rate and prior to 1994 is calculated using the narrow index.  
 2. The figure for December (up to December 17) 2010 has 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 Q4	2010 Q1	Q2	Q3	
United States <sup>1</sup>		1.9	0.0	-2.6	5.0	3.7	1.7	2.5	
European Union <sup>1</sup>		3.0	0.5	-4.2	1.0	1.7	4.2	2.0	
	Germany	2.7	1.0	-4.7	1.3	2.3	9.5	2.8	
	France	2.3	0.1	-2.5	2.5	0.8	2.7	1.4	
	United Kingdom	2.7	-0.1	-5.0	1.4	1.8	4.7	3.1	
East Asia <sup>2</sup>	China		14.2	9.6	9.1	11.3	11.9	10.3	9.6
	NIEs	Korea	5.1	2.3	0.2	6.0	8.1	7.2	4.4
		Taiwan	6.0	0.7	-1.9	9.2	13.6	12.9	9.8
		Hong Kong	6.4	2.2	-2.8	2.5	8.0	6.5	6.8
		Singapore	8.5	1.8	-1.3	3.8	16.9	19.5	10.6
	ASEAN4	Thailand	5.0	2.5	-2.3	5.9	12.0	9.2	6.7
		Indonesia	6.3	6.0	4.5	5.4	5.7	6.2	5.8
Malaysia		6.5	4.7	-1.7	4.4	10.1	8.9	5.3	
Philippines		7.1	3.7	1.1	2.1	7.8	8.2	6.5	

- Notes: 1. Quarterly data of U.S. and EU are quarter-to-quarter percent changes at annual rates.  
 2. Quarterly data of East Asia are percent changes from a year earlier.

Real Imports <sup>1</sup>

## (1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q4	2010 Q1	Q2	Q3	Q4	2010 Aug.	Sep.	Oct.
United States	<10.7>	-2.5	-18.7	6.5	-0.4	4.5	0.7	-6.5	-4.3	0.7	-5.6
EU	<10.7>	-3.0	-13.2	1.6	-0.8	4.1	4.6	-1.0	0.2	2.6	-2.8
East Asia	<41.9>	2.5	-13.1	3.1	4.2	11.2	1.2	0.3	-0.8	-0.3	0.8
China	<22.2>	4.4	-11.1	3.9	3.0	13.8	0.9	2.3	0.2	-1.8	3.4
NIEs	<8.6>	-1.0	-15.9	2.2	7.0	6.9	0.7	-3.1	-0.9	-1.5	-1.8
Korea	<4.0>	-5.2	-19.0	-0.5	4.0	10.7	0.9	4.2	-2.9	-4.2	8.3
Taiwan	<3.3>	3.5	-12.4	5.6	6.3	4.6	1.2	-7.2	1.0	-2.0	-6.3
Hong Kong	<0.2>	-1.7	-29.7	-4.4	55.5	-7.4	-5.0	-14.8	0.6	7.8	-19.1
Singapore	<1.1>	1.6	-12.4	5.1	12.6	7.7	-3.8	-9.4	3.0	0.4	-10.5
ASEAN4 <sup>3</sup>	<11.0>	1.7	-14.9	2.1	4.3	9.3	2.6	-1.1	-2.9	4.4	-2.9
Thailand	<2.9>	2.4	-17.5	5.9	3.6	11.0	6.1	-8.3	-0.5	-2.2	-6.8
Others	<36.7>	3.0	-13.9	-1.2	2.6	3.4	0.8	0.1	-2.4	-3.6	3.4
Real imports		0.7	-14.0	1.0	2.5	6.3	1.2	-1.2	-1.6	-0.3	-0.5

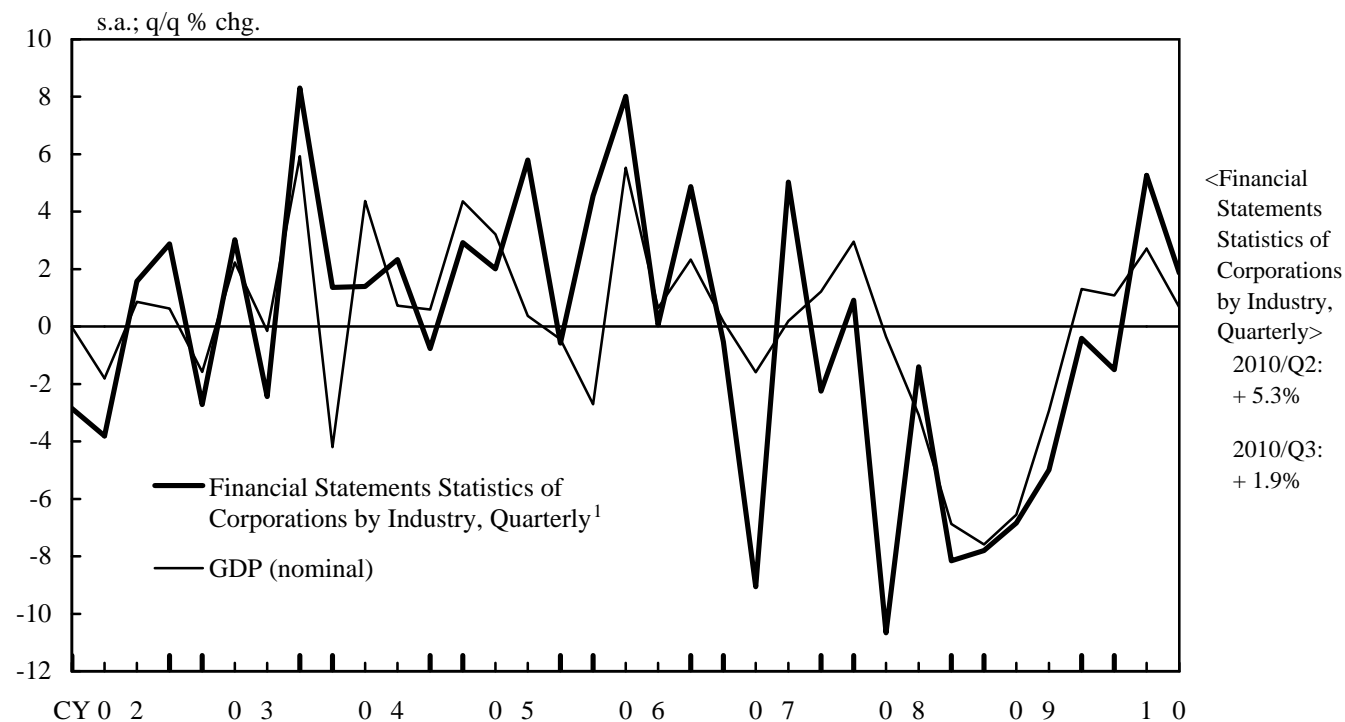
## (2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2008	2009	2009 Q4	2010 Q1	Q2	Q3	Q4	2010 Aug.	Sep.	Oct.
Raw materials <sup>4</sup>	<34.2>	2.4	-14.9	-3.4	3.2	3.1	1.0	1.1	-3.7	0.2	2.3
Intermediate goods	<14.2>	1.7	-15.3	2.7	5.8	7.4	1.7	-5.4	-0.9	1.2	-5.8
Foodstuffs	<9.7>	-3.6	1.0	-4.7	2.2	8.6	3.4	-15.6	3.0	-5.2	-13.4
Consumer goods <sup>5</sup>	<8.9>	-2.4	-10.3	6.1	1.0	11.3	-1.4	7.5	-6.4	4.6	6.7
IT-related goods <sup>6</sup>	<11.0>	4.3	-12.4	4.6	6.2	10.0	1.7	3.1	-1.9	4.0	1.1
Capital goods and parts <sup>7</sup>	<11.8>	2.9	-23.8	11.3	-0.4	6.8	3.4	-2.8	-4.8	6.9	-5.5
Excluding aircraft	<11.0>	3.7	-24.4	6.9	4.9	6.7	3.3	-0.9	-2.2	0.8	-0.7
Real imports		0.7	-14.0	1.0	2.5	6.3	1.2	-1.2	-1.6	-0.3	-0.5

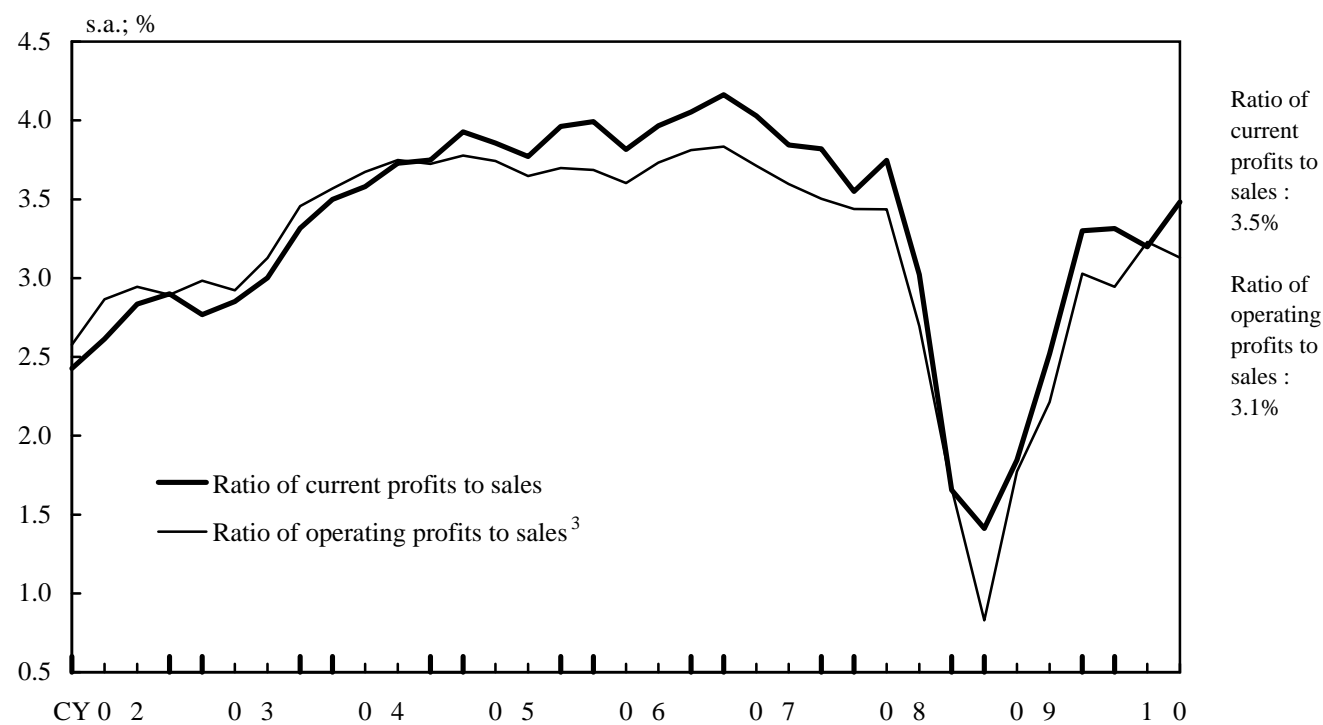
- Notes: 1. Seasonally adjusted by X-12-ARIMA. 2010/Q4 figures are October figures converted into quarterly amount.  
2. Shares of each region and goods in 2009 are shown in angle brackets.  
3. Data of four members: Thailand, Malaysia, the Philippines, and Indonesia.  
4. Raw materials are mainly composed 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.

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales)<sup>1,2</sup>



Notes: 1. All enterprises excluding Finance and Insurance.

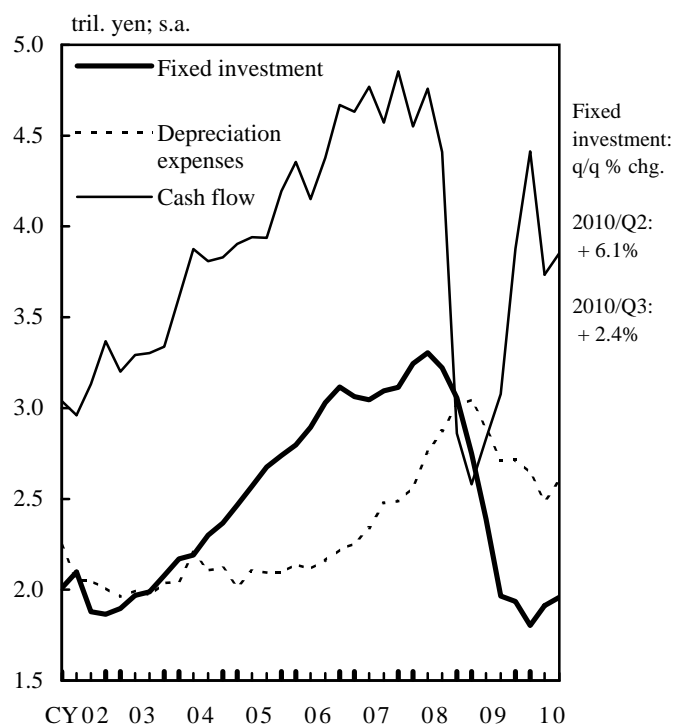
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

3. Figures are seasonally adjusted by X-12-ARIMA.

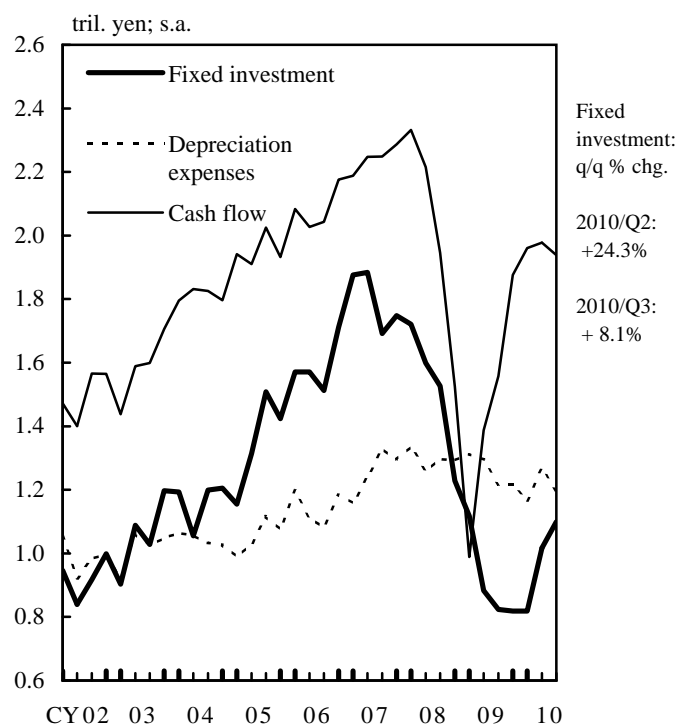
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

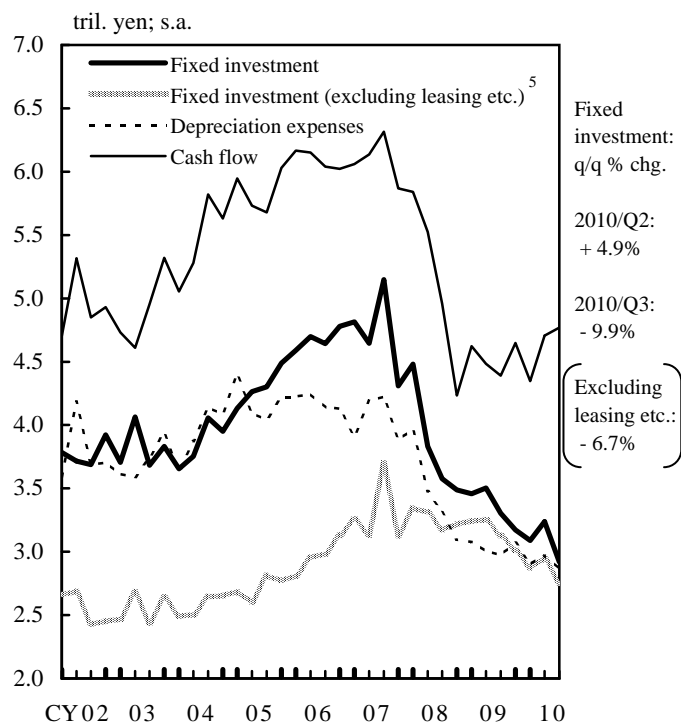
(1) Large Manufacturing Firms



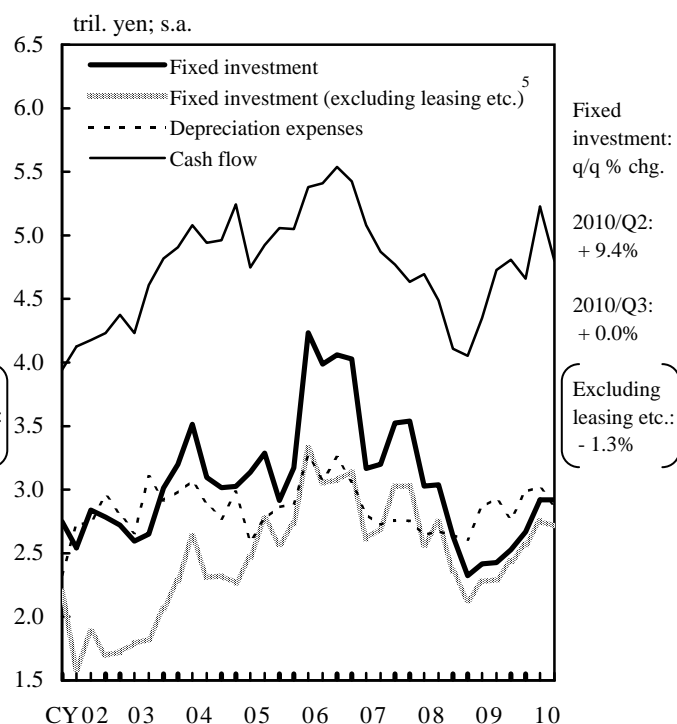
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms

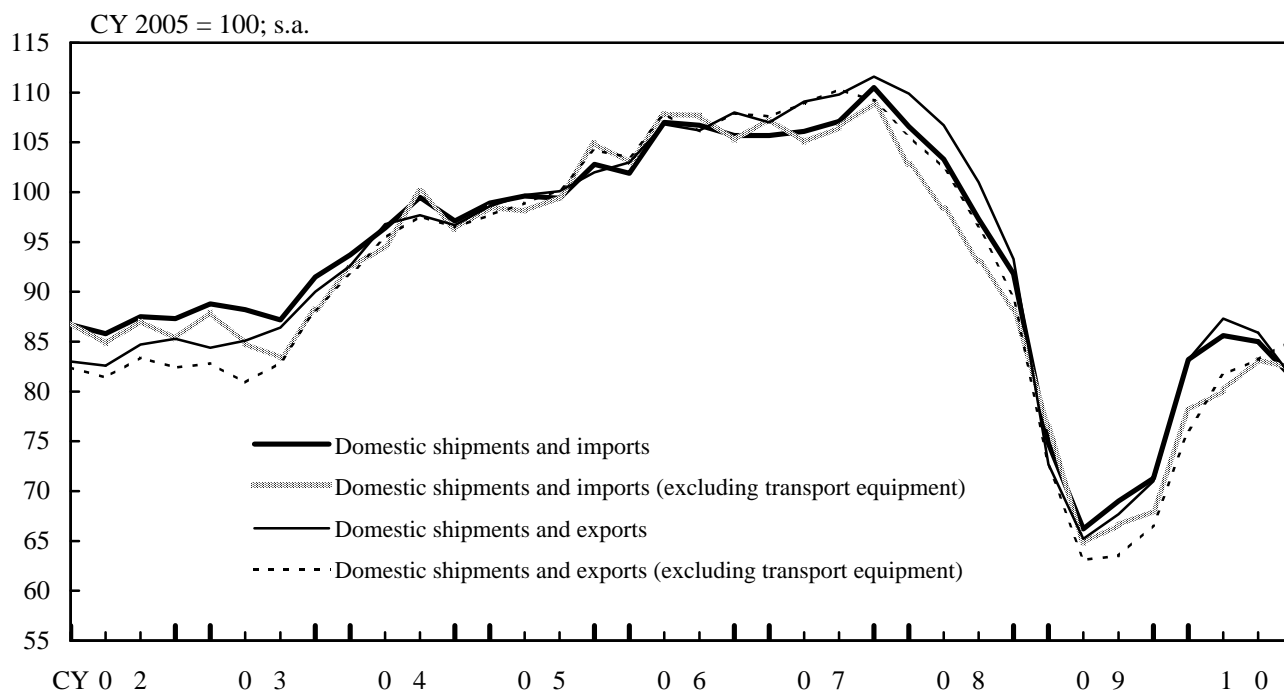


- Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.  
 2. Cash flow = current profits / 2 + depreciation expenses.  
 3. Seasonally adjusted by X-11.  
 4. Excluding Finance and Insurance.  
 5. Up to 2004/Q1, excluding business services. From 2004/Q2, excluding goods rental and leasing.

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

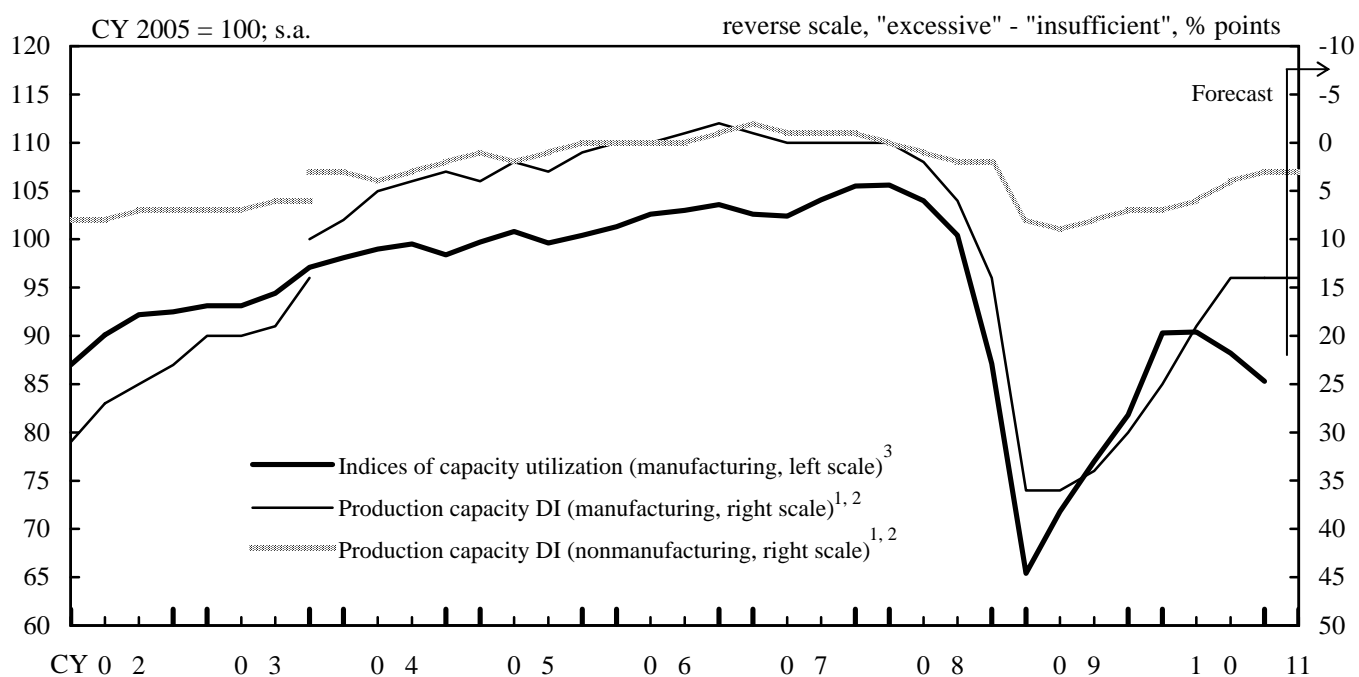
## Coincident Indicators for Business Fixed Investment

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



Note: Figures for 2010/Q4 are those of October.

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



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

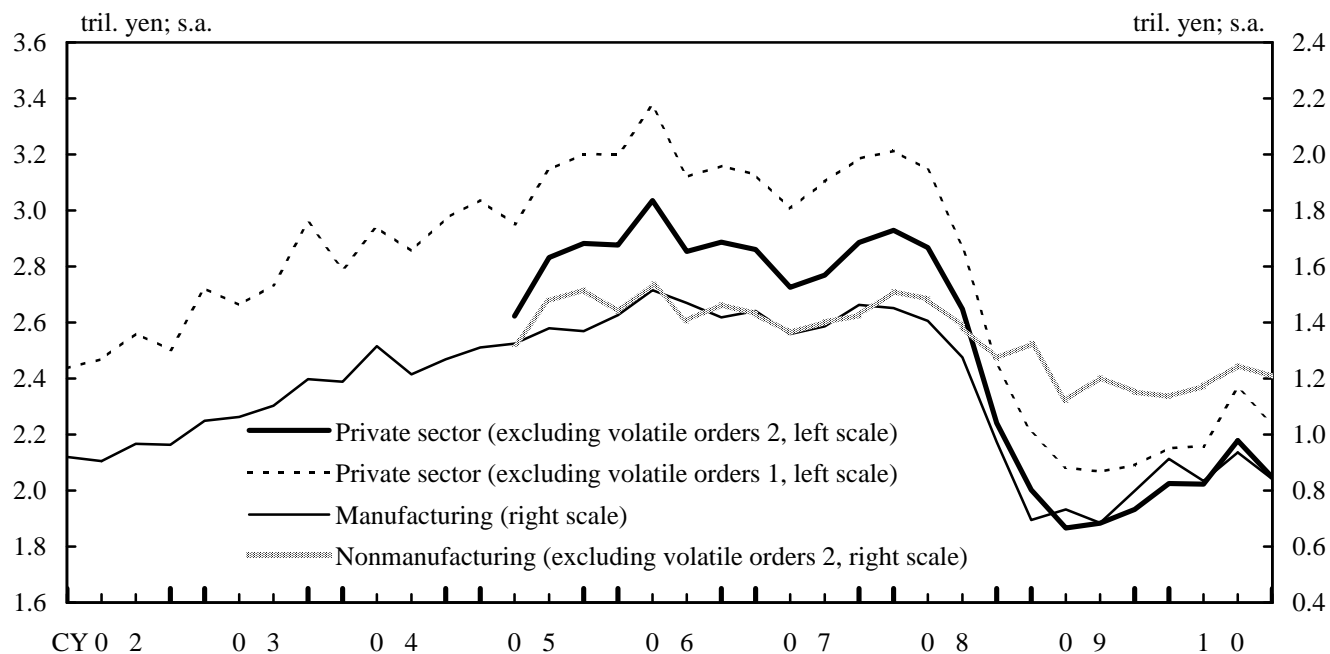
2. In the March 2004 survey, the *Tankan* underwent major revisions, including the addition of new sample enterprises to the survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

3. The figure for 2010/Q4 is that of October.

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

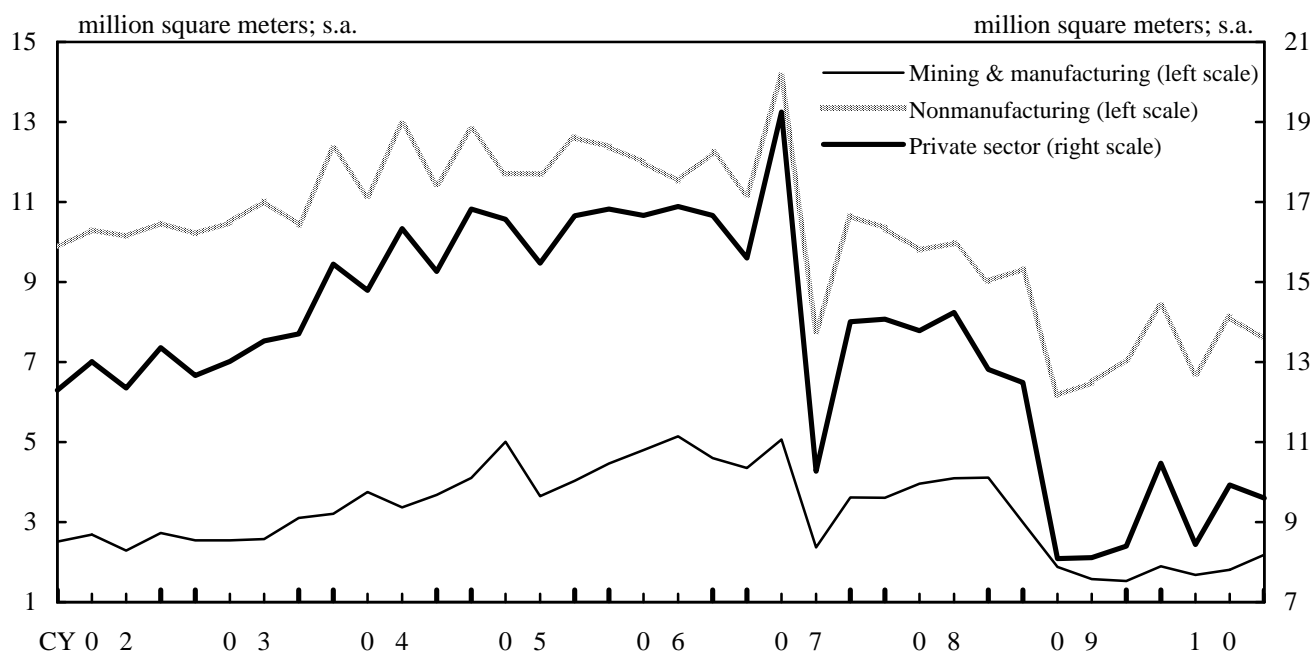


Notes: 1. Volatile orders 1: Orders for ships and those from electric power companies.

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

2. Figures for 2010/Q4 are those of October 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.

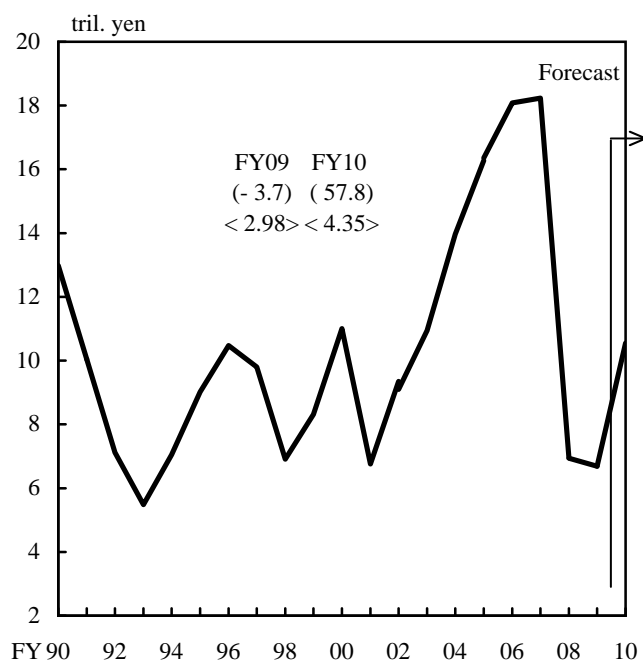
3. Figures for 2010/Q4 are those of October in terms of quarterly amount.

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

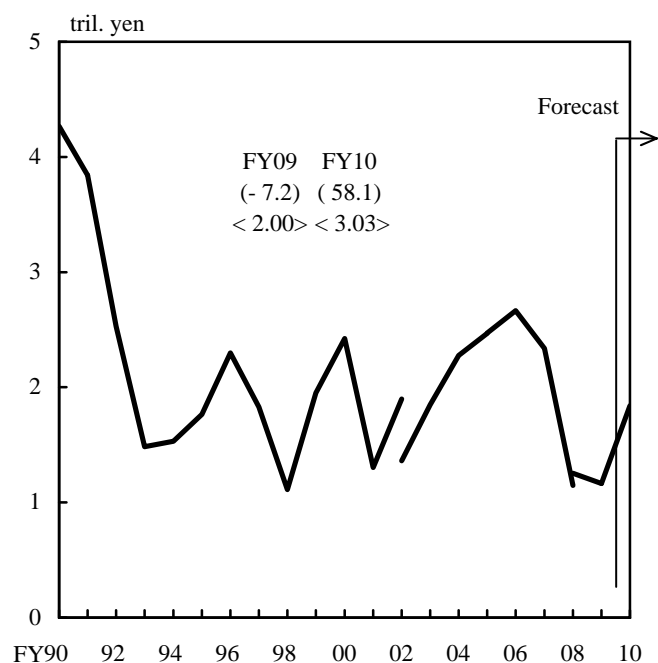


## Current Profits

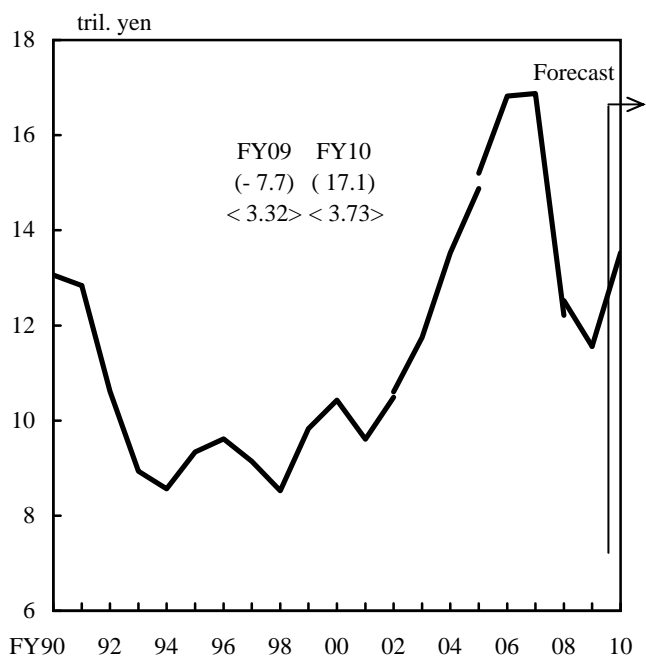
(1) Large Manufacturing Enterprises



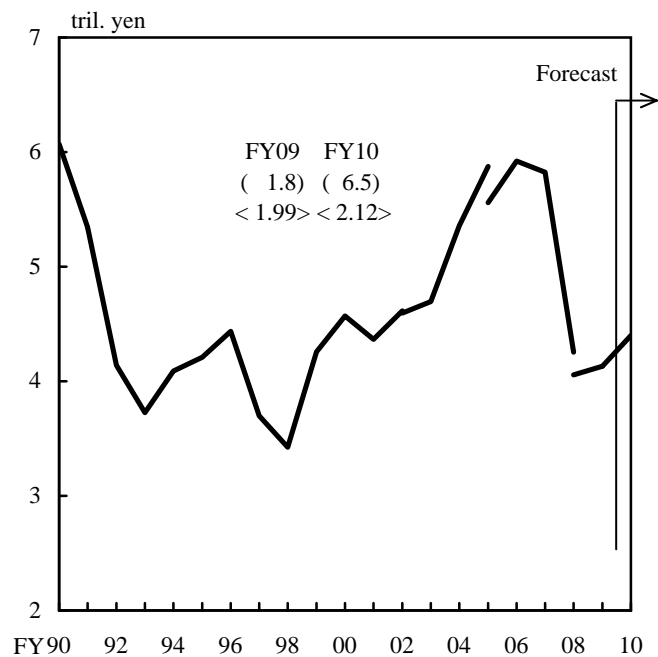
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



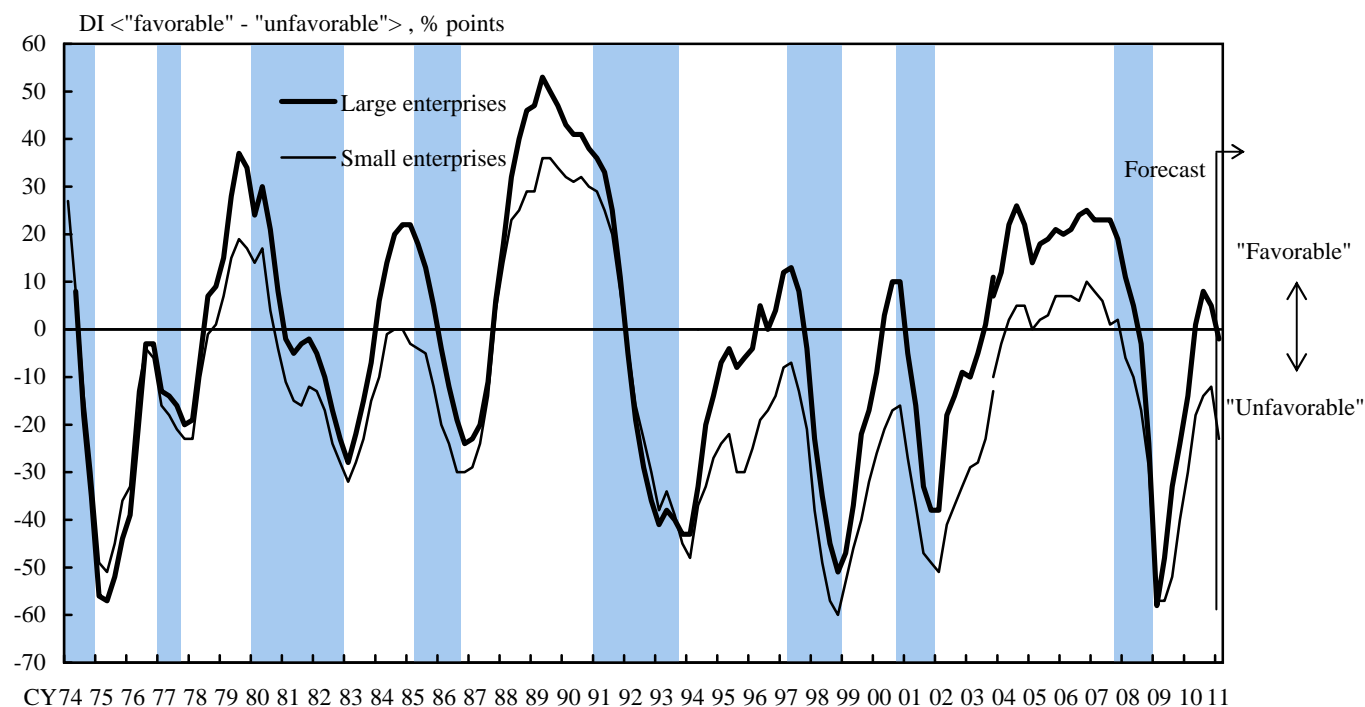
Notes: 1. ( ): Current profits (y/y % chg.), < >: Ratio of current profit to sales (%).

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.

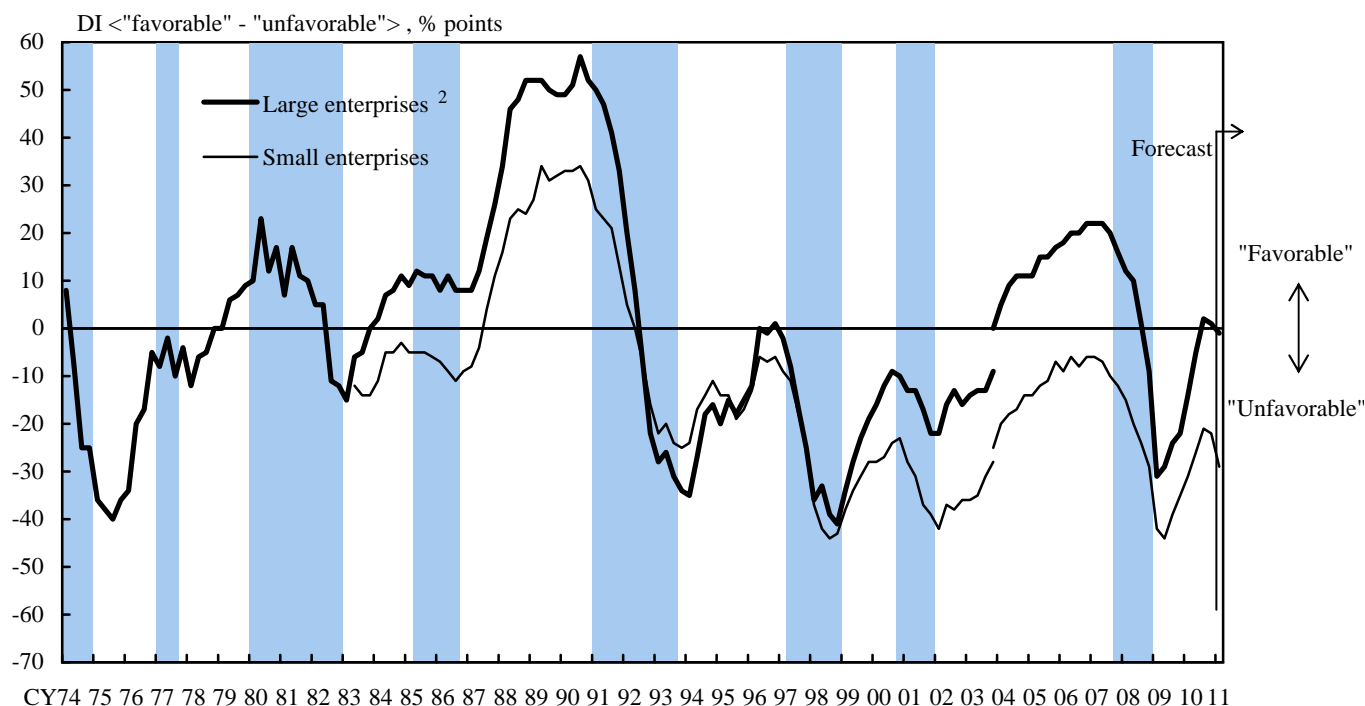
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## 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.

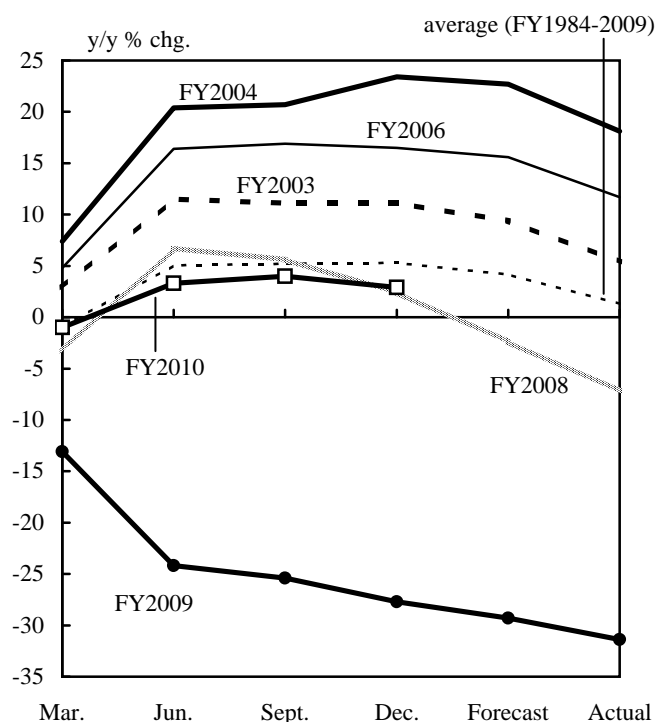
2. Data prior to February 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

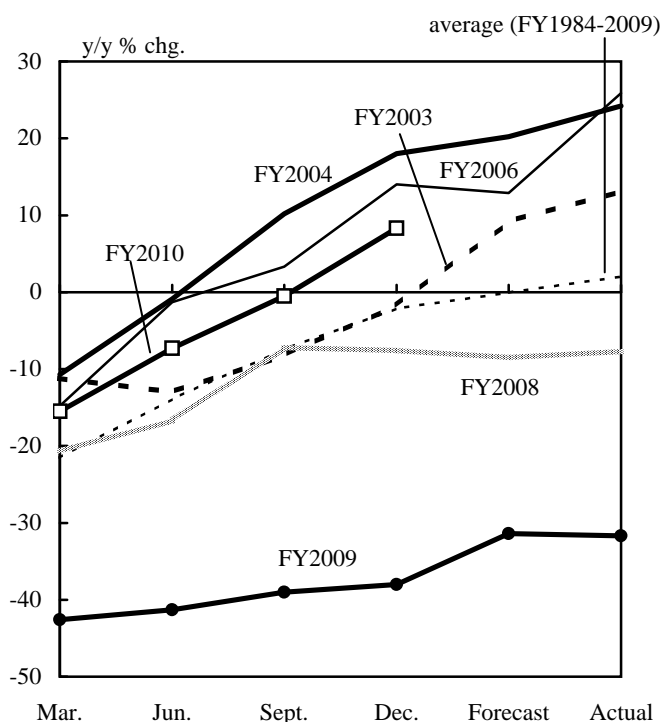
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

## Business Fixed Investment Plans as Surveyed

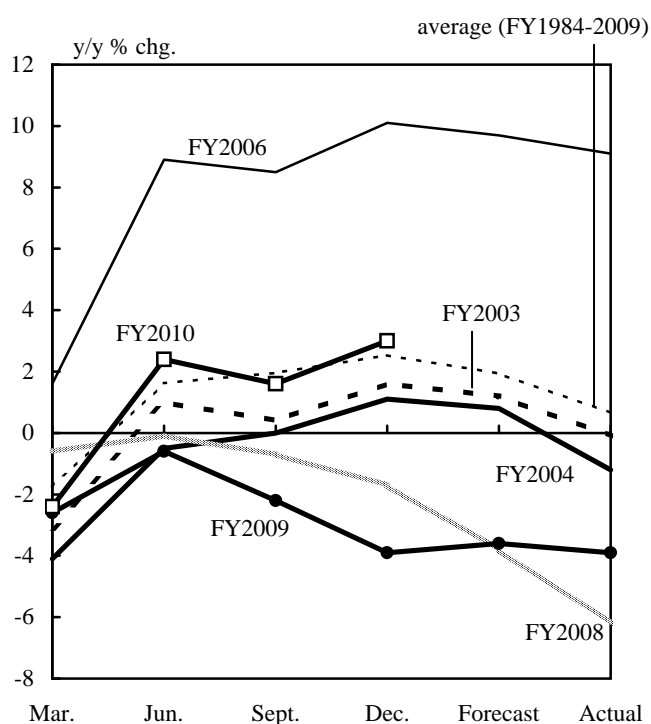
(1) Large Manufacturing Enterprises



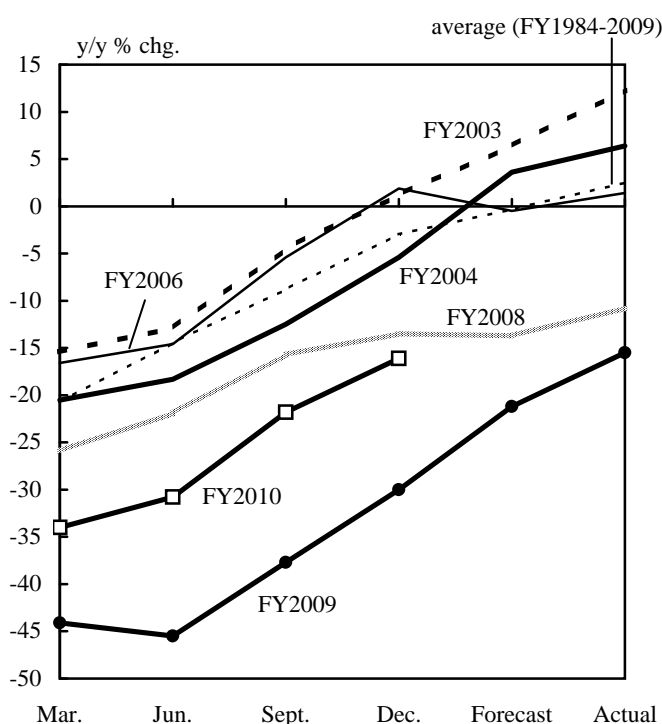
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



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

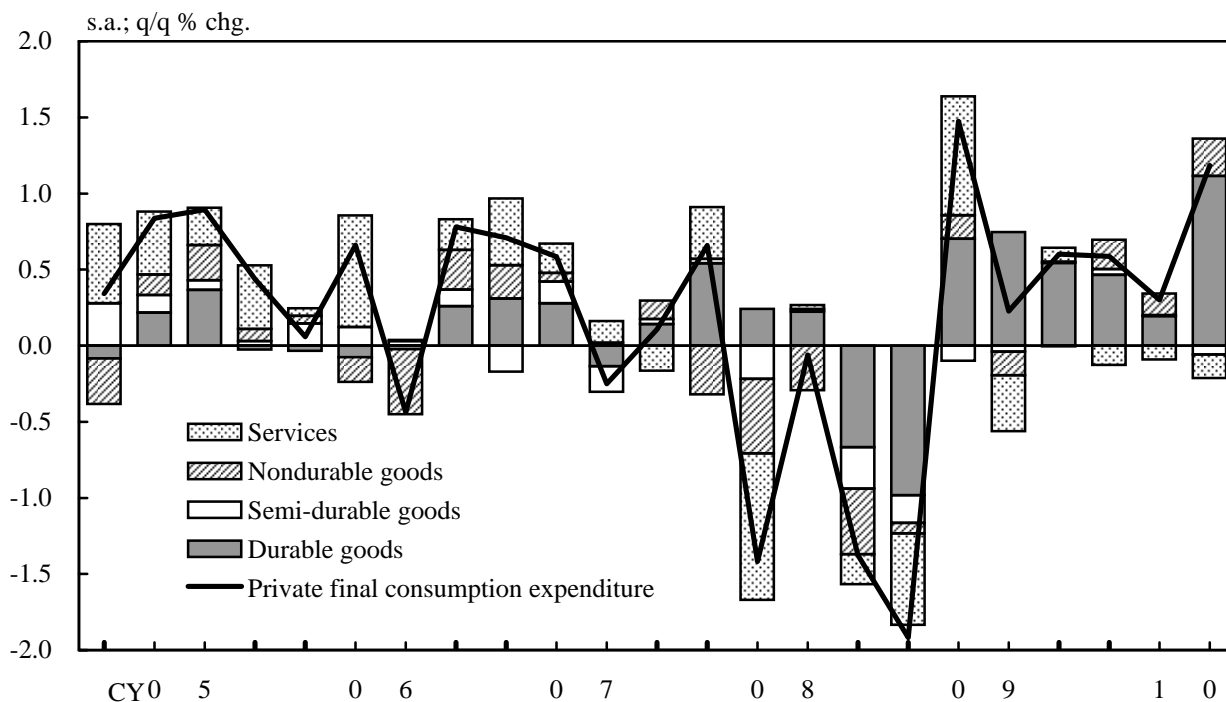
2. Sample enterprises were revised in the March 2004 survey, March 2007 survey, and March 2010 survey. Therefore, as for FYs 2003, 2006, and 2009, figures up to the December survey are based on the previous data sets, and the figures of forecast and actual result are based on the new basis.

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.

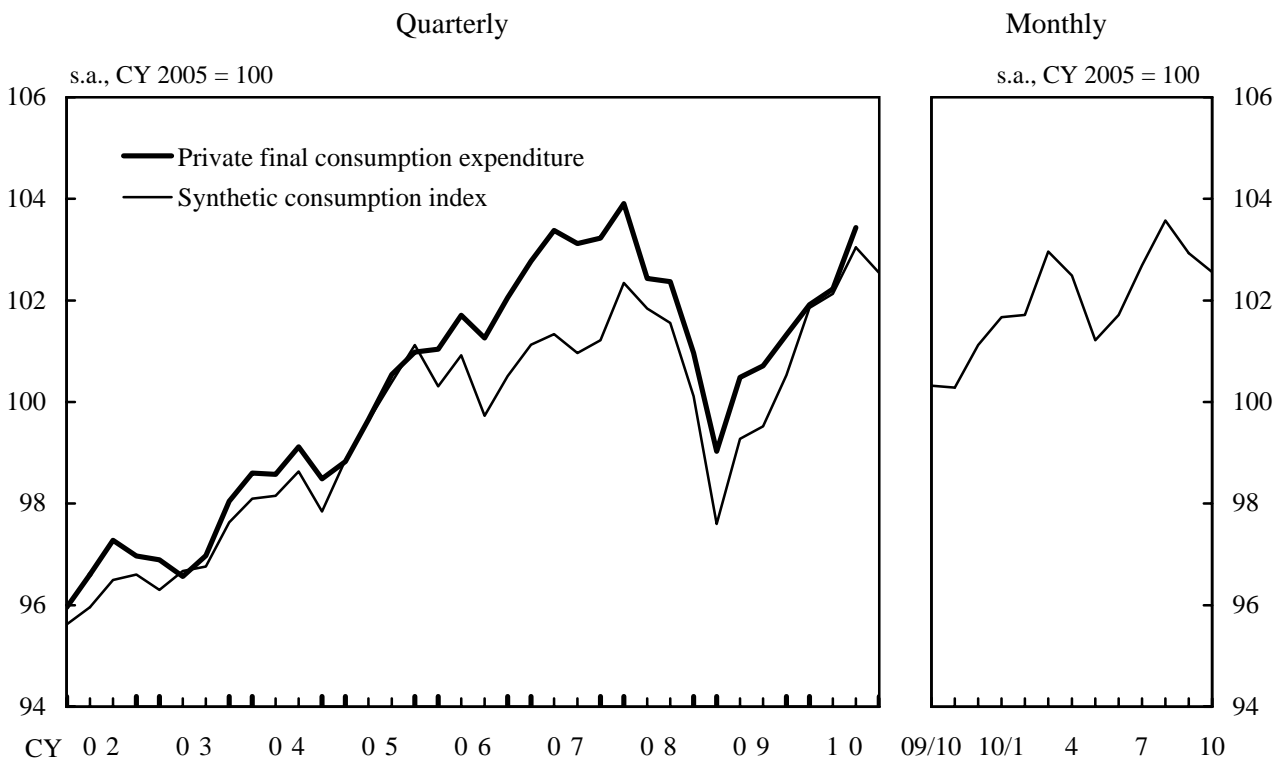
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

Indicators for Private Consumption (1)

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



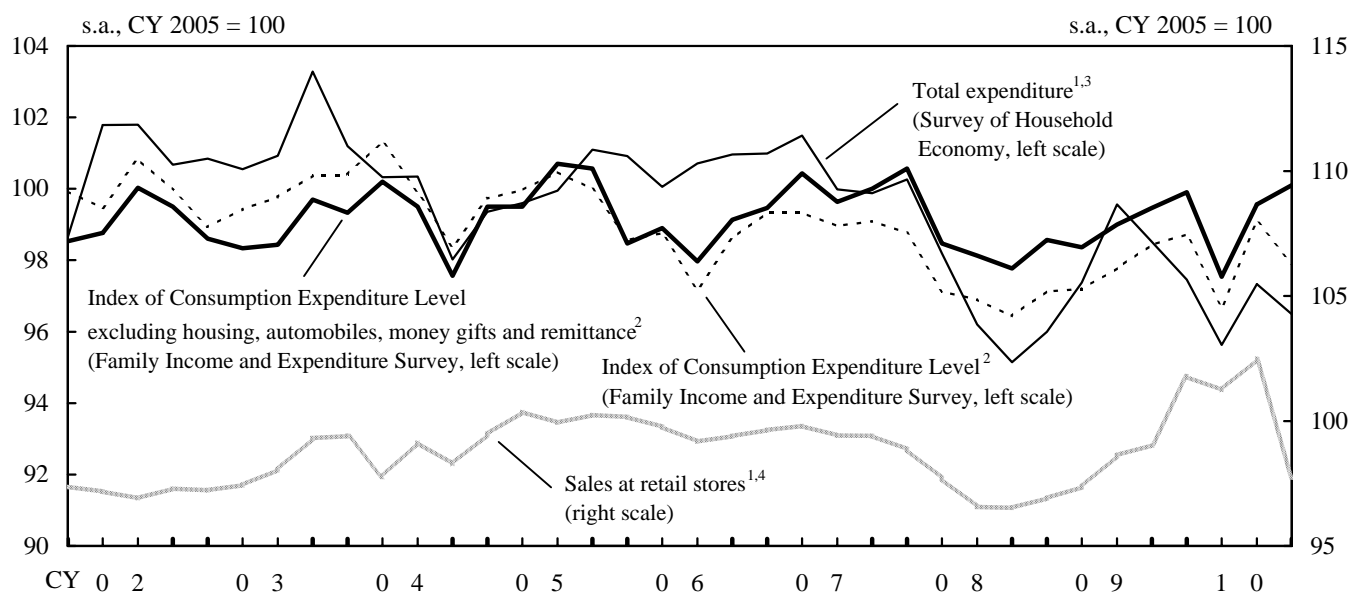
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



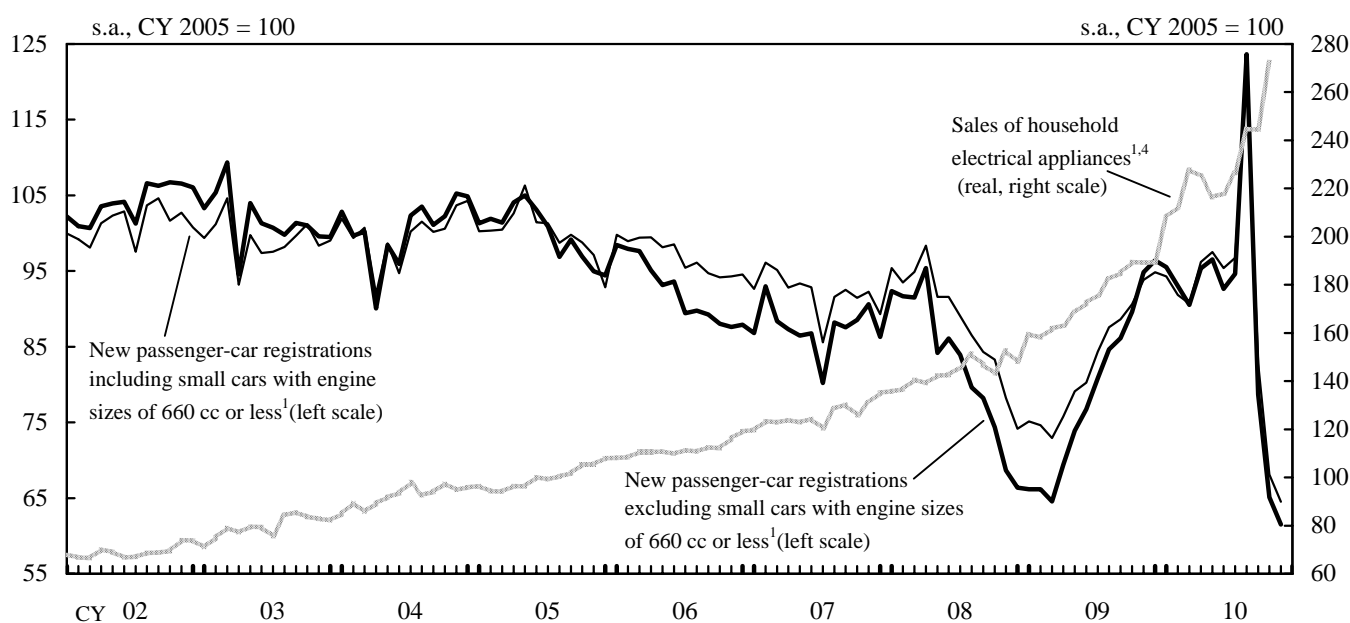
Note: The figure of synthetic consumption index for 2010/Q4 is that of October in terms of quarterly amount.

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

## Indicators for Private Consumption (2)

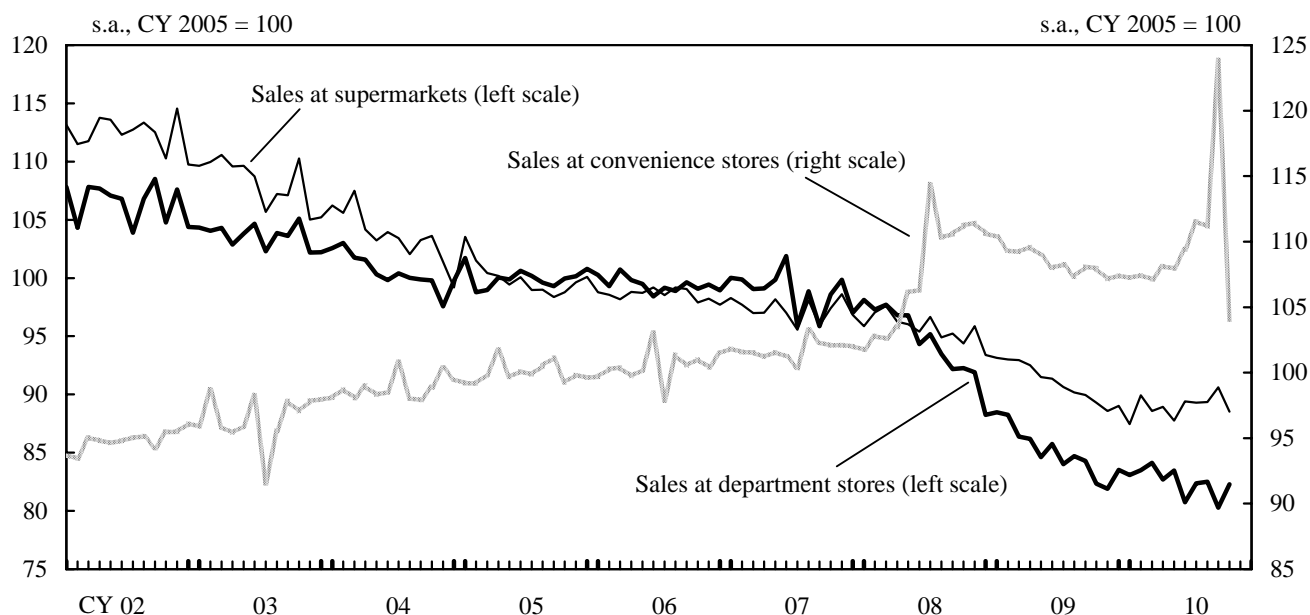
(1) Household Spending (Real)<sup>5</sup>

## (2) Sales of Durable Goods

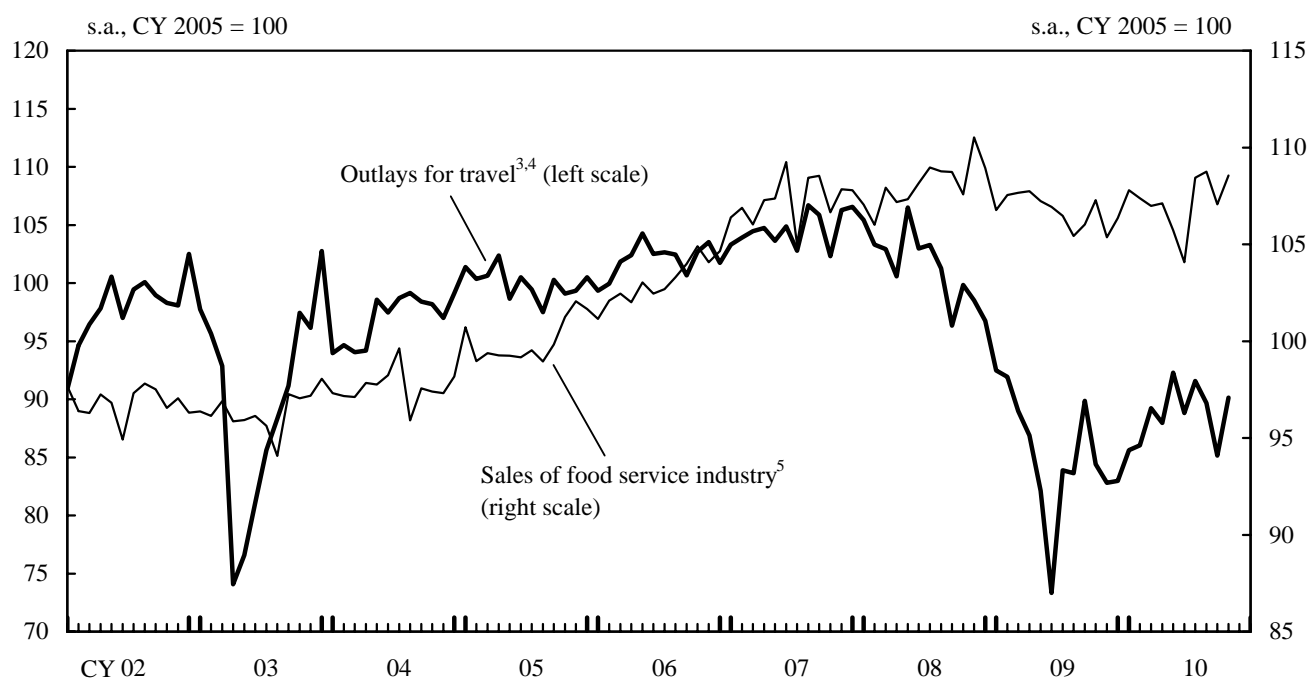


- Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted using the distribution of household 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 2010/Q4 are those of October 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.

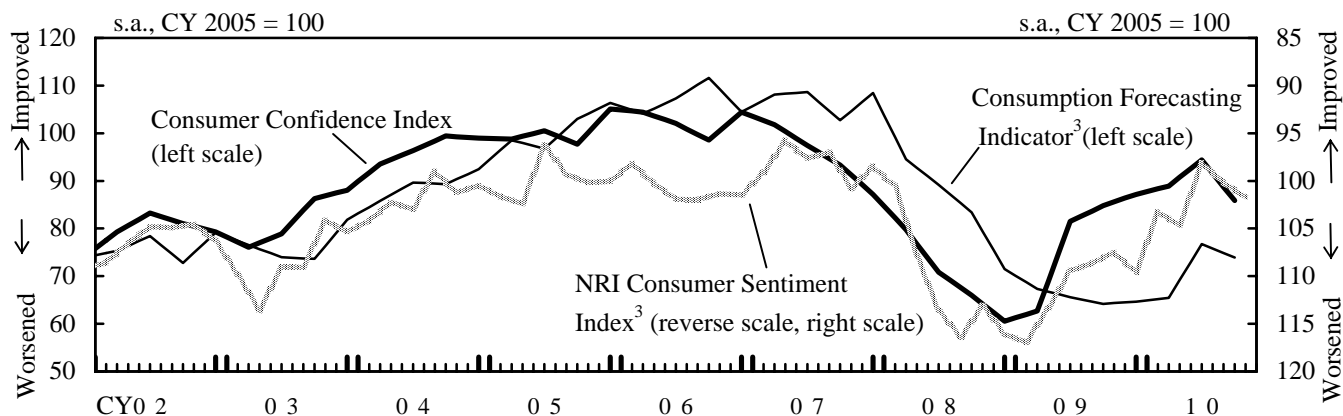
4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rate of changes.

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.

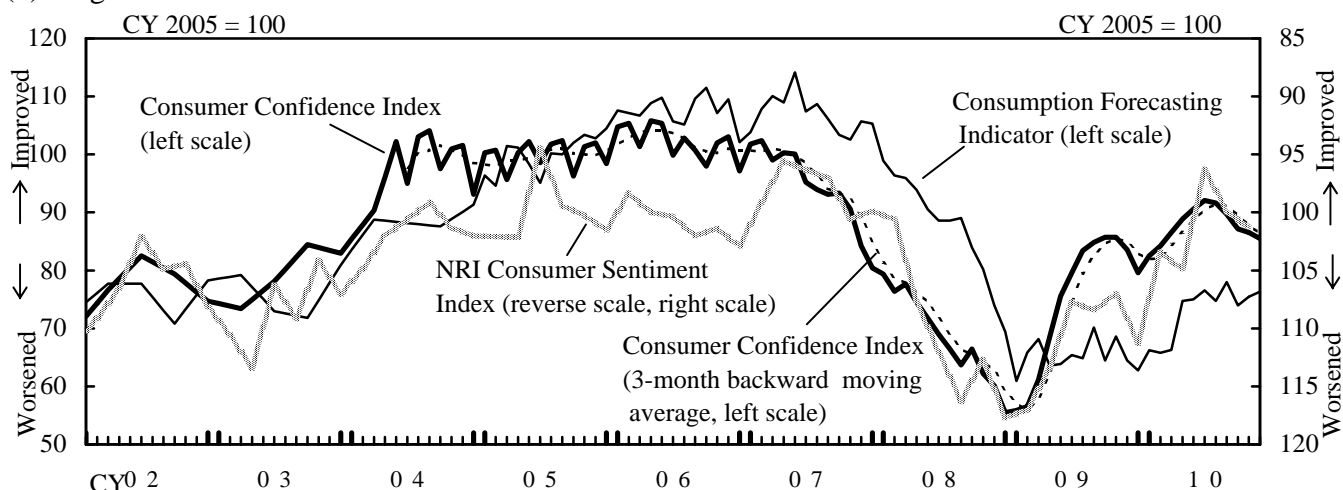
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly Survey of Food Service Sales)"; Japan Food Service Association, "Gaishoku Sangyou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

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

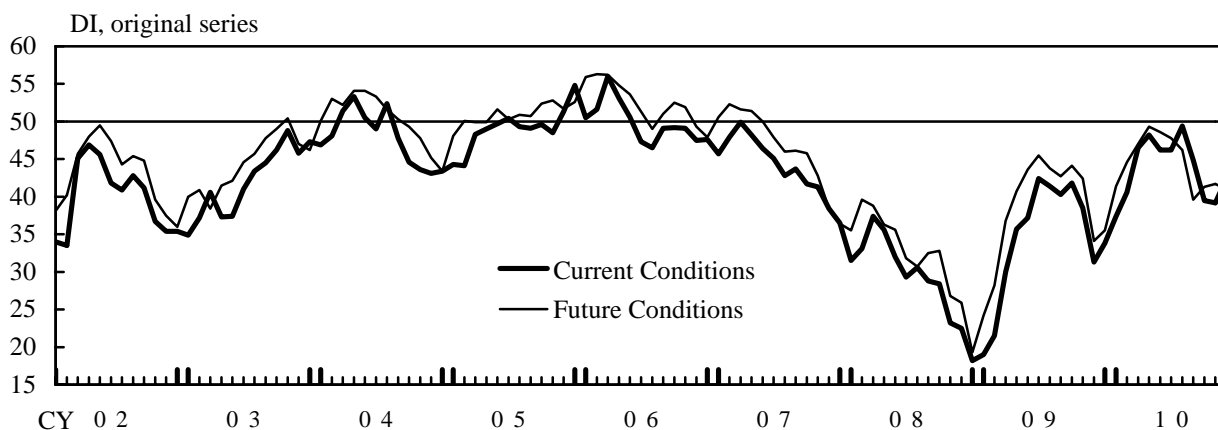
## (1) Seasonally Adjusted Series



## (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."

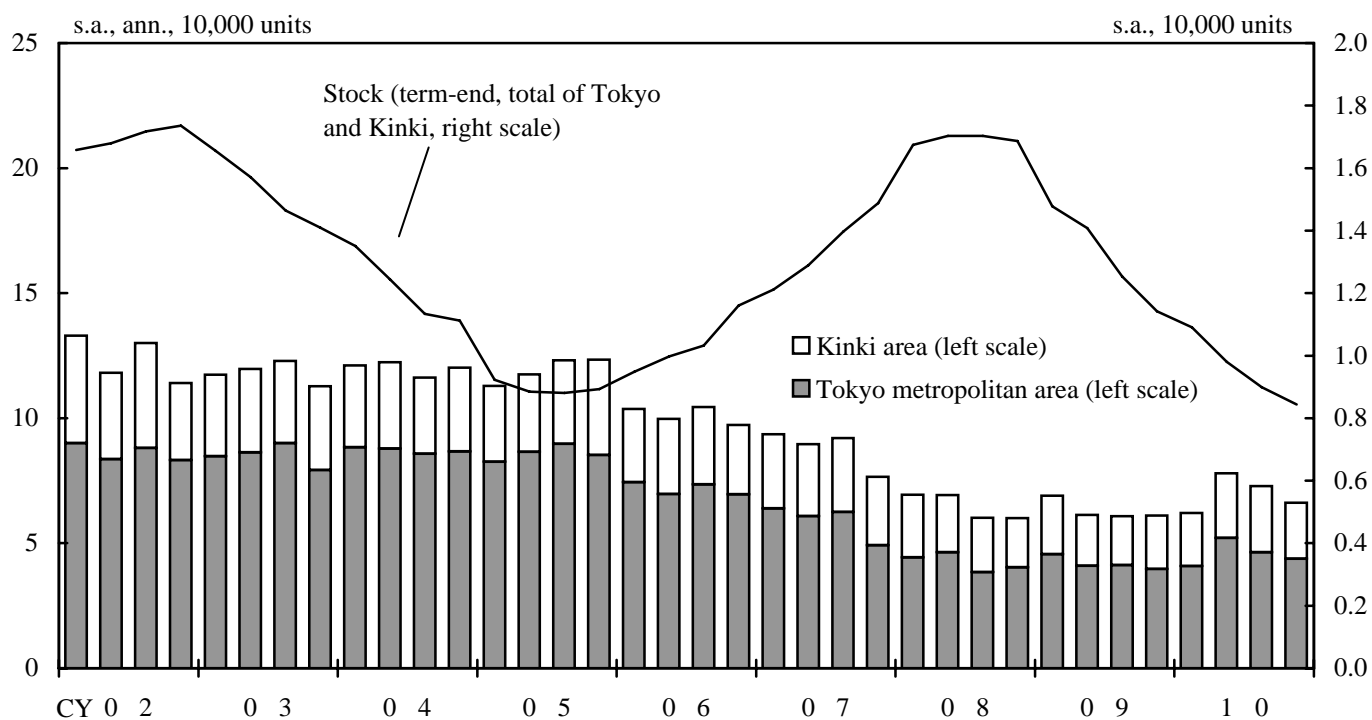
## Indicators for Housing Investment

## (1) Housing Starts



Note: Figures for 2010/Q4 are those of October.

## (2) Sales of Apartments



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

2. Figures of total apartments sales for 2010/Q4 are those of October-November averages.

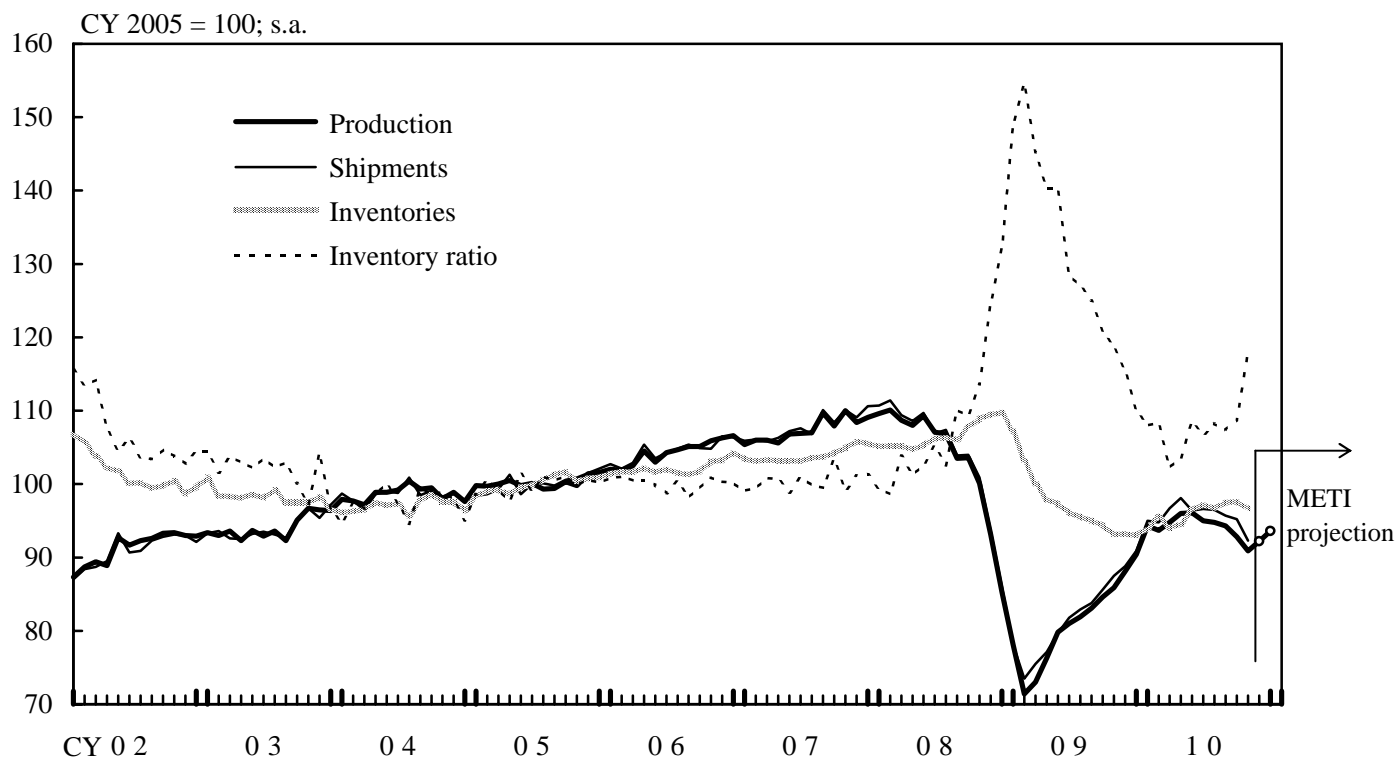
Term-end stocks for 2010/Q4 are those of November.

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

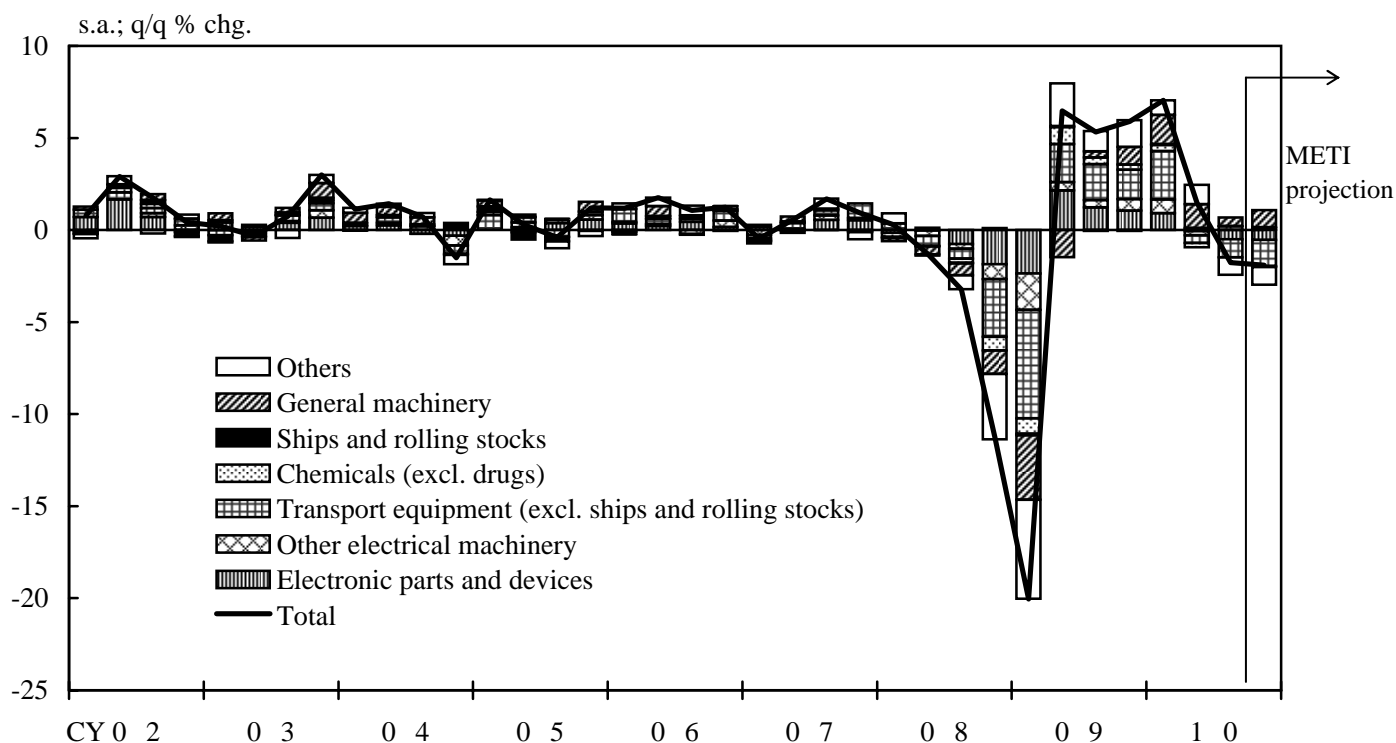


## Production, Shipments and Inventories

## (1) Production, Shipments and Inventories



## (2) Production by Industry

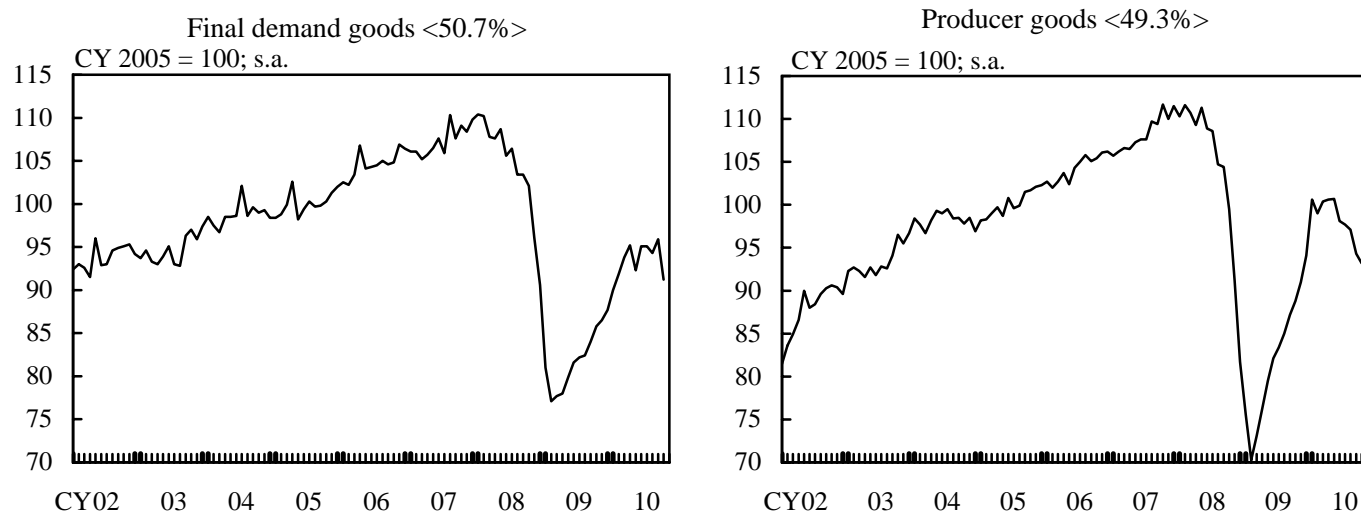


- Notes: 1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."  
 2. Figures up to 2003/Q1 are on the 2000 base.  
 3. 2010/Q4 figures are based on the actual production level in October, and the METI projection of November and December.

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

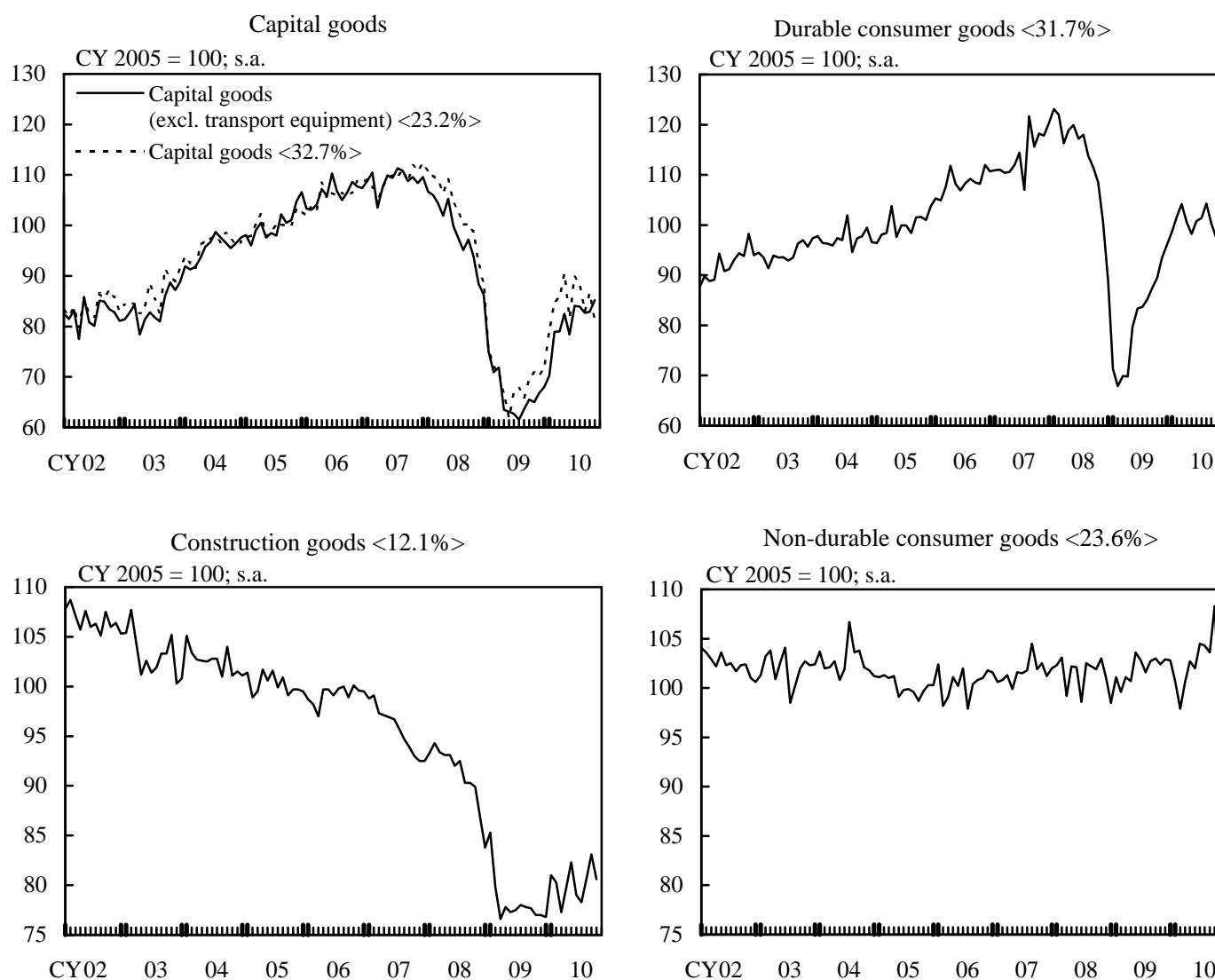
## Shipments by Type of Goods

## (1) Final Demand Goods and Producer Goods



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

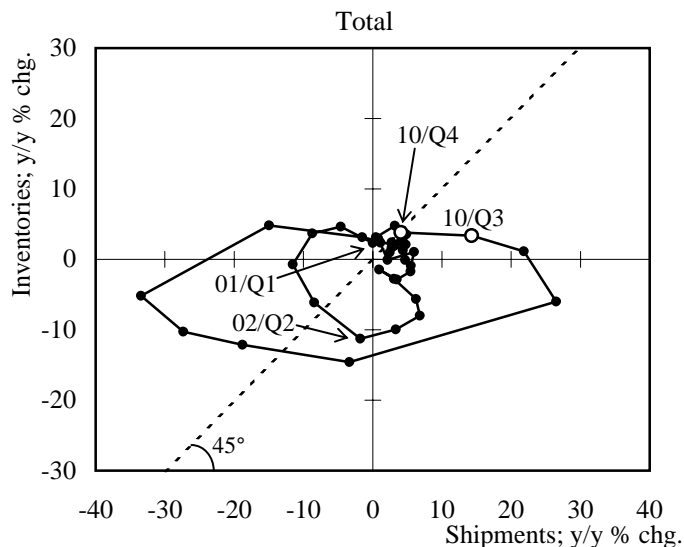
## (2) Breakdown of Final Demand Goods



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

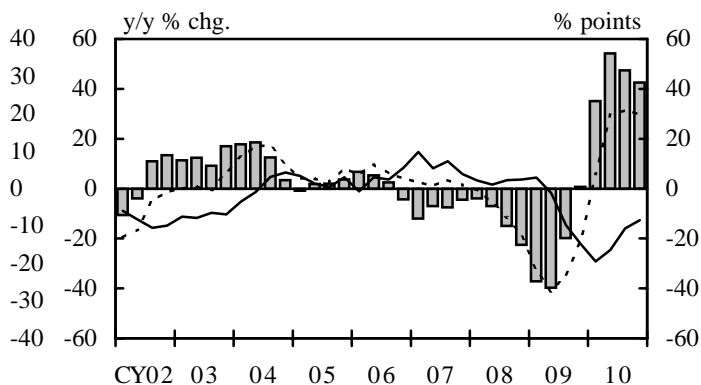
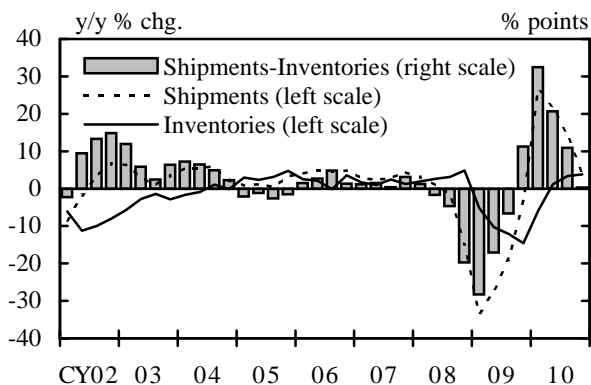
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Inventory Cycle



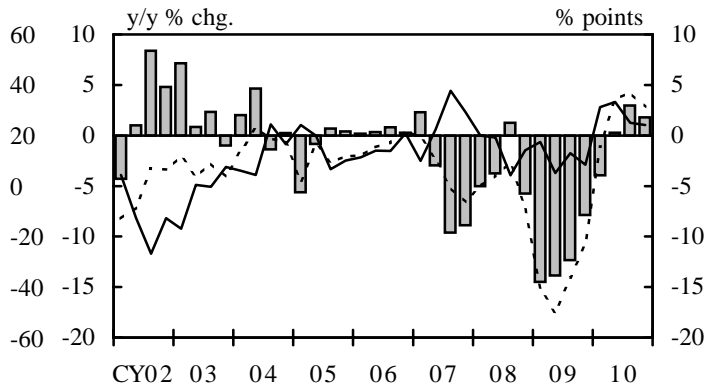
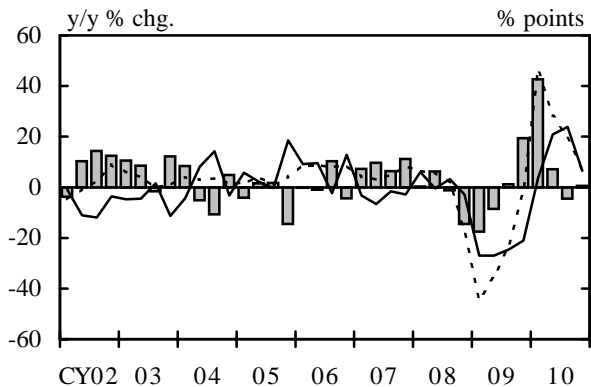
(1) Total

(2) Capital Goods (Excluding Transport Equipment)



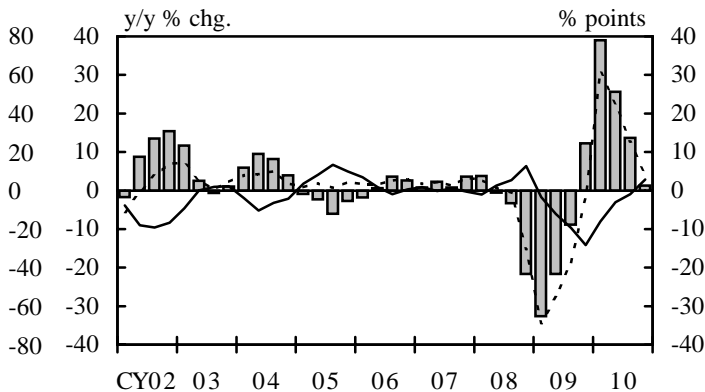
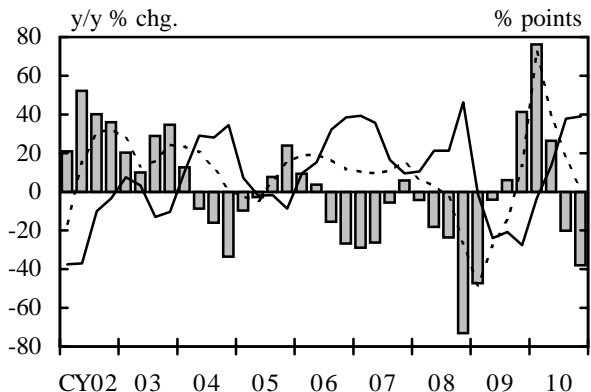
(3) Durable Consumer Goods

(4) Construction Goods



(5) Electronic Parts and Devices

(6) Producer Goods Excluding Electronic Parts and Devices

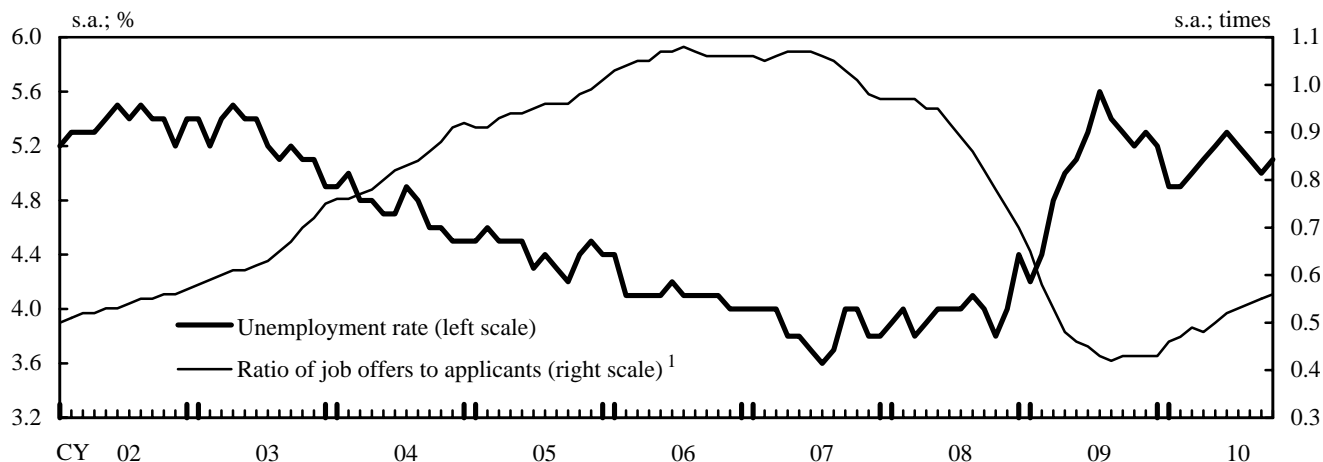


Note: Figures for 2010/Q4 are those of October.

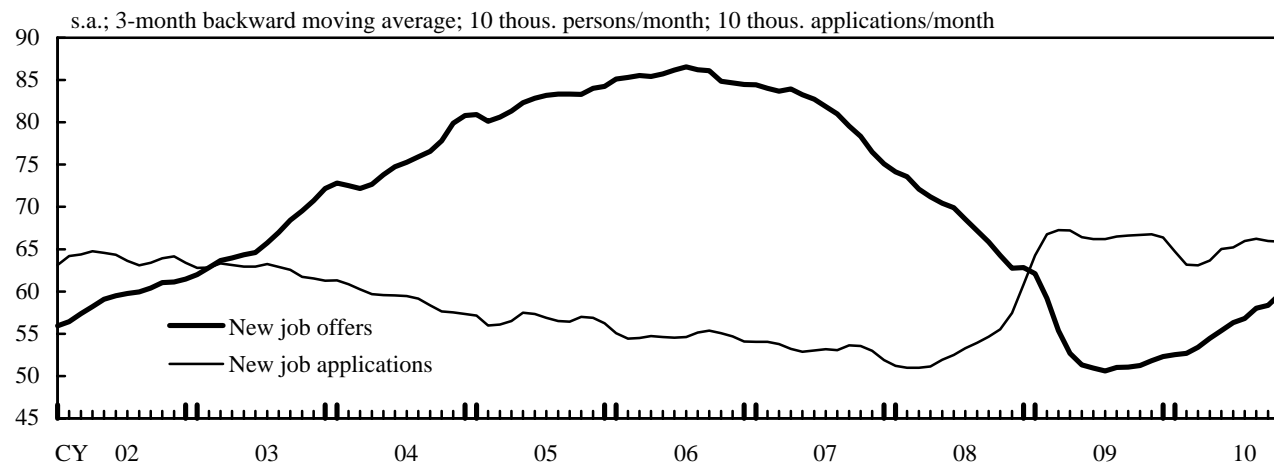
Source: Ministry of Economy, Trade and Industry, "Indices of Industrial Production."

Labor Market (1)

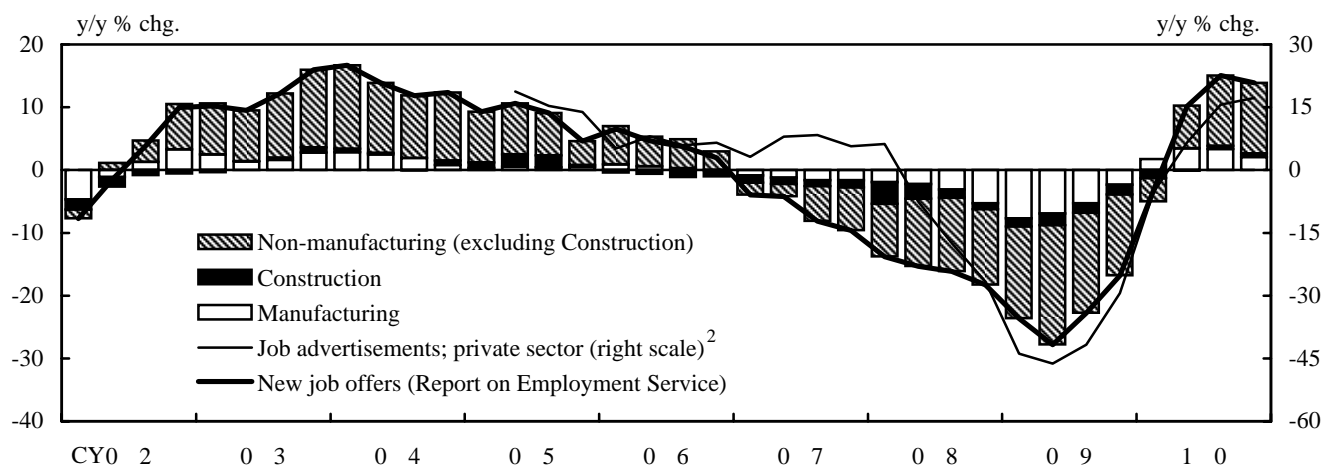
(1) Unemployment Rate and Ratio of Job Offers to Applicants



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



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

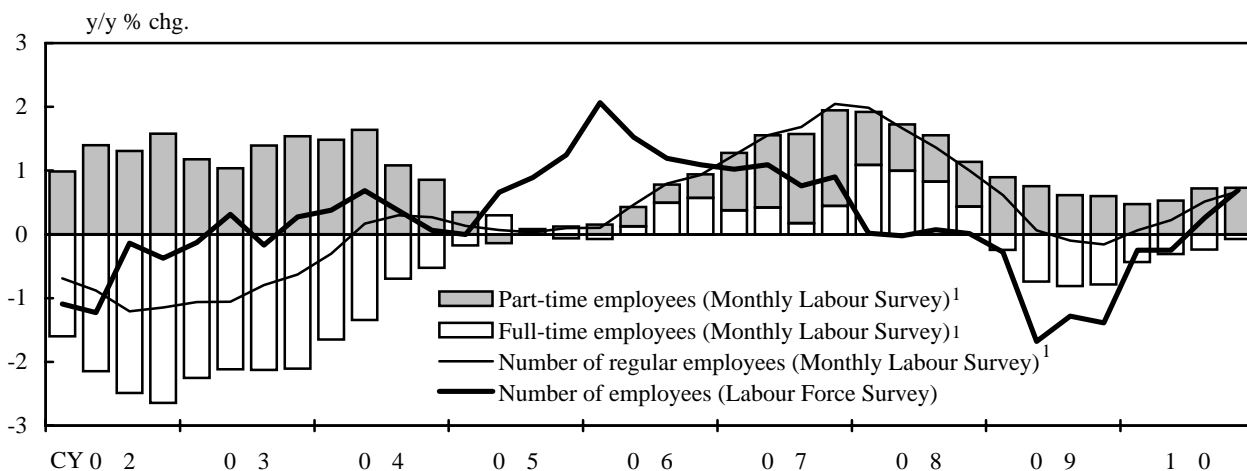


- Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.  
 2. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts and job information websites provided by member companies of the Association.  
 3. Figures for 2010/Q4 are those of October.

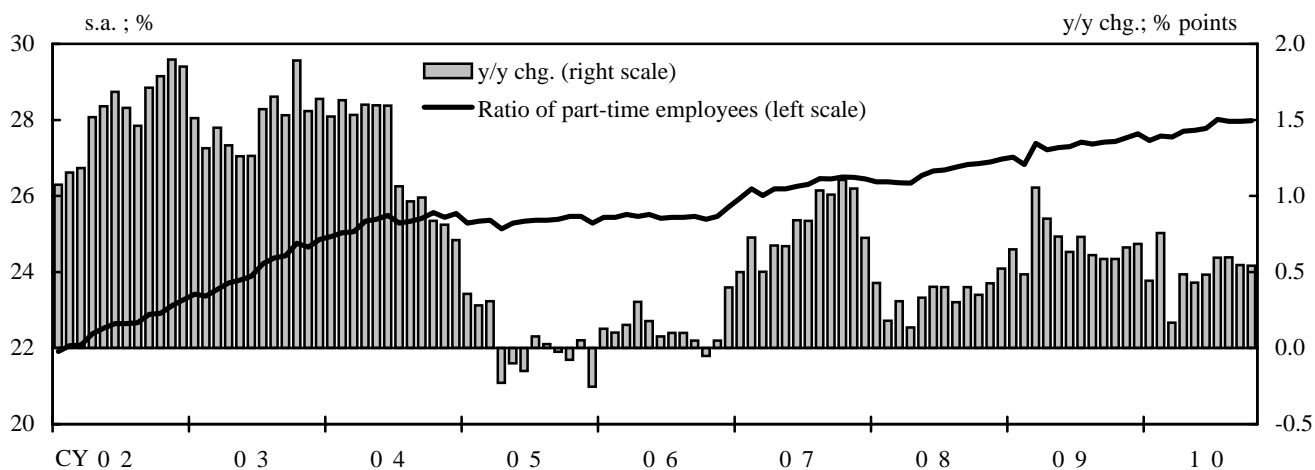
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey";  
 Association of Job Information of Japan, "Kyujin Koukoku Keisaikensu (Survey of Job Advertisements)."

Labor Market (2)

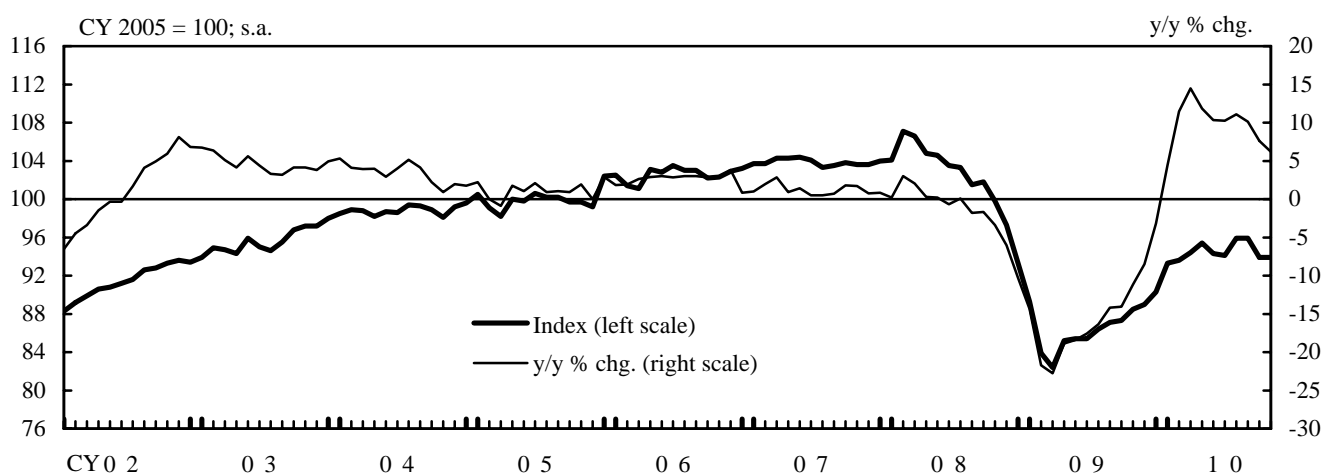
(1) Number of Employees<sup>3</sup>



(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.

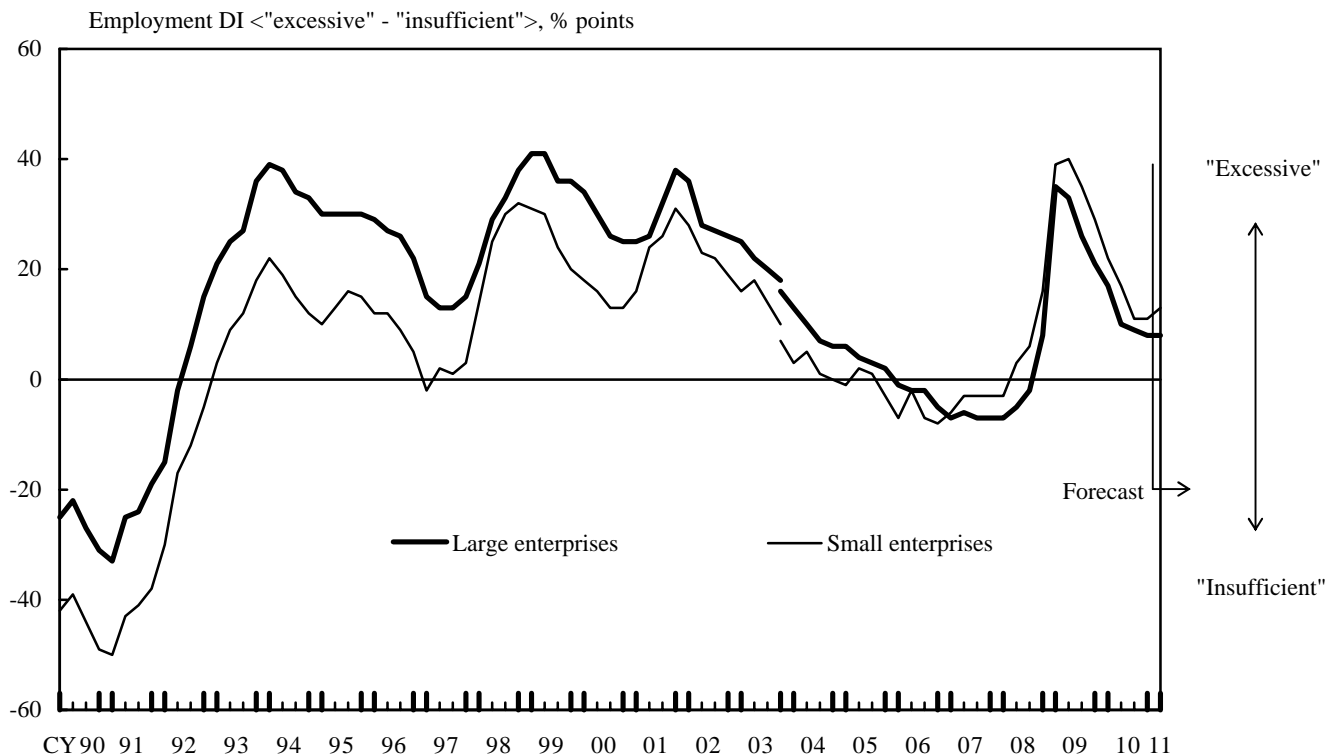
2. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.

3. Figures for 2010/Q4 are those of October.

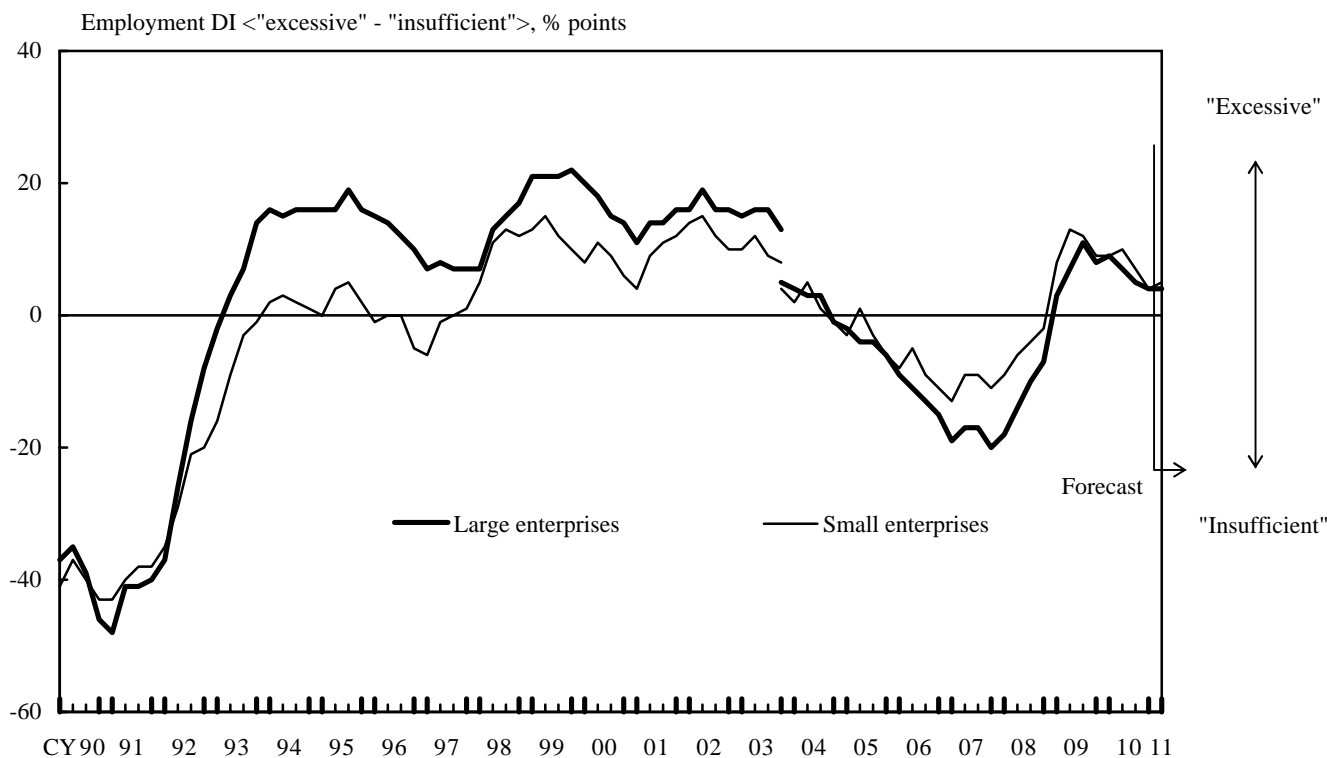
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

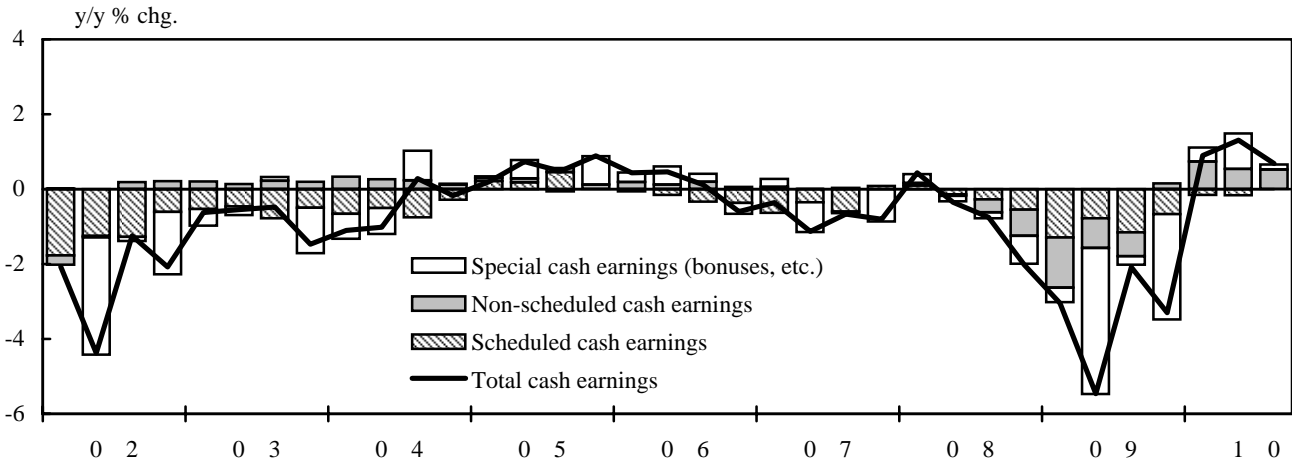


Note: The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

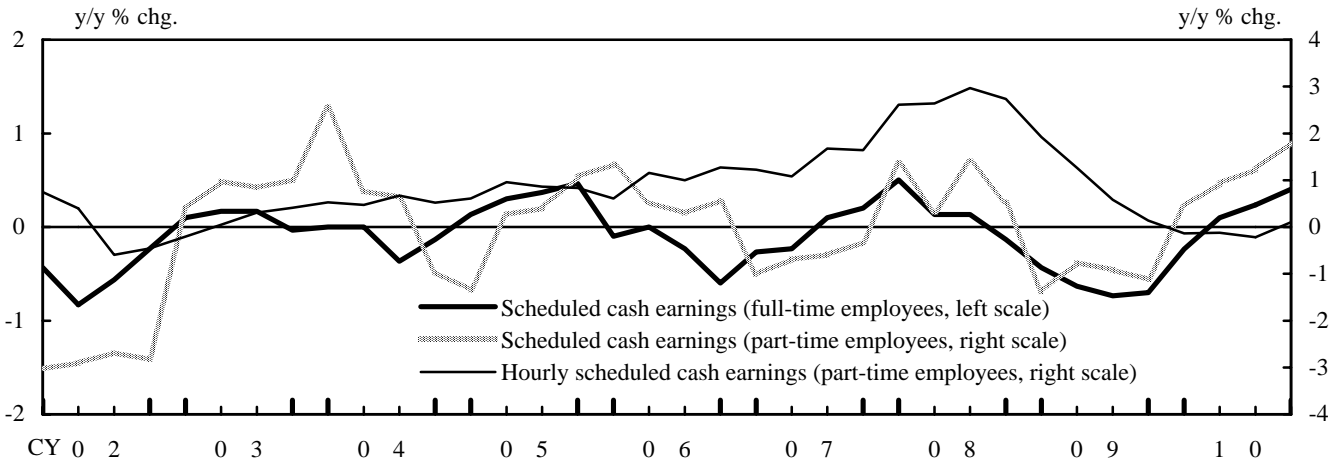
Source: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan."

Employee Income

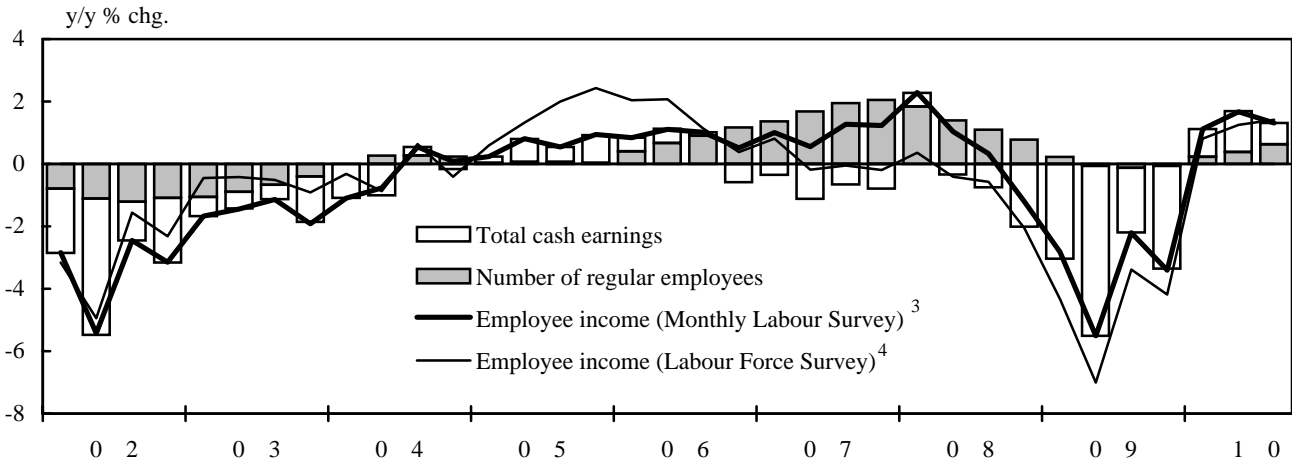
(1) Breakdown of Total Cash Earnings<sup>1,2,5</sup>



(2) Scheduled Cash Earnings<sup>1,6</sup>



(3) Breakdown of Employee Income<sup>1,2,5</sup>

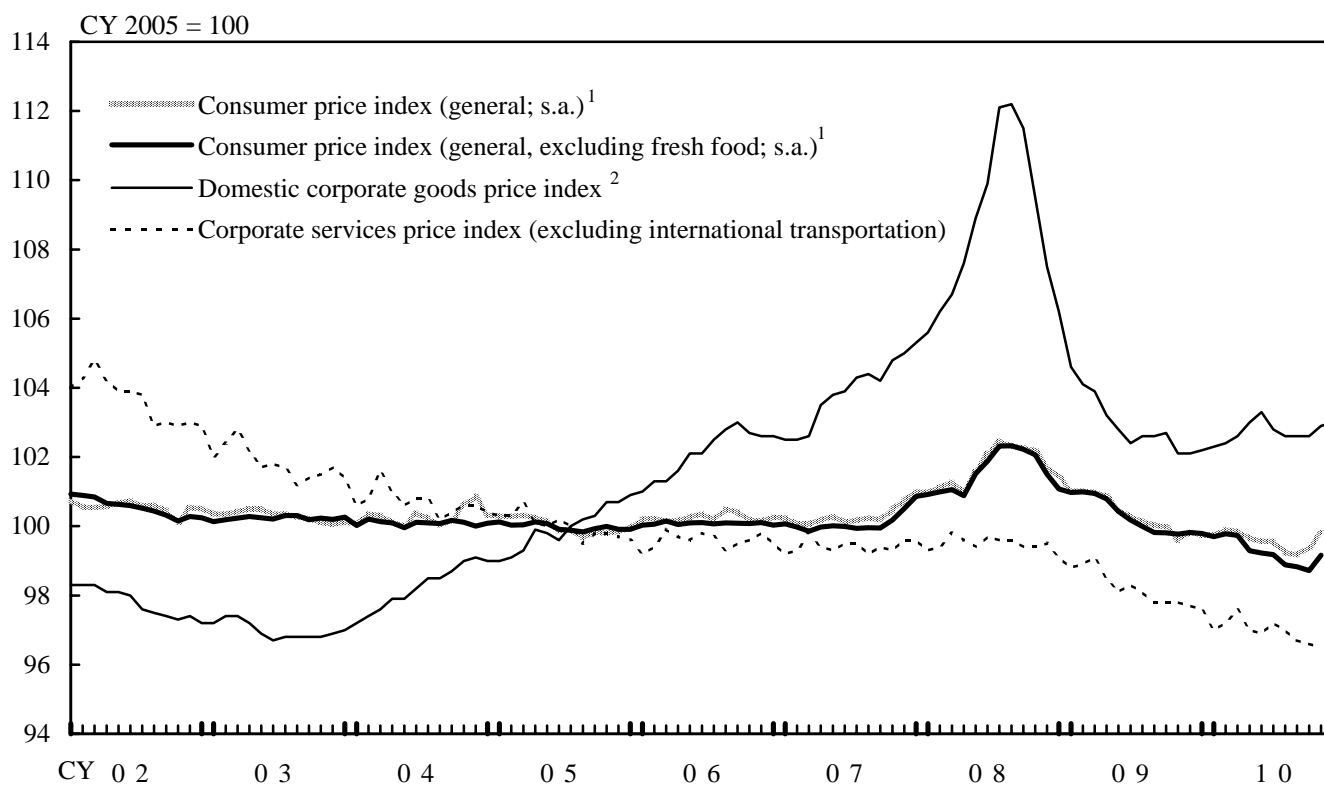


Notes: 1. Data of the Monthly Labour Survey are for establishments with at least five employees.  
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 3. Calculated as the number of regular employees (Monthly Labour Survey) times total cash earnings (Monthly Labour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

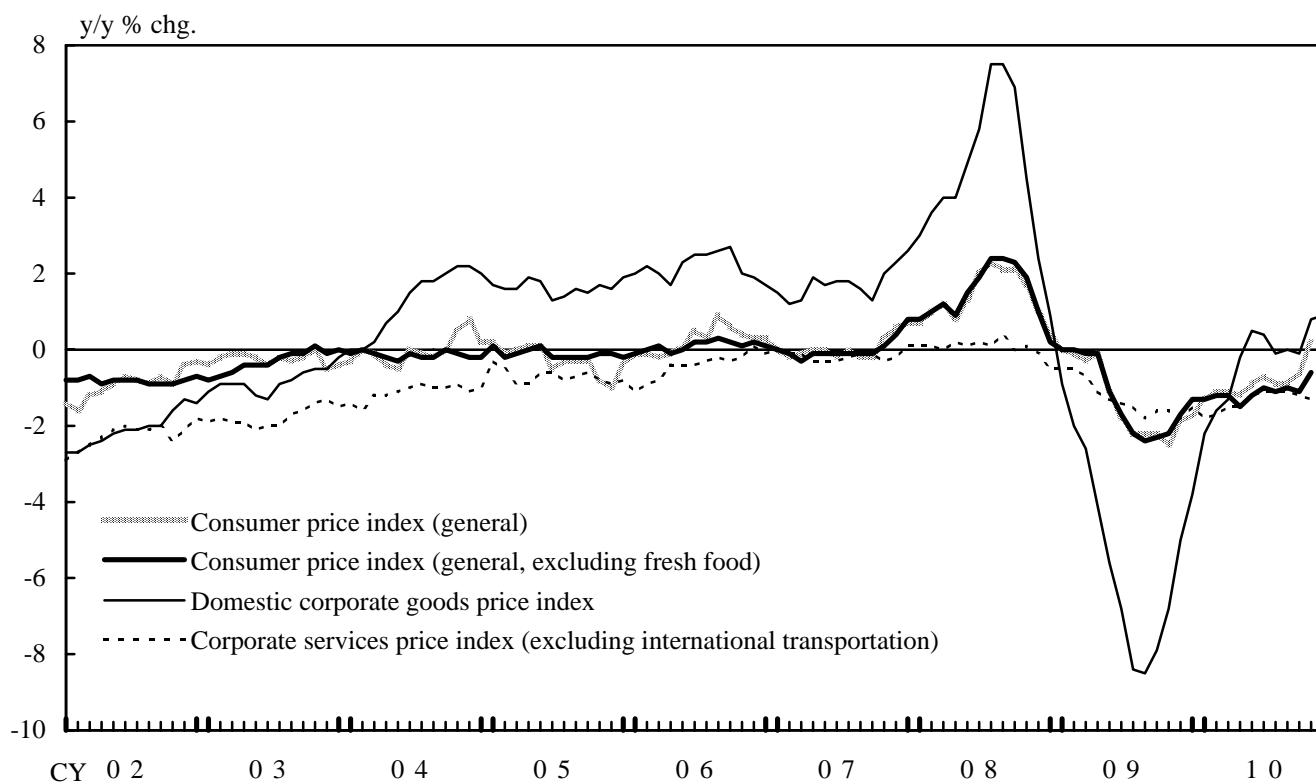
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";  
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

## Prices

## (1) Level



## (2) Changes from a Year Earlier



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

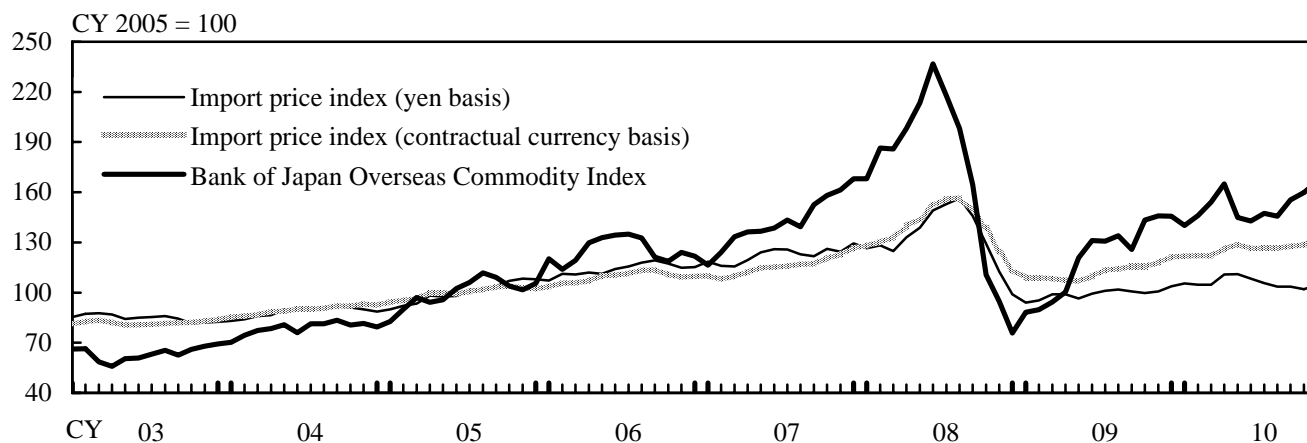
2. Adjusted to exclude a hike of electric power charges during the summer season from July to September.

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

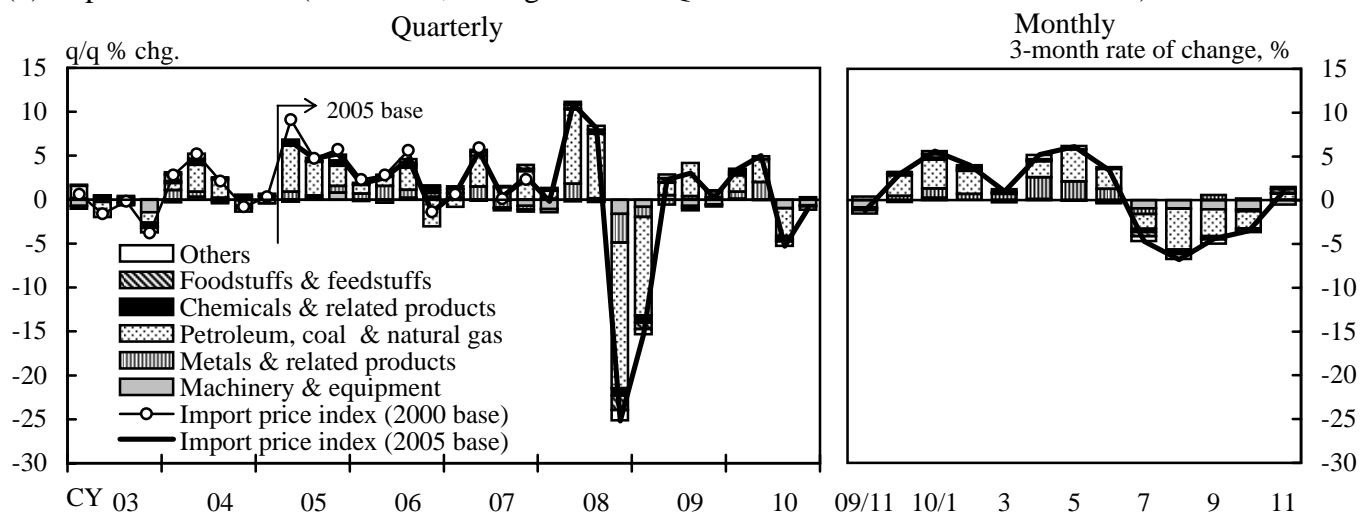


## Import Prices and International Commodity Prices

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



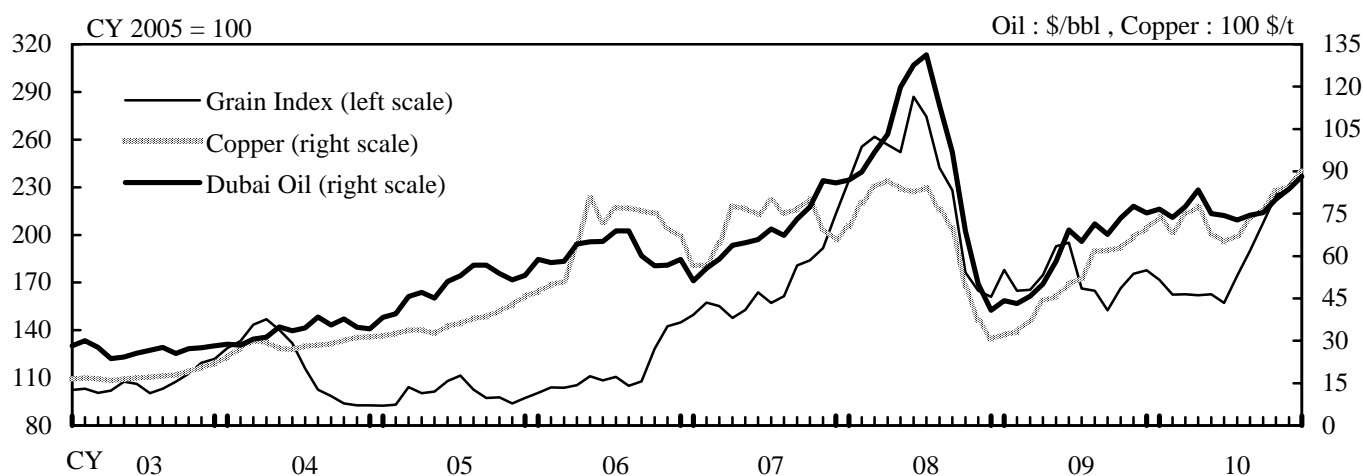
### (2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

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

### (3) International Commodity Prices



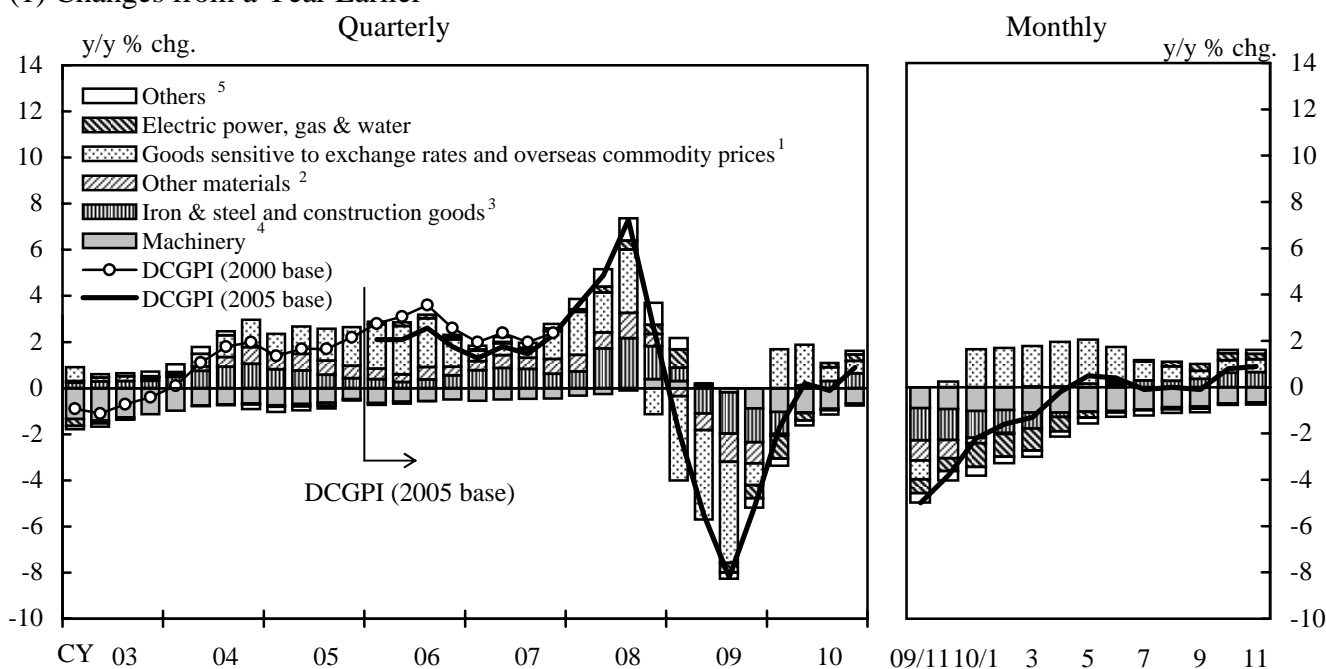
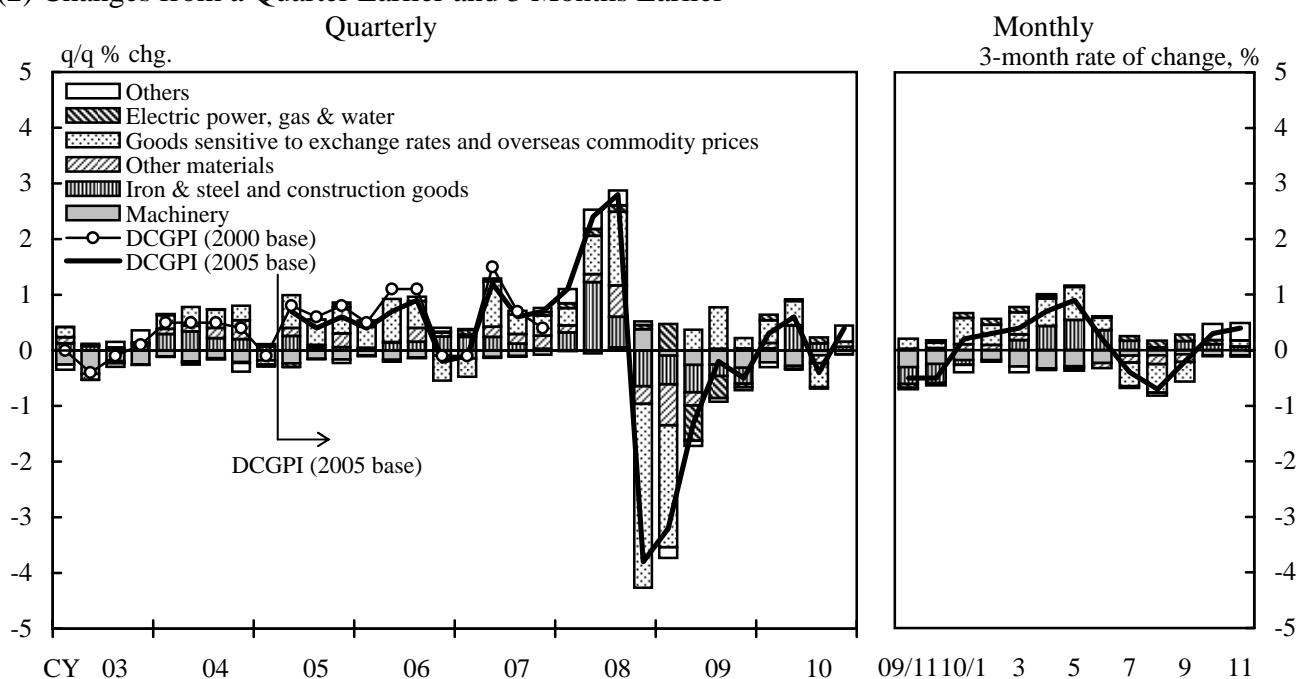
Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.

2. Monthly averages. Figures for December 2010 are the averages up to December 20.

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.

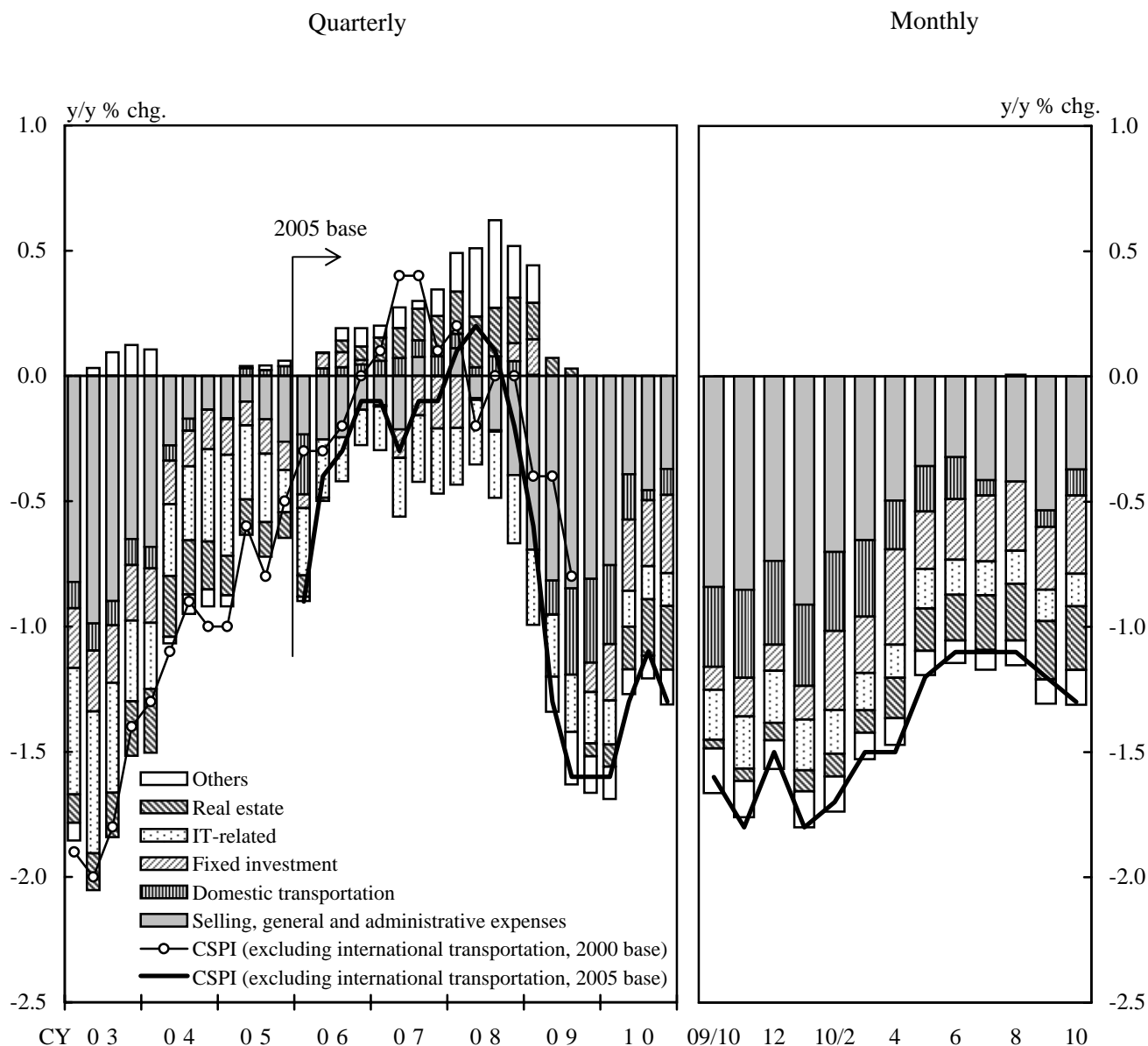
4. Machinery: electrical machinery & equipment, information & communications equipment, electronic components & devices, general machinery & equipment, transportation equipment, precision instruments.

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

## Corporate Services Price Index

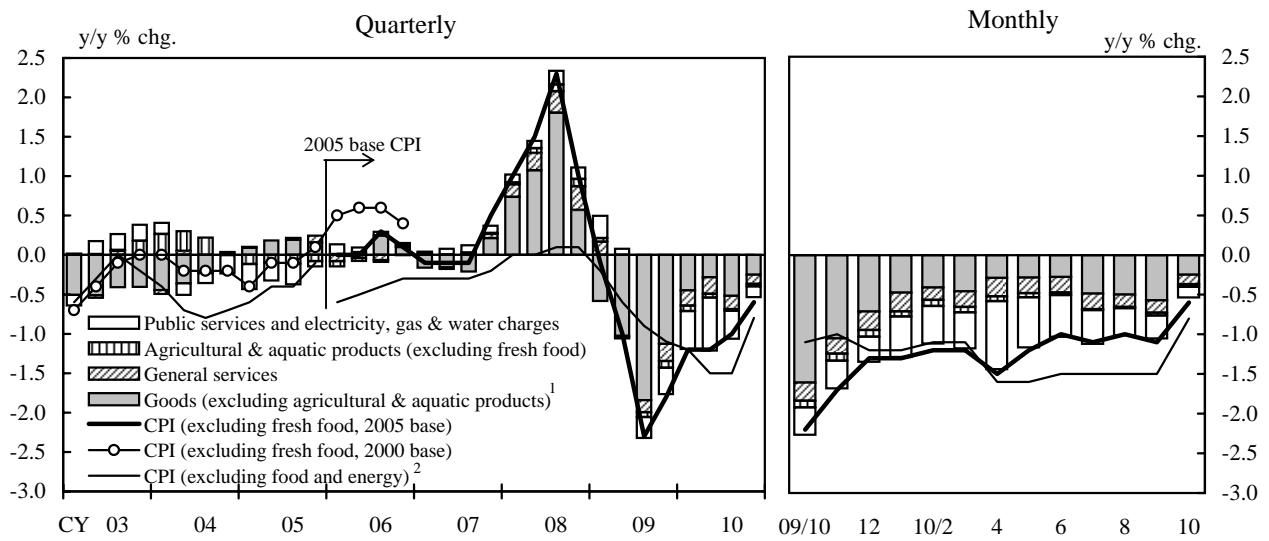


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, civil engineering and architectural services).
2. Domestic transportation: transportation (excluding international 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/Q4 are those of October. Figures for 2009/Q3 on the 2000 base are July-August averages.

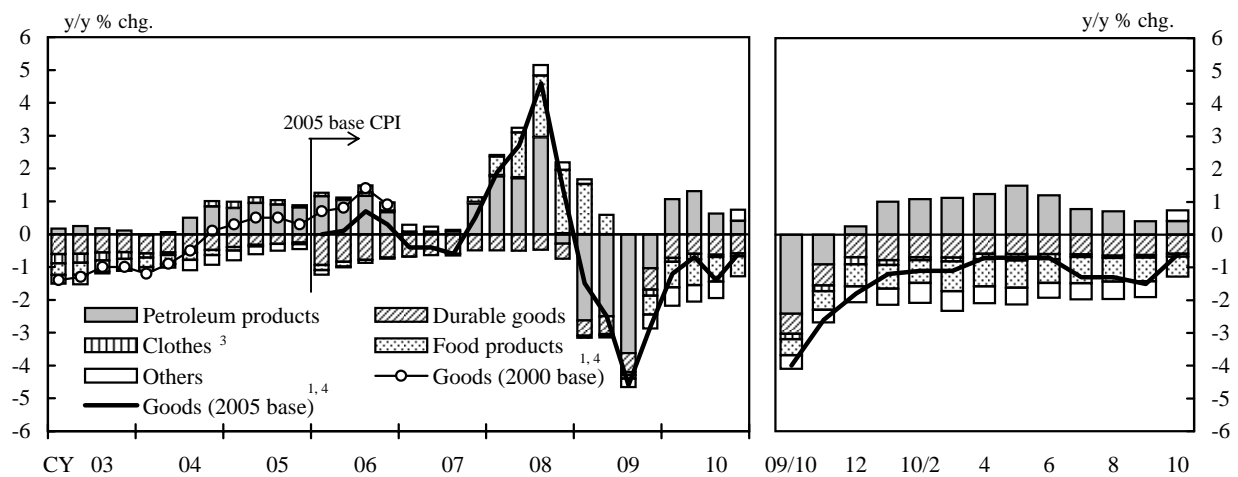
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

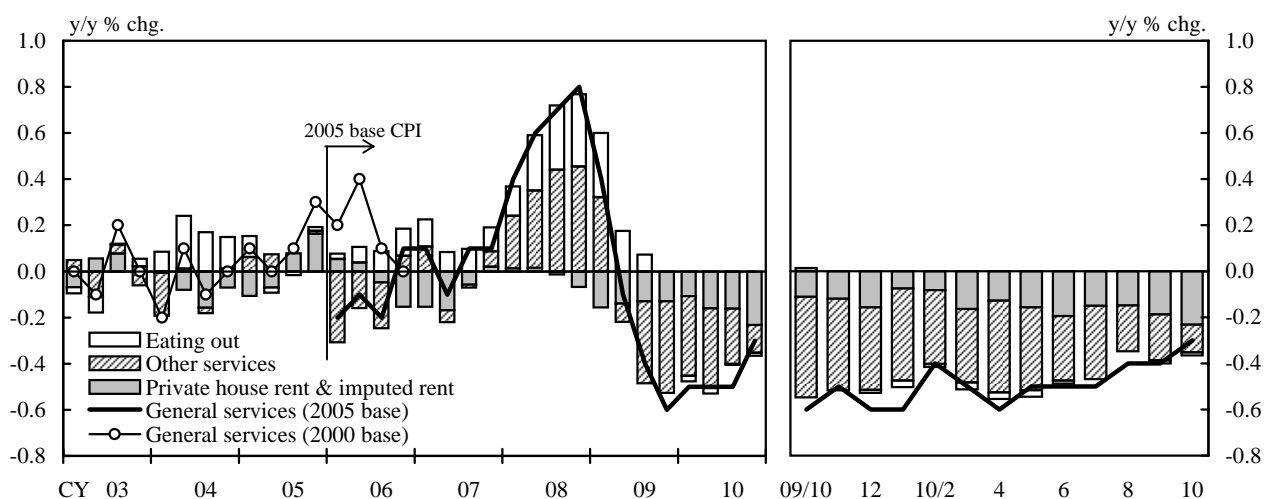
(1) Consumer Price Index (Excluding Fresh Food)



(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.

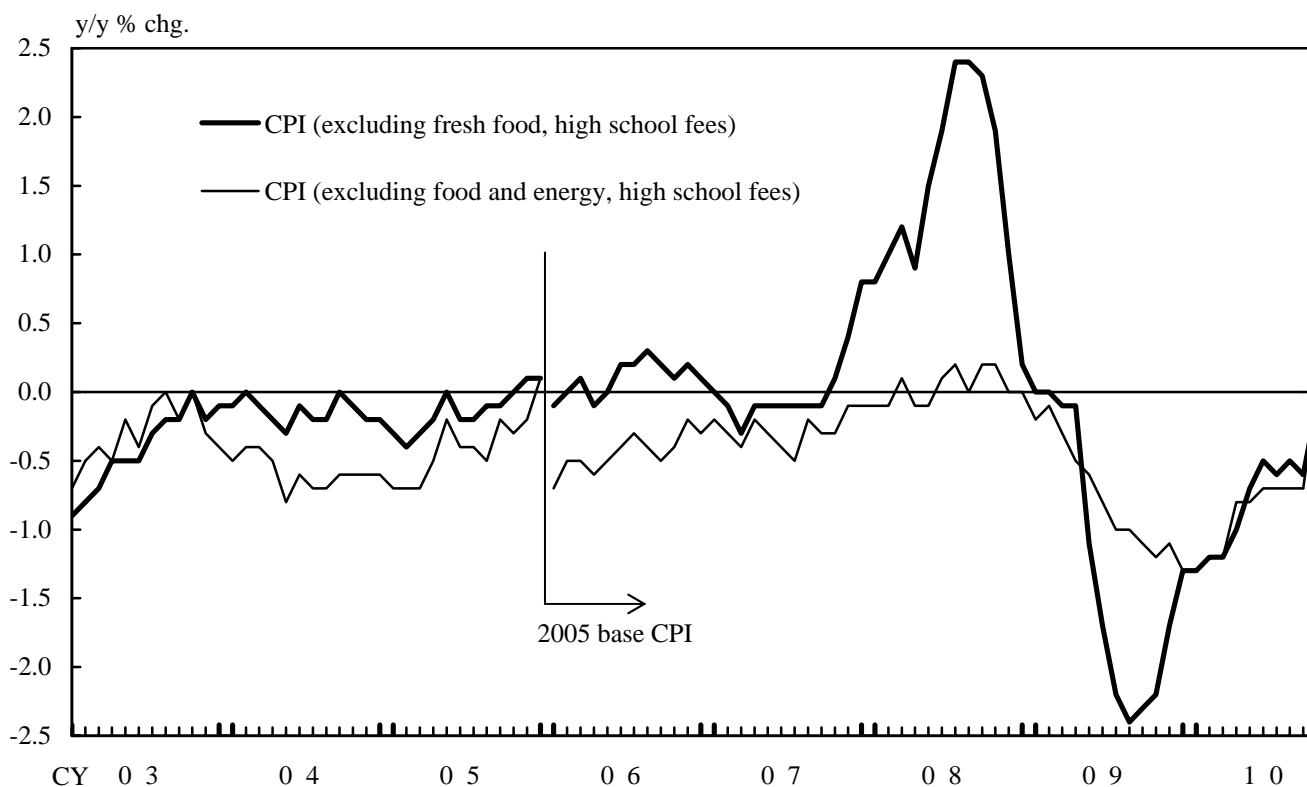
4. Excluding agricultural & aquatic products.

5. Figures for 2010/Q4 are those of October.

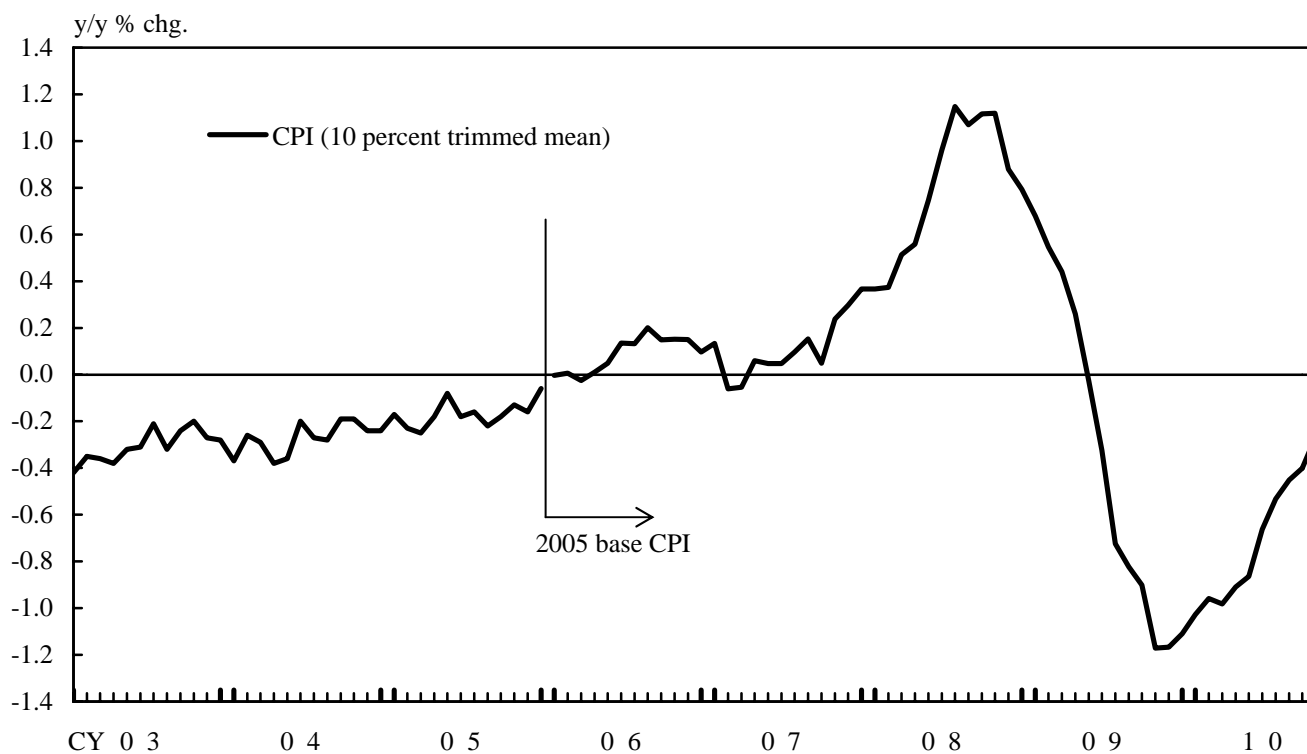
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

## 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.

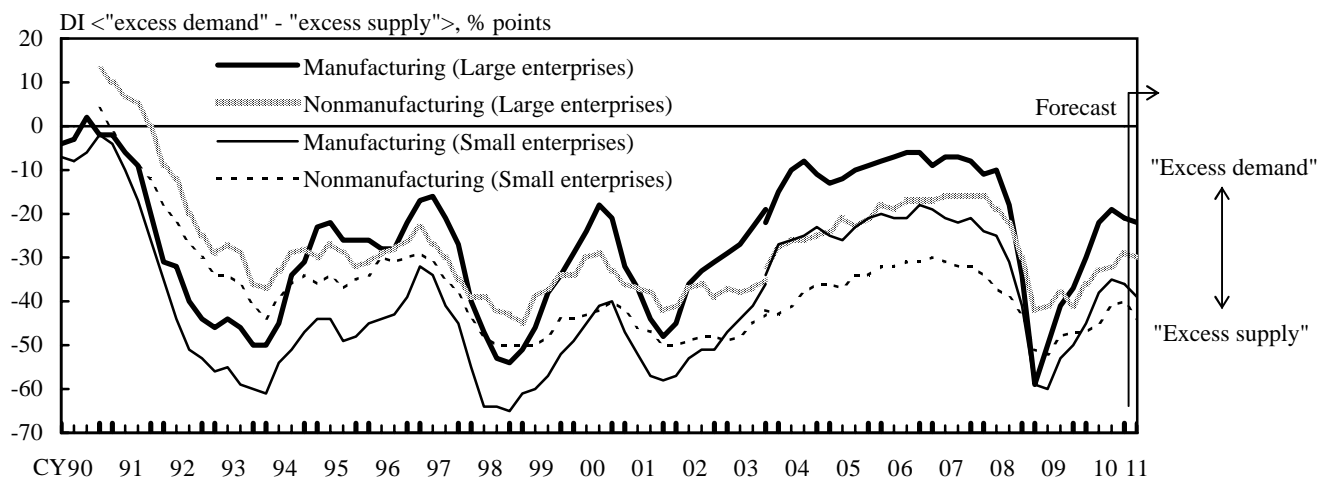
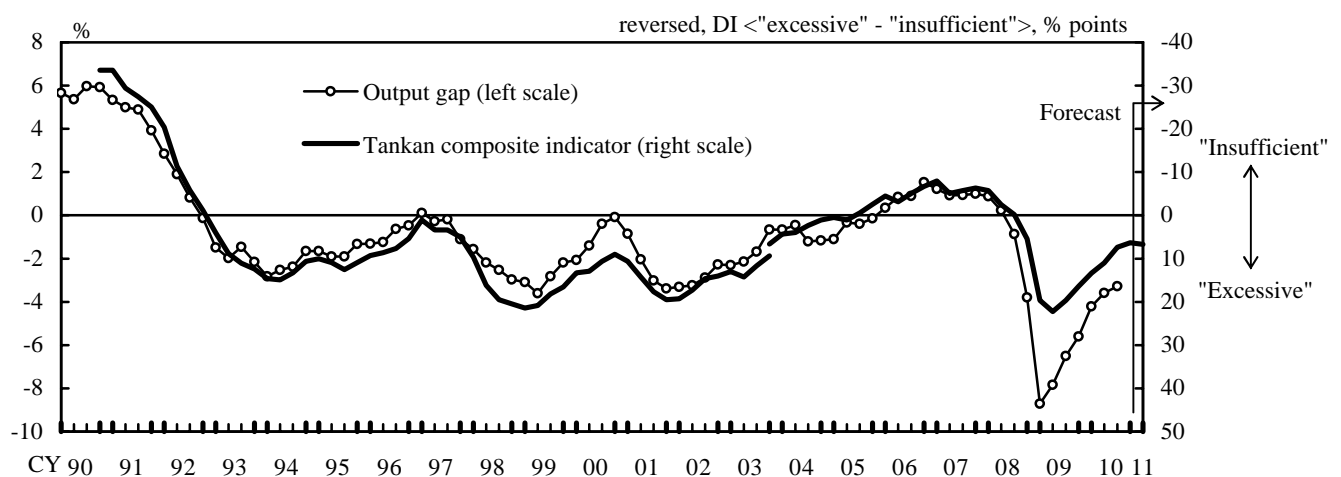
2. High school fees: high school fees (public), and high school fees (private).

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.

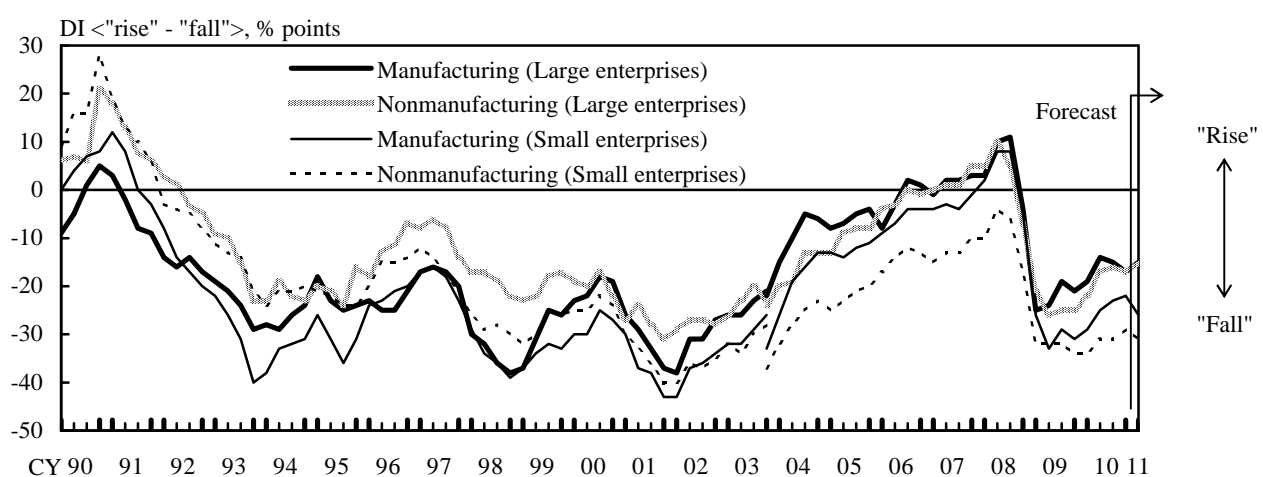
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

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.

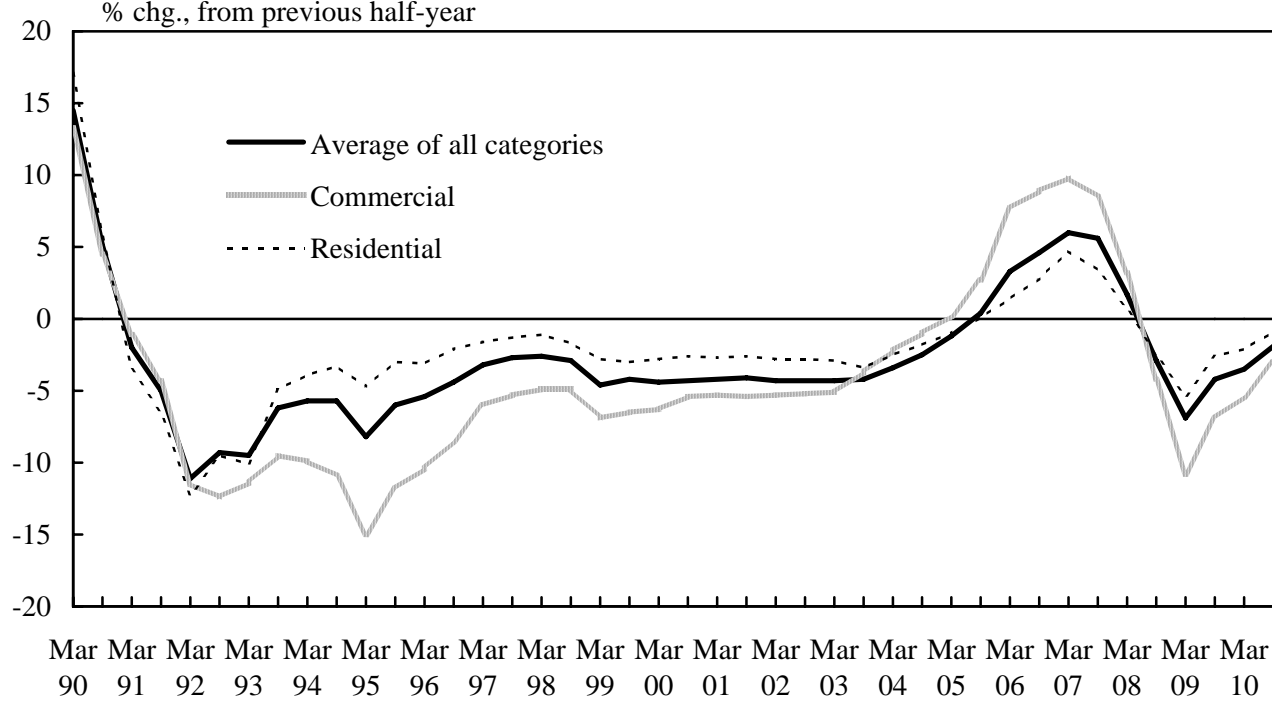
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

Sources: Cabinet Office, "National Accounts";

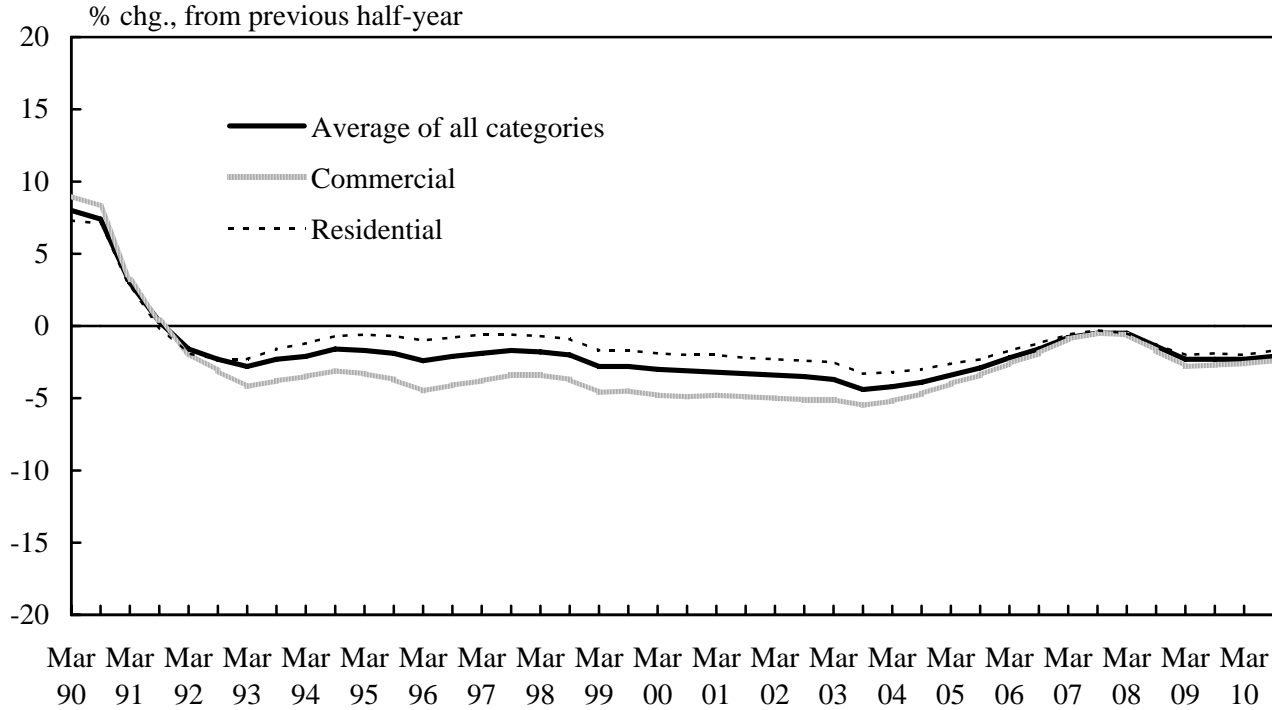
Bank of Japan, "*Tankan*, Short-Term Economic Survey of Enterprises in Japan," etc.

# Urban Land Price Index

## (1) Six Large City Areas



## (2) Excluding Six Large City Areas

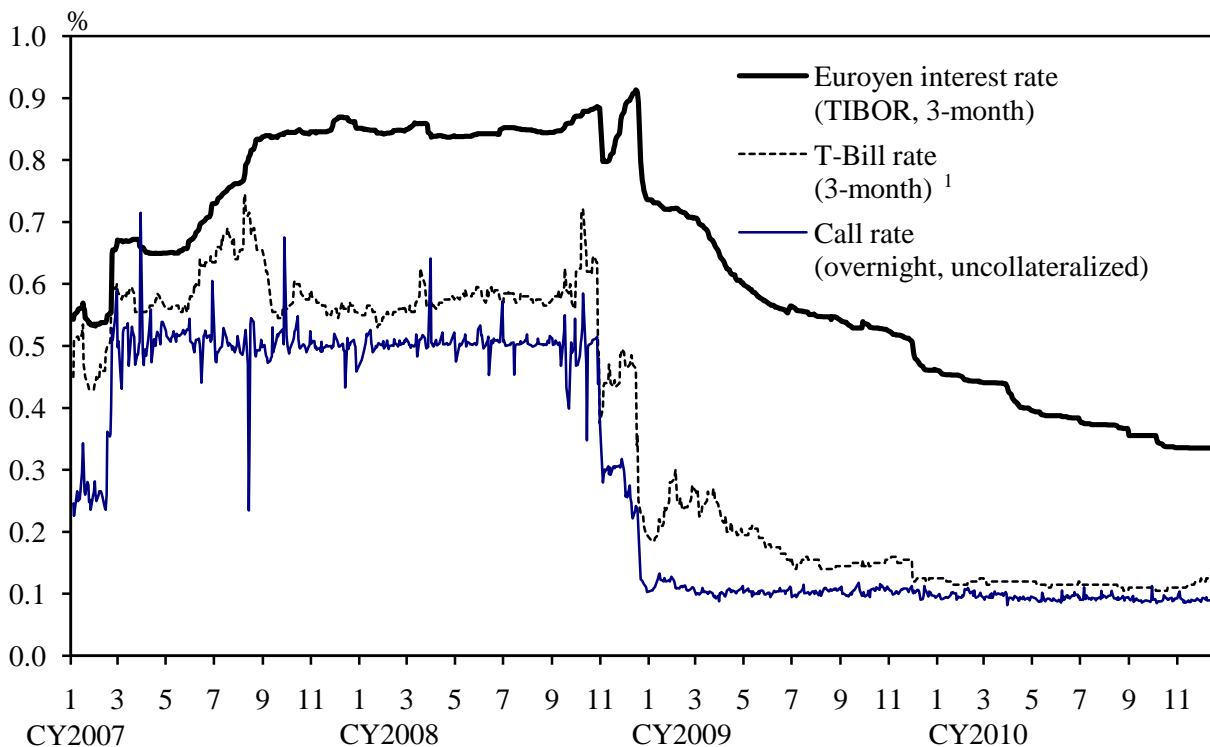


Notes: 1. The Urban Land Price Index is based on surveys conducted at the end of March and September each year.  
2. Six Large City Areas are Tokyo Metropolitan wards, Yokohama, Nagoya, Kyoto, Osaka, and Kobe.

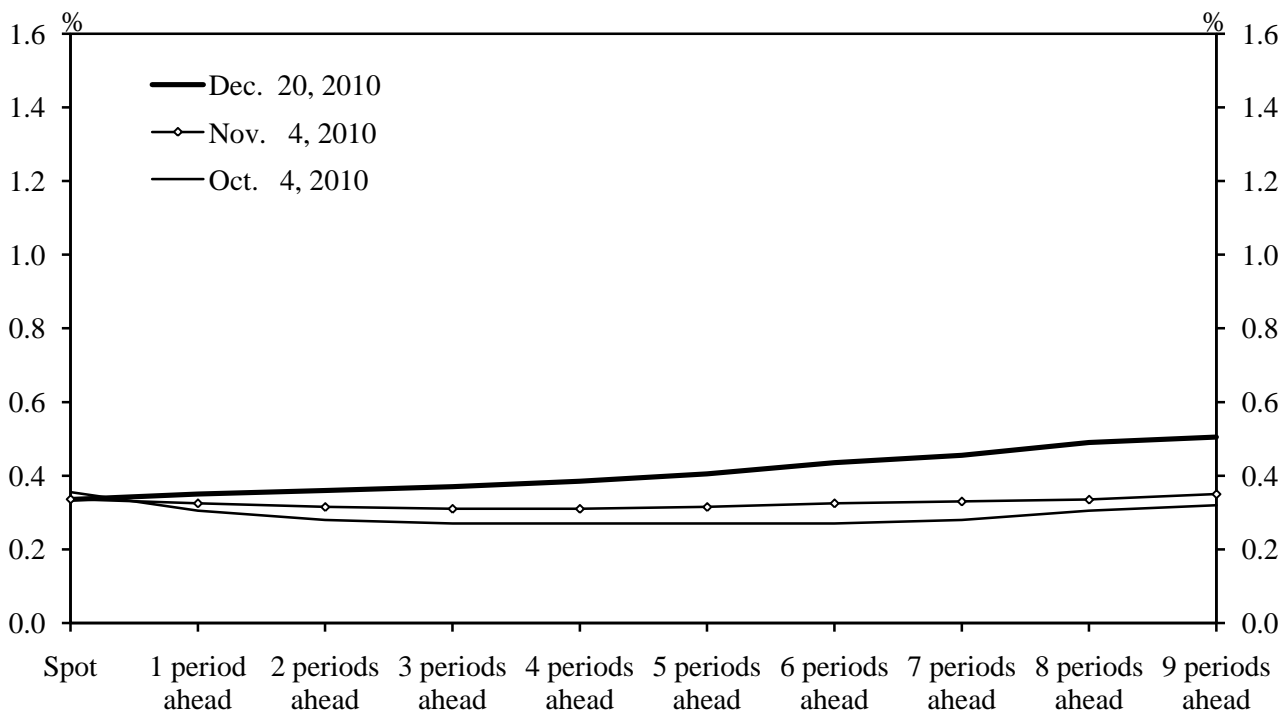
Source: Japan Real Estate Institute, "Urban Land Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



(2) Euroyen Interest 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.

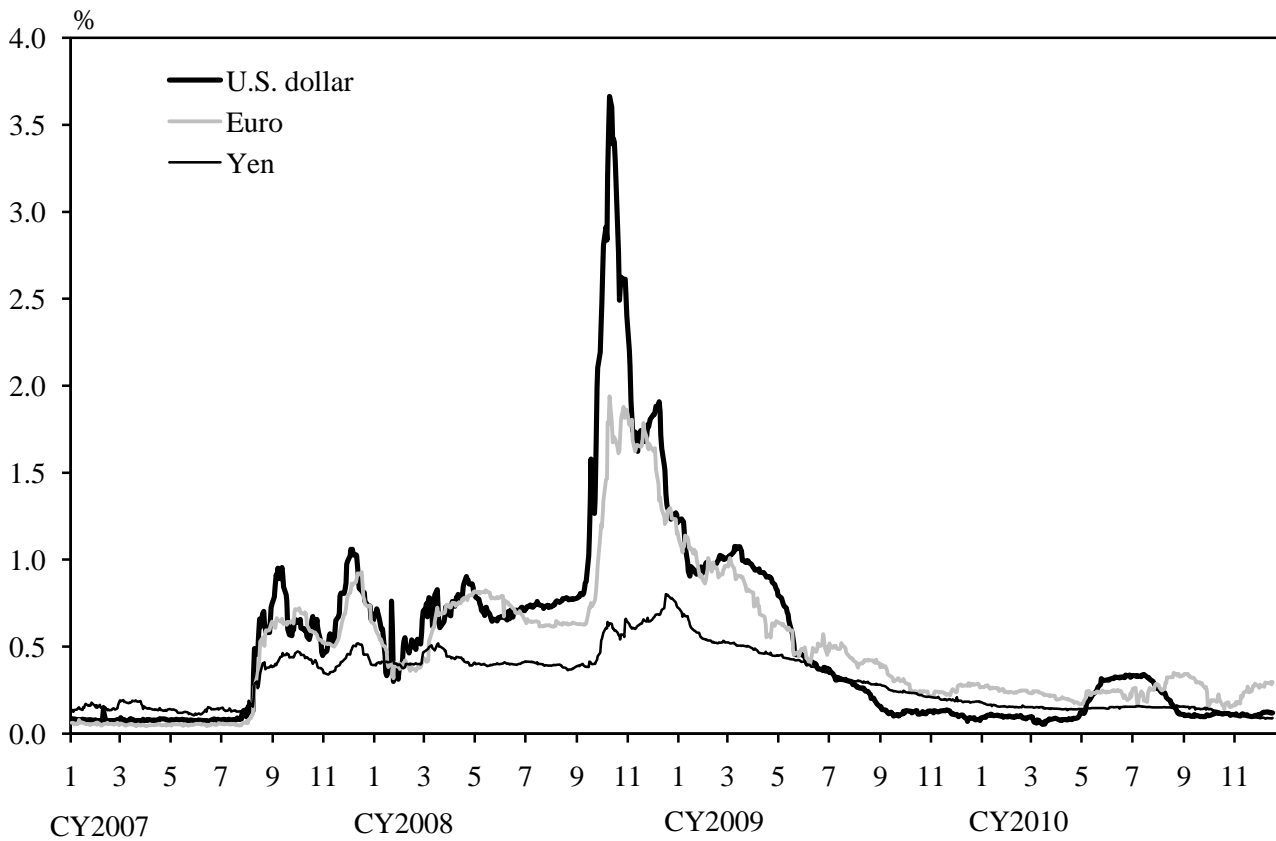
2. Contract months in the figure (2) exclude "serial months," the months other than March, June, September and December.

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

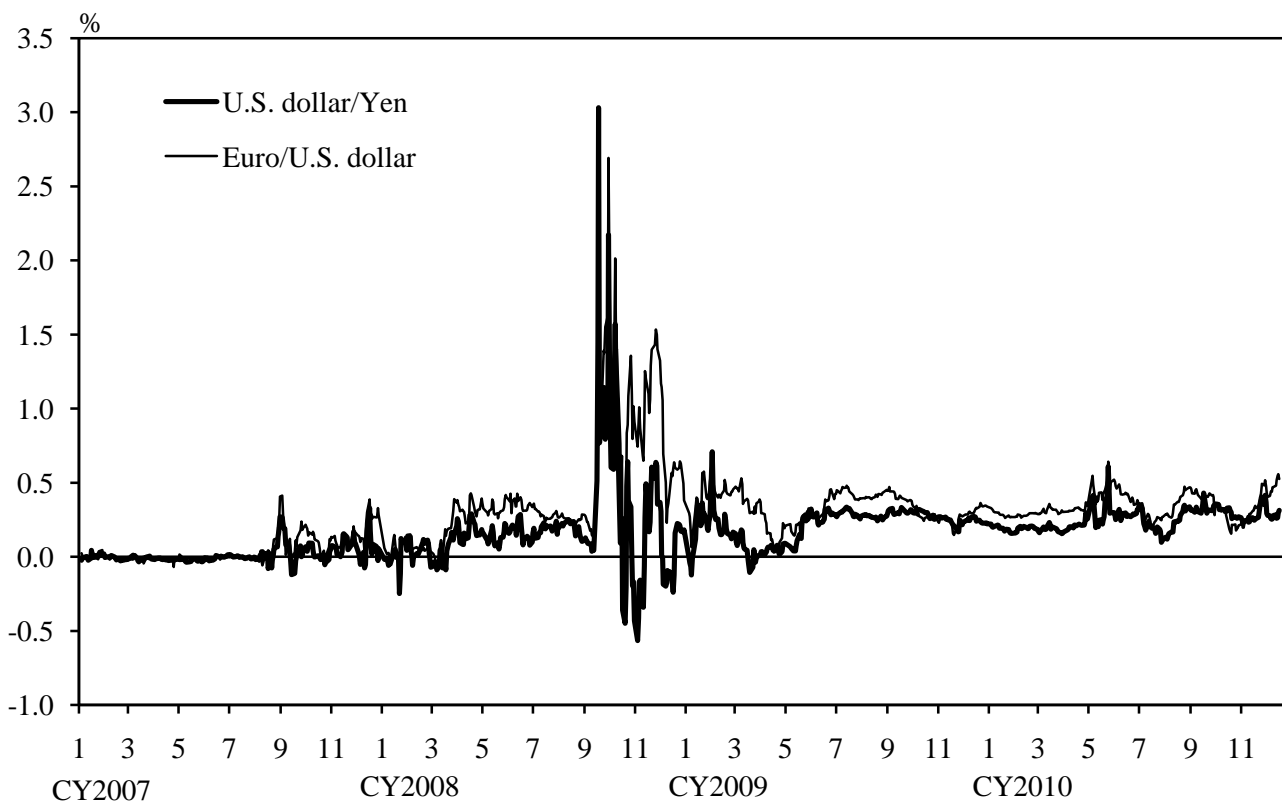


Global Money Markets

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



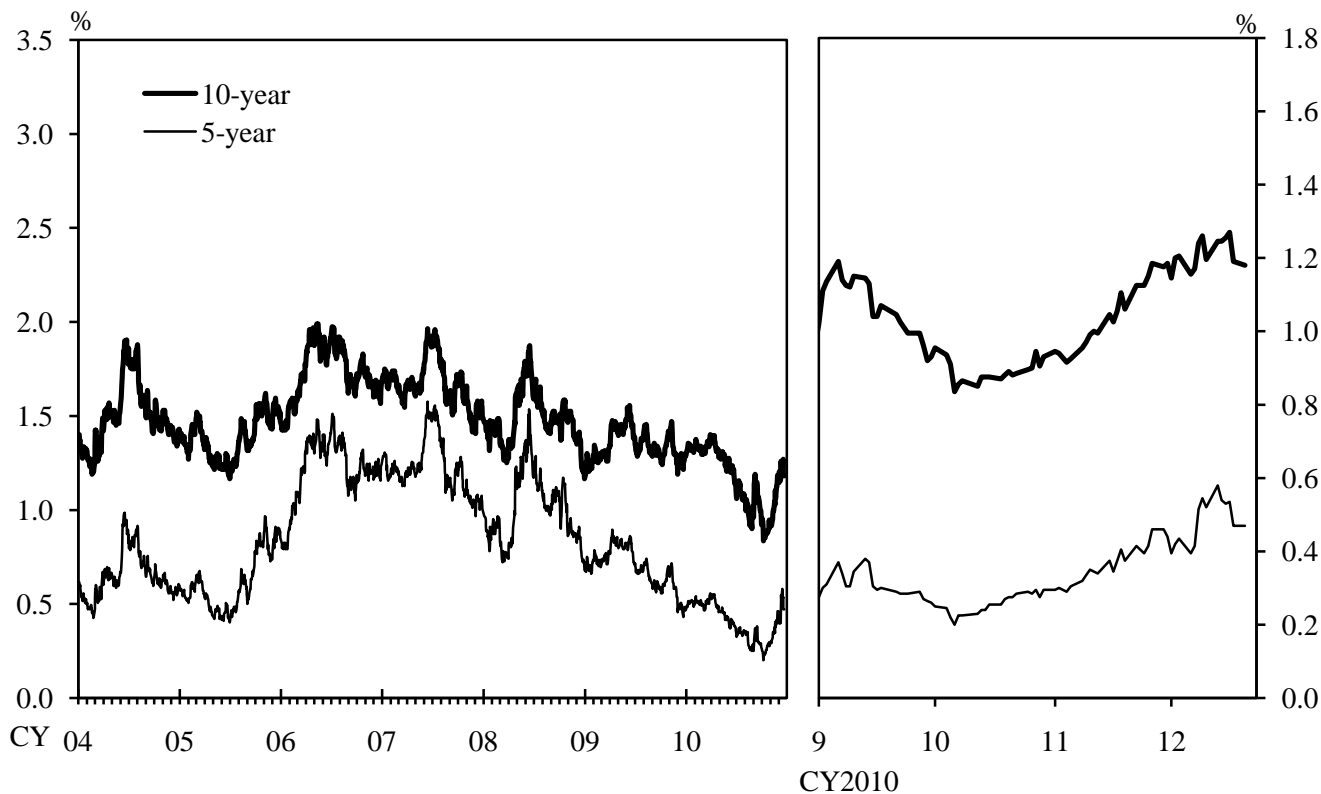
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



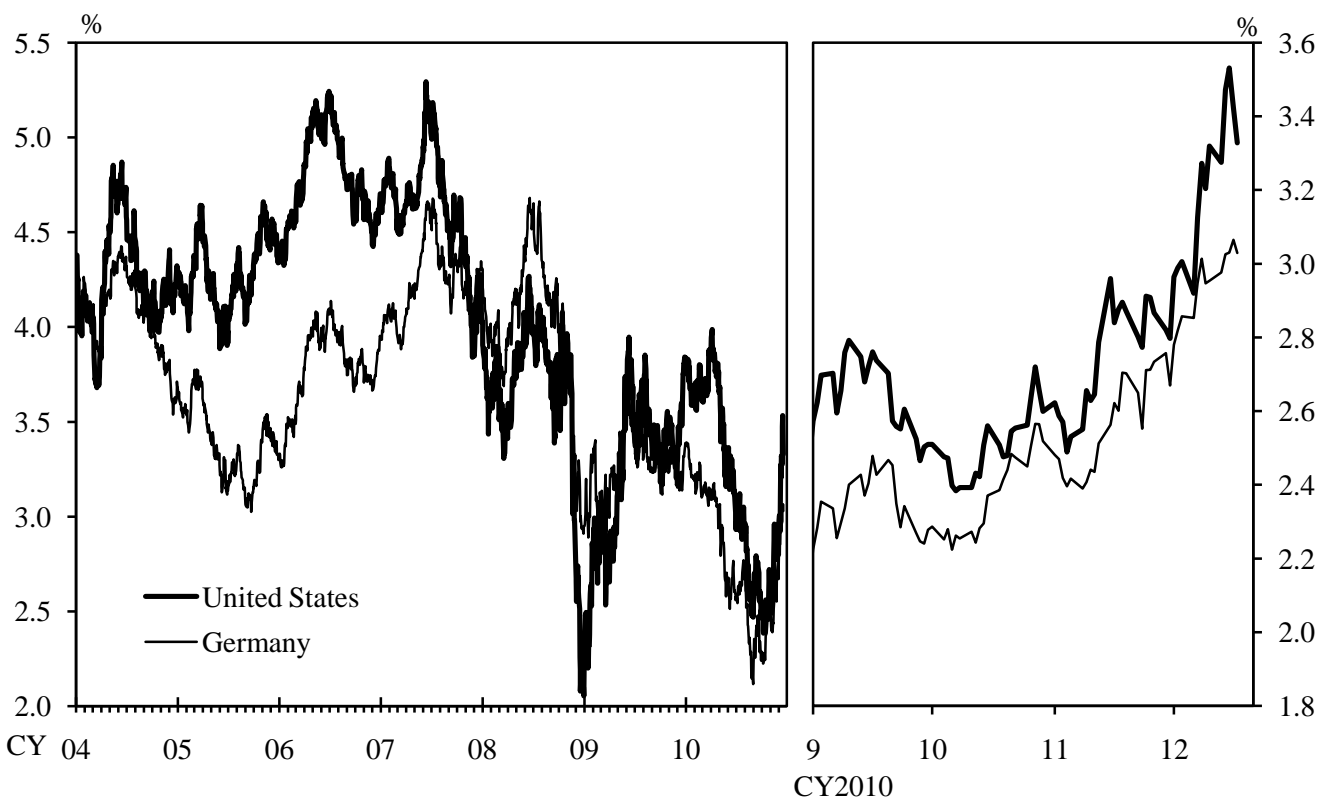
Source: Bloomberg.

Long-Term Interest Rates

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



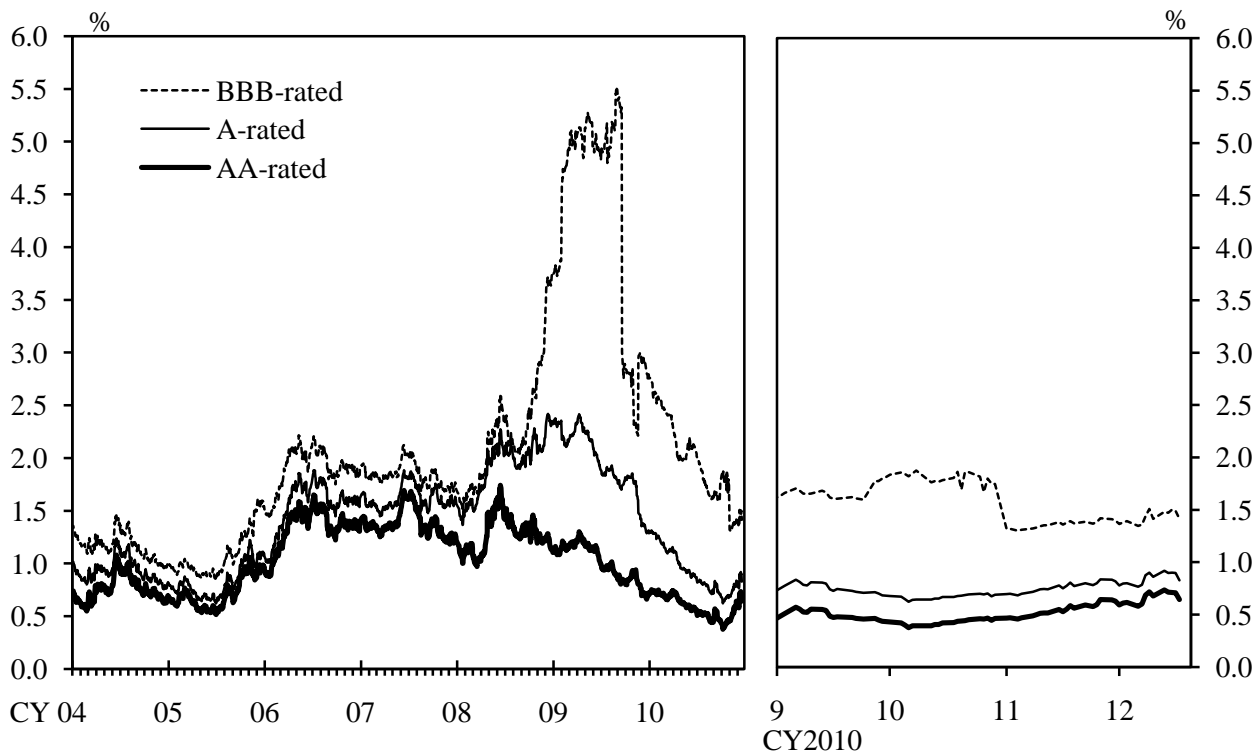
(2) Overseas Government Bond Yields (10-Year)



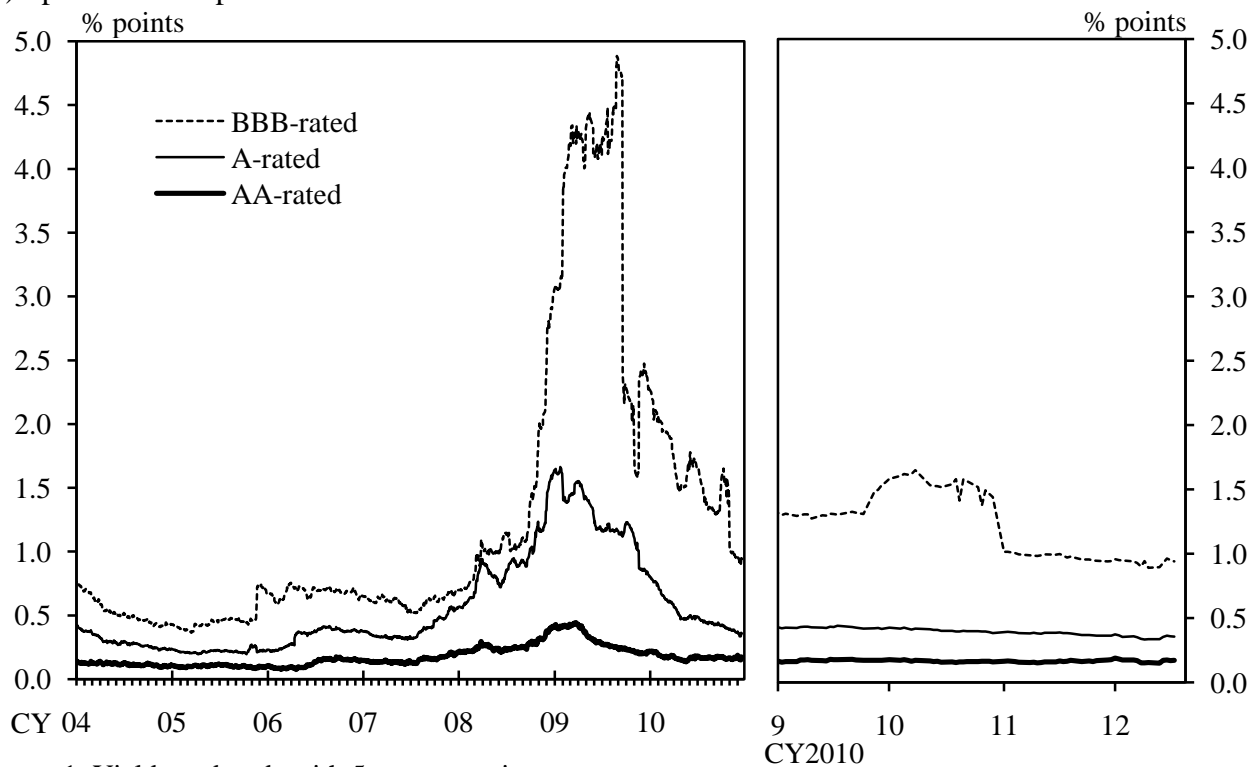
Note: 1. Yields on newly issued bonds.  
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

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.

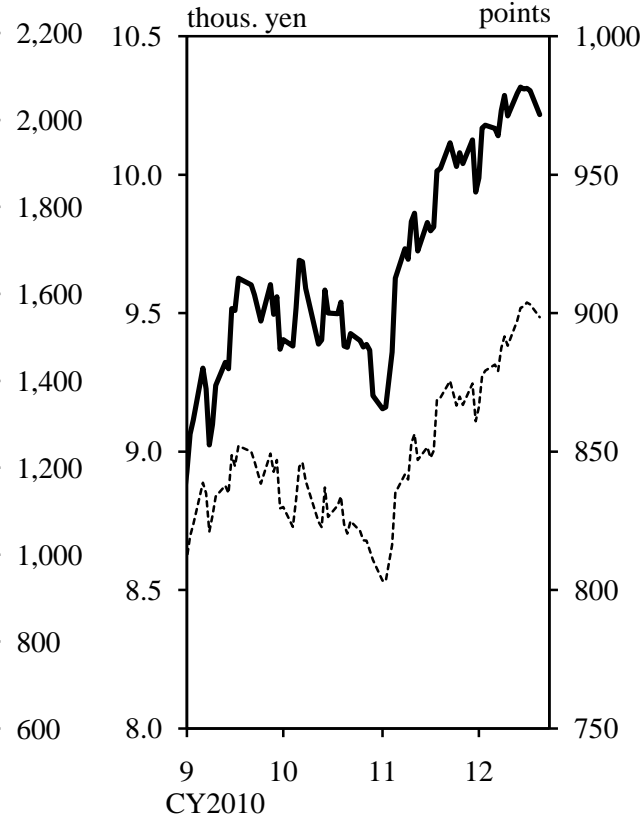
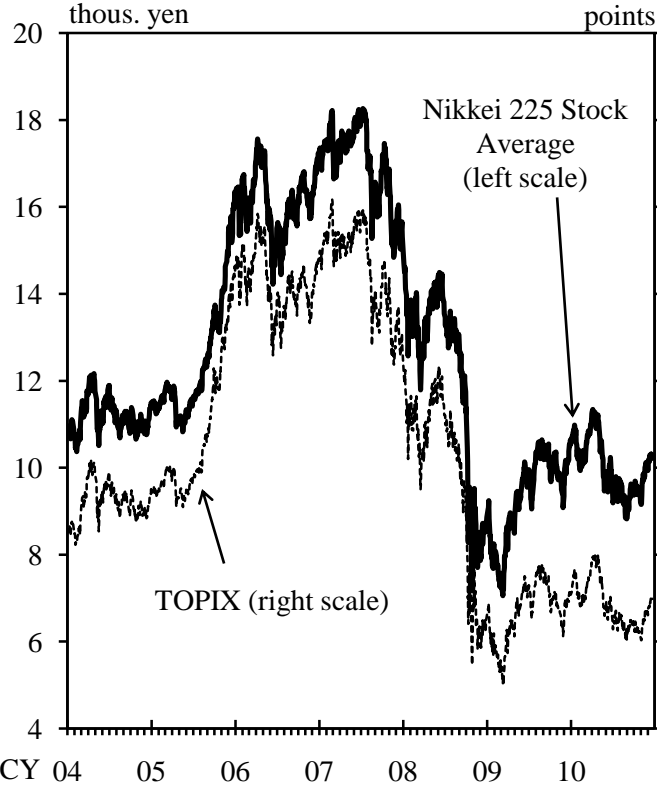
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

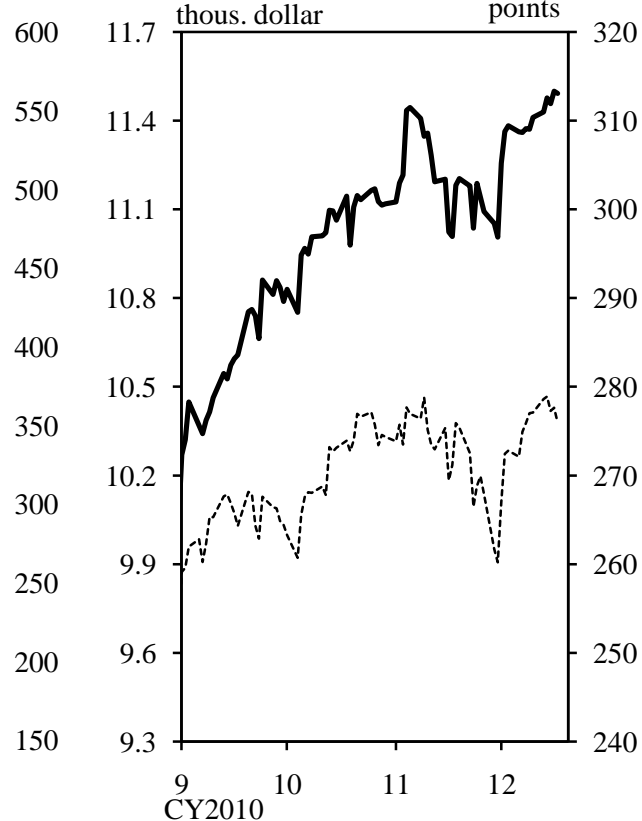
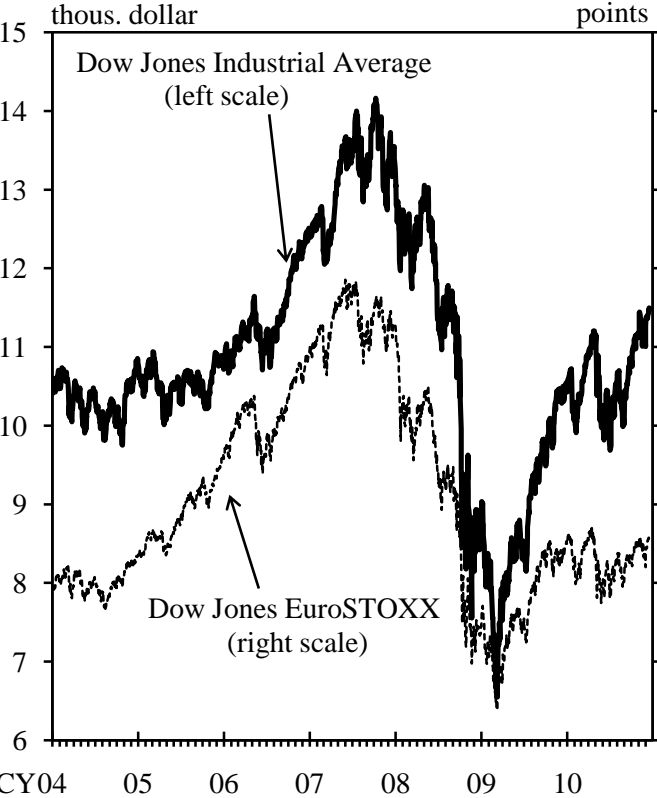
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



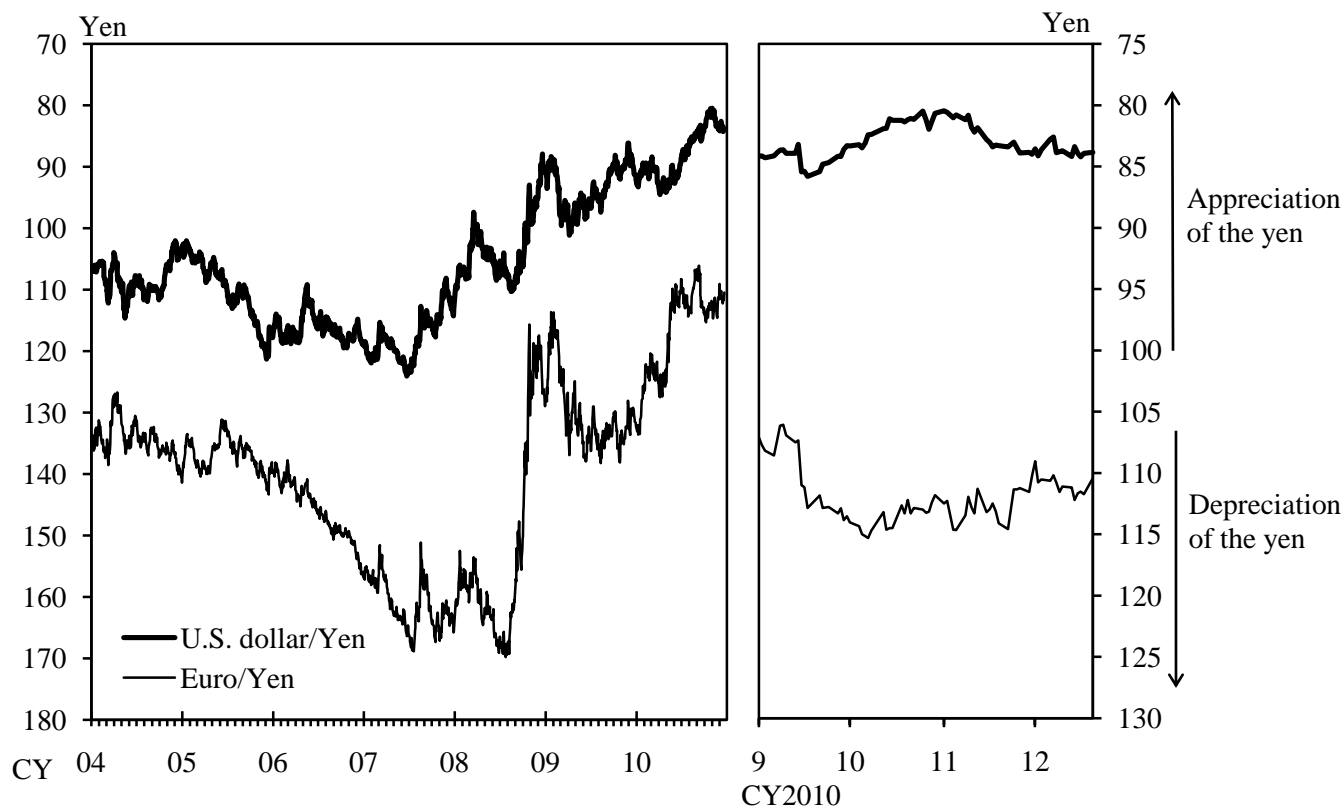
(2) Overseas Stock Prices



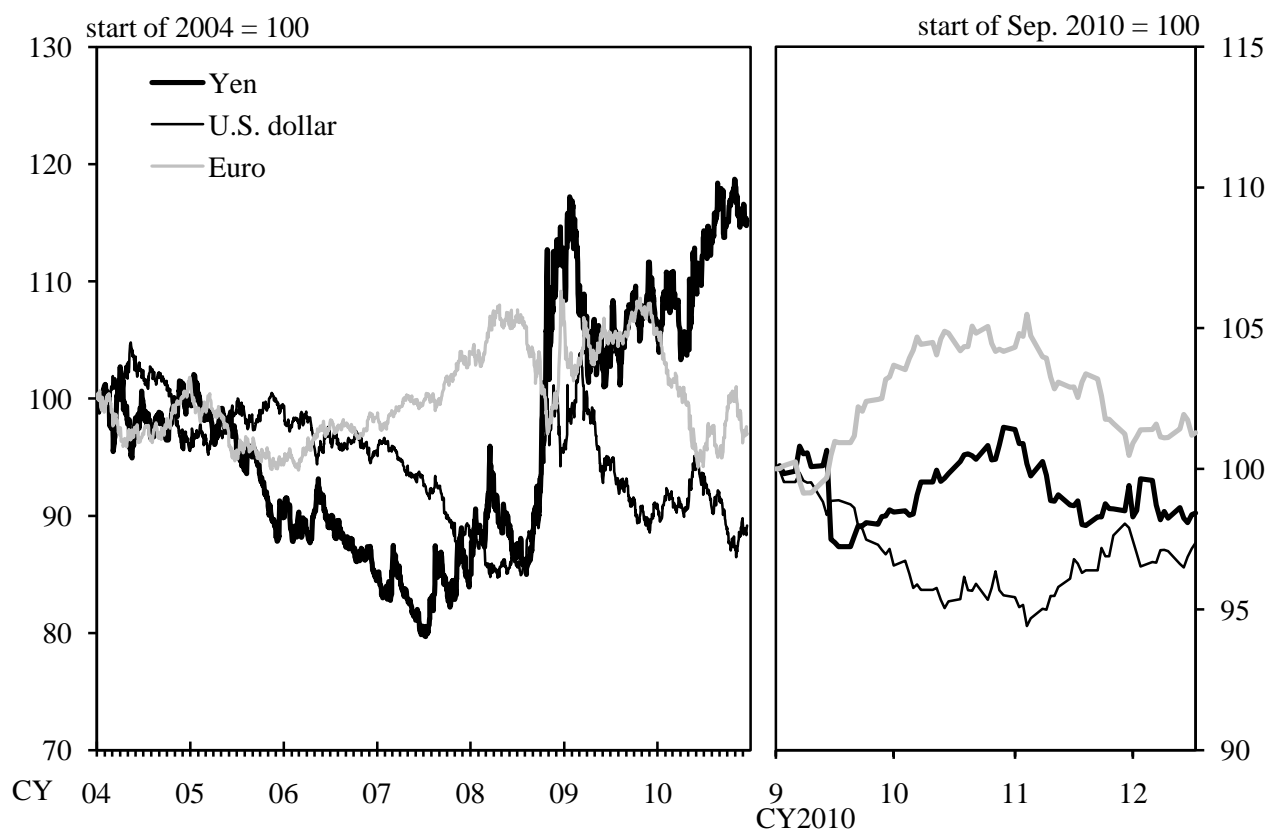
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



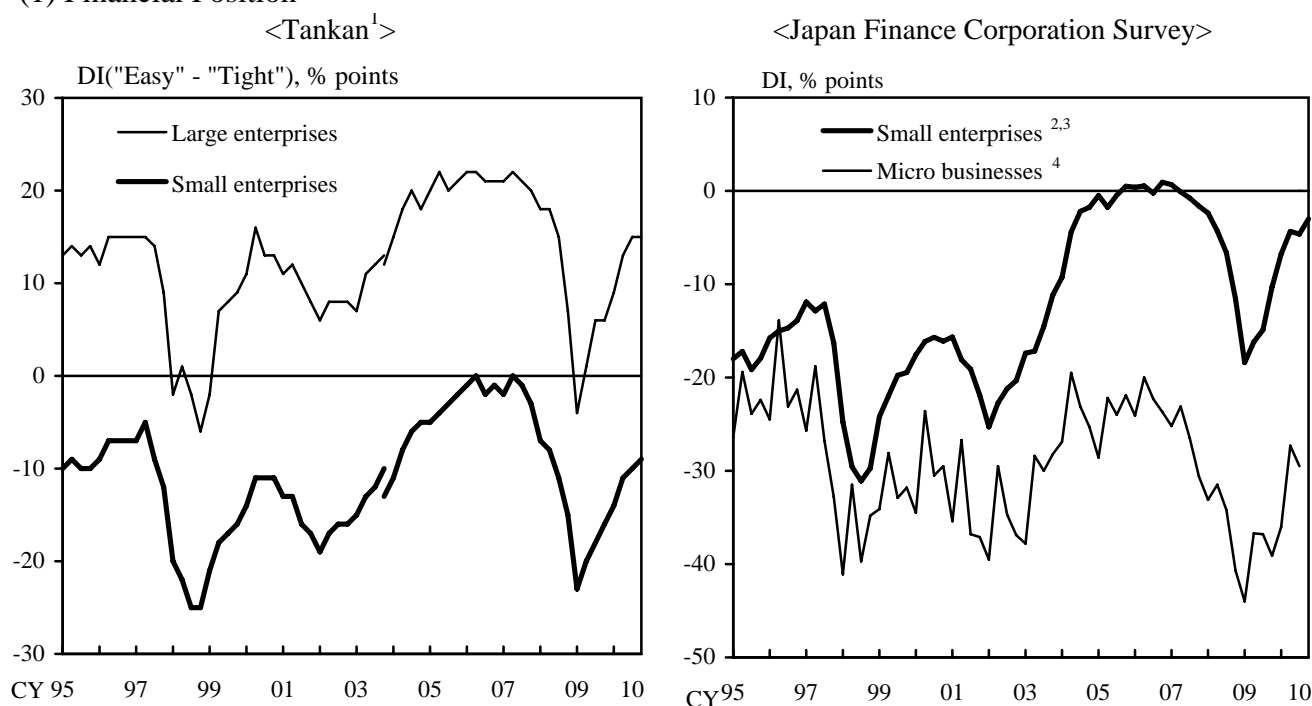
(2) Nominal Effective Exchange Rates



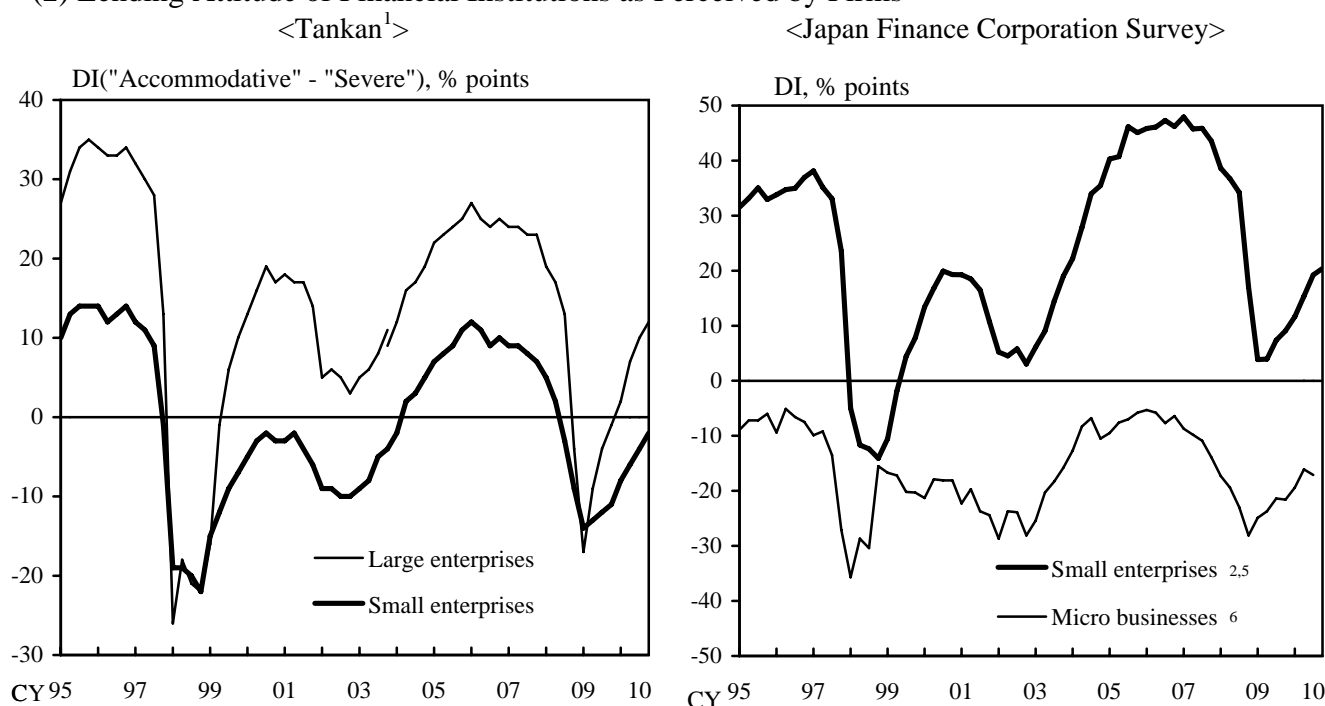
Sources: Bank of Japan; European Central Bank; Bloomberg.

## Corporate Finance-Related Indicators

## (1) Financial Position



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



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

2. Figures are quarterly averages of monthly data. Figures for 2010/Q4 are those of Oct.-Nov. averages.

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

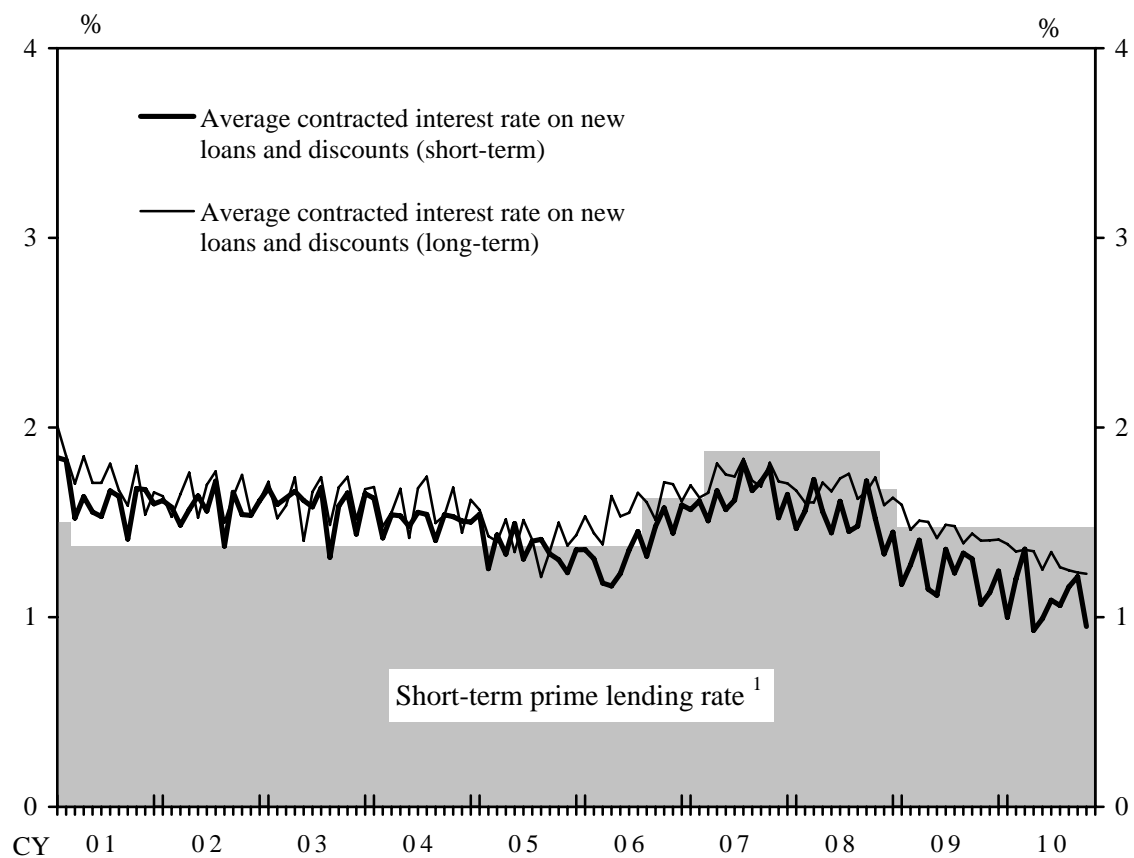
4. DI of "Easier" - "Tighter."

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

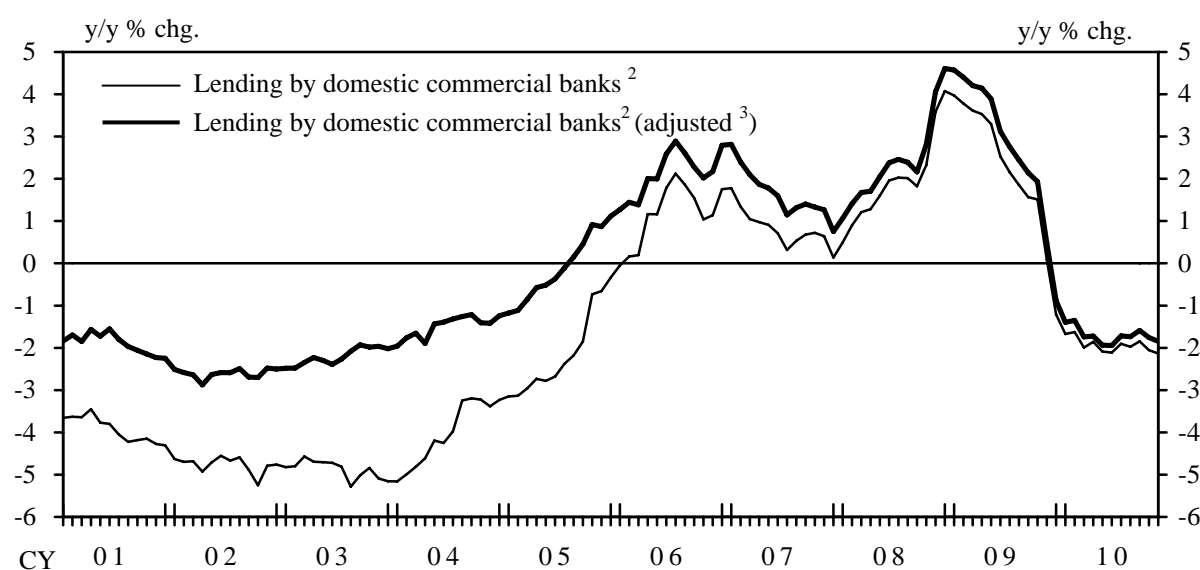


Note: 1. Data are at end of period.

Source: Bank of Japan.

## Lending by Financial Institutions

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



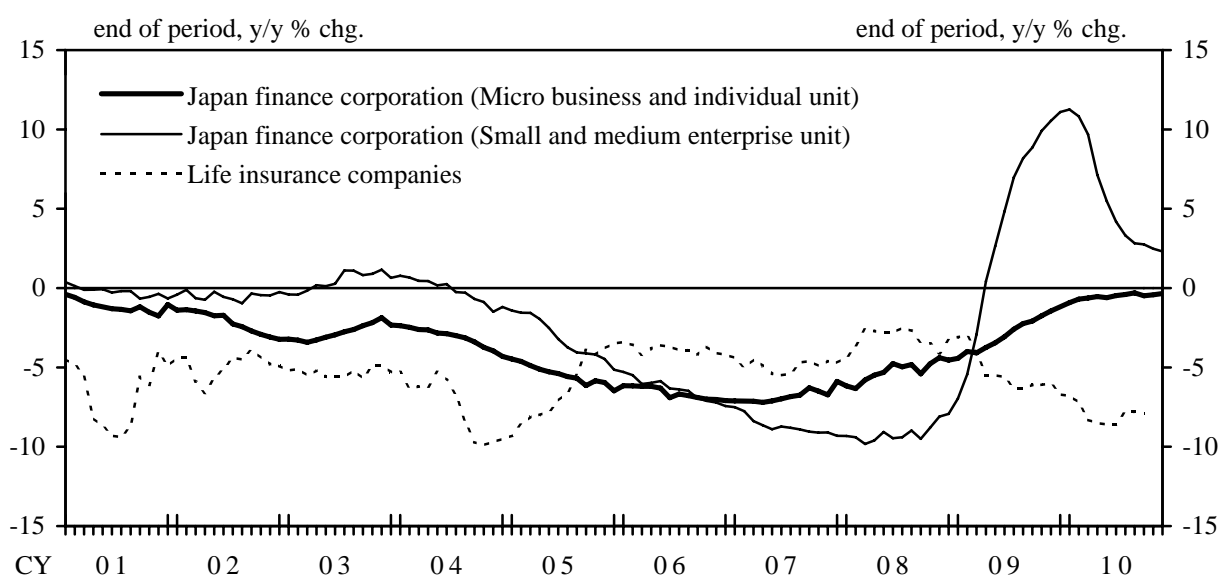
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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



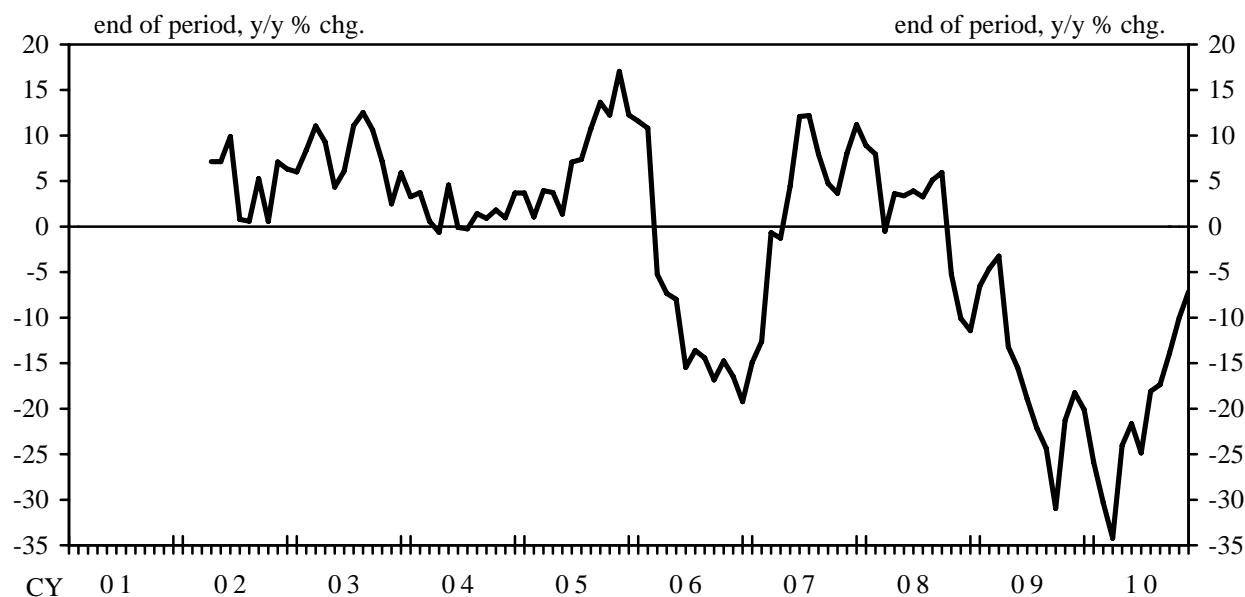
Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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



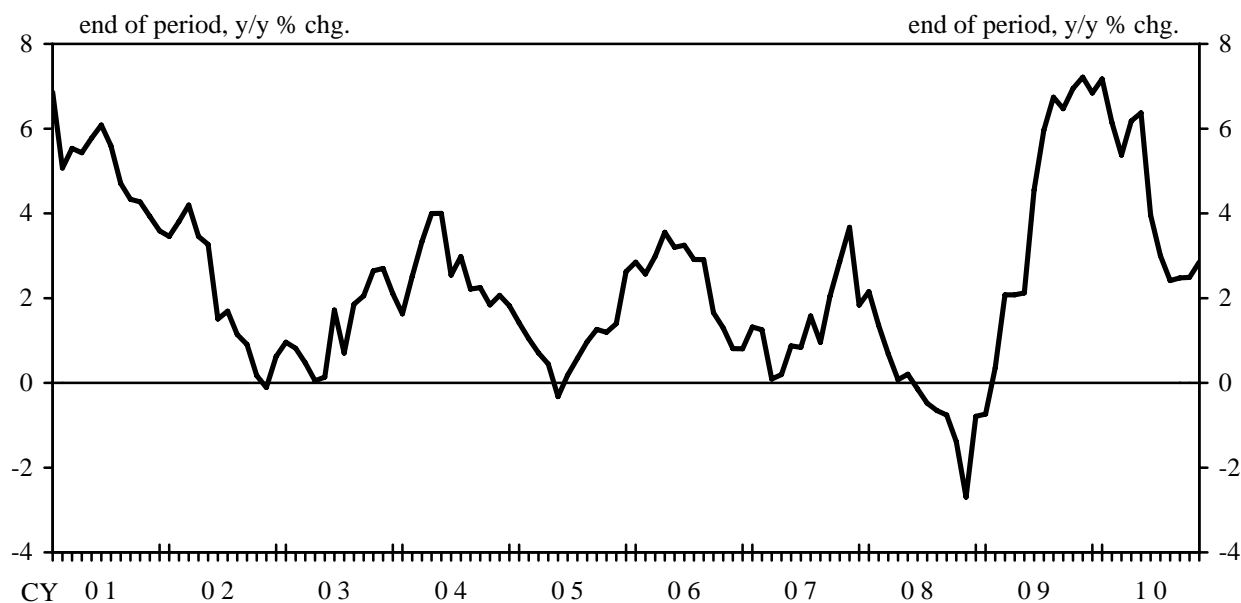
## Private-Sector Fund-Raising in the Capital Markets

## (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



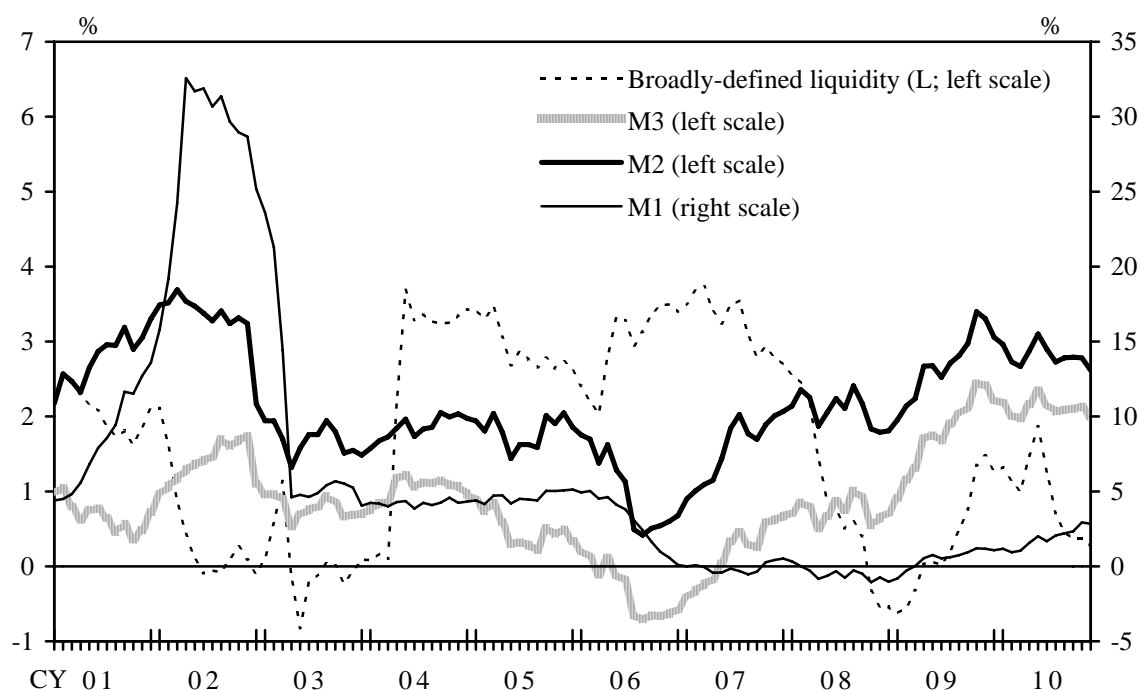
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

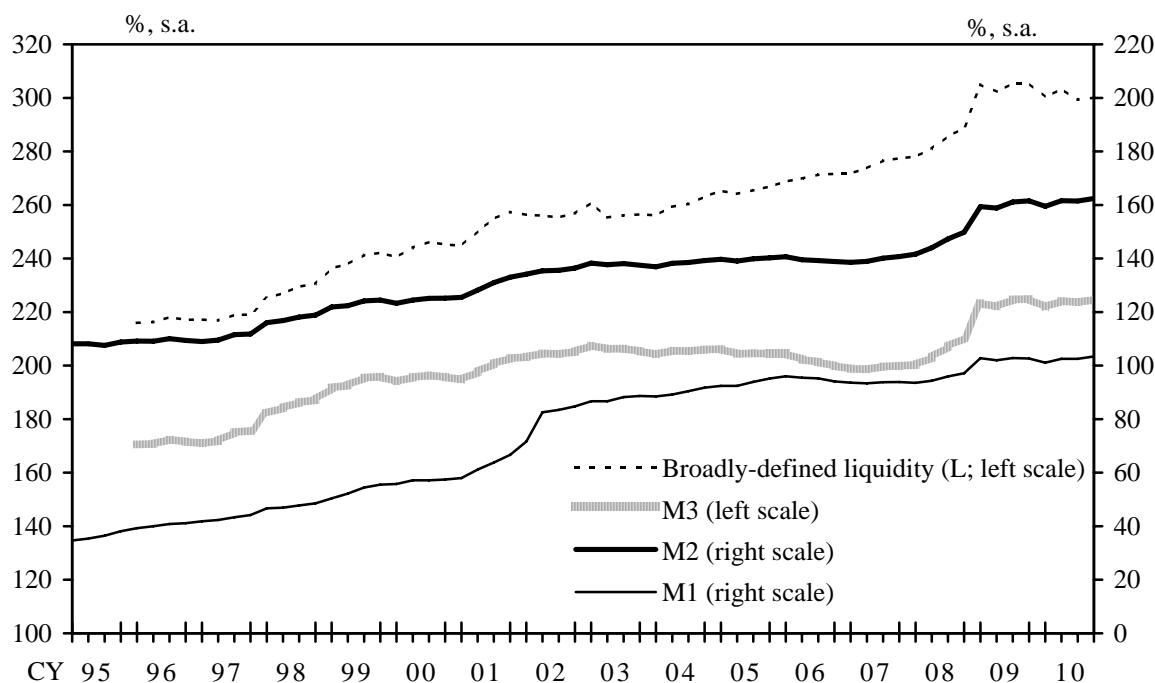
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";  
Bank of Japan, "Principal Figures of Financial Institutions";  
Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

## Money Stock

## (1) Changes from a Year Earlier



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

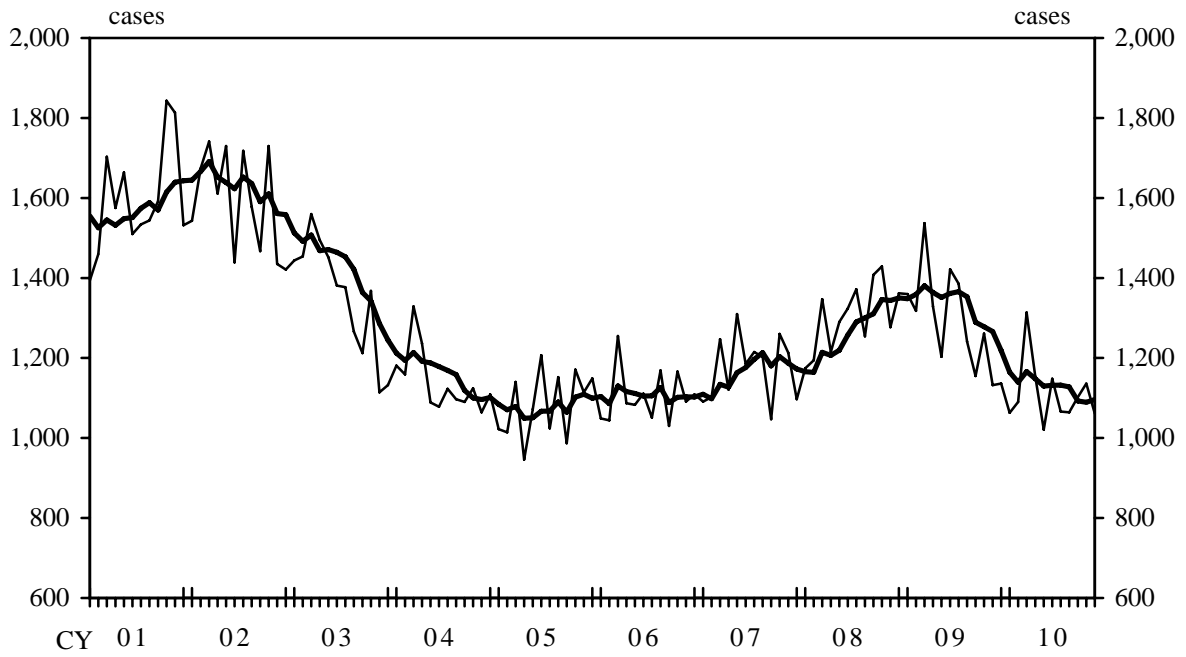


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.  
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.  
 3. The 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. Figures for money stock in 2010/Q4 are those of Oct.-Nov. averages, and nominal GDP in 2010/Q4 is assumed to be unchanged from the previous quarter.

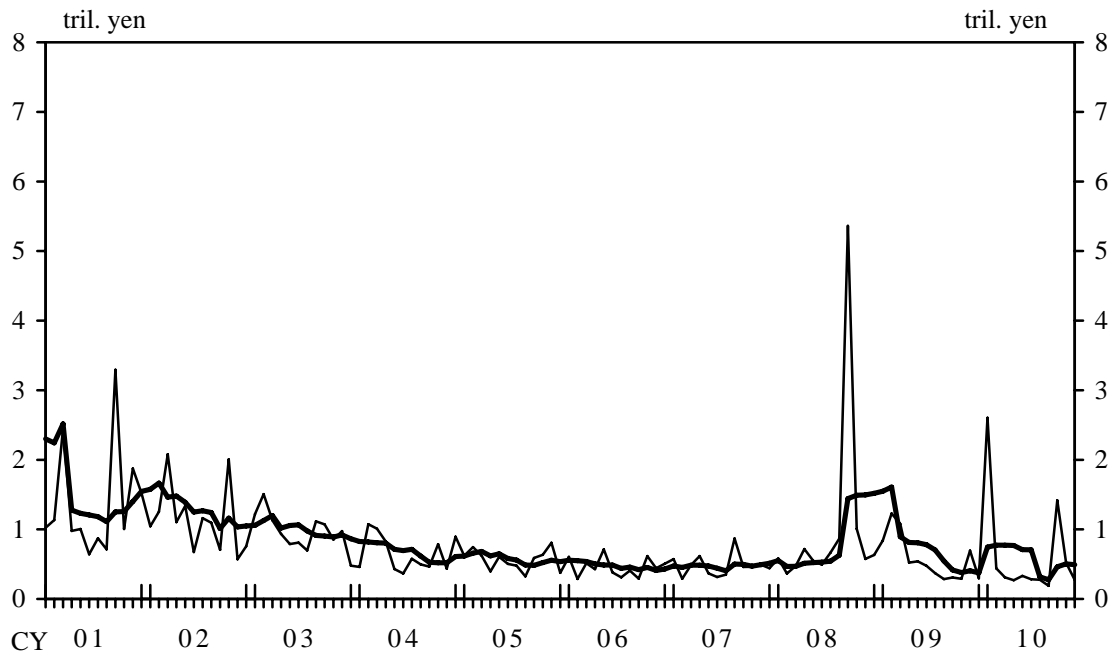
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."