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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
October 2011

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Monthly Report of Recent Economic and Financial Developments¹

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Summary

Japan's economic activity has continued picking up.

Production and exports have continued to increase, although their paces have moderated after going through the recovery phase immediately following the quake-induced plunge. In this situation, business fixed investment has been increasing moderately, aided partly by the restoration of disaster-stricken facilities. Private consumption has also been picking up on the whole, although weakness remains in some aspects of consumer behavior. Housing investment has shown clear signs of picking up and public investment has almost stopped declining.

With regard to the outlook, Japan's economy is expected to return to a moderate recovery path.

The underlying trend in overseas economic growth is expected to remain firm, led by emerging economies, although the pace is expected to slow for the time being. As a result, exports are expected to trend up moderately, due in part to the restocking of inventories abroad. In this situation, business fixed investment, housing investment, and public investment are expected to increase gradually, mainly due to growing demand for the purposes of restoring capital stock. Private consumption is expected to hold steady. Production is expected to continue increasing at a moderate pace.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat, reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on October 6 and 7, 2011.

Domestic corporate goods prices are expected to be somewhat weak for the time being. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

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

Financial conditions have continued to ease, albeit with weakness still being observed in the financial positions of some firms, mainly small ones.

The overnight call rate has remained at an extremely low level, and firms' funding costs have declined moderately. Stimulative effects from low interest rates are still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable as seen in the increased variety of corporate bond issuers. As for credit demand, firms have shown signs of increasing their demand for working capital. Against this backdrop, the year-on-year rate of decline in bank lending is gradually slowing. The amount outstanding of corporate bonds has exceeded the previous year's level, and that of CP was around the year-ago level in September. In these circumstances, firms have retained their recovered financial positions on the whole, albeit with weakness still being observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.

1. Economic Developments

Public investment has almost stopped declining recently, albeit with fluctuations. Monthly indicators (Chart 5) show that both the value of public works contracted—a measure that reflects public orders—and the amount of public construction completed—which reflects the progress of public works—have shown signs of bottoming, despite monthly fluctuations. The value of public works contracted in August by prefecture reveals that the three disaster-stricken prefectures (Iwate, Miyagi, and Fukushima Prefectures) in the Tohoku region were the contributors in this regard and the execution of the first and second supplementary budgets for this fiscal year seems to be gradually progressing.

Public investment is expected to increase gradually, mainly due to the restoration of damaged social capital.

Real exports have continued to increase, although the pace has moderated after going through the recovery phase immediately following the quake-induced plunge (Charts 6[1] and 7). Exports rose sharply in both May and June and continued to move up—albeit marginally—in July-August on a month-on-month basis, with the easing of supply-side constraints. Looking at exports in August on a month-on-month basis by goods (Chart 7[2]), motor vehicles and their related goods continued to increase, despite at a reduced pace. On the other hand, exports of consumer goods (such as digital cameras) and IT-related goods (such as electronic parts) turned to a decrease, reflecting sagging global demand for IT-related goods. Those of intermediate goods (chemicals as well as iron and steel) have continued to be relatively weak, especially among those to Asia. Meanwhile, exports of capital goods and parts rose marginally from the previous month due to the increase in ships, which show large fluctuations, but they have started to trend somewhat weaker with the decline in construction machinery and semiconductor products machinery. By region (Chart 7[1]), exports to the United States increased—chiefly in motor vehicles and their related goods—following that through the previous month, although the pace has slowed. Exports to the EU turned to a decrease as a whole since consumer goods and IT-related goods were down, even though motor vehicles posted an increase. Exports to China declined mainly due to the drop in capital goods and parts. Exports to NIES turned to a decrease due to the decline in intermediate goods,

capital goods (such as semiconductor products machinery), and IT-related goods; those to the ASEAN economies also turned downward, mainly due to the decline in IT-related goods. Exports to other regions exhibited an increase as a whole, assisted partly by the rise in capital goods and parts, notably in ships, despite the decline in motor vehicles and their related goods.

Real imports have continued to increase (Charts 6[1] and 9); they have moved upward for five straight months since April on a month-on-month basis. Imports of raw materials (such as mineral fuels) have grown at a faster pace, mainly as a reflection of heightened demand for thermal power generations after the earthquake disaster, whereas those of intermediate goods (chemicals) have declined, mainly due to the restoration of domestic plants (Chart 9[2]). Imports of capital goods and parts have increased, assisted primarily by the pick-up in domestic production and demand. On the other hand, those of consumer goods have decreased, chiefly in televisions which saw a rush in demand prior to the ending of the analogue TV broadcasting. Imports of IT-related goods (such as PCs) have also turned downward.

Net exports—in terms of the real trade balance—have recently turned upward, after having declined sharply, a reflection of the aforementioned developments in exports and imports (Chart 6[2]). The nominal balance on goods and services turned to a deficit in the second quarter, mainly since the trade balance marked a deficit; July also recorded a deficit with a slight deficit in the trade balance and a somewhat faster pace of increase in the services deficit. The volume of deficit was reduced, however, since the deficit in the trade balance diminished sharply compared with the second quarter. As a result, the nominal current account surplus increased at a slightly faster pace in July compared with the second quarter, when the volume of surplus narrowed.

The underlying trend in overseas economic growth is expected to remain firm, led by emerging economies, although the pace is expected to slow for the time being. As a result, exports are expected to trend up moderately, due in part to the restocking of inventories abroad. Imports are projected to continue climbing, assisted mainly by increases in domestic production and thermal power generations. As a reflection

of these developments in exports and imports, net exports are expected to trend up moderately.

Regarding the environment surrounding exports, overseas economies have been decelerating, mainly due to (i) the effects of balance sheet adjustments by households and a squeeze on fiscal spending in the United States, (ii) disturbances in the global financial and capital markets as a reflection of Europe's fiscal problems and the decline in confidence in response to these factors, and (iii) the effects of the previous monetary tightening in emerging economies (Chart 8[2]). Overseas economies are expected to hold steady as a trend, led mainly by emerging economies, although the current slowdown is expected to continue for the time being, chiefly in the United States and EU.² There is, however, significant uncertainty regarding this outlook. Meanwhile, as for IT-related goods, global demand for PCs and televisions has weakened and views on Christmas sales in the United States and EU seem to have become increasingly cautious. As a result, demand, including that for Japanese electronic parts, is likely to be somewhat sluggish for the time being. On the other hand, as for motor vehicles, exports of finished cars and parts from Japan are expected to be on the rise for the time being, aided partly by moves to restock inventories to desired levels as a result of a plunge in inventories abroad caused by the effects of the earthquake disaster. Attention should also be paid to the effects of the yen's appreciation on exports (Chart 8[1]).

Business fixed investment has been increasing moderately, aided partly by the restoration of disaster-stricken facilities. The aggregate supply of capital goods—a coincident indicator of machinery investment—rose in the second quarter on a quarter-on-quarter basis and continued to do so in July-August relative to the second quarter (Chart 10[1]). As for leading indicators, machinery orders (private demand, excluding orders for ships and those from electric power companies)—a leading indicator of machinery investment—increased in both the first and second quarters, but decreased in July compared with the second quarter (Chart 11[1]). By industry, manufacturing has continued to be more or less flat since the second quarter.

² The overseas supply and demand conditions for products DI of large manufacturing firms in the September *Tankan* shows that firms have become slightly more cautious regarding the present and future alike, but this does not necessarily indicate a sharp deterioration (-2 in the June *Tankan*; -3 in the September *Tankan*; and -4 as a forecast for December)

Nonmanufacturing (excluding orders for ships and those from electric power companies) increased in the second quarter and continued to do so in July relative to the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—registered quarter-on-quarter increases for two consecutive quarters in the first and second quarters alike; they also rose in July-August compared with the second quarter (Chart 11[2]). By industry, mining and manufacturing fell back somewhat sharply in July-August from the upsurge in the second quarter on a quarter-on-quarter basis. Nonmanufacturing rose in the second quarter on a quarter-on-quarter basis, followed also by an increase in July-August relative to the second quarter.

Regarding the environment surrounding business fixed investment, corporate profits have started to show signs of bottoming, assisted by the pick-up in economic activity, after having turned to a temporary decrease due to the effects of the earthquake disaster. Corporate profits are projected to resume an uptrend along with the increase in production and demand. According to business plans in the September *Tankan* (all industries and enterprises), current profits in fiscal 2011 were forecast to drop marginally: on a fiscal half-year basis, profits were forecast to turn to an increase in the second half after having decreased in the first half. Compared with the June *Tankan*, the results appear to be basically the same for fiscal 2011 (Chart 12).³ Under these circumstances, the business conditions DI in the September *Tankan* improved significantly. For the outlook, motor vehicles and domestic demand related industries are expected to underpin investment, while some industries—such as electrical machinery and production machinery—are becoming cautious in their outlook as a reflection of uncertainty regarding overseas economies as well as the yen's appreciation (Chart 13).

Business fixed investment is expected to continue climbing, due in part to movements by firms to repair and reconstruct disaster-stricken facilities as well as to strengthen their earthquake-resistant and business continuity systems, with the moderate increase in exports and production. According to business fixed investment plans (excluding software investment and including land purchasing

³ The average of predicted exchange rates expected by large manufacturing firms (81.06 yen to the U.S. dollar for the second half of the fiscal year) was at a weaker level than the recent value of the yen against the U.S. dollar.

expenses, year-on-year basis) in the September *Tankan* (Chart 14), those of large firms for fiscal 2011 are projected to increase. In detail, manufacturing firms are projecting a solid increase, whereas plans of nonmanufacturing firms are slightly negative. Business fixed investment plans (same as above) of small firms for fiscal 2011 marked a year-on-year increase in manufacturing firms, while those of nonmanufacturing firms registered a sharp decline. Revisions made to business fixed investment plans indicate that the rate of upward revision was considerable, including that for nonmanufacturing firms. In sum, 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 firms (including financial institutions) for fiscal 2011 is projected to increase by 4.5 percent.

Private consumption has been picking up on the whole, although weakness remains in some aspects of consumer behavior (Chart 15). Consumption of goods—as seen through sales at retail stores (in real terms)—was almost flat in July-August on a month-on-month basis, after having increased markedly until June (Chart 16[1]). Looking at developments in durable consumer goods, the number of new passenger-car registrations has trended upward, with supply constraints almost removed (Chart 16[2]). Sales of household electrical appliances (in real terms) fell back sharply in August from the rush in demand, mainly for flat panel televisions, prior to the ending of the analogue TV broadcasting as well as heightened demand for electricity conservation products such as air conditioners. Sales at department stores continued to pick up until June, assisted partly by demand for "Cool Biz" products, but they were essentially level in July-August (Chart 17[1]). Sales at supermarkets continued to pick up toward July, but they dipped slightly in August on the whole since food and beverages were down in response to cooler temperatures and household items (bedding and household electrical appliances) also declined. Sales at convenience stores inched down in August mainly due to a decline in sales of food and beverages caused by cooler temperatures, after having surged until July. As for developments in services consumption (Chart 17[2]), sales in the food service industry have been picking up, albeit with fluctuations. Outlays for travel have remained below pre-earthquake levels, although they have continued to increase since April, after having dropped sharply in March due to the earthquake disaster.

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—turned to an increase in July-August relative to the second quarter (Chart 16[1]).⁴ The total expenditure in the *Survey of Household Economy* (in real terms; two-or-more-person households) also turned upward in July-August compared with the second quarter.

Indicators related to consumer sentiment—which had been improving—have recently been more or less level (Chart 18).

Private consumption is expected to hold steady as the employment situation gradually heads toward improvement.

Housing investment has shown clear signs of picking up, aided partly by the removal of supply constraints. The number of housing starts (Chart 19[1])—a leading indicator of housing investment—fell back in August on a month-on-month basis, partly from the upsurge in July, but it has remained at a relatively high level following that of the previous month. The upsurge in July-August was partly attributable to the pent-up in the number of applications of construction starts, which had been held back in the past few months, along with increased building materials supply due to the recovery in the supply chain.

Housing investment is expected to edge up, partly since disaster-stricken homes are being rebuilt.

Industrial production has continued to increase, although its pace has moderated after going through the recovery phase immediately following the quake-induced plunge. Production has been on the rise, chiefly in transport equipment in the face of limited restraint on electric power supply during the summer (Chart 20). Looking in detail at production in August, transport equipment continued to increase in order to restock inventories abroad and to clear the backlog of

⁴ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

domestic orders; iron and steel rose mainly due to a step-up in production of steel used for automobiles. On the other hand, production of information and communication electronics equipment plunged mainly since flat panel televisions fell back. Meanwhile, that of electronic parts and devices rose marginally as a whole, since electronic parts for automobiles—which have enjoyed steady demand—increased, even though production cutbacks were made to those for IT-related goods that have been under inventory adjustments.

Shipments have continued to grow, as has production. By goods (Chart 21), shipments of durable consumer goods dropped marginally in August as flat panel televisions fell back, but they have continued to increase as a trend, notably in automobiles, albeit at a modest pace. Those of capital goods have trended upward, despite fluctuations. Shipments of non-durable consumer goods and construction goods have been more or less flat, despite fluctuations. Producer goods have remained at a low level, although they have tended to pick up mildly.

Inventories have been more or less flat, albeit with fluctuations. Looking at recent movements, inventories declined in both June and July on a month-on-month basis, but increased in August, notably in information and communication electronics equipment, electrical machinery, and transport equipment. Inventories of information and communication electronics equipment were piled up as shipments of flat panel televisions fell back. In electrical machinery, air conditioners and refrigerators—which had been projecting a rise in demand for electricity conservation—saw an inventory build-up. On the other hand, inventories of transport equipment have increased for those waiting to be shipped overseas. Electronic parts and devices—which have been in an inventory adjustment phase—have maintained a relatively high level of inventories relative to shipments, although inventories dropped slightly. Looking at the shipment-inventory balance (Chart 22), growth in inventories has continued to outpace that in shipments. As for industrial production as a whole, however, the shipment-inventory balance has improved slightly, mainly due to durable consumer goods.

Production is expected to continue increasing at a moderate pace.⁵ According to anecdotes by firms and other information, production is projected to mark a profound increase for the third quarter on a quarter-on-quarter basis, as power supply constraints have been limited and as the supply chain has almost recovered. As for the fourth quarter, production is projected to be on the rise, chiefly in transport equipment, although the pace will moderate relative to the third quarter. Attention, however, should be paid to a downswing primarily in production of electronic parts and devices, which is currently under high inventory adjustment pressure, since some firms have started to mention the effects of the slowdown in overseas economies on orders for exports.

The employment and income situation has continued to be severe, although there have been some signs of improvement.

In the labor market, the ratio of job offers to applicants has been improving. On the other hand, the unemployment rate has been more or less flat, albeit with monthly fluctuations (Chart 23[1]). Looking at the employment conditions DI in the September *Tankan* (Chart 25), the net "excessive" employment has started to narrow; looking ahead, it is forecasted to narrow even further.

In terms of employment (Chart 24[1]), the year-on-year growth rate of the number of employees in the *Labour Force Survey* seems to have been somewhat positive on average, despite large monthly fluctuations.^{6,7} The number of regular

⁵ The production forecast index shows a decline of 2.5 percent in September on a month-on-month basis, but an increase of 3.8 percent in October. With the monthly fluctuations smoothed out, production is expected to continue increasing at a gradual pace.

⁶ The Great East Japan Earthquake has made it difficult to carry out the *Labour Force Survey* (which includes the unemployment rate and number of employees) in Iwate, Miyagi, and Fukushima Prefectures. Therefore, the released figures from March onward are aggregated excluding the above three prefectures. Although data have resumed to be collected from these three prefectures, they continue to be excluded from the aggregates in the national survey, since the number of samples is still insufficient.

⁷ The *Labour Force Survey* uses the sample rotation system in which half of the samples are replaced every month with new samples. These newly added samples will continue to be included in the following month. Due to the nature of this system, a fluctuation in the figure of a particular month tends to be carried on to the following month, which allows figures to fluctuate for two months in a row. The fact that growth in the number of employees was strong in May and June but weak in July and August is possibly due to this sampling factor.

employees in the *Monthly Labour Survey* has been increasing on a year-on-year basis. With regard to the Employment Adjustment Subsidy, figures collected from reports on business suspension plans show that the number of applicants for this subsidy rose in March and April due to the earthquake disaster, but that number has fallen since May.⁸ Meanwhile, overtime hours worked have reduced their year-on-year pace of decline compared with that immediately after the earthquake, despite large monthly fluctuations (Chart 24[3]).

Nominal wages per employee dropped marginally on a year-on-year basis in June-August, since summer bonuses were relatively weak, notably among small firms (Chart 26[1]).

The year-on-year growth rate of employee income has declined moderately, as a reflection of the aforementioned developments in employment and wages (Chart 26[3]).

Employee income is likely to be somewhat weak for the time being—mainly since the decline in corporate profits caused by the earthquake disaster will take effect with a time lag—although the improvement in the labor market is expected to support income gradually.

2. Prices

International commodity prices have recently moved down (Chart 28). Prices of crude oil, nonferrous metals, and grains have declined as a reflection of anxiety over a downshift in the global economy.

⁸ Currently, businesses are eligible for the Employment Adjustment Subsidy on the condition that "the decline in the average of sales or production volume in the most recent three months is 5 percent or more compared with the prior three months or on a year-on-year basis." As part of the government's new measure for dealing with the yen's appreciation, however, the requirement is going to be relaxed so that businesses can receive the subsidy on the condition that "the decline in the production volume and sales in the most recent one month is 5 percent or more compared with the prior one month or on a year-on-year basis as well as on a projected decline basis" (this measure is scheduled to take effect in early October). The requirement was also relaxed after the earthquake for firms in the disaster-stricken areas and for businesses located in areas that were subject to scheduled black outs.

Import prices (on a yen basis) have been weak relative to three months earlier, due to movements in international commodity prices and to the yen's appreciation.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)⁹ has been more or less flat, reflecting movements in international commodity prices (Chart 29). Domestic corporate goods prices in August continued to be virtually level following those of July. In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" moved down for two consecutive months as international commodity prices have fallen back. On the other hand, prices of "electric power, gas and water" have continued to increase since the prior rise in crude oil prices has started to take effect with a time lag. Meanwhile, prices of "iron & steel and construction goods" and "other materials" have risen marginally.

Corporate services prices (excluding international transportation; year-on-year basis, same hereafter) have been declining—a reflection mainly of cost-cutting among firms—but the rate of decline has tended to narrow (Chart 30). Looking in detail at prices in August on a year-on-year basis, prices related to fixed investment (civil engineering and architectural services) rose at a faster pace. Prices related to selling, general and administrative expenses (such as advertising services) have tended to decline at a reduced pace partly since the effects of the earthquake disaster have dissipated.

The year-on-year rate of change in consumer prices (all items less fresh food; year-on-year basis, same hereafter) is currently around 0 percent (Chart 31). Consumer prices in August improved by 0.1 percentage point from July to an increase of 0.2 percent.¹⁰ Looking at developments on a basis that excludes food and energy,

⁹ 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.

¹⁰ The rise in the tobacco tax and the increase in charges for accident insurance have pushed consumer prices (nationwide; all items less fresh food) upward by about 0.2 percentage points and 0.15 percentage points, respectively, on a year-on-year basis; these positive contributions are projected to drop off from this October.

prices stood at negative 0.5 percent following that of the previous month. Regarded as a method for capturing trend changes, the year-on-year rates of decline in both the trimmed mean and the chain index have tended to narrow; they have recently been moving at around 0 percent (Chart 32).¹¹

Looking in detail at movements in August other than cigarettes and charges for accident insurance, prices for goods decreased at a slower pace, mainly as a reflection of the movement in petroleum products (such as gasoline), durable consumer goods, and food products. Prices of general services grew at almost the same pace as the previous month. Fees for public services grew at a somewhat reduced pace as a whole, since airplane fares increased at a slower pace, whereas the rate of increase in electricity prices expanded.

With regard to domestic supply and demand conditions in the September *Tankan* (Chart 33), the net "excess supply" of the supply and demand conditions DI for products and services narrowed as a whole. The net "fall" of the output prices DI held at about the same rate as that in the June survey for both manufacturing and nonmanufacturing firms. Meanwhile, the weighted average of the production capacity DI and employment conditions DI improved after having deteriorated in the previous survey; it is projected to continue doing so.

Domestic corporate goods prices are expected to be somewhat weak for the time being. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

Meanwhile, looking at developments in land prices through the *Land Price Survey by Prefectural Governments* as of July (Chart 34), the national average stood

¹¹ The trimmed mean is obtained by systematically discarding a certain percentage of the highest and lowest marks of the price fluctuation distribution by item to eliminate large relative price fluctuations. The Laspeyres chain index is compiled as follows: (i) aggregates are produced after updating the weights of items of the base year and resetting the index level of individual items to 100 every year; then (ii) multiplying the previous year's chain index by the aggregated year-on-year figures obtained from the above calculation. Disregarding such factors as adopting and terminating items and revising model formulae, it is virtually equivalent to compiling an index in which the base year is updated every year.

at negative 3.4 percent on a year-on-year basis; the year-on-year rate of decline narrowed somewhat from a decrease of 3.7 percent in the previous year.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have been stable at low levels—including those for longer term rates—as supply-demand conditions have remained eased, amid the Bank of Japan's ongoing provision of ample funds. The overnight call rate (uncollateralized) has been below the 0.1 percent level. Regarding interest rates on term instruments, the T-Bill rate (3-month) has been at around 0.1 percent. The Euroyen interest rate (3-month) has been more or less flat, at a somewhat high level relative to the OIS rates—the OIS rates mainly reflect expectations about future policy interest rates. Interest rates on Euroyen futures have been virtually level (Chart 35). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has expanded, as market participants have been cautious about taking on counterparty risks in transactions amid persisting anxiety over the sovereign debt problems in Europe (Chart 36).

Yields on 10-year government bonds (newly issued 10-year JGB) have remained more or less flat on the whole; they have been fluctuating narrowly at around 1.0 percent (Chart 37).

Yield spreads between corporate bonds and government bonds have generally been more or less flat (Chart 38).

Stock prices dropped to their lowest level since the start of the year as sharp adjustments were observed in U.S. stock prices, but they have since picked up. The Nikkei 225 Stock Average has been moving at around 8,500 yen (Chart 39).

In the foreign exchange market, the yen's exchange rate against the U.S. dollar has been moving within a narrow range due in part to anxiety over a possible foreign exchange intervention, while U.S. interest rates remain at a low level on the whole; it has recently been in the range of 76-77 yen (Chart 40).

(2) Corporate Finance and Monetary Aggregates

Firms' funding costs have declined moderately, 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 declined moderately (Chart 42).

With regard to credit supply, firms have continued to see financial institutions' lending attitudes as being on an improving trend (Chart 41). Issuing conditions for CP have continued to be favorable. Those for corporate bonds have also remained favorable as seen in the increased variety of corporate bond issuers. In these circumstances, funding of the private sector has continued to decline at a reduced pace on a year-on-year basis. The year-on-year rate of decline in bank lending is gradually slowing (Chart 43). The amount outstanding of corporate bonds has exceeded the previous year's level, and that of CP was around the year-ago level in September (Chart 44).

In these circumstances, firms have retained their recovered financial positions on the whole, albeit with weakness still being observed at some firms, mainly small ones (Chart 41). The number of corporate bankruptcies has been at a low level (Chart 46).

Meanwhile, the year-on-year rate of change in the money stock (M2) has been in the range of 2.5-3.0 percent. Its August reading was 2.7 percent on a year-on-year basis, following 3.0 percent in July (Chart 45).¹²

¹² On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been in the range of 2.0-2.5 percent; its August reading was 2.2 percent, following 2.4 percent in July. The year-on-year growth rate of broadly-defined liquidity (L) has been at around 0.5 percent; it increased by 0.6 percent in August, following an increase of 0.7 percent in July.

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Main Economic Indicators (1)

s.a., q/q (m/m) % chg.¹

	2011/Q1	Q2	Q3	2011/Jun.	Jul.	Aug.	Sep.
Index of consumption expenditure level (two-or-more-person households)	-1.5	-1.4	n.a.	-1.4	1.4	-0.6	n.a.
Sales at department stores	-3.7	2.9	n.a.	1.7	-1.6	p -0.1	n.a.
Sales at supermarkets	-0.7	-0.8	n.a.	2.4	1.1	p -2.1	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 234>	< 192>	< 263>	< 230>	< 220>	< 285>	< 285>
Sales of household electrical appliances (real, "Current Survey of Commerce")	-17.9	23.4	n.a.	12.0	-0.7	p -22.9	n.a.
Outlays for travel	-5.0	-9.4	n.a.	7.6	5.8	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	< 84>	< 81>	<n.a.>	< 82>	< 96>	< 93>	<n.a.>
Machinery orders ⁴ (Private sector, exc. volatile orders)	5.6	2.5	n.a.	7.7	-8.2	n.a.	n.a.
Manufacturing	5.3	-0.2	n.a.	9.3	-5.2	n.a.	n.a.
Nonmanufacturing ⁴ (exc. volatile orders)	1.4	5.0	n.a.	15.7	-1.4	n.a.	n.a.
Construction starts (private, nondwelling use)	5.9	7.3	n.a.	1.4	-3.9	17.1	n.a.
Mining & manufacturing	-8.9	24.5	n.a.	-0.2	-9.3	-11.7	n.a.
Nonmanufacturing ⁵	9.1	1.5	n.a.	4.6	0.0	17.5	n.a.
Value of public works contracted	2.4	-3.7	n.a.	15.2	-10.0	10.9	n.a.
Real exports	-1.1	-5.6	n.a.	8.5	0.3	0.1	n.a.
Real imports	-0.9	2.1	n.a.	0.2	2.0	0.2	n.a.
Industrial production	-2.0	-4.0	n.a.	3.8	0.4	p 0.8	n.a.
Shipments	-1.9	-5.9	n.a.	8.1	0.1	p 0.3	n.a.
Inventories	1.0	3.2	n.a.	-2.8	-0.1	p 2.1	n.a.
Inventory ratio <s.a., CY 2005 = 100>	< 108.6>	< 111.9>	<n.a.>	< 111.9>	< 116.4>	<p 114.6>	<n.a.>
Real GDP	-0.9	-0.5	n.a.	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-1.9	-0.4	n.a.	2.2	0.4	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2010/Q4	2011/Q1	Q2	2011/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 0.57>	< 0.62>	< 0.62>	< 0.61>	< 0.63>	< 0.64>	< 0.66>
Unemployment rate ⁶ <s.a., %>	< 5.1>	< 4.7>	< 4.6>	< 4.5>	< 4.6>	< 4.7>	< 4.3>
Overtime working hours ⁷	5.7	1.7	-2.0	-2.1	0.0	-1.0	p -2.1
Number of employees ⁶	0.4	0.5	0.8	1.1	1.1	-0.2	-0.5
Number of regular employees ⁷	0.7	0.7	0.7	0.6	0.8	0.7	p 0.6
Nominal wages per person ⁷	0.2	0.1	-0.4	1.0	-0.7	-0.2	p -0.6
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁸	1.0	1.7	2.4	2.1	2.5	2.9	p 2.6
	< 0.6>	< 1.1>	< 1.2>	< 1.2>	< 0.7>	< -0.1>	< p -0.1>
Consumer price index ⁹	-0.5	-0.8	-0.3	-0.1	-0.2	0.1	0.2
Corporate services price index ¹⁰	-1.3	-1.0	-0.6	-0.7	-0.7	-0.5	p -0.4
Money stock (M2) <average outstanding, y/y % chg.>	2.6	2.4	2.8	2.7	2.9	3.0	p 2.7
Number of corporate bankruptcies <cases per month>	<1,100>	<1,070>	<1,104>	<1,071>	<1,165>	<1,081>	<1,026>

Notes: 1. All figures in Chart 1 except figures in angle brackets are quarter-on-quarter (month-on-month) changes of seasonally 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 respective charts.

2. Figures with "p" indicate preliminary data.
3. Excludes small cars with engine sizes of 660 cc or less.
4. Volatile orders: Orders for ships and those from electric power companies.
5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries, and public utilities industries.
6. Quarterly and monthly figures from 2011/Q1 and March 2011 respectively are based on data which exclude Iwate, Miyagi, and Fukushima prefectures.
7. Data for establishments with at least five regular employees.
8. Adjusted to exclude a hike in electric power charges during the summer season.
9. All items, less fresh food. Data are on the 2010 base, except for the 2010/Q4 figure which is on the 2005 base.
10. 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";

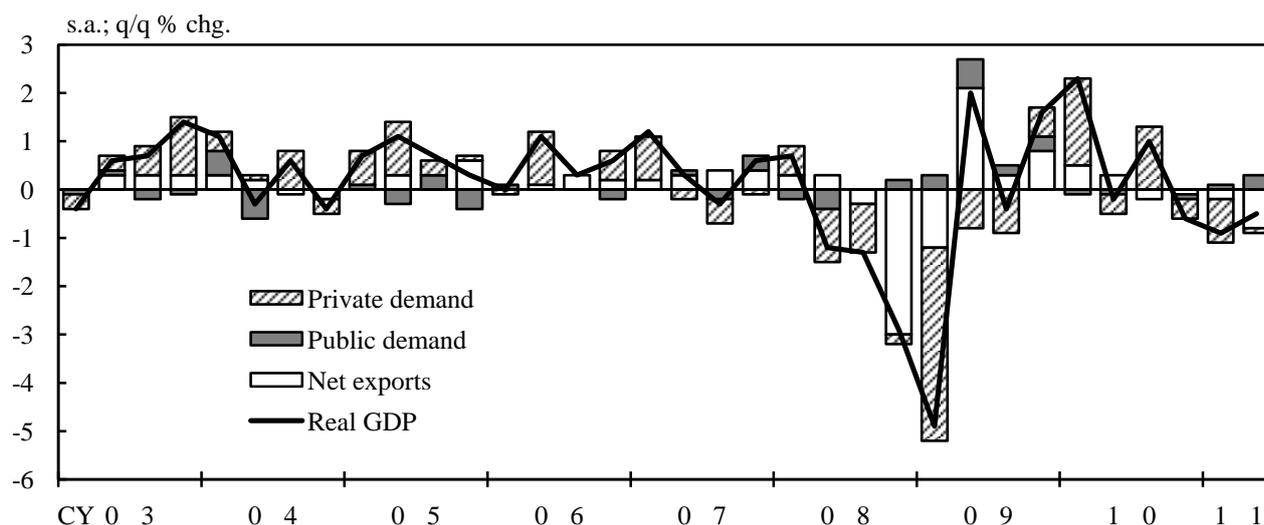
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

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



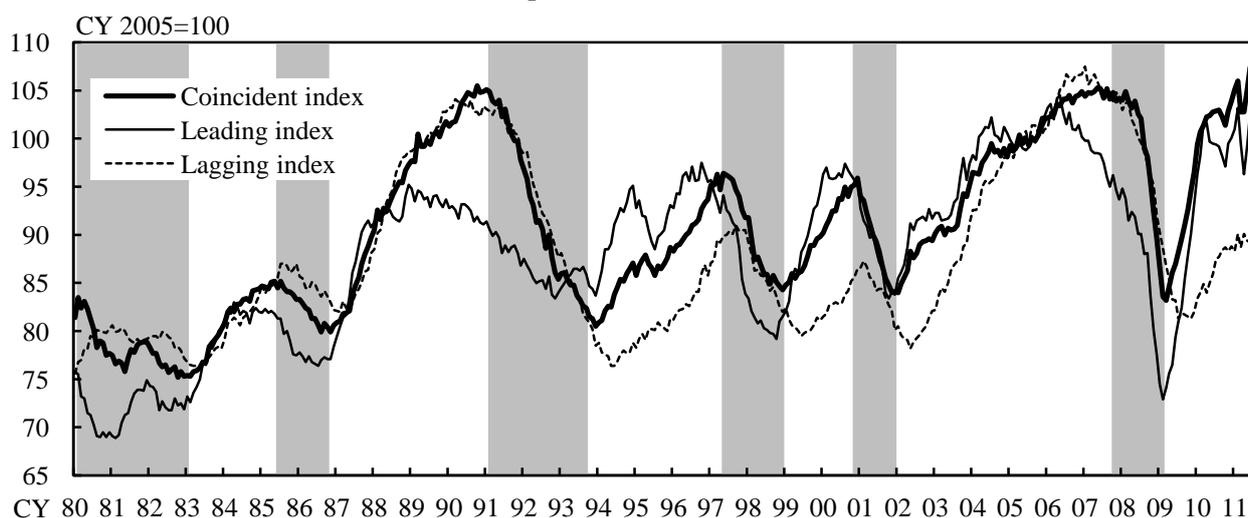
(2) Components

s.a.; q/q % chg.

	2010			2011	
	Q2	Q3	Q4	Q1	Q2
Real GDP	-0.2	1.0	-0.6	-0.9	-0.5
[Annual rate]	[-0.7]	[4.0]	[-2.4]	[-3.7]	[-2.1]
Domestic demand	-0.5	1.2	-0.5	-0.7	0.2
Private demand	-0.4	1.3	-0.4	-0.9	-0.1
Private consumption	-0.3	0.6	-0.5	-0.4	-0.0
Non-Resi. investment	0.3	0.1	-0.0	-0.2	-0.1
Residential investment	-0.0	0.1	0.1	0.0	-0.1
Private inventory	-0.5	0.5	0.0	-0.3	0.1
Public demand	-0.1	-0.0	-0.1	0.1	0.3
Public investment	-0.3	-0.1	-0.2	-0.0	0.2
Net exports of goods and services	0.3	-0.2	-0.1	-0.2	-0.8
Exports	1.0	0.1	-0.2	0.0	-0.8
Imports	-0.6	-0.3	0.1	-0.2	0.0
Nominal GDP	-0.9	0.5	-1.0	-1.5	-1.5

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

(3) Indexes of Business Conditions (Composite Indexes)

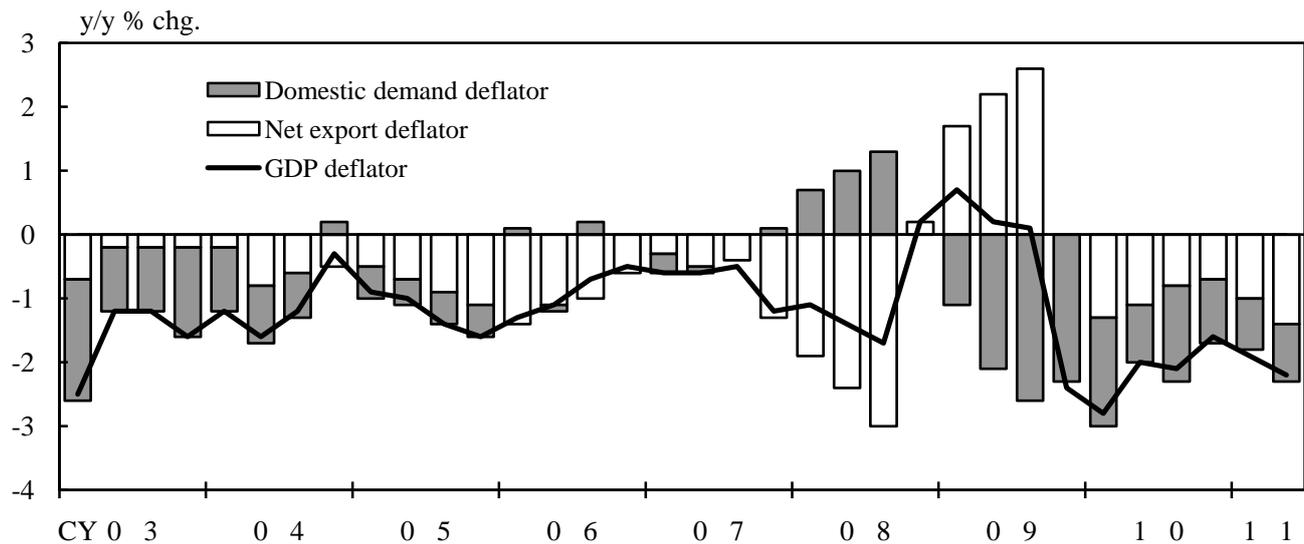


Note: Shaded areas indicate recession periods.

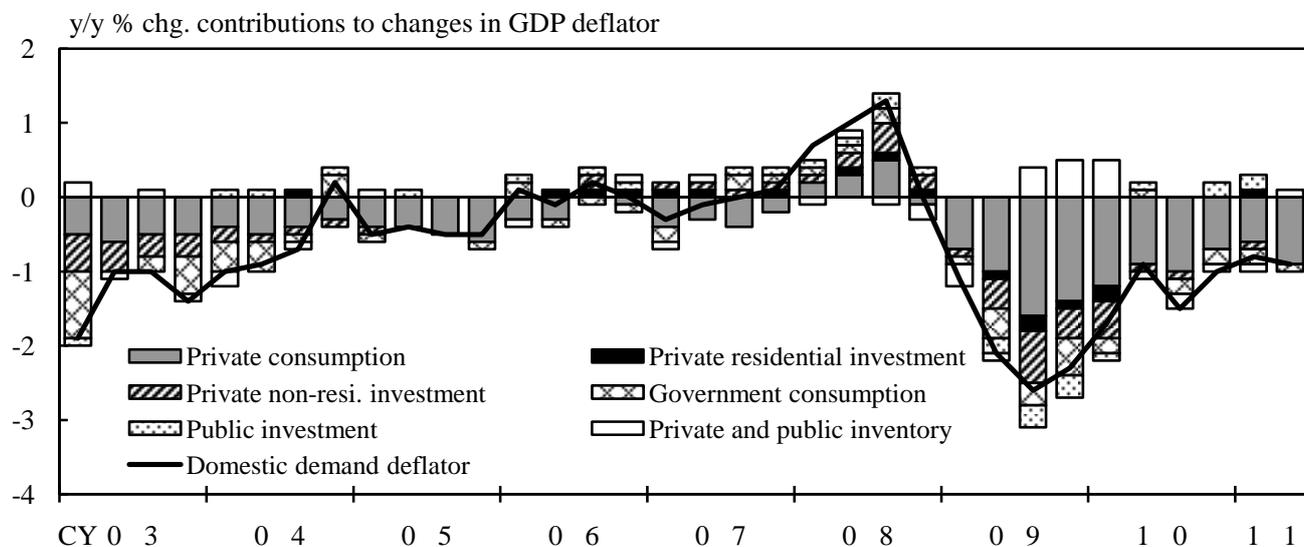
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

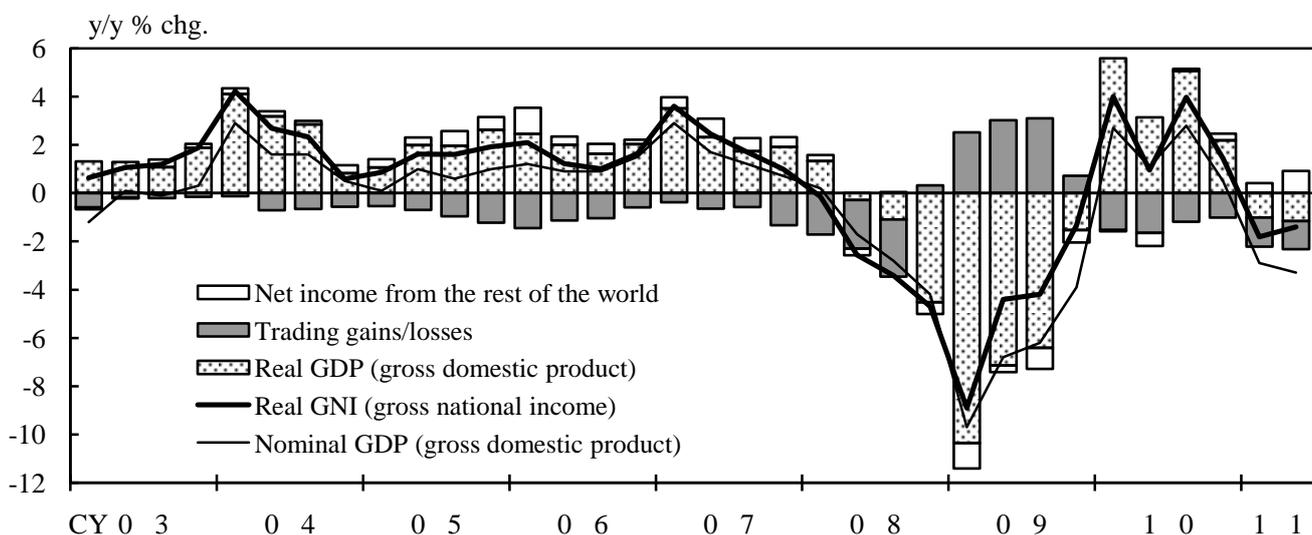
(1) GDP Deflator



(2) Domestic Demand Deflator



(3) Aggregate Income Formation



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

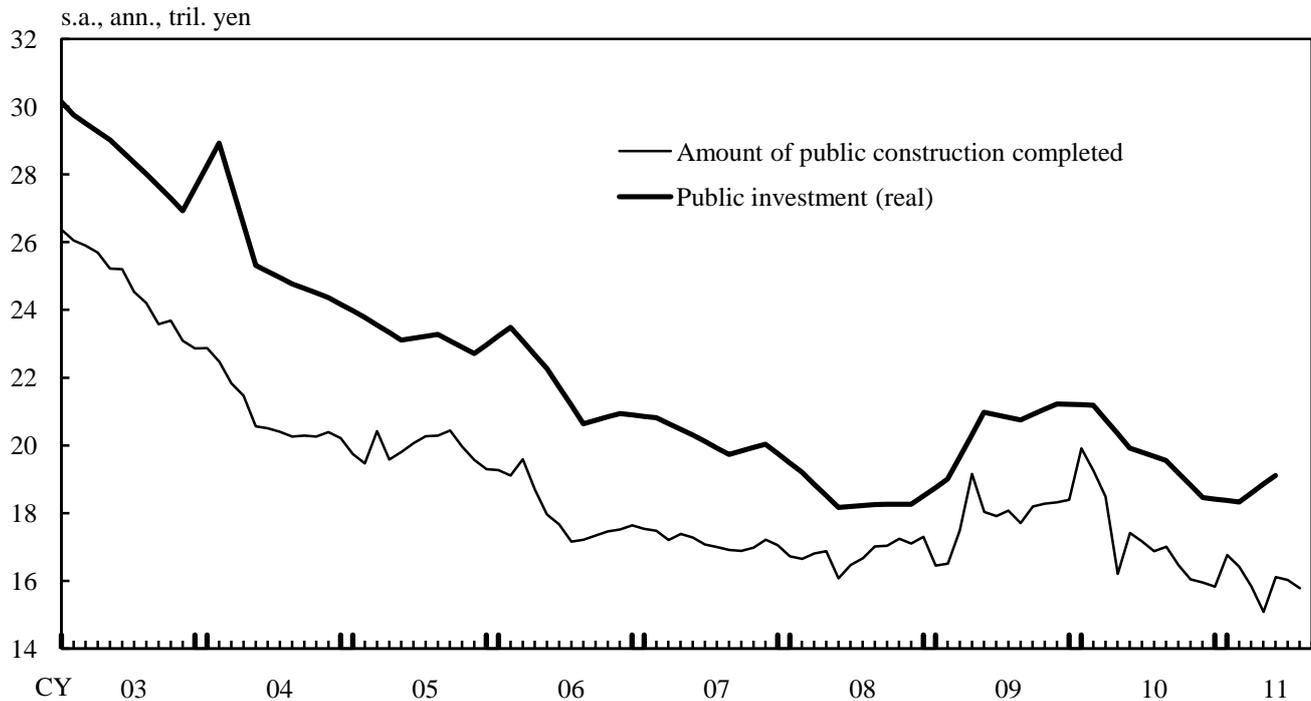
2. Real GNI = real GDP + trading gains/losses + net income from the rest of the world

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

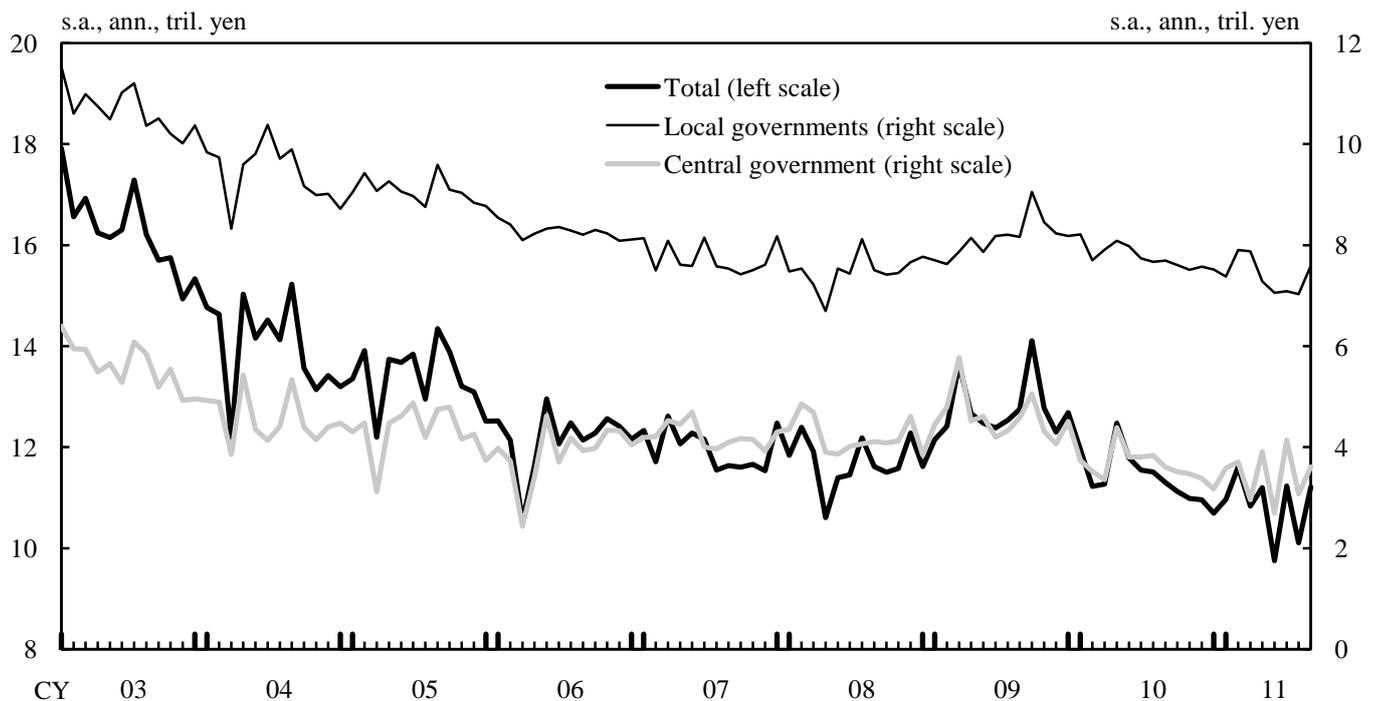
Source: Cabinet Office, "National Accounts."

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.

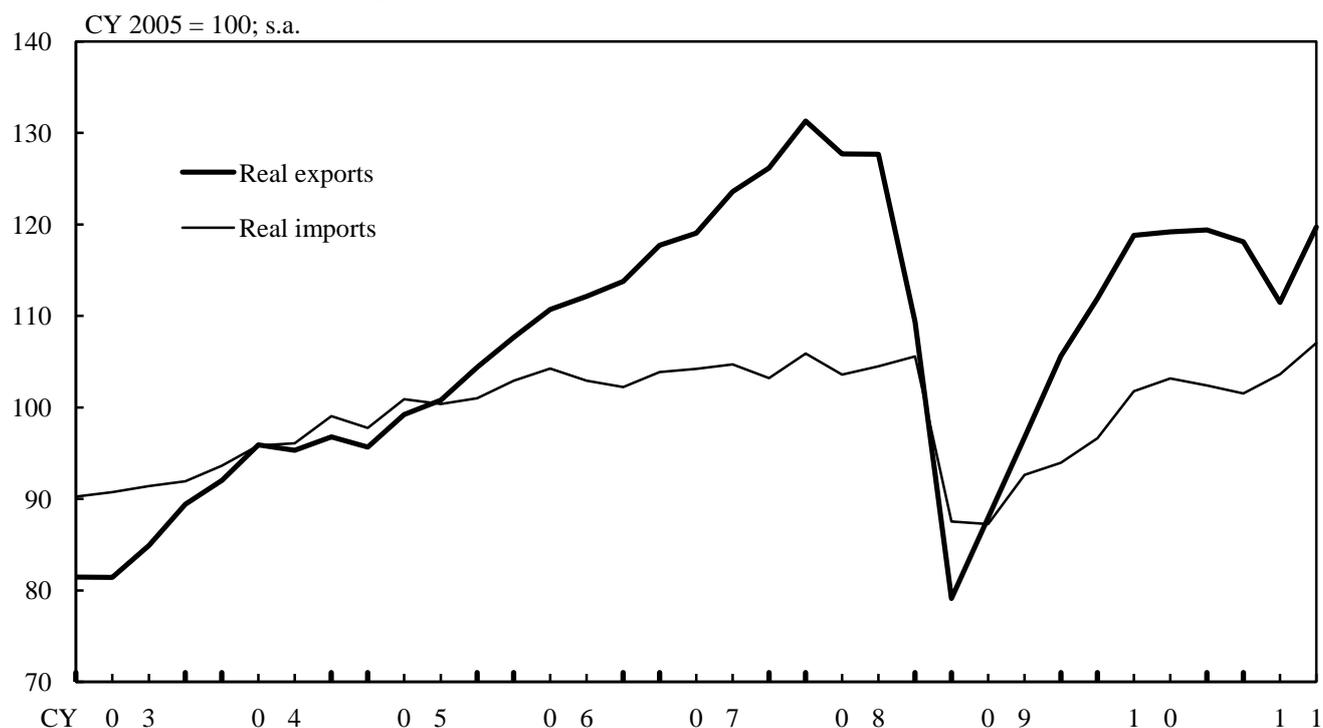
Sources: Cabinet Office, "National Accounts";

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

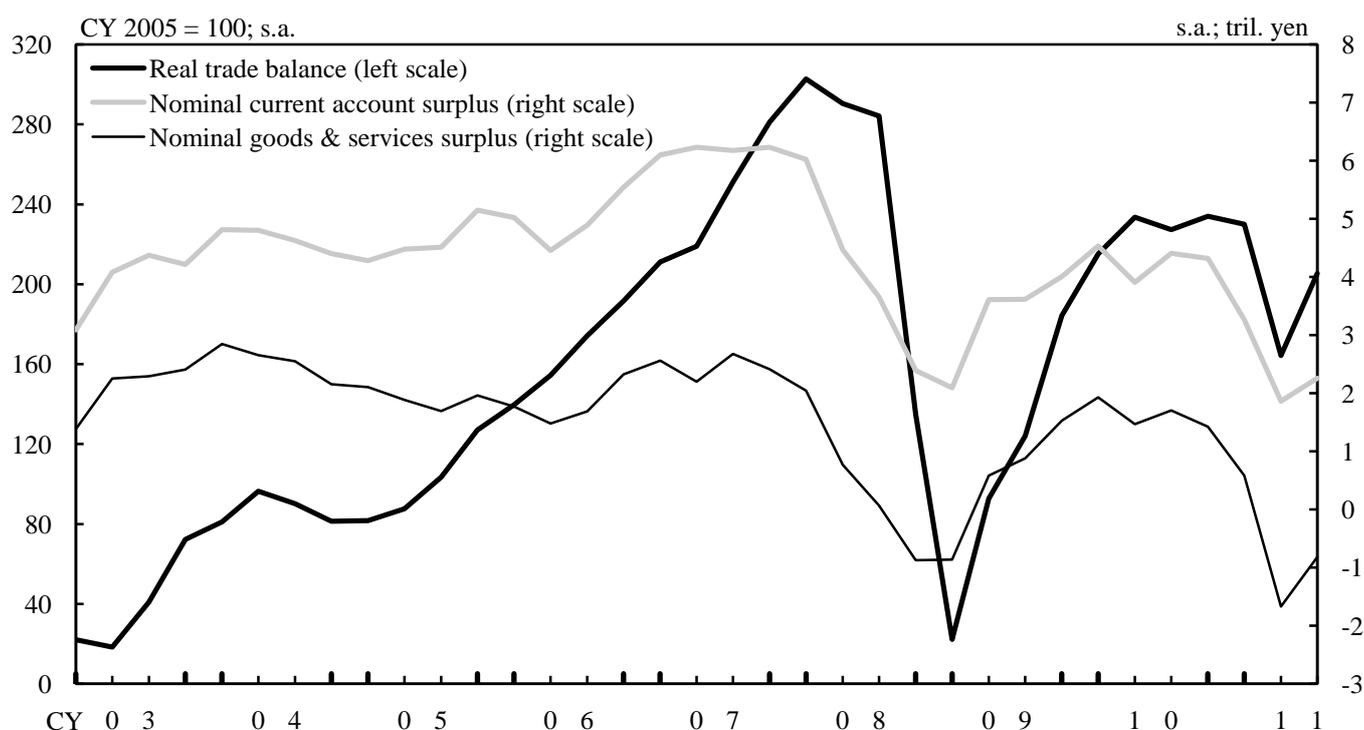
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

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. 2011/Q3 figures for real exports/imports and the real trade balance are July-August averages converted into quarterly amount.

4. 2011/Q3 figures for the nominal current account surplus and nominal goods & services surplus are July figures converted into quarterly amount.

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

Real Exports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2009	2010	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Jun.	2011 Jul.	2011 Aug.
United States	<15.4>	-32.6	24.2	3.9	0.3	-6.5	-10.3	20.9	15.8	4.2	2.7
EU	<11.3>	-34.6	16.8	2.9	2.2	-3.0	-2.6	11.9	10.4	2.2	-2.2
East Asia	<53.3>	-15.8	31.6	1.3	2.4	-1.1	-6.1	5.3	6.1	2.5	-2.5
China	<19.4>	-10.2	31.0	3.5	6.9	0.5	-11.1	8.8	8.2	5.3	-2.0
NIEs	<23.7>	-18.0	27.8	-0.3	-0.4	-2.3	-2.6	2.2	5.1	0.1	-3.4
Korea	<8.1>	-16.0	23.6	1.3	-4.9	1.1	1.6	-2.8	3.2	-4.1	-3.4
Taiwan	<6.8>	-17.7	36.8	-0.5	-0.9	-2.4	-6.9	-2.6	0.3	-0.5	-5.9
Hong Kong	<5.5>	-18.8	28.7	-2.4	2.4	-4.0	-6.7	9.3	6.5	5.0	0.1
Singapore	<3.3>	-21.6	19.7	4.1	7.0	-6.6	0.2	17.7	22.2	5.6	-4.1
ASEAN4 ³	<10.2>	-20.5	42.6	1.3	-0.1	-1.7	-3.4	5.8	4.4	3.0	-1.8
Thailand	<4.4>	-20.9	46.0	1.9	-0.1	1.6	-1.7	4.8	8.0	-2.2	7.5
Others	<20.0>	-32.1	29.1	-3.2	-2.0	0.2	-4.2	10.5	14.4	-4.4	3.7
Real exports		-25.6	27.4	0.3	0.2	-1.1	-5.6	7.4	8.5	0.3	0.1

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2009	2010	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Jun.	2011 Jul.	2011 Aug.
Intermediate goods	<20.6>	-5.6	18.4	0.8	-0.2	-0.5	-4.6	-2.3	-2.3	2.5	-1.8
Motor vehicles and their related goods	<21.6>	-41.4	42.1	1.2	1.8	-8.8	-22.8	43.4	34.5	8.2	3.0
Consumer goods ⁴	<3.4>	-28.8	10.9	1.3	-1.7	-1.5	-9.1	35.5	32.4	8.7	-4.2
IT-related goods ⁵	<10.7>	-17.0	27.2	-0.8	-0.5	0.5	-2.5	5.0	2.9	3.3	-4.5
Capital goods and parts ⁶	<29.2>	-28.1	35.7	1.9	0.6	1.4	1.6	-1.5	3.5	-4.9	0.6
Real exports		-25.6	27.4	0.3	0.2	-1.1	-5.6	7.4	8.5	0.3	0.1

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2011/Q3 figures are July-August averages converted into quarterly amount.

2. Shares of each region and goods in 2010 are shown in angle brackets.

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

4. Excludes motor vehicles.

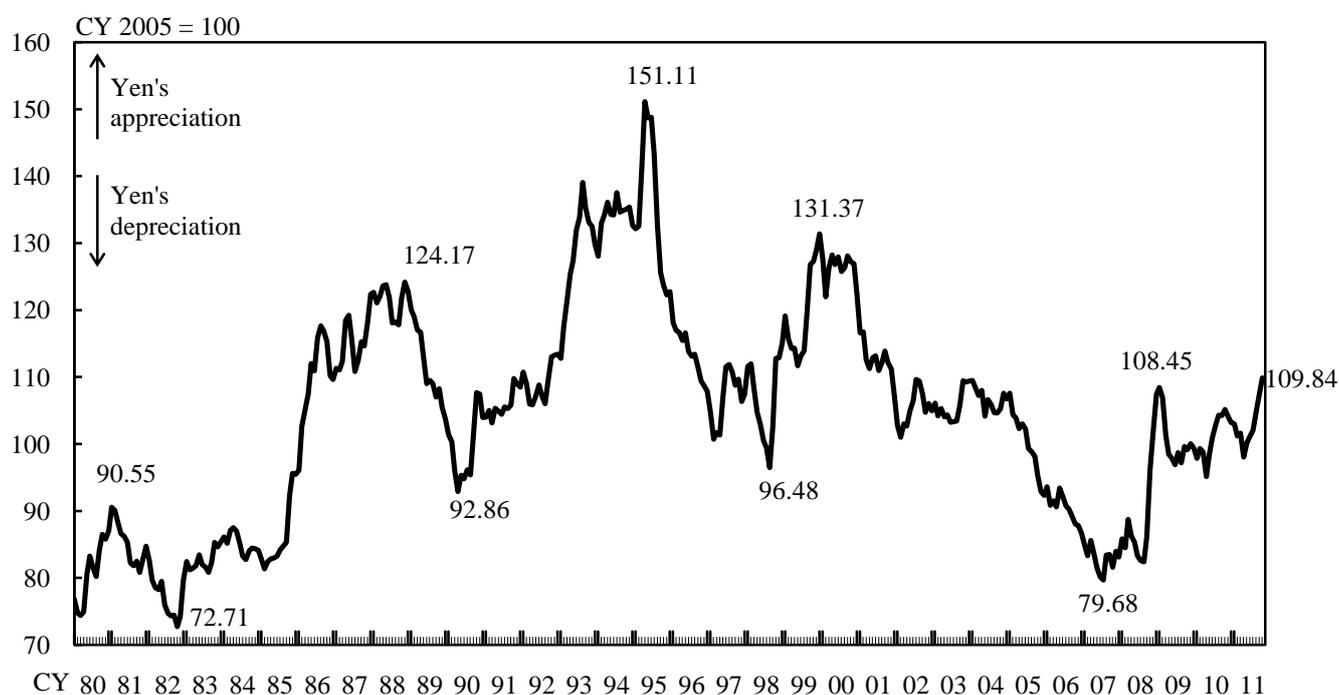
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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 that prior to 1994 is calculated using the narrow index.

2. Figures for September and October (up to October 5) 2011 have been calculated using the monthly average of the BOJ's nominal effective exchange rate (the Yen Index).

(2) Real GDP Growth Rates of Overseas Economies

		CY2008	2009	2010	2010 Q3	Q4	2011 Q1	Q2	
United States ¹		-0.3	-3.5	3.0	2.5	2.3	0.4	1.3	
European Union ¹		0.5	-4.3	1.9	2.1	0.8	2.9	0.9	
	Germany	1.1	-5.1	3.7	3.2	1.9	5.5	0.5	
	France	-0.2	-2.6	1.4	1.7	1.3	3.7	0.0	
	United Kingdom	-1.1	-4.4	1.8	2.5	-2.0	1.6	0.4	
East Asia ²	China	9.6	9.2	10.4	9.6	9.8	9.7	9.5	
	NIEs	Korea	2.3	0.3	6.2	4.4	4.7	4.2	3.4
		Taiwan	0.7	-1.9	10.9	10.7	7.1	6.2	5.0
		Hong Kong	2.3	-2.7	7.0	6.9	6.4	7.5	5.1
		Singapore	1.5	-0.8	14.5	10.5	12.0	9.3	0.9
	ASEAN4	Thailand	2.5	-2.3	7.8	6.6	3.8	3.2	2.6
		Indonesia	6.0	4.6	6.1	5.8	6.9	6.5	6.5
		Malaysia	4.8	-1.6	7.2	5.3	4.8	4.9	4.0
Philippines		4.2	1.1	7.6	7.3	6.1	4.6	3.4	

Notes: 1. Quarterly data of the U.S. and EU are quarter-to-quarter percent changes at annual rates.

2. Quarterly data of East Asia are percent changes from a year earlier.

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2009	2010	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Jun.	2011 Jul.	2011 Aug.
United States	<9.7>	-18.7	8.3	0.3	-0.8	-5.5	5.8	-3.1	-7.6	1.9	-1.8
EU	<9.6>	-13.2	6.6	3.6	-3.3	1.0	7.8	-1.2	1.1	1.4	-2.7
East Asia	<42.4>	-13.1	22.2	1.4	2.0	1.6	1.0	5.4	2.0	4.2	-1.8
China	<22.1>	-11.1	24.1	0.9	3.7	0.9	1.4	8.9	0.9	6.1	-0.5
NIEs	<8.8>	-15.9	21.7	1.1	-0.6	3.6	0.8	-0.3	1.4	3.3	-5.8
Korea	<4.1>	-19.1	21.0	1.4	6.6	6.8	6.7	-2.1	4.2	0.3	-5.1
Taiwan	<3.3>	-12.4	21.4	0.9	-4.1	-1.1	-5.3	1.1	-1.3	4.8	-4.1
Hong Kong	<0.2>	-29.7	33.1	-7.6	-2.0	16.7	-16.3	2.0	13.4	5.1	-16.2
Singapore	<1.2>	-12.5	23.2	-1.4	-5.7	-1.9	4.8	-0.0	-2.8	6.5	-9.0
ASEAN4 ³	<11.5>	-14.9	18.3	2.8	0.2	1.3	0.1	2.1	5.0	0.3	-1.6
Thailand	<3.0>	-17.5	25.9	4.7	-1.7	2.6	2.6	2.7	4.8	0.2	-1.8
Others	<38.3>	-13.9	6.8	1.2	-1.8	-1.5	0.0	3.3	-0.8	0.9	3.9
Real imports		-14.0	12.1	1.4	-0.7	-0.9	2.1	3.3	0.2	2.0	0.2

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2009	2010	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Jun.	2011 Jul.	2011 Aug.
Raw materials ⁴	<36.5>	-14.9	5.6	1.4	-2.1	-1.3	-0.9	4.9	1.0	2.4	2.6
Intermediate goods	<14.9>	-15.4	18.7	1.7	-2.2	2.7	9.1	-1.3	-4.1	3.0	-3.2
Foodstuffs	<8.6>	1.0	2.0	1.3	-8.2	1.2	7.0	-3.9	-2.8	-2.4	1.8
Consumer goods ⁵	<8.5>	-10.3	22.7	-0.7	10.1	-0.6	-4.1	4.6	11.2	-0.3	-4.7
IT-related goods ⁶	<11.2>	-12.4	27.0	1.7	3.5	-0.1	-1.5	4.0	1.2	5.5	-7.3
Capital goods and parts ⁷	<11.3>	-23.8	19.1	3.0	2.4	-0.9	2.0	5.9	-0.1	3.9	2.1
Excluding aircraft	<10.7>	-24.4	21.9	2.9	1.4	0.4	3.9	7.1	2.8	5.3	-0.8
Real imports		-14.0	12.1	1.4	-0.7	-0.9	2.1	3.3	0.2	2.0	0.2

Notes: 1. Seasonally adjusted by X-12-ARIMA. 2011/Q3 figures are July-August averages converted into quarterly amount.

2. Shares of each region and goods in 2010 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 fuels.

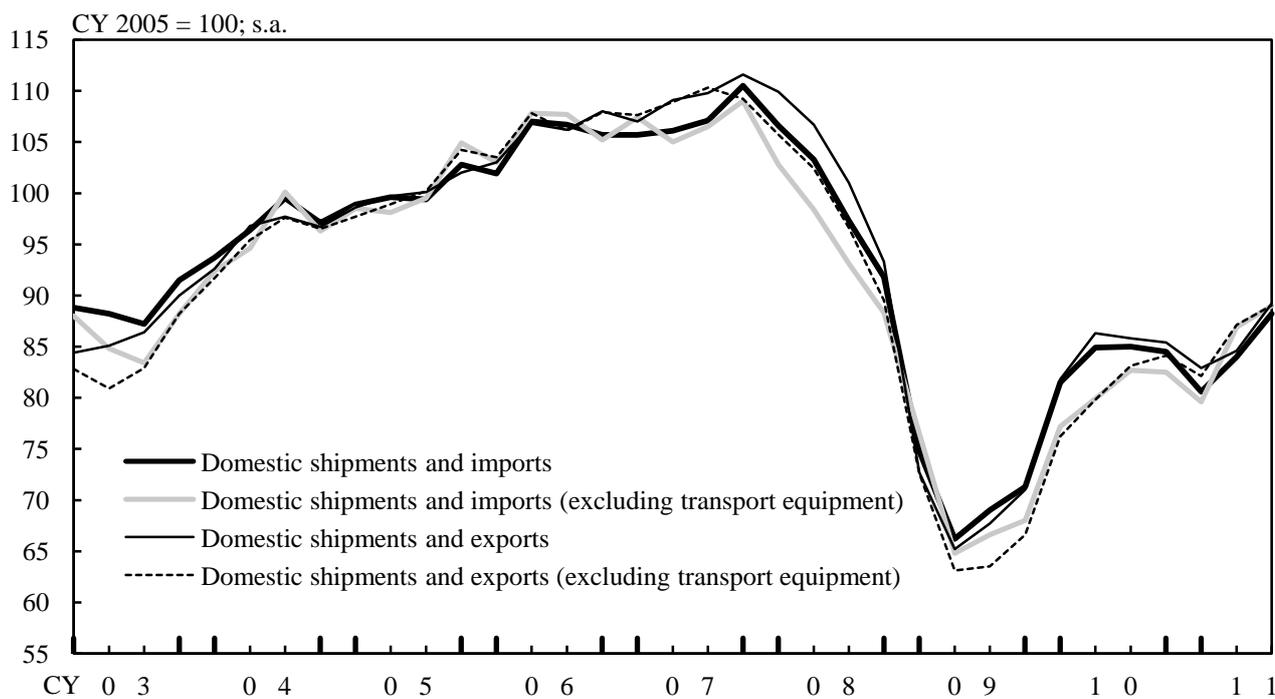
5. Excludes foodstuffs.

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

7. Excludes IT-related goods.

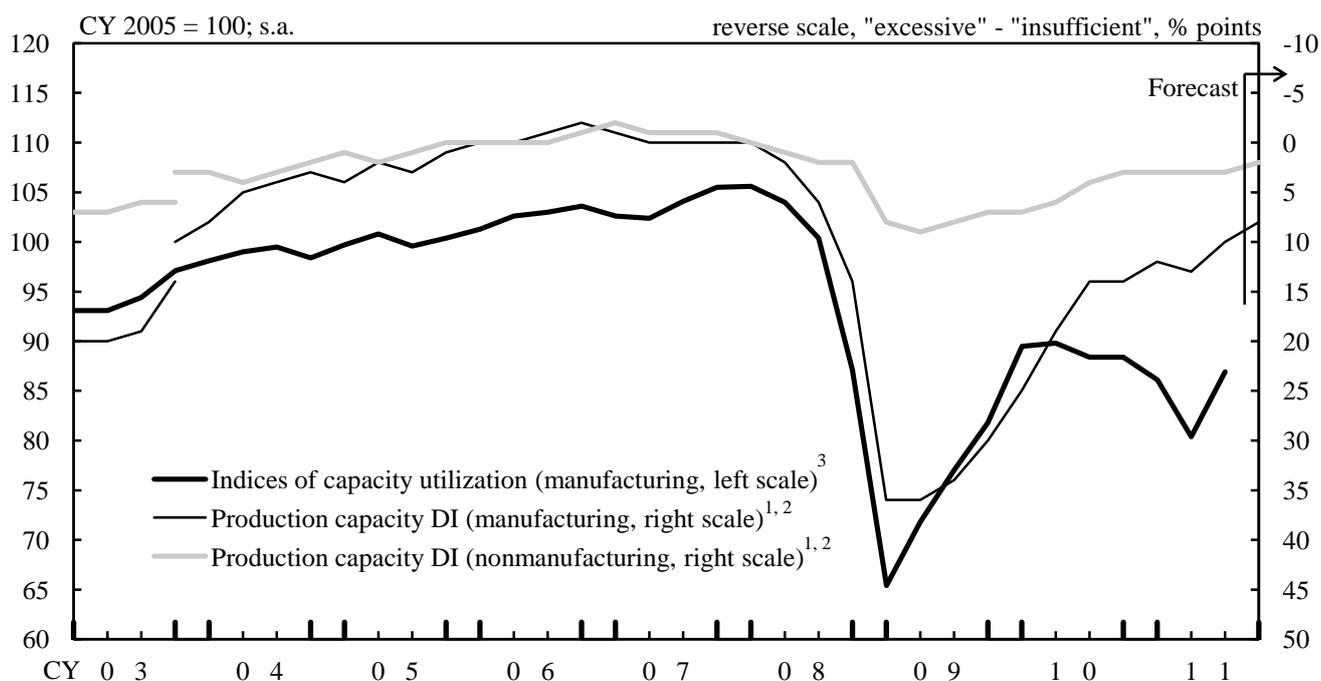
Coincident Indicators of Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



Note: Figures for 2011/Q3 are July-August averages.

(2) Indices of Capacity Utilization and Production Capacity DI



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

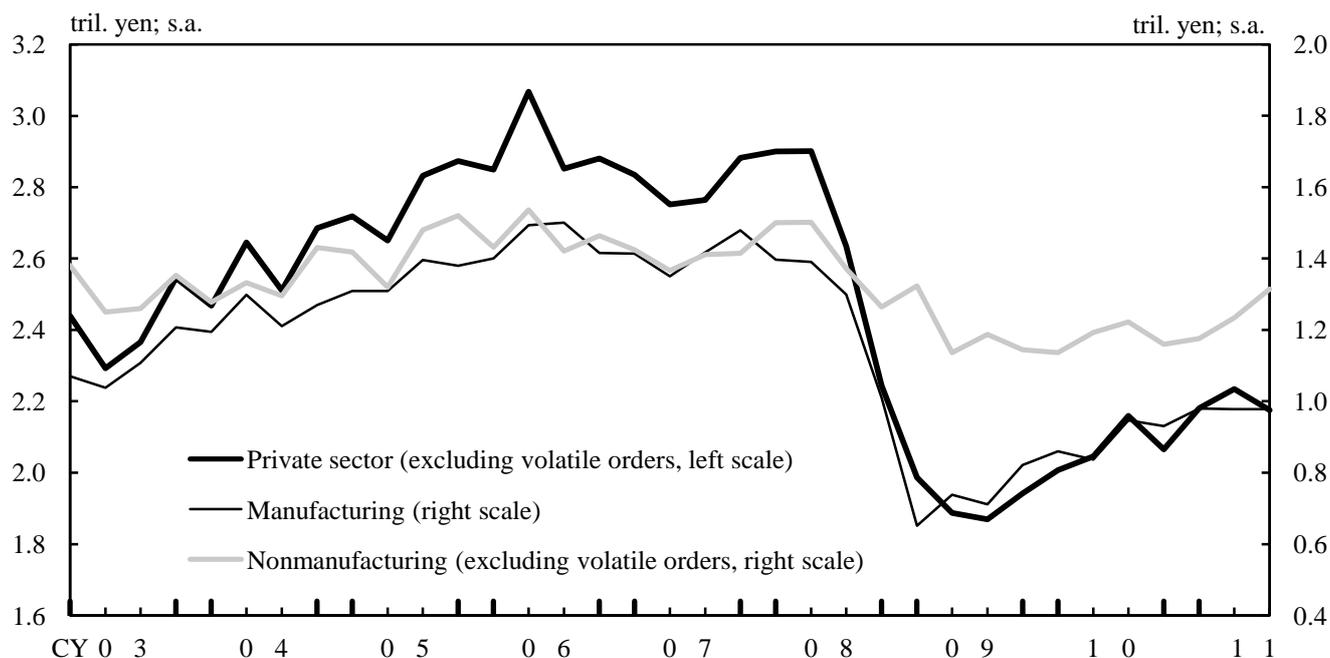
2. In the March 2004 survey, the "Tankan" underwent major revisions, including the addition of new sample enterprises to the survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.

3. The figure for 2011/Q3 is that of July.

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

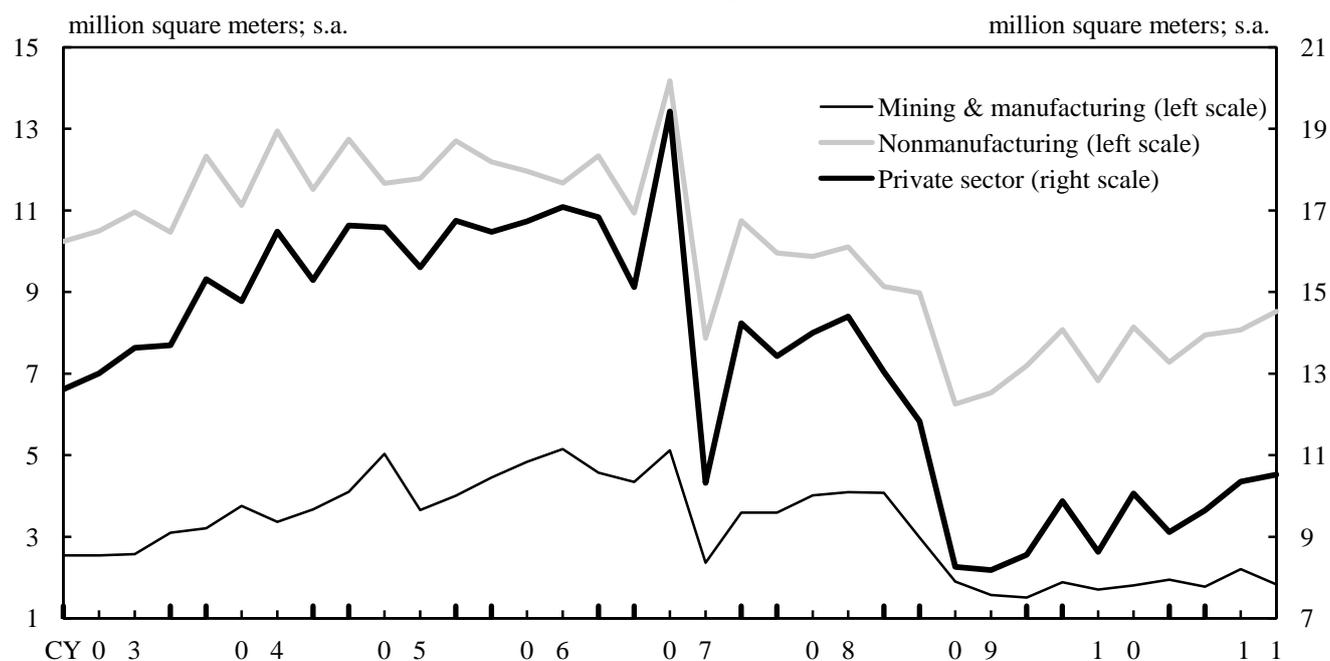
Leading Indicators of Business Fixed Investment

(1) Machinery Orders



- Notes: 1. Figures up to FY 2004 are estimated by the Cabinet Office.
 2. Volatile orders: Orders for ships and those from electric power companies.
 3. Figures for 2011/Q3 are those of July in quarterly amount.

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

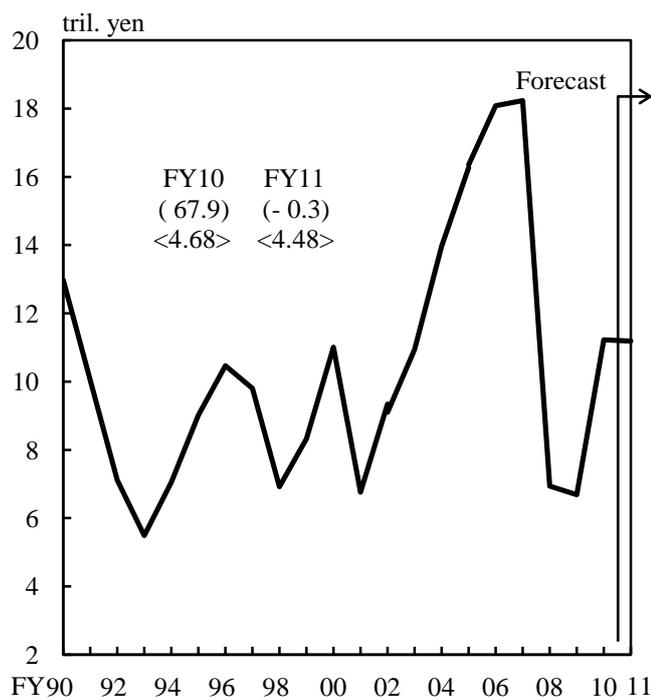


- Notes: 1. Seasonally adjusted by X-12-ARIMA.
 2. Following the revision of the "Standard Industrial Classification for Japan" in March 2002, the industry classification for "newspaper publishing and publishing business" was changed from "mining and manufacturing" to "nonmanufacturing." This new classification applies to data from FY 2003 onward. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.
 3. Figures for 2011/Q3 are July-August averages in quarterly amount.

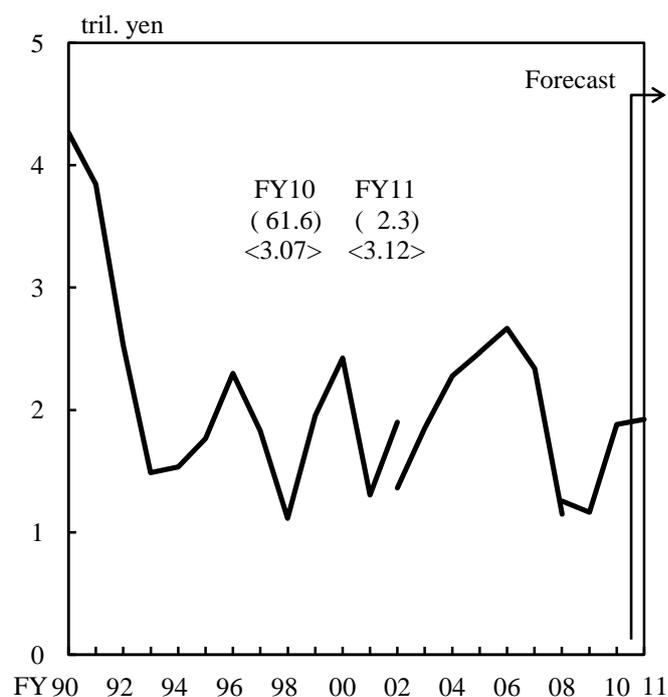
Sources: Cabinet Office, "Orders Received for Machinery";
 Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts."

Current Profits

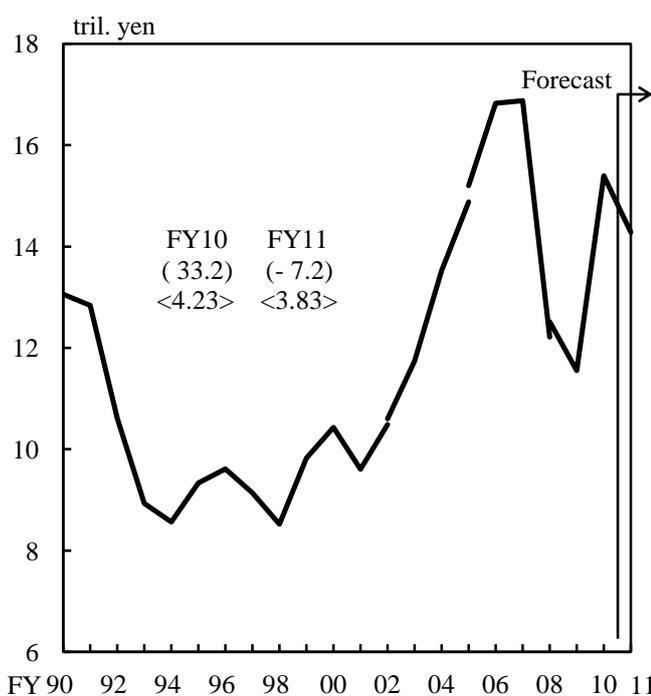
(1) Large Manufacturing Enterprises



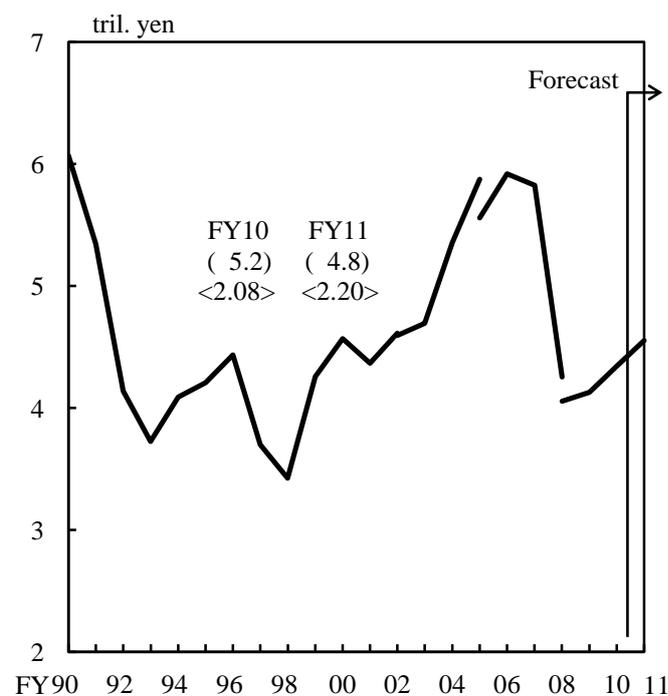
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



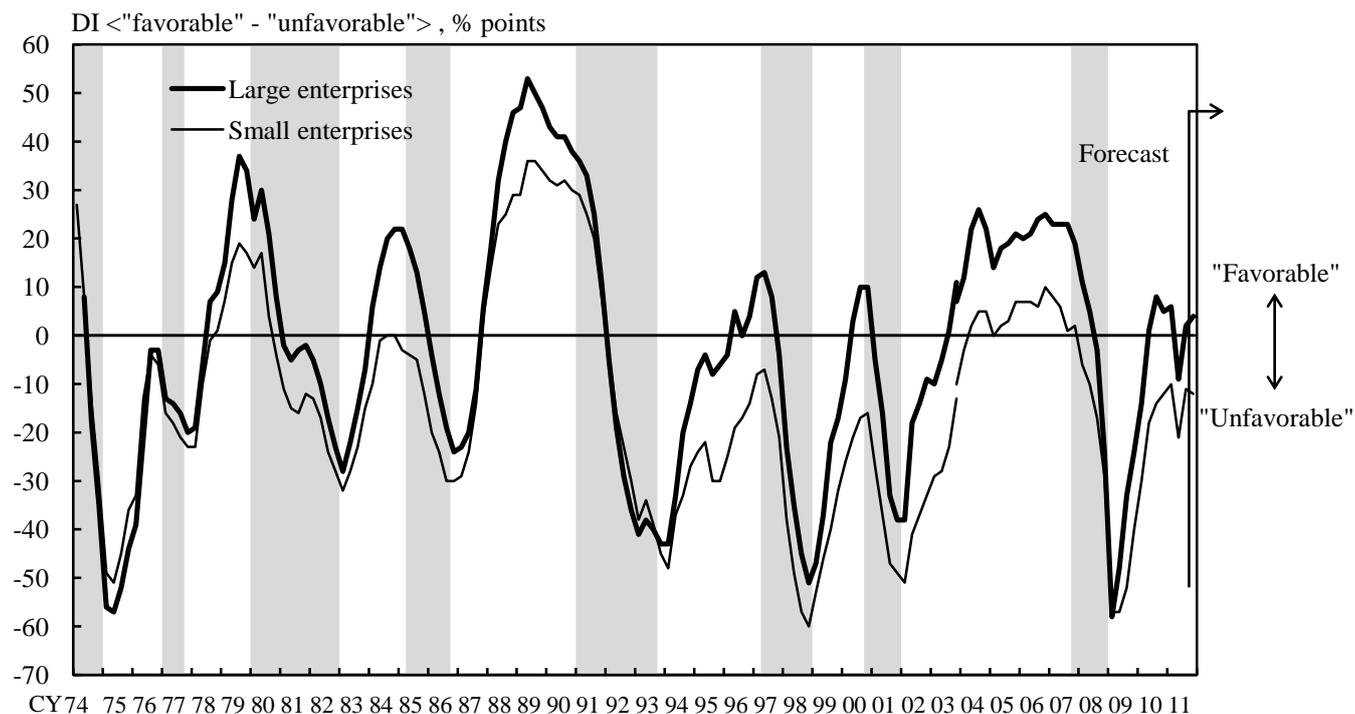
Notes: 1. (): Current profits (y/y % chg.); < >: Ratio of current profit to sales (%).

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

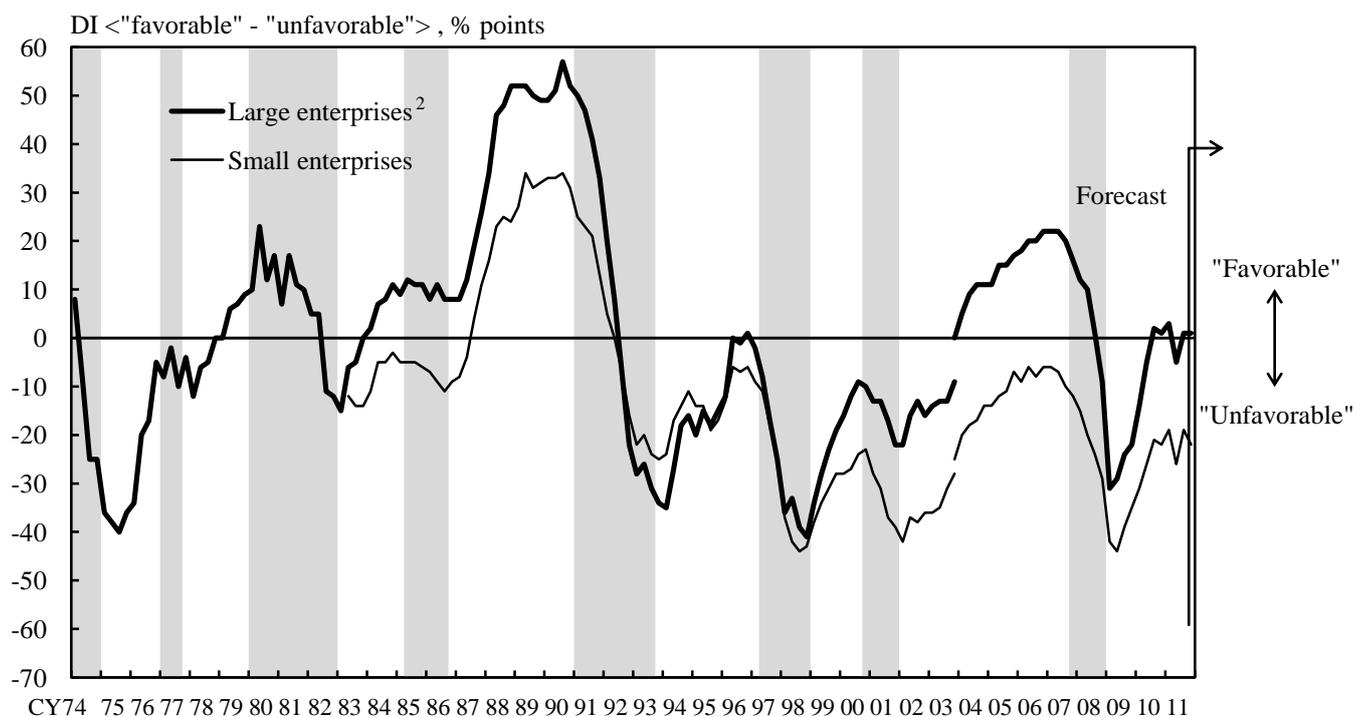
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

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.

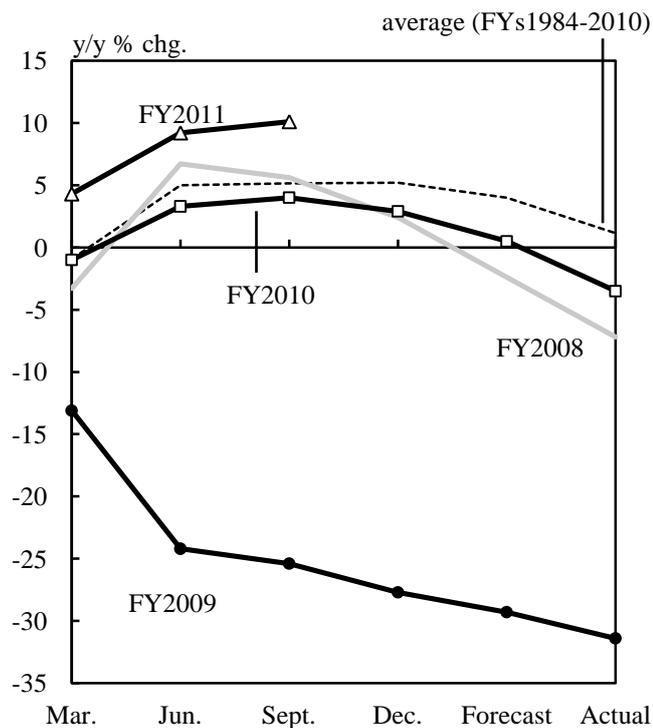
2. Data prior to February 1983 are those of principal enterprises.

3. Shaded areas indicate recession periods.

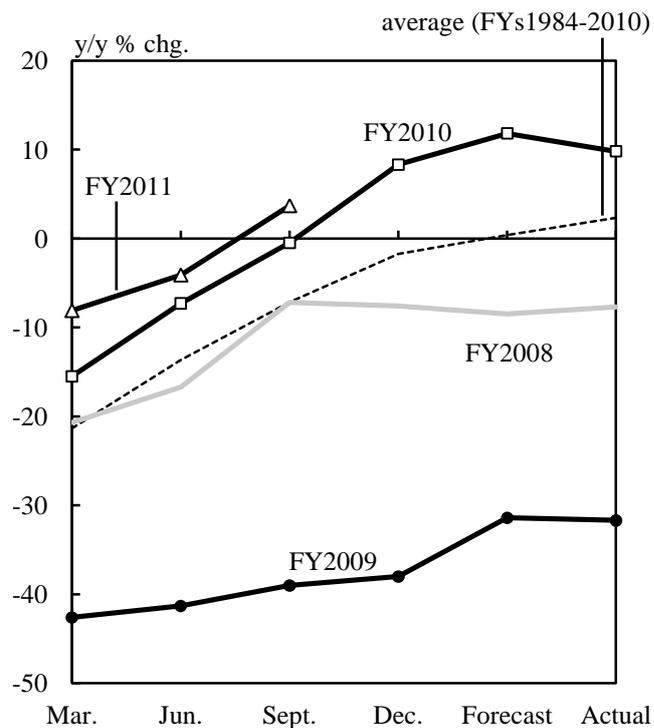
Source: Bank of Japan, "Tankan, Short-term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed

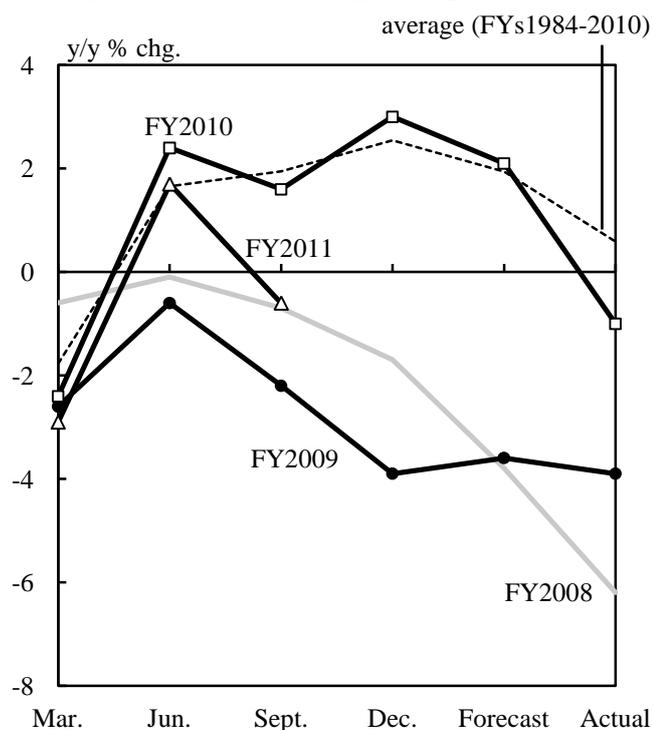
(1) Large Manufacturing Enterprises



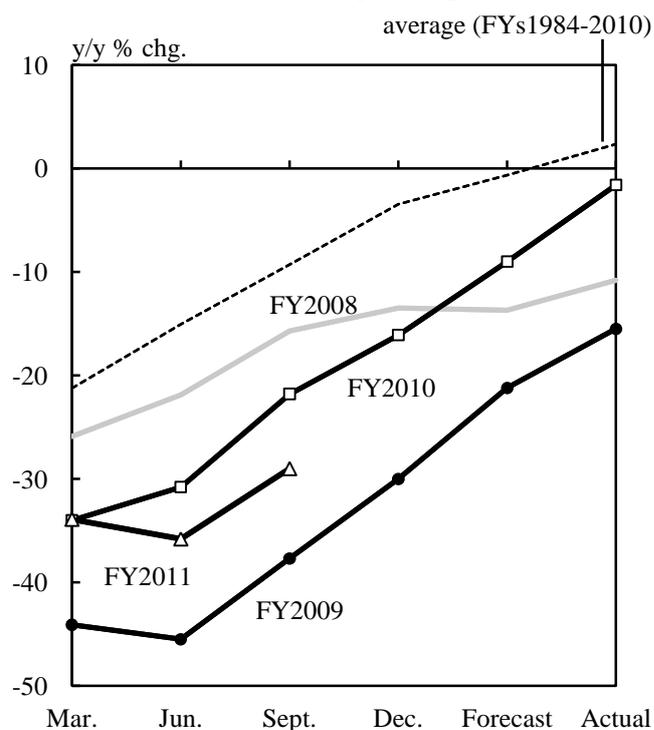
(2) Small Manufacturing Enterprises



(3) Large Nonmanufacturing Enterprises



(4) Small Nonmanufacturing Enterprises



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

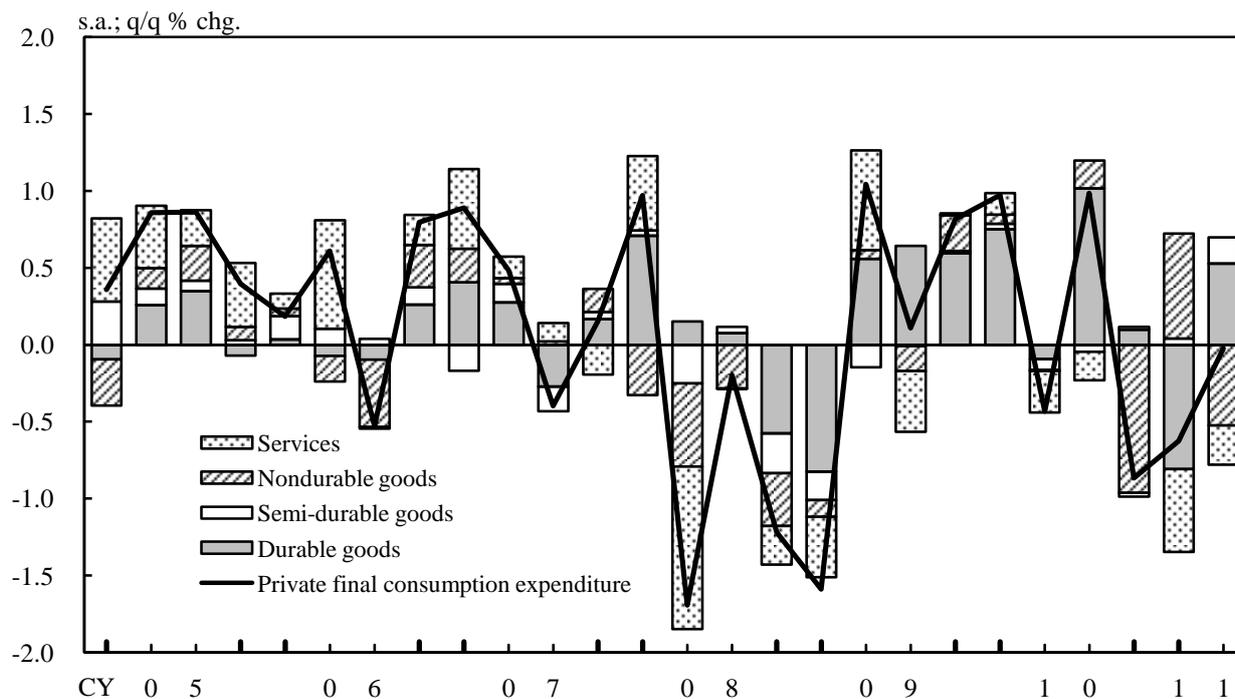
2. Sample enterprises were revised in the March 2010 surveys. Therefore, as for FY 2009, figures up to the December survey are based on the previous data sets, and the figures of "forecast" and "actual result" are based on the new basis.

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 1984-2010) are calculated using these figures.

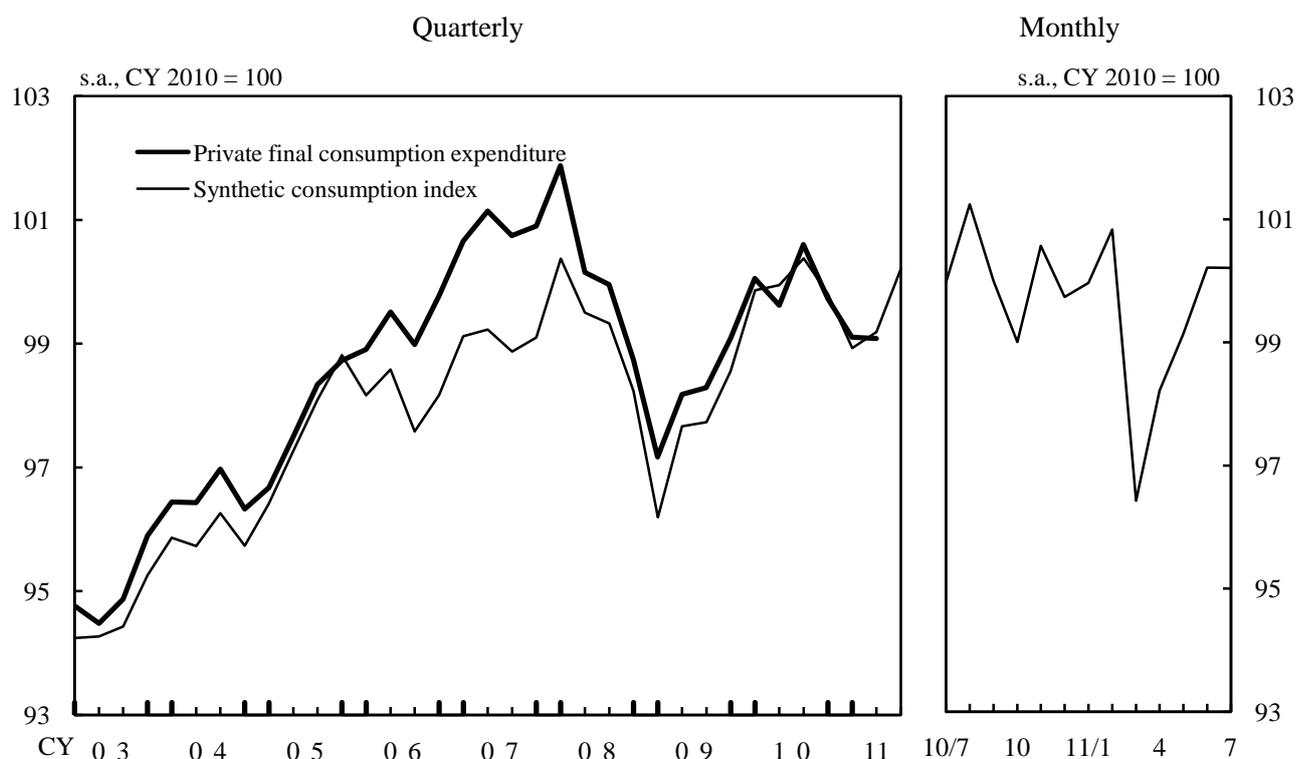
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

Indicators of Private Consumption (1)

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



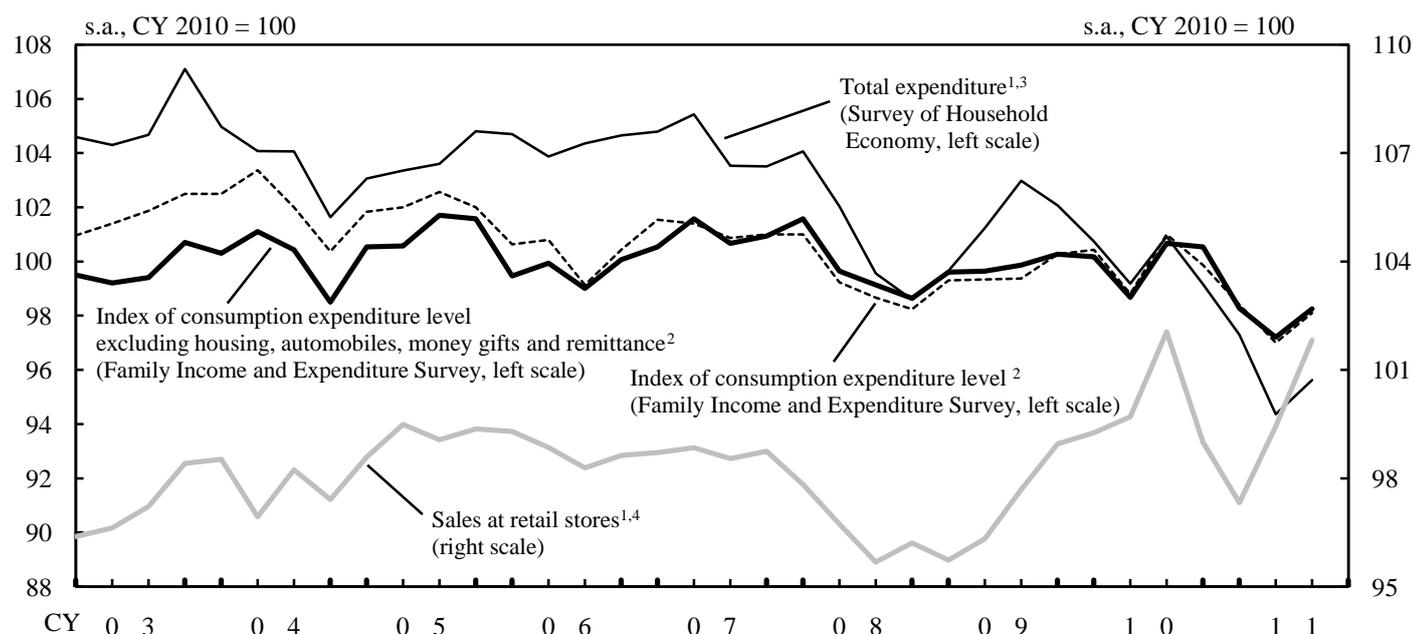
(2) Private Final Consumption Expenditure and Synthetic Consumption Index (Real)



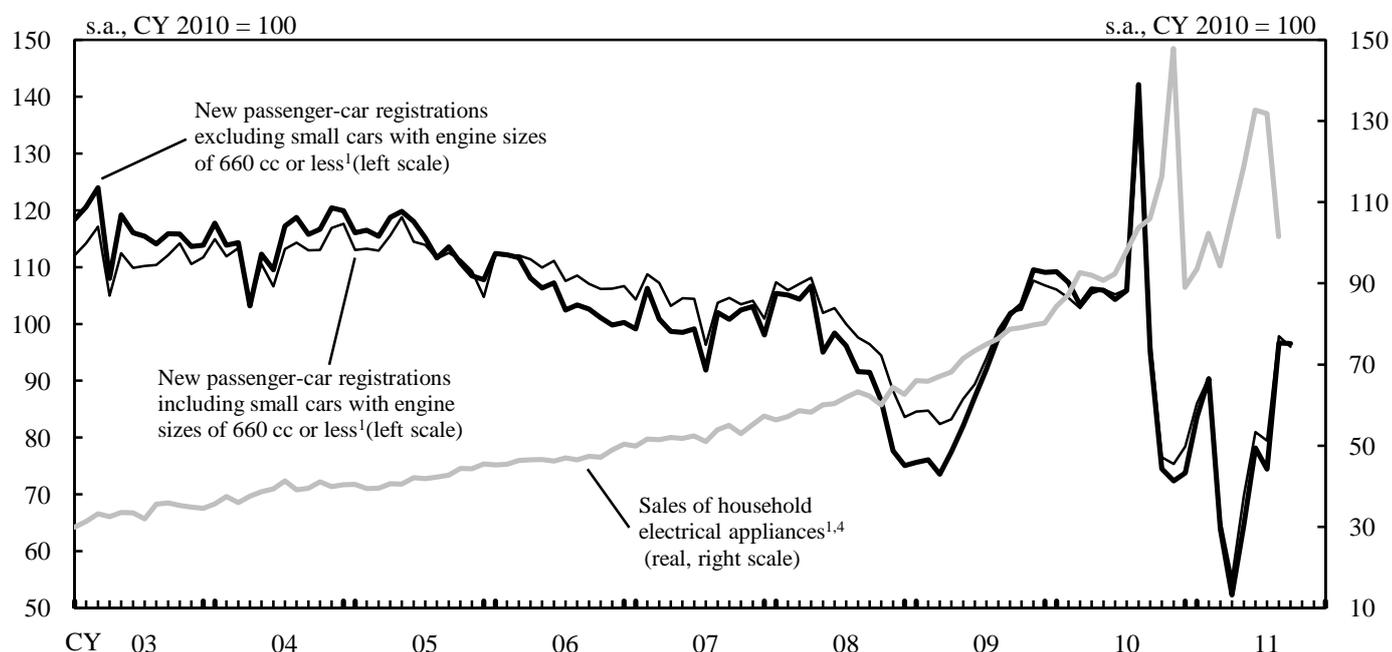
Note: The figure of the synthetic consumption index for 2011/Q3 is that of July in quarterly amount.

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

Indicators of Private Consumption (2)

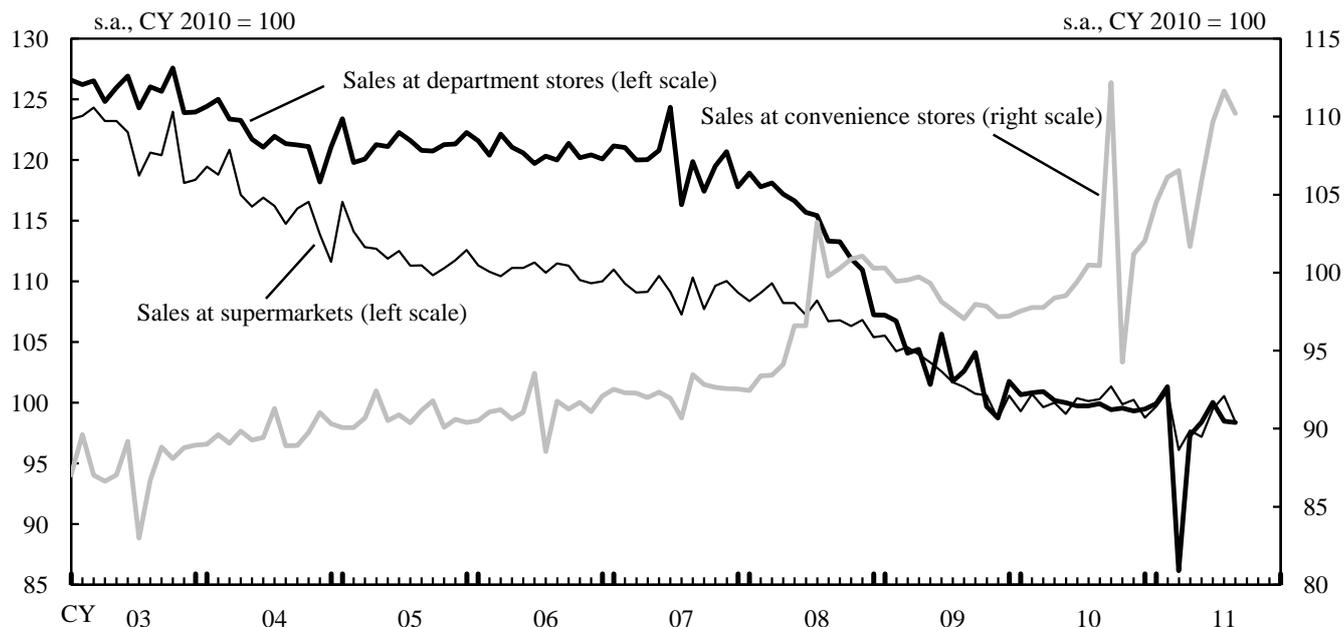
(1) Household Spending (Real)⁵

(2) Sales of Durable Goods

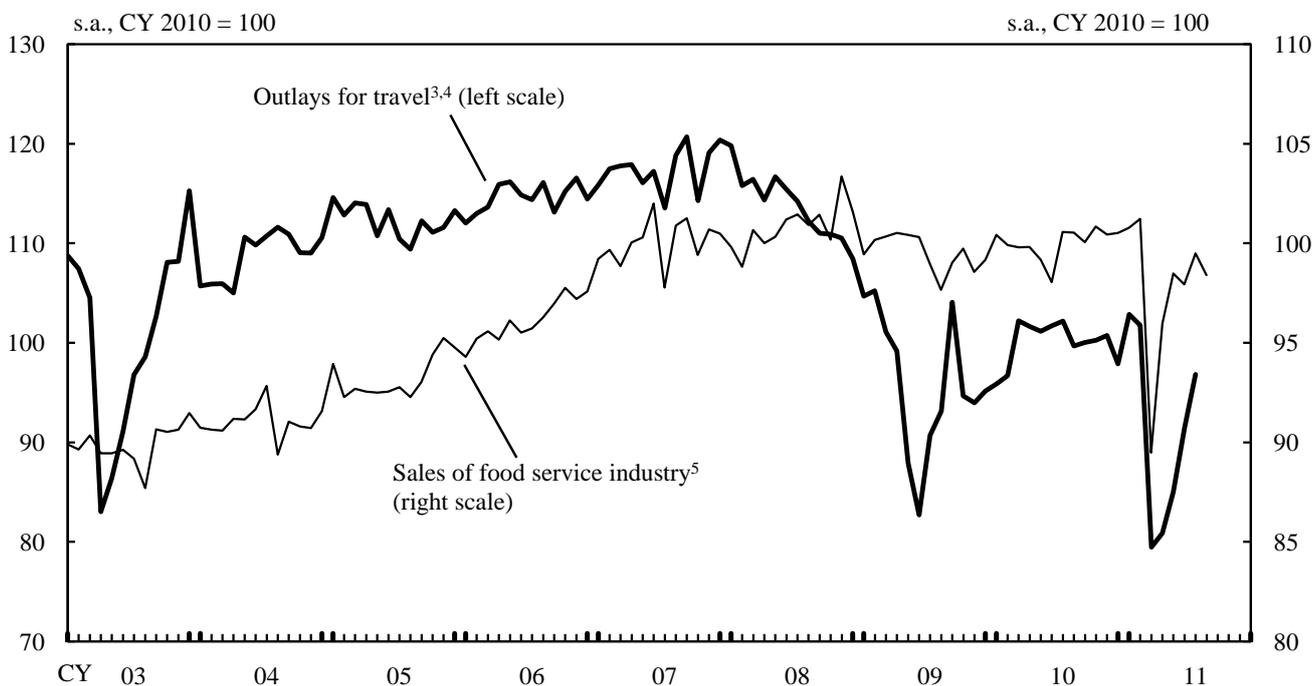


- Notes: 1. Total expenditure, sales at retail stores, sales of household electrical appliances and new passenger-car registrations are seasonally adjusted by X-12-ARIMA.
2. "Index of consumption expenditure level" is based on two-or-more-person households, and is adjusted using the distribution of household 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 (CPI)" excluding imputed rent.
4. "Sales at retail stores" is deflated by the CPI for goods (excluding electricity, gas & water charges). "Sales of household electrical appliances" is 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 the CPI.
5. Figures for 2011/Q3 are those of July-August averages in 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"; Japan Automobile Dealers Association, "Domestic Sales of Automobiles"; Japan Mini Vehicles Association, "Sales of Mini Vehicles."

Indicators of Private Consumption¹ (3)(1) Sales at Retail Stores (Nominal)²

(2) Consumption of Services (Nominal)



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

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

3. Excluding those by foreign travelers.

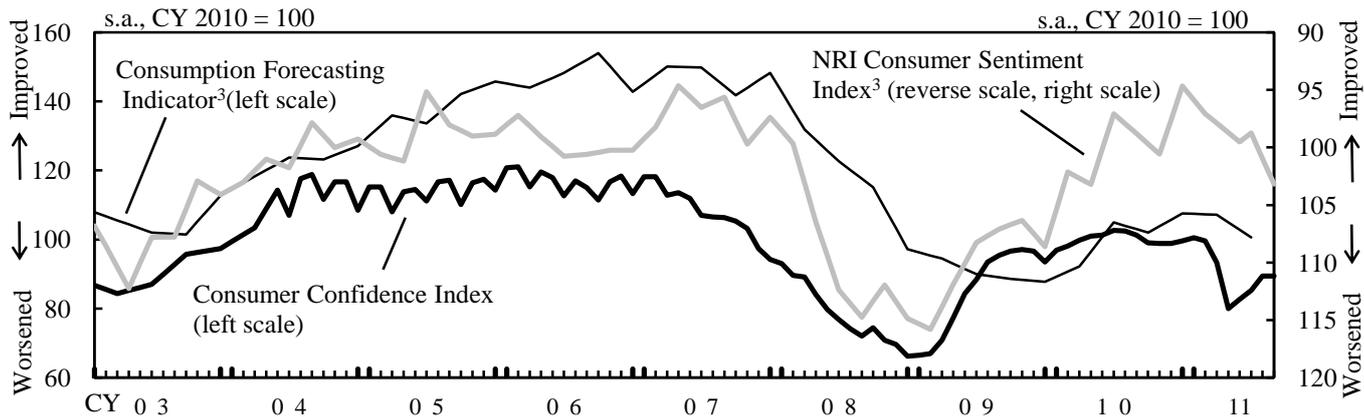
4. There are discontinuities in the underlying data as of April 2007 and April 2010 due to changes in the sample. Data from April 2007 and onward are calculated using the year-on-year rates of change.

5. "Sales of food service industry" is calculated using the year-on-year rates of change of every month released by the Japan Food Service Association based on the amount of monthly sales in 1993 released by the Food Service Industry Survey & Research Center.

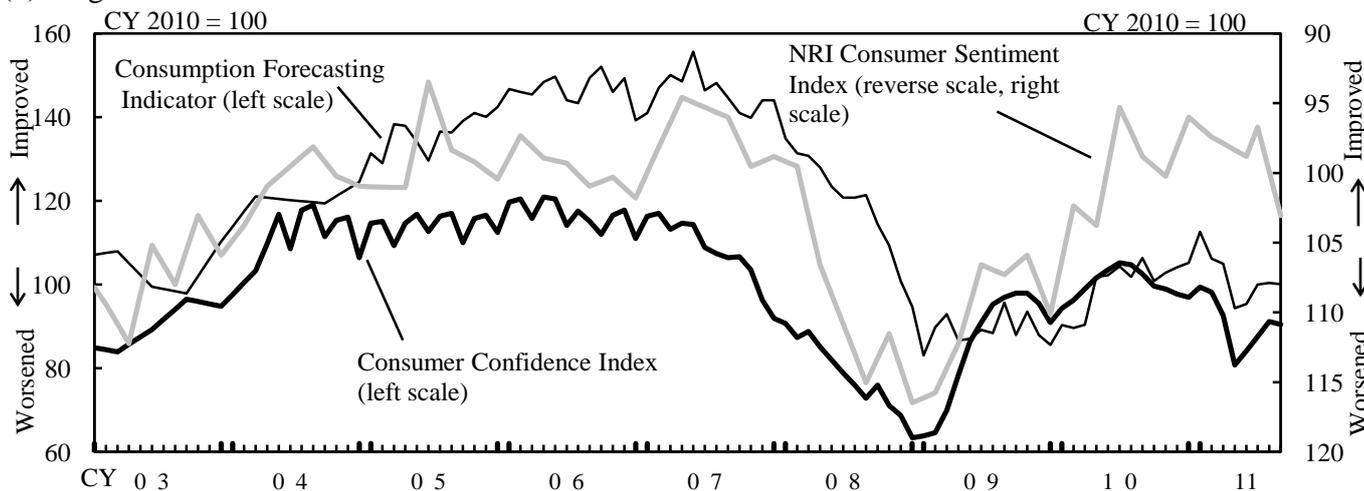
Sources: Ministry of Economy, Trade and Industry, "Current Survey of Commerce"; Japan Tourism Agency, "Major Travel Agents' Revenue"; Food Service Industry Survey & Research Center, "Getsuji Uriage Doukou Chousa (Monthly survey of food service sales)"; Japan Food Service Association, "Gaishoku Sangyou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

Consumer Confidence ^{1,2}

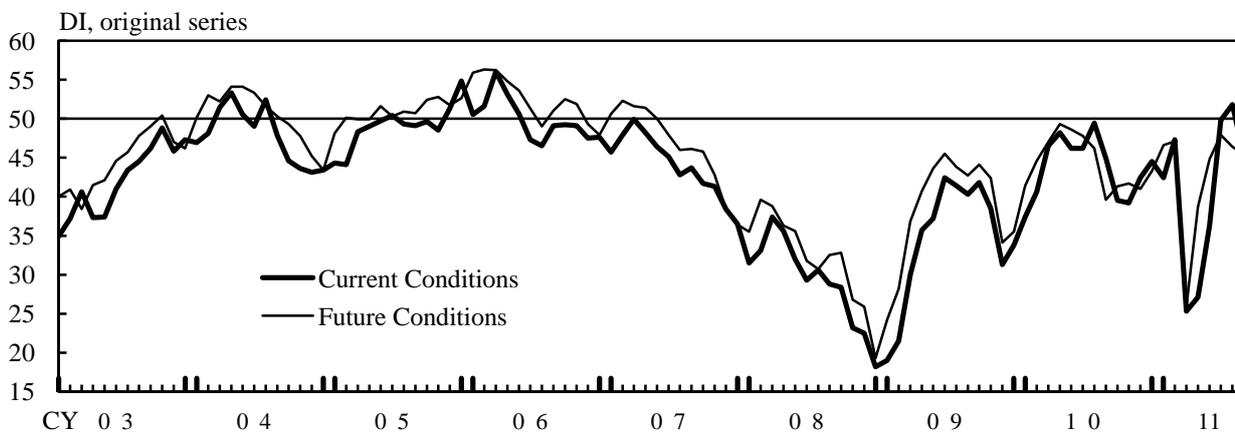
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)



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

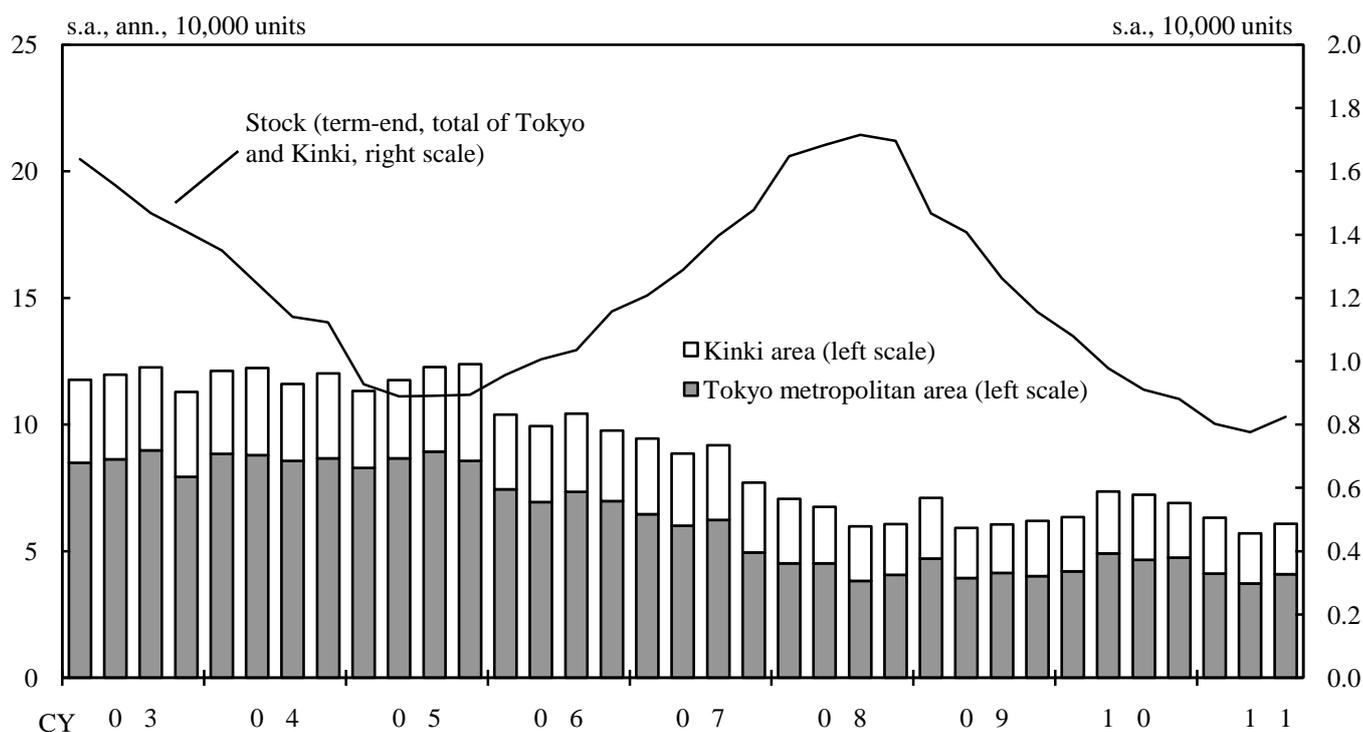
Indicators of Housing Investment

(1) Housing Starts



Note: Figures for 2011/Q3 are July-August averages.

(2) Sales of Apartments



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

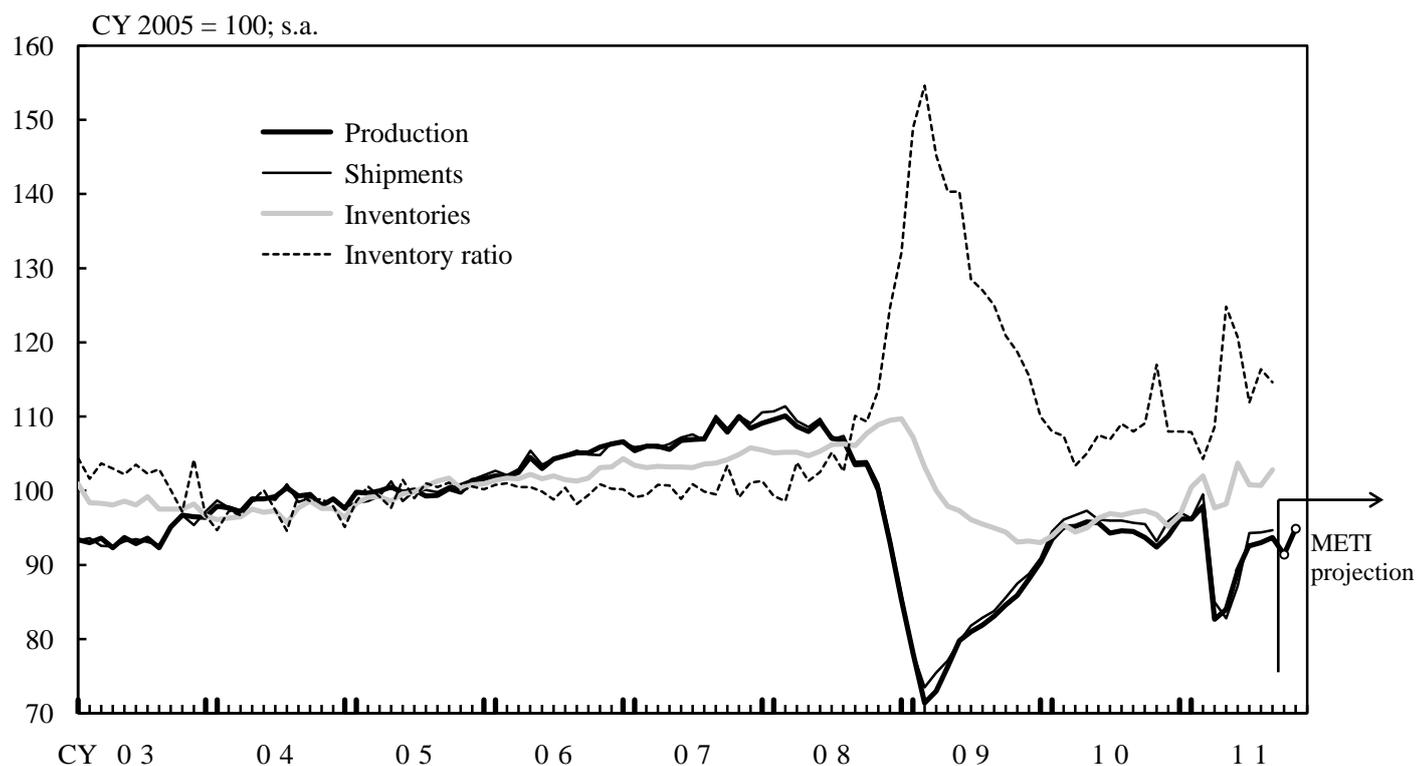
2. Figures of total apartment sales for 2011/Q3 are July-August averages.

Term-end stocks for 2011/Q3 are those of August.

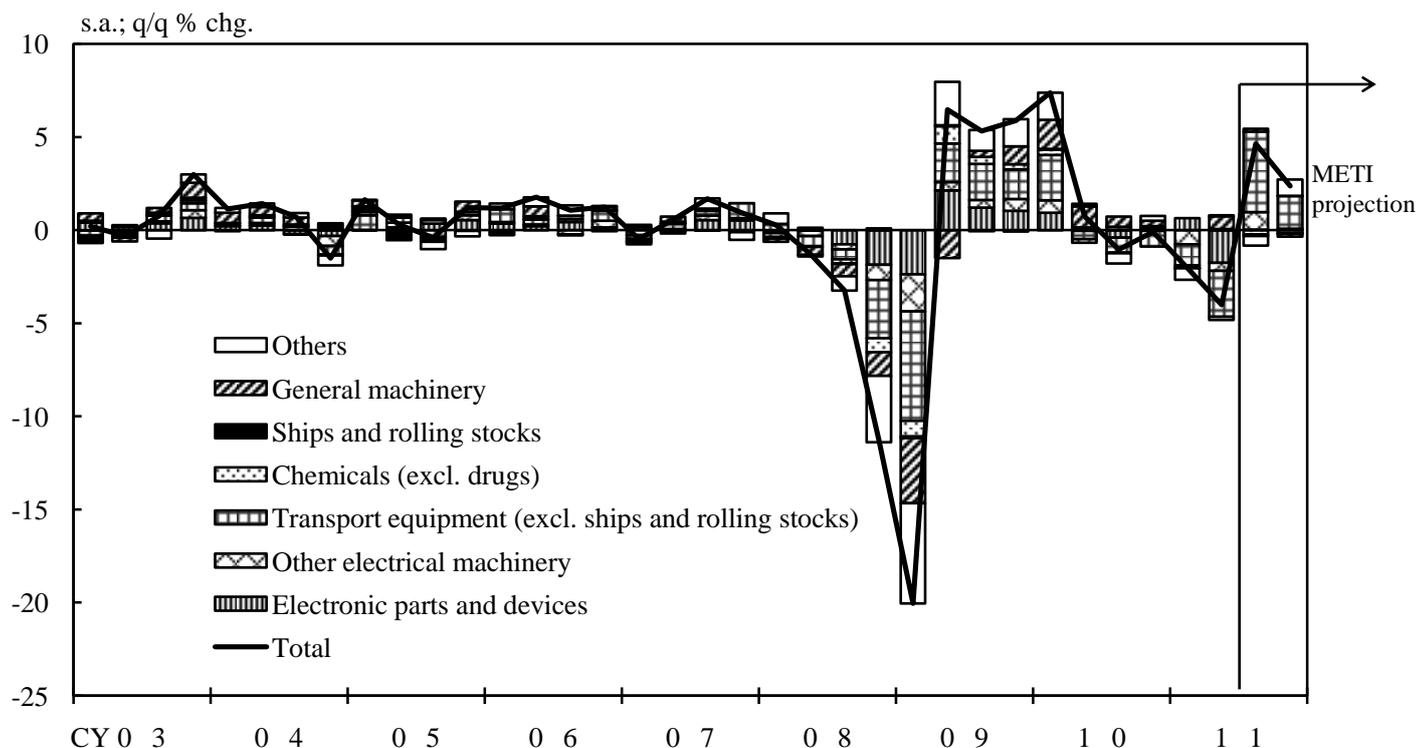
Sources: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

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."

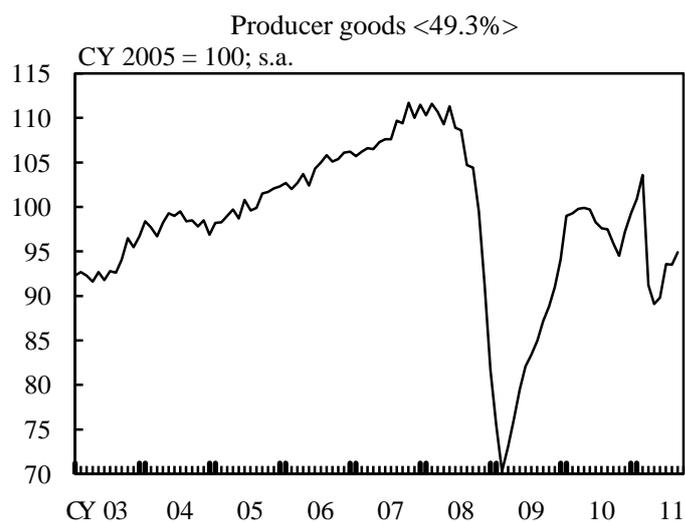
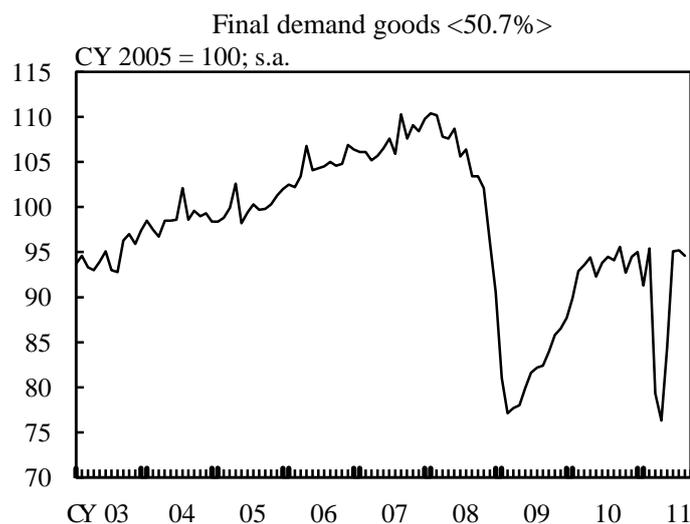
2. 2003/Q1 figures are on the 2000 base.

3. 2011/Q3 figures are based on the actual production levels in July and August, and the METI projection of September. 2011/Q4 figures are based on the assumption that the production levels in November and December are the same as those of October.

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

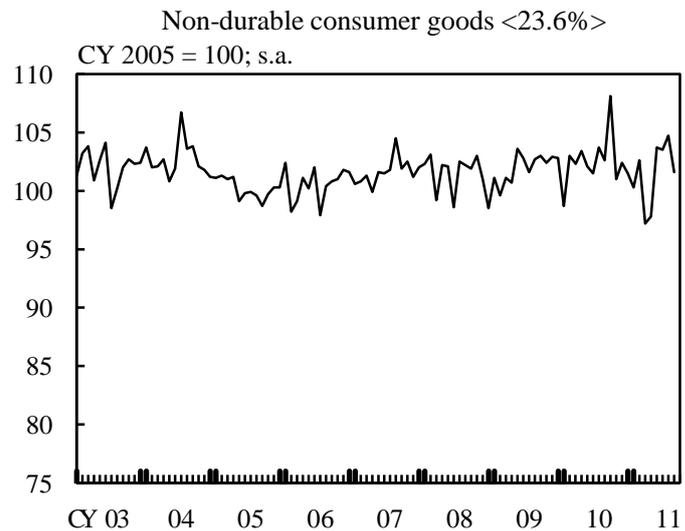
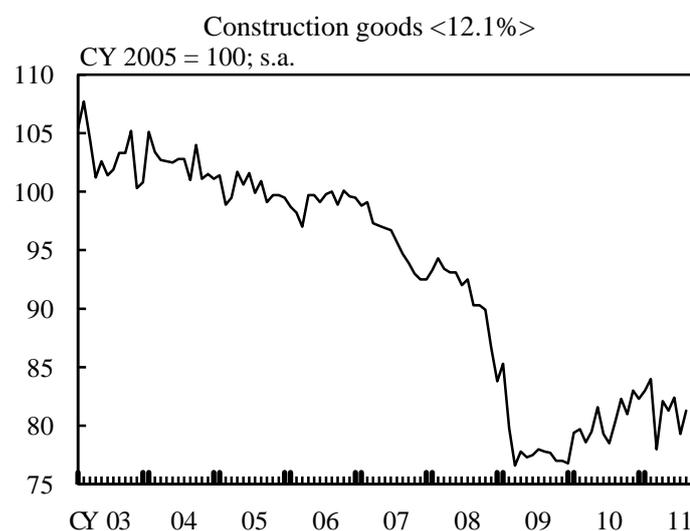
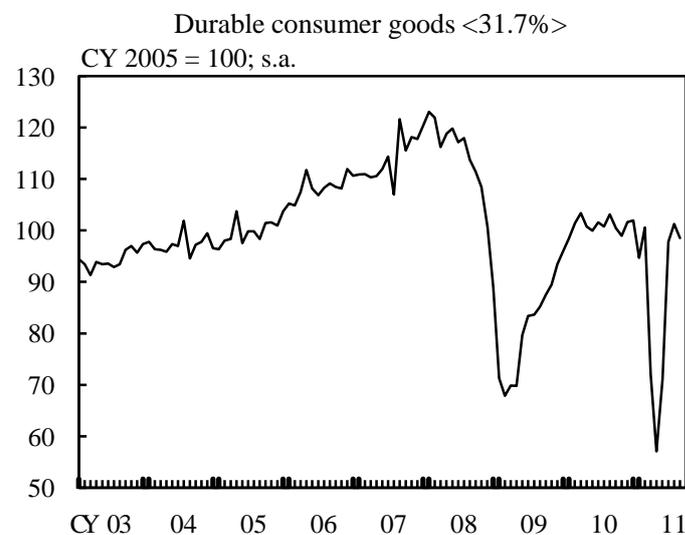
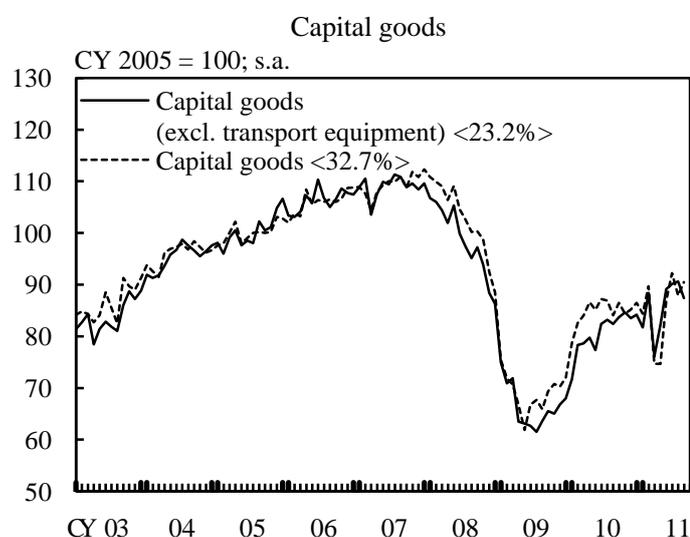
Shipments by Type of Goods

(1) Final Demand Goods and Producer Goods



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

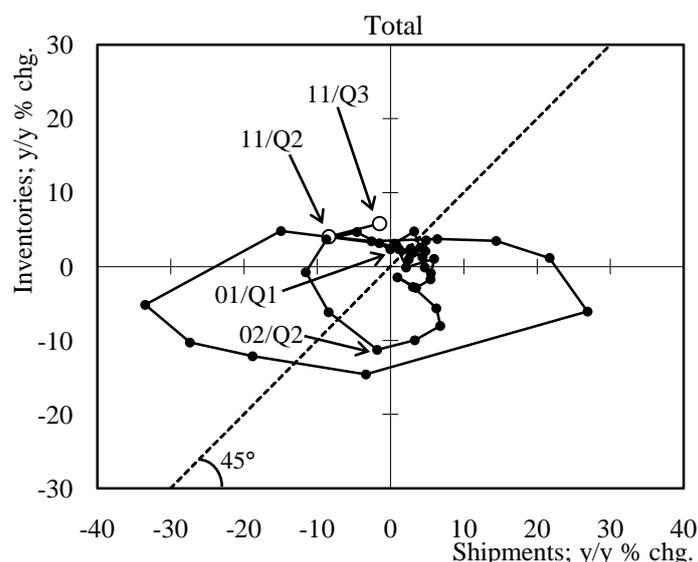
(2) Breakdown of Final Demand Goods



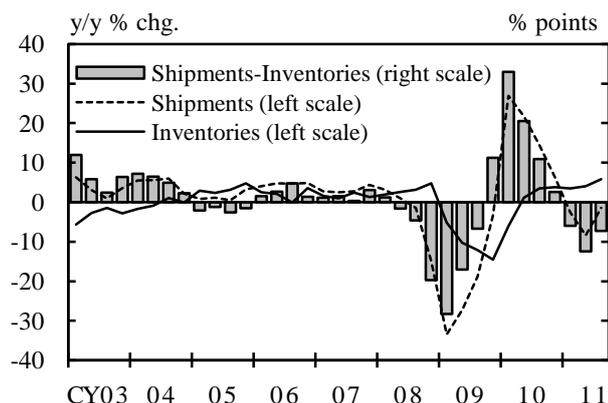
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

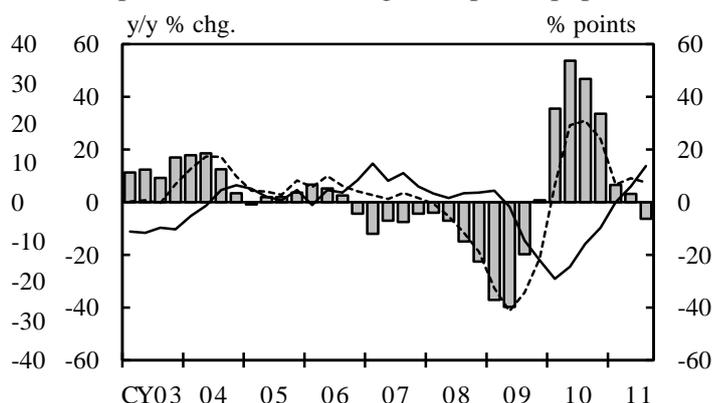
Inventory Cycle



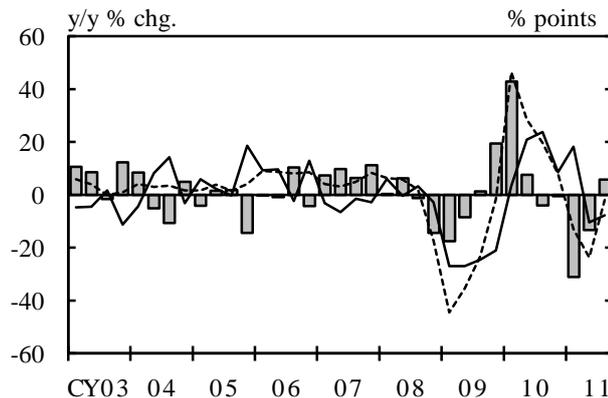
(1) Total



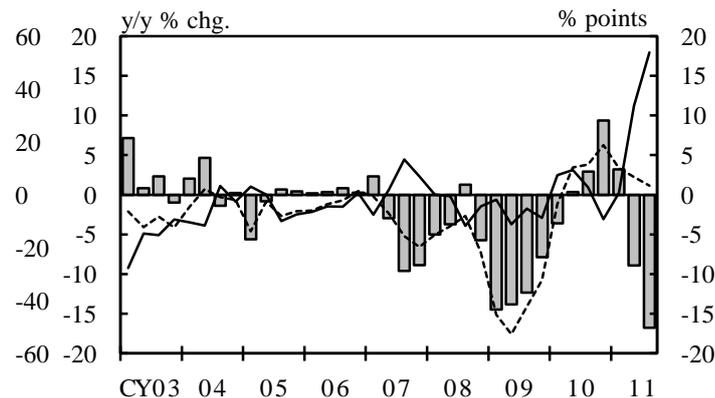
(2) Capital Goods (Excluding Transport Equipment)



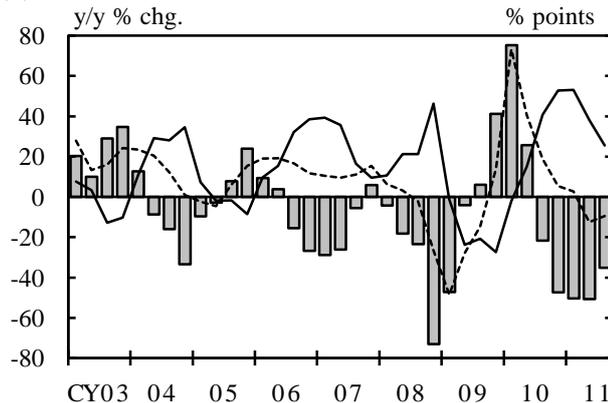
(3) Durable Consumer Goods



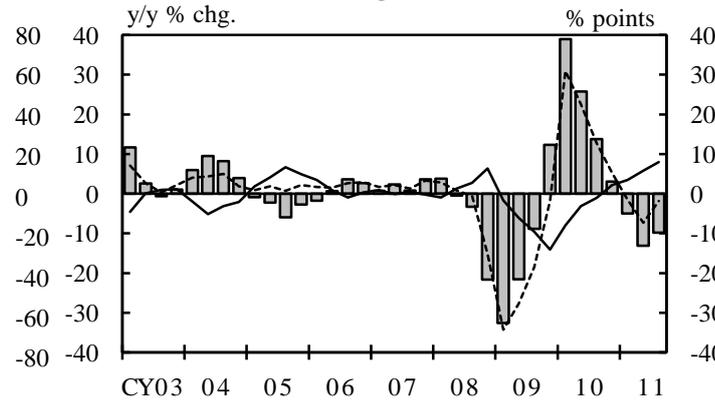
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices



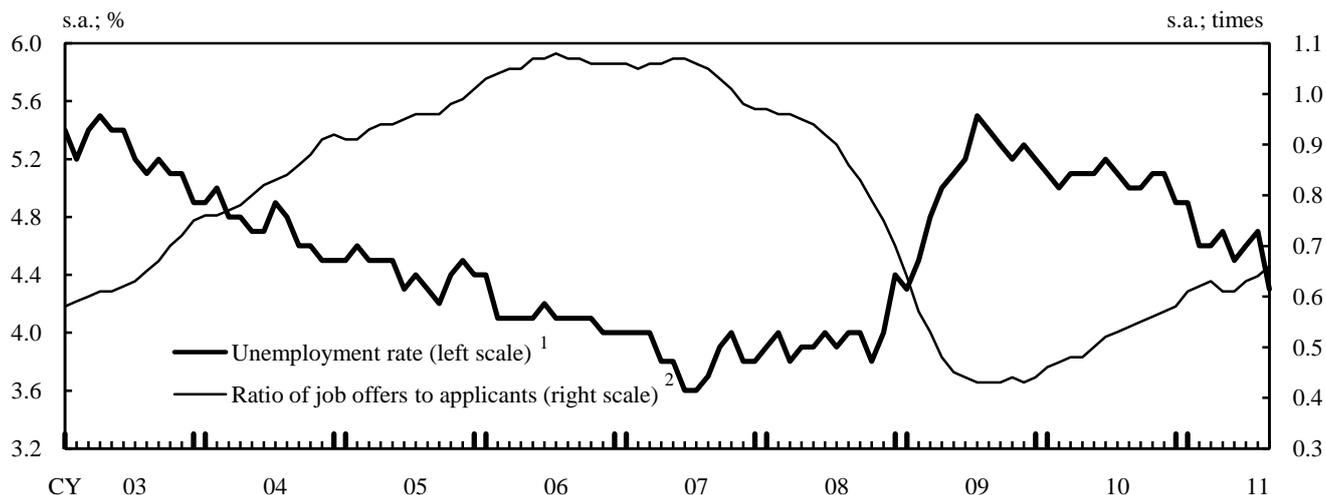
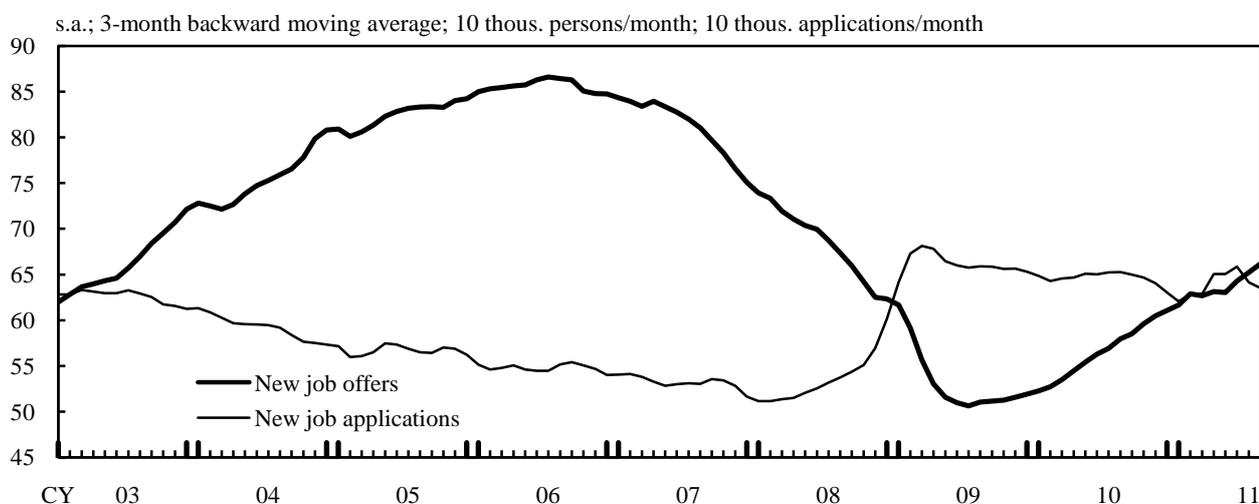
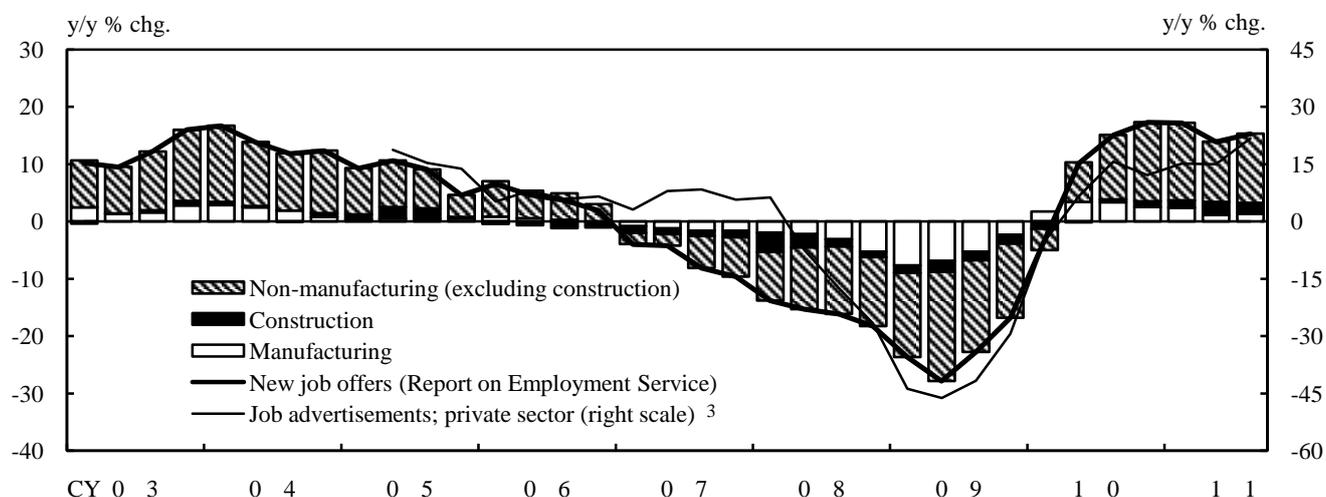
Note: Figures of shipments for 2011/Q3 are July-August averages.

Inventories for 2011/Q3 are those of August.

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

Labor Market (1)

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

(2) New Job Offers and New Job Applicants²(3) Breakdown of Job Offers^{2,4}

Notes: 1. Figures from March 2011 are based on data which exclude Iwate, Miyagi, and Fukushima prefectures.

2. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

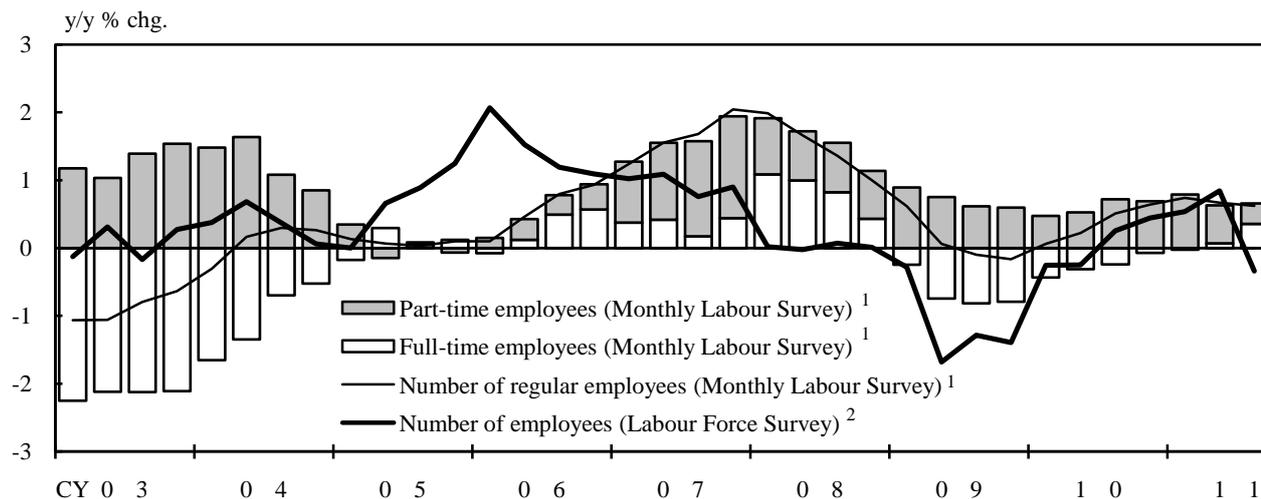
3. Figures are the sum of job advertisements listed in free/paid job information magazines, newspaper inserts, and job information websites provided by member companies of the Association of Job Information of Japan.

4. Figures for 2011/Q3 are July-August averages.

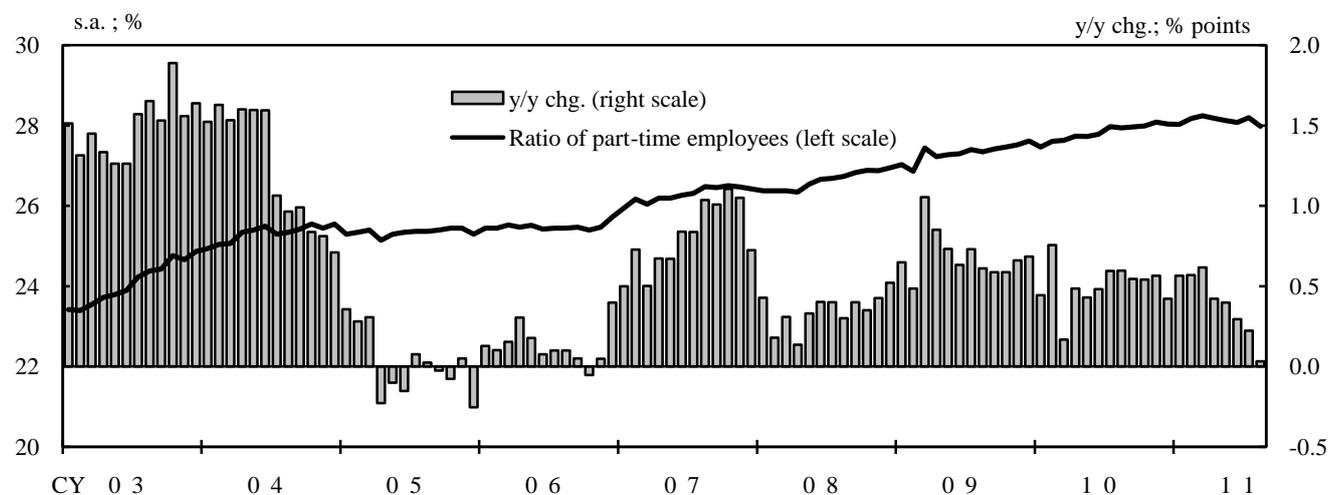
Sources: Ministry of Health, Labour and Welfare, "Report on Employment Service";
Ministry of Internal Affairs and Communications, "Labour Force Survey";
Association of Job Information of Japan, "Kyujin Koukoku Keisaikensu (Survey of job advertisements)."

Labor Market (2)

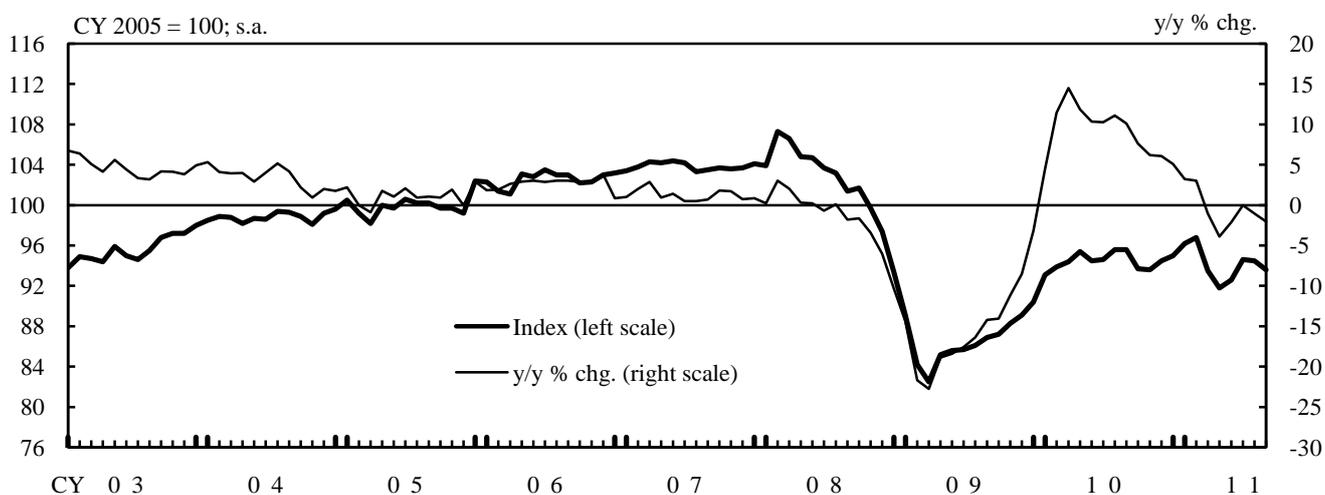
(1) Number of Employees⁴



(2) Ratio of Part-Time Employees^{1,3}



(3) Non Scheduled Hours Worked¹

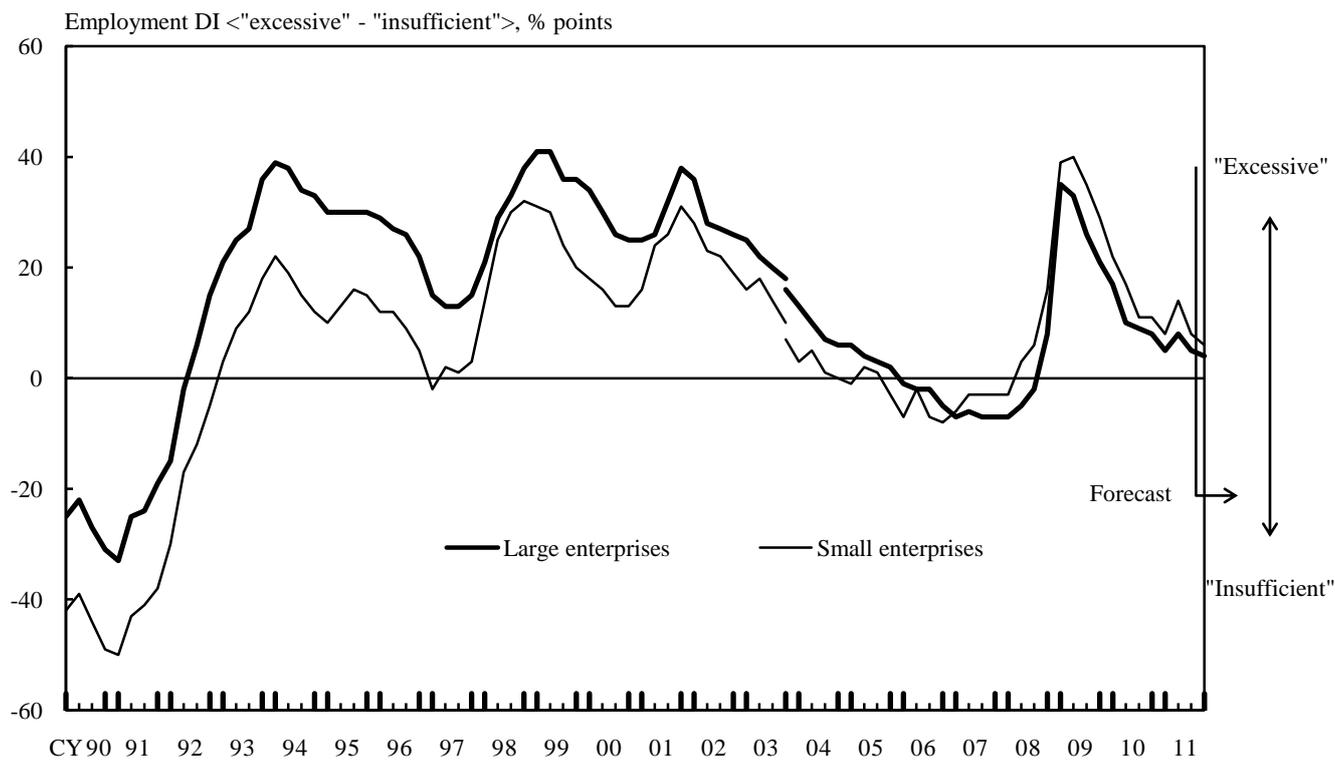


- Notes: 1. Data are for establishments with at least five employees.
 2. Figures from 2011/Q1 are based on data which exclude Iwate, Miyagi, and Fukushima prefectures.
 3. The ratio of part-time employees is calculated as the number of part-time employees divided by the number of regular employees times 100.
 4. Figures for 2011/Q3 are July-August averages.

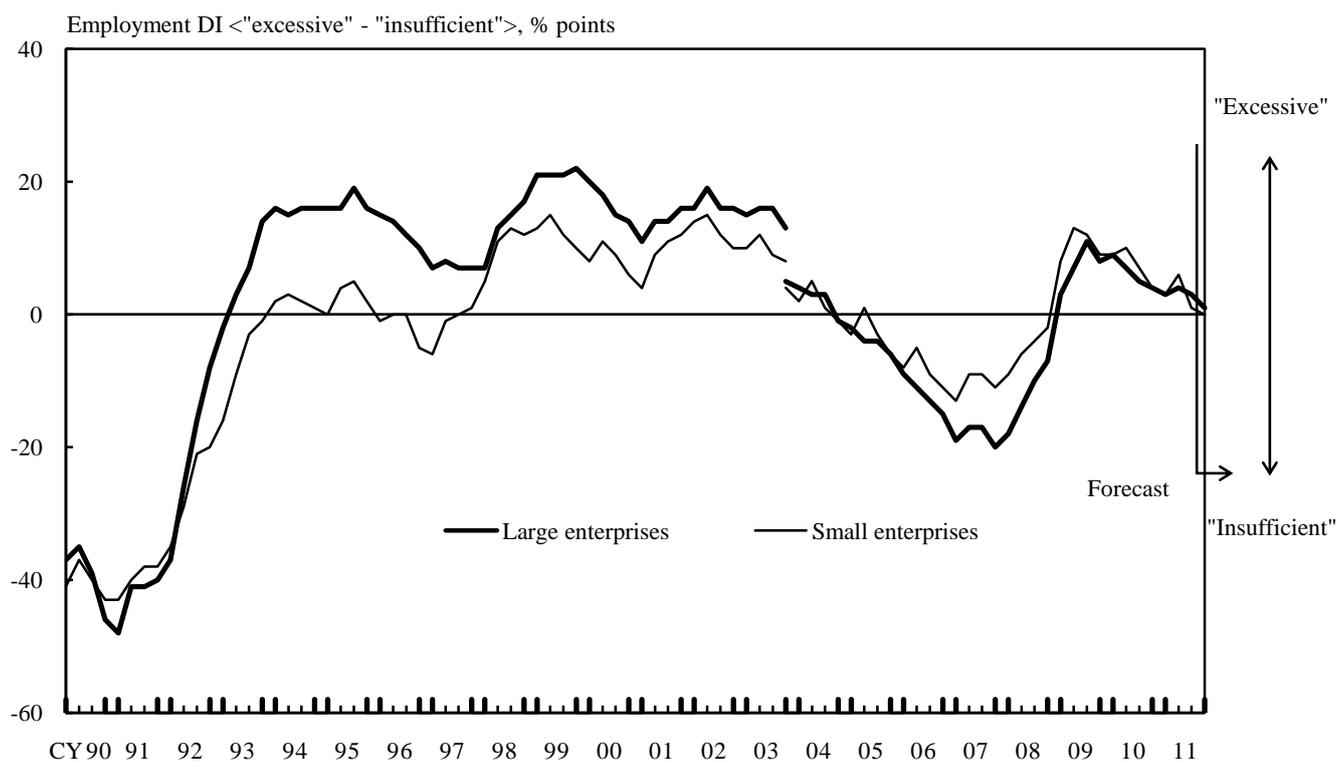
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Employment Conditions

(1) Manufacturing



(2) Nonmanufacturing

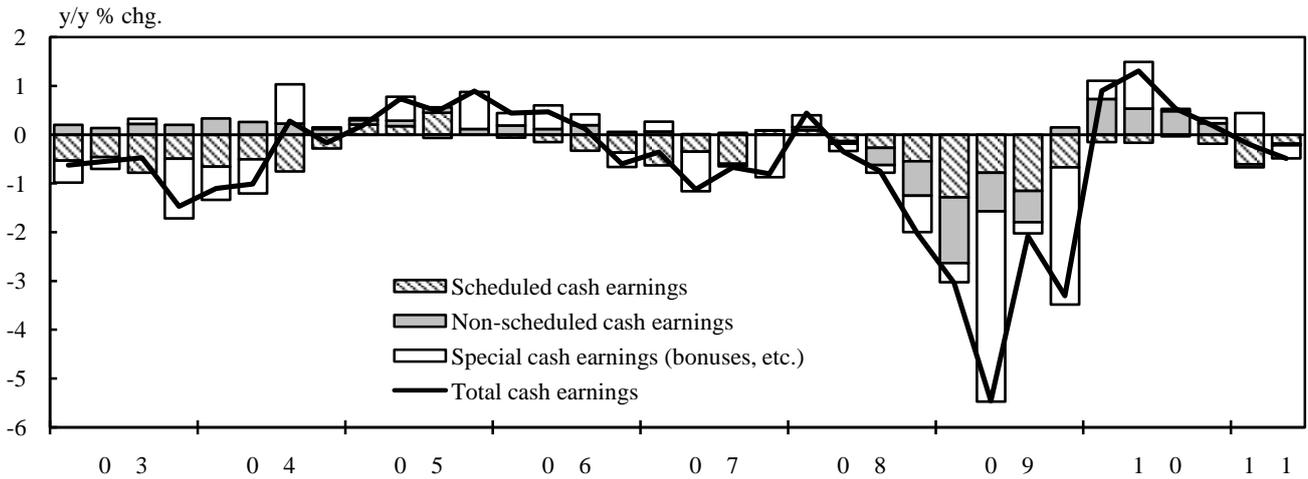


Note: The "Tankan" has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on the new basis.

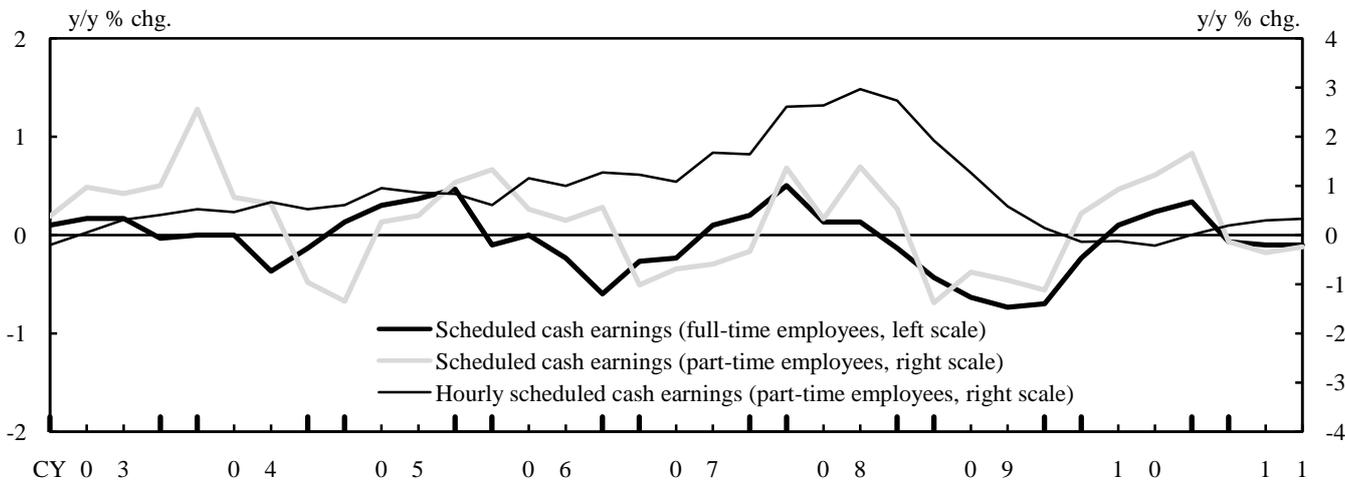
Source: Bank of Japan, "Tankan", Short-term Economic Survey of Enterprises in Japan."

Employee Income

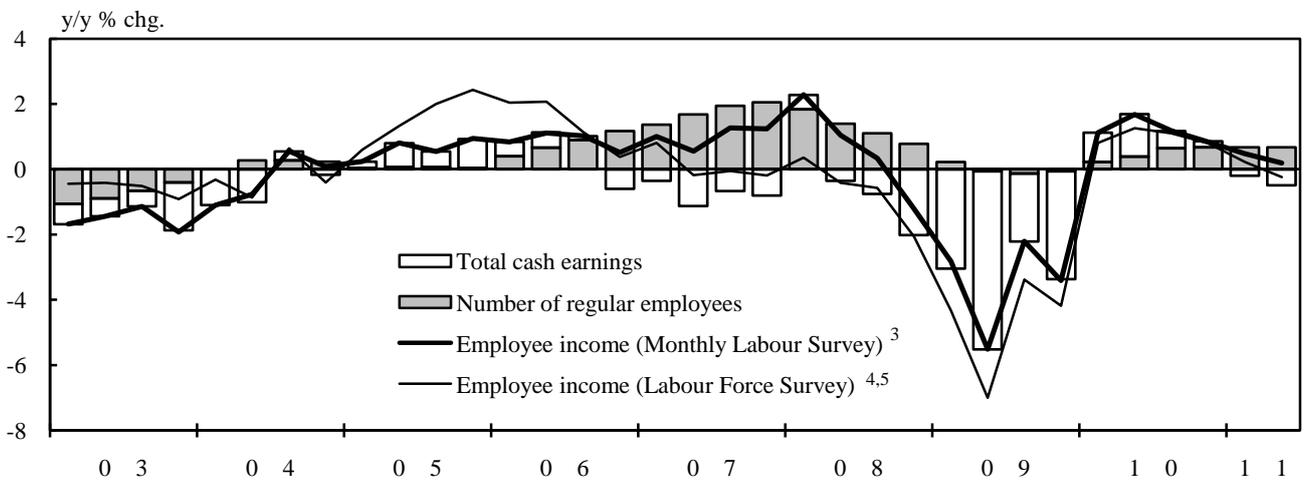
(1) Breakdown of Total Cash Earnings^{1,2}



(2) Scheduled Cash Earnings^{1,6}



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

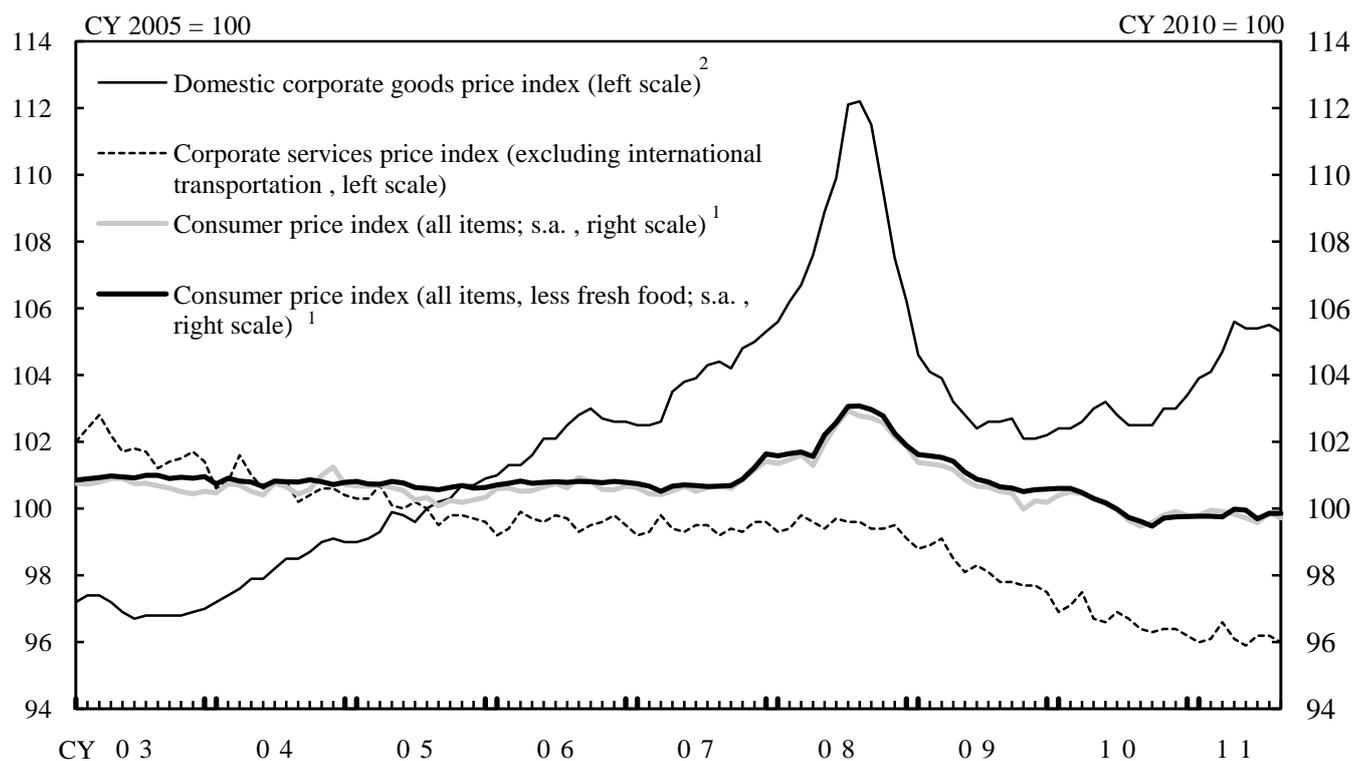


Notes: 1. Data of the "Monthly Labour Survey" are for establishments with at least five employees.
 2. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 3. Calculated as the "number of regular employees" (Monthly Labour Survey) times "total cash earnings" (Monthly Labour Survey).
 4. Calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).
 5. Figures from 2011/Q1 are based on data which exclude Iwate, Miyagi, and Fukushima prefectures.
 6. Figures for 2011/Q3 are July-August averages.

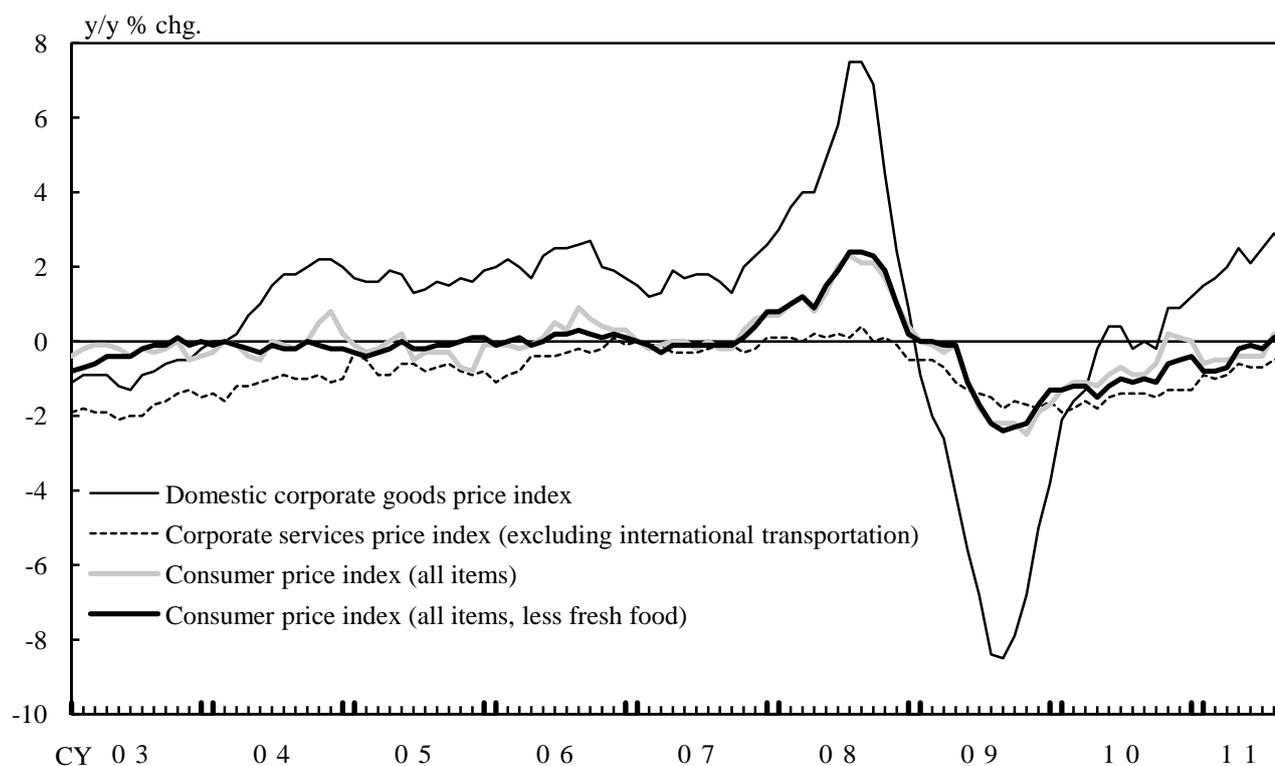
Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey";
 Ministry of Internal Affairs and Communications, "Labour Force Survey."

Prices

(1) Level



(2) Changes from a Year Earlier



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

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

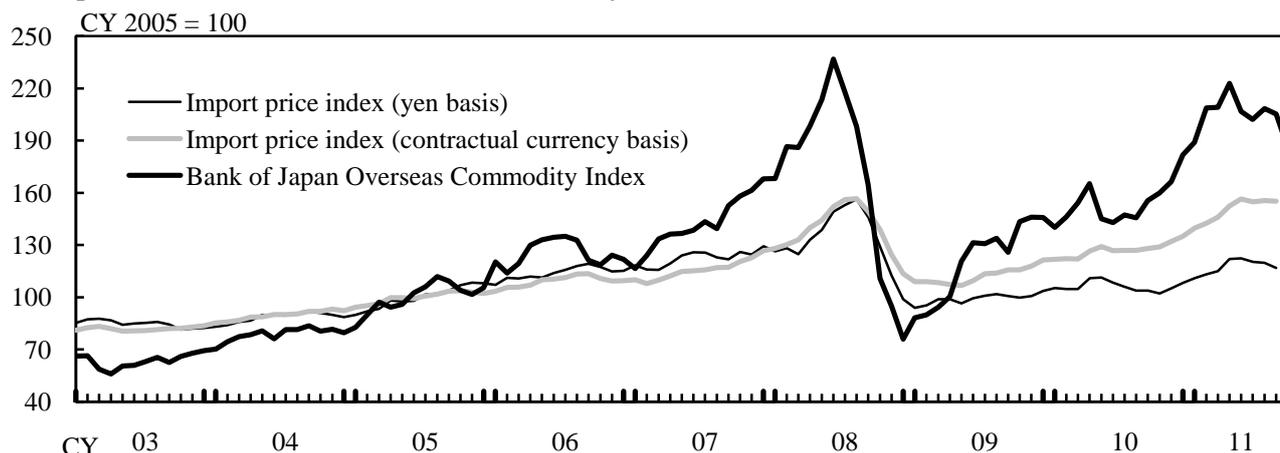
3. The levels of "Consumer Price Index" up to 2009 are based on the linked indices.

4. Figures of "Corporate Goods Price Index" and "Corporate Services Price Index" up to 2004 are based on the linked indices.

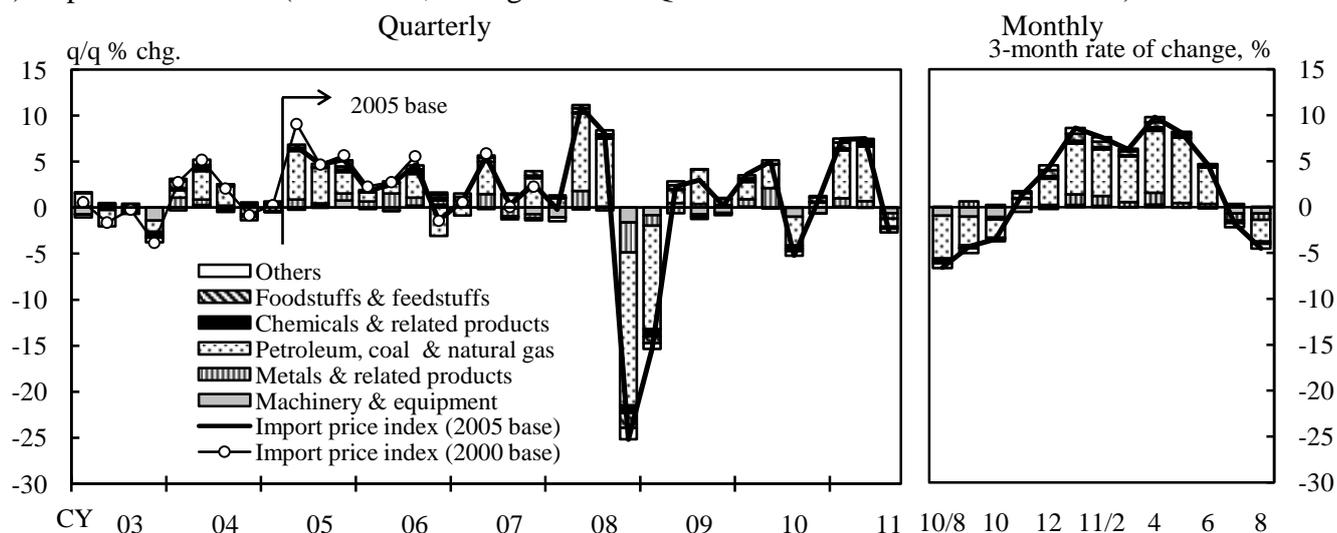
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index



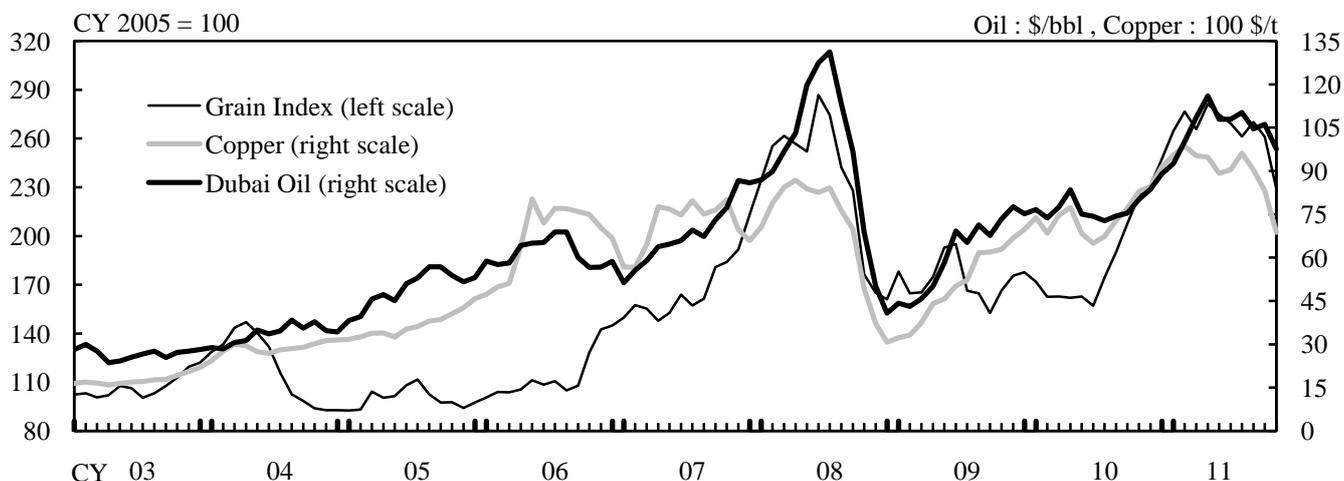
(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



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

2. Figures for 2011/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices



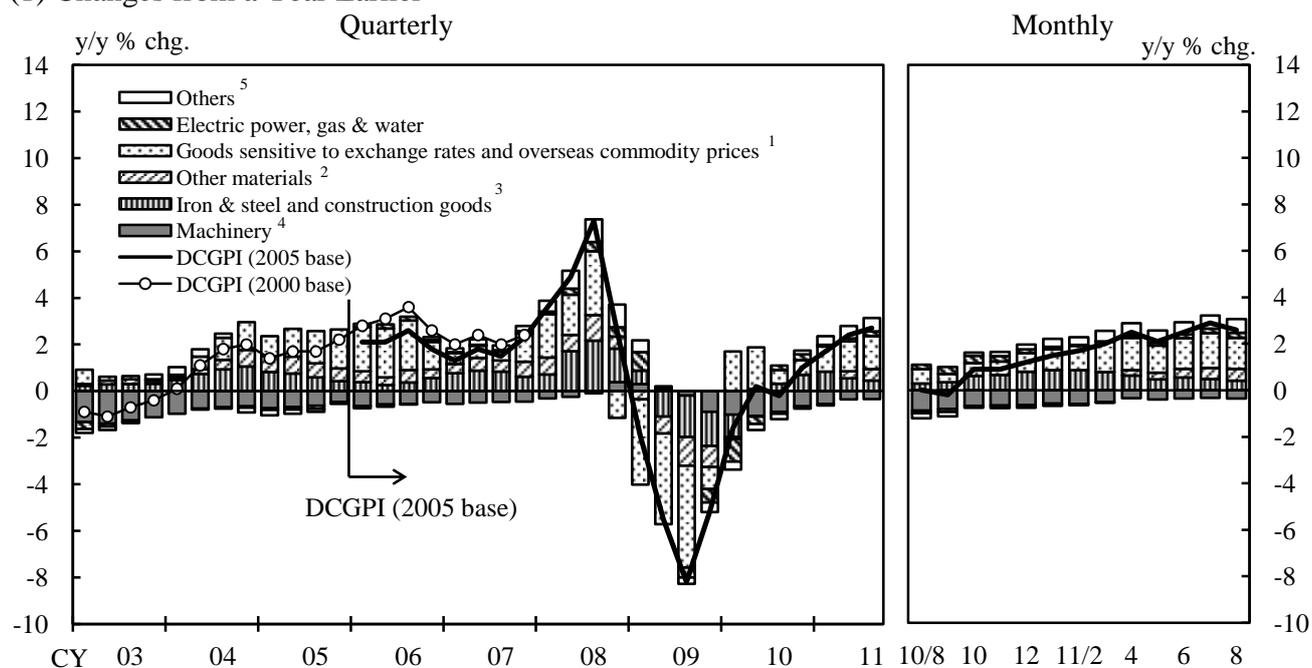
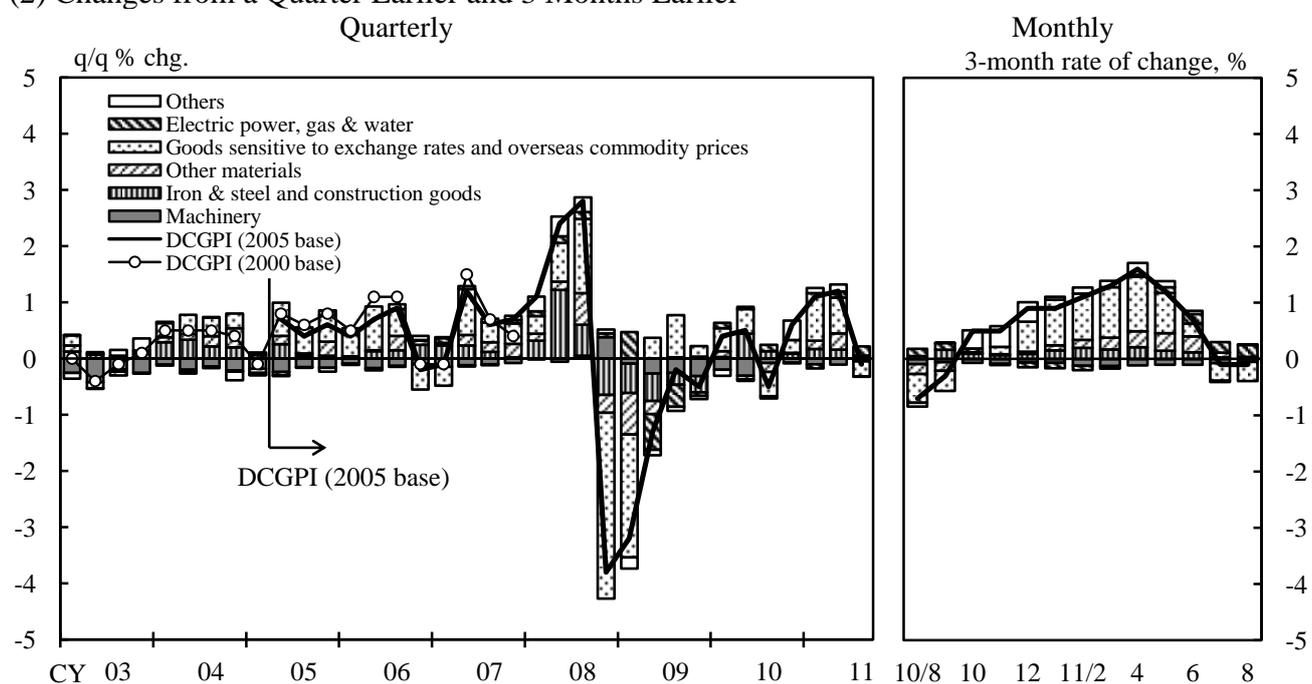
Notes: 1. The "grain index" is the weighted average of prices of three selected items (wheat, soybeans, and corn) in overseas commodity markets. The weights are based on the value of imports in the "Trade Statistics."

2. Monthly averages. Figures for October 2011 are averages up to October 6.

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

Domestic Corporate Goods Price Index⁷

(1) Changes from a Year Earlier

(2) Changes from a Quarter Earlier and 3 Months Earlier⁶

Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products and nonferrous metals.

2. Other materials: chemicals & related products, plastic products, textile products, and pulp, paper & related products.

3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, and scrap & waste.

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

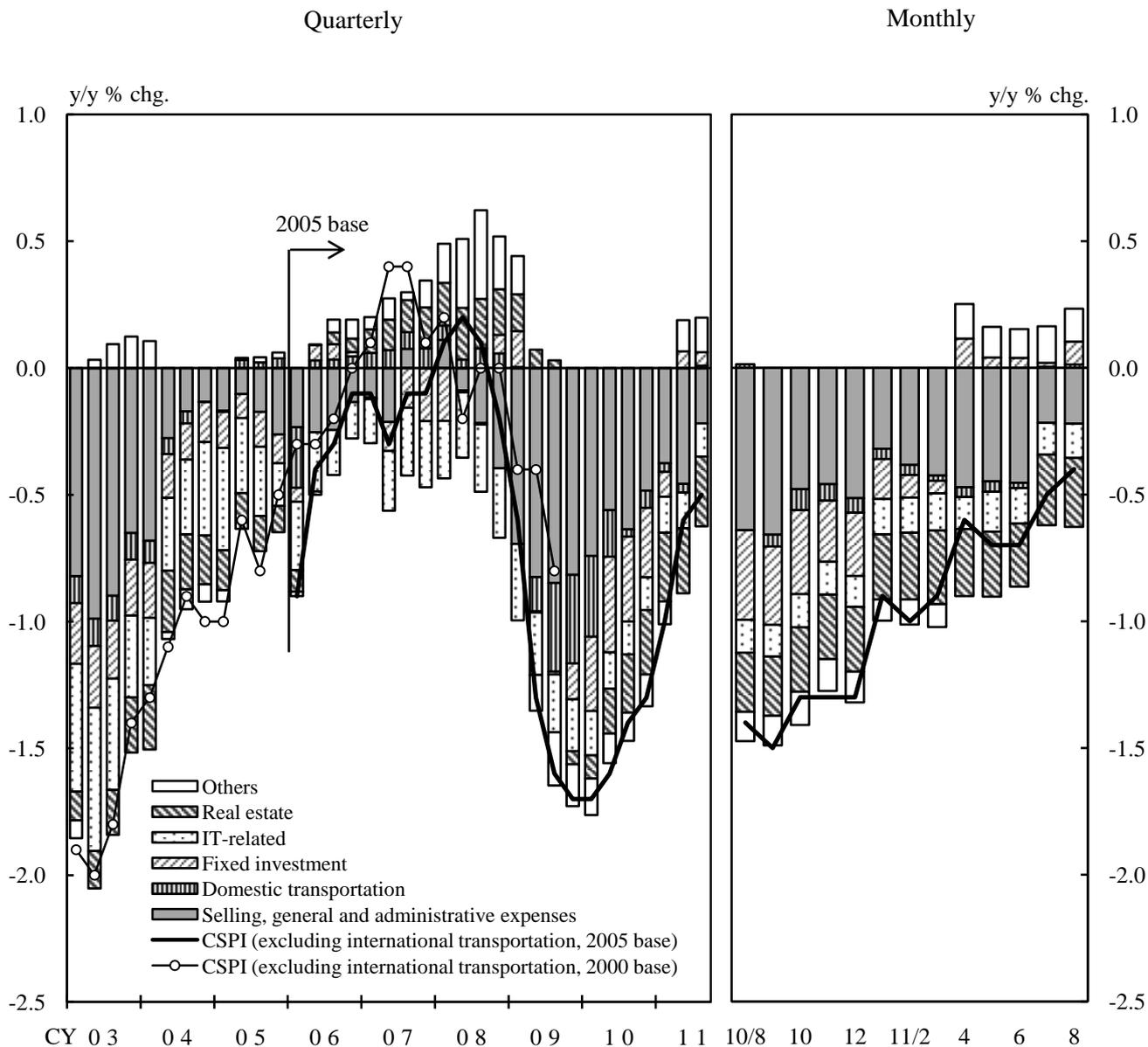
5. Others: processed foodstuffs, other manufacturing industry products, agriculture, forestry & fishery products, and minerals.

6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This adjustment makes the "Domestic Corporate Goods Price Index" fall by about 0.2%.

7. Figures for 2011/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

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

Corporate Services Price Index

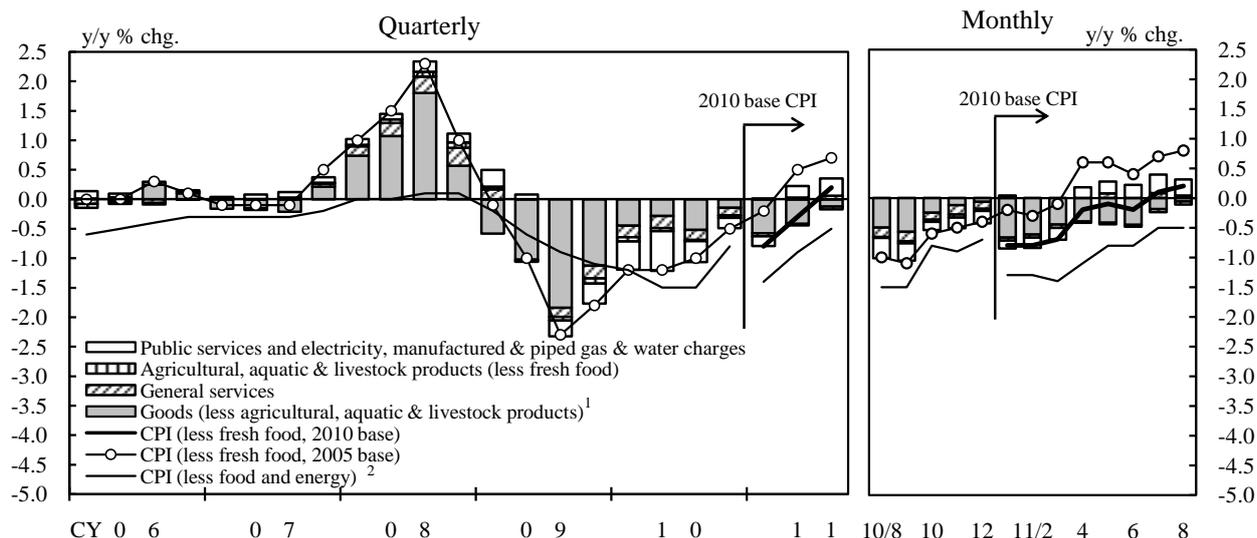


- Notes: 1. Selling, general and administrative expenses: information and communications (excluding newspapers and publishing), advertising services, other services (excluding plant engineering, and civil engineering and architectural services).
 2. Domestic transportation: transportation (excluding international transportation, railroad passenger transportation, road passenger transportation, water passenger transportation, and domestic air passenger transportation).
 3. Fixed investment: leasing and rental (excluding leasing of computer and related equipment and computer rental), and civil engineering and architectural services.
 4. IT-related: leasing of computer and related equipment, and 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, and plant engineering.
 7. Figures for 2011/Q3 are July-August averages. Figures for 2009/Q3 on the 2000 base are July-August averages.

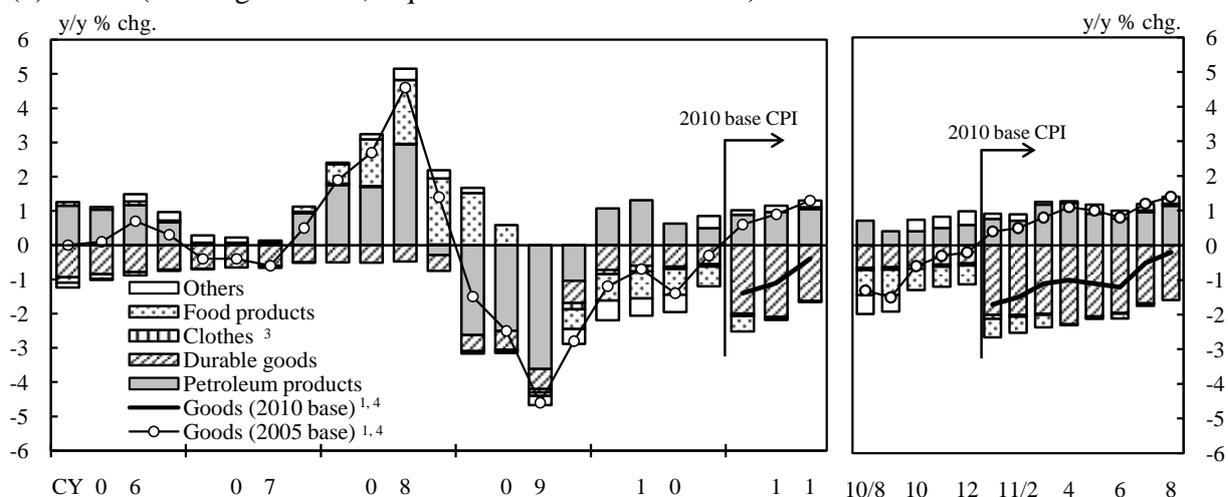
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Less Fresh Food)

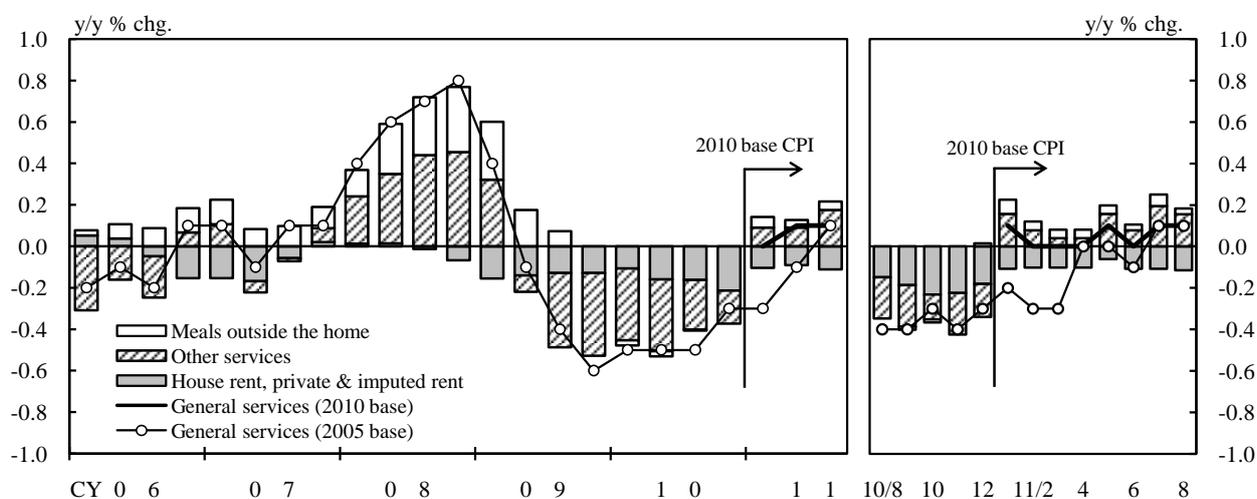
(1) Consumer Price Index (Less Fresh Food)



(2) Goods (Less Agricultural, Aquatic & Livestock Products)¹



(3) General Services

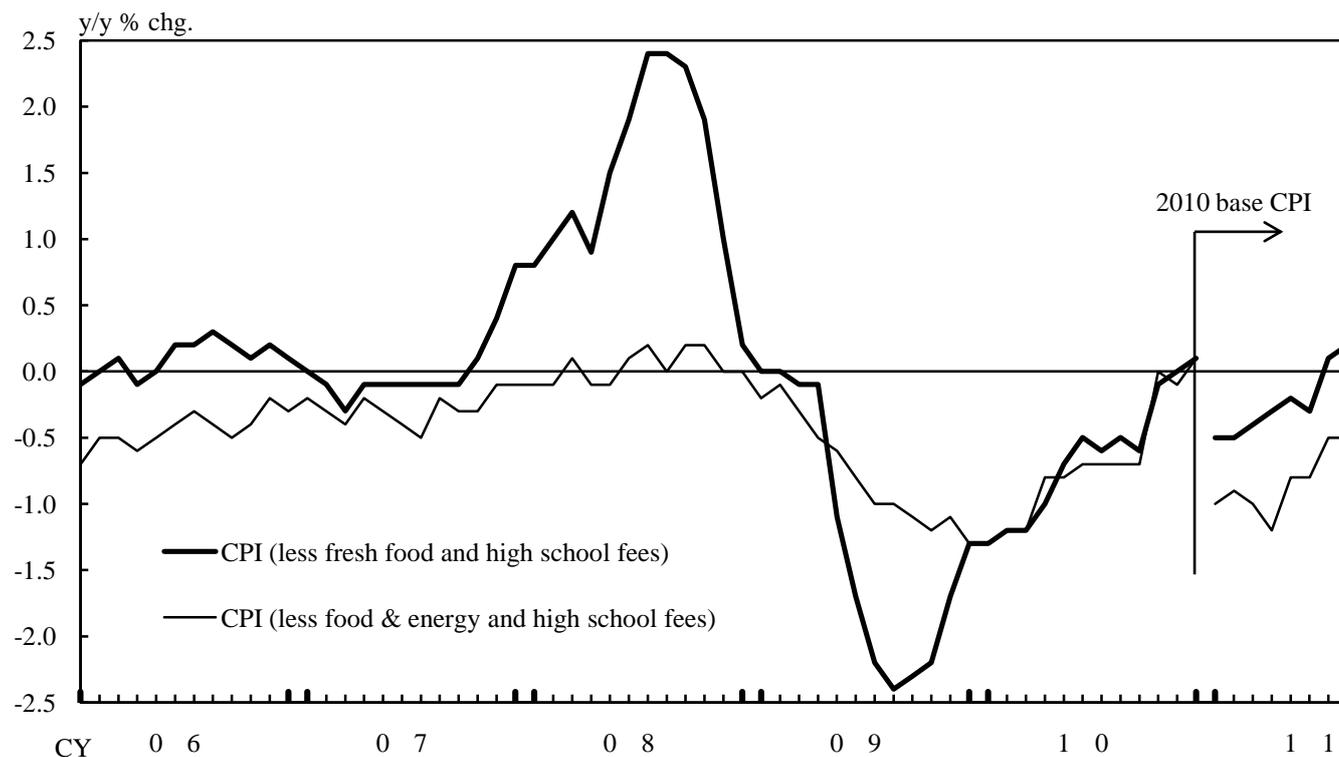


Notes:1. The items are basically the same as those defined by the Ministry of Internal Affairs and Communications. However, electricity, manufactured & piped gas & water charges are excluded from goods.
 2. Alcoholic beverages are excluded from food. Energy: electricity, gas manufactured & piped, Liquefied propane, kerosene, and gasoline.
 3. Including shirts, sweaters & underwear.
 4. Less agricultural, aquatic & livestock products.
 5. The year-on-year rates of change other than those of the CPI (less fresh food), CPI (less food and energy), and General services are calculated using published indices.
 6. Figures for 2011/Q3 are July-August averages.

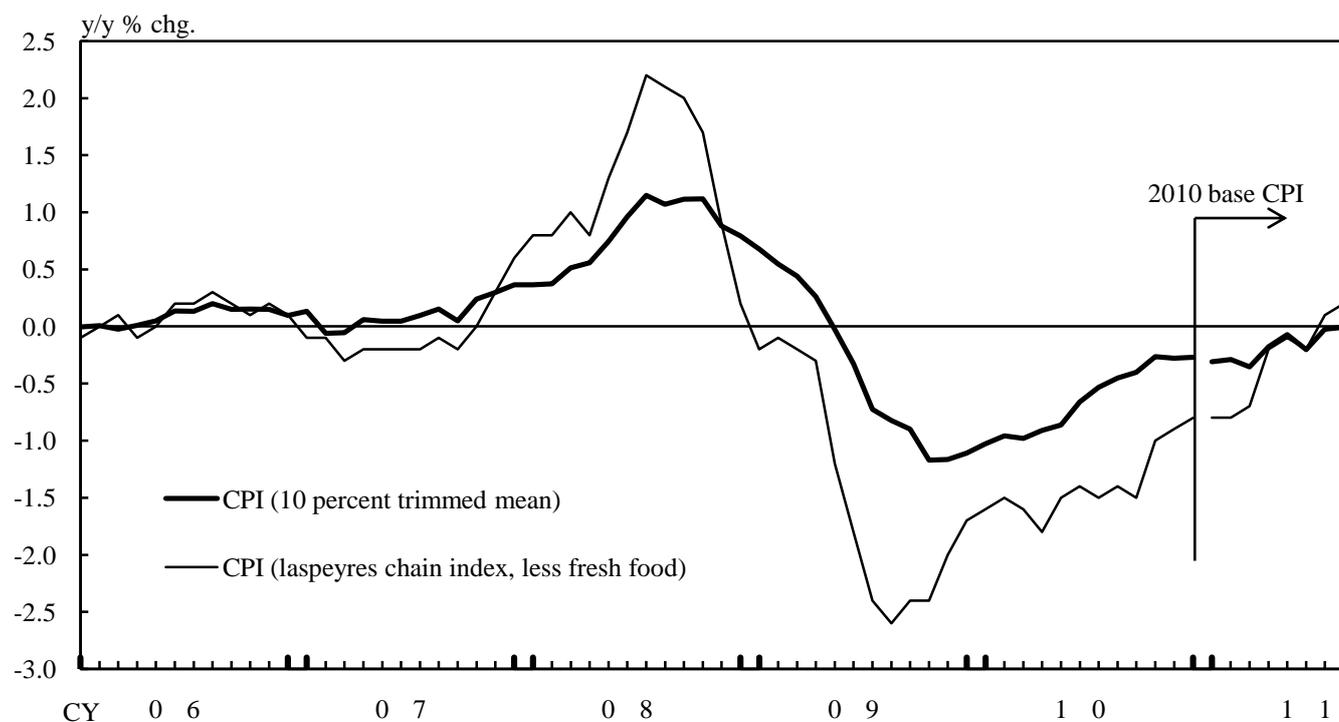
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Trend Changes in Consumer Prices

(1) CPI Less High School Fees



(2) Trimmed Mean and Laspeyres Chain Index



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).

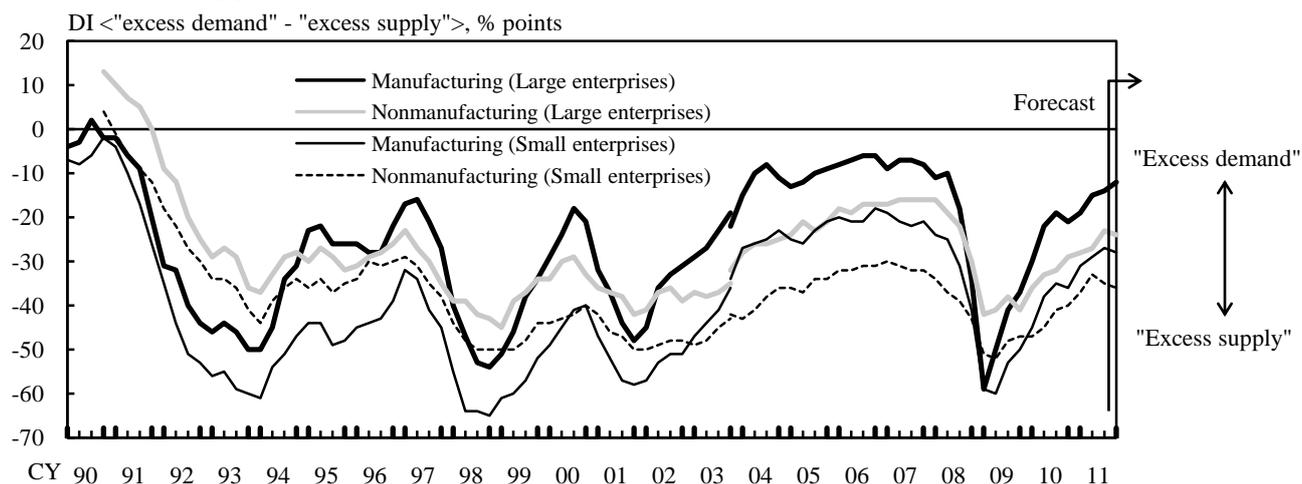
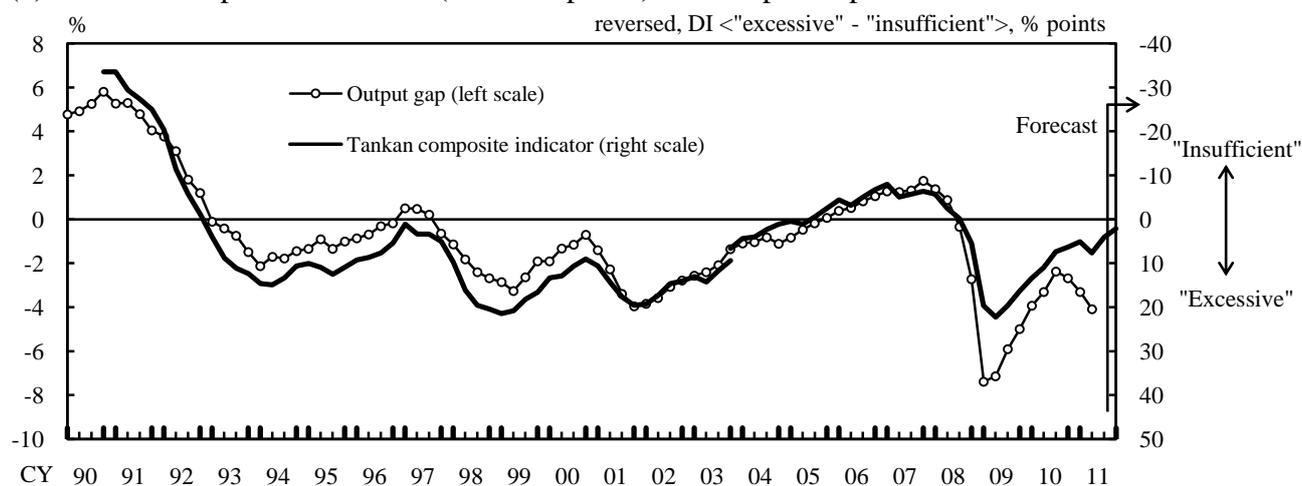
3. Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding (trimming) items in both the upper and lower 10 percent tails by weight.

4. Figures of the Laspeyres chain index for 2006 and 2011 are the year-on-year rates of the fixed-based method.

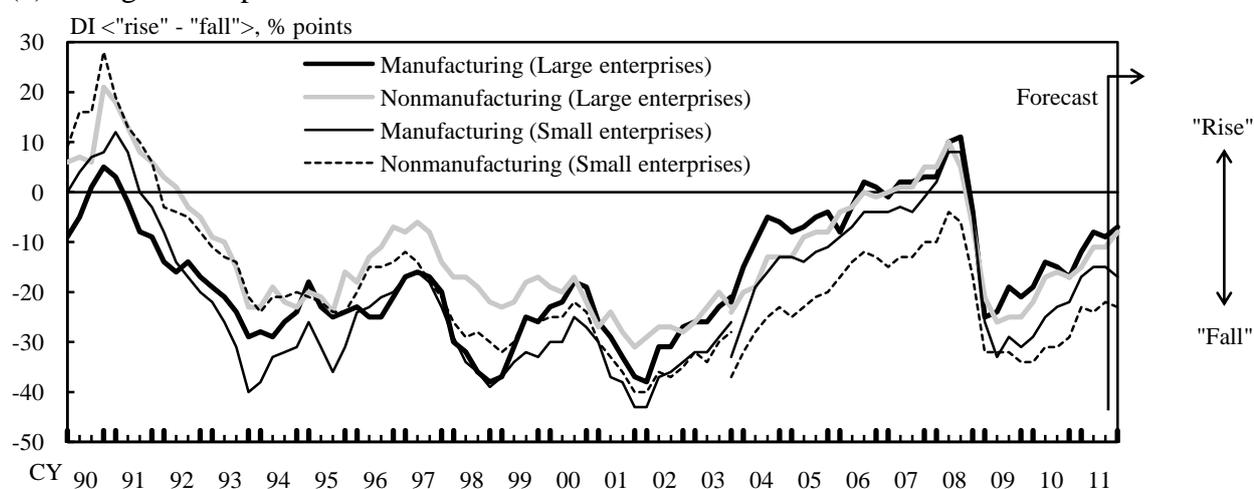
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Domestic Supply and Demand Conditions¹

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

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

(3) Change in Output Prices

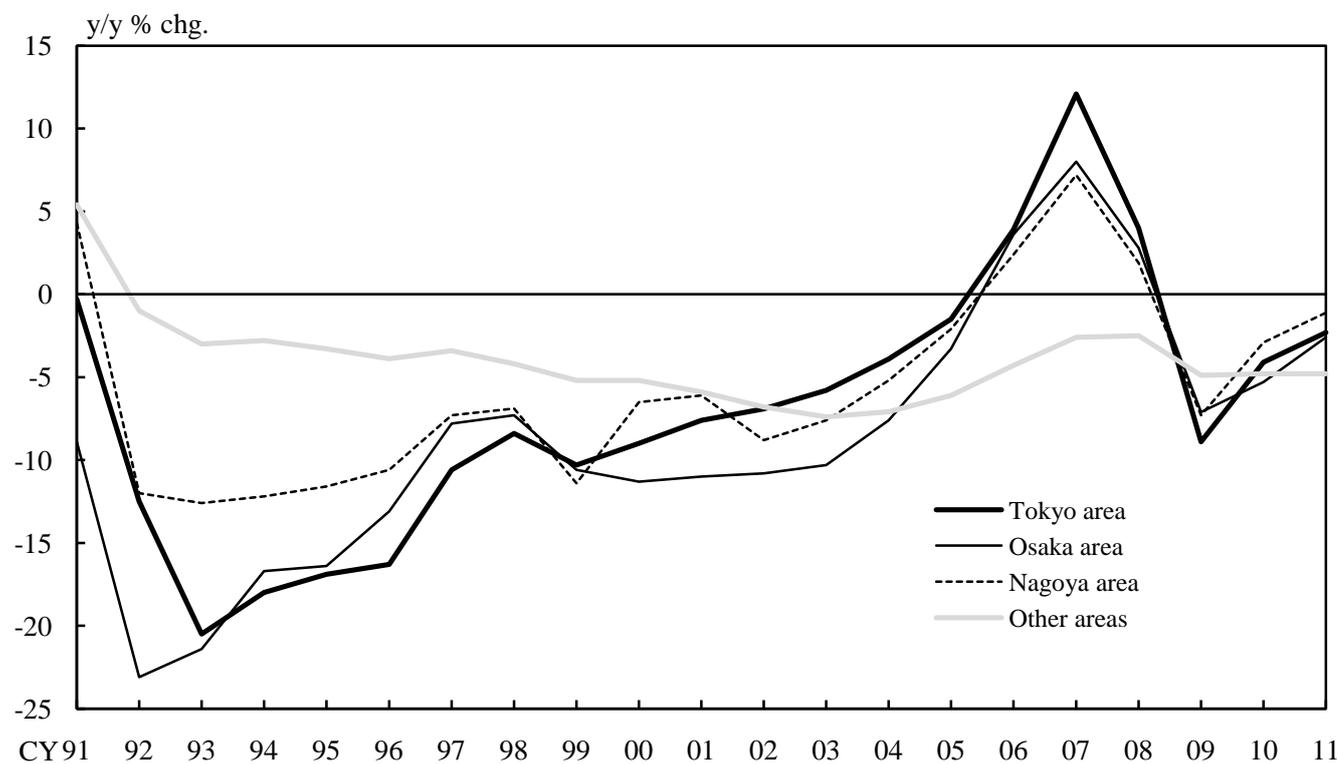


- Notes: 1. The "Tankan" has been revised from the March 2004 Survey. Figures up to the December 2003 Survey are based on the previous data sets. Figures from the December 2003 Survey are on a new basis.
2. Figures are weighted averages of the production capacity DI and employment conditions DI. The FY 1990-2009 averages of capital and labor shares in the "National Accounts" are used as the weight.
3. The output gap is estimated by the Research and Statistics Department, Bank of Japan. Since the estimation of the output gap includes various errors, considerable latitude should be allowed for this estimation.

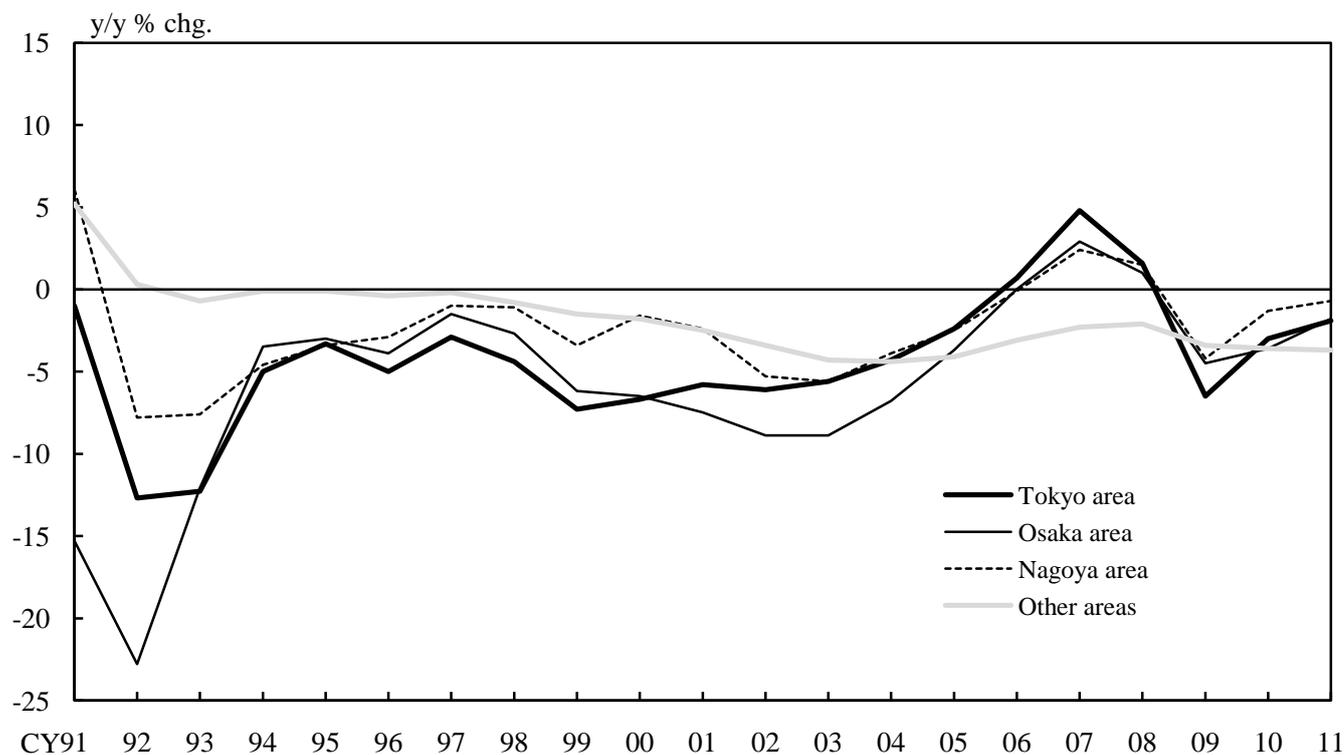
Sources: Cabinet Office, "National Accounts";
Bank of Japan, "Tankan, Short-Term Economic Survey of Enterprises in Japan," etc.

Land Prices

(1) Commercial Land



(2) Residential Land

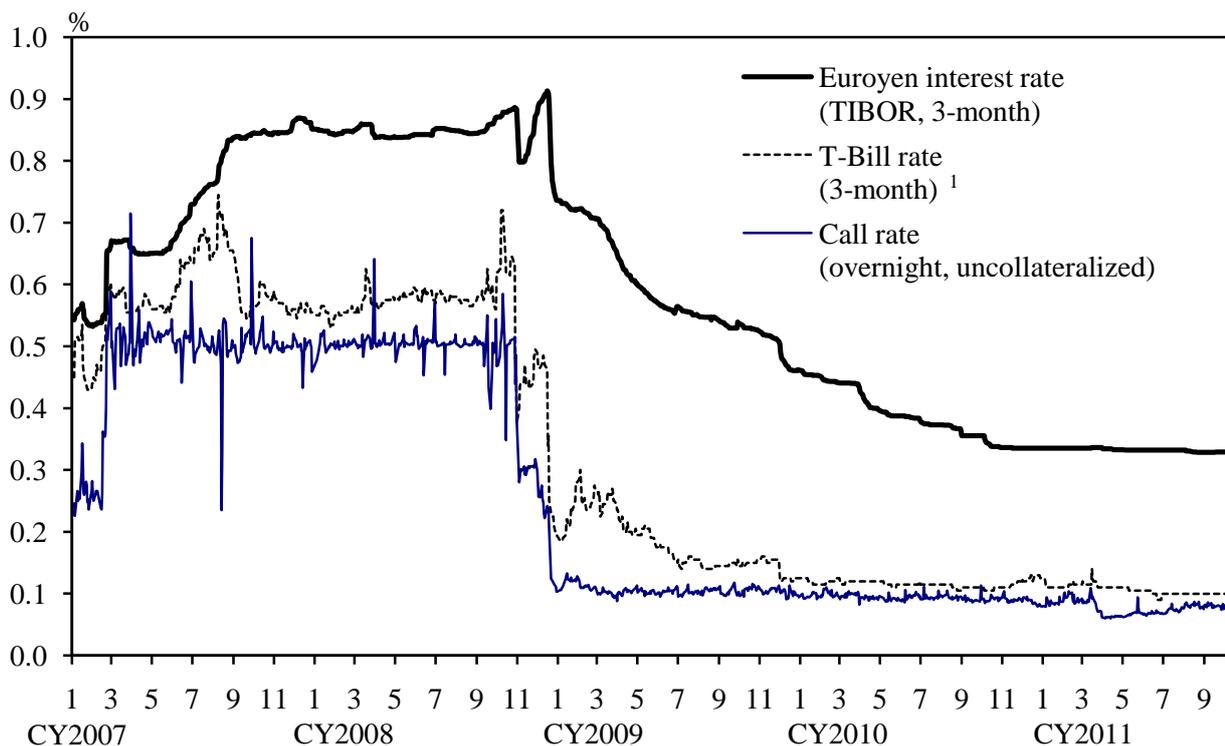


Note: "Land Price Survey by Prefectural Governments" shows land prices as of July 1.

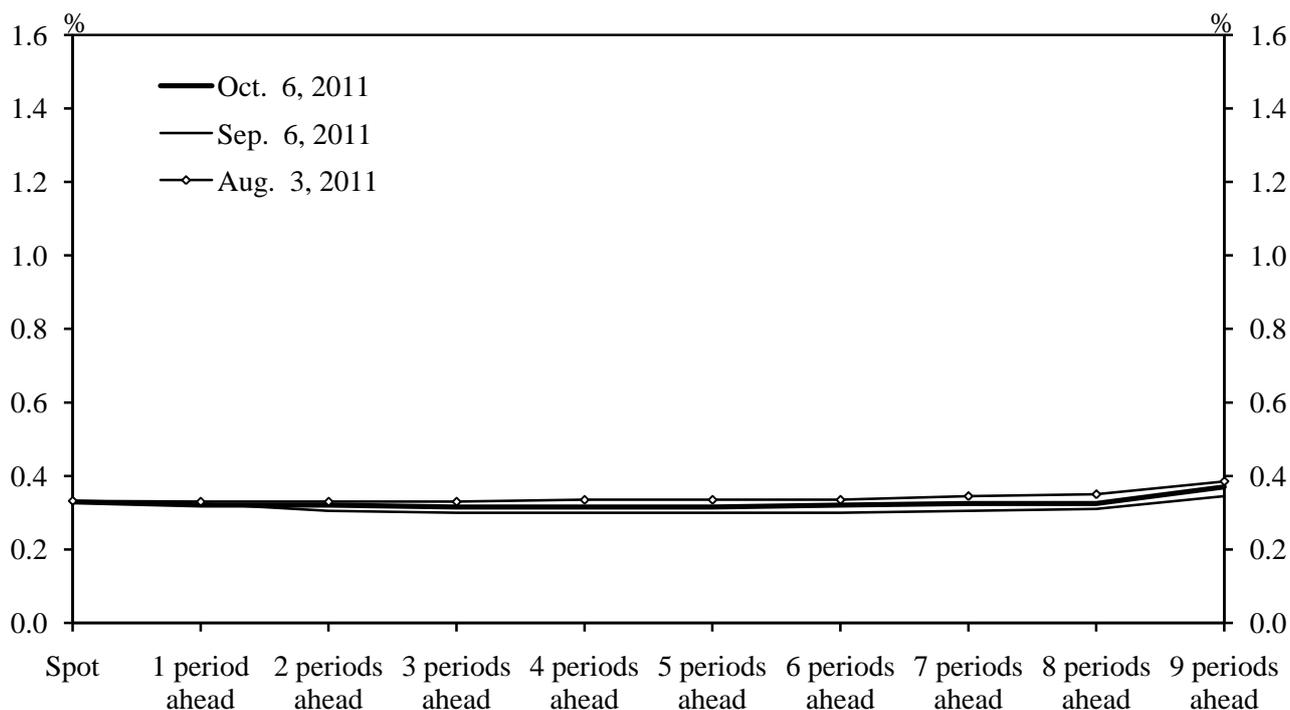
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Land Price Survey by Prefectural Governments."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



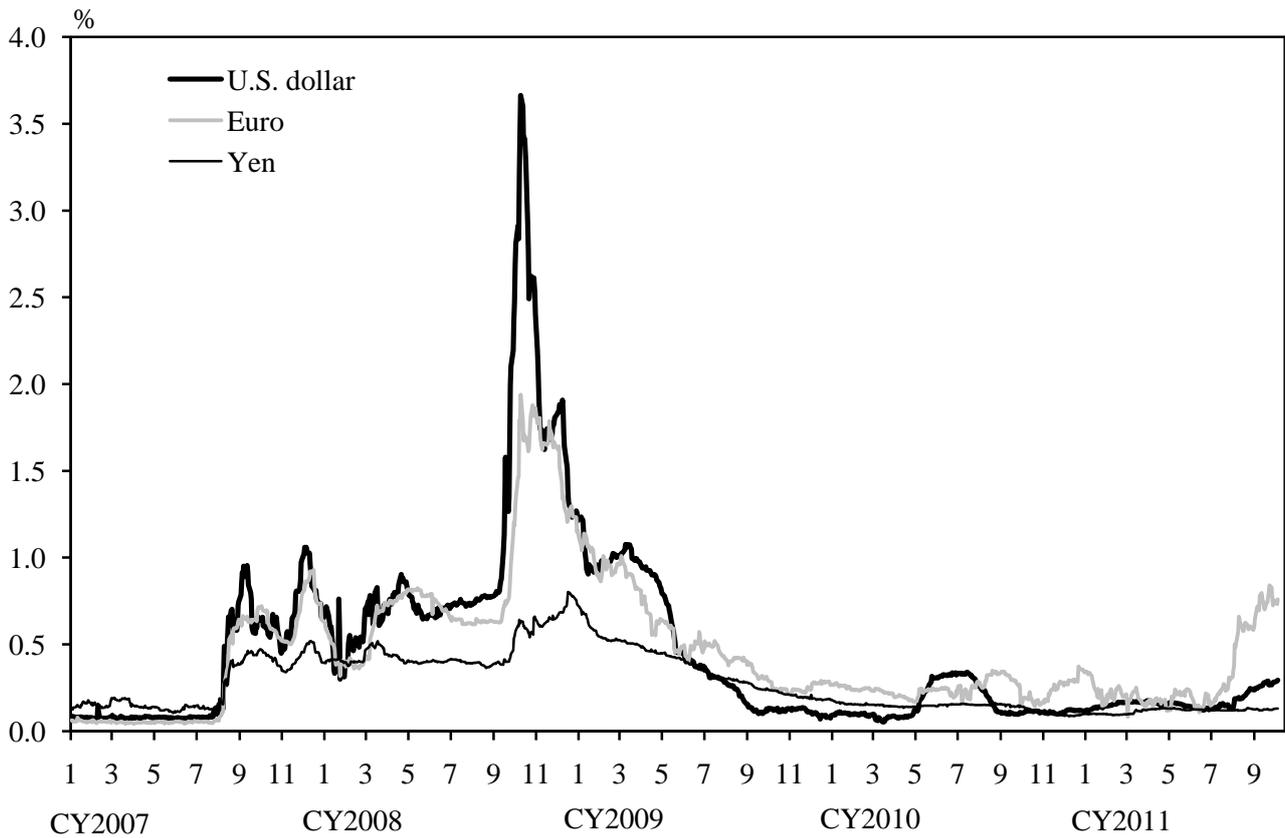
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

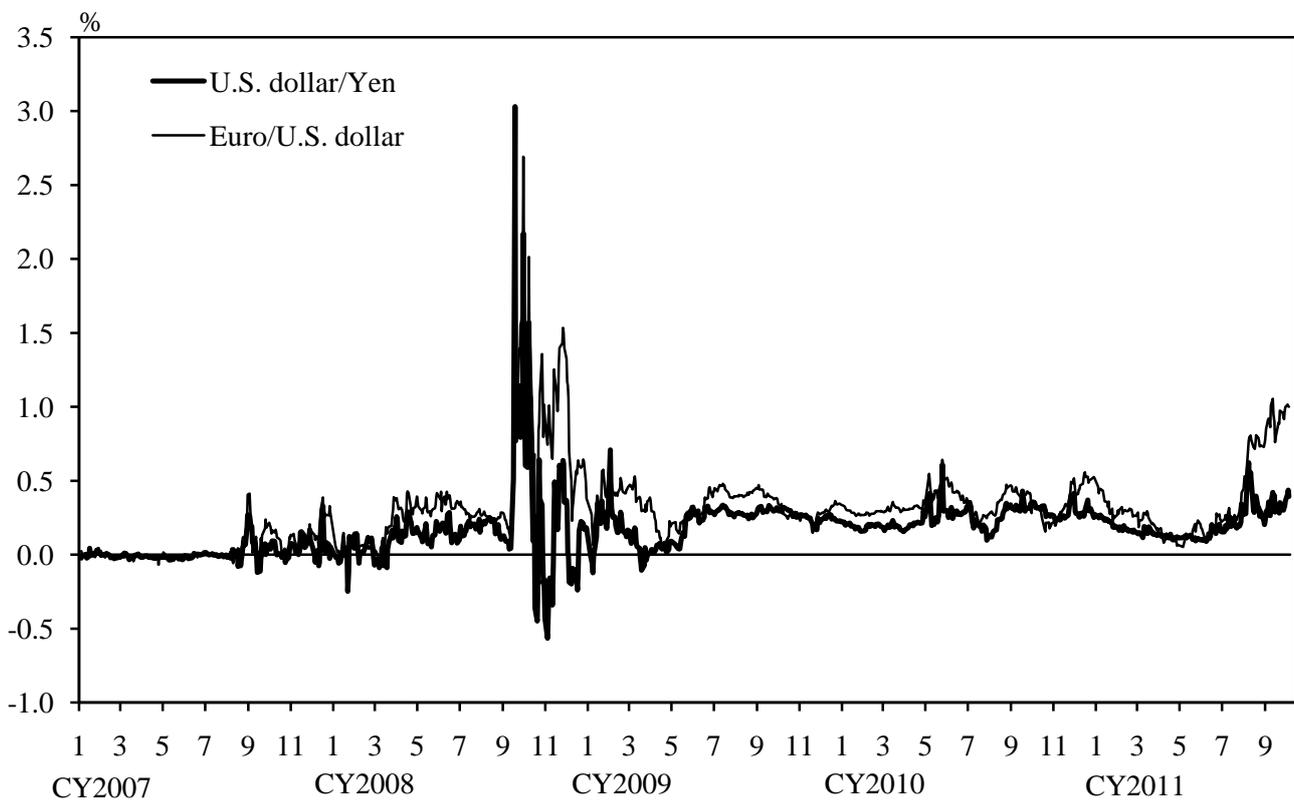
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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



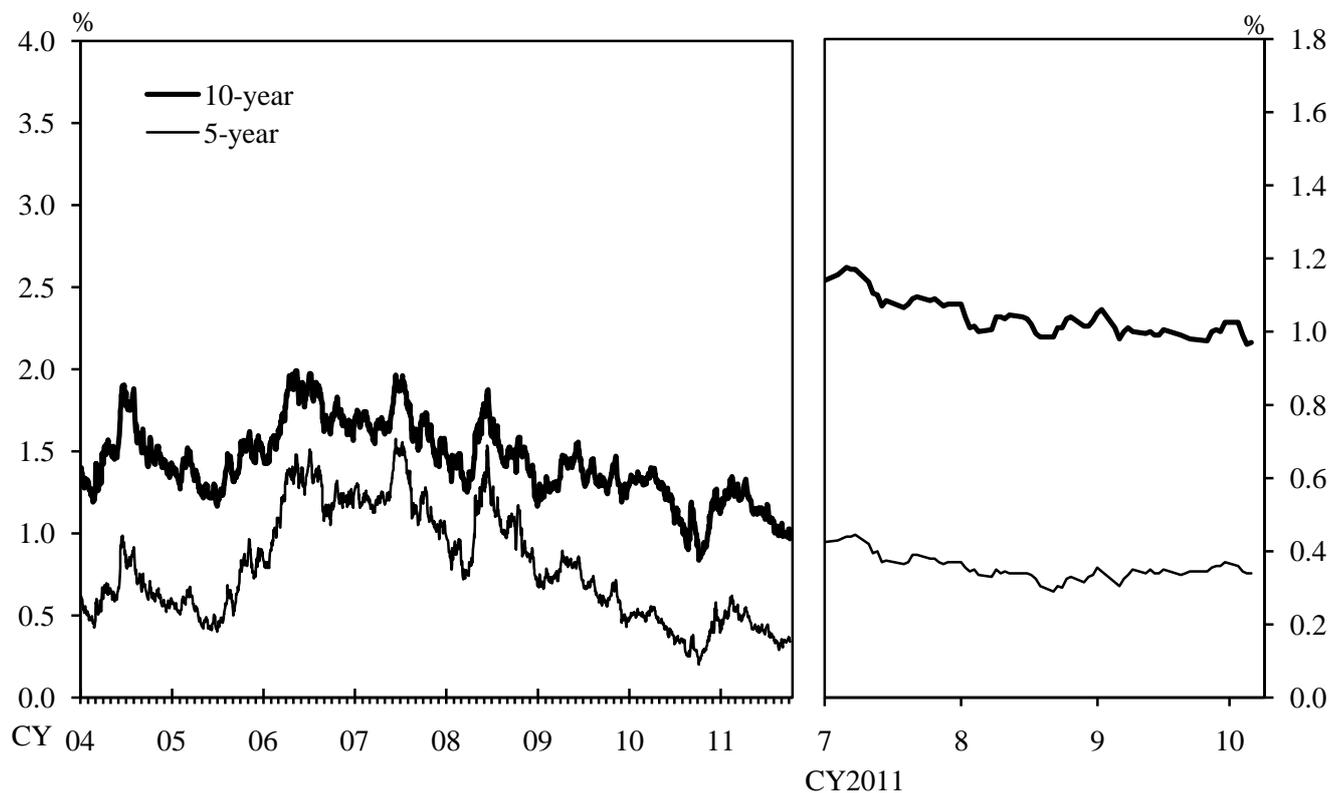
(2) FX swap implied dollar rate - LIBOR spreads (3-Month)



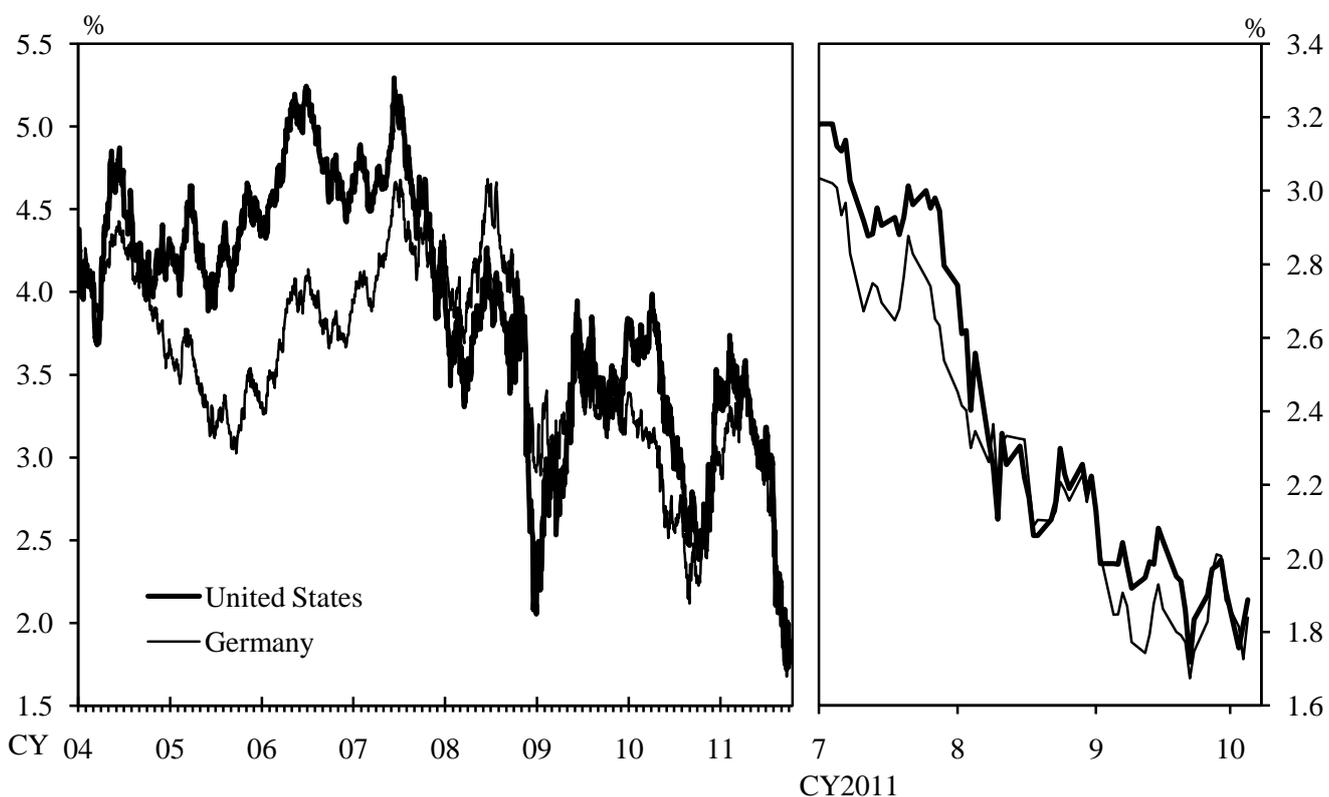
Source: Bloomberg.

Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



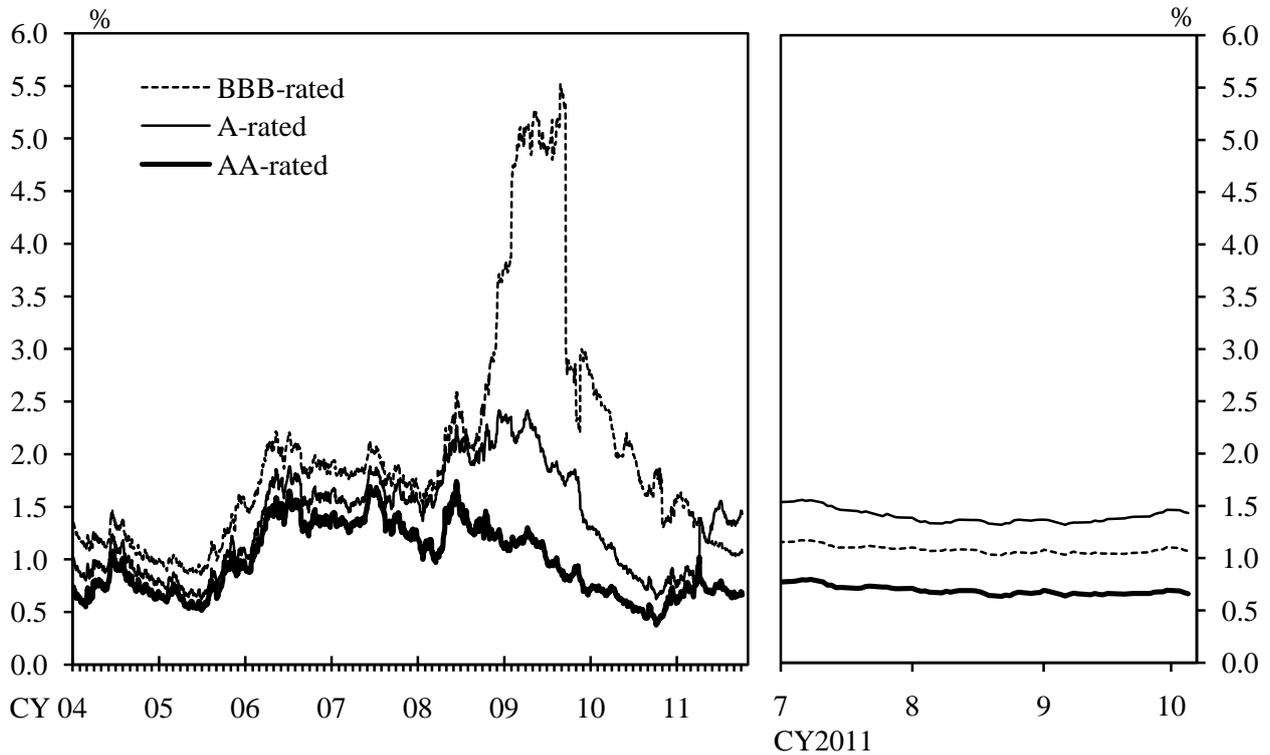
(2) Overseas Government Bond Yields (10-Year)



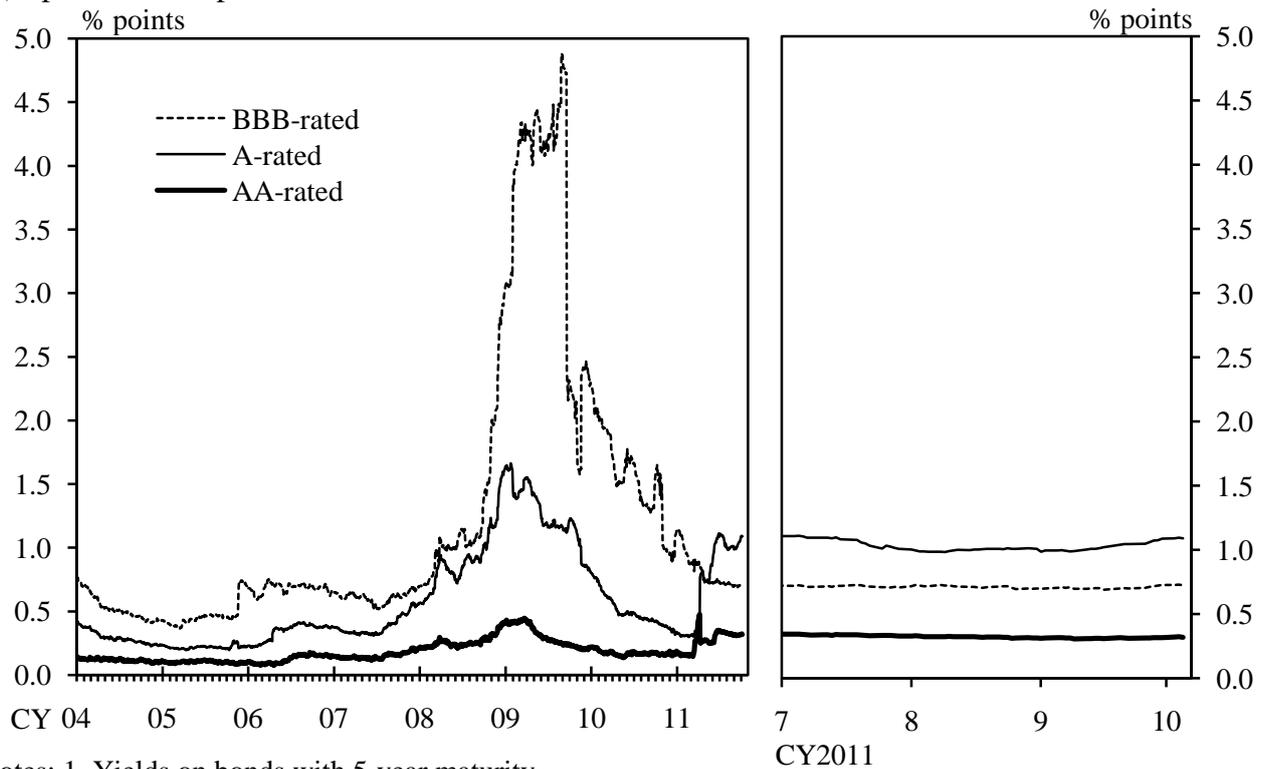
Note: 1. Yields on newly issued bonds.
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



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



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

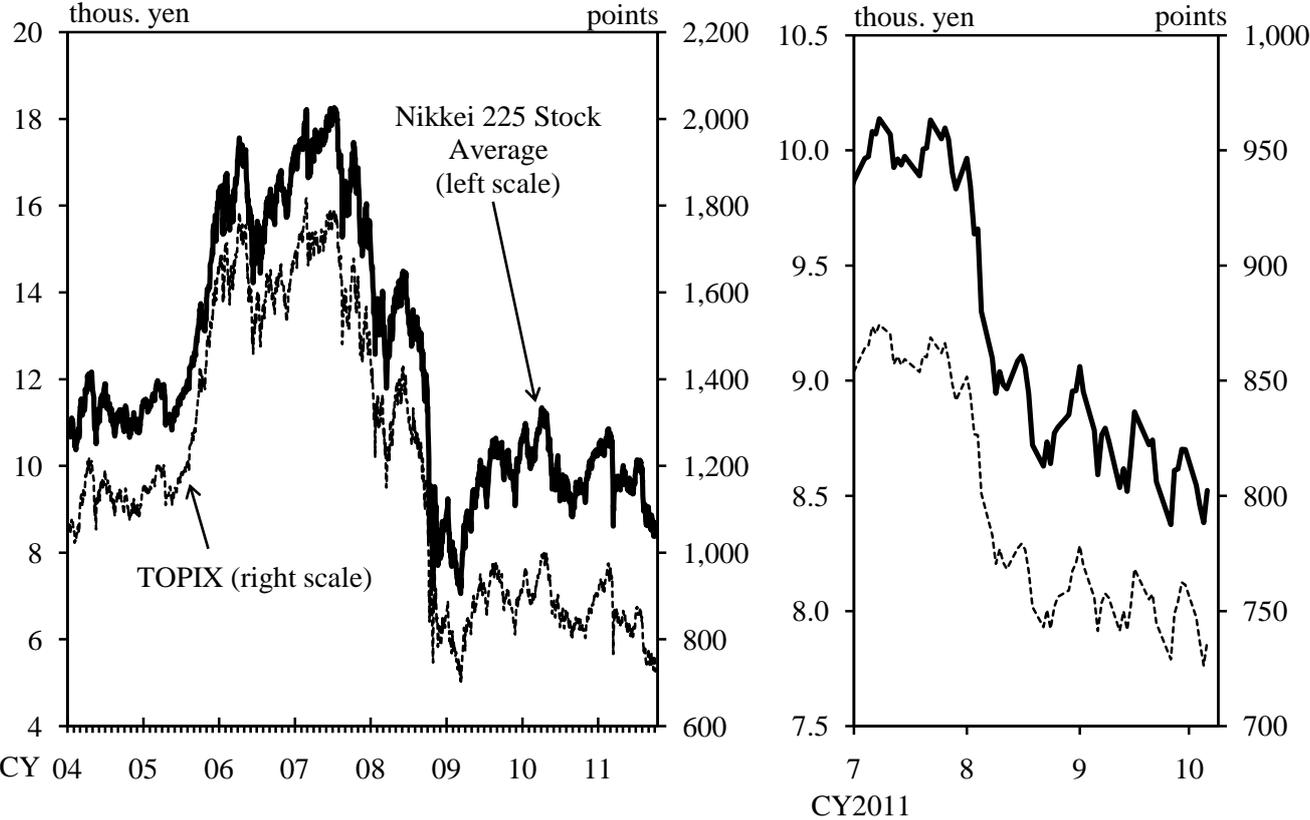
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

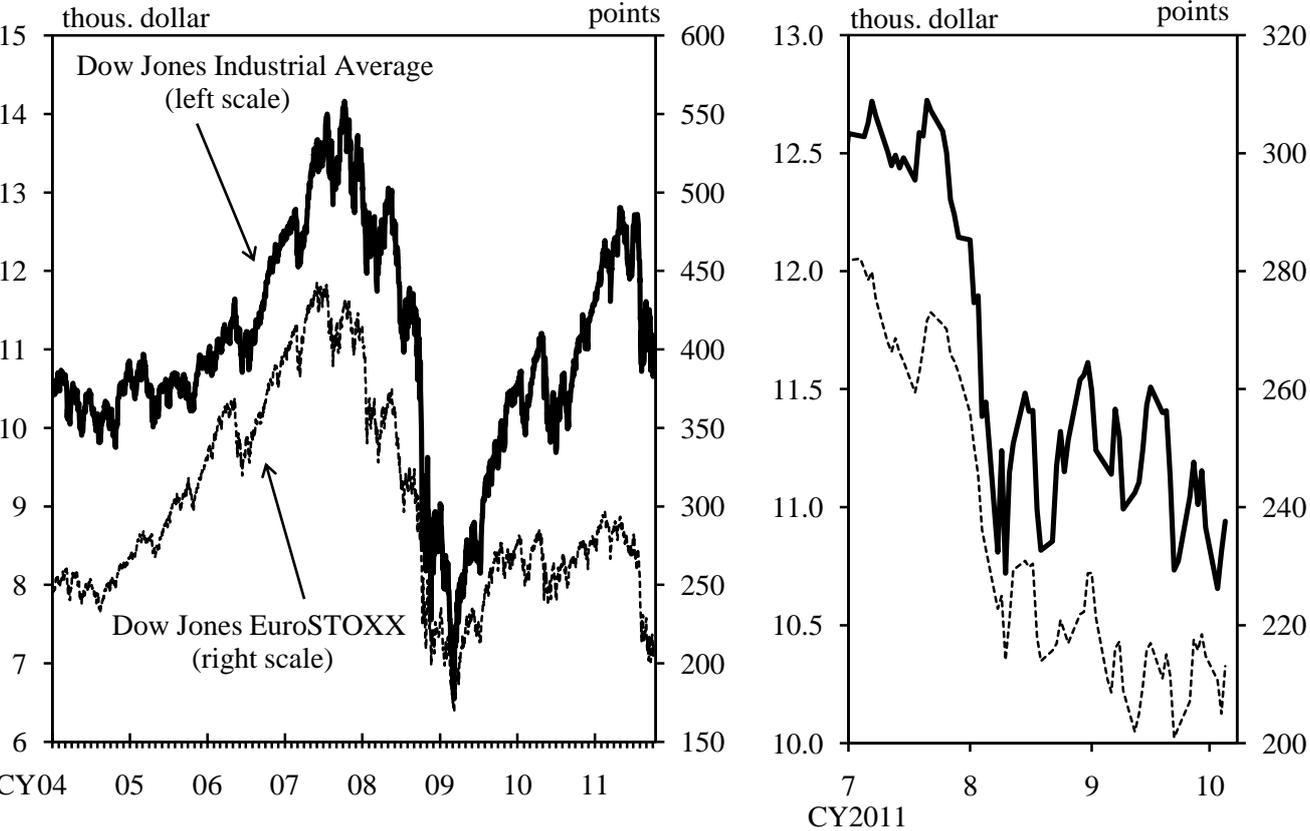
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



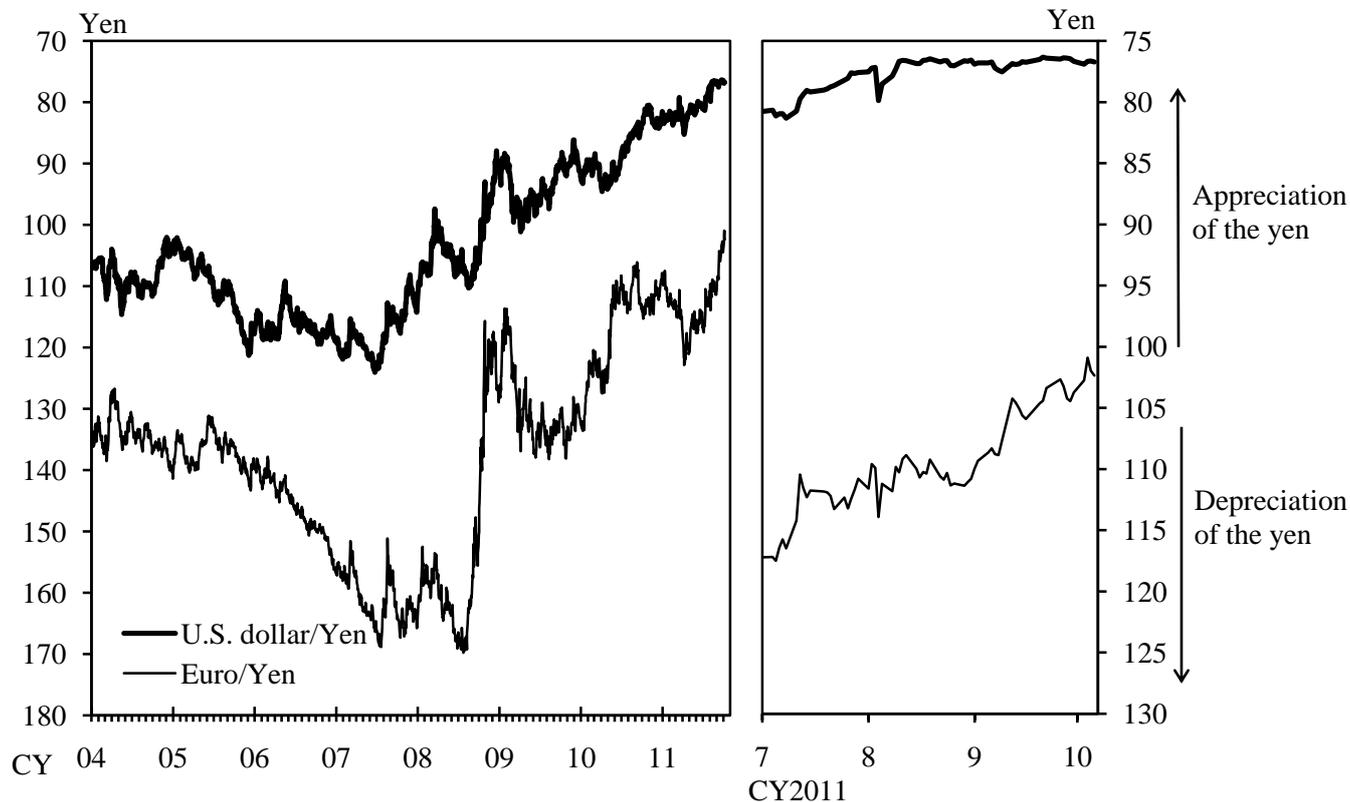
(2) Overseas Stock Prices



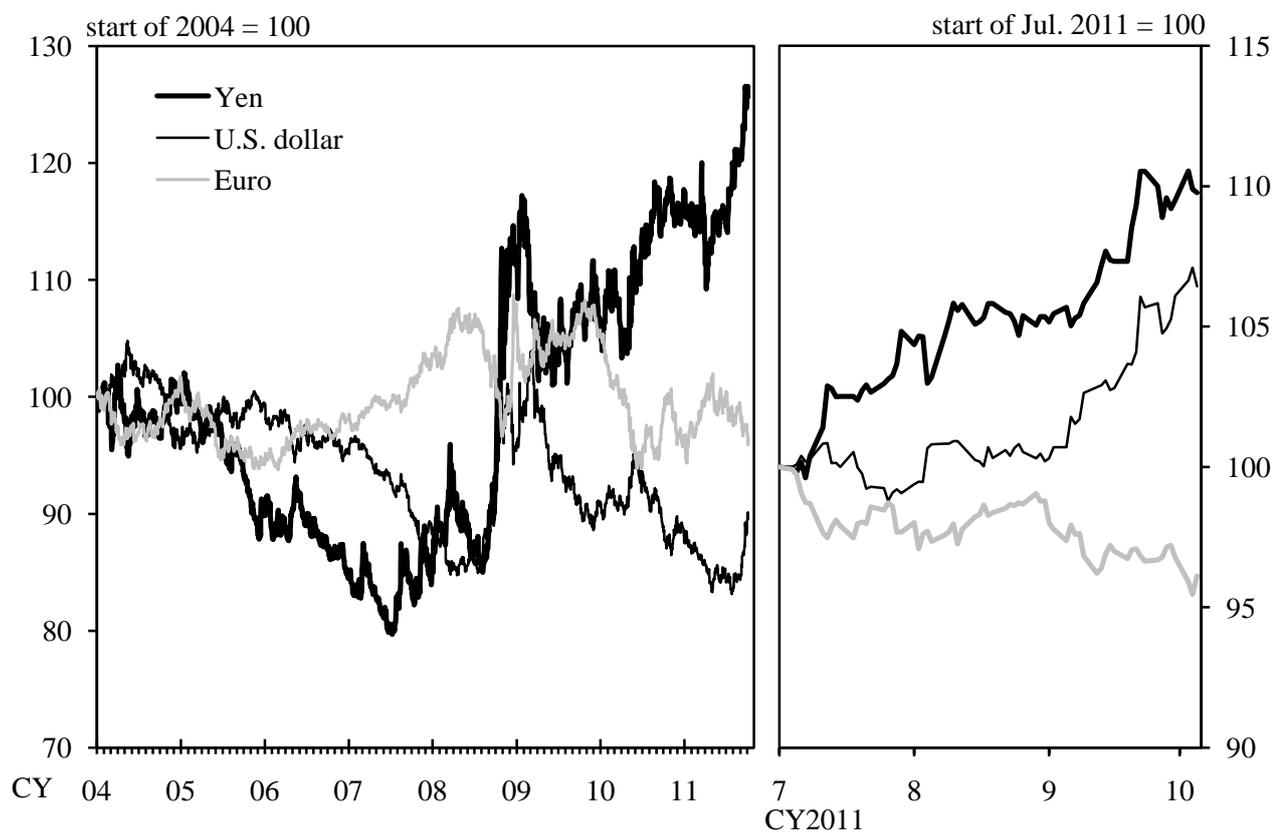
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



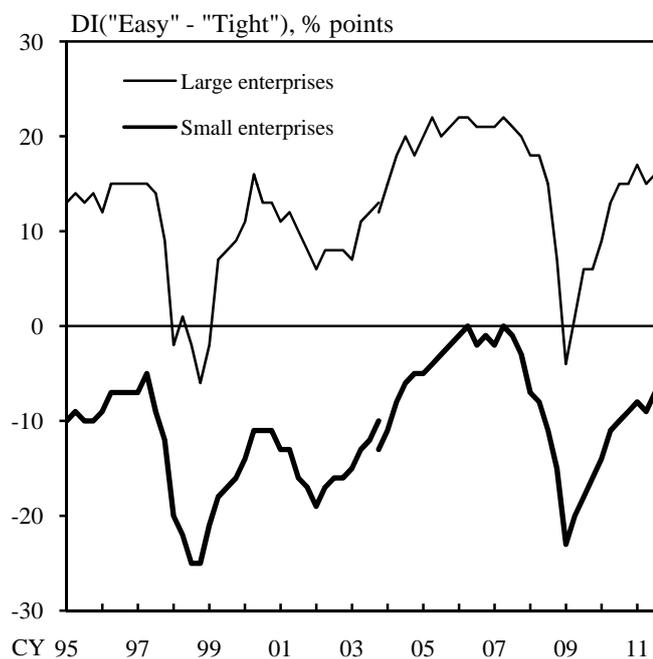
(2) Nominal Effective Exchange Rates



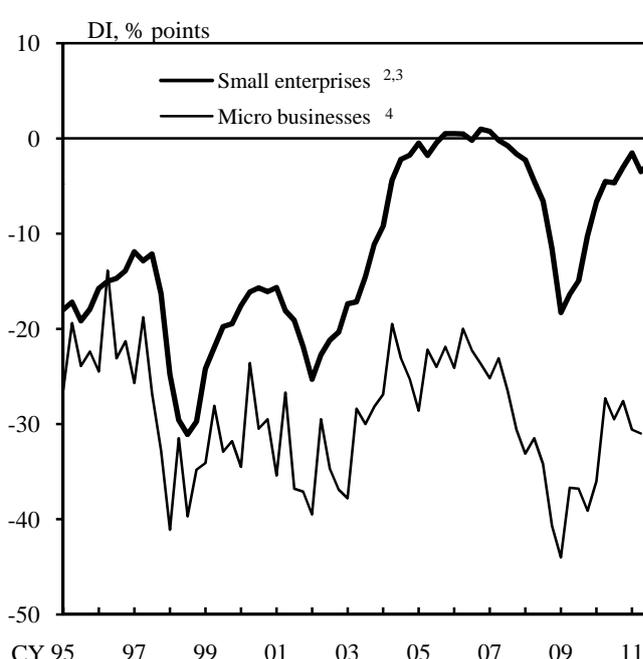
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

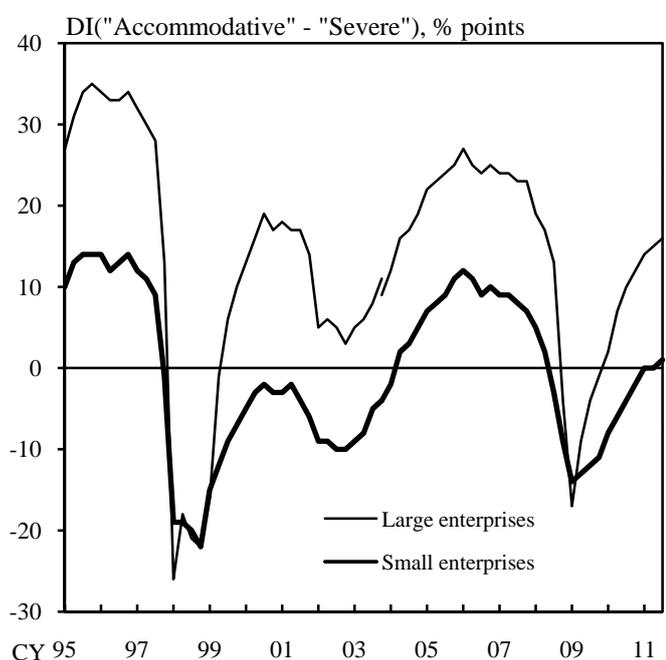
(1) Financial Position

<Tankan¹>

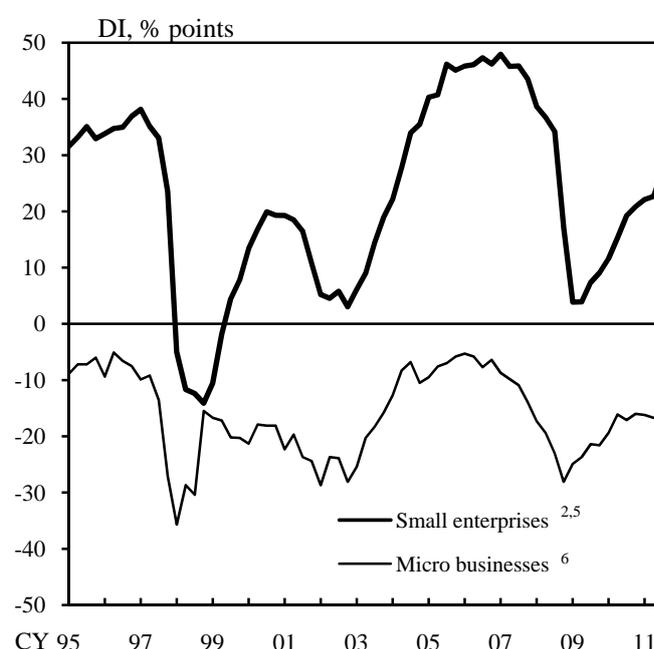
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



Notes: 1. Data of the *Tankan* are based on all industries. The *Tankan* has been revised from the March 2004 survey.

Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

2. Figures are quarterly averages of monthly data.

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

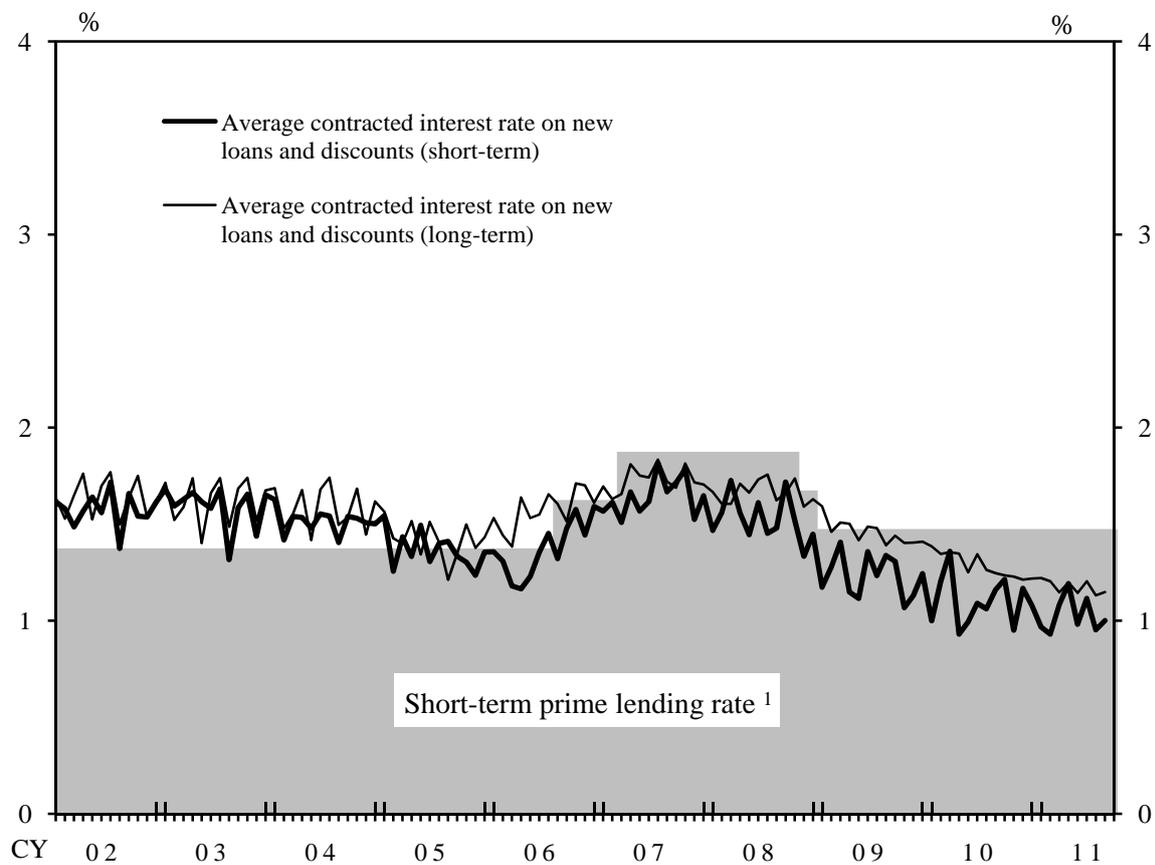
4. DI of "Easier" - "Tighter."

5. DI of "Accommodative" - "Severe."

6. DI of "More accommodative" - "More severe."

Sources: Bank of Japan, "*Tankan*, Short-term Economic Survey of Enterprises in Japan"; Japan Finance Corporation, "Monthly Survey of Small Businesses in Japan," "Quarterly Survey of Small Businesses in Japan (for micro businesses)."

Lending Rates

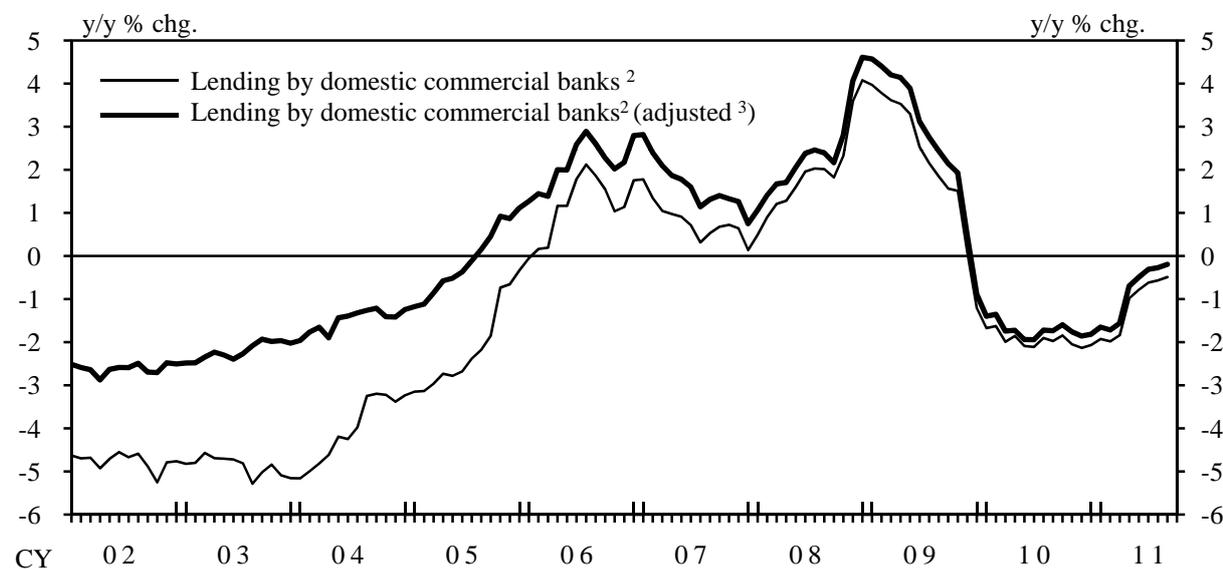


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



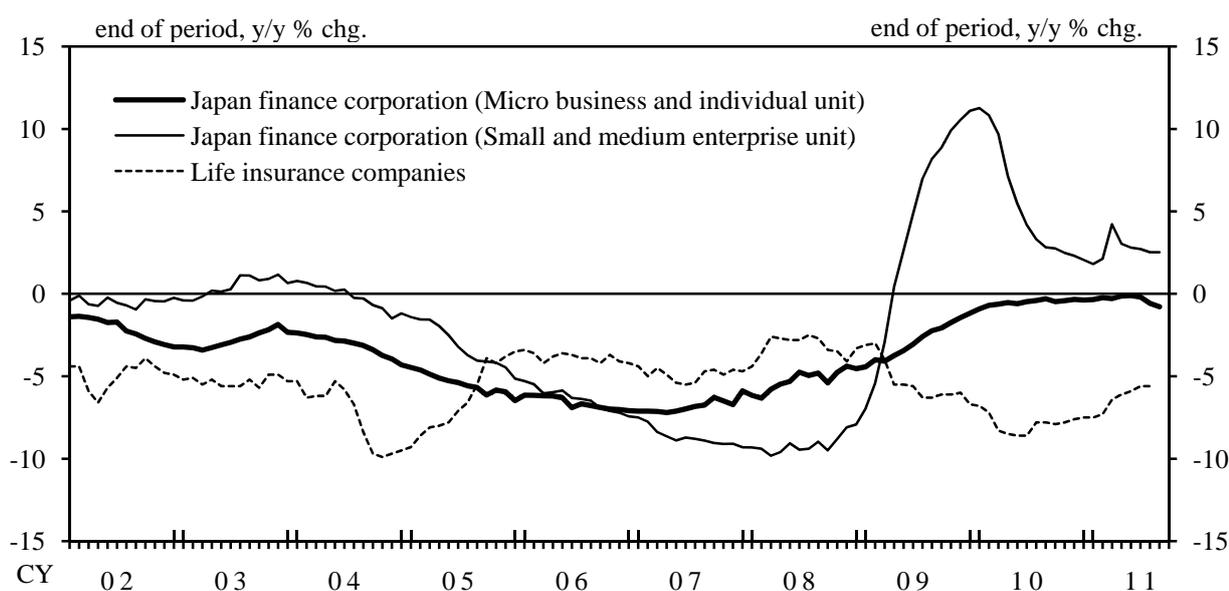
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

2. "Domestic commercial banks" refers to city banks, regional banks, and regional banks II.

3. Adjusted to exclude

- (1) fluctuations due to the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations due to loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

(2) Lending by Other Financial Institutions

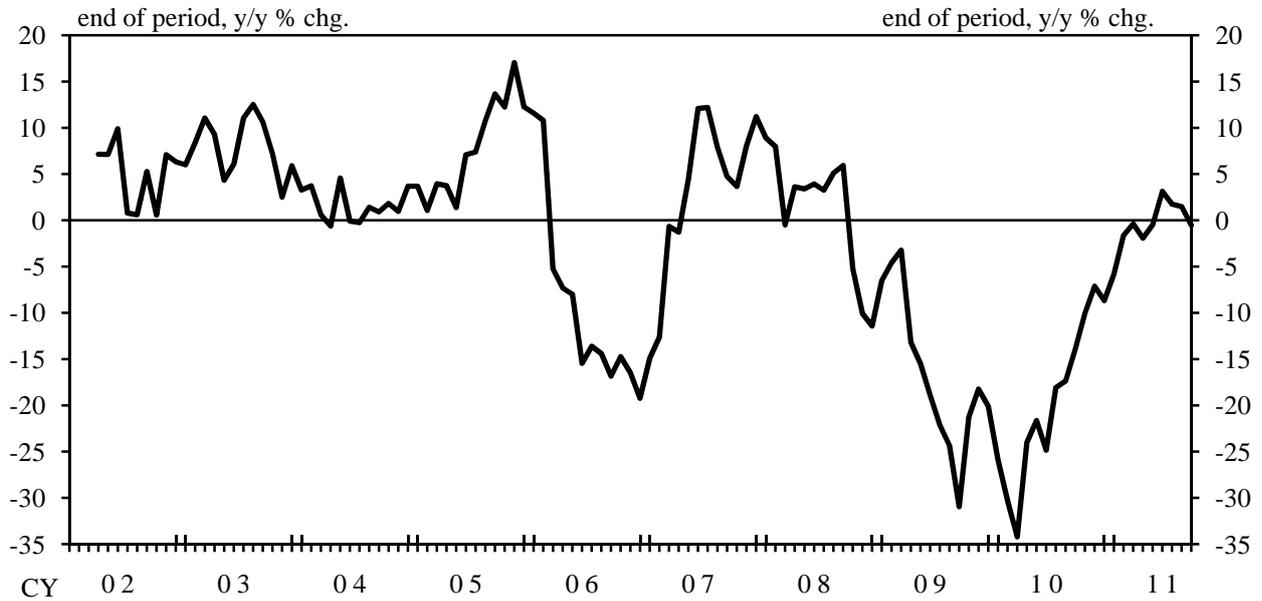


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

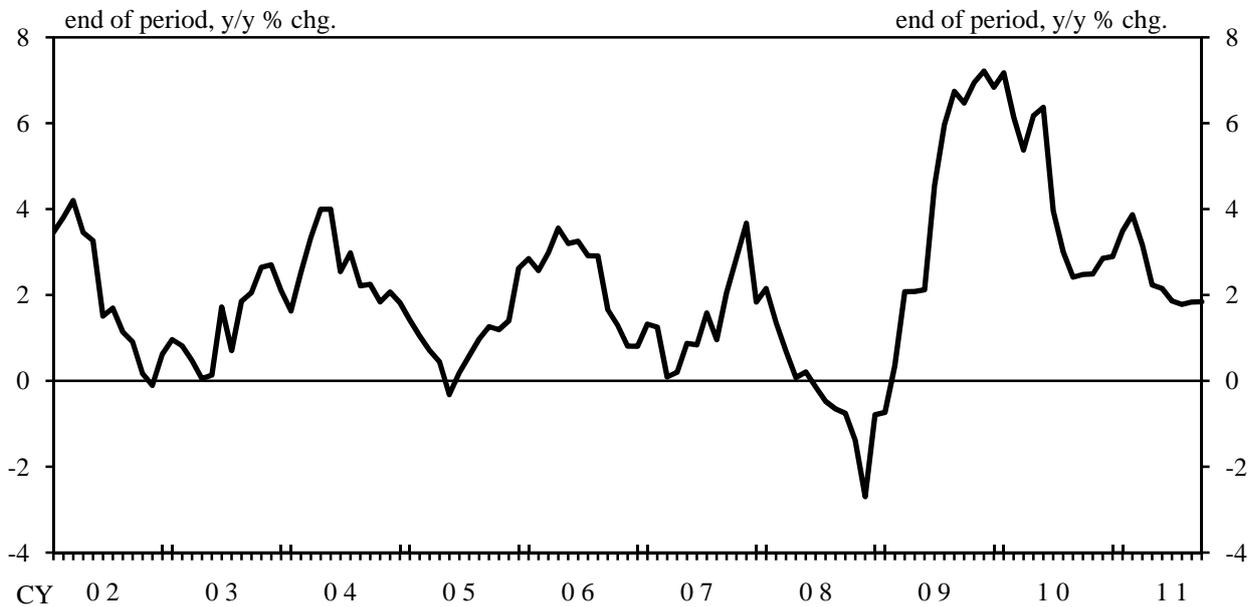
 Private-Sector Fund-Raising in the Capital Markets

(1) Amount Outstanding of Commercial Paper



Note: Figures are those of short-term corporate bonds registered at the book-entry transfer system. Those issued by banks, securities companies and others such as foreign corporations are excluded; ABCPs are included. Figures up to March 2008 are those compiled by the Bank of Japan.

(2) Amount Outstanding of Corporate Bonds



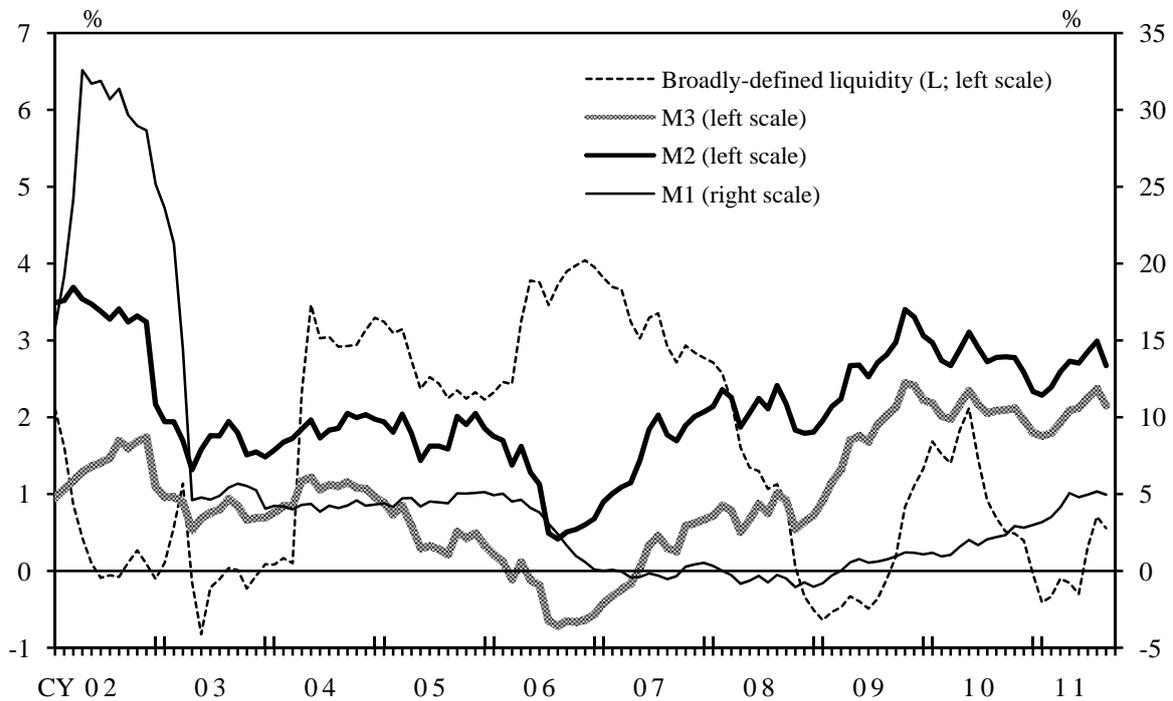
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (1) The sum of straight bonds issued in both domestic and overseas markets is used.
- (2) Bonds issued by banks are included.
- (3) Domestic bonds are those registered at the book-entry transfer system. The series is spliced at April 2008 with the one published by the Japan Securities Dealers Association.

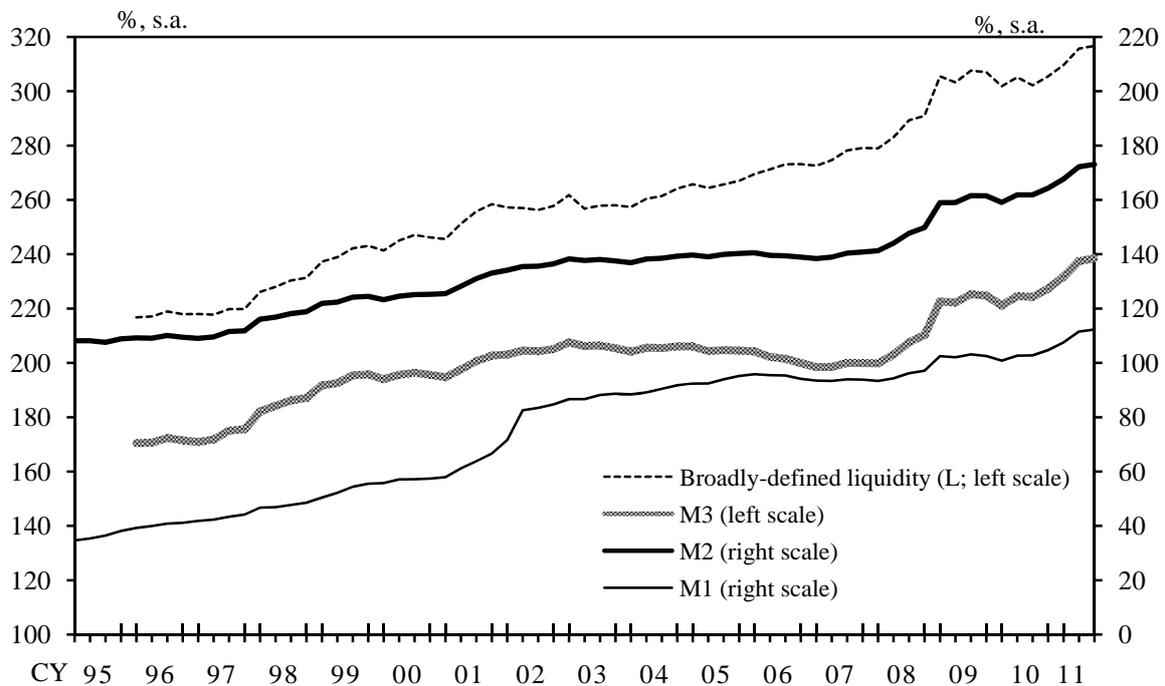
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category";
 Bank of Japan, "Principal Figures of Financial Institutions";
 Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

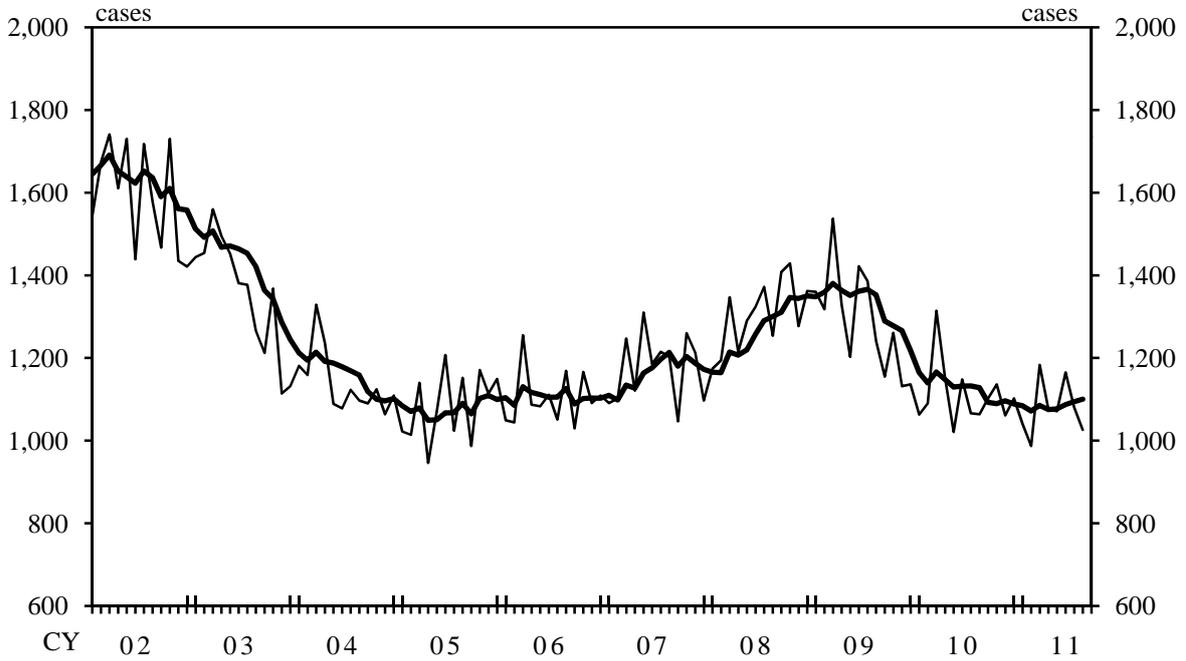


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
 2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
 3. The figures up to March 2004 in the upper panel and those up to March 2003 in the lower panel are based on the former series.
 4. Figures for money stock in 2011/Q3 are those of Jul.-Aug. averages, and nominal GDP in 2011/Q3 is assumed to be unchanged from the previous quarter.

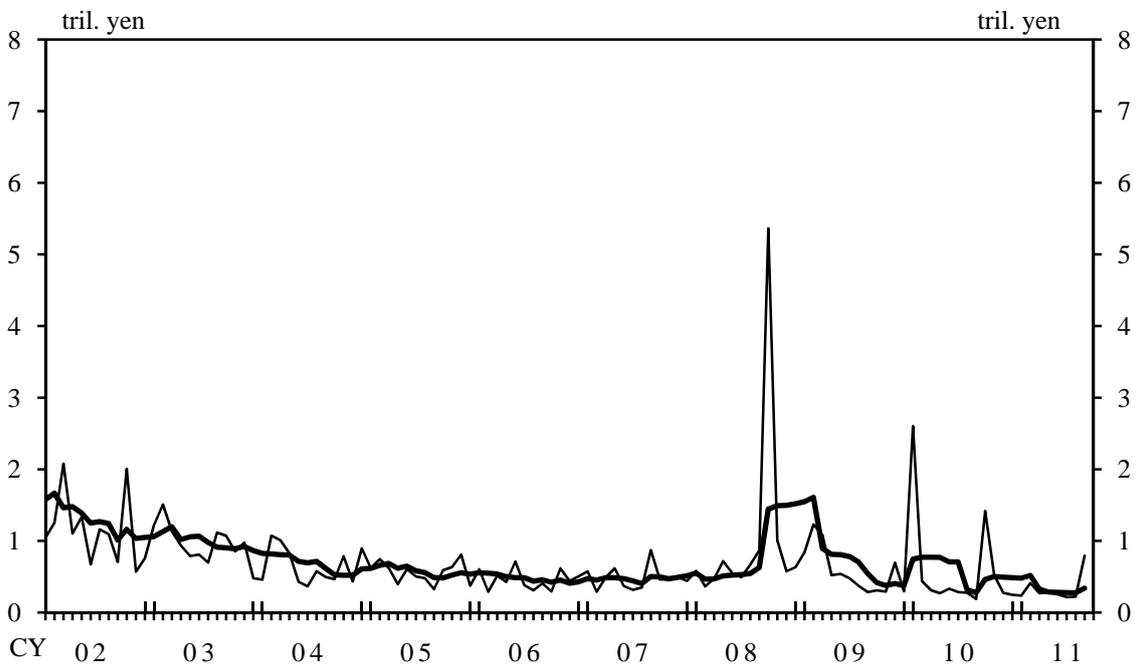
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

Source: Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly review of corporate bankruptcies)."