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Bank of Japan

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

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Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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Monthly Report of Recent Economic and Financial Developments¹

September 2009

Summary

Japan's economic conditions are showing signs of recovery.

Public investment has continued to increase, and exports and production have also risen. On the other hand, business fixed investment has continued to decline, mainly reflecting weak corporate profits. Private consumption has remained relatively weak as a whole and housing investment has decreased amid the worsening employment and income situation.

Japan's economic conditions are likely to start improving in the near future.

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

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

Domestic corporate goods prices are likely to remain more or less unchanged for the time being. The year-on-year decline in consumer prices, after accelerating

¹ This report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on September 16 and 17, 2009.

somewhat, is expected to moderate over time as the effects of the prices of petroleum products, which are lower than their high levels a year ago, abate.

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

Financial conditions, with some severity lingering, are increasingly showing signs of improvement.

The overnight call rate has remained at an extremely low level, and firms' funding costs have remained more or less unchanged at low levels. However, the stimulative effects from low interest rates have been limited given the low level of economic activity and corporate profits. With regard to credit supply, although many firms still see financial institutions' lending attitudes as severe, firms as a whole regard the situation as improving somewhat. Issuing conditions for CP and corporate bonds have continued to improve, as reflected in the narrowing of credit spreads and the increased number of firms issuing corporate bonds. However, firms with low credit ratings have continued to face severe conditions for issuing bonds. As for credit demand, firms' demand for working capital and funds for fixed investment has declined, and some firms have reduced on-hand liquidity that they had accumulated. Against such a backdrop, the pace of increase in bank lending has slowed. Issuance of corporate bonds has been at a high level, while that of CP has declined. In these circumstances, firms' financial positions, although many firms, mainly small ones, still see them as weak, have continued to improve as a whole. Meanwhile, the year-on-year rate of change in the money stock has been in the range of 2.5-3.0 percent.

1. Economic Developments

Public investment has continued to increase. Looking at monthly indicators (Chart 5), the value of public works contracted—a measure that reflects public orders—decreased in July-August compared with the second quarter in part due to a reaction to the past increase, after increasing markedly in the first and second quarters. On a monthly basis, however, it has increased for two straight months, partly because the fiscal 2009 budget was implemented ahead of schedule. The amount of public construction completed—which reflects the progress of public works—marked a large increase in the second quarter compared with the first quarter, after increasing marginally in the first quarter.

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

Real exports have increased, mainly due to the effects of the policy measures of various countries and to the progress in adjustments in overseas local inventories (Charts 6[1] and 7). Exports, after increasing by double digits (12.4 percent) in the second quarter, increased again in July, by 7.9 percent, compared with the second quarter. Looking at monthly developments, exports have been increasing markedly since April. These developments seem to have been influenced mainly by the progress in overseas inventory adjustments as well as by the implementation of various policy measures in many countries.

By destination (Chart 7[1]), exports to all countries and regions excluding the EU increased in July compared with the second quarter. On a monthly basis, exports to East Asia increased for the sixth consecutive month, and those to "other regions" (such as the Middle East and Latin America) also increased for the second consecutive month. Those to the United States and the EU, after increasing for four and three consecutive months respectively, decreased in July.²

² Exports to the United States and the EU decreased in July compared with June; in detail, motor vehicles and their related parts decreased. This was probably influenced mainly by the failure to arrange vessels, reflecting the recent sudden pickup in exports of motor vehicles and their related parts.

By goods (Chart 7[2]), exports of all goods—including capital goods and parts which had been decreasing in the past—increased in July compared with the second quarter. On a monthly basis, exports of intermediate goods increased for the fifth consecutive month; those of motor vehicles and their related goods and capital goods and parts increased for the fourth consecutive month. On the other hand, exports of IT-related goods decreased marginally in July, after increasing noticeably for five consecutive months mainly due to the rapid progress in inventory adjustments and to the increase in demand for household electrical appliances in China.

Real imports have turned to an increase, mainly due to the increase in production (Charts 6[1] and 9). Imports increased in July compared with the second quarter, after the quarterly rate of decline decelerated noticeably, by 1.7 percent, in the second quarter. Looking at monthly developments, imports have increased for the five consecutive months since March.

Looking at imports in July compared with the second quarter by goods (Chart 9[2]), those of IT-related goods and consumer goods continued to increase, and those of raw materials, intermediate goods, and foodstuffs turned to an increase. On the other hand, capital goods and parts continued to decrease.

Net exports—in terms of the real trade balance—have recently rebounded largely in response to the aforementioned developments in imports and exports, after having decreased substantially (Chart 6[2]). The nominal balance on goods and services returned to a surplus in the second quarter; the surplus decreased somewhat in July, partly due to the increase in crude oil prices.

Exports are expected to continue increasing, as overseas economic conditions continue to improve.

As for the environment surrounding exports, overseas economic conditions have started to improve (Chart 8[2]). In the United States and Europe, economic conditions had been deteriorating amid severe financial conditions, but they have begun to stop worsening in response to the progress in inventory adjustments and to the improvement in business and household sentiments. In China, the rate of

economic growth has increased, notably in domestic demand, due to the effects of fiscal policies. In other East Asian countries, there has been an increase in the amount of data indicating that economic conditions have turned upward. Overseas economic conditions are expected to continue improving, as fiscal and monetary policies continue to exert positive effects. Significant uncertainty regarding overseas economic conditions does, however, exist. Overseas economic conditions might diverge downward, especially in the United States and the EU, as adjustment for significant excesses seems to require a considerable amount of time. On the other hand, they might diverge upward, mainly in emerging countries. Meanwhile, in the foreign exchange market, in terms of the real effective exchange rate—which incorporates differentials in the inflation rates between home and abroad—the yen has recently been moving slightly toward appreciation (Chart 8[1]).

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

Business fixed investment has continued to decline. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[1]), business fixed investment in nominal terms has declined for the five consecutive quarters since the second quarter of 2008. However, in the second quarter of this year, investment marked a 4.5 percent decline, and the pace of decline moderated somewhat compared with the previous two quarters. By industry and company size (Chart 11), in manufacturing, the decline in investment in large and small firms was either more or less the same as or substantially larger than that of the previous quarter. As a result, investment among both types of firms, in terms of value, fell below the level of cash flow. In nonmanufacturing, although investment by large and small firms has been declining substantially since the start of fiscal 2008, investment by large firms has remained relatively firm, if leasing were to be excluded from the statistics.³ Looking at monthly indicators, the aggregate supply of capital goods and

³ "Leasing etc."—whose accounting method has been changed—should be excluded when looking at the trend in 2008 as a whole. Most leased property in finance lease transactions had been booked as fixed assets (business fixed investment) on the lessor's side (leasing companies) and treated off the balance sheet on the lessee's side (firms). However, with the new accounting standard for lease transactions, which has been applied from the business year starting on April 1, 2008, leased property is booked as liquid assets on the lessor's side and as fixed assets on the lessee's side. Since the difference is the side on which business fixed investment is counted, the

shipments of capital goods (both including and excluding transport equipment)—coincident indicators of machinery investment—had been decreasing rapidly after peaking at the end of 2007; recently, however, there have been signs that they have stopped decreasing (Chart 12[1]). Machinery orders (private demand, excluding orders of shipbuilding and orders from electric power companies)—a leading indicator of machinery investment—has been decreasing since the second quarter of last year, but the pace of decrease is becoming moderate (Chart 13[1]).⁴ By industry, in manufacturing, machinery orders—after increasing in the second quarter compared with the first quarter—decreased in July compared with the second quarter, in part as a reaction to the increase in the second quarter. On the other hand, in nonmanufacturing, machinery orders remained essentially unchanged in July compared with the second quarter, after decreasing in the second quarter. Construction starts (floor area, private, nondwelling use)—a leading indicator of construction investment—increased in July compared with the second quarter, after decreasing substantially in the second quarter (Chart 13[2]). It should be noted, however, that this statistics tends to fluctuate.

Looking at the environment surrounding business fixed investment, corporate profits have dropped substantially. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* (Chart 10[2]), in the first quarter, the seasonally adjusted ratio of current profits to sales of all industries and company sizes registered 1.49 percent, which was the lowest level since the second quarter of 1985—the point from which seasonally adjusted data are available. The ratio in the second quarter marked 1.66 percent, indicating only a slight recovery. By industry and company size, in manufacturing, as a response to the reduction in personnel and selling and administrative expenses, the pace of increase in negative current profits of large firms decelerated; as for small firms, current profits, which were negative in the first quarter, turned to a marginal surplus in the second quarter. In nonmanufacturing, amid the drop in material prices compared with a while ago, the

aggregate amount of business fixed investment will basically be unaffected, but there are effects of special exemptions. That is, in cases in which the lessee is a small firm or in which the price of the leased property is low, lessees do not have to change their accounting procedures. Therefore, as a whole, only the negative impact of leasing companies remains.

⁴ Looking at developments in July, the total value of orders increased by 9.6 percent compared with the second quarter due to the large increase in overseas and government demand.

ratio of current profit to sales of large firms, after improving substantially in the first quarter, improved slightly in the second quarter, and the ratio of small firms, after deteriorating in the first quarter, improved in the second quarter.

Although it is expected to stop worsening gradually, business fixed investment is likely to be relatively weak for the time being, given the ongoing severity of corporate profits and firms' funding conditions as well as the strong sense of excess capacity.

Private consumption has remained relatively weak as a whole, with the exception of durable consumer goods, which have picked up, mainly due to the effects of various measures (Charts 14 and 15). Sales at department stores have continued to decrease significantly in response to the slowdown in food as well as to a slump in sales of apparel and high-end products, reflecting the further curtail on purchases by consumers.⁵ The decreasing trend in sales at supermarkets has recently become somewhat stronger. Sales at convenience stores were steady compared to those at department stores and supermarkets, but they have recently become relatively weak, partly due to the effects of unseasonal weather. As for durable consumer goods, sales of household electrical appliances (in real terms) have continued to increase substantially, especially in flat panel televisions, mainly due to the eco-point system.⁶ The number of new passenger-car registrations had been dropping sharply until March, but has recovered rapidly since April, mainly due to the effects of tax reduction and subsidies; it turned to an increase in August for the first time in 13 months, on a year-on-year basis.⁷ As for services consumption, outlays for travel

⁵ The drop in sales in July was partly affected by a reaction to early sales in June.

⁶ According to the eco-point system, when consumers purchase air conditioners, refrigerators, and televisions with an energy efficiency higher than a certain level, part of the original price is returned to them in the form of "eco-points." The system began on May 15, and ends at the end of March 2010.

⁷ According to the fiscal 2009 tax reform, during fiscal 2009 to 2011, the automobile acquisition tax and automobile weight tax will be either exempted or reduced for eco-friendly cars. Usually, the automobile acquisition tax is imposed on the price of the car at the time of purchase, and the automobile weight tax is imposed at the time of purchase and automobile inspection, based on the weight of the car. However, from April, these taxes have been exempted for electric, fuel cell, and hybrid cars; normal gasoline cars are also subject to tax reduction, but the amount of reduction depends on their level of energy efficiency. Also, as a measure to promote the purchasing of eco-friendly cars—a measure included in the "Countermeasures to Address the Economic

have continued to drop due to the deterioration in the employment and income situation, but they picked up somewhat in July, partly because the effects of the new strain of influenza abated temporarily. Sales in the food service industry have been sluggish recently.

Looking at the *Indices of Aggregated Sales* (in real terms)—which are comprised of major sales indicators of goods and services mentioned above—they were both relatively weak as a trend, even though recent movements of indices including and excluding the effects of the increase in the number of stores were somewhat different (Chart 16[1]).⁸ The aggregate supply of consumer goods (Chart 16[2])—which comprehensively captures producers' supply of goods—increased in July compared with the second quarter following an increase in the second quarter, as a reflection of developments in durable consumer goods (automobiles). Looking at statistics on the demand side, as for the index of consumption expenditure level (in real terms) in the *Family Income and Expenditure Survey*, the index on an "excluding housing, automobiles, money gifts, and remittance" basis—which is mostly limited to items used for estimating GDP—decreased in July compared with the second quarter, after remaining essentially unchanged in the second quarter compared with the first quarter.⁹ On the other hand, the total expenditure in the *Survey of Household Economy* (in real terms) increased noticeably in July compared with the second quarter following an increase in the second quarter, mainly due to the increase in durable consumer goods (Chart 14[1]).

Meanwhile, indicators related to consumer sentiment have continued to remain at low levels, but they have recovered in general, mainly due to various demand-boosting policy measures, in addition to the decline in retail prices (Chart 17).

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

⁸ The *Indices of Aggregated Sales* are the weighted averages of individual sales indicators. "Outlays for travel" in July was not released at the time these indices were compiled, and hence was incorporated into the indices under the assumption that the seasonally adjusted figure for July was at the same level as that for June.

⁹ Items in the index are not completely limited to those used for estimating GDP. Education, for example, is not used for estimating GDP.

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

Housing investment has decreased. The number of housing starts (Chart 18[1])—a leading indicator of housing investment—marked an annual rate of 904,000 units in the first quarter, but then registered an annual rate of 762,000 units in the second quarter and 746,000 units in July. It has been decreasing significantly since last fall, as the employment and income situation has become increasingly severe and as the financial environment surrounding the real estate-related sector has further deteriorated.

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

Industrial production has increased, reflecting progress in inventory adjustments and policy effects both at home and abroad. On a monthly basis, production increased for the fifth consecutive month in July, marking a 2.1 percent rise. On a quarterly basis, production dropped substantially in the fourth and first quarters, by 11.3 percent and 22.1 percent, respectively, but it rebounded largely, marking an increase of 8.3 percent in the second quarter and 5.5 percent in July compared with the second quarter (Chart 19). Looking at production in July compared with the second quarter by industry, production increased in a wide range of industries, notably in transport equipment and electronic parts and devices, in response to the increase in exports and to the pickup in domestic automobile sales.

Shipments increased by 6.4 percent in the second quarter and 6.5 percent in July compared with the second quarter, after decreasing substantially by 11.0 percent in the fourth quarter and 21.0 percent in the first quarter. Looking at recent developments in shipments by goods (Chart 20), those of durable consumer goods and producer goods have been increasing noticeably, after dropping largely since last fall. On the other hand, those of capital goods and construction goods have remained sluggish, after having decreased substantially. Shipments of non-durable consumer goods, meanwhile, have remained more or less unchanged.

Inventories have continued to fall in response to the increase in shipments (Chart 21). Looking at the shipment-inventory balance by goods, inventory adjustment pressures have remained strong for capital goods (excluding transport equipment) and construction goods, reflecting the substantial decrease in shipments. On the other hand, as for electronic parts and devices and durable consumer goods, inventory adjustment pressures have disappeared, partly because shipments have picked up; inventories of other producer goods (such as chemicals and iron and steel) have also improved gradually as a whole.¹⁰

As for the outlook, production is expected to continue increasing for the time being, mainly due to policy effects both at home and abroad. According to anecdotes from firms, production is expected to maintain the pace of increase on par with that of the second quarter in the third quarter and continue increasing in the fourth quarter.¹¹ However, firms' views on production towards the next fiscal year have remained cautious due to the large uncertainty concerning overseas economic conditions and domestic sales of automobiles, whose subsidies are scheduled to be cut off at the end of this fiscal year.

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

In the labor market, the ratio of job offers to applicants has continued to decline (Chart 22[1]); the ratio in July was 0.42 times, a decrease of 0.01 from the previous month. The ratio also marked a decrease for the fourteenth consecutive month, and a new worst-ever level for the third consecutive month. The unemployment rate has continued to rise at a fast pace: it registered 5.7 percent in

¹⁰ The inventory of transport equipment increased in July by 11.1 percent on a month-on-month basis, but this seems to have been influenced by a fluctuation in the number of automobiles on docks waiting to be shipped. In fact, recently, overseas local inventories have decreased considerably, mainly in the United States, where automobile sales have increased rapidly due to subsidy effects.

¹¹ Looking at the production forecast index, production in August and September is expected to mark an increase of 2.4 percent and 3.2 percent, respectively, on a month-on-month basis. Based on this forecast, production in the third quarter is expected to increase by 8.3 percent compared with the second quarter.

July, exceeding the previous high (5.5 percent) marked in June and August of 2002 and April 2003.

In terms of employment (Chart 23[1]), the year-on-year decline in the number of employees in the *Labour Force Survey* decelerated in July marking a 1.4 percent decline, after declining by 2.0 percent in June.¹² As for the number of regular employees in the *Monthly Labour Survey*, the year-on-year rate of increase has decelerated rapidly, and the rate has recently fallen—though marginally—below 0 percent; the ratio of part-time employees has risen gradually (Chart 23[2]). Meanwhile, overtime hours worked, after decreasing substantially, have begun to stop declining, especially in the manufacturing industry (Chart 23[3]).

The year-on-year decline in nominal wages per employee has accelerated; the rate marked a substantial decrease of 5.6 percent in July, following a 4.7 percent decrease in the second quarter (Chart 24[1]). In detail, regular and overtime payments have continued to drop, mainly reflecting the decrease in the number of working hours especially in the manufacturing industry. Under these circumstances, special payments in June-July—which make up over 90 percent of summer bonuses—decreased substantially, by 13.5 percent on a year-on-year basis, in response to the significant deterioration in corporate profits.

Employee income has decreased substantially, reflecting the aforementioned developments in employment and wages (Chart 24[3]).

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

¹² The decline in the number of employees is marginal compared with the drop in economic activities. This can be attributed to factors such as efforts to maintain employment through the use of the Employment Adjustment Subsidy—whose conditions to grant subsidies have been eased as part of an economic measure—and a large decline in hours worked per employee, which has reflected a decrease in the number of operating days and an increase in the number of short-time part-time workers. The number of applications for the subsidy has remained over 4.0 percent of all employees (2.43 million employees in July).

2. Prices

Import prices (on a yen basis; the three-month rate of change) have turned upward due to an increase in international commodity prices (Chart 26). International commodity prices, despite fluctuations, have been on a rising trend on average. Domestic commodity prices have risen gradually as a whole, even though domestic supply and demand conditions have remained slack, mainly because they have been pushed up by the past rise in international commodity prices.

The three-month rate of change in domestic corporate goods prices (adjusted to exclude the effects of seasonal changes in electricity rates, same hereafter)¹³ has been around 0 percent due to a rise in international commodity prices, although slack in supply and demand conditions for products has persisted (Chart 27). In detail, prices of "goods sensitive to exchange rates and overseas commodity prices" rose for the fifth consecutive month, reflecting price developments of petroleum and coal products and of nonferrous metals. Prices of "other materials" have turned to an increase, mainly due to the rise in prices of chemicals and related products. The pace of decline in prices of "iron and steel and construction goods" and "electric power, gas and water" has decelerated. On the other hand, prices of "machinery" and "others" have continued to decline marginally; the former has declined, mainly in electrical appliances, as has the latter, mainly in processed foodstuffs. Looking at domestic demand products as a whole, including imports, prices of raw materials have risen in response to the increase in international commodity prices. Those of intermediate goods have stopped declining due to the deceleration in the pace of decline in prices of iron and steel as well as to the increase in prices of electric power charges and of chemicals and related products. Prices of final products, meanwhile, have remained more or less unchanged.

¹³ The figures are adjusted to exclude large seasonal fluctuations in electric power charges to observe the underlying changes in domestic corporate goods prices. Industrial and commercial electric power charges are set relatively high during July-September, when electric power consumption increases substantially.

The year-on-year rate of change in corporate services prices (excluding external factors)¹⁴ has continued to be negative, mainly reflecting cost cutting among firms (Chart 28).¹⁵ In detail, prices of advertising services have fallen largely below the previous year's level because firms have been cautious about placing advertisements; prices of items such as leasing and rental and information services have fallen below the previous year's level, mainly due to weak demand.

The year-on-year decline in consumer prices (excluding fresh food, same hereafter) has accelerated mainly due to the prices of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole (Chart 29). Consumer prices in July (excluding fresh food) marked a decrease of 2.2 percent on a year-on-year basis, a decline of 0.5 percent point from the previous month; this was the largest-ever pace of decrease for the third consecutive month. Looking at the recent trend in detail, the pace of decline in prices of goods has largely accelerated, mainly because prices of petroleum products have declined at a faster pace and because prices of food products have increased at a moderated pace. Recently, the pace of decline in prices of durable consumer goods and other goods including daily necessities has also accelerated. The year-on-year decline in prices of general services has accelerated mainly because prices of package tours to overseas and mobile telephone charges have decreased at an accelerated pace, those of services related to domestic duties have turned negative, and prices of "eating out" have increased at a moderated pace. As for public utility charges—mainly electricity charges and city gas charges—the pace of decline has accelerated on a year-on-year basis, mainly due to the reduction in electricity charges and city gas charges.

Domestic corporate goods prices are likely to remain more or less unchanged for the time being. The year-on-year decline in consumer prices, after accelerating somewhat, is expected to moderate over time as the effects of the prices of petroleum products, which are lower than their high levels a year ago, abate.

¹⁴ "Excluding external factors" means that international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight transportation are excluded from all items.

¹⁵ "All items including external factors" has continued to decrease significantly on a year-on-year basis, mainly in ocean freight transportation.

3. Financial Developments

(1) Financial Markets

In Japan's money markets, interest rates have remained stable at low levels, since supply-demand conditions have remained eased, mainly against the backdrop of the Bank of Japan's ample provision of funds. Meanwhile, sentiments in these markets have remained nervous to some extent, with the volume of transactions in some markets still low. The overnight call rate (uncollateralized) has been at around 0.1 percent (Chart 30[1]). Regarding interest rates on term instruments, although the issuance of T-Bills has remained high, the T-Bill rate (3-month) has been stable in the range of 0.10-0.19 percent, partly because banks have been investing their excess funds in them. The Euroyen interest rate (3-month) has declined gradually, partly due to the expansion of fund-supplying measures by the Bank of Japan, but the rate has still remained high relative to the OIS rates, which mainly reflect expectations about future policy interest rates (Chart 31[1]). Interest rates on Euroyen futures have suggested that term funding rates have been expected to remain more or less flat for the time being (Chart 30[2]). In U.S. dollar funding, the LIBOR-OIS spread for the dollar has continued to decline; it has been below that for the Japanese yen (Chart 31).

Yields on 10-year government bonds (newly issued 10-year JGB) have declined somewhat, reflecting cautious views on the durability and the pace of improvement in economic conditions as well as continuing improvement in loan-deposit balances of banks, investors in JGBs. The yields have recently been at around 1.3 percent (Chart 32).

Yield spreads between corporate bonds and government bonds have been more or less flat for those with high credit ratings due to steady demand among investors. As for spreads of those with low credit ratings, spreads of some corporate bonds, mainly in some industries, have widened, as investors have maintained their selective stances on investment in corporate bonds. Meanwhile, spreads of some other bonds with low credit ratings have narrowed, against the background of increase in demand, with the range of investors for these bonds broadening (Chart 33).

Stock prices have stopped rising, as those in the United States and Europe have fluctuated, mainly due to mixed results in U.S. economic indicators. The Nikkei 225 Stock Average has recently been in the range of 10,000-10,500 yen (Chart 34).

In the foreign exchange market, the yen has appreciated against the U.S. dollar, as risk appetite among overseas investors has stopped improving; the yen has recently been traded at around 91 yen to the U.S. dollar (Chart 35).

(2) Corporate Finance and Monetary Aggregates

Funding costs have recently remained more or less unchanged at low levels, after decreasing markedly since the beginning of the year, against the background that the overnight call rate has remained at an extremely low level. Issuance rates on CP have continued to be on a declining trend in response to various policy measures—the average issuance rate on three-month CP with ratings of A-1 or higher was 0.26 percent in August, following 0.29 percent in June and July. Issuance rates on corporate bonds have declined, mainly because of the narrowing of their issuance spreads, especially for firms with high credit ratings. On the other hand, the average contracted interest rates on new loans and discounts have recently been more or less unchanged (Chart 37).

With regard to credit supply, although many firms still see financial institutions' lending attitudes as severe, firms as a whole regard the situation as improving somewhat (Chart 36). Issuing conditions for CP and corporate bonds have continued to improve, as reflected in the narrowing of credit spreads and the increased number of firms issuing corporate bonds. However, firms with low credit ratings have continued to face severe conditions for issuing bonds. In these circumstances, funding of the private sector has increased at a slower pace, partly due to the decline in firms' demand for working capital and funds for fixed investment. The pace of increase in bank lending has slowed (Chart 38). The amount outstanding of CP issued has decreased, partly because of the decline in firms' demand for working capital. The amount outstanding of corporate bonds issued—although firms with low credit ratings and those in some industries have

continued to face difficulties in issuing corporate bonds—has been above the previous year's level as a whole (Chart 39).

In these circumstances, firms' financial positions, although many firms, mainly small ones, still see them as weak, have continued to improve (Chart 36). The number of corporate bankruptcies, with fluctuations, decreased in August (Chart 41).

Meanwhile, the money stock (M2) has been in the range of 2.5-3.0 percent, year-on-year. Its August reading was 2.8 percent on a year-on-year basis, following 2.7 percent in July (Chart 40).¹⁶

¹⁶ On an M3 basis, which includes the Japan Post Bank, the year-on-year growth rate has been at around 2 percent. Its August reading was 2.0 percent, following 1.9 percent in July. Broadly-defined liquidity has been around 0 percent, year-on-year; it increased by 0.1 percent in August, year-on-year, after marking 0.0 percent in July.

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Main Economic Indicators (1)

	s.a., q/q (m/m) % chg. ¹						
	2008/Q4	2009/Q1	Q2	2009/May	Jun.	Jul.	Aug.
Index of consumption expenditure level (two-or-more-person households)	-0.3	1.0	-0.2	0.5	0.7	-1.4	n.a.
Sales at department stores	-3.1	-3.9	-2.3	-3.0	4.5	-4.5	n.a.
Sales at supermarkets	-1.3	-1.3	-1.3	-0.7	-0.4	-1.2	n.a.
New passenger-car registrations ³ <s.a., ann. 10,000 units>	< 249>	< 213>	< 241>	< 250>	< 255>	< 280>	< 296>
Sales of household electrical appliances (real, Current Survey of Commerce)	-0.0	7.1	4.8	4.3	2.5	2.5	n.a.
Outlays for travel	-2.5	-5.0	-14.2	-7.2	-8.6	12.9	n.a.
Housing starts <s.a., ann. 10,000 units>	< 101>	< 90>	< 76>	< 76>	< 75>	< 75>	<n.a.>
Machinery orders (from private sector ⁴)	-15.1	-9.9	-4.9	-3.0	9.7	-9.3	n.a.
Manufacturing	-22.4	-31.1	10.8	5.4	14.6	-20.4	n.a.
Nonmanufacturing ⁴	-10.0	4.9	-12.1	-6.9	7.3	-2.8	n.a.
Construction Starts (private, nondwelling use)	-10.6	-1.1	-34.9	-9.6	23.5	1.0	n.a.
Mining & manufacturing	-0.2	-25.8	-41.0	-29.0	35.3	14.0	n.a.
Nonmanufacturing ⁵	-8.9	7.5	-34.5	-8.7	20.6	-2.5	n.a.
Value of public works contracted	-1.4	3.7	5.4	-10.9	-1.0	2.0	4.6
Real exports	-14.6	-28.9	12.4	5.1	5.8	2.3	n.a.
Real imports	0.7	-17.9	-1.7	2.6	0.8	3.3	n.a.
Industrial production	-11.3	-22.1	8.3	5.7	2.3	2.1	n.a.
Shipments	-11.0	-21.0	6.4	4.8	3.5	2.4	n.a.
Inventories	1.9	-9.0	-4.5	-0.7	-1.1	-0.3	n.a.
Inventory Ratio <s.a., CY 2005 = 100>	< 132.1>	< 150.1>	< 128.8>	< 143.1>	< 128.8>	< 123.6>	<n.a.>
Real GDP	-3.4	-3.3	0.6	n.a.	n.a.	n.a.	n.a.
Index of all industry activity	-2.7	-6.2	0.4	0.7	0.1	n.a.	n.a.

Main Economic Indicators (2)

	y/y % chg. ¹						
	2008/Q4	2009/Q1	Q2	2009/May	Jun.	Jul.	Aug.
Ratio of job offers to applicants <s.a., times>	< 0.76>	< 0.59>	< 0.45>	< 0.44>	< 0.43>	< 0.42>	<n.a.>
Unemployment rate <s.a., %>	< 4.0>	< 4.5>	< 5.2>	< 5.2>	< 5.4>	< 5.7>	<n.a.>
Overtime working hours ⁶	-6.6	-19.7	-18.2	-18.4	-17.6	-16.4	n.a.
Number of employees	0.0	-0.3	-1.7	-1.8	-2.0	-1.4	n.a.
Number of regular employees ⁶	1.0	0.6	0.1	-0.1	0.0	-0.1	n.a.
Nominal wages per person ⁶	-1.2	-3.0	-4.7	-2.5	-7.0	-5.6	n.a.
Domestic corporate goods price index <q/q % chg., 3-month rate of change> ⁷	2.6 <-3.8>	-1.8 <-3.2>	-5.4 <-1.3>	-5.5 <-1.2>	-6.7 <-1.4>	-8.5 <-0.7>	p -8.5 <p -0.2>
Consumer price index ⁸	1.0	-0.1	-1.0	-1.1	-1.7	-2.2	n.a.
Corporate services price index	-2.1	-2.4	-2.9	-3.0	-3.2	p -3.4	n.a.
Money Stock (M2) <average outstanding, y/y % chg.>	1.8	2.1	2.6	2.7	2.5	2.7	p 2.8
Number of corporate bankruptcies <cases per month>	<1,356>	<1,405>	<1,318>	<1,203>	<1,422>	<1,386>	<1,241>

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

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

2. Figures with "p" indicate preliminary data.

3. Excludes small cars with engine sizes of 660 cc or less.

4. Excludes orders of shipbuilding and orders from electric power companies.

5. Nonmanufacturing is mainly composed of commerce, services, agriculture & fisheries and public utilities industries.

6. Data for establishments with at least five regular employees.

7. Adjusted to exclude a hike in electric power charges during the summer season.

8. Excludes fresh food.

Sources: Ministry of Internal Affairs and Communications, "Labour Force Survey,"

"Monthly Report on the Family Income and Expenditure Survey," "Consumer Price Index";

Ministry of Economy, Trade and Industry, "Current Survey of Commerce," "Indices of Industrial Production,"

"Indices of All Industry Activity";

Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

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

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

Ministry of Finance, "Trade Statistics";

Cabinet Office, "Orders Received for Machinery," "National Accounts";

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

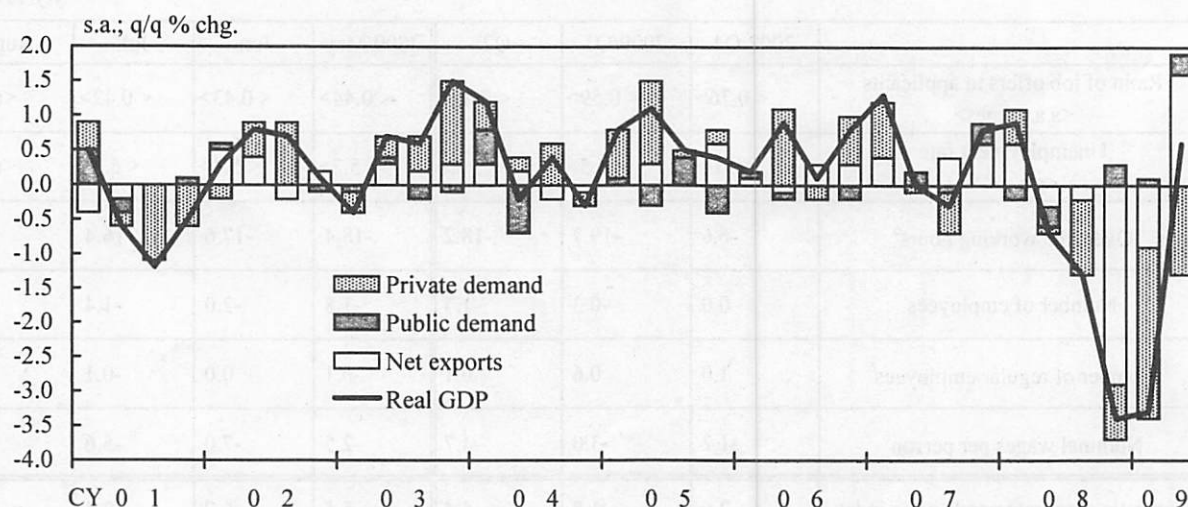
Ministry of Health, Labour and Welfare, "Report on Employment Service," "Monthly Labour Survey";

Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index," "Money Stock";

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

Real GDP and Indexes of Business Conditions

(1) Real GDP



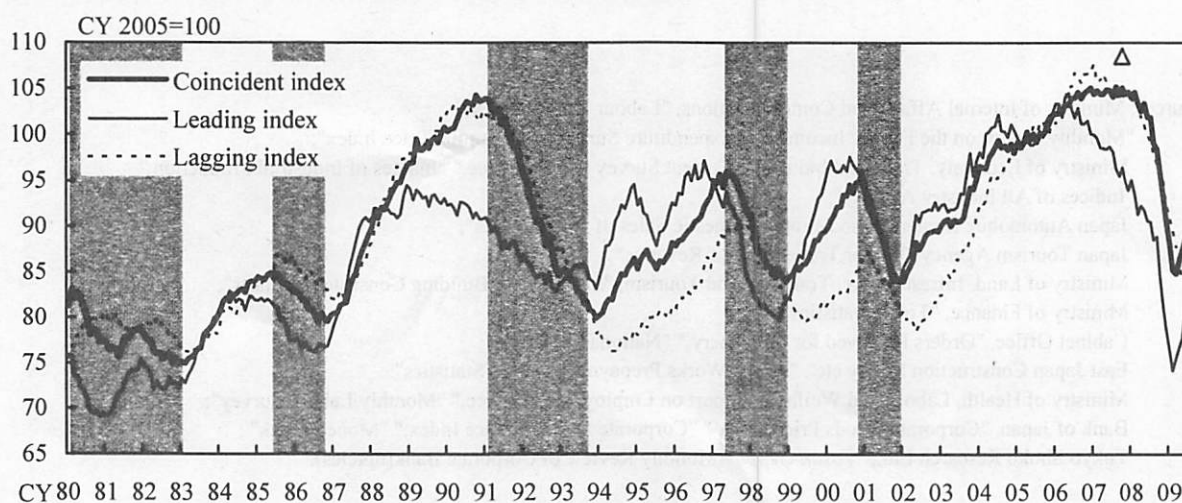
(2) Components

s.a.; q/q % chg.

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

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

(3) Indexes of Business Conditions (Composite Indexes)

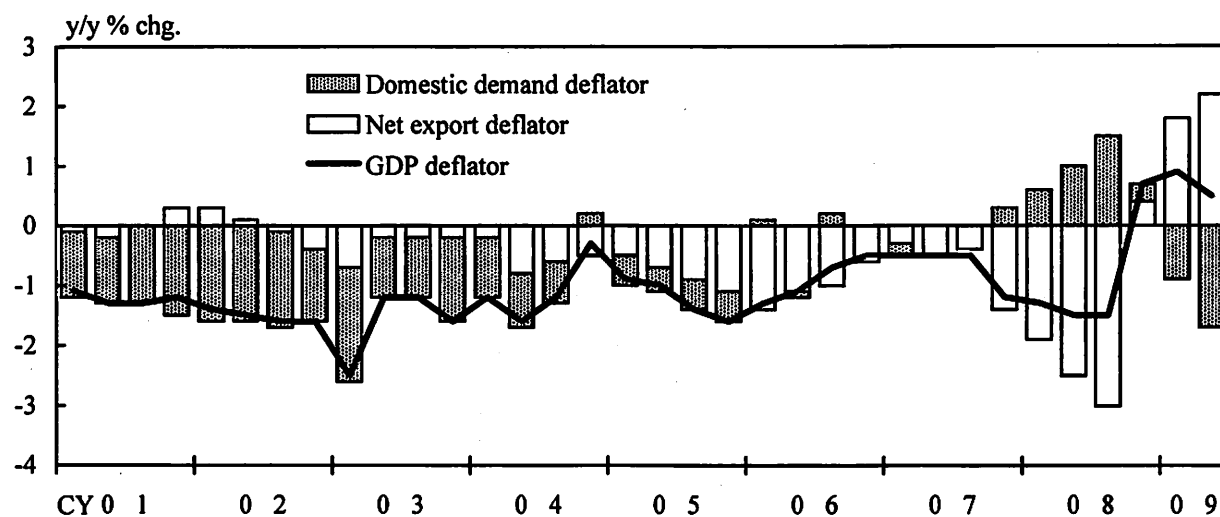


Note: Shaded areas indicate recession periods. Triangle shows the last peak.

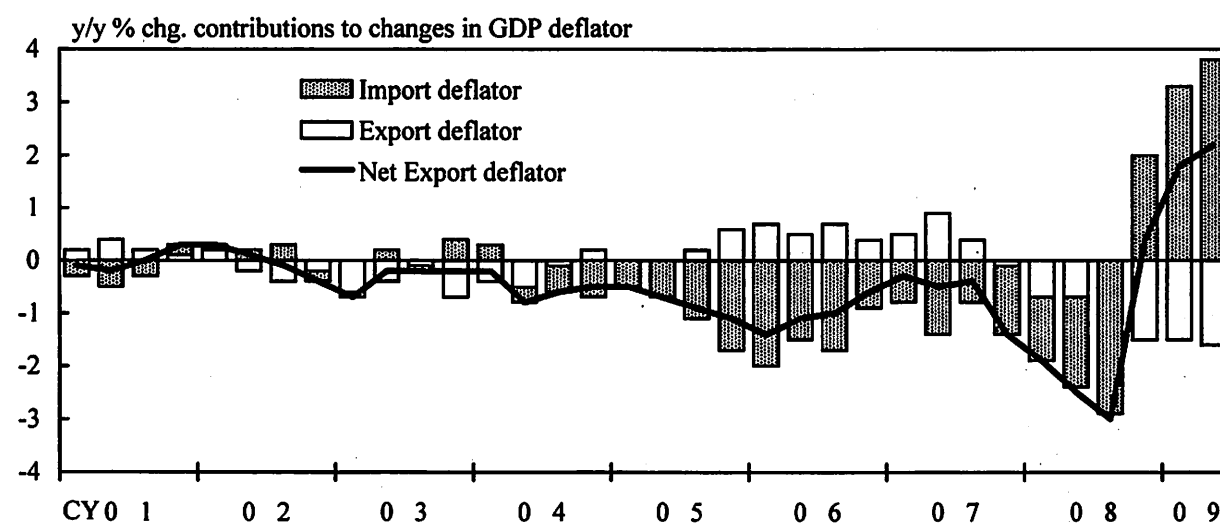
Source: Cabinet Office, "National Accounts," "Indexes of Business Conditions."

GDP Deflator and Income Formation

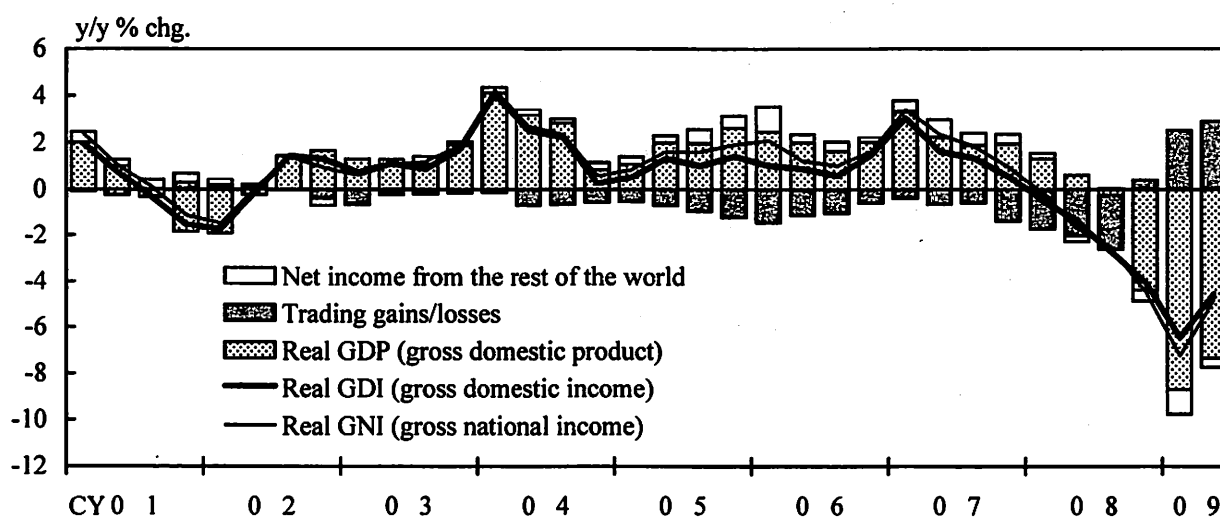
(1) GDP Deflator



(2) Net Export Deflator



(3) Aggregate Income Formation



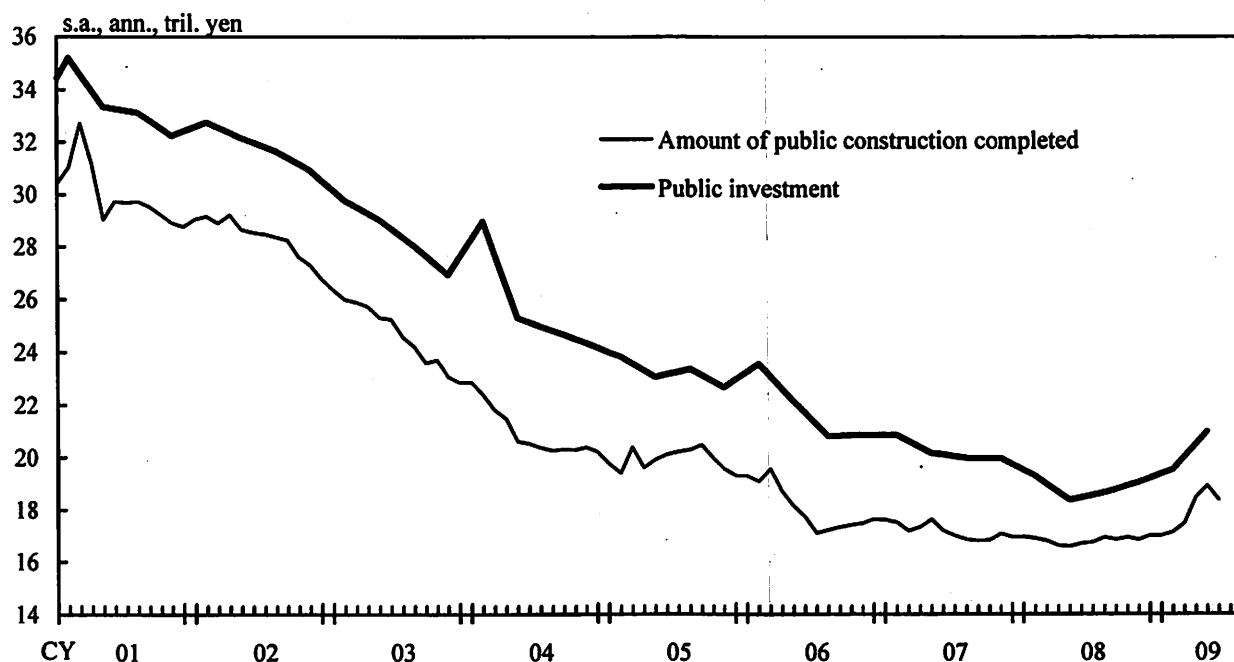
Note: Figures of components indicate contributions to changes in real GNI.

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

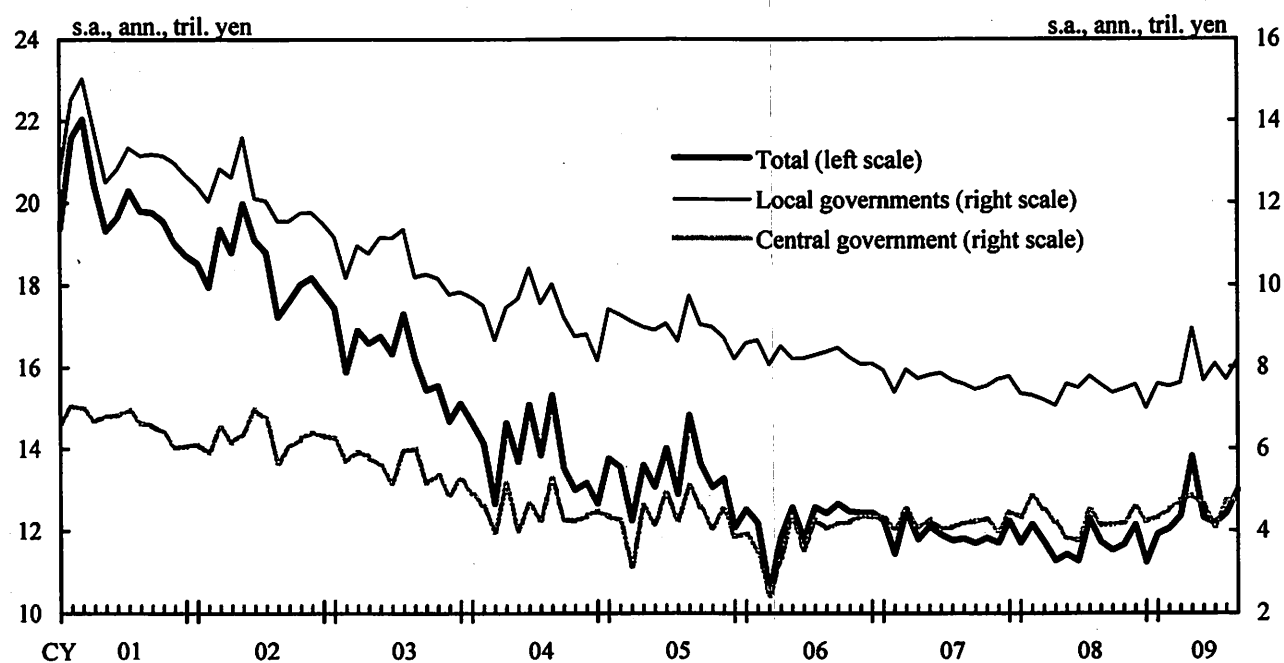
Source: Cabinet Office, "National Accounts."

Public Investment

(1) Amount of Public Construction Completed and Public Investment



(2) Value of Public Works Contracted



Notes: 1. Quarterly figures of public investment are plotted at the middle month of each quarter.

2. Amount of public construction completed is based on the general tables in the "Integrated Statistics on Construction Works."

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

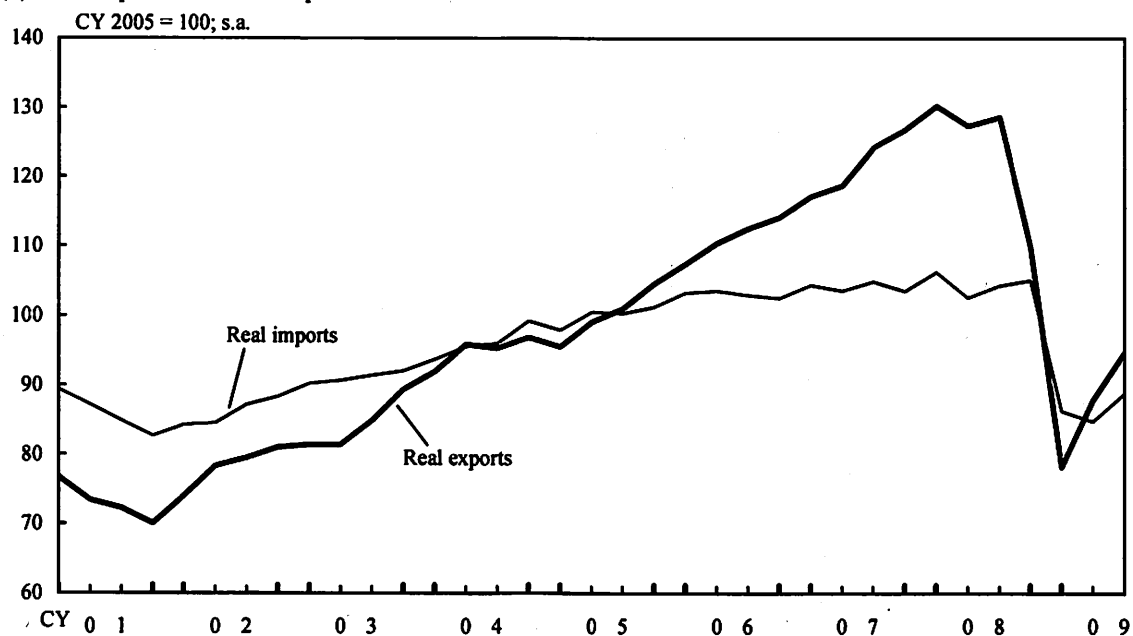
Sources: Cabinet Office, "National Accounts";

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

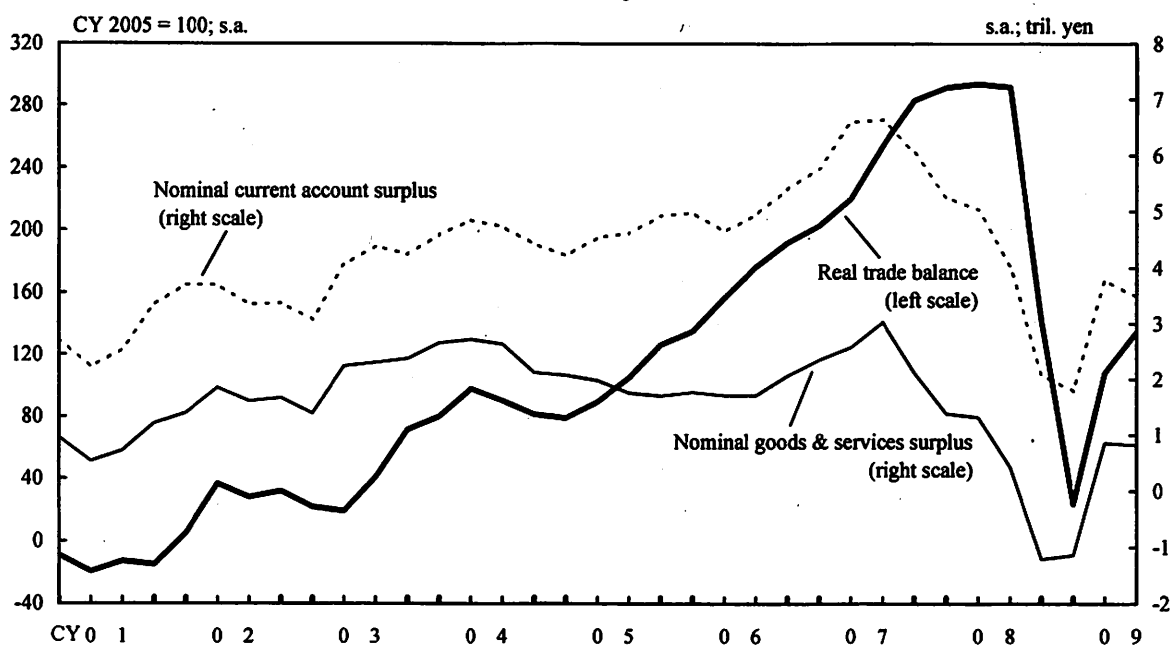
Ministry of Land, Infrastructure, Transport and Tourism, "Integrated Statistics on Construction Works."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



- Notes: 1. Real trade balance is defined as real exports minus real imports, indexed with base year of 2005. Real exports/imports are "The Value of Exports and Imports in Trade Statistics" deflated by the "Export and Import Price Index."
 2. Figures are seasonally adjusted by X-12-ARIMA.
 3. 2009/Q3 figures are July 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 2007	2008	2008 Q3	Q4	2009 Q1	Q2	Q3	2009 May	Jun.	Jul.
United States	<17.5>	-1.2	-8.9	-4.9	-9.0	-35.7	11.9	3.6	11.2	8.1	-4.8
EU	<14.1>	13.0	-0.1	-2.8	-17.1	-27.0	4.9	-1.0	3.1	2.3	-3.4
East Asia	<46.8>	9.9	3.3	-0.4	-15.6	-22.2	18.2	10.3	6.0	3.5	5.8
China	<16.0>	16.8	6.7	-1.3	-14.7	-17.1	19.7	7.2	3.1	3.0	4.1
NIEs	<22.1>	5.2	-0.1	0.8	-18.4	-22.4	19.3	10.0	4.7	3.0	6.2
Korea	<7.6>	5.3	-0.3	2.2	-21.5	-13.5	12.9	4.9	2.0	4.4	1.3
Taiwan	<5.9>	0.0	-4.4	-2.5	-21.8	-19.7	22.1	8.7	8.8	1.6	4.7
ASEAN4 ³	<8.8>	11.4	6.3	-1.5	-9.9	-30.7	12.3	18.3	17.6	5.9	8.4
Thailand	<3.8>	9.8	4.9	1.2	-6.5	-36.1	12.1	21.5	11.3	9.6	10.6
Others	<21.5>	20.4	16.1	1.9	-7.9	-30.7	-6.0	11.4	-4.3	9.4	6.5
Real exports		9.1	1.8	1.0	-14.6	-28.9	12.4	7.9	5.1	5.8	2.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2008 Q3	Q4	2009 Q1	Q2	Q3	2009 May	Jun.	Jul.
Intermediate goods	<18.9>	5.3	0.3	0.8	-7.9	-16.4	18.4	7.1	4.3	5.9	1.7
Motor vehicles and their related goods	<23.8>	13.2	3.2	-1.4	-14.5	-50.7	20.3	17.7	21.1	12.9	2.7
Consumer goods ⁴	<4.1>	6.4	3.5	-4.4	-12.1	-26.9	8.9	7.3	-2.5	-0.0	8.2
IT-related goods ⁵	<10.2>	12.2	0.7	-0.3	-20.8	-25.9	35.3	3.8	6.6	6.8	-2.6
Capital goods and parts ⁶	<28.3>	8.0	5.2	-1.0	-9.9	-26.5	-0.8	5.0	0.9	0.3	4.4
Real exports		9.1	1.8	1.0	-14.6	-28.9	12.4	7.9	5.1	5.8	2.3

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

2. Shares of each region and goods in 2008 are shown in angle brackets.

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

4. Excludes motor vehicles.

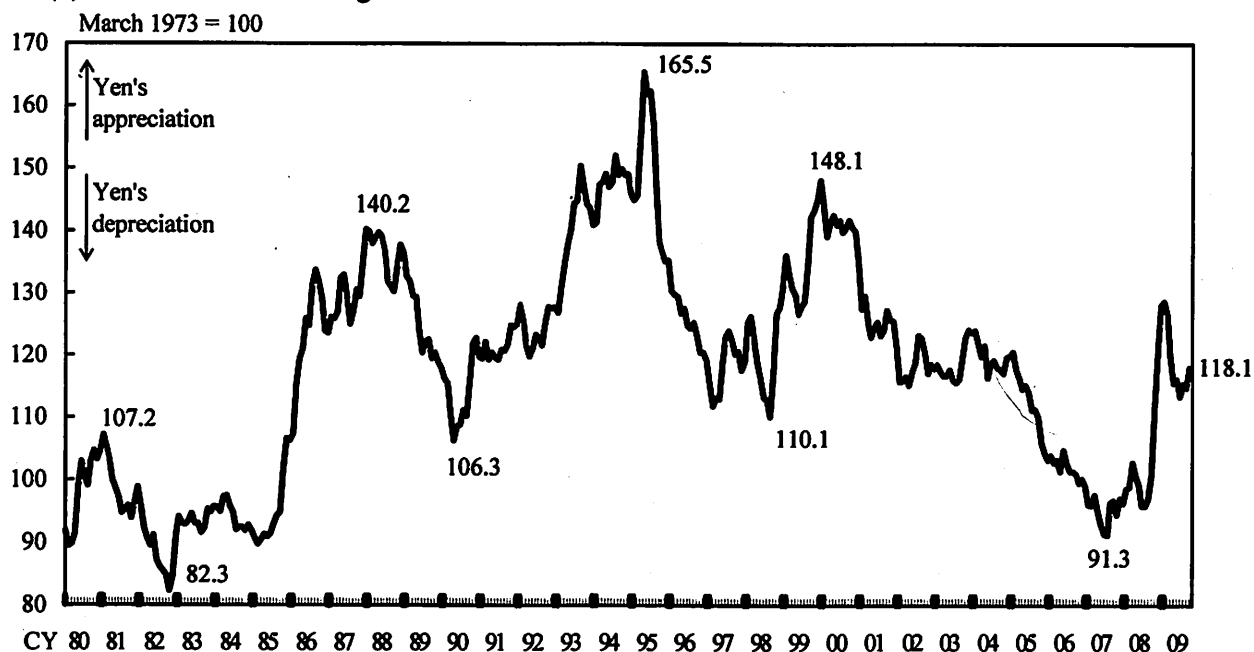
5. IT-related goods are composed of computers and units, telecommunication machinery, ICs, and medical and optical instruments.

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

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

Real Effective Exchange Rate and Overseas Economies

(1) Real Effective Exchange Rate



Note: Calculated by the Bank of Japan. Monthly average. Figure for September 2009 is the average up to September 16.
Figures are the index of weighted average of the yen's real exchange rates versus 15 major currencies (30 countries) which are calculated from nominal exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

			CY2006	2007	2008	2008 Q3	Q4	2009 Q1	Q2
United States ¹			2.7	2.1	0.4	-2.7	-5.4	-6.4	-1.0
European Union ¹			3.2	2.9	0.9	-1.6	-7.2	-9.2	-0.9
East Asia ²	Germany		3.2	2.5	1.3	-1.3	-9.4	-13.4	1.3
	France		2.4	2.3	0.3	-0.9	-5.5	-5.3	1.4
	United Kingdom		2.9	2.6	0.7	-2.9	-7.0	-9.3	-2.6
	China		11.6	13.0	9.0	9.0	6.8	6.1	7.9
	NIEs	Korea	5.2	5.1	2.2	3.1	-3.4	-4.2	-2.2
		Taiwan	4.8	5.7	0.1	-1.0	-8.6	-10.1	-7.5
		Hong Kong	7.0	6.4	2.4	1.5	-2.6	-7.8	-3.8
		Singapore	8.4	7.8	1.1	0.0	-4.2	-9.5	-3.5
	ASEAN4	Thailand	5.2	4.9	2.6	3.9	-4.2	-7.1	-4.9
		Indonesia	5.5	6.3	6.1	6.4	5.2	4.4	4.0
		Malaysia	5.8	6.2	4.6	4.8	0.1	-6.2	-3.9
		Philippines	5.3	7.1	3.8	4.6	2.9	0.6	1.5

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

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

Real Imports ¹

(1) Breakdown by Region

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 May	2009 Jun.	2009 Jul.
United States	<10.2>	-1.5	-2.6	1.1	-2.7	-14.4	-7.7	-0.5	-5.4	8.7	-4.1
EU	<9.2>	4.0	-3.0	-3.4	-2.3	-10.4	-2.7	-2.5	10.6	2.3	-7.0
East Asia	<37.9>	3.1	2.3	1.1	-0.2	-17.6	0.8	4.3	2.5	2.4	1.8
China	<18.8>	5.7	4.3	3.1	-1.2	-15.1	-0.7	4.1	2.6	1.1	2.5
NIEs	<8.0>	-3.8	-1.2	-0.9	-6.3	-20.6	10.0	2.7	5.0	5.5	-2.4
Korea	<3.9>	-3.3	-5.4	-1.1	-6.6	-20.5	6.1	4.8	9.6	3.2	-0.3
Taiwan	<2.9>	-3.0	3.5	0.2	-6.4	-22.0	14.5	3.7	11.6	5.1	-3.1
ASEAN4 ³	<11.1>	4.5	1.1	-1.5	7.4	-20.6	-3.2	5.9	0.0	2.3	4.3
Thailand	<2.7>	4.4	2.3	2.5	-1.9	-21.8	-0.3	5.3	-0.3	0.7	4.9
Others	<42.7>	0.2	2.0	2.0	3.1	-18.8	-4.0	6.2	4.0	-6.6	9.7
Real imports		0.7	0.2	1.7	0.7	-17.9	-1.7	4.7	2.6	0.8	3.3

(2) Breakdown by Goods

		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2007	2008	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 May	2009 Jun.	2009 Jul.
Raw materials ⁴	<42.0>	0.7	1.0	1.9	4.4	-20.3	-5.4	8.0	2.7	-5.4	11.1
Intermediate goods	<14.1>	2.0	1.7	0.9	4.3	-19.1	-8.0	6.4	-5.8	7.9	3.2
Foodstuffs	<7.9>	-9.5	-3.7	2.0	11.2	-2.9	-4.9	2.2	1.7	1.1	0.9
Consumer goods ⁵	<6.9>	-0.1	-2.7	0.6	-2.7	-16.2	3.7	3.7	4.4	2.4	0.6
IT-related goods ⁶	<9.5>	4.2	4.3	1.0	-7.9	-17.2	12.5	2.3	-0.6	0.8	2.0
Capital goods and parts ⁷	<11.2>	8.5	2.8	0.6	-9.2	-18.7	-6.2	-2.7	5.5	3.9	-6.8
Excluding aircraft	<10.5>	7.9	3.6	-2.4	-4.5	-23.7	-1.2	-0.8	10.3	0.3	-4.0
Real imports		0.7	0.2	1.7	0.7	-17.9	-1.7	4.7	2.6	0.8	3.3

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

2. Shares of each region and goods in 2008 are shown in angle brackets.

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

4. Raw materials are mainly composed of woods, ores and mineral fuel.

5. Excludes foodstuffs.

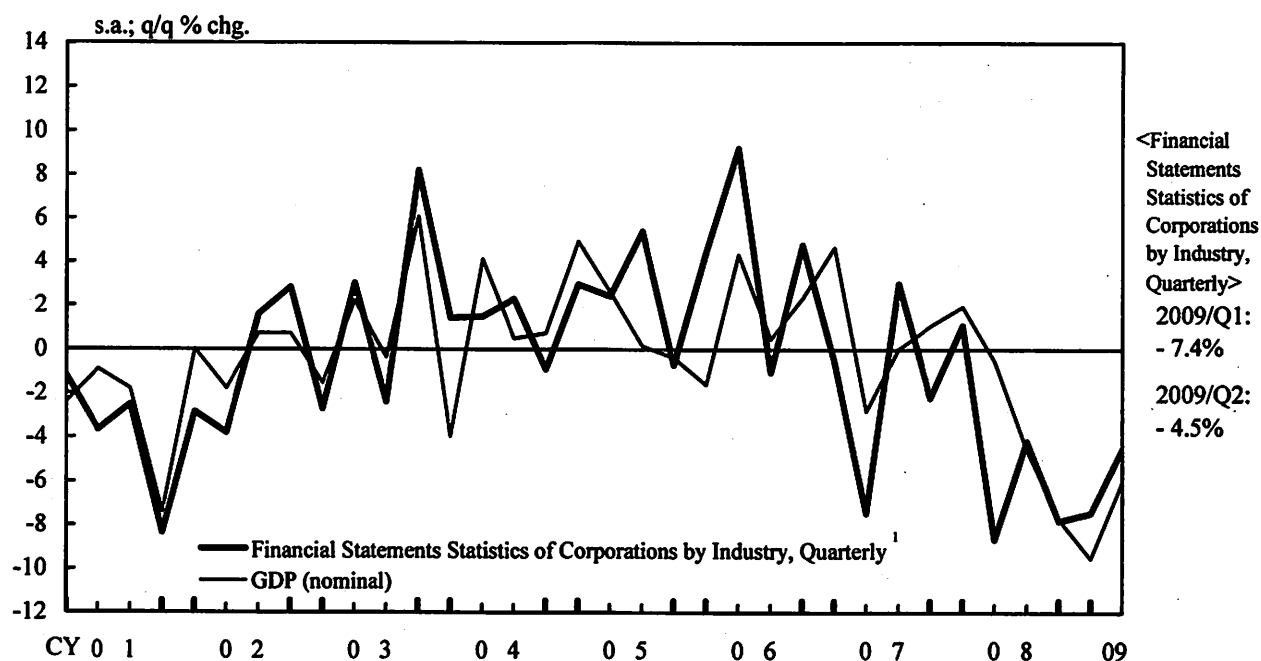
6. IT-related goods are composed of computers and units, parts of computer, telecommunication machinery, ICs, and medical and optical instruments.

7. Excludes IT-related goods.

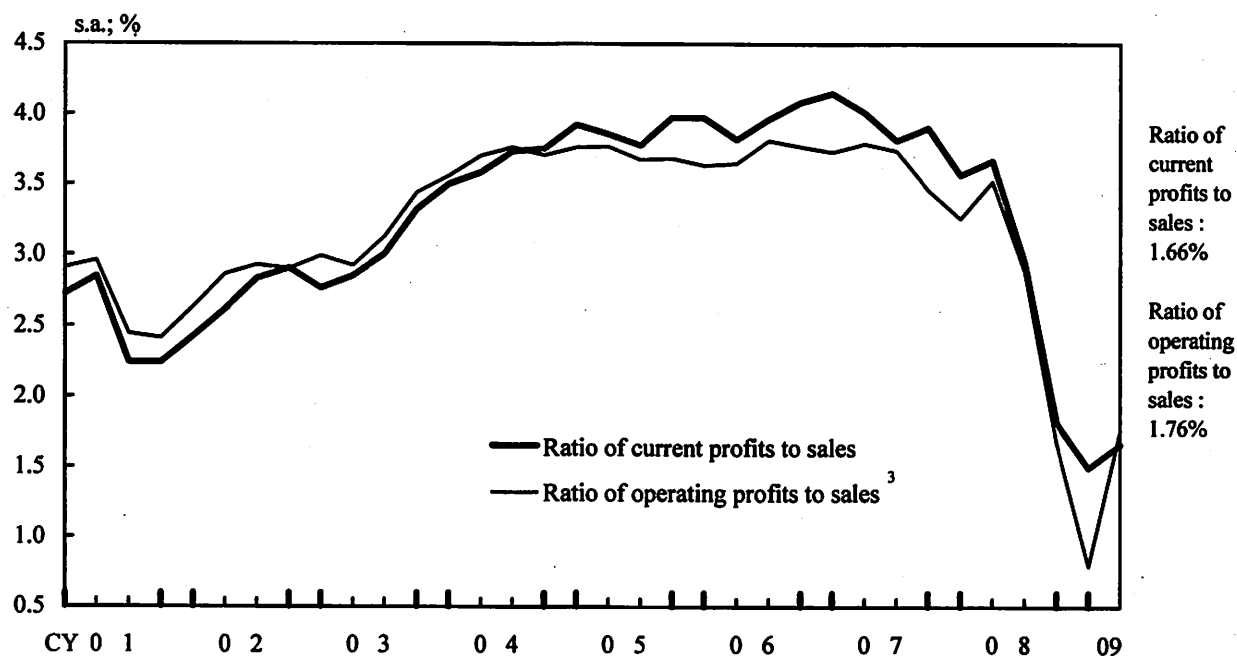
Sources: Ministry of Finance, "Trade Statistics"; Bank of Japan, "Corporate Goods Price Index."

Business Fixed Investment and Corporate Profits

(1) Business Fixed Investment



(2) Corporate Profits (Ratio of Profits to Sales)^{1,2}



Notes: 1. All enterprises excluding Finance and Insurance.

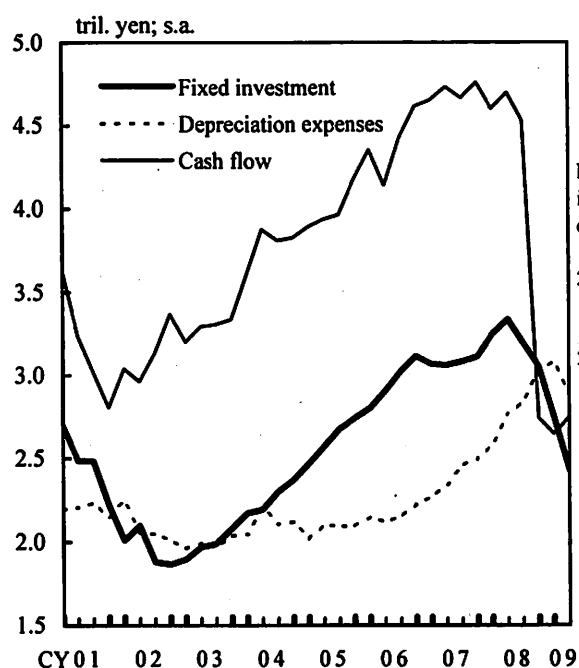
2. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly."

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

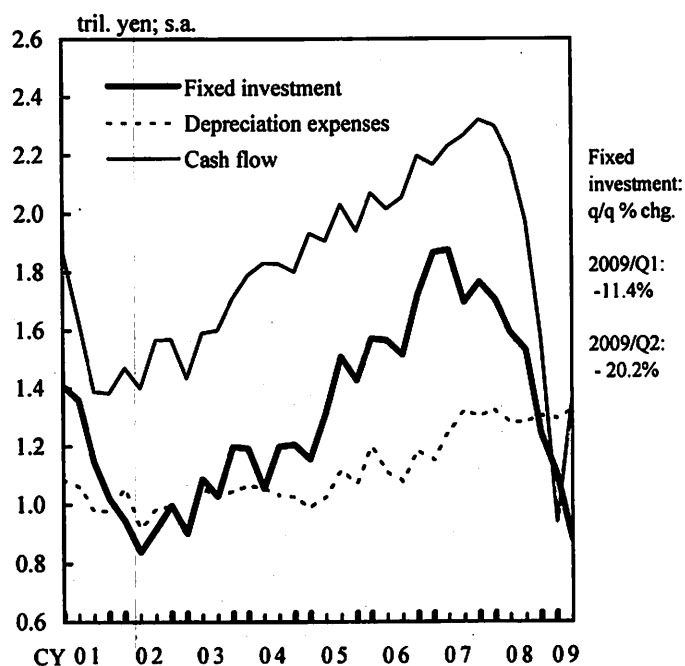
Sources: Cabinet Office, "National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Business Fixed Investment by Industry and Size

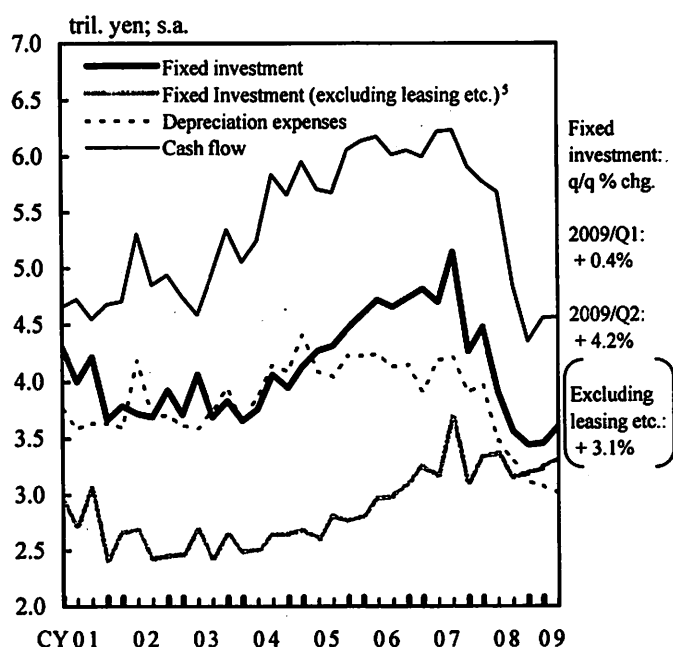
(1) Large Manufacturing Firms



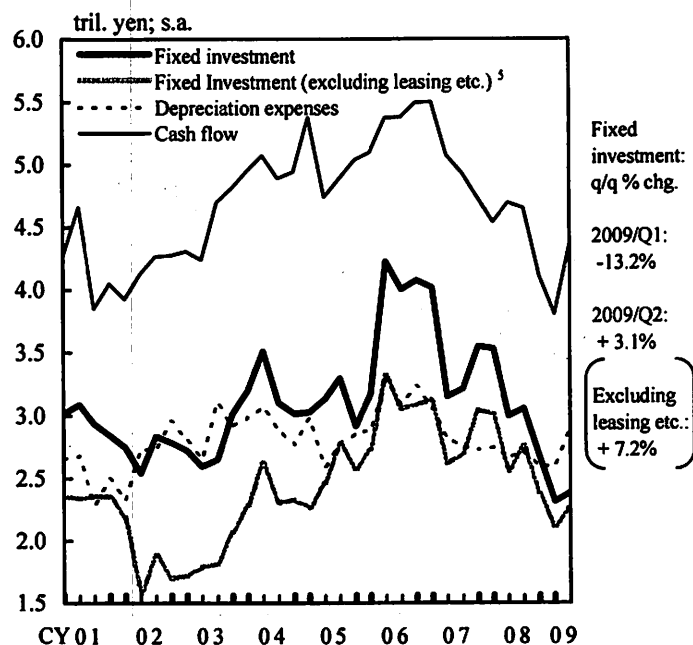
(2) Medium-Sized and Small Manufacturing Firms



(3) Large Nonmanufacturing Firms



(4) Medium-Sized and Small Nonmanufacturing Firms



Notes: 1. "Large firms" refers to firms with capital stock of 1 billion yen or more, and "medium-sized and small firms" refers to firms with capital stock of 10 million or more but less than 1 billion yen.

2. Cash flow = current profits / 2 + depreciation expenses.

3. Seasonally adjusted by X-11.

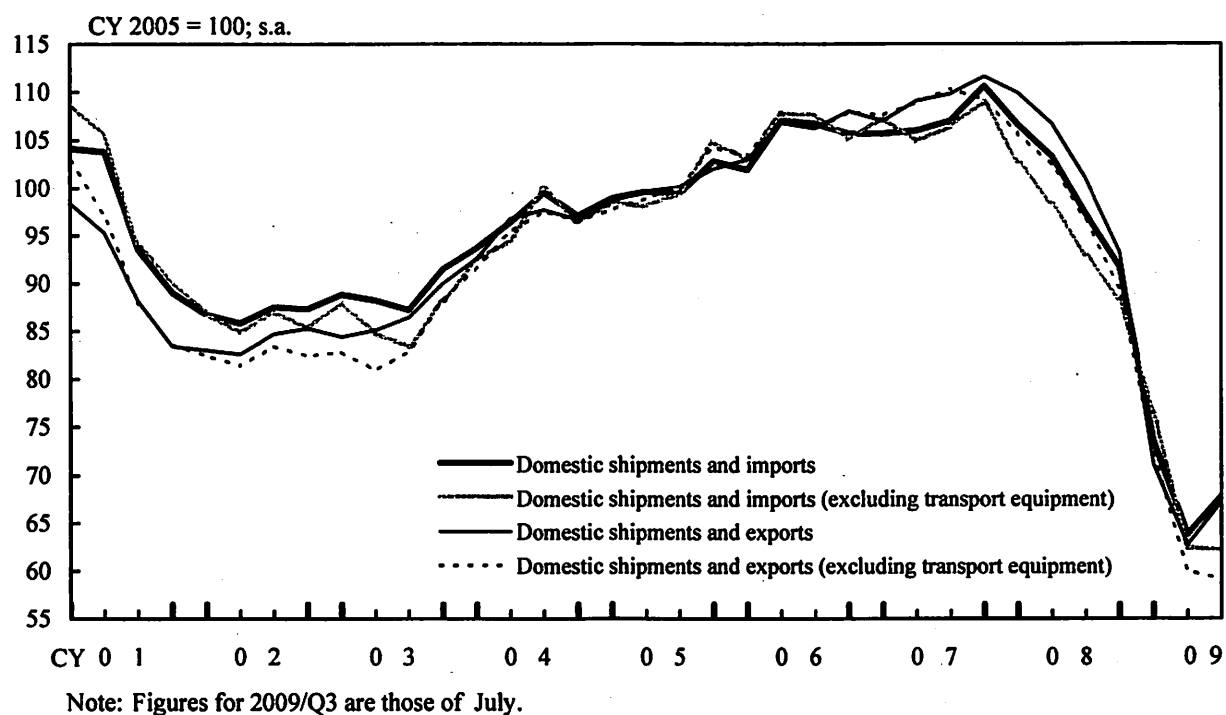
4. Excluding Finance and Insurance.

5. Up to 2004/1Q, excluding business services. From 2004/2Q, excluding goods rental and leasing.

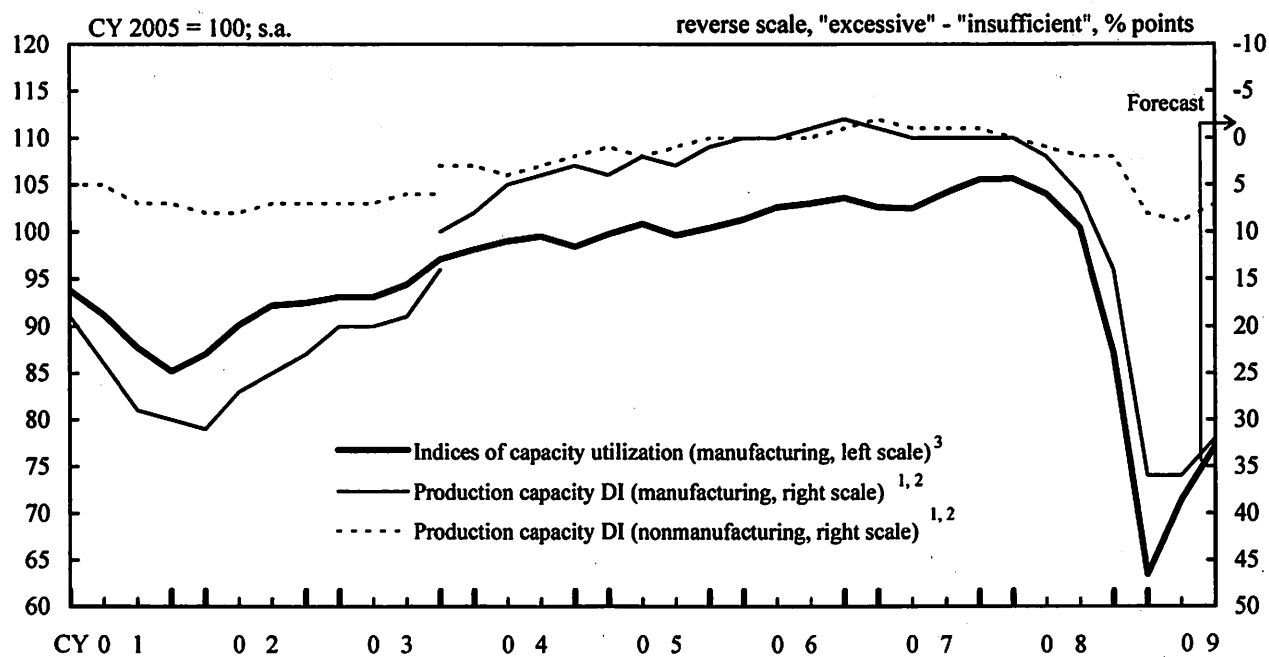
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Coincident Indicators for Business Fixed Investment

(1) Aggregate Supply and Shipments of Capital Goods



(2) Indices of Capacity Utilization and Production Capacity DI



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

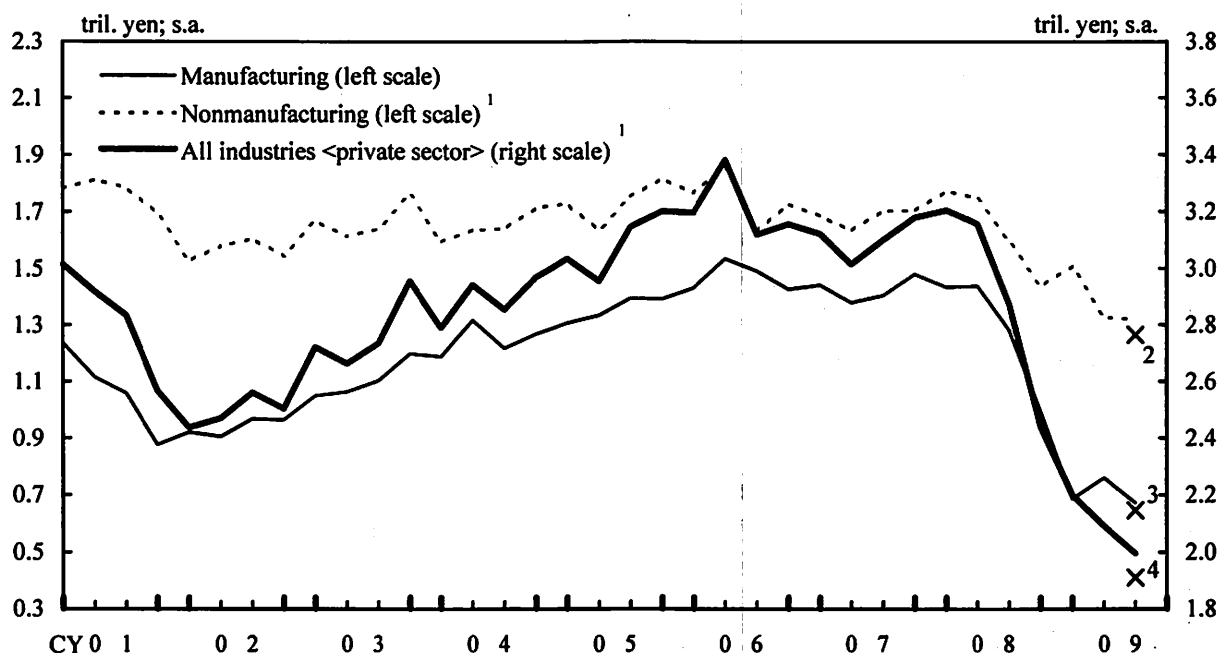
2. The *Tankan* has been revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.

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

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

Leading Indicators for Business Fixed Investment

(1) Machinery Orders



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

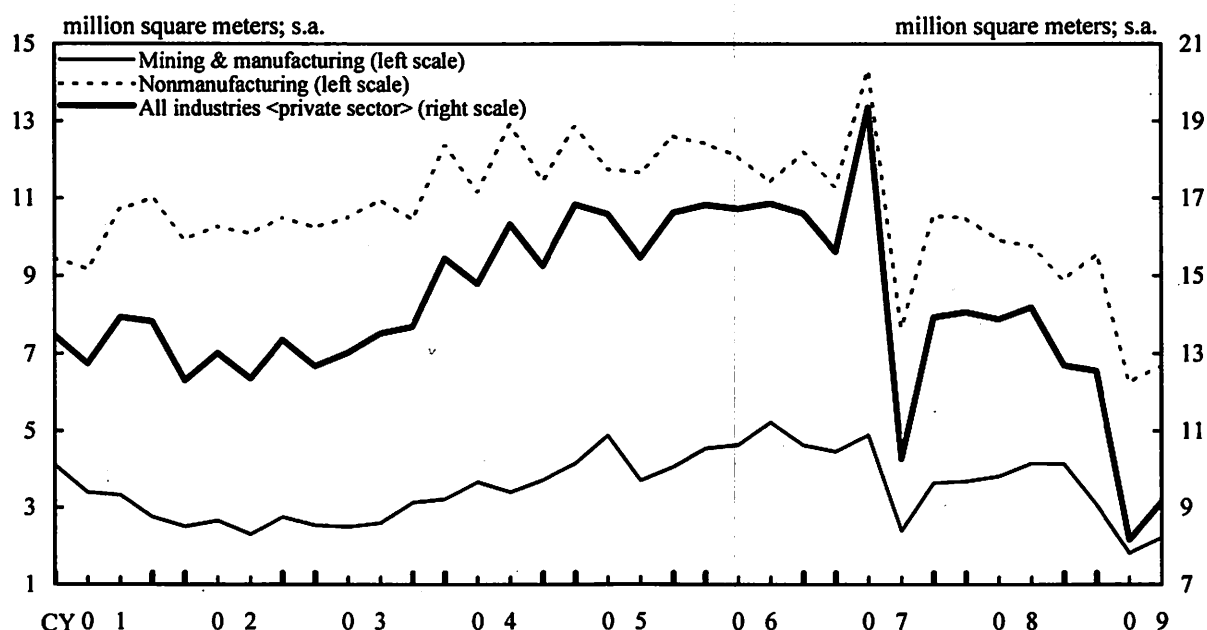
2. Forecast of nonmanufacturing industries for 2009/Q3.

3. Forecast of manufacturing industries for 2009/Q3.

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

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

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



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

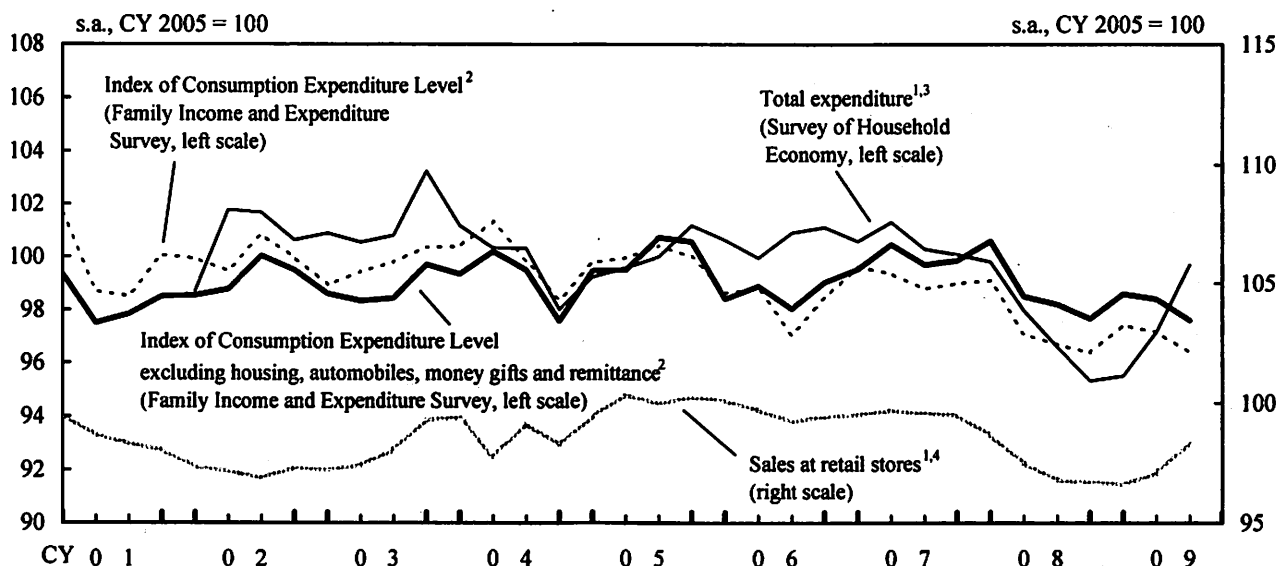
2. Because the Standard Industrial Classification for Japan was revised in March 2002, the industry classification for newspaper publishing and publishing business was changed from mining and manufacturing to nonmanufacturing. Accordingly, the data up to FY 2002 were adjusted by using a link coefficient.

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

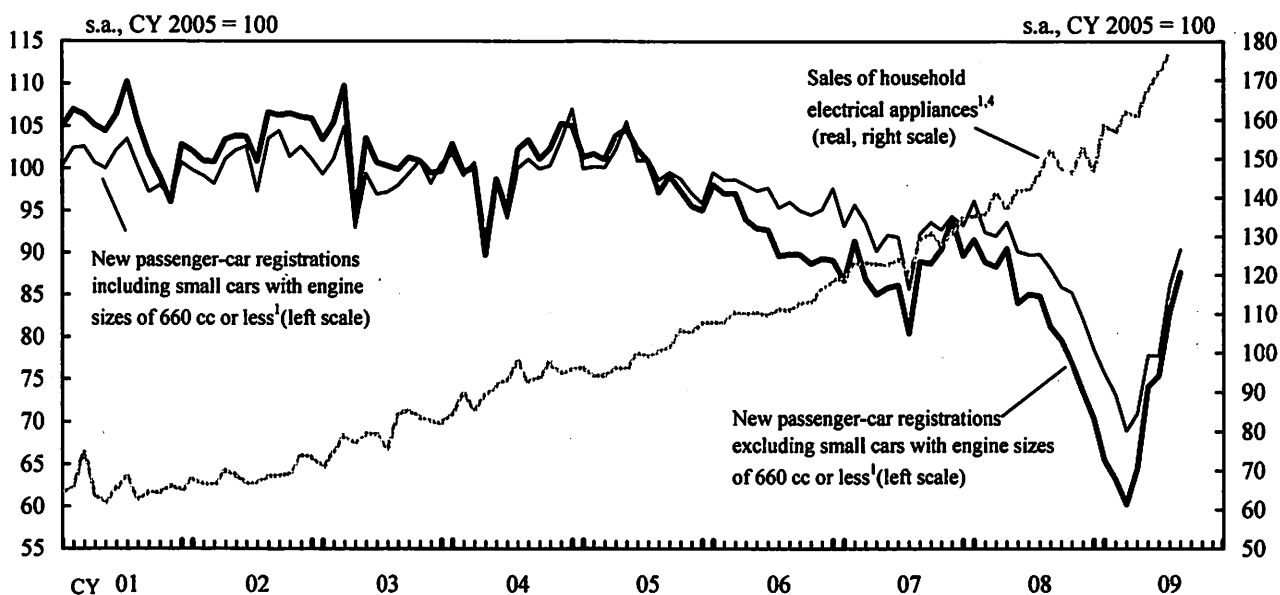
Sources: Cabinet Office, "Orders Received for Machinery";

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

Indicators for Private Consumption (1)

(1) Household Spending (Real)⁵

(2) Sales of Durable Goods



Notes: 1. Total expenditure, Sales at retail stores, Sales of household electrical appliances and New passenger-car registrations are seasonally adjusted by X-12-ARIMA.

2. Index of consumption expenditure level is based on two-or-more-person households, and is adjusted by the distribution of household by number of household members and age group of household head.

3. Total expenditure is based on two-or-more-person households, and is deflated by the consumer price index excluding imputed rent.

4. Sales at retail stores are deflated by the consumer price index for goods (excluding electricity, gas & water charges).

Sales of household electrical appliances are calculated as follows: indices of retail sales of machinery and equipment in the Current Survey of Commerce are deflated by the geometric means of the corresponding consumer price indexes (or by the corporate goods price index for PC printers before 2002).

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

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

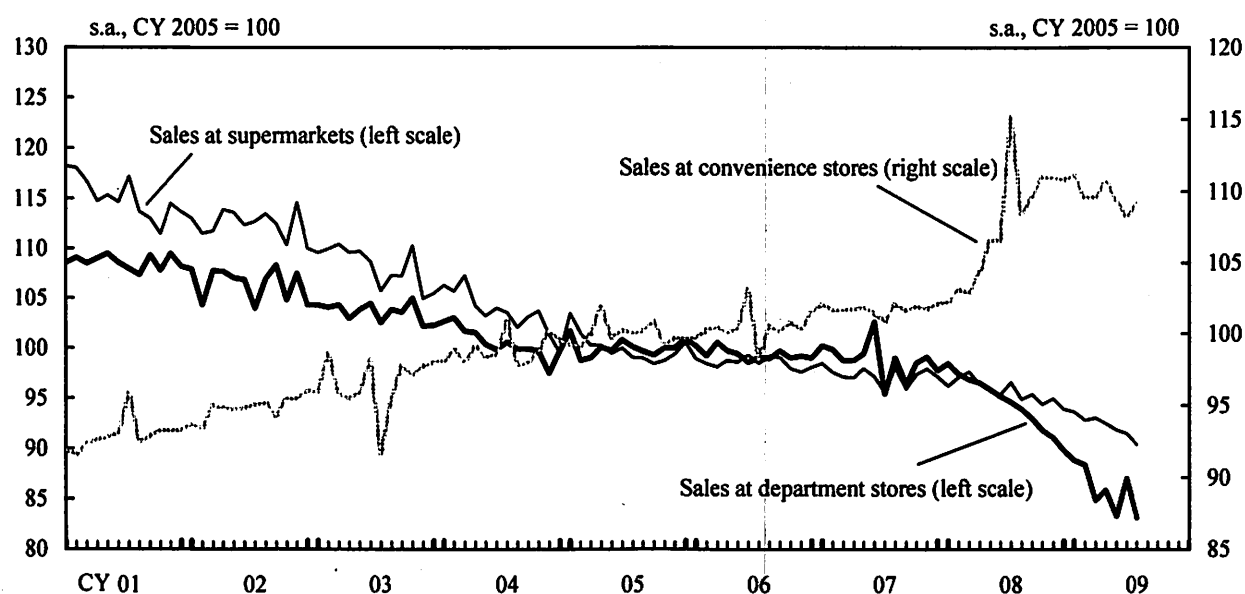
"Monthly Report on the Family Income and Expenditure Survey," "Survey of Household Economy";

Ministry of Economy, Trade and Industry, "Current Survey of Commerce";

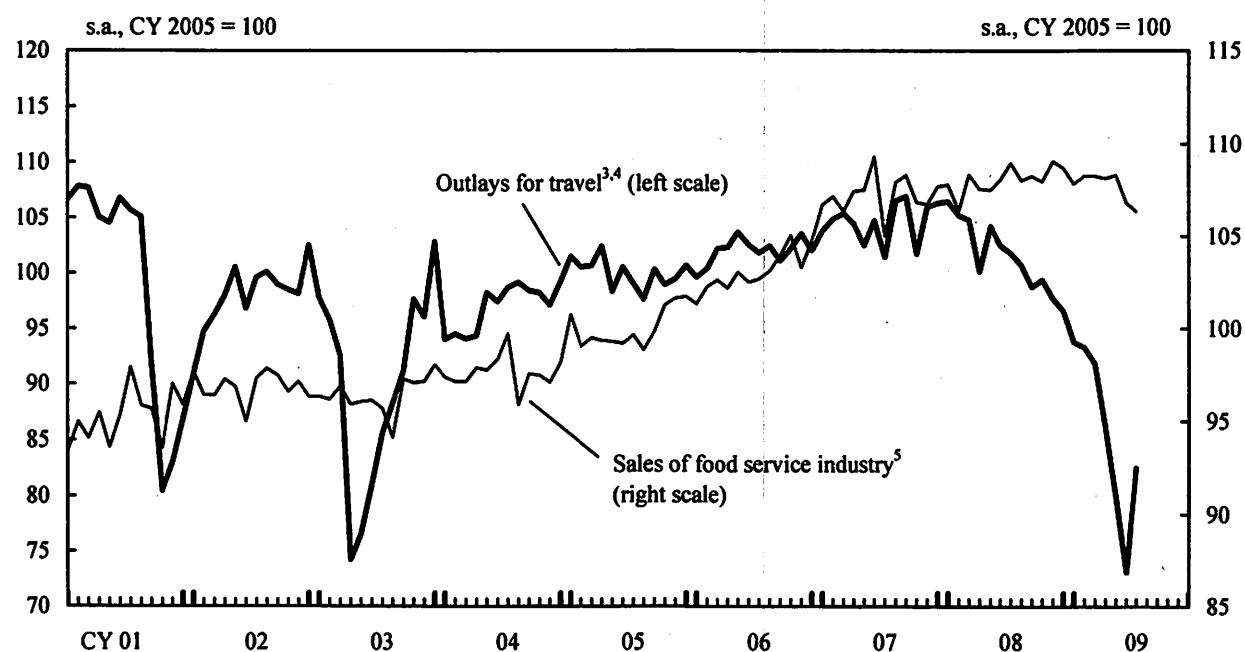
Bank of Japan, "Corporate Goods Price Index";

Japan Automobile Dealers Association, "Domestic Sales of Automobiles";

Japan Mini Vehicles Association, "Sales of Mini Vehicles."

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

(2) Consumption of Services (Nominal)



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

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

3. Excluding those by foreign travelers.

4. There is a discontinuity in the underlying data as of April 2007 due to changes in the sample.

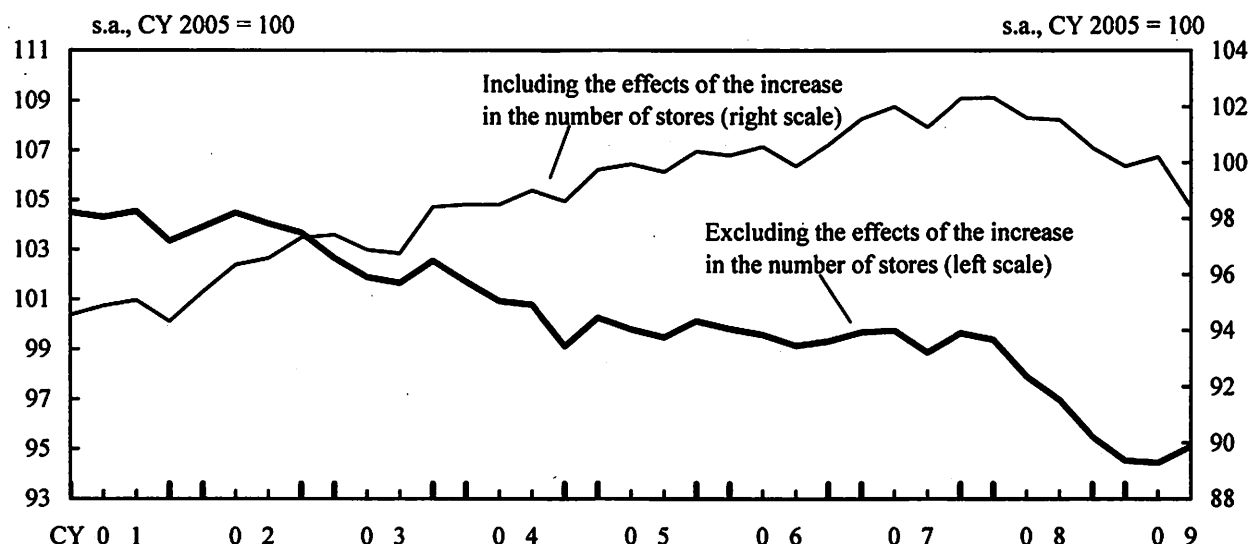
Data from April 2007 and onward are calculated using the year-on-year rate of changes on the new basis.

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

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

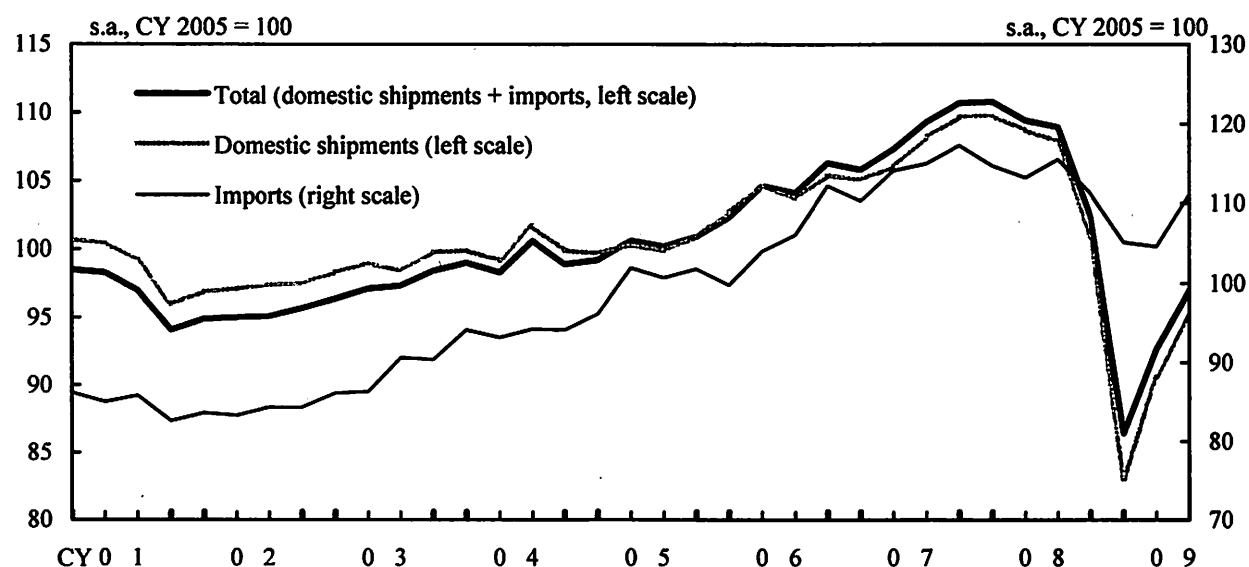
Indicators for Private Consumption (3)

(1) Indices of Aggregated Sales (Real)



- Notes: 1. The Indices of Aggregated Sales are the weighted sum of "sales at department stores and supermarkets," "new passenger-car registrations," "sales of household electrical appliances," "outlays for travel," and "sales of food service industry," where the weights come from household expenditure in the Family Income and Expenditure Survey. These indices of aggregated sales consist of the series including and excluding the effects of the increase in the number of stores. Indices "including the effects of the increase in the number of stores" reflect the fluctuations in sales due to changes in the number of stores caused by the opening and closing down of businesses (indices "including the effects of the increase in the number of stores" include sales at convenience stores). On the other hand, those "excluding the effects of the increase in the number of stores" aim to capture consumption trends only from stores for which sales data can be obtained continuously.
2. Sales indicators in nominal terms are deflated by the corresponding items of the price indexes.
3. Seasonally adjusted by X-12-ARIMA.
4. Data for 2009/Q3 figures are those of July in terms of quarterly amount.

(2) Aggregate Supply of Consumer Goods

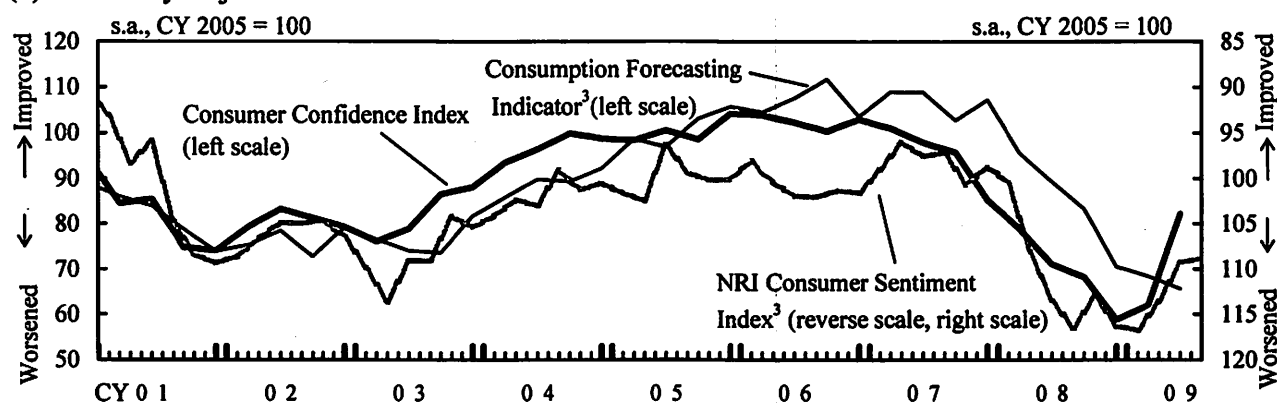


Note: Data for 2009/Q3 figures are those of July in terms of quarterly amount.

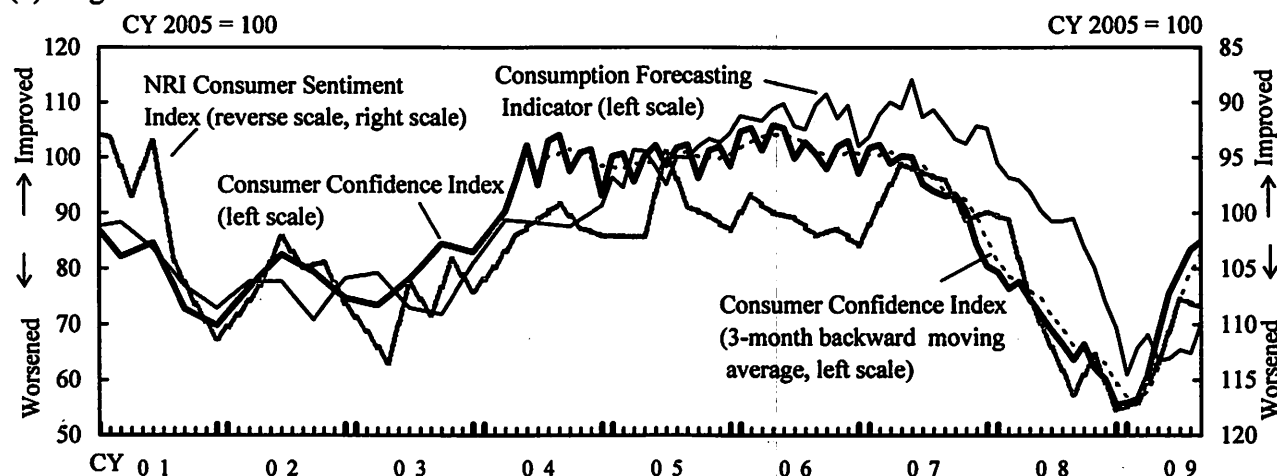
Sources: Bank of Japan, "Indices of Aggregated Sales";
Ministry of Economy, Trade and Industry, "Indices of Industrial Domestic Shipments and Imports."

Consumer Confidence^{1,2}

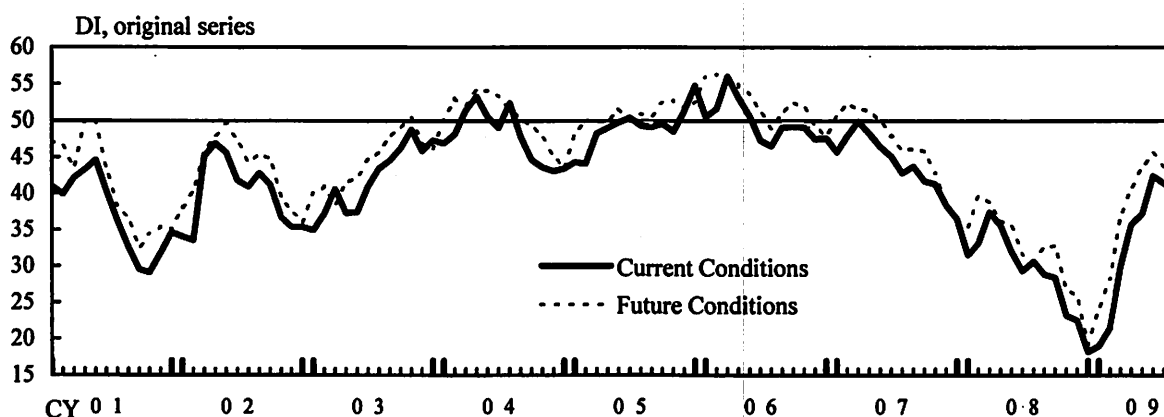
(1) Seasonally Adjusted Series



(2) Original Series



Reference: Economy Watchers Survey (Household Activity)

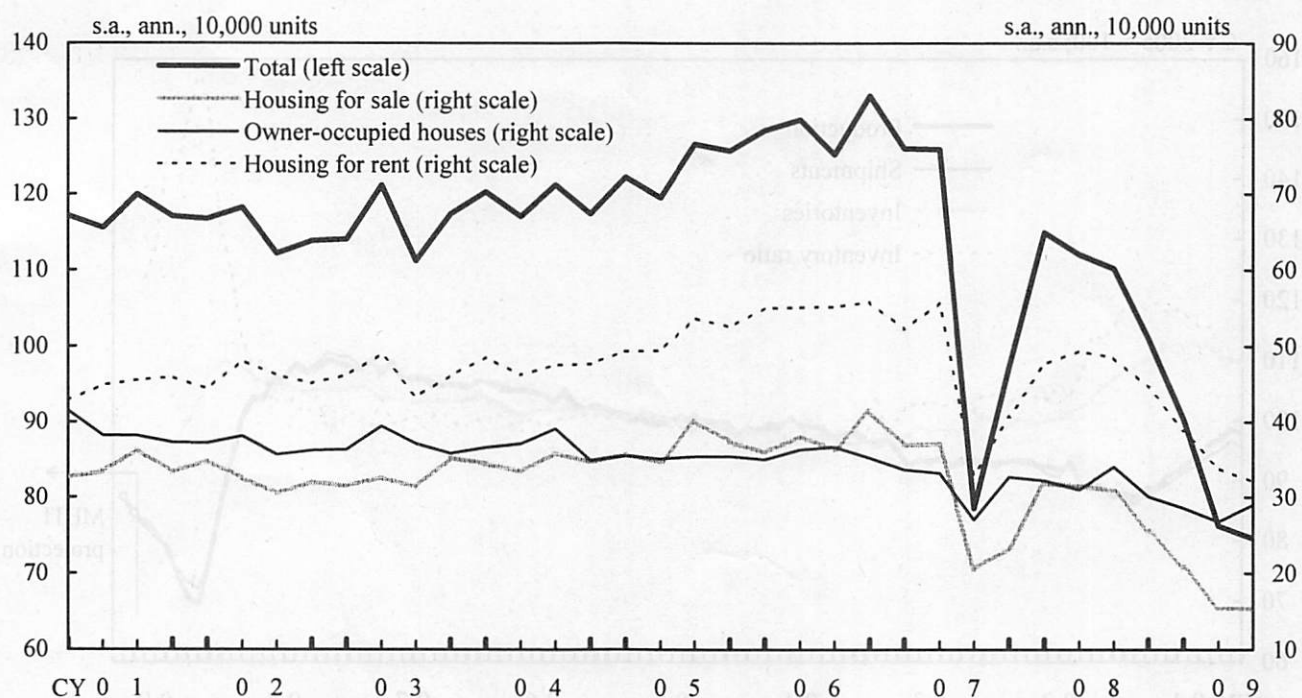


- Notes: 1. The Consumer Confidence Index (with about 4,700 samples on a nationwide basis), Consumption Forecasting Indicator (with 600 samples in the metropolitan area), and NRI Consumer Sentiment Index (with 1,200 samples on a nationwide basis) are based on surveys on consumer confidence.
2. Figures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

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

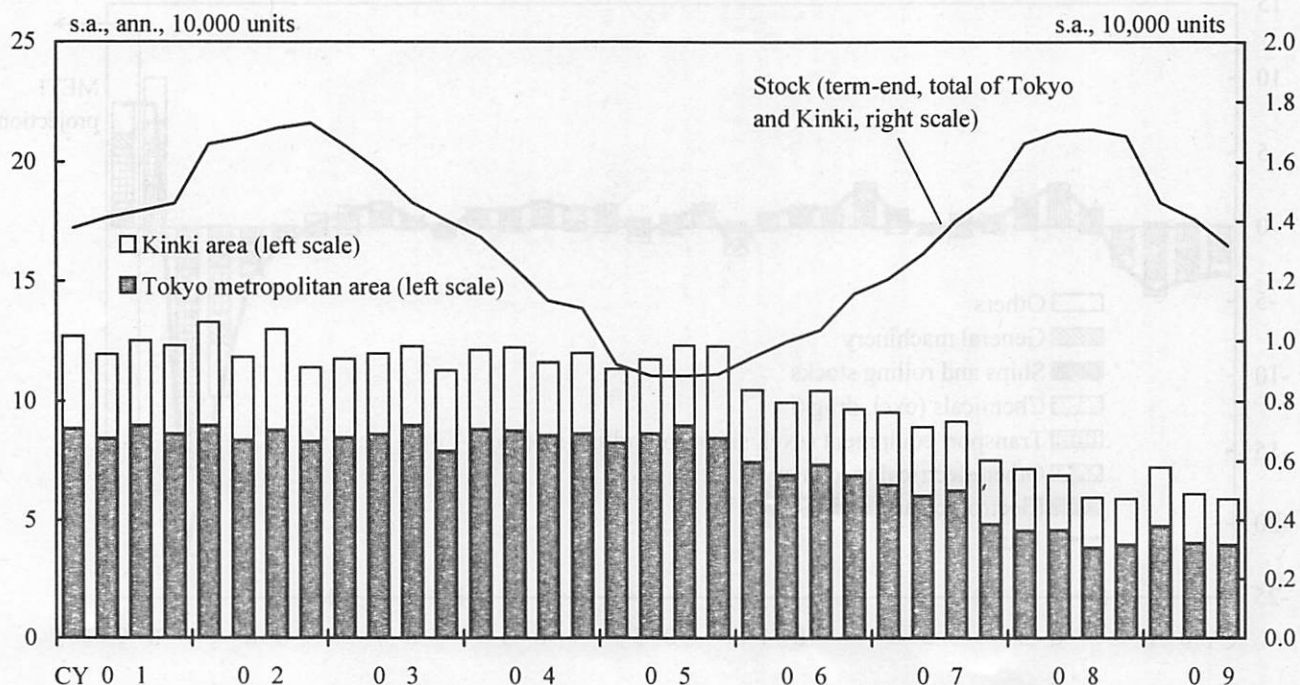
Indicators for Housing Investment

(1) Housing Starts



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

(2) Sales of Apartments



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

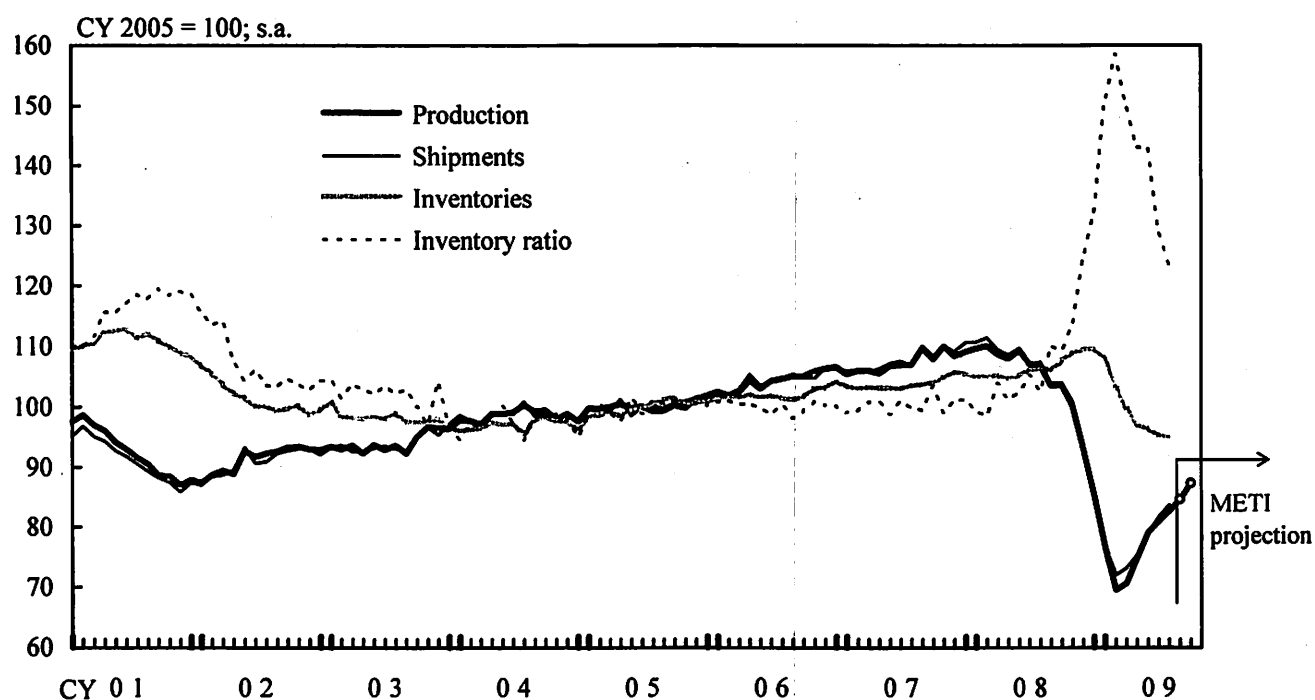
2. Figures of total apartments sales for 2009/Q3 are those of July-August averages.

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

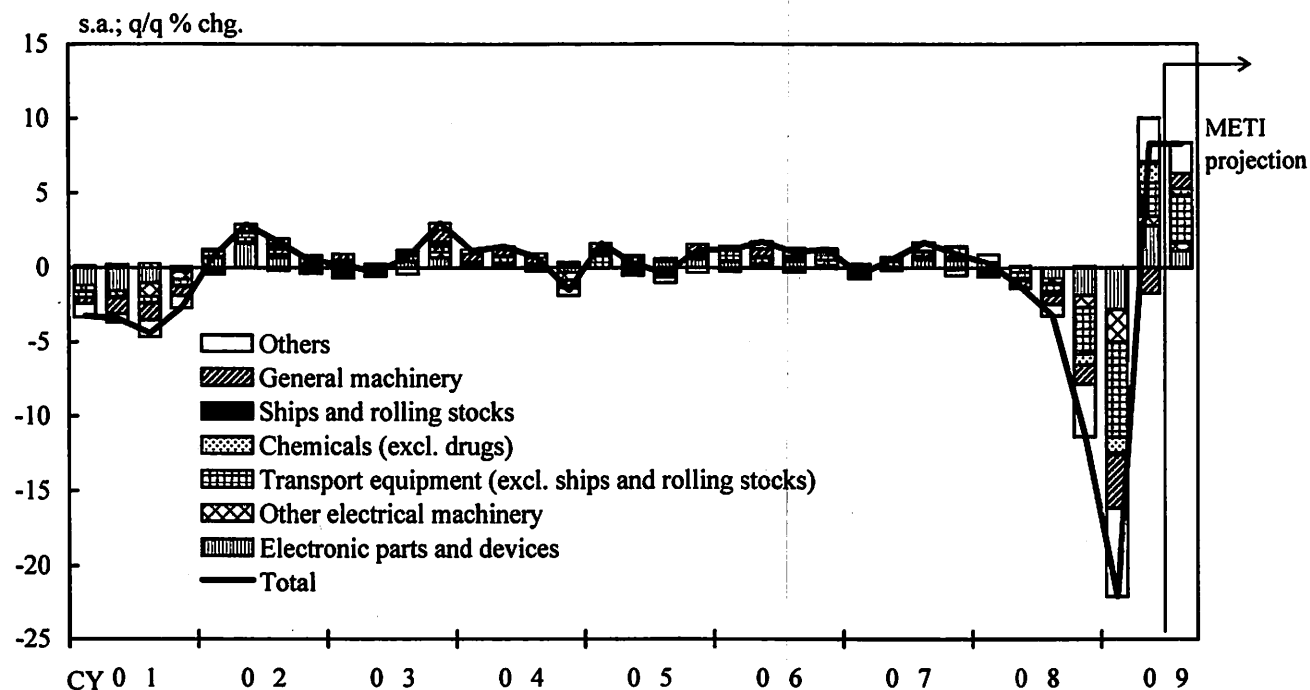
Source: Ministry of Land, Infrastructure, Transport and Tourism, "Statistics on Building Construction Starts," etc.

Production, Shipments and Inventories

(1) Production, Shipments and Inventories



(2) Production by Industry

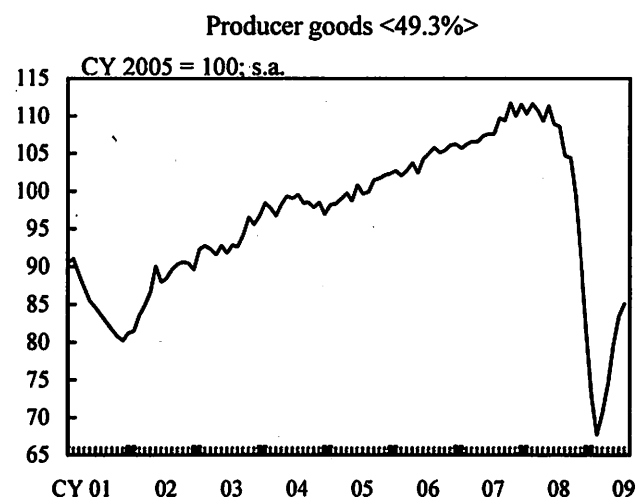
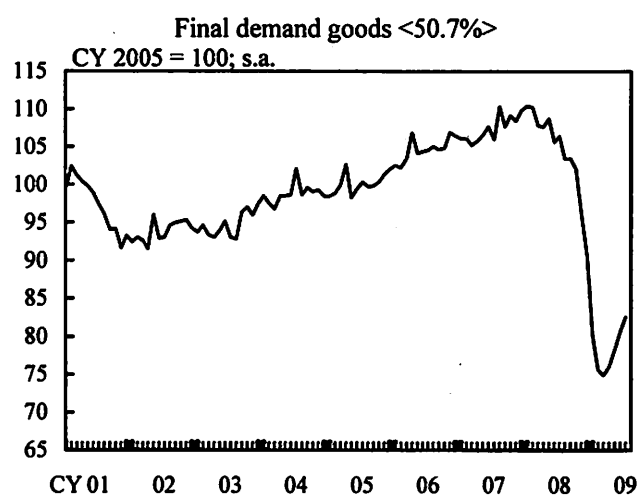


- Notes:
1. "Other electrical machinery" is the weighted sum of "electrical machinery" and "information and communication electronics equipment."
 2. Figures up to 2003/Q1 are on the 2000 base.
 3. 2009/Q3 figures are based on the actual production level in July, and the METI projection of August and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

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

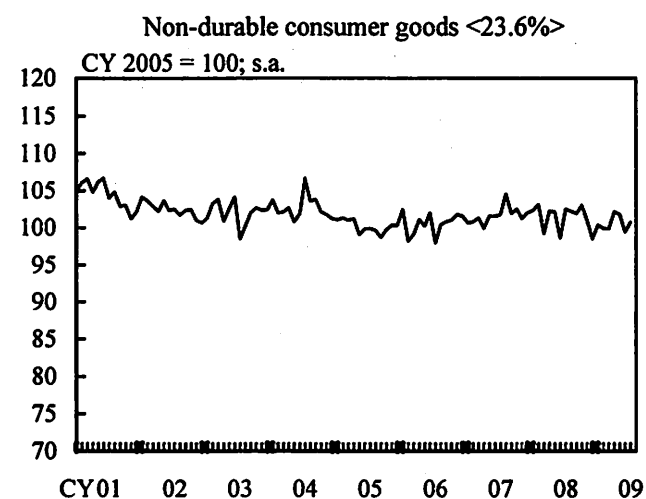
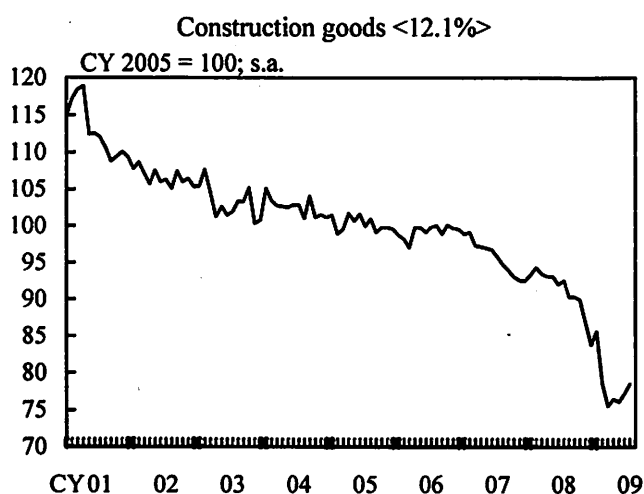
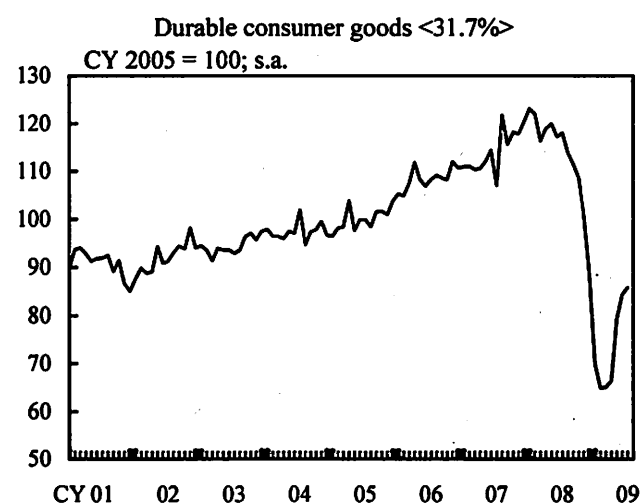
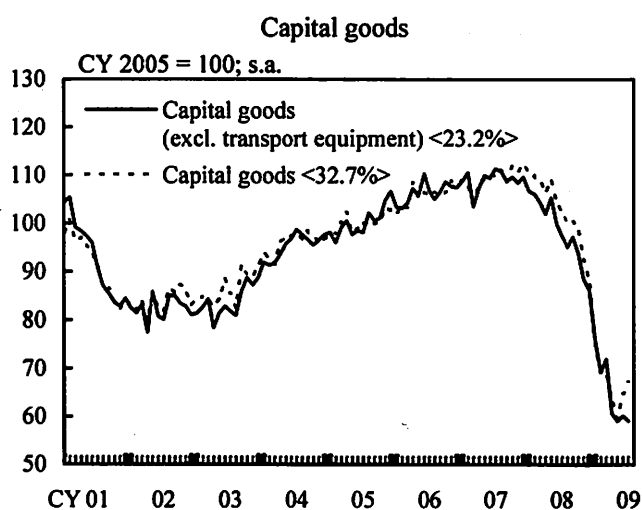
Shipments Breakdown by Type of Goods

(1) Final Demand Goods and Producer Goods



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

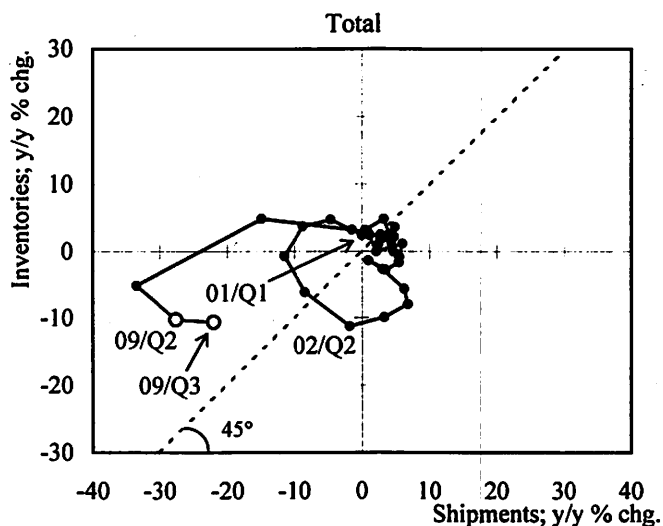
(2) Breakdown of Final Demand Goods



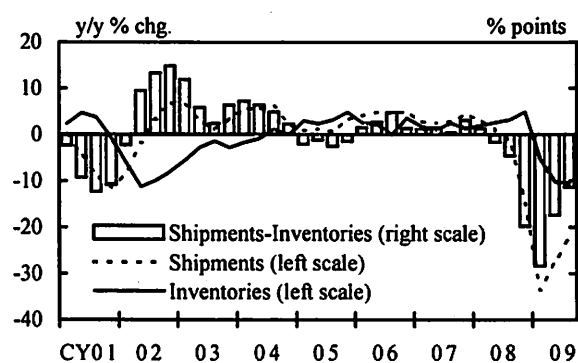
Note: Figures in angle brackets show the shares among shipments of final demand goods.

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

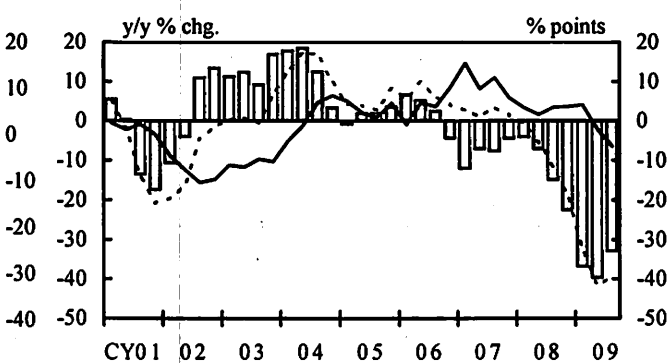
Inventory Cycle



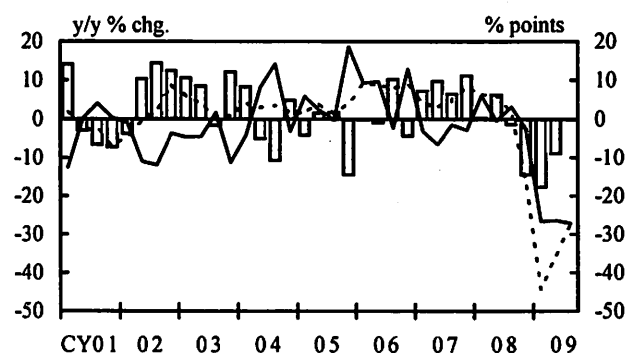
(1) Total



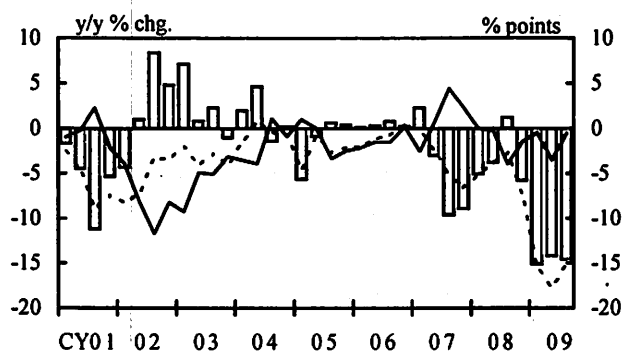
(2) Capital Goods (Excluding Transport Equipment)



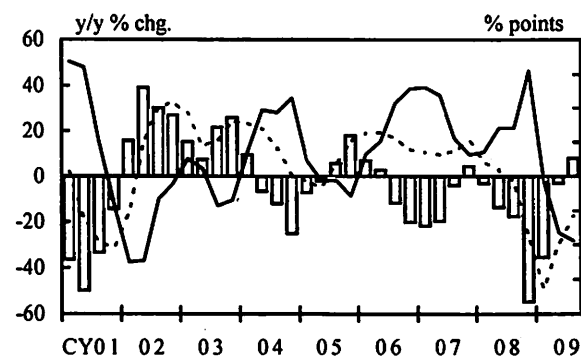
(3) Durable Consumer Goods



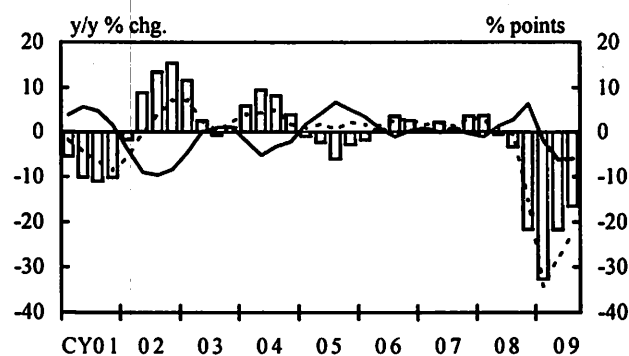
(4) Construction Goods



(5) Electronic Parts and Devices



(6) Producer Goods Excluding Electronic Parts and Devices

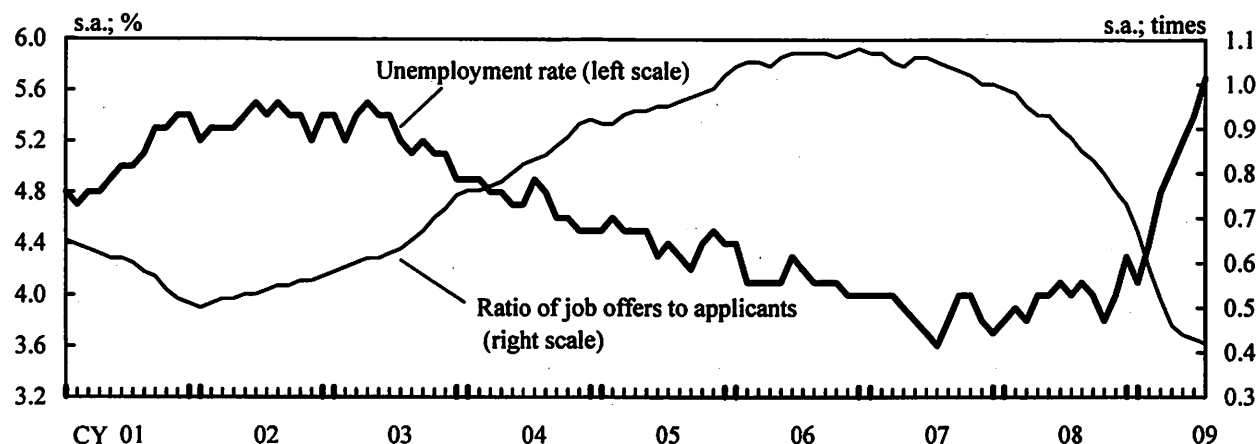
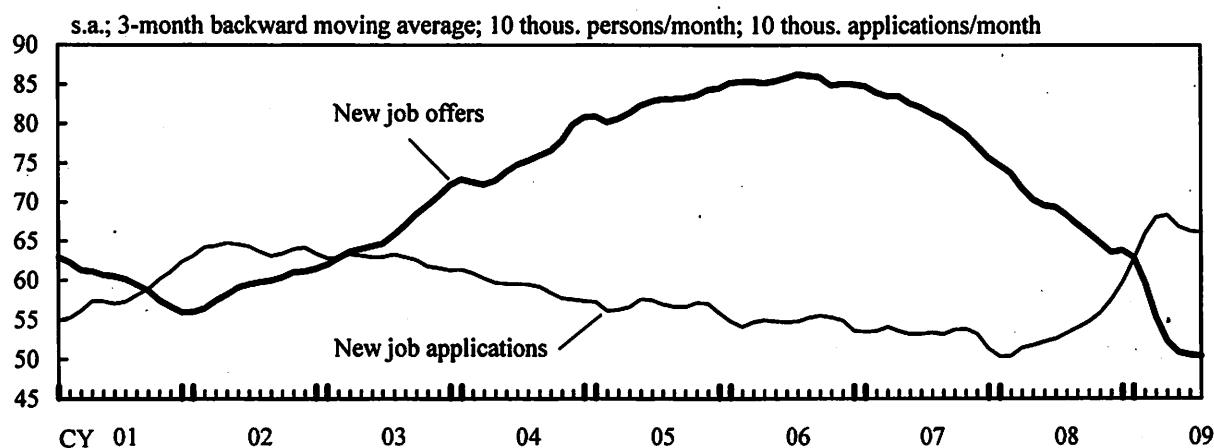
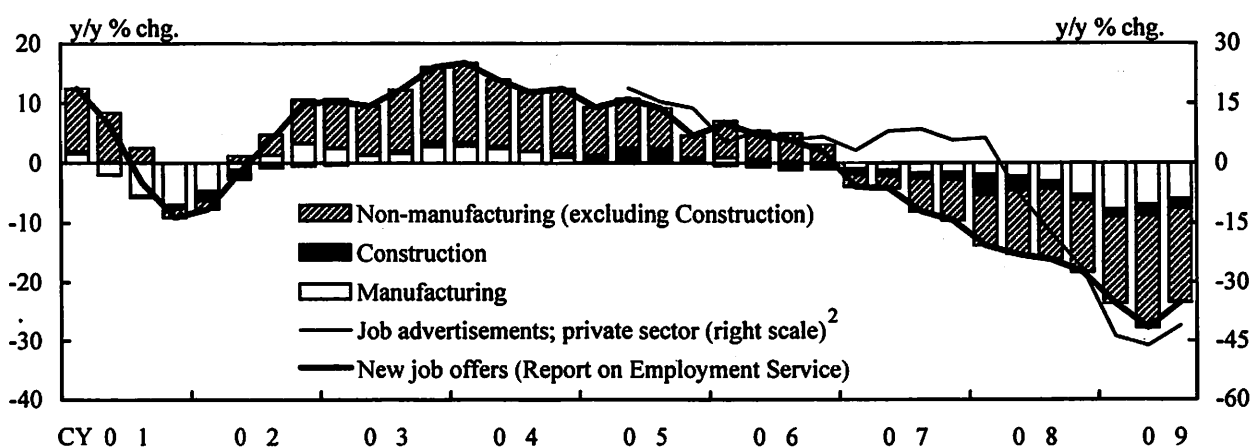


Note: Figures for 2009/Q3 are those of July.

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

Labor Market (1)

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

(2) New Job Offers and New Job Applicants¹(3) Breakdown of Job Offers^{1,3}

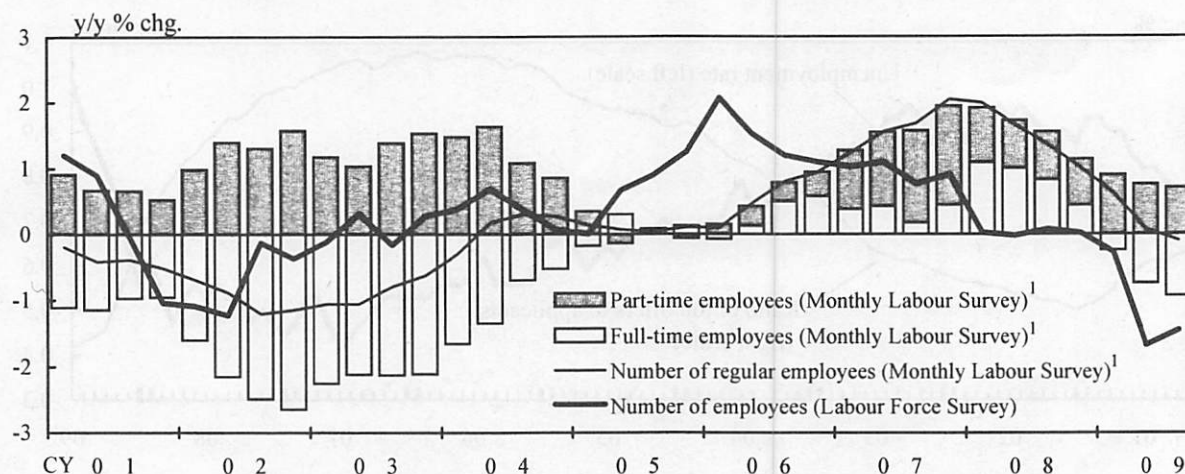
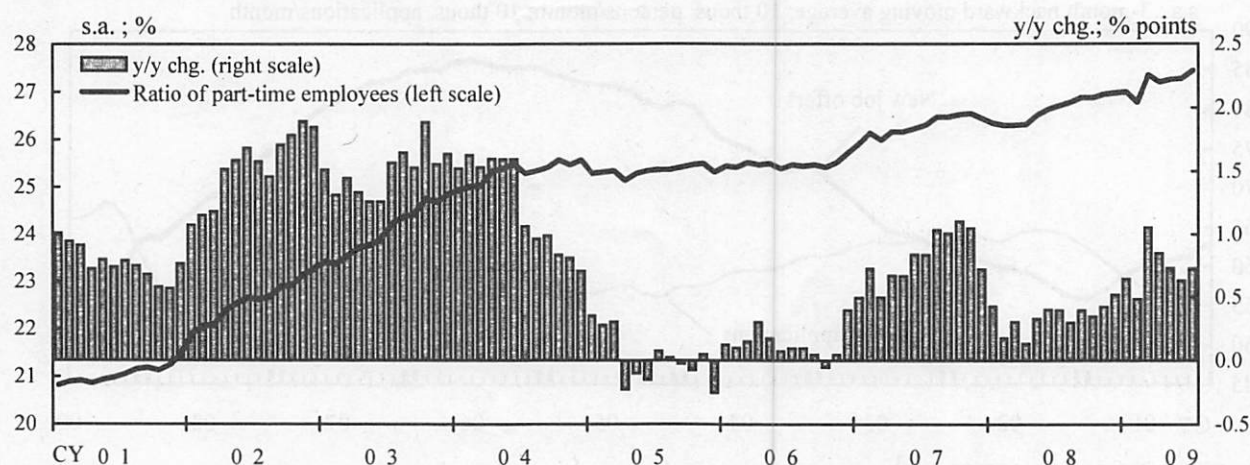
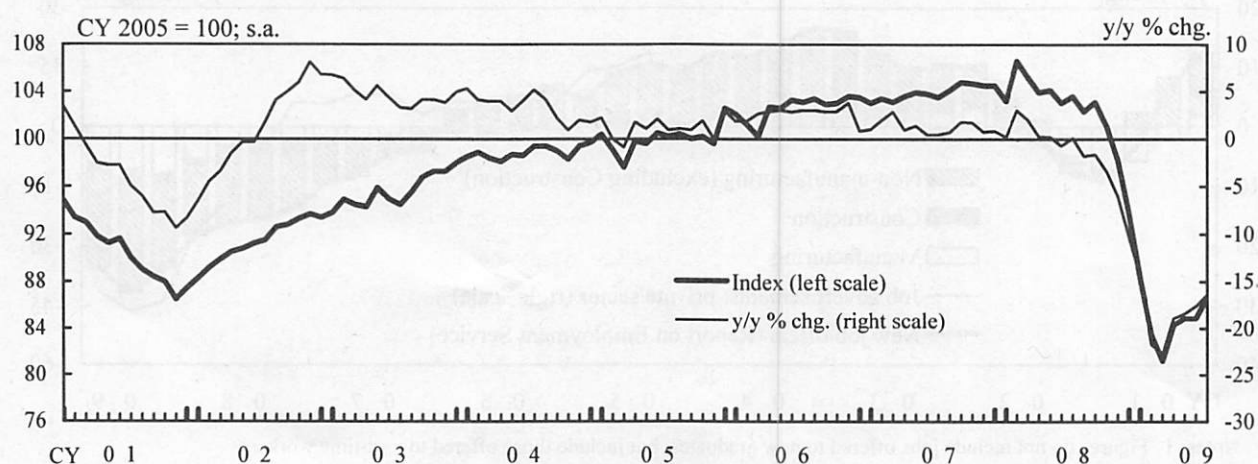
Notes: 1. Figures do not include jobs offered to new graduates, but include those offered to part-time workers.

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

3. Figures for 2009/Q3 are those of July.

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

Labor Market (2)

(1) Number of Employees³(2) Ratio of Part-Time Employees^{1,2}(3) Non Scheduled Hours Worked¹

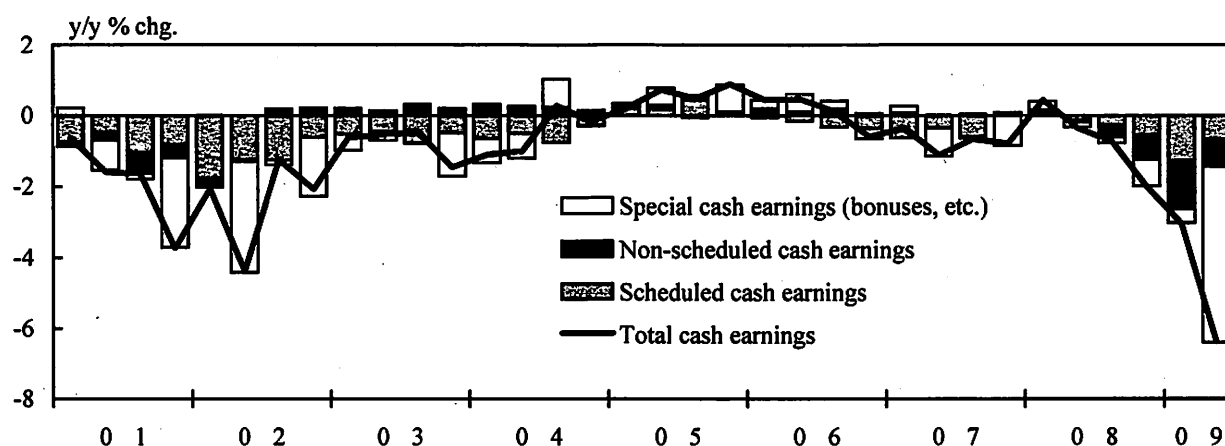
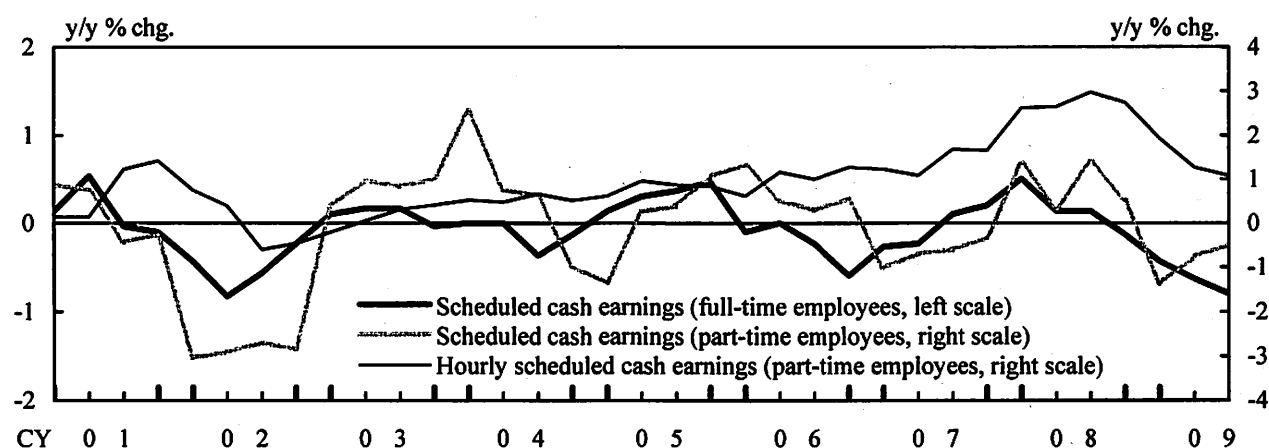
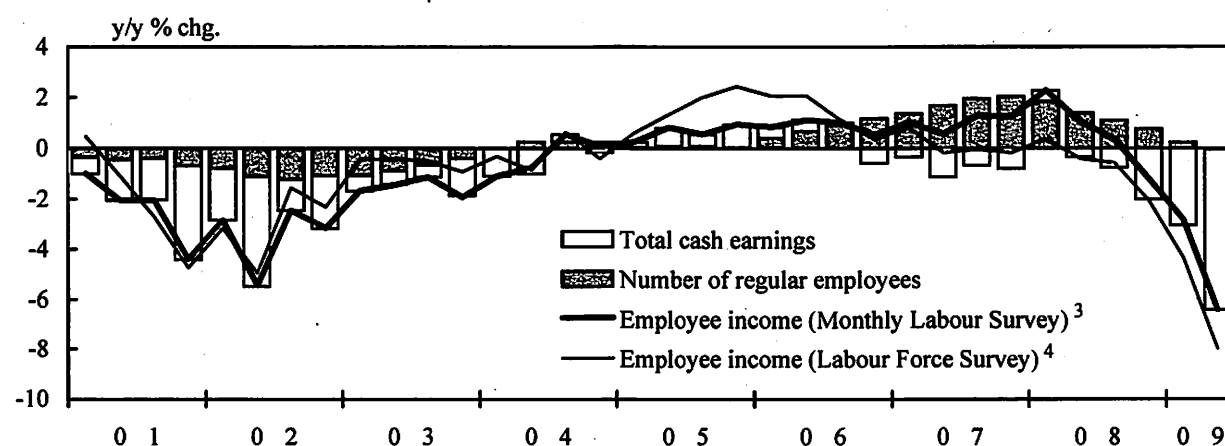
Notes: 1. Data are for establishments with at least five employees.

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

3. Figures for 2009/Q3 are those of July.

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

Employee Income

(1) Breakdown of Total Cash Earnings^{1,2,5}(2) Scheduled Cash Earnings^{1,6}(3) Breakdown of Employee Income^{1,2,5}

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

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

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

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

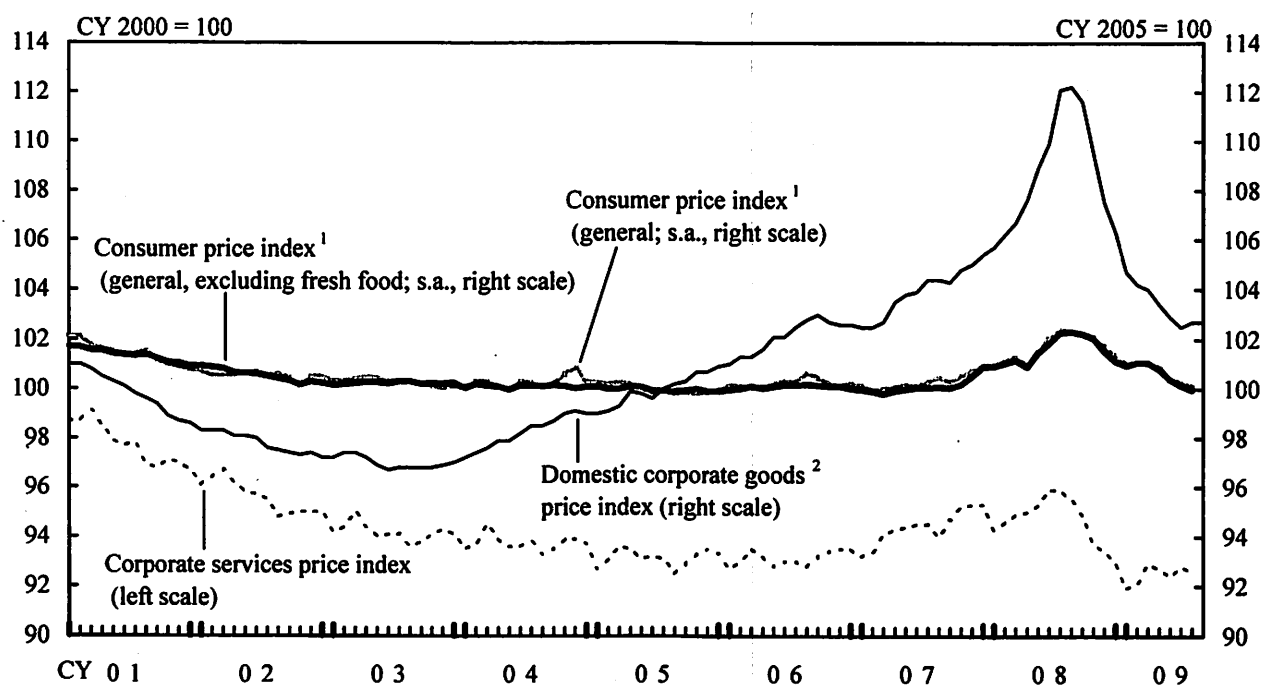
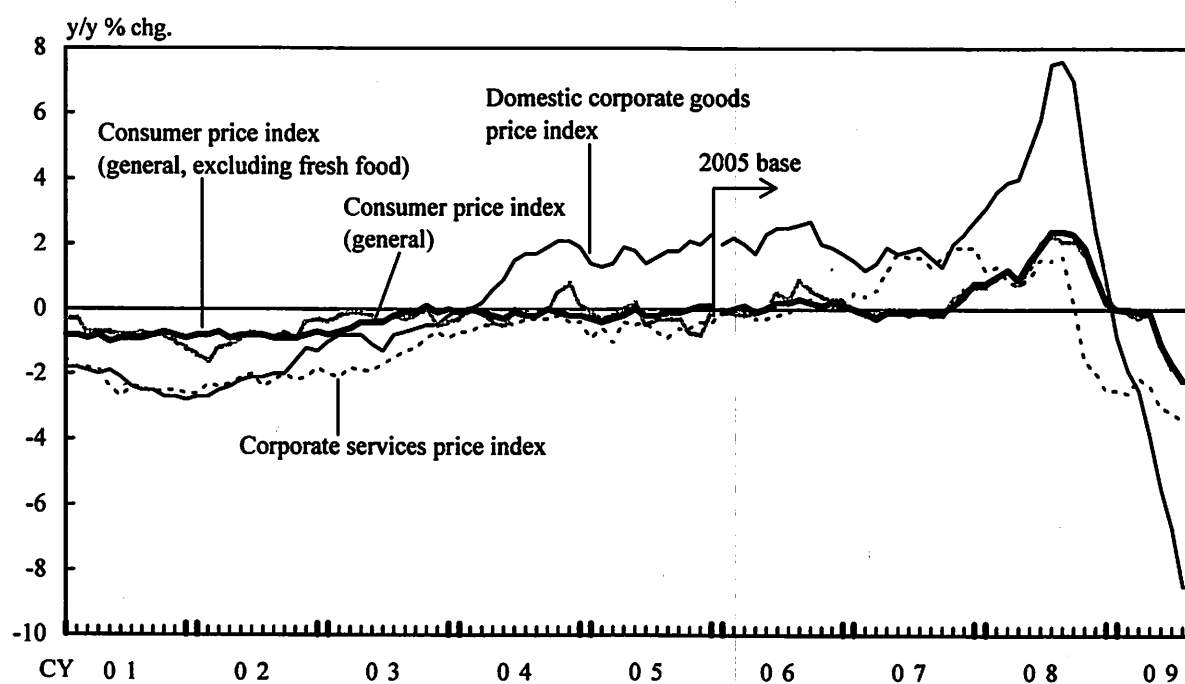
5. Figures for 2009/Q2 are those of June-July averages.

6. Figures for 2009/Q3 are those of July.

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

Prices

(1) Level

(2) Changes from a Year Earlier³

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

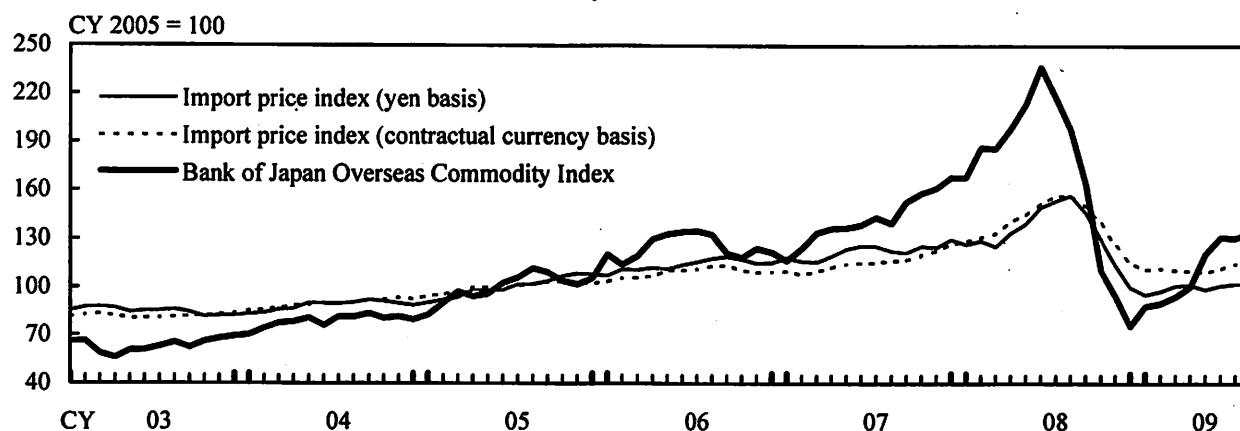
2. Adjusted to exclude a hike in electric power charges during the summer season from July to September.

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

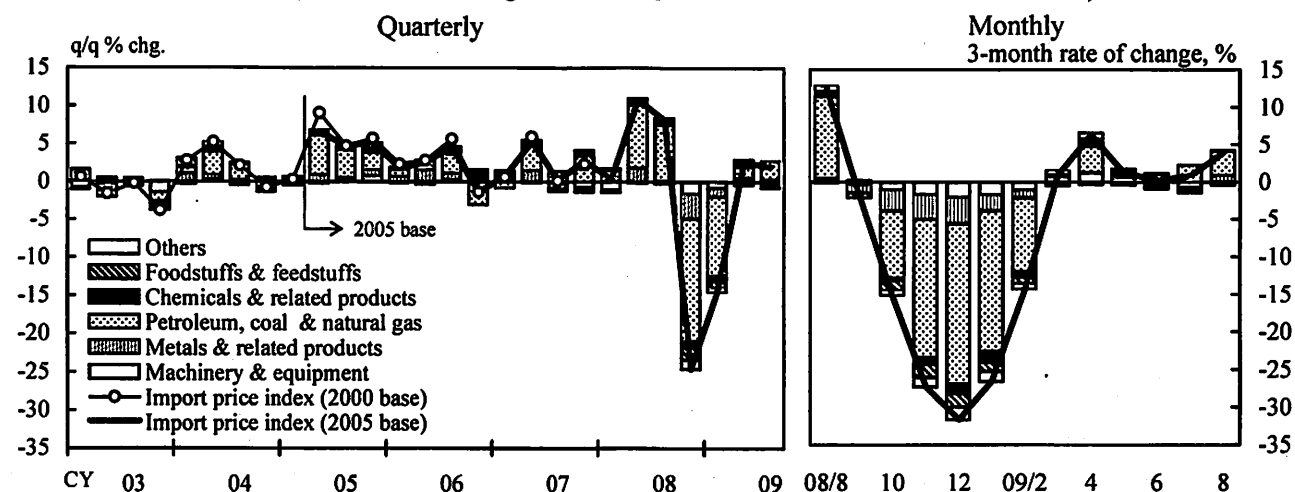
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index";
Bank of Japan, "Corporate Goods Price Index," "Corporate Services Price Index."

Import Prices and International Commodity Prices

(1) Import Price Index and Overseas Commodity Index

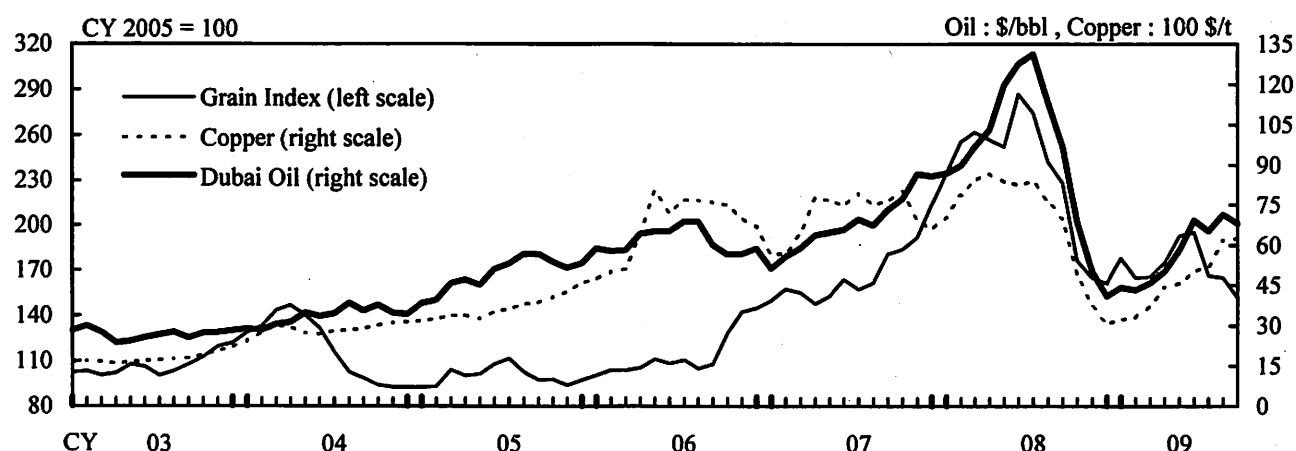


(2) Import Price Index (Yen Basis, Changes from a Quarter Earlier and 3 Months Earlier)



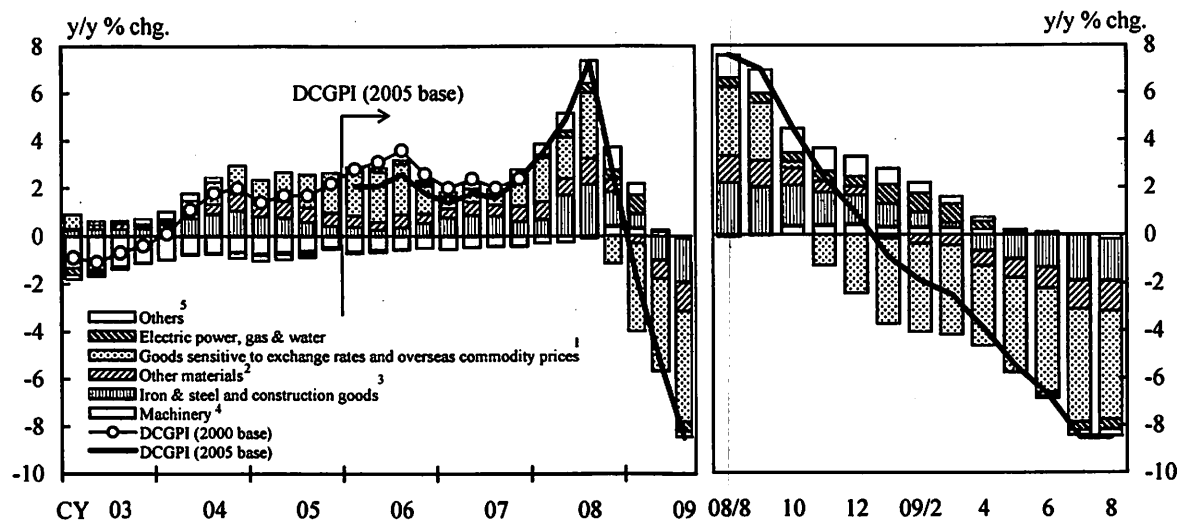
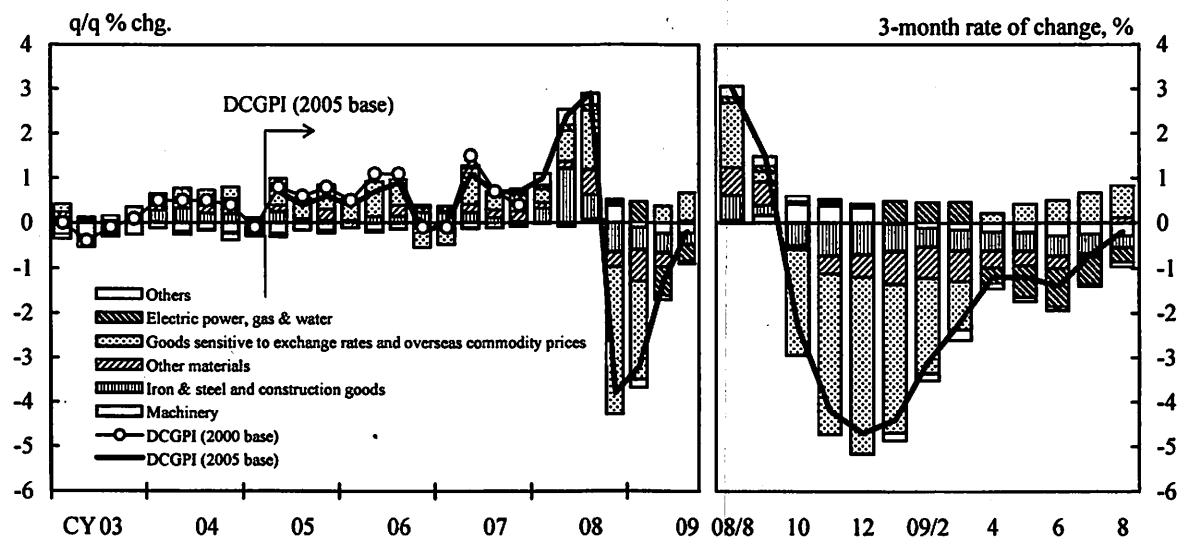
Notes: 1. Machinery & equipment: general machinery, electric & electronic products, transportation equipment, precision instruments.
 2. Figures for 2009/Q3 are July-August averages. Figures for 2007/Q4 on the 2000 base are those of October.

(3) International Commodity Prices



Notes: 1. The Grain Index is the weighted average of prices of three selected items (wheat, soybeans, corn) in overseas commodity markets. The weights are based on the Value of Imports in the Trade Statistics of Japan.
 2. Monthly averages. Figures for September 2009 are the averages up to September 16.

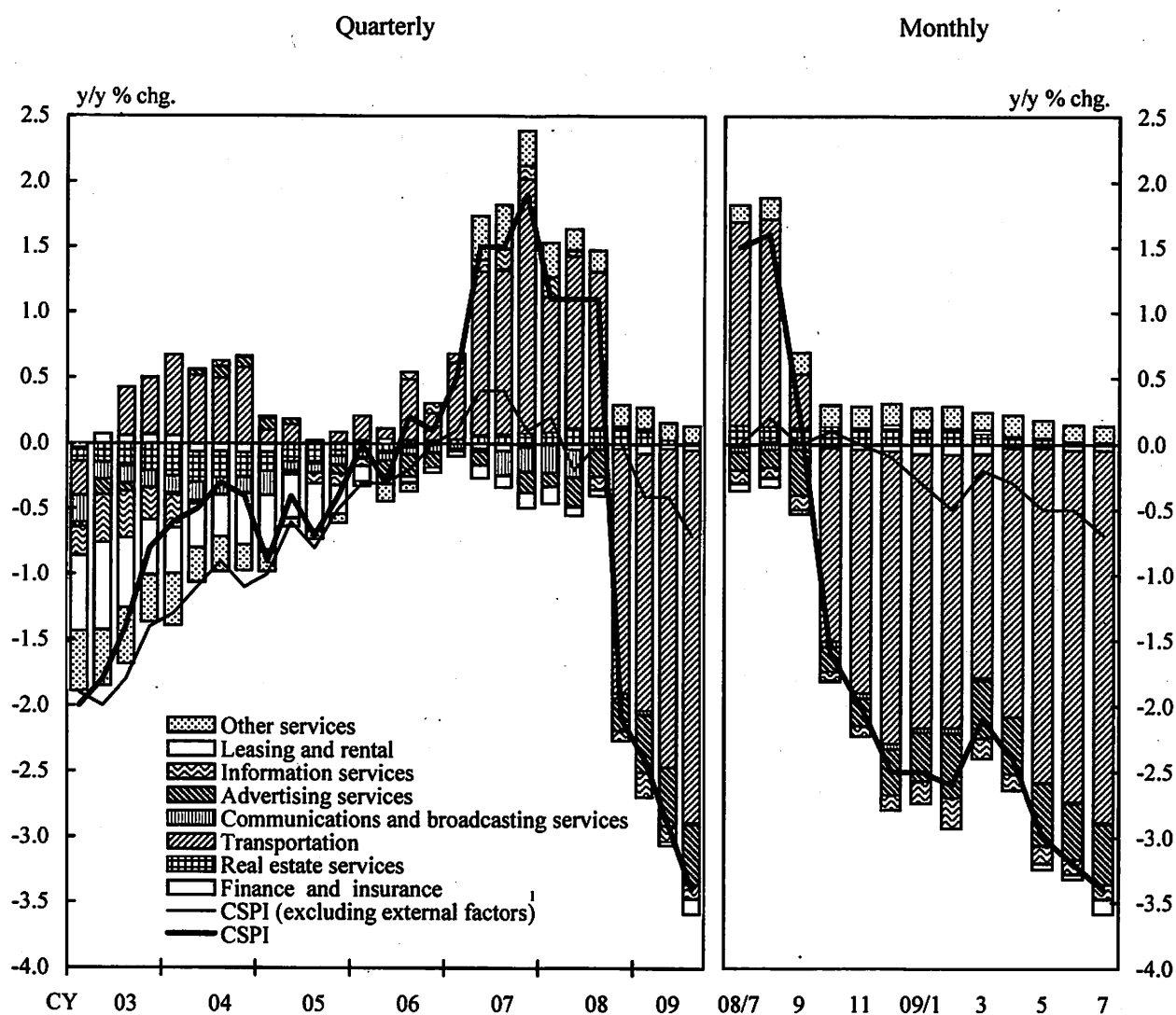
Sources: Bank of Japan, "Corporate Goods Price Index," "Bank of Japan Overseas Commodity Index," etc.

Domestic Corporate Goods Price Index⁷(1) Changes from a Year Earlier
Quarterly(2) Changes from a Quarter Earlier and 3 Months Earlier⁶
Quarterly

- Notes: 1. Goods sensitive to exchange rates and overseas commodity prices: petroleum & coal products, nonferrous metals.
2. Other materials: chemicals & related products, plastic products, textile products, pulp, paper & related products.
3. Iron & steel and construction goods: iron & steel, metal products, ceramics, stone & clay products, lumber & wood products, scrap & waste.
4. Machinery: electrical machinery & equipment, information & communications equipment, electronic components & devices, general machinery & equipment, transportation equipment, precision instruments.
5. Others: processed foodstuffs, other manufacturing industry products, agriculture, forestry & fishery products, minerals.
6. Adjusted to exclude a hike in electric power charges during the summer season from July to September. This effect makes the Domestic Corporate Goods Price Index rise by about 0.2%.
7. Figures for 2009/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

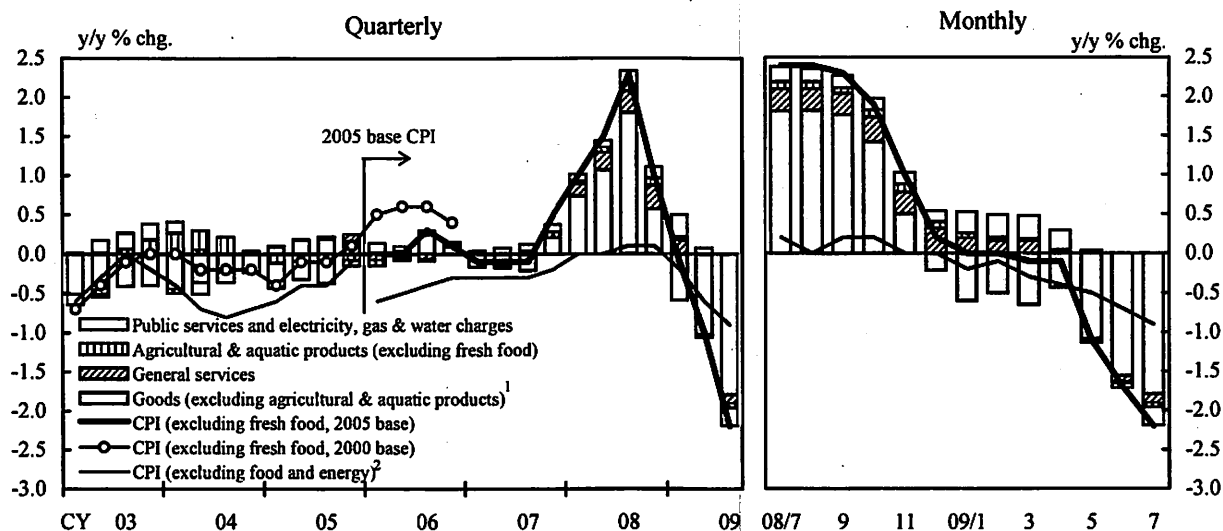
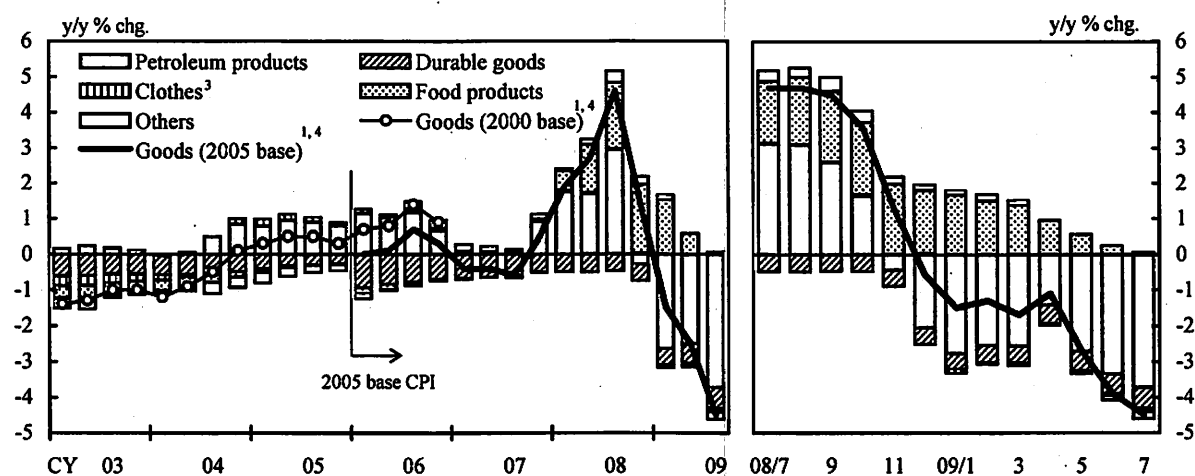


- Notes: 1. External factors: international air passenger transportation, ocean liner, ocean tramper, ocean tanker, oceangoing ship chartering services, and international air freight.
 2. Figures of components indicate contributions to changes in CSPI.
 3. Figures for 2009/Q3 are those of July.

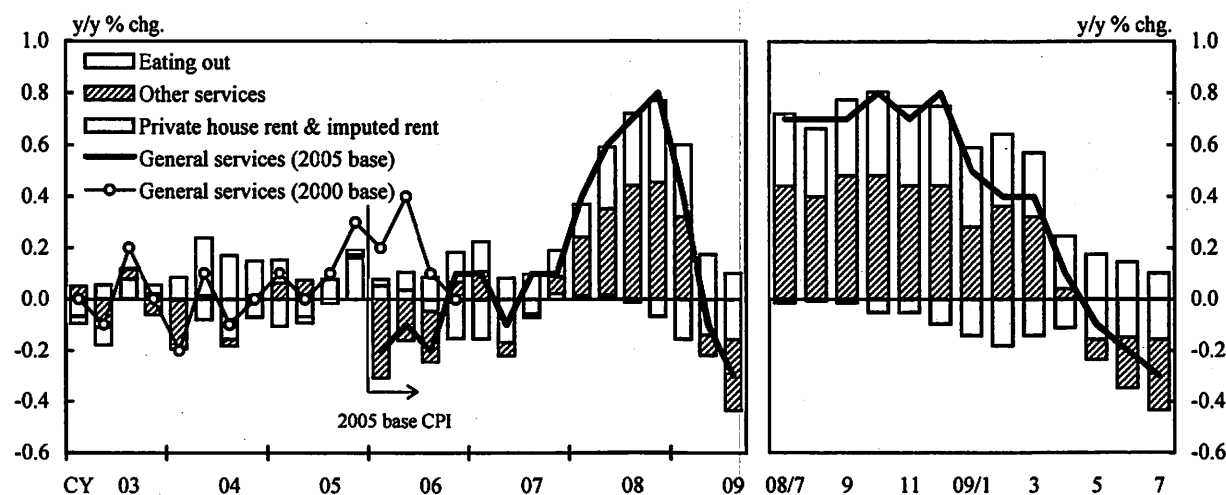
Source: Bank of Japan, "Corporate Services Price Index."

Consumer Price Index (Excluding Fresh Food)

(1) Consumer Price Index (Excluding Fresh Food)

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

(3) General Services



Notes: 1. The items are basically the same as the definition published by the Ministry of Internal Affairs and Communication:

However, electricity, gas & water charges are excluded from goods.

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

3. Including shirts, sweaters & underwear.

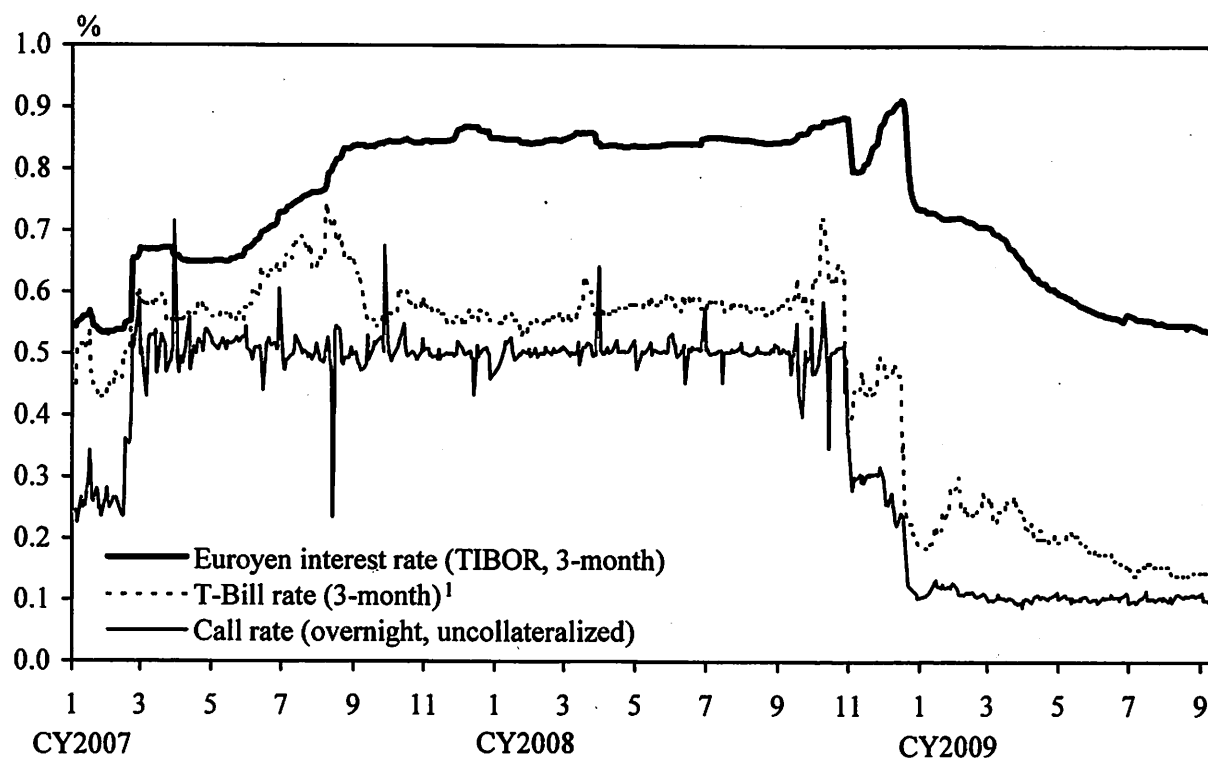
4. Excluding agricultural & aquatic products.

5. Figures for 2009/Q3 are those of July.

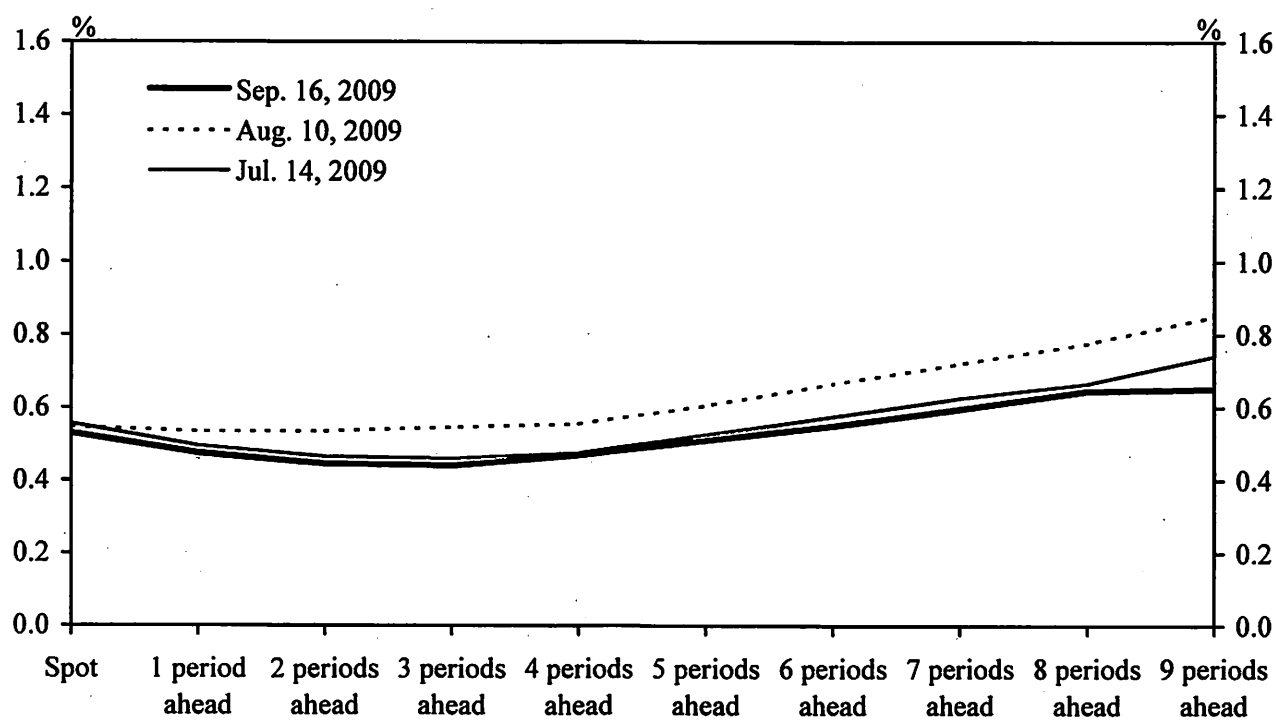
Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Short-Term Interest Rates

(1) Short-Term Interest Rates



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



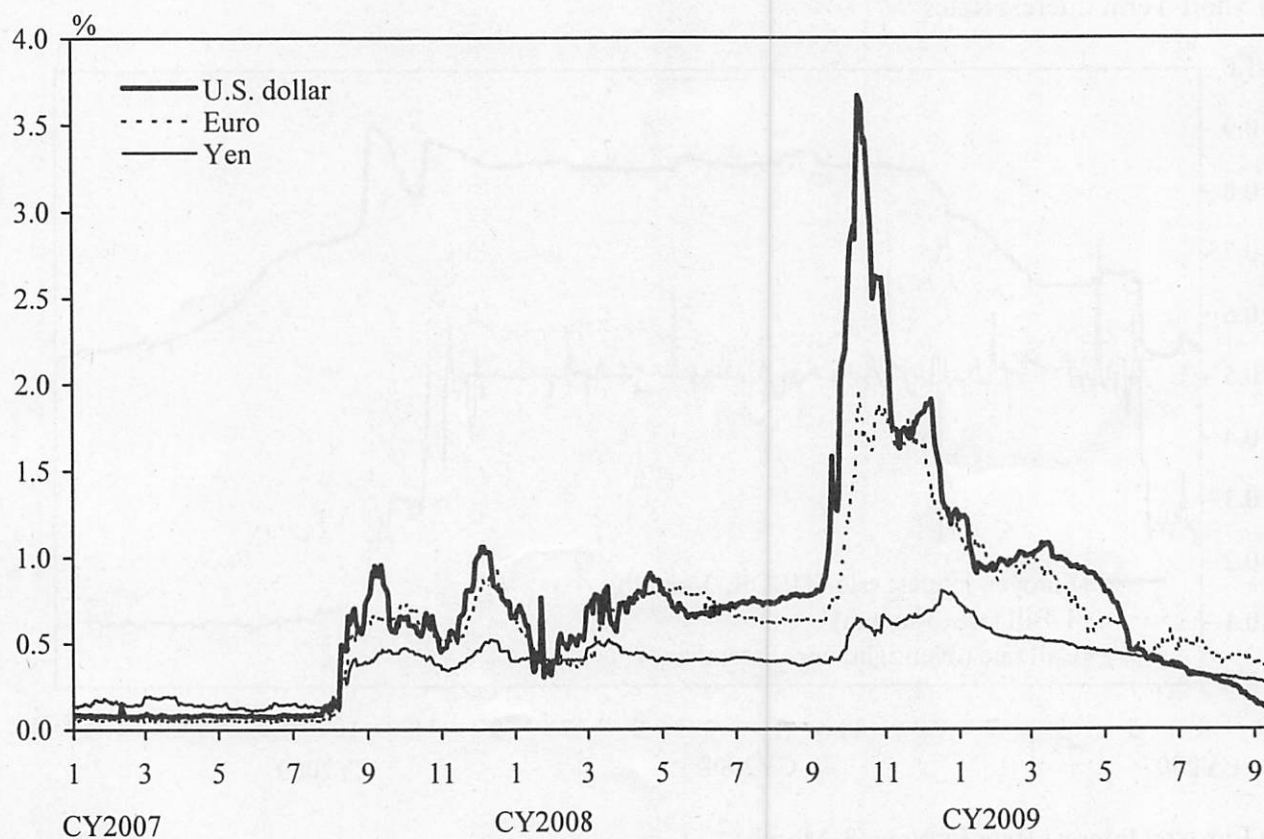
Notes: 1. Rate prior to the integration of FBs and TBs in February 2009 is the FB rate.

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

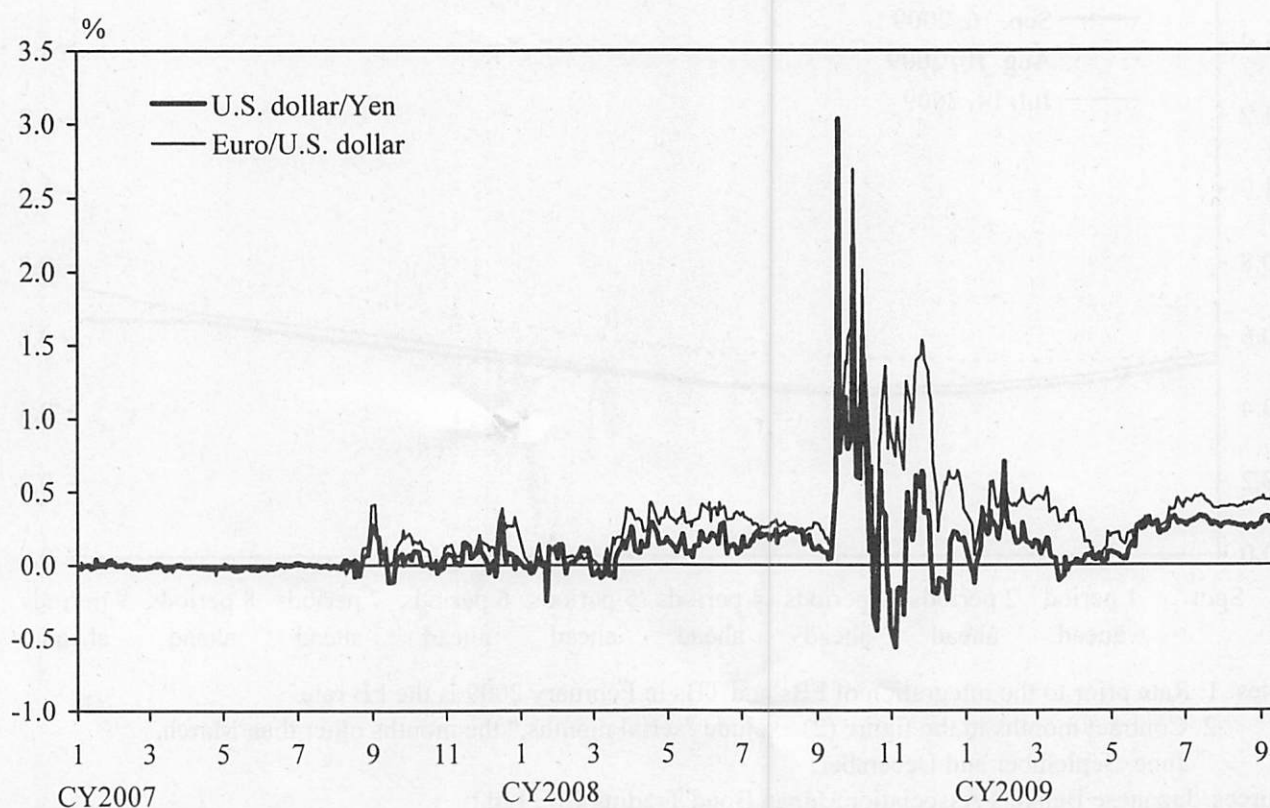
Sources: Japanese Bankers Association; Japan Bond Trading Co., Ltd.; Tokyo Financial Exchange; Bank of Japan.

Global Money Markets

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

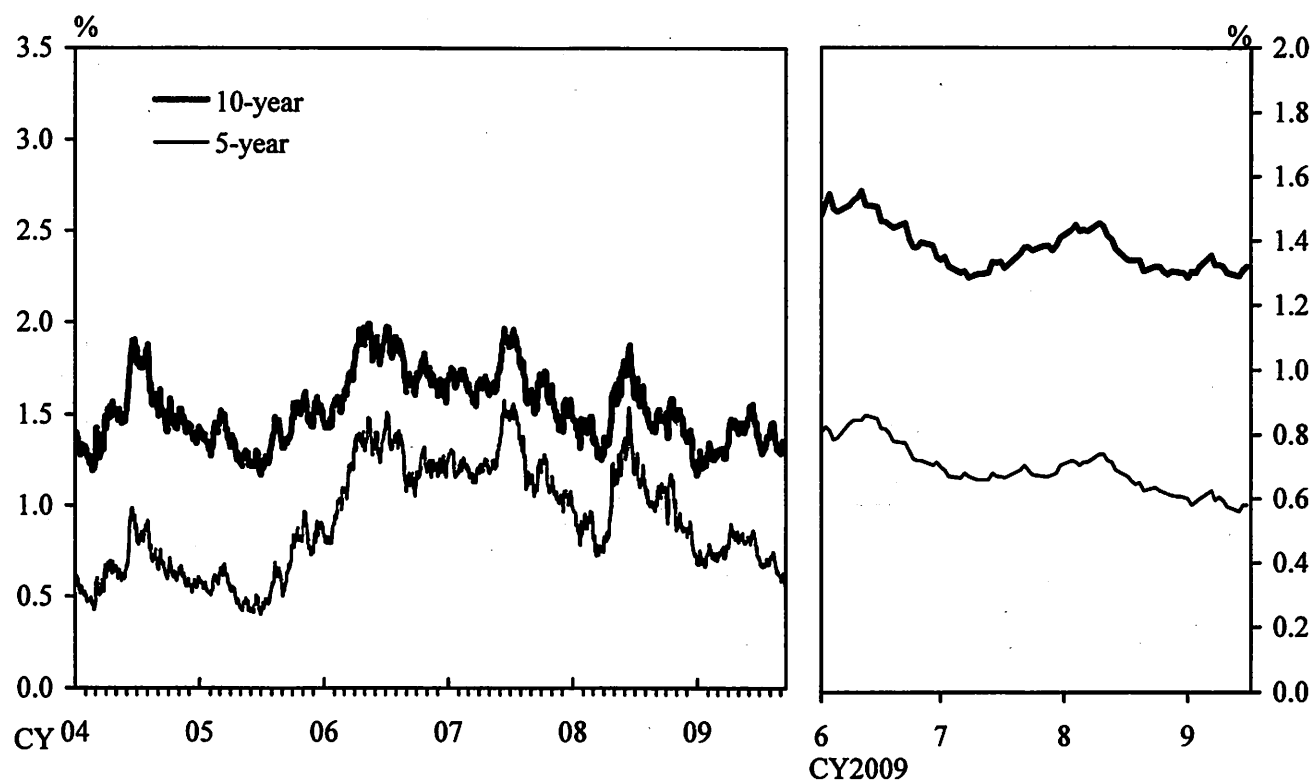


(2) FX swap implied dollar rate - LIBOR spreads (3-Month)

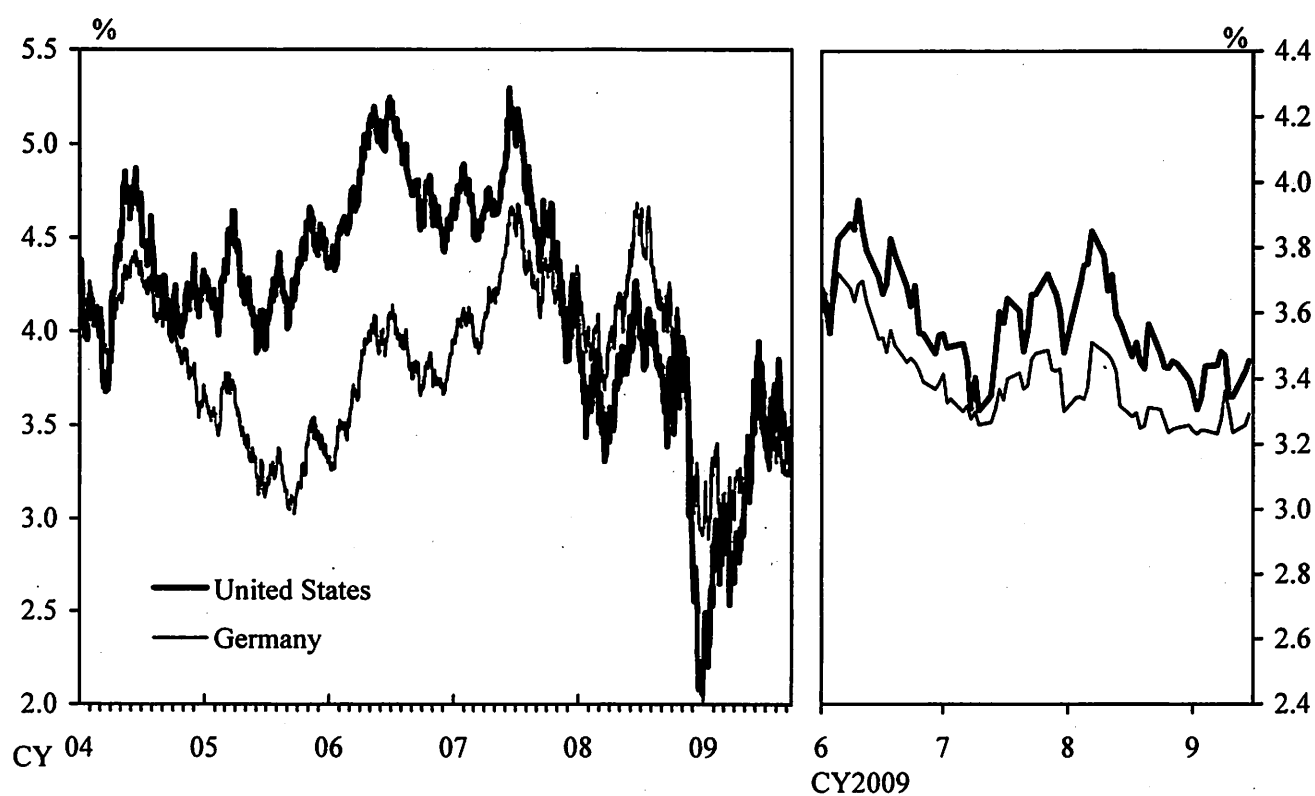


Long-Term Interest Rates

(1) Japanese Government Bond Yields¹



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

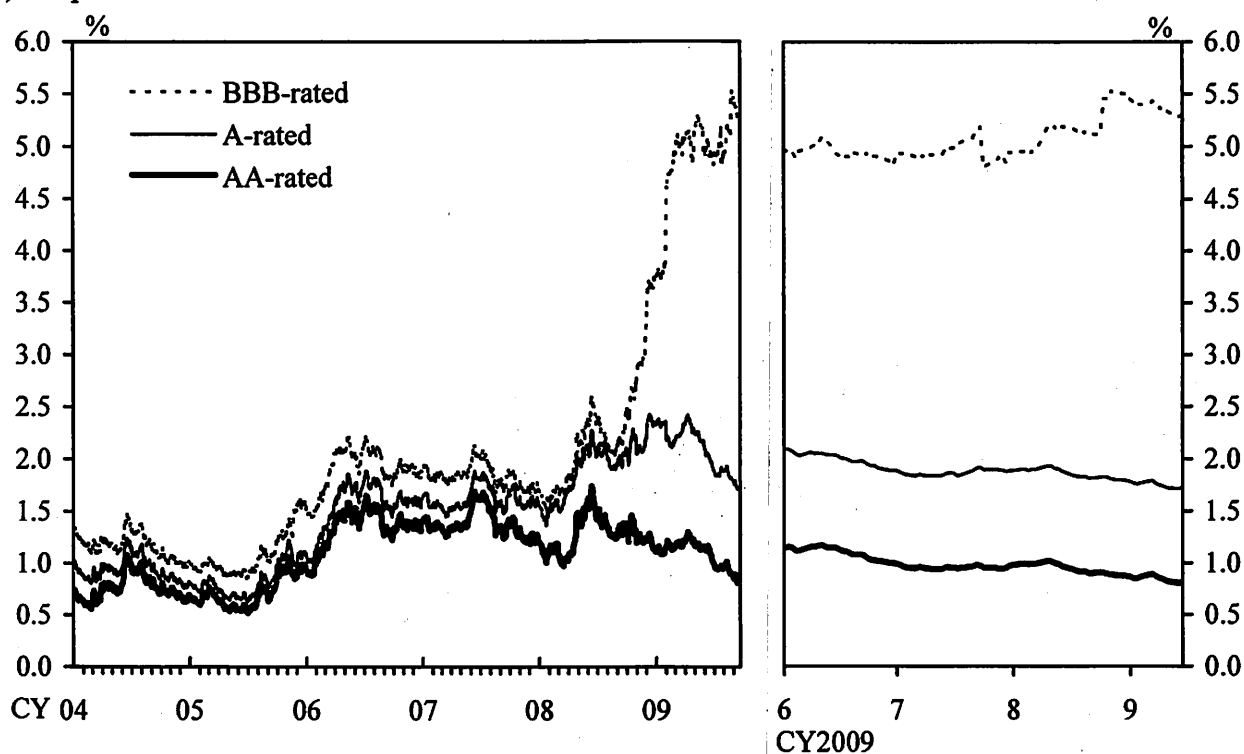


Note: 1. Yields on newly issued bonds.

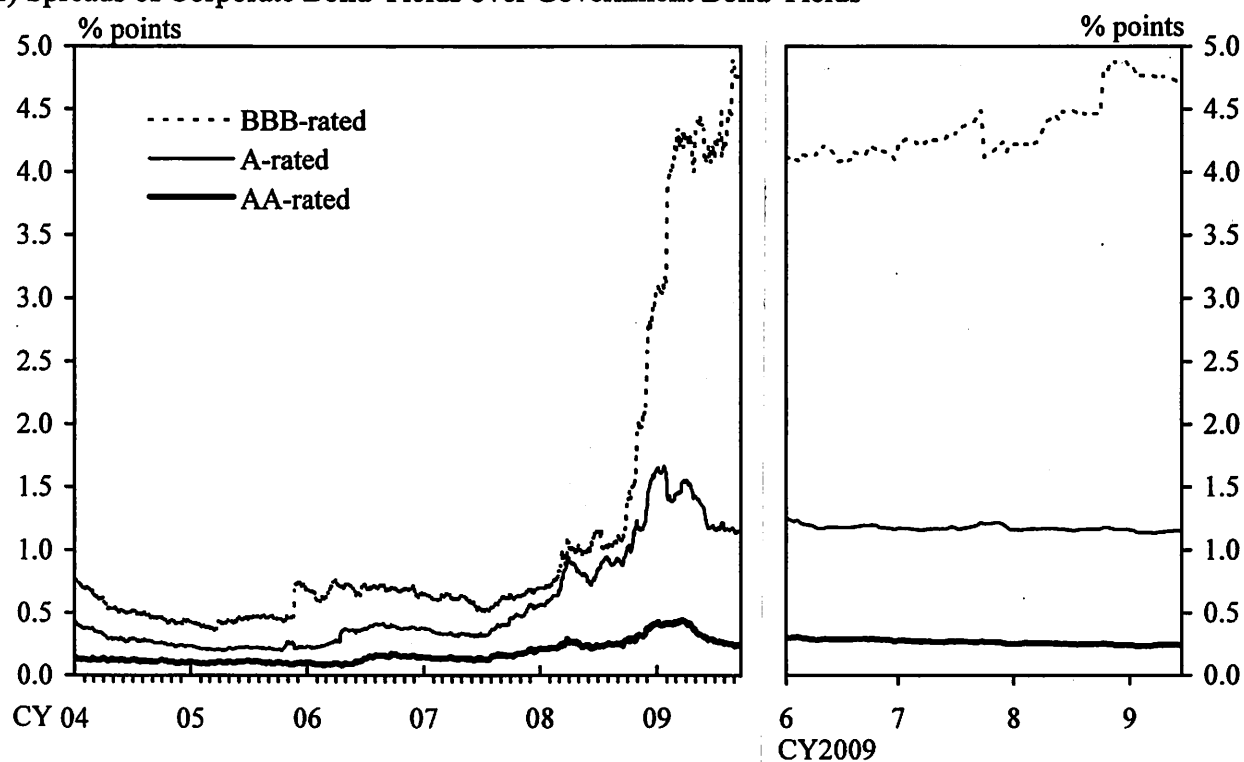
Sources: Japan Bond Trading Co., Ltd.; Bloomberg.

Yields of Corporate Bonds

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



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



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

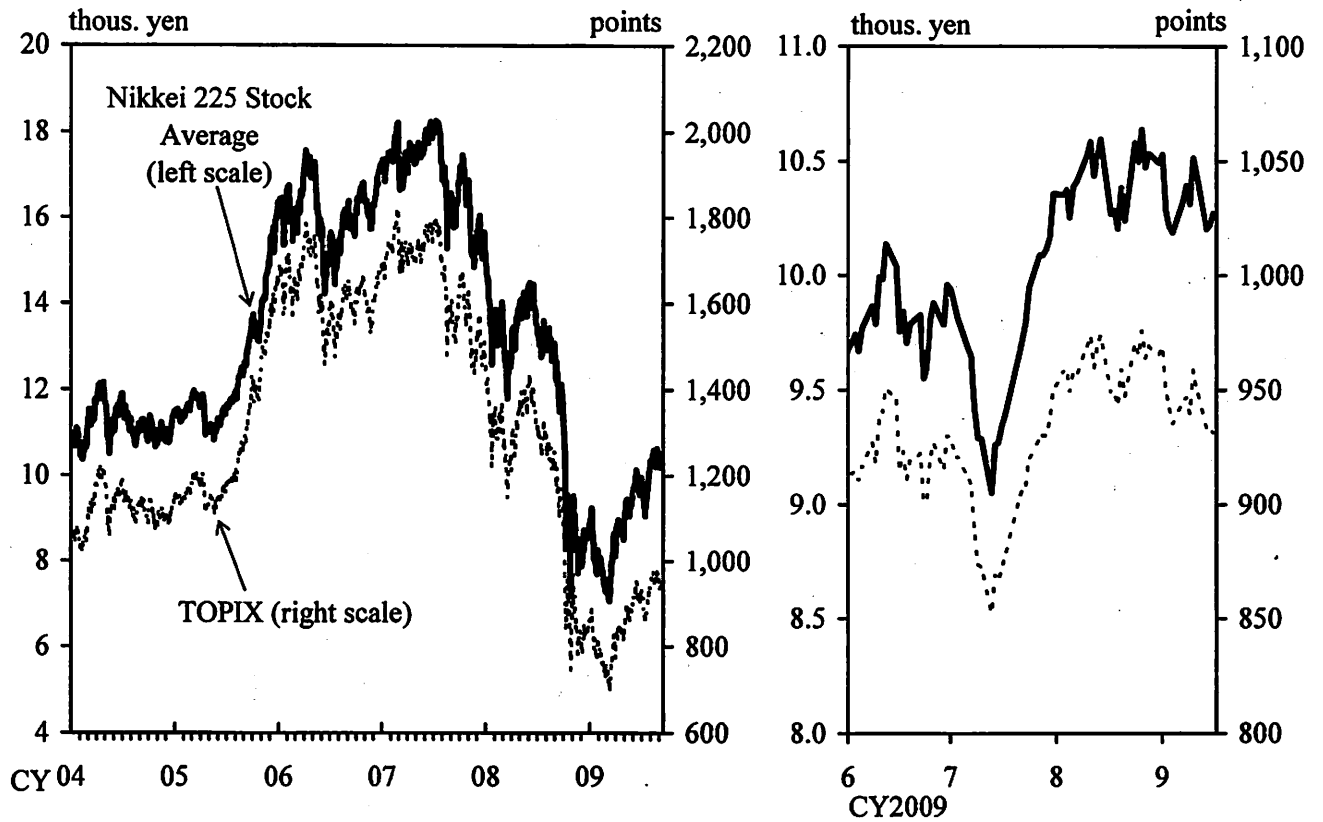
Yields on corporate bonds have been calculated on the expanded pool of issues with maturity of three to seven years.

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

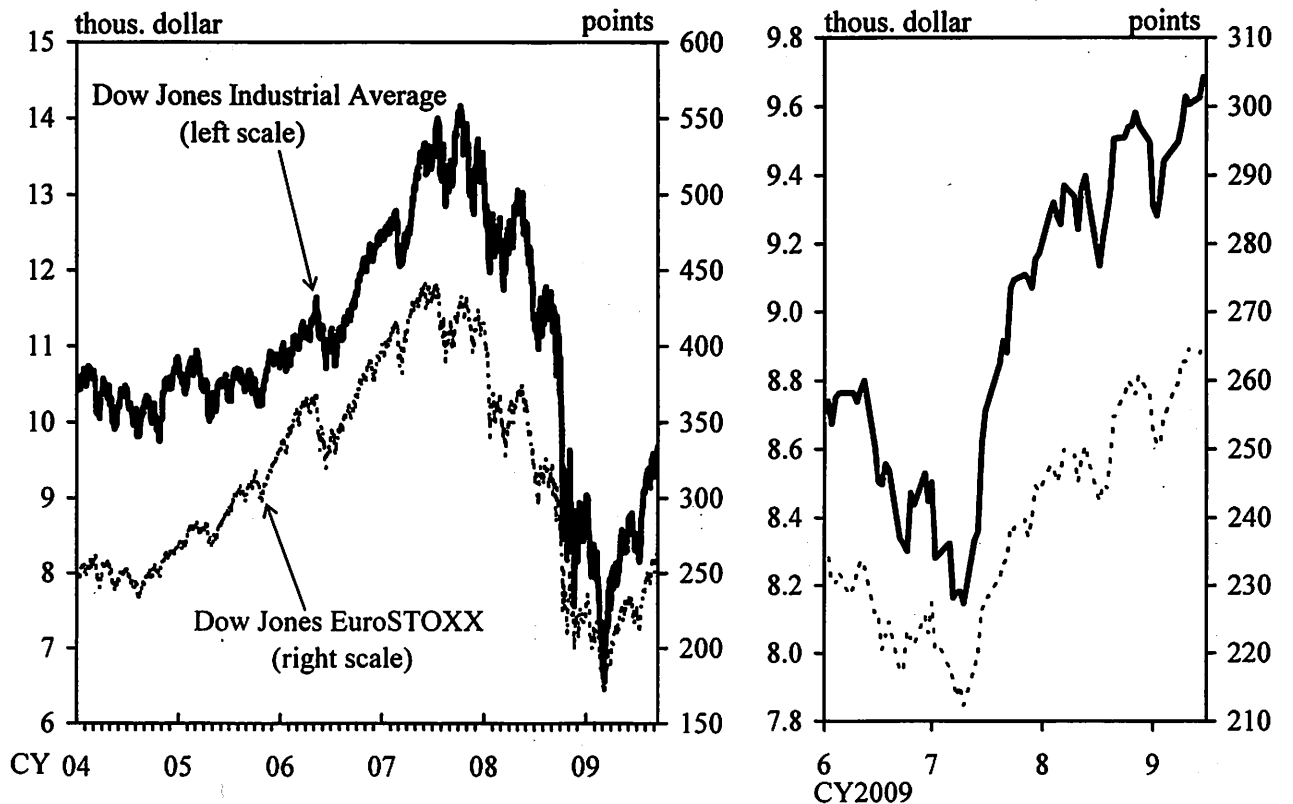
Sources: Japan Securities Dealers Association, "Reference Price (Yields) Table for OTC Bond Transactions."

Stock Prices

(1) Japanese Stock Prices



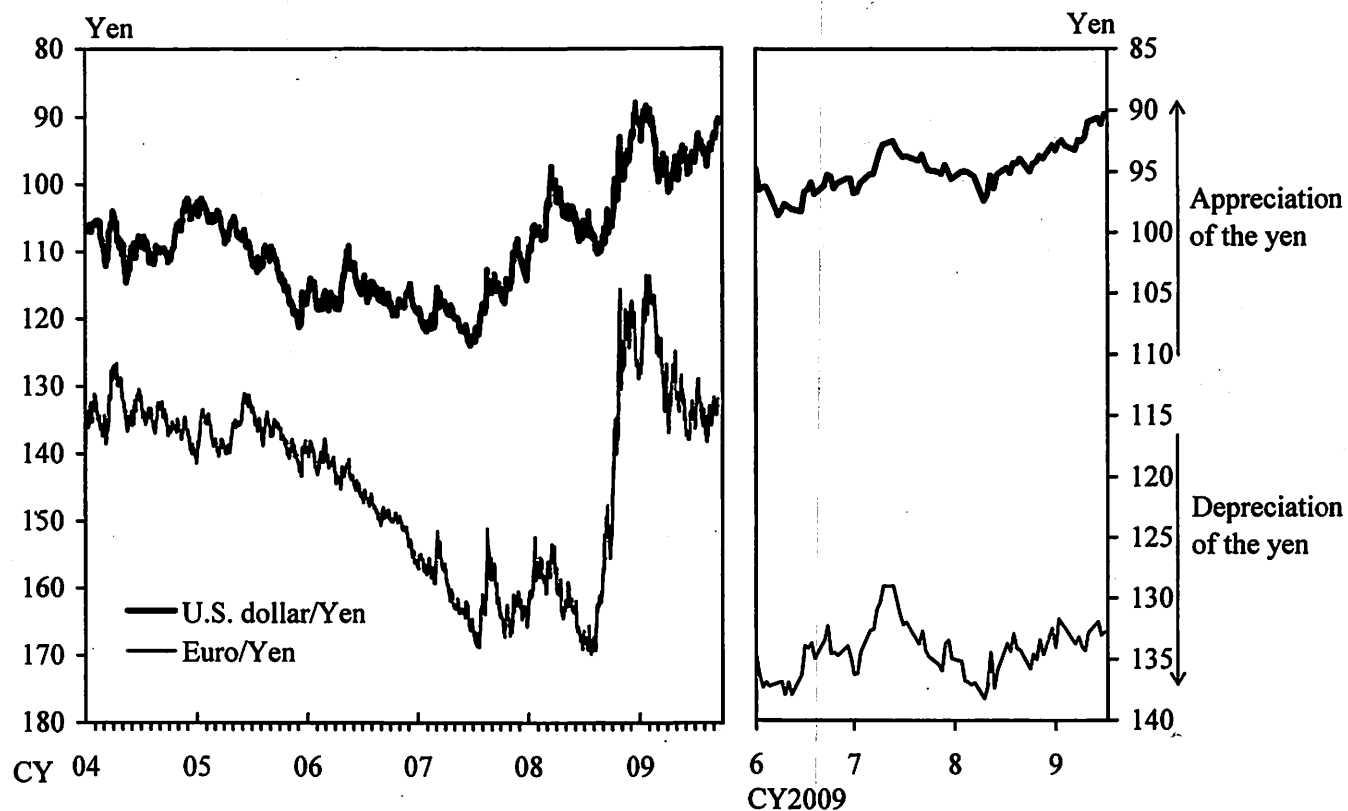
(2) Overseas Stock Prices



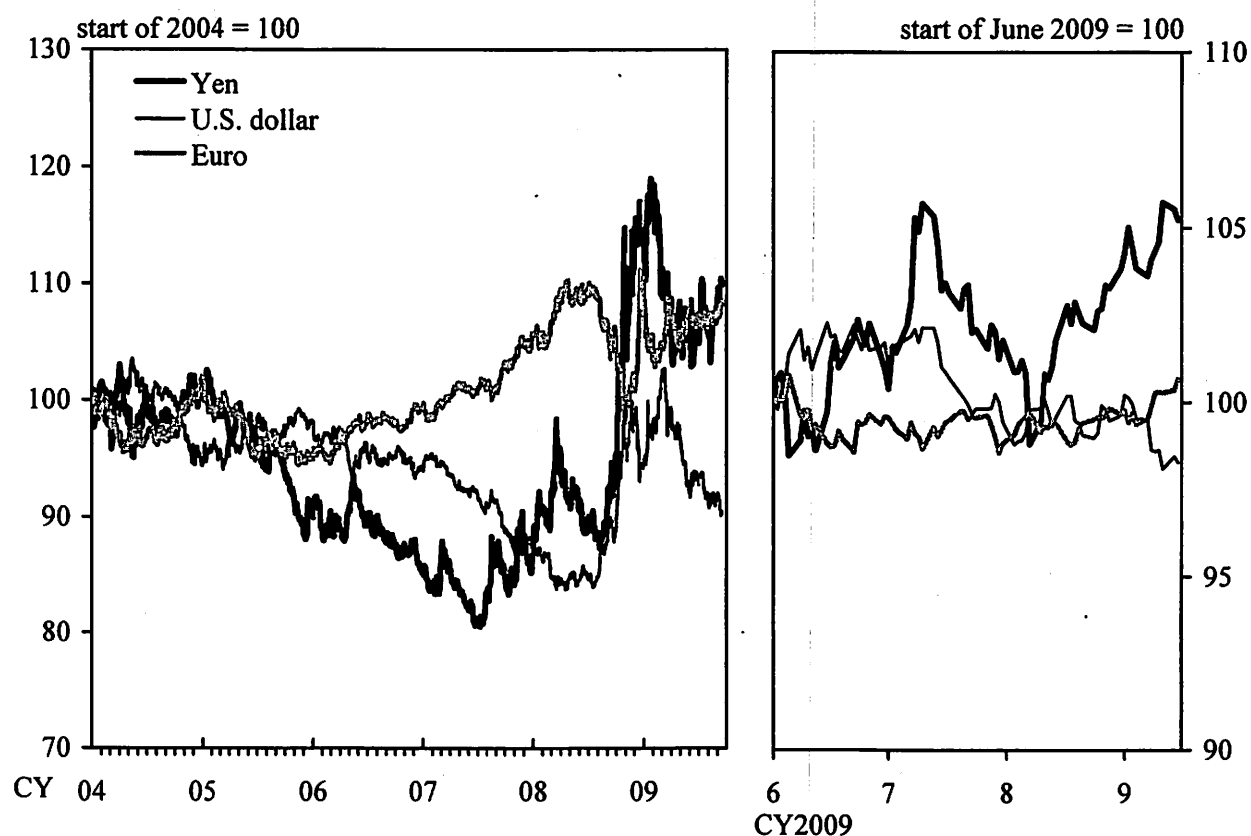
Sources: The *Nihon Keizai Shimbun* ; Tokyo Stock Exchange; Bloomberg.

Exchange Rates

(1) Bilateral Exchange Rates



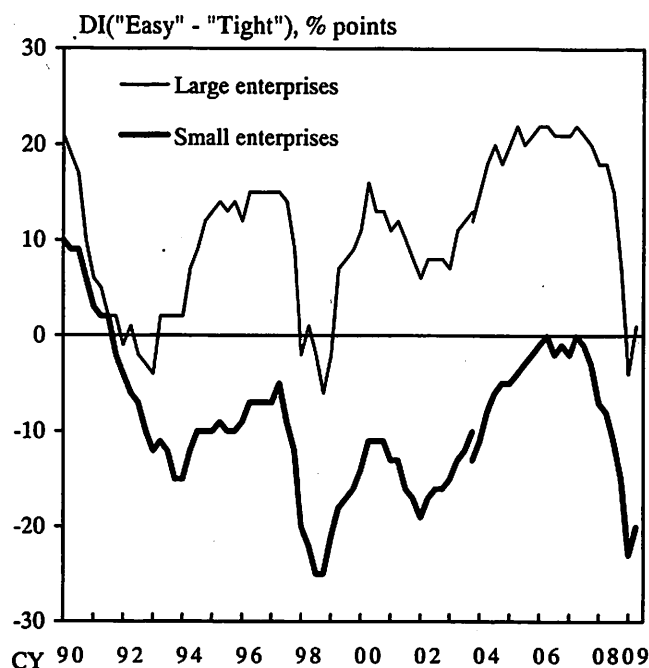
(2) Nominal Effective Exchange Rates



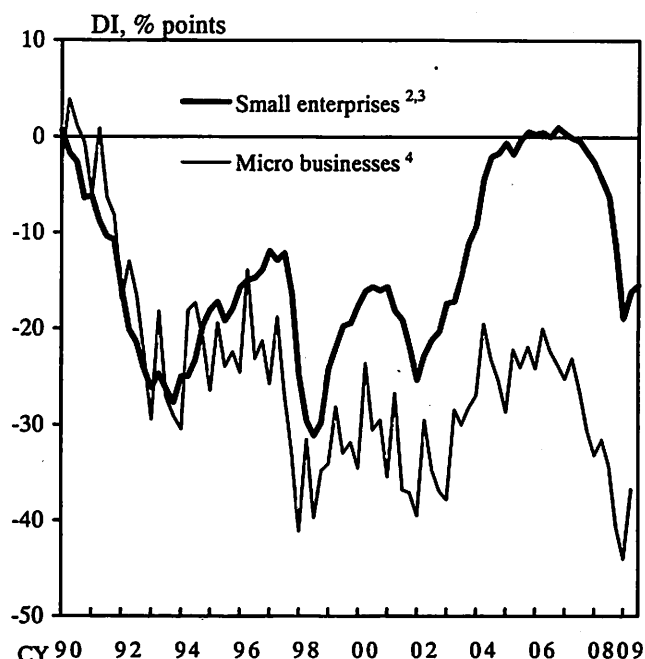
Sources: Bank of Japan; European Central Bank; Bloomberg.

Corporate Finance-Related Indicators

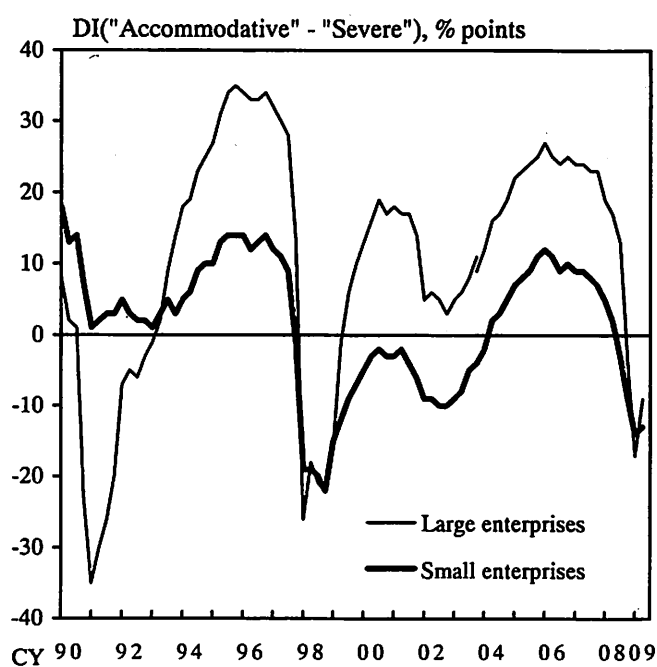
(1) Financial Position

<Tankan¹>

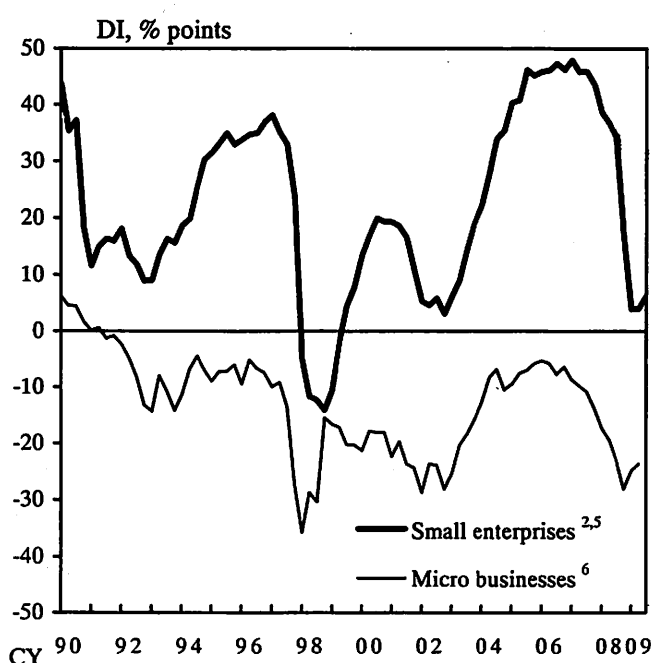
<Japan Finance Corporation Survey>



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

<Tankan¹>

<Japan Finance Corporation Survey>



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

2. Figures are quarterly averages of monthly data. Figures for 2009/Q3 are those of Jul.-Aug. averages.

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

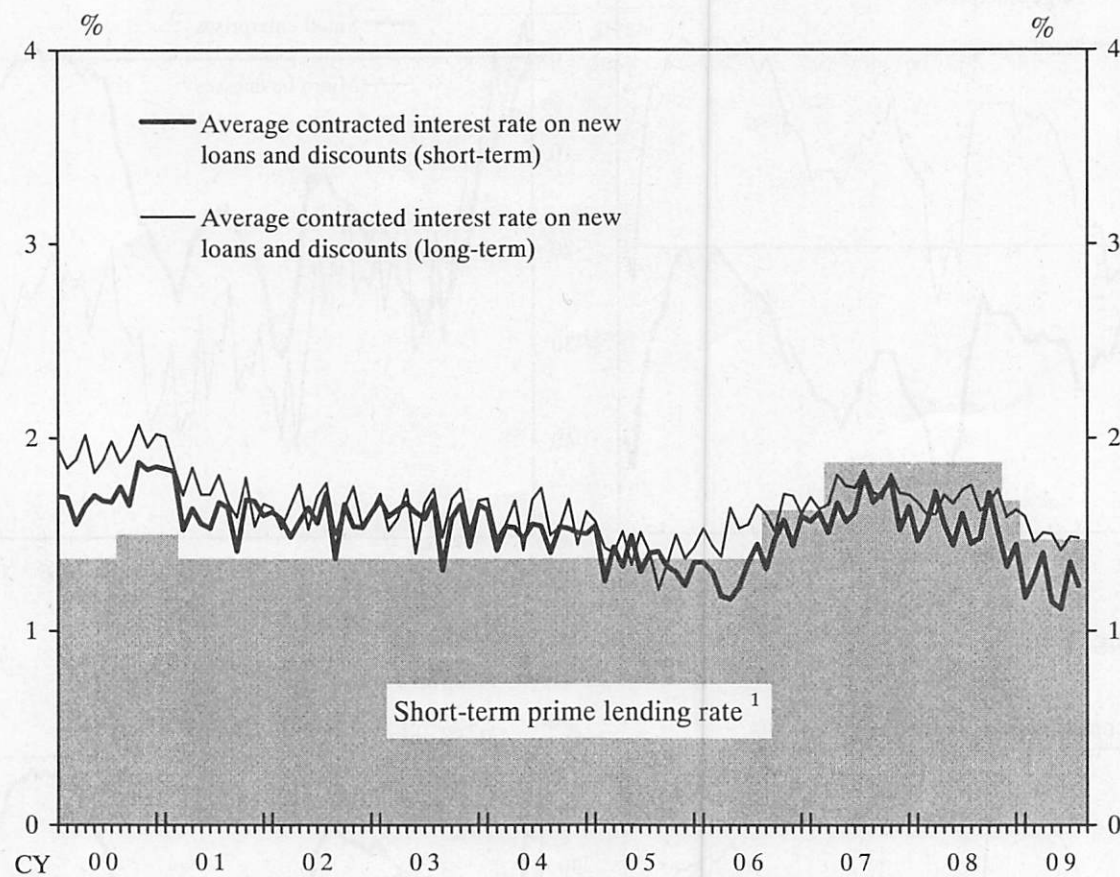
4. DI of "Easier" - "Tighter."

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

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

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

Lending Rates

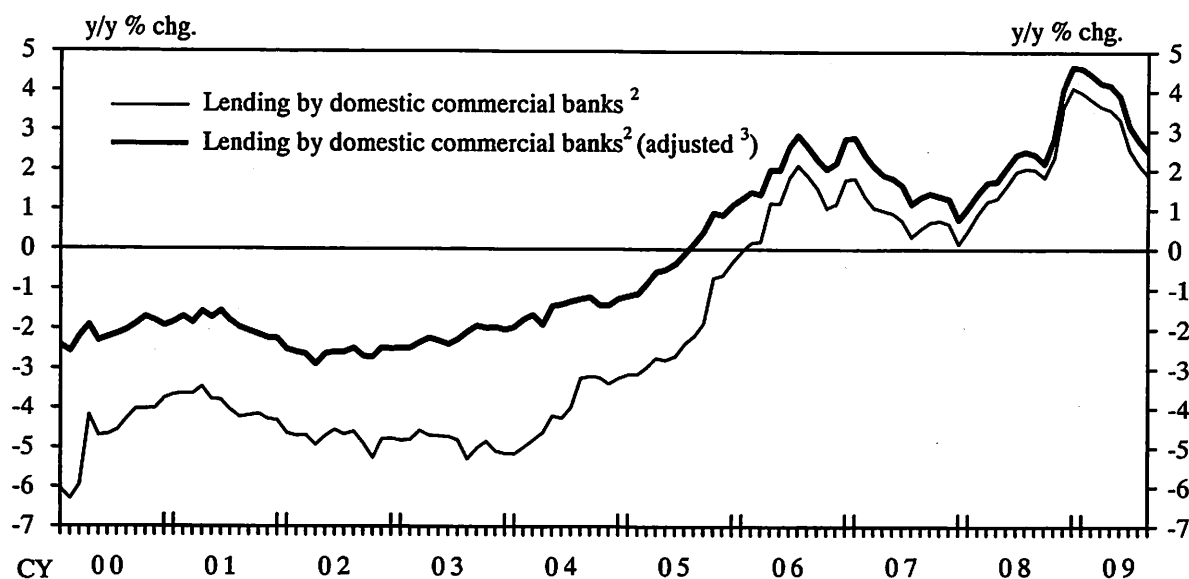


Note: 1. Data are at end of period.

Source: Bank of Japan.

Lending by Financial Institutions

(1) Lending by Domestic Commercial Banks¹



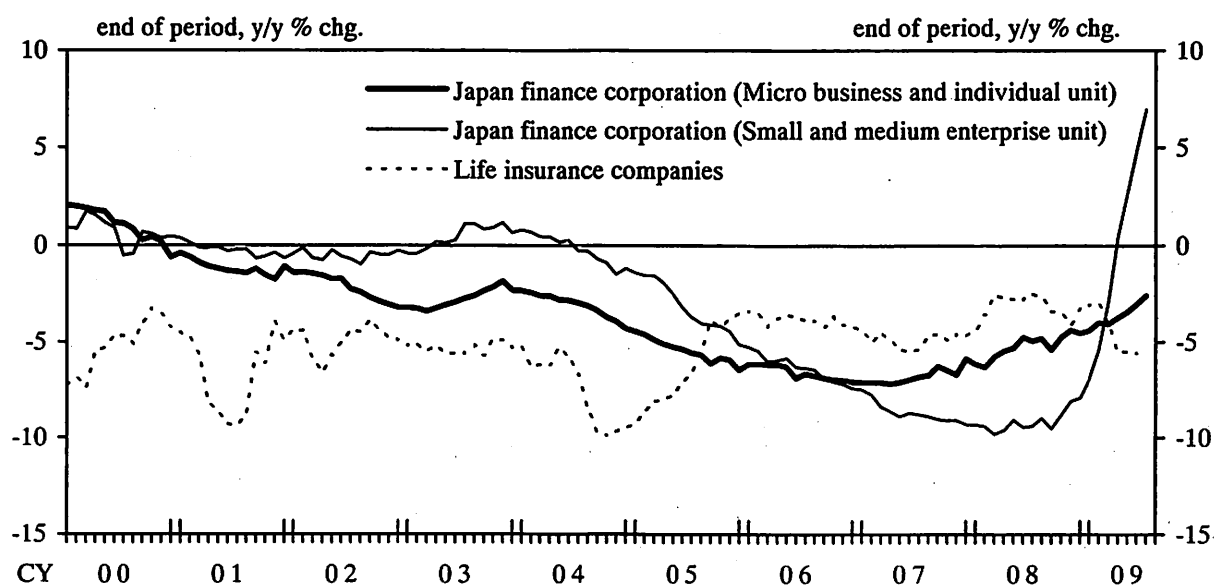
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

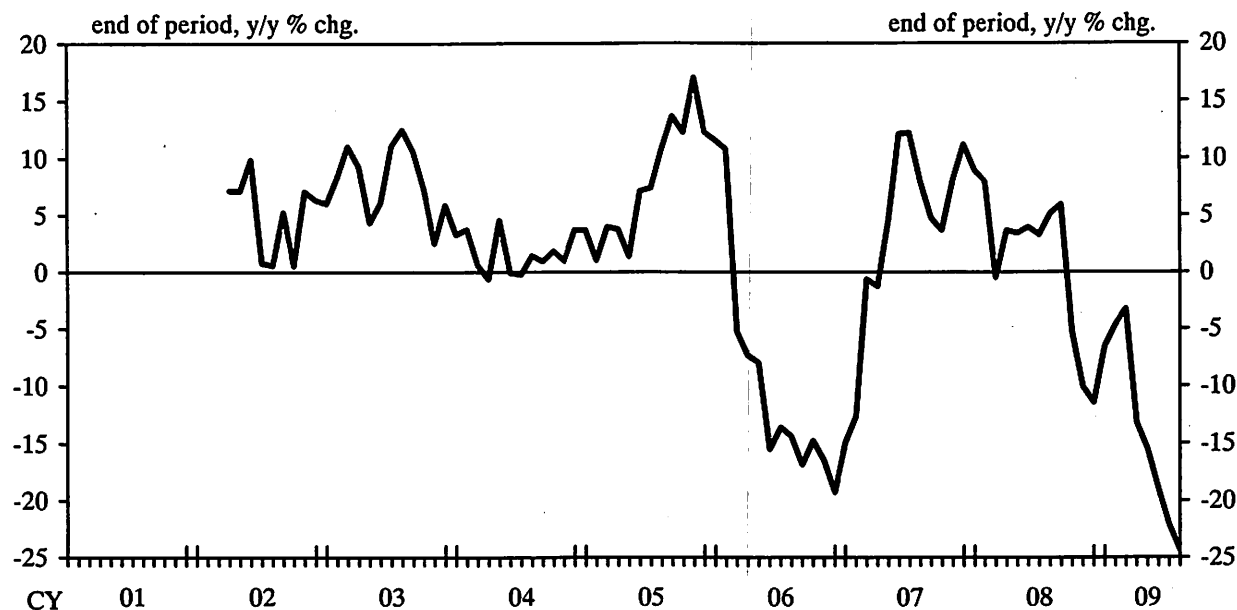


Note: The figures of the Japan Finance Corporation (Small and Medium Enterprise Unit) exclude the amounts outstanding of lending to the Credit Guarantee Corporations.

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

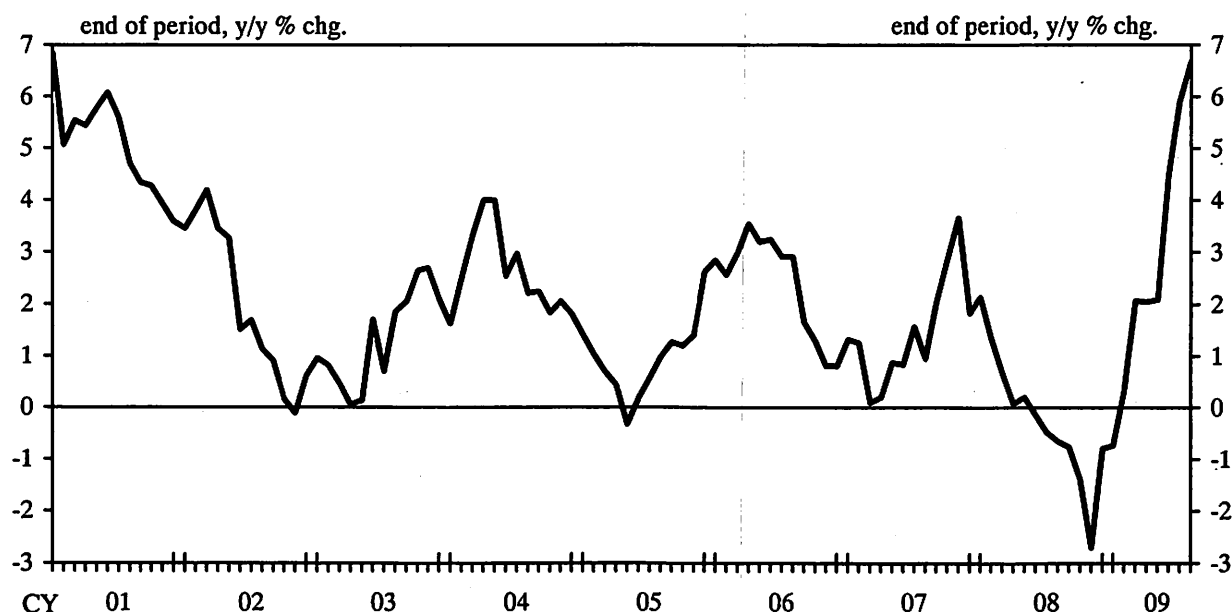
Private-Sector Fund-Raising in the Capital Markets

(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



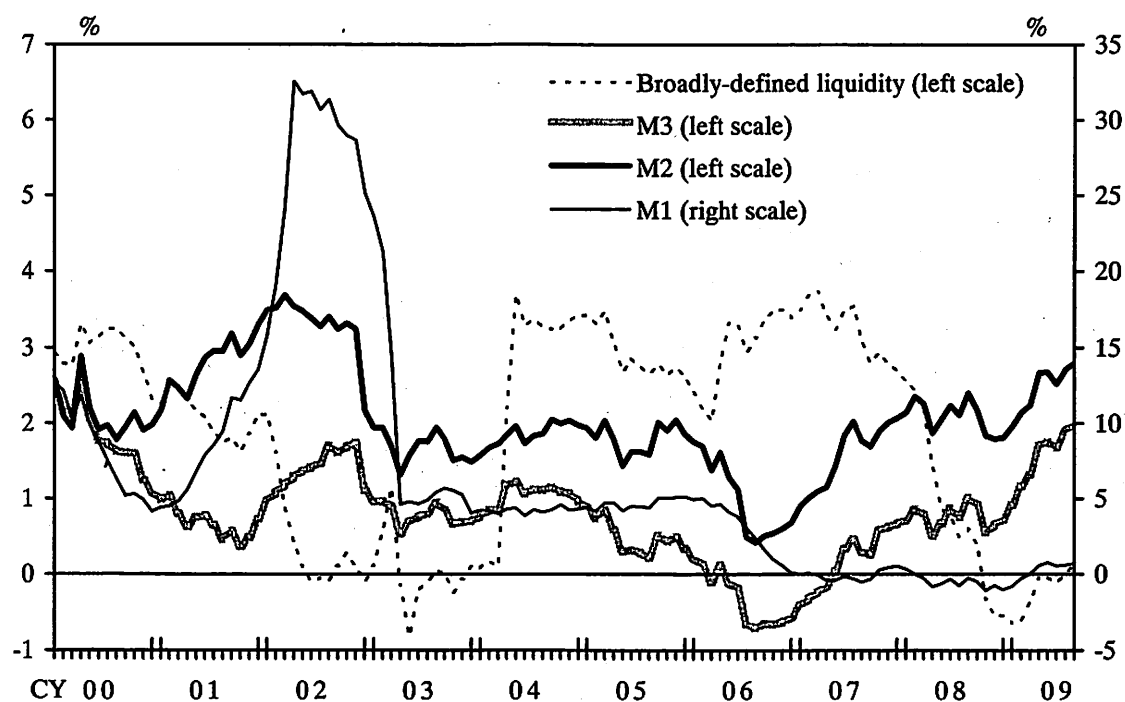
Note: The figures of percentage changes from the previous year of the amount outstanding of corporate bonds are calculated given the following:

- (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.

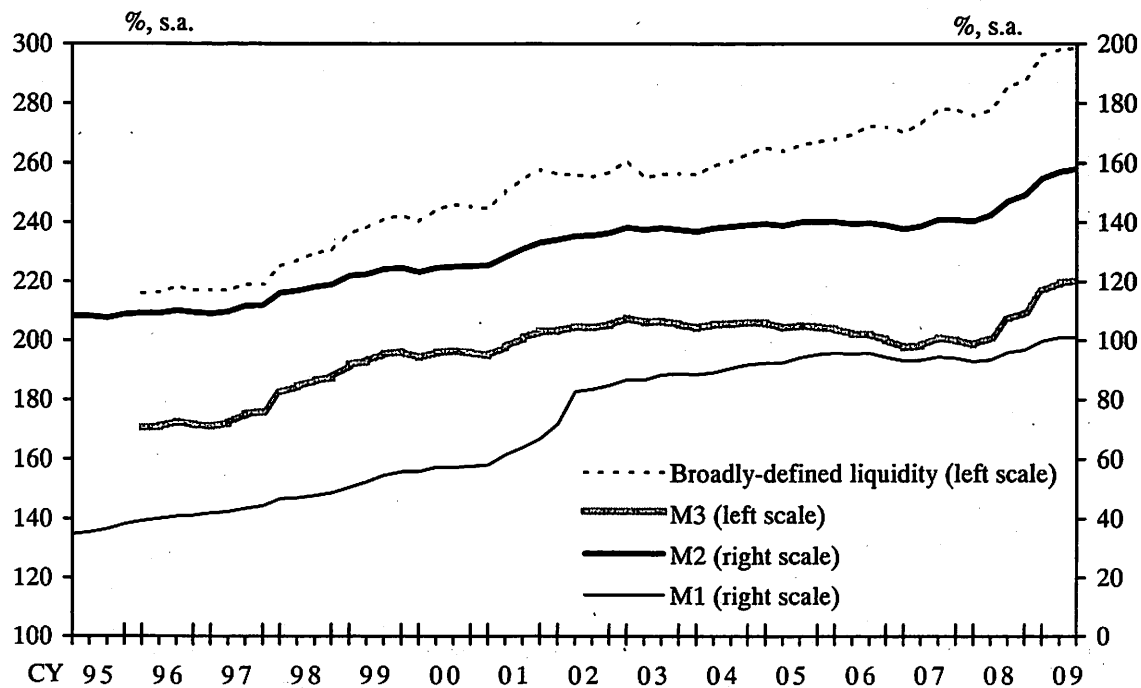
Sources: Japan Securities Depository Center, "Issue, Redemption and Outstanding" (for Corporate Bonds), "Outstanding Amounts of CP by Issuer's category"; Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Issuing, Redemption and Outstanding Amounts of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

Money Stock

(1) Changes from a Year Earlier



(2) Ratio of Money Stock to Nominal GDP

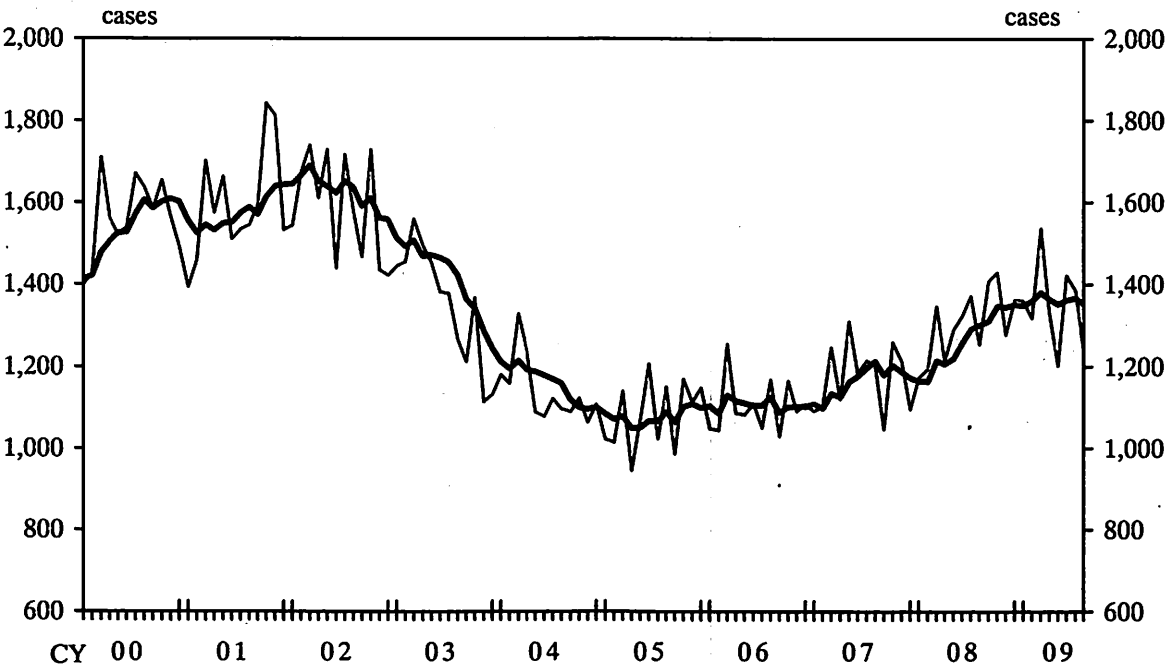


- Notes: 1. M1 consists of cash currency and demand deposits; both M2 and M3 consist of cash currency, demand deposits, time deposits and CDs.
2. Financial institutions surveyed for M1 and M3 include the Japan Post Bank and OFIs (other financial institutions) in addition to those for M2.
3. The figures 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 2009/Q3 are those of Jul.-Aug. averages, and nominal GDP in 2009/Q3 is assumed to be unchanged from the previous quarter.

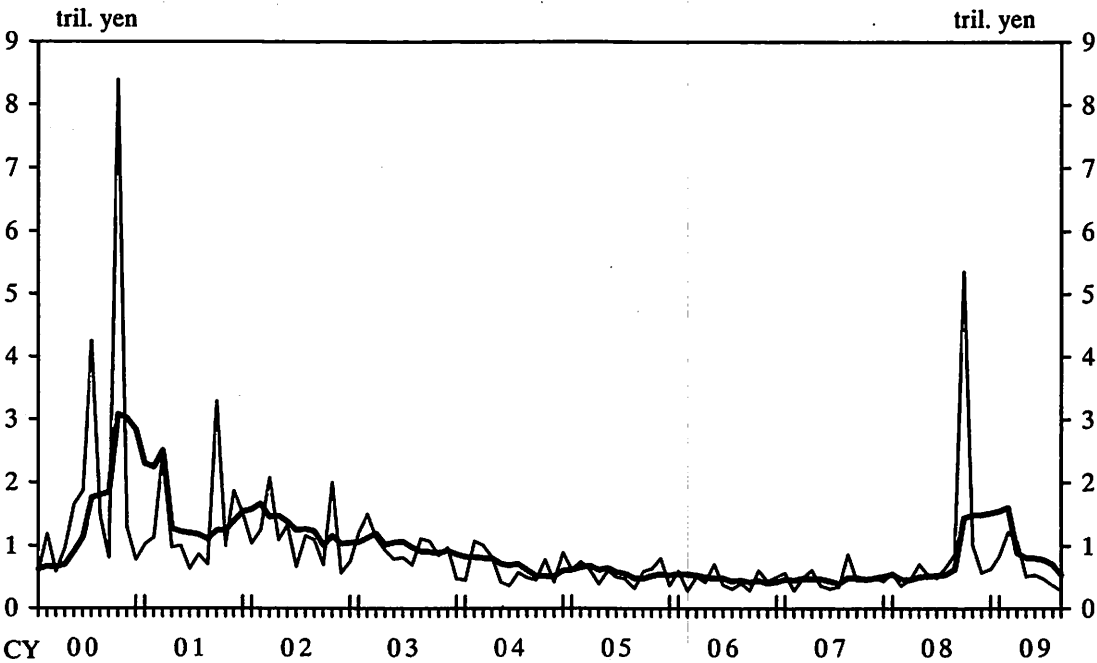
Sources: Cabinet Office, "National Accounts"; Bank of Japan.

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)."

