2. Trends in supply and final demand

(1) Outline of trends in supply for final demand in this quarter

Although government consumption decreased by 0.5% compared to the previous quarter, private consumption increased by 0.5. Therefore, the indices of all industries (final demand components) for consumption in the first Quarter of 2001 increased by 0.2%, heralding an increase for the second consecutive quarter.

On the other hand, although residential investment decreased by 2.0% compared to the previous quarter and private investment decreased by 1.5%, public investment increased by 5.8%, and therefore the indices of all industries (final demand components) for investment increased by 1.4%.

Changes in The Indices of All Industries (final demand components)

(1995 = 100, year-to-year comparison, seasonally adjusted comparison to previous quarter)

<table>
<thead>
<tr>
<th></th>
<th>1999, compared to the previous year</th>
<th>2000, compared to the previous year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1~3</td>
<td>4~6</td>
<td>7~9</td>
<td>10~12</td>
<td>1~3</td>
</tr>
<tr>
<td>Consumption</td>
<td>1.2</td>
<td>2.2</td>
<td>0.6</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.2</td>
<td>2.2</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Mining and manufacturing industry (goods)</td>
<td>1.5</td>
<td>4.9</td>
<td>0.5</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Tertiary industry (services)</td>
<td>1.1</td>
<td>1.2</td>
<td>0.8</td>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td>(specially posted) IT-related</td>
<td>20.0</td>
<td>18.3</td>
<td>10.8</td>
<td>0.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Government consumption</td>
<td>1.3</td>
<td>2.4</td>
<td>1.0</td>
<td>0.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Investment</td>
<td>0.2</td>
<td>1.8</td>
<td>1.9</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Public investment</td>
<td>4.7</td>
<td>6.2</td>
<td>6.2</td>
<td>0.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.3</td>
<td>1.8</td>
<td>1.1</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Private investment</td>
<td>2.5</td>
<td>6.1</td>
<td>3.7</td>
<td>2.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Mining and manufacturing industry (goods)</td>
<td>0.1</td>
<td>8.0</td>
<td>6.1</td>
<td>2.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Construction industry (building)</td>
<td>6.3</td>
<td>4.3</td>
<td>4.3</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Tertiary industry (services)</td>
<td>3.1</td>
<td>4.6</td>
<td>4.6</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>(specially posted) IT-related</td>
<td>8.9</td>
<td>13.9</td>
<td>11.7</td>
<td>3.1</td>
<td>5.7</td>
</tr>
</tbody>
</table>

(Note) IT-related consumption is consumption related to facsimiles, PHS and mobile telephones, pocket bells, cordless phones, personal computers, domestic telecommunications business (mobile communications excluded) and mobile communications which are also supplied for private consumption.

IT-related investments are investments for communication wire and power cables, optical fiber products for wires and cables, electrostatic indirect copying machines, digital color copying machines, key service units, facsimiles, electronic automatic exchange, digital transmission units, fixed communication devices, PHS and mobile telephones, pocket bells, base station communication devices, general purpose computers, mid-range computers, personal computers, external storage, input-output devices, terminal units, software development and program creation (subcontracts) which are also supplied to private enterprise facilities.

Source: The indices of all industries (final demand components)

Outline of The Indices of All Industries (final demand components)

The indices of all industries (final demand components) is an index estimated by using the mining and manufacturing industry shipment index, the tertiary industry activity index (including the public service, etc.) and the construction industry activity index, which are supply side statistical indicators, in order to grasp trends of each demand component such as consumption, investment, export and import.

Many statistical indicators for consumption and investment have a demand-side focus. For consideration from the supply side, it is necessary to quantitatively grasp what demand components are supplied with individual goods and services, so the indices of all industries (final demand components) makes distinctions based on production by demand.
components in input-output tables of 1995.

By using statistical indicators from the demand side and the indices of all industries (final demand components) in complement with each other, not only can the trends in final demand be determined more precisely, but also detailed analysis on trends in IT-related investment and IT-related consumption is also possible in the indices of all industries (final demand components).
(2) Supply intended for consumption and consumption trends

Supply activities intended for consumption

Reviewing the trends in private consumption for the first Quarter of 2001 from All-Industry Supply Index intended for private consumption, although supplies from the mining and manufacturing industry decreased by 0.9% compared to the previous quarter for the first time in six quarters, supplies from the tertiary industry increased 1.1% id. for the second consecutive quarter, resulting in a 0.5% increase in total for the second consecutive quarter.

Furthermore, IT-related consumption for this quarter rose by 6.3% compared to the previous quarter.

Trends in The Indices of All Industries(final demand components) intended for private consumption
(1995=100, seasonally adjusted)

Trends in IT-related consumption (1995=100, seasonally adjusted)

(Note) IT-related consumption for private consumption includes facsimiles, PHS/mobile phones, pocket bells, cordless telephones, personal computers, domestic telecommunications business (mobile communication excluded) and mobile communications.

Source: The indices of all industries(final demand components)
Effects on consumption by housing loans and by unrealized loss

Considering the actual condition of housing loans which households have, both outstanding liabilities of housing loans and ratio of housing loans in annual income have been on an upward trend, reaching approximately 16 million and 17% respectively in 2000. And, as for consumer propensity of households with housing loans and of households without housing loans, consumer propensity of households without housing loans has been on an upward trend since 1998 while consumer propensity of households with housing loans has been on a gradual downward trend. Furthermore, considering a result of estimation of unrealized loss and profit of houses which households have, unrealized loss has been continuously increasing. Based on the above, both housing loans and unrealized loss are considered to be restraining consumption.

Outstanding liabilities of housing loans and ratio of housing loans (households of workers)

![Graph showing outstanding liabilities and ratio of housing loans from 1989 to 2000.]

Source: Saving Trend Survey (Ministry of Public Management, Home Affairs, Posts and Telecommunications)

Changes in consumer propensity (households of workers)

![Graph showing changes in consumer propensity from 1989 to 2001.]

Source: Family Income and Expenditure Survey (Ministry of Public Management, Home Affairs, Posts and Telecommunications)
Changes in unrealized loss and profit of houses which households have

Source: Building Construction Started (Ministry of Land, Infrastructure and Transport), Urban Land Price Index (Japan Real Estate Institute), Government Finance Corporation Loan Users Survey (Government Housing Loan Corporation)
(3) Supply intended for investment and investment trend

Supply activities intended for investment

As for the investment trend for the first Quarter of 2001 in the indices of all industries (final demand components) intended for investment, although residential investment decreased by 2.0% compared to the previous quarter due to the decrease of new construction of owner-occupied houses and of houses built for sale such as condominiums and private investment, which had been on a recovery trend centering on IT-related investment, decreased by 1.5% for the first time in seven quarters, public investment shifted to increase by 5.8%, resulting in a shift to increase of 1.4% in the total investment.

Furthermore, IT-related investment in this quarter decreased by 3.4% compared to the previous quarter for the first time in five quarters, and non-IT-related investment decreased by 1.8% for two consecutive quarters.

Trend in The Indices of All Industries (final demand components) intended for investment

Index level (1995 = 100, seasonally adjusted)

Compared to the previous quarter, degree of contribution to growth rate

Source: The Indices of All Industries (final demand components)
Trend in IT-related investment

Index level (1995 = 100, seasonally adjusted)

Compared to the previous quarter, degree of contribution to growth rate

Note: IT-related investments are investments for communication wire and power cables, optical fiber products for wires and cables, electrostatic indirect copying machines, digital color copying machines, key service units, facsimiles, electronic automatic exchange, digital transmission units, fixed communication device, PHS and mobile telephones, pocket bells, base station communication devices, general purpose computers, mid-range computers, personal computers, external storage, input-output devices, terminal units, software development and program creation (subcontracts) which are also supplied to private enterprises facilities.

Source: The Indices of All Industries (final demand components)
Comparison between trends in statistics from supply side and those in statistics from demand side for capital investment

Taking the relationship among the Orders Received for Machinery (Cabinet Office), which is a leading indicator of capital investment, The Indices of All Industries (final demand components), which is a statistic from the supply side and Financial Statements Statistics of Corporations by Industry (Ministry of Finance), which is a typical statistic from the demand side, it can be confirmed that the three of them are closely related to each other with temporal lags. There is a high degree of correlation, with The Indices of All Industries (final demand components) lagging behind the Orders Received for Machinery by zero to one quarter and the Financial Statements Statistics of Corporations by Industry by one to two quarters because of differences in the time of acquisition of machinery equipment; orders, shipment and installation.

Furthermore, as for factors of the gap between The Indices of All Industries (final demand components) and Financial Statements Statistics of Corporations by Industry, effects due to difference in software acquisition, differences in statistical contents such as nominal amount of money/real quantity and other nature/characteristic differences may be considered. However, it can be seen that both statistics are highly correlated.

As shown above, capital investment-related statistics from the supply side and from the demand side show approximate changes, though they are different in their concept of creation and nature. For detailed economic trend analysis, it seems useful to utilize both of them in a complement to each other while maintaining a consistent comprehension of these differences.

Comparison of trends in machinery equipment indicator
(1995 = 100, seasonally adjusted)

(Note) Correlation coefficient to the Orders Received for Machinery:
The Indices of All Industries (final demand components) lags behind by one quarter (0.781) and by zero quarters (0.792) while Financial Statements Statistics of Corporations by Industry lags behind by two quarters (0.847) and by one quarter (0.837)

Source: Financial Statements Statistics of Corporations by Industry (Ministry of Finance), Orders Received for Machinery (Cabinet Office), The Indices of All Industries (final demand components)
Trends in capital investment in The Indices of All Industries (final demand components) and in Financial Statements Statistics of Corporations by Industry

- Index level (1995 = 100, seasonally adjusted)
- Gap of index level and analysis of factors

(Note) Correlation coefficient: zero quarters (0.905), Financial Statements Statistics of Corporations by Industry lags behind The Indices of All Industries (final demand components) by one quarter (0.904).

Source: Financial Statements Statistics of Corporations by Industry (Ministry of Finance), Price Indexes Monthly (Bank of Japan), Construction Cost Deflator/Input-output Table for analyzing the construction sector, 1995 (Ministry of Land, Infrastructure and Transport), The Indices of All Industries (final demand components)
(4) Trends in Export and Import

Outline of Export and Import

Considering trends in exports and imports for the first Quarter of 2001, exports decreased by 1.8%, a decrease for the third consecutive quarter, owing to the decrease in exports of goods (mining and manufacturing industry) by 2.0% compared to the previous quarter for the third consecutive quarter and the decrease in receipt of services by 1.1% id. As for imports, though payment for services increased by 0.8% compared to the previous quarter for the second consecutive quarter, import of goods (mining and manufacturing industry) decreased by 3.0% id. for the first time in three quarters, resulting in a decrease by 2.2 % id. for the first time in three quarters.

Regionally speaking, although exports to the EU and ASEAN9 increased, exports to the US and East Asia decreased. Although imports from the EU increased, imports from the US, ASEAN9 and East Asia decreased.

Trend in export (goods)

Index level (1995 = 100, seasonally adjusted)

Compared to the previous quarter, degree of contribution to growth rate
Trend in import (goods)

- Index level (1995 = 100, seasonally adjusted)
- Compared to the previous quarter, degree of contribution to growth rate

(Note) 1. Shipment index destined for export by region is calculated by rearranging the foreign trade statistics into shipment index classifications and the import index by region is calculated by rearranging the foreign trade statistics into total supply index classifications.

2. Regional classifications are as follows:
- ASEAN9: Singapore, Thailand, Malaysia, Brunei, Philippines, Indonesia, Vietnam, Laos, Myanmar
- East Asia: Korea, China, Taiwan, Hong Kong
- Middle East: Iran, Iraq, Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Israel, Jordan, Syria, Lebanon, UAE, Gaza, Yemen
Characteristics of exports to the US

Exports to the US have been on a downward trend in line with the slowdown of the US economy in and after the last half of the last year, and decreased largely by 4.3% in this quarter compared to the previous quarter.

If we divide quantity of exports to the US into “passenger cars,” “IT-related items,” “IT-related production goods” and “others,” it can be seen that exports of “passenger cars” have been decreasing for three consecutive quarters in response to slowdown of the US demands. “IT-related items” had been consistently contributing to the decrease since the third quarter of 1998; however, their exports increased in this quarter for the second consecutive quarter. “IT-related production goods” have been reducing in contribution since the second half of 1997, and their exports decreased in this quarter for the second consecutive quarter. As for the items contained in “others,” their exports had been continuously contributing to the decrease since the fourth quarter of 1999. Although their exports increased once when switching control devices and electronic toys contributed to an increase in the fourth quarter of 2000, they decreased again in this quarter.

Analysis of degree of contribution of quantity of exports to the US compared to the previous quarter

(Note) Classification of items is as follows.

- Passenger cars: general passenger cars, light/compact passenger cars
- IT-related items: communication wire and power cables, optical fiber products for wires and cables, electrostatic indirect copying machines, digital color copying machines, key service units, facsimiles, electronic automatic exchange, digital transmission units, fixed communication devices, PHS and mobile telephones, base station communication devices, general purpose computers, mid-range computers, personal computers, external storage, input-output devices, terminal units
- IT-related production goods: resisters, fixed capacitors, transformers, quartz oscillators, connectors, printed circuit boards, magnetic heads, Braun tubes for computers, silicone diodes, transistors, photoelectric transformation elements, linear semiconductor integrated circuits, bipolar semiconductor integrated circuits, metal oxide semiconductor integrated circuits (logic elements), metal oxide semiconductor integrated circuits (storage elements), hybrid integrated circuits, silicone wafers, alkali storage batteries, lithium batteries

Source: Itemized Mining and Manufacturing Industry Shipment Table