2. Trends in Supply and Final Demand

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

Outline of trends in supply for final demand of the second Quarter in 2001 is as follows.

- Private consumption was almost flat, increasing by 0.1% compared to the previous quarter with government expenditure increasing by 0.5%, and therefore all industry supply for consumers increased by 0.2%, showing an increase for three consecutive quarters.

- All categories of demand decreased in all industry supply intended for investment.: private investment decreased by 5.4% for two consecutive quarters, public investment decreased by 8.7% and private residential investment decreased by 10.3% for the first time in three quarters, Therefore, all industry supply for investment decreased by 7.3%.

- Export decreased by 2.5% compared to the previous quarter for four consecutive quarters. Import increased by 0.8%.

- IT-related consumption increased by 2.1% compared to the previous quarter for four consecutive quarters and IT-related investment decreased by 0.4%, for two consecutive quarters.
Changes in the Indices of All Industries (final demand components)
(1995=100, ratio compared to the previous year, seasonally adjusted ratio compared to the 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 10-12</th>
<th>2000 10-12</th>
<th>2001 10-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.2</td>
<td>2.2</td>
<td>0.4</td>
<td>0.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Mining and manufacturing industry (goods)</td>
<td>1.5</td>
<td>4.8</td>
<td>0.2</td>
<td>0.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Tertiary industries (service)</td>
<td>1.1</td>
<td>1.2</td>
<td>0.4</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>(specially posted) IT-related</td>
<td>20.0</td>
<td>18.3</td>
<td>0.7</td>
<td>9.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Government consumption</td>
<td>1.3</td>
<td>2.4</td>
<td>0.3</td>
<td>1.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Investment</td>
<td>0.2</td>
<td>0.6</td>
<td>U</td>
<td>0.4</td>
<td>U</td>
</tr>
<tr>
<td>Public investment</td>
<td>4.7</td>
<td>7.5</td>
<td>2.3</td>
<td>7.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Private housing</td>
<td>1.3</td>
<td>0.5</td>
<td>7.1</td>
<td>1.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Private enterprise facilities</td>
<td>2.5</td>
<td>5.3</td>
<td>0.7</td>
<td>2.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Mining industry (goods)</td>
<td>0.1</td>
<td>8.0</td>
<td>0.2</td>
<td>4.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Construction business (building)</td>
<td>0.4</td>
<td>0.9</td>
<td>0.5</td>
<td>3.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Tertiary industries (service)</td>
<td>3.1</td>
<td>4.6</td>
<td>0.5</td>
<td>0.6</td>
<td>4.5</td>
</tr>
<tr>
<td>(specially posted) IT-related</td>
<td>8.9</td>
<td>13.9</td>
<td>3.1</td>
<td>5.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Exports</td>
<td>0.3</td>
<td>5.6</td>
<td>0.5</td>
<td>3.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Mining and manufacturing industry (goods)</td>
<td>1.6</td>
<td>5.7</td>
<td>0.2</td>
<td>2.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Tertiary industries (service)</td>
<td>3.9</td>
<td>5.1</td>
<td>1.2</td>
<td>2.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Imports</td>
<td>6.6</td>
<td>6.9</td>
<td>5.8</td>
<td>0.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Mining industry (goods)</td>
<td>11.9</td>
<td>13.2</td>
<td>5.8</td>
<td>0.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Tertiary industries (service)</td>
<td>4.9</td>
<td>4.9</td>
<td>5.7</td>
<td>0.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

(Note) IT-related consumption is consumption related to facsimiles, PHS/mobile telephones, pocket bells, cordless telephones, 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, transmission units, fixed communication devices, PHS and mobile telephones, pocket bells, base station communication devices, general purpose computers, mid-range computers, personal computers, external storages, input-output devices, terminal units, software development and program creation (subcontracts) that are also supplied to private enterprise facilities.

Source: “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 second Quarter of 2001 from the Indices of All Industries (final demand components) intended for private consumption, although supplies from the mining and manufacturing industry slightly increased by 0.2% compared to the previous quarter, supplies from the tertiary industry were almost flat, increasing by 0.1%, resulting in an almost flat 0.1% increase in total.

Furthermore, IT-related consumption for this quarter rose by 2.1% compared to the previous quarter.

Changes in The Indices of All Industries (final demand components) intended for private consumption

Index level (1995=100, seasonally adjusted)  Ratio compared to the previous quarter, degree of contribution to growth ratio

Source: “The Indices of All Industries (final demand component)”

Changes in IT-related Consumption

Index level (1995=100, seasonally adjusted)  Ratio compared to the previous quarter, degree of contribution to growth ratio

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

Amid the trends in the recent years that the ratio of used cars has been increasing and new car purchase has become sluggish due to the increase in the tenure of use, the new car registration surged in the first half of 2001.

Reviewing the passenger-car purchase trend from the replacement cycle, it is expected that new car purchase in the household consumption will moderately increase on the expectation of an increase in replacement demand, for example, the cars purchased during the bubble economy period (1990) or during the RV boom (1996) will be in the automobile inspection period.

Trend of Registration of New Passenger Cars

- Annual number of passenger-car registration
- Compared to the previous Quarter, degree of contribution to the growth rate (for individual consumers)
- Seasonally adjusted figures are independently adjusted by X-11 default of X-12-ARIMA.

(Source) “Car Registration Statistics Information”, the Japan Automobile Dealers Association
“Input-Output Table of 1995” (Ministry of Public Management, Home Affairs, Posts and Telecommunications)

Trend of Demand for Passenger Cars

- New demand/Renewal demand
- Changes in the number of passenger cars owned

(Note) The number of owned cars in each year is measured in March.
Renewal ratio (%) =100-(number of owned cars in the current year – number of owned cars in the previous year)/number of new car registrations  / 100

Trends in the sales of large scale retailers and diversification of consumption

Though sales of large-scale retailers have been shifting with a downward tendency, sales of ladies’ wear, children’s wear and personal effects have been shifting with a moderate downward tendency compared to other items. Specifically, department store sales of personal effects stay almost at the same level. Since department stores deal with many selective items in general, the lines of business are expensive compared to those at supermarkets, and they also turn over luxury brand items. Therefore, it is possible that the steady sales of these expensive items are boosting the sales figures.

Reviewing the trends in unit price and volume of the imported items, imports from Asian countries increased for many items, and it is considered that demands are shifting to cheap items. On the other hand, in addition to import from Asia, import of expensive bags from the E.U. and jewelry from the United States are also increasing, indicating one side of the polarization of the consumption structure. Also, the range of item selection is considered to be expanded in connection with the rise in import items.

Sales of Each Item by Large-scale Retailers

(Note) 1. Personal effects include shoes, bags and clothing accessories.
   2. Data of 2001 is the data until June compensated on the annual basis.
   3. Consumer price is independently obtained by weighting the consumer price index together with the business sales statistics.

Source: “Consumer Price Index” (Ministry of Public Management, Home Affairs, Posts and Telecommunications)
Trend of the Relative Unit Price

(Note). Each unit price is the value when assuming 1998 years average import unit price as 1.

1. The data of January to June are used as the data of 2001.
2. Source: “Trade Statistics” (Ministry of Finance)

Expanding rate of import volume (1998 – 2001)

Source: “Trade Statistics” (Ministry of Finance)
Trends in Employment

At present, the unemployment rate is shifting at a high level. However, those who completely stopped seeking employment are not included in the wholly unemployed persons in terms of the calculation of the unemployment rate, but included in the population not in the labor force. Therefore, we will observe the trends in the population not in labor force.

Of the population not in labor force, the rate of those who wish to have a job is shifting on an upward trend among those in the age bracket of 25 to 64. In 2001, over 40% of both males and females wish to get a job.

Observing the reasons for not looking for a job of those who wish to get a job among the population not in labor force, the number of people (both males and females) who mentioned, “there is likely to be no suitable job” as a reason has been increasing. In addition, observing the reasons in more detail, the rate of both males and females who answered, “cannot find a job due to the current economic situation” is expanding. Males tend to mention their unsuitable knowledge or skills and females tend to mention unsuitable working hours, etc. as a reason, which means that these people are included in the population not in the labor force due to the so-called employment mismatch (i.e. the skills or wishes of job seekers do not match the qualifications or requirements requested by companies).

Change in the Percentage of Job Seekers among the Population not in Labor Force
Changes in Job Seekers by Reason for Not Looking for a Job

Male

- Male who answered, "there is likely to be no suitable jobs".

Female

- Female who answered, "there is likely to be no suitable jobs".

(3) Supply intended for investment and investment trade

Supply activities intended for investment

As for the investment activities for the second Quarter of 2001, all demand components showed a decrease: public investment turned negative, posting a 8.7% decrease compared to the previous quarter due to the falling-off of the additional budget effect; private housing investment decreased by 10.3% for the first time in three quarters due to the decrease in the owner-occupied starts and build-for-sale (e.g. apartments) starts; and private investment fell by 5.4% for the second consecutive quarter due to the slowdown in IT-related demands, resulting in a shift to decrease of 7.3% compared to the previous quarter for total investment.

Furthermore, IT-related investment decreased by 0.4% for the second consecutive quarter compared to the previous quarter, and non-IT-related investment decreased by 6.3% for the third consecutive quarter.

Changes in The Indices of All Industries (final components) Intended for Investment by Demand Component

<table>
<thead>
<tr>
<th>Index level (1995=100, seasonally adjusted)</th>
<th>Compared to the previous quarter, degree of contribution to growth rate</th>
</tr>
</thead>
</table>

Source: “Indices of All Industries”
Changes in the IT-related Investments (1995=100, seasonally adjusted)

(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, 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 devices, input-output devices, terminal units, software development and program creation (subcontracts) that are also supplied to private enterprise facilities.

Source: “Indices of All Industries (final demand components)"
Trends of business investment by demand component in terms of The Indices of All Industries (final demand component)

We will observe the characteristics of the trend of individual goods and service in business investment by making an estimate according to the type of demand component with The Indices of All industries (final demand components).

Making a provisional estimate of business investment ratio by the type of investment, i.e. manufacturing industry and non-manufacturing industry, a significant increase in the IT-related investment ratio is observed in both industries. On the other hand, construction or other machinery investment ratios showed a relative decrease, indicating that the massive increase in the IT-related investment is causing some changes in the investment structure on the whole.

In addition, reviewing the revival phase of private investment of the current quarter (during the period from the first Quarter of 1999 to the forth Quarter of 2000), it is observed that the electric machinery industry which increased IT-related investment to a large degree as manufacturers against the background of strong IT-related demand and service industry, communication industry, and the trading industry that activated IT-related investments as users have provided most of the drive behind the revival. However, IT-related investment came to a temporary halt under the current conditions and private investment is strengthening its tendency toward decline, because, for example, the related decline in the production level caused a decrease in investment in the electric machinery industry. Therefore, it is concerned that the impact on the business investment on the whole will be large.
Factor Analysis of Private Investment
(compared to the previous quarter, degree of contribution to growth rate)

(Note) This analysis is conducted by making extensive estimates by categorizing the weight of the Indices of All Industries (final demand components) intended for private investment according to the composition rate of goods and services obtained by the fixed capital matrix in the Input-Output Table of 1995.
Source: “Input-Output-Table, 1995” (Ministry of Public Management, Home Affairs, Posts and Telecommunications), “Indices of All Industries (final demand components)”
(4) Trends in export and import

Considering trends in export for the second Quarter of 2001, exports decreased by 2.5%, a decrease for the forth consecutive quarter, owing to the decrease in exports of goods (mining and manufacturing industry) by 3.4% compared to the previous quarter for the forth consecutive quarter, although receipt of services increased by 0.6% compared to the previous quarter. As for imports, payment for services increased by 1.5% for the third consecutive quarter compared to the previous quarter and import of goods (mining and manufacturing industry) increased by 0.4% id., resulting in a increase by 0.8% id.

Regionally speaking, exports to all regions decreased. Although imports from ASEAN9 increased, imports from the US, EU, and East Asia decreased.
Changes in export indices

- 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, and Myanmar
- East Asia: Korea, China, Taiwan, Hong Kong
- Middle East: Iran, Iraq, Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Israel, Jordan, Syria, Lebanon, United Arab Emirates, Gaza, Yemen