2 Supply trend and final demand
(1) Outline of supply trend for final demand

2005 supply trend

The overall supply for final demand increased by 1.5% compared to the previous year, up for the third consecutive year. The outline was as follows:

Overall industrial supply for consumption increased by 1.2% (id.), up for the 7th consecutive year, due to an increase in individual consumption by 1.1% (id.) and an increase in government consumption by 1.3% (id.).

Overall industrial supply for investment increased by 2.6% (id.), up for the second consecutive year, due to an increase in private corporation facilities by 4.9% (id.) and an increase in private housing by 3.5% (id.), both rising for the third consecutive year, although public investment decreased by 4.2% (id.), down for the 6th consecutive year.

Exports increased by 3.9%, up for the fourth consecutive year, and imports also increased by 5.3% (id.), up for the 7th consecutive year.

IT-related consumption increased by 1.0% (id.), up for the first time in two years, and IT-related investment also increased by 4.8%, up for the third consecutive year including a leveling-off period.

Changes in the Indices of All Industries (Final demand components)
(2000=100, Ratio to the previous year, Ratio to the previous quarter after seasonal adjustment)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td></td>
<td>Ratio to the previous year</td>
<td>Ratio to the previous year</td>
<td>□ □ □</td>
<td>□ □ □</td>
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<tr>
<td>Total of final demand sector</td>
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<td>2.1</td>
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<tr>
<td>Mining and manufacturing (Goods)</td>
<td>2.1</td>
<td>6.7</td>
<td>2.1</td>
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<td>2.8</td>
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<td>Tertiary industries (Services)</td>
<td>1.0</td>
<td>2.0</td>
<td>1.4</td>
<td>0.4</td>
<td>0.9</td>
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<tr>
<td>Consumption</td>
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<td>Personal consumption</td>
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<tr>
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<td>1.1</td>
<td>0.1</td>
<td>0.8</td>
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<tr>
<td>(Special) IT-related</td>
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<td>1.0</td>
<td>-6.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Government consumption</td>
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<td>2.6</td>
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<td>0.9</td>
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<tr>
<td>Investment</td>
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<td>1.8</td>
<td>2.0</td>
<td>0.1</td>
<td>2.0</td>
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<tr>
<td>Public investment</td>
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<td>-6.2</td>
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<tr>
<td>Private housing</td>
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<td>1.9</td>
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<tr>
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<tr>
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<td>4.8</td>
<td>0.8</td>
<td>8.6</td>
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<tr>
<td>Construction</td>
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<td>2.6</td>
</tr>
<tr>
<td>(Special) IT-related</td>
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<td>3.6</td>
<td>4.8</td>
<td>-2.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Exports</td>
<td>4.1</td>
<td>11.3</td>
<td>3.9</td>
<td>1.8</td>
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<tr>
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<tr>
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<td>4.7</td>
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<tr>
<td>Imports</td>
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<td>8.5</td>
<td>5.3</td>
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<tr>
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<tr>
<td>Tertiary industries (Services)</td>
<td>-9.8</td>
<td>9.8</td>
<td>3.0</td>
<td>-4.6</td>
<td>8.4</td>
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</tbody>
</table>

Notes: 1. The indices of all industrial supply reflect the retroactive correction of the Indices of Industrial Domestic Shipments and Exports, which is the basic data, and are retroactively corrected with regard to past series (For details, refer to “Remarks” of the main text).
2. As for details of revision of base year to YR2000, and the definition of “IT-related consumption” and “IT-related investment” of the indices of all industrial supply, see “Outline of the revision of the 2000 base ‘Indices of All Industrial Supply’” on p.269 of the main text.
3. As the indices of all industrial supply are calculated using various statistical data, preliminary figures are used for some basic data. Therefore, you should note that the indices of the previous quarter had been corrected to the revised figures.
4. The ratios to the previous year are original indices, and others are based on seasonal adjustment indices.

Source: “The Indices of All Industries (Final demand components)” (Estimated values)
Trend of IT-related consumption and investment

IT-related consumption for 2005 increased by 1.0% compared to the previous year, up for the first time in two years, due to an increase in fixed telecommunications business, etc. Non-IT-related consumption also increased by 1.0% (id.), up for the third consecutive year.

IT-related investment for private corporation facilities increased by 4.8% (id.) due to an increase in mid range computers, etc., up for the third consecutive year including a leveling-off period. Non-IT-related investment also increased by 5.0%, up for the third consecutive year.

Changes in IT-related Consumption

Index level (2000=100, Seasonally adjusted)

Note: IT-related consumption is consumption related to cellular telephones, personal handy phone systems, personal computers, fixed telecommunications business and mobile telecommunications business that are supplied to personal consumption.

Source: “The Indices of All Industries (Final demand components)” (Estimated values)

Changes in IT-related Investment

Index level (2000=100, Seasonally adjusted)

Note: IT-related investments are investments related to communication wires and cables, power wires and optical fiber products for cables, digital and full color copying machines, key system telephone equipment, facsimile machines, electronic switching systems, digital transmission equipment, fixed communication equipment, personal handy phone systems, basic exchange for mobile customer premises equipment, general purpose computers, mid-range computers, personal computers, external storage, input-output units, terminal equipment, software development and program creation (subcontracts) that are supplied to private corporation facilities.

Source: “The Indices of All Industries (Final demand components)” (Estimated values)
Characteristics of personal consumption seen in supply side statistics

Characteristics of personal consumption for 2005 were as follows: information and communications business maintained a high level, and wholesale trade and retail trade, which had continued decreasing, shifted to increase and led the personal services industry. We will summarize the current status and the factors of these characteristics.

As for information and communications industry (mobile telecommunication industry), we looked at popularization of cellular telephones by the number of subscribers and frequency in use. The number of subscribers had been constantly increasing but leveled off in 2005, and cellular telephones have come close to saturation, with the household ownership ratio being over 90%. Mobile phone communications expenses for 2005 was 77,644 yen (Up by 4.1% compared to the previous year) and accounted for 2.1% of overall consumption expenditures, with the rate expanding in recent years (Family Income and Expenditure Survey). The usage of cellular telephones is now mainly through audio communication, but has been diversified such as through increasing data communication. The size of the mobile contents-related market has continued to expand, as games showed a significant increase in 2004 and song download service for mobile telephones, which newly appeared in 2002, increased to 20.1 billion yen (up by 617.9% compared to the previous year) in 2004.

Then we looked at a cycle to replace cellular telephones. The duration of use for one cellular telephone is 2.4 years on average (Consumption Trend Survey). Looking at the Indices of Industrial Shipments, there were 11 quarters between the peak before last and the last peak. If the cycle changes at similar intervals, it looks as if it is time that a demand for new cellular telephones grows, as 9 quarters have passed since the last peak. Furthermore, the telephone number portability system and one segment broadcasting will be introduced in 2006, which is expected to bring about a further increase in consumption.

Changes in Supply from Information and Communications Industry for Personal Consumption

Sources: "The Indices of All Industries (Final demand components)" (Estimated values), "The Indices of Tertiary Industry Activity", "Balance of Payments Statistics" (Bank of Japan)

Household Ownership Ratio and Number of Cellular Telephones Owned by Age Group (Households with more than 2 people)

Sources: "National Survey of Consumption" (Ministry of Internal Affairs ans Communications)
Changes in Size of Mobile Contents-related Market

There were only a few kinds of businesses that decreased in overall retail trade industry. Retail sale of household appliances (business to sell household electrical goods, etc.) showed a constant increase, and retail sale of fuels (gas stations, etc.) shifted to increase from 2004. Therefore, we looked at the trend of durable consumer goods for culture and entertainment from data such as the Indices of Industrial Production to examine what commodities (goods) increased in retail sale of household appliances, which has contributed to increase significantly.

Among digital cameras, DVD-videos, and liquid crystal TVs, which were labeled the new three holy durables, digital cameras and DVD-videos increased significantly from 2001 to 2004, and nearly half of overall households own them at present. However, in 2005, positive sales of digital cameras and DVD-videos shifted to decrease, and liquid crystal TVs showed an increase instead. The market size of liquid crystal TVs was small at first, but has continued to grow since 2000, showing an increase by nearly 50% compared to the previous year since 2003.

Looking at the future trend of consumption from the Consumption Trend Survey, consumers’ incentive to buy durable consumer goods is now strongest since 1998. The areas covered by terrestrial digital broadcasting will be gradually expanded, and analog broadcasting will be terminated in 2011. The penetration rate for households of Thin TVs is low at 11.5% as of 2005, and 2006 Soccer World Cup is to be held in June. All these factors are expected to contribute to a continuous increase in sales of liquid crystal TVs and Plasma TVs.
Supply from Retail Trade Industry for Personal Consumption

Sources: "The Indices of All Industries (Final demand components)" (Estimated values), "The Indices of Tertiary Industry Activity", "Balance of Payments Statistics" (Bank of Japan)

Supply of Durable Consumer Goods for Culture and Entertainment for Personal Consumption

Sources: "The Indices of All Industries (Final demand components)" (Estimated values), "The Indices of Industrial Production", "Trade Statistics" (Ministry of Finance)

Indices to Decide to Buy Durable Consumer Goods and Shipments of Durable consumer Goods (Seasonally adjusted)

Note: The Industrial Shipments are the Indices assuming the value for 2000 as 100.
Sources: "Consumption Trend Survey" (Cabinet Office), "The Indices of Industrial Production"
The aging of company facilities and trends of productivity

With the rapid aging of the population and the falling birthrate, enhancement of efficiency of company facilities for better productivity is indispensable to maintain stable economic growth in Japan. In the current expanding stage of the economy, capital investment has been active, backed by favorable company earnings. This seems to contribute greatly to enhancement of efficiency of company facilities. We will examine the investment efficiency and the productivity of company facilities mainly of the manufacturing industry, focusing on the aging (average years that facilities are used), which is one of the elements to decide the quality of capital investment and capital stock.

The aging calculated for all industries, the manufacturing industry and the tertiary industry had continued to increase since 1992, but the range of increase has been diminishing since 2002. This implies that the aging of company facilities has been slowing down. In particular, the aging for the manufacturing industry decreased for the second consecutive quarter in 2005.

We will look at the investment in new facilities and retirement amount in the manufacturing industry compared to the same quarter of the previous year, based on "Gross Capital Stock of Private Enterprises" (Note). Retirement has been promoted rather actively since 2001, and the investment in new facilities has become positive compared to the previous year since 2003. Such scrap-and-build movements seem to have put the brakes on the aging of facilities in the manufacturing industry.

Note: The "Gross Capital Stock of Private Enterprises (preliminary report, annual report) (Cabinet Office) was updated on February 22, 2006. Please note that this analysis was based on the former data. The latest data used were that of the second quarter of 2005 for a quarterly report (preliminary report) and that of 2005 for an annual report.

Changes in Aging (All Enterprises)

Note: As for calculation of the aging, see the main text (Same as the next figure).
Sources: "National Wealth Survey" (Economic Planning Agency of Japan), "Gross Capital Stock of Private Enterprises" (Cabinet Office)

Changes in Investment in New Facilities and Retirement Amount
(Manufacturing, Change from the same quarter of the previous year)

Note: The retirement amount was calculated using published net retirement amount (the amount subtracting the amount for acquiring used products from assets disposed and sold) until the first quarter of 2004, and using published capital stock and investment in new facilities since the second quarter of 2004. For the second quarter of 2003, when the net retirement amount was overvalued due to consolidation of big steel companies, the retirement amount was calculated based on the average of the changes from the same quarter of the previous year for the past one year (4 quarters).
Sources: "National Wealth Survey" (Economic Planning Agency of Japan), "Gross Capital Stock of Private Enterprises" (Cabinet Office)
We calculated the real aging (Note) by dividing calculated aging of each kind of manufacturing industry by average durable years respectively. Based on the latest data in 2003, the real aging was highest in the petroleum and coal industry and lowest in the electrical machinery industry.

Taking up the petroleum and coal industry and the textile industry with high real aging, and the electrical machinery industry and the transport equipment industry with low real aging, basically negative correlation can be observed between capital investment efficiency and the real aging. This means if the real aging declines (= the quality of company facilities improves), capital investment efficiency becomes higher, and if the real aging rises (= the quality of company facilities deteriorates), capital investment efficiency becomes lower.

Note: The “real aging” here is the average elapsed years against the average durable years, which is the elapsed rate.

Changes in Real Aging of Each Manufacturing Industry

Sources: “National Wealth Survey” (Economic Planning Agency of Japan), “Gross Capital Stock of Private Enterprises” (Cabinet Office)


Notes: 1. As for calculation of the aging, see the main text.
2. Due to the limitation of data, values for the automobile and its accessories manufacturing industry were adopted as a substitute series for the capital investment efficiency of the transport equipment industry.

Sources: “Financial Statements of Corporations by Industry” (Ministry of Finance), “Gross Capital Stock of Private Enterprises” (Cabinet Office)
In the manufacturing industry, although the capital equipment ratio has been decreasing after peaking in 2001, due to disposal of excessive equipment, basically a positive correlation can be observed between labor productivity and the capital equipment ratio. If the capital equipment ratio (capital stock per employee) rises, labor productivity also rises.

However, breaking down labor productivity of the manufacturing industry into two factors (the capital equipment ratio and capital investment efficiency), it was not the capital investment ratio but rather the capital investment efficiency that has significantly raised labor productivity since the fourth quarter of 2002. This is the period when the aging stopped to rise in the manufacturing industry, and the quality of company facilities was enhanced by down-sizing of enterprises and scrap-and-build movements. These factors may have raised labor productivity.

Although there are disparities in the aging and capital investment efficiency by kind of business, the aging of company facilities has been slowing down in the overall manufacturing industry, which seems also to reflect in changes in productivity. As there is a negative correlation between productivity and the aging, positive investment in new facilities and retirement in the future will reduce the aging (= enhance the quality of company facilities), which is expected to further enhance productivity.

Correlation between Labor Productivity and Capital Equipment Ratio in Manufacturing Industry
(Full-scale, 1980 – 2004)

Note: As for calculation of labor productivity and the capital equipment ratio, see the main text.
Sources: “Financial Statements of Corporations by Industry” (Ministry of Finance)

Analysis of Factors for Labor Productivity in Manufacturing Industry
(Full-scale, Change from the same quarter of the previous year)

Note: As for analysis of factors for labor productivity, see the main text.
Sources: “Financial Statements of Corporations by Industry” (Ministry of Finance)
(2) Outline of export and import trends

2005 export and import trends

Looking at the trends of exports and imports for 2005 (on a quantity basis), exports as a whole increased by 3.9% compared to the previous year, due to increases in exports of goods (the mining and manufacturing industry) by 3.7% (id) and received services (the tertiary industry) by 4.7%. Imports as a whole increased by 5.3% (id.), due to increases in imports of goods (the mining and manufacturing industry) by 6.2% (id.) and service payments (the tertiary industry) by 3.0% (id.).

By region, exports of goods increased in the U.S., ASEAN, and East Asia. Imports of goods also increased in East Asia, Europe, the U.S., ASEAN, and Middle East.

Changes in Exports by Region (Goods)

Index level (2000=100, Seasonally adjusted)

Notes: 1. The export index by region is estimated by rearranging the trade statistics with the shipment index group, and the import index is estimated by rearranging the trade statistics with total supply index group.

2. The regional classification was amended according to the revision of the base year 2000. The names of each country are as follows:

ASEAN: Singapore, Thailand, Malaysia, Philippines, Indonesia, Vietnam, Myanmar, Laos, Brunei, and Cambodia;

East Asia: Republic of Korea, Taiwan, China (including Hong Kong);

Middle East: Iran, Iraq, Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Israel, Jordan, Syria, Lebanon, the United Arab Emirates, Gaza and Yemen.

Sources: “Breakdown List of Industrial Shipments” (Estimated values), “Table of Total Industrial Supply” (Estimated values)
Performances of global companies

Japanese economy (growth rate of real GDP) has been significantly led by foreign demand. Therefore, contact with overseas market is a major means for individual companies to increase sales amount and expand size of business. Based on individual data on the manufacturing industry of the Basic Survey of Japanese Business Structure and Activities by METI, we classified companies into two categories, that is, companies that have direct contact with overseas market (hereinafter, “companies that directly engage in exports” and “companies that own subsidiaries or affiliates in foreign countries” are referred to as “global companies”) and companies that do not have direct contact with overseas market (hereinafter referred to as “non-global companies”), and examined the differences in financial standing and business efficiency, the growth potential of companies (the growth rate of sale amount and the increase rate of employees, etc.), and the rate of rise in the management index, etc. As a result, it became clear that global companies showed a higher level than non-global companies in single-year indices, such as capital adequacy ratios, rates of return on assets (ROA), and operating margin ratio, etc. of individual companies. However, the growth potential and the rate of rise in the management index of global companies are not always higher than those of non-global companies. Similar results were obtained also for the group of companies that became global recently. This does not mean that global companies realized higher business efficiency as a result of achieving a high growth potential and high rate of rise, but that only those companies that had achieved high business efficiency could be global ones that can withstand intensive competition in overseas market.

Changes in Number and Sales Amount of Global Companies

Changes in number of global companies

Changes in sales amount of global companies

Source: “Basic Survey of Japanese Business Structure and Activities” (Rearranged) (Hereinafter the same)

Capital Distribution of Global Companies and Non-Global Companies
As is clear in the figure on the previous page, the scale of global companies is larger than that of non-global companies. Most of the large companies are classified into global companies. The following are figures that show the disparities in the management indices of midsize/medium and small-sized companies with capital of less than 1 billion yen. Even among midsize/medium and small-sized companies, global companies have a larger number of employees and a higher ratio of capital adequacy, pay higher wages, and achieve higher labor productivity (value added per person) and rate of returns. Furthermore, global companies also showed a higher ratio of R&D expenditures against sales amount and higher ratio of advertising expenditures against sales amount than non-global companies (see the main text). In many cases, these differences in indices had already existed between potential global companies (non-global companies that became global afterwards) and non-global companies. Therefore, those companies that have achieved higher productivity and higher performances in terms of revenue have higher potential to be companies that can be successful also in overseas market.

Distribution of Management Indices of Global Companies
(Companies with capital of less than 1 billion yen) <FY2003>

- Number of regular employees in Japan
  - Top 25%, Medium, Lower 25% points
  - Non-global companies: 74, 108, 152
  - Global companies: 180, 266

- Capital adequacy ratio
  - Top 25%, Medium, Lower 25% points
  - Non-global companies: 10.8, 24.6, 45.3
  - Global companies: 14.5, 28.4, 48.1

- Rate of return on assets
  - Top 25%, Medium, Lower 25% points
  - Non-global companies: 0.6, 2.7, 6.0
  - Global companies: 1.1, 3.2, 6.7
Notes: 1. As for definition of each index, see the main text.
2. Figures in dark color are on a level of 1%, and figures in light color are on a level of 10%, showing meaningful differences statistically.
3. Trends by kind of industry

(1) Trend in the manufacturing industry

A. Iron and Steel industry

- Both production and shipments decreased for the first time in four years, due to curtailment of production since early autumn.

- Production decreased by 0.4% compared to the previous year, down for the first time in four years, due to decreases in cold finished steel and metallic coated steel by curtailment of production since early autumn. Shipments also decreased by 0.5% (id.), down for the first time in four years, due to decreases in all the industries excluding steel castings and forgings and hot roll steel. Inventory increased by 6.7% compared to the end of the previous year, up for the first time in two years, due to increases in all the industries excluding steel castings and forgings and metallic coated steel.

- Sub-classification by industry
  1) Production of \textit{crude steel} leveled off at 0.0% compared to the previous year.
  2) Production of \textit{hot roll steel} decreased by 0.8% (id.), down for the first time in four years.
  3) Production of \textit{steel pipes and tubes} decreased by 2.4% (id.), down for the first time in two years.
  4) Production of \textit{cold finished steel} decreased by 1.9% (id.), down for the first time in four years.
  5) Production of \textit{metallic coated steel} decreased by 3.2% (id.), down for the first time in four years.
  6) Production of \textit{steel castings and forgings} increased by 4.9% (id.), up for the third consecutive year.

B. Non-ferrous metals industry

- Production increased for the first time in two years, due to increases in optical fiber for communication wires and cables products and die castings.

- Production increased by 1.9% compared to the previous year, up for the first time in two years, due to increases in electric wires and cables and non-ferrous metal castings. Shipments increased by 0.3% (id.), up for the third consecutive year, due to increases in non-ferrous metal castings and refining of non-ferrous metals. Inventory decreased by 6.4% compared to the end of the previous year, down for the first time in three years.

- Sub-classification by kind of industry
  1) Production and shipments of \textit{refining of non-ferrous metals} increased (compared to the previous year) by 3.9% and by 2.4% (id.) respectively; both rising for the first time in two years. Inventory increased by 12.8% compared to the end of the previous year, up for the first time in two years.
  2) Production and shipments of \textit{copper and copper-base alloys and aluminum rolling products} decreased (compared to the previous year) by 4.4% and by 5.0% (id.) respectively, down for the first time in three years. Inventory increased by 4.4% compared to the end of the previous year, up for the first time in four years.
  3) Production of \textit{electric wires and cables} increased by 5.5% compared to the previous...
year, up for the first time in four years, and shipments also increased by 1.3% (id.), up for the first time in five years. Inventory decreased by 23.6% compared to the end of the previous year, down for the first time in two years.

4) Production of non-ferrous metal castings increased by 4.4% compared to the previous year, up for the fourth consecutive year.

C. Fabricated metals industry

– Production decreased for the fifth consecutive year, due to decreases in aluminium sashes for wooden houses and bath tub gas water heaters. –

- Production decreased by 1.1% compared to the previous year, down for the fifth consecutive year, due to decreases in metal products for building and equipment for heating and kitchens. Shipments decreased by 1.1% (id.), down for the ninth consecutive year, due to decreases in metal products for building, and fabricated structural metal products. Inventory decreased by 13.5% compared to the end of the previous year, down for the first time in two years, due to decreases in equipment for heating and kitchens.

- Sub-classification by kind of industry

  1) Production of fabricated structural metal products increased by 1.3% compared to the previous year, up for the first time in six years. Shipments decreased by 3.4% (id.), down for the sixth consecutive year.

  2) Production of metal products for building decreased by 6.3% (id.), down for the fifth consecutive year. Shipments decreased by 3.6% (id.), down for the first time in two years. Inventory decreased by 17.4% compared to the end of the previous year, down for the first time in three years.

  3) Production of equipment for heating and kitchens decreased by 8.3% compared to the previous year, down for the fourth consecutive year (including a year that showed leveling off). Shipments decreased by 2.8% (id.), down for the second consecutive year. Inventory decreased by 33.9% compared to the end of the previous year, down for the first time in two years.

  4) Production of other metal products increased by 1.8% compared to the previous year, up for the third consecutive year. Shipments increased by 1.2% (id.), up for the second consecutive year. Inventory leveled off at 0.0% compared to the end of the previous year.

D. General machinery industry

– Both production and shipments increased for the third consecutive year, due to increases in metal cutting machinery, and boilers and power units, etc. –

- Production and shipments increased (compared to the previous year) both by 4.9%, rising for the third consecutive year, due to increases in metal cutting machinery, boilers and power units, engineering and construction machinery, conveying machinery, and fans, pumps and oil hydraulic equipment, etc. Inventory increased by 9.0% compared to the end of the previous year, up for the second consecutive year, due to increases in metal cutting machinery, engineering and construction machinery, boilers and power units, agricultural machinery, and tools for machines, etc. Inventory ratio increased by 3.9% compared to the
previous year, up for the first time in four years.

- Sub-classification by kind of industry

1) Production of **metal cutting machinery** increased by 26.5% (id.), up for the third consecutive year, due to increases in all the goods. Numerically controlled lathes increased by 32.5% (id.), up for the third consecutive year, due to increases in demand for domestic iron and steel industry and shipbuilding industry and exports to Asia, along with continuous favorable conditions in automobile-related demand for domestic use and exports to the U.S. and Europe. Special purpose machinery increased by 45.9% (id.), up for the first time in two years, due to favorable conditions mainly in automobile-related demand for domestic use and exports to Europe and Asia. Machining centers increased by 17.1% (id.), up for the third consecutive year, due to increases in demand for domestic and foreign automobile-related industries and for domestic die manufacturing industry. Grinding machinery increased by 24.2% (id.), up for the third consecutive year, and numerically controlled electrical discharge machines increased by 5.7%, up for the second consecutive year.

2) Production of **boilers and power units** increased by 15.2% (id.), up for the second consecutive year, due to increases in steam turbines for general use, internal combustion engines for industry and parts and accessories of steam turbines.

3) Production of **engineering and construction machinery** increased by 13.9% (id.), up for the third consecutive year, due to increases in all the goods such as shovel type excavators, bulldozers, construction cranes, and earth finishing machinery.

4) Production of **conveying machinery** increased by 11.2% (id.), up for the third consecutive year, due to increases in cranes, conveyors, and mechanical parkings, etc.

5) Production of **Fans, pumps and oil hydraulic equipment** increased by 3.8% (id.), up for the third consecutive year, due to increases in oil hydraulic equipments, pumps, and pneumatic equipment, etc.

6) In spite of an increase in semiconductor products machinery, production of **special industrial machinery** decreased by 2.4% (id.), down for the first time in three years, due to decreases in printing machinery, flat-panel display manufacturing equipment, and food products machinery, etc.

7) Production of **office machinery** decreased by 12.4%, down for the first time in two years, due to decreases in digital and full color copying machines and system use cash registers.

E. Electrical machinery industry

- Production increased for the third consecutive year, due to increases in lithium ion storage batteries, etc. –

  - In spite of decreases in electrical measuring instruments and household electrical machinery, production increased by 1.9% compared to the previous year, up for the third consecutive year, due to increases in batteries, and switching devices, etc. In spite of decreases in electrical measuring instruments, etc., shipments increased by 3.3% (id.), up for the third consecutive year, due to increases in batteries, etc. Inventory increased
by 2.9% compared to the end of the previous year, due to increases in wiring devices and luminaries, etc. Inventory ratio increased by 3.3% compared to the previous year, up for the first time in four years.

Sub-classification by kind of industry

1) Although there were decreases in lithium batteries, etc., production of batteries increased by 12.0% (id.), up for the fourth consecutive year, due to increases in lithium ion storage batteries, and alkaline storage batteries, etc.

2) Although there were decreases in programmable controllers, etc., production of switching devices increased by 2.0% (id.), up for the second consecutive year, due to increases in switching and controlling equipment, electro magnetic relays, and electro magnetic clutches.

3) Production of electrical measuring instruments decreased by 9.6% (id.), down for the first time in three years, due to decreases in all the goods, such as semiconductor characteristic measuring equipments, electric test and measuring equipment, and process measuring and control instruments for industry.

4) In spite of an increase in electric rice cookers and rice jar combination, production of household electrical machinery decreased by 4.3% (id.), due to decreases in refrigerators with freezers, microwave ovens, and washing machines.

F. Information and communication electronics equipment industry

– Production decreased for the second consecutive year, due to decreases in terminal equipment, cellular telephones and input-output units, etc.–

Sub-classification by kind of industry

1) In spite of increases in personal handy phone systems, etc., production of communication equipment decreased by 4.9% (id.), down for the second consecutive year, because cellular telephones decreased due to a sluggish new demand, basic exchange for mobile customer premises equipment decreased due to a decrease in capital investment in base stations for PHS and cellular telephones, and electric switching systems decreased due to a decrease in orders for telecommunications business entities and mobile communications business entities.

2) In spite of increases in mid range computers, production of electronic computers decreased by 1.3% (id.), down for the first time in two years, because terminal equipment decreased as demand caused by an introduction of new bills subsided, and input-output units decreased due to a decrease in orders for telecommunications business entities and mobile communications business entities.

3) Although there were decreases in color televisions, etc., production of household electronic machinery increased by 5.4% (id.), up for the fourth consecutive year,
due to increases in liquid crystal televisions with expanding domestic demand, car navigation systems with a steady domestic demand, and video cameras with an increase in recording media such as DVDs.

G. Electronic parts and devices industry
- Production increased for the fourth consecutive year, due to increases in active matrix LCD (middle and small), etc.
  - In spite of decreases in integrated circuits, etc., production and shipments increased (compared to the previous year) by 0.3% and by 3.0% respectively, up for the fourth consecutive year, due to increases in electronic parts, etc. Inventory decreased by 2.9% compared to the end of the previous year, down for the first time in two years, due to decreases in all the industries. The inventory ratio increased by 17.8% compared to the previous year, up for the second consecutive year.
  - Sub-classification by kind of industry
    1) In spite of decreases in passive matrix LCD, etc., production of electronic parts increased by 5.5% (id.), up for the fourth consecutive year, due to increases in active matrix LCD (middle and small) and fixed capacitors, both for cellular telephones, and an increase in small high-capacity ceramic capacitors, due to an increase in loading number through advancement of functions.
    2) Production of integrated circuits decreased by 3.5% (id.), down for the first time in four years, due to a decrease in linear integrated circuits for general equipment and industrial equipment, and a decrease in metal oxide semiconductor IC (logic IC) for game machines and monitors.

H. Transport equipment industry
- Both production and shipments increased for the fourth consecutive year, due to an increase in exports of passenger cars.
  - In spite of decreases in railway vehicles and trucks, production of transport equipment increased by 5.4% compared to the previous year, up for the fourth consecutive year, due to increases in passenger cars, motor vehicle parts, ships and ships engines, and motorcycles, etc. In spite of decreases in trucks and railway vehicles, shipments also increased by 3.4% (id.), up for the fourth consecutive year, due to increases in passenger cars, motor vehicle parts, ships and ships engines, and motorcycles, etc. In spite of a decrease in buses, inventory increased by 47.5% compared to the end of the previous year, up for the first time in three years, due to increases in passenger cars, trucks, motorcycles, and motor vehicle parts. The inventory ratio increased by 9.0% compared to the previous year, up for the first time in two years.
  - Sub-classification by kind of industry
    1) Production of passenger cars increased by 3.5% (id.), up for the second consecutive year. By goods, large passenger cars increased by 3.6% (id.), up for the seventh consecutive year, due to increases in exports to the U.S. and Middle East. Small passenger cars increased by 3.4%, up for the first time in three years, due to increases in exports to the U.S., Middle East and ASEAN. Minivans increased by 3.1% (id.), up
for the second consecutive year, due to an increase in domestic use.

2) Production of *trucks* decreased by 3.7% (id.), down for the second consecutive year, due to decreases both in domestic use and in exports to East Asia, ASEAN, and Europe.

3) Production of *motor vehicle parts* increased by 5.3% (id.), up for the seventh consecutive year, due to increases both in domestic use and in exports to the U.S. and Europe.

4) Production of *motorcycles* increased by 36.0% (id.), up for the second consecutive year, due to increases both in domestic use and in exports to the U.S. and Europe.

- Number of registrations and reports of new vehicles
  - Looking at domestic demand of automobiles by the number of new registrations and reports of new vehicles, the number of vehicles, as a whole, stood at 5.85 million (a leveling off at 0.0% (id.)). Inside of this, passenger cars were 4.75 million, a decrease of 0.4% (id.), down for the first time in seven years. Trucks were 1.09 million, an increase of 1.8% (id.), up for the first time in ten years. Buses were 18 thousand, a decrease of 2.2% (id.), down for the second consecutive year.

I. Precision instruments industry

- Production increased for the third consecutive year, due to increases in interchangeable lenses for cameras, etc.

  - In spite of decreases in measuring machines and instruments, and watches and clocks, production increased by 1.1% compared to the previous year, up for the third consecutive year, due to increases in optical apparatus and parts. In spite of an increase in measuring machines, shipments decreased by 0.6% (id.), down for the first time in two years, due to decreases in optical apparatus and parts, and watches and clocks. In spite of an increase in watches and clocks, inventory decreased by 12.9% compared to the end of the previous year, down for the fourth consecutive year, due to decreases in optical apparatus and parts, and measuring machines and instruments. The inventory ratio decreased by 13.4% compared to the previous year, down for the fourth consecutive year.

  - Sub-classification by kind of industry

    1) In spite of a decrease in 35mm cameras, production of *optical apparatus and parts* increased by 15.3% compared to the previous year, up for the second consecutive year, due to an increase in interchangeable lenses for cameras as a result of the release of new models corresponding to single lens reflex digital cameras.

    2) In spite of an increase in precision measuring machines and instruments, production of *measuring machine and instruments* decreased by 1.2% (id.), down for the first time in three years, because analytical instruments decreased due to decreases in chromatography-separation-distillation equipment and photometric analysis equipment, measuring instruments decreased due to a decrease in level meters, and testing machines also decreased.

    3) In spite of an increase in battery driven type clocks, production of *watches and clocks* decreased by 2.6% compared to the previous year, down for the seventh
consecutive year, due to decreases in battery driven type watches (movement) due to
development of foreign makers, including Chinese makers, and battery driven type
watches (complete) due to progress in transfer of production overseas.

J. Ceramics, stone and clay products industry
– Both production and shipments decreased for the fifth consecutive year, due to a
decrease in glass and glass products. –

Production decreased by 2.0% compared to the previous year, down for the fifth
consecutive year, due to the following reasons. Glass and glass products decreased by
5.3% (id.), down for the second consecutive year, due to a decrease in glass products
with sluggish domestic and foreign demand and a decrease in sheet glass. Ceramic
wares and fine ceramics decreased by 5.6% (id.), down for the fifth consecutive year,
due to a decrease in all the goods, such as ceramic wares for tableware and kitchenware,
and tiles, etc. On the other hand, other ceramics, clay and stone products increased by
2.2%, up for the third consecutive year, due to increases in solidity carbonaceous
electrodes and quick lime, and cement and cement products increased by 0.5% (id.), up
for the first time in nine years, due to an increase in demand for disaster-relief work.
Shipments decreased by 2.3% (id.), down for the fifth consecutive year, due to
decreases in glass and glass products, ceramic wares and fine ceramics, and cement and
cement products. Inventory decreased by 0.3% compared to the end of the previous year,
down for the fourth consecutive year, due to decreases cement and cement products, and
ceramic wares and fine ceramics. The inventory ratio increased by 1.4% compared to
the previous year.

Sub-classification by kind of industry

1) Production of glass and glass products decreased by 5.3% compared to the previous
year, down for the second consecutive year, due to a decrease in glass with a sluggish
demand for sheet glass for single family homes, and a decrease in glass products
caused by production stoppage of glass for CRT.

2) Although cement products decreased due to weakness in public construction work,
production of cement and cement products increased by 0.5% (id.), up for the first
time in nine years, due to an increase in cement for disaster-relief work after
typhoons and earthquakes in the previous year.

3) Production of ceramic wares and fine ceramics decreased by 5.6% (id.), down for
the fifth consecutive year, due to a decrease in fine ceramics, as well as a decrease in
ceramic wares in all goods, such as ceramic wares for tableware and kitchenware, and
tiles, due to an increase in imports and a decrease in demand.

4) Production of other ceramics, stone and clay products increased by 2.2% (id.), up
for the third consecutive year, due to increases in all the goods, such as solidity
carbonaceous electrodes, quick lime, and monolithic refractories, etc.

K. Chemicals (excl. Drugs) industry
– Production increased for the third consecutive year, and shipments increased for the
fourth consecutive year. –
Production increased by 0.6% compared to the previous year, up for the third consecutive year, due to increases in cosmetics, aromatic hydrocarbons (petroleum, origin), and industrial organic chemicals, etc. Shipments increased by 0.5% (id.), up for the fourth consecutive year, due to increases in cosmetics, industrial organic chemicals, and aromatic hydrocarbons (petroleum, origin), etc. Inventory increased by 7.2% compared to the end of the previous year, up for the first time in four years, due to increases in plastic (materials), synthetic rubbers, industrial inorganic chemicals, pigment and catalyst, etc.

Sub-classification by kind of industry

1) Production of cosmetics increased by 2.2% compared to the previous year, up for the third consecutive year, due to increases in skin cream products (facial cleansing cream/foam, cleansing cream, skin cream products for men, and massage cold cream, etc.) and makeup products (foundation, face powder, makeup products for eyes, eyebrow pencils, and makeup products for eyelashes, etc.)

2) Production of aromatic hydrocarbons (petroleum, origin) increased by 4.7% (id.), up for the fourth consecutive year, due to increases in para-xylene for exports to China, pure benzene for styrene monomers and cyclohexane, xylene for para-xylene, and pure toluene for exports to South Korea.

3) Production of industrial organic chemicals increased by 1.4%, up for the third consecutive year, due to increases in ethylene glycol for domestic use and exports, acrylonitrile for domestic use, ethylene dichloride for vinyl chloride monomers, and propylene for domestic use and exports.

L. Petroleum and coal products industry

Both production and shipments increased for the first time in two years, due to increases in naphtha and kerosene.

In spite of decreases in heavy fuel oil A, coke, heavy fuel oil B and C, production increased by 1.2% compared to the previous year, up for the first time in two years, due to increases in naphtha, kerosene, gas oil, and gasoline, etc. In spite of decreases in heavy oil A and coke, shipments increased by 1.8% (id.), up for the first time in two years, due to increases in kerosene, naphtha, gasoline, and gas oil, etc. In spite of increases in coke, and naphtha, etc., inventory decreased by 5.8% compared to the end of the previous year, down for the second consecutive year, due to decreases in kerosene, gasoline, and heavy fuel oil B and C, etc. The inventory ratio increased by 1.4% compared to the previous year, up for the first time in two years.

Trends in major items

1) Production of gasoline increased by 0.4% compared to the previous year. Shipments increased by 0.7% (id.), up for the third consecutive year, backed by an increase in the number of gasoline-fueled vehicles. Inventory decreased by 4.5% compared to the end of the previous year, down for the first time in five years.

2) Production of naphtha increased by 8.5% compared to the previous year, up for the fifth consecutive year. Shipments increased by 5.8% (id.), up for third consecutive year, due to favorable production of pure benzene for petrochemicals, which is a
major recipient. Inventory increased by 9.1% compared to the end of the previous year, up for the second consecutive year.

3) Production of kerosene increased by 5.9% compared to the previous year, and shipments increased by 9.2% (id.), due to the following reasons. The temperature was mostly low in the first half of the year, and a cold wave hit nationwide in December, which increased demand for kerosene for heating. Furthermore, retailers actively accumulated inventory in the middle of the year with anticipation of high prices. Inventory decreased by 30.7% compared to the end of the previous year, down for the first time in three years.

4) In spite of a decrease in domestic sales, production and shipments of gas oil increased (compared to the previous year), by 3.4% and by 2.9% respectively, both up for the second consecutive year, due to an increase in exports. Inventory increased by 0.7% compared to the end of the previous year.

5) Production of heavy fuel oil B and C decreased by 0.2% compared to the previous year, down for the second consecutive year. Shipments increased by 1.5% (id.), due to increases in demand for electricity and exports to China. Inventory decreased by 5.3% compared to the end of the previous year, down for the second consecutive year.

6) Production of coal products (coke) decreased by 0.6% compared to the previous year, down for the second consecutive year. Shipments decreased by 3.8% (id.), down for the first time in four years, due to a decrease in demand for exports. Inventory increased by 106.8% compared to the end of the previous year, up for the first time in four years.

M. Plastic products industry

– Both production and shipments increased for the third consecutive year. –

☐ Production decreased by 0.6% compared to the previous year, down for the first time in three years, due to decreases in all of manufacturing material-related production, consumption material-related production, and construction material-related production. Shipments decreased by 0.6% (id.), down for the first time in three years, due to decreases in all of consumption material-related production, manufacturing material-related production, and construction material-related production. Inventory increased by 3.9% compared to the end of the previous year, up for the first time in four years, due to decreases in all of construction material-related production, consumption material-related production and manufacturing material-related production.

☐ Production by use

1) In manufacturing material-related items, plastic products for machine tools and parts decreased by 0.9% compared to the previous year, down for the first time in three years, due to decreases in parts for telecommunications and other parts. In spite of a favorable demand for PET bottles for drinks due to higher temperatures than usual, plastic containers blow-molding decreased by 2.3% (id.) as a result of backlash from a heat wave in the previous summer. In contrast, plastic containers (excl. blow-molding) increased by 8.1% (id.), up for the third consecutive year, due to increases in pallet for transportation and containers for industrial use and for food. Plastic
synthetic leathers also increased by 0.5% (id.), up for the third consecutive year, due to an increase in a demand for automobile interior, etc.

2) In consumption material-related items, plastic products for daily necessaries and miscellaneous goods decreased by 2.3% compared to the previous year, down for the tenth consecutive year, including a leveling-off period, due to a decreases in storage goods and gardening supplies. Plastic film and plastic sheets decreased by 0.2% (id.), down for the first time in three years, due to decreases in wrapping film. Plastic formed products also decreased by 0.3% (id.), down for the first time in two years, due to decreases in molds.

3) In construction material-related items, plastic plates decreased by 10.4% compared to the previous year, down for the first time in three years, due to a decrease in flat plates and a decrease in corrugated plates caused by production adjustment after increasing production with anticipation of an increasing demand caused by typhoons. Plastic pipes decreased by 3.2% (id.), down for the first time in two years, due to decreases in water pipes and sewage pipes, etc. Plastic materials for building decreased by 2.7% (id.), down for the first time in three years, due to decreases in rain gutters and their accessories, and floor materials. In contrast, plastic reinforced products increased by 13.9% (id.), up for the first time in three years, due to increases in bathtubs, etc.

N. Pulp, paper and paper products industry
– Both production and shipments increased for the second consecutive year. –

- In spite of a decrease in paperboard, production increased by 0.6% compared to the previous year, up for the second consecutive year, due to increases in paper, pulp and converted and processed paper. In spite of a decrease in paperboard, shipments increased by 0.6% (id.), up for the second consecutive year, due to increases in paper, converted and processed paper, and pulp. Inventory increased by 5.6% compared to the end of the previous year, up for the third consecutive year.

- Sub-classification by kind of industry

1) In spite of a decrease in uncoated printing paper, production of paper increased by 1.0%, compared to the previous year, up for the second consecutive year, due to increases in household and sanitary paper, coated printing paper, newsprint paper in rolls, communication paper, and wrapping and packing paper. In spite of a decrease in uncoated printing paper and wrapping and packing paper, shipments increased by 1.0% (id.), up for the second consecutive year, due to increases in household and sanitary paper, coated printing paper, communication paper, and newsprint paper. Inventory increased by 6.6% compared to the end of the previous year, up for the third consecutive year.

2) Both production and shipments of paperboard decreased (compared to the previous year) by 0.4% and by 0.6% (id.) respectively, down for the fifth consecutive year, due to a decrease in paperboards for paper container. Inventory increased by 0.5% compared to the end of the previous year, up for the first time in five years.
3) Production of **converted and processed paper (corrugated cardboard sheets)** increased by 0.3% compared to the previous year, up for the fourth consecutive year. Shipments increased by 0.4% (id.), up for the third consecutive year.

O. Textiles industry

– Both production and shipments decreased mainly in clothes and woven fabrics. –

- Production of the textiles industry for 2005 decreased by 6.5% compared to the previous year, down for the 17th consecutive year since 1989, due to decreases in all the industries, such as clothes, woven fabrics, and dyeing and finishing, etc. This was due to a sluggish domestic demand and an increase in manufactured imports. Shipments also decreased by 6.6% (id.), down for the 17th consecutive year, down for the eighth consecutive year, due to decreases in all the industries, such as clothes, woven fabrics, and dyeing and finishing, etc. Inventory decreased by 3.6% compared to the end of the previous year, down for the eighth consecutive year, due to decreases in all the industries such as woven fabrics, clothes, and man-made fibers, etc.

- Sub-classification by kind of industry

1) Production of **chemical fibers** decreased by 2.7% compared to the previous year, and shipments decreased by 3.3% (id.). This is due to decreases both in synthetic fibers (filament) and synthetic fibers (staple). Inventory decreased by 2.2% compared to the end of the previous year, due to decreases both in synthetic fibers (filament) and synthetic fibers (staple).

2) Production of **spun yarn** decreased by 14.5% compared to the previous year, and shipments decreased by 16.6% (id.). This is due to decreases in all the goods, such as synthetic fiber yarn resulting from a slump of polyester yarn and acrylic yarn, and woolen yarn and cotton yarn resulting from factory closedowns and reduction of production scale. In spite of an increase in cotton yarn, inventory decreased by 1.3% compared to the end of the previous year, due to decreases in woolen yarn and synthetic fiber yarn.

3) Production and shipments of **woven fabrics** decreased (compared to the previous year) by 6.4% and by 10.0% respectively, due to decreases in all the goods, such as synthetic fiber fabrics (filament), cotton fabrics, and silk and spun silk fabrics, etc. owing to sluggish domestic demand. Inventory decreased by 9.2% compared to the end of the previous year, due to decreases in cotton fabrics, and woolen fabrics, etc.

4) Production and shipments of **clothes** decreased (compared to the previous year) by 11.1% and by 8.5% respectively, due to decreases in woven fabrics outer wears, knitted fabrics outer wears, and hosiery owing to an increase in manufactured imports. In spite of an increase in woven fabrics outer wears, inventory decreased by 2.6% compared to the end of the previous year, due to decreases in hosiery and knitted fabrics outer wears.
(2) Trends in the tertiary industry

A. Commerce

- The total sales amount for the wholesale industry was 424.2650 trillion yen. Total sales increased by 3.1% compared to the previous year, up for the second consecutive year, due to the following reasons. The machinery and equipment wholesale industry increased due to favorable conditions mainly in exports of facility-related machinery, such as metal forming machinery. The mineral and metal materials wholesale industry also increased; however, the food and beverages wholesale industry, etc. decreased.
- The total sales amount for large wholesalers was 113.9135 trillion yen. Total sales increased by 3.0% (id.), up for the second consecutive year.
- The total sales amount for the retail industry was 129.5260 trillion yen. Although the food and beverages retail industry decreased, total sales increased by 1.1% (id.), up for the first time in nine years, due to increases in other retail industries and in the fuel retail industry, resulting from a price hike of petroleum products due to an upsurge in crude oil.
- The total sales amount for large retailers was 21.3344 trillion yen, decreasing by 0.6% (id.), down for the eighth consecutive year.
- The total sales amount and service sales amount for convenience stores was 7.3596 trillion yen, increasing by 1.0% (id.).

B. Specific service industries

- Business services
  - The contract amount for commodity leases (based on acceptance inspection) increased by 2.3% compared to the previous year, up for the second consecutive year. The purchase amount for delivery items also increased by 1.9% (id.).
  - The total sales amount for the rental industry increased by 0.6% (id.), up for the first time in ten years.
  - The total sales amount for the information service industry increased by 1.2% (id.), up for the second consecutive year.
  - The total sales amount for advertising increased by 3.3% (id.), up for the third consecutive year. Advertising media other than the main four were active.
  - The total amount handled by the credit card service increased by 10.5% (id.). By type of business, sales credit business increased by 13.0% (id.), and consumer credit business also increased by 2.0% (id.).
  - The total amount of orders received in engineering services increased by 15.3% (id.). The breakdown shows that foreign demand increased by 39.3% (id.); and domestic demand increased by 6.9% (id.).

- Personal services
  - In the leisure and amusement services, pachinko parlors, theaters, performances, companies promoting professional sports and performances increased, while golf courses, bowling alleys, golf practice ranges, amusement parks and theme parks, and movie theaters decreased.
In the culture and lifestyle services, fitness clubs and funeral services, and cultural centers increased, while wedding ceremony halls and foreign language conversation classes decreased.