2 Supply trend and final demand

(1) Summary of supply trend for final demand

① Supply trend for the quarter

The outline of the supply trend for final demand for the first quarter of 2006 was as follows:

Overall industrial supply for consumption increased by 0.7% compared to the previous quarter, up for the second consecutive quarter, due to increases in personal consumption by 0.8% (id.), up for the second consecutive quarter, and in government consumption by 0.4% (id.), up for the first time in two quarters.

Overall industrial supply for investment decreased by 0.1% (id.), down for the first time in five quarters, due to a decrease in private corporation facilities (by 1.8%, down for the first time in eight quarters), in spite of increases in private housing (by 3.3%, up for the fourth consecutive quarter) and public investment (by 1.2%, up for the first time in two quarters).

Exports increased by 2.9% (id.), up for the fourth consecutive quarter, and imports also increased by 1.3% (id.), up for the fifth consecutive quarter.

IT-related consumption increased by 0.9% (id.), up for the third consecutive quarter, while IT-related investment decreased by 2.9% (id.), down for the second consecutive quarter.

| Changes in the Indices of All Industries (Final demand components) (2000=100, Ratios to the previous year (quarter)) |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2006 |
| | Ratio to the previous year | Ratio to the previous year | I | II | III | IV | I | II | III | IV | I |
| Total of final demand sector | 2.1 | 1.5 | 0.2 | 1.1 | 0.2 | -0.6 | 1.1 | 0.5 | 0.5 | 0.5 | 0.9 |
| Mining and manufacturing (Goods) | 6.7 | 1.7 | 0.0 | 2.8 | 0.2 | -0.2 | -0.1 | 1.0 | 0.4 | 1.8 | 1.2 |
| Tertiary industries (Services) | 2.0 | 1.5 | 0.4 | 0.9 | 0.3 | -0.1 | 1.3 | -0.1 | 0.4 | 0.4 | 0.6 |
| Consumption | 1.7 | 1.2 | 0.1 | 0.5 | 0.4 | 0.0 | 1.2 | -0.1 | -0.1 | 0.5 | 0.7 |
| Personal consumption | 1.4 | 0.9 | -0.3 | 0.6 | 0.1 | 0.2 | 1.0 | -0.1 | -0.2 | 0.6 | 0.8 |
| Mining and manufacturing (Goods) | 0.8 | 0.5 | -1.0 | -0.7 | 0.2 | 0.8 | 0.0 | 0.5 | -0.5 | 0.5 | 1.1 |
| Tertiary industries (Services) | 1.8 | 1.1 | 0.1 | 0.8 | 0.0 | -0.1 | 1.3 | -0.1 | 0.0 | 0.3 | 0.5 |
| (Special) IT-related | -2.6 | 0.9 | -6.5 | -0.1 | 1.4 | 1.7 | -0.8 | -1.6 | 0.9 | 4.5 | 0.9 |
| Government consumption | 2.6 | 1.6 | 0.9 | 0.6 | 1.0 | -0.3 | 1.5 | -0.2 | 0.4 | -0.1 | 0.4 |
| Investment | 0.8 | 2.6 | -1.0 | 2.0 | 0.0 | -0.4 | 0.7 | 1.9 | 1.0 | 0.2 | -0.1 |
| Public investment | -12.4 | -4.2 | -3.7 | -6.2 | -3.0 | 0.8 | 0.4 | -1.5 | 0.7 | -3.1 | 1.2 |
| Private housing | 2.2 | 3.5 | -2.8 | 1.9 | 4.3 | -0.7 | -0.2 | 0.9 | 0.8 | 3.3 | 3.3 |
| Private corporation facilities | 6.7 | 5.1 | -0.1 | 4.8 | 0.1 | 1.3 | 0.0 | 2.7 | 0.8 | 2.0 | -1.8 |
| Mining and manufacturing (Goods) | 12.7 | 4.9 | 0.8 | 8.6 | 0.3 | 0.3 | -1.4 | 5.7 | -1.2 | 1.7 | -4.5 |
| Construction | 1.2 | 6.9 | -0.1 | 3.2 | -0.1 | 1.0 | 1.3 | 3.2 | 2.1 | 2.5 | -0.3 |
| Tertiary industries (Services) | 3.2 | 3.3 | -1.6 | 2.6 | -1.5 | 3.5 | -0.6 | 1.1 | 1.1 | 2.7 | -0.8 |
| (Special) IT-related | 3.6 | 4.7 | -2.0 | 0.9 | 1.2 | 3.4 | -2.5 | 4.7 | 4.5 | -3.6 | -2.9 |
| Exports | 11.3 | 4.1 | 1.8 | 4.8 | 0.2 | 0.2 | -1.6 | 2.3 | 3.6 | 3.3 | 2.9 |
| Mining and manufacturing (Goods) | 11.9 | 3.5 | 2.4 | 3.8 | 0.3 | 0.2 | -1.6 | 1.7 | 3.7 | 3.8 | 3.0 |
| Tertiary industries (Services) | 9.2 | 5.8 | 1.2 | 6.4 | 0.1 | -0.2 | -0.9 | 4.2 | 3.6 | 2.0 | -2.3 |
| Imports | 8.5 | 5.4 | 0.6 | 4.3 | 2.1 | -0.2 | 0.2 | 3.2 | 2.2 | 1.1 | 1.3 |
| Mining and manufacturing (Goods) | 8.3 | 6.1 | 3.1 | 3.6 | 1.8 | -0.2 | 0.2 | 4.6 | 1.8 | 2.1 | -0.1 |
| Tertiary industries (Services) | 9.8 | 3.3 | -4.6 | 8.4 | 2.0 | -2.5 | 1.5 | 1.1 | 1.8 | -2.2 | 5.4 |

Notes: 1. The indices of all industrial supply are obtained through annual correction for 2005 and re-calculation of seasonal index.
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’” 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).
② Trend of IT-related consumption and investment

IT-related personal consumption for the first quarter of 2006 increased by 0.9% compared to the previous quarter, up for the third consecutive quarter. Non-IT-related consumption also increased by 0.7% (id.), up for the second consecutive quarter.

IT-related investment for private corporation facilities decreased by 2.9% (id.), down for the second consecutive quarter, due to decreases in personal computers, etc. Non-IT-related investment decreased by 1.7% (id.), down for the first time in two quarters.

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)
Current status of consumption seen from propensity to consume

It is pointed out that recent active propensity to consume has been supported by personal consumption. Therefore, we will examine the trend of propensity to consume by breaking down positive factors into income and consumption of households.

Different than in years past, in 2004, disposable income and consumption expenditure both started to increase, and the growth rate of the latter exceeded that of the former, which caused a rise in propensity to consume. In 2005, same as in years before 2003, disposable income and consumption expenditure both decreased, and the declining rate of the latter was smaller than that of the former, which also caused a rise in propensity to consume. However, in 2004 and 2005, the level of consumption and income showed a trend different from that during 1999 to 2003, and this indicates some changes are occurring in the trend.

Looking at income^Note1^, income of the heads of households showed a trend similar to total income (hitting a peak in 1997, then declining until 2003, and remaining flat since 2004), but income of their spouses has increased since 2004. The percentage of income of the spouses among the total household income has also increased, which implies that spouses’ income has covered decreases in income of the household heads to support the total household income. Breakdown of income in peak years and in 2005 by generation^Note2^ shows such trends, notably in the 30s and the generation over 60.

Levels (Workers’ households excluding agricultural, forestry, and fisheries households) (2000=100)

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</thead>
<tbody>
<tr>
<td>Income of the head of household</td>
<td>86.8</td>
<td>86.7</td>
<td>89.9</td>
<td>87.7</td>
<td>87.3</td>
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<tr>
<td>Income of the spouse</td>
<td>12.0</td>
<td>12.0</td>
<td>12.0</td>
<td>12.0</td>
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<tr>
<td>Income of other family members</td>
<td>1.2</td>
<td>1.2</td>
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<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
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</table>

Note1: Income here refers only to “employment income” among overall income of workers’ households (excluding agricultural, forestry, and fisheries households) in the Family Income and Expenditure Survey. Note that this income refers to that before paying taxes, unlike the above-mentioned disposable income.

Note2: Based on data of the Family Income and Expenditure Survey (Ministry of Internal Affairs and Communications) by age group of the household heads, the weighted averages of figures for 24 or younger and between 25 and 29 are defined as figures for 20s or younger, between 30 and 34 and between 35 and 39 as 30s, between 40 and 44 and between 45 and 49 as 40s, between 50 and 54 and between 55 and 59 as 50s, and between 60 and 64 and 65 or over as 60s or over.

Chages in Distribution Ratio of Household Income (by Generation) (%)
Looking at changes in the levels of consumption expenditure in ten major items, medical care and transportation & communication have been on an upward trend. In contrast, food, furniture & household utensils, others, and clothes & footwear have been decreasing. Breaking down the two items that have shown an upward trend, in medical care, supplements to maintain good health increased significantly due to rising concern over health. Medical care services also showed an increase. In transportation & communication, communication has been increasing steady, backed by an increase in cellular telephones, and there was growth in expenditures related to automobiles. This is probably due to rising gas prices caused by an upsurge in oil prices.

In this way, propensity to consume has been on an upward trend since 1999, because a decrease in income was larger than that in consumption. However, income stopped decreasing and consumption started to increase in these two or three years, which has also caused a rise in propensity to consume.

Signs of the end of the decrease in overall household income are brought about by an increase in income of the spouses, although income of the heads of households has not shown growth. Furthermore, increases in expenditures related to automobiles along with those for medical care and communications may have raised consumption expenditures. Therefore, we should keep an eye on these costs, which will continue to have a significant influence on consumption expenditures, as well as the trend of income.

Changes in Distribution Ratio of Consumption (%)

<table>
<thead>
<tr>
<th>Item</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>22.0</td>
<td>21.6</td>
</tr>
<tr>
<td>Housing</td>
<td>6.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Fuel, light &amp; water charges</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Furniture &amp; household utensils</td>
<td>3.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Clothes &amp; footwear</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Medical care</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Transportation &amp; communication</td>
<td>12.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Education</td>
<td>5.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Reading &amp; recreation</td>
<td>9.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Other living expenditure</td>
<td>25.9</td>
<td>24.0</td>
</tr>
</tbody>
</table>

Note: Shaded parts are those whose distribution ratios increased more than 0.5 points from 2000 to 2005.
Source: “Family Income and Expenditure Survey” (Ministry of Internal Affairs and Communications)

Changes in Consumption (Workers’ households excluding agricultural, forestry, and fisheries households) (2000=100)

① Medical care

- Medicine
- Healthcare supplies/equipment
- Medical care services
- Supplements to maintain good health (Right scale)

② Transportation & communication

- Transportation
- Expenditures related to automobiles
- Communication
In the current business recovery stage, capital investment has been active, backed by favorable corporate earnings. However, the percentages of capital investment to ordinary profit and to cash flow show prudence more notable than in former recovery stages. Therefore, we will examine the status of capital investment in the current recovery stage, focusing on cash flow in particular, and will also make a forecast of capital investment for the moment by using the operating rate index.

The percentage of capital investment to ordinary profit (all industries, all scales) exceeded 100% (capital investment > ordinary profit) until the second quarter of 2004, but has been under 100% since the third quarter of 2004. The percentage of capital investment to cash flow (all industries, all scales) has been under 100% since the fourth quarter of 1994. The percentages to cash flow started to show signs of ending its decrease in 2005, but have generally been on a declining trend. If capital investment exceeding cash flow is defined as “active investing”, overall capital investment in this recovery stage, so far, is defined as “careful investing”.

**Changes in Percentages of Capital Investment to Ordinary Profit and Cash Flow**
*(Following four months’ moving average, All industries/All scales)*

1. **Percentage to ordinary profit**

2. **Percentage to cash flow**

*Note: The percentage of capital investment to ordinary profit is obtained by dividing capital investment with ordinary profit. The percentage of capital investment to cash flow is obtained by dividing capital investment with cash flow.*

*Source: “Financial Statements of Corporations by Industry” (Ministry of Finance).*
Japanese companies learned a lesson from the past failures of having overcapacity, and seem to have utilized cash flow not only for capital investment but also for usages other than real investment\(^{\text{Note1}}\), including reduction of interest-bearing liabilities. The percentage of interest-bearing liabilities balance to cash flow has been on a decline after hitting a peak in 1994, and returned to the level before the bubble’s implosion in this recovery stage. Furthermore, the amount of the cash dividend generally increased significantly after 2002, which implies that cash flow has also been utilized for increasing cash dividends, especially in large companies. Cash flow is considered to be also used for M&A (merger and acquisition of companies), and the number of M&A\(^{\text{Note2}}\) and investment securities have also been on the rise. Cash dividend has been increased as countermeasures against mergers, as well as for keeping long-term shareholders.

\(^{\text{Note1}}\): According to “Findings of Survey on Capital Spending Behavior (conducted in November 2004)” (Development Bank of Japan), among overall capital usages (all industries), the largest in proportion was “an increase in domestic capital investment” (about 40%), followed by “a further reduction in interest-bearing liabilities” (about 30%) (limited to capital usages other than reduction in liabilities after interest-bearing liabilities attained the appropriate level). The total of “cash dividend” and “M&A” accounted for about 10%.

\(^{\text{Note2}}\): Note that M&A is not necessarily completed with cash. Types of M&A include consolidation, buyout, transfer of business, and capital participation, etc. In 2005, cash was used in 29 cases out of 107 (about 27% on a case basis) of making wholly owned subsidiaries. In 2004, cash was used in 45 cases out of 111 (41% (id.)). The percentage differs every year.

Changes in Percentages of Interest-bearing Liabilities Balance to Cash Flow
(Following four months’ moving average, All industries)

Note: See the main text for how to obtain the percentage of interest-bearing liabilities balance to cash flow.
Source: “Financial Statements of Corporations by Industry” (Ministry of Finance).
Changes in Cash Dividends and Changes in Number of M&A and Investment Securities

① Changes in cash dividends

② Changes in number of M&A and investment securities

Notes: 1. The number of M&A does not include that of M&A among a group.
2. Investment securities refers to securities that are not included in stocks of related companies (excluding stocks that fall under securities for buying and selling and stocks of parent companies) and other current assets.

Source: “Financial Statements of Corporations by Industry” (Ministry of Finance), “MARR” (RECOF Corporation)
Looking at the future trend of capital investment in the relationship with the operating rate, the operating rate index of the manufacturing industry shows a correlation, leading three quarters ahead of capital investment. An examination of correlations between capital investment and the operating rate during the whole period (since 1988) and each of its three parts shows that the correlation was the highest (coefficient of correlation; 0.922) when the operating rate leads three quarters in the third period, which includes the current business recovery stage. The result of regression analysis of this period is statistically-significant, which implies a high possibility that increases and decreases in the operating rate cause increases and decreases in capital investment of the manufacturing industry. The correlation was the highest in each period when the operating rate leads capital investment. Therefore, it is considered to take note of the operating rate, in particular, before making capital investment. Also from this point of view, capital investment at this recovery stage can be taken as steady.

As mentioned above, the operating rate index also shows underlying strength of capital investment for the moment (Note), and companies seem to have made sound capital investment, while improving their financial strength by reducing interest-bearing liabilities, etc. Capital investment is unlikely to decrease sharply, and is expected to remain positive for some time.

Note: When calculating capital investment of the manufacturing industry up to three quarters later from the operating rate index by using the above-mentioned regression formula, the results show that capital investment is expected to remain positive for some time (see the main text (Fig. II-2-35) for the results of the tentative calculation).

Changes in Operating Rate Index (Manufacturing Industry) and Capital Investment (Manufacturing/All scales) (Seasonally adjusted)

Note: Capital investment is originally adjusted using X-11 default of census bureau method of X-12-ARIMA. Source: “Financial Statements of Corporations by Industry” (Ministry of Finance), “Indices of Industrial Production”
### Correlation between Operating Rate Index (Manufacturing Industry) and Capital Investment (Manufacturing/All scales)

<table>
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<tr>
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<tbody>
<tr>
<td>5 quarters leading</td>
<td>0.906</td>
<td>0.887</td>
<td>0.485</td>
<td>0.750</td>
</tr>
<tr>
<td>4 quarters leading</td>
<td><strong>0.918</strong></td>
<td>0.840</td>
<td>0.594</td>
<td>0.873</td>
</tr>
<tr>
<td>3 quarters leading</td>
<td>0.897</td>
<td>0.744</td>
<td>0.816</td>
<td><strong>0.922</strong></td>
</tr>
<tr>
<td>2 quarters leading</td>
<td>0.843</td>
<td>0.617</td>
<td><strong>0.887</strong></td>
<td>0.864</td>
</tr>
<tr>
<td>1 quarter leading</td>
<td>0.751</td>
<td>0.453</td>
<td>0.827</td>
<td>0.742</td>
</tr>
<tr>
<td>Coincident</td>
<td>0.627</td>
<td>0.284</td>
<td>0.674</td>
<td>0.550</td>
</tr>
</tbody>
</table>

**Notes:**
1. Capital investment is originally adjusted using X-11 default of census bureau method of X-12-ARIMA.
2. The results of regression of “3 quarters leading” in the third period (2000 to 2005) are as follows:
   \[ I = 90913.87 R_{o,-3} - 5240780 \]
   \[ (10.409) \quad (-6.162) \]
   \[ R^2 = 0.851 \quad D.W. = 1.064 \]
   Values in parentheses are t-values.

   I: Capital investment (Million yen), Ro: Operating rate index, R^2: Coefficient of determination
   D.W.: Durbin-Watson value

Source: “Financial Statements of Corporations by Industry” (Ministry of Finance), “Indices of Industrial Production”
(2) Outline of export and import trends

① Export and import trends for the quarter

Looking at the trends of exports and imports for the first quarter of 2006 (on a quantity basis), exports as a whole increased by 2.9% compared to the previous quarter, due to increases in exports of goods (the mining and manufacturing industry) by 3.0% (id.), and received services (the tertiary industry) by 2.3% (id.). Imports as a whole increased by 1.3% (id.), due to an increase in service payments (the tertiary industry) by 5.4% (id.), in spite of a decrease in imports of goods (the mining and manufacturing industry) by 0.1% (id.).

By region, exports of goods increased in Europe, the United States, East Asia and ASEAN. Imports of goods decreased in the United States and Europe.

Changes in Exports by Region (Goods)

Index level (2000=100, Seasonally adjusted)

Changes in Imports by Region (Goods)

Index level (2000=100, Seasonally adjusted)

Notes:
1. The export index 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”, “Table of Total Industrial Supply” (Estimated values)
Global expansion of demand has continued to raise crude oil prices in recent years. Crude oil prices, which further went up due to Hurricane Katrina that hit the U.S. last year, temporarily remained flat at the beginning of this year, but started to increase again due to political uncertainty in oil producing countries. WTI forward price (current delivery), which used to be around 32$/barrel at the end of 2003, went up to around 43$/barrel at the end of 2004, around 59$/barrel at the end of 2005, and exceeded 70$/barrel in April 2006 (see the main text). Upsurge of crude oil prices is a significant issue for Japan, which depends upon imports for most of its crude oil consumption. Further observation of the trend of oil prices is necessary.

Breaking down the factors of increasing oil import amount in Japan, the amount has shown a double-digit increase compared to the same month of the previous year since the middle of 2004, but import volume has not contributed to the increase. The increase in oil import amount has been caused mostly by rising import unit value of crude oil. Rising oil unit value increased the import amount nearly to the level of Japan’s trade balance and caused a sharp decline in trade surplus.
In order to know the extent of benefits brought to oil-producing countries and how much money has been transferred due to the recent upsurge in crude oil prices, we will examine trade balances between Saudi Arabia, one of the largest oil producing countries in the Middle East, and major trade partners (the U.S., Japan, 15 EU countries, China, Korea, and Singapore) and estimate the trend of so-called oil money at the current rising oil price stage. Saudi Arabia, which occupies the largest share (17%) among global oil exports, is considered to have received the largest benefits through exporting crude oil, against the background of high crude oil prices.

Looking at changes in exports, imports and trade balance of Saudi Arabia with major trade partners, trade surplus started to expand in 2004, when crude oil prices started to increase significantly. The annual accumulating total of imports from major trade partners increased around 7 billion dollars, from 28.9 billion dollars in 2004 to 35.8 billion dollars in 2005, while that of exports to major trade partners increased more than 35 billion dollars, from 84.5 billion dollars in 2004 to 120.3 billion dollars in 2005. As a result, the trade surplus increased significantly from 55.6 billion dollars in 2004 to 84.5 billion dollars in 2005. Exports of crude oil only showed an increase of 30 billion dollars, from 67.1 billion dollars in 2004 to 96.8 billion dollars in 2005, which indicates that most of the increase in exports was caused by the increase in crude oil exports.

### Breakingdown Trade Value of Saudi Arabia (2003)

![Pie chart showing export breakdown](image)

**Exports (2003)**
- 93.244 billion dollars
- U.S.: 22.256 billion dollars
- Japan: 11.665 billion dollars
- EU: 16.078 billion dollars
- China: 4.591 billion dollars
- Korea: 3.772 billion dollars
- Singapore: 9.57 billion dollars
- Others: 26.789 billion dollars

**Imports (2003)**
- 36.916 billion dollars
- U.S.: 11.357 billion dollars
- Japan: 8.411 billion dollars
- EU: 8.742 billion dollars
- China: 2.751 billion dollars
- Korea: 2.895 billion dollars
- Singapore: 2.768 billion dollars
- Others: 8.78 billion dollars

*Note: 1 dollar = 3.75 Riyals*  
*Source: Ministry of Economy and Planning*

### Export and Import between Saudi Arabia and Major Trade Partners

![Graph showing export and import trends](image)

Source: World Trade Atlas
In Saudi Arabia, the government handles the oil industry. Therefore, the increase in oil trade is supposed to be stored as assets of the Saudi Arabian Monetary Agency (SAMA). The asset balance of SAMA increased significantly from around 100 billion dollars at the end of 2004 to 165 billion dollars at the end of 2005. In particular, the balance of foreign securities increased more than 45 billion dollars, from 52.6 billion dollars at the end of 2004 to 98.7 billion dollars at the end of 2005, accounting for most of the increase in asset balance. The government of Saudi Arabia seems to have spent foreign currencies gained through the recent high-price of crude oil mostly on investment in overseas financial assets.

While demand for crude oil continues to expand globally, it is difficult to resolve geopolitical risks in oil producing countries in a prompt manner. Demand and supply of crude oil will remain tight for some time. Japan, which depends on the Middle East for most of its oil imports, will continue to suffer from adverse balance of trade, in spite of increases in exports of automobiles and steel pipes. Transfer of money from Europe, the U.S. and Japan to oil producing countries in Africa and the Middle East has been expanding with crude oil prices, which have maintained their high level. However, most such capital in oil producing countries is likely to be invested in financial assets such as foreign securities, instead of being used for real investment to foster domestic industries including oil development and establishment of oil refining facilities.

Changes in Asset Balance of Saudi Arabian Monetary Agency (SAMA)

Source: Saudi Arabian Monetary Agency
3. Trends by kind of industry
(1) Trend in the manufacturing industry

A. Iron and Steel industry
– Production increased for the first time in three quarters, and inventory increased for the third consecutive quarter due to an increase in semi-finished steel for repair of blast furnaces. –

① Production increased by 2.1% compared to the previous quarter, up for the first time in three quarters, due to increases in hot roll steel and crude steel, etc. Shipments also increased by 1.5% (id.), up for the second consecutive quarter, due to increases in hot roll steel and cold finished steel, etc. Inventory increased by 3.5% compared to the end of the previous quarter, up for the third consecutive quarter, due to increases in crude steel and steel pipes and tubes, etc.

② Sub-classification by industry
1) Production of crude steel increased by 3.8% compared to the previous quarter, up for the first time in five quarters.
2) Production of hot roll steel increased by 2.4% (id.), up for the first time in four quarters.
3) Production of steel pipes and tubes increased by 4.9% (id.), up for the first time in three quarters.
4) Production of cold finished steel increased by 2.3% (id.), up for the first time in five quarters.
5) Production of metallic coated steel decreased by 0.1% (id.), down for the third consecutive quarter.
6) Production of steel castings and forgings decreased by 0.4% (id.), down for the first time in two quarters.

B. Non-ferrous metals industry
– Production increased for the second consecutive quarter, due to increases in all industries. –

① Production increased by 1.5% compared to the previous quarter, up for the second consecutive quarter, due to increases in all industries such as electric wires and cables and copper and copper-base alloys and aluminum rolling products. Shipments also increased by 1.2% (id.), up for the second consecutive quarter, due to increases in refining non-ferrous metals, copper and copper-base alloys and aluminum rolling products, and non-ferrous metal castings. Inventory decreased by 2.3% compared to the end of the previous quarter, down for the first time in three quarters.

② Sub-classification by kind of industry
1) Production of refining of non-ferrous metals increased by 1.2% compared to the previous quarter, up for the second consecutive quarter, due to increases in electrolytic copper, etc. Shipments also increased by 4.0% (id.), up for the third consecutive quarter, due to increases in electrolytic copper, etc. Inventory decreased by 6.0% compared to the end of the previous quarter, down for the first time in three quarters.

2) Production and shipments of copper and copper-base alloys and aluminum rolling products increased both by 1.3% compared to the previous quarter, up for the second consecutive quarter, due to an increase in copper and copper-base alloys, etc. Inventory decreased by 4.9% compared to the end of the previous quarter, down for the third
3) Production of **electric wires and cables** increased by 2.6% compared to the previous quarter, up for the fourth consecutive quarter, due to an increase in optical fiber for communication wires and cables products, etc. Shipments decreased by 0.8% (id.), down for the first time in four quarters. Inventory increased by 2.9% compared to the end of the previous quarter, up for the first time in two quarters.

4) Both production and shipments of **non-ferrous metal castings** increased by 0.5% compared to the previous quarter, up for the second consecutive quarter, due to an increase in die castings, etc.

C. Fabricated metals industry

- **Both production and shipment decreased for the first time in two quarters.** –

  ① Production decreased by 3.6% compared to the previous quarter, down for the first time in two quarters, due to decreases in fabricated structural metal products, other metal products, and metal products of buildings. Shipments also decreased by 5.2% (id.), down for the first time in two quarters, due to decreases in all industries. Inventory increased by 3.4% compared to the end of the previous quarter, up for the first time in five quarters, due to an increase in equipment for heating and kitchens.

  ② Sub-classification by kind of industry

  1) Production of **fabricated structural metal products** decreased by 12.0% compared to the previous quarter, down for the first time in two quarters, due to decreases in steel bridges and structural-steel frames, etc. Shipments also decreased by 13.6% (id.), down for the first time in two quarters.

  2) Production of **metal products of building** decreased by 2.8% (id.), down for the third consecutive quarter, due to decreases in aluminum exterior and aluminum sashes for buildings, etc. Shipments decreased by 3.2% (id.), down for the third consecutive quarter. Inventory decreased by 2.2% compared to the end of the previous quarter, down for the fifth consecutive quarter.

  3) Production of **equipment for heating and kitchens** increased by 13.2% compared to the previous quarter, up for the first time in five quarters, due to increases in oil space heaters and bath tub gas water heaters, etc. Shipments decreased by 1.5% (id.), down for the first time in two quarters, due to a decrease in oil space heaters, etc. Inventory increased by 26.2% compared to the end of the previous quarter, up for the first time in two quarters.

  4) Production of **other metal products** decreased by 3.3% compared to the previous quarter, down for the first time in four quarters, due to decreases in aluminum cans for beverages, and transmission line hardware, etc. Shipments decreased by 1.5% (id.), down for the first time in two quarters, due to decreases in aluminum cans for beverages, and transmission line hardware, etc. Inventory decreased by 1.5% compared to the end of the previous quarter, down for the first time in three quarters.

D. General machinery industry

- **Both production and shipments decreased for the first time in two quarters, due to decreases in boilers and power units and metal cutting machinery, etc.** –
Production decreased by 3.2% compared to the previous quarter, down for the first time in two quarters, due to decreases in boilers and power units, metal cutting machinery, conveying machinery, office machinery, and metal forming machinery, etc. Shipments also decreased by 2.7% (id.), down for the first time in two quarters. Inventory decreased by 3.0% compared to the end of the previous quarter, down for the first time in seven quarters. Inventory ratio increased by 1.8% compared to the previous quarter, up for the second consecutive quarter.

Sub-classification by kind of industry

1) Production of **boilers and power units** decreased by 13.7% (id.), down for the first time in two quarters. Parts and accessories of boilers decreased for the first time in two quarters, due to decreases in exports to Asia and in demand for repairs for domestic power companies. Internal combustion engines for industry decreased for the first time in eight quarters, due to a decrease in exports to the United States. Parts and accessories of steam turbines decreased for the first time in six quarters, due to decreases in demand for repairs both for exports and domestic use. Parts and accessories of steam turbines for general use decreased for the first time in three quarters, due to a decrease in demand for private power generation for domestic use.

2) Production of **metal cutting machinery** decreased by 12.3% (id.), down for the first time in two quarters. Special purpose machinery decreased for the first time in two quarters, in spite of maintaining positive demand mainly for domestic automobile-related businesses. Numerically controlled lathes decreased for the first time in ten quarters, due to front-loaded production in the previous quarter, in spite of favorable conditions in demand both for exports and domestic use. Machining centers decreased for the first time in four quarters, because there was production of large-scale products for exports in the previous quarter. Grinding machinery decreased for the first time in two quarters due to a decrease in demand for domestic parts manufactures. Numerically controlled electrical discharge machines also decreased for the first time in two quarters.

3) Production of **conveying machinery** decreased by 13.2% (id.), down for the first time in two quarters. Cranes decreased for the first time in two quarters, due to a backlog of orders received in the previous quarter for large-scale business. Conveyors decreased for the first time in two quarters, in spite of maintaining favorable conditions with orders from home and abroad. In contrast, elevators increased for the second consecutive quarter, due to increases both in domestic and foreign demands.

4) Production of **office machinery** decreased by 21.4% (id.), down for the fifth consecutive quarter, due to decreases in all goods, such as digital and full color copying machines, duplicating machines, and system use cash registers.

5) Production of **metal forming machinery** decreased by 15.9% (id.), down for the first time in four quarters, due to a decrease in mechanical presses, although there were increases in rolls for the steel industry and hydraulic presses.

6) Production of **industrial robots** increased by 15.3% (id.), up for the first time in two quarters, due to increases in numerically controlled robots and playback robots.

7) Production of **molds and dies** increased by 11.4% (id.), up for the second consecutive quarter, due to increases in stamping dies and molds for plastic.
E. Electric machinery industry

Production decreased for the first time in four quarters, due to decreases in semiconductor characteristic measuring equipments and refrigerators with freezer, etc. –

1) In spite of increases in lithium ion storage batteries and lead acid storage batteries, etc., production decreased by 0.8% compared to the previous quarter, down for the first time in four quarters, due to decreases in semiconductor characteristic measuring equipments, refrigerators with freezer, and Non-power distribution transformers, etc. Shipments decreased by 0.5% (id.), down for the first time in four quarters, due to decreases in electrical measuring instruments, electrical stationary machinery, and household electrical machinery, in spite of an increase in batteries, etc. Inventory increased by 1.0% compared to the end of the previous quarter, up for the first time in three quarters. Inventory ratio decreased by 3.5% compared to the previous quarter, down for the third consecutive quarter.

2) Sub-classification by kind of industry

1) Production of electrical measuring instruments decreased by 11.7% (id.), down for the first time in four quarters, due to decreases in all goods such as semiconductor characteristic measuring equipments, process measuring and control instruments for industry, and electric test and measuring equipments.

2) In spite of an increase in power conversion equipment, production of electrical stationary machinery decreased by 11.6% (id.), down for the first time in four quarters, due to decreases in Npn-power distribution transformers, power distribution transformers, and arc type electric welders.

3) In spite of an increase in toilet stools with washer/seat heater, production of household electrical machinery decreased by 0.3% (id.), down for the first time in two quarters, due to decreases in refrigerators with freezer, washing machines, and vacuum machines, etc.

4) Production of batteries increased by 13.2% (id.), up for the first time in two quarters, due to increases in lithium ion storage batteries, lead acid storage batteries, and alkaline manganese dioxide batteries, etc.

F. Information and communication electronics equipment industry

Production increased for the third consecutive quarter, due to increases in cellular telephones and digital cameras, etc. –

1) In spite of decreases in personal computers and electric switching systems, production increased by 0.2% compared to the previous quarter, up for the third consecutive quarter, due to increases in cellular telephones, digital cameras, and fixed communication equipment. Shipments decreased by 2.2% (id.), down for the first time in three quarters. Inventory increased by 1.7% compared to the end of the previous quarter, up for the first time in three quarters. The inventory ratio also increased by 13.6% compared to the previous quarter, up for the first time in three quarters.

2) Sub-classification by kind of industry

1) Although there was a decrease in electric switching systems, etc., production of communication equipment increased by 9.9% (id.), up for the third consecutive quarter, due to increases in cellular telephones with expanding demand for buying sophisticated third-generation models; fixed communication equipment, with increasing orders for radio
transmission for municipal disaster prevention systems; and digital transmission equipment, with increasing capital investment by telecommunication companies.

2) In spite of a decrease in DVD-videos, etc., production of **household electronic machinery** increased by 6.5% (id.), up for the third consecutive quarter, due to increases in digital cameras, with a release of new products; car navigation systems, with a steady domestic demand mainly for HDD models; liquid crystal televisions, with a steady domestic demand mainly for new products.

3) In spite of an increase in terminal equipment, production of **electronic computers** decreased by 6.5% (id.), down for the second consecutive quarter, due to decreases in personal computers, on earlier production of spring models and mid range computers and general purpose computers, on decreasing orders from domestic public offices and corporations, etc.

G. **Electronic parts and device industry**

- **Production increased for the fifth consecutive quarter, due to increases in logic ICs and memories, etc.** –

  ① Production increased by 4.9% compared to the previous quarter, up for the fifth consecutive quarter, due to increases in all industries such as integrated circuits and electronic parts. In spite of a decrease in electronic parts, shipments increased by 2.4% (id.), up for the third consecutive quarter, due to increases in integrated circuits, etc. In spite of a decrease in electronic parts, inventory increased by 9.8% compared to the end of the previous quarter, up for the second consecutive quarter, due to increases in integrated circuits, etc. The inventory ratio increased by 2.9% compared to the previous quarter, up for the first time in three quarters.

  ② **Sub-classification by kind of industry**

    1) In spite of a decrease in linear integrated circuits, etc., production of **integrated circuits** increased by 8.4% (id.), up for the third consecutive quarter, due to increases in metal oxide semiconductor ICs (logic ICs) for game machines and cellular telephones, and metal oxide semiconductor ICs (memory) and metal oxide semiconductor ICs (micro computer) for cellular telephones.

    2) Although there was a decrease in switches, etc., production of **electronic parts** increased by 1.4% (id.), up for the fifth consecutive quarter, due to increases in active matrix LCDs (middle and small) for cellular telephones, etc., connectors for personal computers, and fixed capacitors, with an increasing number of high-capacity small ceramic capacitors to be loaded on highly functional electronics.

H. **Transport equipment industry**

- **Both production and shipments increased for the second consecutive quarter, due to an increase in passenger cars, etc.** –

  ① Production increased by 1.0% compared to the previous quarter, up for the second consecutive quarter, due to increases in passenger cars, motor vehicle parts, and railway vehicles, etc. Shipments also increased by 3.1% (id.), up for the second consecutive quarter. Inventory increased by 2.5% compared to the end of the previous quarter, up for the third
consecutive quarter. The inventory ratio increased by 4.9% compared to the previous quarter, up for the fifth consecutive quarter.

② Sub-classification by kind of industry

1) Production of passenger cars increased by 4.6% (id.), up for the second consecutive quarter. By goods, large passenger cars increased by 6.7% (id.), up for the second consecutive quarter, due to increases both in domestic use and in exports, mainly to the U.S. and EU. Small passenger cars showed an increase of 0.6%, up for the second consecutive quarter, due to increases both in domestic use and in exports to the U.S., EU, and the Middle East. Minivans increased by 0.8% (id.), up for the first time in two quarters, due to an increase in domestic use caused by introduction of new models.

2) Production of trucks decreased by 6.9% (id.), down for the first time in two quarters. By goods, large trucks decreased by 5.4% (id.), down for the first time in two quarters, due to a decrease in domestic use, in spite of an increase in exports to the U.S. and the Middle East. Mini trucks decreased by 17.5% (id.), down for the first time in two quarters, due to a decrease in domestic use. Small trucks also decreased by 6.7%, down for the first time in two quarters, due to a decrease in domestic use, in spite of an increase in exports to ASEAN and the Middle East.

3) In spite of a decrease in suspension and brake parts, production of motor vehicle parts increased by 1.4% (id.), up for the fifth consecutive quarter, due to increases in chassis and body parts, drive, transmission and control parts, and engine parts, etc.

4) Production of motorcycles decreased by 10.3% (id.), down for the second consecutive quarter, due to decreases both in motorcycles (more than 125ml) and motorcycles (less than 125ml).

③ 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, increased by 1.76 million (an increase of 0.5% (id.)), up for the first time in two quarters. Inside of this, passenger cars increased by 1.46 million, an increase of 0.5% (id.), up for the first time in three quarters. Trucks increased by 0.30 million, an increase of 0.8% (id.), up for the fourth consecutive quarter. Buses also increased by six thousand, an increase of 1.7% (id.), up for the third consecutive quarter.

I. Precision instruments industry

production decreased for the first time in two quarters, due to decreases in testing machines and battery driven type watch (movements), etc.

① Production decreased by 1.2% compared to the previous quarter, down for the first time in two quarters, due to decreases in all industries such as measuring machines and instruments, watches and clocks, and optical apparatus and parts. In spite of a decrease in measuring machines and instruments and watches and clocks, shipments increased by 4.1% (id.), up for the second consecutive quarter, due to an increase in optical apparatus and parts. Inventory increased by 1.7% compared to the end of the previous quarter, up for the first time in seven quarters. The inventory ratio remained flat at 0.0% compared to the previous quarter.

② Sub-classification by kind of industry
1) In spite of an increase in industrial measures, etc., production of measuring machines and instruments decreased by 1.9% compared to the previous quarter, down for the first time in two quarters, due to decreases in testing machines, analytical instruments, and measuring instruments and controllers for industry, etc. Shipments decreased by 0.7% (id.), down for the first time in two quarters. Inventory increased by 0.8% compared to the end of the previous quarter, up for the first time in two quarters.

2) In spite of an increase in battery driven type watches (complete), production of watches and clocks decreased by 6.4% compared to the previous quarter, down for the first time in two quarters, due to decreases in battery driven type watches (movements) and battery driven type clocks. Shipments also decreased by 1.7% (id.), down for the first time in two quarters. Inventory increased by 23.6% compared to the end of the previous quarter, up for the first time in three quarters.

3) In spite of an increase in interchangeable lenses for cameras, production of optical apparatus and parts decreased by 0.1% compared to the previous quarter, down for the first time in two quarters, due to a decrease in 35mm cameras. Shipments increased by 5.2% (id.), up for the first time in three quarters. Inventory decreased by 6.2% compared to the end of the previous quarter, down for the 11th consecutive quarter.

J. Ceramics, stone and clay products industry

– Both production and shipments decreased for the third consecutive quarter. –

① In spite of increases in other ceramics, stone and clay products, ceramic wares and fine ceramics, production decreased by 1.5% compared to the previous quarter, down for the third consecutive quarter, as there were decreases in glass and glass products resulting from major makers stopping production of glass for cathode-lay tubes (CRT) and in cement and cement products due to downturn in public works. Shipments decreased by 1.0% (id.), down for the third consecutive quarter, due to a decrease in cement and cement products, etc. Inventory decreased by 1.8% compared to the end of the previous quarter, down for the second consecutive quarter, due to decreases in glass and glass products, other ceramics, stone and clay products, and ceramic wares and fine ceramics.

② Sub-classification by kind of industry

1) Production of glass and glass products decreased by 1.8% compared to the previous quarter, down for the fourth consecutive quarter. This is because there were decreases in glass, down for the fourth consecutive quarter, due to changes in biscuits of sheet glass and production of thin sheets, and in glass products, down for the sixth consecutive quarter, as major makers stopped producing glass for cathode-lay tubes (CRT).

2) Production of cement and cement products decreased by 0.9% (id.), down for the second consecutive quarter. This is because cement decreased slightly and there was also a decrease in cement products, such as concrete blocks for bank protection, concrete products for road, and pre-stressed concrete products, as public works have remained at a low level and demand for post-disaster restoration has settled.

3) Production of ceramic wares and fine ceramics increased by 0.4% (id.), up for the first time in six quarters. This is because there were increases in sanitary ceramic wares and electrical porcelain insulators, although ceramic wares for tablewares and kitchenwares
decreased due to increasing imported products and inactive consumption.
4) In spite of decreases in solidity carbonaceous electrodes, abrasive products, and monolithic refractories, production of **other ceramics, stone and clay products** increased by 0.5% (id.), up for the first time in three quarters, due to increases in refractory brick, gypsum board, and quick lime.

**K. Chemicals (excl. Drugs) industry**

– **Production remained flat, and shipment decreased for the first time in two quarters.** –

1) Production remained flat at 0.0% compared to the previous quarter, due to increases in cosmetics, fertilizers, and cyclic chemicals and synthetic dyes, and decreases in industrial organic chemicals, synthetic rubbers, and plastic (materials), etc. Shipments decreased by 1.1% (id.), down for the first time in two quarters, due to decreases in industrial organic chemicals, plastic (materials), and soap, synthetic detergent and surface-active agents, etc. Inventory increased by 1.5% compared to the end of the previous quarter, up for the first time in two quarters, due to increases in cosmetics, sensitive materials for photography, and fertilizers, etc.

2) **Sub-classification by kind of industry**

1) In spite of decreases in skin cream products and makeup products, production of **cosmetics** increased by 2.2% compared to the previous quarter, up for the first time in two quarters, due to increases in hair care products such as shampoo and rinse, etc.

2) Production of **industrial organic chemicals** decreased by 4.0% (id.), down for the fourth consecutive quarter, as there were decreases in acrylonitrile, ethylene glycol, and ethylene, etc. due to periodical repairs conducted in several enterprises.

3) Production of **synthetic rubbers** decreased by 4.0% (id.), down for the first time in three quarters due to periodical repairs conducted at several enterprises.

**L. Petroleum and coal products industry**

– **Production decreased for the first time in four quarters, due to decreases in gasoline and naphtha, etc.** –

1) Production decreased by 2.5% compared to the previous quarter, down for the first time in four quarters, due to decreases in most goods, such as gasoline, naphtha, kerosene, and gas oil, etc. Shipments decreased by 3.1% (id.), down for the first time in five quarters, due to decreases in all goods (except coke) such as kerosene, gas oil, heavy fuel oil B and C, etc. Inventory increased by 5.9% compared to the end of the previous quarter, up for the first time in two quarters, due to increases in kerosene and gas oil, etc. The inventory ratio decreased by 0.8% compared to the previous quarter, down for the first time in three quarters.

2) **Trends in major goods**

1) Production of **gasoline** decreased by 1.6% compared to the previous quarter, down for the first time in four quarters, due to an accident at a certain refinery and a backlash of production increase in the previous quarter backed by enhancement of capacity to process crude oil. Shipments decreased by 0.2% (id.), down for the first time in three quarters. Inventory decreased by 0.3% compared to the end of the previous quarter, down for the second consecutive quarter.
2) Production of **naphtha** decreased by 6.9% compared to the previous quarter, down for the first time in four quarters. Shipments decreased by 2.2% (id.), down for the third consecutive quarter, as there were decreases in production of ethylene, pure benzene, and xylene due to periodical repairs in petrochemicals factories, which is one of the major customers. Inventory decreased by 9.3% compared to the end of the previous quarter, down for the first time in two quarters.

3) Production of **kerosene** decreased by 5.2% compared to the previous quarter, down for the third consecutive quarter, because demand for space heating decreased as the temperature was higher than usual in February and March. Shipments decreased by 8.4% (id.), down for the third consecutive quarter. Inventory increased by 44.6% compared to the end of the previous quarter, up for the first time in two quarters.

4) Production of **gas oil** decreased by 4.4% compared to the previous quarter, down for the second consecutive quarter. Shipments decreased by 4.9% (id.), down for the first time in five quarters, due to decreases both in exports and domestic use. Inventory increased by 17.5% compared to the end of the previous quarter, up for the first time in two quarters.

5) Production of **heavy fuel oil B and C** decreased by 4.7% compared to the previous quarter, down for the first time in four quarters. Shipments decreased by 5.5% (id.), down for the first time in five quarters, due to a decrease in exports to China. Inventory decreased by 0.1% compared to the end of the previous quarter, down for the second consecutive quarter.

6) Production of **coal products (coke)** remained flat at 0.0% compared to the previous quarter. Shipments increased by 3.5% (id.), up for the second consecutive quarter, due to an increase in exports. Inventory decreased by 5.8% compared to the end of the previous quarter, down for the first time in five quarters.

**M. Plastic products industry**

- **Both production and shipments decreased for the first time in two quarters.** –

  ① In spite of an increase in consumption material-related production, production decreased by 0.9% compared to the previous quarter, down for the first time in two quarters, due to decreases in manufacturing material-related production and construction material-related production. Shipments decreased by 1.4% (id.), down for the first time in two quarters, due to decreases in all manufacturing material-related production, construction material-related production, and consumption material-related production. In spite of decreases in consumption of material-related production and construction material-related production, inventory increased by 0.2% compared to the end of the previous quarter, up for the first time in two quarters, due to an increase in manufacturing material-related production.

  ② Production by use

  1) In **manufacturing material-related items**, plastic products for machine tools and parts decreased by 1.5% compared to the previous quarter, down for the first time in three quarters, due to a decrease in parts for transport machinery for automobiles. Plastic containers (excl. blow-molding) decreased by 4.1% (id.), down for the second consecutive quarter, due to decreases in pallets for transport and containers for drinks. Plastic containers blow-molding decreased by 0.6% (id.), down for the second consecutive quarter, due to a decrease in PET bottles for drinks.
2) In consumption material-related items, plastic film and plastic sheets increased by 1.9%, up for the first time in four quarters, due to increases in other soft products for industrial use.

3) In construction material-related items, plastic pipes decreased by 11.6% compared to the previous quarter, down for the first time in two quarters, due to a decrease in water and sewage pipes, etc. Plastic reinforced products decreased by 10.3% (id.), down for the second consecutive quarter, due to a decrease in bathtubs, etc. Plastic plates decreased by 3.4% (id.), down for the fifth consecutive quarter, due to a decrease in corrugated plates.

N. Pulp, paper and paper products industry
– Production increased for the first time in two quarters, while shipments increased for the second consecutive quarter. –

① Although pulp decreased, production increased by 1.5% compared to the previous quarter, up for the first time in two quarters, due to increases in paper, paperboard, and converted and processed paper. Shipments increased by 1.1% (id.), up for the second consecutive quarter, due to increases in all of paper, paperboard, converted and processed paper, and pulp. In spite of increases in paper and converted and processed paper, inventory decreased by 2.0% compared to the end of the previous quarter, down for the second consecutive quarter, due to decreases in paperboard and pulp.

② Sub-classification by kind of industry
1) Production of paper increased by 1.8% compared to the previous quarter, up for the first time in two quarters, due to increases in coated printing paper, newsprint paper in rolls, household and sanitary paper, uncoated printing paper, and wrapping and packing paper. Shipments increased by 0.9% (id.), up for the second consecutive quarter, due to increases in all goods such as newsprint paper in rolls. Inventory increased by 0.3% compared to the end of the previous quarter, up for the first time in two quarters.

2) Production of paperboard increased by 0.8% compared to the previous quarter, up for the second consecutive quarter, due to an increase in container board. Shipments also increased by 1.5% (id.), up for the third consecutive quarter, due to an increase in container board. Inventory decreased by 10.4% compared to the end of the previous quarter, down for the second consecutive quarter.

3) Production and shipment of converted and processed paper (corrugated cardboard sheets) increased by 0.8% and 0.5%, respectively, compared to the previous quarter, both up for the second consecutive quarter.

O. Textiles industry
– Both production and shipments continued to decrease slightly. –

① Production decreased by 0.6% compared to the previous quarter, down for the 36th consecutive quarter, due to decreases in clothes, man-made fibers, dyeing and finishing, etc. as a result of stagnant demand. Shipments also decreased by 0.5% (id.), down for the 36th consecutive quarter. Inventory decreased by 1.9% compared to the end of the previous quarter, down for the ninth consecutive quarter, due to decreases in woven fabrics, man-made fibers, and spun yarn, etc.
② Sub-classification by kind of industry

1) Production of **man-made fibers** decreased by 0.9% compared to the previous quarter, due to decreases both in synthetic fibers (filament) and synthetic fibers (staple). Shipments decreased by 0.9% (id.), due to a decrease in synthetic fibers (filament). Inventory also decreased by 2.7% compared to the end of the previous quarter, due to decreases in synthetic fibers (filament) and synthetic fibers (staple).

2) In spite of increases in synthetic fiber yarn and woolen yarn, production of **spun yarn** decreased by 1.5% compared to the previous quarter, due to a decrease in cotton yarn. Shipments increased by 1.4% (id.), due to an increase in synthetic fiber yarn. Inventory decreased by 5.8% compared to the end of the previous quarter, due to decreases in all goods.

3) In spite of decreases in synthetic fiber fabrics (filament) and cotton fabrics, production of **woven fabrics** remained flat at 0.0% compared to the previous quarter, due to increases in woolen fabrics, and synthetic fibers (staple), etc. Shipments decreased by 1.6% (id.), due to decreases in synthetic fiber fabrics (filament) and cotton fabrics, etc. Inventory decreased by 3.6% compared to the end of the previous quarter, down for the 19th consecutive quarter, due to decreases in all goods, such as cotton fabrics and woolen fabrics, etc.

4) In spite of increases in hosiery and knitted fabrics outer wears, production of **clothes** decreased by 1.6% compared to the previous quarter, due to decreases in woven fabrics outer wears, and under wears. Shipments increased by 0.4% (id.) due to an increase in knitted fabrics outer wears, although there were decreases in under wears and woven fabrics outer wears. Inventory decreased by 0.8% compared to the end of the previous quarter, due to decreases in woven fabrics outer wears and knitted fabrics outer wears, although there were increases in hosiery and under wears.
(2) Trends in tertiary industries

A. Commerce

① The total sales amount for the wholesale industry was 111.3800 trillion yen. Total sales increased by 5.8% compared to the same quarter of the previous year, up for the tenth consecutive quarter. This was because the machinery and equipment wholesale industry increased, due to favorable conditions of electronic parts such as semiconductors and active exports of automobiles and metal forming machinery, although the agricultural, livestock and aquatic products wholesale industry, etc. decreased.

② The total sales amount for large wholesalers was 31.9010 trillion yen. Total sales increased by 8.0% (id.), up for the eighth consecutive quarter.

③ The total sales amount for the retail industry was 32.1680 trillion yen. Total sales increased by 0.6% (id.), up for the fifth consecutive quarter, due to an increase in the other retail sale industries and the fuel retail sale industry, resulting from the price increase of petroleum products on the rise in prices of crude oil, although the foods and beverages retail sale industry decreased.

④ The total sales amount for large retailers was 5.1206 trillion yen, decreasing by 1.3% (id.), down for the first time in two quarters.

⑤ The total sales amount and service sales amount for convenience stores was 1.7312 trillion yen, increasing by 0.7% (id.), up for the tenth consecutive quarter.

B. Specific service industries

・Business services

① The contract amount for commodity leases (based on acceptance inspection) increased by 4.5% compared to the same quarter of the previous year, up for the seventh consecutive quarter, and the purchase amount for delivery items also increased by 4.0% (id.).

② The total sales amount for the rental industry increased by 0.3% (id.), up for the fourth consecutive quarter.

③ The total sales amount for the information service industry increased by 3.2% (id.), up for the fourth consecutive quarter.

④ The total sales amount for advertising decreased by 0.2% (id.), down for the first time in ten quarters.

⑤ The total amount handled by the credit card service increased by 10.7% (id.). By type of business, sales credit business increased by 13.9% (id.), and consumer credit business decreased by 0.2% (id.), down for the second consecutive quarter.

⑥ The total amount of orders received in engineering services increased by 4.9% (id.), up for the seventh consecutive quarter. The breakdown shows that domestic demand decreased by 6.3% (id.), while foreign demand increased by 38.0% (id.).

・Personal services

① In the leisure and amusement services, pachinko parlors increased, while there were decreases in theaters, performances, companies promoting professional sports and performances, bowling alleys, movie theaters, amusement parks and theme parks, golf driving ranges and golf courses.

② In the culture and lifestyle services, fitness clubs, foreign language conversation classes,
cram schools, and culture centers increased, while wedding ceremony halls and funeral services decreased.