The Second Quarter of 2008

Analysis of All Industrial Activities

Summary

Contents

1. Trends of all industrial activities
   (1) Outline of all industrial activities
   (2) Outline of industrial activities
      1) Production trends for the quarter
      2) Production trends by item
      3) Inventory trends
      [Topics] Situation of input/output prices and profits of the manufacturing industry
   (3) Outline of tertiary industry activities
      [Topics] Trends of the real estate industry from financial viewpoints

2. Supply trends and final demand
   (1) Outline of supply trends for final demand
      1) Supply trends for the quarter
      2) Trends in IT-related consumption and investment
      [Topics] Effect of an increase in prices to consumption behavior
      [Topics] Trends in capital spending by size of business
   (2) Outline of exports and imports
      [Topics] Expansion of production infrastructure of foreign subsidiaries of Japanese companies and development of intra-industry trade

September 3, 2008

Research and Statistics Department, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry
1. Trends of all industrial activities

(1) Outline of all industrial activities for the quarter

-Industrial activities remaining flat-

[Characteristics]

• The indices of all industrial activities increased by 0.5% from the previous quarter for the first time in three quarters, but they have generally been leveling off.

• Though construction industry activities and industrial production declined, tertiary industry activities, etc. increased.

Changes in Indices of All Industrial Activities (2000=100)

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<tbody>
<tr>
<td>Indices of All Industrial Activities</td>
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<td>107.4</td>
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<td>107.5</td>
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<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
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<td>0.6</td>
<td>0.5</td>
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Indices of Agriculture, Forestry & Fisheries Production

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<td>-0.8</td>
<td>-0.2</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.1</td>
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<td>% Change from the Same Quarter of the Previous Year</td>
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Indices of Construction Industry Activities (Right scale)

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<td>% Change from the Previous Quarter (Year)</td>
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<td>-4.8</td>
<td>0.0</td>
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<td>-1.7</td>
<td>-1.7</td>
<td>-1.8</td>
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<td>% Change from the Same Quarter of the Previous Year</td>
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Indices of Industrial Production

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<td>1.3</td>
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Indices of Tertiary Industry Activities

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<td>% Change from the Previous Quarter (Year)</td>
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<td>1.2</td>
<td>0.6</td>
<td>-0.4</td>
<td>0.9</td>
<td>0.1</td>
<td>0.7</td>
<td>0.1</td>
<td>-0.1</td>
<td>-1.1</td>
<td>1.0</td>
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<tr>
<td>% Change from the Same Quarter of the Previous Year</td>
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Indices of Public Administration, etc. Activities

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<tbody>
<tr>
<td>% Change from the Previous Quarter (Year)</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.7</td>
<td>0.3</td>
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<tr>
<td>% Change from the Same Quarter of the Previous Year</td>
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Notes:
1. The weight is based on the contribution ratio by sector of gross value added in the input-output table of YR2000 (Ministry of Internal Affairs and Communication). Since the Indices of Agriculture, Forestry & Fisheries Production contain no data corresponding to the Indices of All Industrial Activities for 2006 to 2007 and the indices for each quarter, the weight was calculated without their weight.
2. The annual values and % change from the same quarter of the previous year are original indices, and others are based on seasonally adjusted indices.
3. Due to the base revision for industrial production indices in 2005, the data for January 2007 onward (including for FY2006) out of original industrial production indices in the indices of all industrial activities are the exponential values based on the YR2005 base, linked to the YR2000 base as of the fourth quarter of 2006 through the link coefficient method.

Since the seasonally adjusted indices of industrial production are the result of seasonal adjustment based on such original indices, they differ from the industrial production indices based on the YR2005 base.
(2) Outline of industrial activities

-Production remains weakened-

1) Production trends for the quarter

[Characteristics]

- The indices of industrial production for the second quarter of 2008 decreased by 0.8% from the previous quarter, down for the second consecutive quarter.
- By type of goods, durable consumer goods and capital goods, etc. decreased, while non-durable consumer goods, etc. increased.
- By type of business, 13 industries including information and communication electronics equipment industry declined, and increases were observed in four industries such as chemical industry.
- By demand, shipments for domestic demand decreased for the second consecutive quarter, and those for exports declined for the first time in four quarters.

Changes in Indices of Industrial Production (2005=100, Seasonally adjusted)

2) Production trends by item

[Characteristics]

<Major items that decreased during the second quarter of 2008>

1) Semiconductor products machinery (for the fourth consecutive quarter)
   - Demand for capital spending stagnated both at home and abroad.
2) Cellular telephone (for the first time in two quarters)
   - Decreased due to a reaction to an increase because of new products in the previous quarter.
3) Electronic and electric toys (for the first time in two quarters)

<Major items that increased during the second quarter of 2008>

1) Parts and accessories of boilers (for the first time in four quarters)
   - Demand for repair for power companies increased.
2) Switchgears and controlling equipment (for the first time in two quarters)
   - Demand for power companies and railroad companies increased.
3) Digital still camera (for the sixth consecutive quarter)

Changes from the Previous Quarter by Item and Contribution Ratio(Note) (Second quarter of 2008)

<table>
<thead>
<tr>
<th>Items that Contributed to Decrease</th>
<th>Changes from the Previous Quarter (%)</th>
<th>Contribution Ratio (% points)</th>
<th>Items that Contributed to Increase</th>
<th>Changes from the Previous Quarter (%)</th>
<th>Contribution Ratio (% points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Semiconductor products machinery</td>
<td>▲ 20.3</td>
<td>▲ 0.2</td>
<td>(1) Parts and accessories of boilers</td>
<td>▲ 19.4</td>
<td>0.12</td>
</tr>
<tr>
<td>(2) Cellular telephone</td>
<td>▲ 13.6</td>
<td>▲ 0.0</td>
<td>(2) Switchgears and controlling equipment</td>
<td>▲ 14.9</td>
<td>0.08</td>
</tr>
<tr>
<td>(3) Electronic and electric toys</td>
<td>▲ 19.4</td>
<td>▲ 0.1</td>
<td>(3) Digital still camera</td>
<td>▲ 18.7</td>
<td>0.07</td>
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<tr>
<td>(4) Large passenger cars</td>
<td>▲ 1.5</td>
<td>▲ 0.0</td>
<td>(4) Steel bridge</td>
<td>▲ 15.3</td>
<td>0.06</td>
</tr>
<tr>
<td>(5) Parts and accessories of steam turbines</td>
<td>▲ 27.8</td>
<td>▲ 0.3</td>
<td>(5) Active matrix LCDs(large)</td>
<td>▲ 6.7</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Note: Degree of contribution to total industrial growth rate of ▲ 0.8% (% points)
3) Inventory trends

[Characteristics]

- The inventory cycle for the second quarter of 2008 was as follows.

1) Mining and manufacturing
   - Though rate of increase in inventory expanded, inventory shifted close to an expanding inventory state due to a cut of an increase rate of production.

2) Final demand goods
   - Remained in an expanding inventory stage.

3) Producer goods
   - Inventory shifted from an inventory accumulation stage close to the border between an inventory accumulation stage and an expanding inventory stage.

4) Electronic parts and devices
   - In an expanding inventory stage.
Situation of Input-Output Price and earnings of the manufacturing industry

[Analysis Point 1]
-Output/Input Price Ratio Index in the manufacturing worsened due to an increase in input price index-

[Characteristics]
• Output/Input Price Ratio (output price/input price) Index has been on a declining trend since around 2002 and the figure of July 2008 (preliminary figure) stood at 81.2, showing a deterioration of Output/Input Price Ratio.
• Detail analysis of the decline of Output/Input Price Ratio Index by factor has shown that the contribution of an increase in input price was overwhelmingly larger compared to an increase in output price since 2004, as a result, it has lead to a decline in Output/Input Price Ratio Index.

Fig. I-1-8 Changes in Output/Input Price Ratio Index
(2000=100)

Fig. I-1-9 Degree of contribution compared to the same month of the previous year in changes in Output/Input Price Ratio Index (total manufacturing)

Note: For changes in indices by sector, the upper three sectors has been extracted from the departments where the level of the latest data (July 2008) is low and the data of such sectors has been posted.
Source: Input-Output Price Index of the Manufacturing Industry by Sector (Bank of Japan)

[Analysis Point 2]
-A trend of an increase in output price is differently perceived by sector (or bumon)*-

[Characteristics]
• In seeing the moves of Output/Input Price Ratio Index by comprising sector, we will notice that
  i) Sectors of material industries are divided into sectors where output price also increases against an increase in input price (ex. iron and steel) and those where an increase in output price is not enough and Output/Input Price Ratio Index has not been improved (ex. chemical products, etc.).
  ii) Sectors of process-type industries are divided into sectors where an increase in output price has been realized (ex. transportation equipment, etc.) and those where an increase in output price has not been realized (ex. electrical machinery) although a lot tend to decline not only in input price but also output price.
  * This is the one which plays the almost same role of gyoushu or an industry which has been established in accordance with the classification of the Input-Output Table.

Fig. 1-1-11 Factor analysis of changes in Output/Input Price Ratio Index

(2) <Example: Chemical products>

(3) <Example: Electrical machinery>

Source: Input-Output Price Index of the Manufacturing Industry by Sector (Bank of Japan)
[Analysis Point 3]
- Industries where output prices have not increased have secured ordinary profit based on factors to increase earnings such as sales volume.

[Characteristics]
- When we make an analysis of an increase or a decrease in ordinary profit according to a factor of output and input prices or a factor of sales volume, etc., industries where output prices have not sufficiently increased have secured ordinary profit based on factors to increase earnings such as sales volume.
- In particular, this tendency is noticeable in process-type industries where there is a large contribution of declining profits due to a decrease in output prices.

Fig. 1-1-14 Changes in ordinary profit (compared to the same quarter of the previous year)

(3) <Chemicals>
(4) <Electrical machinery (old classification)>

Note: See this text (31st page).
Source: Financial Statements Statistics of Corporations by Industry (Ministry of Finance), Input-Output Price Index of the Manufacturing Industry by Sector (Bank of Japan)

[Analysis Point 4]
- The shipments for exports which have been robust so far has declined, which may affect future earnings.

[Characteristics]
- A look at shipment trends by industry based on the breakdown table of shipments concerning the three industries where contribution of sales volume to ordinary profit was relatively large will show that the move in sales volume in changes in ordinary profit often corresponds to a direction of an increase or a decrease in shipments.
- After this is confirmed, if we check the recent movement of the shipment index, the shipments for exports that have been robust so far has declined, which is considered to affect earnings depending on the future situation.

Fig. 1-1-15 Changes in shipments for domestic or exports and comparison with the same quarter of the previous year (2005=100)

(1) Chemicals
(2) Electrical machinery (old classification)

Source: “Breakdown List of Mining and Manufacturing Shipments” (estimated values)
(3) Outline of tertiary industry activities

Trends for the quarter

[Characteristics]

- Tertiary industry activities for the second quarter of 2008 increased by 1.0% from the previous quarter, up for the first time in three quarters.
- By type of industry, out of 11 industries, there were increases in eight industries, such as the information and communications, and decreases in three.

Changes in Indices of Tertiary Industry Activities (2000=100)

Note: The left chart shows the indices of tertiary industry activities of the major seven industries. “Others” in the rights chart refers to the total of four industries other than the major seven industries.

<table>
<thead>
<tr>
<th>Year</th>
<th>Wholesale Trade &amp; Retail Trade</th>
<th>Information &amp; Communications</th>
<th>Transport</th>
<th>Electricity, Gas, Heat Supply &amp; Water</th>
<th>Services</th>
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<td>2006</td>
<td>108.4 111.4 110.2 111.8 112.2</td>
<td>118.4 120.5 119.5 120.8 121.2</td>
<td>119.5 119.7 119.8 120.2 120.6</td>
<td>105.6 108.1 105.9 106.4 106.8</td>
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<td>2007</td>
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<td>120.8 122.7 121.8 122.2 122.6</td>
<td>119.8 119.9 120.0 120.4 120.8</td>
<td>106.4 108.3 107.2 107.6 108.0</td>
<td>114.8 108.3 115.1 116.4 117.5</td>
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<tr>
<td>2008</td>
<td>110.0 112.1 110.9 112.3 112.8</td>
<td>122.2 124.1 123.2 123.6 124.0</td>
<td>120.3 120.4 120.5 120.9 121.3</td>
<td>107.2 109.1 108.0 108.4 108.8</td>
<td>116.0 110.4 116.8 118.1 119.2</td>
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Note: The annual values and % change from the same quarter of the previous year are original indices, and the others are based on seasonally adjusted indices.
Trends of the real estate industry from financial viewpoints

[Analysis Point 1]
~ Of condominiums for sales in the Tokyo metropolitan area which has been a main factor of the declining trend since 2006 of the real estate transaction industry, the number of new starts continues to stay below the level of the previous year ~

[Characteristics]
• Decrease of activities of the real estate transaction industry is observed mainly due to a decrease in sales of condominiums (the Tokyo metropolitan area) since 2006 in activities of real estate industry in the tertiary industry activities indices.
• While the rate of an increase in prices of condos in the Tokyo metropolitan area has been somewhat decreasing since the first quarter of 2008, the number of condos sold has declined since the fourth quarter of 2007 with stock tendency to increase and the number of condos newly started to be built is also continuing a year-on-year decrease.

[Analysis Point 2]
~ Small capitalized firms tend to lose ordinary income due to decreases in sales and earnings from the main business since the latter half of 2006 ~

[Characteristics]
• Sales in the real estate business (all sizes) tend to decline as a whole since the third quarter of 2006 after hitting the peak in the second quarter of 2006 in the 14th cycle.
• A drop in sales after the third quarter of 2006 is larger than the 11th cycle or 12th cycle comparing to the changes after the peaks of economic cycles in the past using average rate of increase during the period.
• Looking at the degree of contribution to the average growth rate during the period by size of capital, the smaller the capital, the greater the drop of its sales in the 14th cycle, and large capitalized enterprises have maintained rate of increase in sales hitherto.
[Characteristics]
- Decline of ordinary profit in the real estate industry (all sizes) is mainly attributable to a decrease in receipts and payments of interest for the 11th cycle and a decrease in operating income (income from main business) for the 14th cycle.
- Ordinary profit by capital size in the 14th cycle shows that companies capitalized above 10 million yen and less than 50 million yen reduced it for four quarters in a row due mainly to negative contributions of operating income from the 2nd quarter of 2007 to the 1st quarter of 2008. Companies capitalized above 100 million yen have generally maintained positive growth compared to the same quarter of the previous year due to a contribution of positive operating income so far.

Fig.1-2-14 - Factor analysis by capital size of ordinary profit in the real estate industry (all sizes)
(3) 10-50 mil. Yen, Comparison from the Same Quarter of the Previous Year, Contribution Ratio to the Growth Rate, 11th cycle
(4) Same as left, 14th cycle

[Analysis Point 3]
~ Companies with large capital tend to increase debt with interest Companies with small capital tend to lose cash flow ~

[Characteristics]
- It is estimated that the real estate industry as a whole has not hitherto got into an excessive debt situation like the one after the bubble economy judging from ratio of cash flow to debt with interest.
- Note, however, that debt with interest at companies with large capital increased to the level near to that recorded around the bubble economy, ratio of cash flow to debt with interest has also increased and that companies with small capital is losing cash flow.

Note: See the “Note” in Fig.1-2-12 (page 50) of main text for the setting of the peak and bottom and that in Fig.1-2-14 (page 52) of main text for the method of the factor analysis, etc.
Source: "Financial Statements Statistics of Corporations by Industry" (Ministry of Finance)