2. Supply trends and final demand

(1) Outline of supply trends for final demand

1) Supply trends for the quarter

**Characteristics**

- Supply for final demand increased by 0.8% from the previous term after 6 terms of decline.
- Overall industrial supply for consumption increased by 1.1% from the previous term after 6 terms of decline as a result of an increase in personal consumption.
- Overall industrial supply for investment decreased by 3.8% from the previous term, a decline for 10 consecutive terms, due to a decrease in the demand for private sector enterprises and private housing, although public investment increased.
- While exports increased by 7.7% from the previous term after 5 terms of decline, imports decreased by 2.0% from the previous term, a decline for 5 consecutive terms.
- IT-related consumption and IT-related investments increased by 11.7% from the previous term after 5 terms of decline and by 3.4% from the previous term after 2 terms of decline, respectively.

---

**Notes:**

1. As the indices of all industries (final demand components) are calculated using various statistical data, preliminary figures are used for some basic data. Therefore, note that the indices of the previous quarters have been corrected to the revised figures.
2. Ratios to the previous year are original indices and other figures are based on seasonally adjusted indices.
3. The reference year of the Indices of All Industries (Final Demand Components) has been changed from the previous 2000 reference to the 2005 reference.

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

【Characteristics】
・IT-related consumption for the second quarter of 2009 increased by 11.7% from the previous term after 5 terms of decline and non-IT-related consumption increased by 1.4% from the previous term after 6 terms of decline.
・IT-related investment for private sector enterprise increased by 3.4% (id.), up for the first time in two quarters. Non-IT-related investments decreased by 6.8% (id.), down for the seventh consecutive quarter.

Changes in IT-related Consumption
Index level (2005 = 100, Seasonally adjusted)

Changes in IT-related Investment
Index level (2005=100, Seasonally adjusted)

Notes: 1. IT-related consumption consists of that of mobile phones, car navigation systems, desktop computers, notebook computers, regional and long-distance telecommunications, ISP, mobile telecommunications, software products, and Internet-related services, all of which are supplied for personal consumption.
2. 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, electronic switching systems, digital transmission equipment, fixed communication equipment, cellular telephone, basic exchanges for mobile customer premises equipment, general purpose computers, mid-range computers, desktop computers, notebook computers, external storage, input-output units, terminal equipment, system use cash registers, projectors, industrial use television equipment, software development and program creation (subcontracts) that are supplied to private enterprise.

Source: “The Indices of All Industries Activity (Final demand components)” (Estimated values)
Trends of Capital Investments in Manufacturing

[Analysis point 1]
~ The tendency of excess capital investments remains high, and the downward trend of capital investment plans for fiscal 2009 is also noticeable ~

[Characteristics]
- The tendency of excess capital investments has not been resolved since the 12th cycle even in the economic expansion phase.
- Concerning the capital investment plan for fiscal 2009, the scale of downward revision at large enterprises increased and capital investments at medium-sized and small enterprises marked the lowest level since the survey was started. Thus, a downward trend was noticeable.

Fig. II-2-13 Changes in production and operating facility DI's

Fig. II-2-14 Capital investment amounts in annual plans (excluding land investment amounts)

[Analysis point 2]
~ Capital investments are strongly correlated to production factors of operating ratio. However, the correlation is weakening each time a cycle passes ~

[Characteristics]
- As the borderline of operating ratio between increase and decrease of capital investments, the operating ratio index was a level 102 in the 11th cycle, and a level 90 in the 12th and 13th cycles. However, in and after the slowdown phase of the 14th cycle, the index was level at 105, and in the 14th cycle, the capital investment was adjusted at an early stage.

Fig. II-2-15 Changes in the manufacturing capital investments (4-quarter backward moving average) and changes in the Indices of Operation Ratio and Production Capacity (2005 = 100, compared to the same quarter of the previous year)

【Characteristics】
• If the operation ratio is decomposed into two factors, production capacity and production, the production factor is greater.
• Concerning the timing correlation between the capital investment and the production factor, the correlation is weakening each time a cycle passes.

Fig. II-2-17 Changes in production/production capacity (compared to the same quarter of the previous year, growth rate contribution)

Fig. II-2-18 Timing correlation between the manufacturing capital investment amount and the production factor

【Analysis point 3】
~ Concerning the relationship between financial conditions and capital investments, there is a strong correlation between capital investment and profitability ~

【Characteristics】
• There is a strong correlation between capital investments and profitability at large, medium, and small enterprises.
• In the 14th cycle, profitability at large enterprises preceded capital investments for 4 terms, while the highest correlation coefficient at medium-sized and small enterprises was with a “no time difference” lag.
• Since the deterioration of profitability was noticeable at large, medium, and small enterprises, the situation of capital investments will be harsh in the future.

Fig. II-2-20 Changes in capital investment amounts and capital-to-asset ratios, and factor decomposition of ROAs (4-quarter backward moving average, compared to the same quarter of the previous year)

Fig. II-2-21 Timing correlation of profitability with manufacturing capital investments

Notes:
Capital-to-asset ratio = total capital / total sales
ROA (return on assets) = recurring profit / average total capital
Total asset turnover factor (= efficiency factor) = sales / total capital
Recurring profit margin factor (= profitability factor) = recurring profit / sales

Source: “Financial Statements Statistics of Corporations” (Ministry of Finance),
“Indices of Industrial Production”
Fig. II-2-20 Changes in capital investment amounts and capital-to-asset ratios, and factor decomposition of ROAs (4-quarter backward moving average, compared to the same quarter of the previous year)  
<Manufacturing – medium-sized and small enterprises>

Fig. II-2-21 Timing correlation of profitability with manufacturing capital investments  
<Manufacturing – medium-sized and small enterprises>

Source: “Financial Statements Statistics of Corporations” (Ministry of Finance)
(2) Outline of exports and imports

Export and import trends for the quarter

[Characteristics]

- Looking at the trends of exports for the second quarter of 2009 (on a quantity basis), in terms of the indices of all industries (final demand components), exports of goods (the mining and manufacturing industry) increased by 9.9% from the previous term and exports of services (the tertiary industry) increased by 4.1% from the previous term, resulting in a 7.7% increase from the previous term for all exports.
- By region, exports of goods to East Asia, ASEAN, the United States and Europe increased, while those for the Middle East decreased.

Changes in exports by region (Goods, 2005 = 100, Seasonally adjusted)

[Characteristics]

- Looking at the trends of imports for the second quarter of 2009 (on a quantity basis), in terms of the indices of all industries (final demand components), imports of goods (the mining and manufacturing industry) decreased by 3.2% from the previous term and imports of services (the tertiary industry) decreased by 0.2% from the previous term, resulting in a 2.0% decrease from the previous term for all imports.
- By region, imports of goods from East Asia, the Middle East, and the United decreased, while those from ASEAN and Europe increased.

Changes in imports by region (Goods, 2005 = 100, Seasonally adjusted)

Notes: 1. The export index by region is estimated by rearranging the trade statistics into shipment index groups, and the import index by region is estimated by rearranging the trade statistics into supply index groups.
2. The names of each country or region are as follows:
   ASEAN: Singapore, Thailand, Malaysia, Philippines, Indonesia, Vietnam, Myanmar, Laos, Brunei and Cambodia
   East Asia: Republic of Korea, Taiwan and 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: “The Indices of Industrial Domestic Shipments and Exports”, “The Indices of Industrial Domestic Shipments and Imports” (both estimated values)