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(English translation prepared by the Bank staff based on the Japanese original.)

March 6, 1998

Bank of Japan

Monthly Report of Recent Economic and Financial Developments

The Bank's View¹

Japan's economy remains stagnant. Sluggish domestic demand, especially household expenditures, has been exerting negative influence upon production, employment and income. Corporate sentiment has also weakened.

With respect to final demand, net exports have continued to increase and are upholding the economy. Business fixed investment that had followed an upward trend, however, has recently become lackluster. Meanwhile, private consumption has continued to stagnate reflecting cautious household sentiment. Housing investment has continued to be weak and public-sector investment has been decreasing. Reflecting the weak final demand, inventory adjustment pressures have been intensifying, and industrial production has continued to decline. As a result, the pace of improvement in employment and income conditions has continued to slow, and the positive growth cycle of production, income, and expenditures has stalled.

¹ The Bank's view on recent economic and financial developments, approved by the Policy Board at the Monetary Policy Meeting held on February 13, as the basis of monetary policy decisions.

As regards the outlook of the economy, external demand is expected to continue upholding the economy and the special tax-cut measures are likely to have positive effects on the household expenditure. Overall, however, the economy is likely to remain stagnant for a while, because prominent recovery in final demand is hardly foreseeable under the heightened pressures of inventory adjustment. Given the slowdown in growth, the economy is considered to be vulnerable to further negative impacts. In these circumstances, effects of adjustments in the Asian economies on Japan's economy such as exports, as well as those of financial developments on the real economy (as explained below), should be carefully observed.

With regard to prices, wholesale prices have declined reflecting a slack in supply and demand conditions of goods. Meanwhile, consumer prices have remained at a level slightly above that of the previous year when observed excluding the effects of institutional changes such as the rise in the consumption tax rate. Thus, prices overall remained stable and this trend is expected to continue in the immediate future. However, while the output gap in the domestic economy is unlikely to diminish for some time, downward pressures on domestic prices seem to have been increasing, since overseas commodity prices have declined reflecting the deterioration of market conditions in Asia.

Financial markets have shown the following developments. In the money markets, interest rates on term instruments, which once declined slightly in mid-January, have again started to rise in the last half of the month. This reflects the persistently

cautious attitudes of market participants toward liquidity and credit risks associated particularly with fiscal-year-end settlement in March. Meanwhile, there were some positive developments in reaction to policy measures to stimulate the economy and to stabilize the financial system. Stock prices have rebounded, yields on long-term government bonds have slightly increased, and the yen has appreciated. However, a full recovery in the market confidence is yet to be seen.

Monetary aggregates, as indicated by developments in private bank lending and money stock, have remained almost unchanged as a whole. With respect to lending attitudes of financial institutions, capital adequacy constraints appear to have become somewhat less binding due to the rebound in stock prices, the appreciation of the yen, and the expectations for the effects of policy measures to stabilize the financial system. However, financial institutions are still cautious in extending loans. In addition, fund-raising cost of firms, in both borrowings from banks and direct financing in capital markets, has been increasing to some extent especially for firms with relatively high credit risk. Financial institutions' lending attitudes, developments in capital markets, and their effects on corporate financing will have to be carefully monitored.

The Background

1. Japan's Economy

With regard to public-sector investment, the value of public works contracted and shipments of public sector investment-related goods are both declining (Chart 2). In the near term, these figures are expected to stop declining temporarily as works under the supplementary budget for fiscal 1997 are implemented. However, public sector investment is anticipated to follow a downward trend due to the restrained initial budget draft for fiscal 1998².

Real exports on the whole continued to follow an upward trend in the third and fourth quarters of calendar year 1997. While shipments of automobile-related items and other goods to the ASEAN economies declined, shipments of information-related items, capital goods, and parts to Western nations remained firm (Charts 3, 4, and 5). Meanwhile, real imports increased in the July-September quarter and changed to a decline in October-December, but on average real imports were steady due to the reduced growth in domestic demand. As a result of these export and import developments, net exports³ and the current-account surplus⁴ are maintaining an

² The fiscal 1997 supplementary budget allocates total expenditures of over 1.1 trillion yen. However, public works expenditures under the draft initial budget for fiscal 1998 are down 7.8 percent versus the initial budget for the previous fiscal year.

³ It should be noted that the “real trade balance” presented in Chart 3(2) differs from “net exports” on a GDP basis in that the real trade balance is on a customs-clearance basis and does not include trade in services, while net exports are on an ownership transfer basis, and include the trade in services. Nevertheless, the changes in the real trade balance are basically equivalent to those of net exports.

⁴ In 1997, the ratio of the current account surplus to GDP moved from 1.5 percent in the January-March quarter to 2.5 percent in the April-June quarter, and 2.3 percent in the July-September quarter.

increasing trend with some fluctuations.

Among overseas economies, South Korea and some of the ASEAN economies have begun implementing economic adjustment programs under assistance packages from the International Monetary Fund, and forecasts of economic growth in these countries have been revised downward, but the United States and Europe are expected to maintain continuous growth. Meanwhile, the yen has appreciated on a real effective basis recently, because it has appreciated sharply against Asian currencies, and also rebounded versus Western currencies lately (Chart 6(2)). Given this environment, Japan's net exports will probably continue to follow an upward trend, but the pace of increase will most likely decelerate.

Business fixed investment (Chart 7) had posted gradual growth, mainly in the manufacturing sector, but the related indices have recently become lackluster. The quarter-to-quarter growth in the shipments of general capital goods turned negative in the October-December quarter. In addition, with regard to leading indices, machinery orders have clearly stopped increasing, especially in the non-manufacturing sector, and construction starts have become generally dull, with some fluctuation. According to the December 1997 Business and Investment Survey of Incorporated Enterprises (Economic Planning Agency), although business fixed investment plans for fiscal 1997 still show an increase versus the previous fiscal year, corporations have adopted sluggish investment plans from now into the near future.

Regarding the future outlook for business fixed investment, to date the excess capacity is not observed to be substantial, and there is a firmly-established inclination toward investments which are necessary over a middle to long-term perspective. However, since economic conditions remain stagnant and financial institutions continue to adopt a cautious stance toward lending, the environment surrounding corporate profits⁵ and financial conditions⁶ is becoming increasingly severe (Chart 8). Thus, future business fixed investment plans should be monitored carefully.

In the household sector, with regard to private consumption, outlays for travel and other services are still firm, but the uptrend is tapering off (Charts 9 and 10). Sales of merchandise remain sluggish. Specifically, registrations of new passenger cars, sales of household electric appliances, and sales at department stores and chain stores were on a recovery trend, although its pace was sluggish, through the beginning of autumn 1997. However, the slump became more pronounced thereafter.⁷ From the beginning of 1998 up to now, it seems that further declines have been avoided, but signs of recovery have not been observed yet.

⁵ According to the Bank of Japan's *Tankan*--Short-Term Economic Survey of Enterprises of December 1997, profits continue to increase at principal manufacturing firms, but are expected to decline in the nonmanufacturing sector and at small and medium-sized enterprises.

⁶ Regarding this point, it is also important to examine the effects of the various measures for bringing greater stability to the financial system being debated during the current ordinary Diet session, which began on January 12, 1998.

⁷ In December, new passenger car registrations posted a substantial increase versus the previous month on the seasonally adjusted basis, but this was apparently due to temporary factors such as the sales promotions conducted by several automakers. In fact, registrations dropped sharply in January in reaction.

As for housing investment, housing starts (in terms of the seasonally adjusted annual rate) declined in July 1997 to 1.24 million units, the lowest level since September 1985, and have since remained stagnant at around 1.3 million units (Chart 11). Since the number of applications for loans submitted to the Government Housing Loan Corporation in October 1997 for its third offering period for Fiscal 1997 was slack, for the time being it is unlikely that the number of housing starts will rise significantly from the present level.

Because the mechanism of income formation has been weakened (as described below), it is difficult to project any significant rebound in household expenditures over the near term. However, the special income tax reduction that will shortly be implemented is likely to exert a positive effect on private consumption. In addition, stock prices have recently been moving up, and this may lead to a gradual easing of the uncertainty over future household income that has been intensifying for some time.

Reflecting weak final demand as described above, industrial production has declined for two consecutive quarters. Industrial production, which had decreased by 0.4 percent versus the previous quarter in July-September on a seasonally-adjusted basis, showed a further decline of 2.3 percent in October-December due to constrained production in wide-ranging industries including electrical machinery, transport equipment, and materials (Chart 12). Although the production forecast indices at this point show an upturn in January, anecdotal information gathered by interview surveys and other data indicate that industrial production remains weak from the beginning of

1998. Moreover, inventory conditions in the manufacturing sector (Chart 13) show a distinct buildup in both final goods and production goods, indicating that pressures of inventory adjustment have become apparent. Under these circumstances, production will probably remain stagnant for some time in as much as an appreciable increase in final demand cannot be expected for the time being.

With respect to employment and income conditions, the unemployment rate remains high, and the ratio of job offers to applications is decreasing (Chart 14). The growth in employees income is slowing, particularly for overtime compensation and bonus payments, as overtime working hours have now fallen below the previous year's level (Chart 15).

2. Prices⁸

With regard to price developments (Charts 16, 17, and 18), crude oil price and other overseas commodity prices are declining rapidly due to the easing of the supply-demand balance in Asia and other factors. As a result, import prices are continuing to decline on a contracted currency basis (Chart 17(1)). Furthermore, import prices on a yen basis, which had been rising slightly, have now turned to a decline because of the recent rebound of the yen. Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates) are continuing to soften, especially for steel and construction-related items, reflecting the decline in domestic public-sector investment

⁸ Except as otherwise noted, the price data presented herein are adjusted to exclude the effect of the rise in the consumption tax rate from three to five percent in April 1997 (calculations by the Bank of Japan).

and housing investment as well as the relaxation of supply-demand conditions in the ASEAN economies and South Korea (Chart 17(3)). Domestic wholesale prices dropped 0.5 percent versus the previous quarter in July-September and October-December, and 0.2 percent in January 1998 versus the October-December quarter.

The overall year-on-year decline in corporate service prices has contracted to almost zero (Chart 18(1)), because the prices of general services (including information services and temporary employment services) have been level or strengthened marginally, reflecting firm demand, and the prices of real estate services have held steady. The year-on-year decline in corporate service prices was 0.3 percent in the April-June quarter, 0.2 percent in July-September, and 0.0 percent in October-December. Consumer prices (excluding perishables) posted a year-on-year rise of 0.6 percent in the April-June quarter, and 0.8 percent in both July-September and October-December (Chart 18(2)). However, these data reflect the rise in medical service charges following the revisions to the medical insurance system implemented in September. The fundamental year-on-year increase excluding the rise in consumer medical costs remains stable at around 0.4 percent.

As demonstrated by these figures, prices overall continue to be stable at present, and are expected to remain stable for the time being. However, with the continuing stagnant final demand and inventory adjustments in Japan, the domestic supply-demand gap is unlikely to be reduced, and overseas commodity prices have declined, so the

latent downward pressure on prices appears to be increasing.

Regarding land prices, there is still a distinction in commercial land prices between plots whose prices have stopped falling and those whose value is decreasing further. The rate of decline in residential land prices has narrowed, but there are signs indicating the possibility of further declines in the future, as developers become less eager than before to acquire land for building condominiums, reflecting the recent sluggishness in housing demand.

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets show that the overnight call rate (uncollateralized) has been holding slightly below the official discount rate of 0.5% (Charts 19(1) and 20). Euro-yen interest rates (3-month) temporarily declined through the middle of January, but then rose once again in the latter half of the month.

The rise in term interest rates in late January might be attributed to expectations toward the Government's economic stimulus measures, considering that the interest rates on Euro-yen futures with distant contract months have been moving up slightly (Chart 21). More importantly, however, market concerns regarding liquidity risk and credit risk have remained strong ahead of the fiscal year end (March 31), resulting in active fund-raising to meet the fiscal year end demand. Since the end of December, the

implied forward rates (calculated from Euro-yen interest rates) for one-month contracts going beyond the end of the fiscal year (that is, contracts starting in March and closing in April) have remained substantially high compared with other rates (Chart 22). This suggests that market participants have been extremely cautious about liquidity at the end of the fiscal year.

Like Euro-yen rates, the “Japan premium” briefly declined in mid-January, but then rose again, especially for two-month instruments, and has since remained at a high level (Chart 23).

Yields on ten-year government bonds (benchmark) had generally remained at around a historically low level of 1.6-1.7 percent in November and December. The yields moved up beyond 1.8 percent in late January, and have since been fluctuating between 1.75 and 1.80 percent (Chart 19(2)). Analysis of long-term interest rates shows that one-year implied forward rates (calculated from yen-yen swap rates) moved up slightly overall (Chart 24).

Like the yields on ten-year government bonds, stock prices picked up from mid-January. The Nikkei 225 Stock Average recovered the 17,000-yen level in late January, and has been fluctuating in a narrow range (Chart 25(1)). The yield spread (the government bond yield minus the expected earnings on stocks) has recently been improving somewhat, but still remains at a low level (Chart 25(2)), giving no clear sign of improvement in the economic outlook or reduction in the uncertainty over future

economic conditions.

Turning to the yields on corporate bonds and bank debentures, the yield difference between bank debentures and government bonds remains large (Chart 26), and the yields on corporate bonds continue to differ significantly across different credit risks (Chart 27). This indicates that the market awareness of credit risk remains strong.

On the foreign exchange market, the yen depreciated to about 134 yen to the U.S. dollar at the beginning of the year, but appreciated thereafter and has recently been moving around 124-125 yen to the U.S. dollar (Chart 28). This development, together with continued strength of the yen against Asian currencies, led to an appreciation of the real effective exchange rate (Chart 6(2)).

(2) Monetary Aggregates

The underlying trend of lending by private banks such as city banks, long-term credit banks, trust banks, regional banks and regional banks II continues to be lackluster, but there has been no conspicuous decline. At present, the banks' increasingly cautious stance in extending credit is not clearly reflected in the monetary aggregate figures.

Money stock in terms of the growth in $M_2 + \text{CDs}$ accelerated sharply in December, moving up 3.8 percent year-on-year and 6.5 percent versus the level three

months earlier (Chart 30). The higher growth may largely be attributed to the shift of a substantial volume of funds away from investment trusts.⁹ Another aspect which warrants attention is that the growth rate of M_1 and cash currency in circulation remains at a high level (Chart 31). In line with anxieties regarding the financial system and economic conditions, these developments in money stock apparently reflect ① a stronger inclination among enterprises to secure liquidity in advance and ② the shift of financial assets by both enterprises and households.

(3) Lending Attitude of Private Financial Institutions, and Corporate Finance

With respect to factors affecting the lending attitude of private financial institutions, capital constraints appear to have become somewhat less binding due to ① the recovery in stock prices and the yen, as well as ② expectations for legislative measures to stabilize the financial system. Also, government financial institutions and certain regional banks with a relatively large margin in their capital adequacy ratios are apparently taking a positive attitude toward meeting the borrowing needs from small and medium-sized enterprises (Chart 32).¹⁰ It should be noted, however, that there is no significant change in the basic policy at large banks, which plan to reduce their lending balance through the end of March.

⁹ The growth in postal savings accelerated toward the end of the year, as the year-on-year increase in the outstanding balance was 5.1 percent at the end of October, 5.5 percent at the end of November, and 6.2 percent at the end of December. This means that postal saving served as a factor limiting the growth rate of $M_2 + \text{CDs}$ during this period.

¹⁰ Additionally, life insurance companies (especially larger firms) apparently began to adopt a more positive stance toward meeting corporate borrowing needs from the beginning of this year, but this trend has yet to be reflected in statistics.

Fund raising in the capital market by private-sector enterprises continues to be active, primarily through the issuance of straight bonds (Chart 33). CP issuance also appears to be rising, partially due to expanded CP operations by the Bank of Japan. Overall, it seems that private-sector enterprises are increasing their efforts to secure cash on hand, mostly via the capital market, under the circumstances where the lending attitude of large banks is cautious.

As for the fund-raising cost for firms, the average contracted interest rates on new short-term loans and discounts moved up slightly in December, reflecting the rise in market interest rates described above (Chart 34(1)). In January, the long-term prime rate rose from 2.3 to 2.6 percent (Chart 34(2)). Also in the capital market, CP issuance conditions and straight bond issuance rates became somewhat tight in December. CP issuance rates have been settling down slightly from mid-January, but on the corporate bond market the yield differences continue to be large in line with different credit ratings.

In sum, corporate finance is not being significantly restricted overall on a volume basis because ① capital constraints have become somewhat less restrictive on lendings by financial institutions, and ② corporate fund raising through the capital market and other alternative measures have been reasonably active. However, weaker corporate profits coincide with following developments: ① there is little fundamental change in the cautious lending attitude at private financial institutions, particularly at

large banks, and ② market participants remain strongly concerned about credit risk. Thus, there is a possibility of a tighter financial position and increased upward pressure on funding costs, particularly at enterprises with poor performance,¹¹ and the ultimate effects on the real economy will have to be carefully monitored.

(This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on February 13, 1998).

¹¹ The pace of increase in the number of corporate bankruptcies appears to be accelerating slightly (Chart 35).

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Main Economic Indicators (1)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Oct.	Nov.	Dec.	98/Jan.
Index of expenditure level (all households)	-2.7	1.4	n.a.	1.1	p -2.0	n.a.	n.a.
Sales of department stores	-6.3	-1.3	p -3.0	-2.3	-2.0	p -4.0	n.a.
Sales of chain stores ¹	-4.8	-3.6	-5.3	-3.6	-4.5	-7.0	n.a.
New passenger-car registrations ²	-9.2	-10.3	-13.7	-14.0	-21.8	-3.9	-23.1
Sales of electric appliances (NEBA)	-8.3	-3.7	-4.5	-5.6	-1.6	-5.8	n.a.
Outlays for travel (50 major travel agencies)	0.7	2.2	1.0	3.6	-0.8	-0.2	n.a.
Housing starts <s.a., ann. 10,000 units>	145	130	130	133	128	129	n.a.
Machinery orders (from private sector ³)	2.5	1.3	-13.4	-14.3	-16.6	-8.9	n.a.
Mining & manufacturing	13.6	8.7	-2.9	2.9	-8.3	-2.4	n.a.
Nonmanufacturing ³	-4.7	-4.1	-20.4	-23.6	-22.8	-13.7	n.a.
Construction Starts (private, nonresidential use)	0.7	3.8	-8.0	-8.8	-6.6	-8.4	n.a.
Manufacturing	1.5	8.4	-1.4	-8.8	14.5	-8.0	n.a.
Nonmanufacturing ⁴	0.4	2.2	-10.5	-8.8	-14.2	-8.6	n.a.
Value of public works contracts	-1.2	-1.7	-9.1	-17.7	-6.7	5.1	n.a.
Real exports <s.a. quarterly (monthly) change>	5.9	0.3	p 1.2	8.6	-9.5	p 0.7	n.a.
Real imports <s.a. quarterly (monthly) change>	-2.7	2.4	p -3.0	-2.4	-6.2	p 8.1	n.a.
Industrial production <s.a. quarterly (monthly) change>	0.0	-0.4	p -2.3	0.1	-5.0	p 0.8	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.6	0.6	p -2.5	-0.2	-5.9	p 1.2	n.a.
Inventories <s.a. quarterly (monthly) change>	7.1	0.7	p 1.2	-0.5	1.4	p 0.4	n.a.
Inventories/shipments <s.a. 1990=100>	117.8	115.3	p 122.4	116.3	123.9	p 122.4	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Oct.	Nov.	Dec.	98/Jan.
Ratio of job offers to applications <s.a., times>	0.73	0.72	0.69	0.70	0.69	0.68	n.a.
Unemployment rate <s.a., %>	3.43	3.41	3.46	3.45	3.49	3.44	n.a.
Overtime working hours ⁵	3.7	1.1	p -2.5	-1.0	-2.8	p -3.6	n.a.
Number of employees	1.4	1.0	1.0	1.1	0.9	0.8	n.a.
Number of regularly employed ⁵	0.9	0.9	p 0.9	0.8	1.0	p 0.8	n.a.
Nominal wage per person ⁵	1.4	1.5	p 0.8	1.4	0.0	p 0.9	n.a.
Domestic wholesale prices index ⁶	-0.5	-0.5	-1.0	-0.8	-1.0	-1.2	-1.2
Consumer prices index (nationwide) ⁶	0.6	0.6	0.7	1.0	0.6	0.3	n.a.
Excluding perishables	0.6	0.8	0.8	0.9	0.7	0.8	n.a.
Corporate service prices index ⁶	-0.3	-0.2	0.0	0.0	-0.1	0.0	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.0	p 3.3	2.9	3.2	p 3.8	n.a.
Number of suspension of transaction with banks	11.5	9.5	19.0	21.3	7.2	28.4	n.a.

Notes: 1. Adjusted to exclude consumption tax.

2. Excludes small cars with engine size of 660cc or less.

3. Excludes ships and demand from electric power companies.

4. Nonmanufacturing=commerce+services+agriculture & fisheries+public utilities industries etc.

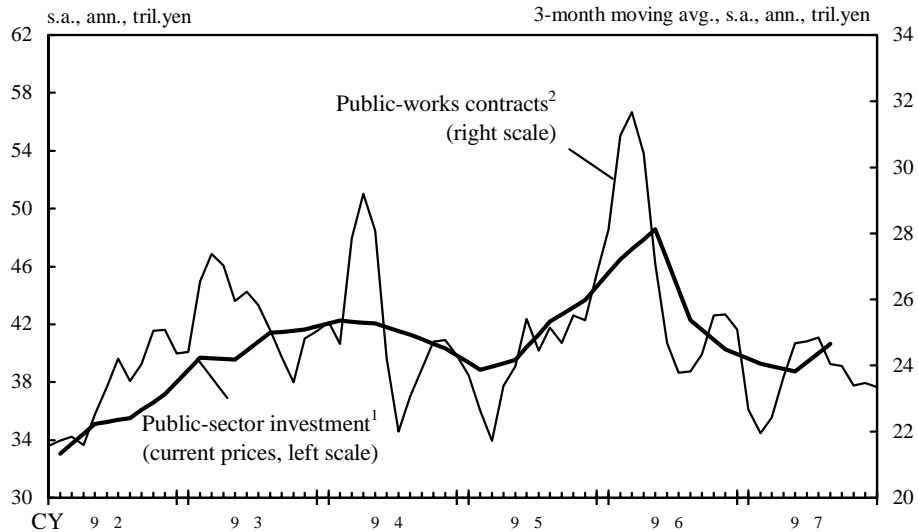
5. Data for firms with 5 regular employees or more.

6. Adjusted by the Research and Statistics Dept., Bank of Japan to exclude the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods and services fully reflect the rise of tax rate.

Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";
 Japan Chain Stores Association, "Sales of Chain Stores";
 Japan Automobile Dealers association, "Domestic Sales of Automobiles";
 Nippon Electric Big-stores Association (NEBA), "Sales of Electric Appliance";
 Ministry of Transport, "Major Travel Agents' Revenue";
 Ministry of Construction, "Monthly of Construction Statistics"; Economic Planning Agency, "Machinery Orders Statistics";
 Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";
 Ministry of Finance, "Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service",
 "Monthly Labor Survey"; Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index",
 "Economic Statistics Monthly"; Federation of Bankers Associations of Japan, "Suspension of Transaction with Banks."

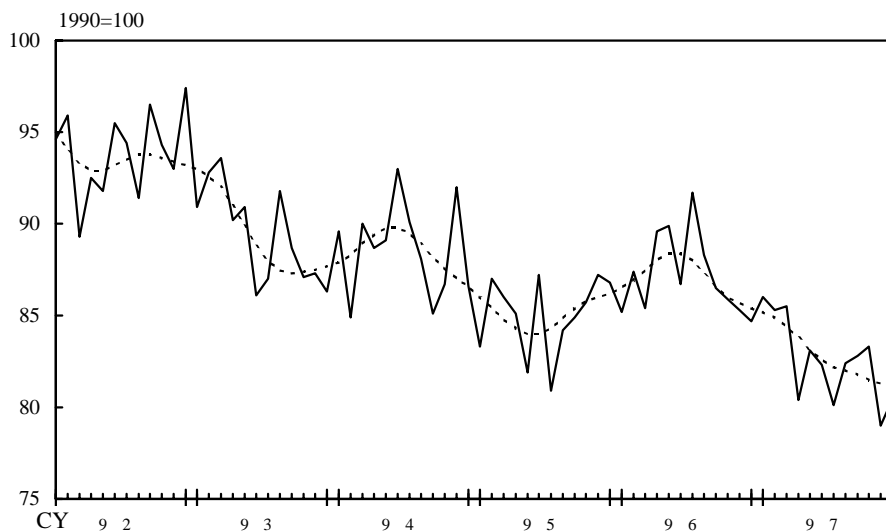
Public-sector Investment

(1) Public-works Contracts



Notes: 1. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
 2. Public-works contracts are seasonally adjusted by X-12-ARIMA (β version).

(2) Shipments of Public Works-related Goods¹



Note: 1. Public works-related goods=asphalt+concrete pipes+concrete blocks+concrete paving products +steel pipes+iron pipe and tube fittings.

Seasonally adjusted by X-12-ARIMA (β version).

The solid line is the seasonally adjusted series (=TC·I) and the dotted line is the trend cycle factor (=TC), where $Y=TC \cdot S \cdot D \cdot I$ (assuming a multiplicative model),

Y: original series, TC: trend cycle factor, S: seasonal factor,

D: trading day factor, I: irregular factor.

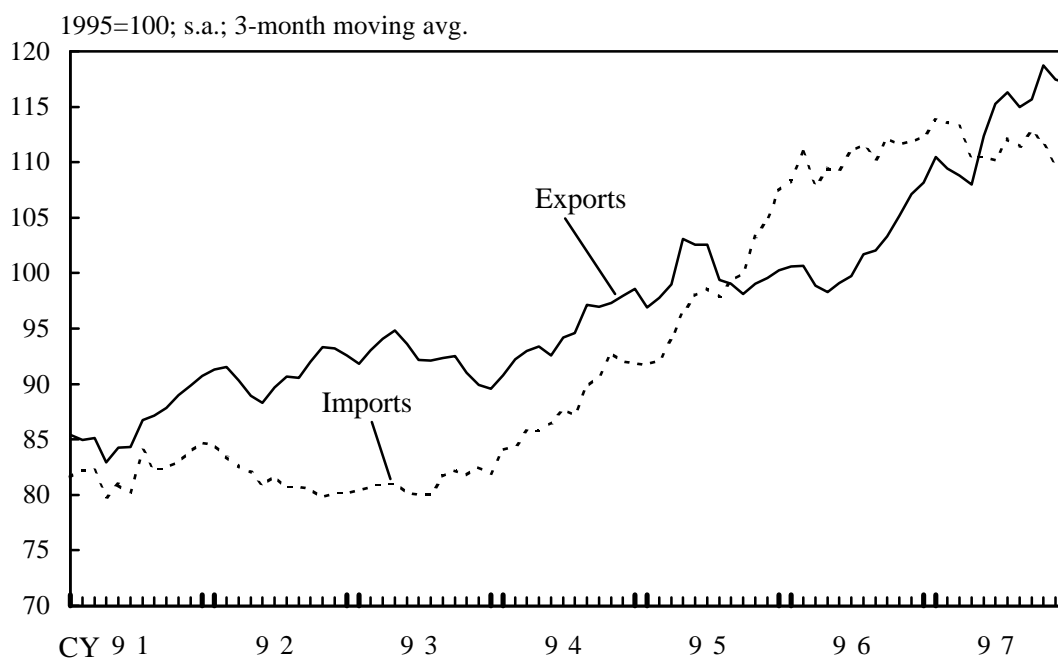
Sources: Economic Planning Agency, "National Income Statistics";

Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";

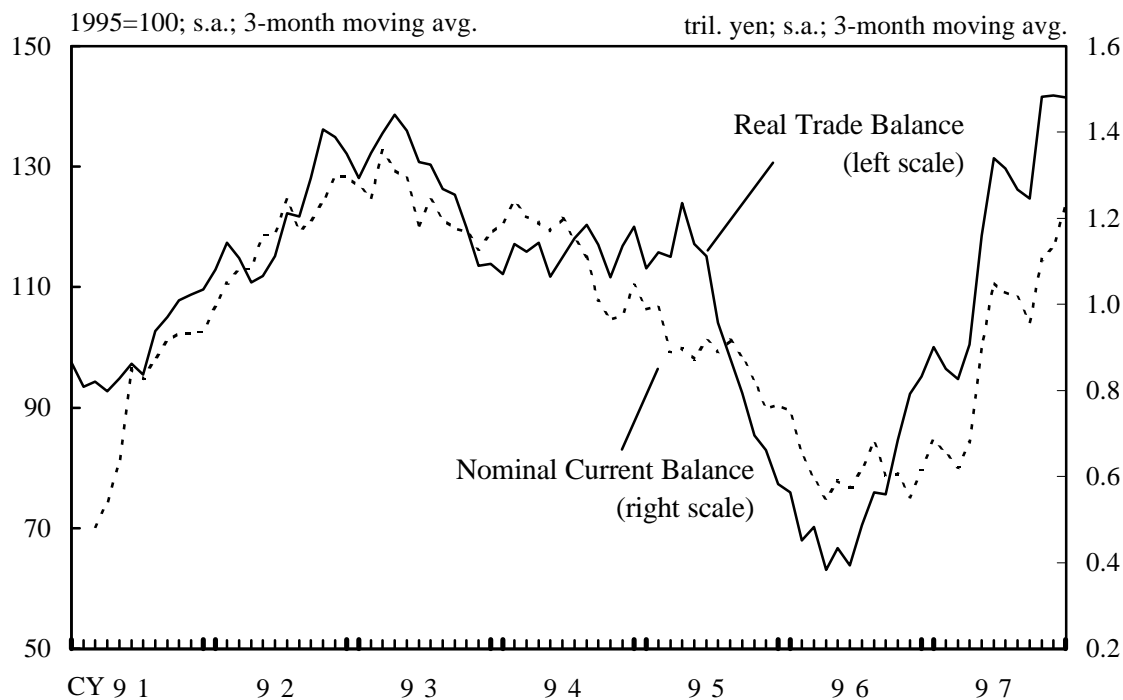
Ministry of International Trade and Industry, "Indices of Industrial Production."

External Balance ¹

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account



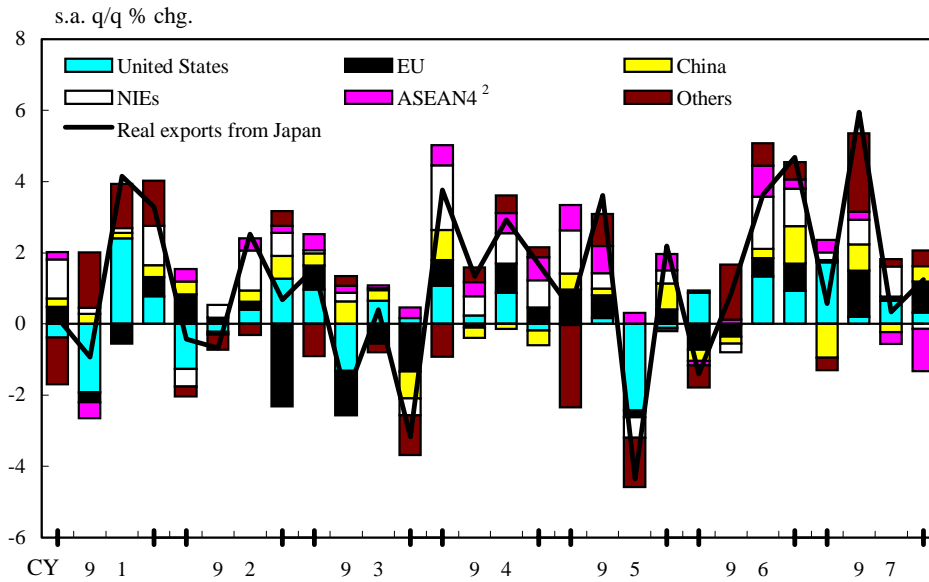
Note: 1. The real exports and imports with new base of 1995 (previously 1990) are issued from this month.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan";

Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."

Exports

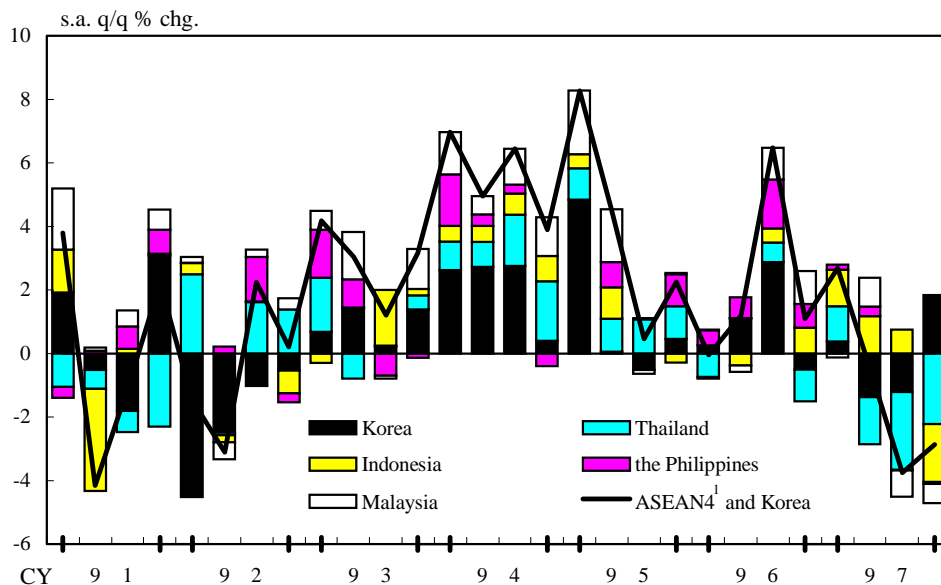
(1) Real Exports from Japan ¹



Notes: 1. The sum of factor contributions does not equal to the total real exports due to seasonal adjustment factors and etc. The real exports with new base of 1995 (previously 1990) are issued from this month.

2. Data for four members: Thailand, Malaysia, the Philippines, and Indonesia.

(2) Real Exports from Japan to ASEAN4¹ and Korea ²



Notes: 1. Data for four members: Thailand, Malaysia, the Philippines, and Indonesia.

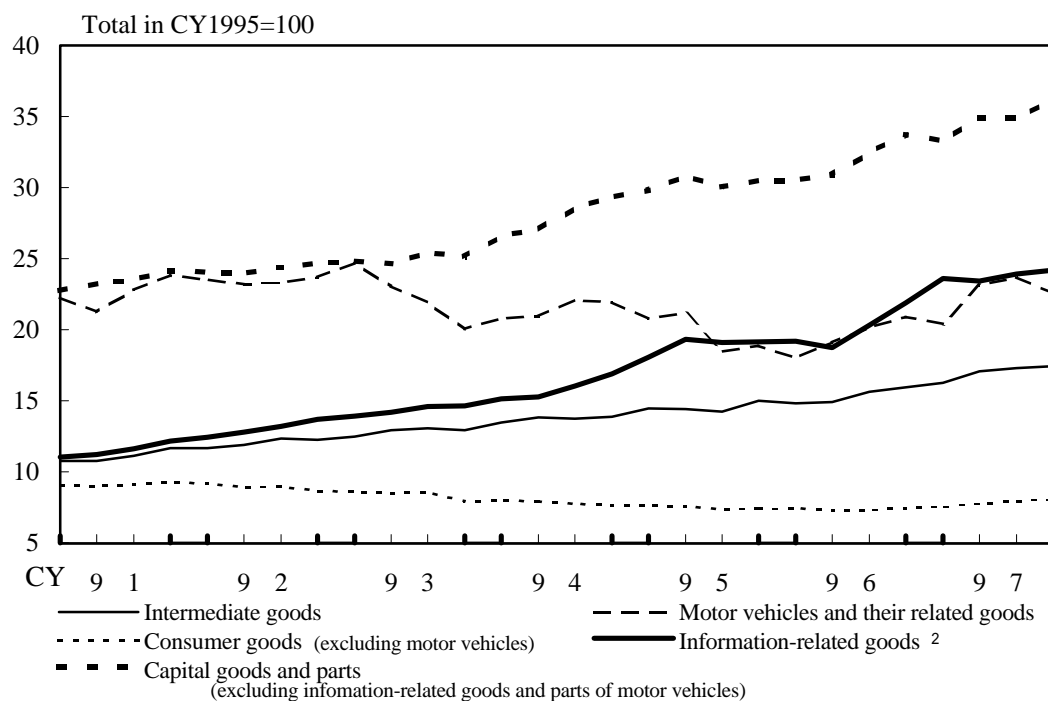
2. 1997/Q4 figures are Oct-Nov averages in terms of quarterly amount. The real exports with new base of 1995 (previously 1990) are issued from this month.

Sources: Ministry of Finance, "Summary Report on Trade of Japan";

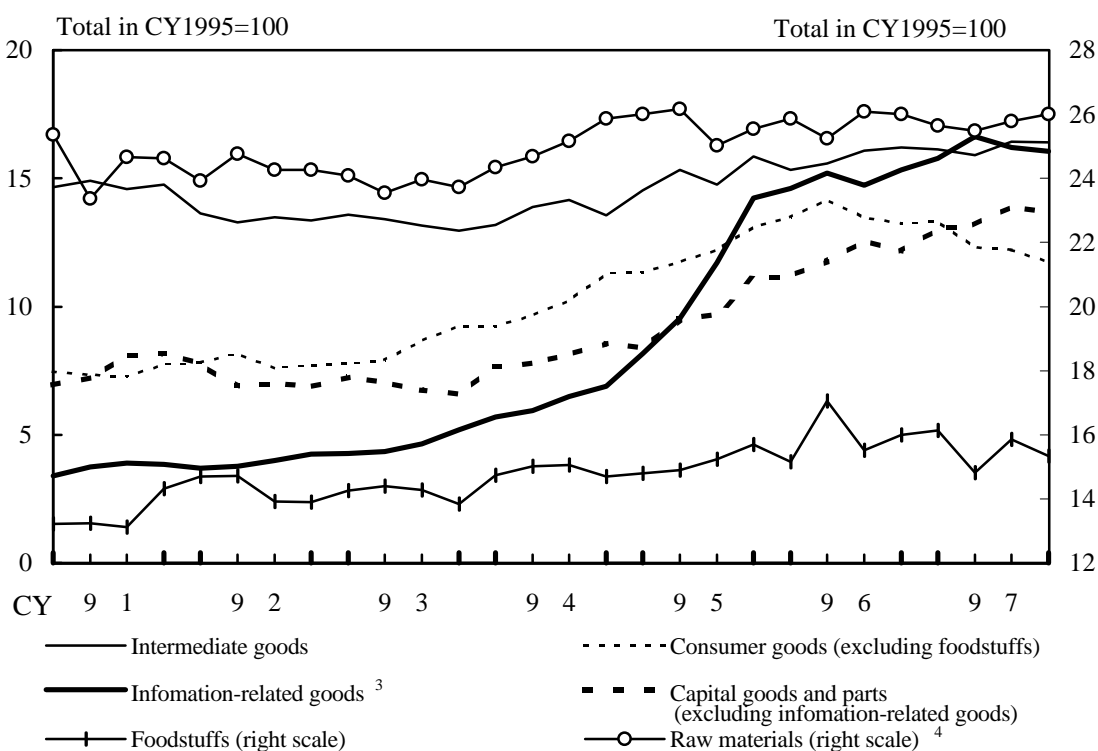
Bank of Japan, "Wholesale Price Indexes."

Exports and Imports ¹

(1) Real Exports (Breakdown by types of goods)



(2) Real Imports (Breakdown by type of goods)



Notes: 1. Based on seasonally adjusted data. The real exports and imports with new base of 1995 (previously 1990) are issued from this month.

2. Information-related exports = automatic data processing machinery + Telecommunication machinery + ICs + scientific, medical and optical instruments.

3. Information-related imports = office machinery + Telecommunication machinery + ICs + scientific, medical and optical instruments.

4. Raw materials = woods + ores + mineral fuel, etc.

Sources: Ministry of Finance, "Summary Report on Trade of Japan";
 Bank of Japan, "Wholesale Price Indexes."

Overseas Economic Conditions and Real Effective Exchange Rate

(1) Real GDP Growth Rates in Overseas Economies

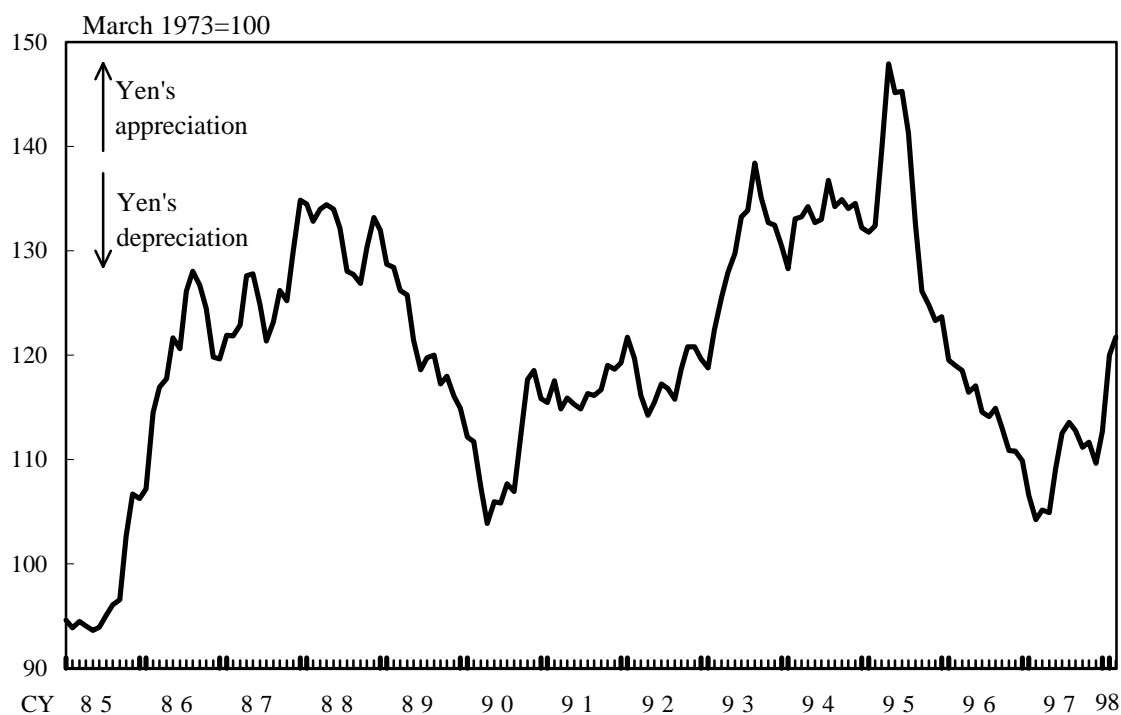
		CY95	96	97	97				
					Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	
United States ¹		2.0	2.8	3.8	4.9	3.3	3.1	4.3	
European Union ¹		2.5	1.7	n.a.	1.3	4.8	n.a.	n.a.	
	Germany	1.8	1.4	n.a.	1.2	4.1	3.2	n.a.	
	France	2.1	1.5	n.a.	1.3	4.4	3.5	n.a.	
	United Kingdom	2.8	2.6	3.4	2.7	4.3	3.4	2.1	
East Asia ²	China	10.5	9.7	8.8	9.4	(Jan-Jun) 9.5	(Jan-Sep) 9.0	(Jan-Dec) 8.8	
	NIEs	Korea	8.9	7.1	n.a.	5.5	6.4	6.3	n.a.
		Taiwan	6.0	5.7	n.a.	6.9	6.3	6.9	n.a.
		Hong Kong	3.9	5.0	n.a.	6.0	6.8	5.7	n.a.
		Singapore	8.8	7.0	7.6	4.1	8.2	10.1	n.a.
	4 Countries of ASEAN	Philippines	4.8	5.7	5.1	5.0	5.7	4.9	4.7
		Thailand	8.7	6.4	n.a.	n.a.	n.a.	n.a.	n.a.
		Malaysia	9.5	8.2	n.a.	8.5	8.4	7.4	n.a.
Indonesia		8.2	8.0	p 5.1	6.9	6.0	n.a.	n.a.	

Notes: 1. Quarterly data are quarter-to-quarter percent changes.

2. Quarterly data are percent changes from a year earlier.

Sources: Government and central bank statistics of each country, OECD, "Main Economic Indicators."

(2) Real Effective Exchange Rate¹

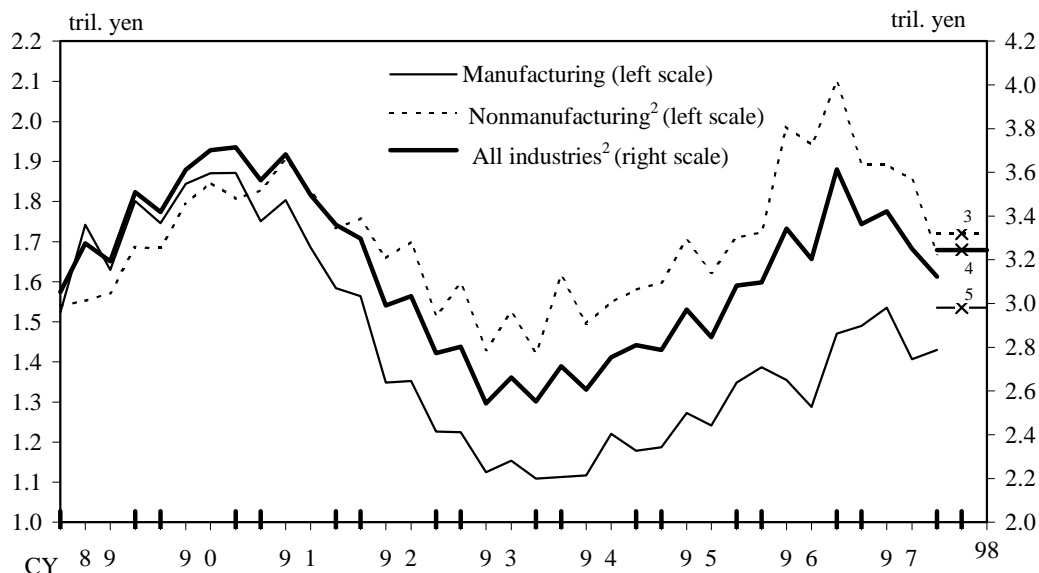


Notes: 1. Monthly average. The figure for Feb. 1998 is February 1-12 average. Calculated by Bank of Japan.

Figures are index of weighted average of yen's real exchange rates versus 24 major currencies which are calculated from exchange rates and price indexes of the respective countries.

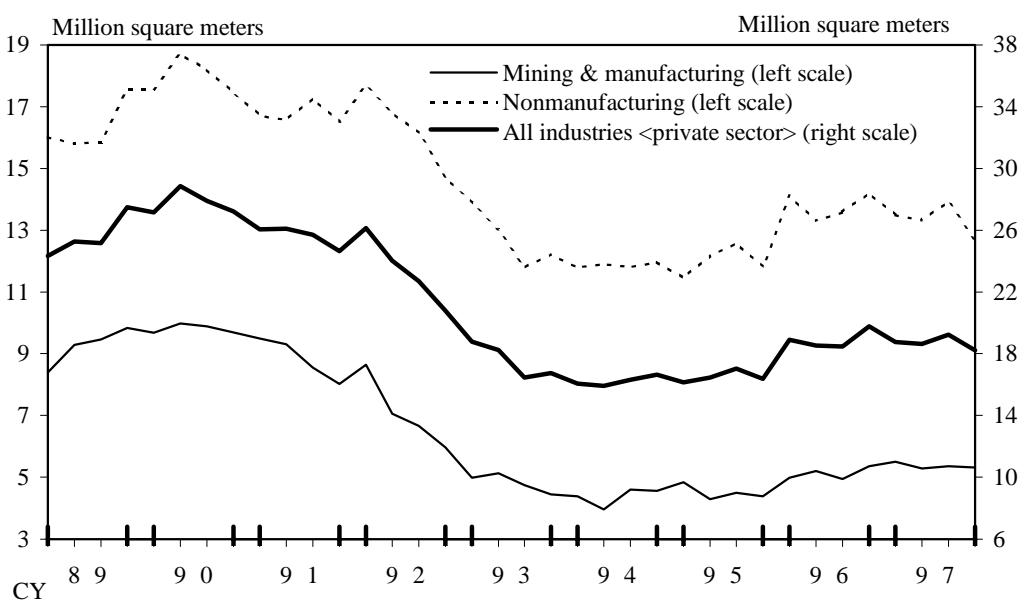
Major Indexes of Business Fixed Investment (1)

(1) Machinery Orders¹



- Notes: 1. Based on seasonally adjusted data.
 2. Excludes orders from electric power companies, and shipbuilding orders.
 3. Forecast of nonmanufacturing industries for 1998/Q1.
 4. Forecast of all industries for 1998/Q1.
 5. Forecast of manufacturing industries for 1998/Q1.

(2) Construction Starts (Nonresidential)¹

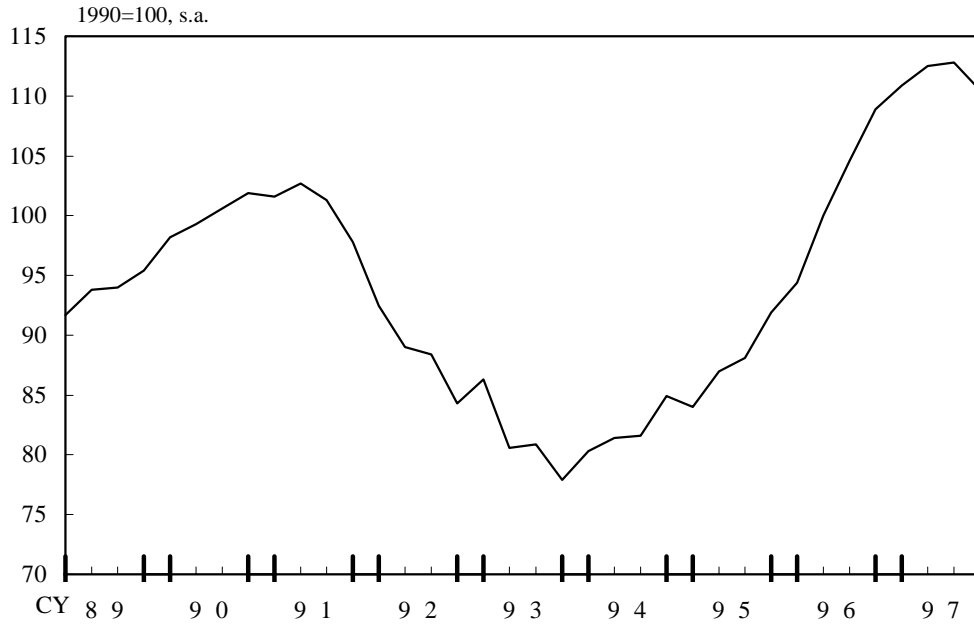


Note: 1. Seasonally adjusted data.

Sources: Economic Planning Agency, "Machinery Orders Statistics";
 Ministry of Construction, "Construction Statistics Monthly."

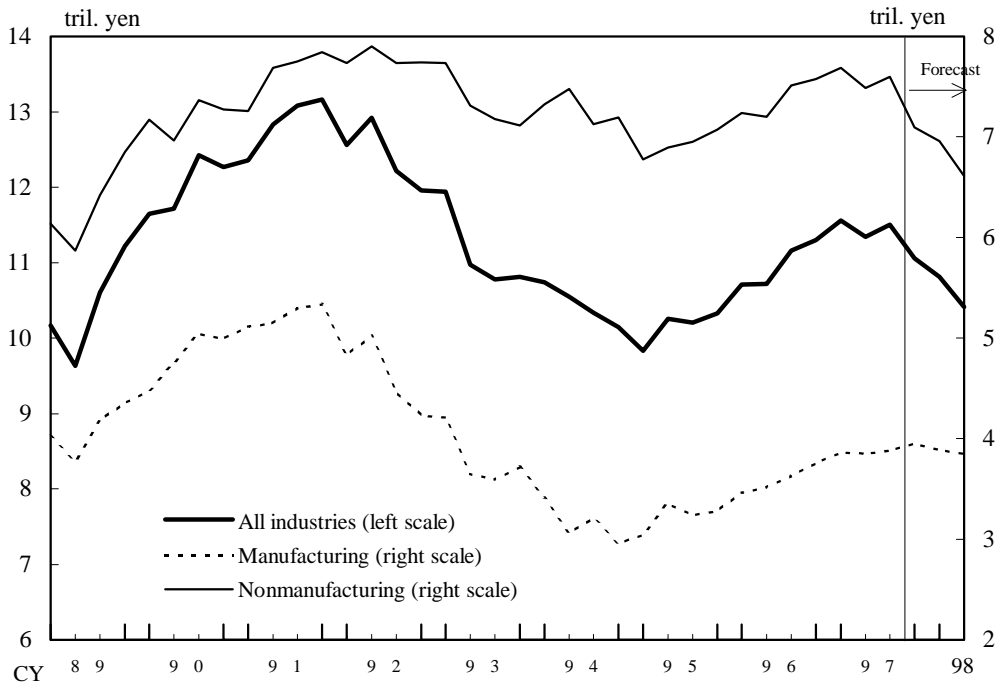
Major Indexes of Business Fixed Investment (2)

(3) Shipments of Capital Goods¹

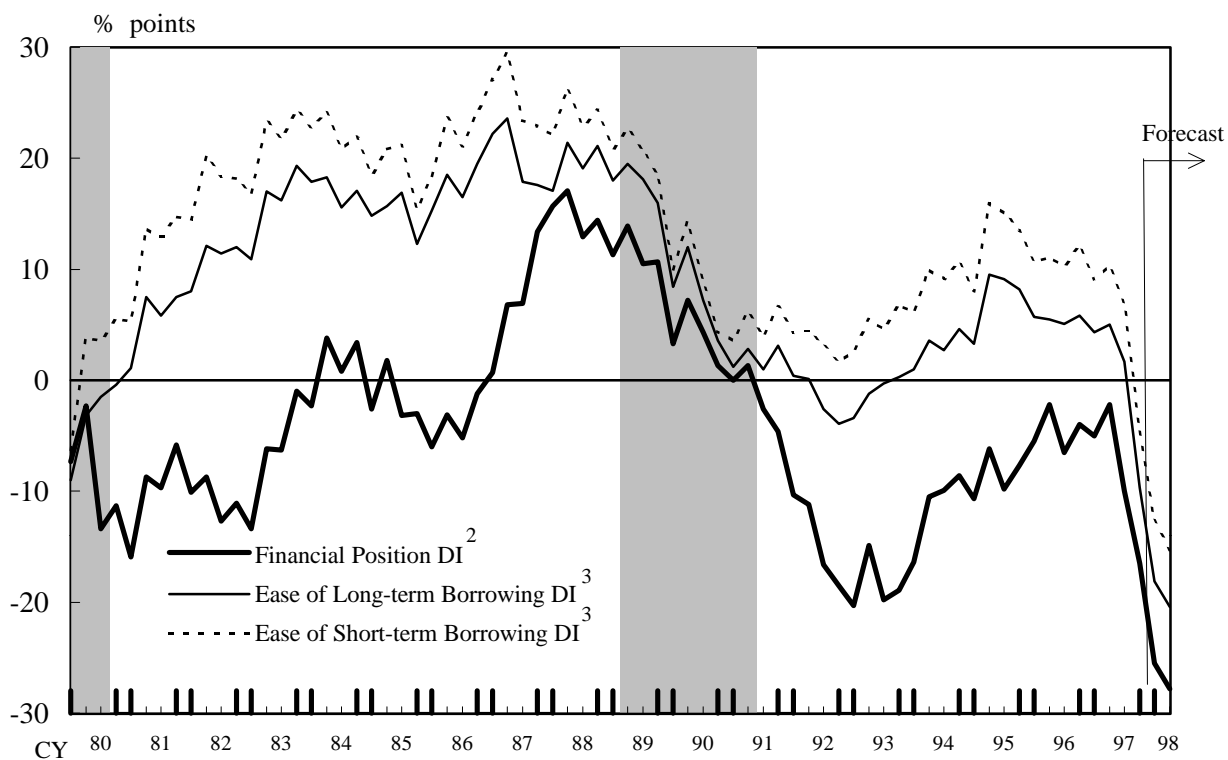


Note: 1.Exclude transport equipment.

(4) Business Fixed Investment (Business and Investment Survey of Incorporated Enterprises)



Sources: Ministry of International Trade and Industry, "Indices of Industrial Production";
Economic Planning Agency, "Business and Investment Survey of Incorporated Enterprises."

Corporate Finance-Related Indicators (Economic Survey of Small Businesses¹)

Notes: 1 Sample: 11,827 Companies (Responses: 5,273 < December 1997 Survey>).

Shaded areas indicate periods when the official discount rate was on an uptrend.

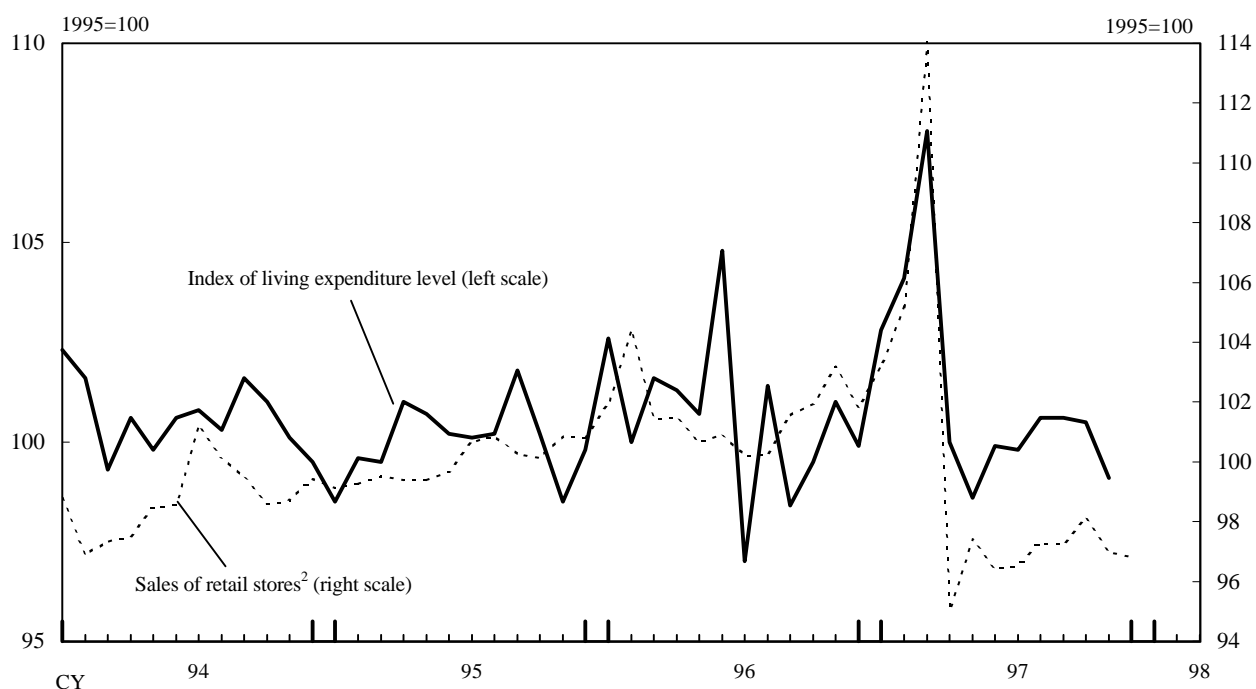
2. Change from a year ago, "Improving" - "Worsening".

3. Change from a year ago, "Easy" - "Difficult".

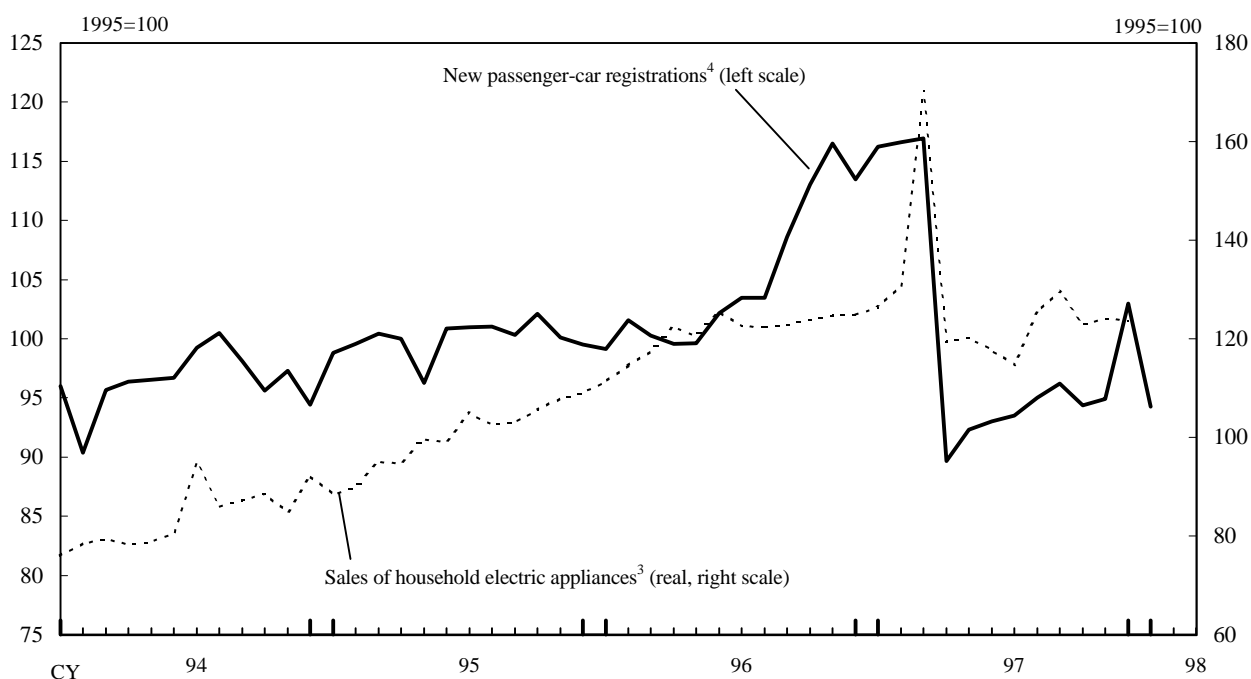
Source: Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses."

Private Consumption¹

(1) Household Spending



(2) Sales of Durable Goods



Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).

Index of living expenditure level is seasonally adjusted by X-11.

2. Sales of retail stores is deflated by the Consumer Price Index for commodities.

3. Sales of household electric appliances is deflated by Wholesale Price Index (for personal computers) and Consumer Price Index (other electric appliances).

4. Excluding small cars with engine size of 660 cc or less.

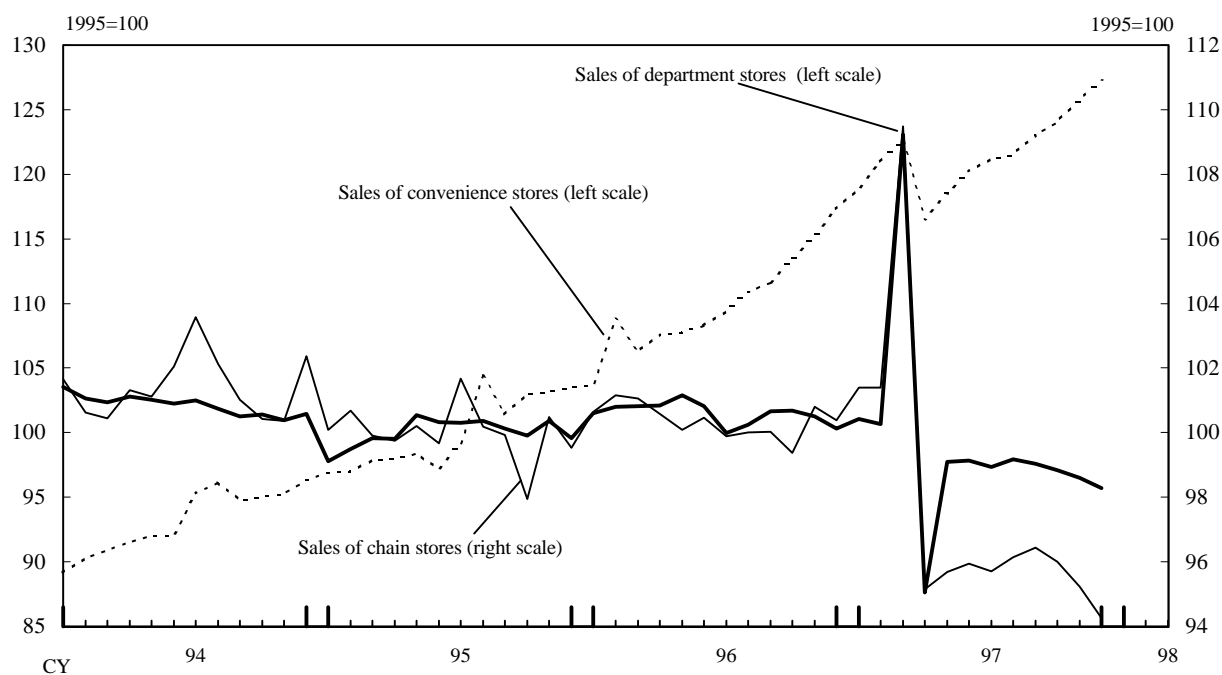
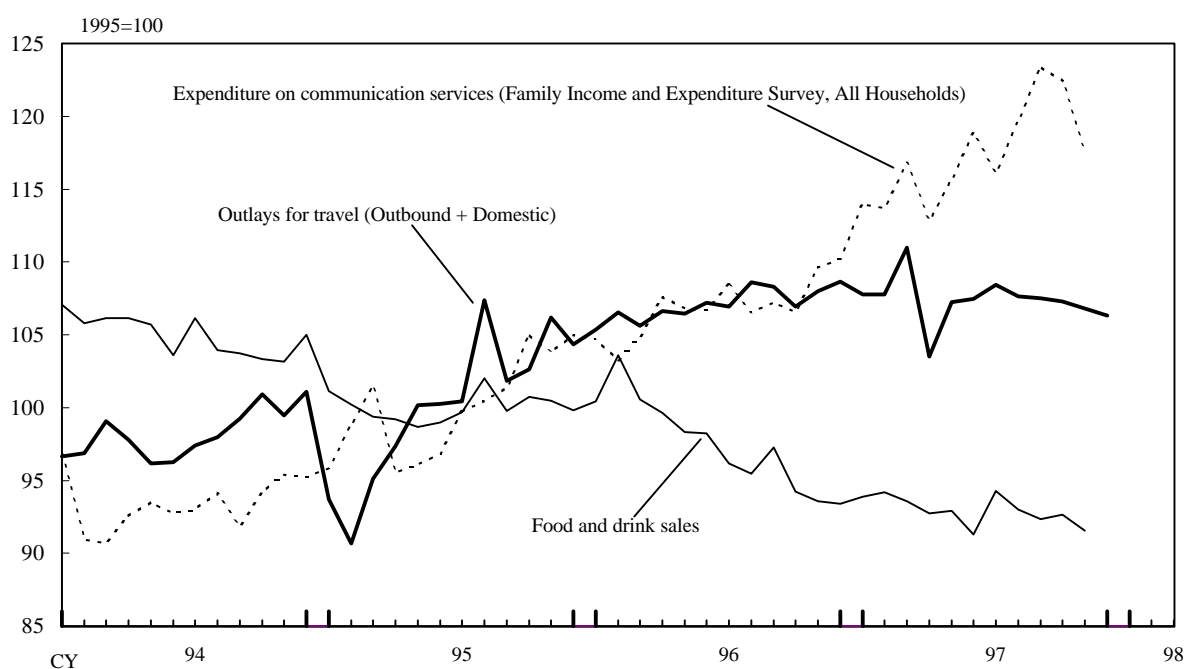
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey"; "Consumer Price Index";

Ministry of International Trade and Industry, "Current Survey of Commerce";

Japan Automobile Dealers association, "Domestic Sales of Automobiles";

Nippon Electric Big-Stores Association (NEBA), "Sales of Electric Appliance";

Bank of Japan, "Wholesale Price Indexes."

Private Consumption¹(3) Sales of retail stores²(4) Consumption of service³

Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).

2. Adjusted to exclude the effect of the increase in the number of stores (except convenience stores).
Sales of department stores and sales of chain stores are adjusted to exclude the effect of the rise of the consumption tax rate.

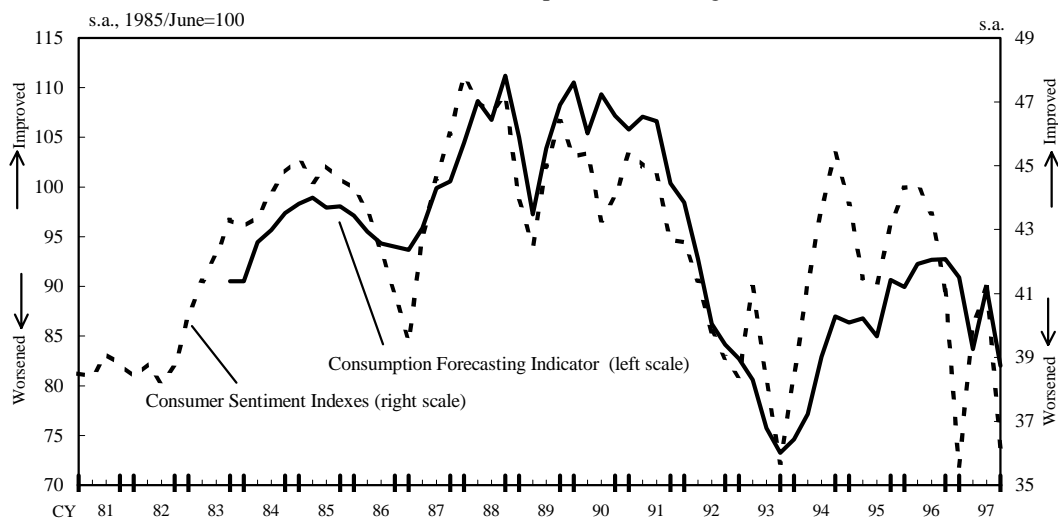
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

4. Sales of convenience stores is surveyed by Bank of Japan.

Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
Ministry of International Trade and Industry, "Current Survey of Commerce";
Japan Chain Stores Association, "Sales of Chain Stores";
Ministry of Transport, "Major Travel Agents' Revenue";
Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales."

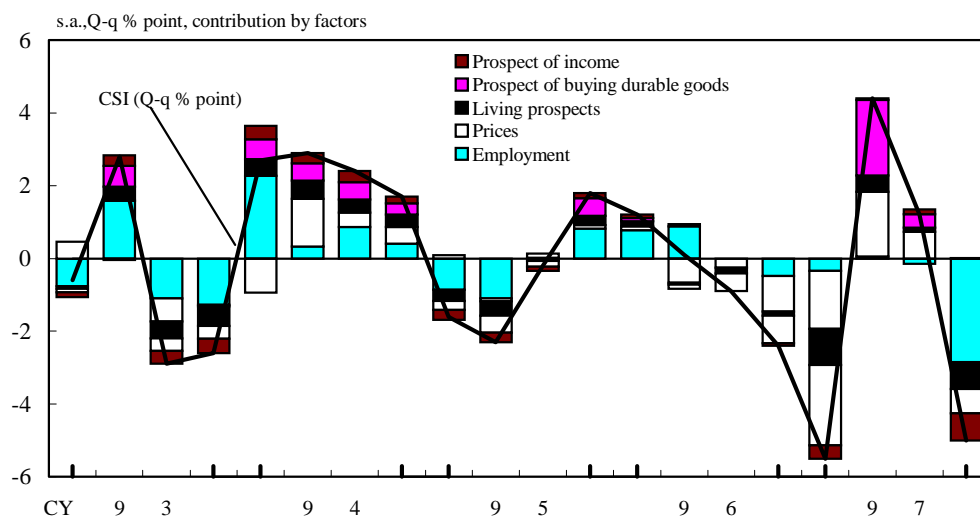
Consumer Confidence

(1) Consumer Sentiment Indexes (CSI), and Consumption Forecasting Indicator (CFI)



Notes: Both CSI and CFI are based on quarterly surveys on consumer confidence. CFI consists of surveys asking consumers' judgments on present condition and those asking their prospects of the near future, while CSI asks their prospects of the coming six month. Thus the latter is expected to precede the former by approximately one quarter.

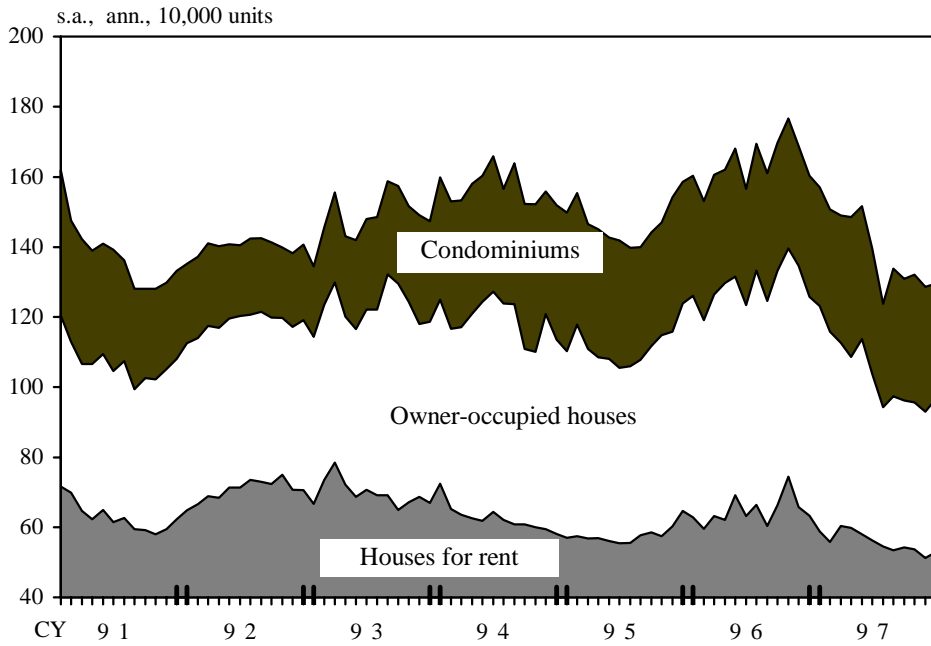
(2) Consumer Sentiment Indexes



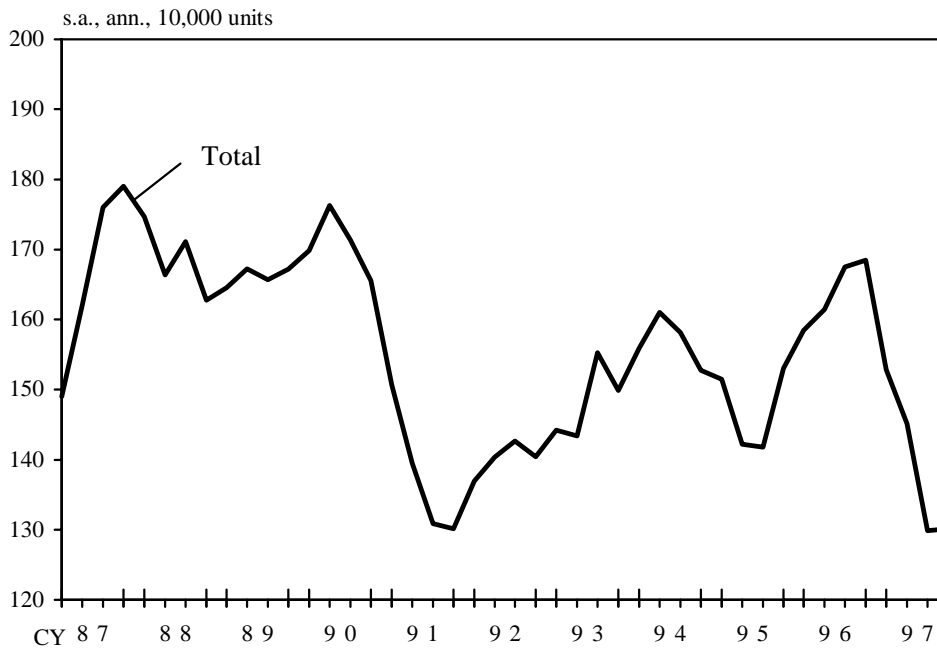
Sources: Economic Planning Agency, "Consumer Behavior Survey";
Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator."

Housing Starts

(1) Monthly



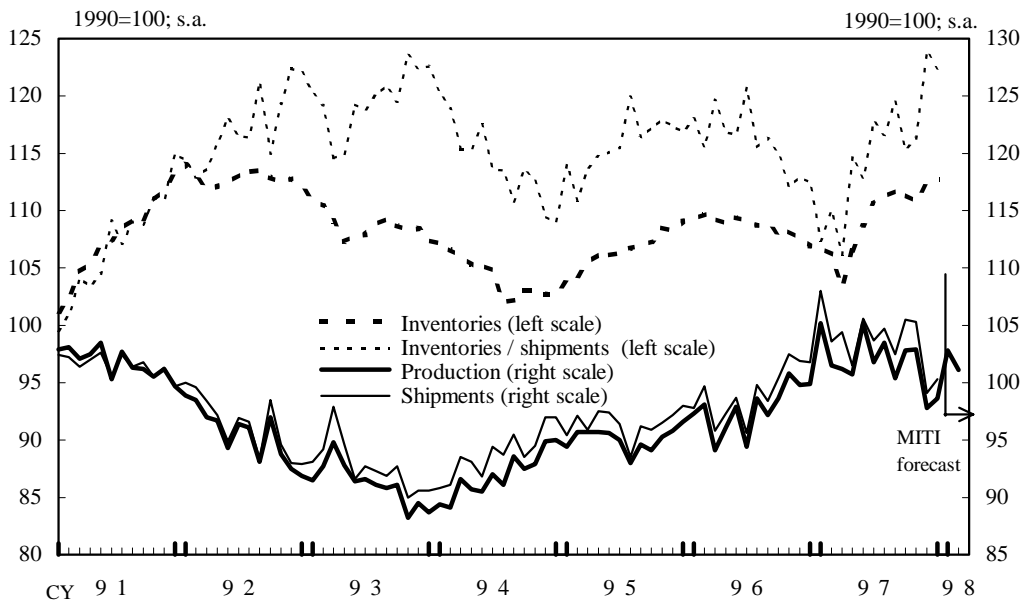
(2) Quarterly



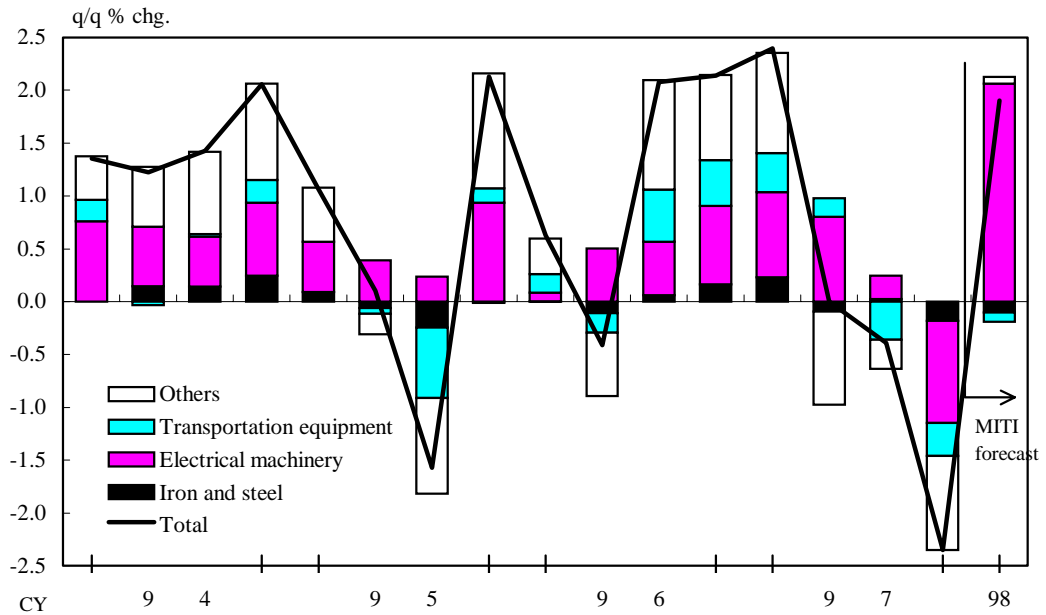
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



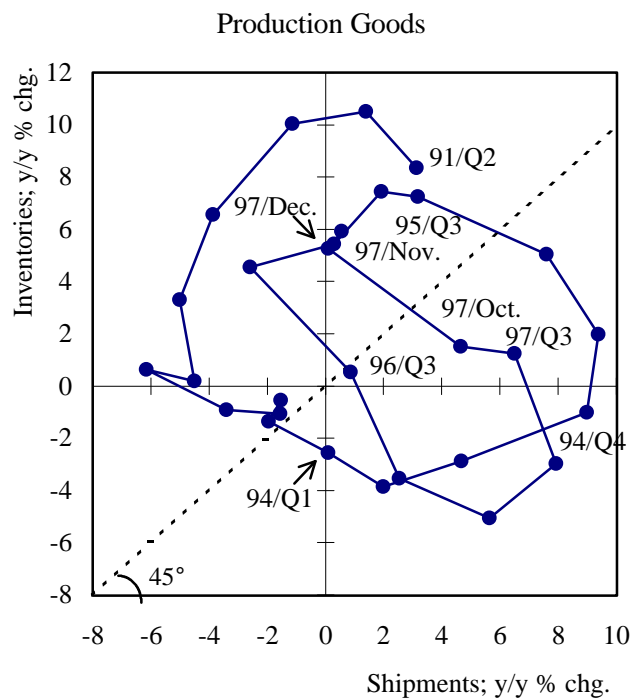
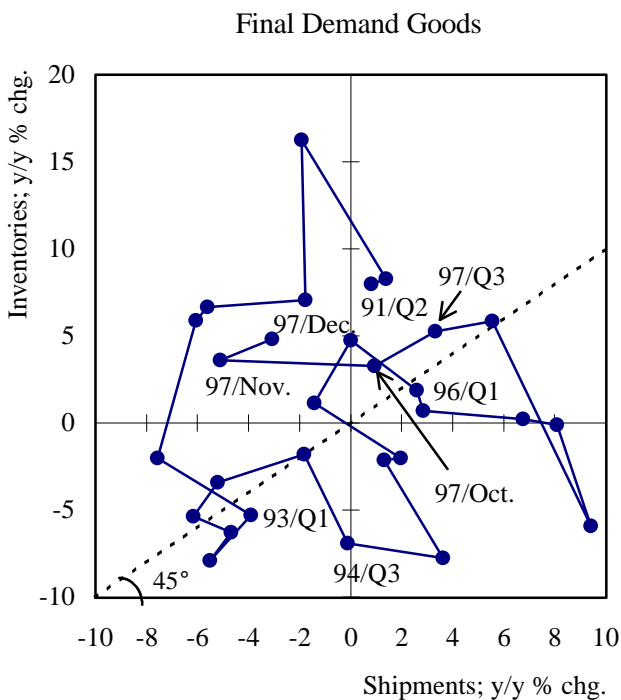
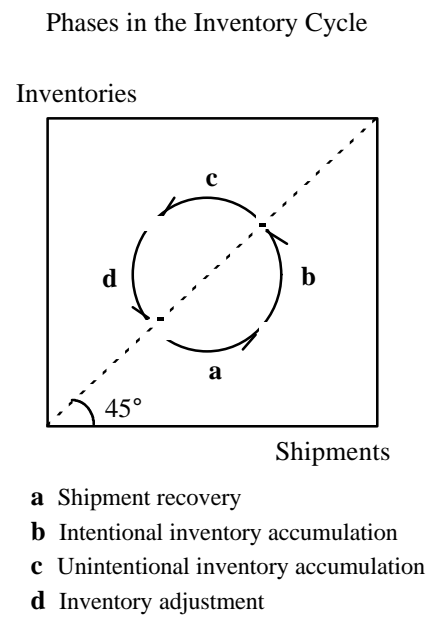
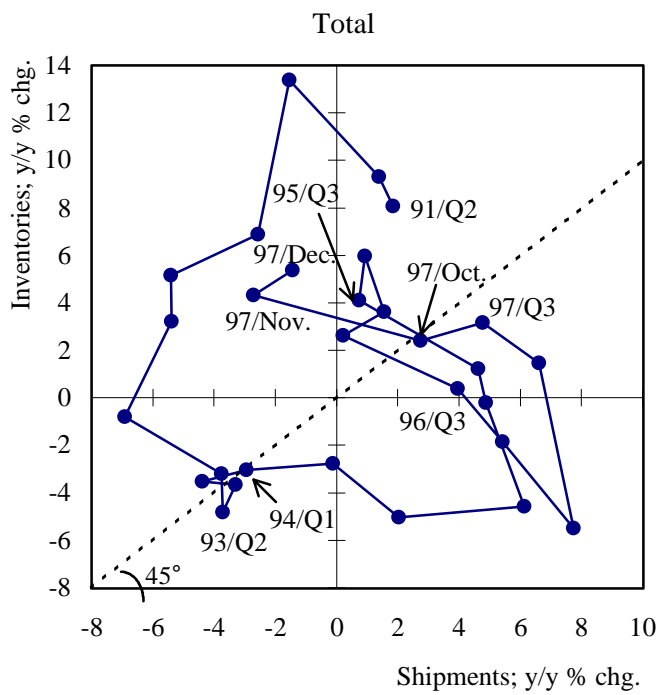
(2) Production by Industries



Note: Transportation equipment excludes ships and rolling stock.

Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

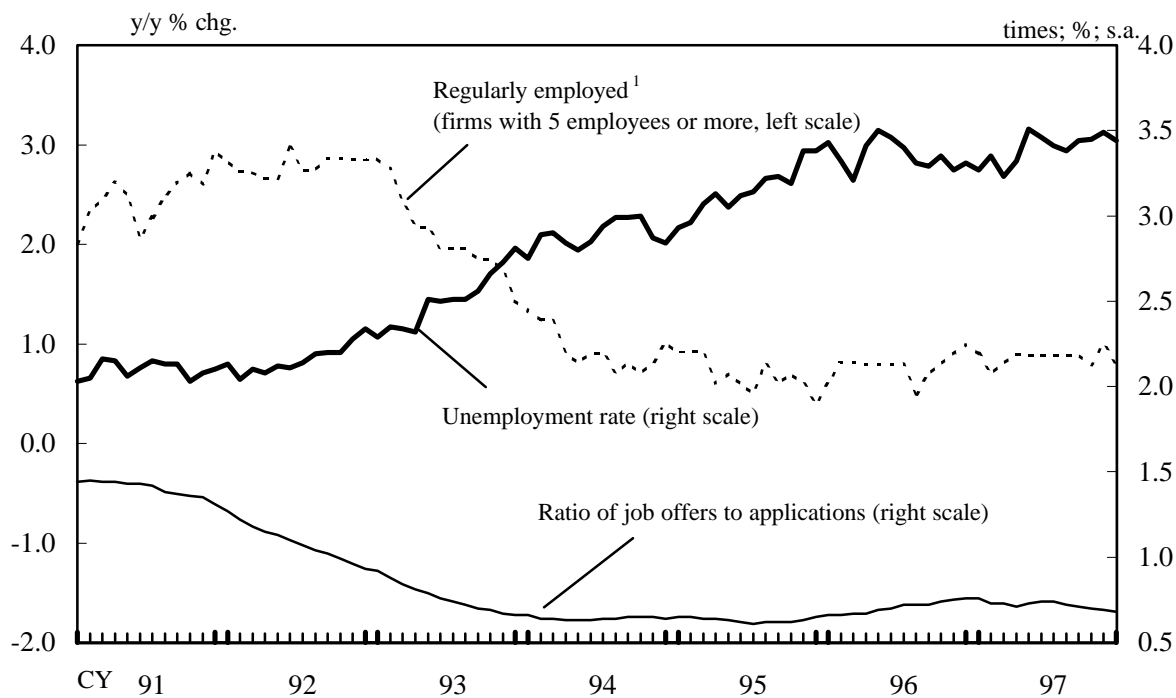
Inventory Cycle



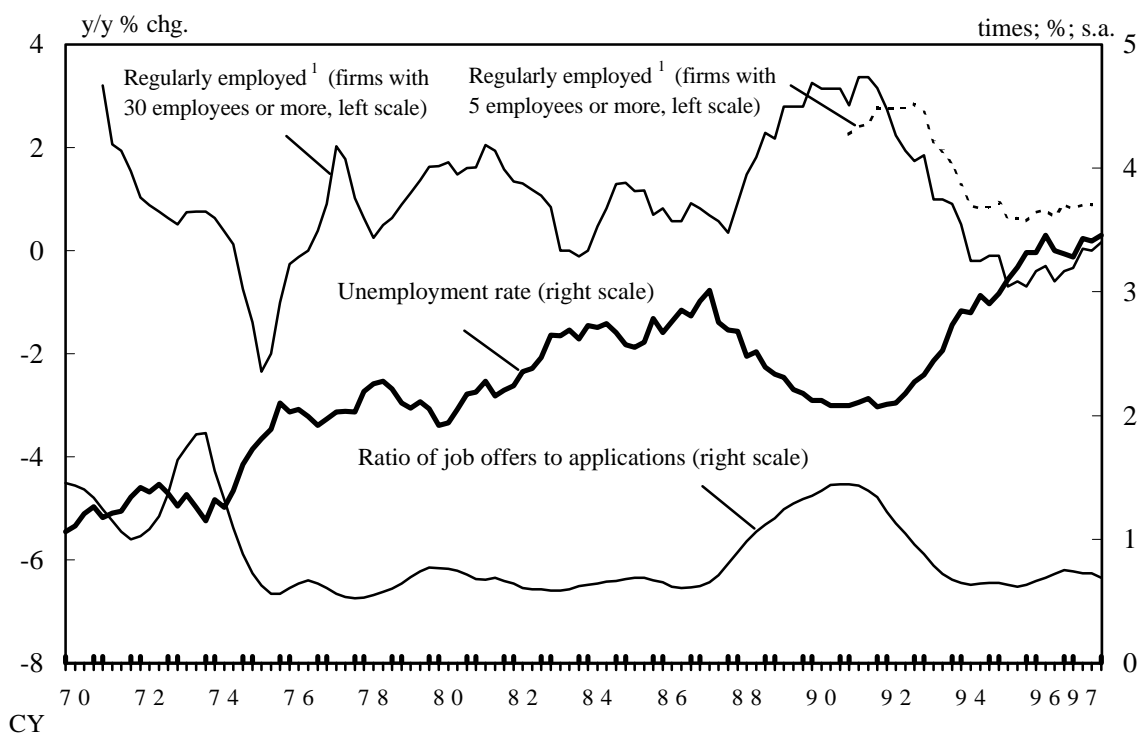
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



(2) Quarterly

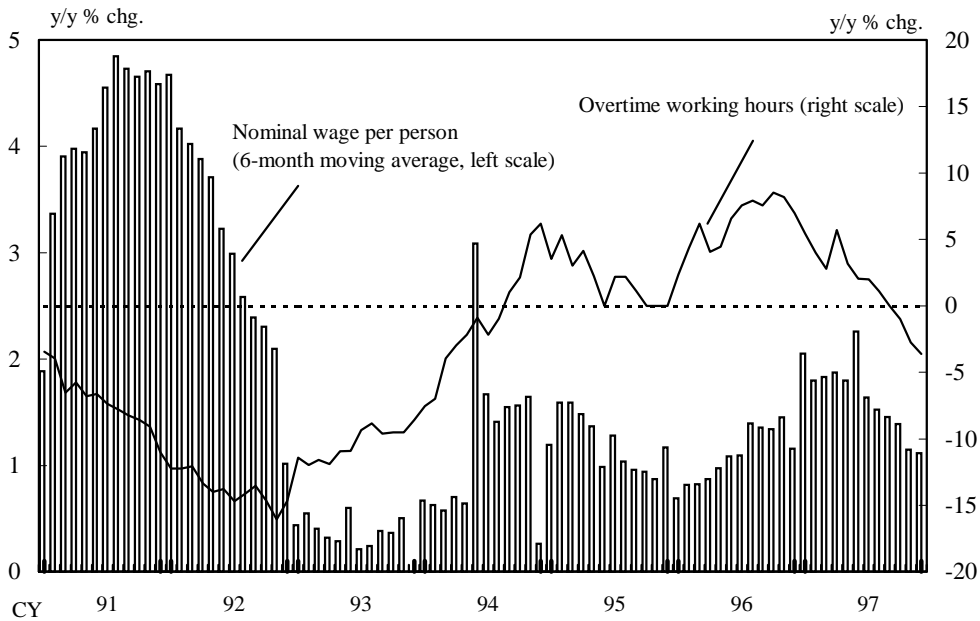


Note: 1. The data in Dec. 97 are preliminary.

Sources: Ministry of Labor, "Monthly Labor Survey",
 "Report on Employment Service";
 Management and Coordination Agency, "Labor Force Survey."

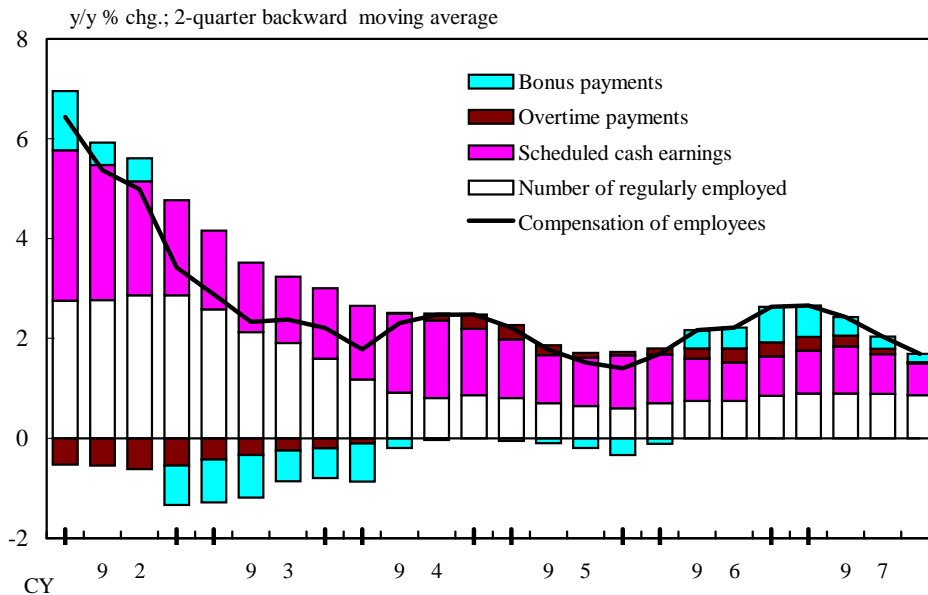
Compensation of Employees

(1) Nominal Wage per Person ¹



Note: 1. Data for firms with 5 employees or more.
The data in Dec. 97 are preliminary.

(2) Breakdown of Compensation ¹

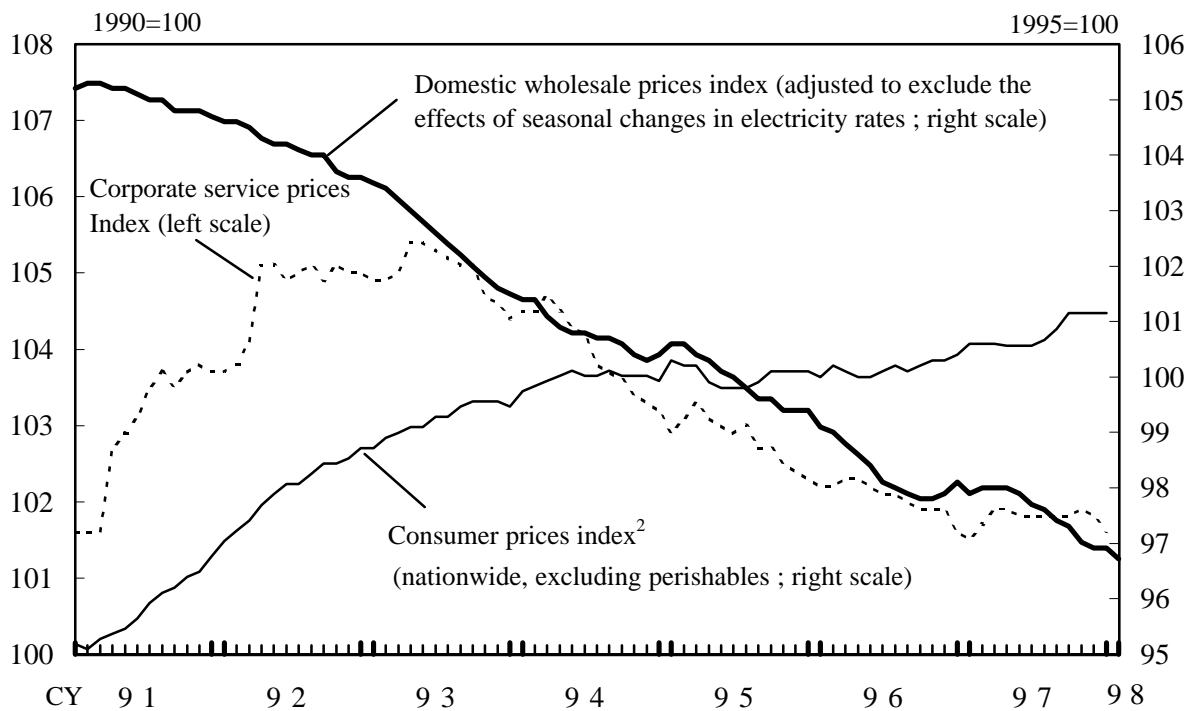


Note: 1. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.
Data for firms with 5 employees or more.
The data in 97/Q4 are those of Dec. 97 (preliminary).

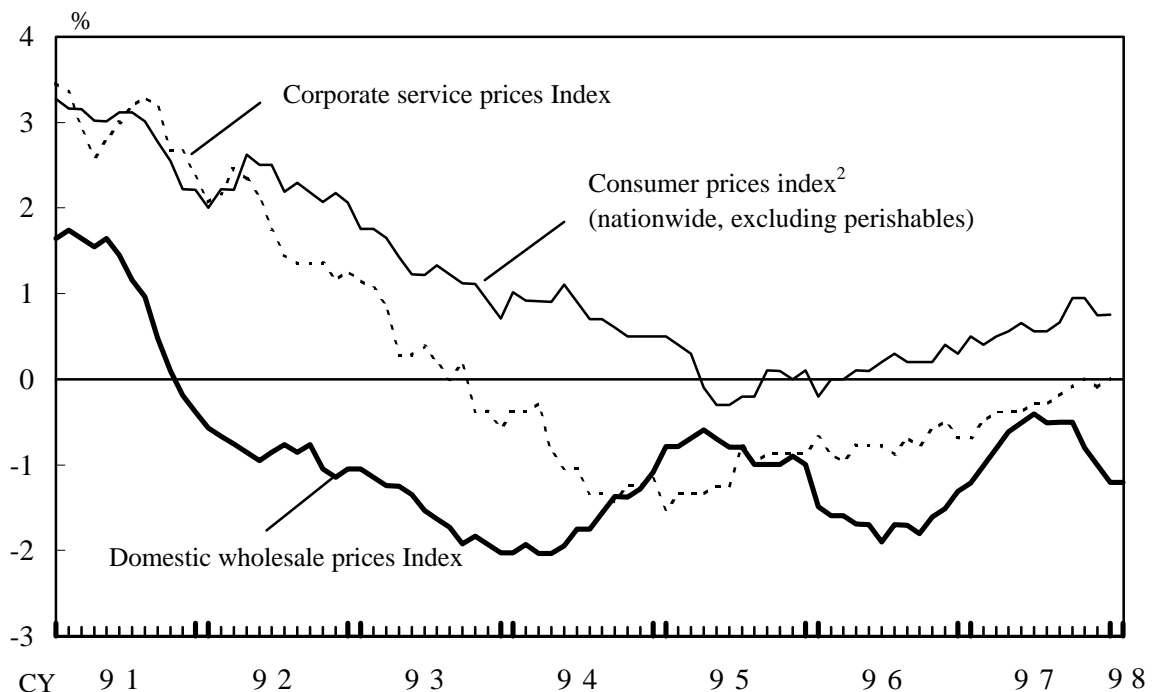
Source: Ministry of Labor, "Monthly Labor Survey."

Prices

(1) Level



(2) Changes from a year earlier



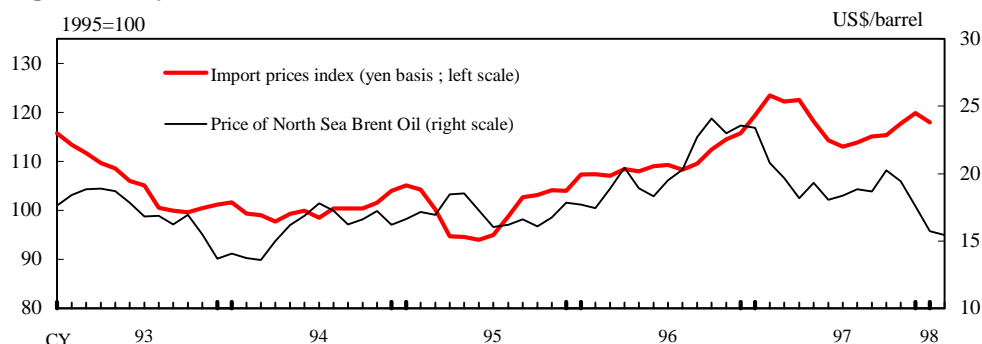
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

2. Based on seasonally adjusted data of CPI whose base period is 1995, although the figures before January 1995 are calculated from CPI whose base period is 1990.

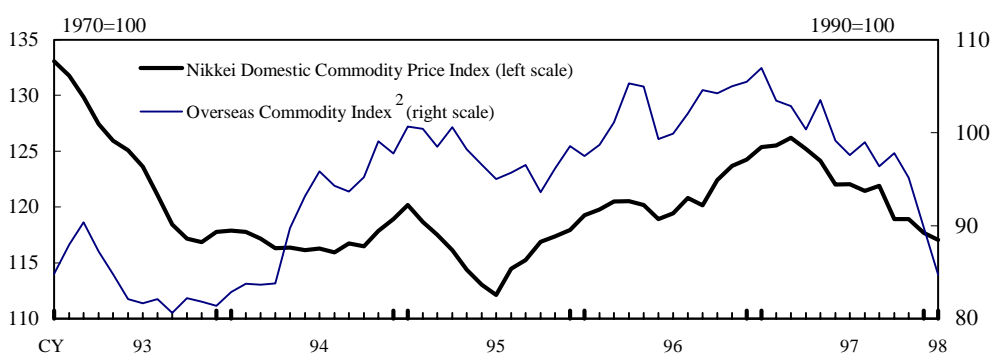
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

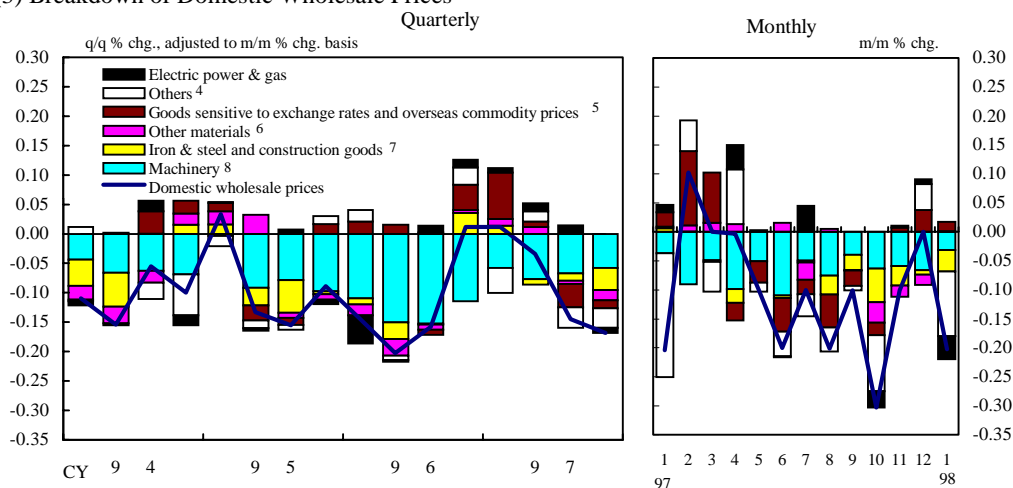
(1) Import Prices (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



(3) Breakdown of Domestic Wholesale Prices³



Notes: 1. Data for February 1998 is February 1-6 average.

2. Calculated by the Research and Statistics Department, Bank of Japan.

3. Adjusted to exclude the effects of seasonal changes of electricity rates, and of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

4. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.

5. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metal.

6. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

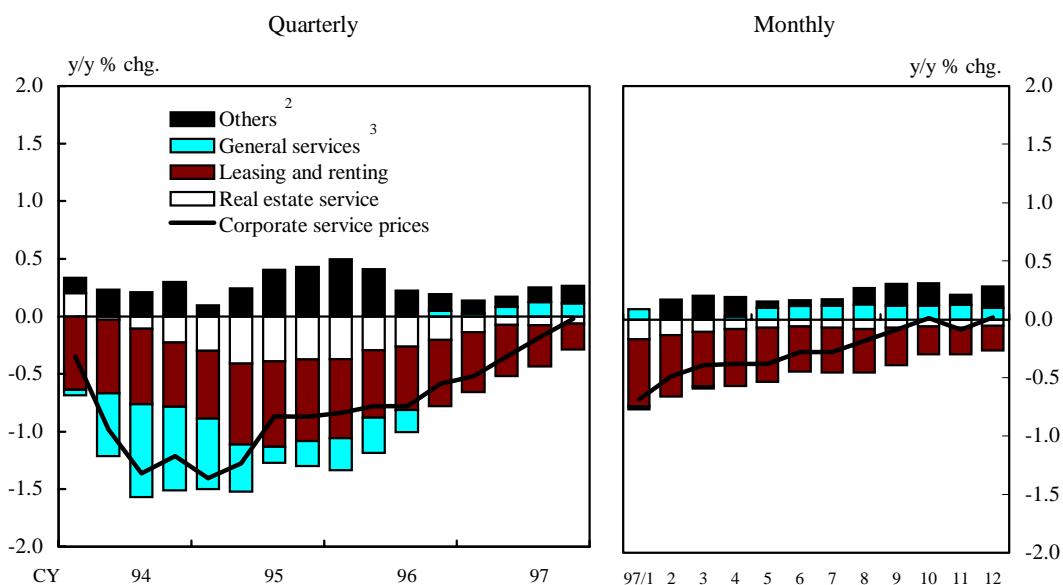
7. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wooden products + scrap & waste.

8. Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.

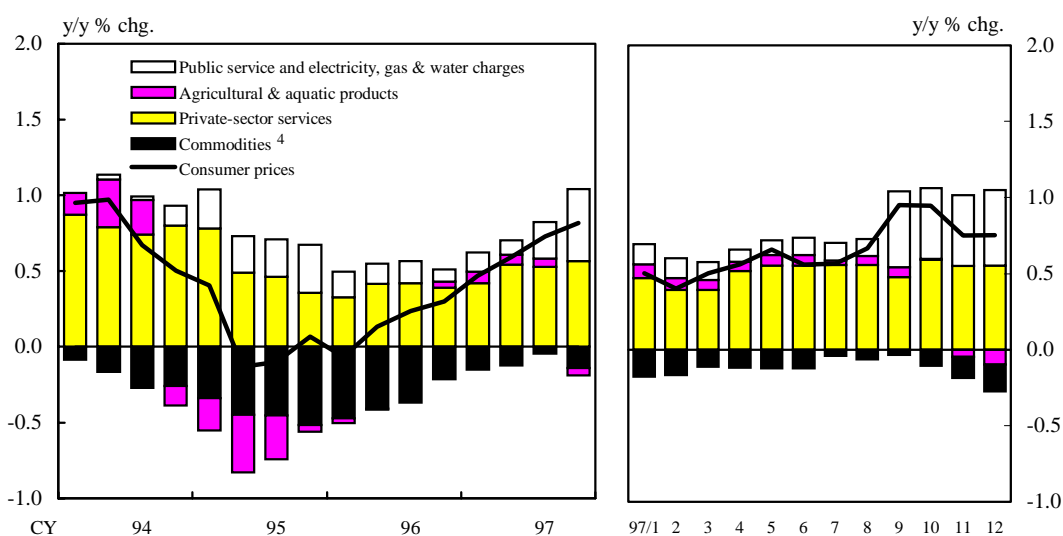
Sources: Bank of Japan, "Wholesale Price Indexes", "Economic Statistics Monthly", "Nippon Ginko Geppo (Bank of Japan Monthly Bulletin)"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

Corporate Service Prices and Consumer Prices

(1) Breakdown of Corporate Service Prices Index¹



(2) Breakdown of Consumer Prices Index (excluding perishables)¹

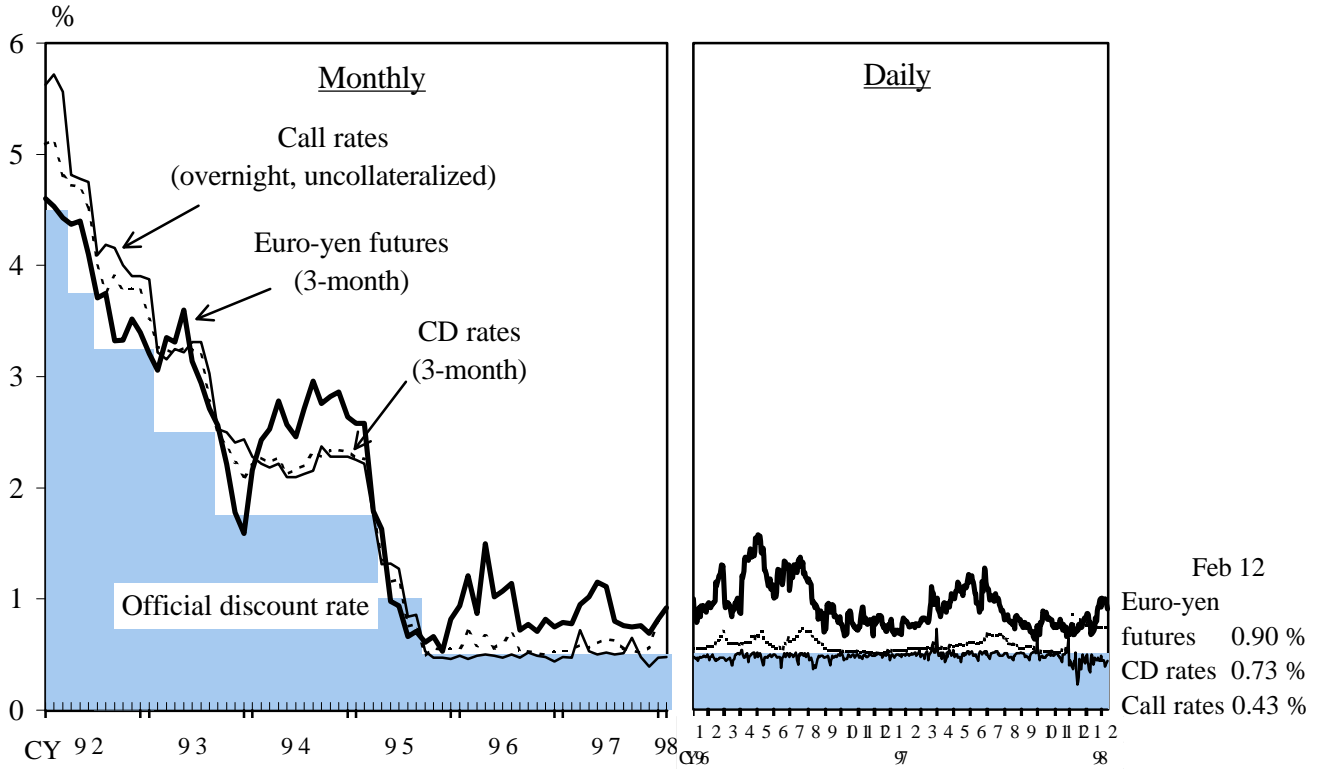


- Notes: 1. Adjusted to exclude the effects of seasonal changes of the consumption tax-hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.
2. Others = automobile insurance + fire insurance + railroad fares + bus fares + domestic air fares + tolls + postal services + sewerage disposal + ocean freight + international air freight + international air fares.
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").
4. Excludes agricultural and aquatic products.

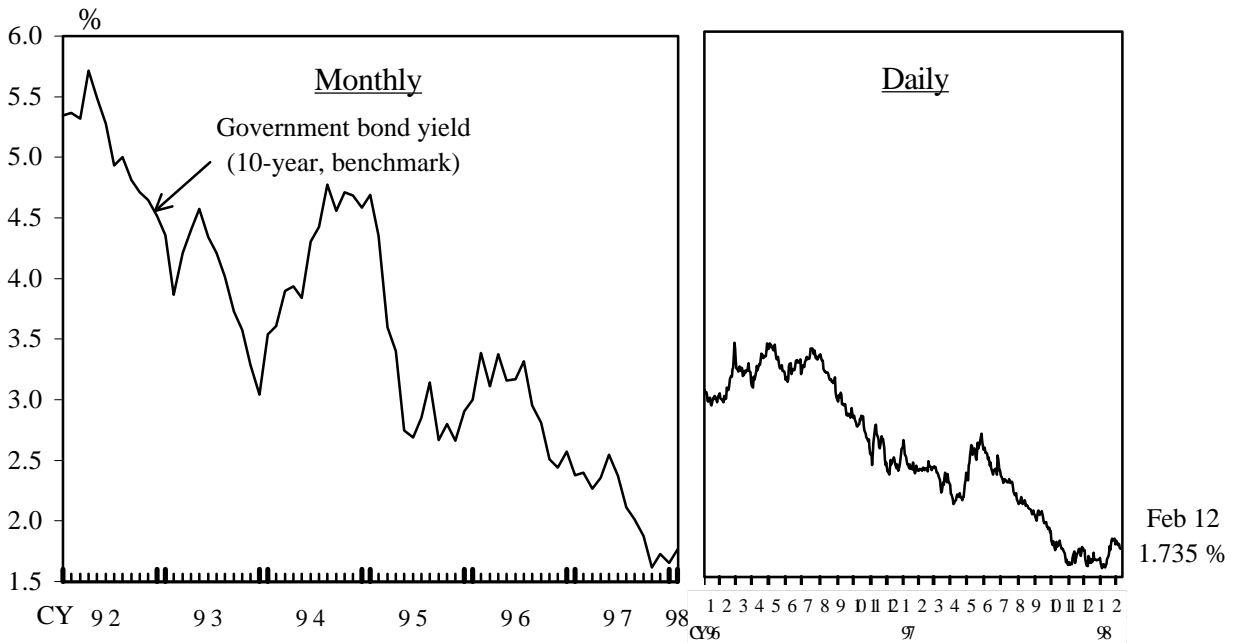
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Interest Rates

(1) Short-Term

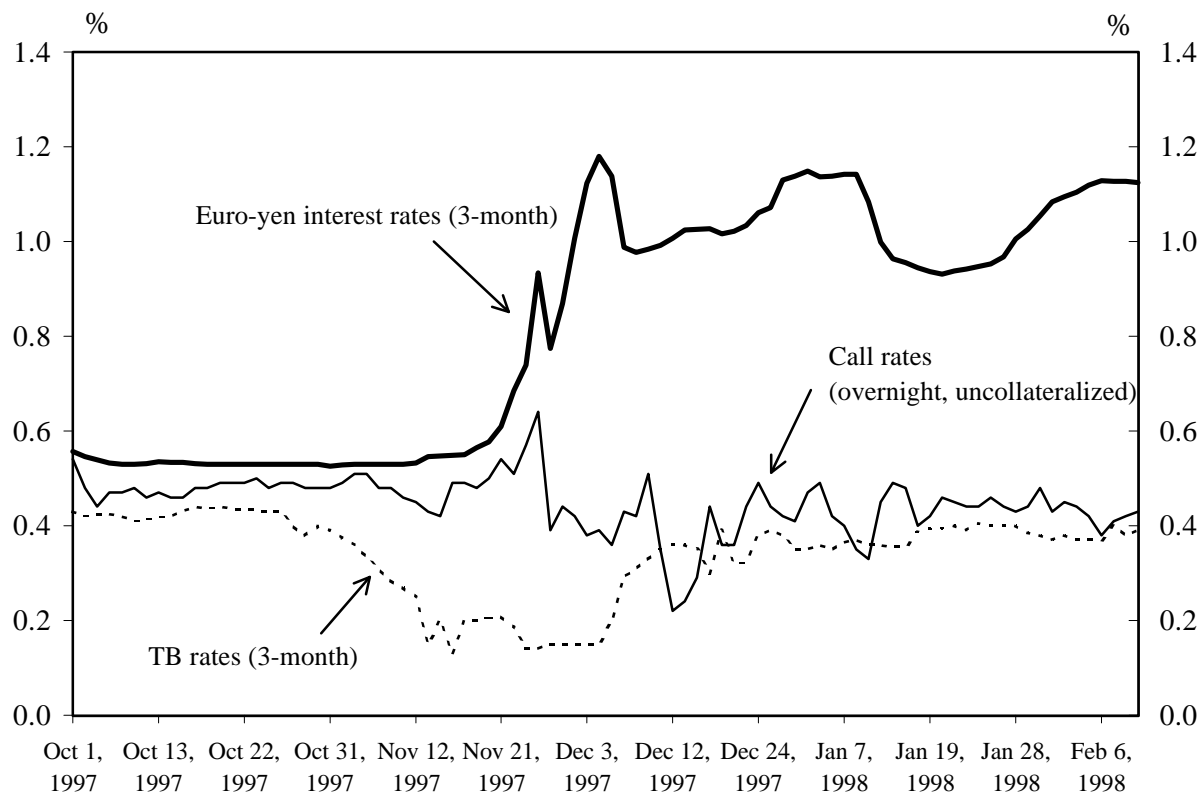


(2) Long-Term



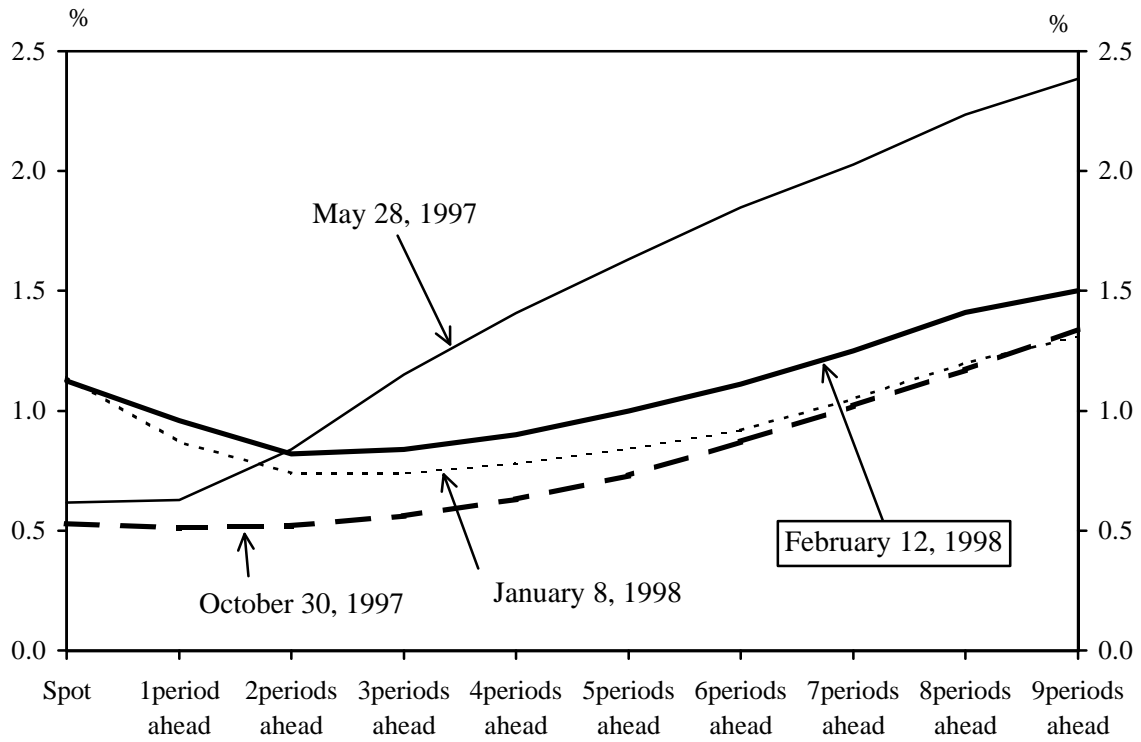
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates



Sources: Bank of Japan, "Economic Statistics Monthly"; *The Nikkei Financial Daily*.

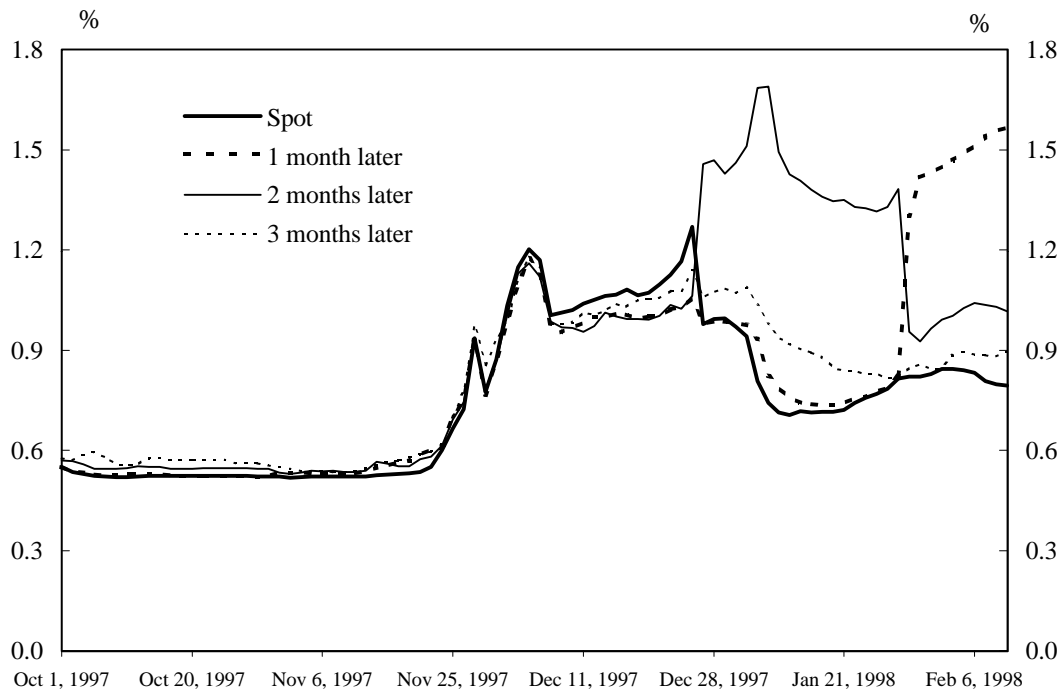
Euro-Yen Interest Rates Futures (3-Month)



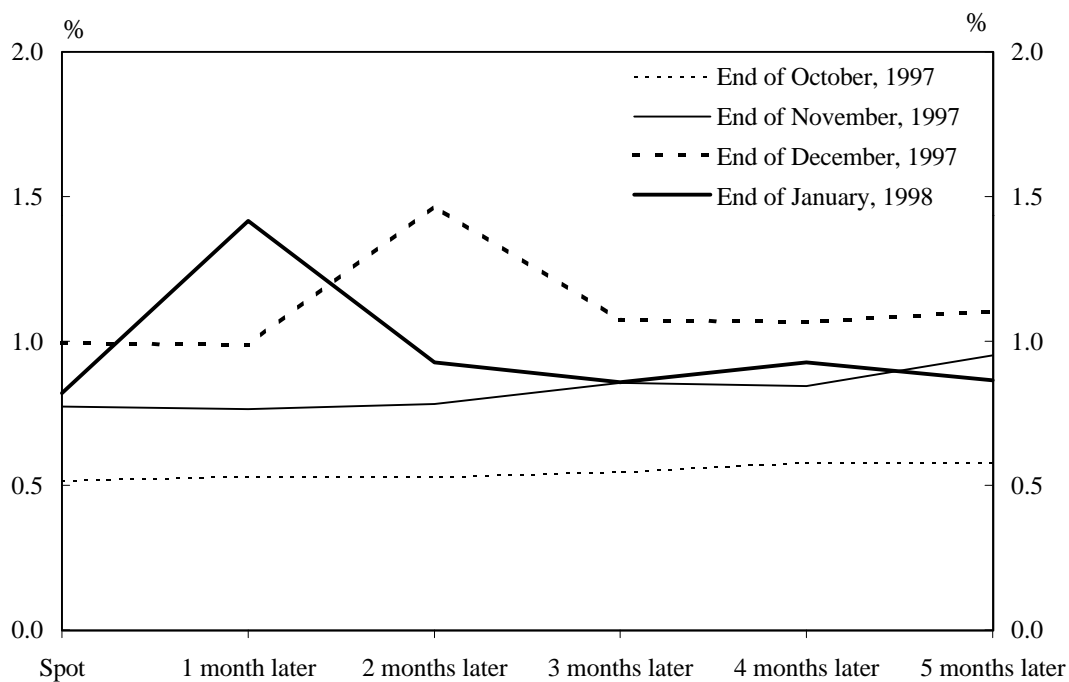
Source: *The Nikkei Financial Daily*.

Implied Forward Rates (1-Month)

(1) Time Series



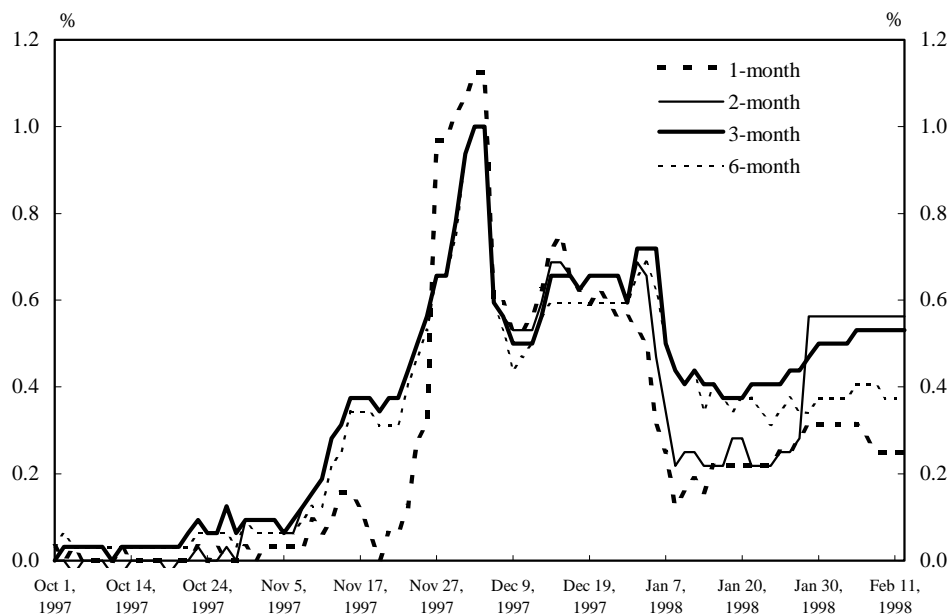
(2) Term Structure



Note: The settlement of Euro-yen instruments is usually carried out two business days after the agreement. Thus, a one-month implied forward rate (one-month interest rate expectations calculated from Euro-yen interest rates) for one-month later at the end of January indicates the rate for instruments which are delivered at the beginning of March and collected at the beginning of April.

Source: *The Nikkei Financial Daily*.

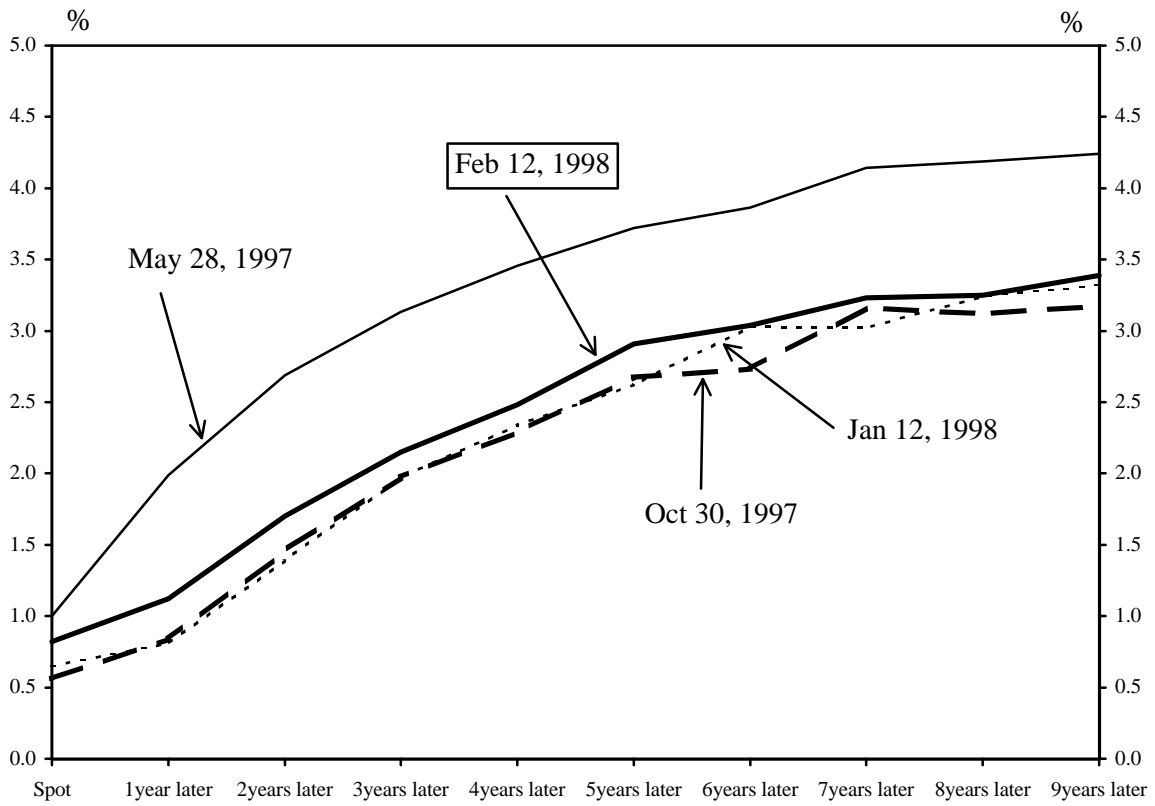
 Japan Premium in the Eurodollar Market



Note: Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:
 Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate quoted by Barclays Bank in the Eurodollar market (London).

Source: *British Bankers' Association* (BBA).

Implied Forward Rates (1-year)

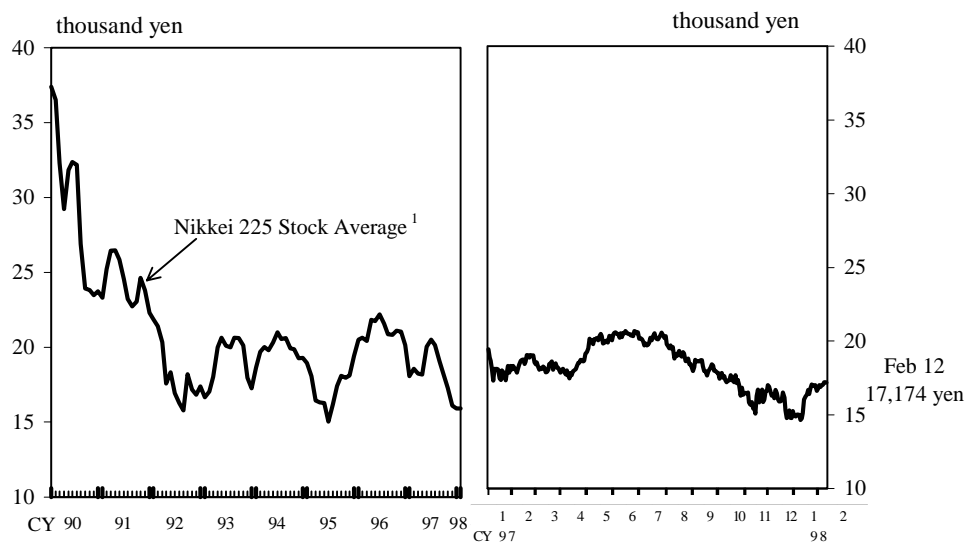


Note: Calculated from yen-yen swap rates.

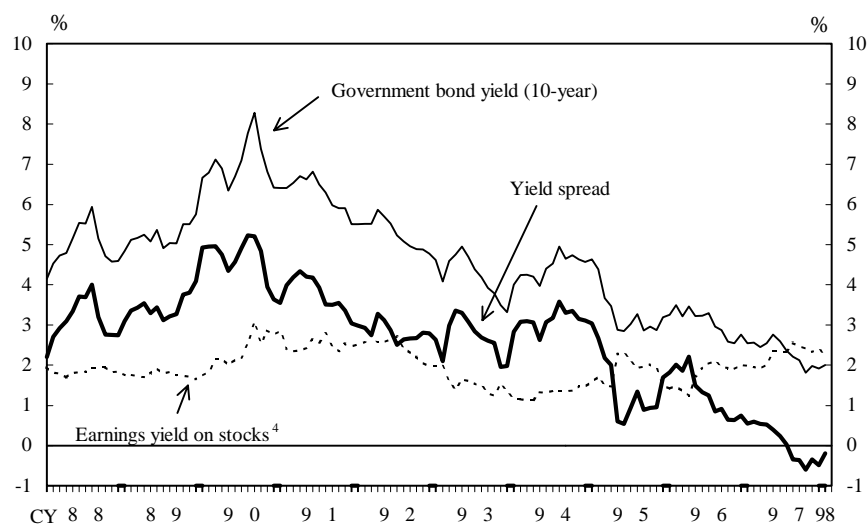
Source: *The Nikkei Financial Daily*.

Stock Prices

(1) Stock prices



(2) Yield Spread^{2,3}



Notes: 1. Data are monthly averages.

2. Data are at end of period.

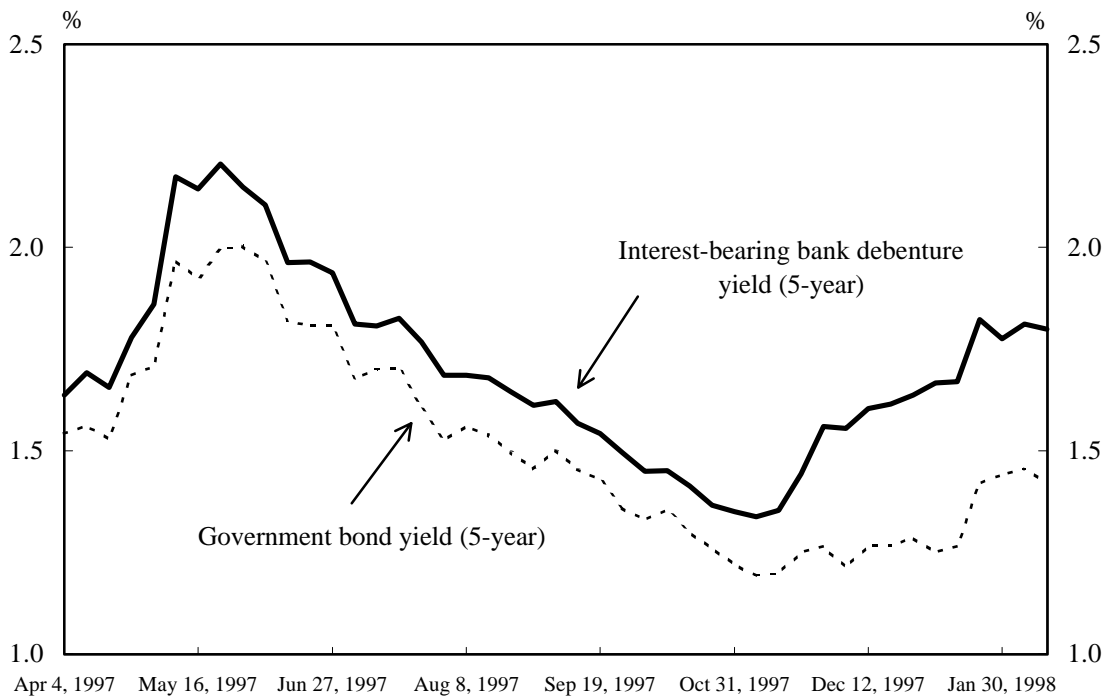
3. Yield spread = government bond yields - earnings yield on stocks,
where, earning yield on stocks = 1/expected price earnings ratio.

4. Based on stocks listed on the TSE First Section. Excludes bank stocks.
Data are calculated by the Daiwa Research Institute.

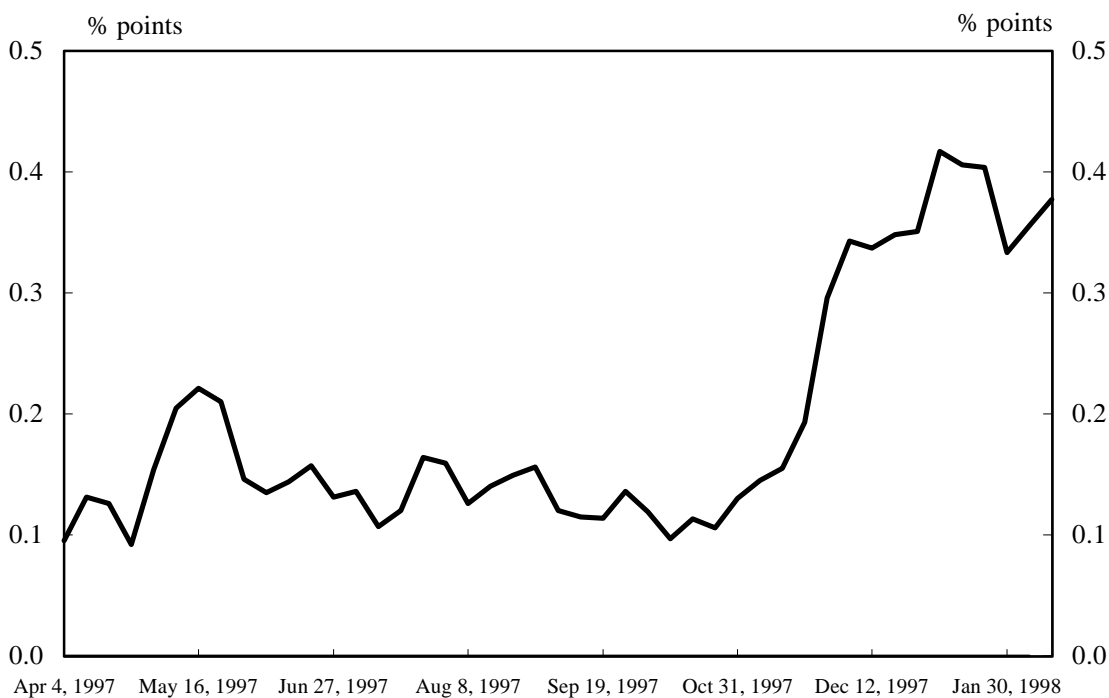
Sources: *The Nihon Keizai Shimbun*; Daiwa Research Institute, "*Daiwa Tousei Shiryou*
(Daiwa Investment Information)."

Yields of Bank Debentures

(1) Bond Yields

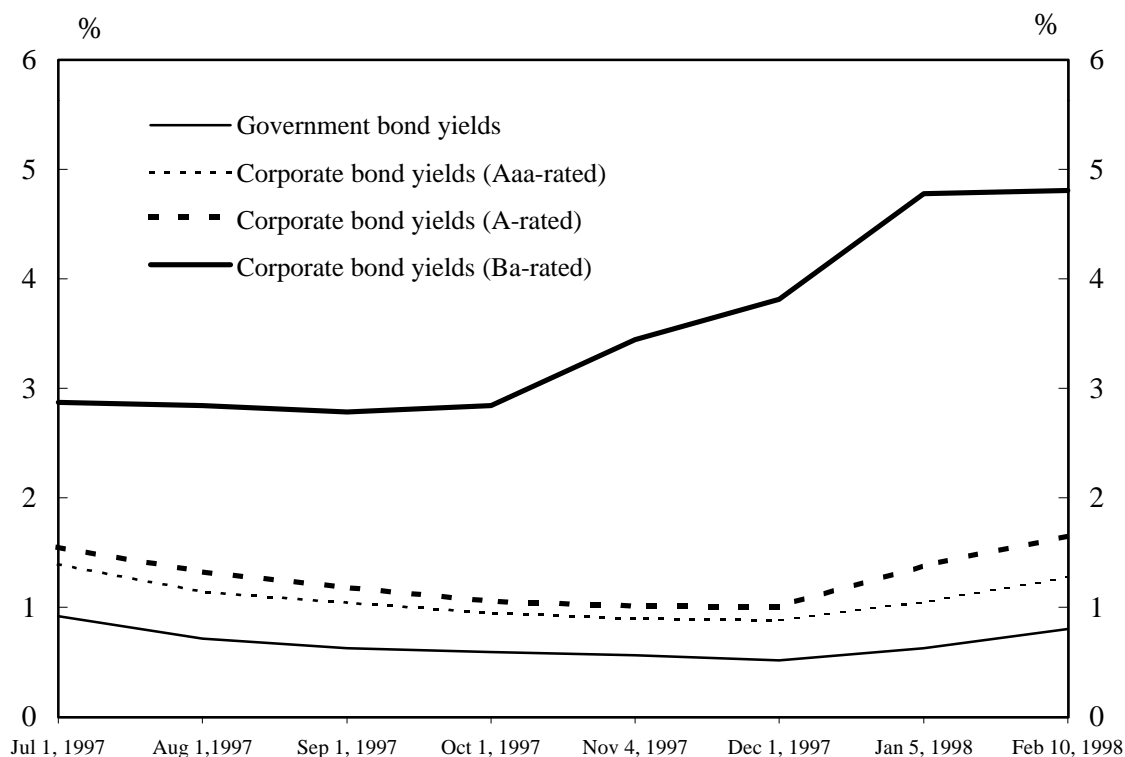


(2) Spread of Bank Debenture and Government Bond Yields

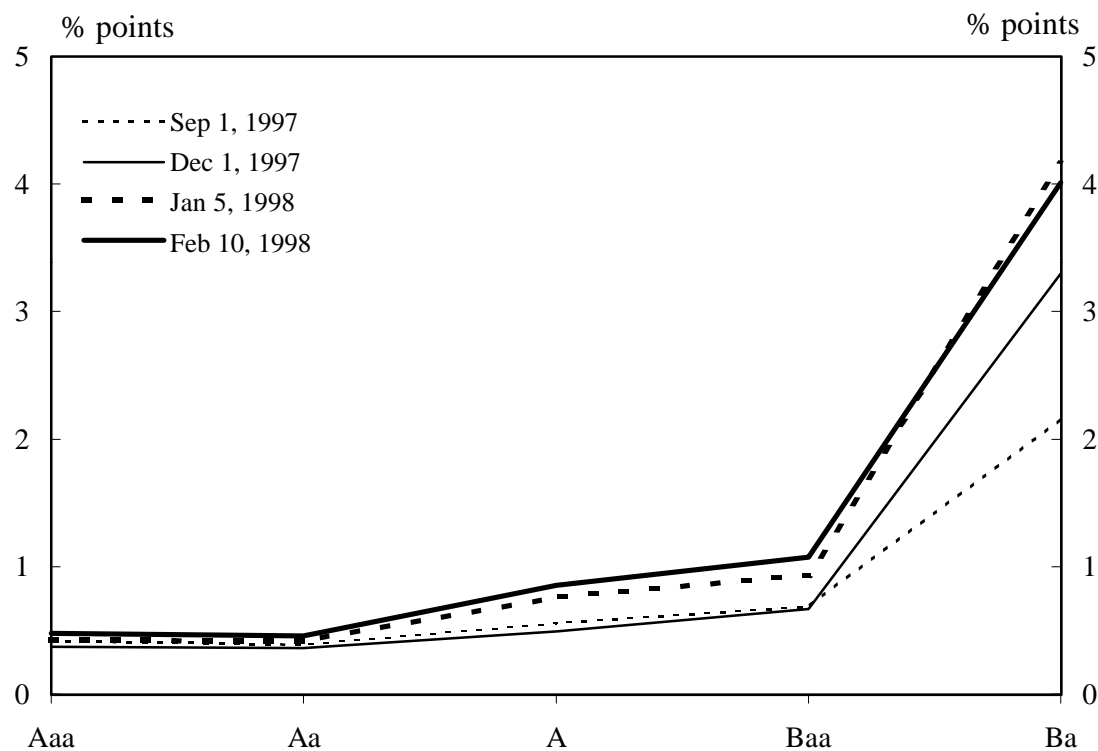


Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

(1) Yields of Government and Corporate Bonds by Rating ^{1,2}

(2) Yield Spreads of Public and Corporate Bonds

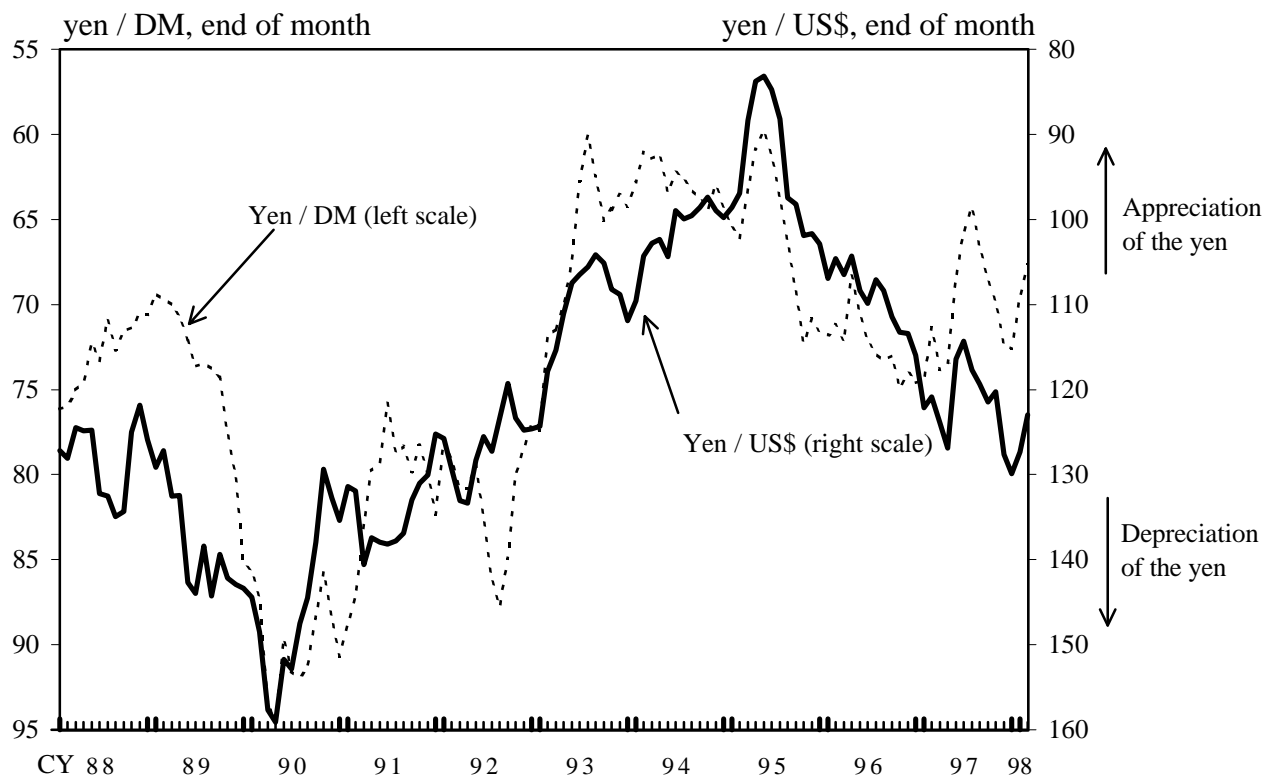


Notes: 1. Yields on bonds with 2-year maturity.

2. The indicated ratings are of Moody's Japan K.K.

Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

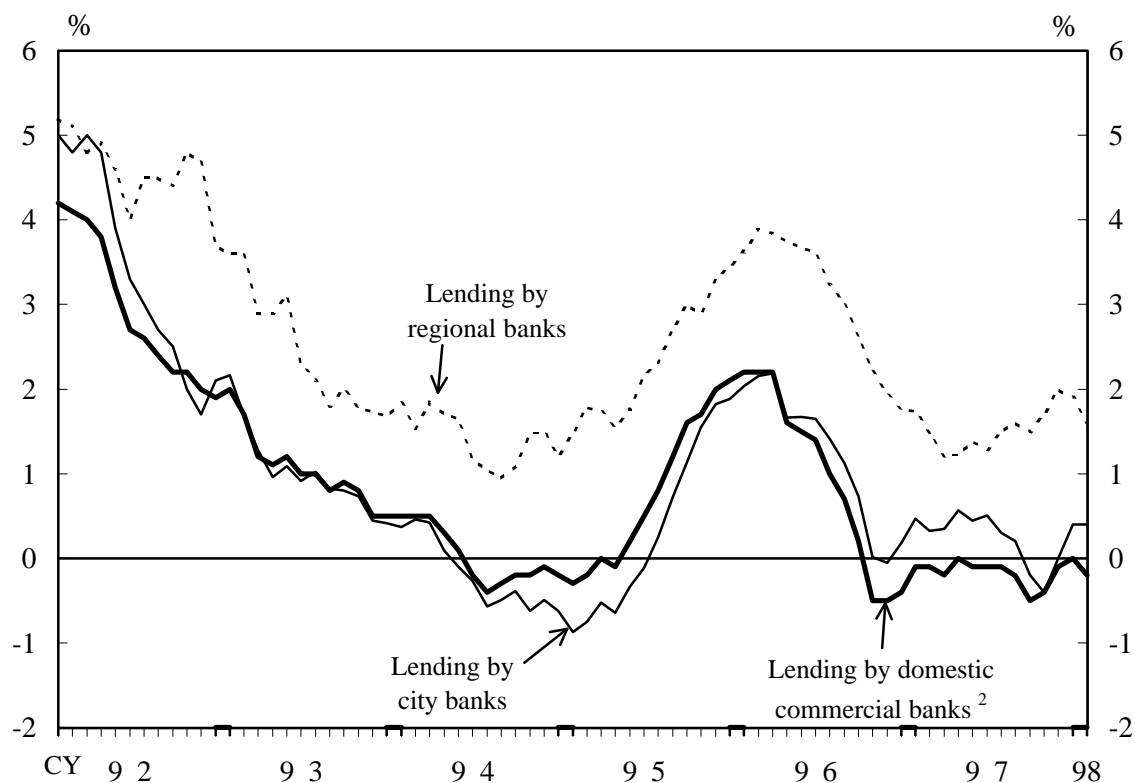
Exchange Rates



Note: Data for February 1998 are as of February 12, 1998.

Source: Bank of Japan, "Economic Statistics Monthly."

Lending by Domestic Commercial Banks

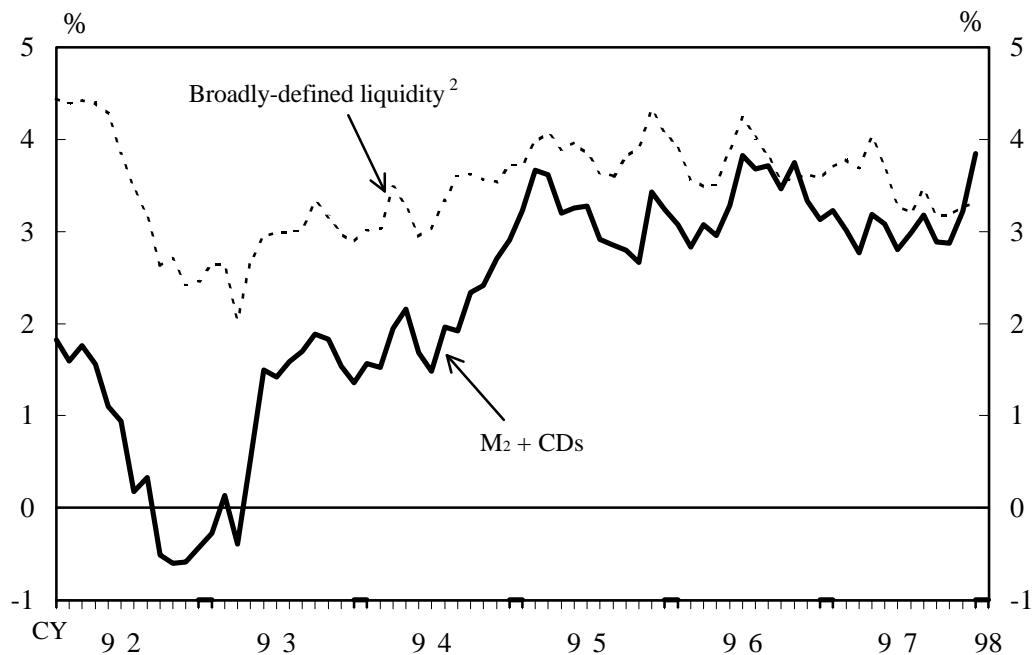


Notes: 1. Percent changes in average amounts outstanding from a year earlier.

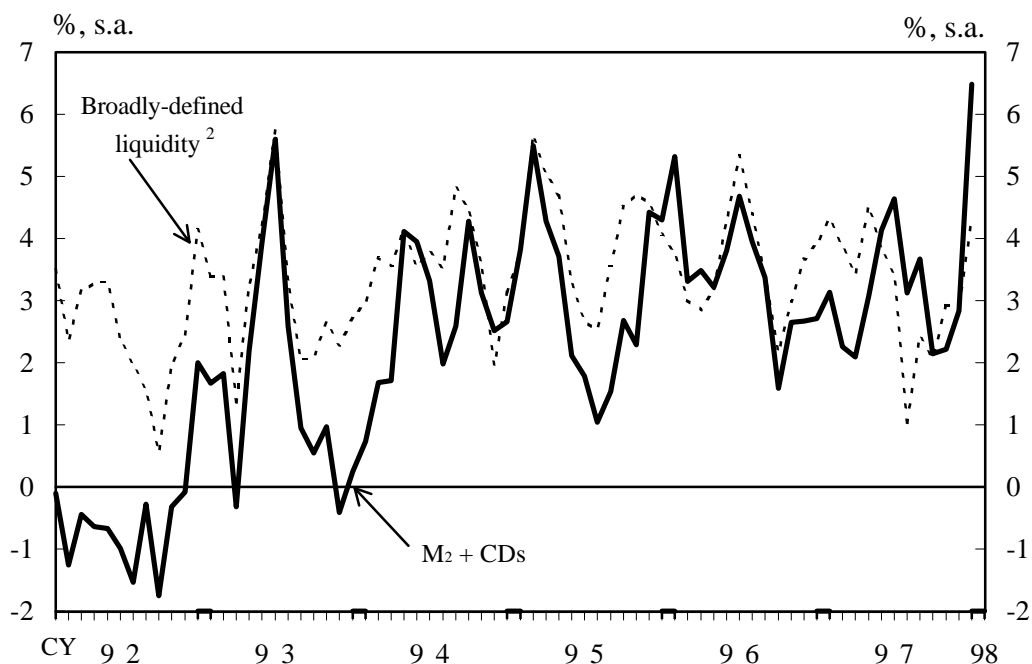
2. Domestic commercial banks refers to member banks of the Federation of Bankers Associations of Japan which consists of city banks, long-term credit banks, trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), the member banks of the Regional banks Association of Japan, and the member banks of the Second Association of Regional Banks.

Source: Bank of Japan, "Principal Figures of Financial Institutions."

 Money Stock (M_2 +CDs, Broadly-Defined Liquidity)

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



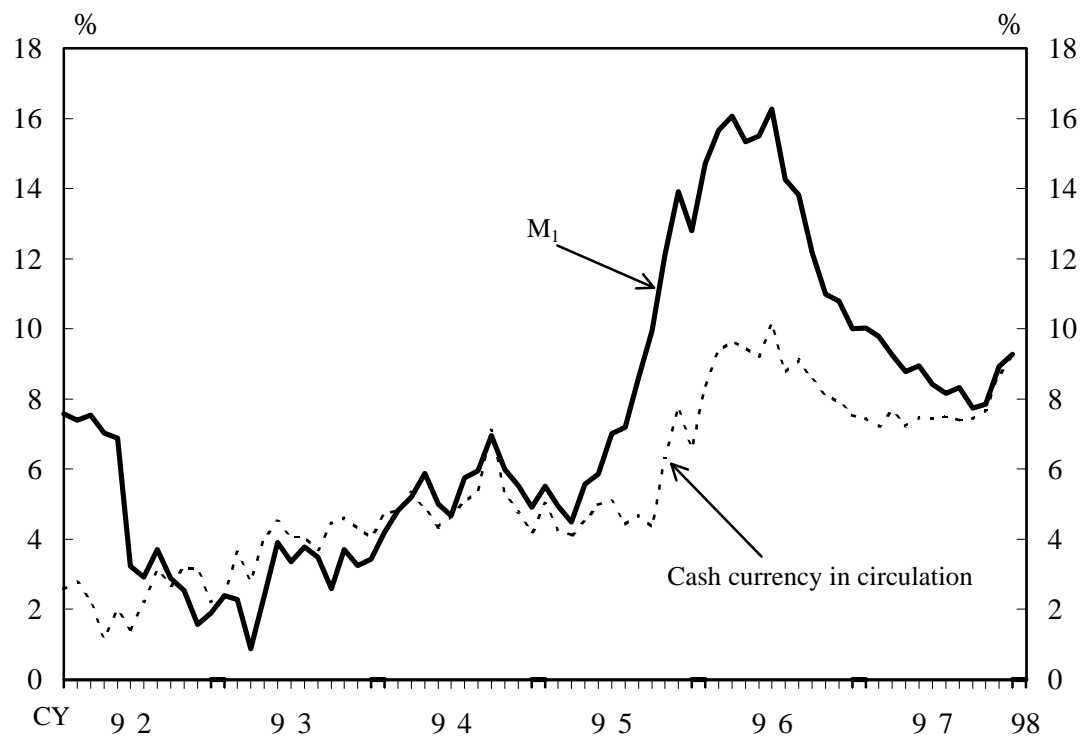
Notes: 1. Percent changes in average amounts outstanding.

2. Broadly-defined liquidity = M_2 +CDs + deposits (including CDs) of post offices, agricultural cooperatives, fishery cooperatives, credit cooperatives, and labor credit associations + money trusts and loan trusts of Domestically Licensed Banks (excluding foreign trust banks) + bonds with repurchase agreement + bank debentures + government bonds + investment trusts + money deposited other than money in trust (money trust with returns in the form of investment assets) + foreign bonds. Domestically Licensed Banks are the banks which are established and licensed under Japanese legislation.

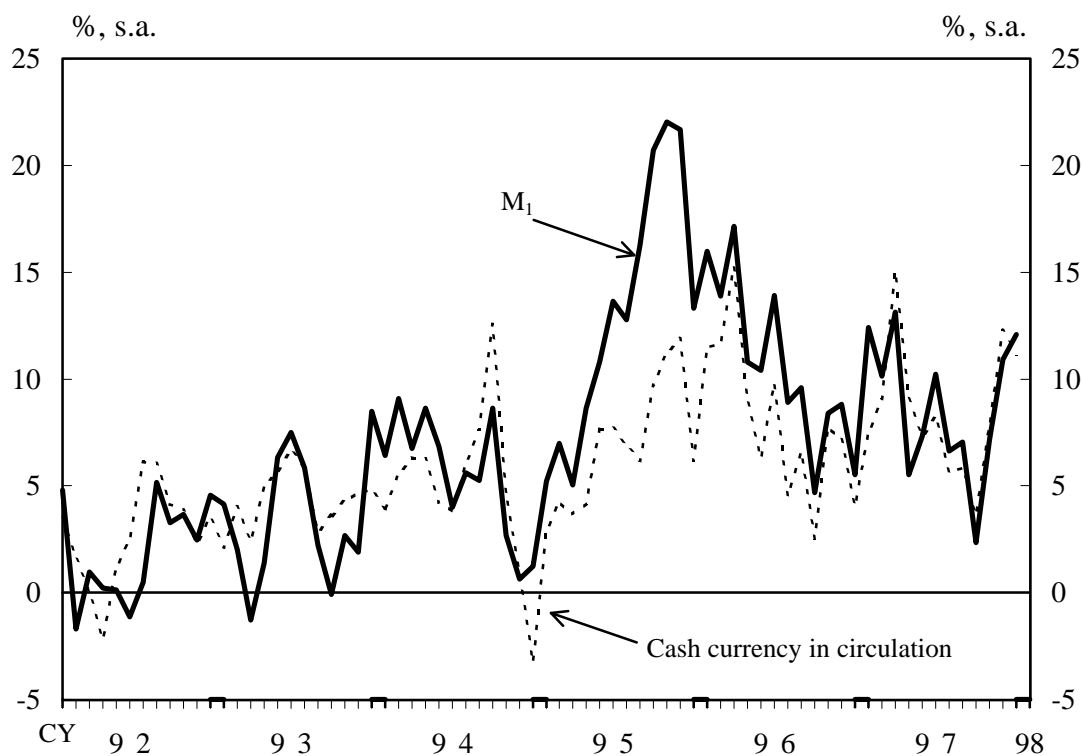
Source: Bank of Japan, "Economic Statistics Monthly."

 Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier



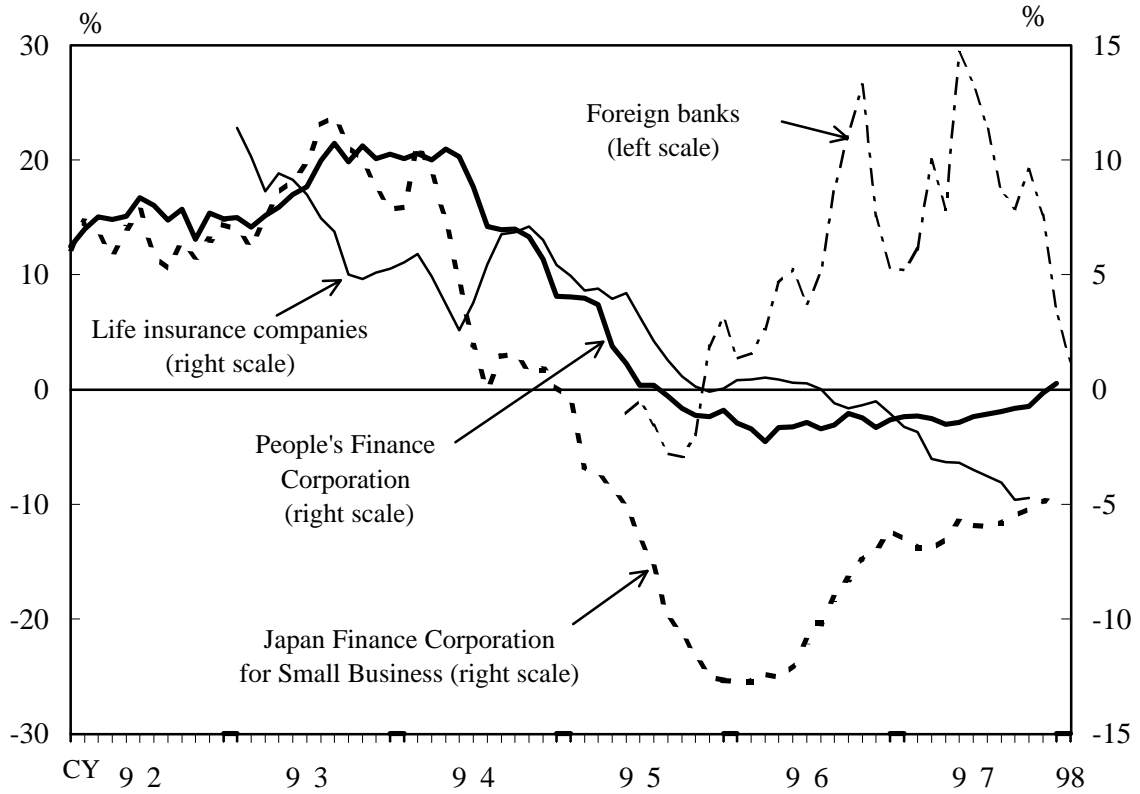
(2) Changes from Three Months Earlier (Annualized)



Note: Percent changes in average amounts outstanding.
 Source: Bank of Japan, "Economic Statistics Monthly."

Lending by Other Financial Institutions

(1) Lending Outstanding



Note: Data are based on amounts outstanding at end of period except for those of foreign banks.

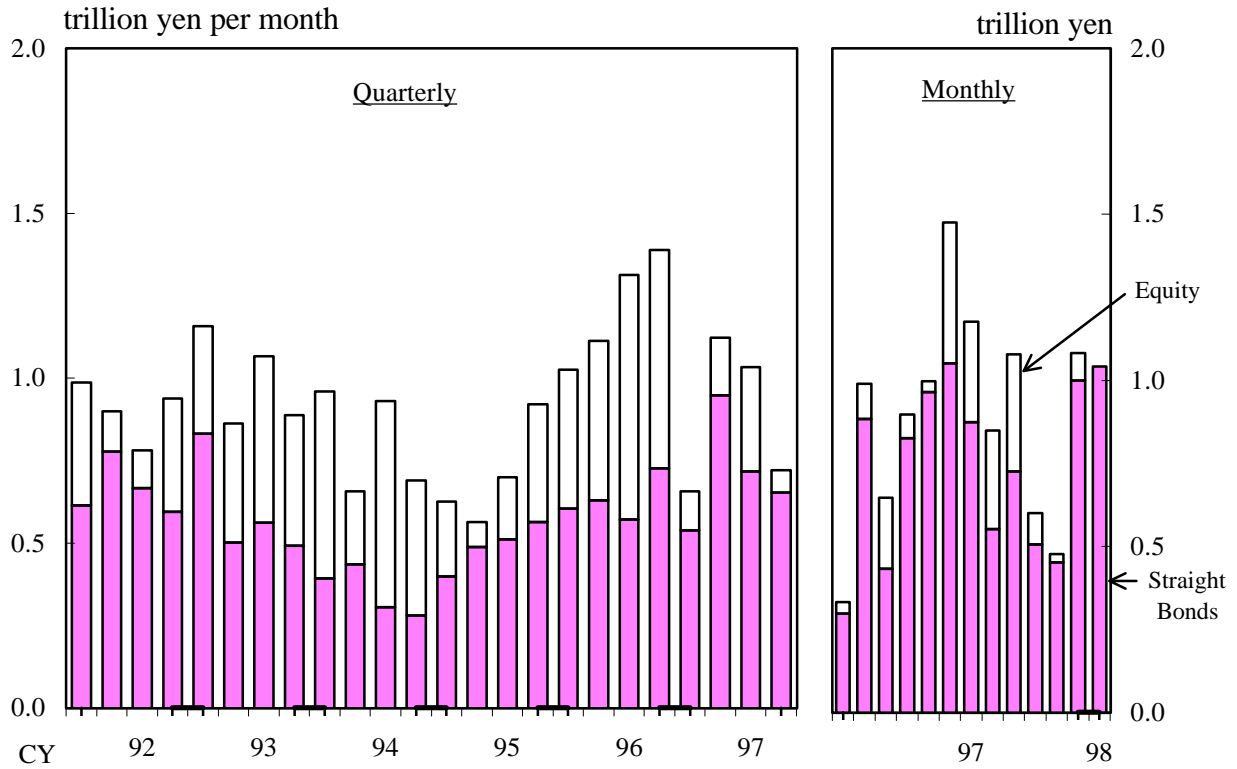
(2) Application for a Loan from Japan Finance Corporation for Small Business

(Percent changes in amounts from a year earlier)

1997	Apr-Jun	Jul-Sep	Oct-Dec	Aug	Sep	Oct	Nov	Dec
	3.7	0.0	32.3	3.0	1.5	18.0	12.6	65.9

Sources: Bank of Japan, "Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."

Private-Sector Fund Raising in the Capital Markets

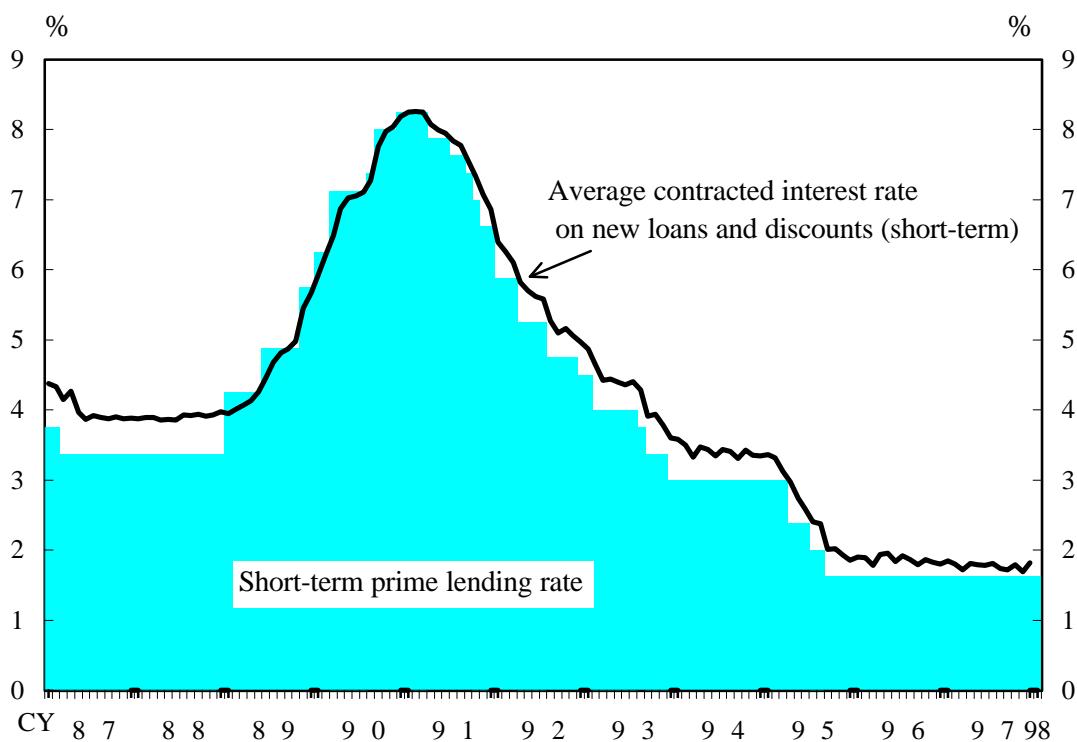


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

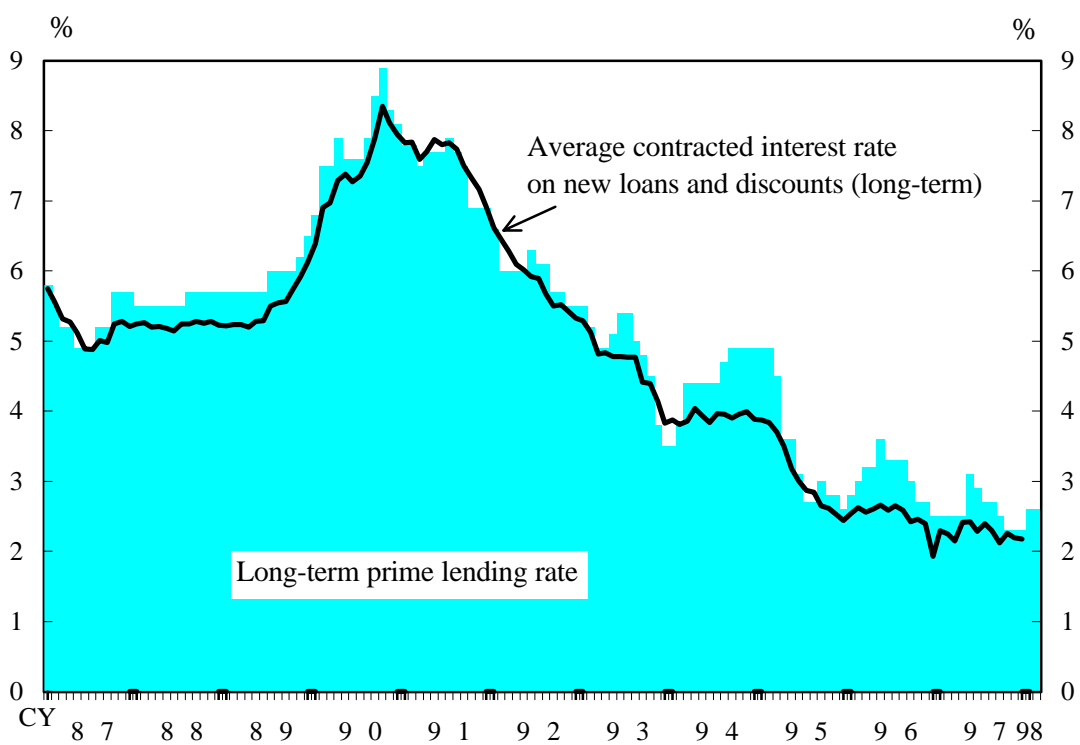
Source: The Bond Underwriters Association of Japan, "Bond Review."

Lending Rates

(1) Short-Term



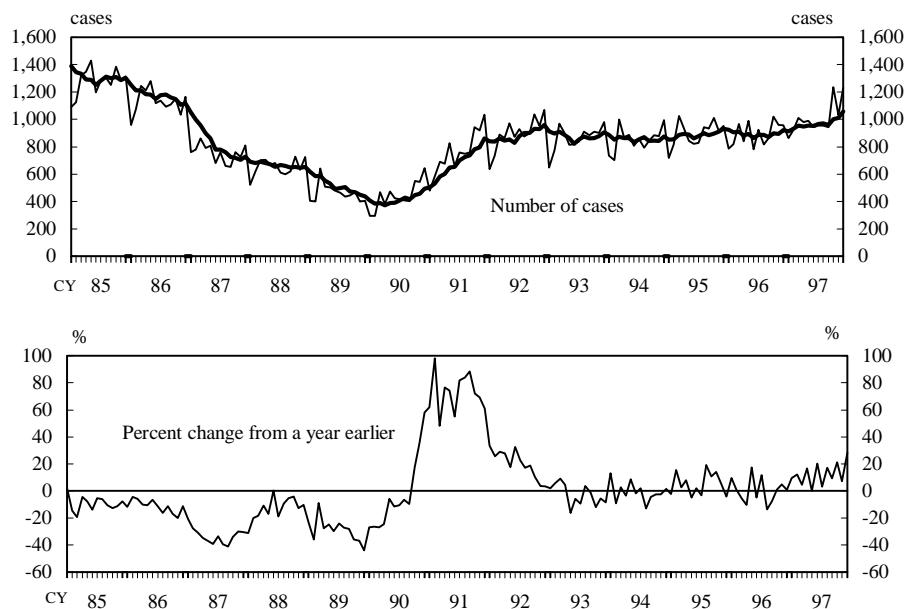
(2) Long-Term



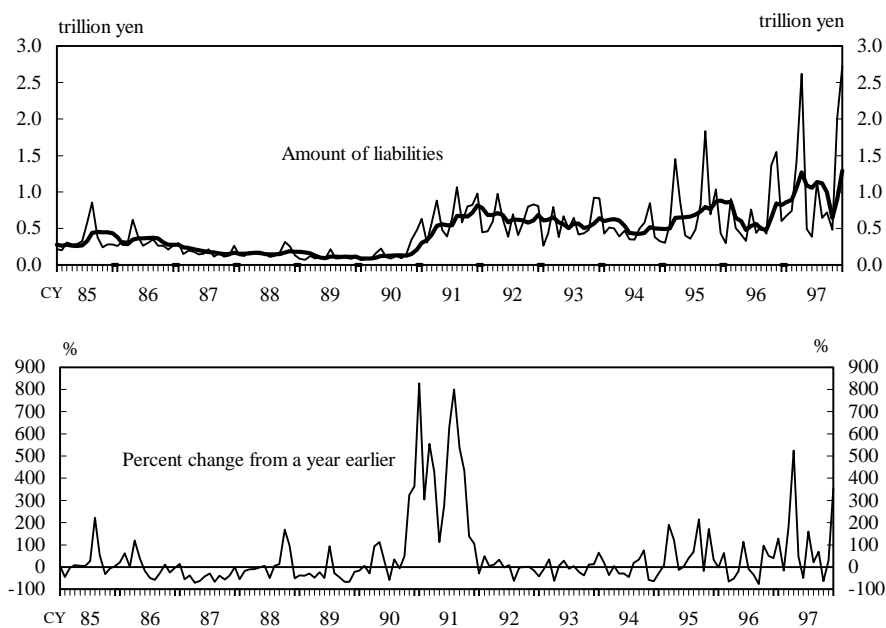
Source: Bank of Japan, "Economic Statistics Monthly."

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



Notes: 1. Data for the number of cases exclude types of bankruptcies other than suspension of business transaction with banks.

2. The bold line is the six-month moving average.

Sources: Federation of Bankers Associations of Japan, "Suspension of Business Transaction with Banks"; Tokyo Shoko Research Ltd., "Tosan Geppo (Monthly Review of Corporate Bankruptcies)."