

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

April 23, 1998

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

April 1998

The Bank's View²

Japan's economy remains stagnant reflecting weak domestic demand, such as household expenditures. In addition, corporate sentiment has been deteriorating across industries, indicating strong downward pressures on economic activities.

With respect to final demand, growth in net exports, which had been underpinning the economy, has slowed and business fixed investment seems to have started declining. Private consumption has continued to stagnate despite the implementation of the special tax-cut measures. Housing investment has also continued to be weak and public-sector investment is on a decreasing trend. Against the background of significant accumulation of inventories reflecting weak final demand, industrial production has continued to decline. Consequently, negative impacts on corporate profits as well as on employment and income conditions have been intensifying, and are leading to a further deterioration of domestic demand.

As regards the outlook for the economy, growth in net exports is unlikely to be strong enough to prevent the deterioration of the economy, partly reflecting further adjustments in other Asian economies. Business fixed investment will continue to decrease due mainly to the decline in corporate profits and is likely to enter an

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on April 9, 1998.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on April 9, as the basis of monetary policy decisions.

adjustment phase. With regard to private consumption, distinctive recovery can not be expected against the background of the weakening of income formation, although consumer confidence may cease to wane. Downward pressures on economic activities, particularly on production, are likely to continue to be strong for the time being, because the level of inventories is high and a conspicuous recovery in domestic private demand is unlikely. However, following the implementation of measures to stabilize the financial system and the special tax-cut measures, additional economic stimulus package is now being discussed. The details of the package and their effects on corporate and household confidence should be carefully monitored.

With regard to prices, wholesale prices have continued to decline reflecting weak supply and demand conditions of goods in domestic and overseas markets. The year-to-year increase in consumer prices (excluding the effects of institutional changes such as the rise in the consumption tax rate) has been declining close to zero. As for the future, prices overall are likely to soften reflecting the continuous expansion of the output gap in the domestic economy and the decline in overseas commodity prices. These price developments, which might have further negative impacts on corporate activities, may require close monitoring.

Financial markets have shown the following developments. In the money markets, interest rates on term instruments and the so-called “Japan premium” declined substantially from the end of February through the middle of March and have generally remained steady thereafter. This reflects the Bank of Japan’s ample provision of funds through contracts that mature after the fiscal year-end as well as the progress in implementing the financial-system stabilization measures. It should be noted, however, that the levels of the above rates and premium are still high compared with those prevailing before autumn 1997, which can be attributed to the continuing cautious attitudes of market participants toward credit risk. Meanwhile, with the releases of weak economic indicators, long-term government bond yields have fluctuated in a historically low range and stock prices have been declining since the end of March.

With respect to monetary aggregates, the growth in money stock continued to be rather high in February due to the substantial shift of funds away from investment trusts. Meanwhile, private bank lending remains sluggish. However, with an increase in corporate financing via the capital market, a substantial fall in overall corporate fund-raising seems to have been avoided.

Banks remain cautious in extending loans with a view to improving their medium-term profitability and financial soundness. Fund-raising costs of firms continued to be high according to their credit standing. In such circumstances, some firms, especially small and medium-sized firms, have been facing difficult financing conditions and this effect on the economy continues to warrant a careful monitoring.

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 continuing to decline (Chart 2). In the near future, however, the implementation of the supplementary budget for fiscal 1997 will be carried further forward, and the additional fiscal measures presently under consideration, including the front-loading of the initial budget for fiscal 1998 and the additional public works, may be approved and implemented. Considering these factors, the decline in public-sector investment is expected to cease.

The overall growth in real exports is clearly slowing (Charts 3, 4, 5 and 6). While exports to Western countries remain firm, the average growth of exports to the ASEAN economies and South Korea in January and February turned to a decline compared to the figures for the October-December quarter owing to the monetary and economic adjustments under way in these economies. As for the future environment for exports, the real effective exchange rate of the yen, which had appreciated in January and February, has recently begun to drop reflecting the yen's depreciation versus the U.S. dollar, falling back to the levels prevalent around the end of 1997 (Chart 7(1)). Among overseas economies (Chart 7(2)), the United States and Europe are expected to maintain good economic performance overall. In Asian economies, while the limited availability of foreign currency is gradually resolved, domestic economic adjustments are expected to become full-scale. In these circumstances, the overall growth in Japan's real exports is likely to become more gradual for the time being.

Meanwhile, real imports remain lackluster, reflecting the stagnation of domestic demand (Charts 3, 4, 5, and 6). After posting a decline in the October-December quarter, real imports were almost flat in January and February. Imports from Asian countries continued to decline despite the substantial appreciation of the yen versus Asian currencies, and the decline in the import prices of goods from Asian countries so far remains minimal (Chart 8(1)). This may partly reflect the time lag

before the depreciation of Asian currencies is reflected in Japanese import prices. However, it is more likely that exporters in Asian countries were unable to reduce export prices owing to the inflation in the prices of imports (Chart 8(2)).³ For the time being, it is unlikely that imports from Asia will rapidly increase owing to a decline in import prices. The outlook is that real imports will probably remain lackluster due to the stagnant domestic demand.

As a result of these export and import developments, net exports⁴ continue to rise, but the increase is easing (Chart 3) and the future growth is likely to be very gradual. The current-account surplus⁵ may expand despite the slow growth in net exports because the import prices of crude oil and other raw materials are declining.

Turning to the domestic private sector, corporate profit projections for the second half of fiscal year 1997, according to the Bank of Japan's *Tankan -- Short-term Economic Survey of Enterprises* of March 1998, have been revised sharply downwards at firms in all industries due to the stagnation of domestic demand since autumn 1997 (Chart 9).⁶ As a result, at both principle nonmanufacturing firms and small firms, the projections of profit declines for fiscal 1997 have expanded in comparison with the

³ As indicated by Chart 8(2), in Asian countries where the local currencies have depreciated sharply, the prices of import goods have risen more than the prices of goods in general. Thus, for products that are highly dependent on imports of capital goods and parts, it is difficult to cut export prices even when the local currencies decline substantially.

⁴ It should be noted that the "real trade balance" presented in Chart 3(2) differs from "net exports" on a GDP basis but its changes in the real trade balance are basically equivalent to those of net exports (the real trade balance is on a customs-clearance basis and does not include the trade in services, while net exports are on an ownership transfer basis and include the trade in services).

⁵ During 1997, the ratio of the nominal current account surplus to GDP was 1.5 percent in January-March, 2.3 percent in April-June, 2.4 percent in July-September, and 2.8 percent in October-December quarter.

⁶ The comments regarding corporate profits presented here are based on the Bank of Japan's *Tankan -- Short-term Economic Survey of Enterprises* of March 1998, hereinafter referred to as "the March *Tankan*."

figures of the December survey. Also, the profit projections for principal manufacturing firms, which had remained strong, have now turned to a decline. For fiscal 1998, improvements in the terms of trade, including the drop in crude oil prices, are expected to support profits at manufacturing firms to some extent. However, with the continued economic stagnation, corporate profits at principal manufacturing and nonmanufacturing firms are expected to remain flat, at around the reduced levels recorded during fiscal 1997. Corporate sentiment is becoming more severe because of this worsening profit environment.

Given these corporate profit and corporate sentiment conditions, business fixed investment is beginning to decline after having peaked out. As for the leading indicators (Chart 10), machinery orders and construction starts have both turned to a decline, especially in the nonmanufacturing sector. According to the March *Tankan*, the investment plans of principal nonmanufacturing firms for fiscal 1998 are down for the second consecutive year and the investment plans of principal manufacturing firms posted a decline for the first time in four years, as plans at large electrical machinery and telecommunications firms, which had been active in fiscal 1995 and 1996, have turned to a decline (Chart 11). Small firms have not yet firmed up their investment plans for the coming fiscal year, but the March survey shows the usual degree of cut back in investments of approximately 20 percent versus the previous fiscal year.

There are several factors that will determine future business fixed investment.

- (1) Corporate profits continue to be weak, primarily due to the slump in domestic sales.
- (2) According to the March *Tankan*, a growing number of both large and small firms are facing a harsh funding environment because of the cautious lending attitude among financial institutions (Chart 12(1)) in addition to stagnant domestic sales. This corporate funding situation is apparently limiting business fixed investment.⁷
- (3) From

⁷ As total corporate fund-raising is not declining, there are certain firms with relatively abundant liquidity. Nevertheless, while fixed investment is being limited at firms facing severe funds positions, firms that do have abundant capital are retaining this as on-hand liquidity, so the funding is not leading to active fixed investment. This imbalance in funds availability among firms appears

a medium to long-term perspective in terms of the capital stock cycle, the conditions still do not demand a major adjustment in facilities, but the recent rapid stagnation of demand is leading to a slight increase in the perception of excess capacity (Chart 13). Moreover, while there is still a strong incentive for environment-related and other strategic investments by firms, the growth in telecommunications-related investment is slackening recently, and strategic investment is not sufficient to support growth in business fixed investment overall. In light of these factors, business fixed investment may enter into an adjustment phase.

In the household sector, with respect to employment and income conditions, the income formation mechanism has weakened considerably due to the stagnation of final demand and the decline in industrial production described below. In the labor market (Chart 14), the number of new job offers is on a declining trend, particularly in the manufacturing and construction industries. The ratio of job offers to applications also continues to fall. In addition, in line with the recent increase in the number of employees who have left their jobs on a non-voluntary basis, the unemployment rate remains at a historically high level. As regards employee income (Chart 15), the growth in wages has slowed further. In detail, not only are overtime compensation and bonus payments below the previous year's level, but regular compensation is also leveling off. According to the March *Tankan*, there is once again a growing perception of excess personnel, especially at small firms (Chart 16), and the "base up" salary increases agreed to in this year's "*shunto*", annual spring labor offensive, were the smallest ever recorded. Thus, employment and income conditions are likely to become even more severe.

Amid these conditions, household sector confidence remains weak, and there are no signs of a recovery in the propensity to consume (Chart 17). With regard to indices on private consumption (Chart 18), registrations of new passenger cars, sales of household appliances, and sales at department stores have remained sluggish in 1998.

to be exerting a restraining effect on business fixed investment overall.

In addition, convenience store sales and outlays for travel and other services, which had been relatively firm, now seem to have peaked out. To date, anecdotes from the retail sector show virtually no indication of any positive effects from the special income tax reduction in effect from February 1998.

As for the outlook, although there are expectations that the special income tax reduction and other policy measures may stop a further contraction of consumer confidence, it is still difficult to project a revival of consumption sufficient to cover the declines recorded to date.

As for housing investment, housing starts (in terms of the seasonally adjusted annual rate) have remained at a low level of around 1.3 million units since the summer of 1997 (Chart 19). The number of applications for loans on the construction of private homes accepted by the Government Housing Loan Corporation in February and March for its fourth offering period for fiscal 1997 -- which is closely related to the number of housing starts for owner-occupied homes in the near future -- remained at a low level. In addition to the weakening of the income formation mechanism and the decline in household sector confidence, financial institutions are taking an increasingly cautious attitude toward lending for the construction of rental housing and condominiums. These suggest that, for the time being, it is highly unlikely that the number of housing starts will rise significantly from the present level.

Reflecting these developments, industrial production continues to decline (Chart 20). Following drops in July-September and October-December quarters, industrial production is likely to post a decline for the third consecutive quarter in January-March because of the sluggish production of electrical equipment and transportation equipment as well as large cutbacks in the production of chemicals and non-ferrous metals. Based on production forecast indices and interview surveys in each industry, this declining trend is projected to continue in the April-June quarter as well. Moreover, inventory conditions in the manufacturing sector show a further

increase in inventory levels for both final goods and production goods (Chart 21). Thus, strong inventory adjustment pressures are projected to continue for some time.

Furthermore, the economic stimulus measures presently under consideration will be important not only in creating effective demand, but also in sparking a revival of consumer and corporate confidence. Accordingly, these measures will have to be carefully monitored in terms of their scale, content, and implementation timing.

2. Prices⁸

With regard to price developments (Charts 22, 23, and 24), import prices fell sharply in January and February because of the decline in the prices of commodities such as crude oil, non-ferrous metals, and chemicals in international markets reflecting the easing of the supply-demand conditions in Asia but posted a more gradual decline in March.(Chart 23(1)).⁹ Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates) continue to decrease due to these import price declines, as well as to the weakening in the prices of steel and construction-related items, reflecting full-scale domestic inventory adjustment pressures (Chart 23(3)). Compared to the previous quarter, domestic wholesale prices dropped 0.5 percent in July-September, 0.5 percent in October-December 1997, and 0.5 percent in January-March 1998.

The year-to-year declines in corporate service prices essentially reached zero at the end of 1997, but began to widen once again from the beginning of 1998 (Chart 24(1)). This is because of weak overseas freight transport prices from slack demand and reduced telecommunications services prices from intensified competition. The

⁸ The price data presented herein are adjusted to exclude the effects of the rise in the consumption tax rate from three to five percent in April 1997 (calculations by the Bank of Japan).

year-on-year changes in corporate service prices were -0.2 percent in July-September, 0.0 percent in October-December 1997, and -0.1 percent in January-February 1998. The rise in consumer prices (excluding perishables) has eased from the beginning of 1998 due to the decline in merchandise prices coupled with a reduction in electricity rates (Chart 24(2)). The year-on-year increase in consumer prices was 0.8 percent in the July-September and October-December quarters, 1997 and 0.5 percent in January-February 1998. The fundamental year-on-year increase, excluding the effects of the rise in medical service charges caused by the medical insurance system reform of September 1997, dropped from around 0.4 percent in the October-December quarter 1997 to about 0.1 percent in January-February 1998, indicating that consumer prices have declined essentially to the previous year's level.

As for land prices, there are indications that both commercial land prices and residential land prices are beginning to soften once again, reflecting stagnant demand (Chart 25).

Looking at the environment surrounding overall prices, the downward pressure on import prices is expected to continue for some time, reflecting the fall in international commodity market prices since the autumn of 1997. Nevertheless, to date the decline in the import prices of goods from Asia has been minor, and overall this has not been accompanied by an increase in import penetration ratios to exert sudden downward pressures on the prices of competing domestic goods, as was the case in 1994 and 1995 (Chart 26(1)).

Nevertheless, the domestic supply-demand gap is likely to continue widening (Charts 26(2) and 26(3)), and domestic prices may remain soft because of this endogenous downward pressure. If corporate sales decline due to a drop in prices in addition to stagnant final demand, there is a risk that corporate profits may be

⁹ International commodity prices are recovering somewhat from the rise in crude oil prices in late March following the agreement to reduce output among the oil producing countries.

squeezed because the reduction of fixed costs will require some time. Thus, future developments in domestic prices and in domestic supply-demand conditions should continue to be carefully monitored, giving sufficient consideration to the associated risk for corporate activities.

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets show that the overnight call rate (uncollateralized) has generally been holding slightly below the official discount rate of 0.5 percent (Charts 27(1) and 28(1)).

Euro-yen interest rates (3-month) declined from the end of February through the middle of March and have generally remained steady thereafter, reflecting the Bank of Japan's ample provision of funds maturing after the fiscal year end as well as the concrete progress of policy measures to bring greater stability to the financial system. Nevertheless, Euro-yen interest rates are still slightly higher compared with the prevailing levels prior to last autumn.

Analyzing Euro-yen interest rates (3-month) based on one-month spot rates and one-month implied forward rates (Chart 28(2)), the rates for contracts going beyond the end of the fiscal year (March 31st) remained rather high until the middle of February, reflecting concerns over liquidity risk at the fiscal year end, but then gradually declined. From the beginning of fiscal 1998 (April 1st), the rates on all contracts have generally held between 0.7 and 0.8 percent.

The Japan premium (Chart 29) also turned to a decline from the end of February, and is generally holding at around 0.2 percent for all maturities, ranging from one month to six months. Nevertheless, the premium is still being charged, in contrast to the period prior to last autumn when it was virtually nonexistent. These

developments in the Japan premium and interest rates on term instruments reflect the growing market concerns over credit risk since last autumn.

As for the market outlook for interest rates, the rise in Euro-Yen interest rate futures with distant contract months (Chart 30) is still moderate, indicating that there have been no major changes in the interest rate outlook among market participants.

Yields on ten-year government bonds (benchmark) declined from the beginning of February and posted a historical low of 1.49 percent in late March (the previous low was 1.57 percent recorded this January), in response to a series of releases of weak economic indicators (Chart 27(2)). Thereafter, the yields have rebounded slightly, following the outline of a comprehensive economic stimulus package announced by the ruling coalition, but they still remain in a historically low range of between 1.6 and 1.7 percent. Analyses of long-term interest rates show that one-year implied forward rates (calculated from yen-yen swap rates) remain at extremely low levels for all maturities (Chart 31).

As for stock prices, the Nikkei 225 Stock Average was moving back and forth generally in the 16,500-17,000 yen range from the beginning of March, supported by expectations for government economic stimulus measures (Chart 32(1)). However, stock prices have been softening from the end of March reflecting weak economic indicators and the downward revision of corporate earnings reports. The yield spread (the government bond yield minus the expected earnings on stocks) remains at a low level, indicating continued market pessimism about future growth and uncertainty over corporate earnings (Chart 32(2)).

Turning to the yields on private bonds -- bank debentures and corporate bonds - the yield difference between private bonds and government bonds expanded from the end of 1997 through February 1998, and has thereafter generally remained unchanged

(Charts 33 and 34). This indicates that the capital market continues to be selective regarding credit risk.

On the foreign exchange market, the yen had been appreciating through the middle of February, rising to between 120 and 125 yen to the U.S. dollar. Since that time, the yen has been falling, reflecting the difference in economic performance between Japan and the U.S., and has recently been moving between 130 and 135 yen to the U.S. dollar (Chart 35). Meanwhile, the real effective exchange rate of the yen also depreciated (Chart 7(1)).

(2) Monetary Aggregates

With respect to money stock, the growth in $M_2 + \text{CDs}$ continued to be rather high in February, moving up by 4.8 percent year-on-year and 7.7 percent versus the level three months earlier (Chart 36), primarily due to the substantial shift of funds away from investment trusts. Among the components of $M_2 + \text{CDs}$, the growth rate of M_1 and cash currency in circulation is still strong (Chart 37).

During the April-June quarter, the year-on-year growth rate of $M_2 + \text{CDs}$ is projected to remain between 4.0 and 5.0 percent.

Meanwhile, lending by private banks such as city banks, long-term credit banks, trust banks, regional banks and regional banks II remains sluggish (Chart 38).

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

With respect to factors affecting the lending attitude of private financial institutions, capital constraints are apparently becoming somewhat less binding, partly due to the injection of public funds. Fund-raising in the capital market by private-sector enterprises is increasing, primarily via CP and straight bond issuances (Chart 39).

Additionally, the year-on-year decline in the actual balance of loans outstanding extended by government financial institutions to small and medium-sized firms has recently narrowed or even turned positive (Chart 40). These developments suggest that so far a drastic contraction in the volume of overall corporate fund-raising has been avoided.

Nevertheless, financial institutions remain cautious in extending loans, with a view to improving profitability and financial soundness from a middle-term perspective. In fact, the number of corporations responding that the lending attitude of financial institutions is “severe” increased sharply in the March *Tankan* (Chart 41). In the capital market as well, it is still difficult for corporations with low credit ratings to issue straight bonds. These facts suggest that the fund-raising environment has varied widely for different corporations.

Turning to the fund-raising cost for firms, upward movements in the average contracted interest rates on loans and discounts since the end of 1997 have generally been rather small (Chart 42), as banks have left their short-term prime rates unchanged. While there has been no conspicuous increase in borrowing costs overall, financial institutions and capital market participants continue to exhibit strong concerns regarding credit risk, so the difference in fund-raising costs among corporations is still relatively large.

Although a major slump in corporate fund-raising overall has been avoided, given the intensifying market concerns regarding credit risk, certain firms, primarily small and medium-sized enterprises, are still facing a difficult financing environment.¹⁰ These financial developments and their influence on the economy continue to warrant careful monitoring.

¹⁰ Indices related to business failures show that the number of corporations declaring bankruptcy continues to increase (Chart 43).

Charts

Chart 1	Main Economic Indicators
Chart 2	Public-sector Investment
Chart 3	External Balance
Chart 4	Exports and Imports
Chart 5	Trade with ASEAN4 and South Korea
Chart 6	Exports and Imports (Breakdown by types of goods)
Chart 7	Overseas Economic Conditions and Real Effective Exchange Rate
Chart 8	Price of Imports from Asia
Chart 9	Current Profits as Surveyed in <i>Tankan</i>
Chart 10	Major Indexes of Business Fixed Investment
Chart 11	Business Fixed Investment Plans as Surveyed in <i>Tankan</i> (March 1998)
Chart 12	Corporate Finance and Business Fixed Investment
Chart 13	Production Capacity and Capital Stock Adjustment
Chart 14	Labor
Chart 15	Compensation of Employees
Chart 16	Adjustment Pressures on Employment
Chart 17	P propensity to consume and Consumer Confidence
Chart 18	Private Consumption
Chart 19	Housing Starts
Chart 20	Production, Shipments, and Inventories
Chart 21	Inventory Cycle
Chart 22	Prices
Chart 23	Import Prices and Domestic Wholesale Prices
Chart 24	Corporate Service Prices and Consumer Prices
Chart 25	Quarterly Land Price Index
Chart 26	Factors Contributing to the Change in Prices
Chart 27	Interest Rates
Chart 28	Short-Term Money Market Rates
Chart 29	Japan Premium in the Eurodollar Market
Chart 30	Euro-Yen Interest Rates Futures (3-Month)
Chart 31	Implied Forward Rates (1-year)
Chart 32	Stock Prices
Chart 33	Yields of Bank Debentures
Chart 34	Corporate Bond Yields
Chart 35	Exchange Rates
Chart 36	Money Stock (M2+CDs, Broadly-Defined Liquidity)
Chart 37	Money Stock (M1, Cash Currency in Circulation)
Chart 38	Lending by Domestic Commercial Banks
Chart 39	Private-Sector Fund Raising in the Capital Markets
Chart 40	Lending by Other Financial Institutions
Chart 41	Corporate Finance-Related Dis in <i>Tankan</i>
Chart 42	Lending Rates
Chart 43	Corporate Bankruptcies

Main Economic Indicators (1)

	y/y % chg.						
	97/Q3	Q4	98/Q1	97/Dec.	98/Jan.	Feb.	Mar.
Index of expenditure level (all households)	1.4	-2.3	n.a.	-4.8	-4.1	p -4.4	n.a.
Sales of department stores	-1.3	-3.0	n.a.	-4.1	-2.0	p -5.4	n.a.
Sales of chain stores ¹	-3.6	-5.3	n.a.	-7.0	-4.6	-5.0	n.a.
New passenger-car registrations ²	-10.3	-13.7	-21.5	-3.9	-23.1	-23.2	-19.8
Sales of electric appliances (NEBA)	-3.7	-4.5	n.a.	-5.8	-2.6	-9.5	n.a.
Outlays for travel (50 major travel agencies)	2.2	1.0	n.a.	-0.2	-5.4	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	130	130	n.a.	129	131	133	n.a.
Machinery orders (from private sector ³)	1.3	-13.4	n.a.	-8.9	-4.7	n.a.	n.a.
Mining & manufacturing	8.7	-2.9	n.a.	-2.4	-6.0	n.a.	n.a.
Nonmanufacturing ³	-4.1	-20.4	n.a.	-13.7	-3.4	n.a.	n.a.
Construction Starts (private, nonresidential use)	3.8	-8.0	n.a.	-8.4	-12.7	-7.7	n.a.
Manufacturing	8.4	-1.4	n.a.	-8.0	-11.0	-1.1	n.a.
Nonmanufacturing ⁴	2.2	-10.5	n.a.	-8.6	-13.4	-10.1	n.a.
Value of public works contracts	-1.7	-9.1	n.a.	5.1	0.1	4.2	n.a.
Real exports <s.a. quarterly (monthly) change>	0.6	1.3	n.a.	0.8	3.2	-5.0	n.a.
Real imports <s.a. quarterly (monthly) change>	2.5	-3.7	n.a.	10.0	1.1	-10.3	n.a.
Industrial production <s.a. quarterly (monthly) change>	-0.4	-2.3	n.a.	1.1	2.9	p -3.3	n.a.
Shipments <s.a. quarterly (monthly) change>	0.6	-2.5	n.a.	1.4	3.4	p -3.6	n.a.
Inventories <s.a. quarterly (monthly) change>	0.7	1.2	n.a.	0.4	0.1	p 0.5	n.a.
Inventories/shipments <s.a. 1990=100>	115.3	122.6	n.a.	122.6	121.6	p 127.0	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	97/Q3	Q4	98/Q1	97/Dec.	98/Jan.	Feb.	Mar.
Ratio of job offers to applications <s.a., times>	0.73	0.69	n.a.	0.67	0.64	0.61	n.a.
Unemployment rate <s.a., %>	3.41	3.46	n.a.	3.45	3.48	3.59	n.a.
Overtime working hours ⁵	1.1	-2.5	n.a.	-3.6	-3.1	p -5.8	n.a.
Number of employees	1.0	1.0	n.a.	0.8	0.3	-0.1	n.a.
Number of regularly employed ⁵	0.9	0.8	n.a.	0.7	0.7	p 0.6	n.a.
Nominal wage per person ⁵	1.5	0.7	n.a.	0.7	-0.8	p 0.0	n.a.
Domestic wholesale prices index ⁶	-0.5	-1.0	-1.6	-1.2	-1.2	-1.6	-2.0
Consumer prices index (nationwide) ⁶	0.6	0.7	n.a.	0.3	0.3	0.4	n.a.
Excluding perishables	0.8	0.8	n.a.	0.8	0.6	0.4	n.a.
Corporate service prices index ⁶	-0.2	0.0	n.a.	0.0	-0.1	-0.2	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.3	n.a.	3.9	4.5	p 4.8	n.a.
Number of suspension of transaction with banks	9.5	19.0	n.a.	28.4	16.2	18.0	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.

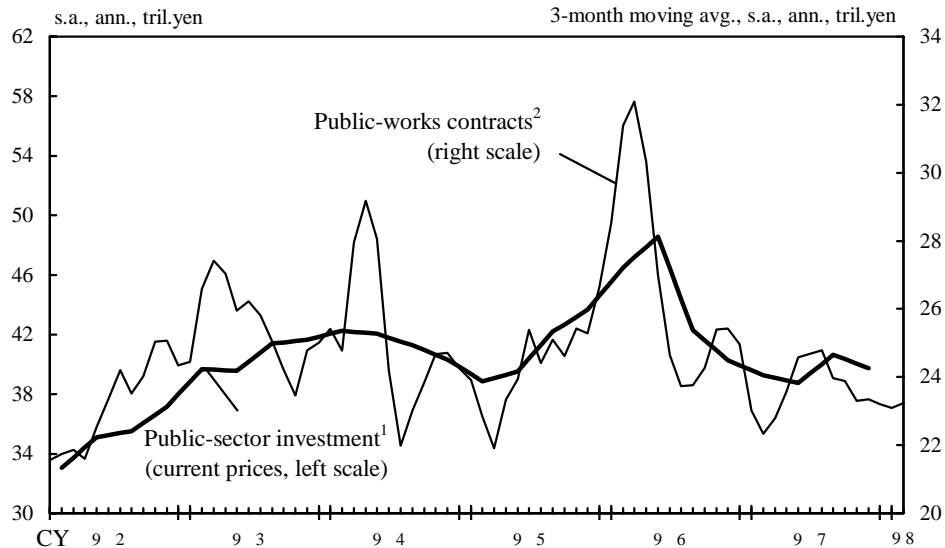
5. Data for firms with 5 regular employees or more.

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.

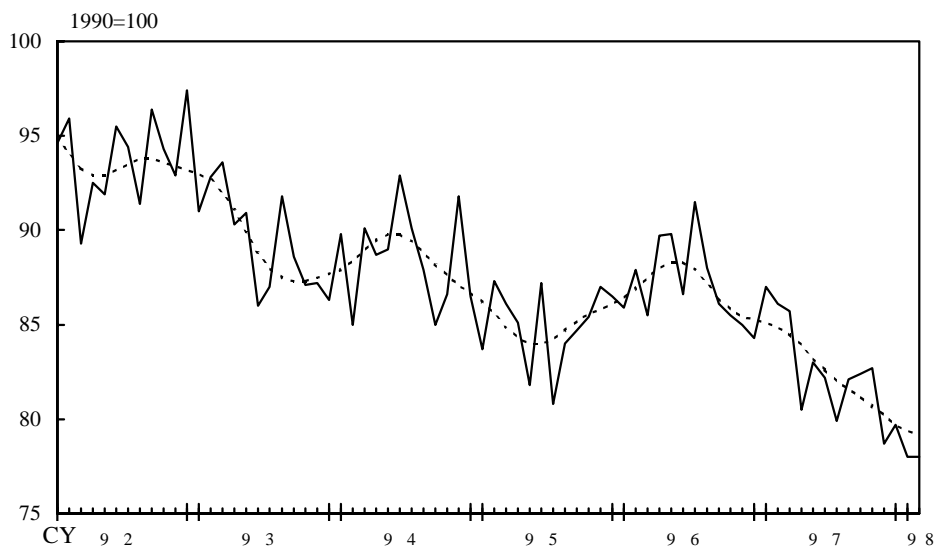
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";
 Japan Chain Stores Association, "Sales 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).

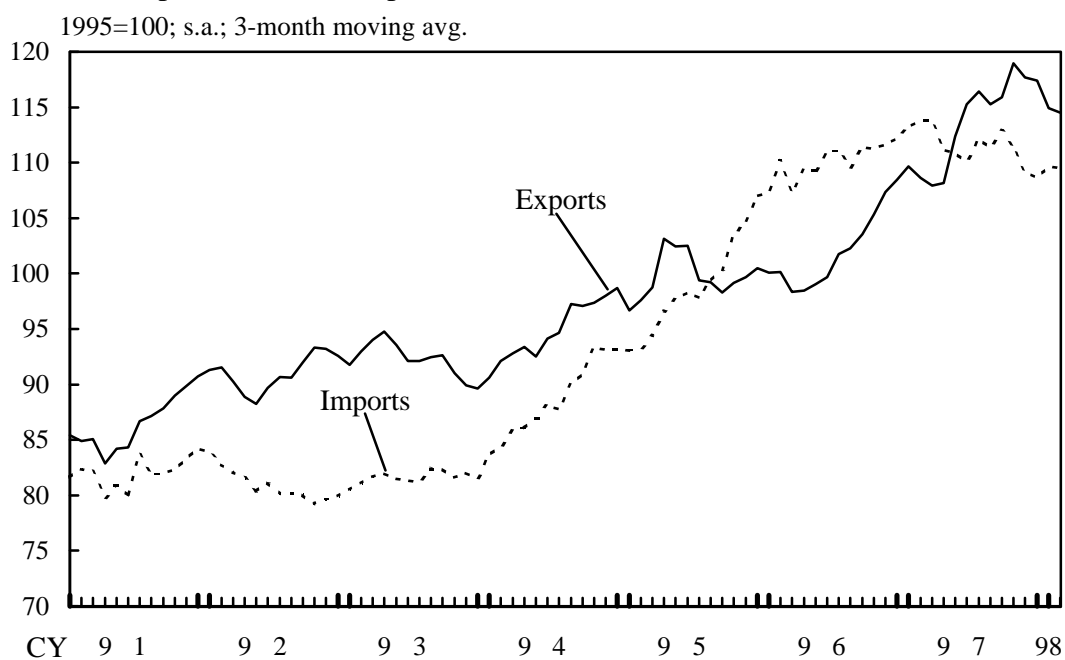
(2) Shipments of Public Works-related Goods¹

Note: 1. Public works-related goods=asphalt+concrete pipes+concrete blocks
+concrete paving products+steel pipes+iron pipe and tube fitting
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 $Y=TC,S,D,I$ (assuming a multiplicative model),
Y: original series, TC: trend cycle factor, S: seasonal factor,
D: trading day factor, I: irregular factor.

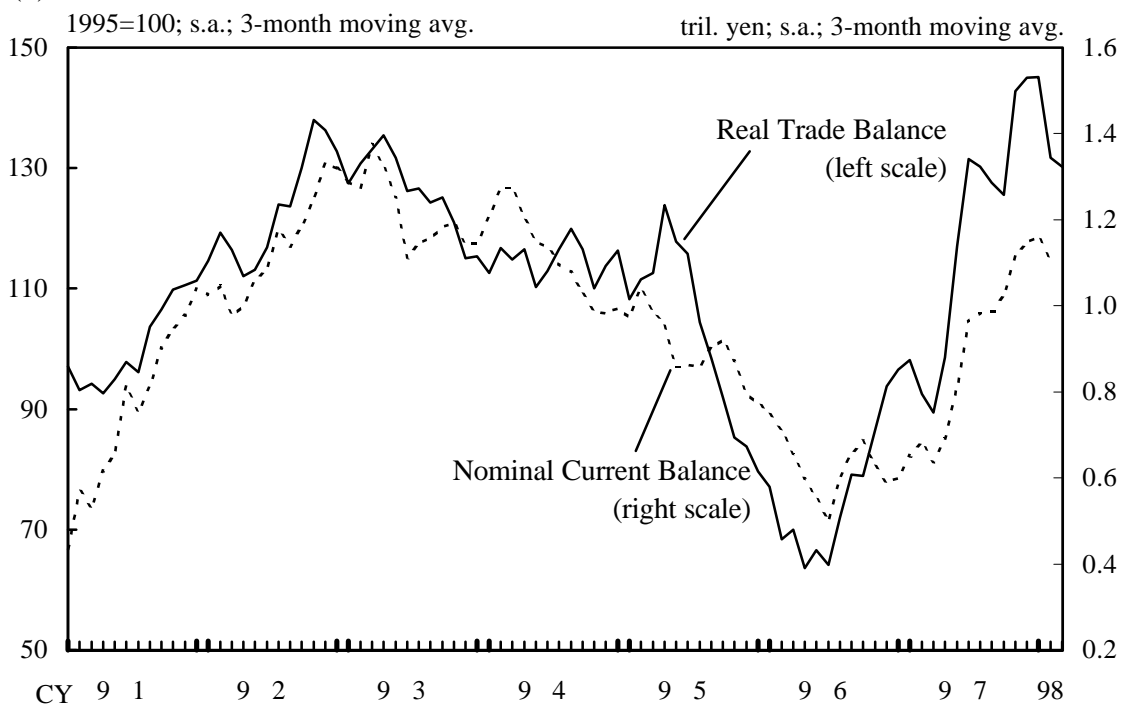
Sources: Economic Planning Agency, "National Income Statistics";
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistic";
Ministry of International Trade and Industry, "Indices of Industrial Production."

External Balance ¹

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account

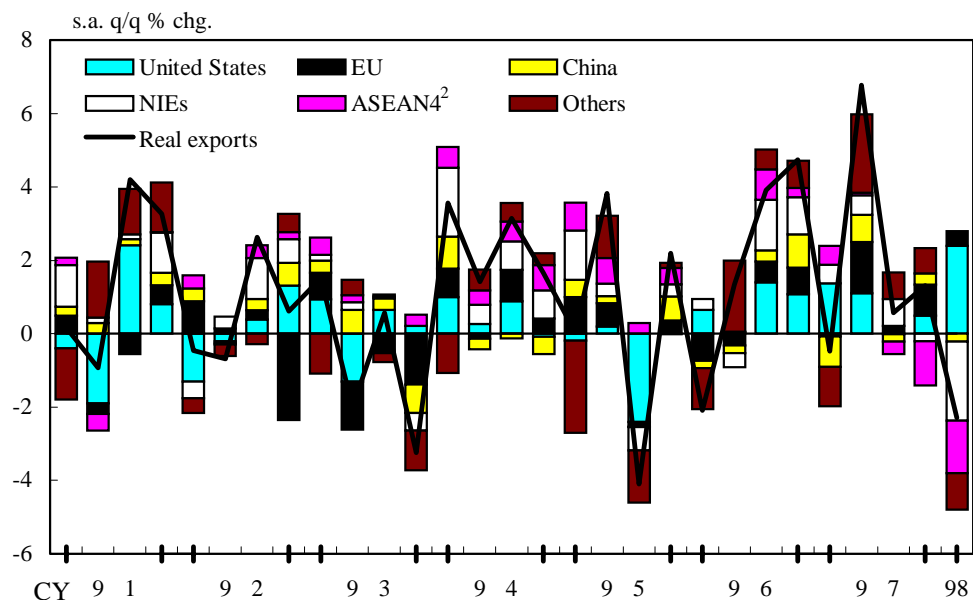


Note: 1. Real exports and imports are seasonally adjusted by X-11, and nominal current balance is seasonally adjusted by X-12-ARIMA (β version).

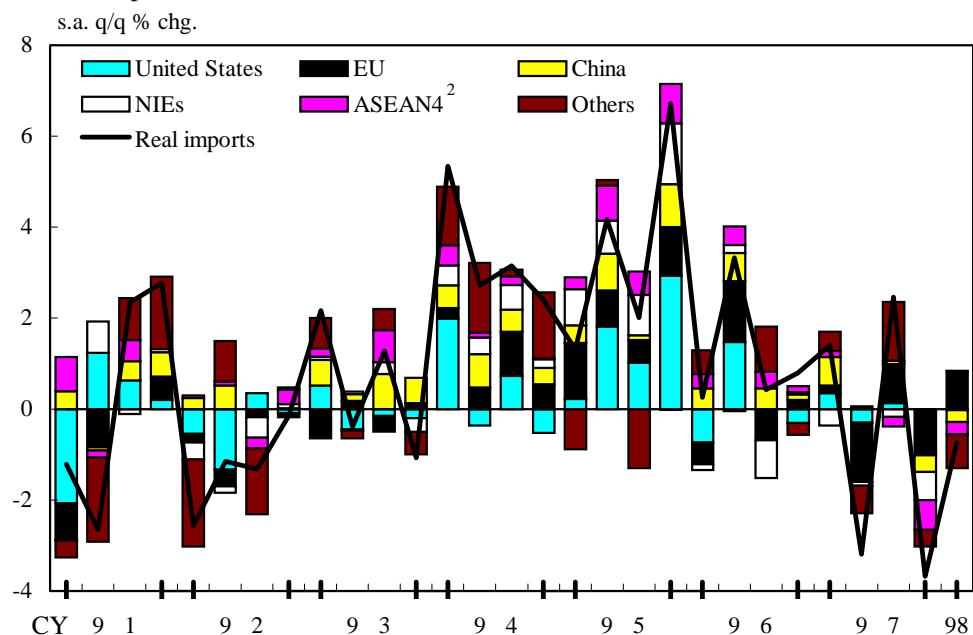
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."

Exports and Imports ¹

(1) Real Exports



(2) Real Imports



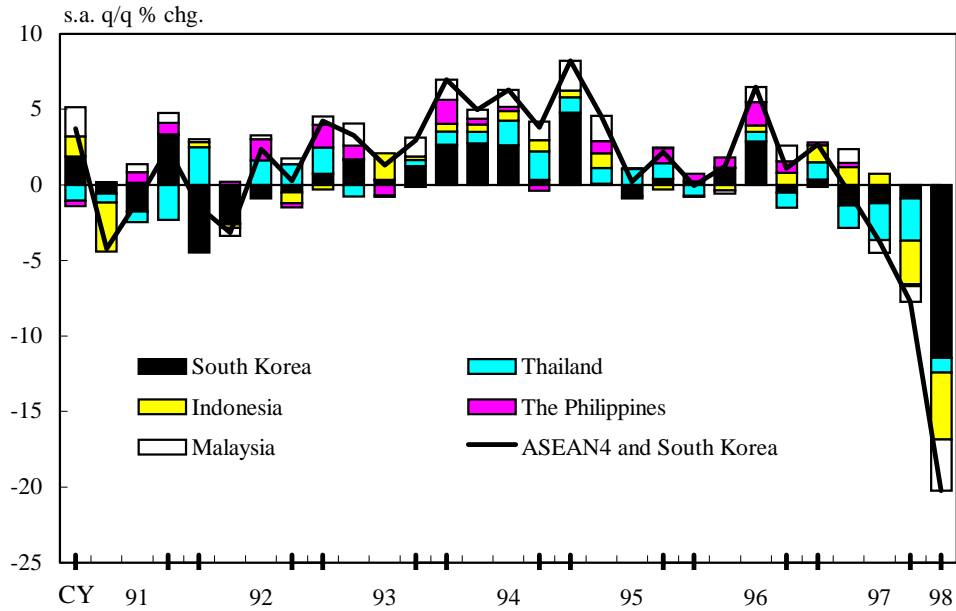
Notes: 1. The sum of the contributing factors is not equal to total real exports (imports) due to differences in seasonal adjustment etc. Seasonally adjusted by X-11. 1998/Q1 figures are Jan-Feb averages converted into a quarterly equivalent.

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

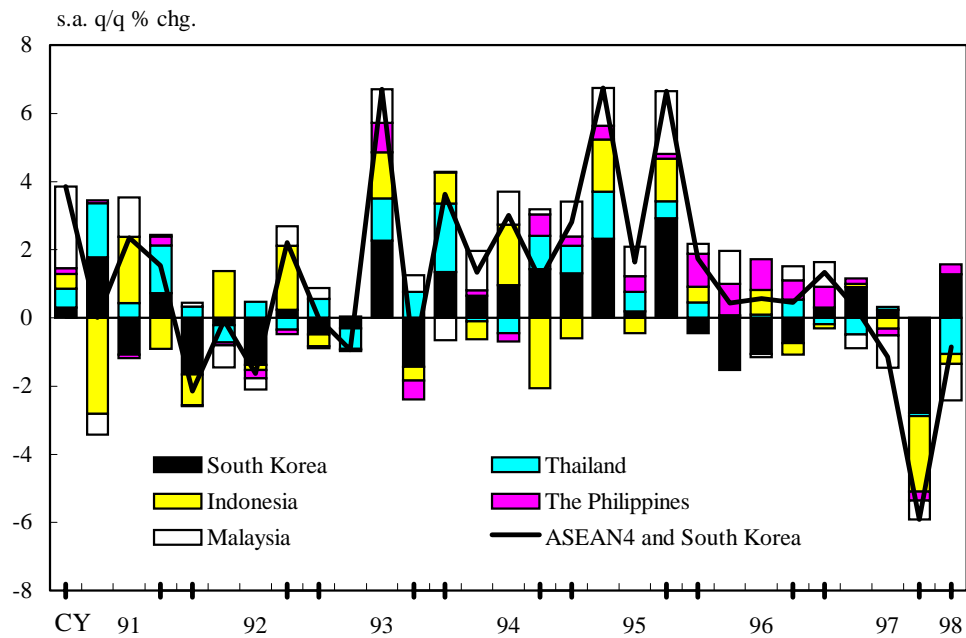
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Wholesale Price Indexes."

Trade with ASEAN4 and South Korea ¹

(1) Real Exports



(2) Real Imports

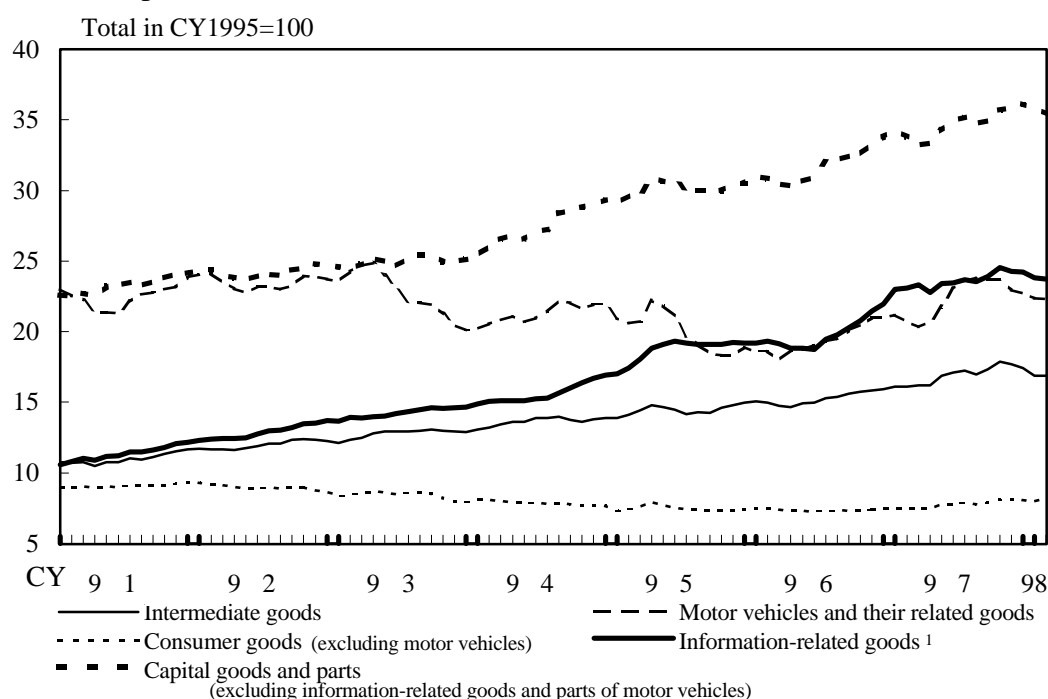


Note: 1. Seasonally adjusted by X-11. 1998/Q1 figures are Jan-Feb averages converted into a quarterly equivalent.

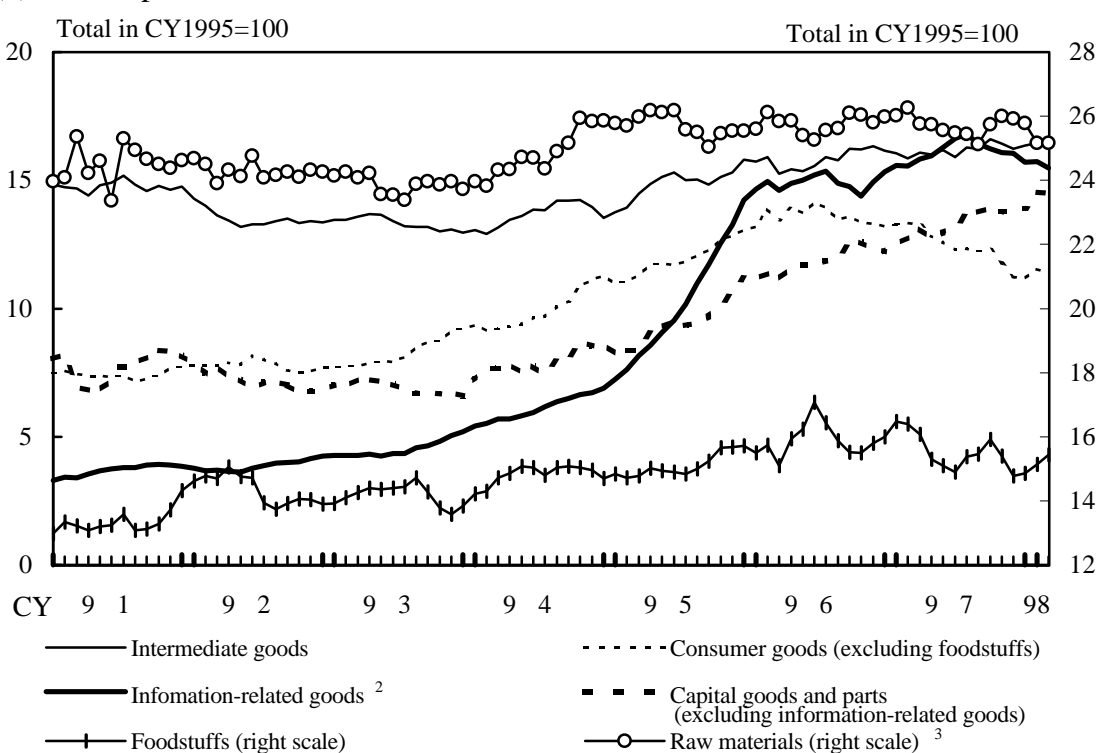
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Wholesale Price Indexes."

Exports and Imports (Breakdown by types of goods) ¹

(1) Real Exports



(2) Real Imports



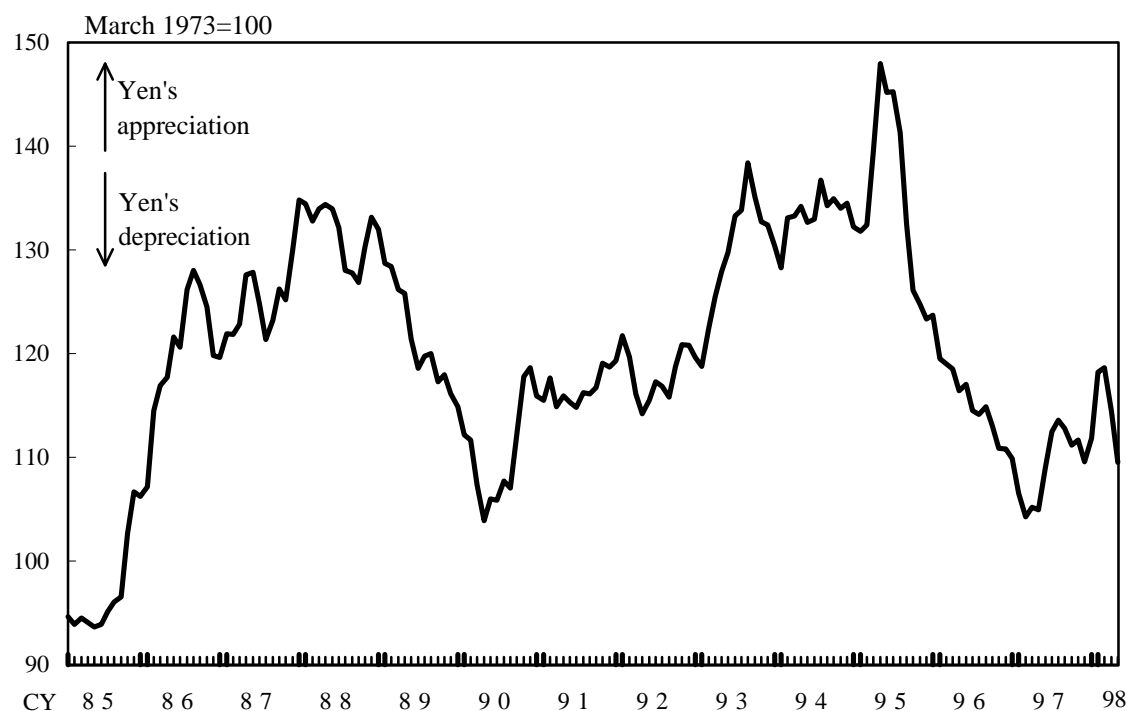
Notes: 1. Seasonally adjusted by X-11. 3-month moving averages.

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

3. 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 Effective Exchange Rate ¹

Notes: 1. Monthly average. The figure for Apr. 1998 is April 1-8 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.

(2) Real GDP Growth Rates in Overseas Economies

		CY95	96	97	97	97	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	3.7	
European Union ¹		2.5	1.8	n.a.	1.8	4.9	3.3	n.a.	
	Germany	1.8	1.4	2.2	1.5	3.8	2.9	1.1	
	France	2.1	1.5	2.4	1.3	4.7	3.7	3.1	
	United Kingdom	2.8	2.5	3.1	2.1	3.5	3.6	2.5	
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	5.5	5.7	6.6	6.1	3.9
		Taiwan	6.0	5.7	6.8	6.9	6.3	6.9	7.1
		Hong Kong	3.9	5.0	5.2	6.0	6.8	5.7	2.4
		Singapore	8.7	6.9	7.8	4.2	8.5	10.7	7.6
	4 Countries of ASEAN	Thailand	8.7	5.5	n.a.	n.a.	n.a.	n.a.	n.a.
		Indonesia	8.2	8.0	4.6	8.5	6.8	2.5	1.3
		Malaysia	9.5	8.6	7.8	8.5	8.4	7.4	6.9
Philippines		4.8	5.7	5.1	5.0	5.7	4.9	4.7	

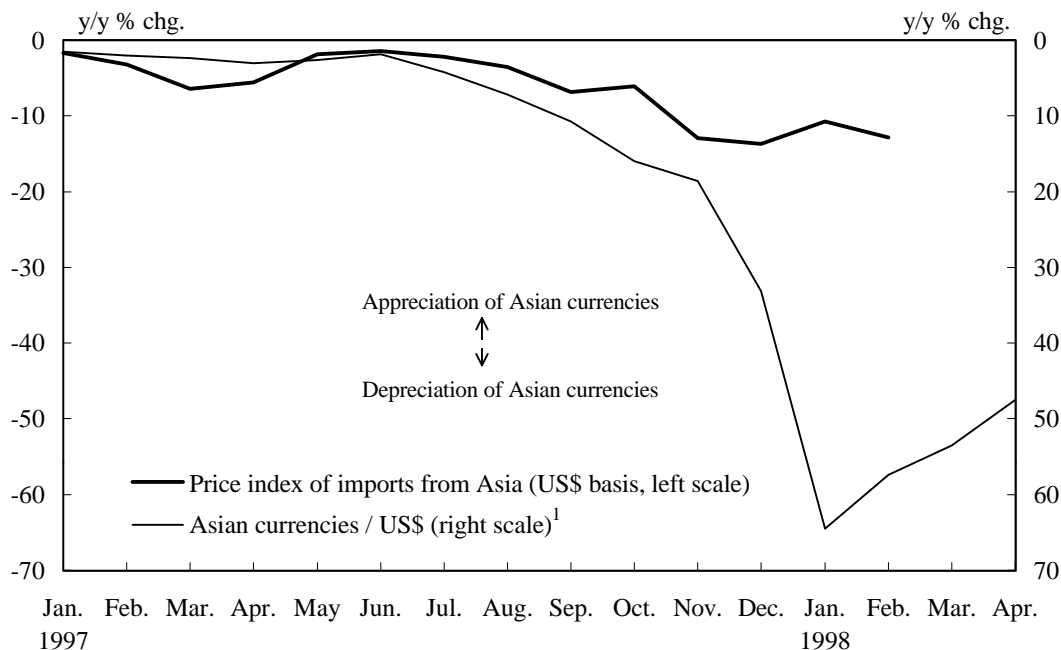
Notes: 1. Quarterly data are quarter-to-quarter percent changes.

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

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

Price of Imports from Asia

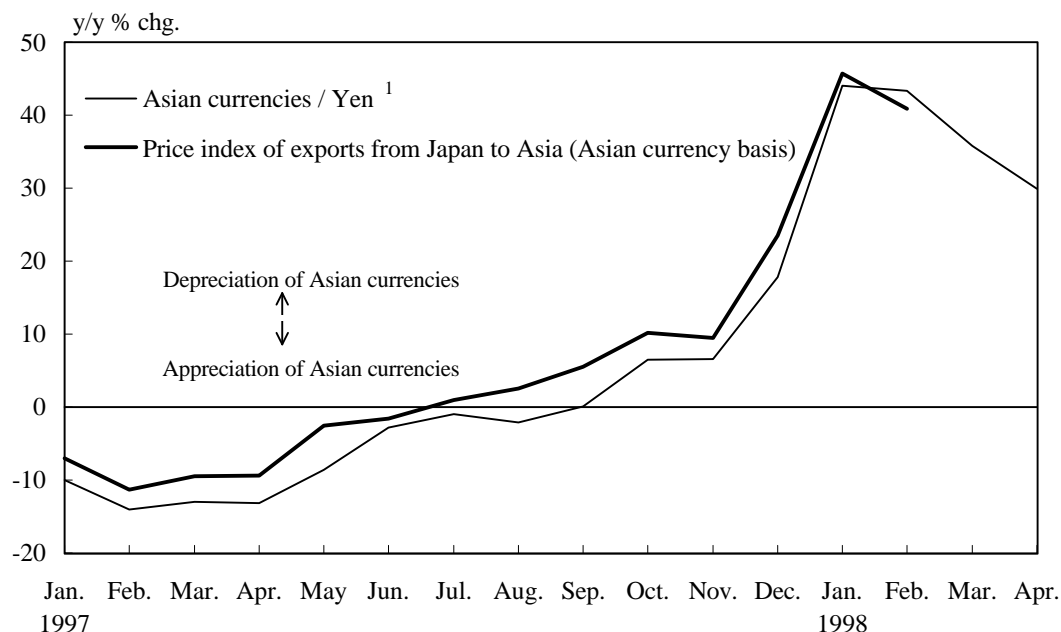
(1) Price Index of Imports from Asia and Exchange Rate



Note: 1. Weighted average (based on the share of each Asian country in Japan's imports from Asia) of Asian currencies' exchange rates. The figure for Apr.1998 is the April 1-8 average.

(2) Price Index of Exports from Japan to Asia

— Price index of exports from Japan to Asia as a substitute for the price index of imports into Asian countries.

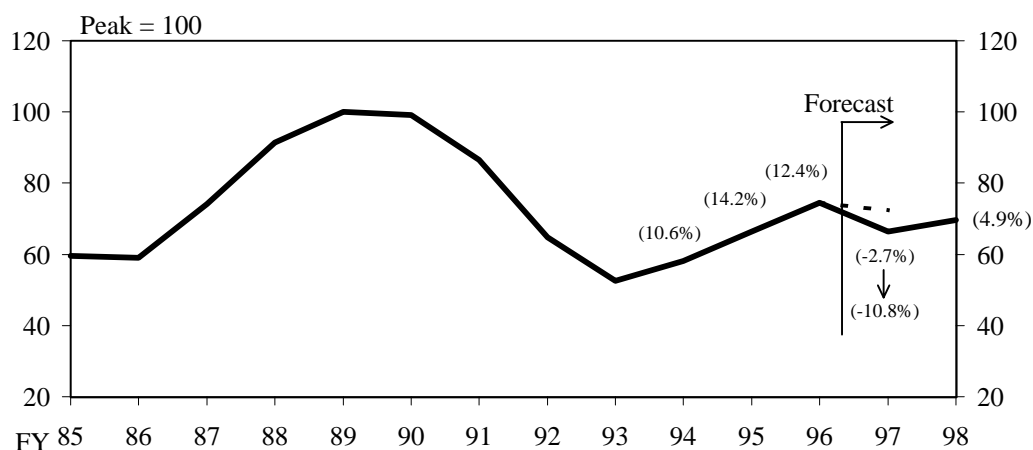


Note: 1. Weighted average (based on the share of each Asian country in Japan's exports to Asia) of Asian currencies' exchange rates. The figure for Apr.1998 is the April 1-8 average.

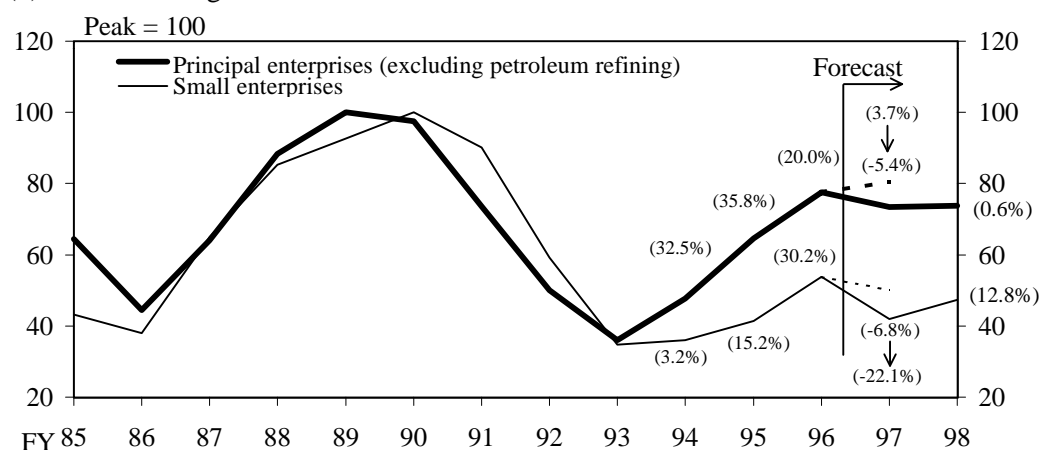
Source: Ministry of Finance, "Summary Report on Trade of Japan."

Current Profits as Surveyed in *Tankan*

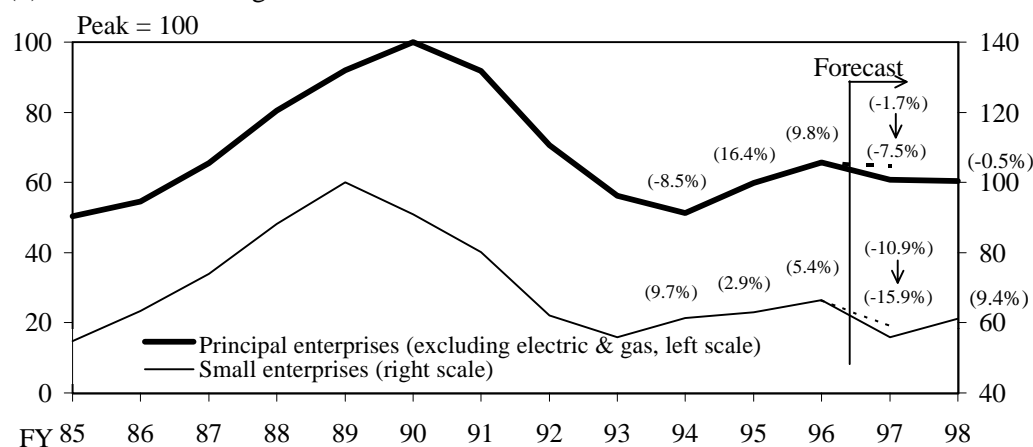
(1) All Industries



(2) Manufacturing



(3) Nonmanufacturing

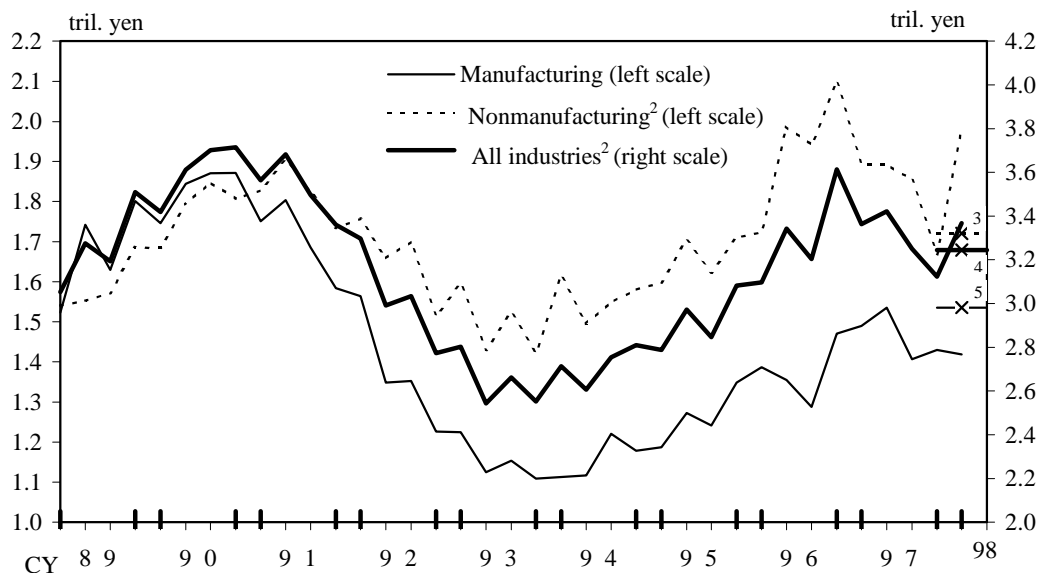


- Notes: 1. Figures in parentheses are percent changes from a year earlier.
 2. The dotted lines are projections in December 1997.
 3. Figures of all industries are adjusted by the weight of current profits of each industry based on the "Corporate Business Statistics Annual."
 The enterprises are classified as large firms with owner's equity of 1 billion yen or more, medium firms with that of 100 million yen or more, and small firms with that of less than 100 million yen based on the "Corporate Business Statistics Annual", in order to correspond to the classification in "Tankan."

Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan";
 Ministry of Finance, "Corporate Business Statistics Annual."

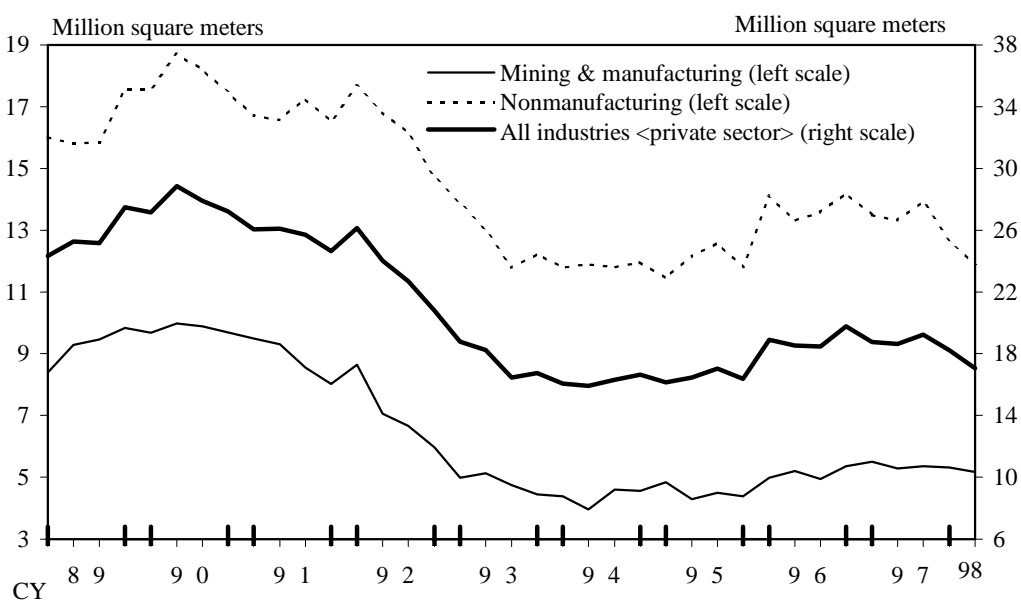
Major Indexes of Business Fixed Investment

(1) Machinery Orders¹



- Notes: 1. Seasonally adjusted data. Figures for 1998/Q1 are data of January in terms of quarterly amount.
 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

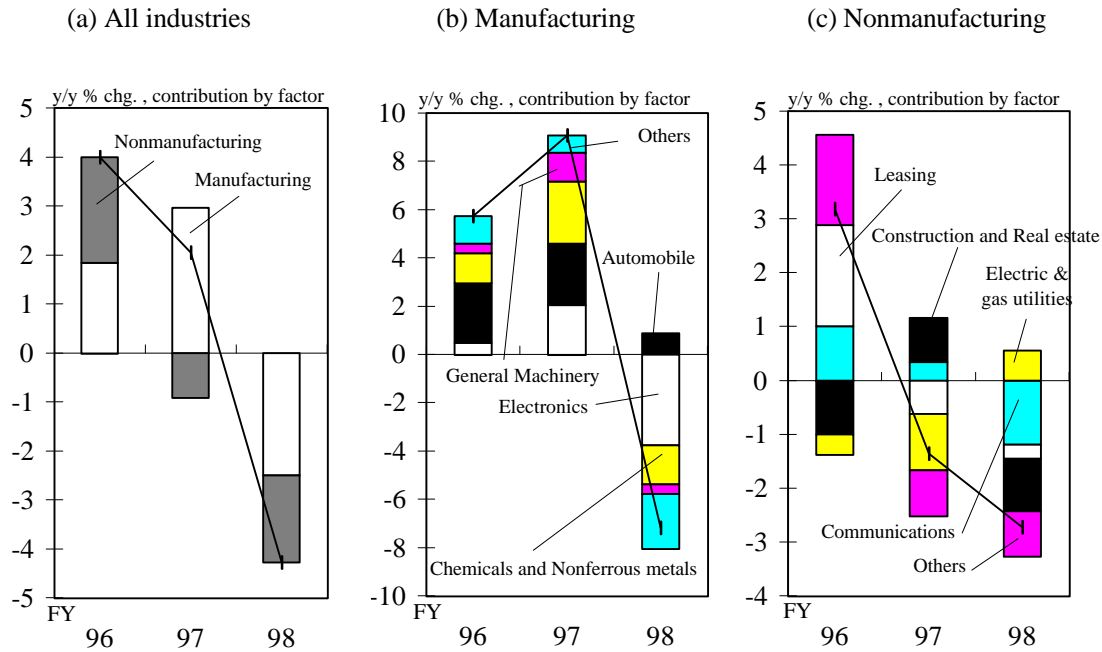


Note: 1. Seasonally adjusted data. Figures for 1998/Q1 are averages of January and February in terms of quarterly amount.

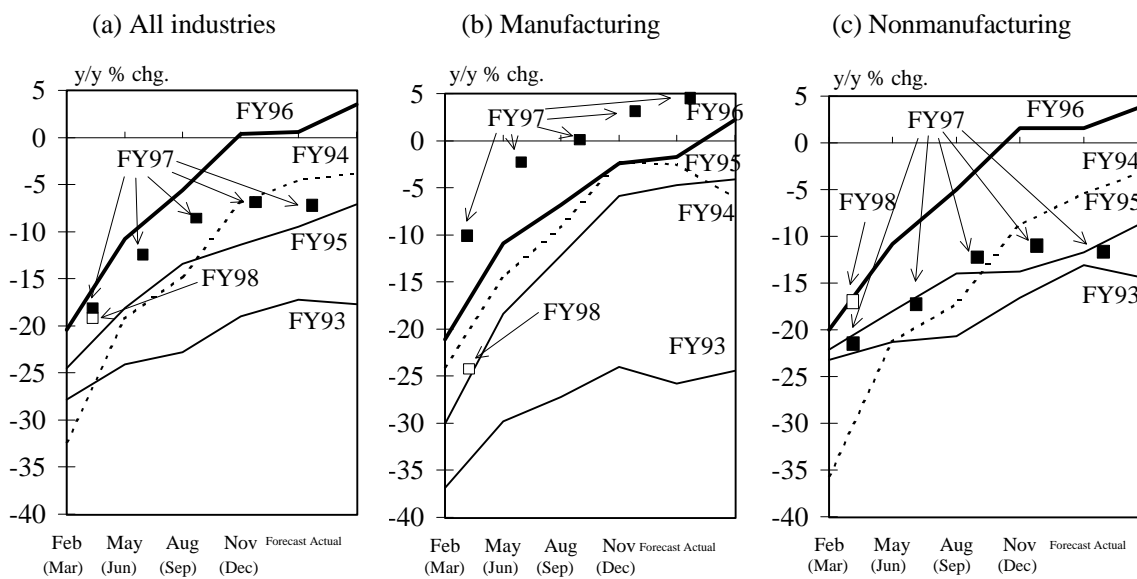
Sources: Economic Planning Agency, "Machinery Orders Statistics";
 Ministry of Construction, "Construction Statistics Monthly."

Business Fixed Investment Plans as Surveyed in *Tankan* (March 1998)

(1) Investment Plans of Principal Enterprises



(2) Adjustment of Plans by Small Enterprises



Note: Surveys are conducted in March, June, September and December from March 1997, instead of February, May, August and November.

Source: Bank of Japan, "Tankan — Short-Term Economic Survey of Enterprises."

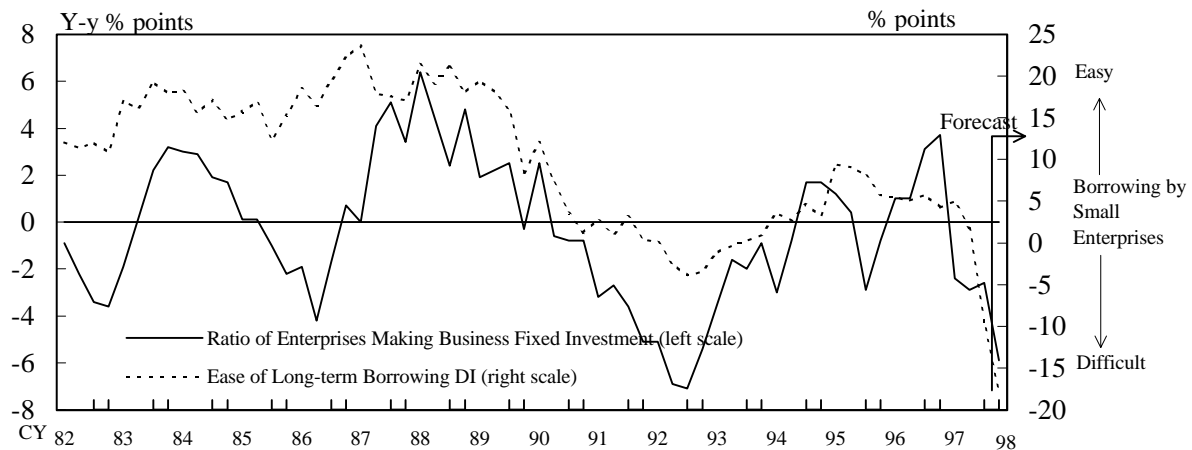
Corporate Finance and Business Fixed Investment

(1) Financial Position DI (*Tankan*)

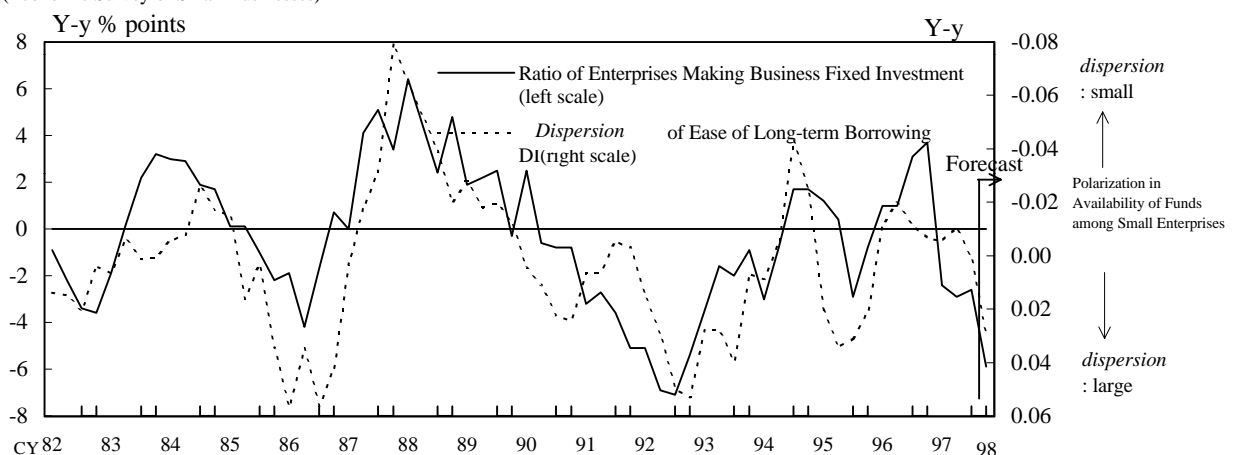


Notes: 1. Shaded areas indicate periods when the official discount rate was on an uptrend.
 2. Small enterprises exclude nonmanufacturing firms prior to May 1983.

(2) Ratio of Enterprises Making Business Fixed Investment and Ease of Long-term Borrowing DI (Economic Survey of Small Businesses)



(3) Ratio of Enterprises Making Business Fixed Investment and Dispersion of Ease of Long-term Borrowing DI (Economic Survey of Small Businesses)



Note: Ease of Long-term Borrowing DI: Change from a year ago, "Easy" - "Difficult."

Dispersion of Ease of Long-term Borrowing DI

$$= 1/(\Phi^{-1}(1-A) - \Phi^{-1}(B)) \times \text{Polarization in Availability of Funds among Small Enterprises}$$

: A = Ratio of enterprises that answered "easy." B = Ratio of enterprises that answered "difficult."

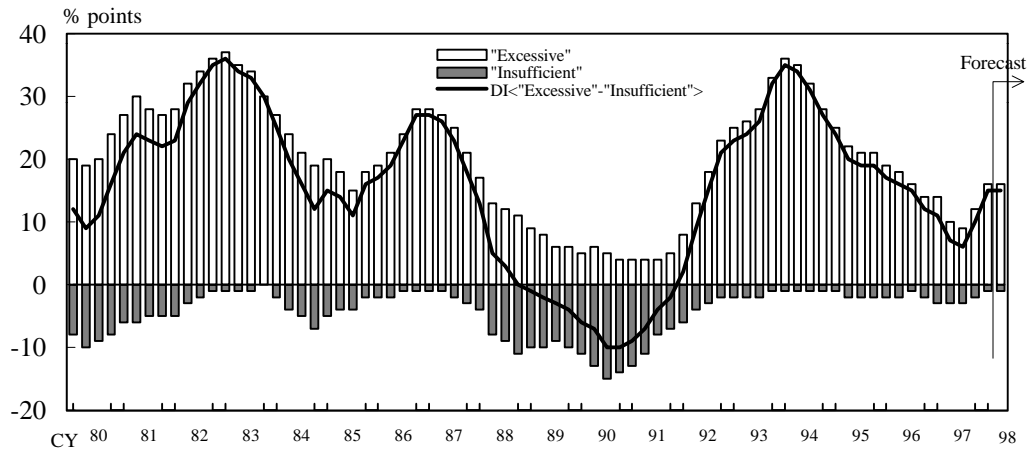
Φ (.) Cumulative Standard Normal Distribution Function. The smaller 'A' or 'B' is, the smaller dispersion will be.

Sources: Bank of Japan, "*Tankan* – Short-Term Economic Survey of Enterprises";

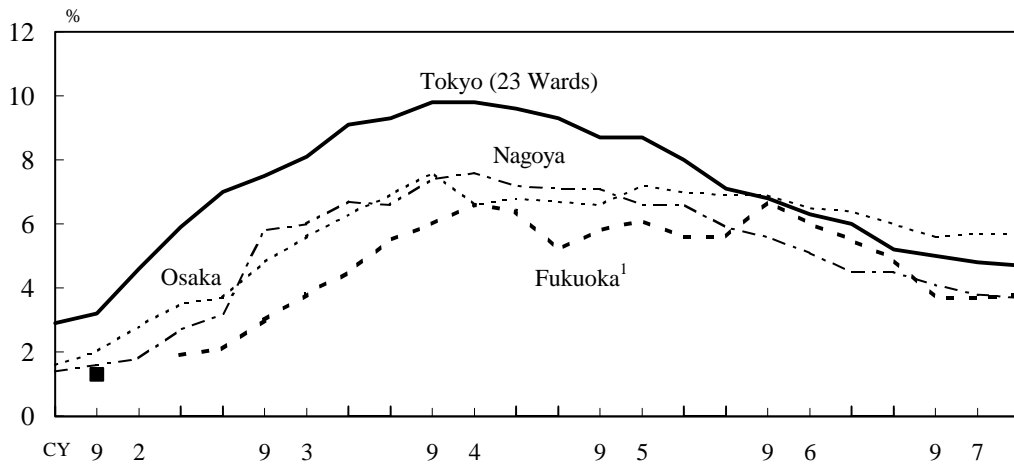
Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses."

Production Capacity and Capital Stock Adjustment

(1) Production Capacity DI (Principal Enterprises, Manufacturing Industries)

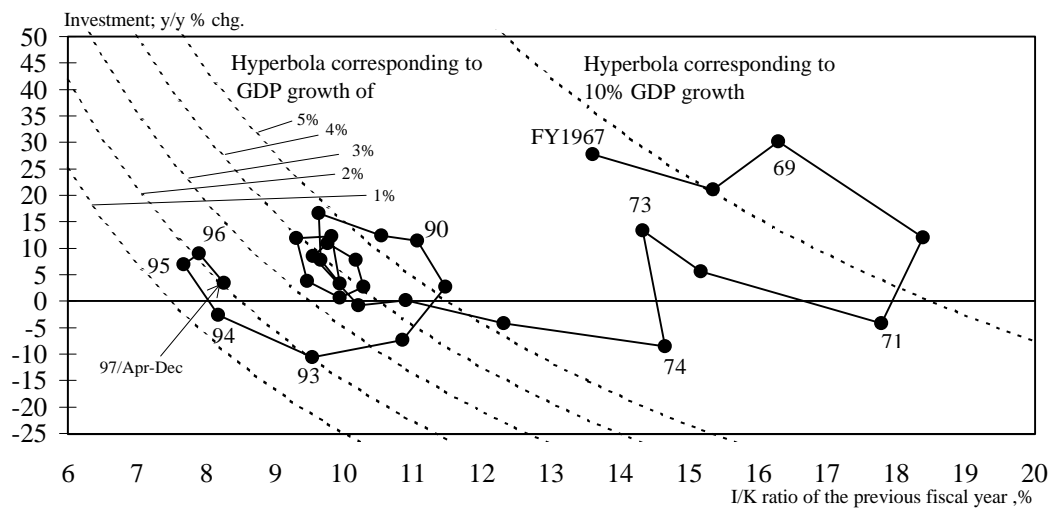


(2) Office Vacancy Rates in Major Cities



Note: 1. Data for Fukuoka in 1992 were surveyed in Q2 (June) and Q4 (December).

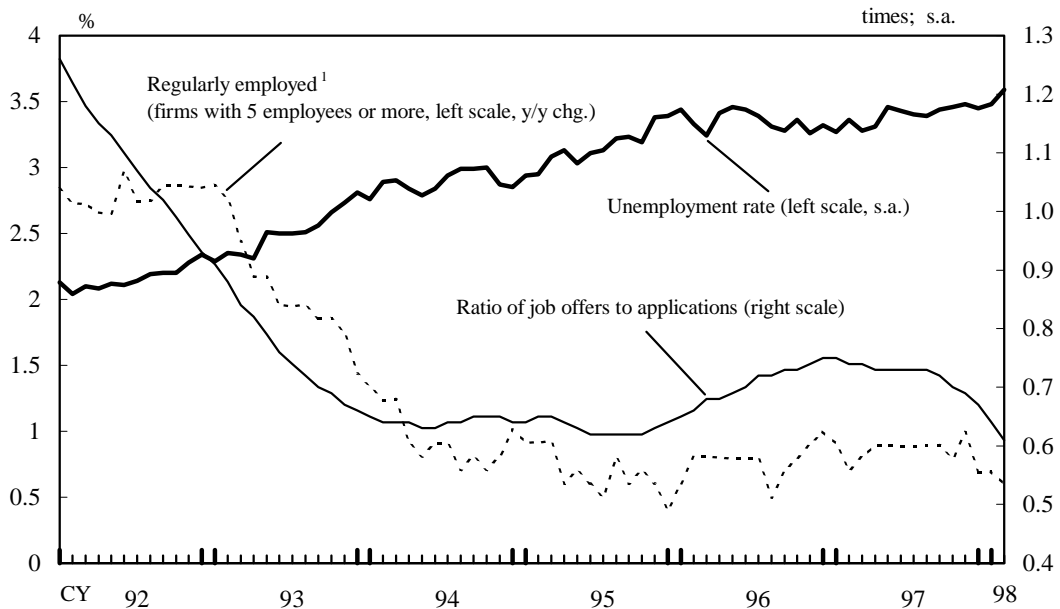
(3) Capital Stock Cycle (All Industries)



Sources: Bank of Japan, "Tankan — Short-Term Economic Survey of Enterprises";
 Ikoma Data Service System Inc., "Office Market Report";
 Economic Planning Agency, "Gross Capital Stock of Private Enterprises", "National Income Statistics"

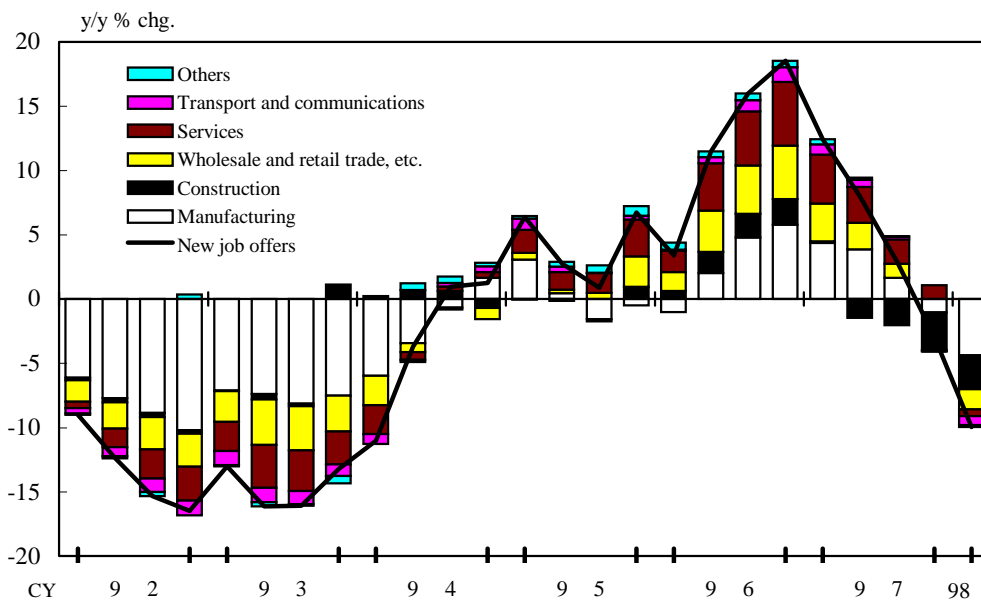
Labor

(1) Monthly



Note: 1. The data in Feb. 98 are preliminary.

(2) New job offers¹

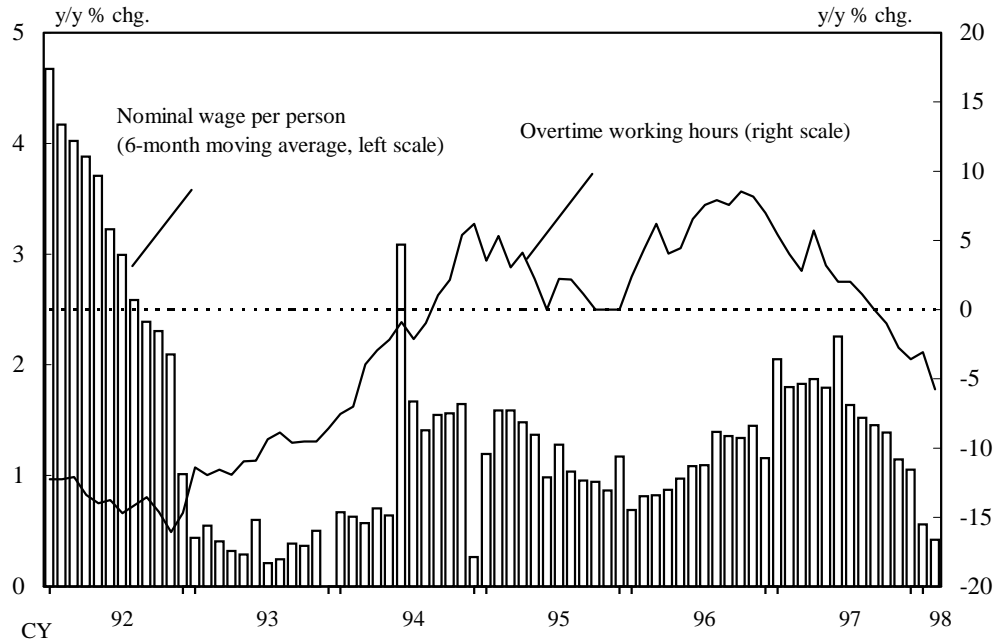


Note: 1. Excludes jobs offered to new graduates.
The data in 98/Q1 are those of Jan. to Feb. 98.

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

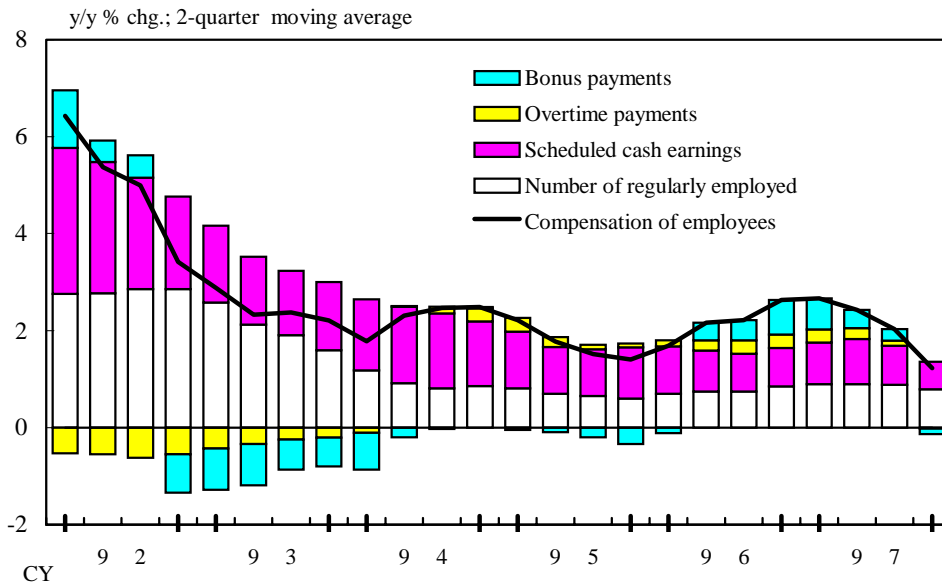
Compensation of Employees

(1) Nominal Wage per Person ¹



Note: 1. Data for firms with 5 employees or more.
The data in Feb. 98 are preliminary.

(2) Breakdown of Compensation ¹

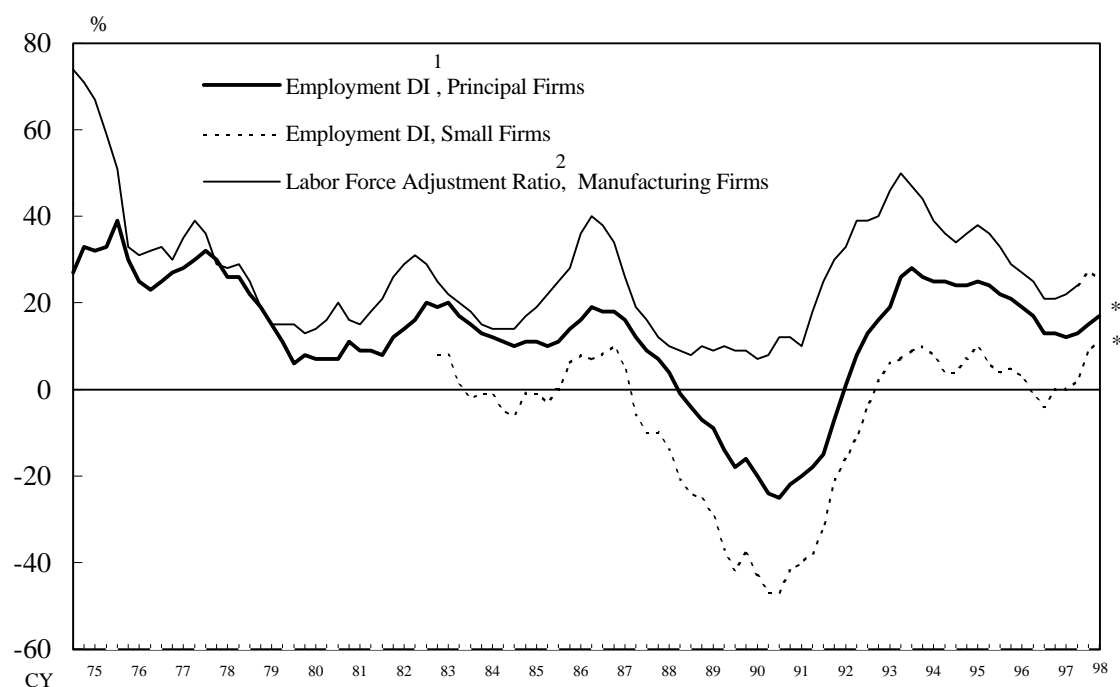


Note: 1. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.
Data for firms with 5 employees or more.
The data in Feb. 98 are preliminary.

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

Adjustment Pressures on Employment

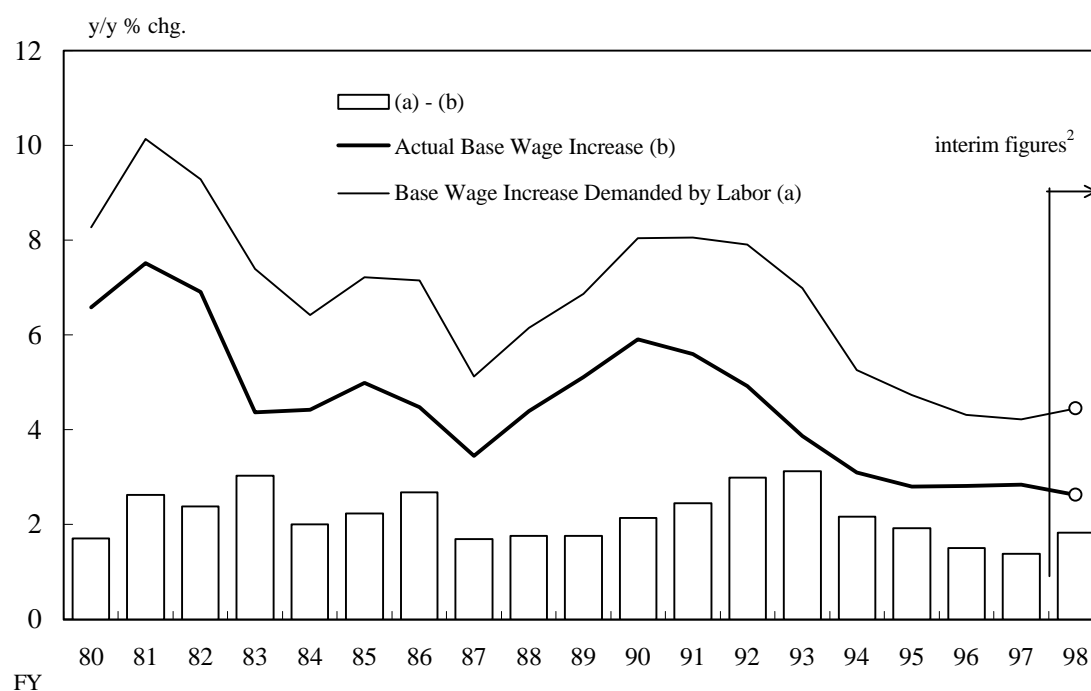
(1) Adjustment Pressures on Employment



Notes: 1. Employment DI = "Excessive" - "Insufficient".

The data for 98/Q2(*) are the forecasts of the firms.

2. Labor Force Adjustment Ratio = Number of firms that implemented labor force adjustments / number of surveyed firms. The data after 98/Q1 (dotted line) are the plans of the firms.

(2) Annual Wage Increase Negotiations¹ (*Nikkeiren* Survey)

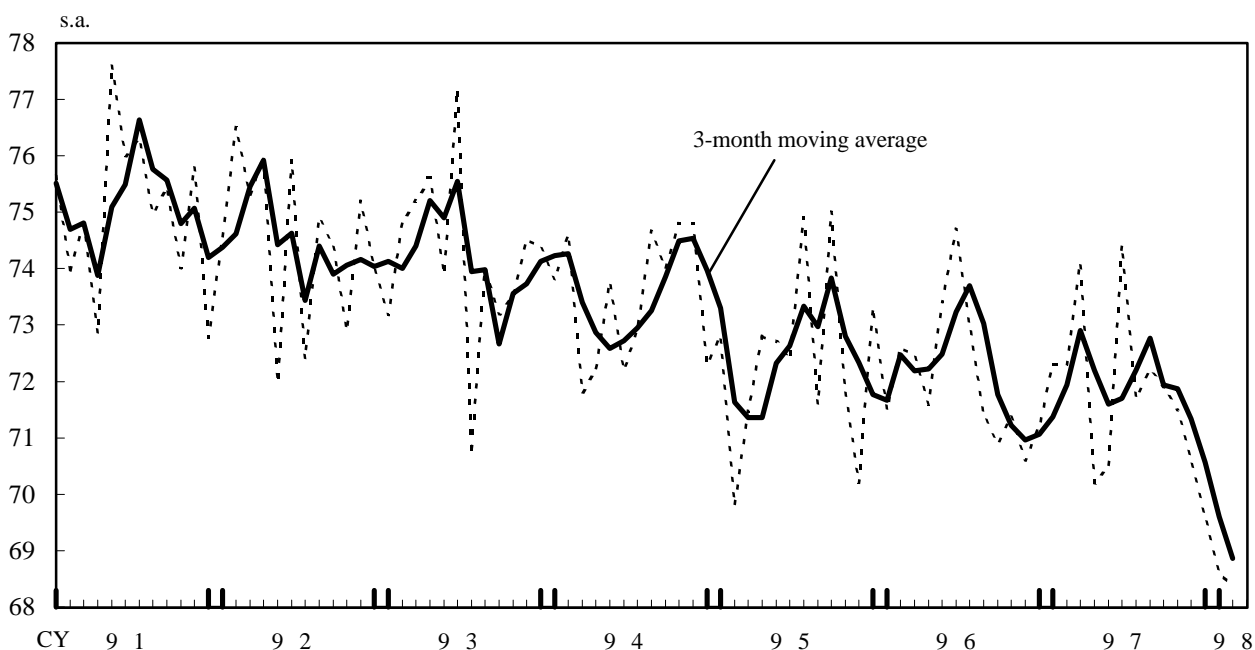
Notes: 1. The data are based on a survey conducted by the Japan Federation of Employers' Associations (*Nikkeiren*), covering principal firms.

2. For interim figures, "base wage increase demanded by labor" is as of March 10, and "actual base wage increase" is as of March 31.

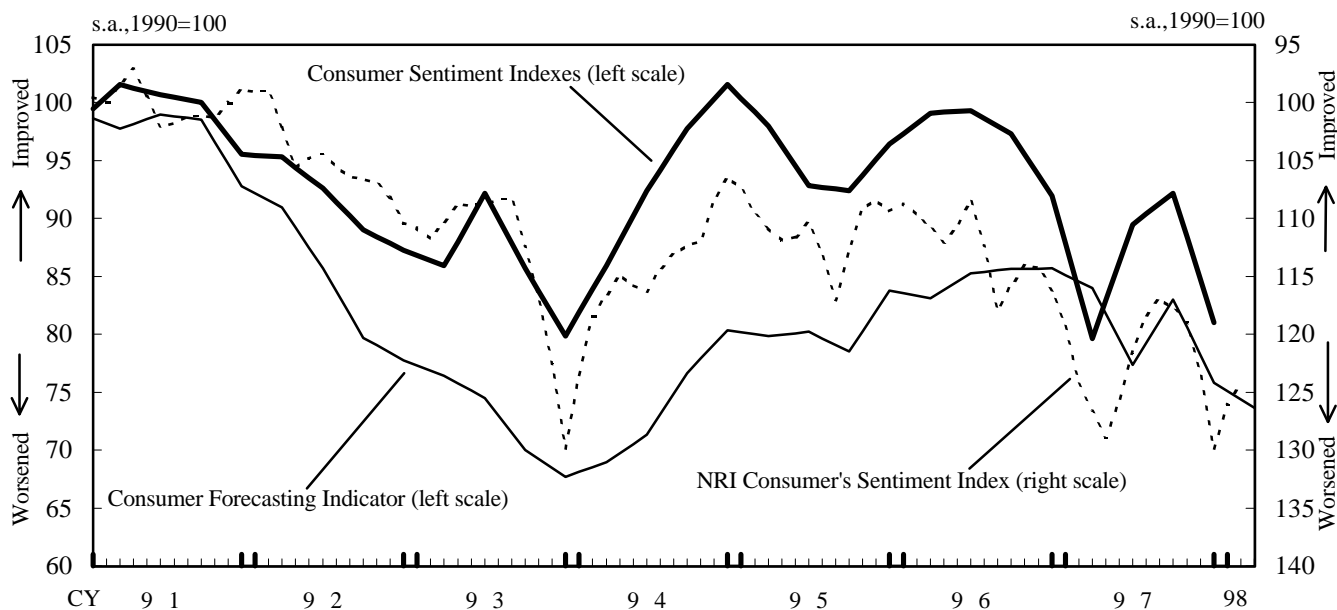
Sources: Ministry of Labor, "Result of Survey on Labor Economic Trends"; Bank of Japan, "*Tankan* Short-Term Economic Survey of Enterprises"; Japan Federation of Employers' Associations, "Labor News", etc.

Propensity to consume and Consumer Confidence

(1) Propensity to consume (Family Income and Expenditure Survey)



(2) Surveys on consumer confidence



Notes: 1. Consumer Sentiment Indexes, Consumer Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.

2. Data are plotted at the months of each survey.

3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumer Forecasting Indicator" by NIKKEI RIM, "NRI Consumer's Sentiment Index" by NRI.

Sources: Economic Planning Agency, "Consumer Behavior Survey";

Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator";

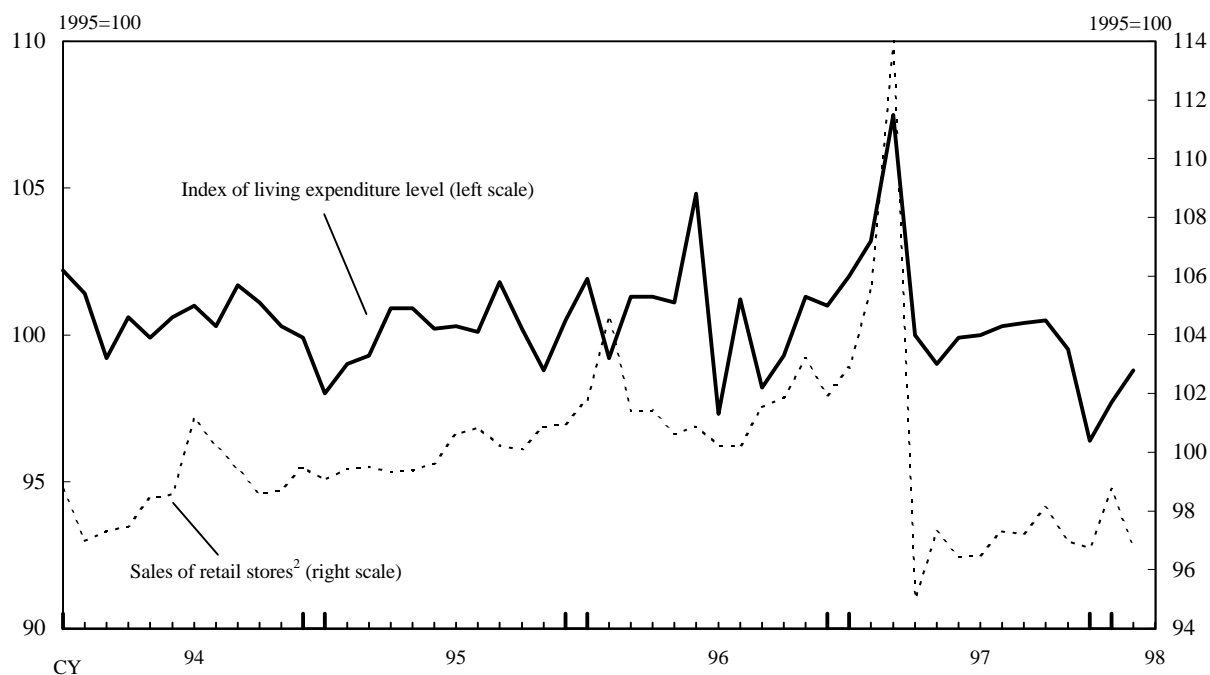
Management and Coordination Agency, "Monthly Report on the Family Income and

Expenditure Survey";

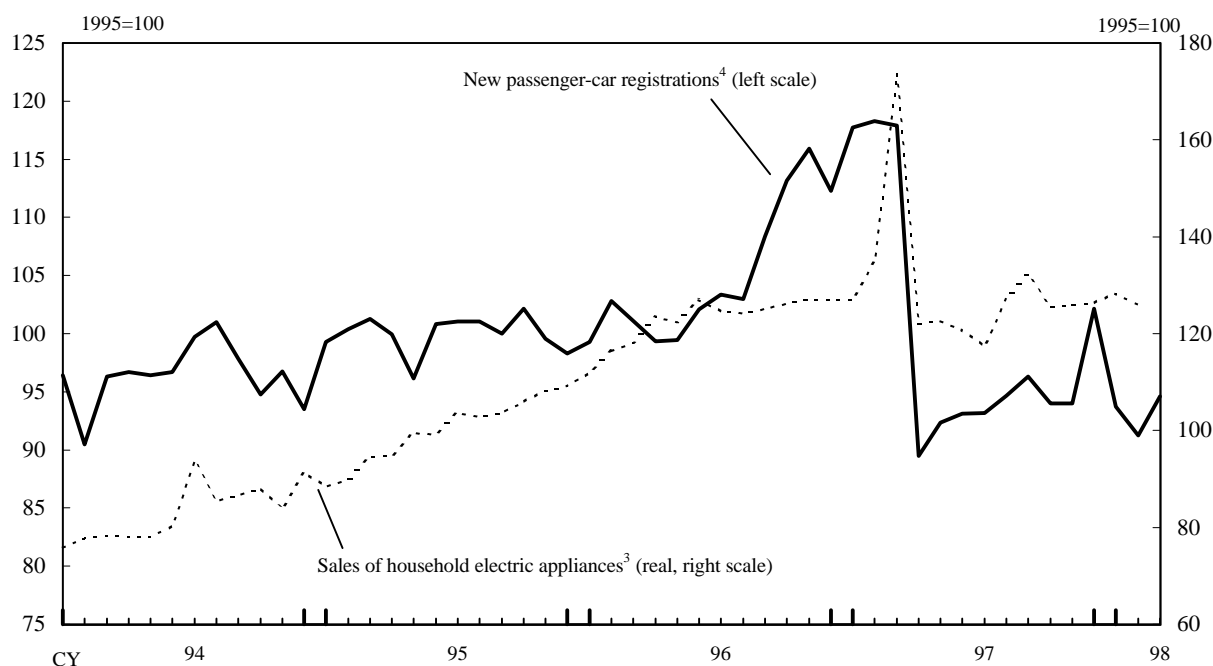
Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

Private Consumption¹ (1)

(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.

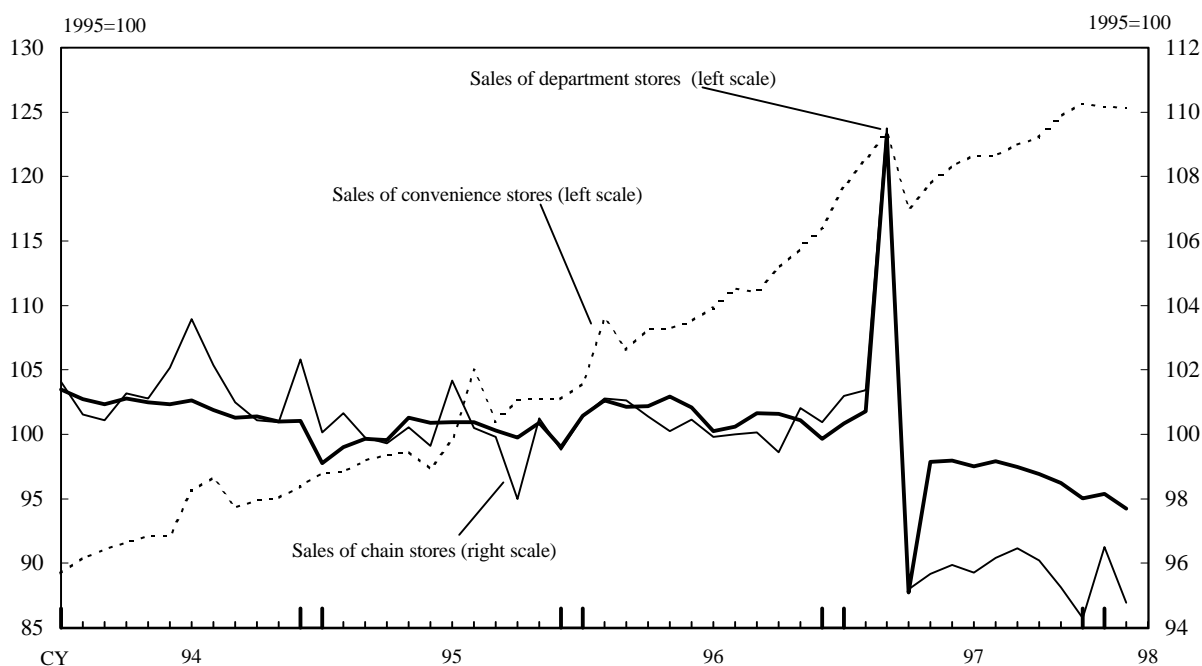
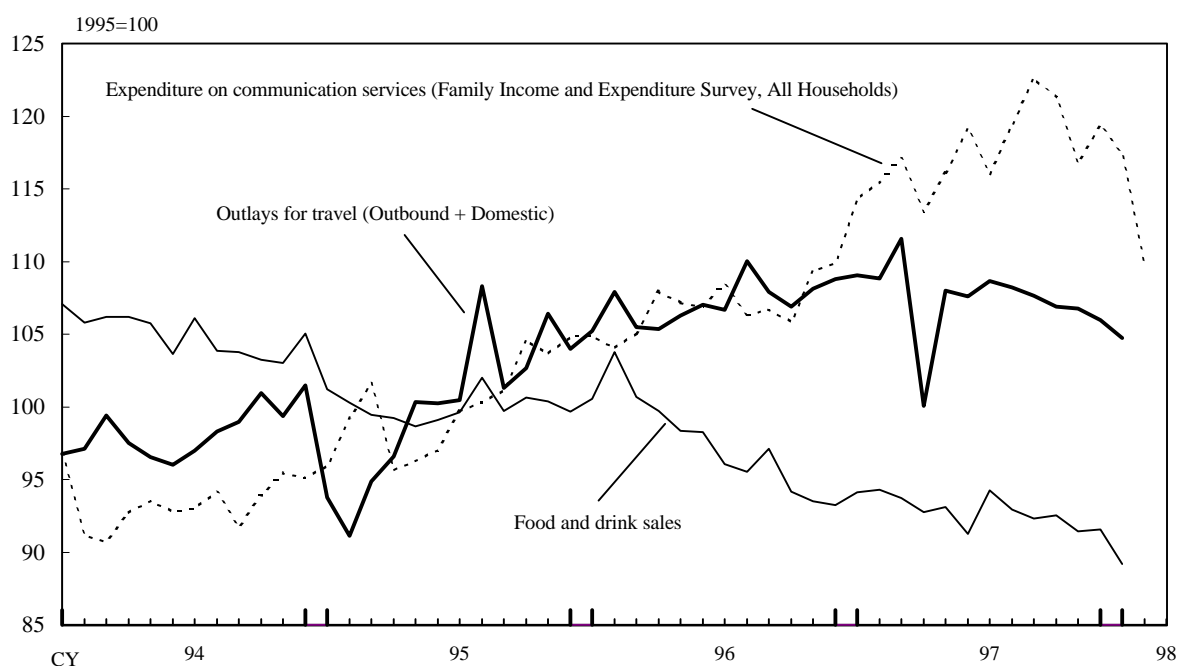
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey"; "Consumer Price Index";

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 (2)(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";

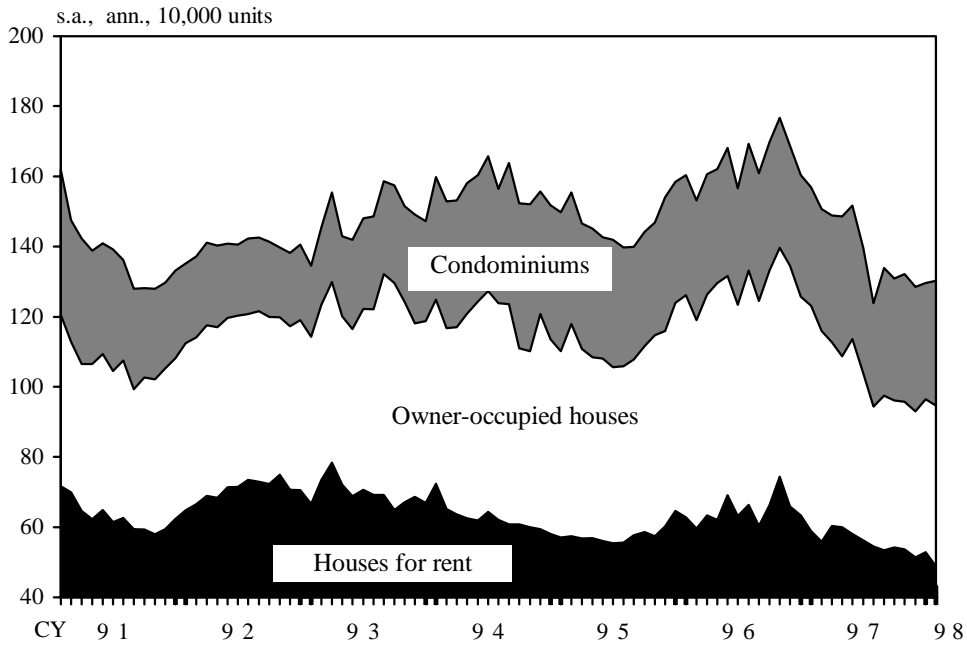
Japan Chain Stores Association, "Sales of Chain Stores";

Ministry of Transport, "Major Travel Agents' Revenue";

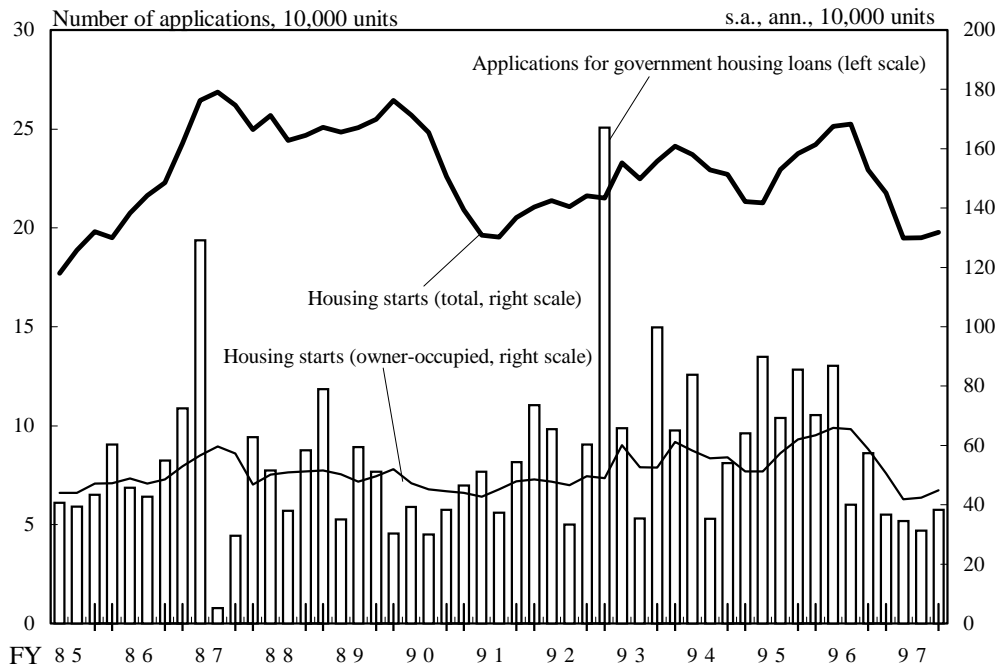
Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales."

Housing Starts

(1) Housing starts (monthly)



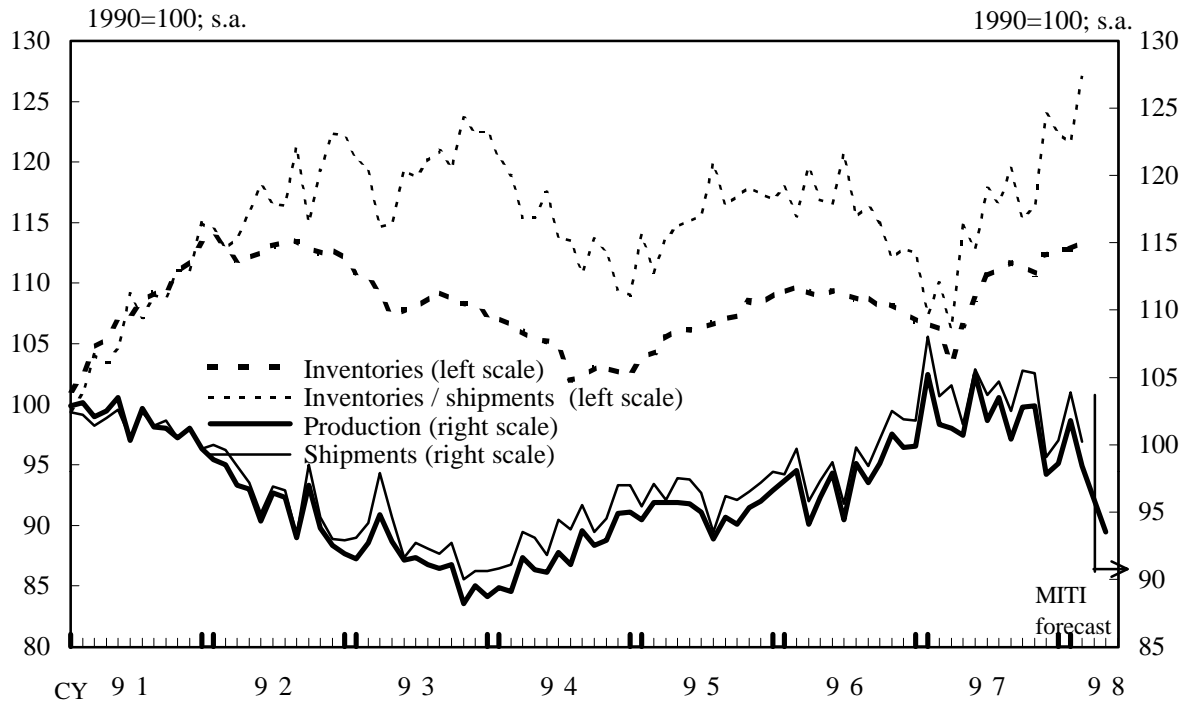
(2) Number of applications for government housing loan (for new owner-occupied homes)



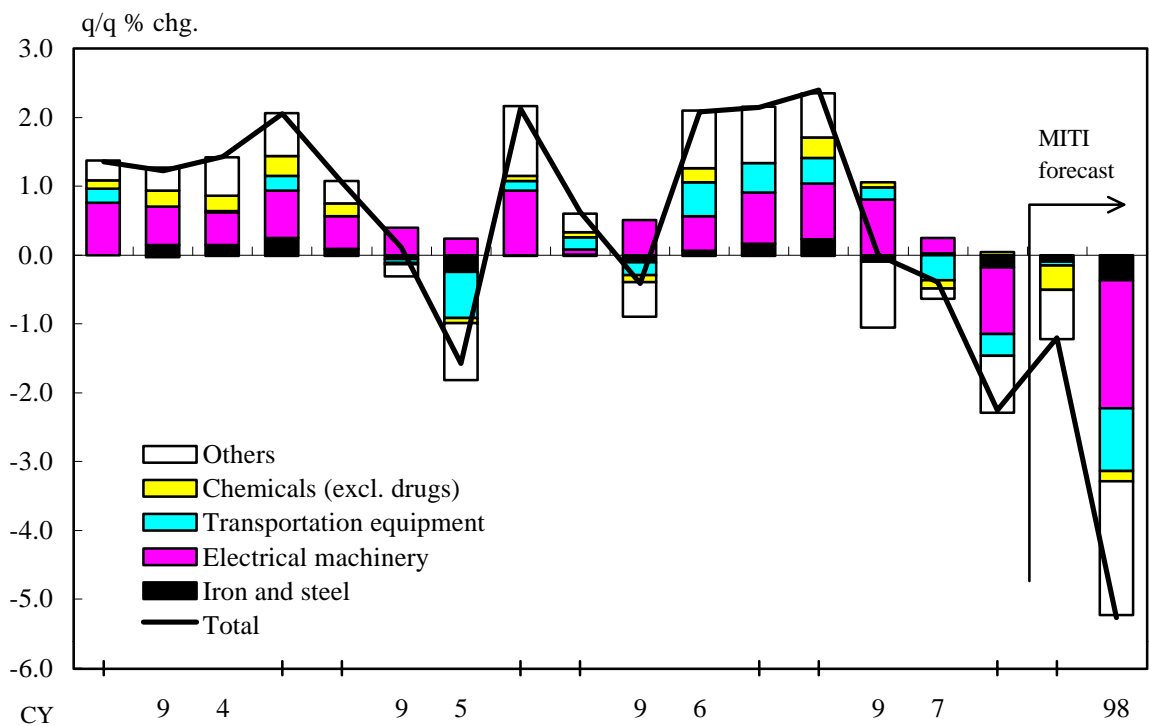
Note: The data for 98/Q1 are January-February averages converted into an annual equivalent.
 Source: Ministry of Construction, "Monthly of Construction Statistics", etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



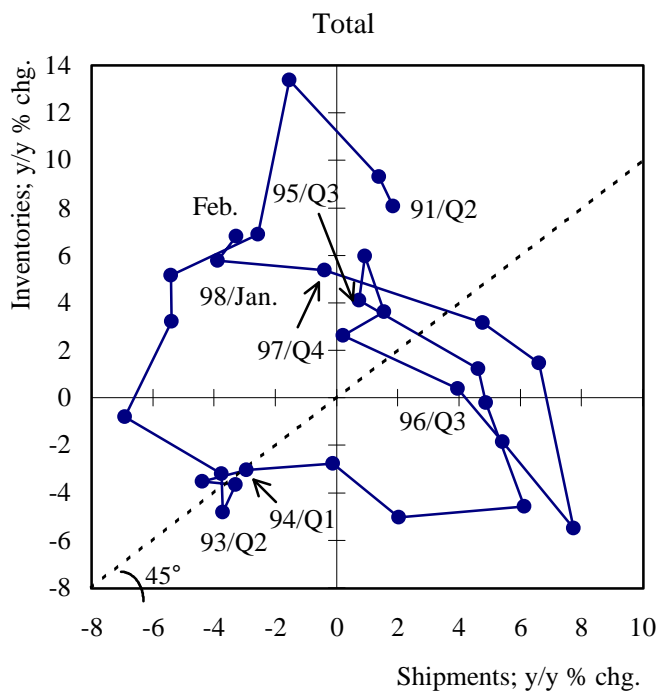
(2) Production by Industries



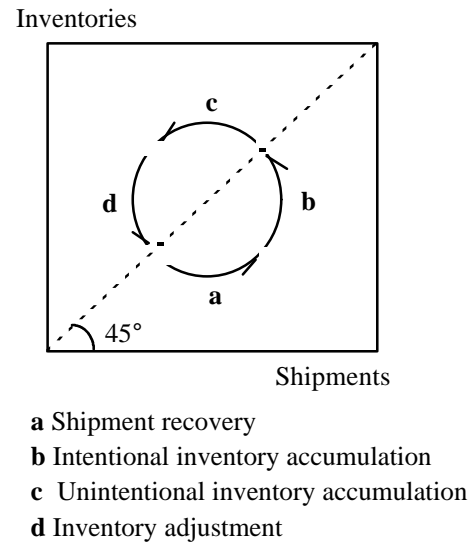
Note: Transportation equipment excludes ships and rolling stock.

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

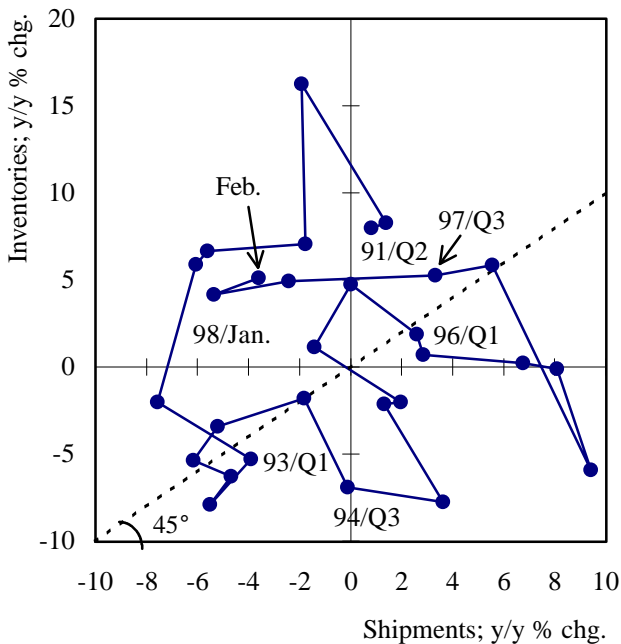
Inventory Cycle



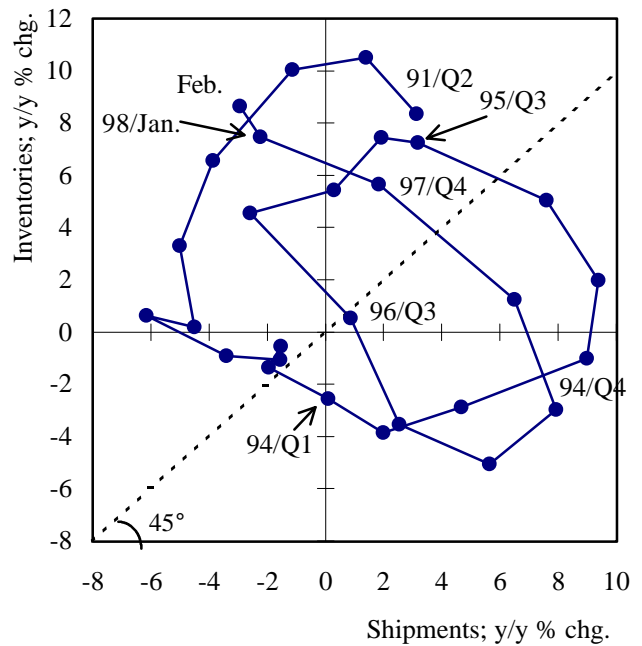
Phases in the Inventory Cycle



Final Demand Goods



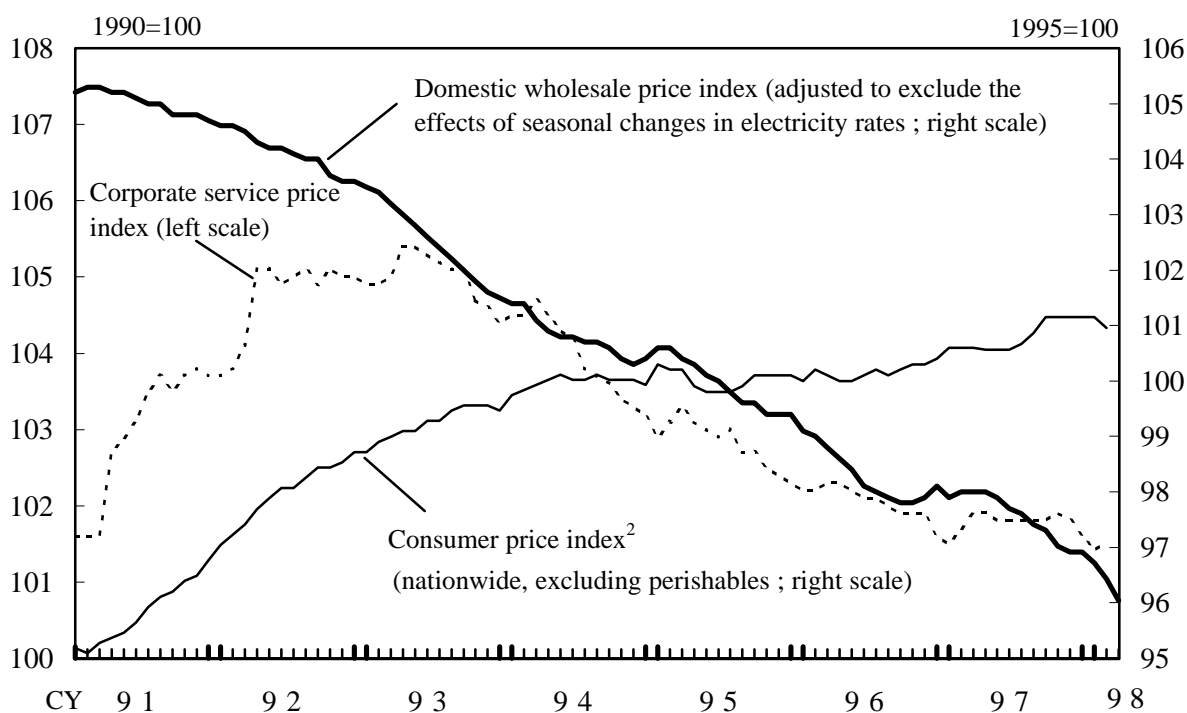
Production Goods



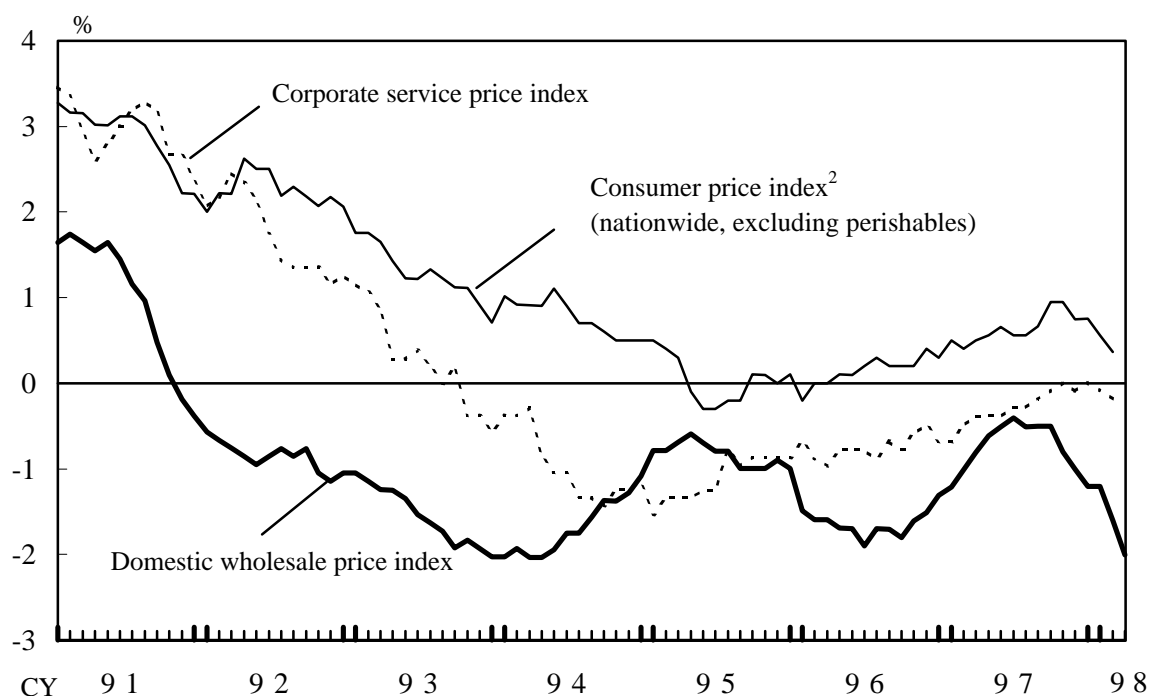
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Prices

(1) Level



(2) Changes from a year earlier



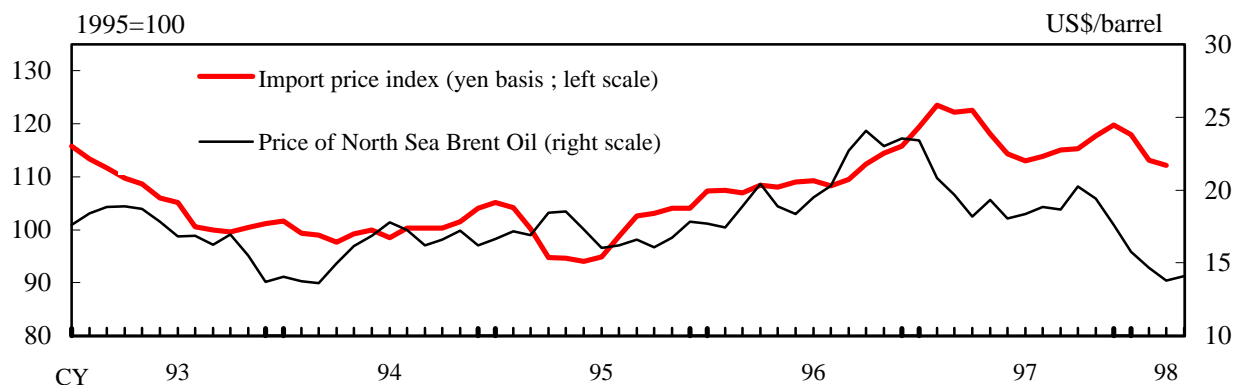
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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.

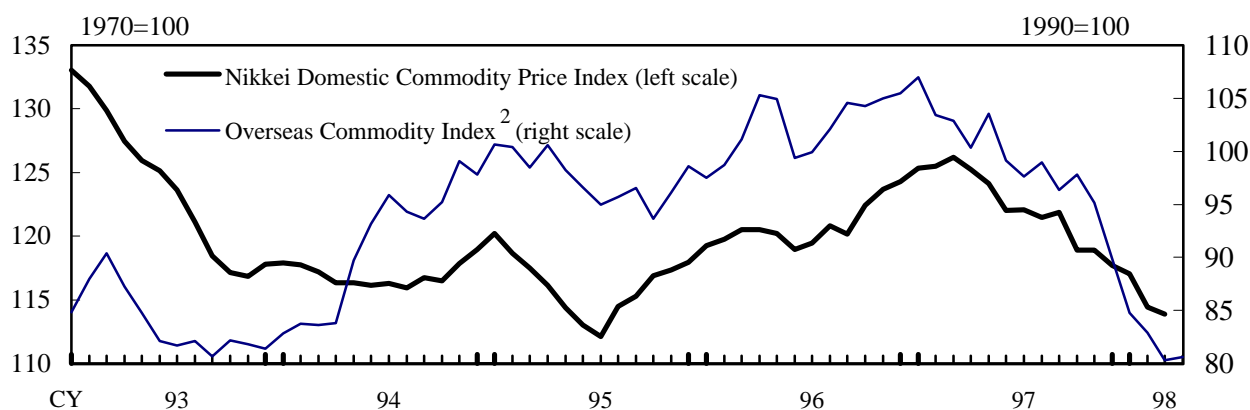
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

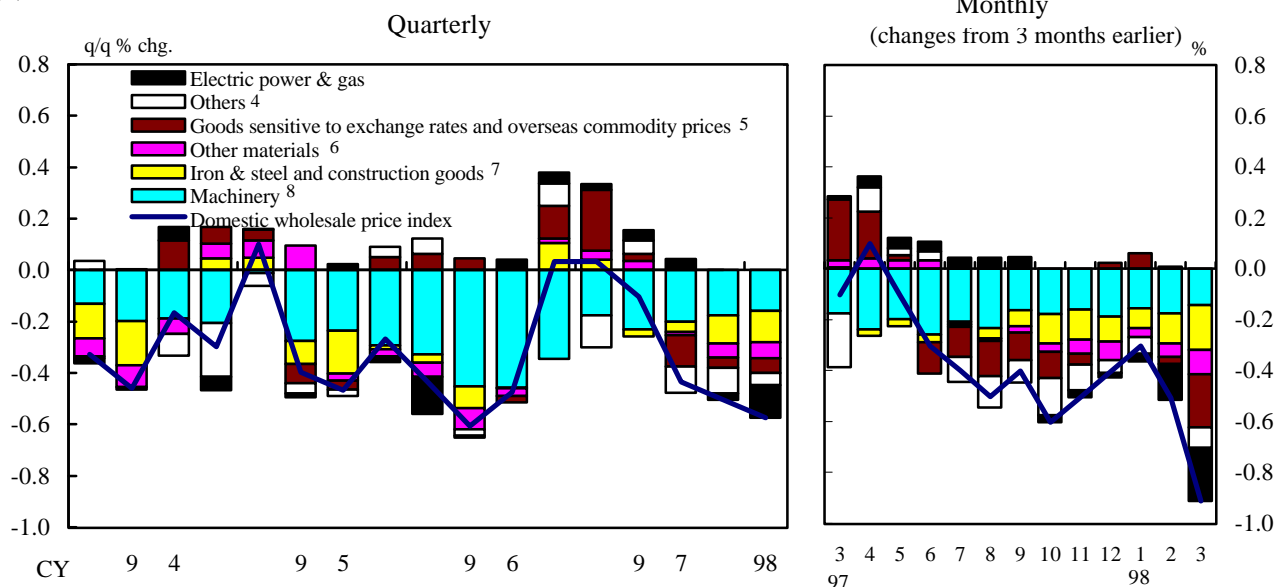
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market

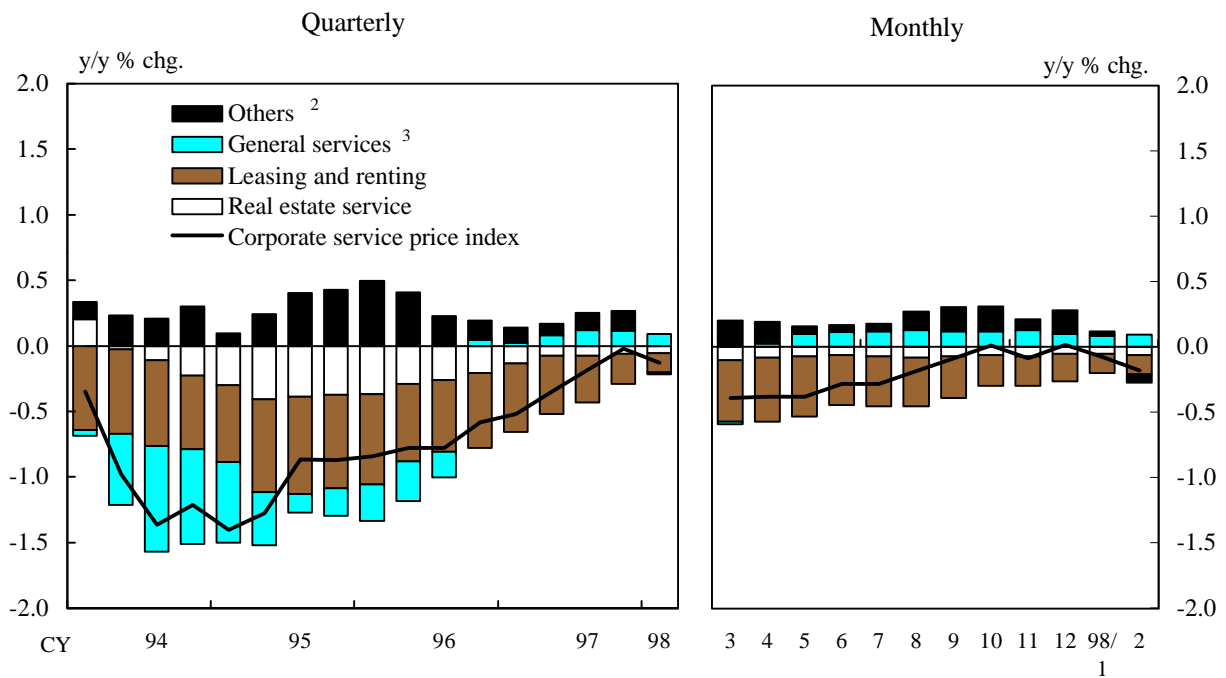
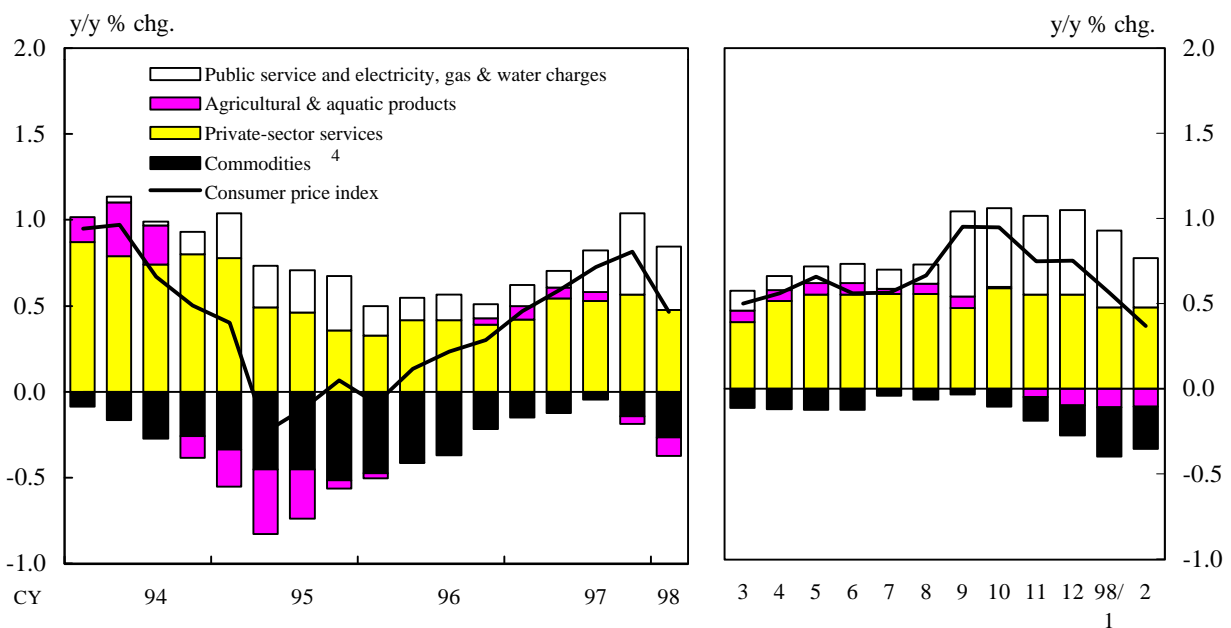


(3) Breakdown of Domestic Wholesale Price Index³



- Notes: 1. Data for April 1998 is April 1-8 average.
 2. Calculated by the Research and Statistics Department, Bank of Japan. Data for April 1998 is April 1-8 average.
 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 Chousa 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 Price Index¹(2) Breakdown of Consumer Price Index (excluding perishables)¹

Notes: 1. Adjusted to exclude 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.

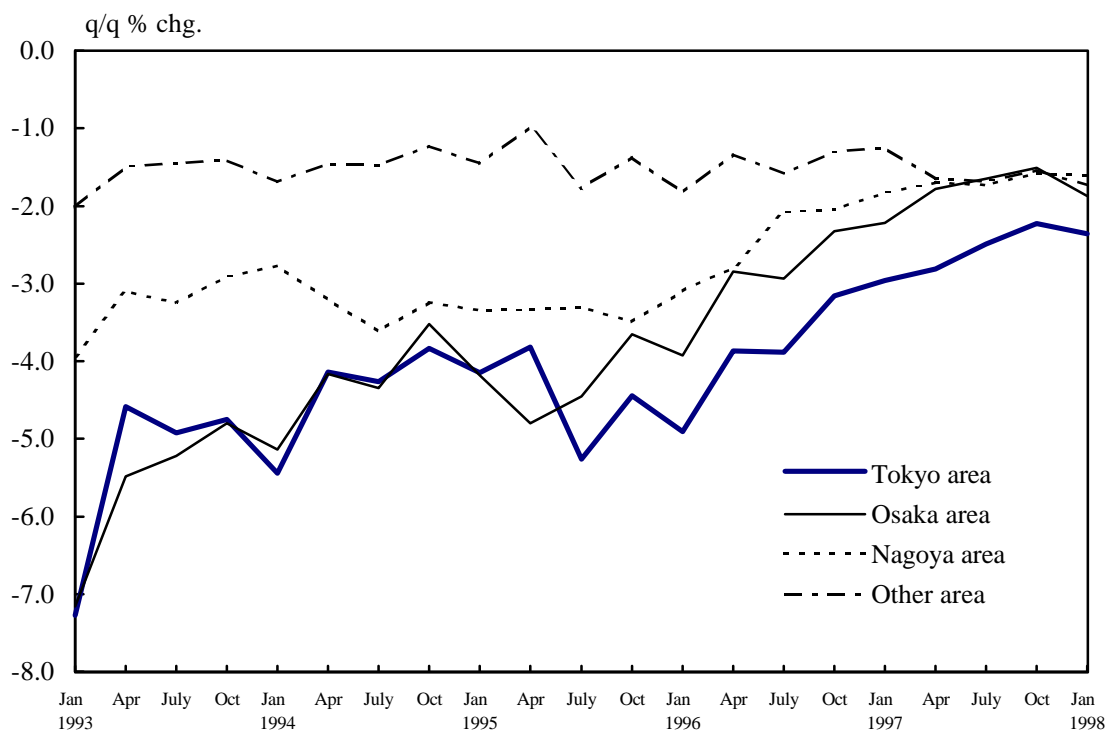
Data for 98/Q1 are January - February average.

- 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.
- General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").
- Excludes agricultural and aquatic products.

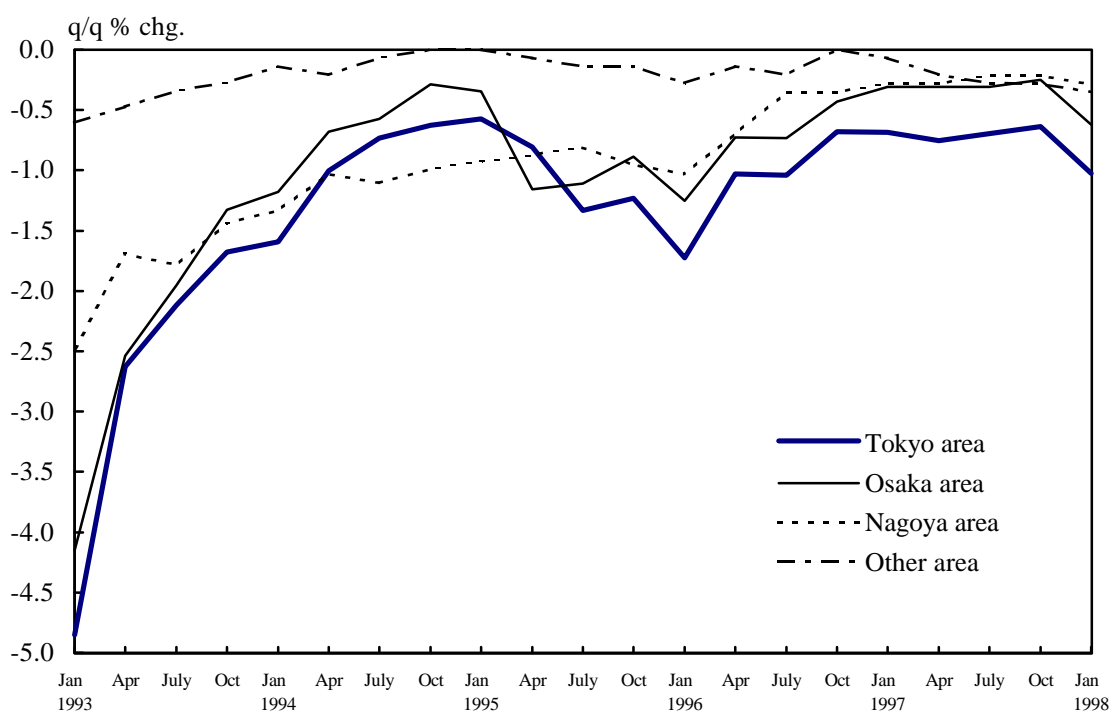
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Quarterly Land Price Index¹

(1) Commercial land



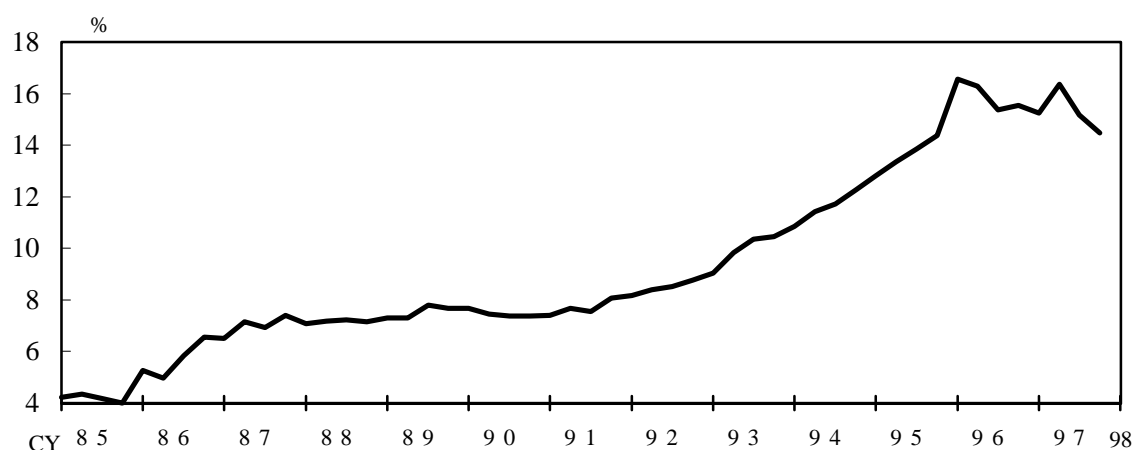
(2) Residential land



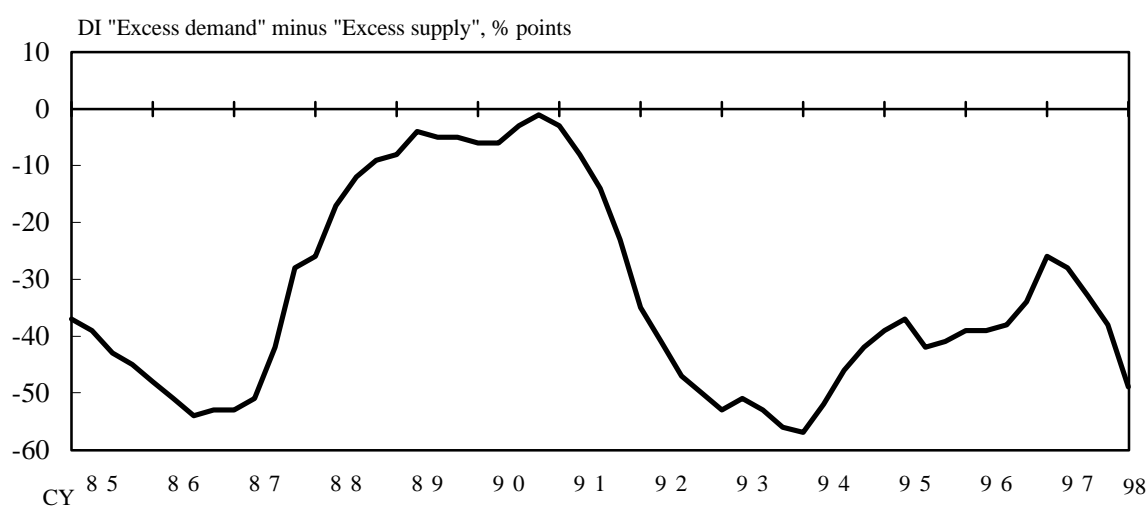
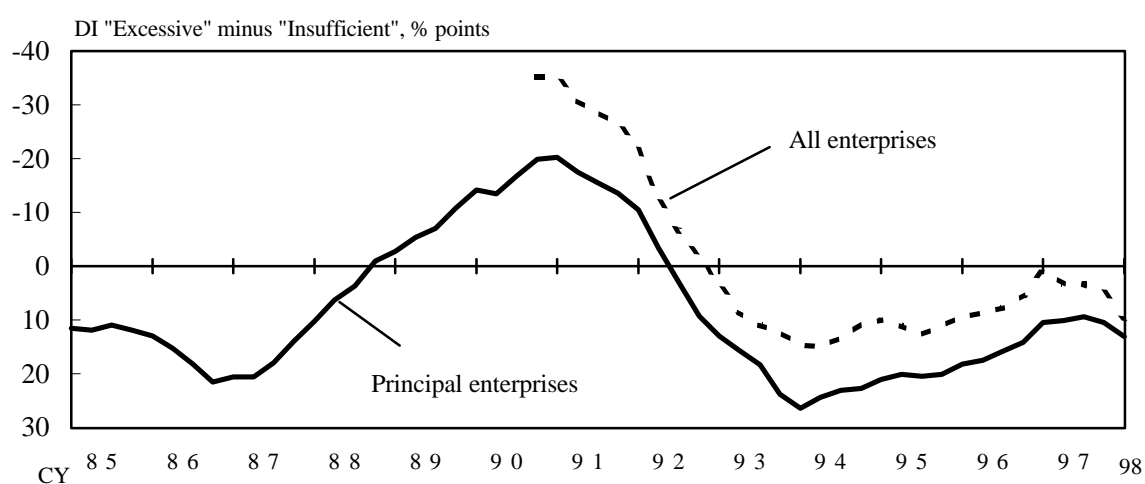
Note: 1. The data after Apr. 97 are preliminary.

Source: The Land Institute of Japan, "A Quarterly Land Price Index."

Factors Contributing to the Change in Prices

(1) Import Penetration Ratio¹ of Final Goods

(2) Supply and Demand Conditions for Products (All Enterprises, Manufacturing)

(3) Utilization of Capital and Labor²

Notes: 1. Import penetration ratio = imports / (shipments for domestic markets + imports) * 100.

2. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1975-96 average.

Production Capacity DI and Employment DI are calculated as "excessive" minus "insufficient".

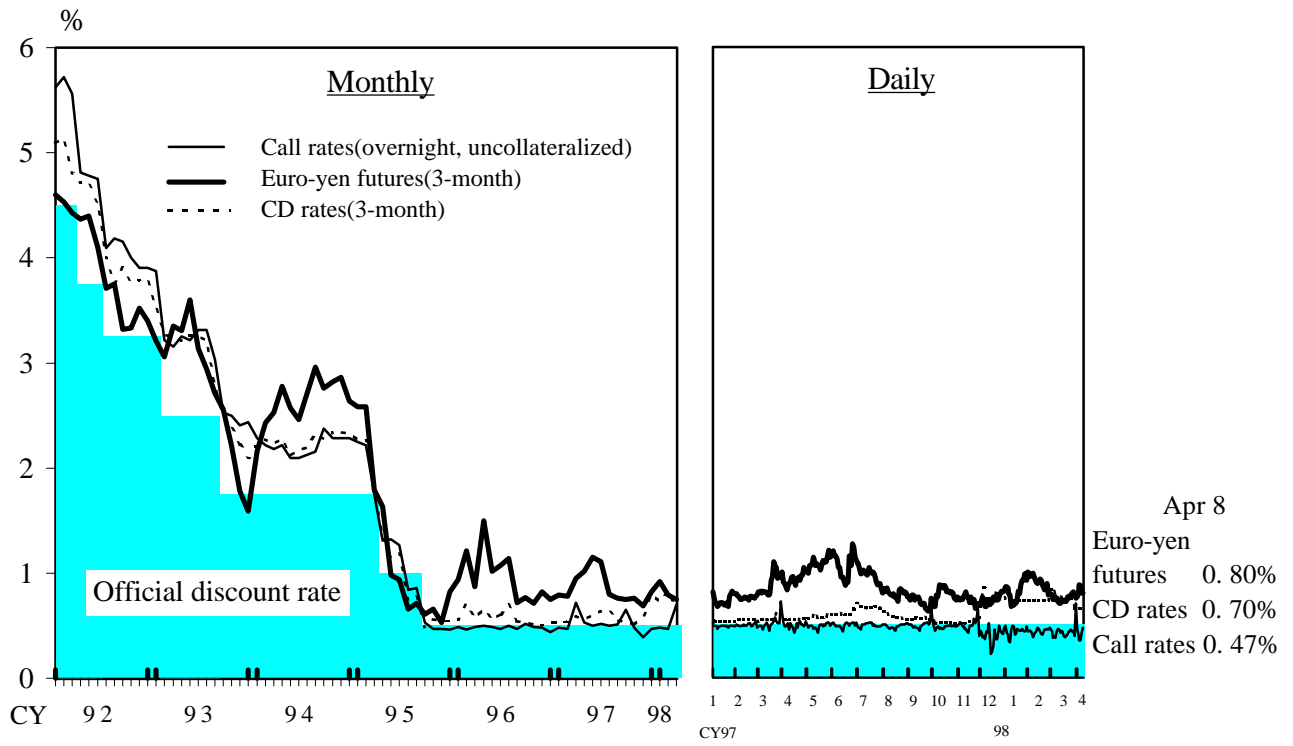
Sources: Ministry of International Trade and Industry, "Indices of Industrial Production";

Economic Planning Agency, "National Income Statistics";

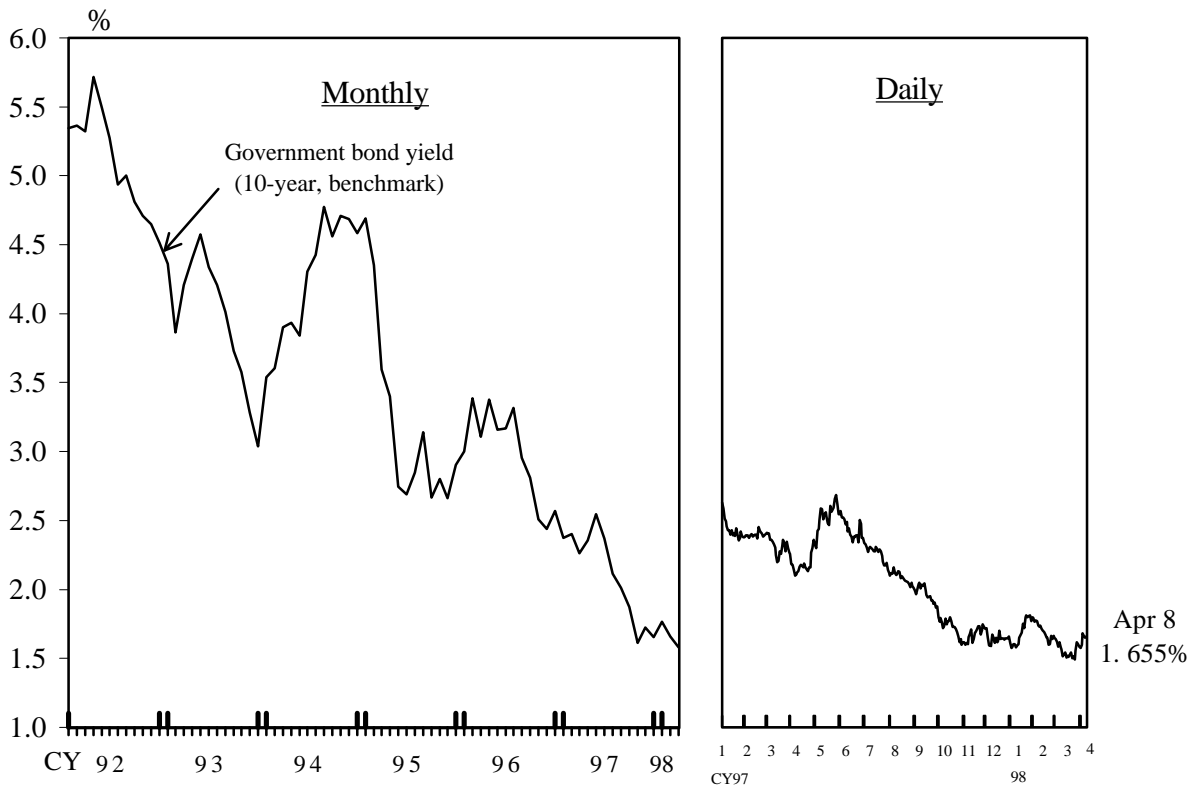
Bank of Japan, "Tankan-Short-Term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



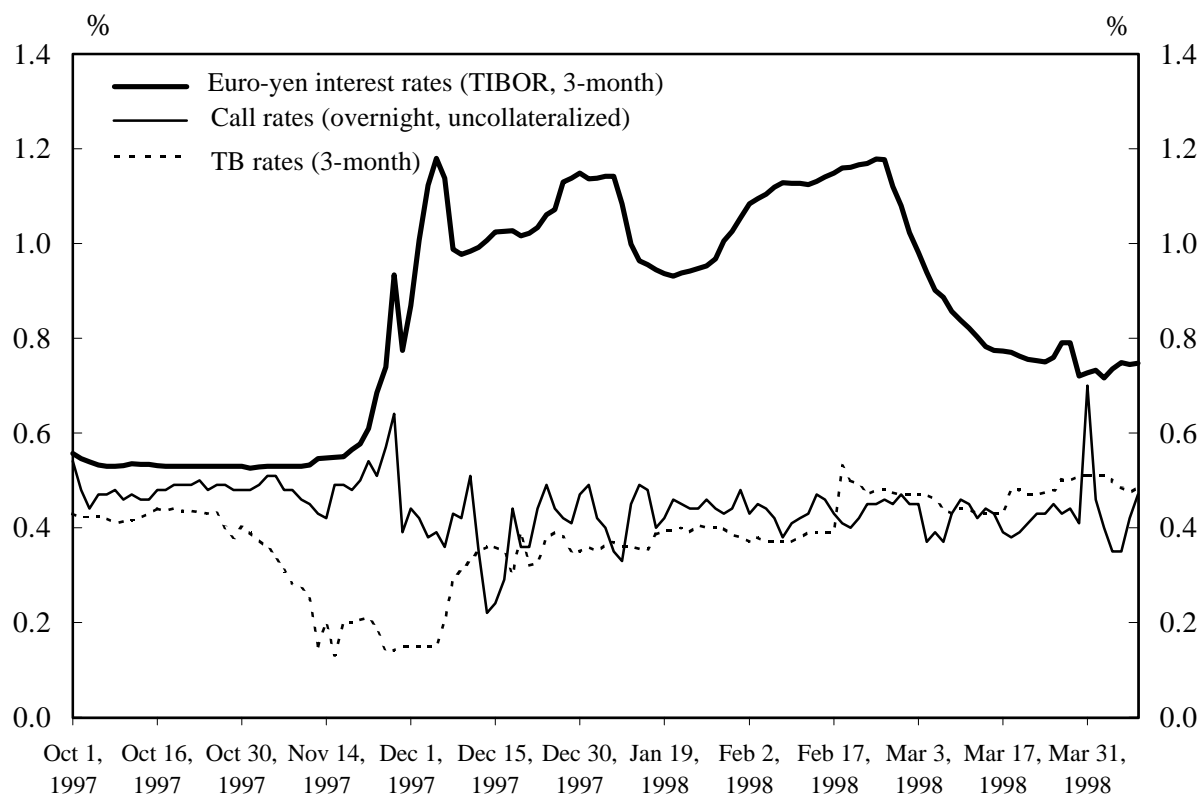
(2) Long-Term



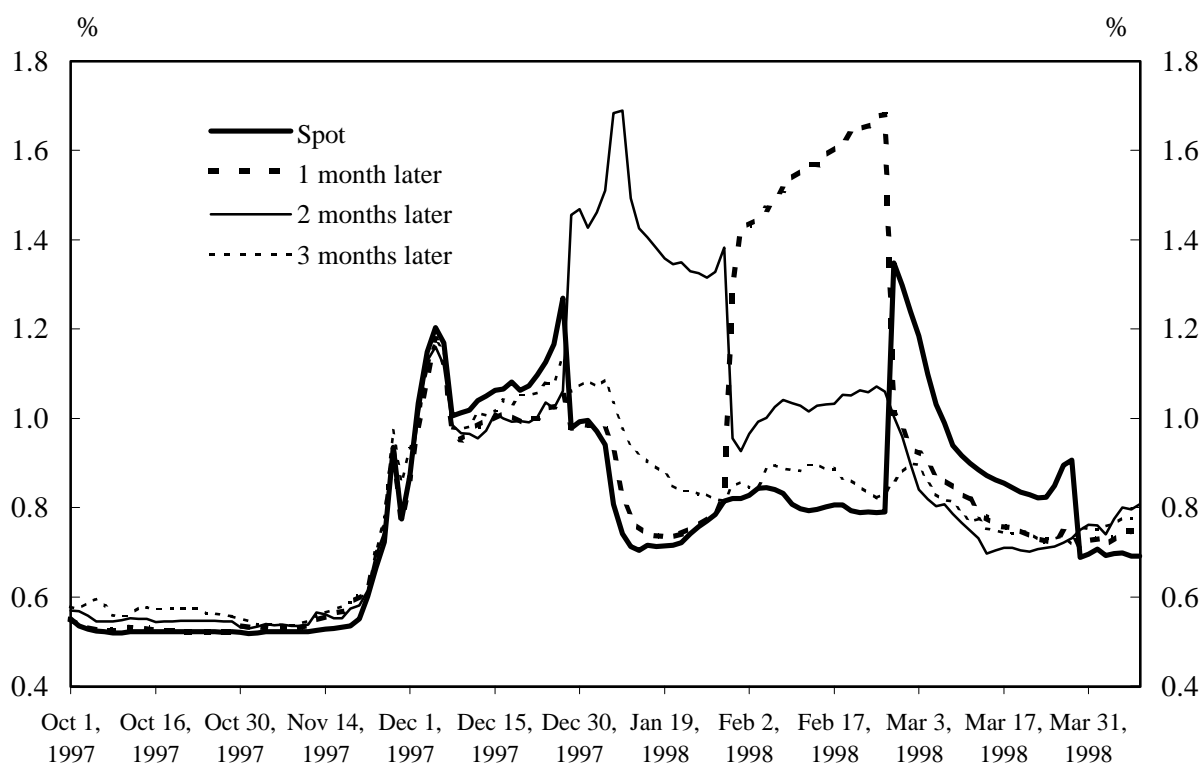
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

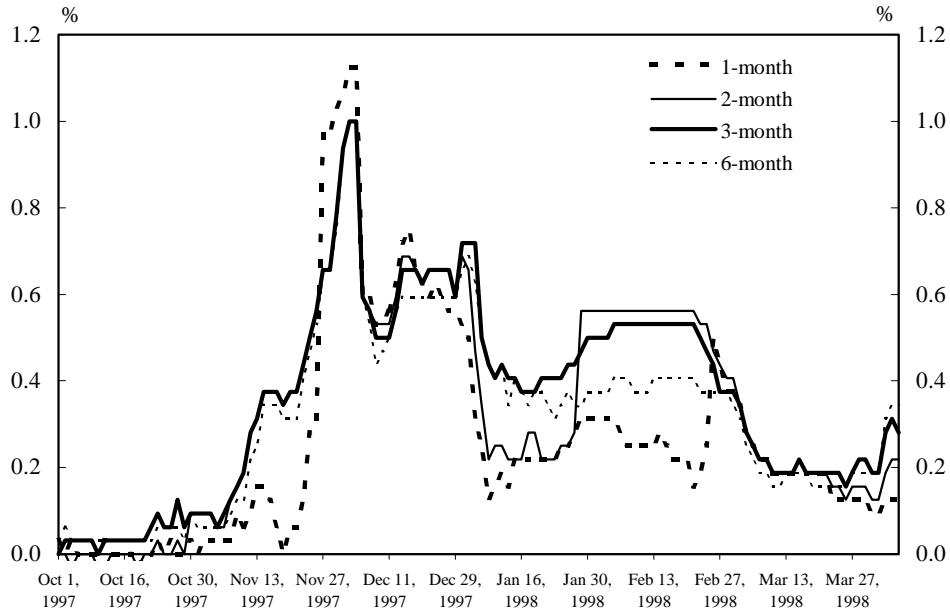


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



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

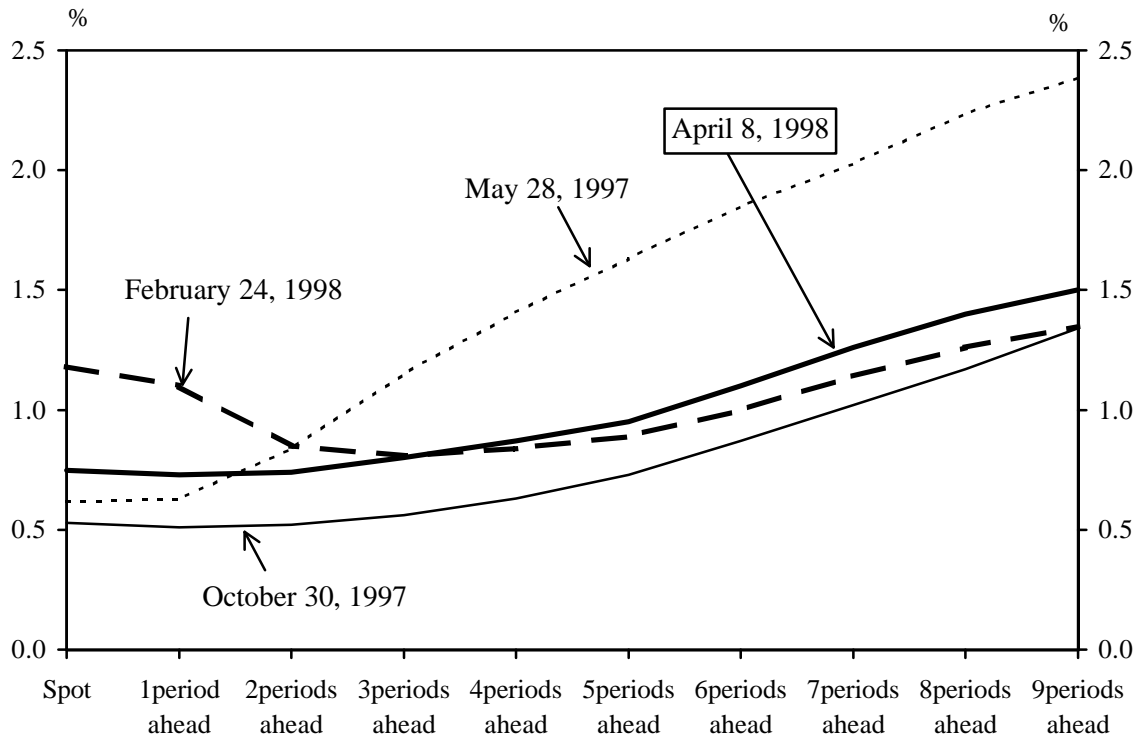
Japan Premium in the Eurodollar Market



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).

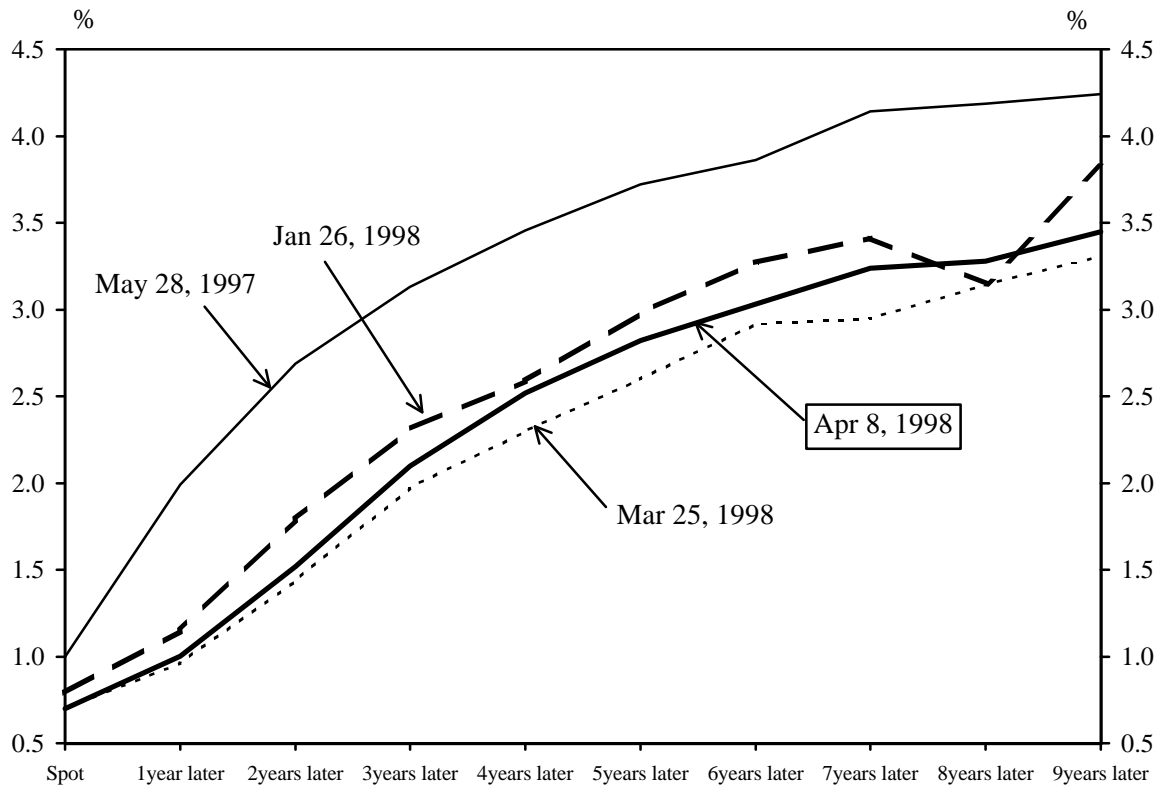
Source: *British Bankers' Association* (BBA).

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

Implied Forward Rates (1-year)

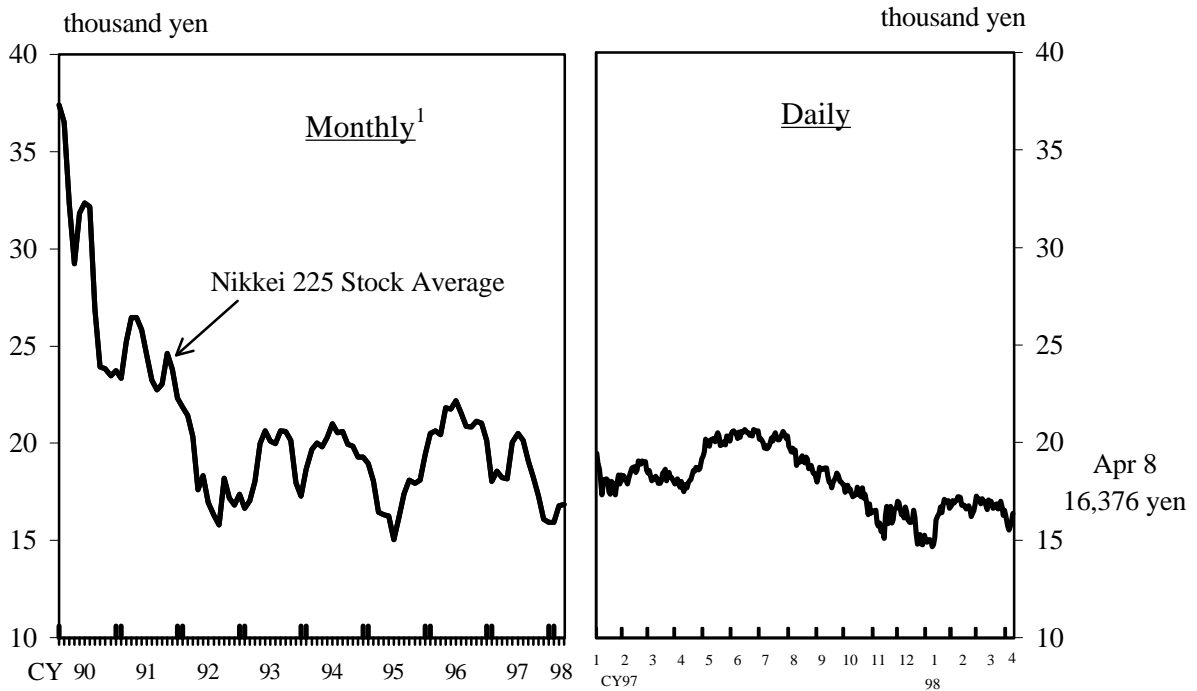


Note: Calculated from yen-yen swap rates.

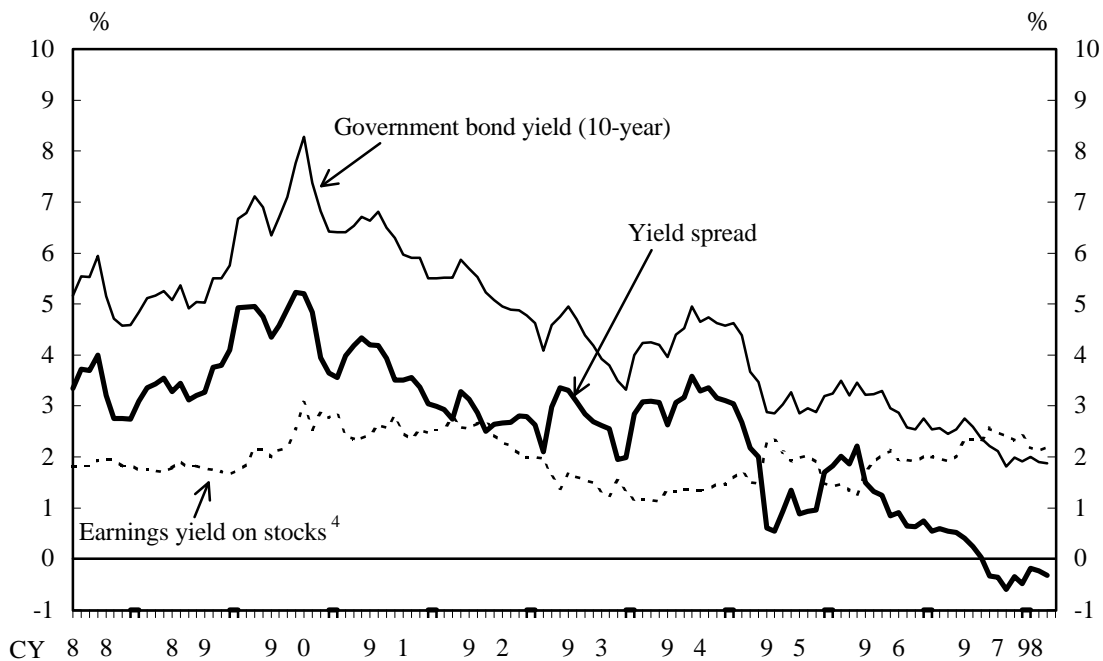
Source: *The Nikkei Financial Daily*.

Stock Prices

(1) Stock prices



(2) Yield Spread^{2,3}

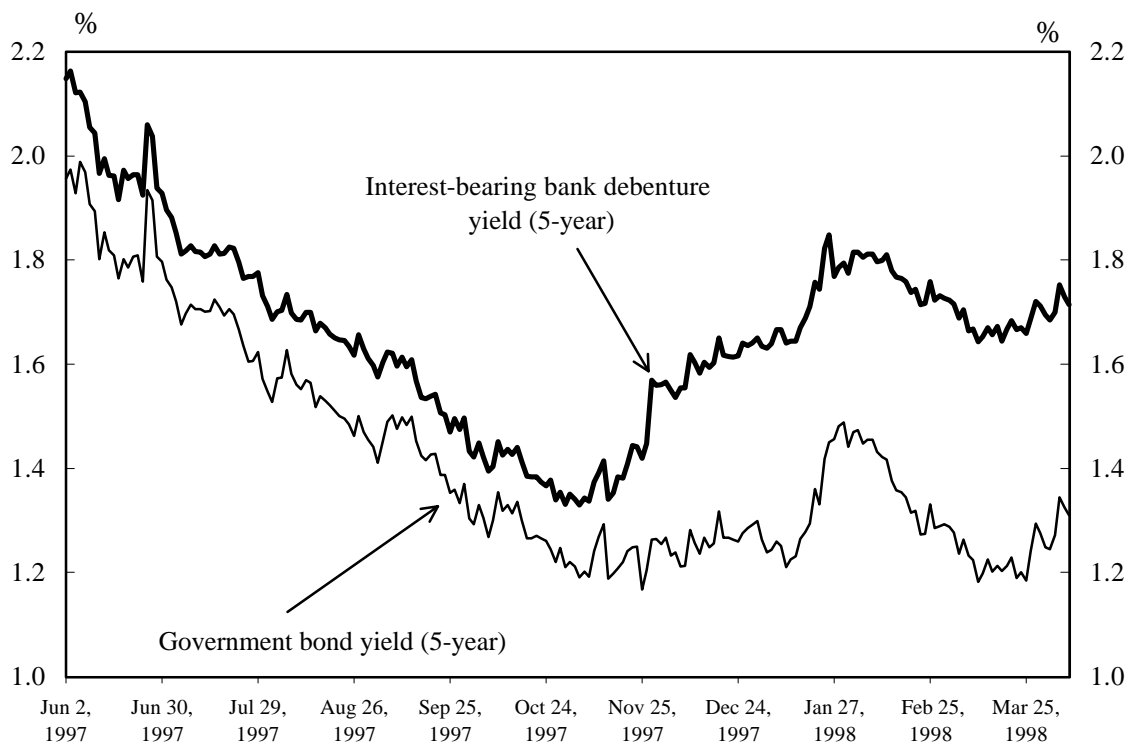


- Notes: 1. Data are monthly averages.
 - 2. Data are at end of period.
 - 3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.
 - 4. Based on stocks listed on the TSE First Section. Excludes bank stocks.
- Data are calculated by the Daiwa Research Institute.

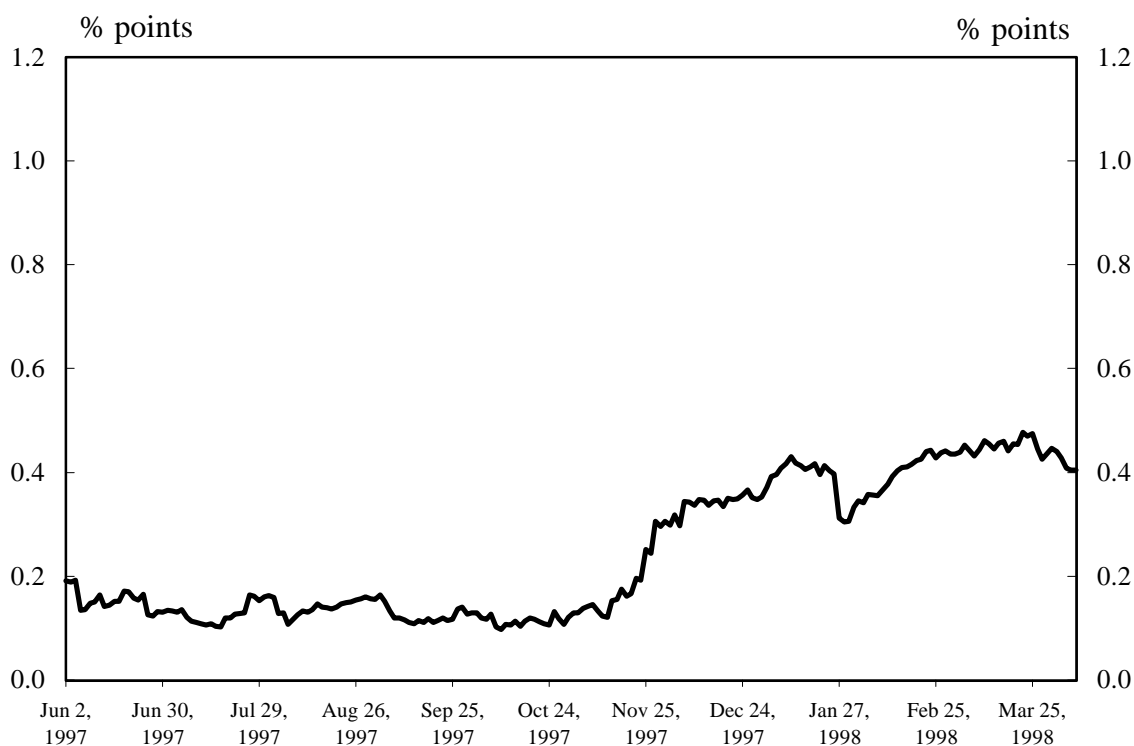
Sources: *The Nihon Keizai Shimbun*; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Yields of Bank Debentures

(1) Bond Yields



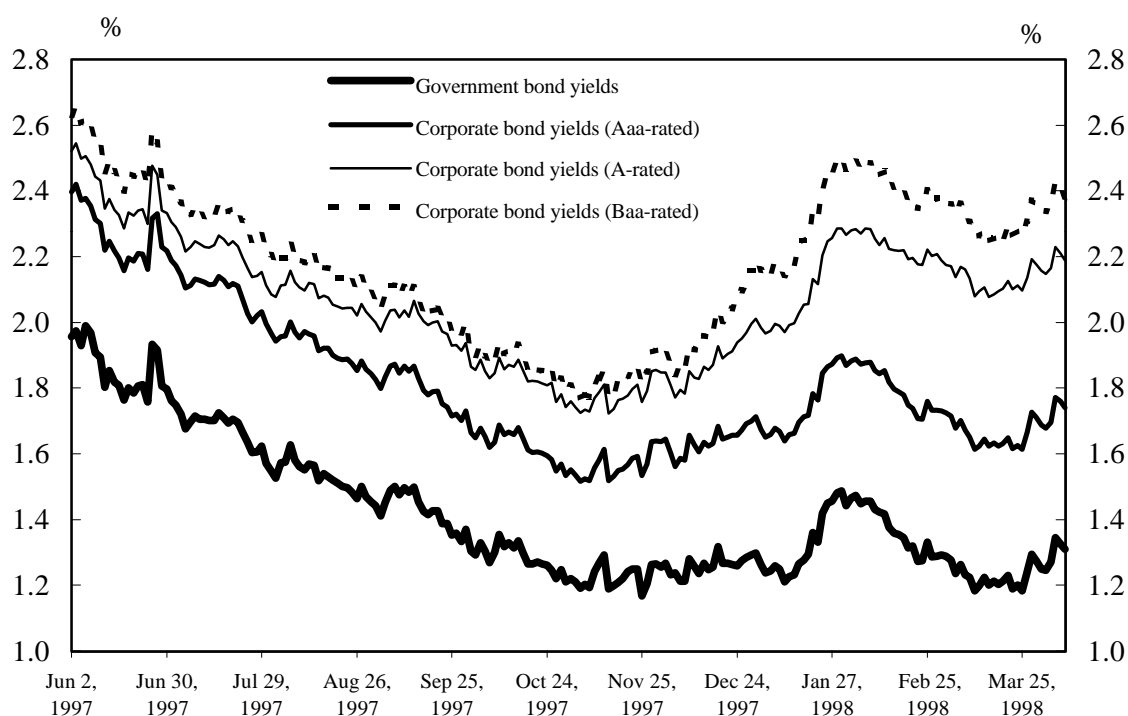
(2) Spread of Bank Debenture and Government Bond Yield



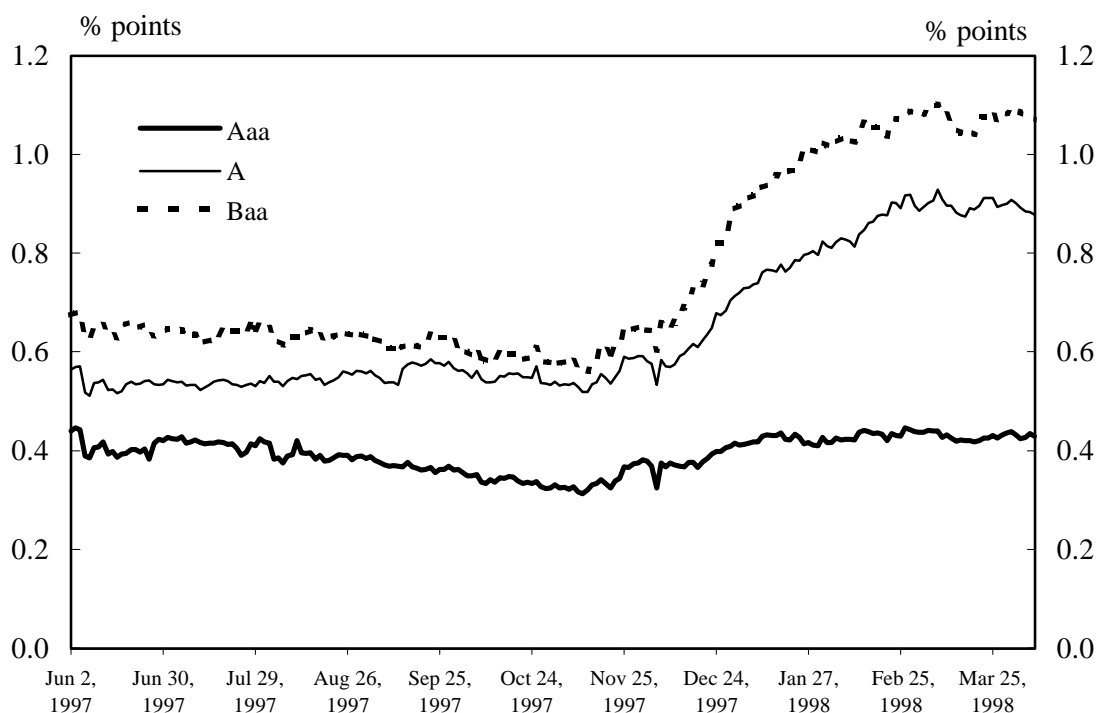
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds

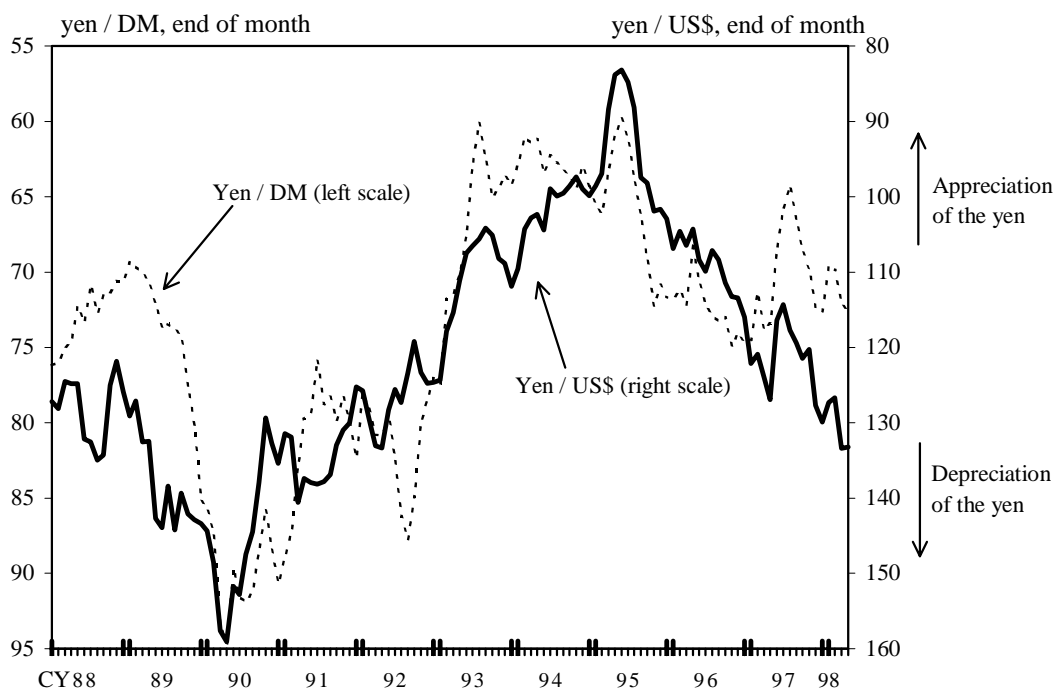


Notes: 1. Yields on bonds with 5-year maturity.

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

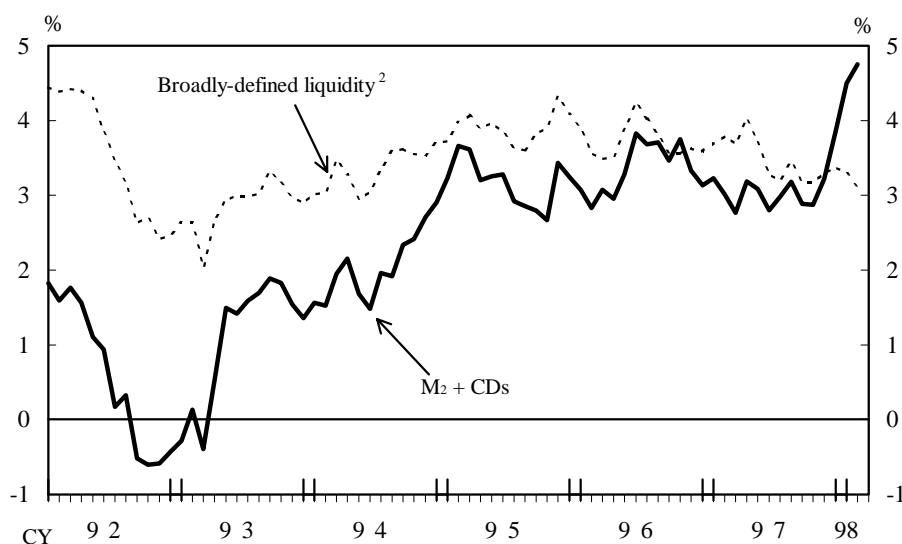
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Exchange Rates

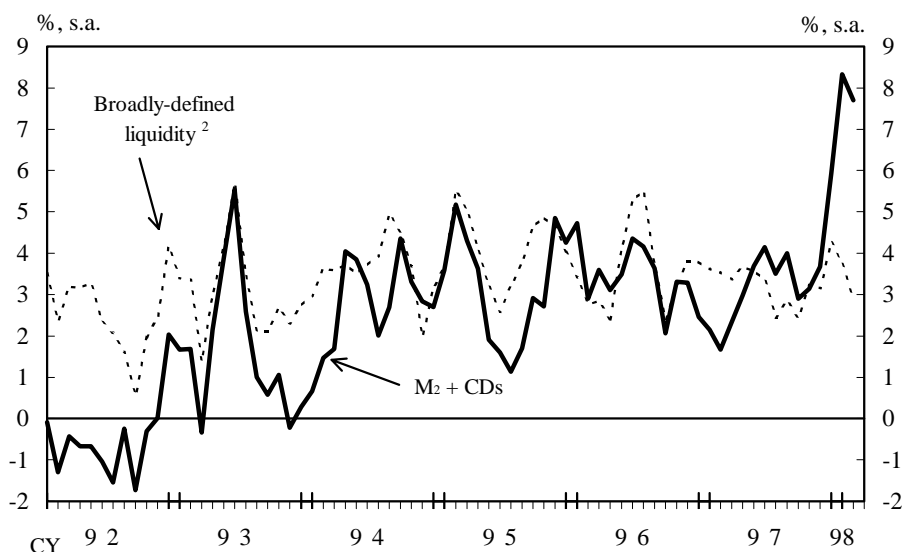


Note: Data for April 1998 are as of April 8, 1998.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier¹

(2) Changes from Three Months Earlier (Annualized)



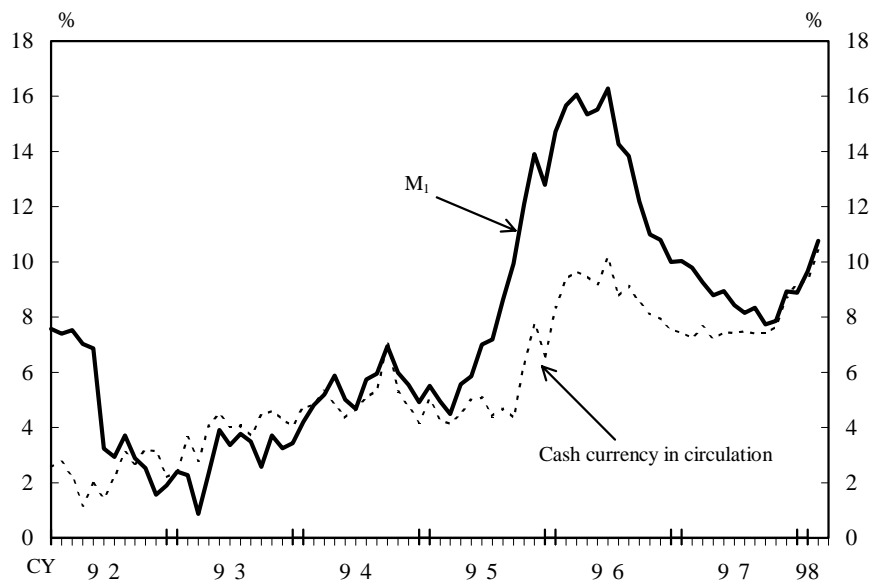
Notes: 1. Percent changes in average amounts outstanding.

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.

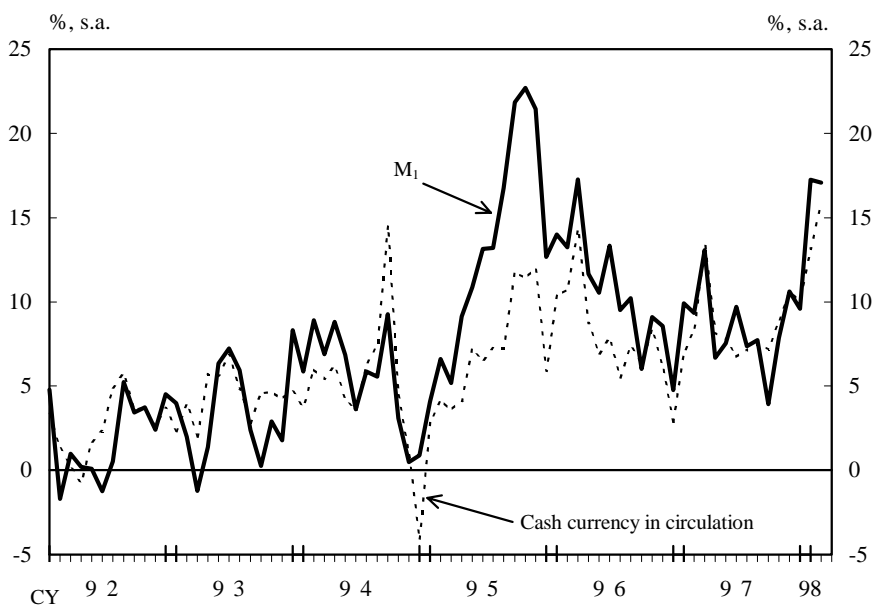
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

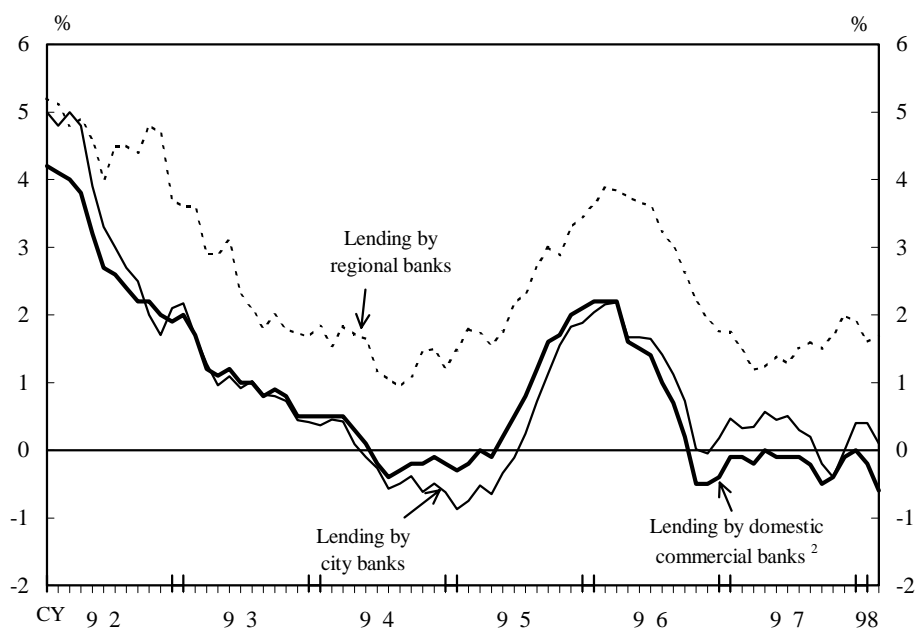


(2) Changes from Three Months Earlier (Annualized)



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

 Lending by Domestic Commercial Banks



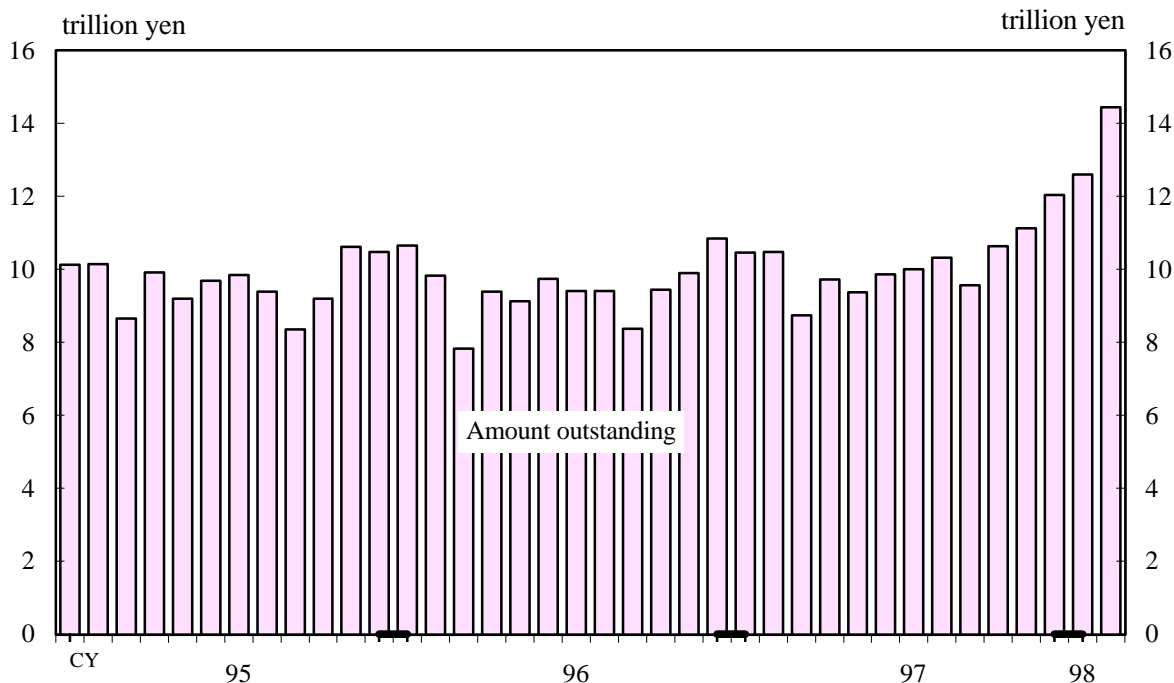
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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."

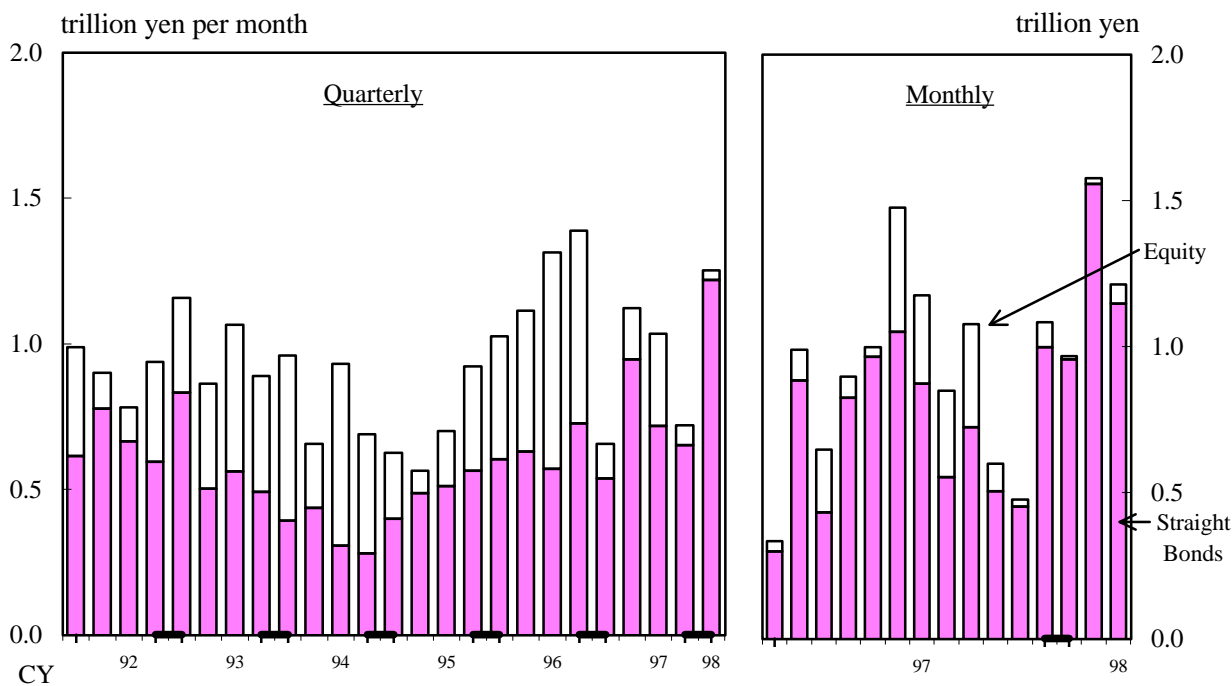
Private-Sector Fund Raising in the Capital Markets

(1) C P



Note: Figures are those of the client financial institutions of Bank of Japan.

(2) Bond and Equity

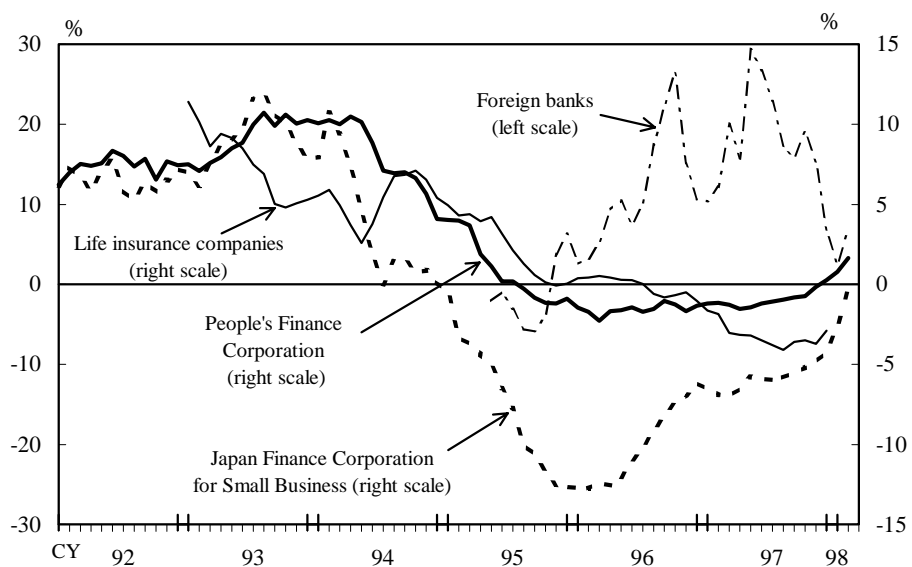


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

Sources: Bank of Japan, "Principal Figures of Financial Institutions"; The Bond Underwriters Association of Japan, "Bond Review."

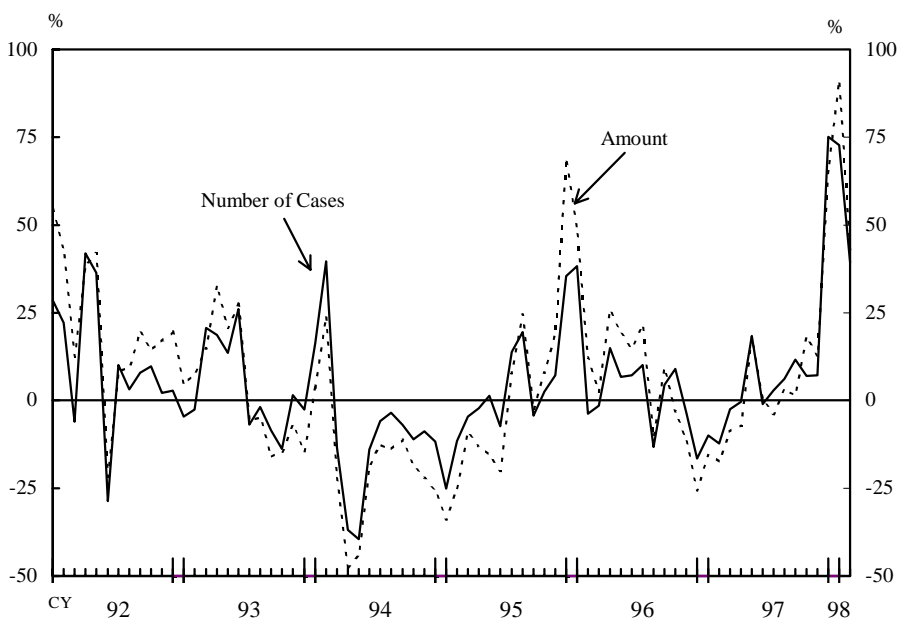
Lending by Other Financial Institutions

(1) Lending Outstanding



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

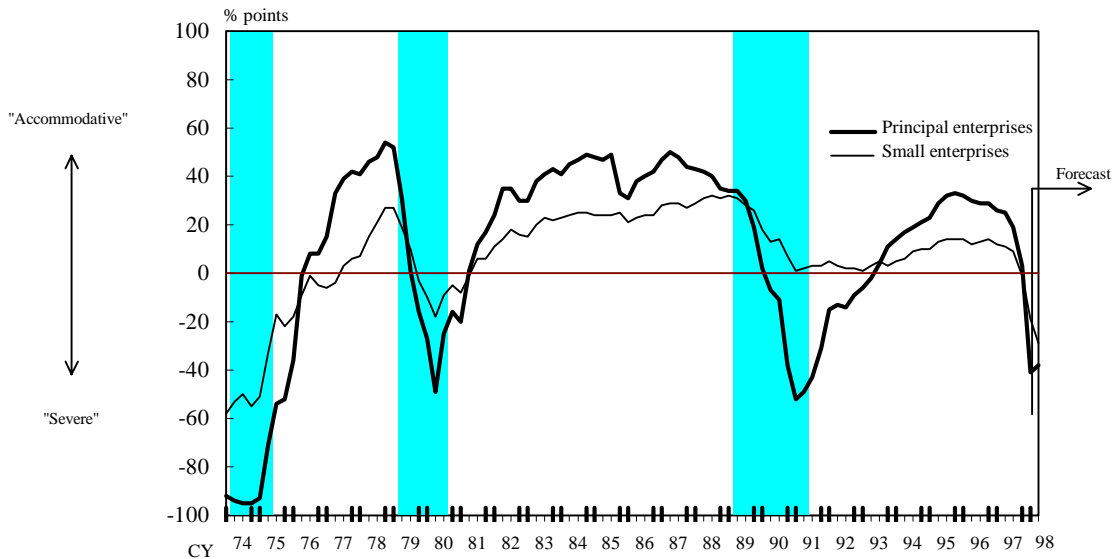
(2) Application for a Loan from Japan Finance Corporation for Small Business



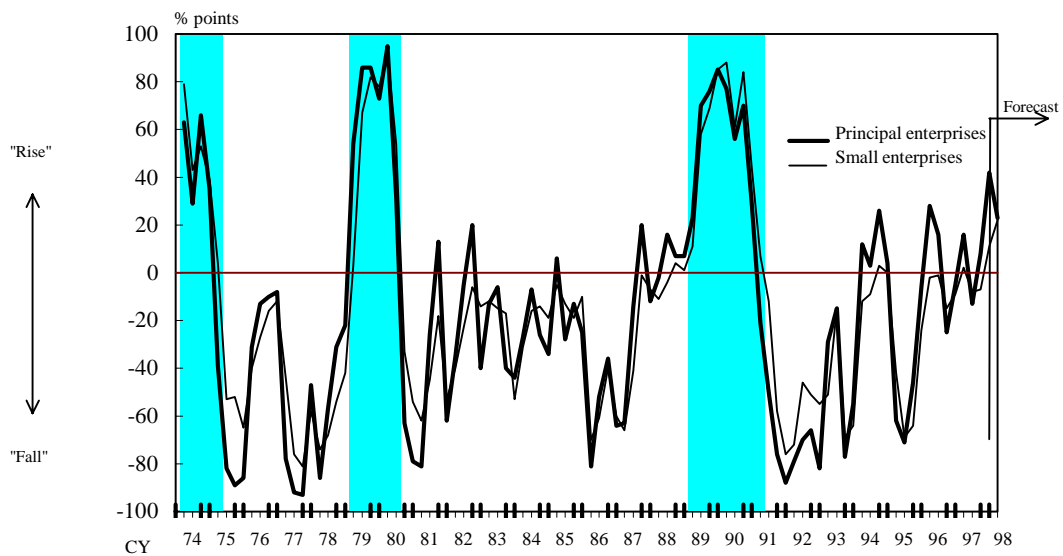
Sources: Bank of Japan, "Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."

Corporate Finance-Related DIs in *Tankan*

(1) Lending Attitude of Financial Institutions



(2) Change in Interest Rate



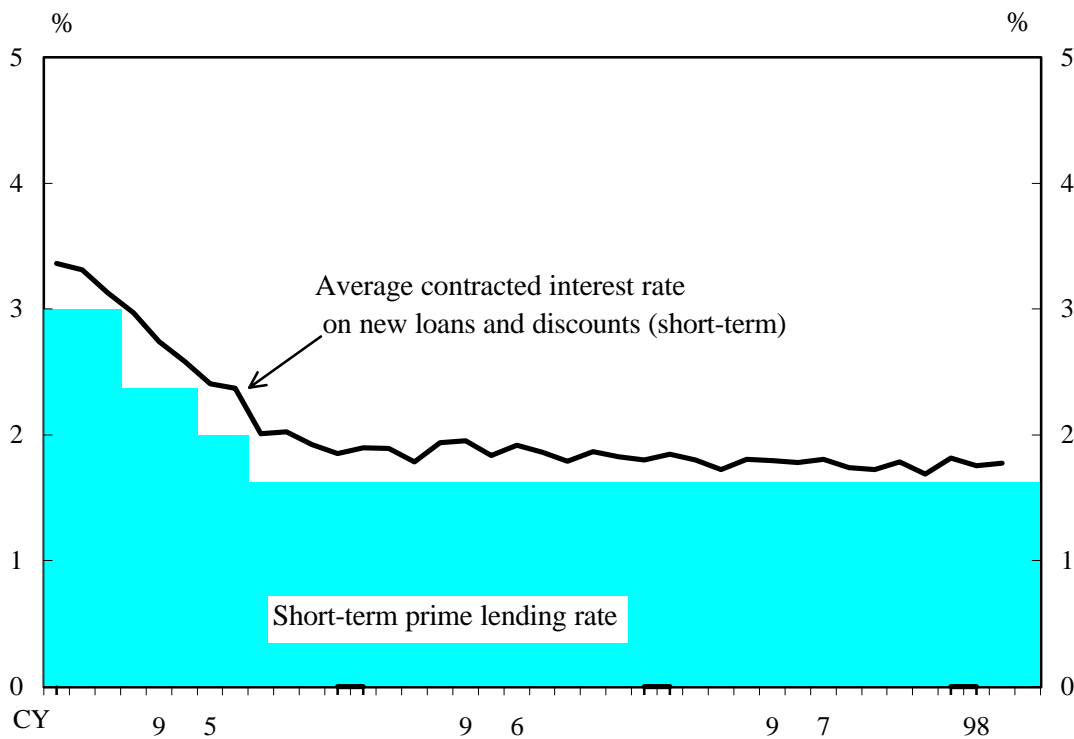
Notes: 1. Nonmanufacturing firms are not included in the *Tankan* DI survey for small enterprises before May 1984.

2. Shaded areas indicate periods of monetary restraint.

Source: Bank of Japan, "*Tankan* - Short-Term Economic Survey of Enterprises in Japan."

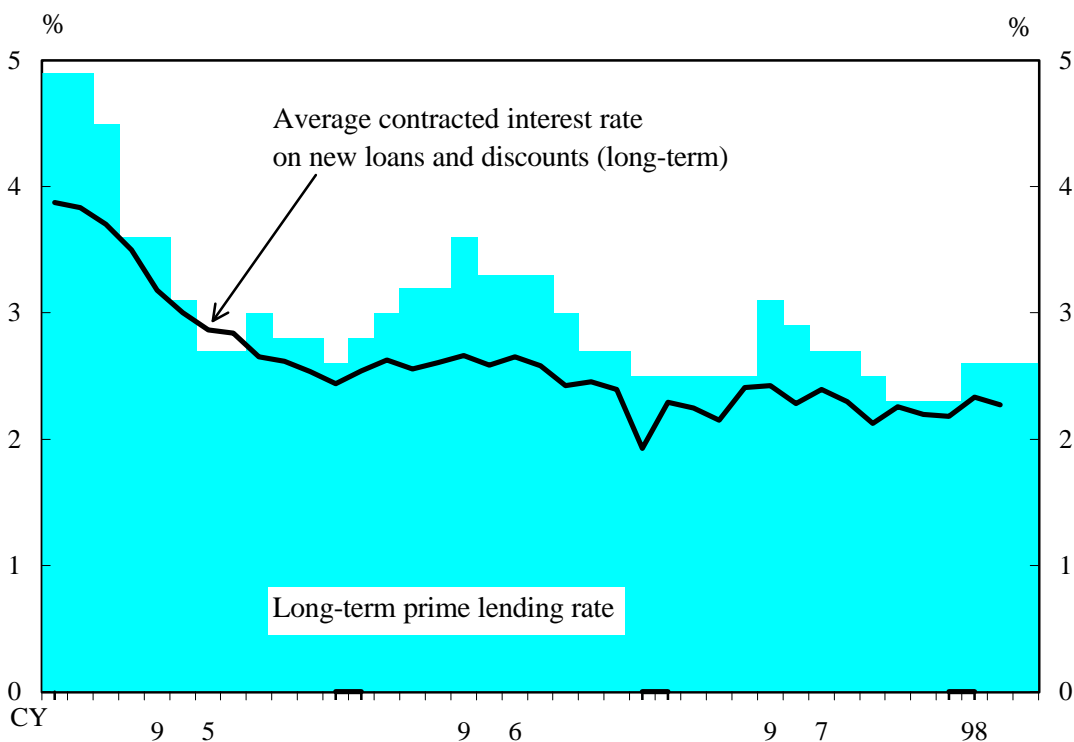
Lending Rates

(1) Short-Term



Note: Data for short-term prime lending rate are at end of period.

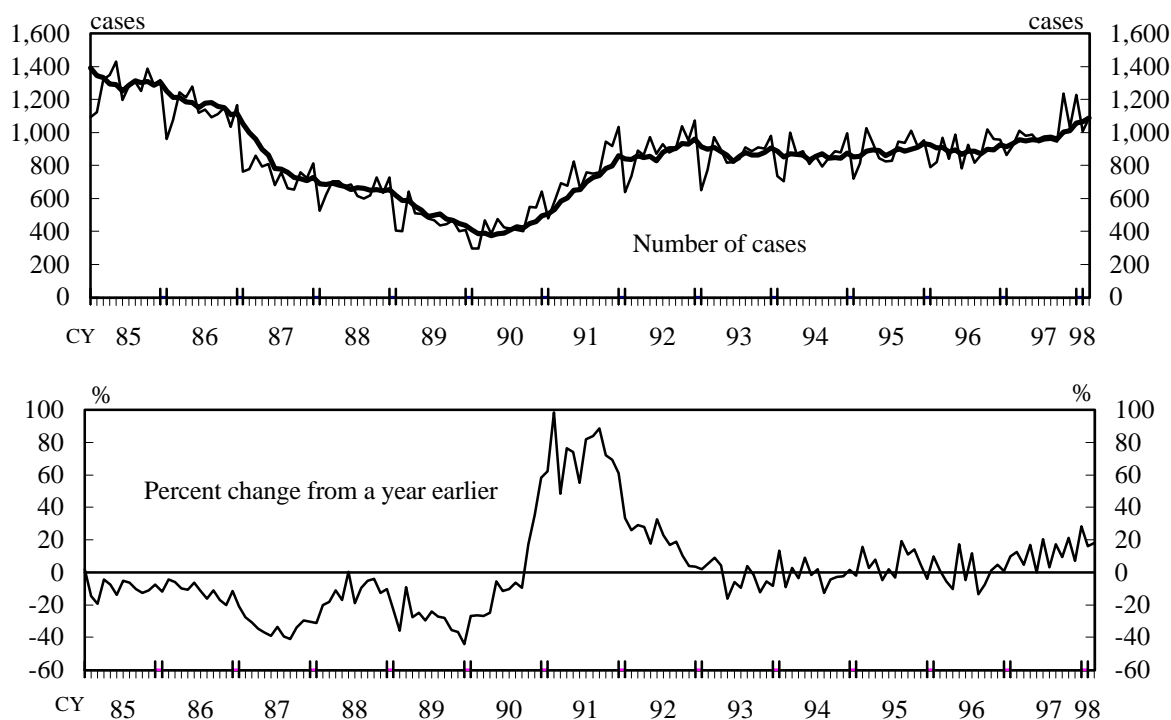
(2) Long-Term



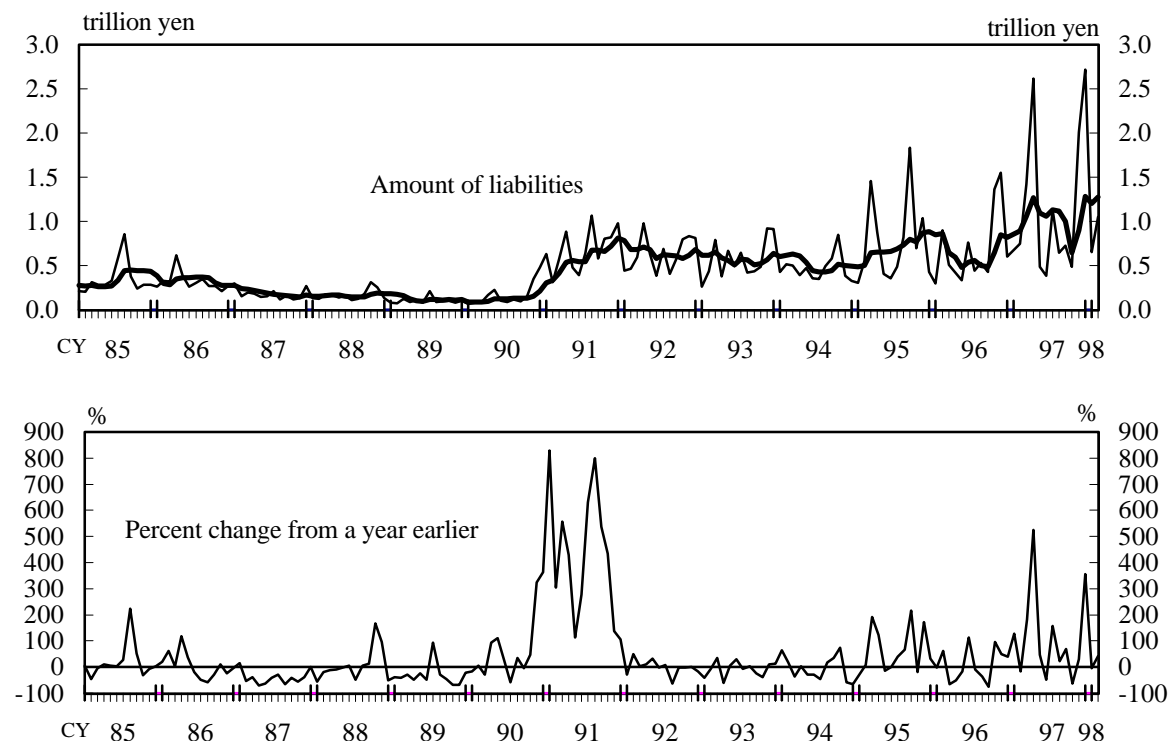
Source: Bank of Japan, "Economic Statistics Monthly."

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)."