

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

May 29, 1998

Bank of Japan

Monthly Report of Recent Economic and Financial Developments¹

May 1998

The Bank's View²

Japan's economy remains stagnant with continued strong downward pressures on economic activities.

With respect to final demand, public-sector investment seems to have bottomed out. However, growth in net exports has virtually peaked out as exports to other Asian countries decline. Business fixed investment has been on the decline. Private consumption shows no sign of recovery although the deterioration has slowed. Housing investment remains weak. Against the background of weak final demand, inventories have accumulated further and industrial production continues to decline. As a result, not only corporate profits but also employment and income conditions have worsened significantly.

The above indicates that production, income, and expenditure show negative interactions with one another. In these circumstances, the economic stimulus package was decided, and the fiscal 1998 supplementary budget bill was submitted to the Diet. These measures are expected to boost demand through additional fiscal expenditure and special income tax-reduction and thereby alleviate the downward pressures on the economy. In order for the Japanese economy to resume a self-sustained recovery,

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on May 19, 1998.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on May 19, as the basis of monetary policy decisions.

improvements in corporate and household confidence are vital. Hence, the overall economic activity and the effects of the economic stimulus measures should be carefully monitored.

With regard to prices, wholesale prices continue to fall, and 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, the downward pressure on domestic prices, induced by the decline in import prices including overseas commodity prices, is weakening. Also, the expansion in the output gap in the economy is expected to slow as the economic stimulus package is implemented. In the immediate future, however, prices are likely to weaken reflecting the present high inventory level and the relatively large output gap.

In the financial markets, both long- and short-term interest rates followed a declining trend with the releases of weak economic indicators. Yields on long-term government bonds have recorded a historical low and stock prices remain soft. The yield differential between bonds issued by the private sector and those by the government, as well as the so-called “Japan premium,” has remained at the relatively high level and shown no significant decrease, indicating the continuing cautious attitudes of market participants toward credit risk.

With respect to monetary aggregates, the growth in M_2 +CDs, which had picked up from the end of 1997, slowed in March and April. Also, the growth in broadly-defined liquidity has been declining since the middle of 1997.

Private bank lending remains sluggish. Although corporate financing via the capital markets and government financial institutions continues to expand, the increase in overall corporate financing seems to indicate a clear slowdown under the stagnant economic conditions.

Banks remain cautious in extending loans with a view to improving their medium-term profitability and financial soundness. In the capital markets, the difference in fund-raising costs of firms has remained relatively large according to their creditworthiness. In such circumstances, some firms, especially small and medium-sized firms, have been facing difficult financing conditions and this influence 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, which reflects orders, seems to have bottomed out along with the implementation of works under the supplementary budget for fiscal 1997 (Chart 2). However, shipments of public-sector investment-related goods, which show progress in investment, are still declining. Since public works are front-loaded and additional measures will be implemented under the comprehensive economic stimulus package (Chart 3), public-sector investment should turn to an increase in the summer of 1998.

As for real exports (Charts 4, 5, and 6), exports to the United States and Europe remain firm. Exports to the ASEAN economies and South Korea, however, are declining sharply, particularly automobile-related goods, information-related goods, capital goods and parts, owing to the monetary and economic adjustments and the limitations on the availability of foreign currency in some of these countries. Thus, real exports overall declined in the first quarter of 1998 from the previous level. Meanwhile, real imports remain lackluster, reflecting the stagnation of domestic demand in Japan. Consequently, net exports declined in terms of the real trade balance³ in the first quarter (Chart 4), but the nominal current account surplus⁴ continued to expand because the import prices of crude oil and other raw materials declined.

As for the future environment for foreign trade (Chart 7(1)), the United States and Europe among overseas economies are expected to maintain good economic performance overall. Asian economies, however, are likely to slow down further under

³ It should be noted that the real trade balance presented in Chart 4(2) differs from net exports on a GDP basis, but the 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).

⁴ During 1997, the ratio of the nominal current account surplus to GDP was 1.5 percent in the first quarter, 2.3 percent in the second quarter, 2.4 percent in the third quarter, and 2.8 percent in the fourth quarter.

tight macroeconomic policy even though the limitations on the availability of foreign currency are easing. The real effective exchange rate of the yen (Chart 7(2)) is down slightly, reflecting the yen's depreciation against the U.S. dollar. In these circumstances, even if net exports recover, the tempo of the recovery is likely to be more gradual.

Business fixed investment has been declining. Shipments of general capital goods continue to fall.⁵ The leading indicators (Charts 8(1) and 8(2)), such as machinery orders and construction, have begun to decline in the manufacturing sector in addition to the nonmanufacturing sector.

Thus business fixed investment continues to fall owing to the stagnation of domestic demand and the decline in corporate profits, and has entered an adjustment phase. From the viewpoint of the capital stock cycle, however, the conditions still do not warrant a major adjustment in capital stock for the time being. The economic stimulus package is also expected to have positive effects on corporate sentiment. Nevertheless, many companies, especially small firms, have continued to face a harsh funding environment in fiscal 1998 (Chart 8(3)). Moreover, the economic outlook is becoming weaker and corporate projections of Japan's economic growth rate over the next three years have declined to 1.0-1.5 percent (Chart 8(4)). If these conditions continue, firms will be more prone to postponing business fixed investment. Given this business environment, business fixed investment is not expected to recover rapidly from the present adjustment phase.

In the household sector, with respect to private consumption (Chart 9), sales at department stores and convenience stores, sales of household appliances, and outlays for travel posted a slight rebound in March, and the propensity to consume showed a

⁵ On a seasonally adjusted quarter-to-quarter basis, shipments of general capital goods have now declined for two consecutive quarters, dropping by 2.1 percent in the fourth quarter of 1997 and 0.9 percent in the first quarter of 1998.

recovery from the low levels over the last several months (Chart 10). Nevertheless, high-priced durable goods, such as passenger cars and furniture, remain weak, and the recovery in consumption has not yet become full scale. In light of these factors, although a further deterioration is limited by the special income tax reduction in effect from February 1998, personal consumption has not recovered from the ongoing sluggish tone.

As for the outlook, the additional special income tax reductions incorporated in the recent economic stimulus package will contribute to supporting household income. Nevertheless, since employment and income conditions are worsening, the recovery in personal consumption needs to be carefully monitored, including developments in consumer confidence.

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 11).

Reflecting these developments, industrial production continues to decrease (Chart 12). In the first quarter of 1998, more firms reduced production, particularly in chemicals, steel, and other raw materials industries, leading to the third consecutive quarter of reduction since the third quarter of 1997. A substantial decline is also expected during the second quarter of 1998. This is because based on production forecast indices and industry interview surveys, production cutbacks in transportation and electrical equipment are likely to intensify, and this will have substantial effects on steel and other raw materials industries. Additionally, inventories in the manufacturing industry (Chart 13) have increased considerably for both final-demand goods and production goods. Thus inventories are under strong adjustment pressures for the time being.

Amid these developments, the worsening of employment and income conditions is becoming distinct. In the labor market (Chart 14), the number of new job offers is declining rapidly, especially in the manufacturing and construction industries. In March, the ratio of job offers to applications fell to 0.58, the lowest level since July 1983, and the unemployment rate marked a historically high level of 3.9 percent. The increase in the number of unemployed (Chart 15) may partially be attributed to an unusual factor: a temporary increase in voluntary unemployment. Employment conditions, however, have become even more severe, judged from the facts that ① the level of involuntary unemployment during the first quarter was higher than that during the employment adjustment period of 1992-1993⁶ and ② an increase in unemployment has become distinct among middle-aged workers unlike the increase in unemployment during 1995-1996, which was caused mainly by the high labor mobility of young workers. As regards employee income (Chart 16), the growth in wages has slowed further as overtime compensation remains below the previous year's level and regular compensation and bonuses are stagnant.

2. Prices⁷

With regard to price developments, import prices fell slightly in April on a contracted currency basis (Chart 18(1)) because of the decline in the prices of crude oil, coal, and natural gas. On a yen basis, import prices moved up slightly reflecting the depreciation of the yen on the foreign exchange market. Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates; Chart 18(3)) remain on a declining trend because the prices of chemicals and construction-related goods, such as iron, steel, and lumber, continue to drop, crude oil prices remain low, and

⁶ The stagnation of public investment, housing investment, and the consumption of durable goods forced firms in the construction industry and some manufacturing industries (lumber, furniture, etc.) to begin reducing the number of employees because employment adjustment through the reduction of overtime hours had almost reached its limits.

⁷ 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).

the sales competition for household appliances is intensifying, leading to price reductions. Domestic wholesale prices dropped by 0.5 percent in the fourth quarter of 1997 and 0.5 percent in the first quarter of 1998 (compared to the previous quarters), and 0.7 percent in April 1998 (compared to the first quarter).

Corporate service prices (Chart 19(1)) are basically stable, but recorded a slight decline in the first quarter because of price reductions for overseas freight transportation and telecommunications-related services. (The year-to-year changes in corporate service prices were 0.0 percent in the fourth quarter of 1997 and -0.1 percent in the first quarter of 1998). As for consumer prices (excluding perishables; Chart 19(2)), the prices of consumer services remain stable, whereas the decline in commodity prices is gradually expanding. In the first quarter of 1998, the increase in consumer prices eased, partially due to a reduction in electricity rates. (The year-to-year increase in consumer prices was 0.8 percent in the fourth quarter of 1997 and 0.5 percent in the first quarter of 1998). Excluding the effects of the rise in medical service charges due to the medical insurance system reform of September 1997, the fundamental year-to-year increase dropped from around 0.4 percent in the fourth quarter of 1997 to about 0.1 percent in the first quarter of 1998, indicating that consumer prices was almost flat around the previous year's level.

International commodity market prices have recently been holding steady at low levels. So the downward pressure on domestic prices will subside in this aspect. Additionally, the implementation of the economic stimulus package will slow the expansion of the output gap. Considering the present extent of the output gap and the current inventory levels, however, overall prices are likely to remain weak for some time.

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 20(1) and 21).

Euro-yen interest rates (3-month) declined substantially from the end of February through the middle of March and generally remained steady thereafter, but began to drop once again from late April. Also, over the last month, Euro-yen interest rate futures have shifted down by about 0.2-0.3 percent for all contract months (Chart 22). As the market's sentiment on the economy remains weak, market participants seem to be changing their outlook on interest rates.

The Japan premium (Chart 23) has recently shown no distinctive signs of narrowing, and a premium of nearly 0.2 percent remains for three-month maturities. These developments demonstrate that the market concerns over credit risk are still strong.

Yields on ten-year government bonds (benchmark) have been declining from mid-April with the releases of weak economic indicators (Chart 20(2)), and have recently posted historical lows between 1.2 and 1.3 percent (the previous low was 1.49 percent recorded in late March). Analyses of long-term interest rates show that one-year implied forward rates (calculated from yen-yen swap rates) declined further for all maturities (Chart 24).

Yields on private bonds -- bank debentures and corporate bonds -- have recently dropped in pace with the decline of government bond yields (Charts 25 and 26). The yield difference between private bonds and government bonds expanded from last autumn and has remained large ever since, demonstrating that concerns regarding credit risk are still strong in the capital market as well.

Stock prices (Chart 27(1)) remain soft, 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) is still at a low level, indicating continued market pessimism about future growth and uncertainty over corporate earnings (Chart 27(2)).

On the foreign exchange market, the yen appreciated to around 129 yen to the U.S. dollar in mid-April. Since that time, the yen has been falling once again and has recently been moving around 135 yen to the U.S. dollar (Chart 28). Meanwhile, the real effective exchange rate of the yen also depreciated (Chart 7(2)).

(2) Monetary Aggregates

Money stock (Charts 29 and 30) in terms of the growth in $M_2 + \text{CDs}$, which picked up from the end of last year mainly due to the shift of funds away from investment trusts, slowed considerably in March and April 1998. The slowdown is basically attributed to the stagnation of the economy and the subdued shift of funds. Meanwhile, the growth in broadly-defined liquidity has been declining since the middle of 1997.

(3) Lending Attitude of Private Banks, and Corporate Finance

The year-on-year decline in lending by private banks such as city banks, long-term credit banks, trust banks, regional banks and regional banks II expanded further in April on an average outstanding balance basis (Chart 31). This drop on an average outstanding balance basis reflects the sharp decrease in the outstanding balance at the end of March, which may be attributed to the large amount of write-offs and banks' efforts to limit their risk assets toward the end of fiscal 1997. Nevertheless, it should be noted that lending by private banks still remains sluggish.

Fund-raising in the capital market by private-sector enterprises, primarily via straight bond issuances, is increasing,⁸ and borrowing from government financial institutions is basically on an increasing trend (Charts 32 and 33). Despite this, the growth in overall fund-raising by private-sector enterprises seems to be slowing considerably, reflecting the continued stagnation of economic activities.

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. However, financial institutions remain cautious in extending loans, with a view to improving profitability and financial soundness from a middle-term perspective. According to business surveys and other sources, a large number of corporations feel that the lending attitude of financial institutions continues to be “severe,” even after the fiscal year end (Chart 34). 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, the average contracted interest rates on loans and discounts remained essentially level for both short and long-term contracts in March (Chart 35), as banks have left their short-term prime rates unchanged. Nevertheless, financial institutions and capital market participants continue to exhibit strong concerns regarding credit risk, so the difference in fund-raising costs among corporations with different creditworthiness has remained relatively large since last autumn.⁹

⁸ CP issuance increased sharply during the January-March quarter, reflecting the demand for on-hand liquidity at the end of the fiscal year, and then declined in April.

⁹ One reason why there has been no distinct increase in the average contracted interest rates on loans and discounts is that the relative weight of loans to large firms increased (changes in the constituent percentages for the calculation of average interest rates).

Meanwhile market interest rates on term instruments, used as the base rate for spread lending, have been dropping substantially since the end of February. Also, the long-term prime rate fell by 0.2 percent in May to 2.4 percent, approaching the historical low of 2.3 percent (posted from October through December 1997).

In conclusion, given the strong concerns regarding credit risk among financial institutions and capital market participants, 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 The number of cases of corporate bankruptcies continues to increase (Chart 36).

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Main Economic Indicators (1)

y/y % chg.

	97/Q3	Q4	98/Q1	98/Jan.	Feb.	Mar.	Apr.
Index of expenditure level (all households)	1.4	-2.3	p-4.7	-4.1	-4.4	p-5.8	n.a.
Sales of department stores	-1.3	-3.0	p-9.7	-2.0	-5.4	p-18.3	n.a.
Sales of chain stores ¹	-3.6	-5.3	-7.0	-4.6	-5.0	-10.7	n.a.
New passenger-car registrations ²	-10.3	-13.7	-21.5	-23.1	-23.2	-19.8	-4.1
Sales of electric appliances (NEBA)	-3.7	-4.5	-14.1	-2.6	-9.5	-25.3	n.a.
Outlays for travel (50 major travel agencies)	2.2	1.2	-6.2	-5.4	-4.3	-8.4	n.a.
Housing starts <s.a., ann. 10,000 units>	130	130	132	131	133	131	n.a.
Machinery orders (from private sector ³)	1.3	-13.4	-5.8	-4.7	-17.9	1.4	n.a.
Mining & manufacturing	8.7	-2.9	-7.6	-6.0	-25.4	4.2	n.a.
Nonmanufacturing ³	-4.1	-20.4	-4.2	-3.4	-10.9	-0.9	n.a.
Construction Starts (private, nonresidential use)	3.8	-8.0	-7.8	-12.7	-7.7	-3.4	n.a.
Manufacturing	8.4	-1.4	-7.2	-11.0	-1.0	-9.0	n.a.
Nonmanufacturing ⁴	2.2	-10.5	-8.0	-13.4	-10.1	-1.2	n.a.
Value of public works contracts	-1.7	-9.1	-2.2	0.1	4.2	-5.8	2.7
Real exports <s.a. quarterly (monthly) change>	0.6	1.3	-4.9	3.1	-4.9	-5.6	n.a.
Real imports <s.a. quarterly (monthly) change>	2.5	-3.7	-1.5	1.1	-10.3	3.2	n.a.
Industrial production <s.a. quarterly (monthly) change>	-0.4	-2.3	p-1.4	2.9	-3.9	p-1.9	n.a.
Shipments <s.a. quarterly (monthly) change>	0.6	-2.5	p-1.2	3.4	-4.2	p-1.8	n.a.
Inventories <s.a. quarterly (monthly) change>	0.7	1.2	p 0.4	0.1	0.7	p-0.4	n.a.
Inventories/shipments <s.a. 1990=100>	115.3	122.6	p 129.0	121.6	128.0	p 129.0	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	97/Q3	Q4	98/Q1	98/Jan.	Feb.	Mar.	Apr.
Ratio of job offers to applications <s.a., times>	0.73	0.69	0.61	0.64	0.61	0.58	n.a.
Unemployment rate <s.a., %>	3.41	3.46	3.65	3.48	3.59	3.87	n.a.
Overtime working hours ⁵	1.1	-2.5	-5.4	-3.1	-5.8	-7.2	n.a.
Number of employees	1.0	1.0	0.0	0.3	-0.1	-0.1	n.a.
Number of regularly employed ⁵	0.9	0.8	0.6	0.7	0.7	0.5	n.a.
Nominal wage per person ⁵	1.5	0.7	-0.1	-0.8	-0.1	0.6	n.a.
Domestic wholesale prices index ⁶	-0.5	-1.0	-1.6	-1.2	-1.6	-2.0	-2.3
Consumer prices index (nationwide) ⁶	0.6	0.7	0.5	0.3	0.4	0.7	n.a.
Excluding perishables	0.8	0.8	0.5	0.6	0.4	0.4	n.a.
Corporate service prices index ⁶	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.3	p 4.7	4.5	5.0	p 4.5	p 3.5
Number of suspension of transaction with	9.5	19.0	20.8	16.2	18.0	27.2	26.3

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.

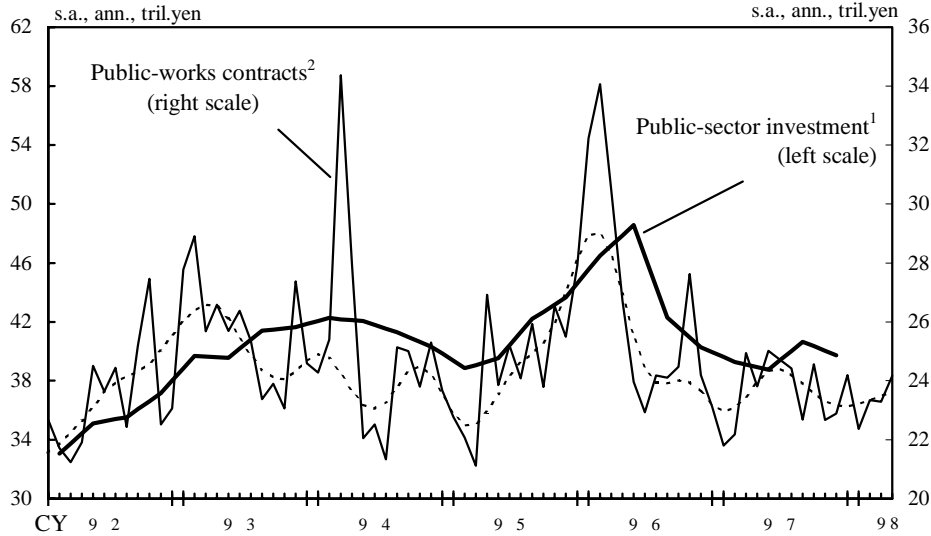
5. Data for firms with 5 regular employees or more.

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."

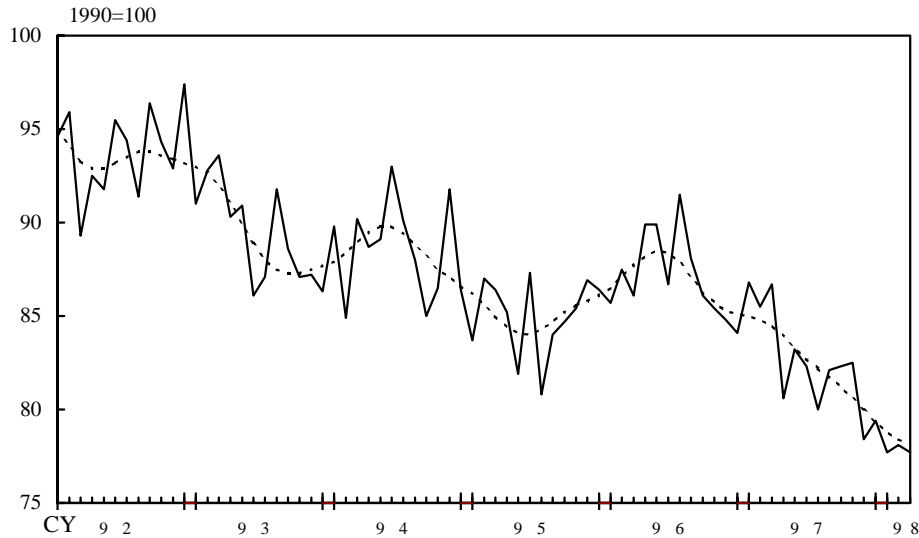
Public-sector Investment

(1) Public-works Contracts



Notes: 1. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
 2. 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 $Y=TC, S, I$ (assuming a multiplicative model),
 Y : original series, TC: trend cycle factor, S: seasonal factor, I: irregular factor.

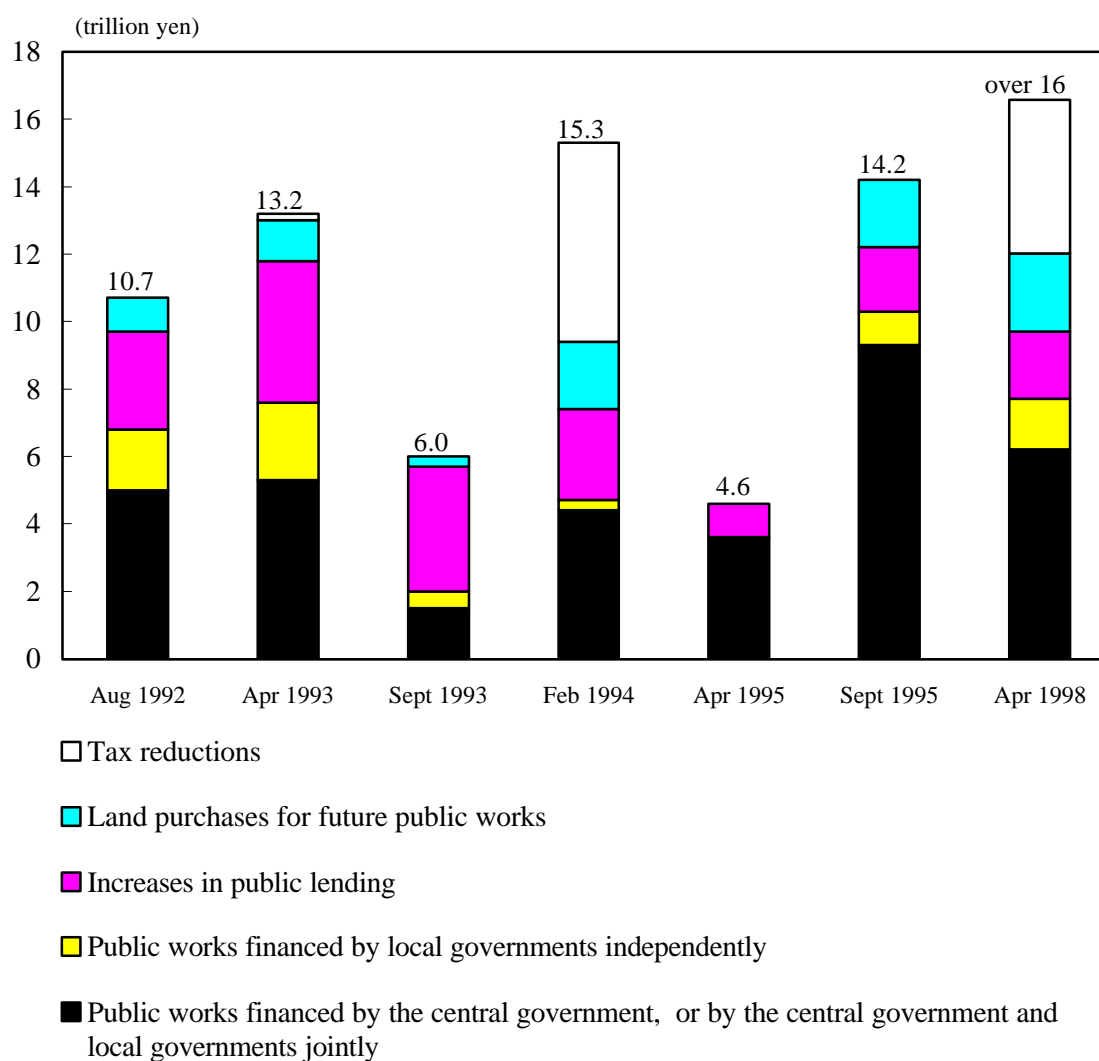
(2) Shipments of Public Works-related Goods¹



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 $Y=TC, S, D, I$ (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 Statistics";
 Ministry of International Trade and Industry, "Indices of Industrial Production."

Economic Stimulus Packages

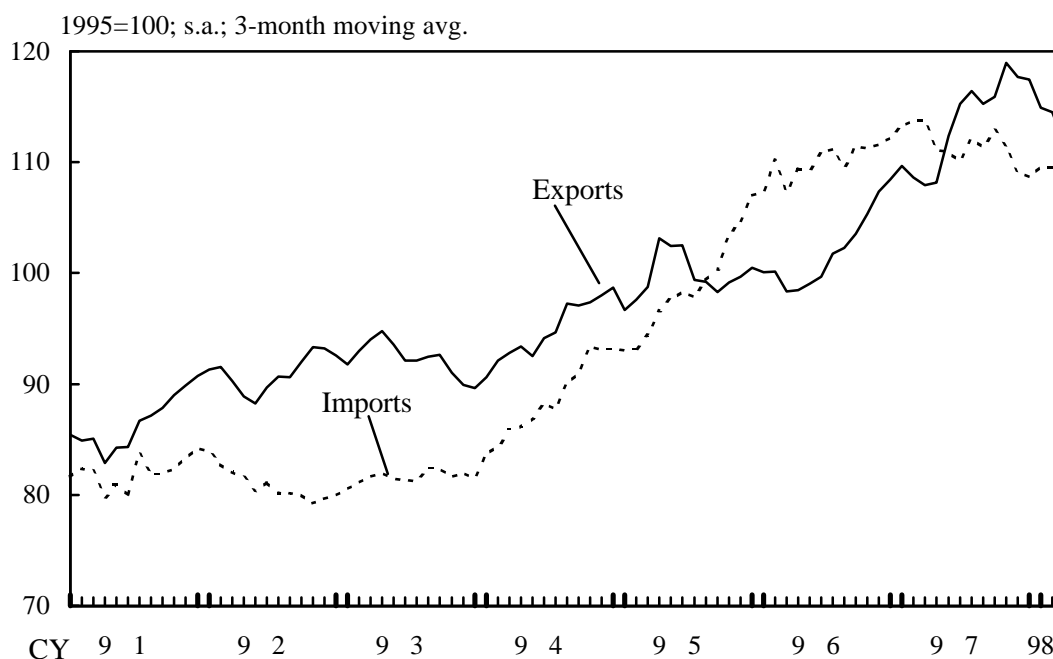


- Note: 1. Public works financed by the central government, or by the central government and local governments jointly under the September 1995 package include land purchases which do not conceptually contribute to public fixed-asset formation.
2. The expenditures under the April 1998 package are re-categorized in order to conform to the other packages as follows.
- (1) "Aid to small enterprises" is categorized as "increases in public lending."
 - (2) "Liquidation of lands and credits, and efficient use of lands" is categorized as "land purchases for future public works."
 - (3) "Extraordinary income tax reduction" is categorized as "tax reductions."

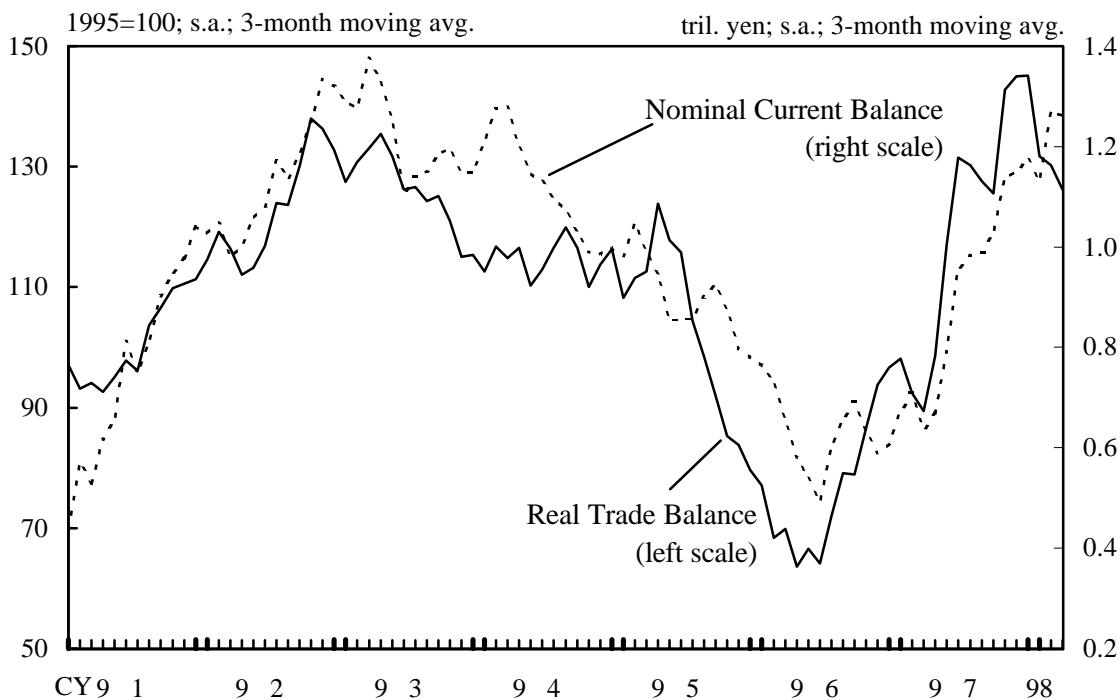
Source: Governments statements

External Balance ¹

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account

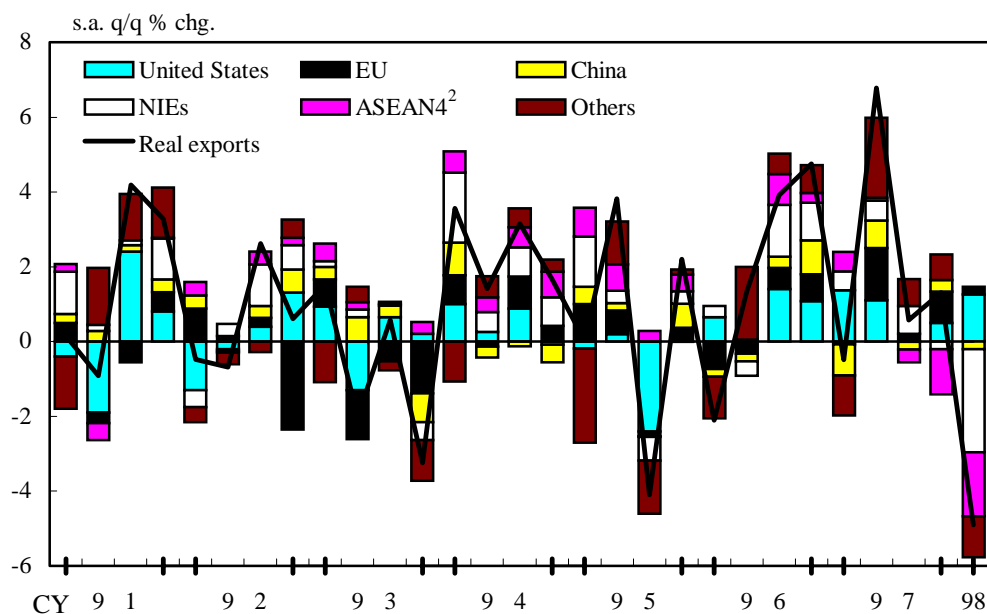


Note: 1. Real exports and imports are seasonally adjusted by X-11, and nominal current balance is seasonally adjusted by X-12-ARIMA (β version).

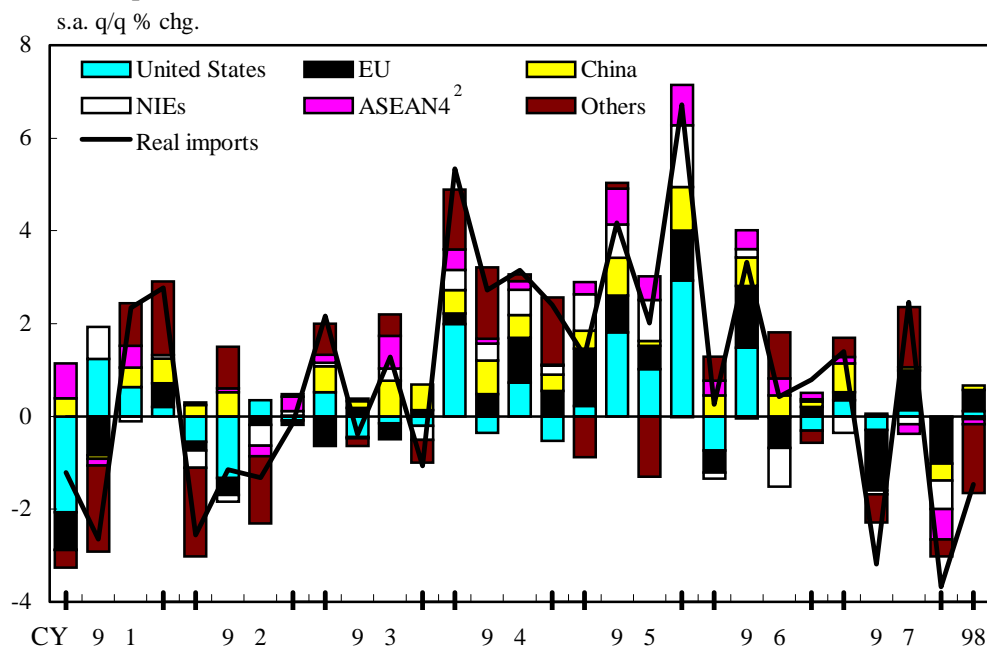
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."

Exports and Imports ¹

(1) Real Exports



(2) Real Imports



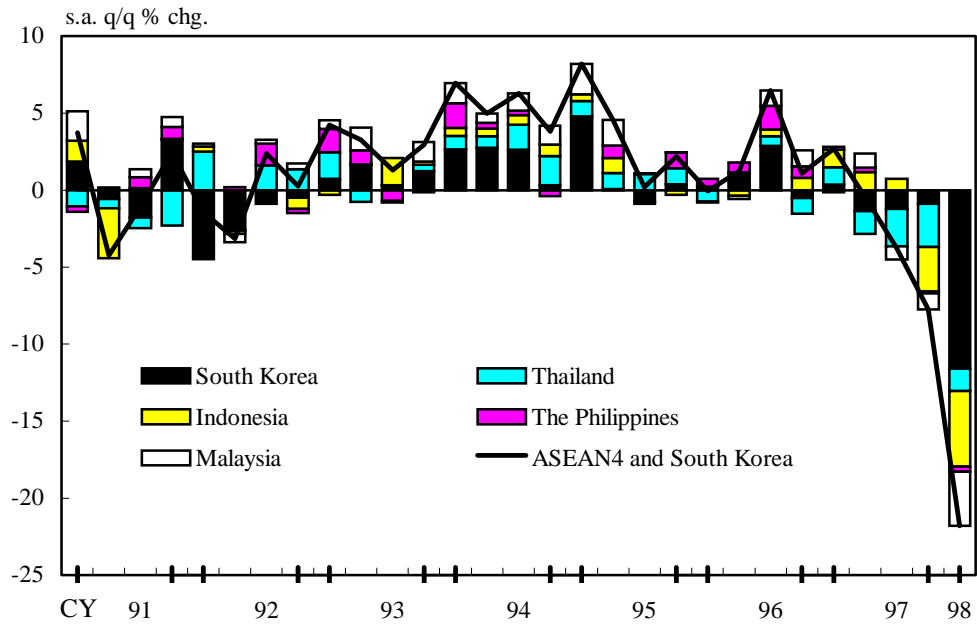
Notes: 1. The sum of the contributing factors is not equal to total real exports (imports) due to differences in seasonal adjustment etc. Seasonally adjusted by X-11.

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

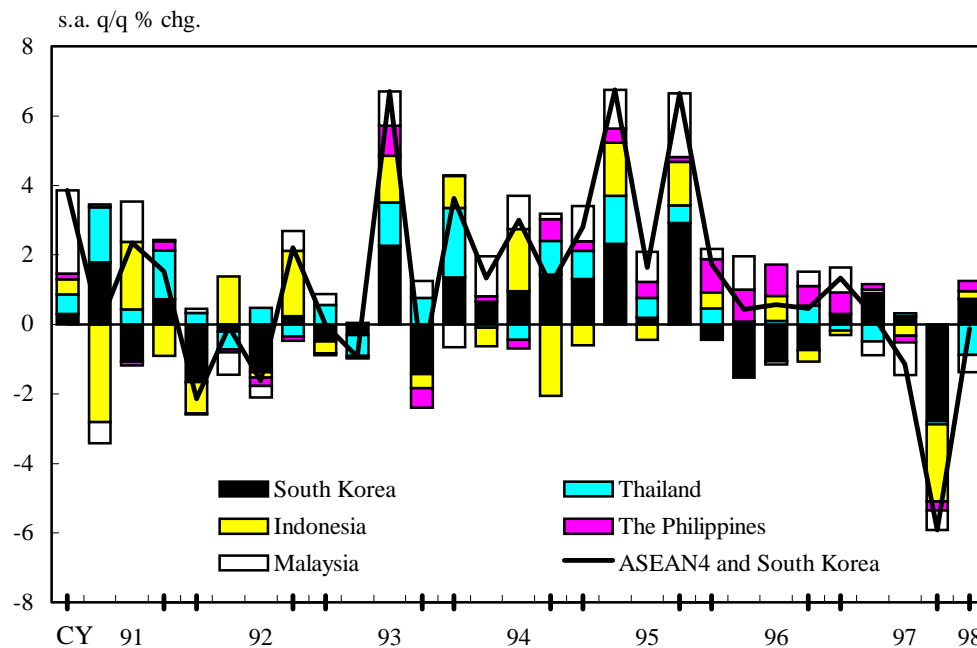
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
Bank of Japan, "Wholesale Price Indexes."

Trade with ASEAN4 and South Korea¹

(1) Real Exports



(2) Real Imports



Note: 1. Seasonally adjusted by X-11.

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

Overseas Economic Conditions and Real Effective Exchange Rate

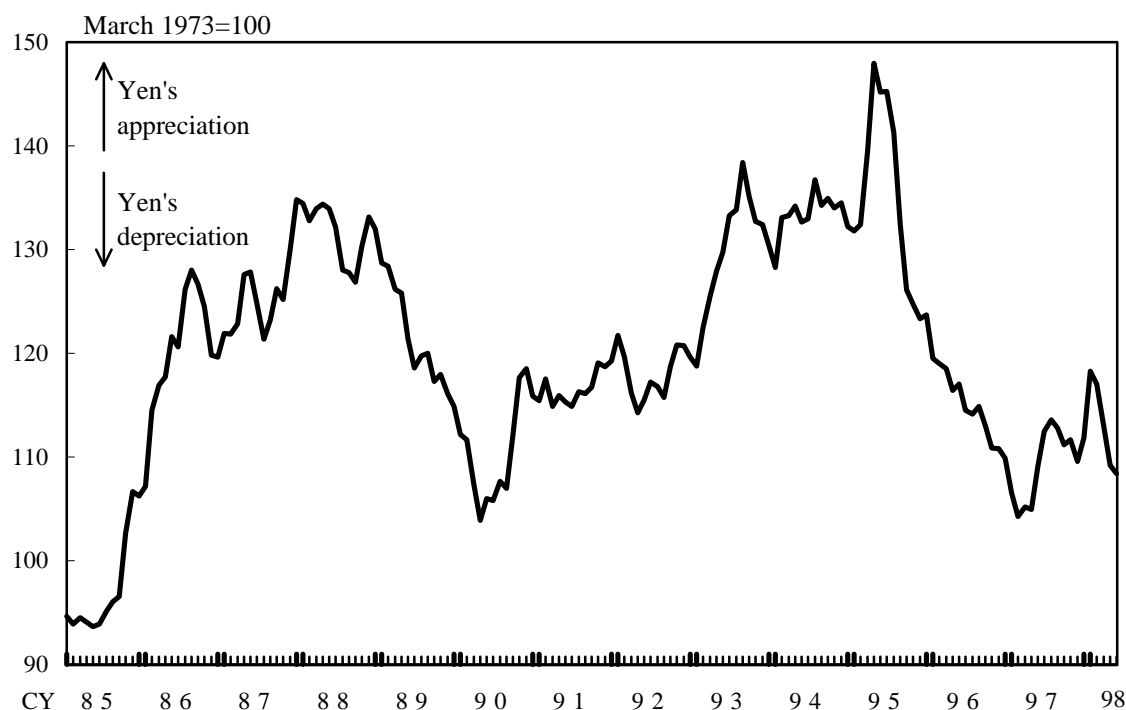
(1) Real GDP Growth Rates in Overseas Economies

		CY95	96	97	97 Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	98 Jan.-Mar.	
United States ¹		2.0	2.8	3.8	3.3	3.1	3.7	4.2	
European Union ¹		2.5	1.8	n.a.	4.9	3.3	n.a.	n.a.	
	Germany	1.8	1.4	2.2	3.8	2.9	1.1	n.a.	
	France	2.1	1.6	2.3	4.6	3.4	3.1	n.a.	
	United Kingdom	2.8	2.5	3.1	3.5	3.6	2.5	1.8	
East Asia ²	China	10.5	9.7	8.8	(Jan-Jun) 9.5	(Jan-Sep) 9.0	(Jan-Dec) 8.8	7.2	
	NIEs	Korea	8.9	7.1	5.5	6.6	6.1	3.9	n.a.
		Taiwan	6.0	5.7	6.8	6.3	6.9	7.1	n.a.
		Hong Kong	3.9	5.0	5.3	6.8	6.0	2.7	n.a.
		Singapore	8.7	6.9	7.8	8.5	10.7	7.6	5.6
	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	6.8	2.5	1.3	n.a.
		Malaysia	9.5	8.6	7.8	8.4	7.4	6.9	n.a.
Philippines		4.8	5.7	5.1	5.7	4.9	4.7	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."

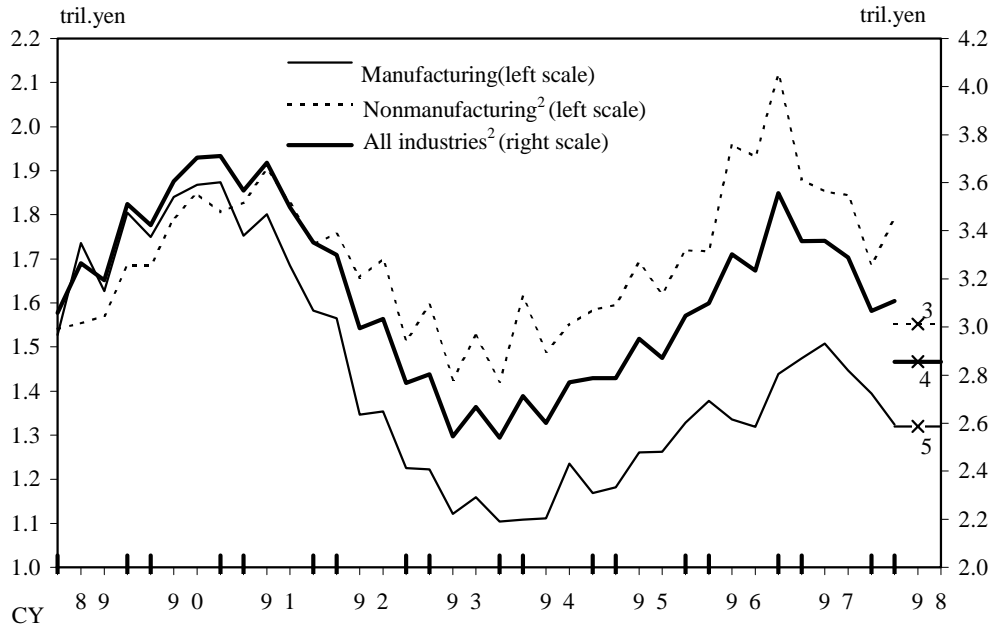
(2) Real Effective Exchange Rate ¹

Notes: 1. Monthly average. The figure for May 1998 is May 1-18 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.

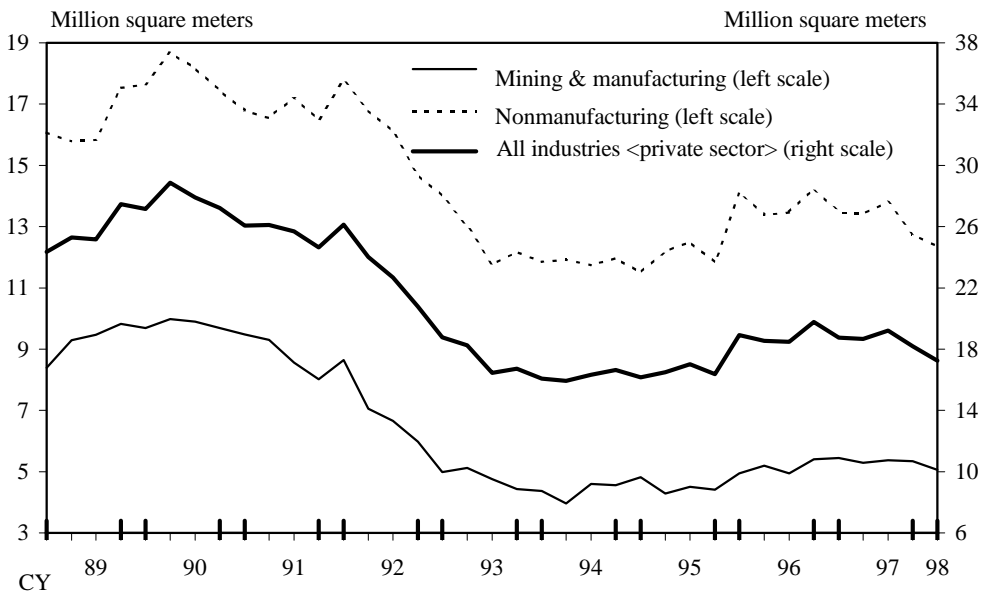
Major Indexes of Business Fixed Investment (1)

(1) Machinery Orders¹



- Notes: 1. Seasonally adjusted data. Figures for 1998/Q2 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/Q2.
 4. Forecast of all industries for 1998/Q2.
 5. Forecast of manufacturing industries for 1998/Q2.

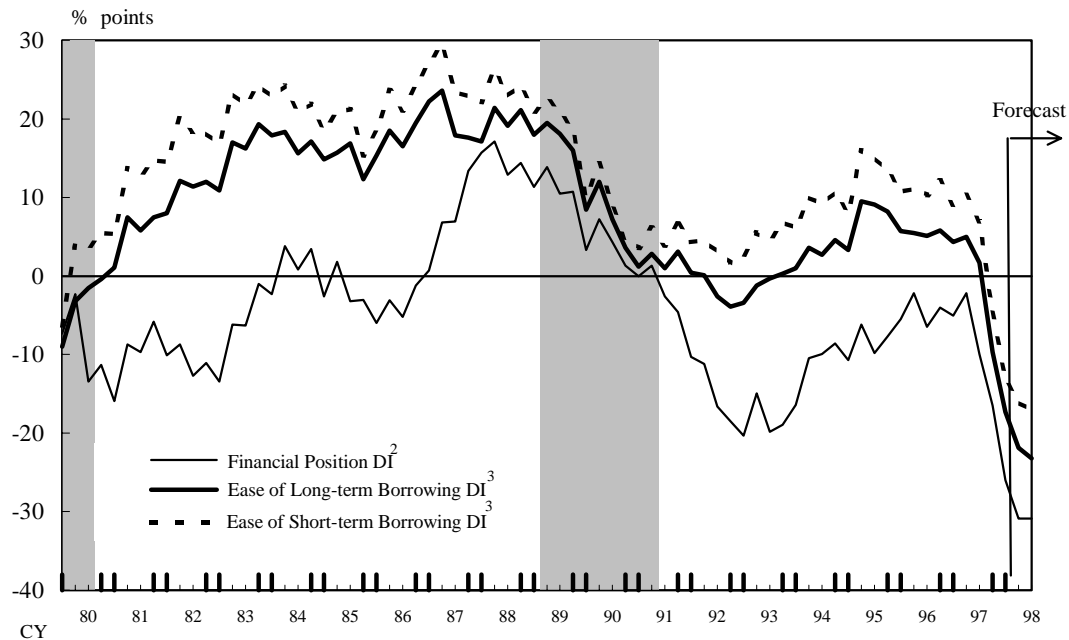
(2) Construction Starts (Nonresidential)¹



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

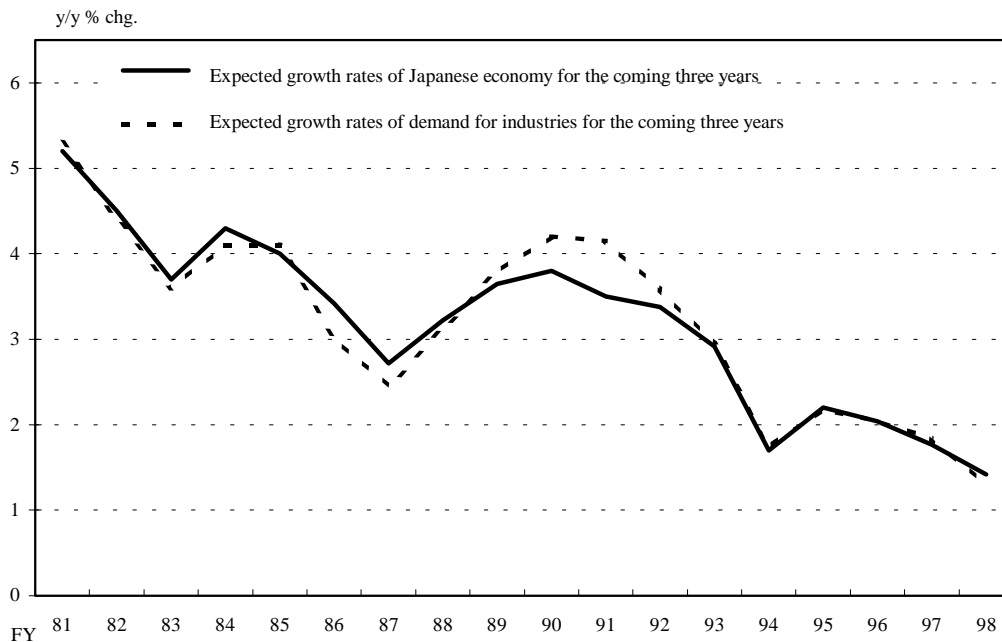
Major Indexes of Business Fixed Investment (2)

(3) Economic Survey of Small Businesses¹



Notes: 1. Sample: 11,793 Companies (Responses: 5,651 < March 1998 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."

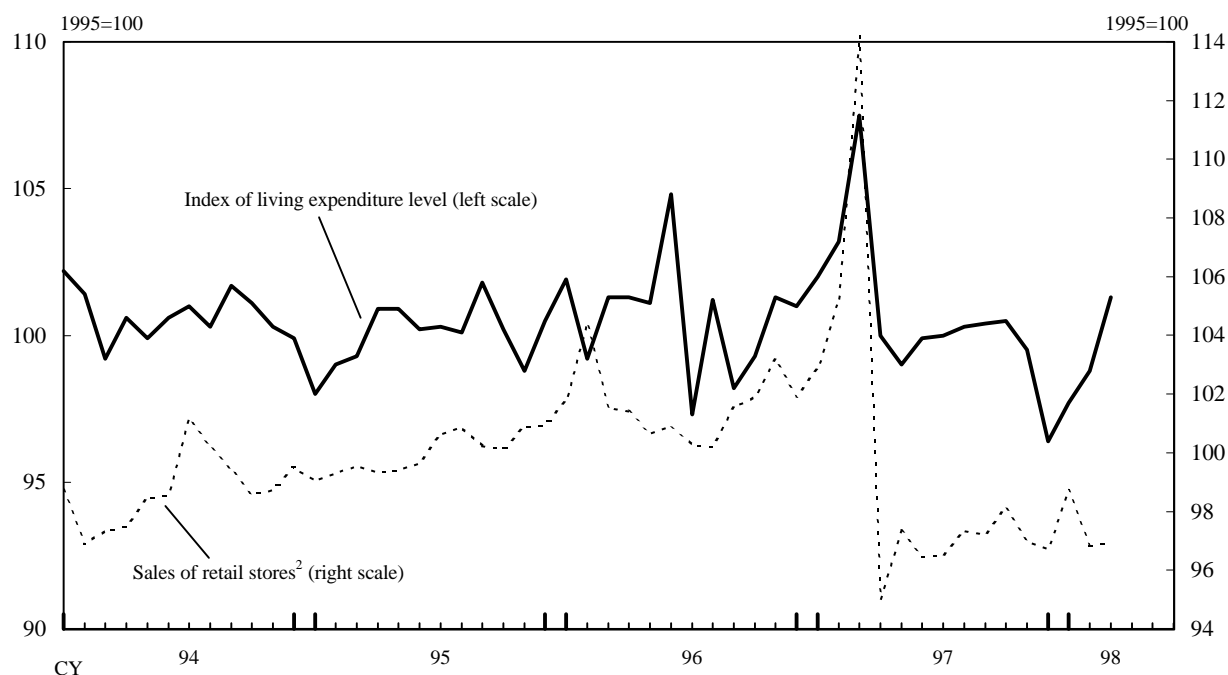
(4) Firms' Expected Growth Rates



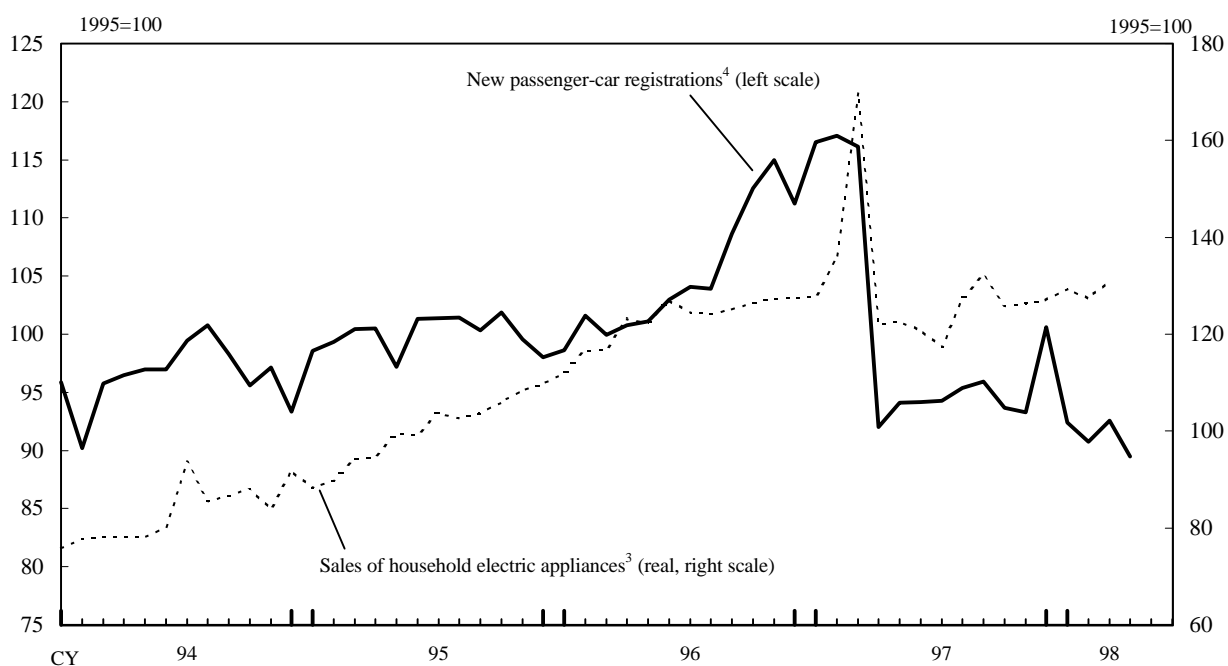
Sources: Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses";
 Economic Planning Agency, "Report on the Survey of Private Enterprises' Activities."

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.

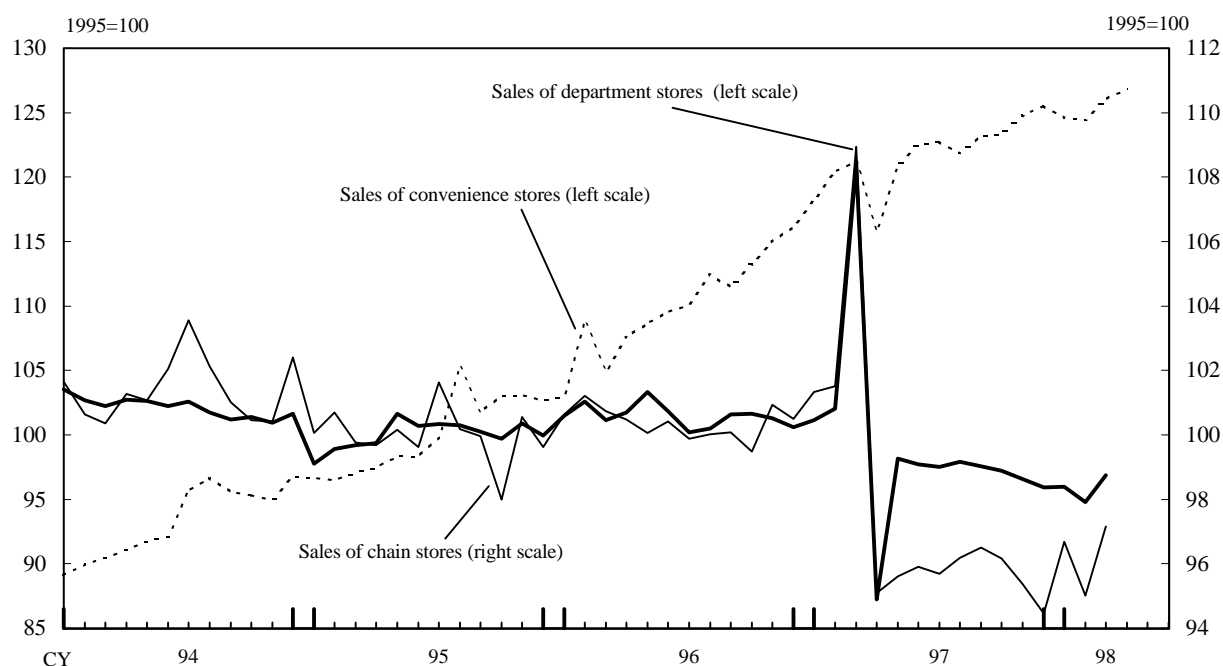
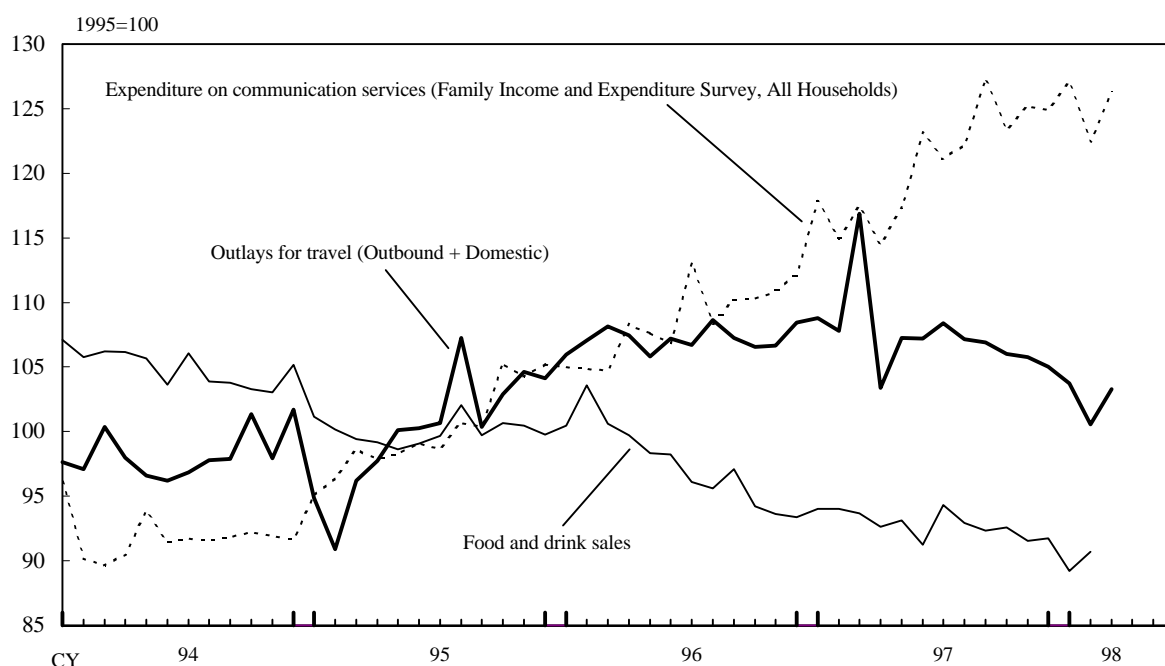
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
"Consumer Price Index";

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";

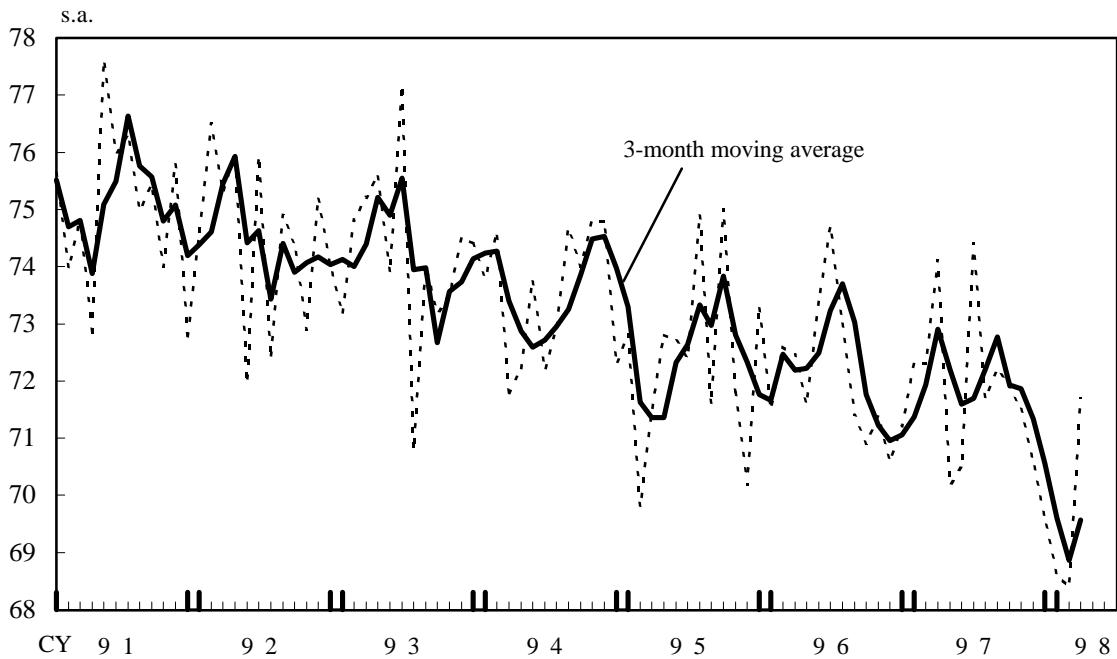
Japan Chain Stores Association, "Sales of Chain Stores";

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

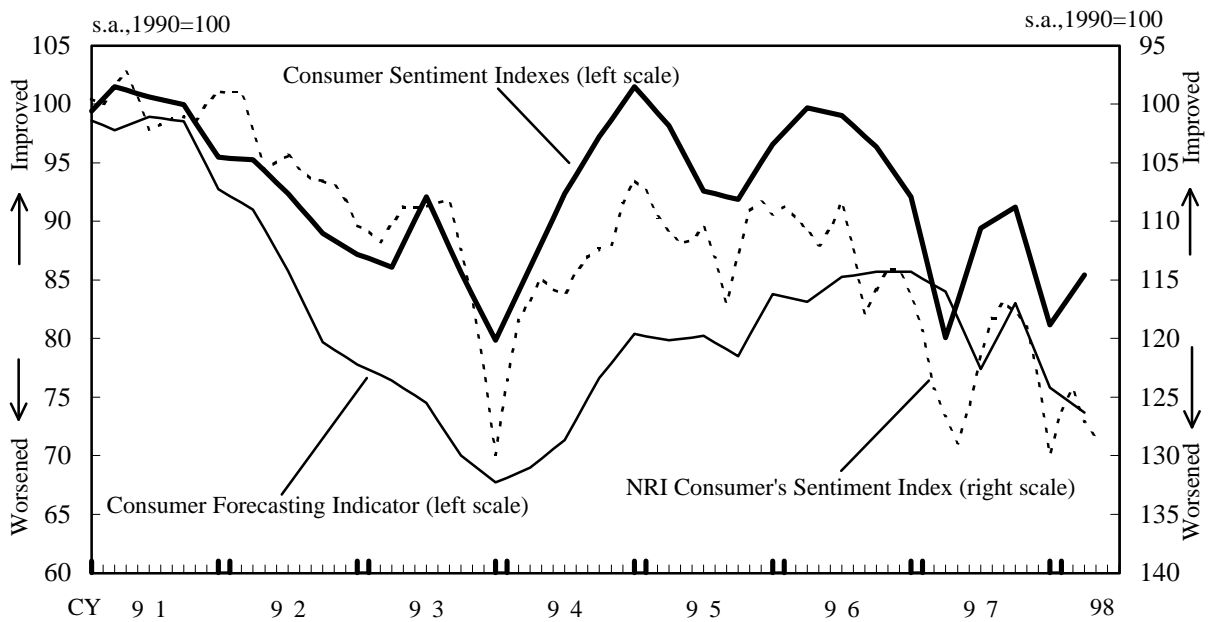
Foodservice Industry Survey & Research Center, "Monthly Survey of Food and Drink Sales."

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";

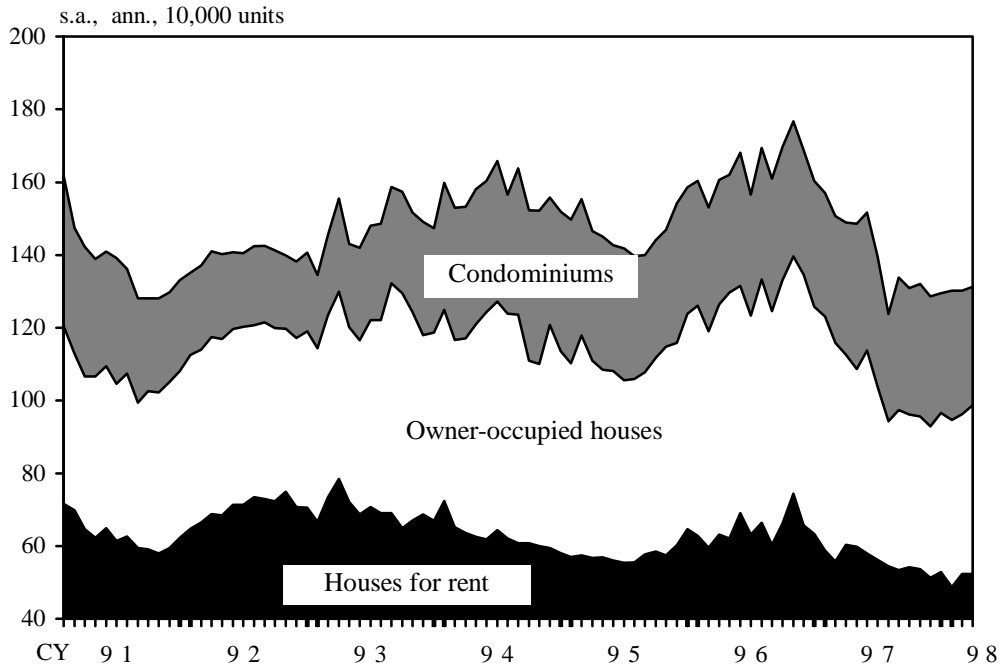
Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator";

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

Expenditure Survey";

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

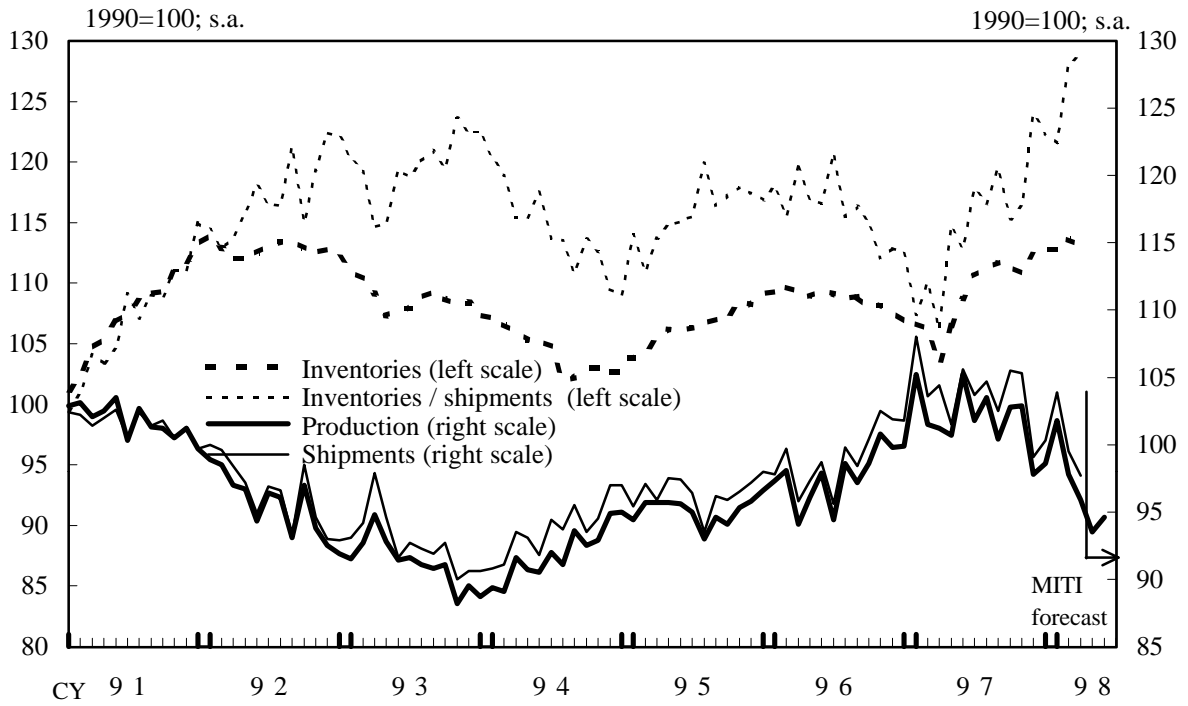
Housing Starts



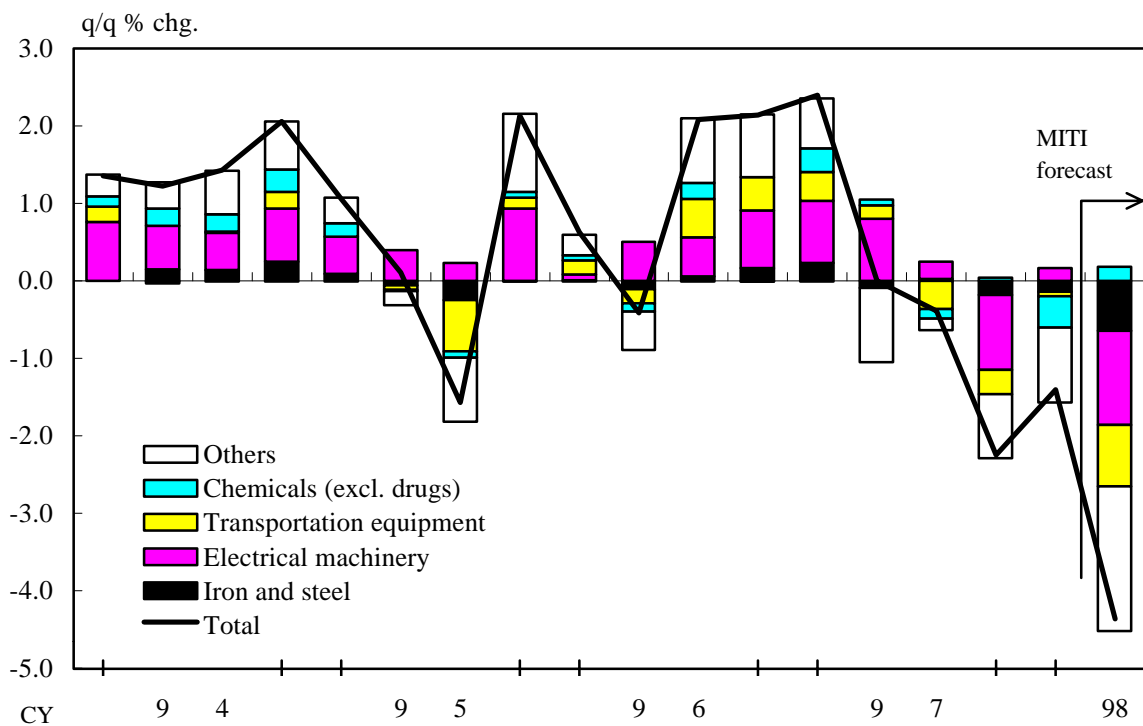
Source: Ministry of Construction, "Monthly of Construction Statistics".

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



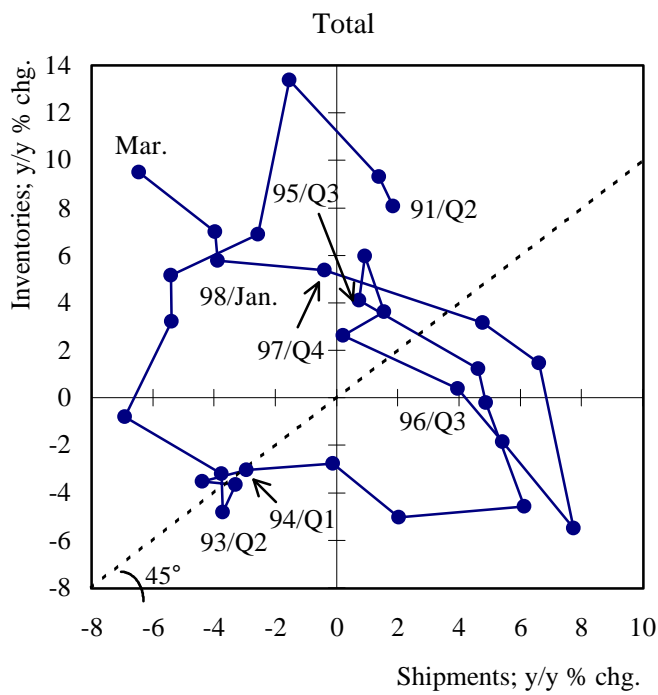
(2) Production by Industries



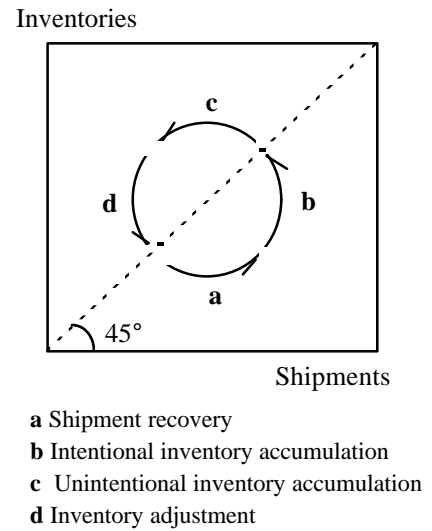
Note: Transportation equipment excludes ships and rolling stock.

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

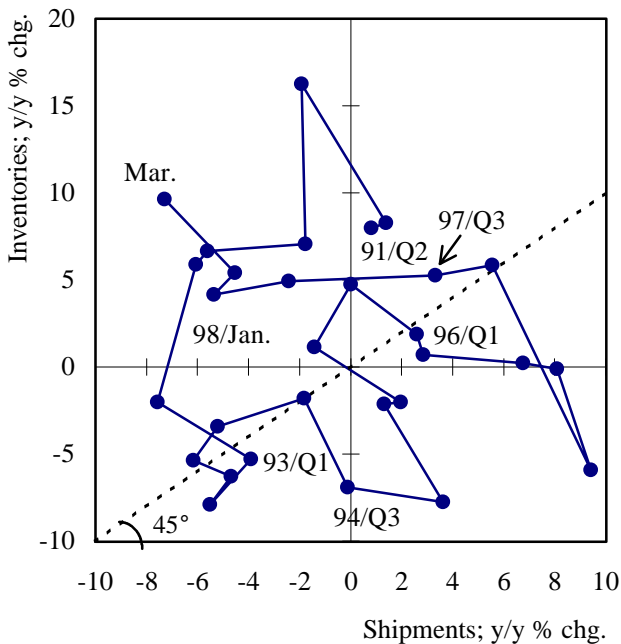
Inventory Cycle



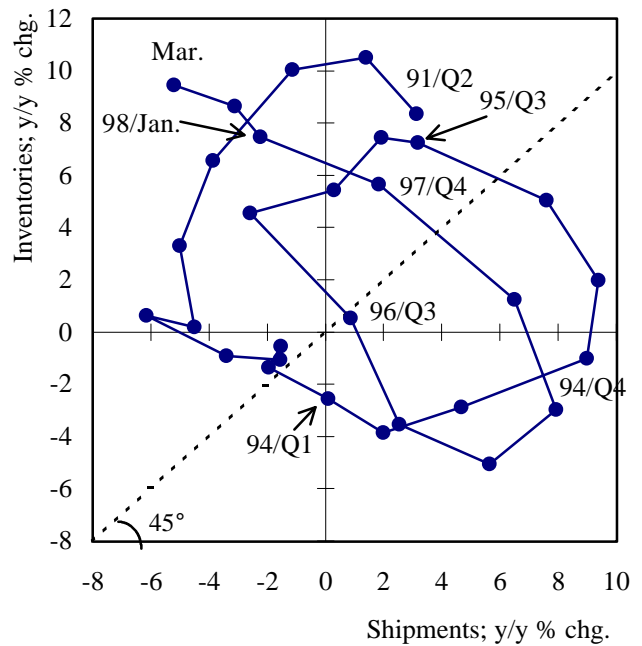
Phases in the Inventory Cycle



Final Demand Goods



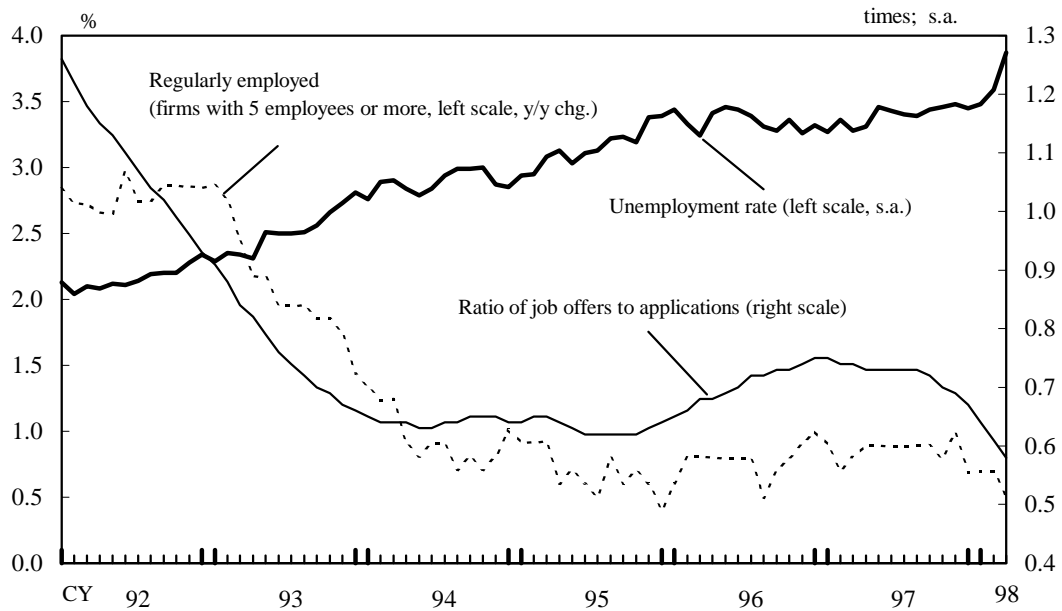
Production Goods



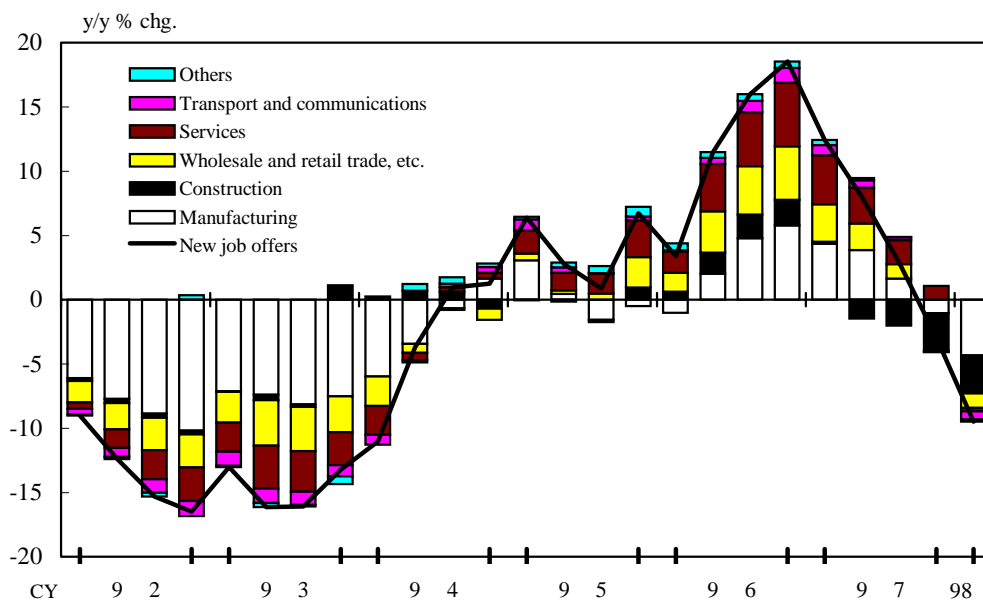
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



(2) New job offers¹

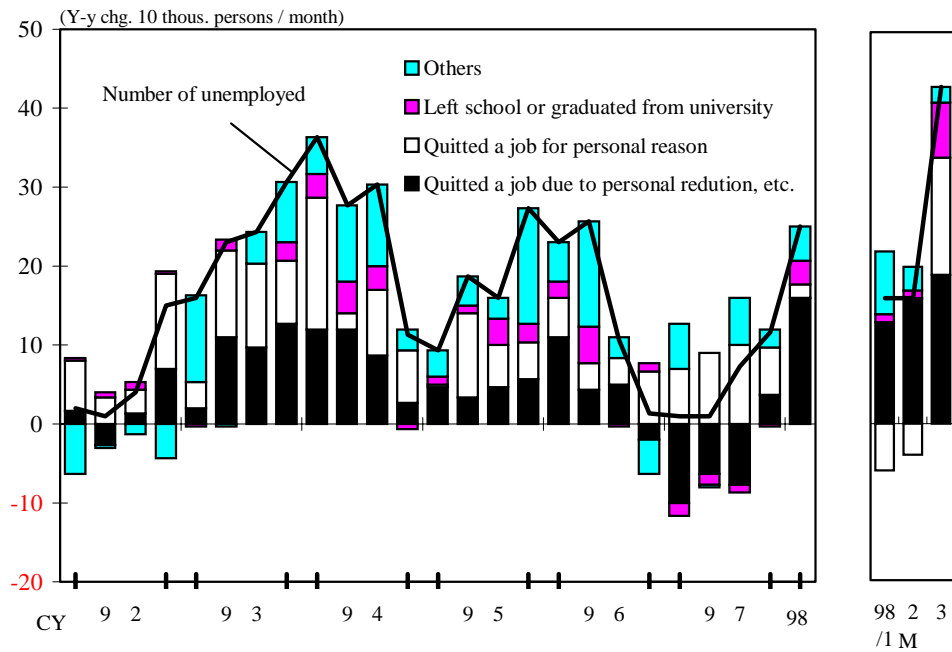


Note: 1.Excludes jobs offered to new graduates.

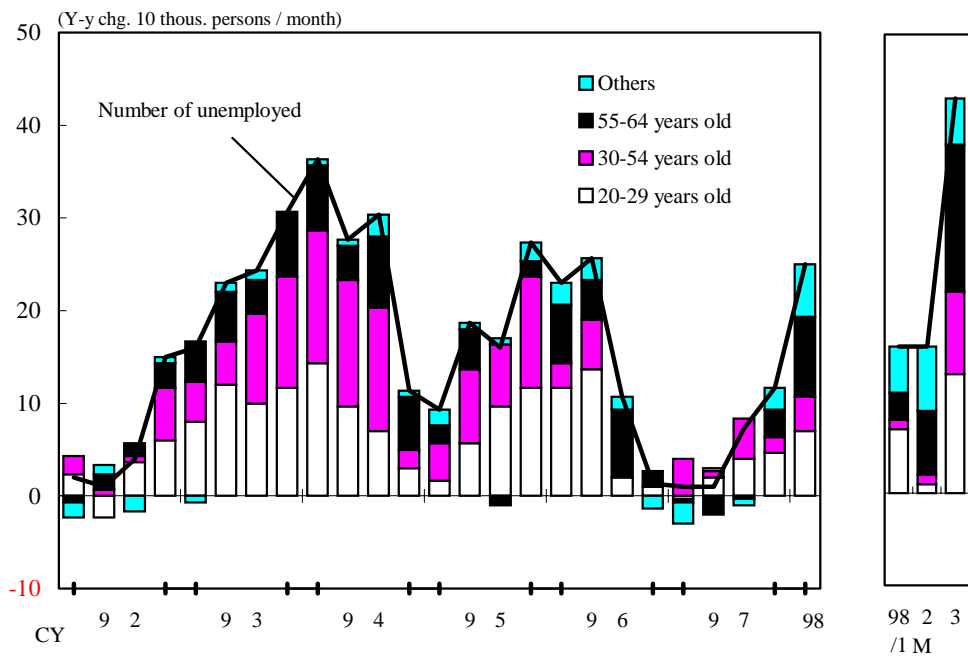
Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service"; Management and Coordination Agency, "Labor Force Survey."

Unemployment

(1) Reasons for becoming unemployed



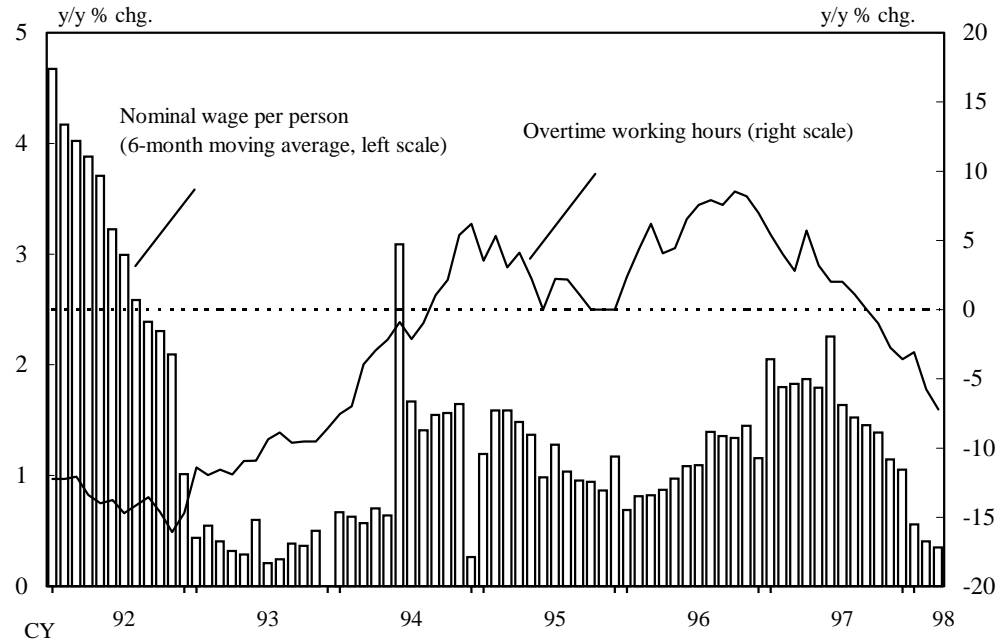
(2) Age Group



Source: Management and Coordination Agency, "Labor Force Survey."

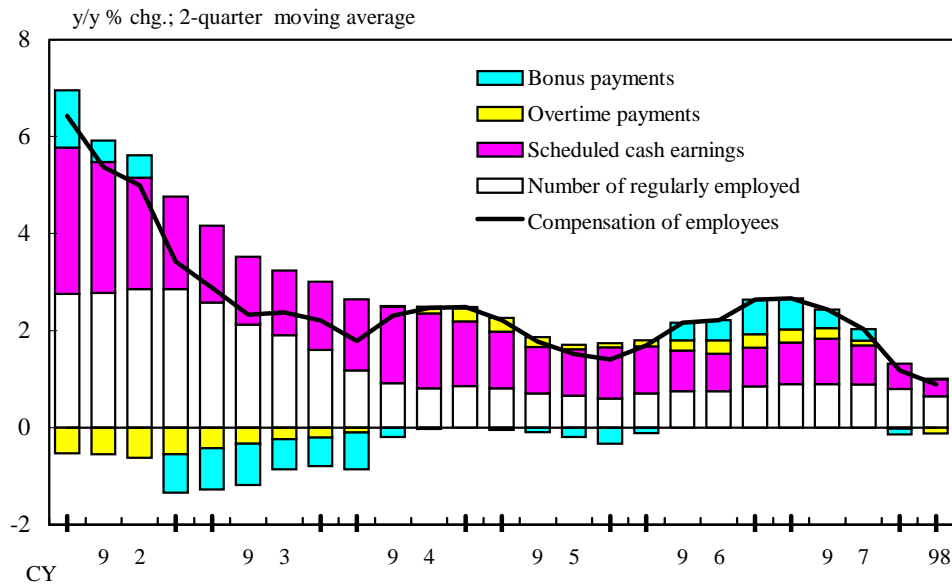
Compensation of Employees

(1) Nominal Wage per Person ¹



Note: 1.Data for firms with 5 employees or more.

(2) Breakdown of Compensation ¹

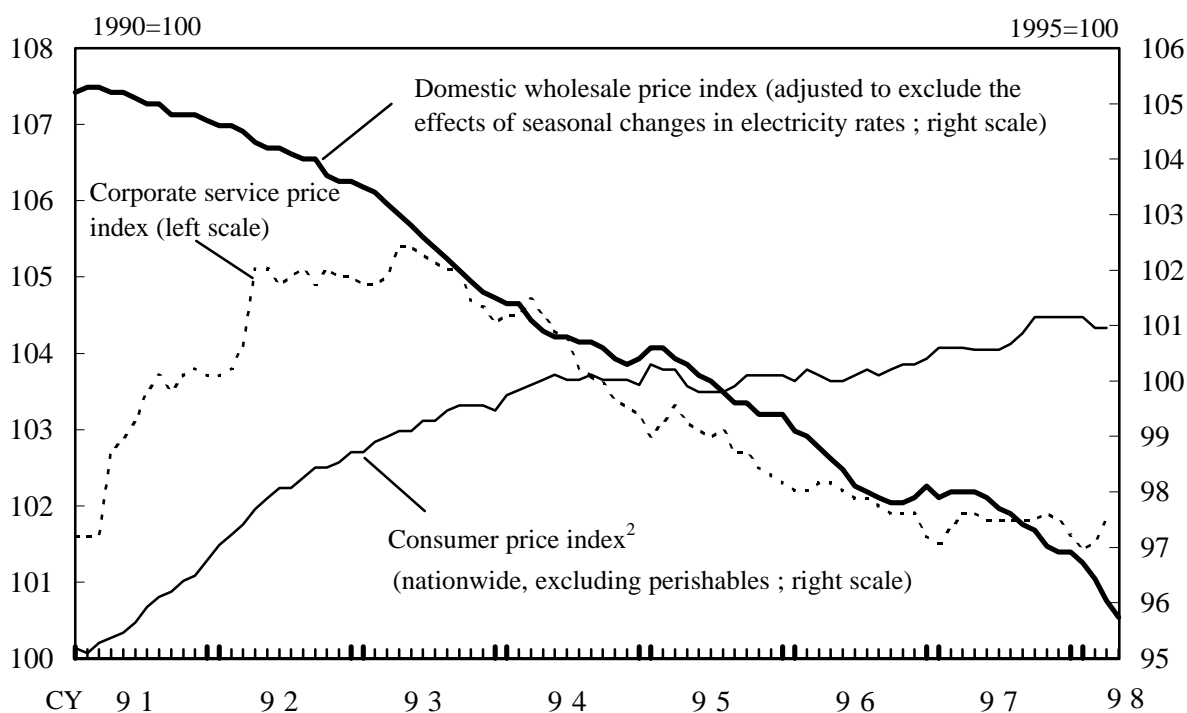


Note: 1. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.
Data for firms with 5 employees or more.

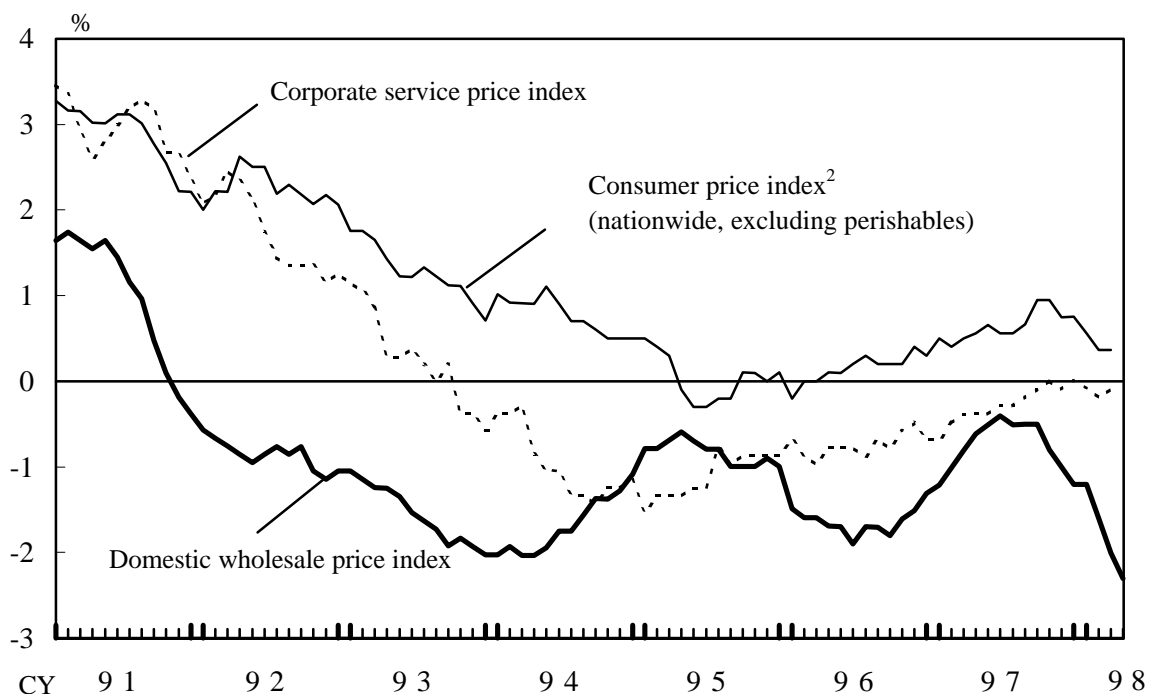
Source: Ministry of Labor, "Monthly Labor Survey."

Prices

(1) Level



(2) Changes from a year earlier



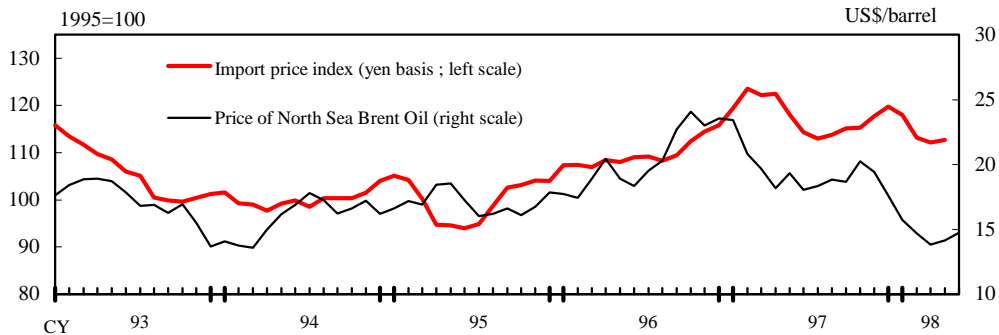
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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.

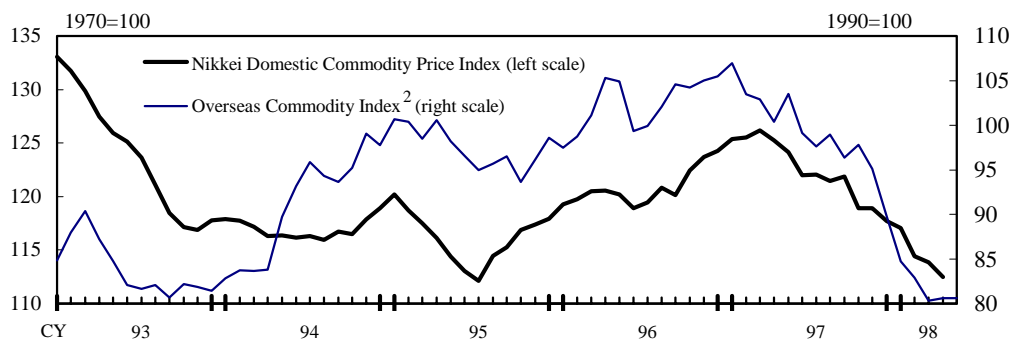
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

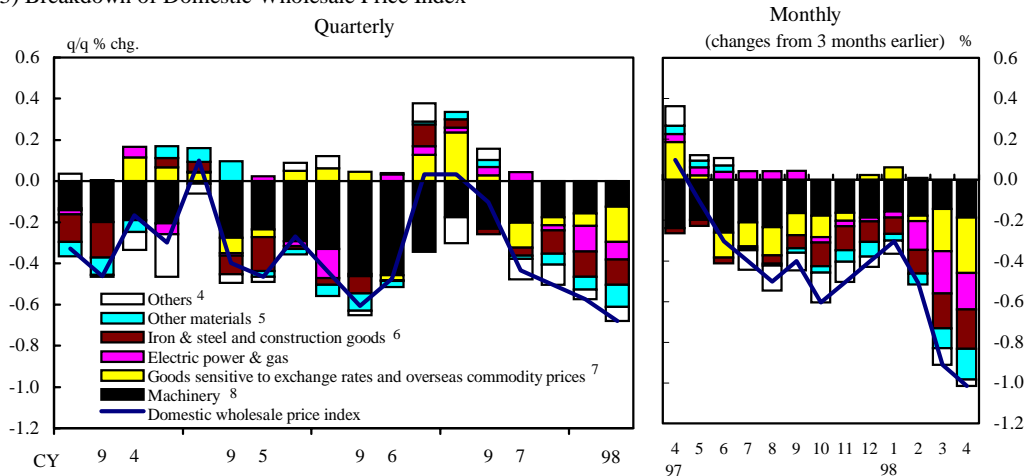
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



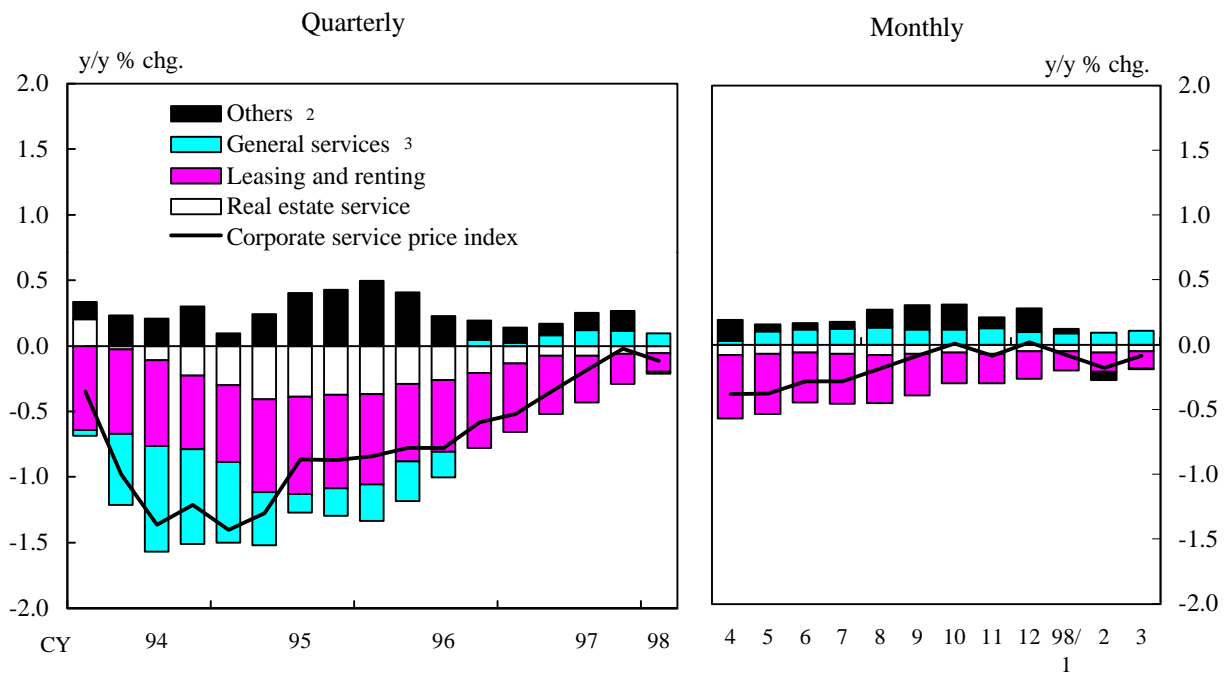
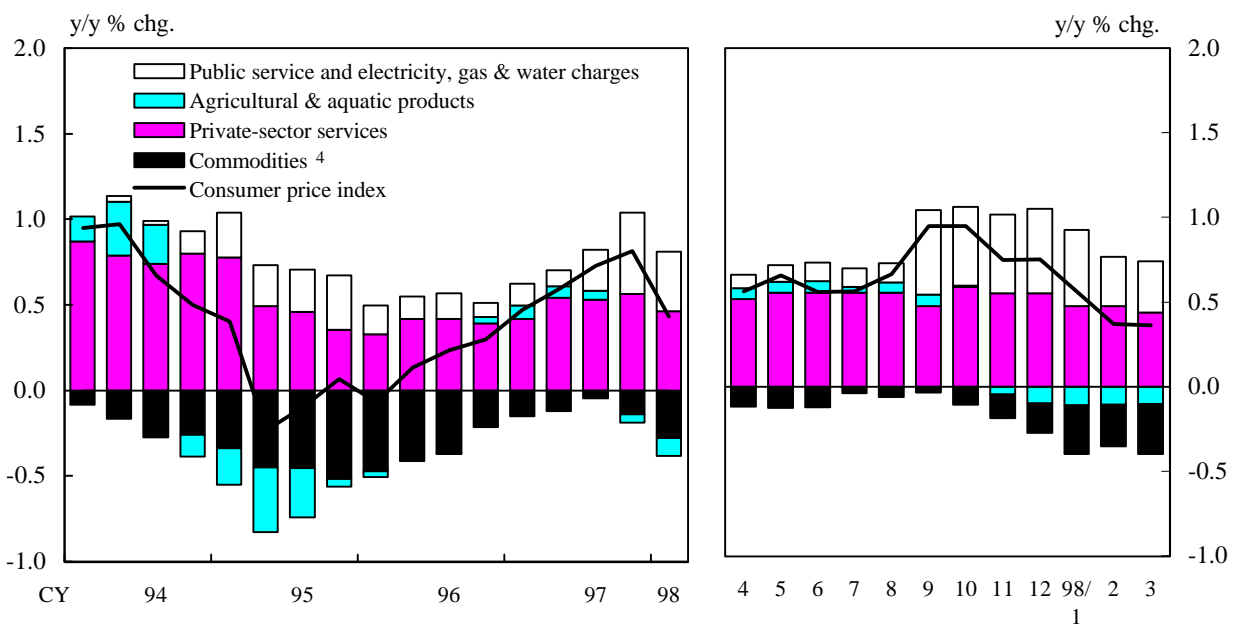
(3) Breakdown of Domestic Wholesale Price Index³



- Notes: 1. Data for May 1998 is May 1-12 average.
 2. Calculated by the Research and Statistics Department, Bank of Japan. Data for May 1998 is May 1-12 average.
 3. Adjusted to exclude the effects of seasonable 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. The data in 98/Q2 are those of Apr. 98.
 4. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.
 5. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.
 6. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wooden products + scrap & waste.
 7. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metal.
 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

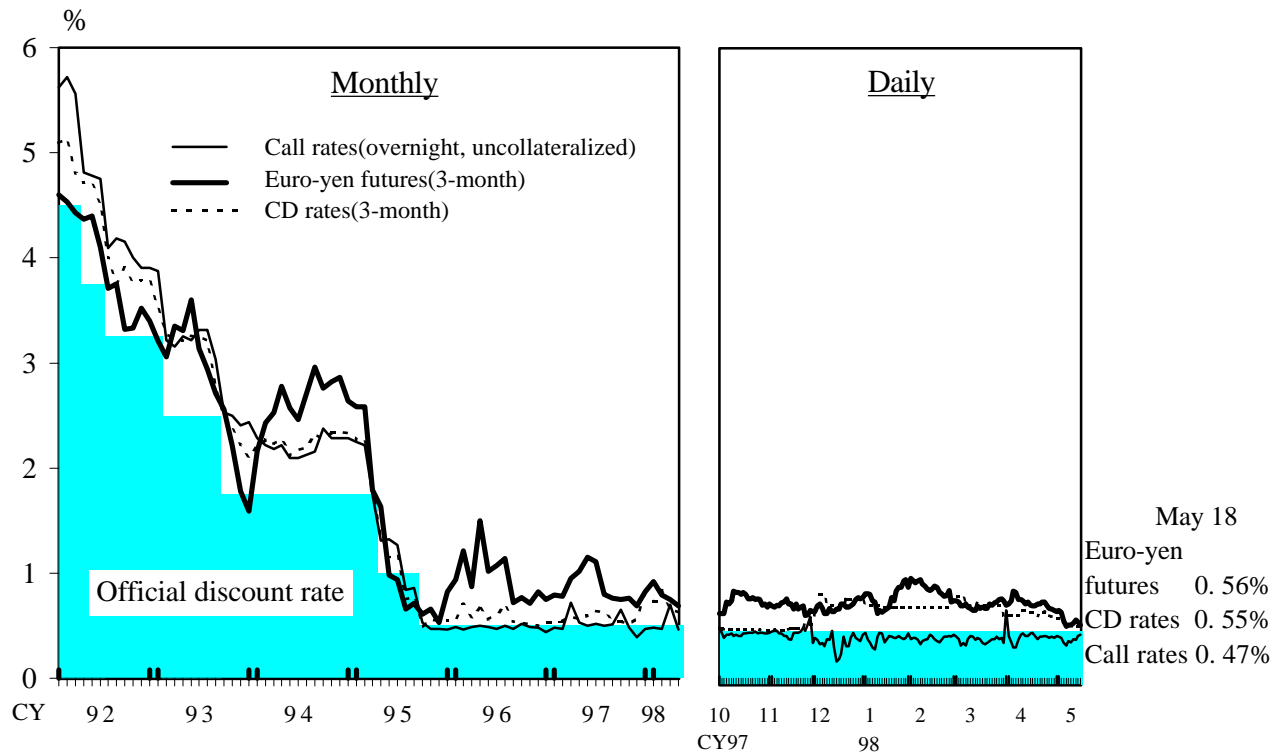
(1) Breakdown of Corporate Service Price Index¹(2) Breakdown of Consumer Price Index (excluding perishables)¹

- 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.
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.

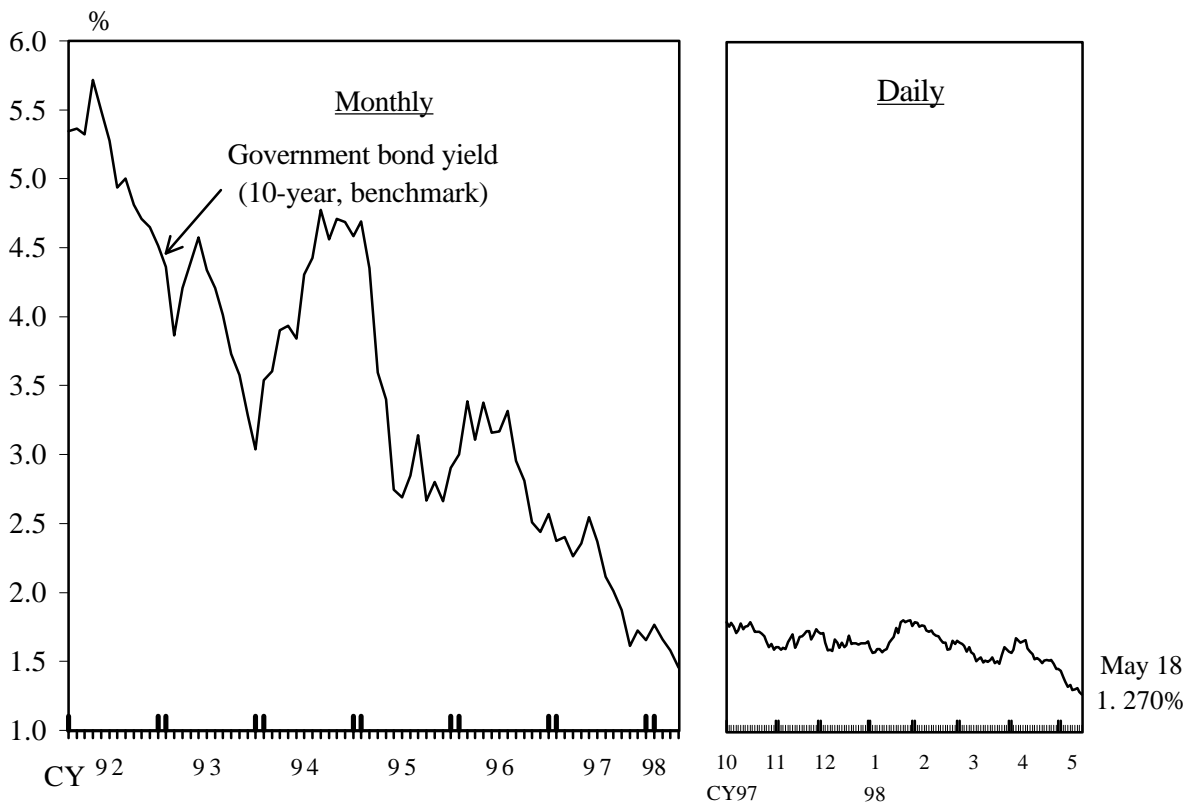
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Interest Rates

(1) Short-Term



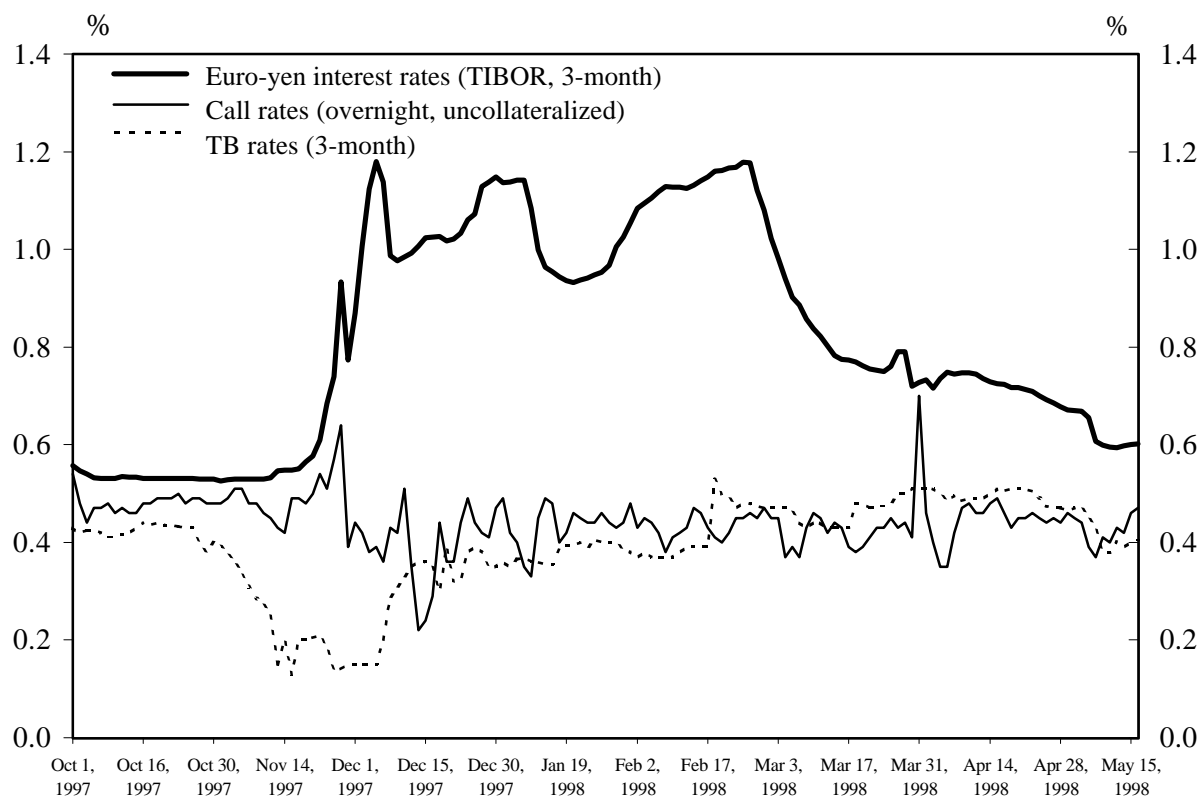
(2) Long-Term



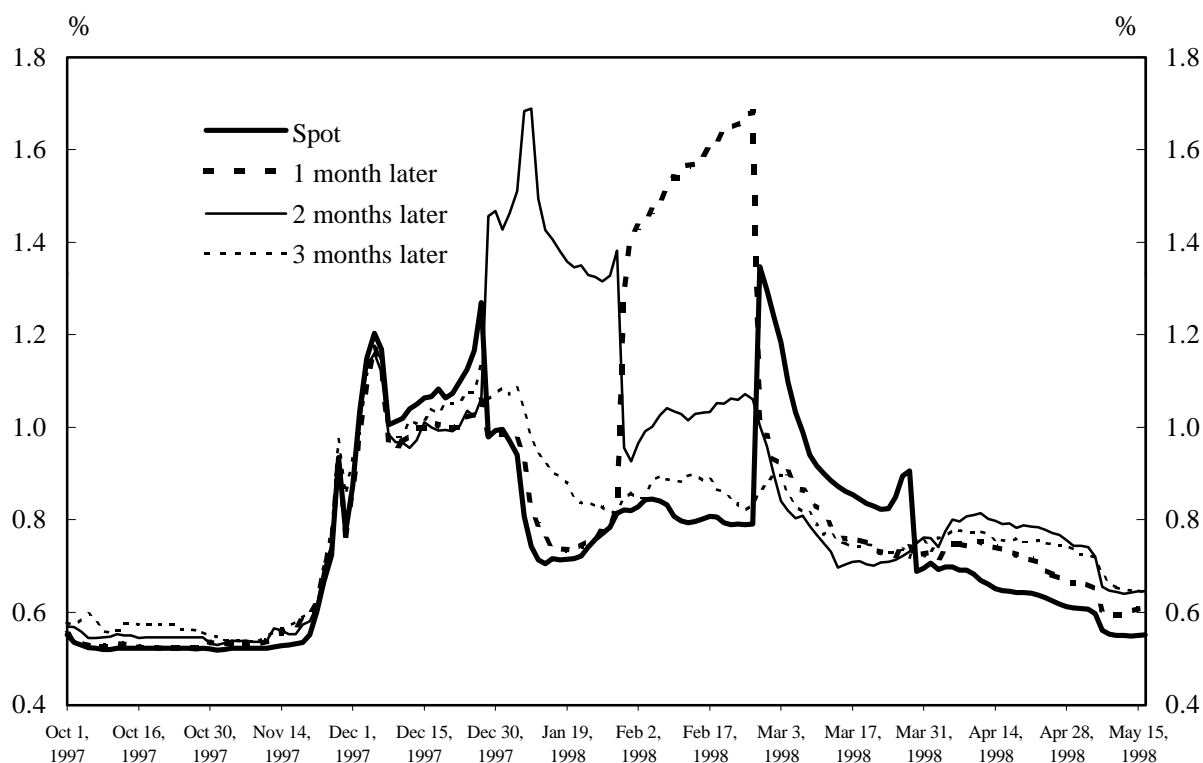
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

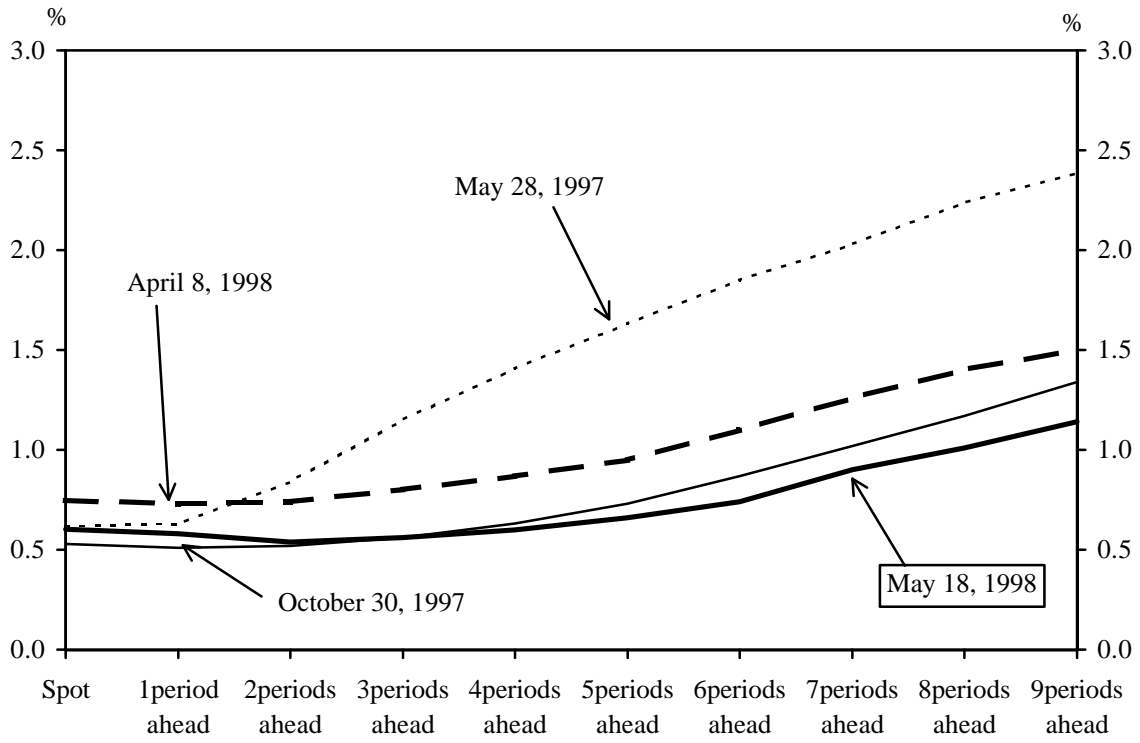


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



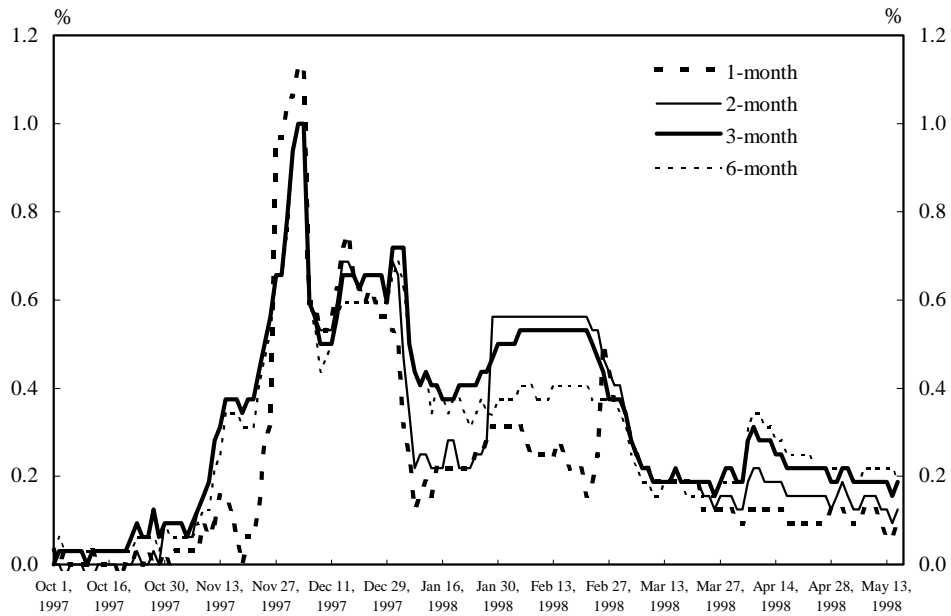
Sources: Bank of Japan, "Economic Statistics Monthly" ; *The Nikkei Financial Daily*.

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily* .

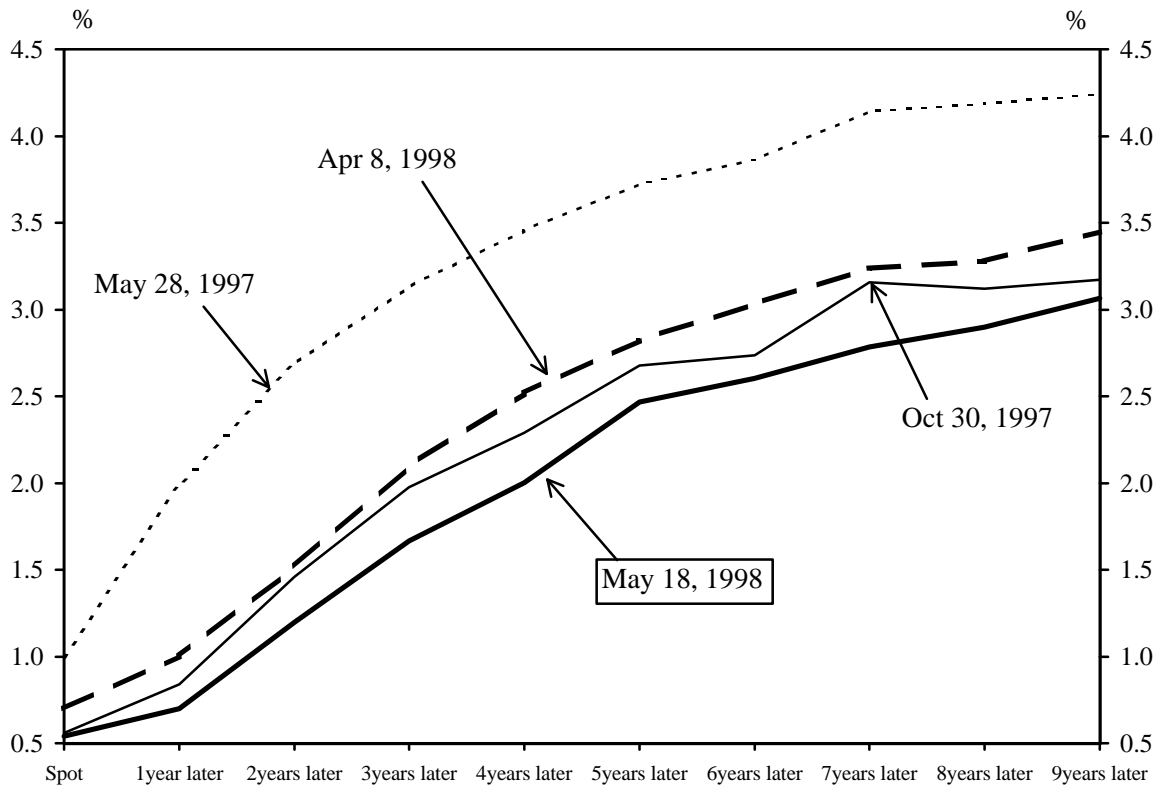
 Japan Premium in the Eurodollar Market



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)

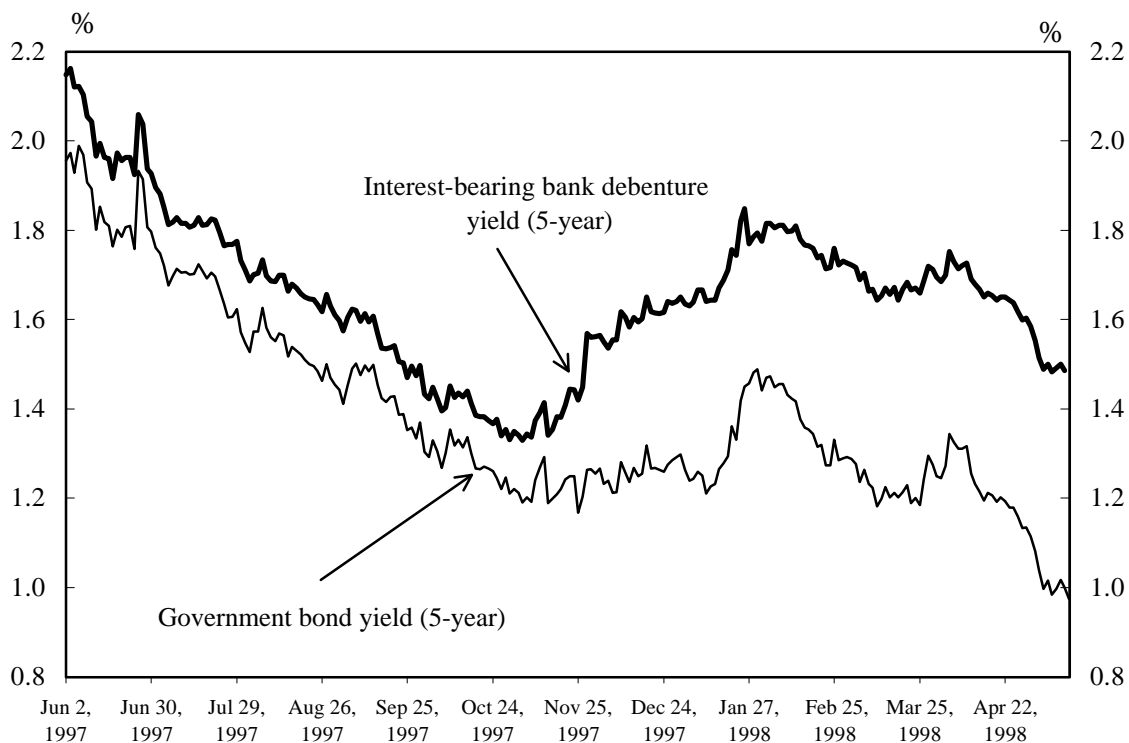


Note: Calculated from yen-yen swap rates.

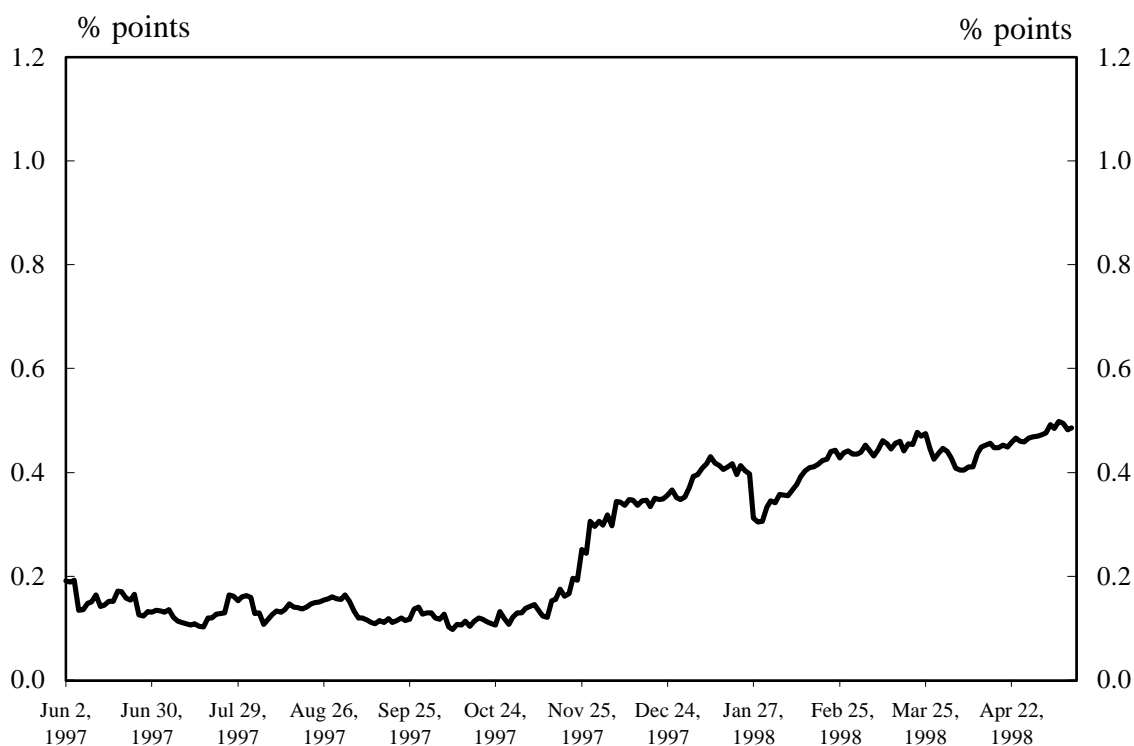
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields

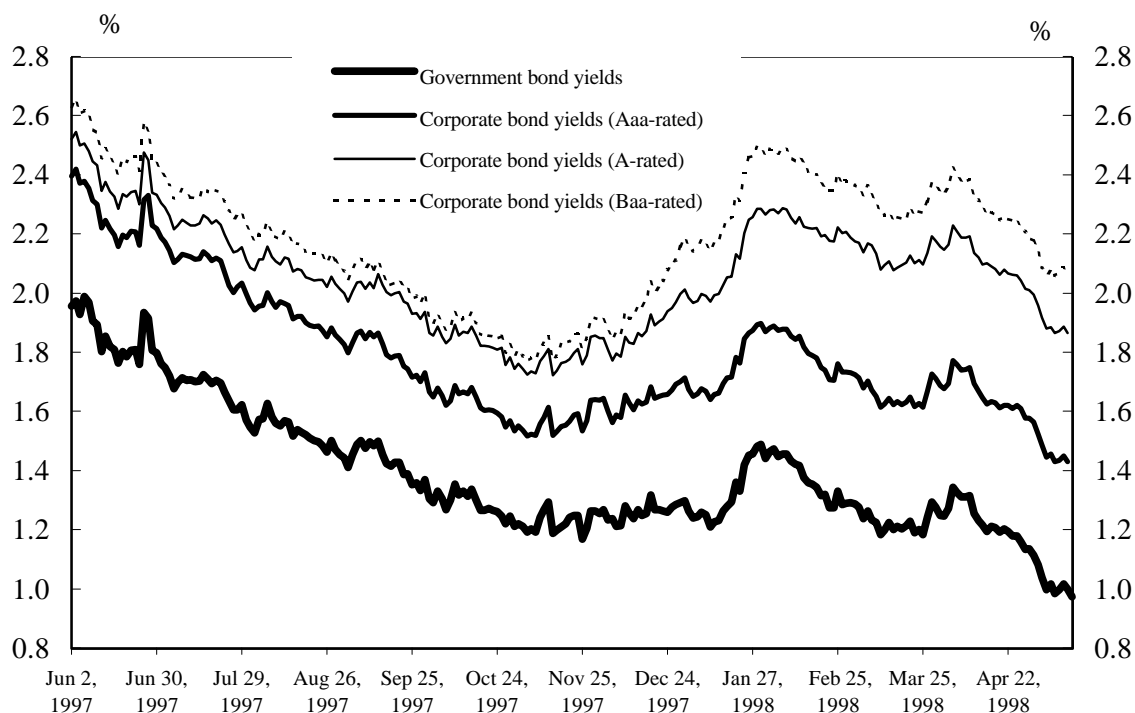


(2) Spread of Bank Debenture and Government Bond Yield

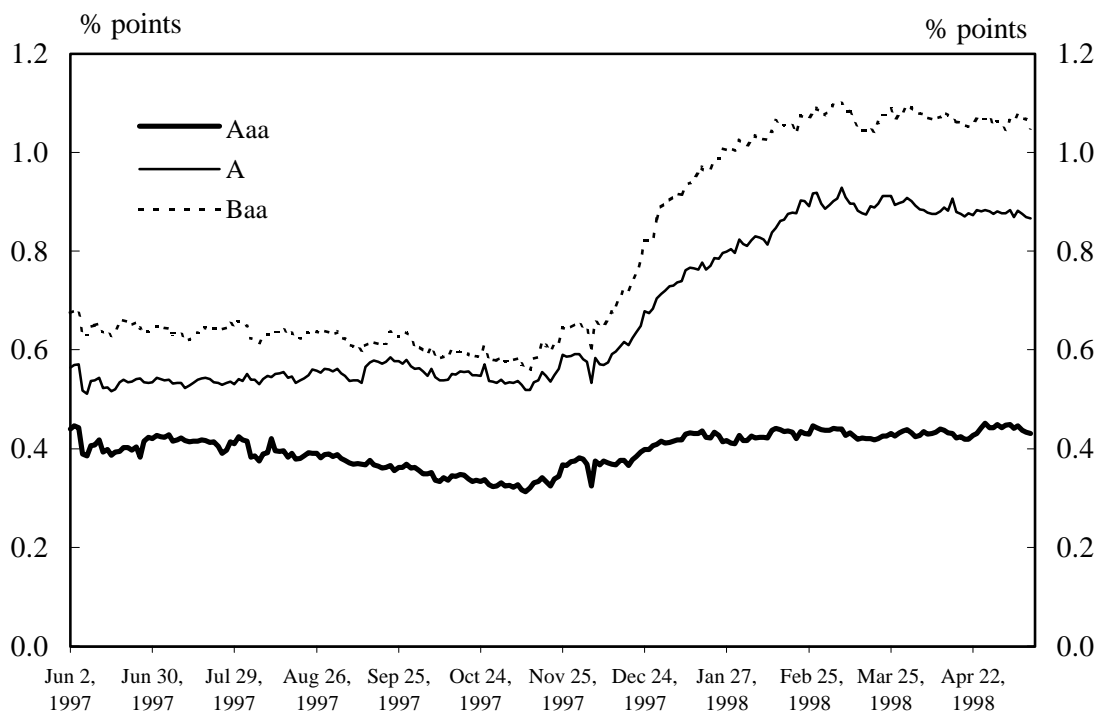


Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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

(2) Yield Spreads of Public and Corporate Bonds



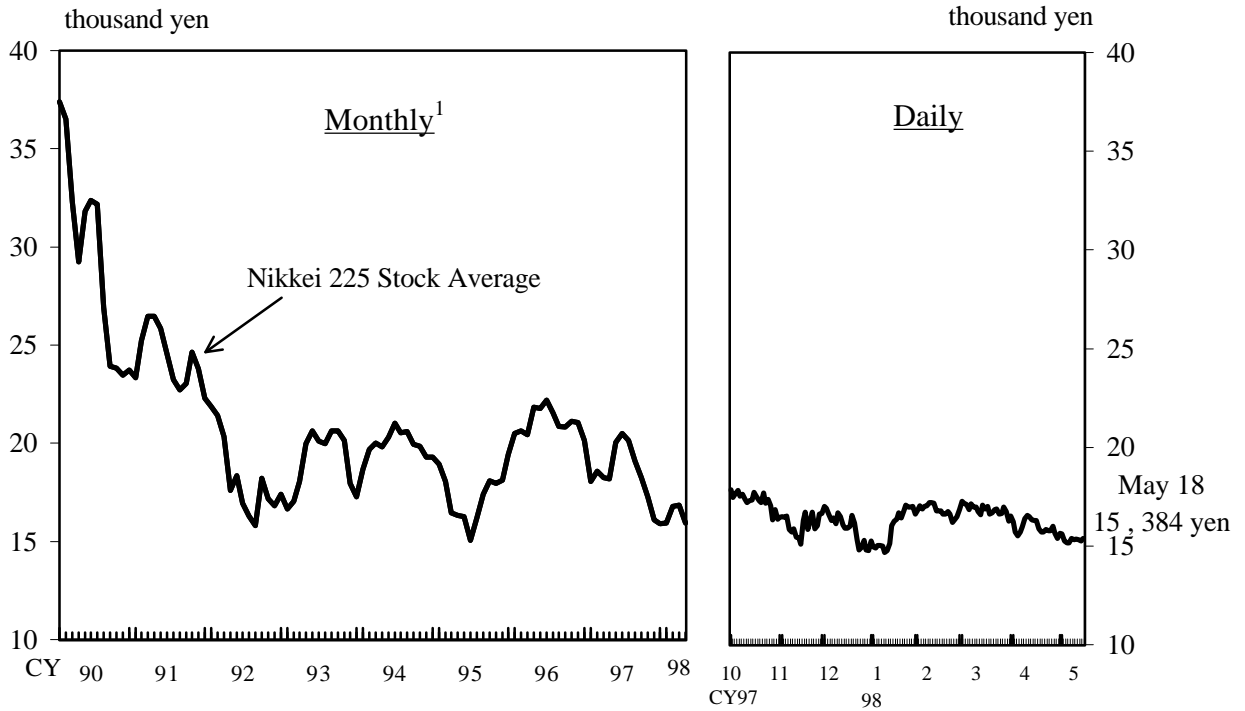
Notes: 1. Yields on bonds with 5-year maturity.

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

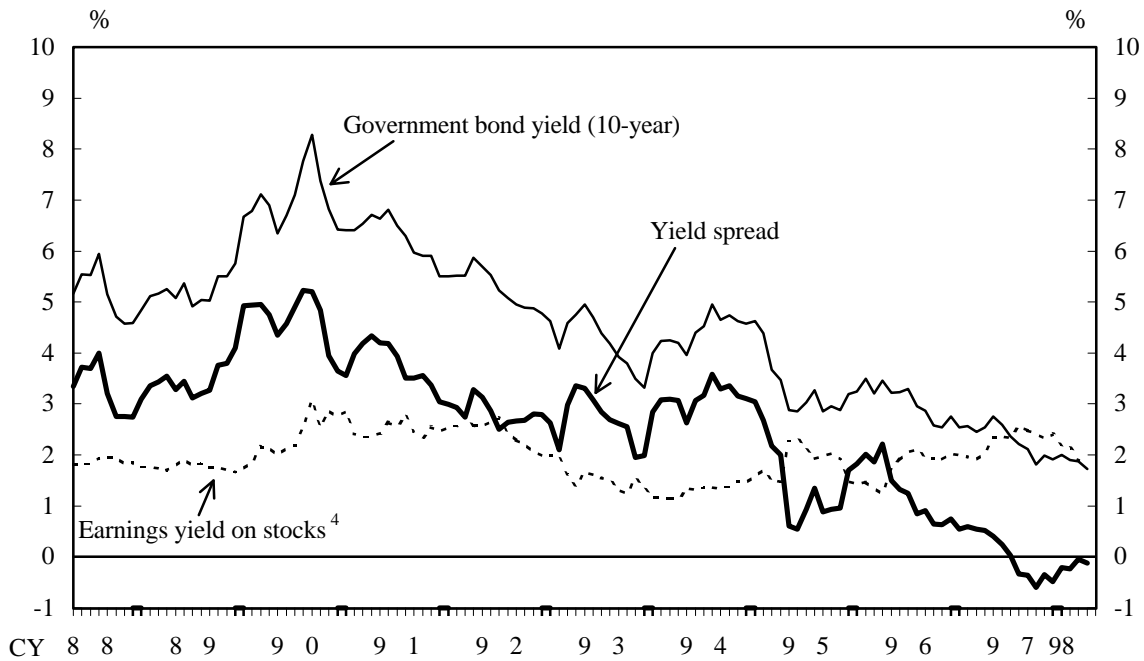
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread^{2,3}



Notes: 1. Data are monthly averages.

2. Data are at end of period.

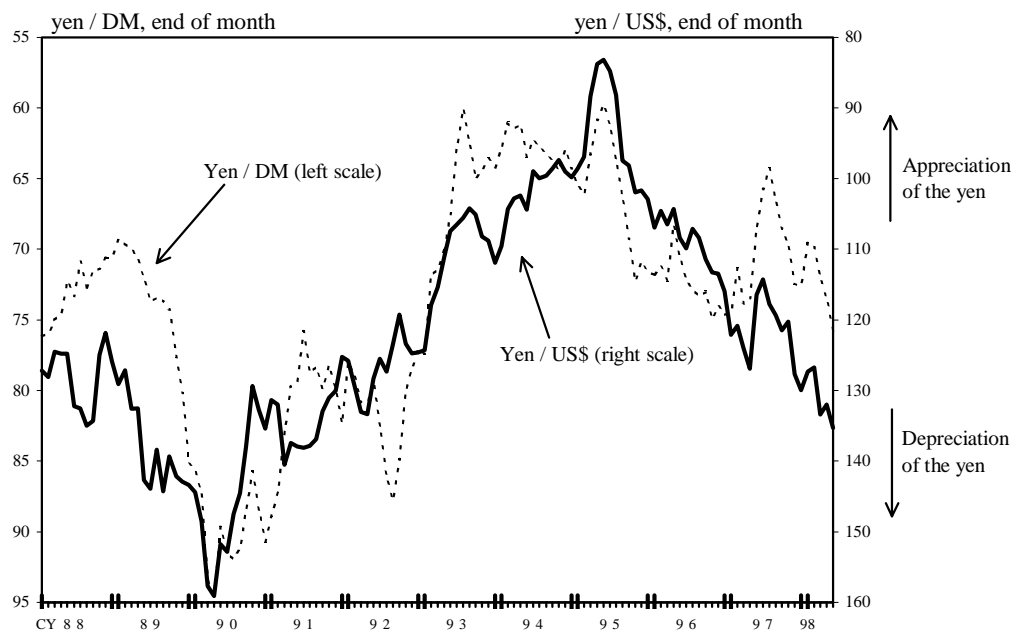
3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.

4. Based on stocks listed on the TSE First Section. Excludes bank stocks.

Data are calculated by the Daiwa Research Institute.

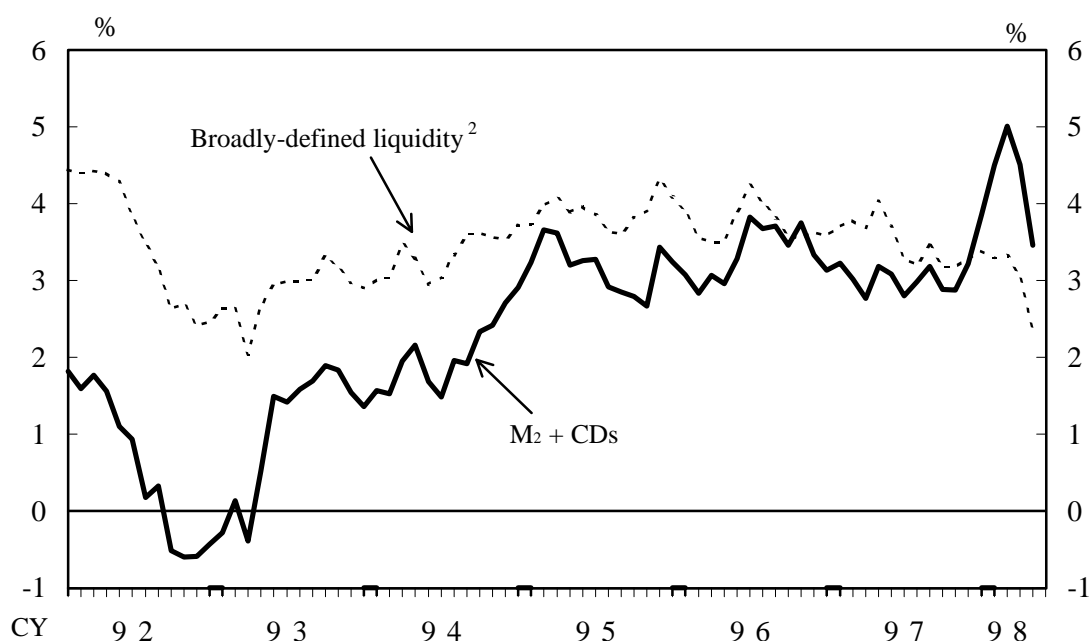
Sources: *The Nihon Keizai Shimbun*; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates

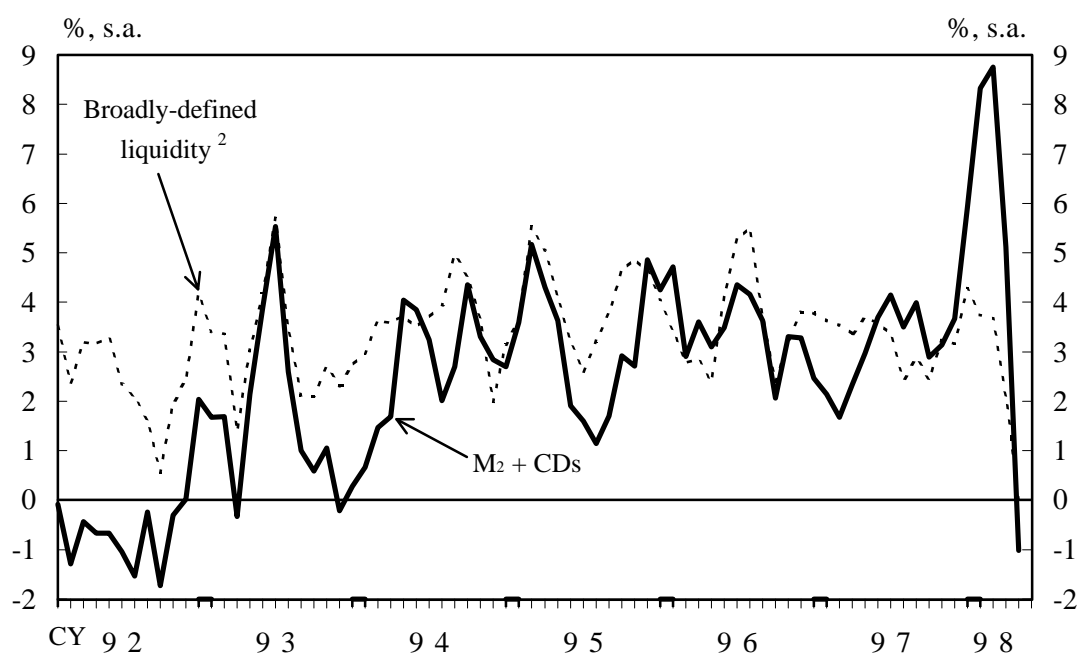


Note: Data for May 1998 are as of May 18, 1998.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



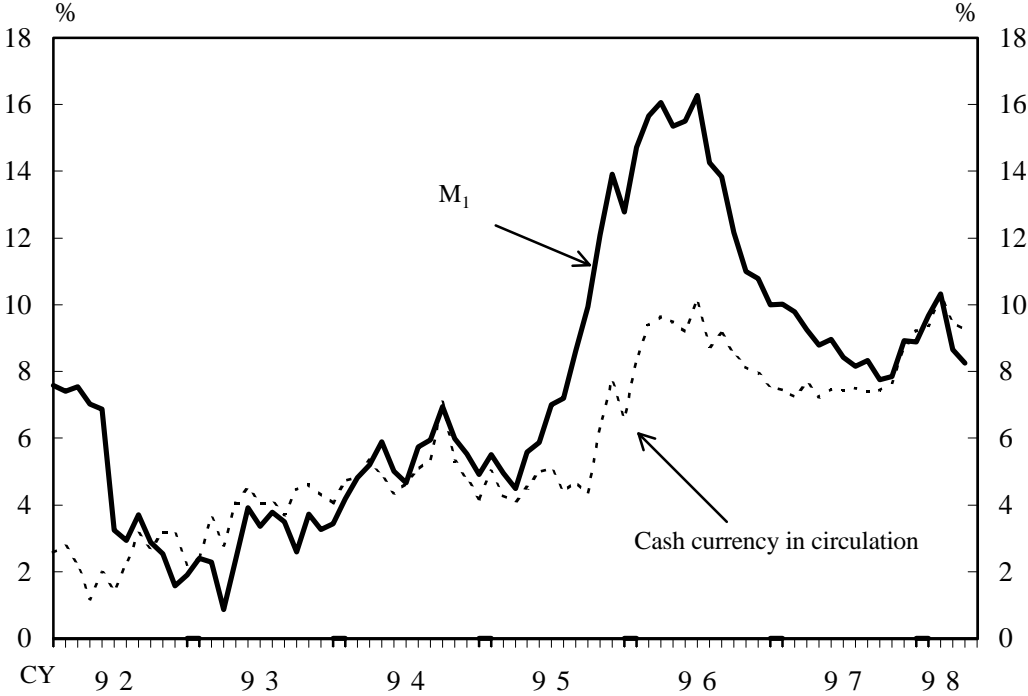
Notes: 1. Percent changes in average amounts outstanding.

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.

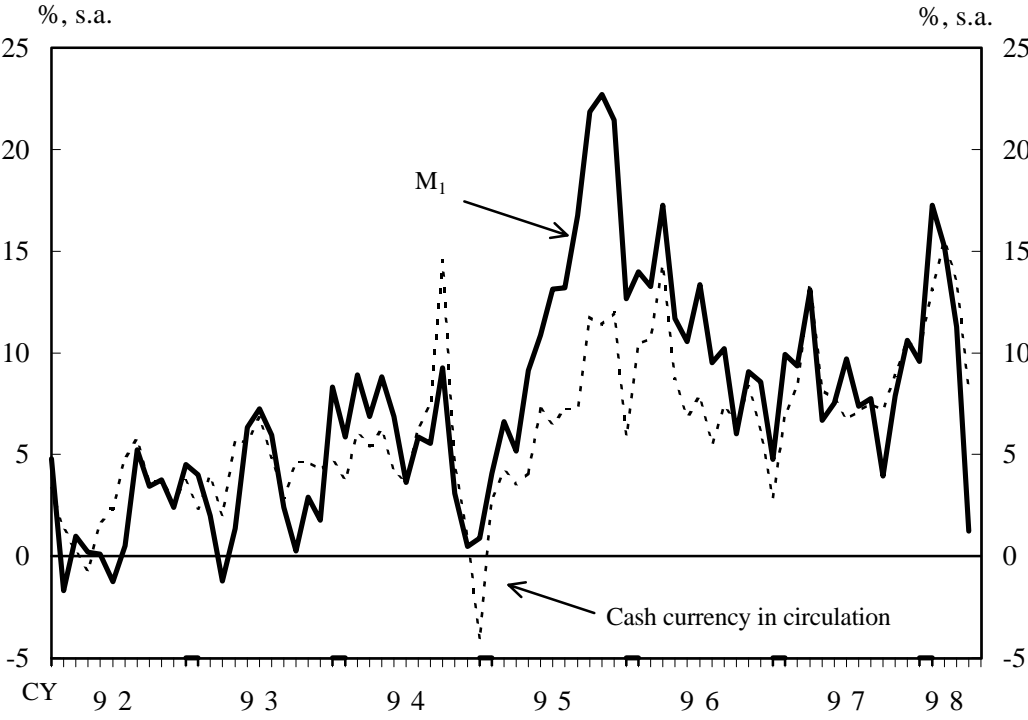
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

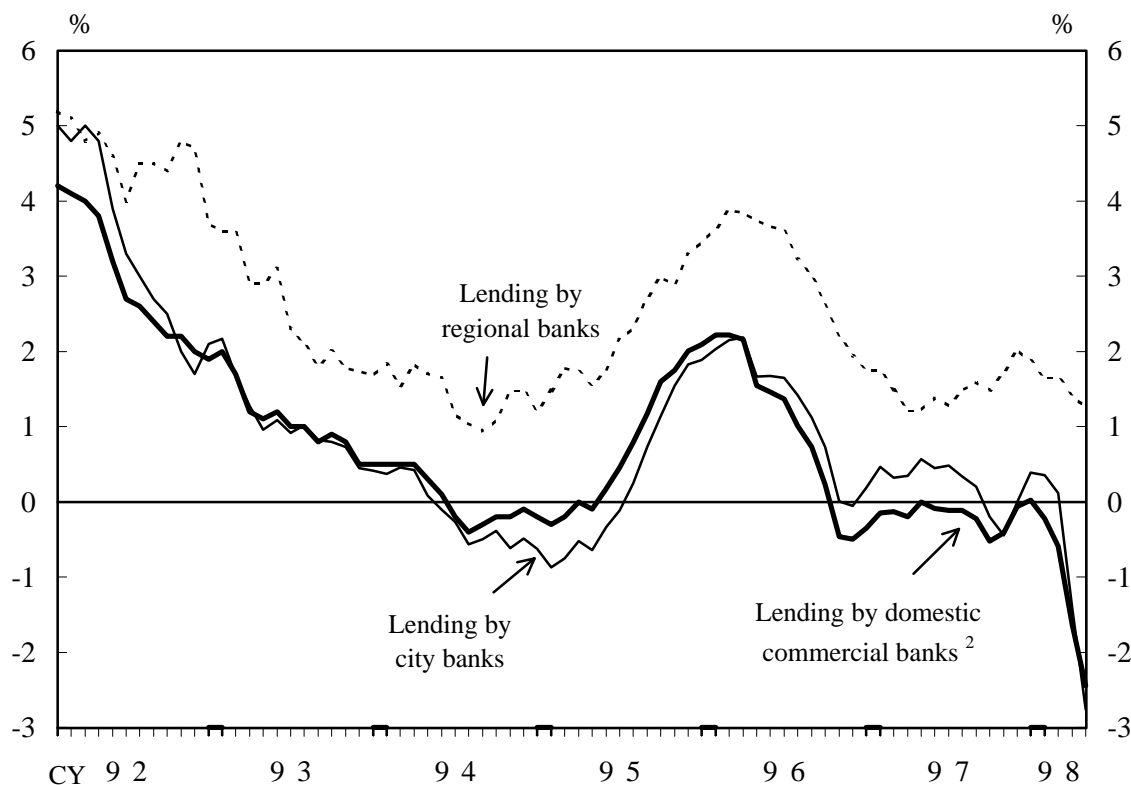


(2) Changes from Three Months Earlier (Annualized)



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

Lending by Domestic Commercial Banks



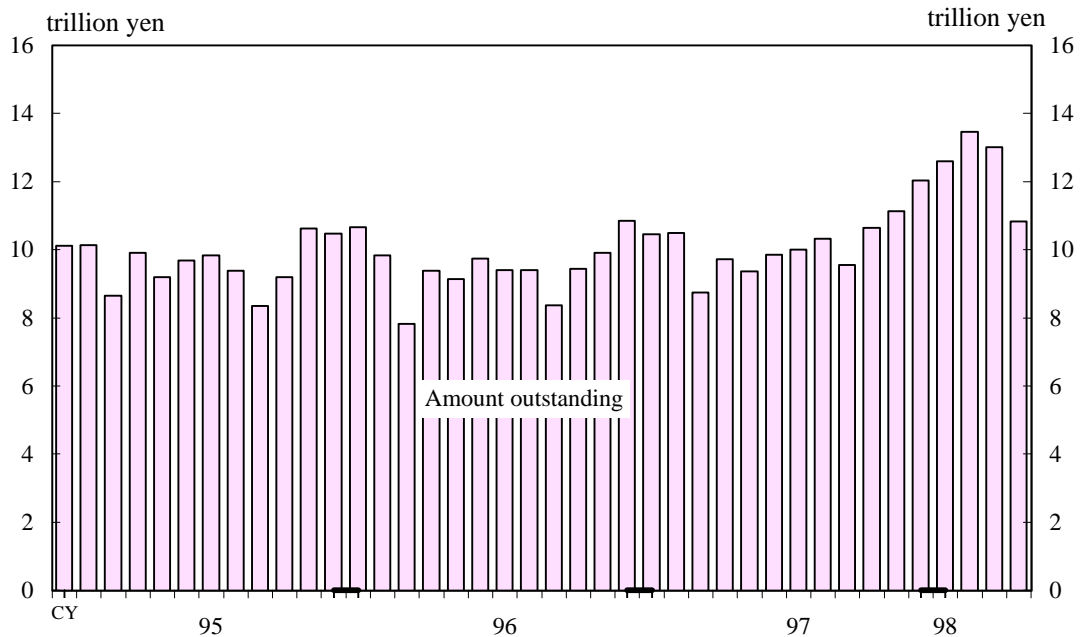
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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."

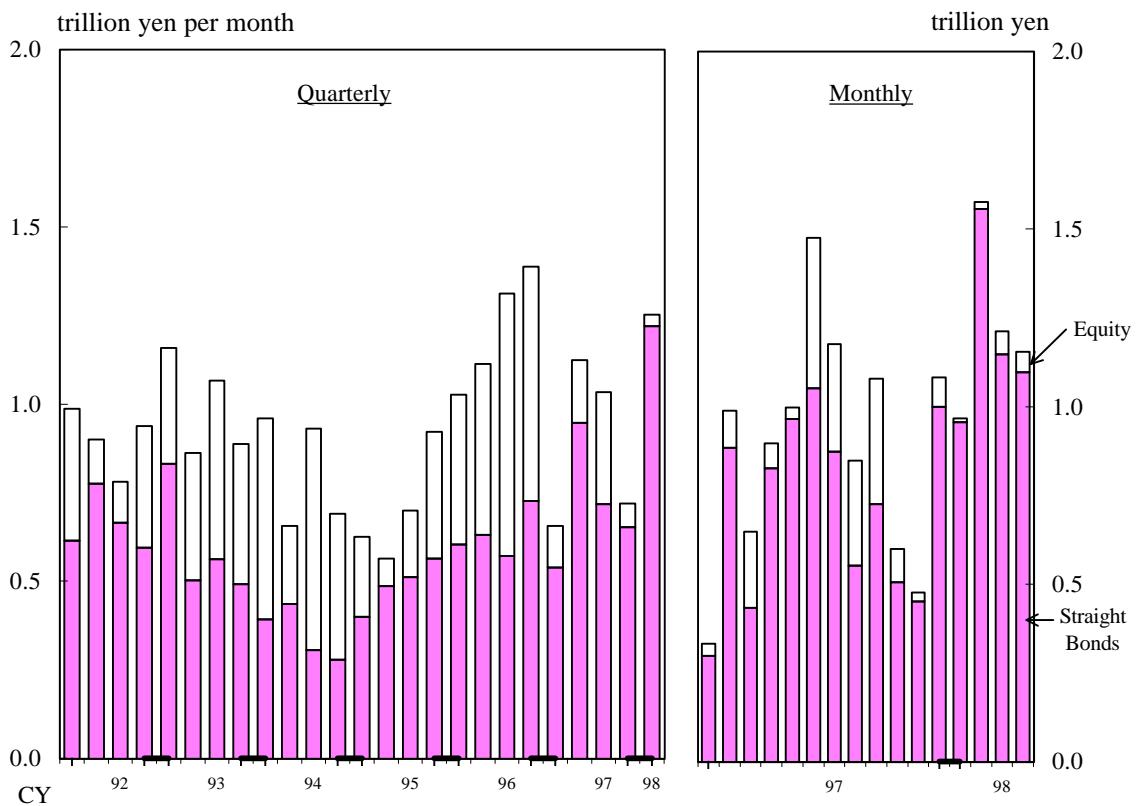
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

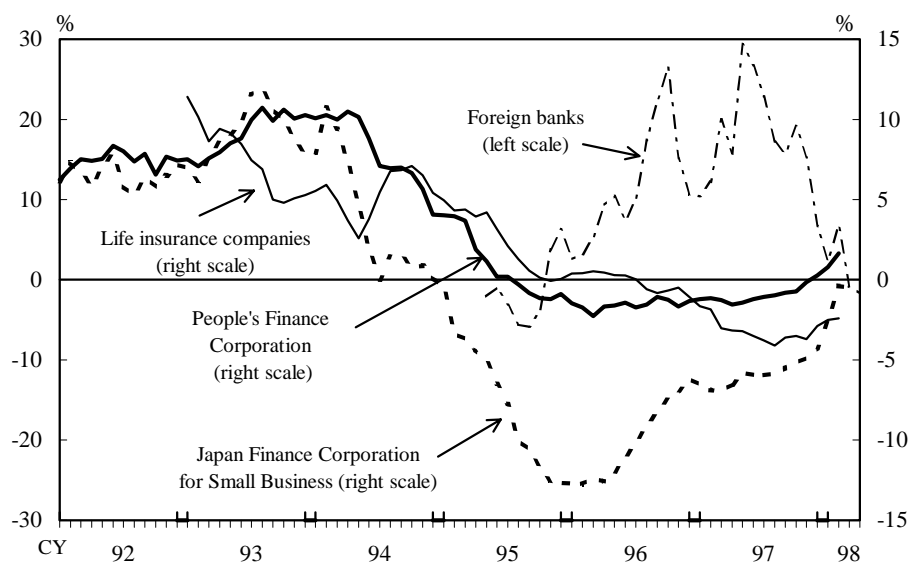


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

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

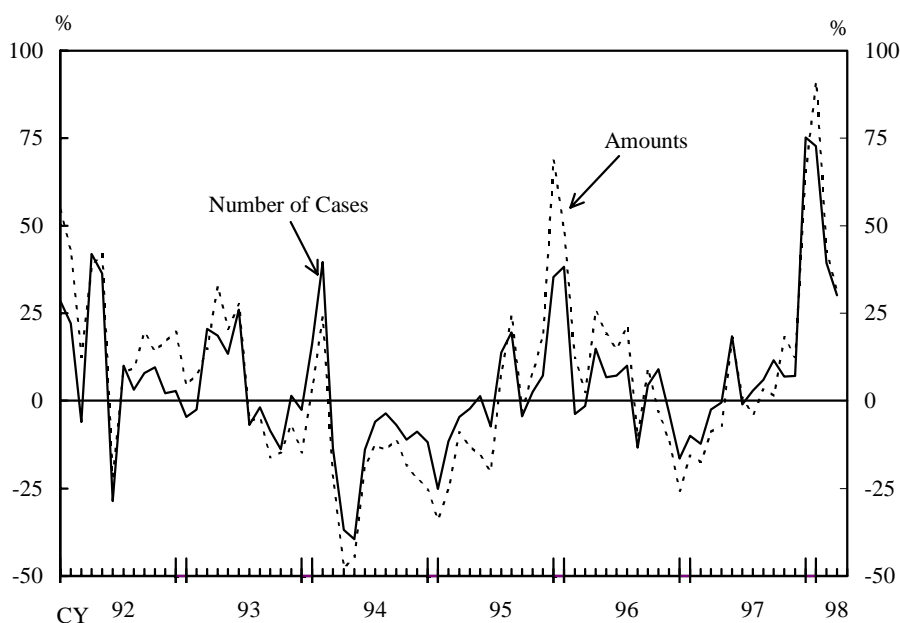
Lending by Other Financial Institutions

(1) Lending Outstanding



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

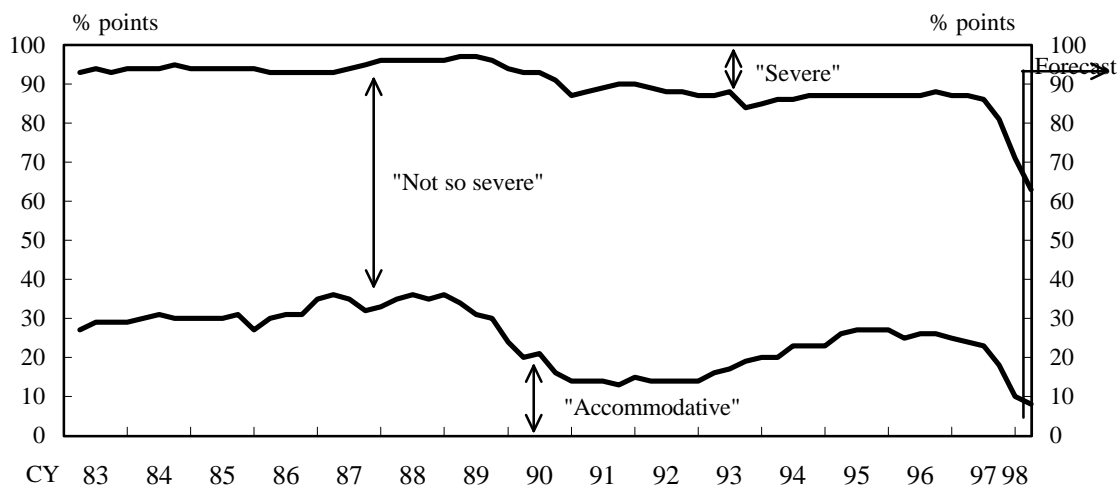
(2) Application for a Loan from Japan Finance Corporation for Small Business



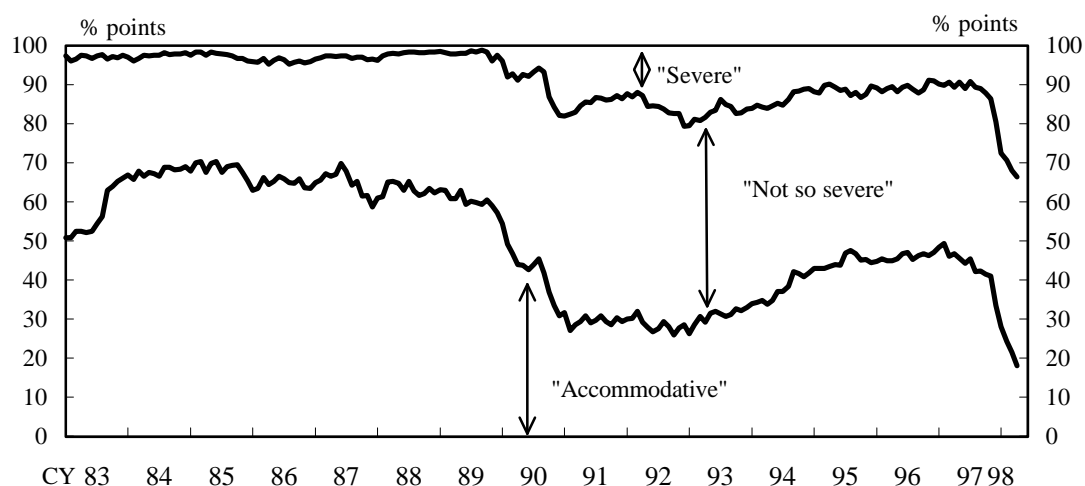
Sources: Bank of Japan, "Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."

Lending Attitude of Financial Institutions as perceived by Small Enterprises

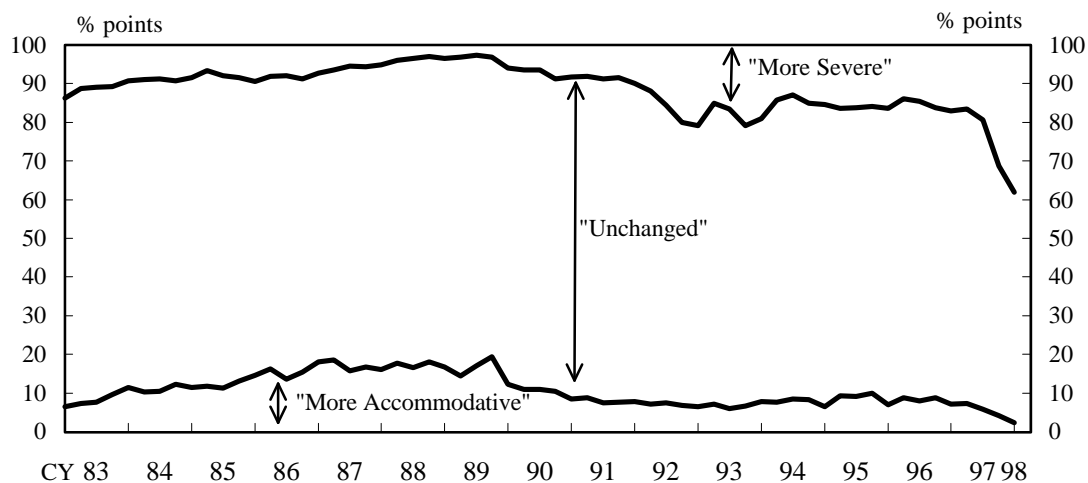
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 1998)



(2) "Monthly Survey on Trends of Small Businesses" (Mid-April, 1998)



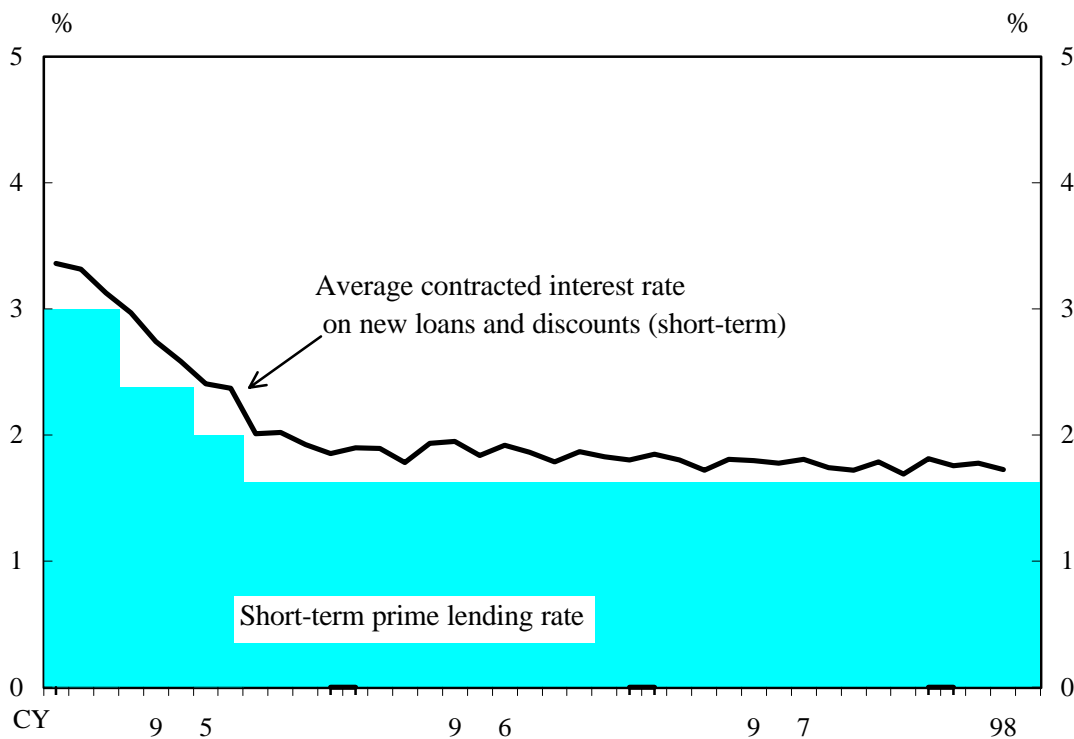
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-March, 1998)



Sources: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan" ;
 Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses";
 People's Finance Corporation, "Quarterly Survey of Small Businesses in Japan."

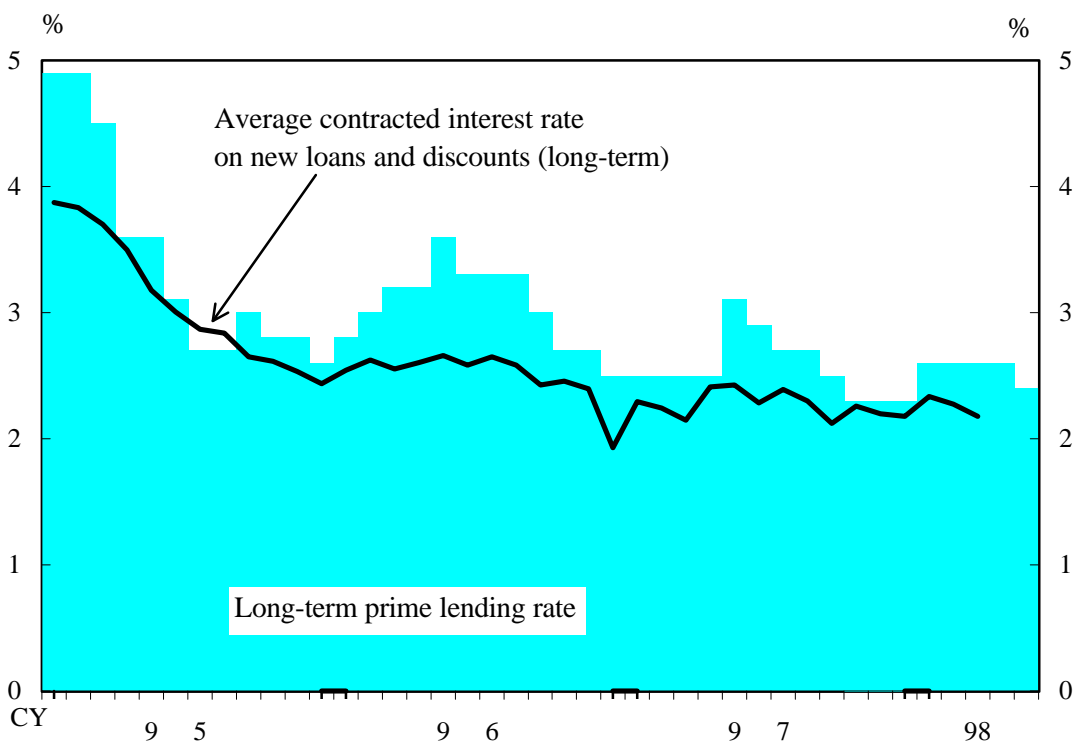
Lending Rates

(1) Short-Term



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

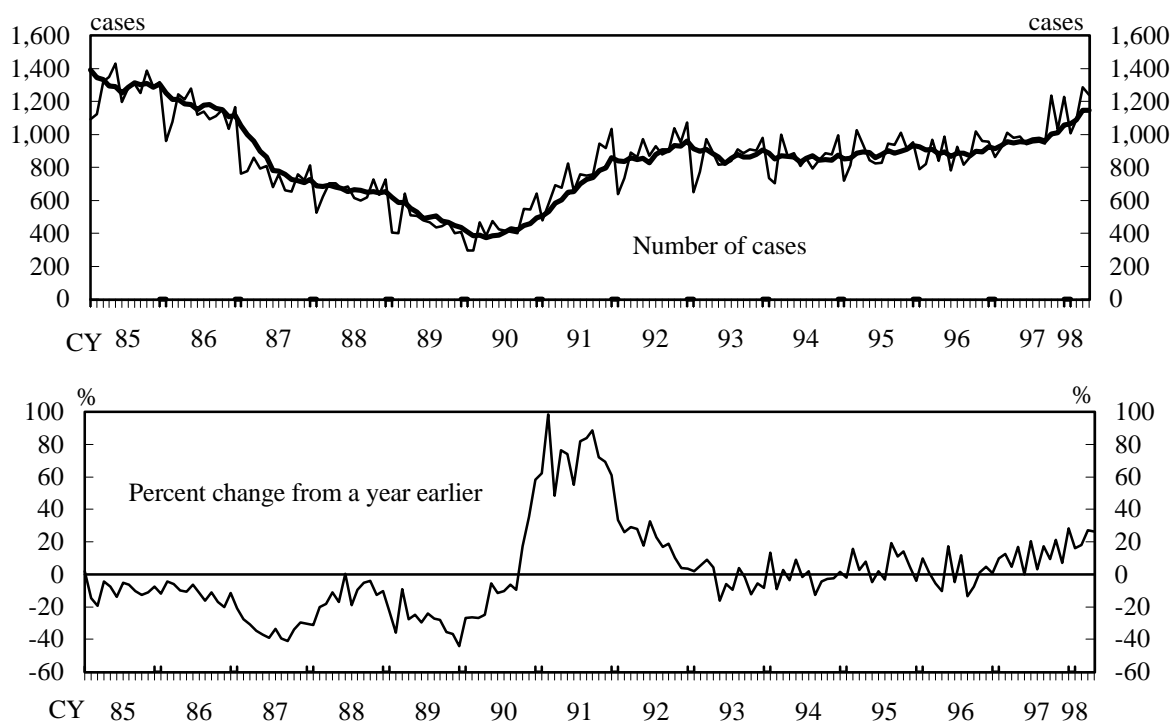
(2) Long-Term



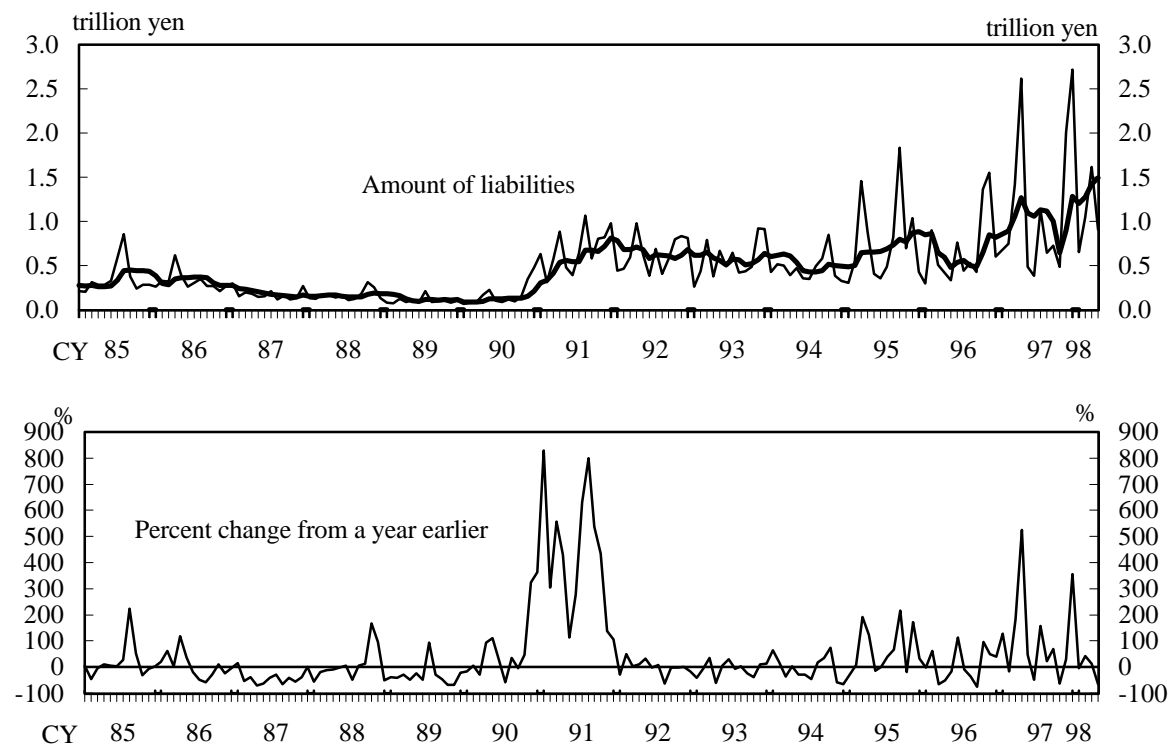
Source: Bank of Japan, "Economic Statistics Monthly."

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 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)."