

# Monthly Report of Recent Economic and Financial Developments<sup>1</sup>

October 1998

## The Bank's View<sup>2</sup>

Japan's economic conditions still continue to deteriorate.

With respect to final demand, public investment has bottomed out. Net exports (exports minus imports) are basically increasing mainly due to a decline in imports. Business fixed investment, however, has been decreasing significantly partly because of financial constraints, and housing investment has declined further. Private consumption has not yet shown a recovery despite the special income tax reduction. Against this background of weak final demand, production has been reduced substantially. As a result, some industries have shown improvements in inventory adjustments, but the level of inventories is still high as a whole. With the decline in expenditure and production, corporate profits are worsening rapidly. Furthermore, the employment and income conditions have deteriorated further as the unemployment rate marked a historical high and the decline in employee income has accelerated. In these circumstances, corporate perceptions of business conditions have worsened substantially and consumer sentiment has become cautious.

As the above indicates, there remain continued negative interactions of production, income, and expenditure. With the effects of the comprehensive economic stimulus package and the recent monetary easing, the deterioration of the economy is expected to moderate gradually toward the second half of fiscal 1998.

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<sup>1</sup> This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on October 13, 1998.

<sup>2</sup> The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on October 13, as the basis of monetary policy decisions.

Nevertheless, the economy is hardly expected to recover immediately, judged from the strong negative interactions mentioned above and the financial constraints such as financial institutions' cautious lending stance due to the nonperforming-loan problem. In these circumstances, there is an immediate need to rebuild the stability of the financial system. In this regard, bills related to financial revitalization have been legislated, and a bill related to bank recapitalization, including policy measures to strengthen banks' capital base through injecting public funds, has passed the House of Representatives of the Diet. It is desirable that functions of and confidence in Japan's financial system be restored based on these schemes. Furthermore, the government is devising plans for economic recovery, including reduction in personal income taxes and corporate taxes as well as additional public investment. It is important to materialize these measures promptly, in such a way that they not only have sizable direct effects on the economy but also contribute to restore corporate and household confidence.

With regard to prices, wholesale prices are on a downtrend reflecting the expanding output gap, and consumer prices have fallen below the previous year's level. With respect to the outlook, given the persistently strong negative interactions of production, income, and expenditure, the expansion in the output gap seems unlikely to cease despite the expected effects of the comprehensive economic stimulus package. Furthermore, the continued decline in wages and the recent appreciation of the yen may exert downward pressure on prices. Hence, prices are likely to be on a downtrend for some time.

In the financial markets, responding to the further monetary easing by the Bank of Japan on September 9, short-term interest rates declined as a whole after mid-September. However, since the end of September, the Japan premium has expanded and interest rates on Euro-yen deposits have rebounded slightly reflecting intensified market concern toward Japanese financial institutions' funding in foreign currencies over the year-end. In the meantime, due to heightened uncertainty over the economic outlook, long-term interest rates declined considerably.

Stock prices continued a downtrend reflecting the concern over the worldwide stock market plunge, the further deterioration in economic indicators, and the persistent uncertainty over the resolution of the problems with Japan's financial system. In October, stock prices recorded historically low levels since the bursting of the economic "bubble." Meanwhile, in early October, the yen surged against the dollar with the emerged uncertainty over the outlook of the U.S. economy.

With regard to corporate finance, while funding needs for real economic activities seem to be decreasing, some firms, especially large ones, are seeking to secure ample on-hand liquidity to prepare for unexpected situations. Reflecting such increase in credit demand, the growth rate in  $M_2+CD$  has slightly recovered since the summer of 1998.

However, Japanese financial institutions have become more cautious in extending loans, facing up severe fund-raising environments and deteriorating business conditions of borrower companies. While especially large firms are steadily increasing the issuance of commercial paper and corporate bonds, small and medium-sized firms and relatively low-rated ones continue to face difficult conditions for fund-raising in capital markets. The influence of these severe financial conditions on business activities and on the economy continues to warrant careful monitoring.

## The Background

### 1. Japan's Economy

With regard to public investment (Chart 2<sup>3</sup>), the value of public works contracted, which reflects orders, has bottomed out with the front-loading of public-sector investment for fiscal 1998 into the first half of the fiscal year. With the implementation of the supplementary budget for fiscal 1998 (passed in June), public-sector investment should turn towards an increase.

As for real exports (Charts 3 to 5), exports to the United States and Europe remain firm. Exports to Asia are still declining due to the decrease in domestic demand in this region. The pace of decline, however, is slowing because the limitations on the availability of foreign currency have eased in some Asian countries. As a result, real exports overall increased slightly in July-August after posting a sharp quarter-to-quarter drop in the first quarter and a slight decline in the second quarter. Thus, real exports are bottoming out. Meanwhile, real imports increased slightly due to temporary factors such as the intensive import of airplanes, but remain on a declining trend overall, reflecting the stagnant domestic demand and the continuing production cutbacks in Japan.

As a result of these import and export developments, net exports (exports – imports) declined slightly in July-August in terms of the real trade balance, but basically remain on an increasing trend due to the decline in imports.<sup>4</sup> The nominal current account surplus expanded through the first quarter due to the reduction in import prices of raw materials such as crude oil, and increased slightly in the second

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<sup>3</sup> Chart 2(2) shows a sudden decline in shipments of public works-related goods. This is due to a large decrease in shipments of materials for bridges, which have a large weight in the statistics. It should be noted that the shipments of such materials vary substantially by their nature, and need to be viewed over a long time frame.

<sup>4</sup> It should be noted that the real trade balance presented in Chart 3(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).

quarter, mainly because the real trade balance turned to an increase. A slight increase was also recorded in July compared with the second quarter. The ratio of the nominal current account surplus to GDP was 2.9 percent in the first quarter and increased to 3.1 percent in the second quarter, surpassing the 3 percent level for the first time since the first quarter of 1994 (3.2 percent).

As for the future environment for foreign trade, the prior depreciation of the yen should promote exports for the time being. Nonetheless, the value of the yen has recently been appreciating rapidly and thus close attention should be paid to its effects on the price competitiveness of Japanese manufactured goods (Chart 6(1)). The economies in the United States and Europe are still expected to remain firm for the time being (Chart 6(2)), and the stagnation of private-sector demand in Japan is likely to be prolonged. Basically, these factors facilitate an increase in net exports. The prolonged economic adjustments in some Asian countries, however, will continue to function as a restrictive factor on net exports. Additionally, the growth of the United States economy is expected to decelerate gradually. Furthermore, it should be noted that the conditions in emerging economies and the financial situation, including the decline in stock prices, may reinforce the deceleration of the United States economy.

Turning to domestic private-sector demand, corporate profits continue to worsen mainly due to the decline in final demand. According to the Bank of Japan's *Tankan – Short-term Economic Survey of Enterprises* of September 1998 (Chart 7), corporate profit projections for the first half of fiscal 1998 were revised downwards and showed sharp declines compared to the June *Tankan* in both the manufacturing and the nonmanufacturing sectors. Firms also expect a substantial decline in profits for all of fiscal 1998.<sup>5</sup> Corporate perceptions of business conditions are becoming

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<sup>5</sup> Both manufacturing and nonmanufacturing firms are projecting a slight recovery of profits in the second half of fiscal 1998, reflecting the preferable expectations for the effects of economic stimulus by the government. Profit conditions, however, are likely to remain severe in the second half, with the continuing stagnation of domestic demand and the recent rapid appreciation of the yen. Thus, the projections of a profit recovery are questionable.

still more severe, reflecting these profit trends and the uncertain business outlook. In particular, at small firms, the projected profit levels are expected to be below those recorded during the previous recession, and the business conditions DI is at a historical low for both manufacturing and nonmanufacturing firms (Chart 8).

Given these corporate profit trends, business fixed investment has been declining sharply. In the second quarter, real business fixed investment on a GDP basis declined by 5.5 percent quarter-to-quarter, following the 5.2 percent drop recorded in the first quarter.<sup>6</sup> Notably, the decline among small nonmanufacturing firms was exceptionally large (Chart 9). Thereafter, shipments of general capital goods continued to decline,<sup>7</sup> and leading indicators such as machinery orders and nonresidential construction starts also remain on a downward trend (Chart 10). Moreover, according to the September *Tankan*, at principal firms, business fixed investment plans for fiscal 1998 (Chart 11) have been revised downwards compared to the June *Tankan*, falling below the previous year's level for the first time in four years at manufacturing firms (a decline of 4.8 percent) and for the second consecutive year at nonmanufacturing firms (a decline of 1.0 percent). At small firms, the upward revisions of investment plans are smaller than usual at this time of year, resulting in large declines at both manufacturing and nonmanufacturing firms.

Thus, business fixed investment is presently in a serious adjustment phase as the perceptions of excess equipment increased rapidly (Chart 12) and corporate profits declined substantially amid the weakening final demand. Additionally, from the viewpoint of financial trends, the lending attitude of private banks has become more severe since the end of 1997, and the resulting effects are more pronounced in the

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<sup>6</sup> As a result, real business fixed investment declined by a total of 10.4 percent from the fourth quarter of 1997 to the second quarter of 1998. This represents the largest two quarter decline since the start of these statistics in 1980. (The previous record was a total decline of 9.0 percent from the fourth quarter of 1964 to the second quarter of 1965).

<sup>7</sup> On a seasonally adjusted basis, shipments of general capital goods declined by a quarter-to-quarter 0.6 percent in the first quarter, 10.2 percent in the second quarter, and 2.3 percent in July-August compared with the second quarter.

fund-raising of small firms (Chart 13). In these circumstances, business fixed investment is especially depressed among small nonmanufacturing firms, which depend most heavily on bank loans. Thus, the recent decline in business fixed investment is likely to be induced by the financial developments as well as the worsening of corporate profits.

As for the future developments, even after accounting for the effects of the comprehensive economic stimulus package and the recent monetary easing, restrictive factors on investment mentioned above, are unlikely to weaken for the time being, so business fixed investment is likely to remain on a declining trend. First, given the continued stagnant demand, perceptions of excess equipment are likely to continue prevailing toward the second half of the fiscal year. Second, the conditions of corporate finance are becoming more severe, since private banks maintain a cautious lending attitude toward firms, fund-raising in the capital market is not so easy, and the rapid worsening of profits brings about declines in internal funds. Consequently, firms are becoming more anxious about their fund-raising and an increasing number of firms are making every effort to minimize investment to save on-hand liquidity. Given these developments, if the instability of the financial system continues and the lending attitude of private banks becomes even more severe, there is a possibility that business fixed investment is restricted further. It also should be noted that if no policy is set forth that leads to a clear economic outlook, firms may revise their medium-term expected growth rates further downwards, and the investment adjustment phase may become more intensified and prolonged.

In the household sector, employment and income conditions have deteriorated further due to the stagnant final demand and the decrease in industrial production described below. In the labor market (Chart 14), the number of new job offers continues to decline. In August, the ratio of job offers to applications was 0.50, matching the lowest level (first posted in July) ever recorded since the start of these statistics in 1963, and the year-to-year decline in the number of employees (at establishments with at least five employees) widened slightly from the previous

month. The unemployment rate was 4.3 percent in August, moving up from 4.1 percent in July, and recorded the highest level ever since the start of these statistics in 1953.<sup>8</sup> As for the background to this worsening of the labor market (Chart 15), first, the perceptions of excess employment are increasing as shown in the September *Tankan*. The increase in such perceptions at small nonmanufacturing firms are especially noteworthy, since perceptions of excess employment have almost never been observed at those firms in the past. Unlike large firms, small nonmanufacturing firms had continued to create new jobs until 1997,<sup>9</sup> and this has resulted in a growing burden of personnel cost in conjunction with the unprecedented decline in sales. Second, the continuing increase in the number of corporate bankruptcies also deteriorates labor market conditions. Third, over a longer-term perspective, because the shortening of working hours, which has functioned as a cushion against employment reductions, has already progressed substantially, labor inputs now tend to be reduced in the number of employees rather than in working hours.<sup>10</sup> As regards wages (Chart 16), while overtime compensation remains well below the previous year's level, the growth in regular compensation has slowed. As for special payments, summer bonuses were significantly below the previous year's level. As a result, the year-to-year decline in employee income has expanded. Thus, there are growing pressures restricting both the number of employees and the wages paid per employee, and the rate of decline in employee income has been accelerating.

Private consumption continues to move back and forth . According to indices related to private consumption (Chart 17), sales of household appliances remain firm owing to the notable increase in sales of personal computers with the

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<sup>8</sup> The previous record-high unemployment rate was posted this June. It was the same 4.3 percent as reported in August. More precisely, however, the August level was 4.34 percent, which was slightly higher than the June level of 4.26 percent.

<sup>9</sup> In the past, small nonmanufacturing firms generally continued to suffer from labor shortages, even in recessions. This may be the reason that they kept recruiting new employees during the 1990s as well.

<sup>10</sup> Additionally, the number of overtime working hours is approaching a record low, leaving little room for further reductions.



introduction of new products. Sales at department stores and chain stores, however, remain lackluster, and sales of passenger cars are still at a low level overall except for those of some new models. Outlays for services such as travel remain weak. According to these recent indicators, private consumption still shows little sign of recovery although a substantial part of the special income tax reductions (including the additional reduction incorporated into the supplementary budget for fiscal 1998) have already been implemented. The possibilities are that disposable income grows sluggishly amid the continued worsening of employment and income conditions despite the effects of the special income tax reductions and that consumer sentiment is becoming more cautious (Chart 18).

Regarding the outlook for private consumption, the special income tax reduction incorporated into the supplementary budget for fiscal 1998 is still expected to continue underpinning household income. Nevertheless, with the worsening of employment and income conditions and the instability of the financial system, it seems likely that consumer sentiment may become more cautious and private consumption may remain stagnant. Therefore, the outlook for private consumption trends crucially depends on whether or not policy measures, including the personal income tax reductions that will be discussed in detail, will lead to an improvement in consumer sentiment.<sup>11</sup>

As for housing investment (Chart 19), housing starts (in terms of the seasonally adjusted annual rate) had remained at a low level of about 1.30 million units from the summer of 1997 through the first quarter of 1998, but declined to 1.23 million units during the second quarter, and fell further to 1.14 million units during July-August. Regarding the outlook, the decline in interest rates on housing loans

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<sup>11</sup> In a public opinion survey conducted by the Nikkei Research Institute of Industry and Markets (conducted among 1,500 people in the Tokyo metropolitan area), 80.1 percent of the respondents replied that they “feel economic anxiety regarding their future living.” The reason most frequently cited for this (multiple responses permitted) was “the government’s economic policy measures are unclear, so it is difficult to predict future living conditions” (69.6 percent out of the 80.1 percent).

should contribute to underpinning housing investment<sup>12</sup>. However, judged from the worsening of employment and income conditions as well as the increasingly cautious investment stance among condominium developers, housing investment is hardly expected to turn to a recovery trend for the time being.

Reflecting these developments in final demand, industrial production continues to decrease. In the second quarter, industrial production marked a large quarter-to-quarter decline of 5.1 percent due to substantial production cutbacks in general machinery, which reflected the slump in business fixed investment, and in transportation equipment for the purpose of reducing inventories. Industrial production also declined slightly in July-August (down 0.5 percent compared with the second quarter) mainly due to further production cutbacks in general machinery (Chart 20).<sup>13</sup> As a result, with regard to inventory conditions in the manufacturing sector, inventory adjustments are progressing for final-demand goods industries, including a substantial decline in automobile inventories (Chart 21). A large accumulation, however, remains for production goods. Consequently, overall inventory ratios remain at a high level, and the September *Tankan* confirms strong corporate perceptions of excess inventory (Chart 22).<sup>14</sup>

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<sup>12</sup> The number of applications for loans on the construction of private homes accepted by the Housing Loan Corporation increased by 28.8 percent for its second offering for fiscal 1998 compared to the low level of the previous year (-60.3 percent). This is because the offering period was extended (the period was from Aug.17 to Sept.30 in 1998 whereas it was from Aug.25 to Sept.12 in 1997) and the standard interest rate for loans of the Housing Loan Corporation was dropped further from 2.75 percent to 2.55 percent.

<sup>13</sup> Industrial production (as announced by the Ministry of International Trade and Industry; seasonally adjusted by X-11) posted a large quarter-to-quarter decline of 5.1 percent in the second quarter and is projected to increase slightly in the third quarter (by 0.4 percent) based on the production forecast indices. These figures, however, may be influenced by calendar factors. After accounting for this influence, industrial production is projected to continue declining (by 3.5 percent in the second quarter and 1.4 percent in the third quarter; seasonally adjusted by X-12-ARIMA).

<sup>14</sup> According to the September *Tankan*, manufacturing firms' perceptions of excess inventory remain strong for their own product inventories and also for inventories in the distribution process. Wholesale and retail firms' perceptions remain excessive for their merchandise inventories as well.

As for the future developments, based on industry interview surveys and other data, industrial production is likely to decline slightly through the fourth quarter, since inventory adjustment pressures persist and final demand is expected to remain stagnant due to the reduction in business fixed investment even after accounting for the effects of the comprehensive economic stimulus package.

## **2. Prices**

With regard to price developments, import prices (Chart 24(1)) were firm on a yen basis through August, but declined in September along with the appreciation of the yen. As for domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;<sup>15</sup> Chart 24(3)), the prices of goods closely related to import prices such as petroleum products and non-ferrous metals have remained unchanged due to the prior low yen rate. However, the prices of steel and construction-related materials continue to drop due to perceptions of excess inventories, and the prices of machinery are still falling because of intensifying sales competition. Thus, overall domestic wholesale prices remain on a declining trend. (Domestic wholesale prices declined by a quarter-to-quarter 0.5 percent in the first quarter, 0.8 percent in the second quarter, and 0.3 percent in the third quarter).

Corporate service prices (Chart 25(1)) had almost bottomed out from the latter half of 1997 through the first quarter of 1998. Recently, however, the prices overall have weakened and the year-to-year decline is gradually expanding particularly in advertising, leasing and rentals, as the worsening of corporate profits has become

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<sup>15</sup> Industrial and commercial electric power consumption charges are set relatively high during July-September, when the consumption volume increases substantially. Here, in order to view the fundamental changes in domestic wholesale prices, adjustments are made to exclude such factors that result in large seasonal fluctuations.

pronounced. (The year-to-year decline in corporate service prices was 0.1 percent in the first quarter, 0.2 percent in the second quarter, and 0.3 percent in July-August).<sup>16</sup>

Consumer prices (excluding perishables; Chart 25(2)) remain weak overall, having fallen below the previous year's level in July-August, as the decline in the prices of goods continues and the increase in service-related prices is slowing. (The year-to-year changes in consumer prices were +0.5 percent in the first quarter, +0.1 percent in the second quarter, and -0.1 percent in July-August). As a result, excluding the rise in medical service charges due to the medical insurance system reform of September 1997, the year-to-year changes dropped from about +0.1 percent in the first quarter to around -0.3 percent in the second quarter, falling below the previous year's level, and declined further to approximately -0.5 percent in July-August.

As for land prices, according to the Prefectural Land Price Survey (Chart 26), the prices of both commercial and residential land are still declining.

Regarding the environment for prices overall, the downward pressure on prices from domestic factors is rather strong reflecting the already large output gap (Chart 27). Despite the expected effects of the comprehensive economic stimulus package, judged from the strong negative interactions of production, income and expenditure, it seems likely that the output gap will continue expanding for the time being. Furthermore, the weakening of wages and the recent appreciation of the yen may exert downward pressure on prices. Judged from these developments, overall prices are likely to be on a downtrend for some time.

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<sup>16</sup> The year-to-year changes in corporate service prices and consumer prices prior to the second quarter of 1998 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).

### **3. Financial Developments**

#### **(1) Financial Markets**

At the Monetary Policy Meeting held on September 9, 1998, the Bank of Japan determined to further ease monetary policy (a change of the guideline for money market operations).<sup>17</sup>

Interest rate developments in short-term money markets (Charts 28(1) and 29 to 31) show that with the continued ample provision of funds by the Bank of Japan, the overnight call rate (uncollateralized) remained around the new guideline (about 0.25 percent).

Three-month Euro-yen interest rates declined at one point from 0.75-0.80 percent to 0.55-0.60 percent following the change of the guideline for money market operations, but rebounded slightly from the end of September on the view that financial institutions would procure more yen funds toward the end of the year to compensate for their foreign currency funds positions. Euro-yen interest rate futures (on an interest rate basis; December contracts) were also firming from the end of September, but dropped back in early October following the sudden appreciation of the yen and are presently holding around the historically low level of 0.5-0.6 percent. The three-month TB rate declined considerably following the change of the guideline for money market operations, and has remained at 0.1-0.2 percent since mid-September.

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<sup>17</sup> At the Monetary Policy Meeting held on September 9, 1998, the Bank of Japan Policy Board determined to further ease the stance of money market operations as follows:

“The Bank of Japan will encourage the uncollateralized overnight call rate to move on average around 0.25%. Regardless of the above guideline for the call rate, the Bank of Japan will provide more ample funds, if judged necessary, to maintain the stability of the financial markets.”

Prior to this meeting, the guideline for money market operations had been as follows:

“The Bank of Japan will encourage the uncollateralized overnight call rate to remain on average slightly below the official discount rate.”

The Japan premium expanded from the end of September with the worldwide “flight to quality” following difficulties at a hedge fund in the U.S. and intensified market concern toward Japanese financial institutions’ funding in foreign currencies over the year-end.

Yields on ten-year government bonds (benchmark) (Chart 28(2)) declined at an accelerated tempo following the change of the guideline for money market operations, and the margin of the decline was greater than that for short-term interest rates. This decline was apparently influenced by the decline in short-term rates after the monetary easing, and by the release of several indicators showing a worsening of the economy, which heightened uncertainty regarding the economic outlook.

Yields on private bonds (Charts 33 and 34) declined in parallel to the developments in government bond yields.

Stock prices (Chart 35(1)) continued a downtrend reflecting the concerns over the worldwide stock market plunge, the further deterioration in economic indicators, and persistent uncertainty over the resolution of the problems with Japan’s financial system. In early October, stock prices recorded the lowest levels since the bursting of the economic “bubble.”

As stock prices continued to fall despite the large decline of the yields on long-term government bonds, the yield spread (the government bond yield minus the expected earnings on stocks; Chart 35(2)) declined further. This suggests that the market outlook on future growth rates has become even more pessimistic and that there is strongly rooted uncertainty over the economic outlook.

On the foreign exchange market (Chart 36), the yen appreciated sharply against the U.S. dollar in early October with the heightened uncertainty over the outlook of the U.S. economy. The yen-dollar exchange rate is presently fluctuating over a wide range of 115-120 yen to the U.S. dollar.

## **(2) Monetary Aggregates and Corporate Finance**

The year-on-year growth in money stock (Charts 37 and 38) in terms of  $M_2 +$  CDs rebounded slightly in August. (The year-on-year growth in  $M_2 +$  CDs was 3.7 percent in the second quarter, 3.5 percent in July, and 3.9 percent in August). As for the future outlook, the year-on-year growth in the fourth quarter is expected to be between 3.0 and 4.0 percent.

The year-on-year decline in lending by private banks (monthly average outstanding balance basis; Chart 39), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, is generally holding steady.

Looking at the background to these monetary aggregate developments in some detail, the lending attitude of private financial institutions has become still more cautious as they face a severe fund-raising environment and the worsening performance of borrower companies accompanying stagnant business conditions. The September *Tankan* survey (Chart 13) shows that an increasing percentage of both principal and small and medium-sized enterprises perceive the lending attitude of private financial institutions to be “severe” compared with the previous survey in June.

Regarding the credit demand of private firms, funding needs for real economic activities seem to be declining chiefly due to the decline in business fixed investment. On the other hand, a growing number of firms, especially large enterprises, are seeking to secure ample on-hand liquidity against the cautious lending attitude of private financial institutions.

Under such circumstances, fund-raising in the capital market and borrowings from government financial institutions continue to increase steadily (Charts 40 and 41). Corporate bond issuance remains at a high level, especially by firms with high credit ratings. CP (Commercial Paper) issuance apparently continued to increase in September as the Bank of Japan expanded the volume of its CP purchasing operations.

Turning to the funding cost for firms, in August the average contracted interest rates on loans and discounts (Chart 42) remained essentially level versus the previous month for both short- and long-term contracts.

Following the change of the guideline for money market operations, major banks lowered their short-term prime rates in September from 1.625 percent to 1.5 percent. Long-term prime rates were also lowered in October from 2.5 percent to 2.3 percent. Moreover, the issuance rates on CP and corporate bonds have been declining steadily since the middle of September.

Nevertheless, fund-raising in the capital market remains difficult for small and medium-sized firms and for firms with relatively low credit ratings, and the lending attitude of private financial institutions remains cautious, as noted above. The influences of this severe funding environment on corporate activities and on the economy continue to warrant careful monitoring.<sup>18</sup>

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<sup>18</sup> The number of corporate bankruptcies is on a rising trend (Chart 43).



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## Main Economic Indicators (1)

y/y % chg.

	98/Q1	Q2	Q3	98/June	July	Aug.	Sept.
Index of expenditure level (all households)	-4.7	-0.8	n.a.	-0.5	-2.7	p -1.9	n.a.
Sales of department stores	-9.8	0.6	n.a.	-5.0	-4.1	p -4.3	n.a.
Sales of chain stores <sup>1</sup>	-7.0	0.3	n.a.	-2.0	-1.4	-3.7	n.a.
New passenger-car registrations <sup>2</sup>	-21.5	-2.1	-1.8	-2.2	-0.5	-3.1	-2.5
Sales of electric appliances (NEBA)	-14.1	3.6	n.a.	3.2	8.3	6.3	n.a.
Outlays for travel (50 major travel agencies)	-6.2	-2.8	n.a.	-4.4	-1.0	-3.2	n.a.
Housing starts <s.a., ann. 10,000 units>	132	123	n.a.	121	110	118	n.a.
Machinery orders (from private sector <sup>3</sup> )	-5.8	-21.7	n.a.	-18.6	-24.1	-25.0	n.a.
Mining & manufacturing	-7.6	-23.7	n.a.	-21.9	-26.1	-23.8	n.a.
Nonmanufacturing <sup>3</sup>	-4.2	-20.1	n.a.	-15.9	-22.3	-25.8	n.a.
Construction Starts (private, nonresidential use)	-7.8	-13.8	n.a.	-25.3	-5.5	-22.4	n.a.
Manufacturing	-7.2	-25.9	n.a.	-29.5	-29.9	-41.7	n.a.
Nonmanufacturing <sup>4</sup>	-8.0	-8.9	n.a.	-23.7	4.2	-15.1	n.a.
Value of public works contracts	-2.2	-6.2	n.a.	0.8	-10.7	3.5	n.a.
Real exports <s.a. quarterly (monthly) change>	-4.9	-0.9	n.a.	-5.1	4.9	-3.9	n.a.
Real imports <s.a. quarterly (monthly) change>	-1.5	-7.8	n.a.	9.7	-0.2	-2.3	n.a.
Industrial production <s.a. quarterly (monthly) change>	-1.3	-5.1	n.a.	1.7	-0.6	p -0.6	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.1	-5.1	n.a.	0.9	-0.3	p -0.9	n.a.
Inventories <s.a. quarterly (monthly) change>	0.7	-1.9	n.a.	-0.4	-0.7	p -0.5	n.a.
Inventories/shipments <s.a. 1995=100>	112.9	111.0	n.a.	111.0	111.2	p 113.2	n.a.

## Main Economic Indicators (2)

	y/y % chg.						
	98/Q1	Q2	Q3	98/June	July	Aug.	Sept.
Ratio of job offers to applications <s.a., times>	0.61	0.53	n.a.	0.51	0.50	0.50	n.a.
Unemployment rate <s.a., %>	3.65	4.18	n.a.	4.26	4.12	4.34	n.a.
Overtime working hours <sup>5</sup>	-5.4	-9.3	n.a.	-9.9	-8.8	p -8.1	n.a.
Number of employees	0.0	-0.6	n.a.	-0.8	-1.0	-0.3	n.a.
Number of regularly employed <sup>5</sup>	0.6	0.1	n.a.	0.1	-0.1	-0.2	n.a.
Nominal wage per person <sup>5</sup>	-0.1	-0.6	n.a.	-0.4	-2.5	-3.8	n.a.
Domestic wholesale prices index <sup>6</sup>	-1.6 (0.3)	-2.3	-2.1	-2.1	-2.2	-2.1	-2.0
Consumer prices index (nationwide) <sup>6</sup>	0.5 (2.0)	0.4	n.a.	0.1	-0.1	-0.3	n.a.
Excluding perishables	0.5 (1.9)	0.1	n.a.	0.0	-0.1	-0.1	n.a.
Corporate service prices index <sup>6</sup>	-0.1 (1.7)	-0.2	n.a.	-0.2	-0.2	-0.4	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	4.7	3.7	n.a.	3.4	3.5	p 3.9	n.a.
Number of suspension of transaction with banks	20.8	28.9	n.a.	22.8	28.4	7.9	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 establishments 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 in the tax rate. Figures in parentheses are including the effects of the consumption tax hike.

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";

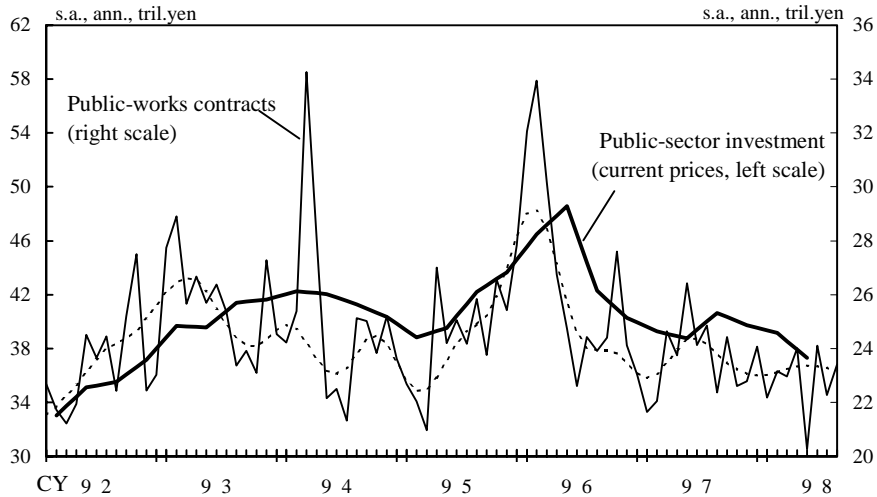
Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service",

"Monthly Labor Survey"; Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index",

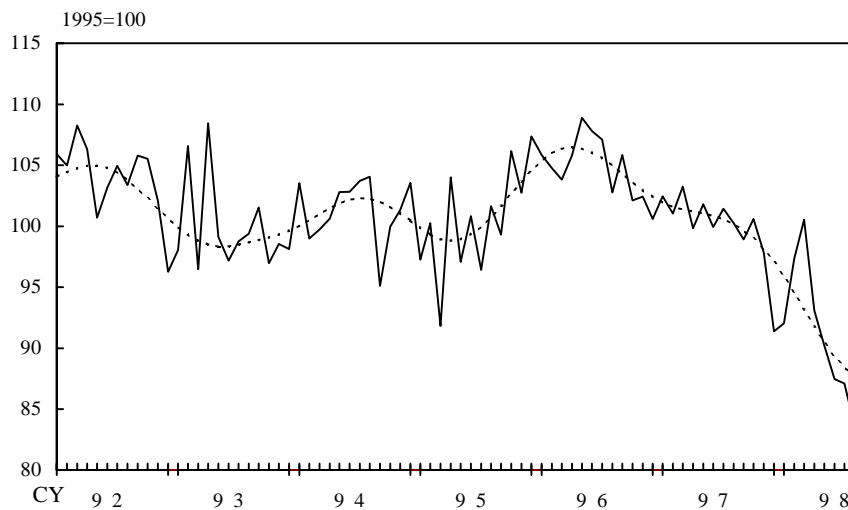
"Economic Statistics Monthly"; Federation of Bankers Associations of Japan, "Suspension of Transaction with Banks."

## Public-sector Investment

## (1) Public-works Contracts



## (2) Shipments of Public Works-related Goods

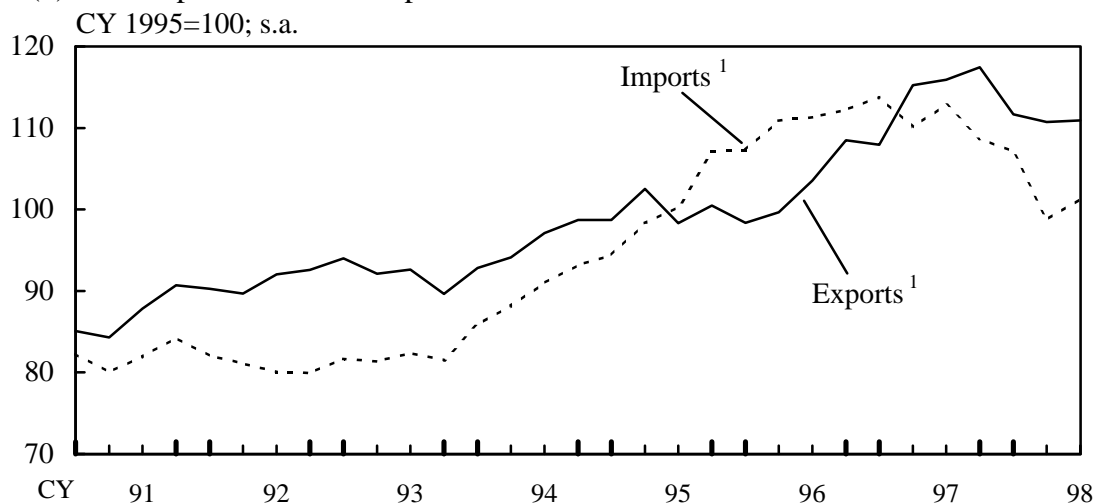


- Notes: 1. In order to follow the monthly movement of public-sector investment, we have compiled the data of shipments of "public works-related goods" by selecting some goods used for public works from "Indices of Industrial Production."
2. The basket of goods used to calculate "public works-related goods" was changed just after the base year of "Indices of Industrial Production" was revised from 1990 to 1995. The goods presently used are asphalt, concrete products for roads, bridges, and cement.
3. "Public works-related goods" only covers construction investment excluding buildings (which comprises two-thirds of public-sector investment), and does not cover building and machinery investment (which comprises one-third of public-sector investment).  
"Public works-related goods" is partly used for private-sector investment.
4. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
5. Seasonally adjusted by X-12-ARIMA ( $\beta$  version). The dotted line is the trend cycle factor.

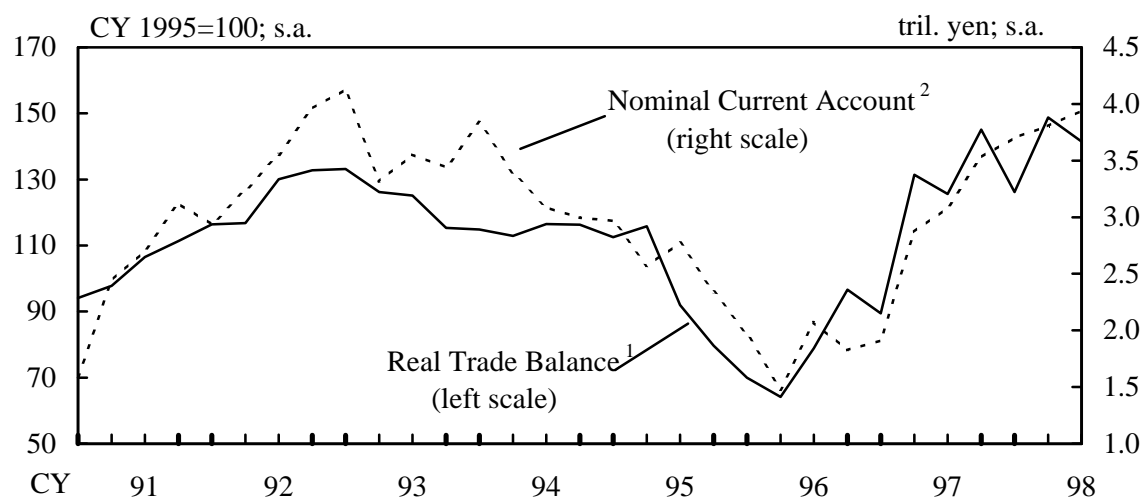
Sources: Economic Planning Agency, "National Income Statistics";  
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";  
Ministry of International Trade and Industry, "Indices of Industrial Production."

## Exports and Imports

## (1) Real Exports and Real Imports



## (2) Real Trade Balance and Nominal Current Account



## (3) Nominal Current Account



Notes: 1. Seasonally adjusted by X-11. 1998/Q3 figures are Jul-Aug averages in terms of quarterly amount.

2. 1998/Q2 is July figure converted into quarterly amount.

Sources: Ministry of Finance, "The Summary Report on Trade of Japan";  
Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes";  
Economic Planning Agency, "National Income Statistics."

Real Exports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 96	97	97 3Q	98 4Q	98 1Q	2Q	3Q	98 Jun.	Jul.	Aug.
United States	<27.8>	1.8	14.6	0.0	1.8	4.6	-0.8	1.5	-2.1	6.4	-5.9
EU	<15.6>	-1.2	13.8	1.3	5.4	1.3	7.2	0.3	-4.9	6.9	-9.0
East Asia	<40.6>	6.1	8.6	0.5	-2.6	-11.7	-7.6	-2.3	-5.5	3.2	-2.5
China	<5.2>	11.0	8.2	-3.9	6.2	-3.9	4.0	-3.6	-4.9	3.4	-1.6
NIES	<24.0>	3.7	10.5	3.1	-0.8	-11.4	-8.7	-3.9	-4.8	1.1	-3.7
Korea	<6.2>	6.2	-1.5	-4.0	-2.8	-29.8	-7.0	-5.1	-6.7	1.8	-4.6
ASEAN4 <sup>3</sup>	<11.4>	8.9	5.0	-2.8	-10.0	-16.0	-11.3	2.5	-7.7	8.1	-0.4
Thailand	<3.5>	3.3	-11.6	-11.8	-15.4	-9.6	-2.3	-1.5	-14.8	5.0	-5.3
Indonesia	<2.4>	0.9	22.6	3.4	-19.5	-36.0	-26.9	5.0	-0.7	10.7	11.6
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	0.2	-5.1	4.9	-3.9

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 96	97	97 3Q	98 4Q	98 1Q	2Q	3Q	98 Jun.	Jul.	Aug.
Intermediate goods	<14.7>	5.0	11.2	1.1	0.7	-3.2	2.3	2.7	1.8	2.3	-2.8
Motor vehicles and their related goods	<20.5>	-1.7	14.6	2.6	-4.2	-3.0	0.7	3.5	-0.7	9.1	-6.3
Consumer goods <sup>4</sup>	<6.9>	-1.9	6.3	2.2	2.2	2.3	0.7	-2.7	-8.1	3.6	-3.7
Information-related goods <sup>5</sup>	<18.2>	5.8	18.1	2.0	1.3	-5.5	-5.3	0.0	-8.0	7.4	-3.2
Capital goods and parts <sup>6</sup>	<29.6>	5.1	9.0	-0.1	3.5	-5.8	-2.8	-1.4	-12.3	6.8	-4.3
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	0.2	-5.1	4.9	-3.9

Notes: 1. Seasonally adjusted by X-11. 1998/Q3 figures are Jul-Aug averages in terms of quarterly amount.

2. Shares of each region and type of goods are shown in brackets.

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

4. Excluding motor vehicles.

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

6. Excluding information-related goods and power generating machinery and parts of motor vehicles.

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

Real Imports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 96	97	97 3Q	98 4Q	98 1Q	2Q	3Q	98 Jun.	Jul.	Aug.
United States	<22.3>	15.5	1.1	0.6	-0.1	0.5	-4.8	2.5	5.9	-2.8	1.4
EU	<13.3>	11.1	-3.6	6.3	-7.1	3.4	-8.5	0.3	16.4	-3.7	-1.7
East Asia	<34.7>	15.1	0.9	-0.8	-4.5	-0.2	-6.0	0.7	15.0	-3.0	-3.4
China	<12.4>	20.4	8.8	0.6	-2.9	0.8	-4.7	3.1	12.9	2.5	-6.8
NIES	<10.4>	9.2	-8.1	-1.5	-5.6	-0.5	-9.0	-3.8	9.5	-6.6	-0.5
Korea	<4.3>	0.7	-3.9	0.4	-8.8	3.7	-10.1	-6.3	6.4	-4.5	-6.6
ASEAN4 <sup>3</sup>	<12.0>	16.4	2.2	-1.6	-5.2	-0.9	-4.7	2.0	21.9	-5.6	-1.9
Thailand	<2.8>	9.4	-0.5	0.4	-2.1	-3.5	-2.7	2.7	21.4	-3.5	-2.0
Indonesia	<4.3>	7.8	-2.3	-1.6	-8.5	0.1	-4.1	0.9	36.4	-9.4	-4.6
Real imports		10.3	0.9	2.5	-3.7	-1.5	-7.8	2.6	9.7	-0.2	-2.3

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.					s.a. m/m % chg.		
		CY 96	97	97 3Q	98 4Q	98 1Q	2Q	3Q	98 Jun.	Jul.	Aug.
Raw materials <sup>4</sup>	<27.1>	0.5	-0.5	1.0	0.1	-4.3	-4.4	2.6	13.4	0.8	-5.8
Intermediate goods	<13.7>	4.6	2.7	4.4	-1.5	-2.0	-9.3	2.1	9.6	0.8	-6.5
Foodstuffs	<13.6>	5.1	-3.5	6.8	-6.6	0.9	-2.9	0.8	0.5	2.4	0.9
Consumer goods	<10.8>	12.3	-10.0	0.0	-9.1	-0.3	-8.9	4.6	13.4	3.8	-5.7
Information-related goods <sup>5</sup>	<12.5>	36.8	8.0	-2.4	-3.1	-4.0	-1.2	3.2	15.8	-5.4	0.1
Capital goods and parts <sup>6</sup>	<11.4>	23.1	13.6	5.6	0.3	8.0	-10.8	3.6	10.8	-1.7	-3.0
Real imports		10.3	0.9	2.5	-3.7	-1.5	-7.8	2.6	9.7	-0.2	-2.3

Notes: 1. Seasonally adjusted by X-11. 1998/Q3 figures are Jul-Aug averages in terms of quarterly amount.

2. Shares of each region and type of goods are shown in brackets.

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

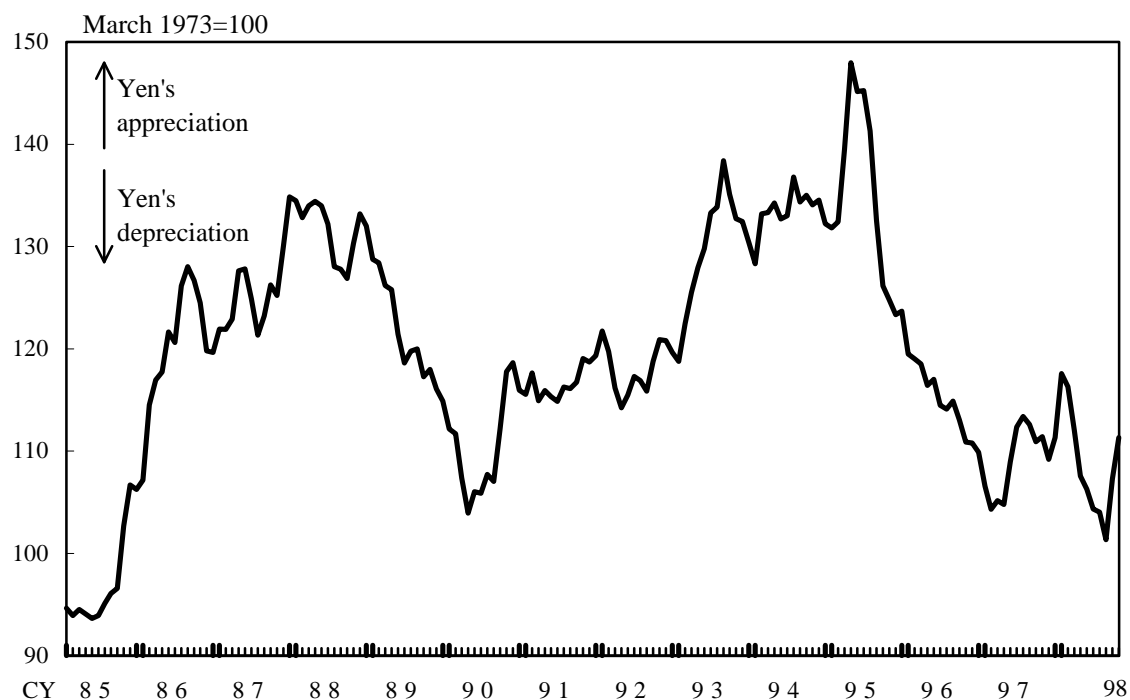
4. Raw materials = woods + ores + mineral fuel, etc.

5. Information-related goods = office machinery + telecommunication machinery + ICs + scientific, medical and optical instruments.

6. Excluding information-related goods.

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 Effective Exchange Rate <sup>1</sup>

Notes: 1. Monthly average. The figure for May 1998 is October 1-12 average. Calculated by Bank of Japan.  
 Figures are index of weighted average of yen's real exchange rates versus 24 major currencies which are calculated from exchange rates and price indexes of the respective countries.

## (2) Real GDP Growth Rates in Overseas Economies

		CY97	98	99	97 3Q	4Q	98 1Q	2Q	
United States <sup>1</sup>		3.9	( 3.4)	( 2.2)	4.2	3.0	5.5	1.8	
European Union <sup>1</sup>		2.7	( 2.8)	( 2.4)	3.2	2.4	2.5	n.a.	
	Germany	2.2	( 2.7)	( 2.4)	2.3	1.2	5.9	0.4	
	France	2.3	( 3.0)	( 2.5)	3.8	3.0	2.5	2.8	
	United Kingdom	3.5	( 2.2)	( 1.1)	4.0	2.9	3.1	1.9	
East Asia <sup>2</sup>	China	8.8	( 7.1)	( 7.5)	(Jan-Sep) 9.0	(Jan-Dec) 8.8	7.2	(Jan-Jun) 7.0	
	NIEs	Korea	5.5	(-5.9)	( 0.2)	6.1	3.9	-3.9	-6.6
		Taiwan	6.8	( 4.9)	( 4.4)	7.1	7.1	5.9	5.2
		Hong Kong	5.3	(-4.7)	(-2.8)	6.0	2.7	-2.8	-5.0
		Singapore	7.8	( 0.1)	( 0.2)	10.7	7.6	6.1	1.6
	4 Countries of ASEAN	Thailand	-0.4	(-7.9)	(-0.5)	n.a.	n.a.	n.a.	n.a.
		Indonesia	4.6	(-16.5)	(-2.8)	2.5	1.4	-7.9	-16.5
Malaysia		7.8	(-5.0)	(-0.5)	7.4	6.9	-2.8	-6.8	
Philippines		5.1	( 0.6)	( 2.0)	4.9	4.8	1.7	-1.2	

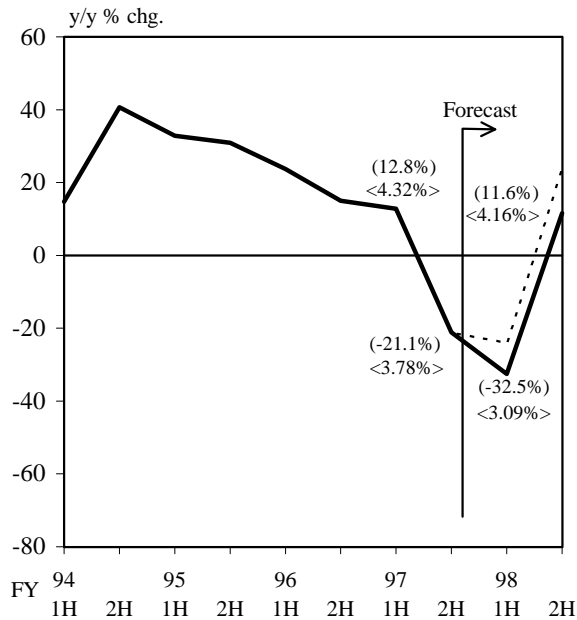
Notes: 1. Quarterly data are quarter-to-quarter percent changes.  
 2. Quarterly data are percent changes from a year earlier.  
 3. Forecasts by "BLUE CHIP ECONOMIC INDICATORS" and "CONSENSUS FORECASTS" are shown in brackets.



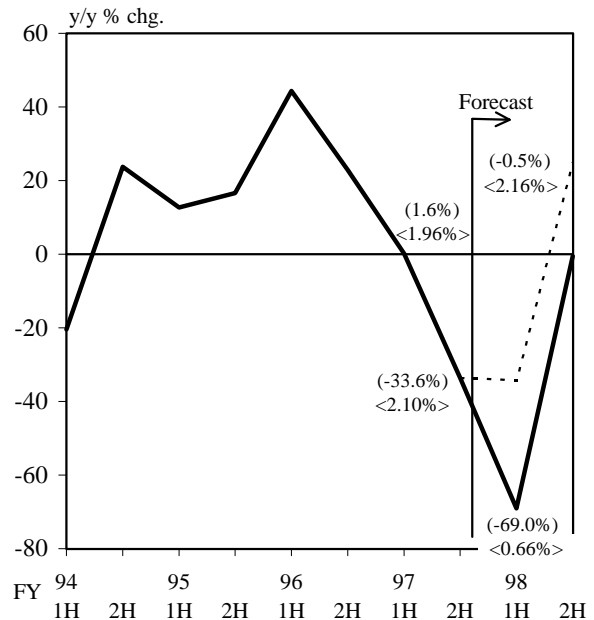
Current Profits as Surveyed in *Tankan* (September 1998)

(1) Manufacturing

Principal Enterprises (excluding petroleum refining)

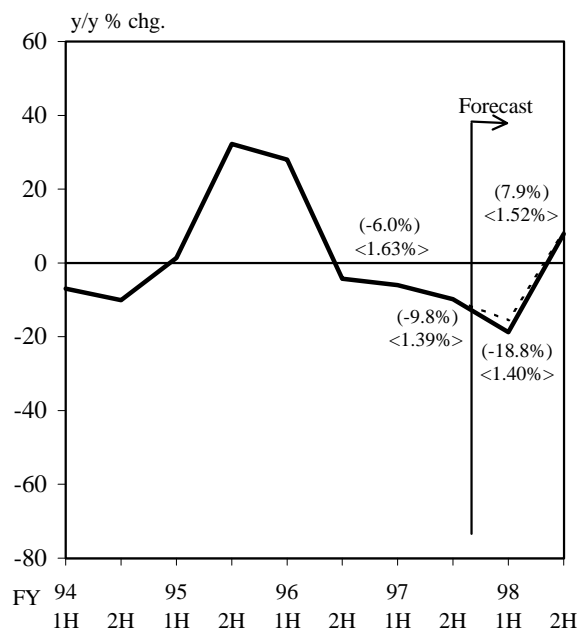


Small Enterprises

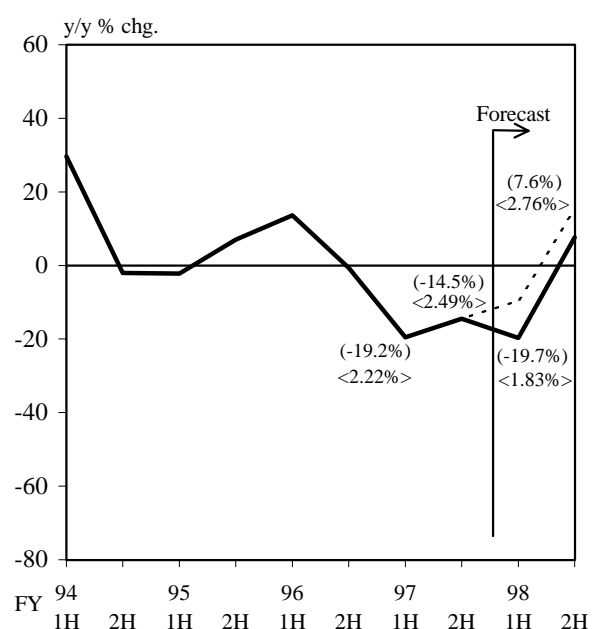


(2) Nonmanufacturing

Principal Enterprises (excluding electric & gas utilities)



Small Enterprises

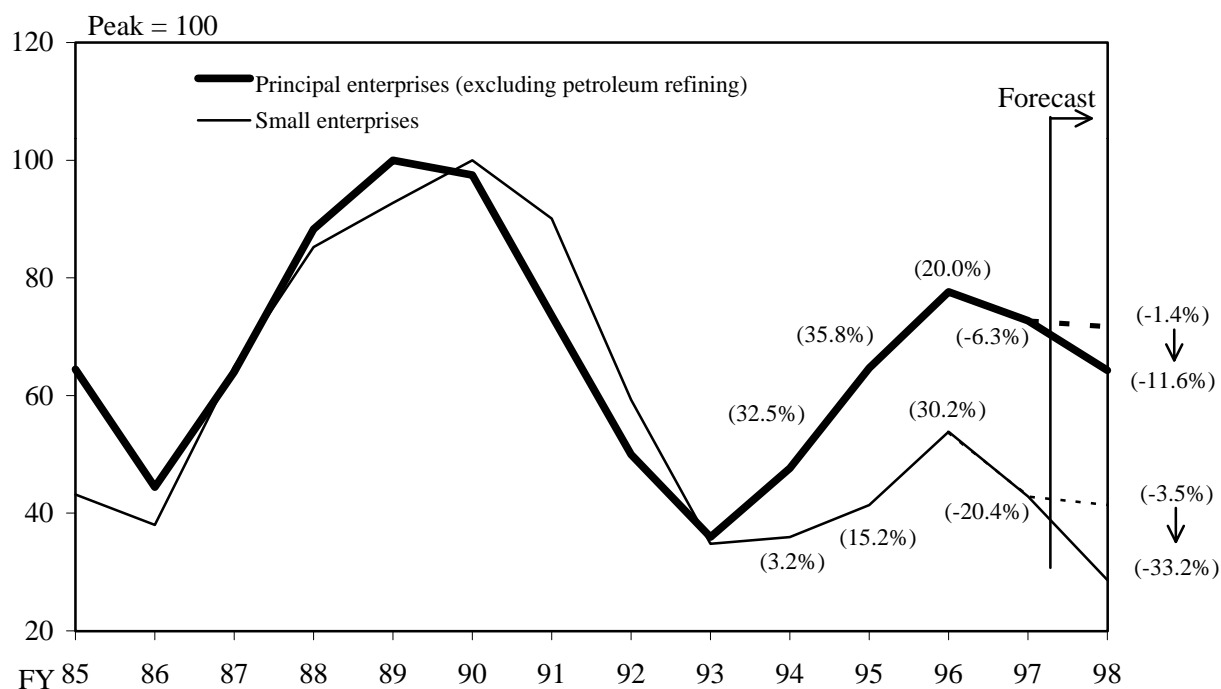


- Notes: 1. Figures in parentheses are percent change from a year earlier.
- 2. Figures in brackets are current profit to sales ratio.
- 3. The dotted lines are projections in June 1998.

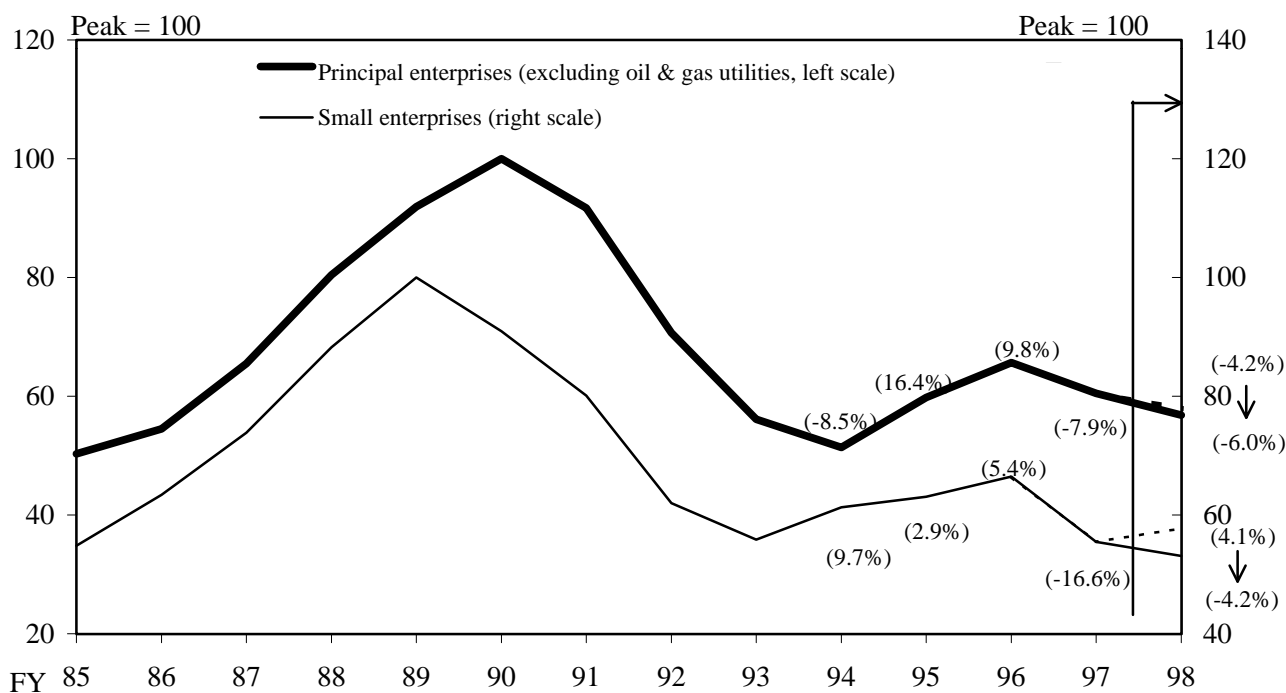
Source: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan."

Current Profits as Surveyed in *Tankan* (September 1998)

(1) Manufacturing



(2) Nonmanufacturing

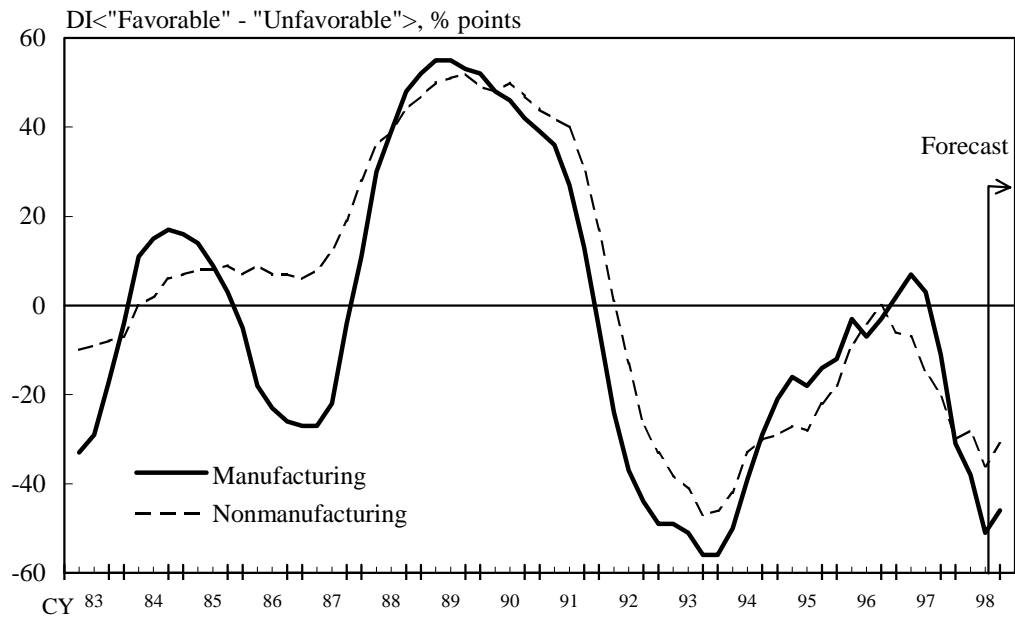


Notes: 1. Figures in parentheses are percent changes from a year earlier.  
 2. The dotted lines are projections in June 1998.

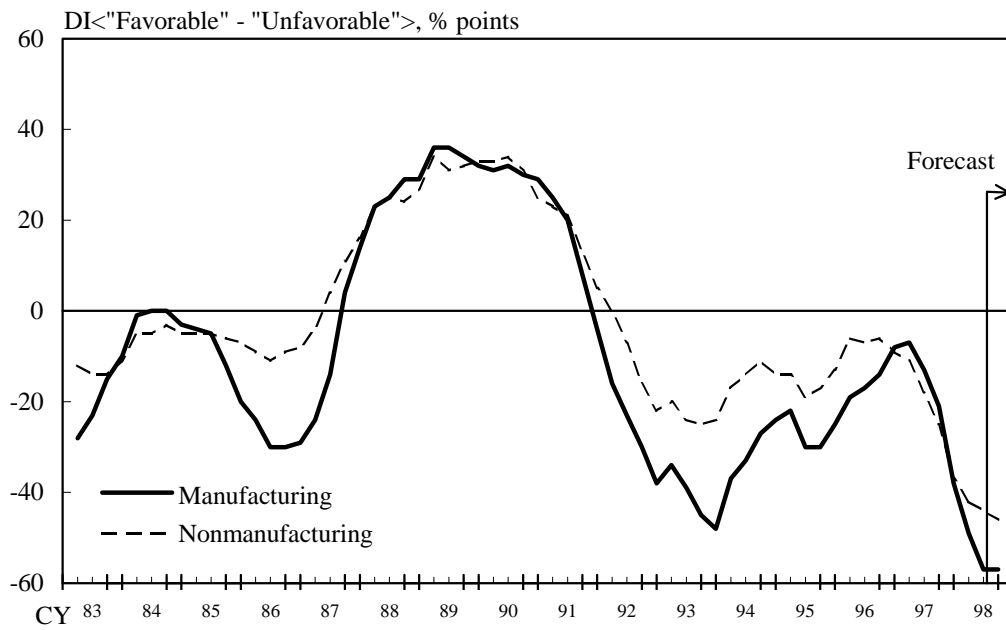
Source: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan."

Business Conditions in *Tankan* (September 1998)

(1) Principal Enterprises

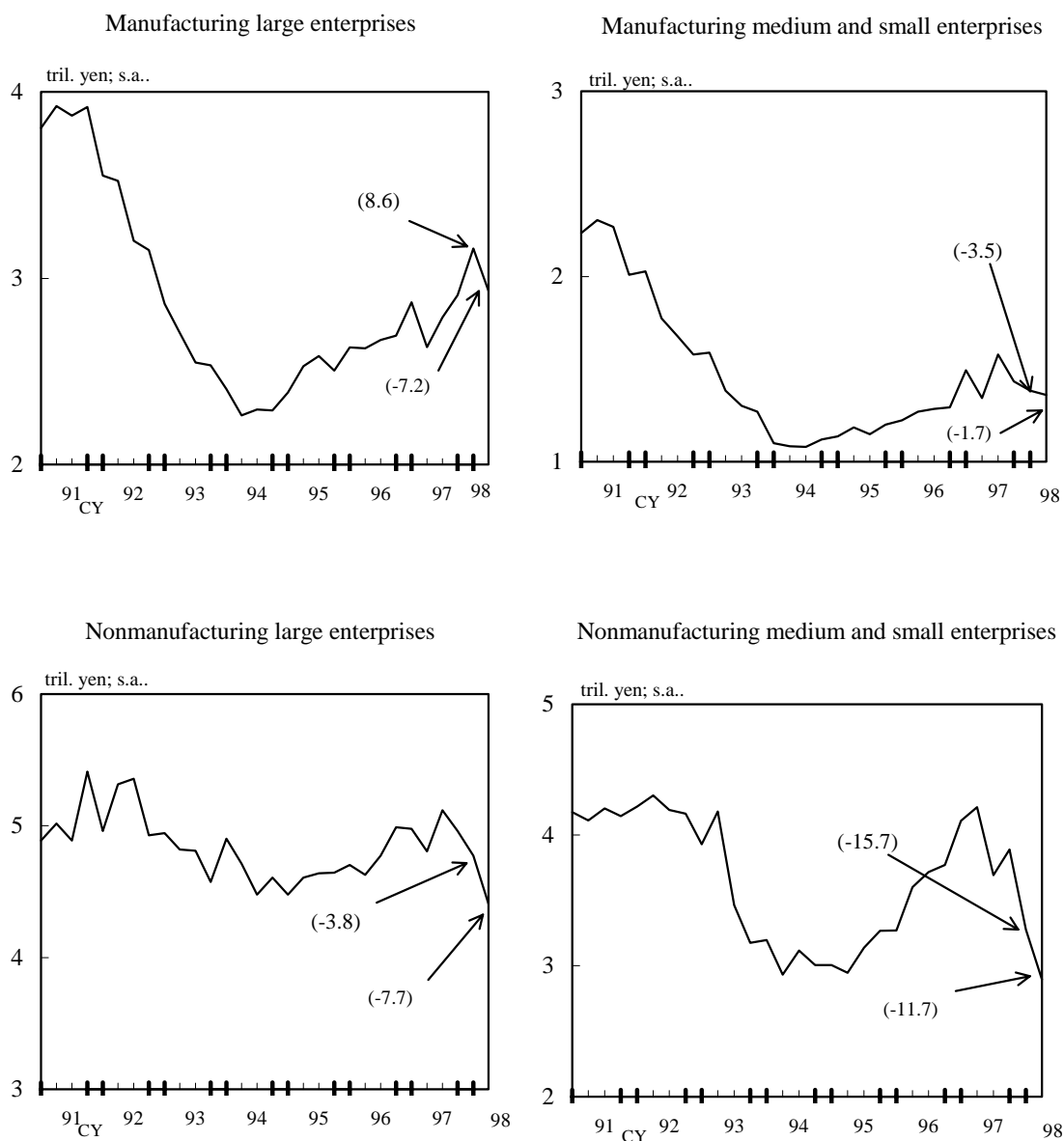


(2) Small Enterprises



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

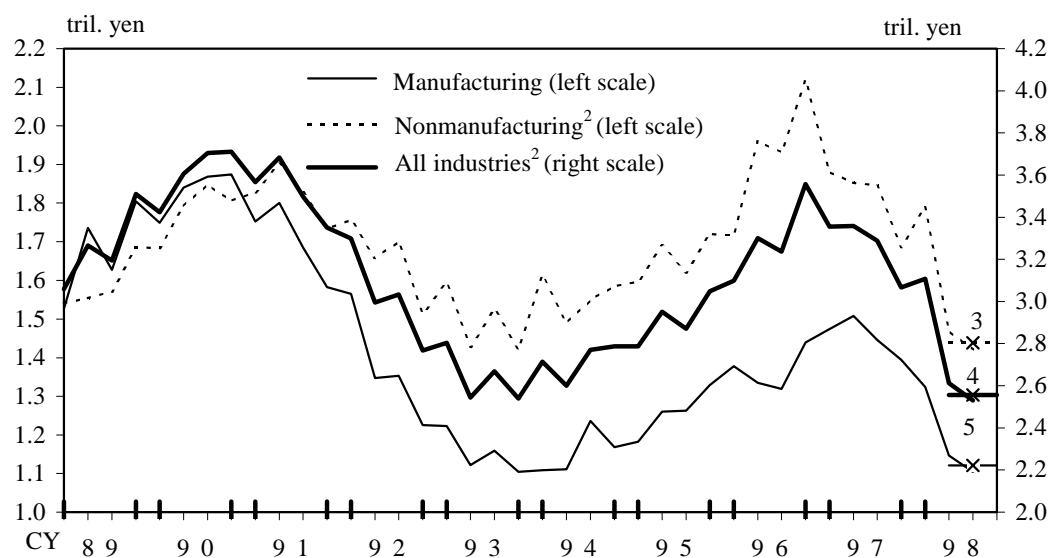
Business Fixed Investments by Industry and Scale



Note: Figures in parentheses are the seasonally adjusted growth rates in 98/1Q and 2Q.

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

## Major Indexes of Business Fixed Investment

(1) Machinery Orders<sup>1</sup>

Notes: 1. Seasonally adjusted data.

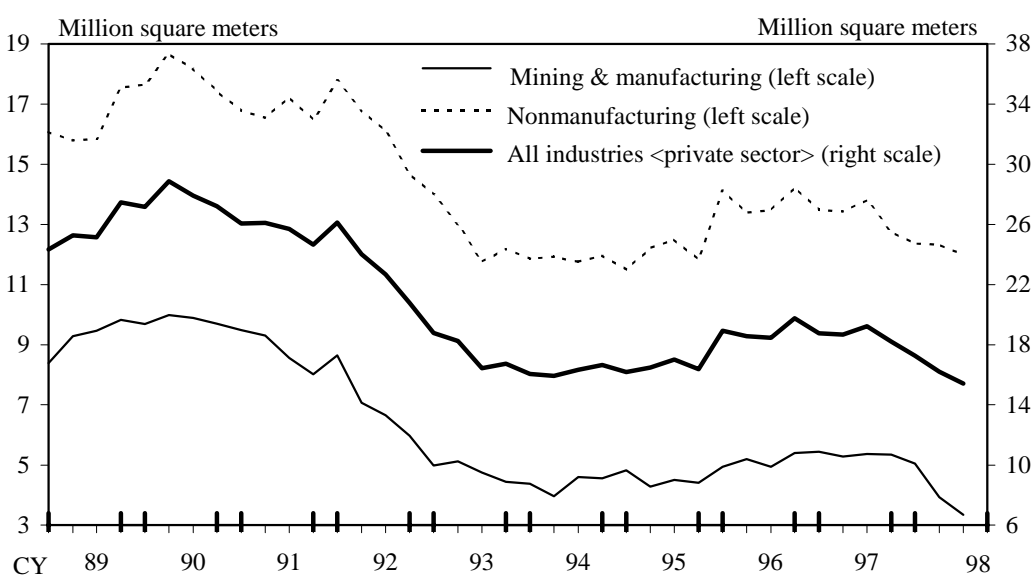
Figures for 1998/Q3 are averages of July and August in terms of quarterly amount.

2. Excludes orders from electric power companies, and shipbuilding orders.

3. Forecast of nonmanufacturing industries for 1998/Q3.

4. Forecast of all industries for 1998/Q3.

5. Forecast of manufacturing industries for 1998/Q3.

(2) Construction Starts (Nonresidential)<sup>1,2</sup>

Notes: 1. Seasonally adjusted by X-11.

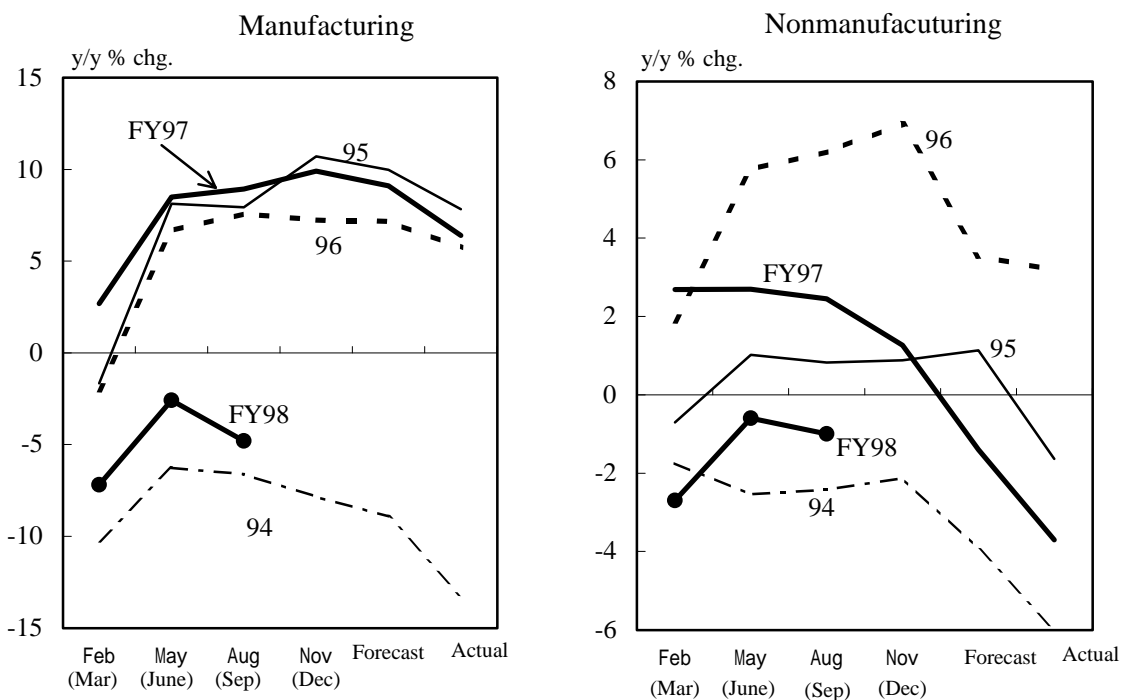
2. Figures for 1998/Q3 are averages of July and August in terms of quarterly amount.

Sources: Economic Planning Agency, "Machinery Orders Statistics";

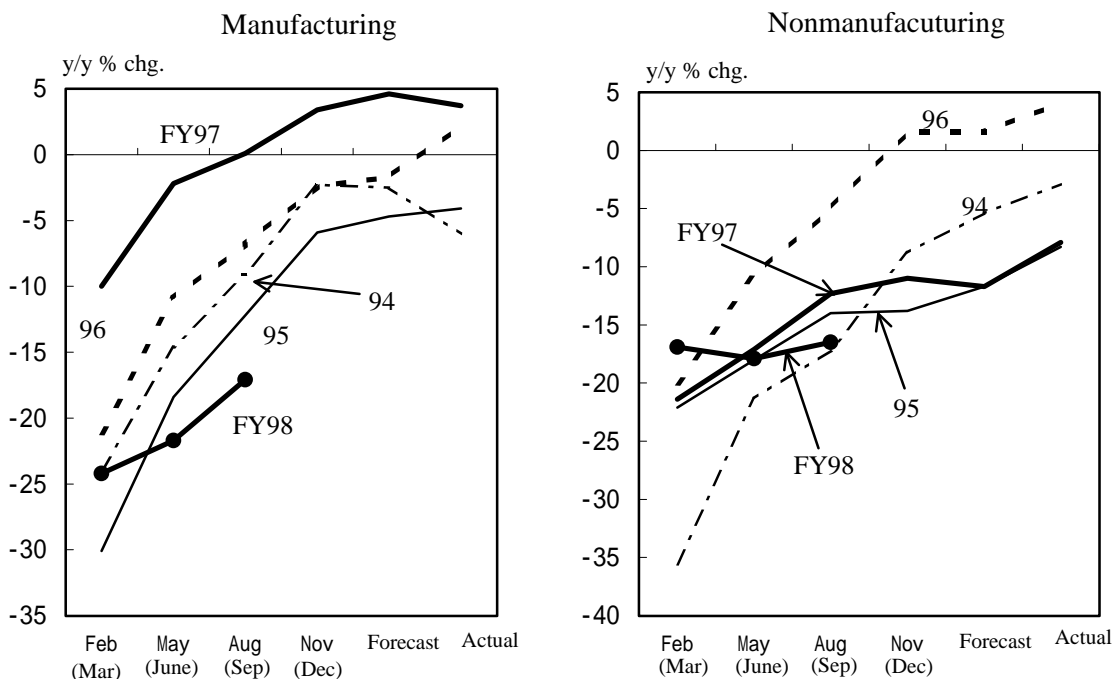
Ministry of Construction, "Building Construction Started."

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

(1) Adjustment of Plans by Principal Enterprises



(2) Adjustment of Plans by Small Enterprises

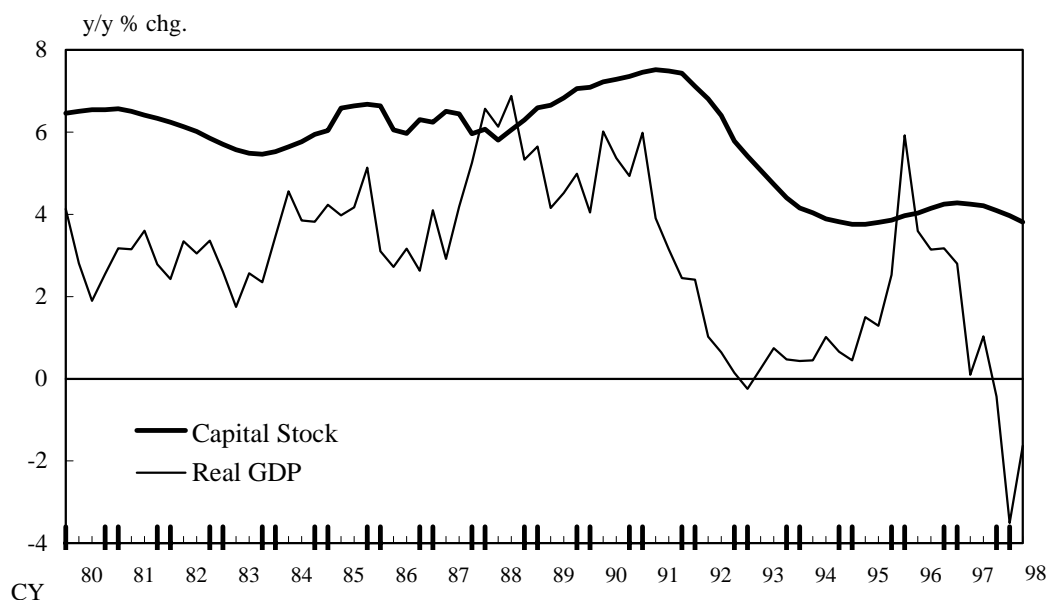


Note: Surveys are conducted in March, September and December from March 1997, instead of February, May, August and November.

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

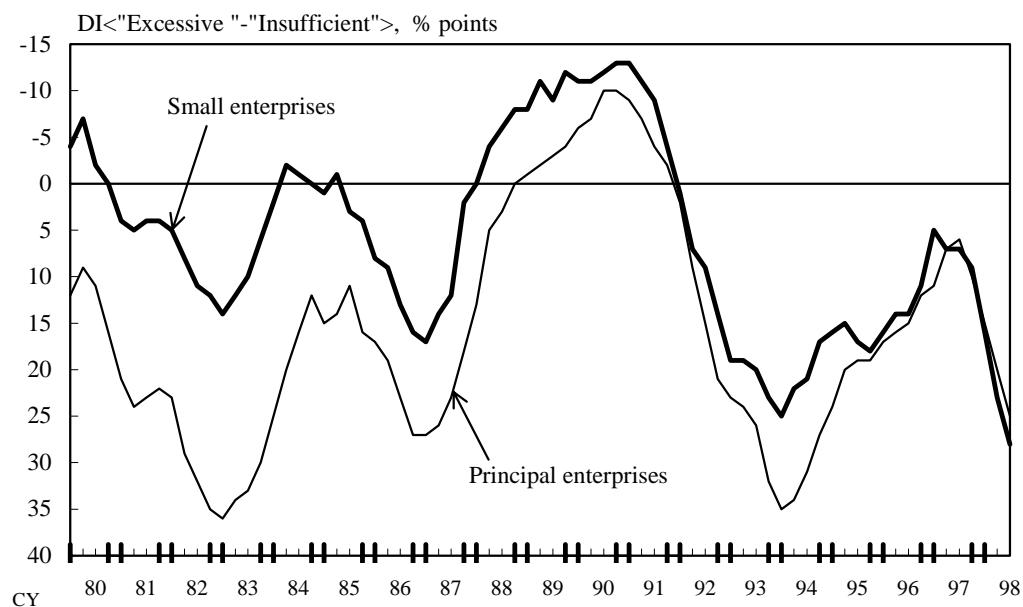
## Increase of Capital Stock and Production Capacity

### (1) Increase of Capital Stock (All Industries)



Note: Capital Stock is adjusted for the privatization of NTT and JR.

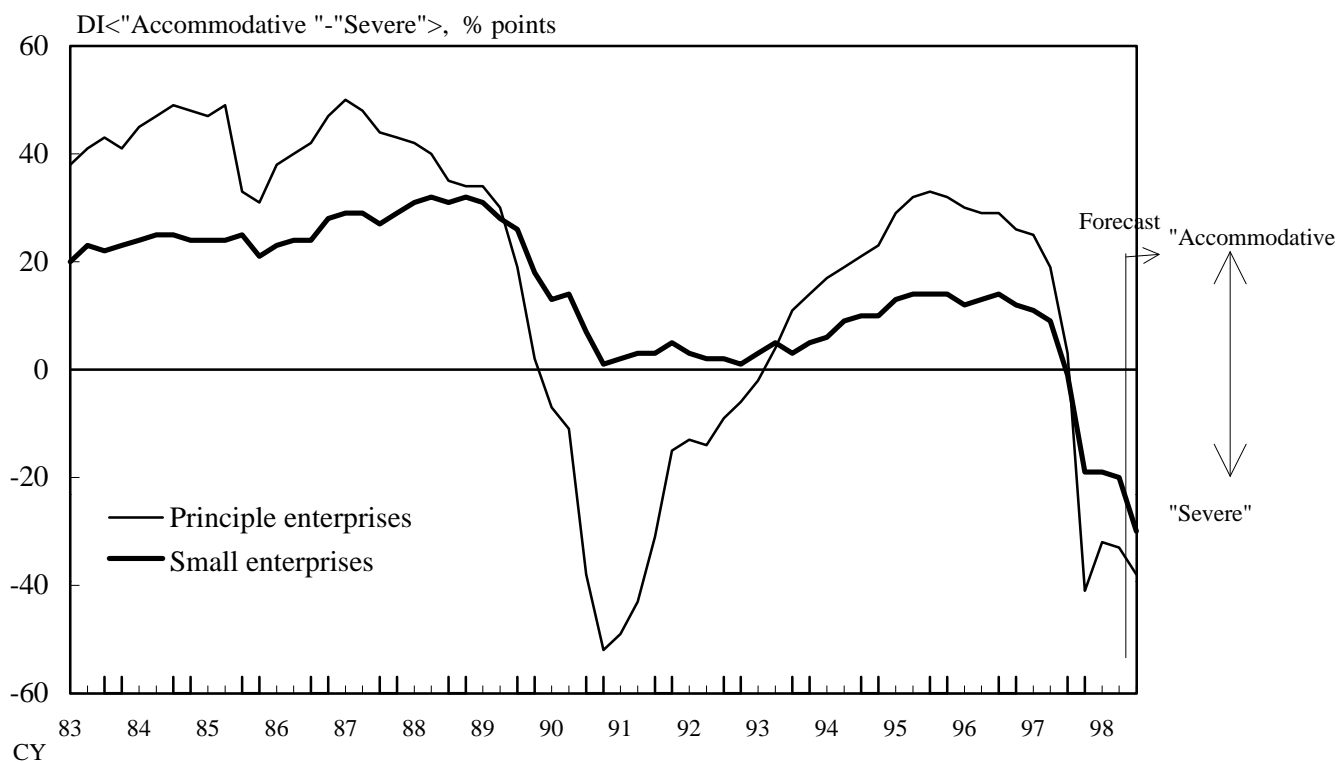
### (2) Operating Ratio and Production Capacity DI (Manufacturing Industries)



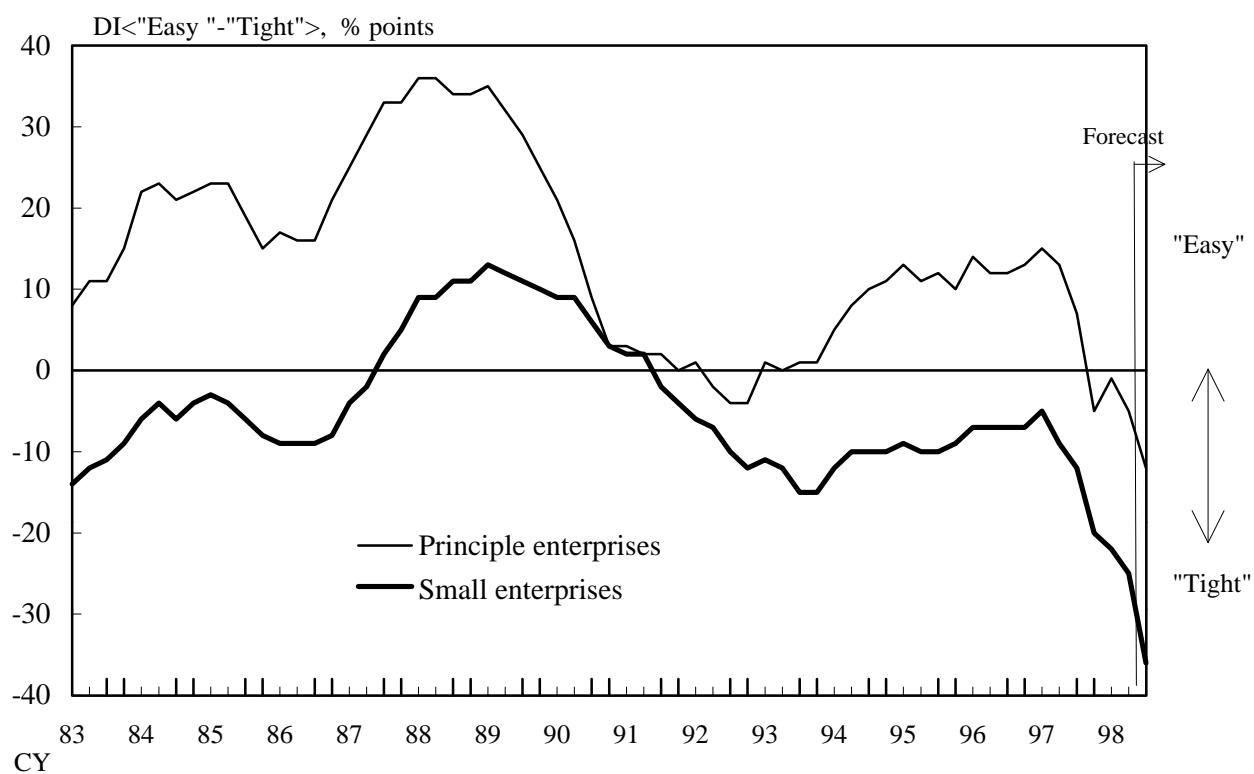
Sources: Economic Planning Agency, "Gross Capital Stock of Private Enterprises,"  
"National Income Statistics;"  
Bank of Japan, "*Tankan* -Short-Term Economic Survey of Enterprises in Japan,";

Corporate Finance-Related Indicators

(1) Lending Attitude of Financial Institutions DI



(2) Financial Position DI

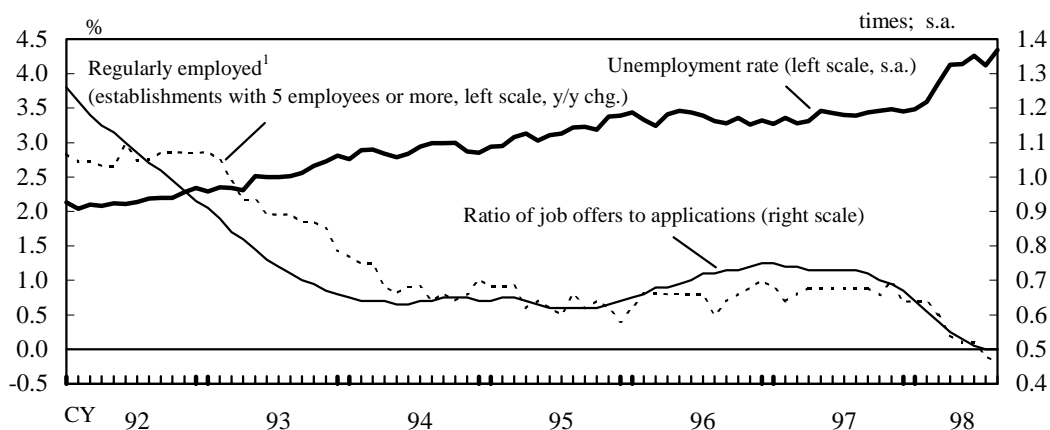


Source: Bank of Japan, "Tankan -Short-Term Economic Survey of Enterprises in Japan."

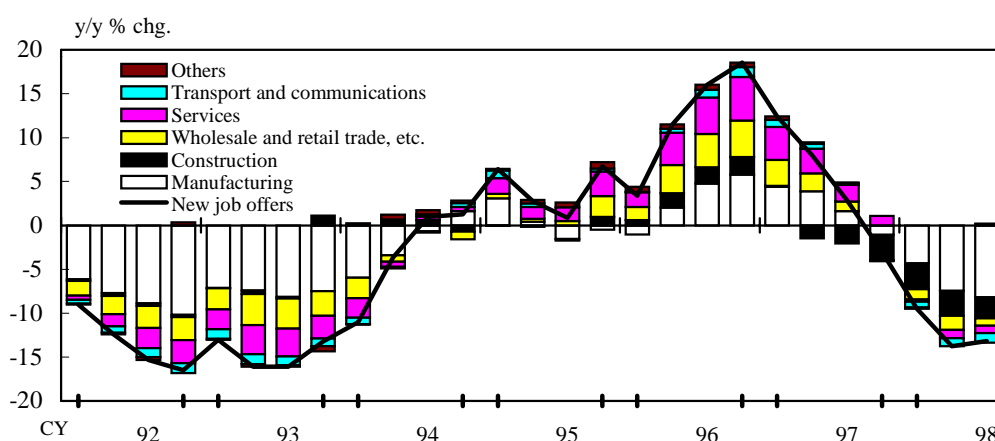


Labor

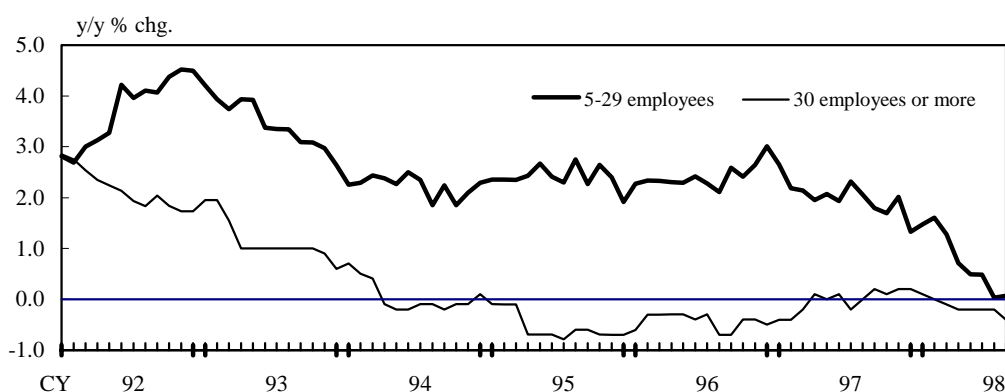
(1) Monthly



(2) New Job Offers<sup>2</sup>



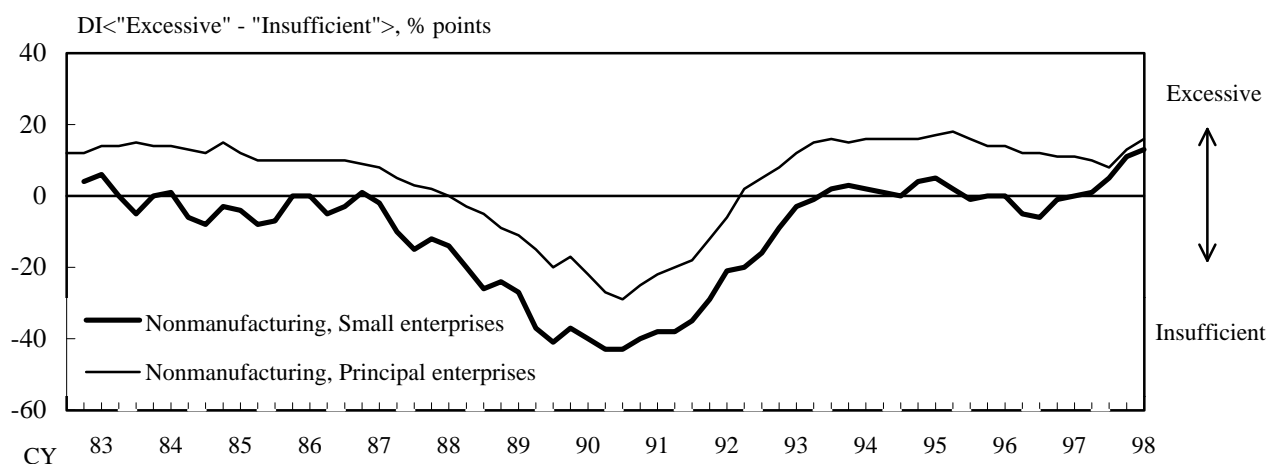
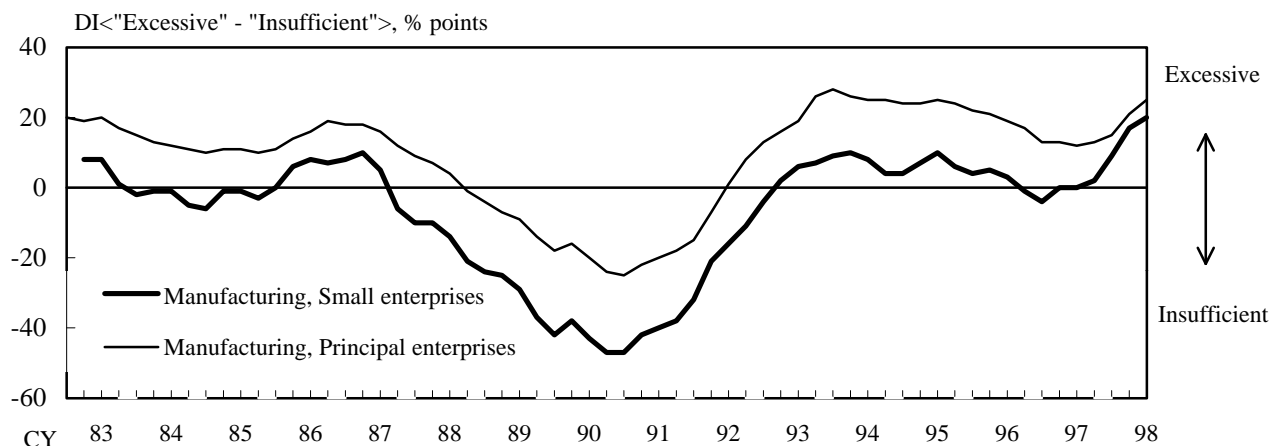
(3) Number of Regular Employees<sup>1</sup> by size of establishments



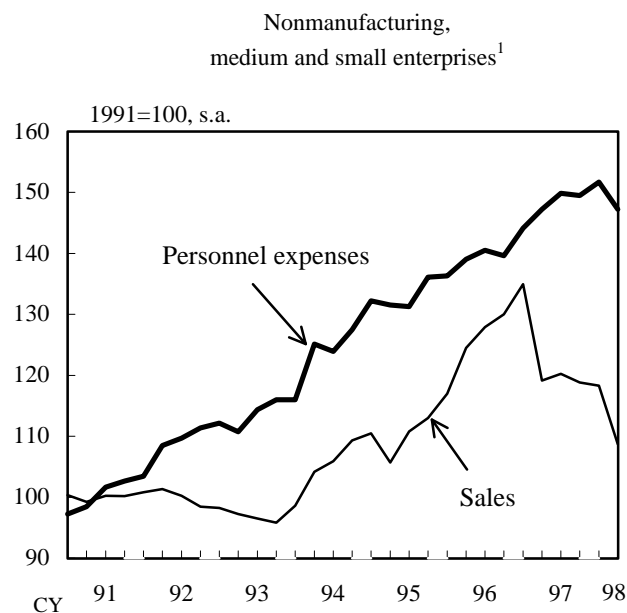
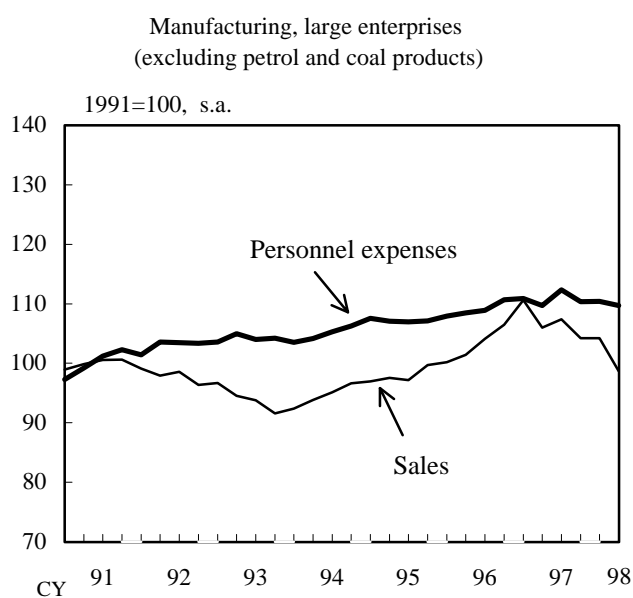
Notes: 1. The data of regular employees in August 98 are preliminary.  
 2. Excludes jobs offered to new graduates. The data for 98/Q3 are the July - August average.  
 Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service";  
 Management and Coordination Agency, "Labor Force Survey."

Employment Conditions (1)

(1) Employment DI (*Tankan*)



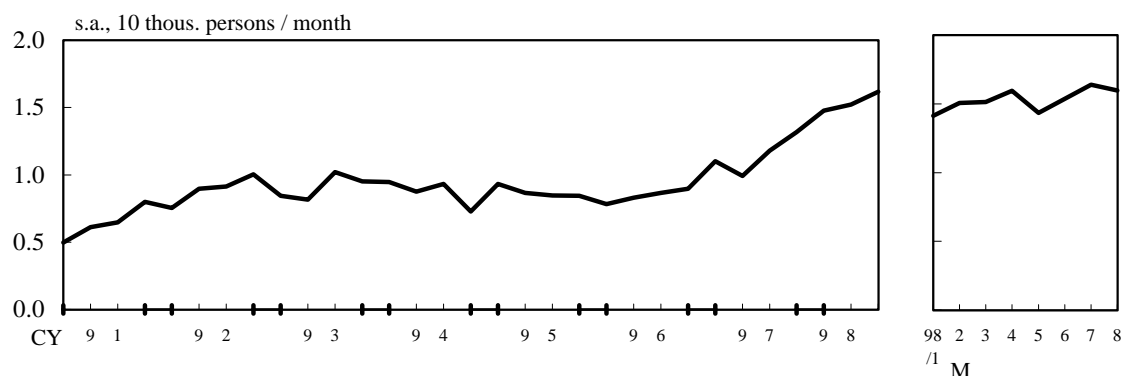
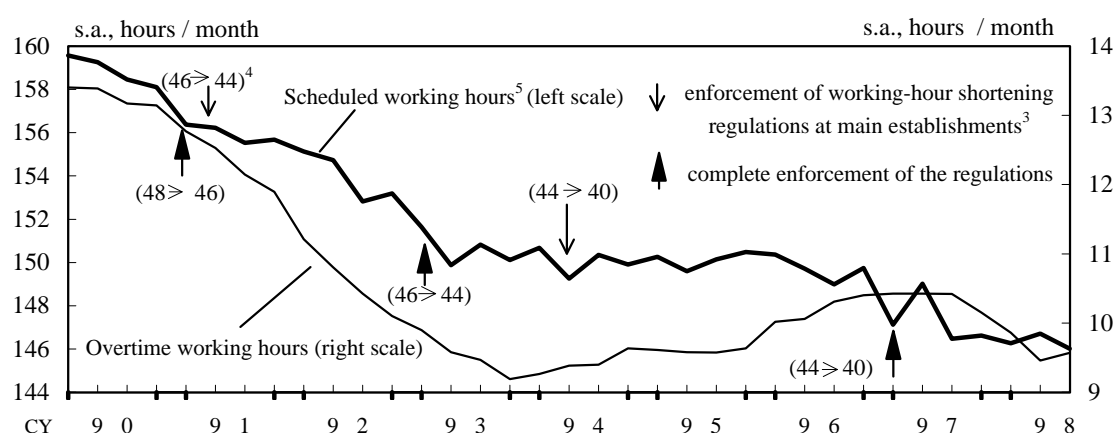
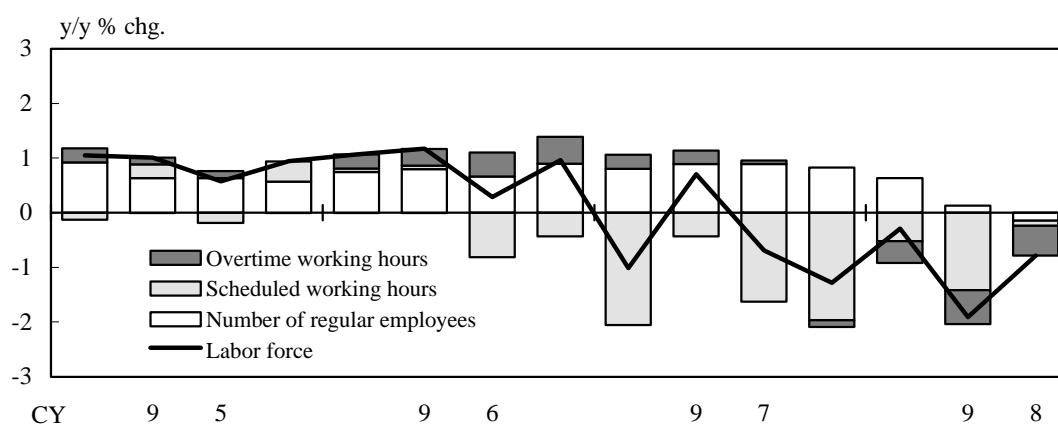
(2) Sales and Personnel Expenses



Note: 1. The data of nonmanufacturing, medium and small enterprises have been adjusted to remove the sample bias by equating total assets every year.

Sources: Bank of Japan, "*Tankan* - Short-Term Economic Survey of Enterprises in Japan"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

## Employment Conditions (2)

(3) Number of Employees at Bankrupt Firms<sup>1</sup>(4) Working Hours<sup>2</sup> (Establishments with 5 employees or more)(5) Labor Force<sup>2</sup> (Establishments with 5 employees or more)

Notes: 1. Bankruptcies with liabilities of ten million yen or more.

The data are based on a survey conducted by *Teikoku Databank Ltd.*

The figure for 98/Q3 is the July-August average.

Seasonally adjusted by X-11.

2. The data for 98/Q3 are the July-August average (preliminary).

3. Most establishments with less than 300 employees are allowed some years before enforcement of working-hour shortening regulations.

4. Figures in parentheses are the scheduled working hours per week as stipulated by the labor conditions standards law.

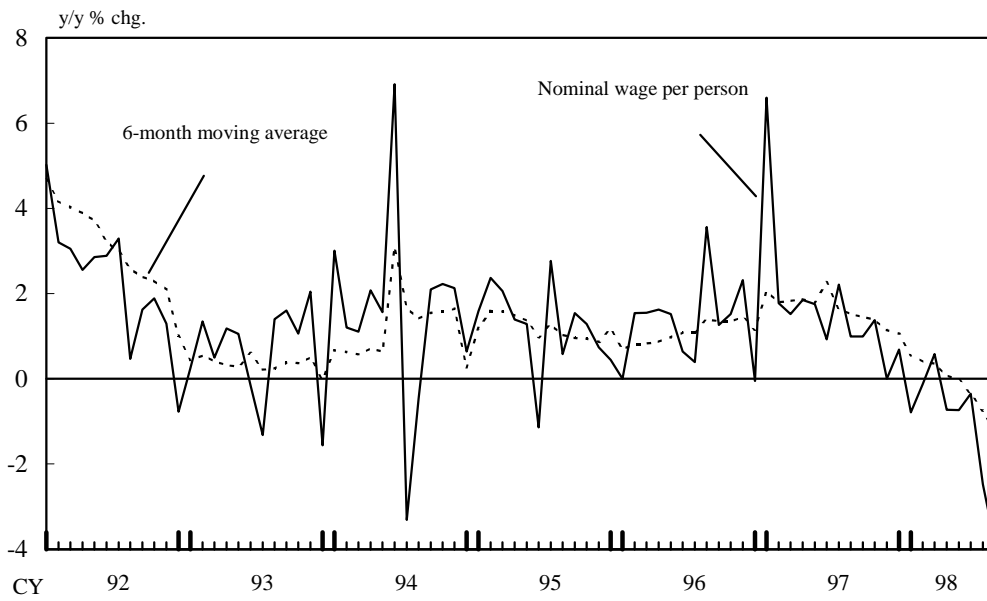
5. Scheduled working hours per week seem to be shorter than regulated due to part-time workers who work shorter hours than full-time workers.

Sources: Teikoku Databank Ltd., "Japan's Business Failure";

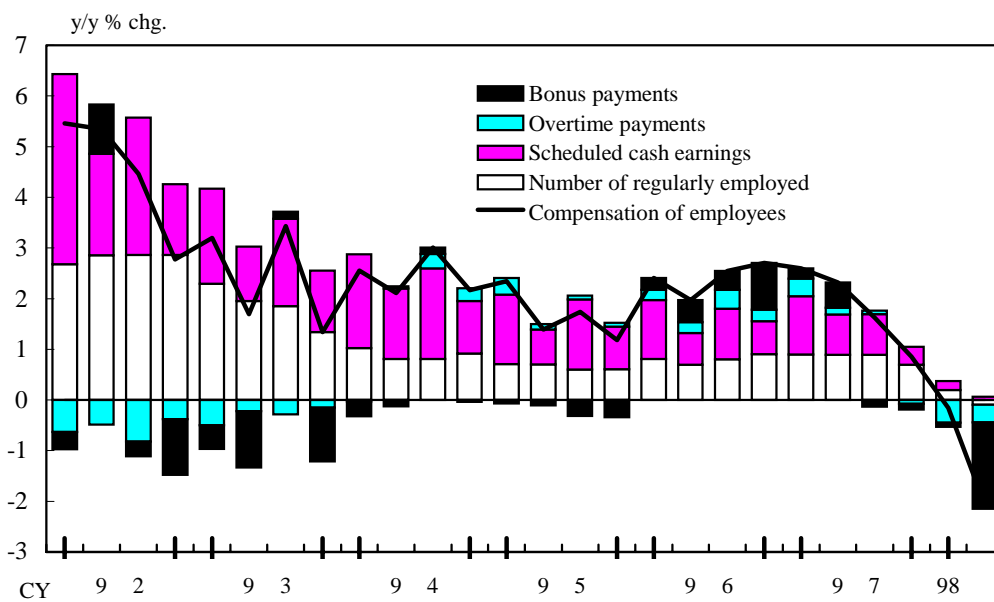
Ministry of Labor, "Monthly Labor Survey."

Compensation of Employees <sup>1</sup>

(1) Nominal Wage per Person



(2) Breakdown of Compensation <sup>2</sup>

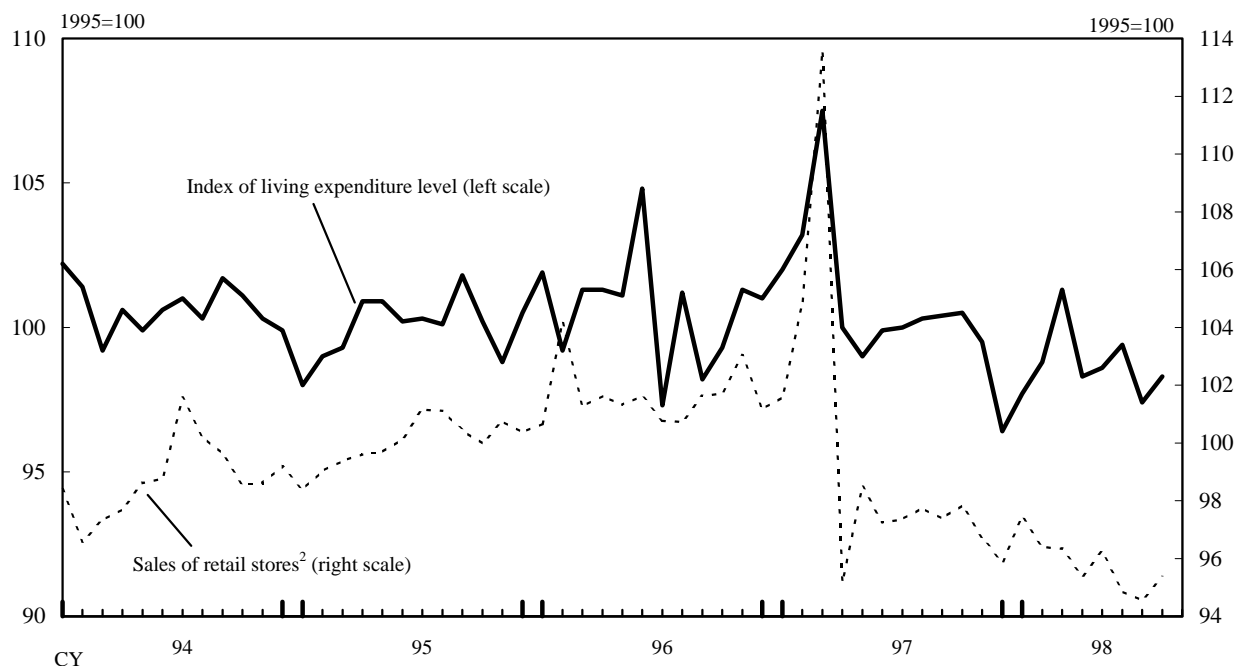


Notes: 1. Data for establishments with 5 employees or more. The data in Aug 98 are preliminary.  
 2. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.

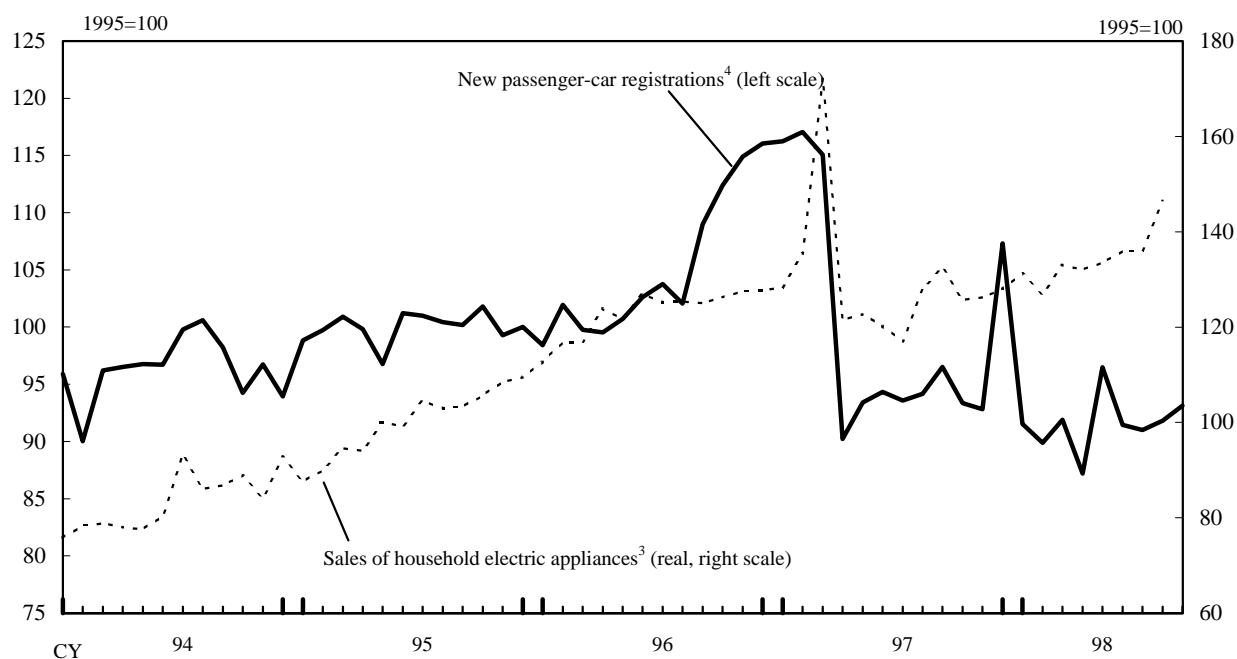
Source: Ministry of Labor, "Monthly Labor Survey."

## Private Consumption<sup>1</sup> (1)

### (1) Household Spending



### (2) Sales of Durable Goods



Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  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.

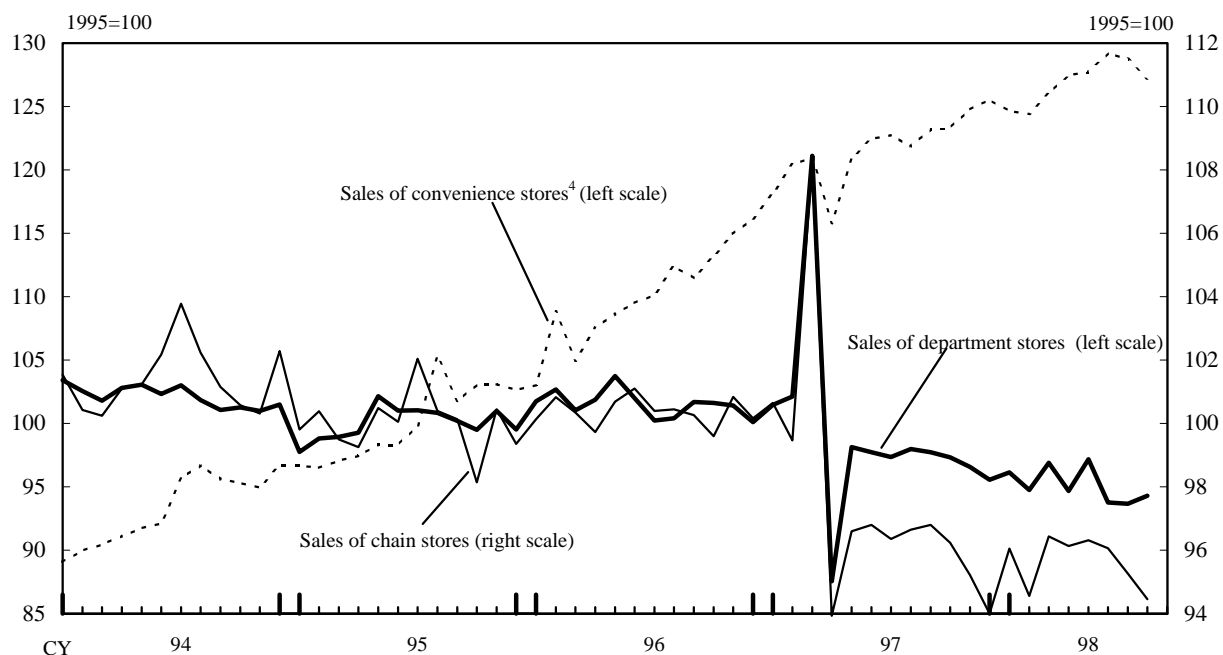
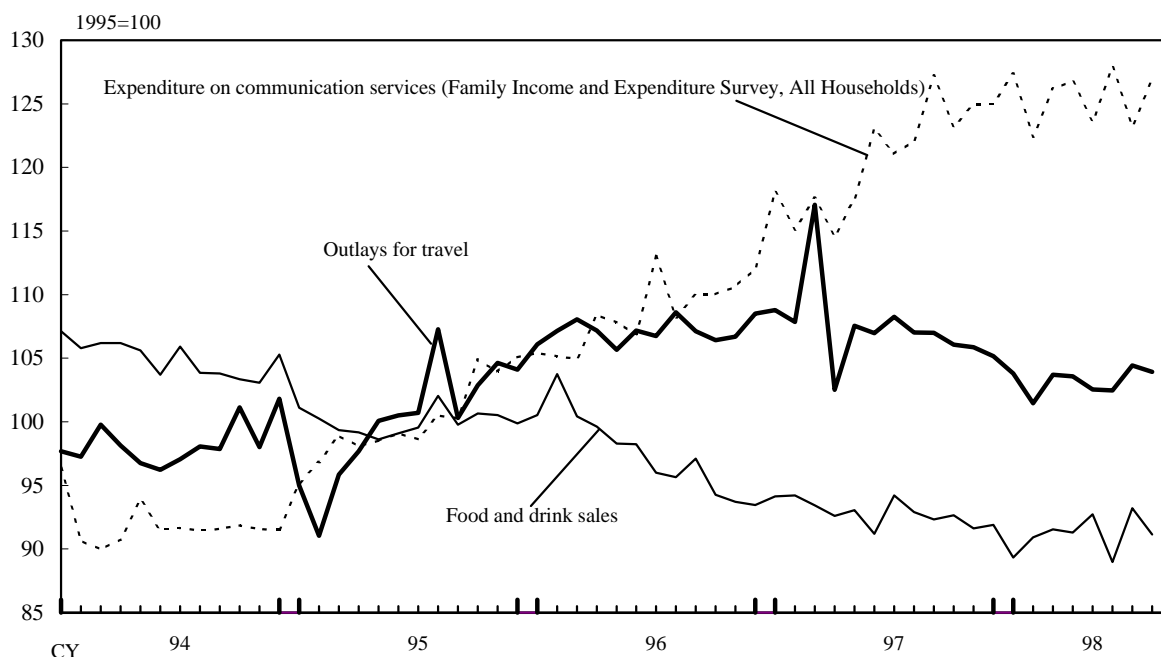
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey", "Consumer Price Index";

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 Consumption<sup>1</sup> (2)(3) Sales of retail stores<sup>2</sup>(4) Consumption of service<sup>3</sup>

Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).

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

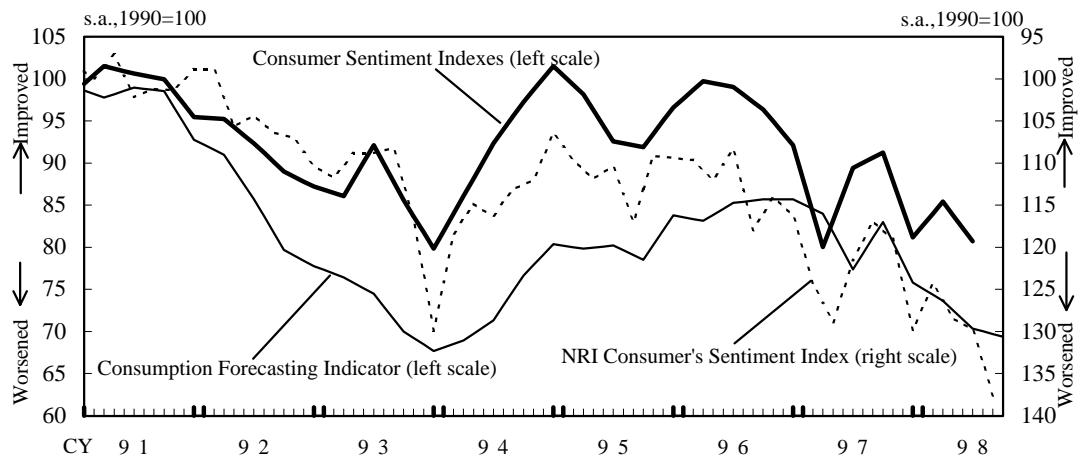
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

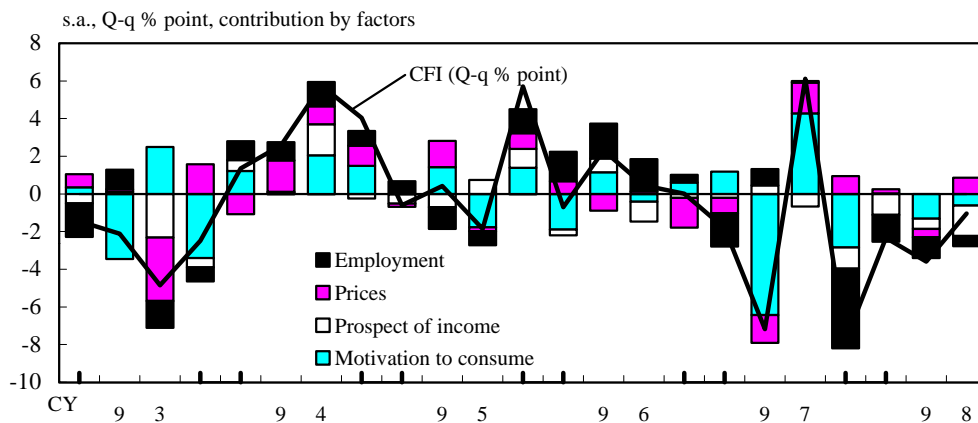
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";  
Ministry of International Trade and Industry, "Current Survey of Commerce";  
Japan Chain Stores Association, "Sales of Chain Stores";  
Ministry of Transport, "Major Travel Agents' Revenue";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

Consumer Confidence and Propensity to Consume

(1) Surveys on consumer confidence



(2) Consumption Forecasting Indicator



Notes: Items are recomposed as followings;

"Employment" = "Employment situation"

"Prices" = "Consumer Price Situation"

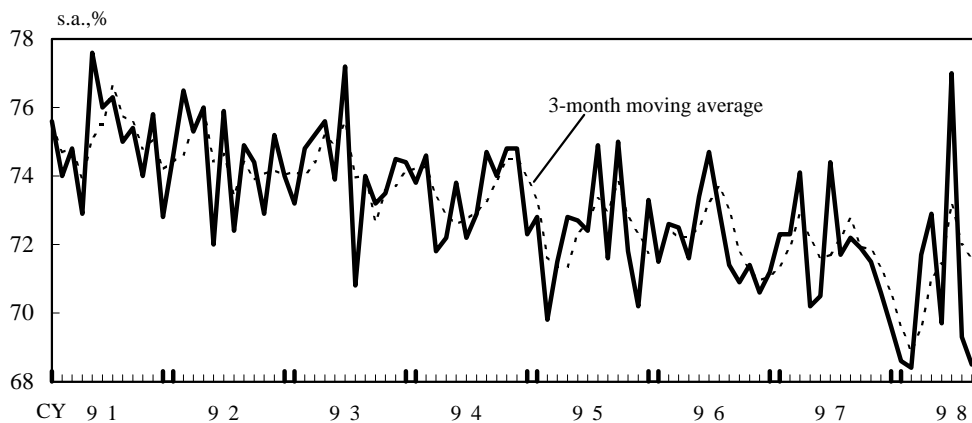
"Prospect of income" = "Corporate profits" + "Personal Financial Situation"

"Motivation to consume" = "Intention to Tighten Expenditure (Durables)"

+ "Intention to Tighten Expenditure (Leisure Activities)"

+ "Intention to Tighten Expenditure (Culture Life)"

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



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

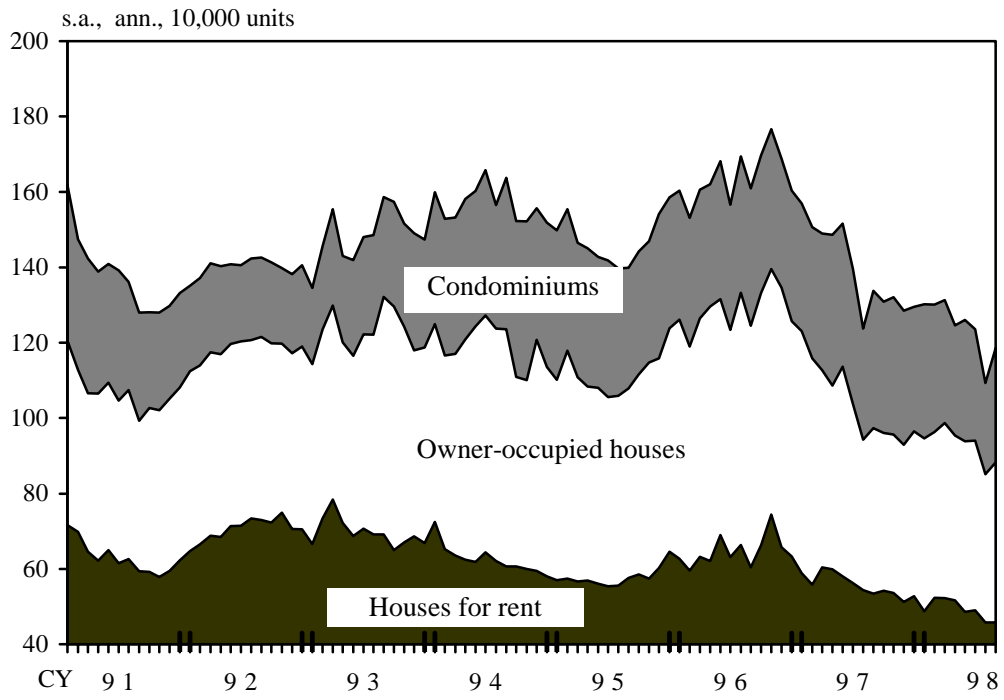
Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator";

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

Expenditure Survey";

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

Housing Starts

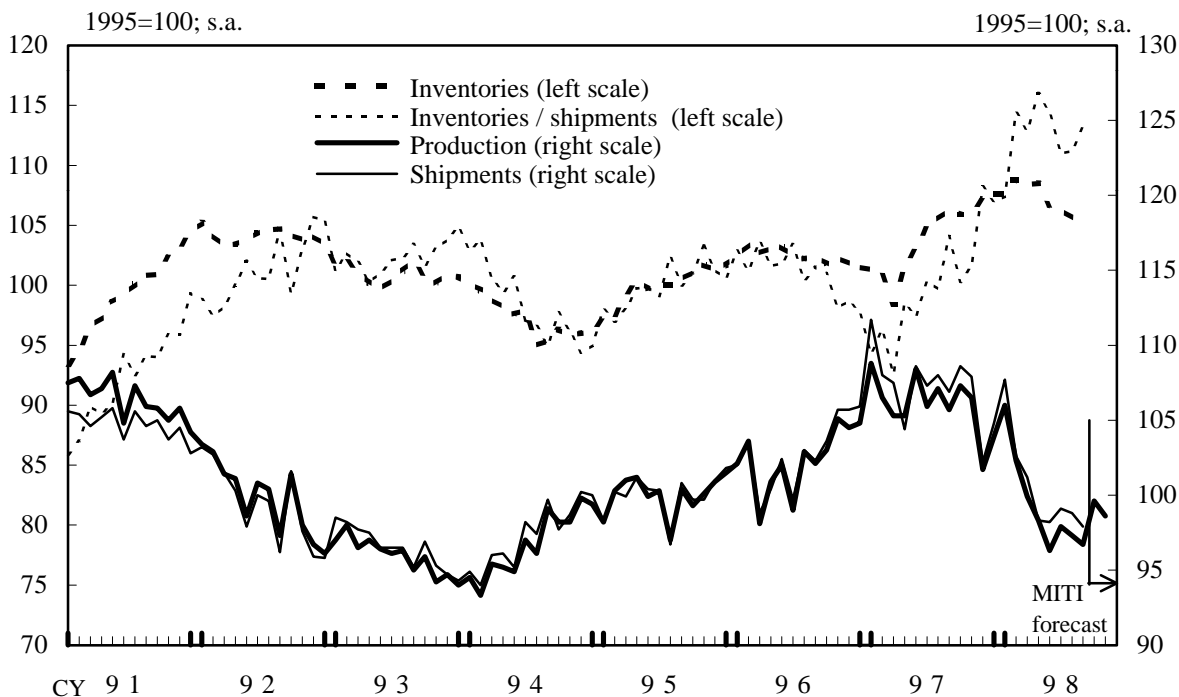


Source: Ministry of Construction, "Monthly of Construction Statistics."

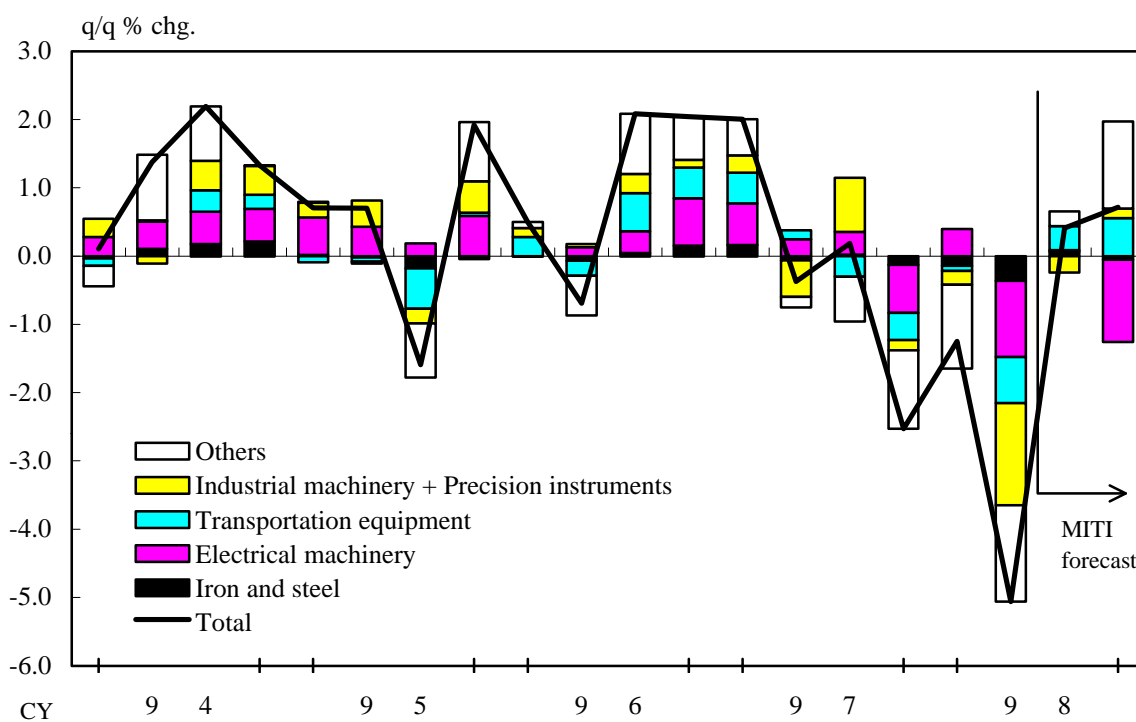


Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



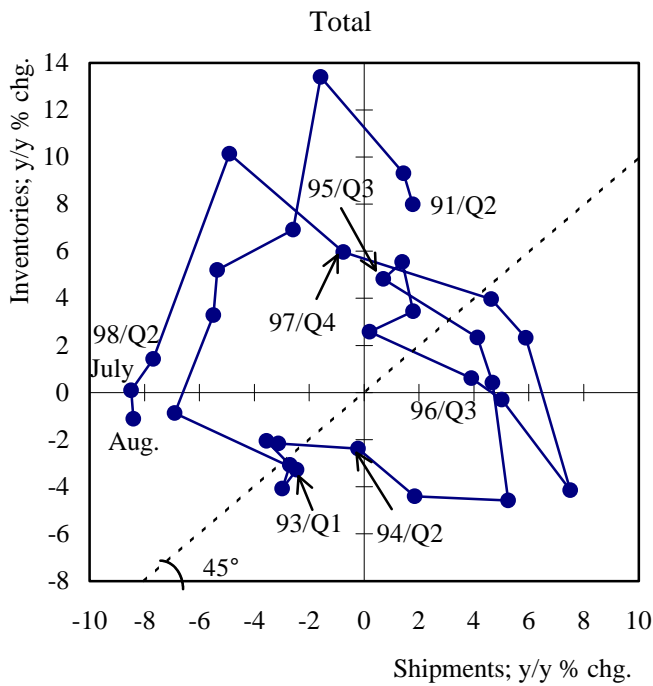
(2) Production by Industries



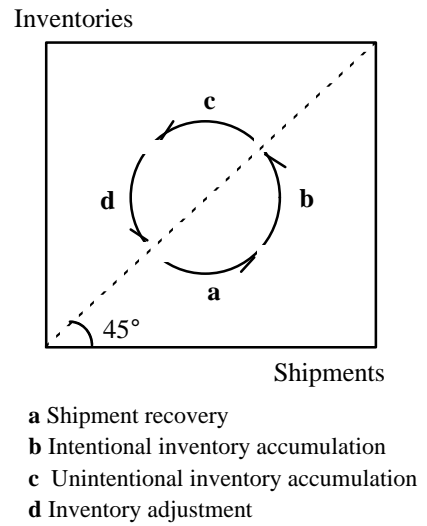
Note: Transportation equipment excludes ships and rolling stock.

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

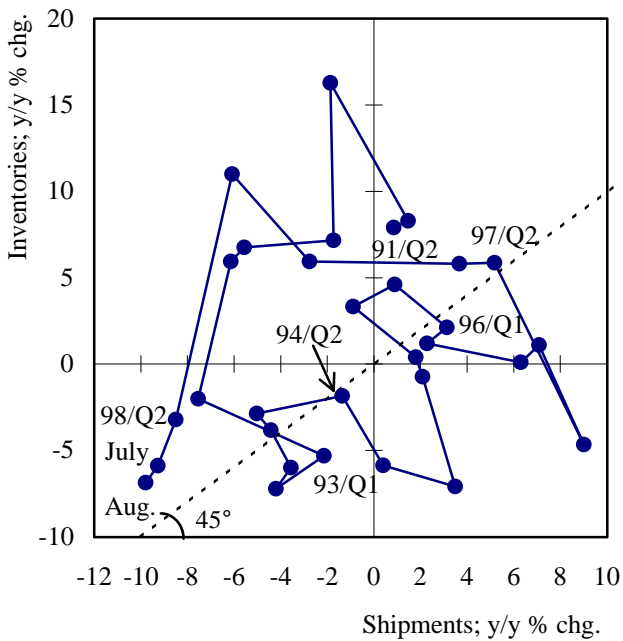
Inventory Cycle



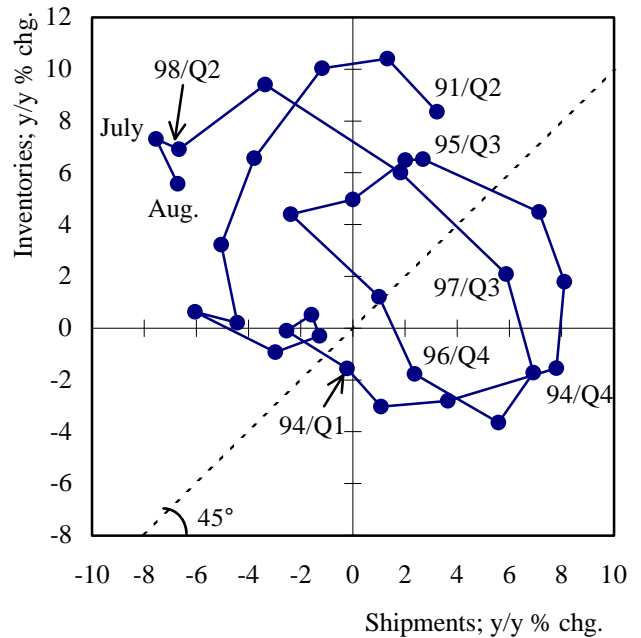
Phases in the Inventory Cycle



Final Demand Goods



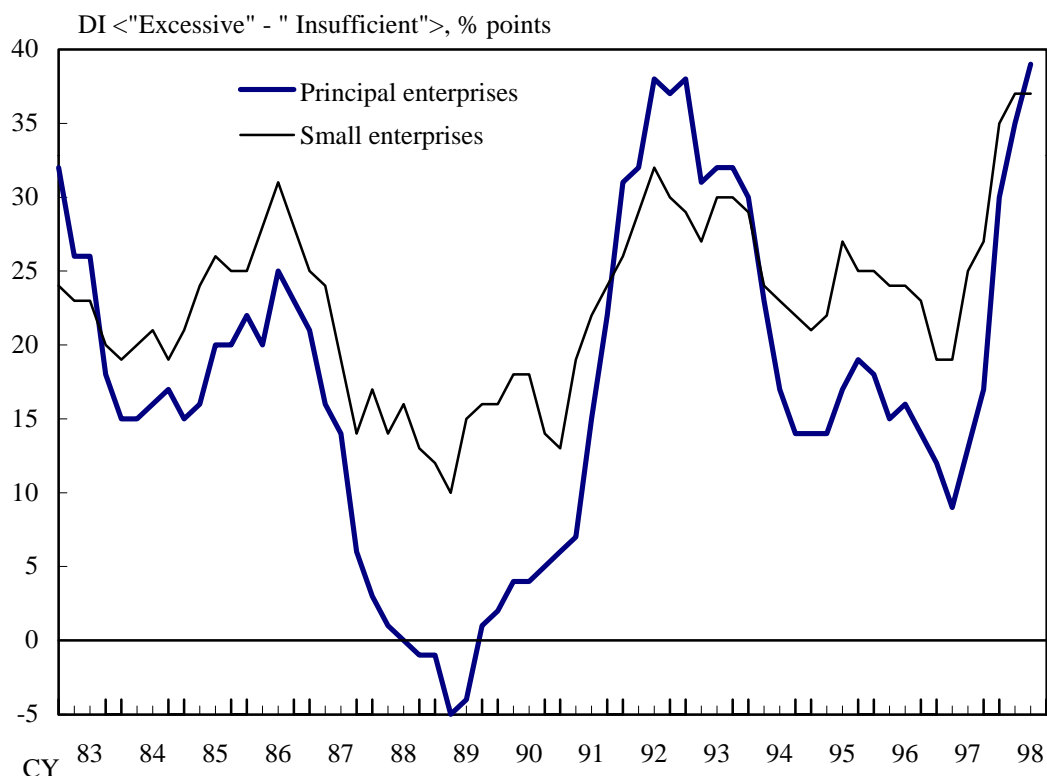
Production Goods



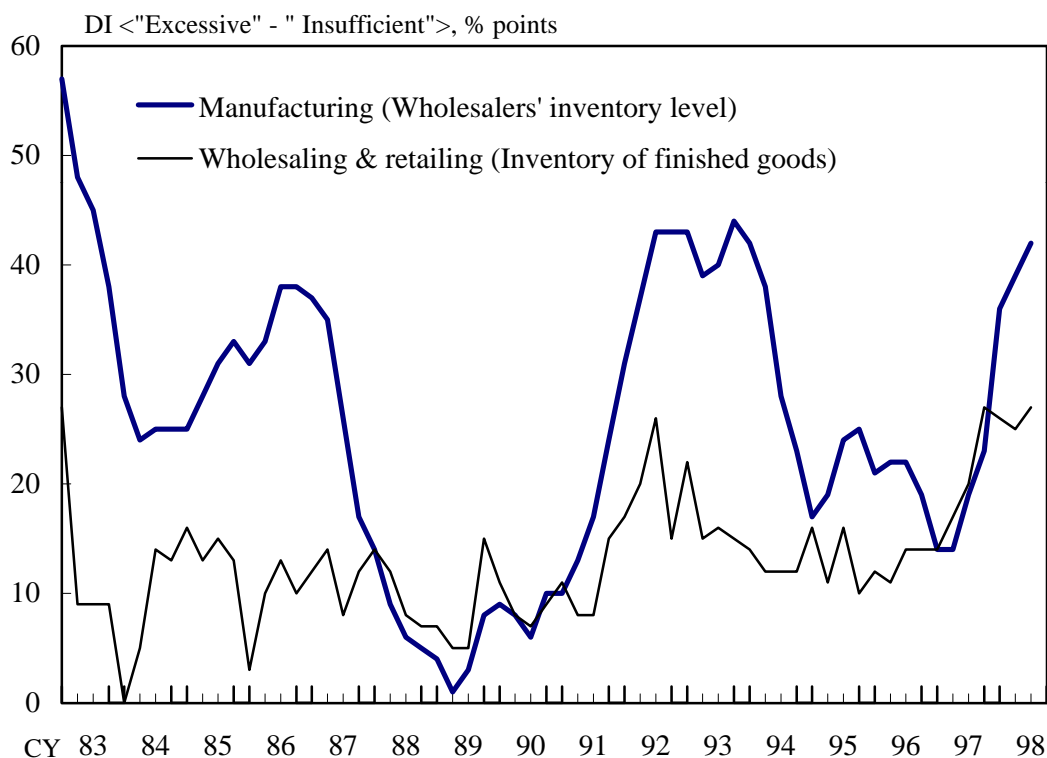
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Inventory in *Tankan* (September 1998)

## (1) Inventory of Finished Goods (Manufacturing)



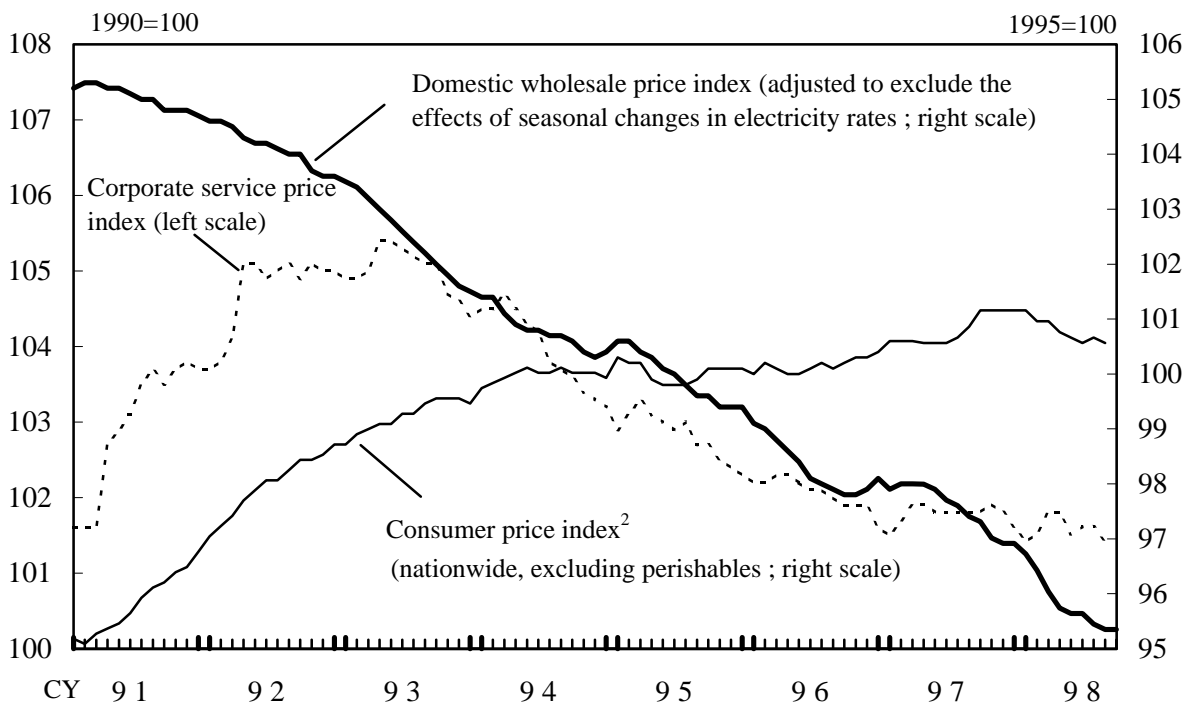
## (2) Wholesalers' Inventory Level (Principal enterprises)



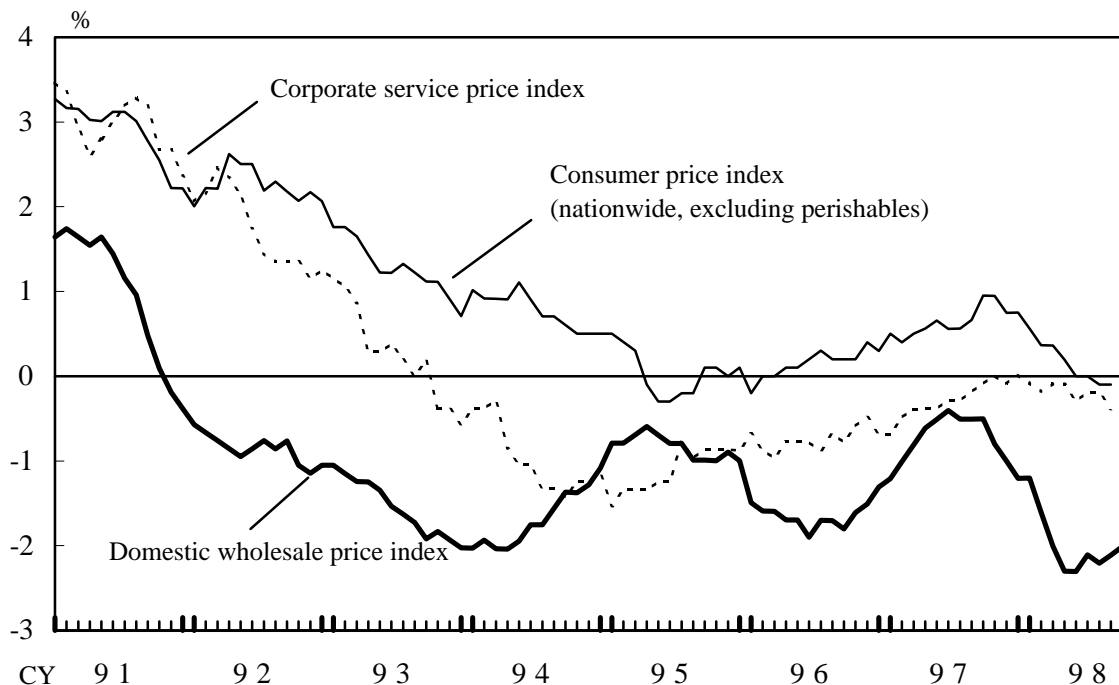
Source: Bank of Japan, "*Tankan* - Short-term Economic Survey of Enterprises in Japan."

Prices<sup>1</sup>

## (1) Level



## (2) Changes from a year earlier



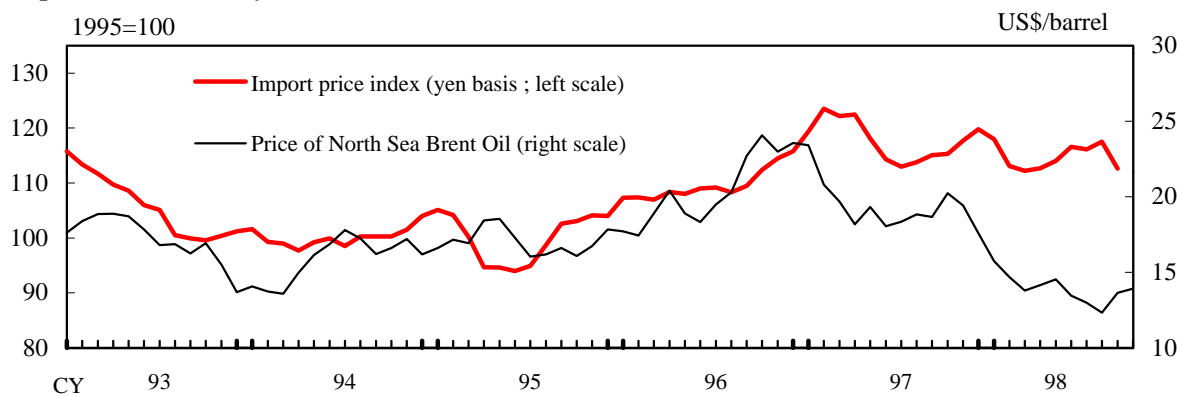
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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.

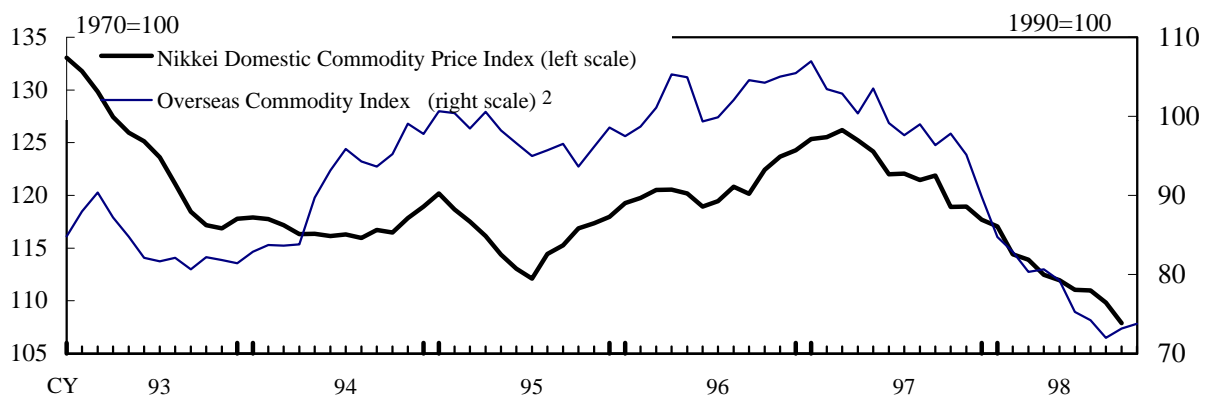
Sources: Management and Coordination Agency, "Consumer Price Index";  
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

## Import Prices and Domestic Wholesale Prices

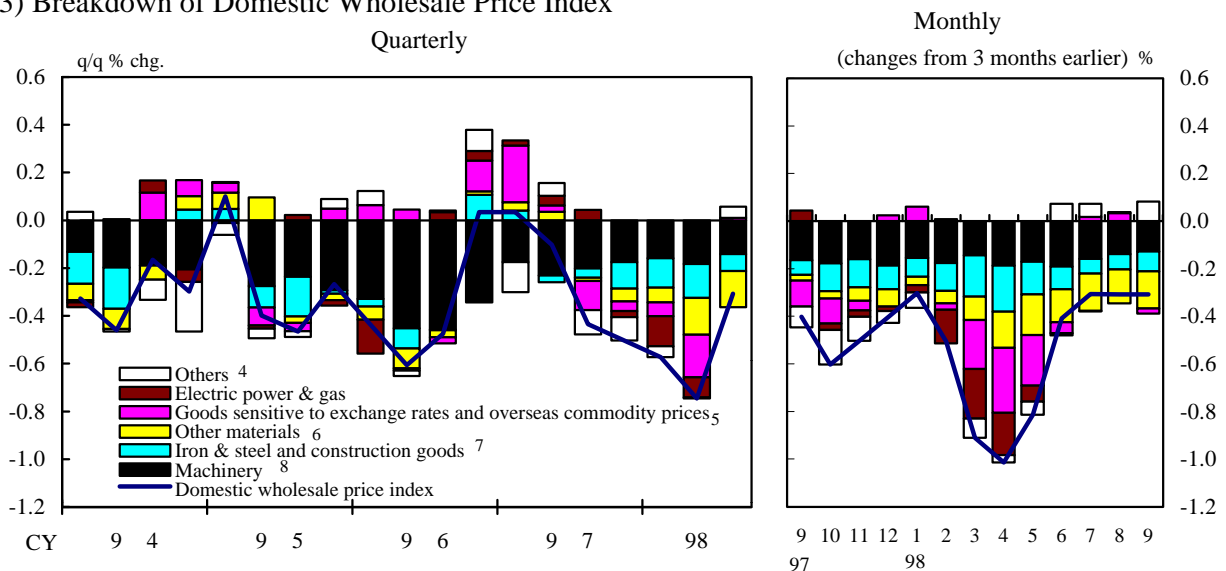
### (1) Import Price Index (yen basis) and Crude Oil Price<sup>1</sup>



### (2) Domestic Commodity Market



### (3) Breakdown of Domestic Wholesale Price Index<sup>3</sup>



Notes: 1. Data for Oct. 1998 are Oct. 1-9 average.

2. Calculated by the Research and Statistics Department, Bank of Japan. Data for Oct. 1998 are Oct. 1-9 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.

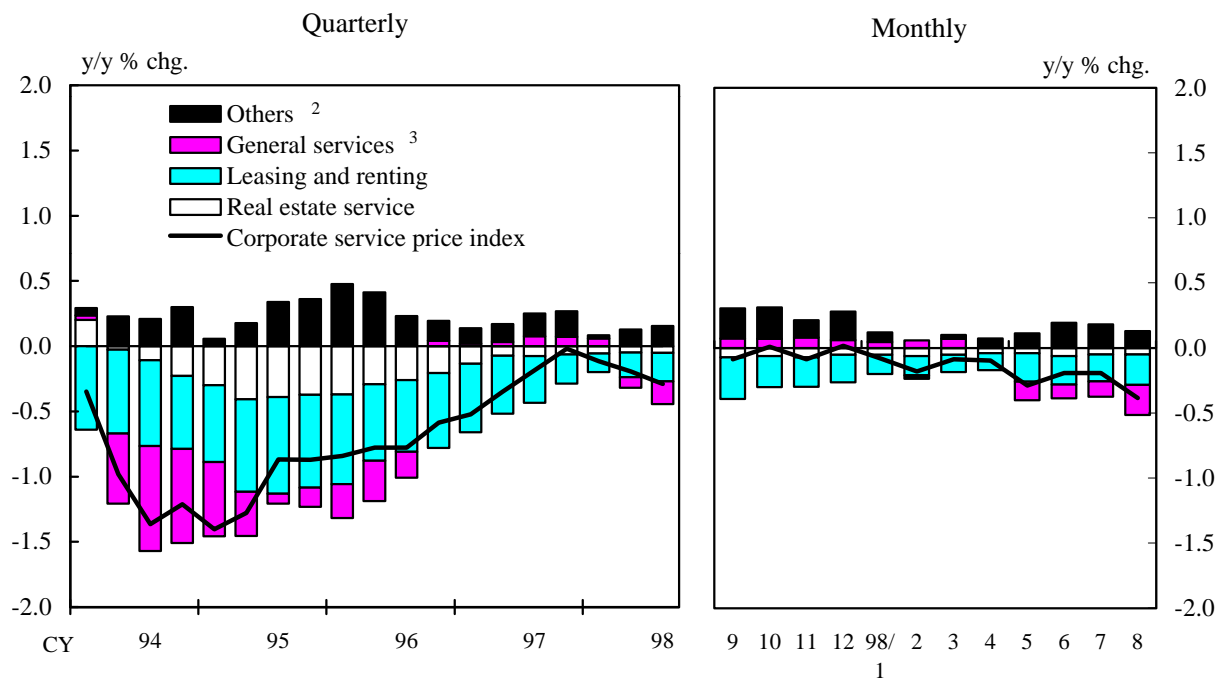
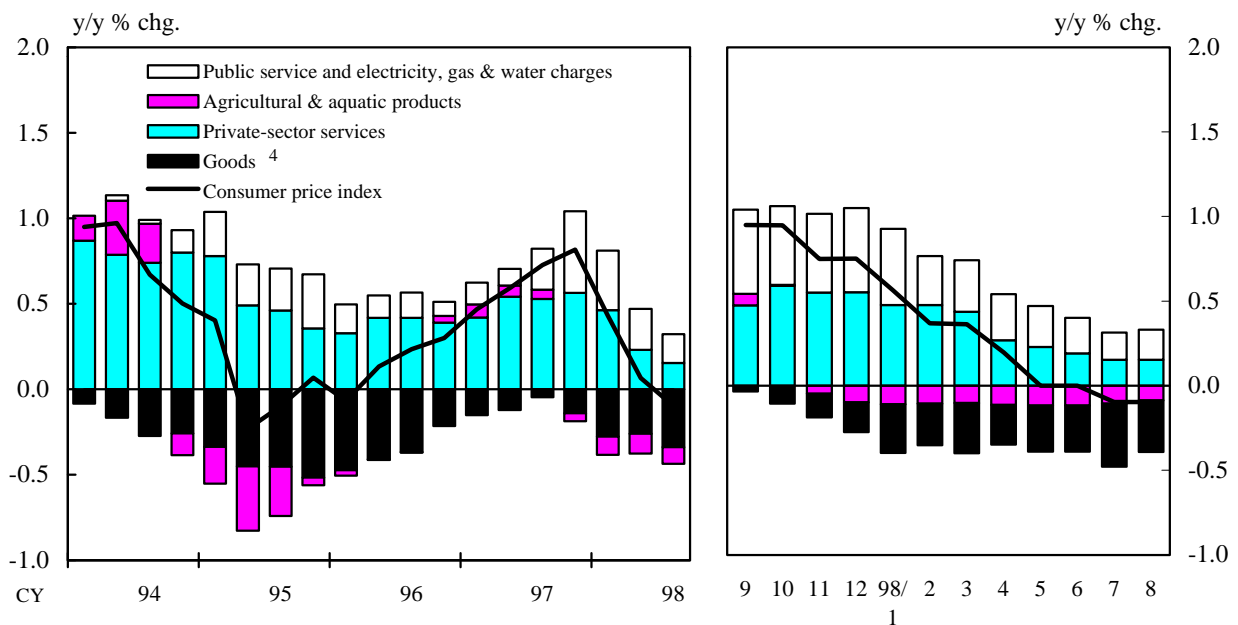
6. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

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 Index<sup>1</sup>(2) Breakdown of Consumer Price Index (excluding perishables)<sup>1</sup>

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/Q3 are July to August average.

2. Others = automobile insurance (compulsory automobile) + 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").

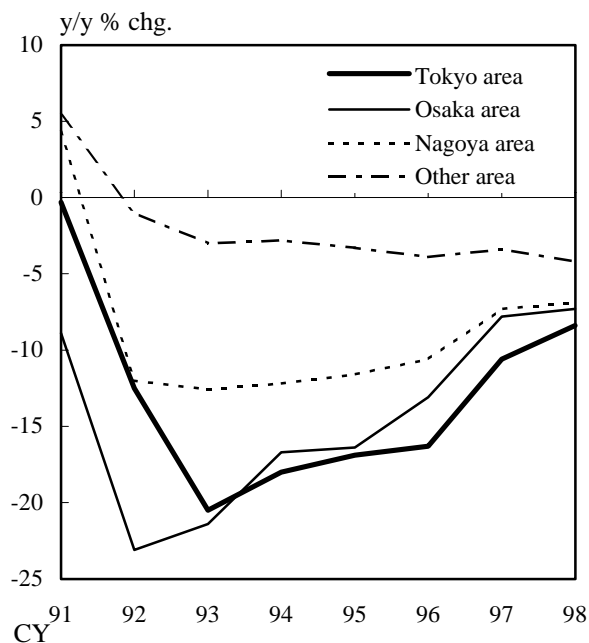
4. Excludes agricultural and aquatic products.

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

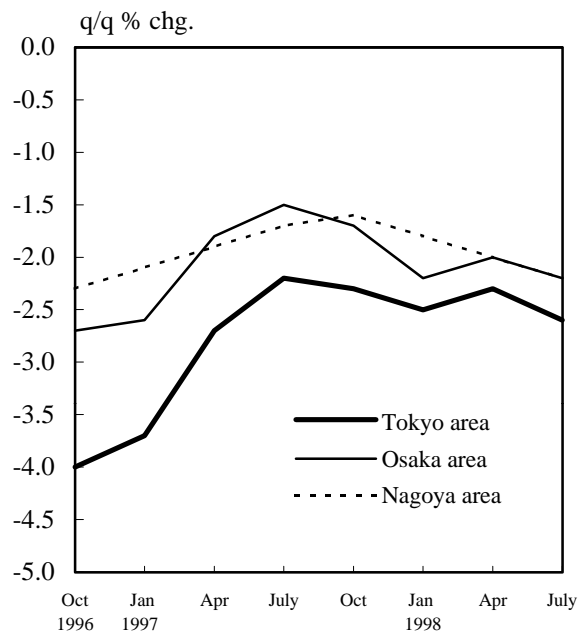
## Land Price Survey by the Administrative Divisions

### (1) Commercial land

(1-1) Average change in each area

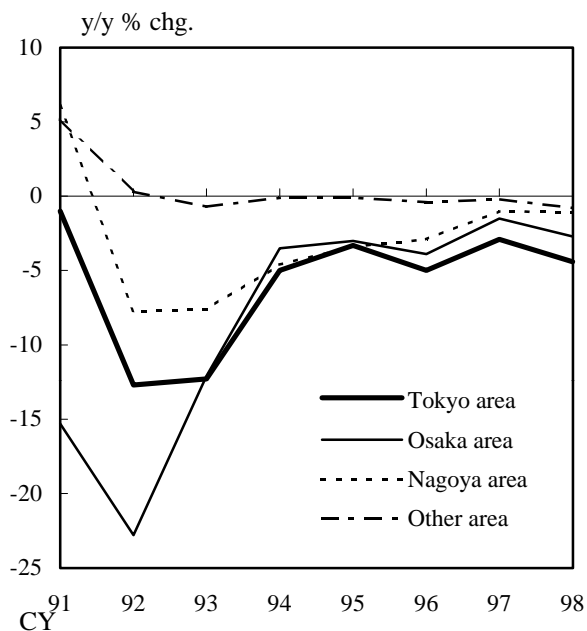


(1-2) Average change at representative locations

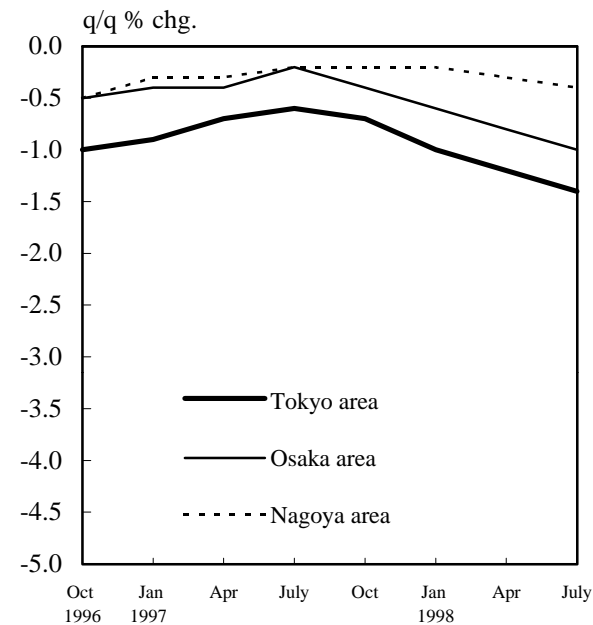


### (2) Residential land

(1-1) Average change in each area



(1-2) Average change at representative locations

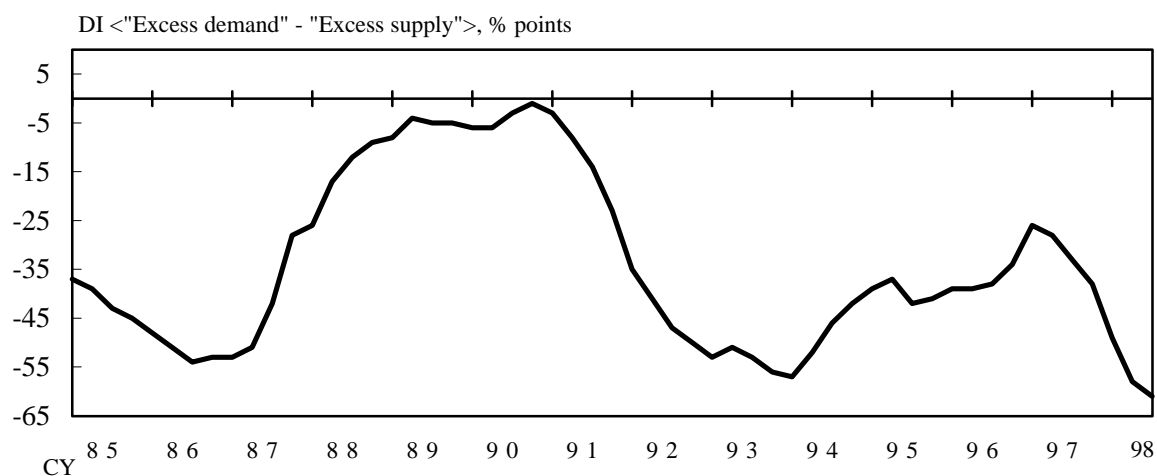
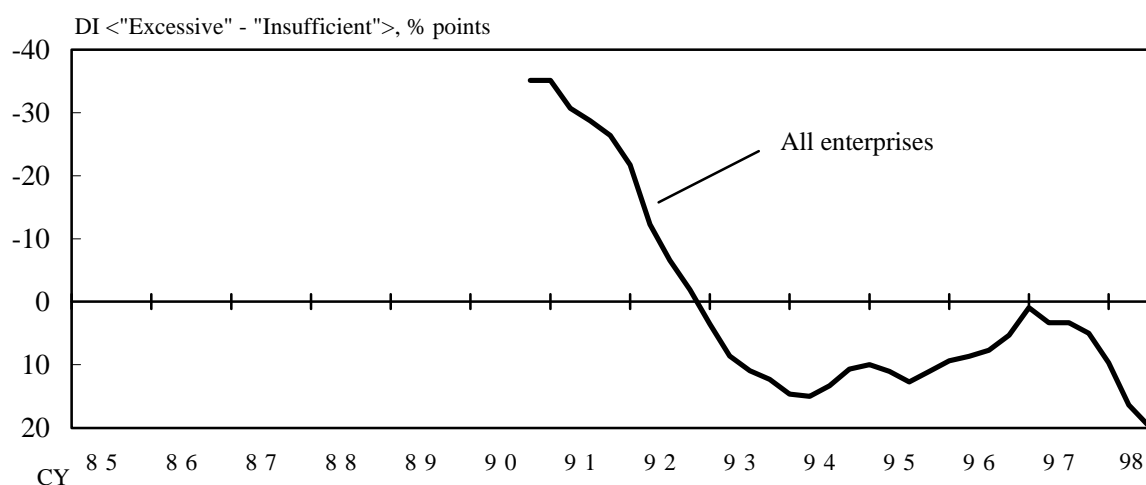


Note: "Representative locations" are the standard points for "Land price posted by the National Land Agency" and "Land price survey by the administrative divisions."

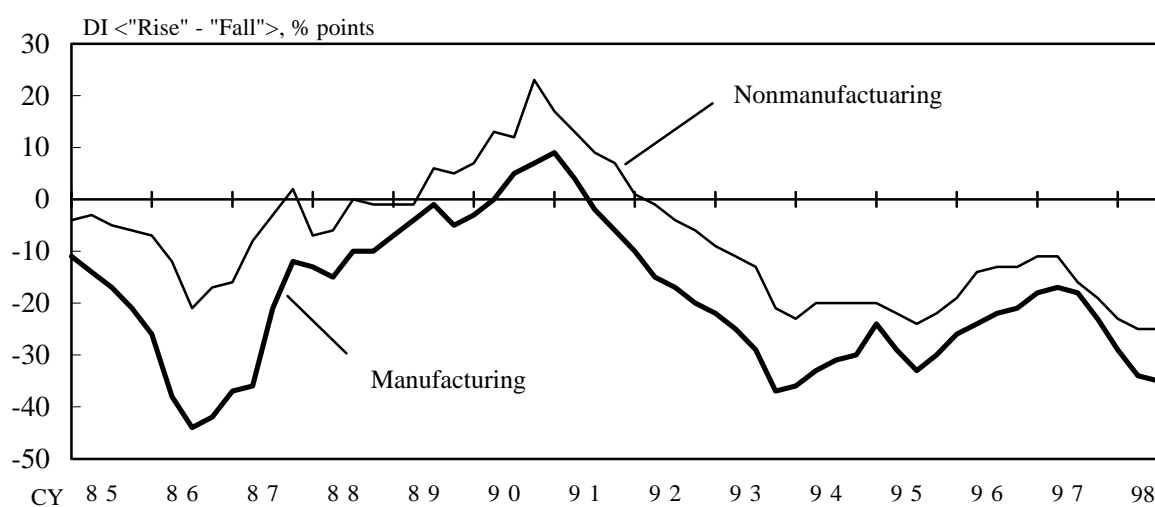
Sources: The National Land Agency, "Land price posted by the National Land Agency",  
"Land price survey by the administrative divisions."

## Factors Contributing to the Change in Prices

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

(2) Utilization of Capital and Labor<sup>1</sup>

## (3) Change in Output Prices (All Enterprises)



Note: 1. 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".

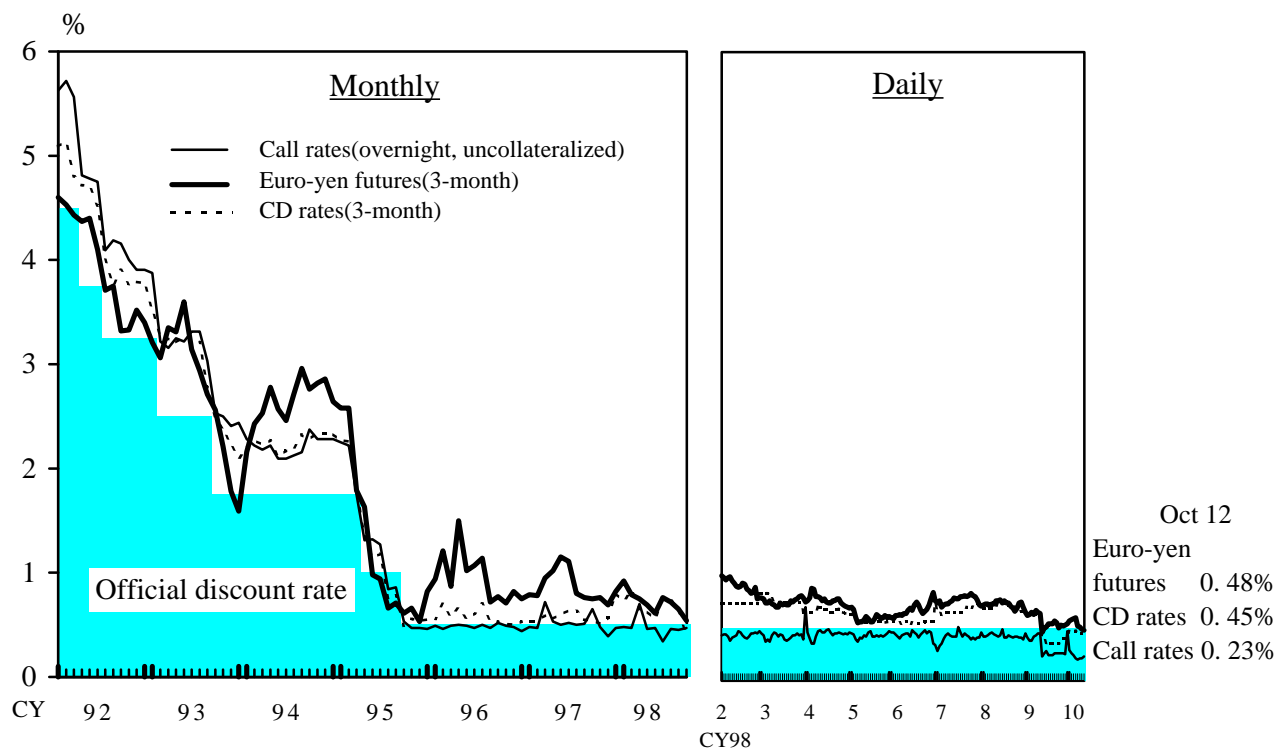
Sources: Economic Planning Agency, "National Income Statistics";

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

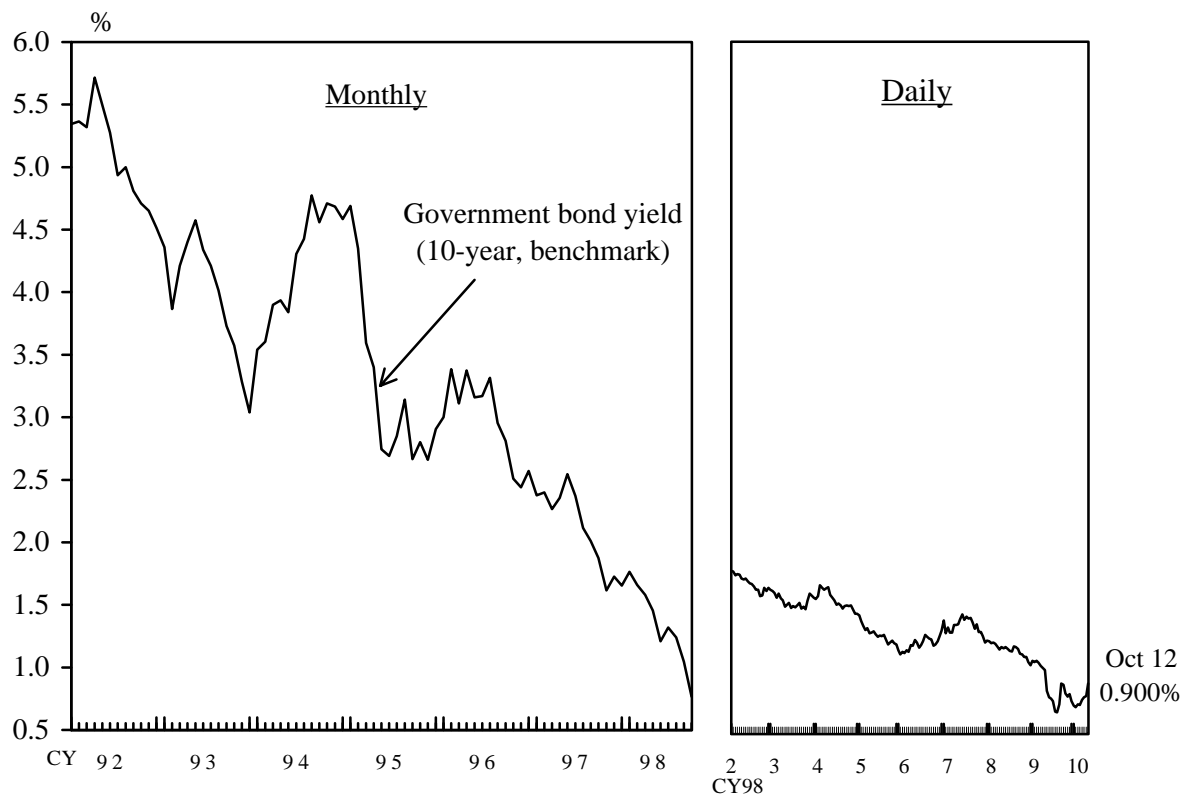


Interest Rates

(1) Short-Term



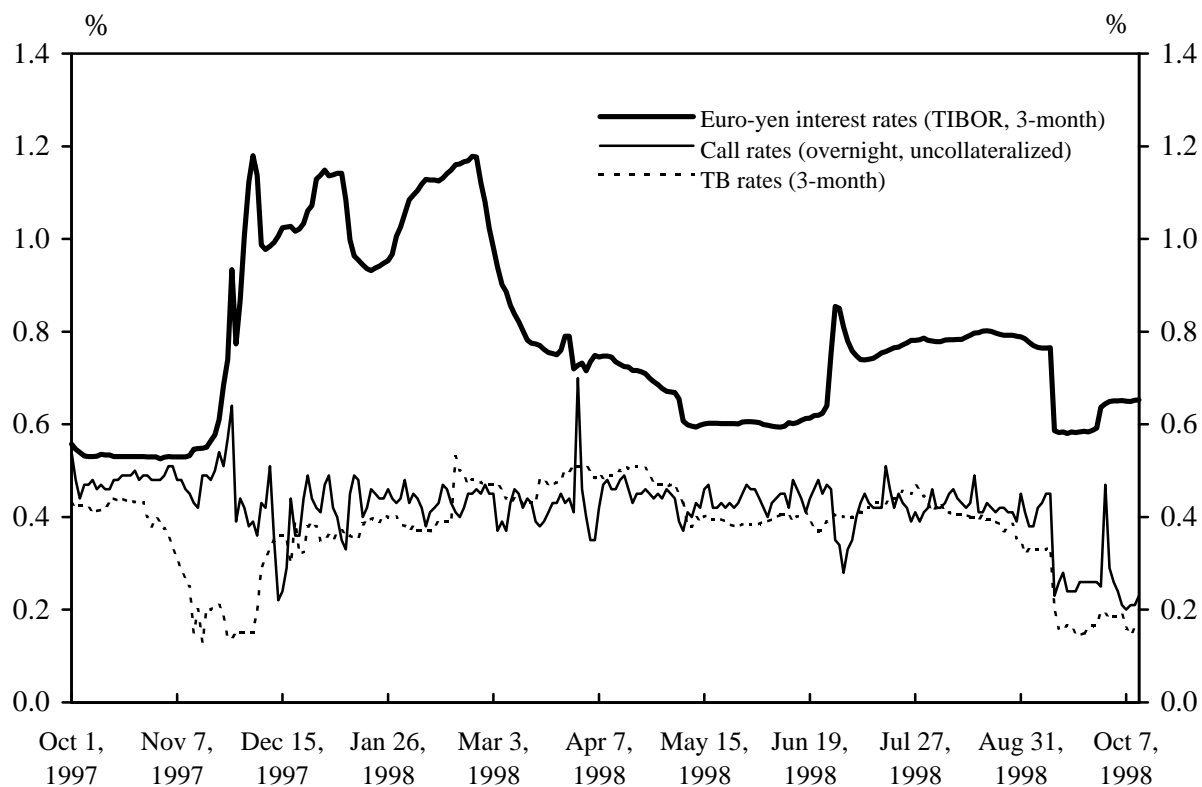
(2) Long-Term



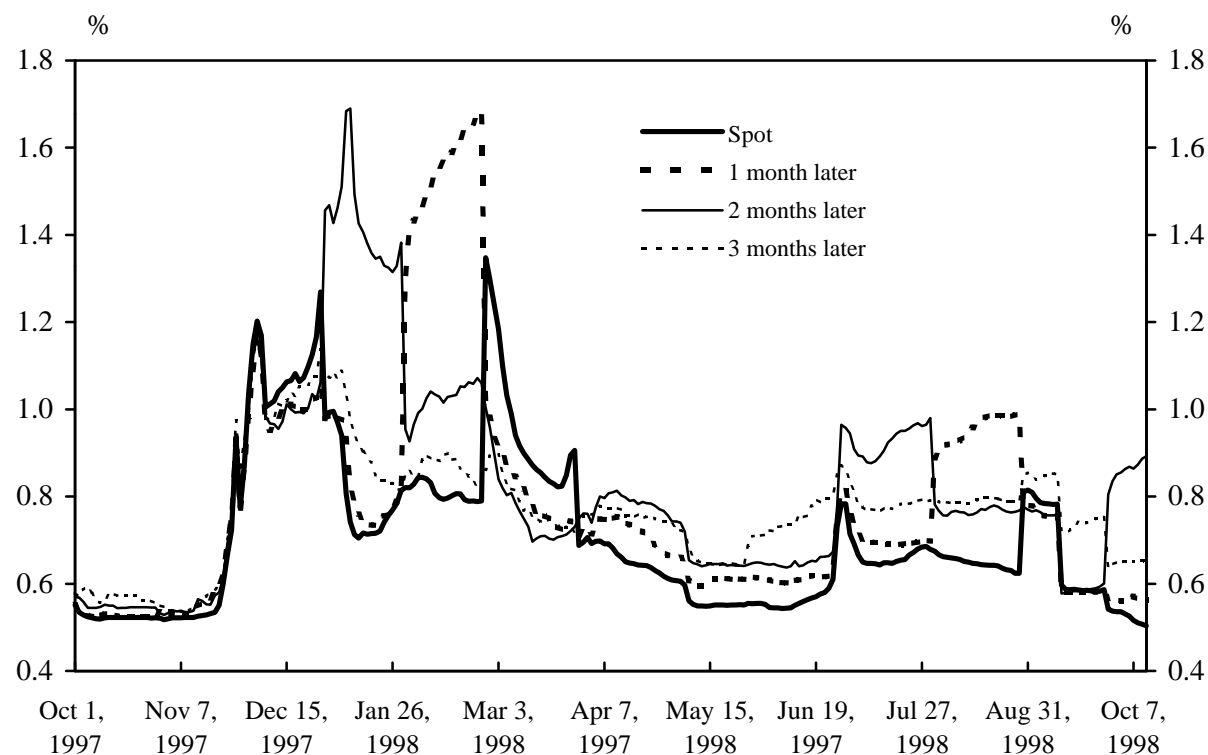
Source: Bank of Japan, "Economic Statistics Monthly."

## Short-Term Money Market Rates

## (1) Interest Rates on Term Instruments

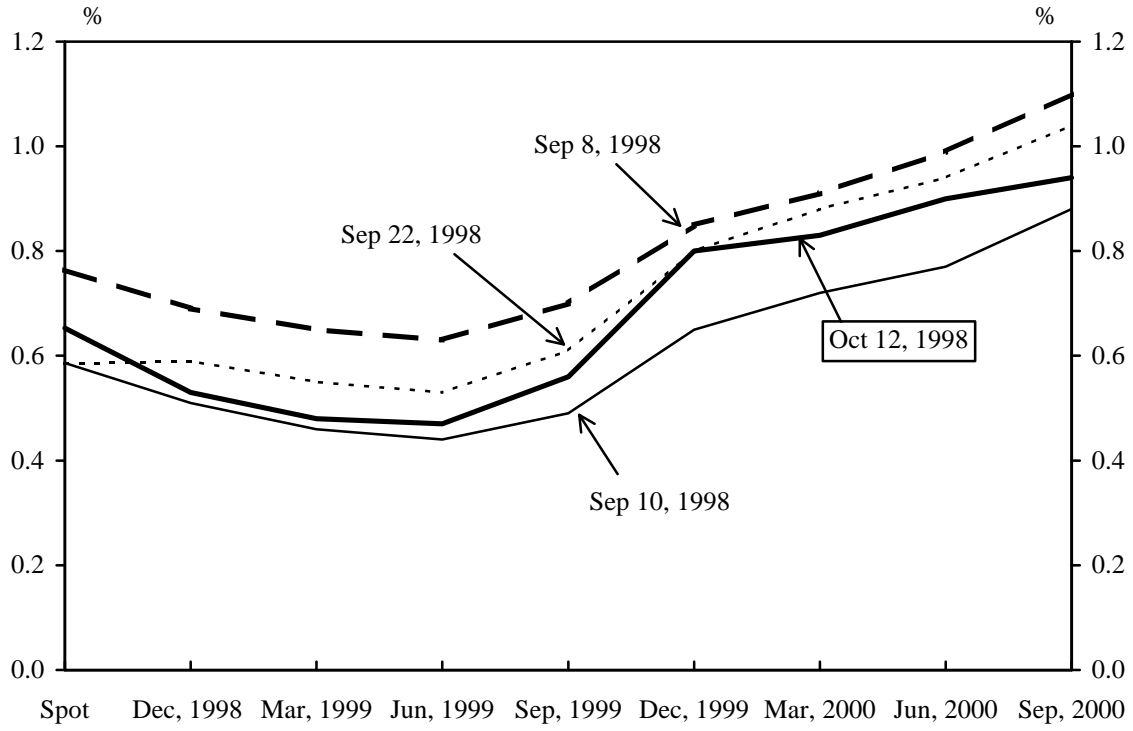


## (2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



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

Euro-Yen Interest Rates Futures (3-Month)

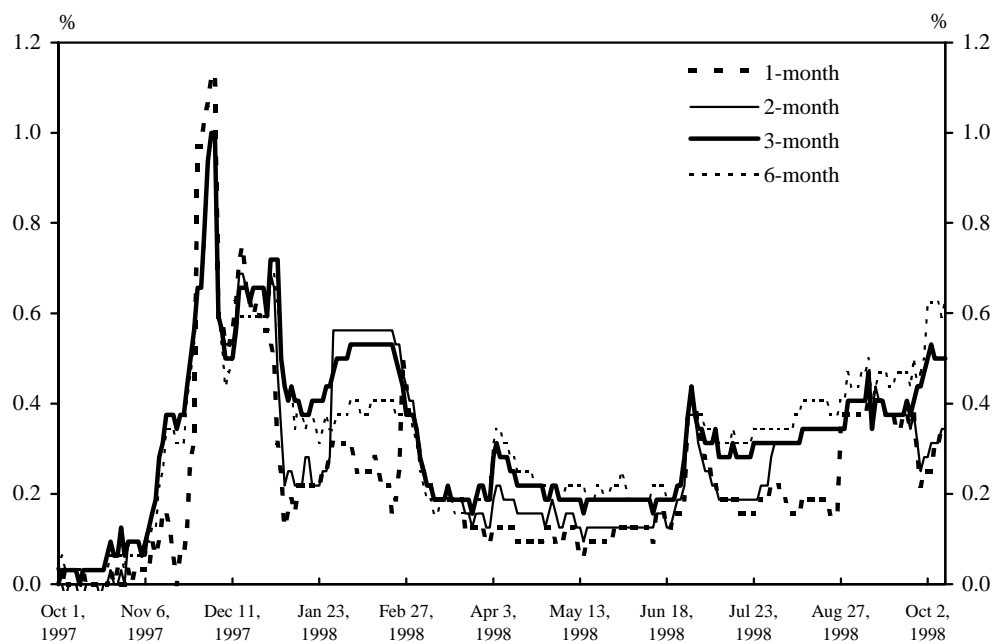


Source: *The Nikkei Financial Daily*.

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**Japan Premium in the Eurodollar Market**

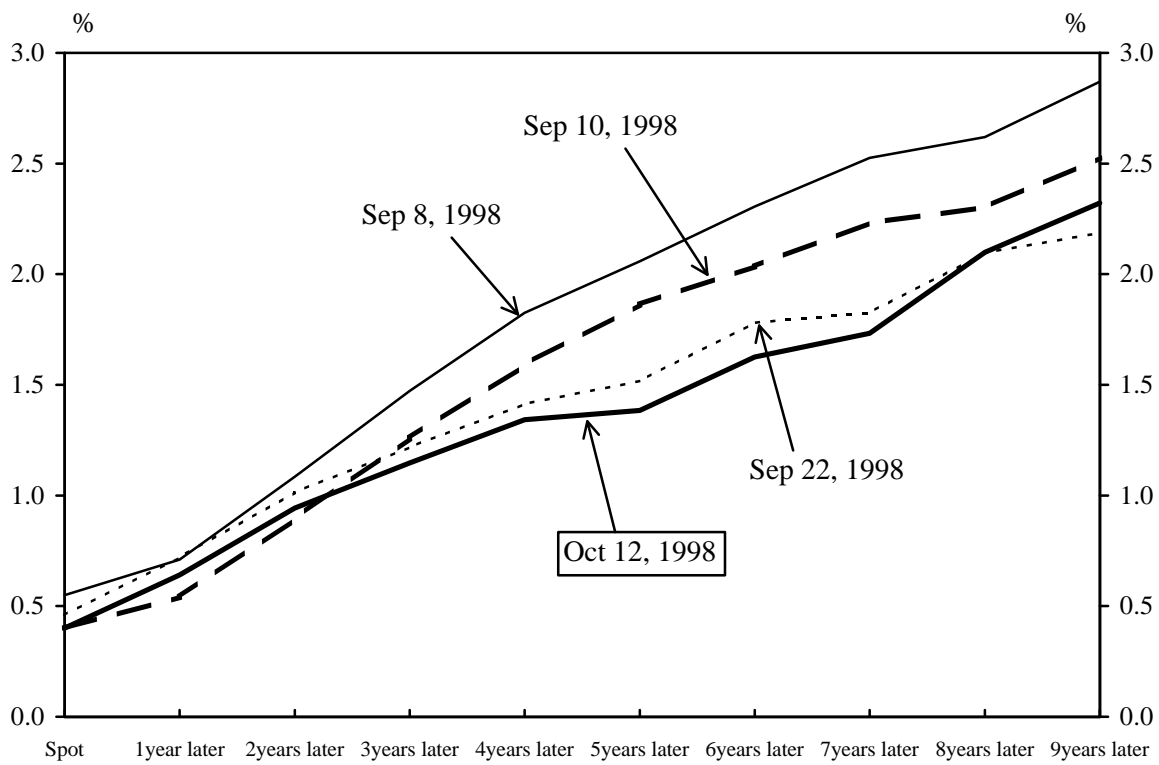
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Note: Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:  
Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate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

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

Implied Forward Rates (1-year)

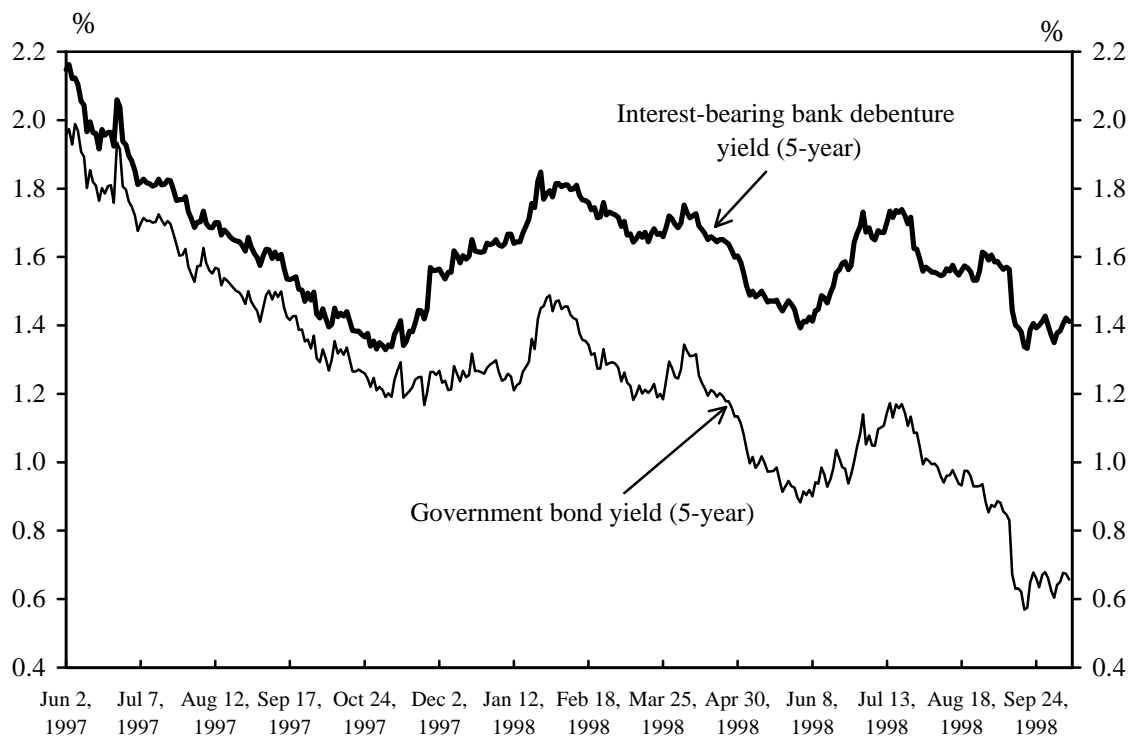


Note: Calculated from yen-yen swap rates.

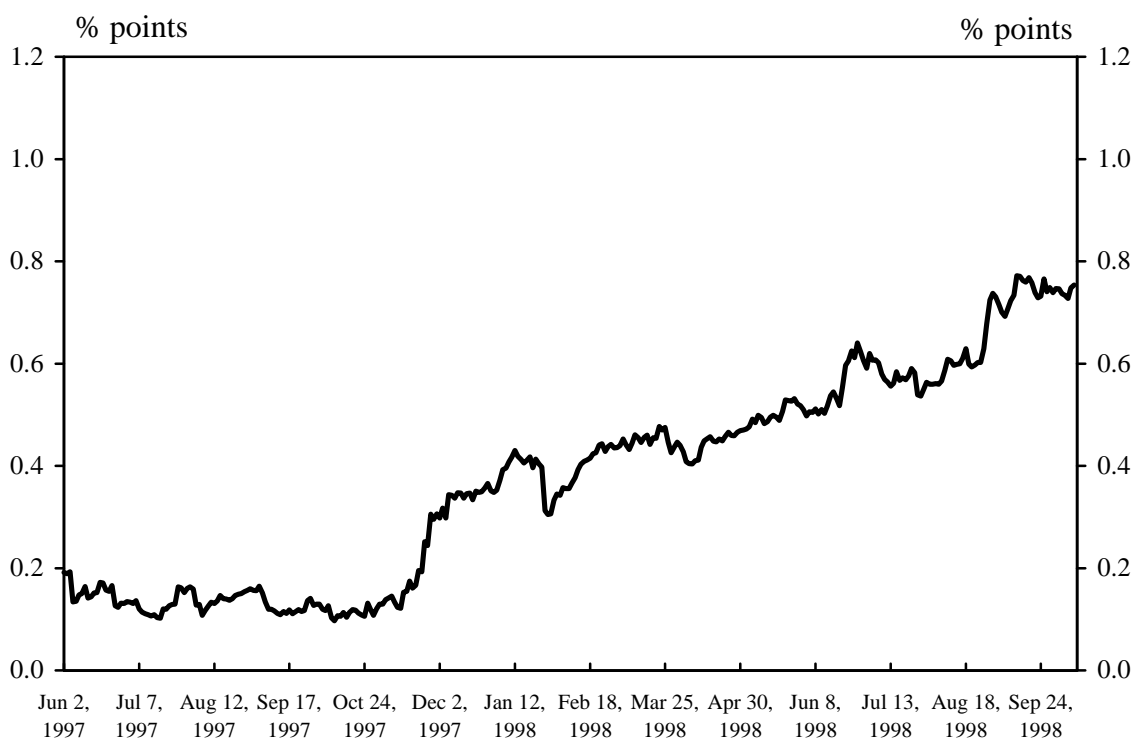
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



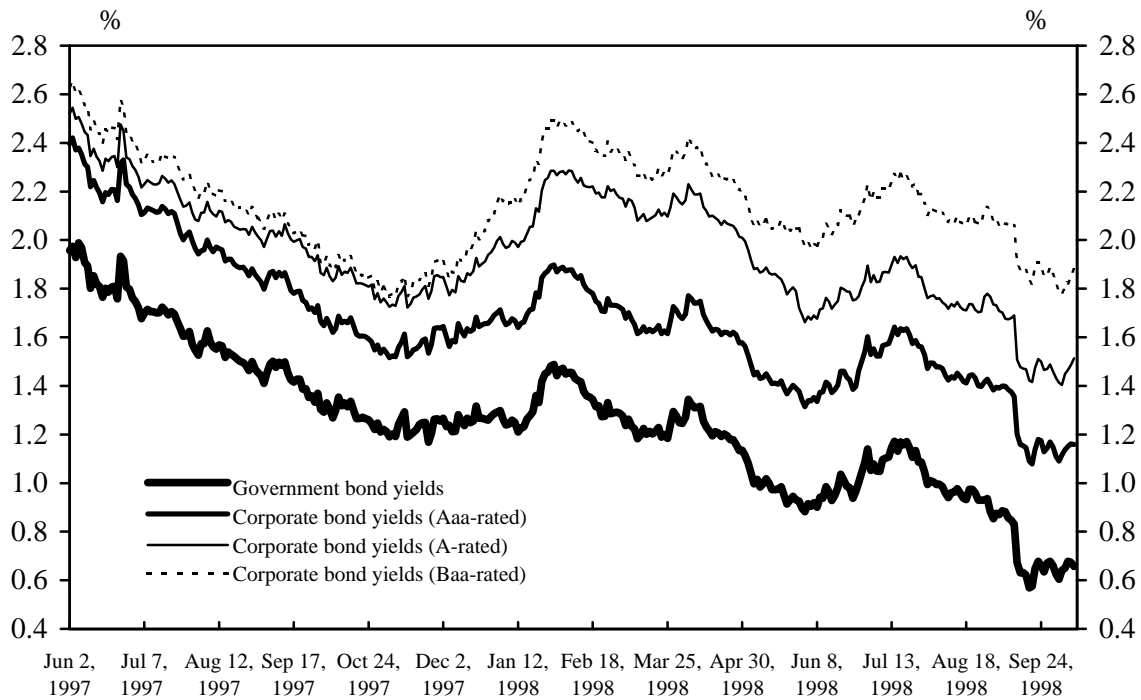
(2) Spread of Bank Debenture and Government Bond Yield



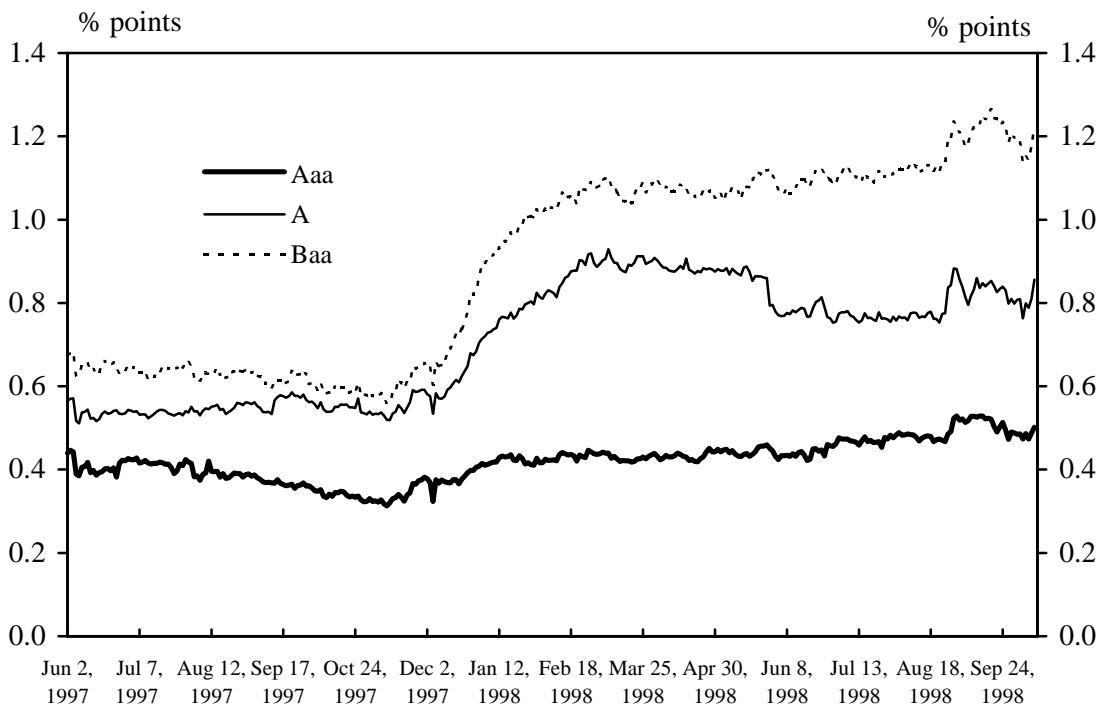
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

(1) Yields of Government and Corporate Bonds by Rating <sup>1,2</sup>



(2) Yield Spreads of Public and Corporate Bonds



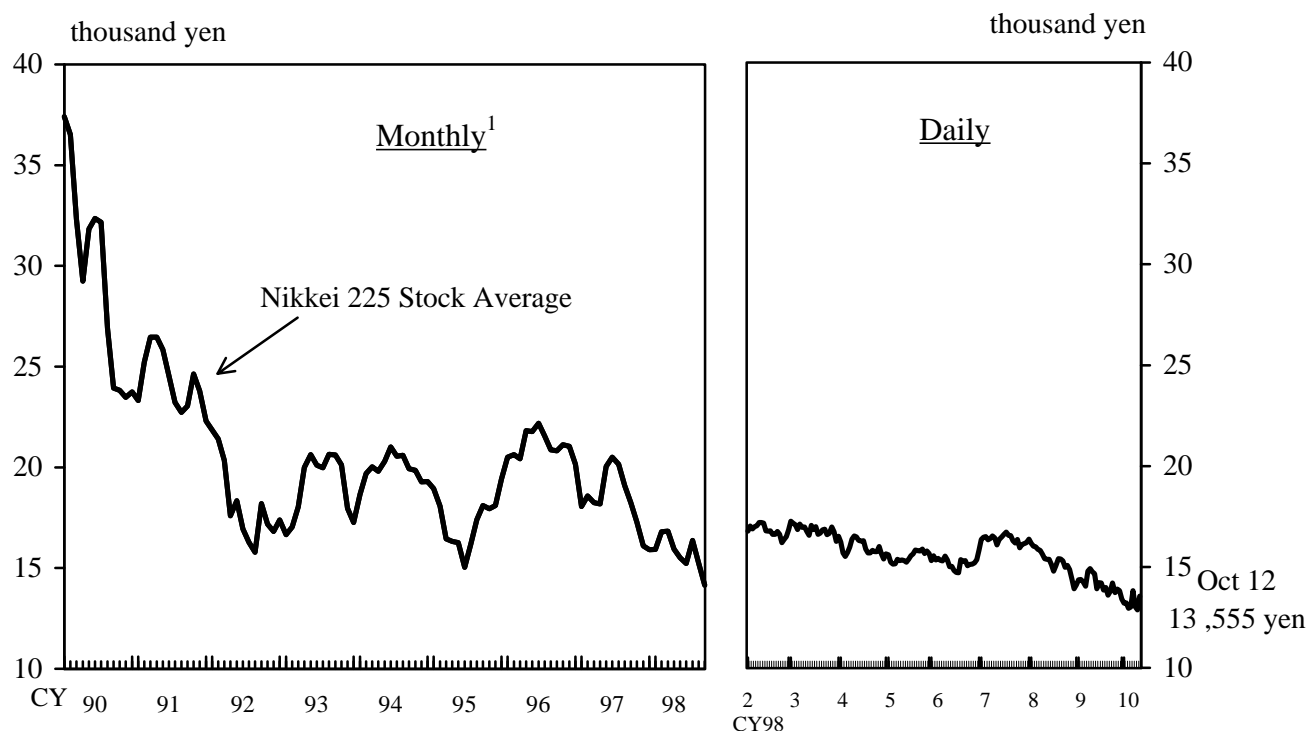
Notes: 1. Yields on bonds with 5-year maturity.

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

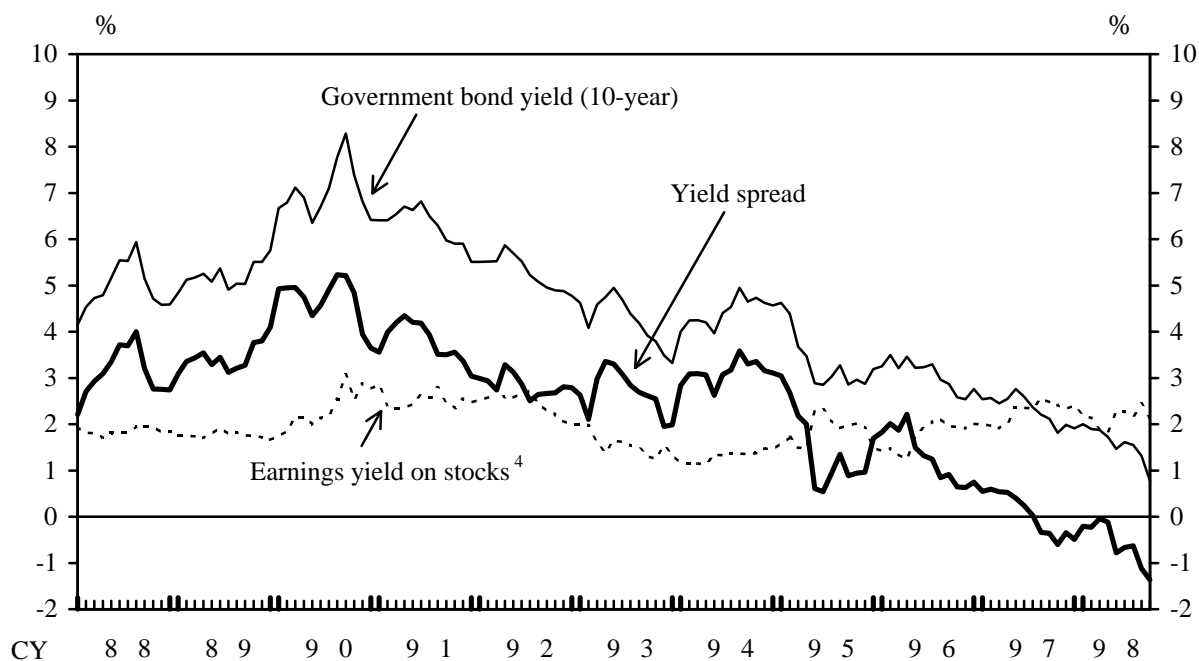
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread<sup>2, 3</sup>



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.

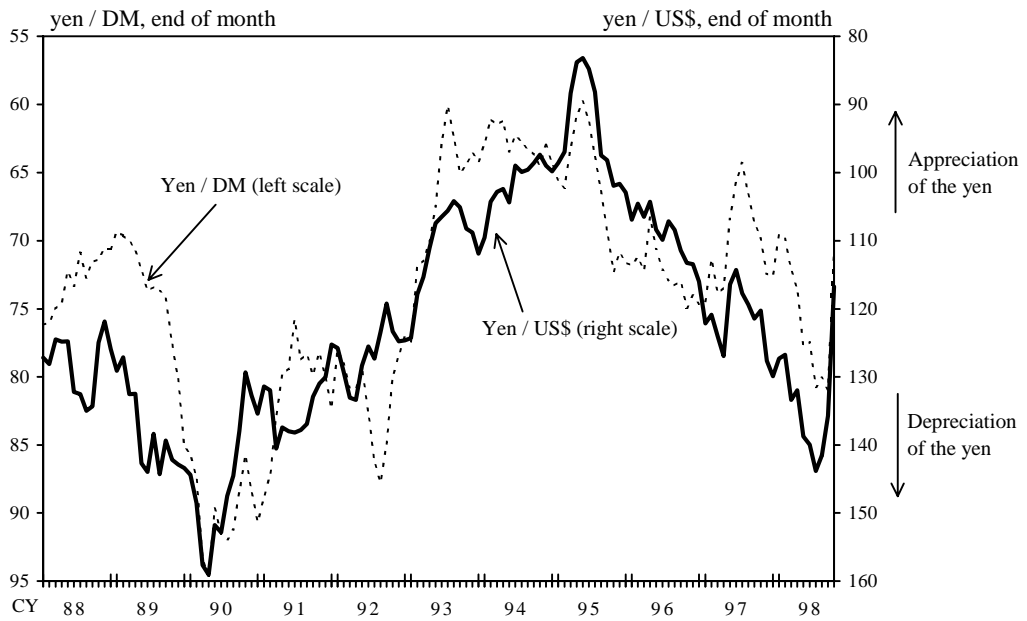
4. Based on stocks listed on the TSE First Section. Excludes bank stocks.

Data are calculated by the Daiwa Research Institute.

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



Exchange Rates

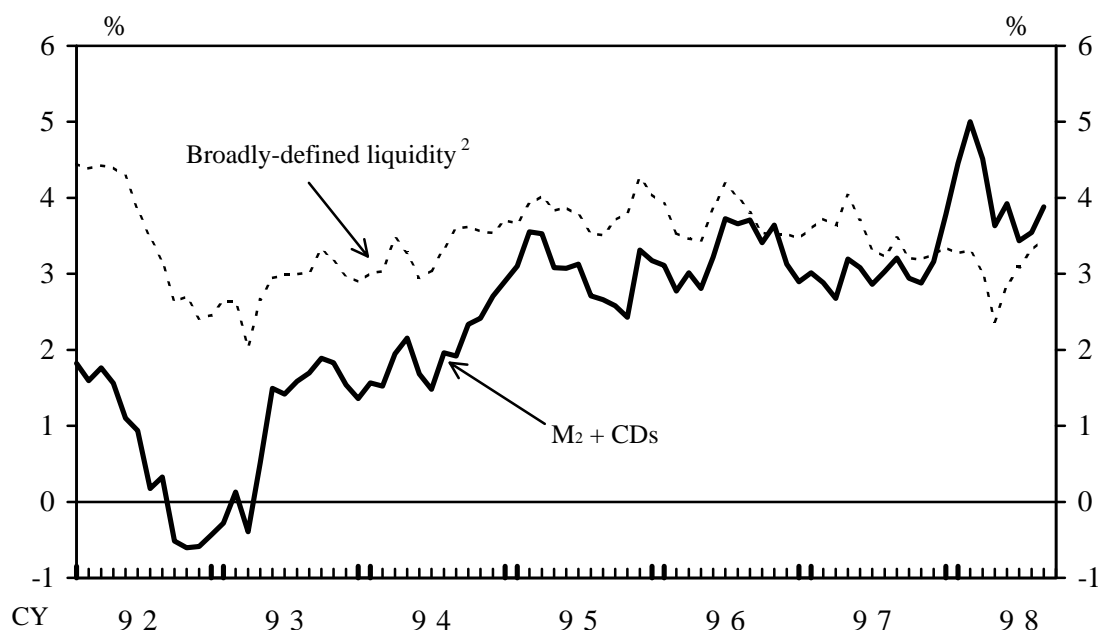


Note: Data for Oct 1998 are as of Oct 12, 1998.  
 Source: Bank of Japan, "Economic Statistics Monthly."

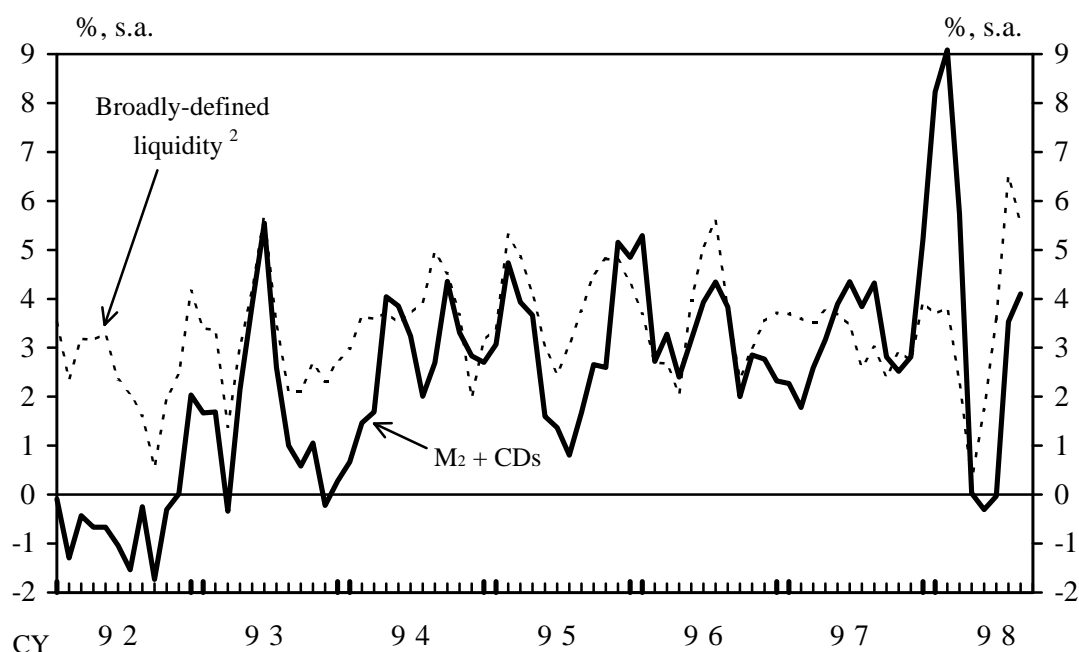
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 Money Stock ( $M_2$ +CDs, Broadly-Defined Liquidity)
 

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(1) Changes from a Year Earlier <sup>1</sup>

## (2) Changes from Three Months Earlier (Annualized)



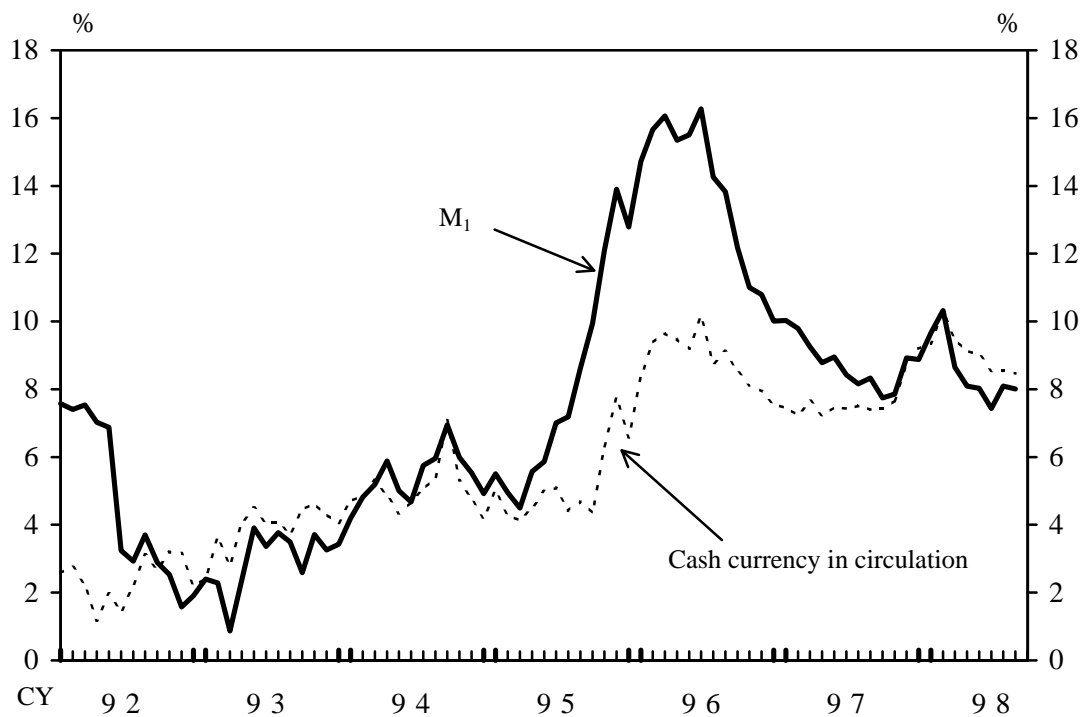
Notes: 1. Percent changes in average amounts outstanding.

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.

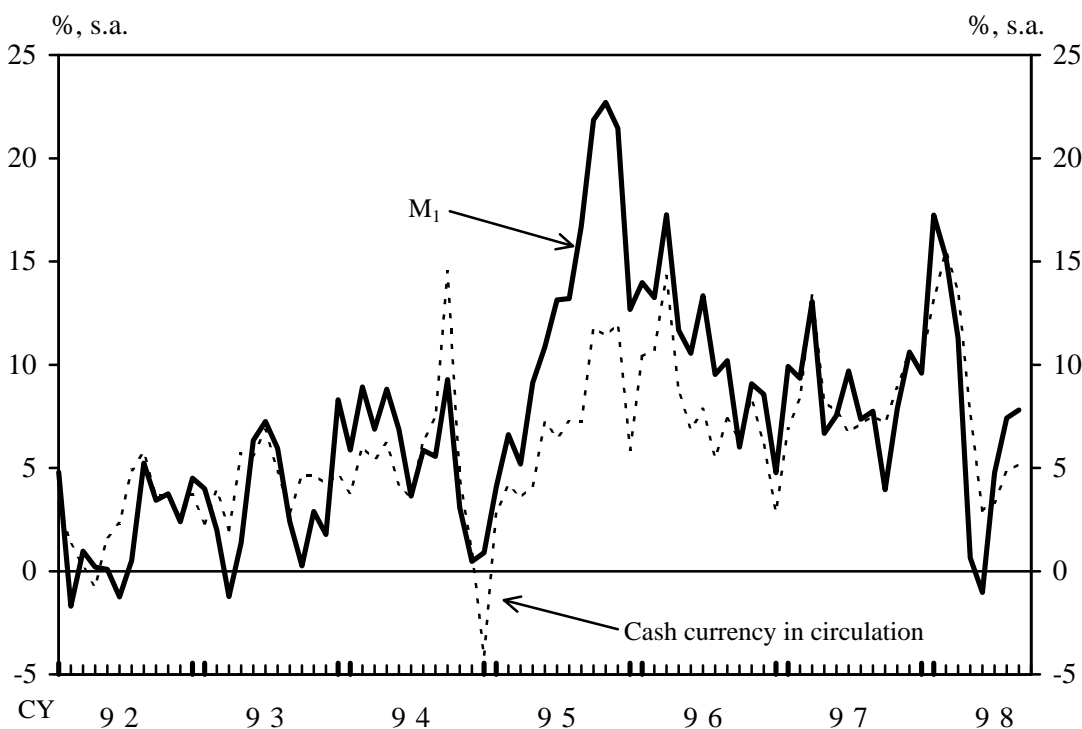
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock ( $M_1$ , Cash Currency in Circulation)

(1) Changes from a Year Earlier

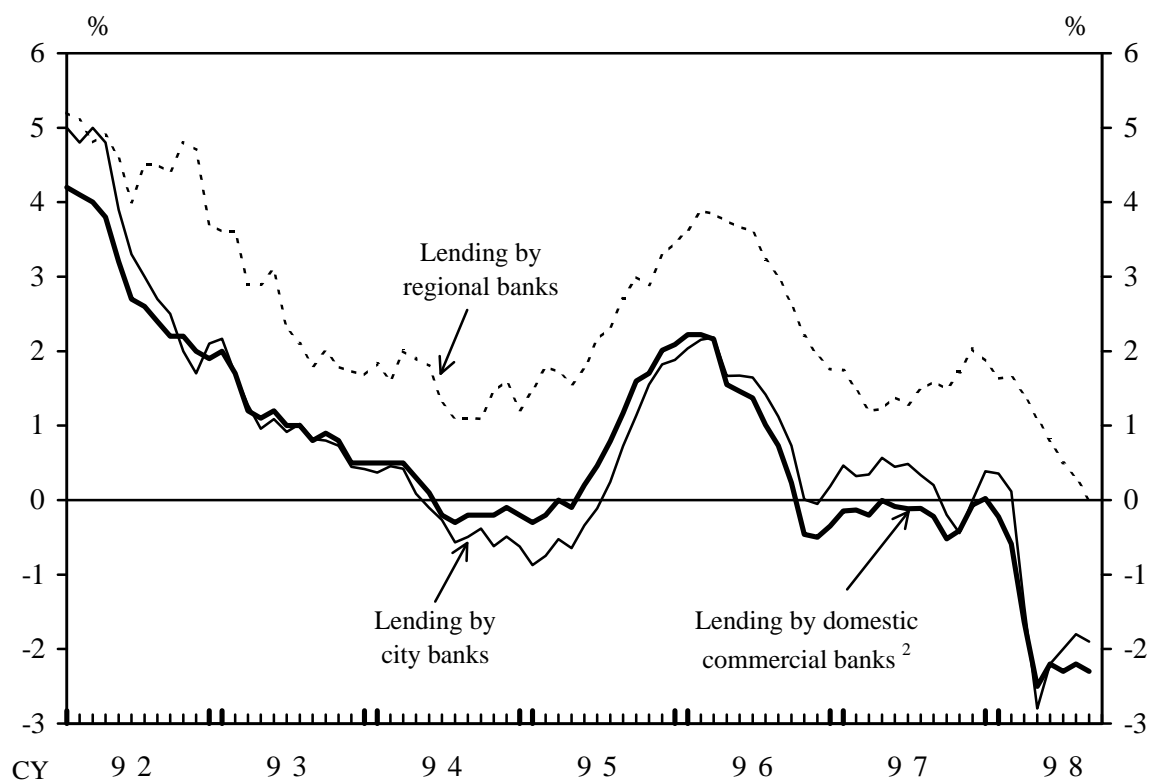


(2) Changes from Three Months Earlier (Annualized)



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

## Lending by Domestic Commercial Banks



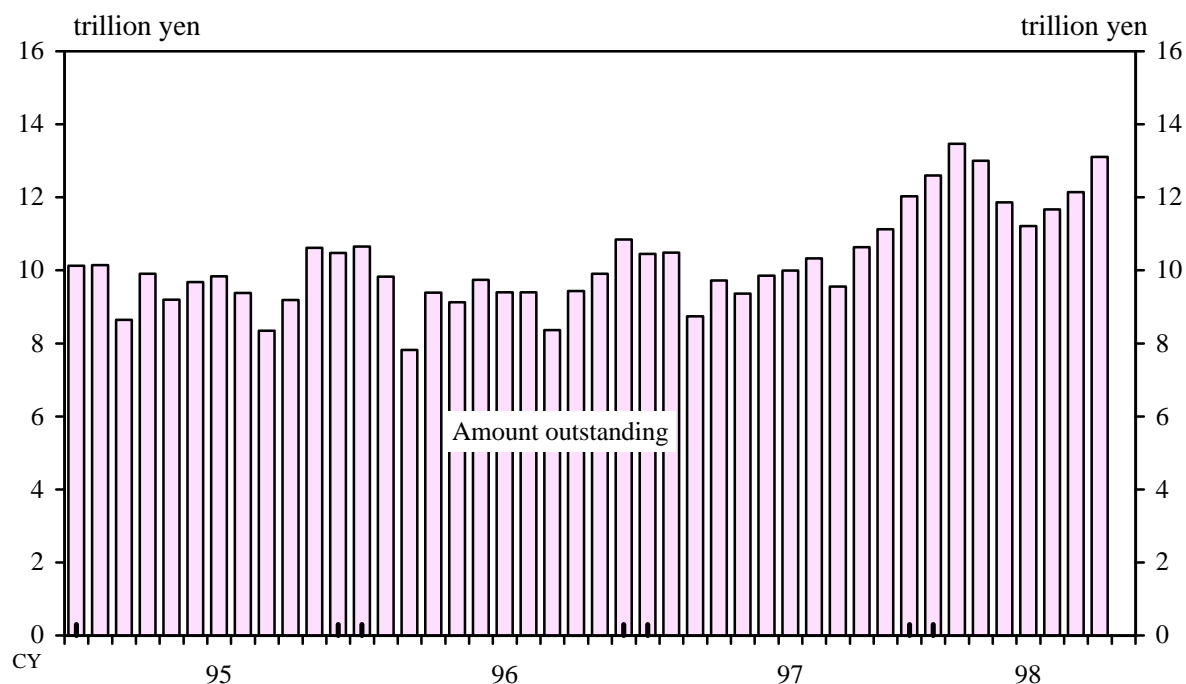
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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."

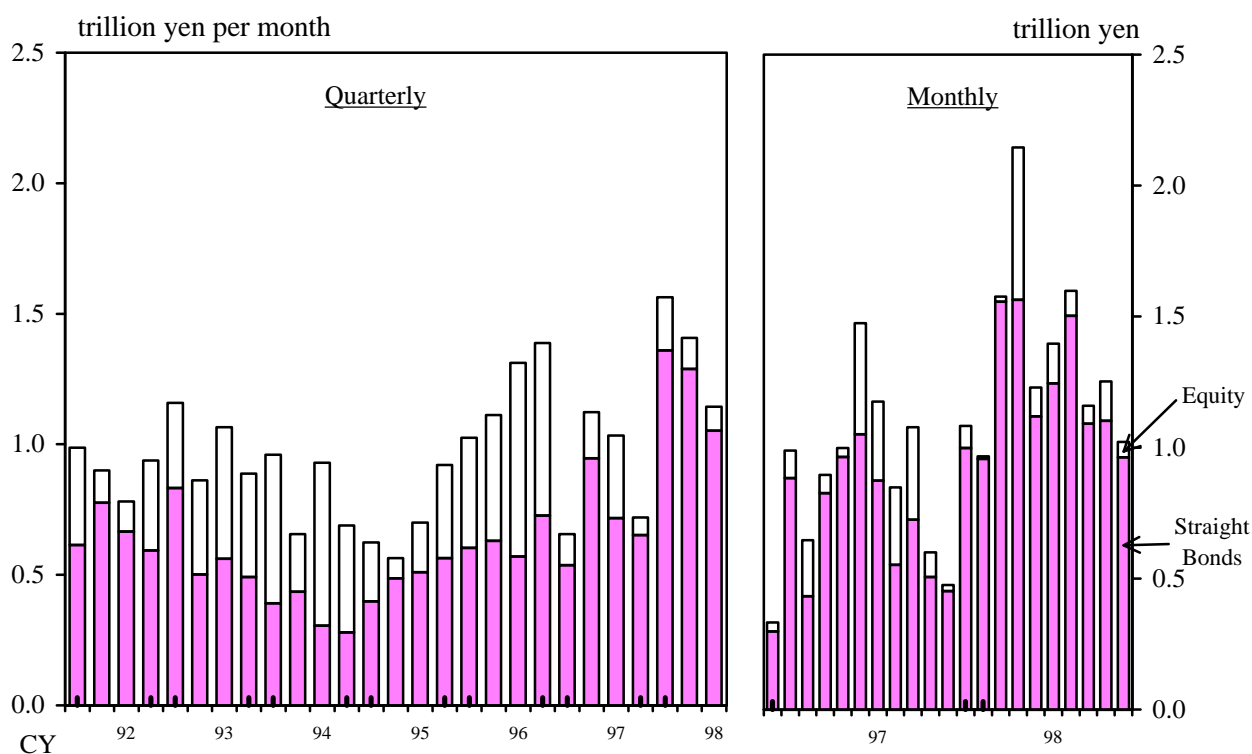
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

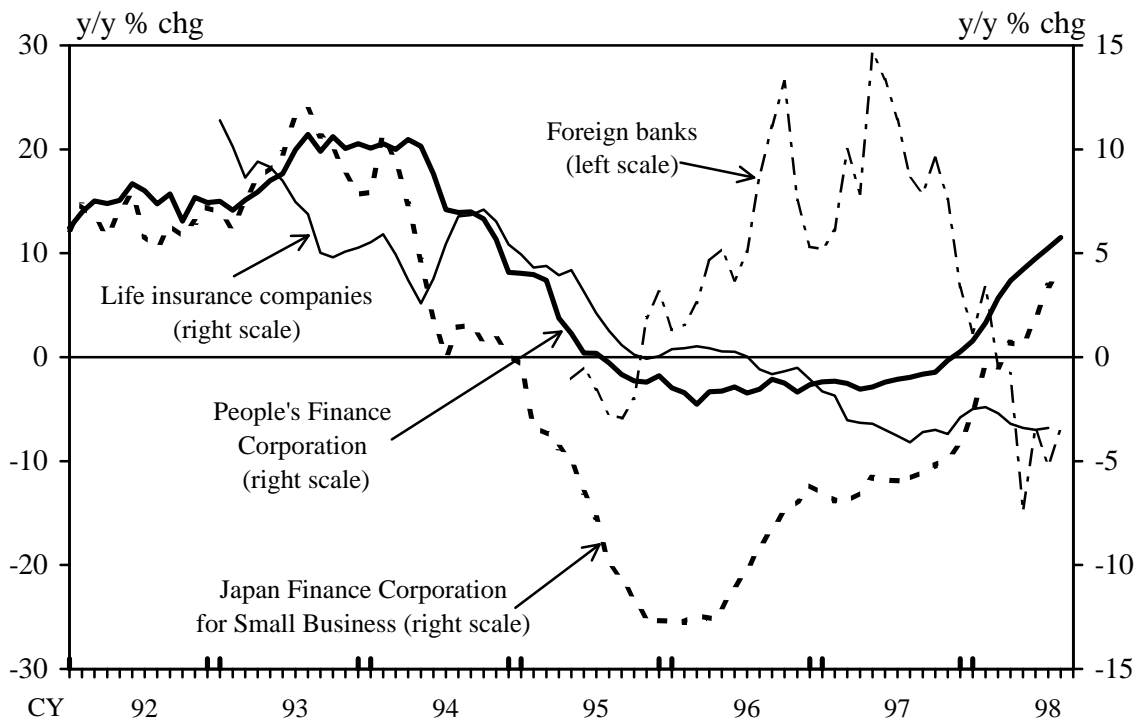


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

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

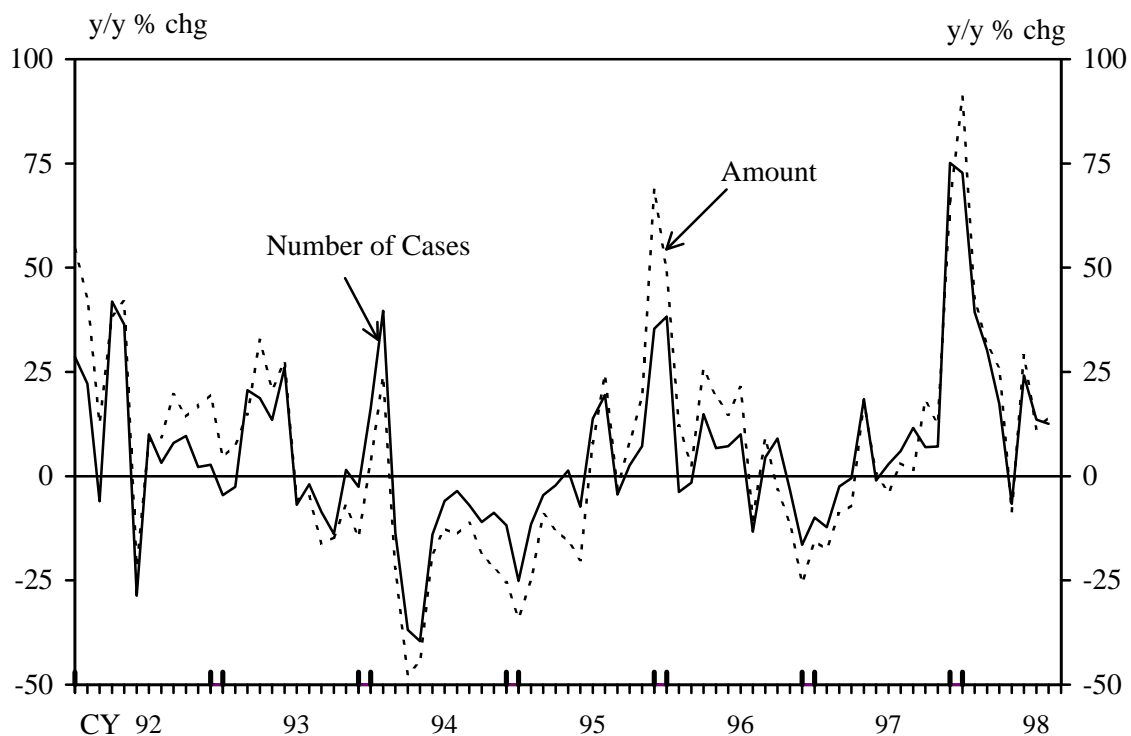
Lending by Other Financial Institutions

(1) Lending Outstanding



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

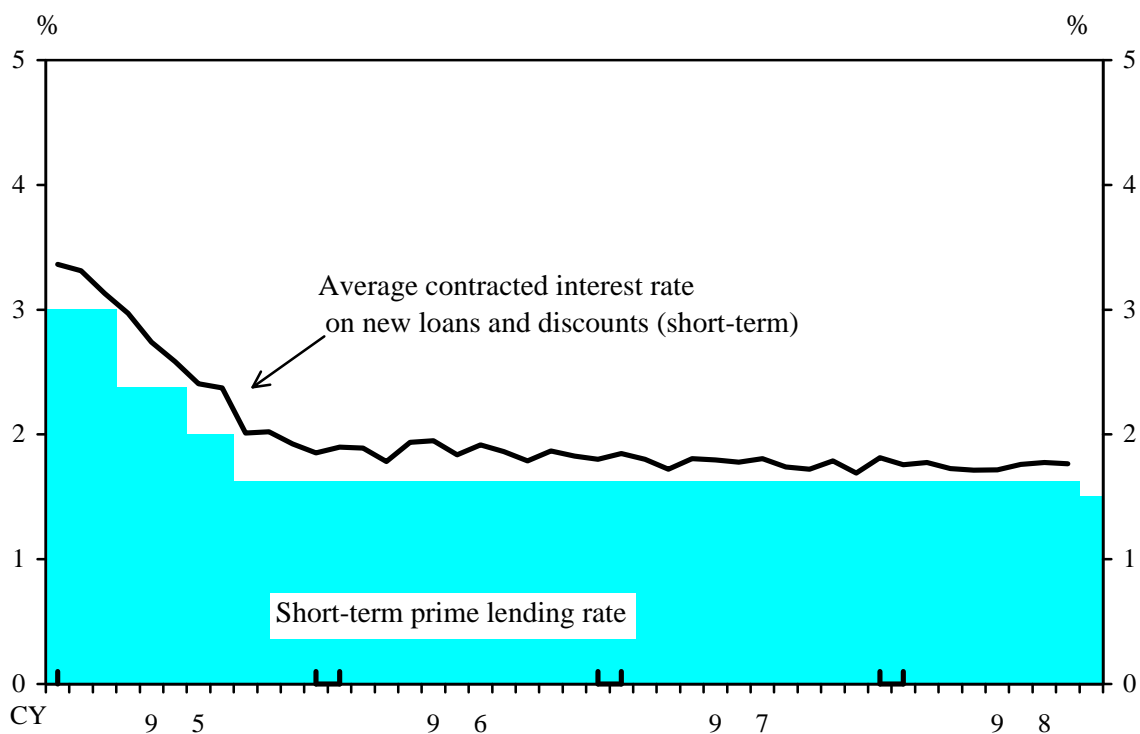
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

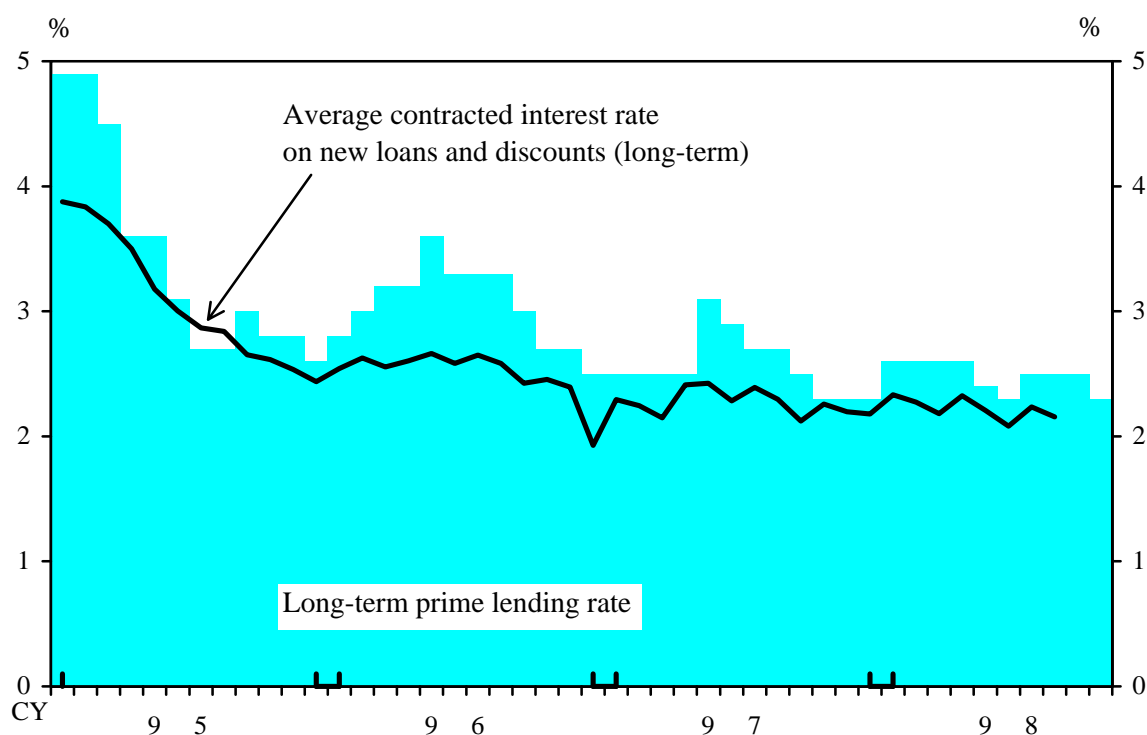
Lending Rates

(1) Short-Term



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

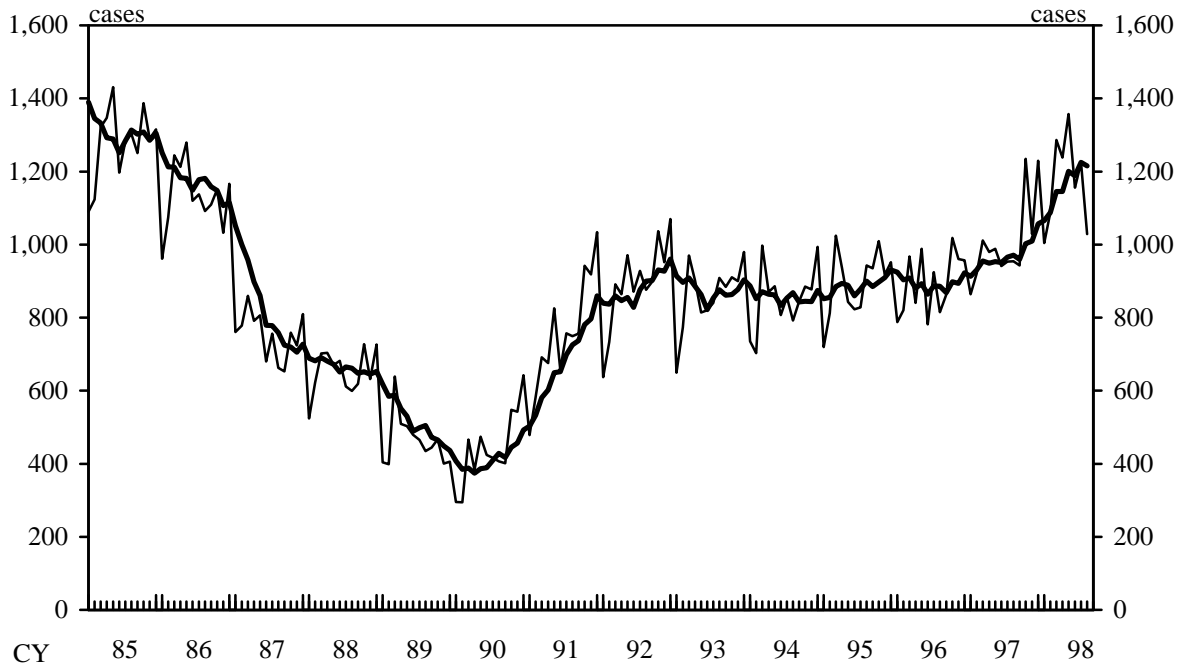
(2) Long-Term



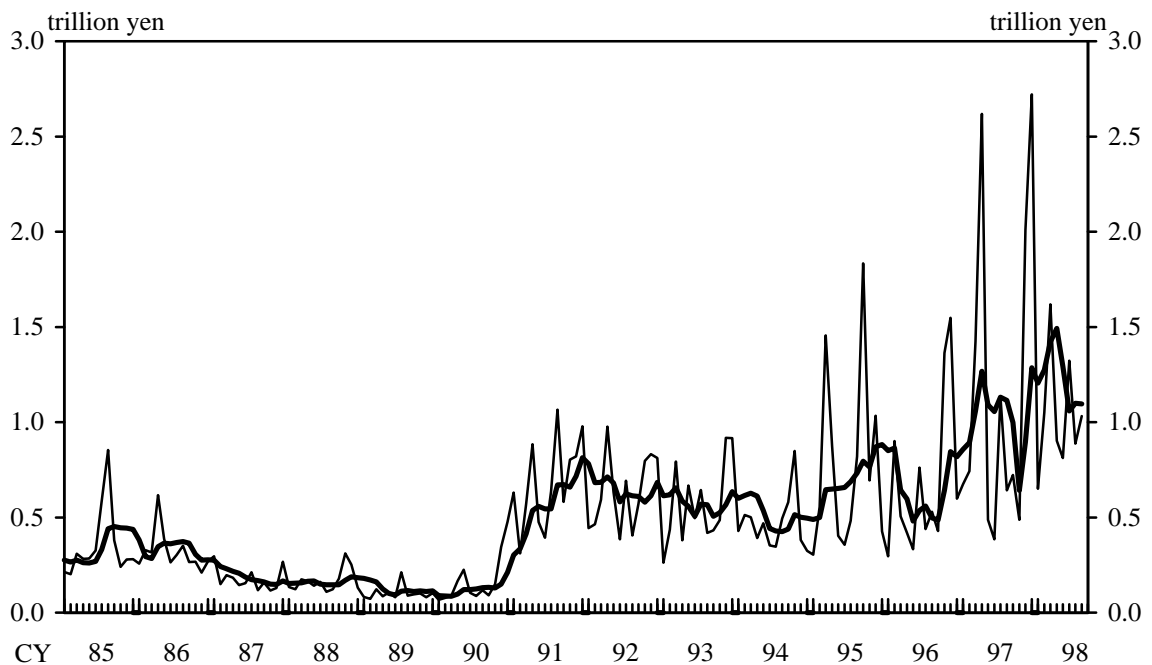
Source: Bank of Japan, "Economic Statistics Monthly."

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)."