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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
July 1999

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Monthly Report of Recent Economic and Financial Developments¹

July 1999

The Bank's View²

Japan's economy, at present, has stopped deteriorating, and corporate sentiment has improved slightly. However, clear signs of a self-sustained recovery in private demand have not been observed yet.

With regard to final demand, business fixed investment has basically been on a downward trend. Recovery in private consumption continues to be weak on the whole. Net exports (exports minus imports) are decreasing slightly at present, due mainly to an increase in imports. Meanwhile, housing investment has continued to recover, and public works seem to be basically following a rising trend.

Reflecting such developments in final demand and continued progress in inventory adjustment, industrial production has stopped decreasing. In addition, corporate sentiment has improved mainly due to the effects of measures taken to restore the stability of Japan's financial system, the continued monetary easing by the Bank, and a recovery in stock prices. This improvement in corporate sentiment, however, has not necessarily stimulated business activities, because firms strongly feel that they have excess capacity and employees and their profits remain weak. Consumer sentiment has also improved, and this seems to be underpinning household expenditures despite the worsening of employment and income conditions. This improvement in sentiment, however, is not strong enough to push up private consumption.

As for the outlook, with the progress in inventory adjustment gradually paving the way for a recovery in production, the government's economic measures and the monetary easing by the Bank will continue to underpin the economy. Improvements in the financial environment, such as the alleviation of concern about

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on July 16, 1999.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on July 16 as the basis of monetary policy decisions.

Japan's financial system, are also expected to exert positive effects on the economy gradually. Moreover, the recovery of overseas economies, especially of Asian economies, is likely to have a positive impact on domestic production. Nevertheless, under cautious sales plans, firms are implementing further restructuring to improve their profitability. Although such corporate restructuring is expected to improve productivity, it may, in the short run, reduce fixed investment and discourage household expenditure through the resulting deterioration in employment and income conditions. Under such circumstances, it is still difficult to expect an immediate self-sustained recovery in private demand. Overall economic developments require careful monitoring in consideration of the above points. It is also important to promote structural reform in order to assure the economy's sustained growth in the medium term.

With regard to prices, import prices continue to rise due to the bottoming out of international commodity prices such as crude oil prices. Domestic wholesale prices are leveling off due to progress in inventory adjustment as well as an increase in prices of some products closely related to international commodities, such as those of petroleum products. Consumer prices are also leveling out. On the other hand, corporate service prices continue to decline. For a while, movements of overall prices are likely to be flat, as import prices are rising and the decline in domestic commodity prices has come to a halt reflecting the progress in inventory adjustment. However, distinct narrowing in the output gap is unlikely for the time being even though the economy has stopped deteriorating, and wages continue to decline. Thus, downward pressure on prices is expected to remain.

In the financial market, the overnight call rate has stayed at nearly zero, and many financial institutions have been confident about the availability of liquidity. Interest rates on term instruments have slightly increased mainly because of the GDP data for the January-March quarter, which were stronger than the market's forecast, and market participants' concern over the Year 2000 problem. The Japan premium has almost disappeared.

Yields on long-term government bonds rose to the level of 1.8-1.9 percent at one time, but have declined to around 1.7 percent. The yield spread between

government bonds and private bonds—bank debentures and corporate bonds—has continued to narrow.

Stock prices have risen and recently exceeded 18,000 yen reflecting the market's improved view of the prospects for Japan's economy and the strength of U.S. stock prices.

The amount outstanding of funds in the call money market has remained almost stable since the middle of June. To date, this has not led to any difficulty in funds settlement, but close attention should be paid to future market developments.

With regard to corporate finance, private banks have basically retained their cautious lending attitude. However, constraint that had been caused by severe fund-raising conditions and insufficient capital base has eased considerably. Under these circumstances, major banks have gradually become more active than before in extending loans, while carefully evaluating the credit risks involved.

However, credit demand for economic activities such as business fixed investment remains weak. In addition, firms' moves to increase their on-hand liquidity have settled down. As a result, credit demand in the private sector has weakened further, and thus private banks' lending has remained sluggish.

Money stock (M_2 +CDs) has recently shown a slightly higher year-to-year growth partly due to an increase in fiscal expenditure.

In this financial environment, credit conditions, which had tightened previously, have eased somewhat.

The following continue to warrant careful monitoring: how actively investors will take risks; how far private banks will ease their lending stance; and how these changes will affect firms' propensity to invest.

The Background

1. Japan's Economy

With regard to public investment (Chart 2), the value of public works contracted, which reflects orders, declined further in May after a substantial decline in April, following the concentration of orders under the government's economic stimulus measures in February and March. Shipments of public works related goods are temporarily weak at present, but basically remain on a rising trend along with the actual execution of public works, reflecting the high level of orders to date. As for the outlook, public investment is projected to remain strong for the time being against the background of the high level of orders so far.

Real exports (Charts 3 to 5) are essentially flat. Exports to Europe continue to decline, but those to the NIEs and ASEAN countries are still on a recovery trend after the sharp decline through 1998, and those to the United States remain firm on the whole. Meanwhile, real imports are increasing slightly, especially for information-related goods.

As a result of these import and export developments, net exports (exports – imports) in terms of the real trade balance³ are presently decreasing somewhat because of the increase in imports. The nominal current account surplus is contracting mainly due to the decrease in the trade surplus.

As for the future environment for foreign trade, the appreciation of the yen since autumn 1998 is restricting exports (Chart 6(1)). Regarding the domestic and foreign demand conditions, private demand in Japan has stopped falling, but is likely to remain weak. Meanwhile, the United States economy is expected to remain firm, and the NIEs and ASEAN economies are moving toward a recovery (Chart 6(2)). Reflecting these domestic and foreign economic developments, there is a high probability that net exports will turn to a rising trend. Nevertheless, the outlook for overseas economies continues to warrant careful monitoring, given that the trends in

³ 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).

European economies remain unclear and the present high growth in the United States economy is apparently supported, to a large extent, by the rise in stock prices.

As for the conditions surrounding business fixed investment, according to the Bank of Japan's *Tankan -- Short-term Economic Survey of Enterprises* of June 1999 (Chart 7), corporate perceptions of business conditions have improved compared with the March survey. This improvement is due to the bottoming out of production activities as well as the efforts for the reconstruction of Japan's financial system, the continued monetary easing by the Bank of Japan, and the recovery in stock prices. Meanwhile, corporate profits remain sluggish. According to the June *Tankan* (Chart 8), current profits were down sharply during the second half of fiscal 1998 at both manufacturing and nonmanufacturing firms, resulting in a large decline for fiscal 1998 as a whole compared to the previous fiscal year. As for profit projections for fiscal 1999, while sales are expected to be almost flat, a slight profit increase is projected during the first half, and a rapid improvement is expected during the second half mainly from the effects of corporate restructuring. As for corporate finance, in the June *Tankan* (Chart 9), the financial position DI and the lending attitude of financial institutions DI both show improvements for large and small firms alike.

Despite the above improving fixed investment conditions, business fixed investment remains on a declining trend, reflecting firms' strong perceptions of excess equipment (Chart 10). Shipments of general capital goods, which reflect the current trend of machinery investment, declined by 7.9 percent in April-May compared to the first-quarter level after an increase of 3.6 percent in the first quarter on a seasonally adjusted quarter-to-quarter basis. Moreover, leading indicators, such as machinery orders and nonresidential construction starts (Chart 11), have turned to a decline once again.

With regard to the outlook, business fixed investment is likely to remain on a declining trend for some time, as many firms are proceeding with full-fledged restructuring to improve their profitability and financial soundness. According to the June *Tankan*, the current plans for business fixed investment in fiscal 1999 (Chart 12) are far more restricted than in the previous year both for large firms (manufacturing: -11.0 percent, nonmanufacturing: -6.1 percent) and for small firms (manufacturing:

-32.9 percent, nonmanufacturing: -23.1 percent).

In the household sector, employment and income conditions are still on a deteriorating trend. In the labor market (Chart 13), the unemployment rate (seasonally adjusted) was 4.8 percent in March and April, which was the highest level since the start of these statistics in 1953, and remained near this historical high at 4.6 percent in May. The ratio of job offers to applicants (seasonally adjusted) was 0.46 in May, recording the lowest level since the start of these statistics in 1963. The number of regular employees (on a monthly employment statistics basis at establishments with at least five employees) remains below the previous year's level. Wages are still on a declining trend (Chart 14) as regular compensation remains below the previous year's level, although overtime compensation has turned above the previous year's level due to the bottoming out of production. Reflecting these employment and wage developments, compensation of employees is on a declining trend.

As for the outlook, with corporate perceptions of excess employment rising (Chart 15), firms are likely to strengthen their stance toward adjusting employment and restricting wages in line with the full-scale implementation of corporate restructuring. For example, summer bonuses at large firms were apparently well below the previous year's level (Chart 14(3)). Judged from these developments, the employment and income conditions are expected to remain harsh for the time being.

Under these employment and income conditions, the recovery in private consumption still remains weak as a whole, despite slight improvements in some related indicators. In detail (Chart 16), sales of household electric appliances remain at a high level, mainly due to firm sales of personal computers. Outlays for travel are presently leveling off. The number of passenger car sales (excluding light cars) increased slightly in the first quarter of 1999 from the introduction of new models, but is now weakening once again. Including light cars, however, the number of passenger car sales is on a gradual increasing trend. Sales at department stores and chain stores, which had been decreasing, recently appear to have stopped declining. Consumer sentiment, which was deteriorating through the end of 1998, is presently improving somewhat, although remaining at a low level (Chart 17).

As for future consumption trends, the reduction in personal income taxes is expected to underpin consumption. Improvements in consumer sentiment from the abatement of anxiety regarding the stability of Japan's financial system and the recovery in stock prices are also expected to have a positive effect. Nevertheless, the recovery is likely to remain weak for the time being, as employment and income conditions will continue to be harsh and summer bonuses seem to have declined substantially.

With regard to housing investment (Chart 18), housing starts (on a seasonally adjusted annual basis), which were around 1.15 million units from the latter half of 1998 through to the beginning of 1999, have presently recovered to 1.20-1.29 million units. In detail, construction starts of owner-occupied houses remain on an increasing trend, apparently reflecting the starts of housing construction financed by loans from the government Housing Loan Corporation, for which applications were up sharply during its third offering period for fiscal 1998 (November 2 – December 25, 1998; an increase of 49.9 percent from the previous year for the construction of private homes) and during its fourth offering period for fiscal 1998 (January 18 – March 26, 1999; an increase of 75.1 percent from the previous year for the construction of private homes). Thus, housing starts have started picking up.

As for the outlook, construction starts of houses for rent are expected to remain stagnant due to strong perceptions of excess supply. With respect to housing for sale, the demand is strengthening, as condominium sales remain on an increasing trend. Reflecting this sales trend, the possibility is that construction starts, which had been on a declining trend, may now gradually turn to an increase. Construction starts of owner-occupied houses are likely to rise through the summer owing to an increase in housing construction financed by loans from the government Housing Loan Corporation during its fourth offering period for fiscal 1998, which were up sharply due to the reduction in the taxes on home purchases and the maintenance of the Corporation's standard interest rate on loans at a low level.⁴

⁴ There were 62,000 loan applications for the construction of private homes submitted to the government Housing Loan Corporation during its first offering period for fiscal 1999 (April 26 – June 18, 1999), approximately the same level as recorded in the previous year (a year-to-year change of 0.0 percent).

Reflecting these developments in final demand, along with the continued progress of inventory adjustment (Chart 19), industrial production (Chart 20) has basically bottomed out, with some fluctuations (+0.6 percent in the first quarter of 1999; -1.4 percent in the second quarter <based on the production forecast indices for June>).

As for the production outlook, although business fixed investment is projected to remain on a declining trend, inventory adjustment pressures are weakening, public investment and housing investment are expected to increase, and exports should rise somewhat through the summer, reflecting the recovery in Asian economies. Thus, industrial production is projected to remain firm for the time being.

2. Prices

With regard to price developments, import prices on a yen basis (Chart 22(1)) continue to increase, reflecting the bottoming out of crude oil prices and other international commodity prices since March.

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;⁵ Chart 22(3)) are currently at the same level as recorded in the previous month. This is because the prices of some products closely related to international commodities, such as those of petroleum products, have increased, while the prices of construction-related goods and electrical machinery continue to decline. (The month-to-month change in domestic wholesale prices was -0.3 percent in April, +0.1 percent in May, and 0.0 percent in June).

Corporate service prices (Chart 23(1)) continue to decline overall, particularly those for machinery repairs and real estate services, against the background of firms' strengthening stance toward cost reduction. (The year-to-year decline in corporate service prices was 1.0 percent in the first quarter of 1999 and 1.2 percent in April-May).

⁵ 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.

Consumer prices (excluding perishables; Chart 23(2)) are presently at the same level as recorded in the previous year, as the rate of the year-to-year decline in the prices of goods decreased, partly due to the bottoming out of petroleum product prices. (The year-to-year change in consumer prices was -0.1 percent in the first quarter of 1999 and 0.0 percent in April-May). Including perishables, consumer prices overall remain below the previous year's level.

Regarding the future environment for prices overall (Chart 24), although prices have been on a downtrend, they are likely to be flat for a while, as import prices are rising and the decline in domestic commodity prices has come to a halt, reflecting the progress in inventory adjustments. However, distinct narrowing in the output gap is unlikely for the time being even though the economy has stopped deteriorating, and wages continue to decline. Judged from these developments, the downward pressure on prices is expected to remain.

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets (Charts 25(1), 26 and 27) show that with the continued ample provision of funds by the Bank of Japan the overnight call rate (uncollateralized) has stayed near zero, at around 0.03 percent. Under these conditions, many financial institutions have been confident about the availability of liquidity.

Interest rates on term instruments have slightly increased, partly because the GDP data for the January-March quarter of 1999 were stronger than forecasted in the market. Three-month TB and FB rates, which had been around 0.03 percent in early June, the same level as the overnight call rate, rose thereafter and are recently moving around 0.05 percent. Three-month Euro-yen interest rates (TIBOR), which had been around 0.1 percent in early June, also rose slightly thereafter. As for longer term interest rates, the rise is especially pronounced for instruments extending beyond the end of the calendar year, against the background of concerns about the risk from the Year 2000 problem.

The Japan premium (Chart 28) has almost disappeared since March.

Yields on ten-year government bonds (newly issued; Chart 25(2)) rose beyond 1.6 percent in early June, and surpassed 1.8 percent at the end of June, posting the highest level since late March, on the market's speculation regarding the timing of the repeal of the zero interest rate policy. From the beginning of July, however, the yields fell back, and are presently moving at around 1.7 percent. The yield spread between government and private bonds (bank debentures and corporate bonds; Charts 30 and 31) has continued to narrow. Judged from these financial market developments, it seems that market participants' stance toward taking on credit risks is gradually becoming more positive.

Stock prices (Chart 32(1)) posted the highest level this year as the market's view of the prospects for Japan's economy improved and U.S. stock prices remained firm, and are presently moving above the 18,000 yen level.

The amount outstanding in the call money market has remained almost stable since mid-June. To date, this has not led to any difficulty in funds settlement, but close attention should be paid to future market developments.

On the foreign exchange market (Chart 33), the yen-dollar exchange rate moved toward a slightly stronger yen in reaction to the strong GDP figures mentioned above, but then turned back toward a weaker yen as market participants became sensitive to intervention by the authorities. The rate is presently holding around 120-123 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The year-to-year growth in money stock (Chart 34) in terms of $M_2 + \text{CDs}$ was 4.3 percent in June, posting a rise for the fourth consecutive month, in part due to an increase in fiscal expenditures. (The year-to-year growth in $M_2 + \text{CDs}$ was 3.7 percent in March, 4.0 percent in April, and 4.1 percent in May). During the third quarter of 1999, the year-to-year growth in money stock is projected to remain around the level posted during the second quarter (+4.1 percent) as private-sector funds

demand will remain sluggish while a high level of fiscal expenditures will continue. (The projected year-to-year growth rate for the third quarter is around 4.0 percent).

The year-to-year growth in the monetary base (currency in circulation + reserves; Chart 35) had been rising since January, but the rate of growth declined slightly in June due to the slower growth in the balance outstanding of banknotes.

The lending attitude of private financial institutions is still fundamentally cautious. However, constraint that had been caused by severe fund-raising conditions and insufficient capital base has eased considerably. Against this background, major banks have gradually become more active than before in extending loans, while carefully evaluating the credit risks involved.

However, the credit demand of private firms for economic activities such as business fixed investment remains weak, and firms' moves to increase their on-hand liquidity due to the previously harsh fund-raising environment have settled down. As a result, the overall credit demand of private firms is weakening further.

Consequently, the year-to-year decline in lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors;⁶ Chart 36), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, which had contracted gradually from January through April, expanded slightly in May and June. Meanwhile, fund-raising from sources other than bank loans (Charts 37 and 38) continues to slow down gradually overall.

Turning to the funding cost for firms, in May the average contracted interest rates on new loans and discounts (Chart 39) decreased for long-term contracts, but rose slightly for short-term contracts for the second consecutive month. CP and corporate bond issuance rates remained at a low level as institutional investors' desire to invest in such instruments is strengthening while firms' desire to issue such instruments is sluggish.

⁶ The figures are adjusted for (1) fluctuations from the liquidation of loans, (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates, (3) fluctuations from loan write-offs, (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, etc.

In this financial environment, credit conditions, which had tightened previously, have eased somewhat. From the beginning of this year, the number of corporate bankruptcies (Chart 40) has remained far below the previous year's level due to the enhancement of the credit guarantee system and other factors.

The following factors continue to warrant careful monitoring: how actively investors will take risks; how far private banks will ease their lending stance; and how these changes will affect firms' propensity to invest and other economic activities.

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Main Economic Indexes (1)

y/y % chg.

	98/Q4	99/Q1	Q2	99/March	April	May	June
Index of expenditure level (all households)	0.2	-0.9	n.a.	-1.3	-0.2	p 2.8	n.a.
Sales of department stores	-4.5	-4.2	n.a.	-7.5	-3.4	p -2.4	n.a.
Sales of chain stores ¹	-1.4	-5.1	n.a.	-8.0	-5.3	-5.0	n.a.
New passenger-car registrations ² <s.a., ann. 10,000 units>	297	304	295	296	291	305	290
Sales of electric appliances (NEBA)	10.1	10.4	n.a.	8.3	12.5	5.3	n.a.
Outlays for travel (50 major travel agencies)	-7.0	-2.6	n.a.	0.2	-0.9	-4.5	n.a.
Housing starts <s.a., ann. 10,000 units>	113	122	n.a.	130	125	123	n.a.
Machinery orders (from private sector ³)	-17.8	-14.8	n.a.	-13.6	-14.5	-7.5	n.a.
Mining & manufacturing	-27.2	-21.8	n.a.	-24.0	-18.3	-5.2	n.a.
Nonmanufacturing ³	-10.2	-9.1	n.a.	-5.3	-11.6	-9.0	n.a.
Construction Starts (private, nonresidential use)	-22.9	-12.5	n.a.	-14.0	-5.8	-29.8	n.a.
Manufacturing	-45.5	-37.8	n.a.	-48.6	-38.7	-31.1	n.a.
Nonmanufacturing ⁴	-13.4	-2.5	n.a.	-1.3	4.8	-29.4	n.a.
Value of public works contracts	10.4	52.7	-8.1	89.0	-12.2	-6.7	-2.7
Real exports <s.a. quarterly (monthly) change>	-1.9	1.8	n.a.	4.6	1.4	-5.5	n.a.
Real imports <s.a. quarterly (monthly) change>	-1.8	5.0	n.a.	-5.1	2.5	-6.2	n.a.
Industrial production <s.a. quarterly (monthly) change>	-0.7	0.6	n.a.	2.7	-3.4	-1.0	n.a.
Shipments <s.a. quarterly (monthly) change>	-0.2	1.3	n.a.	3.6	-5.0	0.6	n.a.
Inventories <s.a. quarterly (monthly) change>	-3.7	-2.3	n.a.	-1.0	-0.2	-0.5	n.a.
Inventories/shipments <s.a. 1995=100>	108.4	104.0	n.a.	104.0	106.1	107.1	n.a.
Real GDP <s.a. quarterly change>	-0.8	1.9	n.a.	n.a.	n.a.	n.a.	n.a.

Main Economic Indexes (2)

	y/y % chg.						
	98/Q4	99/Q1	Q2	99/March	April	May	June
Ratio of job offers to applicants <s.a., times>	0.47	0.49	n.a.	0.49	0.48	0.46	n.a.
Unemployment rate <s.a., %>	4.38	4.62	n.a.	4.80	4.81	4.63	n.a.
Overtime working hours ⁵	-7.3	-5.7	n.a.	-5.0	-4.0	p -2.1	n.a.
Number of employees	-0.5	-1.1	n.a.	-1.2	-0.7	-0.6	n.a.
Number of regularly employed ⁵	-0.3	-0.3	n.a.	-0.3	-0.3	p -0.3	n.a.
Nominal wage per person ⁵	-2.3	-1.5	n.a.	-0.5	0.0	p -0.4	n.a.
Domestic wholesale price index	-2.1	-2.1	-1.8	-1.9	-1.9	-1.7	-1.7
Consumer price index (nationwide)	0.5	-0.1	n.a.	-0.4	-0.1	-0.4	n.a.
Excluding perishables	-0.3	-0.1	n.a.	-0.1	-0.1	0.0	n.a.
Corporate service price index	-0.9	-1.0	n.a.	-1.1	-1.3	-1.1	n.a.
Monetary aggregates (M2+CDs) ⁶ <average outstanding, y/y % chg>	4.0	3.6	p 4.1	3.7	4.0	4.1	p 4.3
Number of suspension of transaction with banks	-17.5	-42.3	n.a.	-39.2	-35.2	-32.2	n.a.

Notes: 1. Adjusted to exclude consumption tax.

2. Excludes small cars with engine sizes of 660cc or less. Seasonally adjusted by X-12-ARIMA (β version).

3. Excludes ships and demand from electric power companies.

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

5. Data for establishments with at least five regular employees.

6. Figures of M2+CDs and Broadly-defined Liquidity are calculated on current basis from April 1999.

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", "National Income Statistics";

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

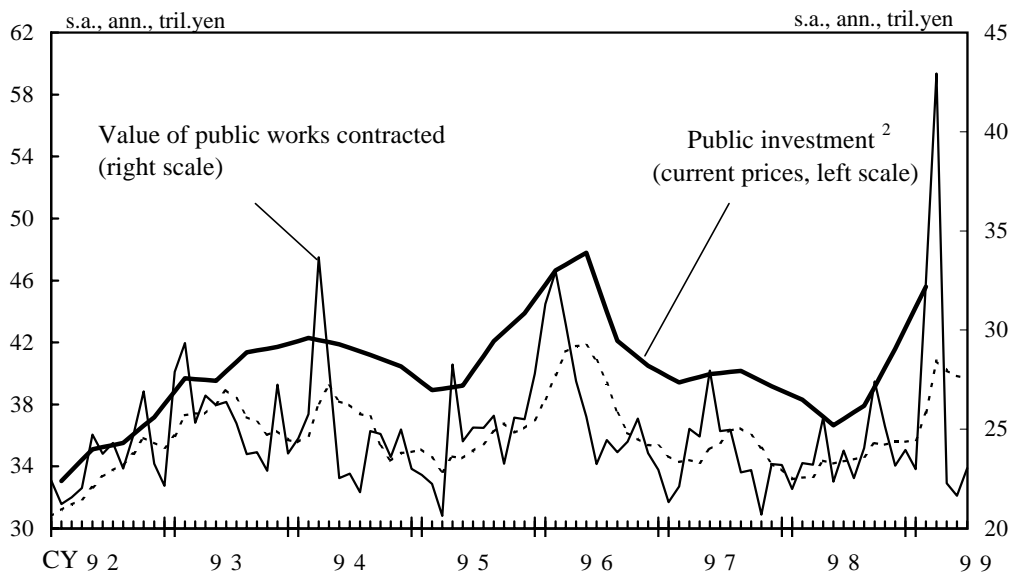
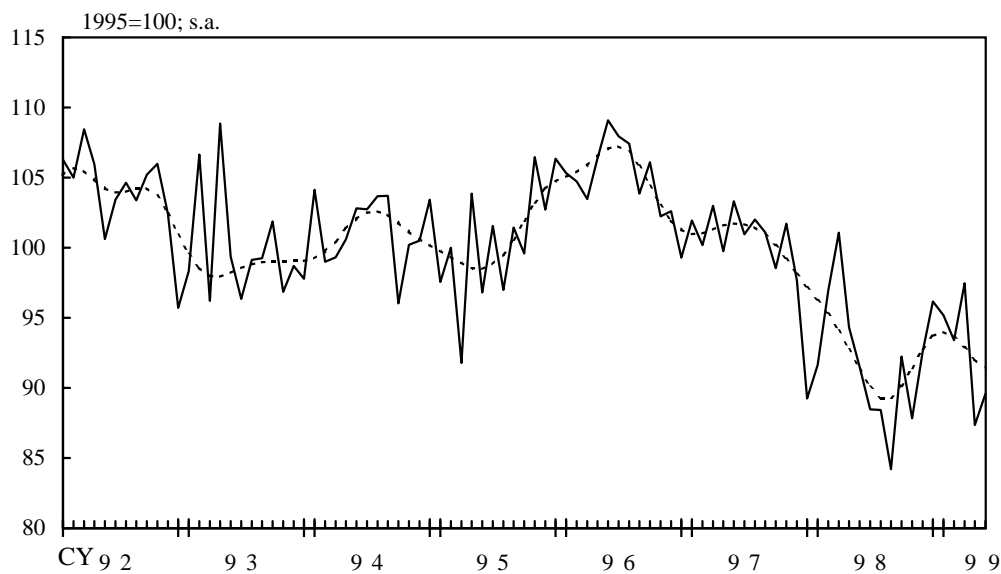
Ministry of Finance, "The Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service",

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

"Financial and Economic Statistics Monthly"; Japanese Bankers Associations, "Suspension of Transaction with Banks."

Public Investment¹

(1) Value of public works contracted

(2) Shipments of Public Works-related Goods³

- Notes:
1. Seasonally adjusted by X-12-ARIMA (β version). The dotted line of "value of public works contracted" is 6 months moving average. The dotted line of "public works-related goods" is the trend cycle factor.
 2. Quarterly basis public investment is plotted at the middle month of each quarter.
 3. In order to follow the monthly movement of public 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."

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.

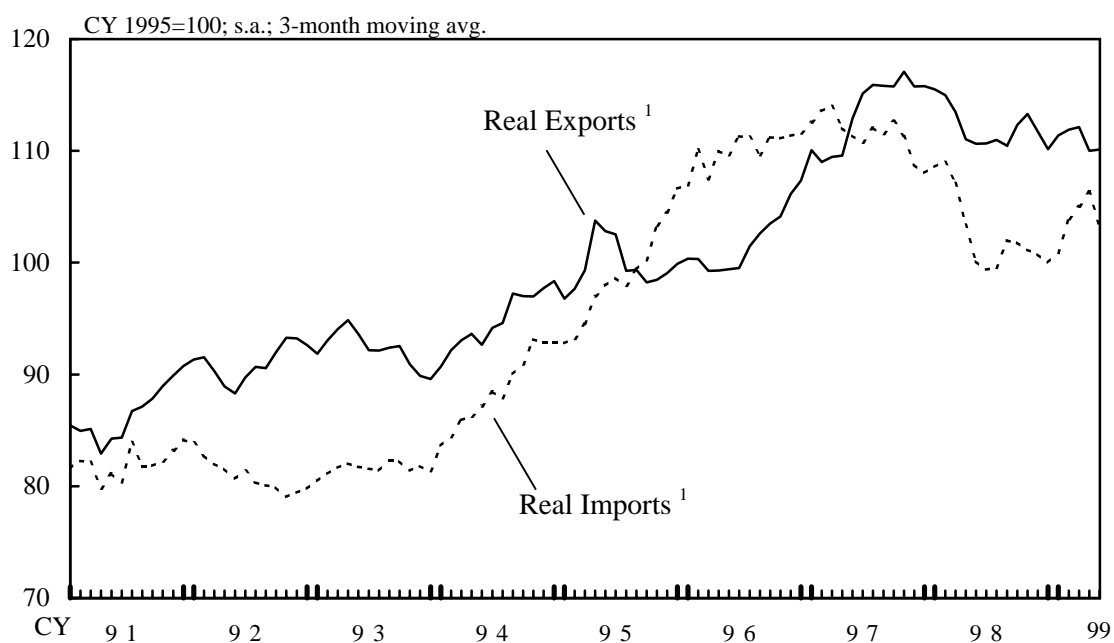
"Public works-related goods" only covers construction investment excluding buildings (which comprises two-thirds of public investment), and does not cover building and machinery investment (which comprises one-third of public investment).

"Public works-related goods" is partly used for private-sector investment.

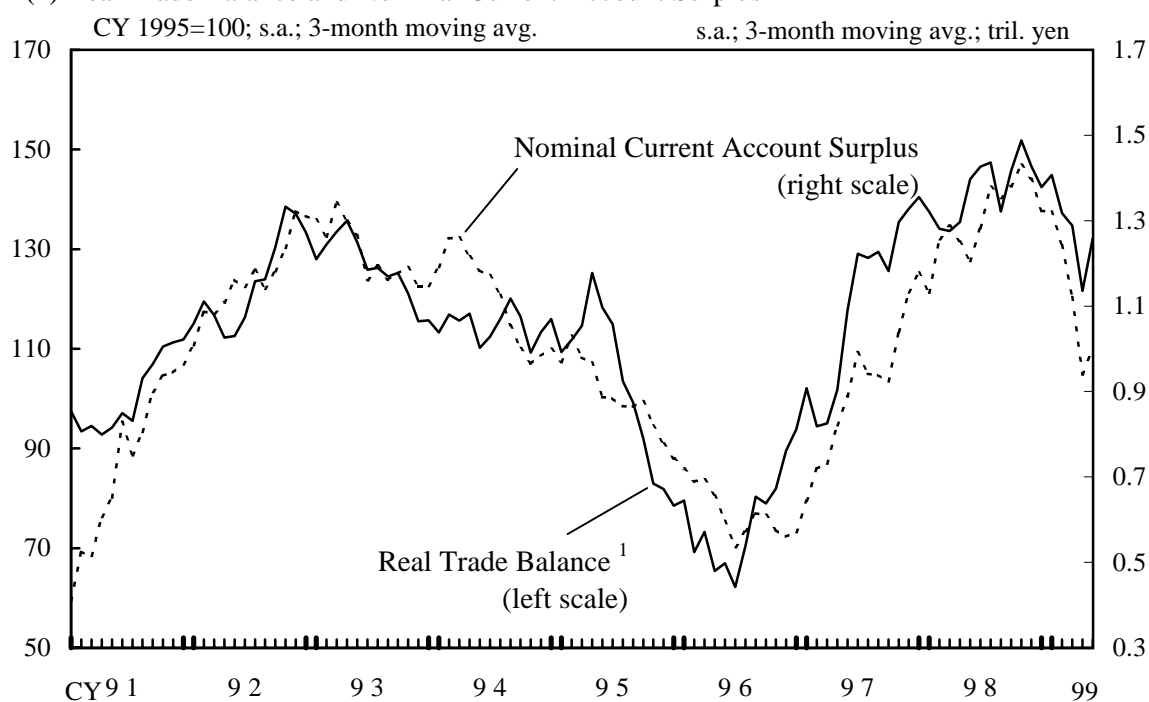
Sources: Economic Planning Agency, "National Income Statistics";
 Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";
 Ministry of International Trade and Industry, "Indices of Industrial Production."

 External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account Surplus



Note: 1. Seasonally adjusted by X-11.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 97	98 98	98 Q2	Q3	Q4	99 Q1	Q2	99 Mar.	Apr.	May
United States	<30.5>	14.6	6.8	-1.7	2.2	-2.5	1.4	1.1	2.8	6.0	-4.3
EU	<18.4>	13.8	15.6	5.2	2.8	0.2	-2.3	-5.5	-0.3	0.6	-8.4
East Asia	<33.2>	8.6	-18.1	-6.2	-1.7	-2.3	9.2	0.4	9.9	2.9	-5.3
China	<5.2>	8.2	0.5	4.0	-0.6	-4.3	20.3	-7.4	12.7	1.7	-14.9
NIEs	<20.2>	10.5	-16.5	-7.5	-3.2	-1.9	6.8	1.3	12.7	2.1	-4.0
Korea	<4.0>	-1.5	-35.3	-6.3	-2.9	10.5	23.2	2.0	13.5	2.5	-8.9
ASEAN4 ³	<7.8>	5.0	-29.2	-8.8	1.4	-2.2	8.1	3.5	2.1	5.8	-2.2
Thailand	<2.4>	-11.6	-29.4	-3.9	-0.2	-2.3	10.9	-5.9	4.7	-3.4	-6.4
Indonesia	<1.1>	22.6	-53.4	-24.9	4.1	5.4	0.1	-8.9	0.7	-4.5	-2.3
Real exports		11.2	-2.1	-2.5	1.5	-1.9	1.8	-2.2	4.6	1.4	-5.5

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 97	98 98	98 Q2	Q3	Q4	99 Q1	Q2	99 Mar.	Apr.	May
Intermediate goods	<14.5>	11.2	2.9	1.9	3.2	-1.1	0.1	3.0	8.5	4.4	-4.6
Motor vehicles and their related goods	<21.9>	14.6	1.3	-1.0	3.2	2.4	-3.5	-3.7	3.9	-0.6	-1.9
Consumer goods ⁴	<7.3>	6.3	5.0	0.4	-2.3	0.3	1.8	-1.2	1.1	2.6	-8.0
Information-related goods ⁵	<17.2>	18.1	-7.0	-4.2	0.9	-3.4	2.6	0.8	6.1	0.1	-3.0
Capital goods and parts ⁶	<28.6>	9.0	-5.4	-3.6	0.0	-4.6	2.6	-3.7	2.9	0.6	-5.8
Real exports		11.2	-2.1	-2.5	1.5	-1.9	1.8	-2.2	4.6	1.4	-5.5

Notes: 1. Seasonally adjusted by X-11. 99/Q2 are Apr-May 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 ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 97	98	98 Q2	Q3	Q4	99 Q1	Q2	99 Mar.	Apr.	May
United States	<23.9>	1.1	-3.7	-4.0	0.3	-3.6	10.0	-12.3	-22.8	3.7	-13.3
EU	<13.9>	-3.6	-6.5	-6.3	3.3	1.6	3.8	-8.4	6.5	-10.5	-5.4
East Asia	<34.9>	0.9	-7.7	-5.8	0.9	0.5	8.2	3.9	-2.5	4.4	-3.7
China	<13.2>	8.8	-4.4	-4.3	0.6	-0.8	7.2	3.6	-16.4	14.0	-5.1
NIEs	<10.2>	-8.1	-10.9	-8.5	-0.2	4.3	13.2	2.4	-1.2	2.0	-6.9
Korea	<4.3>	-3.9	-9.5	-9.8	-3.3	9.1	14.7	4.3	10.7	0.9	-12.3
ASEAN4 ³	<11.4>	2.2	-8.1	-5.0	2.2	-1.4	5.0	5.6	13.4	-2.2	0.7
Thailand	<2.9>	-0.5	-7.1	-2.2	2.1	-4.3	5.4	0.0	7.3	-2.6	-2.3
Indonesia	<3.9>	-2.3	-9.0	-4.9	5.1	-1.7	1.7	7.7	26.7	-5.5	1.5
Real imports		0.9	-8.3	-7.2	2.4	-1.8	5.0	-2.0	-5.1	2.5	-6.2

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 97	98	98 Q2	Q3	Q4	99 Q1	Q2	99 Mar.	Apr.	May
Raw materials ⁴	<23.2>	-0.5	-6.0	-4.7	2.3	-0.3	1.3	-0.7	12.1	-2.2	-6.4
Intermediate goods	<14.0>	2.7	-7.1	-8.1	-0.2	0.2	1.8	-2.0	5.4	-6.6	-1.6
Foodstuffs	<14.8>	-3.5	-4.0	-2.1	2.6	-4.0	5.7	-2.5	-5.1	8.6	-11.7
Consumer goods	<10.7>	-10.0	-13.8	-8.4	5.3	-5.3	2.8	7.1	-3.4	11.0	-5.6
Information-related goods ⁵	<13.2>	8.0	-5.8	-1.4	3.8	-2.0	6.3	5.6	-3.2	5.0	2.3
Capital goods and parts ⁶	<13.3>	13.6	2.7	-8.3	-0.4	0.8	20.5	-18.2	-36.8	7.4	-19.9
Real imports		0.9	-8.3	-7.2	2.4	-1.8	5.0	-2.0	-5.1	2.5	-6.2

Notes: 1. Seasonally adjusted by X-11. 99/Q2 are Apr-May 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.

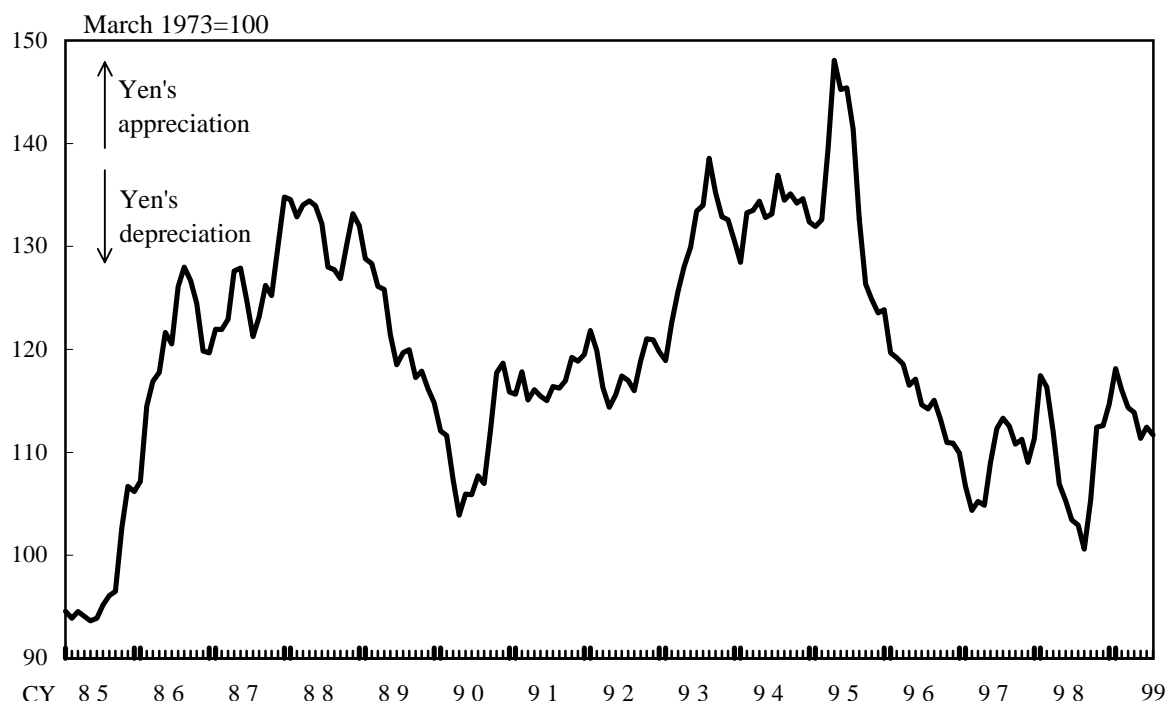
4. Raw materials = woods + ores + mineral fuel, etc.

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 ¹

Notes: 1. Monthly average. The figure for July 1999 is the average of July 1-15. Calculated by the Bank of Japan.

Figures are the index of weighted average of the 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	98 Q2	Q3	Q4	99 Q1	
United States ¹		3.9	3.9	(3.9)	1.8	3.7	6.0	4.3	
European Union ¹		2.7	2.7	(1.9)	2.3	2.6	1.0	n.a.	
	Germany	1.8	2.3	(1.6)	0.0	1.8	-0.6	1.8	
	France	2.0	3.2	(2.4)	3.4	1.2	3.0	1.3	
	United Kingdom	3.5	2.1	(0.9)	1.2	1.1	0.3	0.2	
	China	8.8	7.8	(7.3)	(Jan-Jun) 7.0	(Jan-Sep) 7.2	(Jan-Dec) 7.8	8.3	
East Asia ²	NIEs	Korea	5.0	-5.8	(5.1)	-7.2	-7.1	-5.3	4.6
		Taiwan	6.8	4.8	(4.8)	5.2	4.7	3.7	4.3
		Hong Kong	5.3	-5.1	(-0.9)	-5.1	-6.8	-5.7	-3.4
	Singapore	8.0	1.5	(2.5)	1.6	-0.6	-0.8	1.2	
	4 Countries of ASEAN	Thailand	-1.3	-9.4	(0.9)	-12.3	-12.5	-5.0	0.9
		Indonesia	4.9	-13.7	(-2.4)	-12.3	-18.4	-19.5	-10.3
		Malaysia	7.5	-7.5	(1.8)	-5.2	-10.9	-10.3	-1.3
Philippines		5.2	-0.5	(2.0)	-1.0	-0.1	-2.0	1.2	

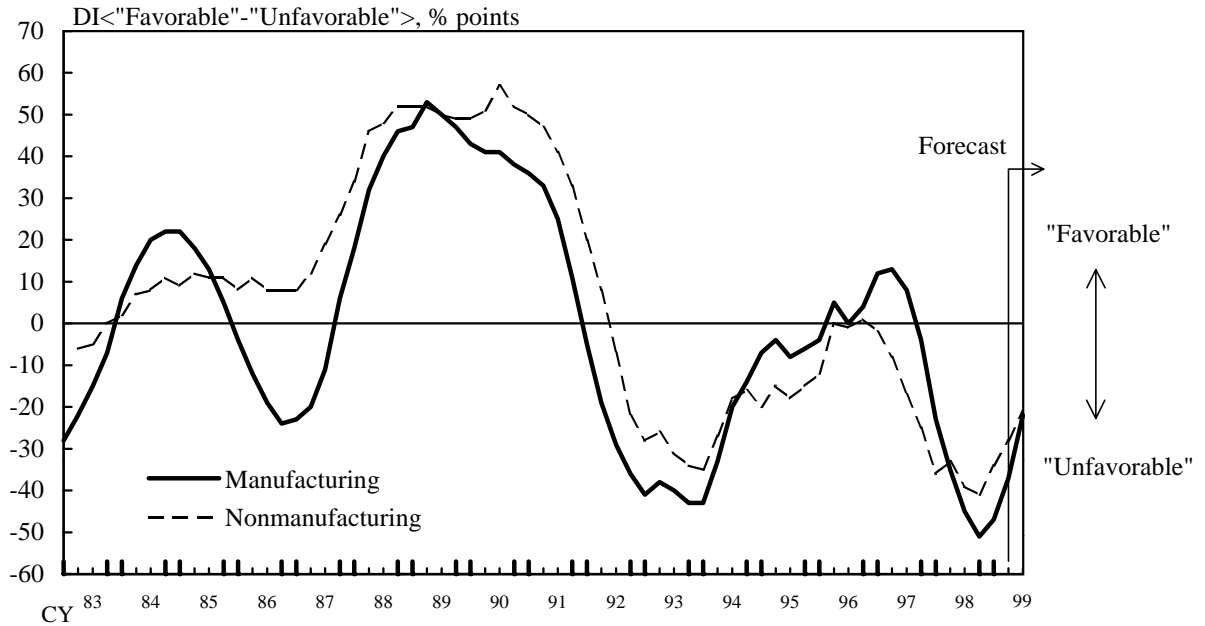
Notes: 1. Quarterly data are quarter-to-quarter percent changes.

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

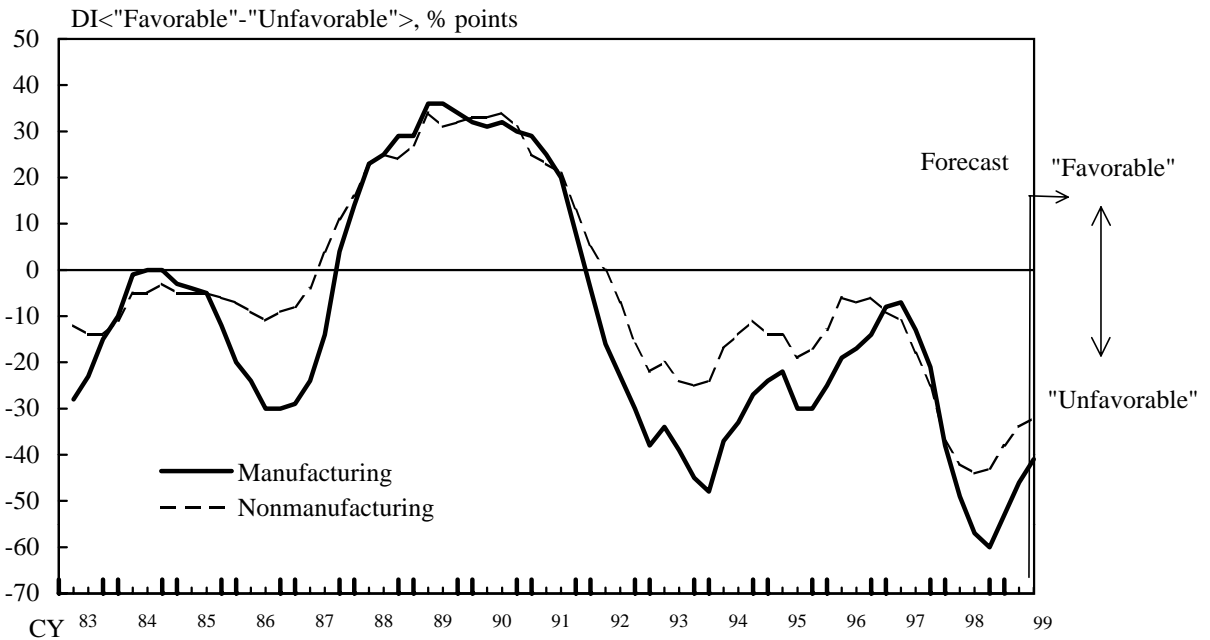
3. Forecasts by "BLUE CHIP ECONOMIC INDICATORS" and "CONSENSUS FORECASTS" are shown in brackets.

Business Conditions in the *Tankan* (June 1999)

(1) Large Enterprises



(2) Small Enterprises

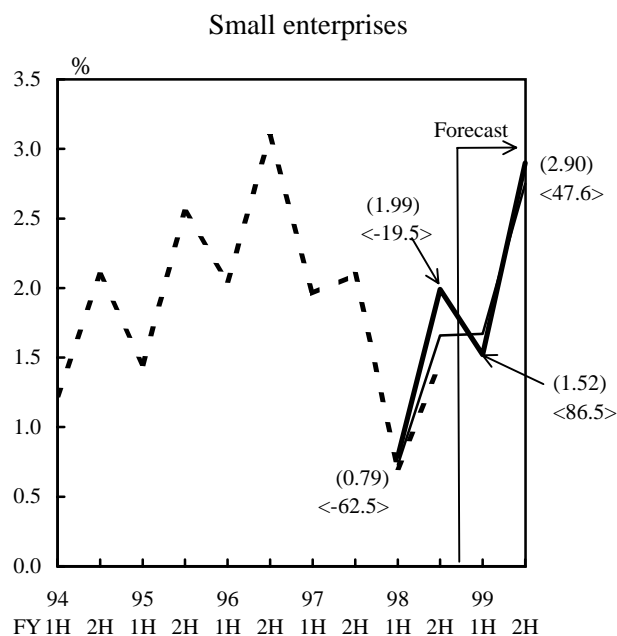
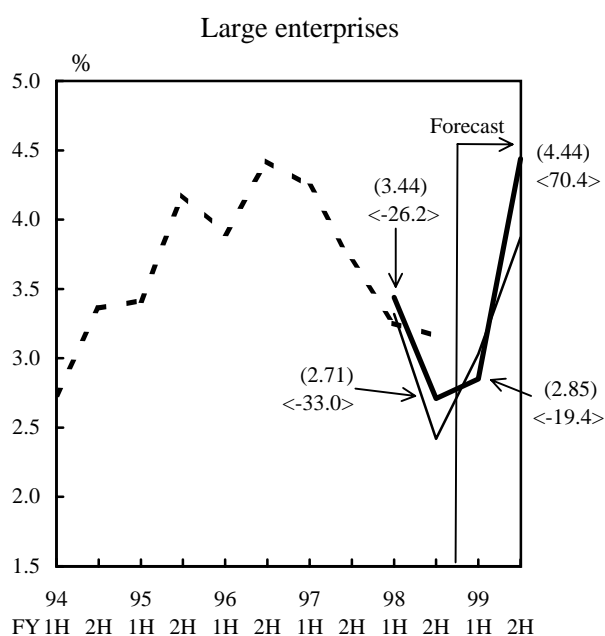


Note: Figures before December 1998 are based on the pre-revision *Tankan*, and those of March 1999 are based on the post-revision *Tankan*.

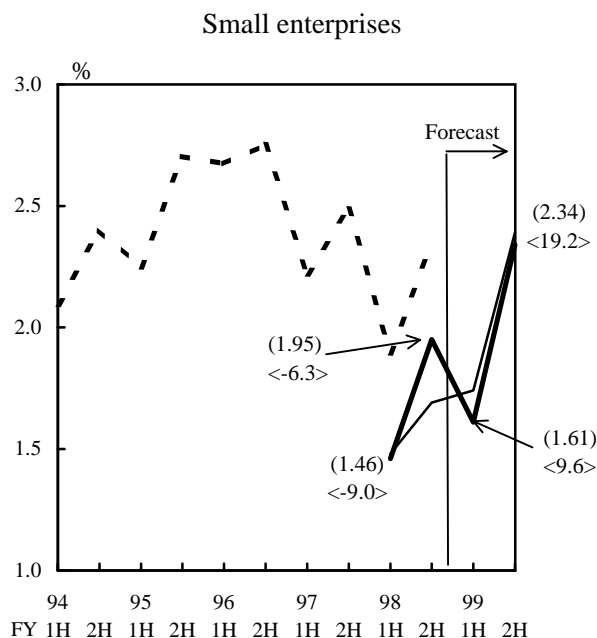
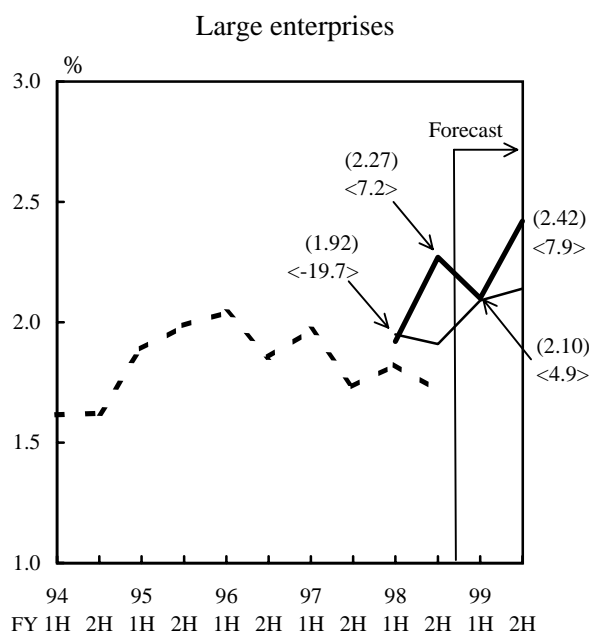
Source: Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises in Japan."

Current Profits to Sales Ratio as Surveyed in the *Tankan* (June 1999)

(1) Manufacturing



(2) Nonmanufacturing

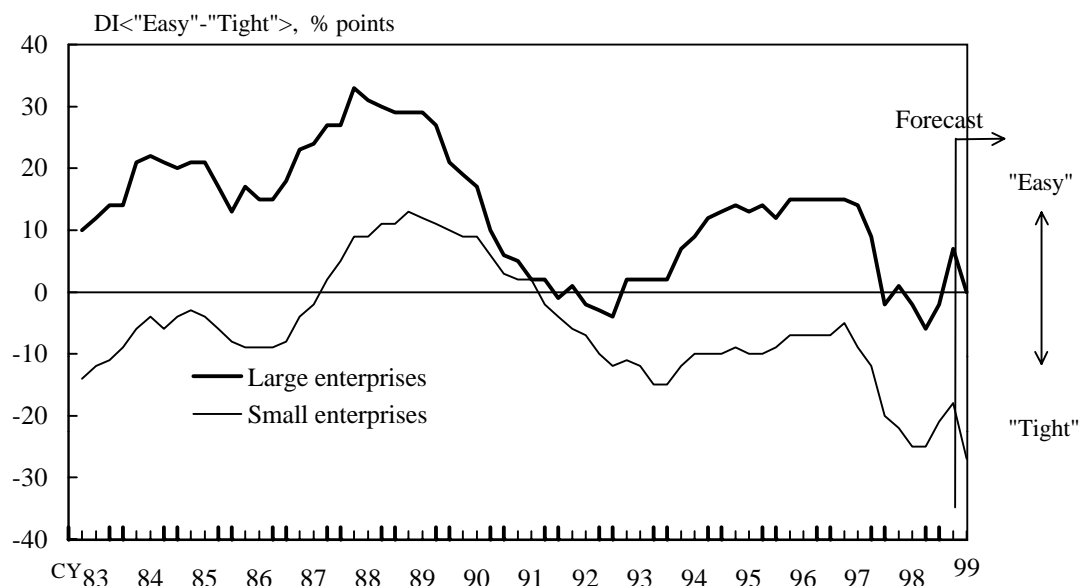


- Notes: 1. The dotted line shows the pre-revision *Tankan*, and the wide solid line shows the post-revision *Tankan* figures (the thin solid line shows the figures as of the March 1999 survey).
 2. Figures in parentheses are the current profits to sales ratio.
 3. Figures in brackets are the percent change in current profits from a year earlier.

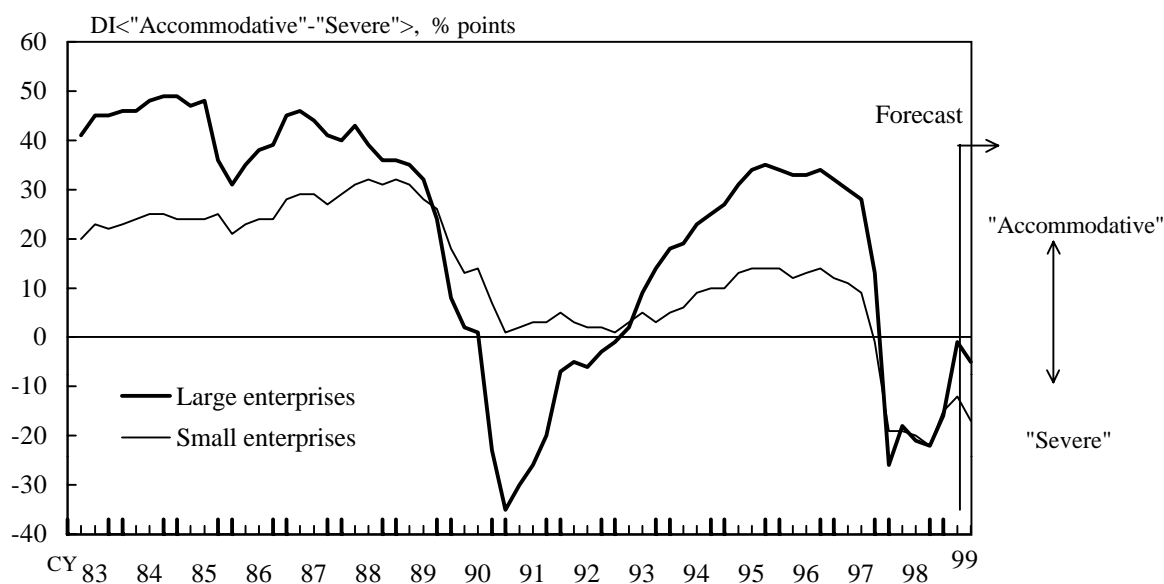
Source: Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises in Japan."

Corporate Finance-Related Indicators in the *Tankan* (June 1999)

(1) Financial Position



(2) Lending Attitude of Financial Institutions

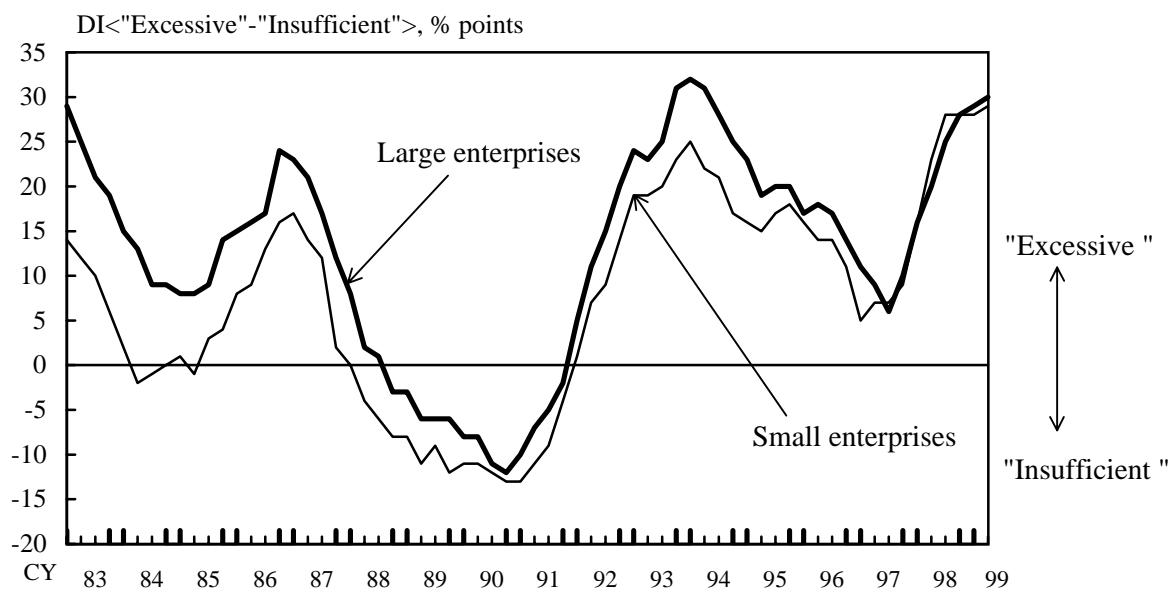


Note: Figures before December 1998 are based on the pre-revision *Tankan*, and those of March 1999 are based on the post-revision *Tankan*.

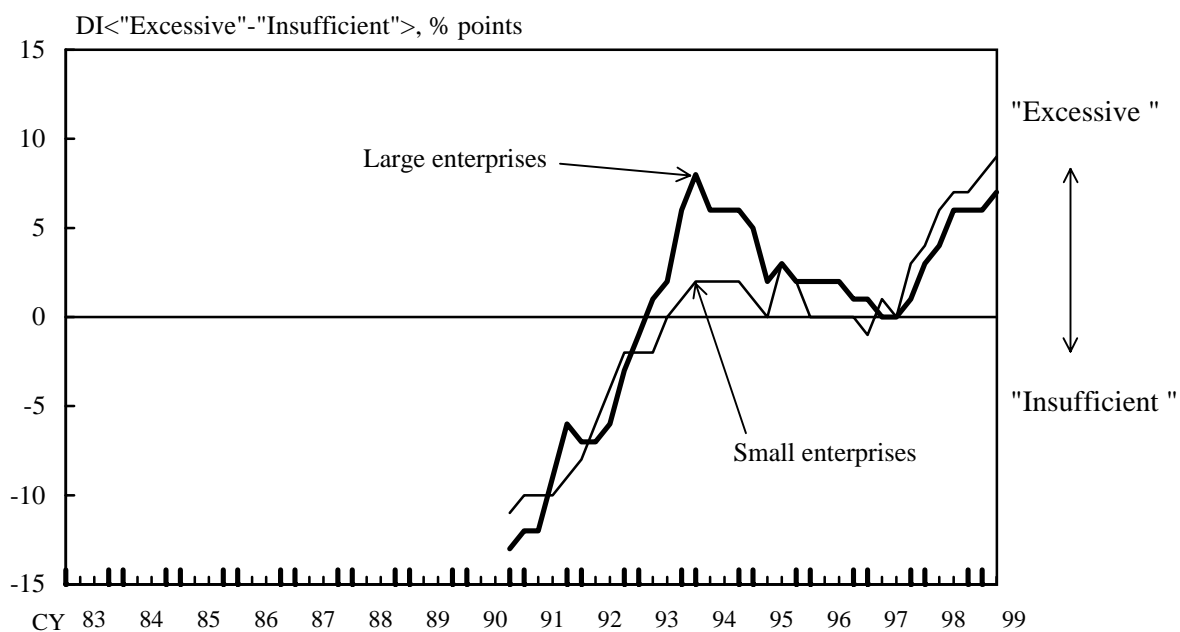
Source: Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises in Japan."

 Production Capacity Indicators in the *Tankan* (June 1999)

(1) Operating Ratio and Production Capacity DI (Manufacturing Industries)



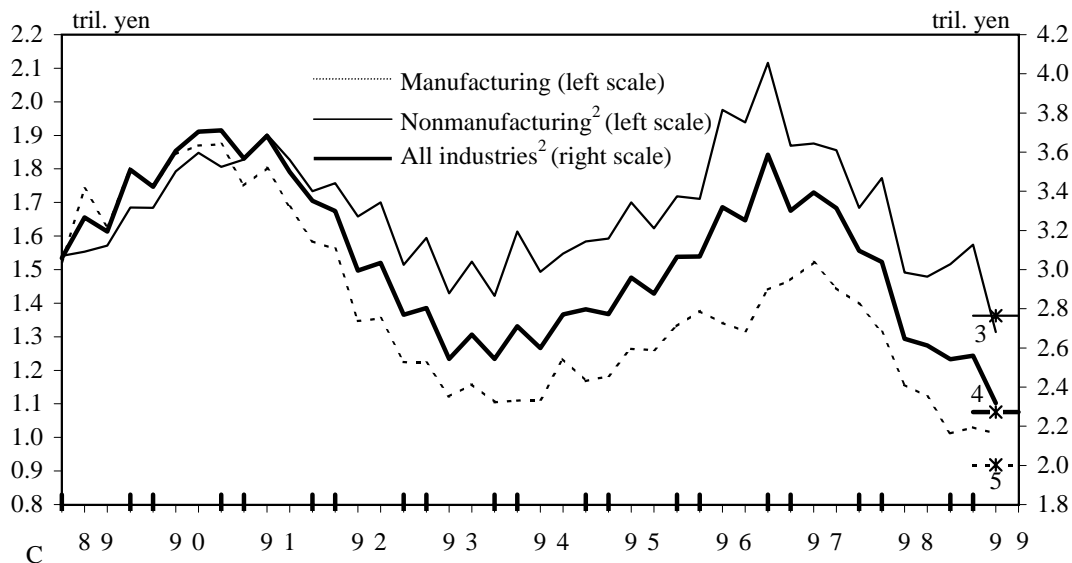
(2) Operating Ratio and Production Capacity DI (Nonmanufacturing Industries)



Note: Figures before December 1998 are based on the pre-revision *Tankan* , and those of March 1999 are based on the post-revision *Tankan* .

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

Major Indexes of Business Fixed Investment

(1) Machinery Orders¹

Notes: 1. Seasonally adjusted data.

Figures for 1999/Q2 are averages of April and May in terms of quarterly amount.

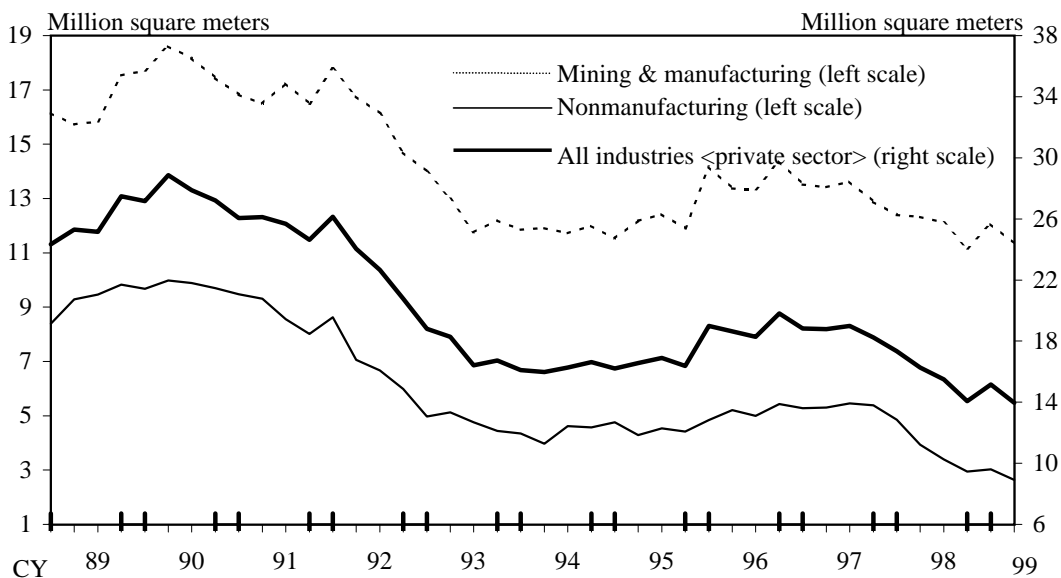
2. Excludes orders from electric power companies and shipbuilding orders.

3. Forecast of nonmanufacturing industries for 1999/Q2.

4. Forecast of all industries for 1999/Q2.

5. Forecast of manufacturing industries for 1999/Q2.

(2) Construction Starts (Nonresidential)



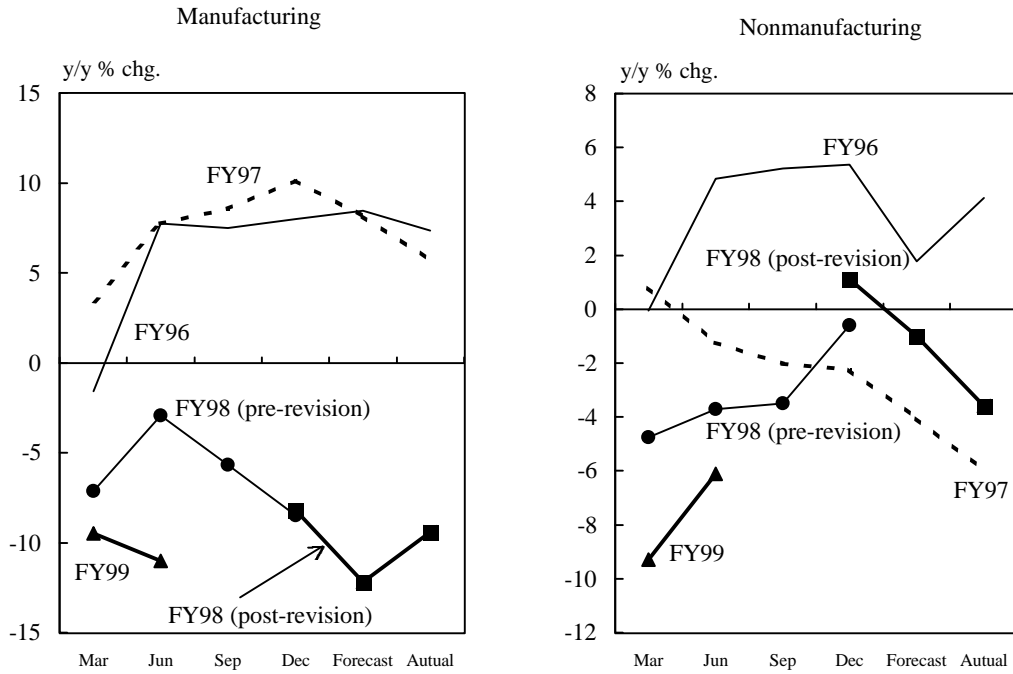
Notes: 1. Seasonally adjusted by X-11.

2. Figures for 1999/Q2 are averages of April and May in terms of quarterly amount.

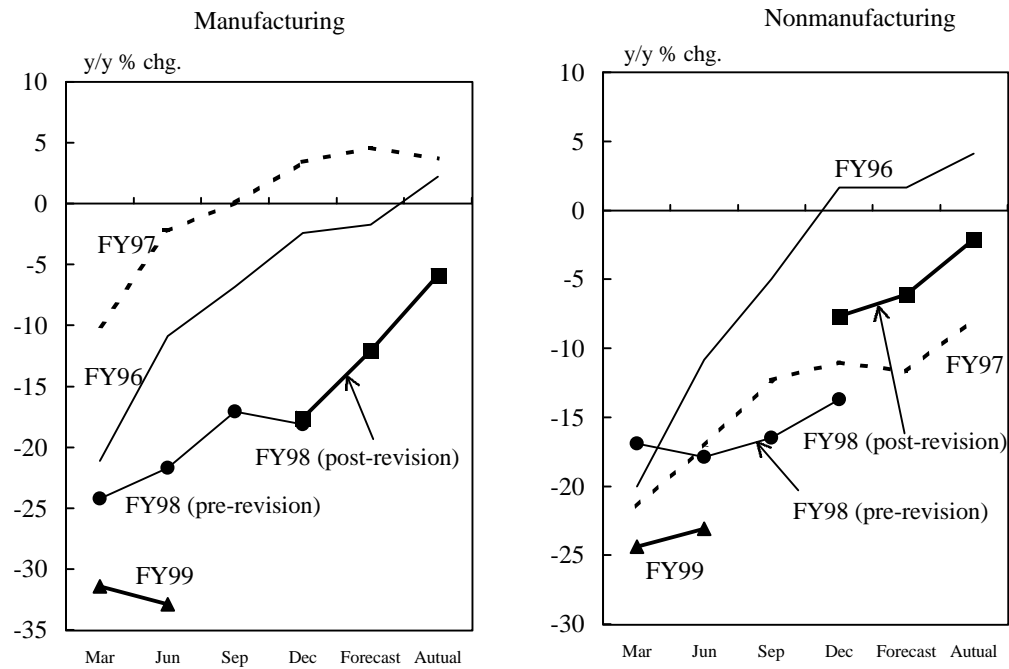
Sources: Economic Planning Agency, "Machinery Orders Statistics";
Ministry of Construction, "Statistics Building Construction Starts."

Business Fixed Investment Plans as Surveyed in the *Tankan* (June 1999)

(1) Adjustment of Plans by Large Enterprises

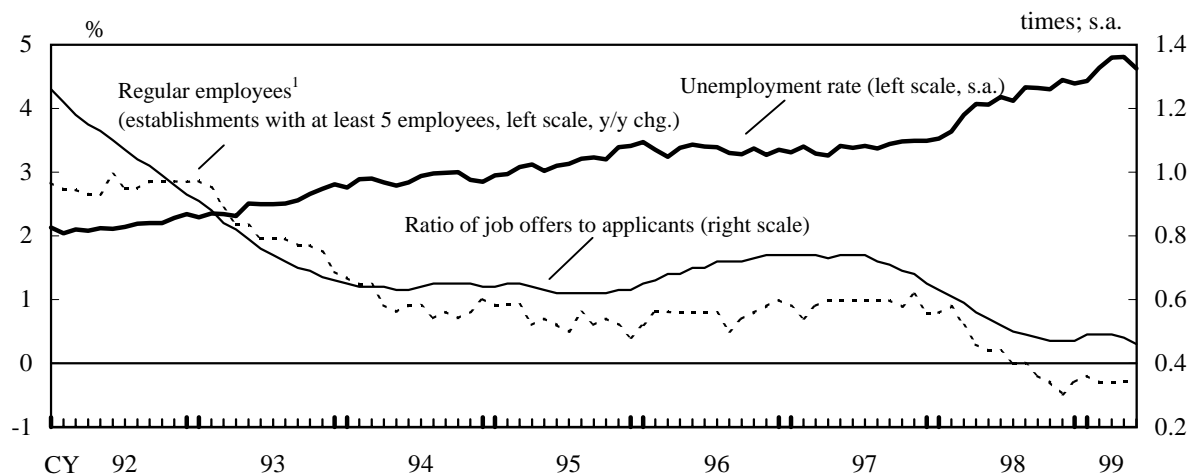


(2) Adjustment of Plans by Small Enterprises

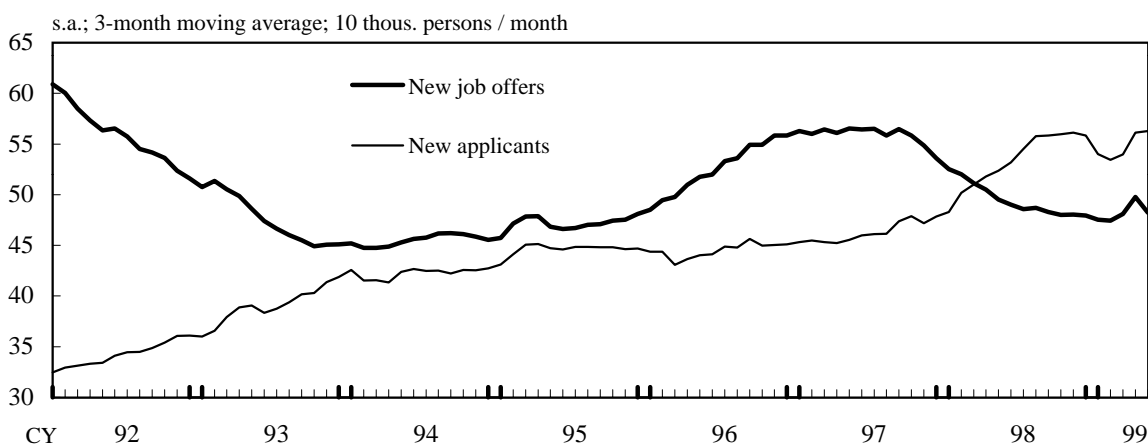


Labor

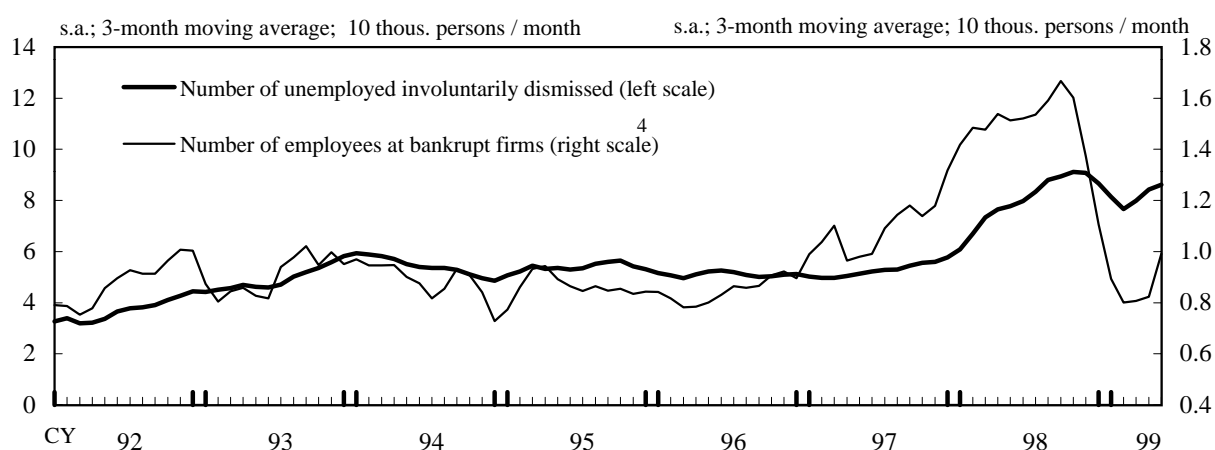
(1) Monthly



(2) New Job Offers and New Applicants²



(3) Number of Unemployed Involuntarily Dismissed and Employees at Bankrupt Firms³



Notes: 1. The data of regular employees for May 1999 are preliminary figures.

The indexes are revised from the Mar. 1999 of the index series retroactively.

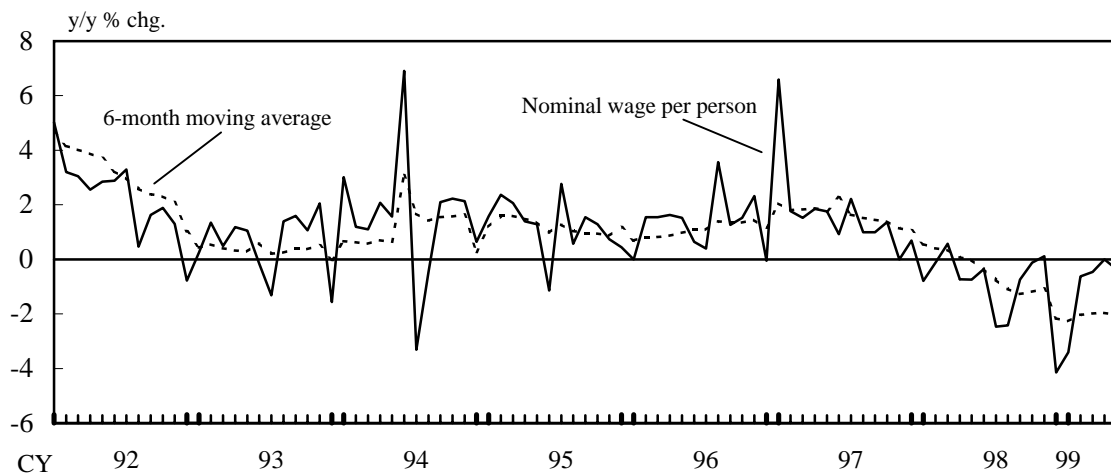
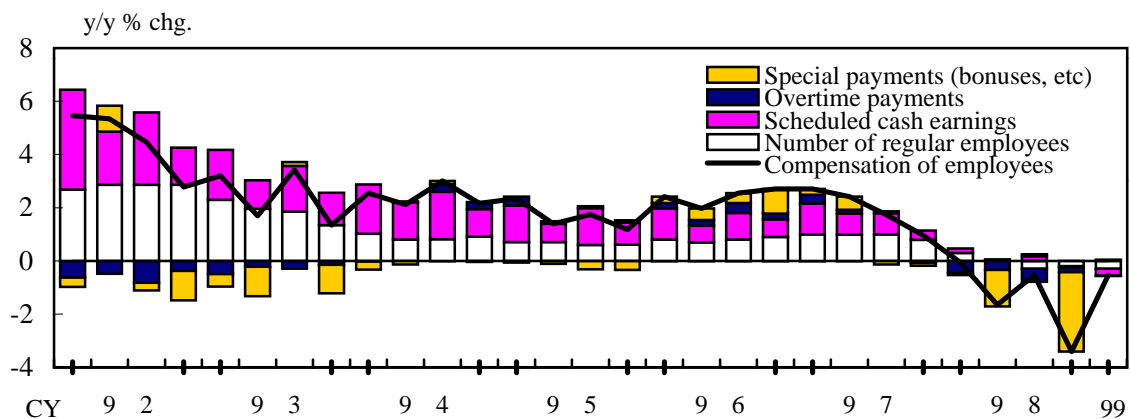
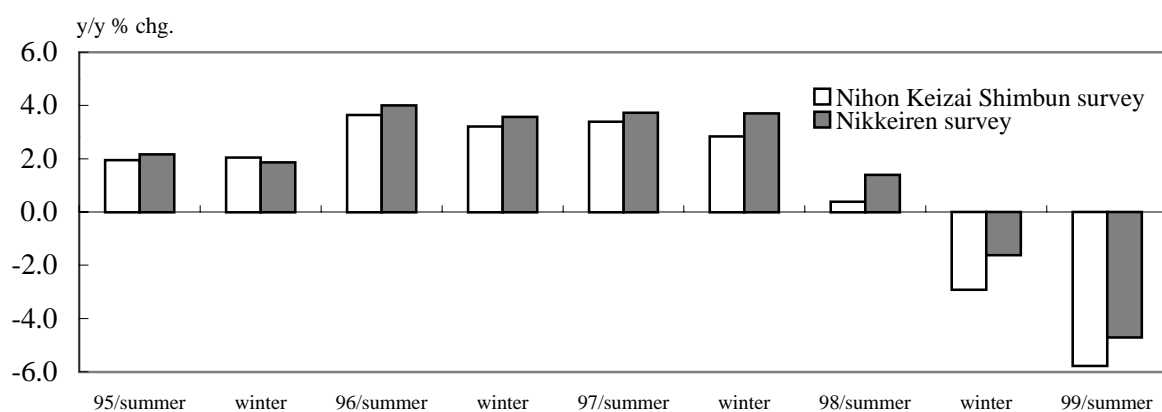
2. Excludes jobs offered to new graduates.

3. Seasonally adjusted by X-11.

4. The data are based on a survey conducted by *Teikoku Databank Ltd.* . Bankruptcies with liabilities of ten million yen or more.

Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service", "Report on Employment Insurance Service"; Management and Coordination Agency, "Labor Force Survey"; *Teikoku Databank Ltd.*, "Japan's Business Failure."

Compensation of Employees

(1) Nominal Wage per Person¹(2) Breakdown of Compensation^{1,2}(3) Bonus Payments³

Notes : 1. Data for establishments with at least 5 employees. The data for May '99 are preliminary figures.

The indexes are revised from the Mar.' 99 of the index series retroactively.

2. Q1= Mar.-May, Q2= Jun.-Aug., Q3=Sep.-Nov., Q4= Dec.-Feb.

3. Nikkeiren survey: survey coverage; 314 large enterprises(Responses : 253<as of 7/7>).

Nihon Keizai Shimbun survey : survey coverage; 3648 listed, OTC registered and major unlisted firms
(Responses:1164<7/1 final aggregation>).

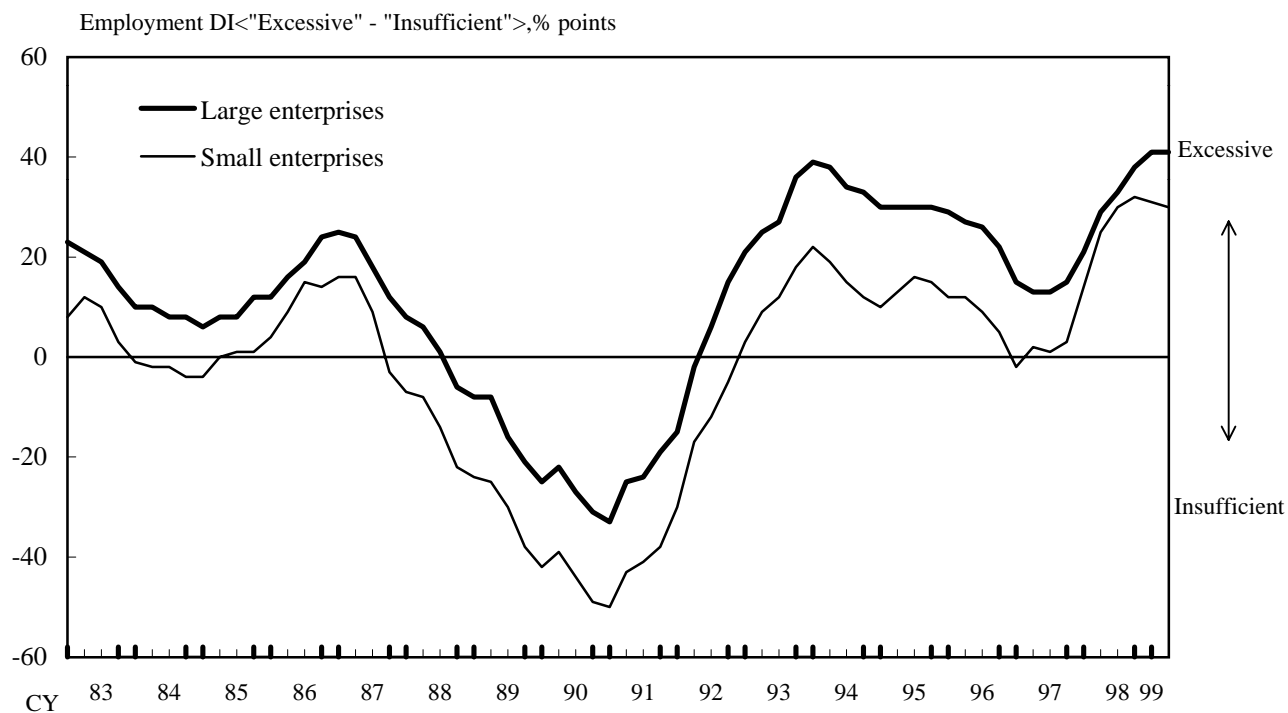
Sources: Ministry of Labor, "Monthly Labor Survey";

Japan Federation of Employers' Associations (Nikkeiren), "Labor News";

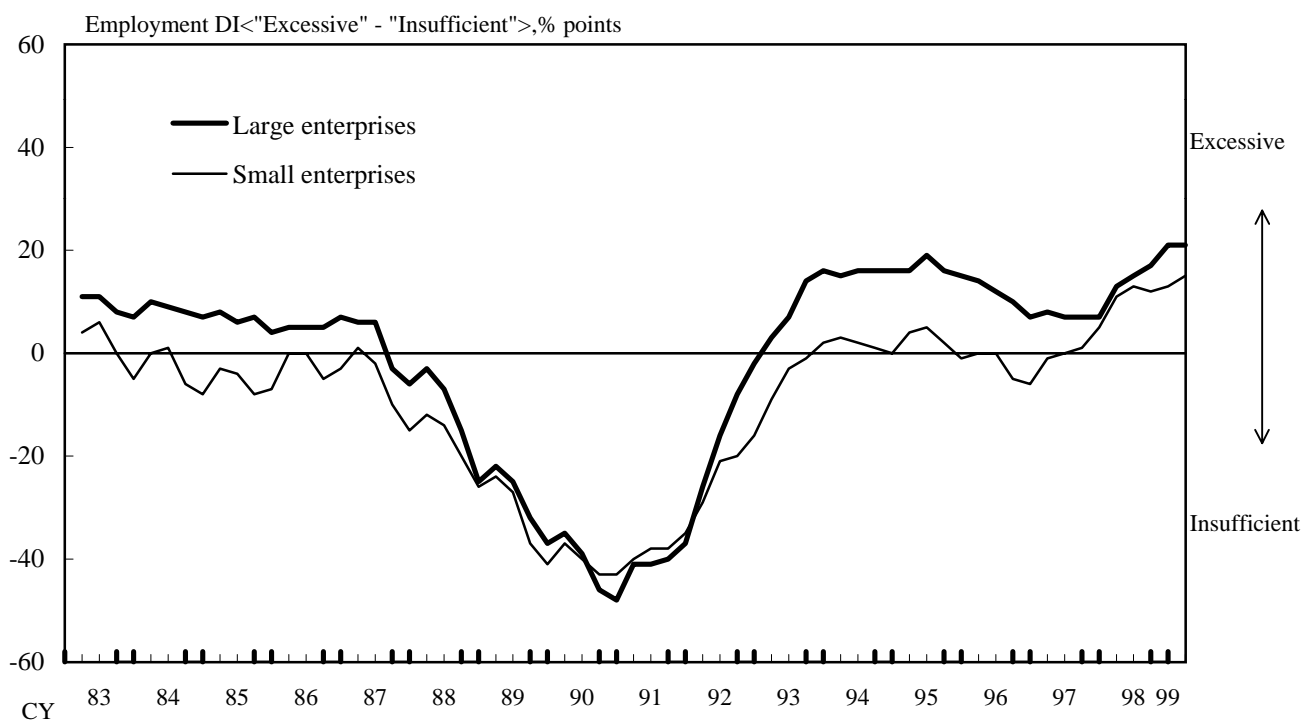
The Nihon Keizai Shimbun.

Employment Conditions in the *Tankan* (June 1999)

(1) Manufacturing



(2) Nonmanufacturing

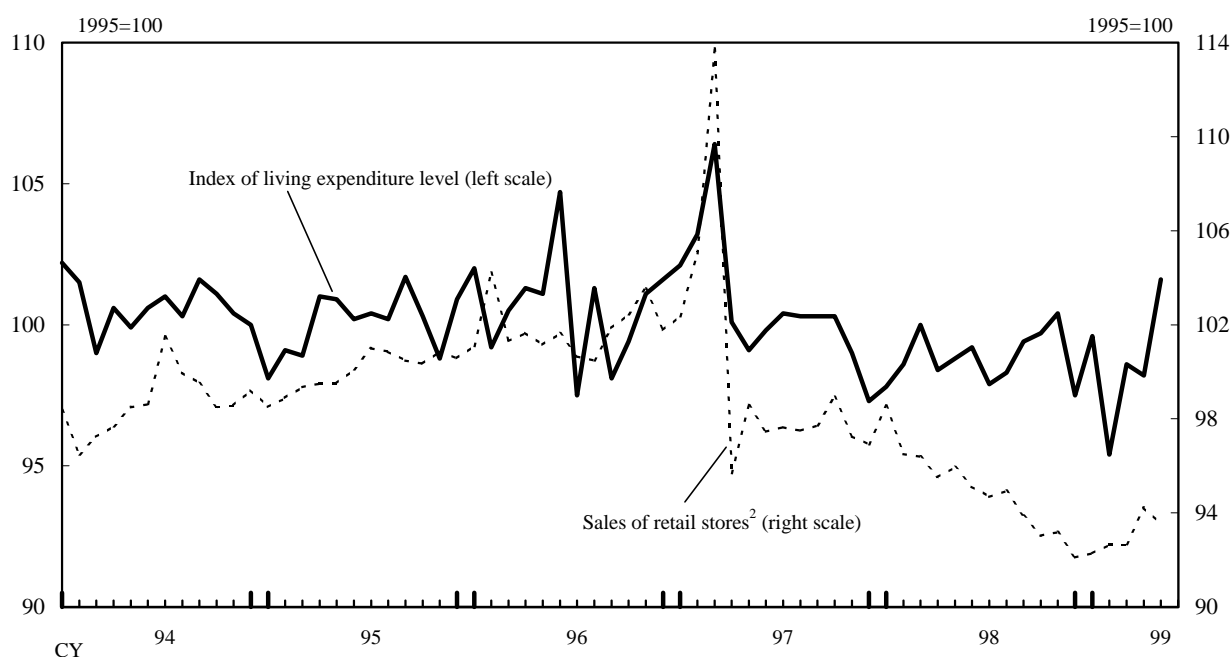


Note: Figures before December '98 are based on the pre-revision *Tankan* , and those after March '99 are based on the post-revision *Tankan* .

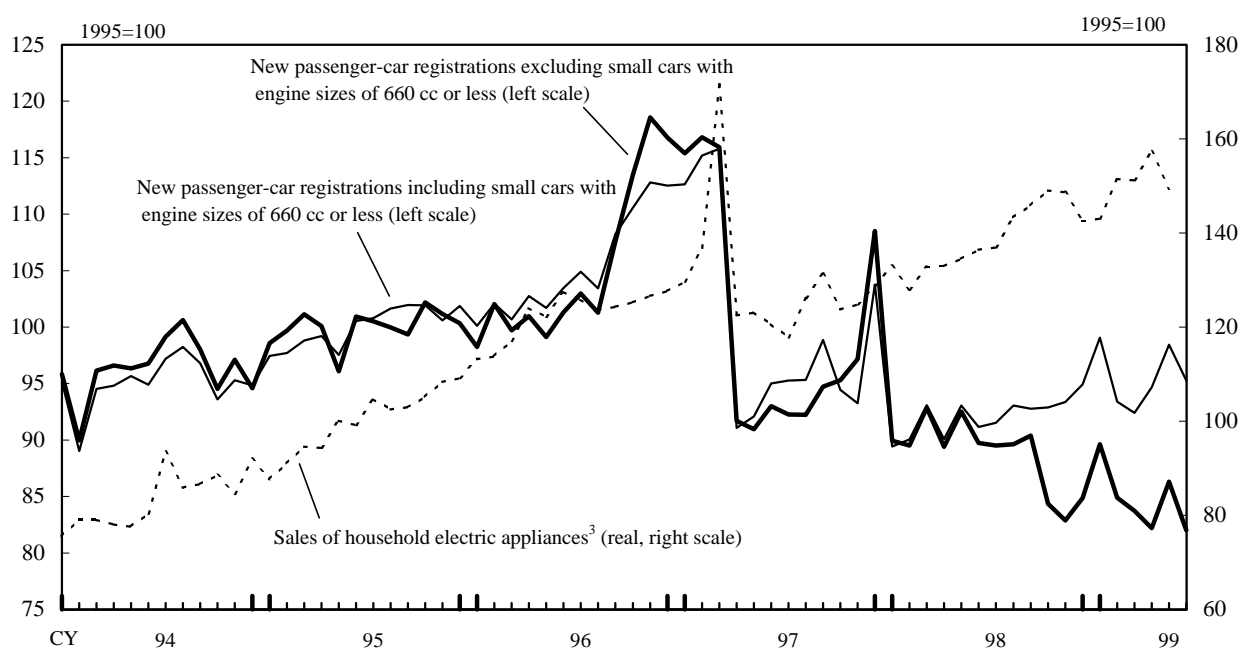
Source: Bank of Japan, "*Tankan* Short-Term Economic Survey of Enterprises in Japan."

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 are deflated by the Consumer Price Index for commodities.

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

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

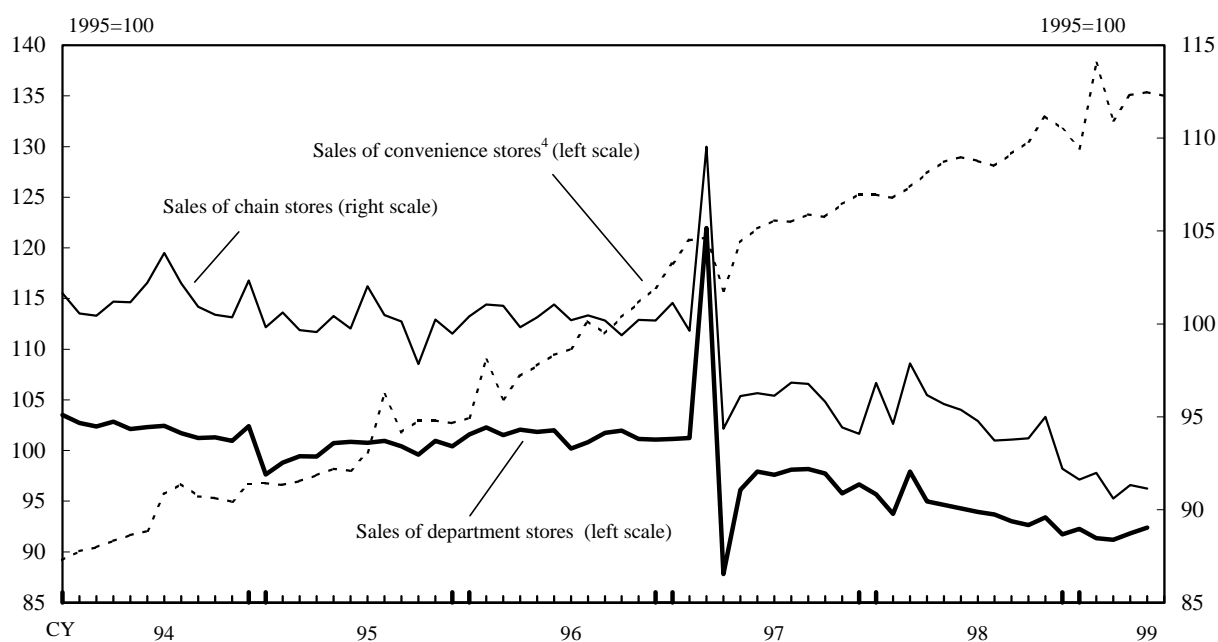
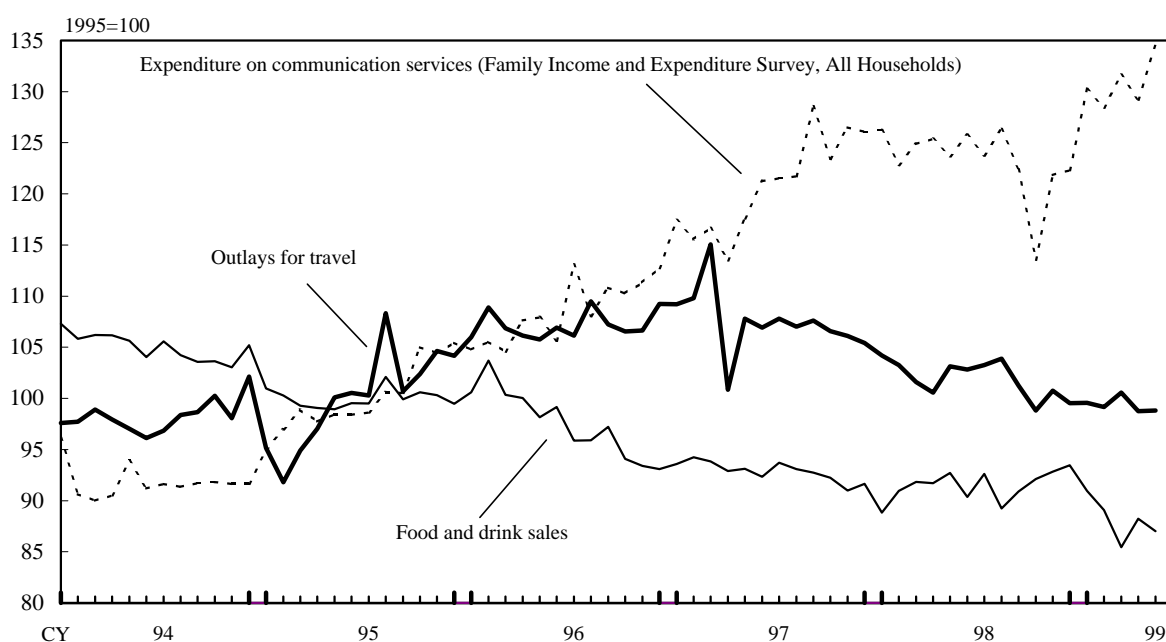
Ministry of International Trade and Industry, "Current Survey of Commerce";

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

Japan Mini Vehicles Association, "Sales of Mini Vehicles";

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.

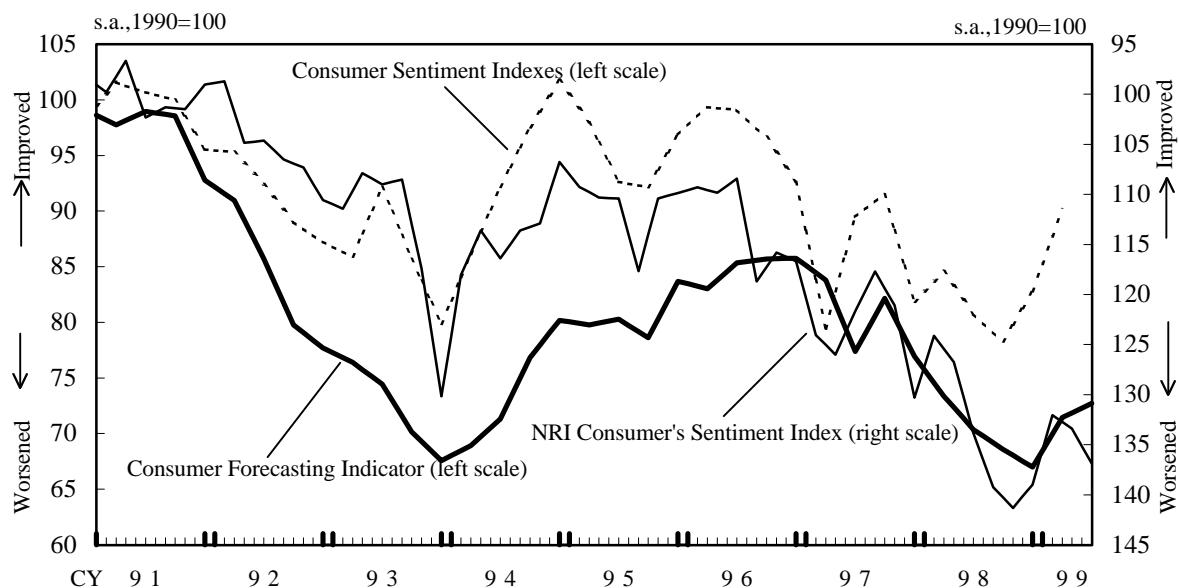
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

4. Sales of convenience stores are surveyed by the Bank of Japan.

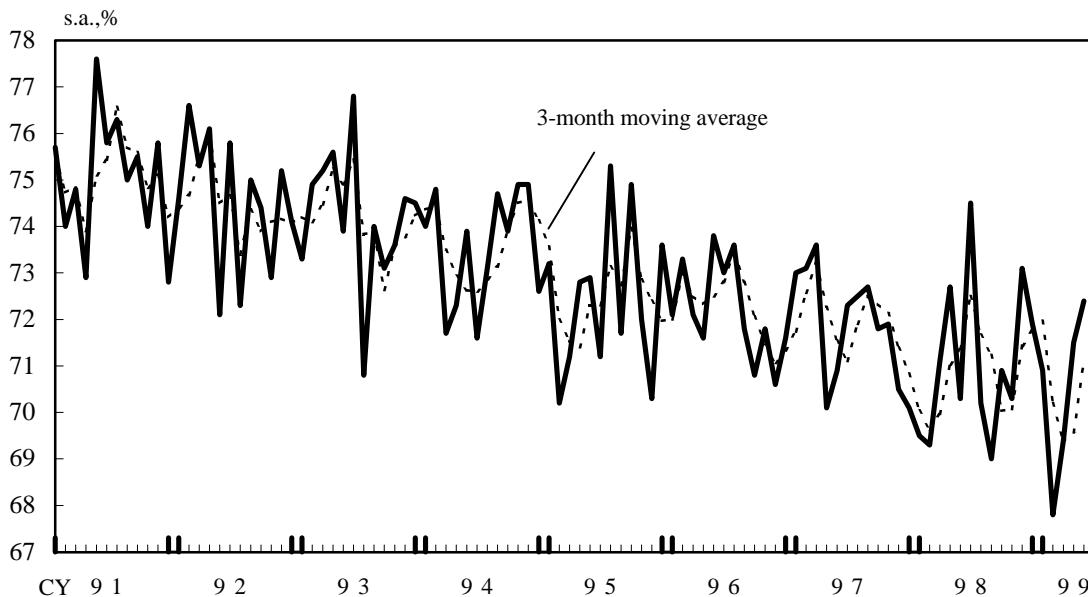
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
Ministry of International Trade and Industry, "Current Survey of Commerce";
Japan Chain Stores Association, "Sales of Chain Stores";
Ministry of Transport, "Major Travel Agents' Revenue";
Foodservice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

Consumer Confidence and Propensity to Consume

(1) Surveys on consumer confidence



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



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";

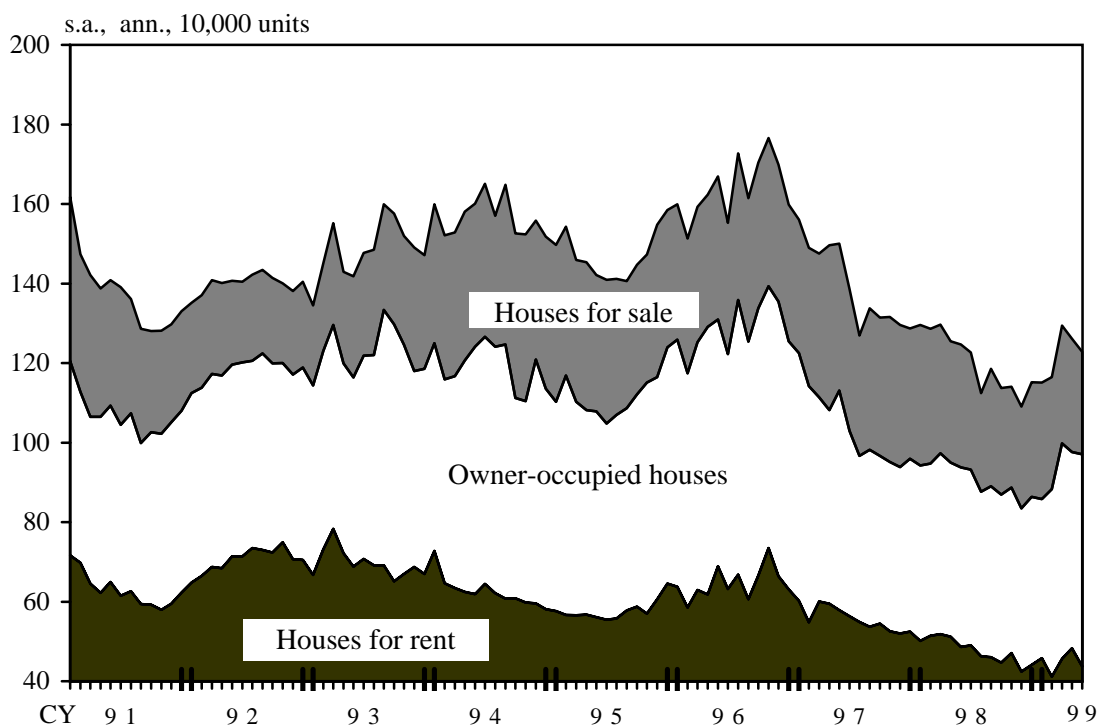
Management and Coordination Agency, "Monthly Report on the Family Income and

Expenditure Survey";

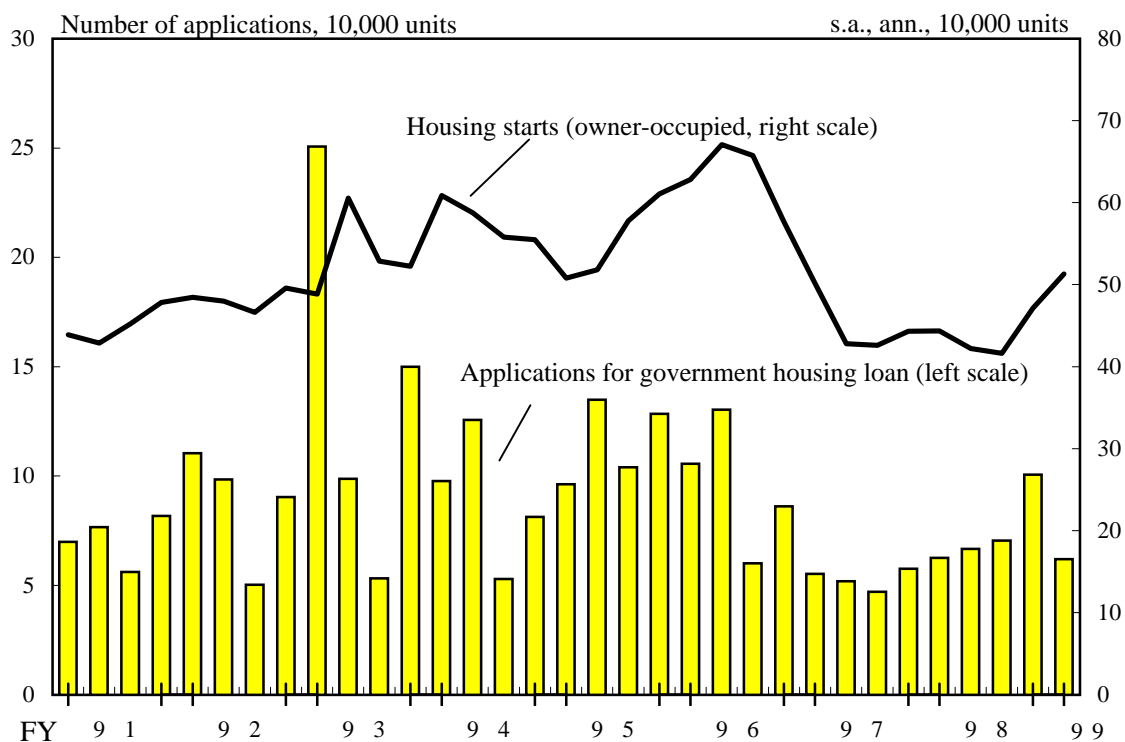
Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

Major Indexes of Housing Investment

(1) Housing starts

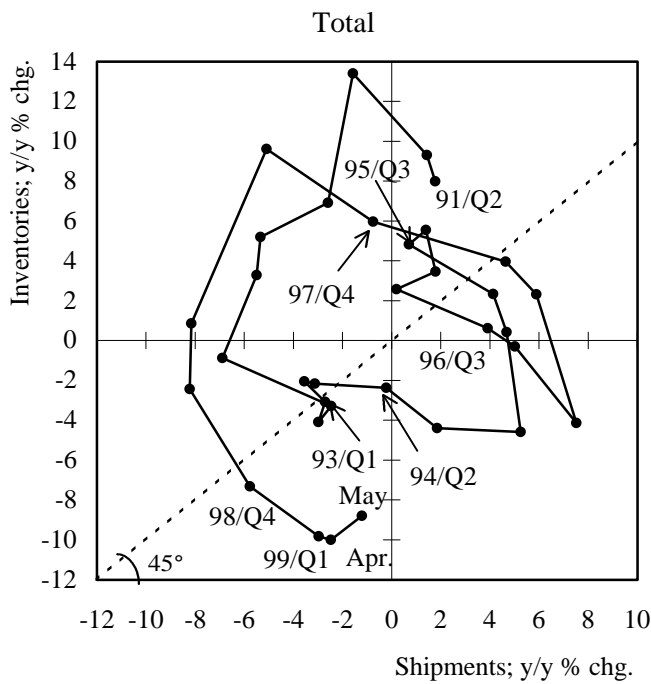


(2) Number of applications for government housing loan (for new owner-occupied homes)

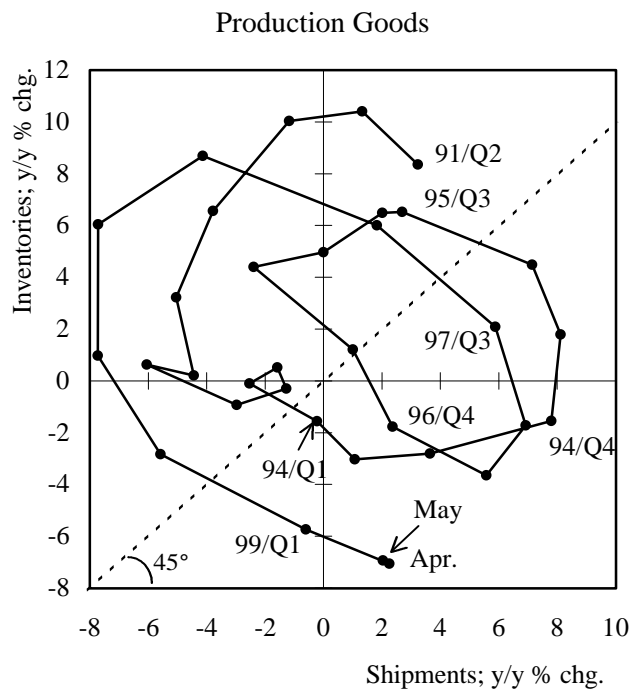
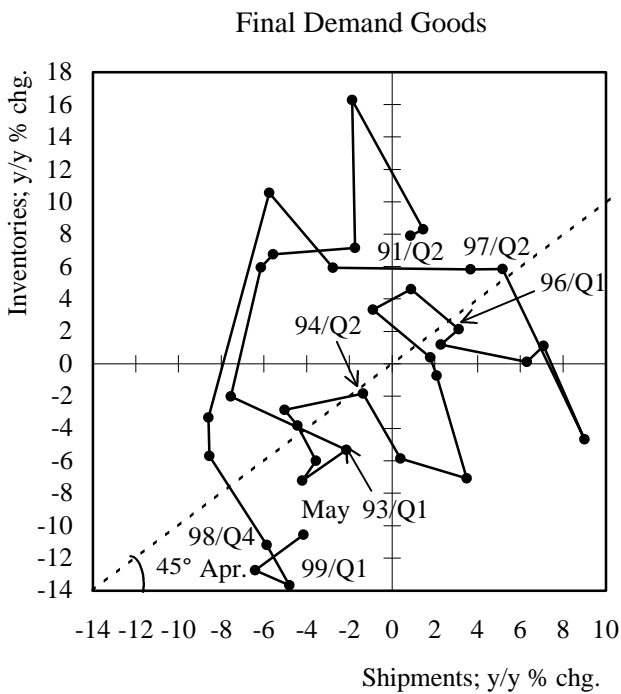
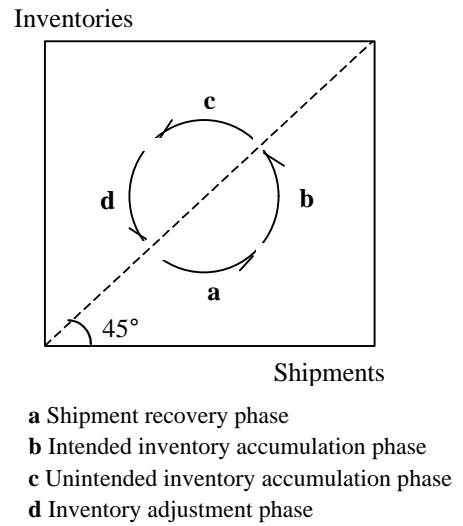


Note : The data for 99/Q1 are April - May averages converted into an annual equivalent.
 Source: Ministry of Construction, "Monthly of Construction Statistics", etc.

Inventory Cycle



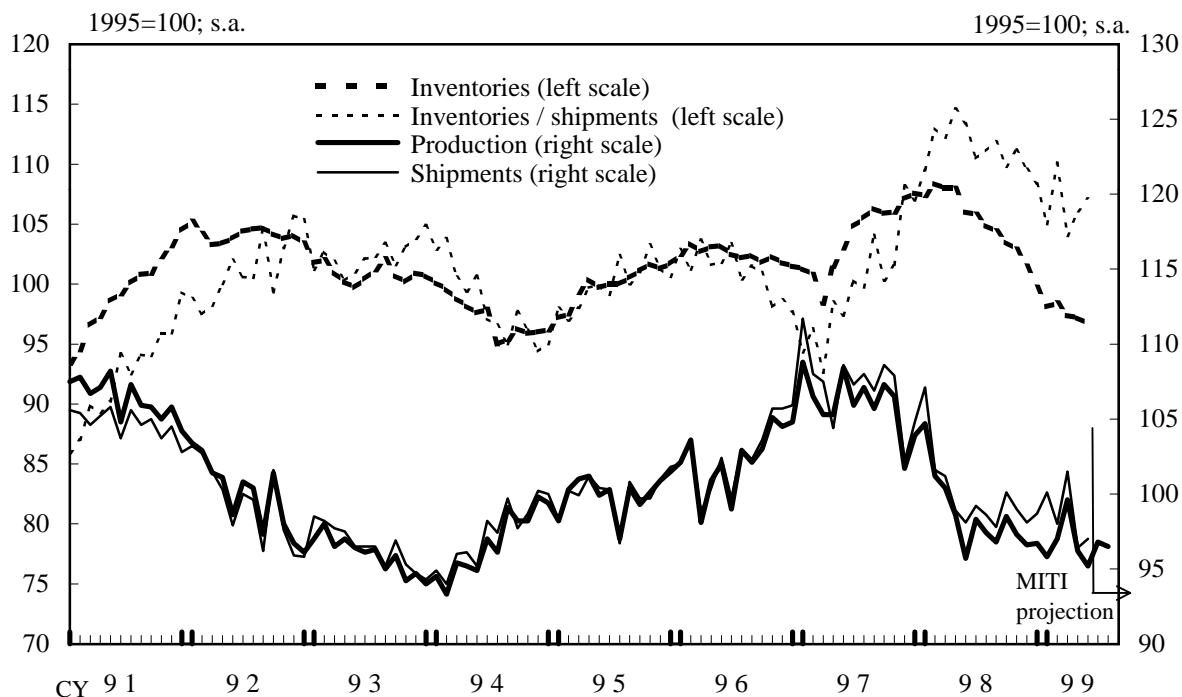
Phases in the Inventory Cycle



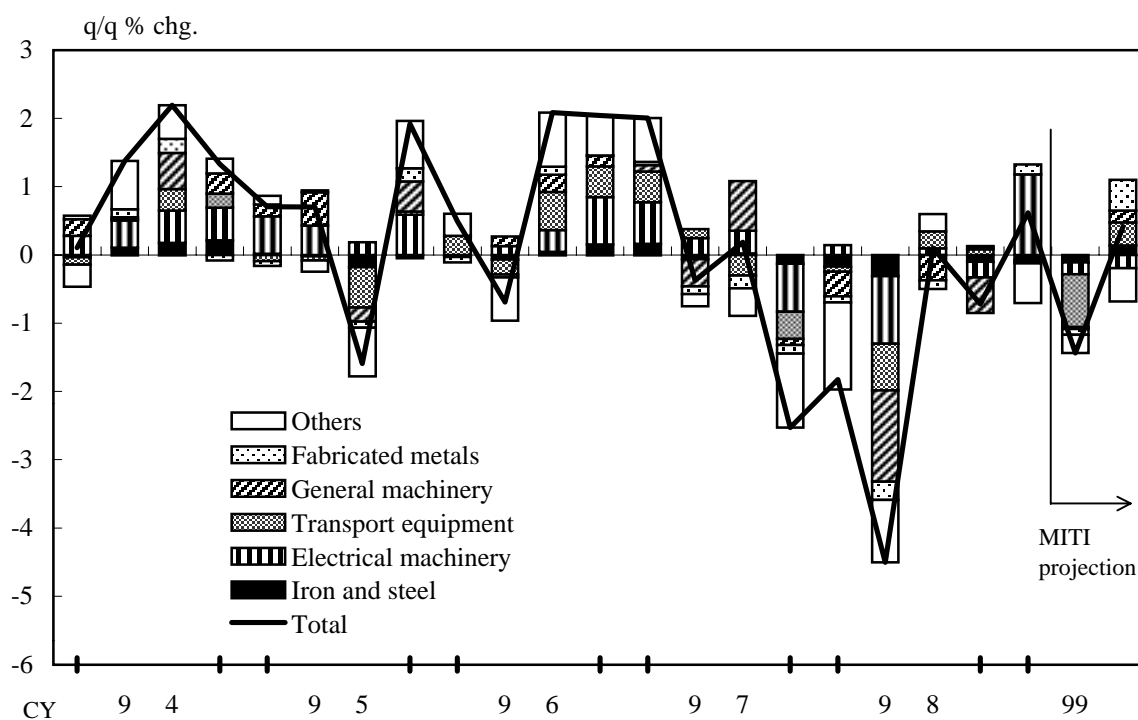
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries

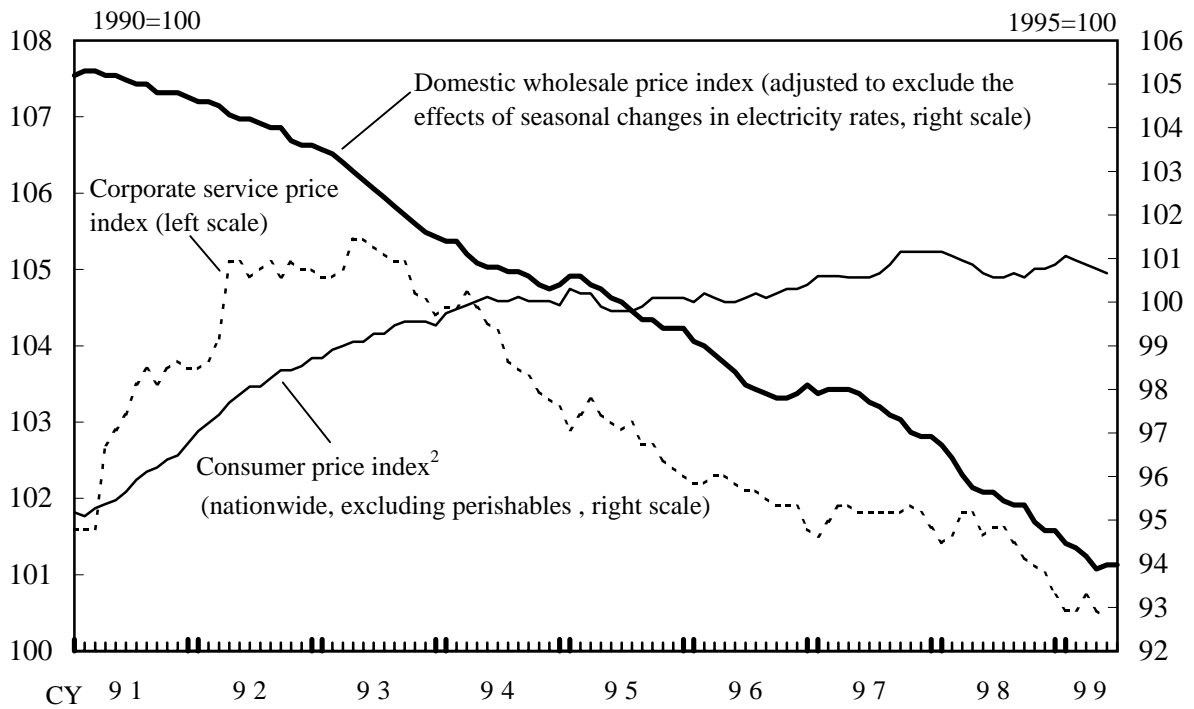


Note: Transport equipment excludes ships and rolling stock.

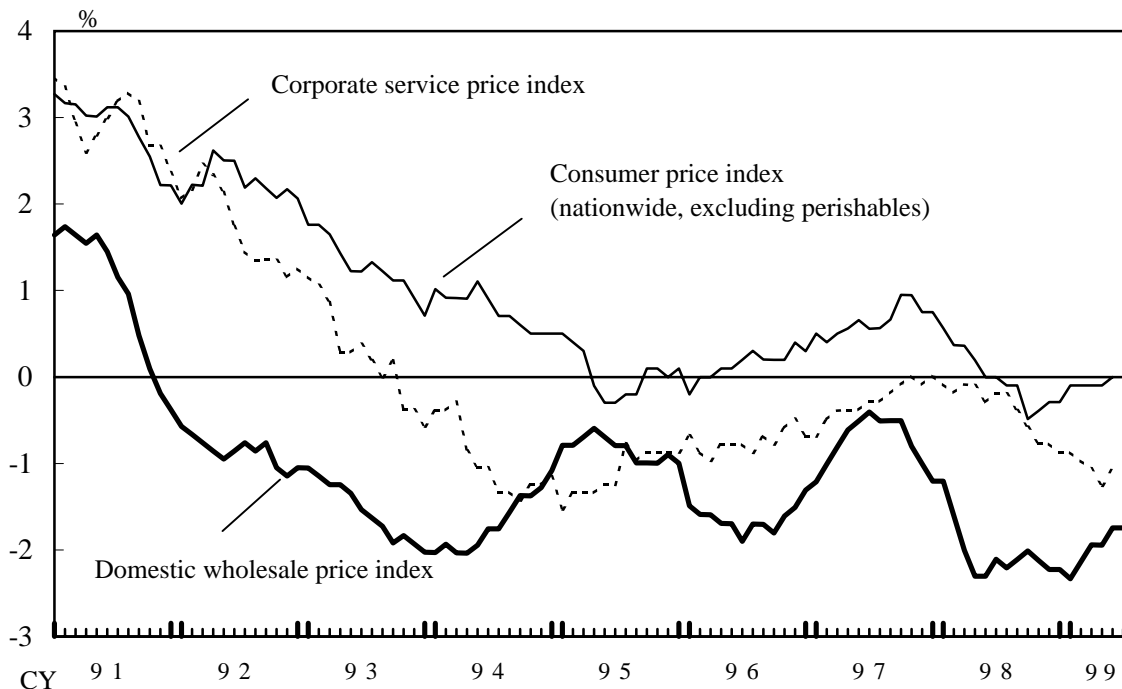
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Prices¹

(1) Level



(2) Changes from a year earlier



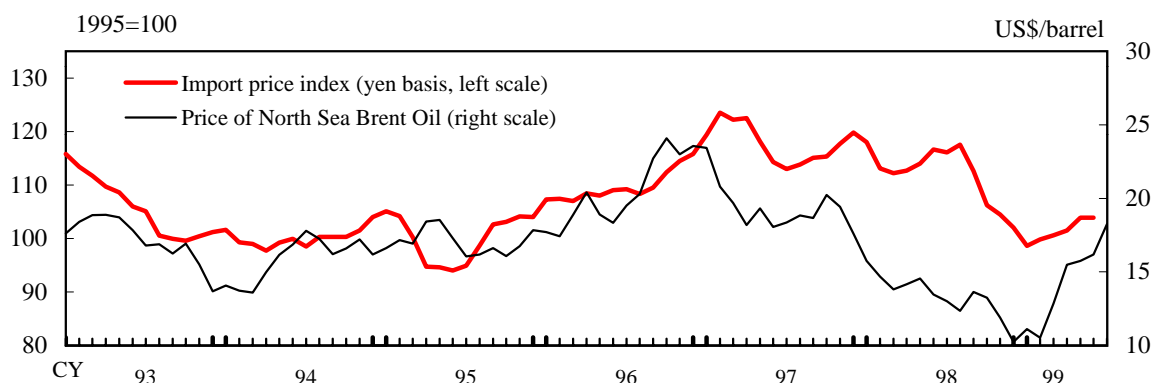
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of the tax rate.

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.

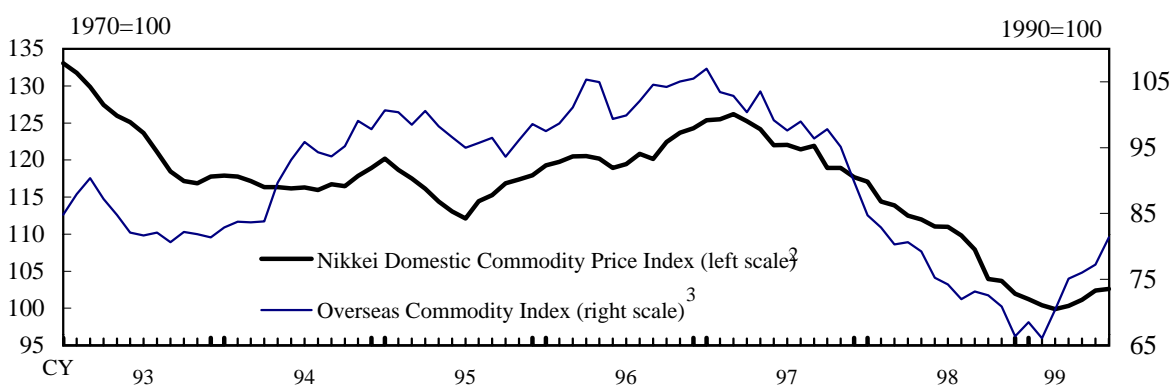
Sources: Management and Coordination Agency, "Consumer Price Index"; Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

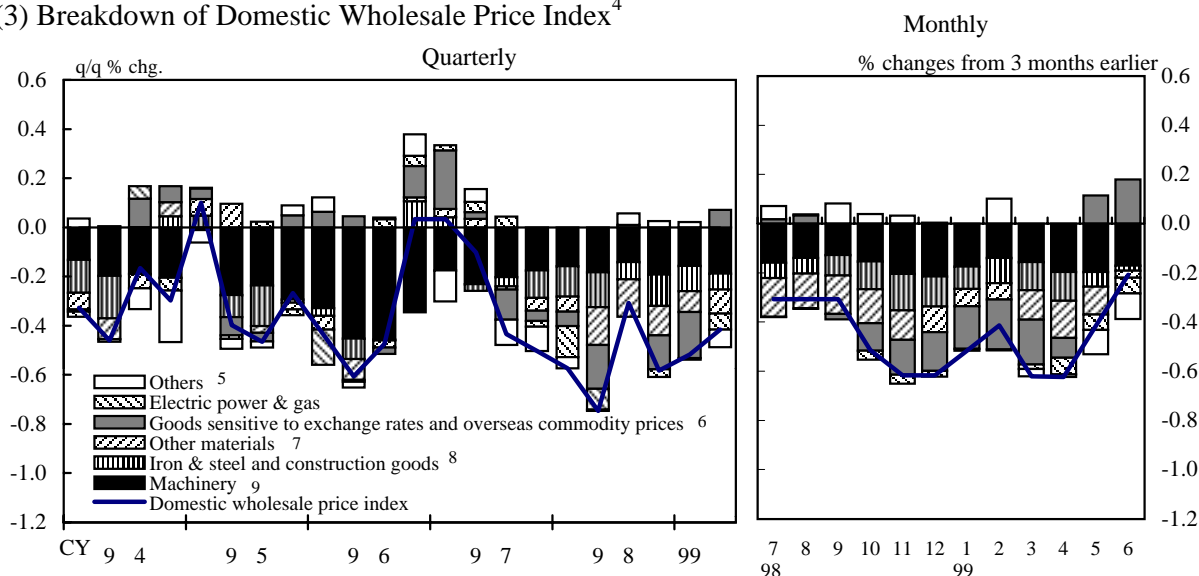
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



(3) Breakdown of Domestic Wholesale Price Index⁴



Notes: 1. Data for July 1999 are July 1-14 average.

2. Data for July 1999 are as of July 9.

3. Calculated by the Research and Statistics Department, Bank of Japan. Data for July 1999 are July 1-14 average.

4. Adjusted to exclude the effects of seasonal changes in 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.

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

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

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

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

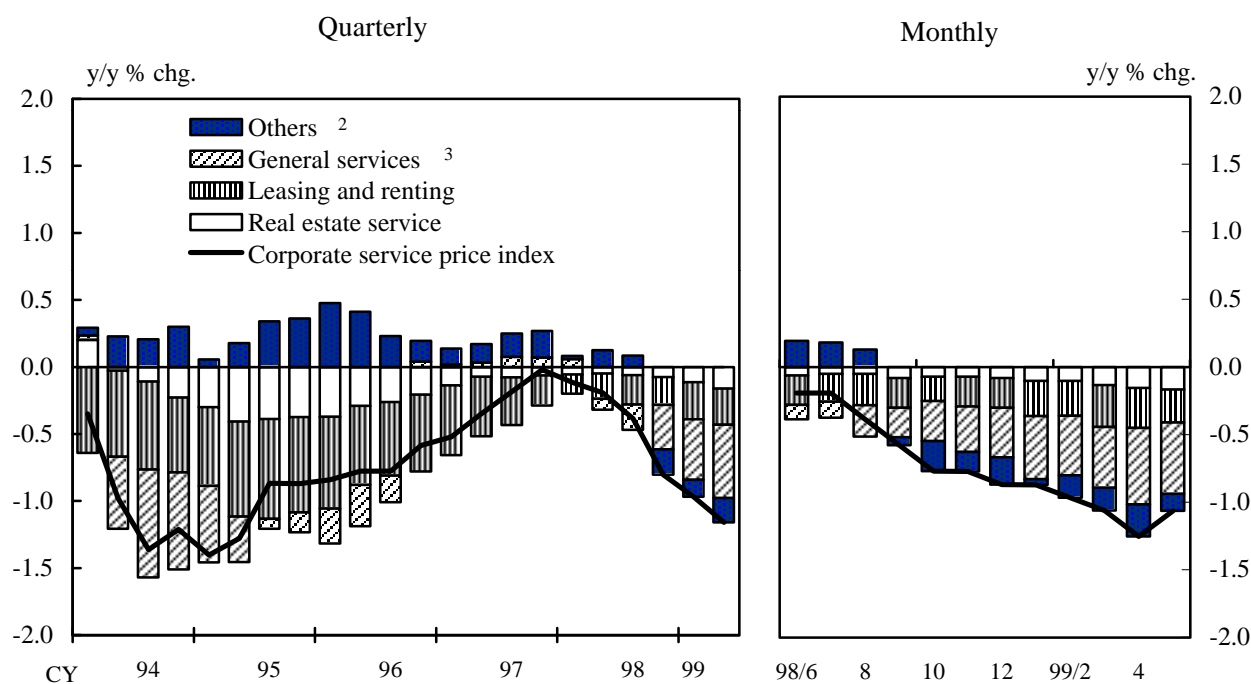
9. Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.

Sources: Bank of Japan, "Wholesale Price Indexes", "Financial and Economic Statistics Monthly", "Nippon Ginko Chousa

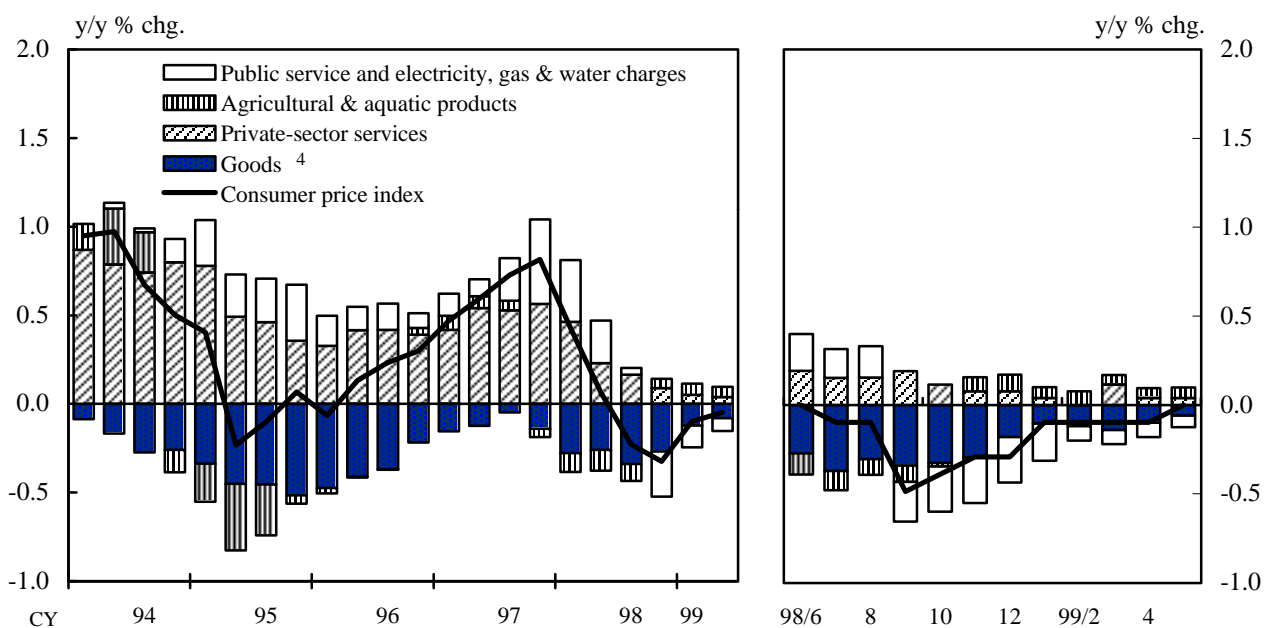
Geppo (Bank of Japan Monthly Bulletin)"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

Corporate Service Prices and Consumer Prices¹

(1) Breakdown of Corporate Service Price Index



(2) Breakdown of Consumer Price Index (excluding perishables)



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 of 99/Q2 are those of the Apr.-May average.

2. Others = automobile insurance (compulsory) + railroad fares + bus fares + taxi fares + domestic air fares + tolls + postal services + sewerage disposal + ocean freight + international air freight + international air fares.

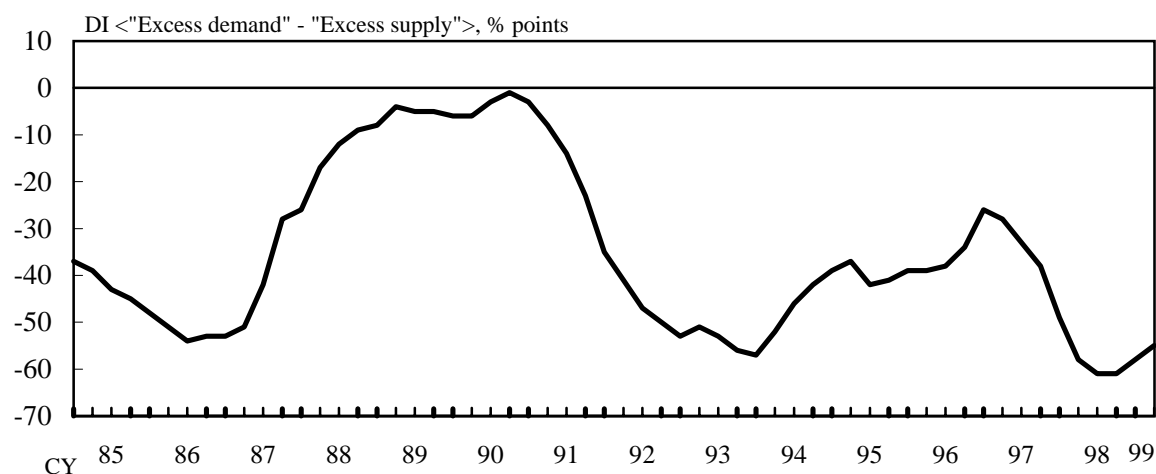
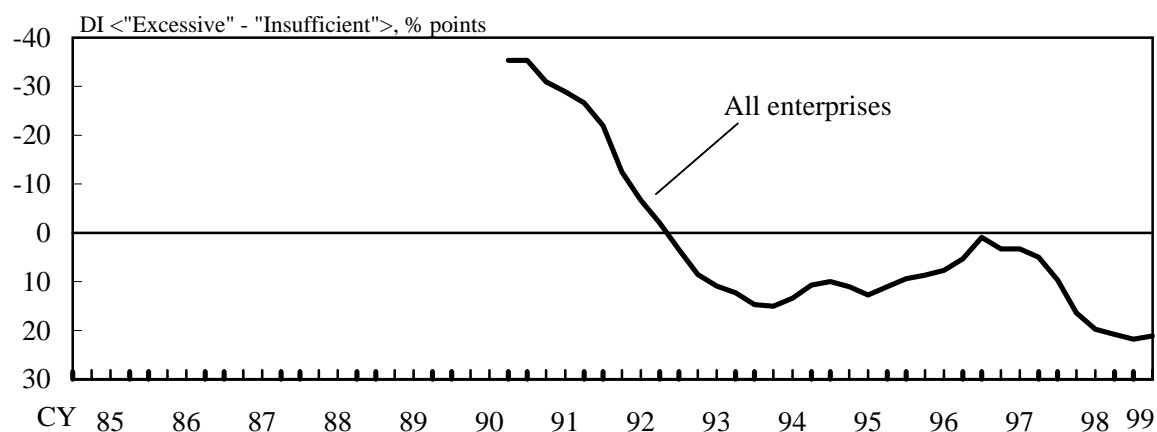
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance, etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

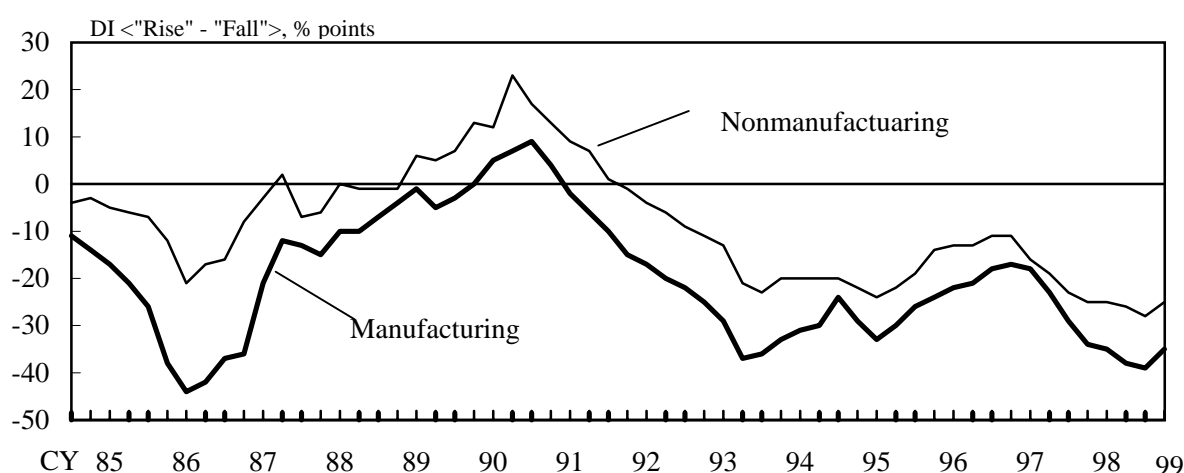
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Factors Contributing to the Change in Prices¹

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

(2) Utilization of Capital and Labor²

(3) Change in Output Prices (All Enterprises)



Notes:1. Figures before December 1998 are based on the pre-revision *Tankan*, and those of March 1999 are based on the post-revision *Tankan*.

2. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1975-97 average.

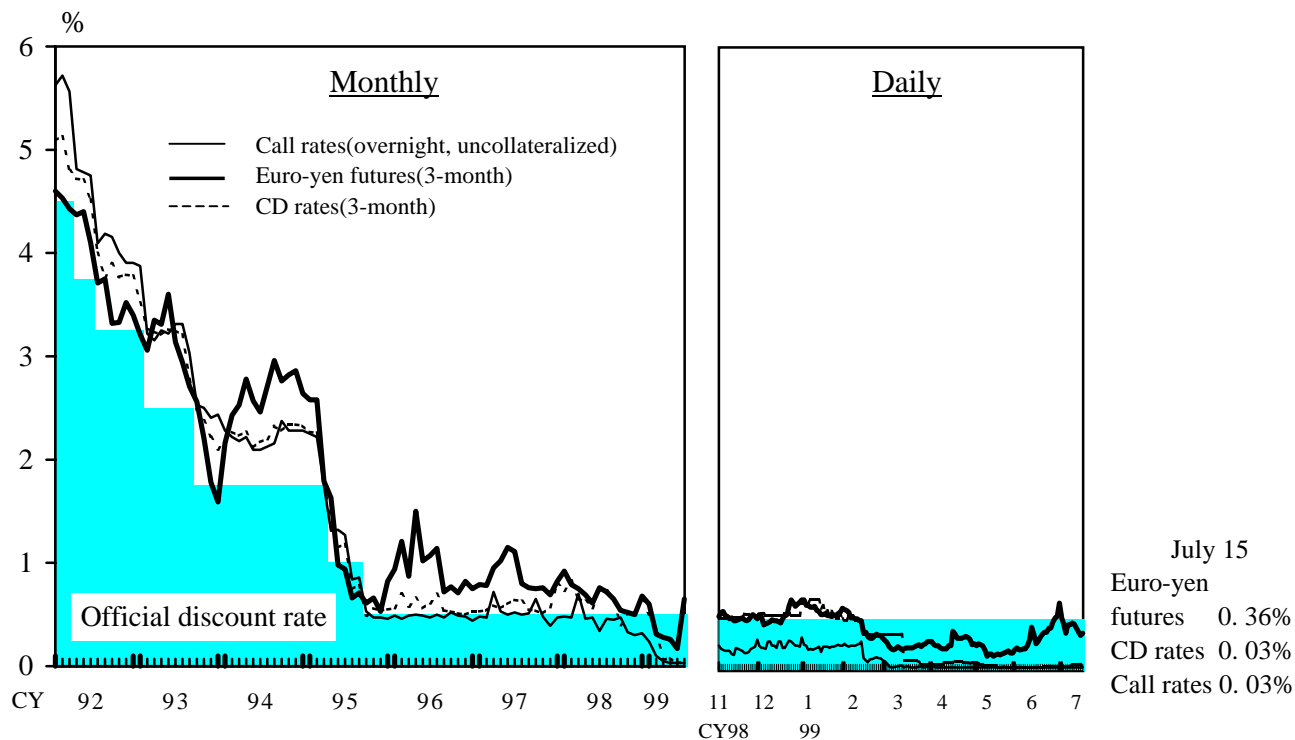
Production Capacity DI and Employment DI are calculated as "Excessive" minus "Insufficient".

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

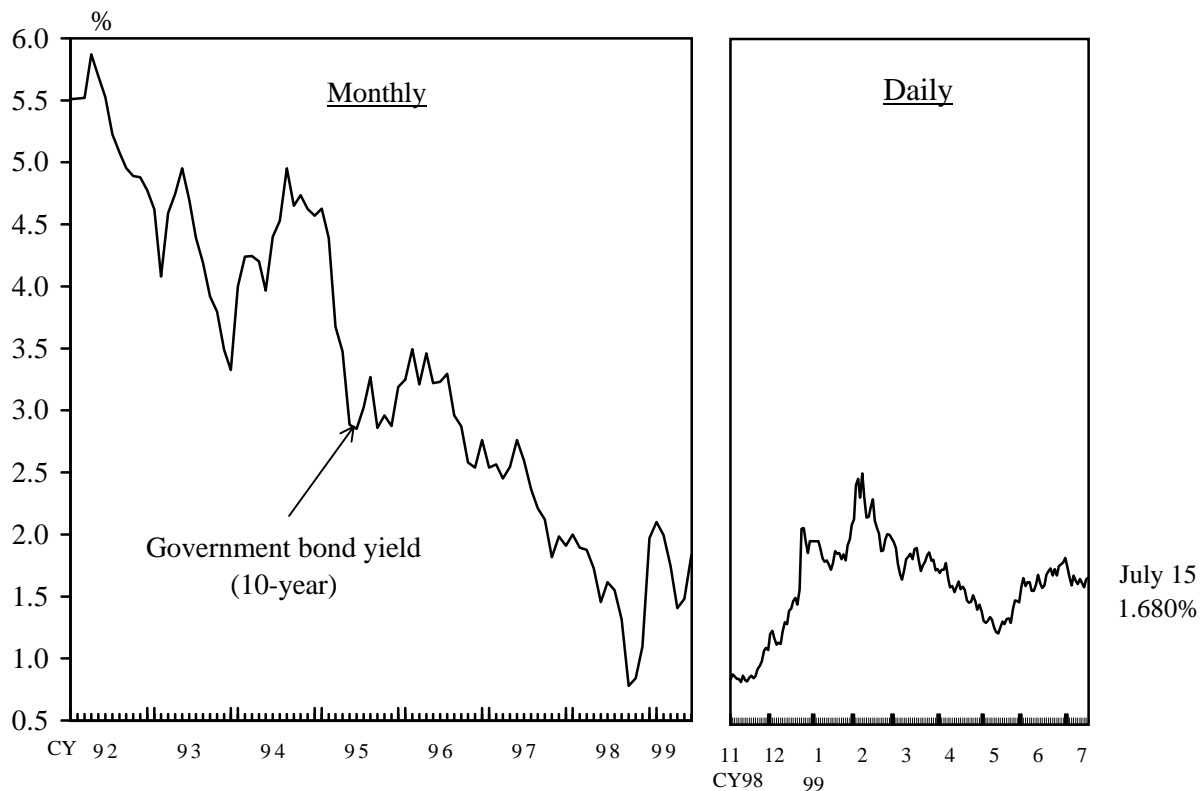
Bank of Japan, "*Tankan* Short-Term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



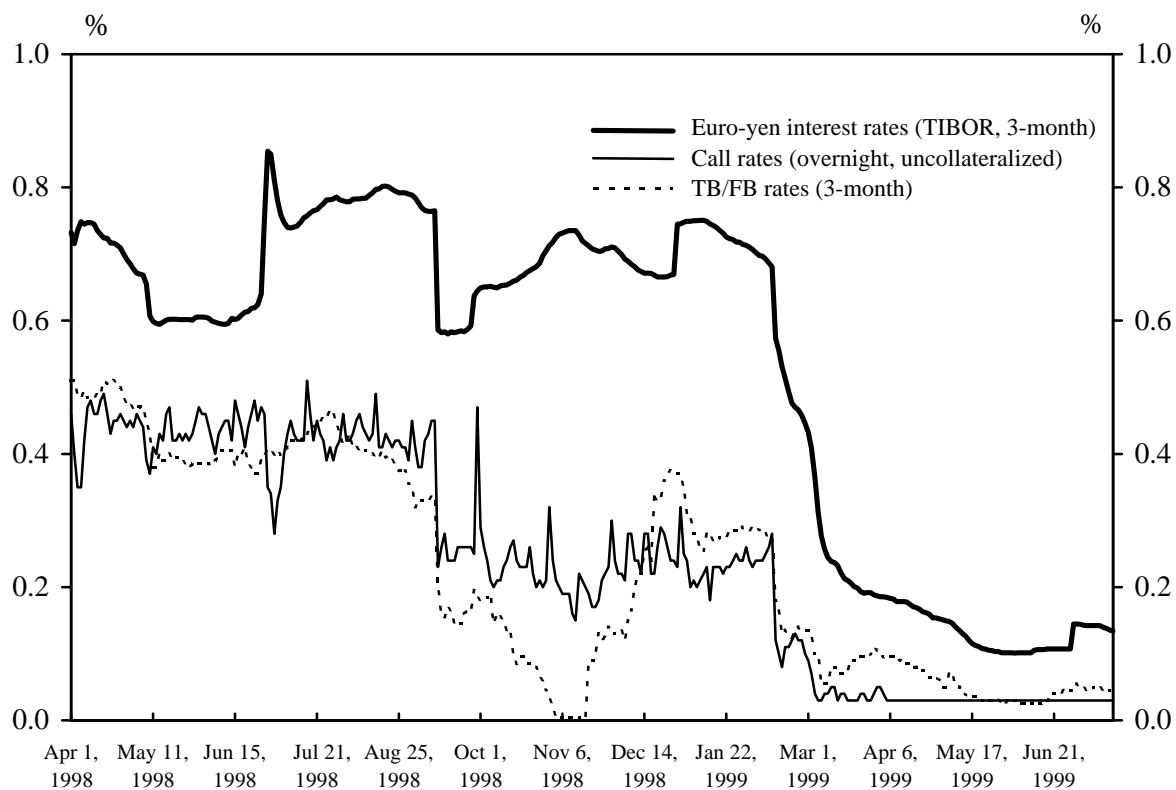
(2) Long-Term



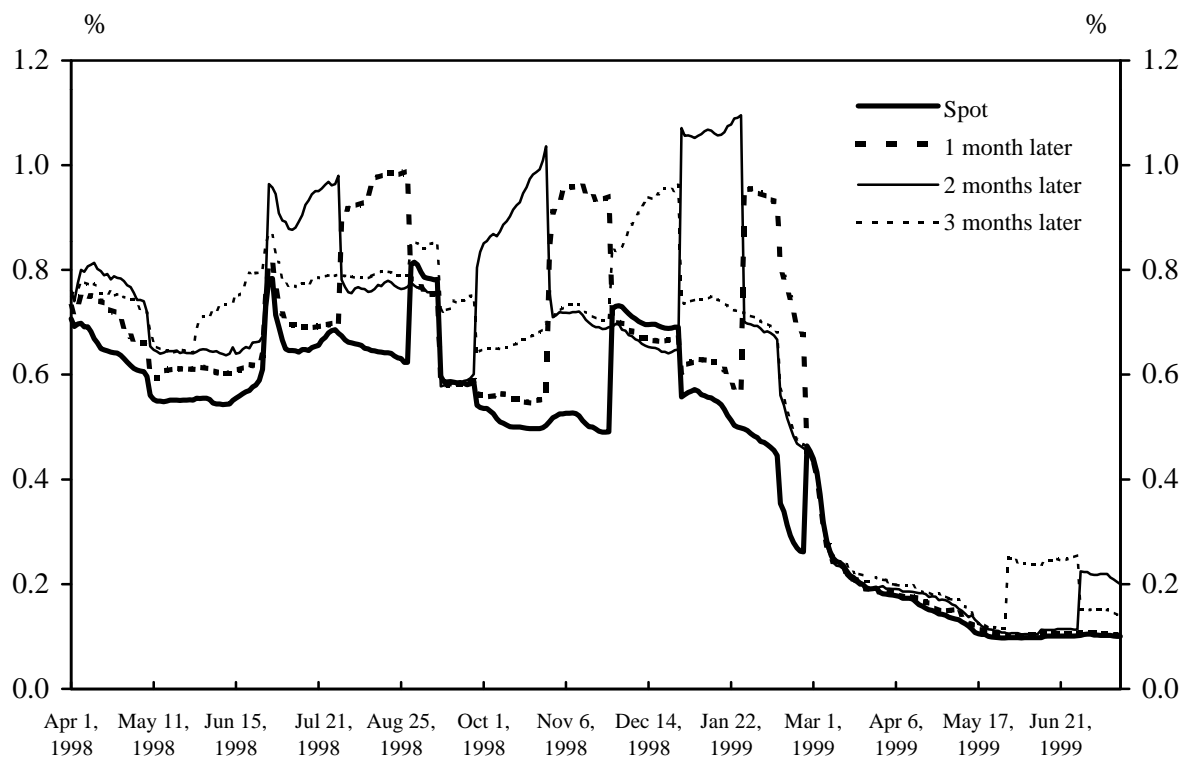
Sources: Bank of Japan; Tokyo International Financial Futures Exchange; Japan Bond Trading Co., Ltd.

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

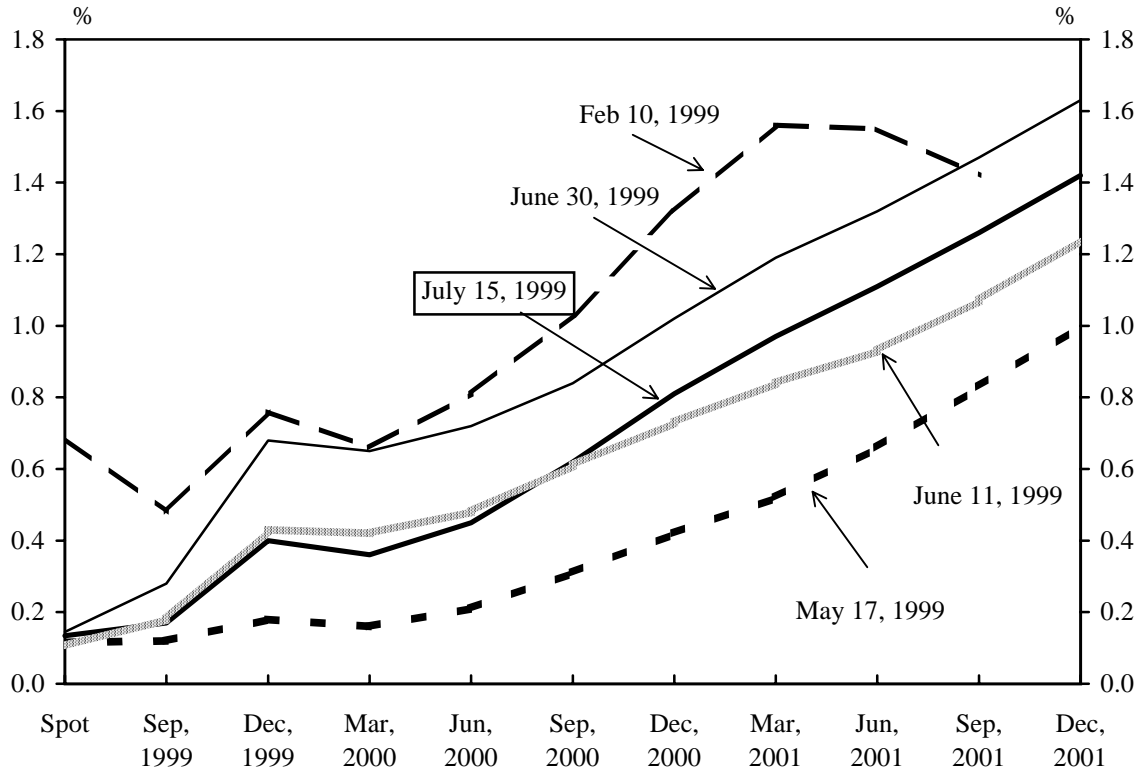


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-Yen Interest Rates)

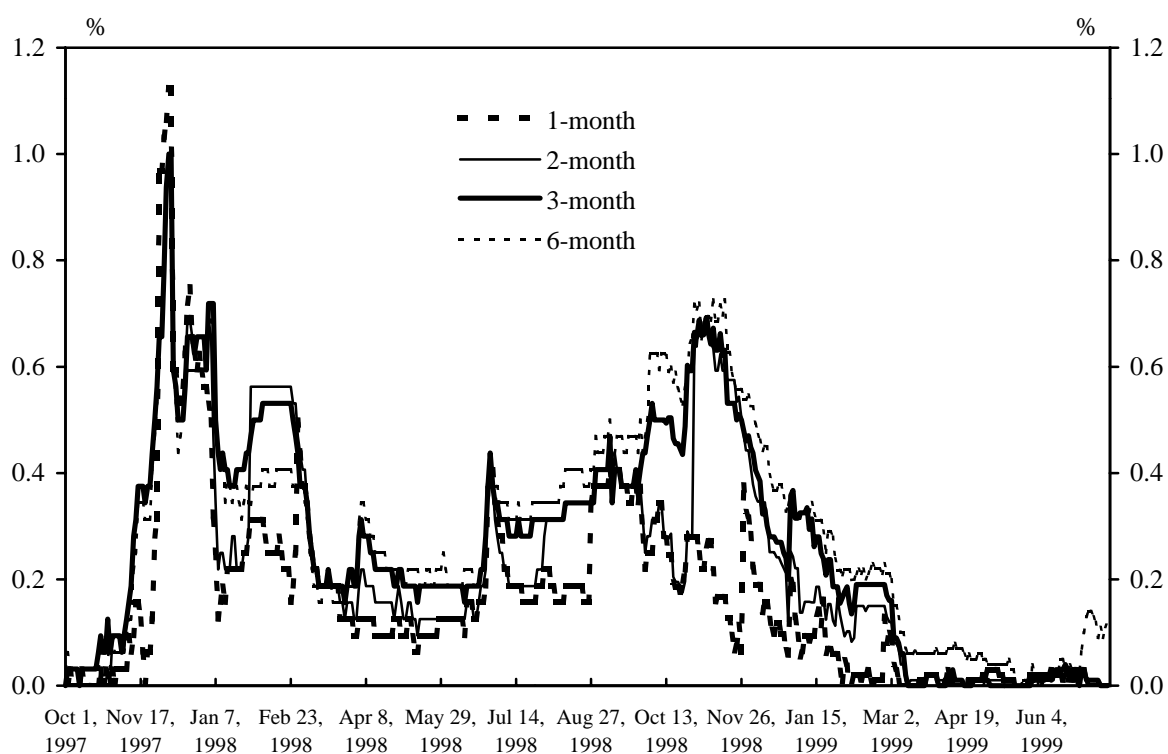


Sources: Bank of Japan; Japanese Bankers Association; Japan Bond Trading Co., Ltd.

Euro-Yen Interest Rates Futures (3-Month)



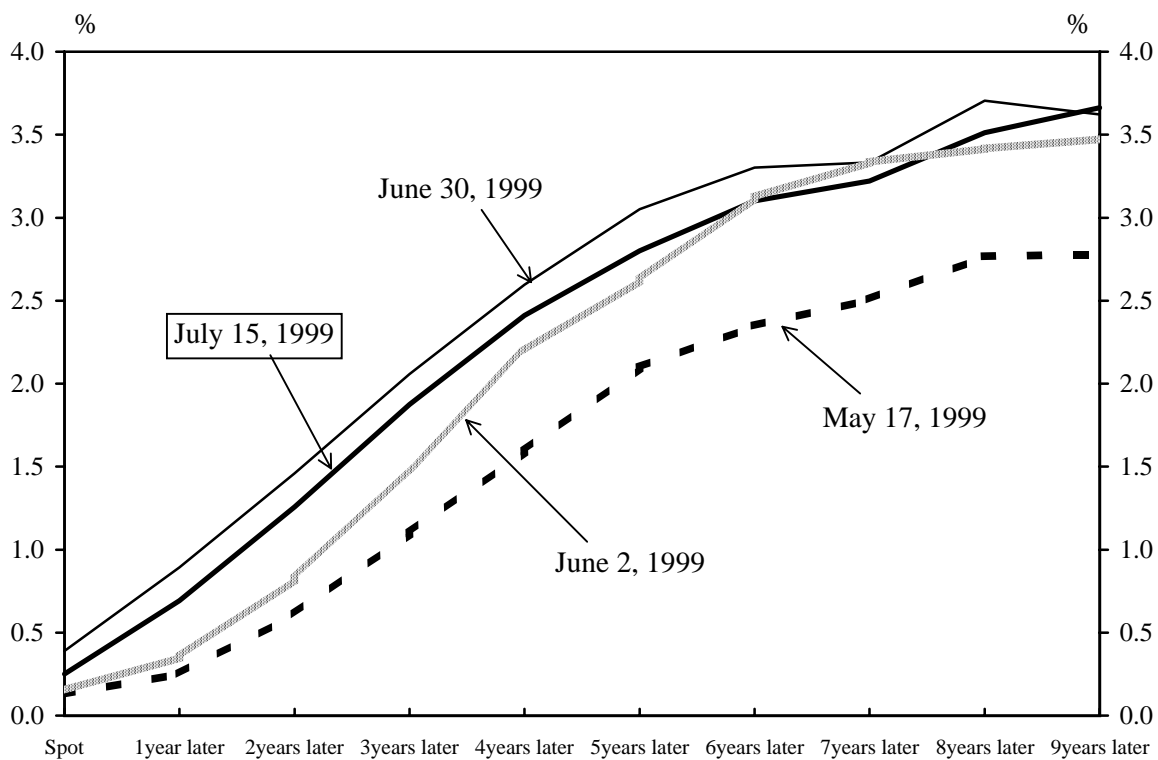
Source: Tokyo International Financial Futures Exchange.

Japan Premium in the Eurodollar Market ¹

Note: 1. 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) ¹

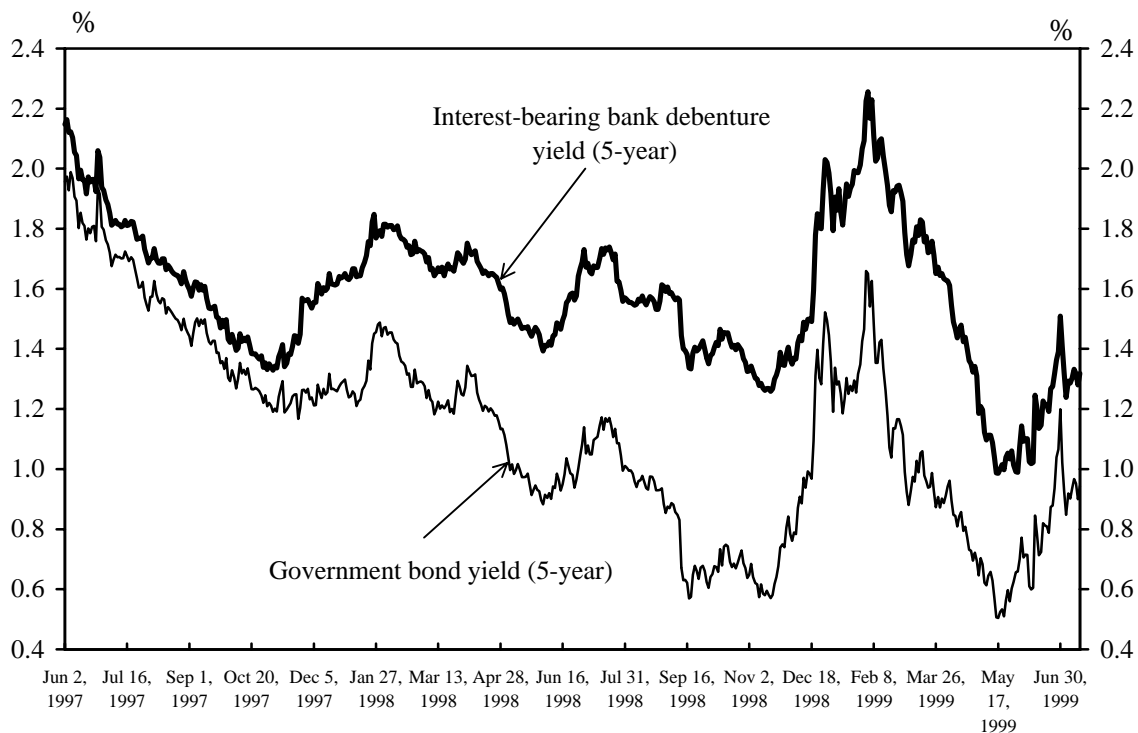


Note: 1. Calculated from yen-yen swap rates.

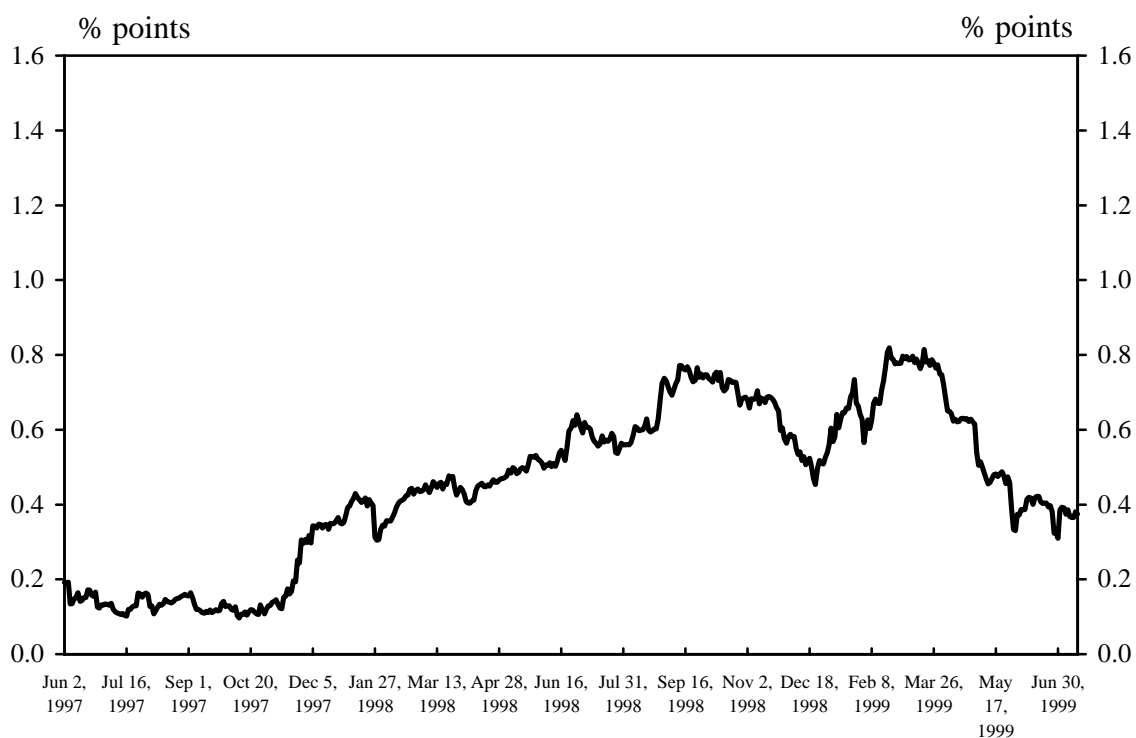
Source: Bank of Japan, "Financial and Economic Statistics Monthly."

Yields of Bank Debentures

(1) Bond Yields



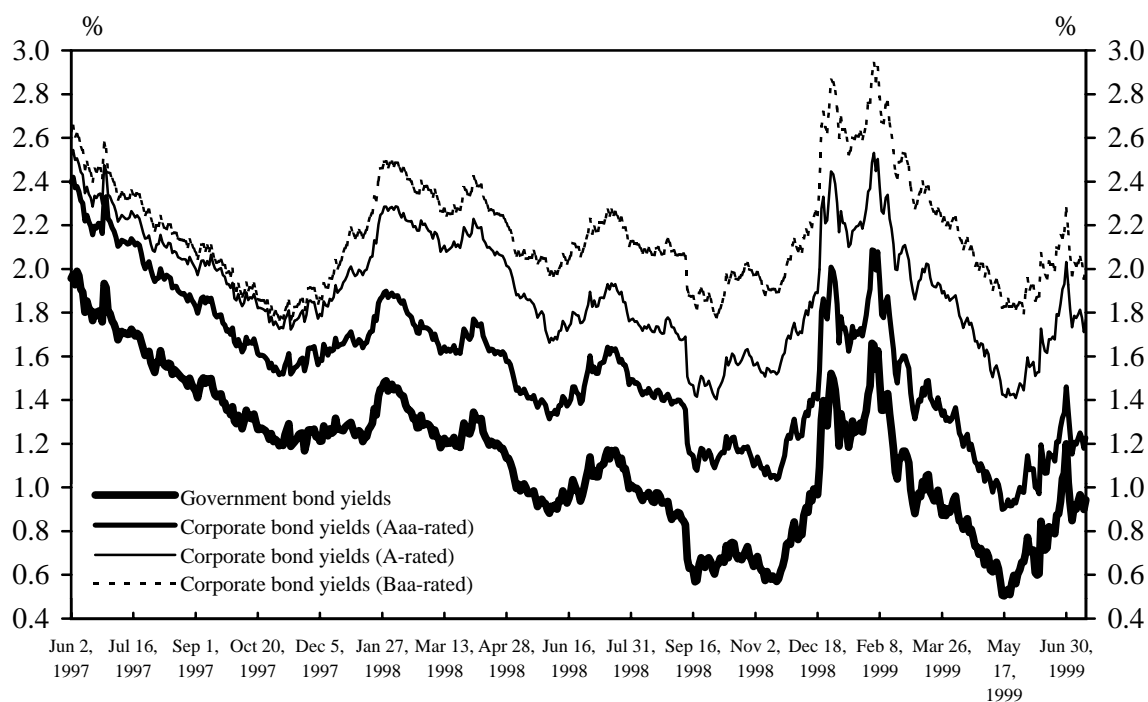
(2) Spread of Bank Debenture and Government Bond Yield



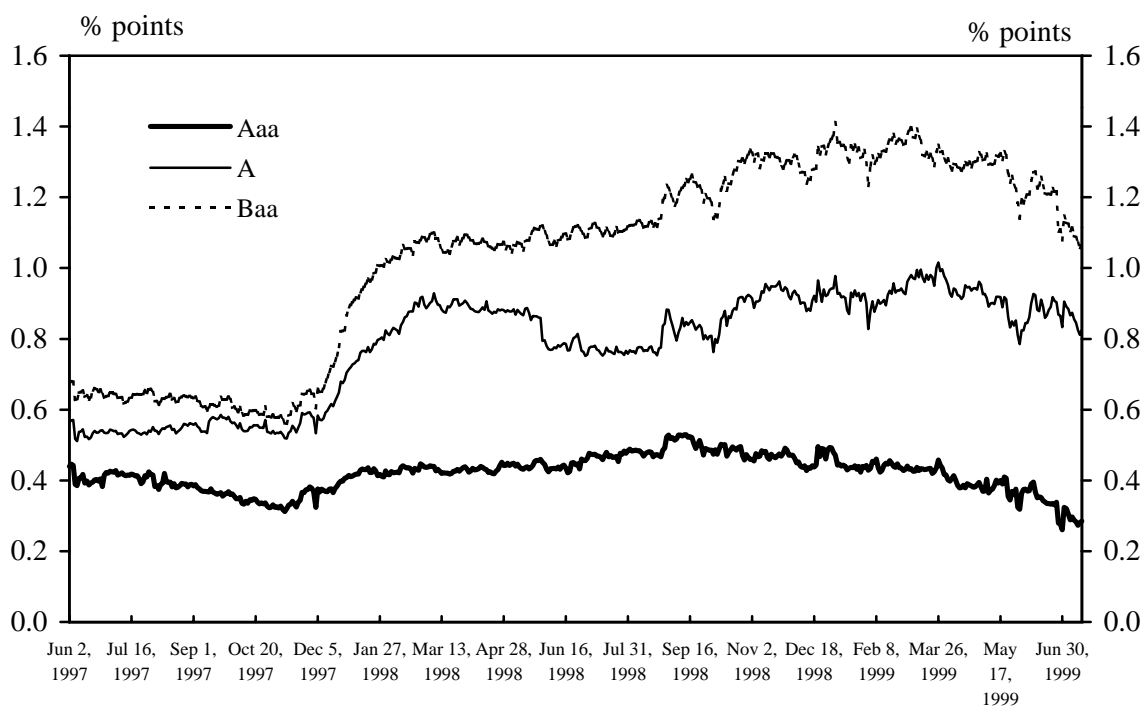
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields¹

(1) Yields of Government and Corporate Bonds by Rating



(2) Yield Spreads of Public and Corporate Bonds



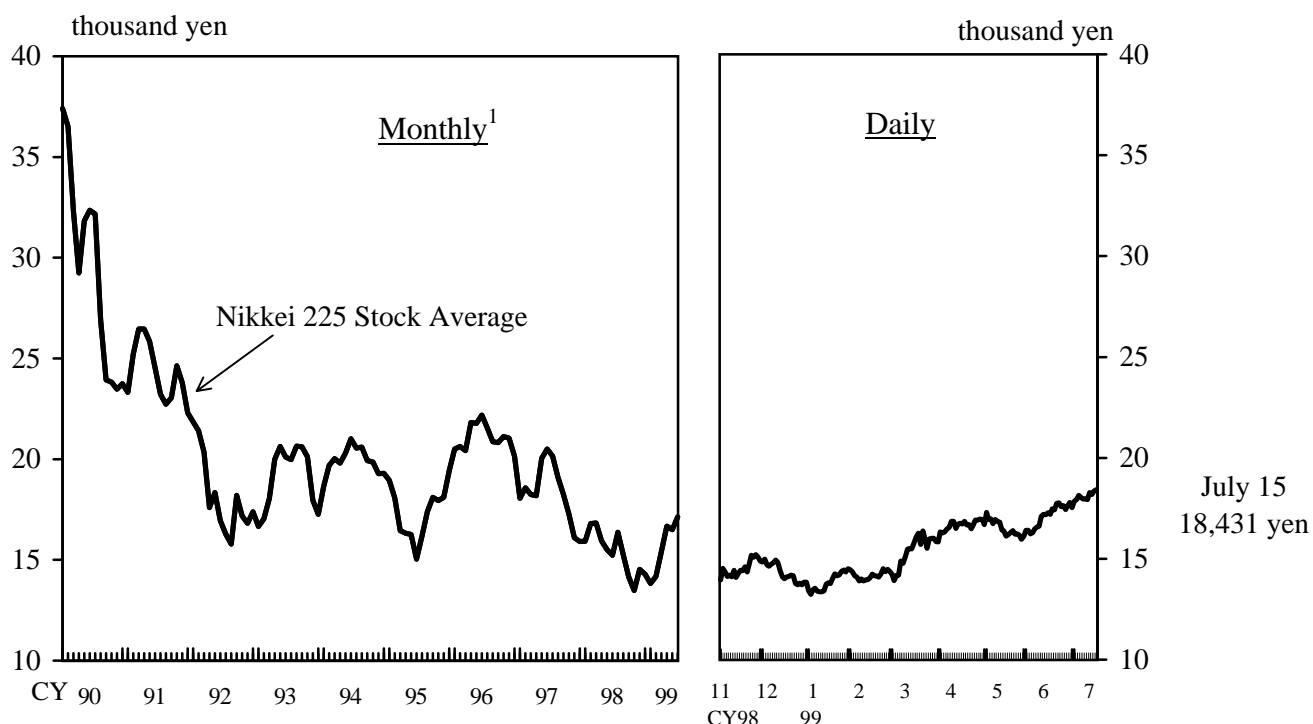
Note: 1. Yields on bonds with 5-year maturity.

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

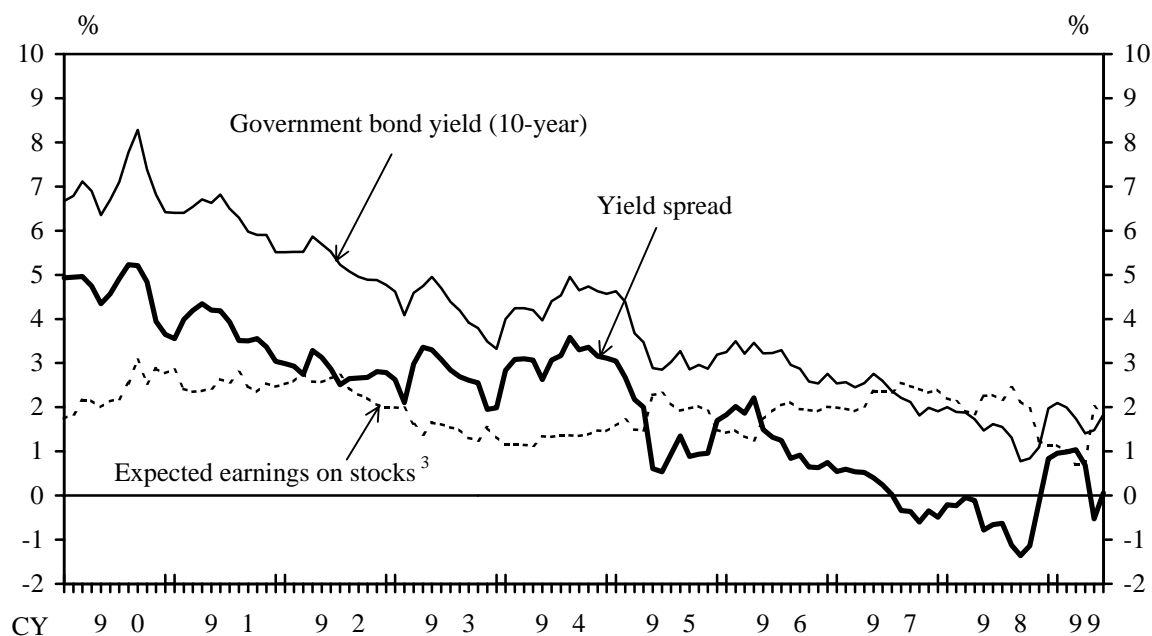
Source: Japan Securities Dealers Association, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread²



Notes: 1. Data are monthly averages.

2. Data are at end of period.

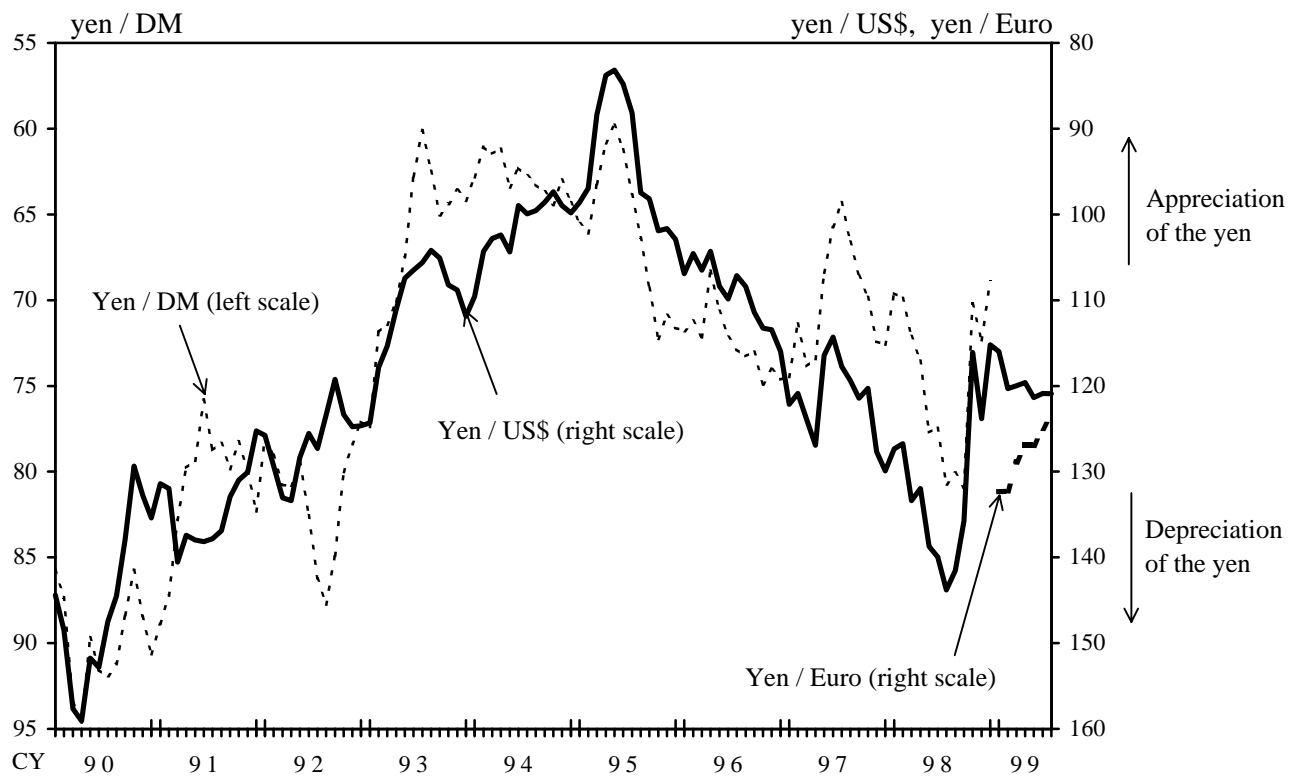
Yield spread = government bond yields - expected earnings on stocks,
 where expected earnings on stocks = 1/expected price earnings ratio.

3. 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)."

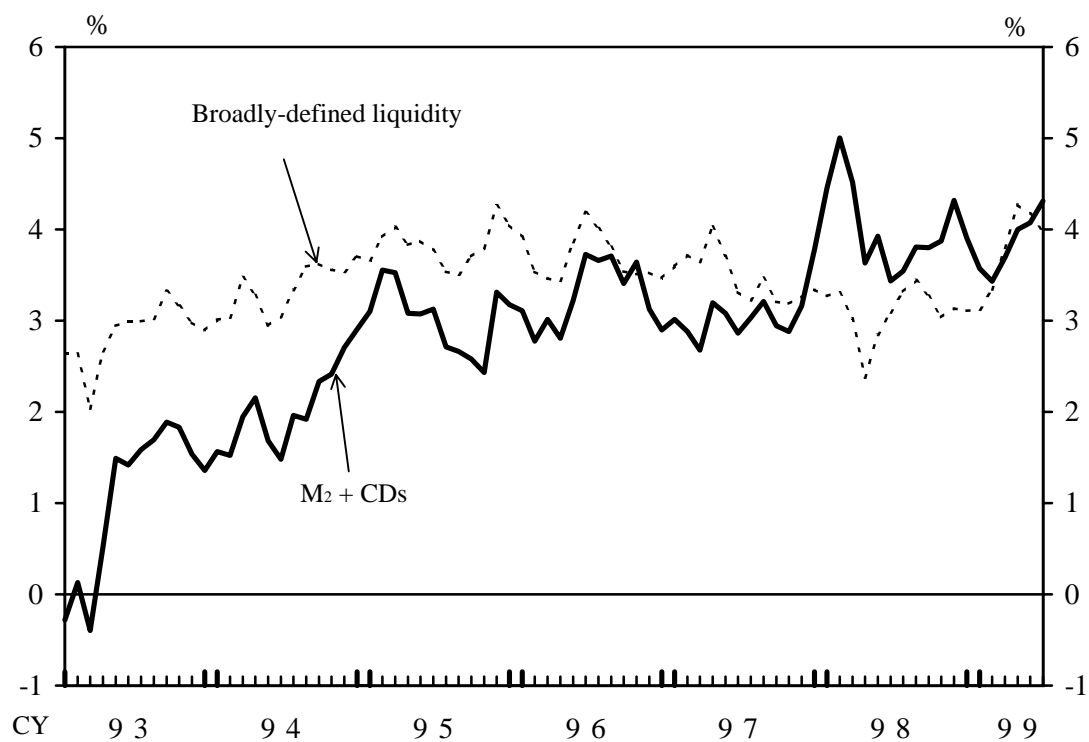
Exchange Rates ¹



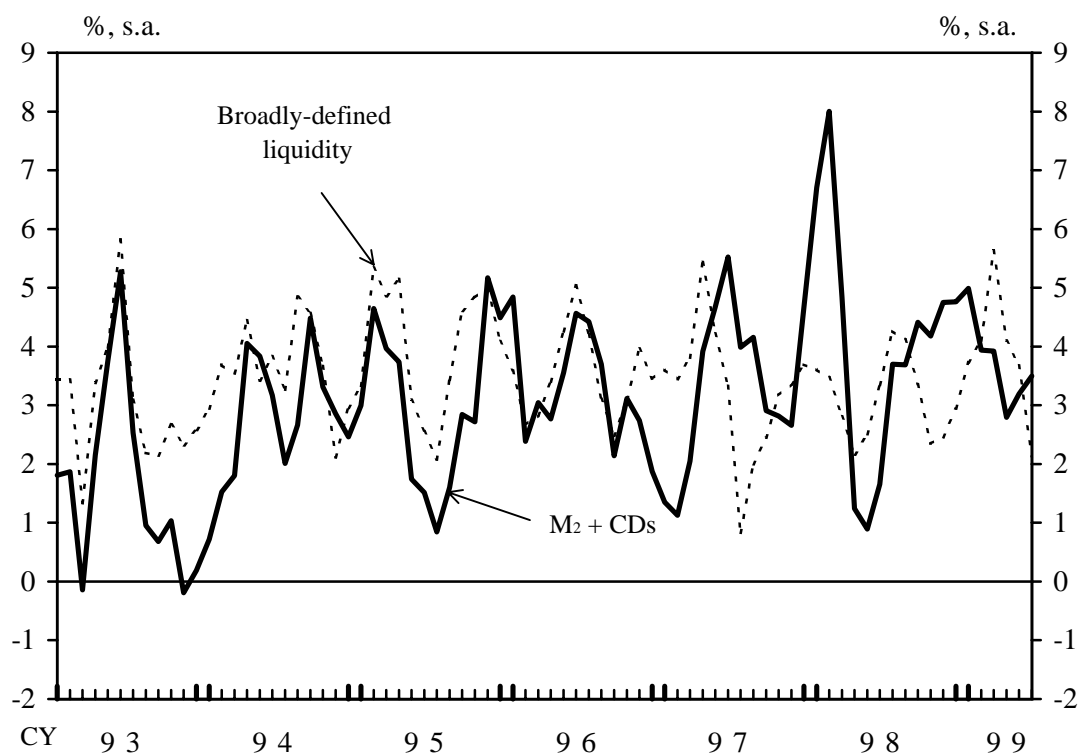
Note: 1. End of month. Data for July 1999 are as of July 15, 1999.
 Source: Bank of Japan.

Money Stock (M2+CDs, Broadly-Defined Liquidity)¹

(1) Changes from a Year Earlier



(2) Changes from Three Months Earlier (Annualized)

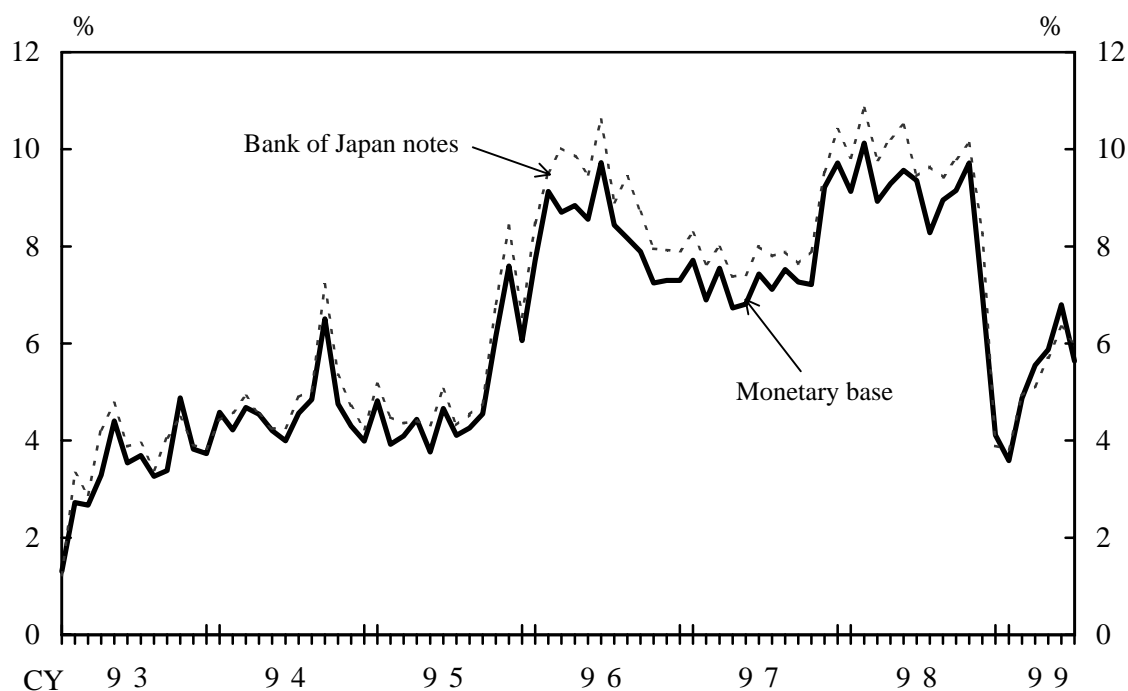


Note: 1. Percent changes in average amounts outstanding.

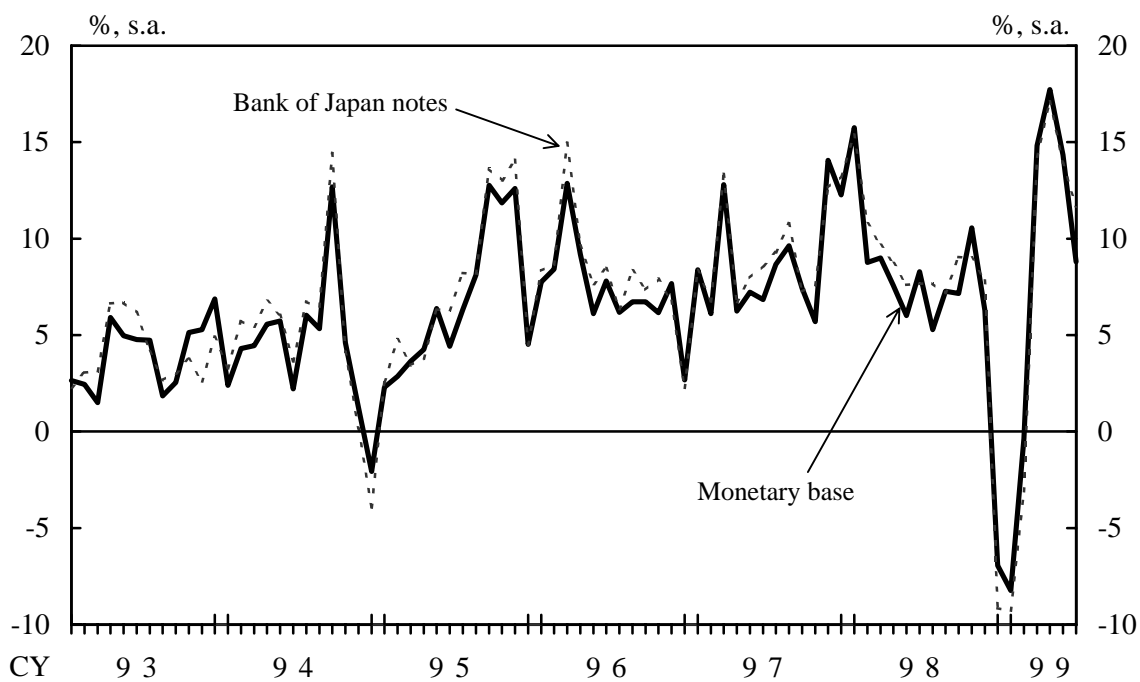
Source: Bank of Japan.

 Monetary Base ¹

(1) Changes from a Year Earlier



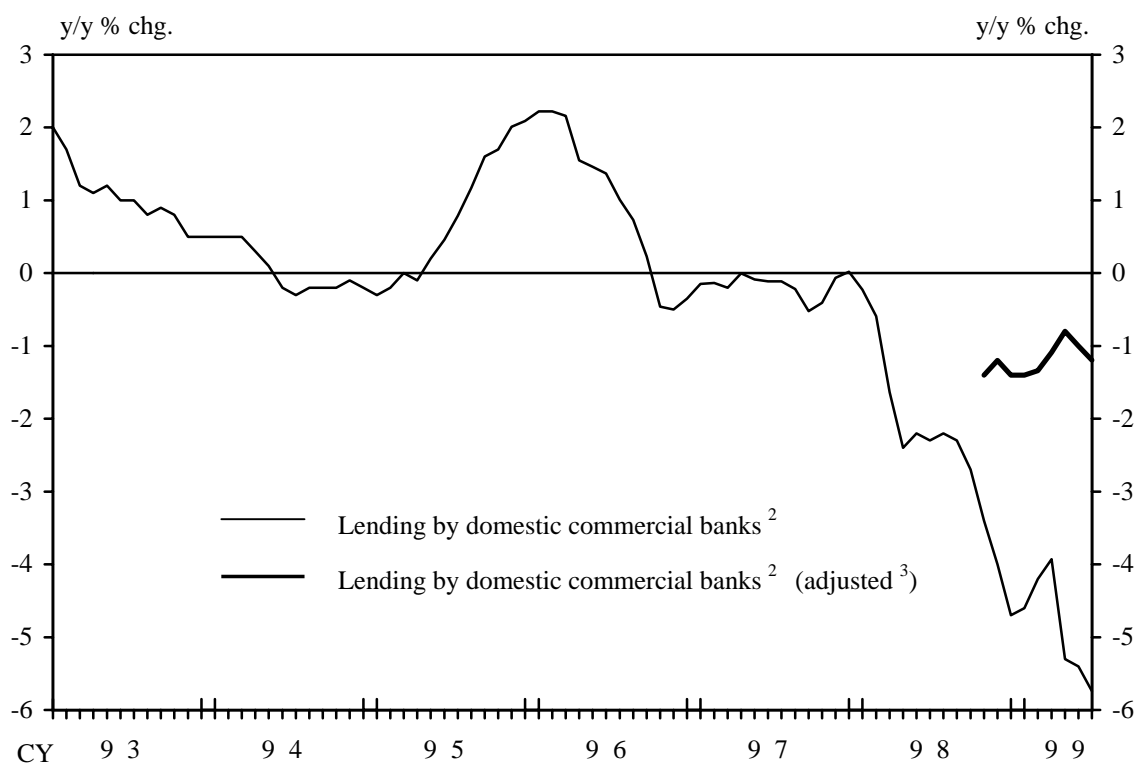
(2) Changes from Three Months Earlier (Annualized)



Note: 1. Monetary base = currency in circulation (banknotes + coins) + reserves.
 Data for currency in circulation include holdings of financial institutions.
 Reserve requirement rate change unadjusted.

Source: Bank of Japan.

Lending by Domestic Commercial Banks



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

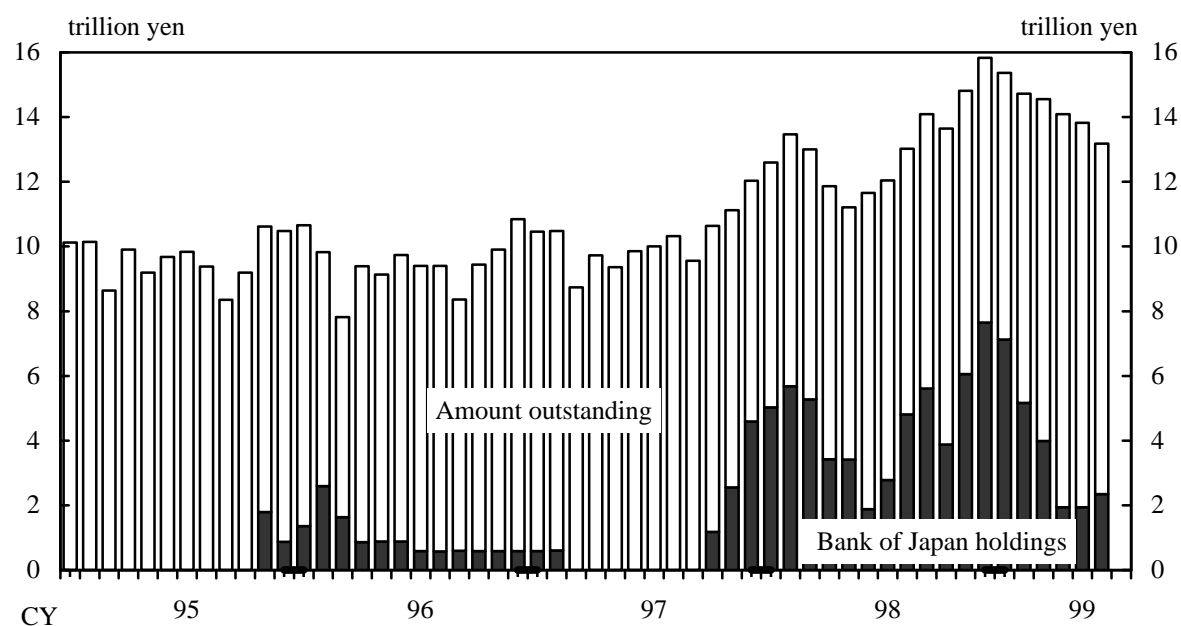
2. "Domestic commercial banks" refers to member banks of the Japanese Bankers Association which consists of city banks, long-term credit banks, trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), the member banks of the Regional Banks Association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

3. Adjusted to exclude

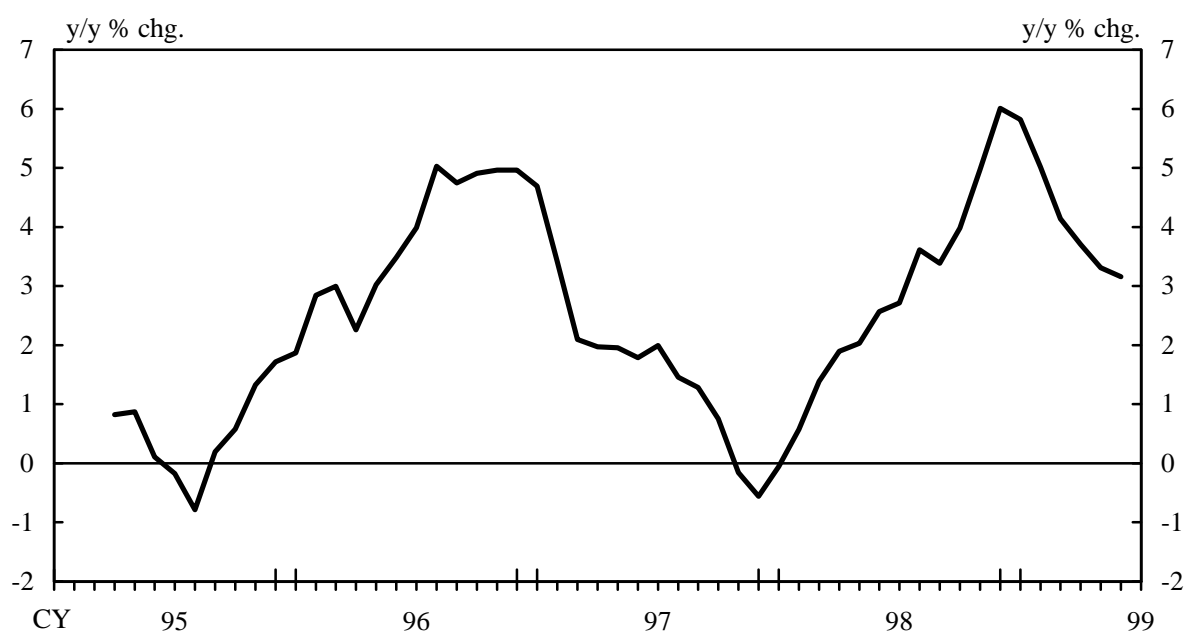
- (1) fluctuations from the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates,
- (3) fluctuations from loan write-offs,
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account, and
- (5) the transfer of loans to the former Housing Loan Administration Corporation to the Resolution and Collection Corporation.

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

Private-Sector Fund Raising in the Capital Markets

(1) Amount Outstanding of Commercial Papers ¹(2) Issue Volume of Corporate Bonds ²

	Jan, 1999	Feb, 1999	Mar, 1999	Apr, 1999	May, 1999	Jun, 1999
Volume	4,909	10,706	11,556	8,742	7,873	12,812
(last year)	(9,568)	(15,567)	(15,862)	(11,493)	(12,578)	(15,378)

(3) Amount Outstanding of Corporate Bonds (Changes from a Year Earlier) ^{2,3}

Notes: 1. Figures are those of the client financial institutions of the Bank of Japan.

Excludes those issued by banks.

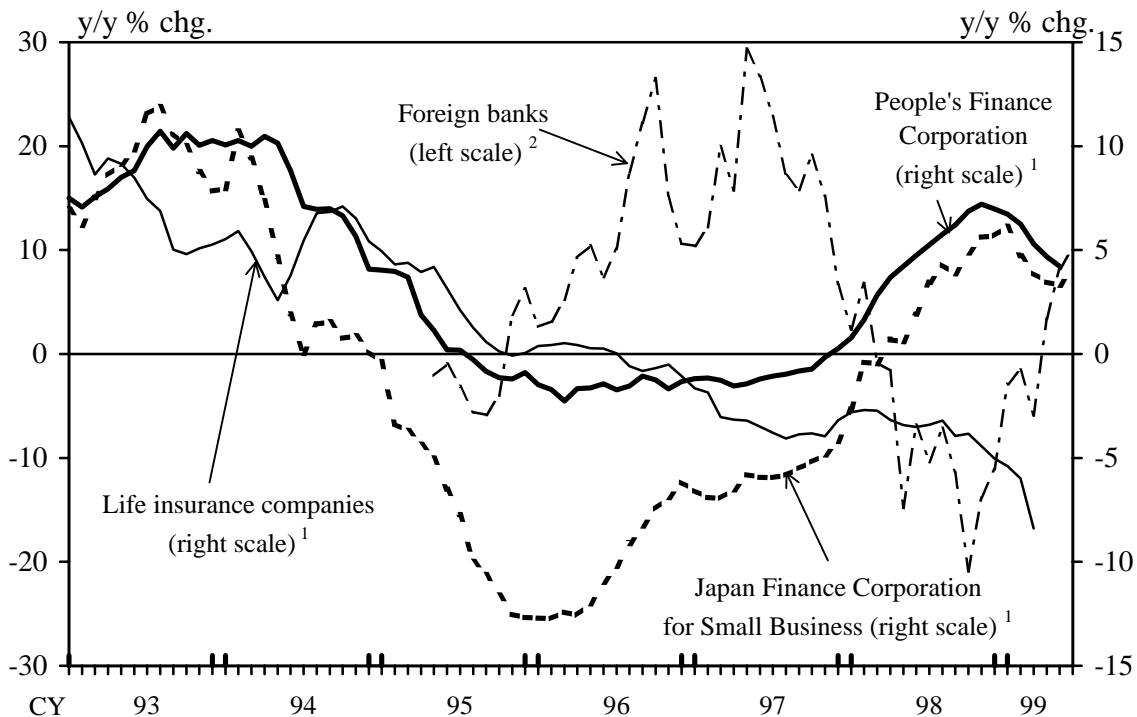
2. Includes straight bonds, convertible bonds, and bonds with warrants.

3. Estimated by the Bank of Japan.

Sources: Bank of Japan, "Principal Figures of Financial Institutions"; Japan Securities Dealers Association, "Bond Review"; IN Information Center, "Funding Eye."

Lending by Other Financial Institutions

(1) Lending Outstanding



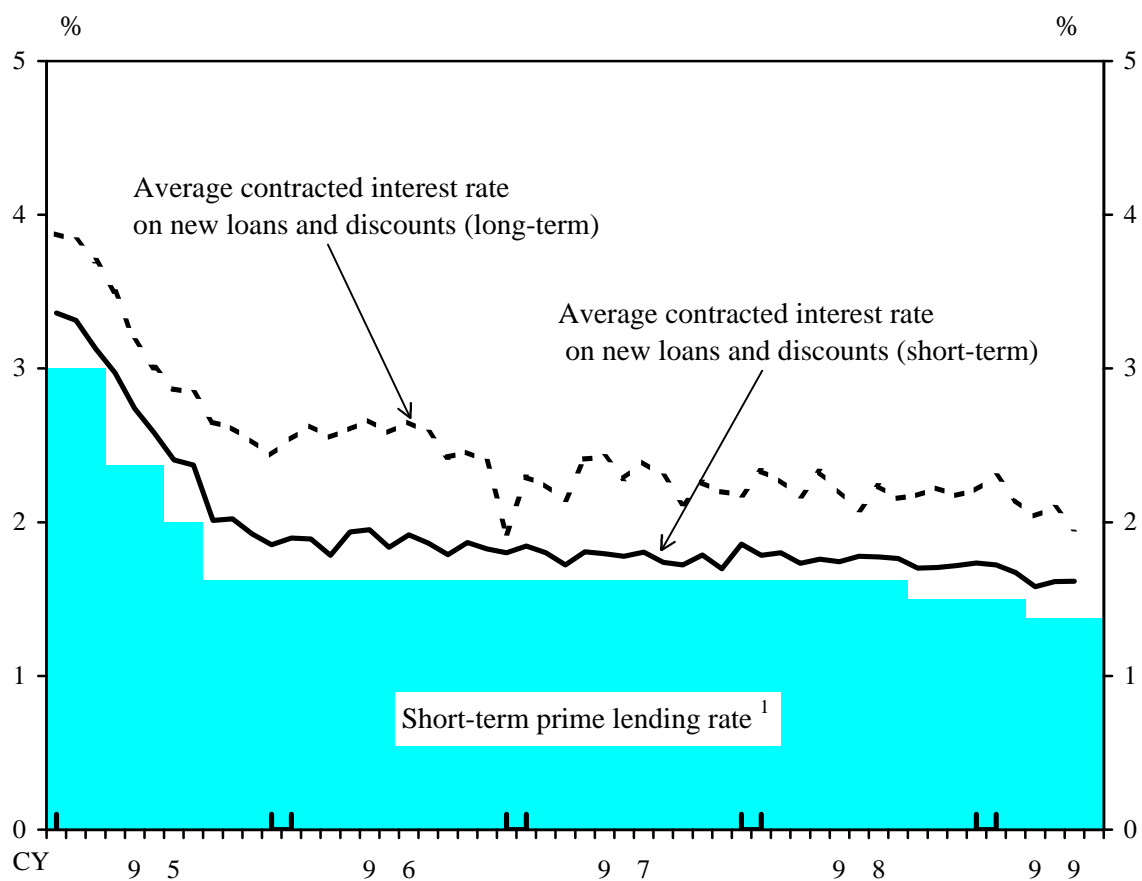
Notes: 1. Data are based on amounts outstanding at end of period.
 2. Data are based on average amounts outstanding.

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



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

Lending Rates

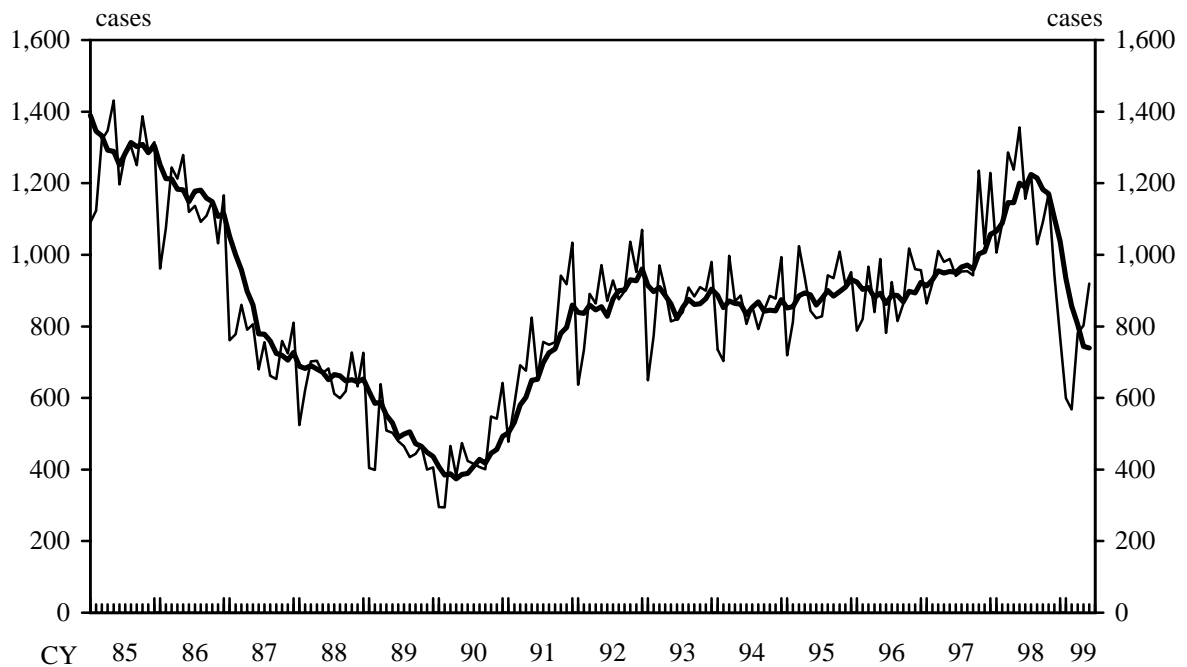


Note: 1. Data are at end of period.

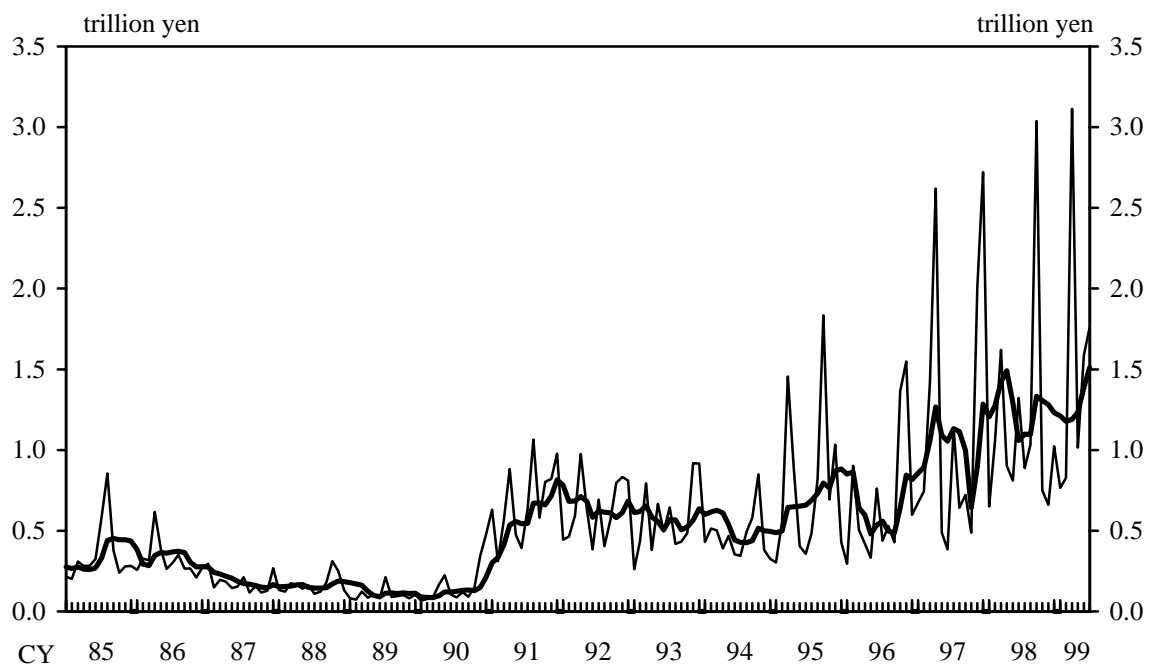
Source: Bank of Japan.

 Corporate Bankruptcies ¹

(1) Number of Cases



(2) Amount of Liabilities



Note: 1. Data for the number of cases exclude types of bankruptcies other than suspension of business transaction with banks. The bold line is the six-month moving average.

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