

**Notice :** This file can not be printed  
for technical reasons.

January 1998

**Bank of Japan**

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

**The Bank's View \***

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

With respect to final demand, net exports have continued to increase, and business investment has been rising moderately, mainly in the manufacturing sector. Meanwhile, private consumption has continued to stagnate, reflecting cautious household sentiment that has persisted even after the rebound of the front-loading expansion of spending prior to the consumption tax hike had subsided. Housing investment has continued to be weak and public-sector investment has been decreasing. Reflecting the weak final demand, inventory adjustment pressures have been spreading, and industrial production has been on a slightly declining trend. The pace of improvement in employment and income conditions has also been slowing. Thus, the positive growth cycle of production, income, and expenditures has stalled.

As regards the outlook of the economy, external demand is expected to

---

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

continue upholding the economic growth, and the special tax-cut measures announced in December 1997 are expected to have positive effects on household spending. Overall, however, the economy is likely to remain stagnant for a while, due to the intensifying pressures of inventory adjustment, the continued decline in public-sector investment, and the anticipated deceleration in business fixed investment. Given the slowdown in the pace of growth, the economy is considered to be vulnerable to further negative impacts. In these circumstances, the possibility of the emergence of further downside risks should be carefully observed, such as prolonged and intensified adjustments in the Asian economies, more restrictive lending stance of financial institutions impeding corporate finance, or further deterioration of confidence in the corporate and household sectors.

With regard to prices, wholesale prices have declined reflecting a slack in the supply and demand conditions of goods. Meanwhile, consumer prices have remained at a level slightly above that of the previous year when observed excluding the effects of institutional changes such as the rise in the consumption tax rate. Thus, prices on the whole remained stable. Prices are likely to be steady in the immediate future, since downward pressures on prices are not as significant as was the case in 1995, when the yen's appreciation induced a penetration of imports, which then directly dampened prices of import-competing domestic final goods, arousing concerns for a deflationary spiral in the economy. However, conditions which may affect price developments, including the slack in supply and demand conditions in the Asian economies, should be carefully examined, since the output gap in the domestic economy is unlikely to diminish for a while.

Financial markets have shown the following developments. Yields on TBs and long-term government bonds have been at around their lowest levels. Interest rates of term instruments in money markets and yields on corporate bonds and bank debentures, on the other hand, have risen and remained high due to the more cautious attitude of market participants toward credit and liquidity risks following the failure of some financial institutions. Stock prices have been low as the confidence in corporate profit growth continued to be weak and uncertainty over the financial system mounted. In the foreign exchange markets, the yen appreciated against the Asian currencies, while it depreciated against the U.S. dollar.

With respect to growth in monetary aggregates, the underlying trend of lendings by private financial institutions has remained almost unchanged, and the year-to-year changes in average outstanding of  $M_2$ +CDs have continued to be at around 3 percent. Lending attitudes of financial institutions, however, are becoming increasingly cautious as capital adequacy constraints have become more binding due to the fall in stock prices and the yen. Moreover, higher market interest rates are gradually pressuring lending rates to rise since December 1997. There is, therefore, a need to carefully monitor the developments in the financial markets and their influences on the real economy.

## **The Background**

### **1. Japan's Economy**

With regard to public-sector investment, the value of public works contracted peaked out around May 1997, since when it has been declining (Chart 2). Although works under the supplementary budget draft for fiscal 1997 are expected to be implemented gradually in the near future, public-sector investment is anticipated to continue declining due to the restrained initial budget draft for fiscal 1998 which is in line with the final report of the Conference of Fiscal Structure Reform.<sup>1</sup>

Real exports expanded in the October-November period of 1997 with increased shipments of information-related items, capital goods, and parts, after pausing in the July-September quarter partly due to the decline in shipments of automobile-related items, capital goods, and parts to the ASEAN economies (Charts 3, 4, and 5).

Among overseas economies, the United States, Europe, and China are expected to continue showing good performances on the whole (Chart 6 (1)). In Asia, South Korea and some of the ASEAN economies have begun implementing economic adjustment programs under assistance packages from the International Monetary Fund, which are likely to result in a significant slowdown of growth. Nevertheless, exports of information-related items (such as semiconductors and electronic parts), shipped to these nations and re-exported to Europe and America as finished products, may not be seriously affected by the deceleration of growth in final demand within the Asian region.<sup>2</sup>

---

<sup>1</sup> The fiscal 1997 supplementary budget draft allocates total expenditures of over 1.1 trillion yen. However, public works expenditures under the initial budget draft for fiscal 1998 are down 7.8 percent versus the initial budget for the previous fiscal year.

<sup>2</sup> The actual data by product for the second half of 1997 show (1) a reduction in raw materials exports reflecting the deterioration in price conditions due to the growing supply-demand gap within the Asian region; as well as (2) a decline in automobile-related exports, induced by the drop in consumption in the region. In contrast, exports of information-related items remained strong.

Moreover, while the yen has appreciated sharply against Asian currencies recently, it has depreciated versus the U.S. dollar and European currencies. Thus, the value of the yen on a real effective basis has remained stable, and Japanese exports are retaining their price competitiveness (Chart 6 (2)). Considering this export environment, it is likely that Japan's real exports will remain on an upward trend on the whole.

However, the pace of export growth is expected to decelerate partly because of the economic adjustment in Asian economies noted above. Furthermore, in the event that the economic adjustment in Asia were to become intensified, there could be repercussions on the world economy including Japan and the United States.

Meanwhile, real imports increased in the July-September quarter and changed to a decline in the October-November period, but on average real imports were steady due to the reduced growth in domestic demand (Charts 3 and 5). With the continued stagnation of domestic demand, real imports are likely to stay at almost the same level for some time.

As a result of these export and import developments, net exports and current-account surplus are maintaining an increasing trend with some fluctuations (Chart 3).<sup>3</sup> This trend is expected to continue in the future, but at a slower pace than in the past.

---

<sup>3</sup> It should be noted that “net exports” and “real trade balance” in Chart 3 (2) differ in that the real trade balance is on a customs-clearance basis and not an ownership transfer basis, and does not include the trade in services. However, the changes in the real trade balance is basically equivalent to that in net exports.

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

As for the domestic private sector, in fiscal 1997 corporate profits are continuing to increase at large manufacturing firms, which have benefited from the depreciation of the yen in terms of both prices and shipment volume (Chart 7).<sup>4</sup> In contrast, profits are expected to decline in nonmanufacturing industries and at small and medium-sized enterprises reflecting the slowdown of domestic demand, resulting in a widening profit gap versus large manufacturing firms. At present, consumption remains stagnant and production weak. Accordingly, total corporate profits in all industries will probably post a slight decline in fiscal 1997, and it is difficult to expect a scenario whereby stronger corporate profits would spark a widespread economic recovery.

Amid these profit trends, the growth in business fixed investment continues to increase but its tempo is slowing, particularly in nonmanufacturing sector, as demonstrated by recent movements in shipments of capital goods and other related indexes (i.e., machinery orders and construction starts) (Chart 8). According to the Bank of Japan's *Tankan*—Short-Term Economic Survey of Enterprises of December 1997, business fixed investment plans show an increase higher than that of the previous year for principal manufacturing firms but a slowdown of growth at principal nonmanufacturing firms, which have revised their plans downward (Chart 9). Among small and medium-sized enterprises, the plans show year-on-year growth at manufacturing firms despite reduced profit projections, but a sharp reduction at nonmanufacturing firms, indicating an overall decline in the propensity toward fixed investment in nonmanufacturing sector.

---

<sup>4</sup> The corporate profit data presented here are based on the Bank of Japan's *Tankan*—Short-Term Economic Survey of Enterprises of December 1997.

Of the various determinants of future business fixed investment, corporate profit conditions are expected to remain severe, especially in nonmanufacturing sector, and this is likely to be a limiting factor (Chart 10). In terms of financial factors, financial institutions' cautious stance toward corporate lending has yet to exert a significant impact on business fixed investment. However, as demonstrated by the December *Tankan* survey which showed that a larger number of small and medium-sized enterprises observed a "severe" lending attitude than an "accommodative" one among financial institutions for the first time ever in periods of accommodative monetary policy, the lending stance of financial institutions is becoming more reserved (Chart 33). The potential impact of this on future business fixed investment should be monitored carefully. Also, as indicated by recent unstable movements of stock prices, firms seem to view the future business outlook as increasingly uncertain, and whether this may lead them to postpone their investment plans must be examined carefully. It should be noted that firms are likely to take a cautious stance toward investment when they feel anxiety regarding future financial conditions.<sup>5</sup> On the other hand, the excess capacity, a factor indicating the level of stock adjustment pressures, is not observed to be substantial (Chart 11). Also, telecommunications and information-related investment is expected to continue in response to strong demand in these fields.<sup>6</sup> Based on these factors, the overall growth in business fixed investment will tend to moderate, but the downward adjustment will not be profound.

---

<sup>5</sup> In this regard, it is also important to examine the effects of the various measures for bringing greater stability to the financial system. These measures will be deliberated during the 142nd ordinary Diet session, which began on January 12, 1998.

<sup>6</sup> For example, mobile communications firms are planning investment to increase market share and moving forward their investment schedules to respond to new technical standards. Similarly, according to the December *Tankan*, financial institutions plan to increase their automation investment substantially during fiscal 1997.



In the household sector, employment and income conditions indicate that the mechanism of income formation (in other words, the positive growth cycle of production, income, and expenditures) is weakening conspicuously, reflecting the decrease in public-sector investment and housing investment and the declining tone of industrial production. The unemployment rate remains at a high level and the ratio of job offers to applications is decreasing (Chart 12). With regard to employee income, the growth in overtime payments is clearly weakening since overtime working hours have recently marked a level below that of the previous year (Chart 13). Also, the pace of growth in the base wage and in bonus payments has shown a reduction since summer 1997, due to weaker corporate profits noted above. As for the future outlook, growth in employee income will probably continue to slow for some time reflecting the decrease in production in response to the inventory adjustment pressures and the worsening profit environment at small and medium-sized enterprises.

With the above income environment, merchandise sales statistics show continued weak performance, which indicates protracted stagnation of private consumption, while outlays for travel and other services remain relatively firm (Chart 14). Specifically, registrations of new passenger cars and sales at department stores and chain stores were down in spring 1997 in reaction to the surge in demand prior to the rise in the consumption tax rate. These data remained sluggish even after October, failing to recover to the previous year's levels.<sup>7</sup> Sales of household electric appliances also leveled off despite a recovery up until the summer. The merchandise sales during the year-end promotion period also seemed lackluster.

The protracted stagnation of private consumption described above cannot be

---

<sup>7</sup> Passenger car sales recorded a firm month-on-month increase in December 1997, but this cannot be interpreted as the sign of a fundamental recovery.

fully explained by the drop-off following the front-loading in demand prior to the rise in the consumption tax rate, the reduction in real income induced by the consumption tax hike, the discontinuation of the special income tax reduction, and the increase in the patient's share of medical expenses. Rather, the recent data on consumption suggest that the propensity to consume may have been lowered due to greater anxiety over future household income induced by the decline in stock prices over the last few months, and the growing uncertainty stemming from concerns regarding the stability of the financial system (Chart 15).

As for the future outlook, if the decline in the propensity to consume is a temporary phenomenon reflecting increased uncertainty, a certain recovery can be expected. Moreover, if the recently-announced special income tax reduction is implemented, this should lead to some pickup in consumption. Nevertheless, a conspicuous recovery in private consumption seems unlikely since the mechanism of income formation has been weakening as explained above.

With respect to housing investment, housing starts (in terms of the seasonally-adjusted annual rate) dropped in July 1997 to 1.24 million units, the lowest level since September 1985, since when it has remained stagnant at around 1.3 million units (Chart 16). Since the number of applications for loans submitted to the Government Housing Loan Corporation decreased in the third offering in fiscal 1997, housing starts of owner-occupied houses are expected to remain weak for some time.<sup>8</sup>

---

<sup>8</sup> The number of applications for financing for private housing construction submitted to the Government Housing Loan Corporation in its third offering period (November 4-28) was down about 20 percent from the previous year. It should be considered as a substantial fall, because the number of applications in the third offering has also included applications which were postponed from the previous period with the prospect of a decline in the lending rate in the third offering period.

Housing construction will eventually recover, as there is a gap between the present weak data and the middle to long-term trend of housing starts estimated from the number of families and the potential demand for rebuilding. Nevertheless, given the sluggish income formation environment, the tempo of the recovery will likely be gradual.

Reflecting weak final demand, industrial production fell 0.4 percent versus the previous quarter in the July-September quarter (Chart 17). Estimated data (calculated from the results of October and November and the forecast for December) also show a drop of 1.6 percent in the October-December quarter. Moreover, interview surveys indicate that the declining trend has continued into 1998. With regard to inventory conditions in manufacturing industry, a buildup of inventories of production goods was averted until autumn 1997, mainly by the manufacturers' efforts to adjust their production level rapidly and by the increase in exports, even after inventories of final goods had started to pile up (Chart 18). However, domestic demand eroded further thereafter, resulting in a distinct rise also in production goods inventories in November. Production will probably remain stagnant for some time, since manufacturing industry on the whole has entered an inventory-adjustment phase and an immediate sharp increase in final demand is unlikely for a while.

## **2. Prices<sup>9</sup>**

Import prices are falling on a contracted currency basis because of the continued decline in the international commodities markets for chemicals, metals and metal products, and lumber and related products (Charts 19 through 22). On a yen basis, however, import prices are up slightly due to the depreciation of the yen against

---

<sup>9</sup> Except as otherwise noted, the price data presented herein are adjusted to exclude the effect of the rise in the consumption tax rate from three to five percent in April 1997 (calculations by Research and Statistics Department of the Bank of Japan).

the U.S. dollar.

Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates) are declining, especially for steel and construction-related items, reflecting the decline in public-sector investment and housing investment as well as the downward pressure on prices of raw materials in the domestic and international commodities markets caused by the turmoil in the South Korean and ASEAN economies (Chart 20 (3)). Domestic wholesale prices dropped 0.1 percent versus the previous quarter in the April-June quarter, 0.5 percent in the July-September quarter, and 0.5 percent in the October-December quarter.

The overall year-on-year decline in corporate service prices has recently contracted to almost zero, because the prices for general services (including information services, and temporary employment services) have been level or strengthened marginally, reflecting firm demand (Chart 21 (1)). The year-on-year decline in corporate service prices was 0.3 percent in the April-June quarter, 0.2 percent in the July-September quarter, and 0.0 percent in the October-November period.

Consumer prices (excluding perishables), which posted a year-on-year rise of 0.6 percent in the April-June quarter, slightly accelerated its increase to 0.8 percent in both the July-September quarter and the October-November period (Chart 21 (2)). However, these data reflect the substantial rise in medical service charges following the revisions to the medical insurance system implemented in September. The fundamental year-on-year increase excluding the rise in consumer medical costs remains stable at 0.4 to 0.5 percent.

With regard to the environment surrounding prices, inventory adjustments

and stagnant final domestic demand have led to a growing domestic supply-demand gap, and the worsening market conditions in Asia are pushing down prices of raw materials in commodities markets (Chart 22 (1)). Reflecting such conditions, domestic wholesale prices will likely post a gradual decline and the rate of increase in consumer prices, especially that in commodity prices, is projected to ease for some time. However, the current environment is not comparable to the situation in 1995, when there were growing concerns about a deflationary spiral, for the following reasons (Chart 22 (2)): (1) Since the beginning of 1998, the yen has been appreciating slightly on a real effective basis, but the level is still much lower than it was in 1995. Thus, there is no sudden downward pressure, coming from the differential between domestic and international prices, on domestic prices of final goods that compete directly with final goods imports; and (2) in 1995, the growth rate of personnel costs had been on a downward trend since 1992, but it has been stable recently and, hence, it is unlikely that the growth rate in service prices, which are strongly affected by personnel costs, will suddenly decline. Therefore, at present there is no reason to expect that overall prices will drop sharply and exert deflationary pressure on the entire economy. Nevertheless, the price environment should be monitored carefully because the continuation of sluggish economic conditions could gradually exert downward pressure on prices in general.

Regarding land prices, developments varied for commercial land, as there is still a clear distinction between land whose price has stopped falling and land whose value is decreasing further. The rate of decline in residential land prices is narrowing, but there are signs indicating the possibility of further declines in the future, as shown in developers' stance which is less eager than before to acquire land for building condominiums reflecting the recent sluggishness in housing demand.

### 3. Financial Developments

#### (1) Financial Markets

Interest rate developments in short-term money markets show that the overnight call rate (uncollateralized) briefly rose well above the official discount rate of 0.5 percent in late November mainly because of the failure of some financial institutions (Chart 23 (1)). In response, the Bank of Japan continuously supplied sufficient liquidity to the market, and as a result the call rate has generally remained below the official discount rate since early December.

While the call rate dropped back, the rates on term instruments, such as certificates of deposit (CDs) and Euro-yen instruments, continued to be high after they rose in late November (Chart 24 (1)). The so-called "Japan premium" has also remained at a high level on overseas markets. The differential between interest rates on three-month Eurodollar quotations by Japanese banks and those by foreign banks fell from around 1 percent in early December, but still remains at a relatively high level of 0.4 to 0.5 percent (Chart 24 (2)).<sup>10</sup> Moreover, the differential among the rates quoted by individual financial institutions has also widened. Meanwhile, treasury bill (TB) rates, which are basically free from credit risk, have remained at a low level (Chart 24 (1)). Overall, these developments may be attributed to a stronger market awareness of credit risk following the failure of some financial institutions, as well as a closely-related concern regarding liquidity risk that may arise at the end of both the calendar and the fiscal year.<sup>11</sup>

---

<sup>10</sup> The Japan premium also increased in October 1995, when overseas financial markets lost confidence in Japanese financial institutions following improprieties at an overseas branch of a Japanese bank. At that time, however, the premium on three-month Eurodollar rose only to around 0.5 percent at its maximum and this level only lasted for a short period of time. In comparison, the present premium is relatively large and prolonged.

<sup>11</sup> The Japan premium on one-month instruments was generally holding at around 0.5-0.6 percent in December 1997, but this dropped to around 0.1-0.2 percent from the beginning of 1998.

With respect to Euro-yen interest rate futures, the rates on contracts near maturity have also increased reflecting the higher Euro-yen rates on the spot market noted above (Chart 25 (1)). Nevertheless, market expectations for higher interest rates remain weak, reflecting the stagnation of the economy.

Given these market conditions, yields on ten-year government bonds (benchmark) have remained at around a historically low level of 1.6-1.7 percent since late October (Chart 23 (2)). The implied forward rates calculated from yen-yen swap rates have shown no major changes since late October for all terms (Chart 25 (2)).

Yields on top-rated corporate bonds have continued to decline in step with government bonds, but yields on corporate bonds with low ratings, have been trending upward since October, and those on corporate bonds with relatively high but not the top ratings have also been rising somewhat since December (Chart 26). Yields on bank debentures have been moving up since November, and the spread between yields on bank debentures and those on government bonds has widened (Chart 27). In this way, awareness of credit risk has become heightened also in the capital markets.

Stock prices remain at low levels, reflecting concerns regarding the uncertain outlook for business conditions and the financial system, as well as the sharp declines on Asian stock markets (Chart 28 (1)). In mid-January, the Nikkei 225 Stock Average posted the lowest closing in about two and a half years (14,664 yen on January 13). The yield spread (government bond yields minus projected earnings yield on stocks) also remains at a historically low level, indicating a bearish sentiment toward future corporate earnings and/or deep-rooted uncertainty over the future (Chart 28(2)).

On the foreign exchange market, the yen has been depreciating versus the U.S. dollar since last autumn (Chart 29). At the beginning of 1998, the exchange rate

reached 133-134 yen to the U.S. dollar, the lowest level in approximately 5 years and 8 months. The yen has subsequently remained at around the 130-yen level against the U.S. dollar. In terms of real effective exchange rate, however, the yen has remained essentially flat since the middle of 1997 as noted earlier (Chart 6 (2)).

## **(2) Monetary Aggregates**

The underlying trend of lending by private banks such as city banks, long-term credit banks, trust banks, regional banks, and regional banks II continues to be lackluster (Chart 30).<sup>12</sup> As described below, banks are taking an increasingly cautious stance in extending credit, but this has yet to be reflected in lending statistics.

Monetary aggregates in terms of year-on-year growth in  $M_2 + \text{CDs}$  accelerated slightly in November (3.0 percent in the April-June quarter, 3.0 percent in the July-September quarter, 2.9 percent in October, and 3.2 percent in November; Chart 31 (1)). Growth in  $M_2 + \text{CDs}$  from three months ago (seasonally adjusted, annualized) showed a similar pattern of change: over 2.0 percent in September and October, and 2.7 percent in November (Chart 31 (2)). The relative firmness in November may have reflected a stronger demand for private banks lending.<sup>3</sup>

From a somewhat longer-term perspective, growth in  $M_2 + \text{CDs}$  may be seen as essentially stable at around 3.0 percent in terms of both year-on-year changes and changes from three months ago (seasonally adjusted, annualized). The year-on-year

---

<sup>12</sup> Regional banks are member banks of the Regional Banks Association of Japan and regional banks II are member banks of the Second Association of Regional Banks.

A careful analysis of November figures showed that private banks lending appeared to have picked up slightly. This was likely to be related to firms' front-loading demand for liquidity under the circumstances where financial uncertainty intensified toward the end of the month following the failures of financial institutions, inducing a temporary disruption of the commercial paper (CP) market.



growth during the present quarter (January-March 1998) is projected to be around 3.0 percent as well.

Growth in  $M_1$  and cash currency in circulation increased sharply in November, particularly in terms of changes from three months ago (seasonally adjusted, annualized) (Chart 32). This is partly attributed to the shift of funds to safer assets due to growing concerns regarding the financial system. A relatively higher growth in deposits in the public postal savings system may also have reflected the weakening of confidence in the financial system (the year-on-year increase in the outstanding balance of deposits in the postal savings system was 5.1 percent at the end of October, 5.5 percent at the end of November, and 6.2 percent at the end of December). It is also likely that depositors temporarily held their assets in the form of demand deposits and cash currency in circulation.

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

With respect to factors affecting the lending attitude of private financial institutions, banks, particularly large banks, are facing tougher capital adequacy constraints due to the decline in stock prices and the devaluation of the yen, while they continue to strengthen their risk management for lending and place greater emphasis on profitability. Hence, many banks plan to sharply restrict their lending for the second half of fiscal 1997, although this change has yet to be reflected in the lending statistics as noted above.

The perception on the part of corporate borrowers as surveyed in *Tankan* shows that the lending attitude of financial institutions is clearly becoming more "severe" (Chart 33). A related development can be seen in the loans extended by government financial institutions to small and medium-sized enterprises. The year-on-year decline in their outstanding balance of loans has been easing, and applications for new loans, in terms of volume, increased sharply toward the end of the year (Charts 34).

Overall, fund raising in the capital market by firms in the private sector continued to lack vigor, in part due to the slower growth in business fixed investment (Chart 35). In December 1997, however, firms showed a stronger inclination toward issuing bonds, reflecting the concerns regarding market liquidity and the constrained business activity at private financial institutions explained above. The gross issuance of straight bonds, therefore, recorded a high level in December, and this trend continued into early 1998 with a substantial number of firms planning bond floatations.

The fund-raising cost of firms has also recently begun to rise. While this trend cannot be confirmed by the average contracted interest rates on new loans and discounts through November, spread lending rates and CP issuance rates have apparently started to rise since December (Chart 36). In addition, the long-term prime lending rate was raised at the beginning of 1998 (from 2.3 percent to 2.6 percent), reflecting the rise in the yields on bank debentures.

Thus, the environment surrounding corporate finance is expected to become increasingly severe in terms of both volume and costs. While there are no conspicuous changes in the pace of increase in the number of company failures, corporate earnings have been weak and the effects of the changes in the factors affecting corporate finance on the real economy will have to be carefully monitored for some time (Chart 37).

*(This report was written based on data and information available as of January 16, 1998, when the Bank of Japan Monetary Policy Meeting was held.)*

## Charts

Chart 1	Main Economic Indicators
Chart 2	Public-sector Investment
Chart 3	External Balance
Chart 4	Exports
Chart 5	Exports and Imports
Chart 6	Overseas Economic Conditions and Real Effective Exchange Rate
Chart 7	Current Profits as Surveyed in <i>Tankan</i>
Chart 8	Major Indexes of Business Fixed Investment
Chart 9	Business Fixed Investment Plans as Surveyed in <i>Tankan</i>
Chart 10	Business Fixed Investment and Cash Flow
Chart 11	Production Capacity and Capital Stock Adjustment
Chart 12	Labor
Chart 13	Compensation of Employees
Chart 14	Private Consumption
Chart 15	Consumer Confidence
Chart 16	Housing Starts
Chart 17	Production, Shipments, and Inventories
Chart 18	Inventory Cycle
Chart 19	Prices
Chart 20	Import Prices and Domestic Wholesale Prices
Chart 21	Corporate Service Prices and Consumer Prices
Chart 22	Factors Contributing to the Change in Prices
Chart 23	Interest Rates
Chart 24	Rates of Term Instruments
Chart 25	Futures and Forward Rates
Chart 26	Corporate Bond Yields
Chart 27	Yields of Bank Debentures
Chart 28	Stock Prices
Chart 29	Exchange Rates
Chart 30	Lending by Domestic Commercial Banks
Chart 31	Monetary Aggregates (M <sub>2</sub> +CDs, Broadly-Defined Liquidity)
Chart 32	Monetary Aggregates (M <sub>1</sub> , Cash Currency in Circulation)
Chart 33	Corporate Finance-Related DIs in <i>Tankan</i>
Chart 34	Lending by Other Financial Institutions
Chart 35	Private-Sector Fund Raising in the Capital Markets
Chart 36	Lending Rates
Chart 37	Company Failures

## Main Economic Indicators (1)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Sep.	Oct.	Nov.	Dec.
Index of expenditure level (all households)	-2.7	1.4	n.a.	2.4	1.1	p -2.0	n.a.
Sales of department stores	-6.3	-1.3	n.a.	-2.3	-2.3	p -2.1	n.a.
Sales of chain stores <sup>1</sup>	-4.8	-3.6	n.a.	-4.3	-3.6	-4.5	n.a.
New passenger-car registrations <sup>2</sup>	-9.2	-10.3	-13.7	-9.1	-14.0	-21.8	-3.9
Sales of electric appliances (NEBA)	-8.3	-3.7	n.a.	-1.0	-5.6	-1.6	n.a.
Outlays for travel (50 major travel agencies)	0.7	2.2	n.a.	1.8	3.6	-0.8	n.a.
Housing starts <s.a., ann. 10,000 units>	144	129	n.a.	133	136	129	n.a.
Machinery orders (from private sector <sup>3</sup> )	2.5	1.3	n.a.	1.3	-14.3	n.a.	n.a.
Mining & manufacturing	13.6	8.7	n.a.	6.3	2.9	n.a.	n.a.
Nonmanufacturing <sup>3</sup>	-4.7	-4.1	n.a.	-2.3	-23.6	n.a.	n.a.
Construction Starts (private, nonresidential use)	0.7	3.8	n.a.	18.2	-8.8	-6.6	n.a.
Manufacturing	1.5	8.4	n.a.	15.9	-8.8	14.5	n.a.
Nonmanufacturing <sup>4</sup>	0.4	2.2	n.a.	19.1	-8.8	-14.2	n.a.
Value of public works contracts	-1.2	-1.7	n.a.	1.2	-17.7	-6.7	n.a.
Real exports <s.a. quarterly (monthly) change>	7.5	-0.4	n.a.	-3.0	10.4	-9.3	n.a.
Real imports <s.a. quarterly (monthly) change>	-2.2	3.1	n.a.	6.6	-1.1	-8.4	n.a.
Industrial production <s.a. quarterly (monthly) change>	0.0	-0.4	n.a.	2.4	0.1	p -4.1	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.6	0.6	n.a.	2.9	-0.2	p -5.3	n.a.
Inventories <s.a. quarterly (monthly) change>	7.1	0.7	n.a.	-0.3	-0.5	p 1.4	n.a.
Inventories/shipments <s.a. 1990=100>	117.8	115.3	n.a.	115.3	116.3	p 123.8	n.a.

## Main Economic Indicators (2)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Sep.	Oct.	Nov.	Dec.
Ratio of job offers to applications <s.a., times>	0.73	0.72	n.a.	0.71	0.70	0.69	n.a.
Unemployment rate <s.a., %>	3.43	3.41	n.a.	3.44	3.45	3.49	n.a.
Overtime working hours <sup>5</sup>	3.7	1.1	n.a.	0.0	-1.0	p -2.8	n.a.
Number of employees	1.4	1.0	n.a.	0.7	1.1	0.9	n.a.
Number of regularly employed <sup>5</sup>	0.9	0.9	n.a.	0.9	0.8	p 1.1	n.a.
Nominal wage per person <sup>5</sup>	1.4	1.5	n.a.	1.0	1.4	p -1.0	n.a.
Domestic wholesale prices index <sup>6</sup>	-0.5	-0.5	-1.0	-0.5	-0.8	-1.0	-1.2
Consumer prices index (nationwide) <sup>6</sup>	0.6	0.6	n.a.	0.9	1.0	0.6	n.a.
Excluding perishables	0.6	0.8	n.a.	0.9	0.9	0.7	n.a.
Corporate service prices index <sup>6</sup>	-0.3	-0.2	n.a.	-0.1	0.0	-0.1	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.0	n.a.	2.9	2.9	p 3.2	n.a.
Number of suspension of transaction with banks	11.5	9.5	n.a.	9.3	21.3	7.2	n.a.

Notes: 1. Adjusted to exclude consumption tax.

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

3. Excludes ships and demand from electric power companies.

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

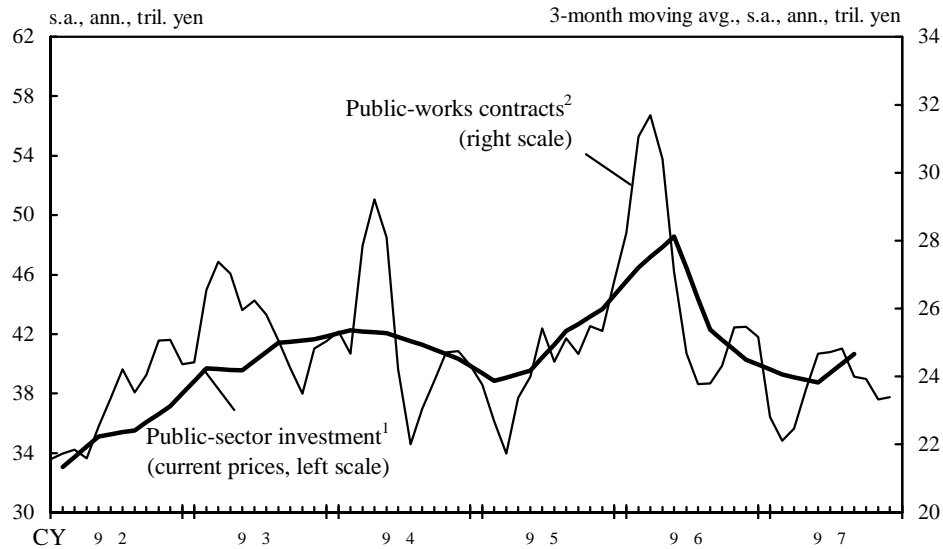
5. Data for firms with 5 regular employees or more.

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

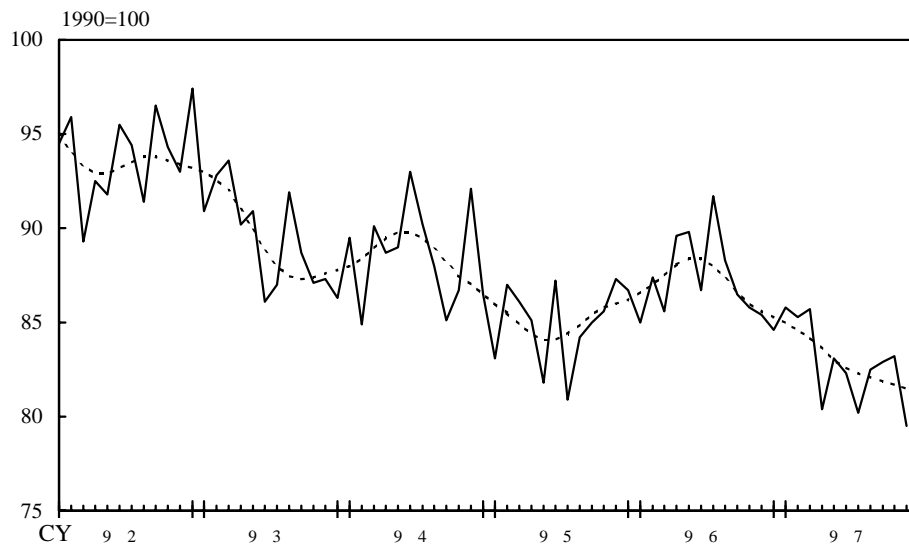
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";  
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";  
 Japan Chain Stores Association, "Sales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

## Public-sector Investment

## (1) Public-works Contracts



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

(2) Shipments of Public Works-related Goods<sup>1</sup>

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

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

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

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

D: trading day factor, I: irregular factor.

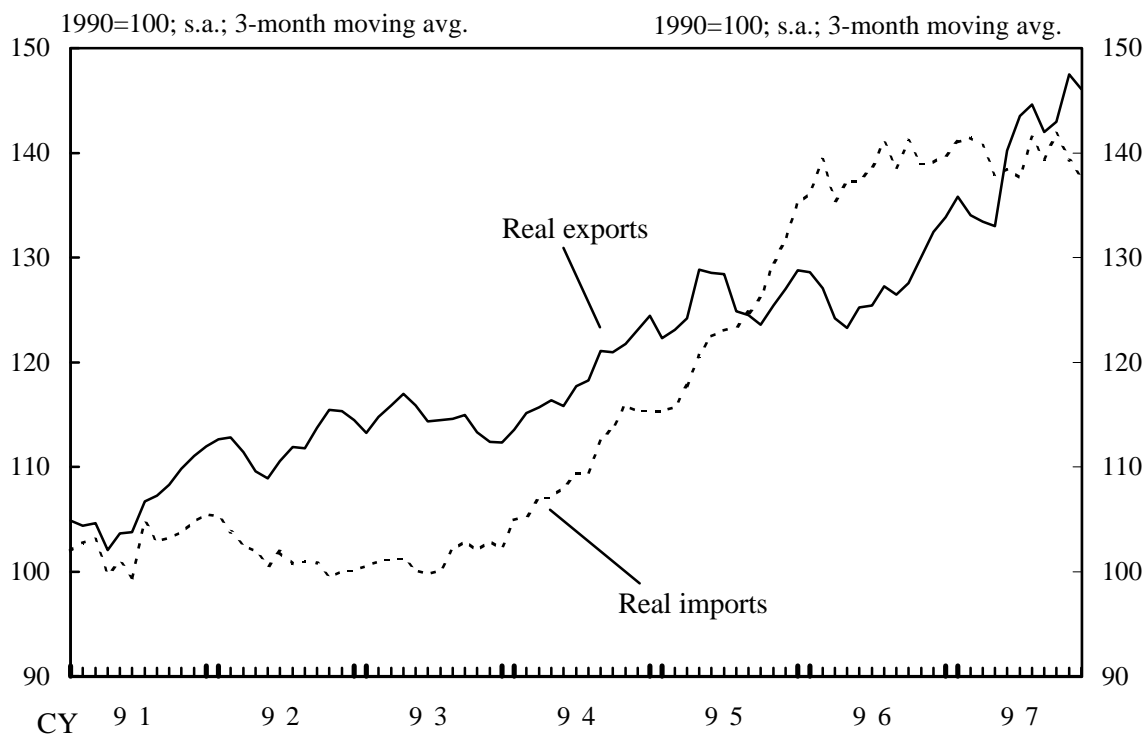
Sources: Economic Planning Agency, "National Income Statistics";

Surety Association for Construction Companies, "Public Works Prepayment Surety Statistic

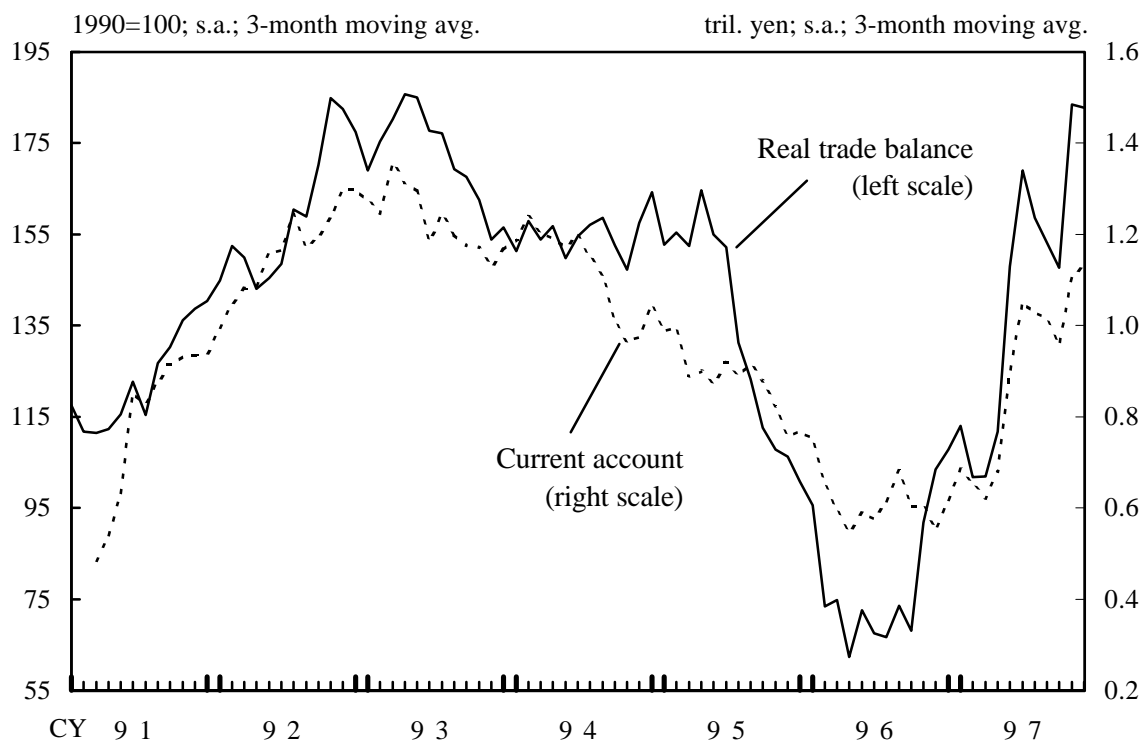
Ministry of International Trade and Industry, "Indices of Industrial Production."

External Balance

(1) Real Exports and Real Imports



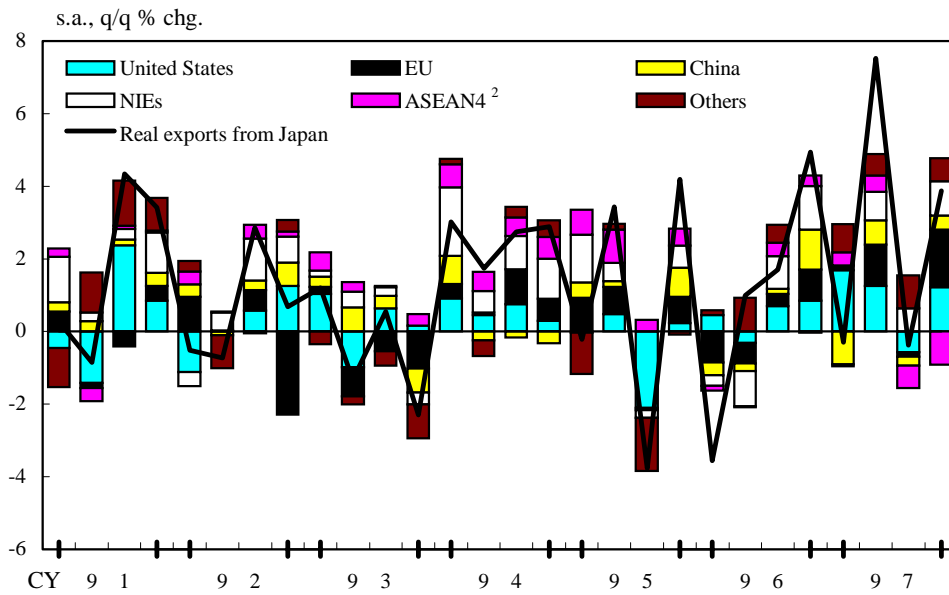
(2) Real Trade Balance and Current Account



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

Exports

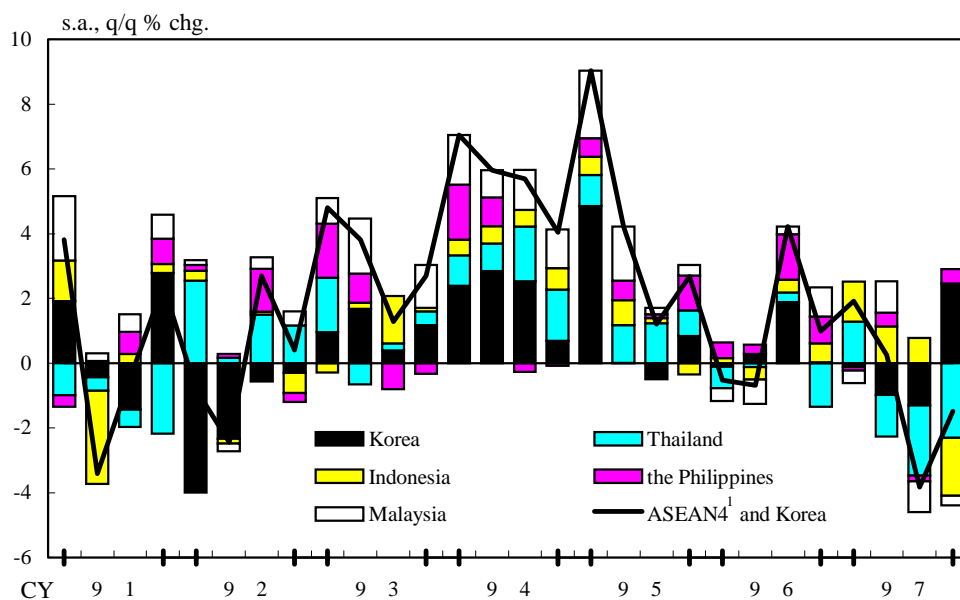
(1) Real Exports from Japan <sup>1</sup>



Notes: 1. The sum of factor contributions does not equal to the total real exports due to seasonal adjustment factors and etc. 1997/Q4 figures are Oct-Nov averages in terms of quarterly amount.

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

(2) Real Exports from Japan to ASEAN4<sup>1</sup> and Korea <sup>2</sup>



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

2. 1997/Q4 figures are Oct-Nov averages in terms of quarterly amount.

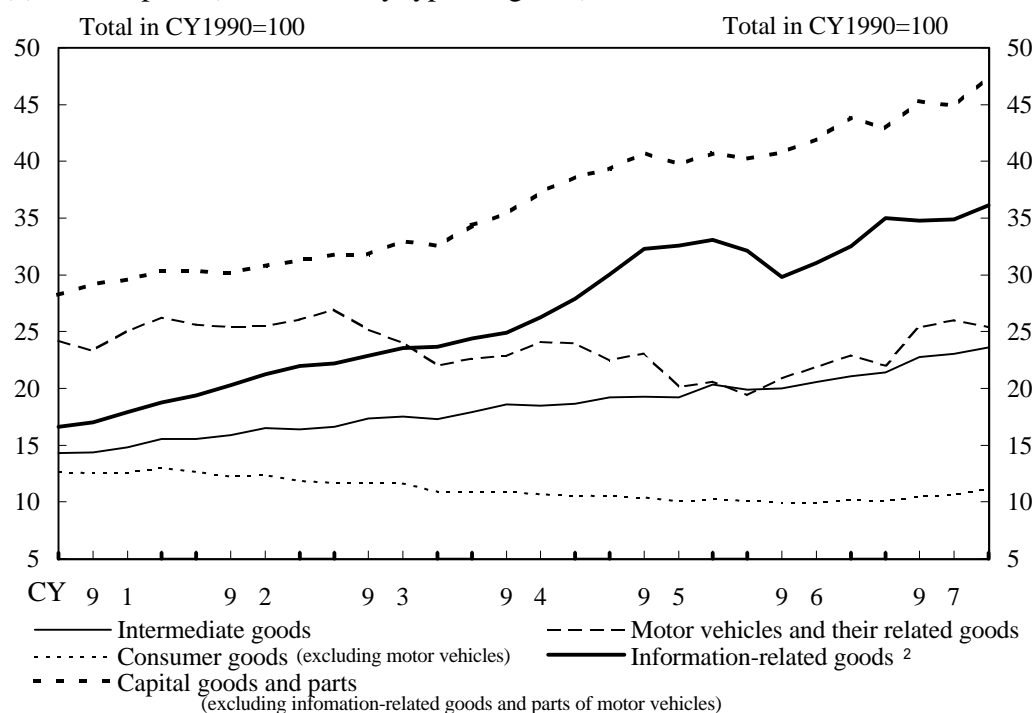
Sources: Ministry of Finance, "Summary Report on Trade of Japan";

Bank of Japan, "Wholesale Price Indexes."

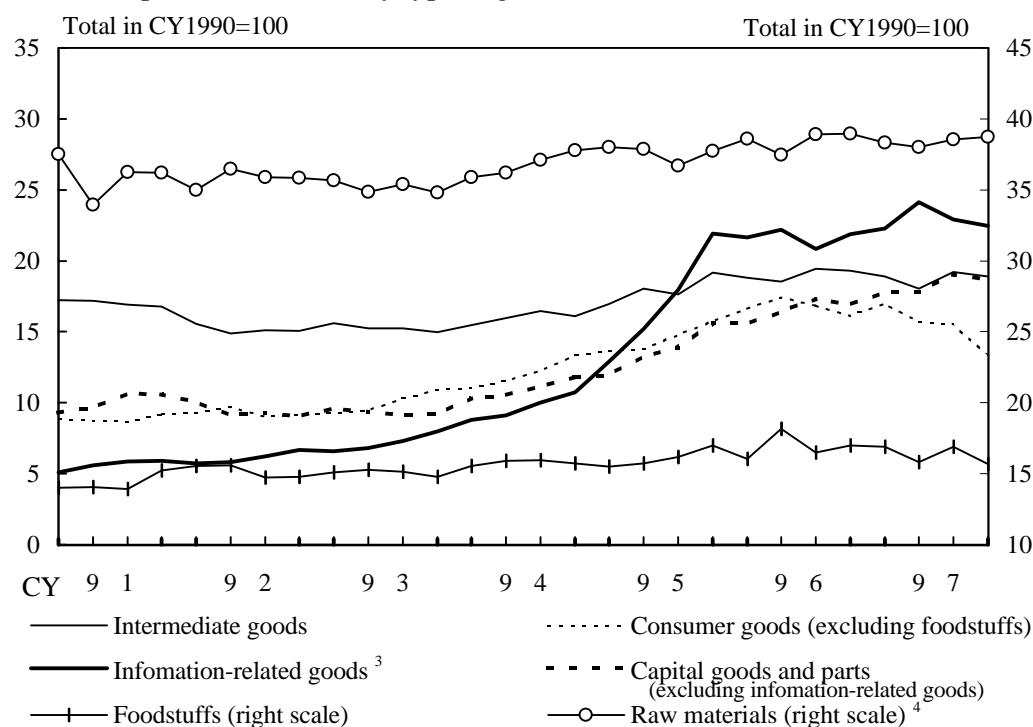


Exports and Imports <sup>1</sup>

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



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



Notes: 1. Based on seasonally adjusted data. 1997/Q4 figures are Oct-Nov averages in terms of quarterly amount.

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

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

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

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

## Overseas Economic Conditions and Real Effective Exchange Rate

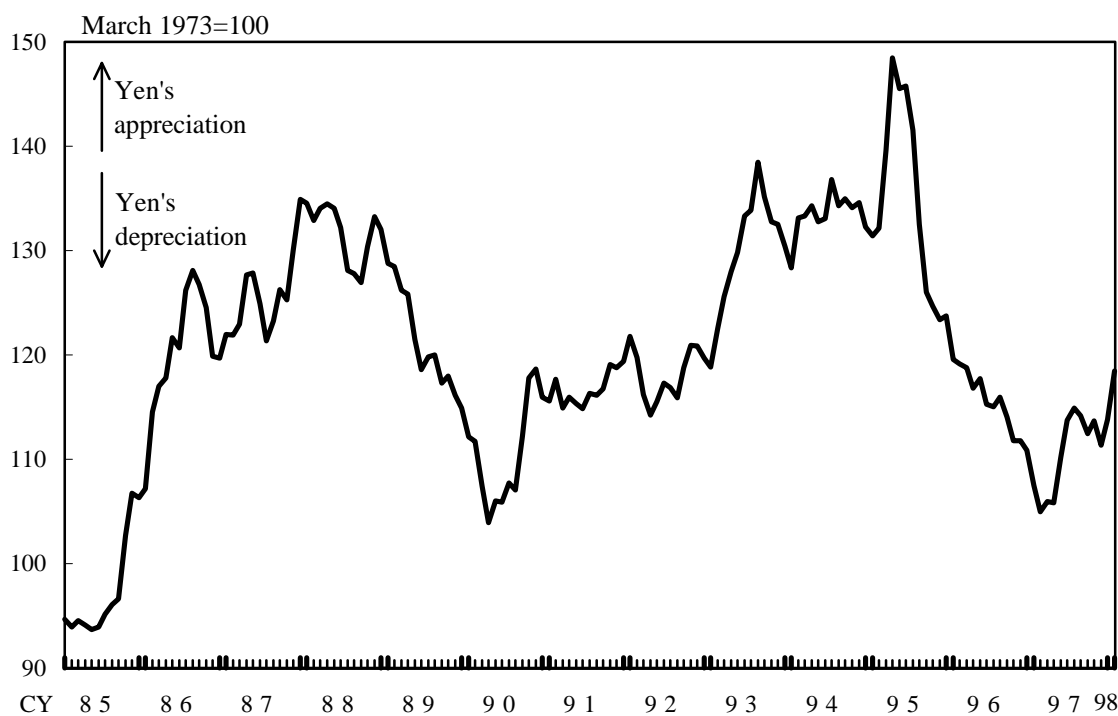
## (1) Real GDP Growth Rates in Overseas Economies

		CY95	96	97	97				
					Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	
United States <sup>1</sup>		2.0	2.8	n.a.	4.9	3.3	3.1	n.a.	
European Union <sup>1</sup>		2.5	1.7	n.a.	1.3	4.8	n.a.	n.a.	
	Germany	1.8	1.4	n.a.	1.2	4.1	3.2	n.a.	
	France	2.1	1.5	n.a.	1.4	4.6	3.5	n.a.	
	United Kingdom	2.8	2.6	n.a.	2.7	4.3	3.4	n.a.	
East Asia <sup>2</sup>	China	10.5	9.7	8.8	9.4	(Jan.-Jun.) 9.5	(Jan.-Sep.) 9.0	(Jan.-Dec.) 8.8	
	NIEs	Korea	8.9	7.1	n.a.	5.5	6.4	6.3	n.a.
		Taiwan	6.0	5.7	n.a.	6.9	6.3	6.9	n.a.
		Hong Kong	3.9	4.9	n.a.	6.1	6.4	n.a.	n.a.
		Singapore	8.8	7.0	n.a.	4.1	8.2	10.1	n.a.
	4 Countries of ASEAN	the Philippines	4.8	5.7	n.a.	5.0	5.7	4.9	n.a.
		Thailand	8.7	6.4	n.a.	n.a.	n.a.	n.a.	n.a.
		Malaysia	9.5	8.2	n.a.	8.5	8.4	7.4	n.a.
Indonesia		8.2	8.0	n.a.	6.9	6.0	n.a.	n.a.	

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

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

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

(2) Real Effective Exchange Rate <sup>1</sup>

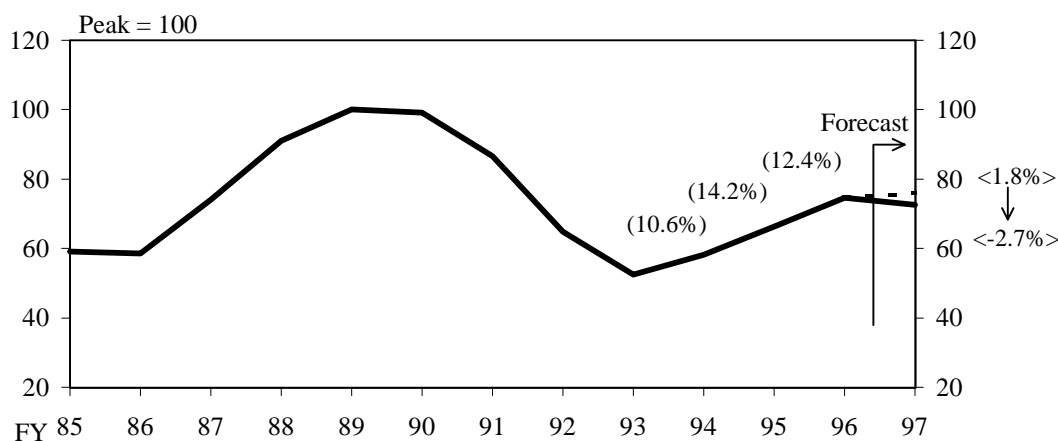
Notes: 1. Monthly average. The figure of Jan. 1998 is January 1-14 average.

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

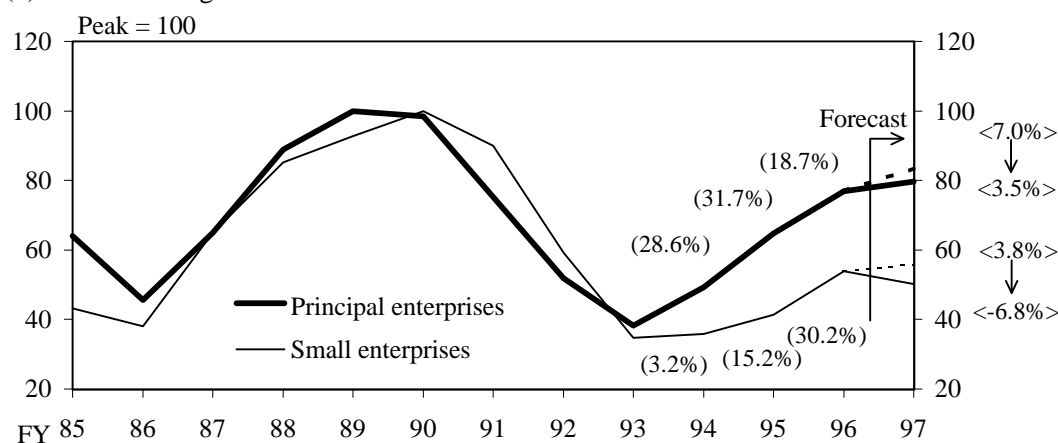
Figures are index of weighted average of yen's real exchange rates versus 24 major currencies which are calculated from exchange rates and price indexes of respective countries.

Current Profits as Surveyed in *Tankan*

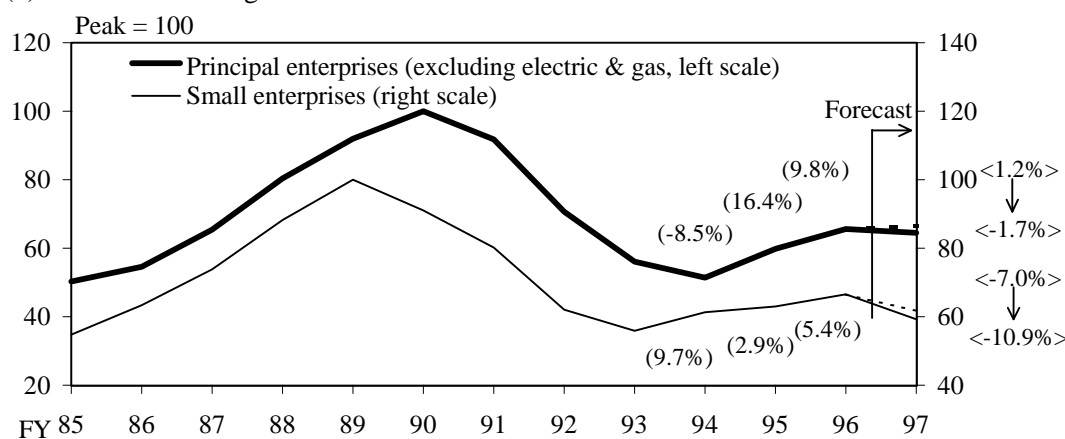
## (1) All Industries



## (2) Manufacturing



## (3) Nonmanufacturing



Notes: 1. Figures in parentheses are percent change from a year earlier. Figures in brackets show the y/y changes of the forecasts of 97FY to the results of 96FY.

2. The dotted lines are projections in September 1997.

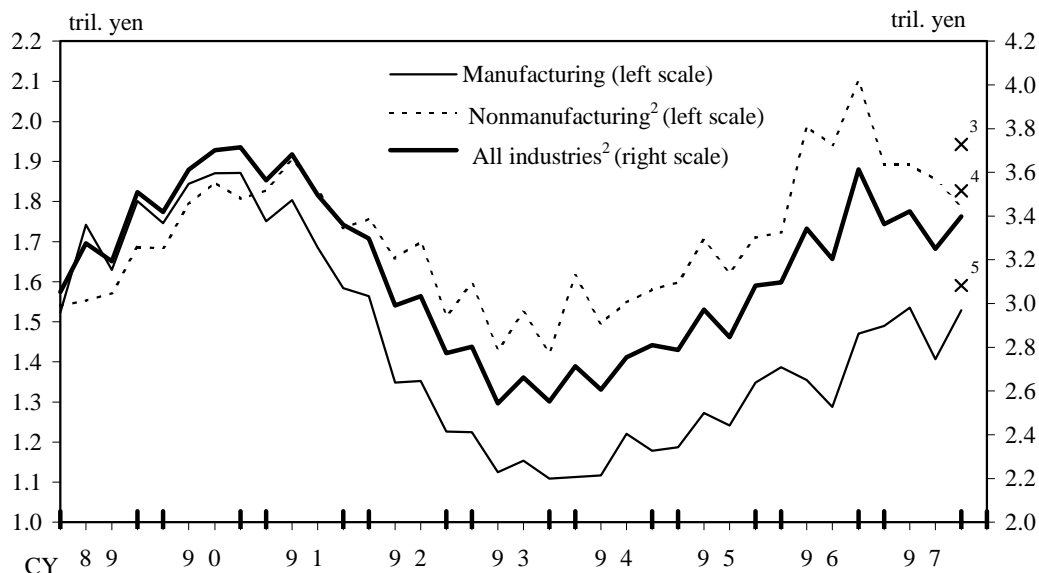
3. Figures of all industries are adjusted by the weight of current profits of each industry based on the "Corporate Business Statistics Annual."

The enterprises are classified as large firms with owner's equity of 1 billion yen or more, medium firms with that of 100 million yen or more, and small firms with that of less than 100 million yen based on the "Corporate Business Statistics Annual", in order to correspond to the classification in "Tankan."

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

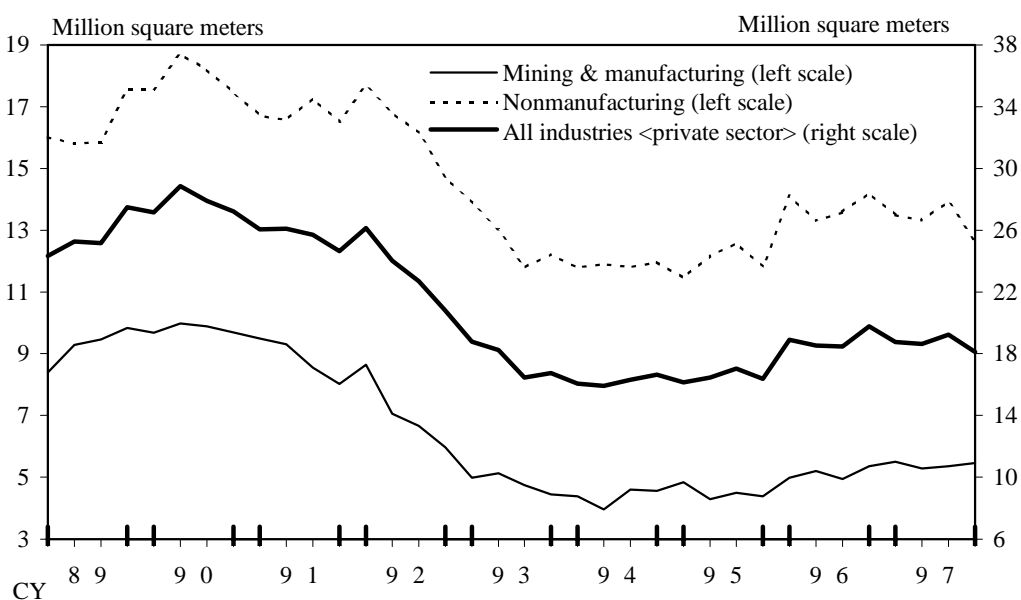
Major Indexes of Business Fixed Investment

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



- Notes: 1. Based on seasonally adjusted data. Figures for 1997/Q4 are data of October in terms of quarterly amount.  
 2. Excludes orders from electric power companies, and shipbuilding orders.  
 3. Forecast of nonmanufacturing industries for 1997/Q4.  
 4. Forecast of all industries for 1997/Q4.  
 5. Forecast of manufacturing industries for 1997/Q4.

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

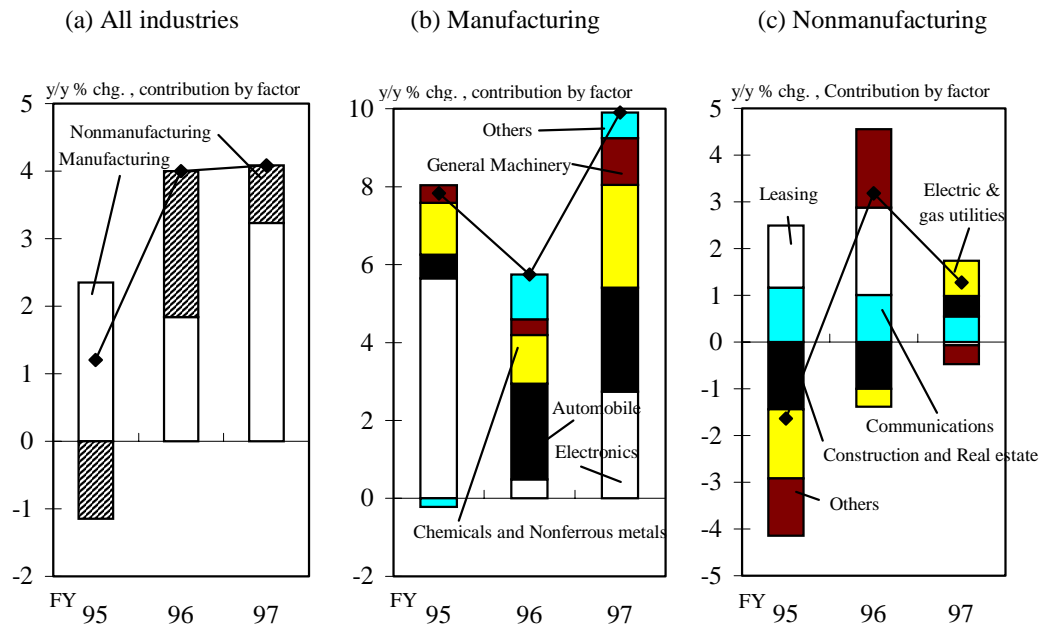


Note: 1. Seasonally adjusted data. Figures for 1997/Q4 are averages of October and November in terms of quarterly amount.

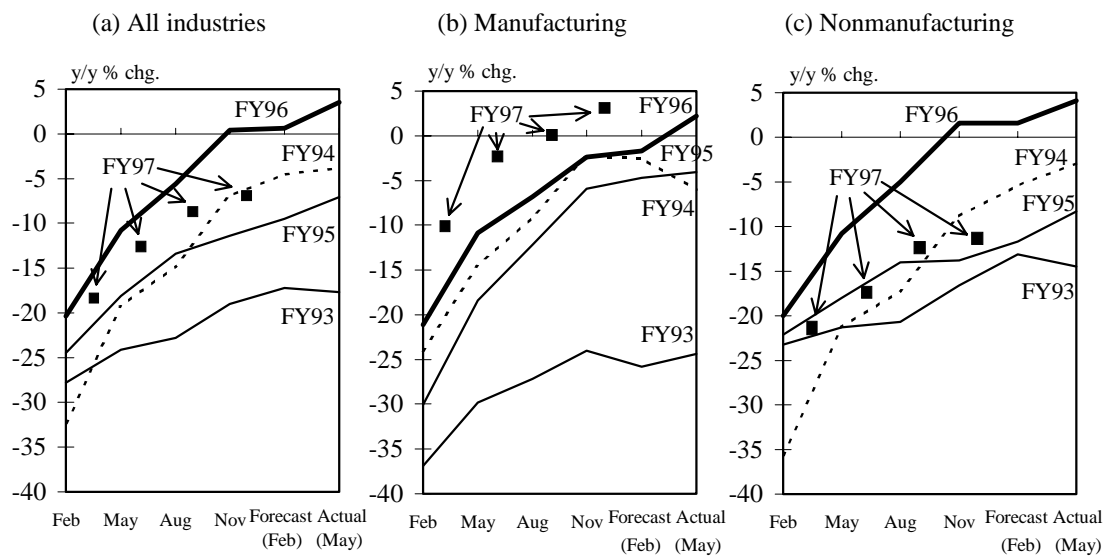
Sources: Economic Planning Agency, "Machinery Orders Statistics";  
 Ministry of Construction, "Construction Statistics Monthly."

Business Fixed Investment Plans as Surveyed in *Tankan*

(1) Investment Plans of Principal Enterprises



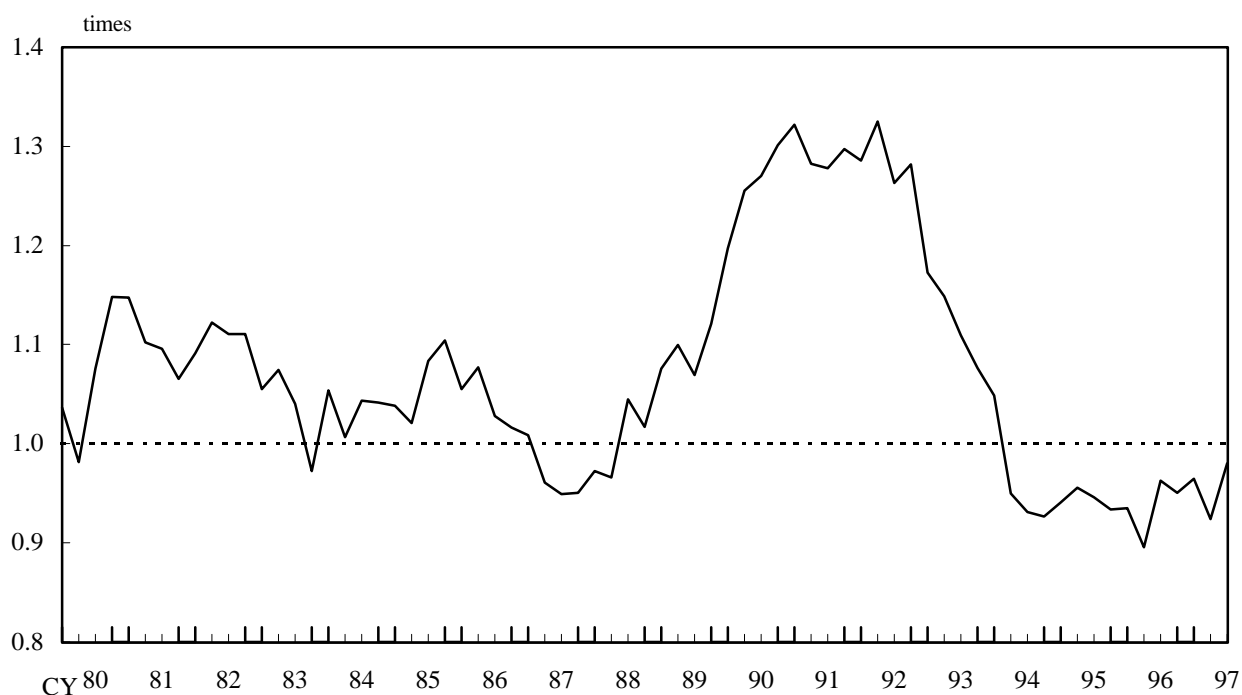
(2) Adjustment of Plans by Small Enterprises



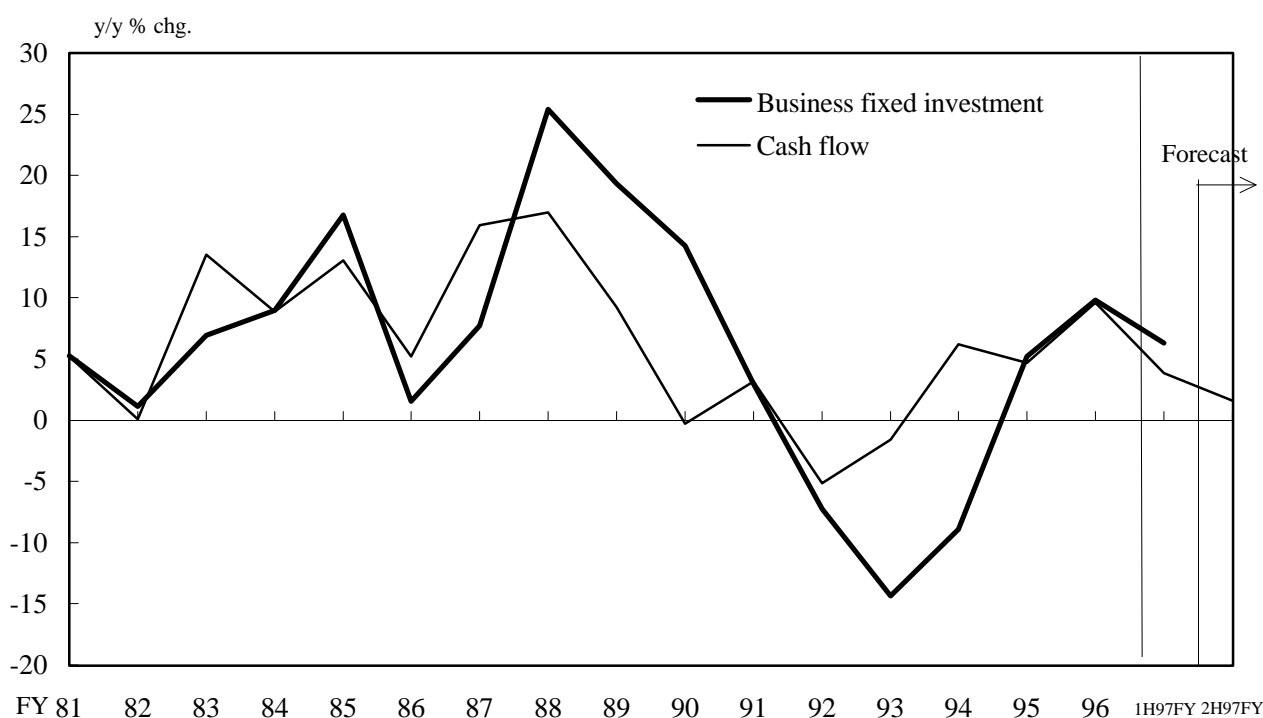
Source: Bank of Japan, "*Tankan* — Short-Term Economic Survey of Enterprises."

## Business Fixed Investment and Cash Flow<sup>1</sup>

### (1) Business Fixed Investment / Cash Flow (quarterly)



### (2) Business Fixed Investment and Cash Flow<sup>2</sup>



Notes: 1. All figures are based on the "Corporate Business Statistics Quarterly".

Cash Flow = depreciation + net Income.

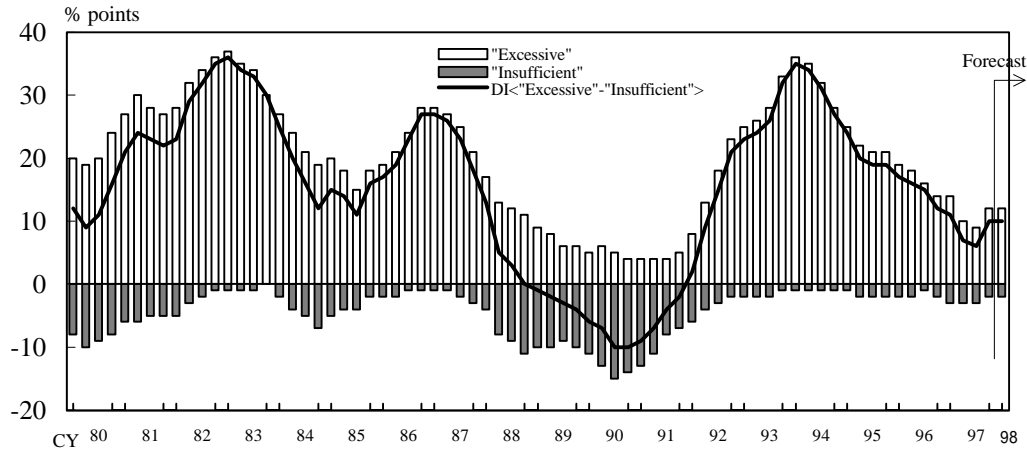
Net Income = Current profits / 2.

2. Figures in 1997/H1 are actual results. Cash flow in 1997/H2 is calculated assuming that the growth rate of Current profits in 1997/H2 equals to that forecasted in December *Tankan* (all industries) and that the growth of depreciation in 1997/H2 equals to the actual growth rate in 1997/H1.

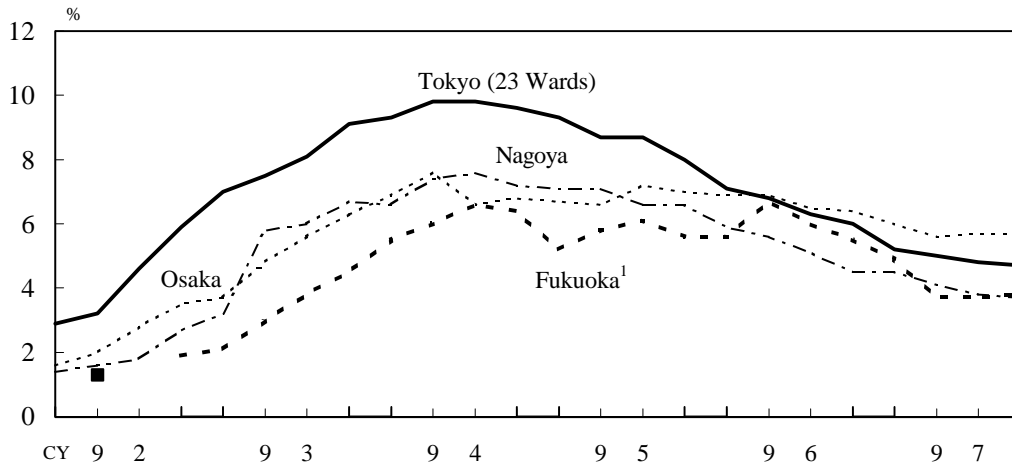
Sources: Ministry of Finance, "Corporate Business Statistics Quarterly";  
Bank of Japan, "*Tankan* — Short-Term Economic Survey of Enterprises."

Production Capacity and Capital Stock Adjustment

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

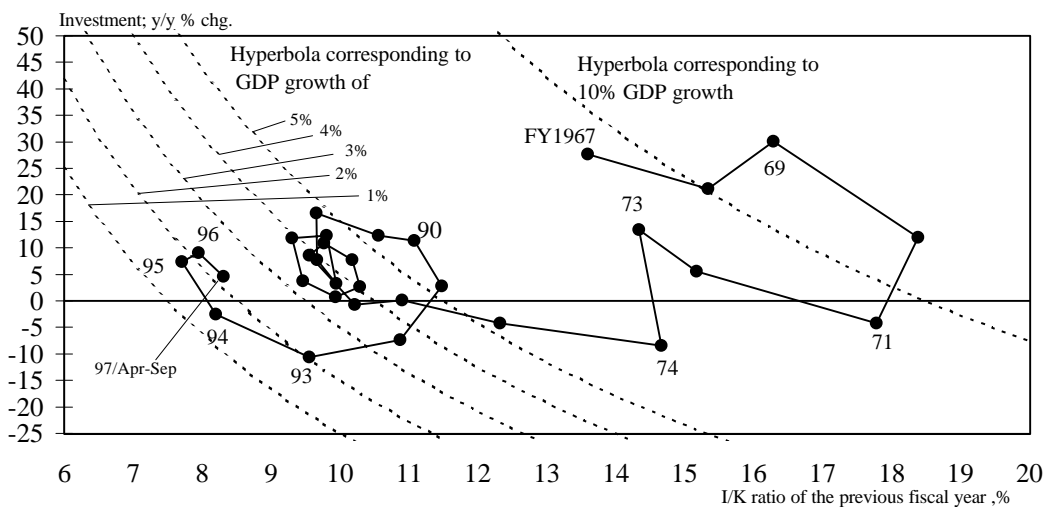


(2) Office Vacancy Rates in Major Cities



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

(3) Capital Stock Cycle (All Industries)

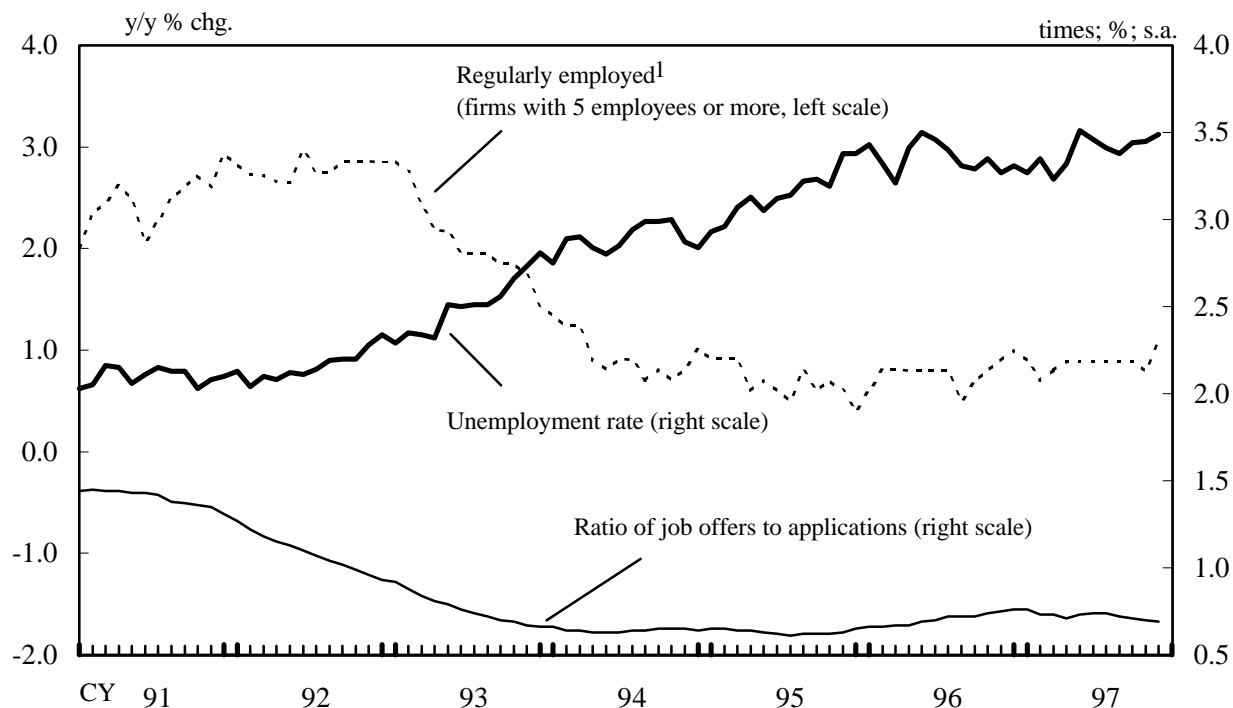


Note: 1. Some data are estimated by the Research and Statistics Department of the Bank of Japan.

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

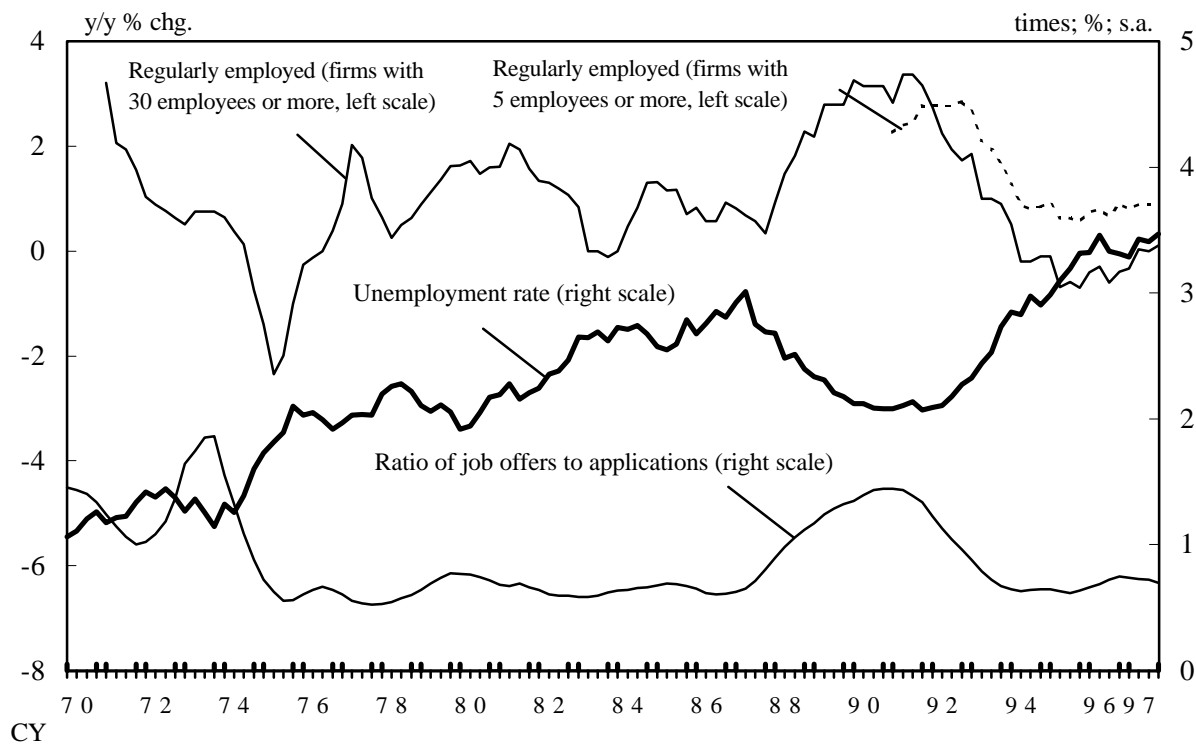
Labor

(1) Monthly



Note: 1. The data in Nov. 97 is preliminary.

(2) Quarterly<sup>1</sup>



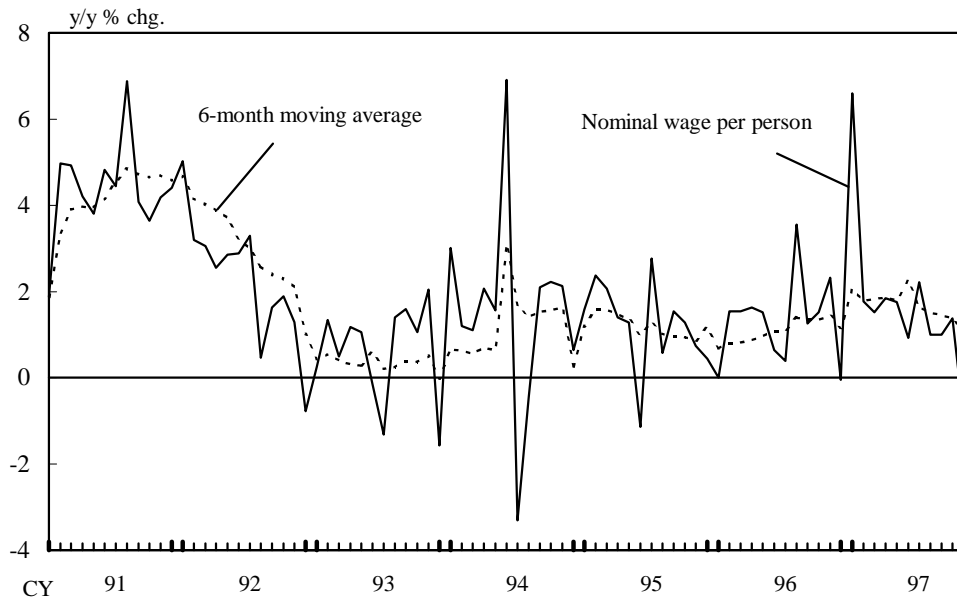
Note: 1. The data in 97/Q4 are October-November average.

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



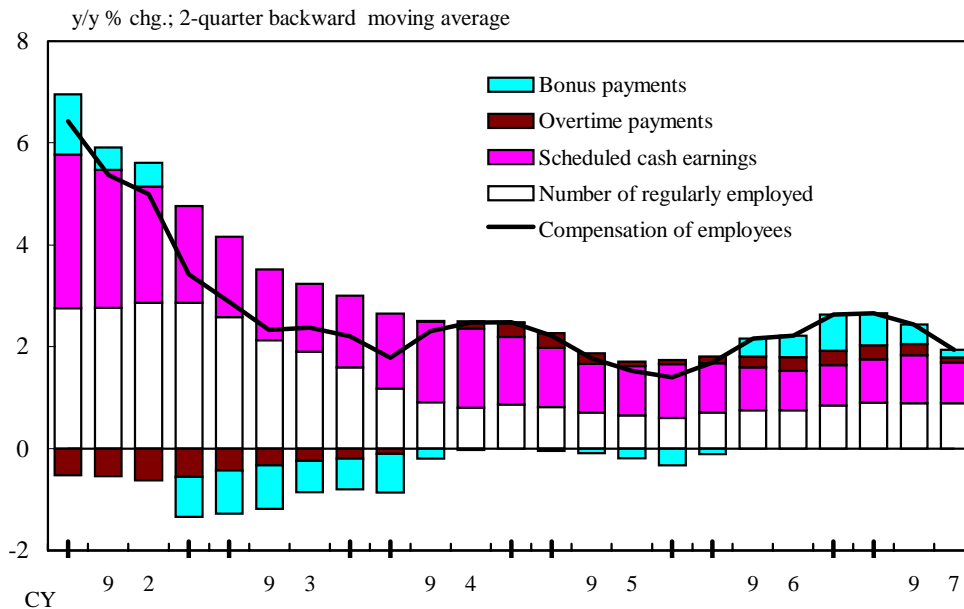
Compensation of Employees

(1) Nominal Wage per Person <sup>1</sup>



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

(2) Breakdown of Compensation <sup>1</sup>

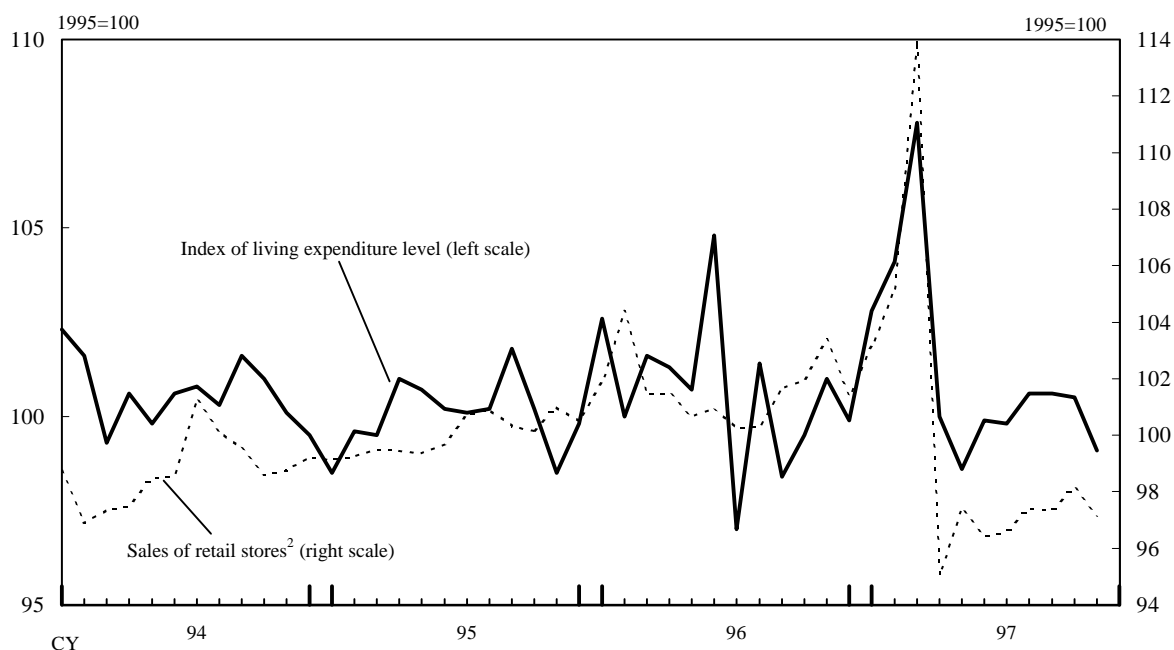


Note: 1. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.  
Data for firms with 5 employees or more.  
The data in 97/Q3 are preliminary.

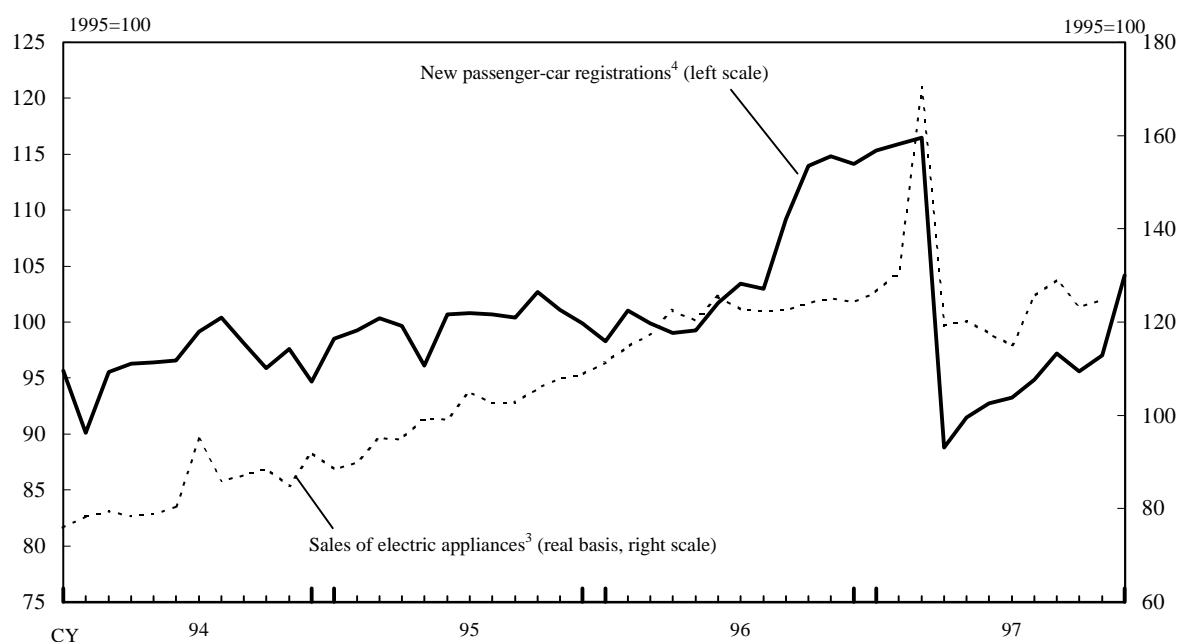
Source: Ministry of Labor, "Monthly Labor Survey."

Private Consumption<sup>1</sup>

## (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 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.

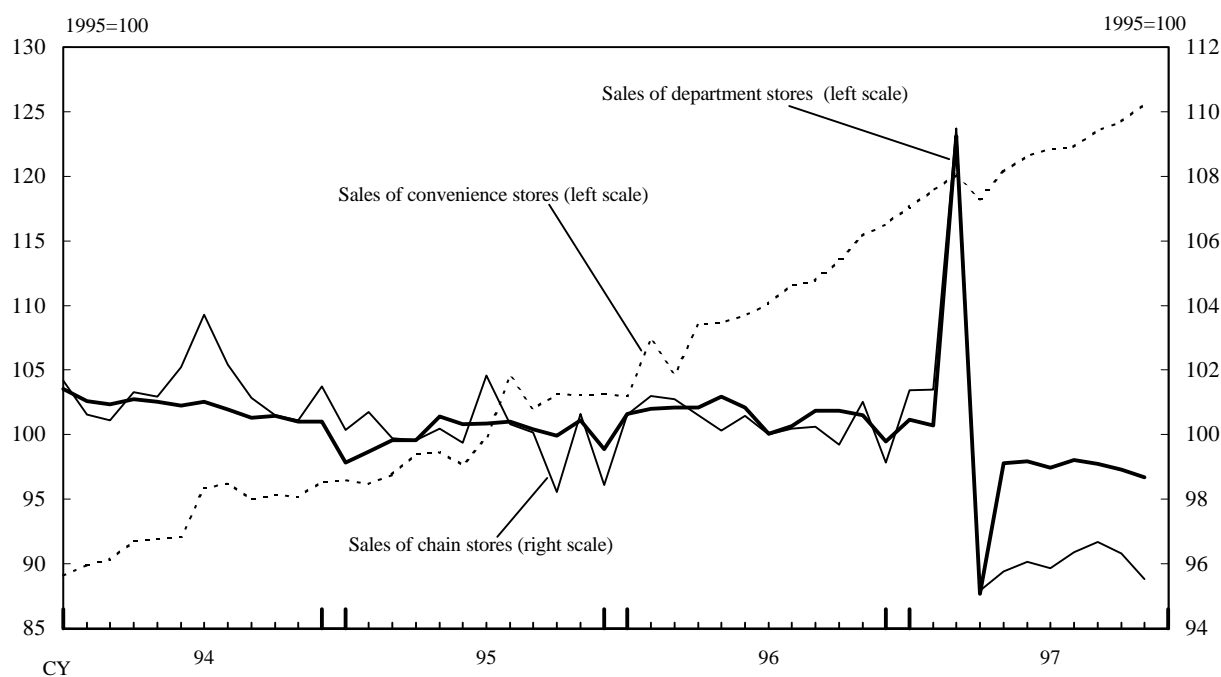
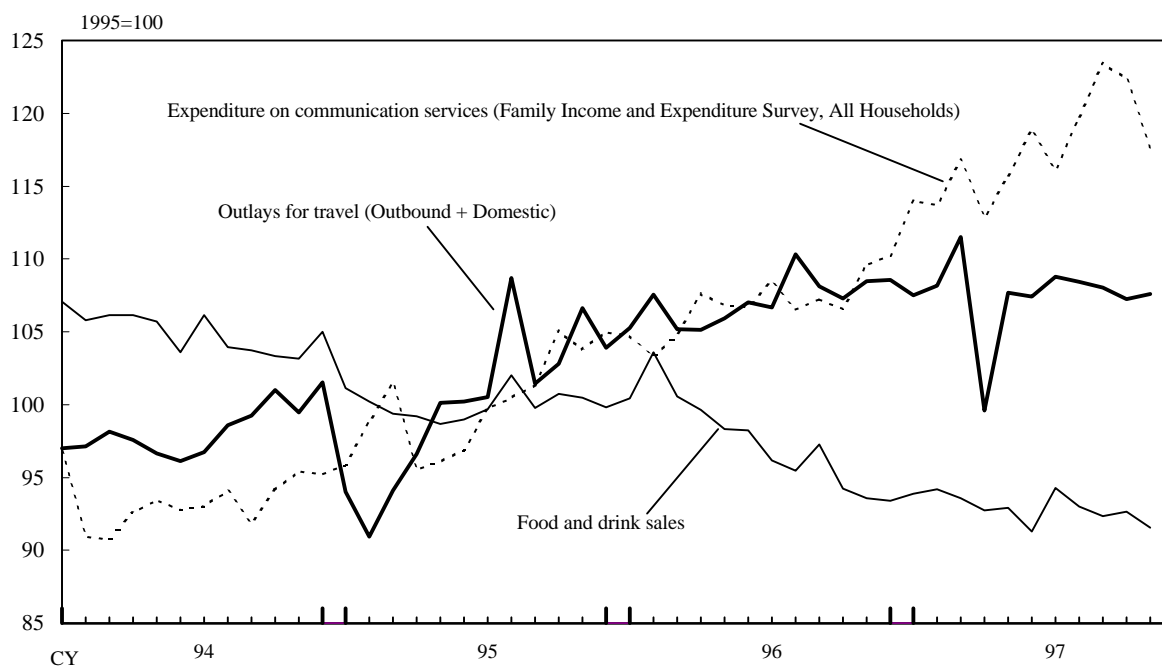
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";  
"Consumer Price Index";

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>(3) Sales of retail stores<sup>2</sup>(4) Consumption on services<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.

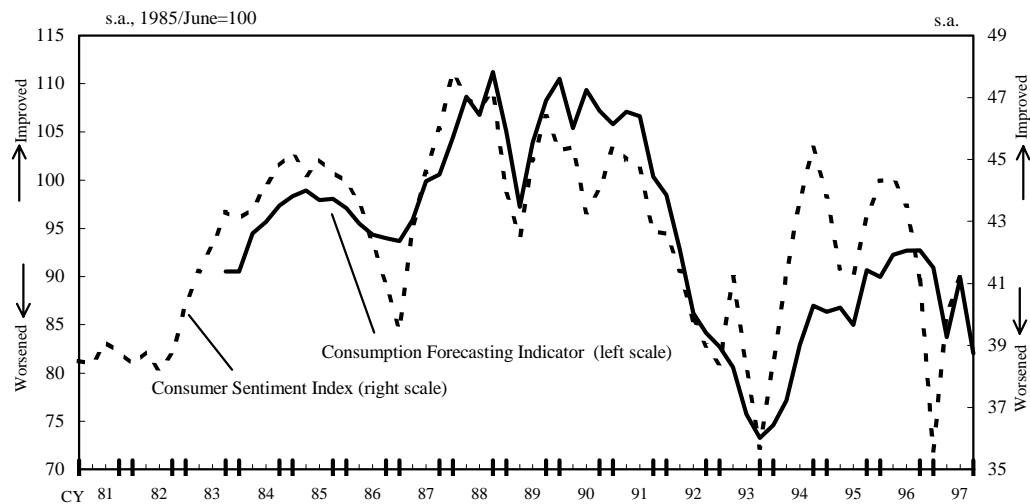
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

4. Sales of convenience stores is surveyed by Research and Statistic Department, Bank of Japan.

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

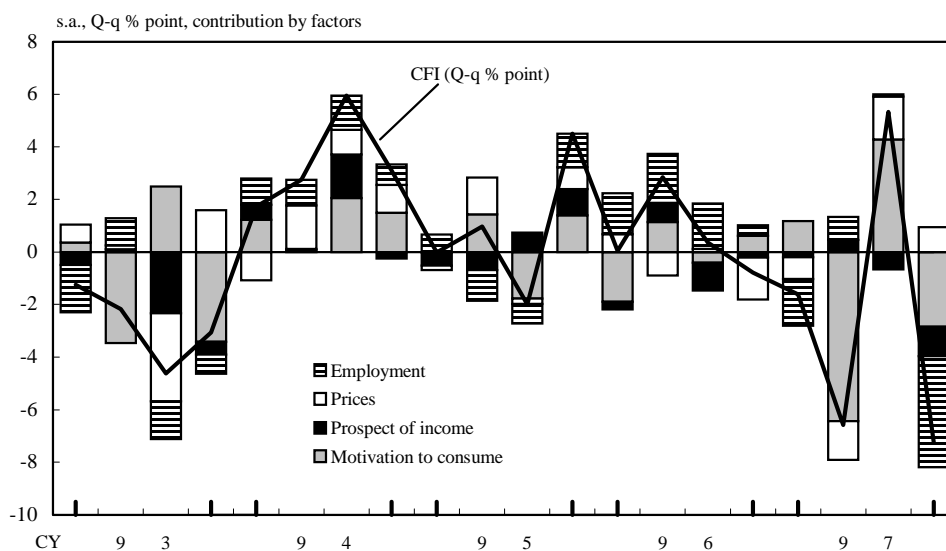
Consumer Confidence

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



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

(2) Consumption Forecasting Indicator



Notes: Items are recomposed as followings;

"Employment" = "Employment situation"

"Prices" = "Consumer Price Situation"

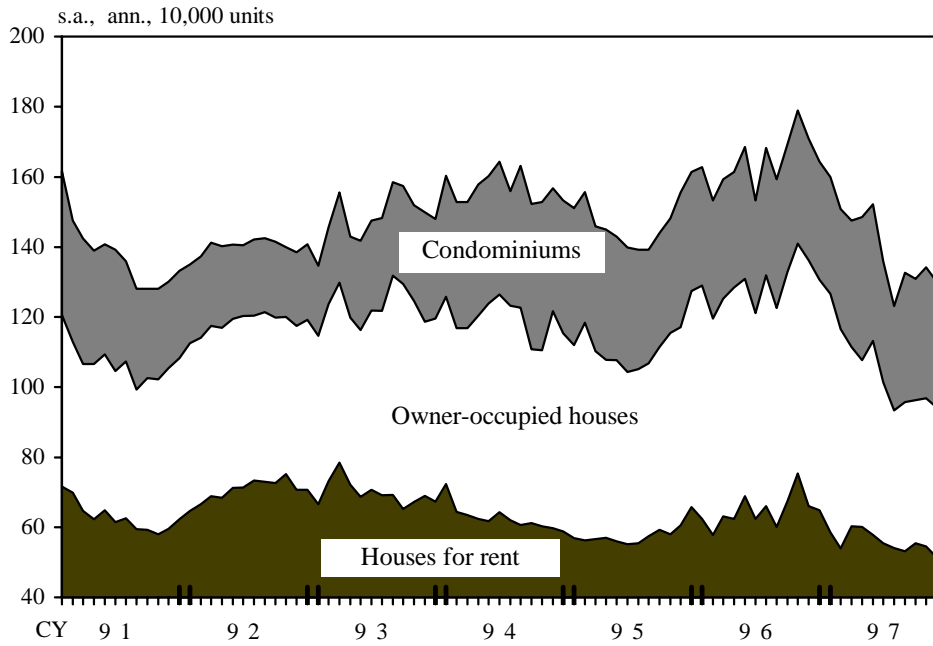
"Prospect of income" = "Corporate profits" + "Personal Financial Situation"

"Motivation to consume" = "Intention to Tighten Expenditure (Durables)"  
 + "Intention to Tighten Expenditure (Leisure Activities)"  
 + "Intention to Tighten Expenditure (Culture Life)"

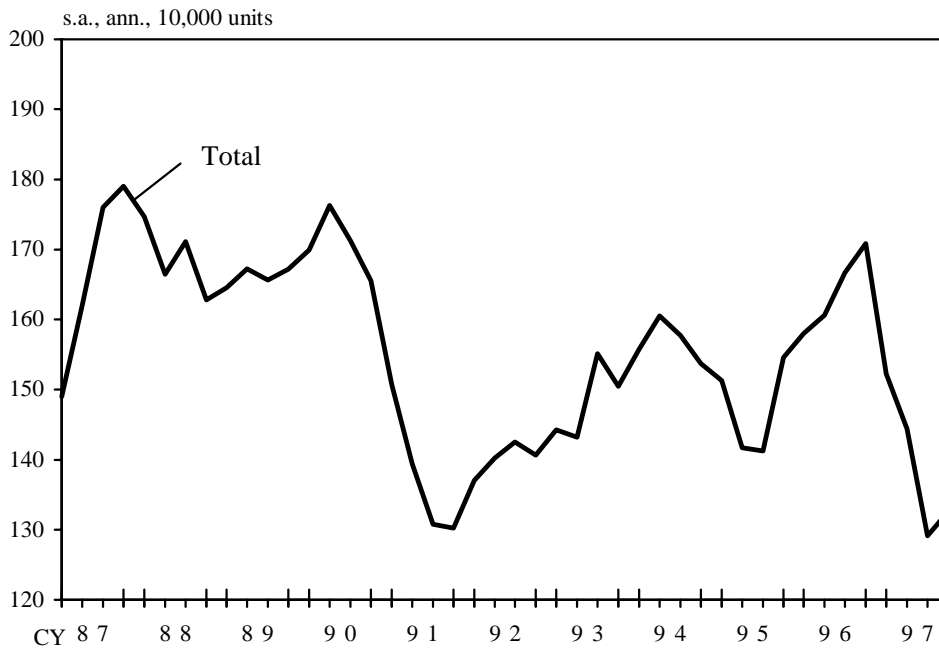
Sources: Economic Planning Agency, "Consumer Behavior Survey";  
 Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator."

Housing Starts<sup>1</sup>

(1) Monthly



(2) Quarterly

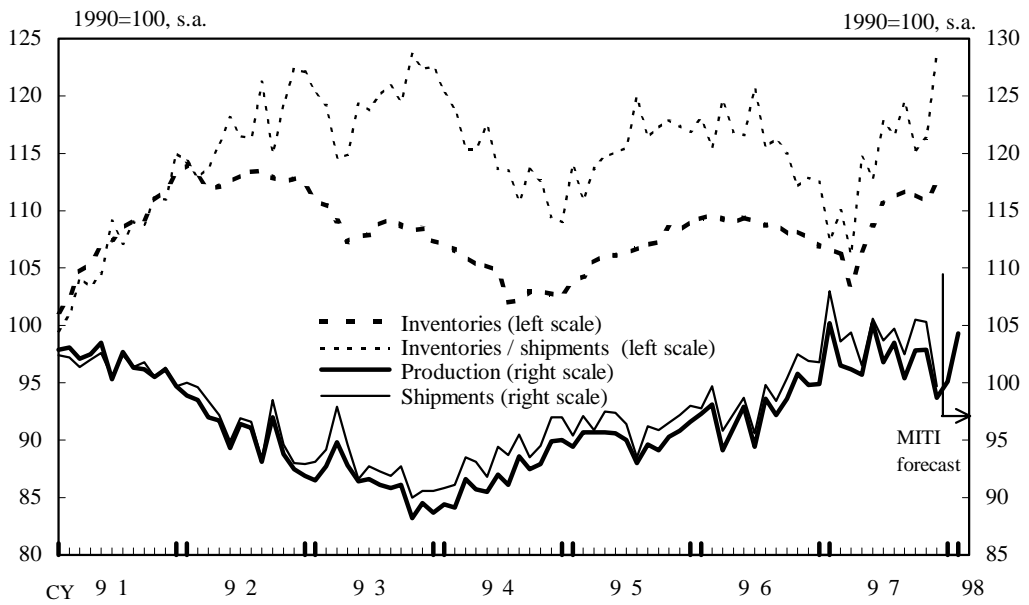


Note: 1.97/Q4 is Oct-Nov average.

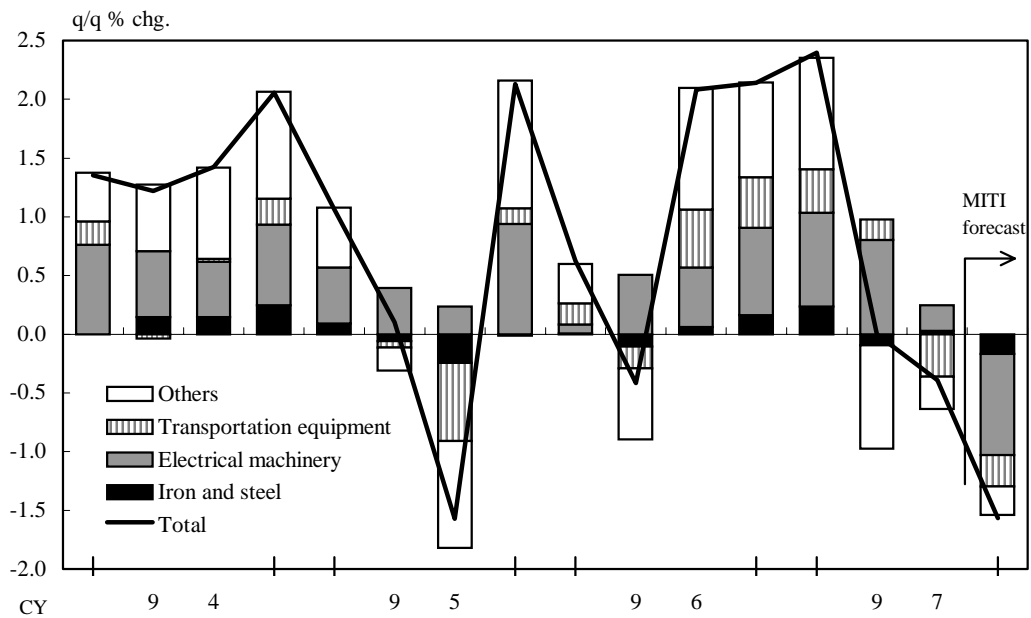
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



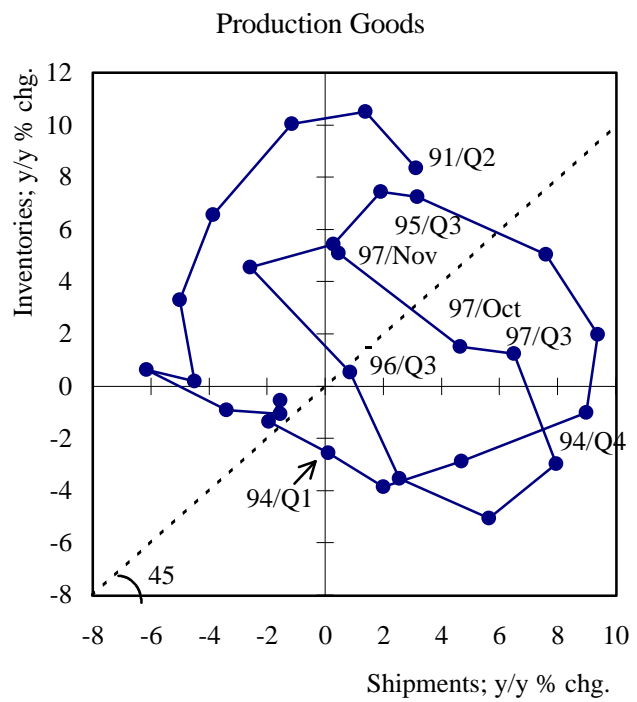
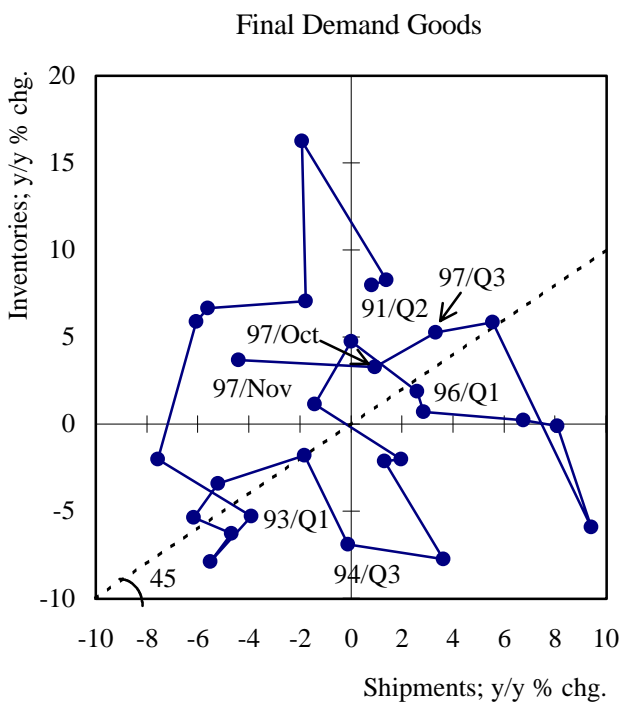
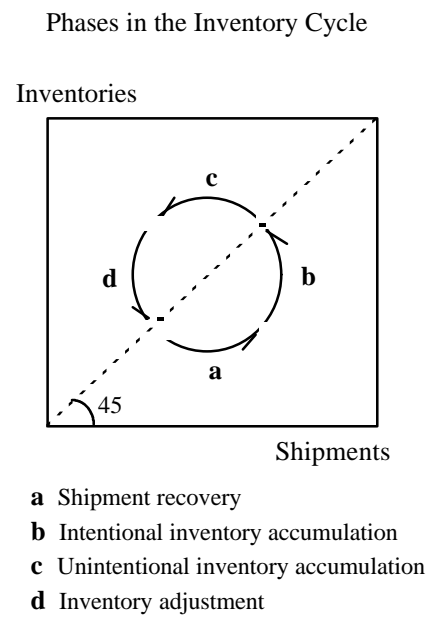
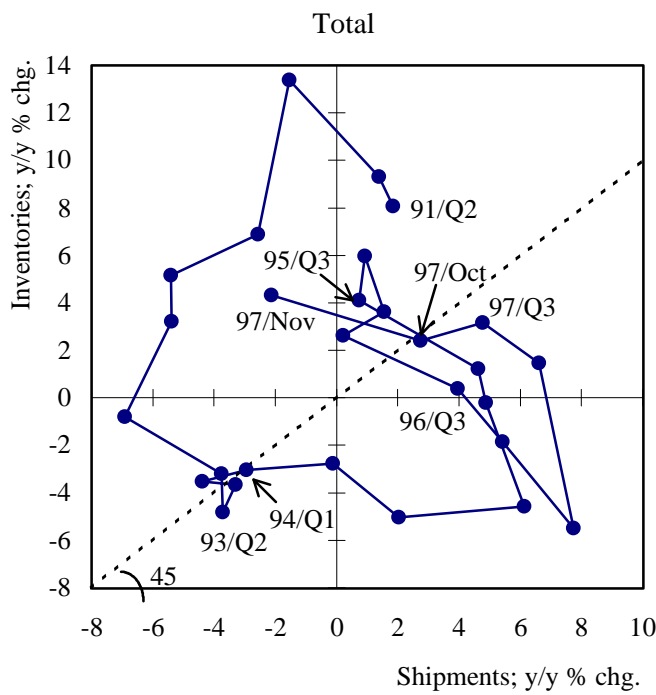
(2) Production by Industries



Note: Transportation equipment excludes ships and rolling stock.

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

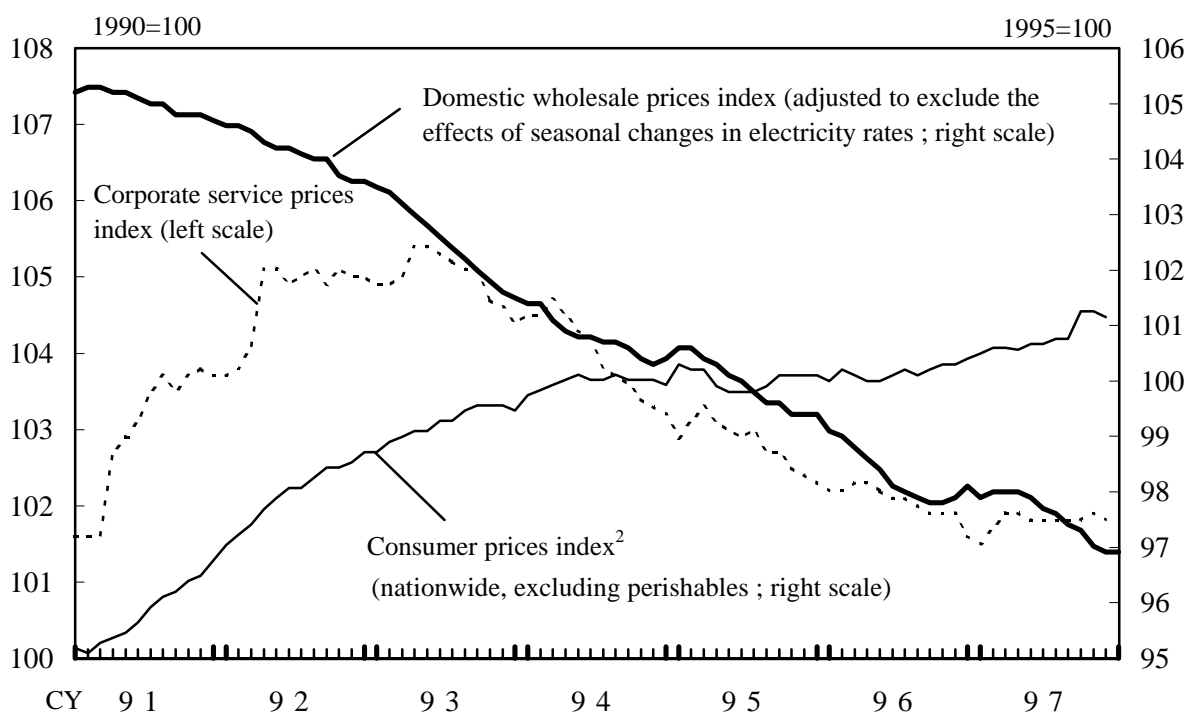
Inventory Cycle



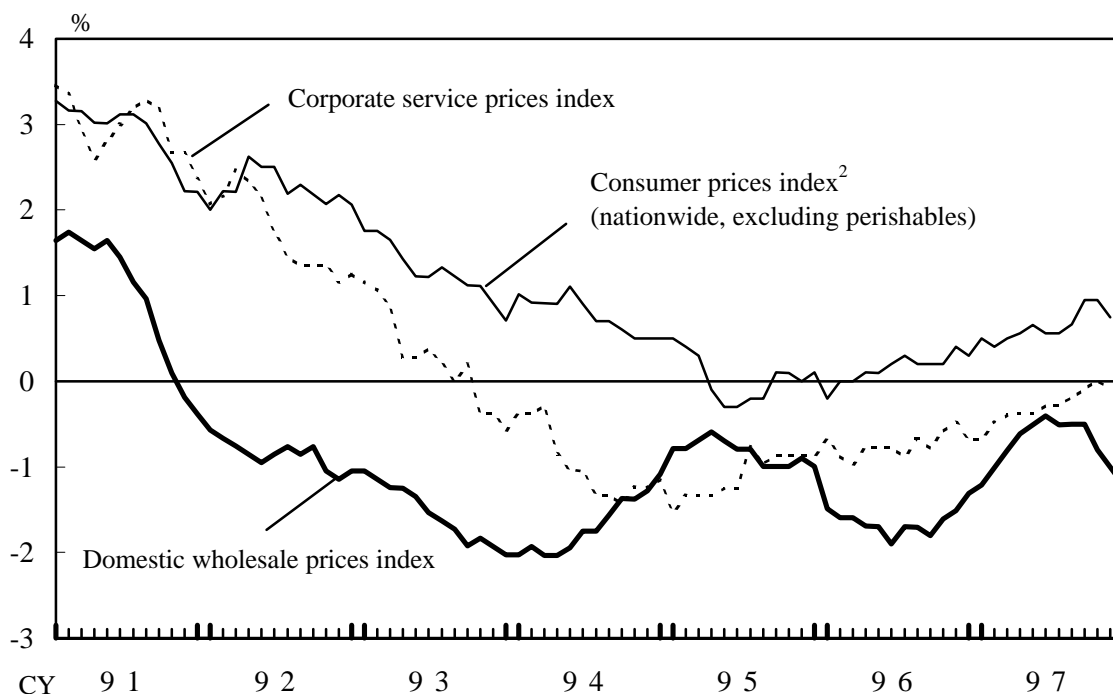
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

## Prices

## (1) Level



## (2) Changes from a year earlier



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

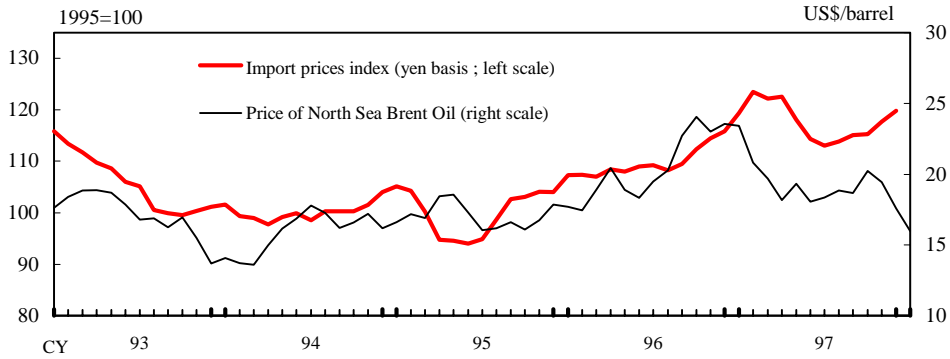
2. Based on seasonally adjusted data of CPI whose base period is 1995, although the figures before January 1995 are calculated from CPI whose base period is 1990.

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

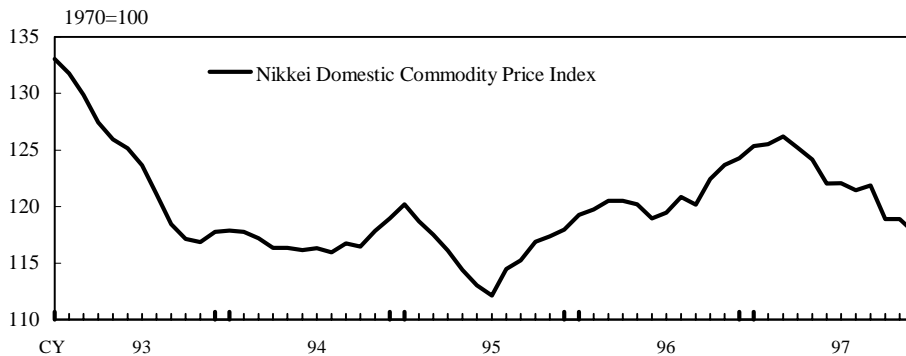


Import Prices and Domestic Wholesale Prices

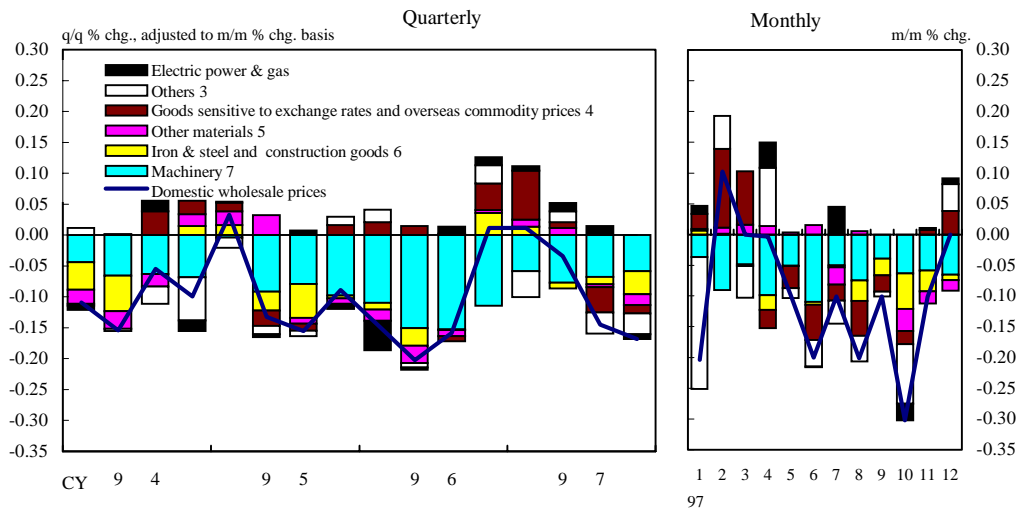
(1) Import Prices<sup>1</sup> (yen basis) and Crude Oil Price



(2) Domestic Commodity Market



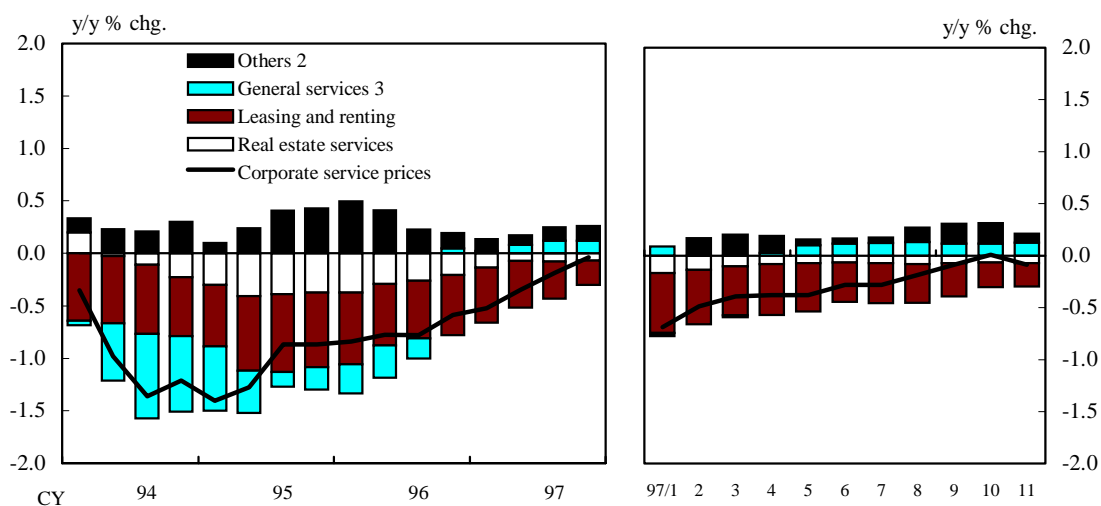
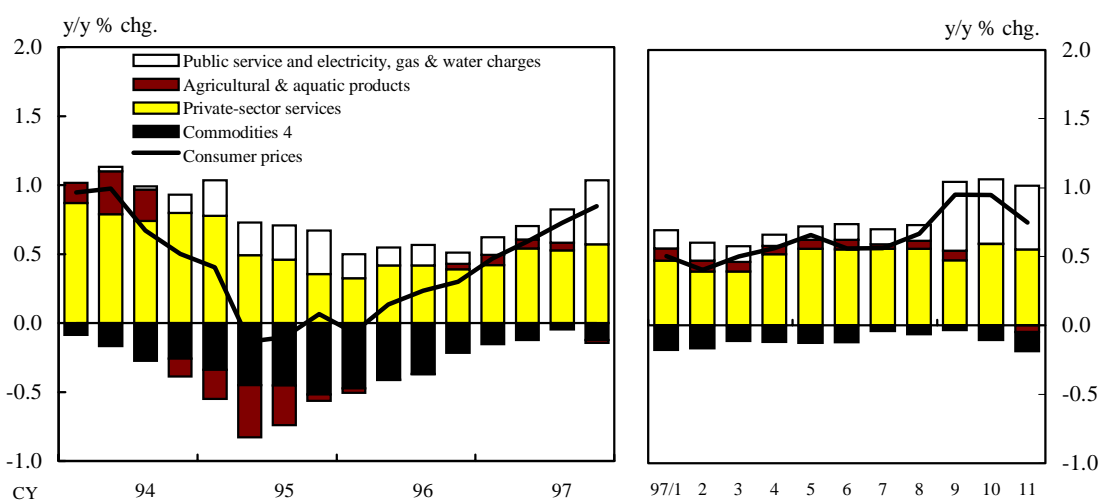
(3) Breakdown of Domestic Wholesale Prices<sup>2</sup>



- Notes:
1. Data for January 1998 is January 1-9 average.
  2. 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.
  3. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.
  4. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metal.
  5. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.
  6. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wooden products + scrap & waste.
  7. Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.

Sources: Bank of Japan, "Wholesale Price Indexes"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

## Corporate Service Prices and Consumer Prices

(1) Breakdown of Corporate Service Prices Index<sup>1</sup>(2) Breakdown of Consumer Prices Index (excluding perishables)<sup>1</sup>

Notes: 1. Adjusted to exclude the effects of seasonal changes of the consumption tax-hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

Data for 97/Q4 are October -November average.

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

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

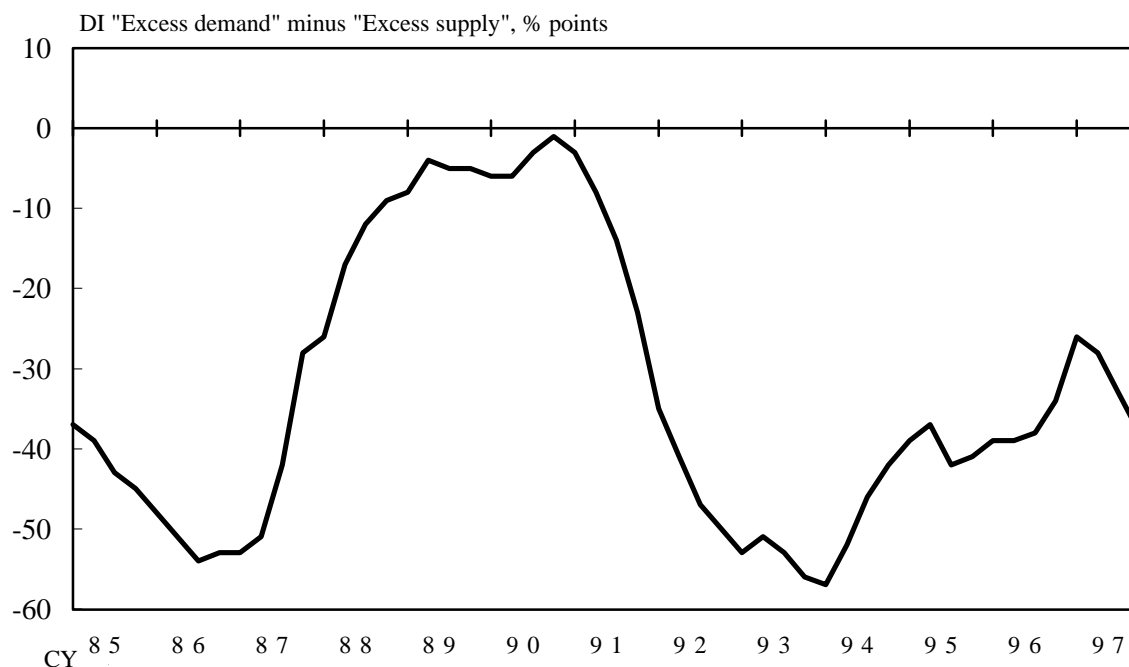
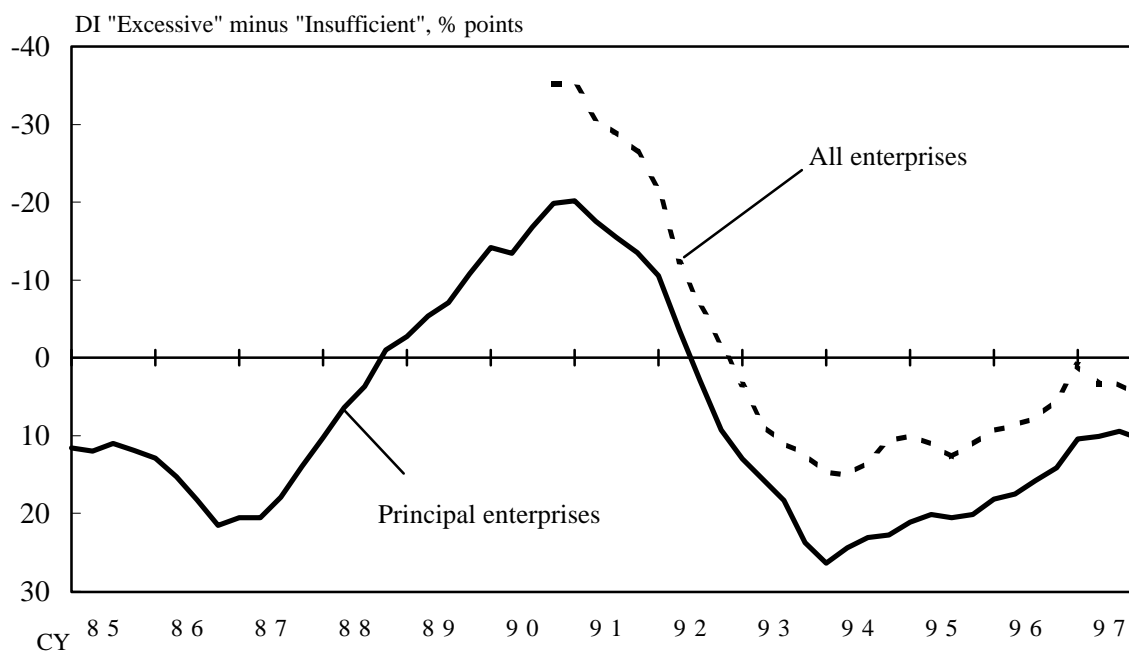
4. Excludes agricultural and aquatic products.

Sources: Management and Coordination Agency, "Consumer Price Index";

Bank of Japan, "Corporate Service Price Index."

## Factors Contributing to the Change in Prices (1)

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

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

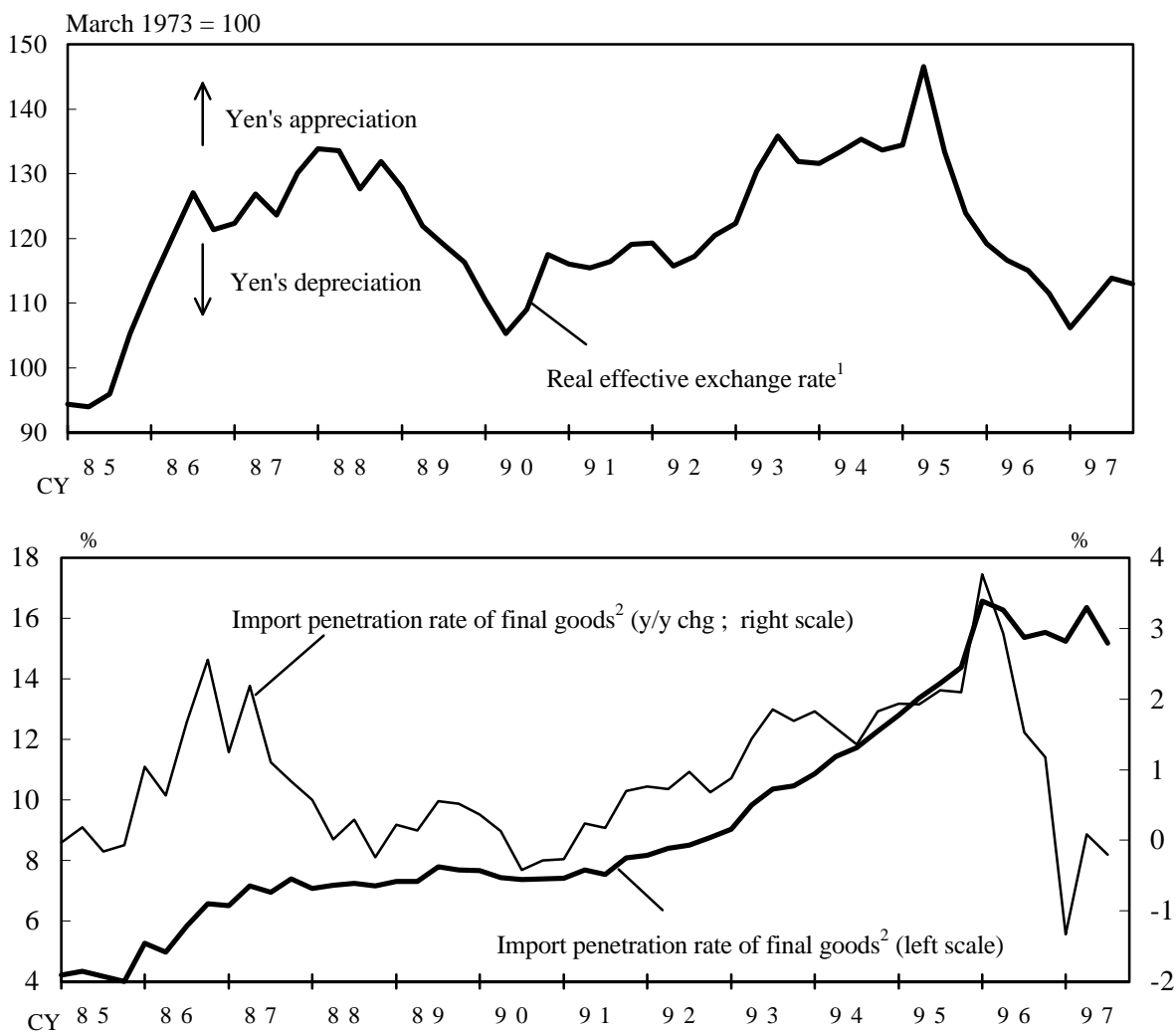
Note: 1. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1975-96 average.

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

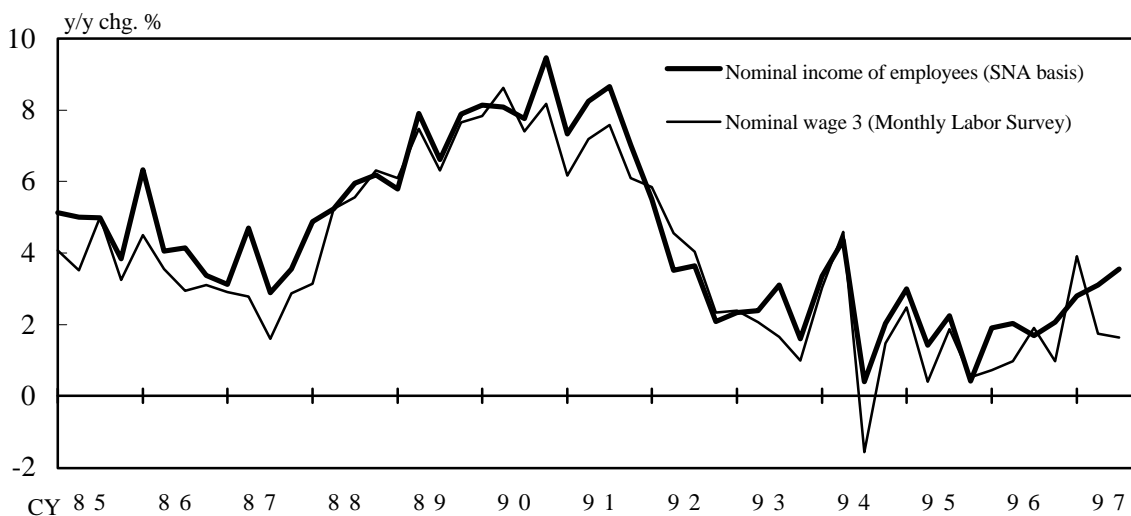
Sources: Bank of Japan, "Tankan -Short-Term Economic Survey of Enterprises in Japan"; Economic Planning Agency, "National Income Statistics."

Factors Contributing to the Change in Prices (2)

(3) Downward Pressure coming from Imports



(4) Wage Expenses



Notes: 1. Calculated by Research and Statistic Department, Bank of Japan.

2. Import penetration ratio = imports / ( shipments for domestic markets + imports ) \* 100.

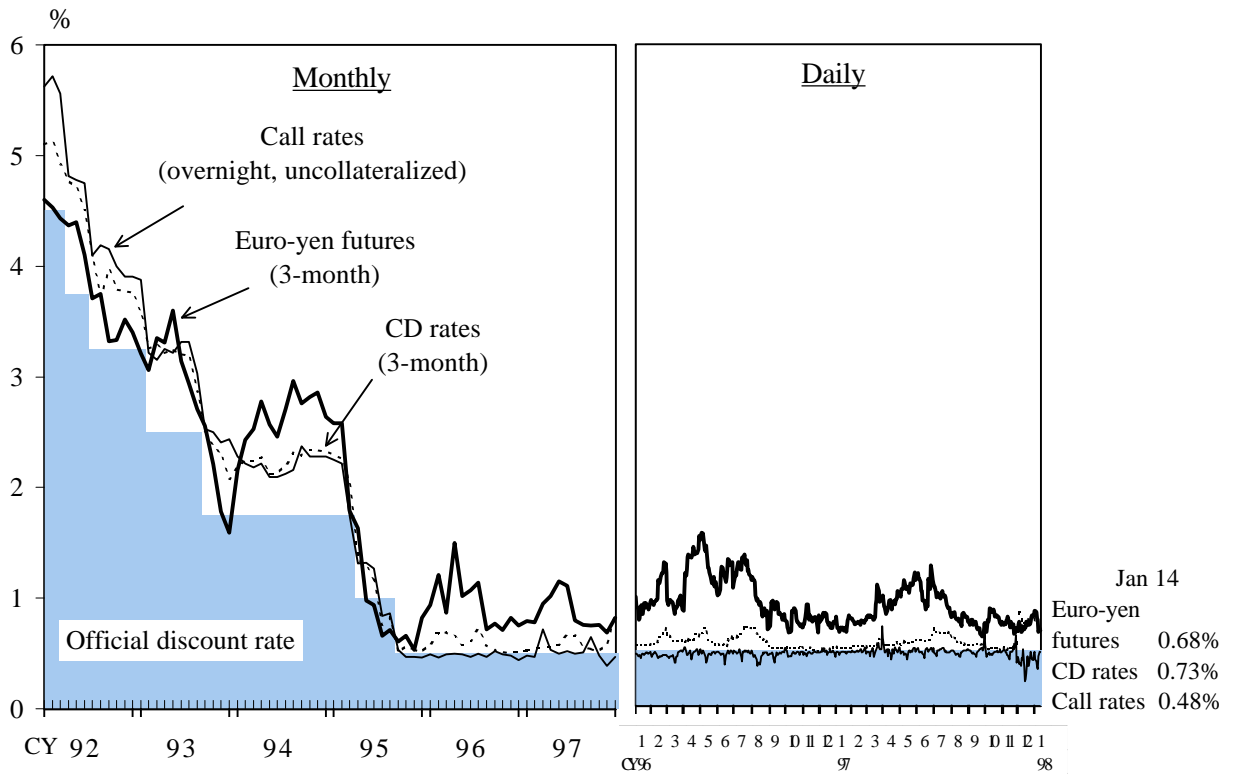
3. Nominal wage = cash earnings per person \* number of regular employees (figures for firms with 30 employees or more).

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

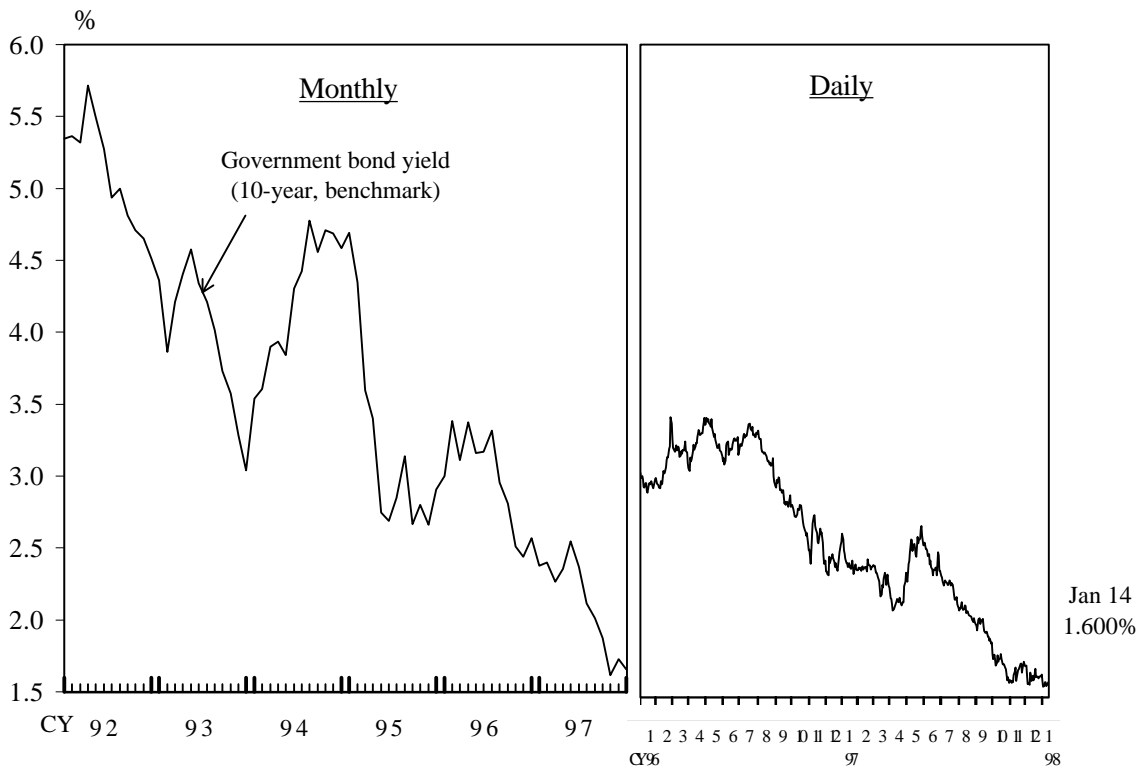
Ministry of Labor, "Monthly Labor Survey"; Economic Planning Agency, "National Income Statistics."

Interest Rates

(1) Short-Term



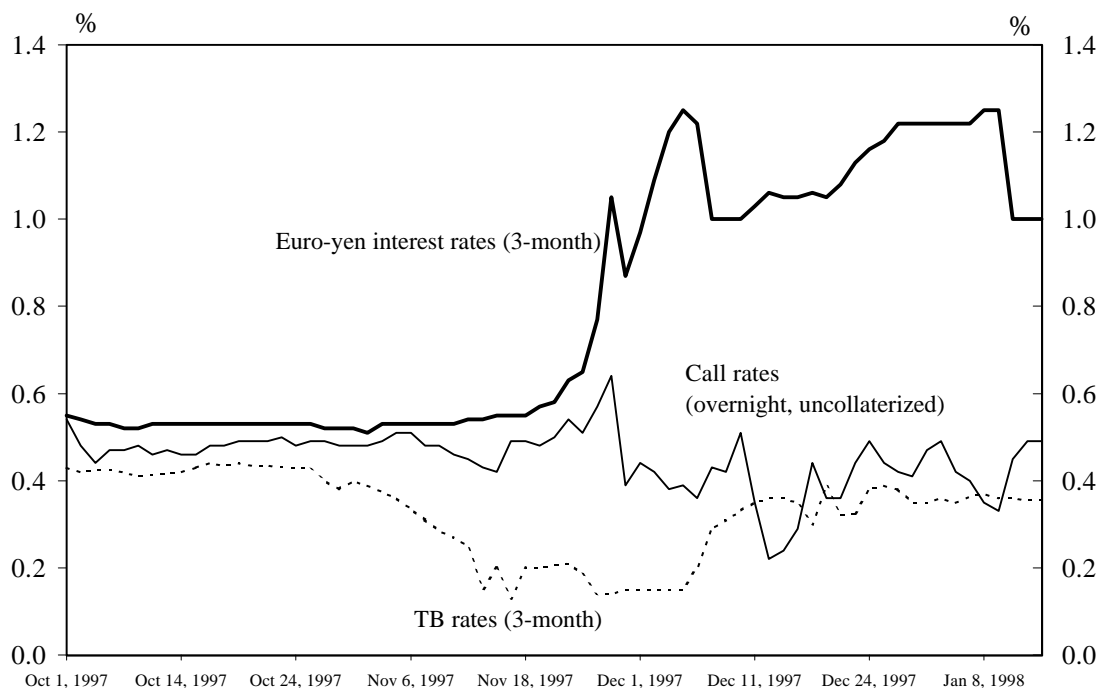
(2) Long-Term



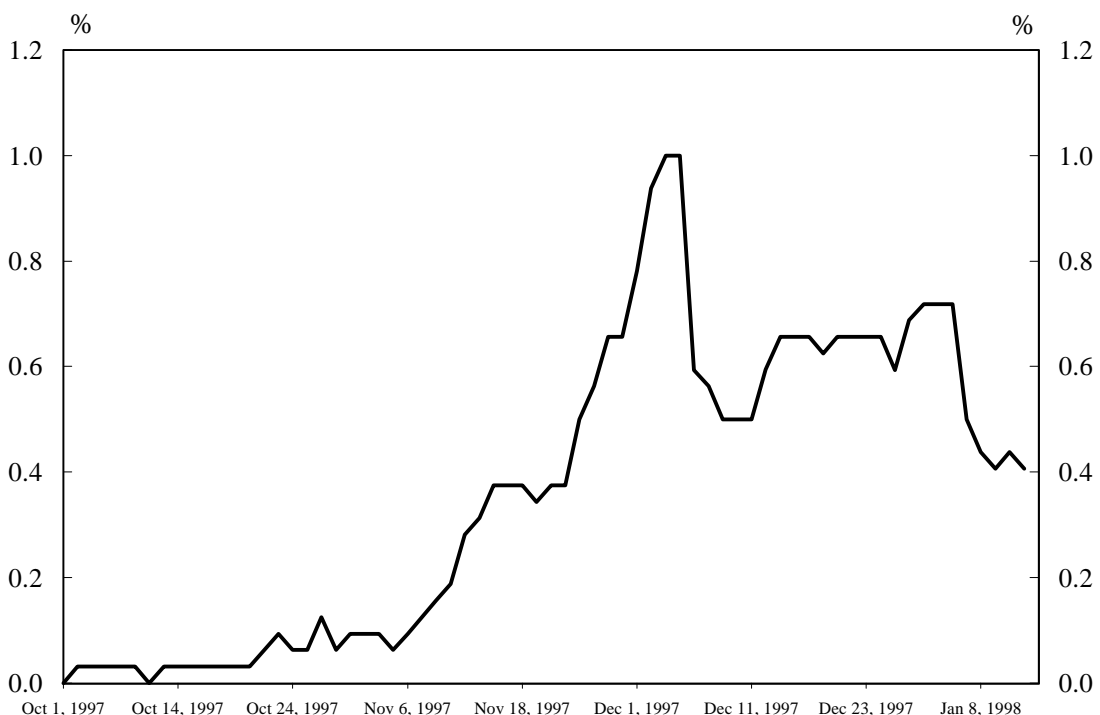
Source: Bank of Japan, "Economic Statistics Monthly."

Rates of Term Instruments

(1) Short-Term Money Market Rates



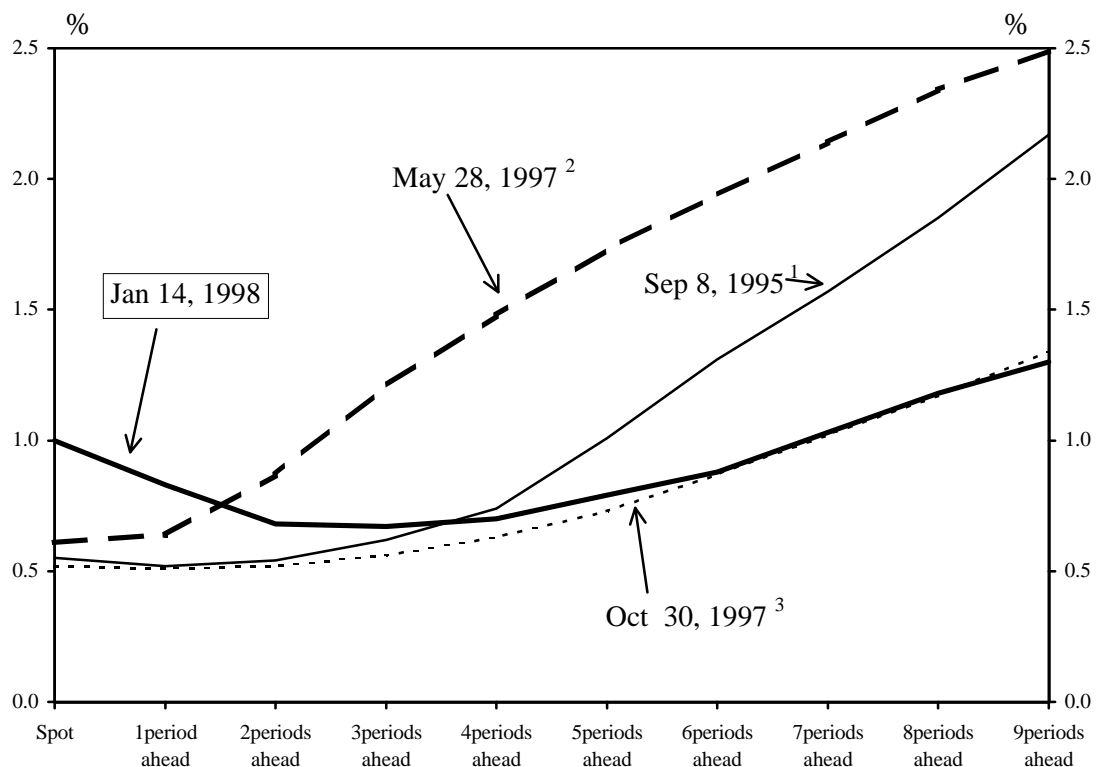
(2) Japan Premium in the Eurodollar Market (3-month)



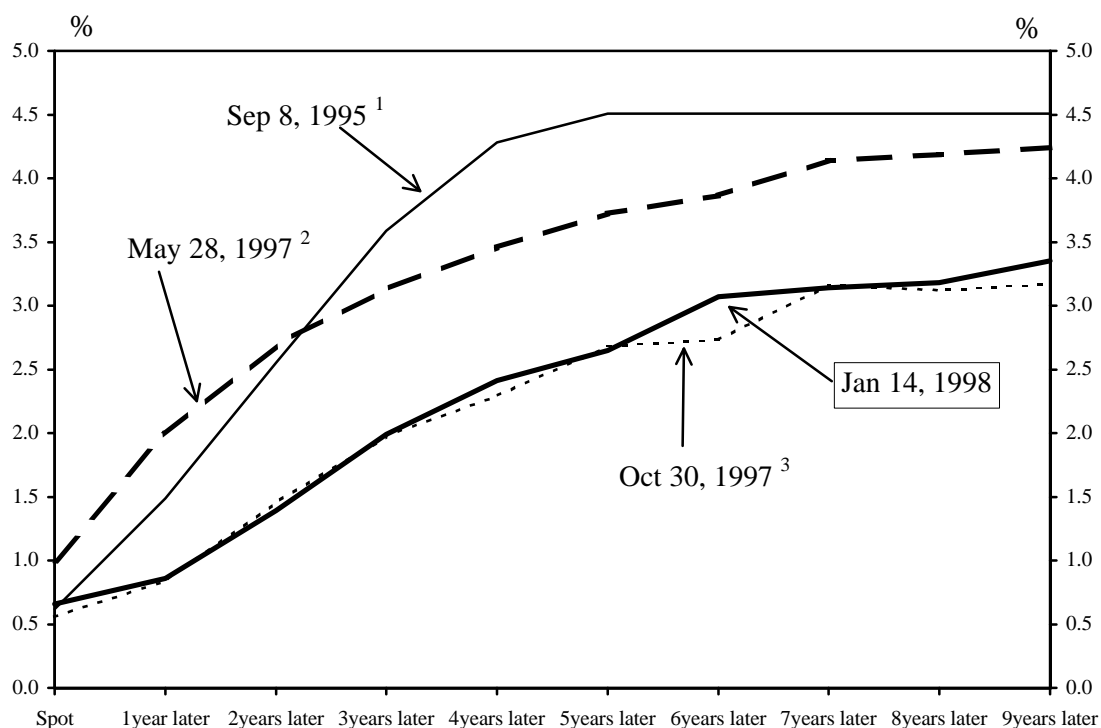
Note: Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:  
 Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate quoted by Barclays Bank in the Eurodollar market (London).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

Futures and Forward Rates

(1) Euro-Yen Interest Rate Futures (3-Month)



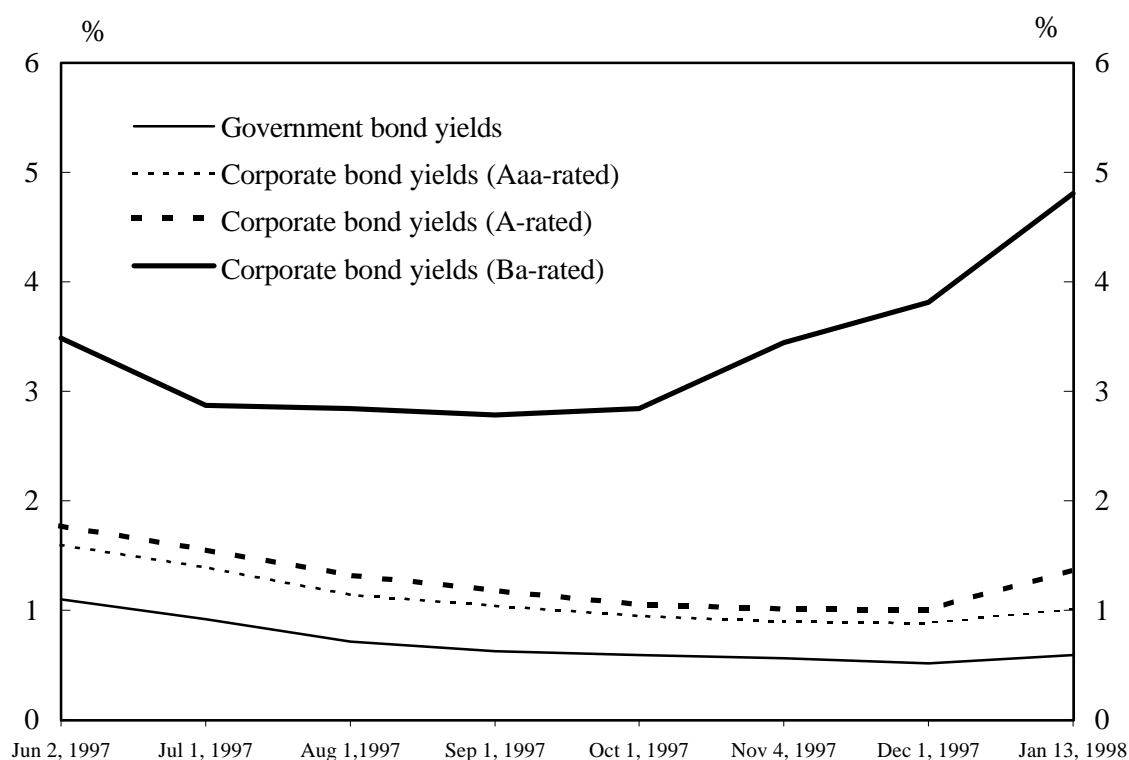
(2) Implied Forward Rates (1-Year Forward Rates Calculated from Yen-Yen Swap Rates)



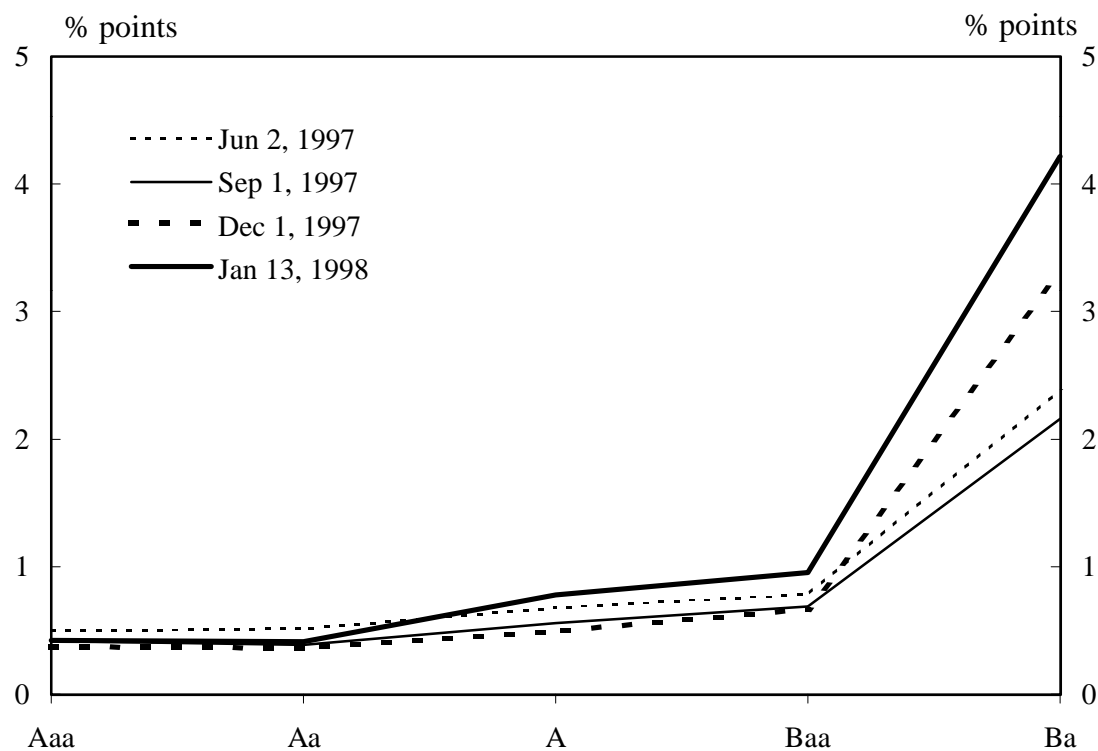
Notes: 1. On September 8, 1995, the official discount rate was changed from 1.0 percent to 0.5 percent.  
 2. On May 28, 1997, government bond yield (benchmark) marked the highest of the year 1997.  
 3. On October 30, 1997, government bond yield (benchmark) marked below 1.6 %.

Sources: *The Nikkei Financial Daily*; etc.

## Corporate Bond Yields

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

(2) Yield Spreads of Government and Corporate Bonds



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

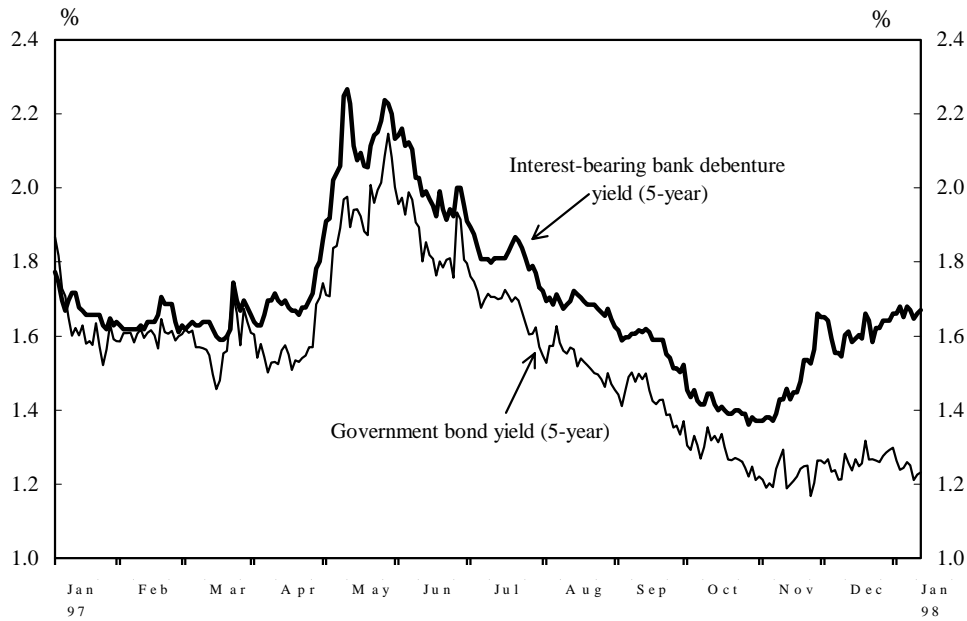
2. Ratings by Moody's Japan K.K.

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

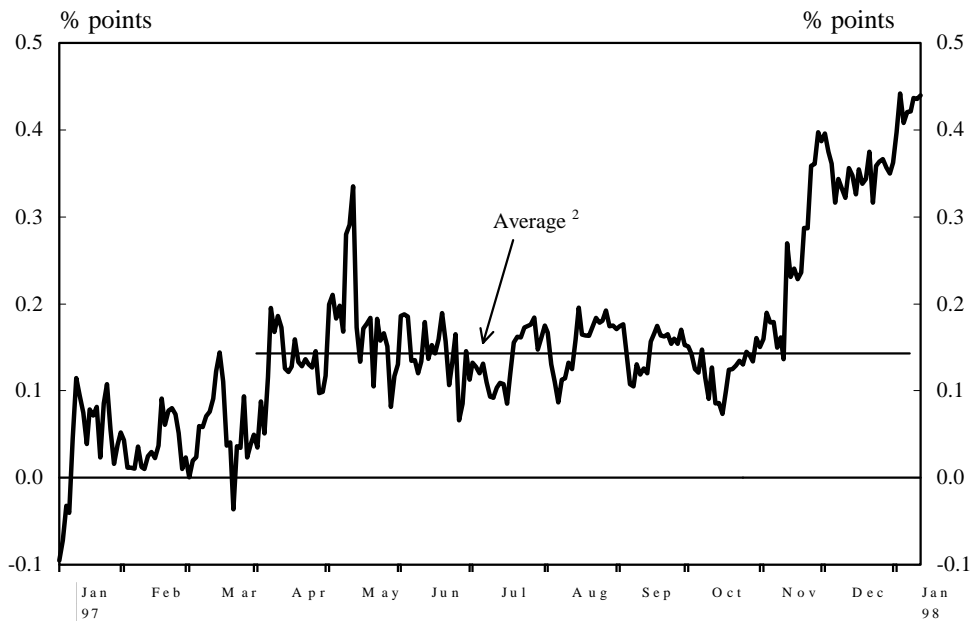


Yields of Bank Debentures

(1) Bond Yields<sup>1</sup>



(2) Spread of Bank Debenture and Government Bond Yields<sup>1</sup>



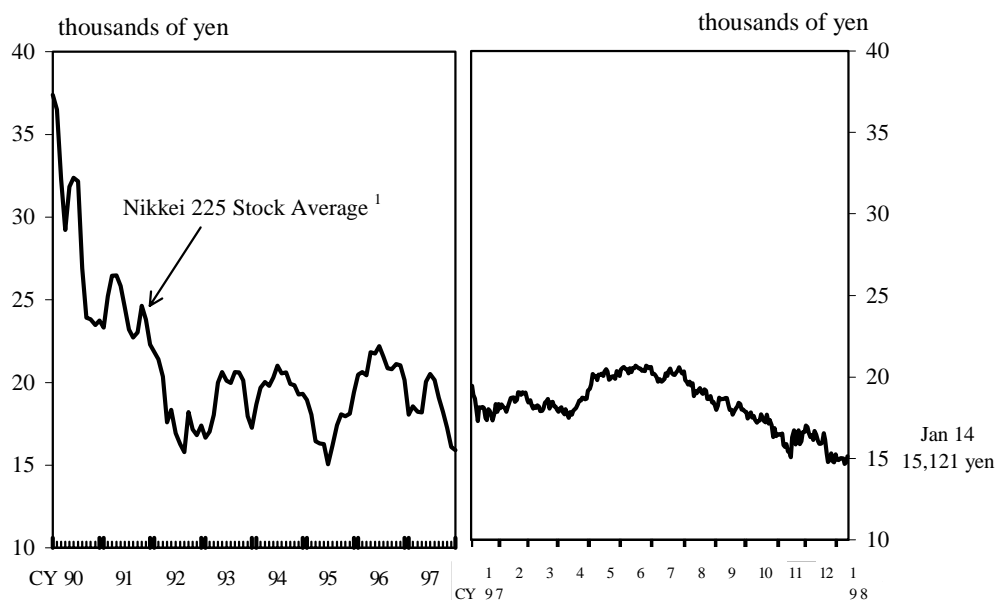
Notes: 1. The latest data is as of January 14, 1998.

2. Average from April to October, 1997.

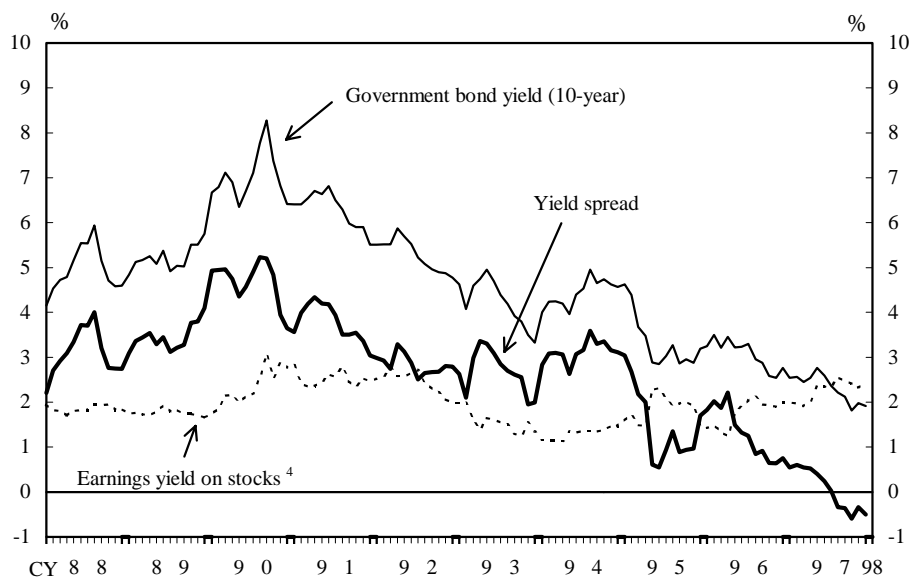
Sources: *The Nikkei Financial Daily*; etc.

Stock Prices

(1) Stock prices



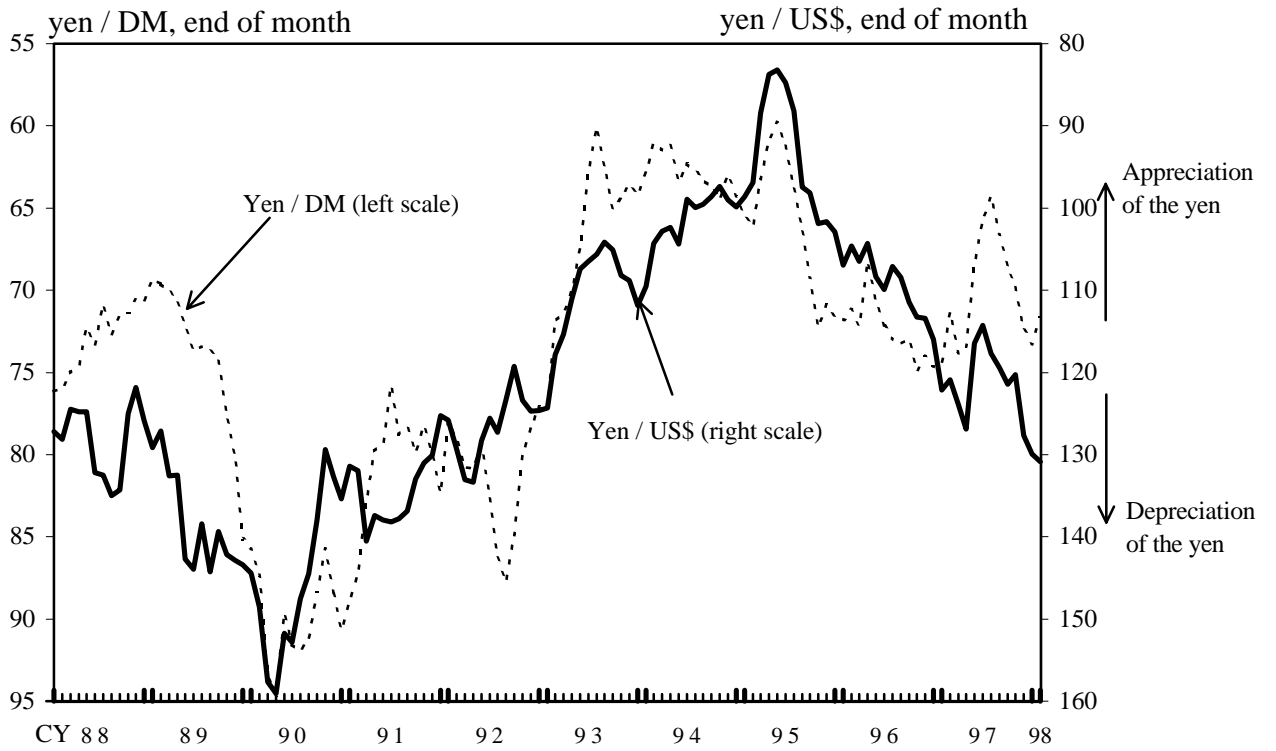
(2) Yield Spread<sup>2,3</sup>



- 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)."

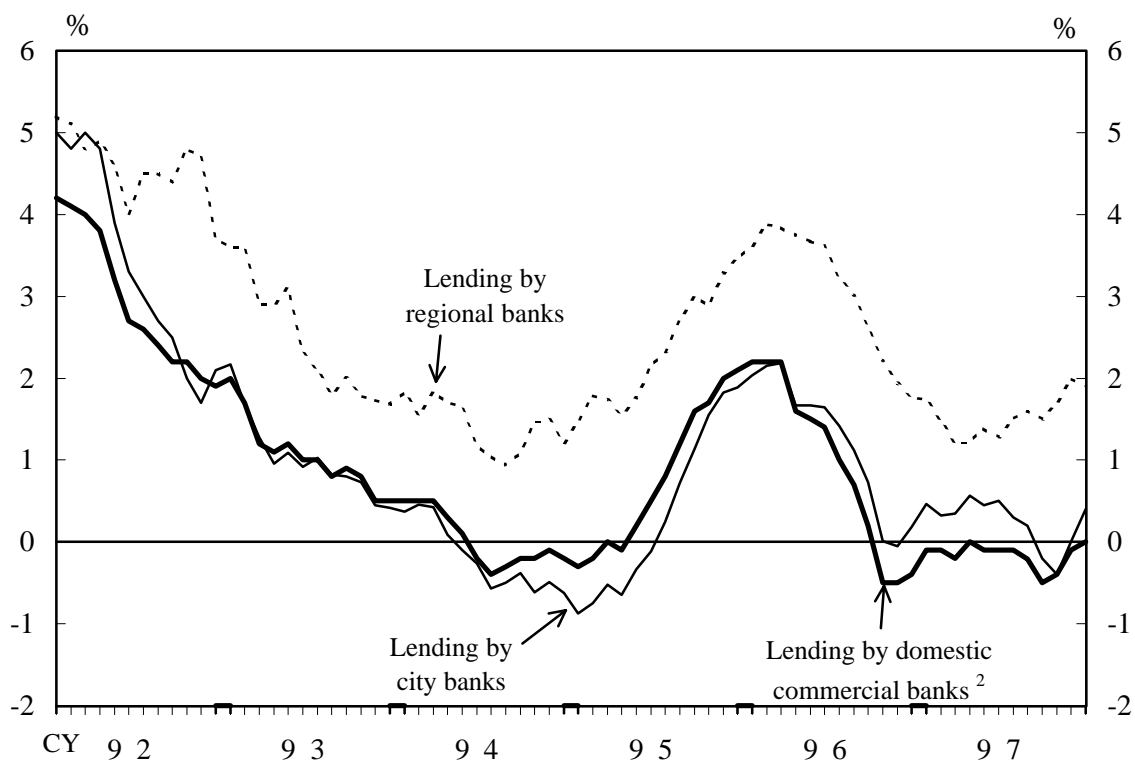
Exchange Rates



Note: Data for January 1998 are as of January 14, 1998.

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

## Lending by Domestic Commercial Banks



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

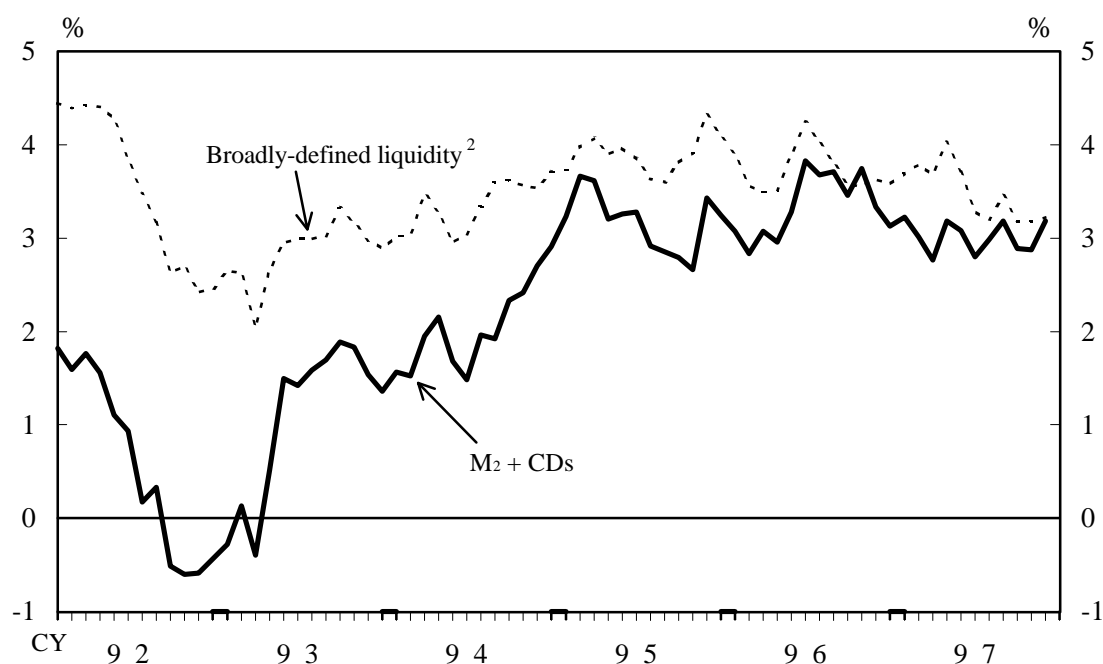
2. Domestic commercial banks refers to member banks of the Federation of Bankers Associations of Japan which consists of city banks, long-term credit banks, trust banks (excluding foreign-owned trust banks and trust banks that started business after October 1993), the member banks of the Regional Banks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

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

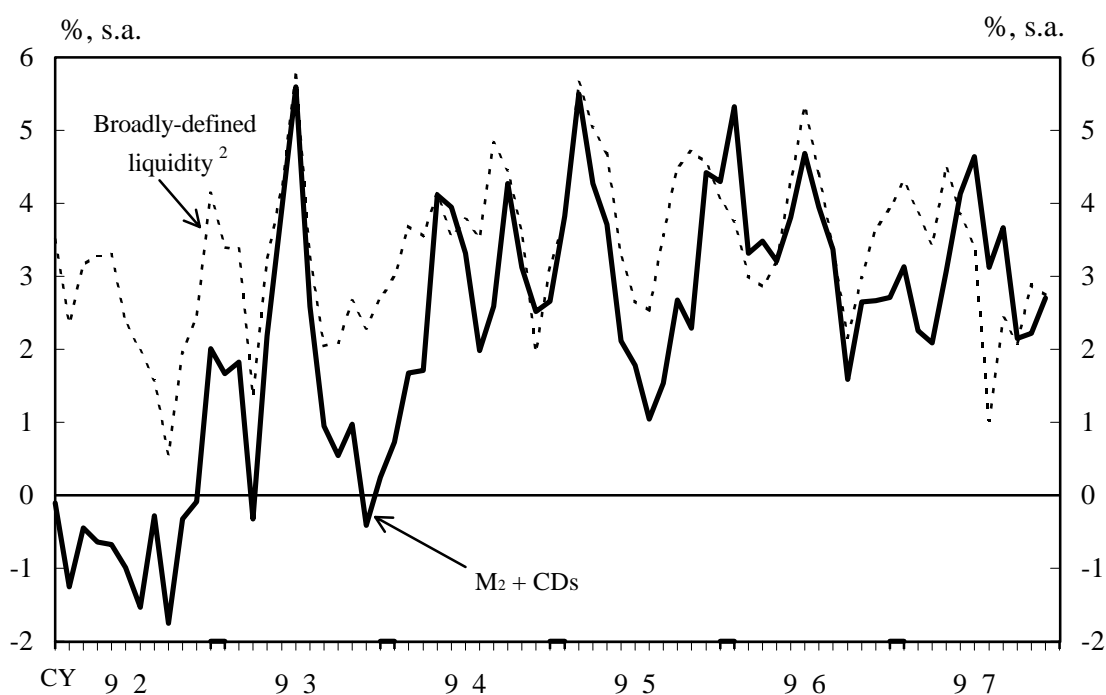
---

 Monetary Aggregates ( $M_2$ +CDs, Broadly-Defined Liquidity)
 

---

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

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



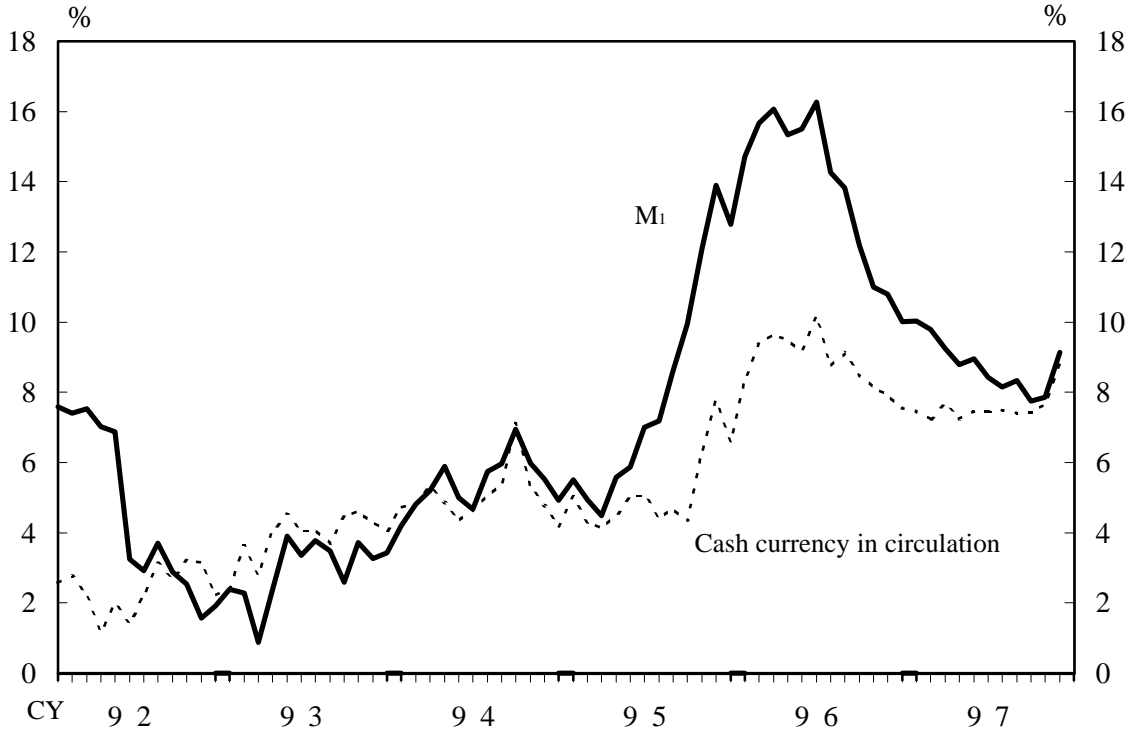
Notes: 1. Percent changes in average amounts outstanding.

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.

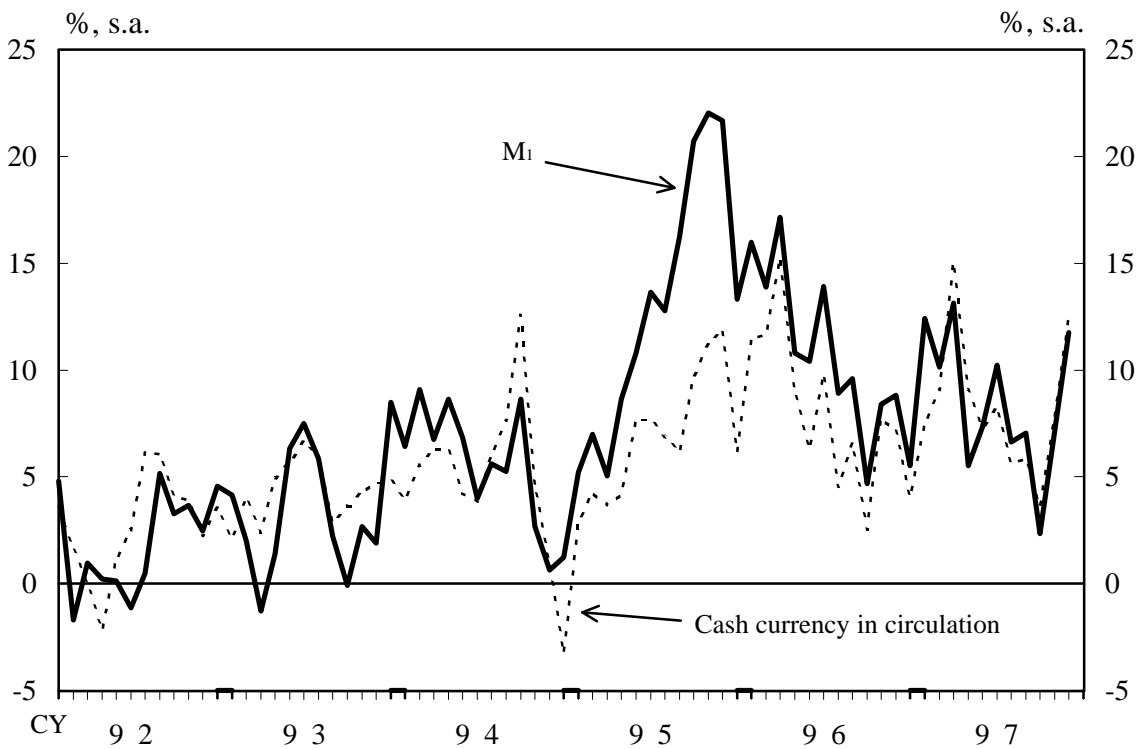
Source: Bank of Japan, "Economic Statistics Monthly."

Monetary Aggregates (M<sub>1</sub>, Cash Currency in Circulation)

(1) Changes from a Year Earlier



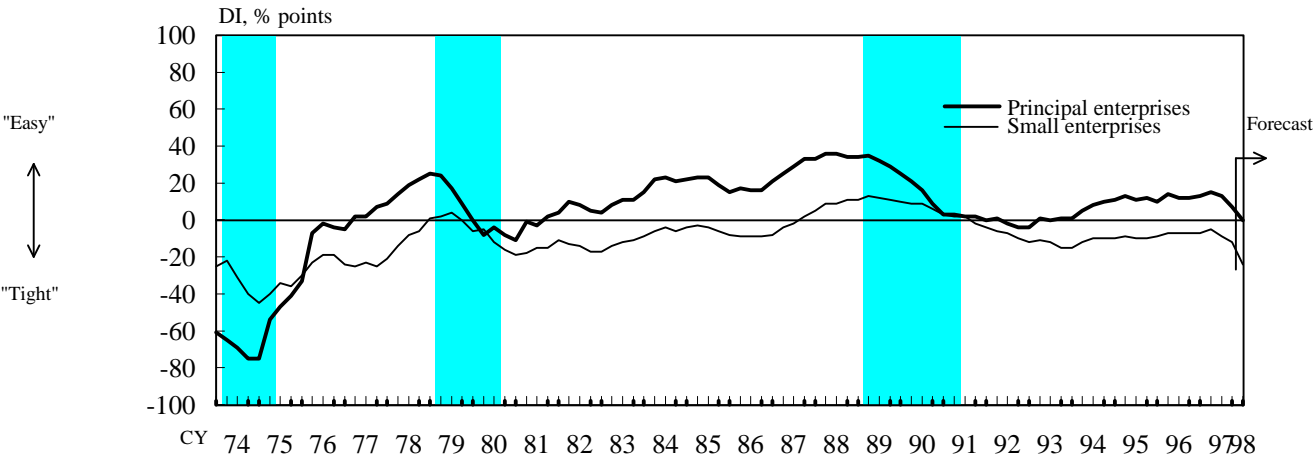
(2) Changes from Three Months Ago (Annualized)



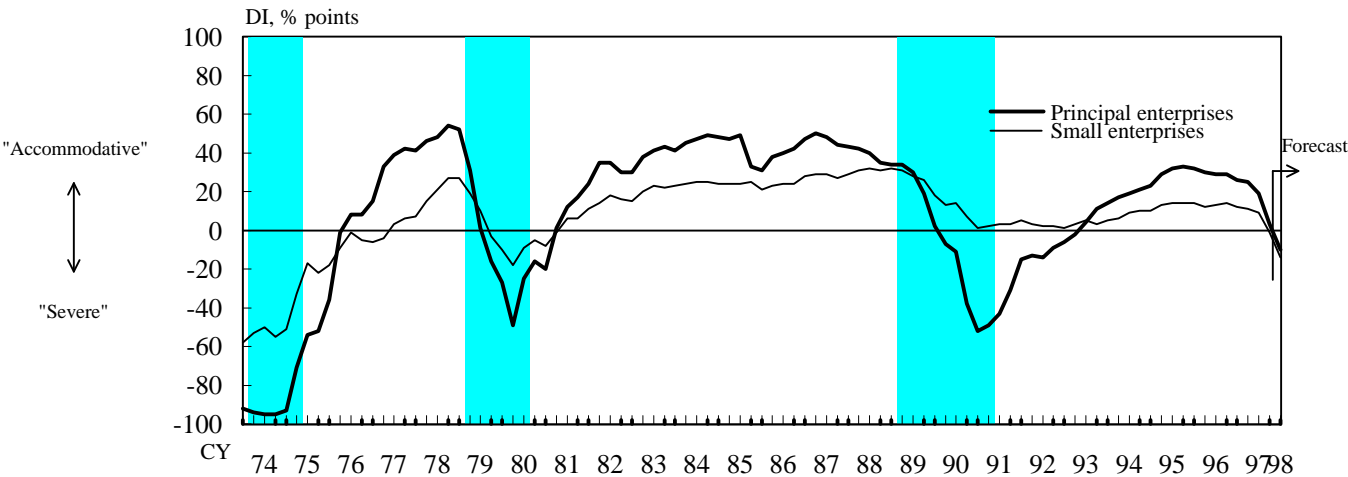
Note: Percent changes in average amounts outstanding.  
 Source: Bank of Japan, "Economic Statistics Monthly."

Corporate Finance-Related DIs in *Tankan* <sup>1</sup>

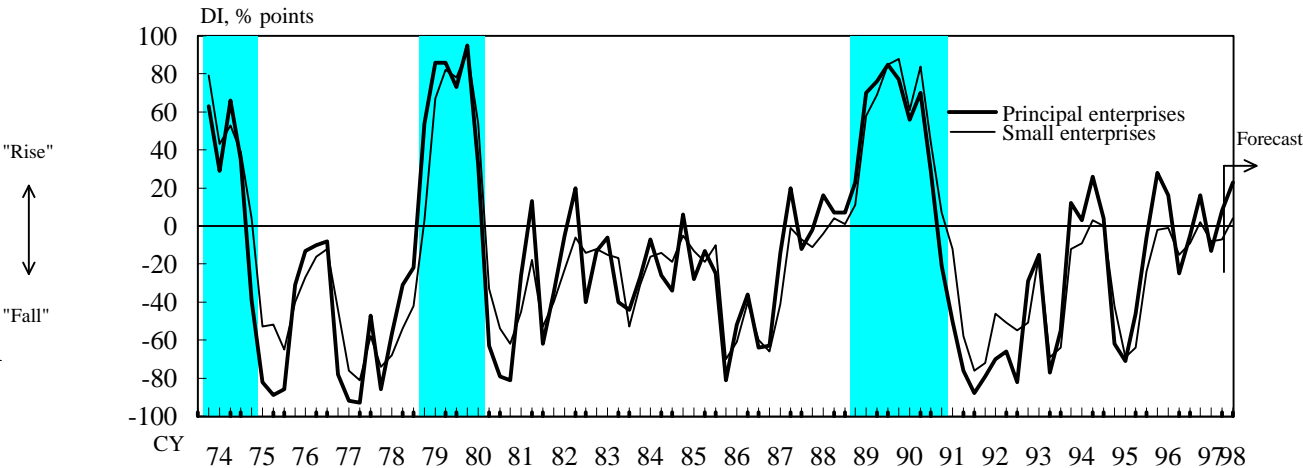
(1) Financial Position



(2) Lending Attitude of Financial Institutions



(3) Change in Interest Rate



Notes: 1. Nonmanufacturing firms are not included in the survey for small enterprises before May 1983.

2. Shaded areas indicate periods of monetary restraint.

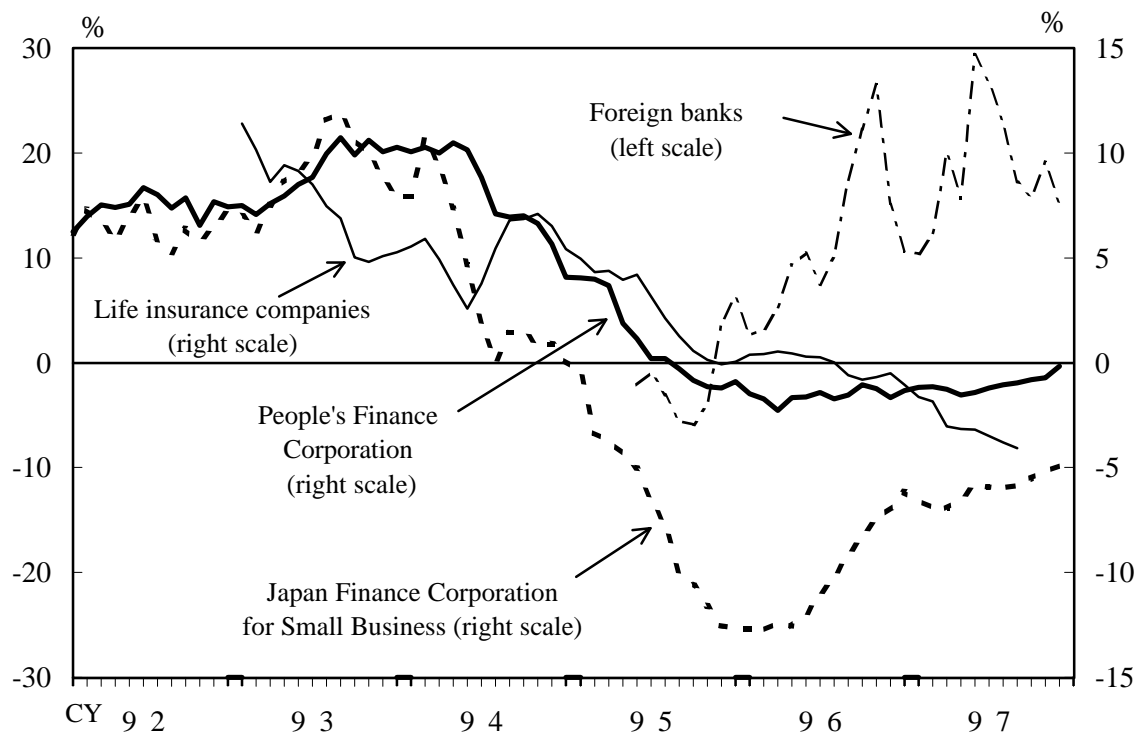
Source: Bank of Japan, "*Tankan* - Short-Term Economic Survey of Enterprises in Japan."

---

 Lending by Other Financial Institutions
 

---

## (1) Lending Outstanding



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

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

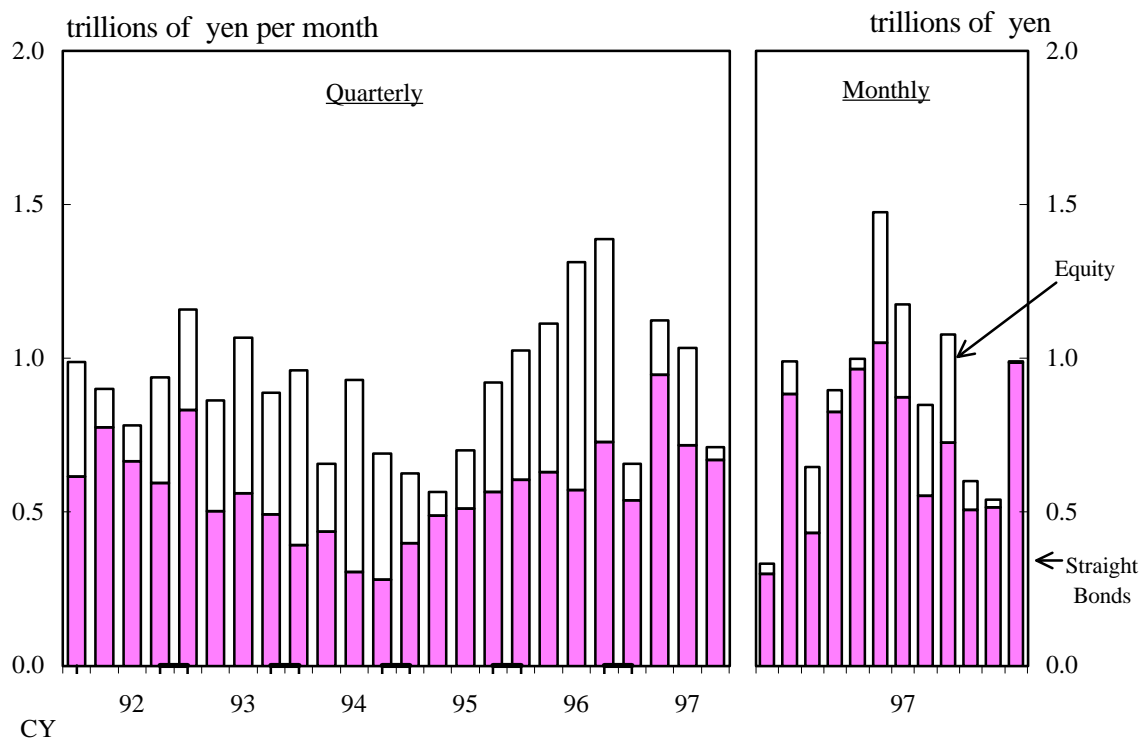
(Percent changes in amounts from a year earlier)

1997	Q1	Q2	Q3	1997	Jul	Aug	Sep	Oct	Nov
	-14.3	3.7	0.0		-3.9	3.0	1.5	18.0	12.6

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



Private-Sector Fund Raising in the Capital Markets

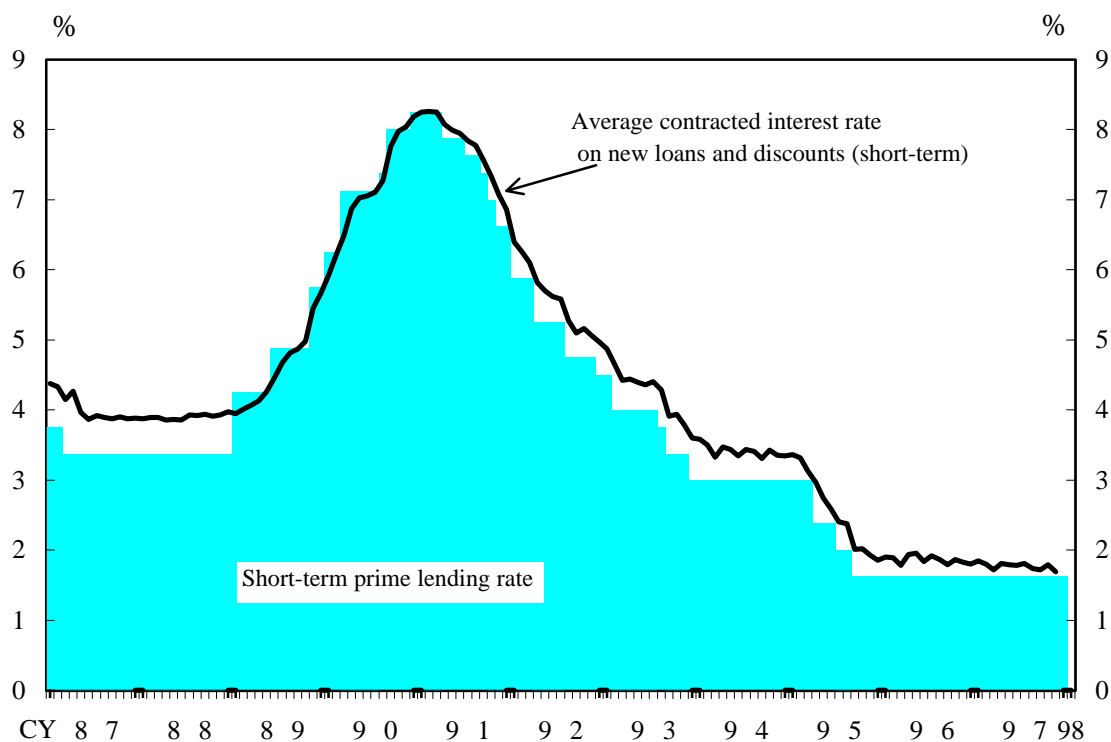


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

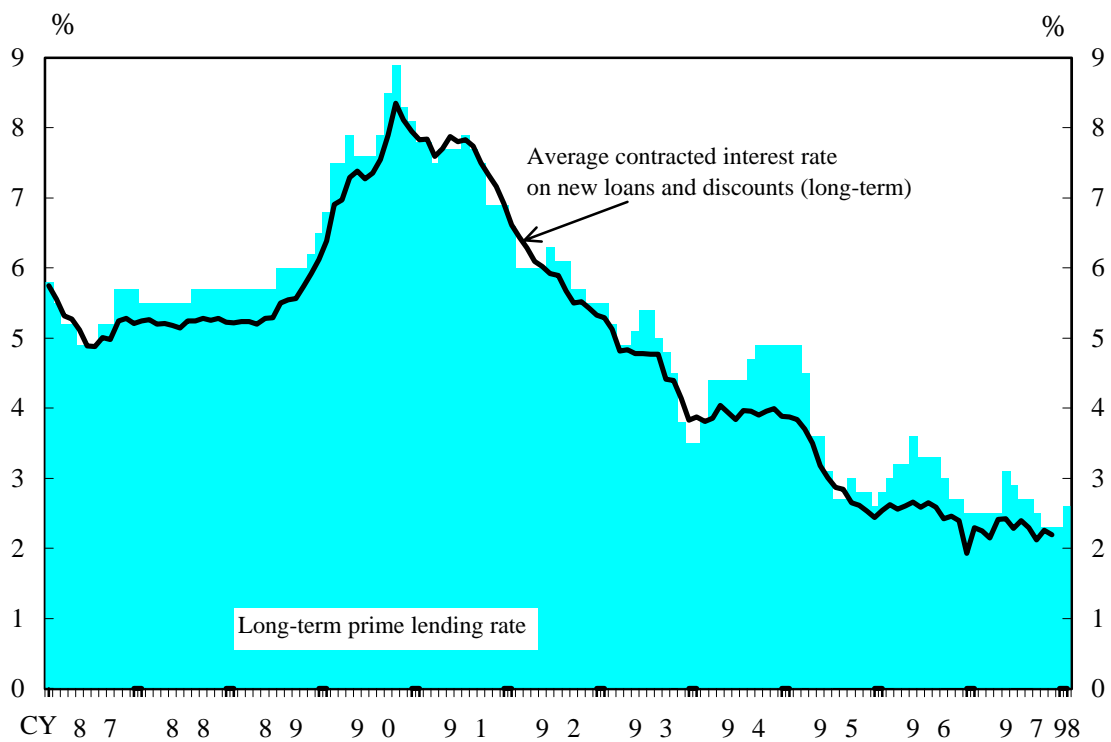
Source: The Bond Underwriters Association of Japan, "Bond Review."

Lending Rates

(1) Short-Term



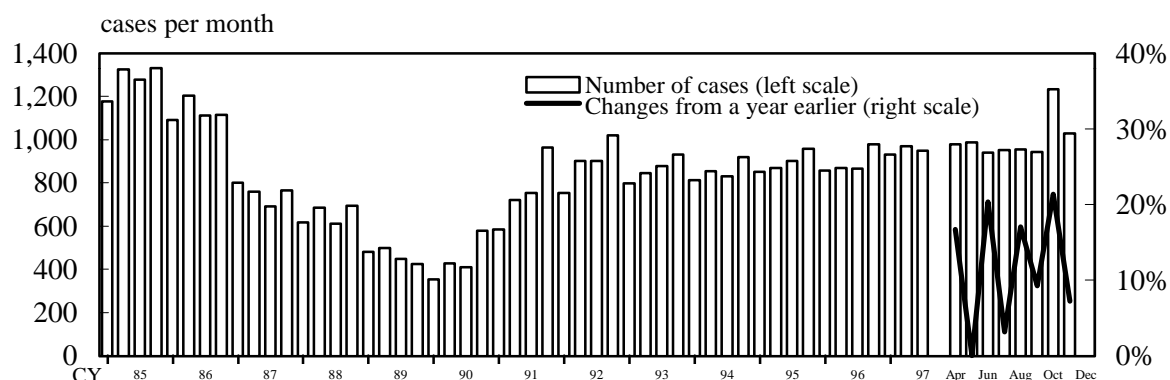
(2) Long-Term



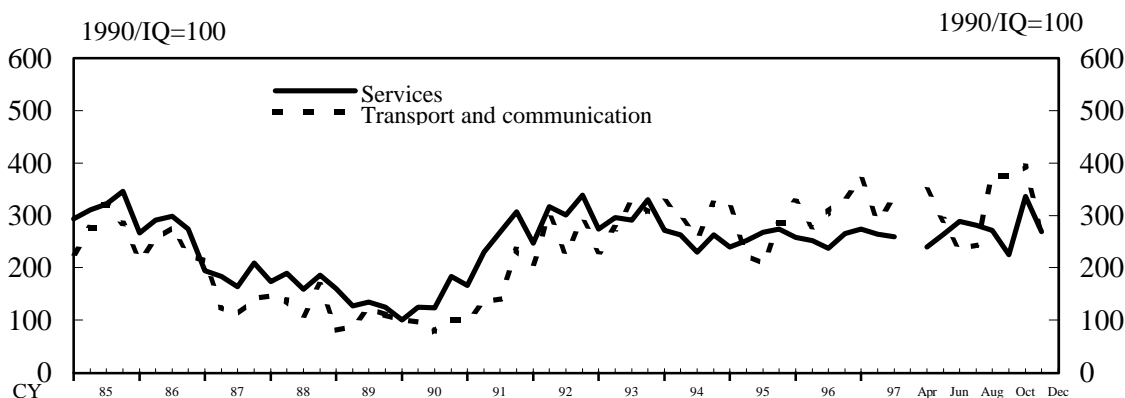
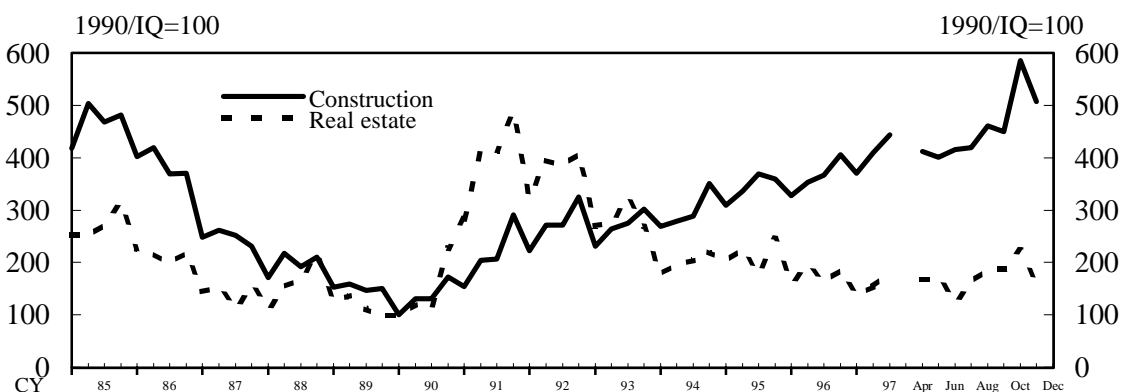
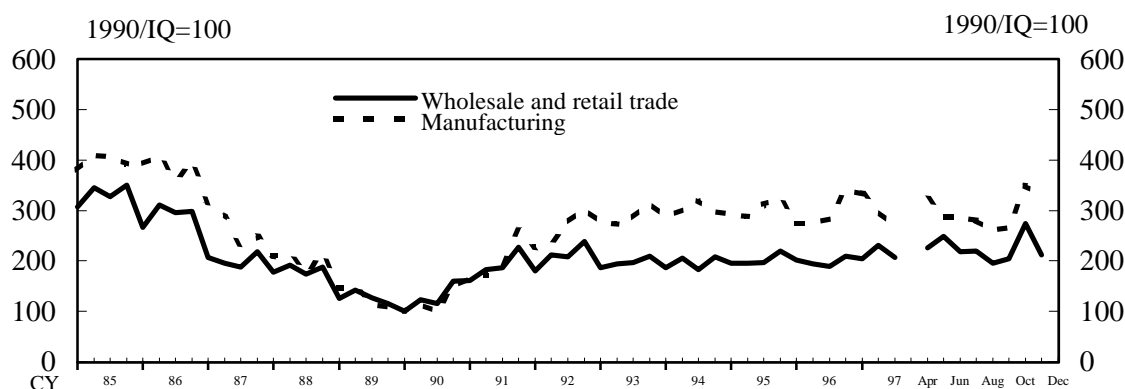
Source: Bank of Japan, "Economic Statistics Monthly."

Company Failures

(1) Suspension of Business Transaction with Banks (All Industries)



(2) Suspension of Business Transaction with Banks (By Industry)



Source: Federation of Bankers Associations of Japan, "Suspension of Business Transaction with Banks."