

(English translation prepared by the Bank staff based on the Japanese original released on March 17, 1998)

**March 27, 1998**

**Bank of Japan**

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

**The Bank's View<sup>1</sup>**

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

With respect to final demand, net exports have continued to increase and are underpinning the economy. Business fixed investment, which had been on an upward trend, however, seems to have peaked out. Meanwhile, private consumption has continued to stagnate reflecting cautious household sentiment. Housing investment has continued to be weak and public-sector investment has been decreasing. Reflecting such weak final demand, inventory adjustment pressures have been intensifying, and industrial production has continued to decline. This has consequently been exerting a negative influence on corporate profits, employment, and income conditions.

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<sup>1</sup> The Bank's view on recent economic and financial developments, approved by the Policy Board at the Monetary Policy Meeting held on March 13, as the basis of monetary policy decisions.

As regards the outlook for the economy, positive effects are expected from the measures to stabilize the financial system and from the special tax-cut measures. However, a conspicuous recovery in domestic final demand is hardly foreseeable for some time, and the recent weakening of the income formation could lead to a further deterioration in domestic demand. In addition, downside risks such as adjustments in other Asian economies and the financial developments in Japan (as explained below) should be carefully monitored.

With regard to prices, wholesale prices have continued to decline. On the other hand, the year-to-year change in consumer prices, excluding the effects of institutional changes (such as the rise in the consumption tax rate), has remained at a level slightly above that of the previous year, although its margin of increase has been narrowing. As for the future, prices overall are likely to soften for some time since the output gap in the domestic economy may continue to expand and overseas commodity prices have declined due to the deterioration of market conditions in Asia.

Financial markets have shown the following developments. In the money markets, interest rates on term instruments have clearly started to decline. This is partly due to the Bank's ample provision of funds through contracts that mature after the fiscal year-end. It should be noted, however, that the levels of such rates are still high compared to those prevailing before autumn 1997. This can be attributed to the continuing cautious attitudes of market participants toward credit risk. Long-term government bond yields have been on a declining trend since the beginning of February

reflecting weak economic indicators, although with some fluctuations caused by market anticipation of an additional economic package. Stock prices have been moving in a narrow range reflecting two offsetting factors: the weakness in economic indicators and corporate earnings, and a progress in financial system stabilization measures.

With respect to monetary aggregates, growth in money stock picked up further in January partly due to the substantial shift of funds away from investment trusts. Meanwhile, the decline in private bank lending expanded in February. However, corporate financing through channels other than bank lending, such as via the capital market, has expanded and total volume of funds raised by firms may have increased. Nevertheless, it should be noted that banks continue to be cautious in extending credits with a view to improving their medium- to long-term profitability and financial soundness, although capital constraints on their lending capacity have recently eased somewhat. In such circumstances, some firms, especially small and medium-sized firms, are facing difficult financing conditions. Moreover, fund-raising costs of firms appear to have increased amid heightened awareness of credit risk. These financial developments and their influence on the economy continue to warrant a careful monitoring.

## The Background

### 1. Japan's Economy

With regard to public-sector investment, the value of public works contracted and shipments of public sector investment-related goods are both continuing to decline (Chart 2). As for the future outlook, these figures may temporarily stop declining as works under the supplementary budget for fiscal 1997 are implemented, but on the whole they are expected to continue following a downward trend.

Real exports on the whole have kept following an upward trend (Charts 3, 4, and 5). While exports to Asia are obviously affected by monetary and economic adjustments in the ASEAN economies and South Korea, exports to Western nations remain firm. Meanwhile, real imports have been essentially flat with some fluctuations, primarily due to the stagnation of domestic demand. As a result of these export and import developments, net exports<sup>2</sup> and the current-account surplus<sup>3</sup> are maintaining an increasing trend.

Among overseas economies (Chart 6(1)), the United States and Europe are expected to maintain continuous growth. In South Korea and some of the ASEAN

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<sup>2</sup> It should be noted that the “real trade balance” presented in Chart 3(2) differs from “net exports” on a GDP basis in that 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. Nevertheless, the changes in the real trade balance are basically equivalent to those of net exports.

<sup>3</sup> In 1997, the ratio of the current account surplus to GDP moved from 1.5 percent in January-March quarter to 2.3 percent in April-June quarter, and to 2.4 percent in July-September quarter.

economies which are implementing austere economic adjustment programs under assistance packages from the International Monetary Fund and other sources, the deceleration of economic growth is becoming more pronounced, and thus exports to Asia will continue to be restrained. With regard to imports from Asia, some of the enterprises in South Korea and the ASEAN economies may have to face limitations in their use of foreign currency for the procurement of raw materials and parts for export goods, and domestic demand in Japan remains stagnant, under the circumstances whereby the sharing of production between Japanese firms and their local production bases has been advanced. In this environment, imports from Asia are not likely to show a conspicuous increase for some time. Meanwhile, the real effective exchange rate of the yen is at a level similar to the previous month after some appreciation (Chart 6(2)). Given this environment, Japan's net exports are expected to continue following an upward trend, but the pace of increase will most likely decelerate.

Business fixed investment, which had posted gradual growth mainly in the manufacturing sector, recently seems to have peaked out. As for the leading indices (Chart 7-1), machinery orders and construction starts have both turned to a decline, especially in the non-manufacturing sector. Fixed investment plans for fiscal 1998 in recent surveys showed relative weakness compared to past surveys conducted in February of previous years (Chart 7-2). In addition, the number of corporations which have not firmed up their investment plans for the coming fiscal year at this stage seems to be above the average of the past. Under these circumstances, continuation of the

current demand slump, downward revision of corporate profit,<sup>4</sup> and the restrictions on the availability of funds (Chart 8) could make firms take a stronger stance toward delaying their investment plans. On the other hand, there is still a firmly-established inclination toward investments for telecommunications, environment-related, and other items which are necessary over a medium to long-term perspective, and some positive effects of various measures, such as those for bringing greater stability to the financial system, are expected. Thus, future business fixed investment plans should be monitored carefully.

In the household sector, with regard to private consumption (Chart 9), outlays for travel and other services, which had been relatively firm, seem to have stopped their increase. Sales of merchandise, which had marked a significant decline through the end of last year, have avoided a further deterioration since the beginning of 1998. In February, however, sales of passenger cars continued to be sluggish, and turnover at department stores also seemed to remain weak. Thus, there are no clear signs of recovery yet. Although some positive effects of the special income tax reduction that is now being implemented are expected, it is difficult to expect a prominent recovery in consumption which could immediately compensate for the substantial decline in the propensity to consume that has been recorded so far (Chart 10).

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<sup>4</sup> According to "Corporate Business Statistics Quarterly" by the Ministry of Finance, the current profit of corporations (all industries excluding financial institutions) had marked a year-on-year increase in April - June quarter (+5.0%) and in July - September quarter (+4.0%), but it turned to a decline in October - December quarter (-9.0%).

As for housing investment, housing starts (in terms of the seasonally adjusted annual rate) have remained stagnant at around 1.3 million units since the summer of 1997 (Chart 11). For the time being, it is unlikely that the number of housing starts will rise significantly from the present level.

Reflecting weak final demand as described above, inventories in the manufacturing sector (Chart 12) show a clear buildup in both final goods and production goods, indicating that inventory adjustment pressures have become apparent. Under these circumstances, industrial production (Chart 13) declined for two consecutive quarters in July-September and October-December. According to the production forecast indices, industrial production is projected to be almost flat in January-March versus the previous quarter. However, industrial production is expected to continue following a downward trend, since the actual production will likely become weaker than projected under the above-mentioned inventory adjustment pressures and ongoing downward revision of production plans in certain industries.

With respect to employment and income conditions, the number of new job offers has turned to a decline, particularly in the manufacturing and construction industries, and the ratio of job offers to applications continues to fall. In addition, with the recent increase in the number of employees who have left their jobs on a non-voluntary basis, the unemployment rate remains at a high level (Chart 14). As regards employees income (Chart 15), since overtime working hours continue to be below the previous year's level, overtime compensation is showing a year-on-year decline.

Winter bonus payments were also dull reflecting weak business performance. Thus, the growth rate of employees income is declining further, and the income formation mechanism seems to be weakening.

## 2. Prices<sup>5</sup>

With regard to price developments (Charts 16, 17, and 18), import prices are continuing to decline because of the fall in the prices of commodities such as crude oil, non-ferrous metals, and chemicals in international markets reflecting the easing of the supply-demand balance in Asia . Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates) are continuing to soften due to these import price movements, as well as the continuous fall in the prices of steel and construction-related items reflecting the decline in domestic public-sector investment and housing investment (Chart 17-3). Domestic wholesale prices dropped 0.5 percent versus the previous quarter in July-September and October-December, and 0.3 percent in January-February versus the October-December quarter.

With regard to corporate service prices (Chart 18(1)), the margin of the year-on-year decline in lease and rental prices is narrowing due to the rise in the long-term prime rate, while the margin of the year-on-year increase in advertising and overseas freight transport prices is also narrowing due to declines of demand. As a result, corporate service prices on the whole are holding at approximately the previous year's

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<sup>5</sup> 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 the Bank of Japan).



level as shown by the year-on-year changes of -0.2 percent in the July-September quarter, 0.0 percent in the October-December quarter, and 0.0 percent in January 1998. Consumer prices (excluding perishables), which had marked a year-on-year rise of 0.8 percent in both July-September and October-December, reduced the increment to 0.6 percent in January 1998 (Chart 18(2)), partly due to declines in the prices of clothing and petroleum products. The margin of the fundamental year-on-year increase (excluding the effects of the rise in medical service charges caused by the insurance system reform in September 1997) has narrowed recently from around 0.4 percent in December to 0.2 percent in January.

As demonstrated by these figures, although prices for merchandise have continued to soften, overall prices including those for services have remained level so far. However, the domestic supply-demand gap is expected to widen due to the continuing stagnation of final demand in Japan, and the fall of overseas commodity prices due to the deepening adjustments in Asian economies could gradually exert downward pressures on the prices of domestic goods that compete with imports. Consequently, prices overall are likely to soften in the near future.

As for land prices, signs of declines have recently become apparent once again for both commercial land prices and residential land prices (Chart 19).

### 3. Financial Developments

#### (1) Financial Markets

Interest rate developments in short-term money markets show that the overnight call rate (uncollateralized) has been holding slightly below the official discount rate of 0.5 percent (Charts 20(1) and 21(1)). Euro-yen interest rates (3-month) have clearly started to decline, reflecting the Bank of Japan's ample injection of funds maturing after the fiscal year end. Compared with the prevailing levels prior to last autumn, however, Euro-yen interest rates are still about 0.3 percent higher.

Analyzing Euro-yen interest rates (3-month) based on the one-month spot rates and the implied forward rates (Chart 21(2)), the rates for one-month contracts going beyond the end of the fiscal year were at around 1.3-1.7 percent from the beginning of 1998, but recently dropped below 1.0 percent. This suggests that market concerns over liquidity risk at the end of March are easing. While rates for instruments starting in and after April have recently declined somewhat, they are still at high levels of around 0.7-0.8 percent, indicating that market participants remain cautious about credit risk.

The Japan premium (Chart 22) has also declined substantially, but compared with the period prior to last autumn, it is still at a relatively high level of around 0.2 percent for all maturities from one month to six months.

As for the market outlook for interest rates, Euro-Yen interest rate futures (Chart 23) have generally declined slightly versus the beginning of February. This

probably reflects the weakness of the economic indicators, as do the ten-year government bond yields described below.

Yields on ten-year government bonds (benchmark) have fluctuated somewhat responding to news regarding additional economic stimulus measures, but overall the movements reflect the weakness in economic indicators (Chart 20(2)). The yields declined from around early February, and closed at a historical low of 1.51 percent on March 11th. Analyses of long-term interest rates show that one-year implied forward rates (calculated from yen-yen swap rates) have moved down slightly overall since late January (Chart 24).

As for stock prices, while the economic indicators and corporate earnings reports have been generally weak, progress in the measures to bring greater stability to the financial system seems to have provided some support to market confidence. Under these circumstances, the Nikkei 225 Stock Average has been moving back and forth around the 17,000 yen level, demonstrating sensitivity to news regarding economic stimulus packages (Chart 25(1)). The yield spread (the government bond yield minus the expected earnings on stocks) appeared to have stopped declining around the end of 1997, but it remains at a low level, indicating market pessimism about future growth and uncertainty over corporate earnings (Chart 25(2)).

Turning to the yields on private bonds -- bank debentures and corporate bonds --, the yield difference between private bonds and government bonds grew around the

end of 1997, and has thereafter generally remained unchanged, or expanded slightly (Charts 26 and 27). This indicates that the capital market continues to be selective regarding credit risk.

On the foreign exchange market, the yen depreciated to about 134 yen to the U.S. dollar at the beginning of the year, and appreciated through the middle of February. The yen has lost value again recently and is presently moving around 128-129 yen to the U.S. dollar (Chart 28). Meanwhile, the real effective exchange rate is more than 10 percent stronger than it was during the second half of last year, mainly due to the yen's appreciation versus Asian currencies (Chart 6(2)).

## **(2) Monetary Aggregates**

Money stock in terms of the growth in  $M_2 + \text{CDs}$  accelerated further in January, moving up 4.3 percent year-on-year and 7.3 percent versus the level three months earlier (Chart 29). The acceleration was apparently due to the relatively firm fund-raising activity of private-sector firms as well as the continuing shift of funds away from investment trusts.<sup>6</sup> Among the components of  $M_2 + \text{CDs}$ , the growth rate of  $M_1$  and cash currency in circulation remains strong (Chart 30). These developments are in line with the strong inclination of corporations to secure liquidity in advance as well as the

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<sup>6</sup> The growth in postal savings during January remained at a high level. The year-on-year increase in the outstanding balance was 5.5 percent at the end of November, 6.2 percent at the end of December, and 6.5 percent at the end of January. This means that postal savings served as a factor limiting the growth rate of  $M_2 + \text{CDs}$  during this period.

shift of financial assets by the household sector, against the background of persistent anxiety regarding the financial system and economic conditions.

Lending by private banks such as city banks, long-term credit banks, trust banks, regional banks and regional banks II showed a larger year-on-year decline in February (Chart 31). Meanwhile, information from contacts and other evidence suggests that the increased funds demand to build up on-hand liquidity, especially at large corporations, has been supporting the lending volume. Statistics on lending by city banks (excluding accounts at overseas branches) indicate a large increase in overdrafts, which largely comprise short-term loans to large corporations, while other types of lending remained subdued (Chart 32). This may reflect a greater difference across borrowers with regards to the availability of bank loans.

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

With respect to factors affecting the lending attitude of private financial institutions, capital constraints appear to have become somewhat less binding because ① concerns over declines in stock prices and the yen are not as strong as they once were, and ② the government's measures to ease banks' capital constraints, including the injection of public funds, are becoming more concrete. Nevertheless, there is no significant change in the basic lending strategy of banks, especially large banks, toward cautiously selecting borrowers to improve profitability and financial soundness from a medium-term perspective.

Under these circumstances, overall corporate financing has been well maintained through diversified fund-raising channels. Fund-raising in the capital market by private-sector enterprises via CP and straight bond issuances continues to be active (Chart 33). The amount of loan inquiries by small and medium-sized firms at government financial institutions has increased sharply since the end of last year, and the year-on-year decline in the actual balance of loans outstanding has recently narrowed or even turned positive (Chart 34).<sup>7</sup> Nevertheless, it is still difficult for corporations with low credit ratings to issue debts on the capital market. In many individual cases, therefore, the fund-raising environment, including routes other than bank lending, appears to have become noticeably less accommodative.

Turning to the fund-raising cost for firms, the fund-raising cost for banks has been increasing as term market interest rates and, subsequently, market deposit rates (CDs and large-lot time deposits) have both been moving up since December (Chart 35). As banks have left their short-term prime rate unchanged, however, upward movements in the average contracted interest rates on short-term loans and discounts have been limited to the contribution from the loan rates on spread lending, moving up slightly in December, and partially falling back in January (Chart 36(1)). Meanwhile, the average contracted interest rates on long-term loans and discounts have been moving up slightly from January, reflecting the increase in the long-term prime rate (Chart 36(2)).

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<sup>7</sup> Additionally, life insurance companies (especially larger ones) apparently began to adopt a more positive stance toward meeting corporate borrowing needs from the beginning of this year. However, this cannot be confirmed statistically due to the lack of recent data.

In the capital market, three-month CP issuance rates (for firms with the highest credit ratings) have declined somewhat versus early January, when they briefly surpassed 1.5 percent. Nevertheless, the CP issuance rates remain above 1.0 percent, a high level compared with the prevailing rates prior to last autumn. The range of straight bond issuance rates became wider across different credit ratings in December and January, and these large differentials have generally been maintained since that time.

Overall, the total volume of corporate fund-raising is most likely still increasing. However, certain firms, primarily small and medium-sized enterprises, are facing an increasingly difficult financing environment,<sup>8</sup> whereby financial institutions and capital market participants continue to exhibit a strong selective stance regarding credit risk. These financial developments and their influence on the economy continue to warrant careful monitoring.

*(This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on March 13, 1998).*

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<sup>8</sup> According to a survey of small and medium-sized enterprises, the corporate fund-raising environment is becoming more severe month by month (Chart 8). Moreover, indices related to corporate bankruptcies appear to be accelerating, although only gradually (Chart 37).

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## Main Economic Indicators (1)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Nov.	Dec.	98/Jan.	Feb.
Index of expenditure level (all households)	-2.7	1.4	-2.3	-2.0	-4.8	p -4.1	n.a.
Sales of department stores	-6.3	-1.3	-3.0	-2.0	-4.1	p -2.2	n.a.
Sales of chain stores <sup>1</sup>	-4.8	-3.6	-5.3	-4.5	-7.0	-4.6	n.a.
New passenger-car registrations <sup>2</sup>	-9.2	-10.3	-13.7	-21.8	-3.9	-23.1	-23.2
Sales of electric appliances (NEBA)	-8.3	-3.7	-4.5	-1.6	-5.8	-2.6	n.a.
Outlays for travel (50 major travel agencies)	0.7	2.2	1.0	-0.8	-0.2	-5.4	n.a.
Housing starts <s.a., ann. 10,000 units>	145	130	130	128	129	131	n.a.
Machinery orders (from private sector <sup>3</sup> )	2.5	1.3	-13.4	-16.6	-8.9	-4.7	n.a.
Mining & manufacturing	13.6	8.7	-2.9	-8.3	-2.4	-6.0	n.a.
Nonmanufacturing <sup>3</sup>	-4.7	-4.1	-20.4	-22.8	-13.7	-3.4	n.a.
Construction Starts (private, nonresidential use)	0.7	3.8	-8.0	-6.6	-8.4	-12.7	n.a.
Manufacturing	1.5	8.4	-1.4	14.5	-8.0	-11.0	n.a.
Nonmanufacturing <sup>4</sup>	0.4	2.2	-10.5	-14.2	-8.6	-13.4	n.a.
Value of public works contracts	-1.2	-1.7	-9.1	-6.7	5.1	0.1	n.a.
Real exports <s.a. quarterly (monthly) change>	6.8	0.6	1.3	-9.6	0.8	3.0	n.a.
Real imports <s.a. quarterly (monthly) change>	-3.2	2.5	-3.7	-7.9	10.0	1.0	n.a.
Industrial production <s.a. quarterly (monthly) change>	0.0	-0.4	-2.3	-5.0	1.1	p 2.9	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.6	0.6	-2.5	-5.9	1.4	p 3.1	n.a.
Inventories <s.a. quarterly (monthly) change>	7.1	0.7	1.2	1.4	0.4	p -0.2	n.a.
Inventories/shipments <s.a. 1990=100>	117.8	115.3	122.6	123.9	122.6	p 120.9	n.a.

## Main Economic Indicators (2)

	y/y % chg.						
	97/Q2	Q3	Q4	97/Nov.	Dec.	98/Jan.	Feb.
Ratio of job offers to applications <s.a., times>	0.73	0.73	0.69	0.69	0.67	0.64	n.a.
Unemployment rate <s.a., %>	3.40	3.41	3.46	3.48	3.45	3.48	n.a.
Overtime working hours <sup>5</sup>	3.7	1.1	-2.5	-2.8	-3.6	p -3.1	n.a.
Number of employees	1.4	1.0	1.0	0.9	0.8	0.3	n.a.
Number of regularly employed <sup>5</sup>	0.9	0.9	0.8	1.0	0.7	p 0.7	n.a.
Nominal wage per person <sup>5</sup>	1.4	1.5	0.7	0.0	0.7	p -1.1	n.a.
Domestic wholesale prices index <sup>6</sup>	-0.5	-0.5	-1.0	-1.0	-1.2	-1.2	-1.6
Consumer prices index (nationwide) <sup>6</sup>	0.6	0.6	0.7	0.6	0.3	0.3	n.a.
Excluding perishables	0.6	0.8	0.8	0.7	0.8	0.6	n.a.
Corporate service prices index <sup>6</sup>	-0.3	-0.2	0.0	-0.1	0.0	-0.1	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.0	3.3	3.2	3.9	p 4.3	n.a.
Number of suspension of transaction with banks	11.5	9.5	19.0	7.2	28.4	16.2	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";

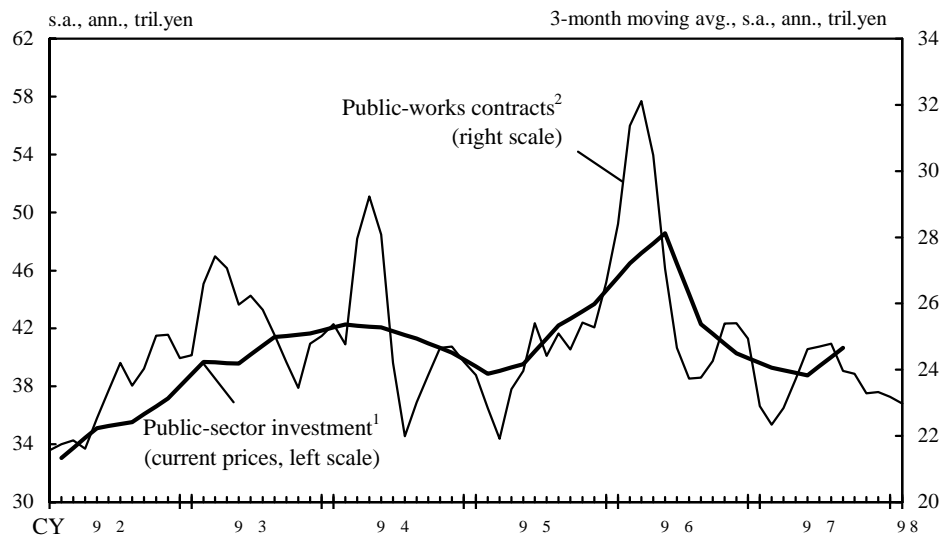
Ministry of Finance, "Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service",

"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."

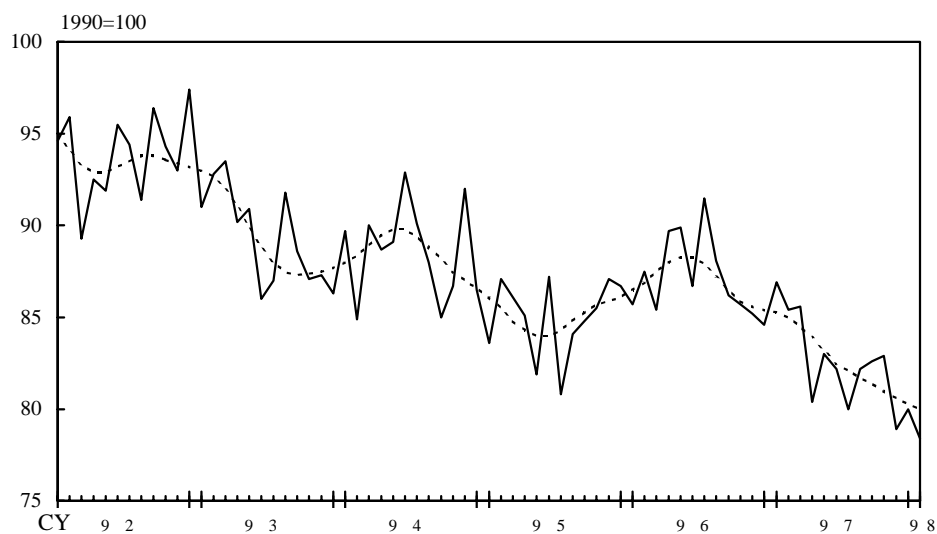
Public-sector Investment

(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 products  
 +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,

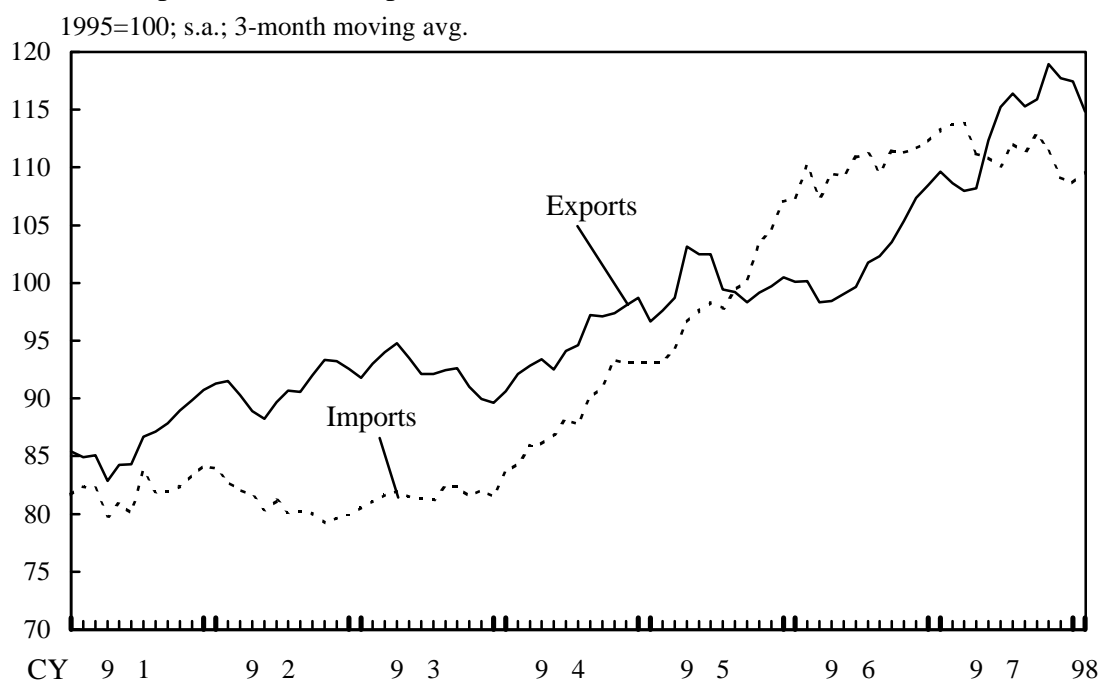
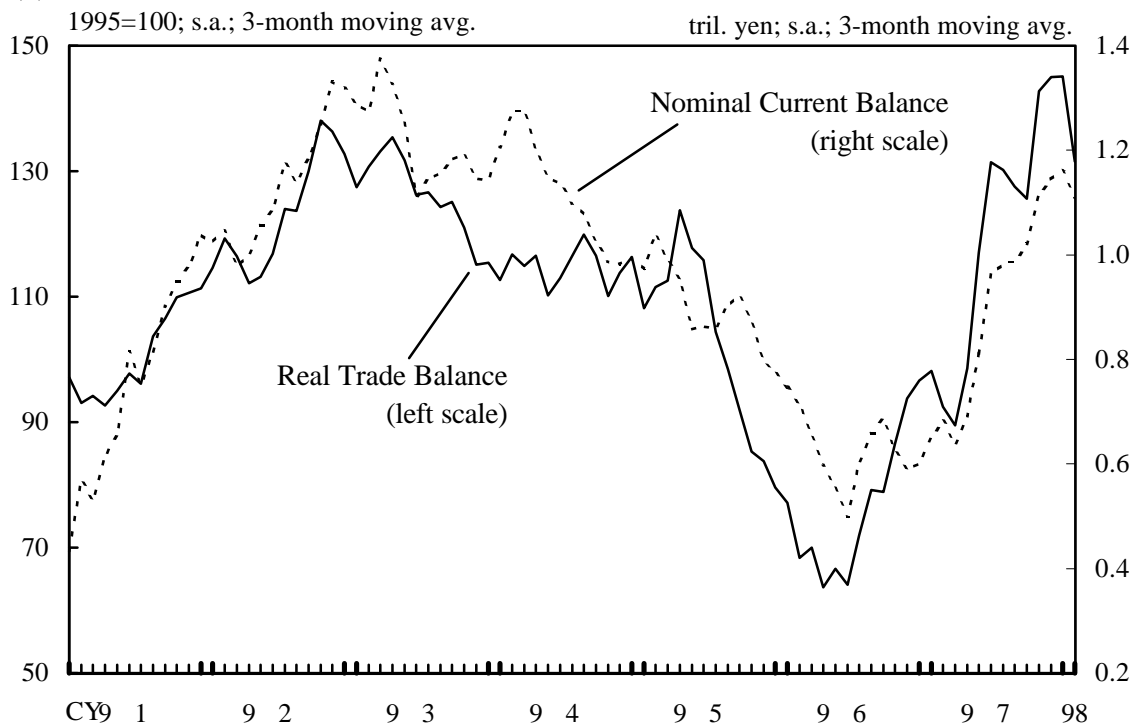
D: trading day factor, I: irregular factor.

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

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 External Balance
 

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(1) Real Exports and Real Imports <sup>1</sup>(2) Real Trade Balance and Nominal Current Account <sup>2</sup>

Notes: 1. The real exports and imports are figures after annual revision.

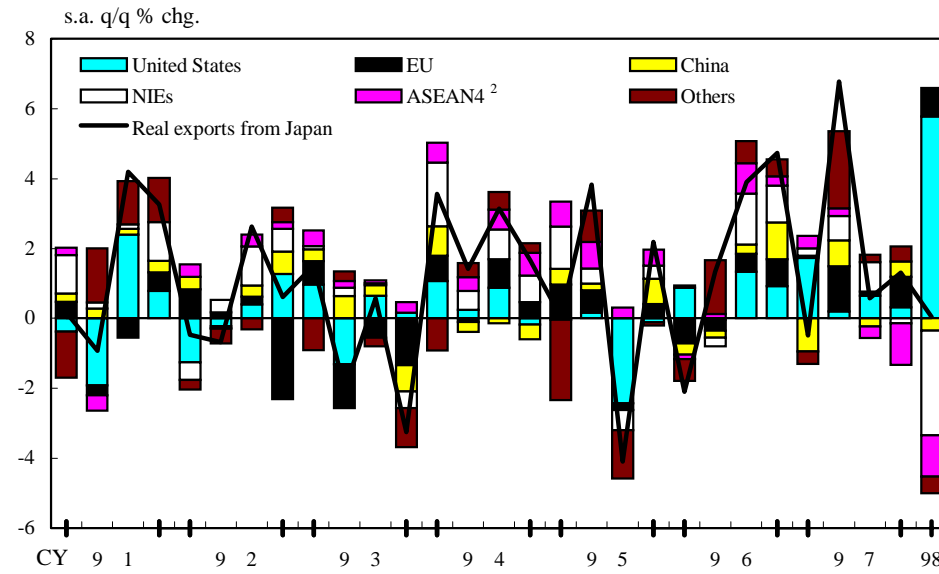
2. The nominal current balance is seasonally adjusted by X-12-ARIMA ( $\beta$  version).

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

Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."

Exports

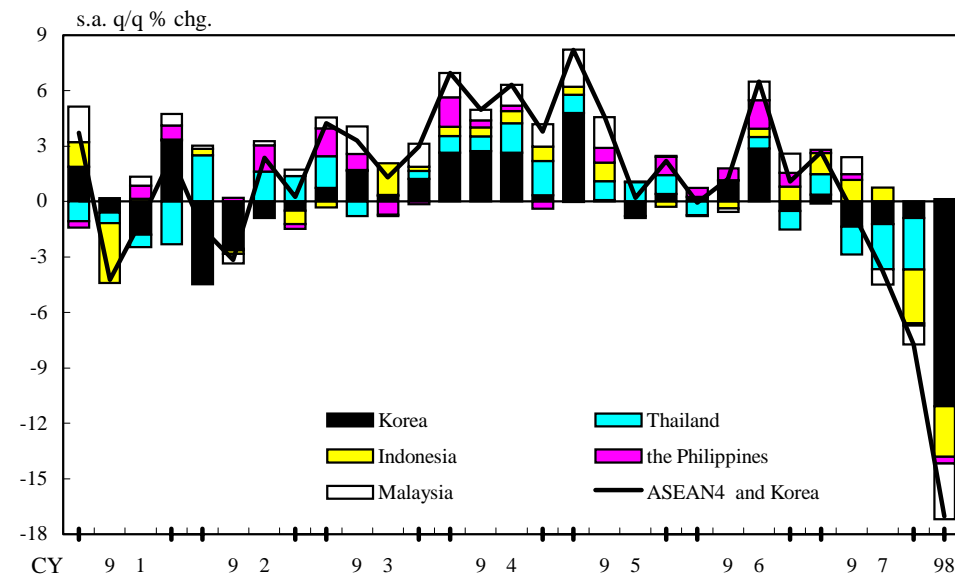
(1) Real Exports from Japan <sup>1</sup>



Notes: 1. The sum of factor contributions does not equal to the total real exports due to seasonal adjustment factors and etc. The real exports is figures after annual revision. The data by regions are figure before annual revision. 1998/Q1 are January figures converted into 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>



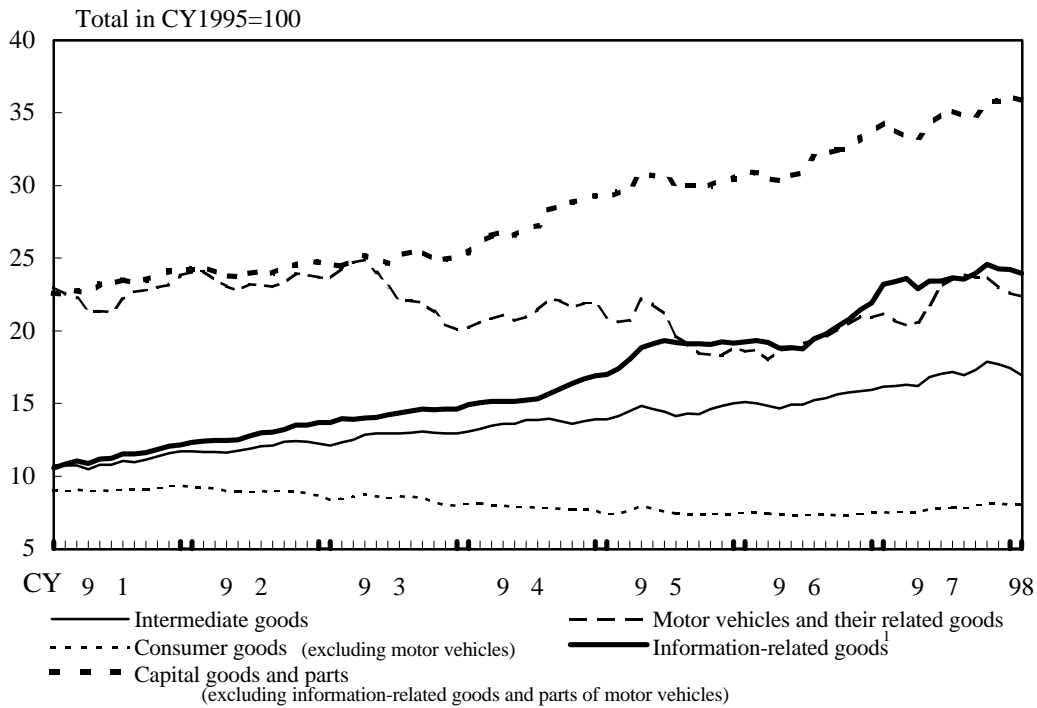
Notes: 1. Data for four members: Thailand, Malaysia, the Philippines, and Indonesia.

2. The data are before annual revision. 1998/Q1 are January figures converted into quarterly amount.

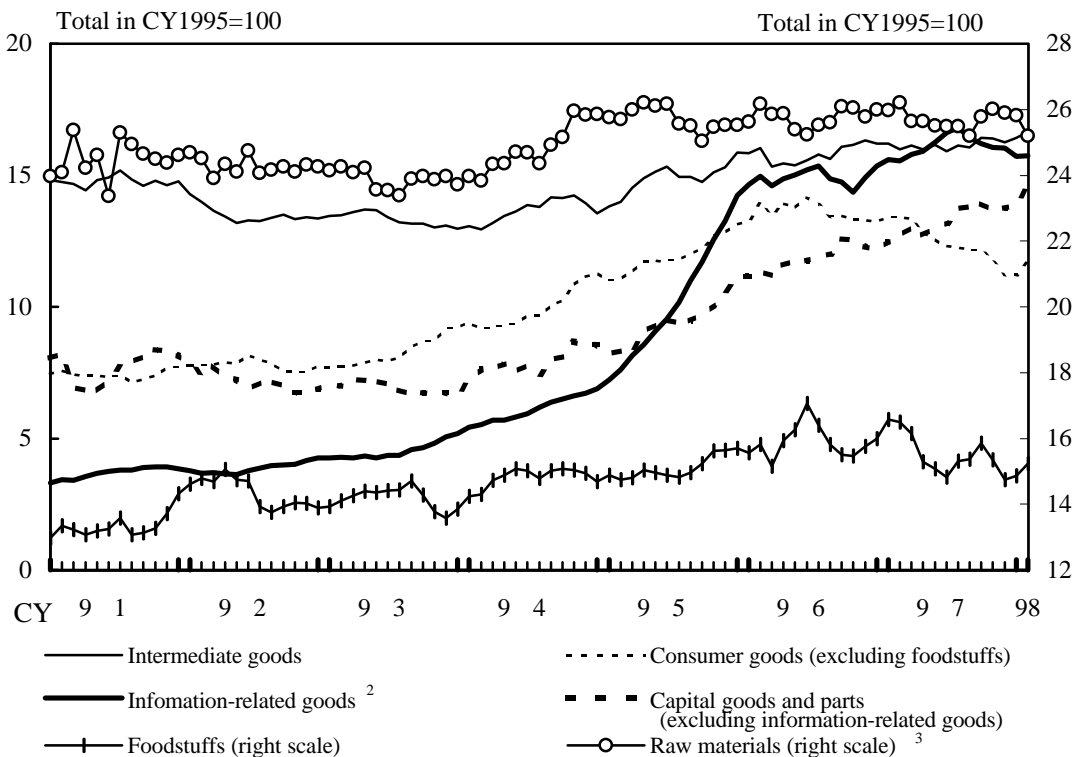
Sources: Ministry of Finance, "Summary Report on Trade of Japan";  
Bank of Japan, "Wholesale Price Indexes."

Exports and Imports

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



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



Notes: 1. Information-related exports = automatic data processing machinery + Telecommunication machinery + ICs + scientific, medical and optical instruments.

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

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

4. The data are figures before annual revision.

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

## Overseas Economic Conditions and Real Effective Exchange Rate

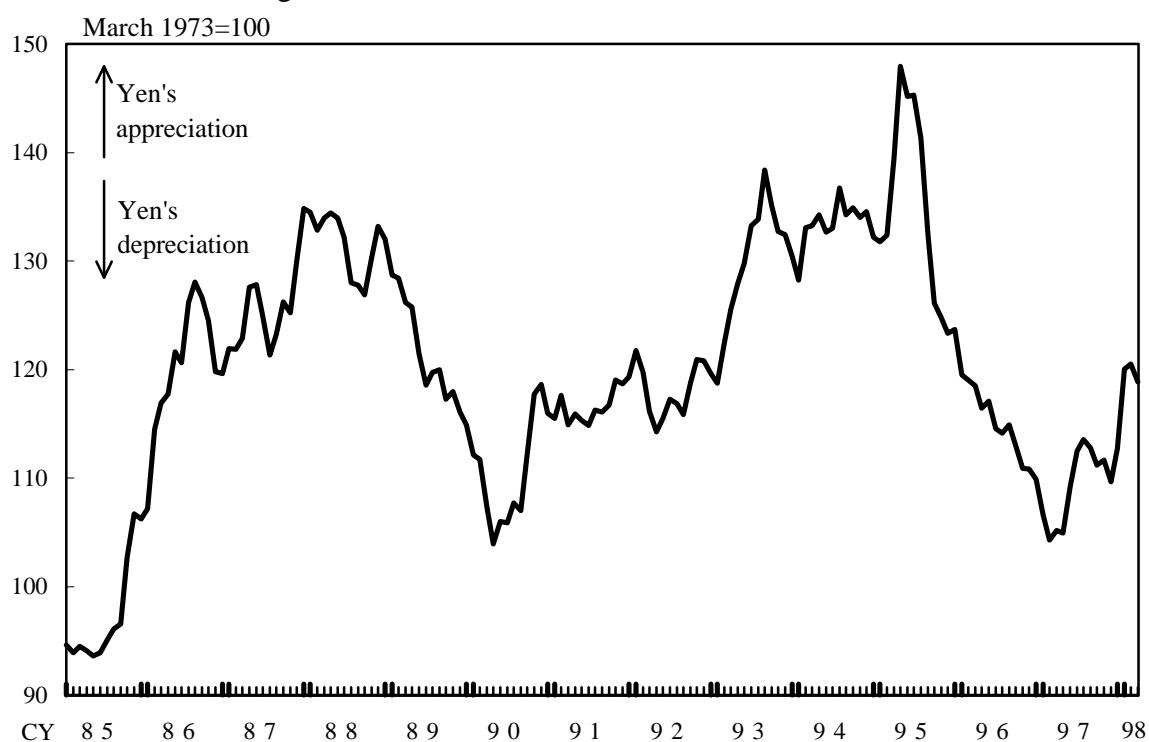
## (1) Real GDP Growth Rates in Overseas Economies

		CY95	96	97	97				
					Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	
United States <sup>1</sup>		2.0	2.8	3.8	4.9	3.3	3.1	3.9	
European Union <sup>1</sup>		2.5	1.8	n.a.	1.8	4.9	3.3	n.a.	
	Germany	1.8	1.4	2.2	1.5	3.8	2.9	1.1	
	France	2.1	1.5	2.4	1.3	4.7	3.7	3.1	
	United Kingdom	2.8	2.6	3.2	2.5	4.2	3.5	1.8	
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	6.8	6.9	6.3	6.9	7.1
		Hong Kong	3.9	5.0	5.2	6.0	6.8	5.7	n.a.
		Singapore	8.8	6.9	7.8	4.2	8.5	10.7	7.6
	4 Countries of ASEAN	Philippines	4.8	5.7	5.1	5.0	5.7	4.9	4.7
		Thailand	8.7	5.5	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	p 4.6	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."

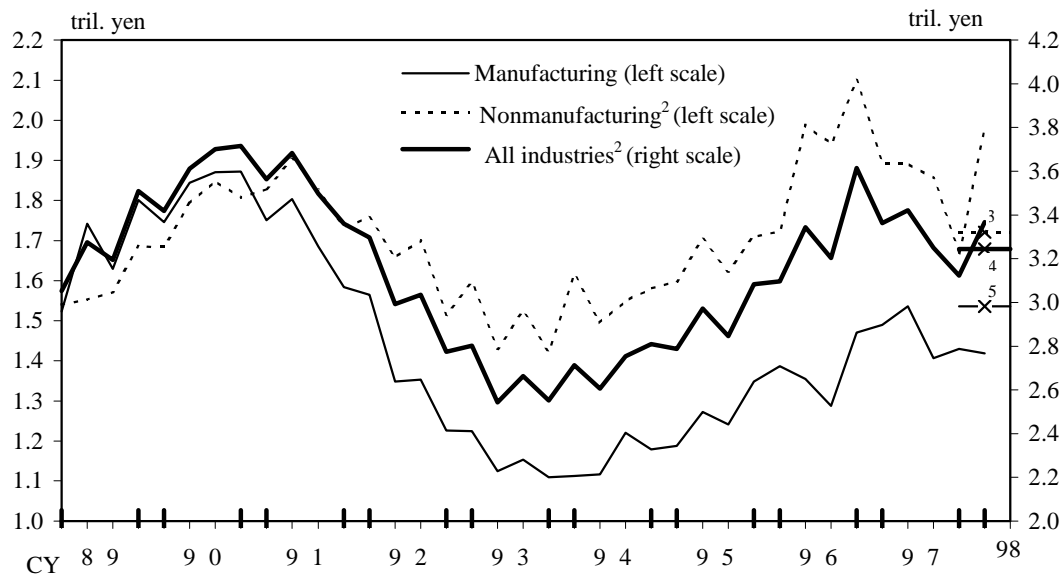
(2) Real Effective Exchange Rate<sup>1</sup>

Notes: 1. Monthly average. The figure for Mar. 1998 is March 1-12 average. Calculated by Bank of Japan.

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

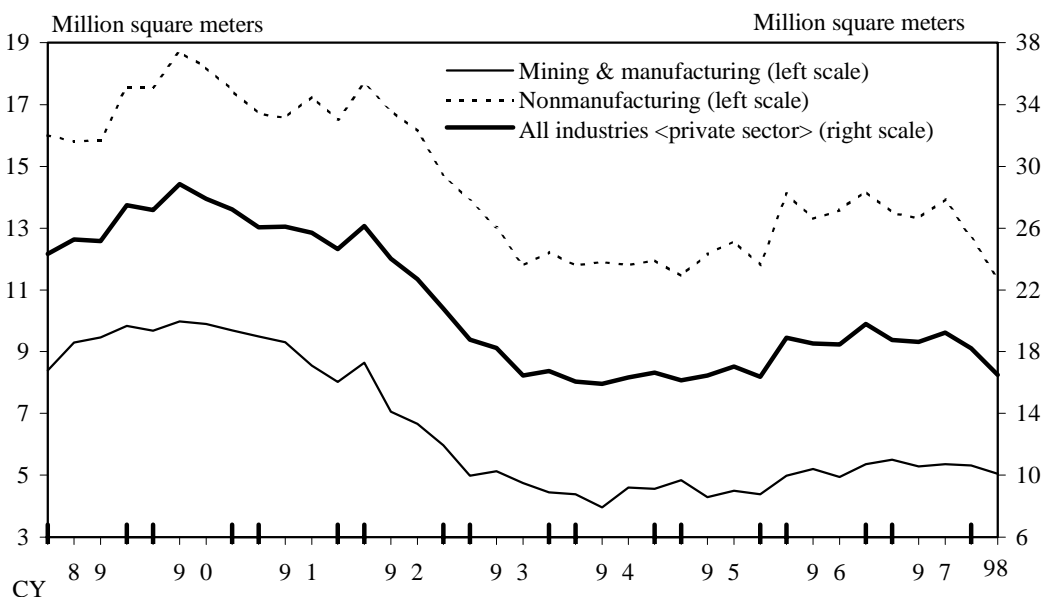
Major Indexes of Business Fixed Investment (1)

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



- Notes: 1. Seasonally adjusted data. Figures for 1998/Q1 are data of January in terms of quarterly amount.  
 2. Excludes orders from electric power companies, and shipbuilding orders.  
 3. Forecast of nonmanufacturing industries for 1998/Q1.  
 4. Forecast of all industries for 1998/Q1.  
 5. Forecast of manufacturing industries for 1998/Q1.

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



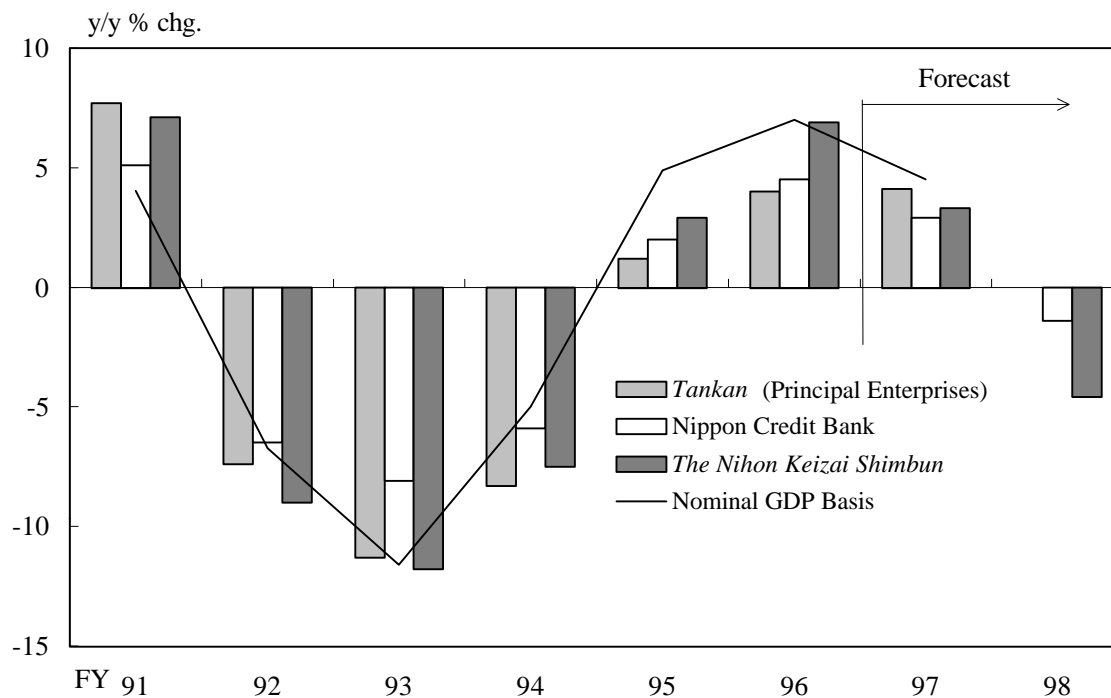
Note: 1. Seasonally adjusted data. Figures for 1998/Q1 are data of January in terms of quarterly amount.

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



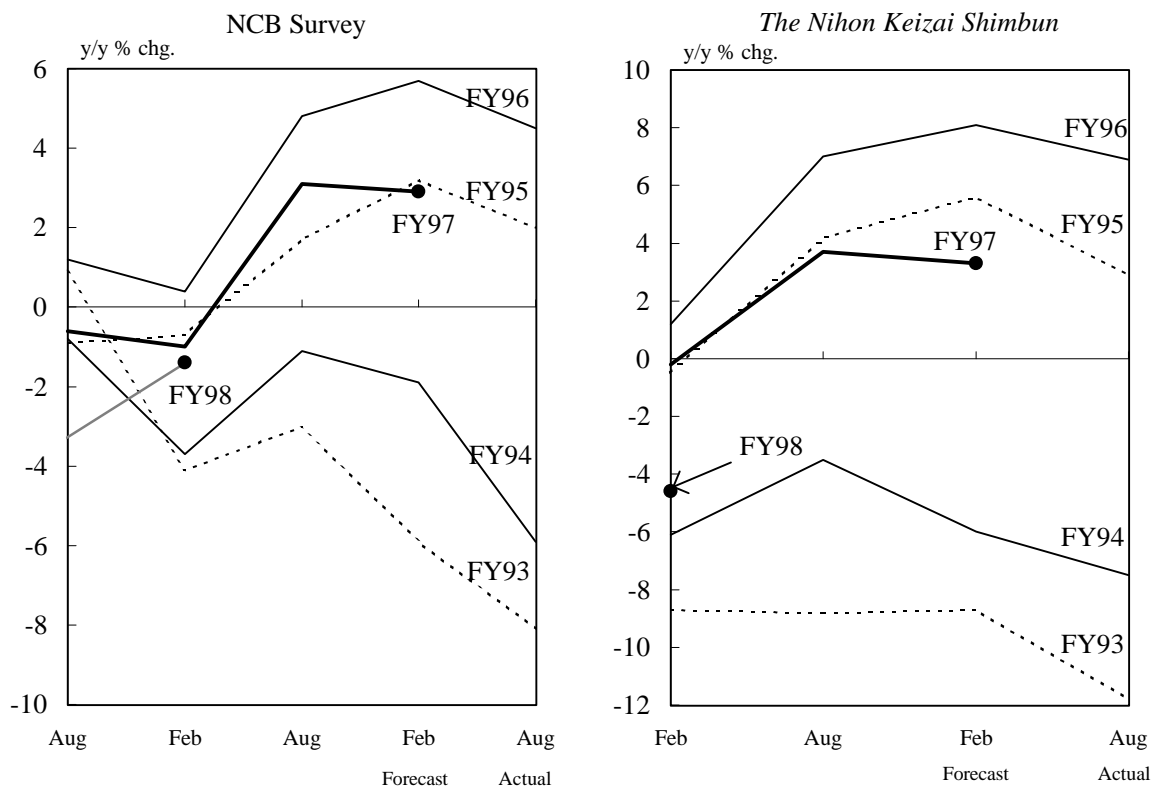
Major Indexes of Business Fixed Investment (2)

(3) Business Fixed Investment Plans



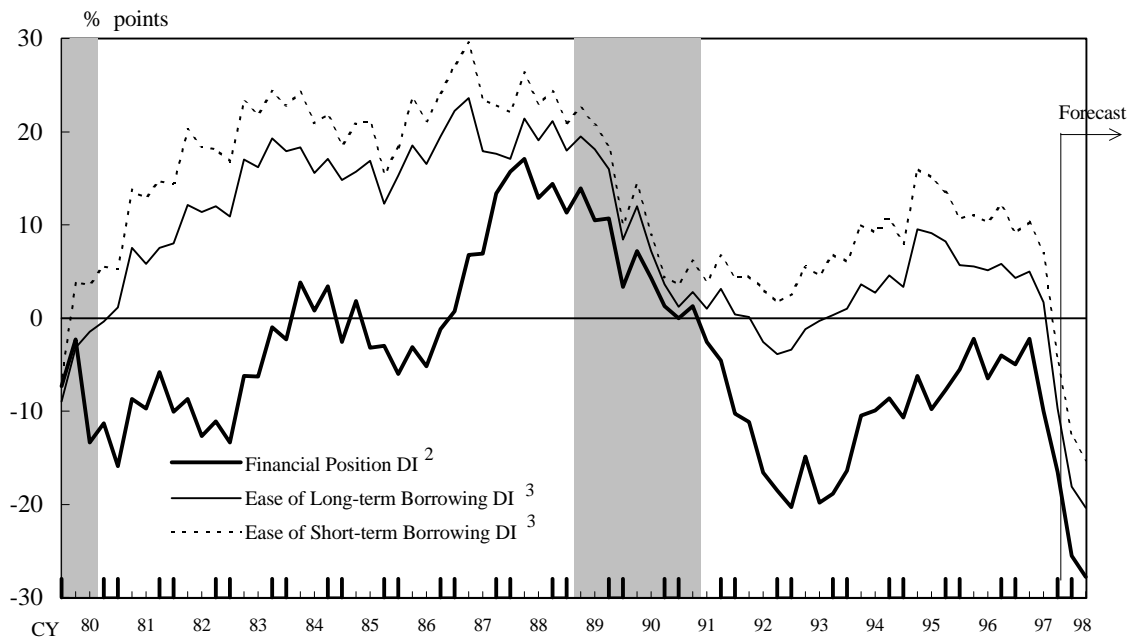
Note: 1. The figure for Nominal GDP Basis in 1997 is the actual result in 1997/H1.

(4) Adjustment of Business Fixed Investment Plans

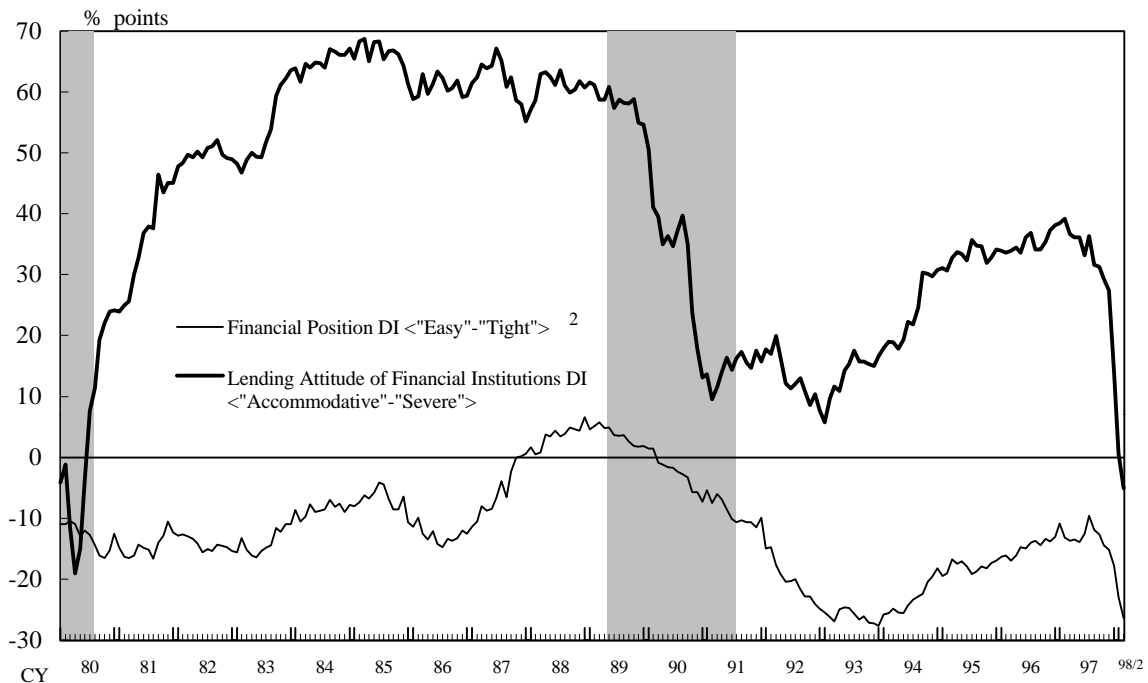


Sources: Bank of Japan, "Tankan – Short-Term Economic Survey of Enterprises";  
 Nippon Credit Bank, "NCB Survey", *The Nihon Keizai Shimbun* (March 12, 1998);  
 Economic Planning Agency, "National Income Statistics."

## Corporate Finance-Related Indicators (Small Enterprises)

(1) Economic Survey of Small Businesses (Quarterly)<sup>1</sup>

- Notes: 1. Sample : 11,827 Companies (Responses : 5,273 < December 1997 Survey >).  
 Shaded areas indicate periods when the official discount rate was on an uptrend.  
 2. Change from a year ago, "Improving" - "Worsening".  
 3. Change from a year ago, "Easy" - "Difficult".

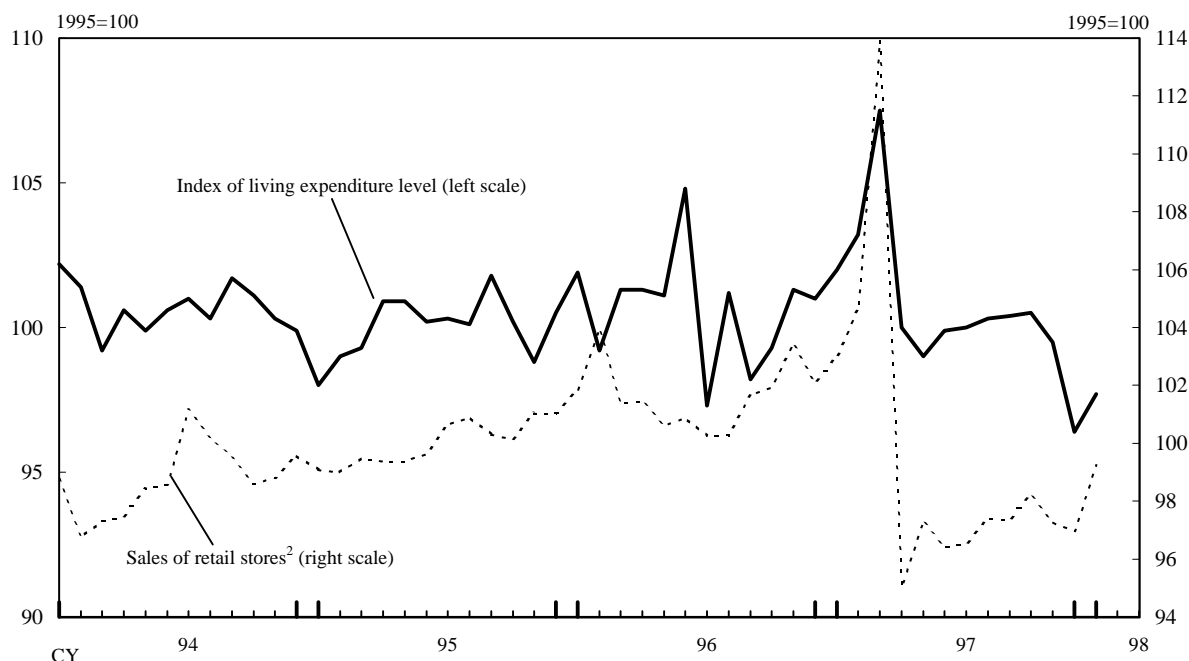
(2) Monthly Survey on Trends of Small Businesses<sup>1</sup>

- Notes: 1. Sample : 900 Companies (Responses : 625 < February 1998 Survey >).  
 Shaded areas indicate periods when the official discount rate was on an uptrend.  
 2. Seasonally adjusted data.

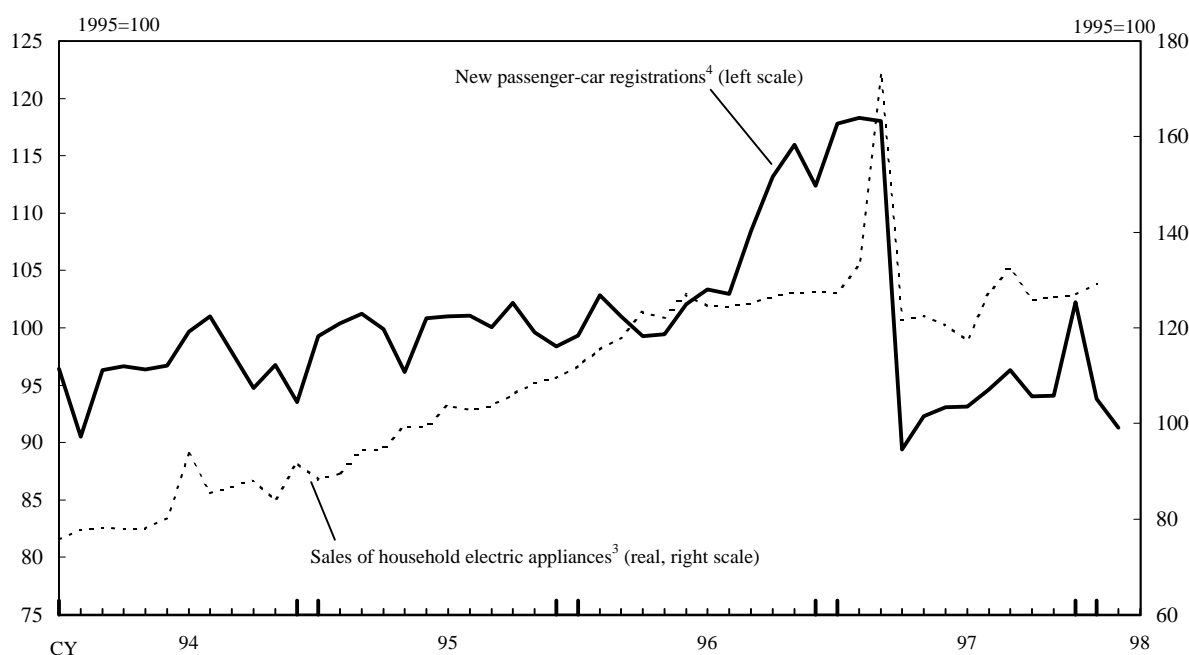
Source: Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses",  
 " Monthly Survey on Trends of Small Businesses."

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

## (1) Household Spending



## (2) Sales of Durable Goods



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

Index of living expenditure level is seasonally adjusted by X-11.

2. Sales of retail stores is deflated by the Consumer Price Index for commodities.

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

4. Excluding small cars with engine size of 660 cc or less.

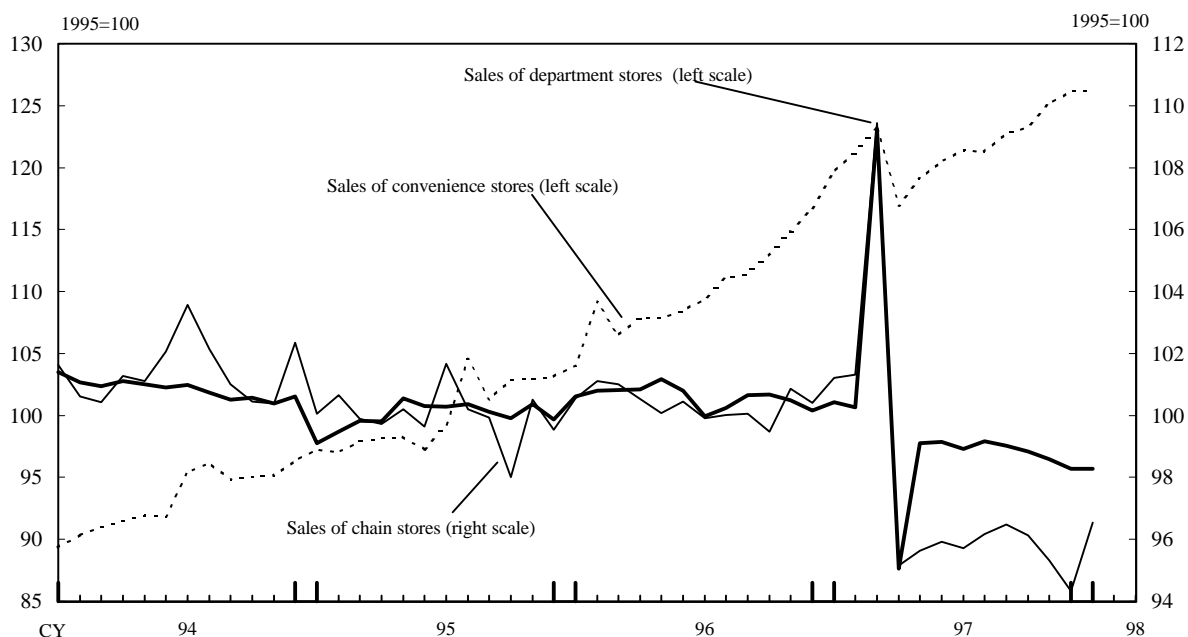
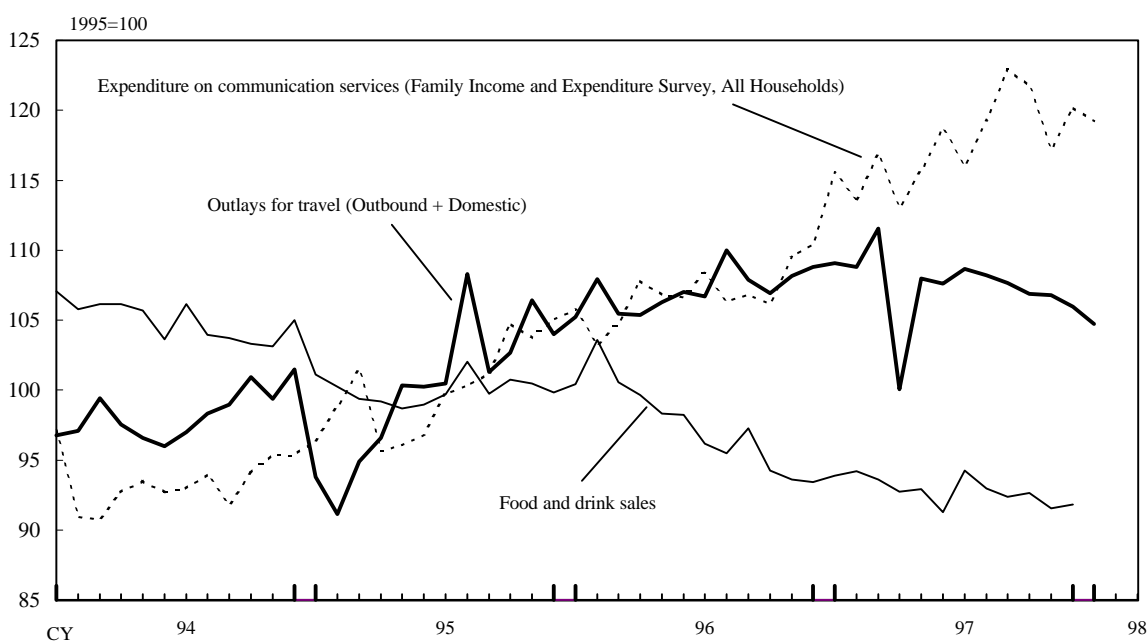
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";  
"Consumer Price Index";

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

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

Nippon Electric Big-Stores Association (NEBA), "Sales of Electric Appliance";

Bank of Japan, "Wholesale Price Indexes."

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

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

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

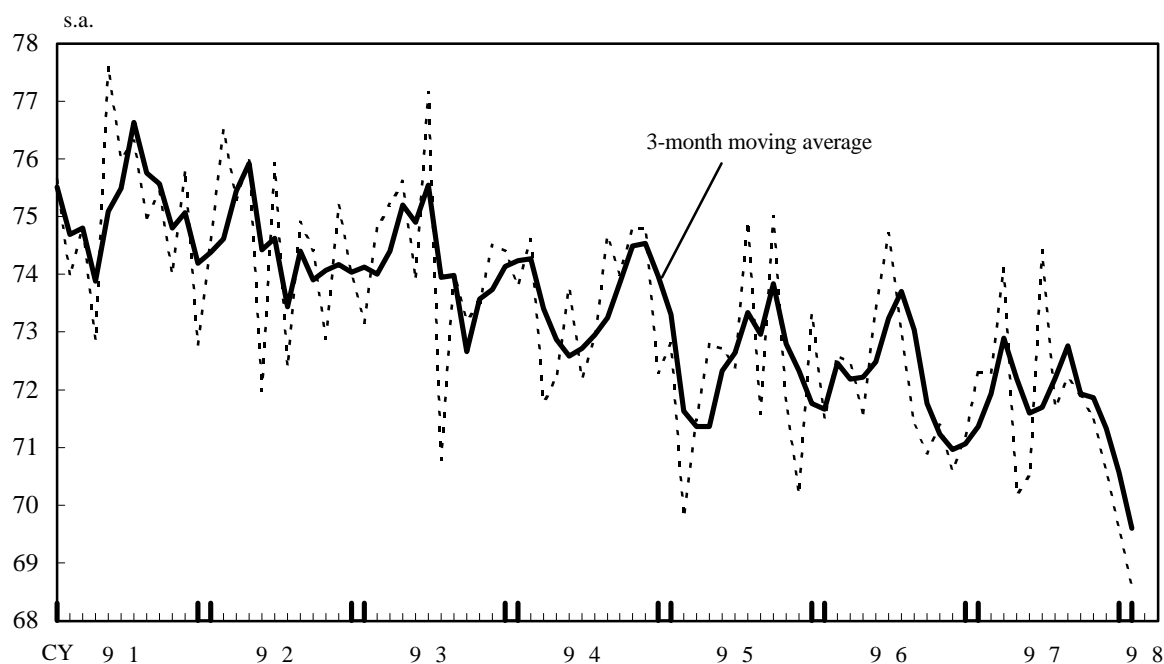
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

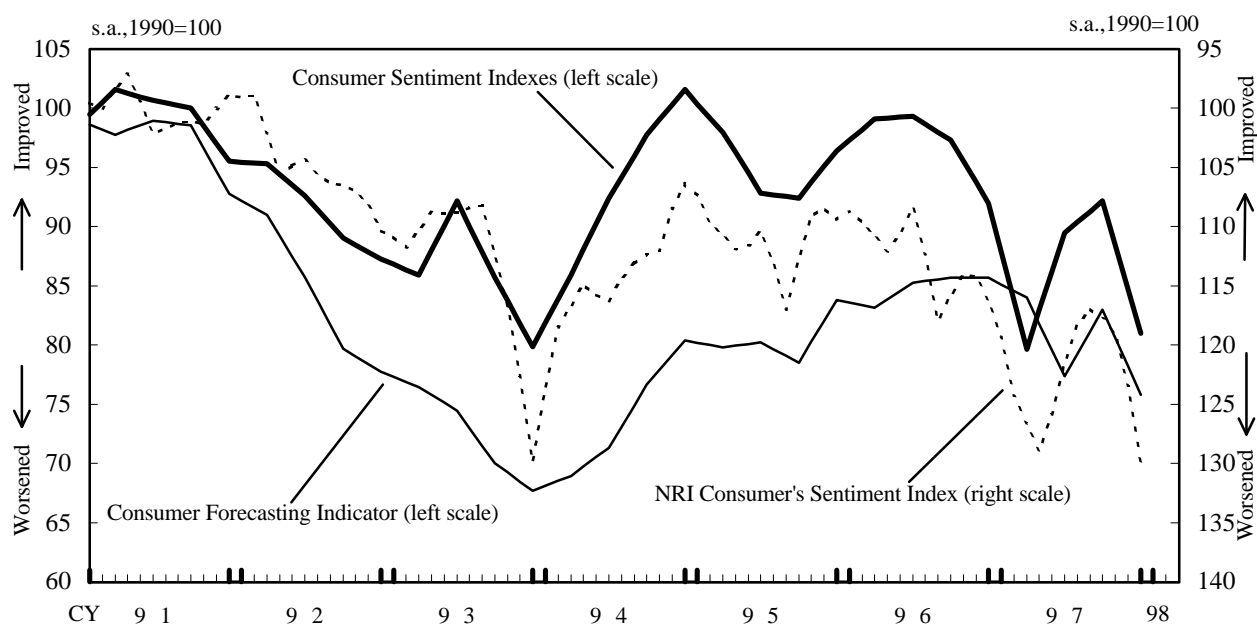
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";  
Ministry of International Trade and Industry, "Current Survey of Commerce";  
Japan Chain Stores Association, "Sales of Chain Stores";  
Ministry of Transport, "Major Travel Agents' Revenue";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

Propensity to consume and Consumer Confidence

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



(2) Surveys on consumer confidence



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

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

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

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

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

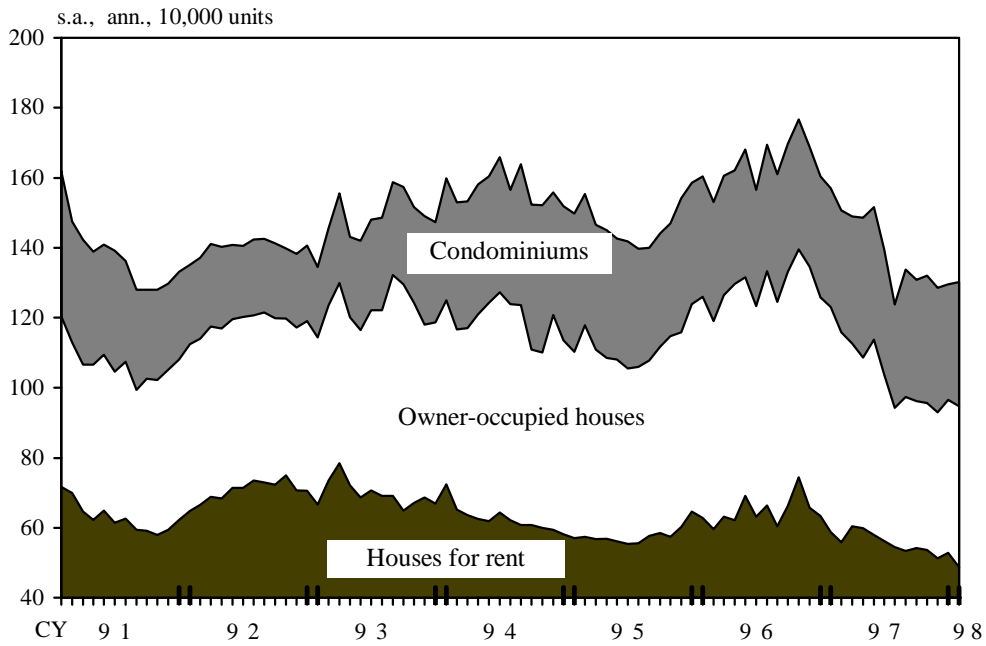
Management and Coordination Agency, "Monthly Report on the Family Income and

Expenditure Survey";

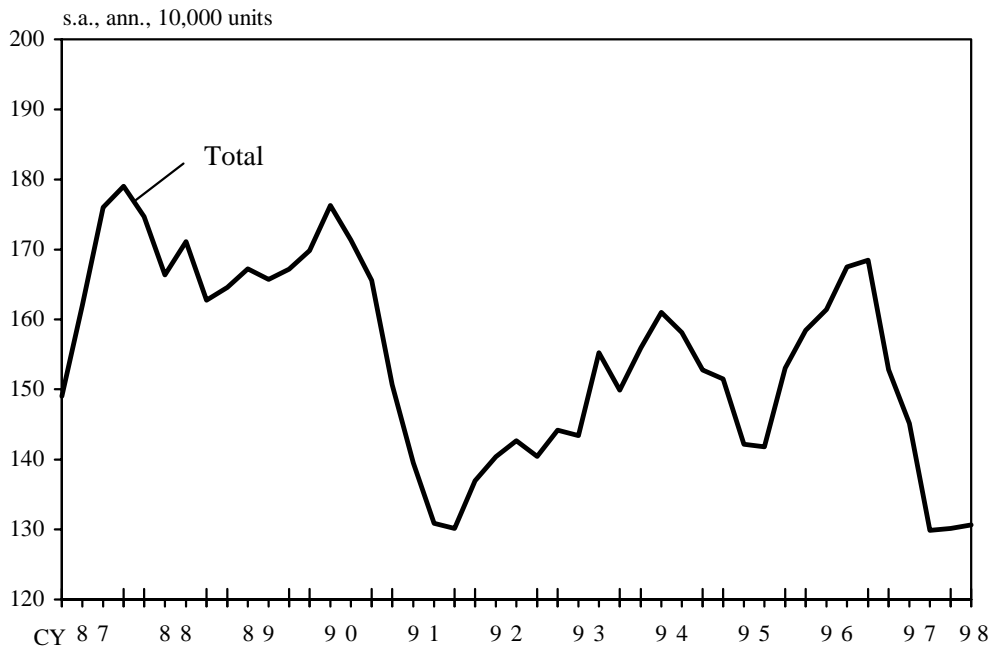
Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

Housing Starts<sup>1</sup>

(1) Monthly



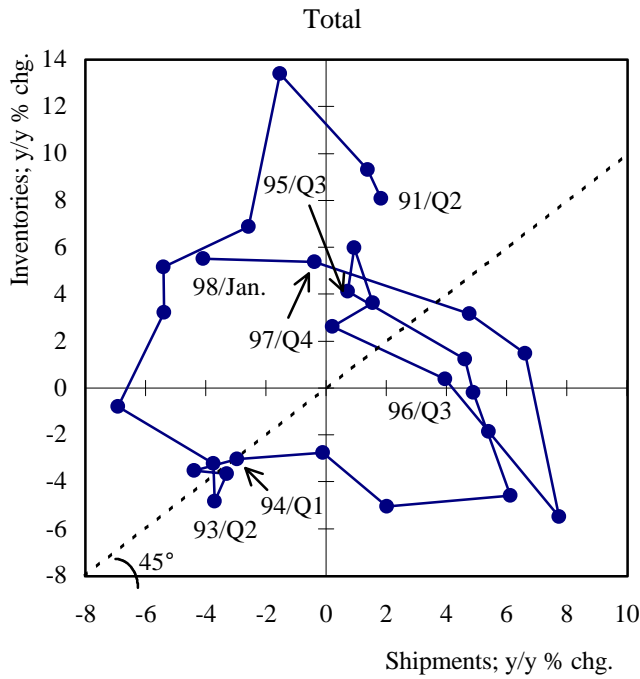
(2) Quarterly



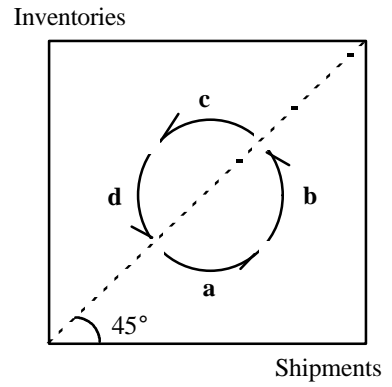
Note: 1. The data in 98/Q1 are those of Jan. 98.

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

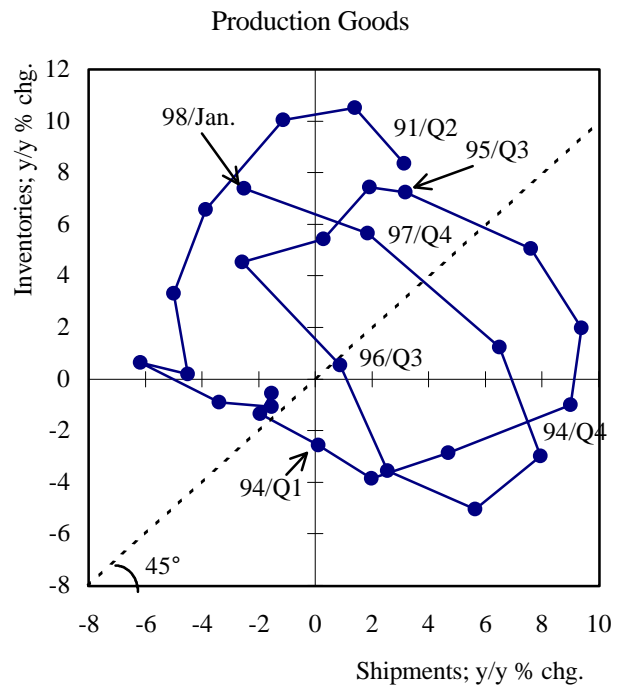
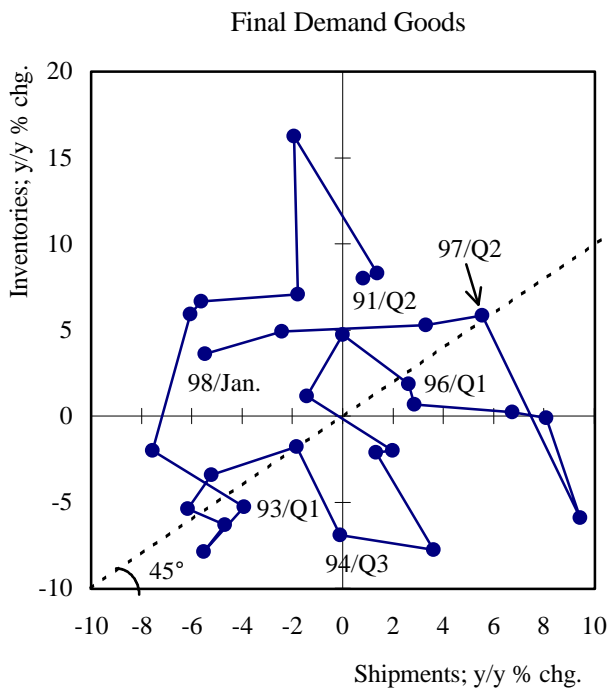
Inventory Cycle



### Phases in the Inventory Cycle



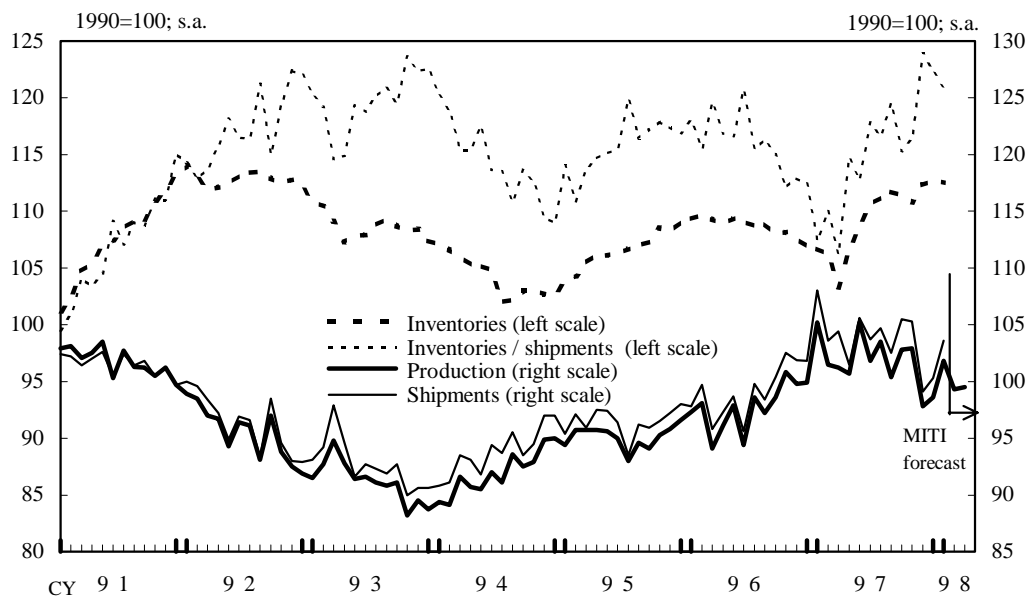
- a** Shipment recovery
- b** Intentional inventory accumulation
- c** Unintentional inventory accumulation
- d** Inventory adjustment



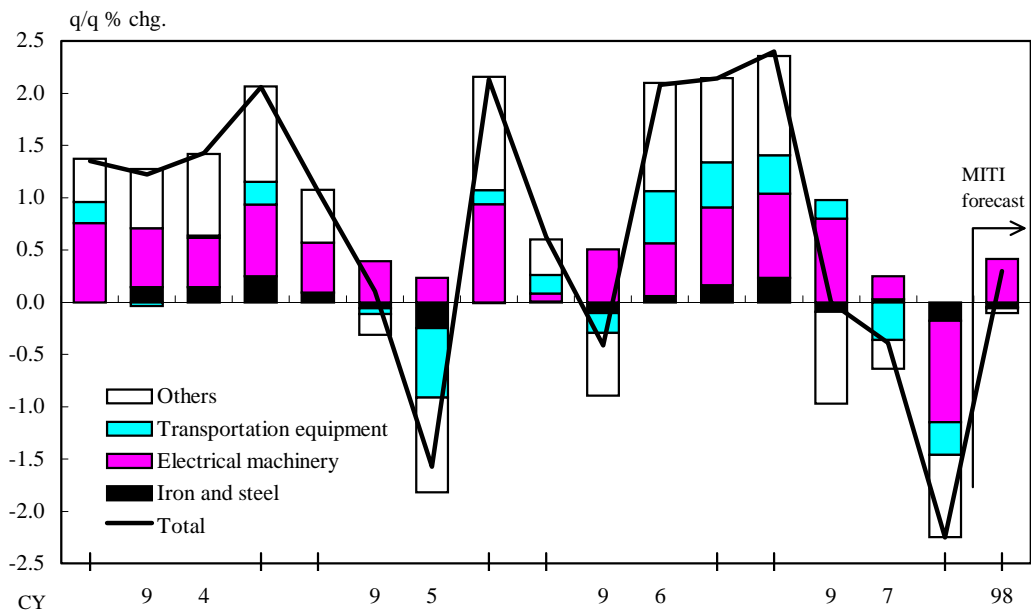
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



(2) Production by Industries



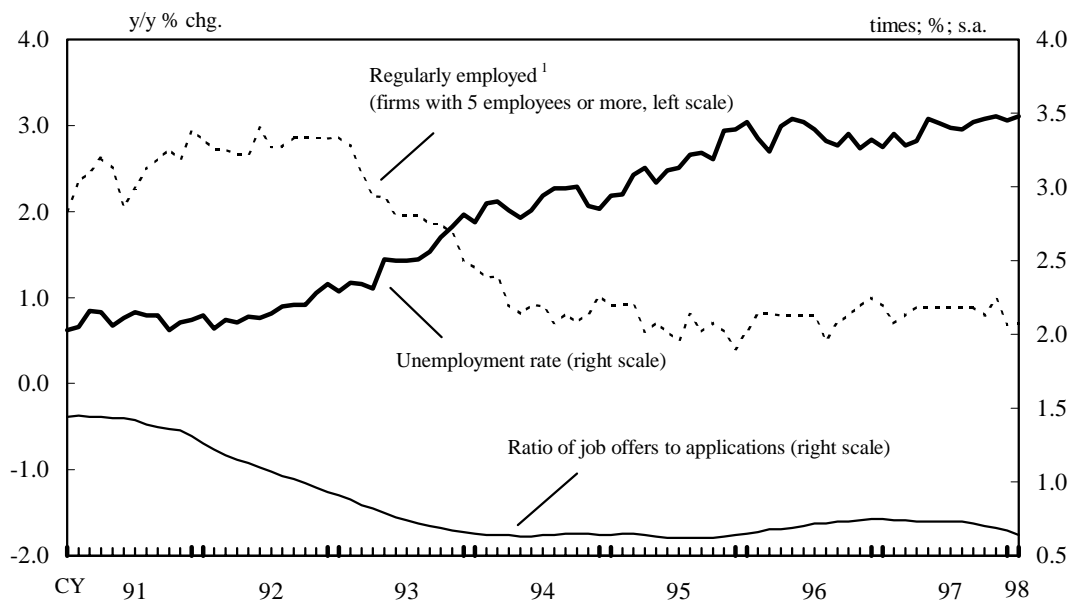
Note: Transportation equipment excludes ships and rolling stock.

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



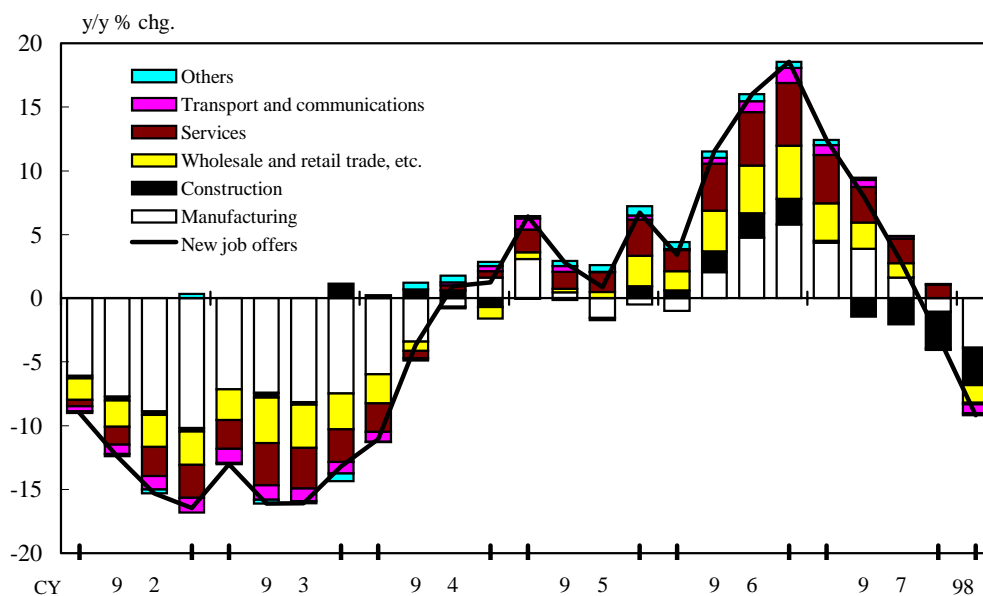
Labor

(1) Monthly



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

(2) New job offers<sup>1</sup>



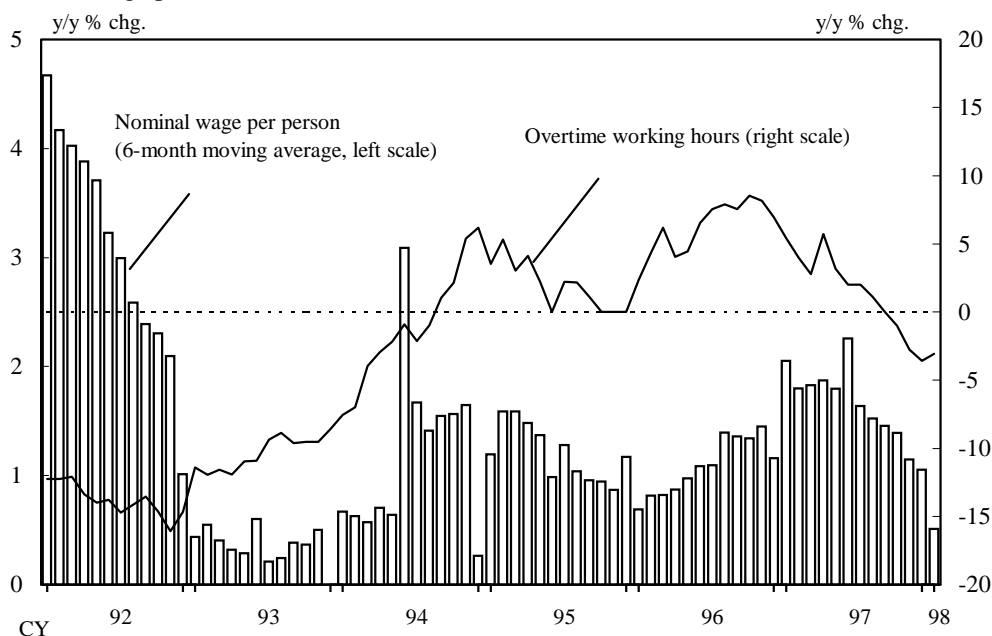
Note: 1. Excludes jobs offered to new graduates.

The data in 98/Q1 are those of Jan. 98.

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

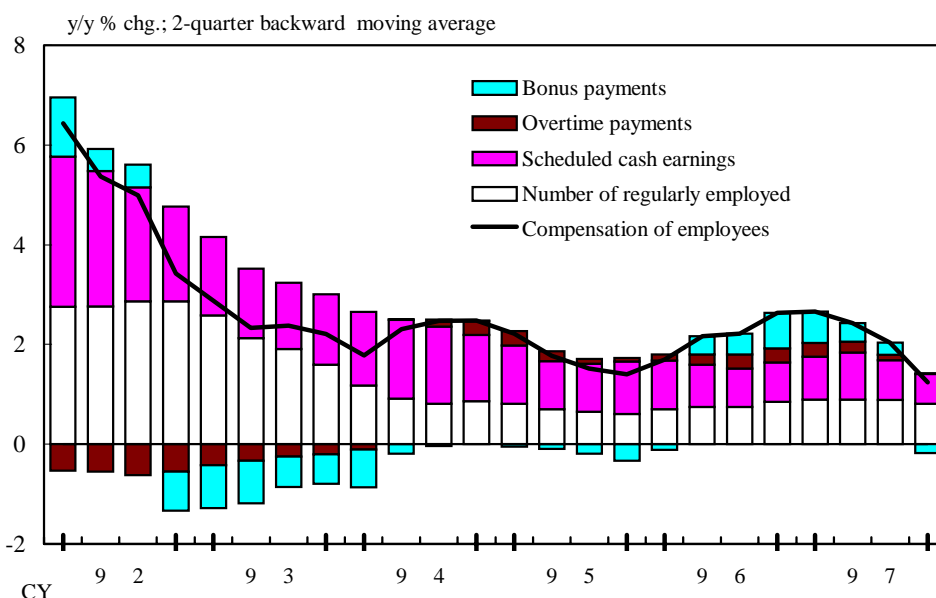
Compensation of Employees

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



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

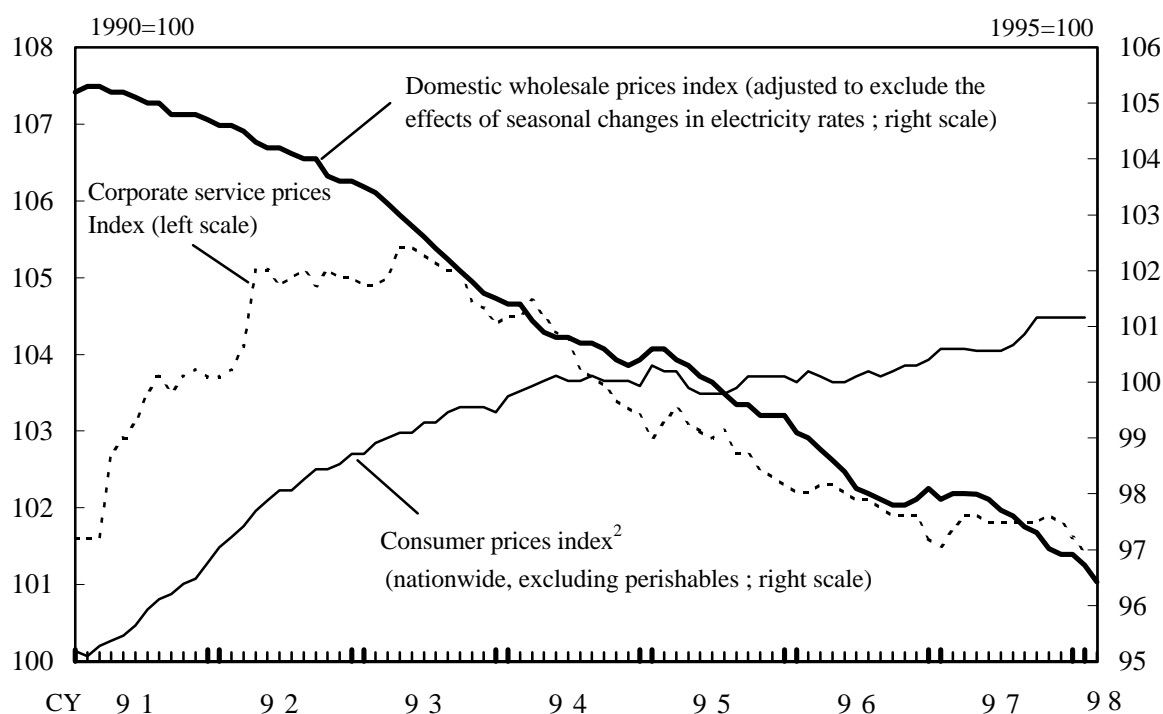
(2) Breakdown of Compensation <sup>1</sup>



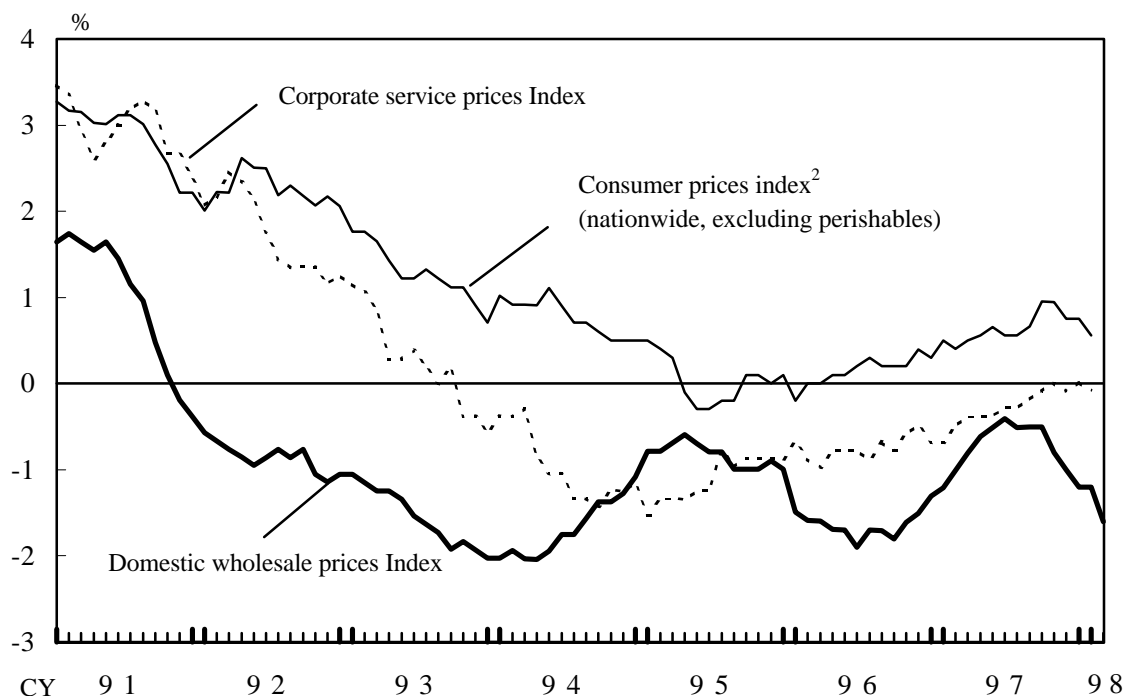
Note: 1. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.  
Data for firms with 5 employees or more.  
The data in 97/Q4 are those of Dec. 97 to Jan.98 (preliminary).  
Source: Ministry of Labor, "Monthly Labor Survey."

## Prices

## (1) Level



## (2) Changes from a year earlier



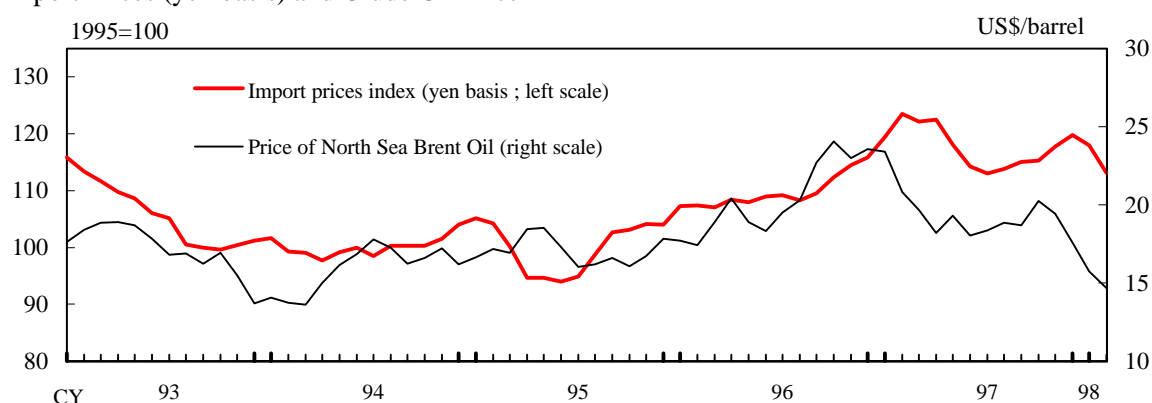
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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

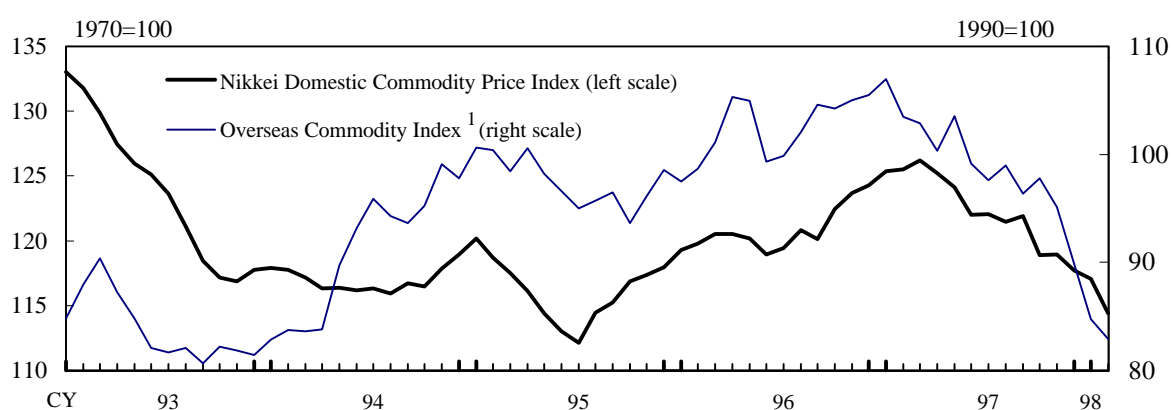
Sources: Management and Coordination Agency, "Consumer Price Index";  
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

## Import Prices and Domestic Wholesale Prices

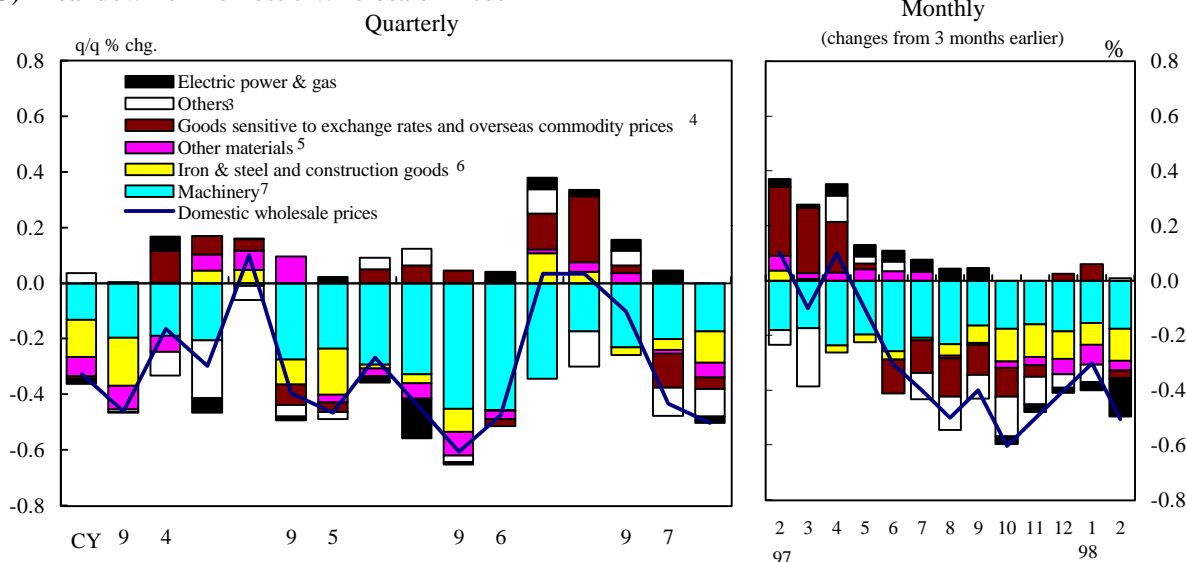
### (1) Import Prices (yen basis) and Crude Oil Price



### (2) Domestic Commodity Market



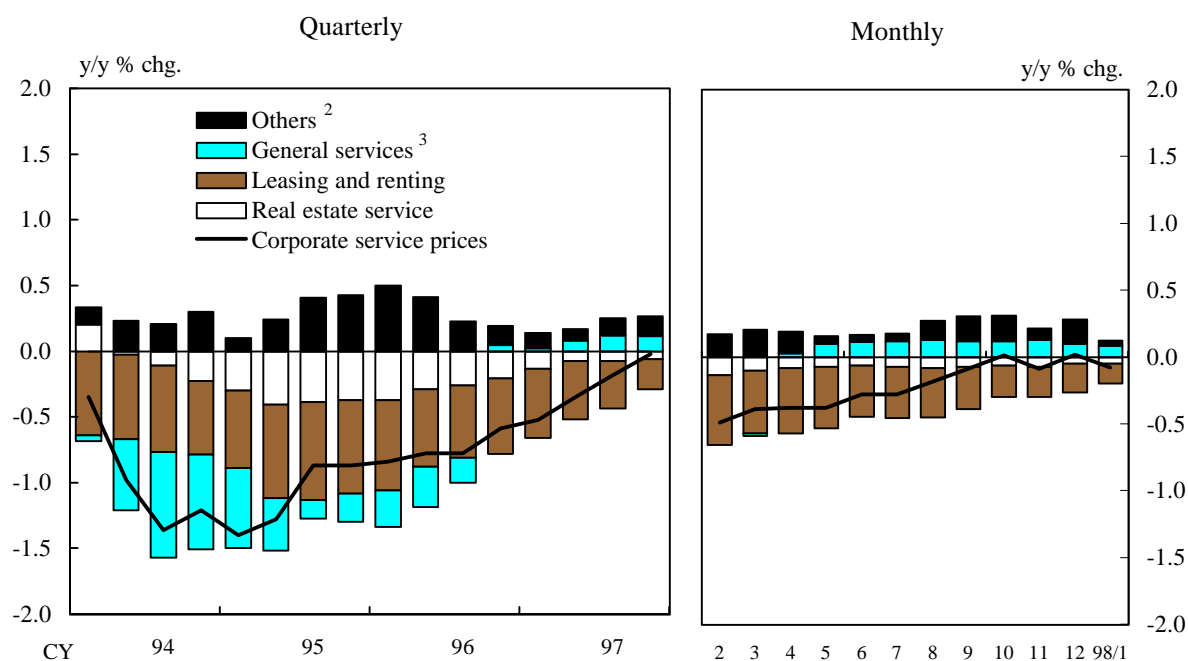
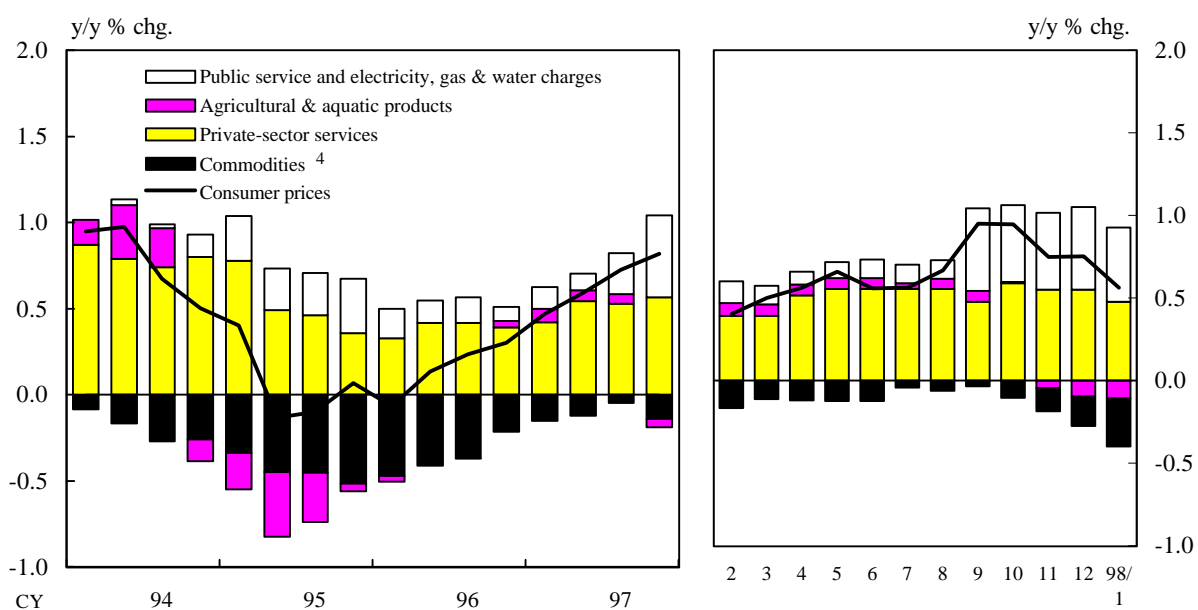
### (3) Breakdown of Domestic Wholesale Prices<sup>2</sup>



- Notes:
1. Calculated by the Research and Statistics Department, Bank of Japan.
  2. Adjusted to exclude the effects of seasonable changes of electricity rates, and of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.
  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", "Economic Statistics Monthly", "Nippon Ginko Geppo (Bank of Japan Monthly Bulletin"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."

## Corporate Service Prices and Consumer Prices

(1) Breakdown of Corporate Service 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.

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.

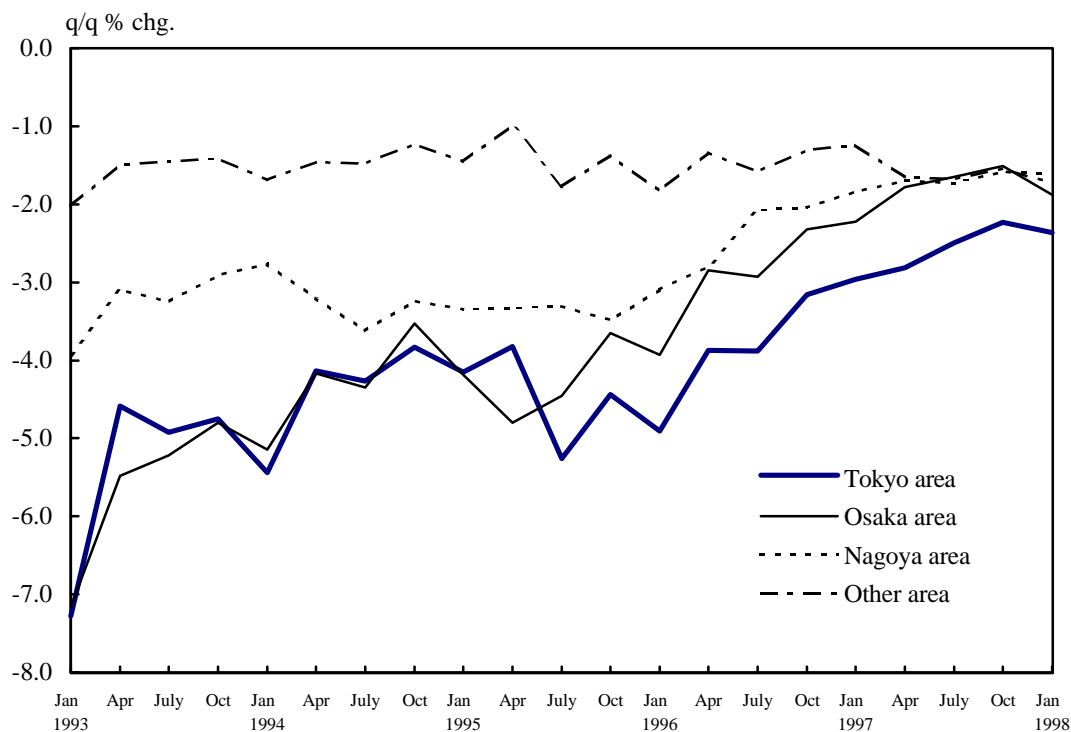
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

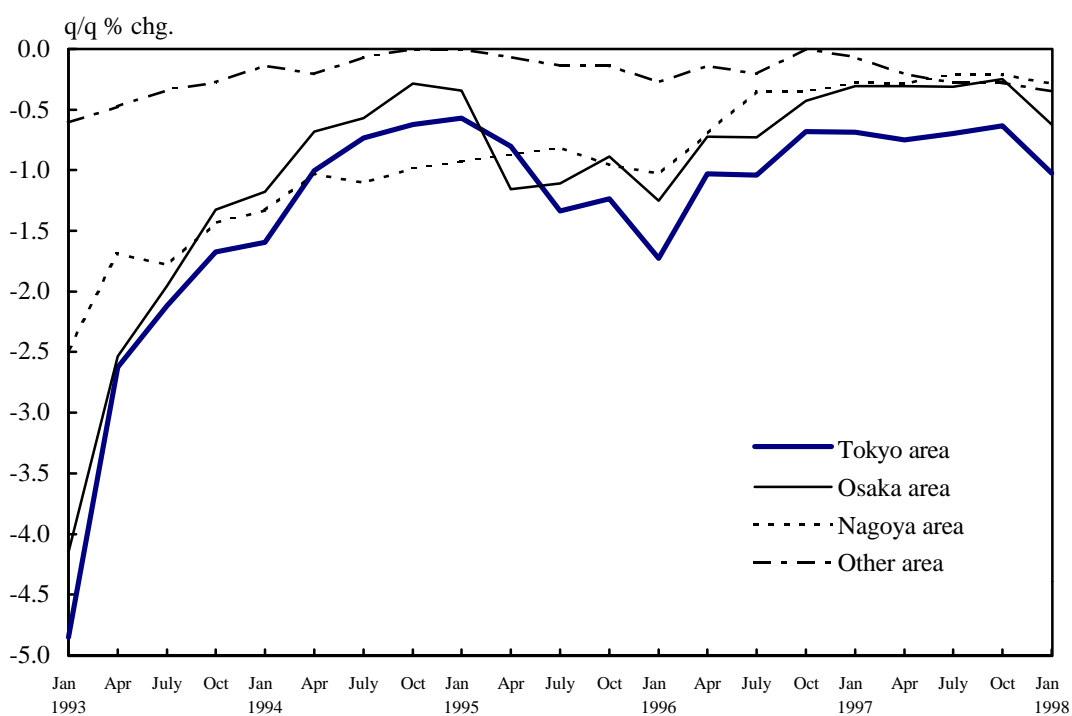
Sources: Management and Coordination Agency, "Consumer Price Index";  
Bank of Japan, "Corporate Service Price Index."

Quarterly Land Price Index<sup>1</sup>

(1) Commercial land



(2) Residential land

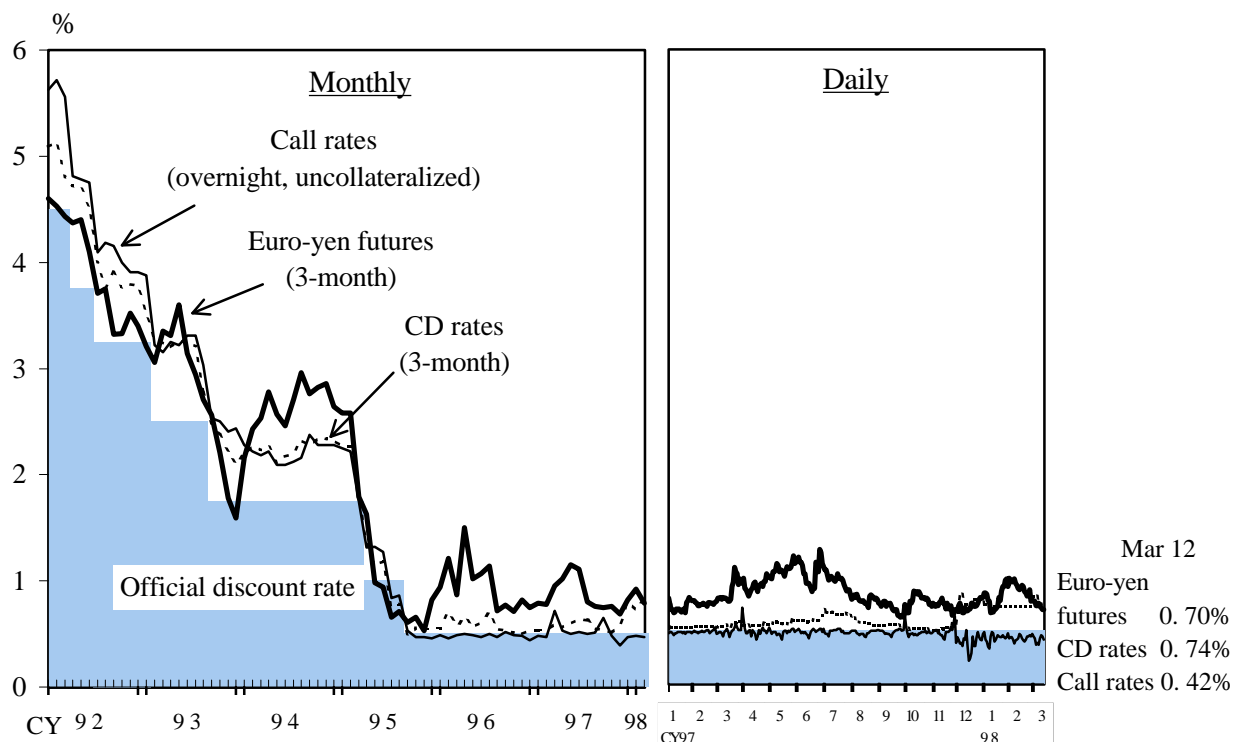


Note: 1. The data after Apr. 97 are preliminary.

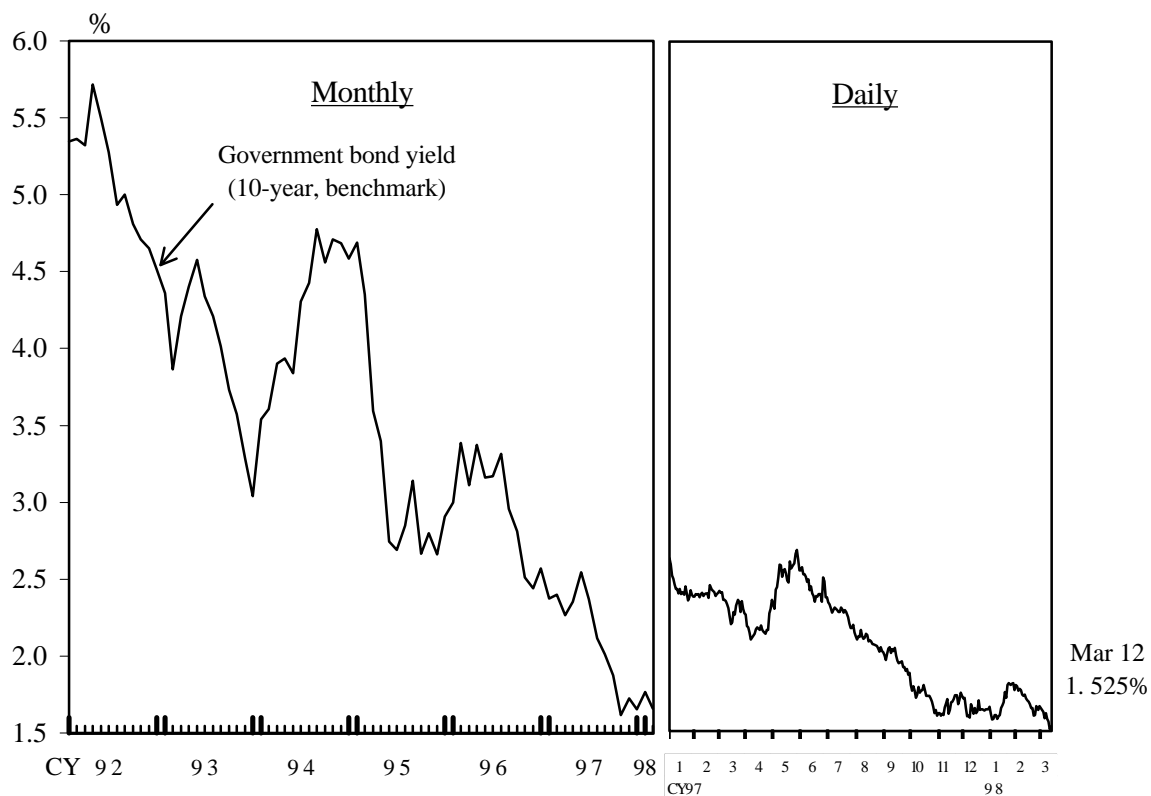
Source: The Land Institute of Japan, "A Quarterly Land Price Index."

Interest Rates

(1) Short-Term



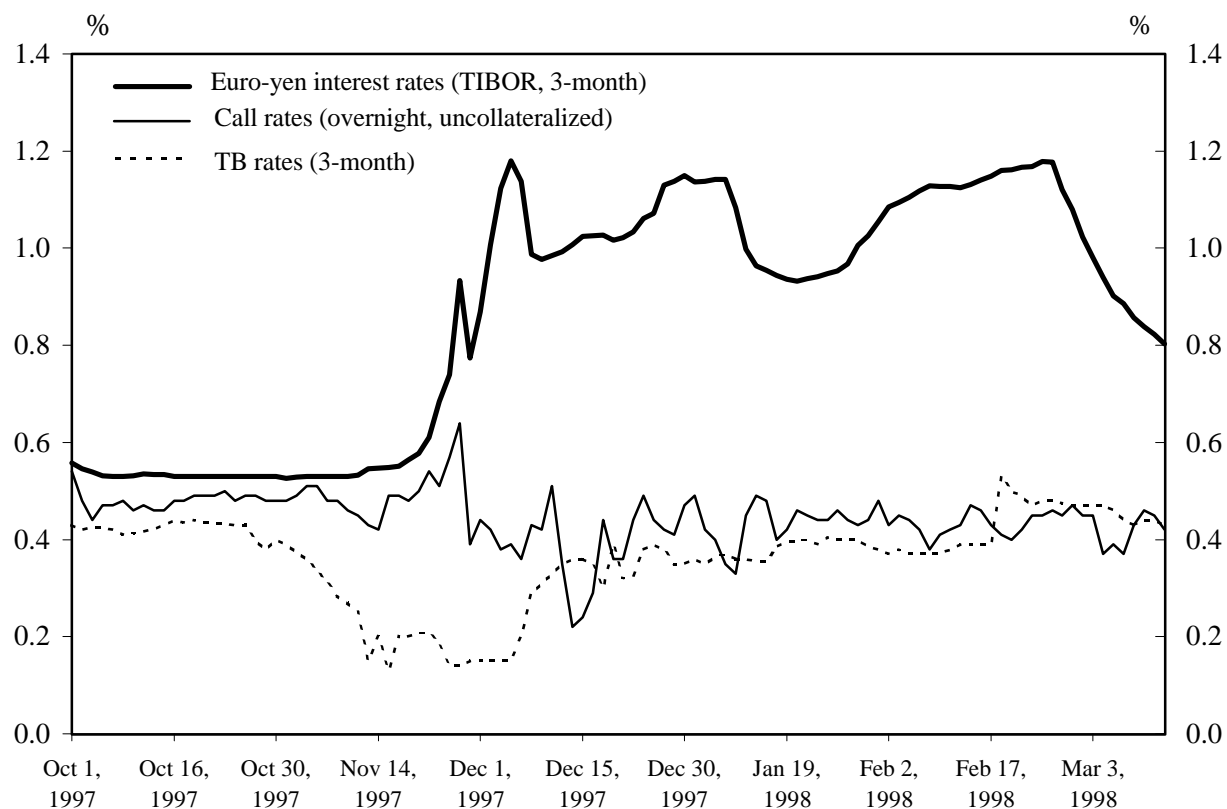
(2) Long-Term



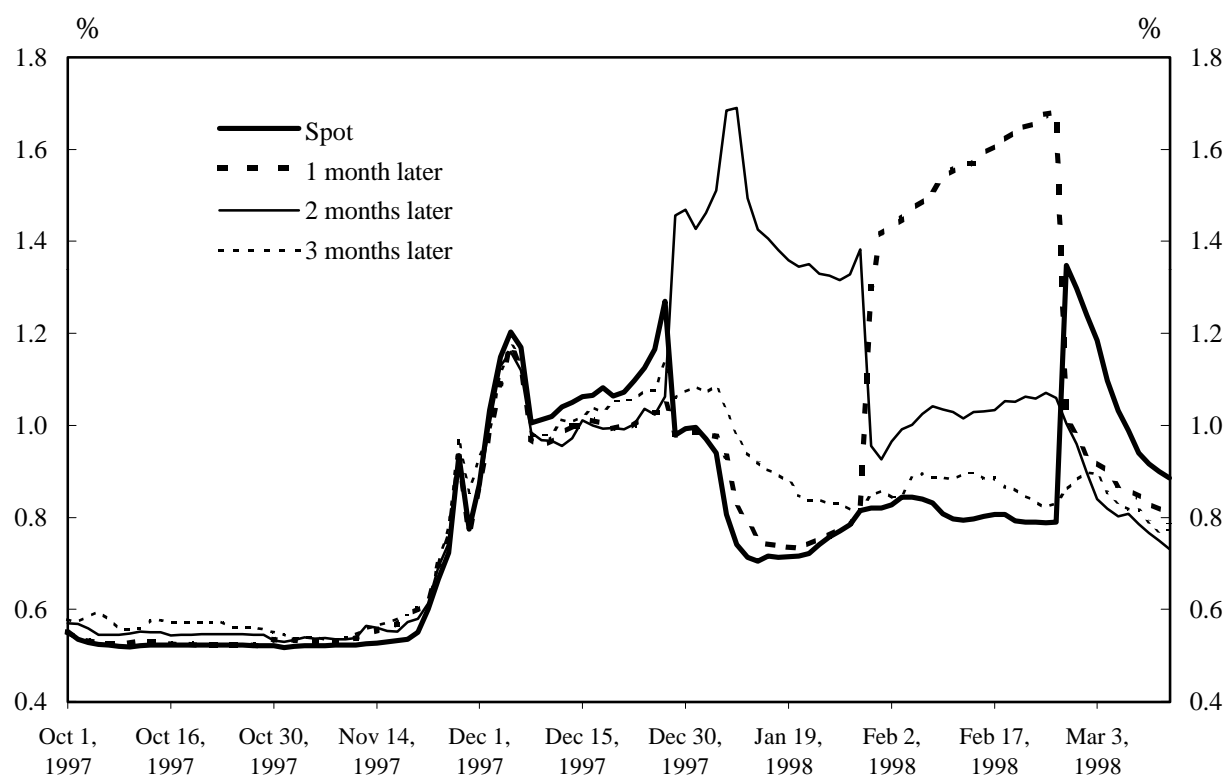
Source: Bank of Japan, "Economic Statistics Monthly."

## Short-Term Money Market Rates

## (1) Interest Rates on Term Instruments

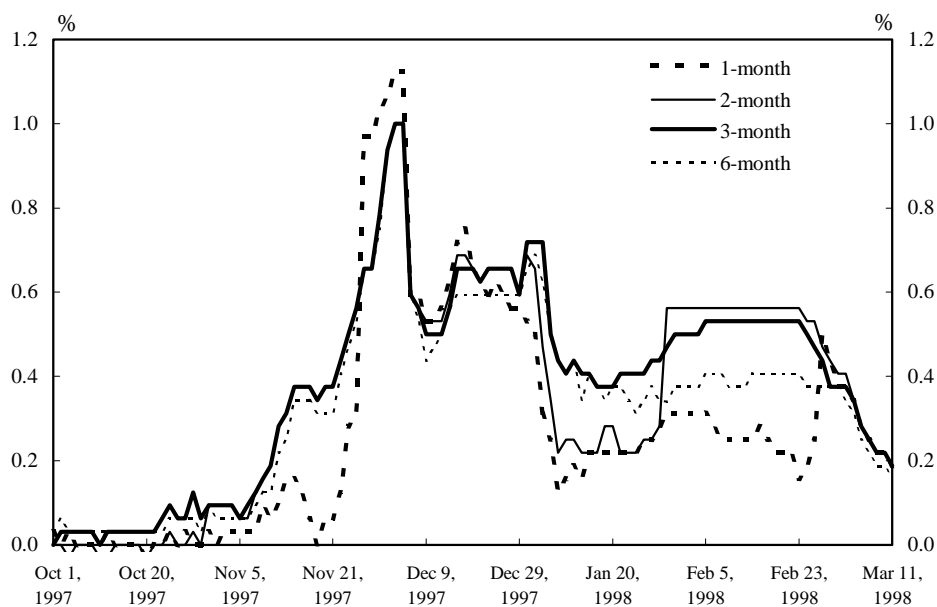


## (2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)





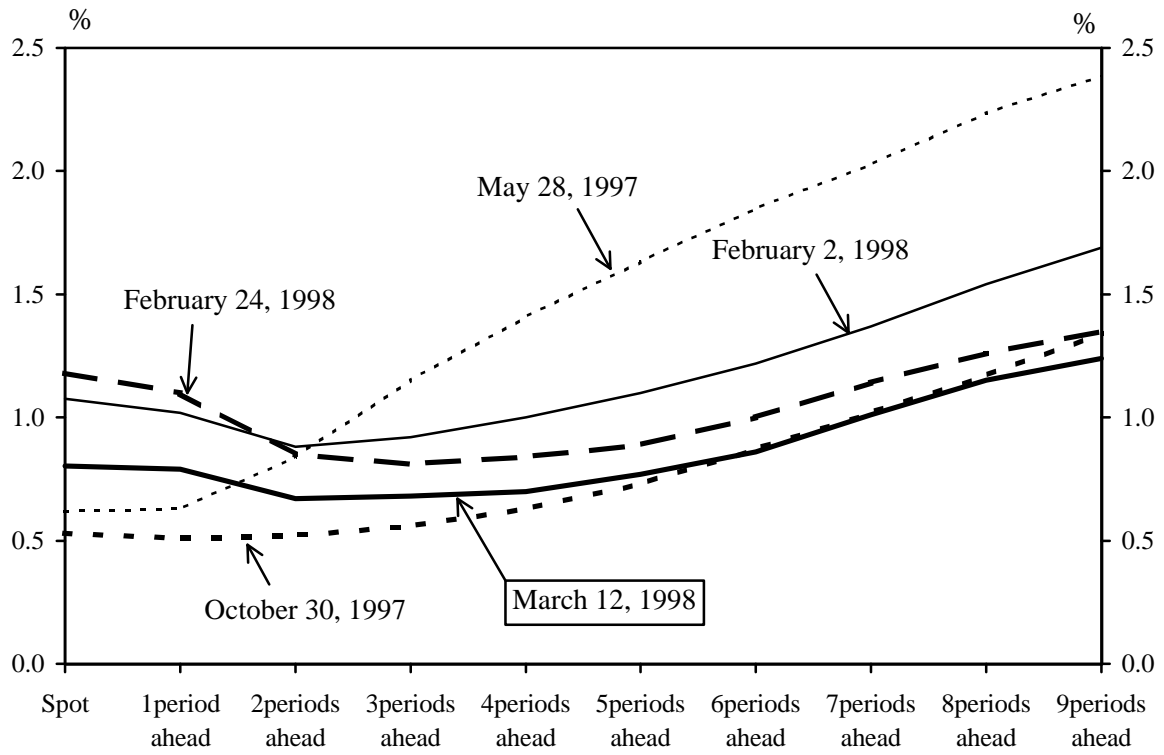
## Japan Premium in the Eurodollar Market



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

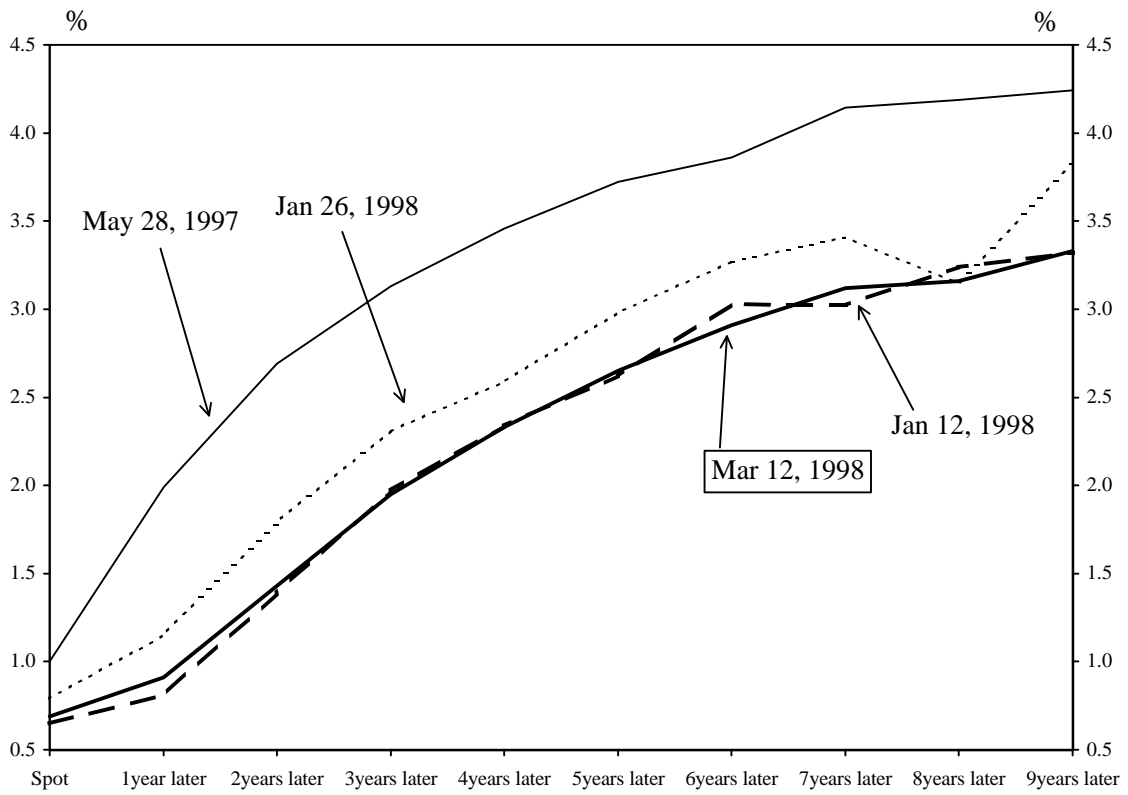
Source: *British Bankers' Association* (BBA).

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

Implied Forward Rates (1-year)

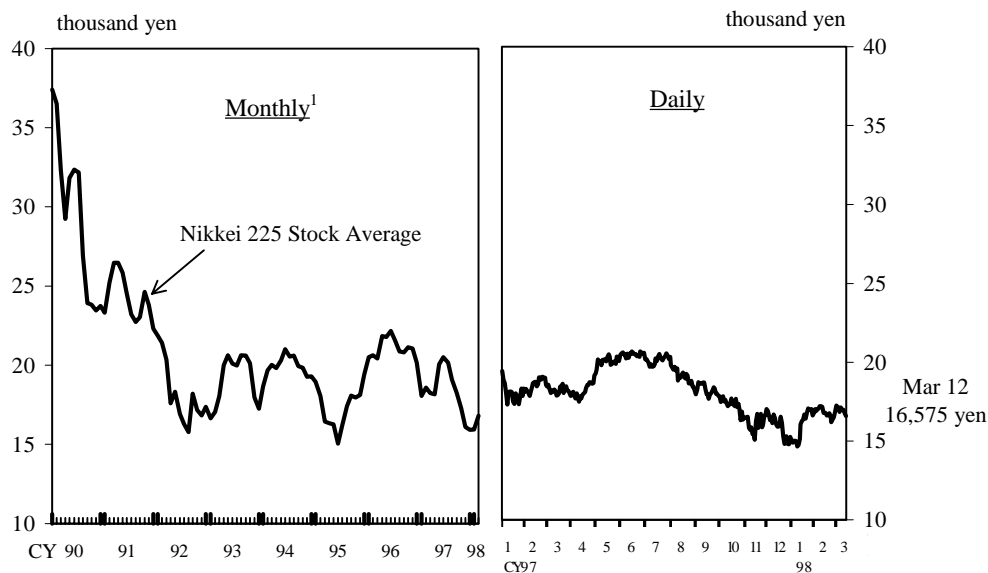


Note: Calculated from yen-yen swap rates.

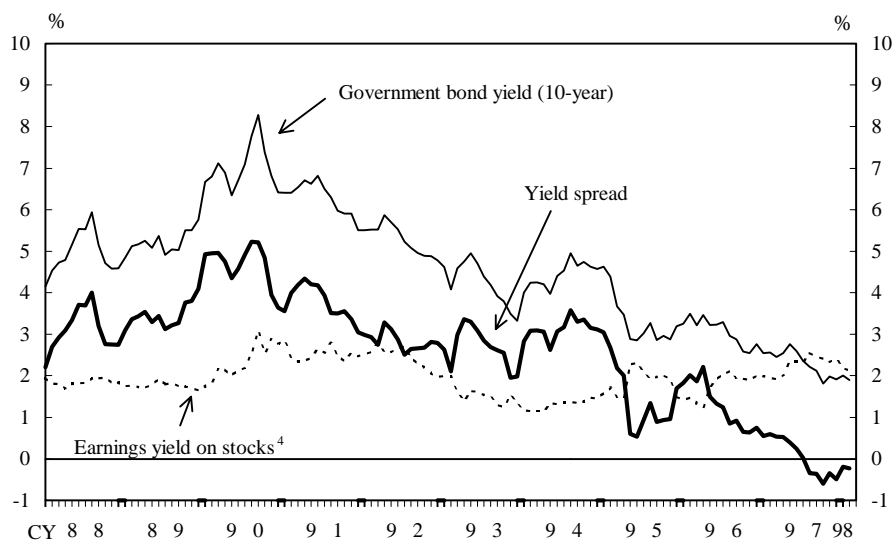
Source: *The Nikkei Financial Daily*.

Stock Prices

(1) Stock prices



(2) Yield Spread 2, 3

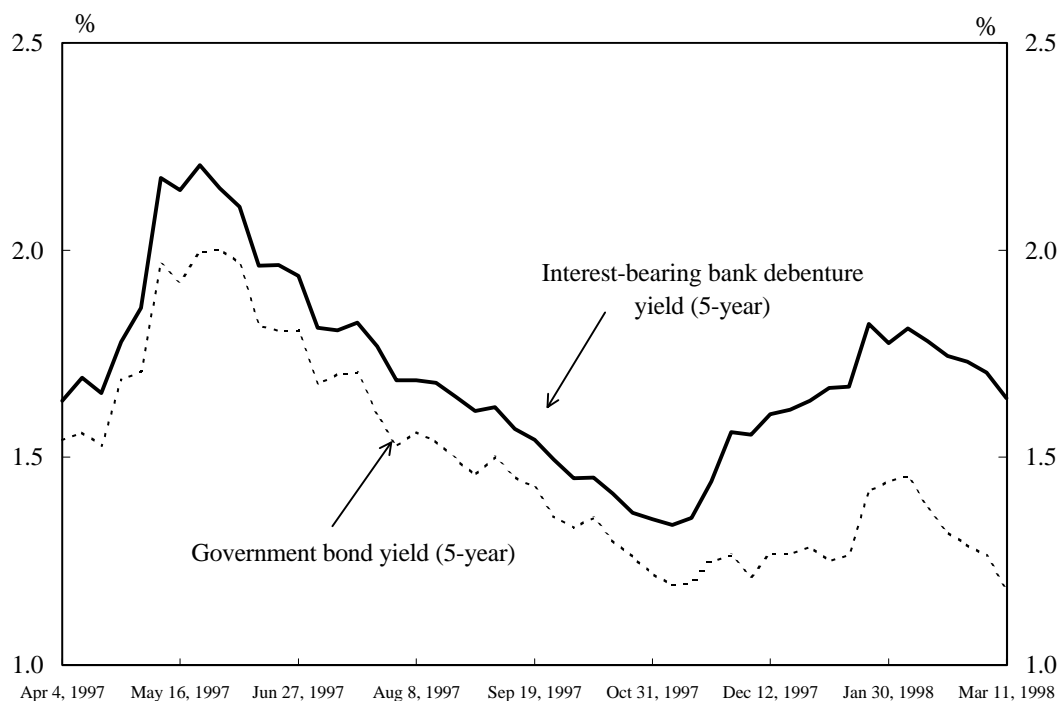


- Notes: 1. Data are monthly averages.  
 2. Data are at end of period.  
 3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.  
 4. Based on stocks listed on the TSE First Section. Excludes bank stocks.  
 Data are calculated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

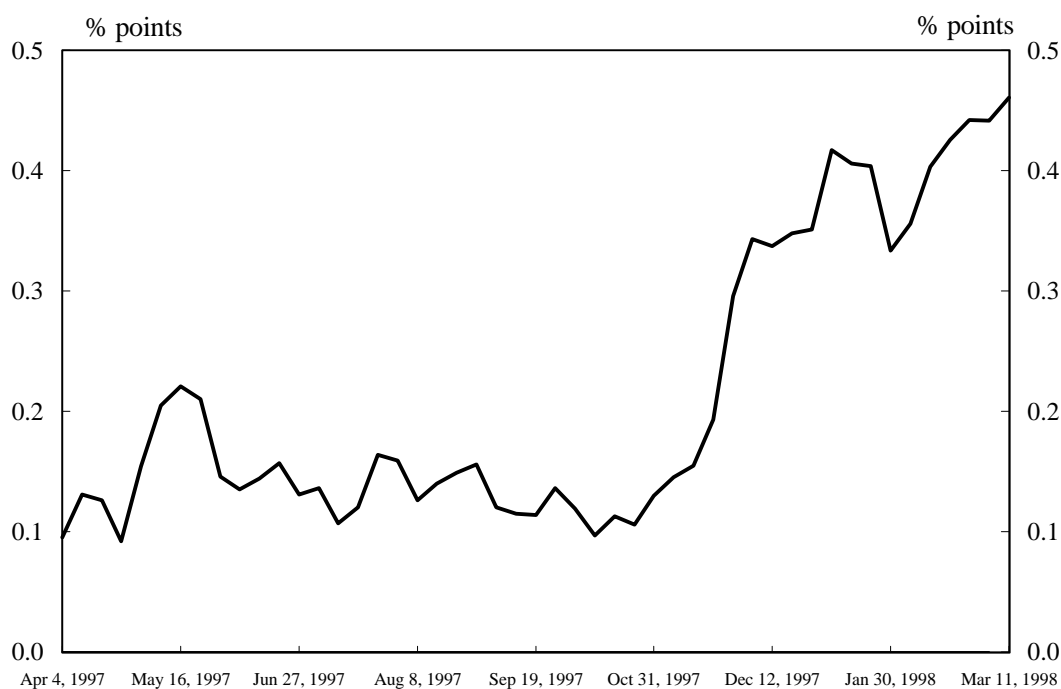
Sources: The Nihon Keizai Shimbun; Daiwa Research Institute, "Daiwa Toushi Shiryou (Daiwa Investment Information)."

Yields of Bank Debentures

(1) Bond Yields



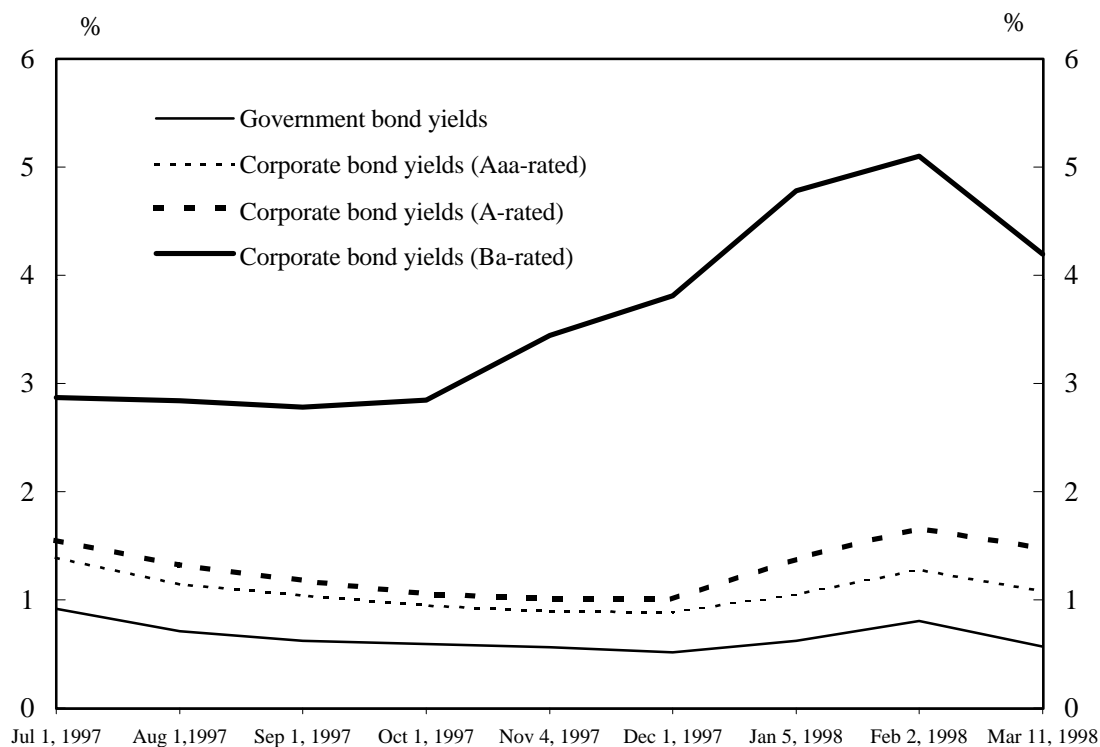
(2) Spread of Bank Debenture and Government Bond Yields



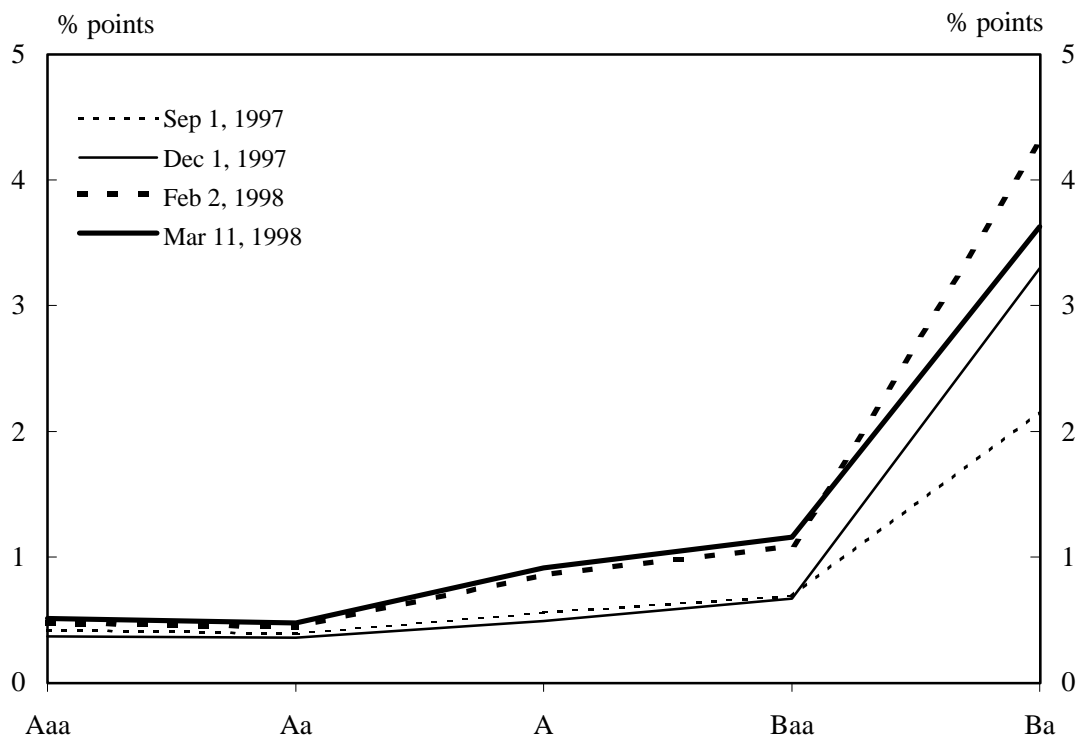
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds

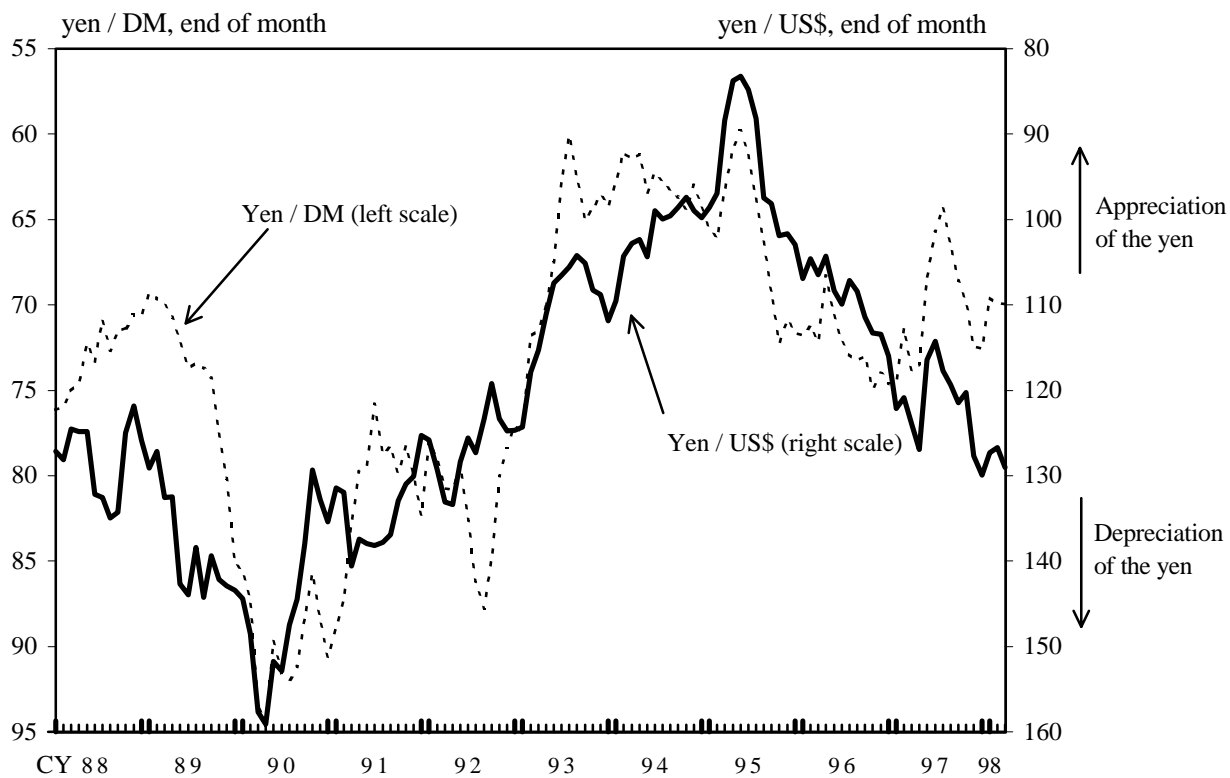


Notes: 1. Yields on bonds with 2-year maturity.

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

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

Exchange Rates

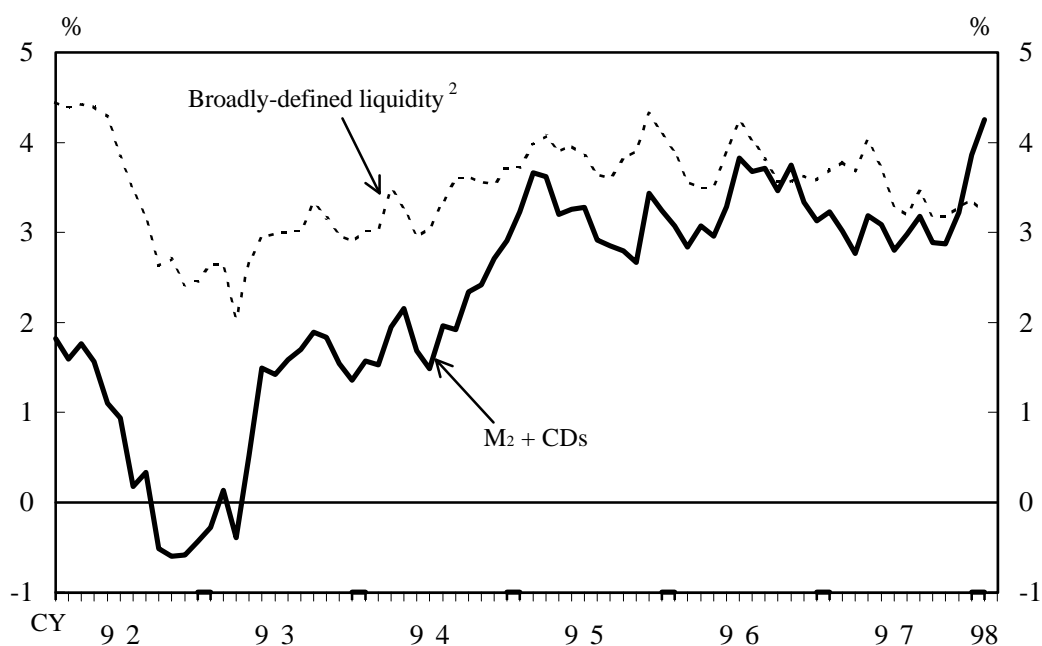


Note: Data for March 1998 are as of March 12, 1998.  
 Source: Bank of Japan, "Economic Statistics Monthly."

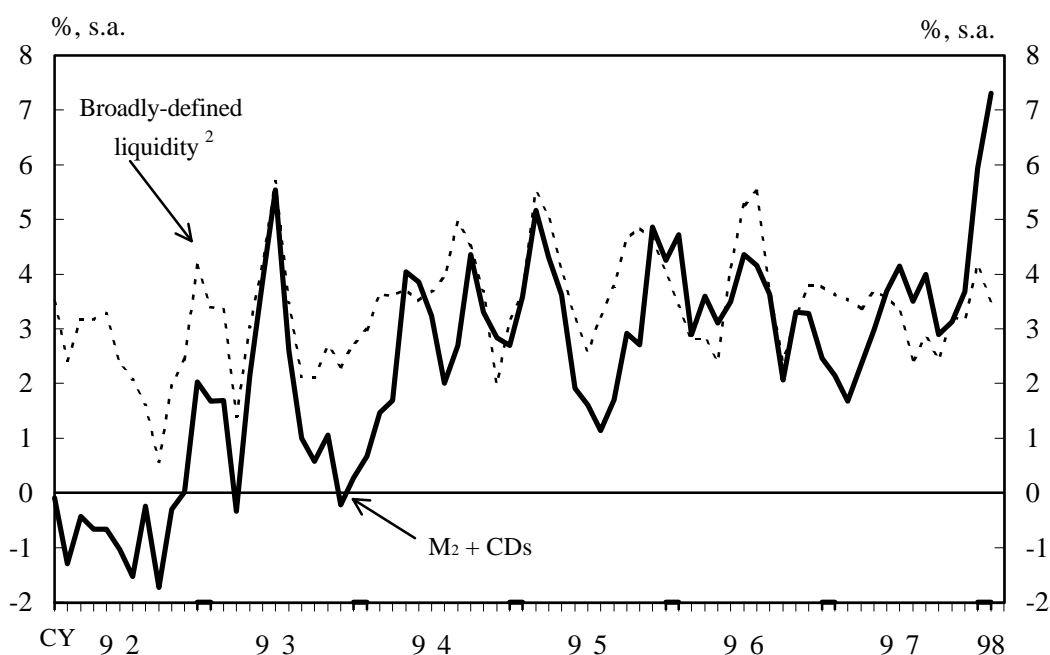
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 Money Stock ( $M_2$ +CDs, Broadly-Defined Liquidity)
 

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

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



Notes: 1. Percent changes in average amounts outstanding.

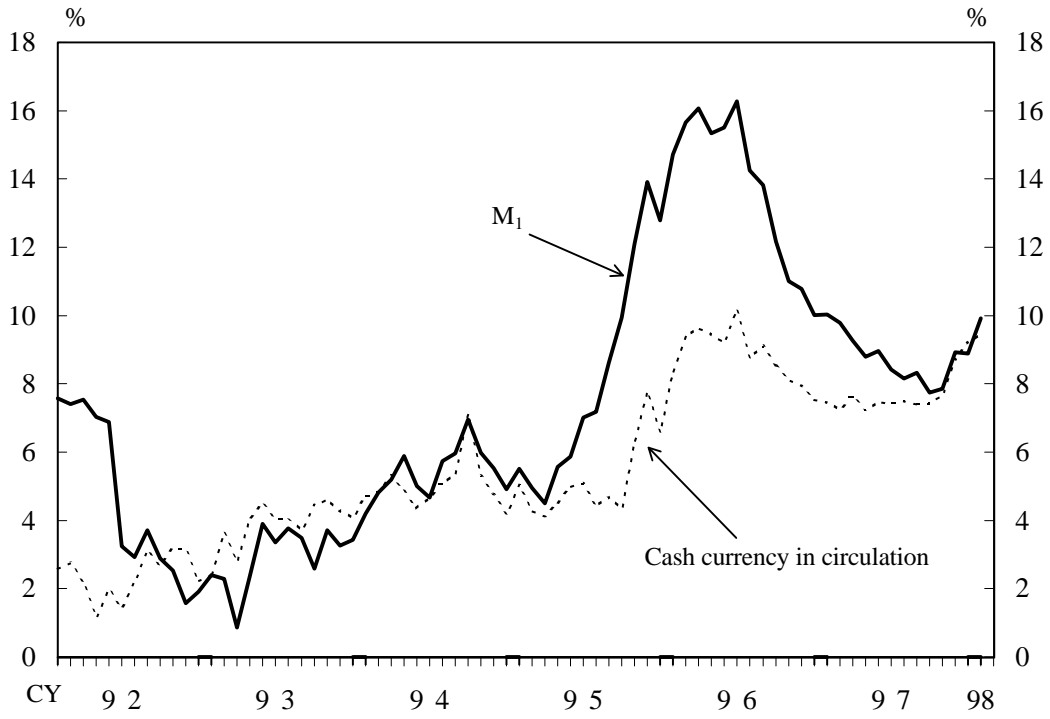
2. Broadly-defined liquidity =  $M_2$ +CDs + deposits (including CDs) of post offices, agricultural cooperatives, fishery cooperatives, credit cooperatives, and labor credit associations + money trusts and loan trusts of Domestically Licensed Banks (excluding foreign trust banks) + bonds with repurchase agreement + bank debentures + government bonds + investment trusts + money deposited other than money in trust (money trust with returns in the form of investment assets) + foreign bonds. Domestically Licensed Banks are the banks which are established and licensed under Japanese legislation.

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

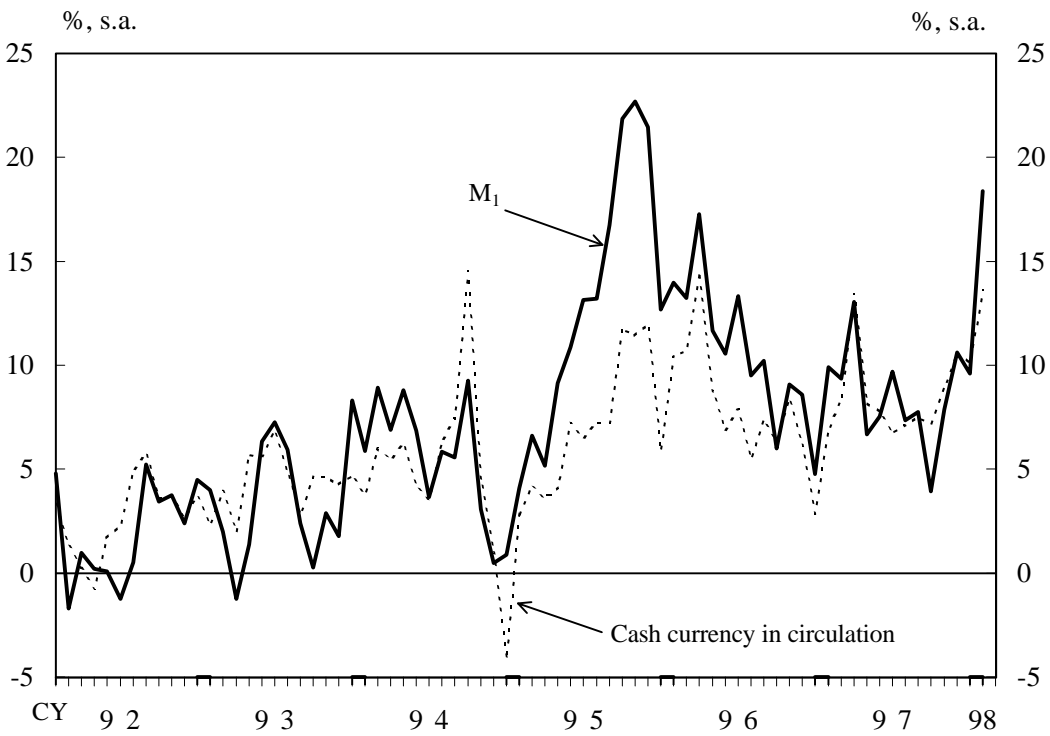


Money Stock ( $M_1$ , Cash Currency in Circulation)

(1) Changes from a Year Earlier

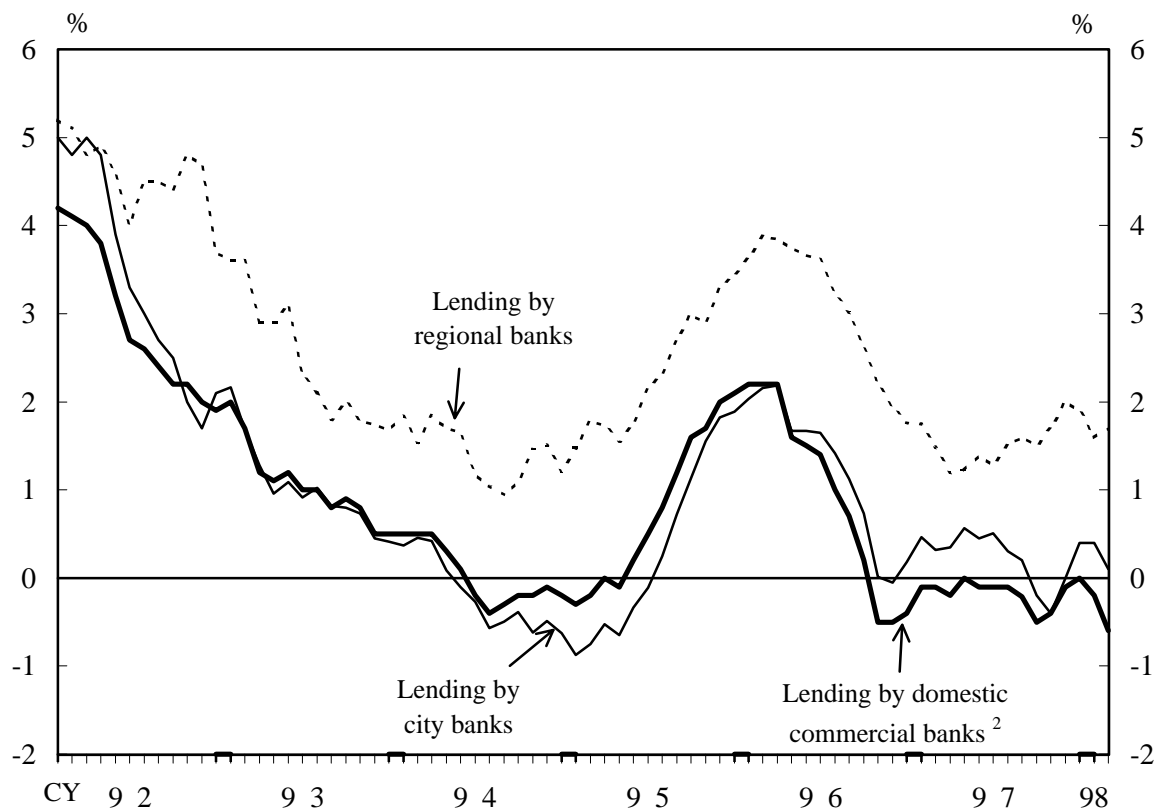


(2) Changes from Three Months Earlier (Annualized)



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

## Lending by Domestic Commercial Banks

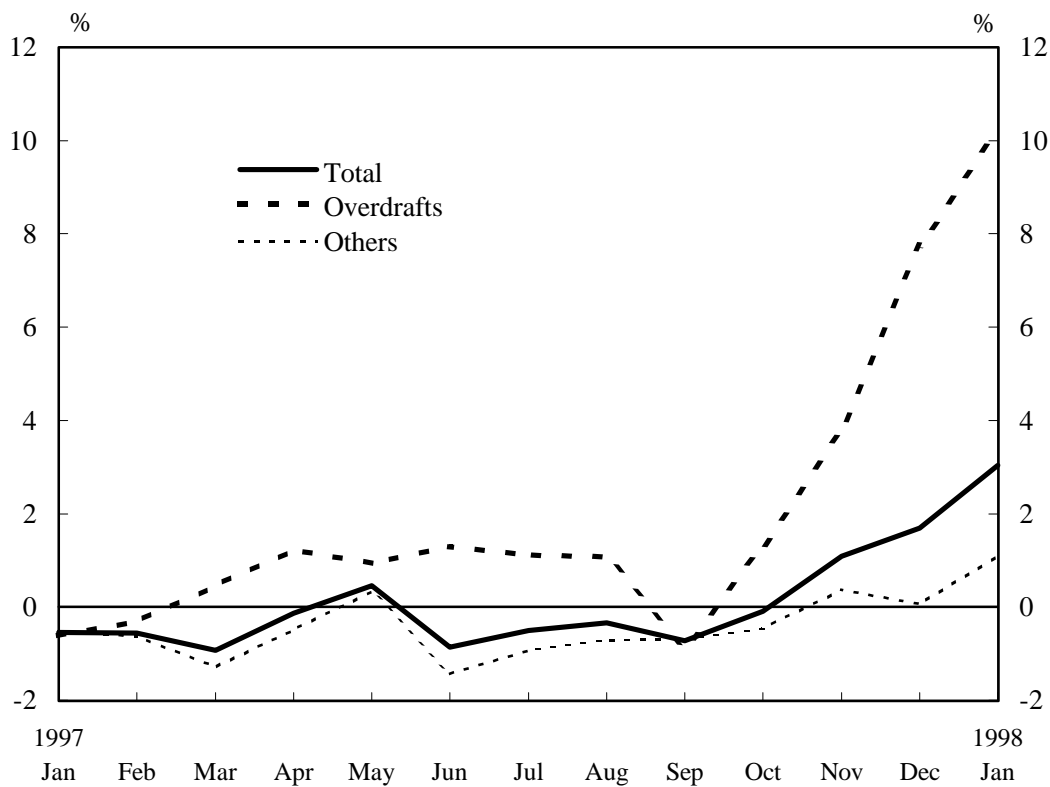


Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

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

Lending by City Banks



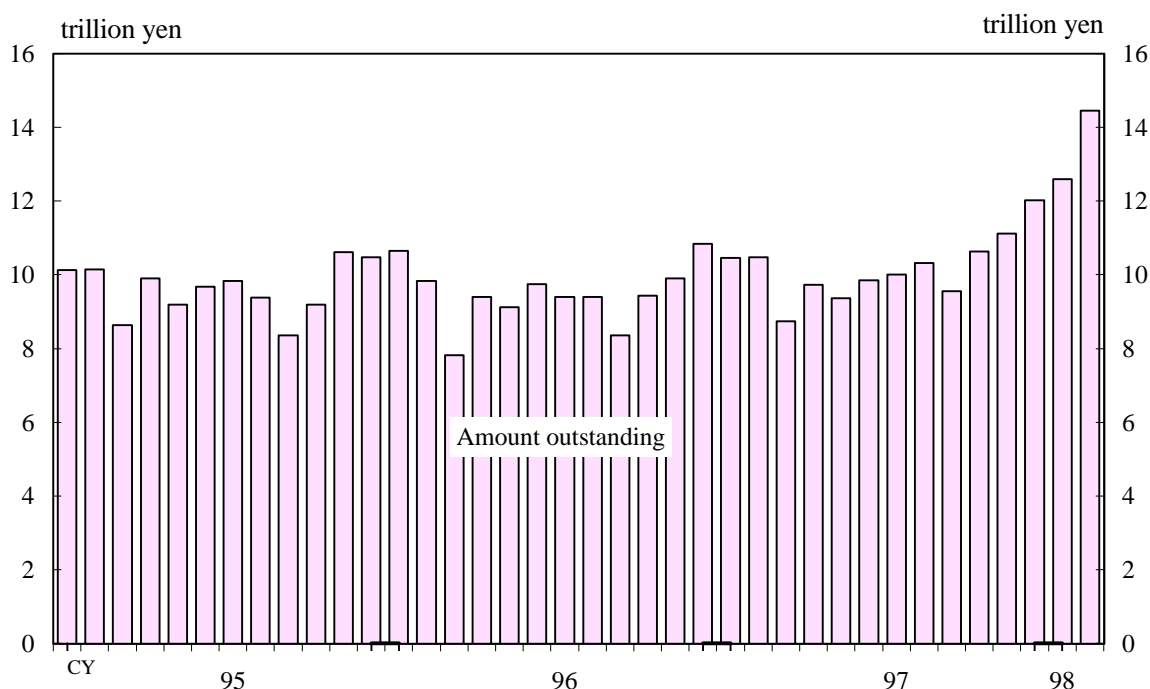
Notes: 1. Percent changes at end of period.

2. Excludes accounts at overseas branches.

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

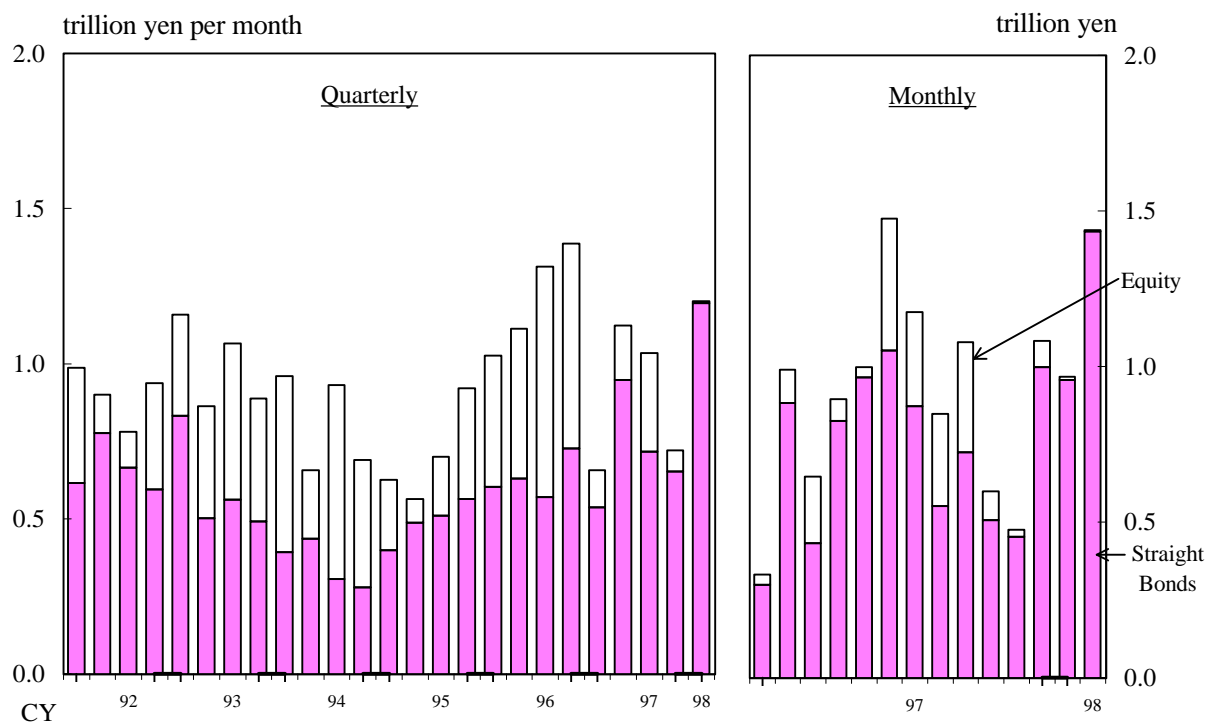
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

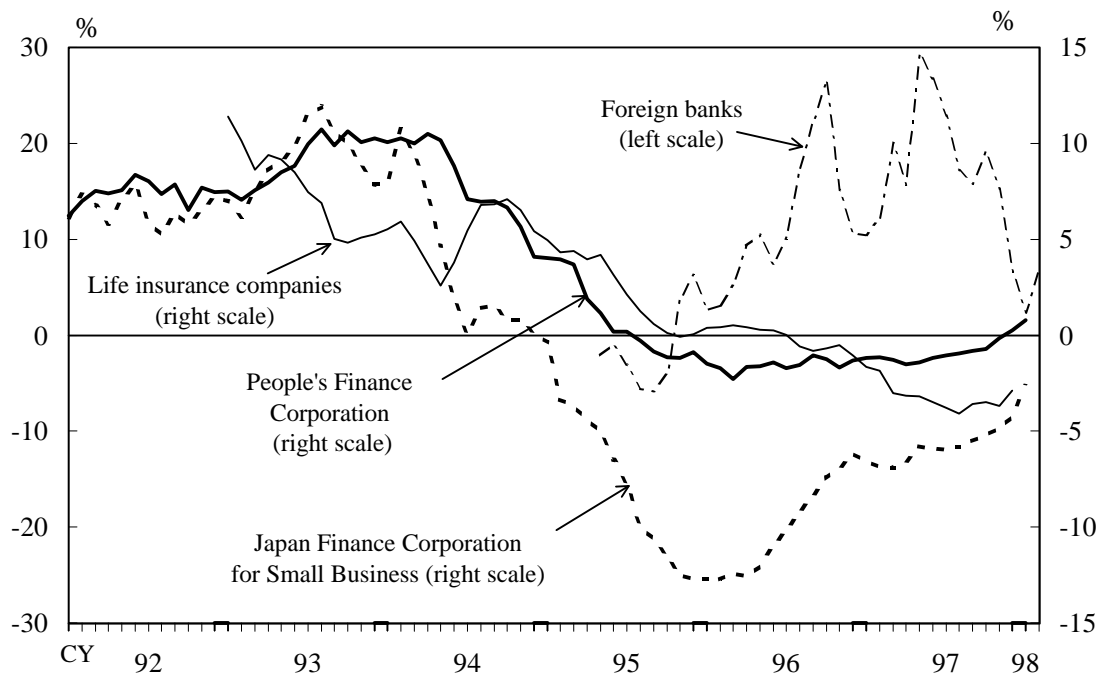


Notes: 1. Data for equity include convertible bonds, bonds with warrants, and new equity issues.  
 2. Figures for first quarter of 1998 are January-February averages.

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

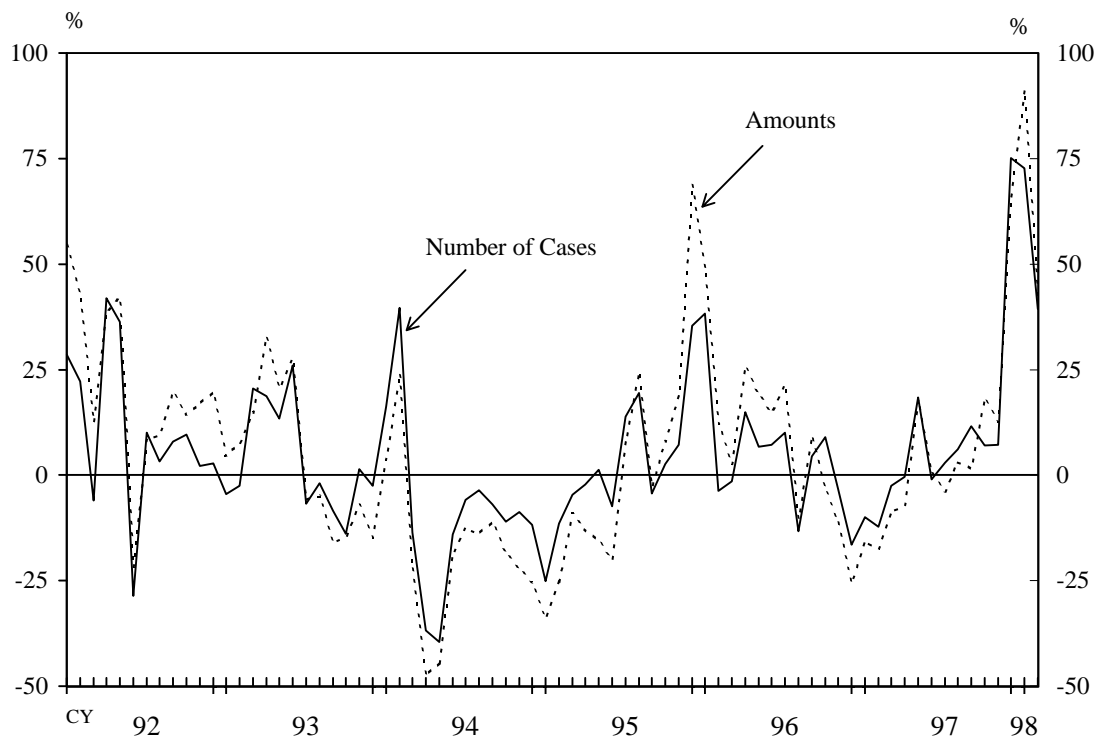
Lending by Other Financial Institutions

(1) Lending Outstanding



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

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



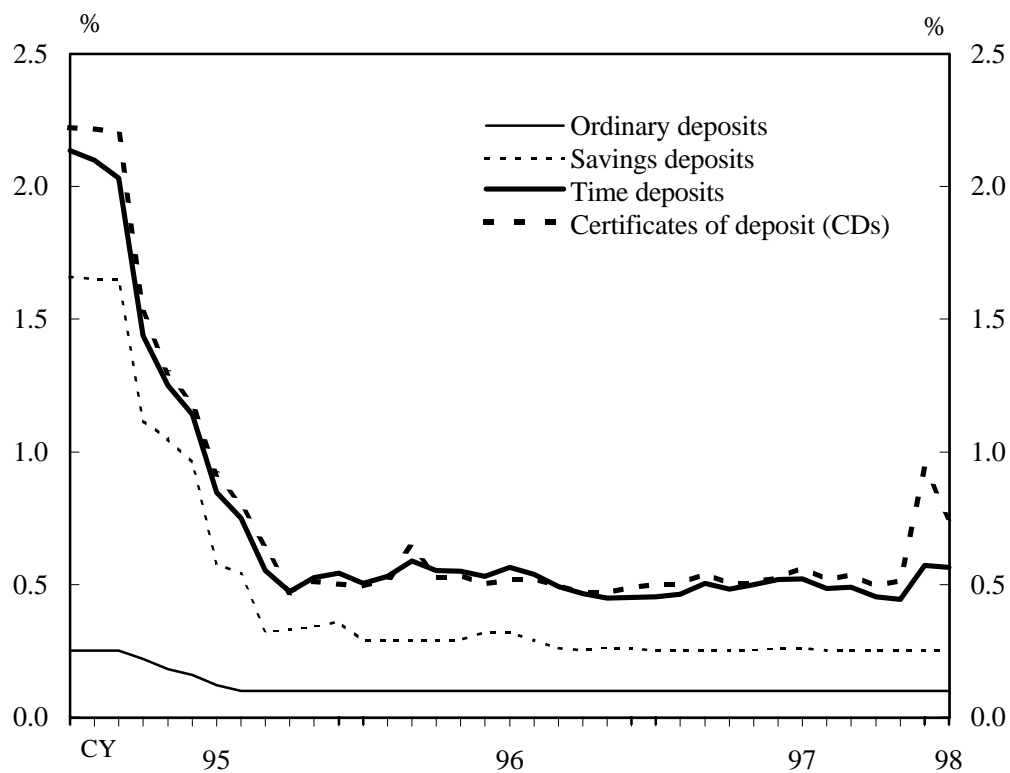
Sources: Bank of Japan, "Economic Statistics Monthly"; Japan Finance Corporation for Small Business, "Gyoumu Gaikyo (Business Outline)."

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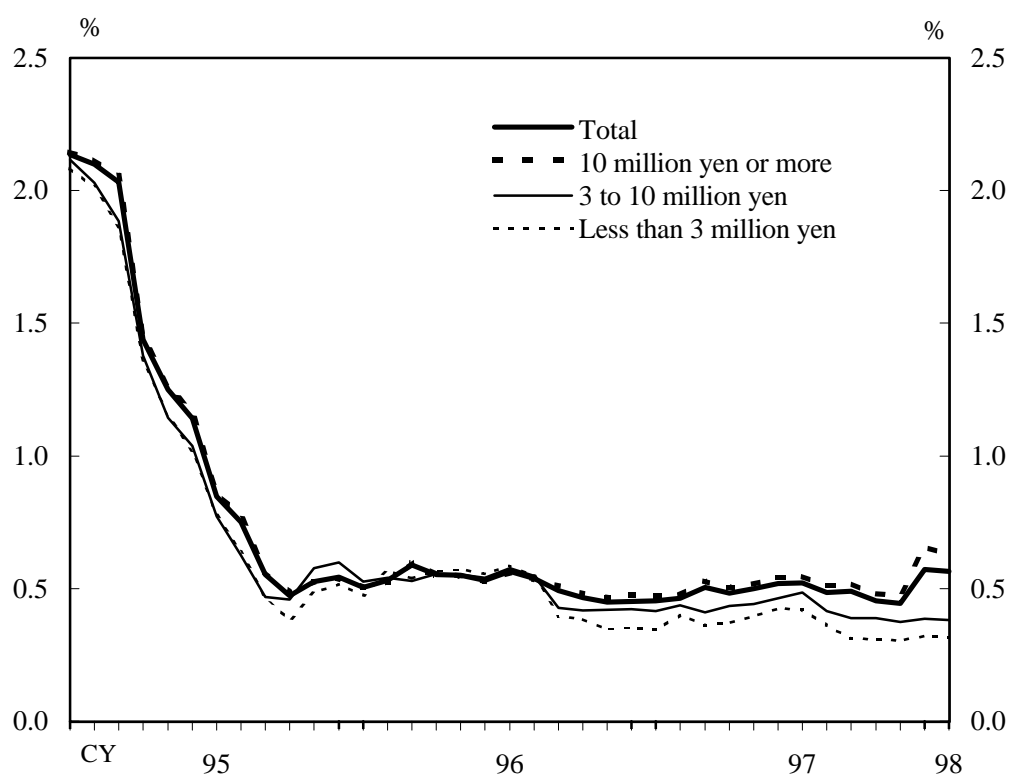
 Deposit Rates
 

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(1) Deposit Rates



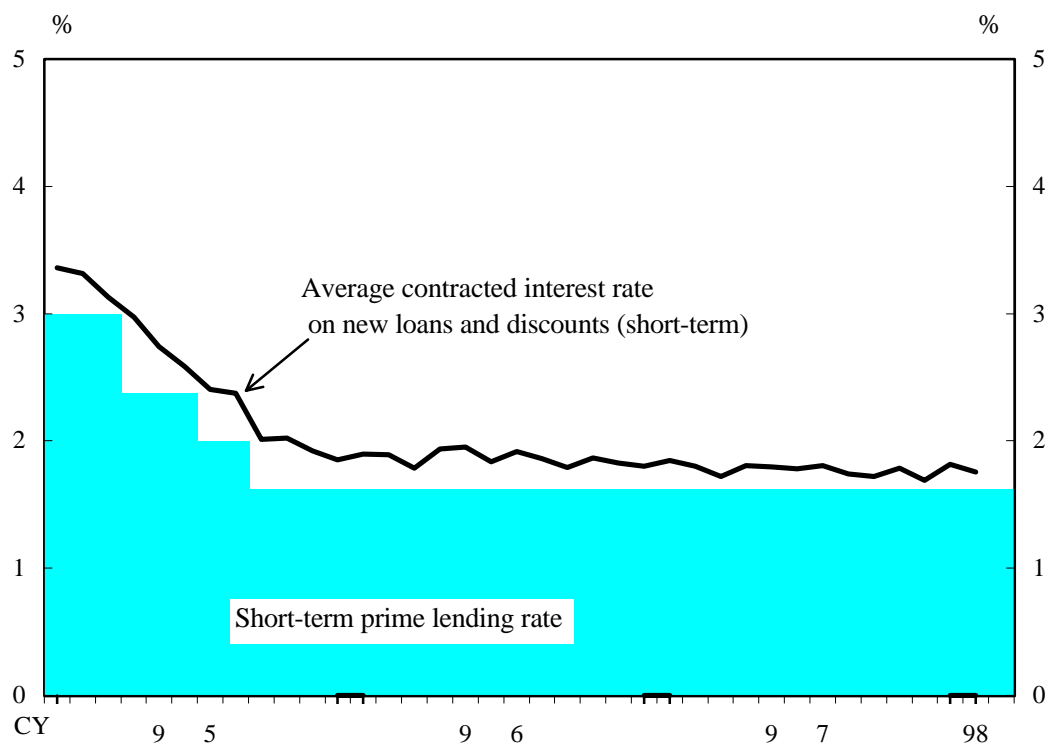
(2) Time Deposit Rates



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

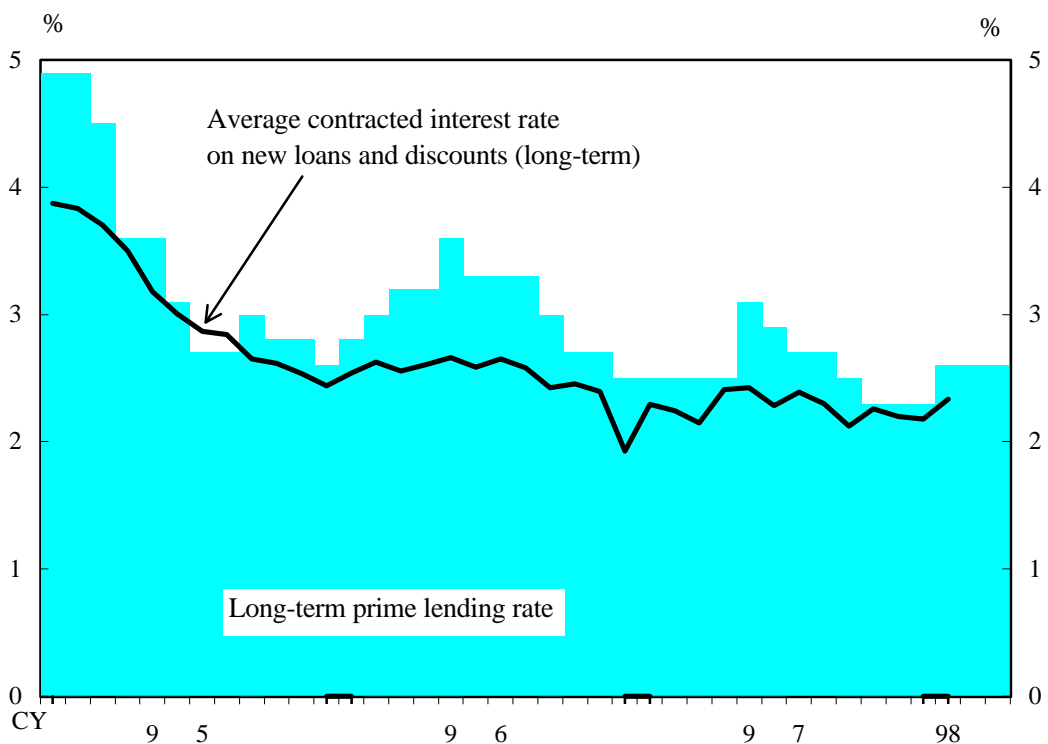
Lending Rates

(1) Short-Term



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

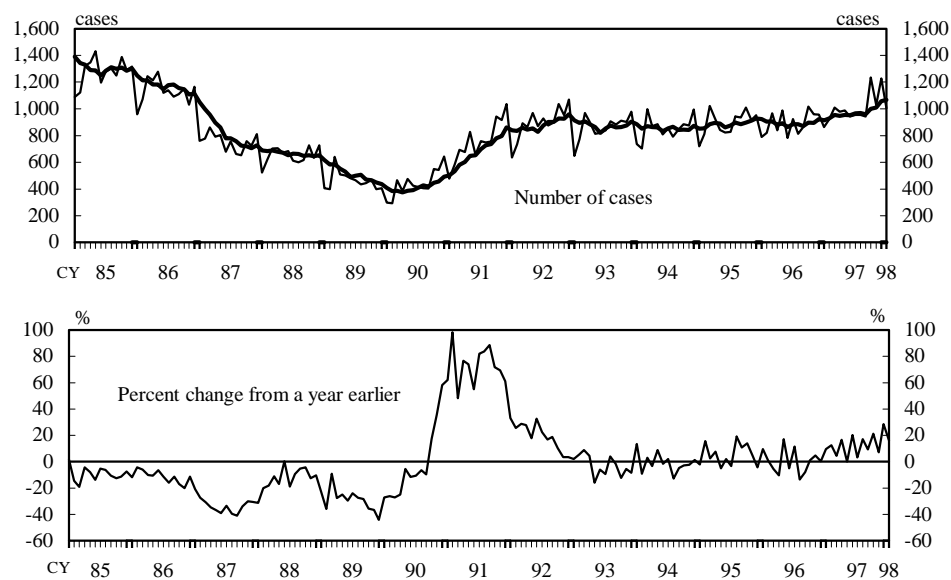
(2) Long-Term



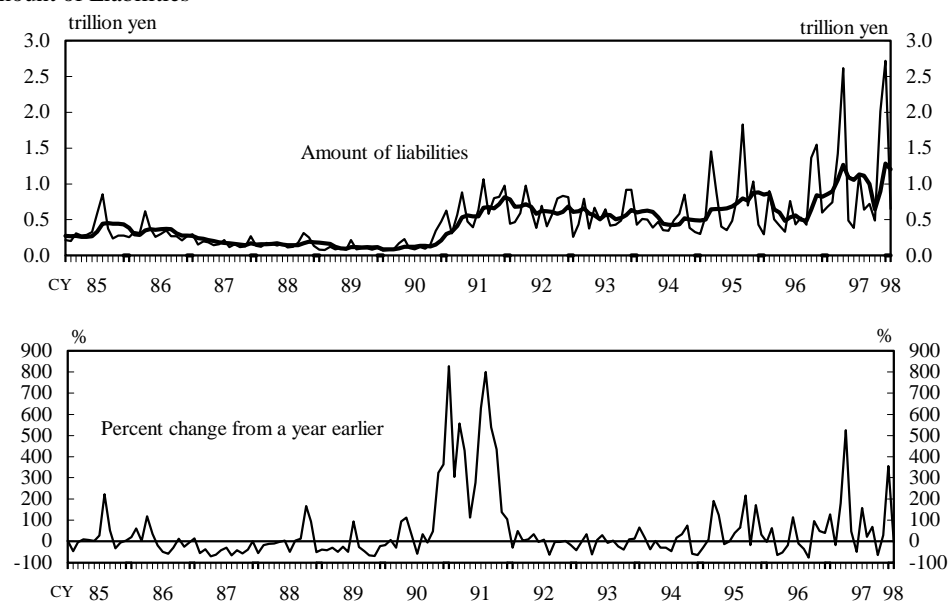
Source: Bank of Japan, "Economic Statistics Monthly."

## Corporate Bankruptcies

## (1) Number of Cases



## (2) Amount of Liabilities



Notes: 1. Data for the number of cases exclude types of bankruptcies other than suspension of business transaction with banks.

2. The bold line is the six-month moving average.

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