

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

**June 26, 1998**

**Bank of Japan**

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

**June 1998**

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

Final demand remains weak and production continues to decline in Japan. As a consequence, employment and income conditions have recently shown a significant deterioration.

With respect to final demand, public-sector investment seems to have bottomed out. Growth in net exports, however, has virtually peaked out as exports to other Asian countries declined. Business fixed investment continues to be on the decline. Private consumption shows little sign of recovery, although the deterioration has slowed. Housing investment has decreased further. Against the background of weak final demand, inventories have accumulated further and industrial production continues to decrease. As a result, corporate profits have worsened, and employment and income conditions have deteriorated evidently, as seen recently in the rapid rise of the unemployment rate.

As for the outlook of the economy, the implementation of the supplementary budget for fiscal 1998 is assumed to boost demand through additional public works and special income tax-reduction, and cease the negative interactions of production, income, and expenditure. However, such positive effects of the fiscal policy may be weakened, if the ongoing rapid deterioration in employment and income conditions further dampens the overall economic activities. Therefore, the overall economic

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<sup>1</sup> This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on June 12, 1998.

<sup>2</sup> The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on June 12, as the basis of monetary policy decisions.

activities, including corporate and household confidence, should be carefully monitored.

With regard to prices, wholesale prices continue to fall and consumer prices (excluding the effects of institutional changes) have declined slightly below the previous year's level. With respect to the factors affecting the outlook, the downward pressure on domestic prices induced by the decline in import prices including overseas commodity prices has already weakened. Also, the expansion in the output gap in the economy is expected to slow in line with the implementation of the economic stimulus package. However, reflecting the present high inventory level and the relatively large output gap, prices are likely to be weak for some time. There may also be additional downward pressures if domestic demand weakens further.

As for financial markets, rates on term instruments (for both spots and futures) have been generally steady in the money markets. Yields on long-term government bonds recorded historical lows from late April to early June with the releases of weak economic indicators, and are recently showing a slight turnaround. Stock prices have been slightly declining, indicating the weak market sentiment on the economy.

Market concern towards credit risk remains strong, and the yield differential between bonds issued by the private sector and those by the government has been significant since the end of last year.

With respect to monetary aggregates, growth in  $M_2+CDs$  has been slowing and private bank lending remains sluggish. This reveals the fall in credit demand following stagnant economic conditions as well as the continued cautious lending attitudes of private banks.

Meanwhile, some firms, especially small and medium-sized firms, have been facing difficult financing conditions in terms of both funds availability and fund-raising costs. This influence on the overall economy continues to warrant a careful monitoring.

## The Background

### 1. Japan's Economy

With regard to public-sector investment, the value of public works contracted, which reflects orders, has bottomed out along with the implementation of works under the supplementary budget for fiscal 1997 (Chart 2). Since public works are front-loaded and additional measures will be implemented under the comprehensive economic stimulus package, public-sector investment should turn to an increase in the summer of 1998.

As for real exports (Charts 3 to 6), exports to the United States and Europe remain firm. Exports to Asia, however, are declining sharply, owing to the monetary and economic adjustments in some Asian countries. As a result, real exports overall declined on a quarterly basis in the first quarter of 1998 and slightly further in April 1998 below the first quarter level. Meanwhile, real imports declined for a wide range of items, such as raw materials, intermediate goods, and information-related goods, reflecting the stagnation of domestic demand in Japan. Consequently, net exports declined in terms of the real trade balance<sup>3</sup> quarter-to-quarter in the first quarter of 1998, but increased in April 1998 above the first quarter level (Chart 3). In contrast to the real trade balance going back and forth, the nominal current account surplus continued to expand, reflecting cumulative reductions in the import prices of crude oil and other raw materials.

As for the future environment for foreign trade (Chart 7), the United States and Europe are expected to maintain good economic performance overall. In addition, the real effective exchange rate of the yen has dropped to the levels that prevailed around the spring of 1997, reflecting the yen's depreciation against the U.S. dollar and European currencies. These factors would facilitate an increase in net exports. In some Asian economies, however, the economic adjustments will become more severe

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<sup>3</sup> It should be noted that the real trade balance presented in Chart 3(2) differs from net exports on a GDP basis, but the changes in the real trade balance are basically equivalent to those of net exports. (The real trade balance is on a customs-clearance basis and does not include the trade in services, while net exports are on an ownership-transfer basis and include the trade in services).

under tight macroeconomic policy, the intensifying credit crunch, and unstable social conditions. Thus, the increase in net exports is likely to be gradual.

Business fixed investment continues to decline. Shipments of general capital goods, which reflect the current conditions of investment, continue to fall (Chart 8(1)). Leading indicators, such as machinery orders and construction starts (Charts 8(2) and 8(3)), have recently declined significantly in the manufacturing sector in addition to the nonmanufacturing sector.

Thus, business fixed investment is presently in an adjustment phase. But from the viewpoint of the capital stock cycle, the present conditions do not warrant a major adjustment in capital stock and the effects of the comprehensive economic stimulus package are also expected to improve corporate sentiment. However, the corporate profit environment continues to worsen due to the sluggish domestic demand<sup>4</sup> and many companies, especially small firms, continue to face a harsh funding environment (Chart 8(4)). In these circumstances, business fixed investment is not expected to recover rapidly from the present adjustment phase.

In the household sector, private consumption (Chart 9) remains lackluster as a whole in April-May despite a slight rebound in March, especially in sales at department stores, chain stores, and other outlays. In May, sales of passenger cars, especially compact models, increased, following the introduction of new models. In light of these factors, private consumption shows little sign of recovery overall and has not yet rebounded from the ongoing sluggish tone, although a further deterioration is being limited by the special income tax reduction in effect from February 1998.

As for housing investment (Chart 10), housing starts (in terms of the seasonally adjusted annual rate) had remained at a low level of around 1.3 million units since the summer of 1997, but housing starts fell further in April due to reduced

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<sup>4</sup> According to a survey conducted by the Nihon Keizai Shimbun at the end of May, revenues and profits of listed firms are projected to decline in the statement of accounts for fiscal 1998, following a decline in fiscal 1997.

construction starts for condominiums, and are now at around 1.24 million units, the lowest level since September 1985.

Regarding the outlook for household expenditures, household income is expected to be supported to some extent by the implementation of the special income tax reduction incorporated into the supplementary budget for fiscal 1998. However, the worsening of employment and income conditions is accelerating as described below and consumer confidence may weaken further. Thus, the recovery in household expenditures continues to warrant careful monitoring.

Reflecting these developments in final demand, industrial production continues to decrease (Chart 11). In detail, after declining for two consecutive quarters (the fourth quarter of 1997 and the first quarter of 1998),<sup>5</sup> industrial production fell by 1.1 percent in April below the previous month's level on a seasonally adjusted basis. Nonetheless, inventories continue to accumulate in the manufacturing industry (Chart 12), and the ratio of inventory to shipments has risen to the highest level since March 1975. Given these inventory conditions, substantial production cutbacks continue in the automobile and steel industries. Thus industrial production is expected to fall further in the second quarter of 1998. Considering that a significant recovery in final demand is unlikely until the effects of the economic stimulus package become full-scale and that the present inventory levels are high, strong downward pressures on inventories are likely to continue for some time.

Amid these developments, a rapid deterioration in employment and income conditions has become evident among recent economic indicators. In the labor market (Chart 13), the number of new job offers is declining rapidly, especially in the manufacturing, construction, wholesale, and retail industries. In April, the ratio of job offers to applications fell to 0.55, the lowest level since June 1978, and the unemployment rate reached 4.1 percent, posting a record high for the second

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<sup>5</sup> The base year for the industrial production index has been changed from 1990 to 1995, along with the consequent revision of the seasonal adjustment method. In accordance with this change, the seasonally adjusted quarter-to-quarter growth for the third quarter of 1997 was revised from -0.4 percent to +0.2 percent. Thus, although the Monthly Report for May refers to "three consecutive quarters of decline," this June report now cites "two consecutive quarters."

consecutive month. The detailed figures of unemployment in April show that voluntary unemployment, which recorded considerable growth in March, turned to a decline, but the increase in involuntary unemployment is accelerating (Chart 14(1)). Furthermore, the relationship between the unemployment rate and the job vacancy rate shows the worsened labor market conditions unlike the increase in unemployment during 1994-1996, which was caused mainly by the high labor mobility of young workers (Chart 14(2)).<sup>6</sup> This may be attributed to the shortage of industries that can create new jobs in addition to the further increase in corporate bankruptcies (Chart 15). As regards employee income (Chart 16), the year-to-year growth in wages is falling around zero as overtime compensation remains below the previous year's level and the growth of regular compensation is slowing down along with various factors such as the switch to part-time workers in the nonmanufacturing industry.

## 2. Prices<sup>7</sup>

With regard to price developments (Chart 17), import prices (Chart 18(1)) were steady on a contracted currency basis, but rose slightly on a yen basis, reflecting the depreciation of the yen. Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates; Chart 18(3)) remain on a declining trend. This is because, although the effects from lower import prices are weakening, the prices of steel and other construction-related materials are dropping due to domestic inventory adjustment, and the prices of machinery are falling in intensifying sales competition. Domestic wholesale prices dropped by 0.5 percent in the fourth quarter of 1997 and 0.5 percent in the first quarter of 1998, and 0.7 percent in April-May 1998 compared to the previous quarters.

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<sup>6</sup> Examining the relationship (the UV curve) between the unemployment rate and the job vacancy rate (which indicates labor shortages in the corporate sector), around 1994-1996 the unemployment rate and the job vacancy rate both rose, which shows that the increase in unemployment was apparently due to voluntary unemployment among young workers, that is, a mismatch between labor supply and demand. Recently, however, the unemployment rate is rising while the job vacancy rate declines, indicating a typical deterioration of labor market conditions.

<sup>7</sup> The price data presented herein are adjusted to exclude the effects of the rise in the consumption tax rate from three to five percent in April 1997 (calculations by the Bank of Japan).

Corporate service prices (Chart 19(1)) remain stable basically, but recorded a slight decline in April from a year ago (following a decline in the first quarter of 1998), since real estate rent increases were postponed and the prices of advertising declined. (The year-to-year changes in corporate service prices were 0.0 percent in the fourth quarter of 1997, -0.1 percent in the first quarter of 1998, and -0.1 percent in April 1998). With respect to consumer prices (excluding perishables; Chart 19(2)), until March the prices of consumer services remained stable, whereas the decline in commodity prices had gradually been expanding. In April, however, the rate of increase in overall consumer prices contracted further because the year-to-year increase in the prices of consumer services, such as rent, restaurant meals, and lodging, slowed. (The year-to-year increase in consumer prices was 0.8 percent in the fourth quarter of 1997, 0.5 percent in the first quarter of 1998, and 0.2 percent in April 1998). Excluding the effects of the rise in medical service charges due to the medical insurance system reform of September 1997, the fundamental year-to-year increase dropped from about 0.1 percent in the first quarter of 1998 to around -0.2 percent in April, falling below the previous year's level.

As for land prices (Chart 20), commercial land and residential land prices are both on a declining trend, reflecting the stagnant demand.

International commodity market prices have recently been holding steady at low levels. So the downward pressure on domestic prices has subsided in this aspect. Additionally, the implementation of the economic stimulus package is expected to slow the expansion of the output gap. Considering the current inventory levels and the present extent of the output gap, however, overall prices are likely to remain weak for some time. There may also be additional downward pressures if domestic demand weakens further.

### **3. Financial Developments**

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

Interest rate developments in short-term money markets show that the overnight call rate (uncollateralized) has generally been holding slightly below the official discount rate of 0.5 percent (Charts 21(1) and 22). Euro-yen interest rates (3-month) declined substantially from late February through mid-May, and have recently been fluctuating narrowly around 0.6 percent. Euro-yen interest rate futures (Chart 23) have also been at around the same level over the last month.

Meanwhile, the Japan premium (Chart 24) remains at about 0.2 percent for three-month contracts.

Yields on ten-year government bonds (benchmark) recorded historical lows from late April to early June with the releases of weak economic indicators. The yield posted a historical low of 1.130% then recently showed a slight turnaround. Analyses of long-term interest rates show that one-year implied forward rates (calculated from yen-yen swap rates) recorded historical lows for almost all maturities in early June (Chart 25).

As for yields on private bonds -- bank debentures and corporate bonds -- (Charts 26 and 27), the yield differential between bonds issued by the private sector and by the government has been significant since the end of last year, demonstrating the strong concerns regarding credit risk in the capital market.

Stock prices (Chart 28(1)) have been slightly declining, responding to weak economic indicators and the downward revision of corporate earnings reports. As a result, the yield spread (the government bond yield minus the expected earnings on stocks) is still at a low level, which indicates the weak market sentiment on the economy (Chart 28(2)).

On the foreign exchange market, the yen appreciated to around 129 yen to the U.S. dollar in mid-April. Since that time, the yen has been falling once again and has



recently weakened to 140-145 yen range to the U.S. dollar (Chart 29). Meanwhile, the real effective exchange rate of the yen also depreciated (Chart 7(2)).

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

Money stock (Charts 30 and 31) in terms of  $M_2 + CD$ s had been rising sharply from the end of last year, mainly due to the shift of funds away from investment trusts, but the growth rate began to decline from March 1998. Meanwhile, the growth in broadly defined liquidity has continued declining since the middle of 1997.

Lending by private banks (monthly average outstanding balance basis; Chart 32), such as city banks, long-term credit banks, trust banks, regional banks, and regional banks II, declined further in April on a year-on-year basis, and remained sluggish in May as well.

Looking at the background to these monetary aggregate developments in some detail, as for the lending attitude of private financial institutions, capital constraints are apparently becoming somewhat less binding, partly due to the injection of public funds. Nevertheless, financial institutions remain cautious in extending loans, with a view to improving profitability and financial soundness from a middle-term perspective. According to business surveys and other sources, small enterprises feel that the lending attitude of financial institutions continues to be “severe” into the current fiscal year (Chart 33).<sup>8,9</sup>

Meanwhile, the credit demand of private firms appears to be depressed recently with the continued stagnation of economic activities. Fund-raising on the

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<sup>8</sup> However, according to surveys conducted by the Ministry of International Trade and Industry, the percentage of large and medium-sized corporations who feel they are affected by a bank credit squeeze has recently declined sharply (from 40.1 percent in January to 31.9 percent in March and 14.9 percent in May).

<sup>9</sup> Selectivity toward credit risk continues to be strong on the capital market, and it remains difficult for corporations with relatively low credit ratings to issue corporate bonds.

capital market<sup>10</sup> and borrowing from government financial institutions are still on a rising trend (Charts 34 and 35), but the growth in overall fund-raising including borrowing from private banks is slowing.

Based on all these developments, it appears that the recent dull movement of monetary aggregates has been strongly influenced by the sluggish credit demand amid the continued stagnation of economic activities as well as the cautious lending attitude of private banks.

Turning to the fund-raising cost for firms, the average contracted interest rates on loans and discounts remained essentially level for both short and long-term contracts in April (Chart 36). Meanwhile, the long-term prime rate was lowered by 0.2 percent in May and 0.1 percent in June to post another historical low of 2.3 percent.

Nevertheless, financial institutions and capital market participants continue to exhibit strong concerns regarding credit risk, so the difference in fund-raising costs among corporations with different creditworthiness has remained significant since the end of last year. Thus certain firms, especially small and medium-sized enterprises, continue to face a severe environment in terms of both funds availability and fund-raising costs. These developments and their influence on the economy continue to warrant careful monitoring.<sup>11</sup>

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<sup>10</sup> CP issuance increased sharply from the end of 1997 through the January-March quarter, reflecting the rush for on-hand liquidity at large corporations at the end of the fiscal year, followed by a lull in April and May.

<sup>11</sup> The number of corporate bankruptcies is increasing further recently (Chart 37).

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## Main Economic Indicators (1)

	y/y % chg.						
	97/Q3	Q4	98/Q1	98/Feb.	Mar.	Apr.	May
Index of expenditure level (all households)	1.4	-2.3	-4.7	-4.4	-5.8	p -1.6	n.a.
Sales of department stores	-1.3	-3.0	-9.8	-5.4	-18.4	p 8.1	n.a.
Sales of chain stores <sup>1</sup>	-3.6	-5.3	-7.0	-5.0	-10.7	1.8	n.a.
New passenger-car registrations <sup>2</sup>	-10.3	-13.7	-21.5	-23.2	-19.8	-4.1	0.1
Sales of electric appliances (NEBA)	-3.7	-4.5	-14.1	-9.5	-25.3	0.6	n.a.
Outlays for travel (50 major travel agencies)	2.2	1.2	-6.2	-4.3	-8.4	0.0	n.a.
Housing starts <s.a., ann. 10,000 units>	130	130	132	133	131	124	n.a.
Machinery orders (from private sector <sup>3</sup> )	1.3	-13.4	-5.8	-17.9	1.4	-17.8	n.a.
Mining & manufacturing	8.7	-2.9	-7.6	-25.4	4.2	-17.1	n.a.
Nonmanufacturing <sup>3</sup>	-4.1	-20.4	-4.2	-10.9	-0.9	-18.1	n.a.
Construction Starts (private, nonresidential use)	3.8	-8.0	-7.8	-7.7	-3.4	-10.5	n.a.
Manufacturing	8.4	-1.4	-7.2	-1.0	-9.0	-27.4	n.a.
Nonmanufacturing <sup>4</sup>	2.2	-10.5	-8.0	-10.1	-1.2	-3.2	n.a.
Value of public works contracts	-1.7	-9.1	-2.2	4.2	-5.8	2.7	n.a.
Real exports <s.a. quarterly (monthly) change>	0.6	1.3	-4.9	-4.9	-5.6	4.8	n.a.
Real imports <s.a. quarterly (monthly) change>	2.5	-3.7	-1.5	-10.3	3.2	-5.1	n.a.
Industrial production <s.a. quarterly (monthly) change>	0.2	-2.5	-1.3	-3.5	-2.3	p -1.1	n.a.
Shipments <s.a. quarterly (monthly) change>	0.9	-2.6	-1.1	-4.7	-1.4	p -2.8	n.a.
Inventories <s.a. quarterly (monthly) change>	1.0	1.6	0.7	1.1	-0.4	p 0.5	n.a.
Inventories/shipments <s.a. 1995=100>	100.3	107.0	112.9	114.4	112.9	p 116.3	n.a.

## Main Economic Indicators (2)

	y/y % chg.						
	97/Q3	Q4	98/Q1	98/Feb.	Mar.	Apr.	May
Ratio of job offers to applications <s.a., times>	0.73	0.69	0.61	0.61	0.58	0.55	n.a.
Unemployment rate <s.a., %>	3.41	3.46	3.65	3.59	3.87	4.13	n.a.
Overtime working hours <sup>5</sup>	1.1	-2.5	-5.4	-5.8	-7.2	p -9.9	n.a.
Number of employees	1.0	1.0	0.0	-0.1	-0.1	-0.6	n.a.
Number of regularly employed <sup>5</sup>	0.9	0.8	0.6	0.7	0.5	p 0.3	n.a.
Nominal wage per person <sup>5</sup>	1.5	0.7	-0.1	-0.1	0.6	p -0.5	n.a.
Domestic wholesale prices index <sup>6</sup>	-0.5	-1.0	-1.6	-1.6	-2.0	-2.3	-2.3
Consumer prices index (nationwide) <sup>6</sup>	0.6	0.7	0.5	0.4	0.7	0.4	n.a.
Excluding perishables	0.8	0.8	0.5	0.4	0.4	0.2	n.a.
Corporate service prices index <sup>6</sup>	-0.2	0.0	-0.1	-0.2	-0.1	-0.1	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.0	3.3	p 4.7	5.0	p 4.5	p 3.5	n.a.
Number of suspension of transaction with banks	9.5	19.0	20.8	18.0	27.2	26.3	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.

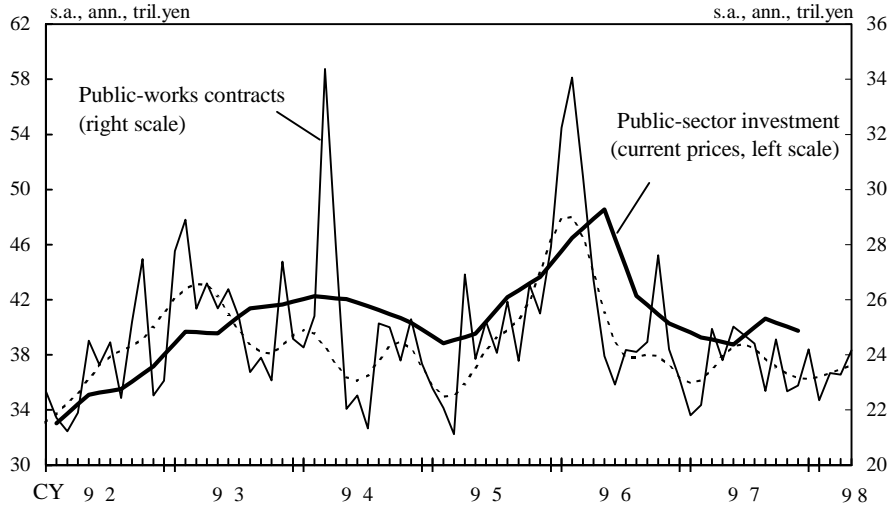
5. Data for firms with 5 regular employees or more.

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.

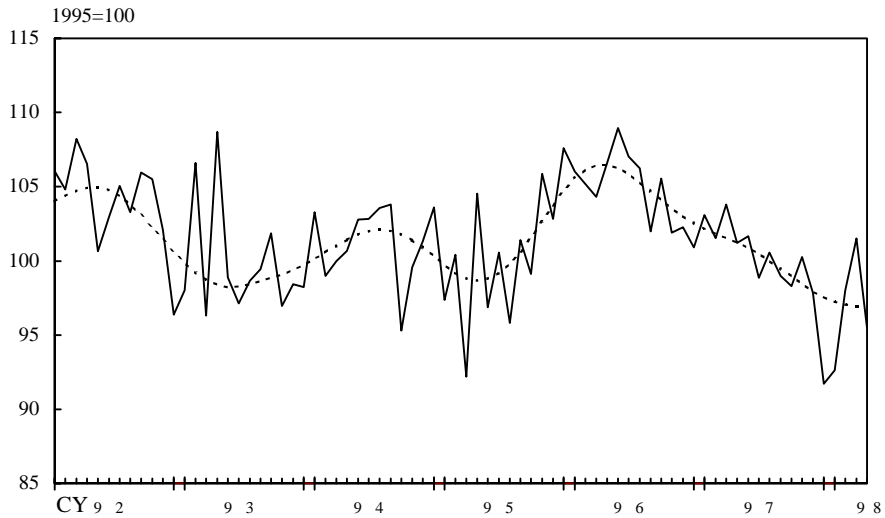
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";  
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";  
 Japan Chain Stores Association, "Sales 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



(2) Shipments of Public Works-related Goods



Notes: 1. In order to follow the monthly movement of public-sector investment, we have compiled the data of shipments of "public works-related goods" by selecting some goods used for public works from "Indices of Industrial Production."

2. The basket of goods used to calculate "public works-related goods" was changed just after the base year of "Indices of Industrial Production" was revised from 1990 to 1995. The goods presently used are asphalt, concrete products for roads, bridges, and cement.

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

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

4. Quarterly basis public-sector investment is plotted at the middle month of each quarter.

5. Seasonally adjusted by X-12-ARIMA( $\beta$  version). The dotted line is the trend cycle factor.

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

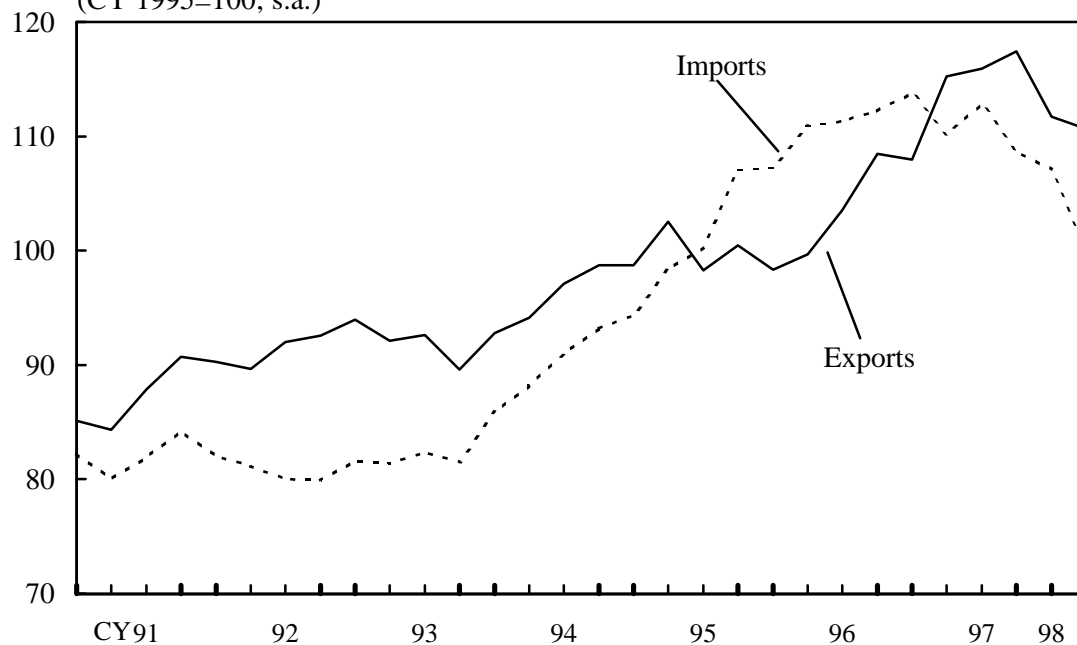
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**External Balance**


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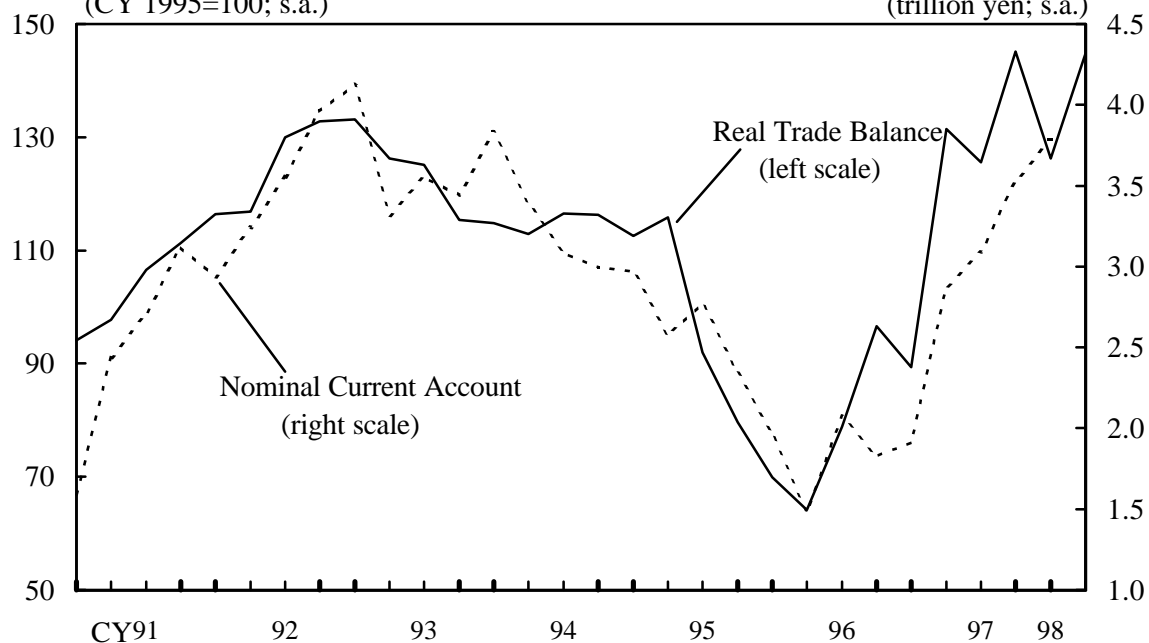
**(1) Real Exports and Real Imports**

(CY 1995=100; s.a.)

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

(CY 1995=100; s.a.)

(trillion yen; s.a.)



Notes: 1. 1998/Q2 figures for real exports, real imports and real trade balance are April figures converted into quarterly amount.

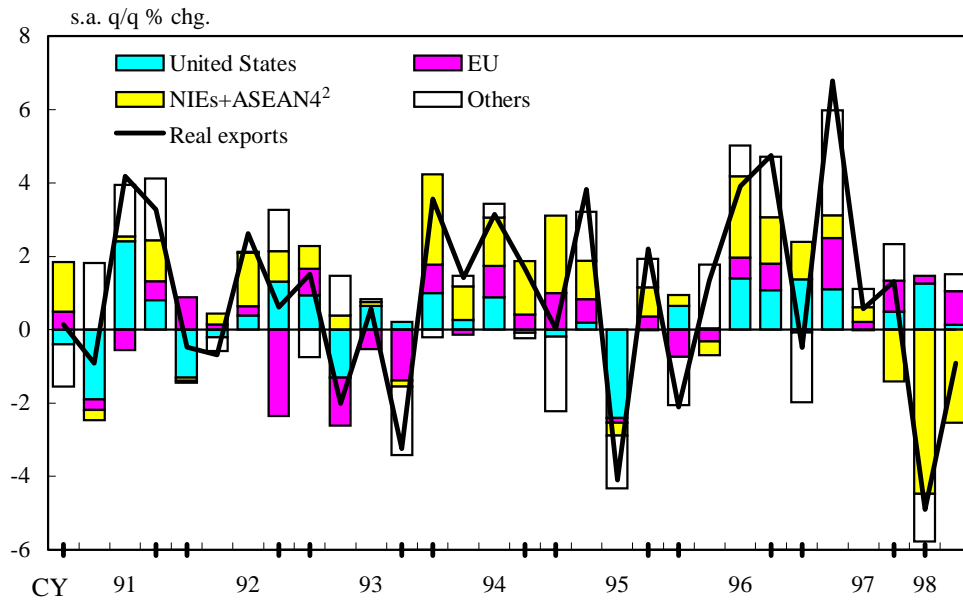
2. Real exports and imports are seasonally adjusted by X-11, and nominal current balance is seasonally adjusted by X-12-ARIMA ( $\beta$  version).

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

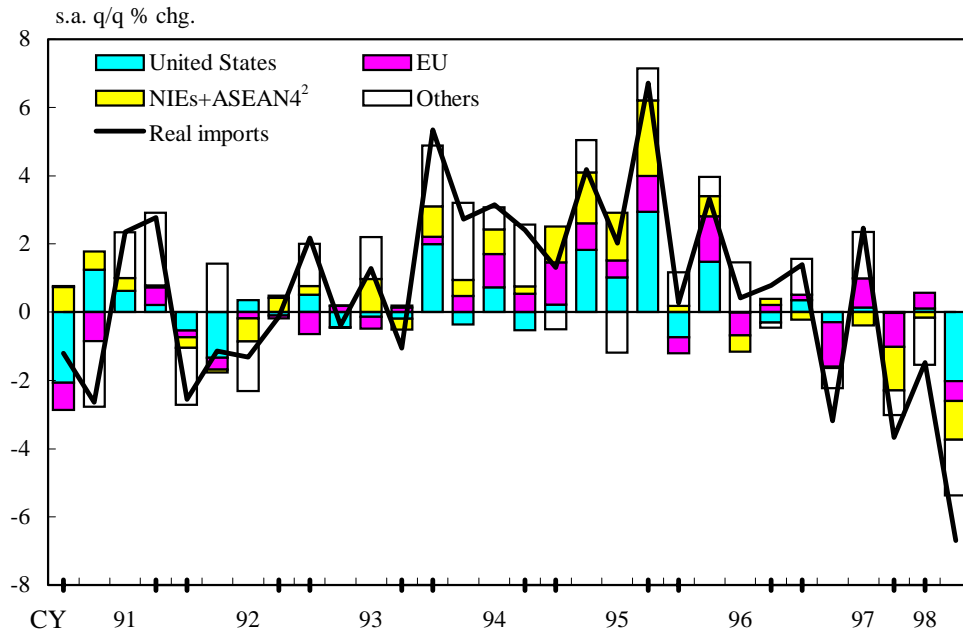
Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."

Exports and Imports <sup>1</sup>

## (1) Real Exports



## (2) Real Imports



Notes: 1. The sum of the contributing factors is not equal to total real exports (imports) due to differences in seasonal adjustment etc. Seasonally adjusted by X-11. 1998/Q2 are April figures converted into quarterly amount.

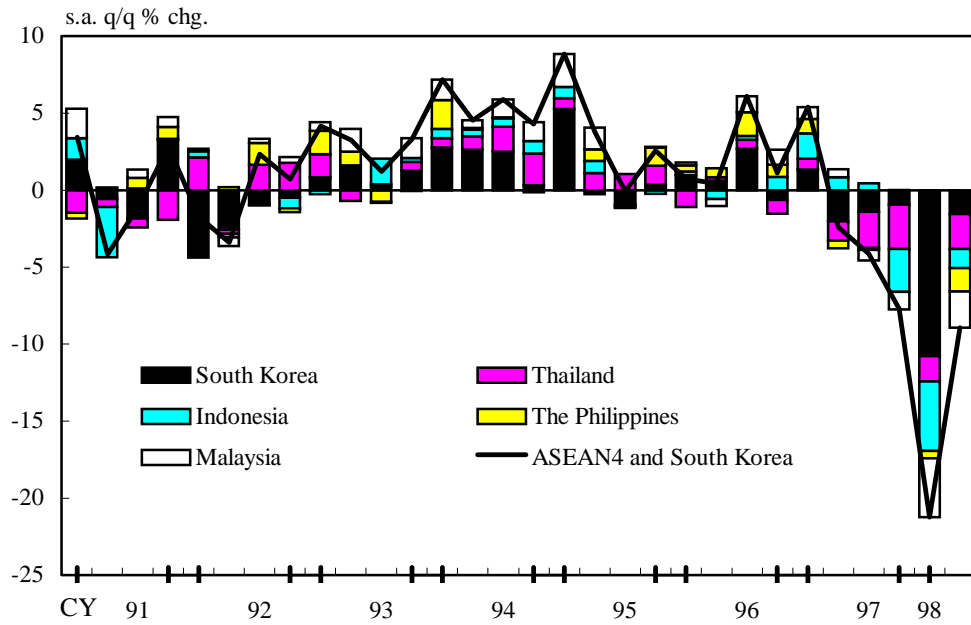
2. Data for four members: Thailand, Malaysia, the Philippines, and Indonesia.

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

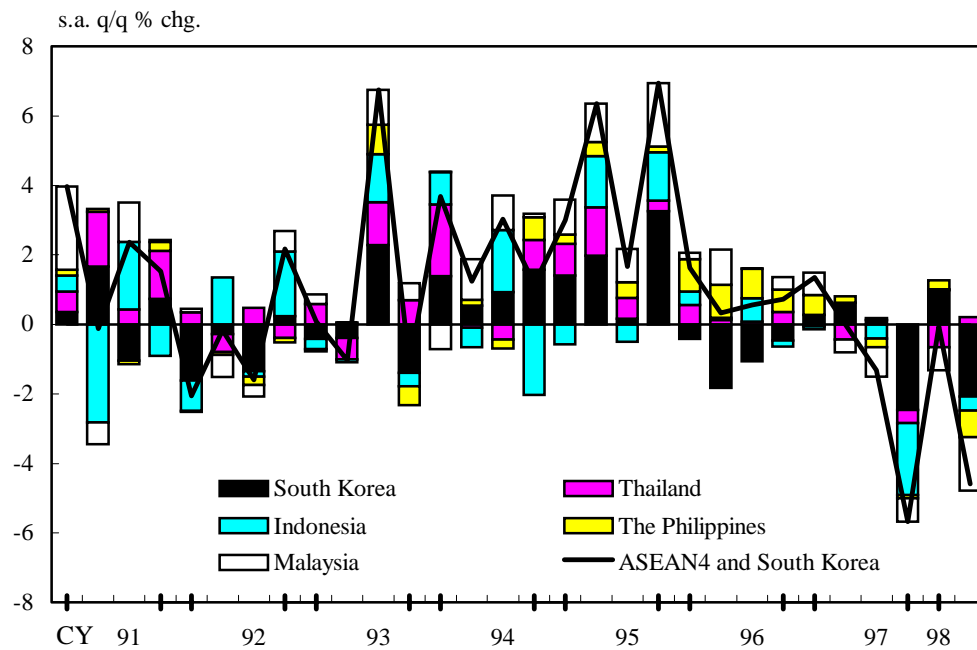


Trade with ASEAN4 and South Korea<sup>1</sup>

(1) Real Exports



(2) Real Imports

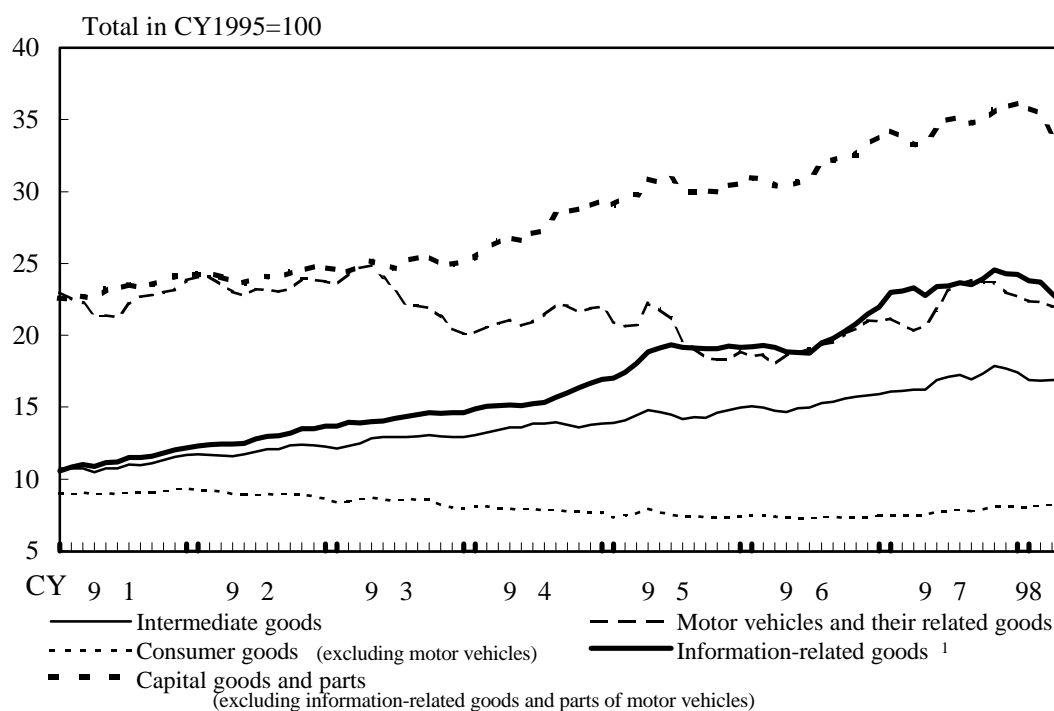


Note: 1. Seasonally adjusted by X-11. 1998/Q2 figures are April figures converted into quarterly amount.

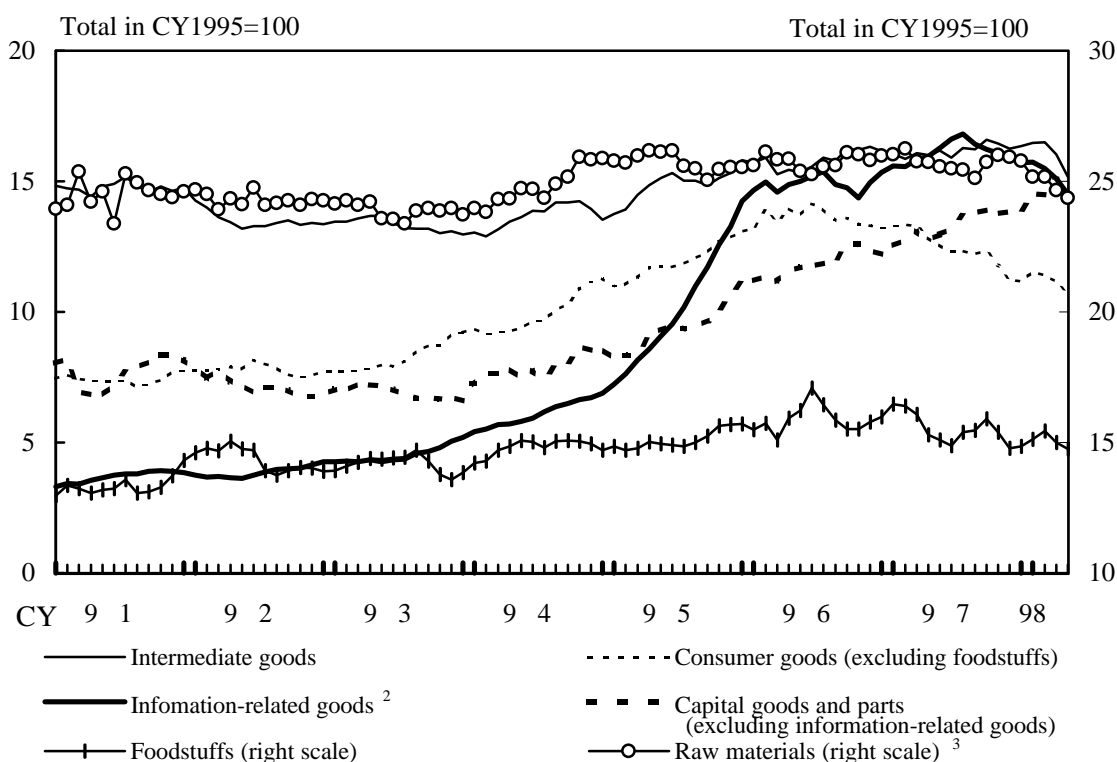
Sources: Ministry of Finance, "The Summary Report on Trade of Japan";  
Bank of Japan, "Wholesale Price Indexes."

Exports and Imports (Breakdown by types of goods)<sup>1</sup>

## (1) Real Exports



## (2) Real Imports



Notes: 1. Seasonally adjusted by X-11. 3-month moving averages.

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

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

3. 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

		CY96	97	98	97 Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	98 Jan.-Mar.	
United States <sup>1</sup>		2.8	3.8	(2.7)	3.3	3.1	3.7	4.8	
European Union <sup>1</sup>		1.8	2.6	(2.7)	4.8	3.3	2.2	n.a.	
	Germany	1.4	2.2	(2.7)	3.9	2.9	1.2	3.9	
	France	1.6	2.3	(2.9)	4.7	3.7	3.2	2.3	
	United Kingdom	2.5	3.1	(1.7)	3.5	3.6	2.5	2.0	
East Asia <sup>2</sup>	China	9.7	8.8	(7.2)	(Jan-Jun) 9.5	(Jan-Sep) 9.0	(Jan-Dec) 8.8	7.2	
	NIEs	Korea	7.1	5.5	(-0.2)	6.6	6.1	3.9	-3.8
		Taiwan	5.7	6.8	(5.9)	6.3	6.9	7.1	5.9
		Hong Kong	5.0	5.2	(0.9)	6.8	5.7	2.7	-2.0
		Singapore	6.9	7.8	(3.2)	8.5	10.7	7.6	5.6
	4 Countries of ASEAN	Thailand	5.5	(-0.4)	(-1.5)	n.a.	n.a.	n.a.	n.a.
		Indonesia	8.0	4.6	(-8.5)	6.8	2.5	1.3	-6.2
		Malaysia	8.6	7.8	(1.4)	8.4	7.4	6.9	-1.8
Philippines		5.7	5.1	(1.8)	5.8	4.9	4.7	1.7	

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

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

3. Forecasts by OECD are shown in brackets.

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

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

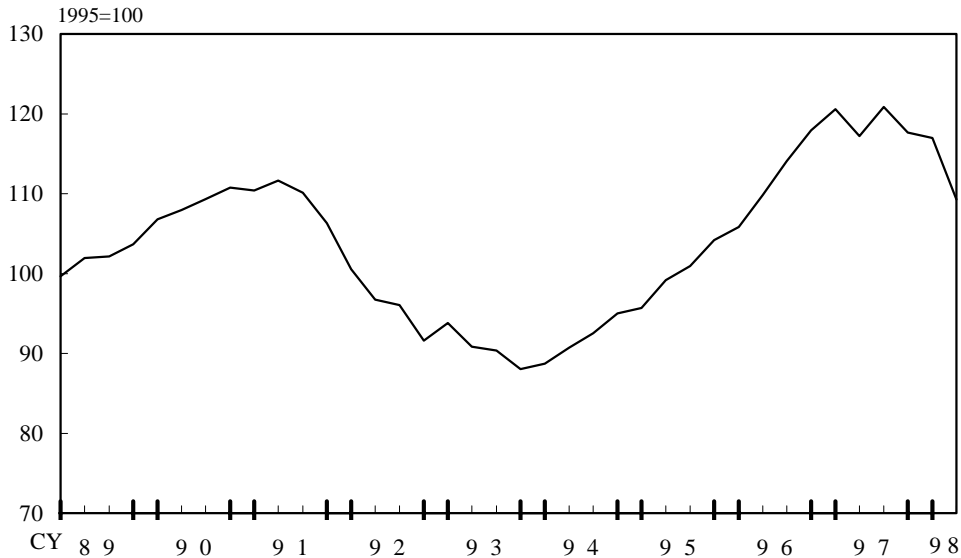


Note: 1. Monthly average. The figure for June 1998 is June 1-11 average. Calculated by Bank of Japan.

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)

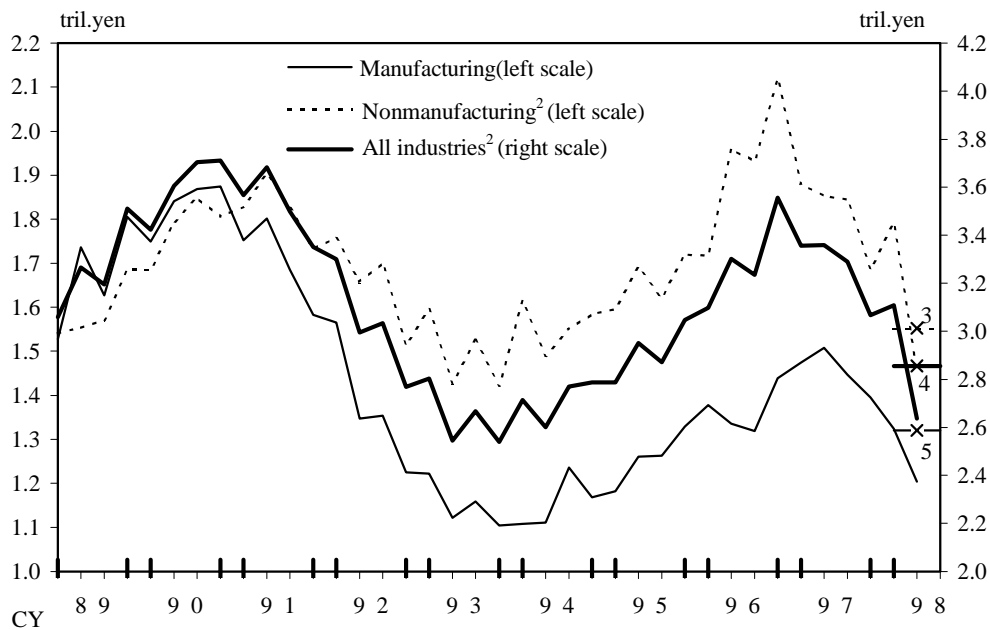
(1) Shipments of Capital Goods<sup>1,2</sup>



Notes: 1.Exclude transport equipment.

2.Seasonally adjusted data. Figure for 1998/Q2 is the data of April in terms of quarterly amount.

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



Notes: 1. Seasonally adjusted data. Figures for 1998/Q2 are data of April in terms of quarterly amount.

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

3. Forecast of nonmanufacturing industries for 1998/Q2.

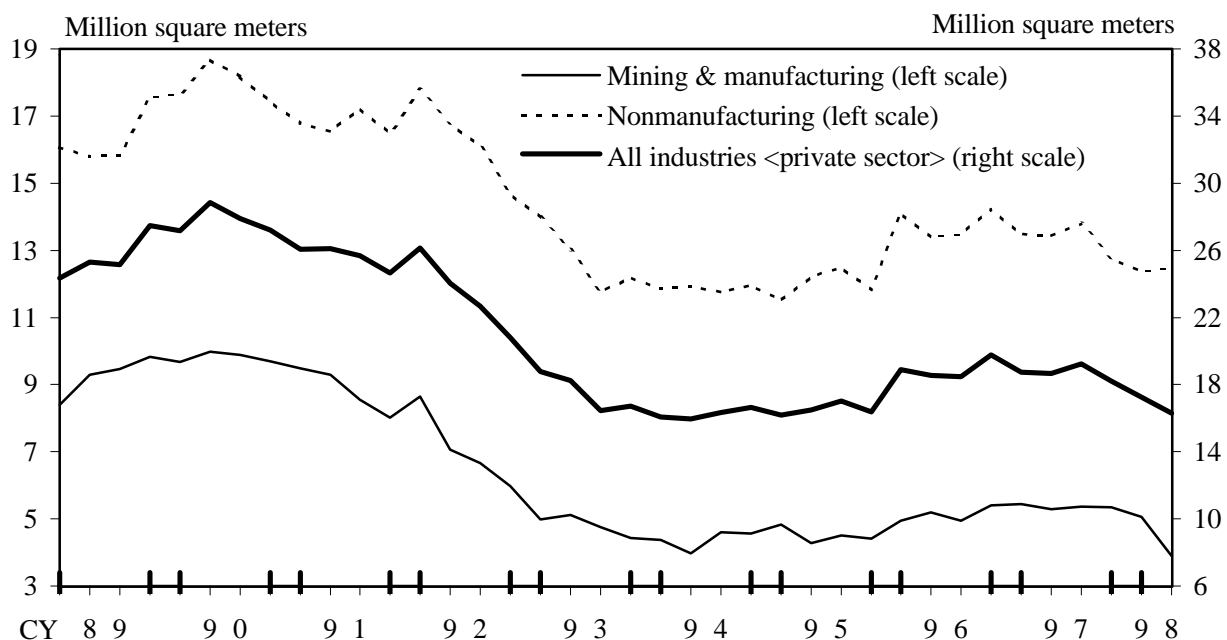
4. Forecast of all industries for 1998/Q2.

5. Forecast of manufacturing industries for 1998/Q2.

Sources: Ministry of International Trade and Industry, "Indices of Industrial Production"; Economic Planning Agency, "Machinery Orders Statistics."

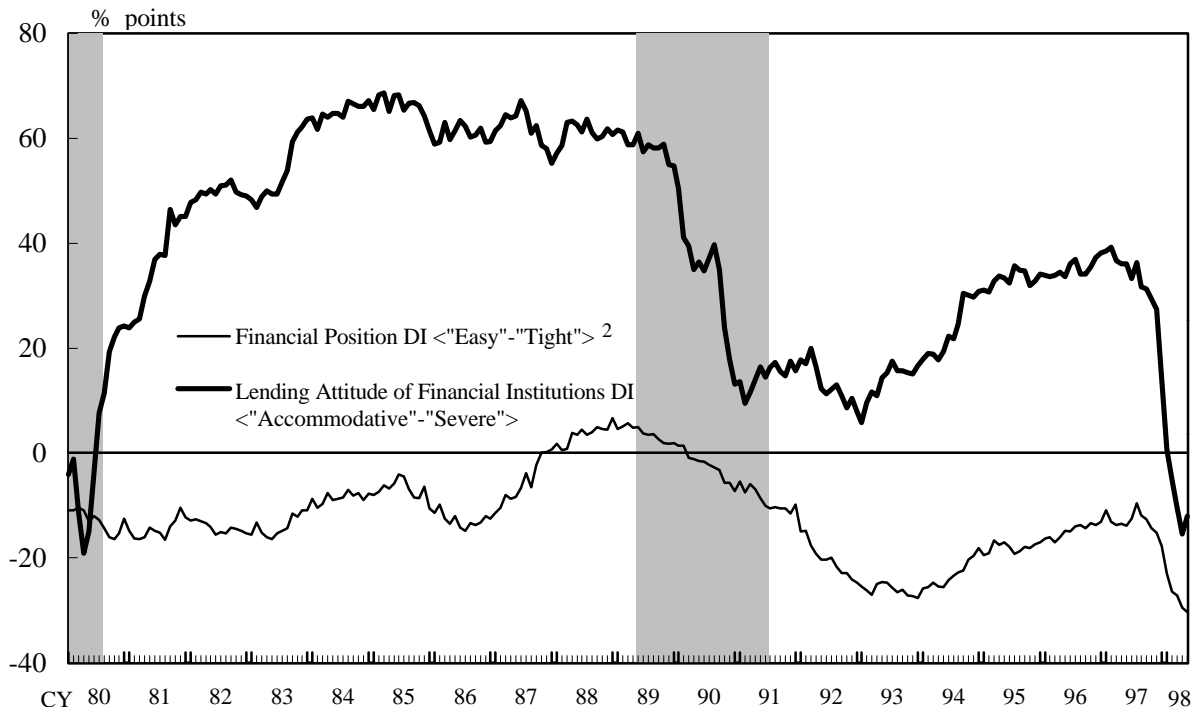
Major Indexes of Business Fixed Investment (2)

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



Note: 1. Seasonally adjusted data. Figures for 1998/Q2 are data of April in terms of quarterly amount.

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



Notes: 1. Sample : 900 Companies (Responses : 638 <May 1998 Survey>).

Shaded areas indicate periods when the official discount rate was on an uptrend.

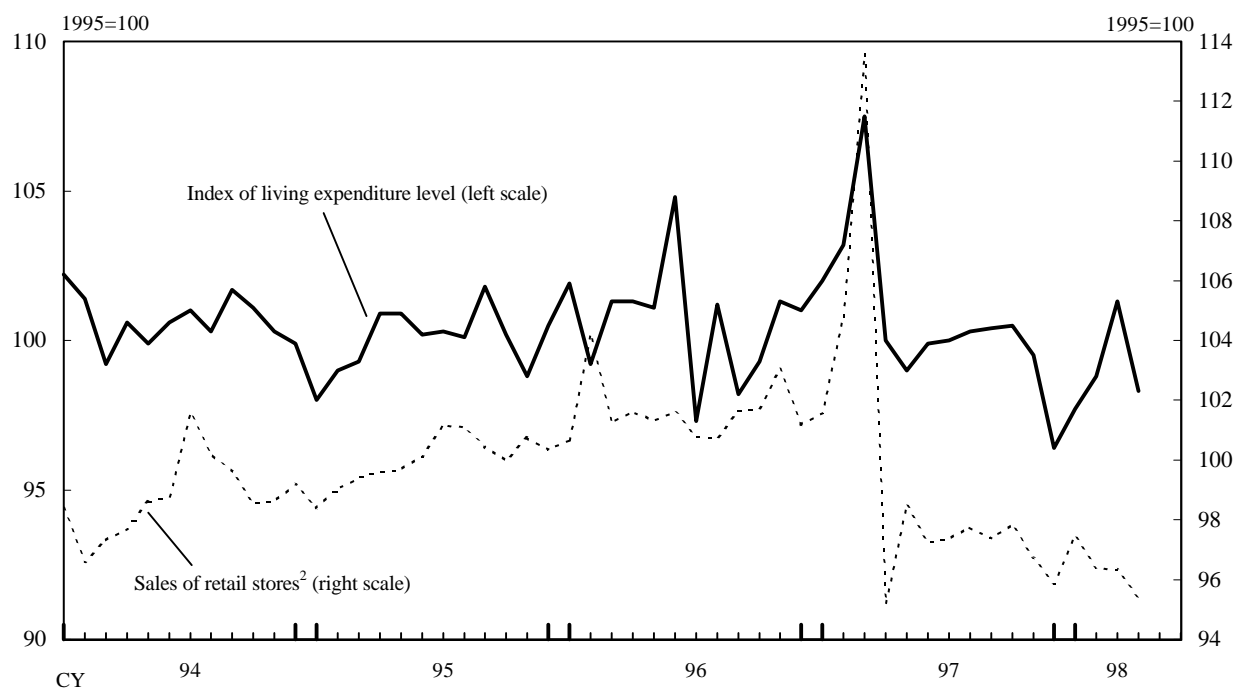
2. Seasonally adjusted data.

Sources: Ministry of Construction, "Construction Statistics Monthly";

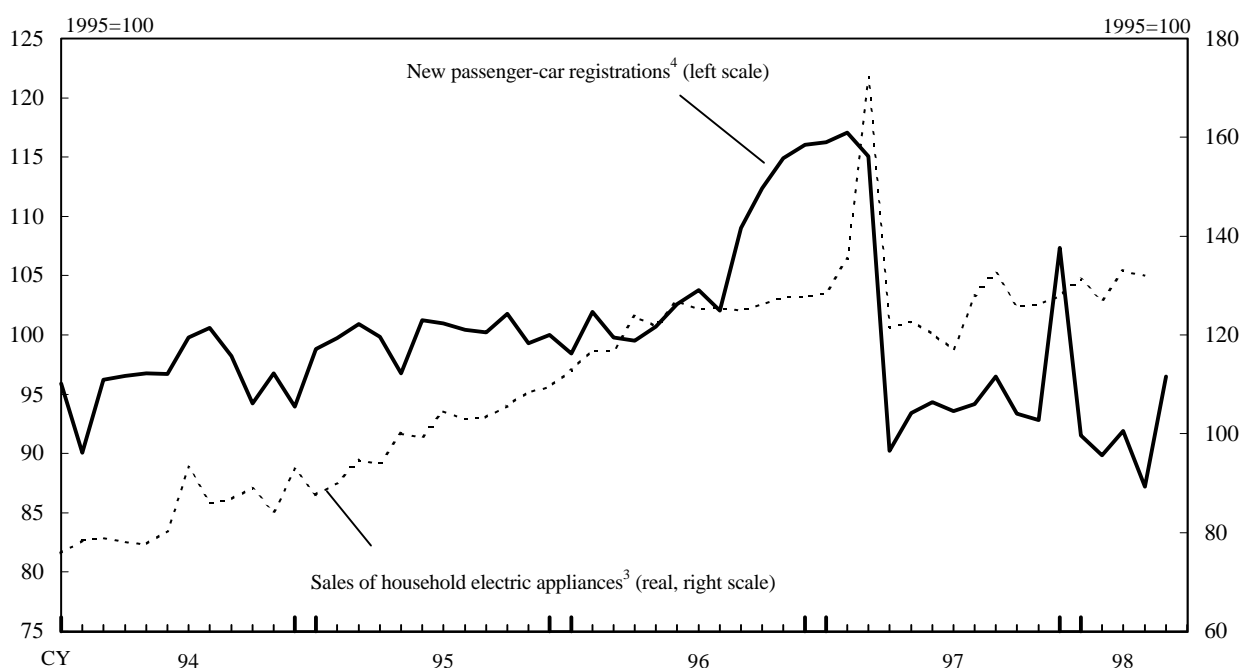
Japan Finance Corporation for Small Business, "Monthly Survey on Trends of Small Businesses."

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.

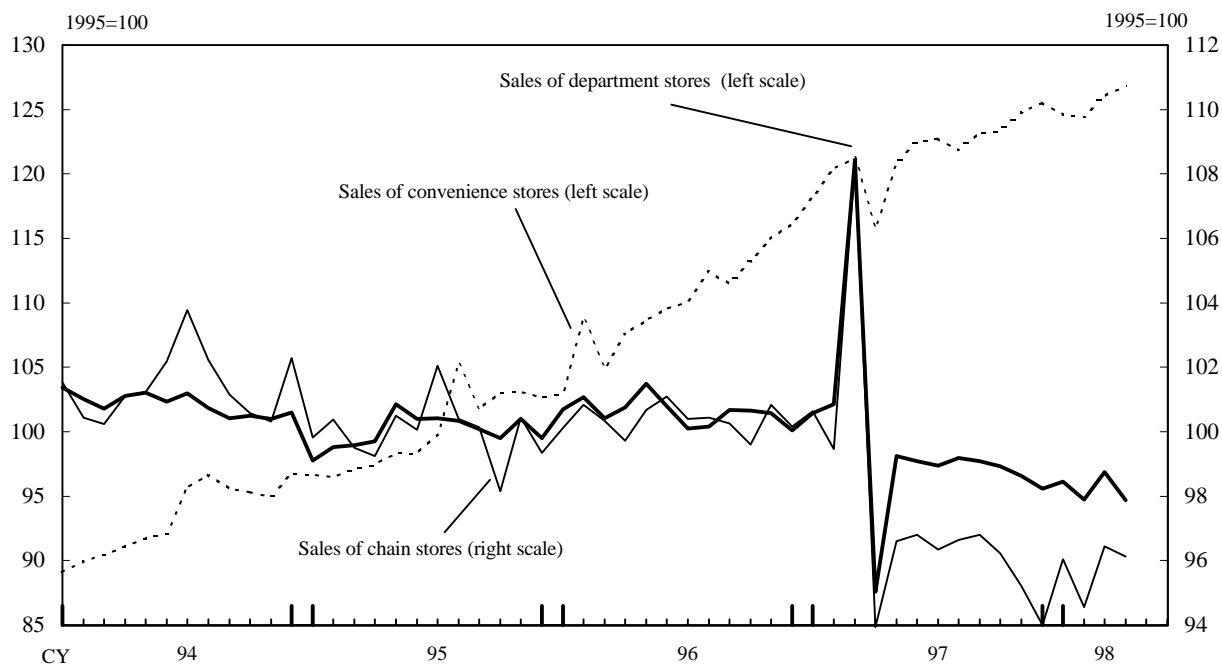
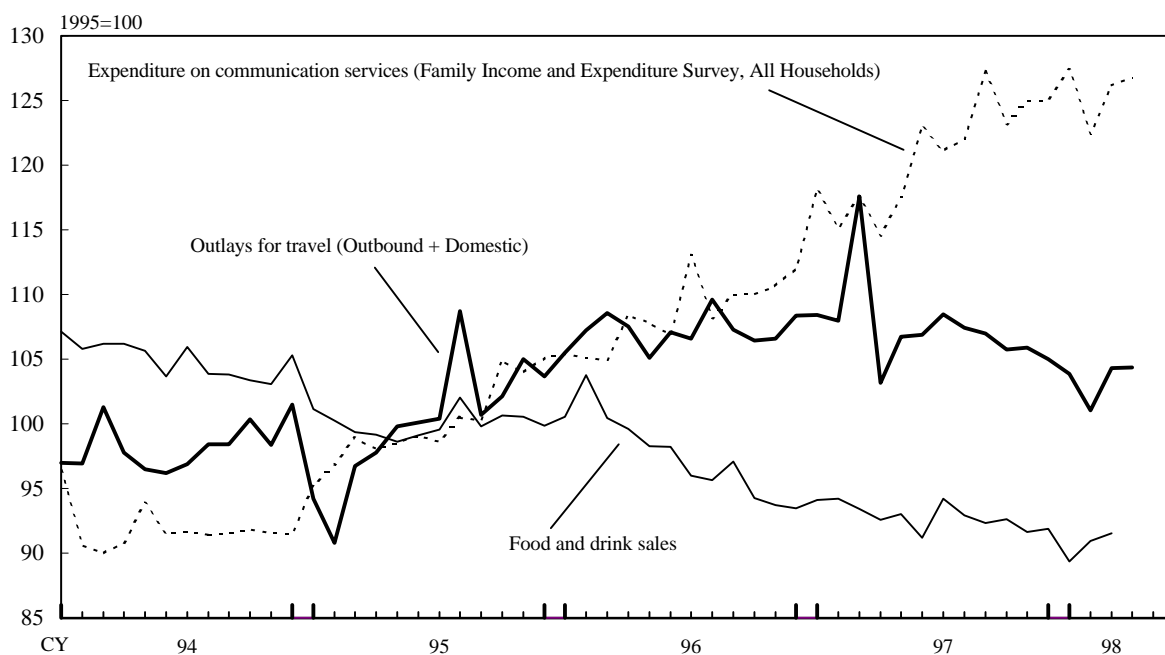
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey"; "Consumer Price Index";

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).

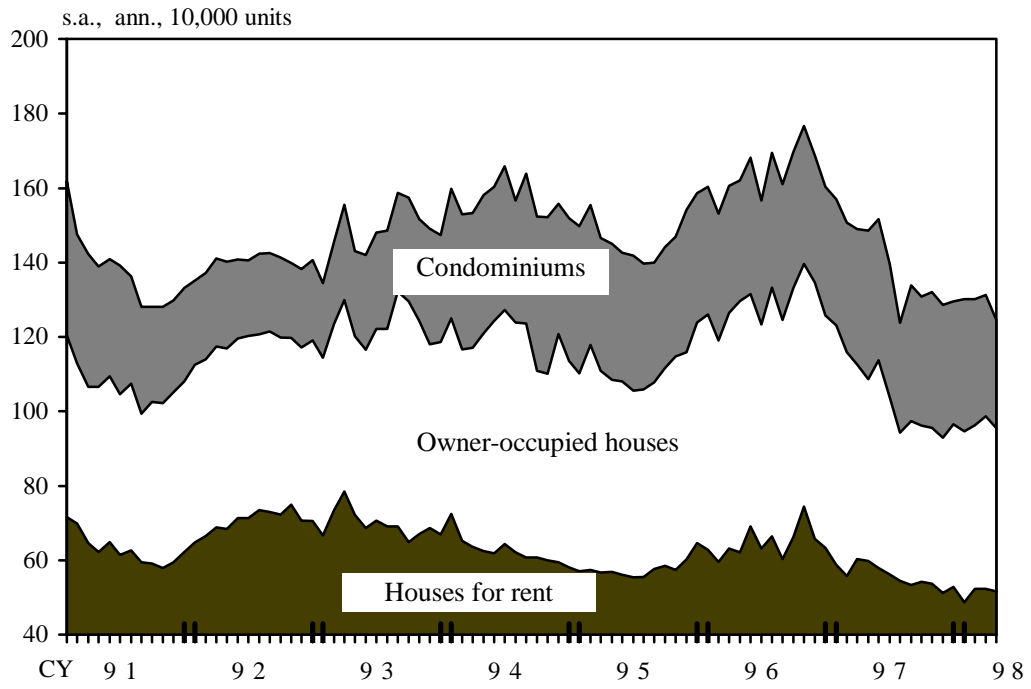
2. Adjusted to exclude the effect of the increase in the number of stores (except convenience stores).  
Sales of department stores and sales of chain stores are adjusted to exclude the effect of the rise of the consumption tax rate.

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."

Housing Starts

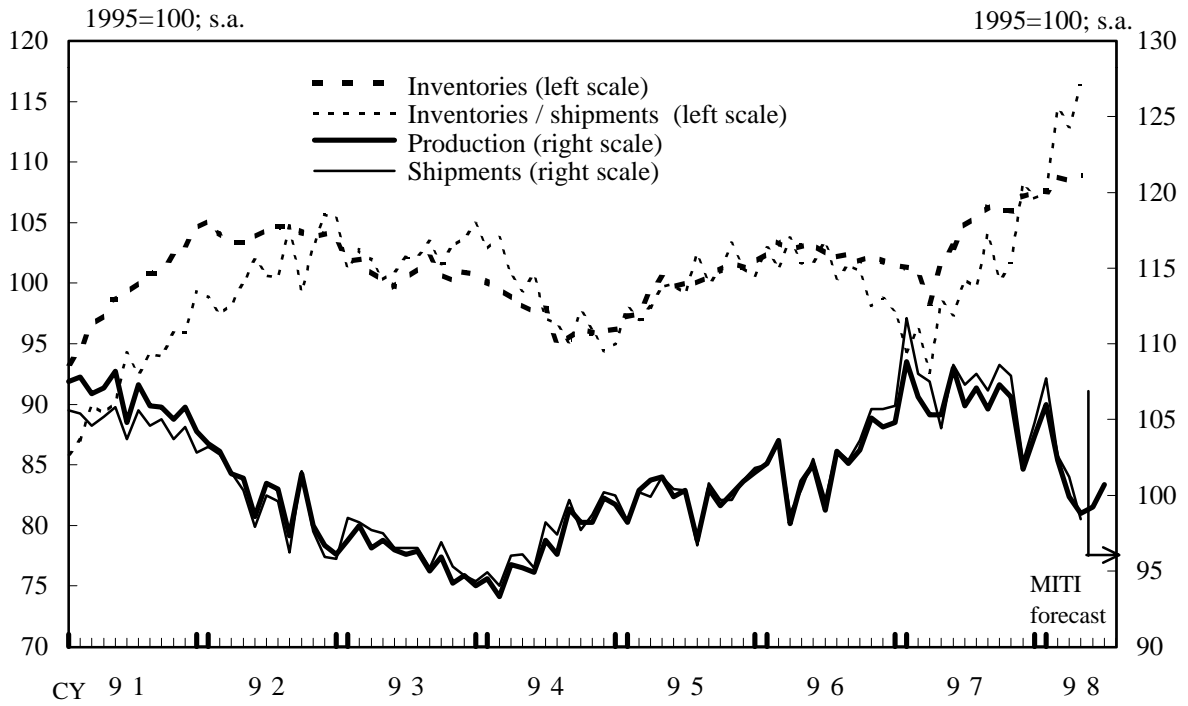


Source: Ministry of Construction, "Monthly of Construction Statistics".

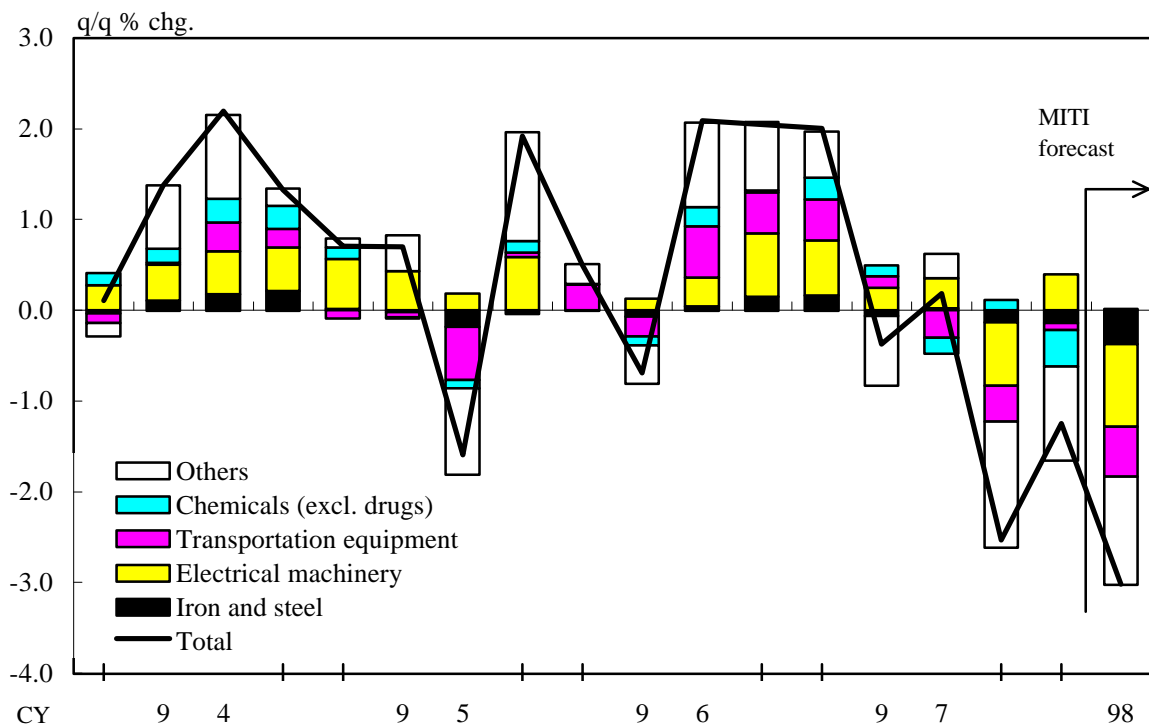


Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



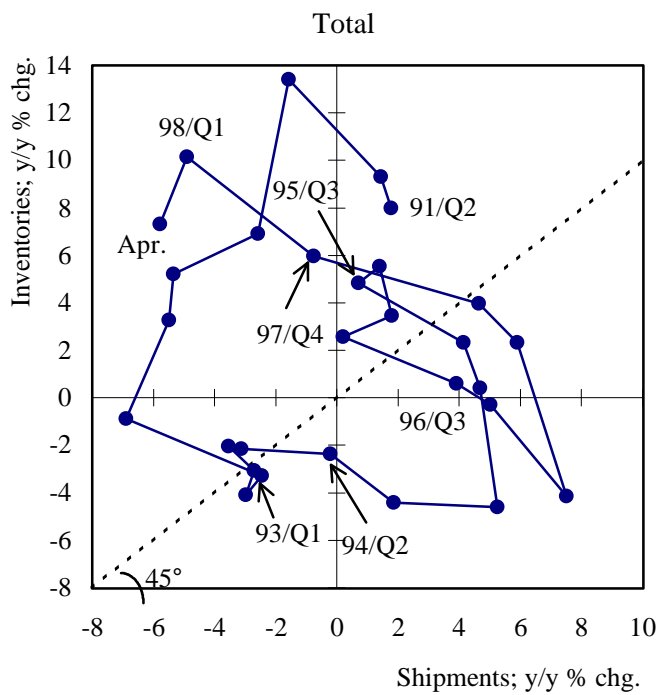
(2) Production by Industries



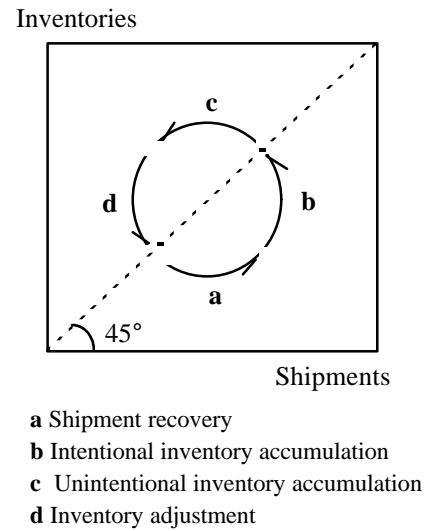
Note: Transportation equipment excludes ships and rolling stock.

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

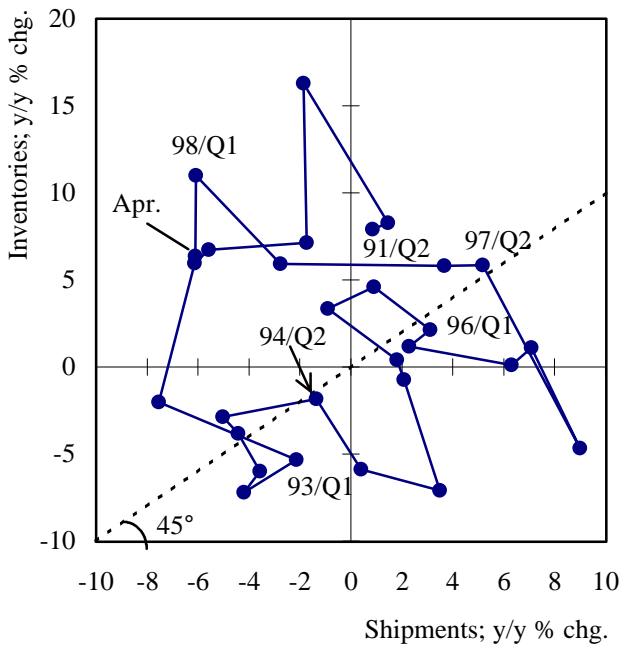
Inventory Cycle



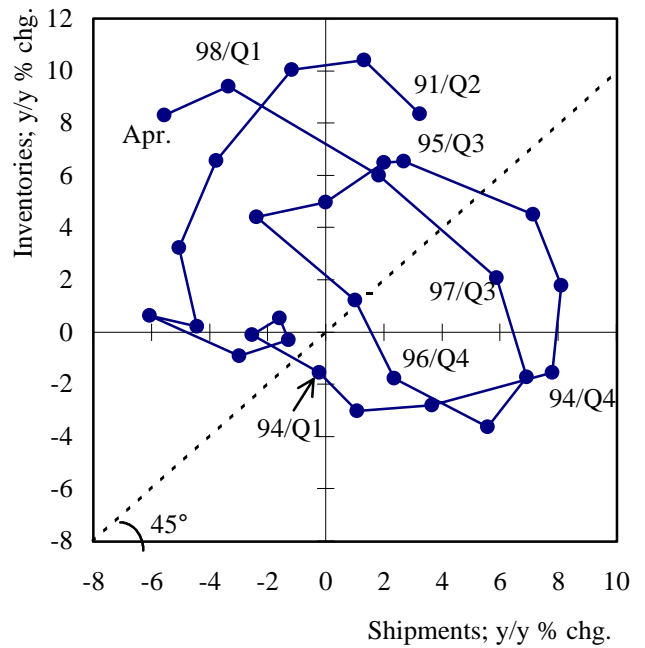
**Phases in the Inventory Cycle**



**Final Demand Goods**



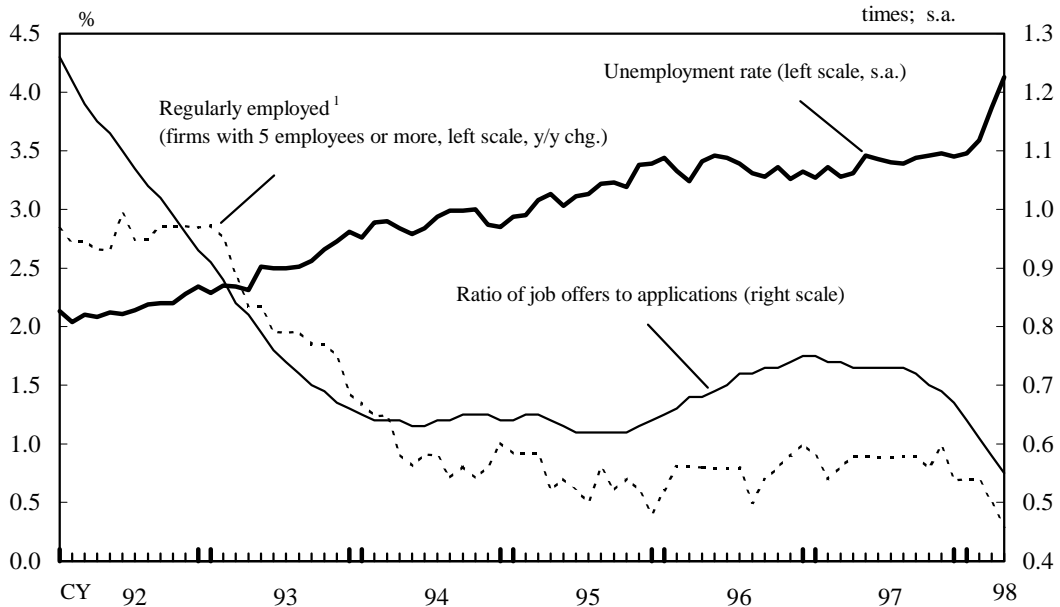
**Production Goods**



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

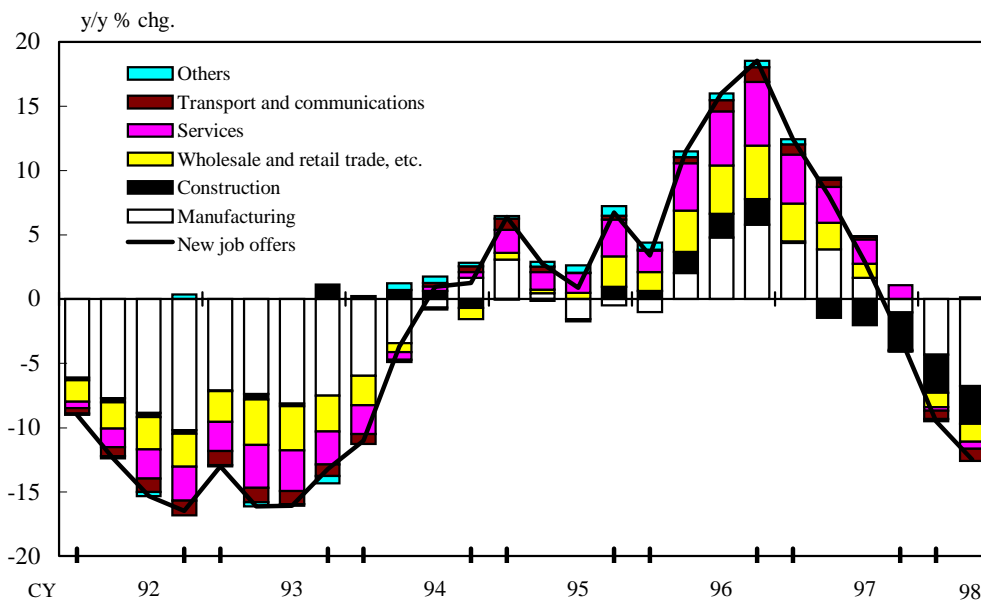
Labor (1)

(1) Monthly



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

(2) New Job Offers<sup>1</sup>

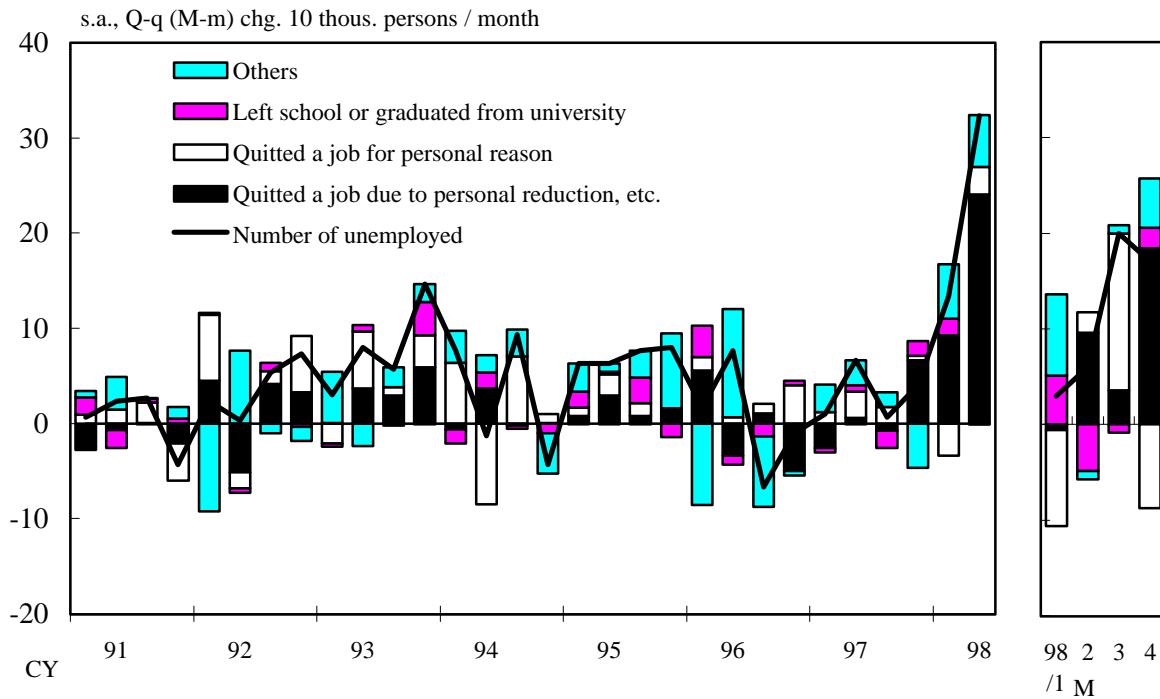


Note: 1. Excludes jobs offered to new graduates.  
The data in 98/Q2 are those of April 98.

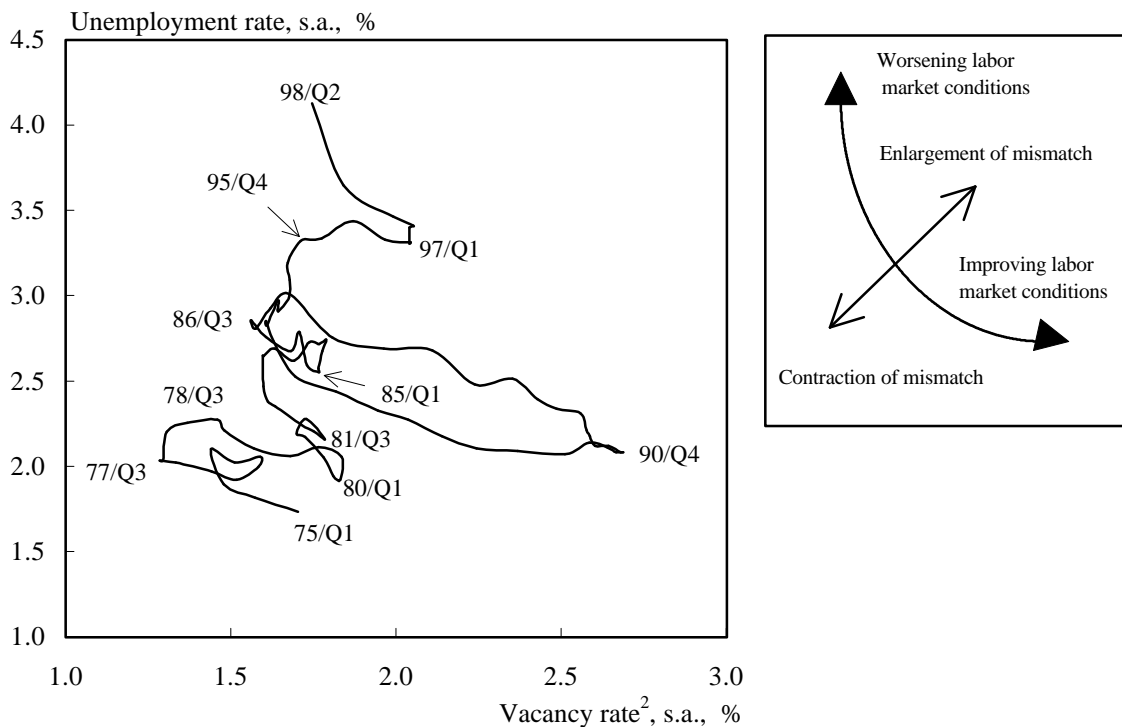
Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service";  
Management and Coordination Agency, "Labor Force Survey."

Labor (2)

(1) Reasons for becoming unemployed<sup>1</sup>



(2) Labor Market Conditions<sup>1</sup> (Unemployment and Vacancy Analysis)



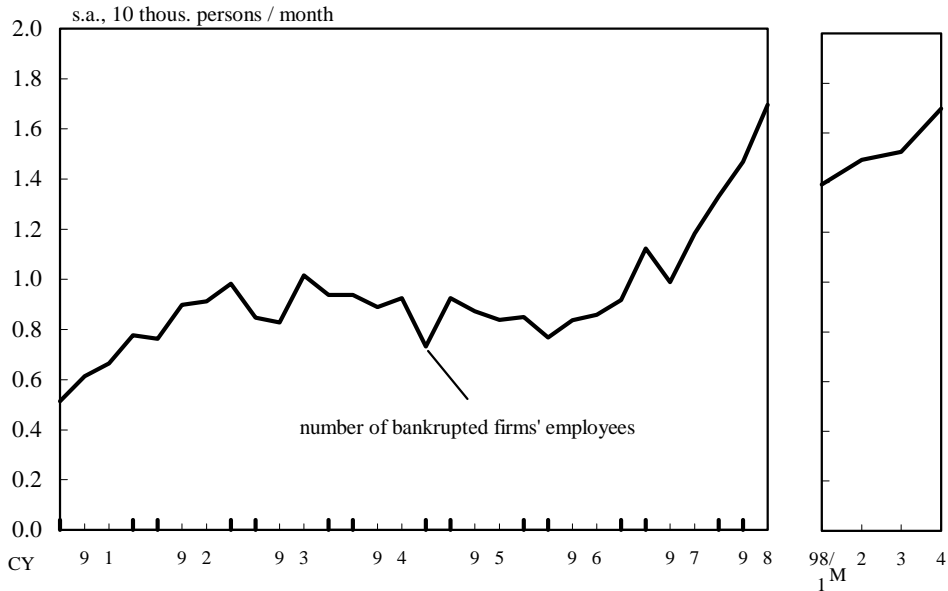
Notes: 1. The data in 98/Q2 are those of April 98.

2. Vacancy rate = number of vacant positions / (number of vacant positions + number of employees)  
 Number of vacant positions = number of job offers - number of placements

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

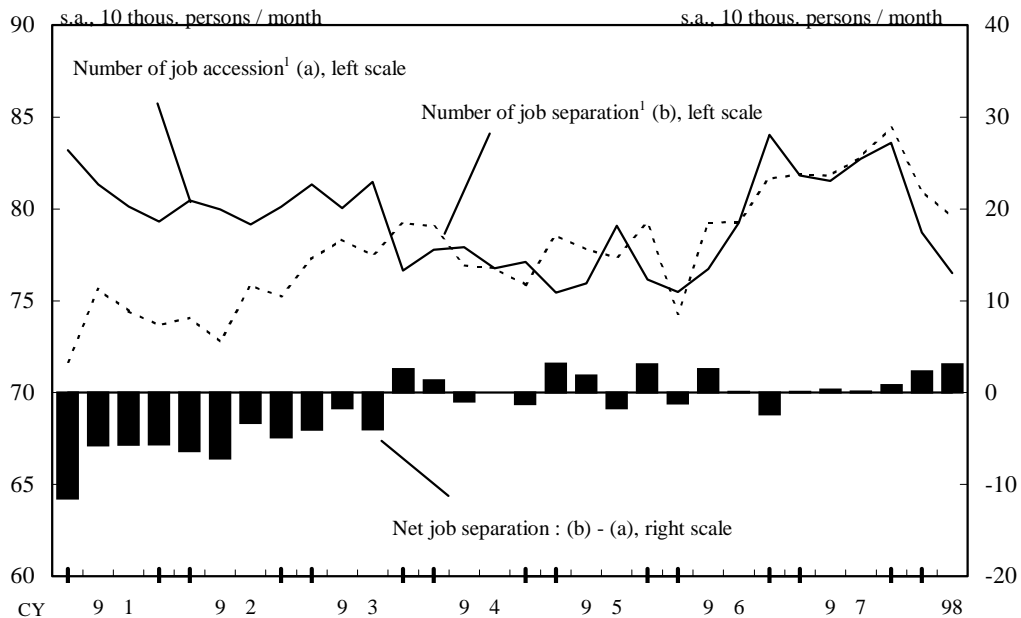
Employment Conditions

(1) Number of Bankrupted Firms' Employees<sup>1</sup>



Note: 1. Bankruptcies with a liability of ten million yen or more, and the figure for 98/Q2 is that of April 98. The data are based on a survey conducted by Teikoku Databank Ltd..

(2) Net Job Separation

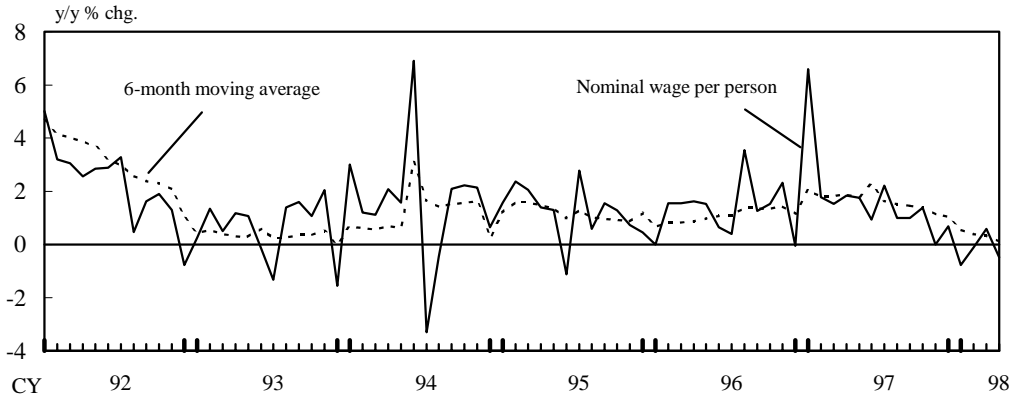


Note: 1. Calculated from accession (separation) rate and number of regular employees. The data are for firms with 5 employees or more, and the figures for 98/Q2 are those of April 98 (preliminary).

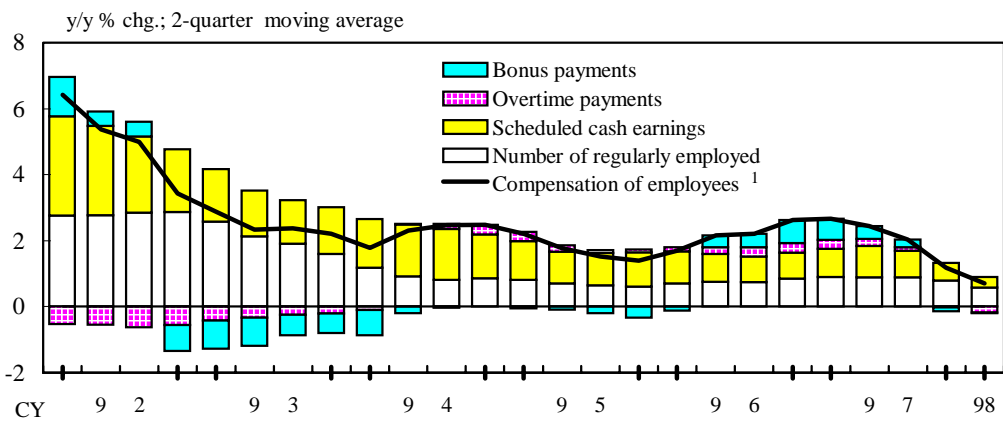
Sources: Teikoku Databank Ltd., "Japan's Business Failure"; Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service."

Compensation of Employees

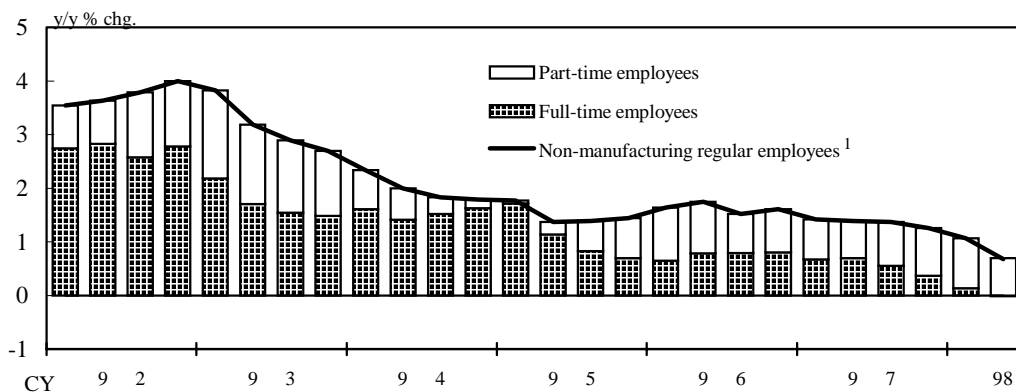
(1) Nominal Wage per Person <sup>1</sup>



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



(3) Number of Non-manufacturing Regular Employees <sup>3</sup>

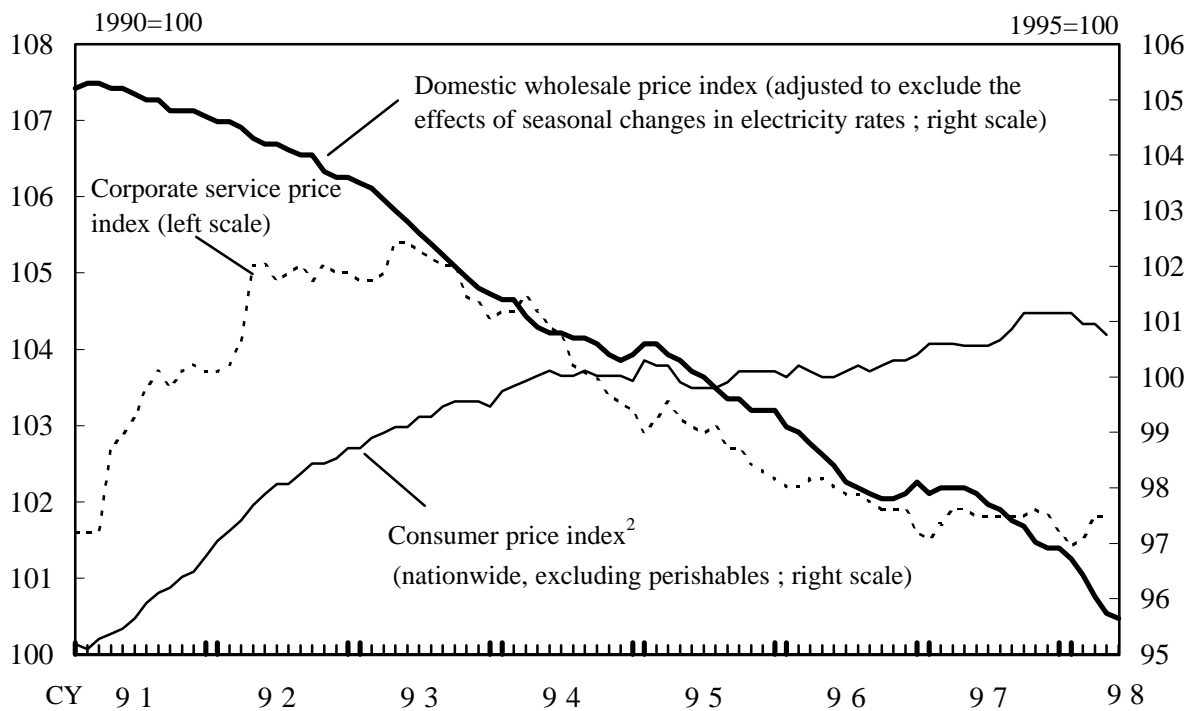


Notes: 1. Data for firms with 5 employees or more. The data in April 98 are preliminary.  
 2. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb. The data in 98/Q1 are those of Mar- Apr average.  
 3. The data in 98/Q2 are those of April 98.

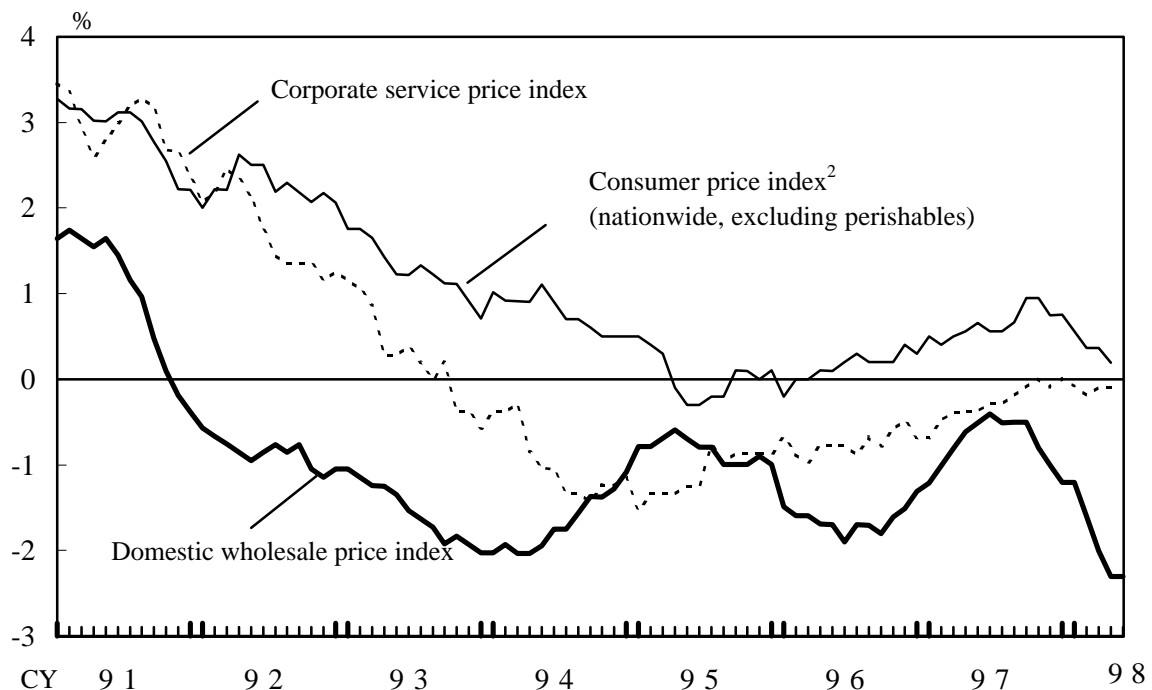
Source: Ministry of Labor, "Monthly Labor Survey."

Prices<sup>1</sup>

## (1) Level



## (2) Changes from a year earlier



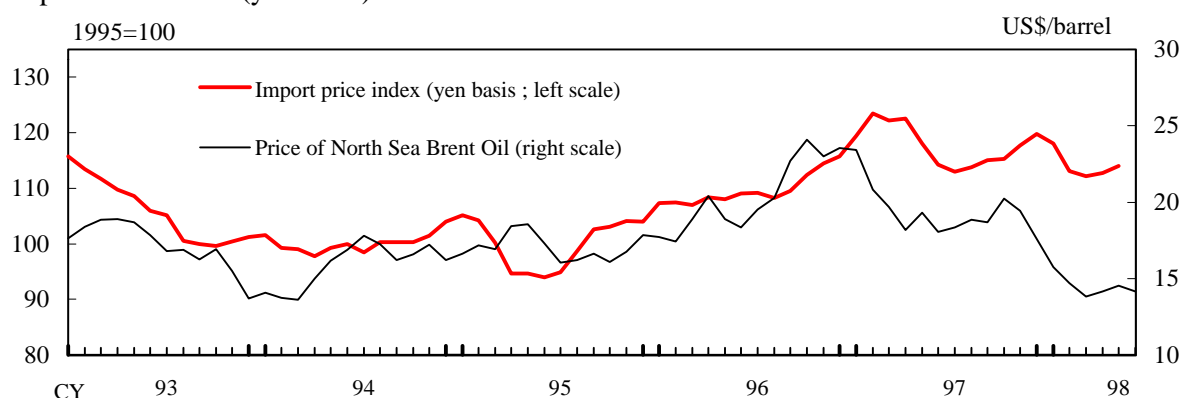
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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

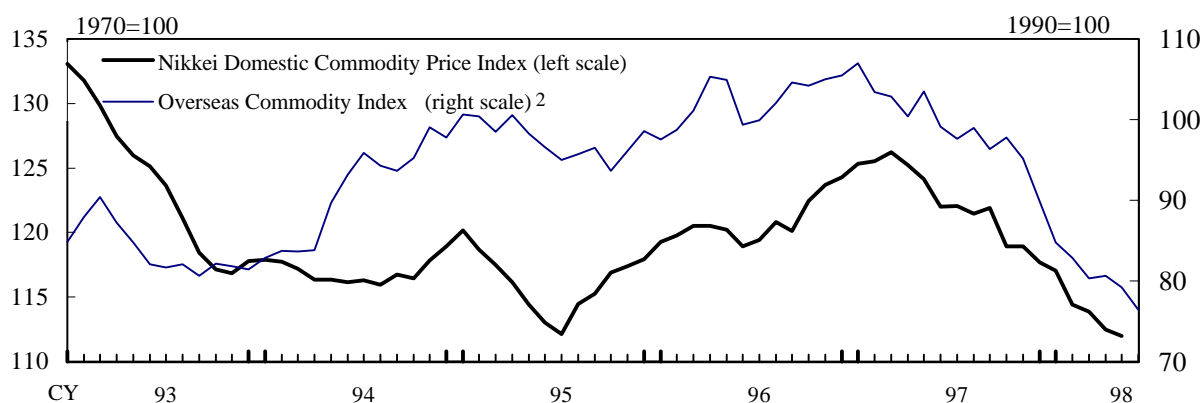
Sources: Management and Coordination Agency, "Consumer Price Index";  
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

## Import Prices and Domestic Wholesale Prices

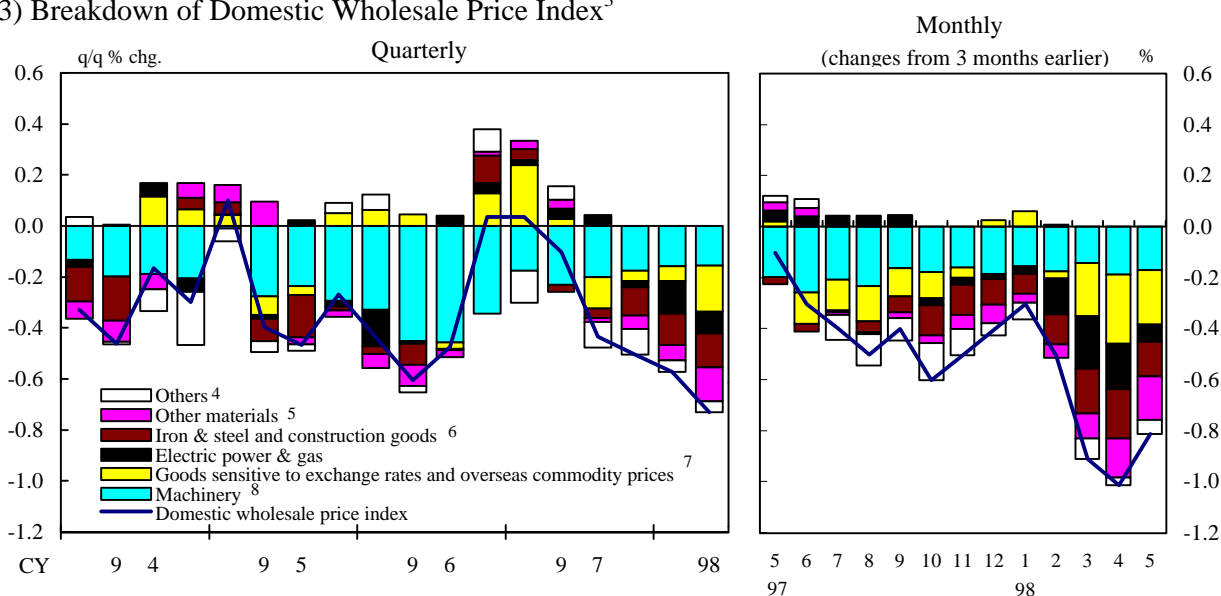
### (1) Import Price Index (yen basis) and Crude Oil Price<sup>1</sup>



### (2) Domestic Commodity Market



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



Notes: 1. Data for June 1998 are June 1-11 average.

2. Calculated by the Research and Statistics Department, Bank of Japan. Data for June 1998 are June 1-11 average.

3. Adjusted to exclude the effects of seasonal changes of electricity rates, and of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate. Data for 98/Q2 are April to May average.

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

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

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

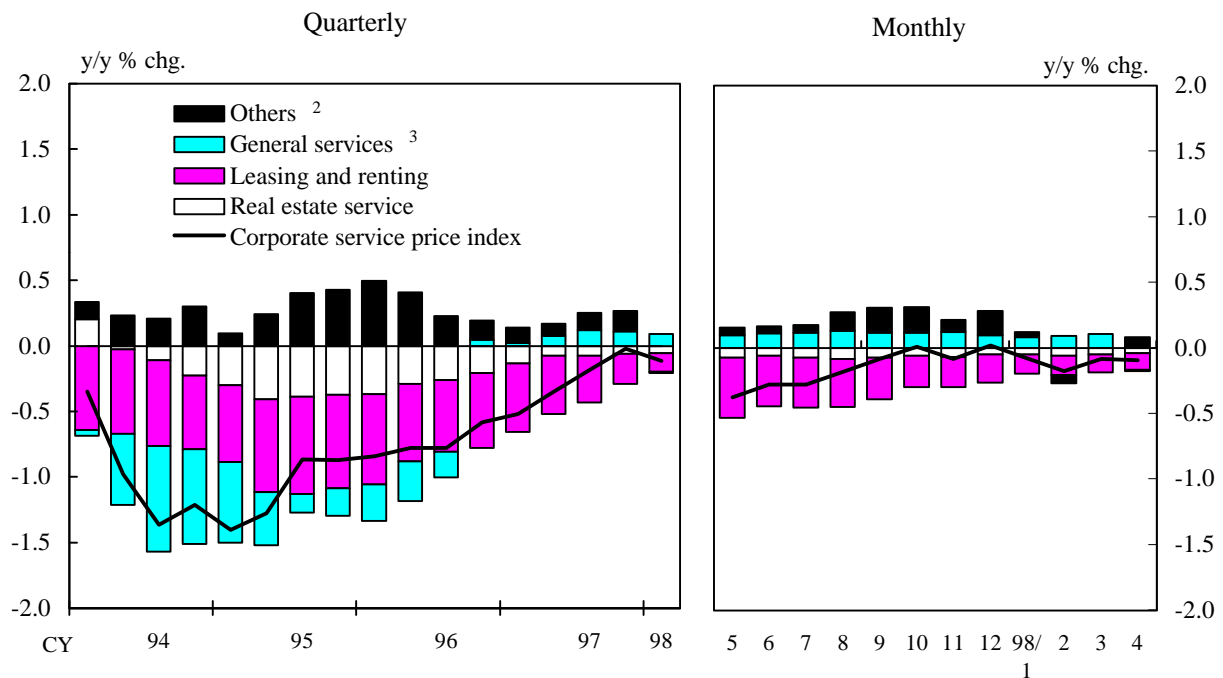
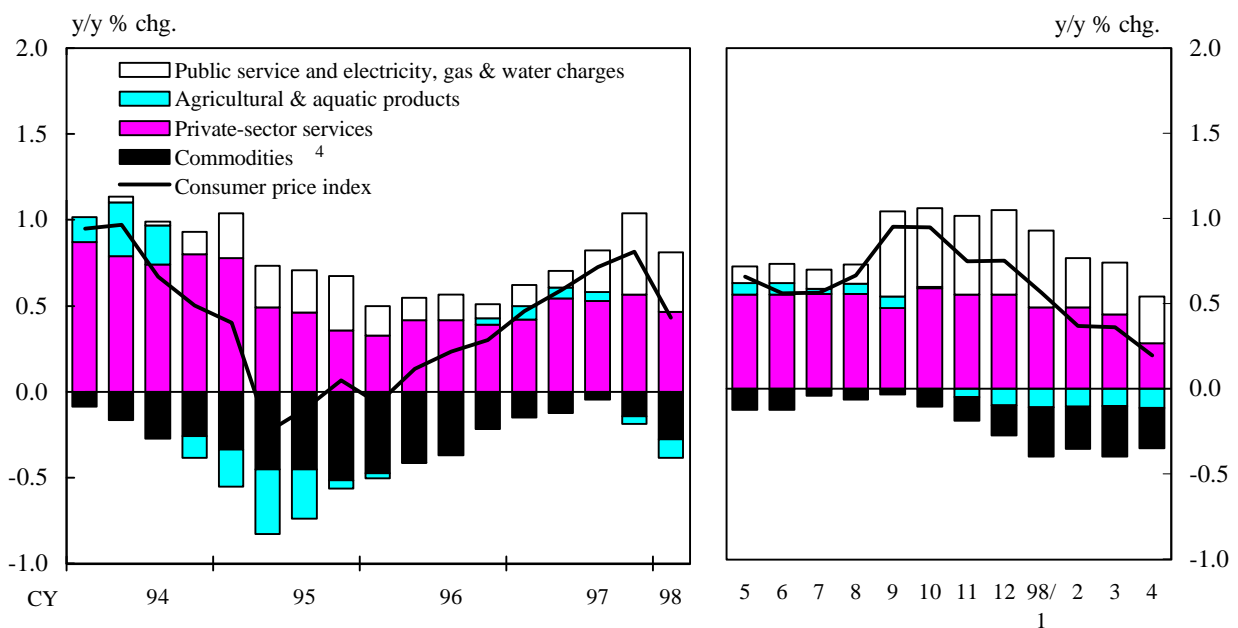
7. Goods sensitive to exchange rates and overseas commodity prices = petroleum & coal products + nonferrous metal.

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

Sources: Bank of Japan, "Wholesale Price Indexes", "Economic Statistics Monthly", "Nippon Ginko Chousa Geppo (Bank of Japan Monthly Bulletin)"; Nihon Keizai Shimbun Inc., "Nikkei Domestic Commodity Price Index."



## Corporate Service Prices and Consumer Prices

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

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

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.

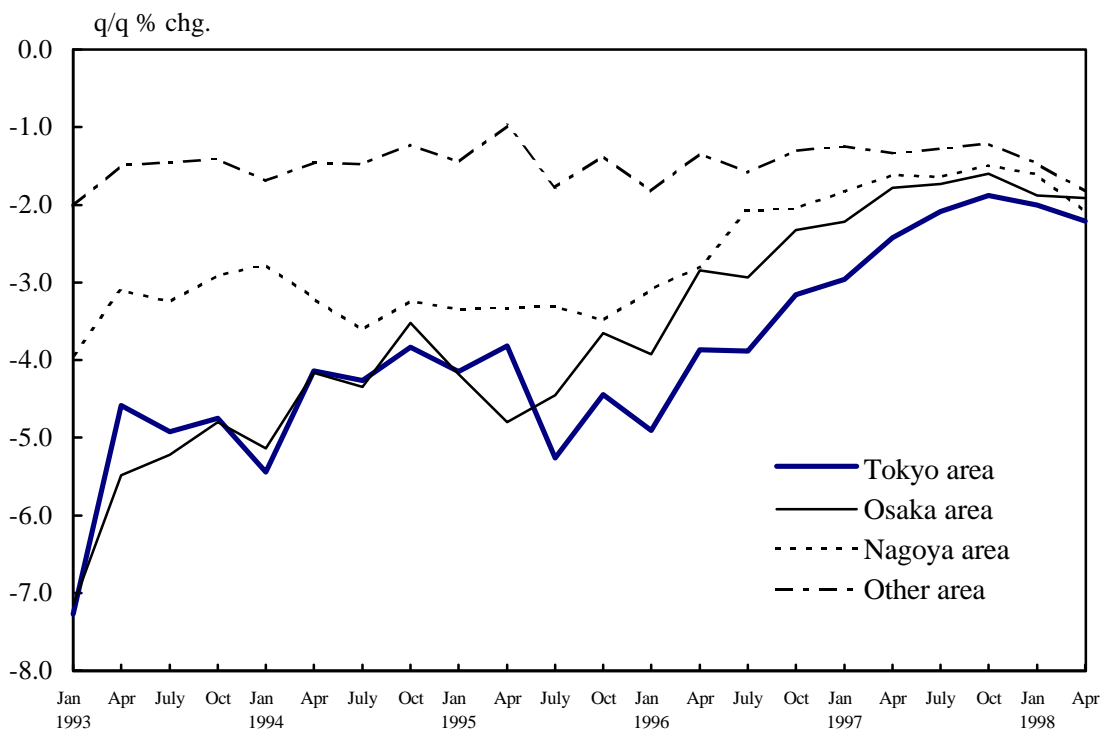
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

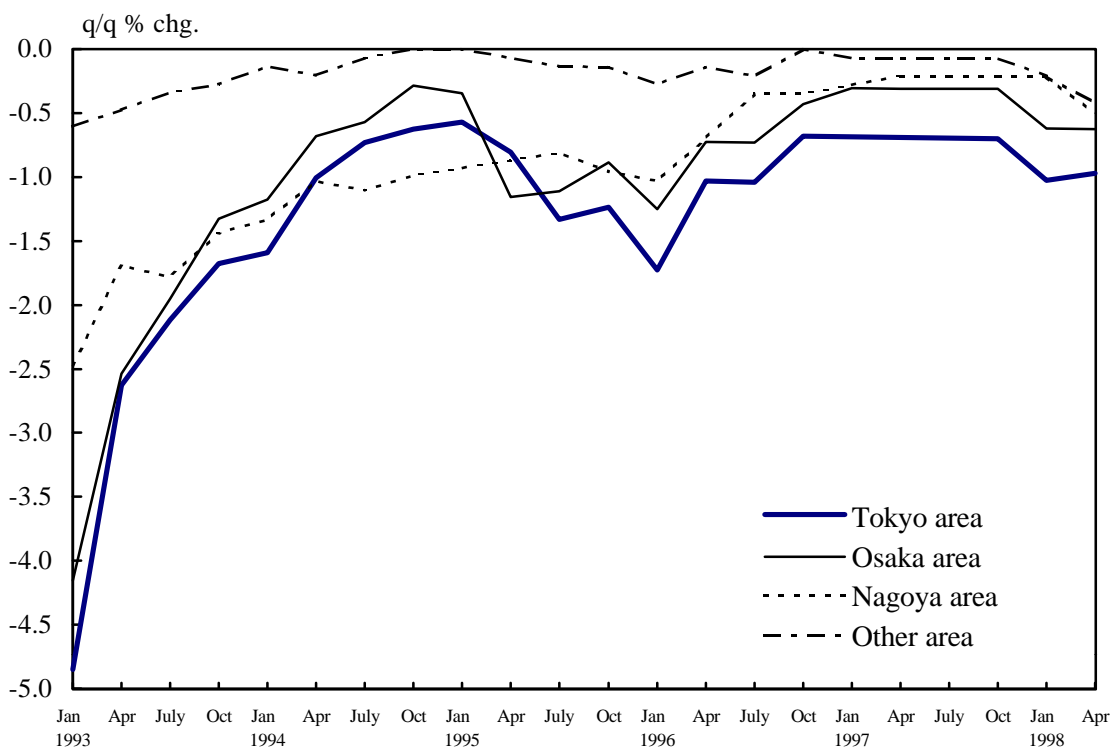
Sources: Management and Coordination Agency, "Consumer Price Index";  
 Bank of Japan, "Corporate Service Price Index."

Quarterly Land Price Index

(1) Commercial land



(2) Residential land

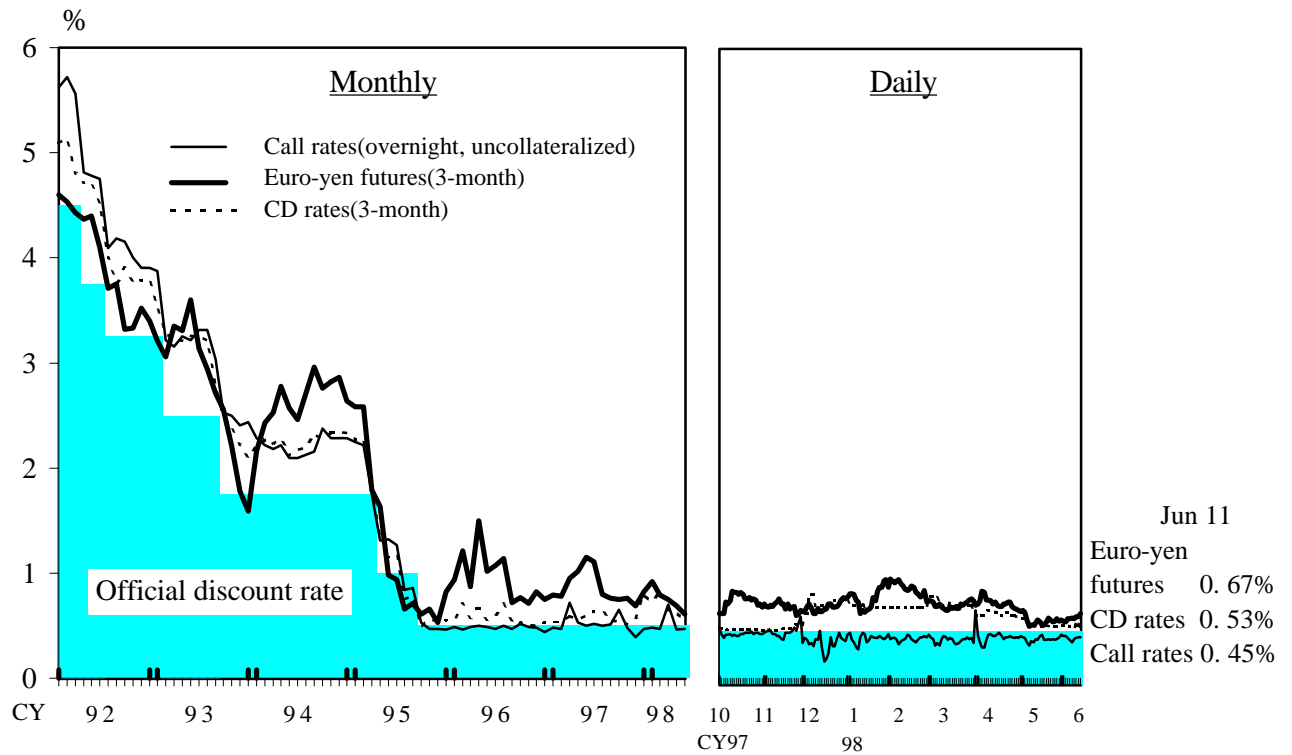


Note: The data for Apr. 98 are preliminary.

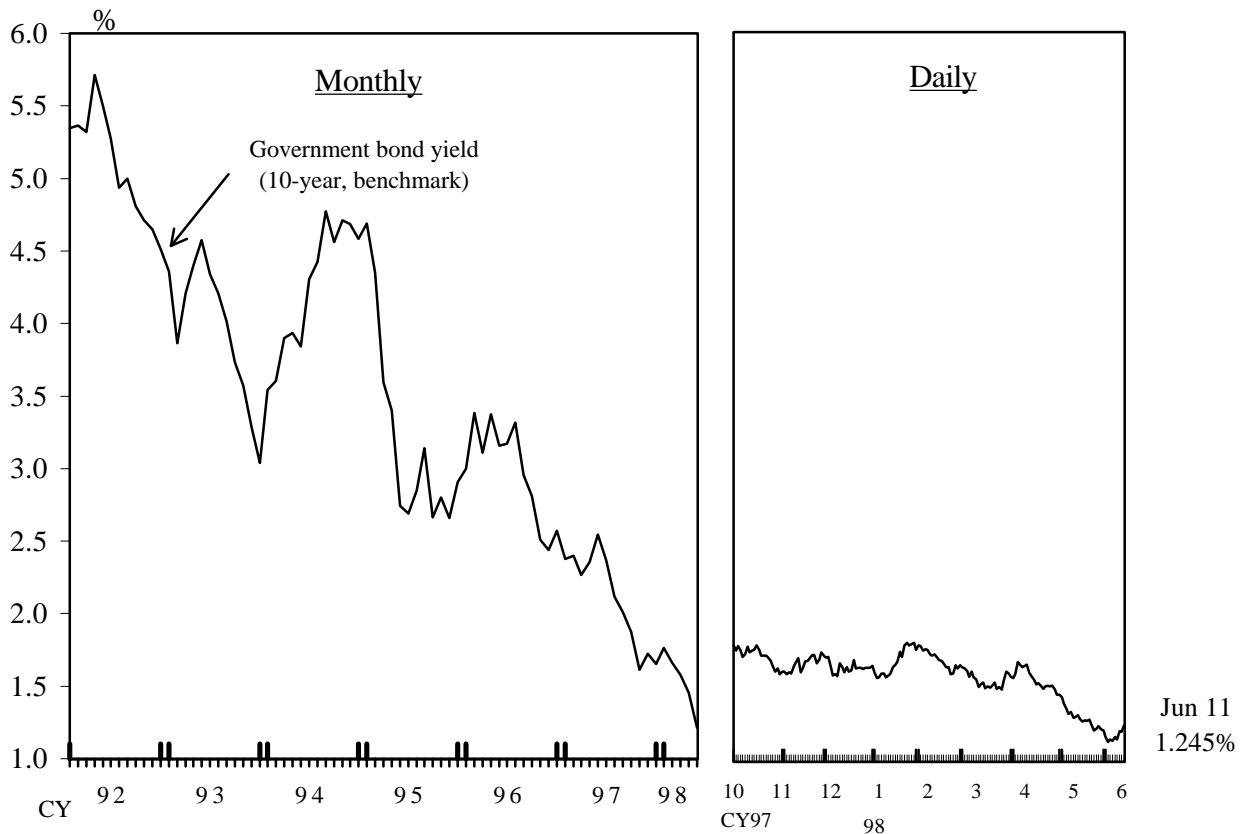
Source: The Land Institute of Japan, "A Quarterly Land Price Index."

Interest Rates

(1) Short-Term



(2) Long-Term



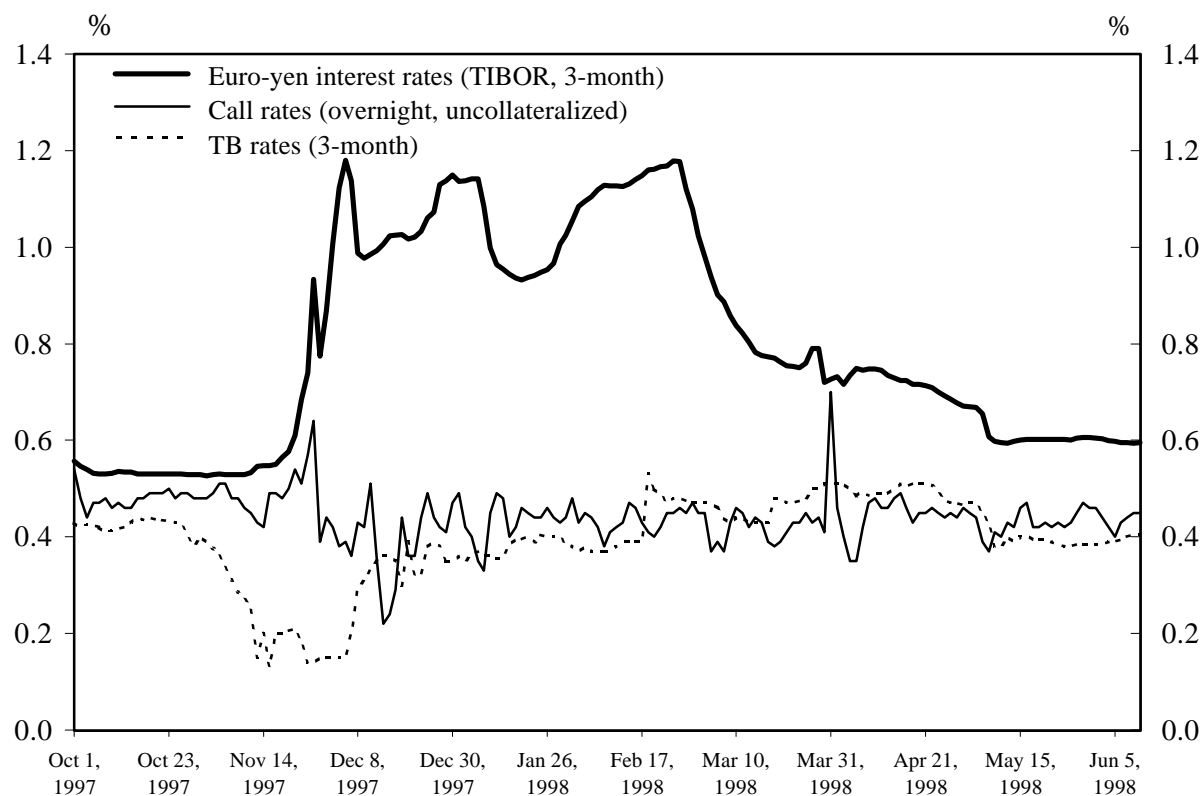
Source: Bank of Japan, "Economic Statistics Monthly."

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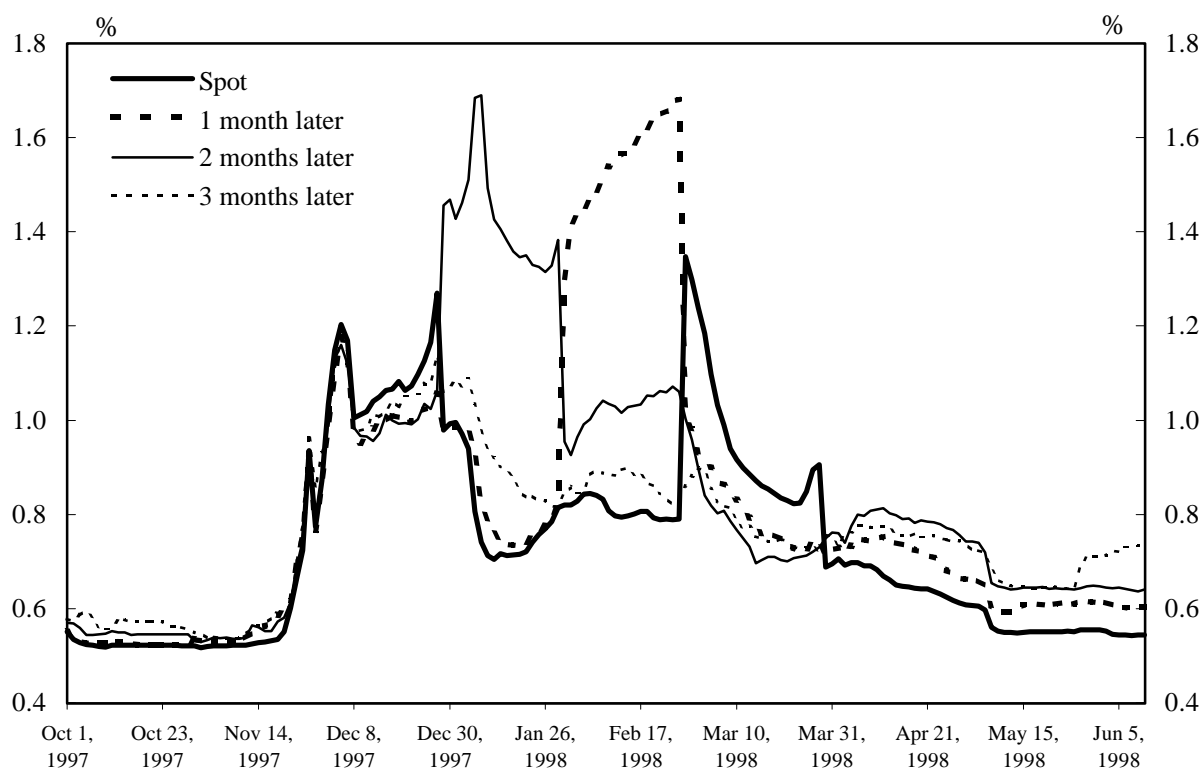
Short-Term Money Market Rates

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## (1) Interest Rates on Term Instruments

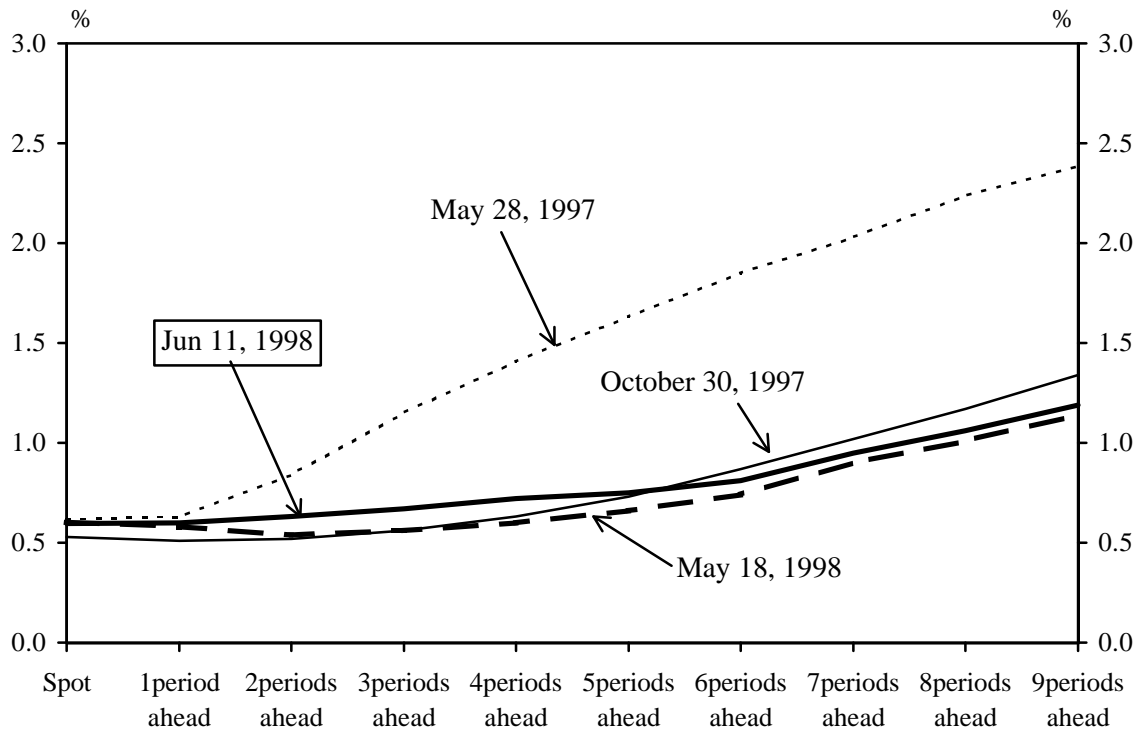


## (2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



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

Euro-Yen Interest Rates Futures (3-Month)

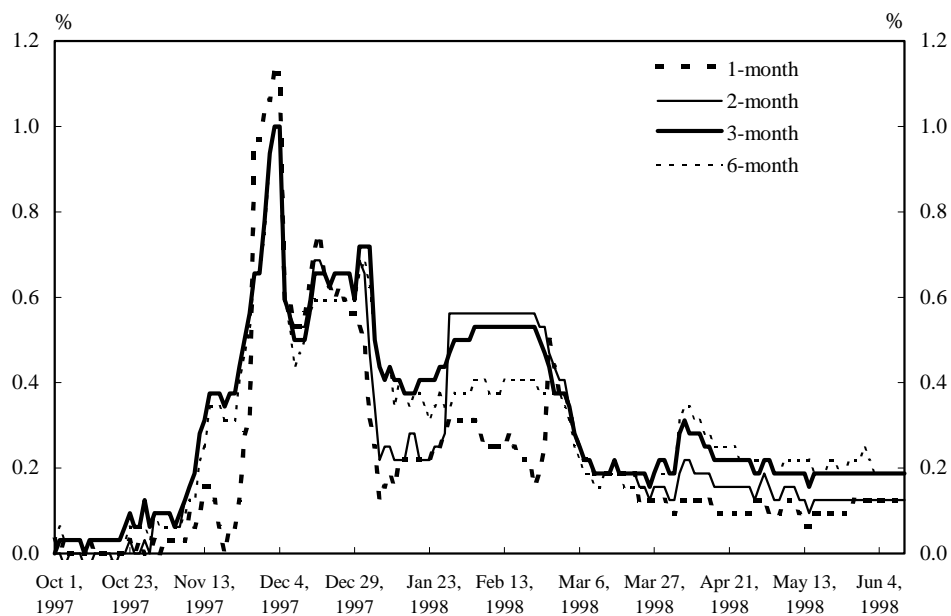


Source: *The Nikkei Financial Daily*.

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**Japan Premium in the Eurodollar Market**

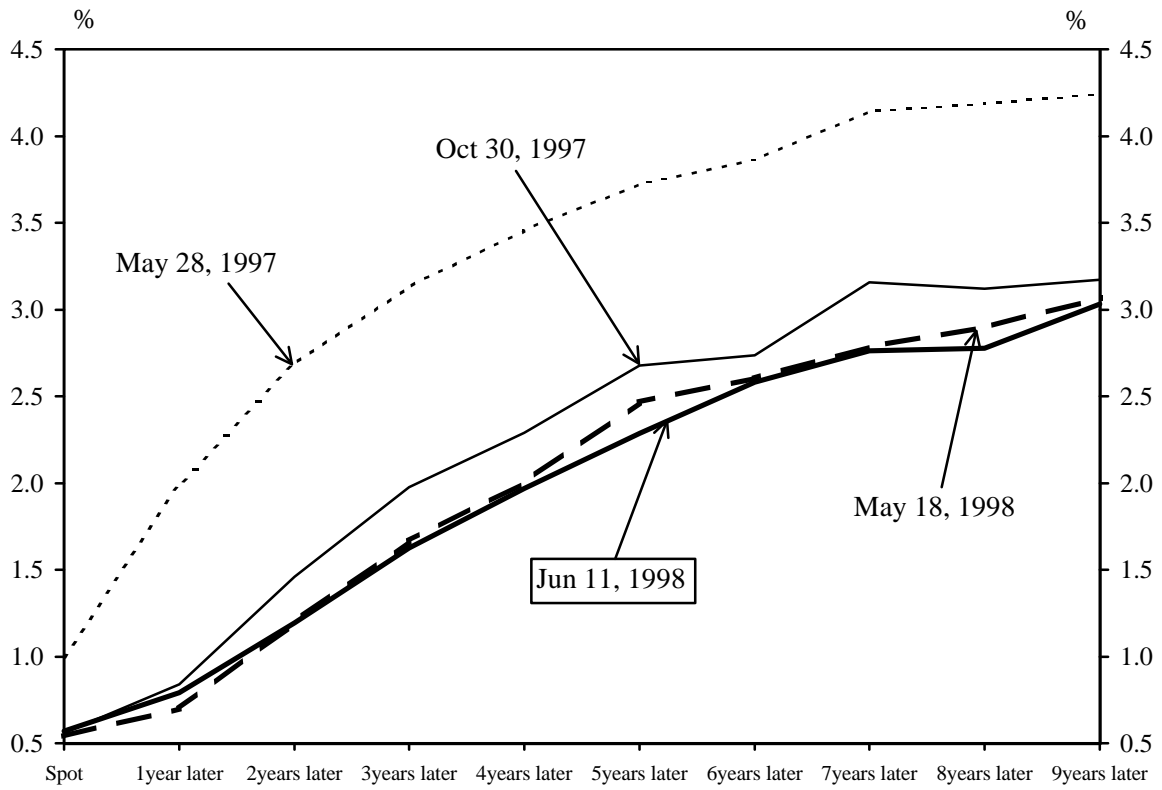
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Note: Japan premium is an extra expense Japanese banks must pay for raising funds in overseas financial markets. Japan premium in this chart is calculated as follows:  
Japan premium = interest rate quoted by Bank of Tokyo-Mitsubishi - interest rate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

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

Implied Forward Rates (1-year)

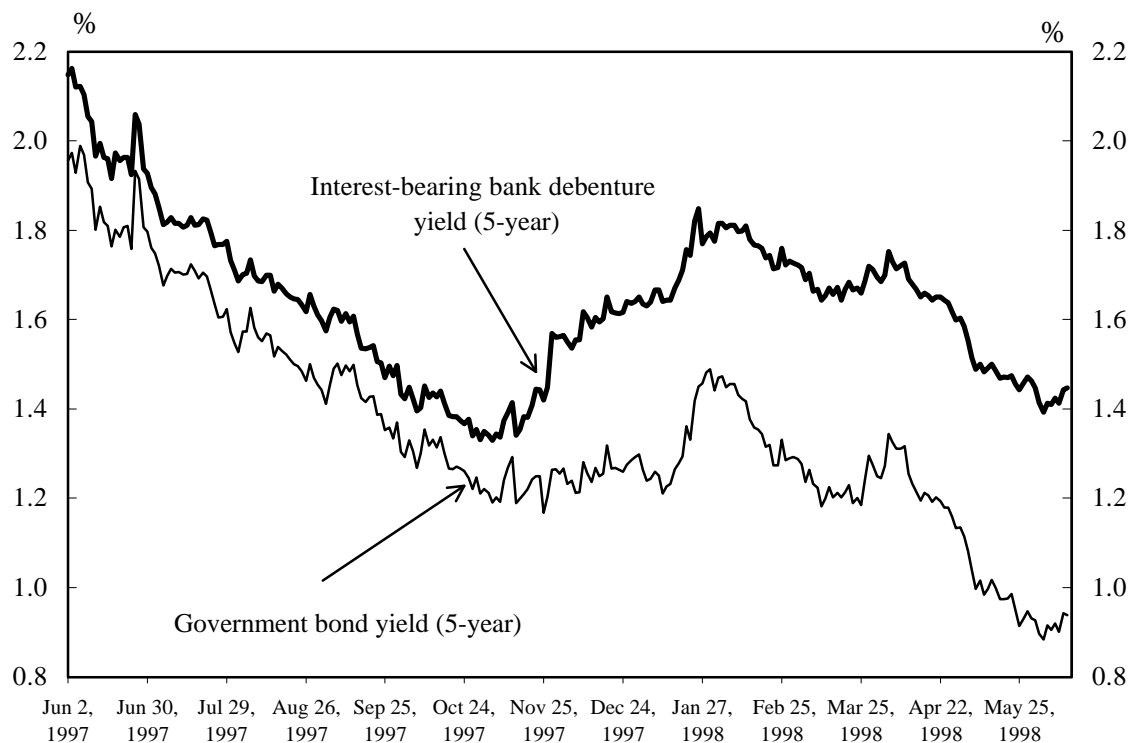


Note: Calculated from yen-yen swap rates.

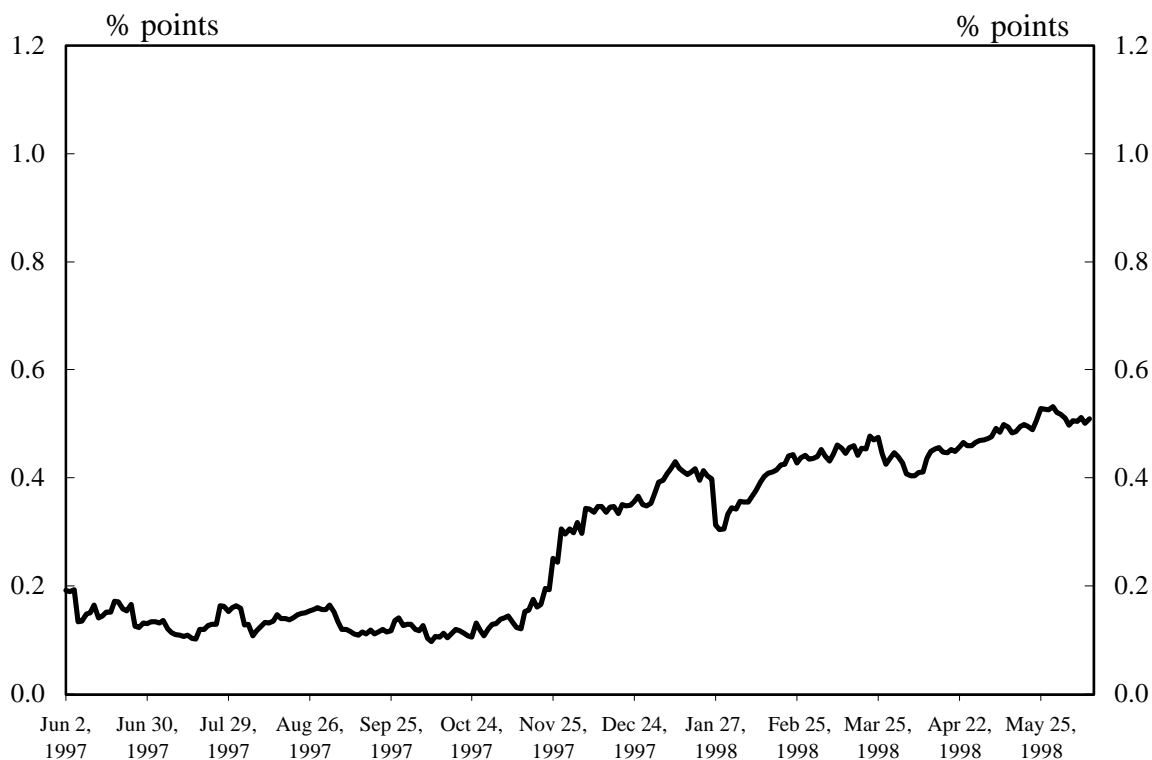
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



(2) Spread of Bank Debenture and Government Bond Yield

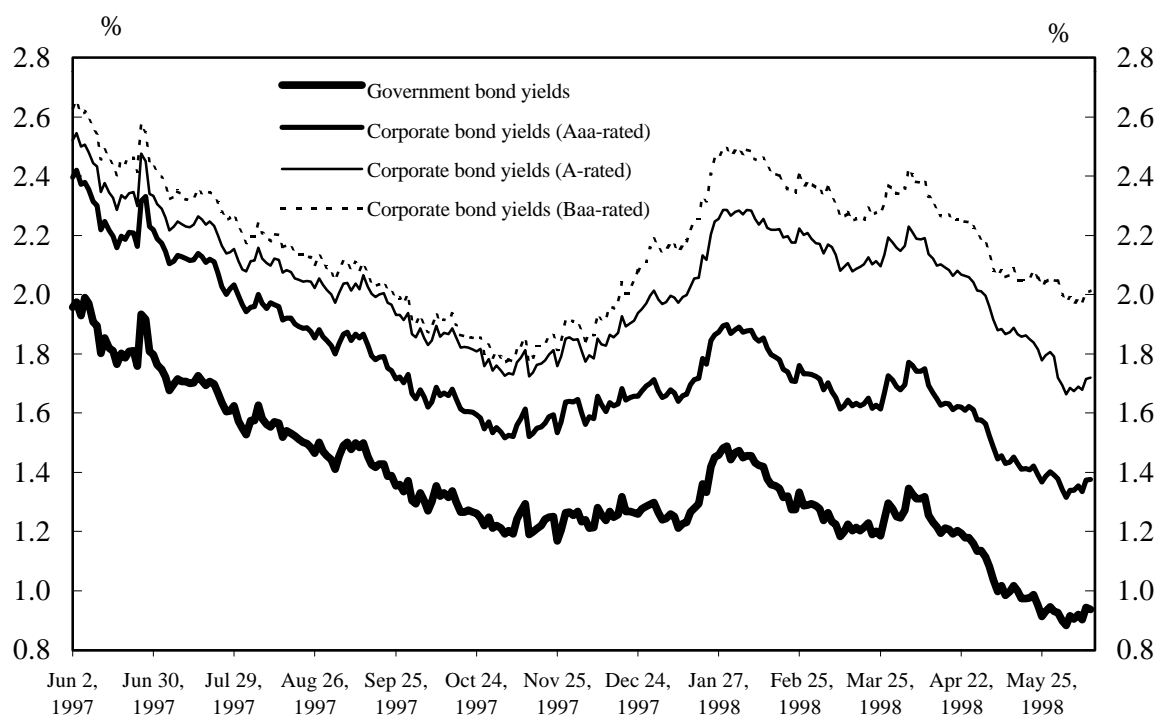


Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

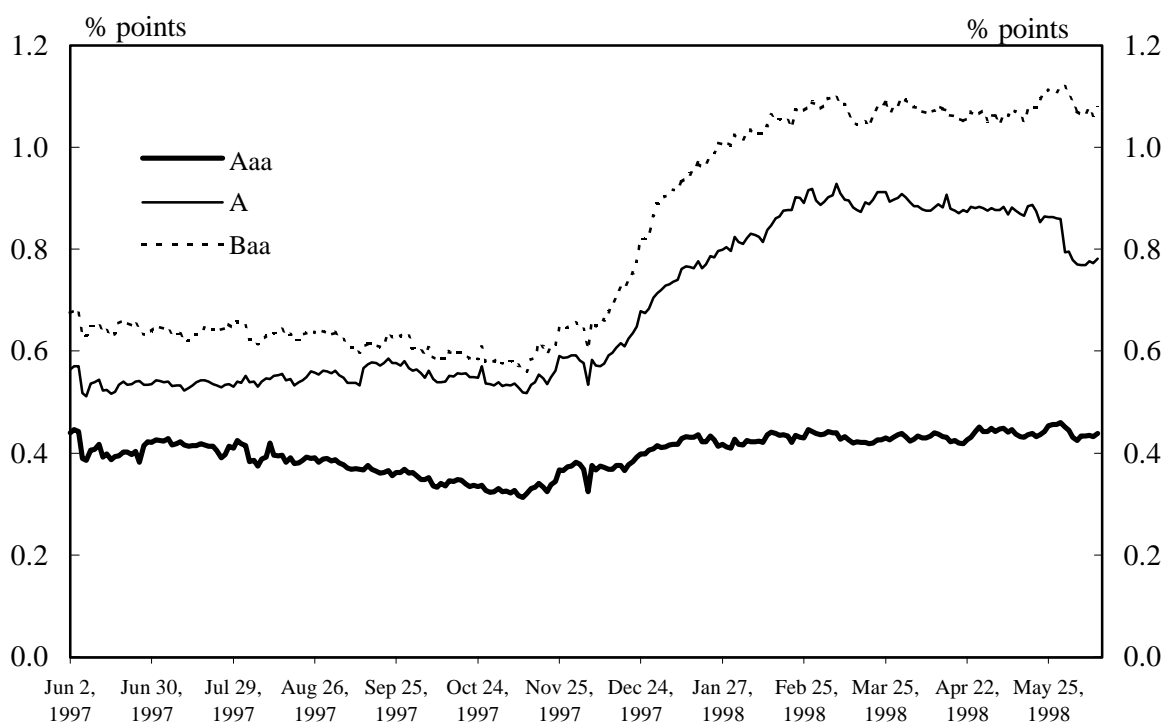


Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds



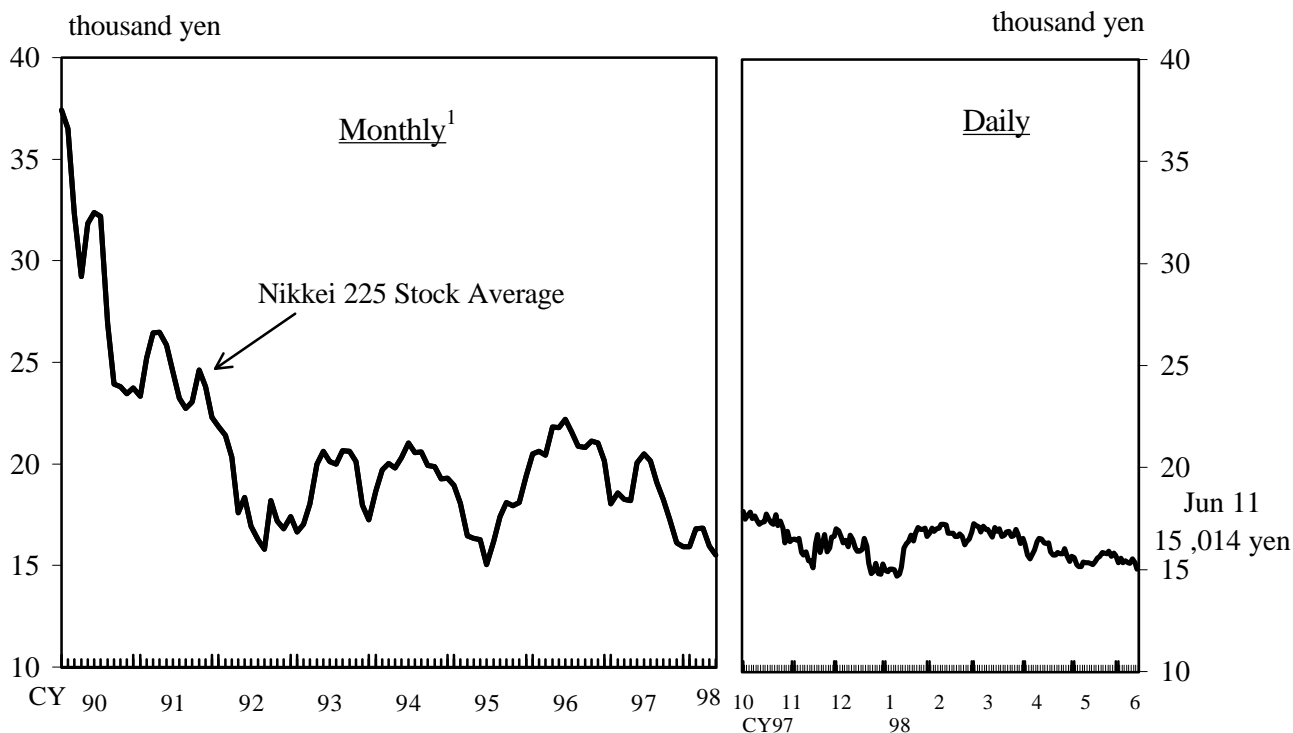
Notes: 1. Yields on bonds with 5-year maturity.

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

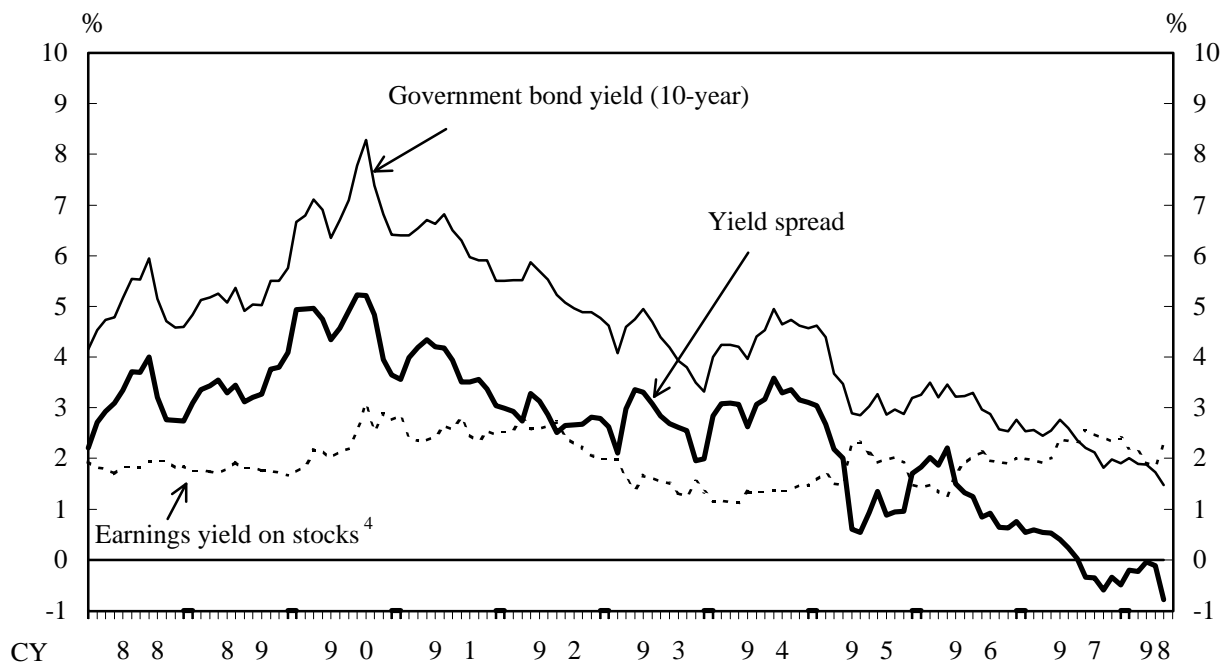
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



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



Notes: 1. Data are monthly averages.

2. Data are at end of period.

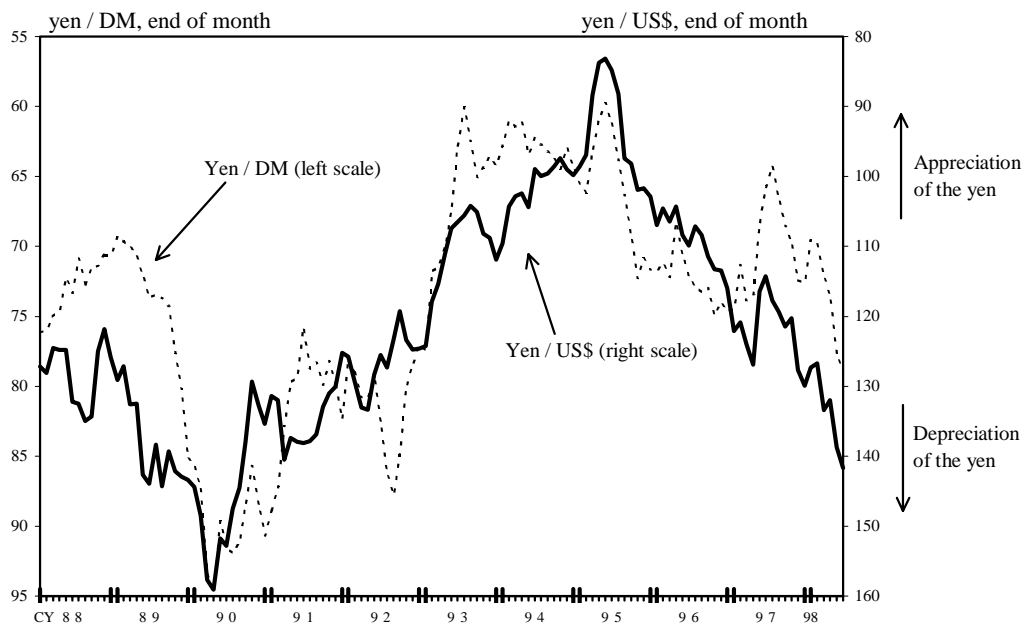
3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.

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

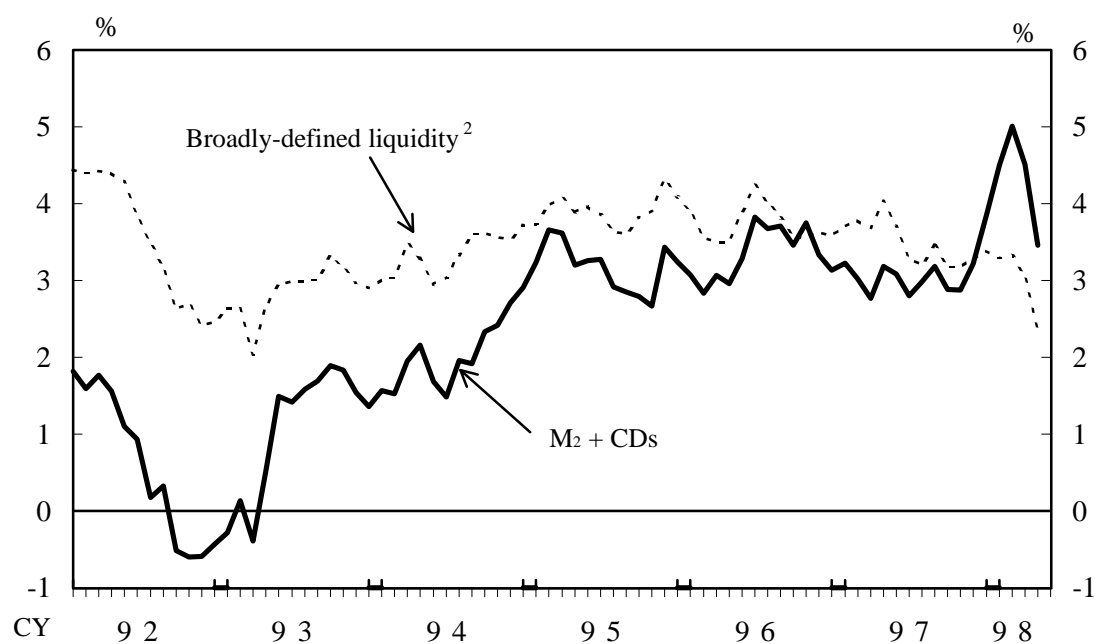
Data are calculated by the Daiwa Research Institute.

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

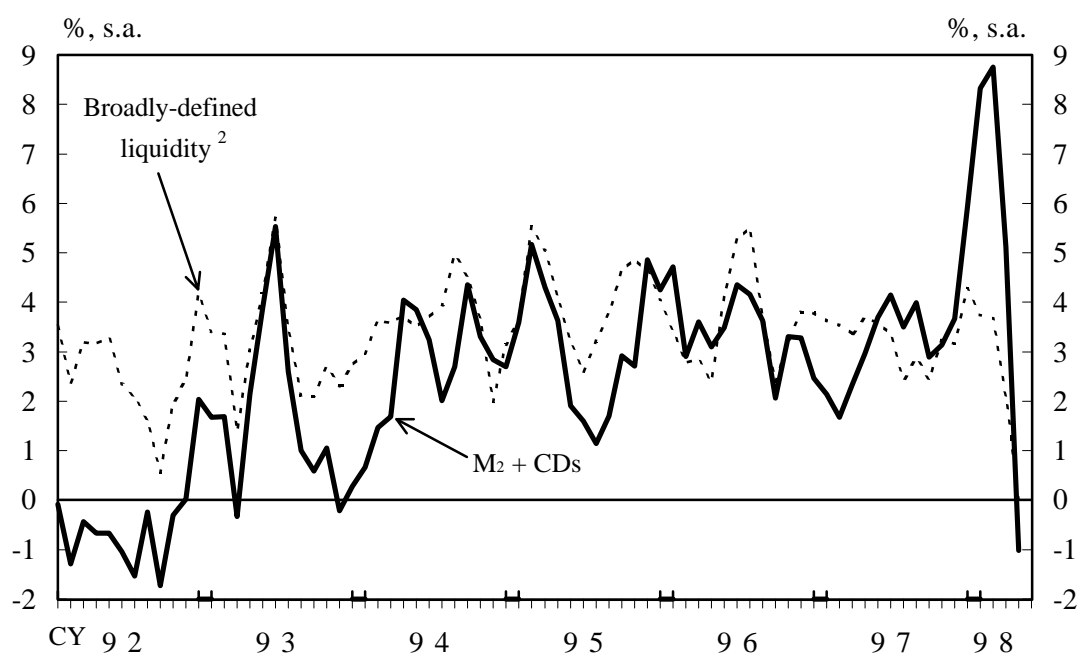
Exchange Rates



Note: Data for Jun 1998 are as of Jun 11, 1998.  
 Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock ( $M_2$ +CDs, Broadly-Defined Liquidity)(1) Changes from a Year Earlier <sup>1</sup>

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



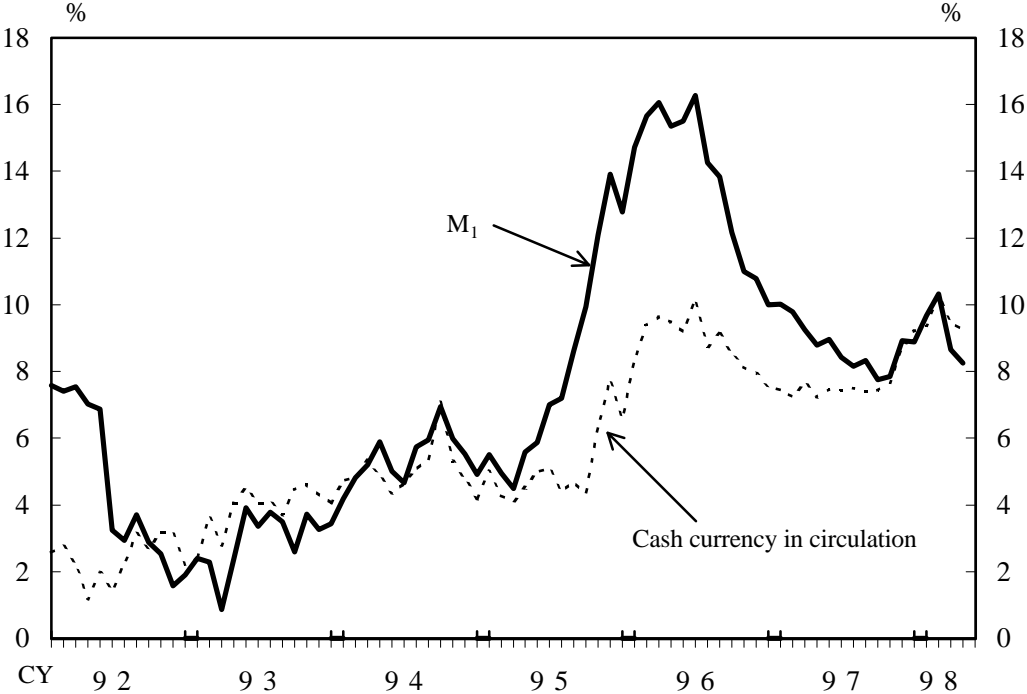
Notes: 1. Percent changes in average amounts outstanding.

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.

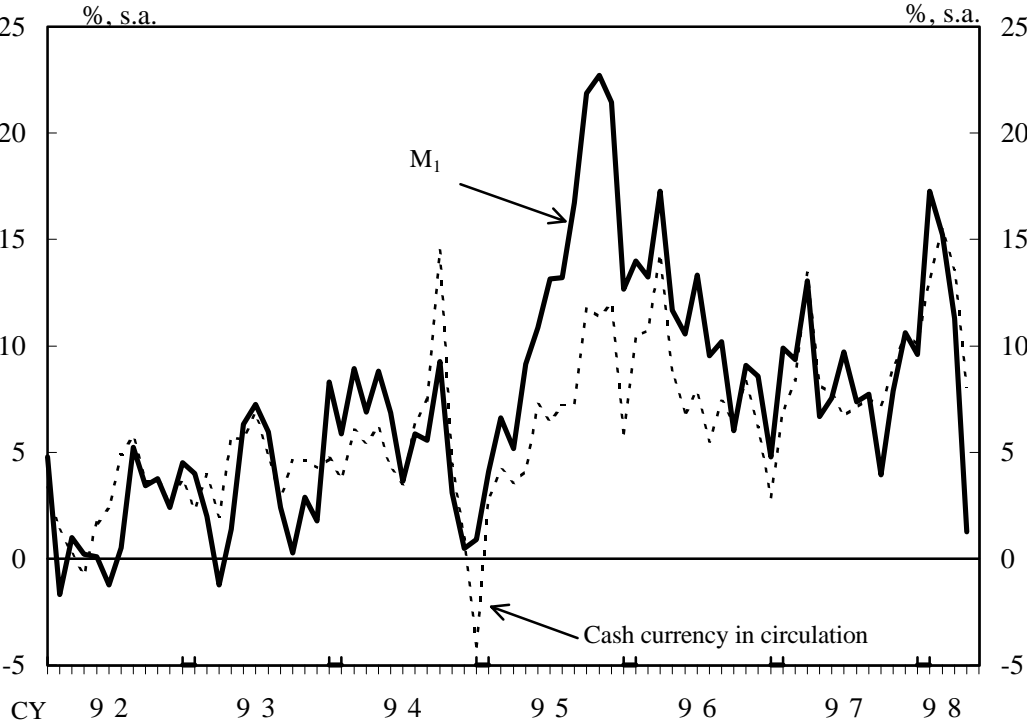
Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier



(2) Changes from Three Months Earlier (Annualized)

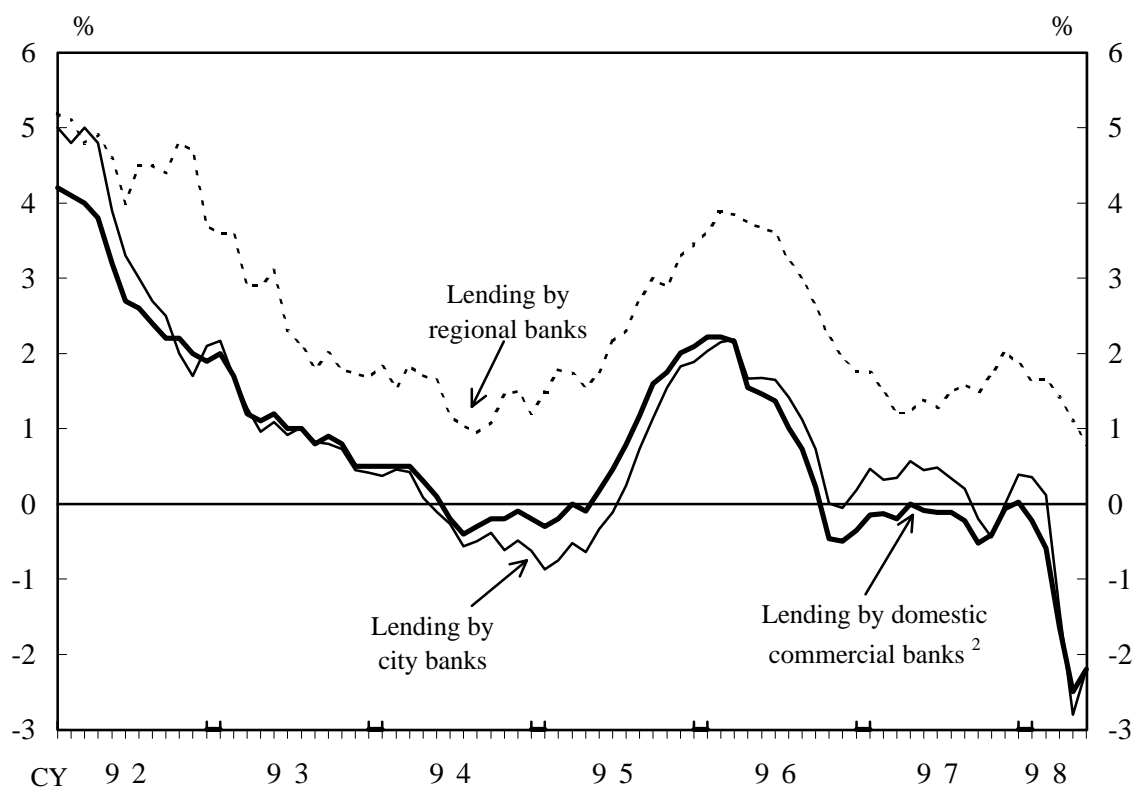


Note: Percent changes in average amounts outstanding.  
Source: Bank of Japan, "Economic Statistics Monthly."

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Lending by Domestic Commercial Banks

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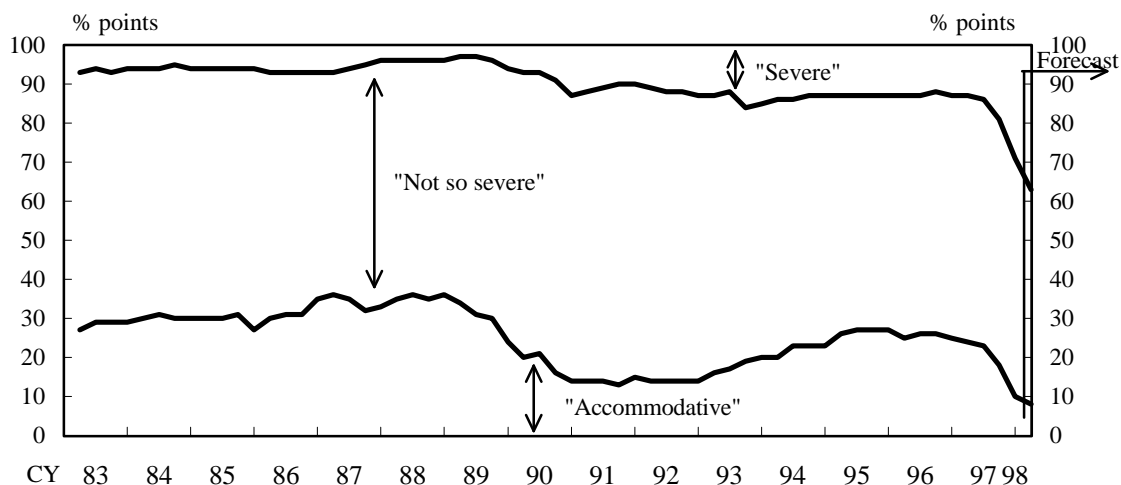
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

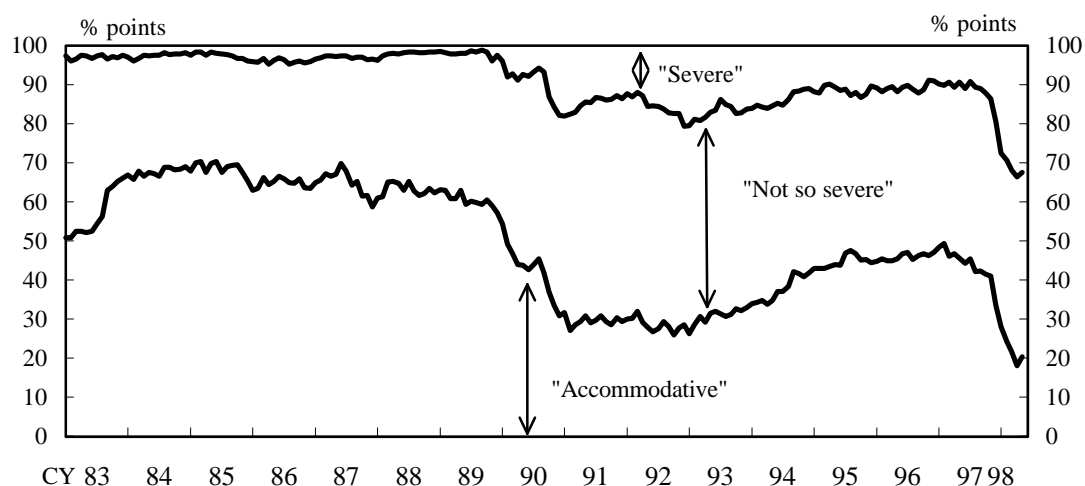
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as perceived by Small Enterprises

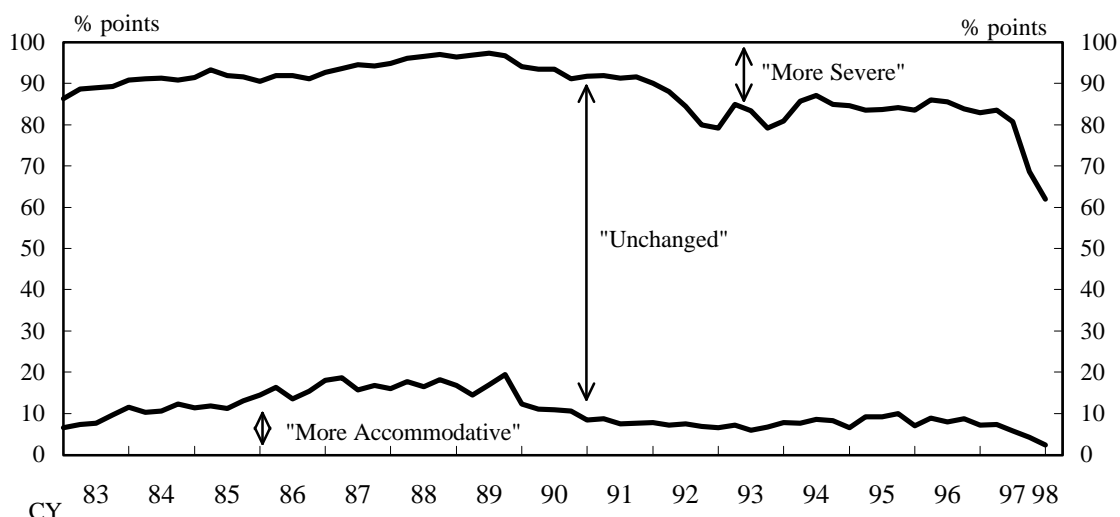
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (March, 1998)



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



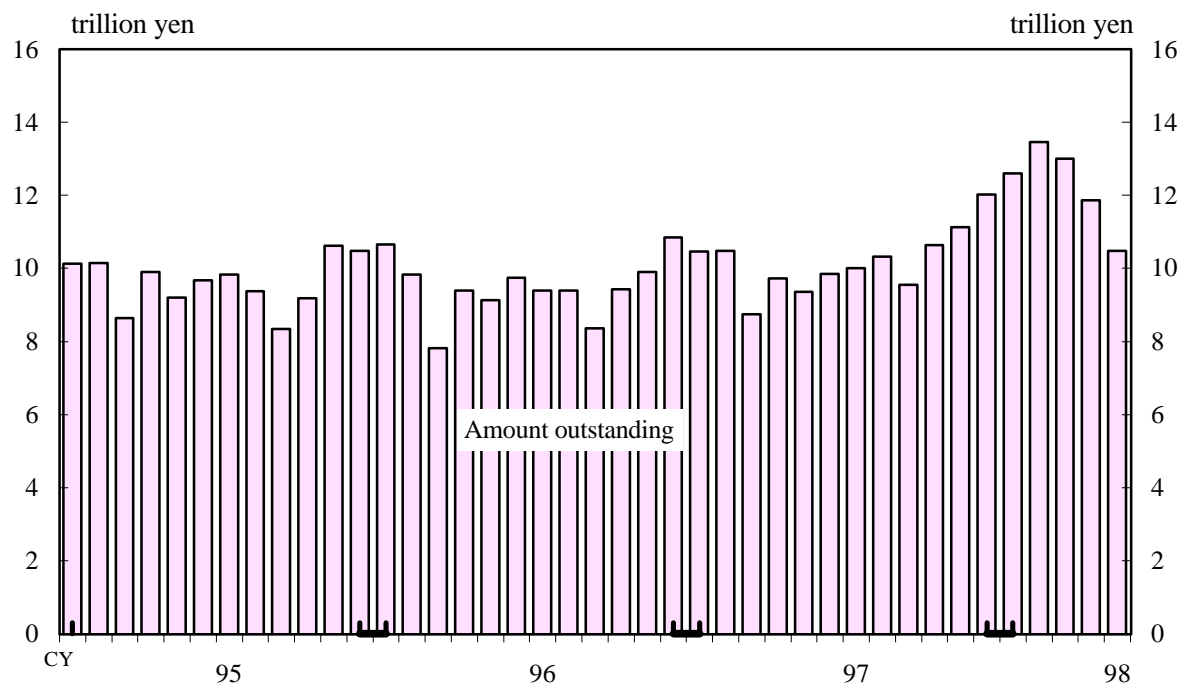
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-March, 1998)



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

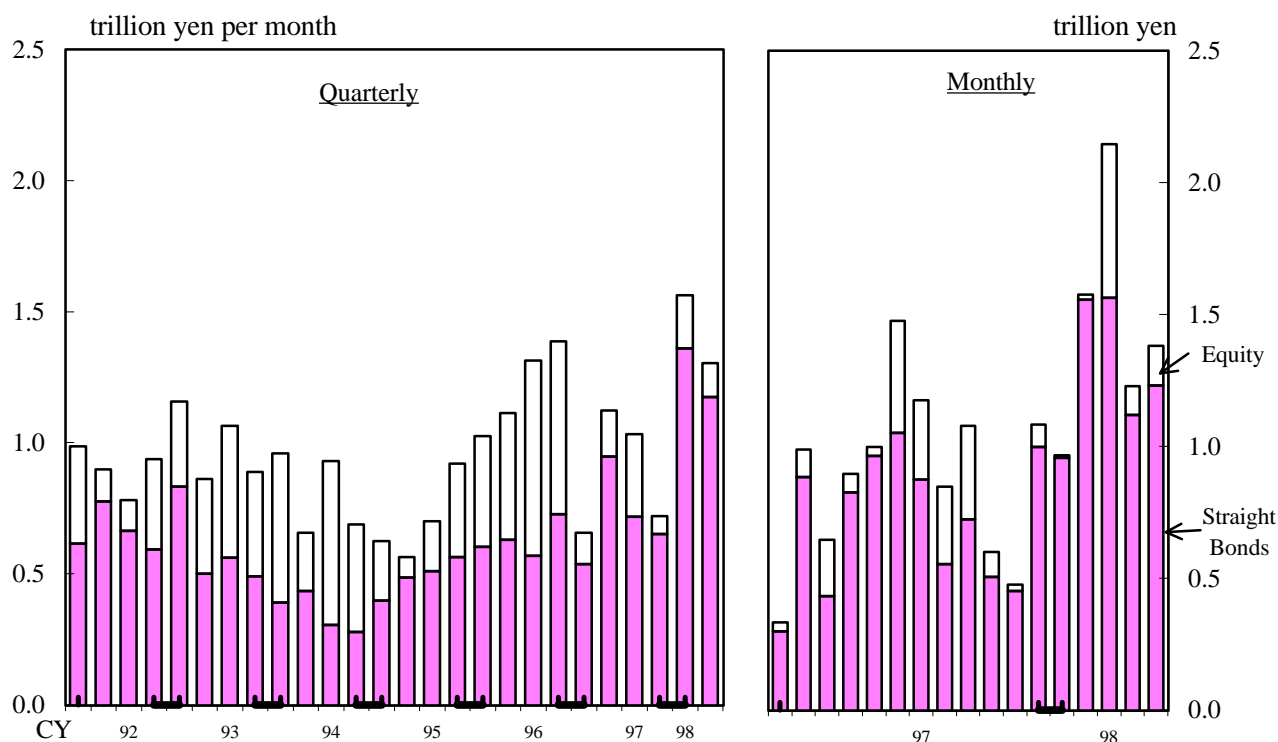
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity



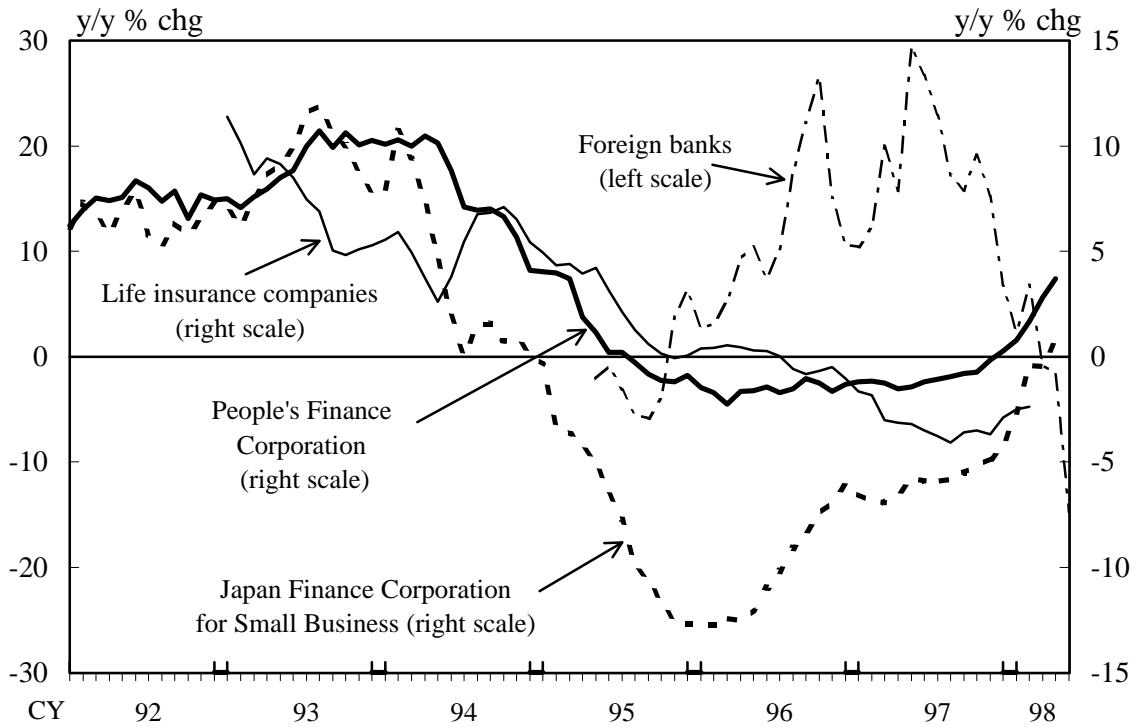
Notes: 1. Data for equity include convertible bonds, bonds with warrants, and new equity issues.  
 2. Figures for 1998/Q2 are April-May average.

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



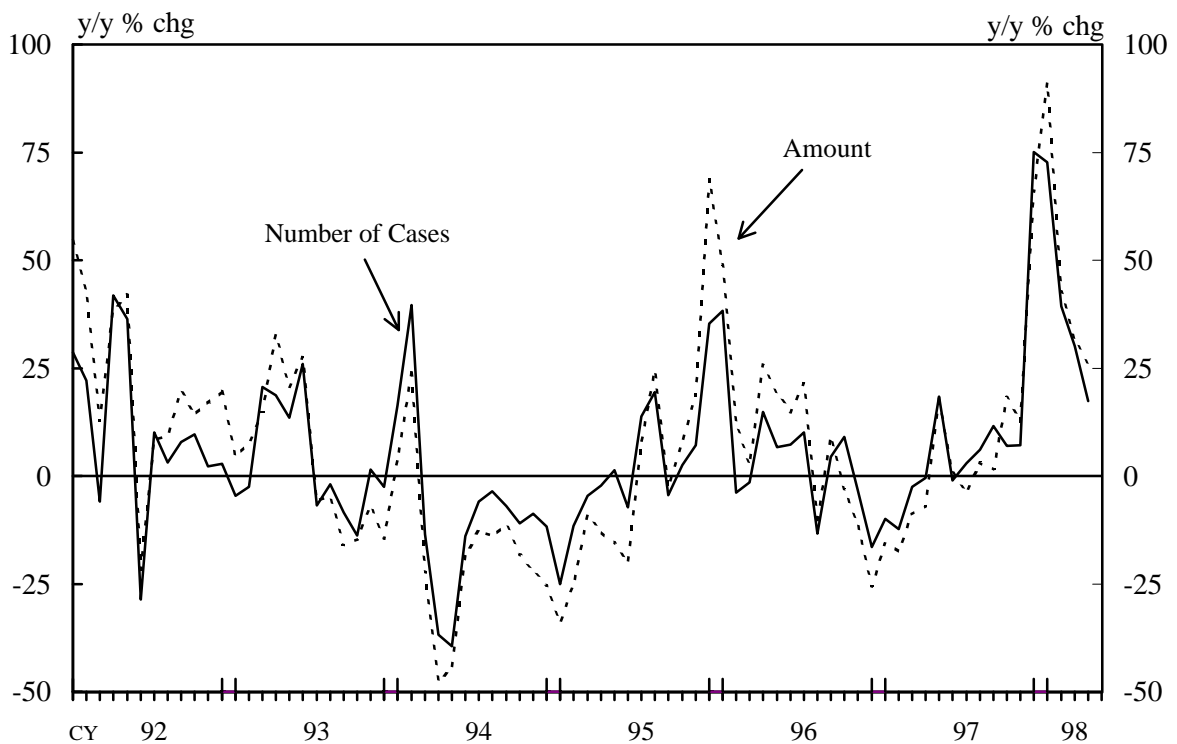
Lending by Other Financial Institutions

(1) Lending Outstanding



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

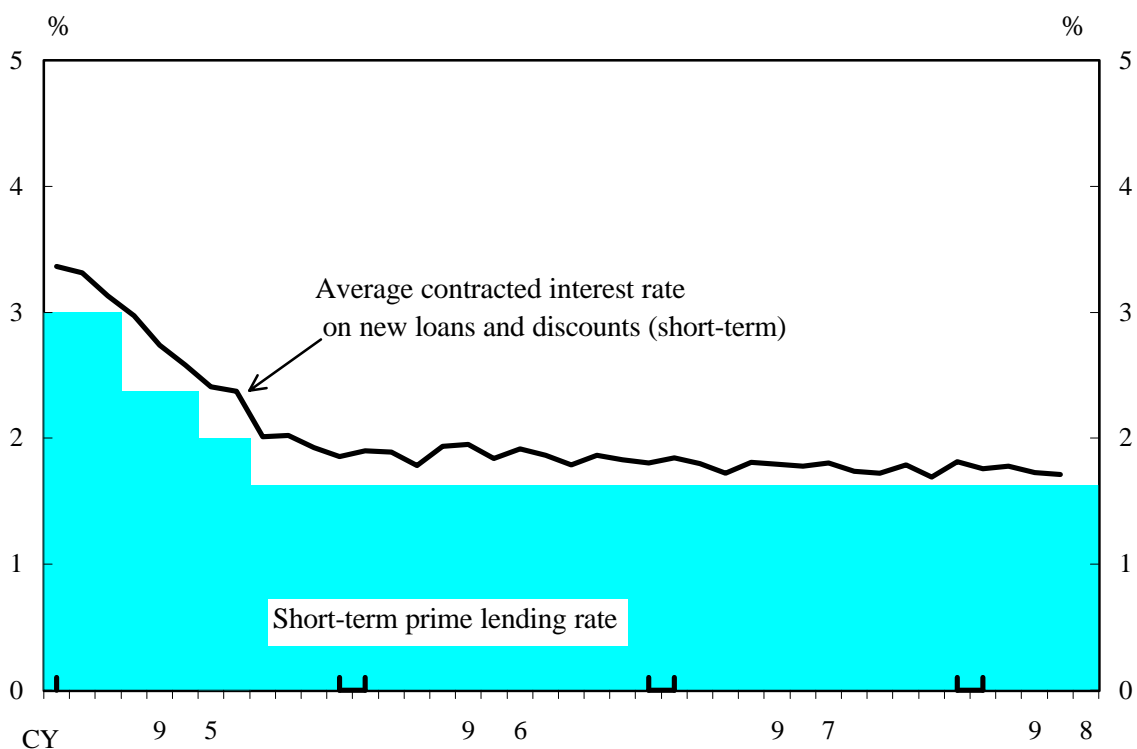
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

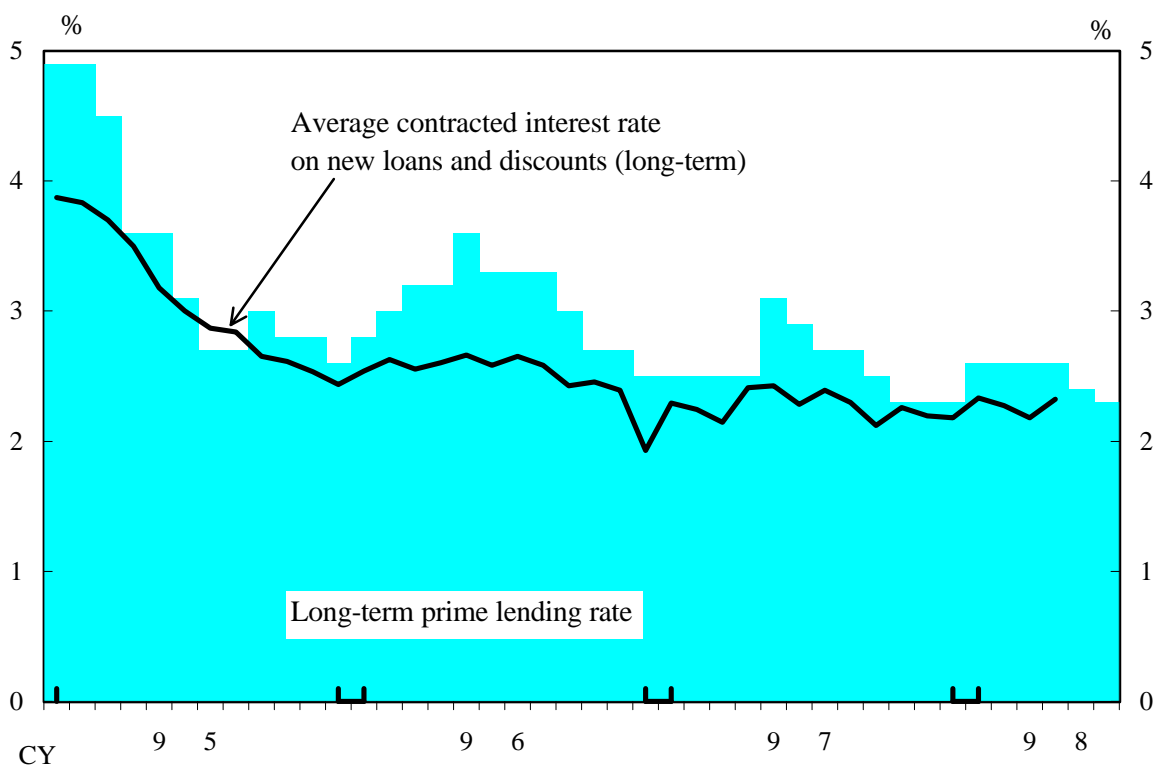
Lending Rates

(1) Short-Term



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

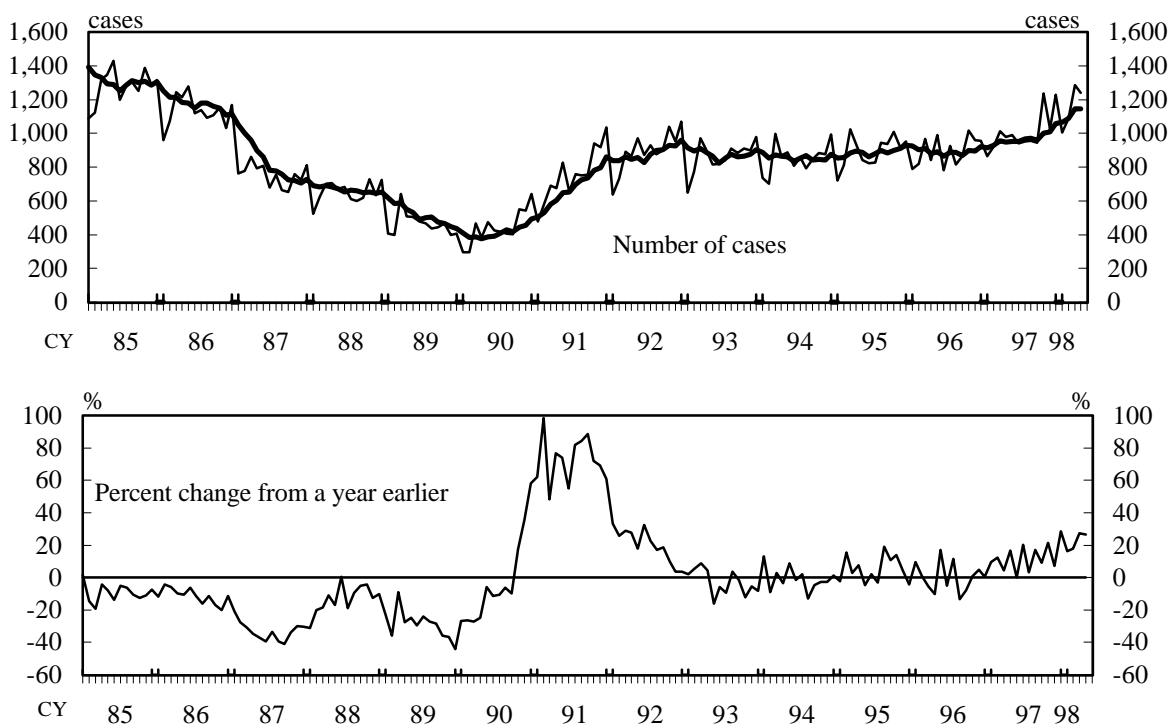
(2) Long-Term



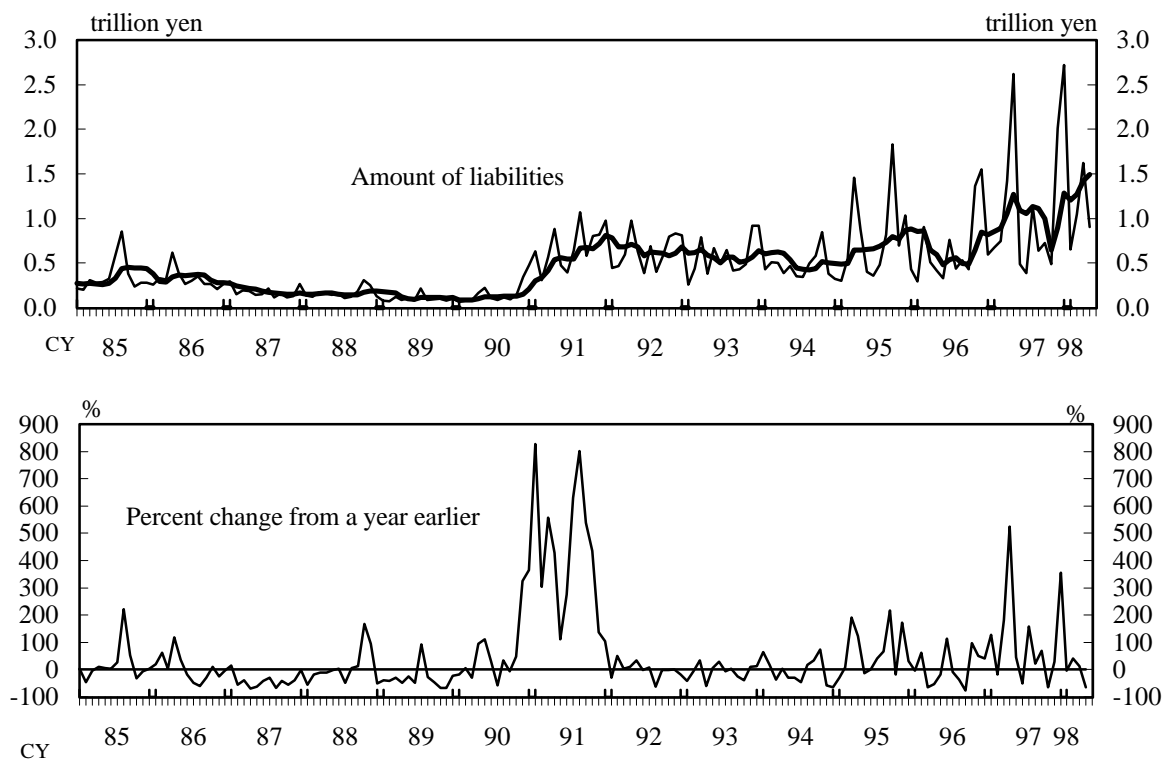
Source: Bank of Japan, "Economic Statistics Monthly."

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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