

August 28, 1998
Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
August 1998

(English translation prepared by the Bank staff based on the Japanese original
released on August 13, 1998)

Monthly Report of Recent Economic and Financial Developments¹

August 1998

The Bank's View²

Japan's economic conditions continue to deteriorate.

With respect to final demand, public investment seems to have bottomed out. Net exports have resumed to increase mainly due to a decline in imports. However, business fixed investment has been decreasing significantly, and housing investment has weakened further. Private consumption has not yet shown a resumption. Against this background of weak final demand, substantial production cutbacks continue. As a result, inventories have decreased somewhat, but the level is still high. With the decline in expenditure and production, corporate profits continue to decrease, and employee income remains below the previous year's level. In addition, the ratio of job offers to applications has dropped to a historically low level, and the unemployment rate has increased further. As a whole, employment and income conditions have worsened.

Although the above indicates a continued negative interactions of production, income, and expenditure, a further deterioration in the economy is expected to cease gradually from the effects of the comprehensive economic stimulus package including additional public works and the special income tax reduction. Given the current considerably low level of economic activities, however, the positive influence of the package on private demand will likely be limited, and the economy's immediate transition to a self-sustained recovery is hardly expected. In these circumstances, the relevant bills have been submitted to the Diet to rebuild the stability of the financial system. Moreover, the new administration is planning to launch new economic

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on August 11, 1998.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on August 11, as the basis of monetary policy decisions.

stimulus measures, including additional public investment in the supplementary budget for fiscal 1998 and the reduction in personal income taxes and corporate taxes. The materialization of these policies along with their effects on corporate and household sentiment should be carefully monitored.

With regard to prices, wholesale prices are on a downtrend, and consumer prices (excluding the effects of institutional changes³) remain 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 is weakening. In addition, the expansion in the output gap in the economy is expected to slow in line with the implementation of the comprehensive economic stimulus package. Nevertheless, reflecting the present large output gap, the downward pressure from domestic factors is unlikely to weaken considerably, and hence, prices are likely to be weak for some time.

As for financial markets, yields on long-term government bonds and stock prices rose toward mid-July 1998 reflecting growing anticipation for permanent tax cut. However, they have declined since then as a wait-and-see posture has prevailed among market participants with the growing attention to the concrete measures of the new administration's economic policies. Meanwhile, Euro-yen interest rates and the Japan premium indicate strong market concerns regarding credit risks of financial institutions and liquidity risks at end-September 1998, the end of the first half of fiscal 1998.

With respect to monetary aggregates, growth in M_2 +CDs has been slowing, reflecting the sluggish private bank lending. These developments basically reflect the further decline in the credit demand of private firms with the worsening of overall economic activities, along with the continued cautious lending stance of private banks.

³ The rise in medical service charges due to the medical insurance system reform of September 1997.

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 careful monitoring.

The Background

1. Japan's Economy

With regard to public-sector investment (Chart 2), the value of public works contracted, which reflects orders, seems to have bottomed out along with the implementation of works under the supplementary budget for fiscal 1997. With the implementation of works under the supplementary budget for fiscal 1998, which was passed in June, public-sector investment should turn towards an increase gradually.

As for real exports (Charts 3 to 5), exports to the United States and Europe, particularly the latter, remain firm, but exports to Asia are declining sharply due to the substantial decreases in domestic demand in some Asian countries. However, the decline in exports to Asian countries eased somewhat in comparison to the first quarter, when some of these countries had been faced with strong limitations on the availability of foreign currency. As a result, real exports overall showed a slight decrease in the second quarter on a quarter-to-quarter basis after a sharp decline in the first quarter. Meanwhile, real imports are declining for a wide range of items, reflecting the stagnation of domestic demand in Japan and the severe cutbacks in industrial production, and the amount of decline expanded in the second quarter. Consequently, net exports turned to an increase in the second quarter after a decline in the first quarter, in terms of the real trade balance.⁴ The nominal current account surplus decreased slightly in April-May because of a temporary decline in the income surplus⁵ after the successive expansion through the first quarter due to the reductions in import prices of raw materials such as crude oil.⁶

⁴ 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).

⁵ The income surplus decreased sharply in April because of the worsening profits at the Asian branches of Japanese financial institutions. In May, however, the income surplus rebounded after this factor had subsided.

⁶ The ratio of the nominal current account surplus to GDP was 2.3 percent in the second quarter of 1997, 2.4 percent in the third quarter, 2.8 percent in the fourth quarter, and 2.9 percent in the first quarter of 1998.

As for the future environment for foreign trade, the real effective exchange rate of the yen has dropped slightly below the levels that prevailed around the spring of 1997 (Chart 6(1)). The United States and Europe are expected to maintain good economic performance overall (Chart 6(2)). The stagnation of domestic demand in Japan is likely to continue for the time being. Basically, these factors facilitate an increase in net exports. Some Asian countries, however, are likely to continue economic adjustments for some time, and thus the future increase in net exports is likely to be gradual.

Business fixed investment has been declining sharply. During the first quarter, business fixed investment recorded a large drop on a GDP basis (-5.1 percent quarter-to-quarter on a seasonally adjusted basis), and shipments of general capital goods, which reflect the trend of business fixed investment, declined substantially during the second quarter.⁷ Leading indicators, such as machinery orders and nonresidential construction starts, continue to decline in both the manufacturing and nonmanufacturing sectors (Chart 7-1). Thus, business fixed investment is presently in an adjustment phase.

As for the future developments, judging from the worsening in corporate profits and the large decline in equipment operating ratios, business fixed investment is not expected to recover immediately from the present adjustment phase. According to the Bank of Japan's *Tankan – Short-term Economic Survey of Enterprises* of June 1998, business fixed investment plans at small firms showed pronounced weakness, and other surveys also indicate that small firms are taking an increasingly cautious investment stance amid the further worsening of corporate profits and the continuing harsh corporate financing environment (Chart 7-2). In light of this, business fixed investment at small firms is likely to continue declining rapidly. In these circumstances, the implementation of the comprehensive economic

⁷ On a seasonally adjusted basis, shipments of general capital goods declined by a quarter-to-quarter 2.6 percent in the fourth quarter of 1997, 0.6 percent in the first quarter of 1998, and 10.3 percent in the second quarter.

stimulus package will become full-scale; measures to rebuild the stability of the financial system will be materialized; and the new administration is planning to launch additional economic stimulus measures, including reductions in personal income taxes and corporate taxes. The effects of these factors on corporate sentiment should be carefully monitored.

As for private consumption (Chart 8), sales of household appliances, particularly televisions and VCRs, increased in June, but sales at department stores and chain stores remain lackluster. Sales of passenger cars declined for two consecutive months after a temporary increase in May. Outlays for services such as travel remain weak. According to these recent indicators, private consumption shows little sign of recovery and continues to move back and forth. Recently announced consumer surveys indicate that consumer sentiment is again becoming cautious mainly against the background of the deterioration in employment conditions (Chart 9).⁸

As for housing investment (Chart 10), housing starts (in terms of the seasonally adjusted annual rate) had remained at a low level of around 1.30 million units since the summer of 1997, but have fallen further since April and declined to 1.21 million units in June.

Regarding the outlook for household expenditures, the special income tax reduction incorporated into the supplementary budget for fiscal 1998 is expected to underpin household income to some extent. Household income conditions, however, continue to deteriorate, and consumer sentiment may weaken further,

⁸ However, according to the June Family Income and Expenditure Survey, the propensity to consume rose sharply (from 69.7 in May to 77.0 in June). It should be noted, however, that in this survey the propensity to consume is prone to fluctuate, and irregular factors may have influenced the June figures: (1) On the income side, bonuses and other irregular payments were lower than indicated by the Monthly Labor Survey, and (2) on the expenditure side, purchases of passenger cars increased sharply, while the number of new passenger car registrations remained sluggish. Thus, the survey is not enough to conclude that consumer sentiment has improved.

depending on future employment conditions. Therefore, future trends in private consumption will continue to warrant careful monitoring, including the contents of the reductions in personal income taxes and corporate taxes and the influence of these tax cuts on consumer sentiment.

Reflecting these developments in final demand, industrial production marked a large decline in the second quarter (-5.2 percent quarter-to-quarter on a seasonally adjusted basis;⁹ Chart 11) due to substantial production cutbacks in general machinery, which reflected the slump in business fixed investment, and in steel and transportation equipment for the purpose of reducing inventories. As a result, among inventories in the manufacturing industry (Chart 12), those of some final demand goods, such as automobiles, have declined substantially. There is, however, a large accumulation remaining for many goods such as production goods, and thus overall inventory ratios are still at a high level. According to industry interview surveys and other data, industrial production in the third quarter is likely to remain on a downward trend, as the stagnation of final demand is expected to continue and further inventory adjustments are needed as a whole.

Employment and income conditions have deteriorated further due to the stagnation of final domestic demand and the substantial decline in industrial production. 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 June, the ratio of job offers to applications fell to 0.51, matching the lowest level ever recorded (in January 1978) since the start of the statistics in 1963. The unemployment rate rose to 4.3 percent, and has been breaking the historical highs posted since the beginning of the statistics in 1953. The following factors explain this worsening of the labor market (Chart 14). (1) The number of corporate bankruptcies continues to rise. (2) There is a rapid increase in perceptions of excess employment, especially at small firms. (3) The recent growth rate of the number of

⁹ The quarter-to-quarter decline was the second largest since the start of the statistics in 1953, ranking after the 6.7 percent drop recorded in the first quarter of 1975.

employees has decelerated substantially in the construction, wholesale, and retail industries, which created new jobs during the employment adjustment phase in the early 1990s. As regards wages (Chart 15), while overtime compensation remains well below the previous year's level, the growth of regular compensation is slowing down, and special payments also remain below the previous year's level with sluggish summer bonuses.¹⁰ The growth in the number of employees is also slowing. As a result, the year-to-year decline in employee income has recently been gradually expanding.

2. Prices

With regard to price developments, import prices (Chart 17(1)) are reducing the speed of decline on a contracted currency basis, reflecting developments in international market commodity prices, and are firming on a yen basis because of the depreciation of the yen. Domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates; Chart 17(3)) are almost unchanged recently, although still weak, due to the substantial slowing in the rate of decline for goods closely related to international market commodity prices. However, the prices of steel and construction-related materials continue to drop due to inventory adjustment pressures, and the prices of machinery are still falling because of intensifying sales competition. Overall, domestic wholesale prices remain on a declining trend. (Domestic wholesale prices declined by a quarter-to-quarter 0.5 percent in the first quarter and 0.8 percent in the second quarter, and by 0.2 percent in July compared to the second quarter).

¹⁰ According to a Japan Federation of Employers' Associations (Nikkeiren) survey on the results of bonus negotiations, which mainly samples principal enterprises, 1998 summer bonuses increased by 1.40 percent over 1997. Although this is a substantial decline in the growth rate compared to the previous year's figure (+ 3.73 percent), it is still a net increase. In contrast, according to the Monthly Labor Survey that includes small firms (with at least five workers), June bonuses dropped below the previous year's level, posting a decline of 1.6 percent. These statistics seem to indicate that summer bonuses at small firms decreased from the previous year's level.

As for corporate service prices (Chart 18(1)), the year-to-year decline in the second quarter was slightly larger than that of the first quarter due to price reductions for leasing, rentals, and advertising. (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 -0.2 percent in the second quarter).¹¹

With respect to consumer prices (excluding perishables) on a year-to-year basis (Chart (18(2))), prices of goods continued to decline and the increase in service-related prices also slowed down recently. Thus, the year-to-year increase for the second quarter continued to shrink. (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 0.1 percent in the second quarter). As a result, excluding the effects of the rise in medical service charges due to the medical insurance system reform of September 1997, the year-to-year rate of increase dropped from about 0.1 percent in the first quarter to around -0.3 percent in the second quarter, falling below the previous year's level.

As for land prices (Chart 19), commercial and residential land prices are both declining somewhat faster, reflecting the worsening of the economic conditions.

Regarding the environment for prices overall, along with the effects from the depreciation of the yen, the downward pressure on domestic prices from import prices is weakening, and the full-scale implementation of the comprehensive economic stimulus package is expected to stop the expansion of the output gap gradually. Considering the present level of the output gap, however, even after accounting for the effects of the economic package, the downward pressure on prices from domestic factors is unlikely to ease substantially, and hence overall prices are likely to be weak for some time.

¹¹ The year-to-year changes in corporate service prices and consumer prices prior to the second quarter of 1998 are adjusted to exclude the effects of the rise in the consumption tax rate from three to five percent in April 1997 (calculations by the Bank of Japan).

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets (Charts 20(1) and 21 to 23) show that with the ample provision of funds by the Bank of Japan, the overnight call rate (uncollateralized) generally remained slightly below the official discount rate of 0.5 percent.

Euro-yen interest rates and the Japan premium declined somewhat after they rose significantly toward the end of June with the heightened awareness toward financial problems at a certain bank. Nevertheless, they are still about 0.1 to 0.2 percent higher than the levels that had prevailed until the middle of June. The one-month implied forward rates (calculated from Euro-yen interest rates) for contracts extending beyond the half-year settlement (that is, contracts starting in September and closing in October) have been at a high level. These developments indicate strong market concerns regarding the credit risk of financial institutions and liquidity risk at the end of the first half.

Yields on ten-year government bonds (benchmark) (Chart 20(2)) rose to around 1.45 percent in the middle of July, reflecting growing anticipation of permanent tax cuts. Recently, however, yields have fallen to below 1.2 percent as a wait-and-see posture prevailed among participants paying growing attention to the concrete measures of the new administration's economic policies. Analyses of long-term interest rates show that one-year implied forward rates (calculated from yen-yen swap rates; Chart 24) have dropped for almost all maturities since mid-July.

As for yields on private bonds – bank debentures and corporate bonds – (Charts 25 and 26), the yield differential between bonds issued by the private sector and by the government has remained basically steady. However, the yield differential between bank debentures and government bonds widened toward the end of June with the heightened awareness toward financial problems at a certain bank, and still remains at a high level in spite of its decline thereafter. This suggests deep-

rooted concerns on the capital market regarding credit risk, especially the credit risk of financial institutions.

In parallel to the developments in ten-year government bonds, stock prices (Chart 27(1)) briefly rose beyond 16,500 yen in mid-July, but softened somewhat thereafter, and are presently moving around 15,500 yen. This weak tone apparently relates to the decline of stock prices on U.S. markets to some degree. Reflecting these developments in stock prices, the yield spread (the government bond yield minus the expected earnings on stocks; Chart 27(2)) is still at a low level, which indicates continued market pessimism about future growth and uncertainty over corporate earnings.

On the foreign exchange market (Chart 28), the yen was generally holding between 138 and 142 yen to the U.S. dollar in July, but dropped back from the end of July as market concerns focused, once again, on the difference between economic performance in Japan and the U.S. The yen is presently moving between 145 and 147 yen to the U.S. dollar.

(2) Monetary Aggregates and Corporate Finance

The year-on-year growth in money stock (Charts 29 and 30) in terms of $M_2 +$ CDs had been rising sharply from the end of last year through the beginning of 1998 but then slowed, and was around 3.5 percent for the second quarter of 1998. (The year-on-year growth in $M_2 +$ CDs was 3.3 percent for the fourth quarter of 1997, 4.7 percent for the first quarter of 1998, and 3.6 percent for the second quarter). The growth in broadly-defined liquidity has generally been decelerating since the middle of 1997.

Regarding fund-raising by private firms, which is closely related to developments in money stock, lending by private banks (monthly average outstanding balance basis; Chart 31), such as city banks, long-term credit banks, trust banks,

regional banks, and regional banks II, remains stagnant and has been declining by over 2.0 percent year-on-year ever since April. The lending stance of private banks remains cautious with a view to improving profitability and financial soundness from a middle-term perspective. Firms with high credit standing continue to issue a large volume of corporate bonds on the capital market as noted below, and generally have sufficient access to funds. In contrast, according to survey results, a substantial number of small and medium-sized enterprises still perceive the lending attitude of private banks to be “severe” (Chart 32), indicating that smaller firms are facing a difficult fund-raising environment.¹²

Looking at fund-raising sources other than bank loans (Charts 33 and 34), the issuance of corporate bonds remains at a high level, which basically reflects the fact that corporations with high credit ratings are building up on-hand liquidity for redemption funds.¹³ Lending by government-affiliated financial institutions remains firm overall, and CP issuance is generally holding steady.

While there is some variation by fund-raising route, overall private-sector fund-raising remains sluggish. This may partially be attributed to the continued cautious lending stance of private banks, but more fundamentally, corporate funds demand is becoming still more depressed with the worsening of overall economic activities.

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 June (Chart 35). However, the funding cost for banks remains high, as mentioned above, and the lending margins are on an increasing trend. It is therefore

¹² According to recent surveys by the Ministry of International Trade and Industry covering both large and medium-sized enterprises, the percentage of corporations that feel they are affected by a bank credit squeeze has declined sharply since the beginning of the fiscal year (from 31.9 percent in March to 14.9 percent in May and 18.7 percent in July).

¹³ 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.

necessary to pay attention to the extent that such upward pressures on lending rates will affect the actual fund-raising cost for firms.

Certain firms, especially small 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.¹⁴

¹⁴ The rate of increase in the number of corporate bankruptcies is accelerating recently (Chart 36).

Charts

Chart 1	Main Economic Indicators
Chart 2	Public-sector Investment
Chart 3	External Balance
Chart 4	Real Exports
Chart 5	Real Imports
Chart 6	Overseas Economic Conditions and Real Effective Exchange Rate
Chart 7	Major Indexes of Business Fixed Investment
Chart 8	Private Consumption
Chart 9	Consumer Confidence
Chart 10	Housing Starts
Chart 11	Production, Shipments, and Inventories
Chart 12	Inventory Cycle
Chart 13	Labor
Chart 14	Employment Conditions
Chart 15	Compensation of Employees
Chart 16	Prices
Chart 17	Import Prices and Domestic Wholesale Prices
Chart 18	Corporate Service Prices and Consumer Prices
Chart 19	Quarterly Land Price Index
Chart 20	Interest Rates
Chart 21	Short-Term Money Market Rates
Chart 22	Euro-Yen Interest Rates Futures (3-Month)
Chart 23	Japan Premium in the Eurodollar Market
Chart 24	Implied Forward Rates (1-year)
Chart 25	Yields of Bank Debentures
Chart 26	Corporate Bond Yields
Chart 27	Stock Prices
Chart 28	Exchange Rates
Chart 29	Money Stock (M2+CDs, Broadly-Defined Liquidity)
Chart 30	Money Stock (M1, Cash Currency in Circulation)
Chart 31	Lending by Domestic Commercial Banks
Chart 32	Lending Attitude of Financial Institutions as perceived by Small Enterprises
Chart 33	Private-Sector Fund Raising in the Capital Markets
Chart 34	Lending by Other Financial Institutions
Chart 35	Lending Rates
Chart 36	Corporate Bankruptcies

Main Economic Indicators (1)

y/y % chg.

	97/Q4	98/Q1	Q2	98/Apr.	May	June	July
Index of expenditure level (all households)	-2.3	-4.7	p -0.8	-1.6	-0.3	p -0.5	n.a.
Sales of department stores	-3.0	-9.8	p 0.6	8.1	-0.7	p -5.0	n.a.
Sales of chain stores ¹	-5.3	-7.0	0.3	1.8	0.9	-2.0	n.a.
New passenger-car registrations ²	-13.7	-21.5	-2.1	-4.1	0.1	-2.2	-0.5
Sales of electric appliances (NEBA)	-4.5	-14.1	3.6	0.6	7.4	3.2	n.a.
Outlays for travel (50 major travel agencies)	1.2	-6.2	-2.8	0.0	-3.5	-4.4	n.a.
Housing starts <s.a., ann. 10,000 units>	130	132	123	124	125	121	n.a.
Machinery orders (from private sector ³)	-13.4	-5.8	-21.7	-17.8	-28.6	-18.6	n.a.
Mining & manufacturing	-2.9	-7.6	-23.7	-17.1	-31.7	-21.9	n.a.
Nonmanufacturing ³	-20.4	-4.2	-20.1	-18.1	-26.3	-15.9	n.a.
Construction Starts (private, nonresidential use)	-8.0	-7.8	-13.8	-10.5	-3.1	-25.3	n.a.
Manufacturing	-1.4	-7.2	-25.9	-27.4	-20.0	-29.5	n.a.
Nonmanufacturing ⁴	-10.5	-8.0	-8.9	-3.2	3.7	-23.7	n.a.
Value of public works contracts	-9.1	-2.2	-6.2	2.7	-24.4	0.8	n.a.
Real exports <s.a. quarterly (monthly) change>	1.3	-4.9	-0.9	4.8	2.7	-5.1	n.a.
Real imports <s.a. quarterly (monthly) change>	-3.7	-1.5	-7.8	-5.1	-6.4	9.7	n.a.
Industrial production <s.a. quarterly (monthly) change>	-2.5	-1.3	p -5.2	-1.6	-2.0	p 1.3	n.a.
Shipments <s.a. quarterly (monthly) change>	-2.6	-1.1	p -5.1	-2.9	-0.1	p 0.7	n.a.
Inventories <s.a. quarterly (monthly) change>	1.6	0.7	p -2.0	0.1	-1.7	p -0.5	n.a.
Inventories/shipments <s.a. 1995=100>	107.0	112.9	p 110.8	116.0	114.4	p 110.8	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	97/Q4	98/Q1	Q2	98/Apr.	May	June	July
Ratio of job offers to applications <s.a., times>	0.69	0.61	0.53	0.55	0.53	0.51	n.a.
Unemployment rate <s.a., %>	3.46	3.65	4.18	4.13	4.14	4.26	n.a.
Overtime working hours ⁵	-2.5	-5.4	p -9.3	-9.9	-8.1	p -9.9	n.a.
Number of employees	1.0	0.0	-0.6	-0.6	-0.5	-0.8	n.a.
Number of regularly employed ⁵	0.8	0.6	p 0.1	0.2	0.1	p 0.1	n.a.
Nominal wage per person ⁵	0.7	-0.1	p -0.9	-0.7	-0.7	p -1.0	n.a.
Domestic wholesale prices index ⁶	-1.0 (0.9)	-1.6 (0.3)	-2.3	-2.3	-2.3	-2.1	-2.2
Consumer prices index (nationwide) ⁶	0.7 (2.2)	0.5 (2.0)	0.4	0.4	0.5	0.1	n.a.
Excluding perishables	0.8 (2.3)	0.5 (1.9)	0.1	0.2	0.0	0.0	n.a.
Corporate service prices index ⁶	0.0 (1.8)	-0.1 (1.7)	-0.2	-0.1	-0.3	-0.2	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.3	4.7	p 3.6	3.6	3.6	p 3.5	n.a.
Number of suspension of transaction with banks	19.0	20.8	28.9	26.3	37.3	22.8	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.

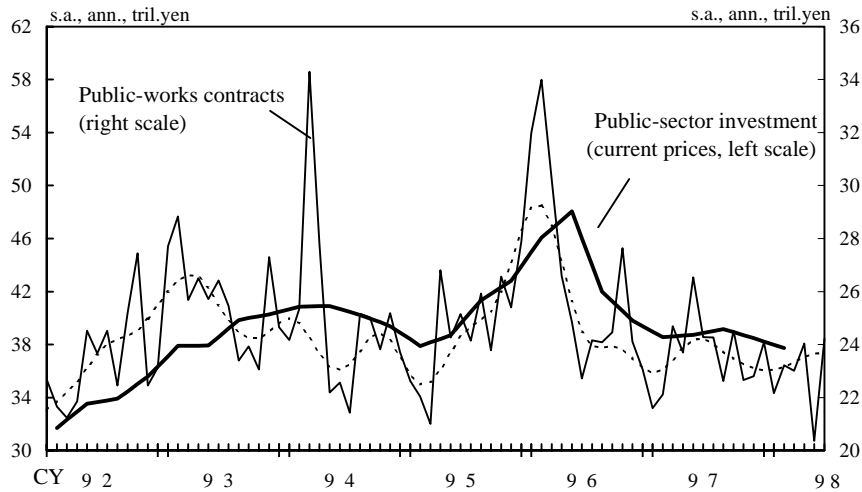
5. Data for firms with 5 regular employees or more.

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 in the tax rate. Figures in parentheses are including the effects of the consumption tax hike.

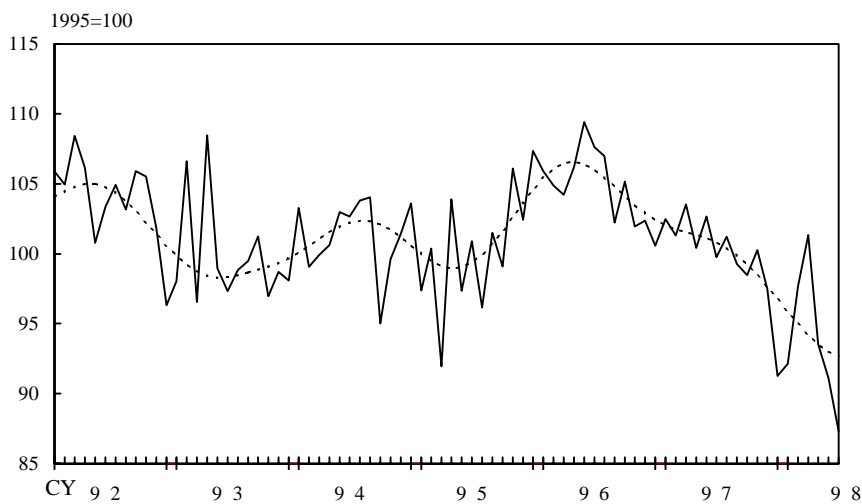
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index"; Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production"; Japan Chain Stores Association, "Sales of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



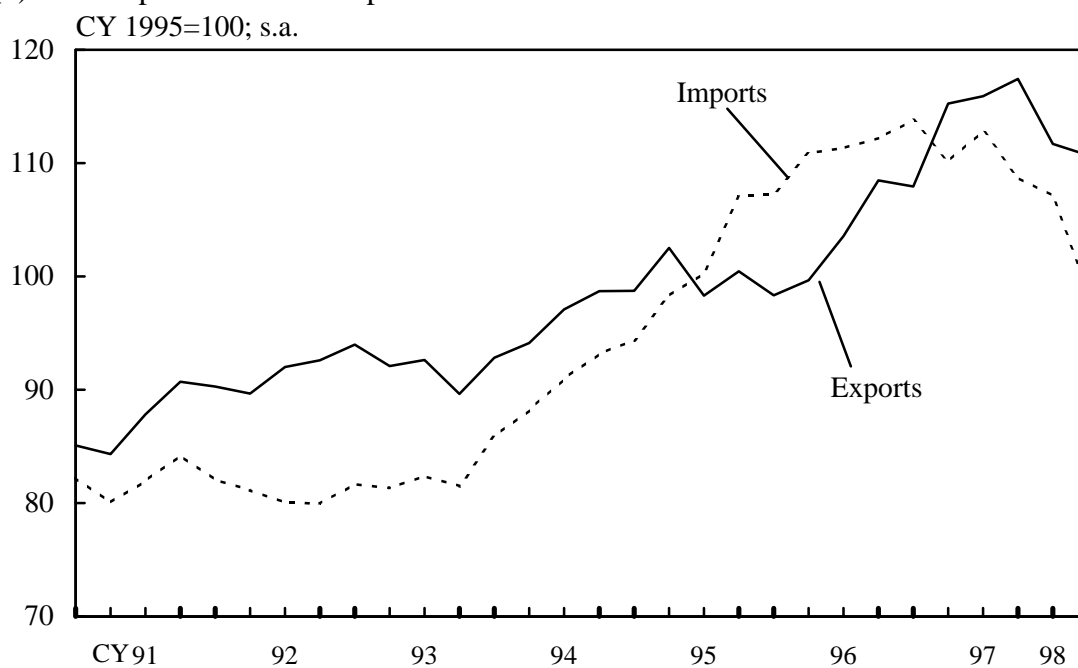
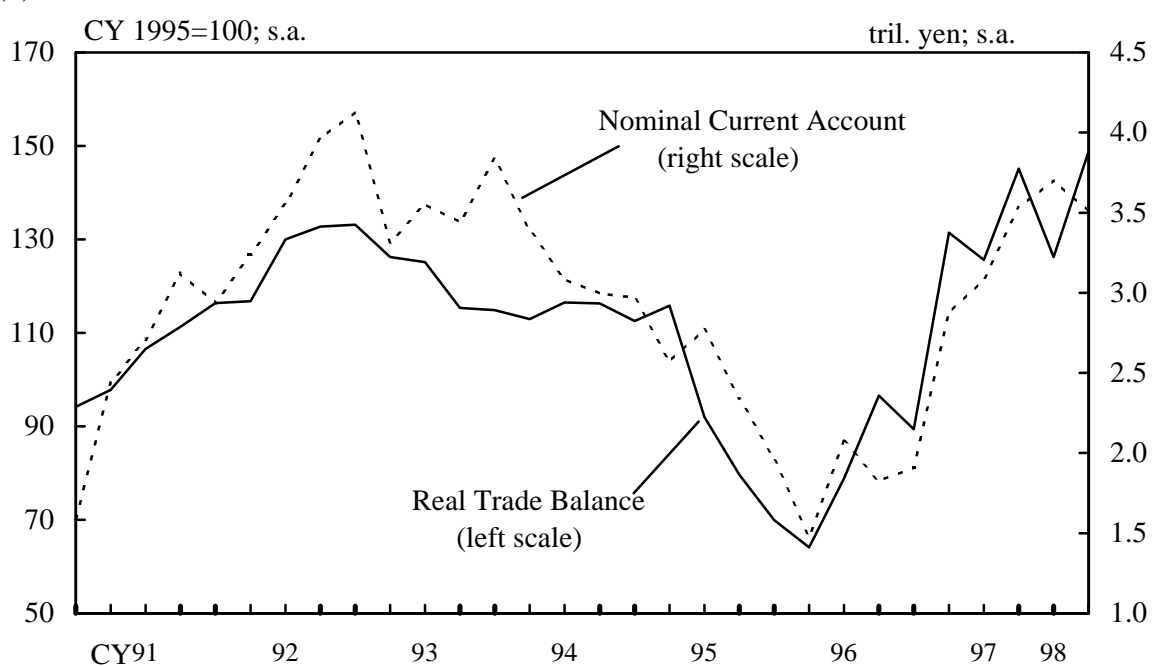
(2) Shipments of Public Works-related Goods



- Notes: 1. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
 2. "Public works-related goods" = asphalt, concrete products for roads, bridges, and cement.
 3. "Public-works Contracts" and "Public Works-related Goods" are seasonally adjusted by X-12-ARIMA(β 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."

External Balance

(1) Real Exports and Real Imports**(2) Real Trade Balance and Nominal Current Account**

Notes: 1. 1998/Q2 figure for Nominal Current Account is Apr-May averages in terms of quarterly amount.

2. Real exports and imports are seasonally adjusted by X-11.

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

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Apr-Jun	97 Jul-Spt	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Apr.	98 May	98 Jun.
United States	<27.8>	1.8	14.6	3.9	0.0	1.8	4.6	-0.8	9.2	-0.9	-2.1
EU	<15.6>	-1.2	13.8	9.4	1.3	5.4	1.3	7.2	7.9	5.1	-4.9
East Asia	<40.6>	6.1	8.6	3.1	0.5	-2.6	-11.7	-7.6	-0.4	-1.0	-5.5
China	<5.2>	11.0	8.2	15.1	-3.9	6.2	-3.9	4.0	10.7	-7.8	-4.9
NIES	<24.0>	3.7	10.5	2.1	3.1	-0.8	-11.4	-8.7	-1.8	0.2	-4.8
Korea	<6.2>	6.2	-1.5	-5.7	-4.0	-2.8	-29.8	-7.0	-3.2	-0.1	-6.7
ASEAN4 ³	<11.4>	8.9	5.0	0.6	-2.8	-10.0	-16.0	-11.3	-3.6	0.9	-7.7
Thailand	<3.5>	3.3	-11.6	-6.0	-11.8	-15.4	-9.6	-2.3	-5.9	25.0	-14.8
Indonesia	<2.4>	0.9	22.6	6.8	3.4	-19.5	-36.0	-26.9	-0.5	-24.7	-0.7
Real exports		2.3	11.2	6.8	0.6	1.3	-4.9	-0.9	4.8	2.7	-5.1

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Apr-Jun	97 Jul-Spt	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Apr.	98 May	98 Jun.
Intermediate goods	<14.7>	5.0	11.2	5.7	1.1	0.7	-3.2	2.3	-0.4	2.0	1.8
Motor vehicles and their related goods	<20.5>	-1.7	14.6	13.5	2.6	-4.2	-3.0	0.7	8.4	-4.5	-0.7
Consumer goods ⁴	<6.9>	-1.9	6.3	3.6	2.2	2.2	2.3	0.7	1.7	4.0	-8.1
Information-related goods ⁵	<18.2>	5.8	18.1	0.6	2.0	1.3	-5.5	-5.3	5.4	0.2	-8.0
Capital goods and parts ⁶	<29.6>	5.1	9.0	5.2	-0.1	3.5	-5.8	-2.8	3.5	10.0	-12.3
Real exports		2.3	11.2	6.8	0.6	1.3	-4.9	-0.9	4.8	2.7	-5.1

Notes: 1. Seasonally adjusted by X-11.

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

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

4. Excluding motor vehicles.

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

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

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

Real Imports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Apr-Jun	97 Jul-Spt	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Apr.	98 May	98 Jun.
United States	<22.3>	15.5	1.1	-1.3	0.6	-0.1	0.5	-4.8	-9.2	2.7	5.9
EU	<13.3>	11.1	-3.6	-9.0	6.3	-7.1	3.4	-8.5	1.3	-13.9	16.4
East Asia	<34.7>	15.1	0.9	-0.1	-0.8	-4.5	-0.2	-6.0	-6.0	-10.3	15.0
China	<12.4>	20.4	8.8	0.1	0.6	-2.9	0.8	-4.7	-6.6	-11.0	12.9
NIES	<10.4>	9.2	-8.1	-0.7	-1.5	-5.6	-0.5	-9.0	-5.3	-8.0	9.5
Korea	<4.3>	0.7	-3.9	2.4	0.4	-8.8	3.7	-10.1	-6.6	-7.4	6.4
ASEAN4 ³	<12.0>	16.4	2.2	0.3	-1.6	-5.2	-0.9	-4.7	-6.0	-11.6	21.9
Thailand	<2.8>	9.4	-0.5	-2.4	0.4	-2.1	-3.5	-2.7	0.5	-14.8	21.4
Indonesia	<4.3>	7.8	-2.3	0.0	-1.6	-8.5	0.1	-4.1	-5.9	-18.5	36.4
Real imports		10.3	0.9	-3.2	2.5	-3.7	-1.5	-7.8	-5.1	-6.4	9.7

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Apr-Jun	97 Jul-Spt	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Apr.	98 May	98 Jun.
Raw materials ⁴	<27.1>	0.5	-0.5	-1.1	1.0	0.1	-4.3	-4.4	-0.4	-10.0	13.4
Intermediate goods	<13.7>	4.6	2.7	-1.1	4.4	-1.5	-2.0	-9.3	-7.0	-4.4	9.6
Foodstuffs	<13.6>	5.1	-3.5	-7.4	6.8	-6.6	0.9	-2.9	4.9	-6.7	0.5
Consumer goods	<10.8>	12.3	-10.0	-7.4	0.0	-9.1	-0.3	-8.9	-6.1	-12.7	13.4
Information-related goods ⁵	<12.5>	36.8	8.0	4.8	-2.4	-3.1	-4.0	-1.2	-1.0	-2.6	15.8
Capital goods and parts ⁶	<11.4>	23.1	13.6	0.4	5.6	0.3	8.0	-10.8	-19.7	0.1	10.8
Real imports		10.3	0.9	-3.2	2.5	-3.7	-1.5	-7.8	-5.1	-6.4	9.7

Notes: 1. Seasonally adjusted by X-11.

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

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

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

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

6. Excluding information-related goods.

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

Overseas Economic Conditions and Real Effective Exchange Rate

(1) Real Effective Exchange Rate ¹

Notes: 1. Monthly average. The figure for August 1998 is Aug. 1-10 average. Calculated by Bank of Japan.

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

(2) Real GDP Growth Rates in Overseas Economies

		CY96	97	98	97 Jul.-Sep.	97 Oct.-Dec.	98 Jan.-Mar.	98 Apr.-Jun.	
United States ¹		3.4	3.9	(2.7)	4.2	3.0	5.5	1.4	
European Union ¹		1.8	2.6	(2.7)	3.3	2.2	n.a.	n.a.	
	Germany	1.4	2.2	(2.7)	2.9	1.2	3.9	n.a.	
	France	1.6	2.3	(2.9)	3.7	3.1	2.3	n.a.	
	United Kingdom	2.5	3.1	(1.7)	3.6	2.5	2.2	2.1	
East Asia ²	China	9.7	8.8	(7.2)	(Jan-Sep) 9.0	(Jan-Dec) 8.8	7.2	(Jan-Jun) 7.0	
	NIEs	Korea	7.1	5.5	(-0.2)	6.1	3.9	-3.8	n.a.
		Taiwan	5.7	6.8	(5.9)	6.9	7.1	5.9	n.a.
		Hong Kong	4.6	5.3	(0.9)	6.0	2.7	-2.8	n.a.
		Singapore	6.9	7.8	(3.2)	10.7	7.6	5.6	1.8
	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)	2.5	1.3	-7.9	-16.5	
Malaysia		8.6	7.8	(1.4)	7.4	6.9	-1.8	n.a.	
Philippines		5.7	5.1	(1.8)	4.9	4.7	1.7	n.a.	

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

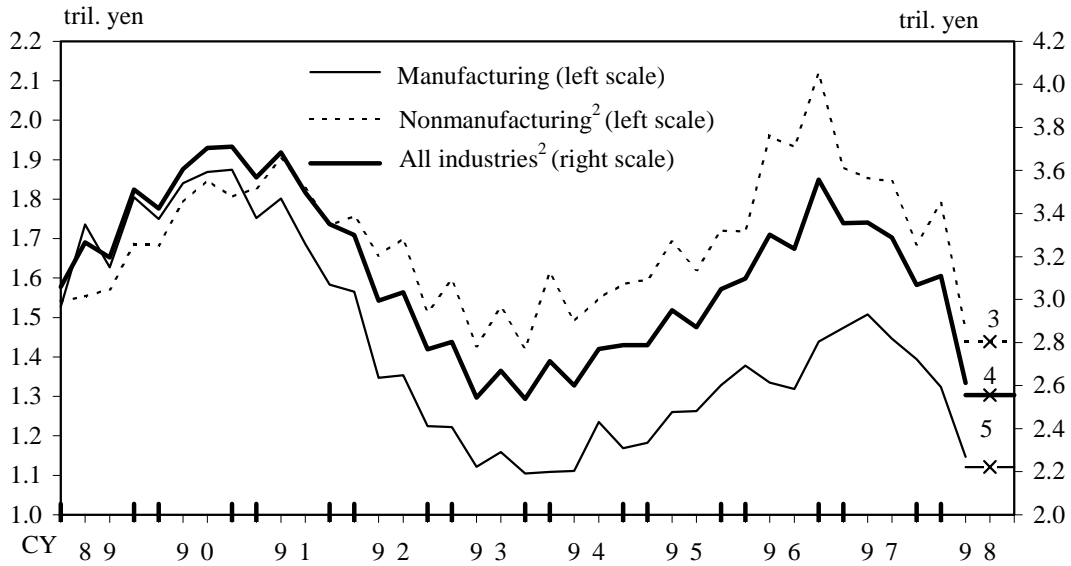
2. Quarterly data are percent changes from a year earlier.

3. Forecasts by OECD are shown in brackets.

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

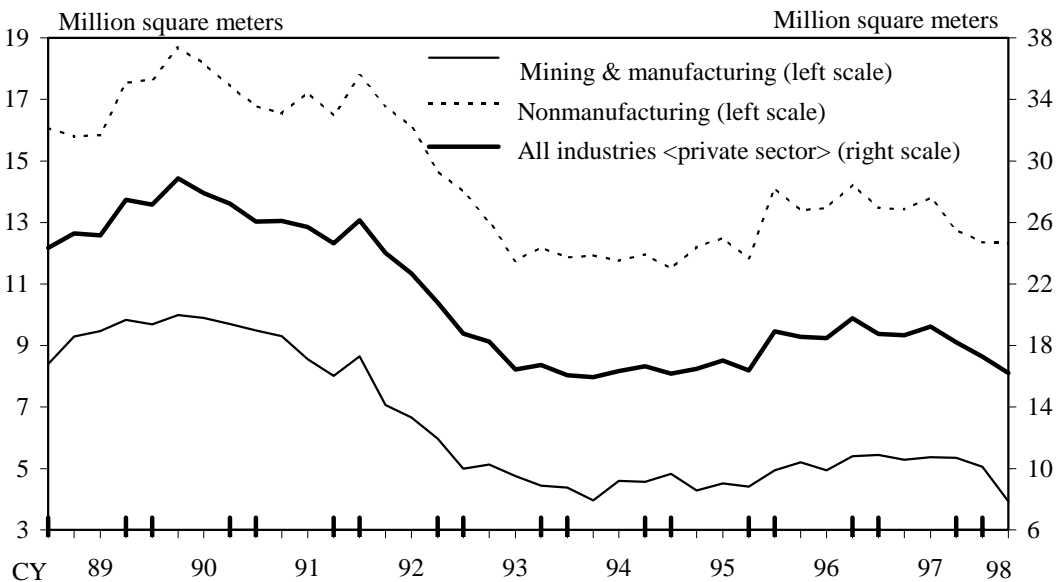
Major Indexes of Business Fixed Investment

(1) Machinery Orders¹



- Notes: 1. Seasonally adjusted data.
 2. Excludes orders from electric power companies, and shipbuilding orders.
 3. Forecast of nonmanufacturing industries for 1998/Q3.
 4. Forecast of all industries for 1998/Q3.
 5. Forecast of manufacturing industries for 1998/Q3.

(2) Construction Starts (Nonresidential)¹



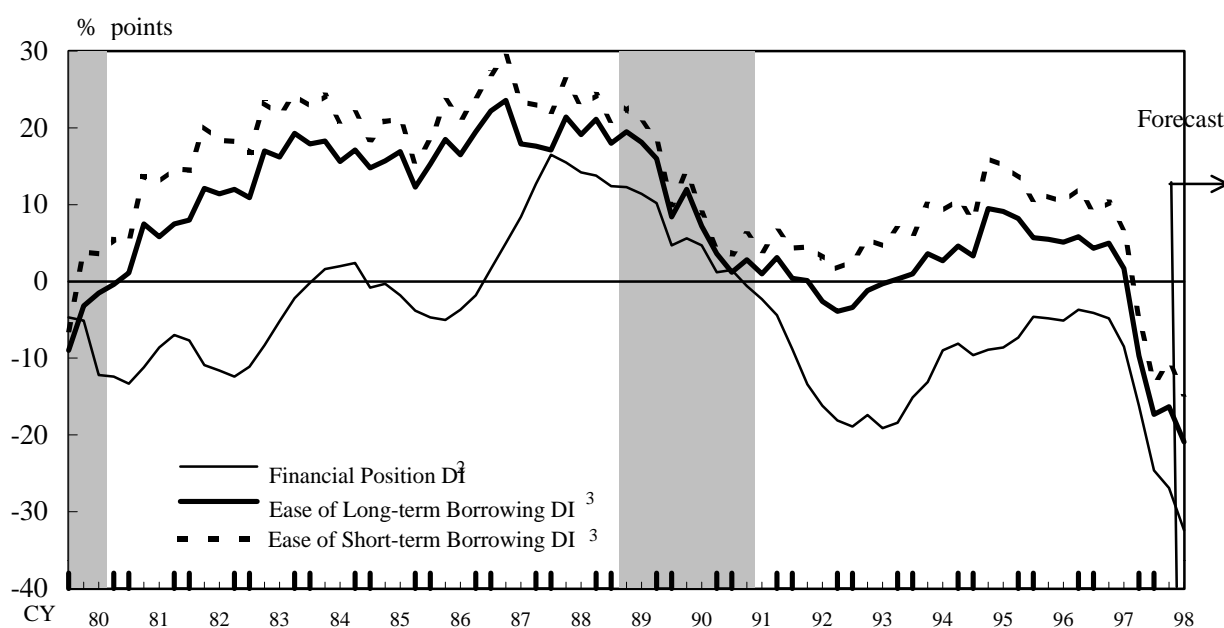
Note: 1. Seasonally adjusted data.

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

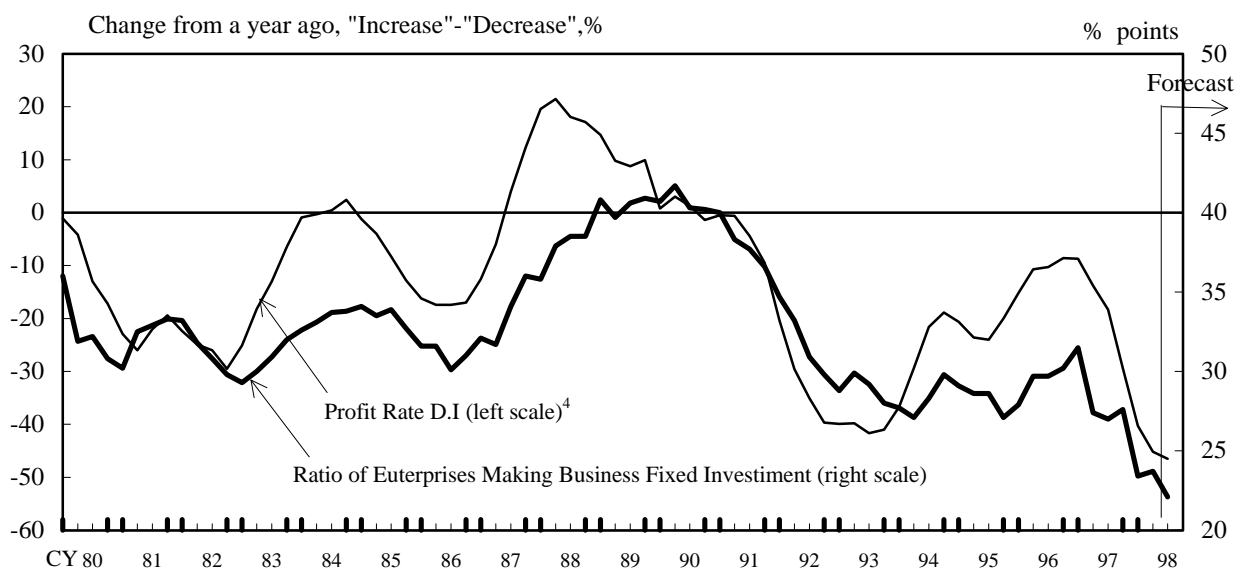
Major Indexes of Business Fixed Investment

(3) Economic Survey of Small Businesses¹

(Corporate Finance Related Indicators)



(Profit and Business Fixed Investment Indicators)



Notes: 1. Sample: 12,223 Companies (Responses: 6,853 < June 1998 Survey >).

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

2. Change from a year ago, "Improving" - "Worsening."

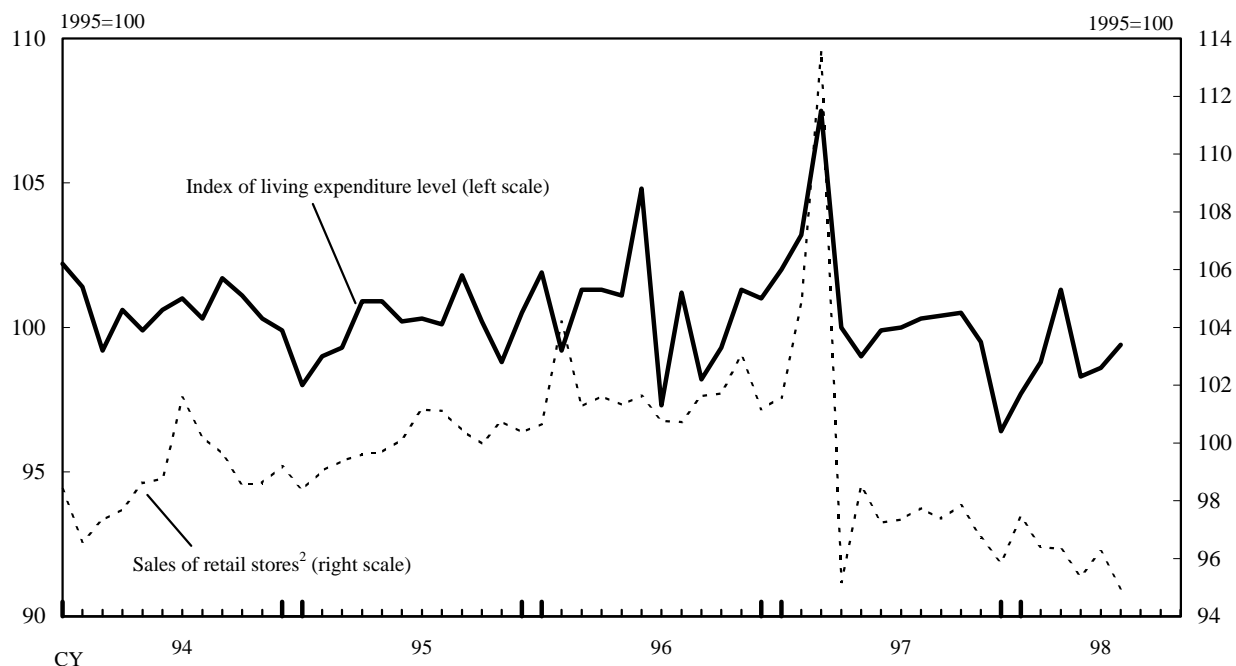
3. Change from a year ago, "Easy" - "Difficult."

4. Change from a year ago, "Increase" - "Decrease."

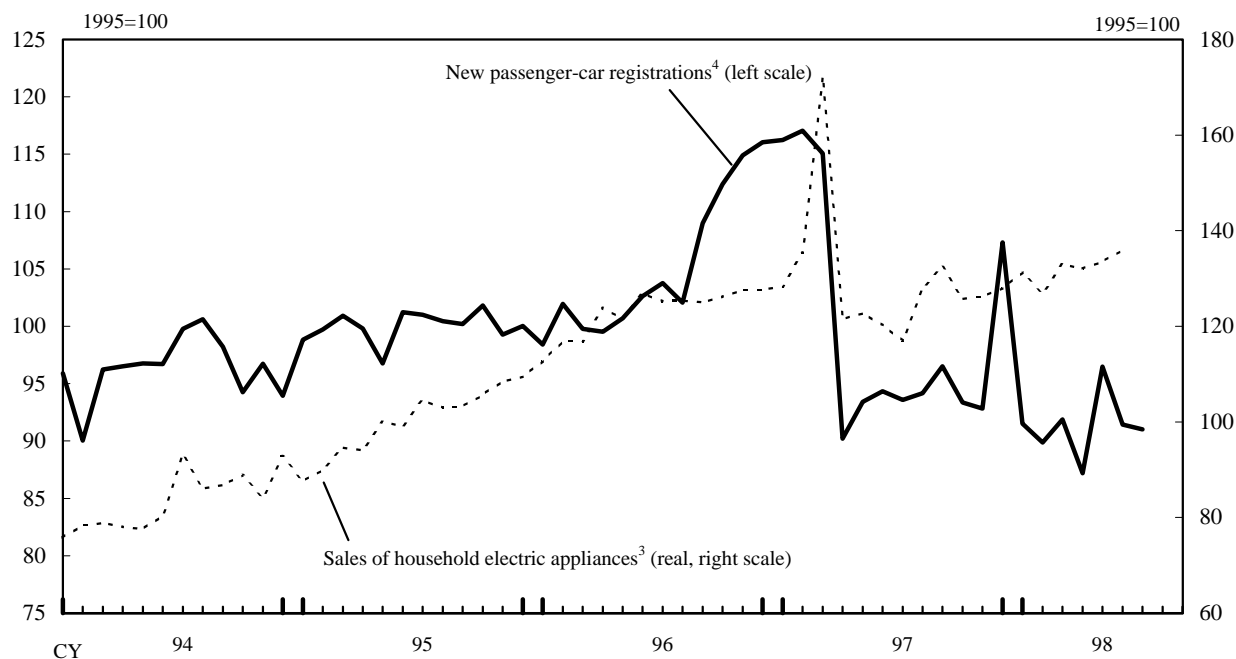
Source: Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses."

Private Consumption¹ (1)

(1) Household Spending



(2) Sales of Durable Goods



Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).

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

2. Sales of retail stores 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.

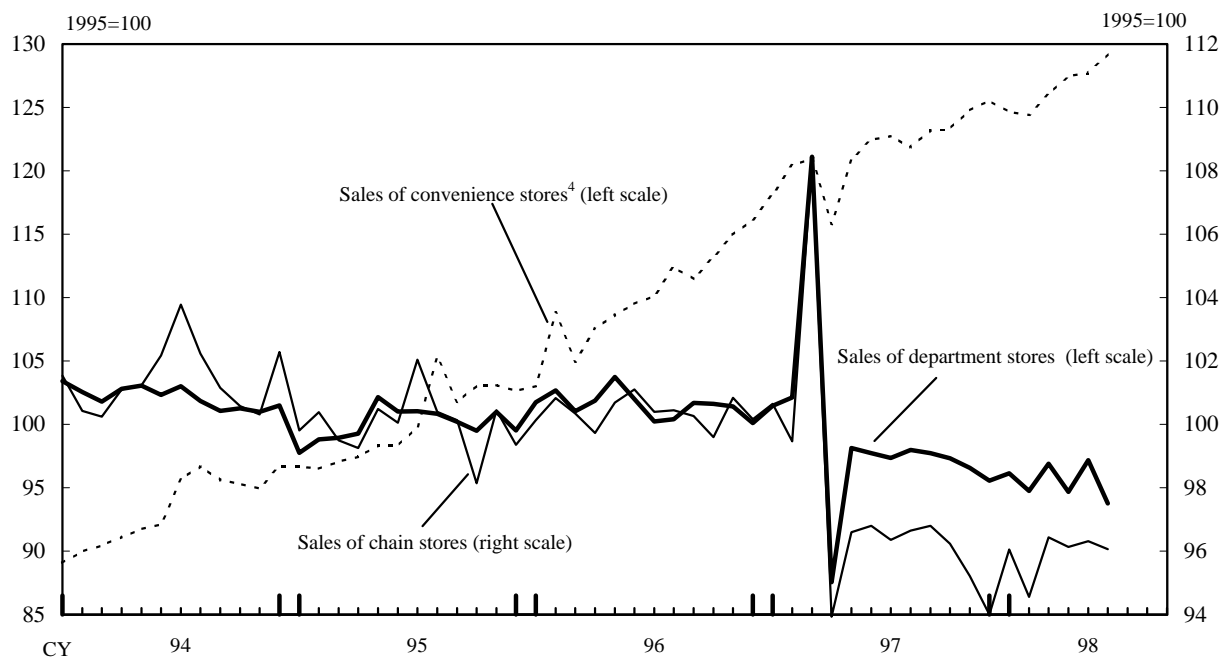
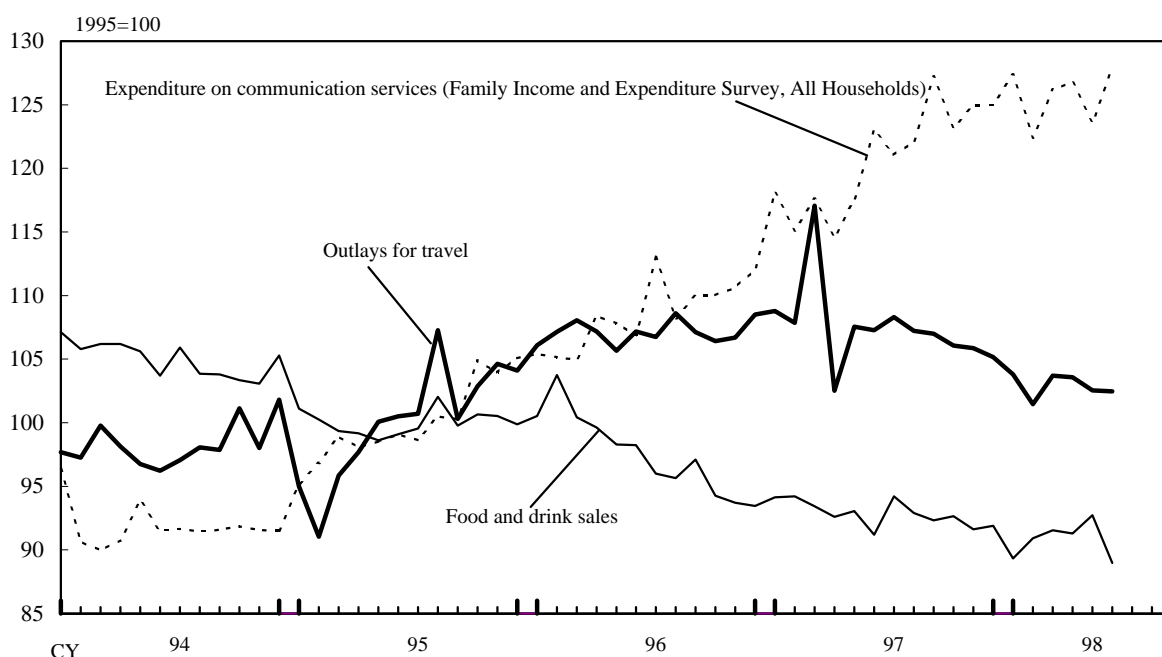
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey", "Consumer Price Index";

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 Consumption¹ (2)(3) Sales of retail stores²(4) Consumption of service³

Notes: 1. Seasonally adjusted by X-12-ARIMA (β version).

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

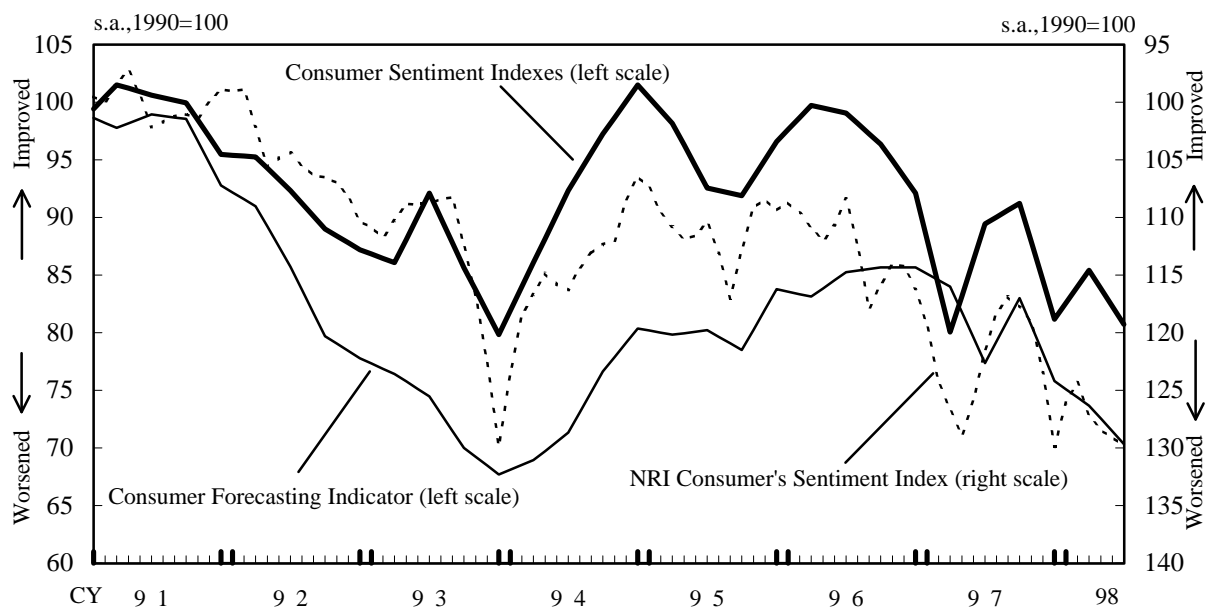
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

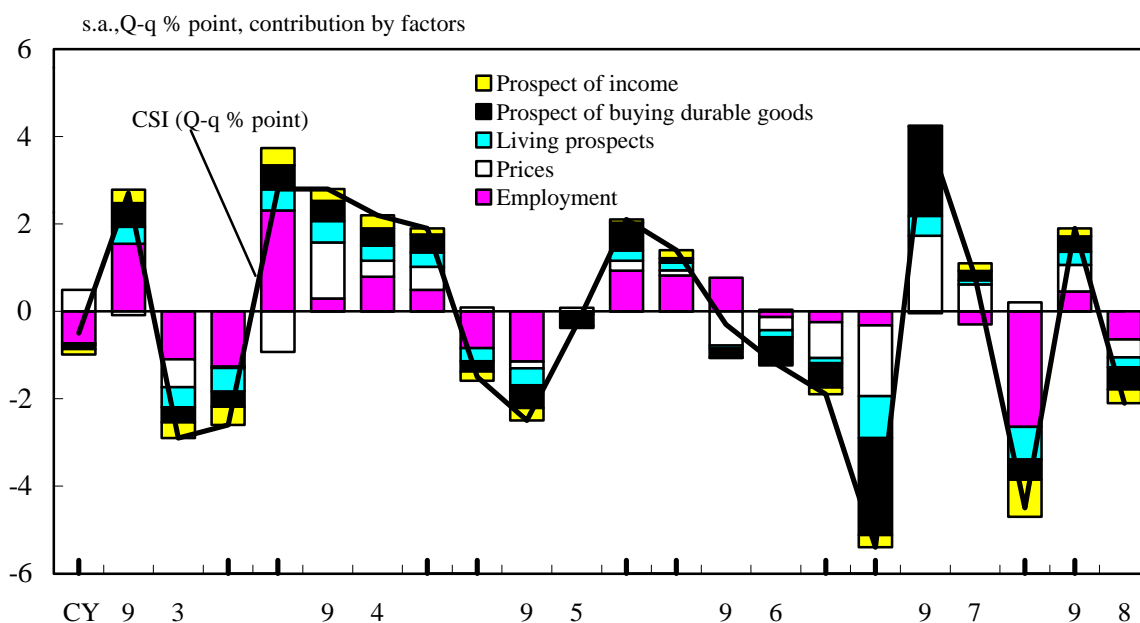
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
Ministry of International Trade and Industry, "Current Survey of Commerce";
Japan Chain Stores Association, "Sales of Chain Stores";
Ministry of Transport, "Major Travel Agents' Revenue";
Foodservice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

Consumer Confidence

(1) Surveys on Consumer Confidence



(2) Consumer Sentiment Indexes



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.

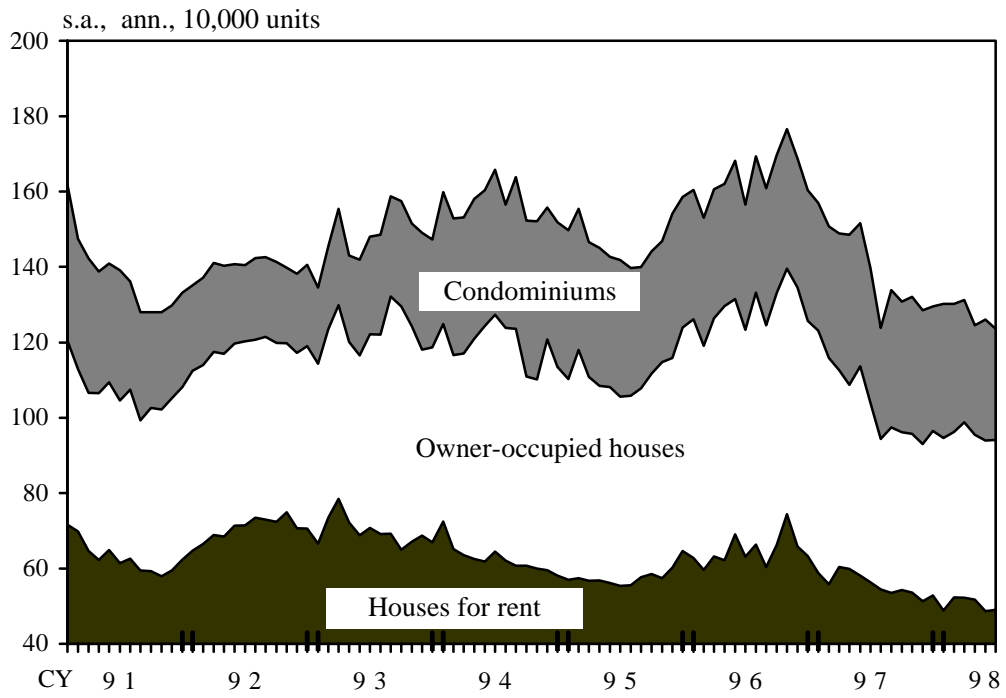
3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumer Forecasting Indicator" by NIKKEI RIM, "NRI Consumer's Sentiment Index" by NRI.

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

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

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

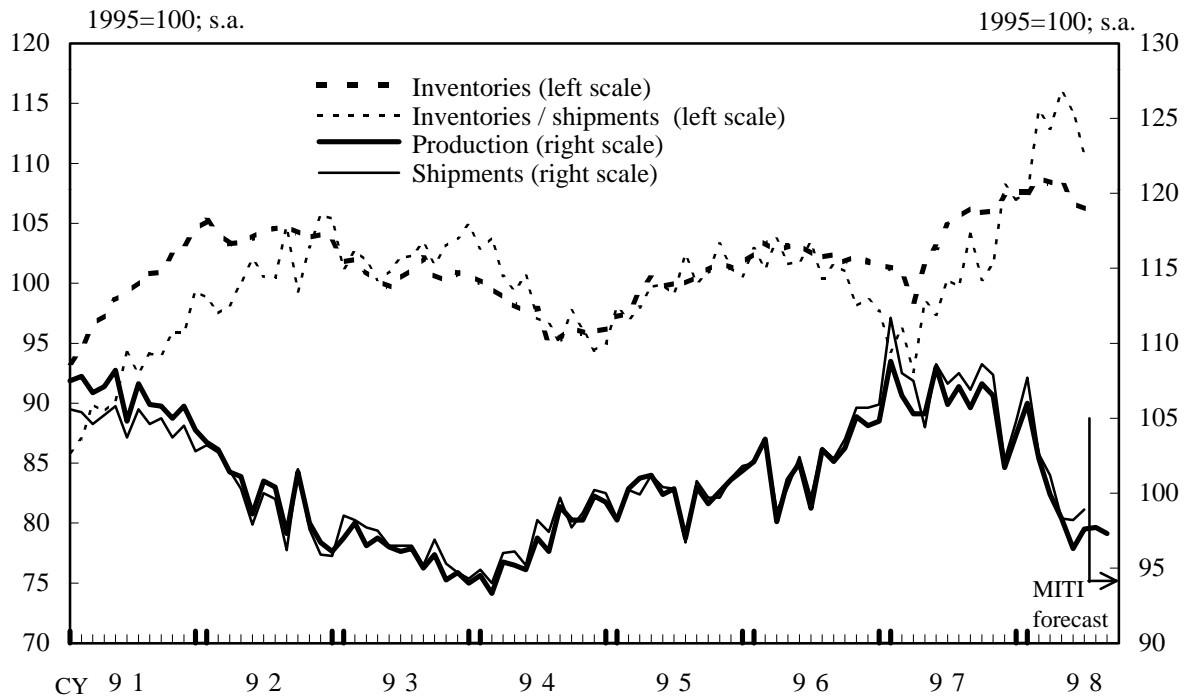
Housing Starts



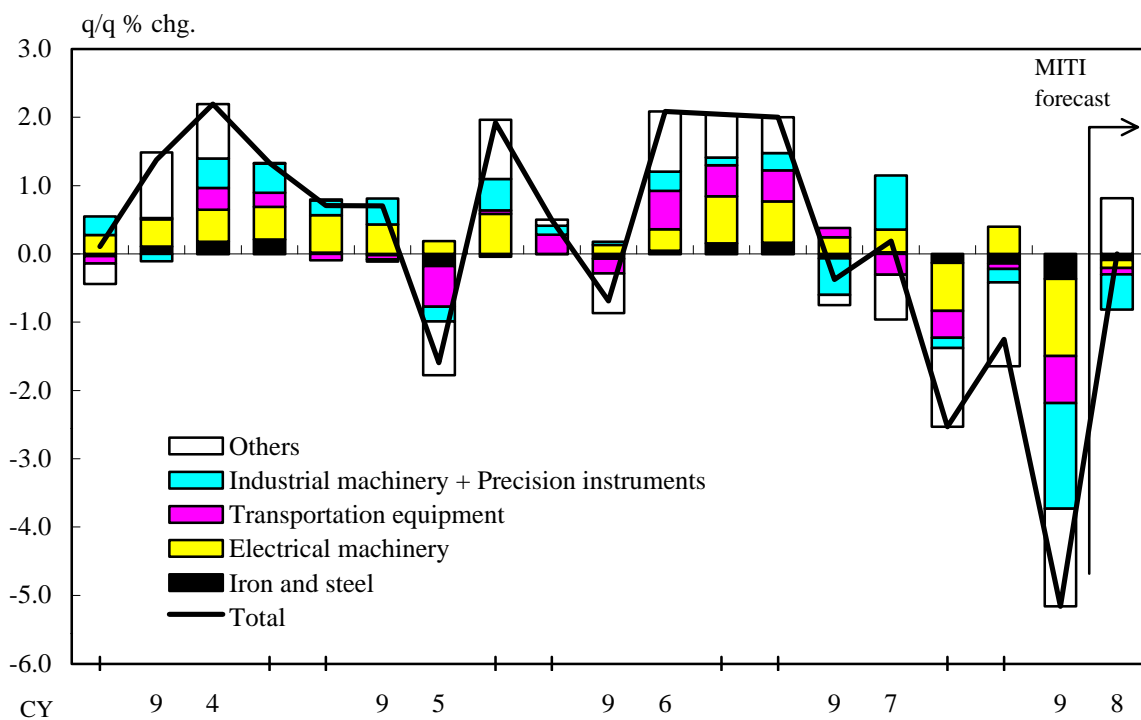
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



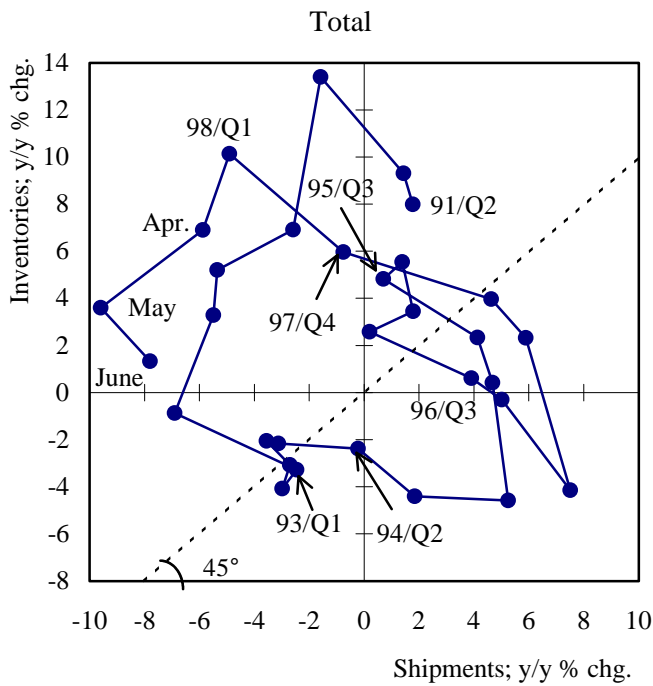
(2) Production by Industries



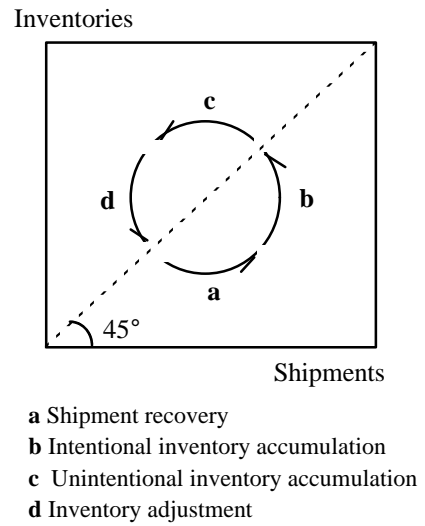
Note: Transportation equipment excludes ships and rolling stock.

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

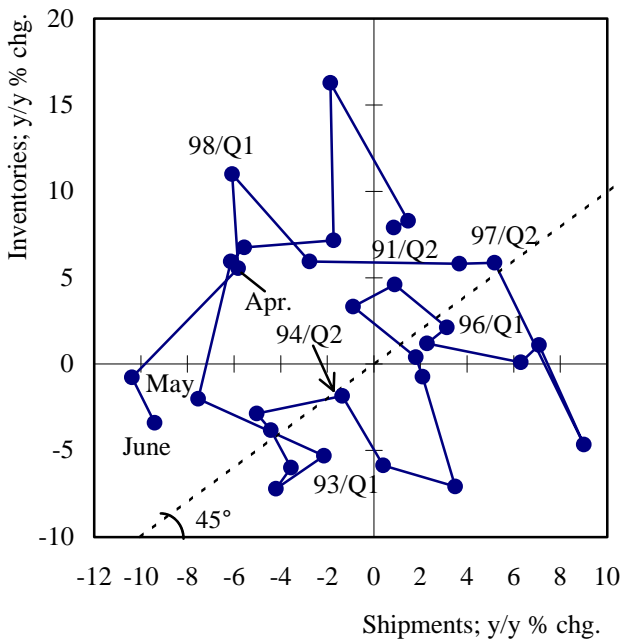
Inventory Cycle



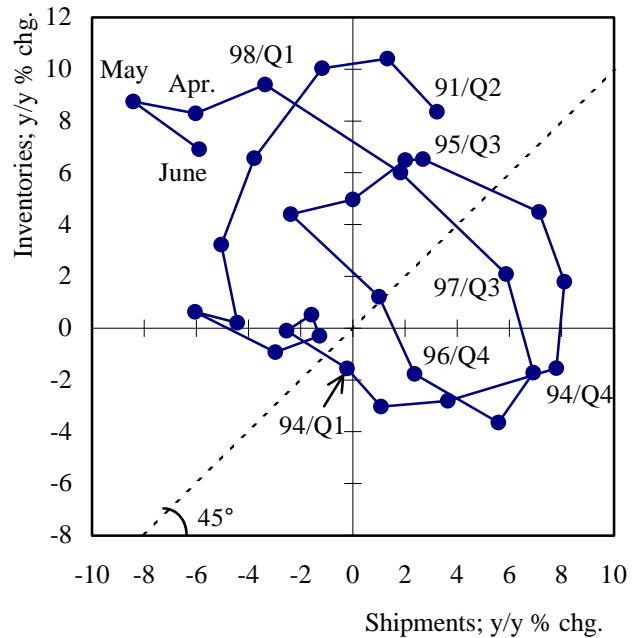
Phases in the Inventory Cycle



Final Demand Goods



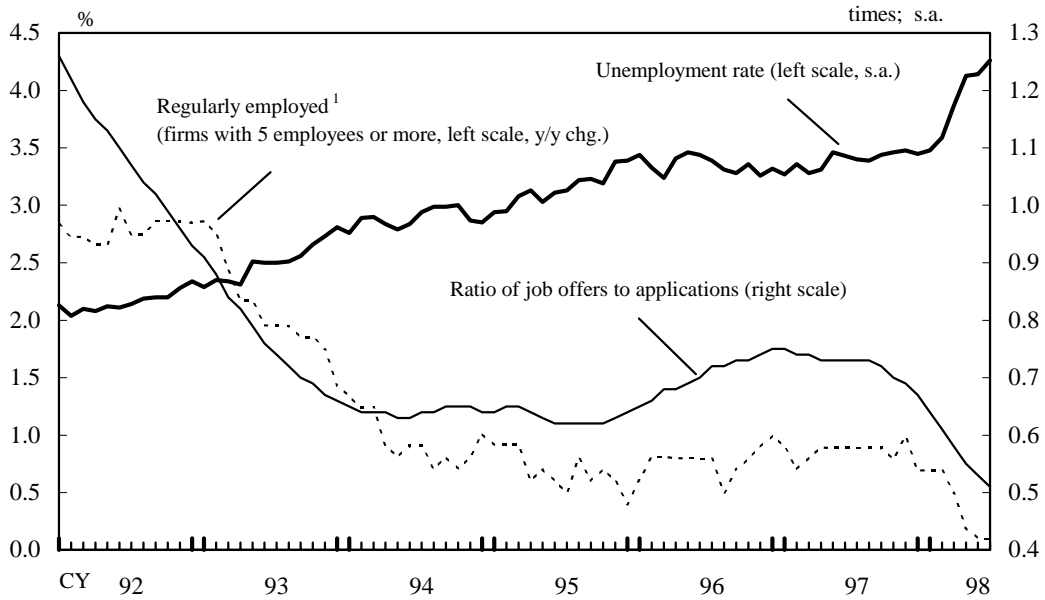
Production Goods



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

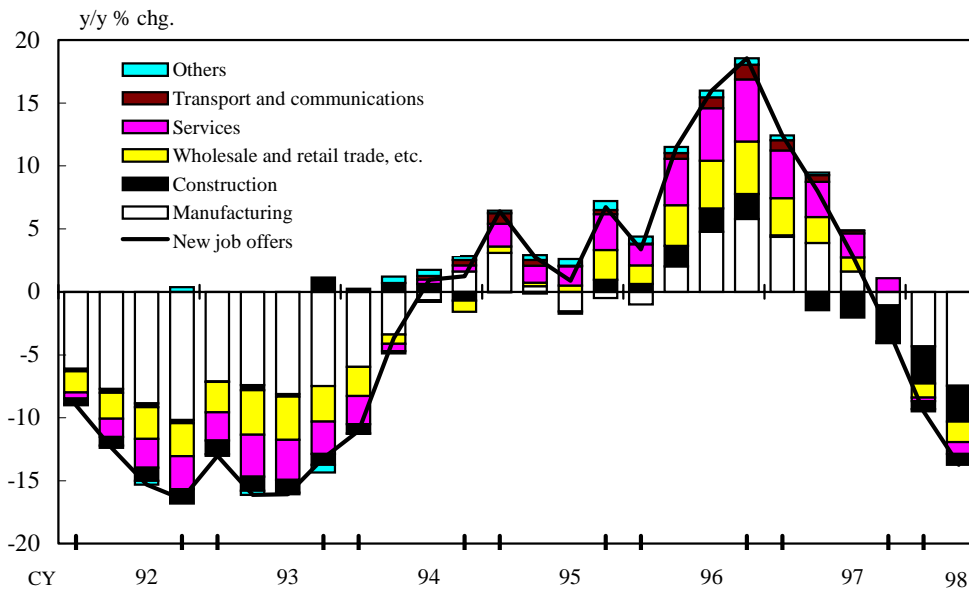
Labor

(1) Monthly



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

(2) New Job Offers¹

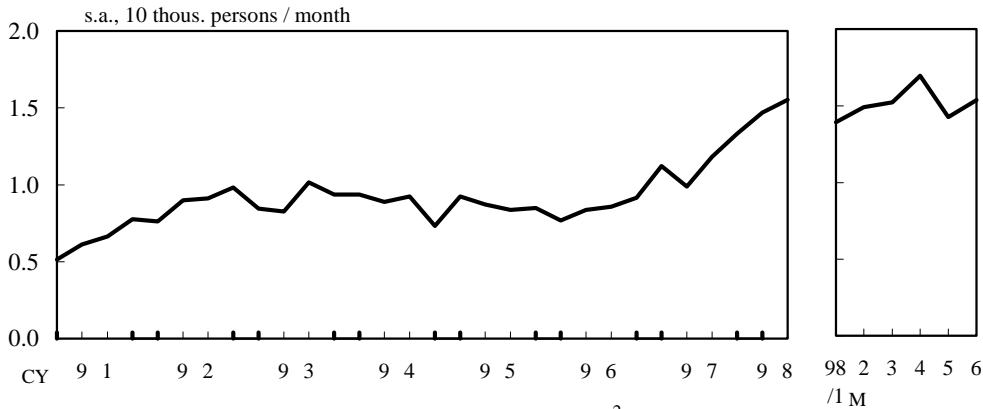


Note: 1. Excludes jobs offered to new graduates.

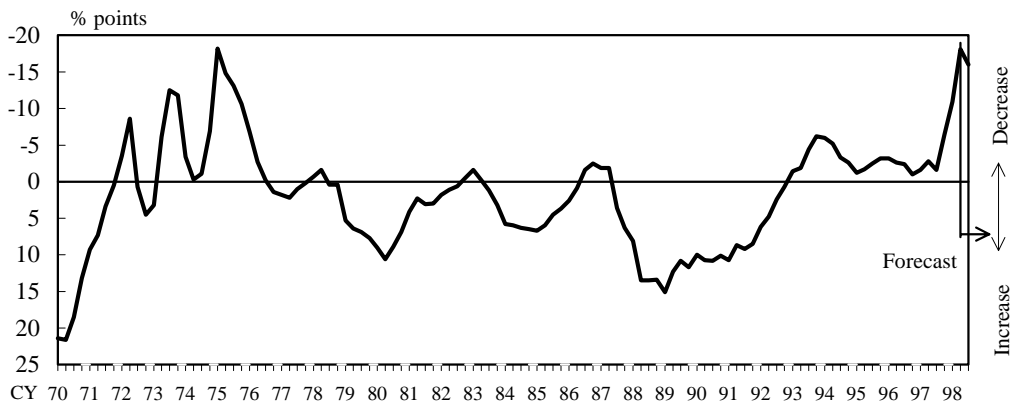
Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service"; Management and Coordination Agency, "Labor Force Survey."

Employment Conditions

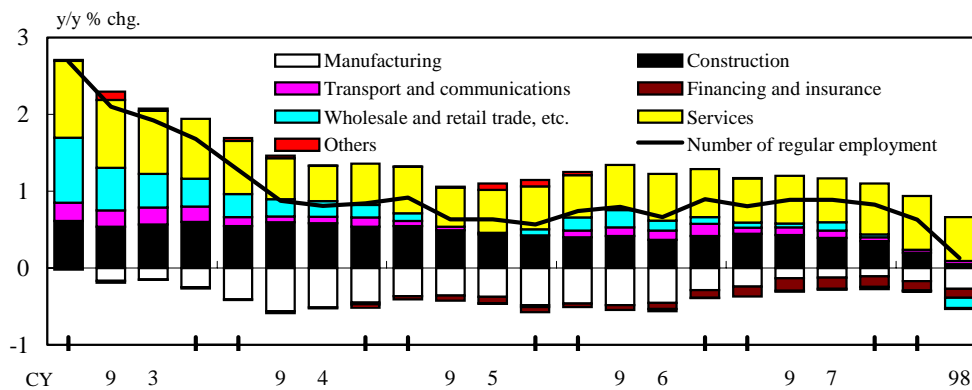
(1) Number of Bankrupted Firms' Employees¹



(2) Economic Survey of Small Businesses (Employment DI)²



(3) Number of Regular Employment³



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

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

2. Sample : 12,223 Companies (Responses : 6,853 <June 98 Survey>).

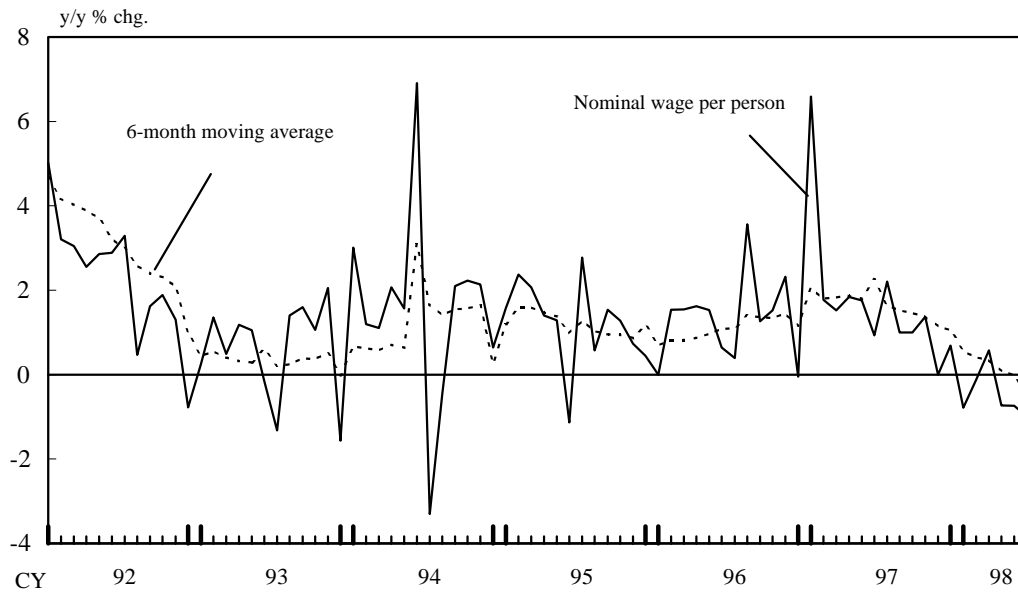
Change from a year ago, "Decrease" - "Increase".

3. The data in June 98 are preliminary.

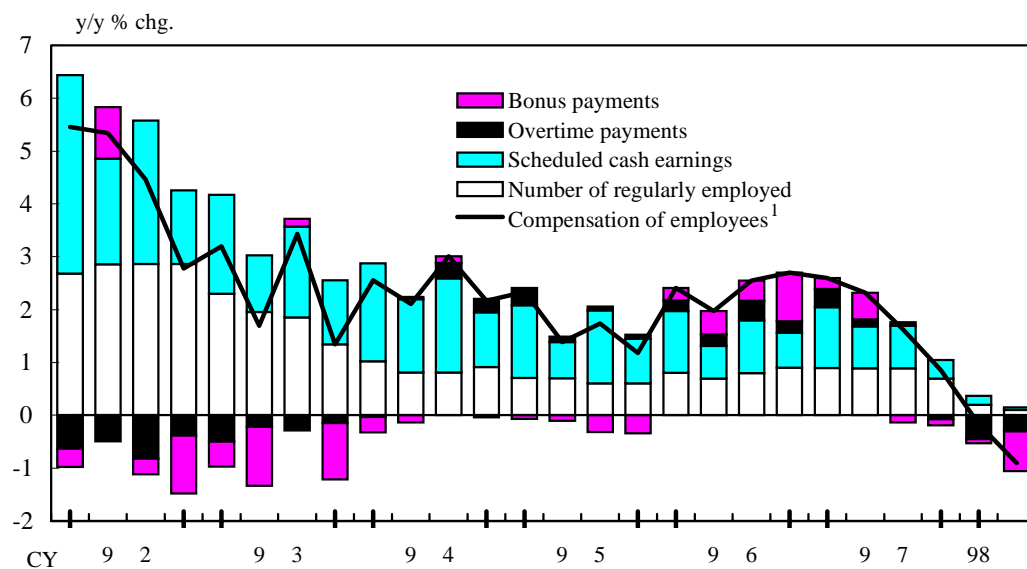
Sources: Teikoku Databank Ltd., "Japan's Business Failure"; Ministry of Labor, "Monthly Labor Survey"; Japan Finance Corporation for Small Business, "Economic Survey of Small Businesses."

Compensation of Employees

(1) Nominal Wage per Person ¹



(2) Breakdown of Compensation ²



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

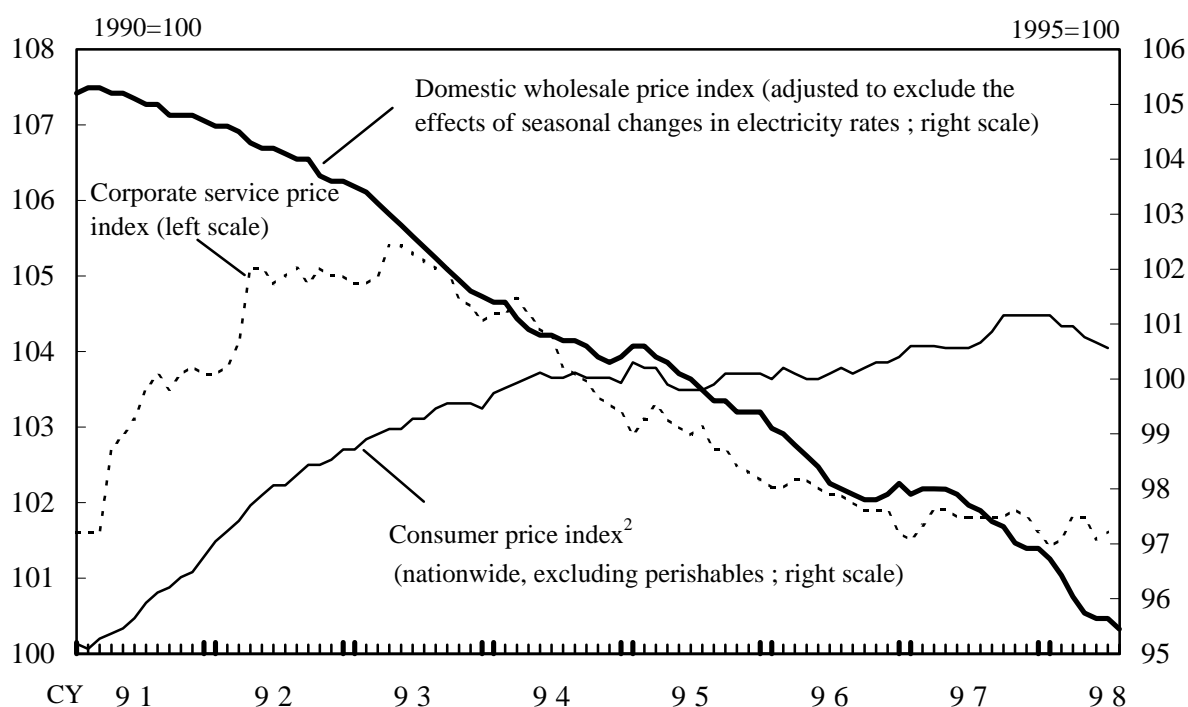
2. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.

The data in 98/Q2 are those of June 98.

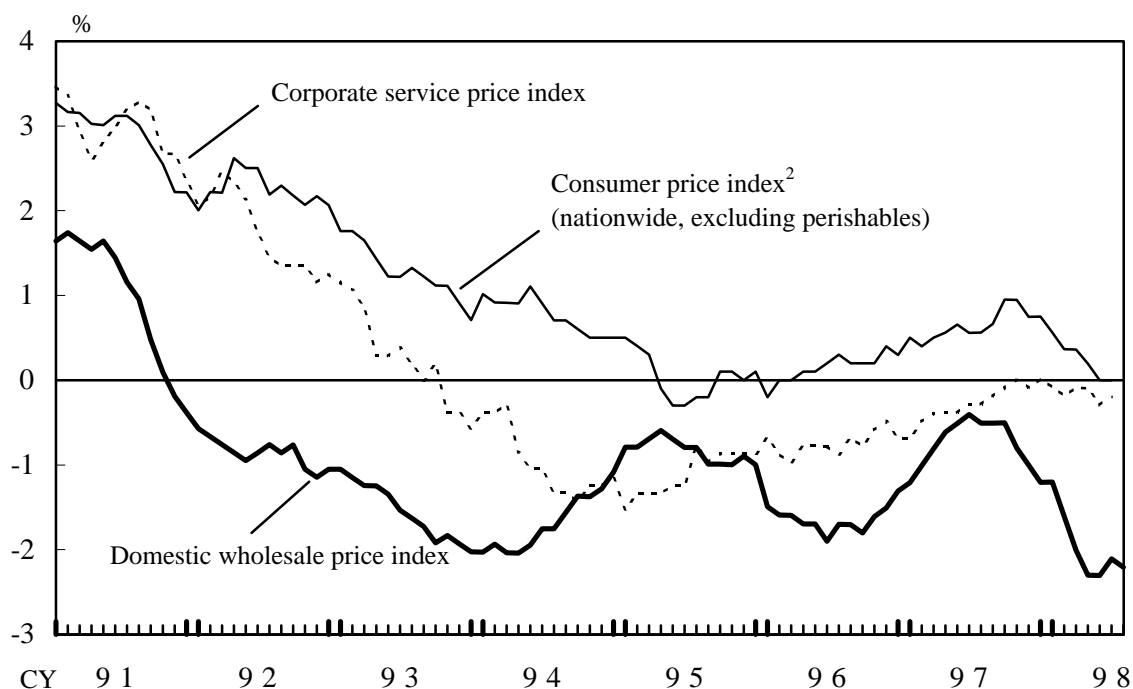
Source: Ministry of Labor, "Monthly Labor Survey."

Prices¹

(1) Level



(2) Changes from a year earlier



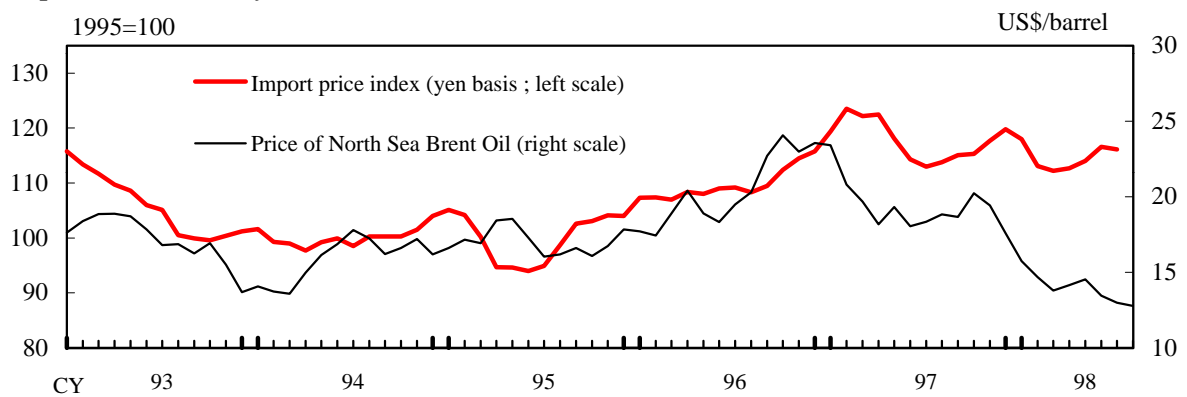
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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

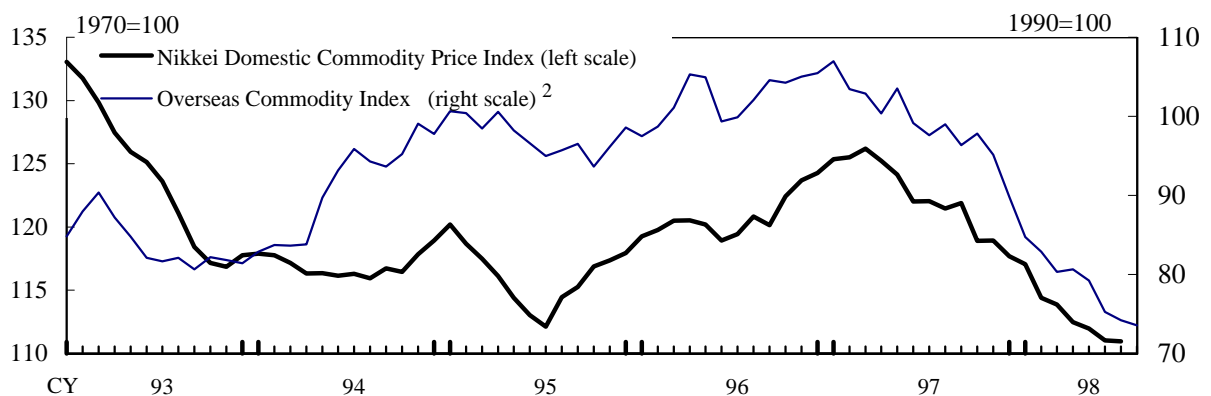
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

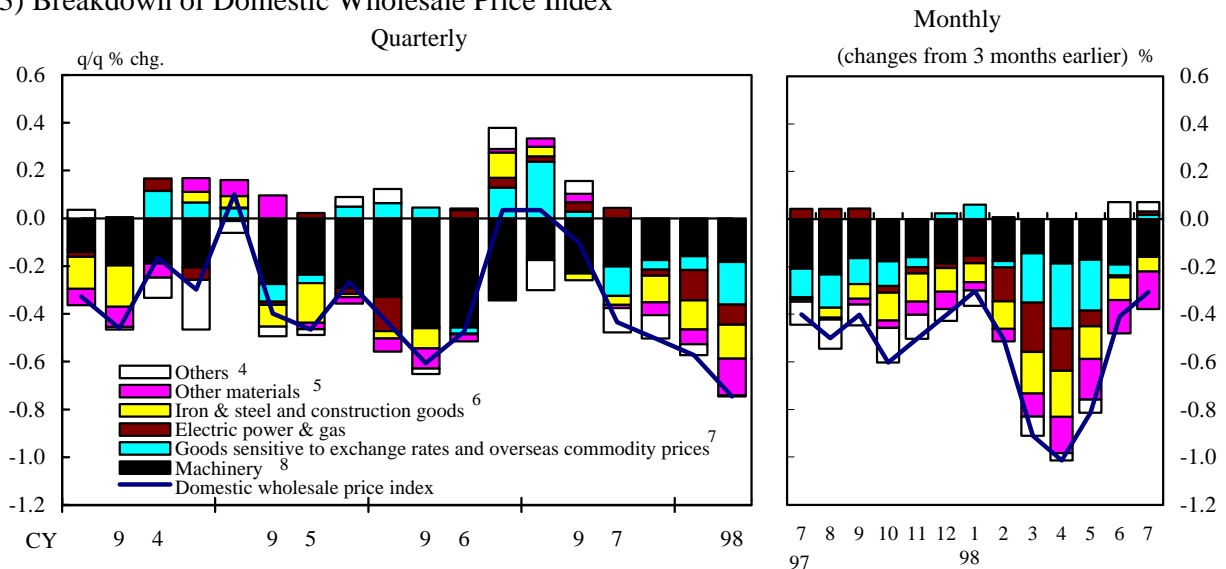
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



(3) Breakdown of Domestic Wholesale Price Index³



Notes: 1. Data for Aug. 1998 are Aug. 1-7 average.

2. Calculated by the Research and Statistics Department, Bank of Japan. Data for Aug. 1998 are Aug. 1-7 average.

3. Adjusted to exclude the effects of seasonal changes of electricity rates, and of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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

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

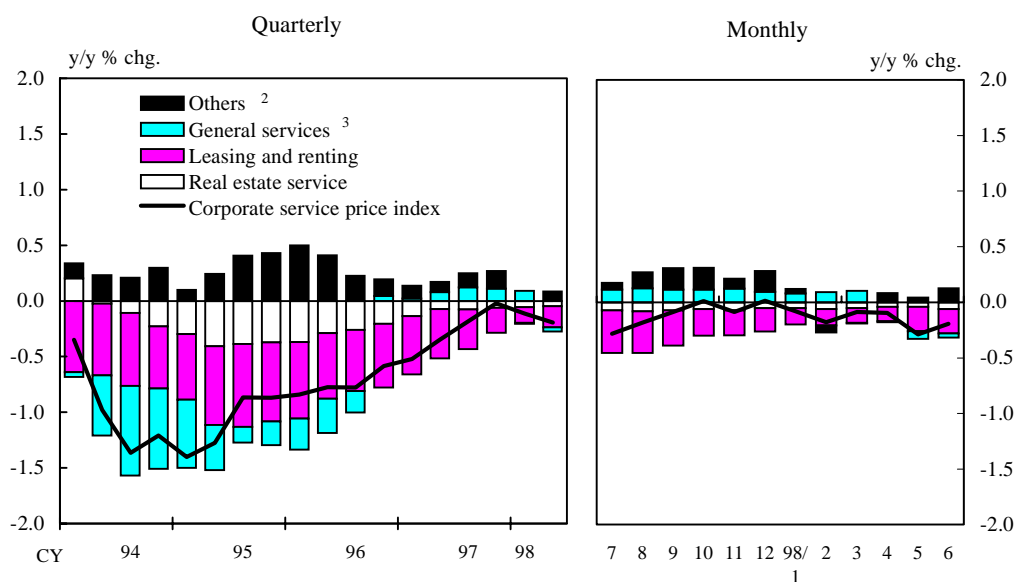
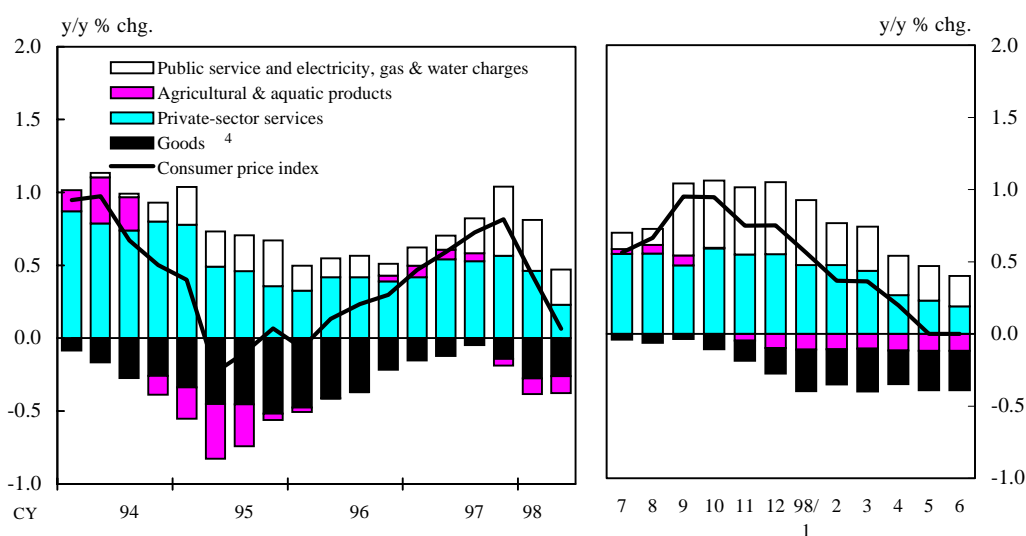
6. Iron & steel and construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wooden products + scrap & waste.

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 Index¹(2) Breakdown of Consumer Price Index (excluding perishables)¹

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.

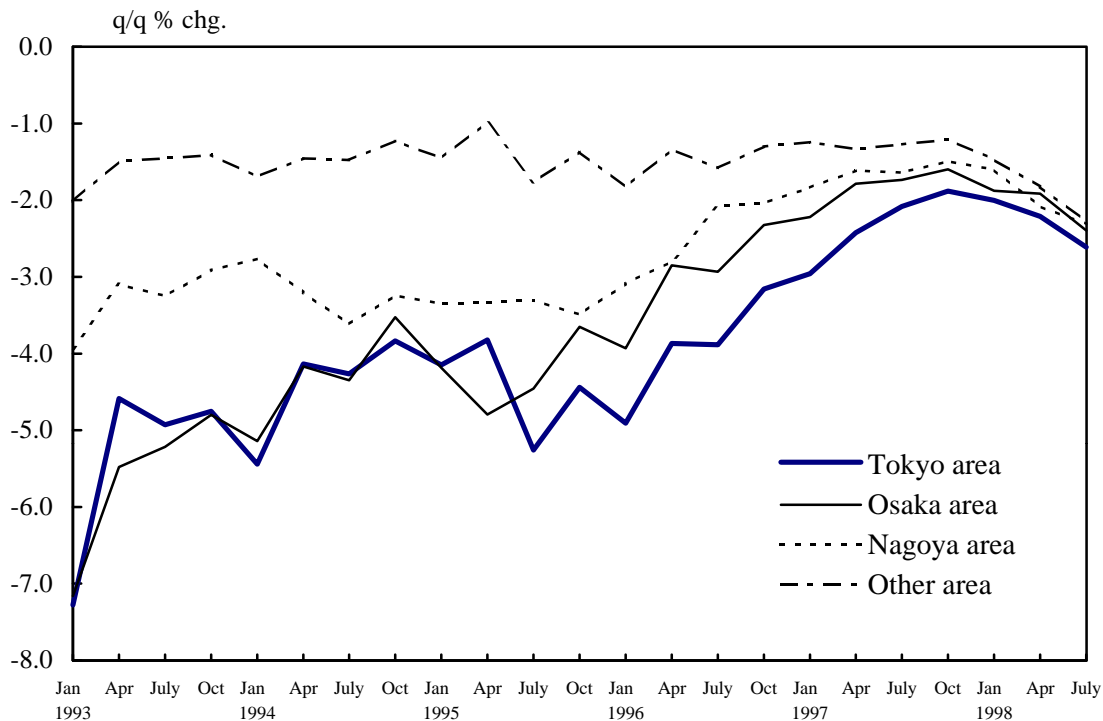
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

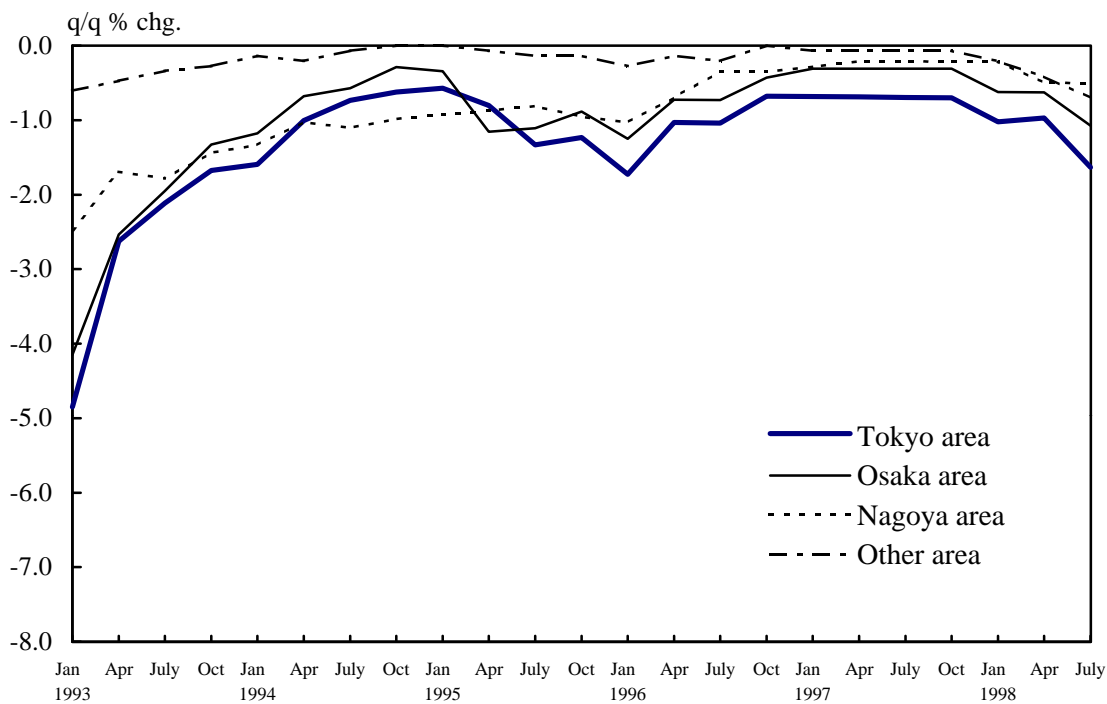
Sources: Management and Coordination Agency, "Consumer Price Index"; Bank of Japan, "Corporate Service Price Index."

Quarterly Land Price Index

(1) Commercial land



(2) Residential land

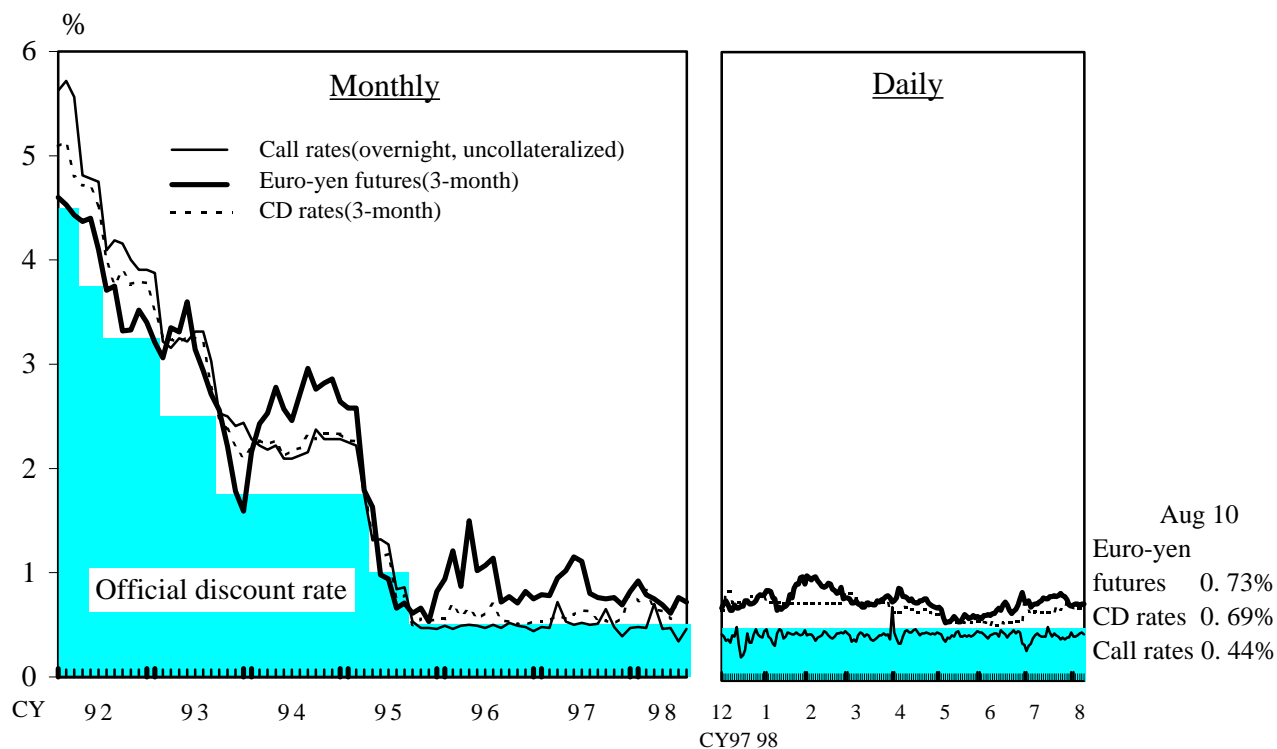


Note: The data after Apr. 98 are preliminary.

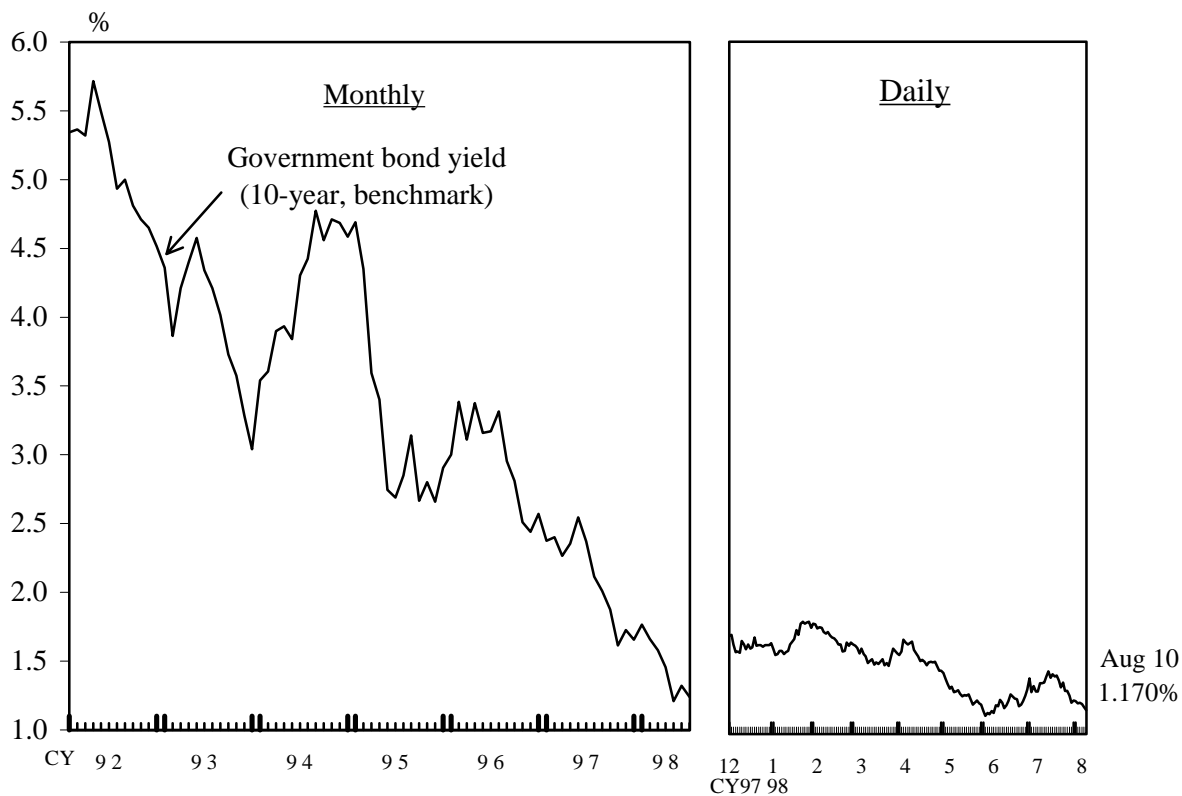
Source: The Land Institute of Japan, "A Quarterly Land Price Index."

Interest Rates

(1) Short-Term



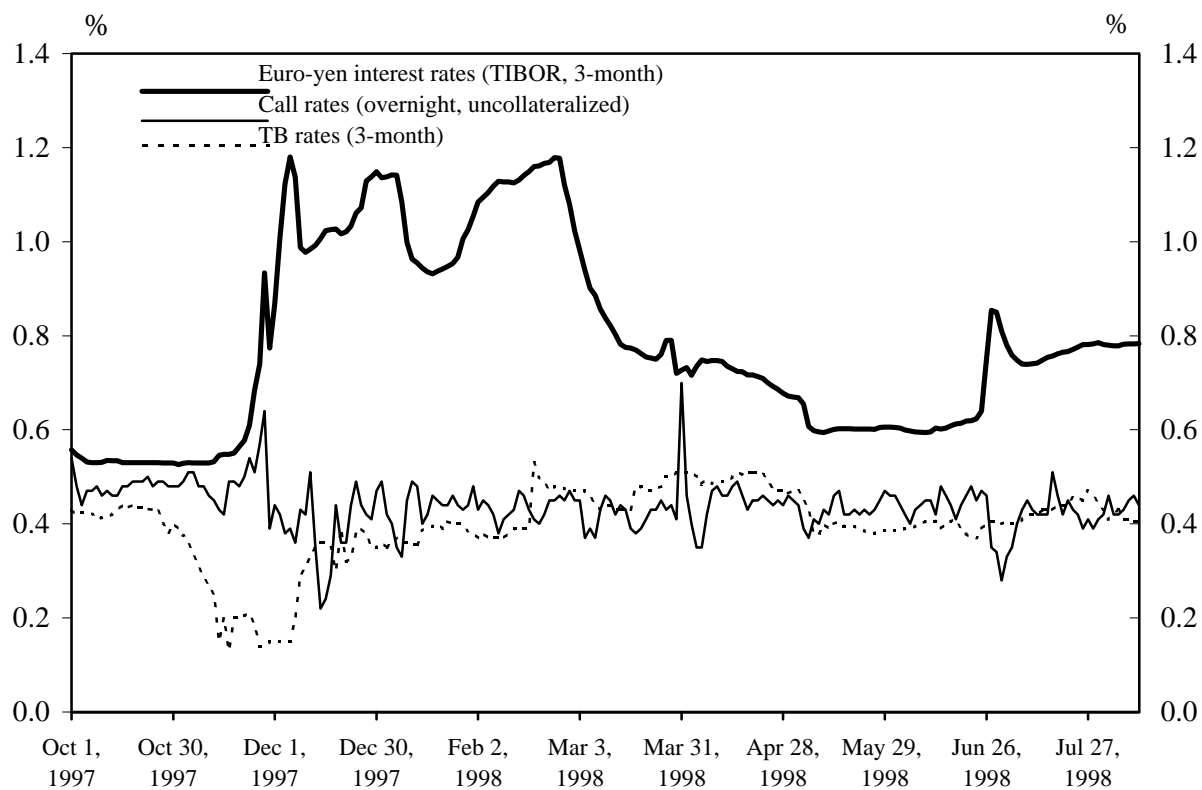
(2) Long-Term



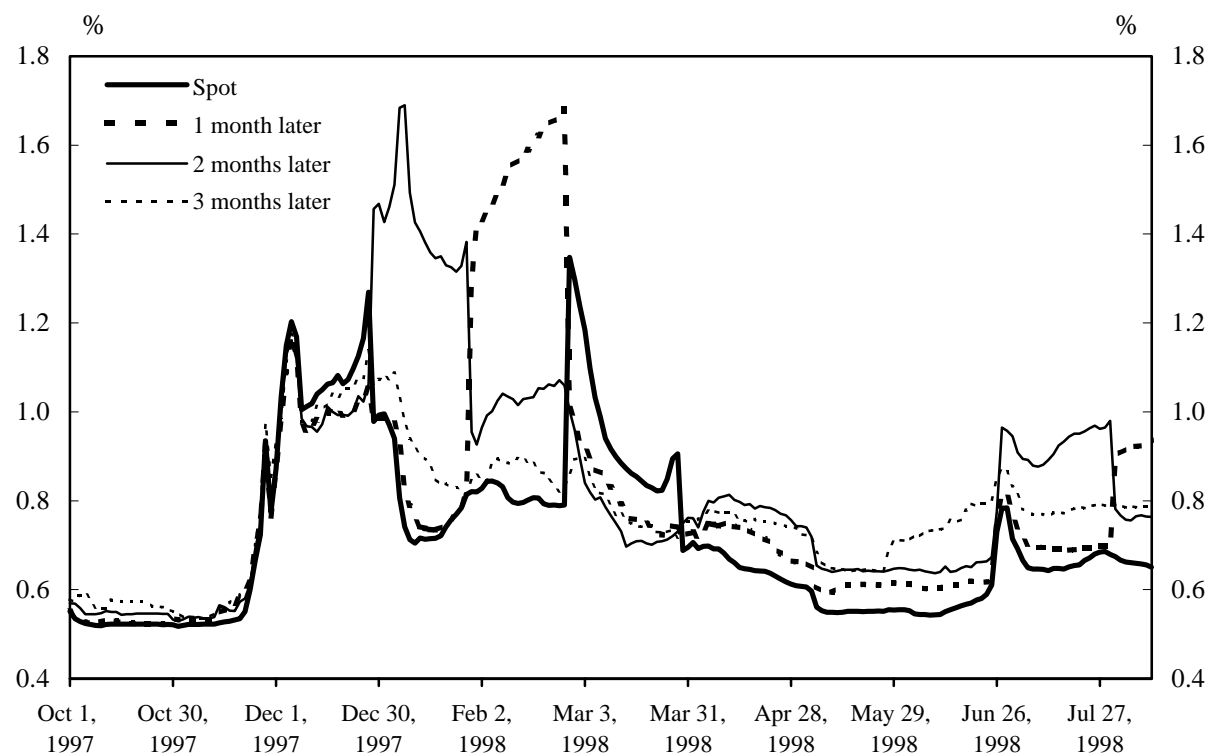
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

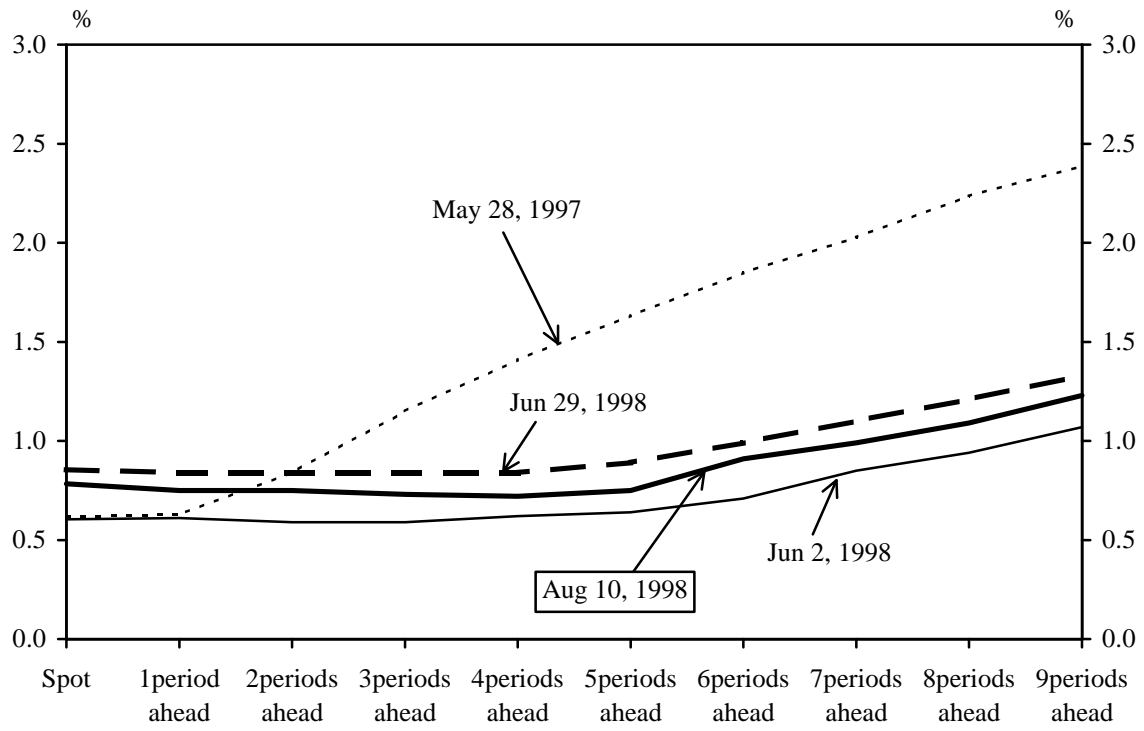


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



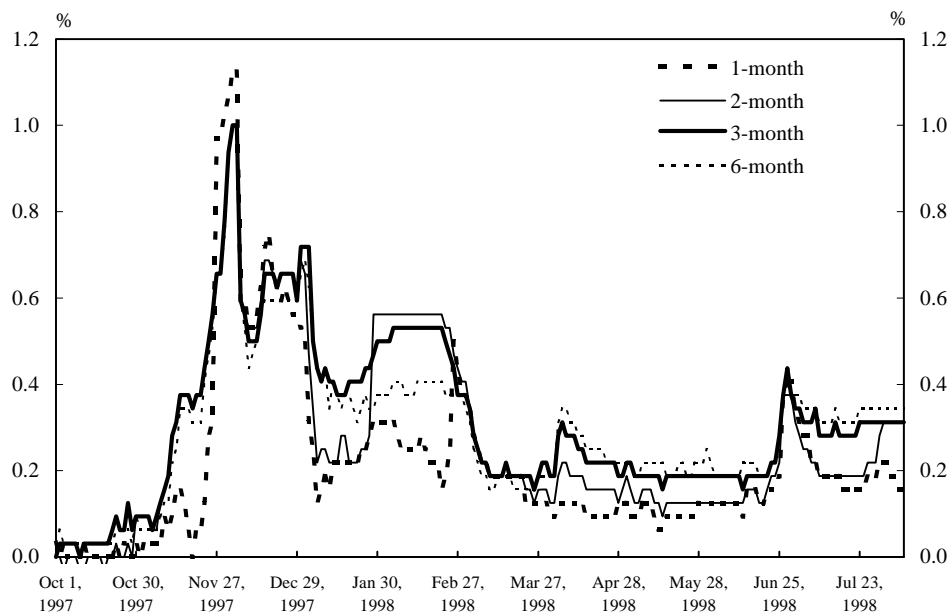
Sources: Bank of Japan, "Economic Statistics Monthly" ; *The Nikkei Financial Daily* .

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

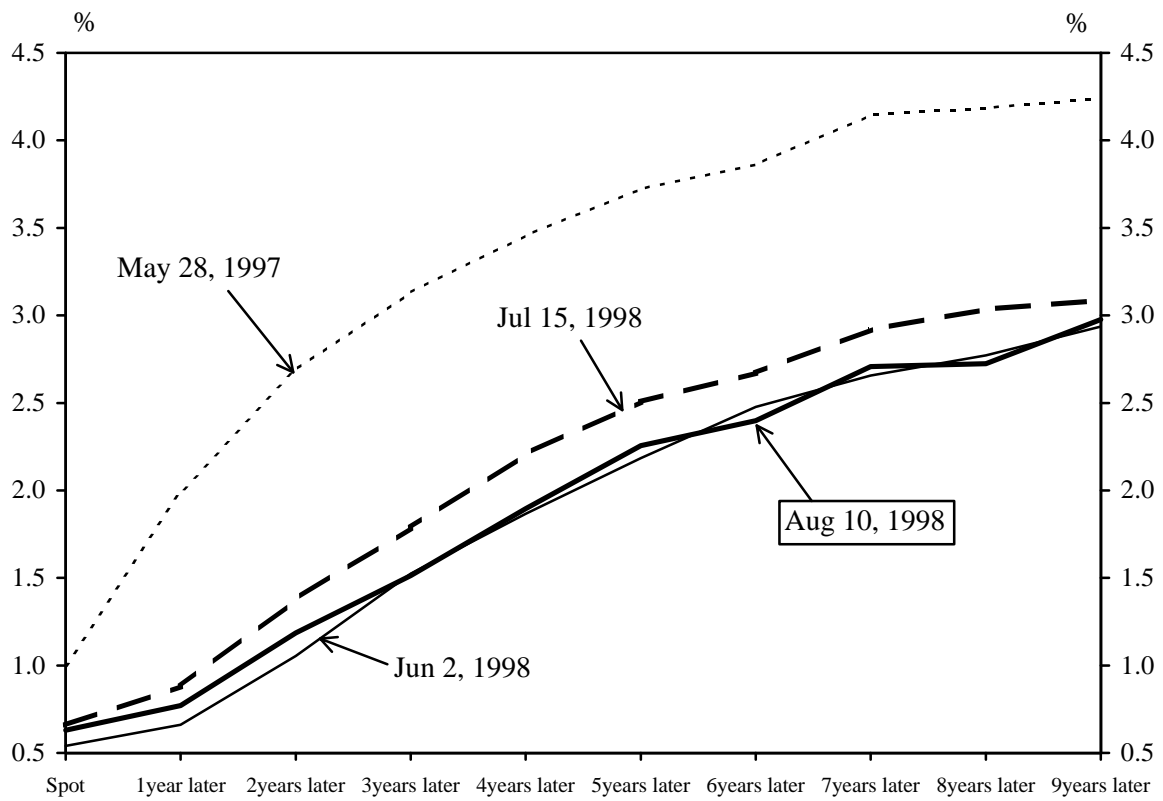
Japan Premium in the Eurodollar Market



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)*.

Implied Forward Rates (1-year)

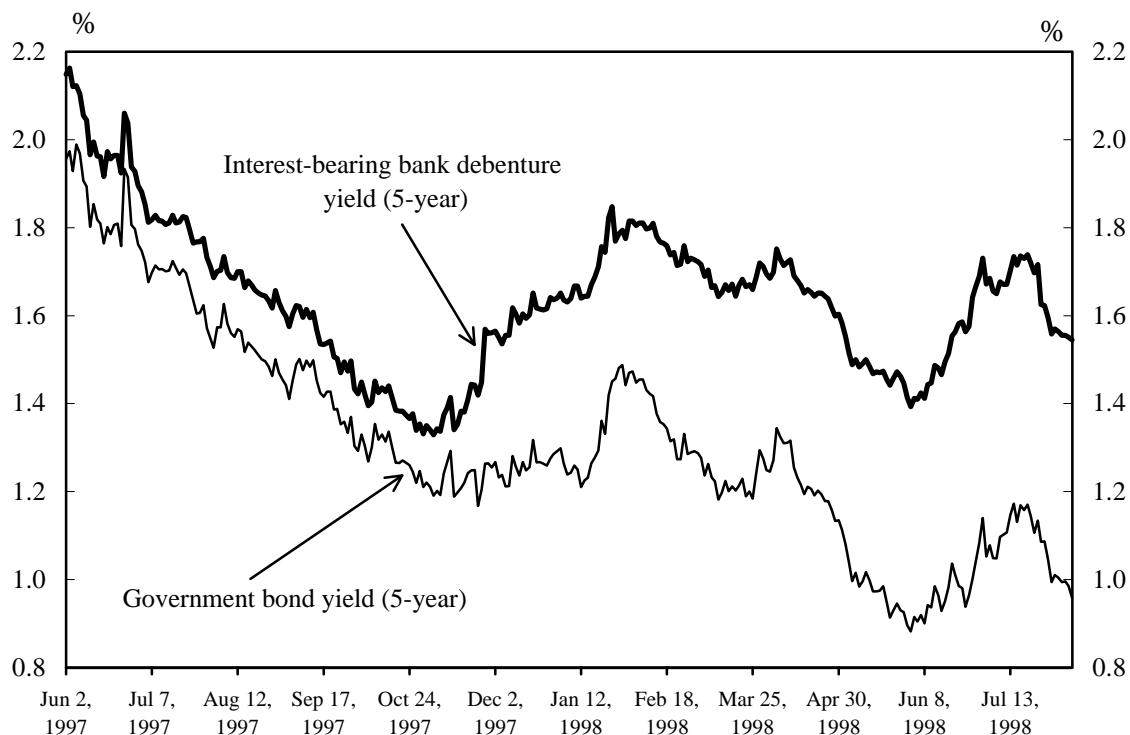


Note: Calculated from yen-yen swap rates.

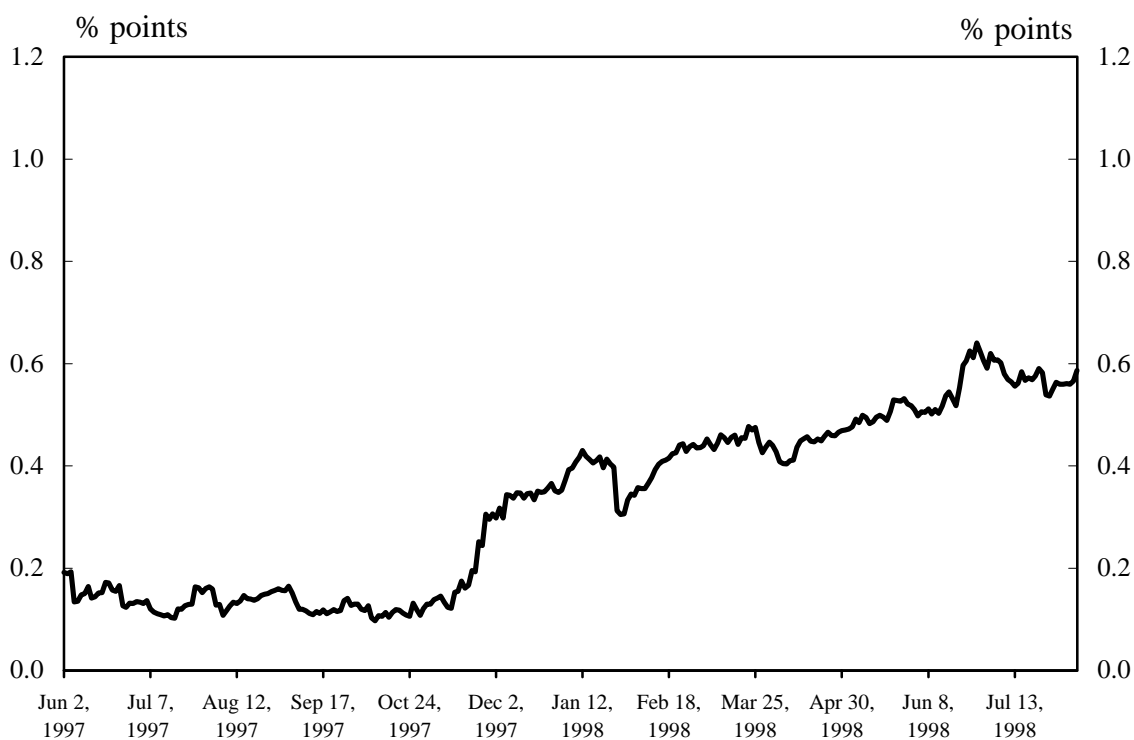
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



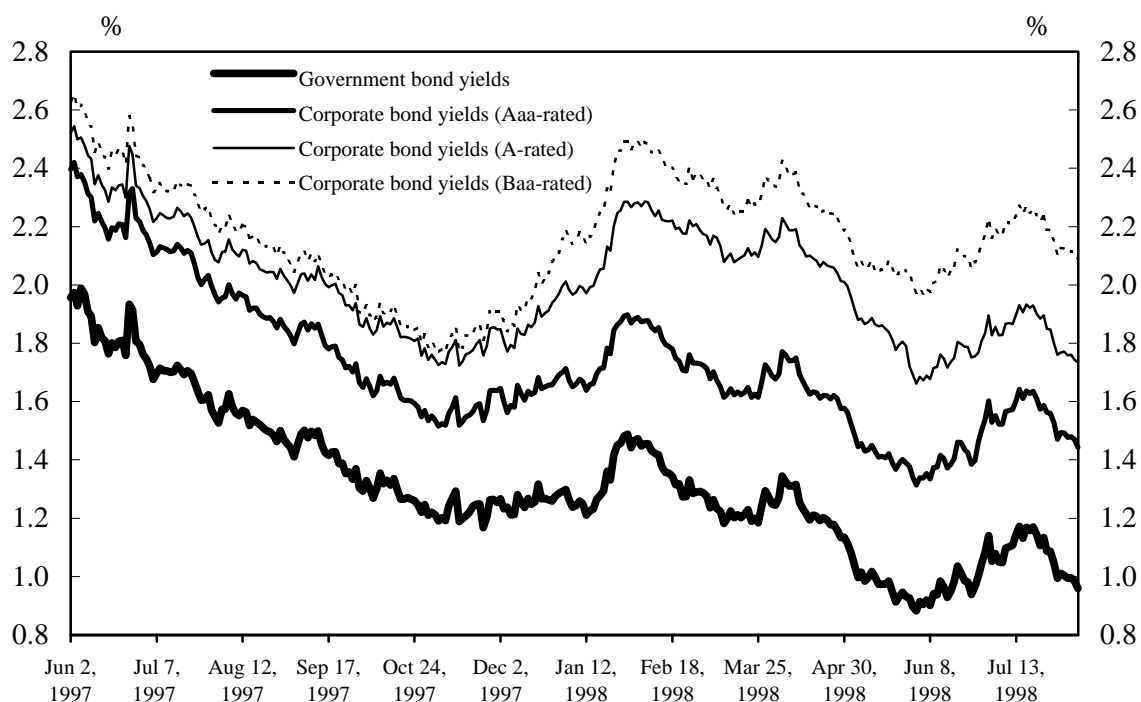
(2) Spread of Bank Debenture and Government Bond Yield



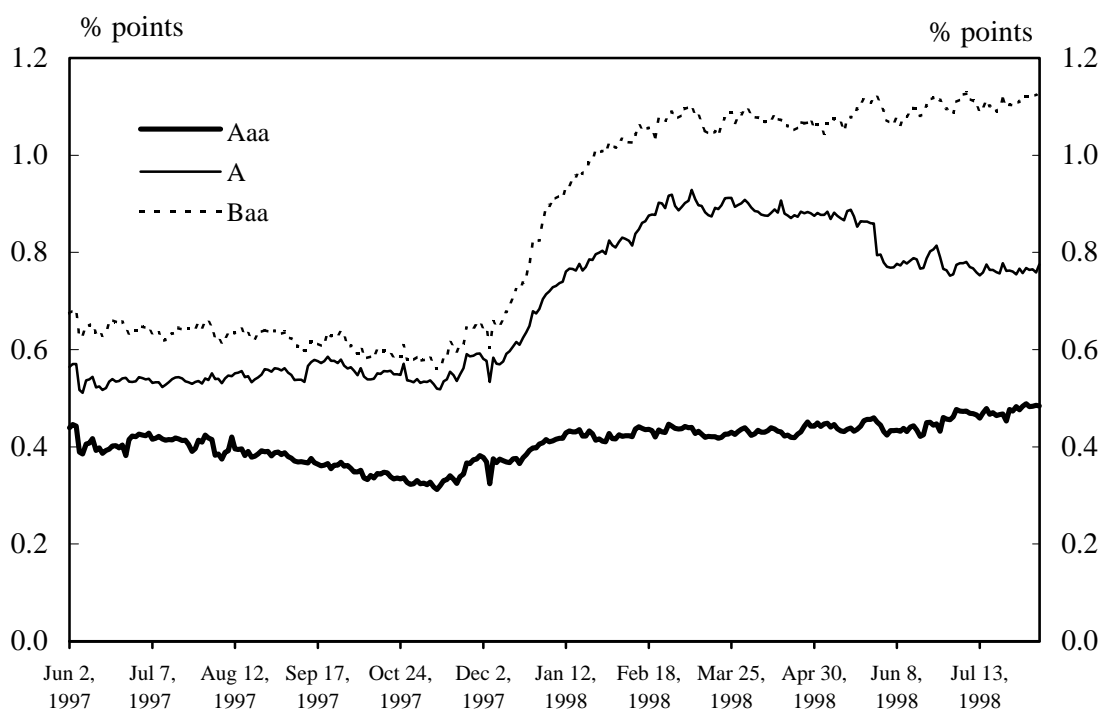
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

(1) Yields of Government and Corporate Bonds by Rating ^{1,2}



(2) Yield Spreads of Public and Corporate Bonds



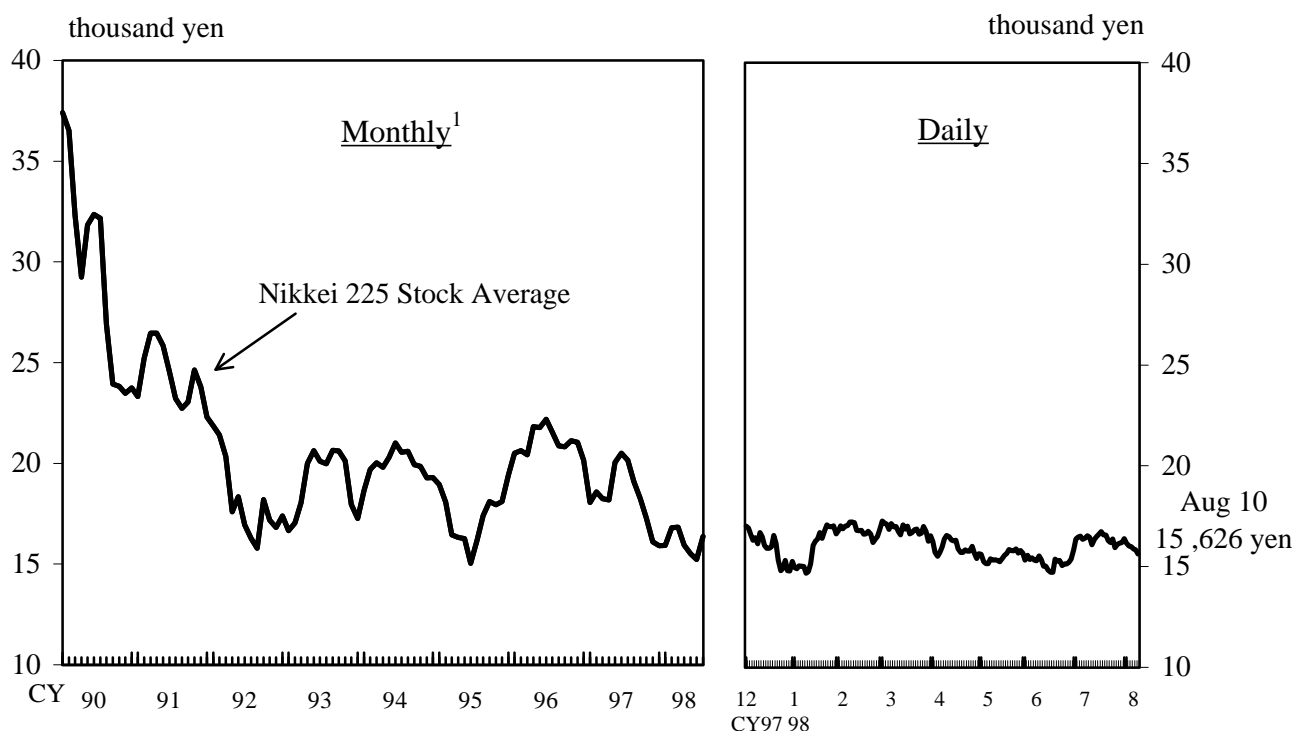
Notes: 1. Yields on bonds with 5-year maturity.

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

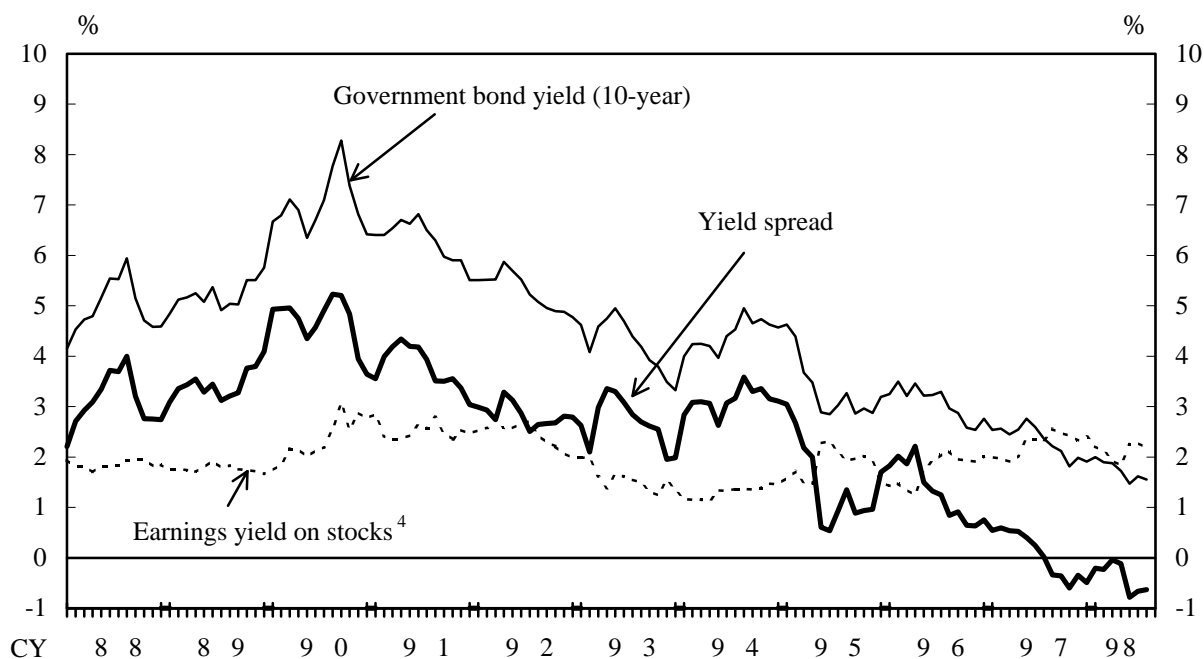
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread^{2,3}



Notes: 1. Data are monthly averages.

2. Data are at end of period.

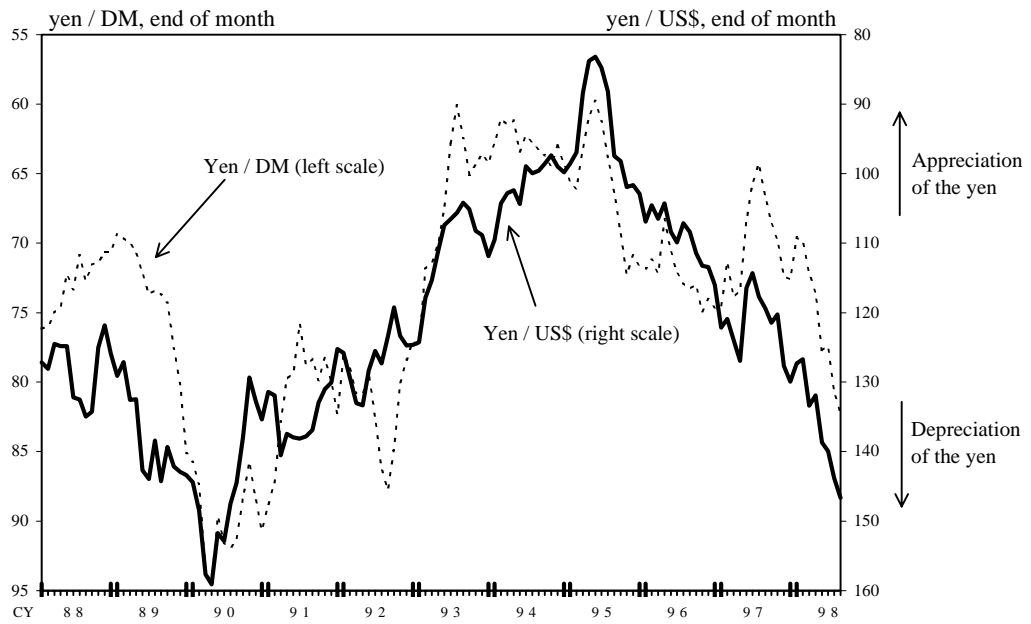
3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.

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

Data are calculated by the Daiwa Research Institute.

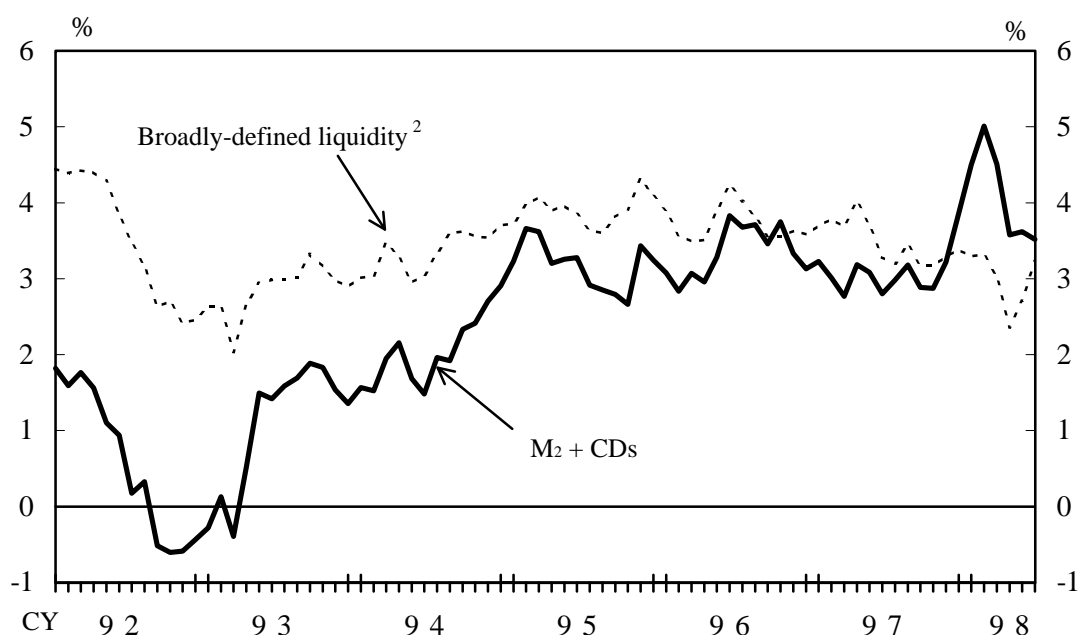
Sources: *The Nihon Keizai Shimbun*; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates

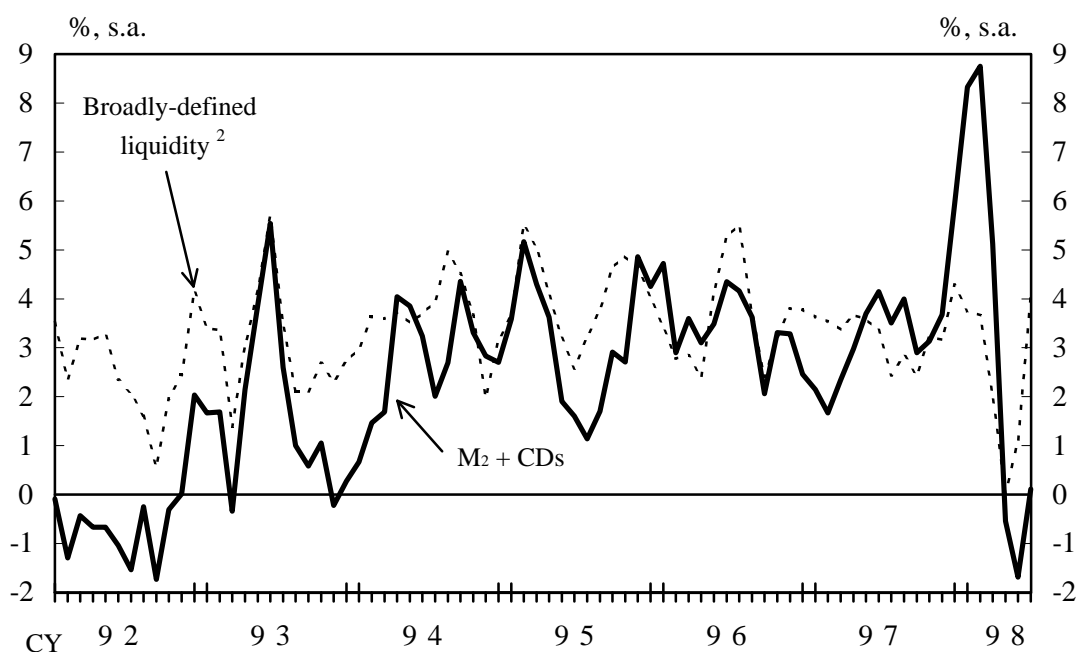


Note: Data for Aug 1998 are as of Aug 10, 1998.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



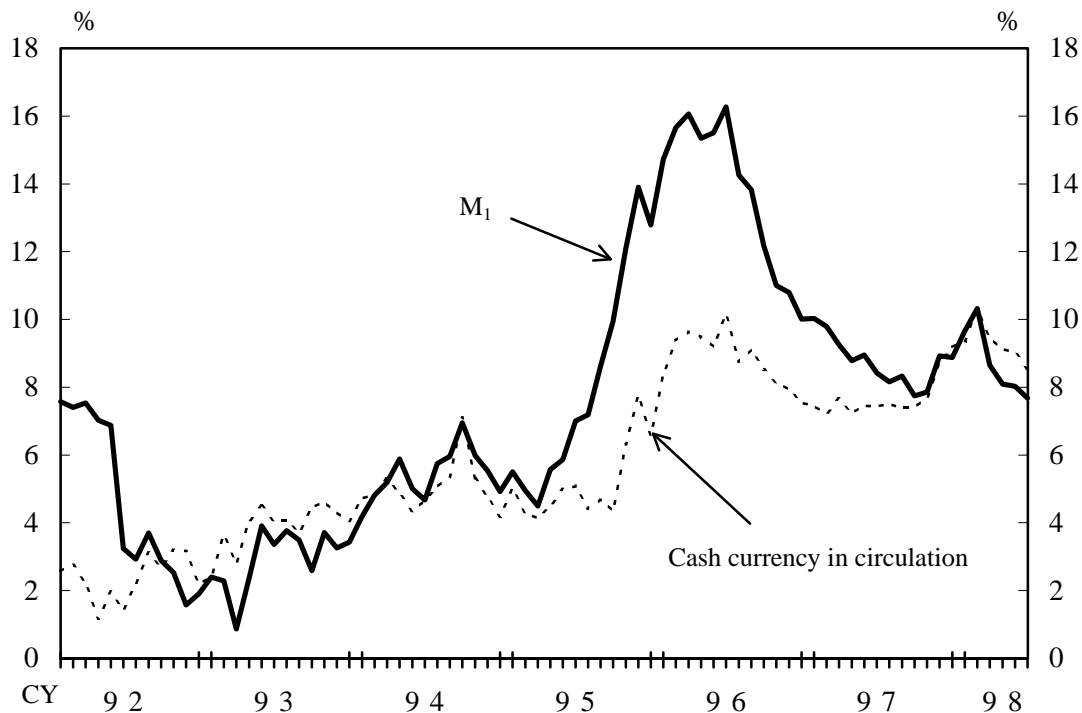
Notes: 1. Percent changes in average amounts outstanding.

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.

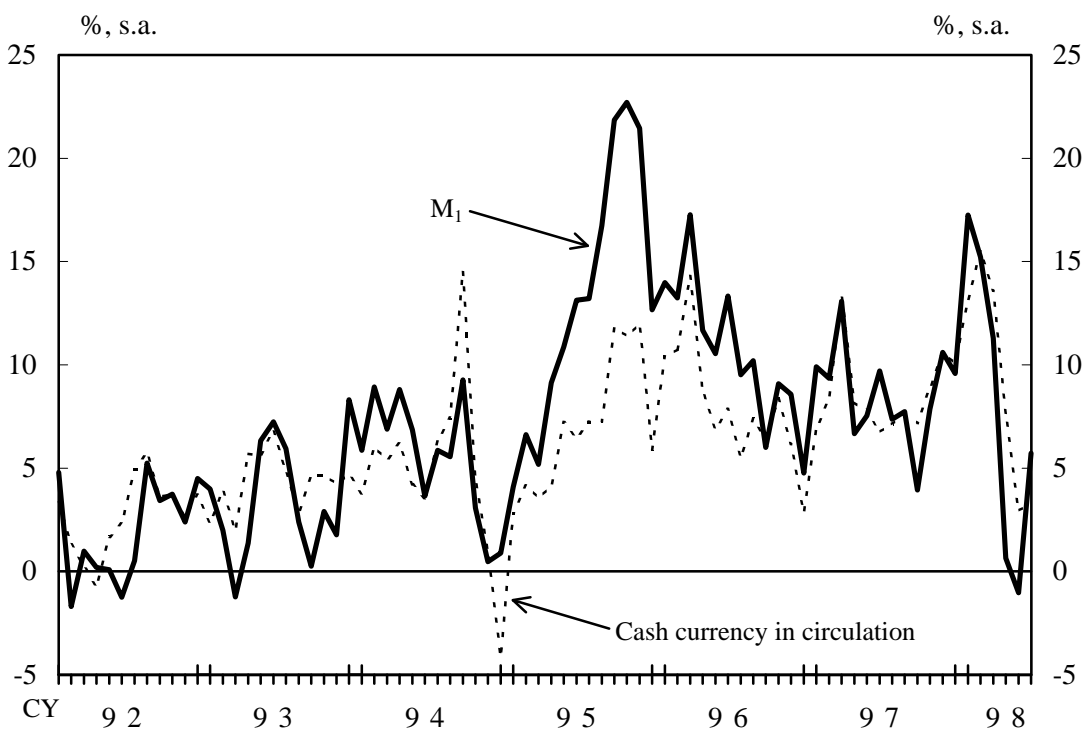
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

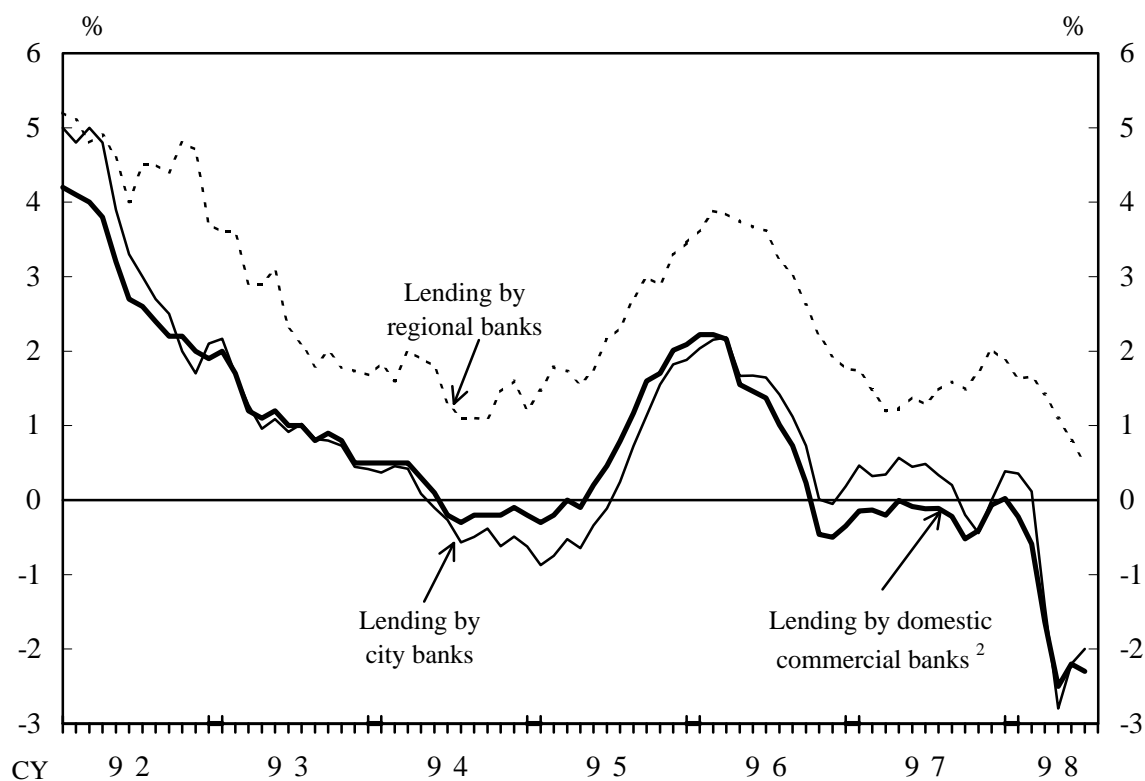


(2) Changes from Three Months Earlier (Annualized)



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

Lending by Domestic Commercial Banks



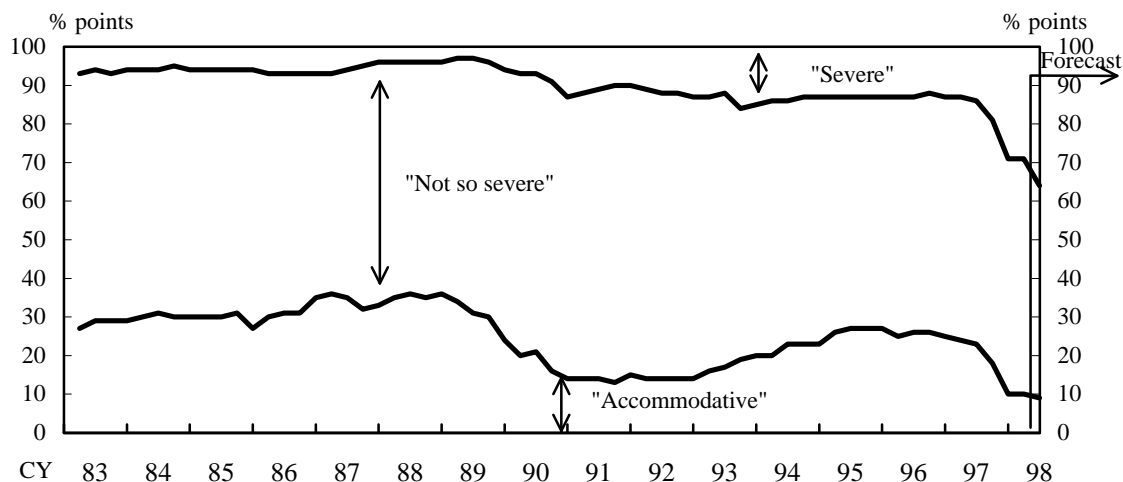
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

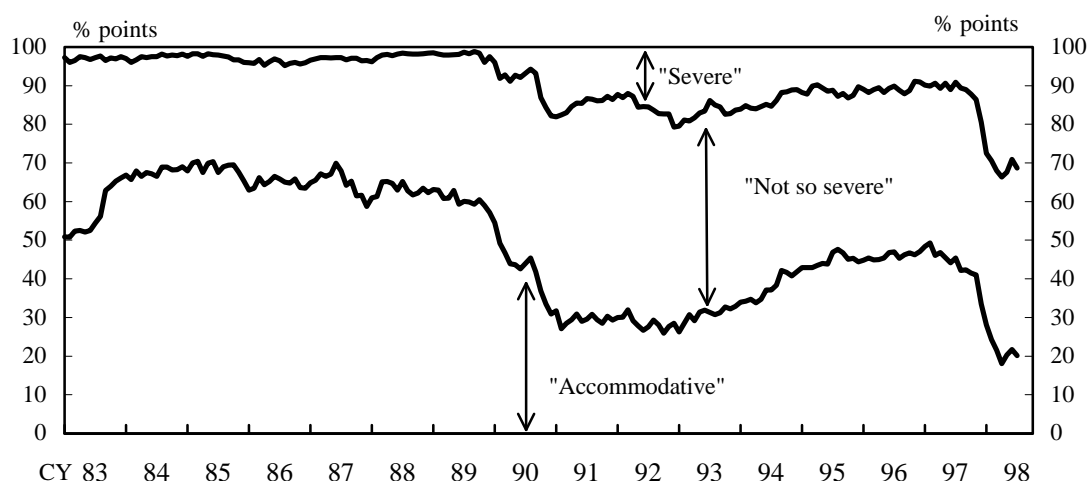
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as perceived by Small Enterprises

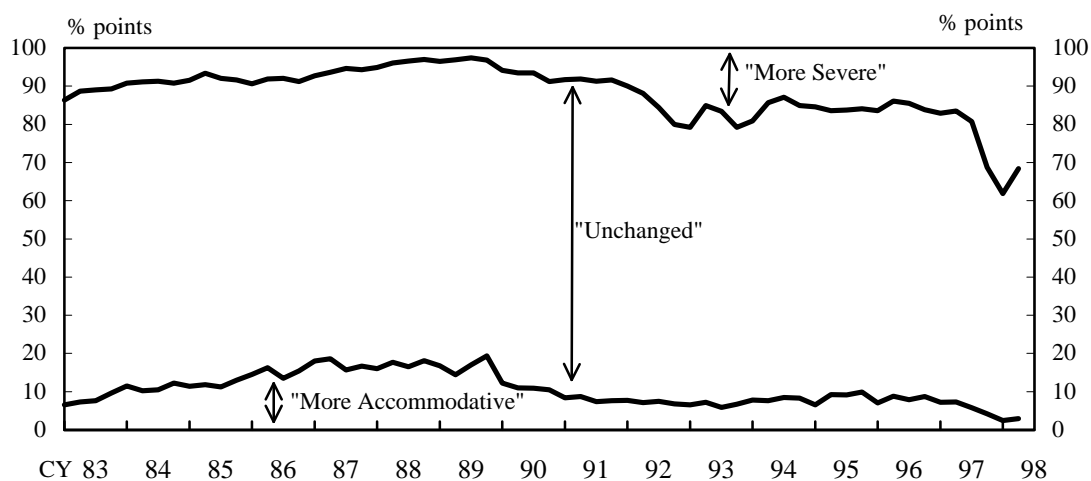
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (June, 1998)



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



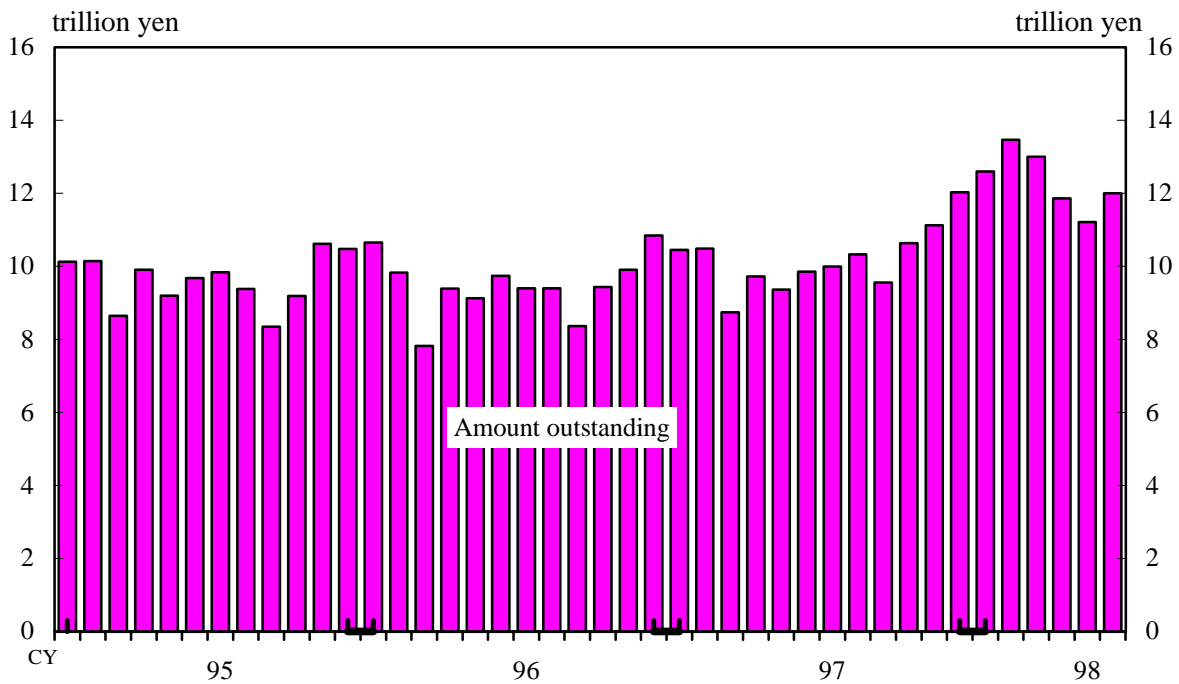
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-June, 1998)



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."

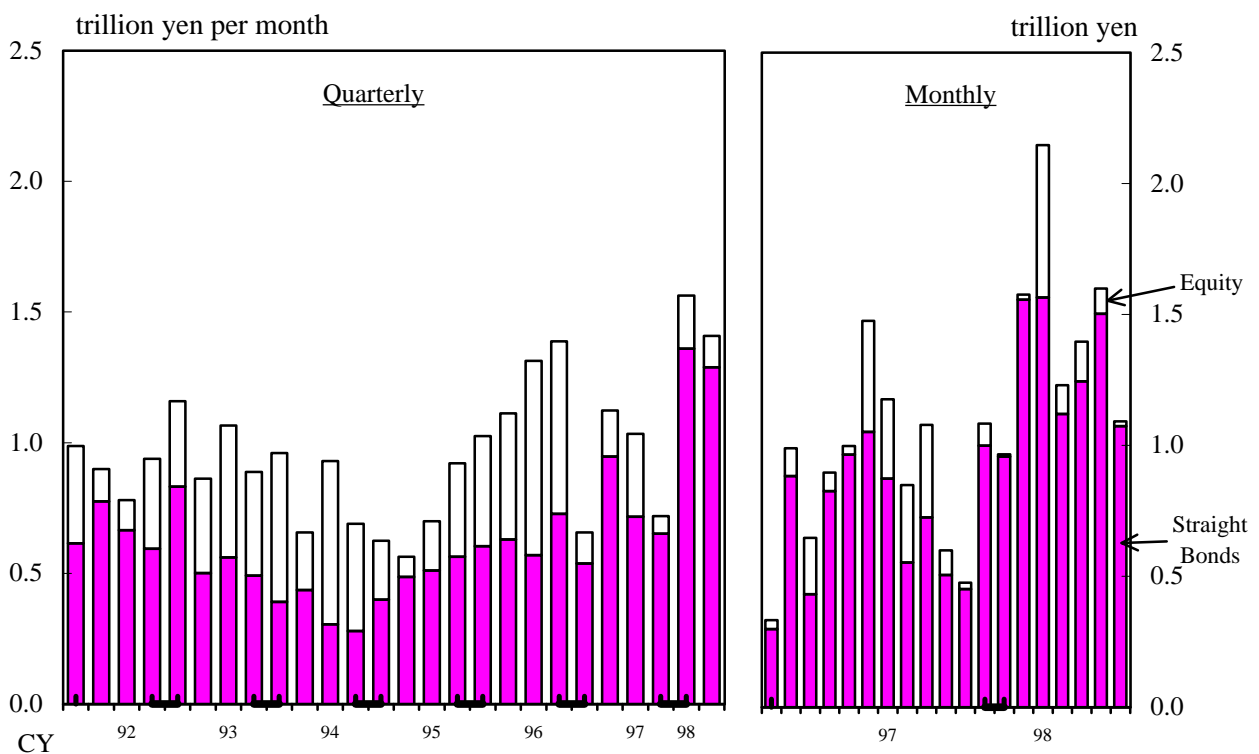
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

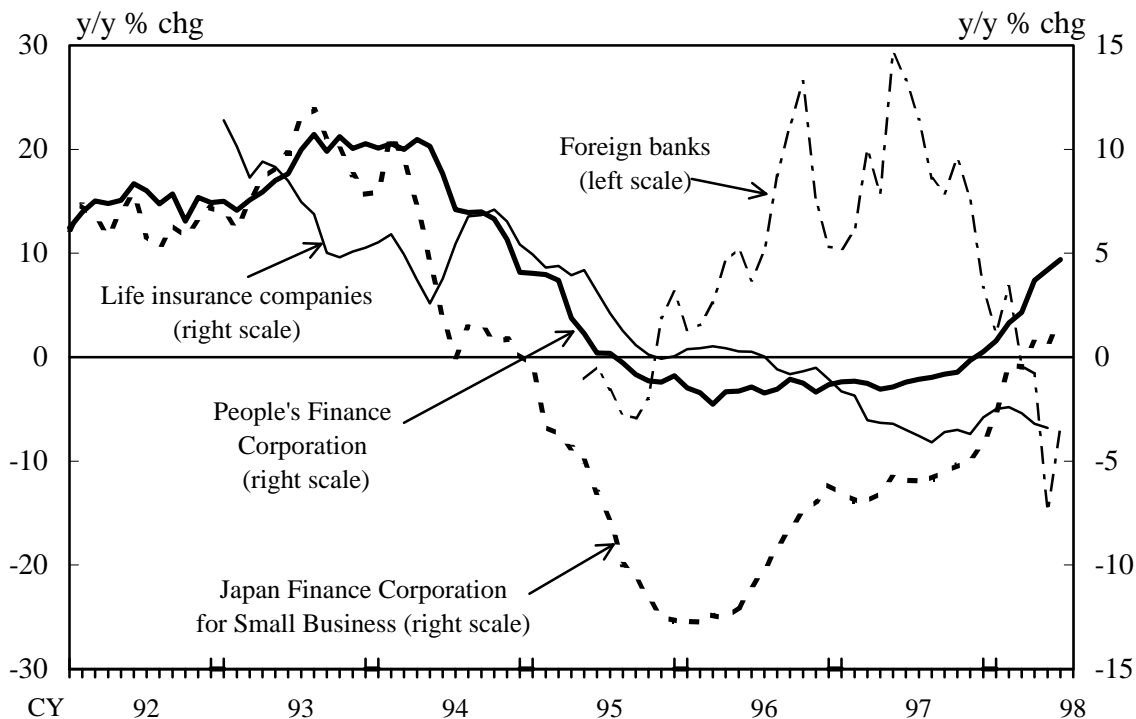


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

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

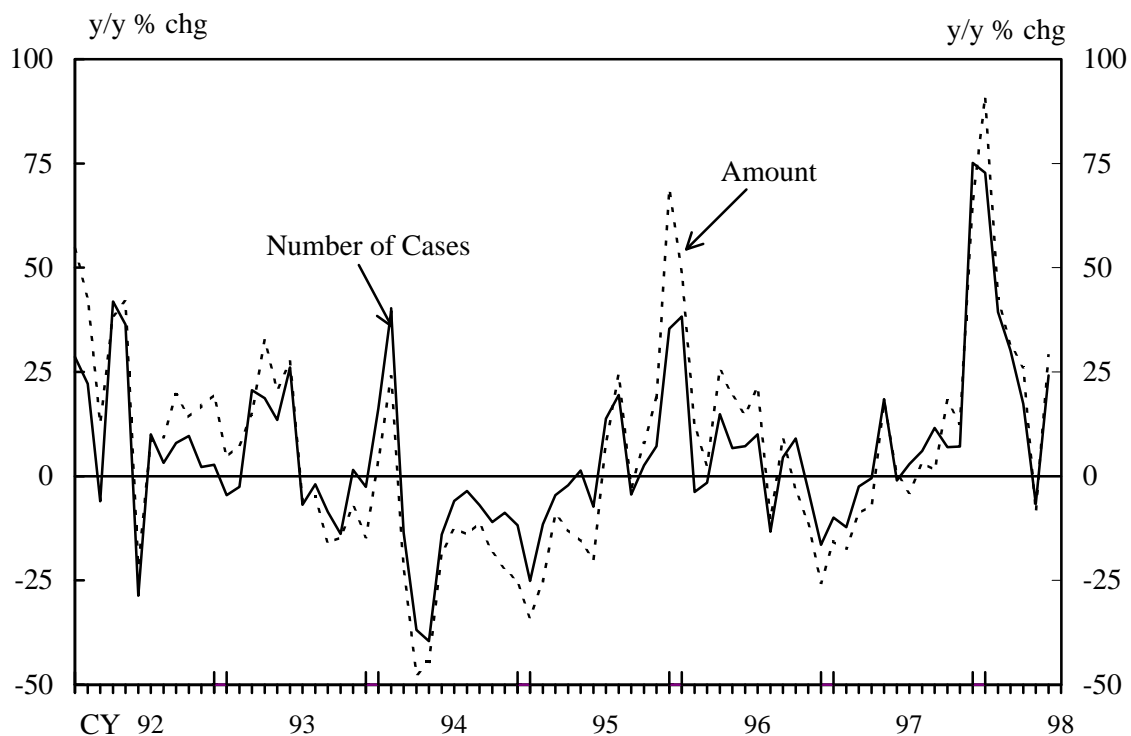
Lending by Other Financial Institutions

(1) Lending Outstanding



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

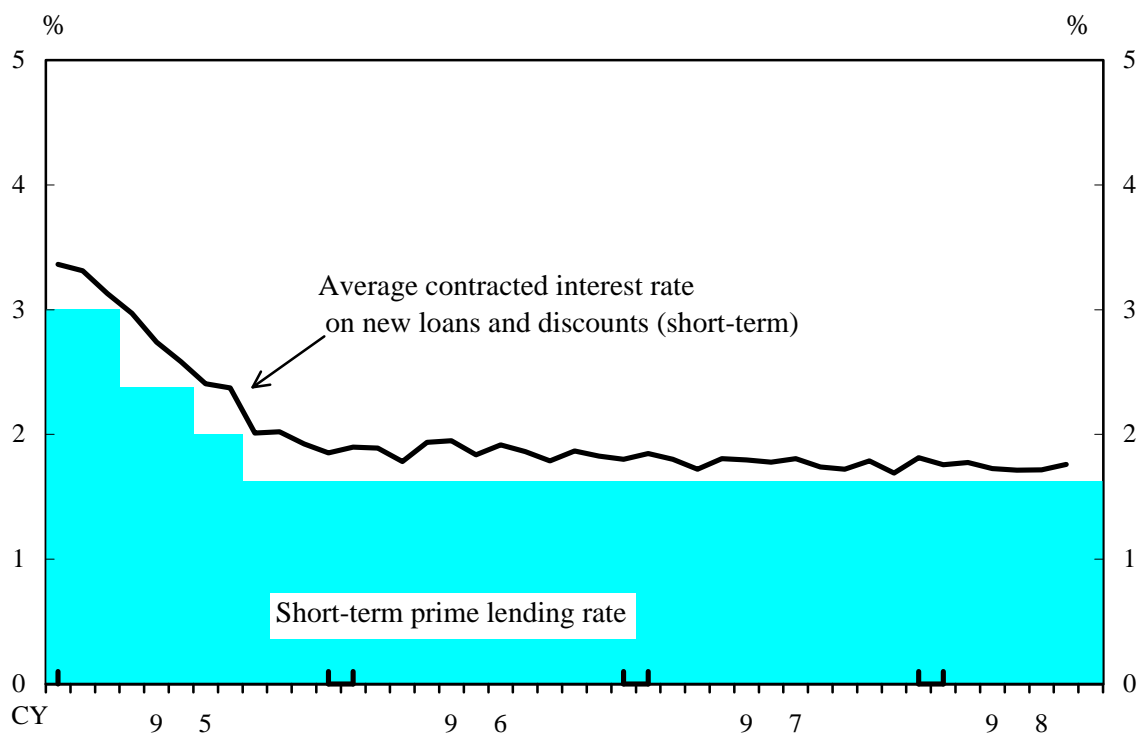
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

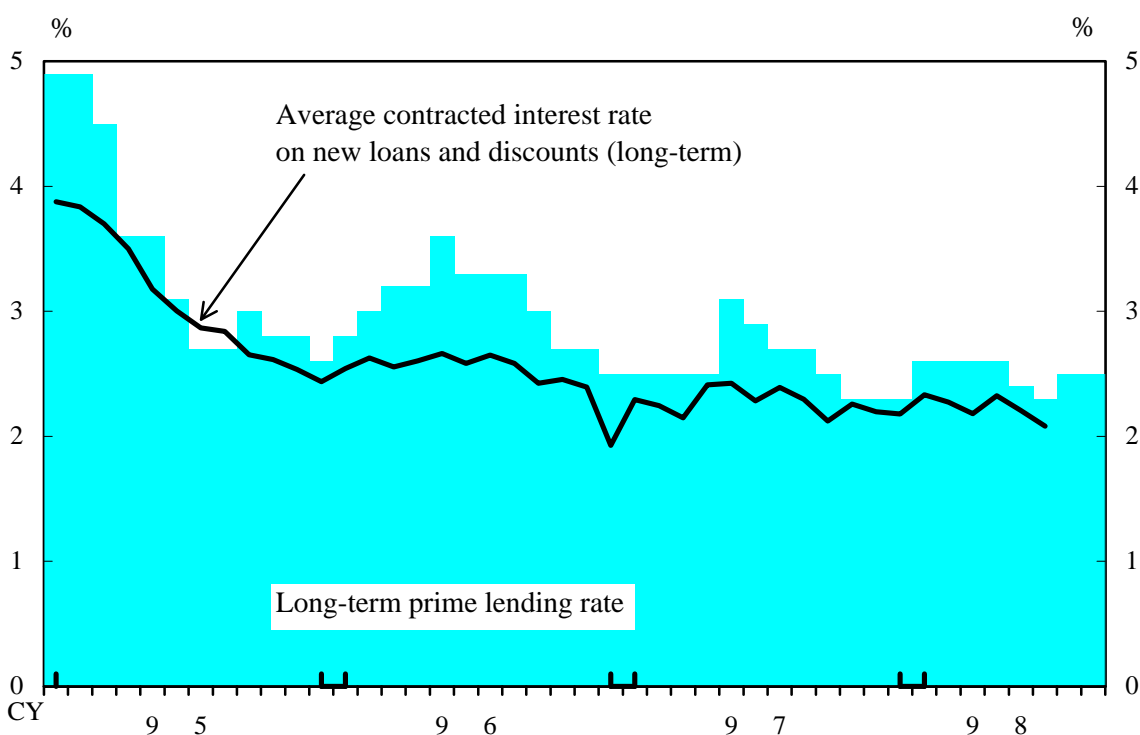
Lending Rates

(1) Short-Term



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

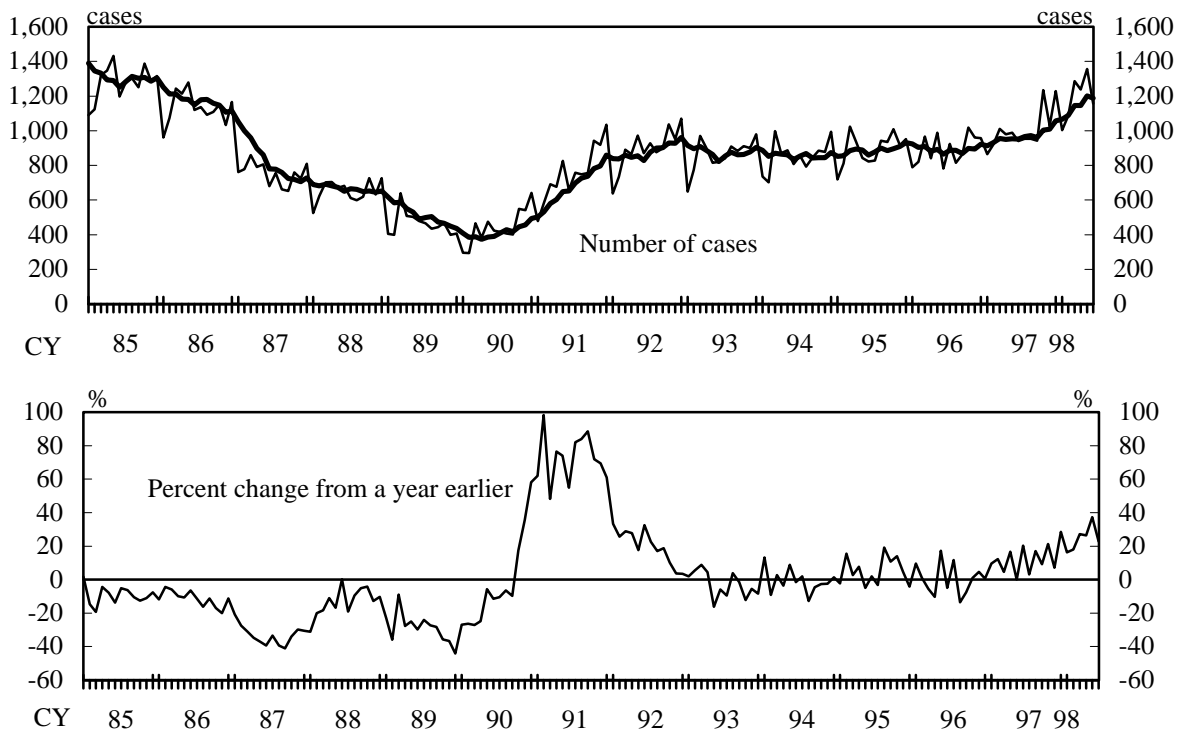
(2) Long-Term



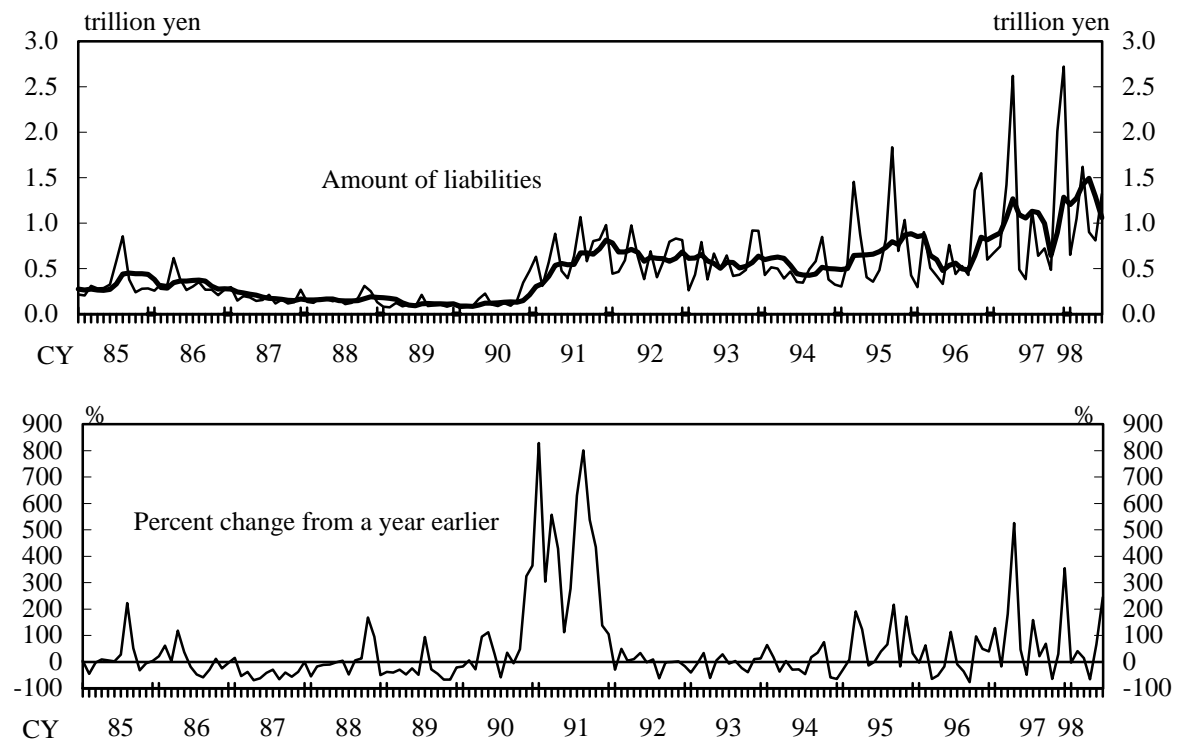
Source: Bank of Japan, "Economic Statistics Monthly."

Corporate Bankruptcies

(1) Number of Cases



(2) Amount of Liabilities



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

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