

Monthly Report of Recent Economic and Financial Developments¹

September 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 (exports minus imports) are increasing mainly due to a decline in imports. However, business fixed investment has been decreasing significantly, and housing investment has declined further. Private consumption has not yet shown a recovery despite the special income tax reduction. Against this background of weak final demand, production has been reduced substantially. As a result, some industries have shown improvements in inventory adjustments, but the level of inventories is still high as a whole. With the decline in expenditure and production, corporate profits continue to decrease, and the decline of employee income is accelerating somewhat. In addition, the ratio of job offers to applications records a historically low level, and the unemployment rate remains at a high level. As a whole, the employment and income conditions have deteriorated further.

As the above indicates, there are continued negative interactions of production, income, and expenditure. Given the current considerably low level of economic activities, the economy is unlikely to transit immediately to a self-sustained recovery led by private demand, although a further deterioration in the economy is expected to cease gradually from the effects of the comprehensive economic stimulus package. Additionally, attention should be paid to possible negative effects on the real economy from financial developments including the recent fall in stock prices. In these circumstances, the cabinet approved a guideline on budget requests by ministries for

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on September 9, 1998.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on September 9, as the basis of monetary policy decisions.

fiscal 1999. This guideline intends to stimulate the economy by allocating ¥4 trillion to the special budgetary provision on the condition that the Fiscal Structural Reform Act is suspended. In addition, the bills to rebuild the stability of the financial system are being deliberated at the Diet, and the reduction exceeding ¥6 trillion in personal income taxes and corporate taxes is expected to be discussed in detail. 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 are lowering below the previous year's level. With respect to the outlook, the downward pressure from domestic factors is unlikely to weaken considerably reflecting the already large output gap, despite the expected effects of the comprehensive economic stimulus package. Hence, prices are likely to be weak for some time.

In the financial markets, stock prices dropped considerably in late August and still remain unstable, due to the heightened uncertainty over the problems with the financial system and the worldwide stock market plunge triggered by Russia's financial crisis. Meanwhile, interest rate spreads, such as the rate differential between Euro-yen deposits and treasury bills, the Japan premium, and the yield differential between private and government bonds, expanded against the background of intensified market concern toward credit risks of Japanese financial institutions. Nevertheless, both long- and short-term interest rates declined slightly as a whole, which seemingly indicates that some market participants anticipated additional monetary easing.

With respect to corporate finance, some firms are moving to resume securing on-hand liquidity against the cautious lending stance of private banks, although credit demand for real economic activities remains sluggish. Consequently, the issuance of corporate bonds and commercial paper continues to increase, and the private bank lending, measured by annual percent changes, has escaped further decline so far. In addition, the growth of money stock appears to hold back its recent decelerating trend.

However, some firms, especially small and medium-sized ones, continue to face a severe environment in terms of both funds availability and fund-raising costs. This influence on the 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, although no distinct increase had been observed through July. With the front-loading of public-sector investment into the first half of the fiscal year and the implementation of the supplementary budget for fiscal 1998 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. Exports to Asia are still declining due to the decrease in domestic demand in this region. The pace of decline, however, is slowing because the limitations on the availability of foreign currency have eased somewhat in some Asian countries. As a result, real exports overall are bottoming out. Meanwhile, real imports remain on a declining trend, reflecting the stagnant domestic demand and the continuing production cutbacks in Japan. Consequently, net exports (exports – imports) are increasing in terms of the real trade balance.³ The nominal current account surplus expanded through the first quarter due to the reduction in import prices of raw materials such as crude oil.⁴ In April, the nominal current account surplus decreased due to a temporary decline in the income surplus, but for the entire second quarter it increased slightly over the first quarter, mainly because the real trade balance turned to an increase.

As for the future environment for foreign trade, the real effective exchange rate of the yen is increasing slightly at present, but still around the levels that prevailed during the first half of 1997. Therefore, the price competitiveness of Japanese

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

⁴ 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.

manufactured goods seems to remain strong (Chart 6(1)). The economies in the United States and Europe are expected to remain firm for the time being (Chart 6(2)), and the stagnant domestic demand in Japan is likely to continue for some time. Basically, these factors facilitate an increase in net exports. Some Asian countries, however, are likely to continue economic adjustments for some time. Thus, the future increase in net exports is likely to be gradual. Additionally, the impact of the recent world-wide decline in stock prices on each country's economy has to be carefully monitored.

Business fixed investment has been declining sharply. Shipments of general capital goods, which reflect the current trend of business fixed investment, declined substantially during the second quarter, and fell further in July compared to the second quarter.⁵ Leading indicators, such as machinery orders and nonresidential construction starts, also continue to decline in both the manufacturing and nonmanufacturing sectors (Chart 7-1). Thus, business fixed investment is presently in a serious adjustment phase.

As for the future developments, even after accounting for the effects of the comprehensive economic stimulus package, judged from the present worsening in corporate profits and the large decline in equipment operating ratios, business fixed investment is not expected to recover immediately from the adjustment phase. According to the Bank of Japan's *Tankan – Short-term Economic Survey of Enterprises* and other surveys, the investment stance at small firms in particular is becoming increasingly cautious amid the further worsening of corporate profits, and business fixed investment is continuing to decline at a rapid pace (Chart 7-2).⁶

⁵ On a seasonally adjusted basis, shipments of general capital goods declined by a quarter-to-quarter 0.6 percent in the first quarter, 10.2 percent in the second quarter, and 0.4 percent in July compared to the second quarter.

⁶ For example, according to the "Survey on Plant and Equipment Investment of Small Businesses in Commerce and Service Businesses" released by the Small and Medium Enterprise Agency and the Japan Finance Corporation for Small Businesses in late August (conducted in June 1998; 9,725 valid responses), the year-to-year decline in the investment plans for fiscal 1998 is substantial compared with the surveys conducted at the same time during the recession of the early 1990s and in fiscal 1997.

Furthermore, the recent drop in stock prices and the increasingly harsh fundraising environment for certain firms may lead to a still more cautious stance in business fixed investment. Consequently, future trends in business fixed investment continue to warrant careful monitoring, including the materialization of measures to rebuild the stability of the financial system, additional economic stimulus measures such as the reduction of personal income taxes and corporate taxes, as well as the effects of these measures on corporate sentiment.

As for private consumption (Chart 8), sales of household appliances remain firm and particularly sales of personal computers increased notably with the introduction of new products. Sales at department stores and chain stores, however, remain lackluster overall, and sales of passenger cars are still at a low level except for those of some new models. Outlays for services such as travel remain weak. According to these recent indicators, private consumption still shows little sign of recovery despite the special income tax reductions, including the additional reduction incorporated into the supplementary budget for fiscal 1998 which has already started. This may be caused by the sluggish growth in disposable income amid the continued worsening of employment and income conditions despite the effects of the special income tax reductions as well as the fact that consumer sentiment is becoming more cautious (Chart 9).

As for housing investment (Chart 10), housing starts (in terms of the seasonally adjusted annual rate) had remained at a low level of about 1.30 million units since the summer of 1997 through the first quarter of 1998, but declined to 1.23 million units during the second quarter, and fell further to 1.10 million units in July.

Regarding the outlook for household expenditures, the special income tax reduction incorporated into the supplementary budget for fiscal 1998 is expected to continue underpinning household income. Nevertheless, as the worsening of employment and income conditions has recently become more pronounced, it is possible for consumer sentiment to become more cautious. Therefore, future trends in household expenditures continue to warrant careful monitoring, including the contents of the personal income tax reduction that will be discussed in detail and the influence of these tax cuts on consumer sentiment.

Reflecting these developments in final demand, industrial production marked a large quarter-to-quarter decline of 5.1 percent in the second quarter 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. Industrial production declined slightly also in July, falling 0.4 percent compared to the second quarter (Chart 11). As a result, inventory adjustments progressed for final-demand goods industries, including a substantial decline in automobile inventories (Chart 12). A large accumulation, however, remains for production goods. Consequently, further inventory adjustments are still required in the manufacturing industry as a whole, and according to industry interview surveys and other data, industrial production in the third quarter is likely to remain on a downward trend as final demand is expected to remain stagnant.⁷

Employment and income conditions are becoming more severe due to the stagnant final domestic demand and the substantial decline in industrial production. In the labor market (Chart 13), the number of new job offers continues to decline rapidly, especially in the manufacturing and construction industries. In July, the ratio of job offers to applications fell to 0.50, the lowest level ever recorded since the start of the statistics in 1963. (The previous record low was 0.51 in June 1998 and also in January 1978). The unemployment rate still remains at an extremely high level, although it declined slightly to 4.1 percent in July⁸ from 4.3 percent in June, which recorded a historical high since the start of the statistics in 1953. As for the background to this worsening of the labor market (Chart 14), first the number of corporate bankruptcies continues to rise. Second, employment is restricted even in

⁷ Industrial production (as announced by the Ministry of International Trade and Industry; seasonally adjusted by X-11) posted a large quarter-to-quarter decline of 5.1 percent in the second quarter and is projected to increase slightly in the third quarter (0.1 percent) based on the production forecast indices. These figures, however, may be influenced by calendar factors. After accounting for this influence, industrial production is projected to continue declining (3.5 percent in the second quarter and 1.6 percent in the third quarter; seasonally adjusted by X-12-ARIMA).

⁸ The decline in unemployment was affected by an increase in the number of individuals who gave up job hunting and thus were no longer counted as unemployed statistically.

the construction, wholesale and retail industries, which created new jobs during the employment adjustment phase in the early 1990s. Third and notably, small firms, which had been increasing employment, are now adjusting employment at an increasingly rapid pace as well as business fixed investment, faced with worsening business performance.⁹ Amid these developments, in July the number of employees (at establishments with at least five employees) dropped below the previous year's level (a decline of 0.1 percent) for the first time since the start of the statistics in 1990. As regards wages (Chart 15), while overtime compensation remains well below the previous year's level, regular compensation fell below the previous year's level in July for the first time since the start of the statistics (a decline of 0.3 percent). As for special payments, summer bonuses were significantly below the previous year's level. As a result, the year-to-year decline in employee income has been expanding.

2. Prices

With regard to price developments, import prices (Chart 17(1)) are firming on a yen basis. This is because the speed of decline in import prices on a contracted currency basis is slowing, reflecting prior developments in international market commodity prices and the depreciation of the yen. As for domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;¹⁰ Chart 17(3)), the rate of decline for goods closely related to import prices has been slowing substantially. However, the prices of steel and construction-related materials continue to drop due to further inventory adjustments, 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

⁹ According to employment data by scale of establishment based on the Monthly Labor Survey, the year-to-year growth in the number of employees at establishments with 5-29 workers is declining rapidly, indicating that small firms are adjusting their employment at an increasingly rapid pace.

¹⁰ Industrial and commercial electric power consumption charges are set relatively high during July-September, when the consumption volume increases substantially. Here, in order to view the fundamental changes in domestic wholesale prices, adjustments are made to exclude such factors that result in large seasonal fluctuations.

quarter-to-quarter 0.5 percent in the first quarter and 0.8 percent in the second quarter, and by 0.3 percent in July-August compared to the second quarter).

As for corporate service prices (Chart 18(1)), the year-to-year decline expanded slightly in the second quarter due to price reductions for leasing, rentals and advertising and remained at the same level in July . (The year-to-year decline in corporate service prices was 0.1 percent in the first quarter, 0.2 percent in the second quarter, and 0.2 percent in July).¹¹

Consumer prices (excluding perishables; Chart 18(2)) fell slightly below the previous year's level in July, as the decline in the prices of goods expanded and the increase in service-related prices slowed further. (The year-to-year changes in consumer prices were +0.5 percent in the first quarter, +0.1 percent in the second quarter, and -0.1 percent in July). As a result, excluding the rise in medical service charges due to the medical insurance system reform of September 1997, the year-to-year changes 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, and declined further to approximately -0.5 percent in July.

Regarding the environment for prices overall, despite the expected effects of the comprehensive economic stimulus package, the downward pressure on prices from domestic factors is unlikely to ease substantially, reflecting the already large output gap. Additionally, the downtrend of international market commodity prices is accelerating again and wages continue to decline. These factors may exert downward pressures on prices in the future. Judged from these developments, overall prices are likely to remain 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 19(1) and 20 to 22) 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 rate futures (on an interest rate basis) rose briefly in late August, but then declined from the end of August through early September on expectations of additional monetary easing among some market participants. As for spot rates, three-month Euro-yen interest rates are holding at a high level, with the strong demand on funds necessary for the half-year settlement at the end of September. The Japan premium has recently been expanding due to the strong needs for foreign currency by Japanese banks. The three-month TB rate declined gradually during August, reflecting the stronger preference for safe assets.

Yields on ten-year government bonds (benchmark) (Chart 19(2)) declined gradually from mid-July, as the speculative buying backed by the anticipation of permanent tax cuts ran its course. The pace of decline has accelerated from late August to record historical lows. This decline was apparently influenced by the stronger preference for safe assets as well as the weakened market outlook on the economy following the worldwide stock market plunge and the heightened uncertainty over the problems with the financial system.

As for yields on private bonds (Charts 24 and 25), the yields on bank debentures basically held steady. Corporate bond yields increased somewhat in late August after gradually declining from mid-July.

Stock prices (Chart 26(1)) softened from mid-July, and dropped considerably in late August due to ① the sharp decline on U.S. stock markets triggered by Russia's financial crisis and ② the heightened uncertainty over the problems with the financial

system. At the end of August, stock prices posted their lowest level since the collapse of the “bubble” economy. Although stock prices picked up in early September, the price movements still remain unstable.

Because stock prices fell despite the decline of the yields on long-term government bonds, the yield spread (the government bond yield minus the expected earnings on stocks; Chart 26(2)), is now declining further. This suggests that the market outlook on future growth rates became even more pessimistic and that the risk premium is rising.

On the foreign exchange market (Chart 27), the yen fell to 147 yen to the U.S. dollar in mid-August, and then moved in a wide band between 141 and 147 yen to the U.S. dollar. From the end of August, the yen appreciated with some fluctuations and is recently moving between 132 and 135 yen to the U.S. dollar, as uncertainty has emerged over the robust strength of the U.S. economy.

(2) Monetary Aggregates and Corporate Finance

The year-on-year growth in money stock (Charts 28 and 29) in terms of $M_2 +$ CDs had been declining since March, but recently appears to be leveling off. (The year-on-year growth in $M_2 +$ CDs was 4.7 percent in the first quarter of 1998, 3.7 percent in the second quarter, 3.4 percent in June, and 3.5 percent in July).

Lending by private banks (monthly average outstanding balance basis; Chart 30), 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. It should be noted, however, that the percentage of the year-on-year decline has generally been holding steady recently.

Looking at the background to these monetary aggregate developments in some detail, the lending attitude of private financial institutions remains cautious with the decline in business conditions accompanying the overall worsening of the economy.

Recent surveys (Chart 31) show that a high percentage of small enterprises still perceive the lending attitude of private financial institutions to be “severe.”

Regarding the credit demand of private firms, the demand for real economic activities is greatly depressed due to decreased business fixed investment and other factors. Some corporations, however, are moving to resume securing on-hand liquidity against the cautious lending stance of private financial institutions.

Fund-raising on the capital market and borrowing from government financial institutions is increasing at a gradual pace overall (Charts 32 and 33). Corporate bond issuance remains at a high level, especially by firms with high credit ratings. CP issuance is also on a rising trend with the beginning of full-scale efforts by corporations to raise funds necessary for the half-year settlement at the end of September while the Bank of Japan is providing the ample funds through its CP open market operations.

Turning to the fund-raising cost for firms, the average contracted interest rates on loans and discounts (Chart 34) remained essentially level for both short- and long-term contracts from the autumn of 1997 through this July. However, the Euro-yen rate, which is used as the base rate for spread lending, has remained at a high level, and the long-term prime rate rose in July. Additionally, it appears that lending margins continue to increase gradually. It is therefore necessary to pay close attention to the extent that such upward pressures on lending rates will affect the actual fund-raising cost for firms.

Certain firms 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.¹²

¹² The number of corporate bankruptcies is on a rising trend (Chart 35).

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	Propensity to consume and 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	Interest Rates
Chart 20	Short-Term Money Market Rates
Chart 21	Euro-Yen Interest Rates Futures (3-Month)
Chart 22	Japan Premium in the Eurodollar Market
Chart 23	Implied Forward Rates (1-year)
Chart 24	Yields of Bank Debentures
Chart 25	Corporate Bond Yields
Chart 26	Stock Prices
Chart 27	Exchange Rates
Chart 28	Money Stock (M2+CDs, Broadly-Defined Liquidity)
Chart 29	Money Stock (M1, Cash Currency in Circulation)
Chart 30	Lending by Domestic Commercial Banks
Chart 31	Lending Attitude of Financial Institutions as perceived by Small Enterprises
Chart 32	Private-Sector Fund Raising in the Capital Markets
Chart 33	Lending by Other Financial Institutions
Chart 34	Lending Rates
Chart 35	Corporate Bankruptcies

Main Economic Indicators (1)

	y/y % chg.						
	97/Q4	98/Q1	Q2	98/May	June	July	Aug.
Index of expenditure level (all households)	-2.3	-4.7	-0.8	-0.3	-0.5	p -2.7	n.a.
Sales of department stores	-3.0	-9.8	0.6	-0.7	-5.0	p -4.1	n.a.
Sales of chain stores ¹	-5.3	-7.0	0.3	0.9	-2.0	-1.4	n.a.
New passenger-car registrations ²	-13.7	-21.5	-2.1	0.1	-2.2	-0.5	-3.1
Sales of electric appliances (NEBA)	-4.5	-14.1	3.6	7.4	3.2	8.3	n.a.
Outlays for travel (50 major travel agencies)	1.2	-6.2	-2.8	-3.5	-4.4	n.a.	n.a.
Housing starts <s.a., ann. 10,000 units>	130	132	123	125	121	110	n.a.
Machinery orders (from private sector ³)	-13.4	-5.8	-21.7	-28.6	-18.6	n.a.	n.a.
Mining & manufacturing	-2.9	-7.6	-23.7	-31.7	-21.9	n.a.	n.a.
Nonmanufacturing ³	-20.4	-4.2	-20.1	-26.3	-15.9	n.a.	n.a.
Construction Starts (private, nonresidential use)	-8.0	-7.8	-13.8	-3.1	-25.3	-5.5	n.a.
Manufacturing	-1.4	-7.2	-25.9	-20.0	-29.5	-29.9	n.a.
Nonmanufacturing ⁴	-10.5	-8.0	-8.9	3.7	-23.7	4.2	n.a.
Value of public works contracts	-9.1	-2.2	-6.2	-24.4	0.8	-10.7	n.a.
Real exports <s.a. quarterly (monthly) change>	1.3	-4.9	-0.9	2.7	-5.1	4.9	n.a.
Real imports <s.a. quarterly (monthly) change>	-3.7	-1.5	-7.8	-6.4	9.7	-0.2	n.a.
Industrial production <s.a. quarterly (monthly) change>	-2.5	-1.3	-5.1	-2.0	1.7	p -0.8	n.a.
Shipments <s.a. quarterly (monthly) change>	-2.6	-1.1	-5.1	-0.1	0.9	p -0.6	n.a.
Inventories <s.a. quarterly (monthly) change>	1.6	0.7	-1.9	-1.7	-0.4	p -0.8	n.a.
Inventories/shipments <s.a. 1995=100>	107.0	112.9	111.0	114.4	111.0	p 111.0	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	97/Q4	98/Q1	Q2	98/May	June	July	Aug.
Ratio of job offers to applications <s.a., times>	0.69	0.61	0.53	0.53	0.51	0.50	n.a.
Unemployment rate <s.a., %>	3.46	3.65	4.18	4.14	4.26	4.12	n.a.
Overtime working hours ⁵	-2.5	-5.4	-9.3	-8.1	-9.9	p -8.8	n.a.
Number of employees	1.0	0.0	-0.6	-0.5	-0.8	-1.0	n.a.
Number of regularly employed ⁵	0.8	0.6	0.1	0.1	0.1	p -0.1	n.a.
Nominal wage per person ⁵	0.7	-0.1	-0.6	-0.7	-0.4	p -2.5	n.a.
Domestic wholesale prices index ⁶	-1.0 (0.9)	-1.6 (0.3)	-2.3	-2.3	-2.1	-2.2	-2.1
Consumer prices index (nationwide) ⁶	0.7 (2.2)	0.5 (2.0)	0.4	0.5	0.1	-0.1	n.a.
Excluding perishables	0.8 (2.3)	0.5 (1.9)	0.1	0.0	0.0	-0.1	n.a.
Corporate service prices index ⁶	0.0 (1.8)	-0.1 (1.7)	-0.2	-0.3	-0.2	-0.2	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.3	4.7	3.7	3.9	3.4	p 3.5	n.a.
Number of suspension of transaction with banks	19.0	20.8	28.9	37.3	22.8	28.4	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 establishments 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";

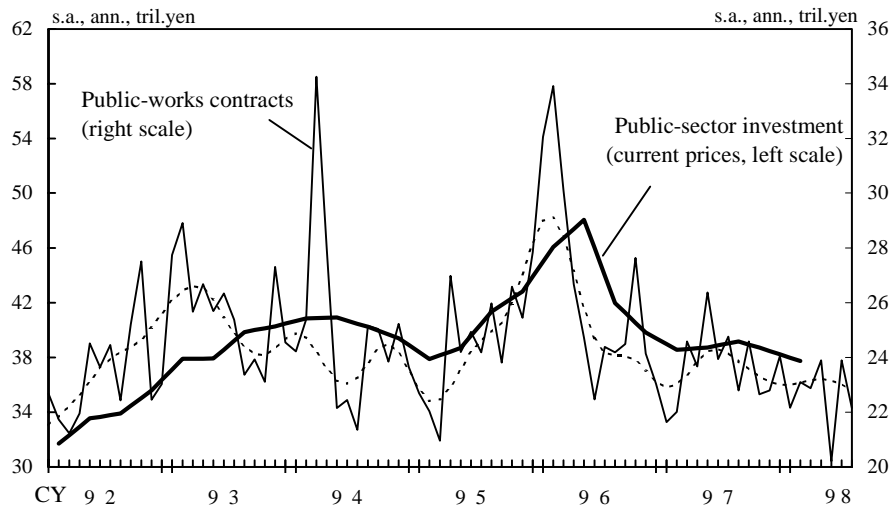
Ministry of Finance, "Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service",

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

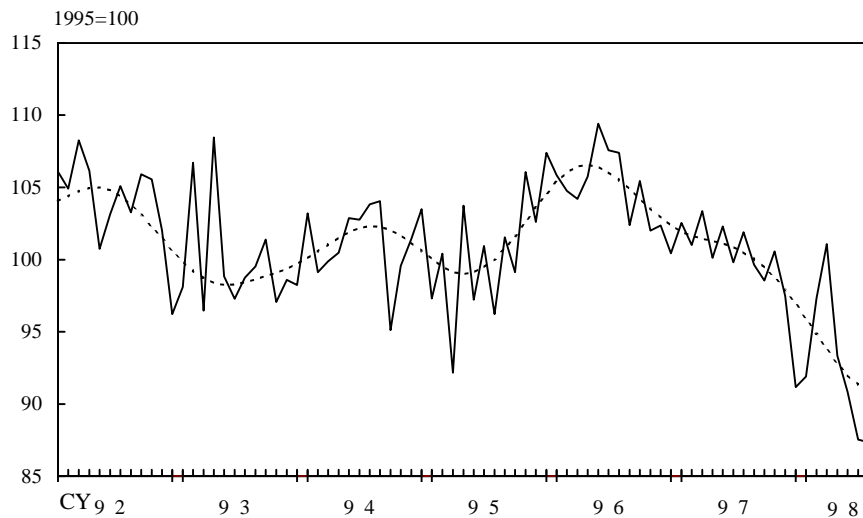
"Economic Statistics Monthly"; Federation of Bankers Associations of Japan, "Suspension of Transaction with Banks."

Public-sector Investment

(1) Public-works Contracts



(2) Shipments of Public Works-related Goods

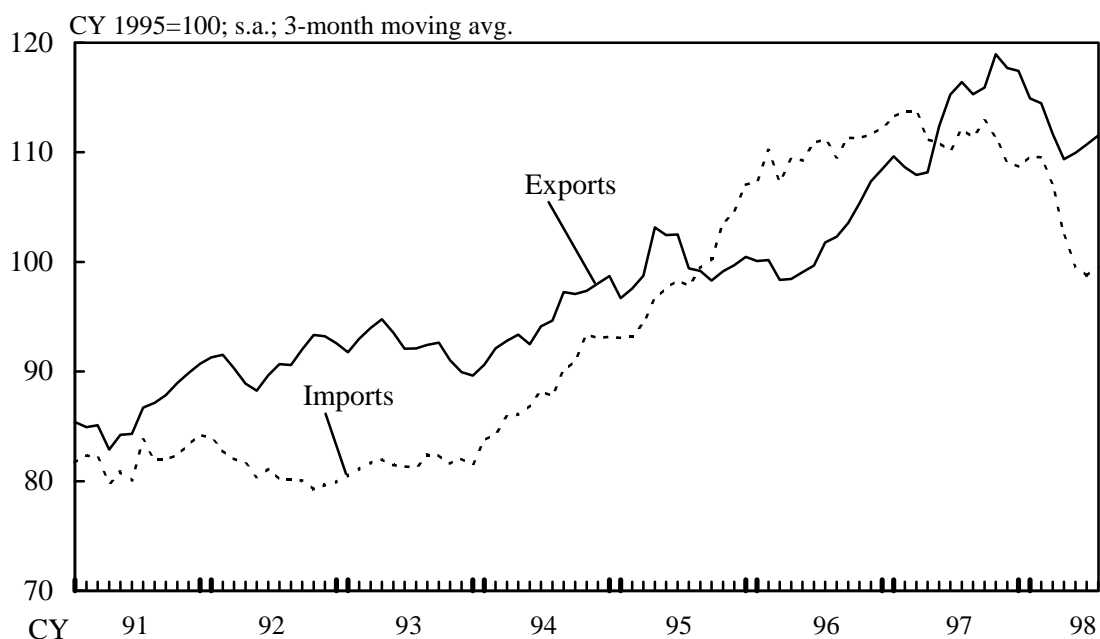


- Notes: 1. In order to follow the monthly movement of public-sector investment, we have compiled the data of shipments of "public works-related goods" by selecting some goods used for public works from "Indices of Industrial Production."
2. The basket of goods used to calculate "public works-related 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(β version). The dotted line is the trend cycle factor.

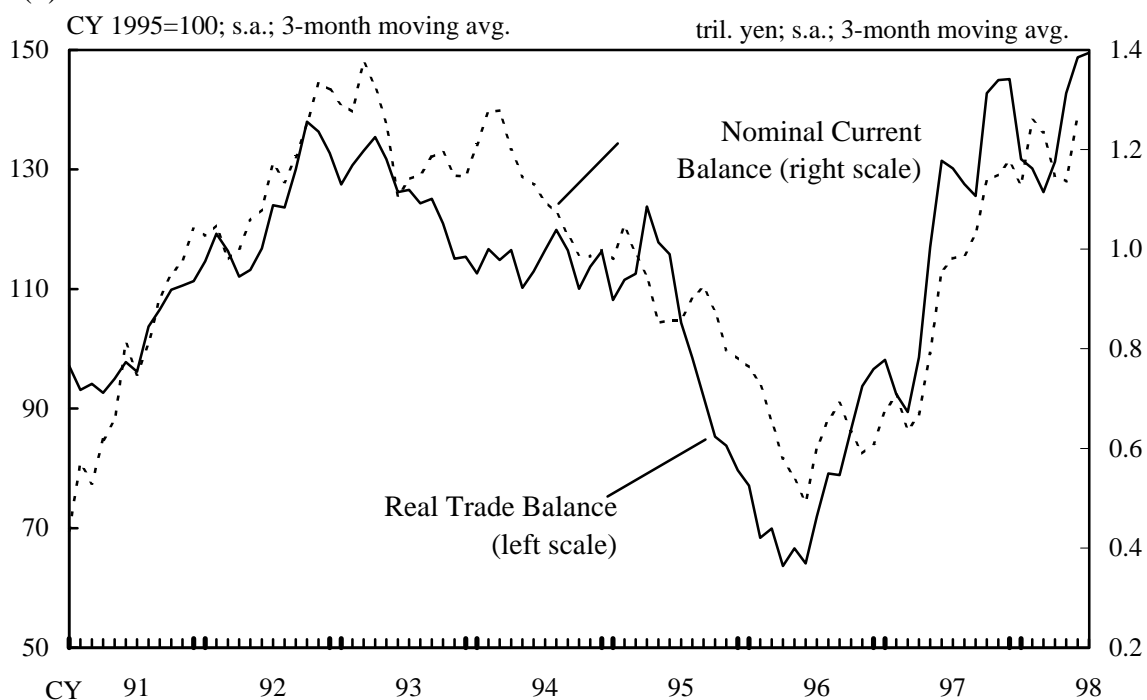
Sources: Economic Planning Agency, "National Income Statistics";
Surely Association for Construction Companies, "Public Works Prepayment Surely Statistics";
Ministry of International Trade and Industry, "Indices of Industrial Production."

External Balance ¹

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account



Note: 1. 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 Jul-Sep	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Jul-Sep	98 May	98 Jun.	98 Jul.
United States	<27.8>	1.8	14.6	0.0	1.8	4.6	-0.8	4.6	-0.9	-2.1	6.4
EU	<15.6>	-1.2	13.8	1.3	5.4	1.3	7.2	5.1	5.1	-4.9	6.9
East Asia	<40.6>	6.1	8.6	0.5	-2.6	-11.7	-7.6	-1.0	-1.0	-5.5	3.2
China	<5.2>	11.0	8.2	-3.9	6.2	-3.9	4.0	-2.8	-7.8	-4.9	3.4
NIES	<24.0>	3.7	10.5	3.1	-0.8	-11.4	-8.7	-2.1	0.2	-4.8	1.1
Korea	<6.2>	6.2	-1.5	-4.0	-2.8	-29.8	-7.0	-2.9	-0.1	-6.7	1.8
ASEAN4 ³	<11.4>	8.9	5.0	-2.8	-10.0	-16.0	-11.3	2.7	0.9	-7.7	8.1
Thailand	<3.5>	3.3	-11.6	-11.8	-15.4	-9.6	-2.3	1.2	25.0	-14.8	5.0
Indonesia	<2.4>	0.9	22.6	3.4	-19.5	-36.0	-26.9	-0.7	-24.7	-0.7	10.7
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	2.2	2.7	-5.1	4.9

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Jul-Sep	98 Oct-Dec	98 Jan-Mar	98 Apr-Jun	98 Jul-Sep	98 May	98 Jun.	98 Jul.
Intermediate goods	<14.7>	5.0	11.2	1.1	0.7	-3.2	2.3	4.2	2.0	1.8	2.3
Motor vehicles and their related goods	<20.5>	-1.7	14.6	2.6	-4.2	-3.0	0.7	6.9	-4.5	-0.7	9.1
Consumer goods ⁴	<6.9>	-1.9	6.3	2.2	2.2	2.3	0.7	-0.9	4.0	-8.1	3.6
Information-related goods ⁵	<18.2>	5.8	18.1	2.0	1.3	-5.5	-5.3	1.6	0.2	-8.0	7.4
Capital goods and parts ⁶	<29.6>	5.1	9.0	-0.1	3.5	-5.8	-2.8	0.8	10.0	-12.3	6.8
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	2.2	2.7	-5.1	4.9

Notes: 1. Seasonally adjusted by X-11. 1998/Q3 figures are July figures converted into quarterly amount.

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

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

4. Excluding motor vehicles.

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

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

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

Real Imports ¹

(1) Breakdown by region

	CY 96	y/y % chg.		97				98			
		97	96	97	98	97	98	97	98	98	
				Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	May	Jun.	Jul.
United States <22.3>	15.5	1.1	0.6	-0.1	0.5	-4.8	1.8	2.7	5.9	-2.8	
EU <13.3>	11.1	-3.6	6.3	-7.1	3.4	-8.5	1.2	-13.9	16.4	-3.7	
East Asia <34.7>	15.1	0.9	-0.8	-4.5	-0.2	-6.0	2.5	-10.3	15.0	-3.0	
China <12.4>	20.4	8.8	0.6	-2.9	0.8	-4.7	6.7	-11.0	12.9	2.5	
NIES <10.4>	9.2	-8.1	-1.5	-5.6	-0.5	-9.0	-3.6	-8.0	9.5	-6.6	
Korea <4.3>	0.7	-3.9	0.4	-8.8	3.7	-10.1	-3.1	-7.4	6.4	-4.5	
ASEAN4 ³ <12.0>	16.4	2.2	-1.6	-5.2	-0.9	-4.7	3.0	-11.6	21.9	-5.6	
Thailand <2.8>	9.4	-0.5	0.4	-2.1	-3.5	-2.7	3.8	-14.8	21.4	-3.5	
Indonesia <4.3>	7.8	-2.3	-1.6	-8.5	0.1	-4.1	3.2	-18.5	36.4	-9.4	
Real imports	10.3	0.9	2.5	-3.7	-1.5	-7.8	3.8	-6.4	9.7	-0.2	

(2) Breakdown by type of goods

	CY 96	y/y % chg.		97				98			
		97	96	97	98	97	98	97	98	98	
				Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	May	Jun.	Jul.
Raw materials ⁴ <27.1>	0.5	-0.5	1.0	0.1	-4.3	-4.4	5.7	-10.0	13.4	0.8	
Intermediate goods <13.7>	4.6	2.7	4.4	-1.5	-2.0	-9.3	5.5	-4.4	9.6	0.8	
Foodstuffs <13.6>	5.1	-3.5	6.8	-6.6	0.9	-2.9	0.3	-6.7	0.5	2.4	
Consumer goods <10.8>	12.3	-10.0	0.0	-9.1	-0.3	-8.9	7.7	-12.7	13.4	3.8	
Information-related goods ⁵ <12.5>	36.8	8.0	-2.4	-3.1	-4.0	-1.2	3.2	-2.6	15.8	-5.4	
Capital goods and parts ⁶ <11.4>	23.1	13.6	5.6	0.3	8.0	-10.8	5.2	0.1	10.8	-1.7	
Real imports	10.3	0.9	2.5	-3.7	-1.5	-7.8	3.8	-6.4	9.7	-0.2	

Notes: 1. Seasonally adjusted by X-11. 1998/Q3 figures are July figures converted into quarterly amount.

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

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

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

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

6. Excluding information-related goods.

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

Overseas Economic Conditions and Real Effective Exchange Rate

(1) Real Effective Exchange Rate ¹

Notes: 1. Monthly average. The figure for September 1998 is September 1-8 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.

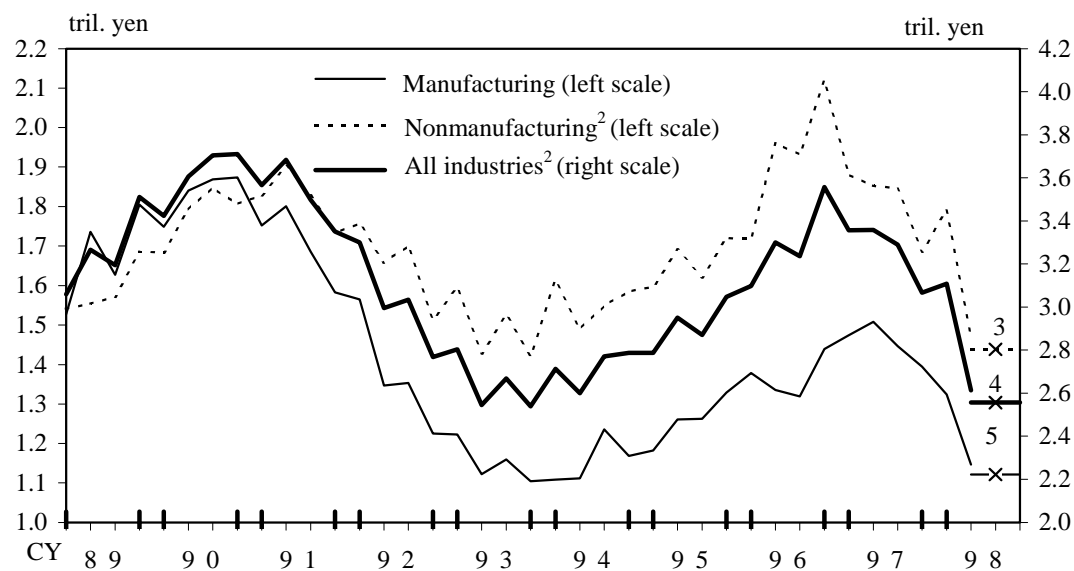
(2) Real GDP Growth Rates in Overseas Economies

		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	1.6	
European Union ¹		1.8	2.7	(2.7)	3.2	2.4	2.5	n.a.	
	Germany	1.4	2.2	(2.7)	2.9	1.2	3.9	n.a.	
	France	1.6	2.3	(2.9)	3.8	3.0	2.5	2.8	
	United Kingdom	2.5	3.1	(1.7)	3.6	2.5	2.2	2.0	
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	(-4.7)	6.1	3.9	-3.9	-6.6
		Taiwan	5.7	6.8	(5.9)	6.9	7.1	5.9	5.2
		Hong Kong	4.6	5.3	(0.9)	6.0	2.7	-2.8	-5.0
		Singapore	6.9	7.8	(3.2)	10.7	7.6	6.1	1.6
	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)	2.5	1.4	-7.9	-16.5
Malaysia		8.6	7.8	(1.4)	7.4	6.9	-2.8	-6.8	
	Philippines	5.7	5.1	(1.8)	4.9	4.8	1.7	-1.2	

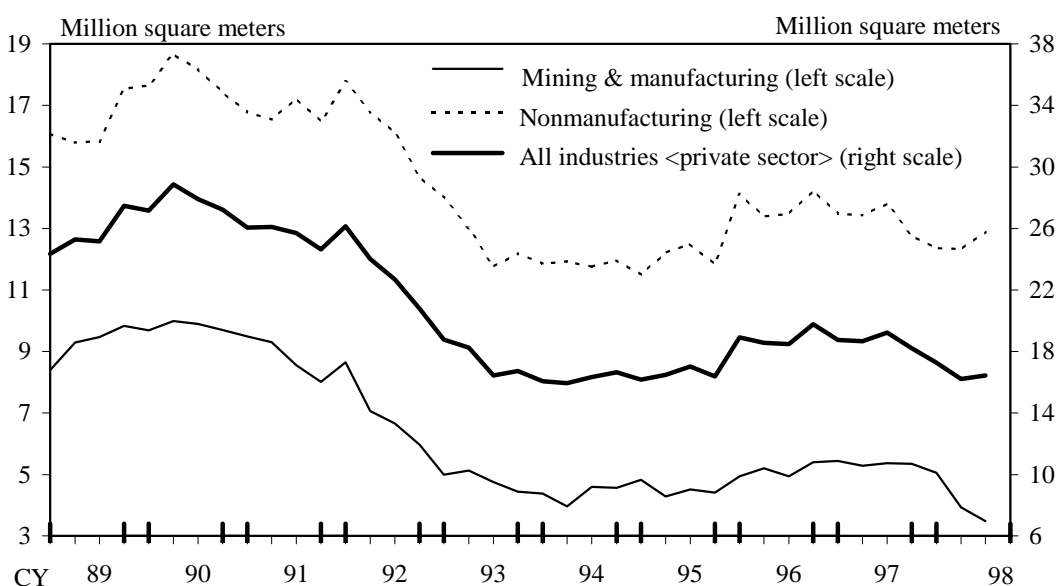
Notes: 1. Quarterly data are quarter-to-quarter percent changes.
2. Quarterly data are percent changes from a year earlier.
3. Forecasts by OECD are shown in brackets.

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

Major Indexes of Business Fixed Investment (1)

(1) Machinery Orders¹

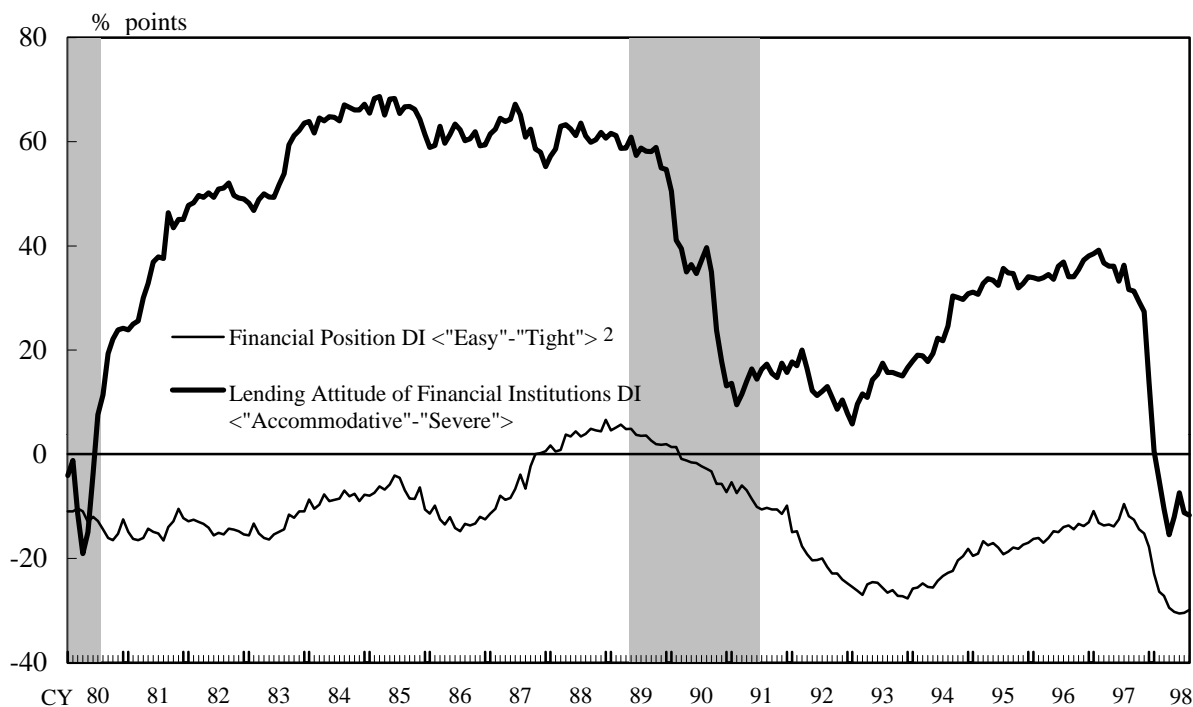
- Notes: 1. Seasonally adjusted data.
 2. Excludes orders from electric power companies, and shipbuilding orders.
 3. Forecast of nonmanufacturing industries for 1998/Q3.
 4. Forecast of all industries for 1998/Q3.
 5. Forecast of manufacturing industries for 1998/Q3.

(2) Construction Starts (Nonresidential)¹

- Notes: 1. Seasonally adjusted by X-11.
 2. Figures for 1998/Q3 are averages of July in terms of quarterly amount.
 Sources: Economic Planning Agency, "Machinery Orders Statistics";
 Ministry of Construction, "Building Construction Started."

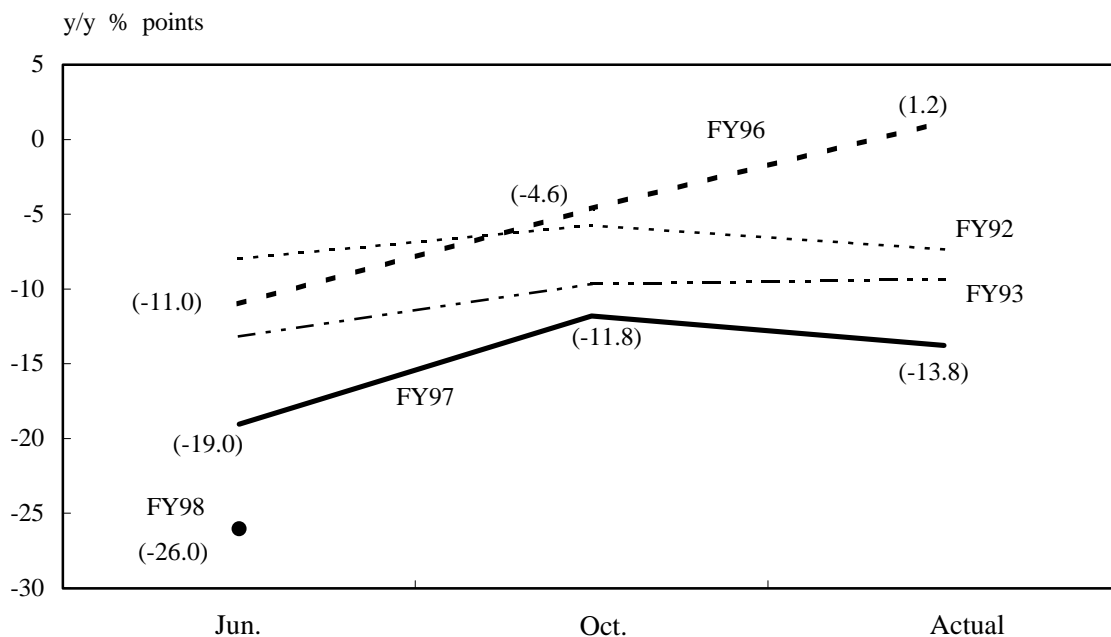
Major Indexes of Business Fixed Investment (2)

(3) Monthly Survey on Trends of Small Businesses¹



Notes: 1. Sample : 900 Companies (Responses : 638 <August 1998 Survey>).
 Shaded areas indicate periods when the official discount rate was on an uptrend.
 2. Seasonally adjusted data.

(4) Survey on Plant and Equipment Investment of Small Businesses in Commerce and Service Businesses^{1,2}

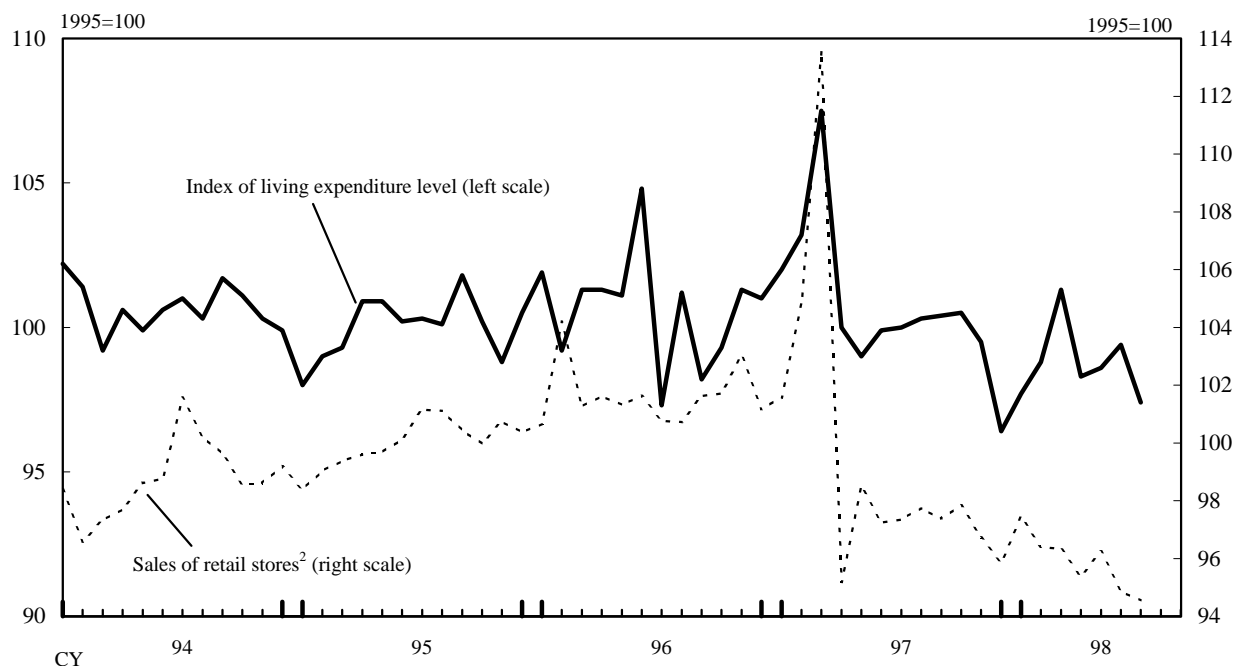


Notes: 1. Sample 27,000 Companies (Responses 9,725 : <June 1998 Survey>)
 2. Bank of Japan calculated above figures from the original data.

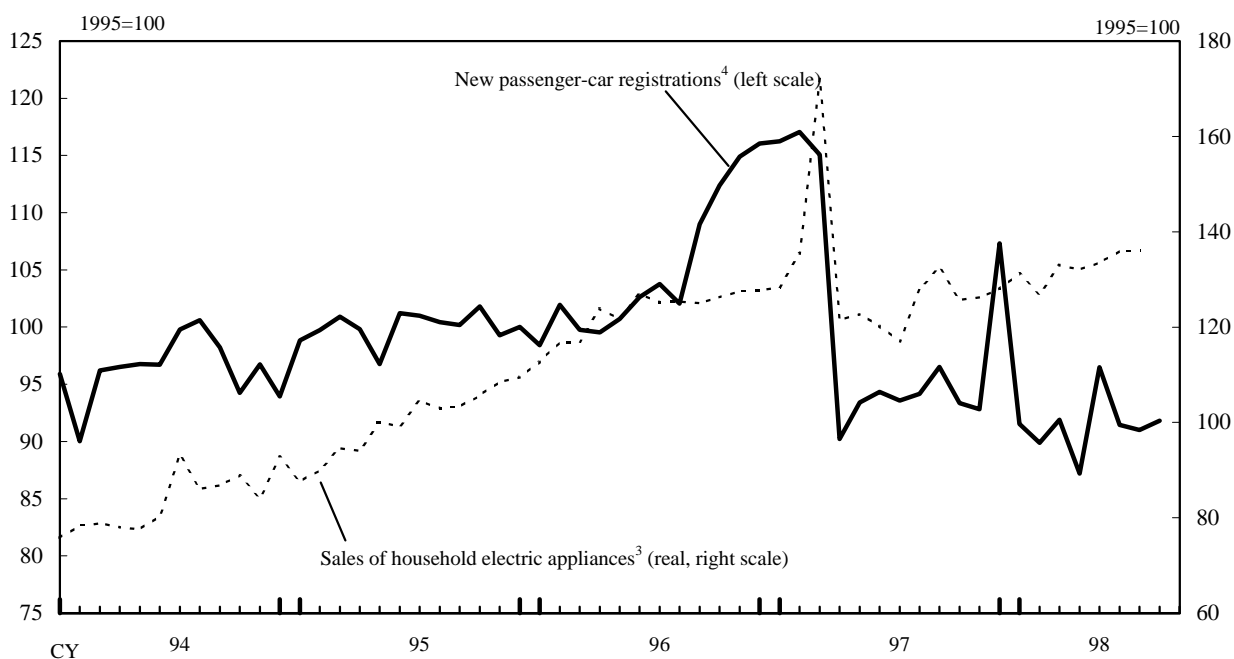
Sources: Japan Finance Corporation for Small Businesses, "Monthly Survey on Trends of Small Businesses,"
 The Small and Medium Enterprise Agency and the Japan Finance Corporation for Small Businesses,
 "Survey on Plant and Equipment Investment of Small Business in Commerce and Service Businesses."

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.

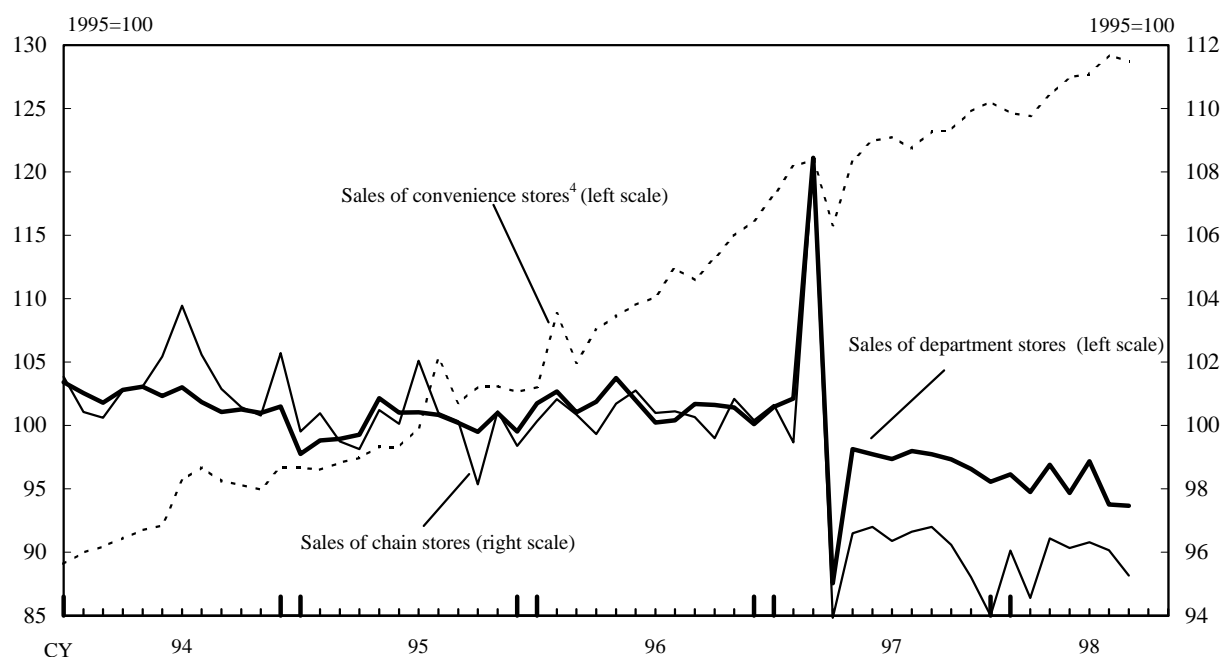
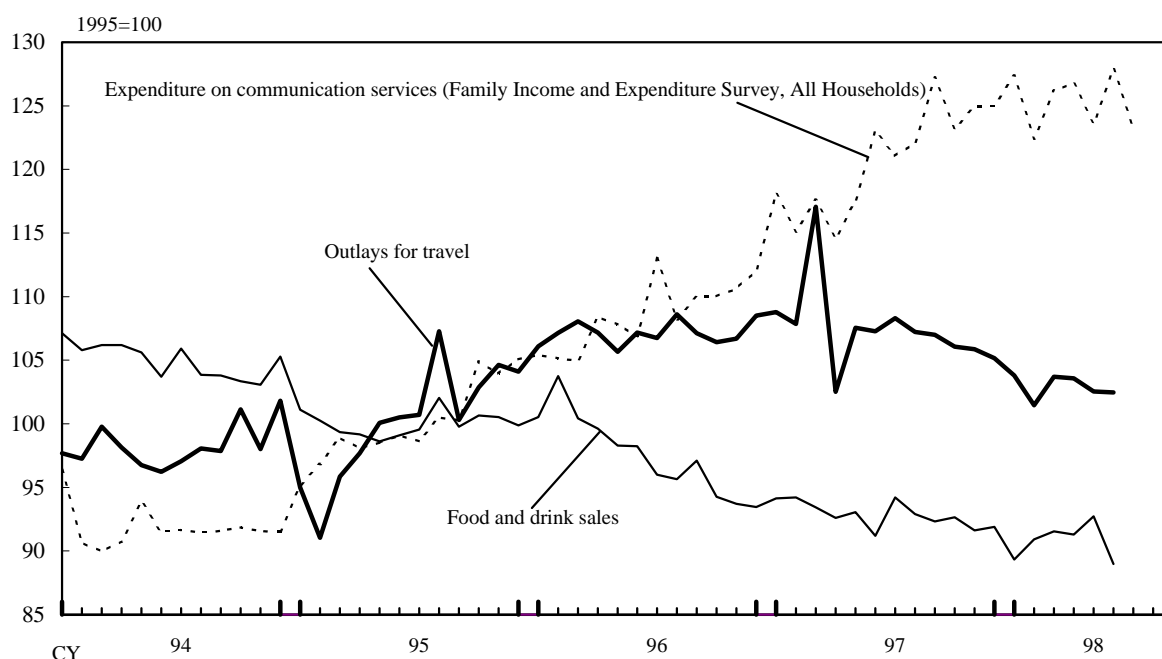
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey", "Consumer Price Index";

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.

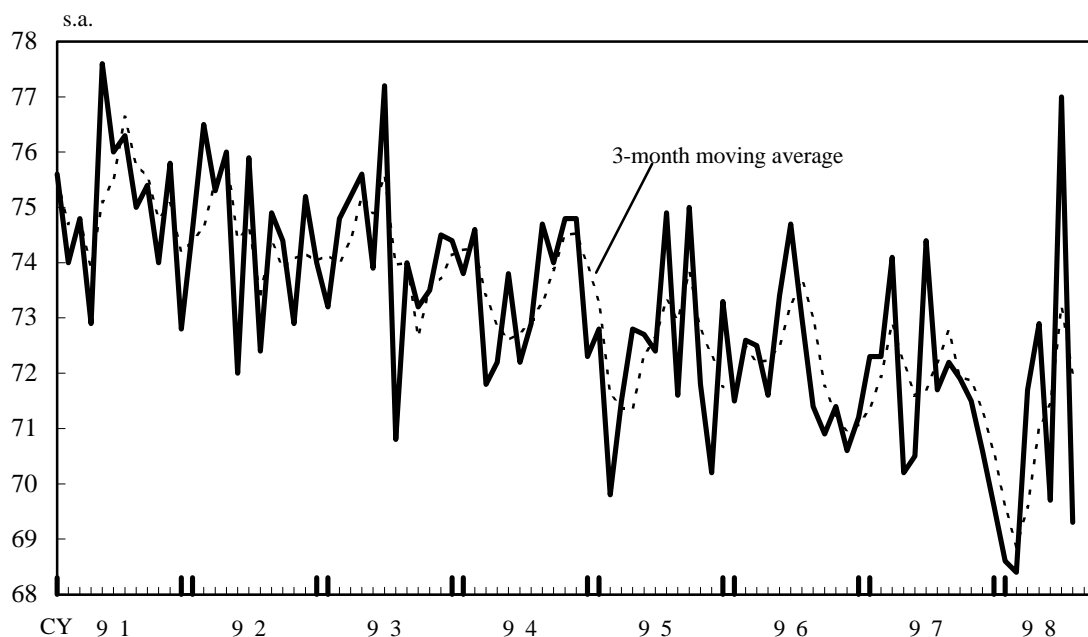
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

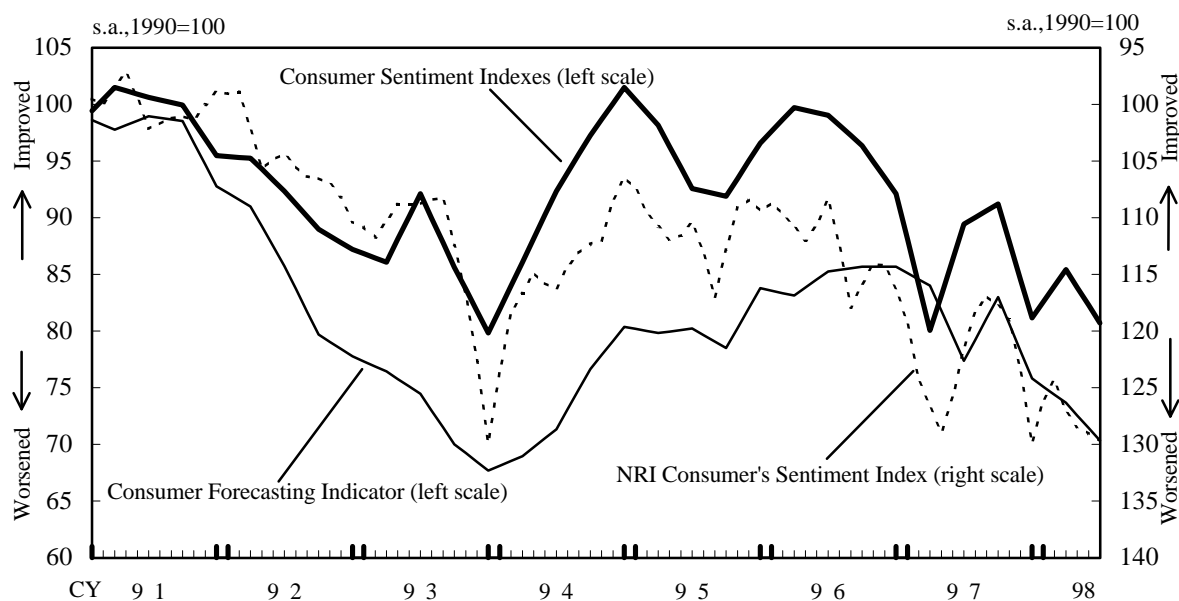
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
Ministry of International Trade and Industry, "Current Survey of Commerce";
Japan Chain Stores Association, "Sales of Chain Stores";
Ministry of Transport, "Major Travel Agents' Revenue";
Foodservice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

Propensity to consume and Consumer Confidence

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



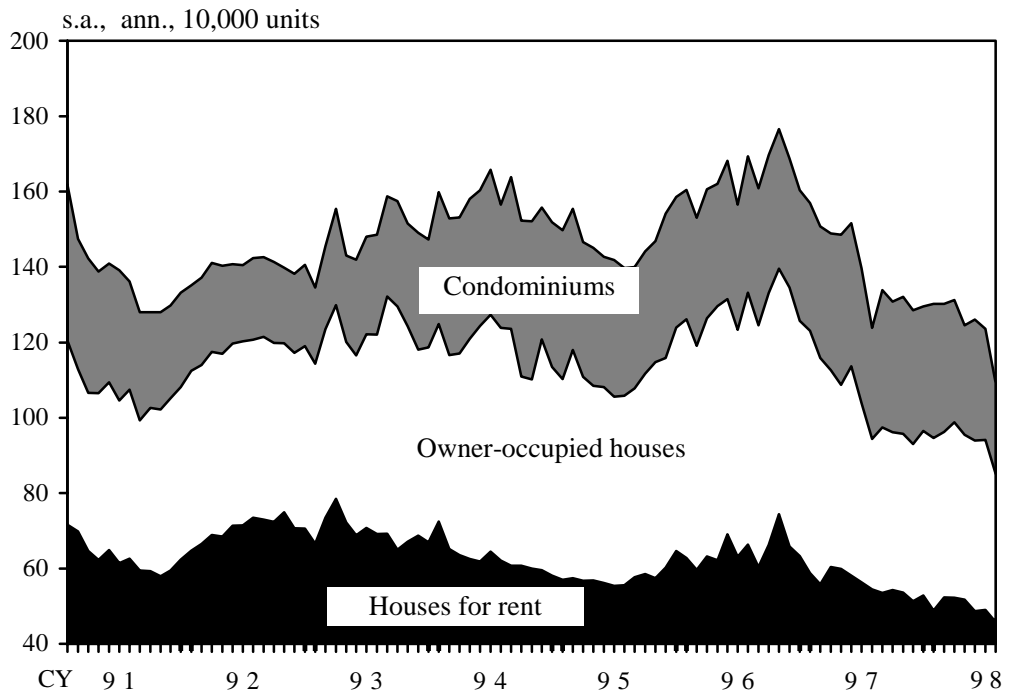
(2) Surveys on consumer confidence



Notes: 1. Consumer Sentiment Indexes, Consumer Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.
 2. Data are plotted at the months of each survey.
 3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumer Forecasting Indicator" by NIKKEI RIM, "NRI Consumer's Sentiment Index" by NRI.

Sources: Economic Planning Agency, "Consumer Behavior Survey";
 Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator";
 Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
 Nippon Research Institute (NRI), "Consumer's Sentiment Survey."

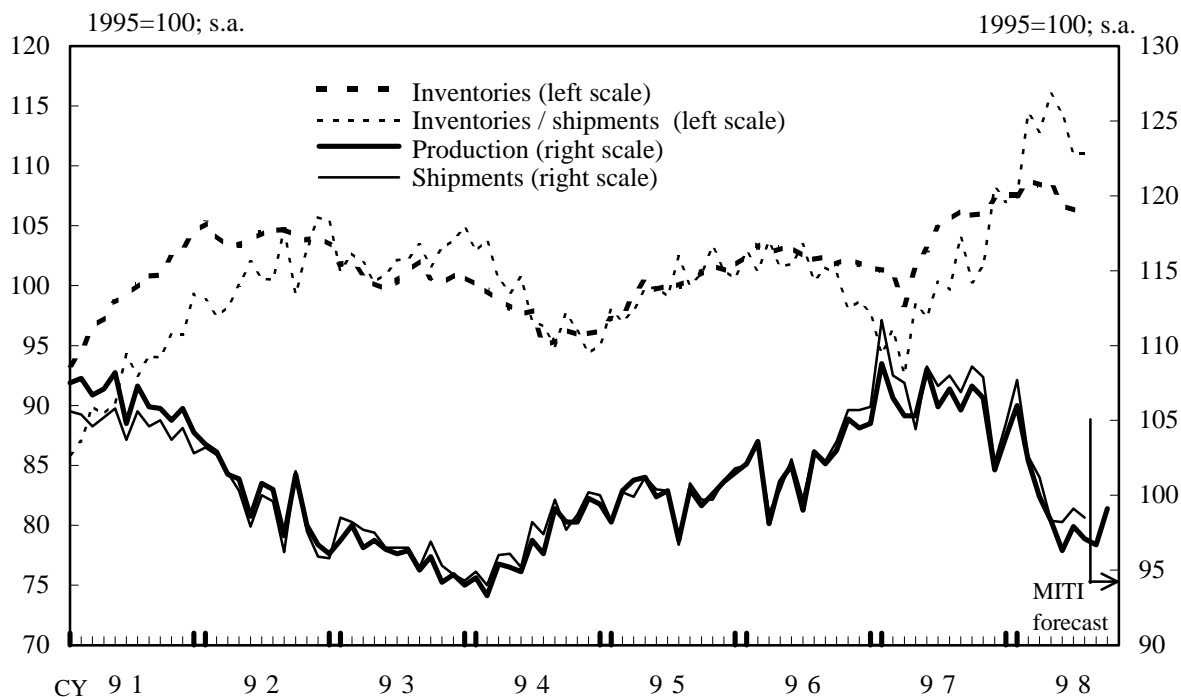
Housing Starts



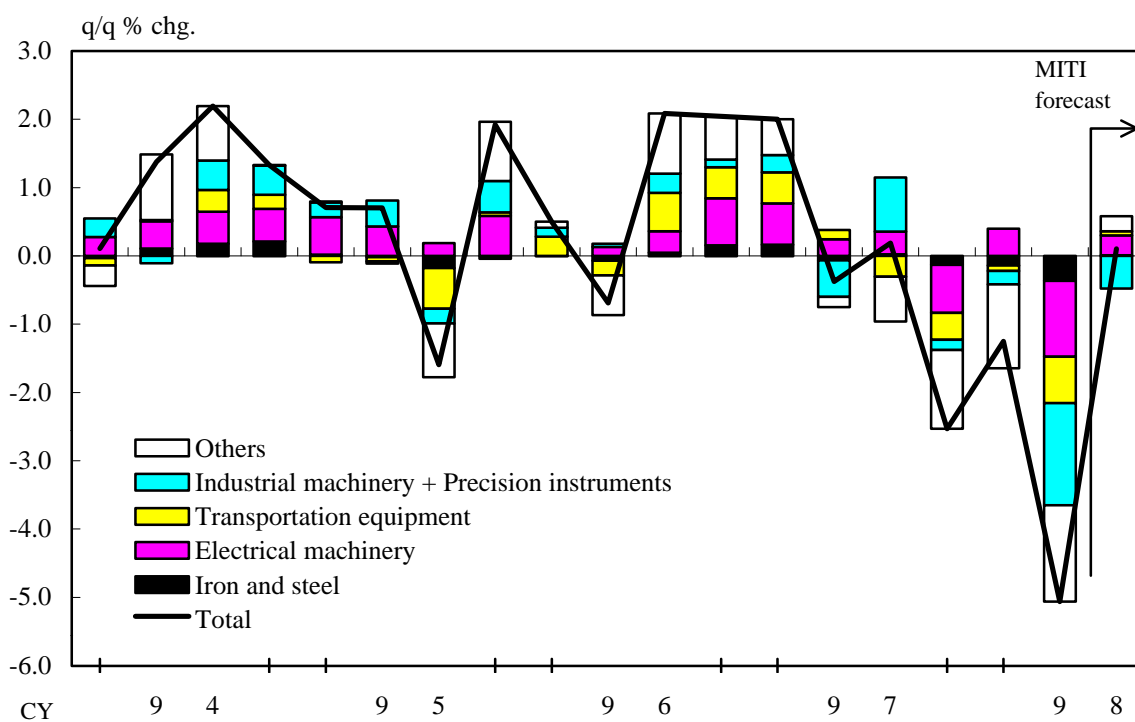
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



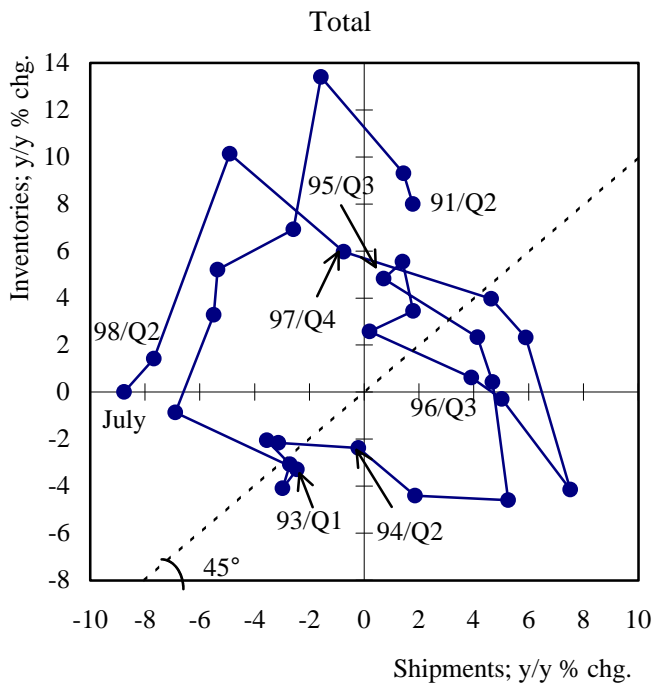
(2) Production by Industries



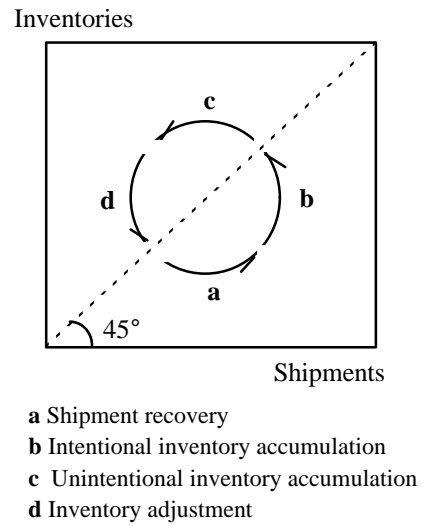
Note: Transportation equipment excludes ships and rolling stock.

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

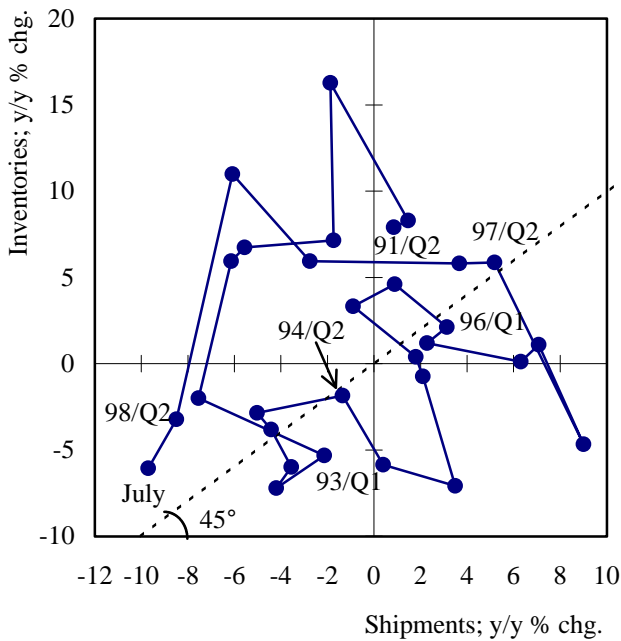
Inventory Cycle



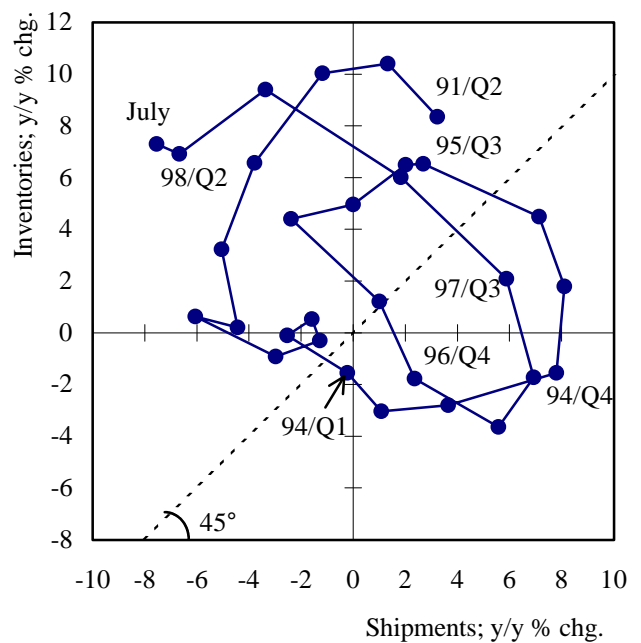
Phases in the Inventory Cycle



Final Demand Goods



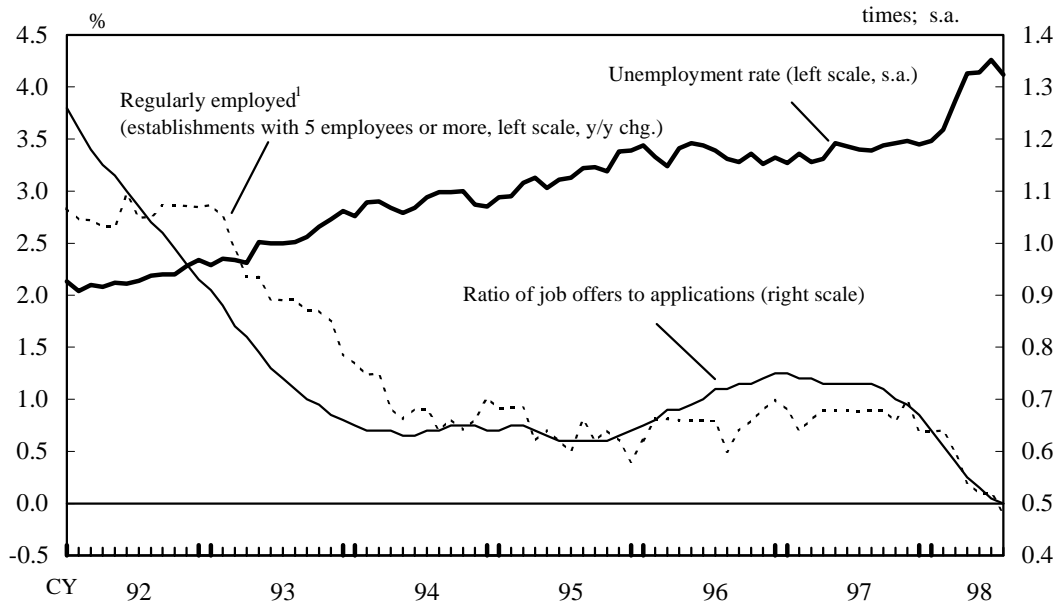
Production Goods



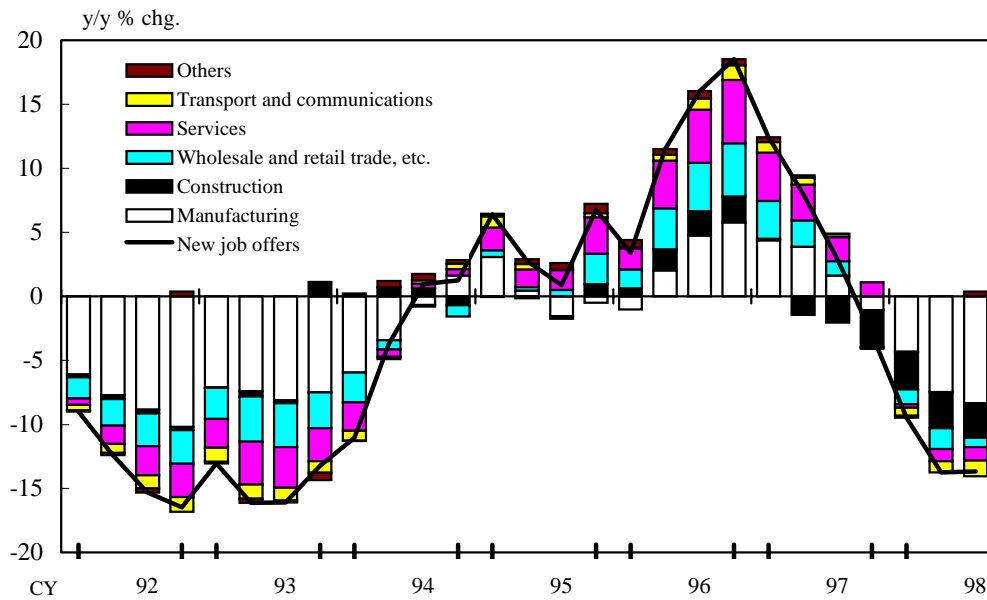
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



(2) New Job Offers²



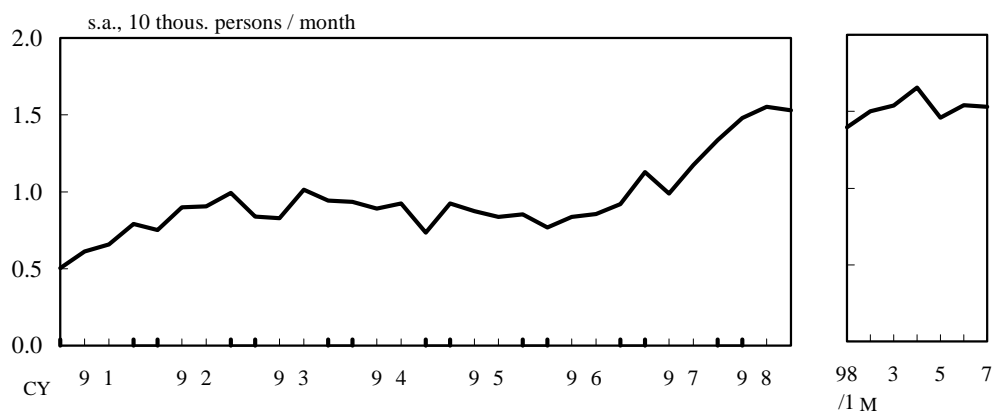
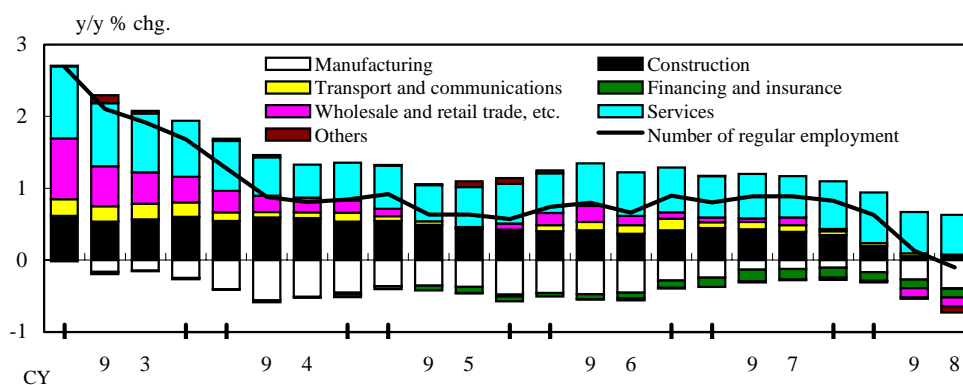
Notes: 1. The data in July 98 are preliminary.

2. Excludes jobs offered to new graduates.

The data in 98/Q3 are those of July 98.

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) Number of Regular Employment²(3) Number of Regular Employment³ by size of establishment

Notes: 1. Bankruptcies with a liability of ten million yen or more, and the figure for 98/Q3 is that of July 98.

The data are based on a survey conducted by *Teikoku Databank Ltd.* . Seasonally adjusted by X-11

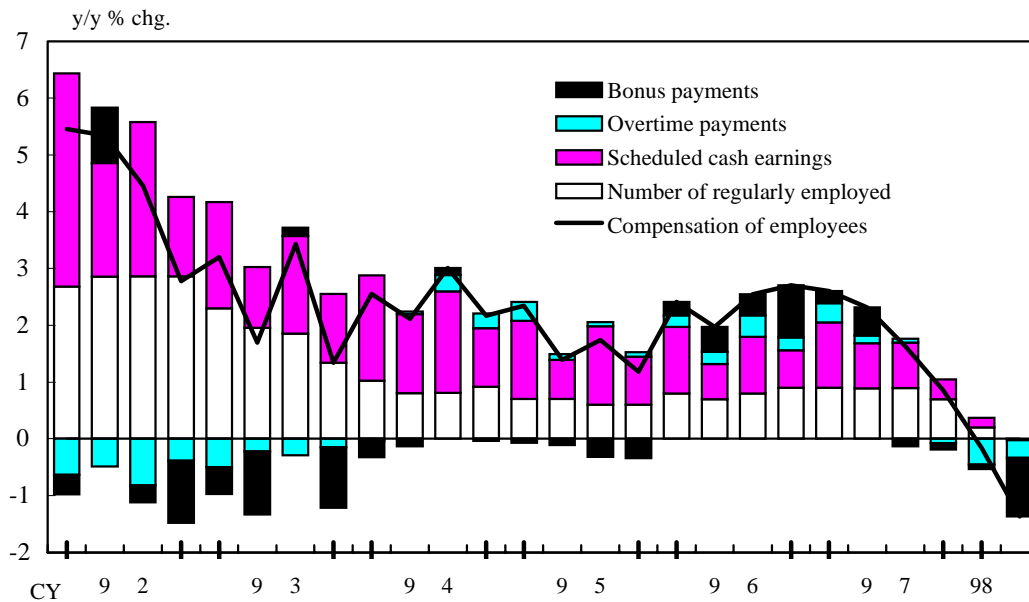
2. Data for establishments with 5 employees or more. The data in 98/Q3 are those of July 98 (preliminary).

3. The data in July 98 are preliminary.

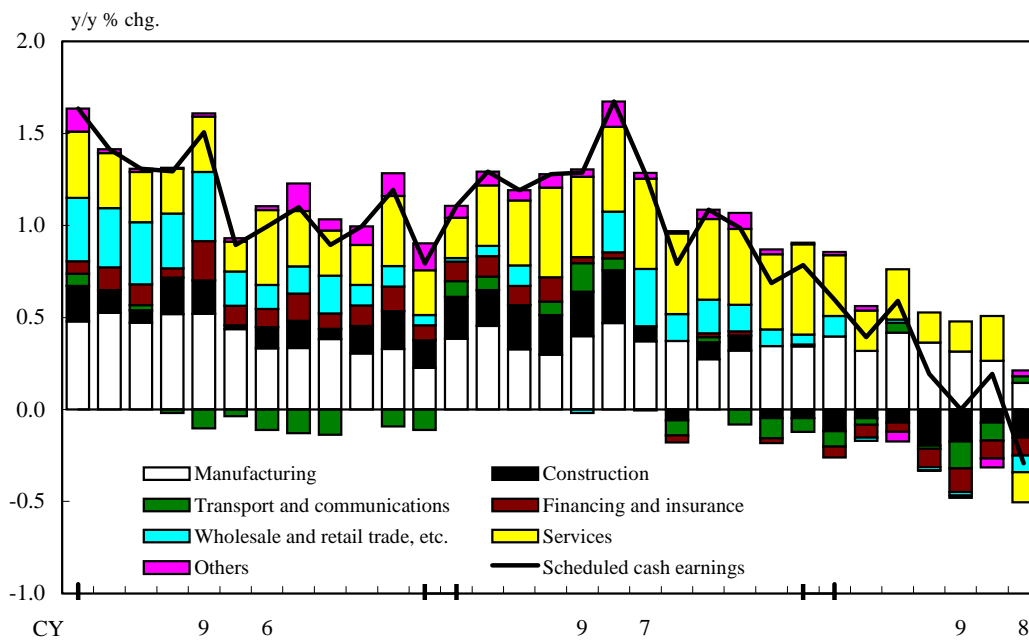
Sources: *Teikoku Databank Ltd.*, "Japan's Business Failure";
Ministry of Labor, "Monthly Labor Survey."

Compensation of Employees¹

(1) Breakdown of Compensation²



(2) Breakdown of Scheduled Cash Earning



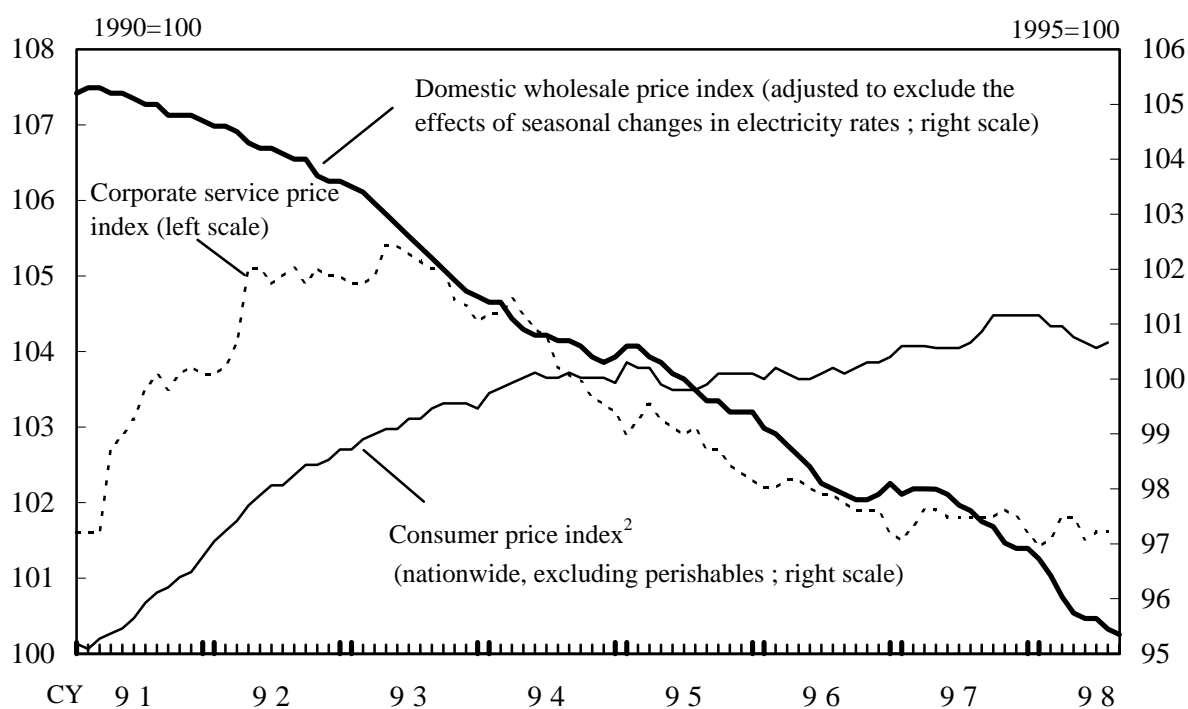
Notes: 1. Data for establishments with 5 employees or more. The data in July 98 are preliminary.

2. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb. The data in 98/Q2 are those of June- July average.

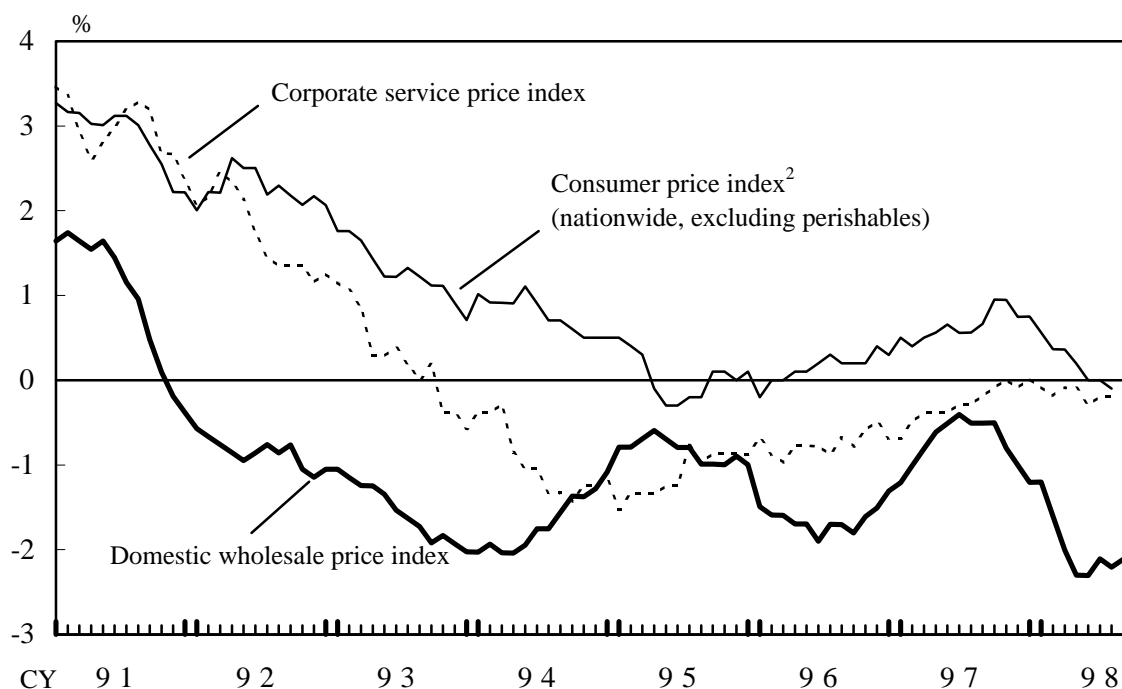
Source: Ministry of Labor, "Monthly Labor Survey."

Prices¹

(1) Level



(2) Changes from a year earlier



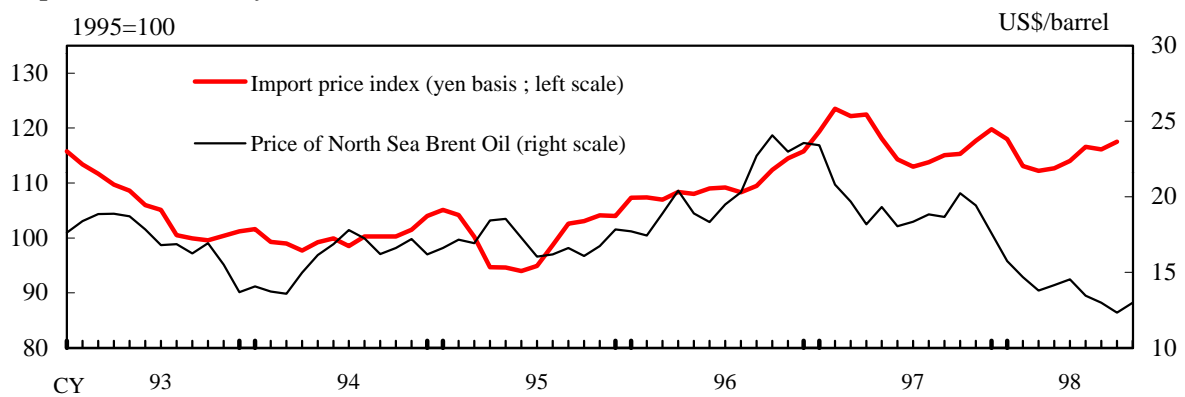
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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.

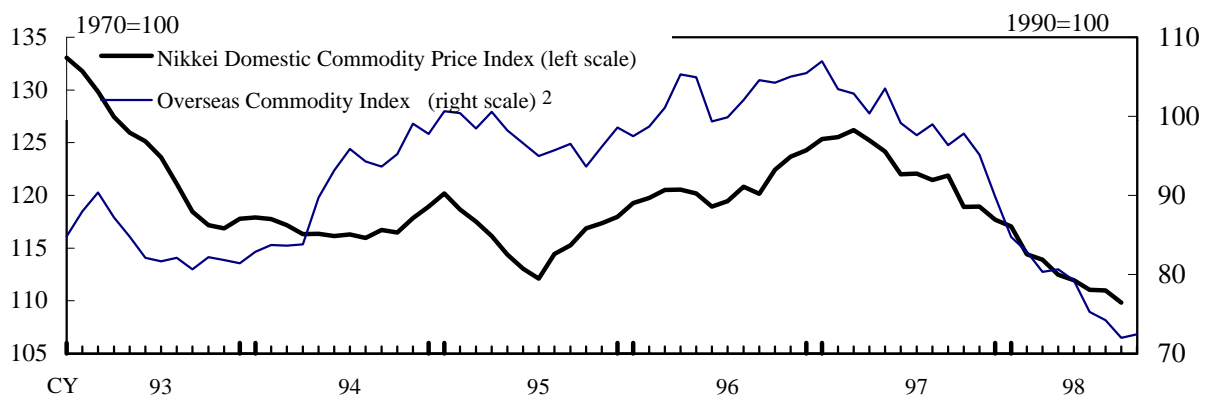
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

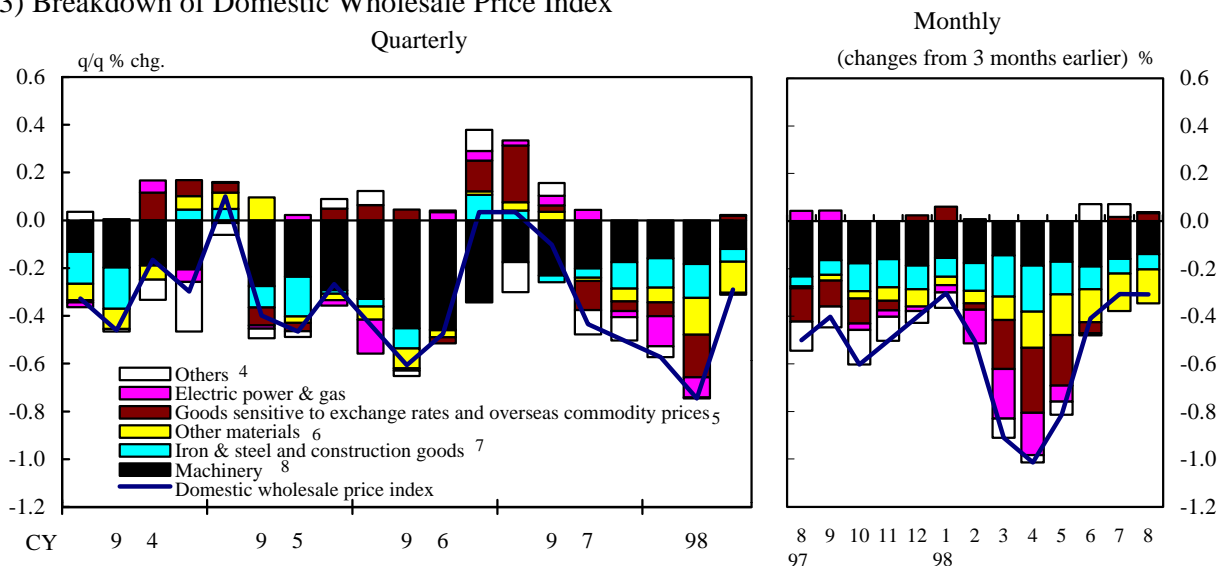
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



(3) Breakdown of Domestic Wholesale Price Index³



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

2. Calculated by the Research and Statistics Department, Bank of Japan. Data for Sept. 1998 are Sept. 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. Data for 98/Q3 are Jul. to Aug. average.

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

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

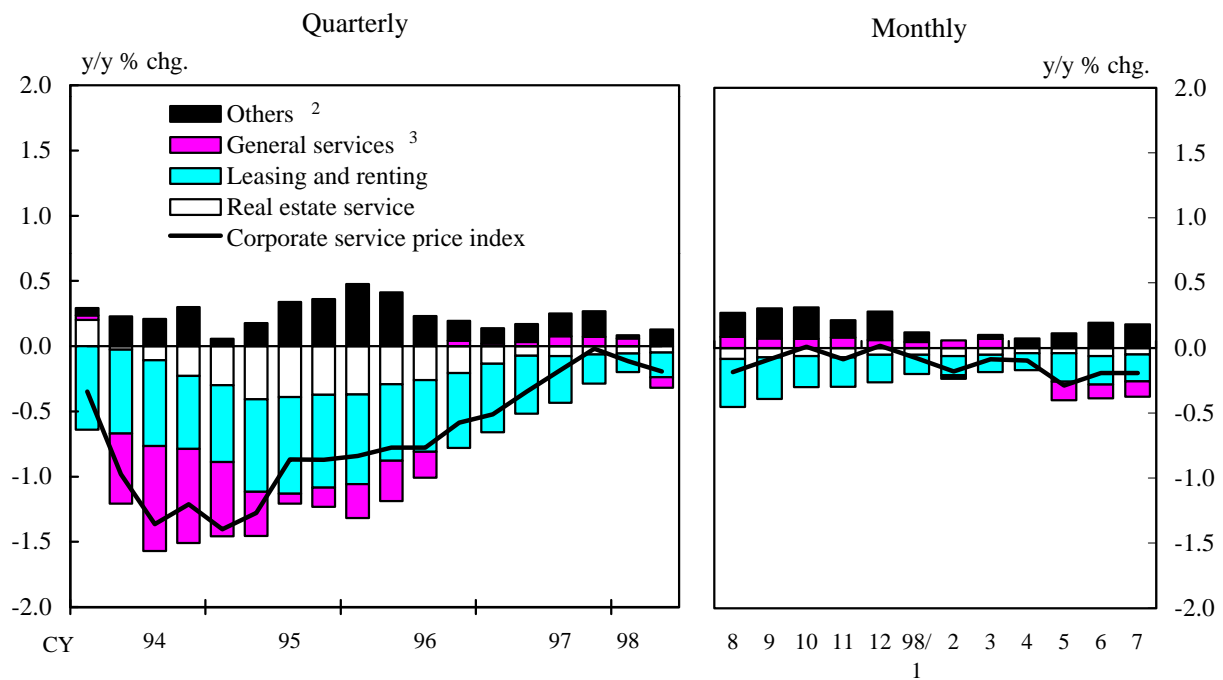
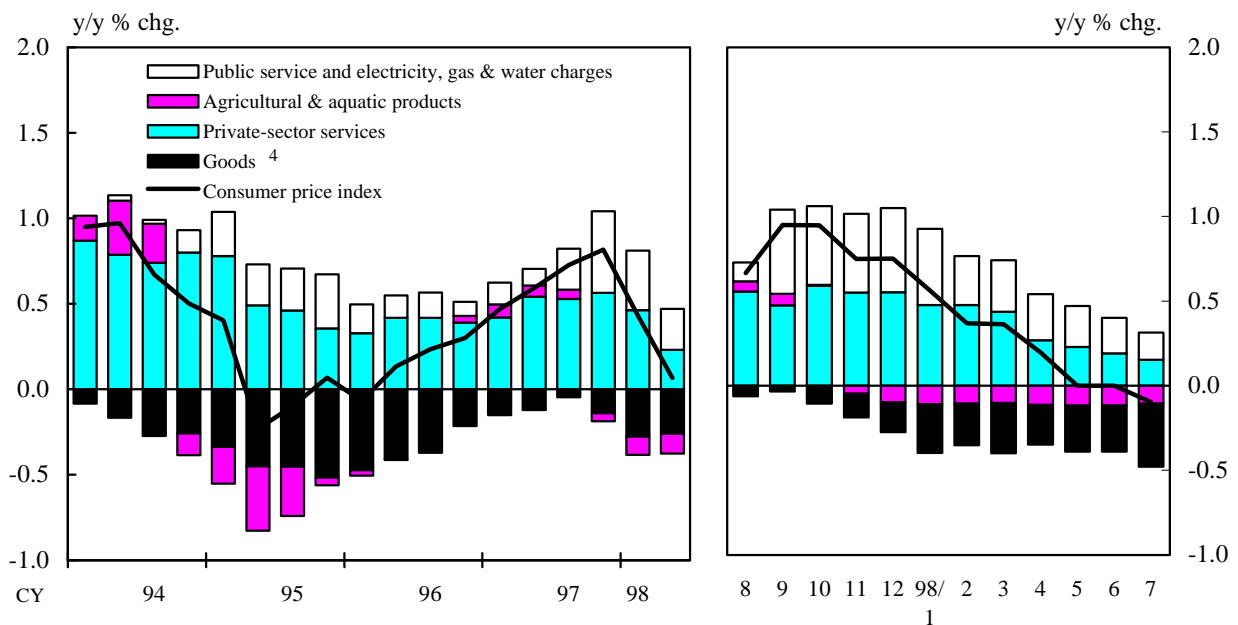
6. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

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

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 (compulsory automobile) + railroad fares + bus fares + domestic air fares + tolls + postal services + sewerage disposal + ocean freight + international air freight + international air fares.

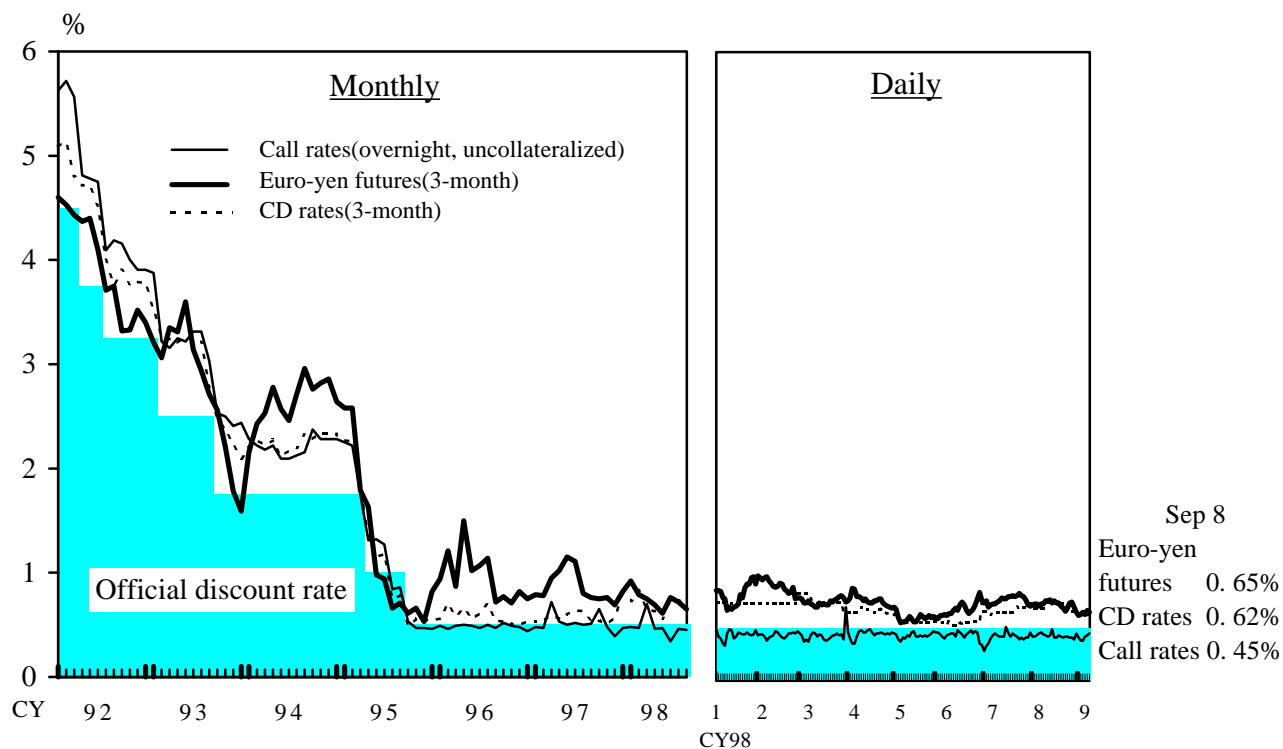
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

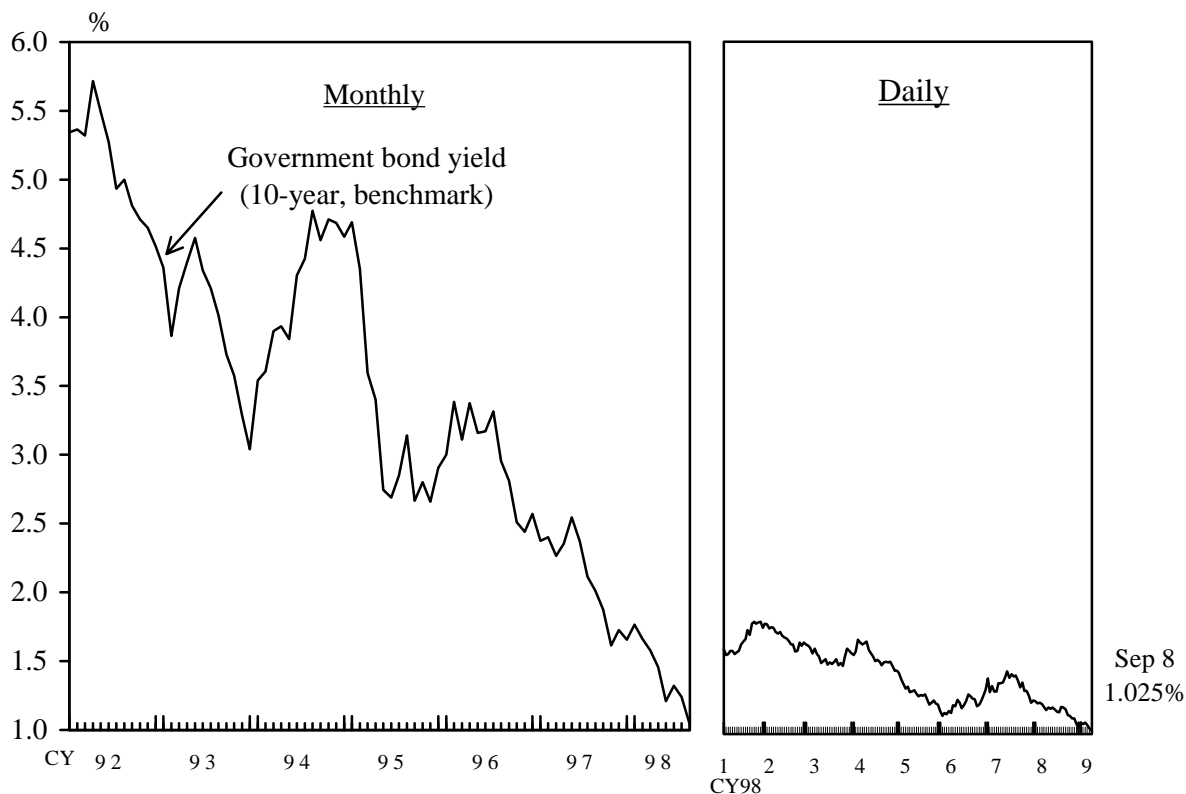
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Interest Rates

(1) Short-Term



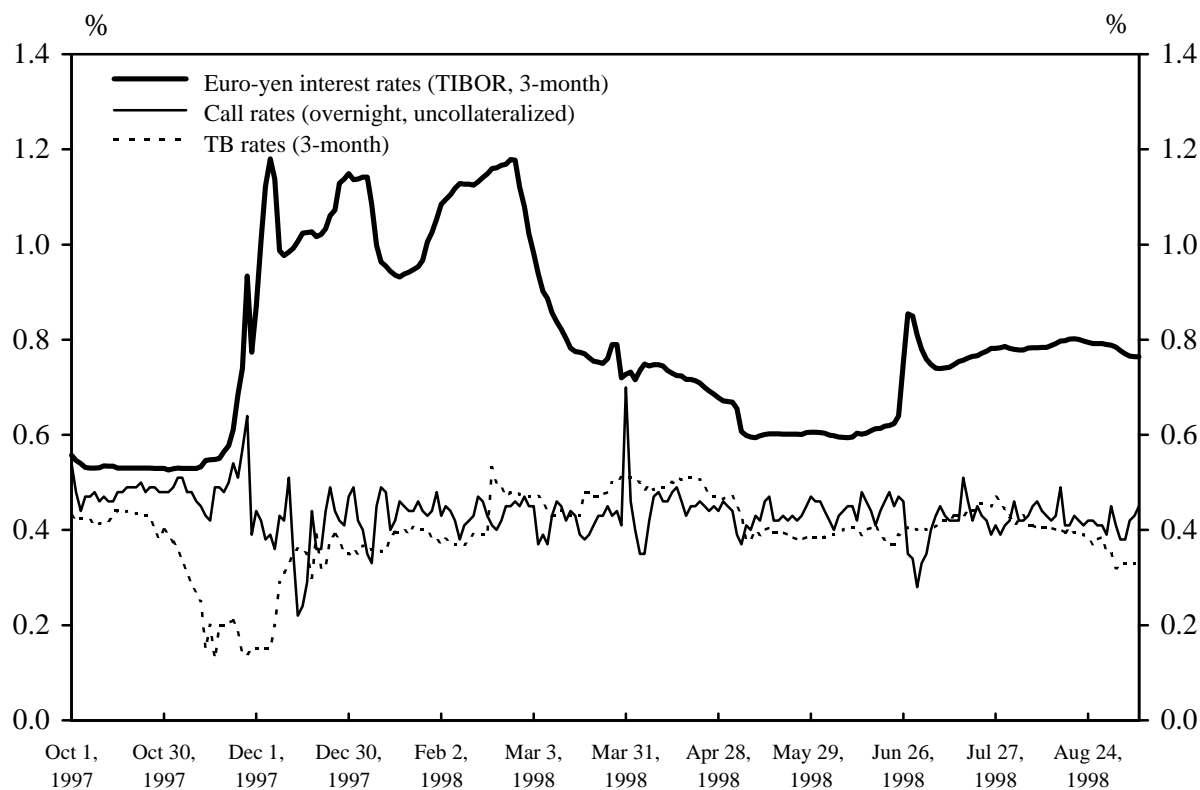
(2) Long-Term



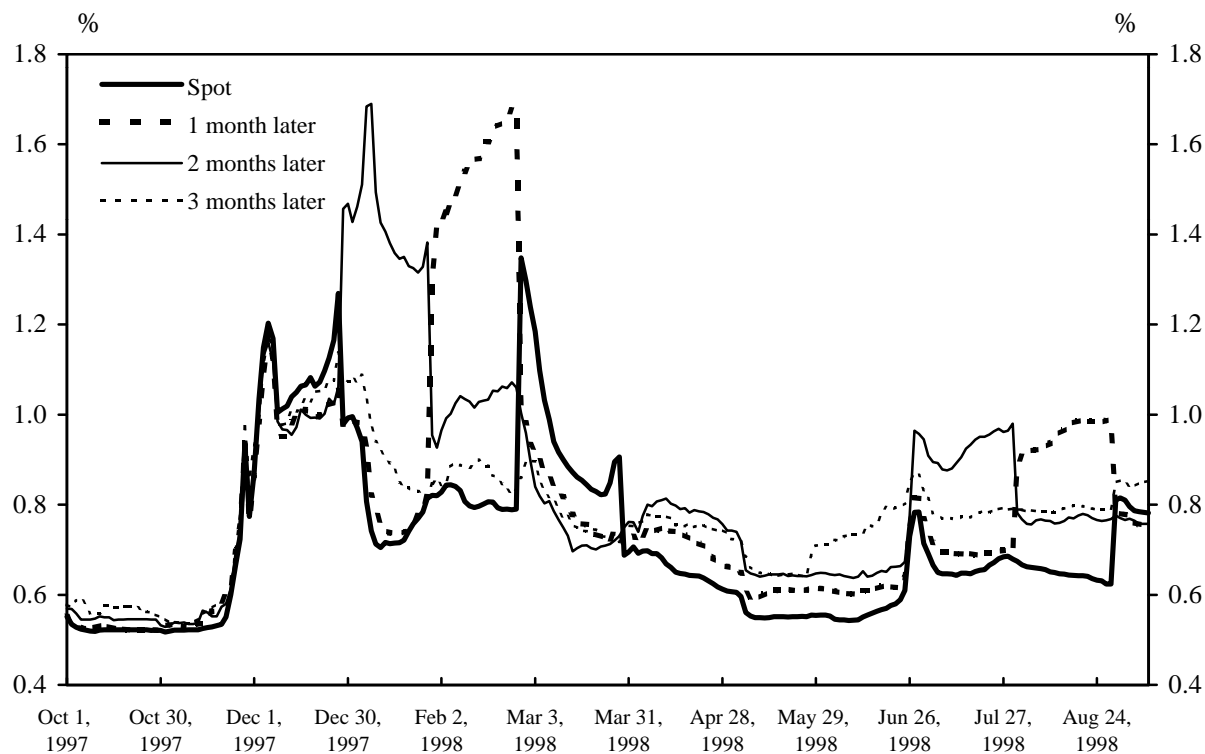
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

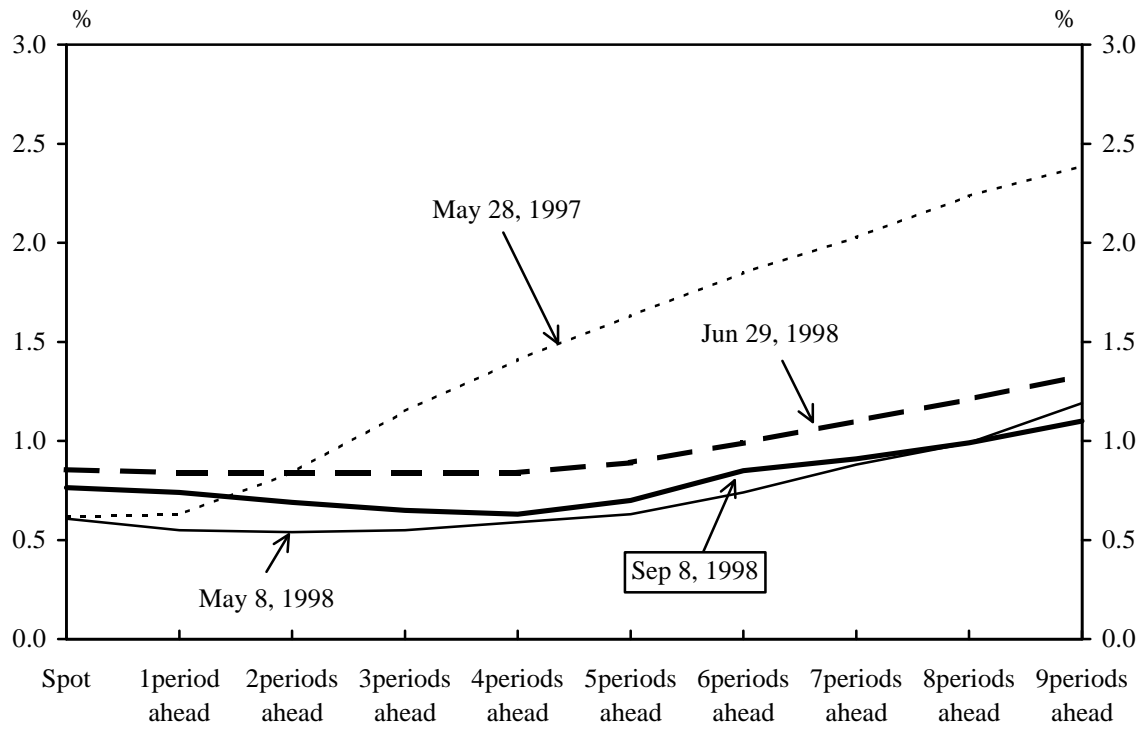


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



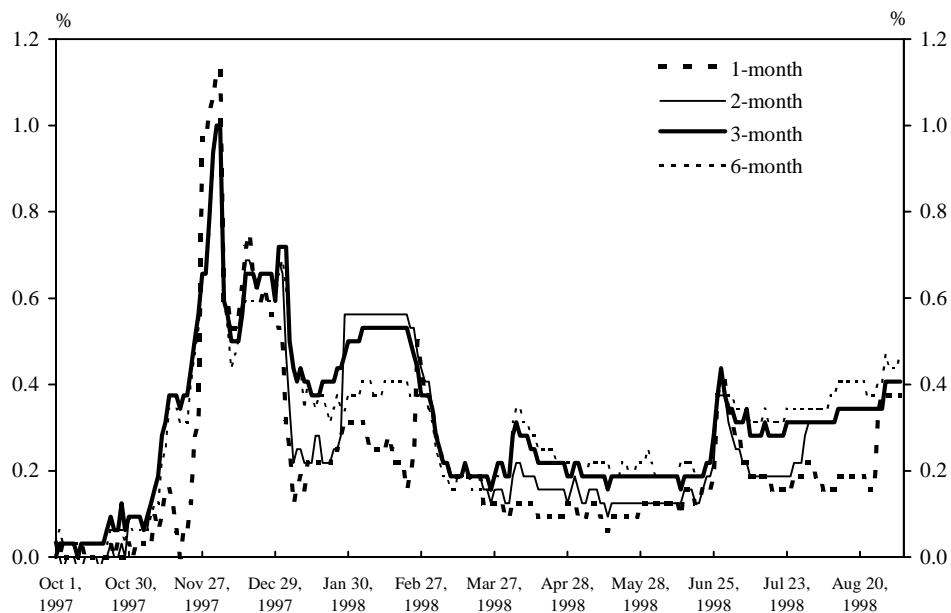
Sources: Bank of Japan, "Economic Statistics Monthly" ; *The Nikkei Financial Daily* .

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

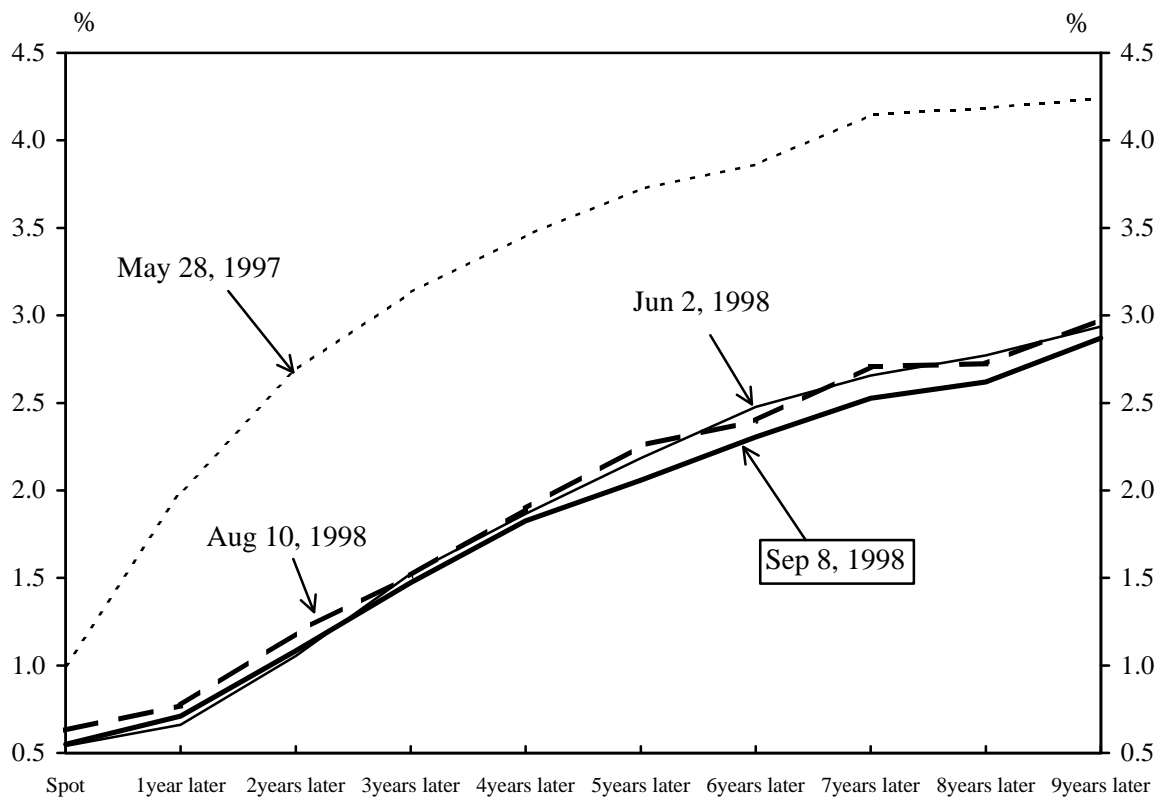
Japan Premium in the Eurodollar Market



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)

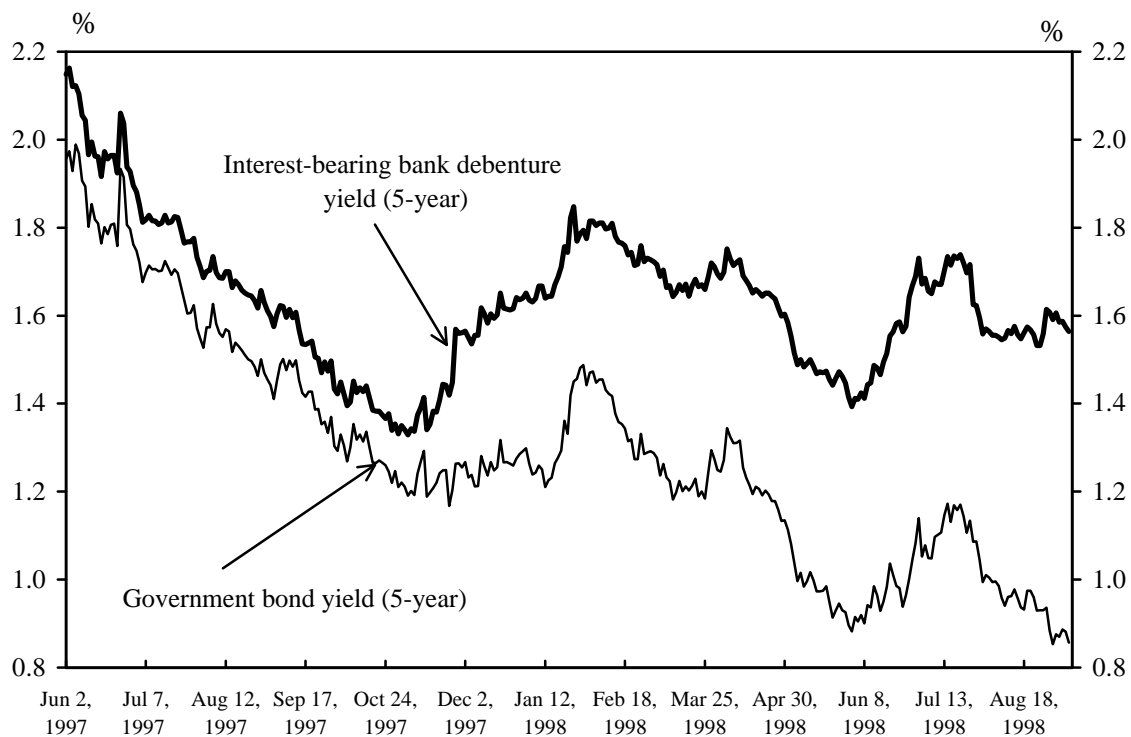


Note: Calculated from yen-yen swap rates.

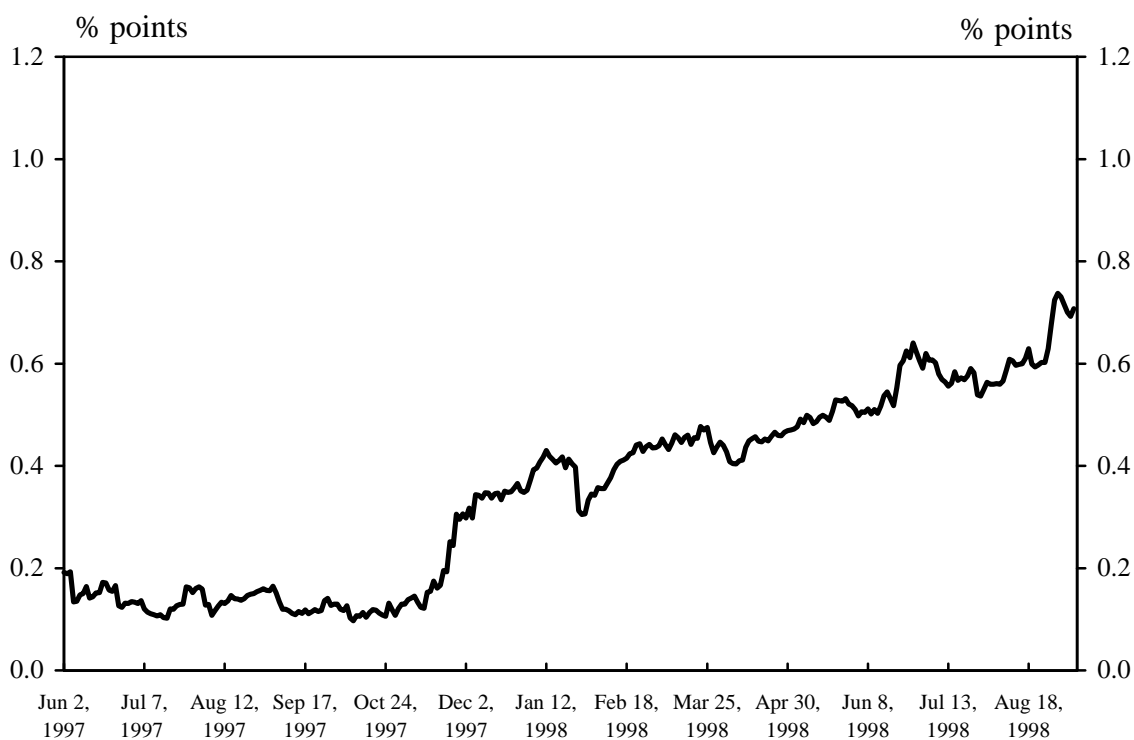
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



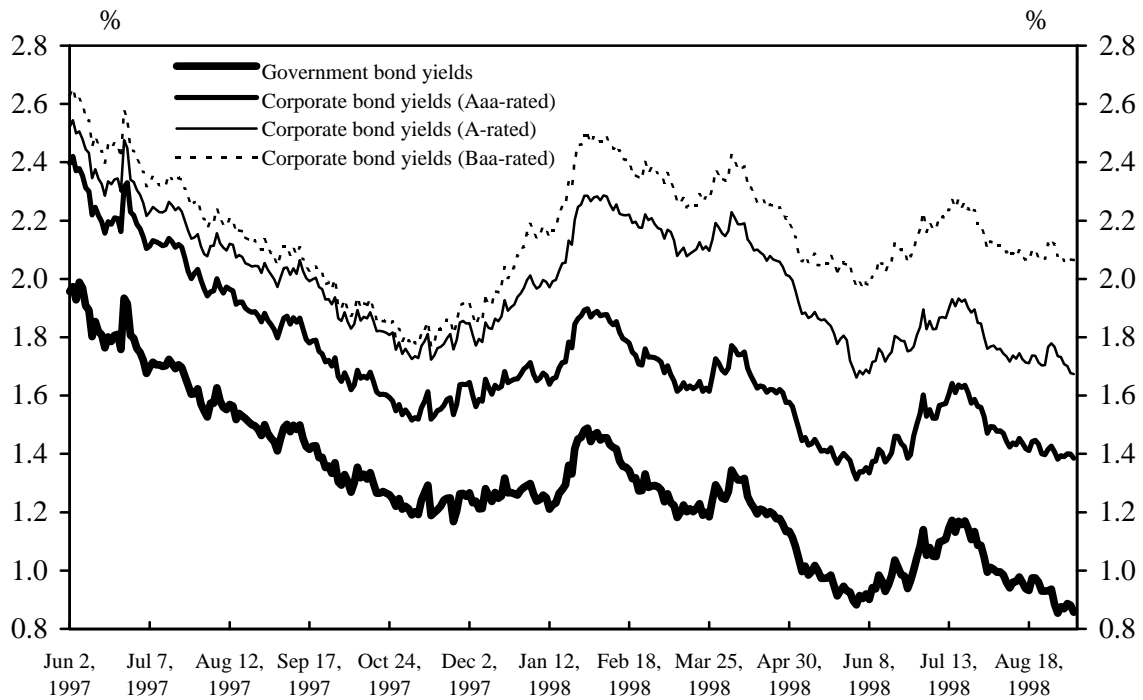
(2) Spread of Bank Debenture and Government Bond Yield



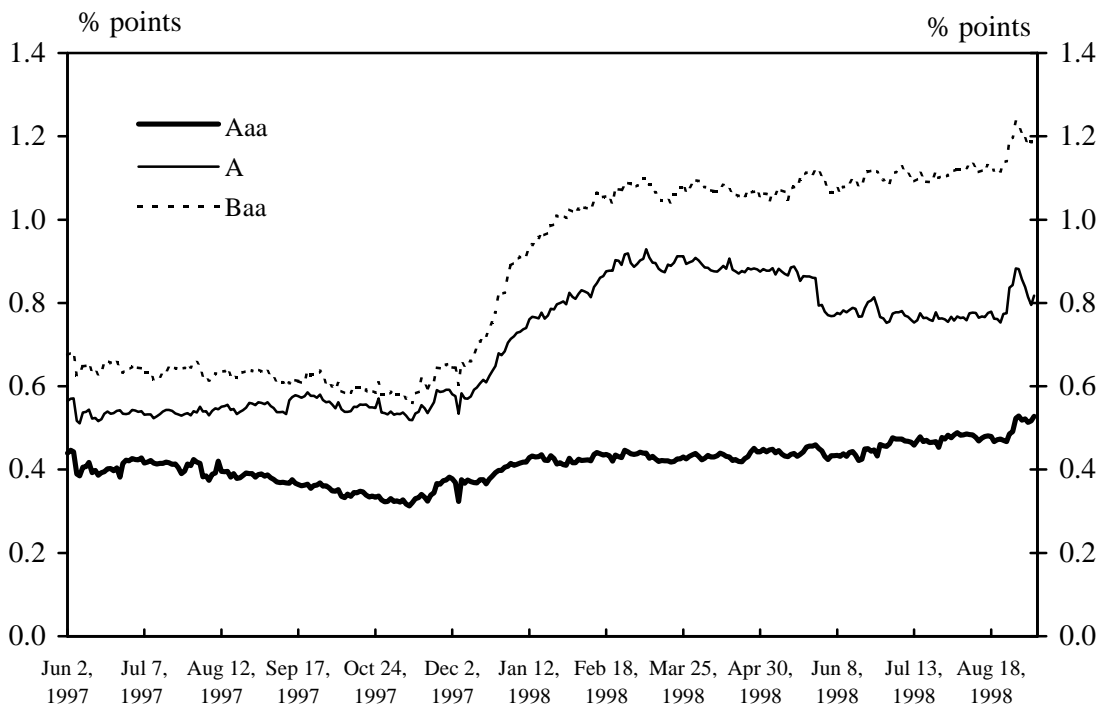
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds



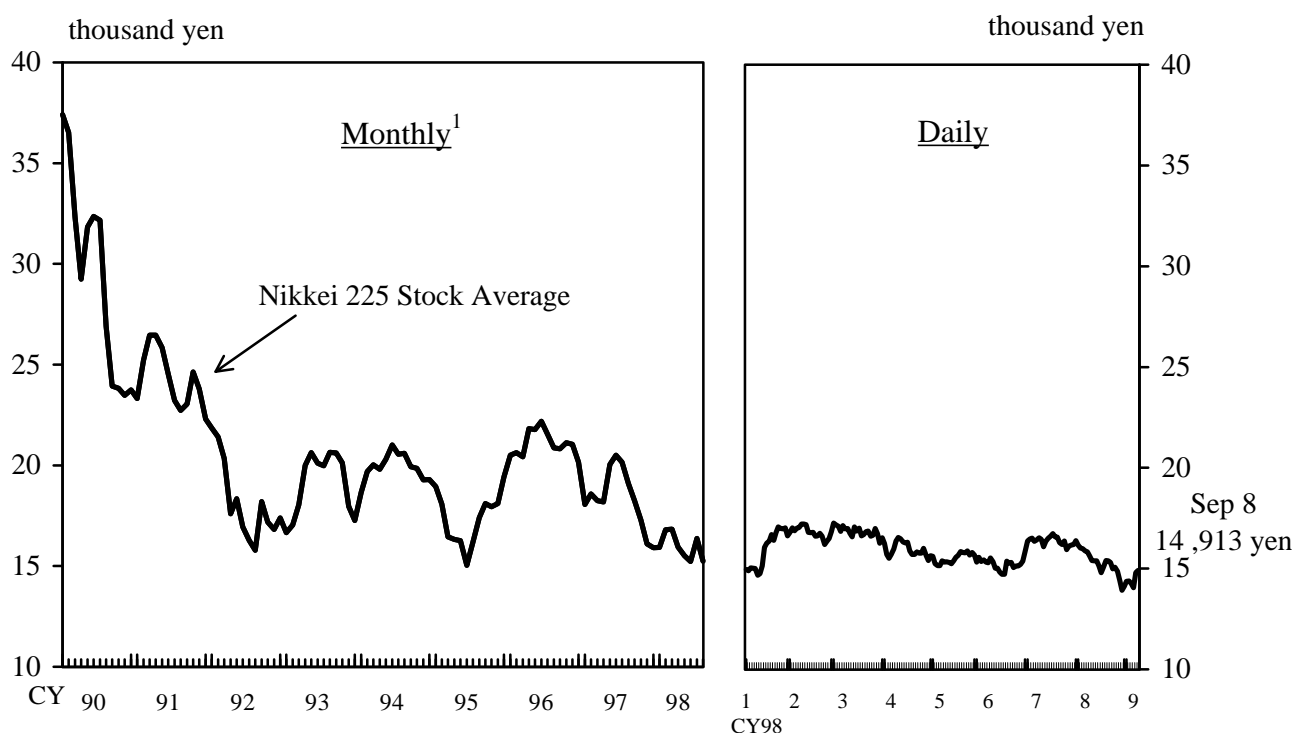
Notes: 1. Yields on bonds with 5-year maturity.

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

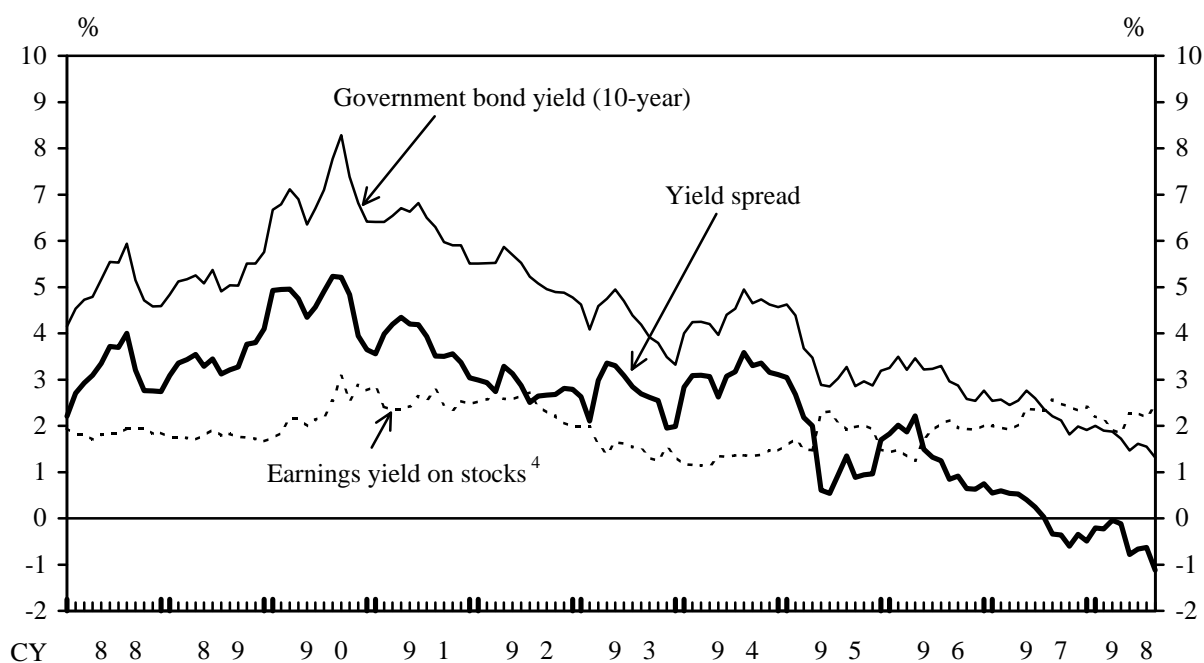
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread^{2, 3}



Notes: 1. Data are monthly averages.

2. Data are at end of period.

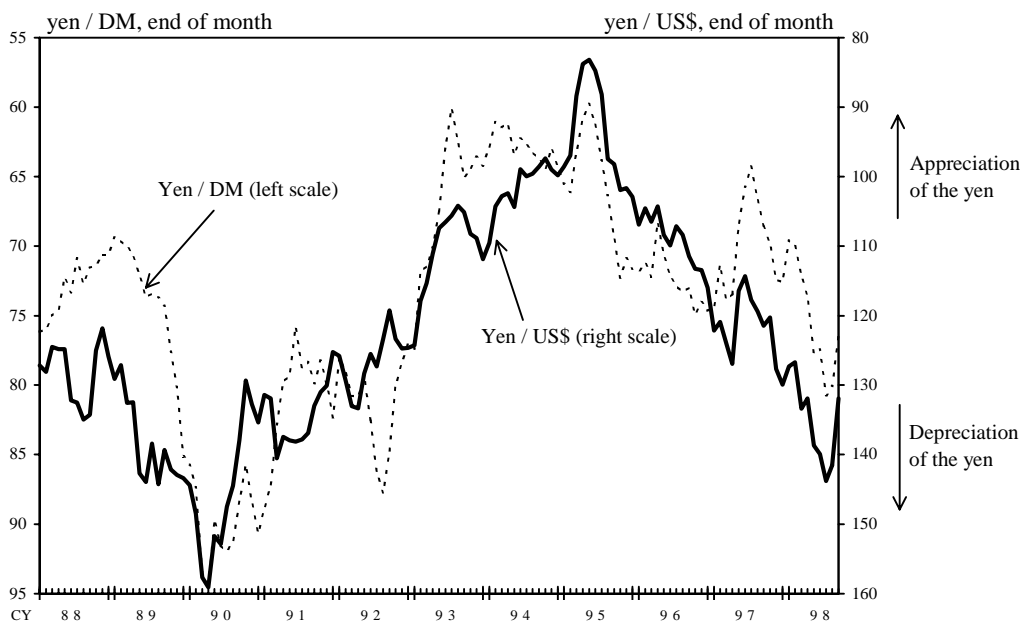
3. Yield spread = government bond yields - earnings yield on stocks, where, earning yield on stocks = 1/expected price earnings ratio.

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

Data are calculated by the Daiwa Research Institute.

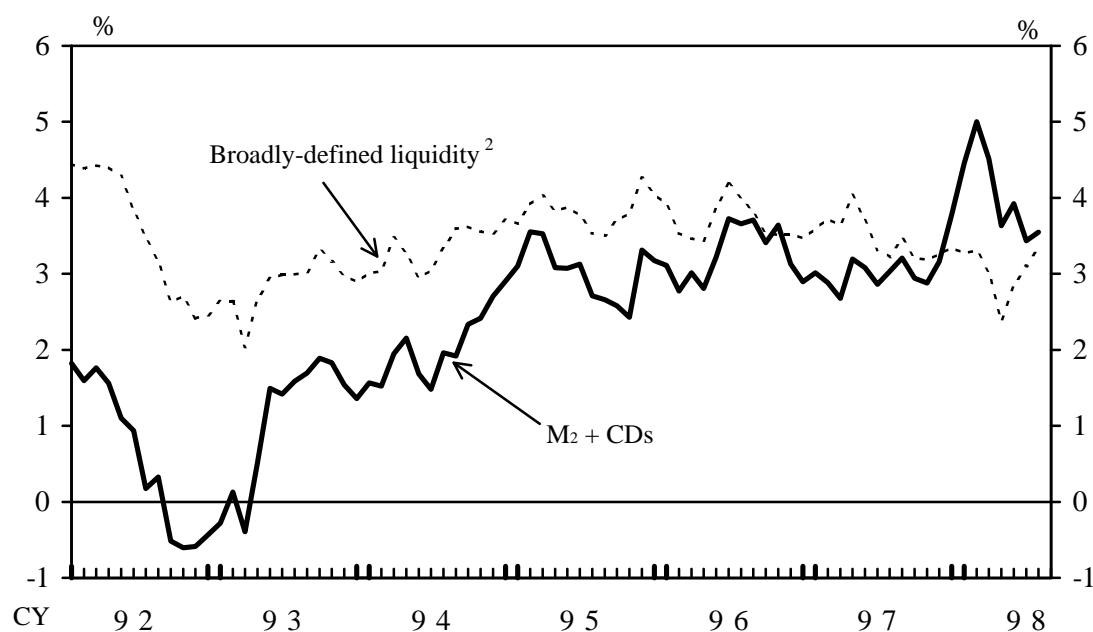
Sources: *The Nihon Keizai Shimbun* ; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates

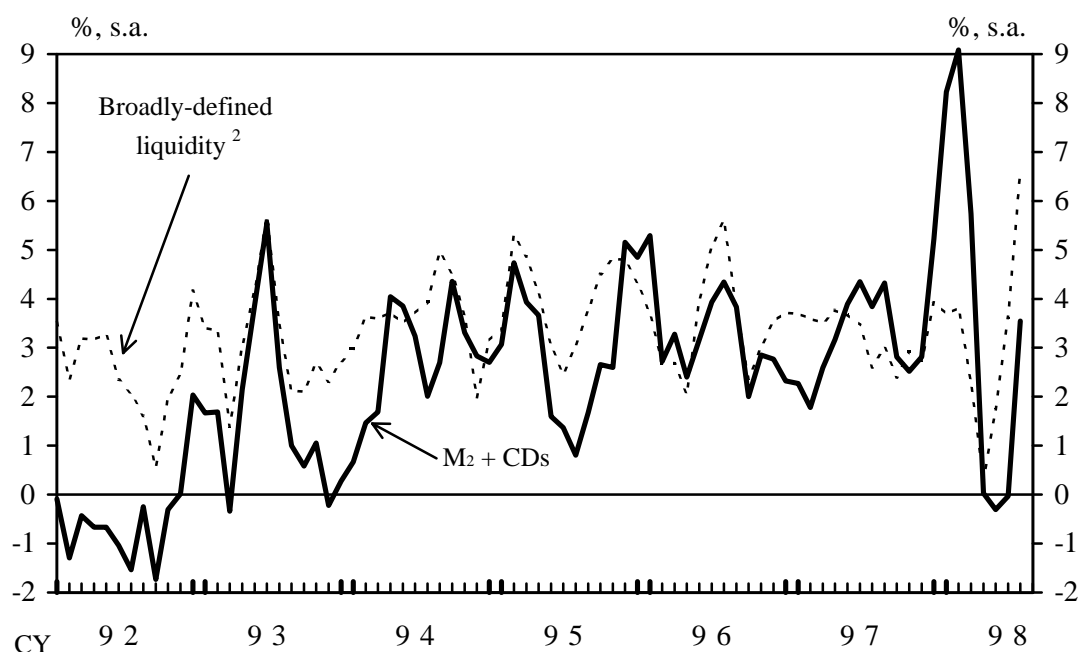


Note: Data for Sep 1998 are as of Sep 8, 1998.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



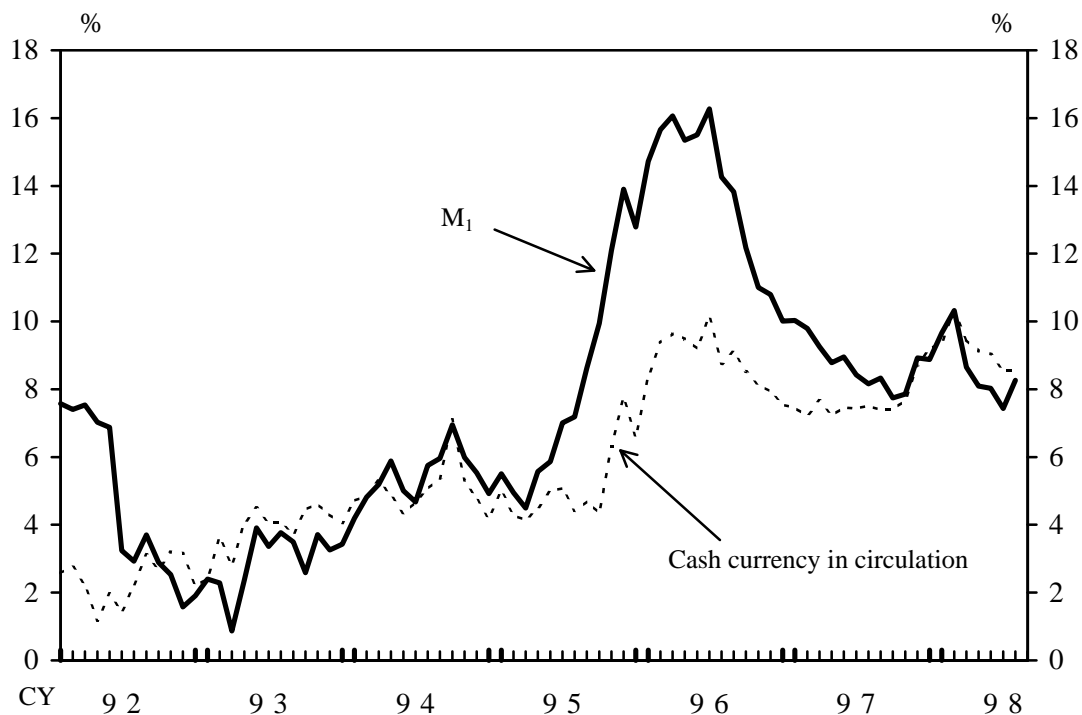
Notes: 1. Percent changes in average amounts outstanding.

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.

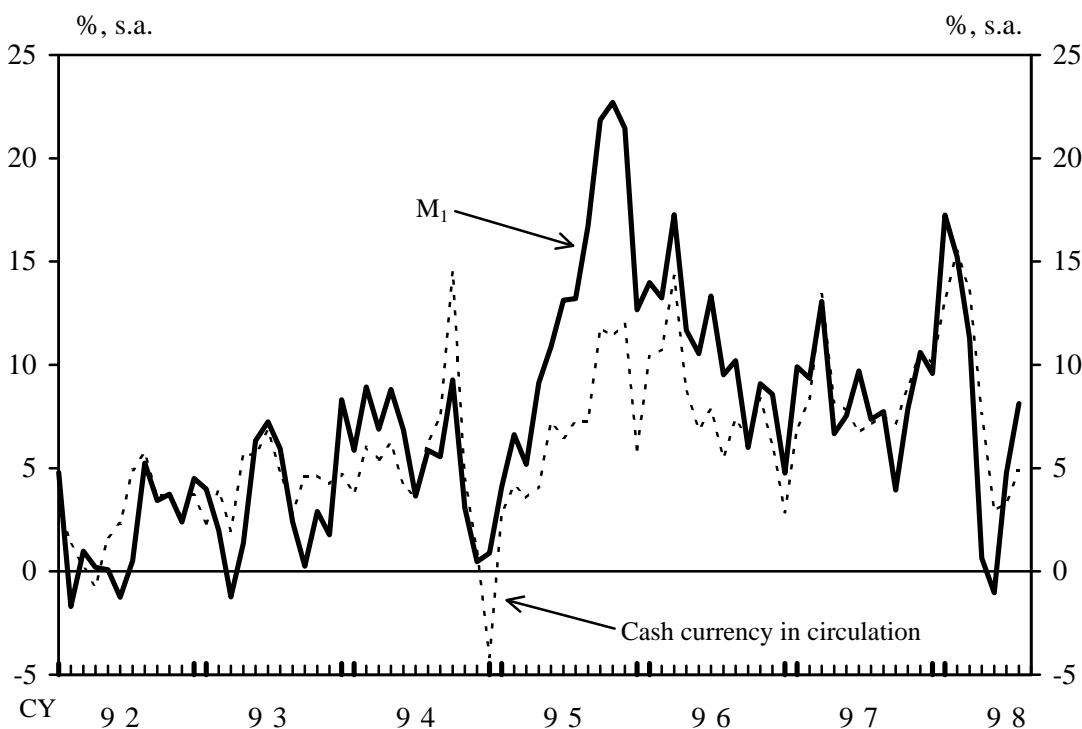
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

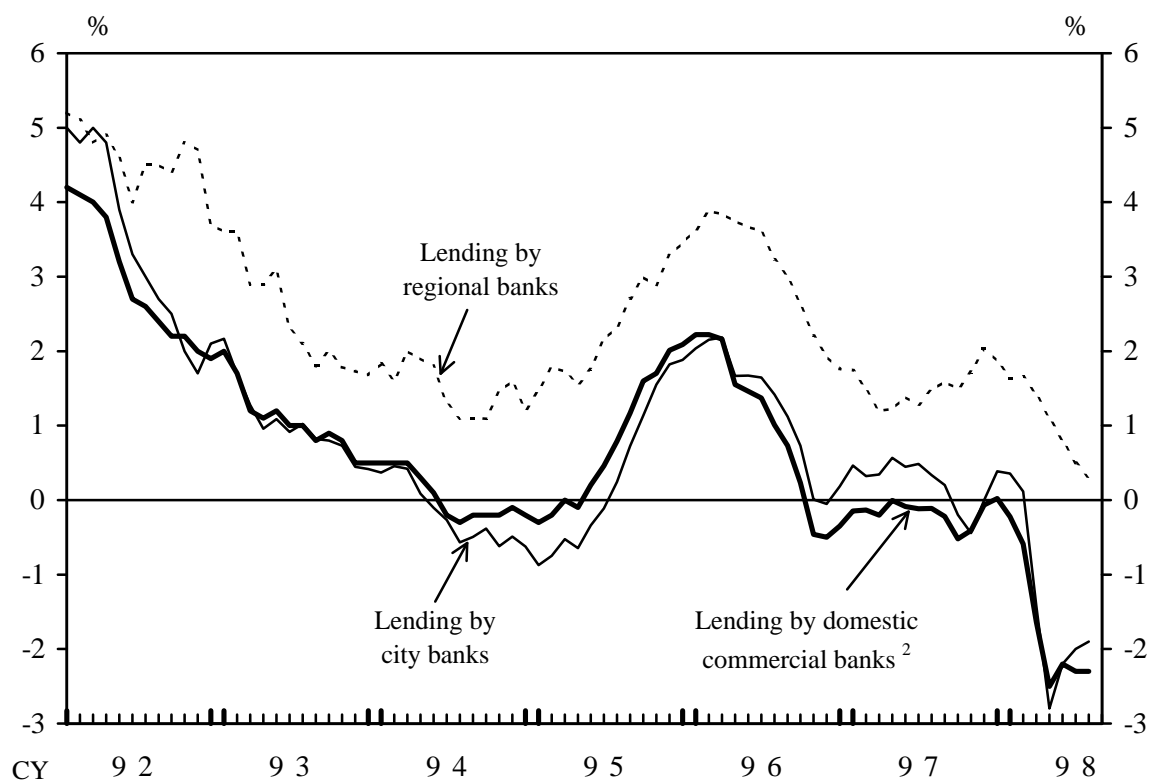


(2) Changes from Three Months Earlier (Annualized)



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

Lending by Domestic Commercial Banks



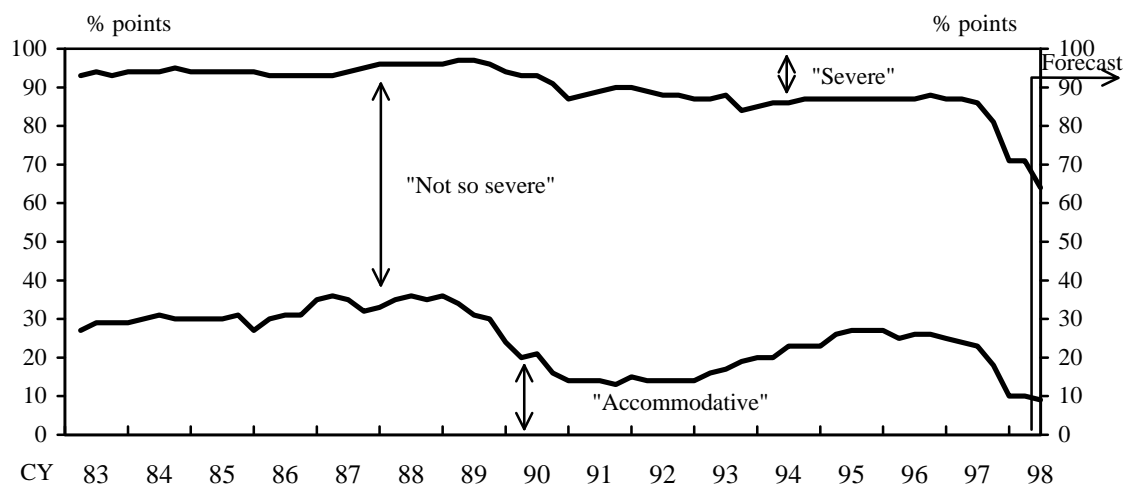
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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.

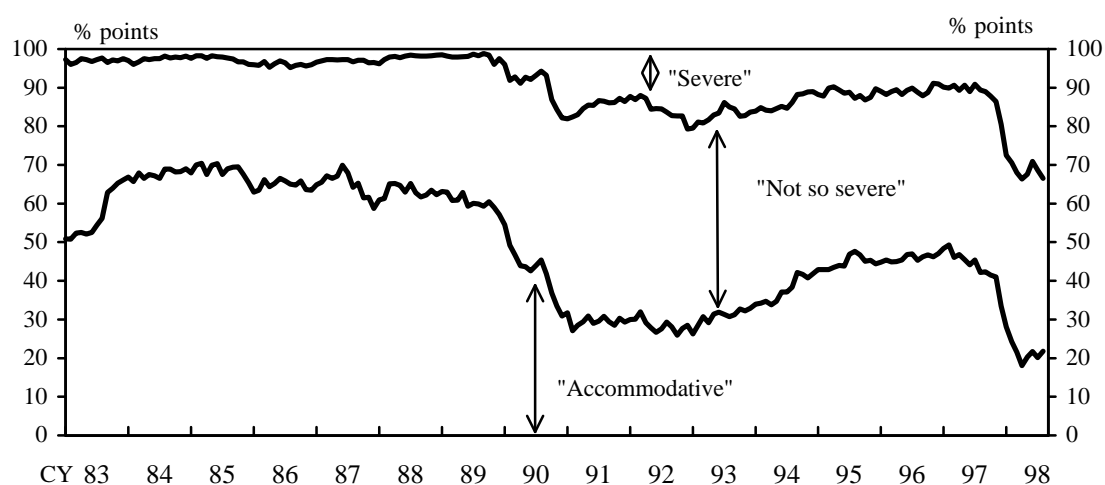
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as perceived by Small Enterprises

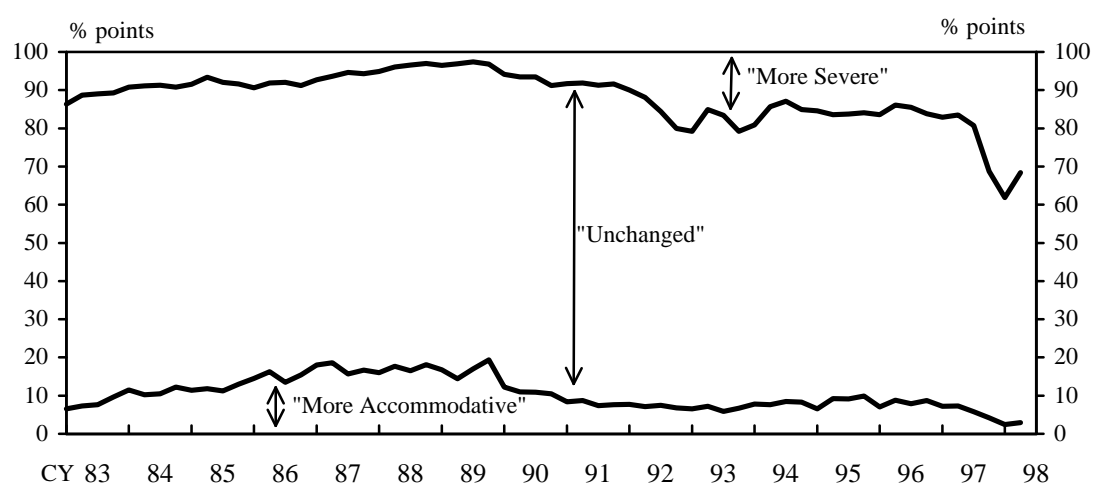
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (June, 1998)



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



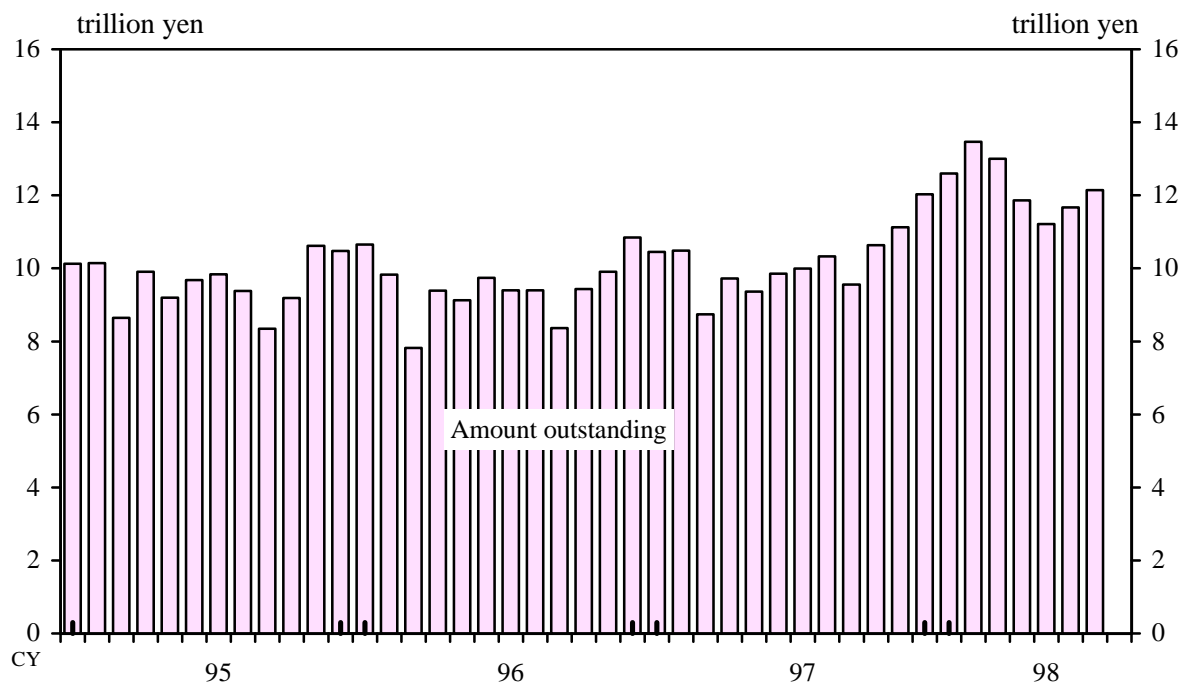
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-June, 1998)



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."

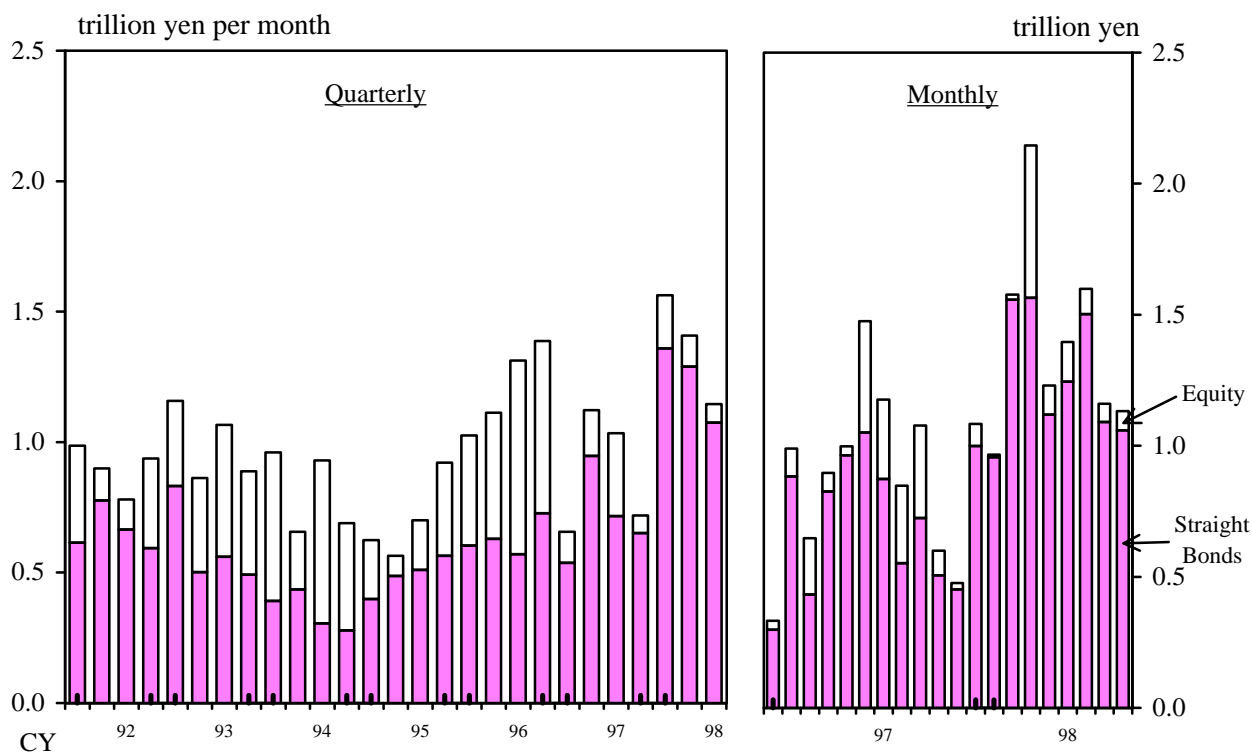
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

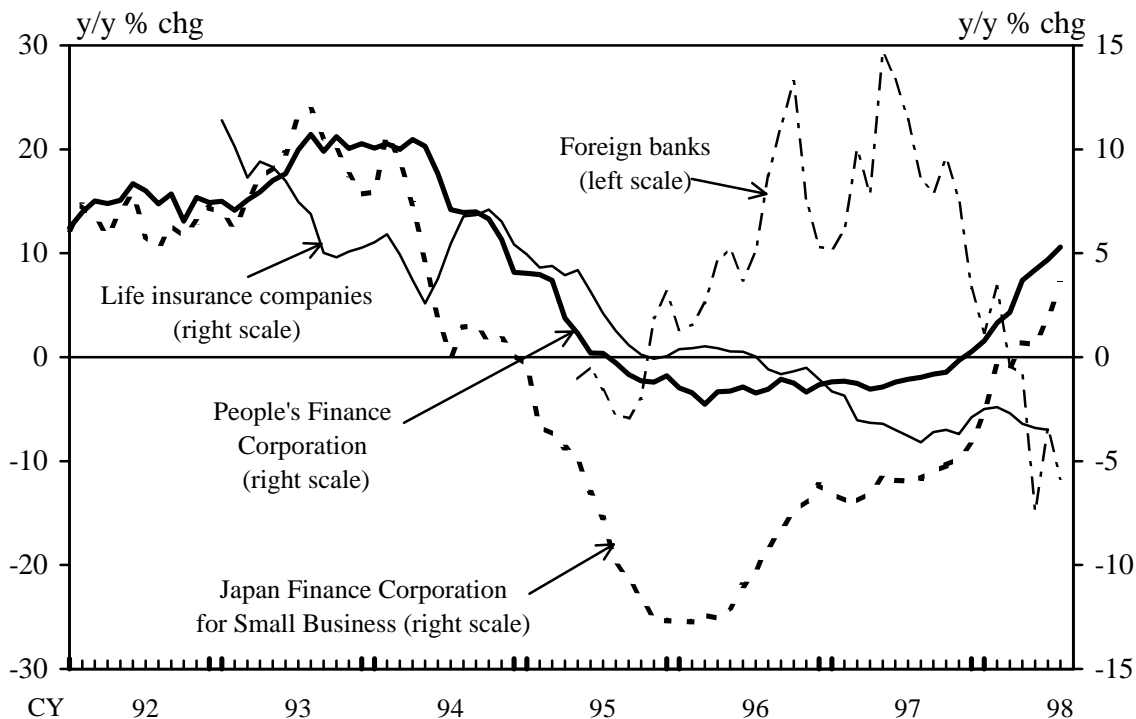


Notes: 1. Data for equity include convertible bonds, bonds with warrants, and new equity issues.
 2. Figures for 1998/Q3 are July-August average.

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

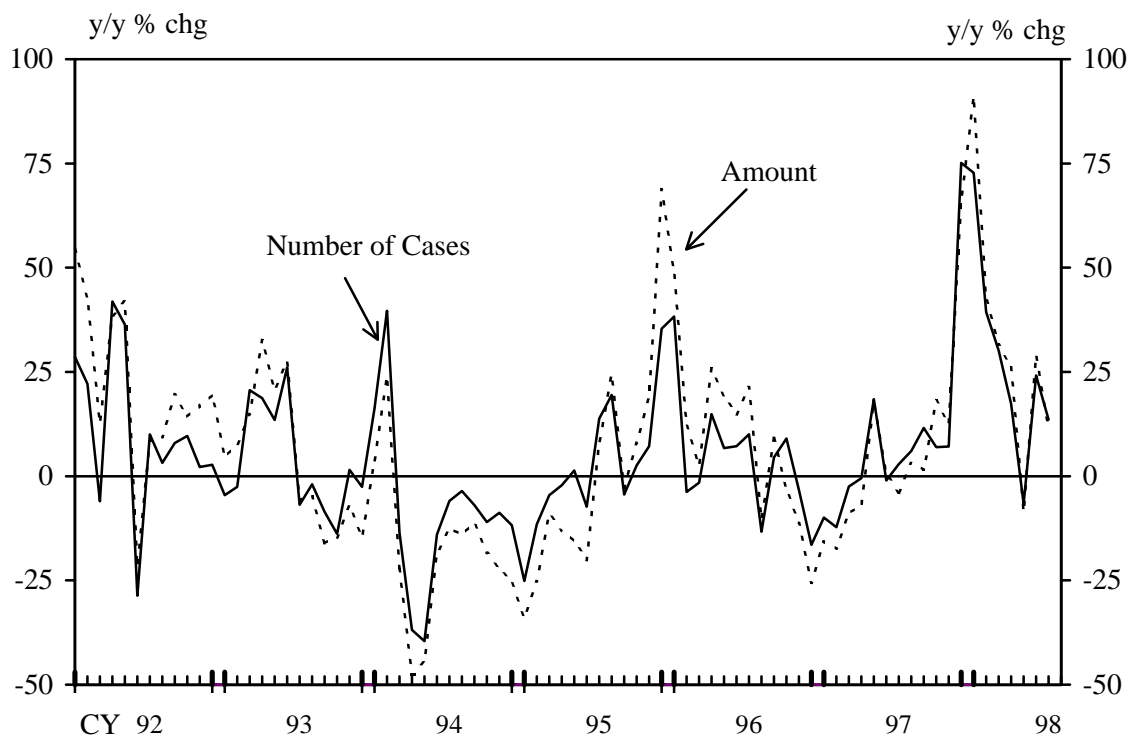
Lending by Other Financial Institutions

(1) Lending Outstanding



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

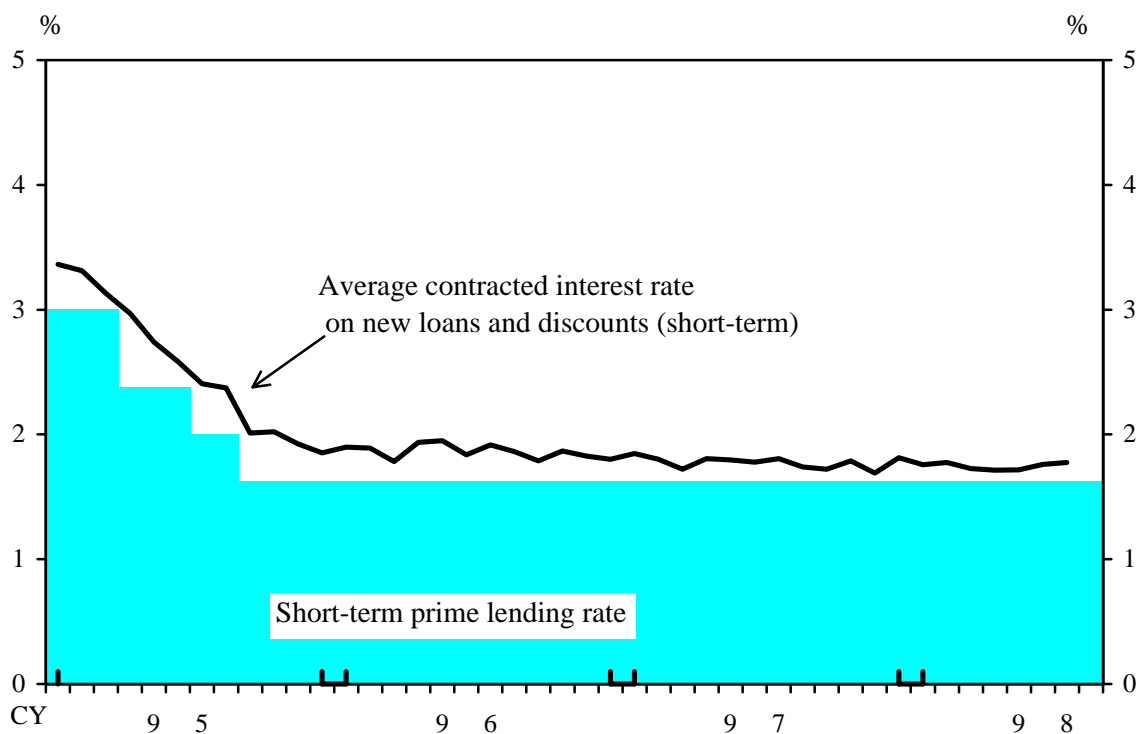
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

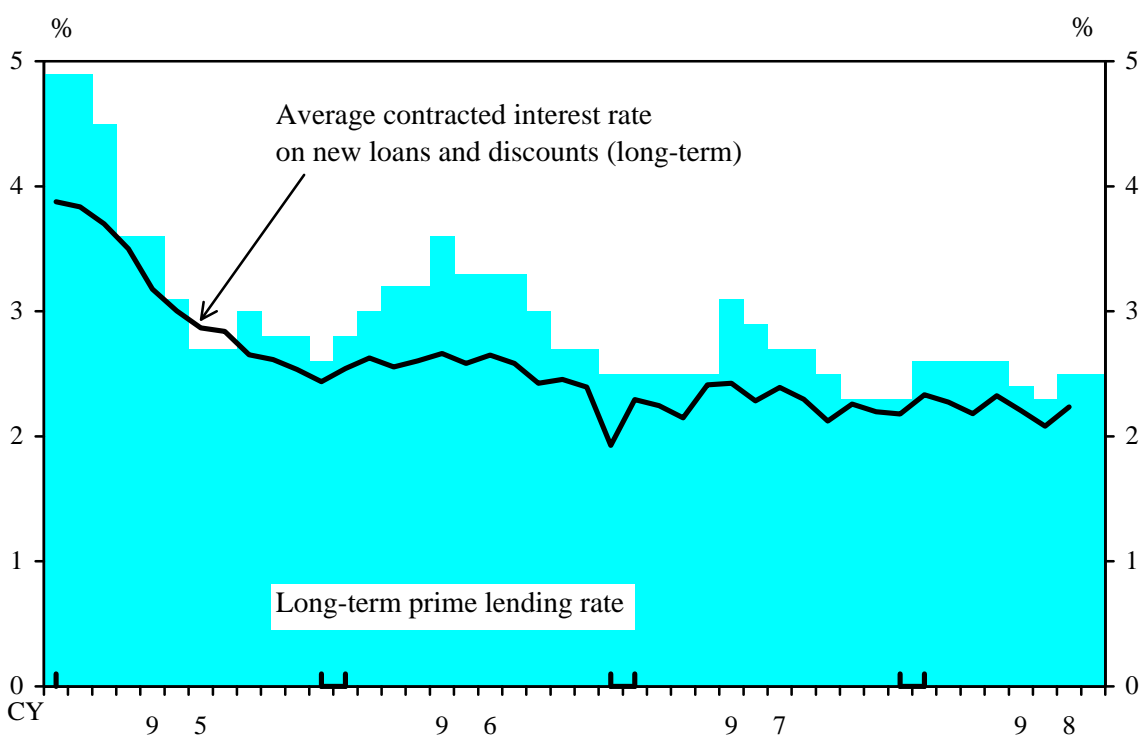
Lending Rates

(1) Short-Term



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

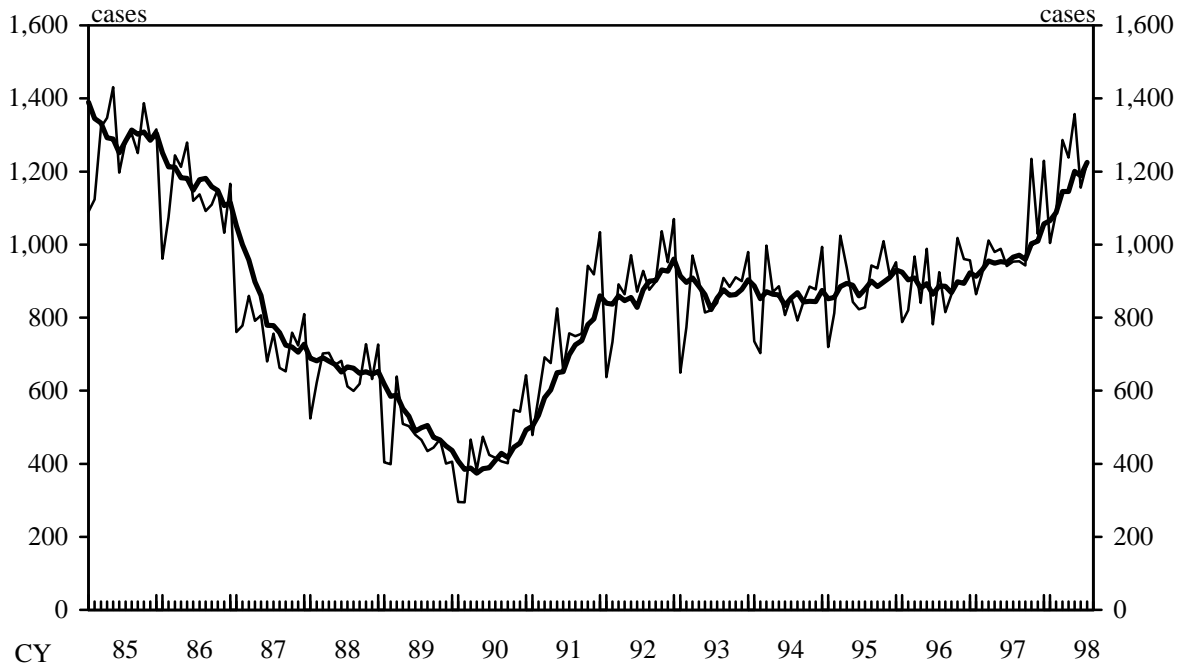
(2) Long-Term



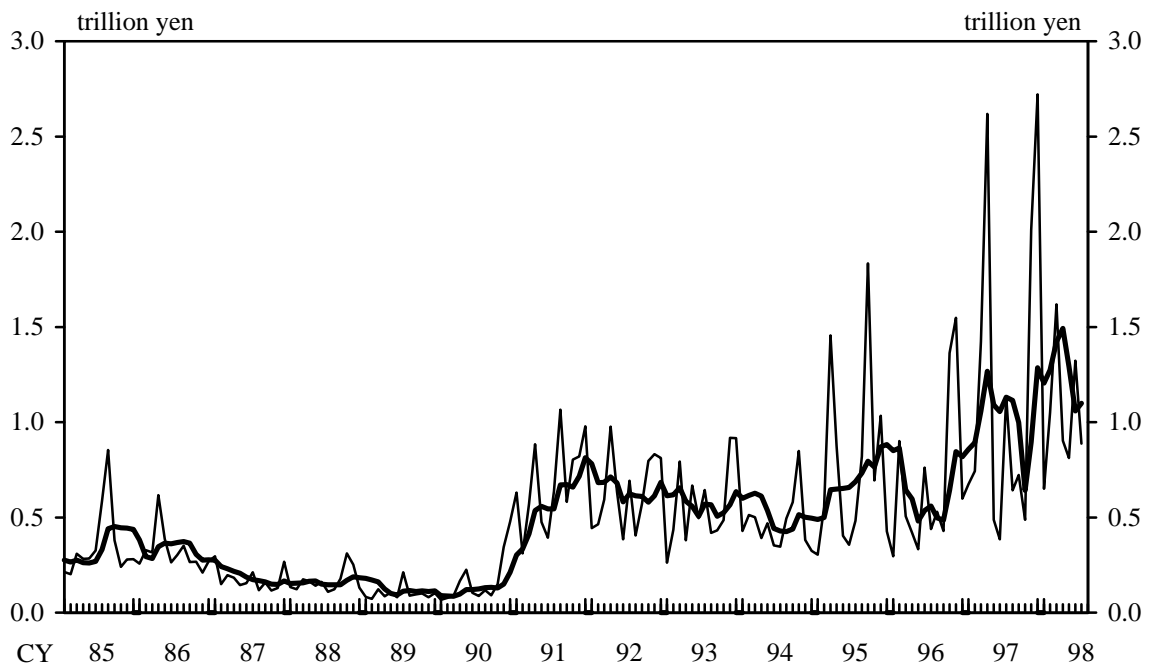
Source: Bank of Japan, "Economic Statistics Monthly."

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)."