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Bank of Japan

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

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released on November 17, 1998)

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

November 1998

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

Japan's economic conditions still continue to deteriorate.

With respect to final demand, public investment orders have increased significantly. Net exports (exports minus imports) seem to be basically on an upward trend. Business fixed investment, however, has been declining under increasingly severe conditions for firms' fund-raising. Housing investment has also declined further. In addition, private consumption has shown some weakness. Against this background of weak final demand, production has been reduced substantially. As a result, inventories are decreasing, but the ratio of inventory to sales remains high due to sluggish shipments. With the decline in expenditure and production, corporate profits continue to worsen, and employee income is decreasing. Employment and income conditions have deteriorated as the ratio of job offers to applications has recorded a historical low and the unemployment rate remains at a high level.

As the above indicates, there remain continued negative interactions of production, income, and expenditure. In addition, there is a growing concern among firms for fund availability toward the ends of the calendar year and the fiscal year, given the increasingly cautious lending stance of financial institutions and the mounting difficulty in fund-raising in the capital market.

With the effects of the comprehensive economic stimulus package and the recent monetary easing, the deterioration of the economy is expected to moderate gradually. Nevertheless, the economy is hardly expected to recover immediately,

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<sup>1</sup> This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on November 13, 1998.

<sup>2</sup> The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on November 13, as the basis of monetary policy decisions.

judged from the strong negative interactions and the constraints from corporate finance mentioned above. Moreover, the appreciation of the yen since early autumn may exert pressures on corporate profits for the latter half of the fiscal year, and there is a growing uncertainty in financial and economic developments overseas. These additional factors also need careful monitoring. In the above circumstances, a new legal framework to rebuild the stability of the financial system was established in October. It is desirable that, based on this framework, banks' capital base should soon be strengthened sufficiently to restore market confidence. Furthermore, the government is planning to launch emergency economic measures by the middle of November. The materialization of these measures and their effects on corporate and household sentiment should be carefully monitored.

With regard to prices, wholesale prices are on a downtrend reflecting the continued expansion in the output gap. Corporate service prices are weakening further, and consumer prices have fallen below the previous year's level. Given the persistently strong negative interactions of production, income, and expenditure, the expansion in the output gap is unlikely to cease despite the expected effects of the comprehensive economic stimulus package. Furthermore, the continued decline in wages and the appreciation of the yen since early autumn will exert downward pressure on prices. Hence, the decline in prices, especially in wholesale prices, may somewhat accelerate in the future.

In the financial markets, interest rates on Euro-yen deposits maturing after the year-end rose after the middle of October. This is partly because Japanese financial institutions—facing the intensified severity in raising foreign currency funds as reflected in the expansion of the Japan premium—have raised yen funds vigorously to turn over the funds to foreign banks in exchange for foreign currencies. Meanwhile, Treasury bill (TB) rates lowered close to zero with an increase of TB purchase by foreign banks that had raised yen funds at very low rates.

The interest rate differential between Euro-yen deposits and TBs expanded considerably in parallel with the heightened market concern over Japanese banks'

foreign currency liquidity risk at the year-end. Recently, however, the anxiety about worldwide credit crunch, which had once intensified in international financial markets, appears to be alleviated, and Japanese banks have shown considerable progress in raising foreign currency funds.

Stock prices have rebounded slightly, reflecting favorable market sentiments toward the enactment of laws aiming to stabilize and revitalize Japan's financial system and the movement of business tie-ups and restructuring in the financial industry. However, looking at the recent development of bond and stock markets as a whole, market participants seem to remain cautious over the outlook of the economy.

With regard to corporate finance, firms are further seeking to secure ample on-hand liquidity. Reflecting such increase in credit demand, the growth rate in  $M_2+CD$  continued to show a slight increase in September.

Meanwhile, Japanese private banks have taken more cautious attitude in extending loans, facing severe fund-raising environments and deteriorating business conditions of borrower companies. Particularly as the year-end nears, their cautious lending attitude seems to be adversely affecting not only small and medium-sized firms but also large ones.

In commercial paper and corporate bond markets, issuance rate differentials are further expanding across firms according to their creditworthiness. The development of severe corporate financial conditions toward the year-end and their influence on the economy continue to warrant careful monitoring.

## The Background

### 1. Japan's Economy

With regard to public investment (Chart 2<sup>3</sup>), the value of public works contracted, which reflects orders, increased greatly in September. This is due to the mounted effects from the front-loading of public-sector investment under the initial budget for fiscal 1998 into the first half of the fiscal year as well as the start of the full-scale implementation of the first supplementary budget for fiscal 1998. The orders of public works are expected to keep at a high level as the implementation of the supplementary budget progresses. Moreover, the actual execution of public works is also expected to be on an increasing trend.

Real exports (Charts 3 to 5) turned to an increase in the third quarter after posting a sharp drop in the first quarter and a smaller one in the second quarter. The increase reflects that exports to the United States and Europe remained firm, partially due to the lasting effects of the prior depreciation of the yen, and the pace of decline in exports to Asia slowed down. Thus, real exports seems to be recovering. Meanwhile, real imports increased in the third quarter after posting an extremely large decline in the second quarter. This increase, however, was due to temporary factors such as the rush in imports of new personal computer related products and automobile models. Thus, given the stagnant domestic demand and the continuing production cutbacks in Japan, real imports seem to remain on a weak trend overall.

As a result of these import and export developments, net exports (exports – imports) declined slightly in the third quarter in terms of the real trade balance<sup>4</sup> after posting a large increase in the second quarter, but basically remain on an increasing trend due to the rebound in exports and the weakness in imports noted above. The

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<sup>3</sup> Chart 2(2) shows a sudden decline in shipments of public works-related goods in August followed by a rebound in September. This is primarily due to fluctuations in shipments of materials for bridges, which have a large weight in the statistics.

<sup>4</sup> It should be noted that the real trade balance presented in Chart 3(2) differs from net exports on a GDP basis, but the changes in the real trade balance are basically equivalent to those of net exports. (The real trade balance is on a customs-clearance basis and does not include the trade in services, while net exports are on an ownership-transfer basis and include the trade in services).

nominal current account surplus recorded a substantial increase in July-August, compared with the second quarter, because of an increase in income surplus and a decline in service deficit, mainly in travel deficit.

As for the future environment for foreign trade, the depreciation of the yen before the summer should promote exports for the time being, but the appreciation of the yen since early autumn may restrict exports gradually towards fiscal 1999 (Chart 6(1)). Meanwhile, the economies in the United States and Europe are expected to remain firm for the time being (Chart 6(2)), and the stagnation of private-sector demand in Japan is likely to continue. Basically, these factors facilitate an increase in net exports. Many Asian countries, however, are under prolonged economic adjustments. Additionally, the growth of the United States economy is expected to decelerate gradually in the future. Furthermore, there is a risk that the conditions in emerging economies and the financial situation in the United States may reinforce the future deceleration of the United States economy.

Business fixed investment has been declining. Shipments of general capital goods, which reflect the current trend of business fixed investment, dropped sharply by 10.2 percent in the second quarter on a seasonally adjusted quarter-to-quarter basis and continued to decline by 1.0 percent in the third quarter. Machinery orders and nonresidential construction starts, which are leading indicators (Chart 7(1)), both fell sharply in the second quarter (down 16.0 percent and 6.2 percent, respectively, on a seasonally adjusted quarterly basis), and continued to decline in the third quarter (down 0.8 percent<sup>5</sup> and 3.3 percent, respectively).

Thus, business fixed investment is still in a serious adjustment phase. This is due to the rapidly increasing perceptions of excess equipment and the substantial decline in corporate profits amid the weakening final demand. Moreover, financial

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<sup>5</sup> The decline in machinery orders (private-sector demand excluding the shipping and electric power industries) in the third quarter was relatively small (0.8 percent), but is projected to expand once again in the fourth quarter (to 6.3 percent).

constraints on business fixed investment have also strengthened as the lending attitude of private banks has become severe. To date, the effects from these factors have been particularly pronounced at small firms (Chart 7(2)). In the future, however, the appreciation of the yen since early autumn will likely reduce the profits of large manufacturing firms particularly. In addition, the lending attitude of financial institutions has become even more cautious, and fund-raising on the capital market is also becoming more difficult. Consequently, even large firms are becoming more anxious about their fund-raising toward the ends of the calendar and fiscal years, and are beginning to make every effort to minimize investment to save on-hand liquidity. Given these developments, in addition to small firms, an increasing number of large firms may restrict business fixed investment. According to the recently released Business and Investment Survey of Incorporated Enterprises (conducted at the end of September), the business fixed investment plans of large firms (capitalized at 1.0 billion yen or more) for fiscal 1998 were revised downwards by 3.5 percent from the March survey (up 0.3 percent), declining 3.5 percent below the previous year's level.<sup>6</sup>

With regard to private consumption (Chart 8), sales of household appliances remain firm owing to the notable increase in sales of personal computers accompanied with the introduction of new products. Sales at department stores and chain stores, however, declined in September due to stagnant sales of apparel and seem to have remained lackluster in October. The number of passenger car sales (excluding light cars) dropped sharply in October by the demand shift to light cars with the influx of new models in line with the changes in light car standards. Including light cars, the number of passenger car sales rebounded slightly in October, but the revenues may have decreased because of the low unit price of light cars. Outlays for services such as travel services remain weak. Thus, private consumption has shown some weakness even though a substantial part of the special income tax reductions has already been implemented. This is because disposable income decreases, despite the

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<sup>6</sup> In the first half of the year, business fixed investment is estimated to have maintained the previous year's level, having increased only by 0.1 percent (up 0.7 percent in the March survey). In the second half, business investment is planned to fall largely below the previous year's level, decreasing by 6.8 percent (down 0.2 percent in the March survey).

special income tax reductions, and consumer sentiment becomes increasingly cautious (Chart 9) with the deterioration of employment and income conditions. Private consumption will remain stagnant for the time being amid the harsh employment and income conditions.

As for housing investment (Chart 10), housing starts (on a seasonally adjusted annual basis) had remained at a low level of about 1.30 million units from the summer of 1997 through the first quarter of 1998, but declined to 1.23 million units in the second quarter, and fell further to 1.14 million units in the third quarter, posting the lowest level ever since the third quarter of 1983 (1.14 million units). As for the outlook, the decline in interest rates on housing loans should underpin housing investment.<sup>7</sup> Judged from the worsening of employment and income conditions, however, housing investment is hardly expected to turn to a clear recovery for the time being.

Reflecting these developments in final demand, industrial production continues to decrease. After a large decline of 5.1 percent in the second quarter (on a seasonally adjusted quarterly basis), industrial production overall continued to drop, though slightly, by 0.3 percent in the third quarter (Chart 11). In detail, while production of transportation equipment turned to a slight rise reflecting its increased demand for exports, production cutbacks of general machinery intensified due to a further decline in business fixed investment. As a result, with regard to inventory conditions in the manufacturing sector (Chart 12), inventory adjustments are progressing for durable goods (passenger cars, household appliances, etc.), and inventories of production goods have almost peaked out recently. Nevertheless, with continuing stagnant shipments, inventory ratios remain at a high level, and considerable inventory adjustment pressures persist. As for the future environment

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<sup>7</sup> The number of applications for loans on the construction of private homes accepted by the government Housing Loan Corporation increased by 28.8 percent during its second offering period for fiscal 1998 (August 17 to September 30), compared to the low level of the previous year (down 60.3 percent). This is partly because the standard interest rate on the loans was lowered from 2.75 percent to 2.55 percent. The standard interest rate for the third offering period (November 2 to December 18) has dropped further to 2.0 percent.



for production, despite the effects of the comprehensive economic stimulus package, the stagnation of final private-sector demand is likely to continue including the reduction in business fixed investment, and the downward pressure from inventory adjustments. Judged from these factors as well as industry interview surveys and other data, any distinct recovery in industrial production is hardly expected in the fourth quarter.

Employment and income conditions have deteriorated due to the stagnant final demand and the decrease in industrial production. In the labor market (Chart 13), the number of new job offers continues to decline, especially in the manufacturing and construction industries. In September, the ratio of job offers to applications was 0.49, posting the lowest level since the start of these statistics in 1963, and the number of employees (at establishments with at least five employees) declined year-to-year to a slightly larger extent than the previous month. Additionally, the unemployment rate reached 4.3 percent in August, the highest level since the start of these statistics in 1953, and remained at the same level in September.<sup>8</sup> The background to this worsening of the labor market (Chart 14) includes the continuing increase in the number of corporate bankruptcies and the growing perceptions of excess employment, especially at small firms. Moreover, examining the growth rates of employment by establishment scale, employment adjustments seem to have recently started to intensify, even at larger firms. As regards wages (Chart 15), overtime compensation remains well below the previous year's level, the growth in regular compensation has slowed, and special payments are also well below the previous year's level. As a result, the wages paid per employee remain below the previous year's level.<sup>9</sup> Reflecting these employment and wage trends, employee income continues to decline.

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<sup>8</sup> More precisely, the unemployment rate declined slightly to 4.31 percent in September from 4.34 percent in August, but this may be attributed to an increase in the number of individuals who gave up job-hunting and thus were no longer counted as unemployed statistically.

<sup>9</sup> In September, wages paid per employee declined by 0.7 percent, compared with the previous year. The year-to-year rate of decline was lower than during July and August (2.5 percent and 2.6 percent), because summer bonuses (which dropped sharply this year) account for only a small percentage of September wages.

## 2. Prices

With regard to price developments, import prices (Chart 17(1)) have declined since September on a yen basis because of the appreciation of the yen. As for domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;<sup>10</sup> Chart 17(3)), the prices of steel and construction-related materials continue to drop due to excess inventories, the machinery prices are still falling, and the prices of non-ferrous metals began to decline once again due to the appreciation of the yen. Thus, overall domestic wholesale prices remain on a declining trend. (Domestic wholesale prices declined by a quarter-to-quarter 0.8 percent in the second quarter, 0.3 percent in the third quarter, and 0.4 percent in October compared to the third quarter level). As for the outlook, the appreciation of the yen since September will exert growing downward pressure on domestic wholesale prices, especially on the prices of import-related goods, such as petroleum products.

Corporate service prices (Chart 18(1)) are weakening further overall against the background of stagnant corporate activities, particularly in leasing and rentals, real estate rents, and advertising. The year-to-year price declines are expanding. (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 0.4 percent in the third quarter).<sup>11</sup>

Consumer prices (excluding perishables; Chart 18(2)) remain weak overall, having fallen below the previous year's level in the third quarter, as the decline in the prices of goods continues and the increase in service-related prices is slowing. (The year-to-year changes in consumer prices were +0.5 percent in the first quarter, +0.1 percent in the second quarter, and -0.2 percent in the third quarter). As a result,

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<sup>10</sup> 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.

<sup>11</sup> 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).

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 the third quarter.<sup>12</sup>

As for land prices, according to the Quarterly Land Price Index (Chart 19), the prices of both commercial and residential land continue to decline, reflecting the worsening of economic conditions.

Regarding the environment for prices overall, despite the effects of the comprehensive economic stimulus package, judged from the strong negative interaction of production, income and expenditure, it is likely that the output gap will continue expanding for the time being. Furthermore, the weakening of wages and the appreciation of the yen since early autumn are expected to exert downward pressure on prices. Judged from these developments, the decline in prices, especially in wholesale prices, may accelerate somewhat in the future.

### **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 continued ample provision of funds by the Bank of Japan, the overnight call rate (uncollateralized) generally remained around 0.25 percent.

Three-month Euro-yen interest rates maturing after the year-end rose to 0.7-0.75 percent from mid-October through the beginning of November, approaching the levels posted prior to the Bank of Japan's decision to further ease the stance of money

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<sup>12</sup> The year-to-year decline in nationwide consumer prices (excluding perishables) increased from 0.1 percent in August to 0.5 percent in September. This is because the effect from the rise in medical service charges due to the medical insurance system reform of September 1997 dropped off in September 1998. Excluding this effect, the year-to-year declines in August and September were both 0.5 percent.

market operations (on September 9). This reflects the large volume conversion of yen into foreign funds<sup>13</sup> by Japanese financial institutions procuring foreign currency for the year-end, while the environment for the direct procurement of foreign currency is becoming increasingly severe as the expansion of the Japan premium shows. Euro-yen interest rate futures (on an interest rate basis; December contracts) also rose from late October, following the spot rates.

The three-month TB yield lowered close to zero with an increase of TB purchases by foreign banks that had raised yen funds at very low rates.<sup>14</sup>

As a result, the differential between Euro-yen and TB interest rates expanded further from mid-October. The Japan premium also expanded and touched almost 0.7 percent amid the worldwide “flight to quality.”

Recently, however, the anxiety regarding a worldwide credit crunch, which had once intensified, appears to be alleviated, and Japanese banks have shown considerable progress in raising foreign currency mainly through the conversion of yen into foreign funds.

Yields on ten-year government bonds (benchmark) (Chart 20(2)) have generally been moving in a narrow range after posting historically low levels through early October.

As for yields on private bonds (Charts 25 and 26), the yields on corporate bonds with high ratings remain near historical lows, and the yields on bank debentures

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<sup>13</sup> Japanese financial institutions are converting yen into foreign currency by purchasing yen funds on short-term money markets such as the Euro-yen market and making swap trades on the foreign exchange market (selling yen and buying foreign currency on the spot market while buying yen and selling foreign currency on the futures market).

<sup>14</sup> Foreign banks, which are the counterparts for foreign exchange swap trades, sell foreign currency and buy yen on the spot market (while buying foreign currency and selling yen on the futures market), and thus procure yen funds for a fixed period of time. At present, foreign banks are raising yen funds at very low rates through this type of trading, and allocating a substantial portion of their yen funds into TB investment.

have also dropped to historical lows reflecting favorable market sentiments toward the enactment of laws aiming to stabilize and revitalize Japan's financial system. In contrast, the yields on bonds with comparatively low ratings are rising due to concerns over the worsening of corporate performance and the worldwide "flight to quality."

Stock prices (Chart 27(1)) rebounded slightly after recording the lowest levels since the bursting of the economic "bubble" in early October, as market players reacted favorably to (1) the enactment of laws aiming to stabilize and revitalize Japan's financial system and the progress of business tie-ups and restructuring in the financial industry, (2) the progress toward the launch of emergency economic measures, and (3) the recovery in U.S. stock prices. However, the yield spread (the government bond yield minus the expected earnings on stocks; Chart 27(2)) remains at a low level, indicating market participants' very cautious outlook on future economic growth.

On the foreign exchange market (Chart 28), the trend moved toward a somewhat lower yen and higher dollar as uncertainty over the outlook of the U.S. economy eased. The yen-dollar exchange rate has recently been moving between 121 and 123 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 increased slightly in September. (The year-on-year growth in  $M_2 +$  CDs was 3.7 percent in the second quarter, 3.5 percent in July, 3.8 percent in August, and 3.9 percent in September). While the year-on-year decline in lending by private banks (monthly average outstanding balance basis; Chart 31), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, expanded, the increase in CP issuance lifted the growth rate of money stock in September.

Looking at the background to these monetary aggregate developments in some detail, the lending attitude of private financial institutions (Chart 32) has become still

more cautious as they face a severe fund-raising environment and the worsening performance of borrower companies. Particularly, as the year-end nears, their cautious lending attitude seems to be adversely affecting not only small and medium-sized firms but also large ones.

Regarding the credit demand of private firms, funding needs for real economic activities remain at a low level, but a growing number of firms are seeking to secure ample on-hand liquidity against the cautious lending attitude of private financial institutions. These conditions seem to be prompting anxiety regarding limited credit availability among market participants.

Under such circumstances, fund-raising on the corporate bond market (Chart 33) increased steadily for corporations with high credit ratings. For corporations with relatively low credit ratings, however, the environment for bond issuance continues to deteriorate, and makes long-term and large-amount issues difficult.

Borrowings from government financial institutions (Chart 34) continue to increase steadily.

Turning to the funding cost for firms (Chart 35), following the Bank of Japan's decision in September to further ease the stance of money market operations, major banks lowered their short-term prime rates from 1.625 percent to 1.5 percent. Long-term prime rates were also lowered in October and again in November to post a historical low of 2.2 percent on November 10. In commercial paper and corporate bond markets, however, issuance rate differentials are further expanding across firms according to their creditworthiness, resulting in a substantial variation in funding costs among enterprises.

The development of these severe corporate financing conditions toward the year-end and their influence on the economy continue to warrant careful monitoring.<sup>15</sup>

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<sup>15</sup> The number of corporate bankruptcies is on a rising trend (Chart 36).

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## Main Economic Indicators (1)

y/y % chg.

	98/Q1	Q2	Q3	98/July	Aug.	Sept.	Oct.
Index of expenditure level (all households)	-4.7	-0.8	p -1.9	-2.7	-1.9	p -1.0	n.a.
Sales of department stores	-9.8	0.6	p -4.5	-4.1	-4.3	p -5.3	n.a.
Sales of chain stores <sup>1</sup>	-7.0	0.3	-2.5	-1.4	-3.7	-2.3	n.a.
New passenger-car registrations <sup>2</sup>	-21.5	-2.1	-1.8	-0.5	-3.1	-2.5	-14.0
Sales of electric appliances (NEBA)	-14.1	3.6	8.2	8.3	6.3	10.6	n.a.
Outlays for travel (50 major travel agencies)	-6.2	-2.8	-3.2	-1.0	-3.2	-5.6	n.a.
Housing starts <s.a., ann. 10,000 units>	132	123	114	110	118	114	n.a.
Machinery orders (from private sector <sup>3</sup> )	-5.8	-21.7	-20.3	-24.1	-25.0	-14.5	n.a.
Mining & manufacturing	-7.6	-23.7	-22.0	-26.1	-23.8	-17.8	n.a.
Nonmanufacturing <sup>3</sup>	-4.2	-20.1	-18.9	-22.3	-25.8	-12.1	n.a.
Construction Starts (private, nonresidential use)	-7.8	-13.8	-18.2	-5.5	-22.4	-25.6	n.a.
Manufacturing	-7.2	-25.9	-38.1	-29.9	-41.6	-42.3	n.a.
Nonmanufacturing <sup>4</sup>	-8.0	-8.9	-10.5	4.2	-15.1	-19.2	n.a.
Value of public works contracts	-2.2	-6.2	4.9	-10.7	3.5	23.8	n.a.
Real exports <s.a. quarterly (monthly) change>	-4.9	-0.9	1.7	4.9	-3.9	6.6	n.a.
Real imports <s.a. quarterly (monthly) change>	-1.5	-7.8	3.3	-0.2	-2.3	3.3	n.a.
Industrial production <s.a. quarterly (monthly) change>	-1.3	-5.1	p -0.3	-0.6	-1.3	p 2.5	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.1	-5.1	p 0.5	-0.3	-1.3	p 3.2	n.a.
Inventories <s.a. quarterly (monthly) change>	0.7	-1.9	p -2.2	-0.7	-0.3	p -1.2	n.a.
Inventories/shipments <s.a. 1995=100>	112.9	111.0	p 111.8	111.2	114.8	p 111.8	n.a.



## Main Economic Indicators (2)

	y/y % chg.						
	98/Q1	Q2	Q3	98/July	Aug.	Sept.	Oct.
Ratio of job offers to applications <s.a., times>	0.61	0.53	0.50	0.50	0.50	0.49	n.a.
Unemployment rate <s.a., %>	3.65	4.18	4.26	4.12	4.34	4.31	n.a.
Overtime working hours <sup>5</sup>	-5.4	-9.3	p -8.7	-8.8	-8.1	p -8.9	n.a.
Number of employees	0.0	-0.6	-0.7	-1.0	-0.3	-0.7	n.a.
Number of regularly employed <sup>5</sup>	0.6	0.1	p -0.2	-0.1	-0.1	p -0.3	n.a.
Nominal wage per person <sup>5</sup>	-0.1	-0.6	p -2.0	-2.5	-2.4	p -0.7	n.a.
Domestic wholesale prices index <sup>6</sup>	-1.6 ( 0.3 )	-2.3	-2.1	-2.2	-2.1	-2.0	-2.1
Consumer prices index (nationwide) <sup>6</sup>	0.5 ( 2.0 )	0.4	-0.2	-0.1	-0.3	-0.2	n.a.
Excluding perishables	0.5 ( 1.9 )	0.1	-0.2	-0.1	-0.1	-0.5	n.a.
Corporate service prices index <sup>6</sup>	-0.1 ( 1.7 )	-0.2	-0.4	-0.2	-0.4	-0.6	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	4.7	3.7	p 3.7	3.5	3.8	p 3.9	n.a.
Number of suspension of transaction with banks	20.9	28.9	17.3	28.4	7.9	15.7	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.

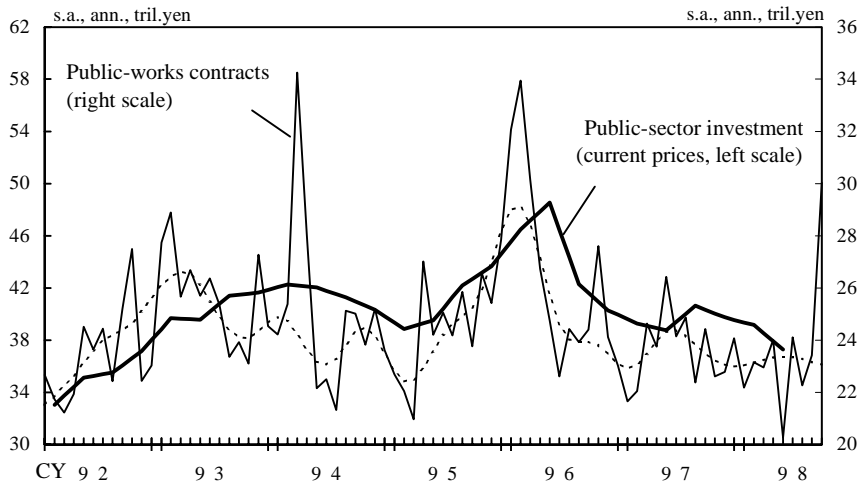
5. Data for establishments with 5 regular employees or more.

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.

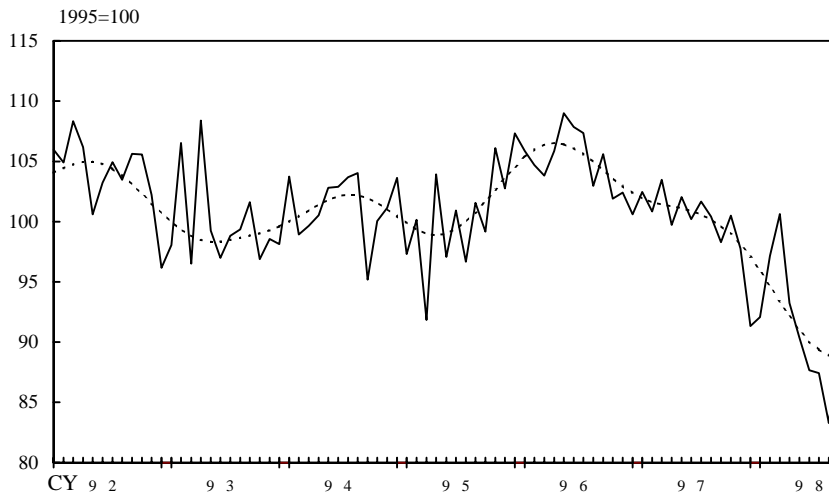
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";  
Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";  
Japan Chain Stores Association, "Sales 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, "The Summary Report on Trade of Japan"; Ministry of Labor, "Report on Employment Service", "Monthly Labor Survey"; Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index",  
"Economic Statistics Monthly"; Federation of Bankers Associations of Japan, "Suspension of Transaction with Banks."

## Public-sector Investment

### (1) Public-works Contracts



### (2) Shipments of Public Works-related Goods

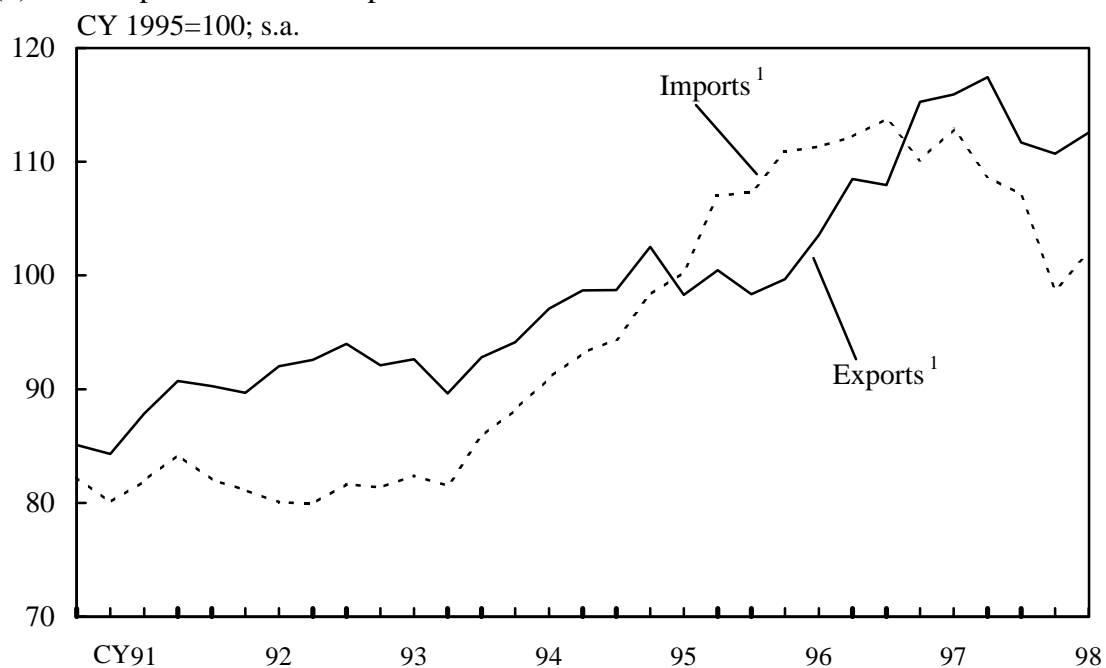


- Notes: 1. In order to follow the monthly movement of public-sector investment, we have compiled the data of shipments of "public works-related goods" by selecting some goods used for public works from "Indices of Industrial Production."
2. The basket of goods used to calculate "public works-related goods" was changed just after the base year of "Indices of Industrial Production" was revised from 1990 to 1995. The goods presently used are asphalt, concrete products for roads, bridges, and cement.
3. "Public works-related goods" only covers construction investment excluding buildings (which comprises two-thirds of public-sector investment), and does not cover building and machinery investment (which comprises one-third of public-sector investment).  
"Public works-related goods" is partly used for private-sector investment.
4. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
5. Seasonally adjusted by X-12-ARIMA( $\beta$  version). The dotted line is the trend cycle factor.

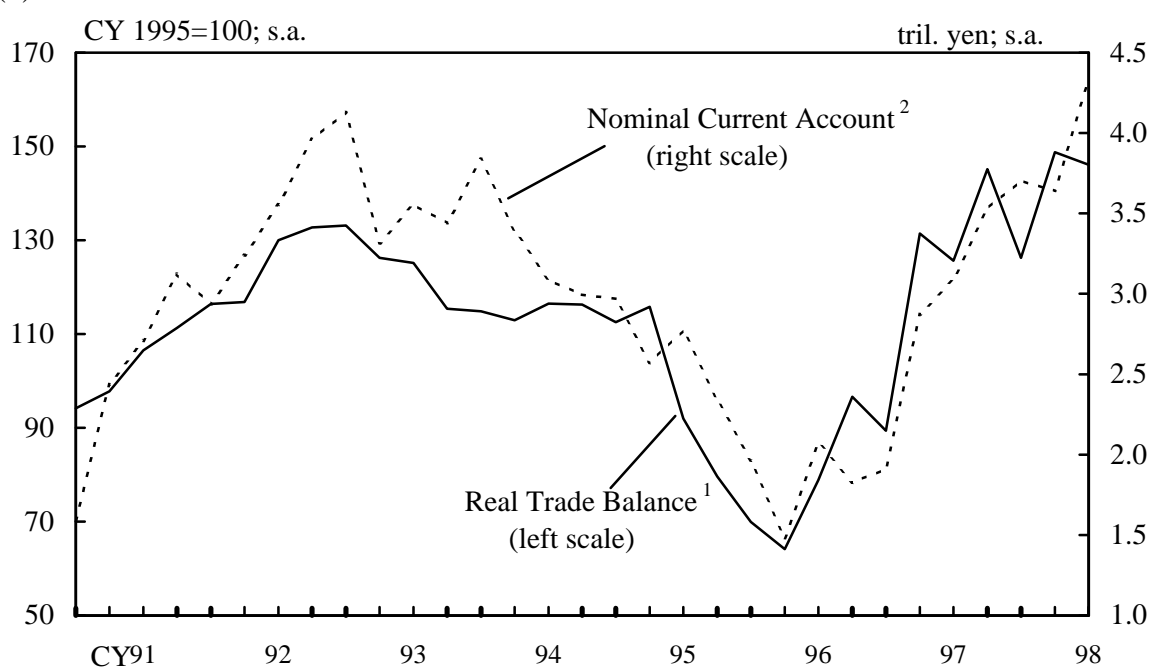
Source: Economic Planning Agency, "National Income Statistics";  
Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";  
Ministry of International Trade and Industry, "Indices of Industrial Production."

## External Balance

## (1) Real Exports and Real Imports



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



Notes: 1. Seasonally adjusted by X-11.

2. 1998/Q3 is Jul-Aug average in terms of quarterly amount.

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

Real Exports <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q3	98 Q4	98 Q1	Q2	Q3	98 Jul.	Aug.	Sep.
United States	<27.8>	1.8	14.6	0.0	1.8	4.6	-0.8	2.5	6.4	-5.9	6.0
EU	<15.6>	-1.2	13.8	1.3	5.4	1.3	7.2	2.0	6.9	-9.0	10.2
East Asia	<40.6>	6.1	8.6	0.5	-2.6	-11.7	-7.6	-0.1	3.2	-2.5	8.0
China	<5.2>	11.0	8.2	-3.9	6.2	-3.9	4.0	-2.1	3.4	-1.6	5.4
NIEs	<24.0>	3.7	10.5	3.1	-0.8	-11.4	-8.7	-1.3	1.1	-3.7	10.0
Korea	<6.2>	6.2	-1.5	-4.0	-2.8	-29.8	-7.0	-1.4	1.8	-4.6	14.6
ASEAN4 <sup>3</sup>	<11.4>	8.9	5.0	-2.8	-10.0	-16.0	-11.3	4.2	8.1	-0.4	5.1
Thailand	<3.5>	3.3	-11.6	-11.8	-15.4	-9.6	-2.3	-0.4	5.0	-5.3	6.2
Indonesia	<2.4>	0.9	22.6	3.4	-19.5	-36.0	-26.9	8.7	10.7	11.6	4.9
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	1.7	4.9	-3.9	6.6

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q3	98 Q4	98 Q1	Q2	Q3	98 Jul.	Aug.	Sep.
Intermediate goods	<14.7>	5.0	11.2	1.1	0.7	-3.2	2.3	4.9	2.3	-2.8	7.7
Motor vehicles and their related goods	<20.5>	-1.7	14.6	2.6	-4.2	-3.0	0.7	4.1	9.1	-6.3	5.4
Consumer goods <sup>4</sup>	<6.9>	-1.9	6.3	2.2	2.2	2.3	0.7	-2.7	3.6	-3.7	1.9
Information-related goods <sup>5</sup>	<18.2>	5.8	18.1	2.0	1.3	-5.5	-5.3	1.6	7.4	-3.2	6.7
Capital goods and parts <sup>6</sup>	<29.6>	5.1	9.0	-0.1	3.5	-5.8	-2.8	0.5	6.8	-4.3	8.1
Real exports		2.3	11.2	0.6	1.3	-4.9	-0.9	1.7	4.9	-3.9	6.6

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 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 <sup>1</sup>

## (1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q3	98 Q4	98 Q1	Q2	Q3	98 Jul.	Aug.	Sep.
United States	<22.3>	15.5	1.1	0.6	-0.1	0.5	-4.8	1.4	-2.8	1.4	-4.0
EU	<13.3>	11.1	-3.6	6.3	-7.1	3.4	-8.5	4.0	-3.7	-1.7	12.2
East Asia	<34.7>	15.1	0.9	-0.8	-4.5	-0.2	-6.0	1.4	-3.0	-3.4	3.9
China	<12.4>	20.4	8.8	0.6	-2.9	0.8	-4.7	1.4	2.5	-6.8	-1.5
NIEs	<10.4>	9.2	-8.1	-1.5	-5.6	-0.5	-9.0	-0.4	-6.6	-0.5	11.0
Korea	<4.3>	0.7	-3.9	0.4	-8.8	3.7	-10.1	-3.7	-4.5	-6.6	12.1
ASEAN4 <sup>3</sup>	<12.0>	16.4	2.2	-1.6	-5.2	-0.9	-4.7	3.0	-5.6	-1.9	3.8
Thailand	<2.8>	9.4	-0.5	0.4	-2.1	-3.5	-2.7	2.9	-3.5	-2.0	1.5
Indonesia	<4.3>	7.8	-2.3	-1.6	-8.5	0.1	-4.1	5.8	-9.4	-4.6	17.4
Real imports		10.3	0.9	2.5	-3.7	-1.5	-7.8	3.3	-0.2	-2.3	3.3

## (2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q3	98 Q4	98 Q1	Q2	Q3	98 Jul.	Aug.	Sep.
Raw materials <sup>4</sup>	<27.1>	0.5	-0.5	1.0	0.1	-4.3	-4.4	2.7	0.8	-5.8	3.3
Intermediate goods	<13.7>	4.6	2.7	4.4	-1.5	-2.0	-9.3	2.1	0.8	-6.5	3.6
Foodstuffs	<13.6>	5.1	-3.5	6.8	-6.6	0.9	-2.9	3.4	2.4	0.9	7.2
Consumer goods	<10.8>	12.3	-10.0	0.0	-9.1	-0.3	-8.9	7.0	3.8	-5.7	10.1
Information-related goods <sup>5</sup>	<12.5>	36.8	8.0	-2.4	-3.1	-4.0	-1.2	4.1	-5.4	0.1	2.6
Capital goods and parts <sup>6</sup>	<11.4>	23.1	13.6	5.6	0.3	8.0	-10.8	1.8	-1.7	-3.0	-4.0
Real imports		10.3	0.9	2.5	-3.7	-1.5	-7.8	3.3	-0.2	-2.3	3.3

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.

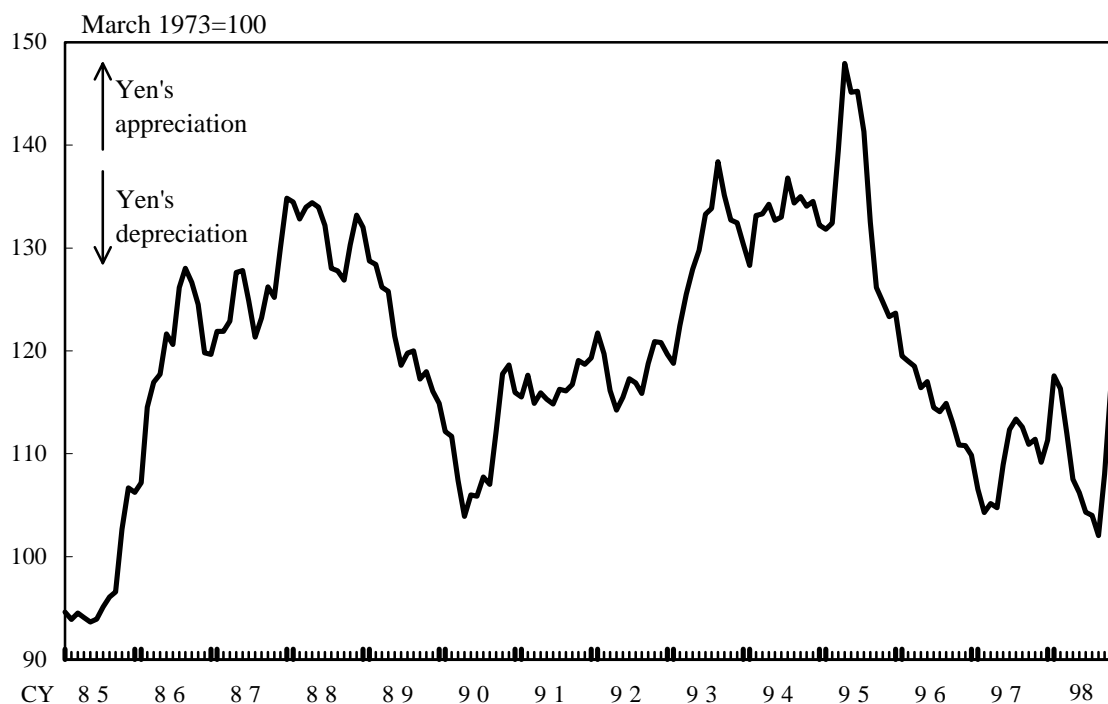
4. Raw materials = woods + ores + mineral fuel, etc.

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 <sup>1</sup>

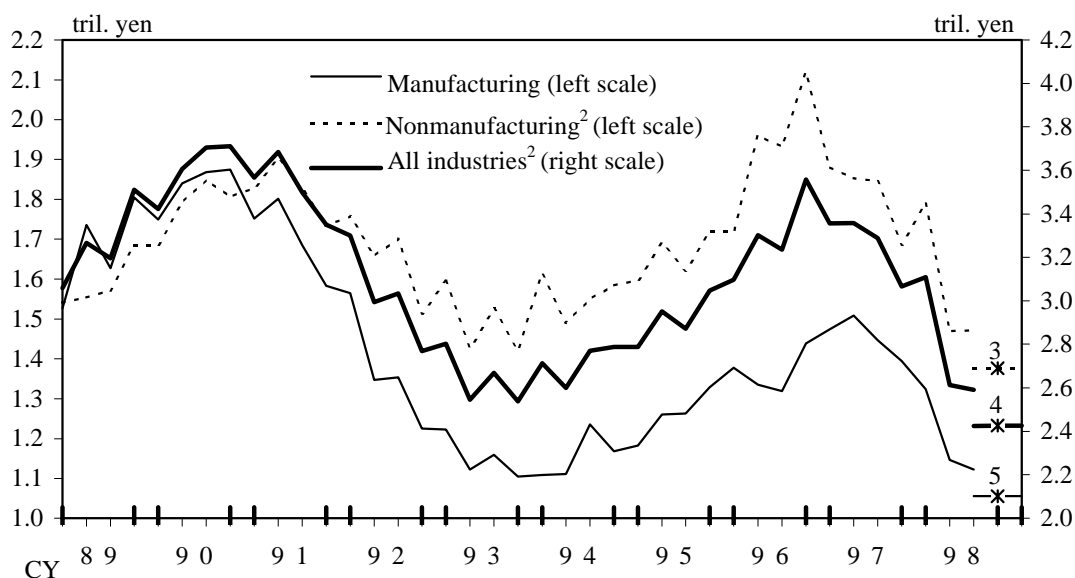
Notes: 1. Monthly average. The figure for November 1998 is November 1-12 average. Calculated by Bank of Japan. Figures are index of weighted average of yen's real exchange rates versus 24 major currencies which are calculated from exchange rates and price indexes of the respective countries.

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

		CY97	98	99	97 Q4	98 Q1	Q2	Q3	
United States <sup>1</sup>		3.9	( 3.4)	( 2.1)	3.0	5.5	1.8	3.3	
European Union <sup>1</sup>		2.7	( 2.8)	( 2.3)	2.4	2.5	n.a.	n.a.	
East Asia <sup>2</sup>	Germany	2.2	( 2.6)	( 2.3)	1.2	5.9	0.4	n.a.	
	France	2.3	( 3.0)	( 2.4)	3.1	3.0	2.6	n.a.	
	United Kingdom	3.5	( 2.5)	( 1.0)	2.9	3.1	1.9	1.8	
	China	8.8	( 7.2)	( 7.5)	(Jan-Dec) 8.8	7.2	(Jan-Jun) 7.0	(Jan-Sep) 7.2	
	NIEs	Korea	5.5	(-6.7)	(-0.3)	3.9	-3.9	-6.6	n.a.
		Taiwan	6.8	( 4.8)	( 4.2)	7.1	5.9	5.2	n.a.
		Hong Kong	5.3	(-4.6)	(-1.8)	2.8	-2.7	-5.2	n.a.
Singapore	7.8	( 0.0)	(-1.0)	7.6	6.1	1.6	-1.5		
4 Countries of ASEAN	Thailand	-0.4	(-7.9)	(-0.4)	n.a.	n.a.	n.a.	n.a.	
	Indonesia	4.6	(-16.5)	(-3.7)	1.4	-7.9	-16.5	n.a.	
	Malaysia	7.7	(-4.8)	(-0.3)	6.9	-2.8	-6.8	n.a.	
	Philippines	5.1	(-0.6)	( 0.6)	4.8	1.7	-1.2	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 "BLUE CHIP ECONOMIC INDICATORS" and "CONSENSUS FORECASTS" are shown in brackets.

## Major Indexes of Business Fixed Investment (1)

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

Notes: 1. Seasonally adjusted data.

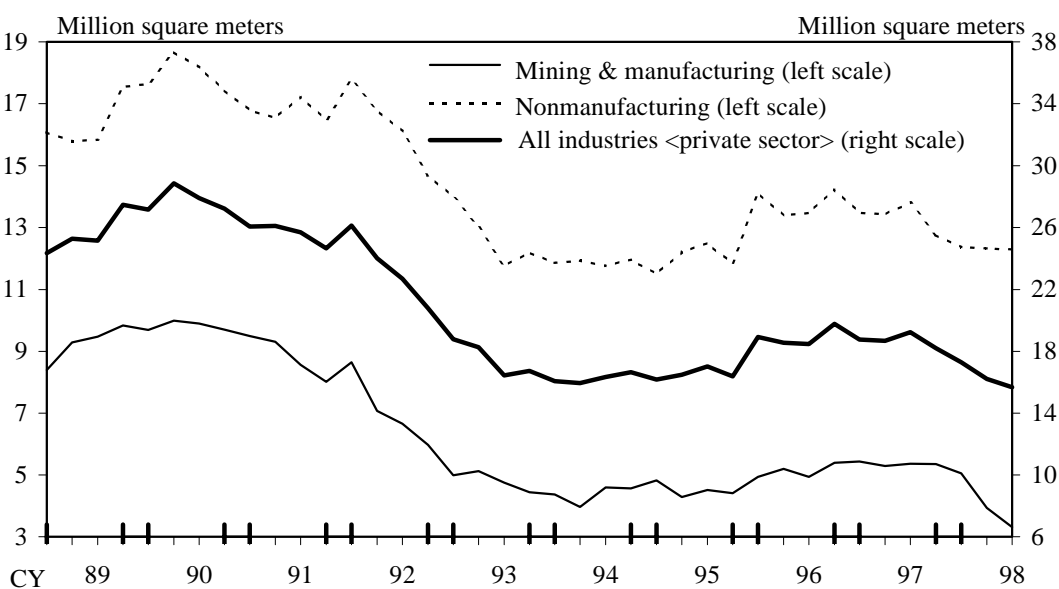
2. Excludes orders from electric power companies, and shipbuilding orders.

3. Forecast of nonmanufacturing industries for 1998/Q4.

4. Forecast of all industries for 1998/Q4.

5. Forecast of manufacturing industries for 1998/Q4.

## (2) Construction Starts (Nonresidential)



Note: Seasonally adjusted by X-11.

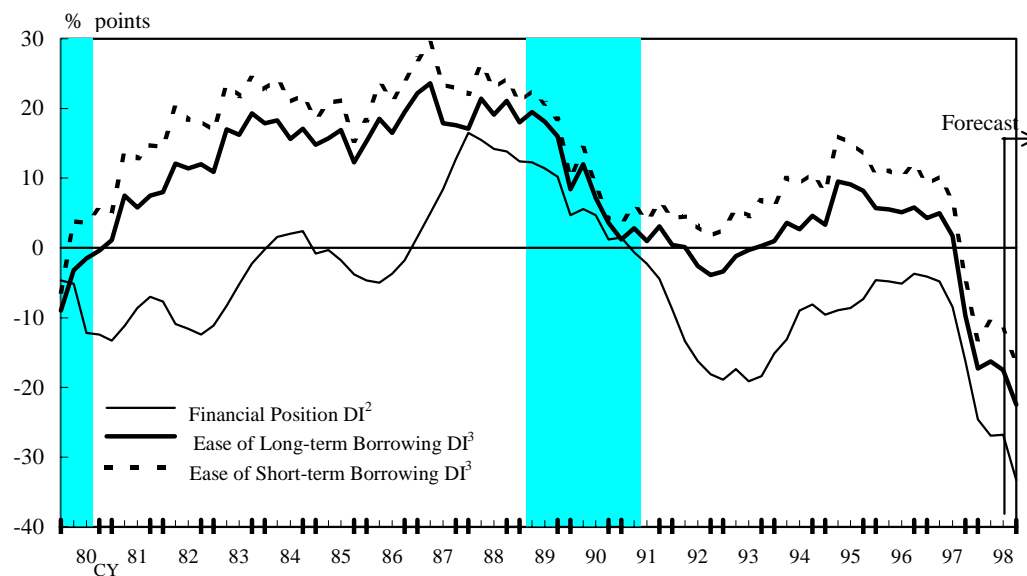
Sources: Economic Planning Agency, "Machinery Orders Statistics";

Ministry of Construction, "Building Construction Started."

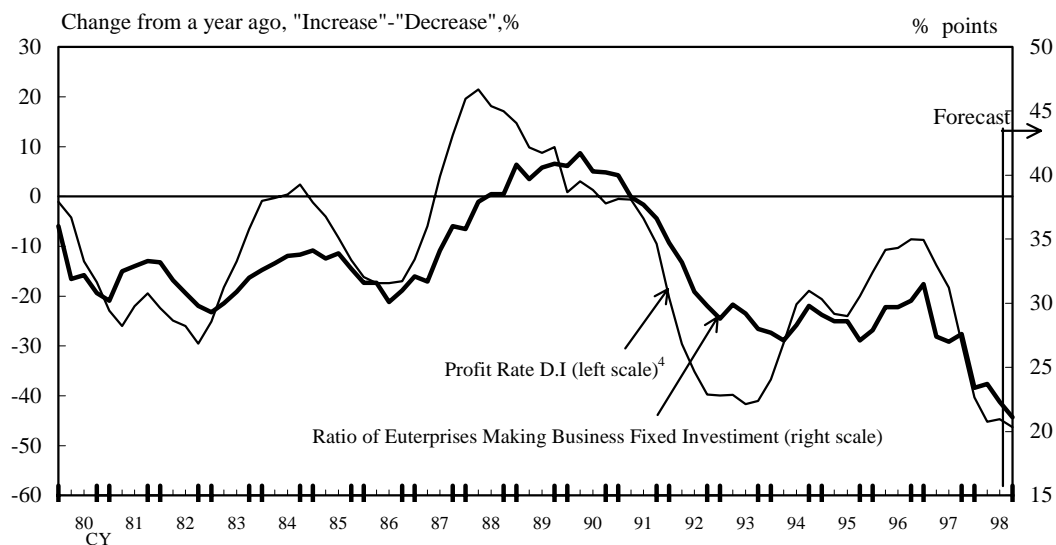
Major Indexes of Business Fixed Investment (2)

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

(Corporate Finance Related Indicators)



(Profit and Business Fixed Investment Indicators)



Notes: 1. Sample: 12,162 Companies (Responses: 6,620 < September 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."

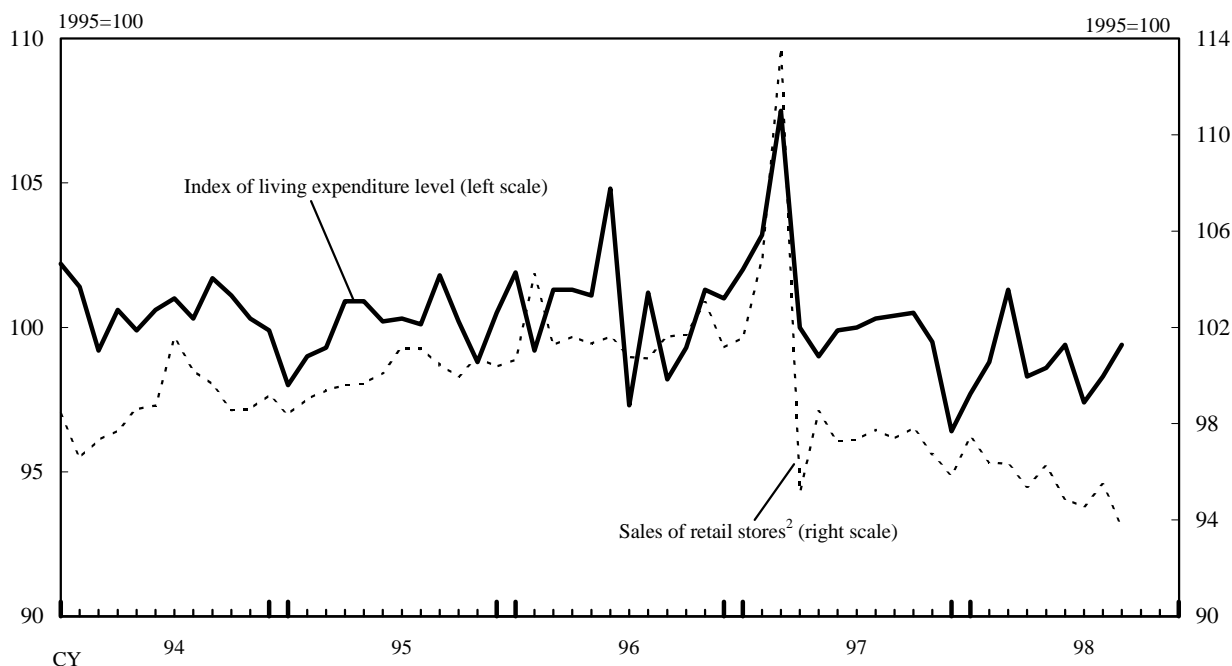
4. Change from a year ago, "Increase"-"Decrease."

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

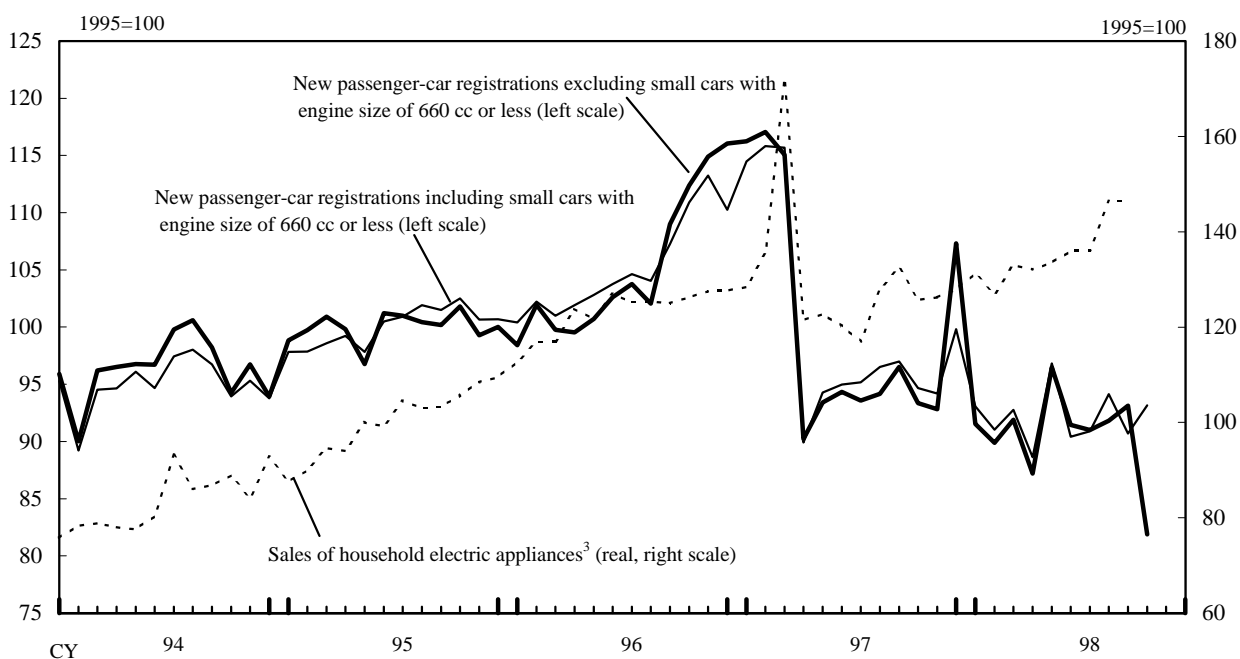


Private Consumption<sup>1</sup> (1)

## (1) Household Spending



## (2) Sales of Durable Goods



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

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

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

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

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

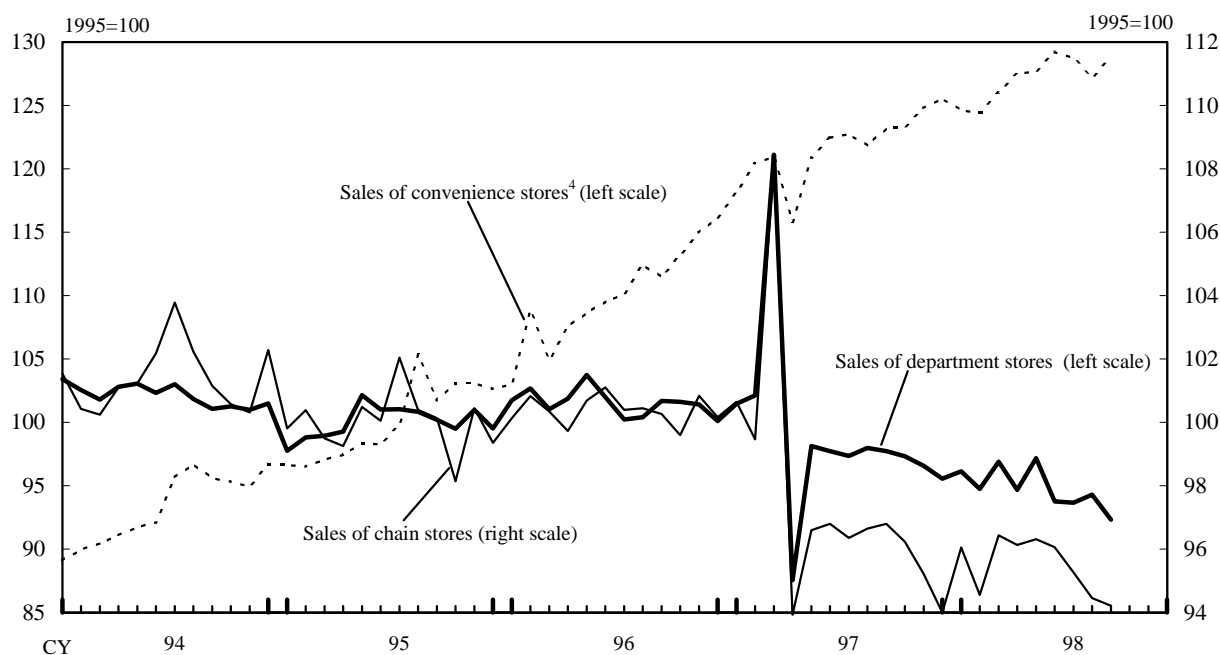
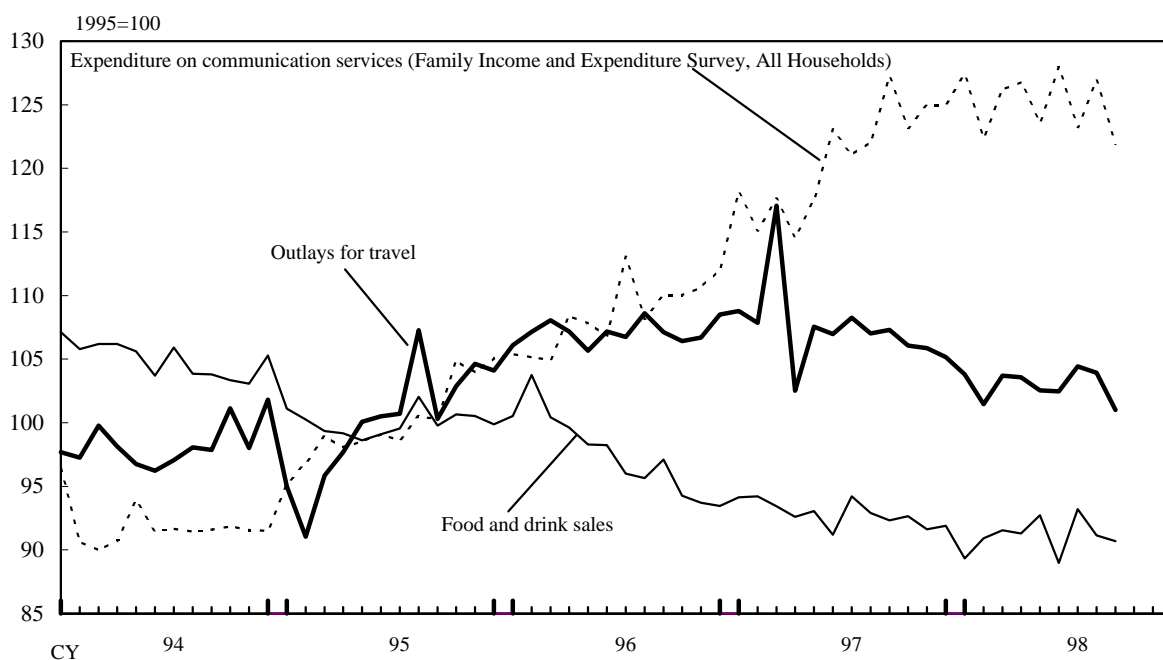
Ministry of International Trade and Industry, "Current Survey of Commerce";

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

Japan Mini Vehicles Association, "Sales of Mini Vehicles";

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

Bank of Japan, "Wholesale Price Indexes."

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

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

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

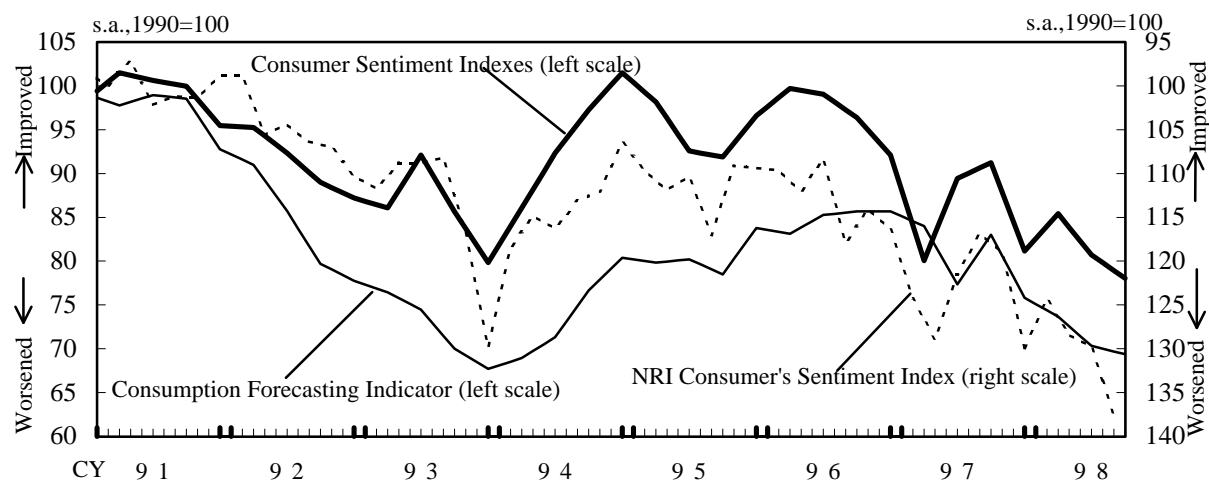
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

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

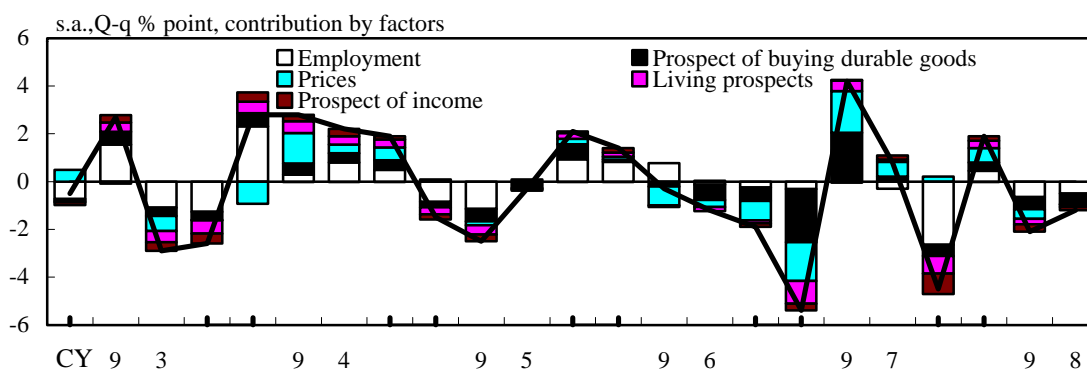
## Consumer Confidence and Propensity to Consume

### (1) Surveys on consumer confidence

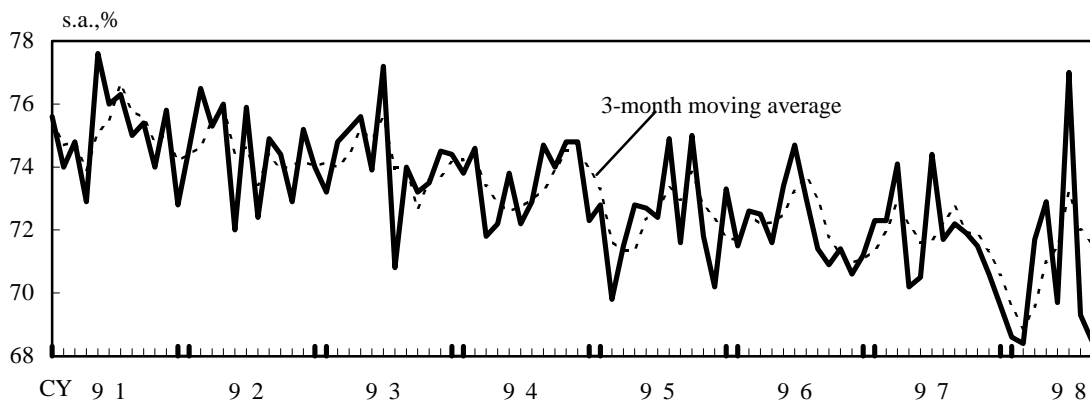


- Notes: 1. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.  
 2. Data are plotted at the months of each survey.  
 3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumption Forecasting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

### (2) Consumer Sentiment Indexes

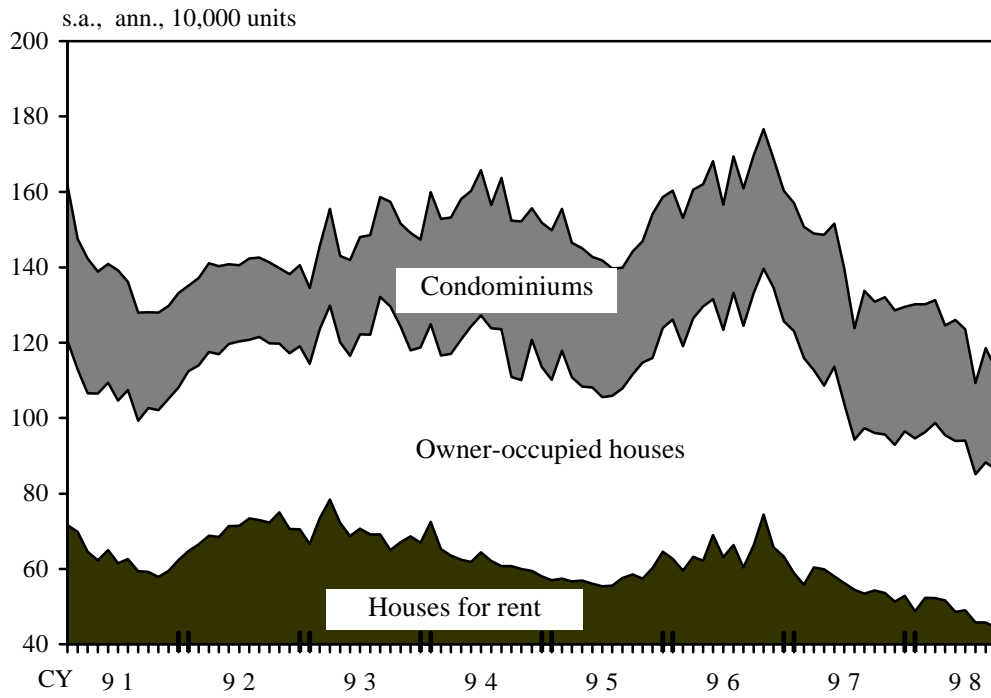


### (3) Propensity to consume (Family Income and Expenditure Survey)



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."

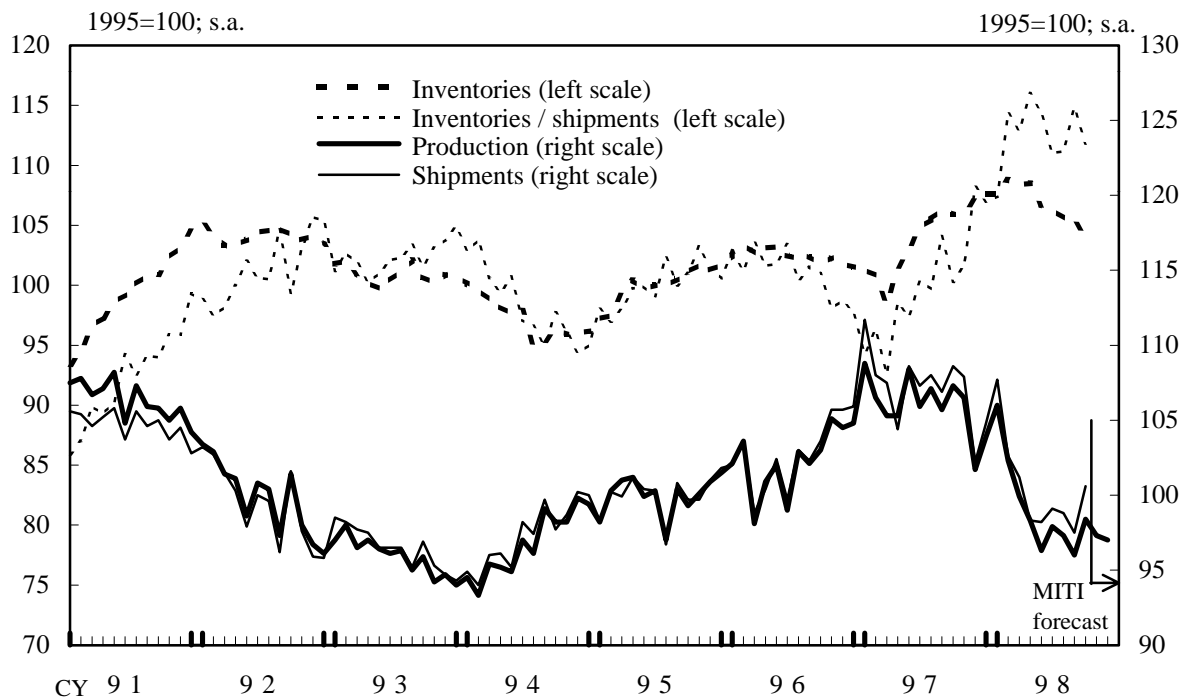
## Housing Starts



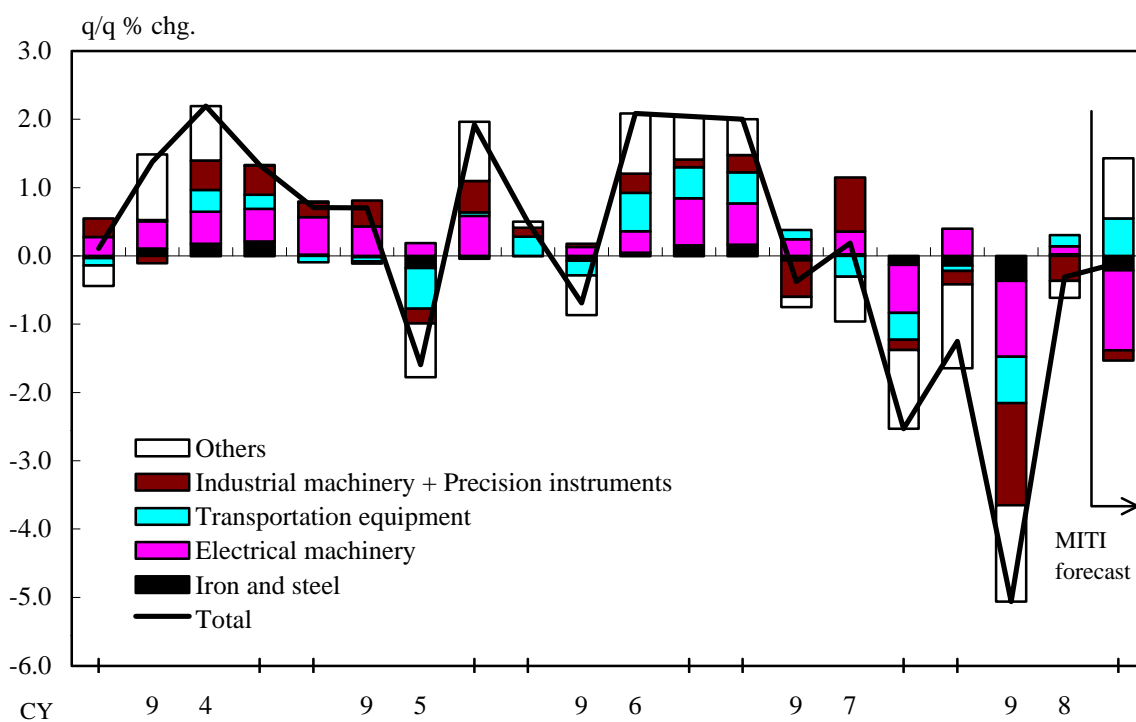
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



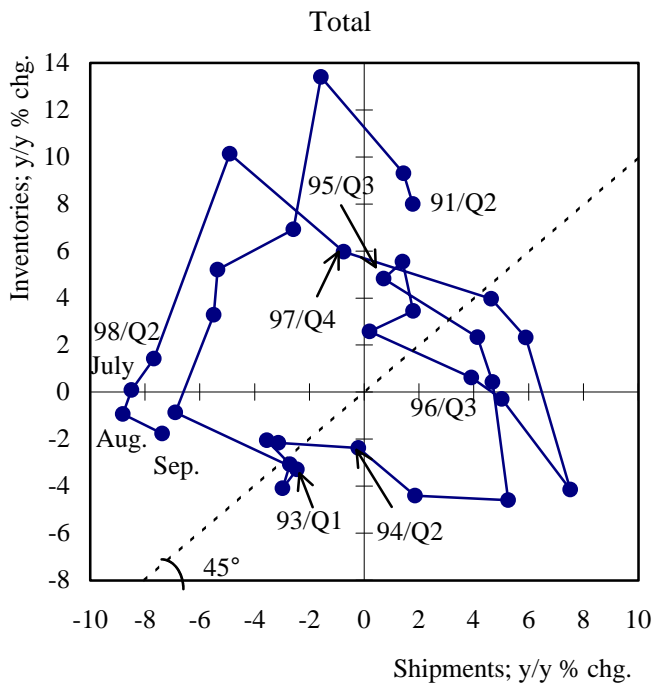
(2) Production by Industries



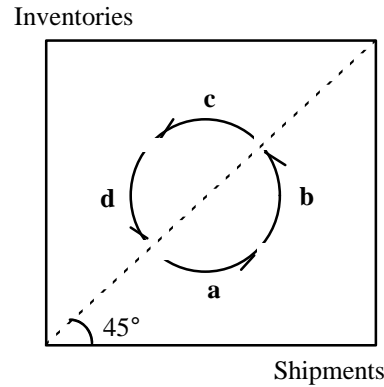
Note: Transportation equipment excludes ships and rolling stock.

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

Inventory Cycle

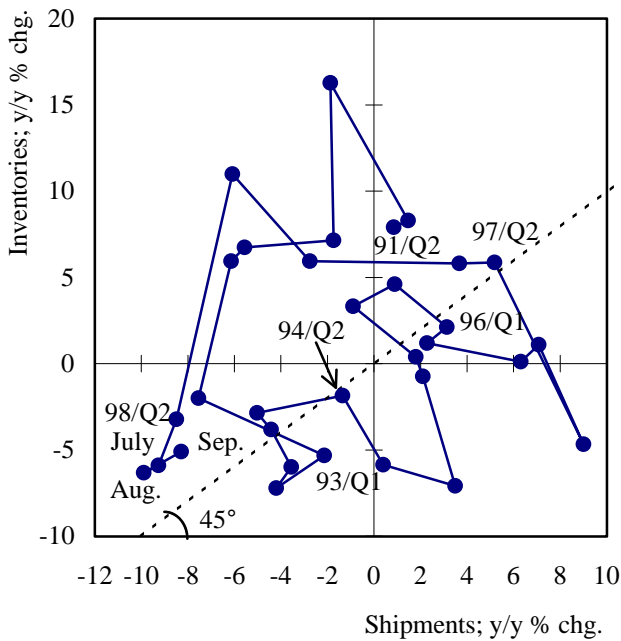


Phases in the Inventory Cycle

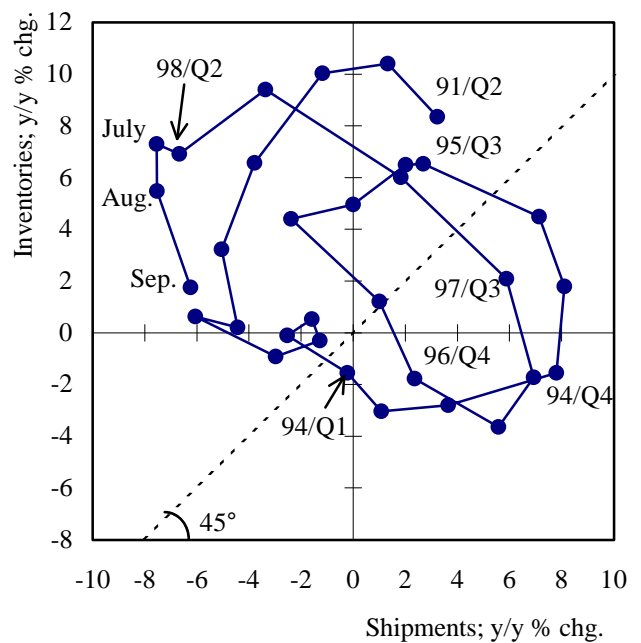


- a Shipment recovery
- b Intentional inventory accumulation
- c Unintentional inventory accumulation
- d Inventory adjustment

Final Demand Goods



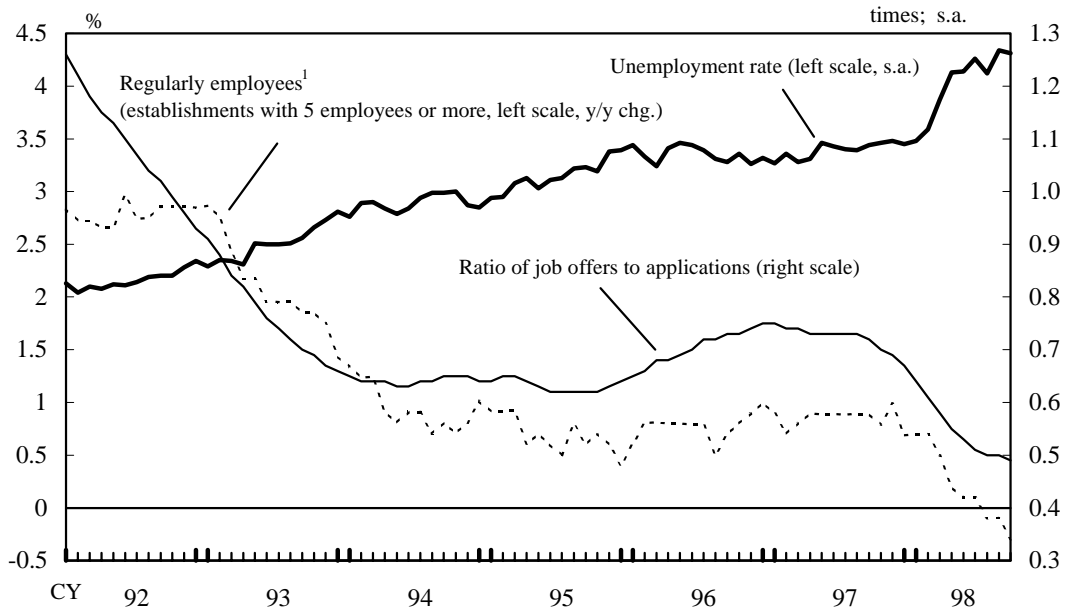
Production Goods



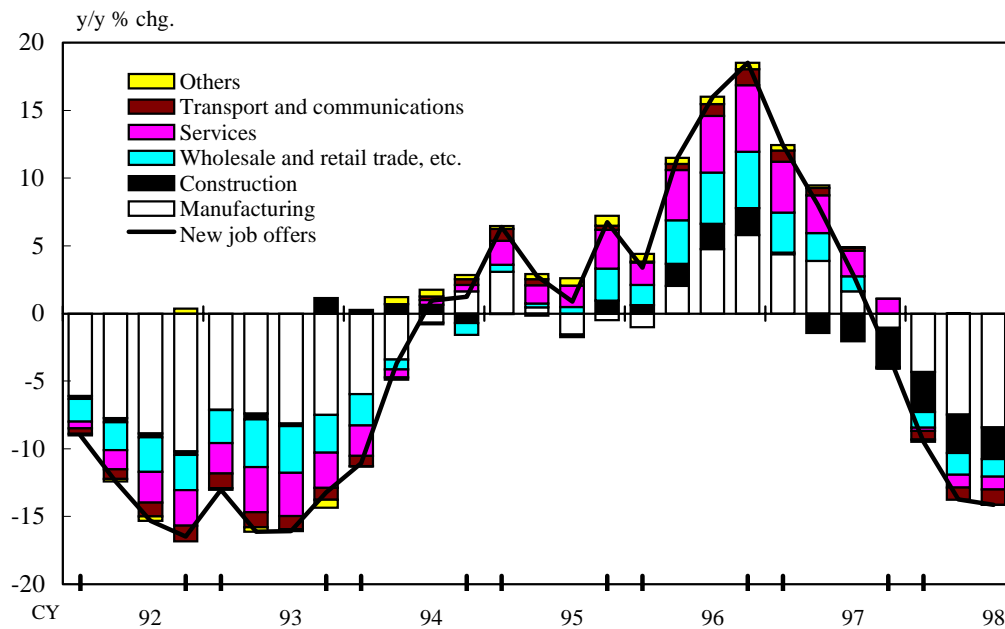
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



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

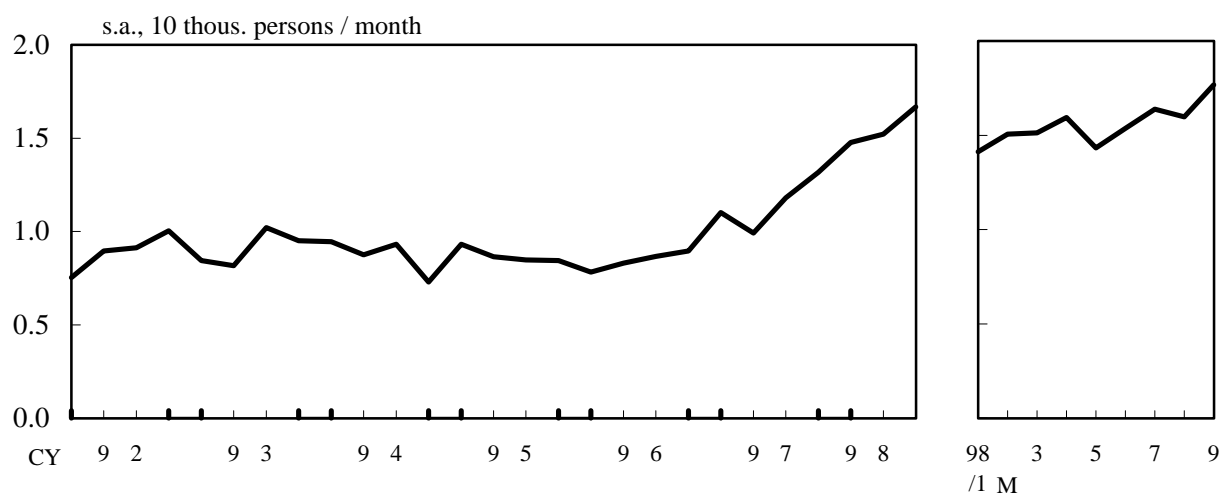
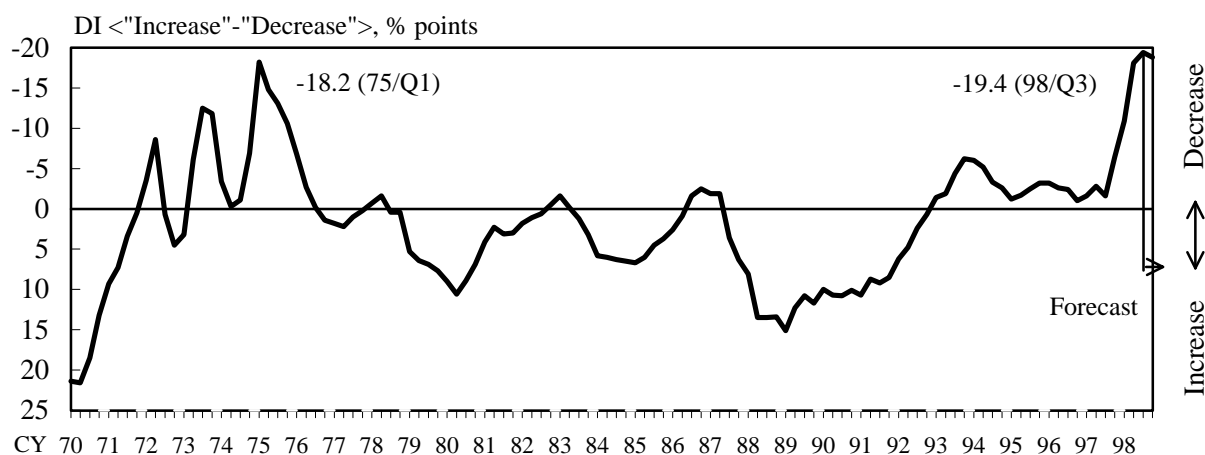


Notes: 1. The data of regular employees in September 98 are preliminary.

2. 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 Employees at Bankrupt Firms<sup>1</sup>(2) Economic Survey of Small Businesses (Employment DI)<sup>2</sup>(3) Number of Regular Employees<sup>3</sup> by size of Establishment

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

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

2. Sample : 12,162 Companies (Responses : 6,620 <September 98 Survey>)

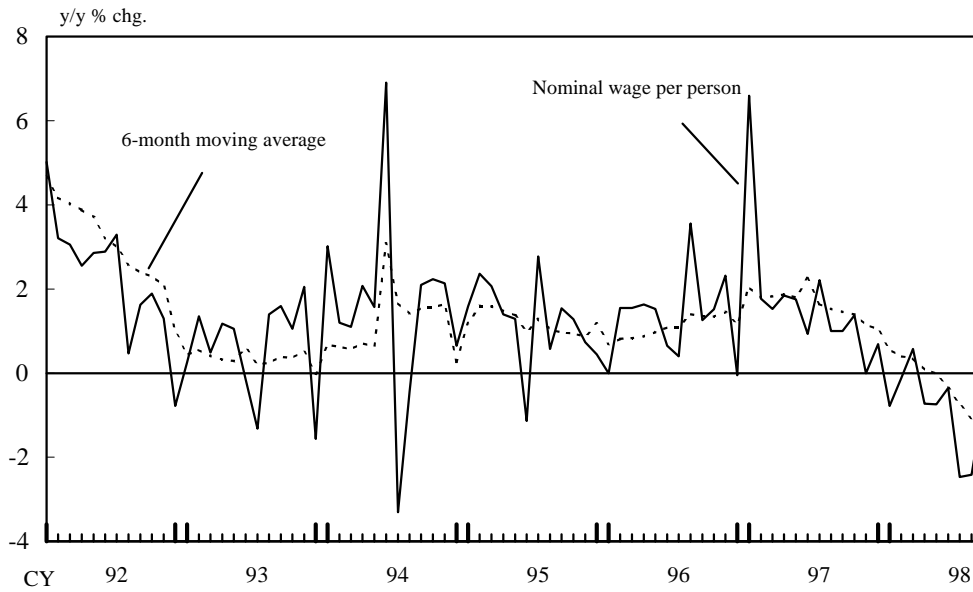
3. The data in September 98 are preliminary.

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."

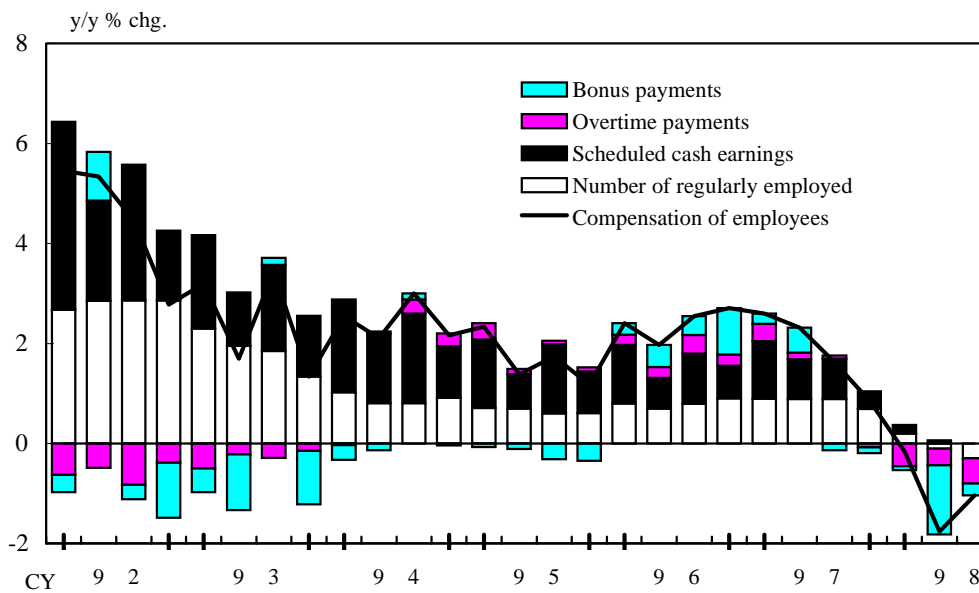


Compensation of Employees<sup>1</sup>

(1) Nominal Wage per Person



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



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

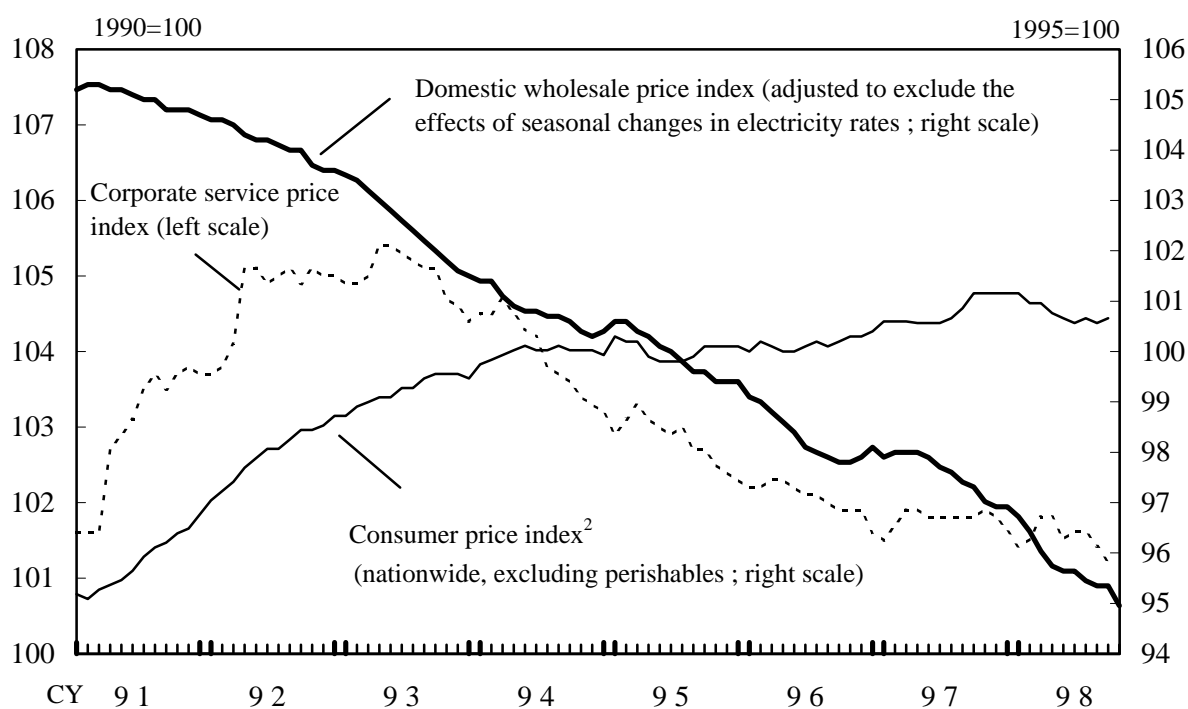
2. Q1= Mar-May, Q2= Jun-Aug, Q3=Sep-Nov, Q4= Dec-Feb.

The data in 98/Q3 are those of September (preliminary).

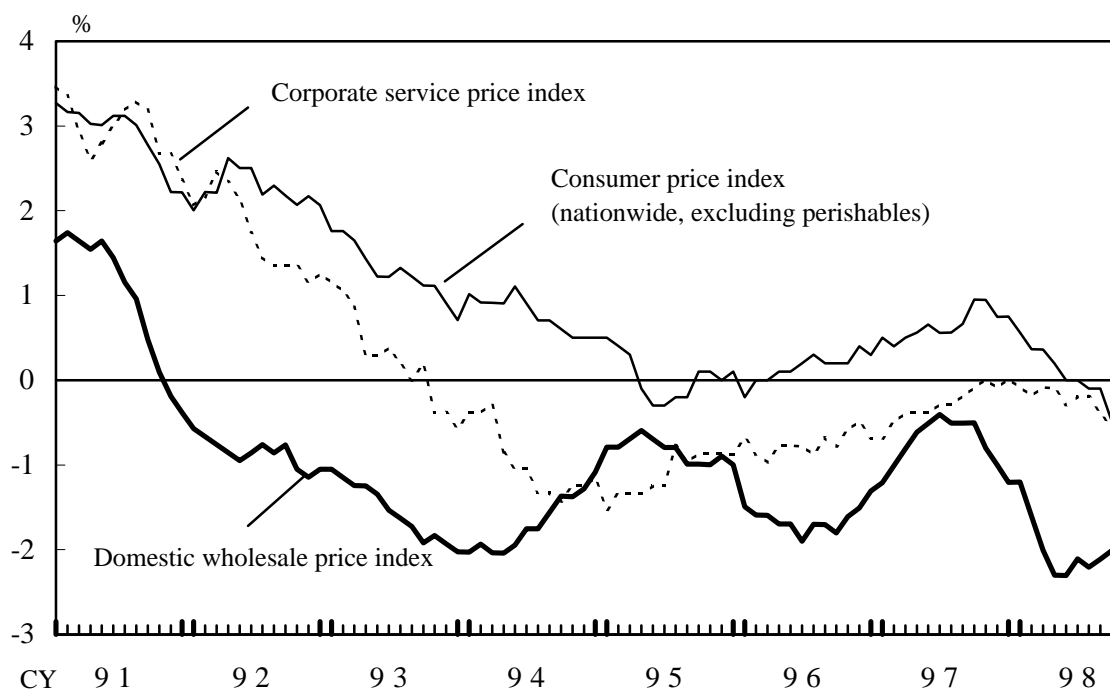
Source: Ministry of Labor, "Monthly Labor Survey."

Prices<sup>1</sup>

## (1) Level



## (2) Changes from a year earlier



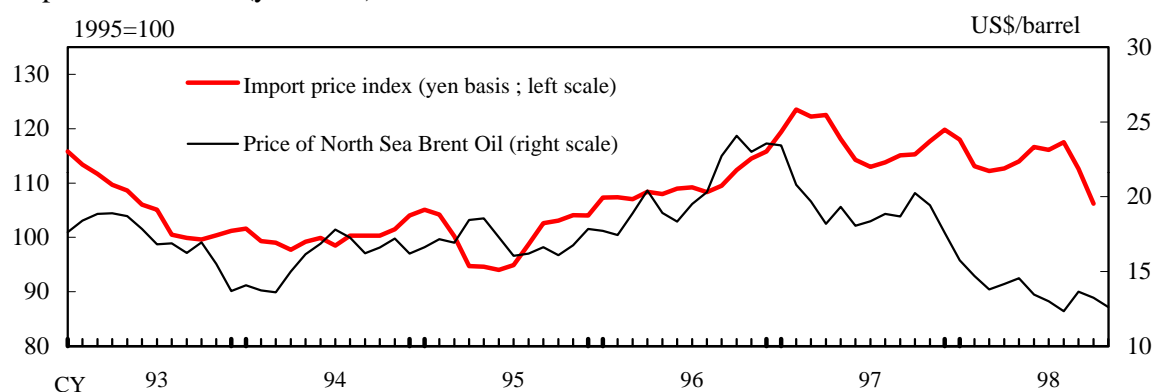
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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

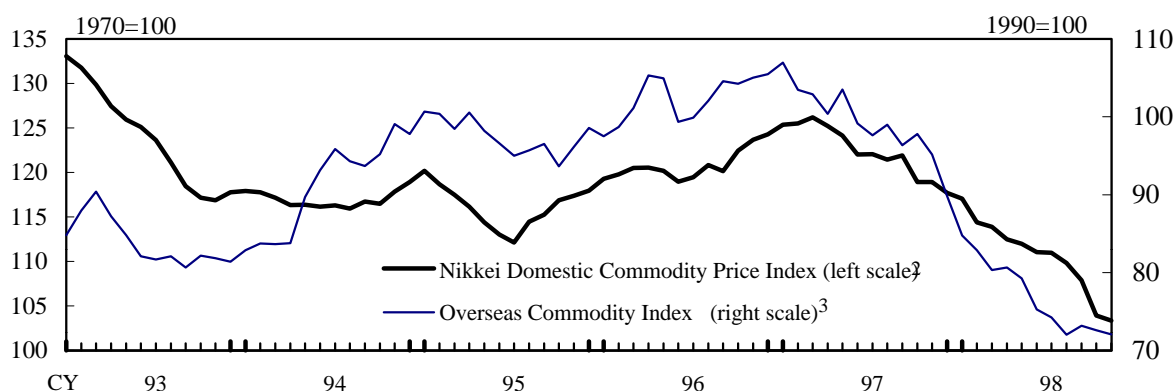
Sources: Management and Coordination Agency, "Consumer Price Index";  
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

## Import Prices and Domestic Wholesale Prices

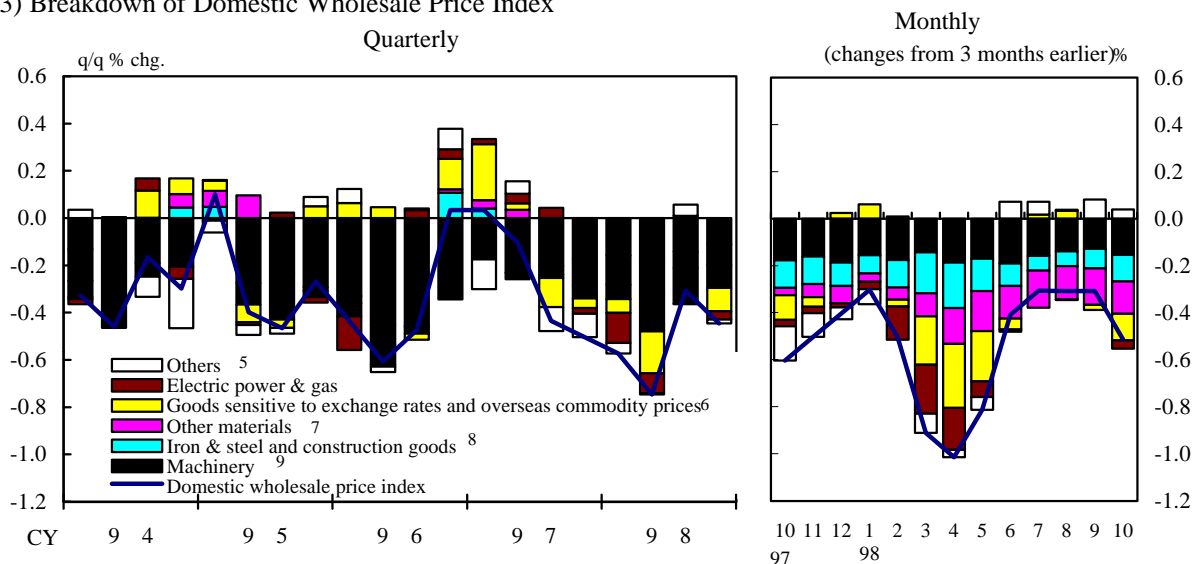
### (1) Import Price Index (yen basis) and Crude Oil Price<sup>1</sup>



### (2) Domestic Commodity Market



### (3) Breakdown of Domestic Wholesale Price Index<sup>4</sup>



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

2. Data for Nov. 1998 are as of Nov. 6.

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

4. 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/Q4 are those of Oct. 98.

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

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

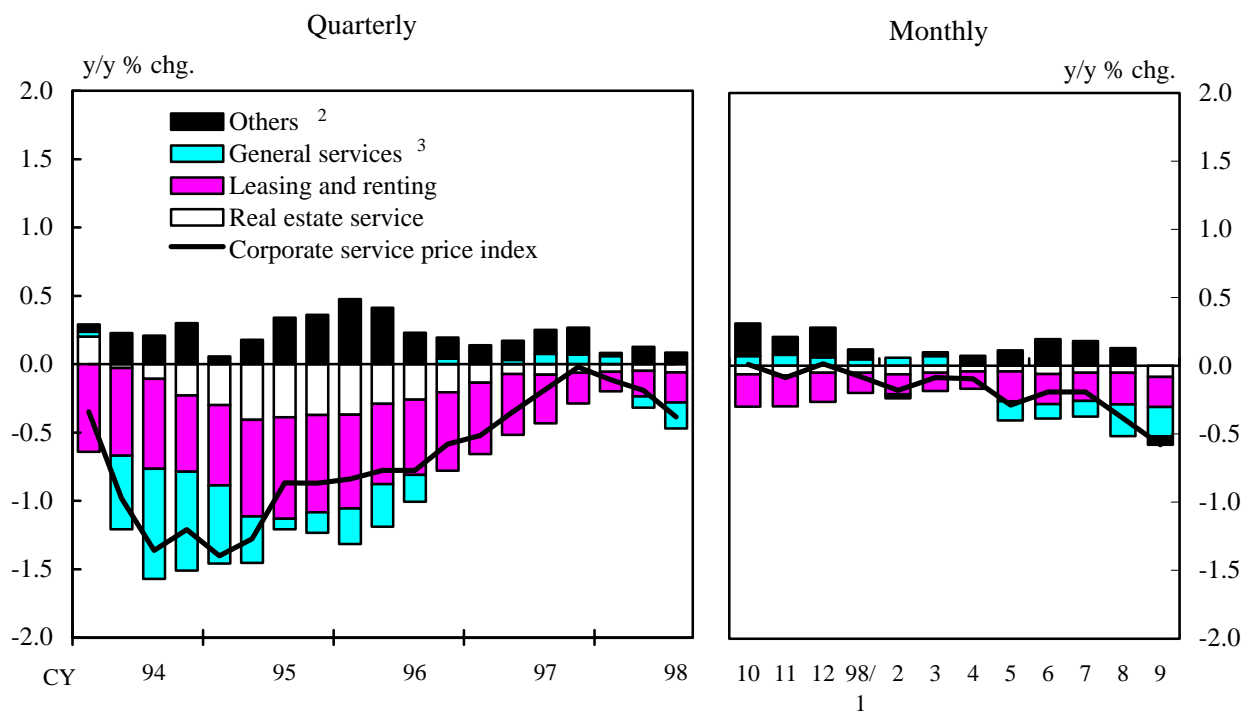
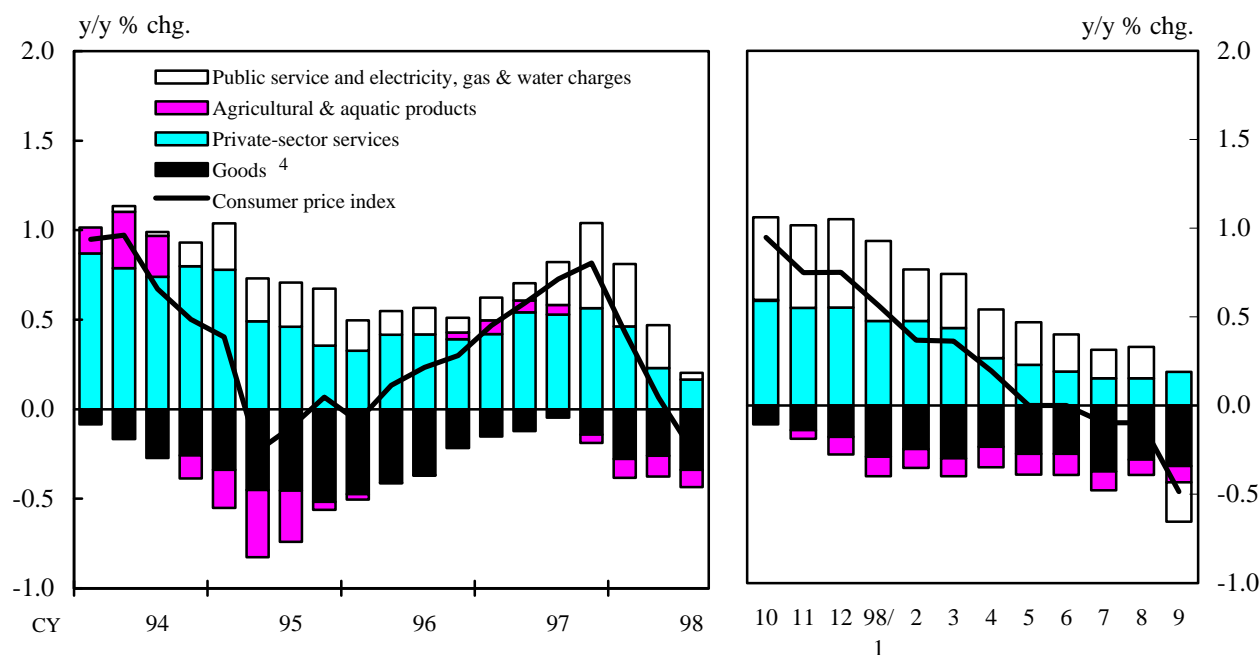
7. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

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

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

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

## Corporate Service Prices and Consumer Prices

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

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

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

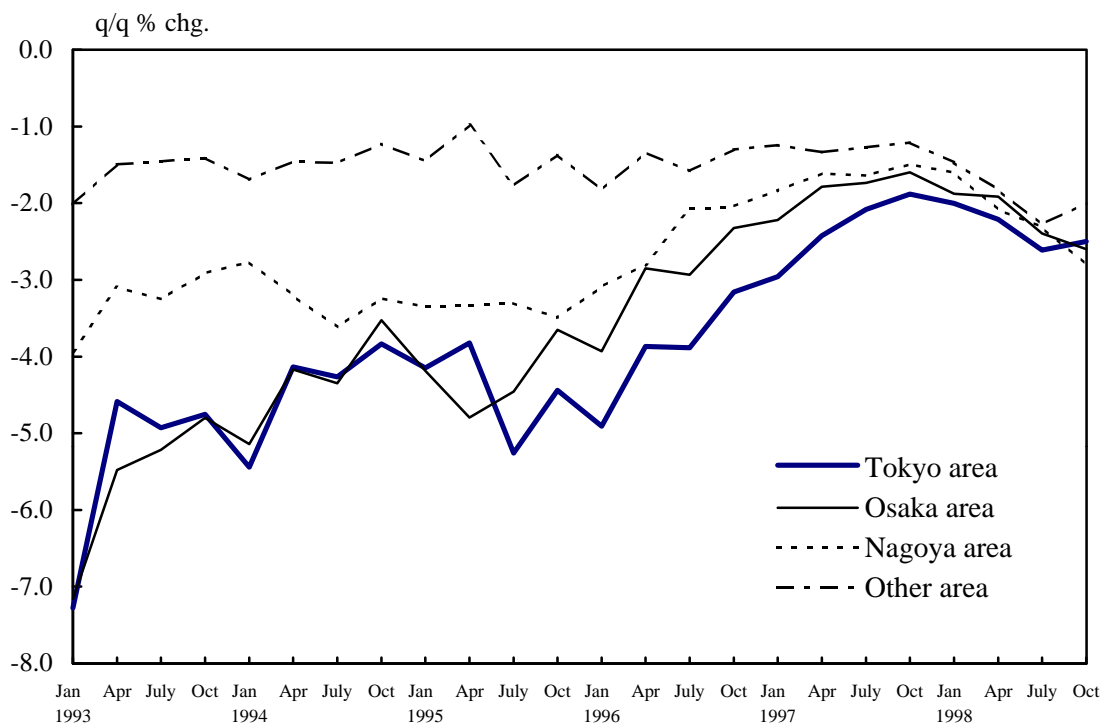
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

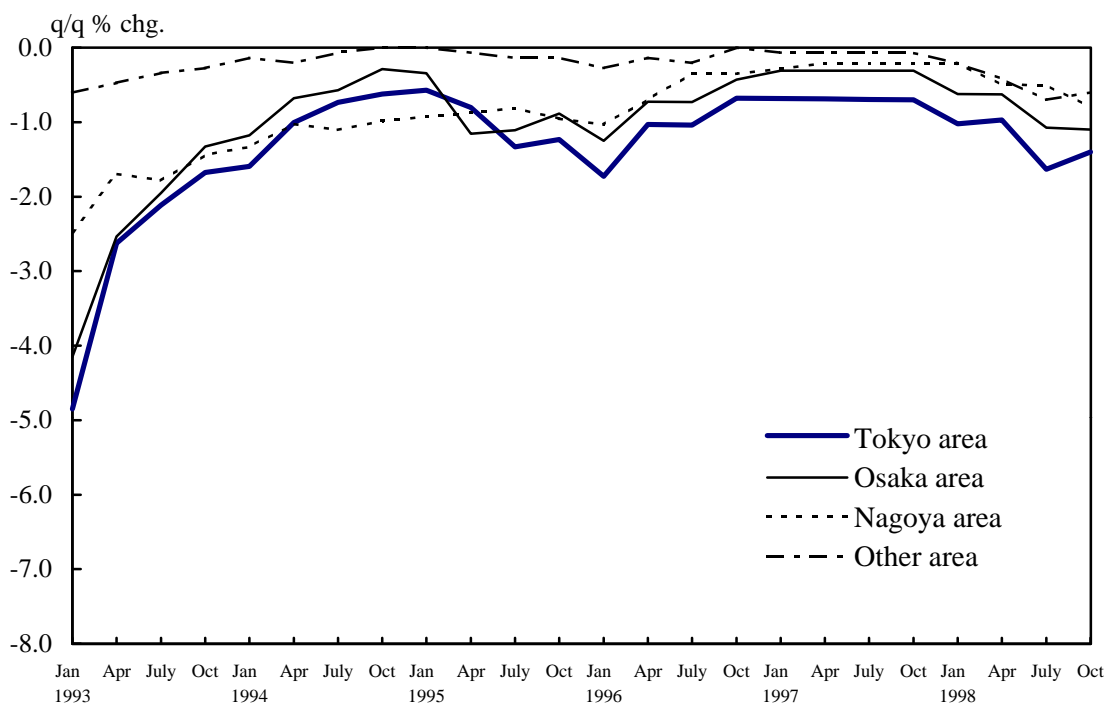
Sources: Management and Coordination Agency, "Consumer Price Index";  
 Bank of Japan, "Corporate Service Price Index."

Quarterly Land Price Index

(1) Commercial land



(2) Residential land

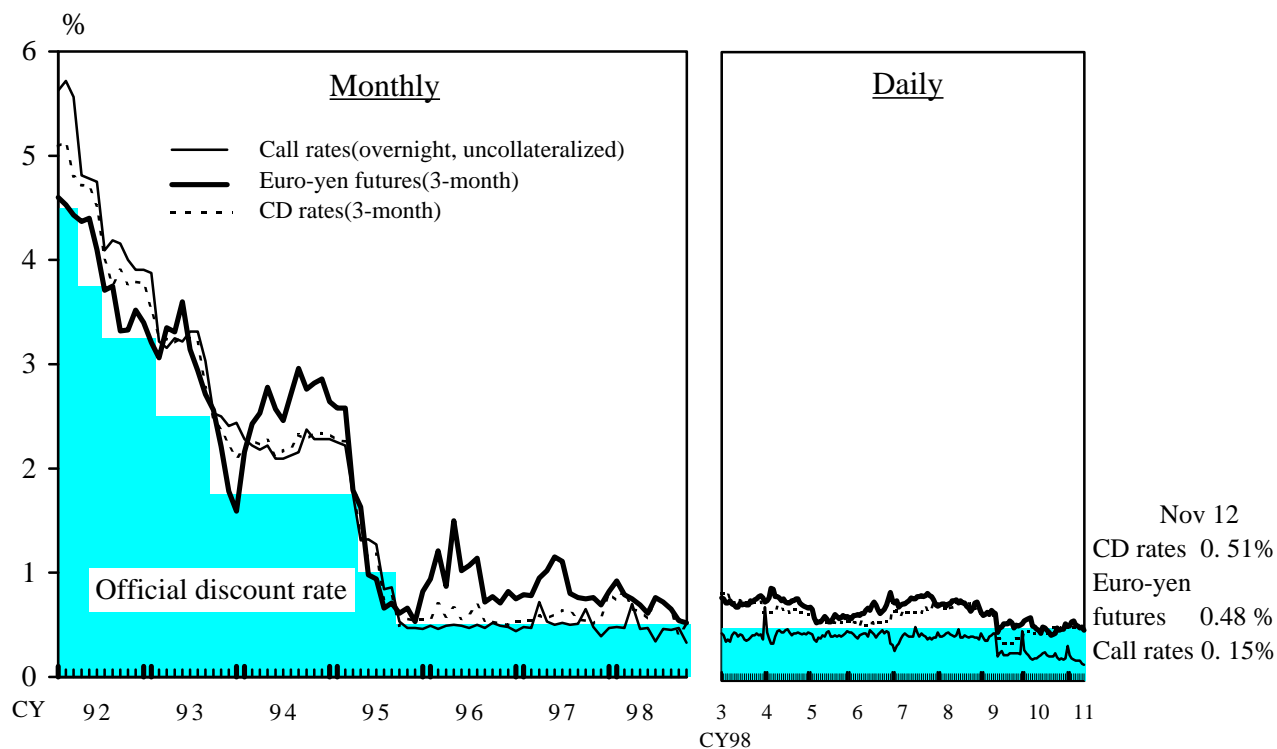


Note: The data after Apr. 98 are preliminary.

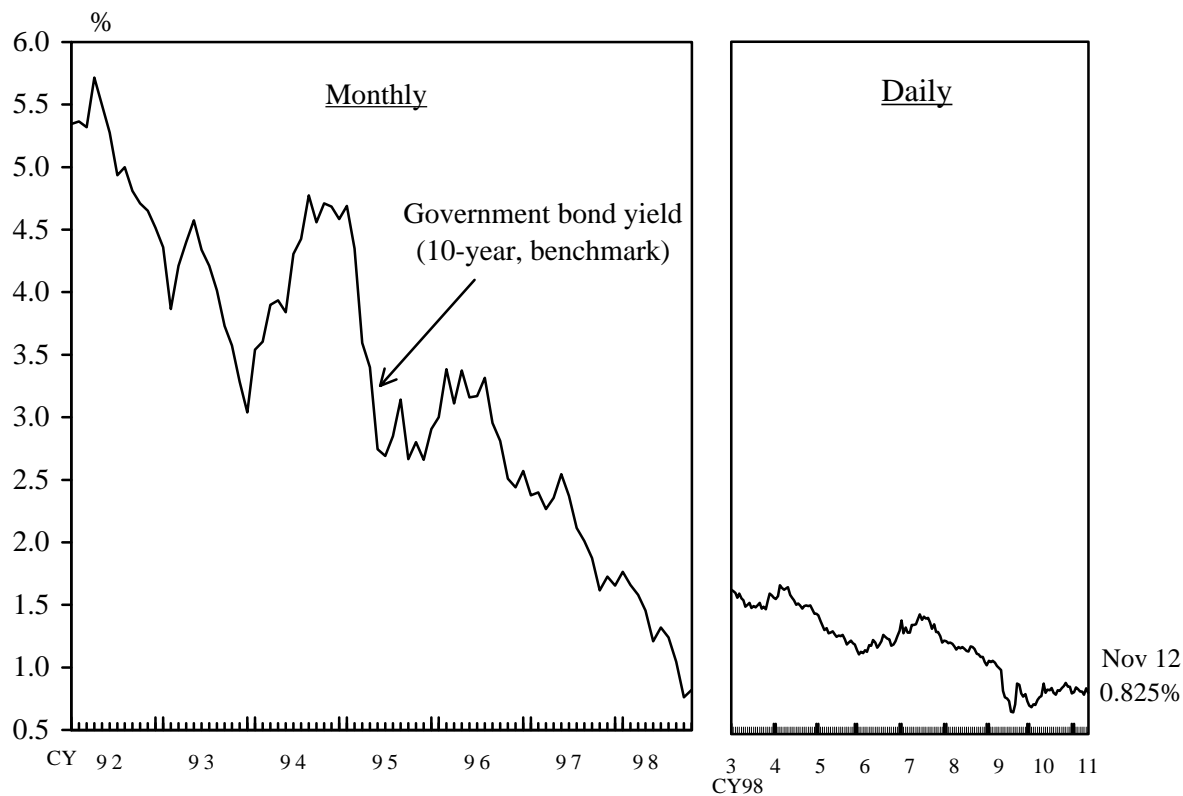
Source: The Land Institute of Japan, "A Quarterly Land Price Index."

Interest Rates

(1) Short-Term



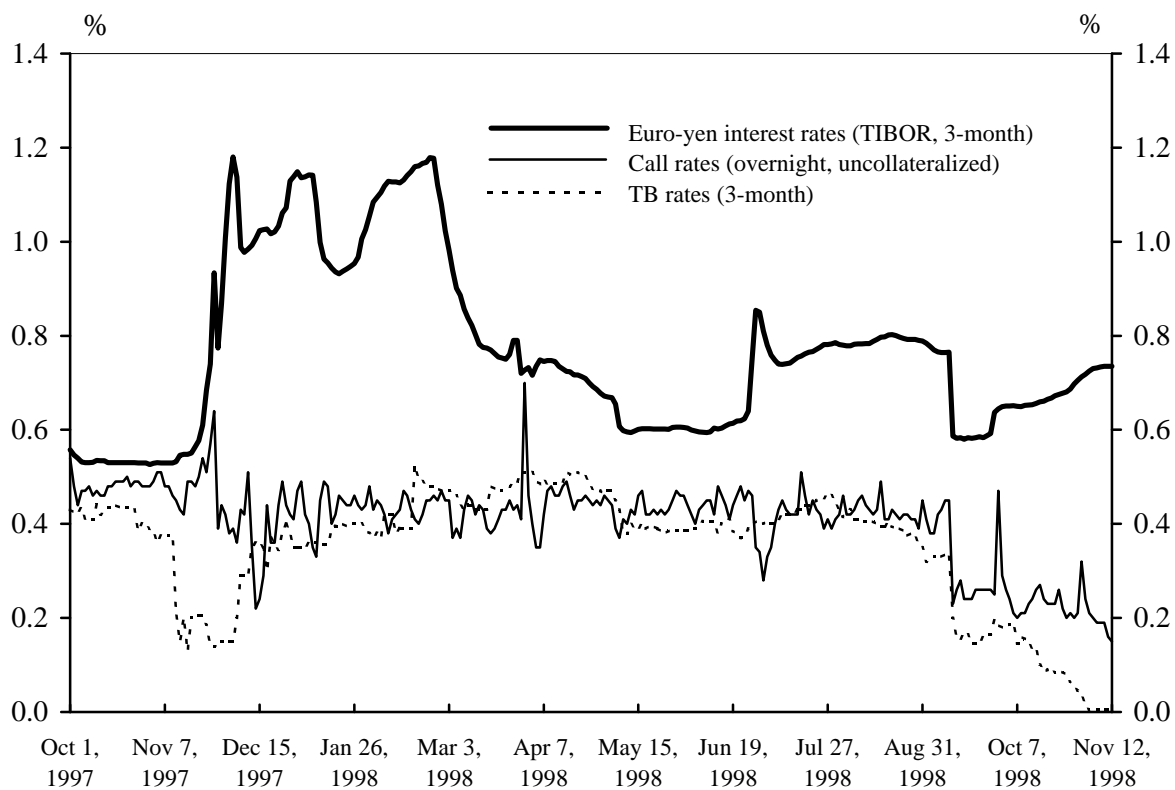
(2) Long-Term



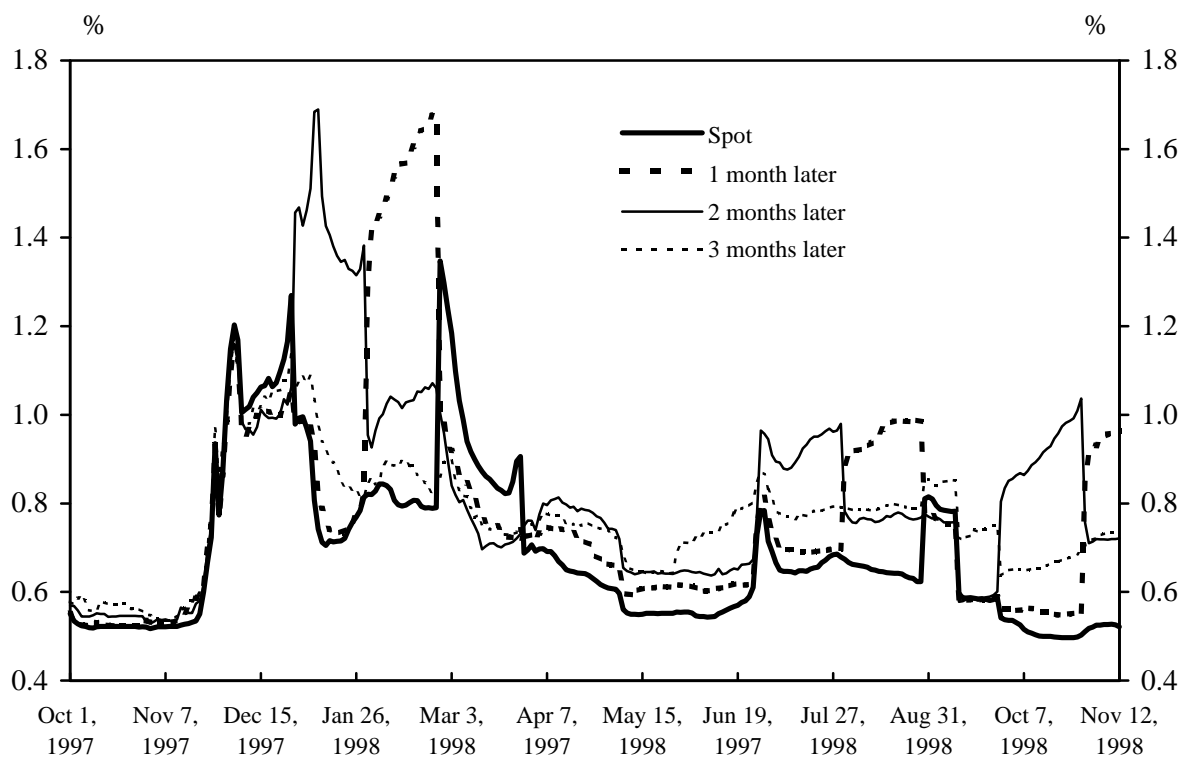
Source: Bank of Japan, "Economic Statistics Monthly."

## Short-Term Money Market Rates

## (1) Interest Rates on Term Instruments

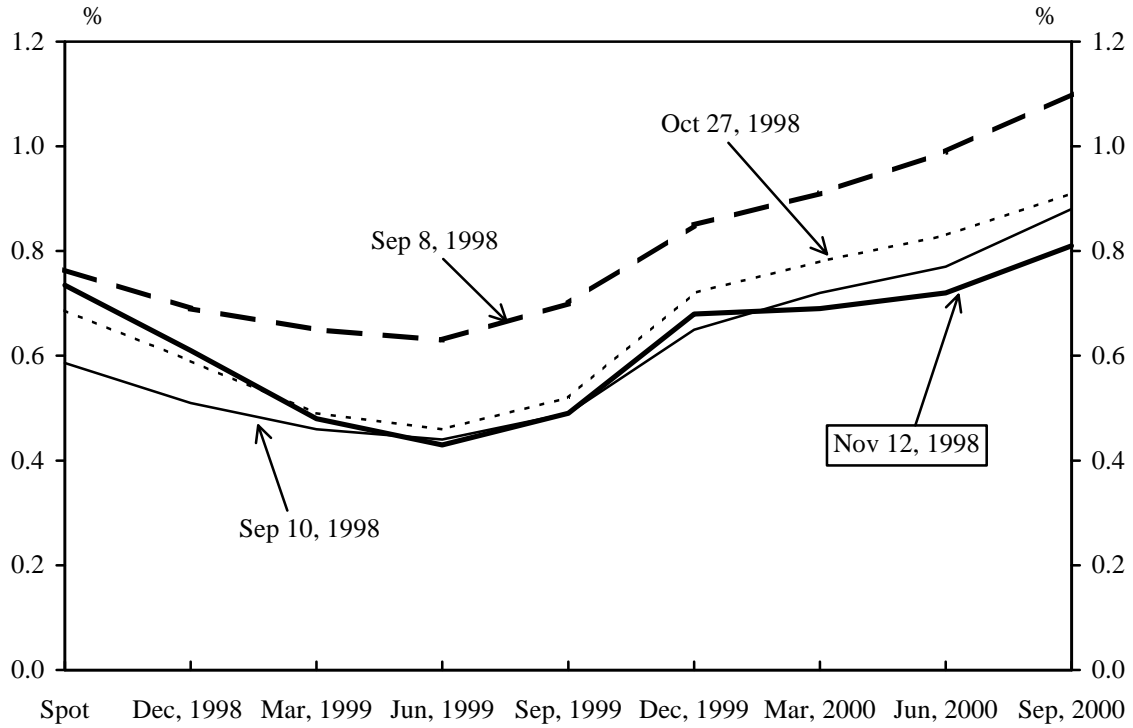


## (2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



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

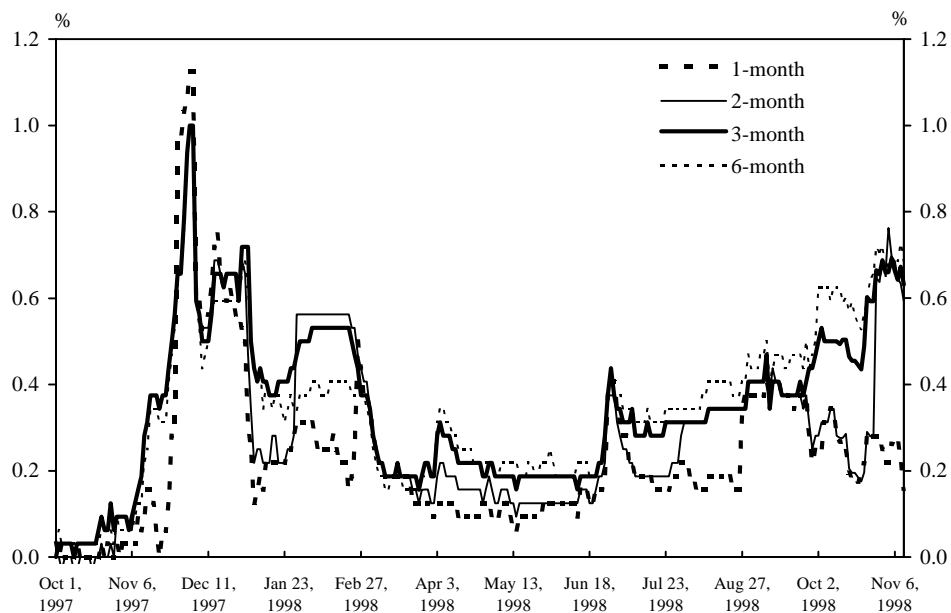
Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.



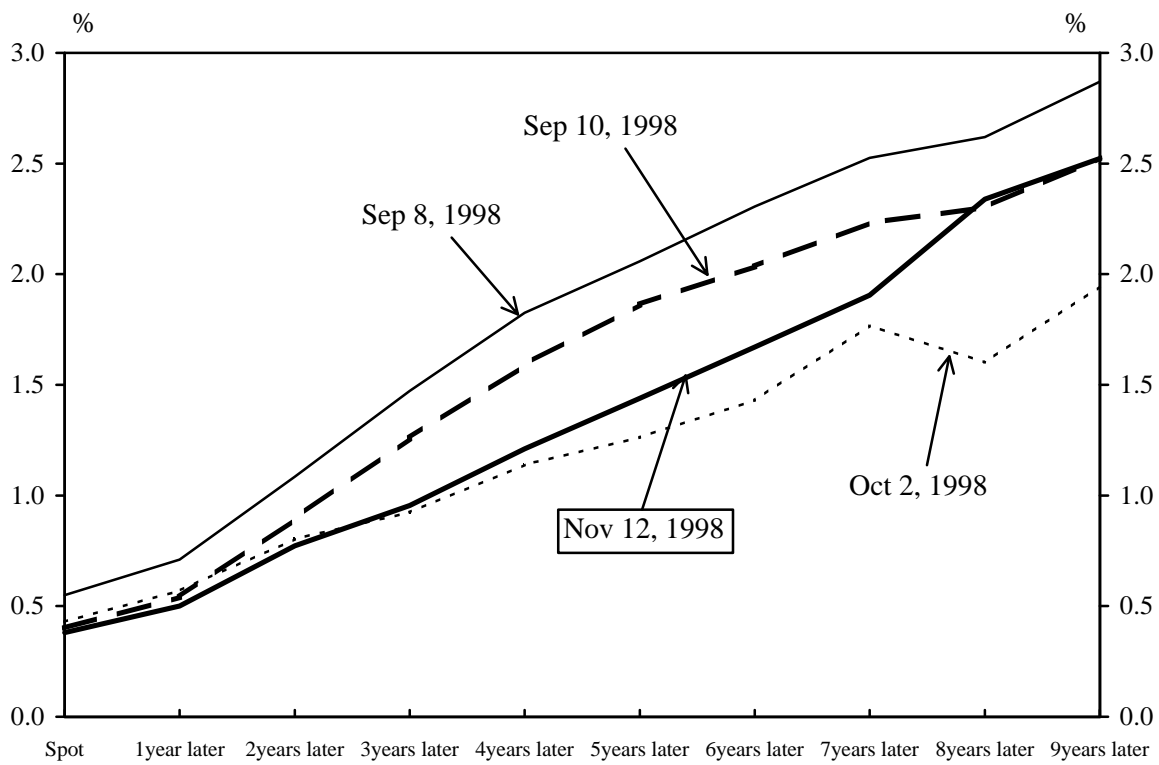
## Japan Premium in the Eurodollar Market



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)

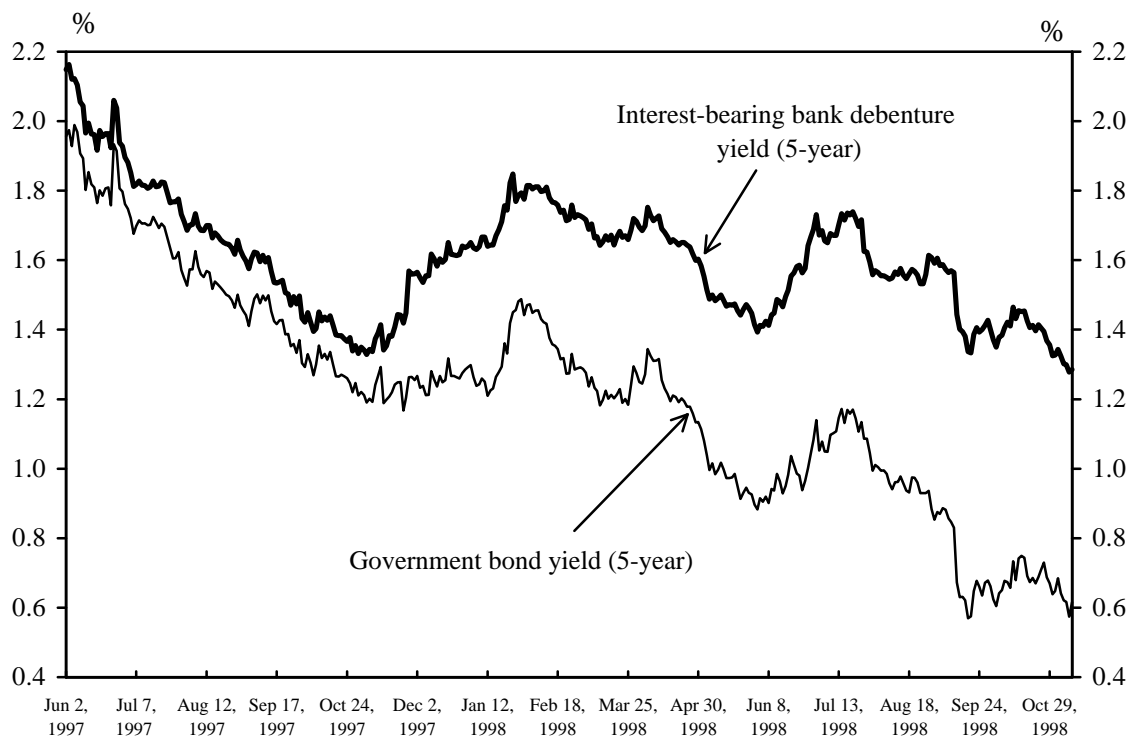


Note: Calculated from yen-yen swap rates.

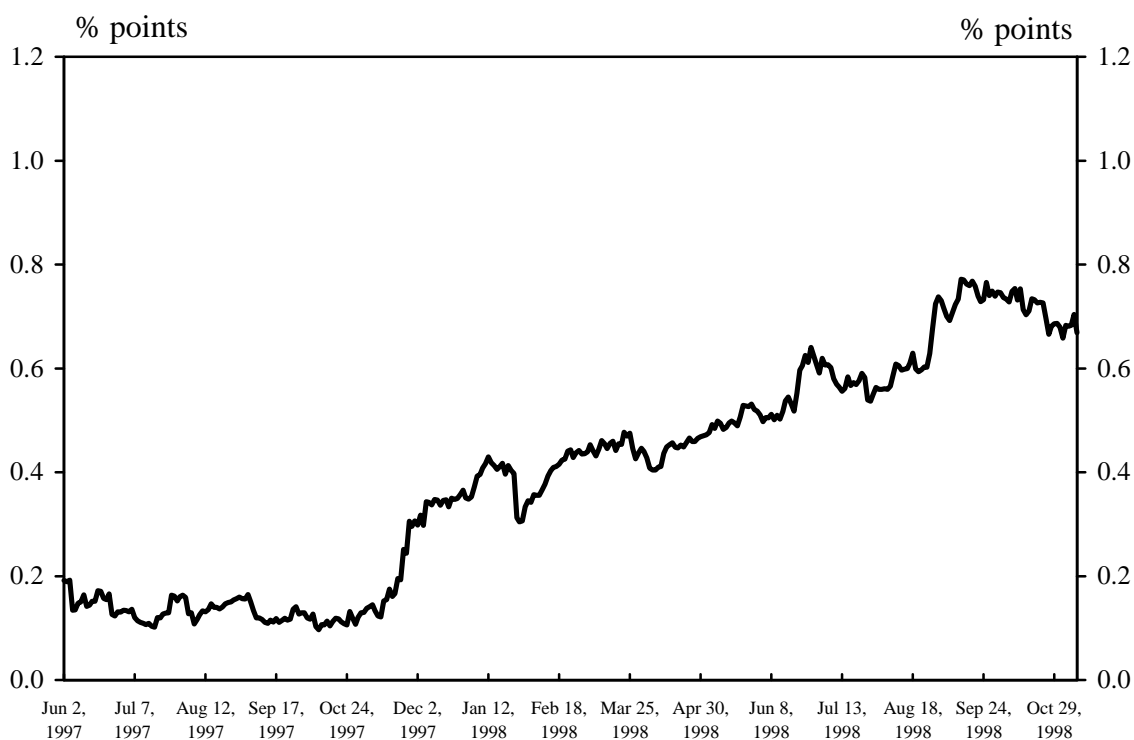
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



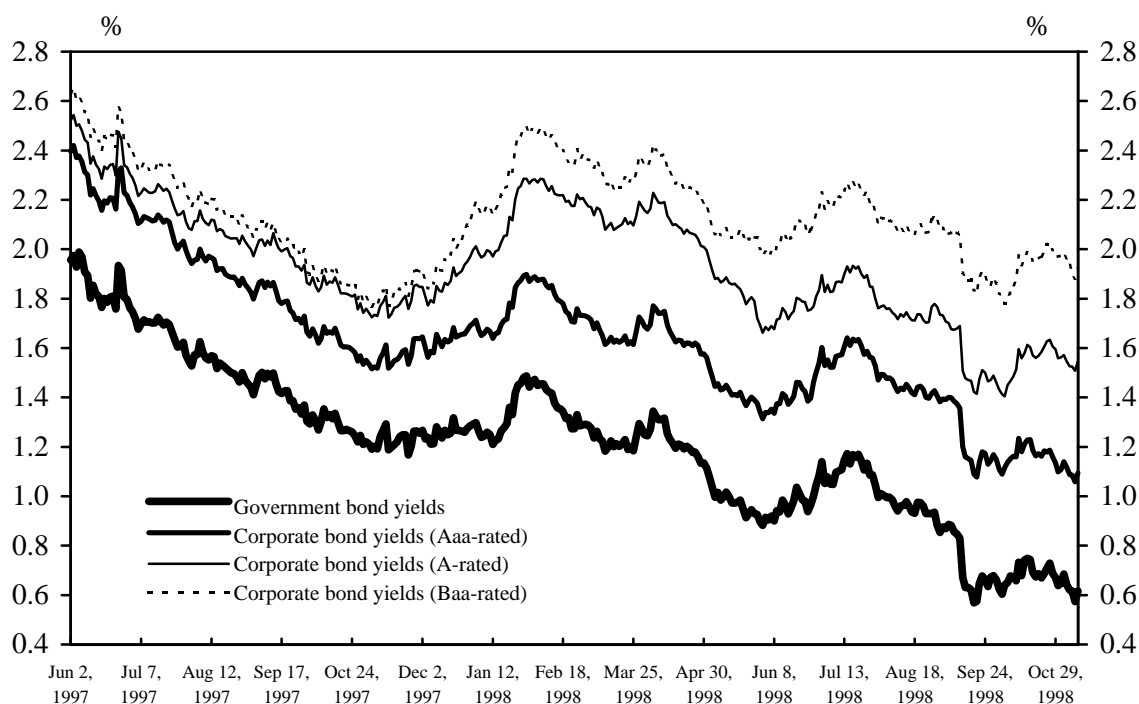
(2) Spread of Bank Debenture and Government Bond Yield



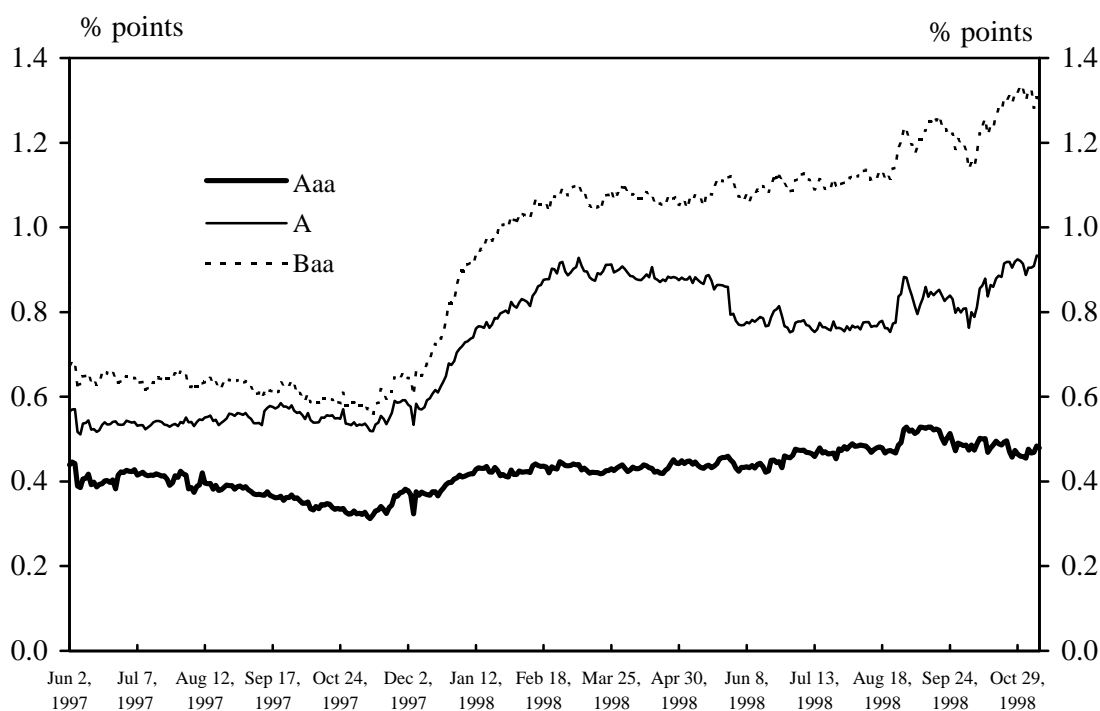
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds



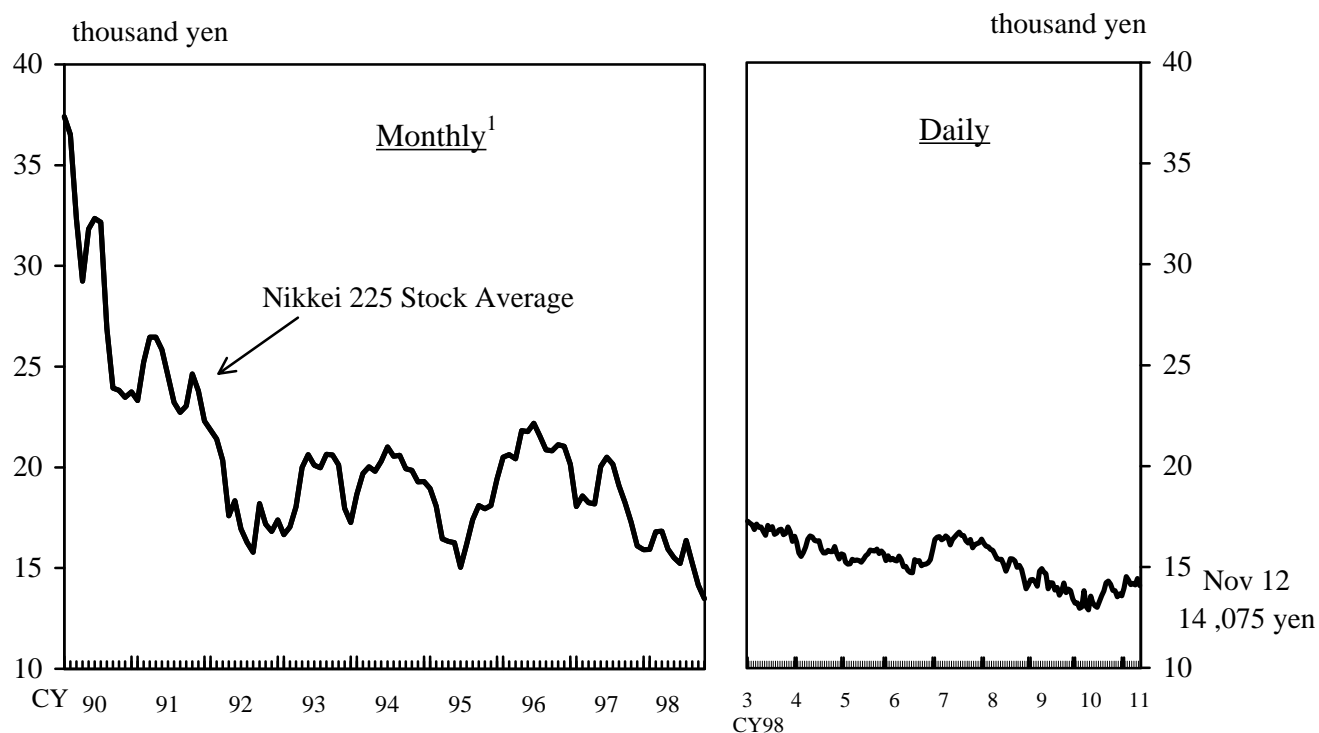
Notes: 1. Yields on bonds with 5-year maturity.

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

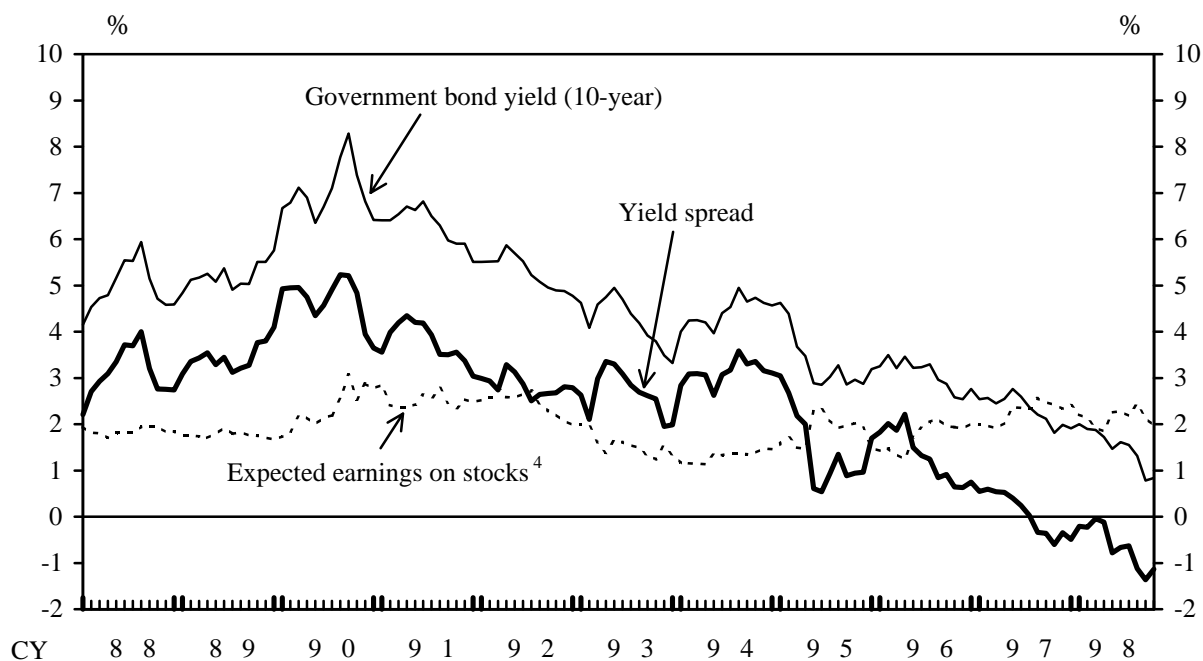
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



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



Notes: 1. Data are monthly averages.

2. Data are at end of period.

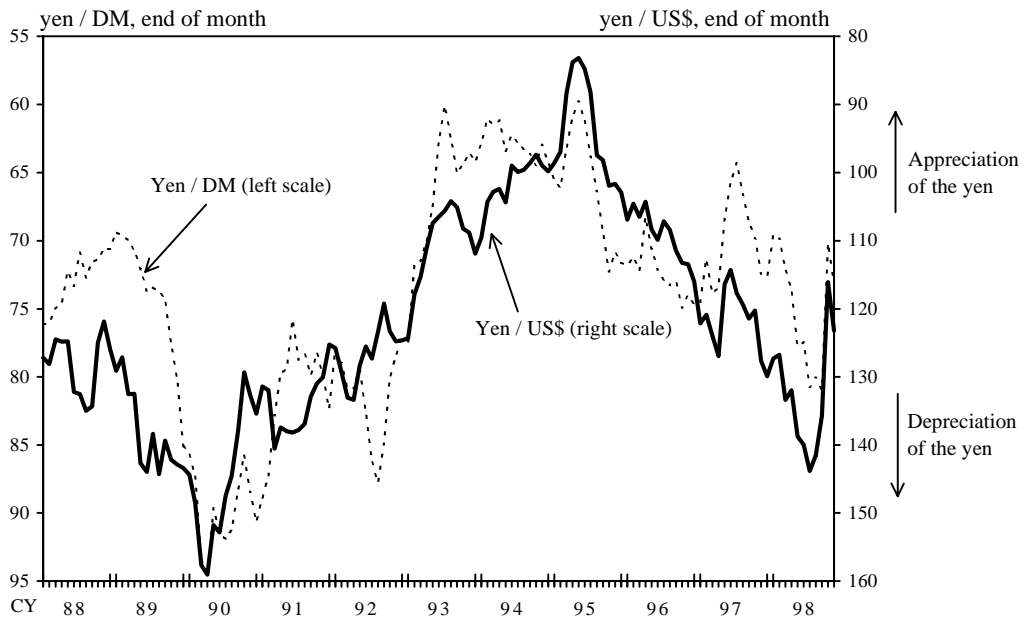
3. Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

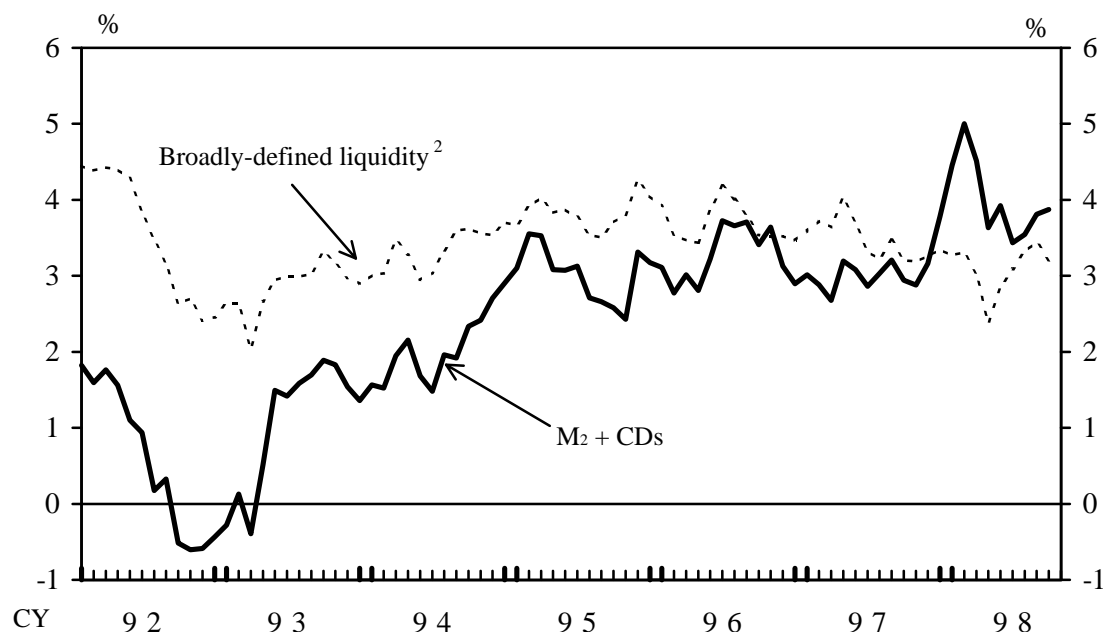


Note: Data for Nov 1998 are as of Nov 12, 1998.  
 Source: Bank of Japan, "Economic Statistics Monthly."

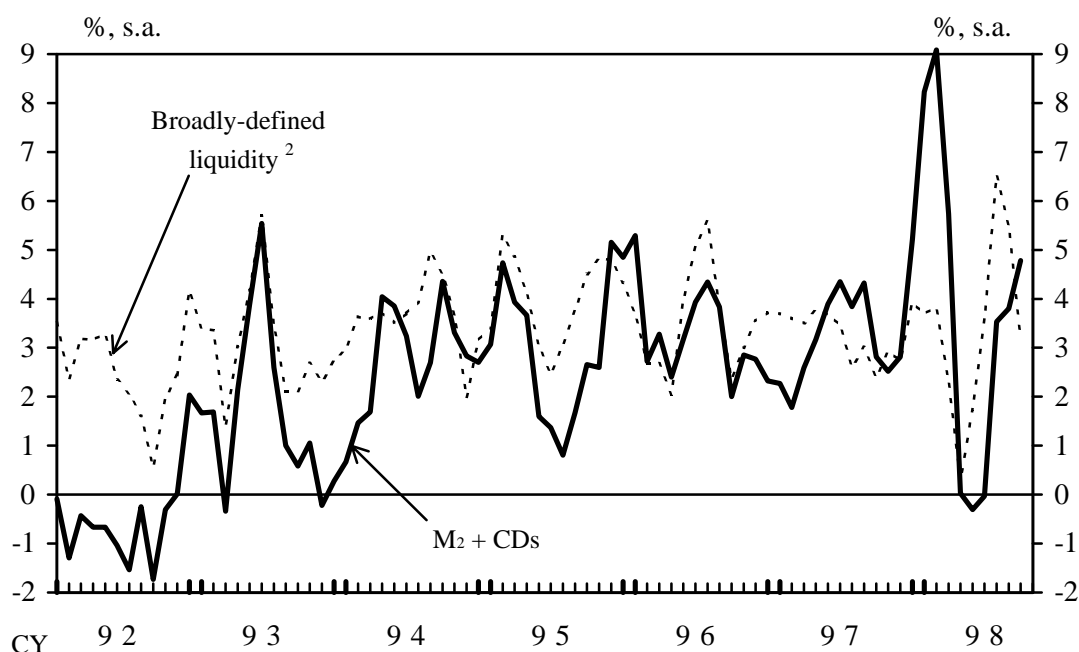
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 Money Stock ( $M_2$ +CDs, Broadly-Defined Liquidity)
 

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

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



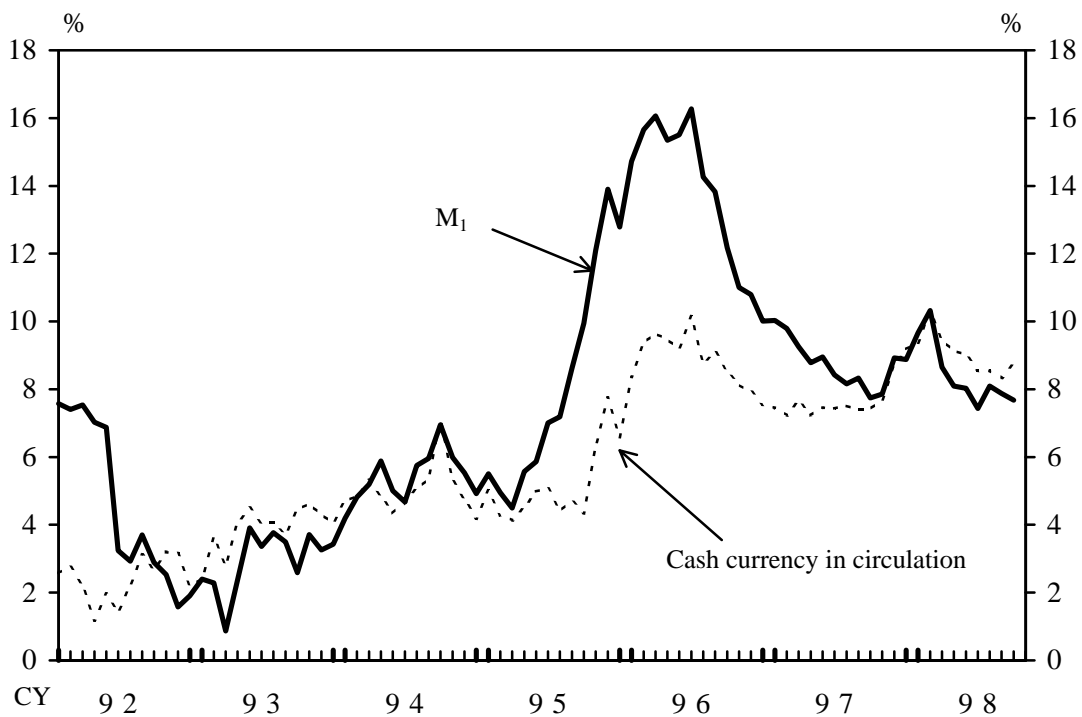
Notes: 1. Percent changes in average amounts outstanding.

2. Broadly-defined liquidity =  $M_2$ +CDs + deposits (including CDs) of Post Offices, Agricultural Cooperatives, Fishery Cooperatives, Credit Cooperatives, and Labor Credit Associations + money trusts and loan trusts of Domestically Licensed Banks (excluding Foreign Trust Banks) + bonds with repurchase agreement + bank debentures + government bonds + investment trusts + money deposited other than money in trust (money trust with returns in the form of investment assets) + foreign bonds. Domestically Licensed Banks are the banks which are established and licensed under Japanese legislation.

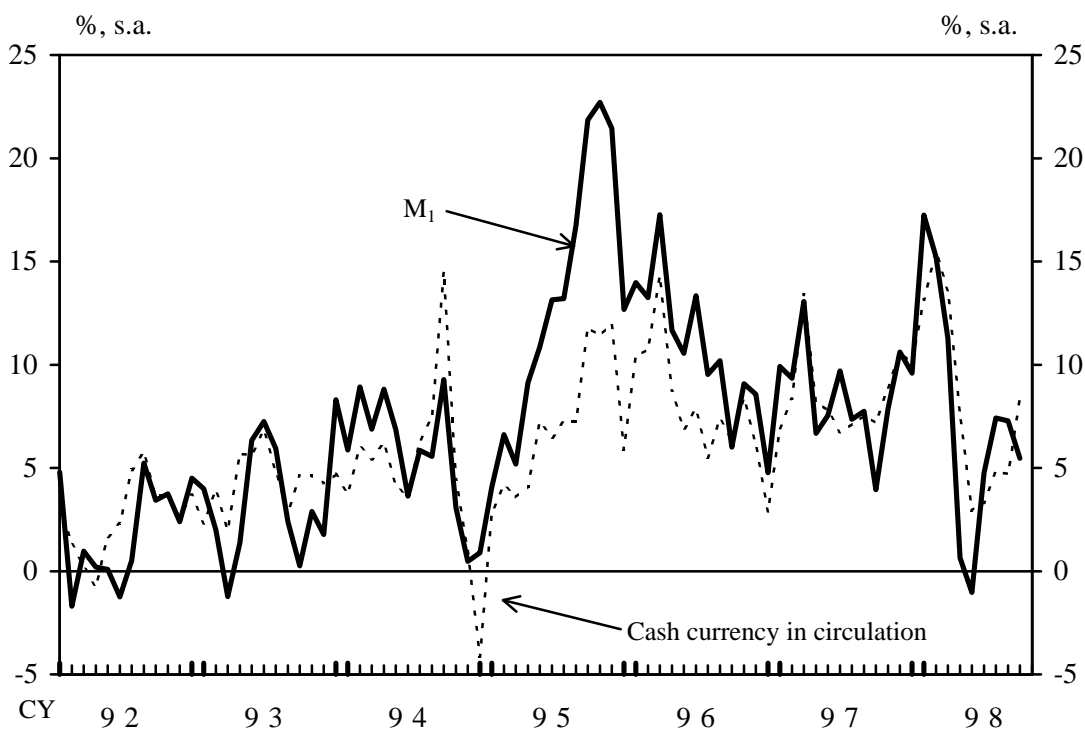
Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier



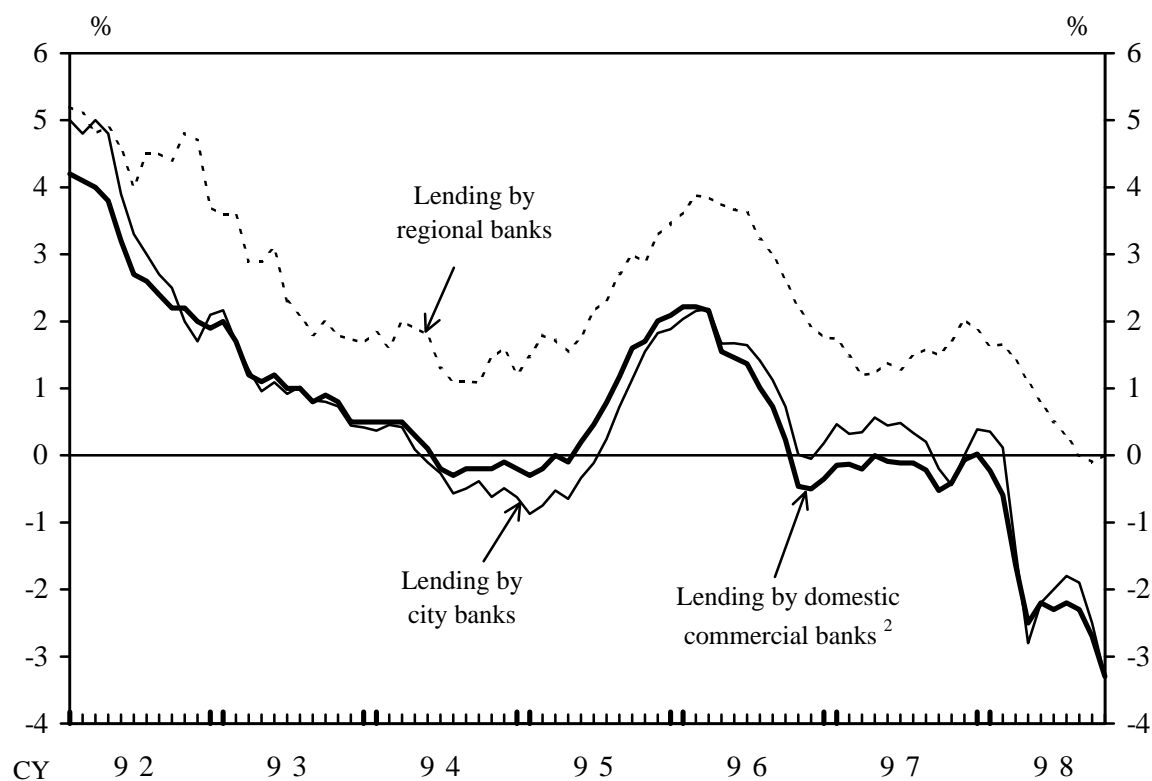
(2) Changes from Three Months Earlier (Annualized)



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



## Lending by Domestic Commercial Banks



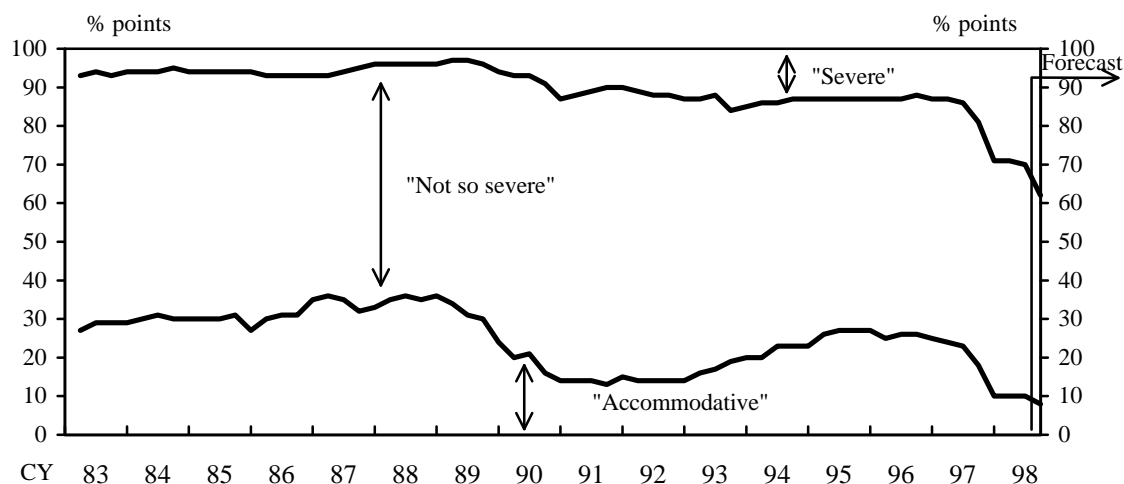
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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

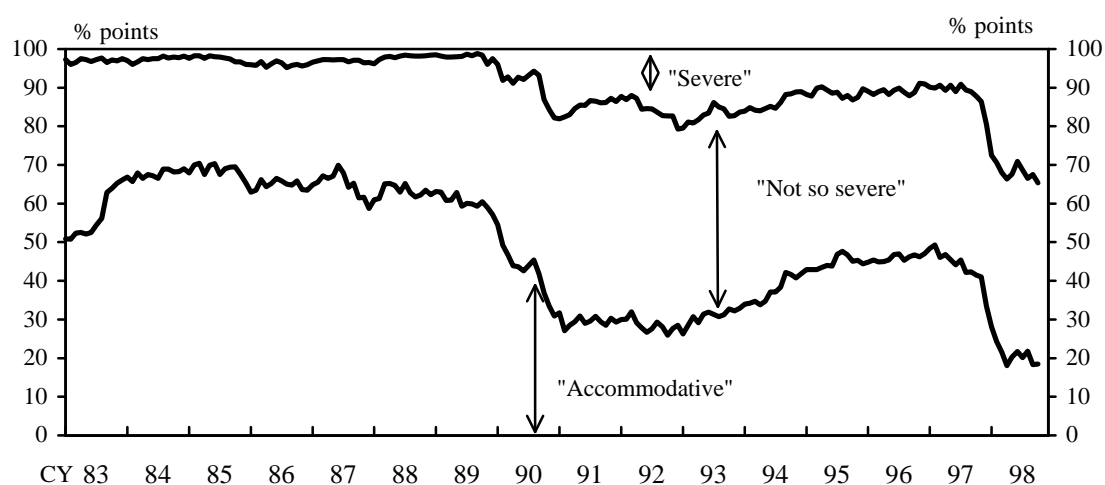
Source: Bank of Japan, "Principal Figures of Financial Institutions."

## Lending Attitude of Financial Institutions as perceived by Small Enterprises

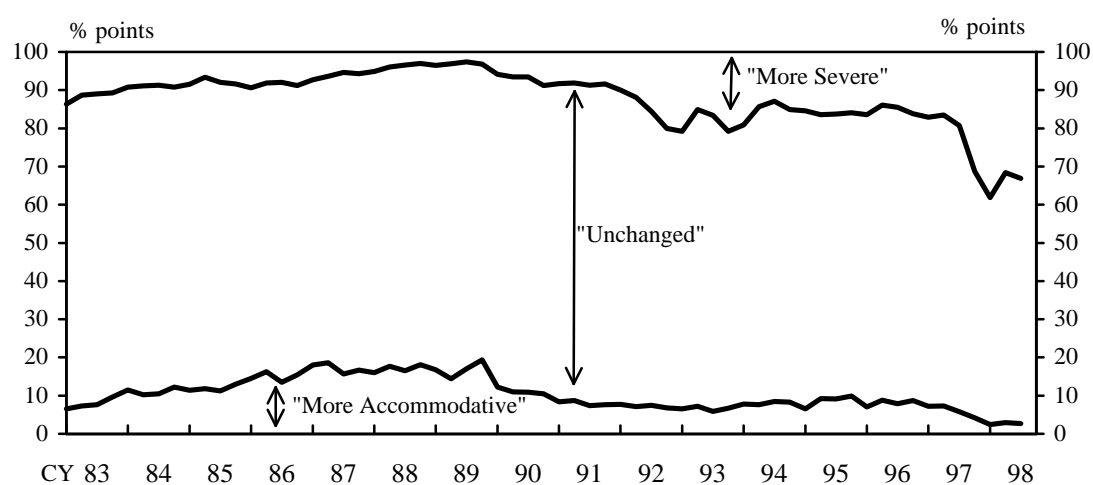
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (September, 1998)



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



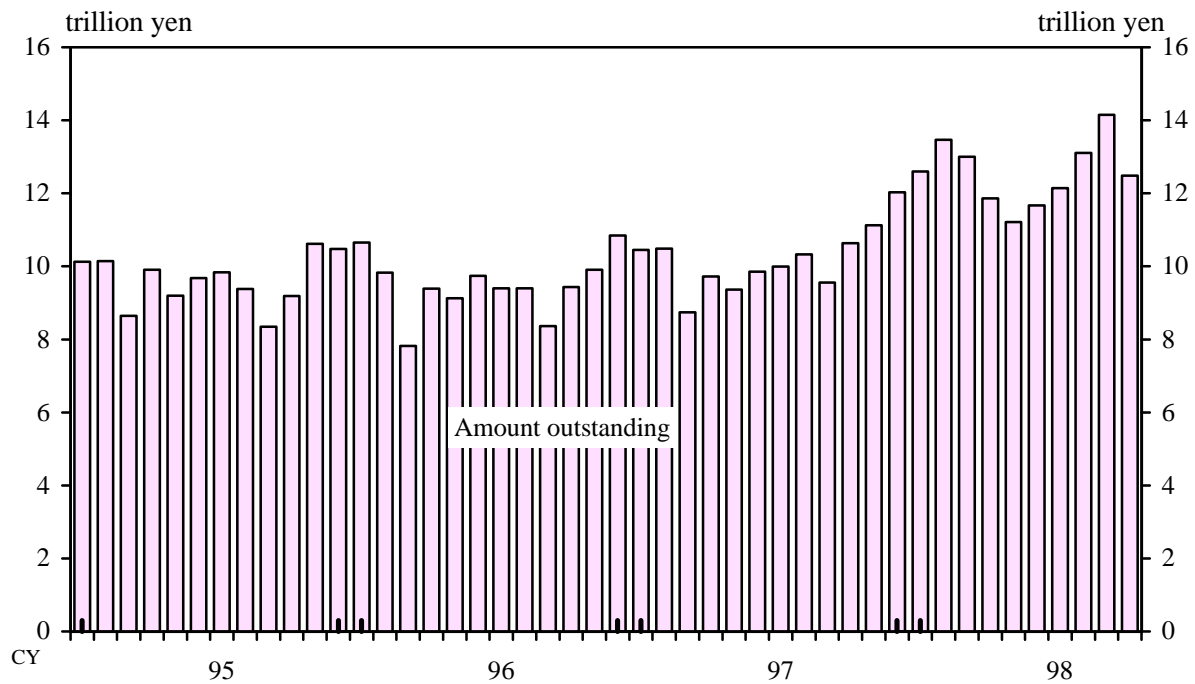
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-September, 1998)



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."

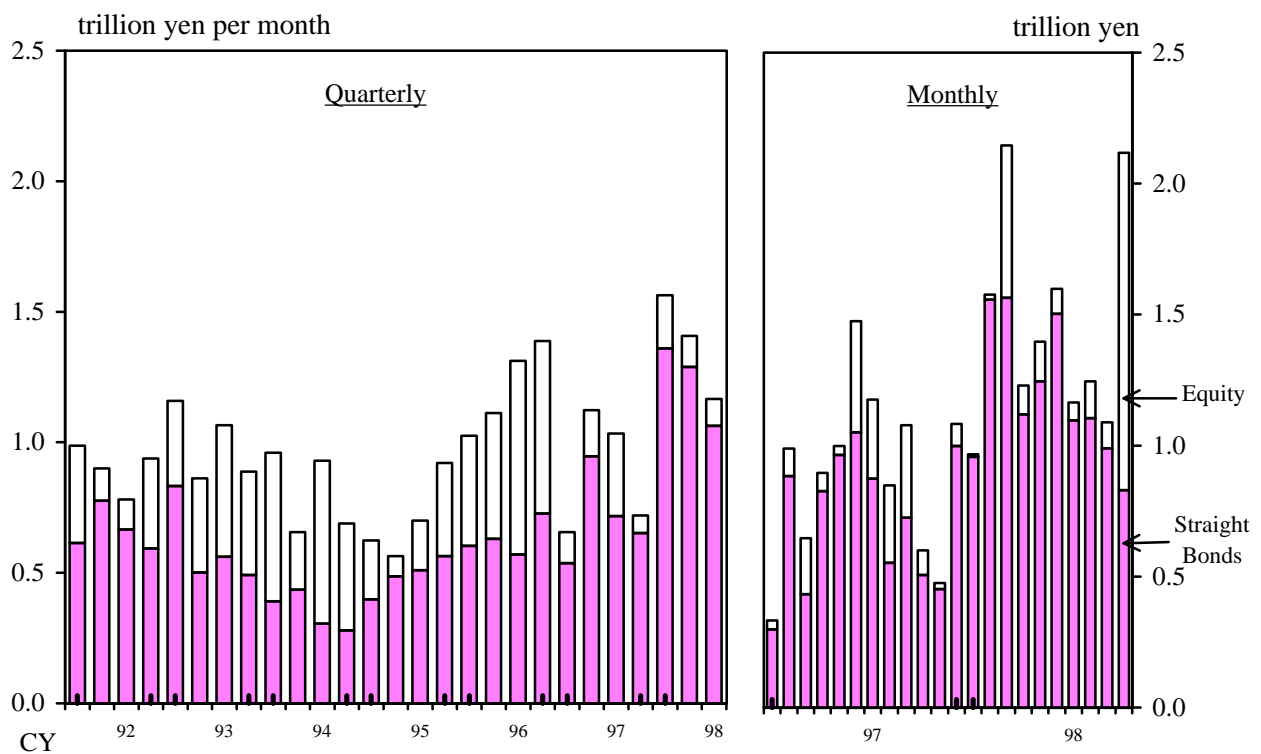
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

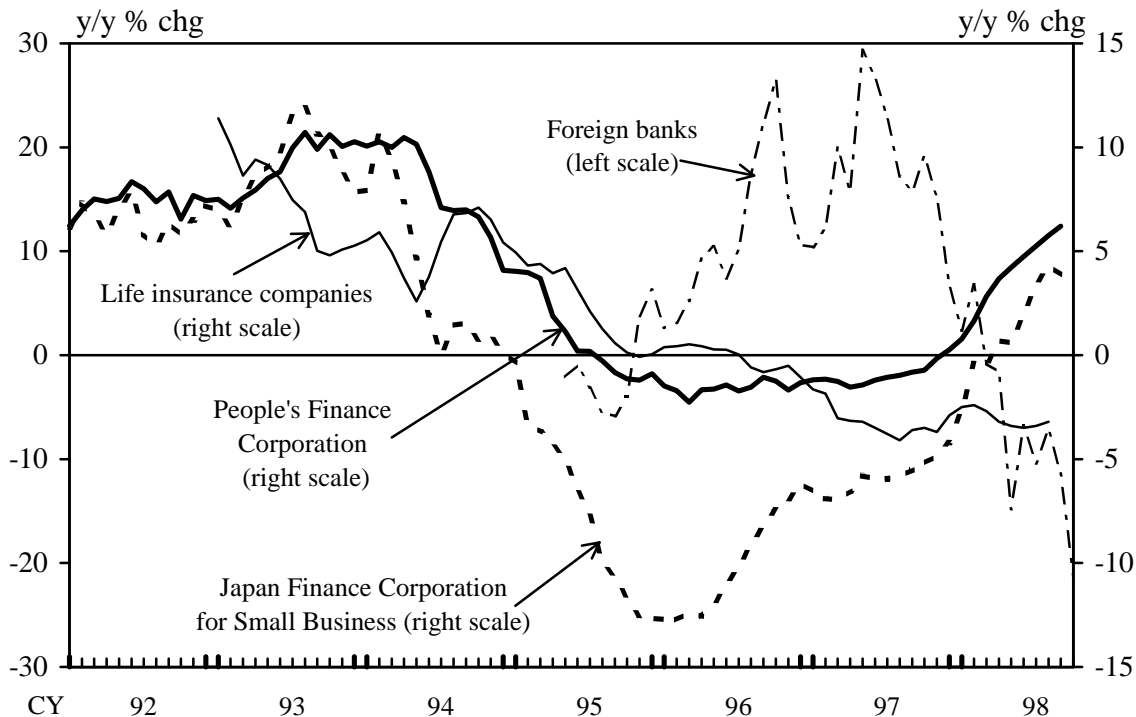


Note: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

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

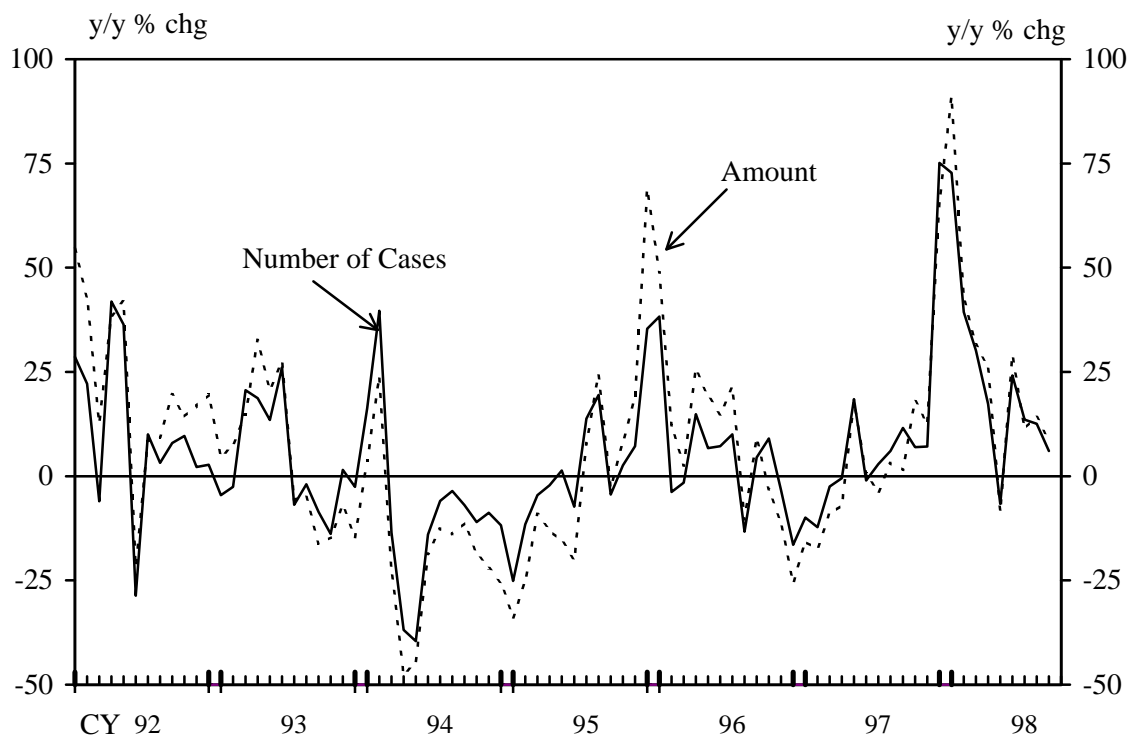
Lending by Other Financial Institutions

(1) Lending Outstanding



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

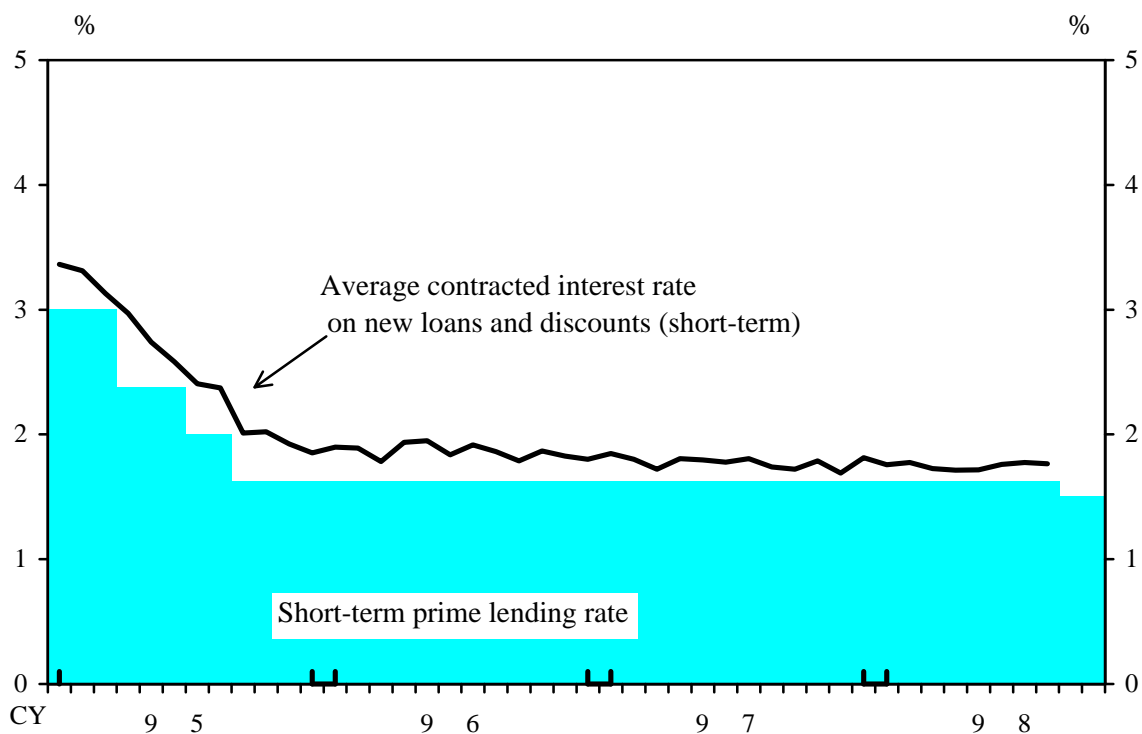
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

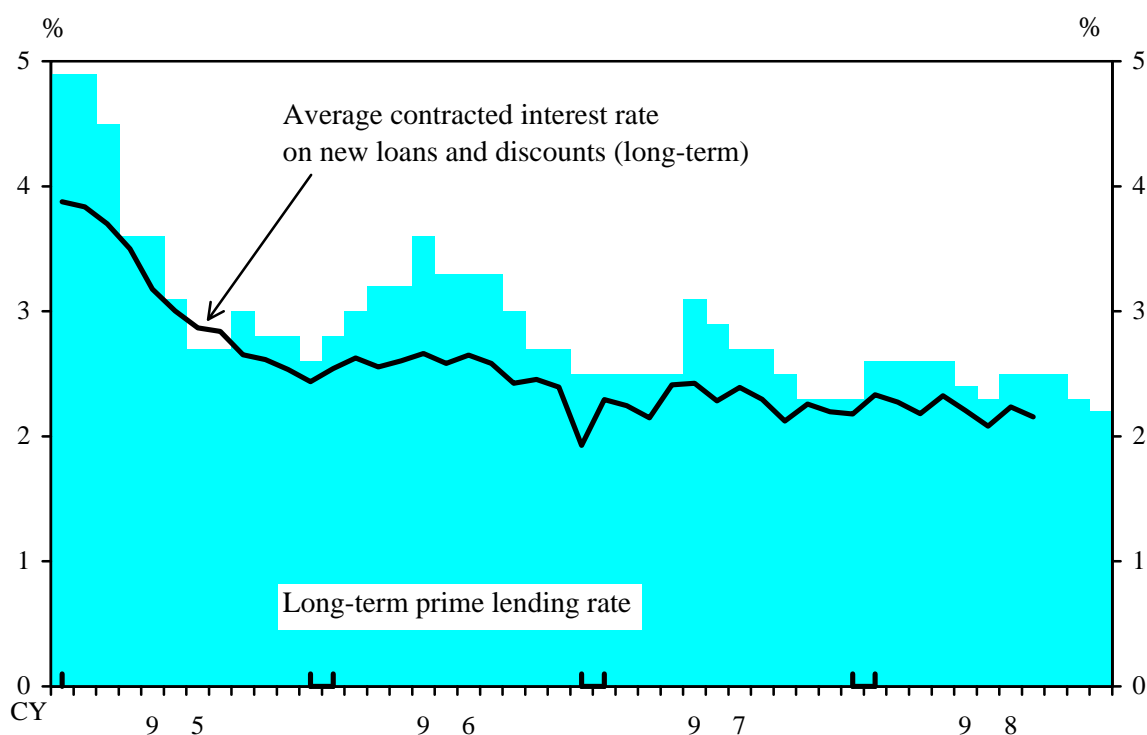
Lending Rates

(1) Short-Term



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

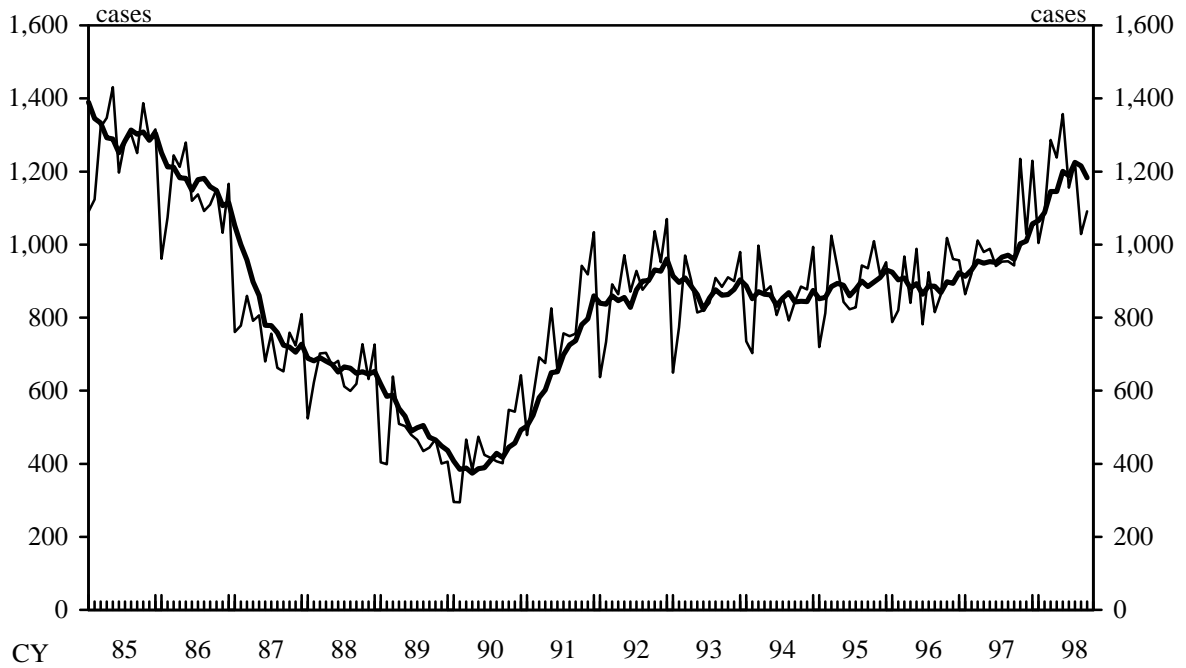
(2) Long-Term



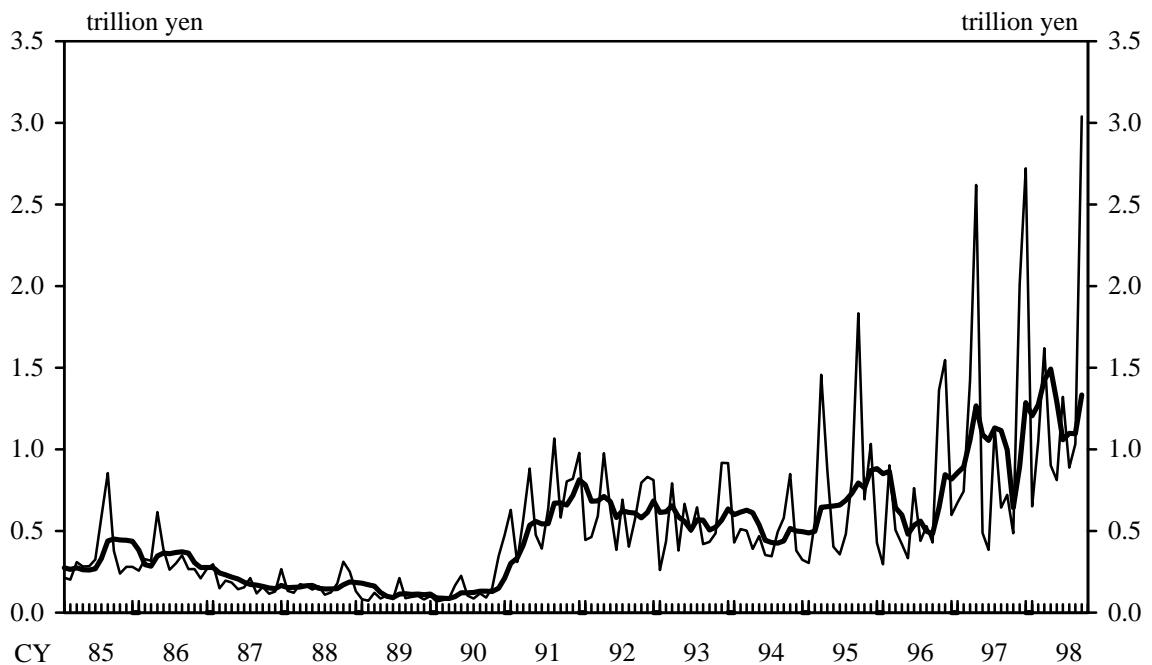
Source: Bank of Japan, "Economic Statistics Monthly."

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)."