

December 28, 1998
Bank of Japan

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

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

Monthly Report of Recent Economic and Financial Developments¹

December 1998

The Bank's View²

The economic deterioration in Japan has moderated somewhat mainly due to the increase in public investment.

With respect to final demand, business fixed investment has been declining significantly, and housing investment continues to be sluggish. Private consumption, as a whole, shows some weakness. Meanwhile, net exports (exports minus imports) are basically on an upward trend, and public investment has started to increase considerably. Reflecting this development of final demand and some progress in inventory adjustments especially in those of durable goods, the decline in production has been slowing.

Corporate profits continue to worsen, and employment and household income conditions have deteriorated as the ratio of job offers to applications has recorded a historical low and winter bonuses are expected to decrease. Financial conditions are improving in some firms with the effects of the policy measures taken by the government and the Bank. Nonetheless, firms apparently cannot remove their anxiety about fund-raising conditions. Consequently, corporate and household sentiment remains cautious, and a recovery has not been observed in private demand.

With the implementation of the government's comprehensive economic stimulus package and recently launched emergency economic measures, the economy is likely to be underpinned mainly by public investment toward the first half of fiscal 1999. Furthermore, the Bank's monetary and financial measures and the

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on December 15, 1998.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on December 15, as the basis of monetary policy decisions.

government's measures to alleviate the credit crunch are expected to take effect gradually. Nevertheless, an immediate self-sustained recovery in private demand is hardly expected since corporate profits and household income are deteriorating and the constraints from corporate finance are likely to persist for some time due to cautious lending attitudes of private banks. Moreover, attention should be paid to the effects of the appreciation of the yen since early autumn and the uncertainty in financial and economic developments abroad. To lead Japan's economy into a steady recovery, it is important to prepare an environment where firms and households can regain confidence in Japan's economic future by, for instance, promptly restoring the stability of the financial system.

With regard to prices, reflecting the expansion in the output gap, wholesale prices are on a downtrend, and corporate service prices are weakening. Consumer prices have increased slightly above the previous year's level due to the rise in prices of perishables. Excluding this effect, however, consumer prices basically continue to be weak. As for the outlook, the economic deterioration is likely to moderate mainly due to the increase in public investment. Nonetheless, distinct narrowing in the output gap is hardly expected for the time being as private demand remains sluggish. Furthermore, the continued decline in wages and the appreciation of the yen since early autumn are likely to exert downward pressure on prices. Hence, the decline in prices, especially in wholesale prices, may somewhat accelerate in the future.

Turning to the financial markets, Japanese banks are successfully raising foreign currency funds necessary to cover a huge shortage at the year-end. Reflecting this, the Japan premium and Euro-yen rates have peaked out, and the market's anxiety which once intensified is gradually settling down. In the meantime, market interest rates on instruments maturing after the fiscal year-end (March 1999) are on an upward trend, suggesting continued concern of market participants over liquidity risk.

Yields on long-term government bonds have rebounded since late November. Although stock prices considerably recovered after hitting the recent bottom in

October, they have recently softened again. The yield spread (the government bond yield minus the expected earnings on stocks) remains extremely small or negative, reflecting market participants' continued cautious outlook on the future of the economy.

With regard to corporate finance, firms are further seeking to secure ample on-hand liquidity in fear of more difficulties in raising funds especially toward the end of this fiscal year when the large-scale redemption of corporate bonds is scheduled. Meanwhile, private banks are continuing their cautious lending stance.

In these circumstances, various policy measures seem to have prevented serious credit-shrinkage: the enhancement of credit guarantee system contributed to a recent increase in loans to small and medium-sized firms; and the Bank announced to introduce new measures, in addition to the continued ample supply of funds, to facilitate firms' financing activities. Fundamentally, however, firms are still under severe fund-raising conditions. It continues to warrant careful monitoring how corporate financing conditions toward the year-end and the fiscal year-end develop and how such developments influence on business activities and the whole economy.

The Background

1. Japan's Economy

With regard to public investment (Chart 2), the value of public works contracted, which reflects orders, is volatile but keeps a high level with the implementation of the first supplementary budget for fiscal 1998 in progress. The actual execution of public works has also started to increase considerably along with the increase in orders.

Real exports (Charts 3 to 5) reduced its rate of decline in the second quarter, turned to an increase in the third quarter, and rose sharply in October. Thus, real exports are gradually recovering. The increase reflects that exports to the United States and Europe remained firm partially due to the lasting effects from the prior depreciation of the yen, and exports to Asia slowed down its pace of decline.³ Meanwhile, real imports declined extremely in the second quarter, and increased in the third quarter, but declined again in October. Given the stagnant domestic demand and the continuing production cutbacks in Japan, real imports remain on a weak trend overall, with some fluctuations.

As a result of these import and export developments, net exports (exports – imports) increased largely in the second quarter, in terms of the real trade balance⁴ and declined slightly in the third quarter, but turned to an increase again in October. Net exports basically remain on an increasing trend, though fluctuating. The nominal current account surplus recorded a substantial increase in the third quarter after posting a slight decline in the second quarter, because of an increase in income surplus and a decline in service deficit such as travel deficit⁵.

³ In October, real exports posted a large increase of 7.8 percent compared to the third quarter. This sharp increase, however, was influenced by temporary factors including intensive exports of certain goods due to the progress in overseas inventory adjustments.

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

⁵ As a result, the ratio of the nominal current account surplus to GDP has been on a rising trend, posting 2.8 percent in the fourth quarter of 1997, 2.9 percent in the first and second quarters of

As for the future environment for foreign trade, the depreciation of the yen before the summer should continue to 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 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, particularly in Latin America, and the financial situation in the United States may reinforce the future deceleration of the United States economy.

Business fixed investment has been declining rapidly. In the third quarter, real business fixed investment (GDP basis) dropped sharply by 4.6 percent on a seasonally adjusted quarter-to-quarter basis, following large decreases in the first quarter (5.2 percent) and the second quarter (4.8 percent). The *Statistical Survey of Incorporated Enterprises* (Ministry of Finance) shows the following features of business fixed investment by industry and scale: business fixed investment by small-to-medium nonmanufacturing firms had declined extremely since the beginning of the year, but remained almost unchanged in the third quarter;⁶ business fixed investment by large manufacturing firms had been high but recently showed a clear declining trend (Chart 7). Leading indicators, such as machinery orders and nonresidential construction starts (Chart 8), suggest that business fixed investment continues to decline in the fourth quarter.

1998, and 3.7 percent in the third quarter. The third quarter figure of 3.7 percent surpassed the previous peak (3.5 percent in the first quarter of 1993), and is the highest level recorded since the first quarter of 1987 (4.1 percent).

⁶ The slight increase in business fixed investment by small-to-medium nonmanufacturing firms in the third quarter may be a correction to two consecutive quarters of excessively large declines. It does not necessarily follow that business fixed investment by these firms has fundamentally stopped declining.

Thus, business fixed investment is still in a serious adjustment phase. This is due to the increasing perceptions of excess equipment, the substantial decline in corporate profits, and financial constraints such as the cautious lending attitude of private banks. Regarding these factors, the Bank of Japan's *Tankan – Short-term Economic Survey of Enterprises* of December 1998 (Charts 9-11), shows that they working for the continued restriction of business fixed investment as follows. Corporate profit projections for fiscal 1998 are revised downwards substantially compared to the previous survey, and the conditions of corporate finance remain severe.⁷ Furthermore, firms perceive business conditions as deteriorating on the whole (Chart 12). Judged from these developments, the adjustment of business fixed investment is expected to continue for the time being. As for the plans of business fixed investment in fiscal 1998, the December *Tankan* (Chart 13) shows a cautious investment stance of principal firms, as those in the manufacturing sector have revised their plans downwards compared to the September survey with a large year-to-year drop of 7.7 percent and those in the nonmanufacturing sector plan a year-to-year increase of 0.2 percent, essentially maintaining the same level as that in the previous year. Small firms have revised their plans upward only slightly, compared to the average revision, resulting in significantly reduced plans both in the manufacturing (-18.1 percent) and in the nonmanufacturing sectors (-13.7 percent).⁸

With regard to private consumption (Chart 14), sales of household appliances remain firm due to the notable increase in sales of personal computers and large household appliances accompanying the introduction of new products. Sales at department stores and chain stores, however, declined clearly in the third quarter and fell further in October, while November sales at chain stores apparently increased

⁷ The enhanced credit guarantee system from October is exerting a positive effect on fund-raising by small enterprises, while declining sales and profits are exerting a negative effect.

⁸ 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 Business (conducted in October 1998), which includes firms smaller than the small enterprises covered by the *Tankan*, business fixed investment plans for fiscal 1998 (total of both commerce and service sectors) have been revised downwards compared to the June survey (-26.0 percent), resulting in an extremely large drop of 34.0 percent compared with the previous year. This shows that smaller firms are restricting business fixed investment more seriously than larger firms.

from the previous month on the success of large discount sales at major supermarkets. The number of passenger car sales (excluding light cars) continued to drop sharply in November after the October decline from 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 from October, but the revenues may be unchanged because of the low unit price of light cars. Outlays for travel have recently been declining sharply. Thus, although some effects have been observed from the introduction of new products and efforts to increase sales, private consumption as a whole shows some weakness, . This is because disposable income is decreasing amid the continued deterioration of employment and income conditions and consumer sentiment is becoming increasingly cautious (Chart 15). As for the future, private consumption is likely to remain stagnant for the time being amid the harsh employment and income conditions.

As for housing investment (Chart 16), housing starts (on a seasonally adjusted annual basis) were on a declining trend, posting 1.32 million units in the first quarter, 1.23 million units in the second quarter, and 1.14 million units in the third quarter. Recently, however, housing starts are leveling off, though at a low level of 1.10 to 1.20 million units (1.16 million units in October). As for the outlook, the decline in interest rates on housing loans should underpin housing investment.⁹ Judged from the worsening of employment and income conditions, however, housing investment is hardly expected to turn to a distinct recovery for the time being.

Reflecting these developments in final demand, industrial production decreased considerably by 5.1 percent in the second quarter (on a seasonally adjusted quarter-to-quarter basis), remained unchanged in the third quarter (0.0 percent), and increased slightly in October (0.5 percent) compared with the third quarter (Chart 17). Based on production leading indicators for November and December, production will decline in the fourth quarter by only 0.3 percent. Although it can be viewed that

⁹ The standard interest rate on loans for the construction of private homes by the government Housing Loan Corporation decreased to a record low of 2.0 percent for the third offering period for fiscal 1998 (November 2 to December 25). The rate for the second offering period (August to September) was 2.55 percent.

production has stopped declining definitely, the pace of decline appears to be slowing down. This is because the rebound in exports and the increase in public investment are underpinning final demand, and the downward pressures from inventory adjustments (Chart 18) are easing somewhat along with progress in inventory adjustments, especially for durable goods.¹⁰

As for the future environment for production, the increase in public investment is expected to underpin production, but the stagnation of private final demand, especially of business fixed investment, is likely to continue depressing production, and inventory adjustment pressures still remain. Judged from these factors as well as industry interview surveys, industrial production is likely to keep the current level for the time being.

Employment and income conditions are still deteriorating. In the labor market (Chart 19), the number of new job offers continues to decline overall,¹¹ and in October the ratio of job offers to applications was 0.48, posting the lowest level for the second consecutive month since the start of these statistics in 1963. Since August, the unemployment rate has remained at 4.3 percent, the highest level since the start of these statistics in 1953.¹² Additionally, the number of regular employees (on a monthly employment statistical basis at establishments with at least five employees) has fallen below the previous year's level for four consecutive months. This worsening of the labor market is due to intensified employment adjustments amid the stagnant final demand and reduced corporate profits (Chart 20). As regards wages (Chart 21), the growth of regular compensation has fallen to the previous year's level,

¹⁰ The Inventory of Finished Goods DI of the *Tankan* shows that corporate perceptions of excess inventory improved slightly in the December survey compared to the September survey. (The DI <"excessive" minus "insufficient"> was 35 percentage points in June, 39 percentage points in September, and 37 percentage points in December).

¹¹ In the construction industry, however, the number of new job offers seems to be bottoming out, reflecting the increase in public works orders.

¹² More precisely, the unemployment rate declined slightly from 4.34 percent in August to 4.31 percent in September and 4.27 percent in October, 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.

and overtime compensation remains well below the previous year's level. As a result, the wages paid per employee remain below the previous year's level, and winter bonuses are expected to be down sharply.¹³

2. Prices

With regard to price developments, import prices (Chart 23(1)) fell sharply in September and October on a yen basis because of the appreciation of the yen, and declined further in November. As for domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;¹⁴ Chart 23(3)), the prices of steel and construction-related materials continue to drop due to excess inventories; machinery prices are still falling; and the prices of non-ferrous metals declined sharply due to the appreciation of the yen since early autumn. Thus, the decline in domestic wholesale prices overall is accelerating slightly. (Domestic wholesale prices declined by a quarter-to-quarter 0.8 percent in the second quarter, 0.3 percent in the third quarter, and 0.5 percent in October and November compared to the third quarter).

Corporate service prices (Chart 24(1)) are weakening overall, particularly those for leasing and rentals, real estate rents, and advertising, against the background of stagnant corporate activities. The year-to-year price declines are gradually expanding. (The year-to-year decline in corporate service prices was 0.2 percent in the second quarter, 0.4 percent in the third quarter, and 0.8 percent in October).

¹³ In September and October, wages paid per employee declined by 0.7 percent and 0.1 percent, respectively, compared with the previous year. The year-to-year rates of decline were lower than during July and August (2.5 percent and 2.4 percent) because the September and October wages were not affected by the large decrease in summer bonuses. According to a survey conducted by the Japan Federation of Employers' Associations (Nikkeiren) and other data, however, the reduction in winter bonuses is projected to be even greater than that in summer bonuses, so the wages per employee are likely to post a larger decline, once again, towards the end of the year.

¹⁴ 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.

Consumer prices (excluding perishables; Chart 24(2)) remain weak overall 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 +0.1 percent in the second quarter, -0.2 percent in the third quarter, and -0.4 percent in October). As a result, excluding the rise in medical service charges due to the medical insurance system reform of September 1997, consumer prices have remained below the previous year's level since the second quarter by about -0.3 percent in the second quarter, -0.5 percent in the third quarter, and -0.4 percent in October. The prices of perishables have risen sharply since early autumn due to irregular weather. Thus, including perishables, consumer prices overall turned to a slight year-to-year increase of 0.2 percent in October (compared with a decline of 0.2 percent in the third quarter).

Regarding the future environment for prices, the increase in public investment should moderate the deterioration of economic conditions, but as private demand remains sluggish, a distinct narrowing in the output gap can hardly be expected 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 wholesale prices, may accelerate somewhat in the future.

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets (Charts 25(1) and 26 to 28) 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.

The Japan premium has been contracting from mid-November as Japanese banks are successfully raising foreign currency funds necessary to cover a huge shortage at the year-end by converting yen into foreign funds.¹⁵

Three-month Euro-yen interest rates maturing after the year-end had been rising from the end of September, but peaked in mid-November and are now declining. Nevertheless, the easing of Euro-yen interest rates is generally limited to a gradual decline because market caution toward the procurement of yen beyond the year-end and fiscal year-end remains strong. The three-month TB yield had lowered close to zero, but is rebounding slightly, reflecting the rise in the yen-funding costs of foreign banks. As a result, the differential between Euro-yen and TB interest rates contracted somewhat.

Yields on ten-year government bonds (benchmark) (Chart 25(2)) have rebounded since late November. This rise may be attributed to (1) concern over a worsening of the supply-demand balance for government bonds and (2) improvement in market sentiment from progress in measures to stabilize and revitalize Japan's financial system as well as the announcement of the Emergency Economic Measures.

Yields on private bonds (Charts 30 and 31) rose overall. The yield differential between government bonds and corporate bonds continued to expand due to the worsening of corporate performance.

Stock prices (Chart 32(1)) rebounded in early October and recovered the 15,000 yen level, reflecting favorable market sentiment toward (1) the announcement of the Emergency Economic Measures, (2) decisions by many leading banks that they will accept public funds to shore up their capital bases, and (3) new record highs on U.S. stock markets. Recently, however, stock prices have softened again. The yield spread (the government bond yield minus the expected earnings on stocks; Chart

¹⁵ Japanese financial institutions have been 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).

32(2)) remains extremely small or negative, indicating market participants' continued cautious outlook on future economic growth.

On the foreign exchange market (Chart 33), the trend has been toward a higher yen and lower dollar since early December with growing uncertainty about U.S. economic prospects driven by the situation in Latin American countries and concern over shrinking corporate profits.

(2) Monetary Aggregates and Corporate Finance

The year-to-year growth in money stock (Charts 34 and 35) in terms of $M_2 +$ CDs remained between 3.5 and 4.0 percent in October. (The year-to-year growth in $M_2 +$ CDs was 3.7 percent in the second quarter, 3.7 percent in the third quarter, and 3.9 percent in October). The year-to-year decline in lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors;¹⁶ Chart 36), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, decreased slightly in October.

In relation to these monetary aggregate developments, regarding the credit demand of private firms, funding needs for real economic activities remain stagnant mainly due to the large-scale decline in business fixed investment. A growing number of firms, however, are seeking to secure ample on-hand liquidity in fear of more difficulties in raising funds, especially toward the end of this fiscal year when a large-scale redemption of corporate bonds is scheduled. Meanwhile, the lending attitude of private financial institutions (Chart 11) is still fundamentally cautious as they face a severe fund-raising environment and the worsening performance of borrower companies.

Amid these developments, various policy measures seem to have prevented a serious credit-shrinkage toward the year-end: (1) the enhancement of the credit

¹⁶ The figures are adjusted for (1) fluctuations from the liquidation of loans, (2) fluctuations in the yen value of foreign currency-denominated loans due to changes in exchange rates, (3) fluctuations from loan write-offs, and (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account.

guarantee system seemingly contributed to a recent increase in loans to small and medium-sized firms, (2) fund-raising on the capital market (Chart 37) and borrowings from government financial institutions (Chart 38) continue to increase steadily, and (3) the Bank of Japan announced the introduction of new measures to facilitate firms' activities both in the lending market and the capital market.¹⁷ For firms with relatively low credit ratings, however, fund-raising on the capital market remains difficult.

Turning to the funding cost for firms, in September and October the average contracted interest rates on loans and discounts (Chart 39) declined slightly, following the Bank of Japan's decision in September to further ease the stance of money market operations.

CP issuance rates declined further with the Bank of Japan's expanded CP repo operations. Issuance rates on corporate bonds also declined overall through November. However, corporate bond issuance rate differentials are expanding further across firms according to their creditworthiness.

Thus, the corporate fund-raising environment remains fundamentally severe overall, although diverse policy measures have prevented a serious credit-shrinkage toward the year-end. The development of corporate financing conditions toward the year-end and the fiscal year-end and the ways in which these developments influence business activities and the entire economy continue to warrant careful monitoring.¹⁸

¹⁷ At the meeting held on November 13, the Bank of Japan's Monetary Policy Board decided to implement new measures for money market operations in response to the recent developments in firms' financing activities, as follows: (1) expansion of CP repo operations, (2) establishment of a temporary lending facility to support firms' financing activities, and (3) establishment of a new market operation scheme which utilizes corporate debt obligations as eligible collateral.

¹⁸ The number of corporate bankruptcies is on a rising trend (Chart 40).

Charts

Chart 1	Main Economic Indicators
Chart 2	Public-sector Investment
Chart 3	Exports and Imports
Chart 4	Real Exports
Chart 5	Real Imports
Chart 6	Overseas Economic Conditions and Real Effective Exchange Rate
Chart 7	Business Fixed Investments by Industry and Scale
Chart 8	Major Indexes of Business Fixed Investment
Chart 9	Production Capacity Indicators in <i>Tankan</i> (December 1998)
Chart 10	Current Profits as Surveyed in <i>Tankan</i> (December 1998)
Chart 11	Corporate Finance-Related Indicators in <i>Tankan</i> (December 1998)
Chart 12	Business Conditions in <i>Tankan</i> (December 1998)
Chart 13	Business Fixed Investment Plans as Surveyed in <i>Tankan</i> (December 1998)
Chart 14	Private Consumption
Chart 15	Consumer Confidence and Propensity to Consume
Chart 16	Housing Starts
Chart 17	Production, Shipments, and Inventories
Chart 18	Inventory Cycle
Chart 19	Labor
Chart 20	Employment Conditions in <i>Tankan</i> (December 1998)
Chart 21	Compensation of Employees
Chart 22	Prices
Chart 23	Import Prices and Domestic Wholesale Prices
Chart 24	Corporate Service Prices and Consumer Prices
Chart 25	Interest Rates
Chart 26	Short-Term Money Market Rates
Chart 27	Euro-Yen Interest Rates Futures (3-Month)
Chart 28	Japan Premium in the Eurodollar Market
Chart 29	Implied Forward Rates (1-year)
Chart 30	Yields of Bank Debentures
Chart 31	Corporate Bond Yields
Chart 32	Stock Prices
Chart 33	Exchange Rates
Chart 34	Money Stock (M2+CDs, Broadly-Defined Liquidity)
Chart 35	Money Stock (M1, Cash Currency in Circulation)
Chart 36	Lending by Domestic Commercial Banks
Chart 37	Private-Sector Fund Raising in the Capital Markets
Chart 38	Lending by Other Financial Institutions
Chart 39	Lending Rates
Chart 40	Corporate Bankruptcies

Main Economic Indicators (1)

y/y % chg.

	98/Q1	Q2	Q3	98/Aug.	Sept.	Oct.	Nov.
Index of expenditure level (all households)	-4.7	-0.8	-1.9	-1.9	-1.0	p -0.6	n.a.
Sales of department stores	-9.8	0.6	-4.5	-4.3	-5.4	p -4.7	n.a.
Sales of chain stores ¹	-7.0	0.3	-2.5	-3.7	-2.3	-2.3	n.a.
New passenger-car registrations ²	-21.5	-2.1	-1.8	-3.1	-2.5	-14.0	-13.8
Sales of electric appliances (NEBA)	-14.1	3.6	8.2	6.3	10.6	13.6	n.a.
Outlays for travel (50 major travel agencies)	-6.2	-2.8	-3.2	-3.2	-5.6	-10.5	n.a.
Housing starts <s.a., ann. 10,000 units>	132	123	114	118	114	116	n.a.
Machinery orders (from private sector ³)	-5.8	-21.7	-20.3	-25.0	-14.5	-26.1	n.a.
Mining & manufacturing	-7.6	-23.7	-22.0	-23.8	-17.8	-32.3	n.a.
Nonmanufacturing ³	-4.2	-20.1	-18.9	-25.8	-12.1	-21.6	n.a.
Construction Starts (private, nonresidential use)	-7.8	-13.8	-18.2	-22.4	-25.6	-23.5	n.a.
Manufacturing	-7.2	-25.9	-38.1	-41.6	-42.3	-41.2	n.a.
Nonmanufacturing ⁴	-8.0	-8.9	-10.5	-15.1	-19.2	-16.9	n.a.
Value of public works contracts	-2.2	-6.2	4.9	3.5	23.8	22.6	n.a.
Real exports <s.a. quarterly (monthly) change>	-4.9	-0.9	1.7	-3.9	6.6	4.8	n.a.
Real imports <s.a. quarterly (monthly) change>	-1.5	-7.8	3.3	-2.3	3.3	-3.3	n.a.
Industrial production <s.a. quarterly (monthly) change>	-1.3	-5.1	0.0	-1.3	3.3	p -1.2	n.a.
Shipments <s.a. quarterly (monthly) change>	-1.1	-5.1	0.8	-1.3	4.1	p -1.4	n.a.
Inventories <s.a. quarterly (monthly) change>	0.7	-1.9	-2.4	-0.3	-1.5	p -1.0	n.a.
Inventories/shipments <s.a. 1995=100>	112.9	111.0	109.1	114.8	109.1	p 110.2	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	98/Q1	Q2	Q3	98/Aug.	Sept.	Oct.	Nov.
Ratio of job offers to applications <s.a., times>	0.61	0.53	0.50	0.50	0.49	0.48	n.a.
Unemployment rate <s.a., %>	3.65	4.18	4.26	4.34	4.31	4.27	n.a.
Overtime working hours ⁵	-5.4	-9.3	-8.7	-8.1	-8.9	p -7.7	n.a.
Number of employees	0.0	-0.6	-0.7	-0.3	-0.7	-0.2	n.a.
Number of regularly employed ⁵	0.6	0.1	-0.2	-0.1	-0.3	p -0.4	n.a.
Nominal wage per person ⁵	-0.1	-0.6	-2.0	-2.4	-0.7	p -0.1	n.a.
Domestic wholesale prices index ⁶	-1.6 (0.3)	-2.3	-2.1	-2.1	-2.0	-2.1	-2.2
Consumer prices index (nationwide) ⁶	0.5 (2.0)	0.4	-0.2	-0.3	-0.2	0.2	n.a.
Excluding perishables	0.5 (1.9)	0.1	-0.2	-0.1	-0.5	-0.4	n.a.
Corporate service prices index ⁶	-0.1 (1.7)	-0.2	-0.4	-0.4	-0.6	-0.8	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	4.7	3.7	3.7	3.8	3.8	p 3.9	n.a.
Number of suspension of transaction with banks	20.9	28.9	17.3	7.9	15.7	-5.3	n.a.

Notes: 1. Adjusted to exclude consumption tax.

2. Excludes small cars with engine size of 660cc or less.

3. Excludes ships and demand from electric power companies.

4. Nonmanufacturing=commerce+services+agriculture & fisheries+public utilities industries etc.

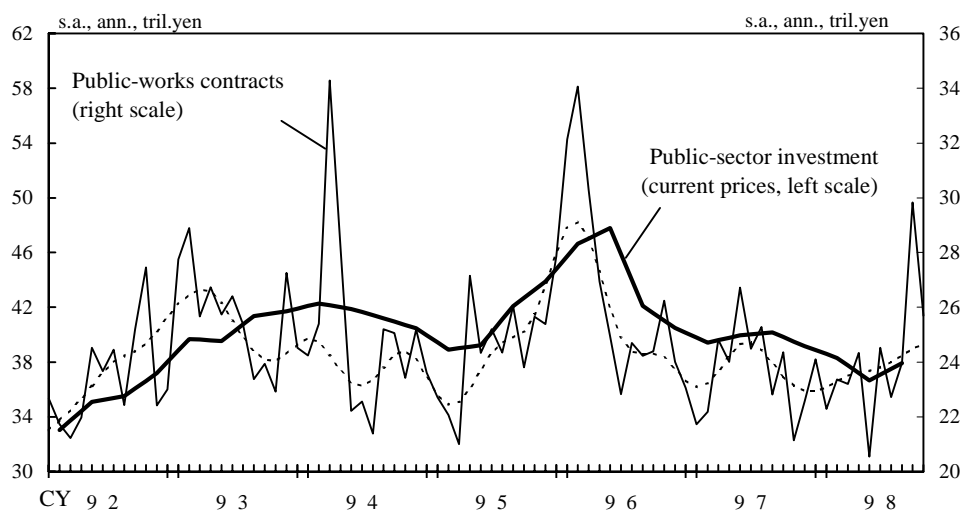
5. Data for establishments with 5 regular employees or more.

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.

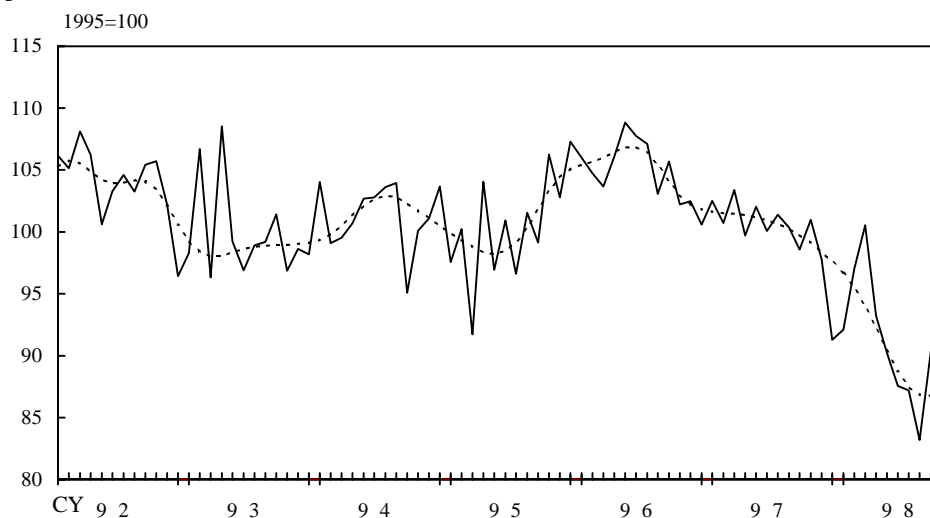
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";
 Japan Chain Stores Association, "Sales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



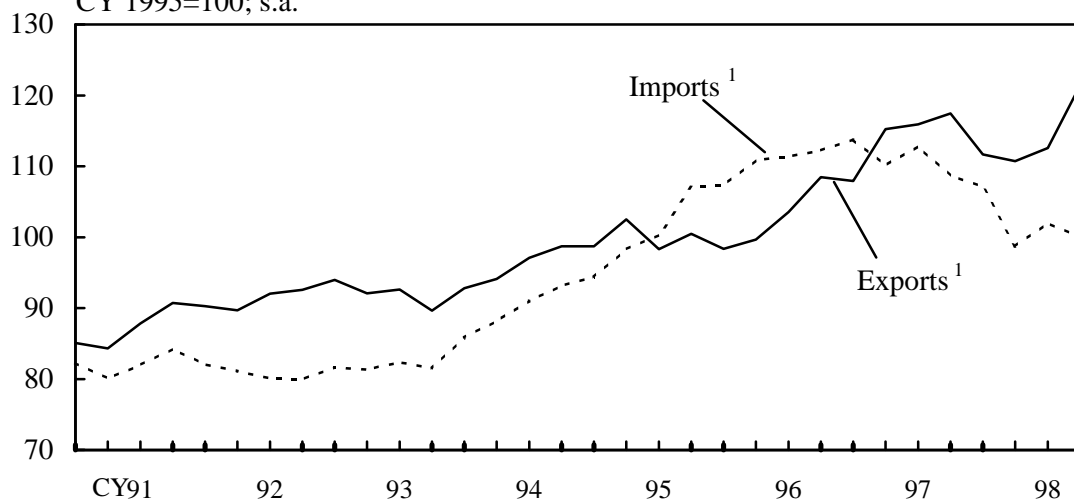
- Notes: 1. In order to follow the monthly movement of public-sector investment, we have compiled the data of shipments of "public works-related goods" by selecting some goods used for public works from "Indices of Industrial Production."
2. The basket of goods used to calculate "public works-related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

Exports and Imports

(1) Real Exports and Real Imports

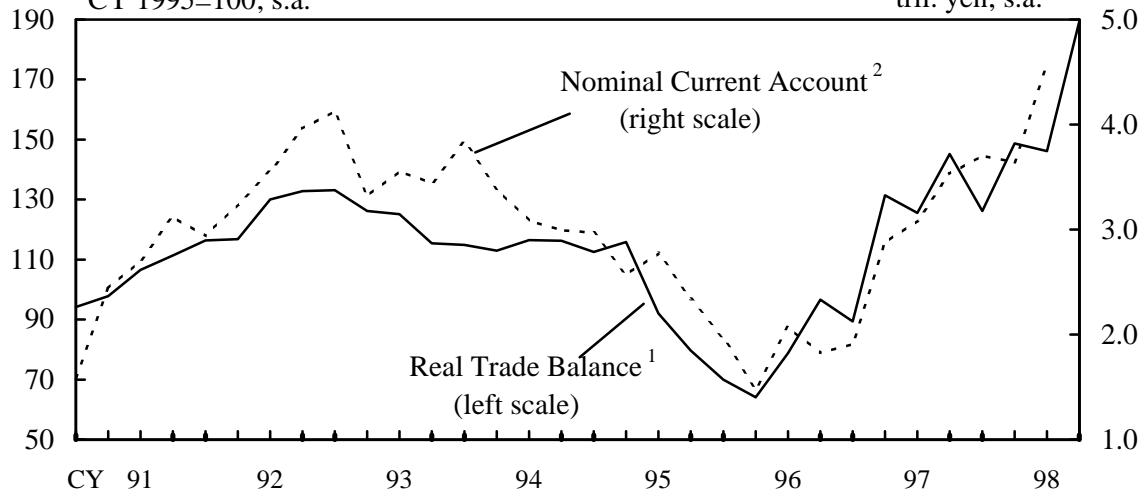
CY 1995=100; s.a.



(2) Real Trade Balance and Nominal Current Account

CY 1995=100; s.a.

tril. yen; s.a.



(3) Nominal Current Account

s.a.; percent of nominal GDP



Note: 1. Seasonally adjusted by X-11. 1998/Q4 figures are October figures converted into quarterly amount.
 Sources: Ministry of Finance, "The Summary Report on Trade of Japan";
 Bank of Japan, "Balance of Payments Monthly", "Wholesale Price Indexes."
 Economic Planning Agency, "National Income Statistics"

Real Exports ¹

(1) Breakdown by region

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q4	98 Q1	Q2	Q3	Q4	98 Aug.	Sep.	Oct.
United States	<27.8>	1.8	14.6	1.8	4.6	-0.8	2.5	9.2	-5.9	6.0	7.2
EU	<15.6>	-1.2	13.8	5.4	1.3	7.2	2.0	8.2	-9.0	10.2	4.8
East Asia	<40.6>	6.0	8.6	-2.4	-11.1	-7.3	-0.2	3.7	-2.8	7.8	-0.4
China	<5.2>	11.0	8.2	6.2	-3.9	4.0	-2.1	4.8	-1.6	5.4	1.8
NIEs	<24.0>	3.5	10.5	-0.4	-10.5	-8.2	-1.4	4.0	-4.0	9.7	-0.8
Korea	<6.2>	6.2	-1.5	-2.8	-29.8	-7.0	-1.4	12.1	-4.6	14.6	4.2
ASEAN4 ³	<11.4>	8.9	5.0	-10.0	-16.0	-11.3	4.2	2.4	-0.4	5.1	-0.8
Thailand	<3.5>	3.3	-11.6	-15.4	-9.6	-2.3	-0.4	3.5	-5.3	6.2	1.3
Indonesia	<2.4>	0.9	22.6	-19.5	-36.0	-26.9	8.7	10.1	11.6	4.9	3.1
Real exports		2.3	11.2	1.3	-4.9	-0.9	1.7	7.8	-3.9	6.6	4.8

(2) Breakdown by type of goods

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q4	98 Q1	Q2	Q3	Q4	98 Aug.	Sep.	Oct.
Intermediate goods	<14.7>	5.0	11.2	0.7	-3.2	2.3	4.9	7.4	-2.8	7.7	3.2
Motor vehicles and their related goods	<20.5>	-1.7	14.6	-4.2	-3.0	0.7	4.1	6.7	-6.3	5.4	5.4
Consumer goods ⁴	<6.9>	-1.9	6.3	2.2	2.3	0.7	-2.7	8.0	-3.7	1.9	8.0
Information-related goods ⁵	<18.2>	5.8	18.1	1.3	-5.5	-5.3	1.6	3.6	-3.2	6.7	0.3
Capital goods and parts ⁶	<29.6>	5.1	9.0	3.5	-5.8	-2.8	0.5	3.9	-4.3	8.1	0.1
Real exports		2.3	11.2	1.3	-4.9	-0.9	1.7	7.8	-3.9	6.6	4.8

Notes: 1. Seasonally adjusted by X-11. 98/Q4 figures are October 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

		y/y % chg.		s.a. q/q % chg.				s.a. m/m % chg.			
		CY 96	97	97 Q4	98 Q1	Q2	Q3	Q4	98 Aug.	Sep.	Oct.
United States	<22.3>	15.5	1.1	-0.1	0.5	-4.8	1.4	1.8	1.4	-4.0	4.2
EU	<13.3>	11.1	-3.6	-7.1	3.4	-8.5	4.0	-2.7	-1.7	12.2	-9.2
East Asia	<34.7>	15.1	0.9	-4.5	-0.2	-6.0	1.4	-3.4	-3.4	3.9	-4.7
China	<12.4>	20.4	8.8	-2.9	0.8	-4.7	1.4	-6.2	-6.8	-1.5	-2.9
NIEs	<10.4>	9.2	-8.1	-5.6	-0.5	-9.0	-0.4	0.9	-0.5	11.0	-5.6
Korea	<4.3>	0.7	-3.9	-8.8	3.7	-10.1	-3.7	4.9	-6.6	12.1	-0.4
ASEAN4 ³	<12.0>	16.4	2.2	-5.2	-0.9	-4.7	3.0	-3.9	-1.9	3.8	-5.6
Thailand	<2.8>	9.4	-0.5	-2.1	-3.5	-2.7	2.9	-2.9	-2.0	1.5	-3.2
Indonesia	<4.3>	7.8	-2.3	-8.5	0.1	-4.1	5.8	-7.5	-4.6	17.4	-15.3
Real imports		10.3	0.9	-3.7	-1.5	-7.8	3.3	-2.0	-2.3	3.3	-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 Q4	98 Q1	Q2	Q3	Q4	98 Aug.	Sep.	Oct.
Raw materials ⁴	<27.1>	0.5	-0.5	0.1	-4.3	-4.4	2.7	2.6	-5.8	3.3	2.5
Intermediate goods	<13.7>	4.6	2.7	-1.5	-2.0	-9.3	2.1	-1.9	-6.5	3.6	-2.0
Foodstuffs	<13.6>	5.1	-3.5	-6.6	0.9	-2.9	3.4	-7.4	0.9	7.2	-11.8
Consumer goods	<10.8>	12.3	-10.0	-9.1	-0.3	-8.9	7.0	-11.6	-5.7	10.1	-15.4
Information-related goods ⁵	<12.5>	36.8	8.0	-3.1	-4.0	-1.2	4.1	-2.5	0.1	2.6	-4.2
Capital goods and parts ⁶	<11.4>	23.1	13.6	0.3	8.0	-10.8	1.8	6.3	-3.0	-4.0	10.3
Real imports		10.3	0.9	-3.7	-1.5	-7.8	3.3	-2.0	-2.3	3.3	-3.3

Notes: 1. Seasonally adjusted by X-11. 98/Q4 figures are October 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.

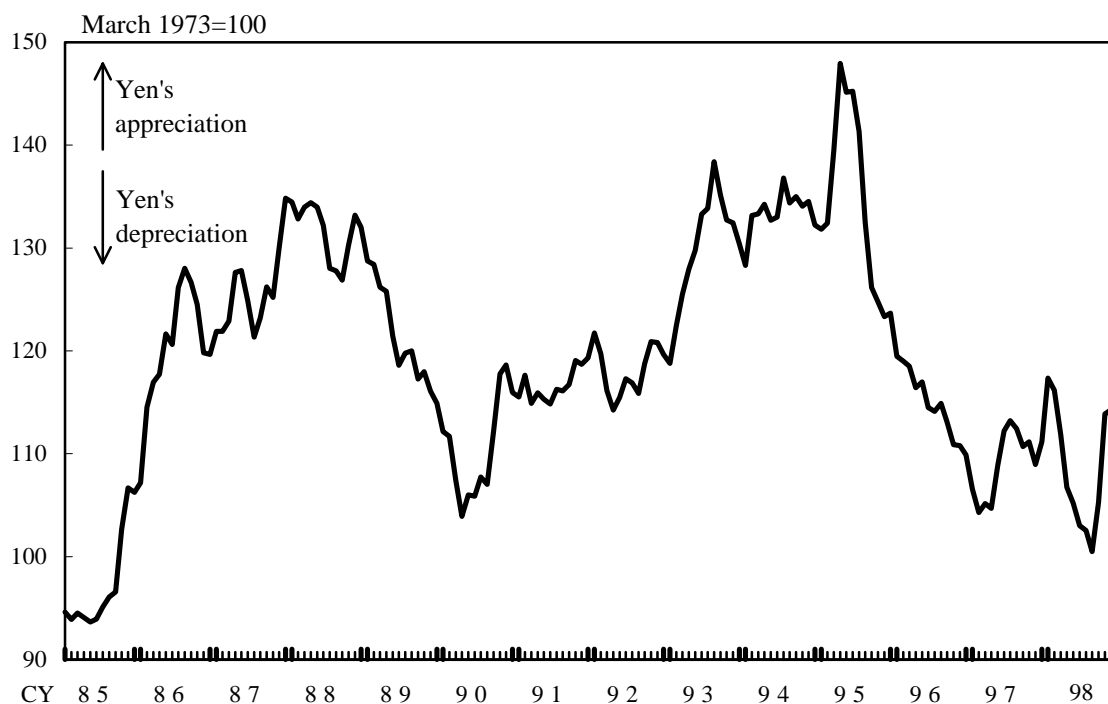
4. Raw materials = woods + ores + mineral fuel, etc.

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

Note: 1. Monthly average. The figure for December 1998 is December 1-14 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.

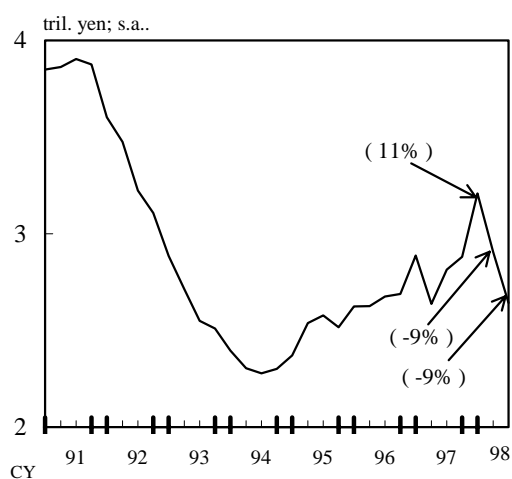
(2) Real GDP Growth Rates in Overseas Economies

		CY97	98	99	97 Q4	98 Q1	Q2	Q3
United States ¹		3.9	(3.5)	(2.1)	3.0	5.5	1.8	3.9
European Union ¹		2.7	(2.8)	(2.2)	2.6	3.1	2.1	n.a.
Germany		2.2	(2.7)	(2.2)	1.3	5.9	0.2	3.5
France		2.3	(3.0)	(2.3)	3.1	2.8	3.3	2.1
United Kingdom		3.5	(2.7)	(0.8)	2.9	3.1	1.9	1.5
China		8.8	(7.4)	(7.5)	(Jan-Dec) 8.8	7.2	(Jan-Jun) 7.0	(Jan-Sep) 7.2
East Asia ²	Korea	5.5	(-6.7)	(-0.3)	3.9	-3.9	-6.8	-6.8
	Taiwan	6.8	(4.9)	(4.3)	7.1	5.9	5.2	4.7
	Hong Kong	5.3	(-4.5)	(-1.5)	2.8	-2.7	-5.2	-7.0
	Singapore	7.8	(0.2)	(-0.4)	7.6	6.2	1.8	-0.7
4 Countries of ASEAN	Thailand	-0.4	(-8.2)	(-0.4)	n.a.	n.a.	n.a.	n.a.
	Indonesia	4.9	(-16.0)	(-4.0)	2.4	-6.4	-16.8	-17.4
	Malaysia	7.7	(-4.8)	(-0.3)	6.9	-2.8	-6.8	-8.6
	Philippines	5.1	(-0.5)	(0.7)	4.8	1.7	-0.8	-0.1

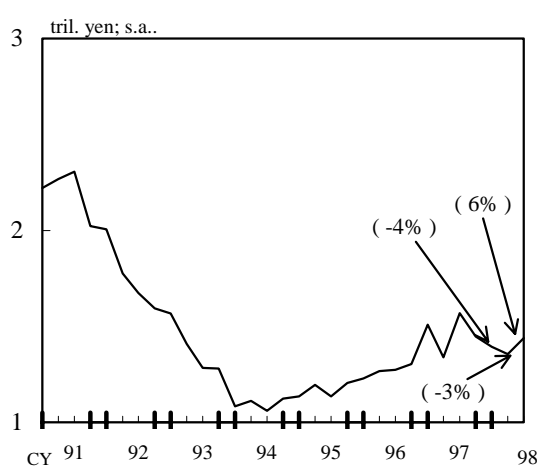
Notes: 1. Quarterly data are quarter-to-quarter percent changes.
 2. Quarterly data are percent changes from a year earlier.
 3. Forecasts by "BLUE CHIP ECONOMIC INDICATORS" and "CONSENSUS FORECASTS" are shown in brackets.

Business Fixed Investments by Industry and Scale

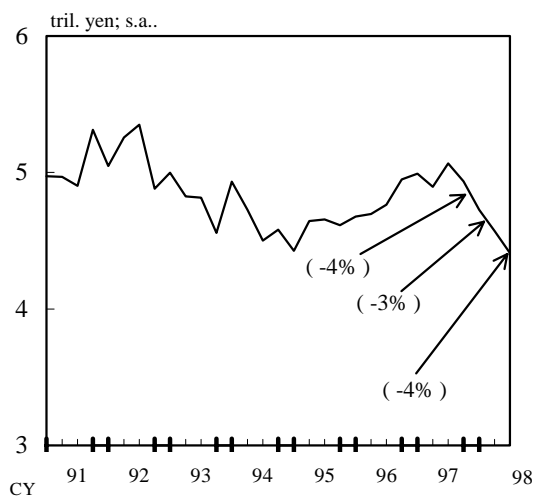
Manufacturing large enterprises



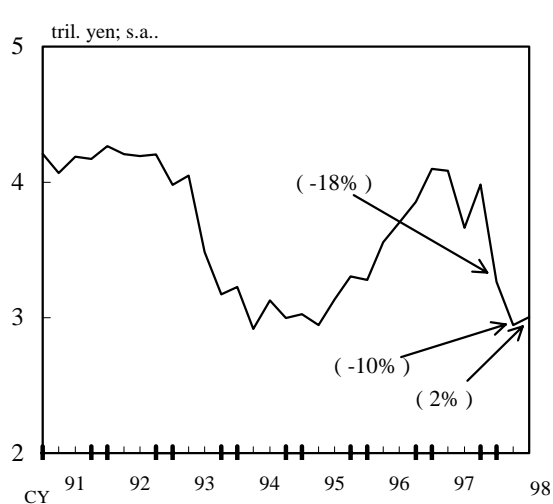
Manufacturing medium and small enterprises



Nonmanufacturing large enterprises



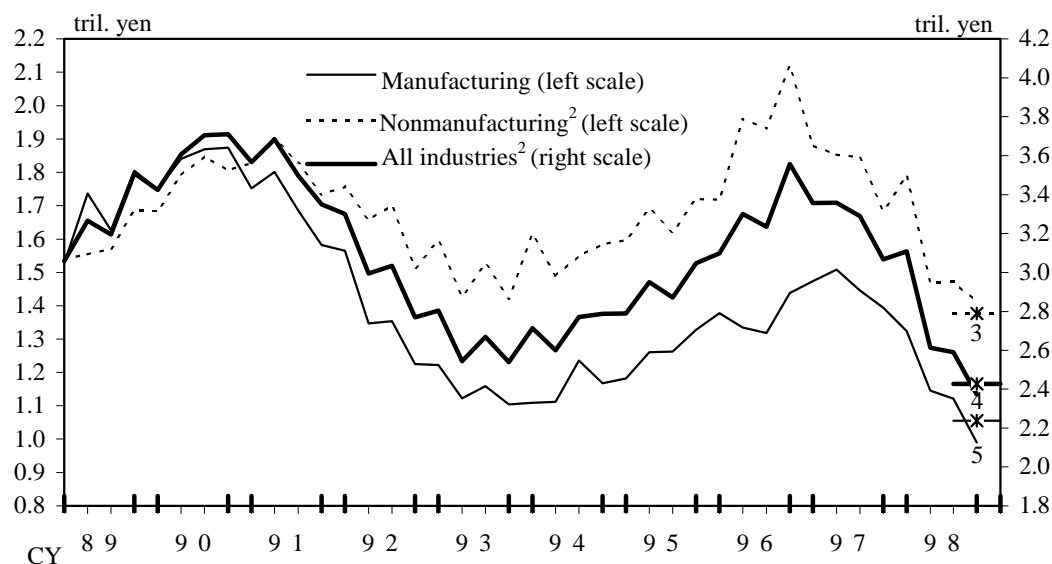
Nonmanufacturing medium and small enterprises



Note: Figures in parentheses are the seasonally adjusted growth rates in 98/Q1, Q2 and Q3.

Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Major Indexes of Business Fixed Investment

(1) Machinery Orders¹

Notes: 1. Seasonally adjusted data.

Figures for 1998/Q4 are those of October 98.

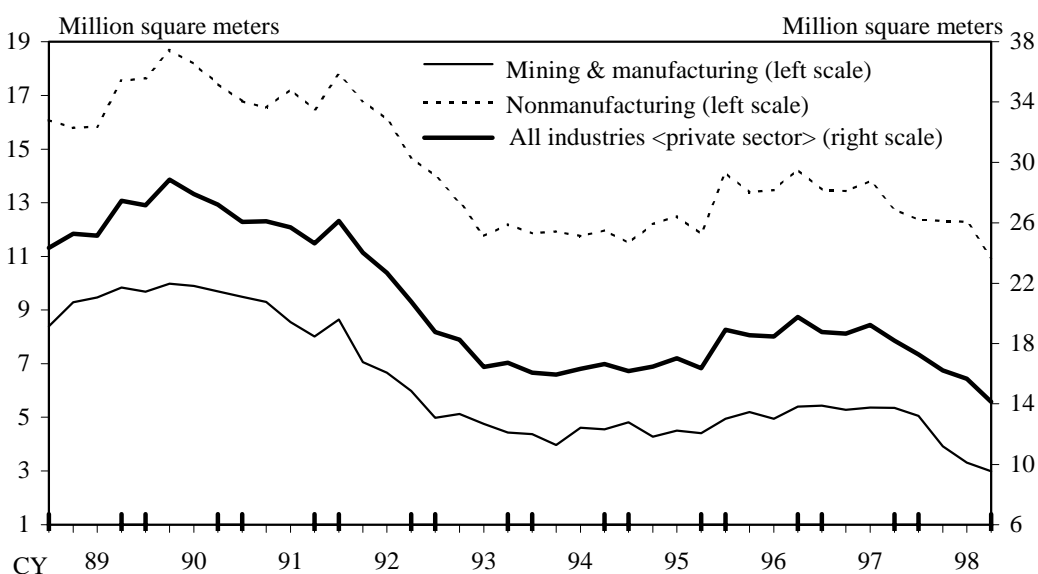
2. Excludes orders from electric power companies, and shipbuilding orders.

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)



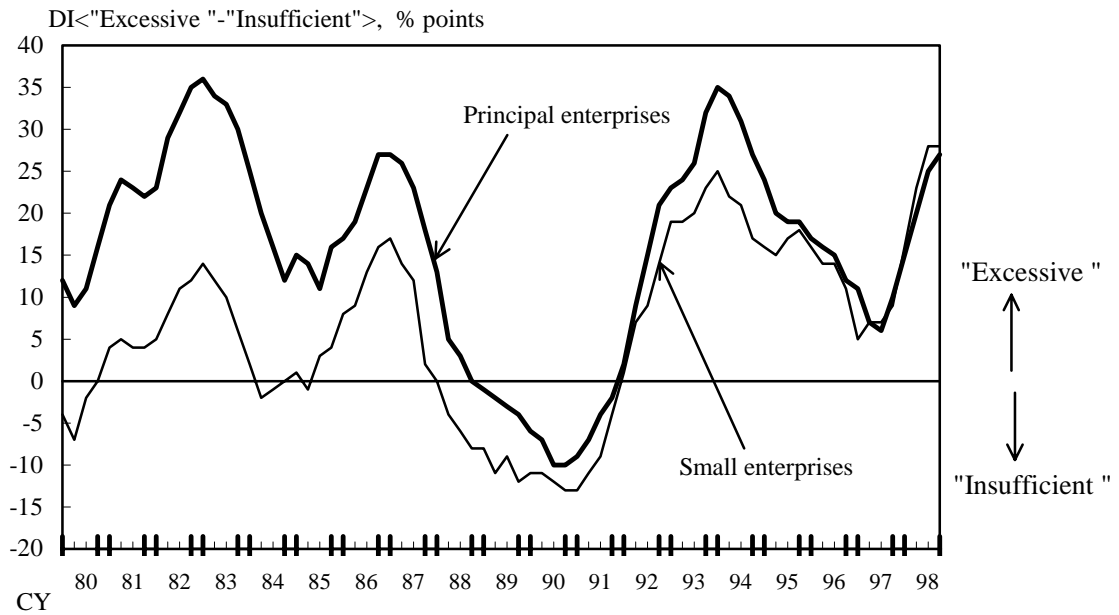
Notes: 1. Seasonally adjusted by X-11.

2. Figures for 1998/Q4 are those of October 98.

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

Production Capacity Indicators in *Tankan* (December 1998)

Operating Ratio and Production Capacity DI (Manufacturing Industries)

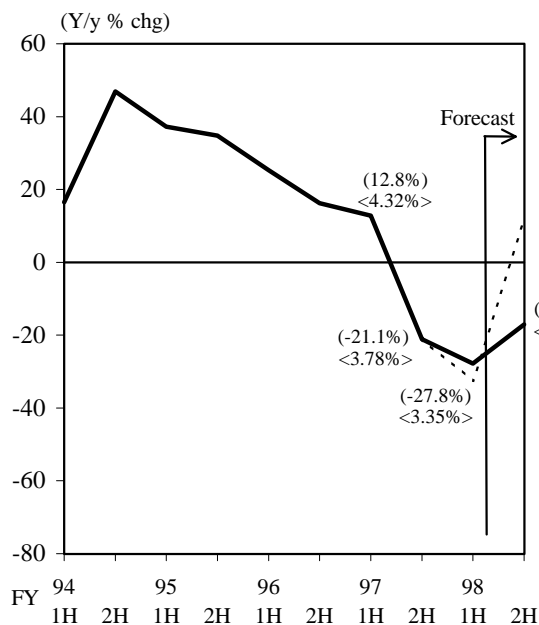


Source: Bank of Japan, "*Tankan* - Short-Term Economic Survey of Enterprises in Japan."

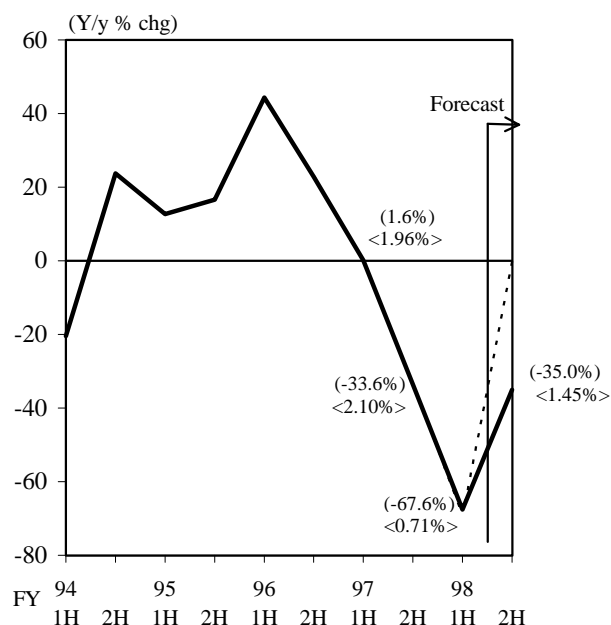
Current Profits as Surveyed in *Tankan* (December 1998)

(1) Manufacturing

Principal Enterprises (excluding petroleum refining)

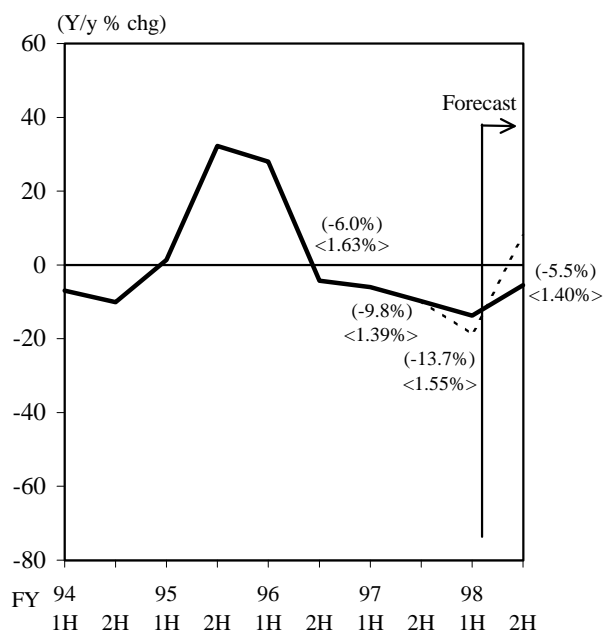


Small Enterprises

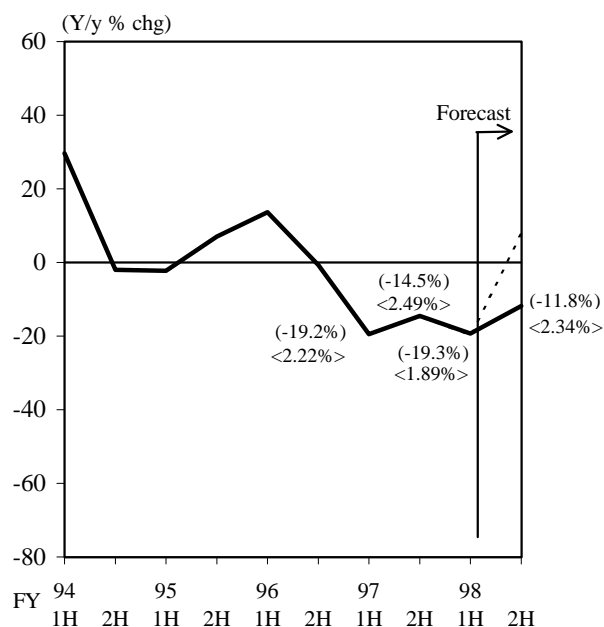


(2) Nonmanufacturing

Principal Enterprises (excluding electric & gas utilities)



Small Enterprises

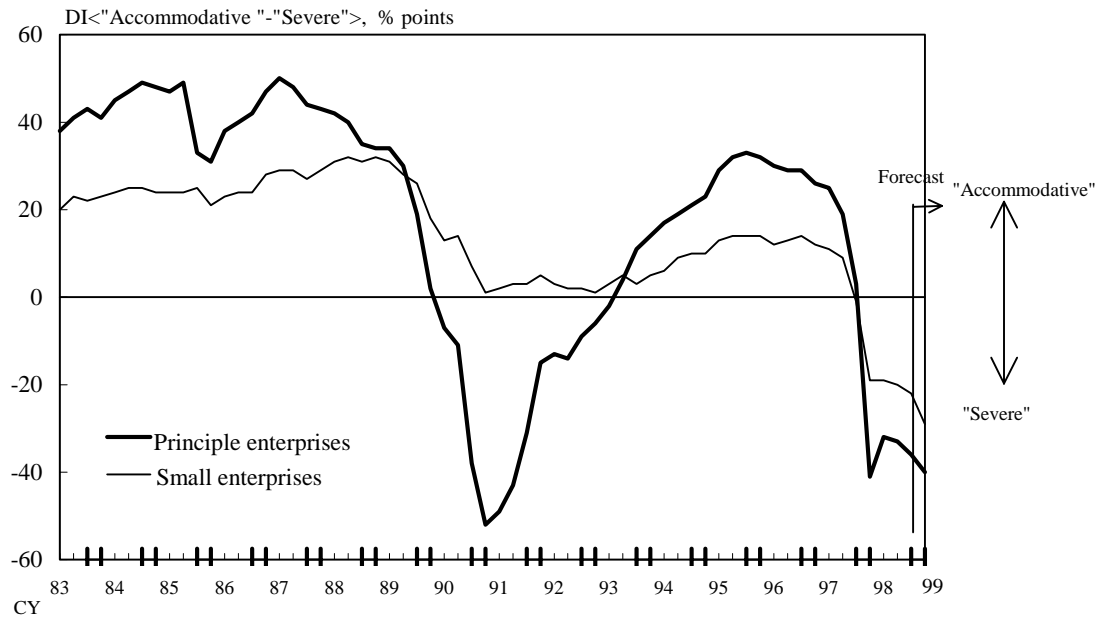


- Notes:1. Figures in parentheses are percent change from a year earlier.
- 2. Figures in brackets are current profit to sales ratio.
- 3. The dotted lines are projections in September 1998.

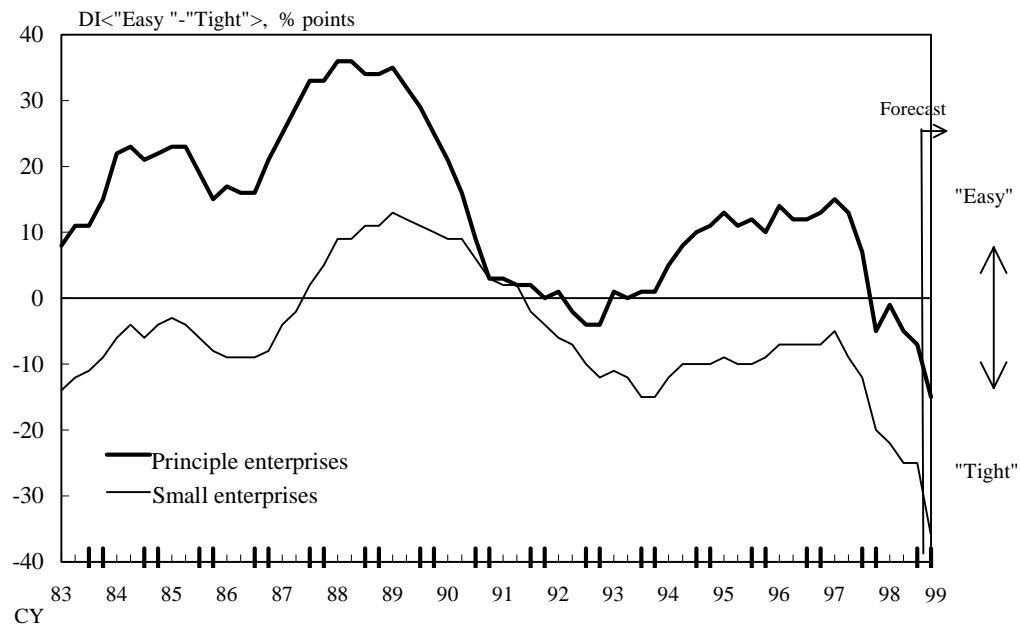
Source: Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan."

Corporate Finance-Related Indicators in *Tankan* (December 1998)

(1) Lending Attitude of Financial Institutions DI



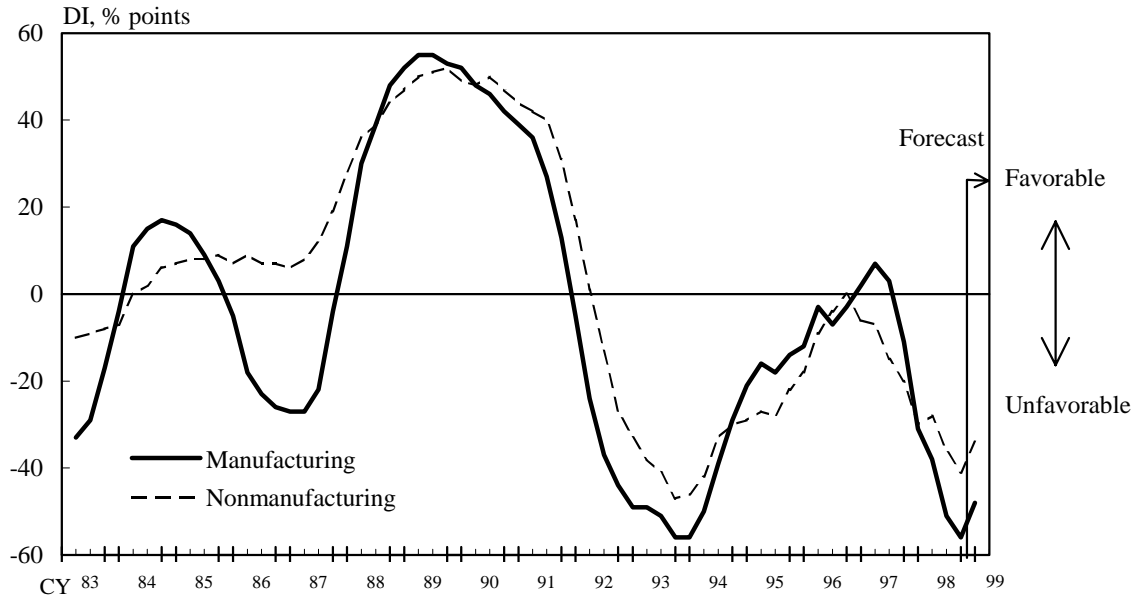
(2) Financial Position DI



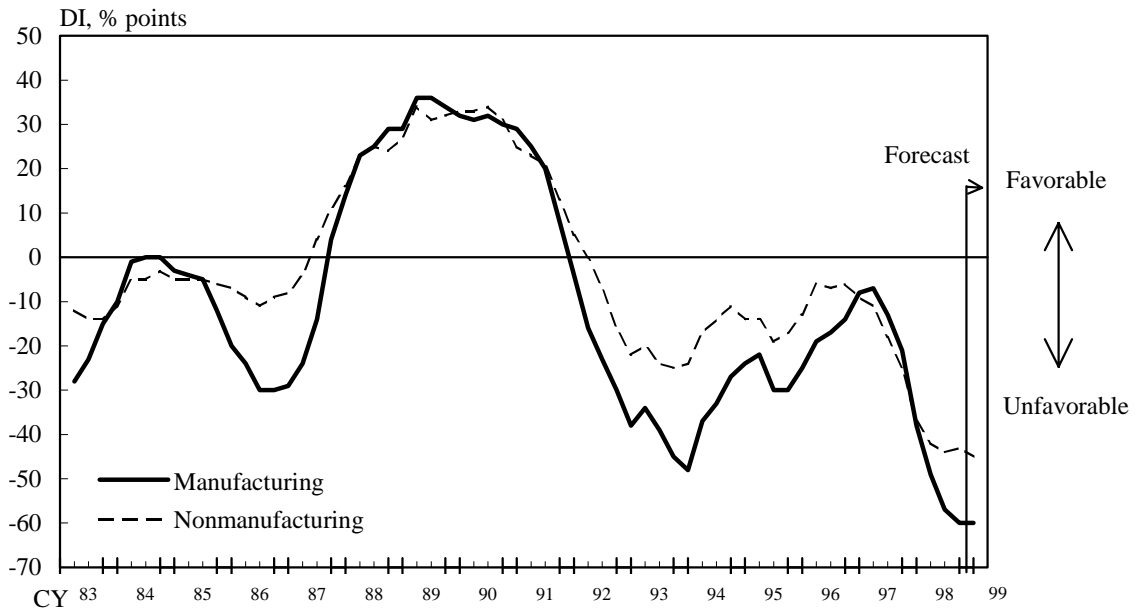
Source: Bank of Japan, "*Tankan* - Short-Term Economic Survey of Enterprises in Japan."

Business Conditions in *Tankan* (December 1998)

(1) Principal Enterprises



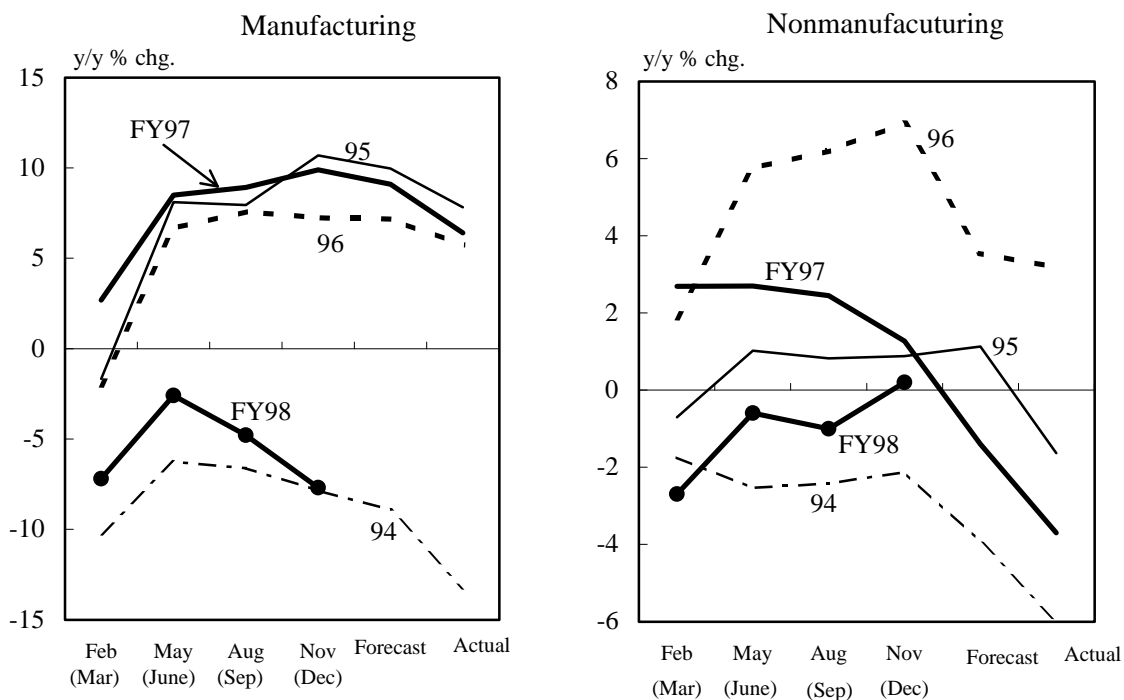
(2) Small Enterprises



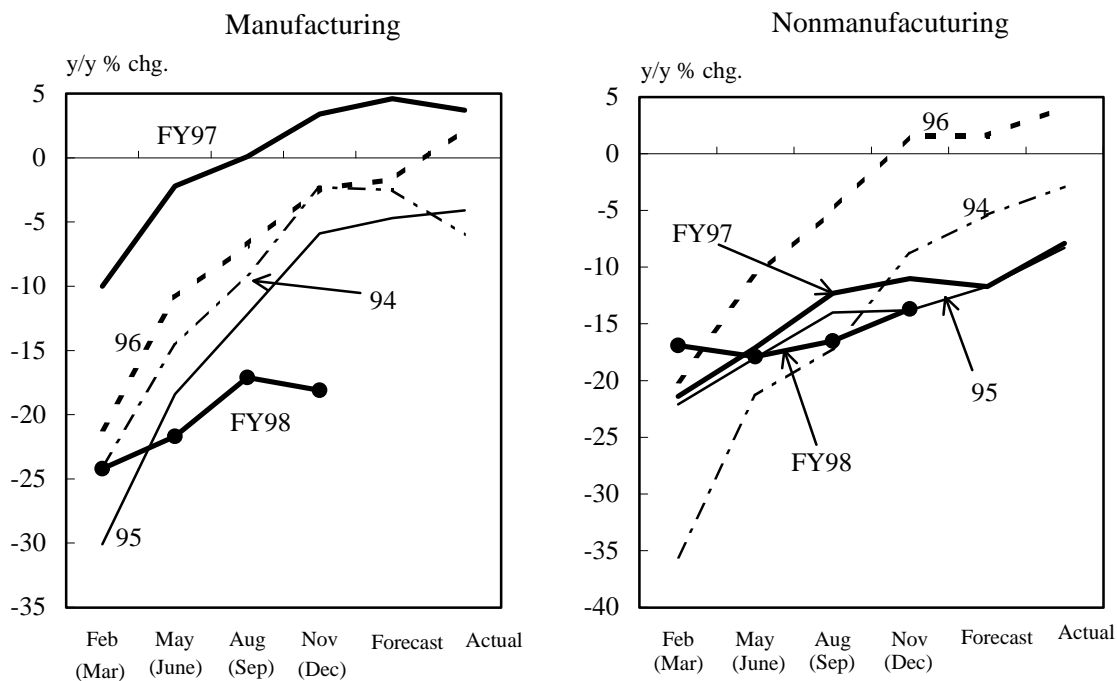
Source: Bank of Japan, "*Tankan*— Short-Term Economic Survey of Enterprises in Japan."

Business Fixed Investment Plans as Surveyed in *Tankan* (December 1998)

(1) Adjustment of Plans by Principal Enterprises



(2) Adjustment of Plans by Small Enterprises

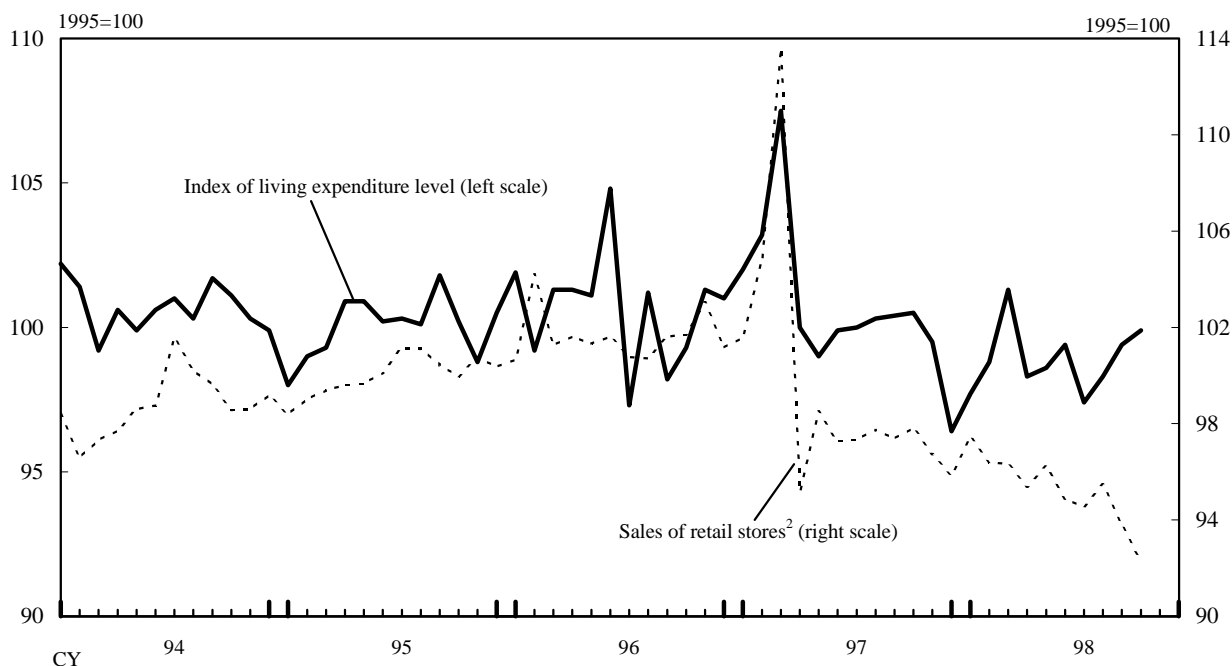


Note: Surveys are conducted in March, September and December from March 1997, instead of February, May, August and November.

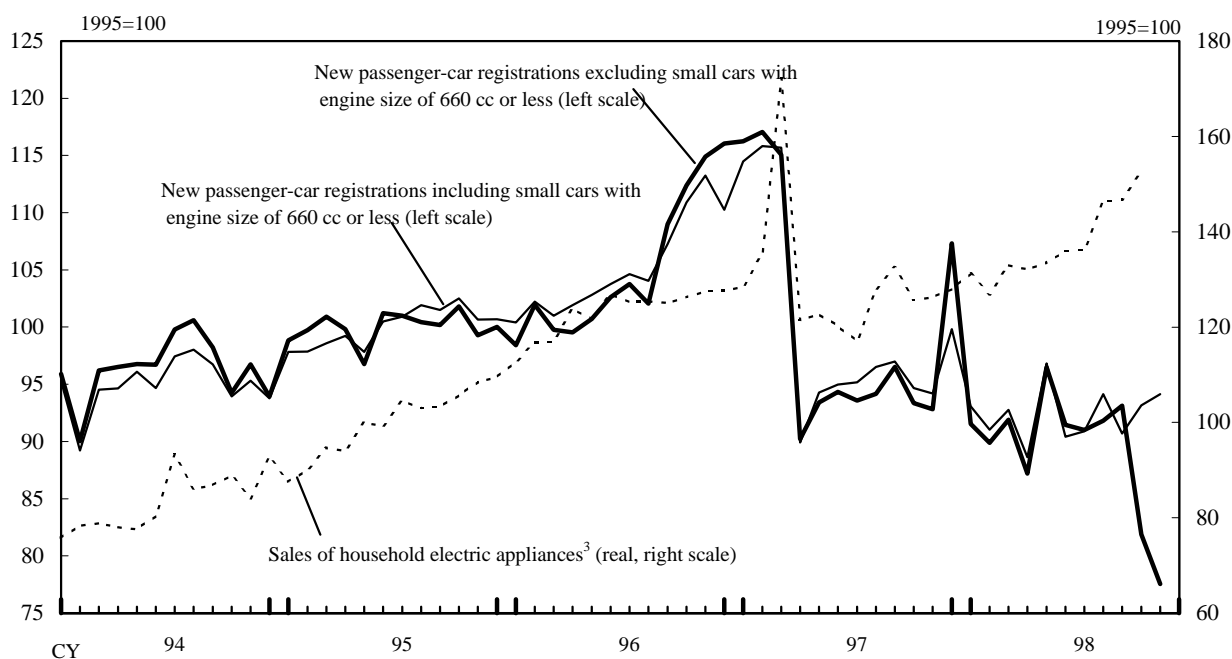
Source: Bank of Japan, "*Tankan* -Short-Term Economic Sueuey of Enterprises in Japan."

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).

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

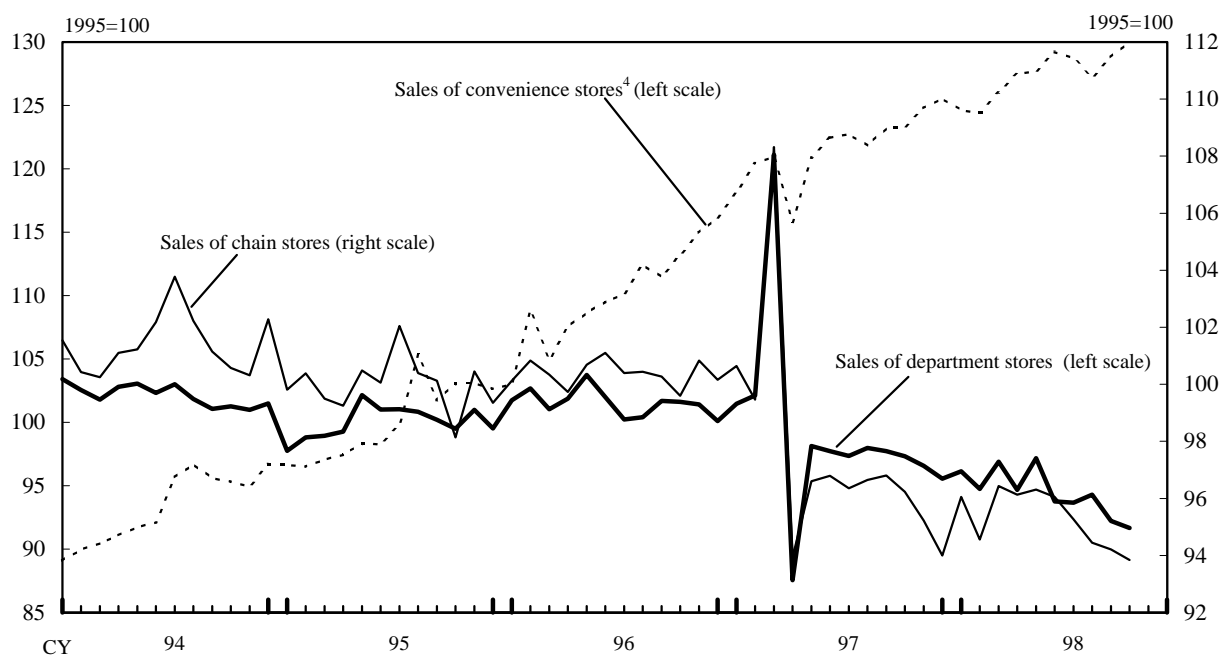
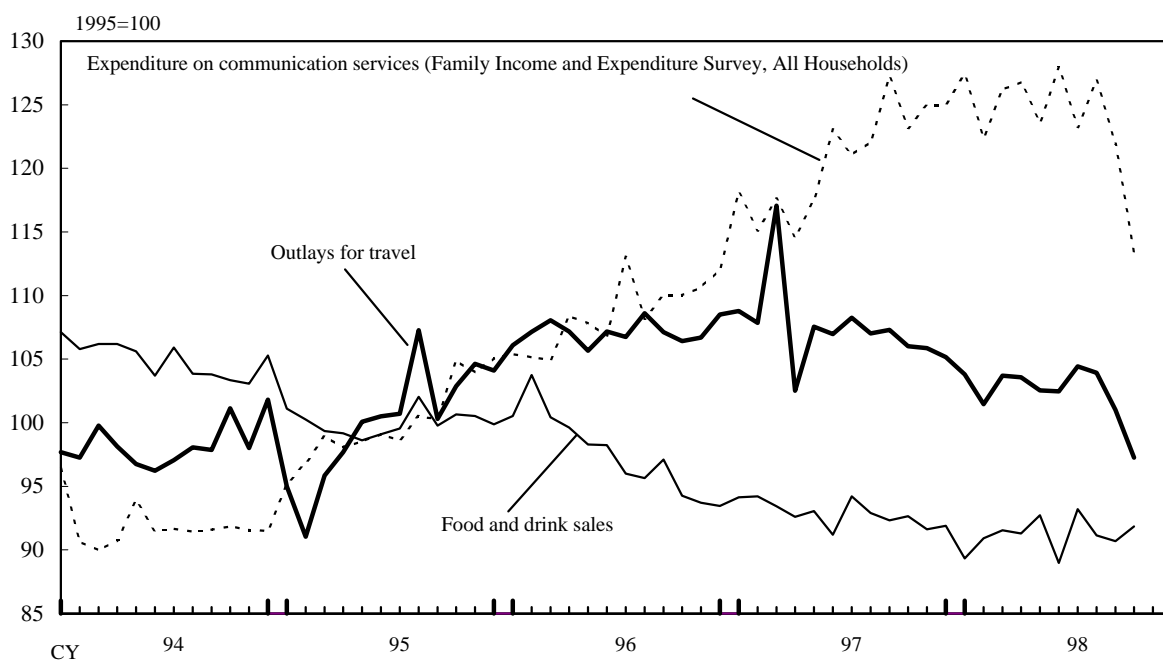
Ministry of International Trade and Industry, "Current Survey of Commerce";

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

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

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

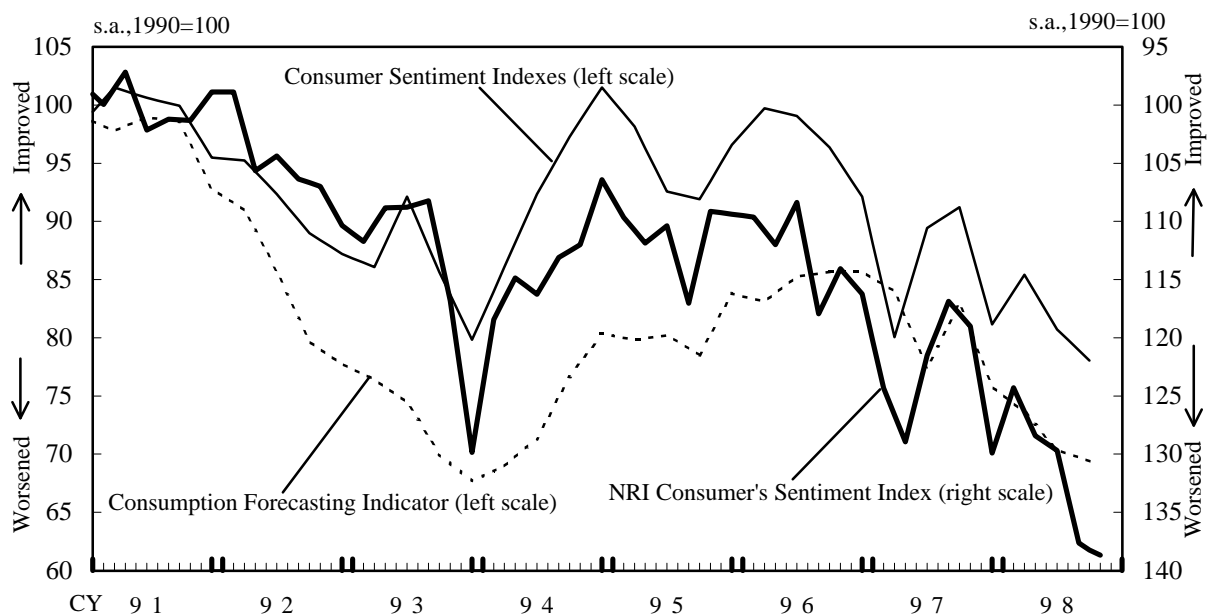
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

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

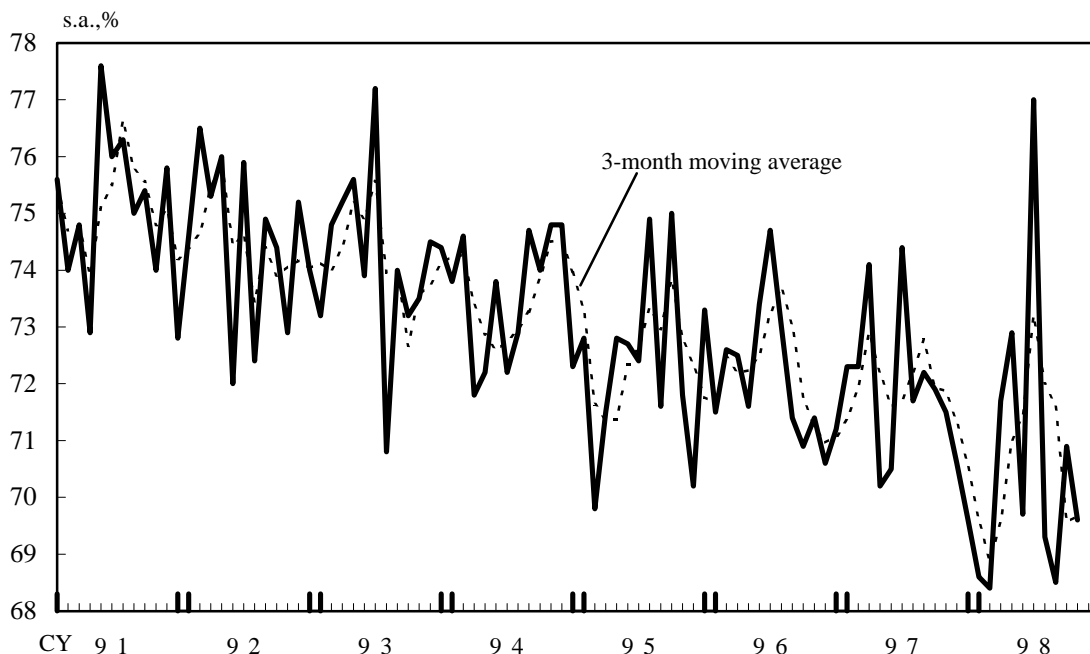
Consumer Confidence and Propensity to Consume

(1) Surveys on consumer confidence



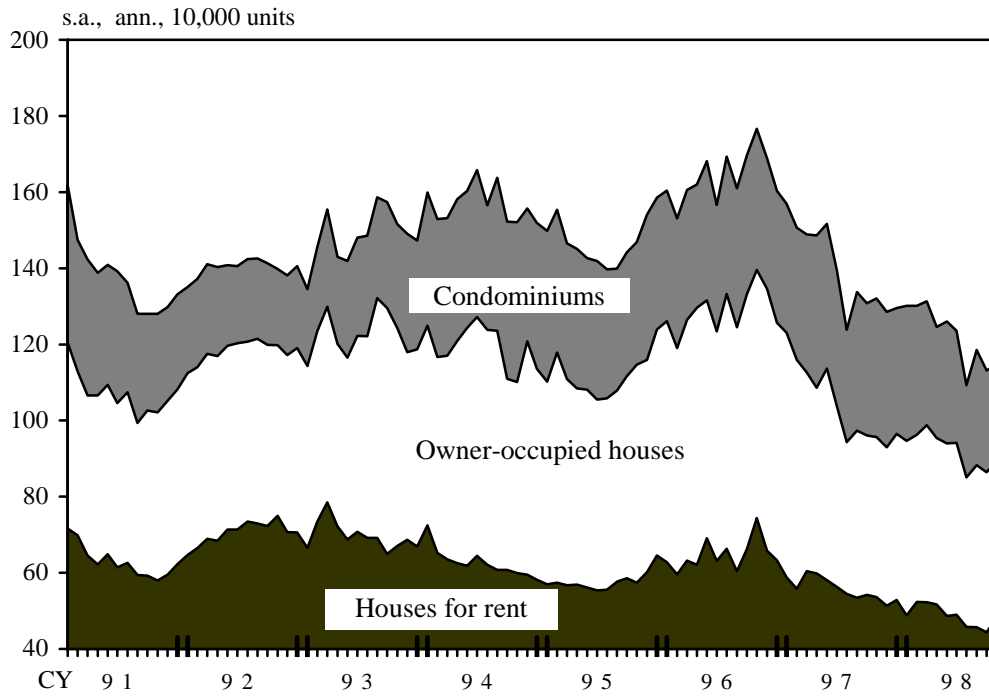
- Notes: 1. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.
 2. Data are plotted at the months of each survey.
 3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumption Forecasting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

(2) 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."

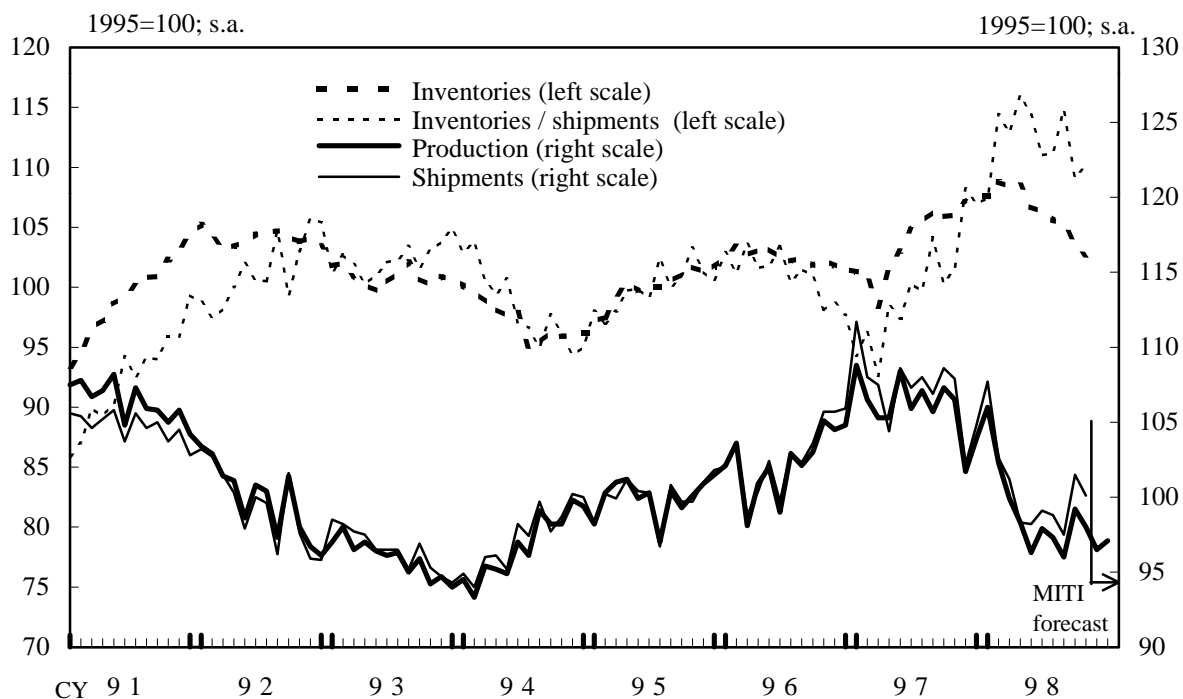
Housing Starts



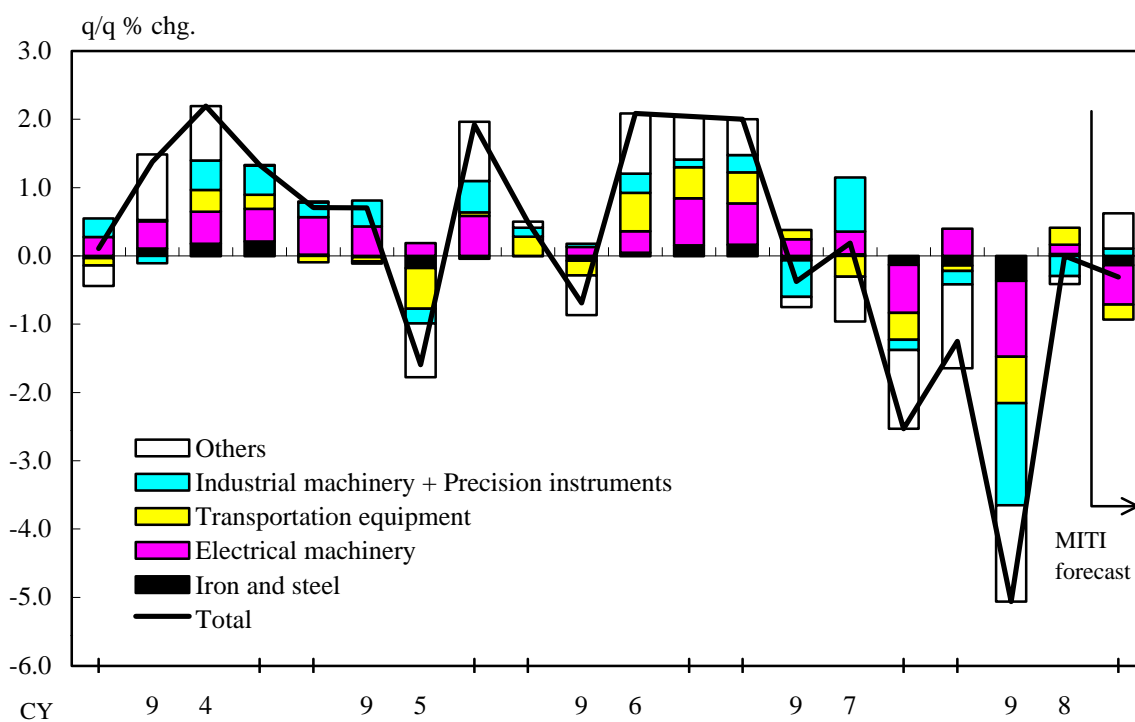
Source: Ministry of Construction, "Monthly of Construction Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



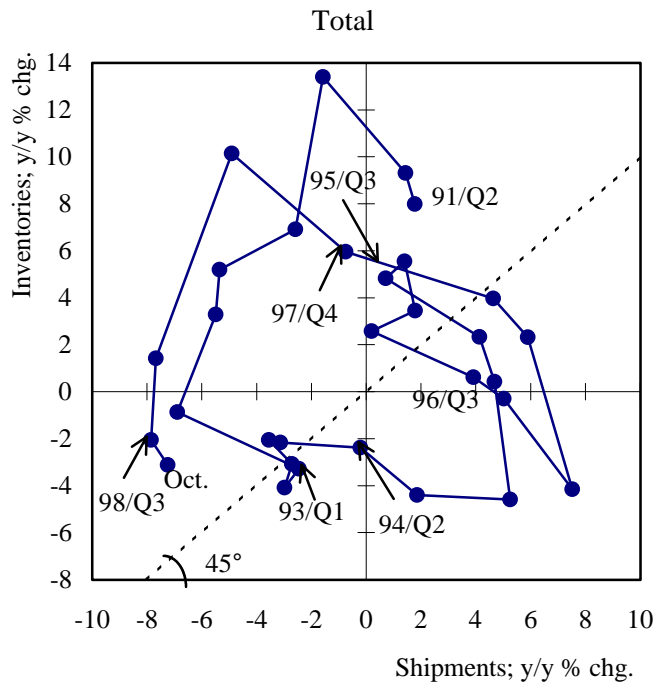
(2) Production by Industries



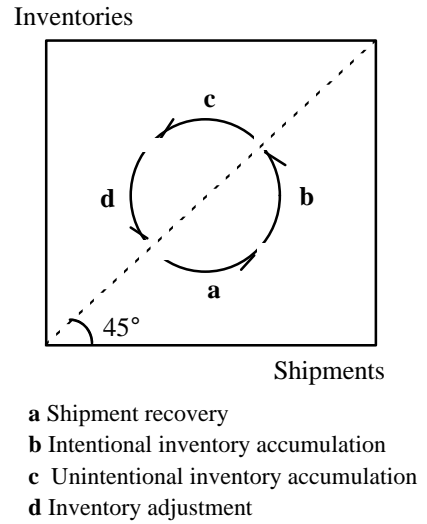
Note: Transportation equipment excludes ships and rolling stock.

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

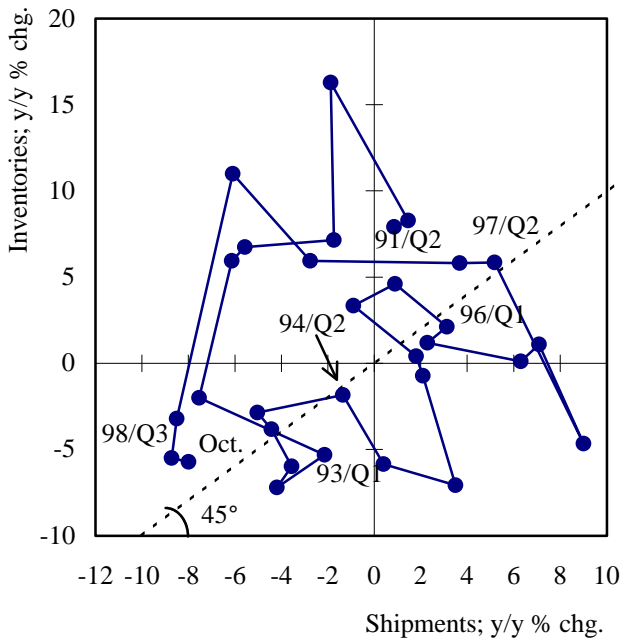
Inventory Cycle



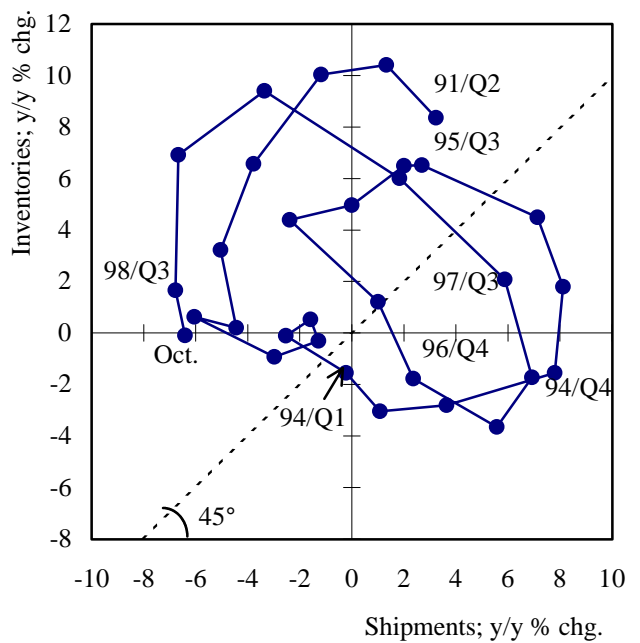
Phases in the Inventory Cycle



Final Demand Goods



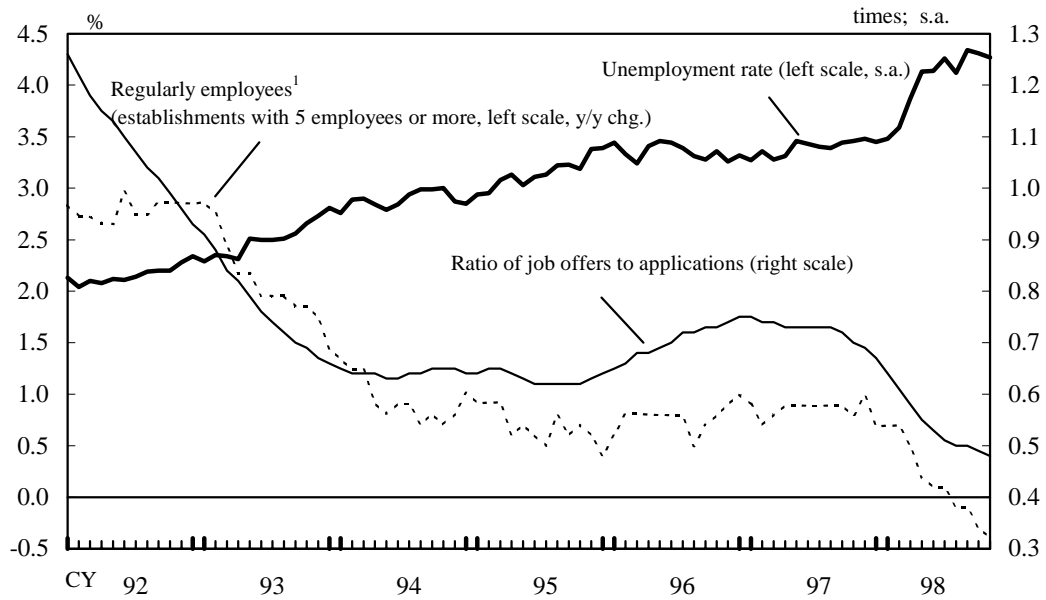
Production Goods



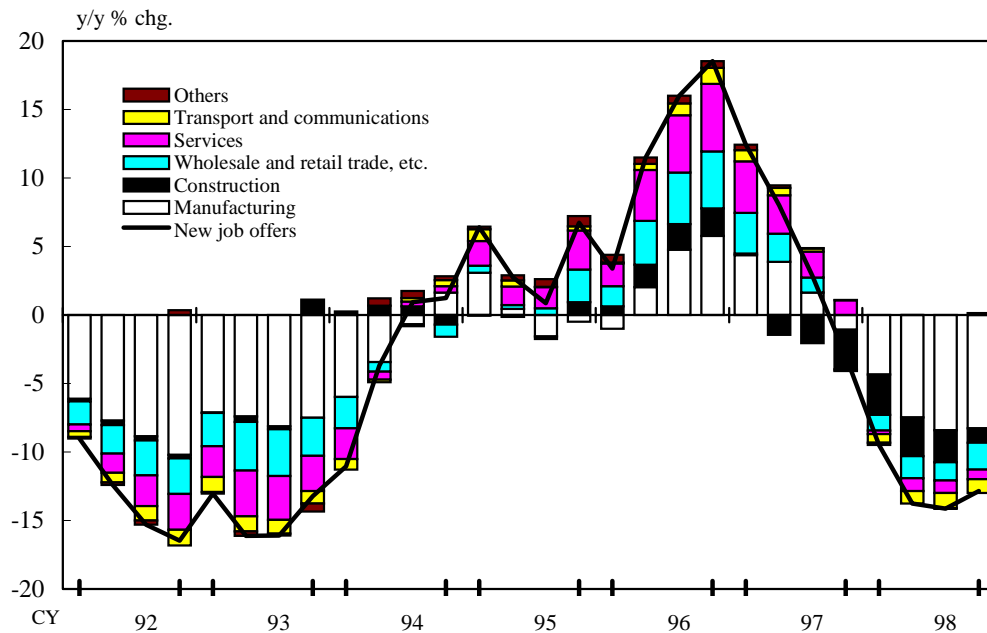
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



(2) New Job Offers²



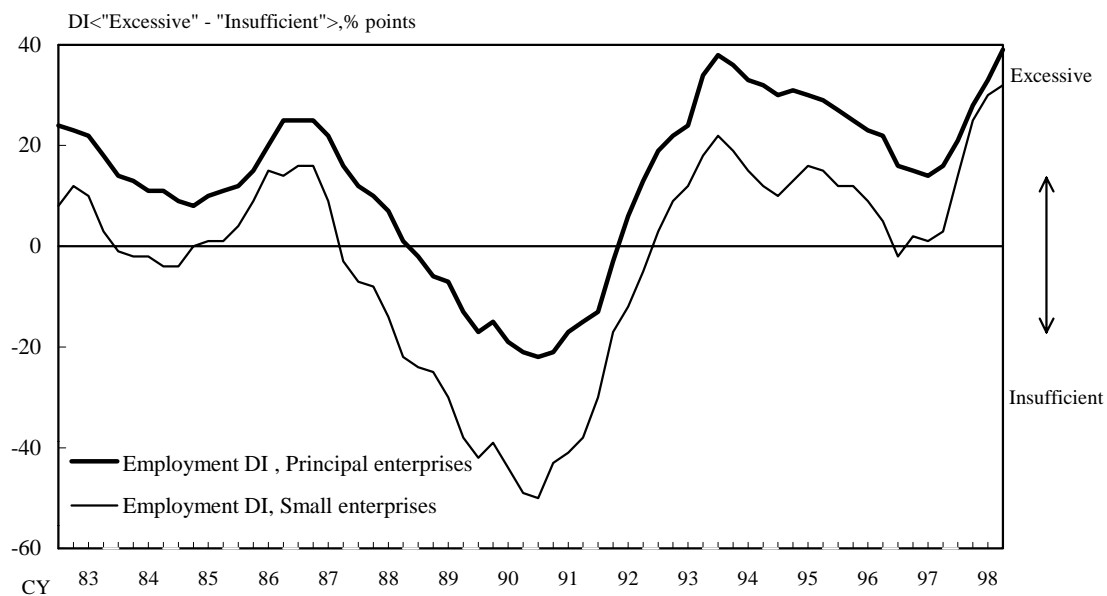
Notes: 1. The data of regular employees in October 98 are preliminary.

2. Excludes jobs offered to new graduates. The data in 98/Q4 are those of October.

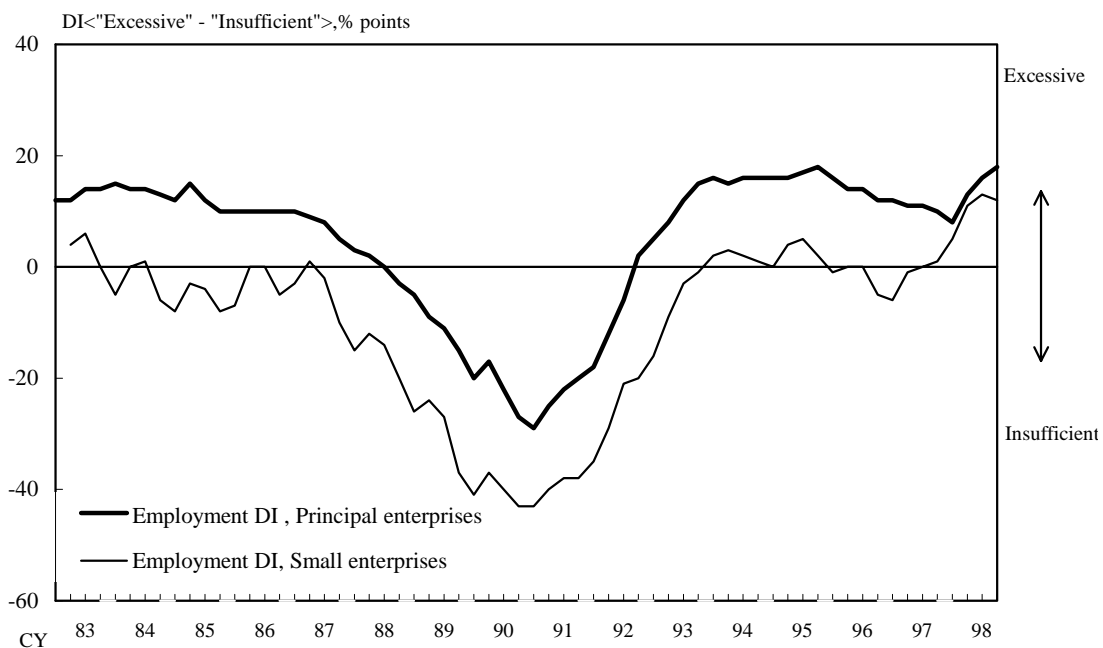
Sources: Ministry of Labor, "Monthly Labor Survey", "Report on Employment Service"; Management and Coordination Agency, "Labor Force Survey."

Employment Conditions in *Tankan* (December 1998)

(1) Manufacturing



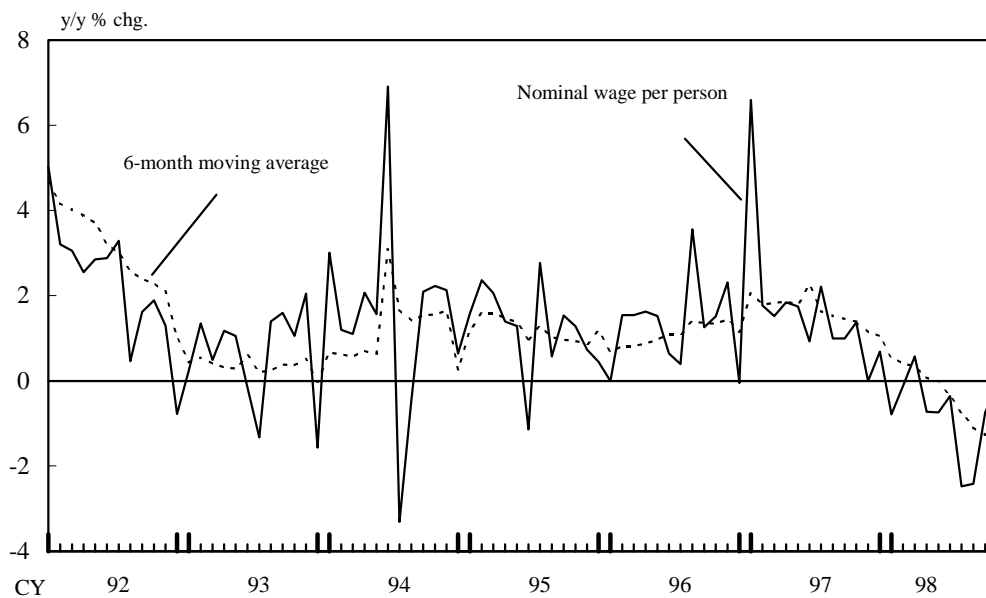
(2) Nonmanufacturing



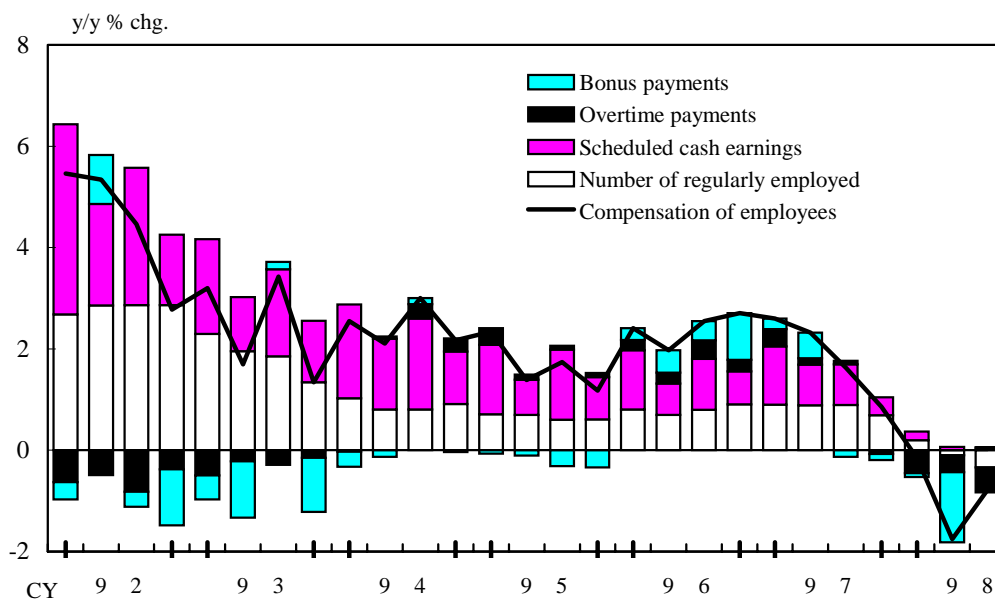
Source: Bank of Japan, "*Tankan* Short-Term Economic Survey of Enterprises in Japan."

Compensation of Employees ¹

(1) Nominal Wage per Person



(2) Breakdown of Compensation ²



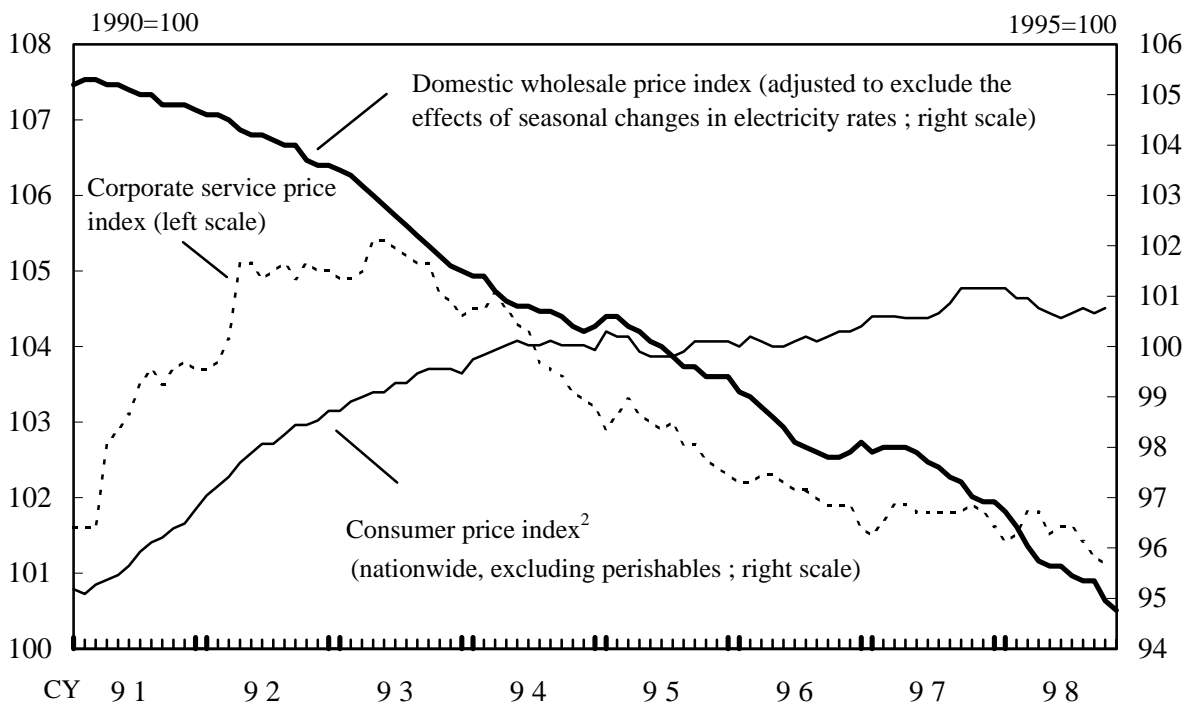
Notes: 1. Data for establishments with 5 employees or more. The data in October 98 are preliminary.

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

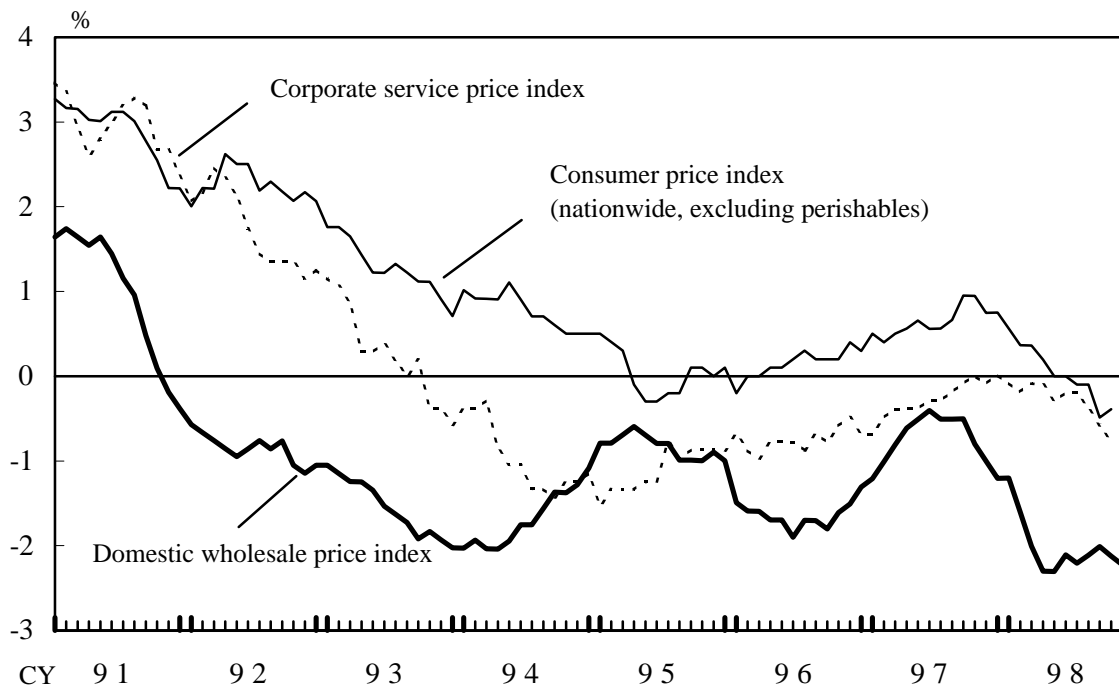
Source: Ministry of Labor, "Monthly Labor Survey."

Prices¹

(1) Level



(2) Changes from a year earlier



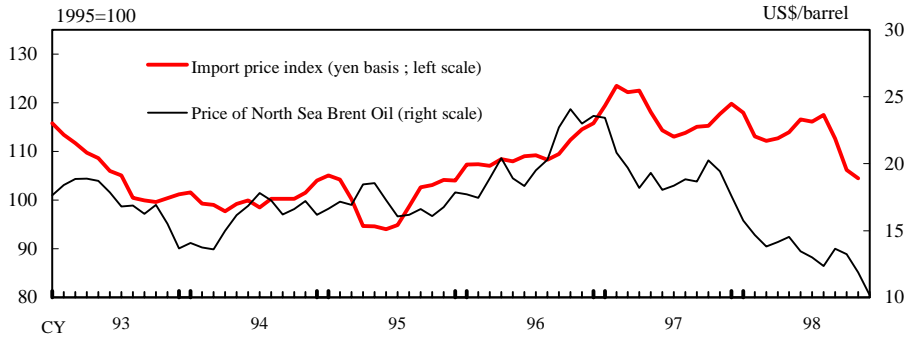
Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

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.

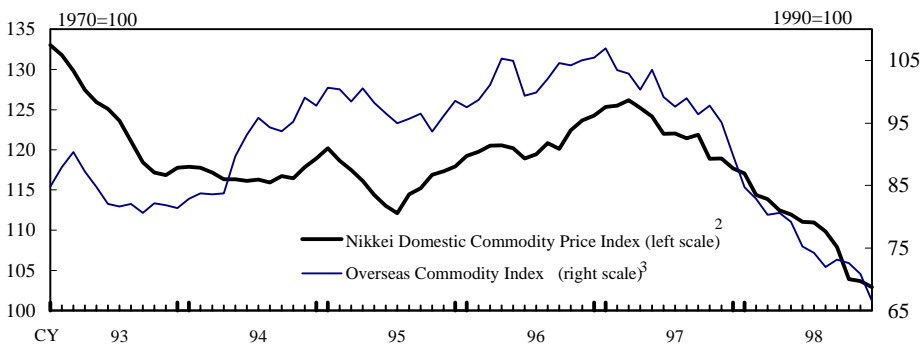
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Wholesale Price Indexes", "Corporate Service Price Index."

Import Prices and Domestic Wholesale Prices

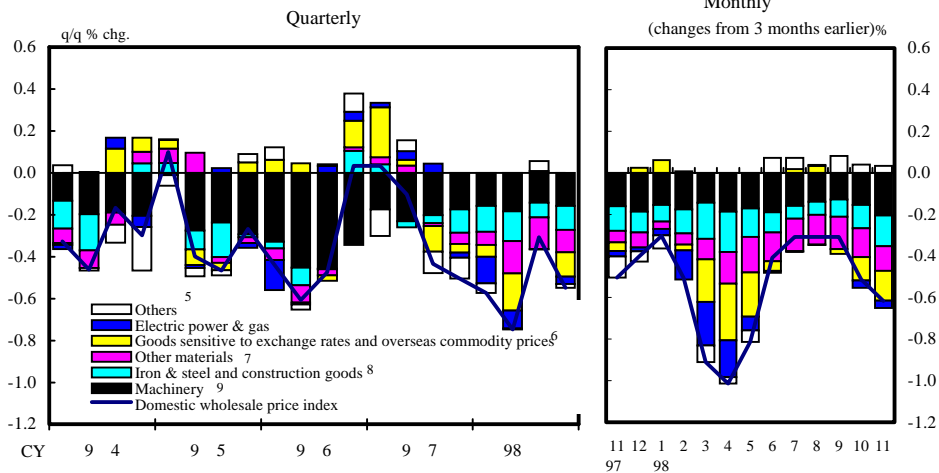
(1) Import Price Index (yen basis) and Crude Oil Price¹



(2) Domestic Commodity Market



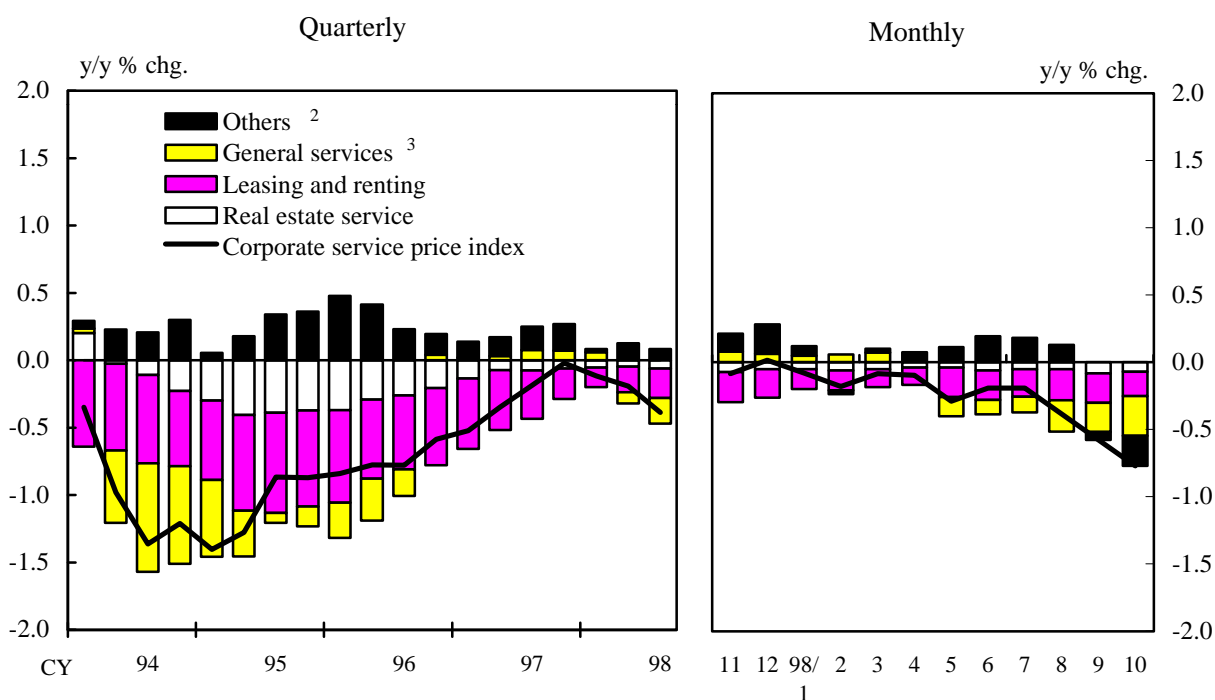
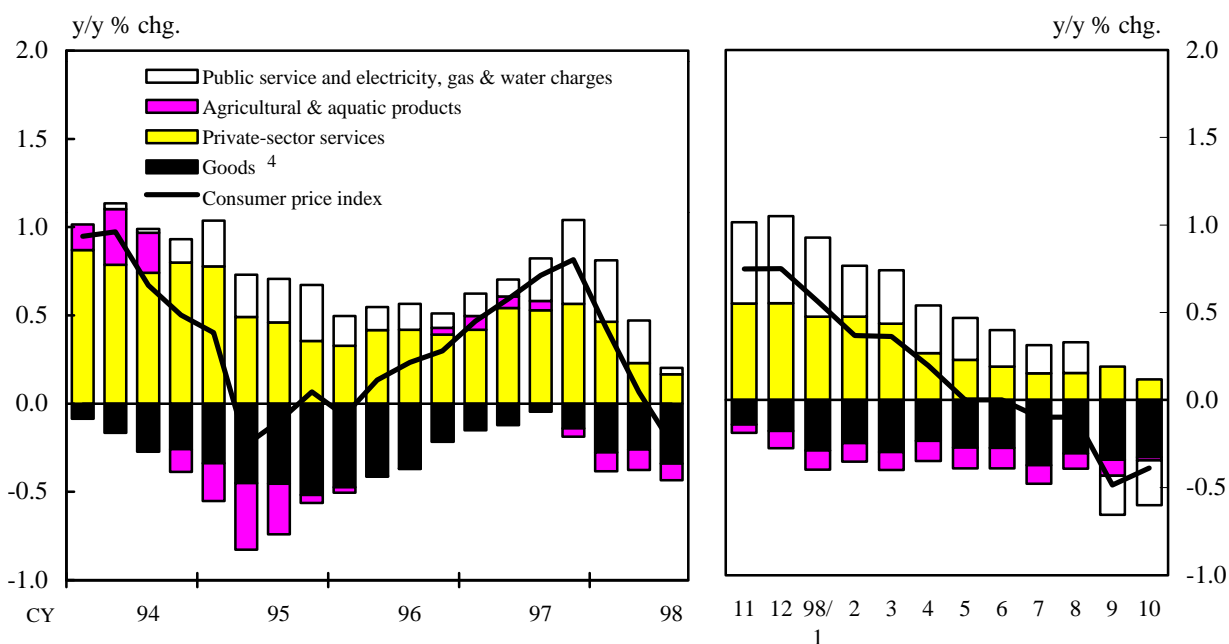
(3) Breakdown of Domestic Wholesale Price Index⁴



- Notes: 1. Data for Dec. 1998 are Dec. 1-11 average.
 2. Data for Dec. 1998 are as of Dec. 11.
 3. Calculated by the Research and Statistics Department, Bank of Japan. Data for Dec. 1998 are Dec. 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-Nov average.
 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 Shimbin 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.

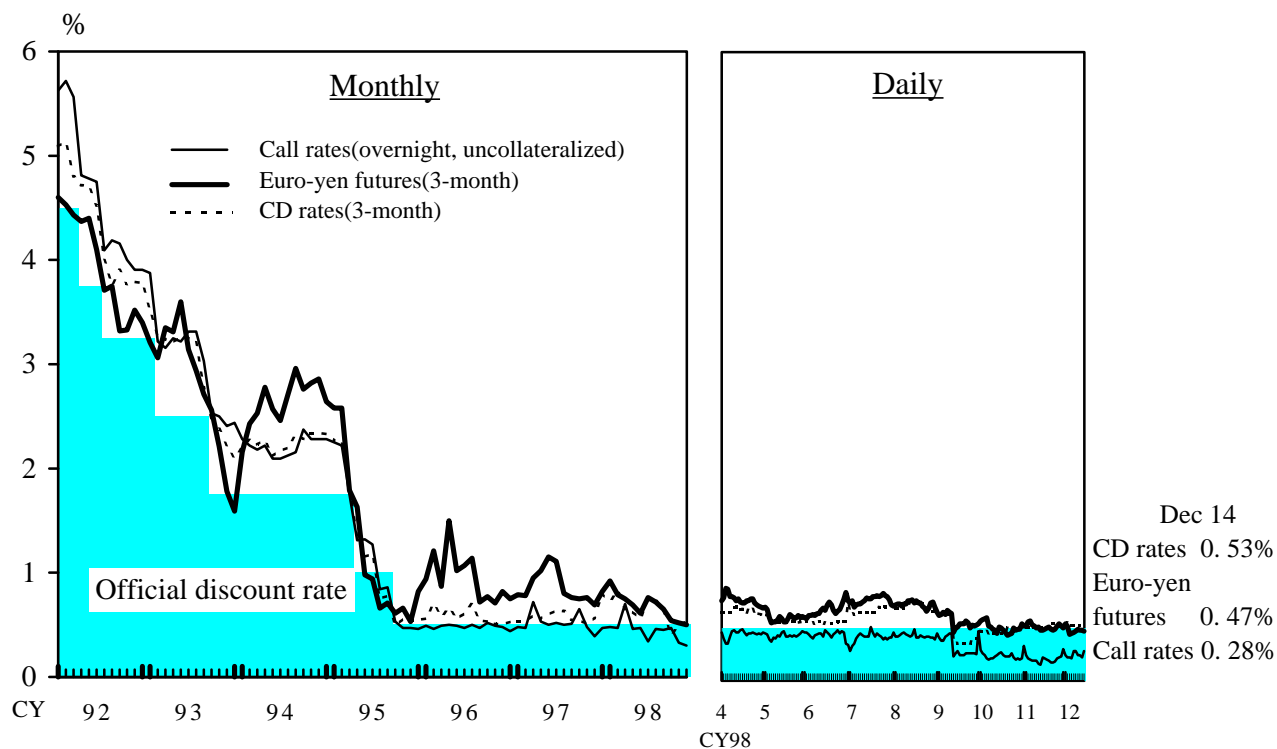
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

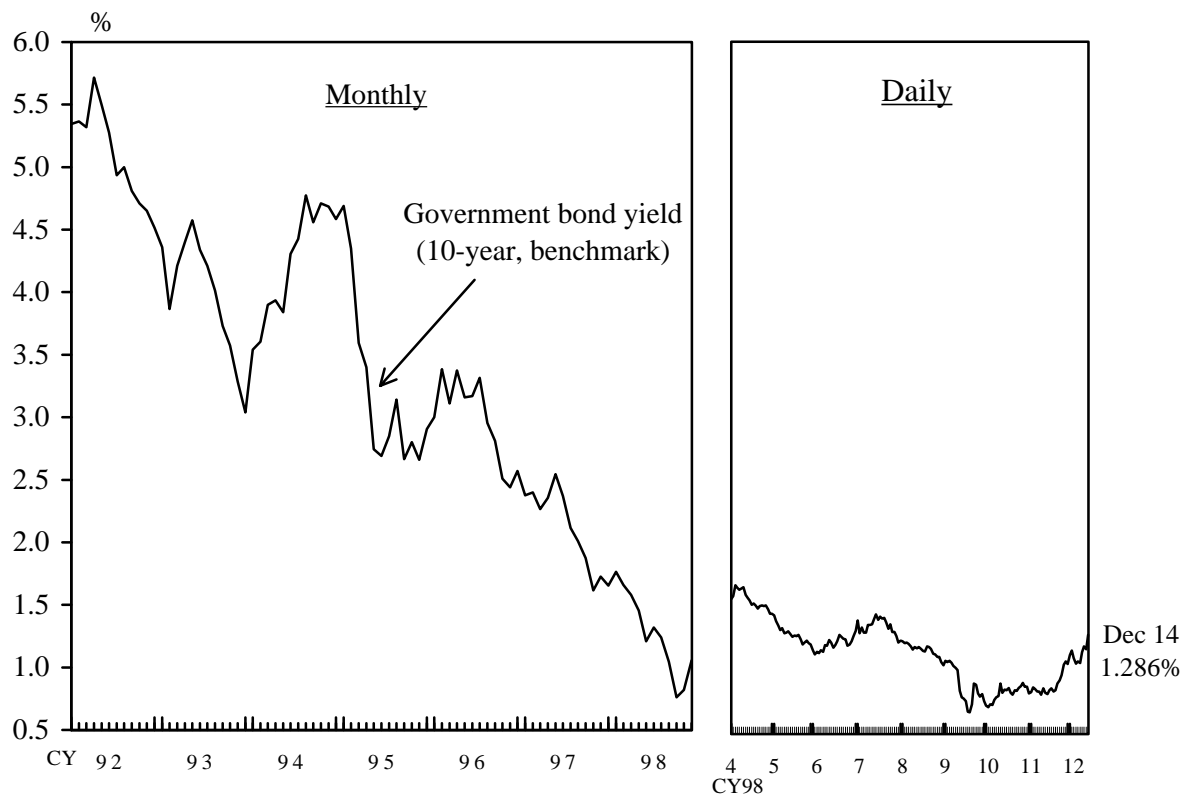
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Interest Rates

(1) Short-Term



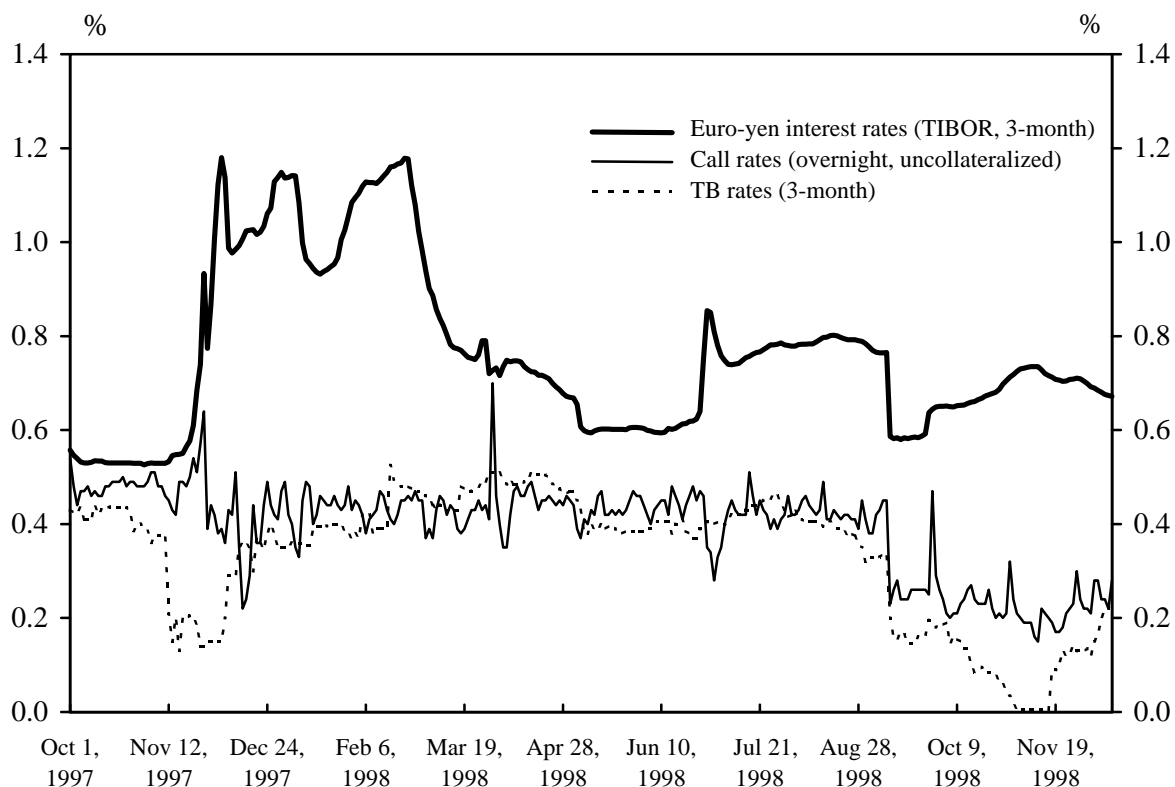
(2) Long-Term



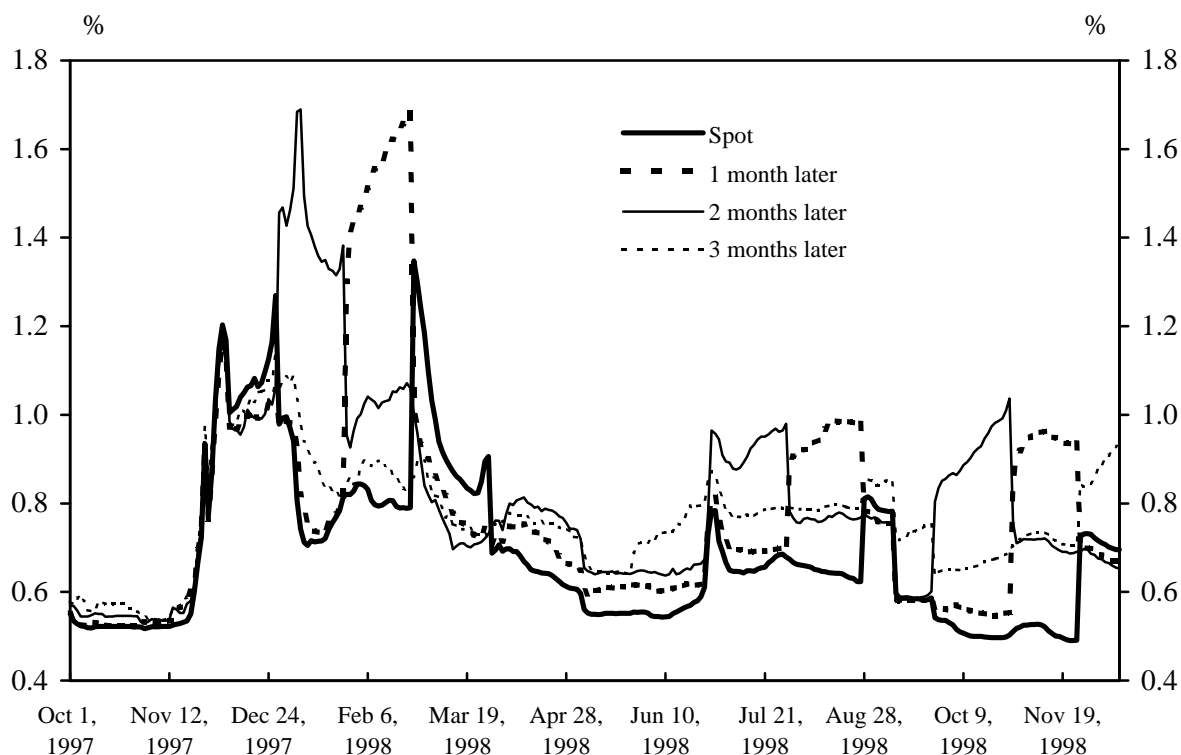
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

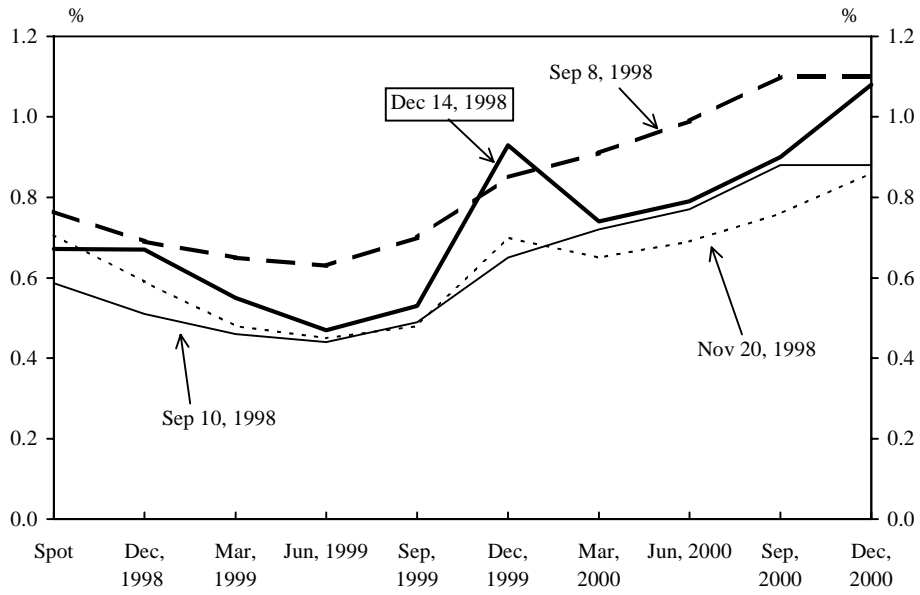


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



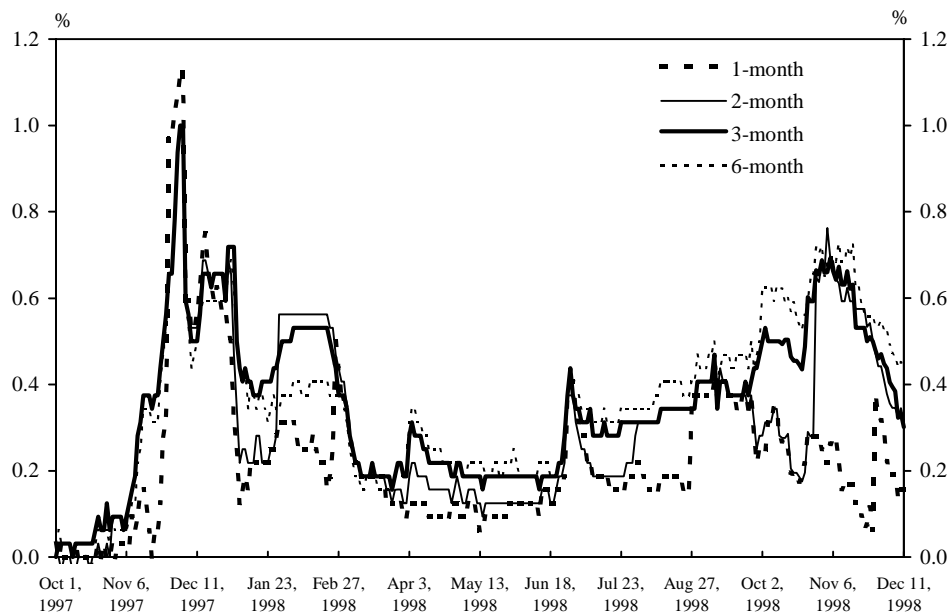
Sources: Bank of Japan, "Economic Statistics Monthly" ; *The Nikkei Financial Daily* .

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

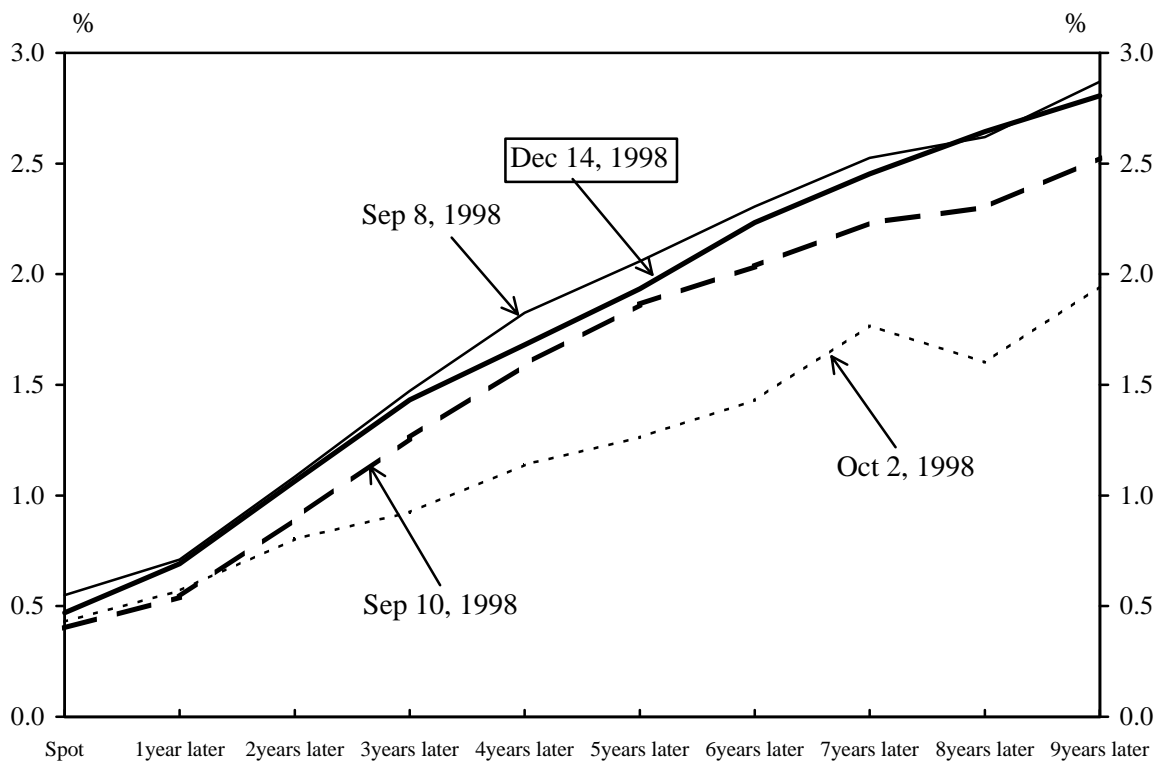
Japan Premium in the Eurodollar Market



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)

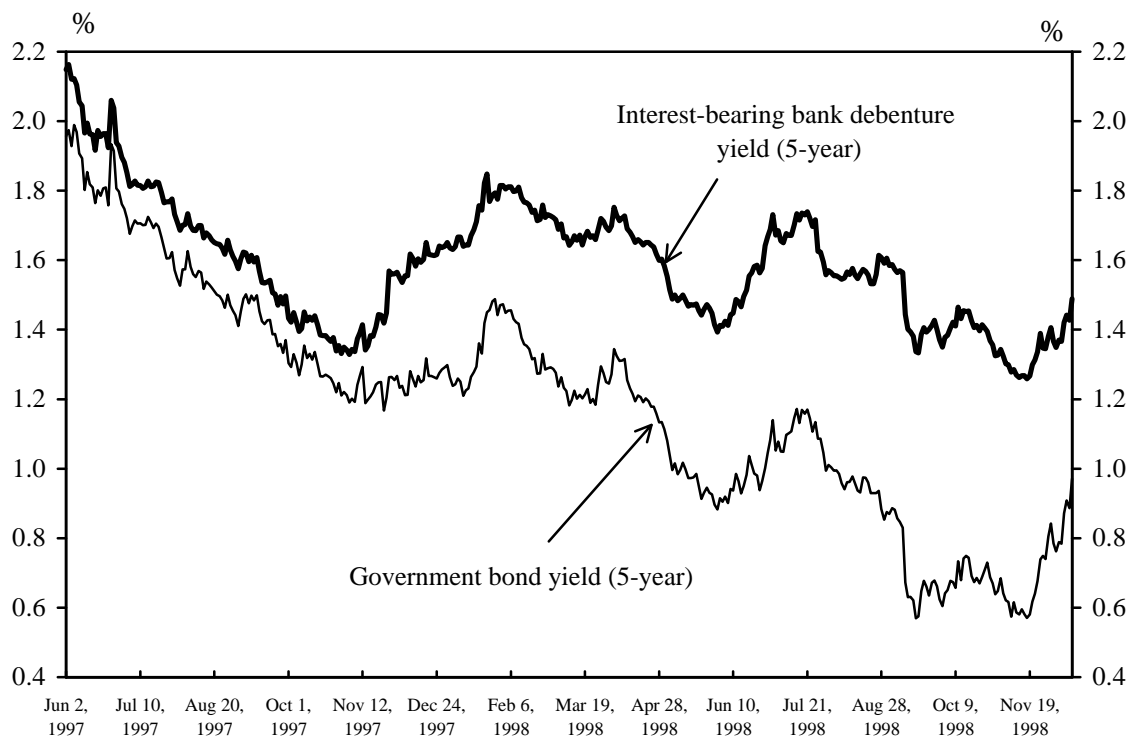


Note: Calculated from yen-yen swap rates.

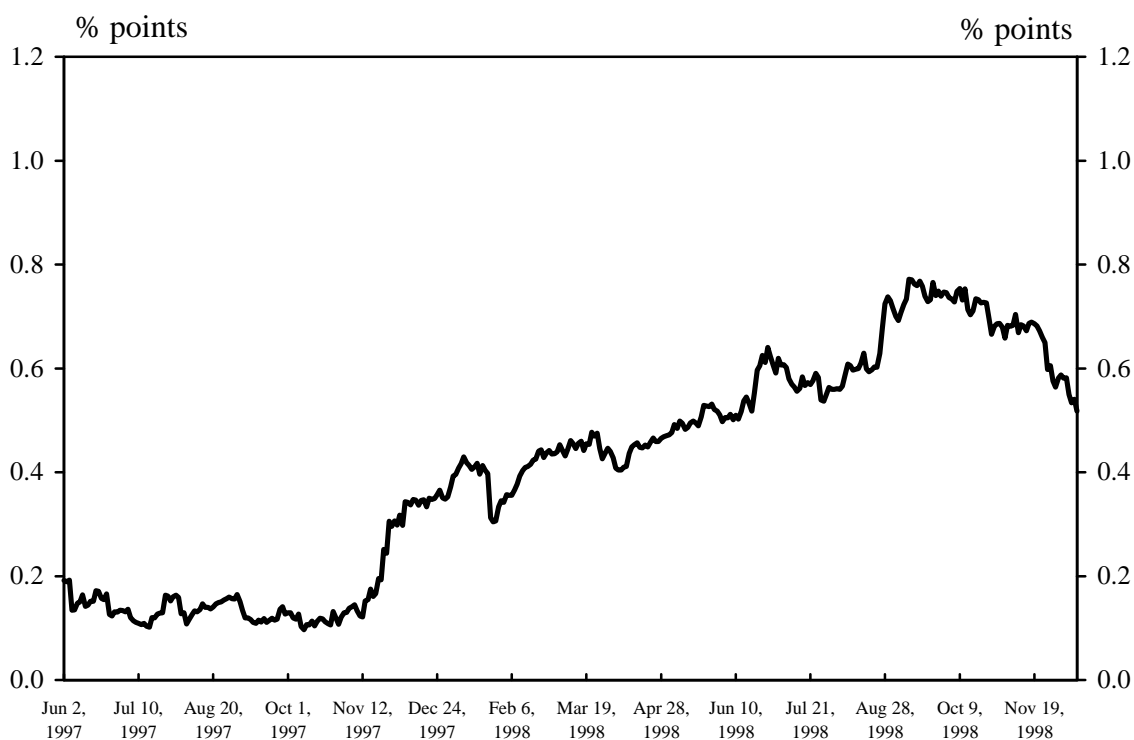
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



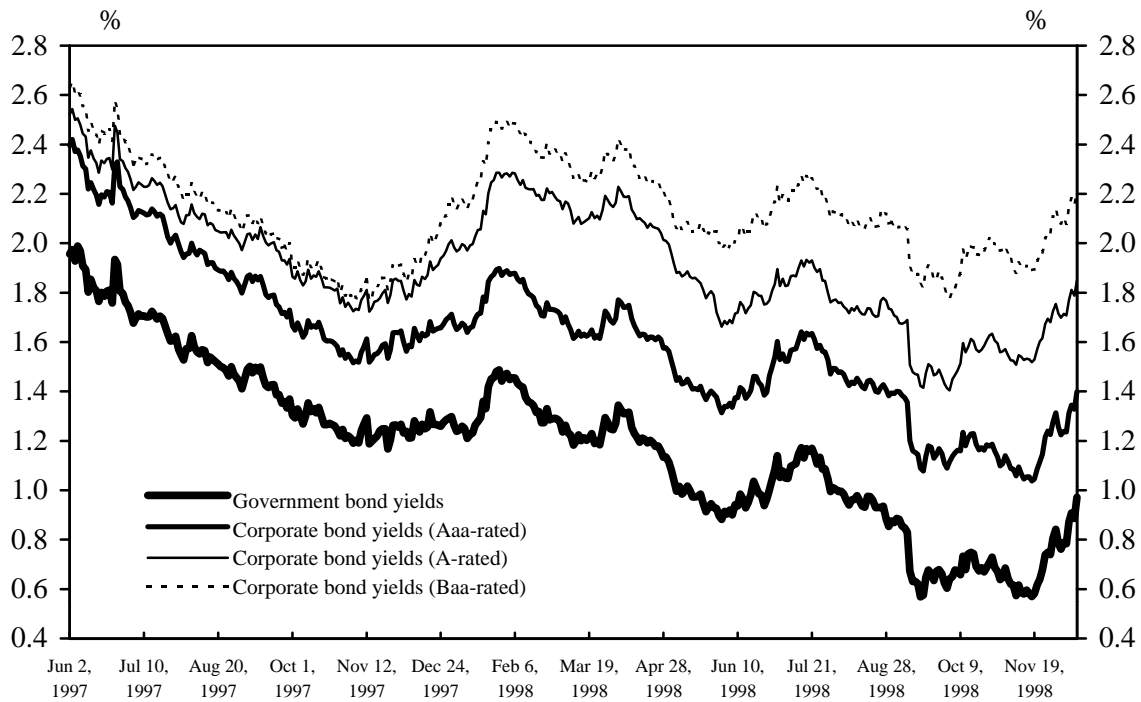
(2) Spread of Bank Debenture and Government Bond Yield



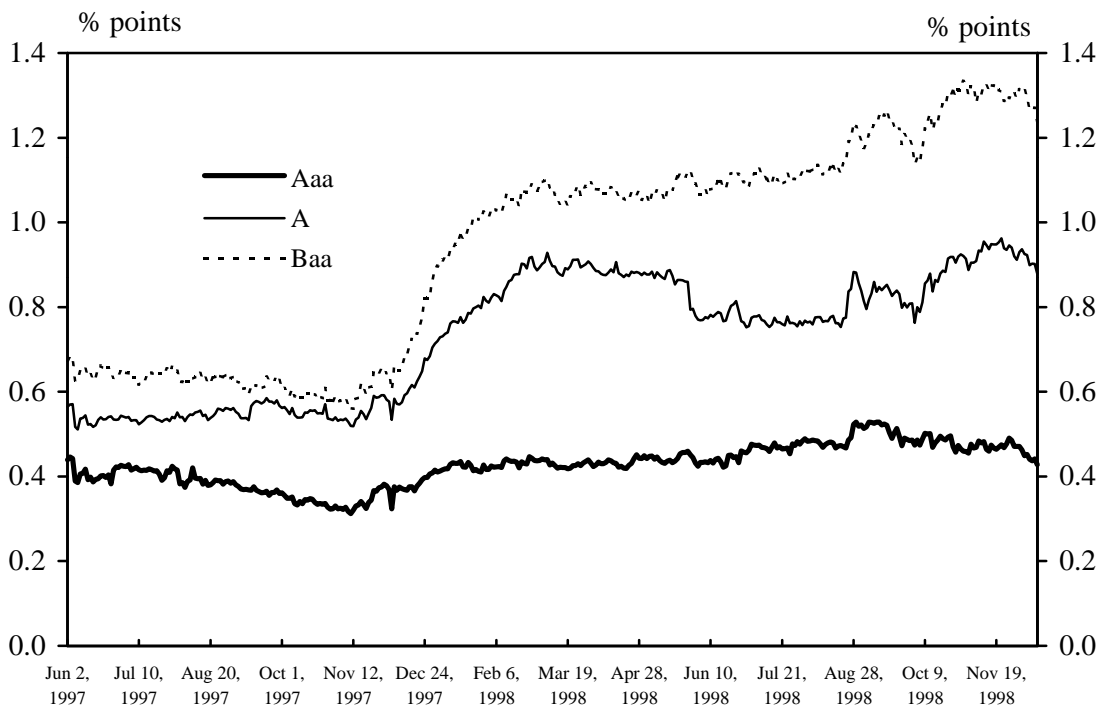
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds



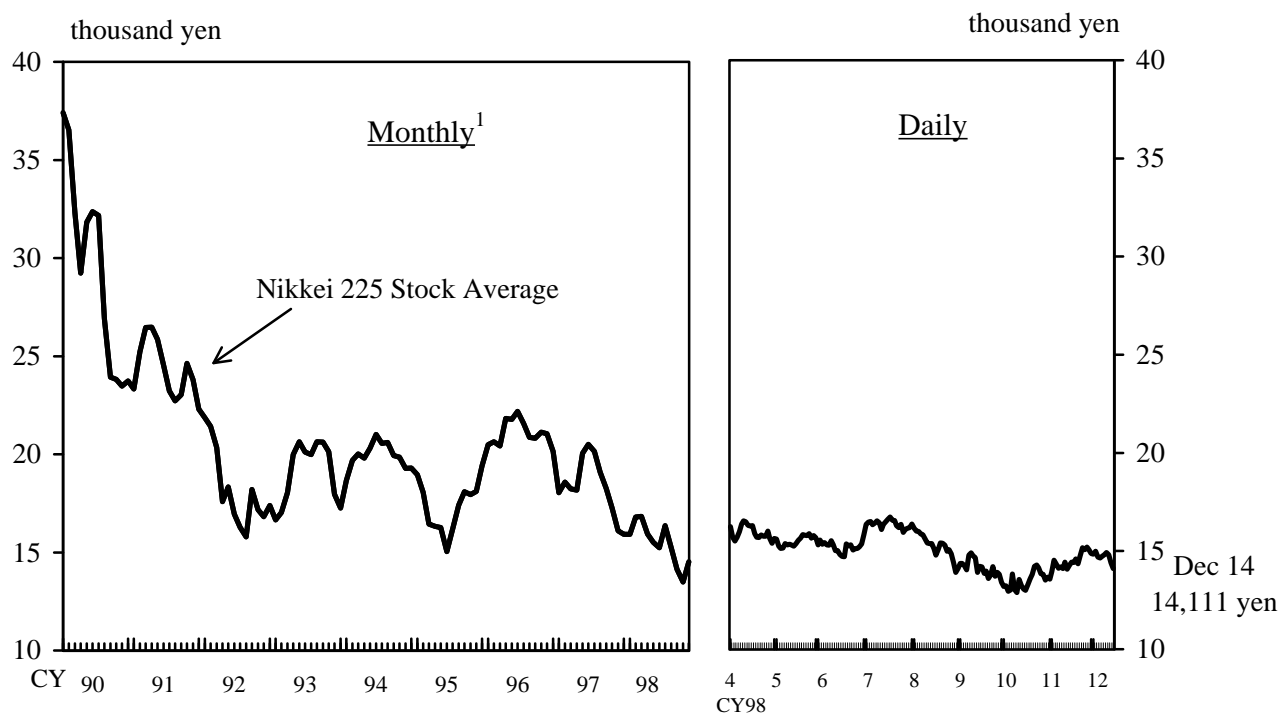
Notes: 1. Yields on bonds with 5-year maturity.

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

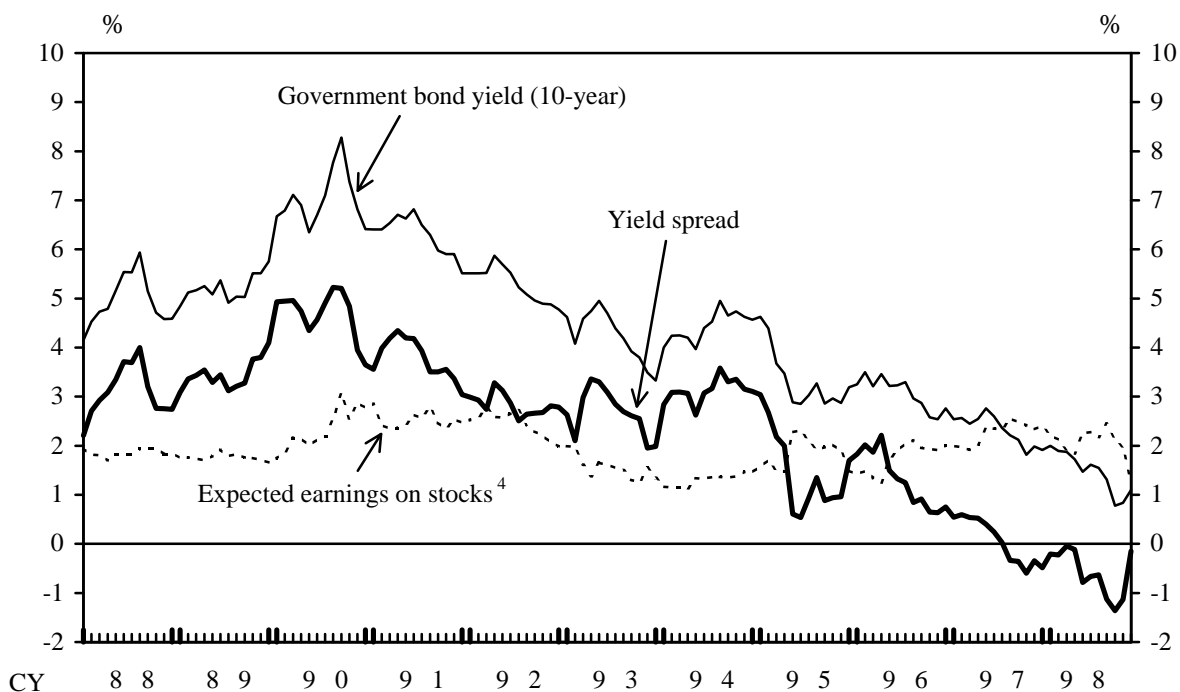
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread^{2,3}



Notes: 1. Data are monthly averages.

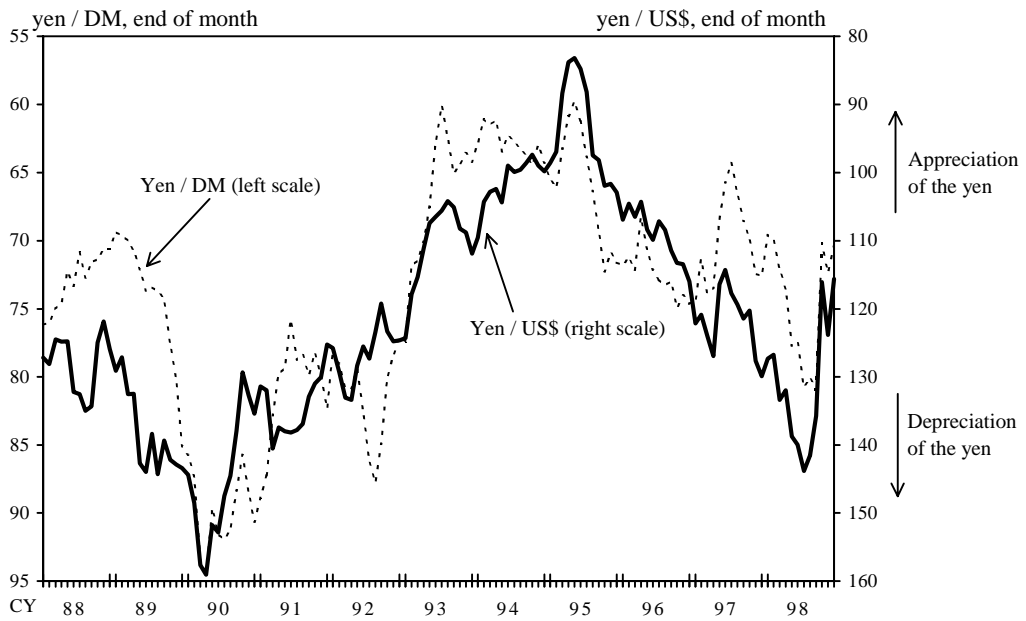
2. Data are at end of period.

3. Yield spread = government bond yields - 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.

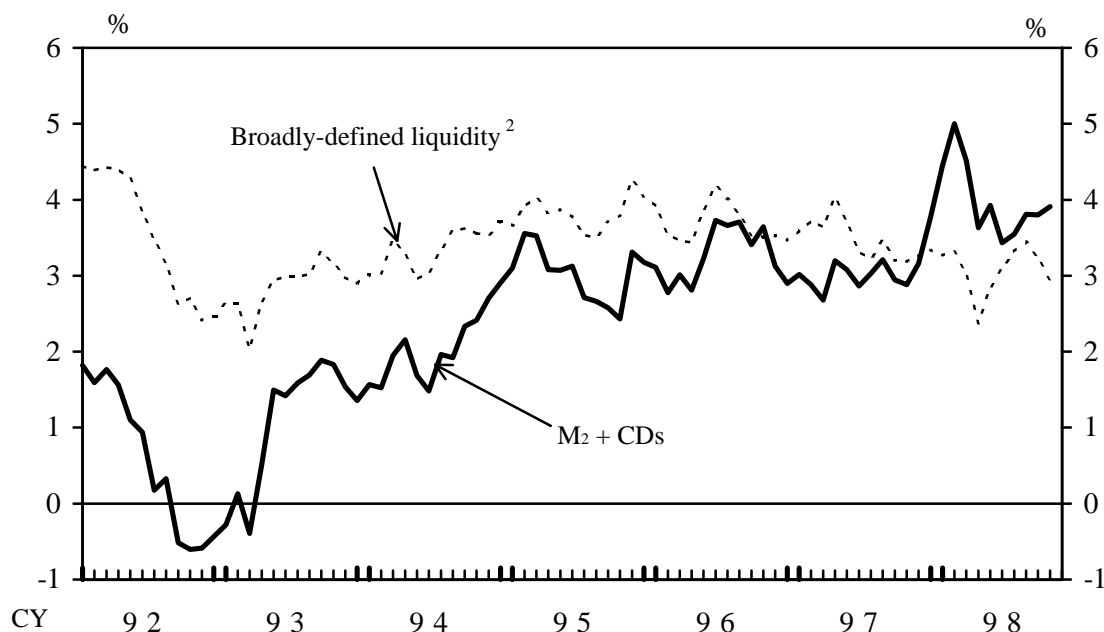
Sources: *The Nihon Keizai Shinbun* ; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates

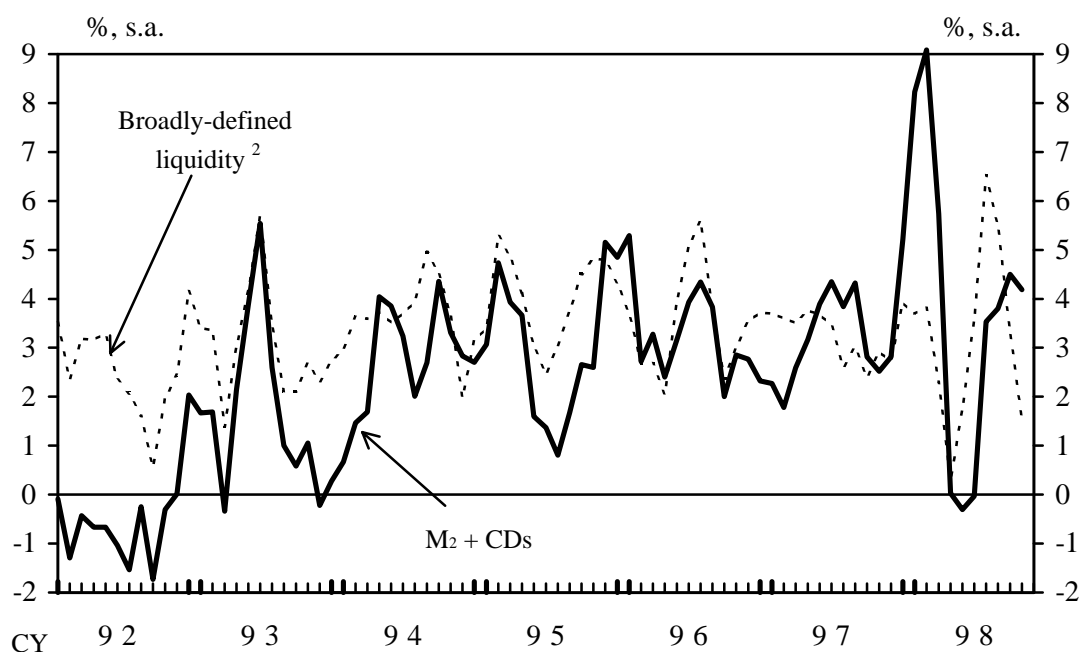


Note: Data for Dec 1998 are as of Dec 14, 1998.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



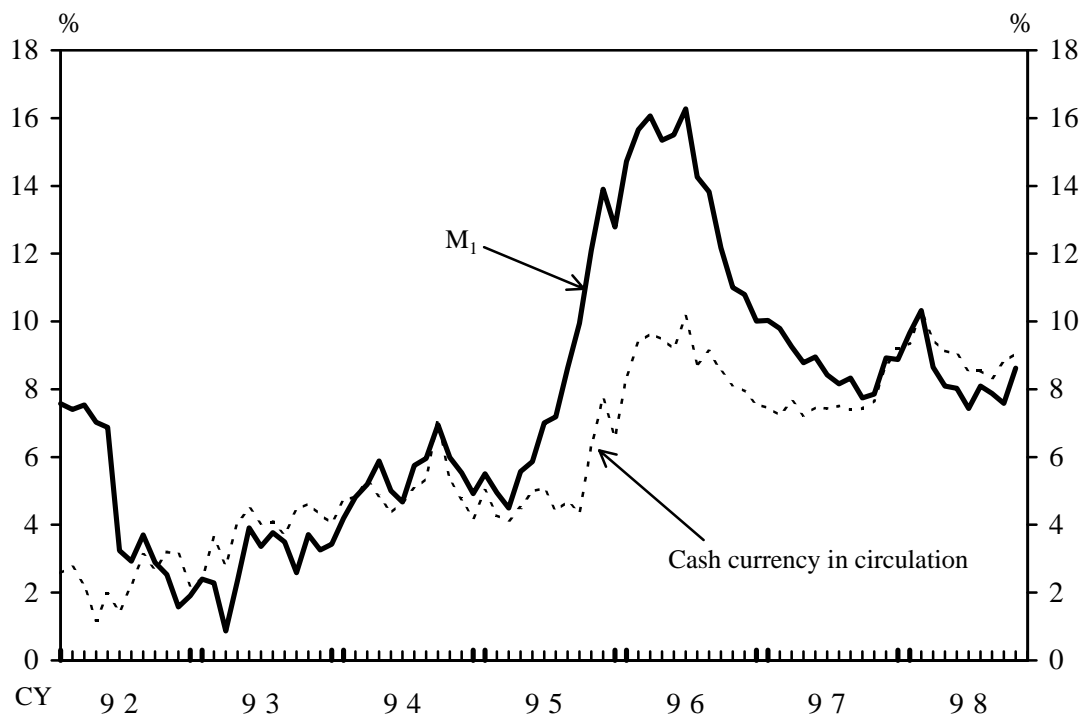
Notes: 1. Percent changes in average amounts outstanding.

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.

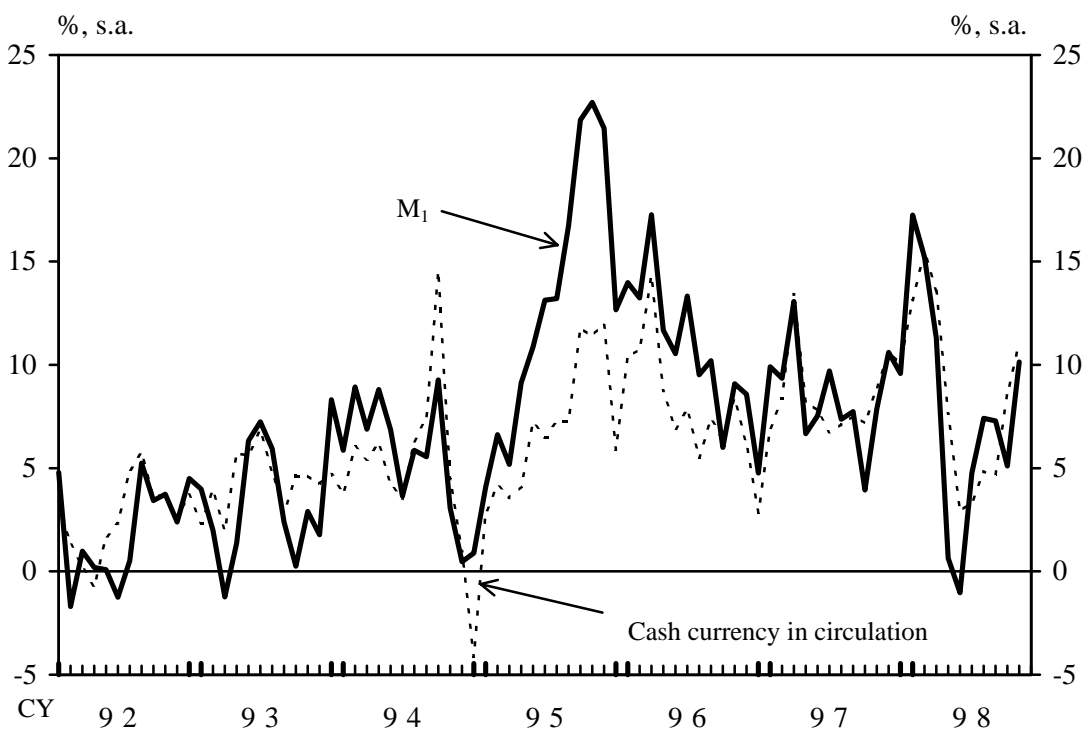
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

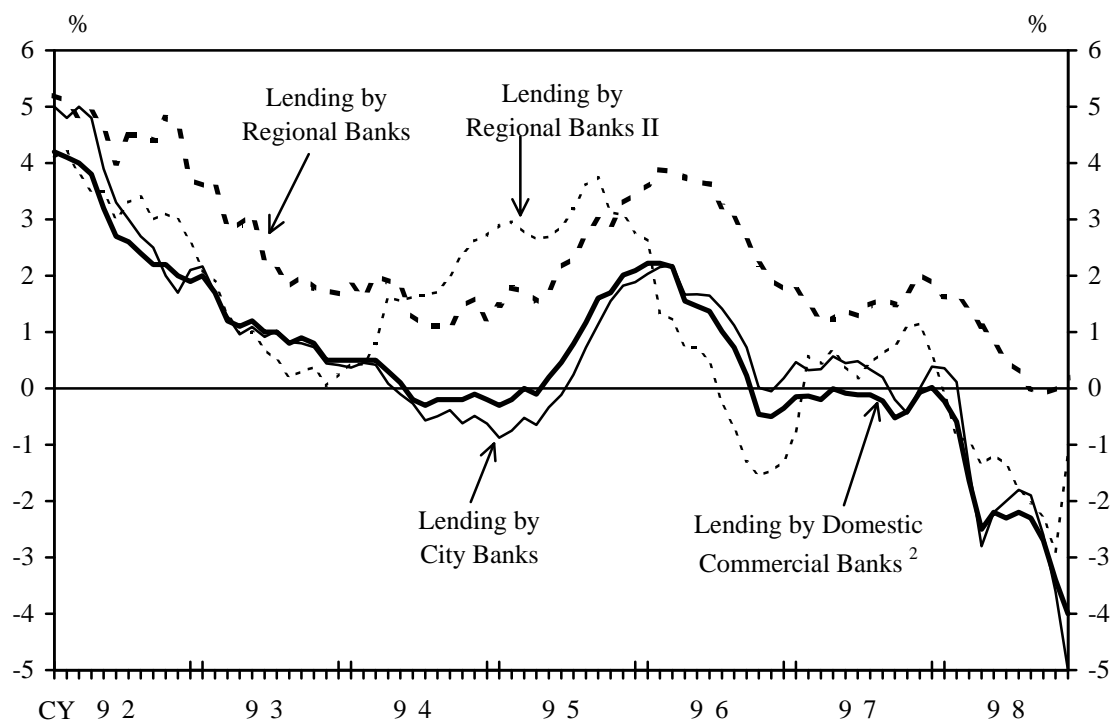


(2) Changes from Three Months Earlier (Annualized)



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

Lending by Domestic Commercial Banks



(Reference)

The following figures are adjusted for

- (1) fluctuations from the liquidation of loans,
- (2) fluctuations in the yen value of foreign currency-dominated loans due to changes in exchange rates,
- (3) fluctuations from loan write-offs, and
- (4) the transfer of loans to the former Japan National Railways Settlement Corporation to the General Account.

	Original data	Adjusted data	
	November, 1998	November, 1998	(October, 1998)
Domestic commercial banks	-4.0	-1.2	(-1.4)
City Banks, Long-term Credit Banks and Trust Banks	-6.1	-2.5	(-2.3)
Regional Banks	+0.2	+1.0	(+0.7)
Regional Banks II	-1.2	+0.8	(-1.1)

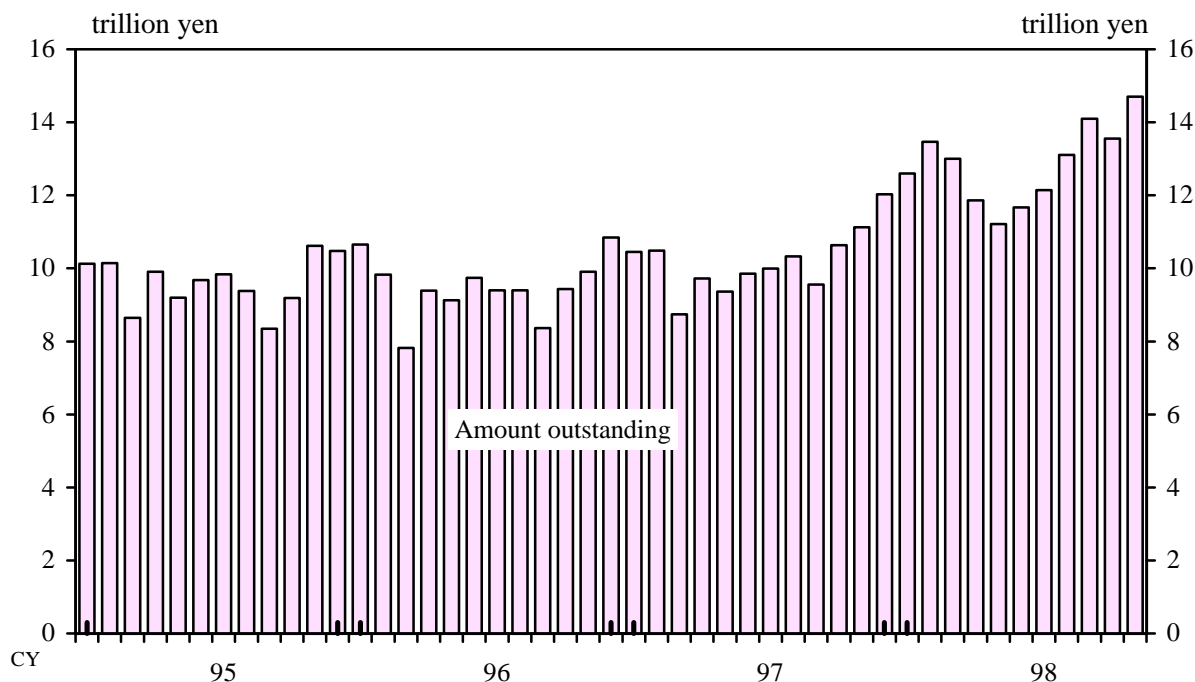
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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 (Regional Banks) and the member banks of the Second Association of Regional Banks (Regional Banks II).

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

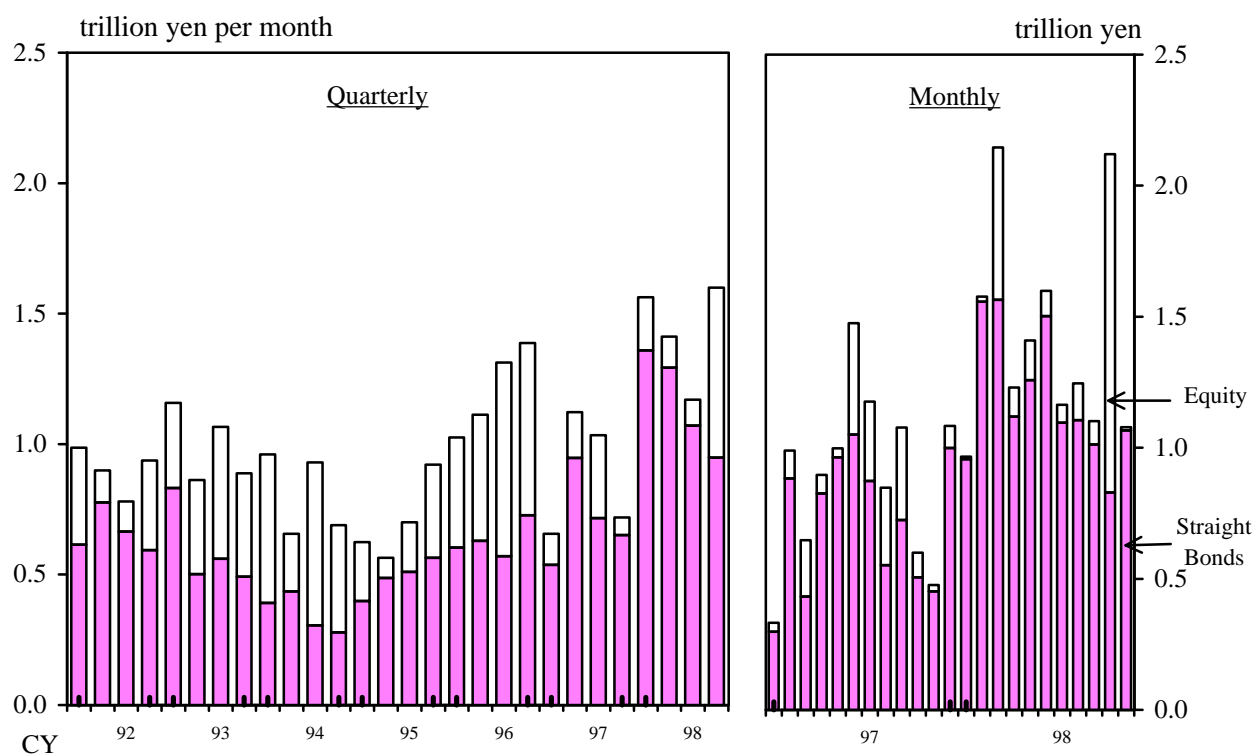
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity



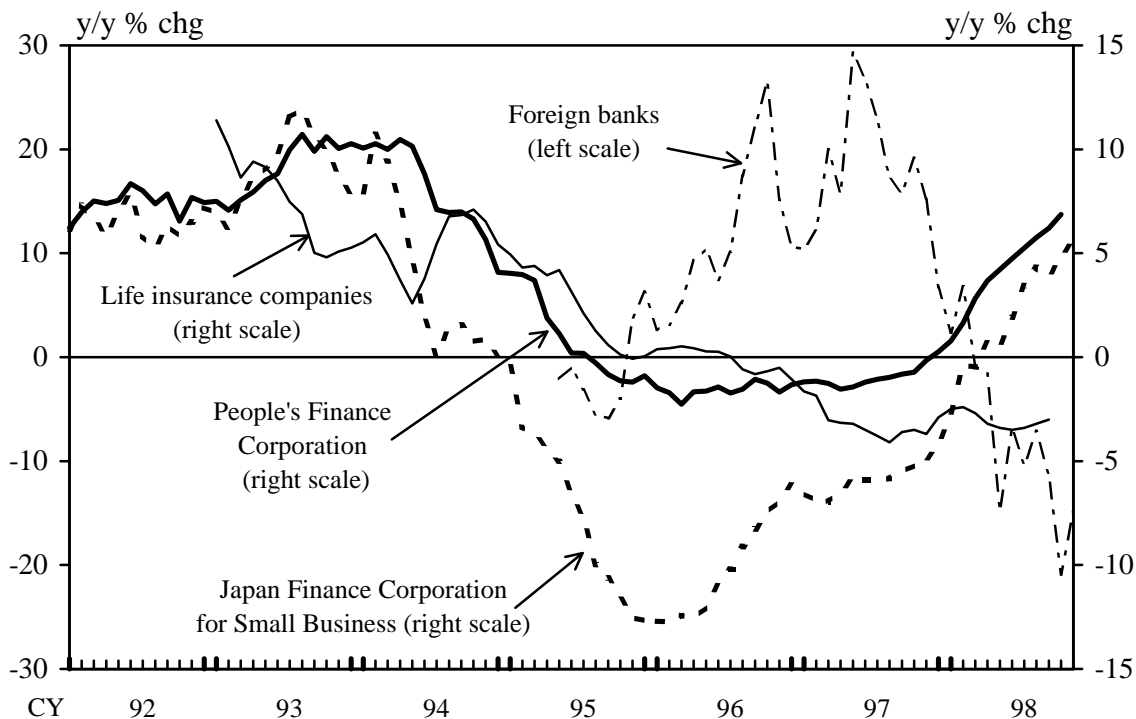
Notes: 1. Data for equity include convertible bonds, bonds with warrants, and new equity issues.

2. Figures for 1998/Q4 are October-November average.

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

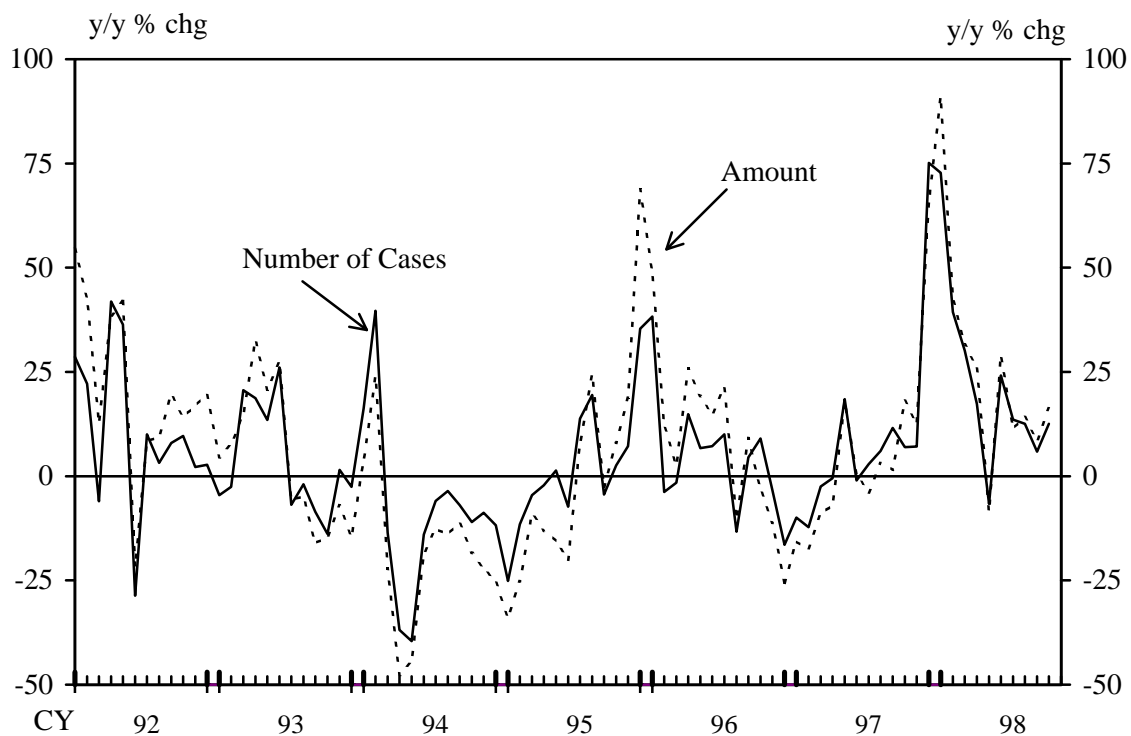
Lending by Other Financial Institutions

(1) Lending Outstanding



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

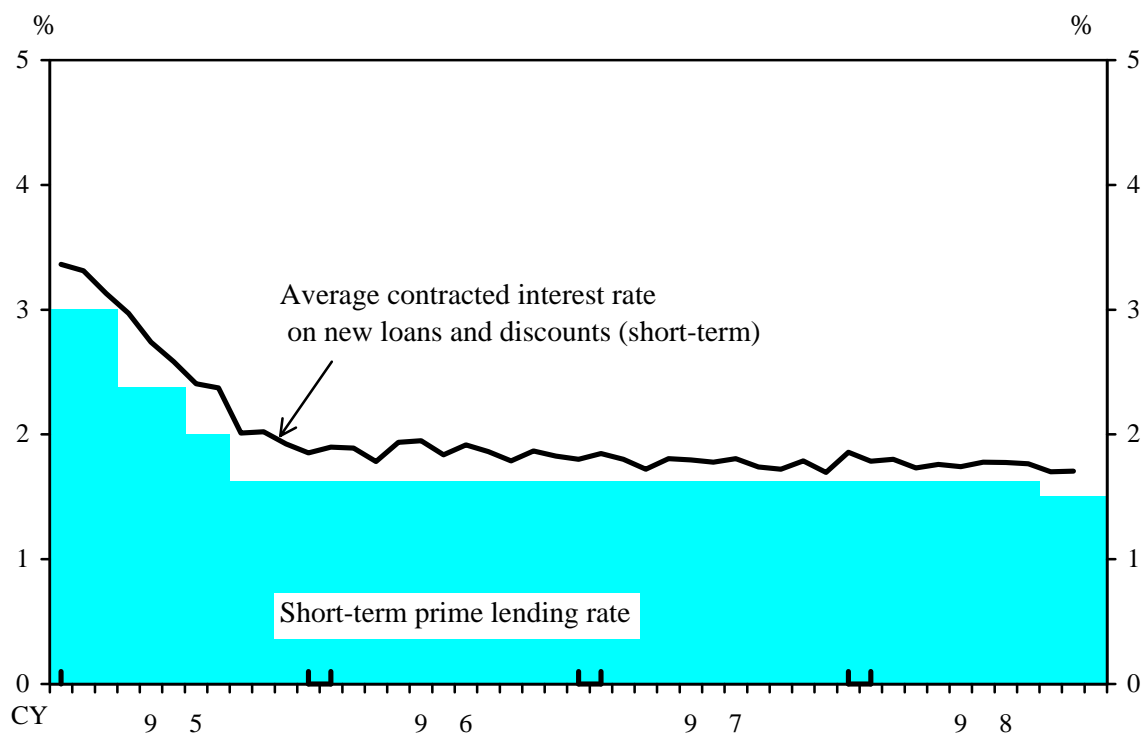
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

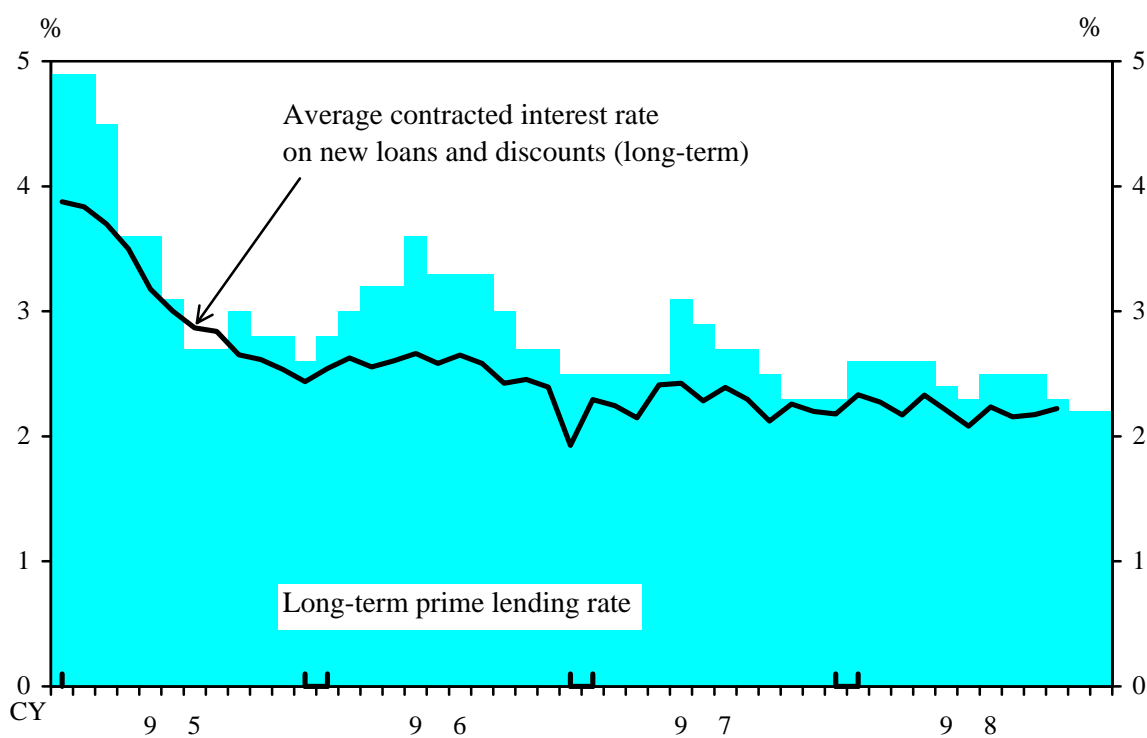
Lending Rates

(1) Short-Term



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

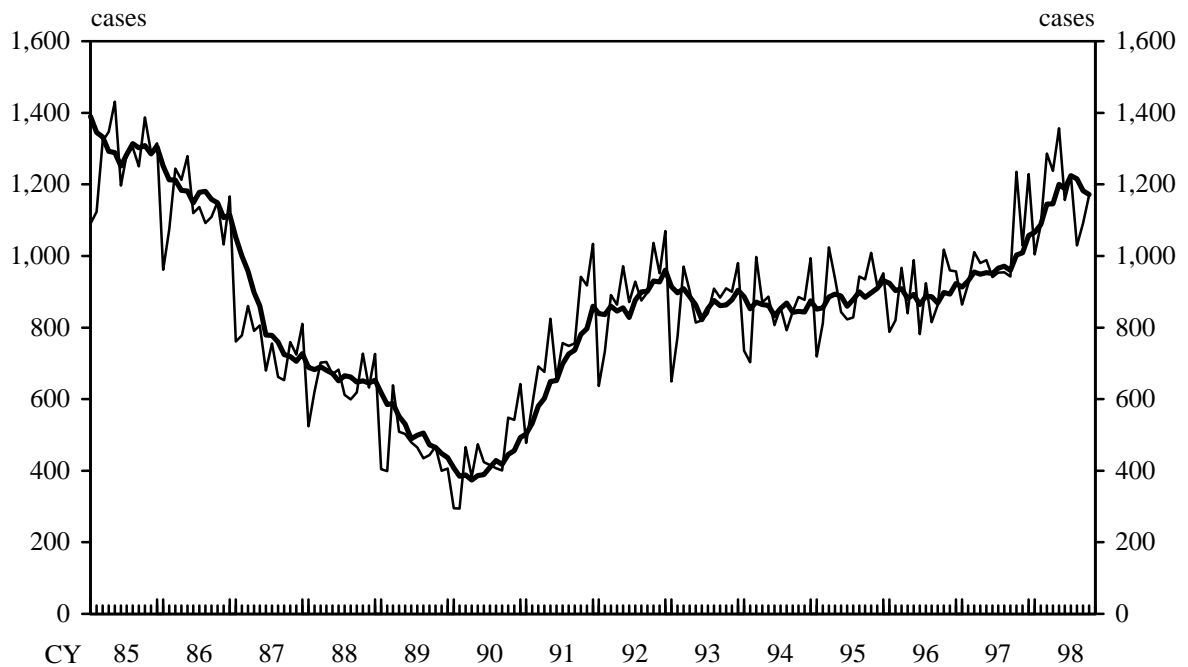
(2) Long-Term



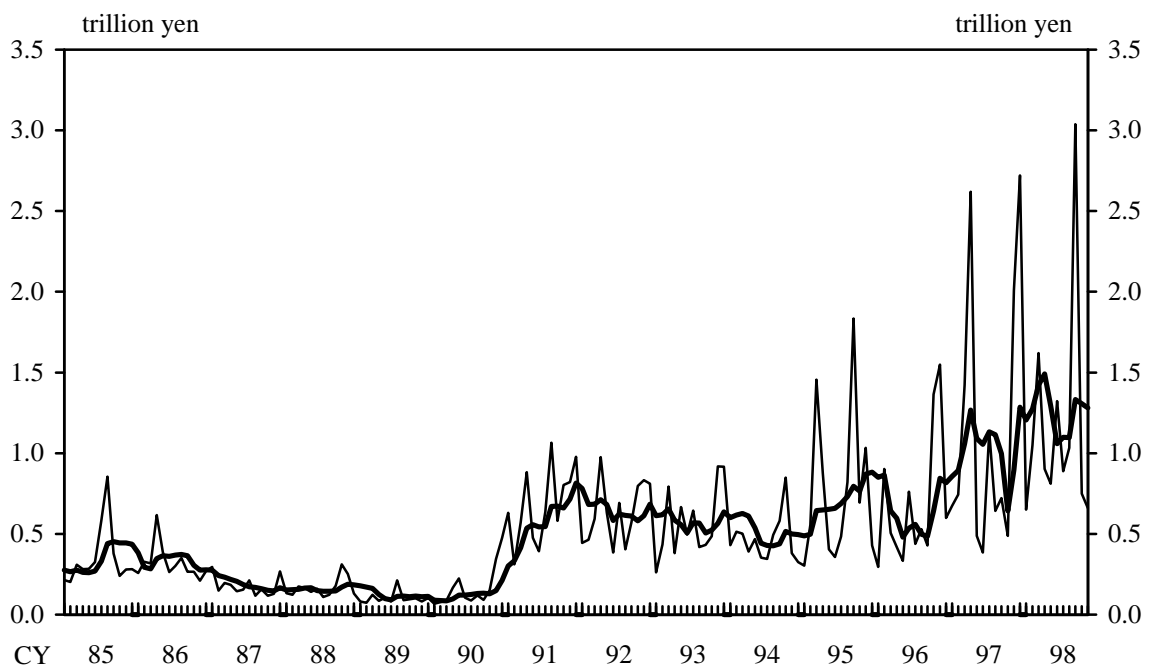
Source: Bank of Japan, "Economic Statistics Monthly."

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)."