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Bank of Japan

**Monthly Report of
Recent Economic and Financial Developments**
January 1999

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Monthly Report of Recent Economic and Financial Developments¹

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The Bank's View²

The economic deterioration in Japan is moderating gradually 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, remains stagnant. Meanwhile, net exports (exports minus imports) are basically increasing at a moderate pace, and public investment has turned to follow a distinct upward trend. Reflecting this development of final demand and the progress in inventory adjustments, the decline in production is slowing.

Corporate profits continue to worsen. Employment and household income conditions have deteriorated as the unemployment rate has marked a historical high again, the ratio of job offers to applications continues to record the lowest, and winter bonuses have decreased significantly. Financial conditions are improving with the effects of the policy measures taken by the government and the Bank. Nonetheless, firms apparently cannot remove their anxiety about the availability of funds toward the end of fiscal 1998. Consequently, corporate and household sentiment remains cautious, and a recovery has yet been observed in private demand.

As for the future developments, the increase in public investment is likely to underpin the economy toward the first half of fiscal 1999 with the implementation of the government's economic measures. Furthermore, the Bank's monetary and financial measures and the government's measures to alleviate the credit crunch will continue to be in effect. Nevertheless, an immediate self-sustained recovery in

¹ This report was written based on data and information available when the Bank of Japan Monetary Policy Meeting was held on January 19, 1999.

² The Bank's view on recent economic and financial developments, determined by the Policy Board at the Monetary Policy Meeting held on January 19, as the basis of monetary policy decisions.

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 continued appreciation of the yen since autumn 1998, and to 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 large output gap, domestic wholesale prices are on a downtrend, and corporate service prices are weakening. Consumer prices have increased 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 continue moderating 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 decline in wages and the appreciation of the yen since autumn 1998 are likely to continue exerting downward pressure on prices. Hence, the decline in prices may somewhat accelerate in the future.

In the financial markets, a slight increase was observed in the Japan premium and Euro-yen interest rates both on three-month contracts, as these contracts mature beyond the fiscal year-end in March. In general, however, the premium is smaller and the Euro-yen rates are lower than those on contracts maturing beyond the end of accounting terms in 1998.

Between mid-December and early January, yields on Japanese government bonds rose further to reveal the market concern over the deterioration in the supply-demand balance due to the planned massive issuance. Stock prices weakened reacting to the appreciation of the yen and the rise in the long-term interest rates. Although such movements in these markets appear to have reversed, the ensuing developments and their economic consequences require close attention.

With regard to corporate finance, credit demand for economic activities seems to remain weak, although firms, particularly large ones, are further seeking to secure ample on-hand liquidity. Meanwhile, private banks keep their cautious lending stance as they face the worsening performance of borrower companies. However, the enhanced credit guarantee system has been actively utilized. Such government's policy measures and the Bank's new measures to facilitate firms' financing activities have presumably contributed to easing the once seriously tightened credit conditions.

Nevertheless, firms, especially those with low credit standings, are still under severe fund-raising conditions.

It continues to warrant careful monitoring how corporate financing conditions 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 maintaining a high level, on average, from the effects of the comprehensive economic stimulus package. The actual execution of public works has also turned to a distinct increase along with the increase in orders. As for the outlook, public investment is projected to remain on an increasing trend as the effects of the comprehensive economic stimulus package will continue and the third supplementary budget for fiscal 1998 recently passed in the Diet, following the emergency economic measures, will be implemented.

Real exports (Charts 3 to 5) have been fluctuating largely, turning to an increase in the third quarter, increasing further in October, but contracting sharply in November. Nevertheless, real exports seem to be basically on a moderate recovery. This reflects that exports to the United States and Europe remain firm, partially due to the lasting effects from the prior depreciation of the yen, and the pace of decline in exports to Asia is slowing down. Meanwhile, real imports declined extremely in the second quarter and increased in the third quarter, but declined again in October-November. Given the stagnant domestic demand and the continuing production cutbacks in Japan, real imports seem to 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 balance³ and declined slightly in the third quarter, but turned to an increase again in October-November. Net exports seem to basically remain on a gradual increasing trend, though fluctuating. The nominal current account surplus is also on an increasing trend, on the whole.

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

As for the future environment for foreign trade, the depreciation of the yen before the summer of 1998 should still continue to promote exports for the time being, but the continued appreciation of the yen since autumn 1998 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. In many Asian countries, however, the ongoing economic adjustments are likely to continue. 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 significantly. Shipments of general capital goods, which reflect the current trend of fixed investment in machinery, continue to decline, having dropped 10.2 percent in the second quarter on a seasonally adjusted quarter-to-quarter basis, 0.7 percent in the third quarter, and 4.1 percent in October-November compared with the third quarter. Leading indicators, such as machinery orders and nonresidential construction starts (Chart 7), also continue to decline at a rapid pace.

From the viewpoint of the capital stock cycle (Chart 8), during fiscal years 1995-96, business fixed investment was on a recovery along with a mid-term growth path of around two percent per annum, but recently has moved downward away from this path to an adjustment phase. This serious adjustment in business fixed investment has been caused by the increasing perceptions of excess equipment, the substantial decline in corporate profits, and the constraints from corporate finance.⁴ Examining these factors to judge the outlook (Charts 9 and 10), while industrial production and final demand are not likely to show any distinct recovery for the time being, the perceptions of excess equipment will persist and corporate profits are

⁴ Also, in response to these developments, firms may also revise downward their mid-term growth expectations sharply.

projected to continue declining, in part due to the appreciation of the yen . As for corporate finance, the conditions are improving somewhat due to the Bank of Japan's new measures for money market operations as well as government measures to alleviate the credit crunch. Nevertheless, firms apparently cannot remove their anxiety about the availability of funds towards the end of the fiscal year. As private banks are still maintaining a cautious lending attitude, the financial constraints on business fixed investment are likely to continue for some time.⁵

With regard to private consumption (Chart 11), 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 declined clearly in the third quarter and fell further in October, but recovered in November due to the rebound in apparel sales from colder weather and the success of large discount sales at major supermarkets. Nevertheless, the year-end sales were apparently lackluster. Thus sales at department stores and chain stores have been moving back and forth. The number of passenger car sales (excluding light cars) dropped sharply in October and November from the demand shift to light cars with the influx of new models in line with the changes in light car standards. It recovered somewhat in December, but remained at a low level. Including light cars, the number of passenger car sales increased in October-November, but dropped again in December, and thus remained flat overall. Outlays for travel are on a declining trend. Hence, although some effects have been observed from the introduction of new products and efforts to increase sales, private consumption as a whole remains stagnant. This is because disposable income is still decreasing and consumer sentiment remains cautious amid the continued deterioration of employment and income conditions (Chart 12). As for the future, private consumption is likely to remain stagnant for the time being amid the harsh employment and income conditions.

⁵ According to industry interviews, some firms plan to restrict business fixed investment further because of the mid-term issue of reducing liabilities to recover creditworthiness even if fund-raising conditions improve for the time being.

With regard to housing investment (Chart 13), housing starts (on a seasonally adjusted annual basis) were declining at a rapid pace, posting 1.32 million units in the first quarter of 1998, 1.23 million units in the second quarter, and 1.14 million units in the third quarter. In October-November, however, housing starts leveled off, though at a low level of 1.12 million units. As for the outlook, construction starts of houses for rent and condominiums are expected to remain stagnant for the time being due to excess inventories, while construction starts of owner-occupied houses are expected to turn to an increase as applications for loans from the government Housing Loan Corporation increased significantly at the end of 1998.⁶ The future developments in housing starts should be closely monitored, including the effects of the reduction in taxes on home purchases recently announced by the government.⁷

Reflecting these developments in final demand, industrial production (Chart 14) decreased considerably by 5.1 percent in the second quarter of 1998 (on a seasonally adjusted quarter-to-quarter basis), remained unchanged in the third quarter (0.0 percent), and is projected to decline slightly in the fourth quarter (-0.6 percent) based on production forecast indices for December.⁸ Although it cannot be confirmed that industrial production has definitely stopped declining, the pace of decline appears to be slowing down. This is because inventory adjustments are progressing, especially for durable goods and some production goods, along with the

⁶ The number of applications received for loans for the construction of private homes by the government Housing Loan Corporation for the third offering period for fiscal 1998 (November 2 to December 25) surged up 49.9 percent year-to-year. This was, in part, because the standard interest rate for the third offering period decreased to a record low of 2.0 percent (compared with 2.55 percent for the second offering period from August to September) and then perceptions that the interest rate would increase spread during the second half of the third offering period after the corporation announced the rise of the standard interest rate to 2.2 percent from December 28.

⁷ It was decided to keep the standard interest rate on loans for the construction of private homes by the government Housing Loan corporation at 2.2 percent for the fourth offering period for fiscal year 1998 (January 18 through March 12, 1999) amid growing expectations of higher housing loan interest rates. While employment and income conditions deteriorate, the effects of such decisions on interest rates and of the recently announced reduction in taxes on home purchases need to be carefully monitored.

⁸ After accounting for calendar factors by using X-12-ARIMA, the quarter-to-quarter decline in industrial production (seasonally adjusted) was 3.5 percent in the second quarter, 1.7 percent in the third quarter, and is projected to be 0.2 percent in the fourth quarter.

continued production cutbacks of firms (Chart 15), and because the increase in public investment is beginning to underpin final demand.

As for the future environment for production, the increase in public investment is expected to continue underpinning 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 16), the number of new job offers continues to decline,⁹ and in November the ratio of job offers to applications was 0.47, posting the lowest level for the third consecutive month since the start of these statistics in 1963. Also in November, the unemployment rate reached 4.4 percent, the highest level since the start of these statistics in 1953. Additionally, the year-to-year decline in the number of regular employees (on a monthly employment statistical basis at establishments with at least five employees) is gradually expanding. As for the outlook, employment restructuring pressures are likely to intensify, as firms are planning to sharply reduce the recruitment of new graduates (Chart 17).¹⁰ As regards wages (Chart 18), the growth of regular compensation is on a declining trend, and overtime compensation remains well below the previous year's level. As for special payments, winter bonuses apparently declined substantially.¹¹ Reflecting these employment and wage developments, employee income is on a declining trend, and this trend is expected to continue for the time being.

⁹ In the construction industry, however, the number of new job offers seems to be bottoming out, reflecting the increase in public works orders.

¹⁰ Moreover, some surveys indicate that large firms plan to continue reducing the number of employees for fiscal 1999 and onwards (Chart 17(2)).

¹¹ Because winter bonuses are mostly paid in December, this still cannot be confirmed by the wages statistics (*Monthly Labor Statistics Survey*, Ministry of Labor) which have been announced through November. Judged, however, from various surveys (Chart 18(2)) that show similar movements as wage statistics, the year-to-year decline in winter bonuses seems to have been greater than that in 1998 summer bonuses.

2. Prices

With regard to price developments, import prices (Chart 20(1)) are falling at a rapid pace owing to the appreciation of the yen and the decline in international commodity prices, particularly crude oil prices. As for domestic wholesale prices (adjusted to exclude the effects of seasonal changes in electricity rates;¹² Chart 20(3)), the prices of steel and machinery continue to decline, and the prices of non-ferrous metals are dropping sharply due to the appreciation of the yen. 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 of 1998, 0.3 percent in the third quarter, and 0.5 percent in the fourth quarter).

Corporate service prices (Chart 21(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 of 1998, 0.4 percent in the third quarter, and 0.8 percent in October-November).

Consumer prices (excluding perishables; Chart 21(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 of 1988, -0.2 percent in the third quarter, and -0.4 percent in October-November). 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 of 1998 by about 0.3 percent in the second quarter, 0.5 percent in the third quarter, and 0.4 percent in October-November. The prices of perishables have risen sharply since autumn 1998 due to

¹² 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.

irregular weather.¹³ Thus, including perishables, consumer prices overall turned to a year-to-year increase of 0.5 percent in October-November (compared with a decline of 0.2 percent in the third quarter).

Regarding the future environment for prices overall, downward pressure on prices from domestic factors is rather strong, reflecting the large output gap (Chart 22). The increase in public investment should continue to moderate the deterioration of economic conditions, but as private demand remains sluggish, distinct narrowing in the output gap is hardly expected for the time being. Furthermore, the weakening of wages and the appreciation of the yen since autumn 1998 are expected to continue exerting downward pressure on prices. Judged from these developments, the decline in prices may accelerate somewhat in the future.

3. Financial Developments

(1) Financial Markets

Interest rate developments in short-term money markets (Charts 23(1) and 24 to 26) 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, with some fluctuations at the end of 1998 and the beginning of 1999.

The Japan premium and Euro-yen interest rates, both on three-month contracts, fell sharply from November through December, but have increased slightly since the end of December as these contracts mature beyond the fiscal year-end in March. However, the premium is smaller and the Euro-yen rates are lower than those on contracts maturing beyond the end of accounting terms in 1998, reflecting the favorable market reaction to the enhanced framework to stabilize and revitalize Japan's financial system.

¹³ The prices of perishables peaked in December, so henceforth the upward pressure on consumer prices (year-to-year) from perishables should gradually dissipate.

The three-month TB yield rose from mid-November through December with the rise in the yen-funding costs of foreign banks, but has been weakening slightly from the beginning of 1999.

Yields on ten-year government bonds (benchmark) (Chart 23(2)) rebounded from late November and rose further between mid-December and early January. Many analysts attribute this rise to growing concerns over the deterioration in the supply-demand balance for government bonds due to (1) the massive issuance planned for fiscal 1999 and (2) the announcement that the Trust Fund Bureau will stop outright purchases. Although the yields fell back somewhat at the beginning of the year after the January auction of new bonds finished smoothly, market participants remain nervous. Yields on private bonds (Charts 28 and 29) also rose sharply.

Stock prices (Chart 30(1)) rebounded from mid-October through November and recovered the 15,000 yen level at one point, reflecting growing expectations toward the emergency economic measures. From mid-December, however, with the appreciation of the yen and the rise in long-term interest rates, stock prices weakened and have recently been moving between 13,500 and 14,000 yen.

On the foreign exchange market (Chart 31), the trend toward a higher yen and lower dollar strengthened on growing anxiety about economies in Latin America, and the yen-dollar rate reached around 110 yen to the dollar at the beginning of the year. Thereafter, however, the rate fell back to around 114 yen to the dollar as market participants became sensitive to market intervention by the authorities.

(2) Monetary Aggregates and Corporate Finance

The year-to-year growth in money stock (Charts 32 and 33) in terms of $M_2 +$ CDs increased slightly in the fourth quarter of 1998, reflecting corporate moves to secure ample on-hand liquidity. (The year-to-year growth in $M_2 +$ CDs was 3.7 percent in the third quarter of 1998, and 4.0 percent in the fourth quarter). This trend is expected to remain essentially unchanged in the first quarter of 1999, and the year-

to-year growth rate should remain between 3.0 and 4.0 percent.¹⁴ The year-to-year decline in lending by private banks (monthly average outstanding balance basis; after adjustment for extraordinary factors;¹⁵ Chart 34), consisting of city banks, long-term credit banks, trust banks, regional banks, and regional banks II, expanded somewhat in December.

In relation to these monetary aggregate developments, regarding the credit demand of private firms, many firms, particularly large ones, are further seeking to secure ample on-hand liquidity, while credit demand for economic activities apparently remains weak, mostly due to the large-scale decline in business fixed investment.

Meanwhile, the lending attitude of private financial institutions (Chart 35) is still fundamentally cautious as they face growing credit risk amid the worsening performance of borrower companies. However, private financial institutions are actively utilizing the enhanced credit guarantee system, and the value of loans guaranteed by the Credit Guarantee Association is increasing tremendously.

Fund-raising on the capital market remains difficult for firms with relatively low credit ratings. Nevertheless, the issuance of corporate bonds was at a high level in December as firms with high credit ratings successfully procured funds prior to the large-scale redemption of convertible bonds scheduled for March. Moreover, CP issuance continued to increase (Chart 36).

¹⁴ During the first quarter of 1998, there was a sudden influx of funds into M₂ + CDs from investment trusts, etc. due to rising concerns about the stability of the financial system. As this shift among financial assets has been completed, statistically, the year-to-year growth in the money stock during the first quarter of 1999 will likely be somewhat lower than that during the fourth quarter of 1998, while no changes in the underlying growth of the money stock are expected this year.

¹⁵ 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.

Turning to the funding cost for firms, in November the average contracted interest rates on loans and discounts (Chart 38) generally remained steady. In line with the increase in long-term market interest rates from late November, the long-term prime rate rose sharply after the beginning of the year. (The prime rate was increased from 2.2 percent to 2.9 percent on January 8).

CP issuance rates are holding steady at low levels with the Bank of Japan's expanded CP repo operations. However, issuance rates on corporate bonds increased sharply, reflecting developments on the secondary market, and the issuance rate differentials across firms according to their creditworthiness remain substantial.

Thus, since the end of 1998 the corporate fund-raising environment appears to be easing somewhat due to the government's measures to enhance the credit guarantee system as well as the Bank of Japan's ample provision of funds and implementation of new measures to facilitate firms' financing activities. Under this environment, the growth in the number of corporate bankruptcies appears to be leveling off (Chart 39).

Nevertheless, the corporate fund-raising environment still remains fundamentally severe.

The developments of corporate financing conditions and the ways in which these developments influence business activities and the entire economy continue to warrant careful monitoring.

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Main Economic Indicators (1)

y/y % chg.

	98/Q2	Q3	Q4	98/Sept.	Oct.	Nov.	Dec.
Index of expenditure level (all households)	-0.8	-1.9	n.a.	-1.0	-0.6	p 1.5	n.a.
Sales of department stores	0.6	-4.5	n.a.	-5.4	-4.6	p -2.3	n.a.
Sales of chain stores ¹	0.3	-2.5	n.a.	-2.3	-2.3	0.5	n.a.
New passenger-car registrations ²	-2.1	-1.8	-17.0	-2.5	-14.0	-13.8	-22.7
Sales of electric appliances (NEBA)	3.6	8.2	n.a.	10.6	13.6	11.3	n.a.
Outlays for travel (50 major travel agencies)	-2.8	-3.2	n.a.	-5.6	-10.5	-2.7	n.a.
Housing starts <s.a., ann. 10,000 units>	123	114	n.a.	114	116	107	n.a.
Machinery orders (from private sector ³)	-21.7	-20.3	n.a.	-14.5	-26.1	-12.2	n.a.
Mining & manufacturing	-23.7	-22.0	n.a.	-17.8	-32.3	-26.3	n.a.
Nonmanufacturing ³	-20.1	-18.9	n.a.	-12.1	-21.6	0.5	n.a.
Construction Starts (private, nonresidential use)	-13.8	-18.2	n.a.	-25.6	-23.5	-20.4	n.a.
Manufacturing	-25.9	-38.1	n.a.	-42.3	-41.2	-48.5	n.a.
Nonmanufacturing ⁴	-8.9	-10.5	n.a.	-19.2	-16.9	-7.1	n.a.
Value of public works contracts	-6.2	4.9	10.4	23.8	22.6	-1.5	4.3
Real exports <s.a. quarterly (monthly) change>	-0.9	1.7	n.a.	6.6	4.8	-14.2	n.a.
Real imports <s.a. quarterly (monthly) change>	-7.8	3.3	n.a.	3.3	-3.3	-0.2	n.a.
Industrial production <s.a. quarterly (monthly) change>	-5.1	0.0	n.a.	3.3	-1.1	p -2.0	n.a.
Shipments <s.a. quarterly (monthly) change>	-5.1	0.8	n.a.	4.1	-1.3	p -2.2	n.a.
Inventories <s.a. quarterly (monthly) change>	-1.9	-2.4	n.a.	-1.5	-0.5	p -0.8	n.a.
Inventories/shipments <s.a. 1995=100>	111.0	109.1	n.a.	109.1	111.4	p 111.9	n.a.

Main Economic Indicators (2)

	y/y % chg.						
	98/Q2	Q3	Q4	98/Sept.	Oct.	Nov.	Dec.
Ratio of job offers to applications <s.a., times>	0.53	0.50	n.a.	0.49	0.48	0.47	n.a.
Unemployment rate <s.a., %>	4.18	4.26	n.a.	4.31	4.27	4.44	n.a.
Overtime working hours ⁵	-9.3	-8.7	n.a.	-8.9	-7.7	-8.6	n.a.
Number of employees	-0.6	-0.7	n.a.	-0.7	-0.2	-0.4	n.a.
Number of regularly employed ⁵	0.1	-0.2	n.a.	-0.3	-0.4	-0.6	n.a.
Nominal wage per person ⁵	-0.6	-2.0	n.a.	-0.7	-0.1	0.1	n.a.
Domestic wholesale price index ⁶	-2.3	-2.1	-2.1	-2.0	-2.1	-2.2	-2.2
Consumer price index (nationwide) ⁶	0.4	-0.2	n.a.	-0.2	0.2	0.8	n.a.
Excluding perishables	0.1	-0.2	n.a.	-0.5	-0.4	-0.3	n.a.
Corporate service price index ⁶	-0.2	-0.4	n.a.	-0.6	-0.8	-0.8	n.a.
Monetary aggregates (M2+CDs) <average outstanding, y/y % chg>	3.7	3.7	p 4.0	3.8	3.9	4.3	p 3.9
Number of suspension of transaction with banks	28.9	17.3	-17.5	15.7	-5.3	-8.3	-37.4

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.

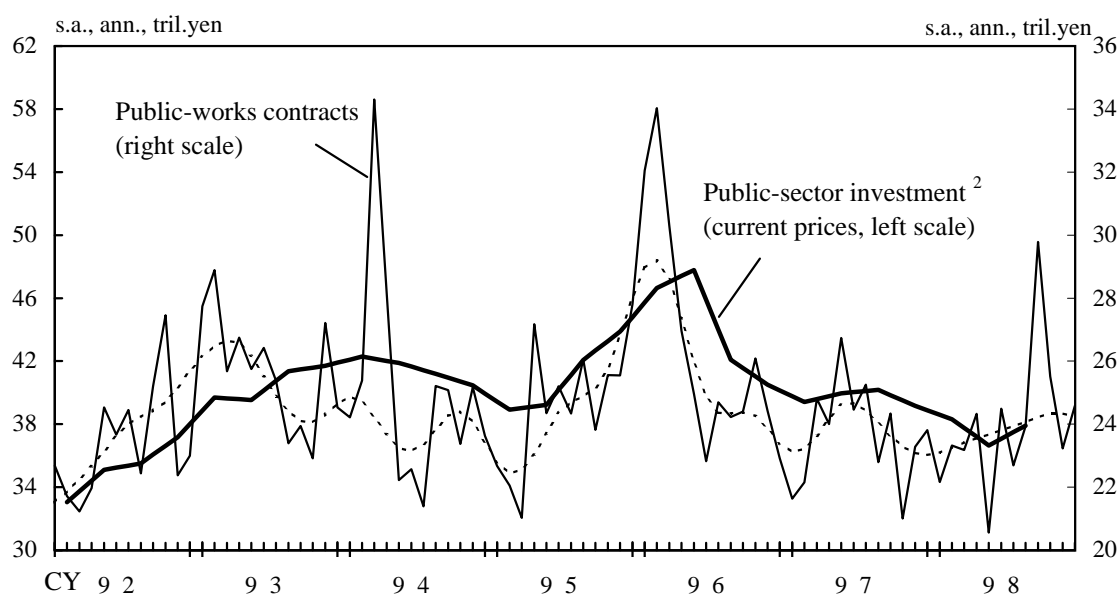
4. Nonmanufacturing=commerce+services+agriculture & fisheries+public utilities industries etc.

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

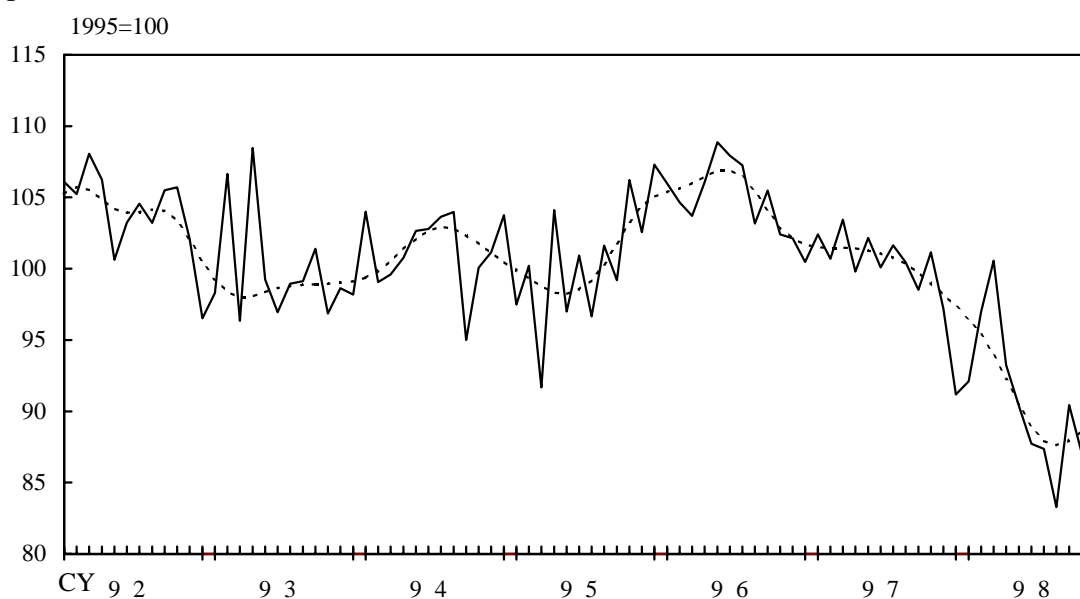
Sources: Management and Coordination Agency, "Monthly Report on Family Income and Expenditure Survey", "Labor Force Survey", "Consumer Price Index";
 Ministry of International Trade and Industry, "Current Survey of Commerce", "Indices of Industrial Production";
 Japan Chain Stores Association, "Sales 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 Investment¹

(1) Public-works Contracts



(2) Shipments of Public Works-related Goods³



- Notes: 1. Seasonally adjusted by X-12-ARIMA (β version). The dotted line is the trend cycle factor.
 2. Quarterly basis public-sector investment is plotted at the middle month of each quarter.
 3. 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."

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.

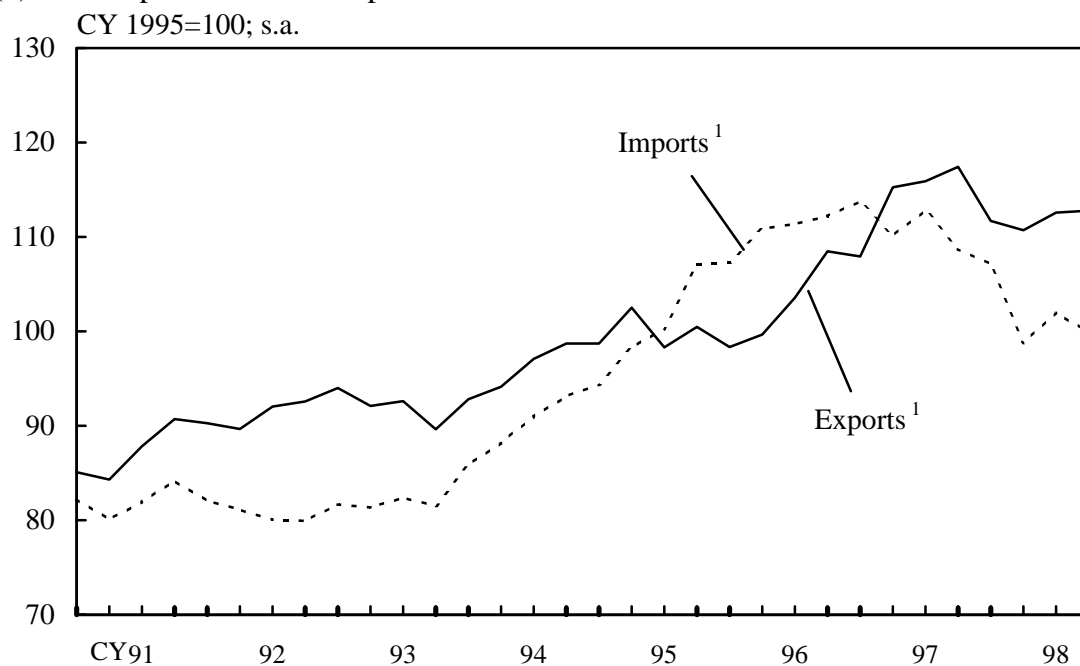
"Public works-related goods" only covers construction investment excluding buildings (which comprises two-thirds of public-sector investment), and does not cover building and machinery investment (which comprises one-third of public-sector investment).

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

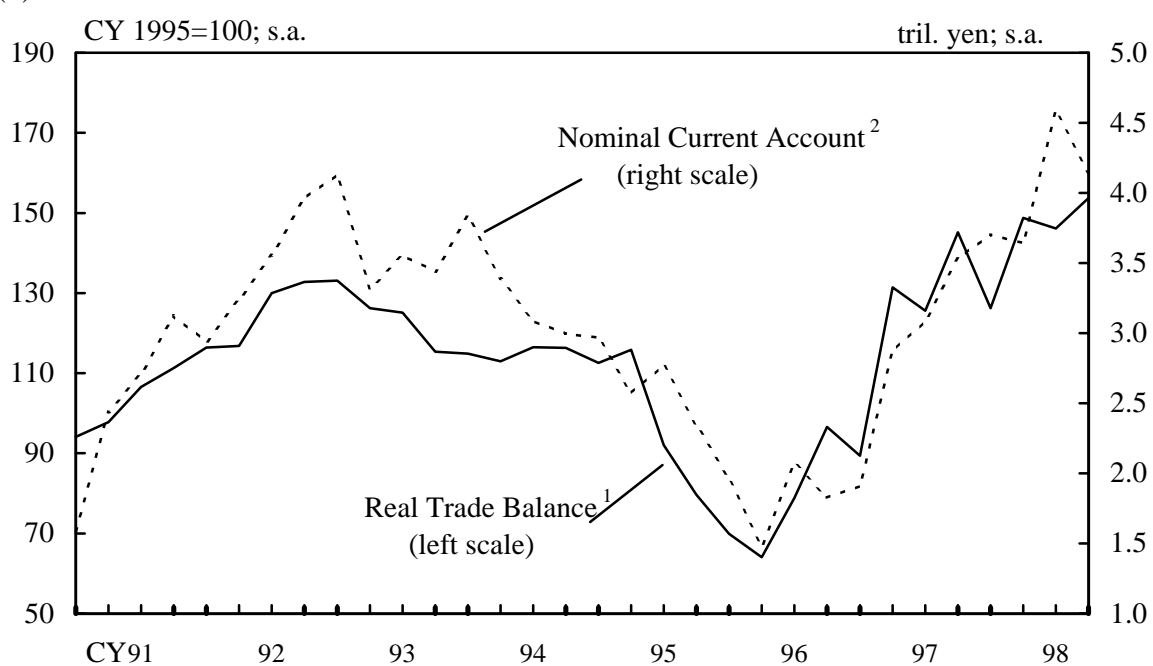
Sources: Economic Planning Agency, "National Income Statistics";
 Surety Association for Construction Companies, "Public Works Prepayment Surety Statistics";
 Ministry of International Trade and Industry, "Indices of Industrial Production."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account



Notes:1. Seasonally adjusted by X-11. 1998/Q4 are Oct-Nov averages in terms of quarterly amount.

2. 1998/Q4 is Oct-Nov 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 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 Sep.	Oct.	Nov.
United States	<27.8>	1.8	14.6	1.8	4.6	-0.8	2.5	-0.4	6.0	7.2	-17.6
EU	<15.6>	-1.2	13.8	5.4	1.3	7.2	2.0	0.7	10.2	4.8	-13.7
East Asia	<40.6>	6.0	8.6	-2.4	-11.1	-7.3	-0.2	-1.8	7.8	-0.4	-10.7
China	<5.2>	11.0	8.2	6.2	-3.9	4.0	-2.1	-1.1	5.4	1.8	-11.4
NIEs	<24.0>	3.5	10.5	-0.4	-10.5	-8.2	-1.4	-1.9	9.7	-0.8	-11.4
Korea	<6.2>	6.2	-1.5	-2.8	-29.8	-7.0	-1.4	9.2	14.6	4.2	-5.1
ASEAN4 ³	<11.4>	8.9	5.0	-10.0	-16.0	-11.3	4.2	-1.9	5.1	-0.8	-8.3
Thailand	<3.5>	3.3	-11.6	-15.4	-9.6	-2.3	-0.4	-2.5	6.2	1.3	-11.6
Indonesia	<2.4>	0.9	22.6	-19.5	-36.0	-26.9	8.7	4.9	4.9	3.1	-9.4
Real exports		2.3	11.2	1.3	-4.9	-0.9	1.7	0.2	6.6	4.8	-14.2

(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 Sep.	Oct.	Nov.
Intermediate goods	<14.7>	5.0	11.2	0.7	-3.2	2.3	4.9	-0.6	7.7	3.2	-14.9
Motor vehicles and their related goods	<20.5>	-1.7	14.6	-4.2	-3.0	0.7	4.1	1.2	5.4	5.4	-10.4
Consumer goods ⁴	<6.9>	-1.9	6.3	2.2	2.3	0.7	-2.7	1.4	1.9	8.0	-12.2
Information-related goods ⁵	<18.2>	5.8	18.1	1.3	-5.5	-5.3	1.6	-2.4	6.7	0.3	-11.6
Capital goods and parts ⁶	<29.6>	5.1	9.0	3.5	-5.8	-2.8	0.5	-2.6	8.1	0.1	-12.5
Real exports		2.3	11.2	1.3	-4.9	-0.9	1.7	0.2	6.6	4.8	-14.2

Notes: 1. Seasonally adjusted by X-11. 98/Q4 are Oct-Nov averages in terms of 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 Sep.	Oct.	Nov.
United States	<22.3>	15.5	1.1	-0.1	0.5	-4.8	1.4	-1.7	-4.0	4.2	-6.9
EU	<13.3>	11.1	-3.6	-7.1	3.4	-8.5	4.0	1.4	12.2	-9.2	8.3
East Asia	<34.7>	15.1	0.9	-4.5	-0.2	-6.0	1.4	-1.6	3.9	-4.7	3.6
China	<12.4>	20.4	8.8	-2.9	0.8	-4.7	1.4	-4.3	-1.5	-2.9	4.1
NIEs	<10.4>	9.2	-8.1	-5.6	-0.5	-9.0	-0.4	4.3	11.0	-5.6	6.7
Korea	<4.3>	0.7	-3.9	-8.8	3.7	-10.1	-3.7	7.9	12.1	-0.4	5.6
ASEAN4 ³	<12.0>	16.4	2.2	-5.2	-0.9	-4.7	3.0	-3.6	3.8	-5.6	0.5
Thailand	<2.8>	9.4	-0.5	-2.1	-3.5	-2.7	2.9	-4.3	1.5	-3.2	-3.0
Indonesia	<4.3>	7.8	-2.3	-8.5	0.1	-4.1	5.8	-6.5	17.4	-15.3	2.2
Real imports		10.3	0.9	-3.7	-1.5	-7.8	3.3	-2.1	3.3	-3.3	-0.2

(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 Sep.	Oct.	Nov.
Raw materials ⁴	<27.1>	0.5	-0.5	0.1	-4.3	-4.4	2.7	0.2	3.3	2.5	-4.7
Intermediate goods	<13.7>	4.6	2.7	-1.5	-2.0	-9.3	2.1	-0.4	3.6	-2.0	2.9
Foodstuffs	<13.6>	5.1	-3.5	-6.6	0.9	-2.9	3.4	-4.4	7.2	-11.8	6.4
Consumer goods	<10.8>	12.3	-10.0	-9.1	-0.3	-8.9	7.0	-7.9	10.1	-15.4	8.4
Information-related goods ⁵	<12.5>	36.8	8.0	-3.1	-4.0	-1.2	4.1	-1.9	2.6	-4.2	1.3
Capital goods and parts ⁶	<11.4>	23.1	13.6	0.3	8.0	-10.8	1.8	1.2	-4.0	10.3	-9.6
Real imports		10.3	0.9	-3.7	-1.5	-7.8	3.3	-2.1	3.3	-3.3	-0.2

Notes: 1. Seasonally adjusted by X-11. 98/Q4 are Oct-Nov averages in terms of quarterly amount.

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

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

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

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

6. Excluding information-related goods.

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

Overseas Economic Conditions and Real Effective Exchange Rate

(1) Real Effective Exchange Rate ¹

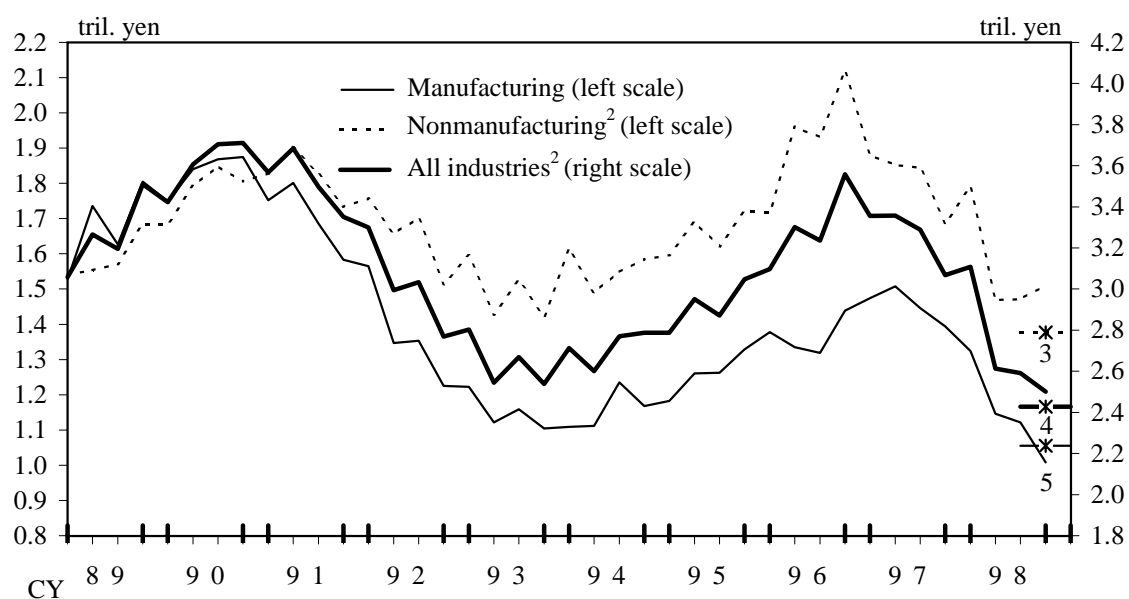
Notes: 1. Monthly average. The figure for January 1999 is January 1-18 average. Calculated by Bank of Japan.
 Figures are index of weighted average of yen's real exchange rates versus 24 major currencies which are calculated from exchange rates and price indexes of the respective countries.

(2) Real GDP Growth Rates in Overseas Economies

		CY97	98	99	98 Q1	Q2	Q3	Q4
United States ¹		3.9	(3.6)	(2.2)	5.5	1.8	3.7	n.a.
European Union ¹		2.7	(2.8)	(2.1)	3.1	2.1	n.a.	n.a.
Germany		2.2	2.8	(2.0)	5.9	0.2	3.5	n.a.
France		2.3	(3.0)	(2.2)	2.8	3.3	2.1	n.a.
United Kingdom		3.5	(2.7)	(0.7)	1.9	2.0	1.6	n.a.
China		8.8	7.8	(7.4)	7.2	(Jan-Jun) 7.0	(Jan-Sep) 7.2	(Jan-Dec) 7.8
East Asia ²	Korea	5.5	(-6.4)	(0.5)	-3.9	-6.8	-6.8	n.a.
	NIEs							
	Taiwan	6.8	(4.9)	(4.6)	5.9	5.2	4.7	n.a.
	Hong Kong	5.3	(-4.8)	(-0.8)	-2.6	-5.1	-7.1	n.a.
	Singapore	7.8	1.3	(-0.5)	6.2	1.8	-0.7	-1.5
	4 Countries of ASEAN							
Thailand	-0.4	(-8.0)	(0.1)	n.a.	n.a.	n.a.	n.a.	
Indonesia	4.9	-13.7	(-3.2)	-6.4	-16.8	-17.4	-19.5	
Malaysia	7.7	(-6.0)	(-0.3)	-2.8	-6.8	-8.6	n.a.	
Philippines	5.1	(-0.2)	(1.1)	1.6	-0.8	-0.1	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) Machinery Orders¹

Notes: 1. Seasonally adjusted data.

Figures for 1998/Q4 are averages of October and November in terms of quarterly amount.

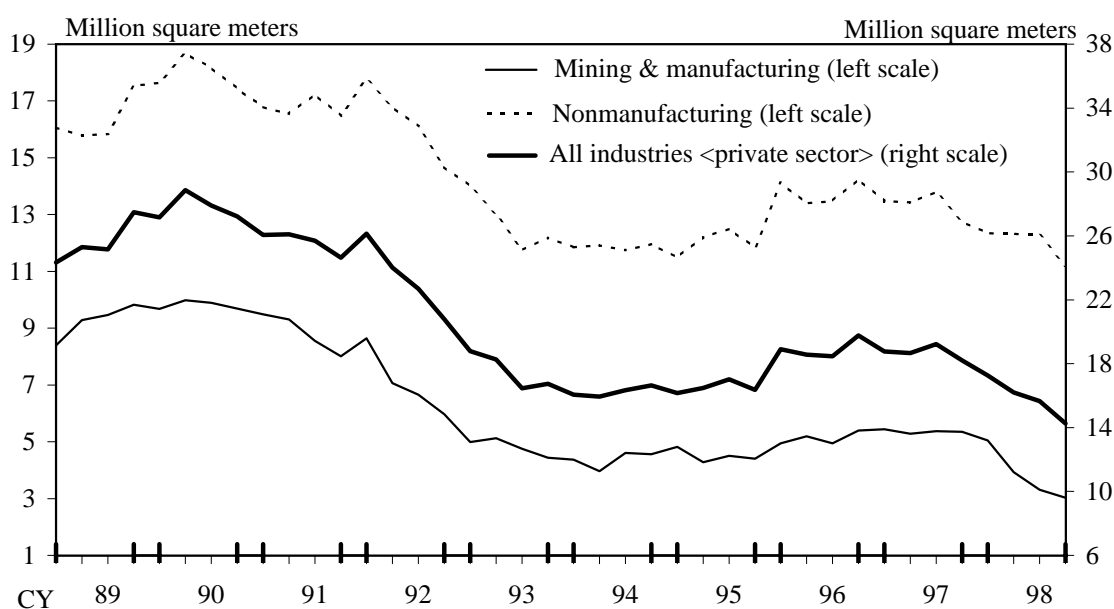
2. Excludes orders from electric power companies, and shipbuilding orders.

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)



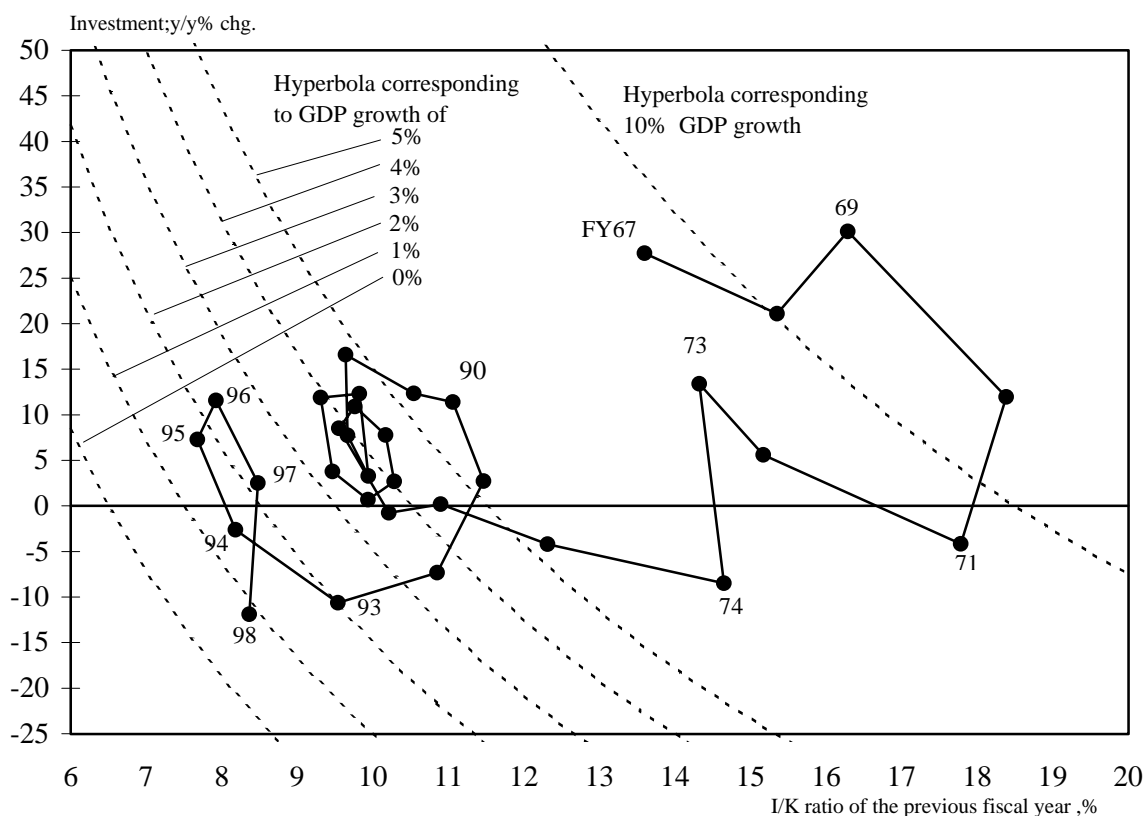
Notes: 1. Seasonally adjusted by X-11.

2. Figures for 1998/Q4 are averages of October and November in terms of quarterly amount.

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

Capital Stock Cycle

All Industries

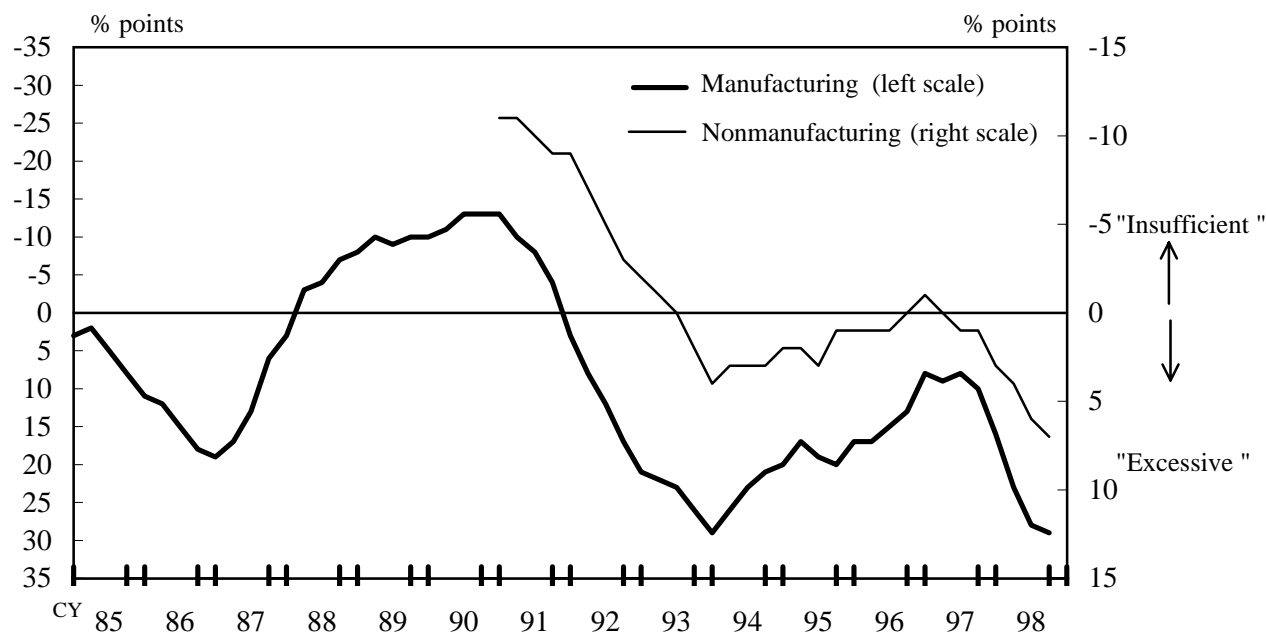


- Notes: 1. The growth rate of Investment in FY98 is that in the first half of FY98.
 2. Dotted hyperbolas explain the relationship between the growth rate of investment and investment-capital stock ratio corresponding to each GDP growth rate.

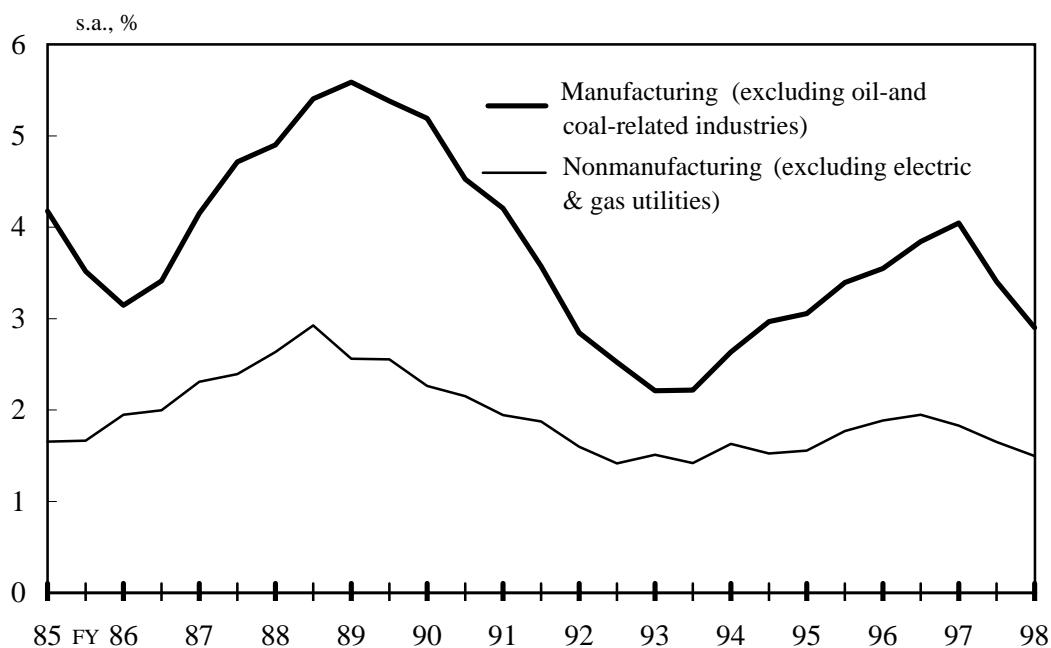
Source: Economic Planning Agency, "Gross Capital Stock of Private Enterprises", "National Income Statistic."

Production Capacity DI and Corporate Profits

(1) Operating Ratio and Production Capacity DI (*Tankan* All enterprises)



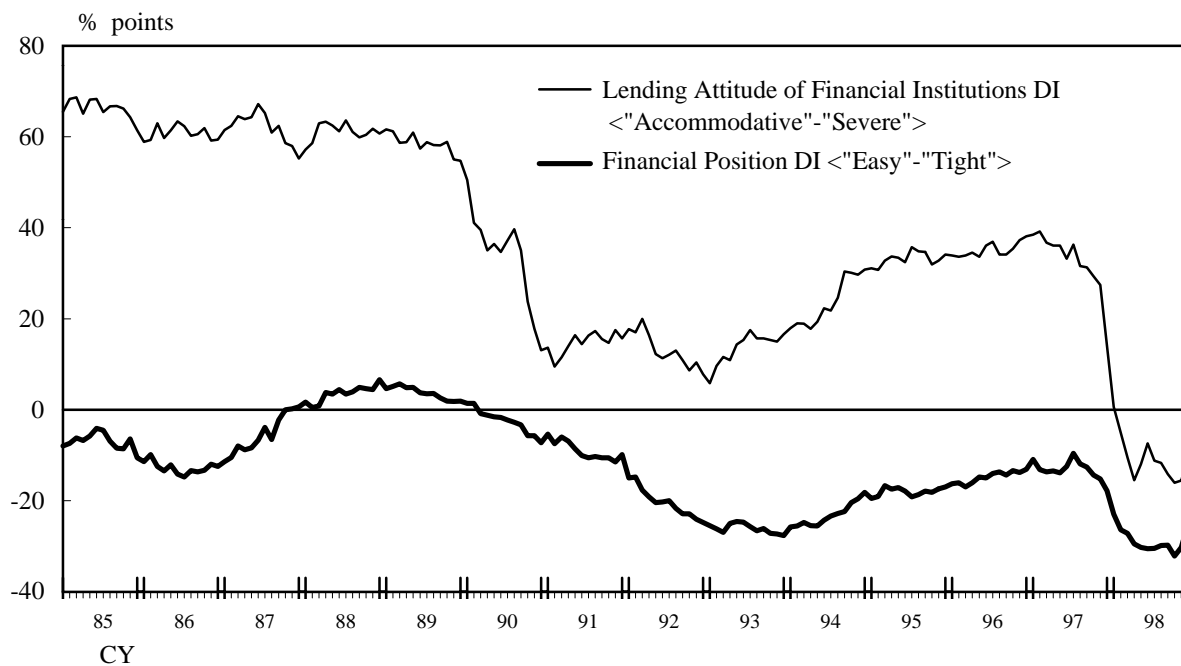
(2) Ratio of Current Profits to Scales



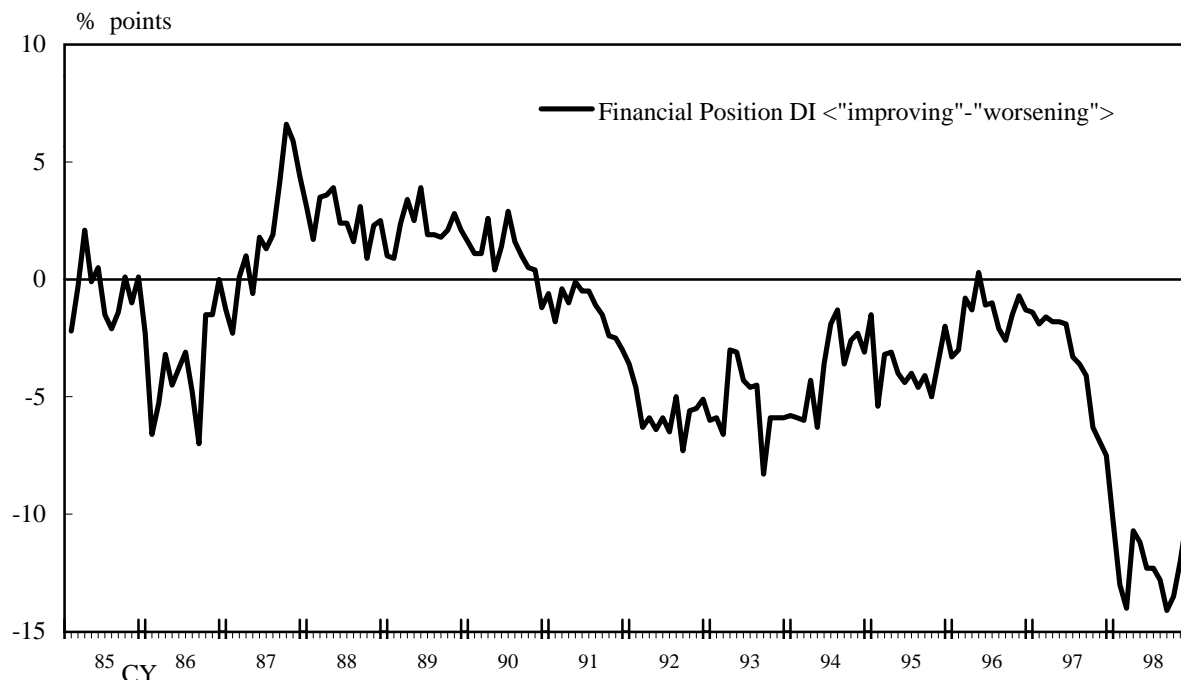
Source: Bank of Japan, "*Tankan* Short-term Economic Survey of Enterprises";
 Ministry of Finance, "Financial Statements Statistics of Corporations by Industry, Quarterly."

Corporate Finance-Related Indicators

(1) Monthly Survey on Trends of Small Businesses¹



(2) Business Survey Index for Small and Medium-Sized Businesses²



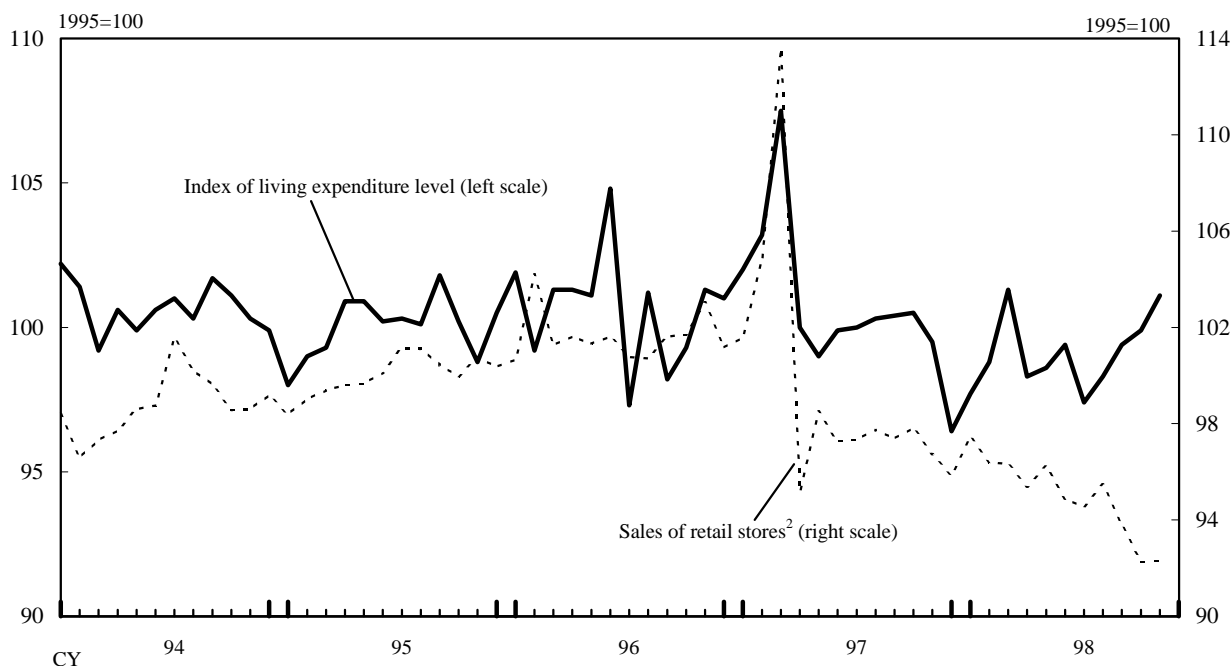
Notes: 1. Sample: 900 Companies (Responses: 612 <December 1998 Survey>).

2. Sample: 800 Companies (All responded <December 1998 Survey>).

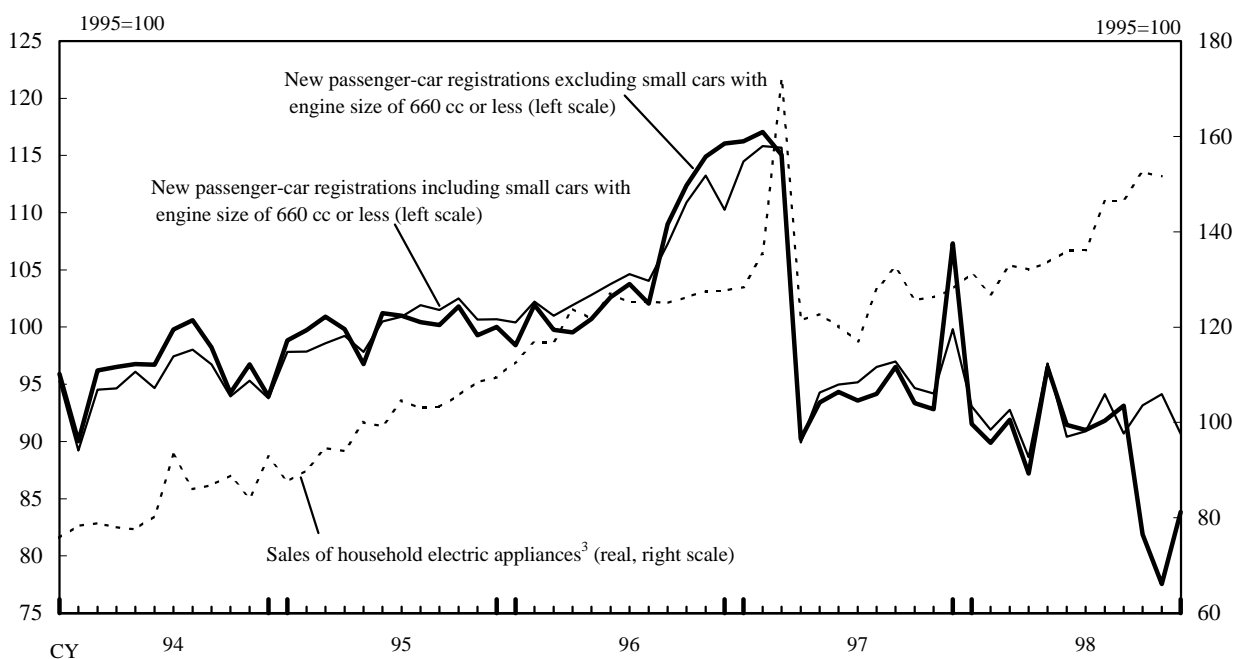
Sources: Japan Finance Corporation for Small Businesses, "Monthly Survey on Trends of Small Businesses";
The Shoko Chukin Bank, "Business Survey Index for Small and Medium-Sized Businesses."

Private Consumption¹ (1)

(1) Household Spending



(2) Sales of Durable Goods



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

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

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

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

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

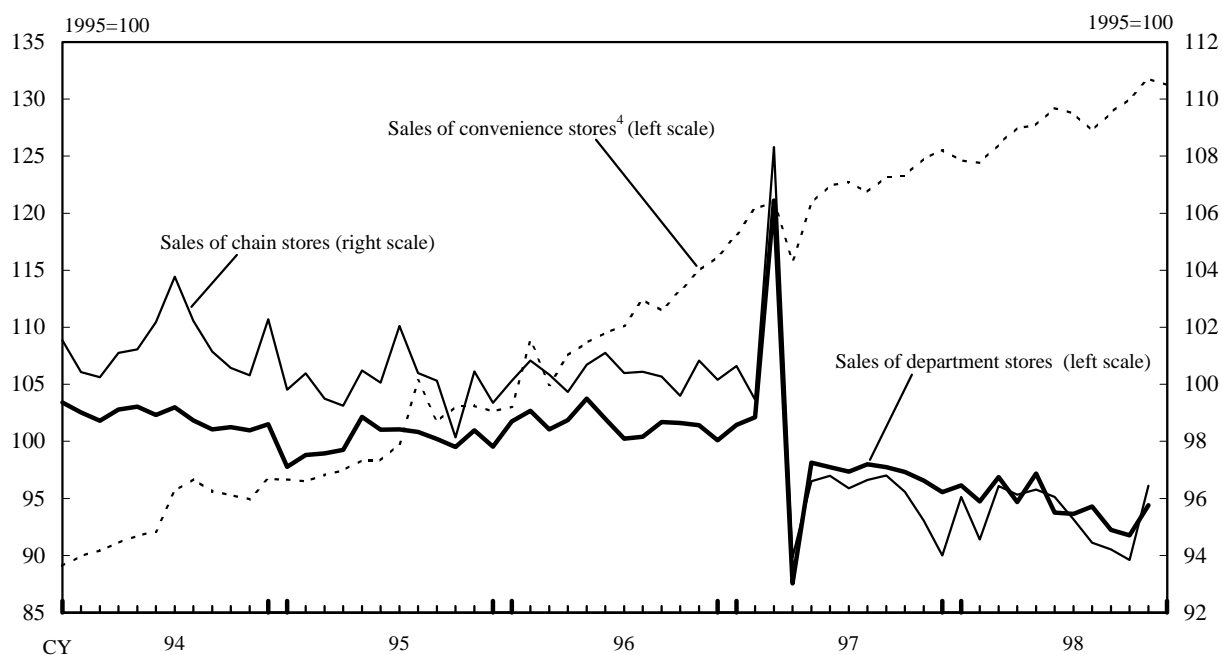
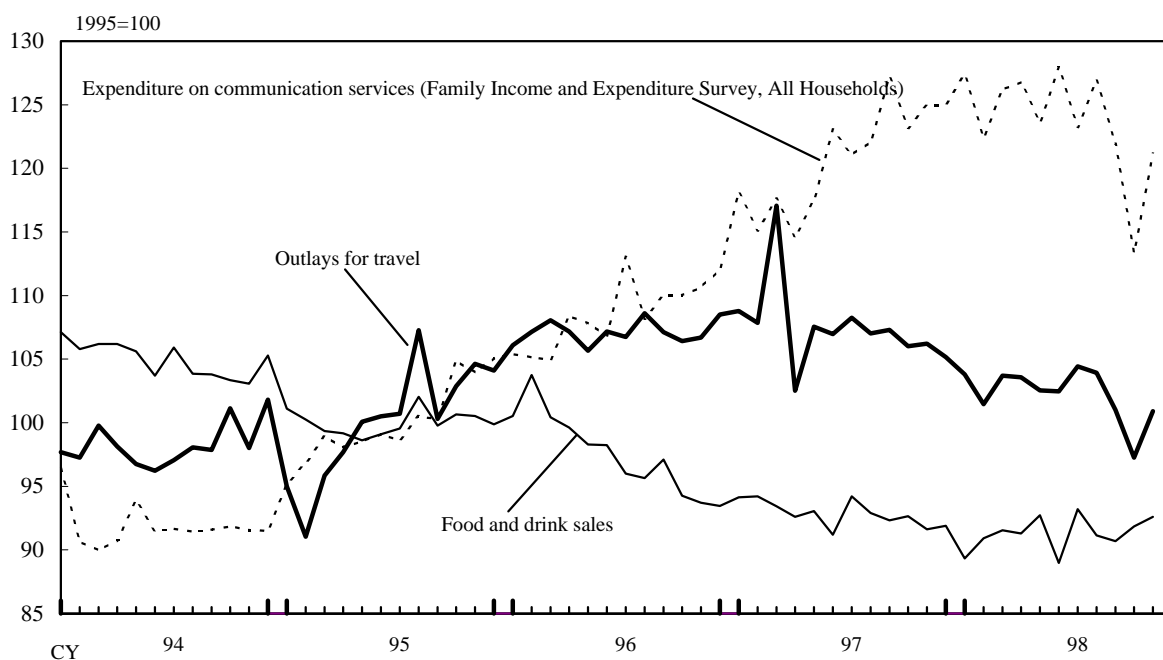
Ministry of International Trade and Industry, "Current Survey of Commerce";

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.

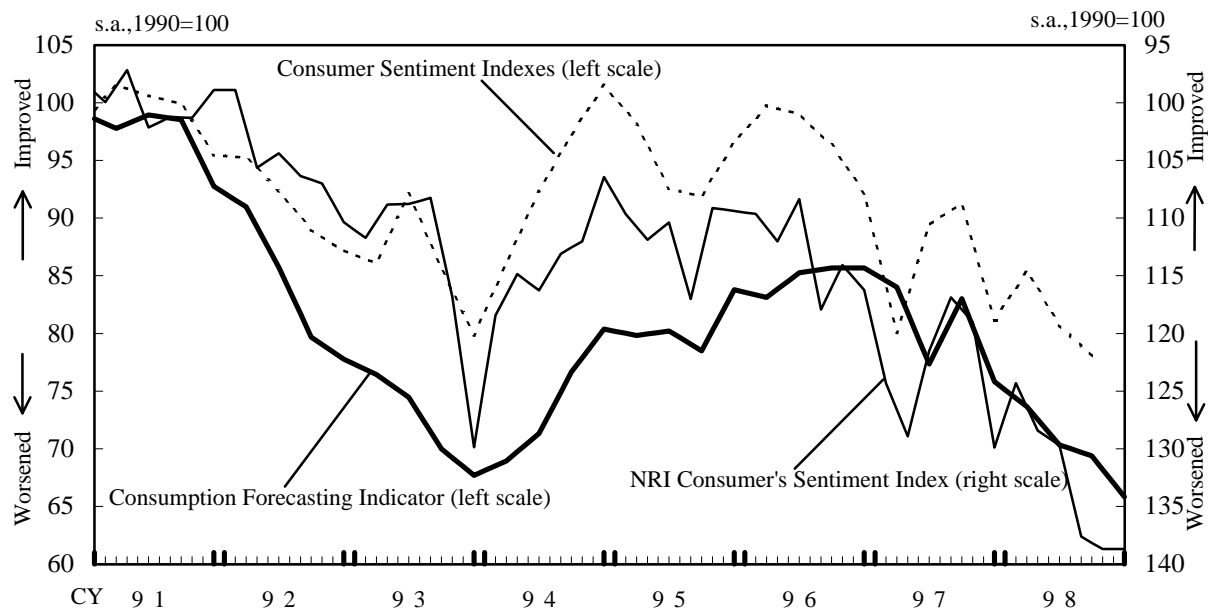
3. Outlays for travel and Food and drink sales are adjusted to exclude the effect of the rise of the consumption tax rate.

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

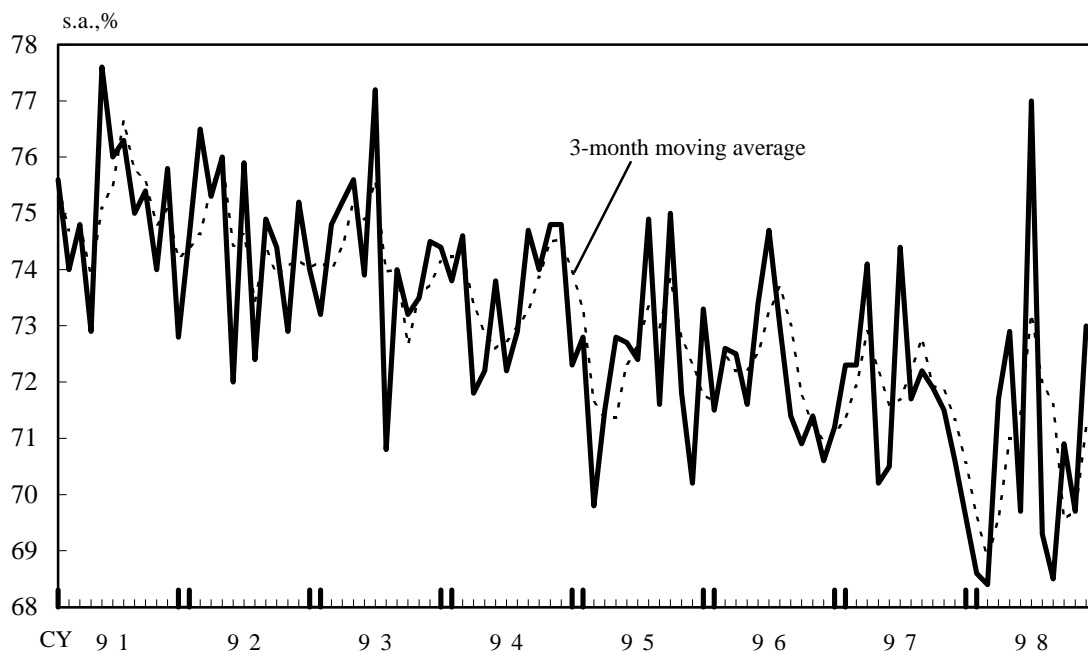
Sources: Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey"; Ministry of International Trade and Industry, "Current Survey of Commerce"; Japan Chain Stores Association, "Sales of Chain Stores"; Ministry of Transport, "Major Travel Agents' Revenue"; Foodservice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

Consumer Confidence and Propensity to Consume

(1) Surveys on consumer confidence



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

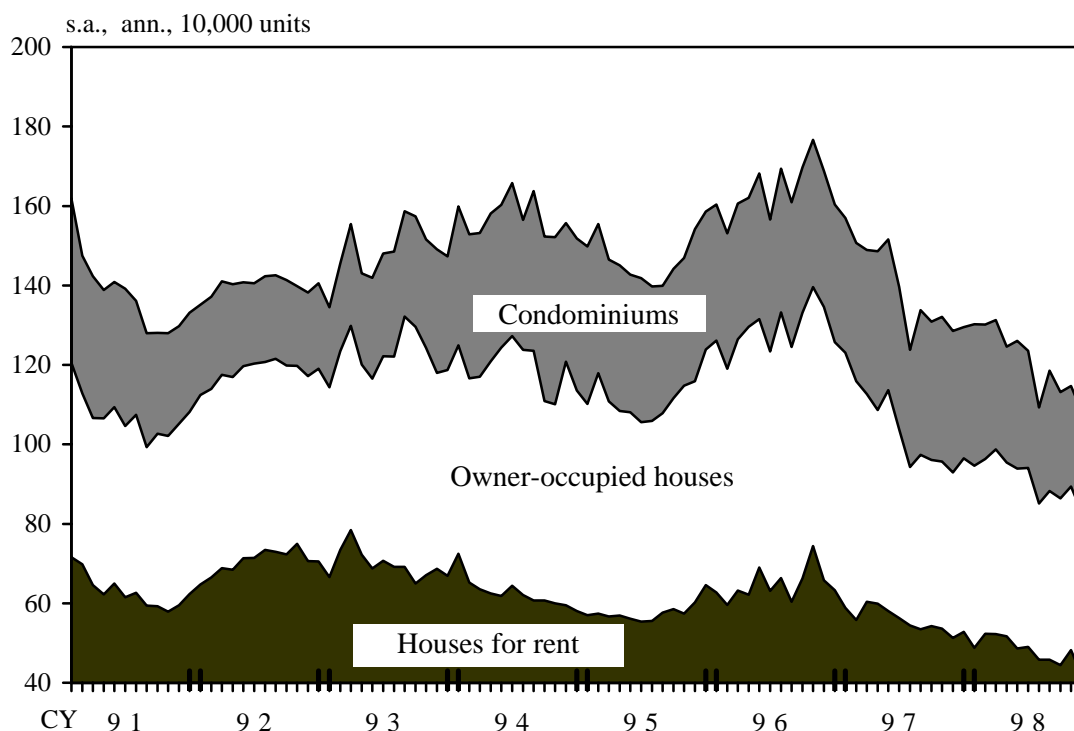


- Notes: 1. Consumer Sentiment Indexes, Consumption Forecasting Indicator, and NRI Consumer's Sentiment Index are based on surveys on consumer confidence.
 2. Data are plotted at the months of each survey.
 3. "Consumer Sentiment Indexes" is surveyed by Economic Planning Agency, "Consumption Forecasting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

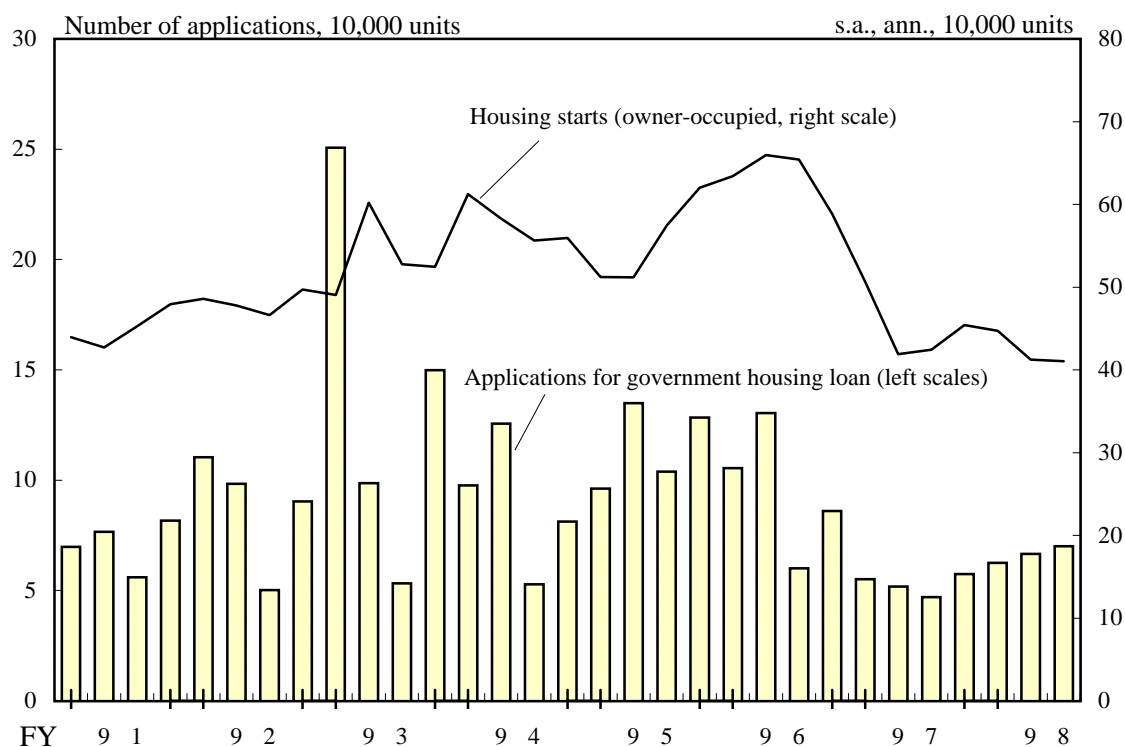
Sources: Economic Planning Agency, "Consumer Behavior Survey";
 Nikkei Research Institute of Industry and Markets (Nikkei RIM), "Consumption Forecasting Indicator";
 Management and Coordination Agency, "Monthly Report on the Family Income and Expenditure Survey";
 Nippon Research Institute (NRI), "Consumer's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

Housing Starts¹

(1) Housing starts (monthly)



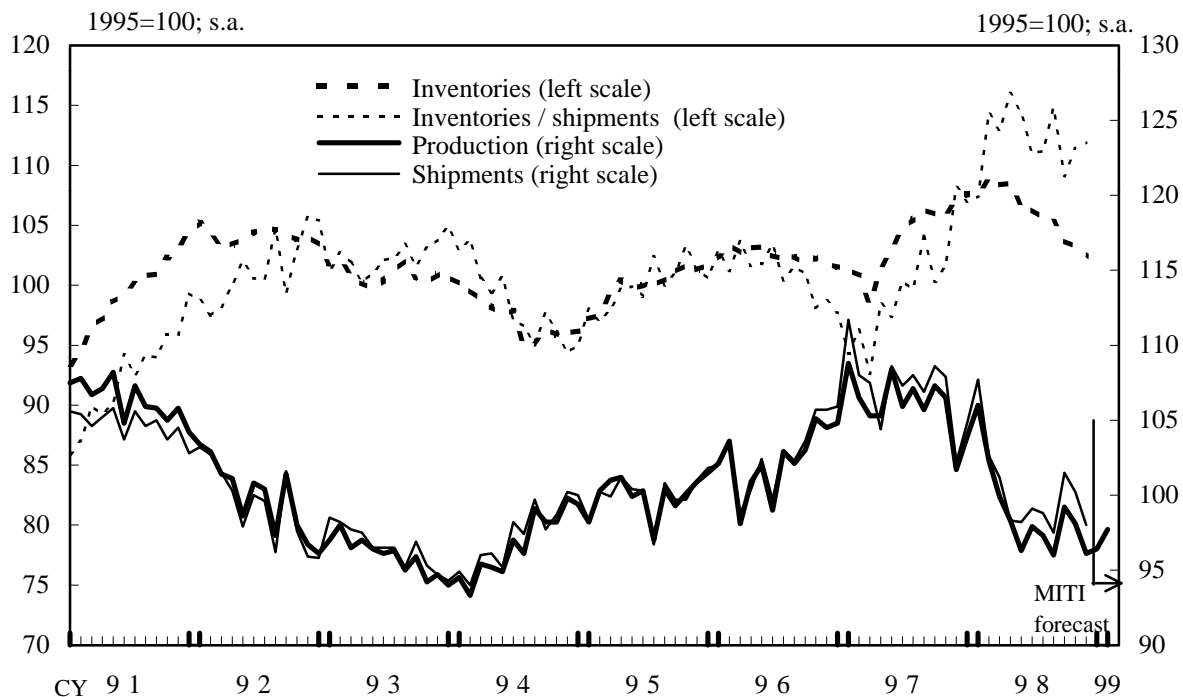
(2) Number of applications for government housing loan (for new owner-occupied homes)



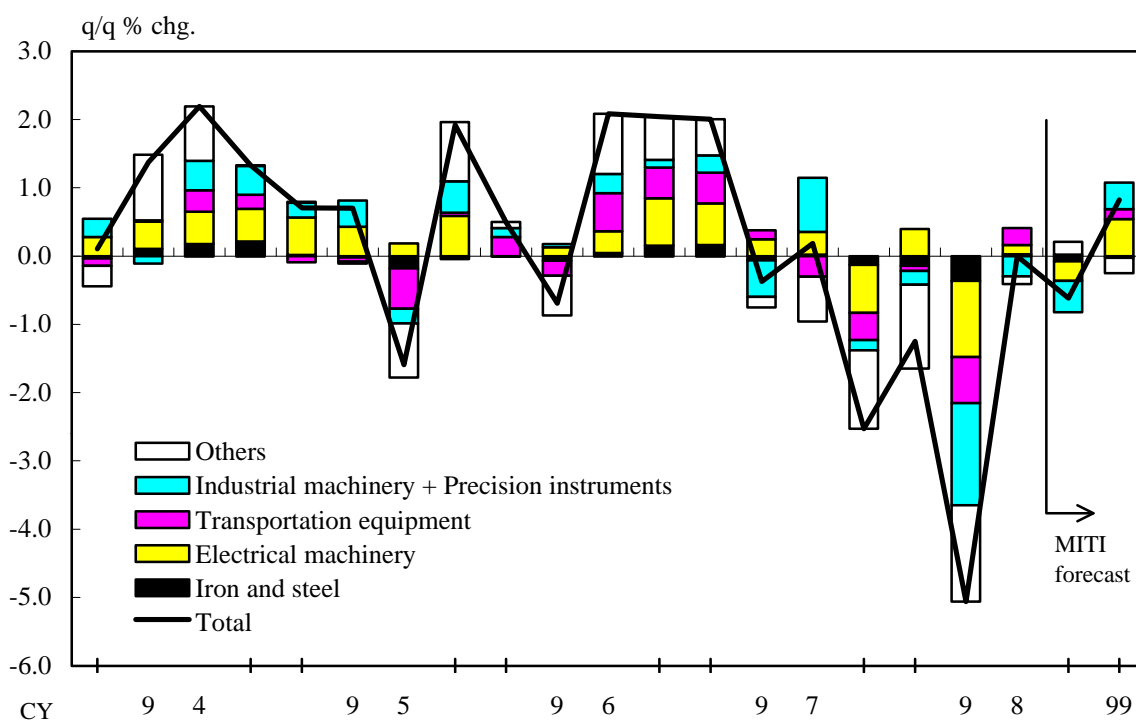
Note: The data for 98/Q3 are October-November averages converted into an annual equivalent.
 Source: Ministry of Construction, "Monthly of Construction Statistics", etc.

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



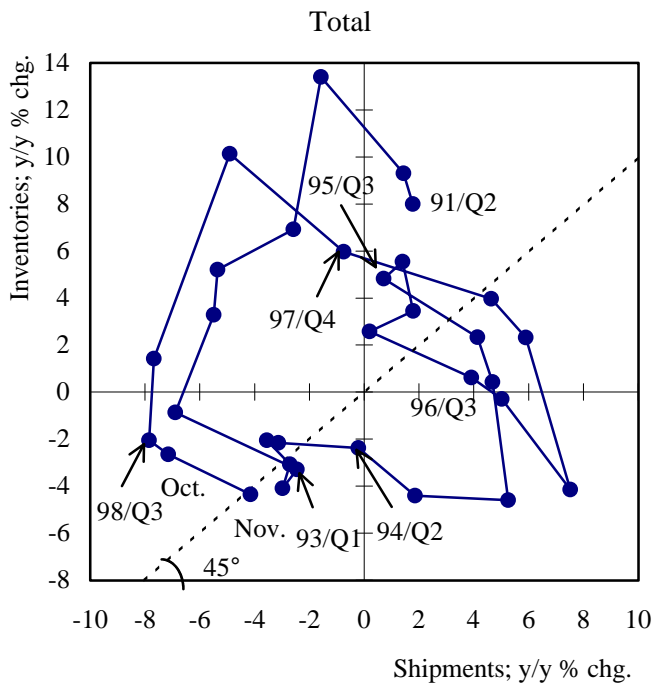
(2) Production by Industries



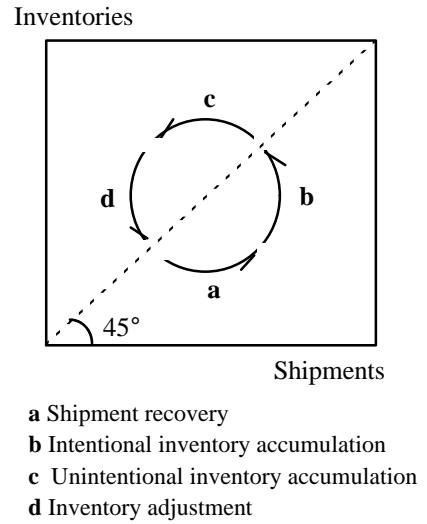
Note: Transportation equipment excludes ships and rolling stock.

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

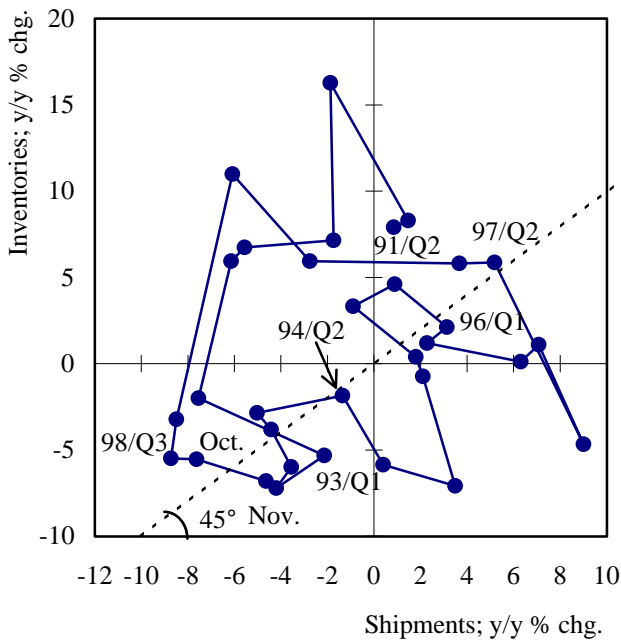
Inventory Cycle



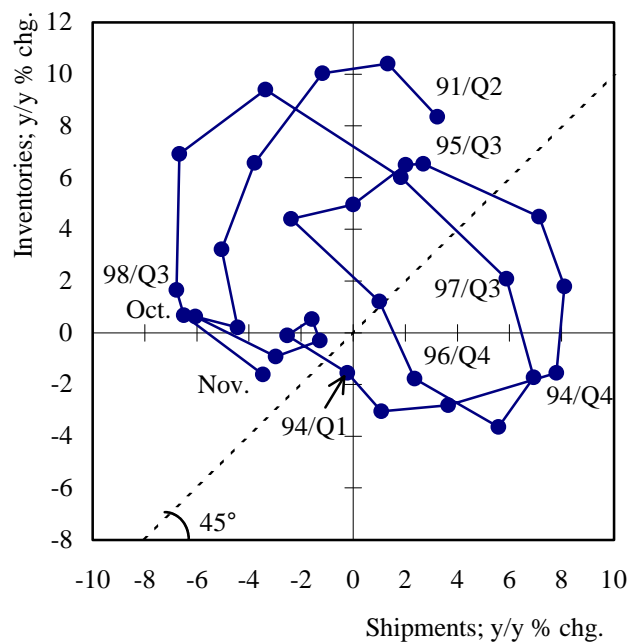
Phases in the Inventory Cycle



Final Demand Goods



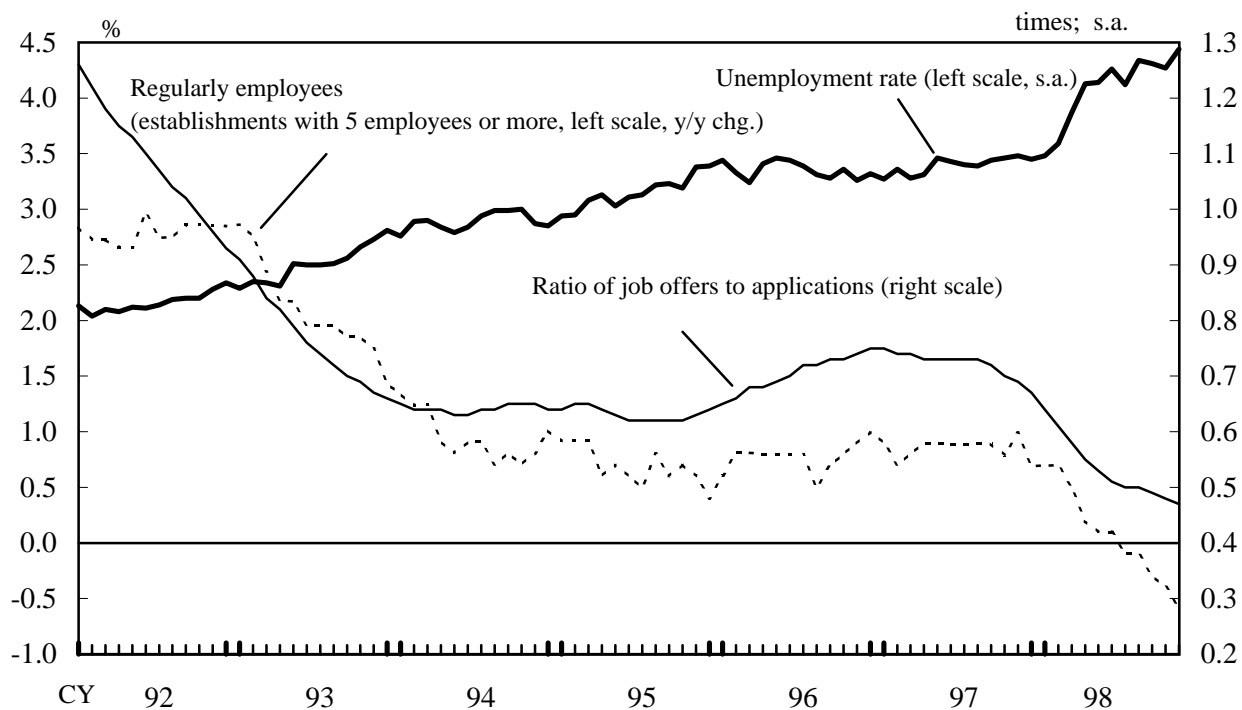
Production Goods



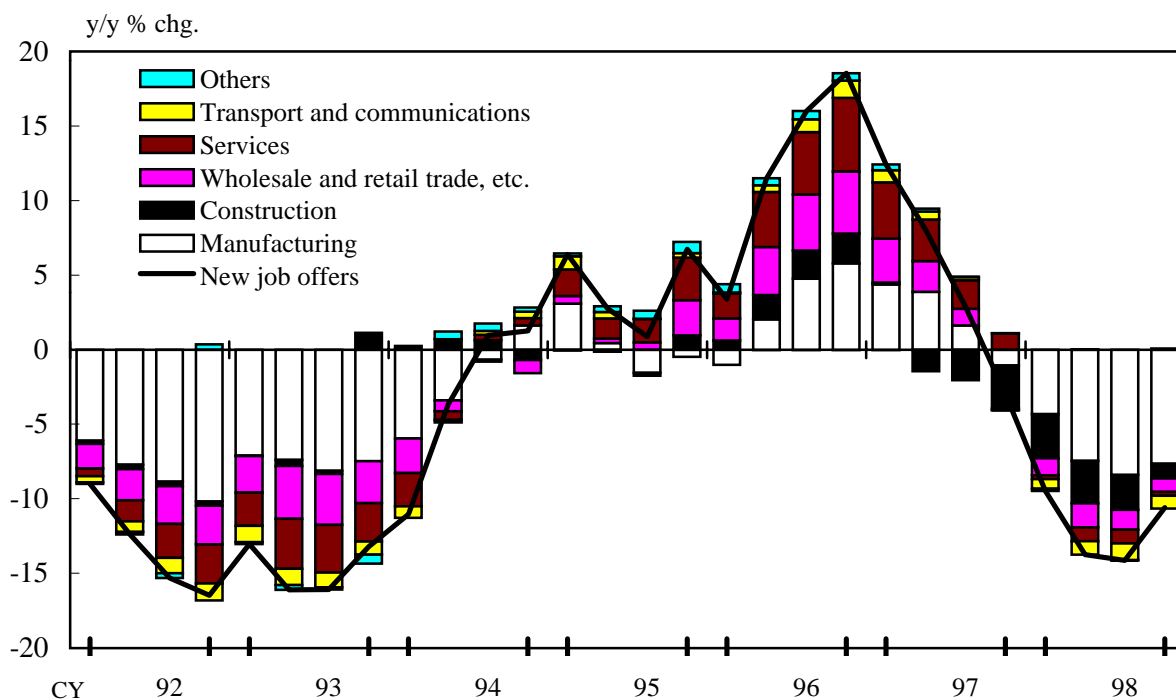
Source: Ministry of International Trade and Industry, "Indices of Industrial Production."

Labor

(1) Monthly



(2) New Job Offers¹



Note: 1.Excludes jobs offered to new graduates.
The data for 98/Q4 are the October-November average.

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

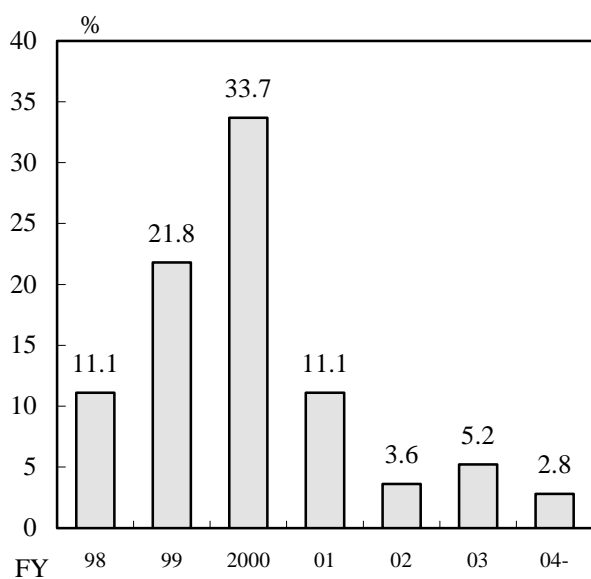
 Employment Plans

(1) Employment of New Graduates (*Tankan*)

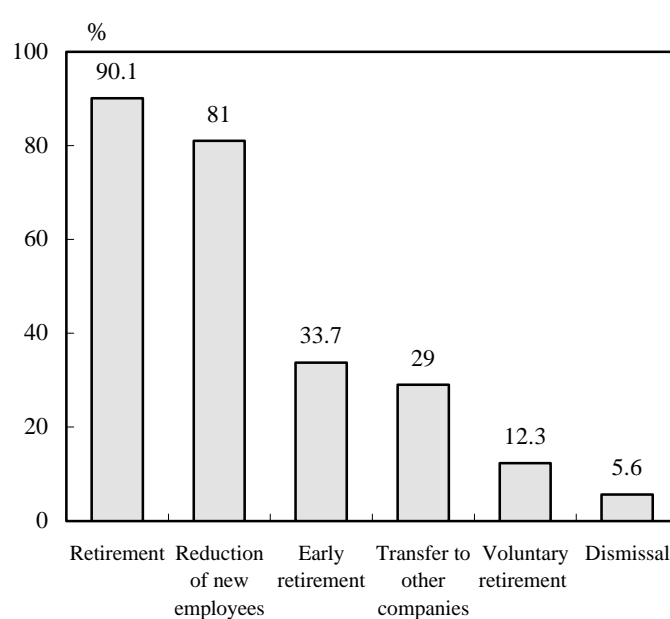
	y/y % chg.		
	FY 97 <96/11 survey>	FY 98 <97/12 survey>	FY 99 <98/12 survey>
Principal enterprises	12.7	11.8	-21.8
Small enterprises	-8.9	-10.5	-28.9

(2) Employment Reduction (Large Enterprises)^{1, 2}

End of employment reduction plans



Methods <plural answers>



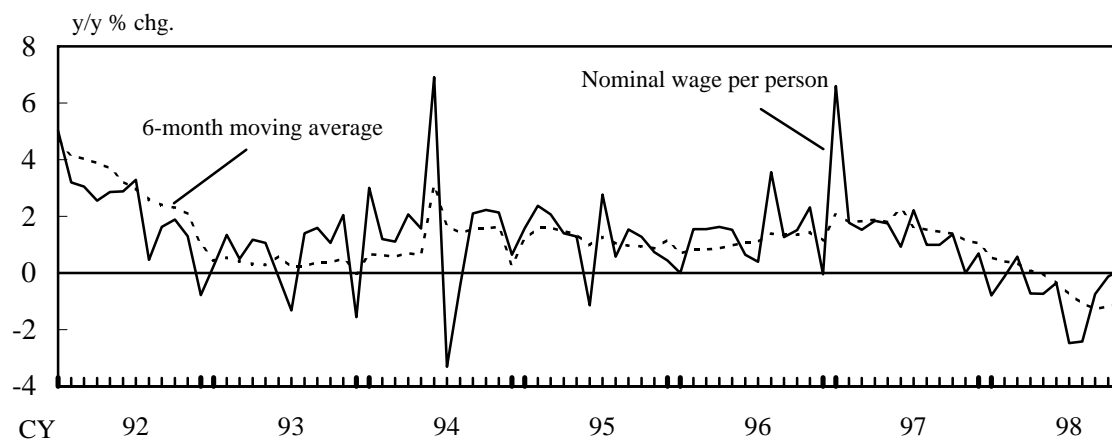
Notes: 1. Figures are shares of each item.

The data are based on 252 enterprises which plan to reduce employees.

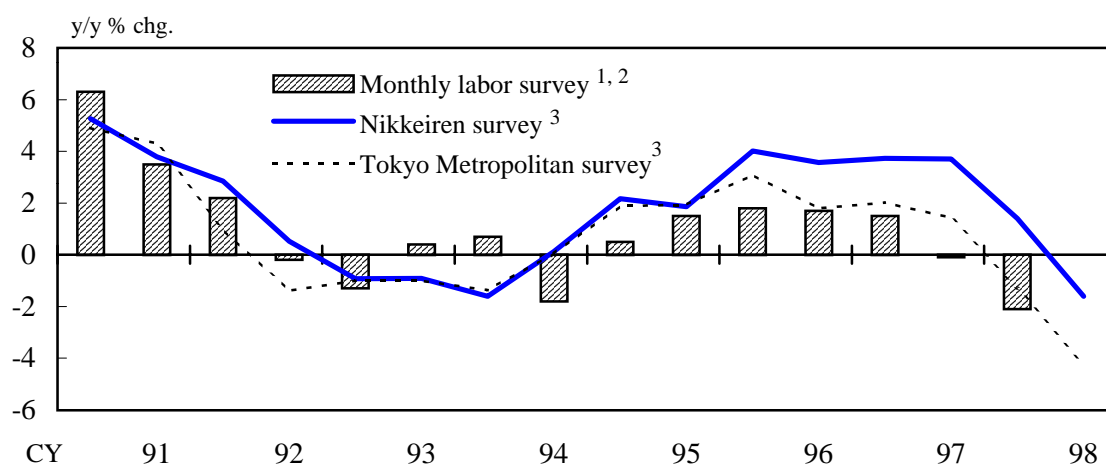
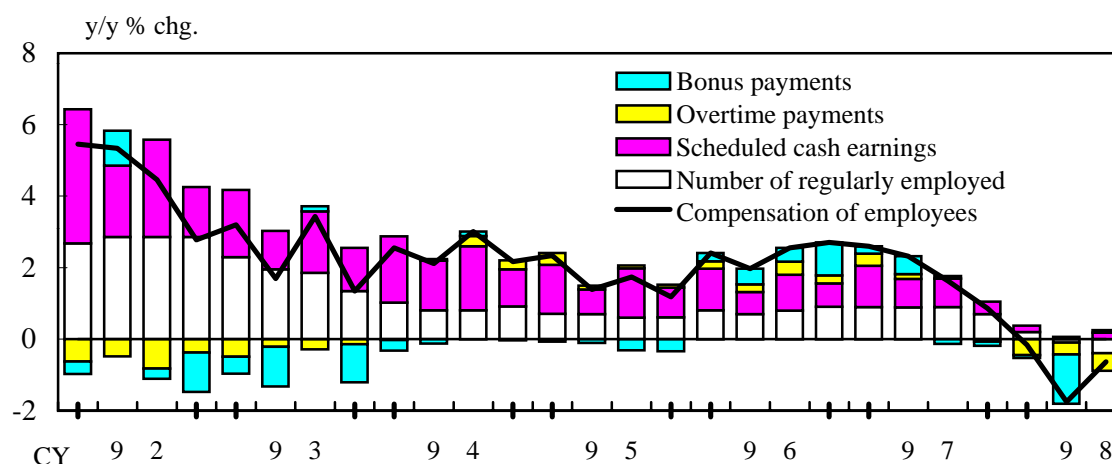
2. Sample : 5,779 enterprises with 500 employees or more (Responses : 663 <98/9 survey>)

Sources : Bank of Japan, "*Tankan* Short-Term Economic Survey of Enterprises in Japan";
The Japan Institute of Labour, "The Actual Situation of Employment Restricting."

Compensation of Employees

(1) Nominal Wage per Person¹

(2) Bonus Payments

(3) Breakdown of Compensation^{1, 4}

Notes: 1. Data for establishments with 5 employees or more.

2. Monthly labor survey : Summer bonuses=Jun-Aug, Winter bonuses=Nov-Jan.

3. Nikkeiren survey : Sample= 316 large manufacturing enterprises

Tokyo Metropolitan survey : Sample= 1,000 labor unions in Tokyo area (Responses : 844)

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

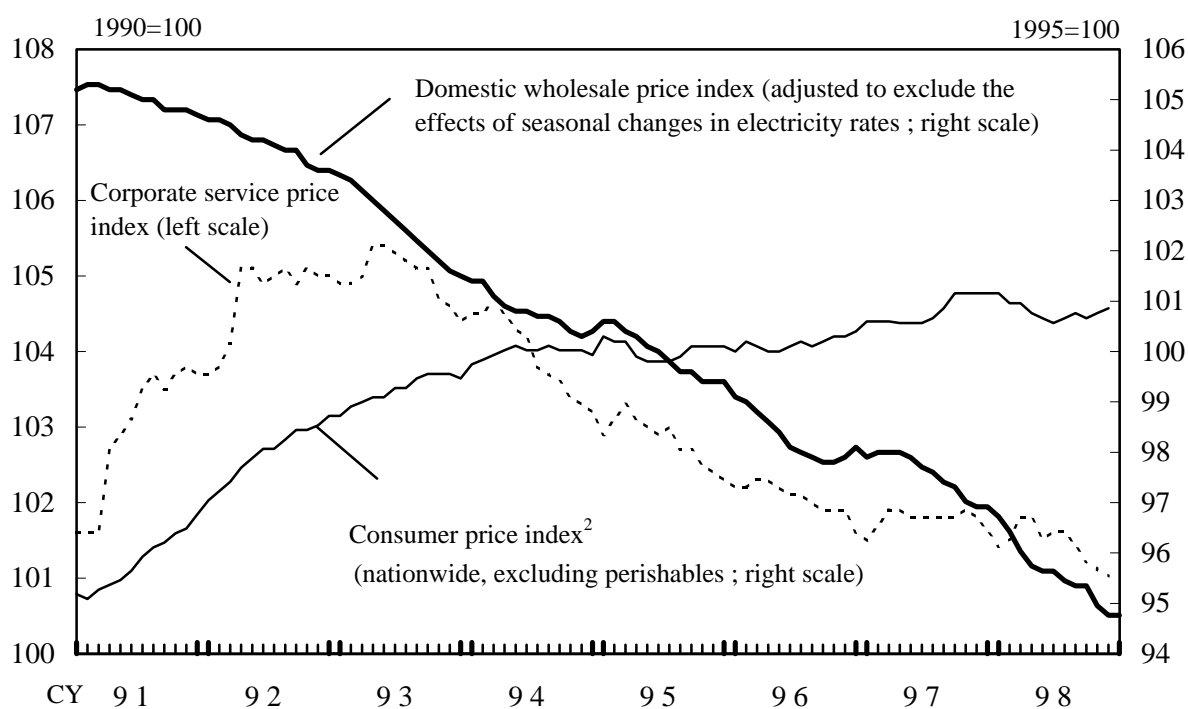
Sources: Ministry of Labor, "Monthly Labor Survey";

Japan Federation of Employers' Associations (Nikkeiren), "Labor News";

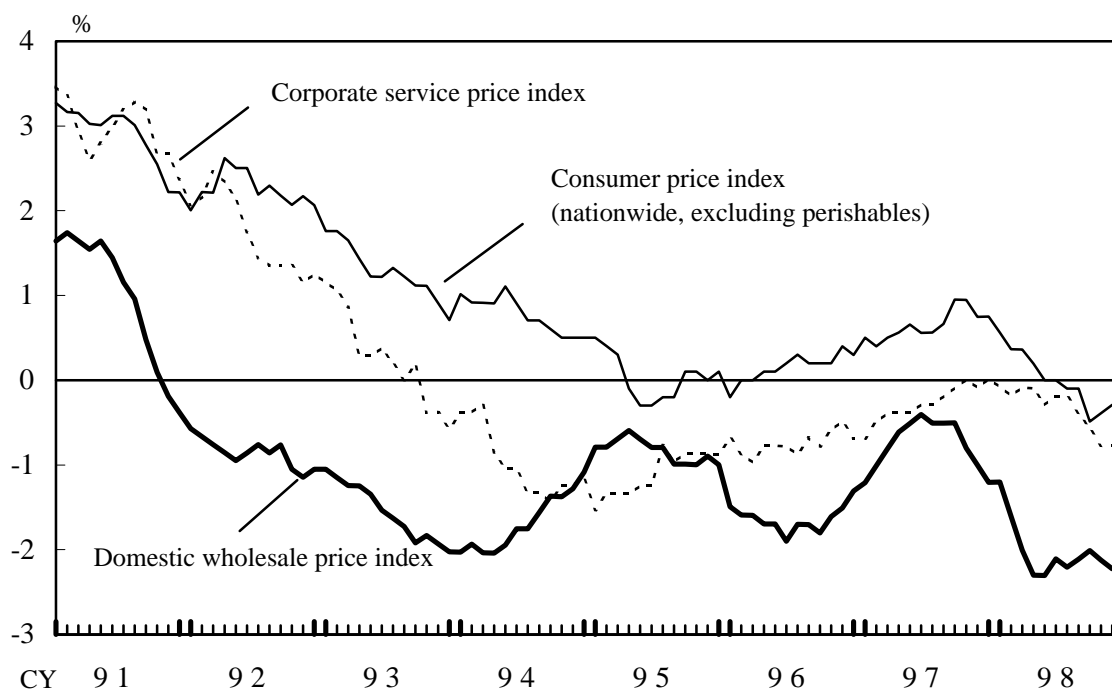
Tokyo Metropolitan Government, " Bonus Survey."

Prices¹

(1) Level



(2) Changes from a year earlier

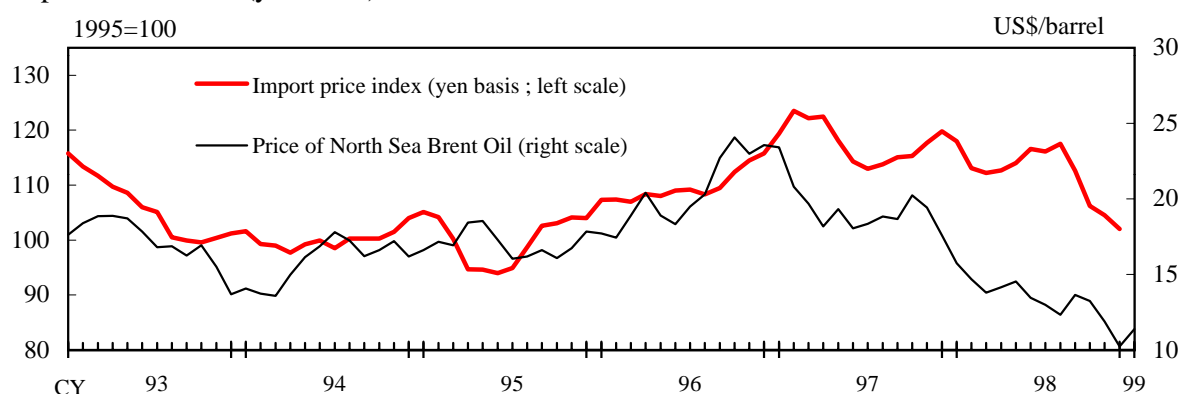


Notes: 1. Excluding the effects of the consumption tax hike in April 1997 on the assumption that prices of all taxable goods fully reflect the rise of tax rate.

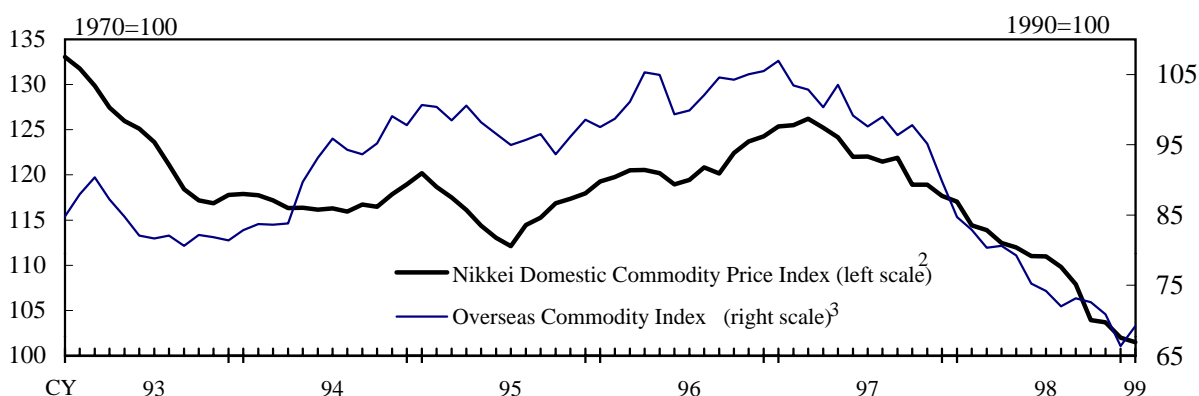
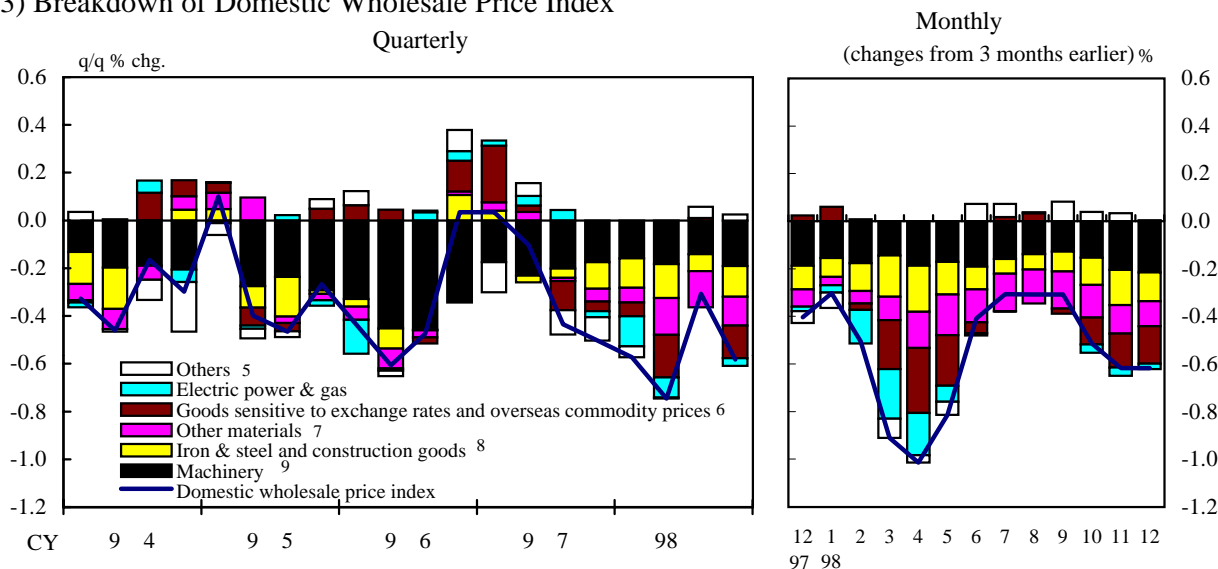
2. Based on seasonally adjusted data of CPI whose base period is 1995, although the figures before January 1995 are calculated from CPI whose base period is 1990.

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 Jan. 1999 are Jan. 1-15 average.

2. Data for Jan. 1999 are as of Jan. 14.

3. Calculated by the Research and Statistics Department, Bank of Japan. Data for Jan. 1999 are Jan. 1-15 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.

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.

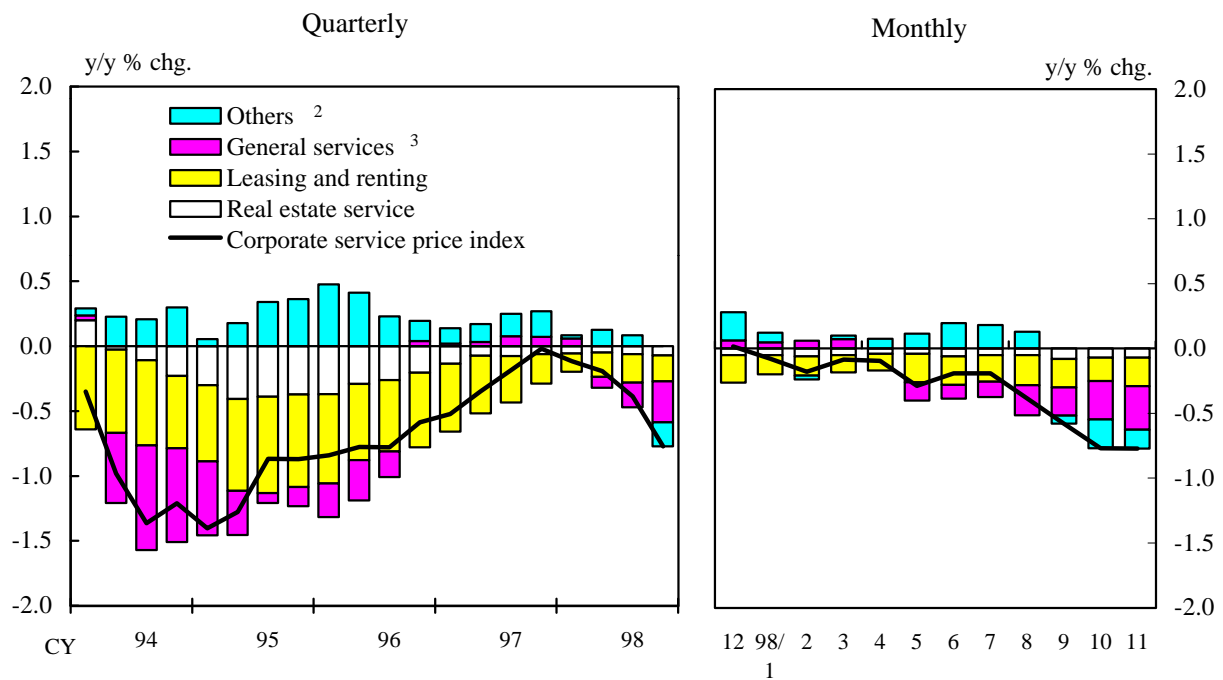
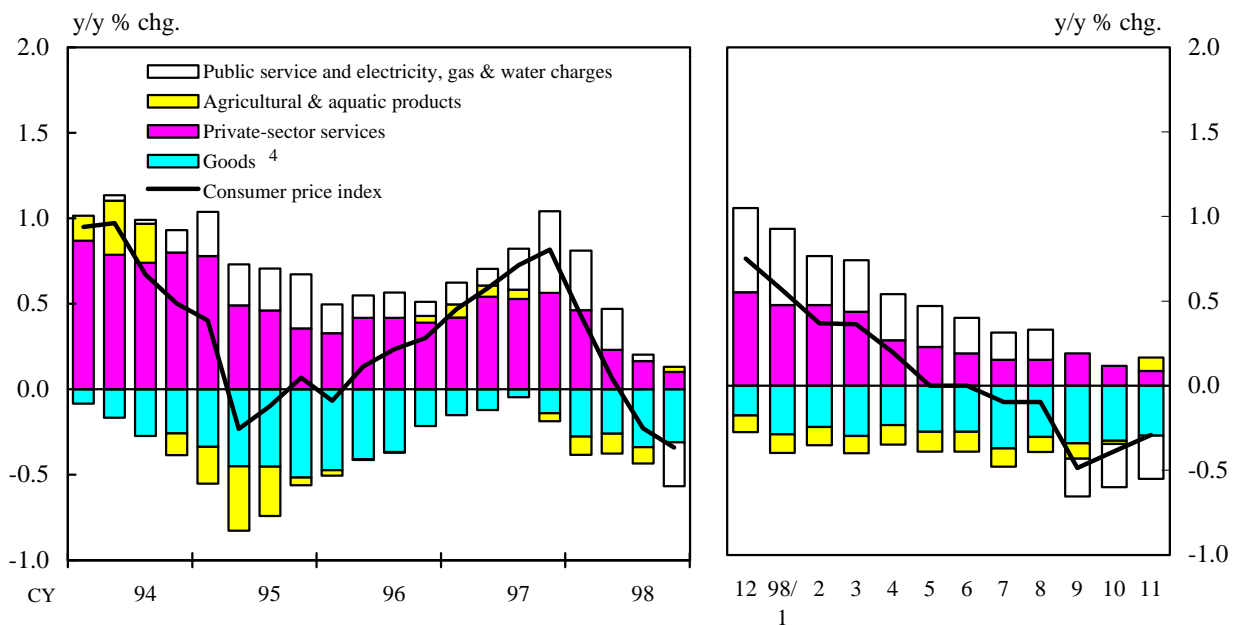
7. Other materials = chemicals + plastic products + textile products + pulp, paper & related products.

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 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.

Data for 98/Q4 are those of Oct- Nov average.

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.

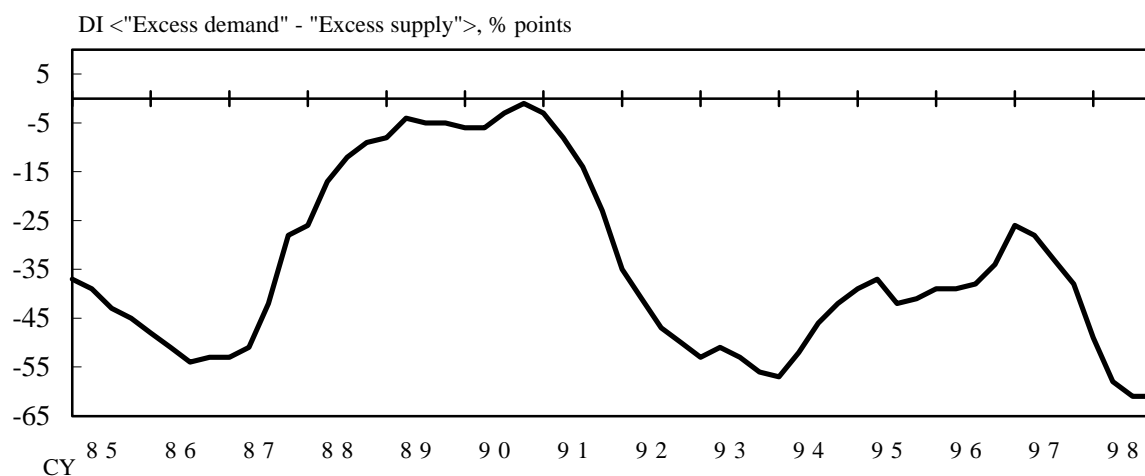
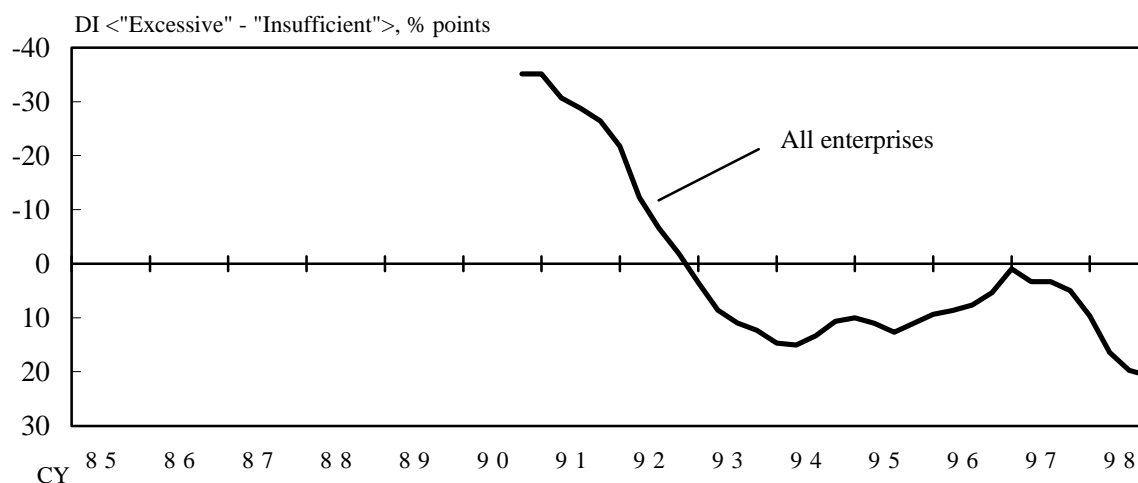
3. General services = finance & insurance + transportation + information services + communications + advertisement + building maintenance & construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

4. Excludes agricultural and aquatic products.

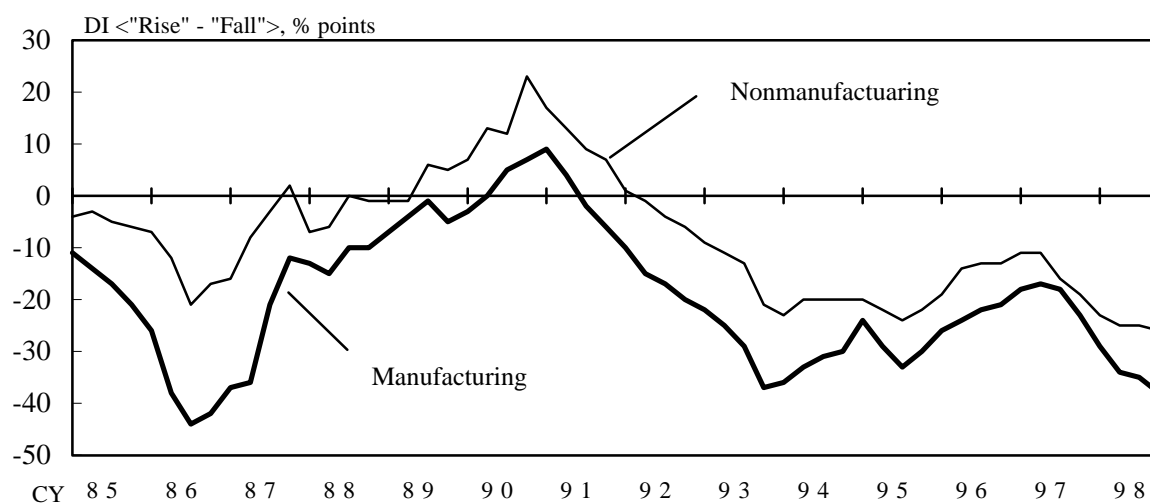
Sources: Management and Coordination Agency, "Consumer Price Index";
Bank of Japan, "Corporate Service Price Index."

Factors Contributing to the Change in Prices

(1) Supply and Demand Conditions for Products (All Enterprises, Manufacturing)

(2) Utilization of Capital and Labor¹

(3) Change in Output Prices (All Enterprises)



Note: 1. Figures are calculated by adding Production Capacity DI and Employment DI which are weighted by the relative share of capital and labor based on 1975-96 average.

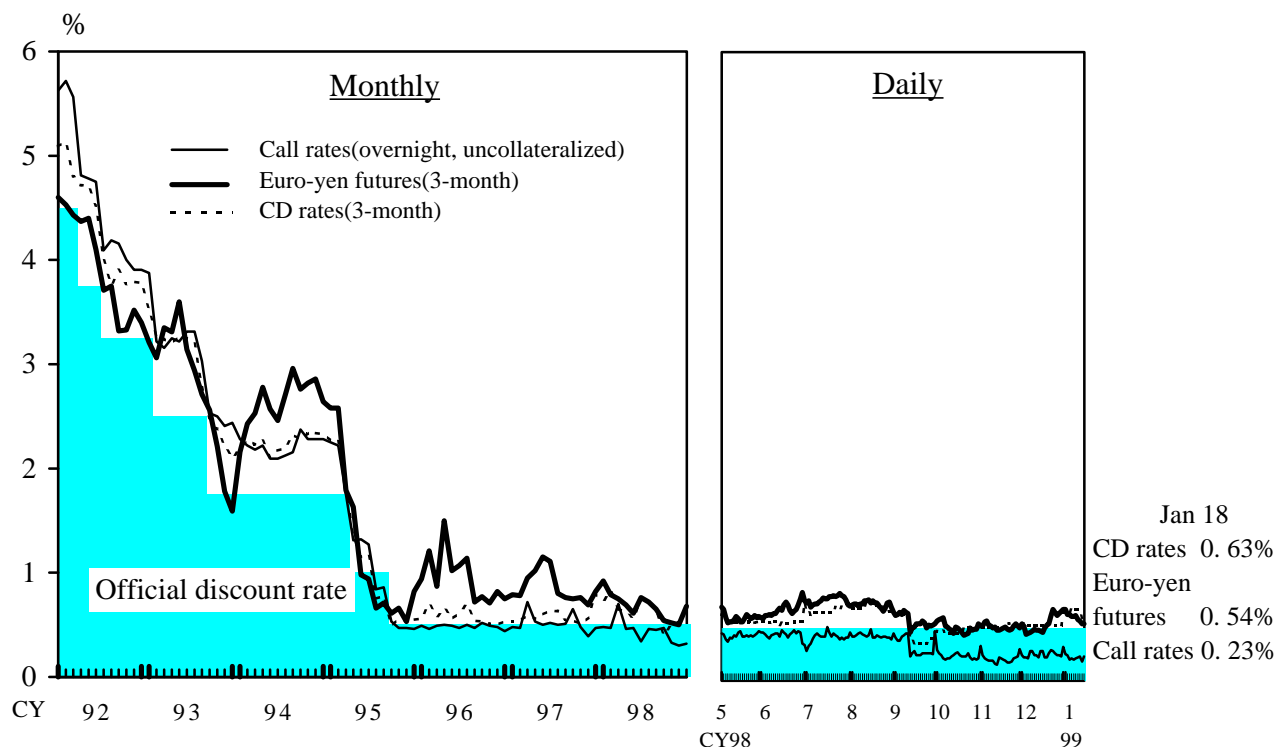
Production Capacity DI and Employment DI are calculated as "excessive" minus "insufficient".

Sources: Economic Planning Agency, "National Income Statistics";

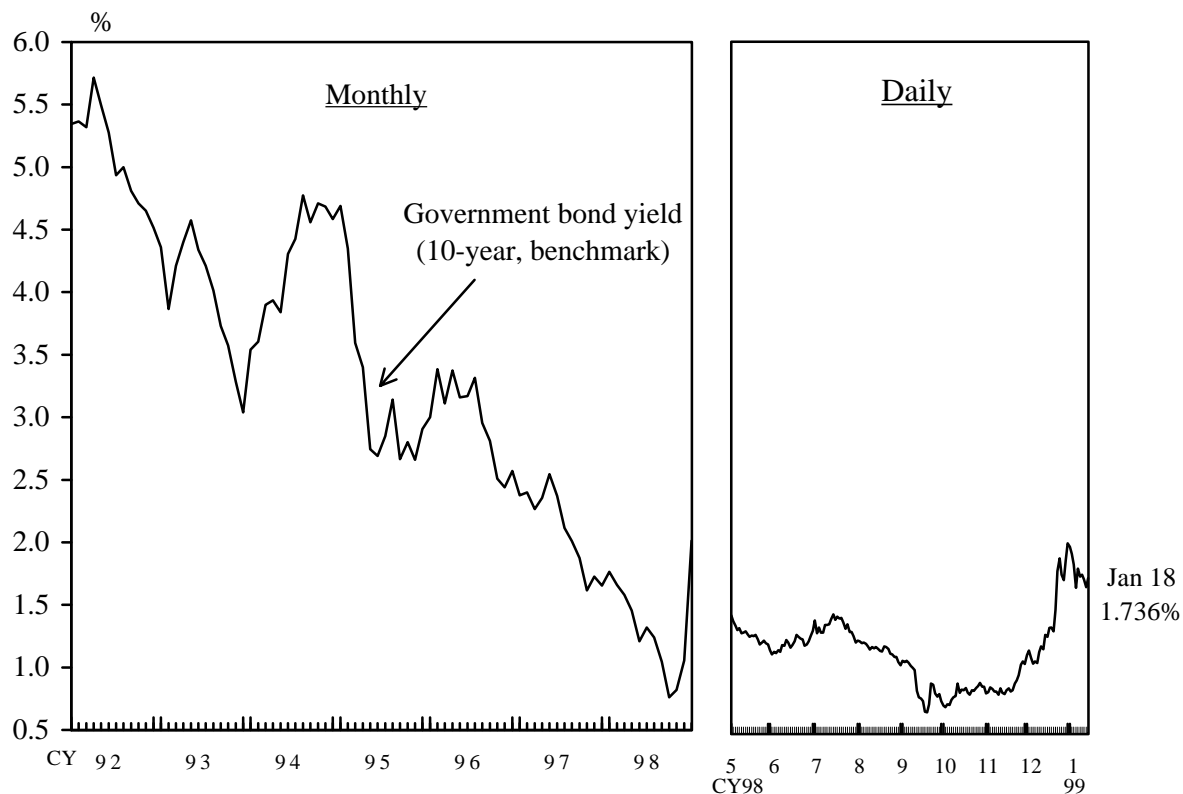
Bank of Japan, "Tankan - Short-Term Economic Survey of Enterprises in Japan."

Interest Rates

(1) Short-Term



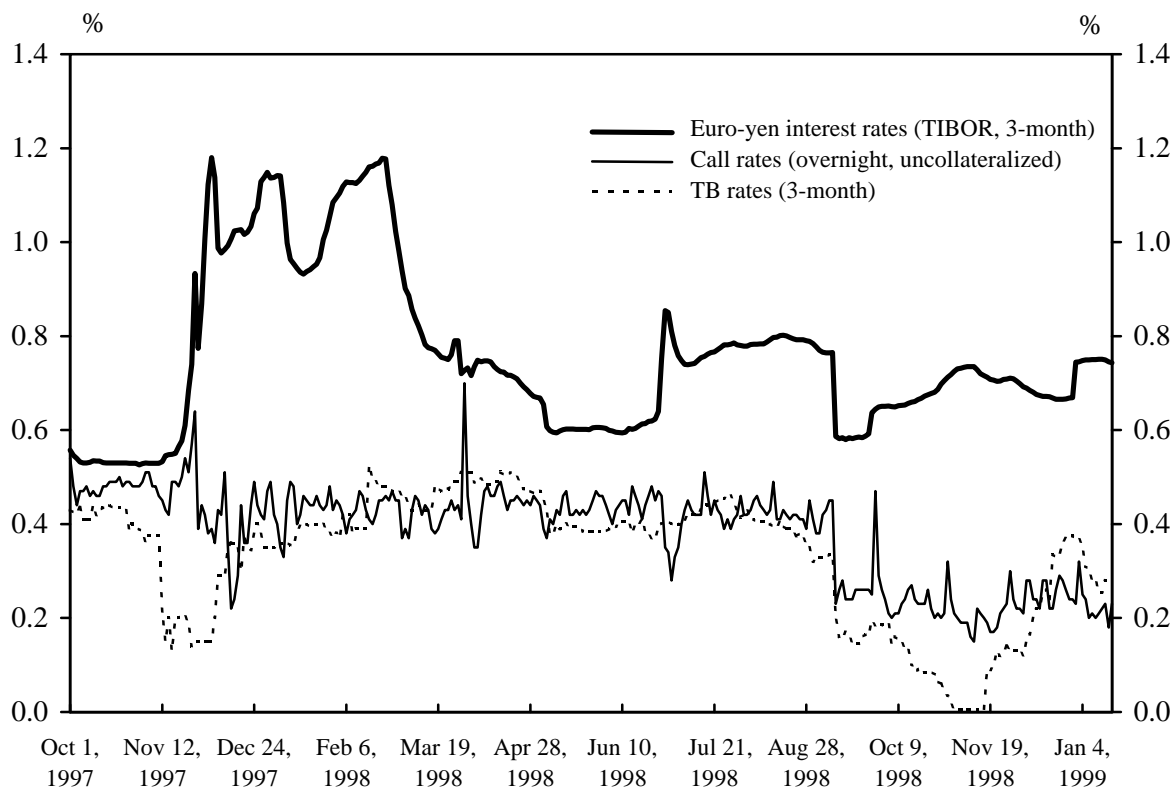
(2) Long-Term



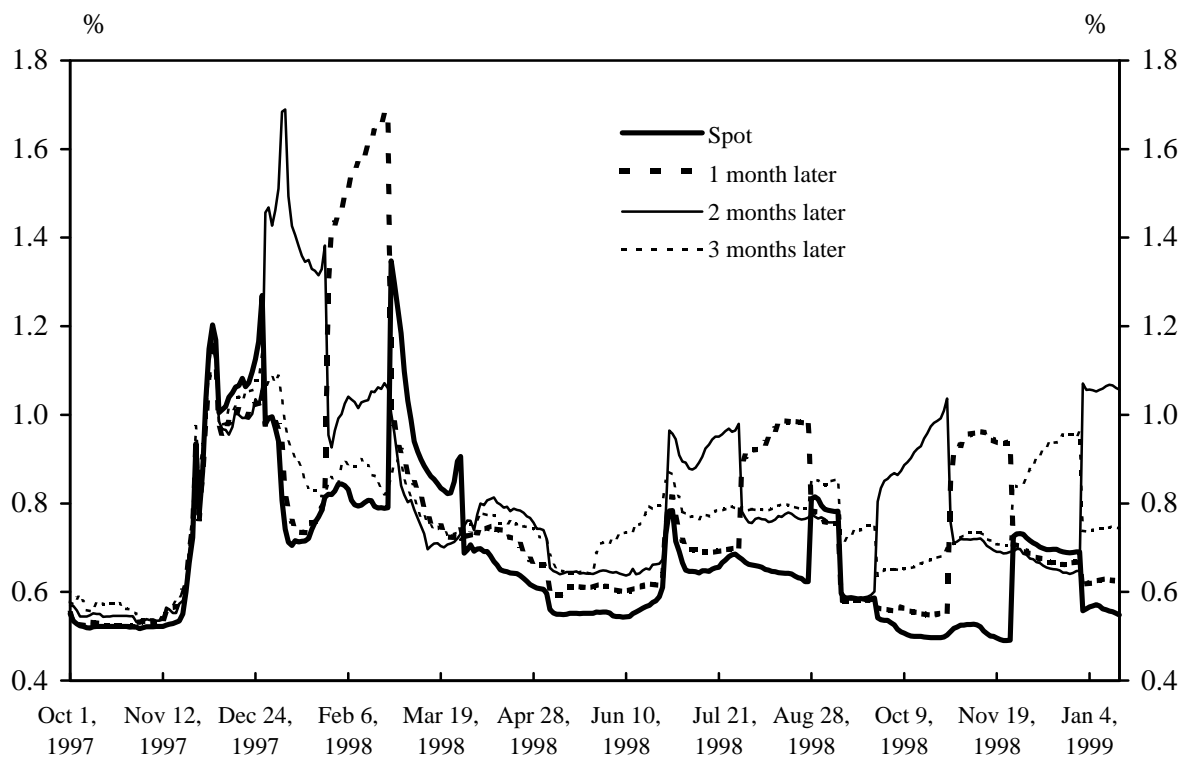
Source: Bank of Japan, "Economic Statistics Monthly."

Short-Term Money Market Rates

(1) Interest Rates on Term Instruments

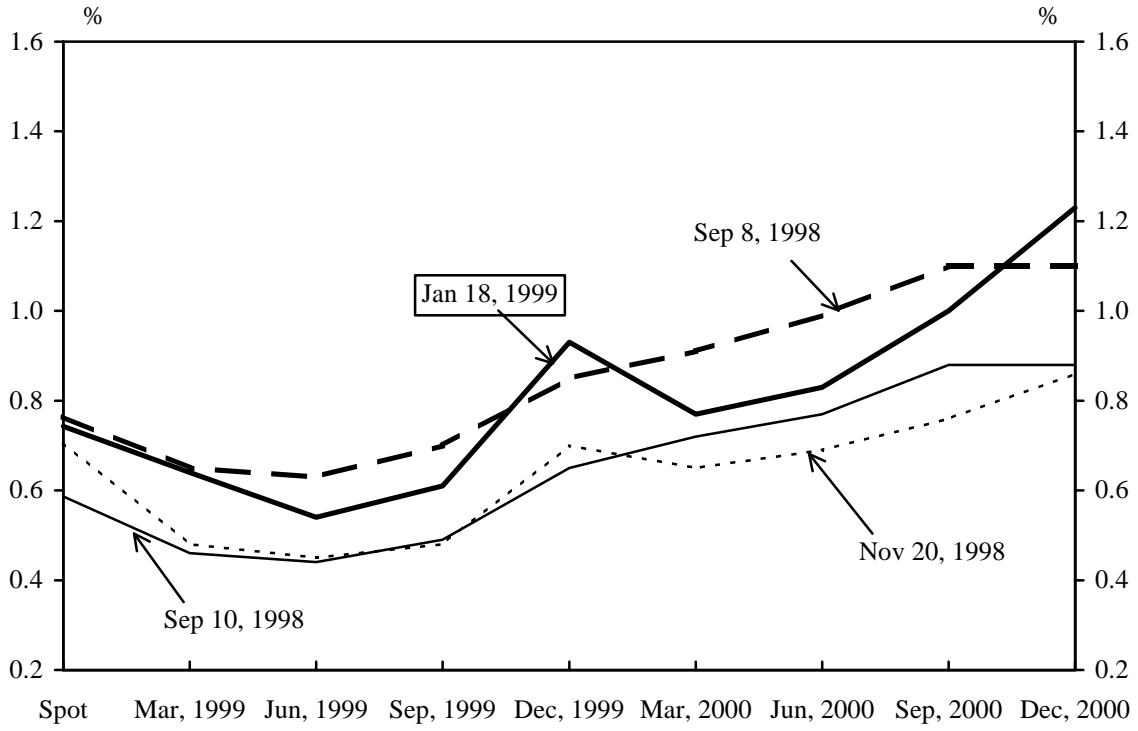


(2) Implied Forward Rate (1-Month Forward Rates Calculated from Euro-yen Interest Rates)



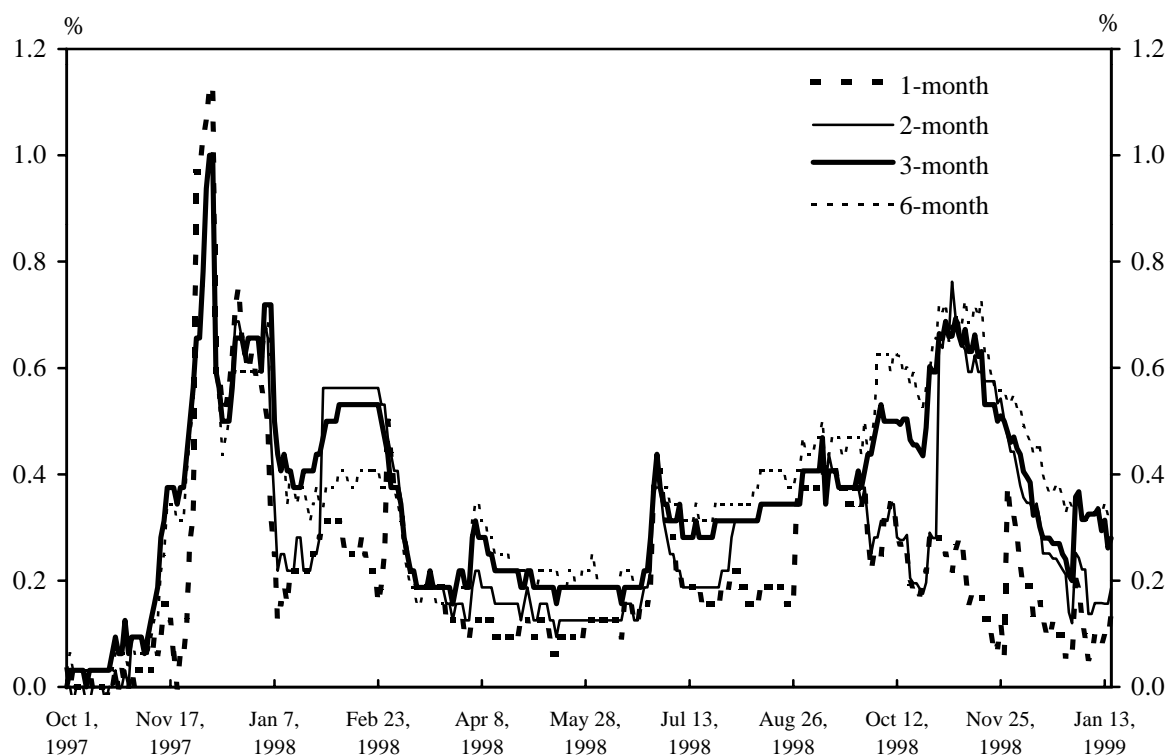
Sources: Bank of Japan, "Economic Statistics Monthly" ; *The Nikkei Financial Daily* .

Euro-Yen Interest Rates Futures (3-Month)



Source: *The Nikkei Financial Daily*.

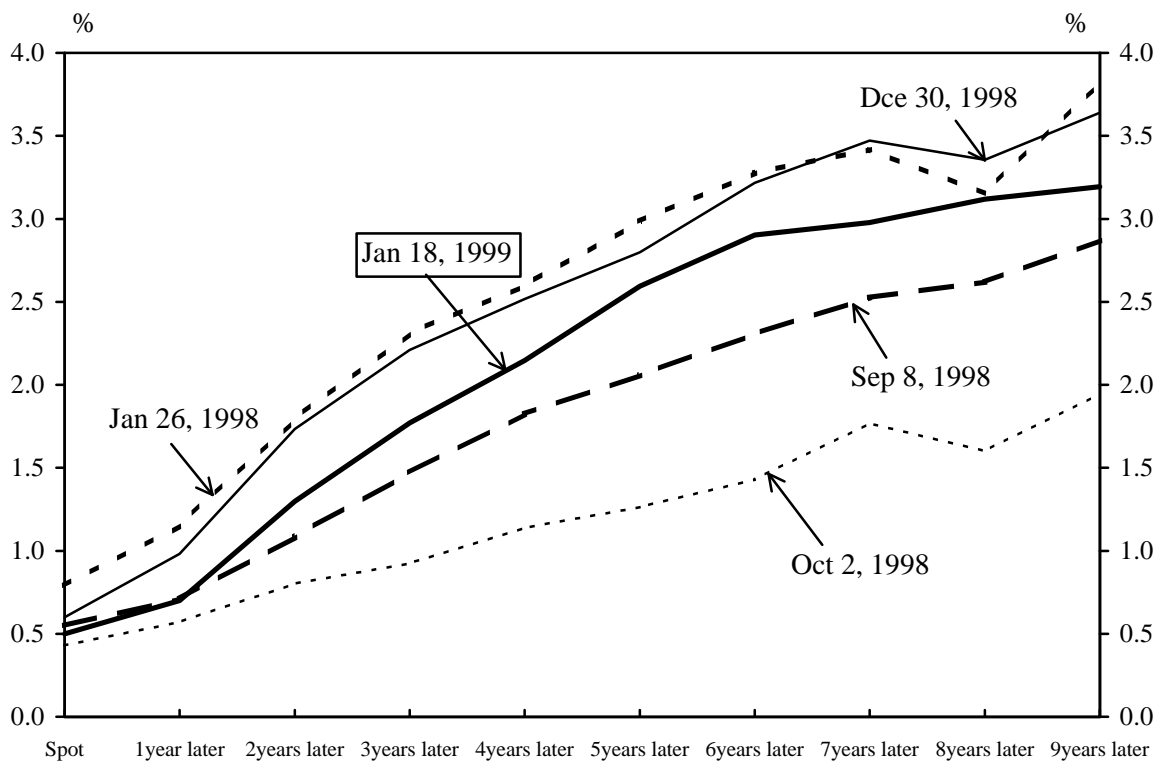
Japan Premium in the Eurodollar Market



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)

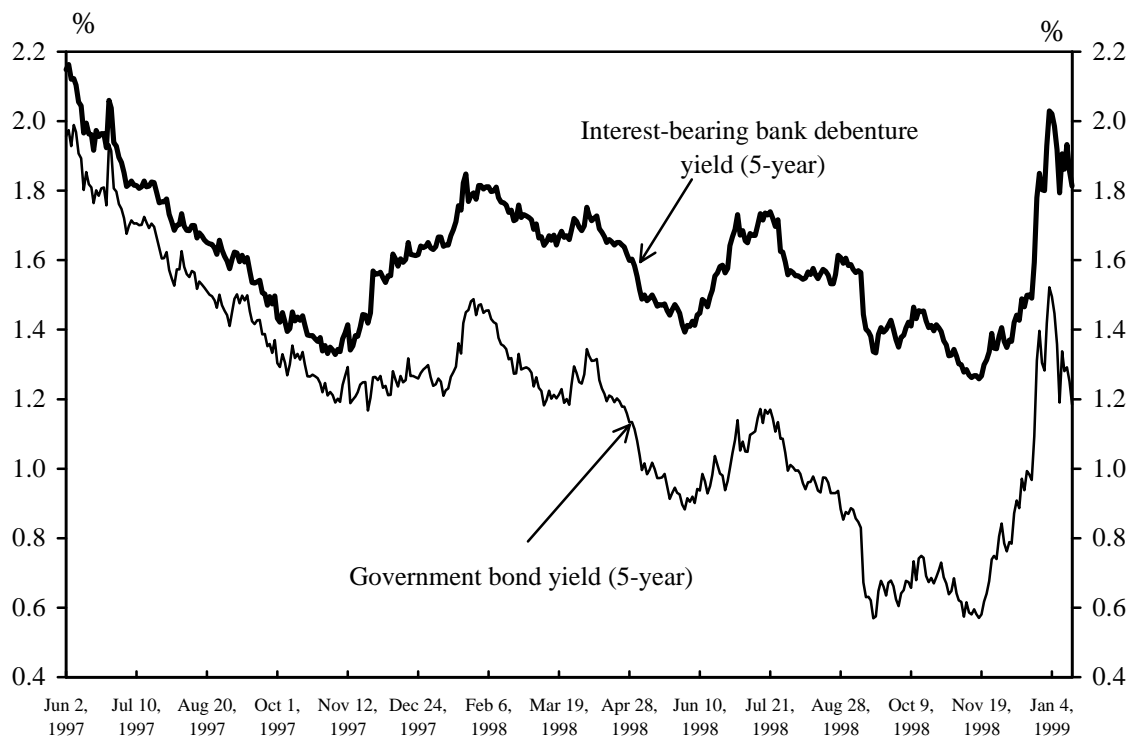


Note: Calculated from yen-yen swap rates.

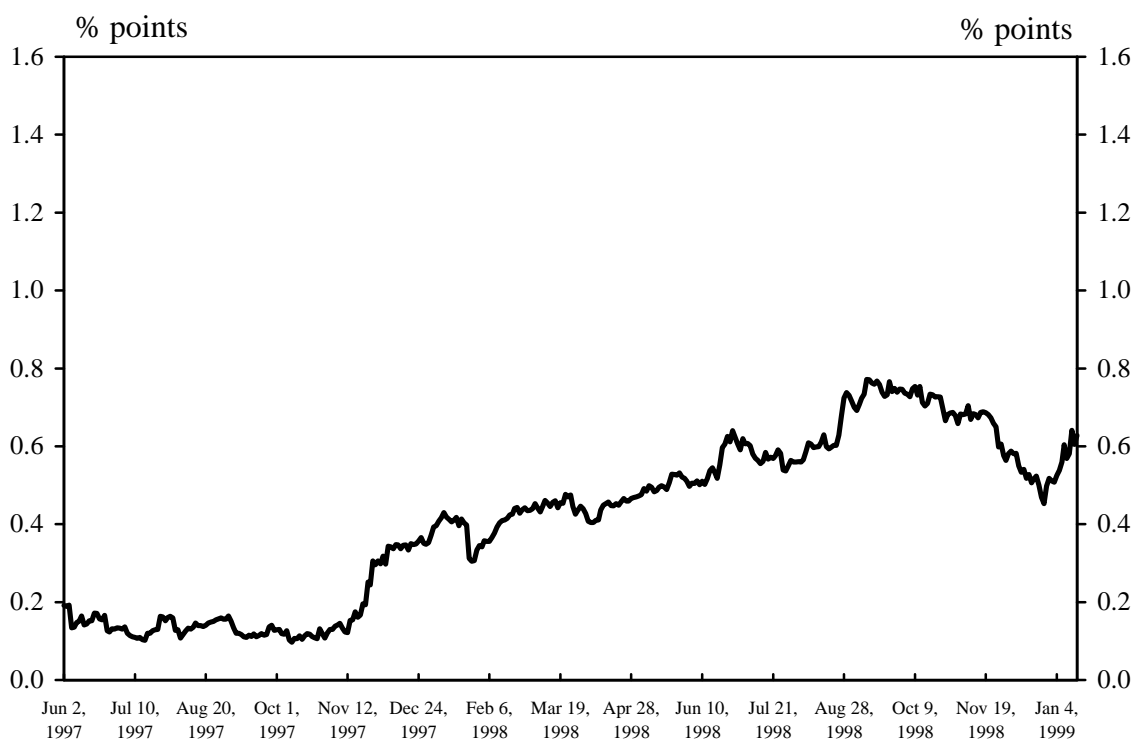
Source: *The Nikkei Financial Daily*.

Yields of Bank Debentures

(1) Bond Yields



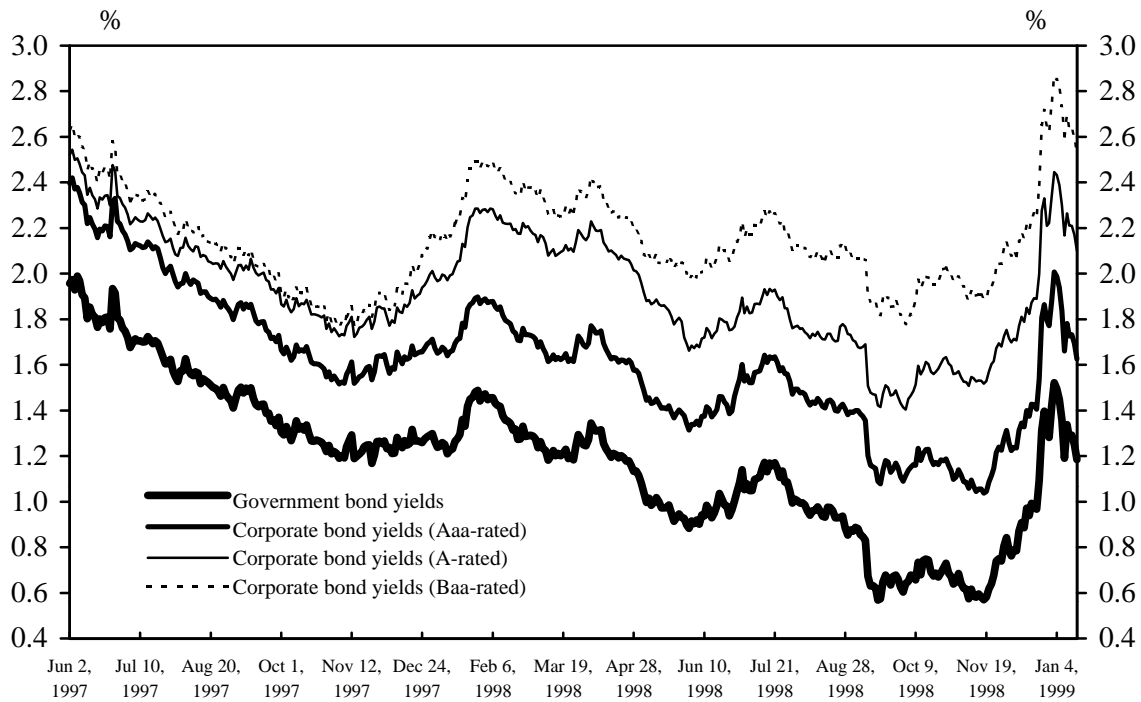
(2) Spread of Bank Debenture and Government Bond Yield



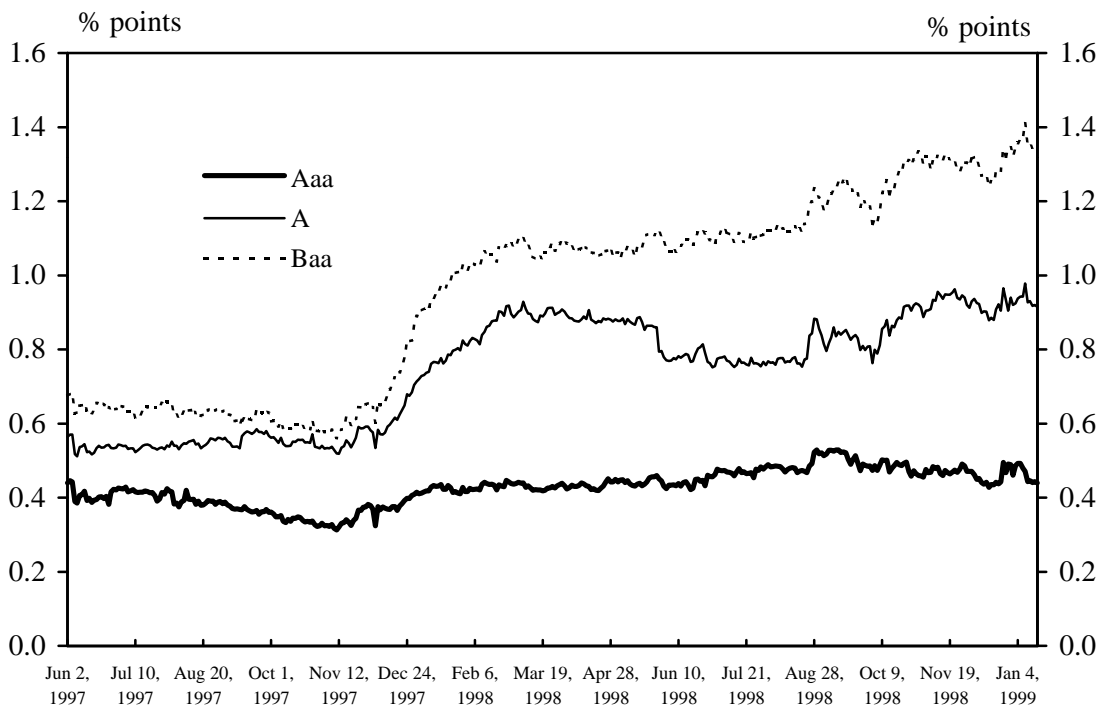
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Corporate Bond Yields

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



(2) Yield Spreads of Public and Corporate Bonds



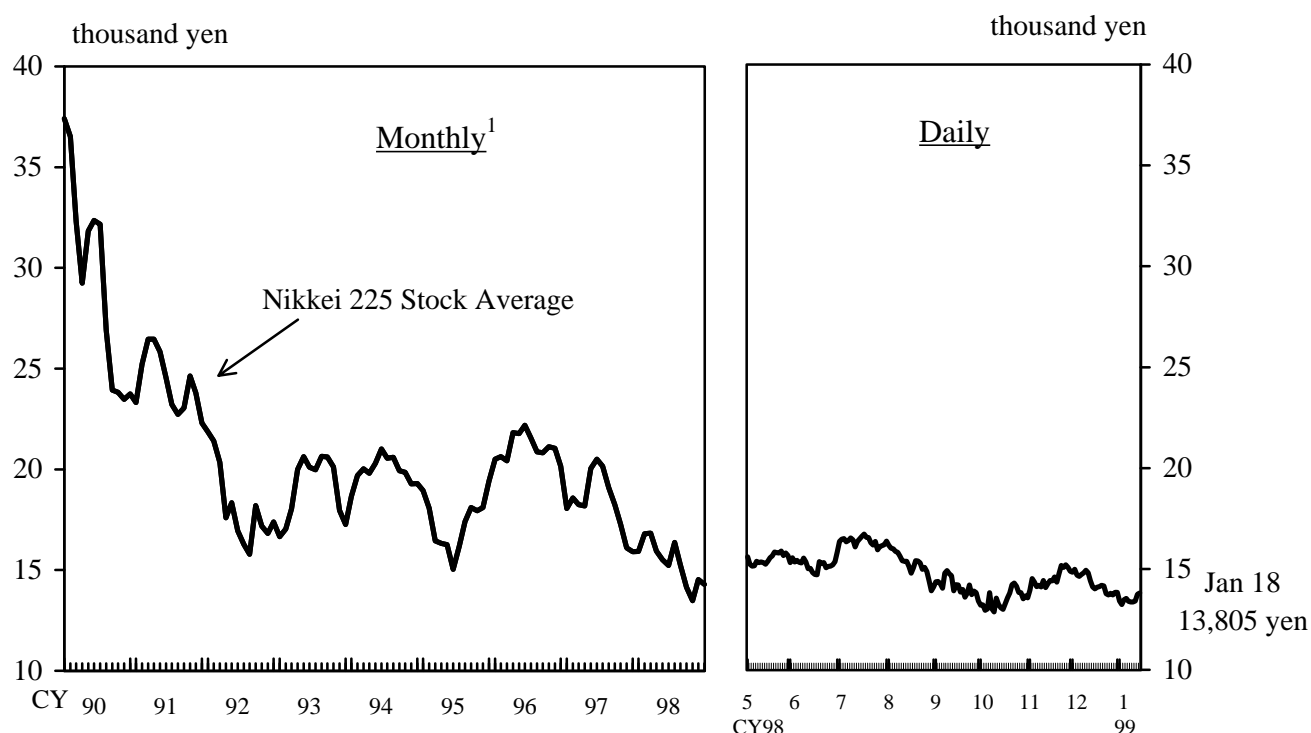
Notes: 1. Yields on bonds with 5-year maturity.

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

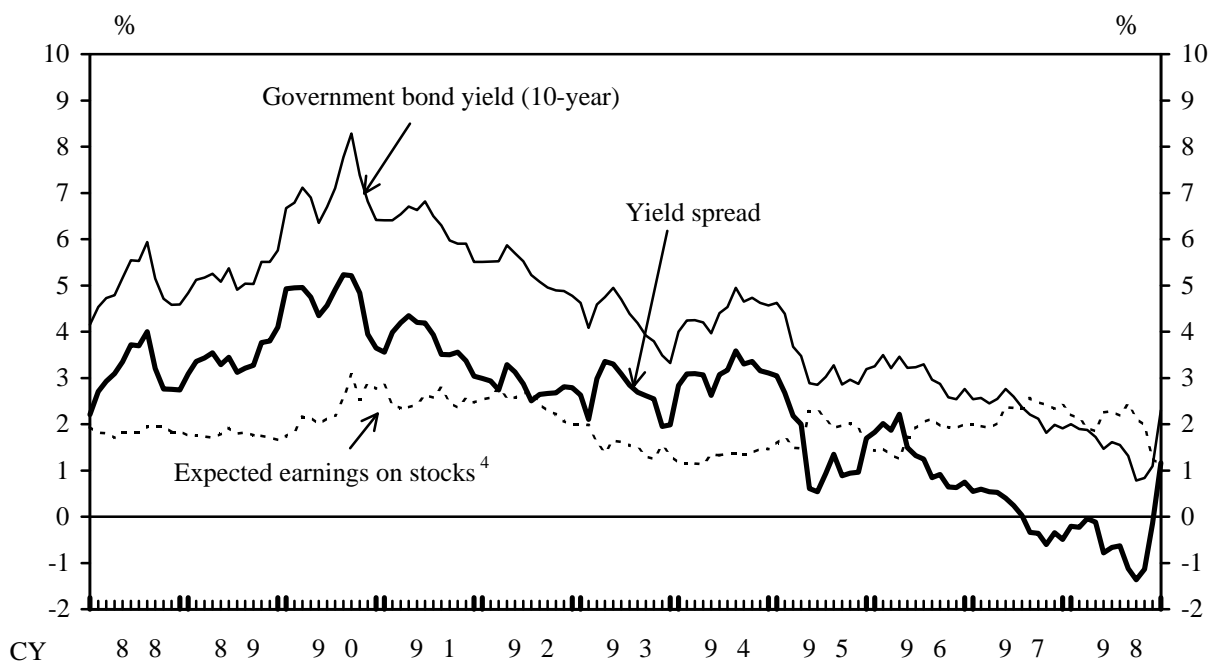
Source: Securities Dealers Association of Japan, "Over-the-Counter Standard Bond Quotations."

Stock Prices

(1) Stock prices



(2) Yield Spread^{2, 3}



Notes: 1. Data are monthly averages.

2. Data are at end of period.

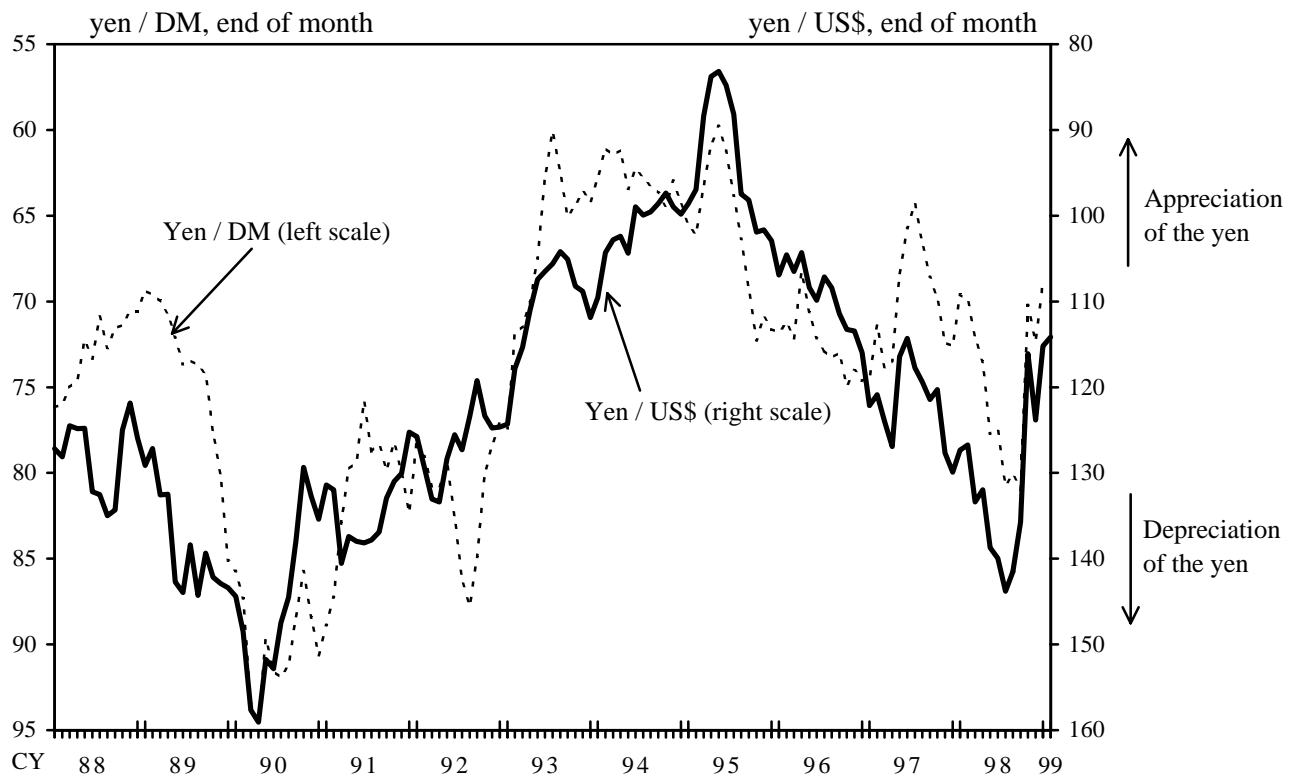
3. Yield spread = government bond yields - expected earnings on stocks, where expected earnings on stocks = 1/expected price earnings ratio.

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

Data are calculated by the Daiwa Research Institute.

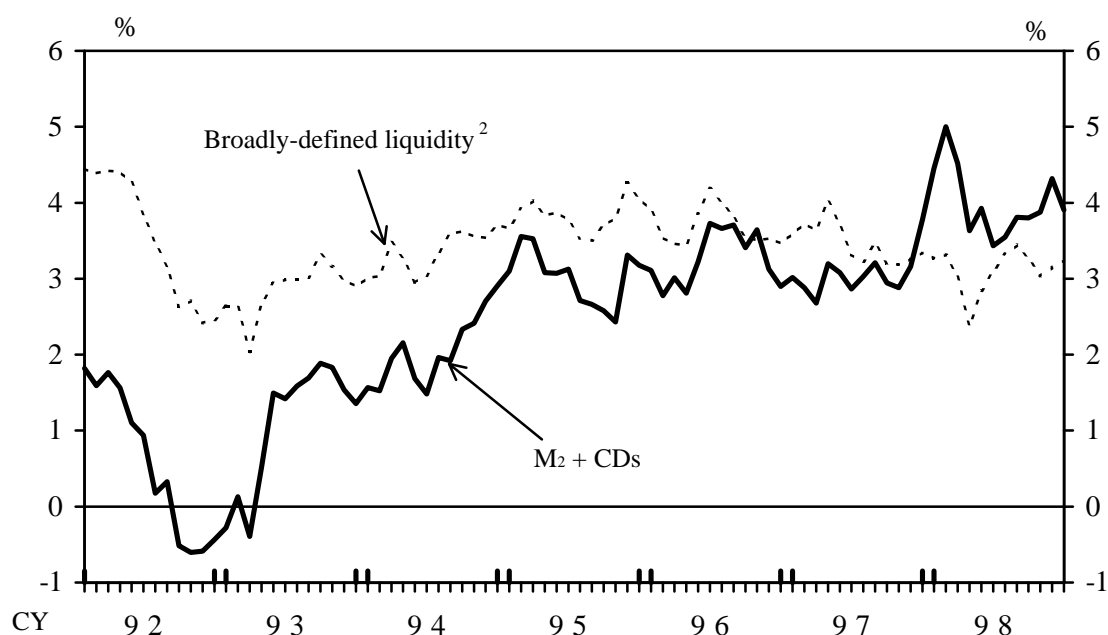
Sources: *The Nihon Keizai Shimbun*; Daiwa Research Institute, "*Daiwa Toushi Shiryou* (Daiwa Investment Information)."

Exchange Rates

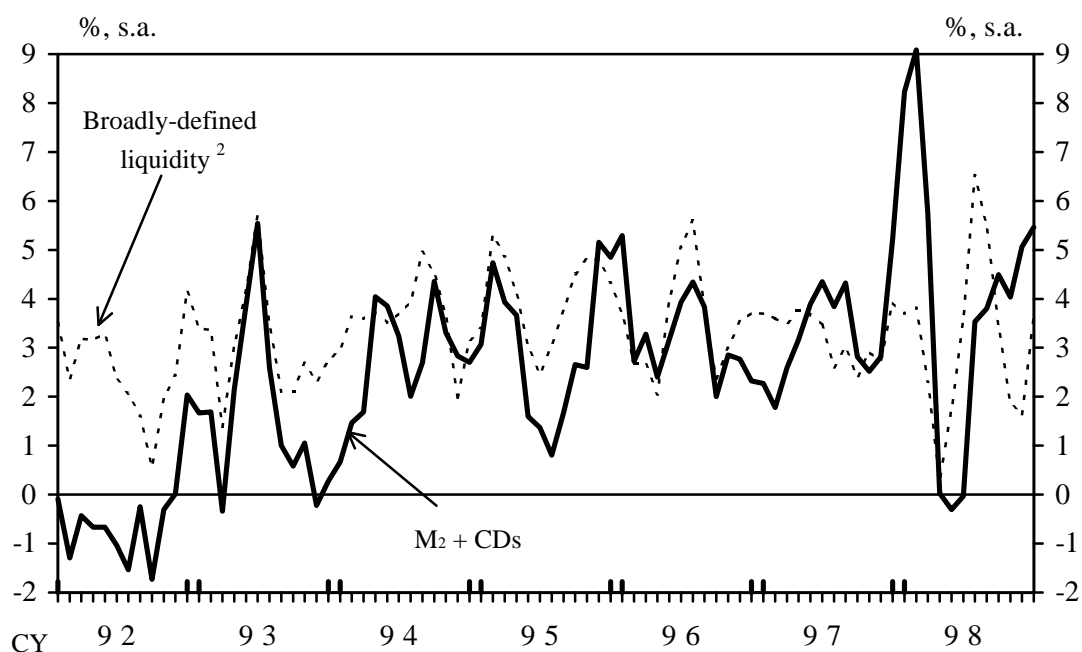


Note: The data of Yen/US\$ in Jan 1999 are as of Jan 18, 1999.
 Source: Bank of Japan, "Economic Statistics Monthly."

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

(1) Changes from a Year Earlier ¹

(2) Changes from Three Months Earlier (Annualized)



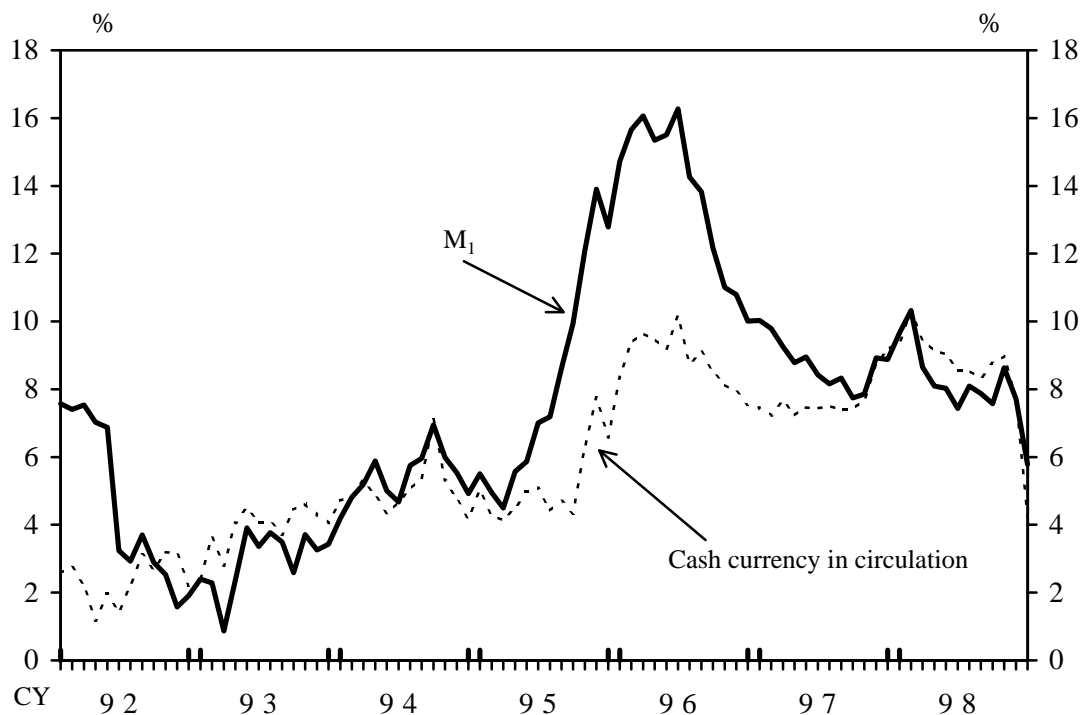
Notes: 1. Percent changes in average amounts outstanding.

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.

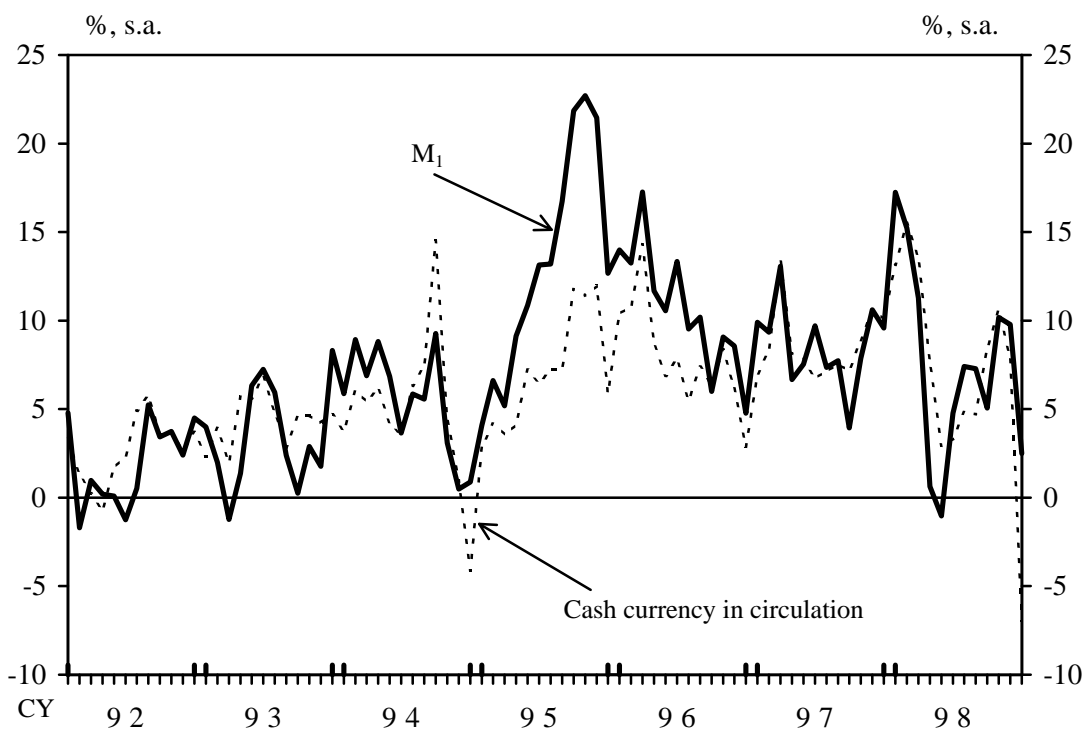
Source: Bank of Japan, "Economic Statistics Monthly."

Money Stock (M_1 , Cash Currency in Circulation)

(1) Changes from a Year Earlier

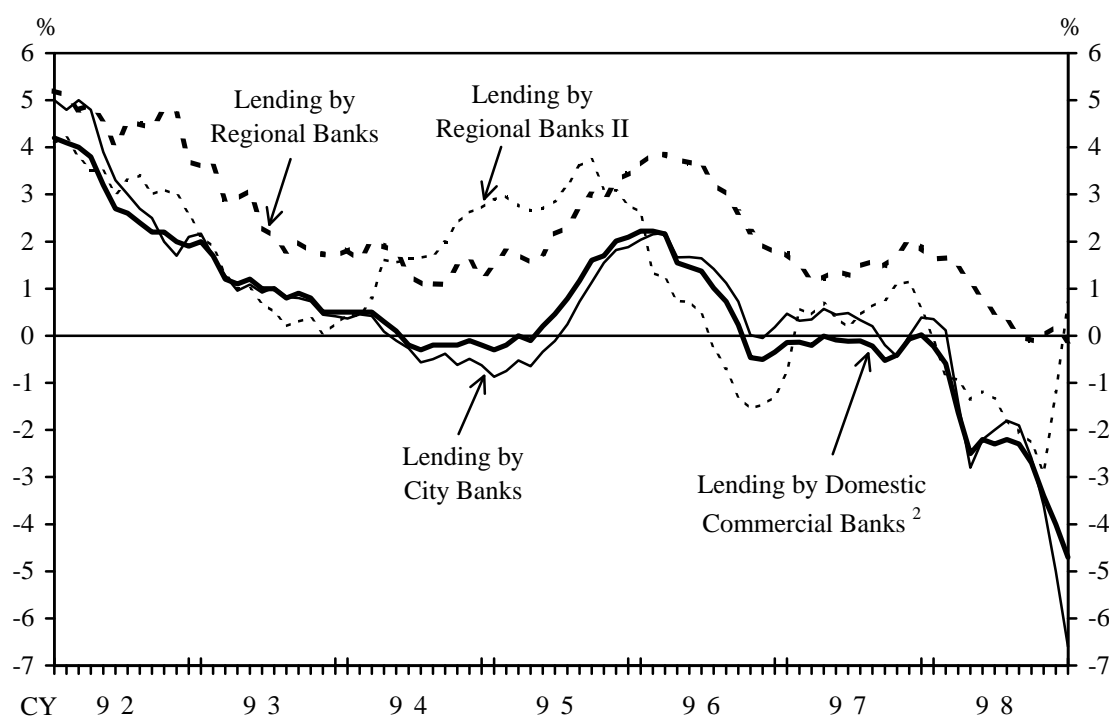


(2) Changes from Three Months Earlier (Annualized)



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.

Figures in parentheses are the original data.

	October, 1998	November, 1998	December, 1998
Domestic commercial banks	- 1.4 (- 3.4)	- 1.2 (- 4.0)	- 1.6 (- 4.7)
City Banks, Long-term Credit Banks and Trust Banks	- 2.3 (- 4.9)	- 2.4 (- 6.1)	- 3.1 (- 7.4)
Regional Banks	0.7 (- 0.0)	1.0 (0.2)	0.7 (- 0.1)
Regional Banks II	- 1.1 (- 2.9)	0.8 (- 1.2)	2.7 (0.7)

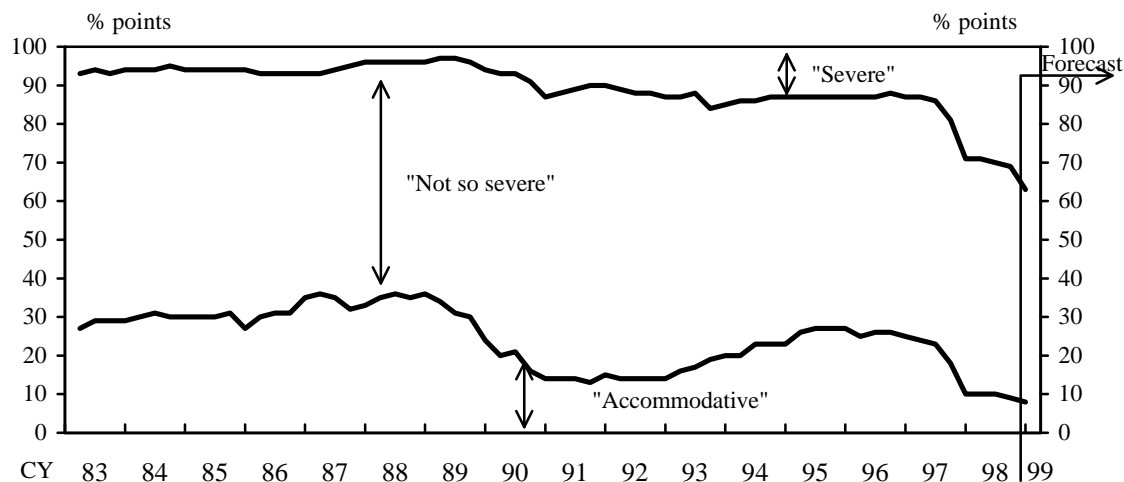
Notes: 1. Percent changes in average amounts outstanding from a year earlier.

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).

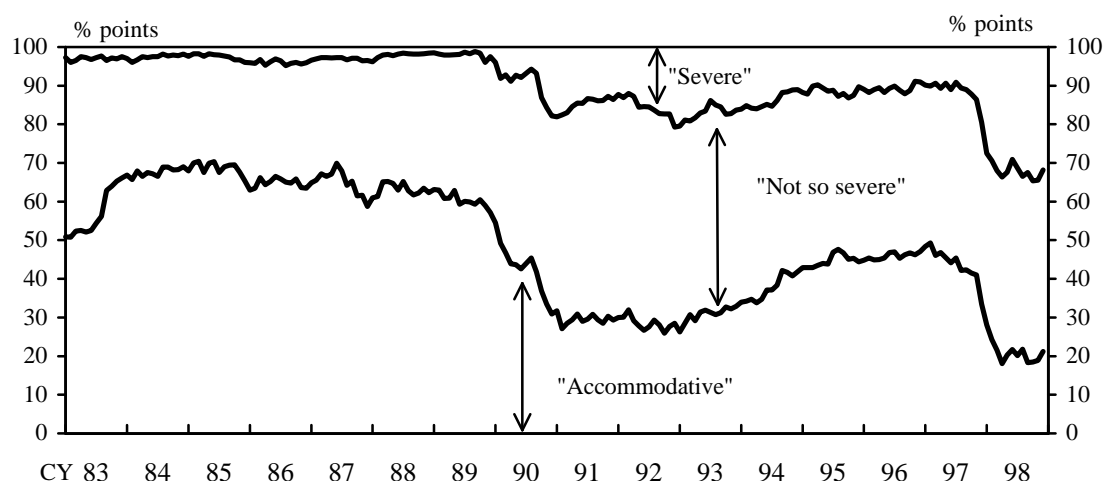
Source: Bank of Japan, "Principal Figures of Financial Institutions."

Lending Attitude of Financial Institutions as perceived by Small Enterprises

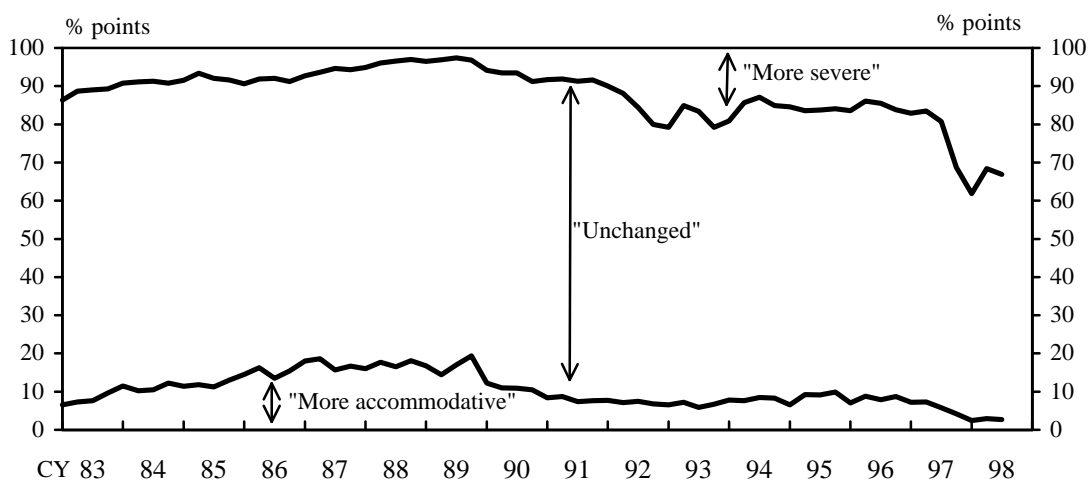
(1) "Tankan - Short-Term Economic Survey of Enterprises in Japan" (December, 1998)



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



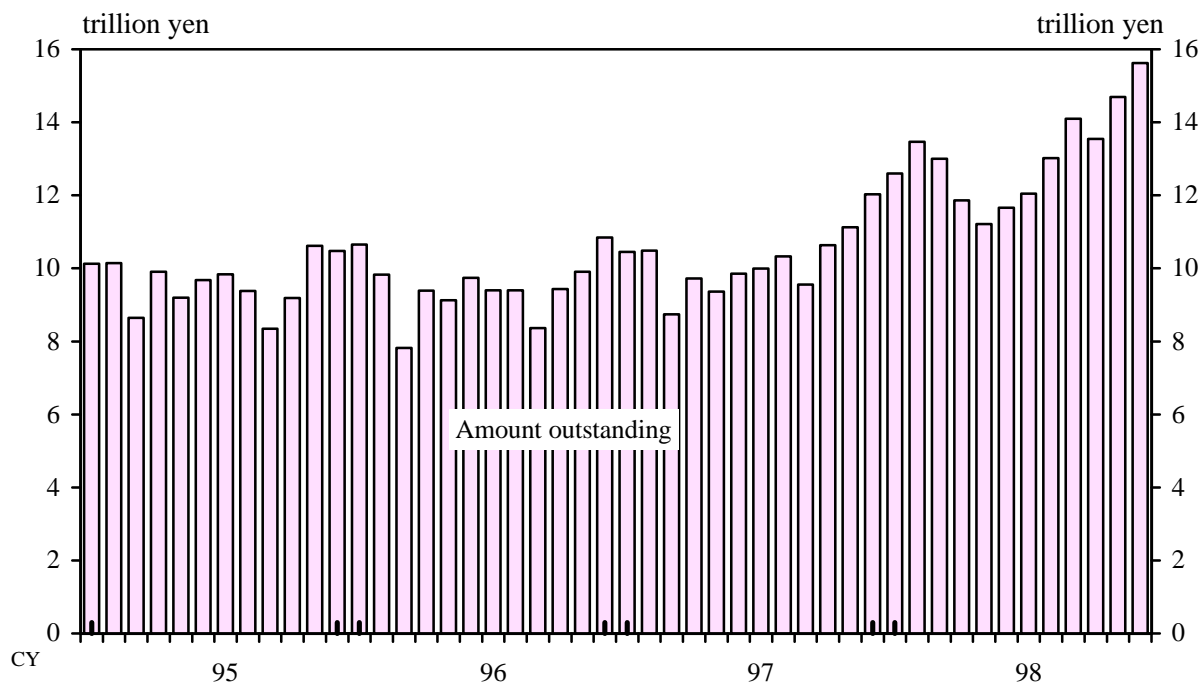
(3) "Quarterly Survey of Small Businesses in Japan" (Mid-September, 1998)



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."

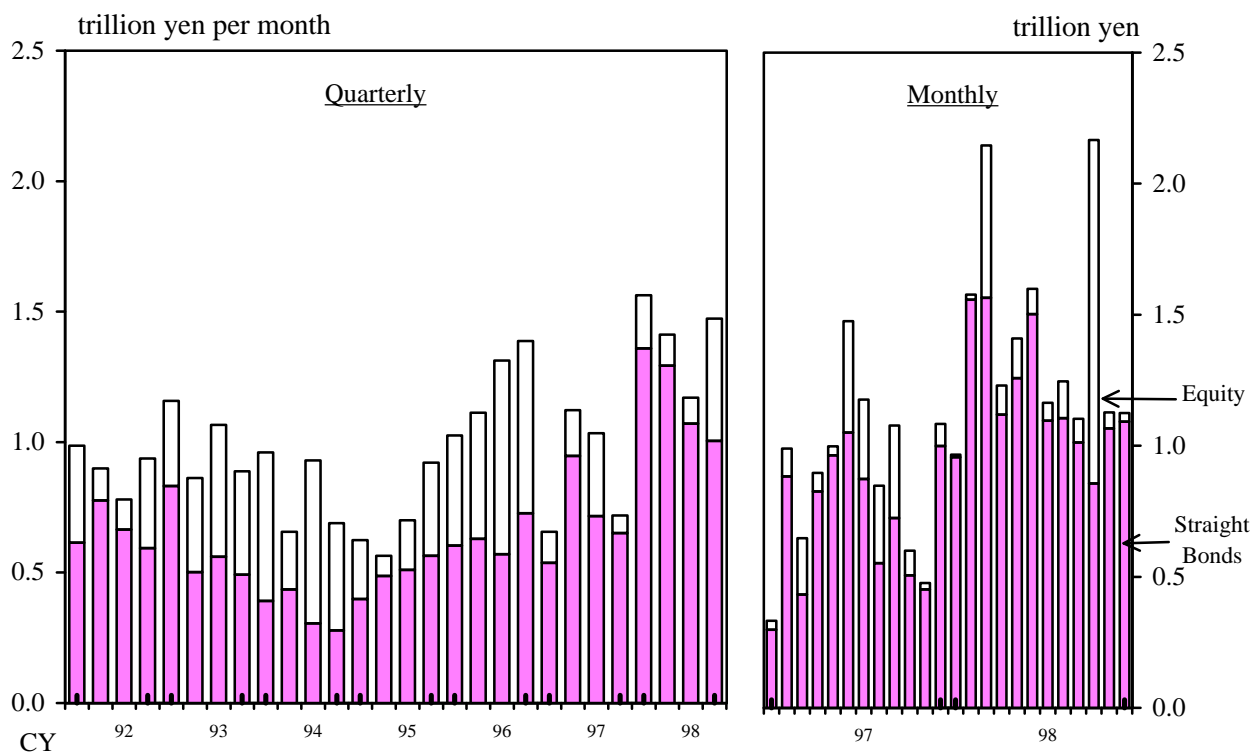
Private-Sector Fund Raising in the Capital Markets

(1) C P



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

(2) Bond and Equity

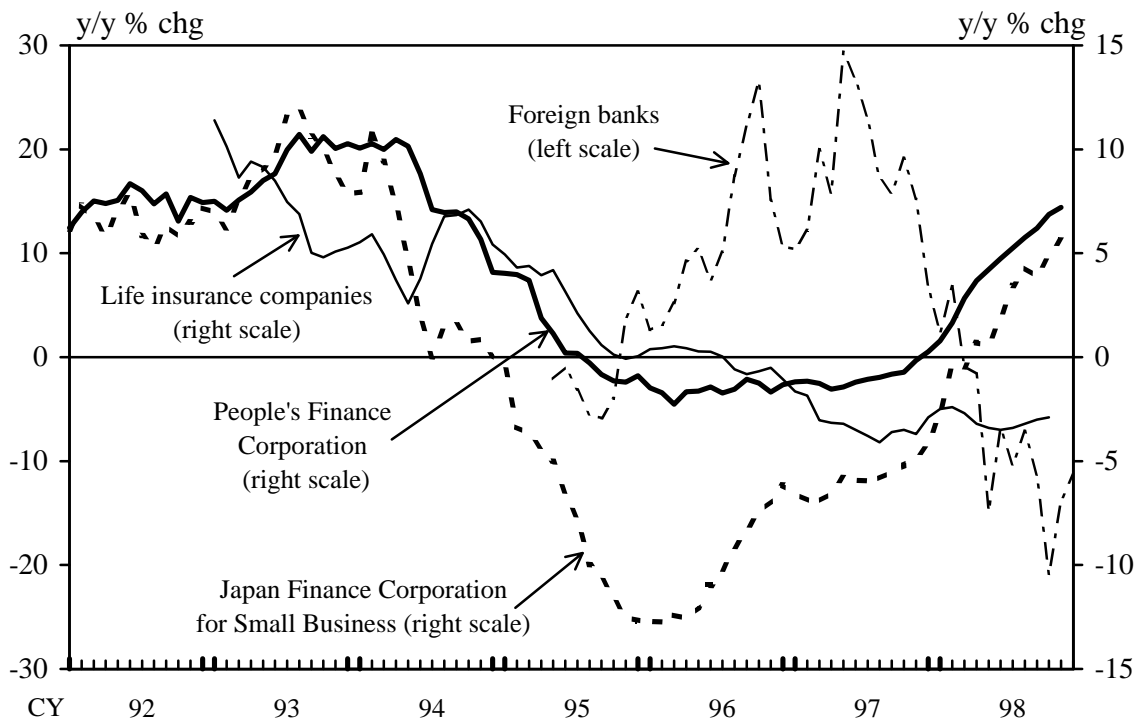


Notes: Data for equity include convertible bonds, bonds with warrants, and new equity issues.

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

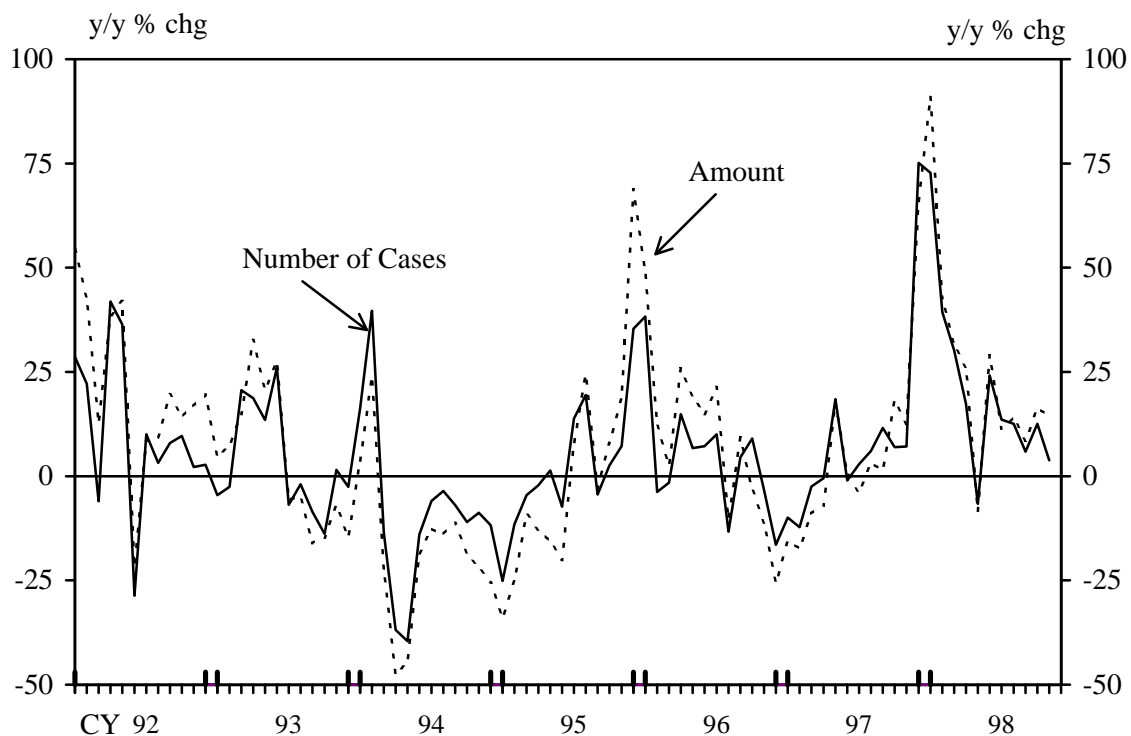
Lending by Other Financial Institutions

(1) Lending Outstanding



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

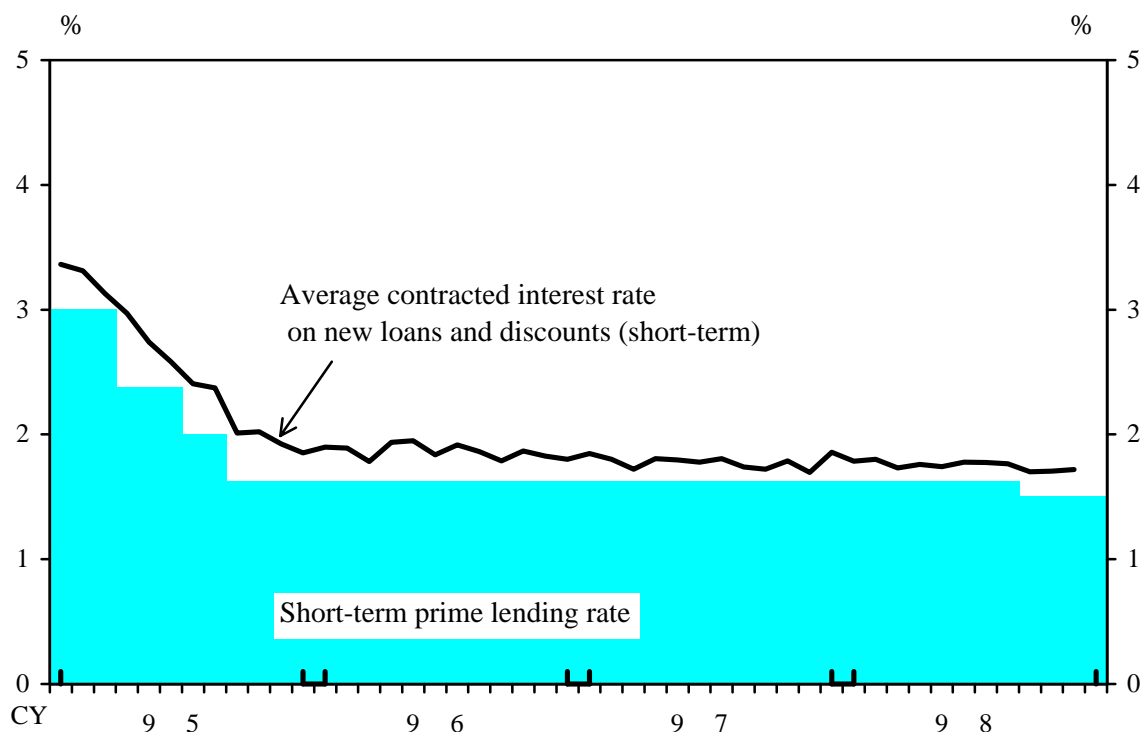
(2) Application for a Loan from Japan Finance Corporation for Small Business



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

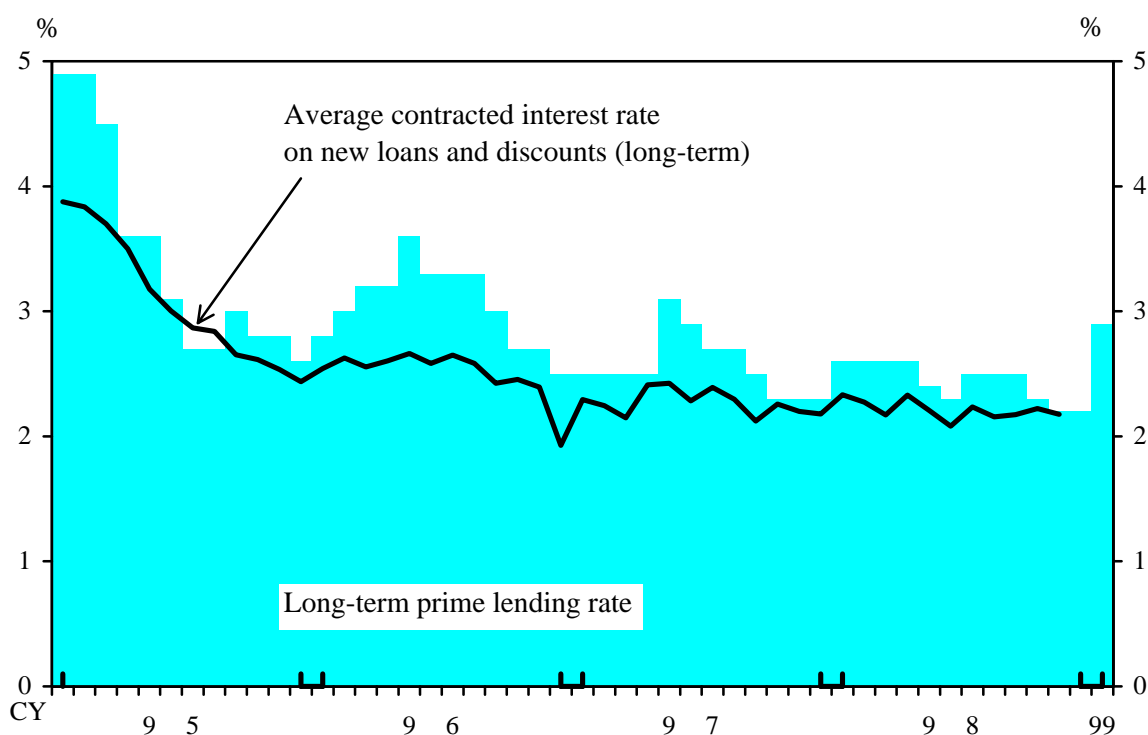
Lending Rates

(1) Short-Term



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

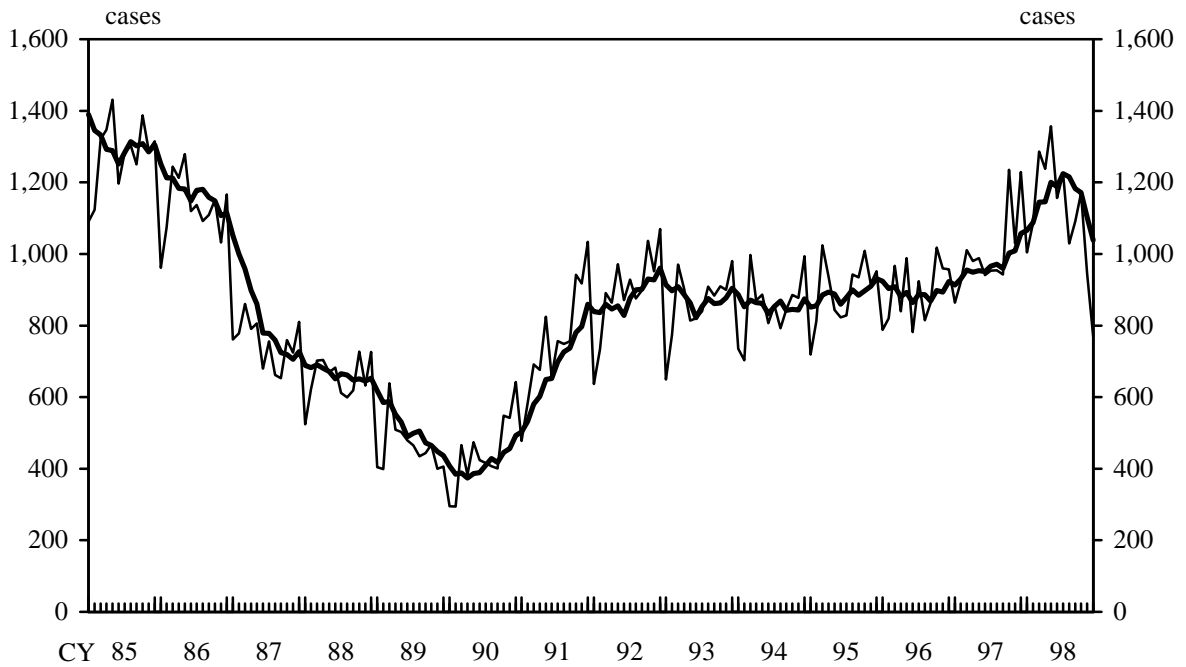
(2) Long-Term



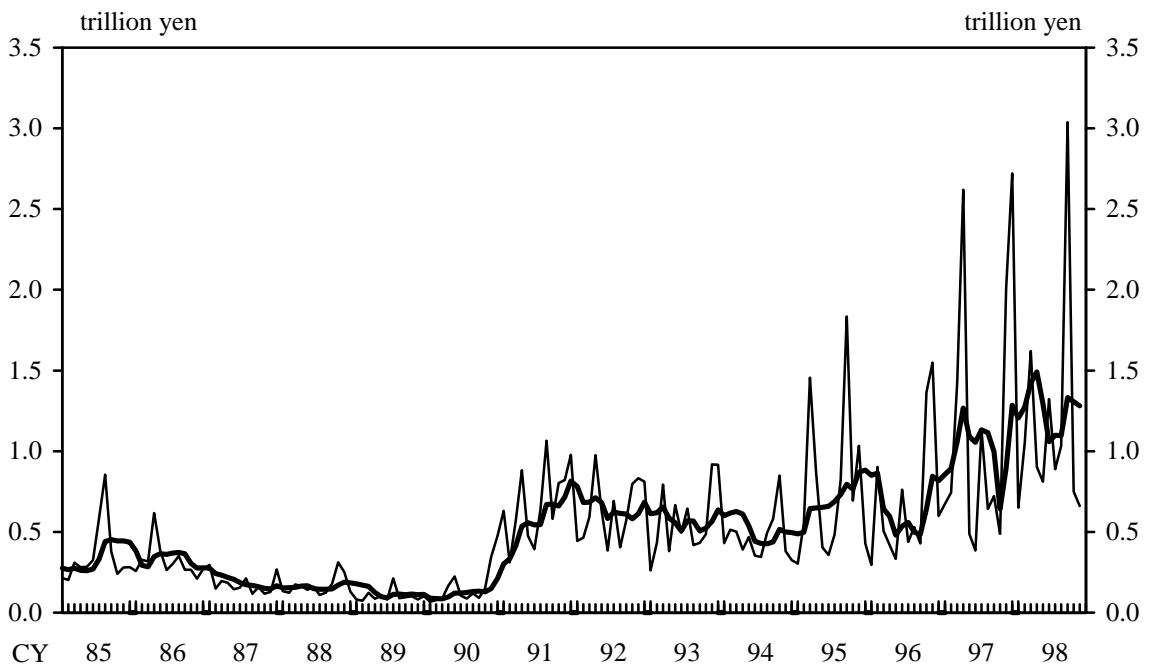
Source: Bank of Japan, "Economic Statistics Monthly."

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)."