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Research and Statistics  
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### Quarterly Economic Outlook

#### Summary

1. Japan's economy continues on a moderate recovery trend. Production and income are showing underlying firmness despite the continued reaction to the temporary surge in demand ahead of the consumption tax hike. Among final demand items, public-sector investment has been on a decreasing trend, and housing investment has been somewhat lackluster, particularly as a result of the reaction to the rise in demand ahead of the consumption tax hike. On the other hand, net exports have recently increased significantly and business fixed investment has been rising steadily. Despite the continued decline in demand which followed the rise ahead of the consumption tax hike, particularly in consumer durables, the recovery trend in personal consumption does not seem to have been hindered. In these circumstances, industrial production has been firm and the growth in employees' income has been rising steadily, albeit moderately.

Price indices were pushed up in April 1997 by the consumption tax hike, but excluding this factor, prices have been stable. Both quarter-to-quarter and year-to-year changes in domestic wholesale prices (adjusted for seasonal electricity rates) have been near zero, and the year-to-year declines in corporate service prices have narrowed. The year-to-year rises in consumer prices (nationwide, excluding perishables) are widening somewhat, albeit by a small margin. Changes in commercial land prices have varied by type, and residential land prices have virtually stopped declining.

2. In the financial markets, the overnight call rate (uncollateralized) stayed slightly below the official discount rate of 0.5 per cent. The long-term government bond yield rebounded to near 2.7 per cent in late May, as market uncertainties about the economic outlook and the Japanese financial system gradually subsided after the second half of April. However, it declined to around 2.2 - 2.3 per cent. Stock prices rose to 20,000 - 21,000

yen in May and June 1997, and have recently been fluctuating without showing clear direction. In the foreign exchange market, the yen reached 127 yen to the U.S. dollar in early May, but later appreciated and has recently moved at around 113 - 116 yen to the U.S. dollar.

With respect to the fund-raising activities by firms, growth in bank lending continues to be lackluster but fund-raising through the capital market has been high, particularly in straight bonds. Growth in monetary aggregates in terms of M2 + CDs year-to-year average outstanding has continued at around 3.0 per cent.

3. Looking at individual components of final demand, public-sector investment will be supported by implementation of public works included in the government's supplementary budget for fiscal 1996 for the time being, but it is expected to follow a declining trend. Net exports, on the other hand, are likely to continue to be steady even after the recent large increase. This reflects the robust increase in overseas demand, and the recovery in the price competitiveness of Japan's manufacturing industry supported by the yen's depreciation until early spring.

In these circumstances, corporate profits on the whole are expected to continue improving in fiscal 1997 although with varied strength across sectors. Business fixed investment is also expected to continue increasing, mainly reflecting 1) increases in corporate profits, 2) further progress in capital stock adjustments, and 3) the rise in information-related investment. However, because of the remaining balance-sheet adjustment pressures and the absence of leading industries, the increase in business fixed investment is unlikely to gather significant momentum for the time being.

The growth in the employees' income has been rising gradually owing to the increase in bonus payments and the moderate recovery in employment growth, reflecting the improvement in the labor market conditions. This shows that the recovery in the business sector has spread to the household sector. Thus, recovery in personal consumption is expected to continue after the reaction to the rise in demand ahead of the consumption tax hike subsides in the near future. However, the pace of recovery is likely to be moderate considering the increases in the tax burden, such as the rise in the consumption tax. Meanwhile, housing investment, which is in a generally favorable environment including low interest rates, is expected to recover somewhat in the second half of fiscal 1997, although it has recently been weak reflecting the reaction to the surge in demand ahead of the consumption tax hike.

4. With respect to price developments, the downward pressure on domestic prices from the increase in manufactured imports has weakened, as the rise in import penetration rate has paused. On the other hand, the upward pressure on import costs from materials prices has also subsided owing to the decline in crude oil prices since spring 1997 and the appreciation of the yen. Thus, import prices are not exerting significant upward nor downward pressure on domestic prices. Meanwhile, final demand will continue to recover on the whole, but the output gap is unlikely to narrow significantly as the pace of recovery in final demand is expected to be moderate. In these circumstances, prices are expected to be stable for some time.

5. In sum, the positive cycle among production, income and expenditure continues steadily and is reflected in the improvement in corporate profits and the rise in employees' income. Thus, despite the restraining pressures from fiscal policies, including the consumption tax hike and the decline in public-sector investment, Japan's economy is expected to continue its recovery, supported by the yen's depreciation until early spring and the expansion of information-related demand. However, the economic recovery is unlikely to gather significant momentum, as a result of fragility in some sectors, as well as the continued balance-sheet adjustment pressure. In these circumstances, building an economic environment which increases the confidence of the private sector is vital to strengthening the economic recovery. In this process, effective structural reforms to draw out the dynamism inherent in the economy continue to be essential in addition to appropriate macroeconomic policies.

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## I. Recent Economic Developments

Japan's economy continues on a moderate recovery trend. Production and income are showing underlying firmness despite the continued reaction to the temporary surge in demand ahead of the consumption tax hike (Chart 1, 2). Among final demand items, public-sector investment is on a decreasing trend, although it has recently stopped declining owing to implementation of orders included in the supplementary budget for fiscal 1996. Housing investments have been somewhat lackluster, mainly reflecting the decline after the surge in demand ahead of the consumption tax hike. However, net exports have recently increased significantly, owing to some temporary factors in addition to the yen's depreciation until early spring. Business fixed investment has also been increasing steadily, reflecting the growth in corporate profits. With regard to personal consumption, the decline in demand following the rise ahead of the consumption tax hike continues, particularly in consumer durables, but its impact is gradually subsiding. The recovery trend in personal consumption does not seem to have been hindered, especially given the background of improvements in labor market conditions and income formation.

Following the continued high growth since the second half of 1996, industrial production in the second quarter 1997 appears to have remained virtually unchanged, showing resiliency against the decrease in domestic demand (Chart 3). This reflected such factors as the increase in exports and the restoration of inventories which had declined at the end of March. Production is expected to start increasing again in the third quarter as the effect of the consumption tax hike subsides. The pace of production growth, however, is likely to be moderate because the rise in exports is expected to pause temporarily following the rapid increase in the second quarter, and the production of motor vehicles is likely to be somewhat subdued. In these circumstances, employees' income has improved steadily, albeit moderately (Chart 4). Although the unemployment rate remains at a high level, the rise in nominal wages has become more evident and employment growth seems to be rising gradually.

Price indices were pushed up in April by the consumption tax hike, but excluding this factor, prices remained stable (Chart 5).<sup>1</sup> Although downward

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<sup>1</sup>In this article, price developments are described on an ex-consumption tax basis. This is because the price rise reflecting the consumption tax hike is a result of a change in the tax system and is temporary in nature, which does not reflect developments in the real economy.

pressures persist, including that from technological innovation in electrical machinery, domestic wholesale prices (adjusted for seasonal electricity rates) have remained virtually unchanged both in terms of the quarter-to-quarter and year-to-year basis. This reflects the moderate improvement in domestic supply and demand conditions. The year-to-year decline in corporate service prices has been narrowing on the whole. The year-to-year increase in consumer prices (nationwide, excluding perishables) has been edging up, albeit very modestly. Meanwhile, the year-to-year growth in the GDP deflator in the first quarter 1997 was approximately zero per cent (Chart 6). This is because the rise in the import deflator (or decline in the net exports deflator), which reflects the yen's depreciation and the rise in the crude oil price, has offset the rise in domestic demand deflators.

Developments in commercial land prices have varied. Prices of land near the city center, suitable for major developments, have more or less stopped declining, but prices of irregular-shaped, small land plots have continued to decline. The prices of residential land have virtually stopped declining, particularly in Tokyo.

On the balance of payments (Chart 7), real exports have continued to increase, reflecting the robust increase in overseas demand and the yen's depreciation until early spring. In the second quarter 1997, real exports increased significantly in reaction to the decline in the first quarter when exports had been constrained by the surge in domestic demand. On the other hand, the growth of real imports has paused owing to the depreciation of the yen until early spring, although the expansion in domestic demand for information-related goods has supported imports. Against the background of these developments in exports and imports, the real trade surplus has been increasing since the second half of 1996. On a quarterly basis, however, figures for the real trade surplus have fluctuated widely: They temporarily showed a marginal decline in the first quarter 1997, and were followed by a large increase in the second quarter.

Despite the rise in the real trade surplus, the rise in the current-account surplus had not surfaced by the first quarter 1997. This is because the rise in crude oil prices pushed up the value of imports. However, the current-account surplus expanded rapidly in the second quarter, reflecting the decline in crude oil prices in addition to the developments in the real trade balance.

## II. Recent Monetary Developments

### 1) Financial markets

Regarding money market rates (Chart 8, top), the overnight call rate (uncollateralized) stayed at the level slightly below the official discount rate of 0.5 per cent. The 3-month CD rate has moved at around 0.6 - 0.7 per cent. With respect to Euro-yen futures, the slope of the curve plotted against each delivery month temporarily became steep at the end of May 1997 (Chart 9, top). However, the slope has recently become as moderate as that observed in early April, which indicates that the market expectations of higher interest rates are not strong.

The long-term government bond yield declined to a record low level of below 2.1 per cent in early April (Chart 8, top). Market uncertainties about the economic outlook and about the financial system have gradually subsided since the second half of April. Stock prices picked up followed by the rebounding of the long-term government bond yield to near 2.7 per cent in late May. Later, as the market reconfirmed the moderate pace of the economic recovery, the long-term government bond yield declined again and moved at around 2.2 - 2.3 per cent. Market expectations between late May and mid-July changed in terms of the 1-year implied forward rates as calculated from swap rates. While those for all periods have declined, those starting in 1 or 2 years have shown relatively larger declines (Chart 9, bottom). This suggests that the market again has become somewhat cautious about the economic outlook and interest rates for the next three years or so.

With respect to lending rates, the short-term prime lending rate has remained at a record low level of 1.625 per cent since September 1995 (Chart 8, bottom). The long-term prime lending rate declined to the record low level of 2.5 per cent in December 1996. It was raised by 0.6 percentage points in May, and then lowered by 0.2 percentage points in both June and July to reach 2.7 per cent. In these circumstances, short- and long-term contracted interest rates on new loans and discounts have remained at record low levels.

On the stock exchange, the Nikkei 225 Stock Average recovered since the second half of April as uncertainties about the economic outlook and the financial system subsided, and moved at around 20,000 - 21,000 yen in May and June (Chart 10, top). Recently, it has been fluctuating without showing clear direction at around 20,000 yen with a renewed focus on the moderate pace of the economic recovery.



On the foreign exchange market (Chart 10, bottom), the yen had been depreciating against the U.S. dollar since mid-1995. After having reached 127 yen to the U.S. dollar in early May, the depreciation of the yen reversed in the first half of May, as the interest rate differential between Japan and the United States narrowed and as the possible widening of Japan's current-account surplus drew attention. Recently, the yen has moved at around 113 - 116 yen to the U.S. dollar. The yen has also been appreciating against the Deutsche mark, partly reflecting uncertainties over the European Monetary Union, and has recently moved at around 64 - 65 yen.

## 2) Monetary aggregates

The fund-raising activities of non-financial institutions as shown by the lending of private financial institutions, growth in bank lending by city banks, long-term credit banks, trust banks, regional banks, and regional banks II, continues to be lackluster (Chart 11). There were year-to-year changes of -0.4, -0.2 and - 0.1 per cent in the fourth quarter 1996, first and second quarter 1997, respectively. With regard to fund-raising activities through capital markets (in gross terms), equity financing has been subdued through the first half of this year, but issues of straight bonds have been at a high level owing to strong incentives particularly on the part of large firms reflecting low interest rates (Chart 12, top). Lending by private financial institutions to the household sector shows that consumer credit continues to decline. However, housing loans, which have a larger weight, have been steady though with some deceleration (Chart 12, bottom).

Growth in monetary aggregates in terms of M2 + CDs year-to-year average outstanding continues at around 3 per cent (Chart 13, top), with 3.4, 3.0, and 3.0 per cent in the fourth quarter 1996, first and second quarter 1997, respectively. Growth in M2 + CDs compared to three months earlier (seasonally adjusted, annual rate) slowed temporarily between the second half of 1996 and early 1997, with some picking-up in more recent months (Chart 13, bottom). This growth, however, is comfortably in line with the stable growth trend which has been visible since 1994. Considering that only a weak relationship exists between monetary aggregates and the real economy in the short-term,<sup>2</sup> monetary fluctuation of this magnitude is unlikely to have much implication for the current condition or the near-term outlook on the economy.

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<sup>2</sup>By a co-integration analysis, a long-term equilibrium relationship can be found between M2 + CDs and GDP. However, as this relationship only explains the average long-term relationship, it can deviate widely from equilibrium in the short term. See Monetary aggregate statistics and analytical methods of fluctuations in Bank of Japan Monthly Bulletin, June 1997 (available only in Japanese).

Broadly defined liquidity average outstanding grew at around 3.5 - 4.0 per cent year to year. Although the year-to-year average outstanding growth in M1 has slowed somewhat, it still runs at a high pace of around 10 per cent, as the differentials between the interest rates on M1 assets and those on other financial assets continue to be small. The growth of M2 + CDs year-to-year average outstanding in the third quarter 1997 is expected to be at a similar figure to the second quarter, at around 3 per cent.

### III. Economic Outlook

#### 1) Japan's economy

In the following section, the prospects for Japan's economy will be discussed in the context of individual components of demand. With respect to public-sector investment, both the nominal amount of public fixed investment in GDP and shipments of public works-related goods have continued to decline (Chart 14). The amount of public-works contracted, which closely reflects orders, has recently picked up somewhat, owing to the government's supplementary budget for fiscal 1996, which is expected to stimulate public-works up to summer 1997. Over the longer term, however, public-sector investment is expected to follow a declining trend. This is because the fiscal 1997 budget is restrained, particularly for local government-financed projects, and the budget for fiscal 1998 is also expected to decline.

Conditions surrounding net exports, have been favorable, owing to both steady overseas demand and the yen's depreciation from mid-1995 to early spring 1997. In fact, although the real effective rate of the yen has recently appreciated somewhat relative to that recorded in early May when the yen depreciated to 127 yen to the U.S. dollar, the current level is still as low as that recorded in 1991 (Chart 15, top). With regard to the price differentials of assembled goods between Japan and abroad, goods manufactured by Japanese firms do not seem to be expensive anymore relative to those manufactured overseas, except for those made in China (Chart 15, bottom). This suggests that Japan's manufacturing firms, who once lost ground in global competition at around 1994-1995, have regained price competitiveness through the yen's depreciation until early spring 1997.

Against this background, real exports have been increasing (Chart 16, top). In particular, the increases in exports of capital goods, parts, and motor vehicle-related goods have contributed largely to the rise in overall exports. With respect to exports of motor vehicle-related goods, Japanese car manufacturing firms have a medium-term management strategy to reduce exports by promoting overseas production. For exports of capital goods and parts, on the other hand, which have a large weight in overall exports, the pickup in price competitiveness has stimulated orders from overseas. This suggests that overall real exports are expected to be steady for some time.

Developments in real imports by types of goods show that 1) while consumer goods and intermediate goods have been virtually flat, 2) capital goods and parts have continued to grow, although at a slower pace, and 3) electronic ICs have recently picked up (Chart 16, bottom). This supports the

view that imports of information-related goods are likely to grow further stimulated by the demand expansion under the highly globalized production system. However, total imports are unlikely to increase significantly in the near future. This is because the yen's depreciation until early spring exerts a restraining impact on imports of assembled goods as a whole, which is generally sensitive to the price differential between Japan and overseas.

As mentioned earlier, the rapid increase in net exports in the second quarter 1997 is to a large extent due to a temporary rebound from the first quarter when exports were constrained by the surge in domestic demand (Chart 7). Aside from the quarterly swings, however, the increasing trend in net exports is apparently supported by such fundamental factors as the firm overseas demand and the depreciation of the yen until early spring. Thus, net exports are expected to be firm even after the significant increase in the second quarter. The current-account surplus is expected to follow a trend basically similar to that of net exports.

Against the background of these developments in public-sector investment and net exports, the outlook for the private sector will be discussed. In the following section, the strength of the economic recovery will be examined, starting with corporate profits.

Corporate profits of large manufacturing firms have continued to increase steadily because of successful restructuring, the increase in domestic sales, and the positive effects from both export prices and volume reflecting the yen's depreciation until early spring (Chart 17).<sup>3</sup> According to the Bank of Japan's *Tankan -- Short-term Economic Survey of Enterprises in Japan* of June 1997, the forecast for current profits of fiscal 1997 can be categorized into three groups (Chart 18). The first group is the large manufacturing firms. While their profits are already high -- they have recorded double-digit growth for three consecutive years -- favorable export conditions and expansion of information-related demand are expected to push up profits further.<sup>4</sup> The second group consists of large nonmanufacturing firms and small manufacturing firms. Although the profit levels of these

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<sup>3</sup>Although the quantity of inputs and fixed costs are gradually increasing in Chart 17, top (shown as the downward bars), the increases are small relative to those in sales. This suggests that although firms are becoming more positive about outlays which would directly stimulate sales and profits on the whole, they continue to restrain expenditures on the whole.

<sup>4</sup>Projections of corporate profits for fiscal 1997 in the June *Tankan* is based on 114.56 to the U.S. dollar, the average of principal manufacturing firms.

firms are not quite high, moderate increases are expected for fiscal 1997. The economic recovery, which began in the large manufacturing firms, is clearly spreading to this group through the increase in outlays for software, leasing and advertisements (i.e., large nonmanufacturing firms), and through the pickup in business orders to subcontractors (i.e., small manufacturing firms). The third group is the small nonmanufacturing firms, the profits of which are low and their increase is very slow. The weakness in this sector reflects a variety of facts: 1) firms continue to restrain their expenses on the whole, 2) small construction firms are susceptible to the decline in public-sector investment, and 3) deregulation is exerting negative effects on the small wholesale and retail industries. In other words, the very nature of the current economic recovery makes it difficult for this group of firms to enjoy the improvement in the overall business climate.

With the difference across sectors mentioned above, corporate profits on the whole are expected to continue improving in fiscal 1997. With this improvement in corporate profits as the basic factor, business fixed investment will continue to increase. Investment outlook is also encouraged by other factors.

First, the *Tankan* survey shows that production capacity DI (excessive minus insufficient) for manufacturing firms has been improving not only for large firms but also for small firms (Chart 19, top). This means that the economic environment is conducive to business fixed investment in terms of the capital stock cycle. Conditions for construction investment also seem to be improving gradually. Although the construction floor space (for nonresidential use) has been weak recently, the supply and demand conditions for office space in the metropolitan area are improving steadily, as suggested by the decline in the vacancy rate of office space and the halt in the decline in office rents (Chart 19, bottom).<sup>5</sup>

Another factor stimulating business fixed investment is the expansion of information-related investment. The estimated share of information-related investment to total business fixed investment, in terms of the same definition used in the United States, has increased rapidly in recent years to reach almost 20 per cent, although a level still lower than that in the United States (Chart 20, top). Moreover, the contribution of

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<sup>5</sup>Considering the time lag from the start of construction to completion, the supply of office buildings in the metropolitan Tokyo is expected to be at a low level for the next two to three years. In fact, more real estate firms are anticipating relatively tight supply and demand conditions for office buildings up to the year 2000.

information-related investment to the increase in total business fixed investment in fiscal 1995 and 1996 has reached approximately 60 per cent, which demonstrates its significance on total business fixed investment (Chart 20, bottom). Investment in computer-related and telecommunication equipment has contributed most to the increase in information-related investment (Chart 21, top). The increase in investment in telecommunications equipment is likely to pause in fiscal 1997 as the initial expansionary phase of mobile telecommunications has come to an end (Chart 21, middle). Computer-related investment, on the other hand, is expected to continue increasing significantly. This partly reflects large investment demand from the financial institutions, which see the deregulation as a good opportunity to replace the existing computer systems (Chart 21, bottom). Also a stimulative factor for the replacement of computer systems across the sector is the "the millennium bomb" problem.

All mentioned above confirm the forces stimulating business fixed investment. On the other hand, however, balance-sheet adjustment pressures remain strong, although diminishing gradually.<sup>6</sup> The net debt to sales ratio in the real estate industry continues to be at a substantially high level. The ratio in other industries is much lower but still shows significant debt burdens, particularly in the small nonmanufacturing firms (Chart 22).<sup>7</sup> This may well lower the risk-taking capabilities of firms and have a restraining effect on the recovery in business fixed investment.

In sum, business fixed investment is expected to continue increasing, mainly reflecting 1) improvements in corporate profits, 2) progress in capital stock adjustments, and 3) the rise in information-related investment. However, the increase in business fixed investment is unlikely to gather further momentum in the short term, owing to the remaining balance-sheet adjustment pressures as well as the absence of leading industries. This view is consistent with the June *Tankan*, where large manufacturing firms, particularly in motor vehicles, petrochemicals/nonferrous metals, and general machinery industries, plan a steady increase in investment for fiscal 1997,

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<sup>6</sup>Despite the improved conditions for investment in office buildings mentioned earlier, construction starts do not clearly indicate a recovery. This partly reflects the decreased risk-taking capabilities among real estate development firms.

<sup>7</sup>The high insolvency rate of firms also indicates that the balance-sheet adjustment continues. Although the economic recovery has spread to the large nonmanufacturing firms on the whole, the balance-sheet adjustment pressure is still strong in industries such as construction and real estate.

without showing noticeable acceleration overall (Chart 23).<sup>8</sup> Investment plans of small firms show contrasting developments between manufacturing and nonmanufacturing sectors reflecting the profit environment mentioned earlier. While the extent of the declines in investment plans of manufacturing firms are small for this time of the year, those of the nonmanufacturing firms are not encouraging.

With respect to labor market conditions, firms which consider their employment to be excessive have declined steadily, albeit moderately, reflecting steady production and improvements in profits (Chart 24, top). Reflecting this, the number of job offers continues to increase (Chart 24, middle)<sup>9</sup> and recruiting for new graduates in fiscal 1998 is planned to increase for the second consecutive year following fiscal 1997 which had shown an increase for the first time in five years (Chart 24, bottom). Meanwhile, the unemployment rate remains high (Chart 25, top). However, the high unemployment rate can be explained by voluntary unemployment and new job applications,<sup>10</sup> while involuntary layoffs are decreasing. Also, the number of employees looking for different jobs is increasing (Chart 25, bottom). Thus, the recent high unemployment rate reflects to a considerable extent job hopping by employees and job seeking by once discouraged workers, stimulated by the improvement in the labor market conditions. Therefore, the development in the unemployment rate is in line with the moderate economic recovery.

With respect to wages, the recovery in scheduled cash earnings has not been so clear. This is because firms suffered very large personnel cost adjustment pressures in the post- "bubble" years, and continue to be cautious

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<sup>8</sup>Although investment plans of principal nonmanufacturing firms for fiscal 1997 show an increase similar to that for fiscal 1996, two-thirds of the increase is attributable to electric power and gas companies. Judging from data in recent years and anecdotal information, investment plans of electric power and gas companies are likely to be revised downwards later.

<sup>9</sup>The recovery in the ratio of job offers to job application appears to have paused recently. This is because the supply and demand conditions for construction workers have weakened reflecting the decline in public-sector investments and housing investments. This impact tends to be over-represented in the statistics in "Report on Employment Service", such as the ratio of job offers to job applications, in which the weight of construction industry is large. (The weight of construction industry during 1996 is 18.8 per cent in the job offers compiled by Employment Service, while that for employment data in the "Monthly Labor Survey" is only 10.3 per cent.)

<sup>10</sup>In Chart 25, top, those not having been in the labor force but started seeking jobs are categorized as "others".

about expanding an inflexible component of personnel costs, such as basic wages. However, the rise in corporate profits is clearly reflected in the recovery in bonus payments. According to the Japan Federation for Employers' Associations survey, summer bonus payments in 1997 are expected to rise as much as those in summer 1996 (Chart 26, top). The rise in bonus payments and the moderate recovery in employment growth, a product of the improvement in the labor supply and demand conditions, have been reflected in the gradual increase in the growth in employees' income (Chart 26, bottom). This indicates that the recovery in the business sector is spreading to the household sector.

Although the reaction to the rise in demand ahead of the consumption tax hike on personal consumption remains, it is expected to subside in the near future given these labor market and income conditions. However, growth in the real disposable income, which is a better measurement of actual purchasing power, is expected to be rather moderate for some time, due to the increased tax burden, including the consumption tax hike and the abolition of the special income tax reduction. Thus, personal consumption is likely to start increasing again after the temporary decrease, but the pace of recovery will be moderate.

With respect to the outlook for housing investment, another demand component of the household sector, housing starts during 1996 were extraordinarily high reflecting a rise in demand ahead of the consumption tax hike, with 1.82 million starts in terms of the seasonally-adjusted annual rate in October 1996, the highest in approximately 23 years. The recent sluggishness can mainly be explained as a reaction to this rise.<sup>11</sup> However, conditions have basically been favorable to housing investment under low interest rates (Chart 27, bottom). In these circumstances, housing starts are expected to recover somewhat in the second half of fiscal 1997 when the reaction to the surge in demand ahead of the consumption tax hike subsides.

## 2) Prices

With respect to price developments, the downward pressure on domestic prices from the increase in manufactured imports has weakened, as the rise in the import penetration rate has paused as a result of the narrowing price differentials between Japan and overseas (Chart 15, bottom). On the other hand,

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<sup>11</sup>As for owner-occupied housing starts, where the decline is particularly large, a regression analysis shows that during 1996, the actual data exceeded the estimates by a large margin indicating that demand was heavily front-loaded (Chart 27, top). On the other hand, recent data are significantly below the estimates, which implies a large reaction to the rise in demand ahead of the consumption tax hike.



the upward cost pressure from imported materials has also subsided. That is, crude oil prices have been declining since February 1997 after having increased significantly in the second half of 1996, and the yen has been appreciating somewhat since early May (Chart 28, top). Thus, import prices in yen terms have been declining since spring 1997 (Chart 28, middle). This change in import prices has been reflected in domestic wholesale prices through price declines in goods which follow developments in foreign exchange rates and overseas commodity markets (Chart 28, bottom). Therefore, neither upward nor downward pressures from import prices on domestic prices appears to be of any significance.

With respect to domestic factors, the DIs for supply and demand conditions of products and for inventories in the *Tankan* survey are rising, but the pace of the rises are moderate when compared with past economic recoveries (Chart 29, top, middle). Since final demand is expected to continue expanding only at a moderate pace, the output gap is unlikely to narrow significantly. In these circumstances, domestic wholesale prices are expected to remain virtually unchanged on the whole, as price declines created by technological innovation in goods such as electrical machinery, balance out the moderate upward pressures from improvements in supply and demand conditions. For this matter, firms expect prices to remain stable, at least for the near future (Chart 29, bottom).

The year-to-year decline in corporate service prices has been narrowing recently. This is because 1) the decline in "rents" is narrowing, reflecting improvements in the supply and demand conditions for office buildings, 2) prices of "general services" have begun to rise year to year owing mainly to the firmer demand for information-related services, such as software (Chart 30).<sup>12</sup> Judging from the macroeconomic environment, these recent developments are likely to continue, and the year-to-year change in corporate service prices as a whole will gradually approach zero per cent.

The overall year-to-year increase in consumer prices (nationwide, excluding perishables) recently has been widening somewhat, reflecting the smaller declines in "commodities" and marginally larger rises in "private-sector services" (Chart 31, top). In more detail, the smaller decline in

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<sup>12</sup>The year-to-year increase in prices of "general services" reflects not only the rise in information-related demand, but also some increases in demand for other services. This includes the rise in building maintenance, such as elevator maintenance, owing to the decline in office vacancies. There is also the rise in charges for temporary workers because of the improvement in the supply and demand conditions in the labor market.

prices of "commodities" reflects the fact that 1) declines in prices of durable goods have narrowed somewhat as the import penetration rate has peaked, and 2) prices of petroleum-related goods have risen reflecting the crude oil price hike and the yen's depreciation until early spring 1997 (Chart 31, middle). Prices of petroleum-related goods, however, have already started to decline on month to month basis owing to the decline in crude oil prices and the appreciation of the yen, which will be followed by year-to-year declines in the near future. The increase in "private-sector services" expanded somewhat as prices in restaurants, which had been unchanged for some time, increased at the time of the consumption tax hike in April (Chart 31, bottom). This is basically a temporary rise, and is unlikely to cause further upward pressure on prices in "private-sector services" .

Thus, the rise in consumer prices is unlikely to continue to accelerate in the future, because the recent rise owes not only to the improvement in demand and supply conditions but also to temporary factors, such as the price increase in petroleum-related goods and restaurants. It should be noted, however, that demand and supply conditions for temporary help workers and part-time workers are gradually tightening.<sup>13</sup>

### **3) Conclusion**

In sum, the positive cycle among production, income and expenditure continues steadily and is reflected in the improvement in corporate profits and the rise in employees' income. Thus, despite the restraining pressures from fiscal policies, including the consumption tax hike and the decline in public-sector investment, Japan's economy is expected to continue its recovery, supported by the yen's depreciation until early spring and the expansion of information-related demand. However, the economic recovery is unlikely to gather significant momentum, as a result of fragility in some sectors, as well as the continued balance-sheet adjustment pressure. In these circumstances, building an economic environment which increases the confidence of the private sector is vital to strengthening the economic recovery. In this process, effective structural reforms to draw out the dynamism inherent in the economy continue to be essential in addition to appropriate macroeconomic policies.

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<sup>13</sup>The year-to-year change in hourly wages of part-time workers (for firms with 5 or more employees) increased somewhat from -0.1 per cent in 1996 to 1.3 per cent from January to May 1997.

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Chart 22	Net Outstanding Debt-to-Sales Ratio
Chart 23	Business Fixed Investment Plan for Fiscal 1997 ( <i>Tankan</i> )
Chart 24	Employment
Chart 25	Unemployment
Chart 26	Household Income
Chart 27	Housing Investment
Chart 28	Inflation Impact from Imported Goods
Chart 29	Domestic Supply and Demand Conditions
Chart 30	Corporate Service Prices
Chart 31	Consumer Prices

## Main Economic Indicators

	1995/4Q	1996/1Q	2Q	3Q	4Q	1997/1Q	2Q
Industrial production (Q/q % chg, S.A.)	2.1	0.6	-0.4	2.1	2.1	2.4	(Apr-May) 0.4
(Y/y % chg)	1.3	1.1	0.7	3.9	4.9	6.4	6.1
Business conditions ("favorable" - "unfavorable" % points)	-18	-15	-6	-5	-2	-1	0
Index of expenditure level (all households) (Y/y % chg)	-0.7	2.1	1.6	-1.7	0.5	3.5	(Apr-May) -1.7
Sales of large-scale retail stores (Y/y % chg)	-2.1	1.8	-0.1	-2.1	-0.8	4.2	(Apr-May) -5.6
Sales of household electric appliances (Y/y % chg)	11.6	14.8	13.9	6.7	3.9	14.9	(Apr-May) -5.7
New passenger car registrations (excl. mini vehicles) (Y/y % chg)	5.7	-1.0	-0.4	6.0	15.3	16.2	-9.2
<S.A., annualized 10,000 units>	358	358	345	373	413	418	313
New housing starts (Y/y % chg)	0.8	4.4	13.2	17.9	10.8	-3.8	(Apr-May) -9.5
<S.A., annualized 10,000 units>	155	158	161	167	171	152	150
Machinery orders (Y/y % chg)	10.3	8.7	12.8	10.7	17.3	6.2	(Apr-May) 0.9
Construction floor area (Y/y % chg)	-1.2	16.3	12.8	8.5	21.0	-1.0	(Apr-May) -1.6
Public works contracts (Y/y % chg)	9.5	46.0	-2.0	-1.9	-4.7	-26.3	-1.2
Ratio of job offers to applications (S.A., times)	0.63	0.66	0.69	0.72	0.75	0.74	(Apr-May) 0.72
Real exports (Q/q % chg, S.A.)	4.2	-3.6	1.0	1.7	5.0	-0.3	7.5
Real imports (Q/q % chg, S.A.)	7.2	0.2	2.3	1.8	-1.0	0.6	-2.2
Wholesale Price Index (Domestic, Y/y % chg)	-0.8	-1.0	-0.9	-0.7	-0.6	-0.2	-0.0
Consumer Price Index (Excluding perishables, Y/y % chg)	0.1	0.0	0.2	0.2	0.3	0.4	(Apr-May) 0.6
Money Stock (M2+CDs) (Averages of daily figures, Y/y % chg)	3.1	3.0	3.4	3.6	3.4	3.0	3.0

Notes: 1. Figures for business conditions are for principal enterprises of all industries.

2. Figures for machinery orders are those from the private sector excluding electric power companies. Shipbuilding orders are also excluded.

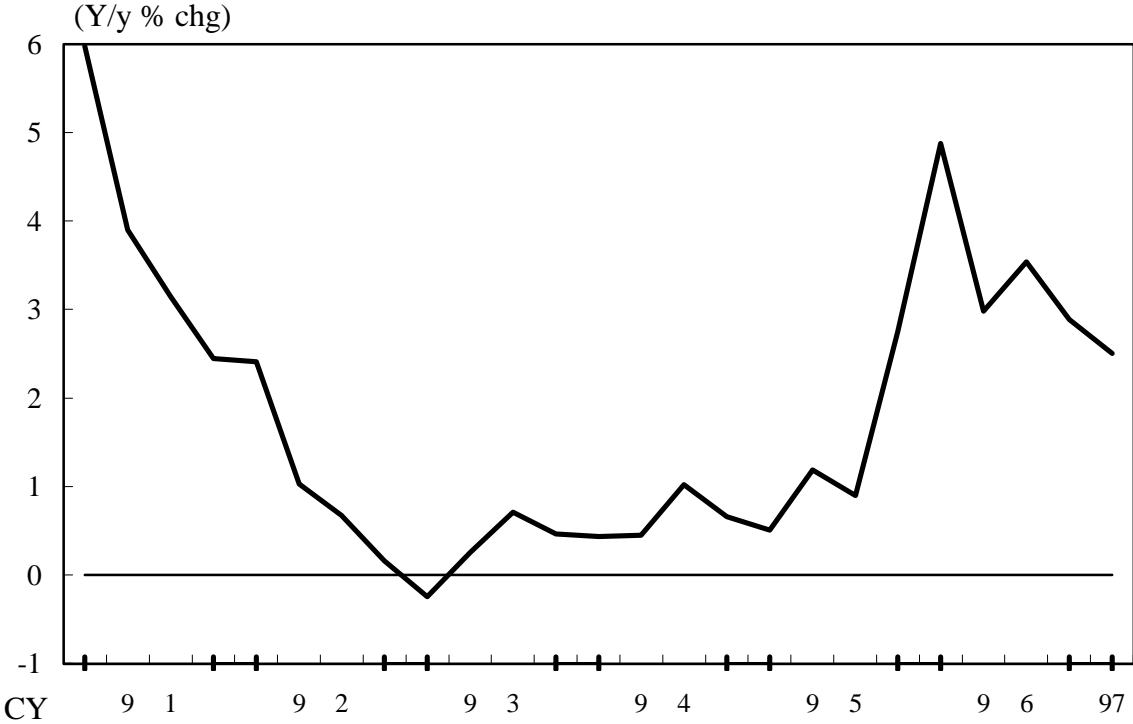
3. Figures for construction floor area are for private non-residential use.

4. Figures for WPI and CPI of 1997/2Q are adjusted by the Research and Statistics Dept. to exclude the effects of the rise of the consumption tax rate in April 1997, on the assumption that prices of taxable goods and services fully reflect this tax-rise.

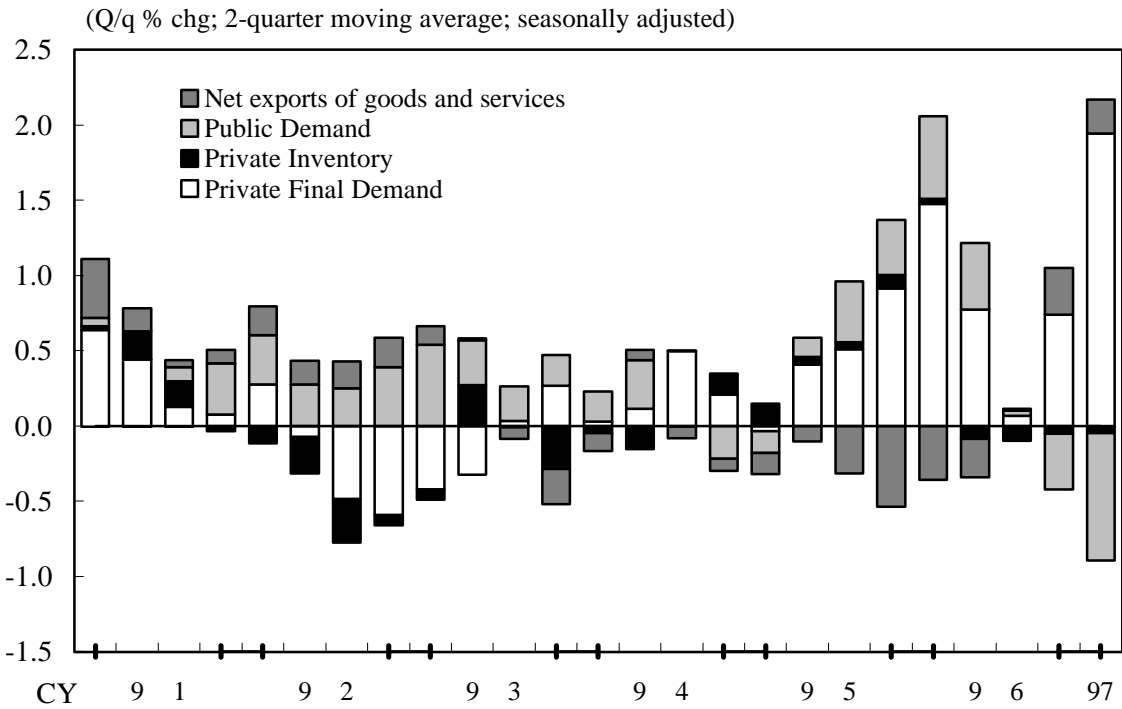
Sources: Ministry of International Trade and Industry, Bank of Japan, Management and Coordination Agency, Nippon Electric Big-stores Association, Japan Automobile Dealers Association, Ministry of Construction, Economic Planning Agency, Surety Association for Construction Companies, Ministry of Labor, Ministry of Finance.

Real GDP

(1) Real GDP Growth Rates



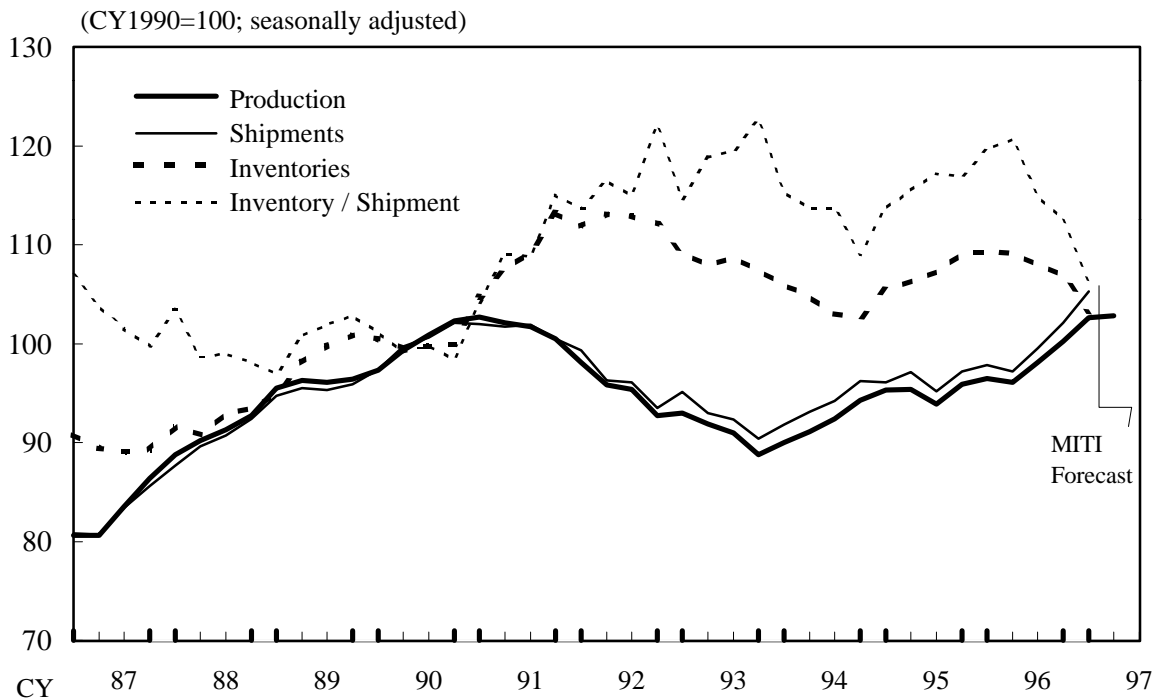
(2) Contribution by Components



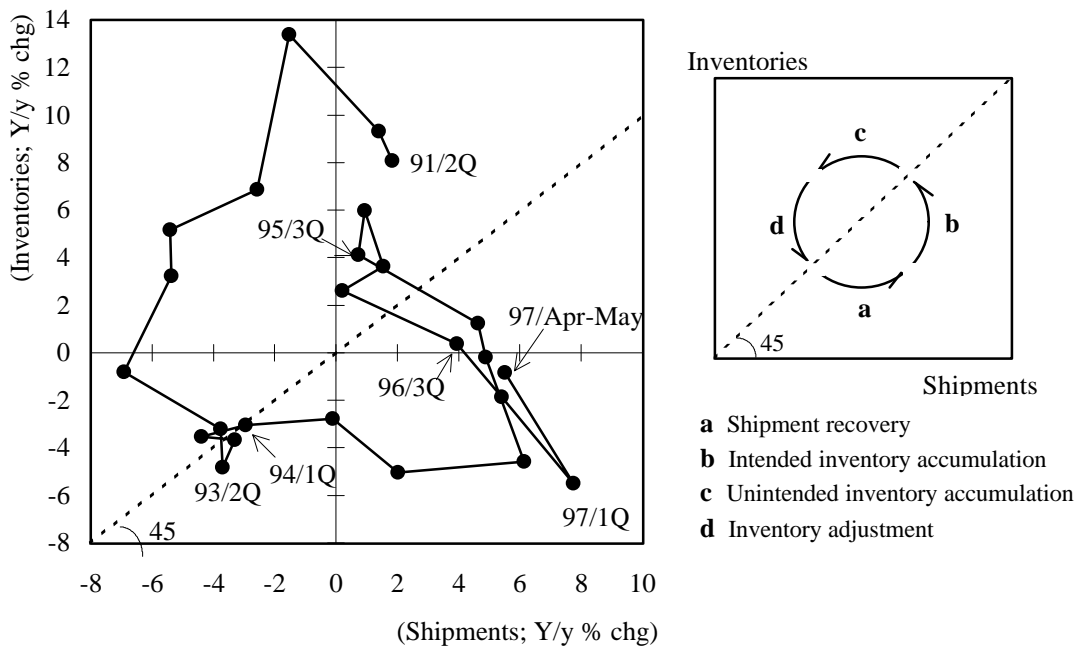
Source: Economic Planning Agency "National Income Statistics."

Production, Shipments, and Inventories

(1) Production, Shipments, and Inventories



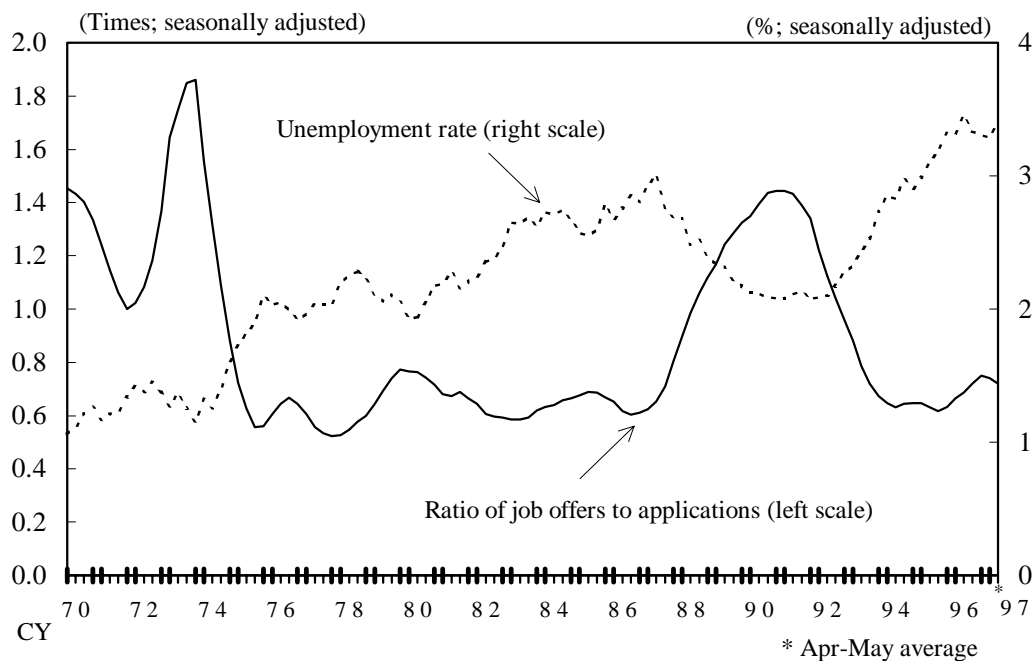
(2) Inventory Cycle



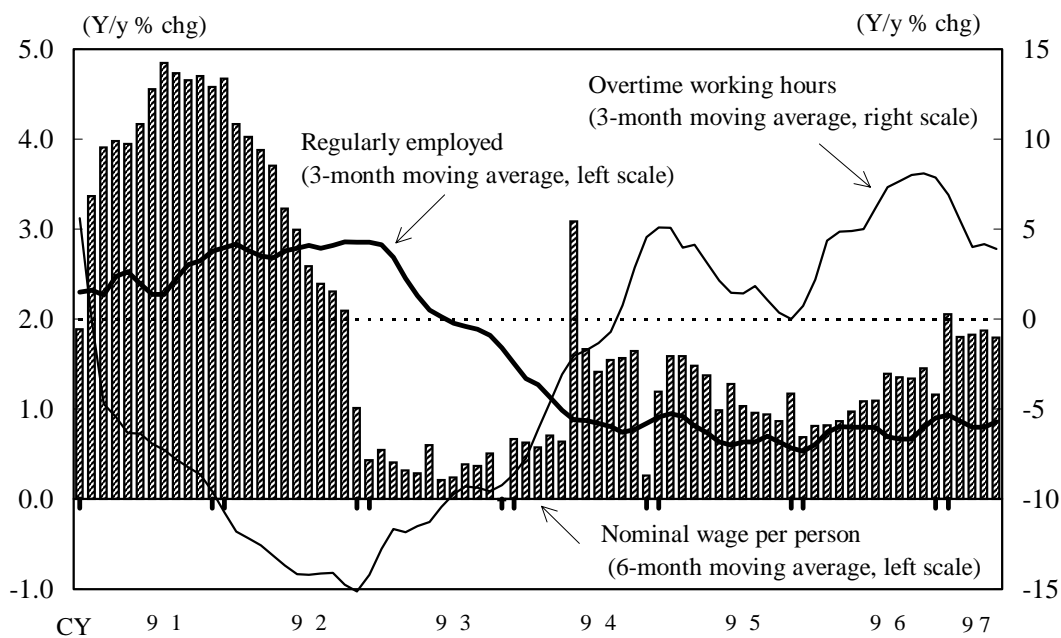
Source: Ministry of International Trade and Industry "Indices of Industrial Production."

Labor

(1) Labor Market



(2) Income Conditions

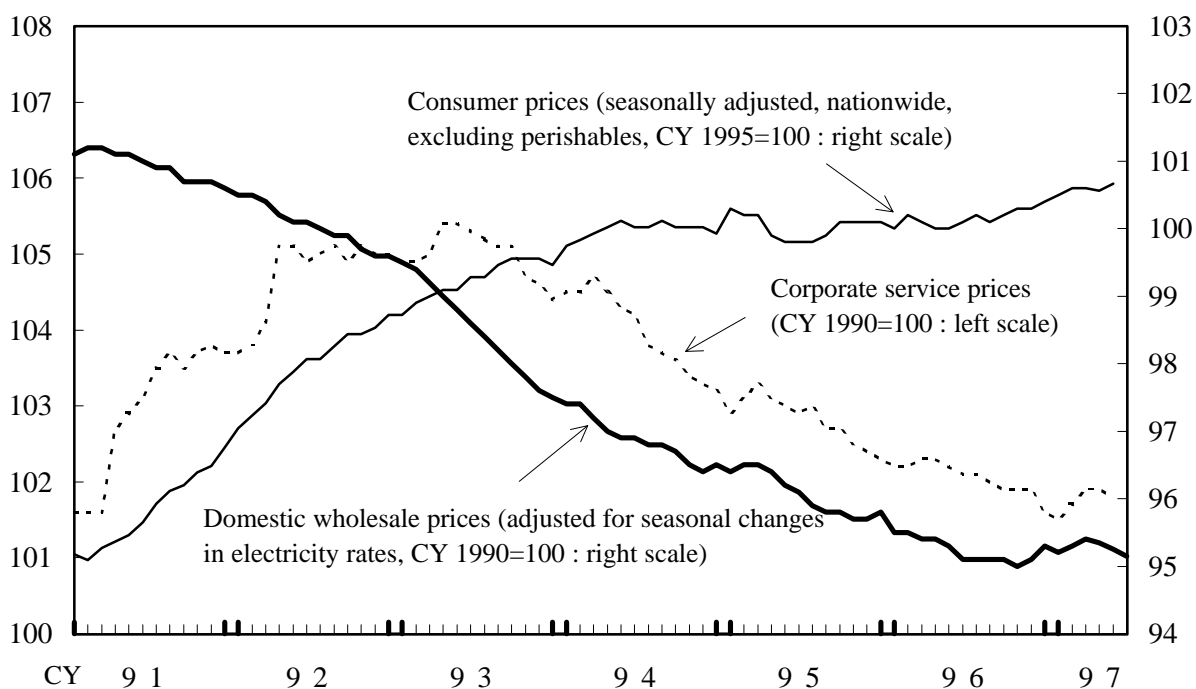


Note: Data for firms with 5 employees or more.

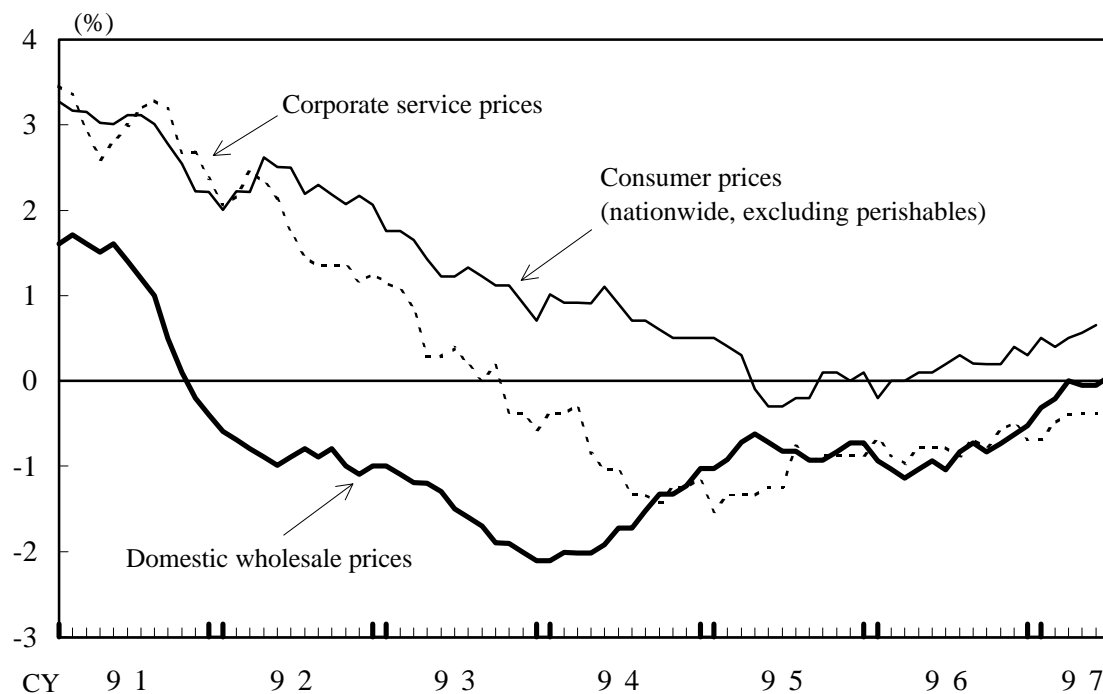
Sources: Ministry of Labor "Monthly Labor Survey",  
 "Report on Employment Service";  
 Management and Coordination Agency "Labor Force Survey."

Prices

(1) Level



(2) Change from a year earlier

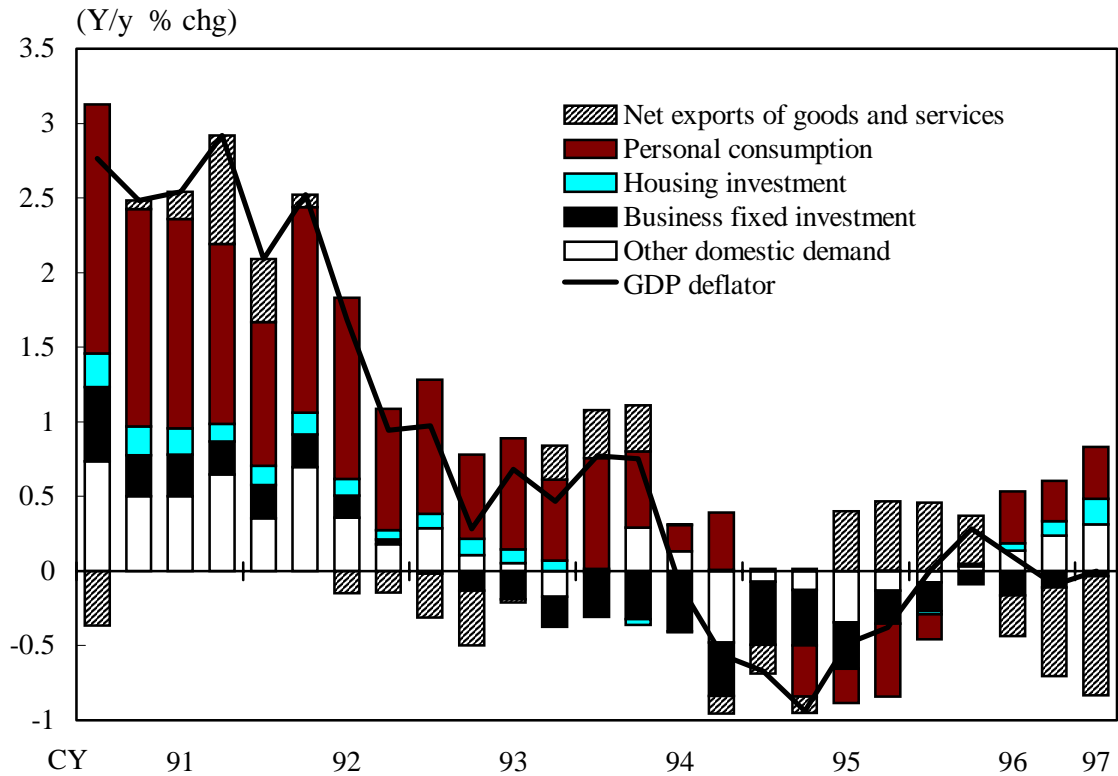


Notes: 1. Excluding the rise of the consumption tax rate from 3% to 5% in and after April 1997 (prices are adjusted on the assumption that prices of all taxable goods are fully raised in April 1997).  
 2. The 1995-base seasonally adjusted CPI is spliced to the 1990-base seasonally adjusted CPI at January 1995.

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



## GDP Deflator

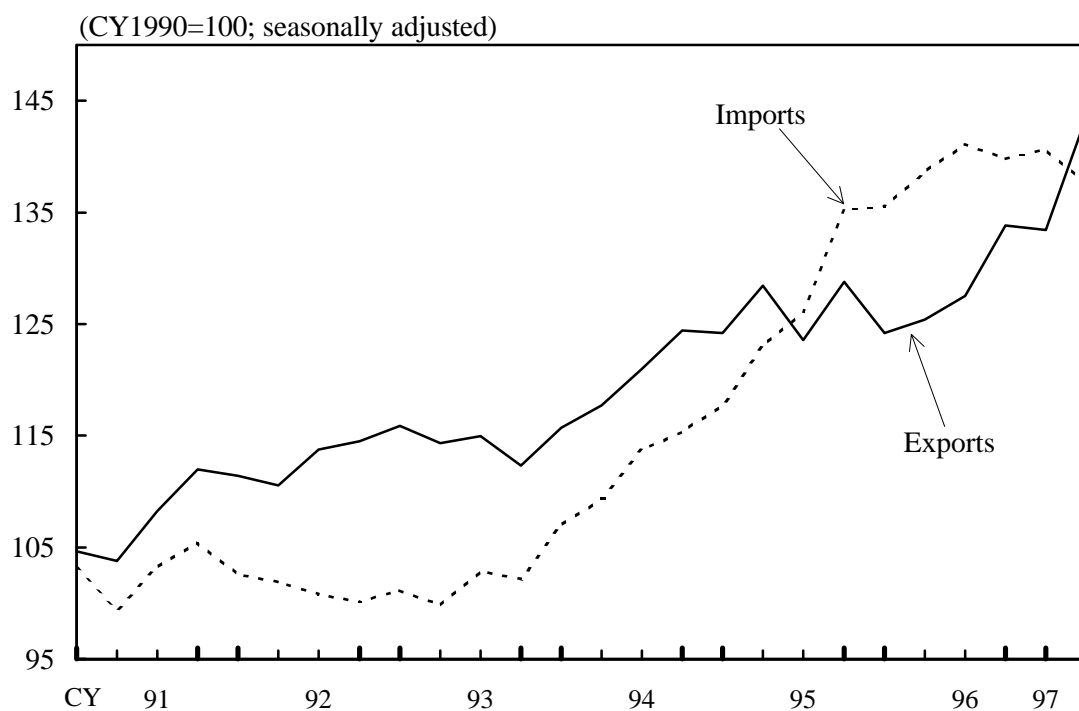


Note: Other domestic demand = Inventories + Government consumption + Public-sector investment.

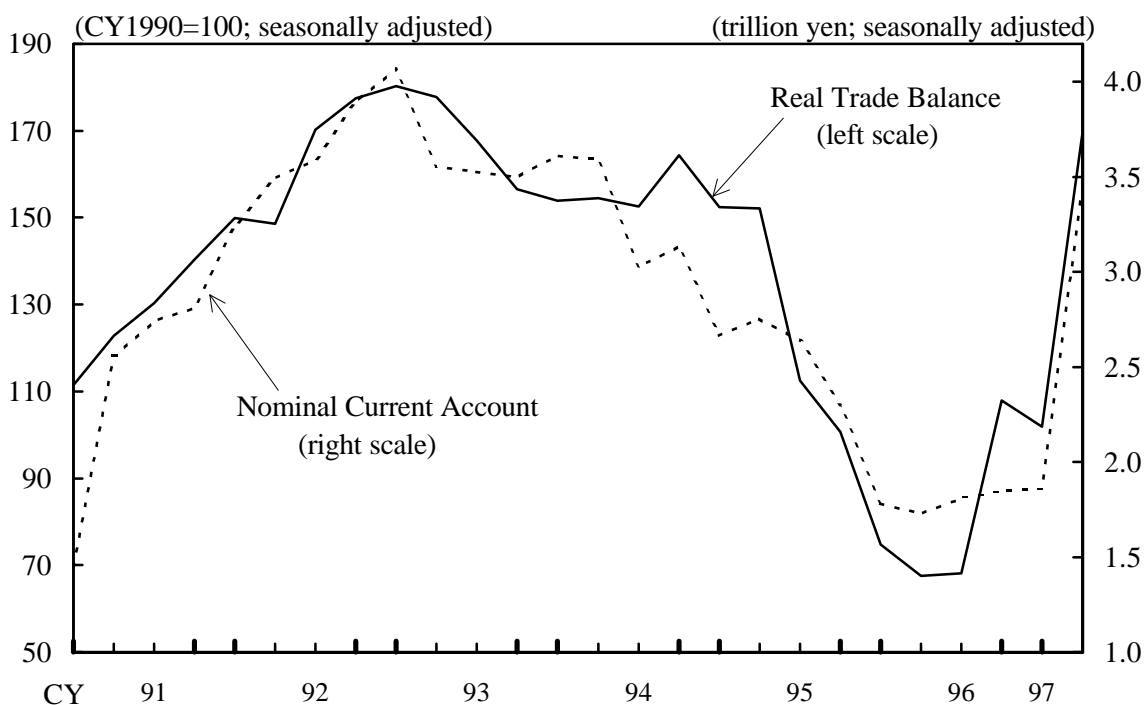
Source: Economic Planning Agency "National Income Statistics."

External Balance

(1) Real Exports and Real Imports



(2) Real Trade Balance and Nominal Current Account

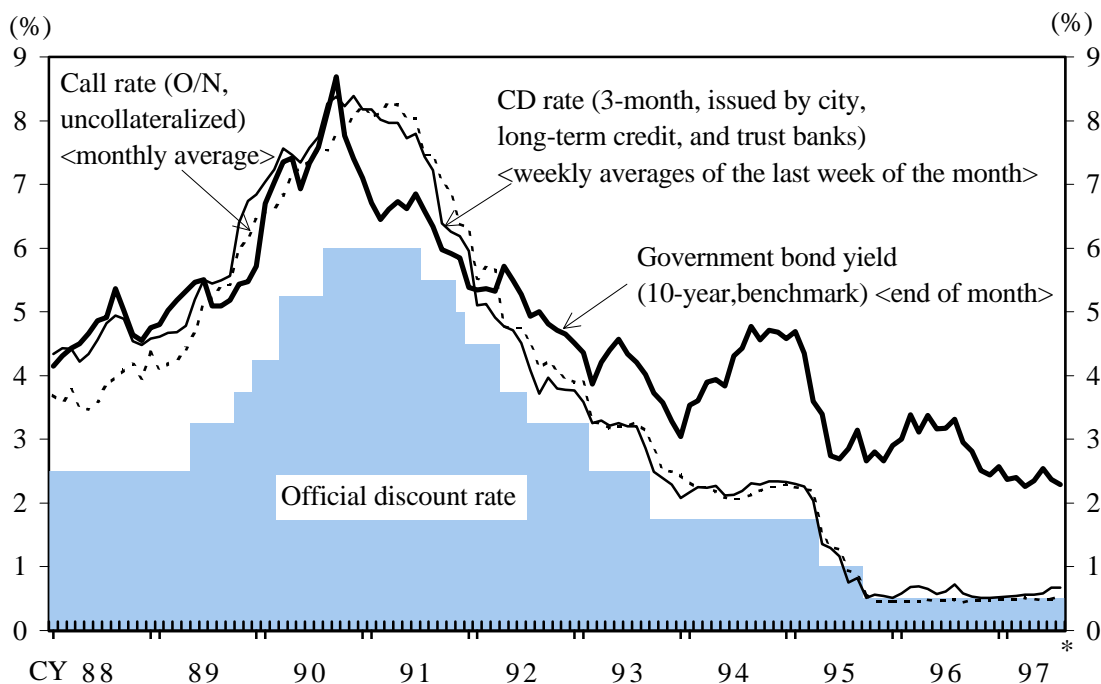


Note: 1997/2Q figure for Nominal Current Account is Apr-May average in terms of quarterly amount.

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

Interest Rates

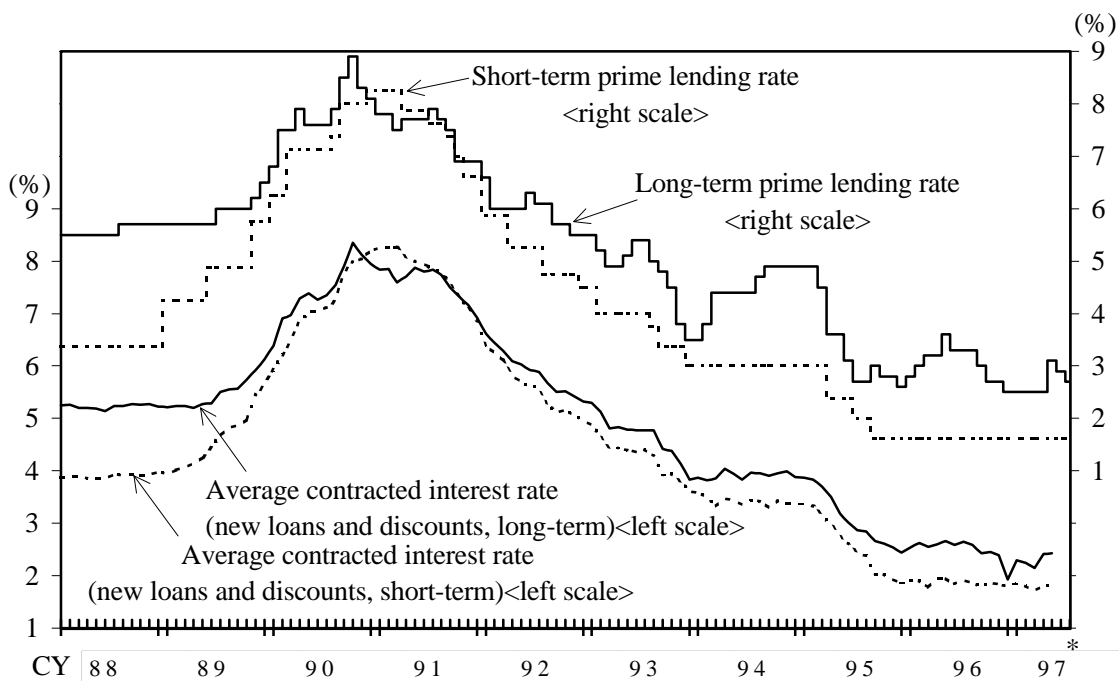
(1) Official Discount Rate and Market Rates



Note: July figure for CD rate is July 7-11 average.

\* Jul 16, '97

(2) Lending Rates

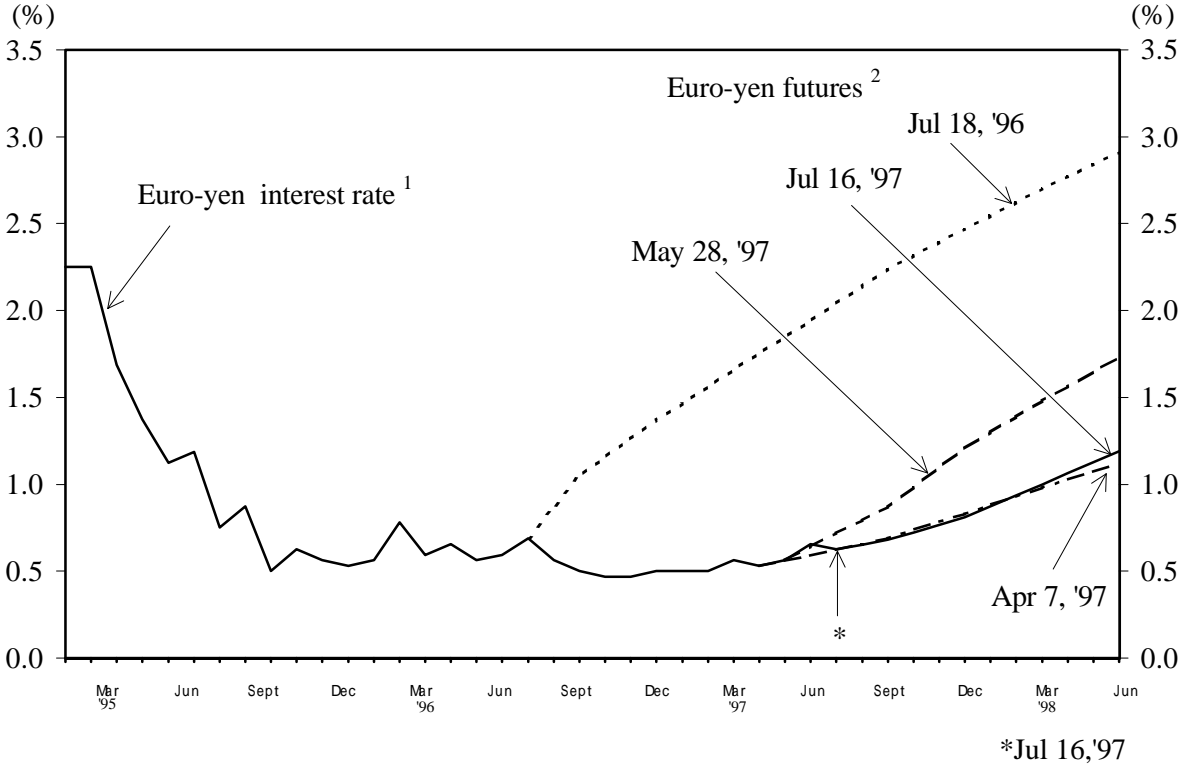


\* Jul 16, '97

Note: Average contracted interest rate: prior to Sep 93, figures were based on the member banks of Bankers Association of Japan; after Oct 93, they were based on the domestically licensed banks.  
Source: Bank of Japan "Economic Statistics Monthly."

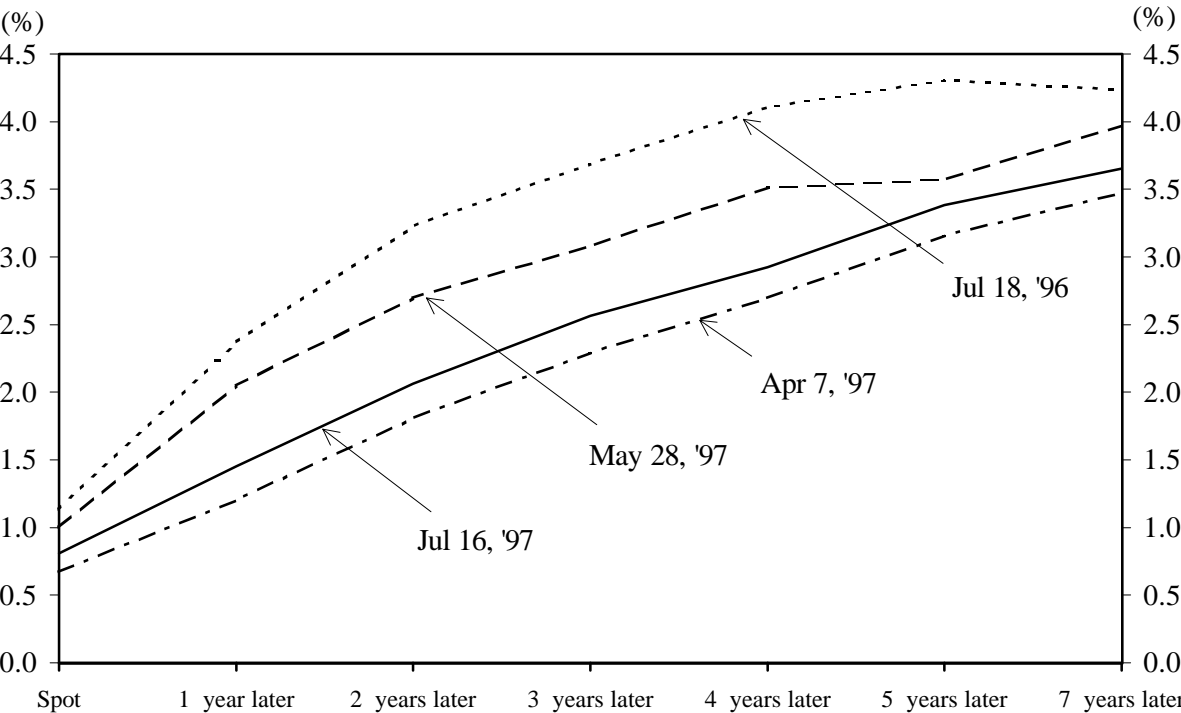
Futures and Forward Rates

(1) Euro-yen Futures (3-month)



Notes: 1. End of month (London Market).  
 2. Euro-yen futures rates for the corresponding delivery months.

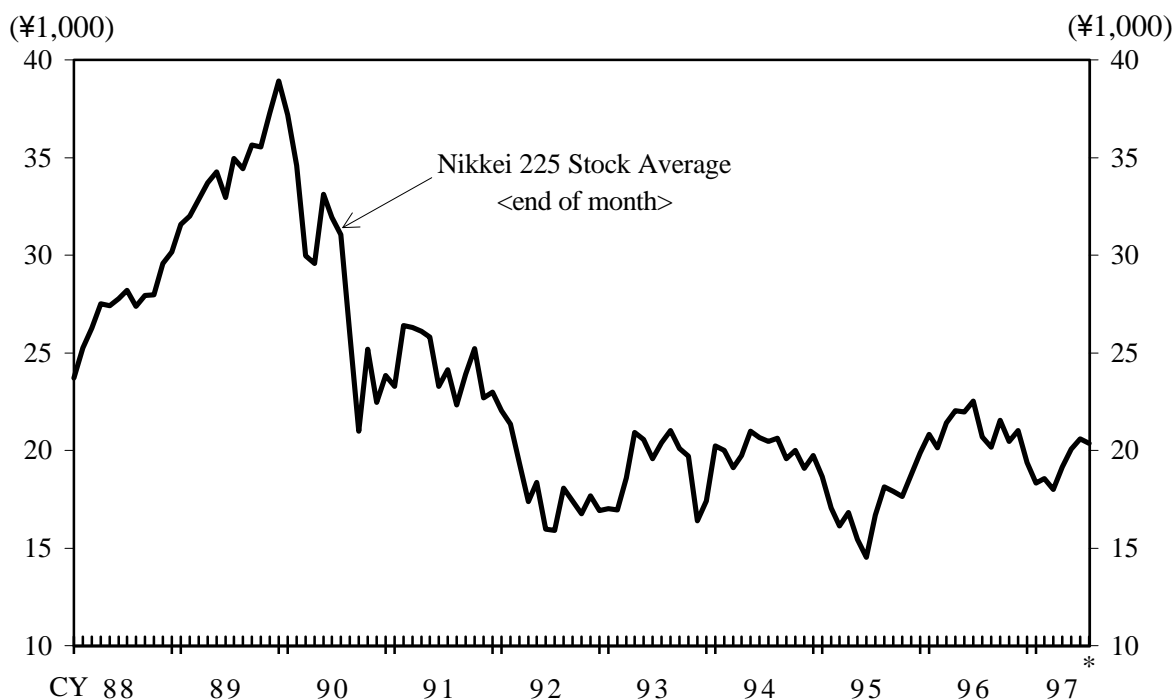
(2) Implied Forward Rates



Note: One-year forward rates calculated from swap rates.  
 Source: The Nikkei Financial Daily, etc.

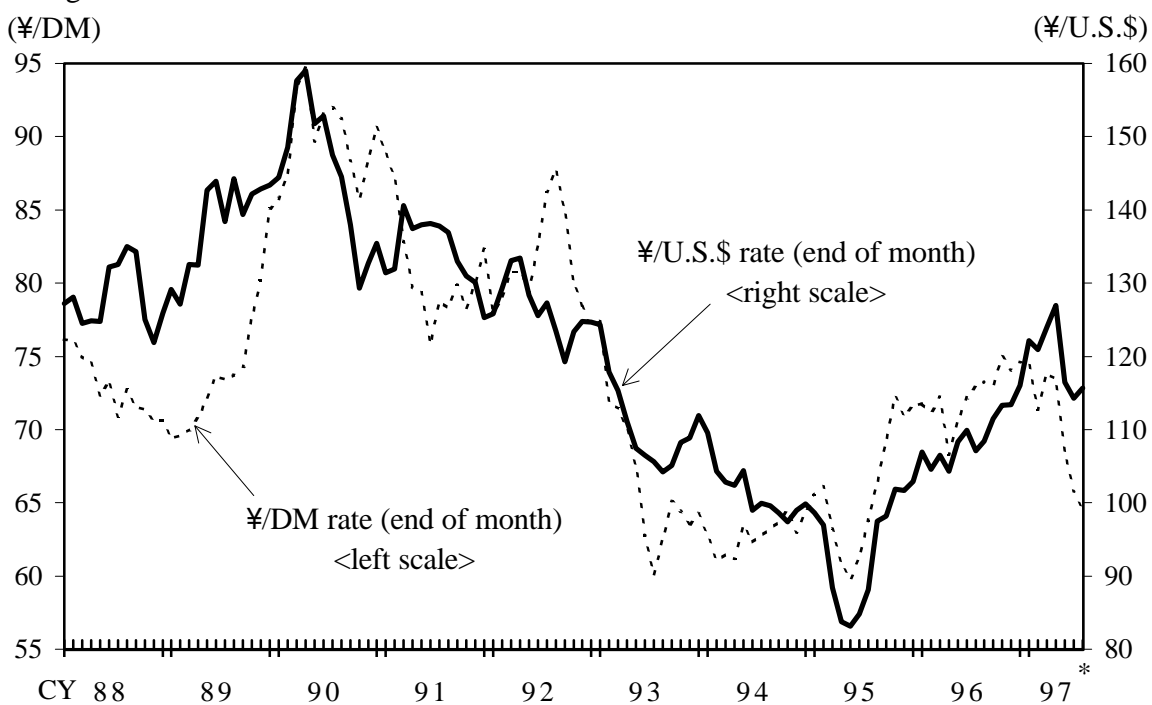
Stock Prices and Exchange Rates

(1) Stock Prices



\* Jul 16, '97

(2) Exchange Rates



\* Jul 16, '97

Source: Bank of Japan "Economic Statistics Monthly."

## Sources of Funds (1)

## (1) Lending by Domestic Commercial Banks

(Y/y % chg; average outstanding)

	1996		1997		1997			
	3Q	4Q	1Q	2Q	Mar	Apr	May	Jun
City banks	1.1	0.0	0.4	0.5	0.3	0.6	0.4	0.5
Long-term credit banks	-2.9	-4.1	-2.0	-1.4	-1.8	-1.2	-1.6	-1.5
Trust banks	-2.2	-4.2	-5.1	-5.2	-5.2	-5.1	-5.2	-5.2
Regional banks	3.0	2.0	1.5	1.3	1.4	1.2	1.4	1.3
Regional banks II	-0.7	-1.4	0.1	0.4	0.5	0.7	0.4	0.2
Total	0.7	-0.4	-0.2	-0.1	-0.1	-0.0	-0.1	-0.1
Yen loans	0.3	-0.6	-0.4	-0.2	-0.4	-0.2	-0.2	-0.2
Impact loans	5.5	1.7	2.2	1.7	2.3	2.4	1.6	0.9

## (2) Lending by Other Financial Institutions

(Y/y % chg)

	1996		1997		1997			
	3Q	4Q	1Q	2Q	Mar	Apr	May	Jun
Foreign banks <sup>1</sup>	16.6	17.2	14.4	23.9	20.0	15.7	29.4	27.0
Shinkin banks <sup>2,3</sup>	0.4	1.0	0.4	0.3	0.4	1.0	1.6	0.3
Life insurance companies <sup>2</sup>	-0.8	-1.1	-3.0	n.a.	-3.0	n.a.	n.a.	n.a.
Government <sup>2</sup> Financial Institutions	2.2	3.9	4.8	n.a.	4.8	4.8	4.8	n.a.

Notes: 1. Yen loans, average amounts outstanding.

2. Amounts outstanding at end of period.

3. Includes impact loans (foreign-currency-denominated and Euro-yen untied loans).

Sources: Bank of Japan "Principal Figures of Financial Institutions";  
Zenshinren Bank "Principal Accounts of Shinkin Banks", etc.

## Sources of Funds (2)

## (1) Private Sector Funding in the Capital Market

(¥100 mil)

	Total	Straight bonds	Convertible bonds	Bonds with warrants	New equity issues
FY 1995	96,315 ( 10.7 )	64,950 ( 52.6 )	14,816 ( -48.6 )	6,730 ( 2.8 times )	9,819 ( -25.6 )
FY 1996	133,771 ( 38.9 )	74,720 ( 15.0 )	33,136 ( 2.2 times )	3,591 ( -46.6 )	22,324 ( 2.3 times )
1996/4Q	41,602 ( 50.5 )	21,854 ( 29.2 )	9,611 ( 94.2 )	502 ( -83.2 )	9,635 ( 3.5 times )
1997/1Q	19,688 ( -38.2 )	16,139 ( -14.3 )	1,151 ( -84.0 )	176 ( -94.1 )	2,222 ( -21.1 )
2Q p	31,195 ( -9.4 )	27,673 ( 38.8 )	2,724 ( -73.3 )	104 ( -92.1 )	694 ( -76.6 )

- Notes: 1. Figures in parentheses are Y/y % chg.  
 2. Bank debentures (except for subordinated bonds) are not included.  
 3. Figures for new equity issues include initial public offerings.  
 4. Figure for new equity issues in June 1997 is only those publicly offered at market price and initial public offerings.

## (2) Loans to Individuals

(Y/y % chg, outstanding, end of period)

	Total	Housing credit		Consumer credit by Domestically Licensed Banks * Figures in parentheses are Y/y % chg of new loans
		Domestically Licensed Banks	Government Housing Loan Corporation	
1996/1Q	7.1	14.8	0.7	-6.6 ( -1.0 )
2Q	7.1	15.5	0.4	-6.4 ( 6.1 )
3Q	7.3	11.7	3.5	-5.3 ( -15.1 )
4Q	7.6	7.9	7.4	-5.4 ( -9.1 )
1997/1Q	8.5	7.6	9.4	-5.5 ( -5.7 )
Outstanding at end FY 1996 (¥ tril)	118.2	56.5	61.6	15.1

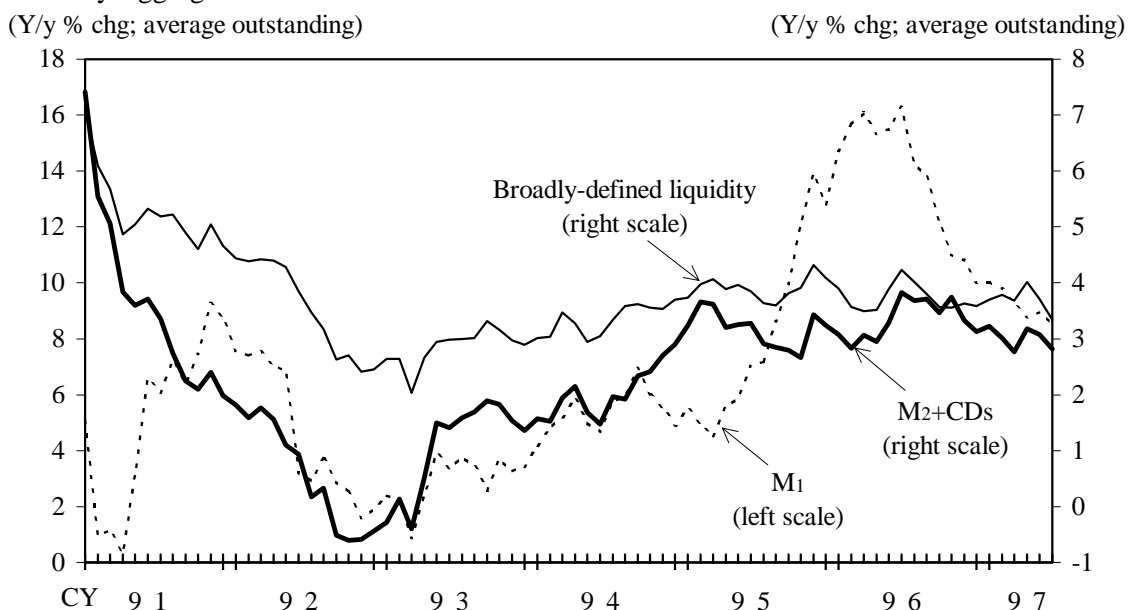
\* Banking Accounts and Trust Accounts of Domestically Licensed Banks.

Note: Domestically licensed banks are the banks which are established and licensed under Japanese legislation.

Sources: The Bond Underwriters Association of Japan "Bond Review"; Bank of Japan "Economic Statistics Monthly", etc.

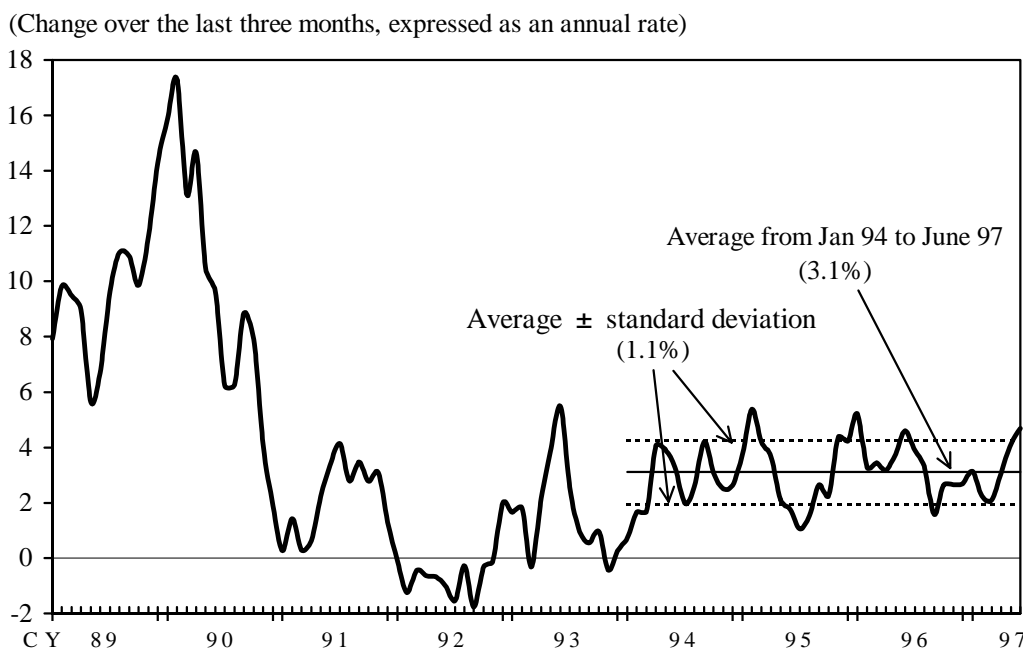
Monetary Aggregates

(1) Monetary Aggregates



Note: Broadly-defined liquidity = M2+CDs + the deposits of post offices + the deposits (including CDs) of 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 + foreign bonds.

(2) Change over the Last Three Months of M2+CDs, Expressed as an Annual Rate



Note: Seasonally adjusted.

Source: Bank of Japan "Economic Statistics Monthly."

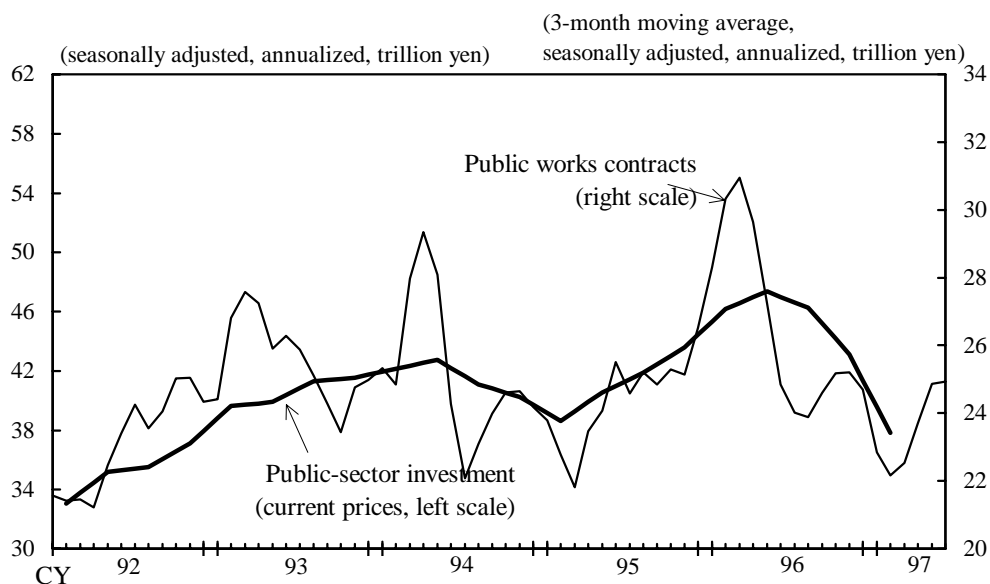


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 Public-sector Investment
 

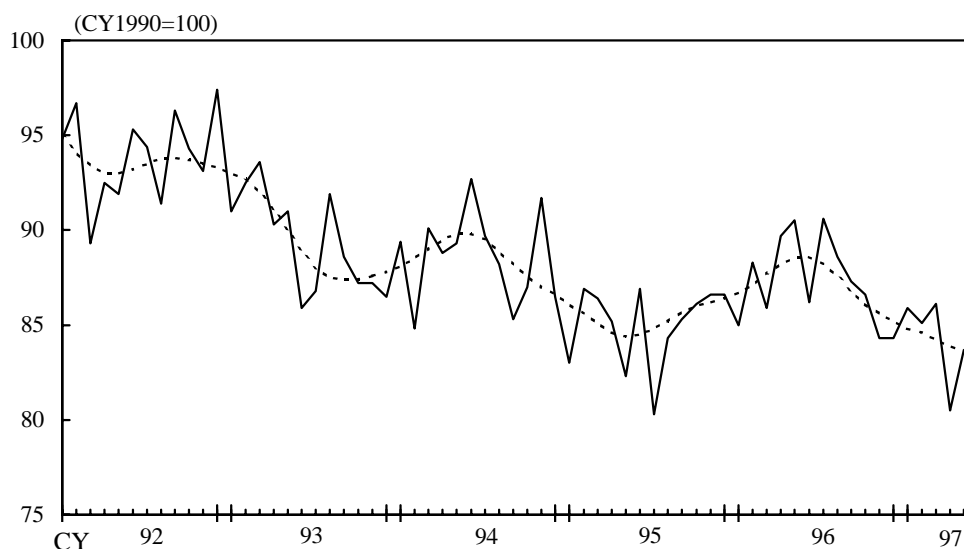
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## (1) Public Works Contracts



- Notes: 1. Quarterly basis public-sector investment is plotted at the middle month of each quarter.  
 2. Public works contracts are seasonally adjusted by X-12-ARIMA ( $\beta$  version).

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

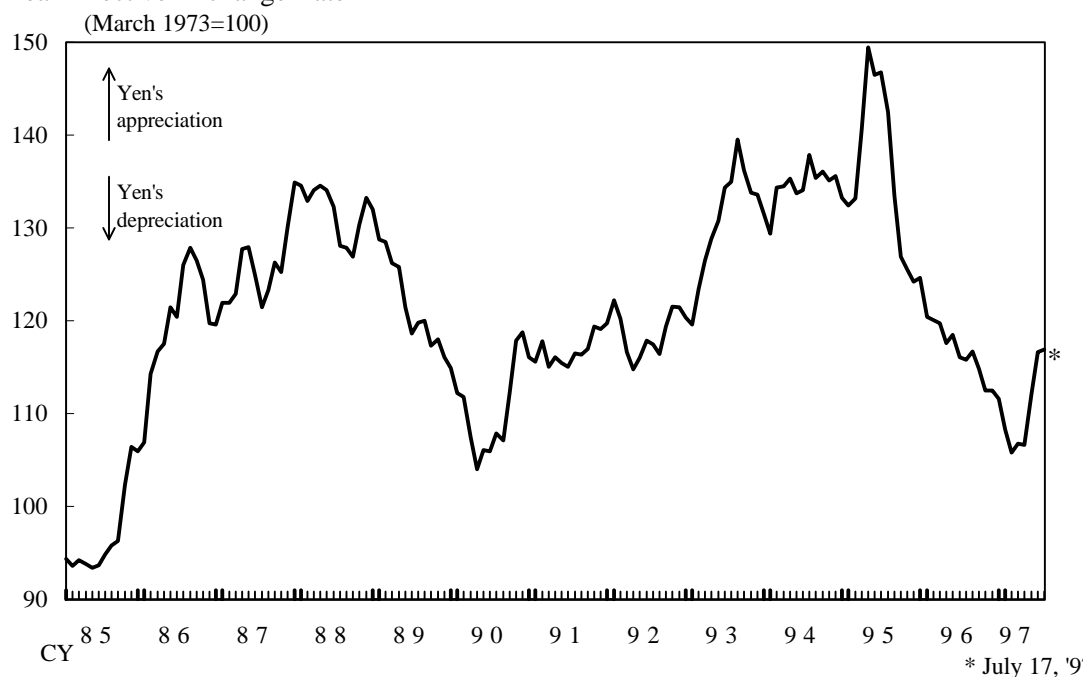


- Notes: 1. Public works-related goods=asphalt+concrete pipes+concrete blocks+concrete paving products+ordinary steel pipes+iron pipe and tube fittings.  
 2. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).  
 The solid line is the seasonally adjusted series ( $=TC \cdot I$ ) and the dotted line is the trend cycle component ( $=TC$ ), where  $Y=TC \cdot S \cdot D \cdot I$  (assuming a multiplicative model  $Y$ : original series,  $TC$ : trend cycle component,  $S$ : seasonal component,  $D$ : trading day component,  $I$ : irregular component).

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."

## Competitiveness of Manufacturing Industries

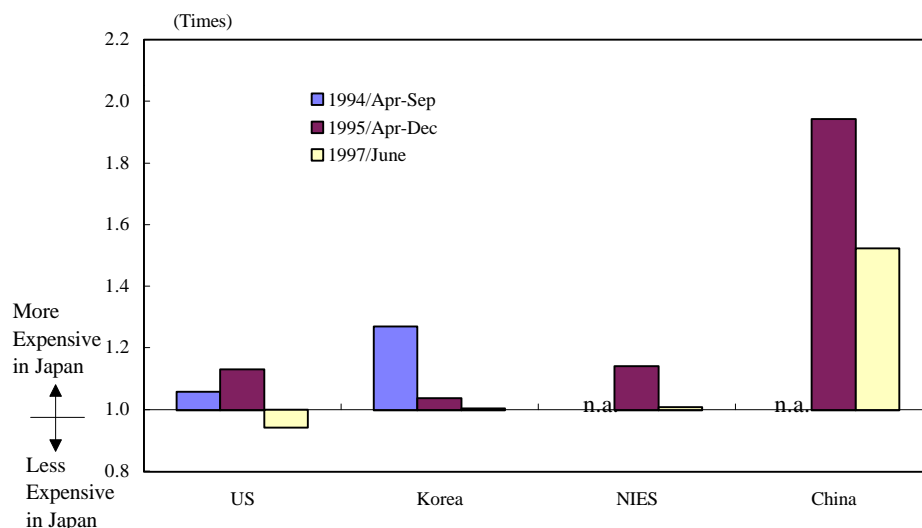
### (1) Real Effective Exchange Rate



Note: Figures are calculated as follows.

- (1) Define real exchange rates of the 24 major trading partners for Japan's exports as nominal exchange rates adjusted for the ratio of the respective country's price indexes against Japan's WPI.
- (2) Calculate the weighted geometric average of the above real exchange rates, where the weights are Japan's export volumes to each country on customs clearance basis.
- (3) Convert the above to an index with March 1973 as the base month.

### (2) Price Differential between Home and Abroad (Machinery)



Notes: 1. Figures for June 1997 assume that prices of foreign merchandise have not changed.

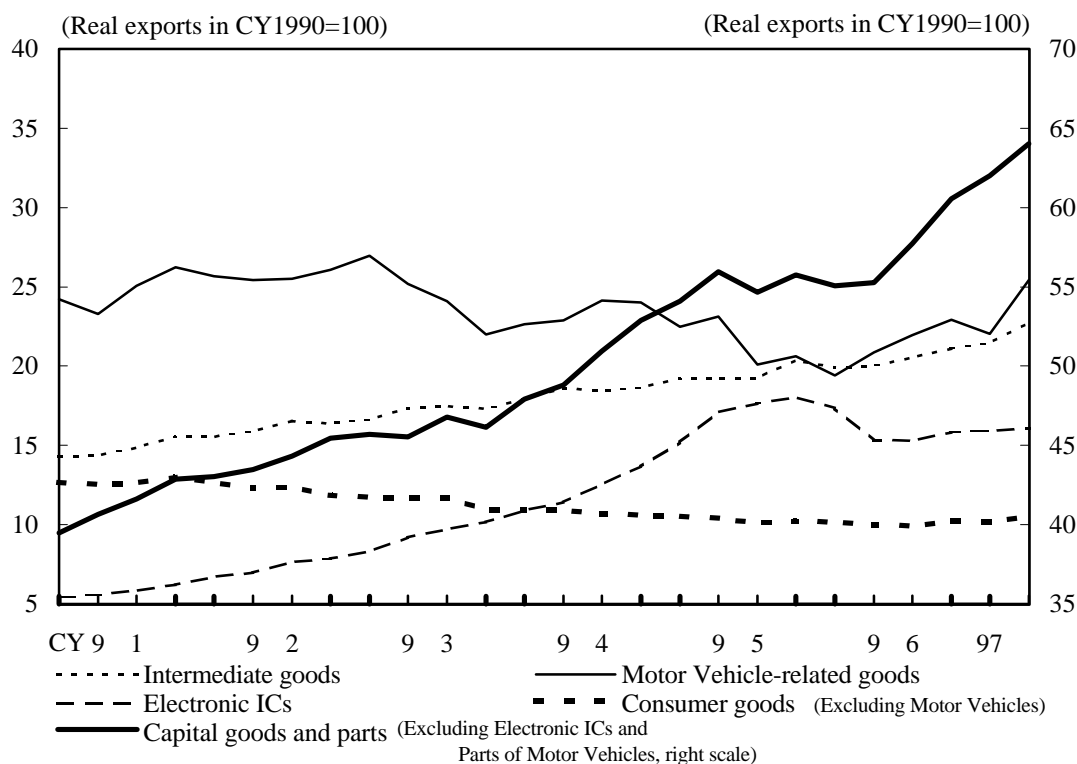
2. Figures for NIES are weighted averages of Japan's import from Korea, Taiwan, Hong Kong and Singapore.

3. Figures are weighted averages of Japan's import of machinery other than electrical, electrical machinery, transport equipment, and precision instruments and apparatus.

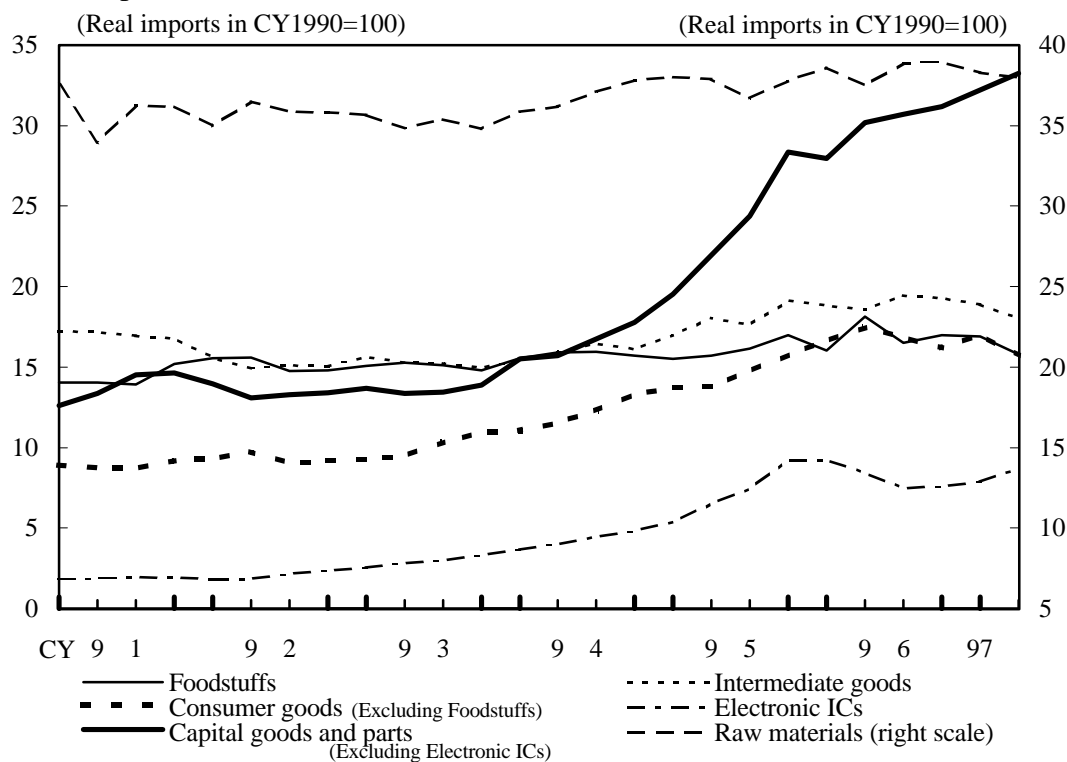
Source: Ministry of International Trade and Industry "Survey of Price Differential between Home and Abroad Concerned with Intermediate Input by Industries", based on survey as of Nov. 1994 and Oct. 1996.

## Real Exports and Imports

### (1) Real Exports



### (2) Real Imports



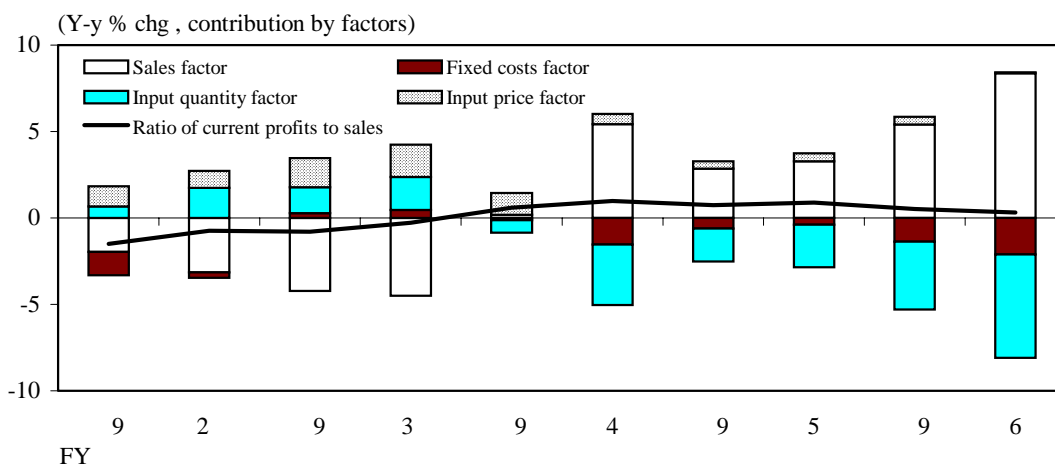
Notes: 1. Based on seasonally adjusted data.

2. Raw materials = Wood + Iron ore + Mineral fuels, etc.

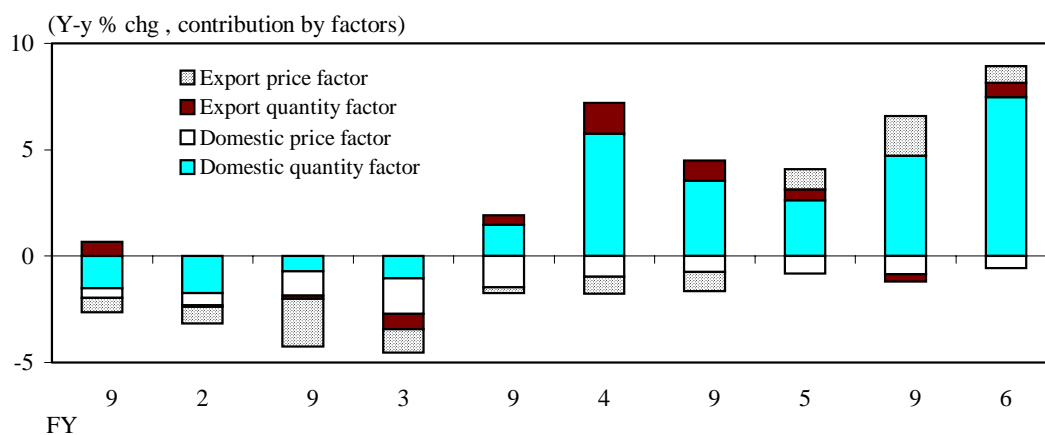
Sources: Ministry of Finance "The Summary Report on Trade of Japan";  
Bank of Japan "Wholesale Price Indexes."

Corporate Profits (Large Manufacturing Firms)

(1) Ratio of current profits to sales



(2) Sales factor



- Notes: 1. Large firms with owners' equity of 1 billion yen or more.  
 2. Manufacturing firms excluding oil and coal.  
 3. Contribution of each factor is calculated as follows;

$$\Delta \frac{\pi}{S} = \underbrace{\frac{FC + VC}{S} * \frac{\Delta S}{S}}_{\text{Sales factor}} - \underbrace{\frac{VC}{S} * \frac{\Delta Pi}{Pi}}_{\text{Input price factor}} - \underbrace{\frac{VC}{S} * \frac{\Delta Oi}{Oi}}_{\text{Input quantity factor}} - \underbrace{\frac{\Delta FC}{S}}_{\text{Fixed costs factor}}$$

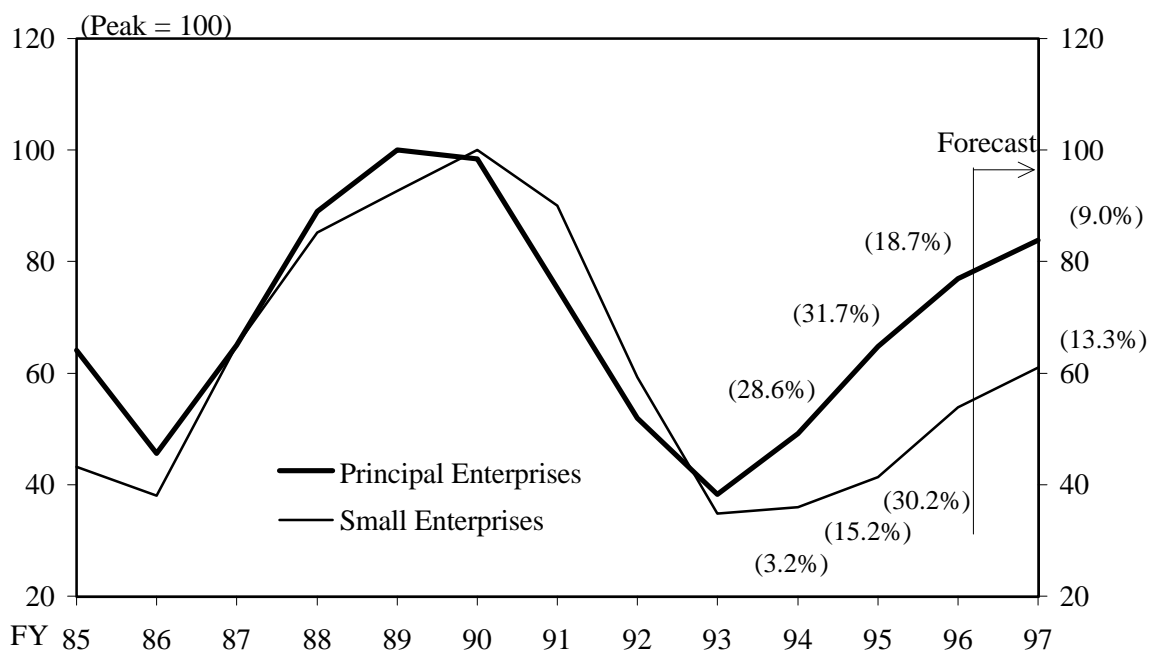
$$\frac{FC + VC}{S} * \frac{\Delta S}{S} = \frac{FC + VC}{S} * \left( \underbrace{\frac{PdOd}{S} \frac{\Delta Pd}{Pd}}_{\text{Domestic price factor}} + \underbrace{\frac{PeOe}{S} \frac{\Delta Pe}{Pe}}_{\text{Export price factor}} + \underbrace{\frac{PdOd}{S} \frac{\Delta Od}{Od}}_{\text{Domestic quantity factor}} + \underbrace{\frac{PeOe}{S} \frac{\Delta Oe}{Oe}}_{\text{Export quantity factor}} \right)$$

$\pi$ : Current profits,  $S$ : Sales,  $FC$ : Fixed costs,  $VC$ : Variable costs,  
 $Pd$ : Domestic price,  $Pe$ : Export price,  $Pi$ : Input price,  
 $Od$ : Domestic quantity,  $Oe$ : Export quantity,  $Oi$ : Input quantity.

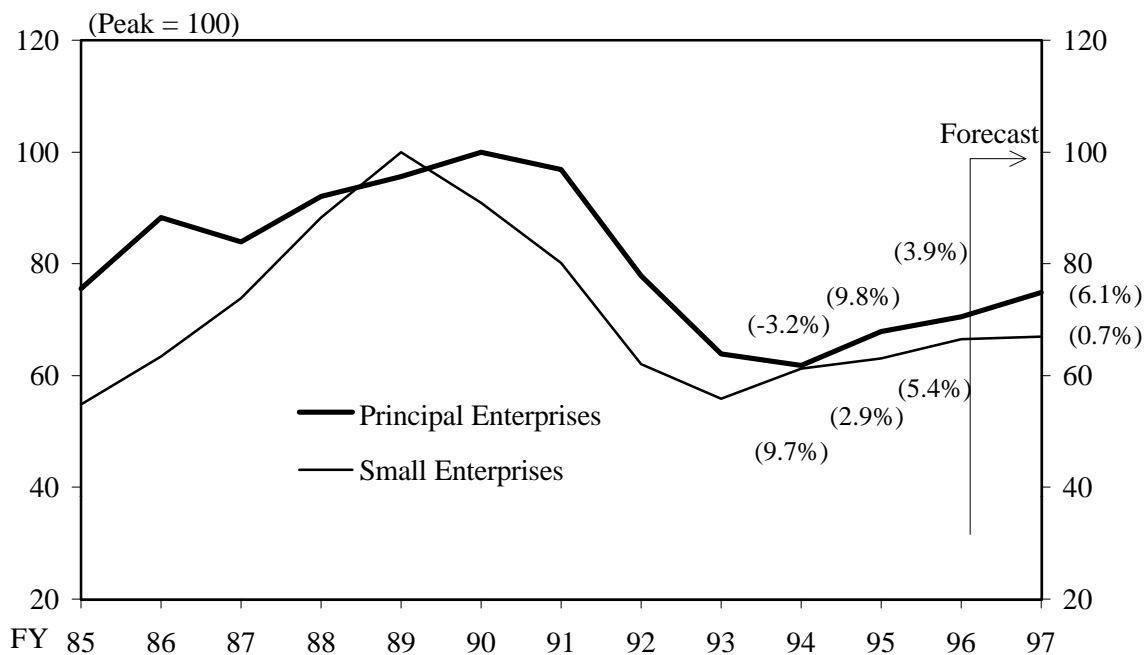
Sources: Ministry of Finance "Corporate Business Statistics Quarterly";  
 Bank of Japan "Input-Output Price Indexes of Manufacturing Industry by Sector", etc.

Forecast of Current Profits (*Tankan*)

(1) Manufacturers



(2) Non-Manufacturers

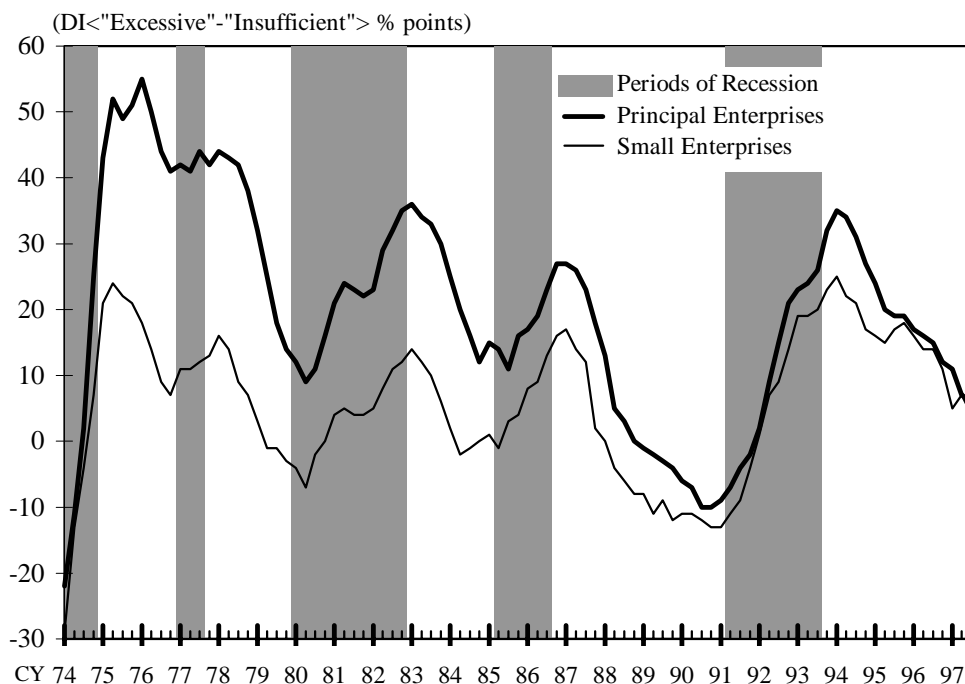


Note: Figures in parentheses are percent change from a year earlier.

Source: Bank of Japan "Tankan Short-term Economic Survey of Enterprises."

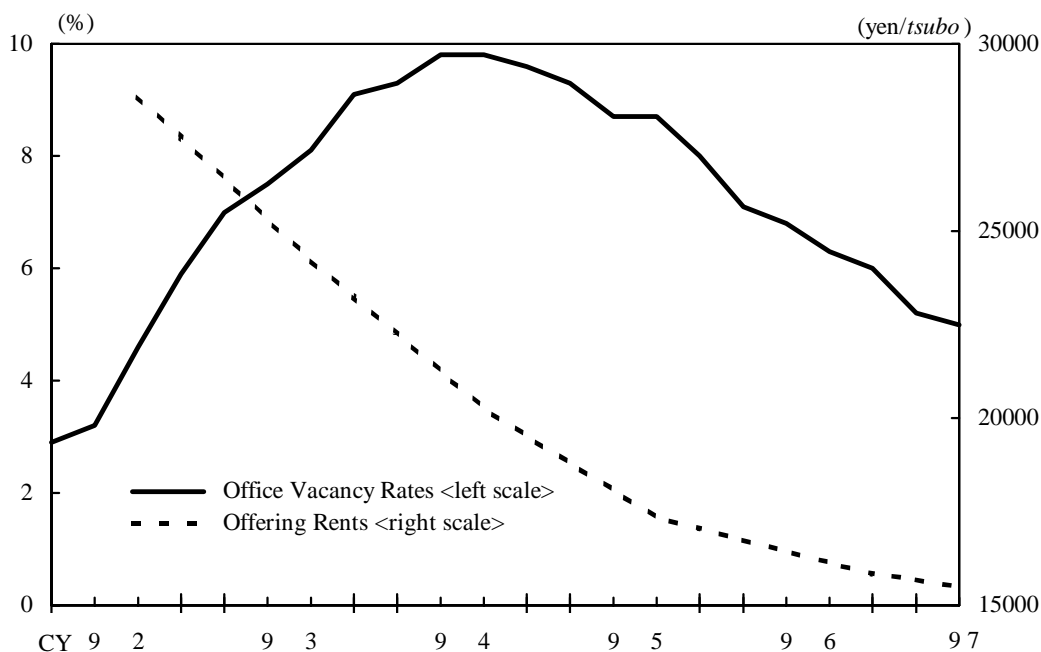
Capital Stock Adjustment

(1) Production Capacity DI (Manufacturers)



Note: The figure for 97/3Q is forecast.

(2) Office Market (Tokyo 23 Wards)



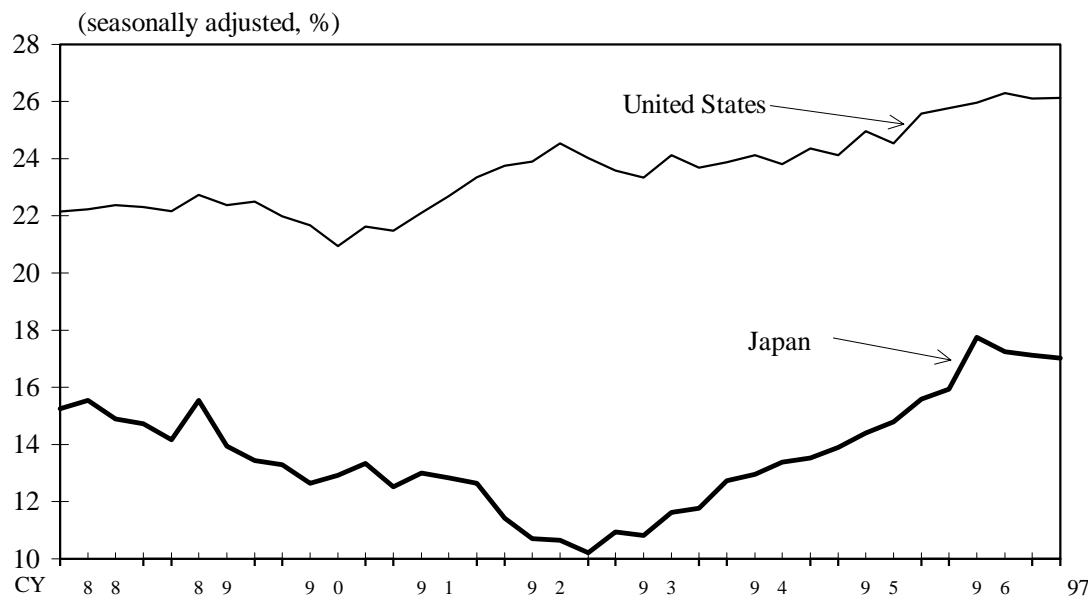
Notes: 1. a *tsubo* = about 3.3m<sup>2</sup>

2. For offering rents, actual quarterly figures are available from 1996/4Q, thus prior to 1996/4Q figures were obtained by dividing annual data.

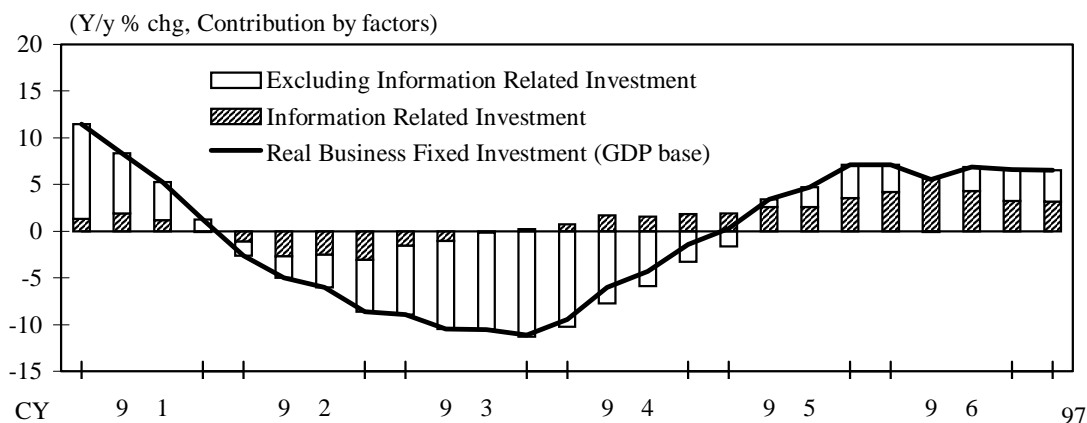
Sources: Bank of Japan "Tankan Short-Term Economic Survey of Enterprises";  
Ikoma Data Service System Inc. "Rental Office Market Review."

## Information-related Investment ( 1 )

### (1) Share of Information-related Investment to Business Fixed Investment



### (2) Contribution to Business Fixed Investment (GDP base)



Information-related Investment (IRI) of Japan consists of items defined by Information Processing and Related Equipment of National Income and Production Accounts of the United States : Communication Equipment, Computers and Peripheral Equipment, Other Office and Accounting Machinery, Photocopy and Related Equipment plus Scientific Instruments.

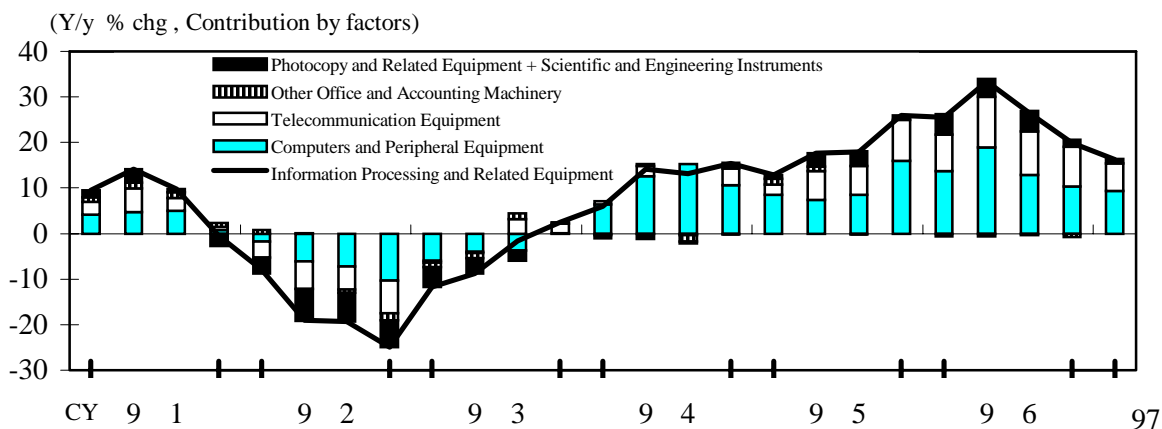
Figures are as follows:

- (1) Total value of the IRI corresponding items of Private Gross Fixed Capital Formation (at Producers' Price) on "'80-'85-'90 Linked Input- Output Tables"(1990 base) is defined as value of IRI (1990 as the base year).
- (2) As Domestic Demand = Domestic Production + Imports - Exports , quarterly figures for information-related domestic demand can be calculated by using the data of "Current Production Statistics Survey", "The Summary Report on Trade of Japan" and "Summary of Exports and Imports of Electrical Products".
- (3) Quarterly data for IRI are calculated by multiplying quarterly changes of Information-related Domestic Demand with 1990 as the base year.
- (4) Real Information-related Investment on Chart 20 (2) and Chart 21 (1) is calculated by using IRI Deflator derived from Domestic WPI after adjusting the weights for IRI items on "'90 Input-Output Tables".

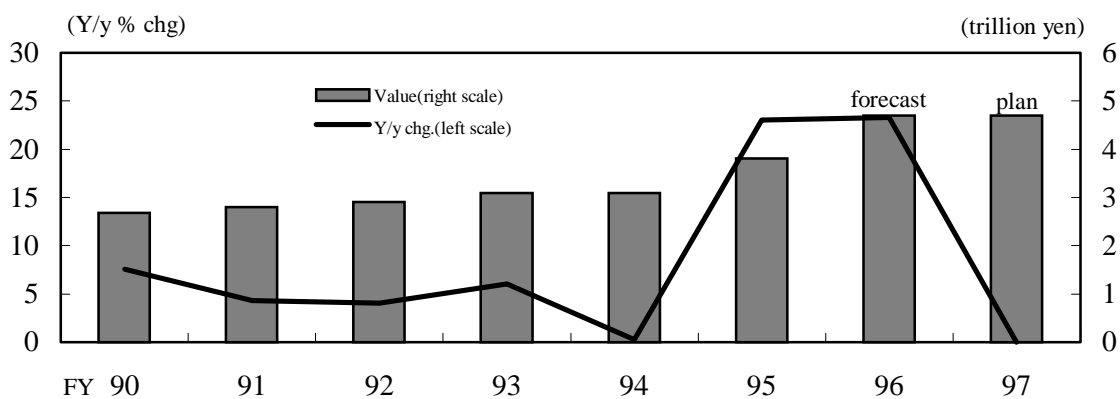
Sources: Ministry of International Trade and Industry "Current Production Statistics Survey";  
Ministry of Finance "The Summary Report on Trade of Japan",  
"Tables of Exports and Imports of Electrical Products", etc.

## Information-related Investment (2)

### (1) Real Information-related Investment

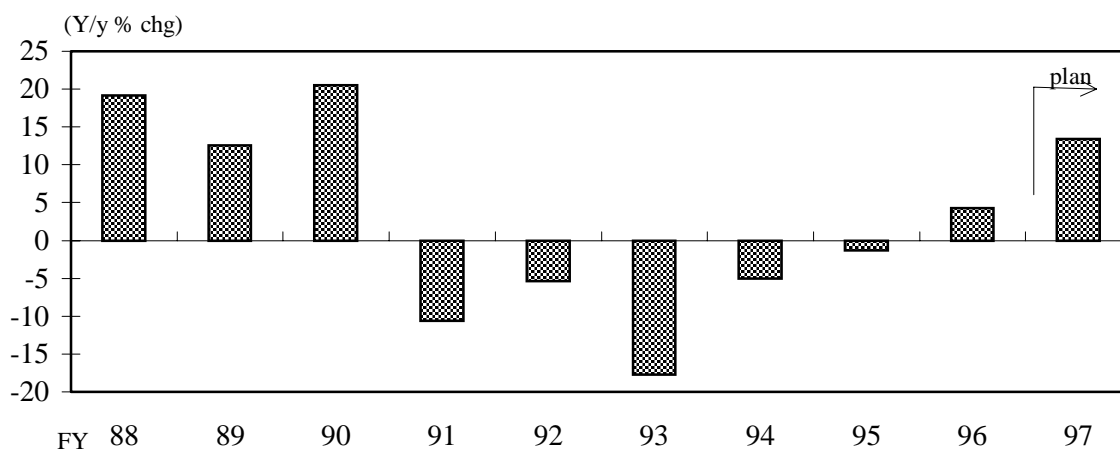


### (2) Investment by Telecommunications Industry



Note: Surveyed by Ministry of Posts and Telecommunications.

### (3) Investment for Computerizing by Financial Institutions (*Tankan*)

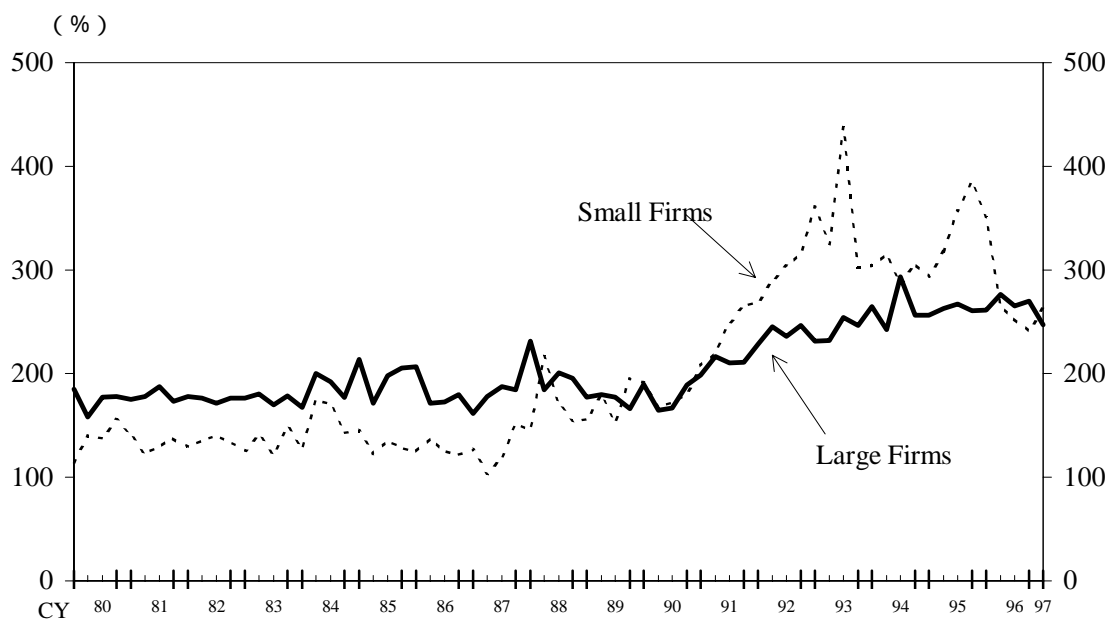


Sources: Ministry of Posts and Telecommunications "Survey of Equipment Investments in the Communications Industry"; Bank of Japan "*Tankan* Short-Term Economic Survey of Enterprises."

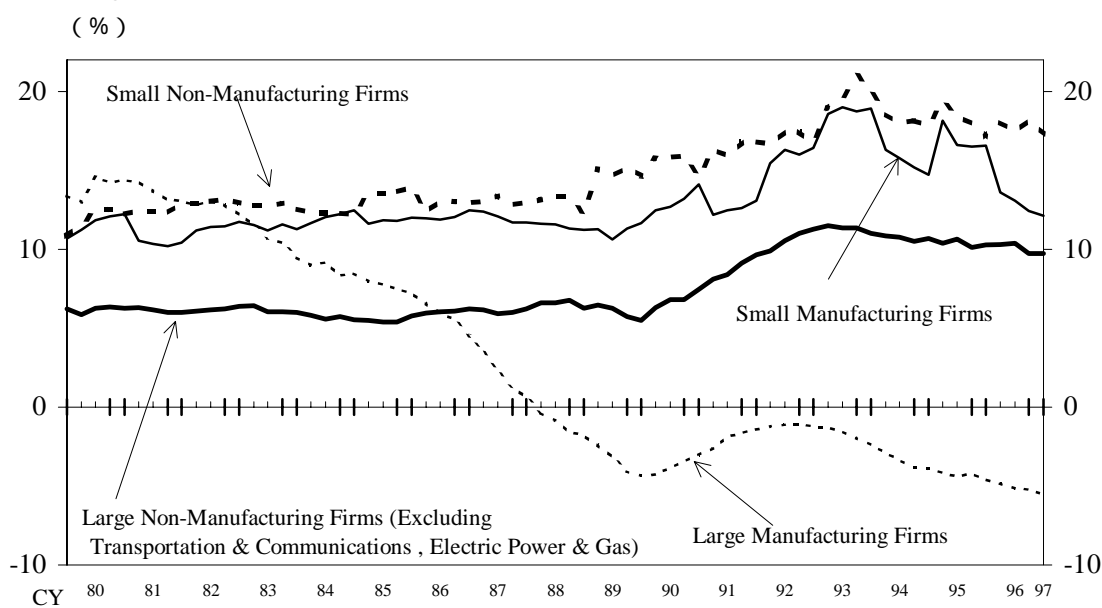


## Net Outstanding Debt-to-Sales Ratio

### (1) Real Estate Firms



### (2) Excluding Real Estate Firms



Notes: 1. Net Outstanding Debts = (accounts payable + short-term borrowings + other current liabilities + corporate bonds + long-term borrowings + other fixed liabilities) - (cash and deposits + accounts receivable + short-term securities + other current assets + investment securities + long-term loans + other investments)

2. Large Firms have owners' equity of 1 billion yen or more.

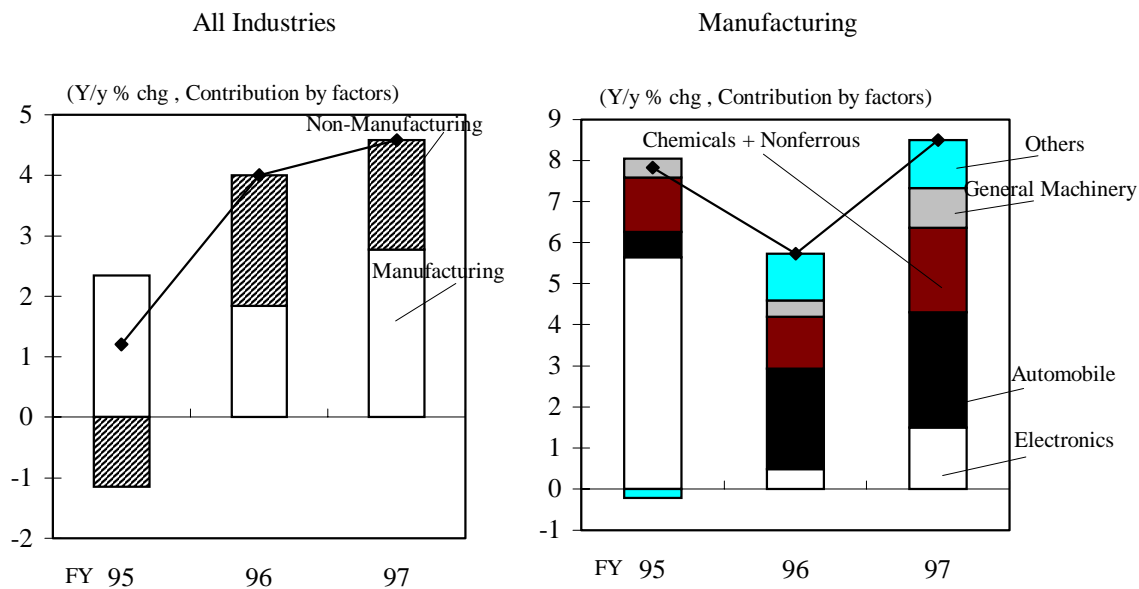
Small Firms have owners' equity of less than 1 billion yen.

3. Figures are seasonally adjusted (sales are annualized).

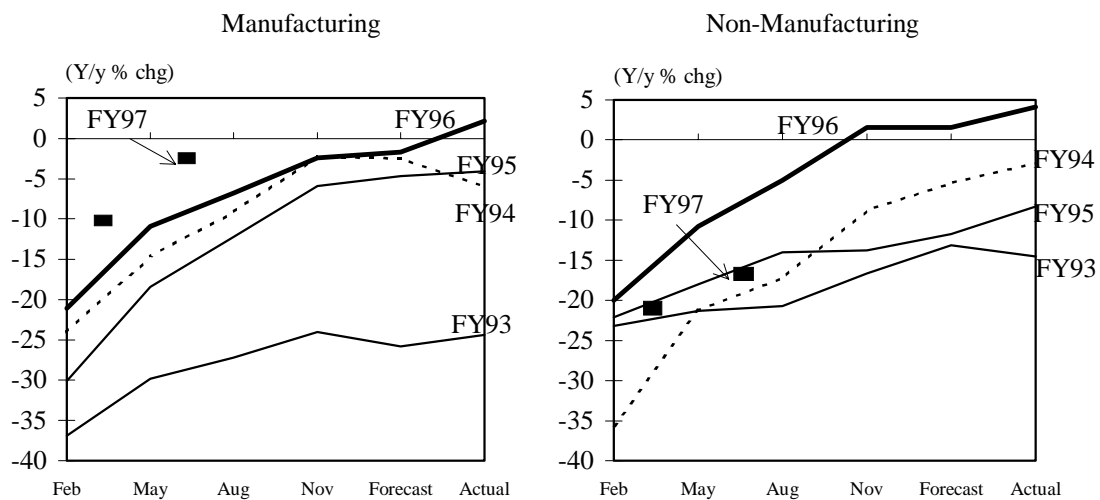
Source: Ministry of Finance "Corporate Business Statistics Quarterly."

Business Fixed Investment Plan for Fiscal 1997 (*Tankan*)

(1) Principal Firms



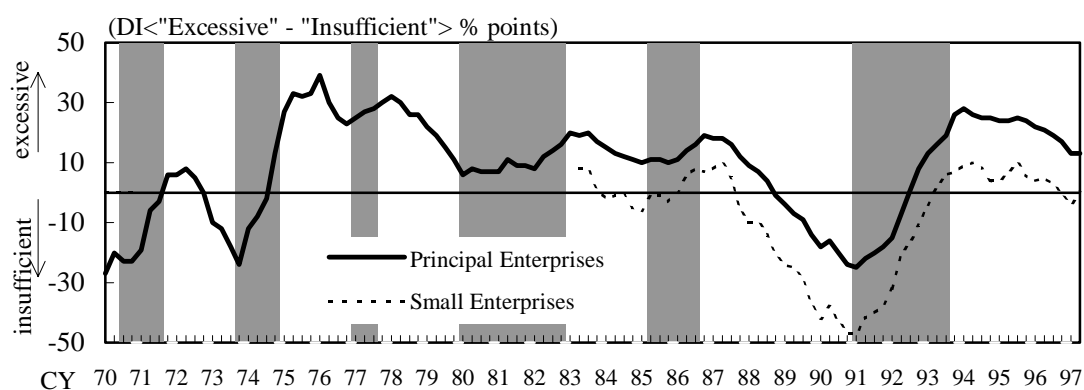
(2) Small Firms



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

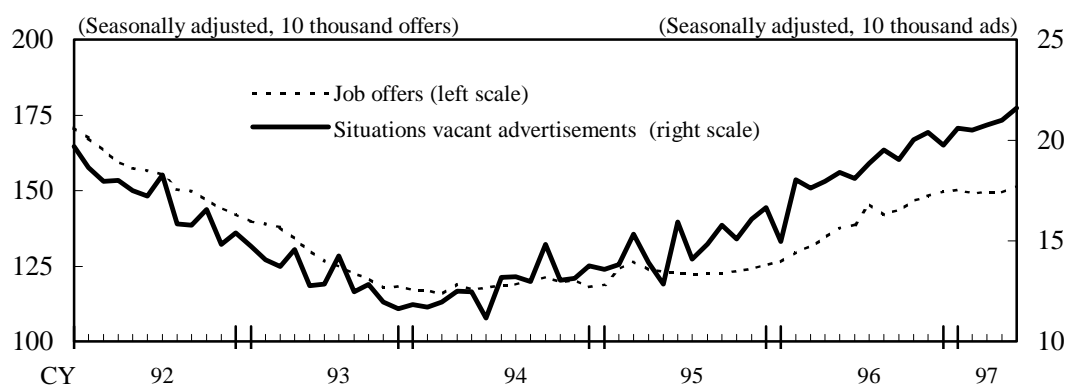
## Employment

## (1) Employment DI (All Industries)



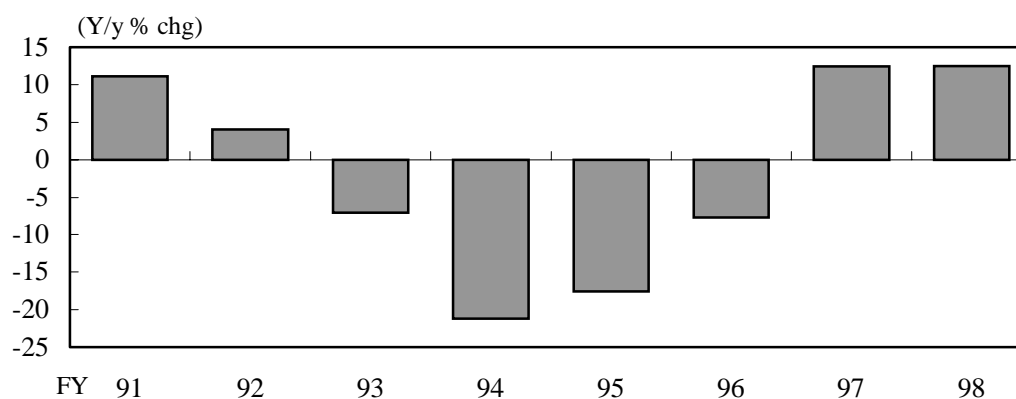
Note: Shaded areas represent periods of recession.

## (2) Job Offers



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

## (3) Recruitment Plans

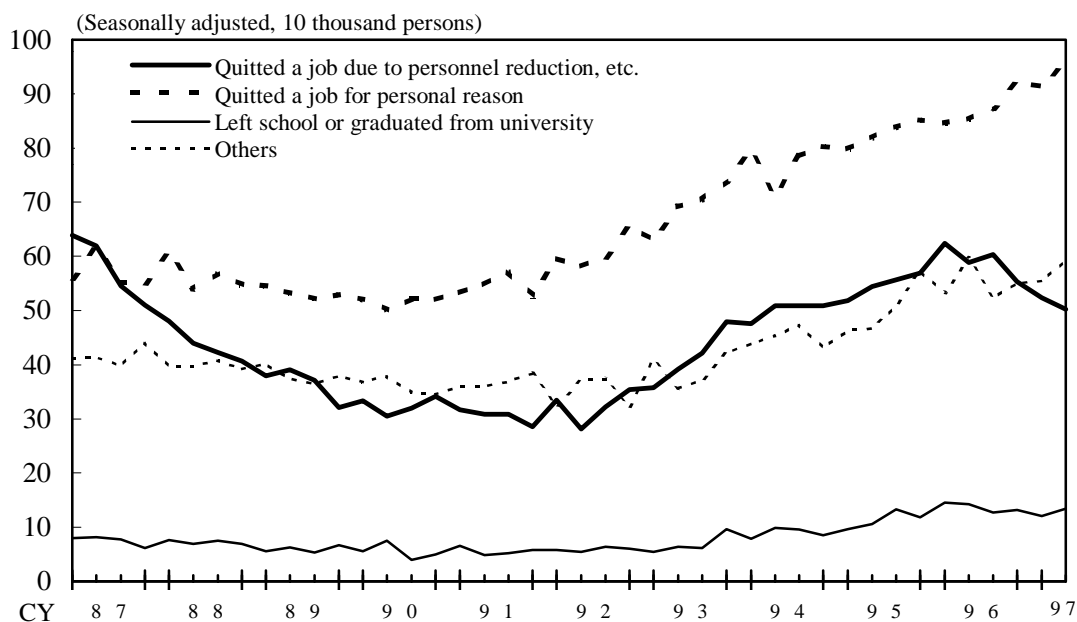


Notes: 1. Figures are taken from The Nihon Keizai Shinbun's annual survey (usually published in June).  
2. Recruitment plans for university, college, and high school graduates combined.

Sources: Bank of Japan "*Tankan* Short-term Economic Survey of Enterprises in Japan";  
Ministry of Labor "Report on Employment Service"; Association of Job Journals of Japan  
"A-JJJ News Release Monthly"; The Nihon Keizai Shinbun, various issues.

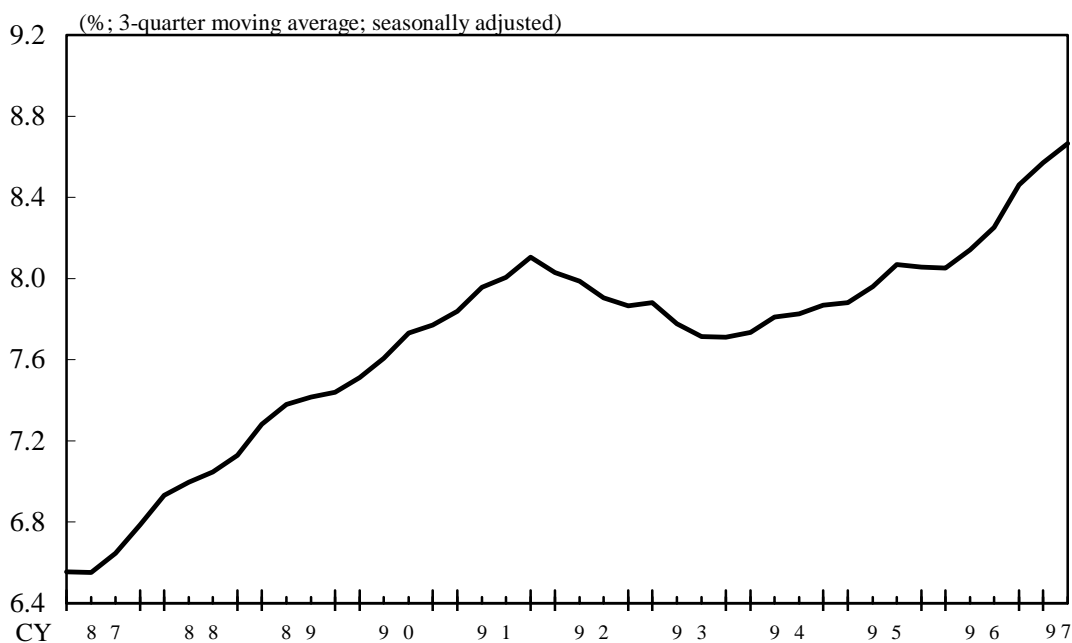
## Unemployment

### (1) Reasons for becoming unemployed



- Notes: 1. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).  
2. Figures for 1997/2Q are Apr-May averages.

### (2) Potential Job Hopper Ratio

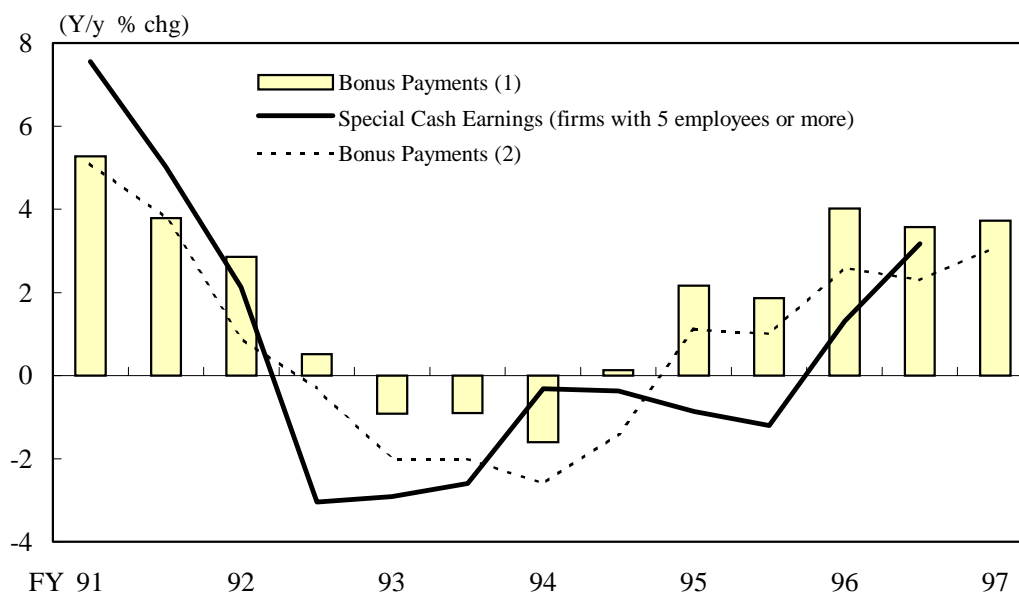


- Notes: 1. Potential job hopper ratio = Persons wishing to change jobs / Employed persons.  
2. Seasonally adjusted by X-12-ARIMA ( $\beta$  version).  
3. Figure for 1997/2Q is Apr-May average.

Source: Management and Coordination Agency "Labor Force Survey."

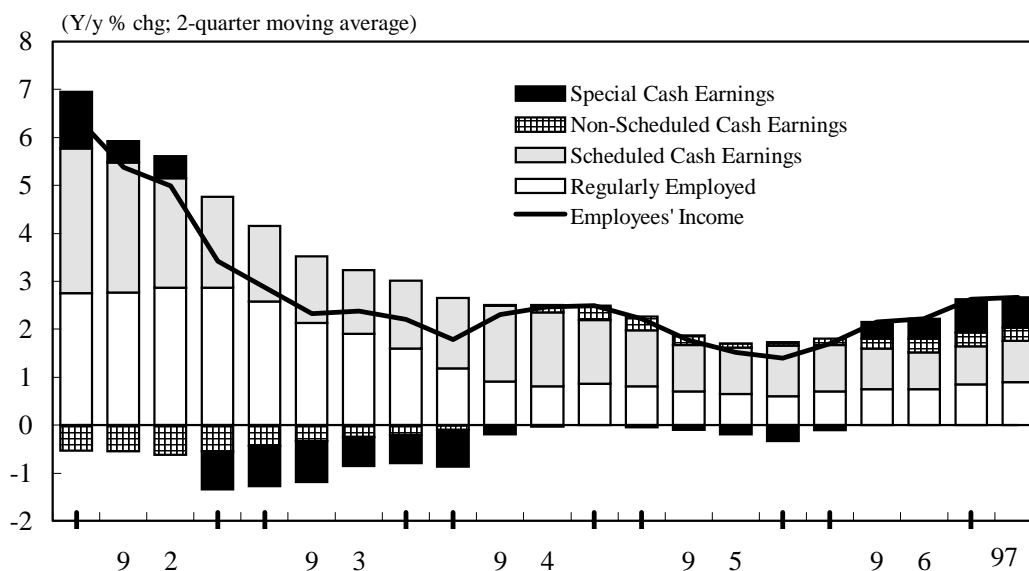
## Household Income

## (1) Special Cash Earnings (Bonus Payments)



Note : Figures for Bonus payments (1) are based on the survey conducted by the Japan Federation of Employers' Associations, which covers 282 principal firms (including 223 manufacturing firms). Figures for Bonus payments (2) are based on the survey conducted by the Institute of Labor Administration, which covers 311 principal firms (including 267 manufacturing firms).

## (2) Employees' Income



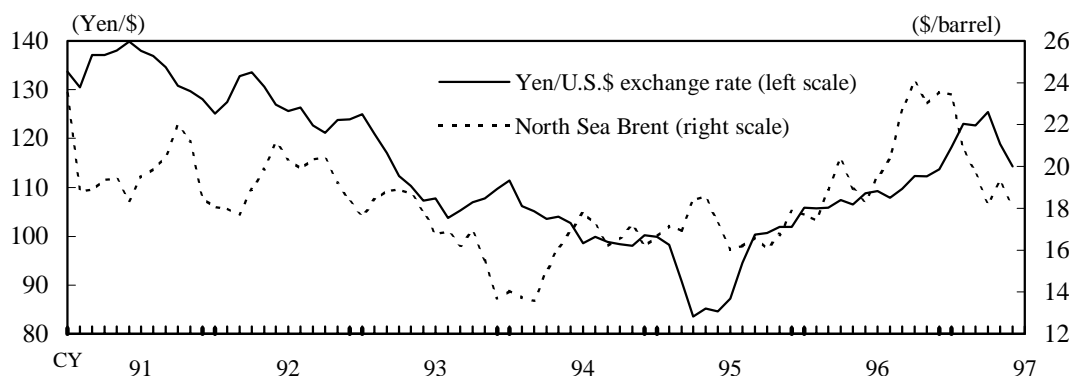
Note: 1Q= Mar-May, 2Q= Jun-Aug, 3Q=Sep-Nov, 4Q= Dec-Feb.

Sources: Ministry of Labor "Monthly Labor Survey";  
 Japan Federation of Employers' Associations "Prompt Report on Labor-Management Negotiations on Bonus";  
 Institute of Labor Administration "A Survey on '97 Summer Bonus Payments."

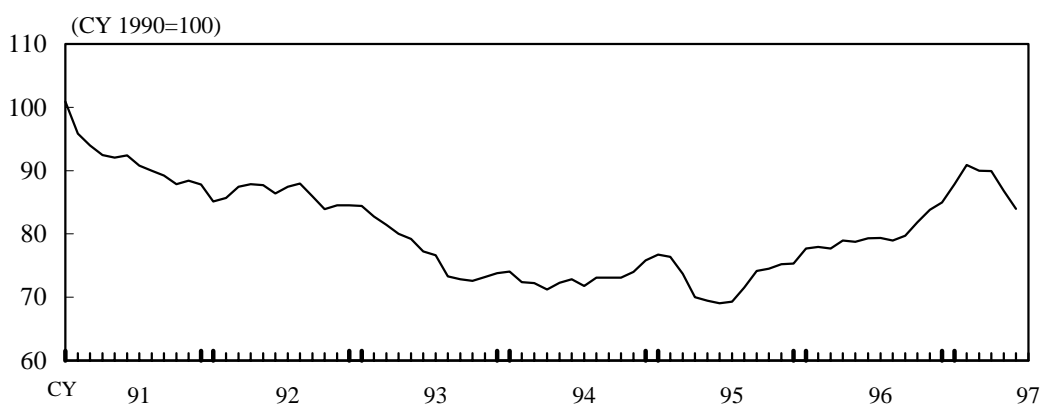


Inflation Impact from Imported Goods

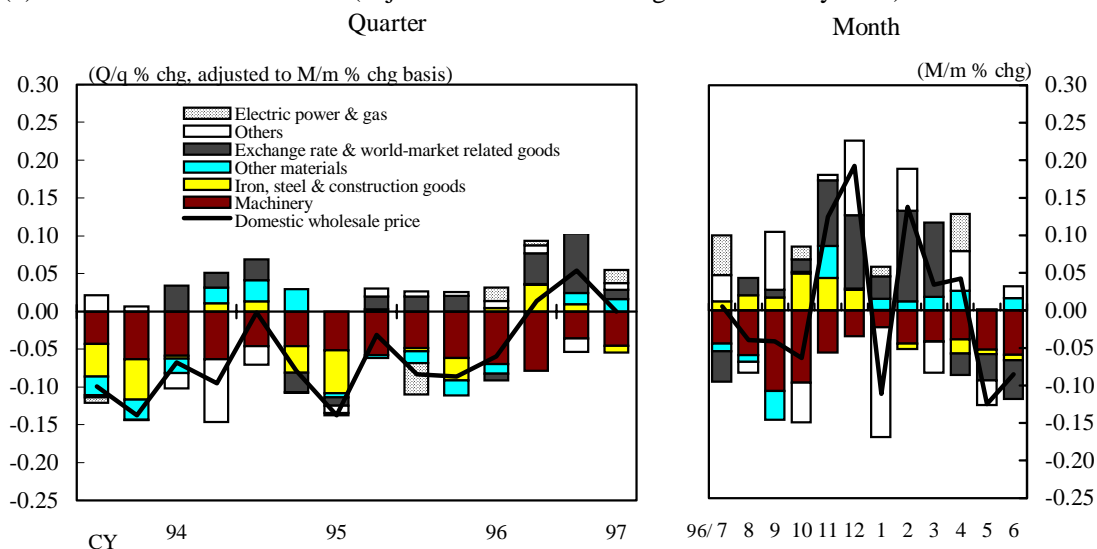
(1) Exchange Rate and Crude Petroleum Price



(2) Import Prices Index (Yen Basis)



(3) Domestic Wholesale Prices (adjusted for seasonal changes in electricity rates)

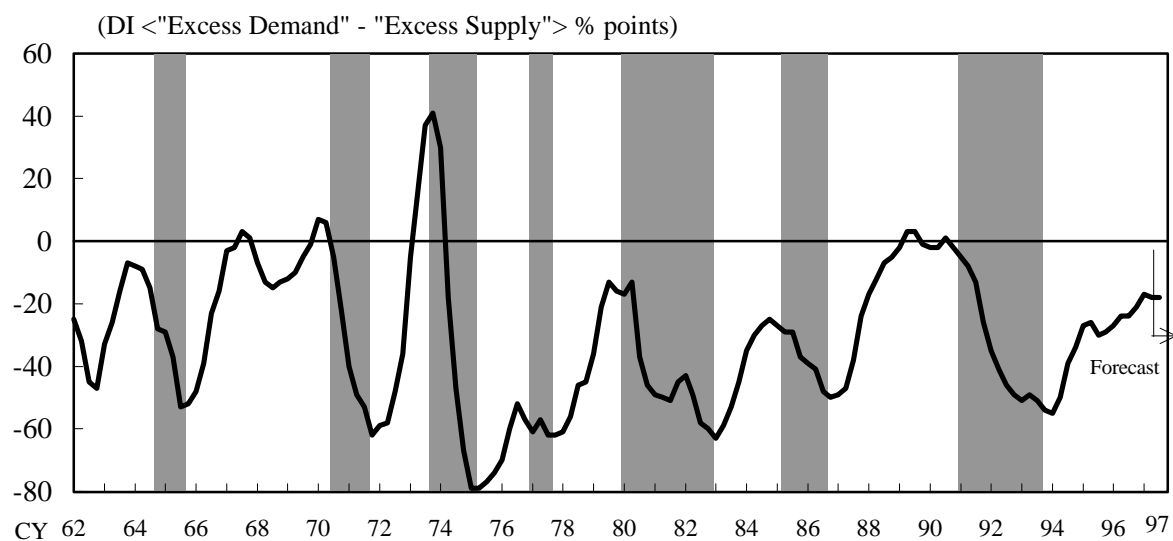


- Notes: 1. Others = processed foodstuffs + other manufacturing industry products + edible agricultural, livestock & aquatic products + inedible agricultural & forestry products + mining products + water.  
 Exchange rate & world-market related goods = petroleum & coal products + nonferrous metal.  
 Other materials = chemicals + plastic products + textile products + pulp, paper & related products.  
 Iron & steel & construction goods = iron & steel + metal products + ceramics, stone & clay products + lumber & wooden products + scrap & waste.  
 Machinery = electrical machinery + general machinery + transportation equipment + precision instruments.
2. Excluding the rise of the consumption tax rate from 3% to 5% in and after April 1997 (prices are adjusted on the assumption that prices of all taxable goods are fully raised in April 1997).

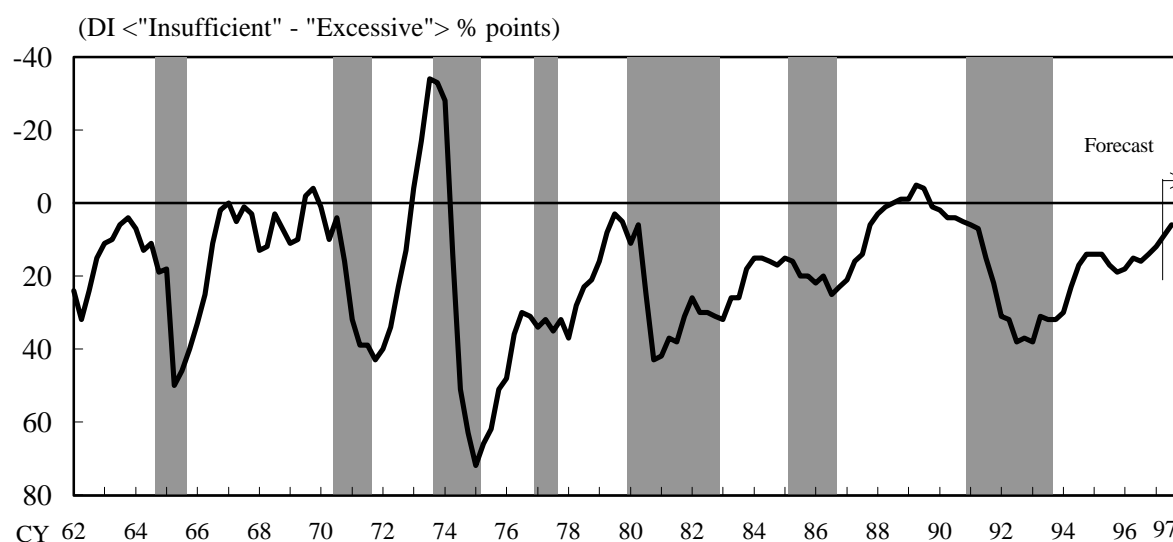
Sources: Bank of Japan "Wholesale Price Indexes", "Economic Statistics Monthly."

## Domestic Supply and Demand Conditions (Principal Enterprises, Manufacturing)

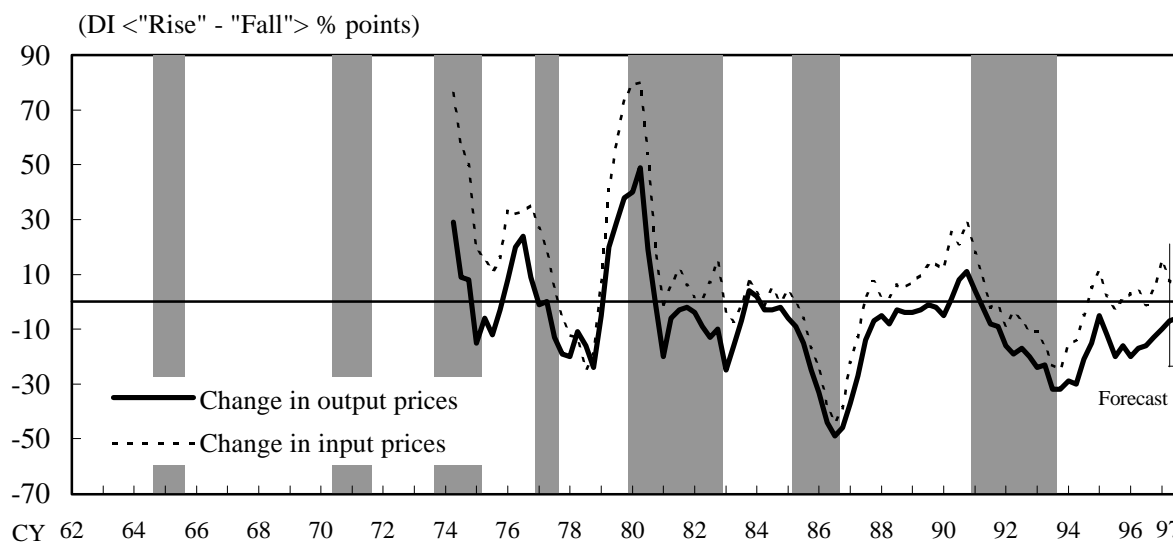
### (1) Supply and Demand Conditions for Products



### (2) Inventory of Finished Goods and Merchandise



### (3) Change in Input Prices and Output Prices

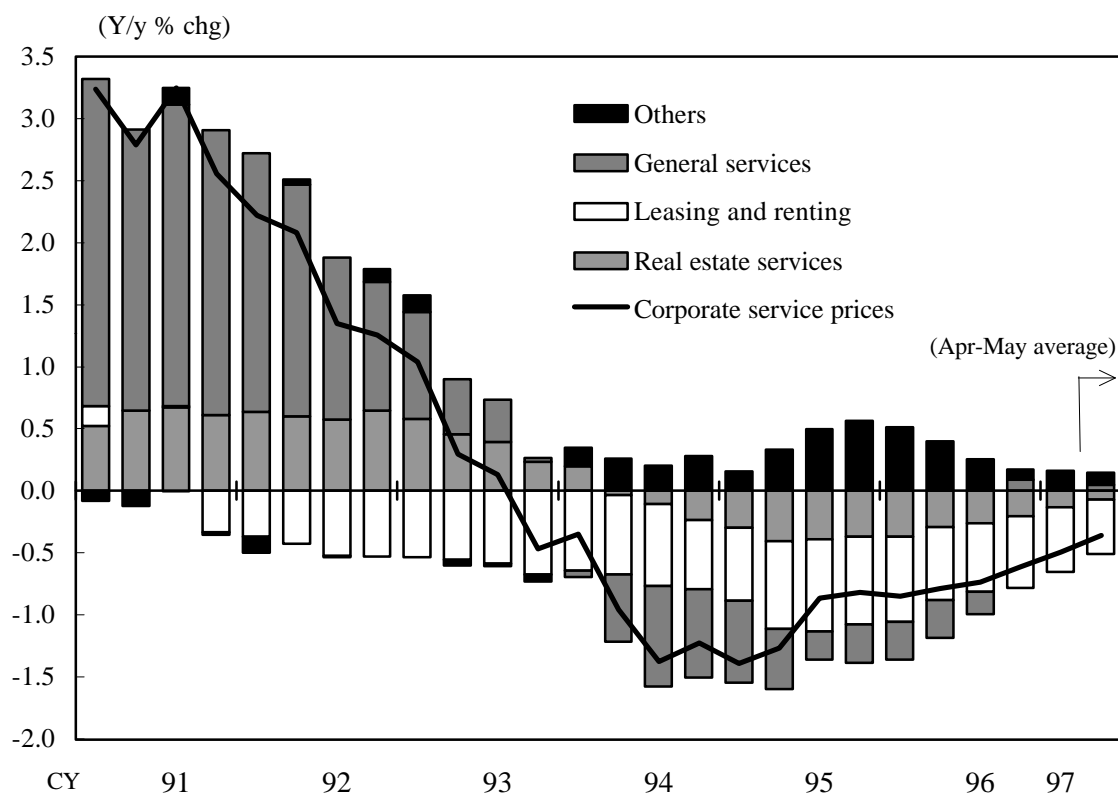


Note: Shaded areas represent periods of recession.

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



## Corporate Service Prices



Notes: 1. General services = finance and insurance + transportation + information services + communications + building maintenance and construction planning + temporary worker services + machinery maintenance etc. (excluding items in "others").

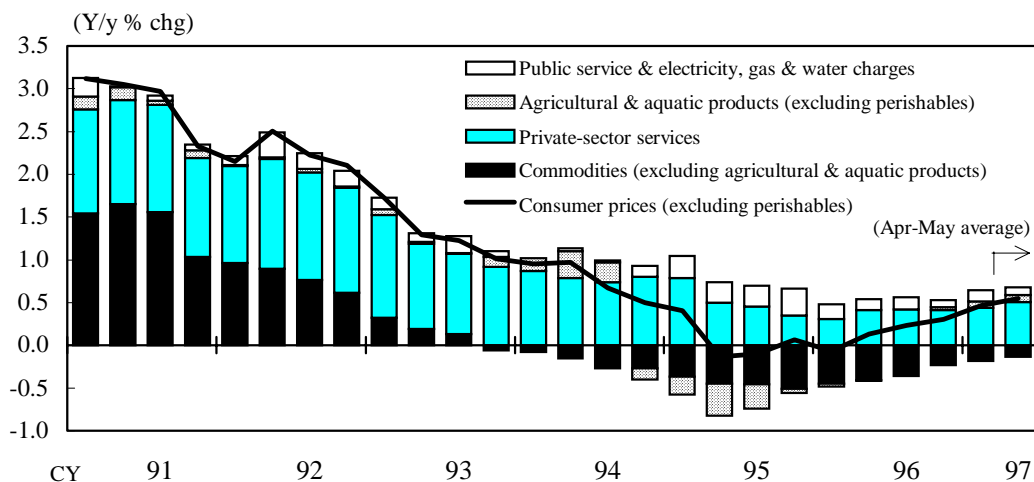
Others = automobile insurance + fire insurance + railroad fares + road fares + domestic air fares + tolls + postal services + telephone charges + sewerage disposal + ocean freight + international air freight + international air fares.

2. Excluding the rise of the consumption tax rate from 3% to 5% in and after April 1997 (prices are adjusted on the assumption that prices of all taxable goods are fully raised in April 1997).

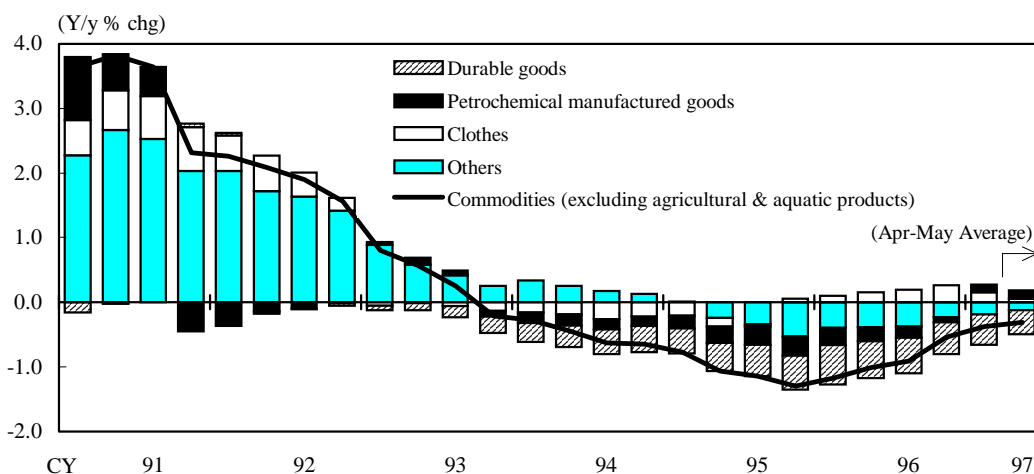
Source: Bank of Japan "Corporate Service Price Index."

## Consumer Prices

## (1) Consumer prices (excluding perishables)



## (2) Commodities (excluding agricultural &amp; aquatic products)



## (3) Private-sector Services



Notes: 1. Petrochemical manufactured goods = propane gas + kerosene + gasoline (regular).

2. Excluding the rise of the consumption tax rate from 3% to 5% in and after April 1997 (prices are adjusted on the assumption that prices of all taxable goods are fully raised in April 1997).

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