

Japan's economy remains stagnant reflecting weak domestic demand, such as household expenditures. In addition, corporate sentiment has been deteriorating across industries, indicating strong downward pressures on economic activities.

With respect to final demand, growth in net exports, which had been underpinning the economy, has slowed and business fixed investment seems to have started declining. Private consumption has continued to stagnate despite the implementation of the special tax-cut measures. Housing investment has also continued to be weak and public-sector investment is on a decreasing trend. Against the background of significant accumulation of inventories reflecting weak final demand, industrial production has continued to decline. Consequently, negative impacts on corporate profits as well as on employment and income conditions have been intensifying, and are leading to a further deterioration of domestic demand.

As regards the outlook for the economy, growth in net exports is unlikely to be strong enough to prevent the deterioration of the economy, partly reflecting further adjustments in other Asian economies. Business fixed investment will continue to decrease due mainly to the decline in corporate profits and is likely to enter an adjustment phase. With regard to private consumption, distinctive recovery can not be expected against the background of the weakening of income formation, although consumer confidence may cease to wane. Downward pressures on economic activities, particularly on production, are likely to continue to be strong for the time being, because the level of inventories is high and a conspicuous recovery in domestic private demand is unlikely. However, following the implementation of measures to stabilize the financial system and the special tax-cut measures, additional economic stimulus package is now being discussed. The details of the package and their effects on corporate and household confidence should be carefully monitored.

With regard to prices, wholesale prices have continued to decline reflecting weak supply and demand conditions of goods in domestic and overseas markets. The year-to-year increase in consumer prices (excluding the effects of institutional changes such as the rise in the consumption tax rate) has been declining close to zero. As for the future, prices overall are likely to soften reflecting the continuous expansion of the output gap in the domestic economy and the decline in overseas commodity prices. These price developments, which might have further negative impacts on corporate activities, may require close monitoring.

Financial markets have shown the following developments. In the money markets, interest rates on term instruments and the so-called "Japan premium" declined substantially from the end of February through the middle of March and have generally remained steady thereafter. This reflects the Bank of Japan's ample provision of funds through contracts that mature after the fiscal year-end as well as the progress in implementing the financial-system stabilization measures. It should be noted, however, that the levels of the above rates and premium are still high compared with those prevailing before autumn 1997, which can be attributed to the continuing cautious attitudes of market participants toward credit risk. Meanwhile, with the releases of weak economic indicators, long-term government bond yields have fluctuated in a historically low range and stock prices have been declining since the end of March.

With respect to monetary aggregates, the growth in money stock continued to be rather high in February due to the substantial shift of funds away from investment trusts. Meanwhile, private bank lending remains sluggish. However, with an increase in corporate financing via the capital market, a substantial fall in overall corporate fund-raising seems to have been avoided.

Banks remain cautious in extending loans with a view to improving their medium-term profitability and financial soundness. Fund-raising costs of firms continued to be high according to their credit standing. In such circumstances, some firms, especially small and medium-sized firms, have been facing difficult financing conditions and this effect on the economy continues to warrant a careful monitoring.