

Quarterly Economic Review

(July-September, 1950)

Summary The economic impact of the Korean hostilities on Japan are much clearer four months after June 25, when these hostilities began, than one month later, when the previous Quarterly Economic Review was written. At that time hardly any statistics were available to show the impact, but sufficient evidence existed for the conclusion that the Japanese disinflation had stopped and that prices, bank credit, profits, and business expectations were rising. The rates of these increases have begun recently to decline. In the absence of the start of a new conflict on a larger scale, these increases should stabilize at levels only slightly above the present levels.

Prices Wholesale commodity prices in Japan rose by 13 percent between June and September 1950 compared with an increase of 5 percent in the United States. Prices of metals and metal products increased 35 percent and prices of textiles were up 29 percent during this period. Building materials and chemicals increased by about 17 percent. Price control had previously been removed from practically all of these commodities.

An adequate supply of wheat and barley and price control on all grains were responsible for but a negligible increase in their prices. The blackmarket price of rice in urban areas increased from 80.46 yen per kilogram in June to 89.18 in August 1950. The price was 126.60 in August 1949. The blackmarket continued to decrease in importance, however, for the proportion of expenditures in the blackmarket by the average urban family

declined from 10.8 percent in April 1950 to 8.6 percent in July 1950. It was 23.6 percent in July 1949.

The cost of living of urban families rose by only five percent between June and September 1950, largely as a result of the importance of food costs, which had not increased, in the family budget. Most of the five percent increase, may be attributed to an increase of 34.1 percent in prices of clothing and textiles and to an increase of 250 percent in official rents. The rent component of the cost of living index showed an average increase of 11.4 percent for this reason. The level of controlled rents had become entirely unrealistic and when adhered to strictly were confiscatory. Private building of rental dwellings were virtually nil.

A rather conspicuous price increase occurred in exports. The average price of exports was 38 percent higher in August than in June 1950. The average prices of textile exports rose by 43 percent between June and September 1950. This price level is very likely to hold firm and even increase slightly more on the basis of current world demand.

Production and Stocks The index of industrial production increased from 93.6 in June to 97.8 in September 1950 (1932—36=100). It stood at 79.0 in September 1949.

Production of electric power was seasonally down in September compared with June but substantially above the level during September 1949. The figures were respectively 171.5, 186.0 and 164.1

New housing starts continued the slightly declining trend begun in 1949 due to lack of capital. The downward trend might have been arrested in July were it not for the bidding up of prices of building materials for export.

The increased demand for materials relative to supply is reflected in stock reductions. Cement stocks, which rose from 179,000 metric tons in September 1949 to 339,000 in June 1950, declined to 228,000 in September 1950. Sheet glass stocks, which rose from 207,000 cases in September 1949 to 343,000 in June 1950, declined to 242,000 in September 1950.

Stocks of cotton fabric, which declined from 116,193,000 square yards in September 1949 to 90,606,000 in June 1950 largely as a result of liquidation of the Government Corporation, declined further to 80,876,000 in September 1950. A similar movement occurred in rayon filament, whose stocks declined from 27,118,000 sq. yds. to 16,459,000 to 13,527,000 during the corresponding period.

Stocks of cotton yarn, however, while declining from 21,788,000 pounds in September 1949 to 14,658,000 in June 1950, rose to 17,570,000 in September 1950, largely as a result of arrivals of raw cotton which had been purchased recently in large quantities from the United States before the price increased.

Internal Finance The financing of special orders arising out of the Korean conflict resulted in an expansion of new loans from 270 billion yen in June 1950 to 280 billion yen in July to 307 billion yen in August. Deposits increased from 85.0 billion yen in June to 91.5 billion yen in July and cash outside the banks rose from 290.1 billion yen to 296.3 billion yen from June to July. The note issue increased from 311 billion yen at the end of June to 320 and to 329 at the end of

July and September.

The inflationary potential was reduced by the continuing government surplus. This surplus was 49 billion yen during the first five months of the 1950 fiscal year beginning 1 April 1950 compared with 32 billion yen during the corresponding period of the preceding year. Government surpluses increased in the "counterpart" fund from 35.4 billion yen in June to 63.1 in September 1950; they increased from 23.9 billion yen to 34.3 during the same period in "deposit bureau" funds. The supply of loanable funds is far below the demand, especially for long-term investment. The interest rate for private loans is usually at a minimum when 10 percent per annum. Very few loans are long-term. Equity capital in corporations is small compared with bank loans and is only a fraction of prewar when it was also very low relative to bank financing. Profits are low for business general and taxes do not permit of much internal financing for those firms who are prospering.

External Account During July, August, and September 1950 the dollar reserves of Japan increased by \$135 million bringing the total to about \$450 million. Commercial exports including ECA purchases for Korea amounted to \$63 million in July, \$72 million in August, and \$76 million in September. Net "invisibles" including military procurement for Korea amounted to \$11 million in July and August and \$16 million in September. These exports exceeded commercial imports, excluding U.S. aid, by \$47 million in July, \$43 million in August, and \$45 million in September. The surplus is expected to be even greater in October.

These favorable balances on current external account made it possible to revise the

import program recently. Originally it was planned to permit imports of one billion dollars during USFY 1951. This level was raised recently by \$400 million. In addition, U. S. aid will be cut by about \$50 million to \$180 million during this year. These adjustments will make for an overall deficit of about \$70 million for the year, in addition to the amount of U.S. aid, if the full permissible level of imports is actually realized.

During USFY 1950 actual imports fell short of the program by \$50 million due to insufficient demand for some items although considerable demand existed for other items. In order to avoid this situation, import quotas on a commodity basis were abandoned and quotas were established for each currency area, allowing importers to use up these quotas on a first-come-first-serve basis. Despite this liberalization of import controls, the actual imports during this fiscal year may fall short of the program due to lack of demand for some goods and lack of foreign supplies for other goods.

Strength of the yen The supply of dollars through exports is currently greater than the demand for dollars through imports, with the result that yen may be considered a "hard" or "strong" currency. Unofficial transactions in yen are only minor and the unofficial rate is close to the official rate of 360 yen to the U.S. dollar.

Perhaps it may be feasible soon to eliminate virtually all exchange controls. Luxury imports may be minimized through the tariff device and domestic consumption of Japanese goods produced for export may be minimized through special excise taxes. At present "Export Bazaars" of Japanese goods and "Overseas Supply Stores" of imported goods are open only to the foreign community

for yen. "Specialty Stores" are also open only to the foreign community but for purchases in foreign exchange. The foreign exchange receipts of these stores are not surrendered to the Foreign Exchange Board but are kept by the stores themselves to finance their own imports, which are not included in the import program.

The economy of Japan is in sight of becoming self-supporting. Direct U. N. military procurement contracts aggregated \$131 million up to October 22, 1950 and may well reach \$200 million by December 31, 1950. Investments in Asia will expand Japanese exports. Some of these investments will result in expanded rice production, which Japan desperately needs. The minimum estimate of the population in Japan proper is 95 million by 1960, when the minimum import requirement will be twice as large as the current requirements of some three million metric tons of grain.

Labor The recent prosperity of some business firms is not shared by the population at large. While wages have increased slightly in large manufacturing plants, the average wage level for all labor remained about the same since the outbreak of the Korean conflict. Net farm income has actually declined and farm prices are being increased to offset this decline.

These increases in farm prices will result in higher consumer prices. The average family still spends 60 percent of its income on food and has only the smallest margin to absorb cost increases. There will probably be some wage increases for government workers and continued wage increases in large establishments, but a large portion of the population may experience a slight cut in an already low standard of living.