Quarterly Economic Review

(April-June, 1951)

Production The first quarter of calendar 1951 (January-March) witnessed a turning point in the Japanese national economy which had been taking an upward trend of prosperity since the outbreak of the Korean war in June, 1950. Whether this will be a lasting and decisive turning point or a temporary and transitional phenomenon is to be determined by developments in the international situation. At any rate, however, trade once again has been characterized by an unfavorable balance since January, commodity prices in general hit the ceiling in March and some of them have been going downhill ever since. All these conditions have been discernible throughout the second quarter of April to June.

Amid this situation, however, only manufacturing and mining production has been consistently rising since the latter part of last year. Its index which was 110∼120 per cent during January last year to February this year on the basis of the 1932-36 average as 100 jumped to 130.8 in March, 134.5 in April, 139.3 in May and 140.7 (preliminary figure) in June. In other words, production in June already greatly surpassed the 1936 mark of 120 and is fast approaching the 1937 level of 146.

For all this, however, the rate of production increase in June was not so good as in May, thereby showing that the slackening effect of prosperity is already vindicating itself in the phase of production which has been exceptionally faring well. Industrywise, ceramics production increased 7 per cent due to a rise in sheet glass output, but the rest of industry remained stagnant.

Production increases registered by various departments of industry during the period of one year from June last year to June this year were: machinery, 104 per cent; lumber, 59 per cent; chemicals, 45 per cent; metals, 36 per cent; ceramics, 30 per cent; textiles, 27 per cent; foods, 12 per cent; mining, 7 per cent; average, 49 per cent.

Trade Trade during the first quarter of this year reversed the situation of the latter part of last year. It was marked by more imports and less exports. Although its tendency still seemed to continue during the second quarter of April to June, it began to taper off. According to foreign exchange statistics, exports amounted to \$115 million in April, \$135 million in May, and \$123 million in June. In other words, exports kept up an average increase of 32 per cent over the previous period of January to March.

Imports, on the other hand, amounted to \$182 million in April, \$176 million in May and \$158 million in June. While maintaining a high level, imports have been gradually dropping with the peak of \$209 million in March.

Thus, exports indicated a certain degree of recovery in shipment and foreign exchange receipt during April to June. But they indicated an exceedingly low tone in new contracts chiefly because of the easing international situation, high prices at home and prospects for lower prices in the future. For instance, 201 million square yards of cotton fabrics were contracted in February, a peak in recent years. But they fell down to 50 million square yards in June. Contracts for iron-steel products likewise radically dropped from 190,000 tons in January to 70,000 tons in April and 55,000 tons in June.

Such a tendency was first made clear in June's export validation statistics, as far as comprehensive statistics were concerned. To put it concretely, export declaration validation in June amounted to only $ 94 million, a radical drop of 29 per cent from the previous month. It is therefore predicted that exports will considerably decrease in the period of July to September in shipment and foreign exchange receipt. Imports, on the other hand, were expected to go gradually downhill in view of the fact that the foreign currency budget during April to June, originally fixed at $456 million, was pared down to $ 412 million. But imports are believed to take an upward curve again before long since the foreign currency budget during July to September has been fixed at $ 533 million for the period.

Prices With the turn of March, the prices of fabrics and other export goods began to crumble down. As a result, the weekly wholesale price index (as prepared by the Economic Stabilization Board) indicated a slackening of its continuous rise. It temporarily firmed up in the first ten days of April due to the abolition of subsidies and official prices for pig iron and sodas as well as the abolition or the hike of the official prices for pulp, sulphuric acid, petroleum and other items. After the middle of April, the wholesale price index levelled off, offset by the lowering of prices of such imported goods in surplus as fats and oils, rubber and other items as well as of fabrics, non-ferrous metals and other export products and a gradual rise in the prices of fuel, chemicals, machinery and others. But as the former's situation has become tighter under pressure of money shortage arising from the expiration of usuance since the beginning of May, the wholesale price index has assumed a downhill trend at last. By July 7, it has dropped some 5 per cent.

Compared with the figures at the time of the Korean outbreak, wholesale prices as of July 7 were: production goods, 74 per cent higher; consumer goods, 26 per cent higher or an average of 57 per cent higher. Broken down by item, metals were 176 per cent higher, machinery 85 per cent higher, miscellaneous goods 72 per cent higher, construction materials 53 per cent higher, fabrics 43 per cent higher, chemicals and fuel 24 per cent higher and foods 20 per cent higher.

Despite a slight fall in the wholesale prices, the effective prices of consumer goods continued to rise 3 per cent in April and 2 per cent in May in Tokyo. But with the 37 per cent drop of vegetable prices as primary cause, the effective prices of consumer goods in Tokyo fell 4 per cent in June.

Wages and the Standard of Living After a seasonal fluctuation in the period of December last year to March this year, nominal wages remained static during April and May. As of May, the average nominal wage in all indusries was ¥10,923 and in the manufacturing industry, ¥ 10,301. The highest levels were maintained by financial institutions, business concerns and the metal industry. Real wages dropped alightly under pressure of a rise in the effective prices of consumer goods in May. The real wage level of the manufacturing industry was 84 per cent of the 1934-36 average and the same as at the early stage of the Korean war.

Although the standard of living remained static during March and April in Tokyo, it fell 4 per cent in May to 67 per cent of the 1934-36 average. It slightly upped to 68 per cent in June. It is interesting to note in this conjunction that the trend of standard of living has kept falling since early 1951. In comparison with the same periods of previous year, it stood at 117 per cent in April to June 1950, 105 per cent in July to September, 102 per cent in October to December, 97 per cent in January to March 1951, and 91 per cent in April to June.

Public finance and banking Strikingly characteristic of the financial conditons in the period of April to June was an increased demand for import funds following the successive expiration of usuance. The radical increase in imports since the turn of this year was to have acted as deflationary factor as regards materials and funds immediately. Delayed by the operation of usuance by the Bank of Japan, its deflationary reaction in the phase of fund began to vindicate itself during this period. But inasmuch as the manufacturers of textiles, fats-oils, rubber and leather were exceedingly money-short due to a drop in prices and poor business, they had to depend on the swollen credit of the Bank of Japan through city bank loans to take care of a fair portion of settlement fund for usuance. Accordingly, Bank of Japan loans rapidly increased from ¥ 128,000 million at March-end to ¥ 145,600 million at May-end and ¥ 191,300 million at June-end, thereby expanding by ¥63,300 million during the first quarter of fiscal 1951.

But settlement funds for usuance are absorbed by the foreign exchange account as revenue. Huge excessive payment out of the foreign exchange account to civilian circles (amounting to ¥ 93,300 million in October-December last year and ¥ 67,300 million in January-March this year) balanced with receipt in May although it still registered ¥ 1,500 million in April. Then an excessive revenue of ¥ 2,200 million was shown in June at last. Thus, the treasury fund, which had been an exceedingly unfavorable balance of payment mainly due to the foreign exchange account registered income surpass by ¥ 52 billion in May and by ¥ 39,600 million in June on account of a balance in foreign exchange account as well as progress in tax collection. For this reason, the currency in circulation has remained virtually static at ¥ 407,700 million as of the end of June despite a radical rise of Bank of Japan loans.