

Quarterly Economic Review

(July-September, 1951)

A recession that characterized the economic situation during the period of April to June continued to assert itself during the subsequent period of July to September. But an increase in export contracts and a grasp of future inflation by financial circles tended to turn the economic curve uphill. Unfortunately, however, there appeared an abnormal period of water shortage, and with it, electric power shortage. As a result, the rise of the economic curve was threatened with a halt.

Production The GHQ industrial production index (based on the average of 1932—36 as 100) which showed a gradual rise/until June indicated a downhill trend, as seen in about 142 for June and July, 140.3 for August and 136.3 for September. The September figure was a drop of less than 3 per cent from the preceding month. The halt of the rise in the production curve in June and July was a reflection in the production index of a market stagnation in the March-April period. A worse factor in the August-September period than market stagnation in the previous period as a production deterrent was the power shortage. Although thermal power generation operated fully, power supply in August dropped 11.5 per cent from the preceding month due to water shortage and a further 8.5 per cent in September. Consequently, the production of electrolytic pig which largely depends on power supply decreased 27 per cent in August and 24 per cent in September from the previous months respectively. The production of ferro-alloy dropped 43 per cent in August from the preceding month and still 25 per cent more in September, that of

electric furnace steel ingot dropped 20 per cent in August and 30 per cent in September, carbide output fell 45 per cent in August and 18 per cent in September, electrolytic soda output downed 15 per cent in August and 10 per cent in September, all indicating marked decreases.

In the first half of this year, water power generation operated favourably due to an abundant power supply. But with an unusually striking stride in productive activity, demand for electric power radically increased. As a result, it was necessary for industry to depend much more on thermal power generation in the first half of this year than normal years. But water supply was 94 per cent of normal in August and merely 79 per cent in September. Coupled with a shortage of coal for thermal power generation use (which was sufficient for only 12 days at the end of August and 10 days at the end of September as against the stock of 1.7 month supply for all-winter use at that time in normal years), the dearth of water supply brought about an electric power crisis. After the turn of October, water supply further decreased, hitting a new low on October 13 when only 58 per cent of normal was registered and forcing factories in the Kansai district to suspend operations three days a week. This is a bad omen mining and manufacturing industries which usually increase production during the period of September to December every year and which were expected to buzz with operations because of increasing orders from abroad since July and August to be explained later.

What course production will take is determined most decisively by water supply. But it is almost certain in the light of already-known factors that the average production standard in the latter half of this fiscal year (October to March next year) will stagnate about the 130 mark and that if the worst comes, it may fall below that mark. In view of this serious power situation, the Government has formulated an emergency power resources development program and is studying a 30-million KW increase by 1956. But the most difficult problem is how to obtain a necessary fund of ¥100 billion, every year.

Trade Exports during the period of April to June were extremely dull, as far as new contracts were concerned, but favourable, if judged by validation, loading and foreign exchange receipt, reflecting export contracts made during January-March. But the situation failed to continue during the period of July to September. For instance, export validation amounted to \$153 million in July, a temporary increase resulting mainly from procedures, gradually decreased to \$100 million in August and \$84 million in September. Foreign exchange receipts by export also took a downward trend from \$127 million in July to \$109 million August and \$86 million in September; the total receipts during July-September was 13 per cent of that for April-June.

Export contracts which had remained rather unnoticeable for a while gradually gave an indication of increasing in August as the international situation grew somewhat strained and prices in Japan fell to the bottom. Exports of cotton cloth hit the lowest ebb in July with 42 million yards but went upward to 49 million in August and 70 million in September, while those of iron-steel products radically increased from 44,000 tons in

July to 118,000 tons in August and 138,000 tons in September.

Import exchange settlement maintained a high level of \$181 million a month during the period of March to June but dropped to the \$140-million mark during July-August and \$114 million in September. That Japan's foreign exchange holding markedly increased from \$454 million at the end of July to \$535 million at the end of August and \$598 million at the end of September was a temporary phenomenon resulting from dull imports and increased extra-trade revenue. Special procurement demand which constituted the most outstanding of extra-trade saw new contracts amounting to \$124 million during the period of July to September. Its total amount since the Korean outbreak was \$454 million. What was remarkable about special procurements was a radical increase in the demand for services during the last three months. (Commodities amounted to \$82 million and services \$42 million; commodities in the previous period of April to June reached \$66 million and services \$9 million.) This resulted from the fact that new contracts for America's F. Y. 1952 were made mainly in September.

Prices The period of July to September became a turning point in the fluctuations of prices for this year. With mid-April as the peak, the weekly wholesale price index prepared by the Economic Stabilization Board indicated a drop of more than 8 per cent by the end of July but took a reverse curve in August and rose 6 per cent by October 20. Regarded as responsible for this reverse price movement were a rise in the rice price and electricity charges, a recovery of foreign orders as already mentioned, a settlement of financial difficulty, and a rising tendency of foreign raw materials prices reflecting the

delicate situations surrounding the Korean truce talks and Iranian and Egyptian troubles.

During the one month from the end of July to the end of August, the prices of consumer goods rose by 6 per cent, far higher than 1 per cent for that of producer goods. But during the last two months subsequently, the former rose by 3 per cent the latter conspicuously soared 4 per cent.

Wage and Consumption The average industrial wage reached the ¥12,500 mark in July chiefly because a goodly amount of the bonus that had to be paid in the preceding month was carried forward to that month but returned to some ¥11,500. Consumption by urban dwellers, on the other hand, temporarily rose to 73 per cent of the 1934—6 level in July chiefly because of purchases made with bonuses but dropped to 65 per cent for seasonal reasons in August which usually sees small buying of clothing every year) and slightly recovered to 67 per cent in September. The July-September average showed a drop of less than 4 per cent from the corresponding period of the previous year. Major reasons for the decrease of consumption undoubtedly was the soaring prices of consumer goods. The effective price of consumer goods rose 5 per cent in Tokyo as a result of a hike in rice price and electricity charges and 3 per cent in September. Since a hike in rail fares and postages is expected in November, the living condition

of the people will be considerably affected thereby, depending on the general price movement.

Finances and Financing The foreign exchange special account which had begun to witness more receipts than outlay in June continued to bring in more than it gave out, reflecting an increase in usance settlements by the Bank of Japan. In the general account, tax collection amounted to a huge sum of ¥130 million during the period of July to September. But as the local finance equalization grants were paid out earlier than scheduled and payment for early delivery rice proceeded in September, the excess receipts of Government's fund was ¥40,200 million during the three months as against ¥65,300 million during the April-June period. In the phase of financing, a considerable portion of the funds for usance settlement and stockpiles had to depend on Bank of Japan credit. Accordingly, Bank of Japan lending during the period of July to September jumped to ¥55,000 million, thereby covering an excess receipts of the Government's fund, and Bank of Japan note issues expanded by ¥8,600 million during the period. Looking at the three months as whole, it may be said that the movement was calm. But there is no denying that an undercurrent of inflation is beginning to show itself in the phase of currency in circulation especially because a considerable expansion is inevitable in currency from October to year-end.

Résumé of Articles

TAKAHASHI, Taizo, "Over-Loan and Japan"
Its Meaning, At the Present Stage of

1. There are a number of definitions on