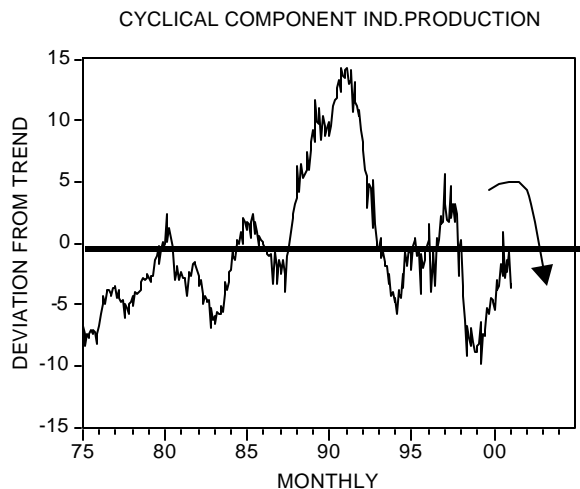
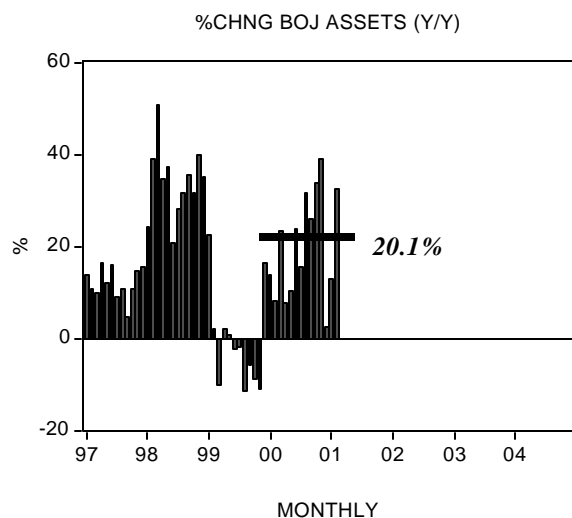


## Japanese industrial production remains subdued

Seasonally adjusted industrial production increased by **0.4%** in February after a fall of **4.2%** in the previous month. The cyclical component of production displays a visible softening (see chart).

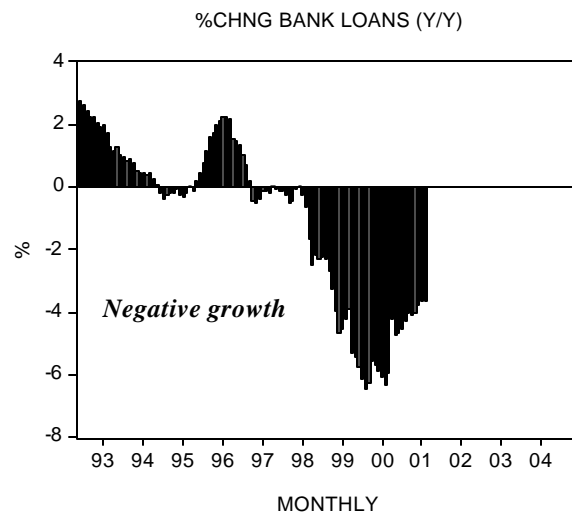


To revive the economy the BOJ has pursued aggressive monetary pumping. Year-on-year the monetary pumping, as depicted by the balance sheet of the central bank, increased by **32.6%** in February after rising by **12.9%** in January (see chart). Since January 2000 the average rate of growth of monetary injections by the BOJ stood at **20.1%**.

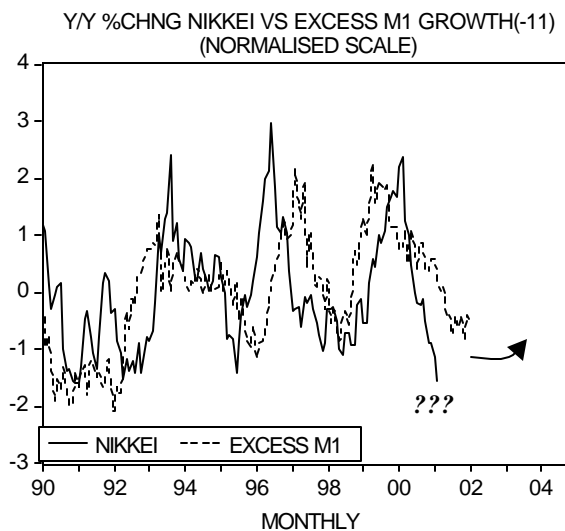


Despite these aggressive monetary injections, lending by banks has continued to decline. Year-on-year in February lending fell by **3.7%** after a similar fall in the previous month (see chart). The average yearly rate of growth in bank lending between January 2000 and February of this year stood at minus **4.6%**. This

prolonged decline raises the likelihood that the real pool of funding in Japan is still stagnating, or worse falling. If this assessment is correct, then regardless of what the BOJ is doing no meaningful economic recovery can emerge.



In the meantime, a slight improvement in monetary liquidity, as depicted by the excess money M1 rate of growth, provides support to the Nikkei share price index (see chart). However, given the possibility that the real pool of funding is still stagnating, or declining, the improvement in monetary liquidity will not be sufficient to strengthen the stock market.



## Thought for today

We might all be successful if we followed the advice we give the other fellow.

**Anonymous**