Japan moving from recession to depression

Joe Lopez
11 October 2001

Following the September 11 terrorist attacks in the United States, economic analysts are predicting the onset of a deepening recession in Japan, with some even referring to the possibility of a depression in the world's second largest economy, due to the global economic downturn.

Recently released surveys of future trends together with economic data recording economic performance over recent months point at least to the onset of Japan's fourth "official" recession—defined as two consecutive quarters of negative growth—in the space of a decade.

One important indicator of the bleak outlook for the Japanese economy was the Bank of Japan's Tankan survey. The Tankan's quarterly diffusion index, which measures the percentage of major manufacturers reporting an expansion of business activity as opposed to the percentage that expect a decrease, fell to minus 33 for the September quarter compared to minus 16 for the previous three months. The index is now at its worst level since the April-June 1999 survey, when the figure fell to minus 37.

In another survey of 200 corporate executives conducted by the *Asahi Shimbun* newspaper, more than 90 percent said the nation's economy was deteriorating. Sixty one percent of respondents said the economy was crumbling.

Commenting on the results of the Tankan survey, Morgan Stanley economist Takehiro Sato said: "The rate of economic growth in the United States will be negative following the terrorist attacks. That means the dim hopes that a US recovery might stimulate Japan's sluggish industrial output have vanished completely."

Industrial production in August declined at its fastest annual rate since the 1973 oil shock. Japan's trade surplus declined 47 percent in August from a year earlier. In the aftermath of the September 11 events, the Nikkei index has fallen below the 10,000 mark for the first time since 1983. The Nikkei index has plunged 25 percent in the last six months.

Average household spending fell 0.8 percent in August, representing the fifth straight month of year-on-year declines. Consumer prices, which have been in decline continuously for the last 23 months, were down 0.9 percent in August from a year earlier.

Official unemployment has risen to 5 percent with predictions that it will rise to 6 percent shortly, the highest levels in the post-war period.

The job destruction is continuing as the process of corporate restructuring intensifies. The latest announcement of job cuts include: **Sony Corporation**, which will shed 5,000 jobs through early retirement; **Komatsu**, Japan's biggest construction machinery maker, will cut 2,200 jobs or 10 percent of its domestic workforce by 2004; **Kobe Steel** will slash its 17,600 workforce by 20 percent. Thousands of jobs are also set to go at the Mycal supermarket chain, which recently filed for bankruptcy with almost $15 billion in debts.

Tetsuro Sugiura, chief economist for Fuji Research Institute, has predicted that unemployment will rise dramatically to the 6 percent range in coming months. Sugiura said the September 11 terrorist attacks had hurt an already ailing economy and the anticipated disposition of bank bad loans could mean "more than 200,000 additional jobless".

The institute reported that the number of jobs lost through forced layoffs and bankruptcies jumped for the first time in three months, rising by 60,000 from the August figure. The Japanese Ministry of Health, Labour and Welfare announced that people claiming unemployment benefits reached a record 1.167 million in August.

According to a recent article in *Bloomberg News*, entitled "Think Japan's Economy is Bad Now? Just Wait," worse is to come. "It's here where things get ugly," the article stated. "As unemployment rises beyond today's record 5 percent, consumers may spend less. If already frugal households buy less, corporate profits fall further and so do asset values. Banks, then, may be forced to let more companies fail, boosting unemployment and reducing corporate profits. And so on and so on.

"This is the very cycle Japan's policy makers have been dreading for years. To date, Tokyo has held things together with ultra-low interest rates and aggressive fiscal spending. Now that borrowing costs are at zero percent and Tokyo has papered markets with more bonds than investors can use, that's no longer possible. Credit rating agencies are sniffing around Japan's finances, wondering if it's time for another downgrade."

Bloomberg did not hold out much hope that the lower-yen policy, advocated by some economists as a means to slow the downturn by boosting exports, would work. "Tokyo is frantically selling yen to give exporters a more favorable exchange rate. Yet a cheaper yen won't give Americans, Europeans and Asians the wherewithal to buy more Japanese-made goods. Even before terrorists slammed global consumer and business confidence with aerial assaults on New York and Washington, demand was waning."

Warning that the slowdown could become a meltdown, the article cited remarks by James Malcolm, senior economist at JP Morgan Securities (Asia). "We're in a very bad way at the moment and things are getting worse," he said. "Japan is no longer in recession—it's a depression."