Japan sinks into recession

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The Japanese economy has officially entered recession for the first time since 2001, after the release of figures on Monday showing a second quarter of negative GDP growth. The data not only showed an annualised contraction of 0.4 percent for the July-September period, but revised the contraction for the April-June quarter from 3 percent to 3.6 percent.

Japan, the world's second largest economy, is the latest country to sink into recession. Last week, Hong Kong, Germany and Italy, as well as the eurozone as a whole, all announced a second consecutive quarter of negative growth. The United Kingdom and the US are expected to follow with gloomy predictions for the last quarter of 2008.

The Japanese government, economic analysts and international institutions such as the IMF and World Bank are all forecasting the recession will continue well into next year. Economic and Fiscal Policy Minister Kaoru Yosano told the media yesterday that he was "not confident" for the fiscal year starting April 2009. "I see no positive factors at home or abroad that could spur growth," he said.

Hideo Kumano, chief economist for Dai-ichi Life Research Institute, told the *New York Times*: "The really dark period hasn't even reached us yet. The stock declines are going to have a freezing effect. The end-of-year retail sales season will be miserable." The full impact of the international financial crisis in October is yet to be reflected in the official economic data.

Japanese export firms, which constitute the most dynamic sector of the economy, have been hard hit by the economic slowdown in China, the US and Europe as well as the rising value of the yen. The yen has gained 9.4 percent against the US dollar since the end of September.

According to the official statistics, Japanese exports rose by 0.7 percent in the July-September quarter after falling 2.6 percent in the previous quarter. However, preliminary export figures for the first 20 days of October show a sharp decline of 9.9 percent compared to the same period of last year.

Major auto and electronics companies have revised down their profit forecasts for the year. Earlier this month, Toyota, the largest auto manufacturer, foreshadowed a 74 percent drop in net profits for the financial year ending next March amid a slump in domestic and global sales.

Corporate capital spending—a sign of business sentiment—dropped by 1.7 percent in the last quarter, the third consecutive fall.

Other indicators of economic slowdown released last week included a 40.4 percent drop in machine tool orders and a 13.4 percent rise in corporate bankruptcies in October. Eight listed companies went bankrupt in October, seven of them in real estate and construction-related industries. Rent prices in new commercial buildings in Tokyo fell last month for the first time in six years.

Consumer spending, which accounts for 55 percent of Japan's GDP, continued to grow in the July-September quarter, but by just 0.3 percent. Nervous about the future, working people have been reluctant to spend.

Time pointed to "a deep-rooted pessimism" as evidenced by "abysmally low" consumer confidence. "For months, newspapers have been awash with ways consumers can ‘return to the home' to protect themselves against the economic downturn—suggestions range from buying a pasta maker rather than going out for Italian, to entertaining the kids with board games, rather than spending on family outings," the magazine wrote.

The *Wall Street Journal* spoke to Kaori Inoue, a housewife in western Japan, who said that her husband's income had not grown for four years, making shopping for her family more expensive as her young child gets older. She uses old bath water to do laundry to save on utility bills, and shops at three supermarkets to ensure she gets the cheapest groceries.

"We do have savings," Ms Inoue said, "but I've always pretended that we don't, because you never know what's going to happen. And now the economy is bad again. So we are trying to save even more."

The widespread pessimism is the result of nearly two decades of economic stagnation following the collapse of booming share and property prices in the early 1990s. What is often termed the so-called lost decade of the 1990s witnessed Japan oscillate between recession and long stretches of anaemic growth. The limited expansion since 2001 has been largely driven by rapid economic growth in neighbouring China, now Japan's largest trading partner.

Based on OECD projections, the unemployment rate was 4.1 percent last month. Given Japan's stringent definition of unemployment, the actual jobless figure is certain to be considerably higher and will rise in coming months.

Earlier this month, Toyota announced that it would lay off 3,000 contract workers by the end of March. Nissan has indicated that it will axe 1,500 temporary jobs. The business newspaper *Nihon Keizai* forecast more than 10,000 job cuts across the sector before the end of the year. Japanese semiconductor maker Rohm announced on November 7 that it planned to cut its workforce by 5 percent, or around 1,000 jobs, this financial year.

Last Friday, the Health, Labor and Welfare Ministry released figures showing a rise in the number of people receiving unemployment insurance benefits for the first time in 16 months. The total is now 606,000 in September—a 2.6 percent increase on August. The ministry also revealed that up to 10 million workers are eligible for benefits, but not registered.

A further expansion of joblessness will intensify already widespread alienation and disenchantment, particularly among young people. Over the past two decades, Japan's lifelong employment system has been badly eroded, leading to a huge expansion in the number of young people employed in low-paid, part-time and temporary jobs. An *Asahi Shimbun* survey released this week showed most of the country's top 100 firms intend to reduce or maintain their present level of graduate recruitment next year, forcing more young people to look for jobs elsewhere.

The economic downturn is already compounding the political problems facing Prime Minister Taro Aso. He took over as Liberal Democratic Party (LDP) leader in September, promising to fix the economy. But amid the financial turmoil, he has already been forced to ditch plans for early lower house elections. An *Asahi Shimbun* poll showed that Aso's popularity has plummetted to 29.6 percent, down by 13 percent since last month.

In a bid to boost the economy, the government announced a second stimulus package of 5 trillion yen ($US51 billion) last month. At the same time, the Bank of Japan cut interest rates on October 31 from the low level of 0.5 percent to just 0.3 percent. Finance Minister Shoichi Nakagawa told the media yesterday that the government might consider further stimulus measures.

The stimulus package is already embroiled in parliamentary wrangling as the opposition Democratic Party of Japan (DPJ) seeks to use the present economic crisis to force early elections. The DPJ, which controls the upper house, is stalling on two key bills to provide economic assistance to troubled regional banks and to authorise Japanese military assistance to the US occupation of Afghanistan. Having initially opposed the first stimulus package, the DPJ has now done an about face and is demanding that the government give priority to the second one.

Even if he succeeds in implementing his economic measures and avoiding an early election, Aso confronts a deepening economic and political crisis. The Nikkei share index sank another 2.28 percent yesterday—total losses for the year stand at more than 44 percent. Most economists predict at least another two quarters of negative economic growth, while others are considerably more pessimistic.

Junko Nishioka, chief economist at the Royal Bank of Scotland, told *Time* that she expects at least another two years of negative growth. With weak export and domestic demand, she told the magazine, there is "no positive driver in the Japanese economy if you think about the two-year horizon."