Japan’s economic outlook worsening

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The Bank of Japan decided not to further expand its quantitative easing program at its meeting last Friday, possibly because to have done so would have amounted to a tacit admission that its massive financial asset-buying program of $665 billion a year has failed to revive the world’s third largest economy. But failed it has.

Gross domestic product, preliminary data for which will be released on November 16, is expected to have contracted at an annualised rate of 0.2 percent in the third quarter, following a decline of 1.2 percent in the second. Such a result would mean that Japan has entered what is known as a technical recession—two consecutive quarters of negative growth.

The contraction is being driven by the slowdown in China—where growth is at its lowest point since the global financial crisis of 2008–2009—and its associated effects, including falling growth in emerging market economies and weakness in capital spending in Japan.

Amid great fanfare, Japan’s central bank governor Haruhiko Kuroda launched the quantitative easing program in April 2013, promising to double the country’s monetary base, end the grip of deflation and kick-start its stagnant economy. However, some two and half years on, deflationary pressures show no sign of abating.

At last Friday’s meeting, the BoJ extended the date of its commitment to return inflation to the target range of 2 percent by six months, to March 2017. Government data, also released on Friday, showed that core consumer prices, excluding food, contracted by 0.1 percent in September from a year ago. Other figures showed that household spending fell in September by 1.3 percent, compared to the same month a year ago. Consumption levels in Japan are now lower than they were in 2012.

Not only have the BoJ’s monetary policies failed, the outlook is clearly worsening.

According to Kiichi Murashima, chief economist at Citigroup in Japan: “The BoJ’s monetary accommodation over the past two and a half years has only had a limited impact on Japan’s growth and inflation.

“Policymakers had expected a much larger impact on the economy. And the deterioration in the global economic outlook, including developments in China, will make Japanese companies more cautious about expanding business investment and raising wages.”

At a press conference following the BoJ meeting, Kuroda tried to maintain an upbeat tone, saying that the delay in reaching the inflation target was “mainly due to falling oil prices” and that “the basic trend of prices is steadily improving.” It is doubtful whether his words cut much ice.

Kuroda left open the possibility for further quantitative easing measures, saying that there was “no limit” to the BoJ’s policy options.

The chief market economist at Mizuho Securities, Yasunari Ueno, was among those not impressed. The central bank’s decision to maintain its existing policy, he said, “threatens a loss of credibility among overseas investors about the bank’s conduct of policy and exposes it to doubts that the 2 percent inflation target is now just empty words.” Despite the “regime change” in monetary policy instigated by Kuroda, he “may now be fairly criticised for the same failings that dogged his predecessor.”

The growing concerns in business circles about the Japanese economy and its future prospects were outlined in a *Financial Times* interview with Sadayuki Sakakibara, the chairman of the major Keidanren business group. He said that while so-called Abenomics had worked well for the past three years, recent data meant that the country faced a “do-or-die” moment.

Business, he said, should help the economy by increasing investment and increasing wages, in order to boost consumption spending. That prospect is hardly likely under conditions of a slowing Chinese economy.

The significance of the Japanese situation is underscored when viewed within the context of the global economy as a whole. The world's largest economy, the US, is now experiencing lower growth, with real gross domestic product increasing by an annual rate of 1.5 percent in the third quarter, compared to 3.9 percent in the second.

The second largest, China, has recorded a growth rate of 6.9 percent, below the level of 8 percent designated by the Beijing regime as necessary to maintain social stability, and the third largest, Japan, is on the brink of recession. Other major economies in the Asian region are also being hit by the China slowdown, with growth in both Taiwan and Singapore virtually stagnant in the third quarter.

While showing a small upturn, the level of output in the euro zone has still yet to reach that attained before the global financial crisis.

The impact of the China slowdown is ripping through wide sections of the global economy. It has resulted in a five-month-long contraction in the Canadian economy in the first half of a year, with only small increases registered in the three months to August. The Brazilian economy, which is highly dependent on exports to China, remains in recession.

So-called emerging markets, many of them relying on the export of one or two commodities, are also being heavily impacted.

Last week the International Monetary Fund forecast that economic growth in sub-Saharan Africa would slow this year to its lowest level since 1999 and only increase modestly next year.

As the *Financial Times* noted in a report published yesterday: "Enthusiasts for the 'Africa Rising' story of rapid growth on the continent have spent much of the past 15 years strongly denying that the impressive economic performance was essentially about selling commodities to China. That confidence is currently being severely tested. Prospects have darkened considerably. Growth momentum in much of sub-Saharan Africa is petering out."

As the various components of the global economy—from the major countries through to emerging markets—experience stagnation or outright recession, stock markets continue to climb, boosted by the flow of ultra-cheap money from the world's central banks.

After sharp declines in August and September, world markets came roaring back in October, with the FTSE World Index climbing by 7.8 percent, its biggest monthly gain in four years. This is not an indication of economic health. Rather, it is the fever chart of mounting contradictions that portend the eruption of a major crisis.