

Japan Says Economy Is 'Weakening' as Exports Falter **(Update2)**

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Aug. 7 (Bloomberg) -- Japan's government said the world's second-largest economy is "weakening" for the first time since May 2001, when the country was in a recession.

"The economy has been weakening recently," the Cabinet Office said in a statement in Tokyo today, downgrading its monthly assessment for August. In July it said "the economic recovery appears to be pausing."

The government cut its view of employment, exports and factory production, a day after acknowledging that the longest postwar expansion has probably ended. Toyota Motor Corp. lowered its sales forecast today as the world economic slowdown deepens.

"Japan's economy will remain weak for a while," Economic and Fiscal Policy Minister Kaoru Yosano said in Tokyo. "We need to carefully watch downside risks from the U.S. economy, financial-market volatility and movements in oil prices."

Yosano added that the corporate sector is solid because businesses have trimmed excess debt, workers and capacity. He said he's "confident" Japan will recover once the U.S. and global economy improve.

Japanese Prime Minister Yasuo Fukuda said the signs of a decline are hard to ignore.

"I myself feel the severe condition of the economy," he told reporters in Tokyo. "The slowdown is becoming apparent."

Asia's largest economy has yet to contract for two consecutive quarters, one definition of a recession. Still, soaring material costs and weakening demand have eroded profits, prompting companies to pare manufacturing, investment and hiring. Production, household spending and exports declined in June, and the unemployment rate climbed to the highest in almost two years.

May Be in Recession

"Japan's economy may be in a recession," said Fumihira Nishizaki, director of macro economic analysis at the Cabinet Office. "Economic activity is likely to remain weak for a while as the slowing U.S. economy affects exports and output."

Machinery orders, an indicator of capital spending in three to six months, fell 2.6 percent in June from May, the Cabinet Office said today. Orders rose 0.6 percent in the second quarter.

Toyota, Japan's biggest company, cut its global sales forecast for the year ending March 2009 to 8.74 million vehicles from 9.06 million. A Kyushu-based subsidiary this week said it fired 800 workers in June and August because of falling demand for sport-utility vehicles and Lexus sedans in the U.S.

“Exports are in a weak tone” and “industrial production is decreasing moderately,” the office said. Yesterday it said the economy is “deteriorating” after a report showed a drop in the coincident index, the broadest indicator of economic health.

Interest Rates

Japan's economy shrank at an annual 2.3 percent rate last quarter, the first contraction in a year, economists estimate a report will show on Aug. 13. The worsening economy and the fastest inflation in a decade will compel the Bank of Japan to keep its benchmark interest rate at 0.5 percent for the rest of the year at least, according to economists surveyed last month.

The expansion that began in February 2002 became the longest in 60 years when it overtook the so-called Izanagi boom in November 2006. Annual growth in the current cycle has averaged about 2.2 percent, compared with 11.5 percent during the 1965-to- 1970 Izanagi period.

Source: Toru Fujioka