

## **Japan Economy Probably Shrank as Recession Looms** **(Update1)**

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Aug. 8 (Bloomberg) -- Japan's economy probably contracted last quarter, bringing the country to the brink of its first recession in six years, as exports fell and consumers spent less.

Gross domestic product shrank an annualized 2.3 percent in the three months ended June 30, according to the median estimate of 25 economists surveyed by Bloomberg News. The Cabinet Office will release the report on Aug. 13 at 8:50 a.m. in Tokyo.

Prime Minister Yasuo Fukuda, who last week replaced his economic ministers in a bid to boost his popularity, is planning relief measures to help companies and consumers cope with record energy costs. Toyota Motor Corp. yesterday reported the biggest drop in earnings in five years as U.S. sales slumped.

“What you're going to see is a long, slow, modestly painful recession,” said Robert Feldman, head of economic research at Morgan Stanley in Tokyo. “It's going to fall heavily on both workers and stock holders who are suffering lower returns as profits come down.”

Exports probably fell 2.4 percent last quarter, robbing Japan of the engine that drove growth over the past six years, according to economists surveyed. Shipments abroad increased every quarter except one since the most recent recession in 2001.

The economy probably shrank 0.6 percent from the first quarter, when it grew 1 percent, about twice the average pace of the expansion that began in 2002. Net exports -- the difference between exports and imports -- subtracted 0.1 percentage point from growth, economists said.

### Toyota Cuts Forecast

Toyota, Japan's biggest company, yesterday cut its sales forecast for the year ending March 2009 by 3.5 percent to 8.7 million vehicles. Since June, Toyota has fired 800 workers at a Kyushu-based subsidiary, where the company is cutting production of sport-utility vehicles and Lexus sedans bound for the U.S.

“The Toyota story is totally consistent with the macro data,” said Kiichi Murashima, chief economist at Nikko Citigroup Ltd. in Tokyo. “Companies have been quick to get rid of workers in response to slowdowns in some sectors.”

The unemployment rate jumped to 4.1 percent in June from 3.8 percent three months earlier. Wage growth is also slowing.

Summer bonuses at the country's biggest companies, which tend to pay more than their smaller counterparts, dropped this year for the first time since 2002, according to a survey by the Keidanren business lobby.

## Bank of Japan

Domestic demand, which includes company and consumer spending, probably accounted for 0.5 percentage point of the economy's quarter-on-quarter contraction. The figures for household spending will probably exaggerate the decline from the first quarter, when the leap year gave consumers an extra shopping day in February, economists said.

The government yesterday said the economy is "weakening" for the first time since 2001. 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.

Still, analysts say the current slowdown is unlikely to be as severe as past recessions because the corporate sector is better able to handle higher costs and weakening U.S. demand. Businesses have trimmed excess debt, workers and capacity, Economic and Fiscal Policy Minister Kaoru Yosano said yesterday.

"Most of the measures suggest that things aren't as good as they were 12 months ago, but it's nothing like 2001, 1998, or 1993," said Richard Jerram, chief Japan economist at Macquarie Securities Ltd. in Tokyo.

## Capital Investment

Companies plan to increase capital investment by 4.1 percent in the year ending March, according to a survey released this week by the Tokyo-based Development Bank of Japan. While that's slower than last fiscal year's 7.7 percent, it's better than the 10 percent decline recorded during the 2001 recession.

The Bank of Japan's most recent business survey showed that labor demand is close to a 16-year high. The jobs-to-applicants ratio was at 0.91 in June, meaning almost every person who wants a job can get one. During the previous recession seven years ago, there were two applicants competing for every position.

"When you say recession, it triggers images of 1998 or 1993," Jerram said. "You're having a period of sub-par growth, but it's not the sort of downturn we saw three times during the previous 15 years."

**Source:** Jason Clenfield