

Japan's inflation rises as leaders prepare package

August 30, 2008

Surging inflation in July dented Japanese consumer spending, lending support for the government's planned economic stimulus package, reportedly worth 1.8 trillion yen (\$16.5 billion) and expected to be unveiled later Friday.

Other economic reports provided a more upbeat outlook for the world's No. 2 economy: Rising industrial production, lower unemployment and higher retail sales.

While Japan's economy is indeed slowing, many economists see the downturn as mild, with little risk of the sort of deep recession that crippled the country in the 1990s.

"We've been calling this a 'shallow recession,' and the data today tend to support that view," said Masamichi Adachi, senior economist at JP Morgan Securities in Tokyo. "But that doesn't mean they point toward a quicker recovery either."

The rapid acceleration in inflation was the most alarming of all the economic indicators released Friday. Japan's core consumer price index, which excludes fresh food prices but includes energy, rose 2.4 percent in July, the quickest pace in almost 11 years, the Ministry of Internal Affairs said.

Economists are skeptical that the government's planned stimulus package will help revive Japan's economy, which shrank 2.4 percent at an annual pace in the second quarter, and some even question whether Japan even needs one.

The plan, considered by many to be a publicity stunt to raise Prime Minister Yasuo Fukuda's dismal approval ratings, will likely include measures to help agricultural and fishing businesses hit hard by soaring fuel costs.

It may also seek to slash expressway tolls, expand medical services for the elderly and support small-and mid-sized firms struggling because of rising commodity prices.

The measures will also seek income tax cuts, although the size of the tax breaks and their timing won't be decided until later, according to Kyodo news agency.

But analysts point out that these measures don't address the fundamental problems facing Japan. They don't, for example, stem soaring costs themselves or resolve the global credit crisis.

The Bank of Japan, meanwhile, is unlikely to tighten monetary policy in response to inflation, even though July's figure surpasses the central bank's inflation target range of 0-2 percent. Last week, policy board members kept the key interest rate unchanged at 0.5 percent.

So-called core-core inflation excluding food and energy rose a modest 0.2 percent, indicating that huge price gains have yet to permeate all sectors.

And Merrill Lynch economists Takuji Okubo and Masayuki Kichikawa said in a preview report that current inflation appears to be a short-term trend.

"Going forward, whether core measures of CPI excluding food and energy would show signs of inflation would be the key factor in determining (the Bank of Japan's) actions," they said.

Overall CPI was up 2.3 percent in July, while core CPI for the Tokyo area rose 1.5 percent in August.

Among other key economic indicators, Japan's industrial production in July was up 0.9 percent from the previous month on a seasonally adjusted basis, posting the first rise in two months on higher output by makers of cars, electronics and non-ferrous metals.

The news cheered investors, who pushed the benchmark Nikkei 225 stock index up more than 2 percent as of early Friday afternoon. Stronger-than-expected economic growth figures in the U.S. in the second quarter — up 3.3 percent at an annual pace — also lifted sentiment.

The outlook for industrial production looks uneven. The Ministry of Economy, Trade and Industry said it expects production to fall 2.9 percent in August before increasing 3.4 percent in September.

Japan's unemployment rate fell from 4.1 percent to 4 percent in July.

Spending by Japanese households, meanwhile, slipped 0.5 percent from a year earlier, while retail sales in the country rose 1.9 percent in July from the previous year, the government said.

Source: The Associate Press