

Japanese Economic Outlook

Can We Remain Wealthy in the Future?

Can They Be Wealthy Before Getting Old?



龍谷大学
RYUKOKU UNIVERSITY

Conference of Business Economists

November 8-9, 2012

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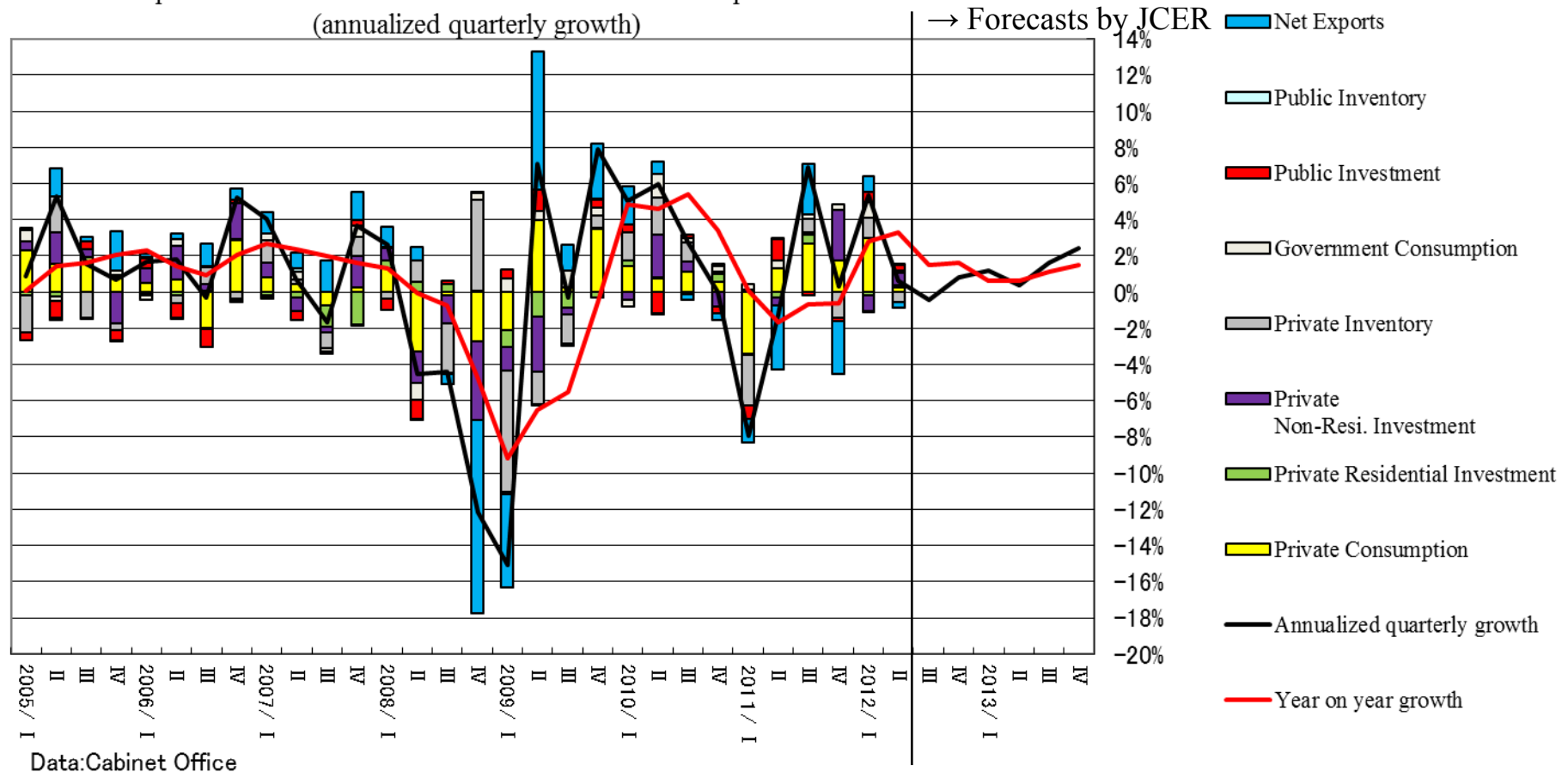
- 1, Japanese Economic Outlook: already mini-recession?
- 2, Can we keep our prosperity for another 50 years?
- 3, Japan-China Conflict
- 4, New political movements in Japan

1, Japanese Economic Outlook: already mini-recession?

The growth momentum has weakened due to a backlash of the fiscal stimulus spending before and the global slowdown especially in Asia. The real GDP growth is expected to be a negative figure in the 3rd quarter following +0.7% in the 2nd quarter and +5.3% in the 1st quarter .

The annual growth in 2012 is expected +2.3%. The economy will remain weak by the middle of 2013 when last-minute spendings ahead of the scheduled consumption tax hike and a regaining of the world economic growth are expected.

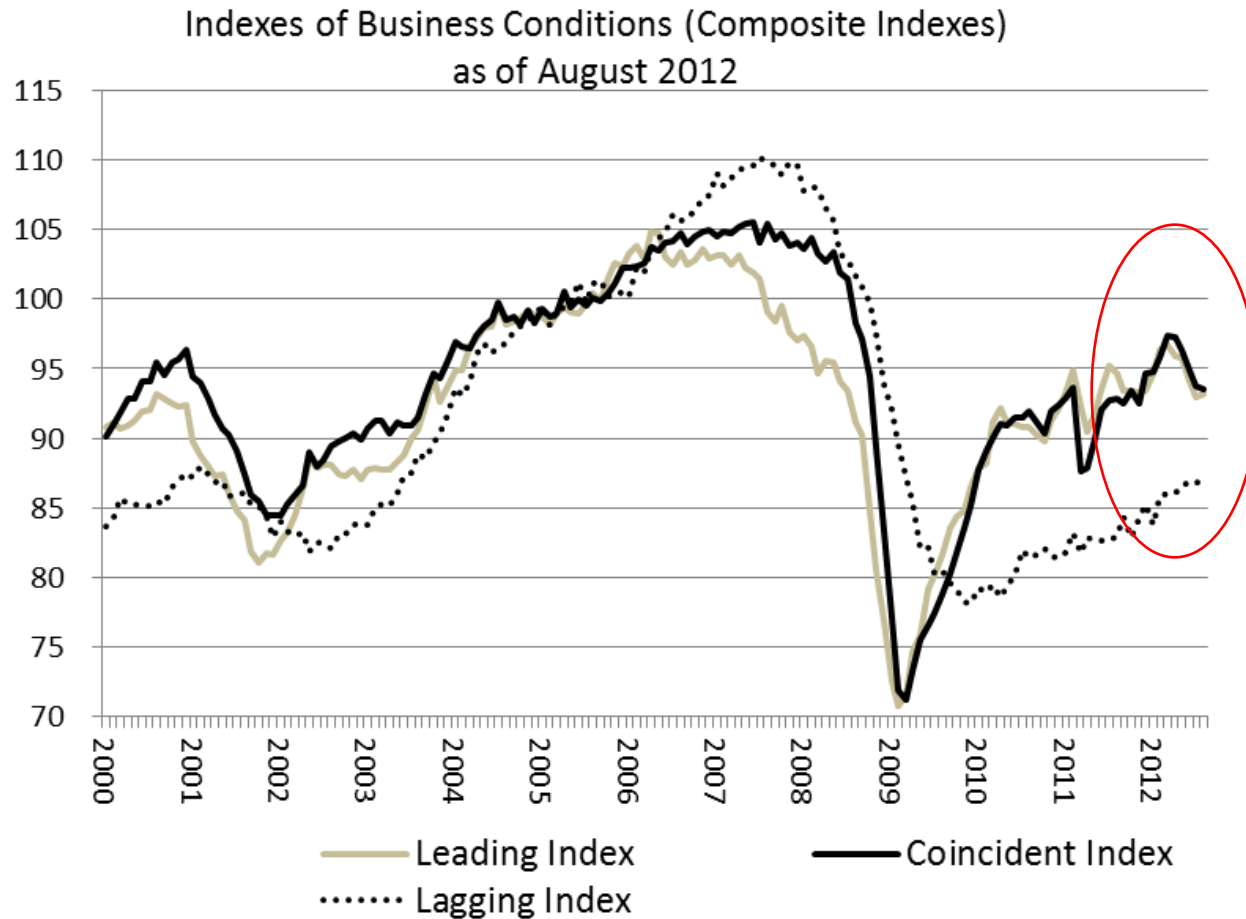
Japan Real GDP Growth and Contributions of its Components
(annualized quarterly growth)



Contributions to Changes in Real GDP (seasonally adjusted series)										(Unit:%)		
	Private Consumption	Private Residential Investment	Private Non-Resi. Investment	Private Inventory	Government Consumption	Public Investment	Public Inventory	Net Exports	Annualized quarterly growth	Year on year growth	Chnages from the previous year	
2005/ I	2.3%	-0.2%	0.5%	-2.0%	0.7%	-0.5%	0.1%	0.1%	0.9%	0.0%		
II	1.5%	-0.2%	1.8%	2.0%	-0.2%	-1.0%	-0.1%	1.5%	5.3%	1.4%		
III	1.6%	0.3%	0.4%	-1.4%	-0.1%	0.4%	0.0%	0.2%	1.5%	1.6%		
IV	0.8%	0.2%	-1.7%	-0.4%	0.2%	-0.6%	0.0%	2.2%	0.7%	2.1%	1.3%	
2006/ I	0.5%	-0.1%	0.9%	-0.1%	-0.3%	0.6%	0.0%	0.2%	1.7%	2.3%		
II	0.7%	-0.2%	1.9%	-0.4%	0.4%	-0.8%	0.0%	0.3%	1.8%	1.4%		
III	-2.0%	0.1%	0.4%	0.9%	0.0%	-1.0%	0.1%	1.3%	-0.3%	1.0%		
IV	2.8%	0.1%	2.0%	-0.3%	-0.2%	0.2%	0.0%	0.6%	5.2%	2.1%	1.7%	
2007/ I	0.8%	-0.1%	0.8%	1.2%	0.4%	-0.1%	-0.1%	1.1%	4.0%	2.7%		
II	0.5%	-0.3%	-0.8%	0.2%	0.5%	-0.5%	0.1%	0.9%	0.7%	2.4%		
III	-0.7%	-1.2%	-0.3%	-0.9%	-0.2%	-0.1%	0.0%	1.7%	-1.7%	2.0%		
IV	0.3%	-1.8%	1.8%	1.1%	0.6%	0.3%	0.0%	1.5%	3.7%	1.6%	2.2%	
2008/ I	1.3%	0.4%	0.6%	-0.4%	0.0%	-0.6%	0.1%	1.1%	2.6%	1.3%		
II	-3.3%	0.6%	-1.8%	1.2%	-0.9%	-1.1%	0.0%	0.7%	-4.5%	0.0%		
III	-0.2%	0.4%	-1.6%	-2.7%	-0.1%	0.2%	0.0%	-0.5%	-4.4%	-0.7%		
IV	-2.7%	0.1%	-4.3%	5.0%	0.4%	0.0%	0.1%	-10.7%	-12.2%	-4.8%	-1.0%	
2009/ I	-2.1%	-0.9%	-1.3%	-6.7%	0.8%	0.5%	-0.1%	-5.1%	-15.1%	-9.2%		
II	4.0%	-1.4%	-3.0%	-1.8%	0.5%	1.2%	0.0%	7.6%	7.1%	-6.5%		
III	0.2%	-0.8%	-0.4%	-1.6%	0.9%	0.0%	0.0%	1.4%	-0.3%	-5.5%		
IV	3.5%	-0.3%	0.1%	0.7%	0.4%	0.4%	0.0%	3.0%	7.9%	-0.6%	-5.5%	
2010/ I	1.4%	0.3%	-0.4%	1.6%	-0.4%	0.4%	0.0%	2.1%	5.0%	4.9%		
II	0.7%	0.1%	2.4%	2.1%	1.3%	-1.2%	-0.1%	0.7%	6.0%	4.6%		
III	1.1%	0.0%	0.6%	1.0%	0.3%	0.2%	-0.1%	-0.4%	2.7%	5.4%		
IV	0.6%	0.4%	-0.8%	0.1%	0.3%	-0.4%	0.1%	-0.4%	0.0%	3.4%	4.5%	
2011/ I	-3.4%	0.2%	0.0%	-2.8%	0.3%	-0.7%	0.0%	-1.3%	-7.9%	0.1%		
II	1.3%	-0.3%	-0.5%	0.0%	0.5%	1.2%	0.1%	-3.5%	-1.3%	-1.7%		
III	2.7%	0.5%	0.1%	0.8%	0.2%	-0.2%	0.0%	2.8%	6.9%	-0.7%		
IV	1.8%	0.0%	2.8%	-1.4%	0.3%	-0.2%	0.0%	-2.9%	0.3%	-0.6%	-0.8%	
2012/ I	3.0%	-0.2%	-0.9%	1.1%	0.9%	0.6%	0.0%	0.8%	5.3%	2.8%		
II	0.3%	0.1%	0.7%	-0.6%	0.1%	0.3%	0.0%	-0.3%	0.7%	3.3%		
III									-0.4%	1.5%		
IV									0.8%	1.6%	2.3%	
2013/ I									1.2%	0.6%		
II									0.4%	0.6%		
III									1.6%	1.1%		
IV									2.4%	1.5%	0.9%	

forecast by JCER

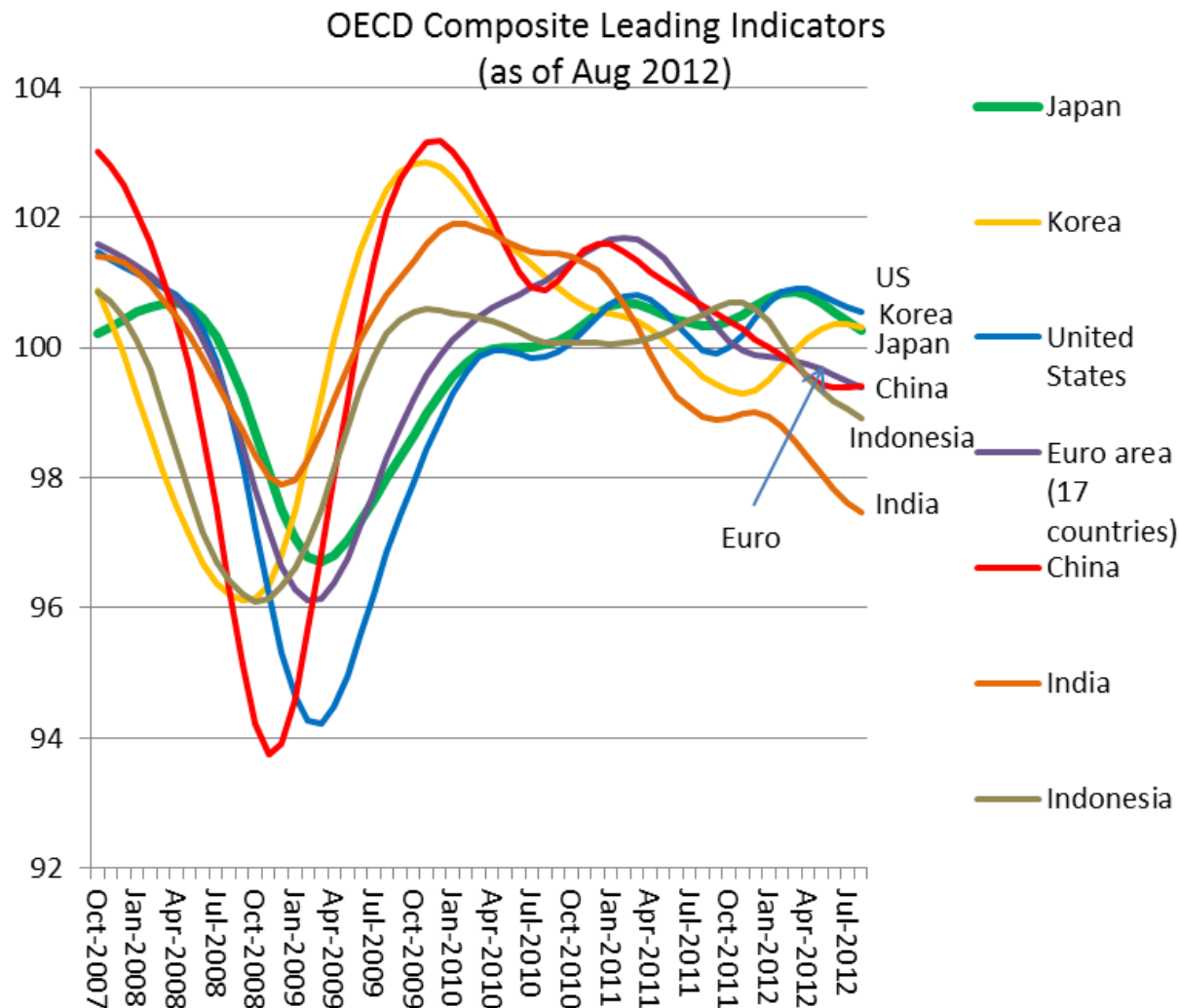
The indexes of business conditions show that the economic activities have recovered the peak level before the great earthquake in March 2011 but not the one before the last recession in 2009.



Data: Cabinet Office

Are we heading for another global recession?

Probably not but there are many risk factors: a bubble burst scenario in China, a Euro-breakup, the fiscal cliff in the US and an escalation of the Japan-China conflict.



The exports (real term) growth to the East Asian, which occupies 53% of the total exports, turned to negative in the 3rd quarter.

The total export (nominal and custom clearance base) decreased 10.3% y-o-y base in September (the export to China — 14.1%).

Figures From BOJ Monthly Report of Recent Economic and Financial Developments Oct.2012

(1) Breakdown by Region

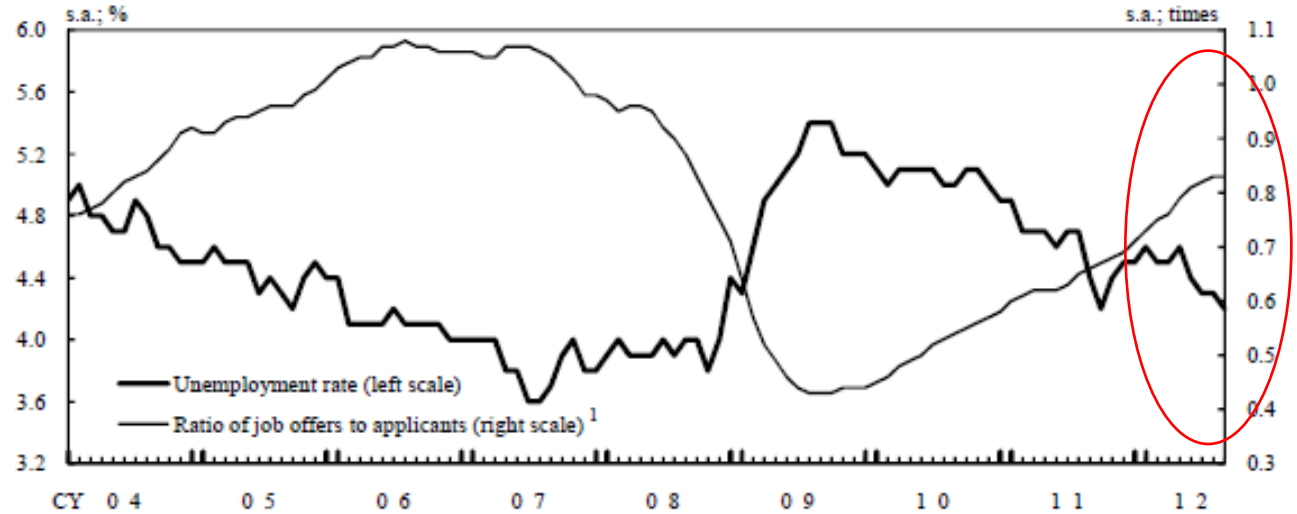
		y/y % chg.		s.a.; q/q % chg.					s.a.; m/m % chg.		
		CY 2010	2011	2011 Q3	Q4	2012 Q1	Q2	Q3	2012 Jun.	Jul.	Aug.
United States	<15.3>	24.7	-0.3	19.8	4.9	2.5	4.8	-2.9	-2.6	-2.2	3.7
EU	<11.6>	17.4	2.9	9.8	-8.3	-4.0	-2.3	-6.7	-10.9	4.6	-5.5
East Asia	<52.8>	31.8	-1.2	4.8	-4.5	0.9	2.5	-2.9	2.9	-3.4	-1.9
China	<19.7>	31.3	1.9	7.5	-4.8	-1.9	1.8	-1.9	4.0	-3.7	-1.1
NIEs	<22.8>	28.0	-4.6	0.7	-4.1	-1.5	2.2	-2.7	3.4	-3.1	-2.2
Korea	<8.0>	23.6	-3.0	-4.1	-0.8	0.3	-2.3	-0.6	-3.1	5.6	-6.3
Taiwan	<6.2>	36.8	-9.3	-3.4	-3.6	-4.9	5.9	0.8	4.9	-3.8	1.3
Hong Kong	<5.2>	29.2	-4.0	7.7	-4.3	2.0	-1.3	-0.9	6.7	-6.0	6.1
Singapore	<3.3>	20.2	0.3	10.0	-13.2	-3.1	10.7	-12.3	8.3	-13.2	-10.7
ASEAN4 ³	<10.4>	42.7	0.8	9.4	-4.9	11.4	4.3	-5.0	0.3	-3.6	-2.8
Thailand	<4.6>	46.1	1.3	8.9	-20.8	27.1	10.3	-4.4	0.4	-2.1	-4.8
Others	<20.3>	29.2	1.6	13.7	-0.5	3.2	0.3	-7.1	-0.5	-7.7	2.2
Real exports		27.5	-0.5	7.3	-2.8	-0.1	4.1	-4.7	-0.8	-3.0	-0.6

The labor market remains improving gradually and the unemployment rate declined to 4.2% in September.

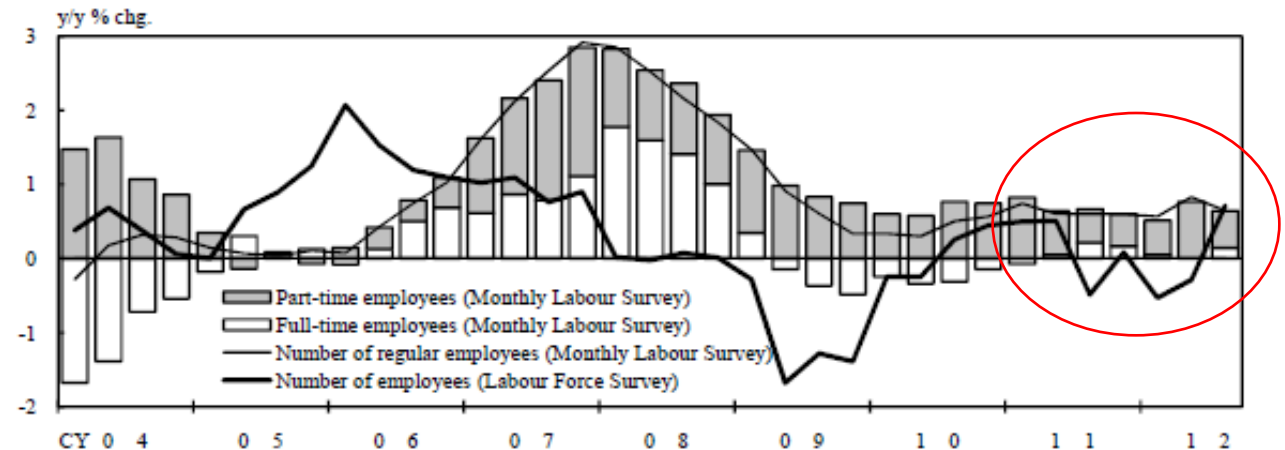
But the most increase of number of employees consists of part-time jobs.

Graph from BOJ Monthly Report of Recent Economic and Financial Developments Oct.2012

(1) Unemployment Rate and Ratio of Job Offers to Applicants



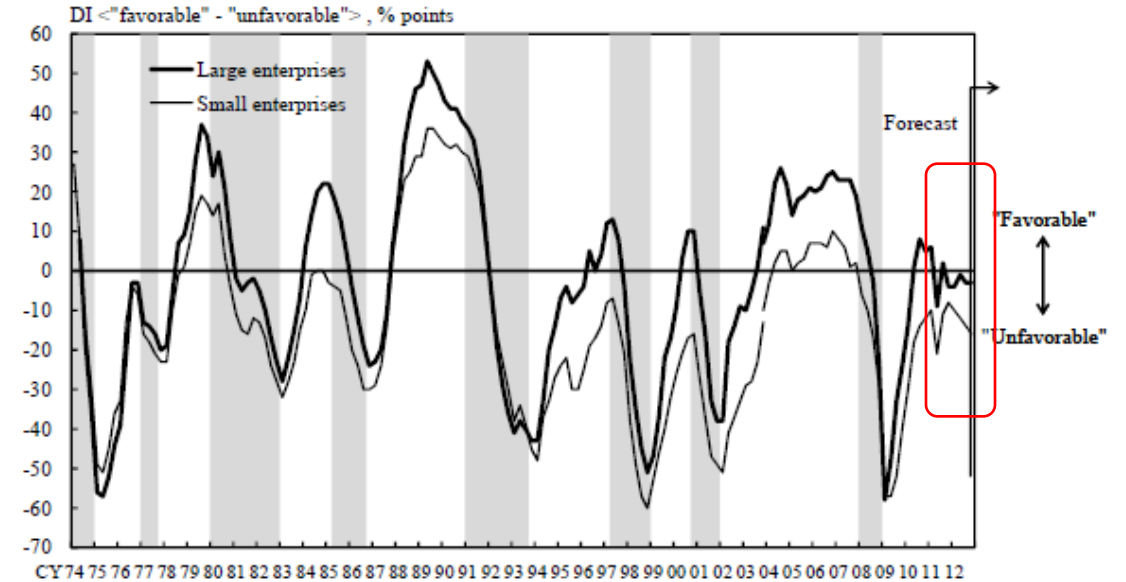
(1) Number of Employees^{1,5}



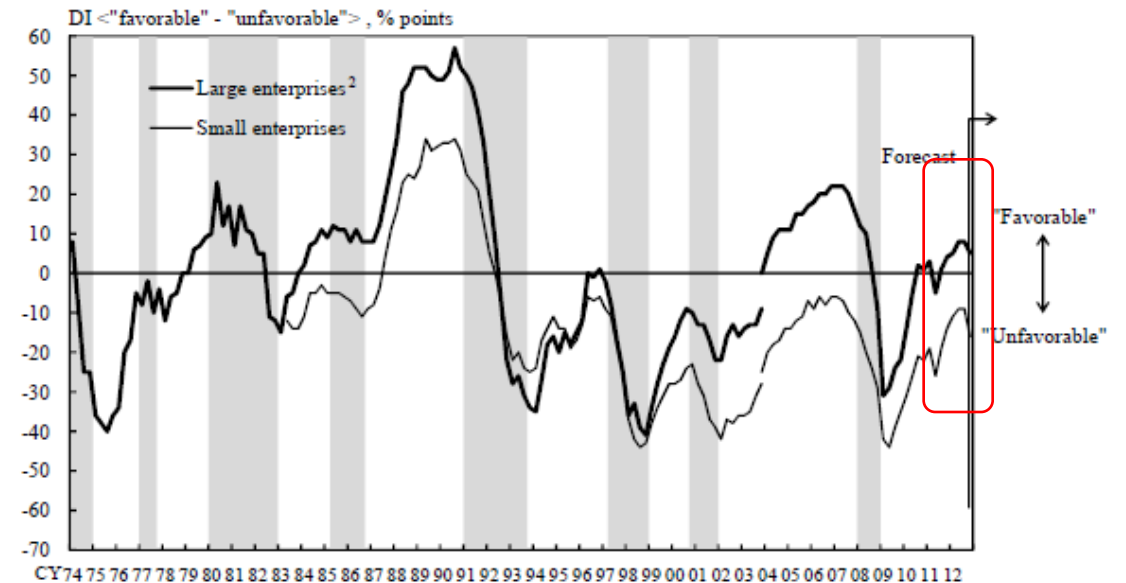
The corporate sector seems to be getting more cautious for capital spending.

Graph from BOJ Monthly Report of Recent Economic and Financial Developments Oct.2012

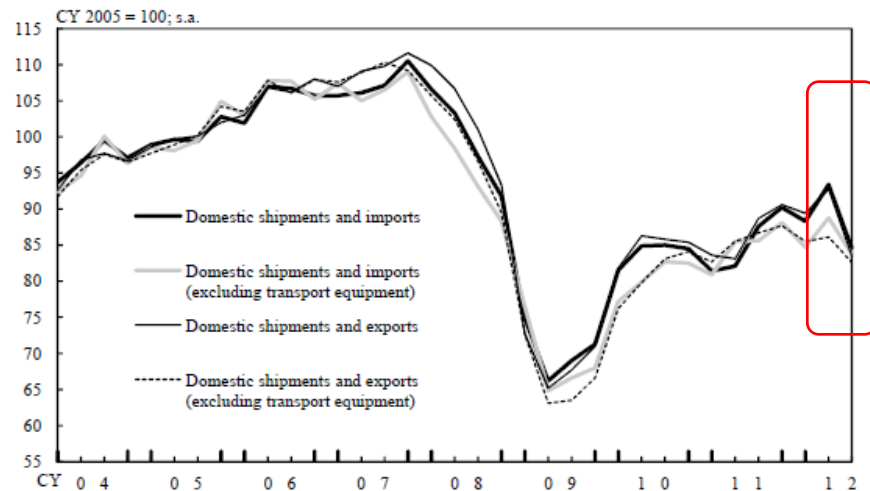
(1) Manufacturing



(2) Nonmanufacturing



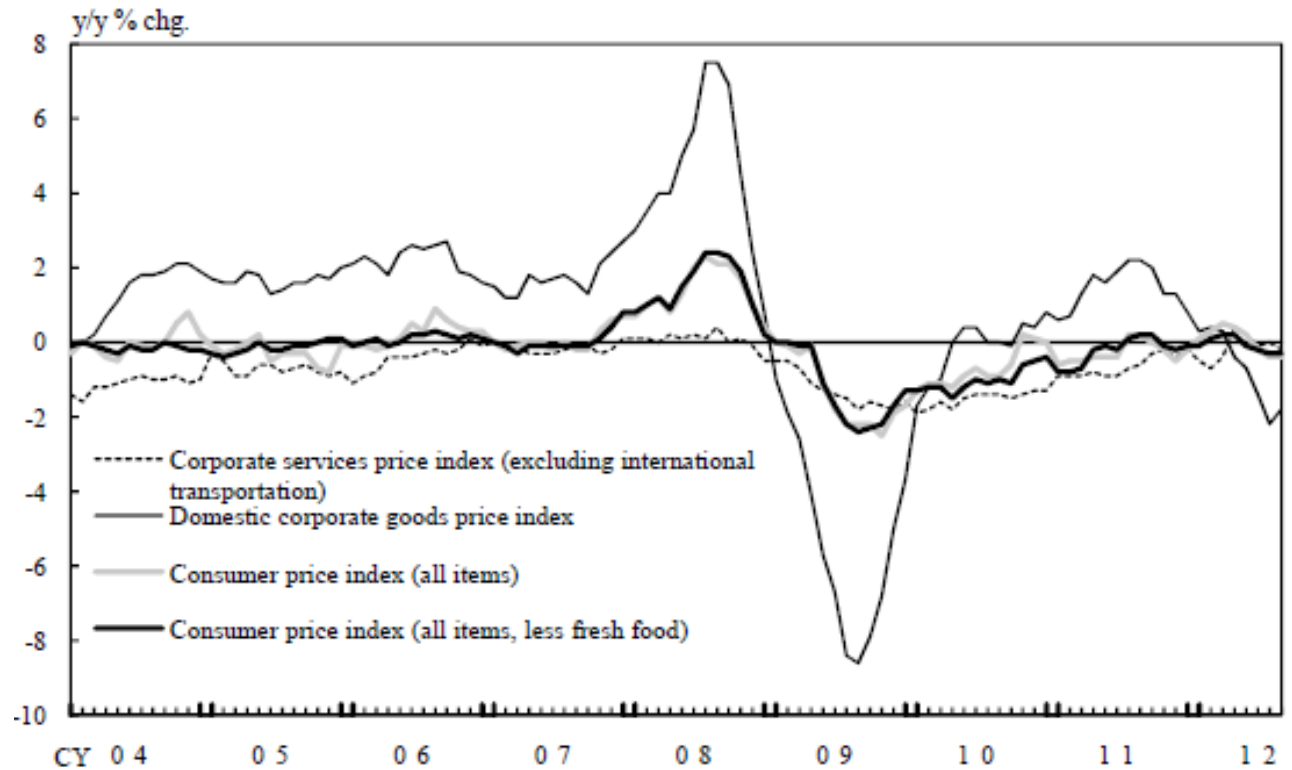
(1) Aggregate Supply and Shipments of Capital Goods



CPI(all items less fresh food) declined 0.1% (y-o-y base) in September. According the latest forecast of BOJ, the current monetary policy with zero interest rate is likely to continue through 2014.

Graph from BOJ Monthly Report of Recent Economic and Financial Developments Oct.2011

Table from BOJ Out look for Economic Activity and Prices dated Oct.30 2012



7. The ranges shown below include the forecasts of all Policy Board members.

	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2012	+1.2 to +1.7	-1.3 to -0.8	-0.1 to 0.0
Forecasts made in July 2012	+2.1 to +2.4	-0.5 to 0.0	+0.1 to +0.4
Fiscal 2013	+1.0 to +1.8	-0.2 to +0.8	-0.1 to +0.6
Forecasts made in July 2012	+1.5 to +1.8	+0.5 to +1.0	+0.4 to +0.8
Fiscal 2014	+0.1 to +0.8	+3.3 to +4.5	+2.2 to +3.0
Excluding the effects of the consumption tax hike		+0.4 to +1.6	+0.2 to +1.0

Enhancement of monetary easing (Oct.30.2012)

1, BOJ decided to increase the total size of the Asset Purchase Program by about 11 trillion yen, from about 80 trillion yen to about 91 trillion yen (\$1.1trillion) on Oct.30.

Breakdown:

JGBs: about 5 trillion yen

T-Bills: about 5 trillion yen

CP: about 0.1 trillion yen

Corporate bonds: about 0.3 trillion yen

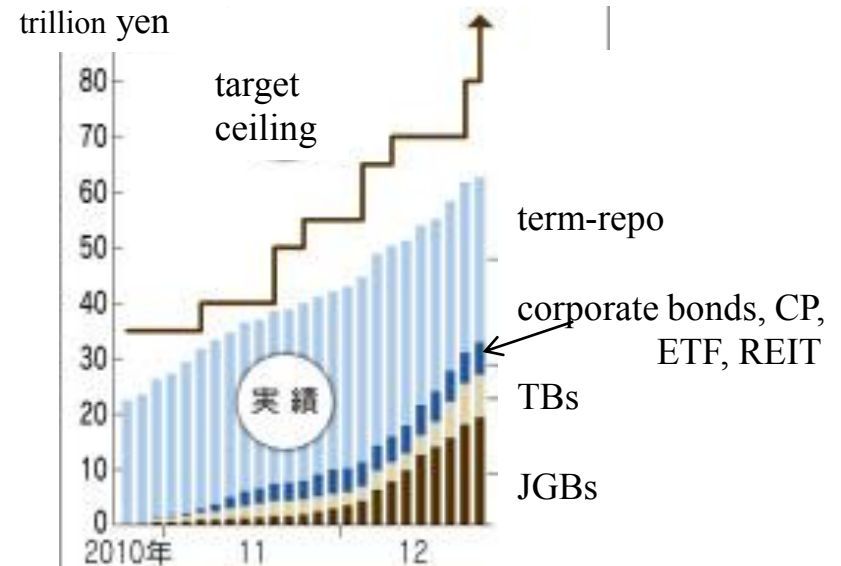
ETFs: about 0.5 trillion yen

J-REITs: about 0.01 trillion yen

2, “Stimulating Bank Lending Facility”

The Bank decided to provide long-term funds (up to 4 years) at a low interest rate (currently 0.1%) to financial institutions at their request, with the view to promoting their aggressive action and helping increase proactive credit demand of firms and households. There shall be no upper limit -- unlimited -- to the total amount of funds provided by the Bank under this facility.

BOJ is enlarging the Program

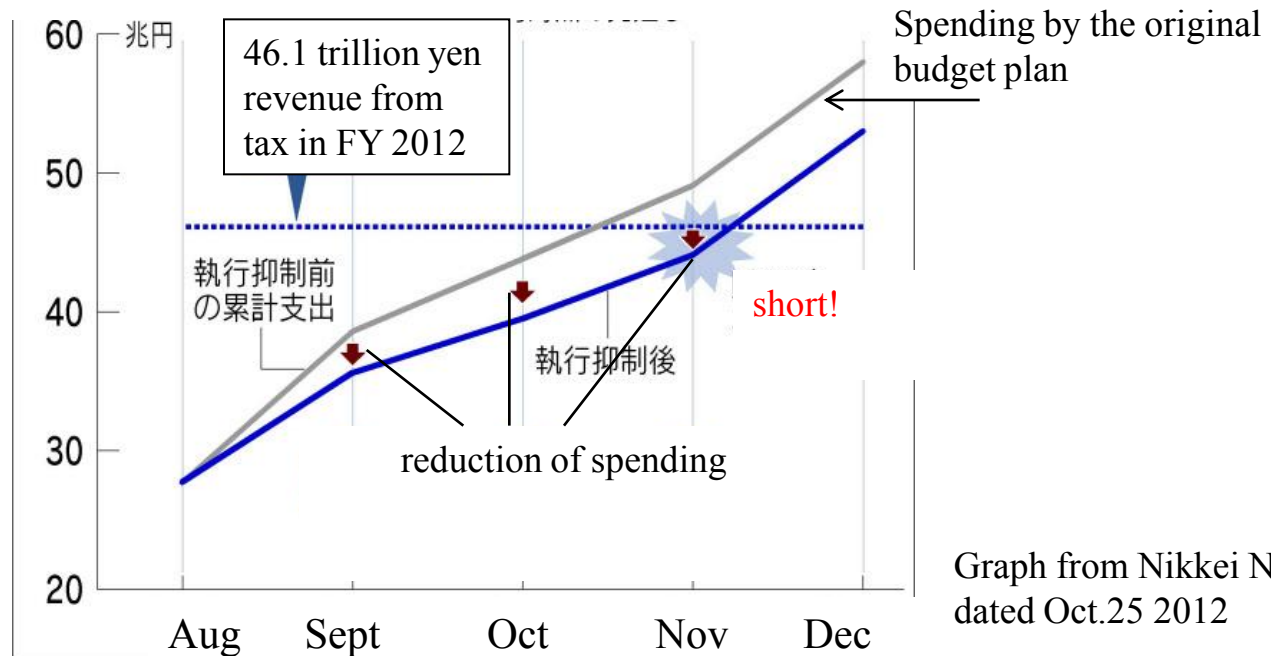


Graph from Nikkei
Newspaper dated Oct.25

The government is facing a mini-fiscal cliff.

Unless the bill to raise the ceiling of issue of the government bonds is passed at the parliament, the government will face a shortage of fund on Nov.2012.

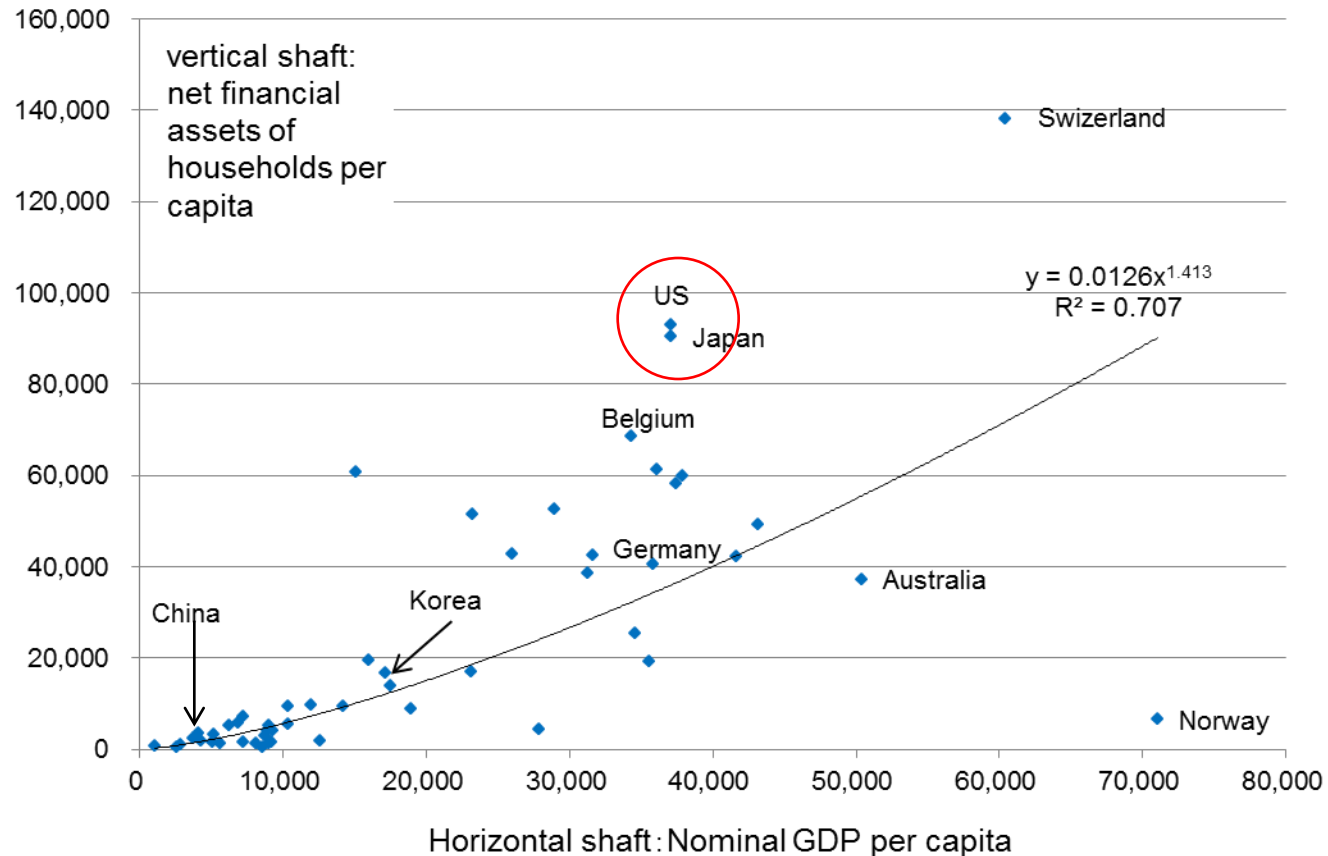
The fiscal cliff of the Japanese government



Graph from Nikkei Newspaper dated Oct.25 2012

2, Can we keep our prosperity for another 50 years?

Nominal GDP and net financial assets of households per capita
(Unit: Euro, as of the end of 2011)



Data: Allianz Global Wealth Report 2012 based on "Flow-of-Funds Table" of each countries

Can the emerging Asia maintain its high growth for another quarter-century?

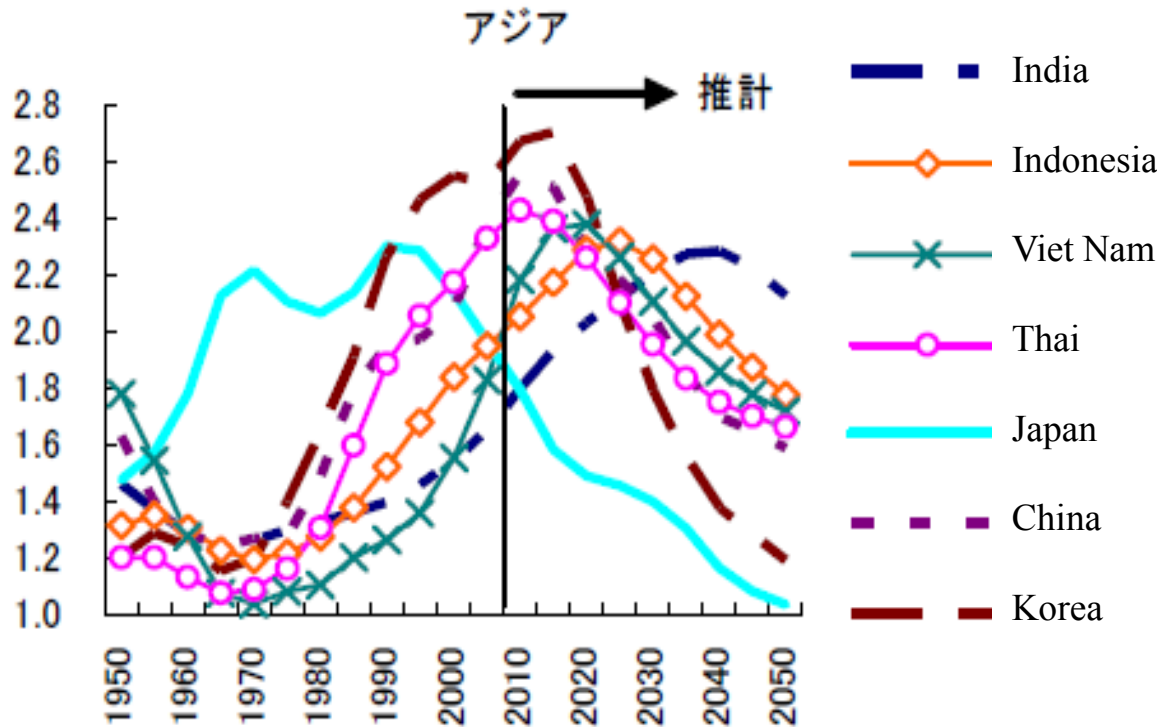
Probably not.

Most East Asia countries move into the age of demographic onus from demographic bonus since the 2010's when the ratio of working-ages-population to non-working ages turn to decrease.

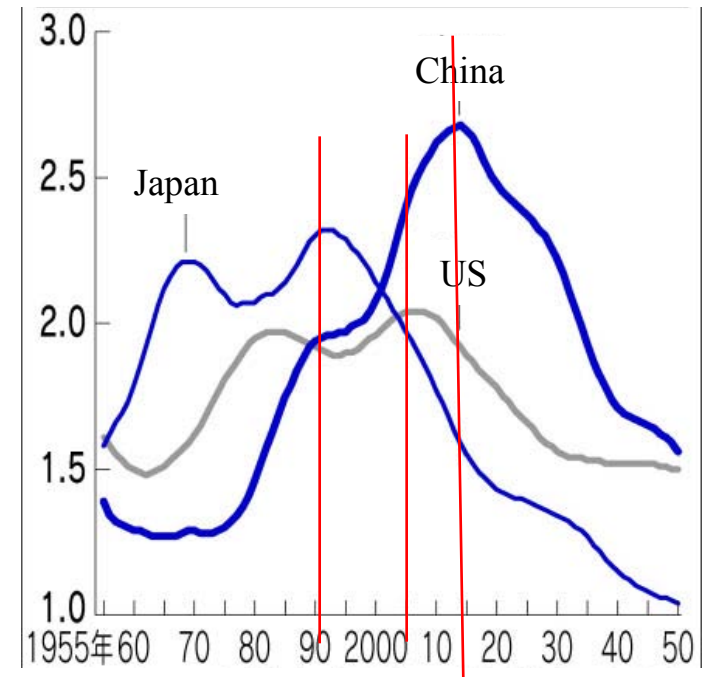
It is a interesting coincident that the bubble burst happened at the turning point of the demographic change both in Japan and the US.

How about a case of China?

Ratio of working-ages-population
= population of 15-64 / population of less 15 and over 65



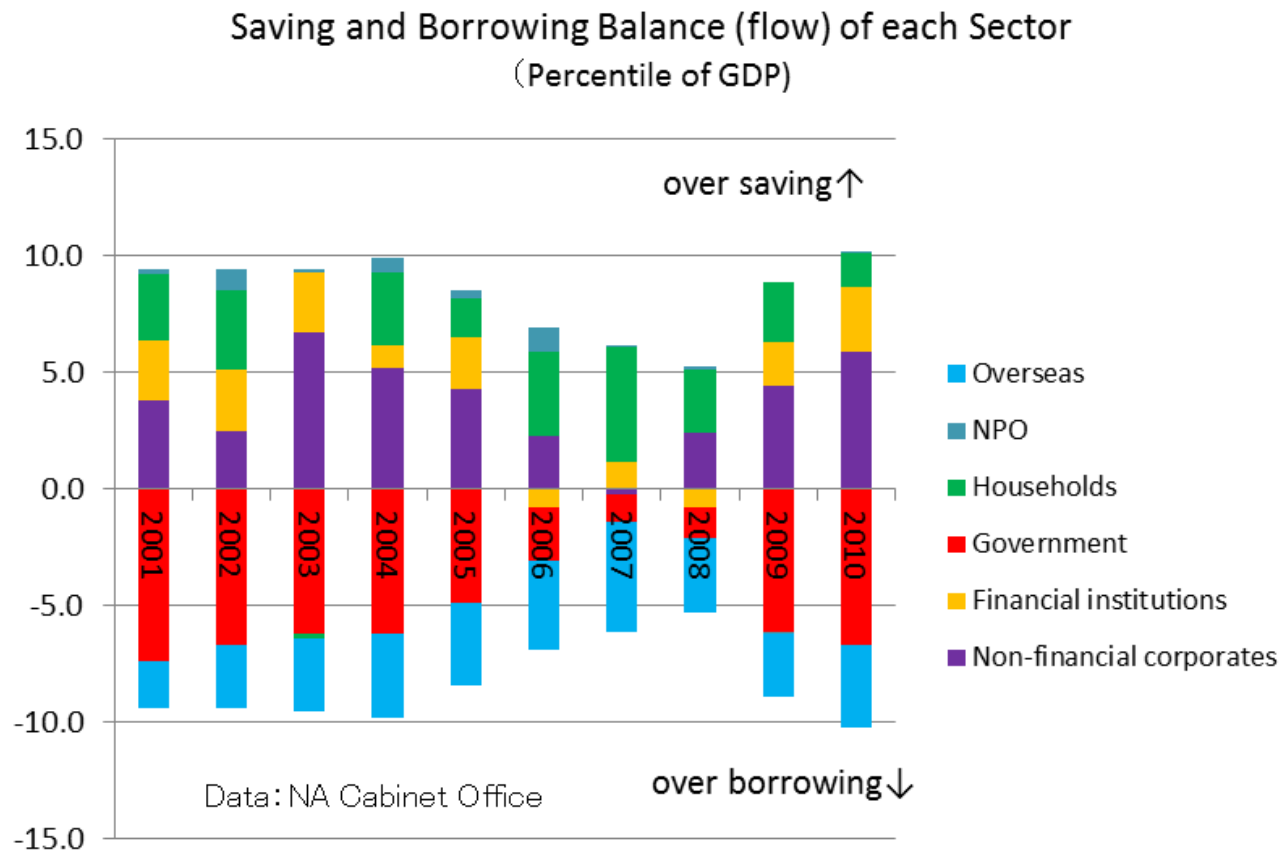
Graph produced by Dai-ichi Life Research Institute based on the UN demographic estimate Takeshi Oomisawa, Dai-ichi Life Research Report, Feb. 2010



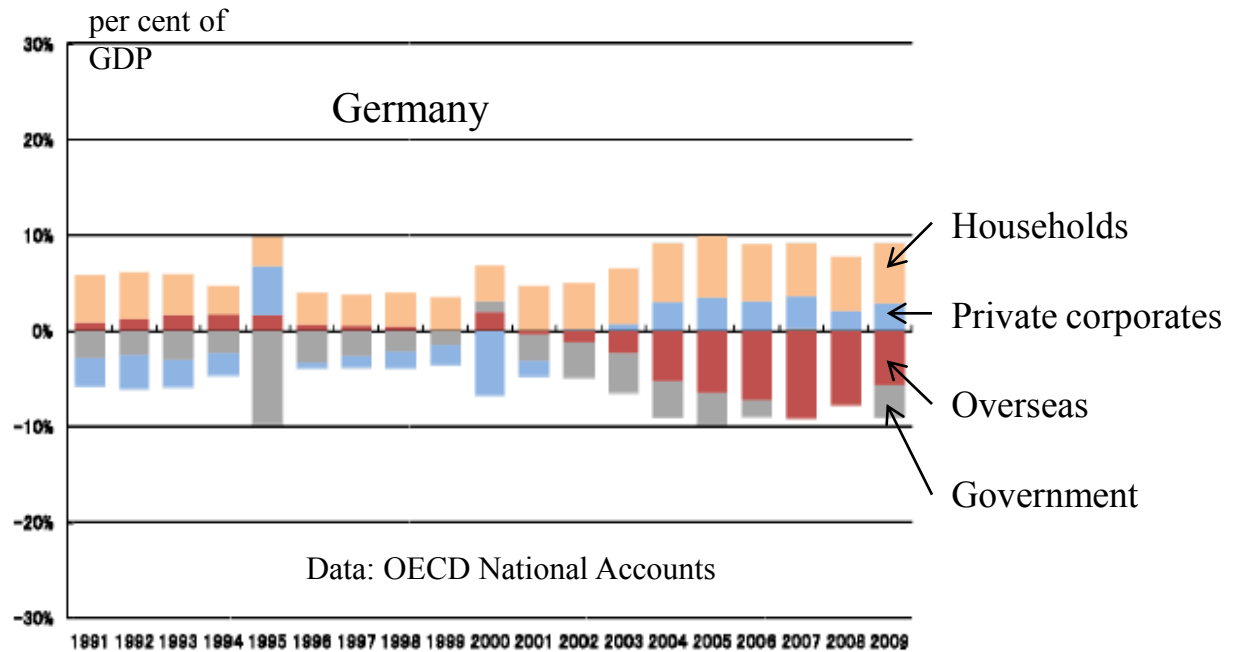
Graph from Nikkei Newspaper dated Oct.28 2012

Are we investing enough for our future?

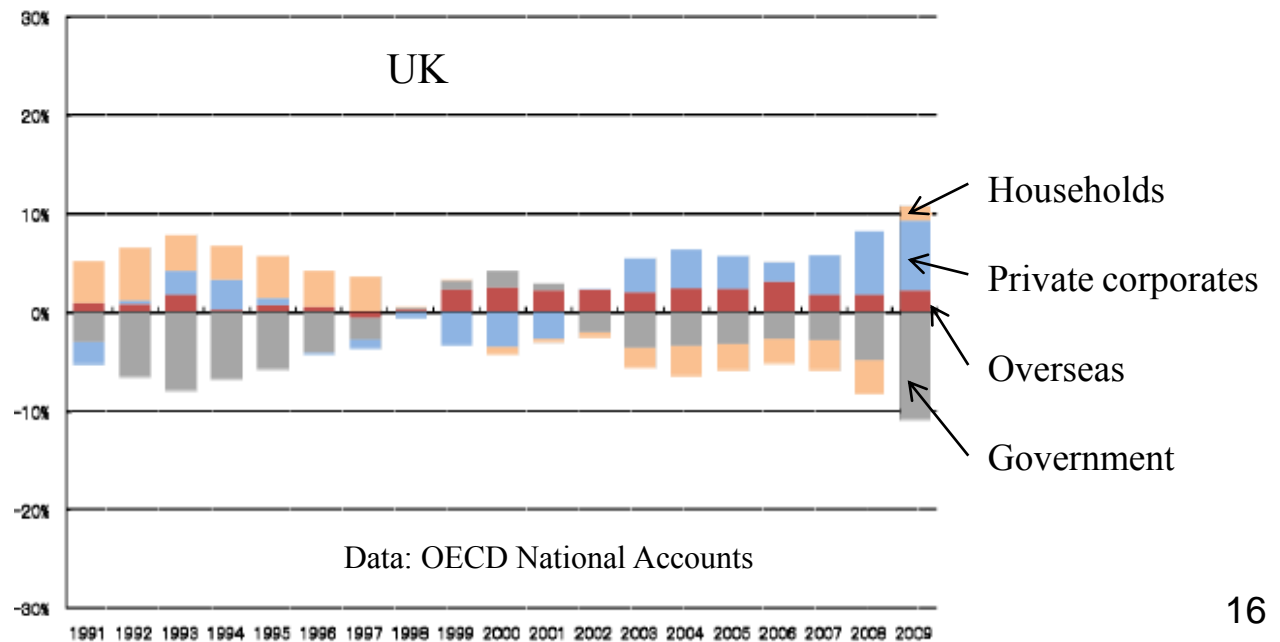
The non-financial corporate sector, which had over-borrowed and invested more than its free cash flow until the early 1990's, turned to over-saving position as well as the households. As a result the government sector is absorbing the domestic savings by issuing the deficit-covering bonds. However there is no assets producing added values on the balance sheet of the government.



We see the same tendency that the corporate sector, which used to be an over-borrowing sector, has turned to an over-saving position in the advanced countries.



Graph from the report “Recent Trend of International Money Flow” presented in the research conference held by Policy Research Institute of Ministry of Finance on Dec.2011

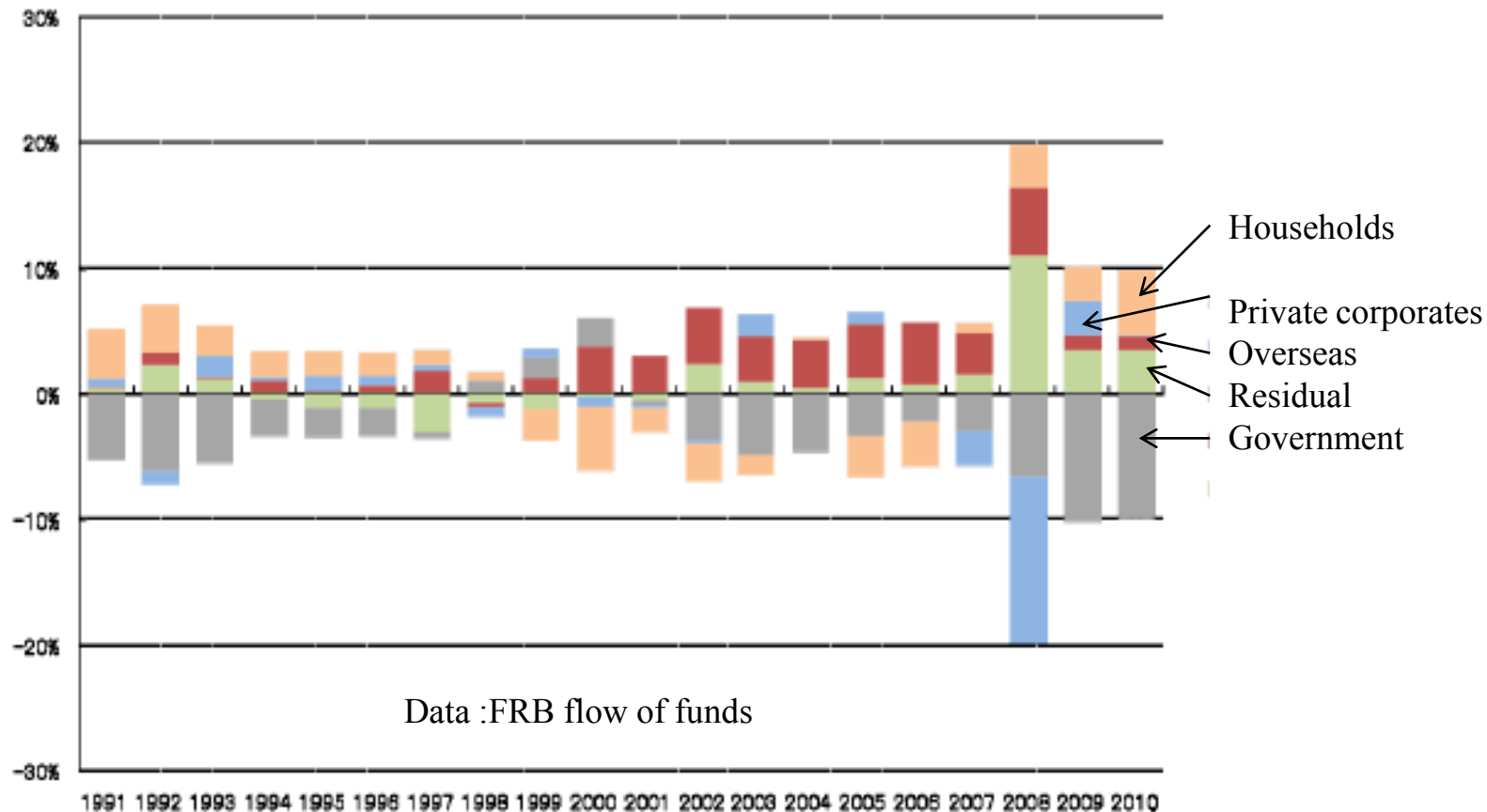


The same tendency as Japan, Germany and UK is not seen in the US.

This may be a positive factor for its economic dynamism.

However we need some reservation as the residual (mismatch of statistics) is very large.

Graph from the report “Recent Trend of International Money Flow” presented in the research conference held by Policy Research Institute of Ministry of Finance on Dec,2011



3, Japan-China Conflict

The dispute over the territorial right for the Senkaku islands by China started in the 1970's after oil and gas fields were found in the near sea.

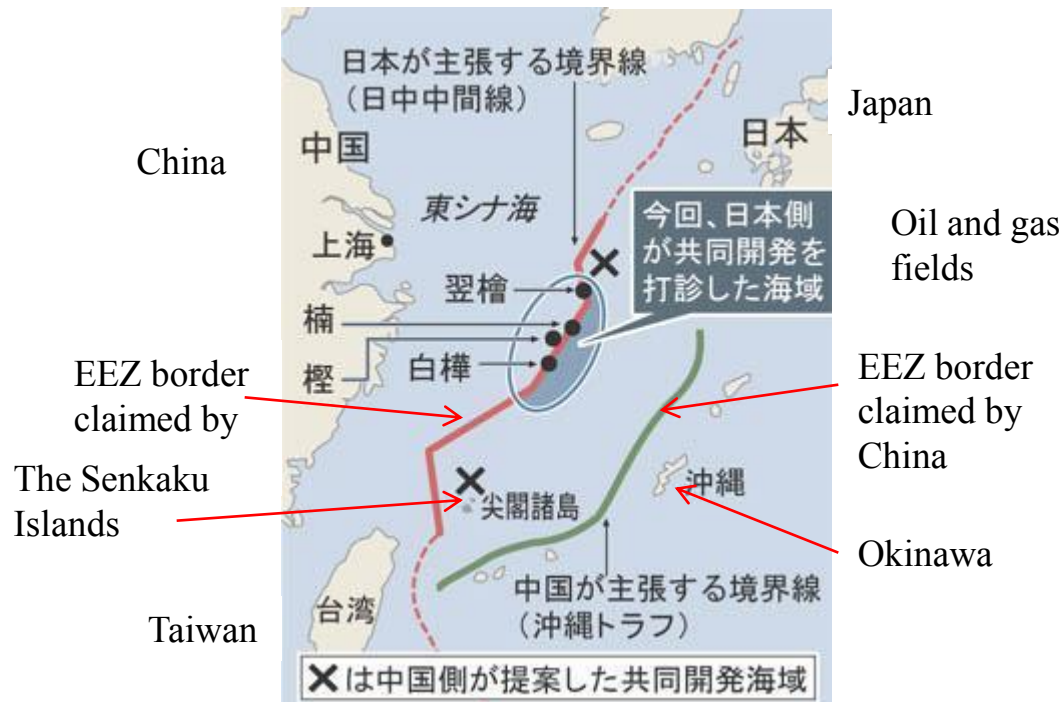
You can read the fact sheet and the view of the Japanese government on this issue at the following web site of MOFA Japan in English and other languages.

<http://www.mofa.go.jp/mofaj/area/senkaku/index.html>

http://www.mofa.go.jp/region/asia-paci/senkaku/qa_1010.html



South Korea



Map from Sankei Newspaper Nov.17. 2007

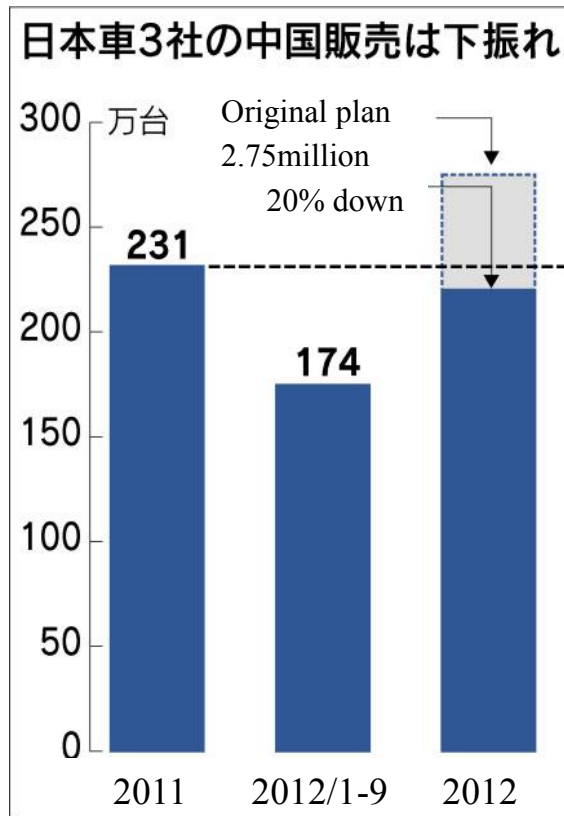
Negative impacts of the anti-Japan movement in China is very reciprocal.

The anti-Japan riots are thought to be related with the 2 factors: ① the frustration of those who are left behind prosperity under the enlarging inequality, ② political battle before the National People's Congress which is finally decided to open on Nov.8.

Can we expect it will calm down after the NPC? Not sure.

Japan Big 3 car makers revised down their car sales prospects 20% in 2012

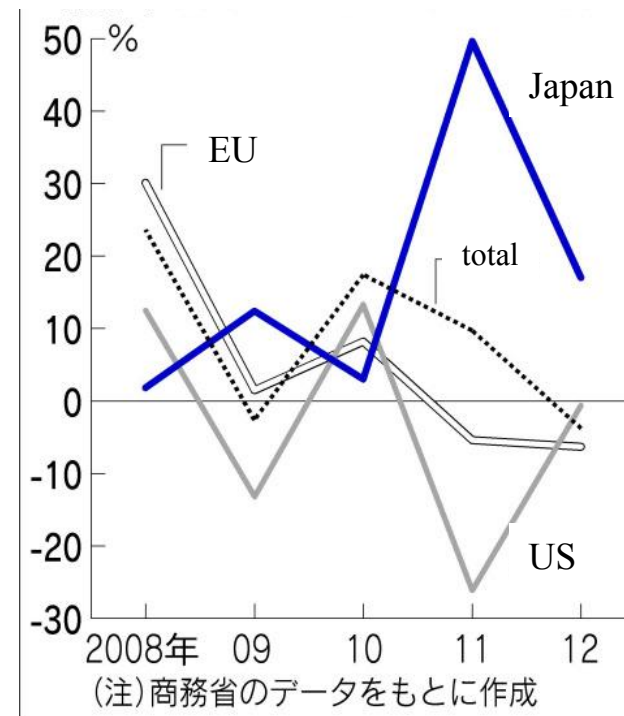
Unit: 10,000 cars
3million →



Nikkei Newspaper dated Oct.27

FDI to China from Japan is slowing down substantially. Major companies are announcing to shift their FDI to other countries in Asia.

Growth of FDI to China (y-o-y)



Nikkei Newspaper dated Oct.24

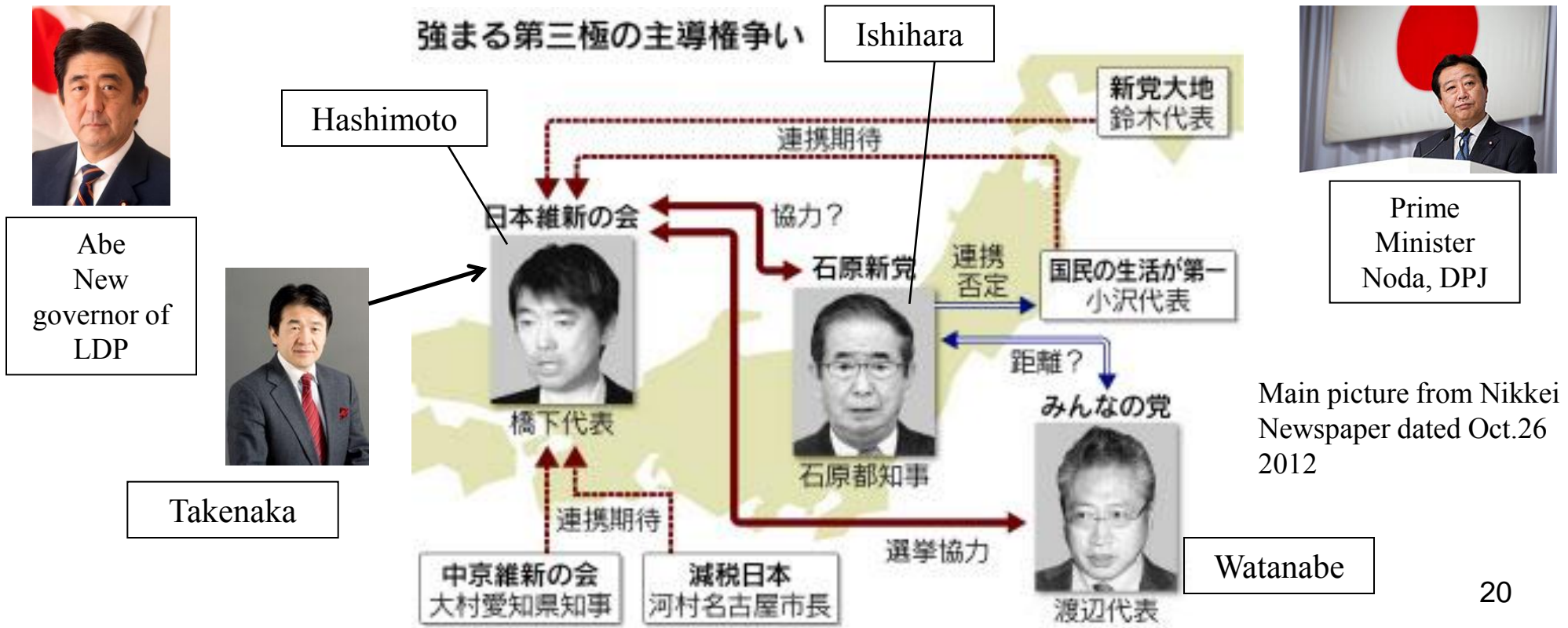
Data: Department of Commerce USA

4, New political movements in Japan

Mr. Ishihara, who has been Governor of Tokyo since 1999 and the most famous right wing politician in Japan, announced to launch a new party seeking collaboration with Mr. Hashimoto who is an emerging politician started as Governor of Osaka.

Hashimoto's party "Japan Ishin" is showing a remarkable momentum using Mr. Takenaka, who was a brain of Koizumi Cabinet, a special adviser.

It is thought inevitable that DPJ will lose the position as a ruling party and LDP will recover the seats substantially at the next general election. The biggest uncertainty is how many seats those new parties get.



Main picture from Nikkei Newspaper dated Oct.26 2012