

Global Watch

January 2010

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The information and the views contained herein are subject to change
without notice.



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§Japanese Economy

1. Overview of the economy

Despite Improvement in the Economy, Many Concerns Remain.

By Shinichiro Kobayashi, Senior Economist

Signs of improvement in the economy are spreading. However, there are still many causes for concern about future trends. These include the still relatively low level of economic activity, excess capacity in the corporate sector, deflation, the appreciation of the yen, and crude oil prices.

Production activities in the corporate sector are continuing on a rising trend. The index of industrial mining and manufacturing production in November rose 2.6% over the previous month, the ninth consecutive month of increases in this indicator, and the level of production has finally exceeded the low point in the previous downturn, which was recorded in November 2001. The forecast index for manufacturing production in December calls for a robust increase of 3.4% over the previous month (with a 1.0% increase also forecast for January 2010). If industrial production rises at the rates indicated by the forecast index figures, a rise of 5.4% will be recorded in the October-to-December quarter, thus continuing the strong upward trend in the index.

The industries driving the recovery are the automobile industry, which is experiencing strong demand both in Japan and overseas; precision machinery; information and telecommunications equipment, including flat-panel TVs; general machinery, where previously recovery was lagging; and other sectors. On the other hand, the electronic parts and devices industry, which had been experiencing an early recovery, is losing momentum and has reported declines in production for two consecutive months.

In contrast with the robust performance of manufacturing industries, data for all industries in total, including the tertiary sector, show only weak recovery. Production activities in manufacturing have recovered about 46% (from February through November 2009) of their margin of decline from the previous peak, and are expected to have regained more than 50% by December. However, the index for activity in the tertiary sector has only regained about 26% (from March through October) of the decline from the previous peak.

Reflecting this difference in improvement among industrial sectors, the diffusion indexes (DIs), which reflect corporate views of business conditions, in the Bank of Japan's Short-Term Economic Survey of Enterprises in Japan (Tankan survey) for December show a

nine-point improvement for large companies in the manufacturing sector, but only a two-point improvement for companies in the non-manufacturing sector. (Responses regarding future trends also reveal a difference, with a six-point improvement for manufacturing and only a two-point improvement for non-manufacturing). Within the manufacturing sector, substantial improvements are continuing for industries receiving the benefits of expansion in exports and economic policies, such as automobiles and electric machinery. On the other hand, in the non-manufacturing sector, reflecting stagnation in industries linked to consumer spending, the services for individuals and restaurants and accommodations businesses are showing larger declines. Note that in the December survey, the DIs for views of business conditions of small enterprises in both manufacturing and non-manufacturing industries showed a large margin of improvement, but this appears to have been the result of a reactionary rebound, following a delay in improvement compared with large corporations. Responses regarding future trends show deterioration for small enterprises in both manufacturing and non-manufacturing, suggesting that these companies are becoming more cautious.

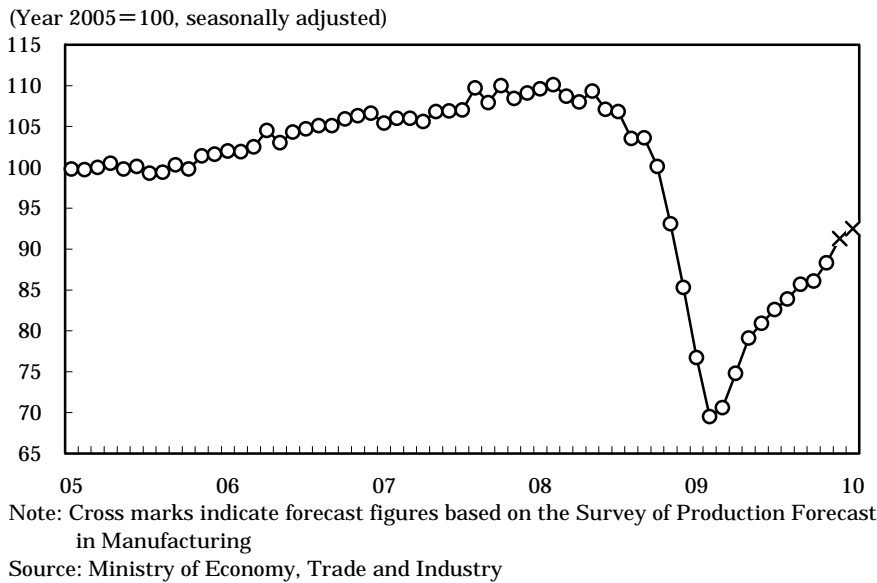
Regarding capital investment for the July-to-September quarter (on a GDP basis), the initial quick estimates showed a movement into the positive range for the first time in six quarters, but, in the second quick estimate, this figure was revised downward to minus 2.8%. In view of the bottoming out in orders for machinery and equipment and the beginning of an upward trend in shipments of capital goods (excluding transportation equipment), capital investment appears likely to begin to rise, at the latest, following the beginning of the new year. However, the feeling among companies that they have excess equipment continues to be strong, and the recovery in investment will probably be weak.

The unemployment rate declined to 5.1% in October, but rose again in November to 5.2%, suggesting a pause in the movement toward improvement. Judging from the fact that corporations have substantial excess personnel, there is a possibility that further cutbacks in staff may be implemented, and there is still no room for optimism in this area. On the other hand, consumer spending is holding firm, driven by sales of big-ticket consumer durable items, such as automobiles and flat-panel TVs. However, since this spending is taking place in an income environment that continues to be harsh, spending on non-durable consumption goods and services is stagnant.

Although signs of improvement in the economy are spreading gradually, these signs continue to be dependent on external demand and the positive effects of government policies. The momentum of improvement in the economy may weaken as increases in reaction to previous declines and the positive effects of economic policies diminish. Therefore, we cannot be optimistic about future trends.

(2010.1.12)

Chart1: Industrial production



2. Topic of the month

Concerns about Return of the “Employment Ice Age” in Labor Markets

By Shinichiro Kobayashi, Senior Economist

In general, when companies make cutbacks in personnel costs, they first reduce overtime hours; then, they reduce the number of non-regular employees by not renewing their contracts as they expire. Also, when necessary, companies suspend operations temporarily and allow natural staff attrition to take place by restraining the hiring of new college graduates and not replacing employees that leave at the specified retirement age. As a last resort, companies may reduce the number of regular employees through the implementation of early retirement programs.

Even in the midst of the current stagnant economic conditions, the percentage of college students who graduated in March 2009 and took jobs remained at a high 95.7%, which was slightly lower than for the previous year (Chart 2). This appears to be because most college graduates had already received job offer letters by fall 2008, just before the economy began to deteriorate sharply. In fact, the ratio of college students with job offers as of October 1, 2008, was higher than for the previous year. As the business environment deteriorated rapidly and employment rose to excessively high levels, corporations were hiring large numbers of new

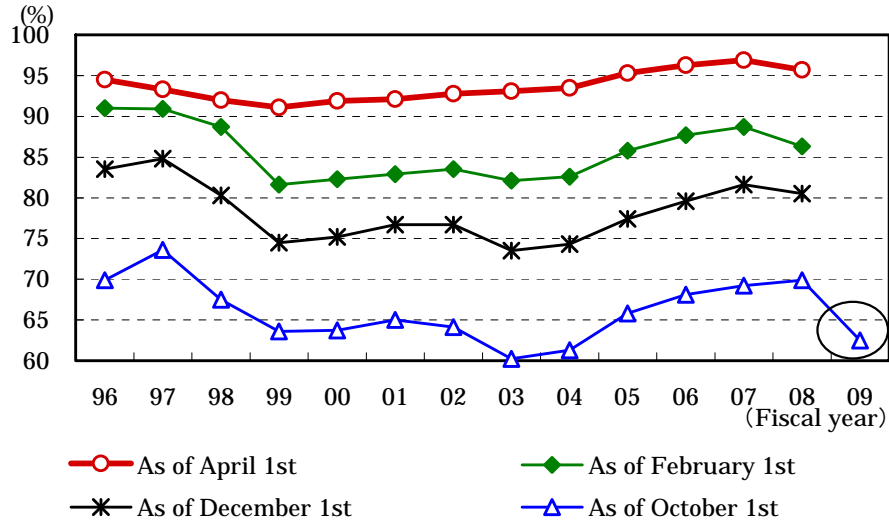
graduates. Although some companies cancelled job offers, the number of companies resorting to this measure was relatively small.

On the other hand, the percentage of students scheduled to graduate in March 2010 who had received job offers as of October 1, 2009, fell sharply to 62.5%, compared with 69.9% in the previous year. As a result of the large increase in new hires in the previous year, the decline in staff due to natural attrition was limited. Therefore, companies found themselves with excessive levels of employment and appear either to have restrained the number of new hires and/or are planning to postpone the employment of additional personnel. From 1998 through 2002, the percentage of new graduates taking jobs dropped significantly, and this was referred to as the “employment ice age.” There are concerns that this percentage may drop to ice age levels again in the coming fiscal year.

As a result of the large cutbacks in the hiring of new graduates, the number of unemployed persons in the younger age categories will increase substantially, and the number of younger people who do not become regular employees of companies but must become so-called “freeters,” who earn their living by taking part-time jobs, will rise. This trend away from becoming regular employees has been under way since the mid-1990s, but the rate of expansion in non-regular employment among younger people is much higher than for all age categories in total (Chart 3). Recently, there has been a slowdown in this trend, and, while the overall ratio remains at a high level, there has been a slight decline. However, going forward, there seems to be a strong possibility that the ratio of non-regular employees will begin to rise again.

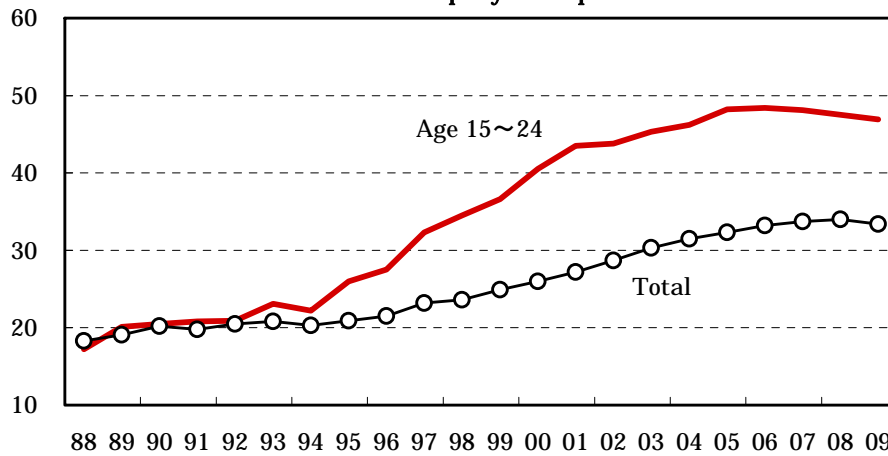
(2010.1.12)

Chart2: The percentage of new graduates who get an official job offer



Source: Ministry of Education, Culture, Sports, Science and Technology

Chart3: The rate of non-regular staff in the total employee, excluding executive of company or corporation



Note: Figures are data as of February before 2001, and the average between January and March afterwards.

Source: Ministry of Internal Affairs and Communications