

# Global Watch

## May 2010

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This is an abstract of our monthly reports on the Japanese Economy. The information and the views contained herein are subject to change without notice.



Mitsubishi UFJ Research and Consulting

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## §Japanese Economy

### *1. Overview of the economy*

**The economy is currently continuing to show improvement, but the momentum is weakening.**

*By Shinichiro Kobayashi, Senior Economist*

The movement toward improvement in the Japanese economy is continuing, and, in some areas, the recovery momentum is growing stronger. Exports and industrial production are continuing to rise and personal consumption is holding firm. In addition, there are growing signs that corporate capital investment as well as the employment and income environments are bottoming out. For the time being, improvement in the economy is expected to continue, but reactions to previous declines and the positive impact of government policies are important factors that are pushing the economy forward. When these factors begin to recede in importance, the momentum of improvement is expected to gradually weaken. Also, there is the possibility that the rising uncertainty in credit markets in Europe stemming from the financial issues in Greece may have an unsettling effect on the Japanese economy.

There is a strong possibility that Japan's GDP data for the January-to-March quarter of 2010, which will be released on May 20, will show a high quarter-to-quarter growth rate of 1%. Although the outlook is for public works investment to decline for the third consecutive quarter, reflecting the weakening of the positive effects of previous economic policies, exports, especially to the rest of Asia, are robust, and the GDP data are believed likely to show continued positive contributions from external demand. Moreover, the data are also likely to indicate firmness in domestic demand as consumption will continue to be strong as a result of the positive effects of government policies, the bottoming out and improvement in private capital investment is expected to continue, and private residential investment is likely to show the first increase in five quarters. Consumption, in particular, is expected to continue firm for the time being owing to the positive effects of government policies, but, in the latter half of the fiscal year, there is a risk that it could decline suddenly as the effects of the policies run their course.

As exports and consumption continue to rise at relatively high rates, mining and manufacturing production in the January-to-March quarter increased 6.7% over the previous quarter. This was even higher than the 6.5% rise in production in the April-to-June quarter of 2009, when the economy bottomed out and began to improve. However, as the month-to-month

data, including figures from the survey of production forecasts, indicate, the momentum of increase in production is showing signs of weakening. For example, although production forecast data call for an increase of 3.7% over the previous month in April 2010, actual month-to-month figures for February and March were -0.6% and +0.3%, respectively, and the forecast for May is -0.3%.

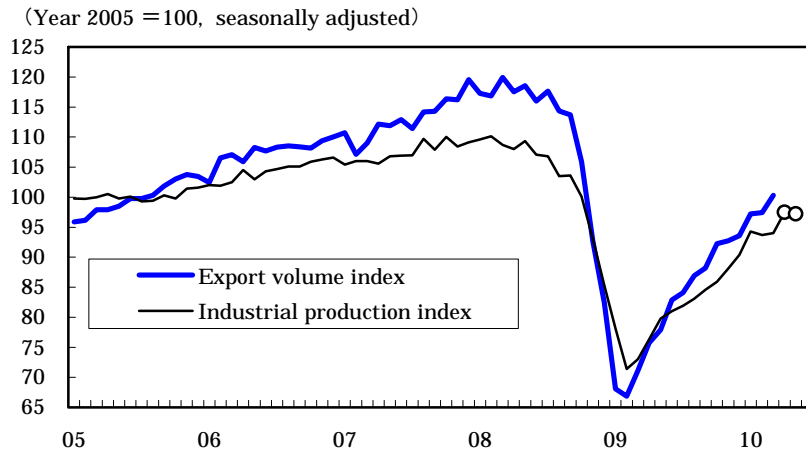
Real exports in March remained on a favorable upward trend, rising 2.8% over the previous month, for their 13th consecutive month-to-month increase. The principal factor supporting growth in exports is continued strong shipments to the rest of Asia. The rising uncertainty regarding credit markets in Europe are believed likely to have relatively little direct impact on Japan's exports. Nevertheless, if uncertainty about credit conditions results in financial instability as a result of declines in stock prices and problems for financial institutions, it is conceivable that this could hobble the recovery in the world economy. Therefore, due caution is needed regarding the risk that such a chain of negative events would present for exports.

Employment conditions, after moving out of the worst phase of the downturn, are continuing to improve; however, tough conditions are continuing as reflected in the rise in the unemployment rate from 4.9% in January and February to 5.0% in March. On the other hand, total worker cash salary payments in March were 1.0% above the same month of the previous year, the first year-to-year increase in one year and 10 months. Regularly scheduled compensation payments showed a smaller margin of decline than in the previous month, and, mainly in the manufacturing sector, non-scheduled compensation increased, thus bringing an overall rise in wages. Although no major increases in compensation are expected from now on, the fact that the brakes have been put on the slide in compensation will be a positive factor for consumer psychology.

Consumer spending remains on firm ground. According to the March Survey of Households, real consumption (for households of two-or-more persons) was up a sharp 5.9%, as households bought flat-panel TVs and automobiles. Although employment and income conditions are improving, it appears that much of the momentum is being created by the positive effects of government policies.

(2010.5.13)

Chart1: Industrial production and Export volume



Note: Circle marks indicate forecast figures based on the Survey of Production Forecast in Manufacturing.

Source: Ministry of Economy, Trade and Industry, Ministry of Finance

## 2. Topic of the month

### The potential market for flat-panel TVs is still substantial.

*By Kazuyoshi Nakata, Economist*

Since the government's eco-point system for purchases of electric appliances was introduced in May 2009, domestic shipments of flat-panel TVs have remained on a strong upward trend, and sales accelerated further in March (Refer to Chart 2.). The principal reason for this was that, along with the revision in criteria for energy saving in April, demand surged as the prices of items that will no longer be eligible for eco-points were reduced.

Reflecting this upward trend in sales, the ownership ratio of flat-panel TVs (according to data that include single-person and all other households) rose from 49.7% at the end of fiscal 2008 to 63.4% at the end of fiscal 2009. Along with this, the number of flat-panel TVs per 100 households rose from 68.2 units to 94.8 (Refer to Chart 3.). The increase in units per 100 households of 26.6 over this period was greater than the rise in the ownership ratio of 13.7 percentage points. This suggests that the number of households with more than one flat-panel TV is rising.

On the other hand, the number of conventional TVs with picture tubes per 100 households has declined from 146.2 units to 120.0 units, but it is still higher than for flat-panel TVs. The total number of conventional TVs is estimated to be about 62 million, on the

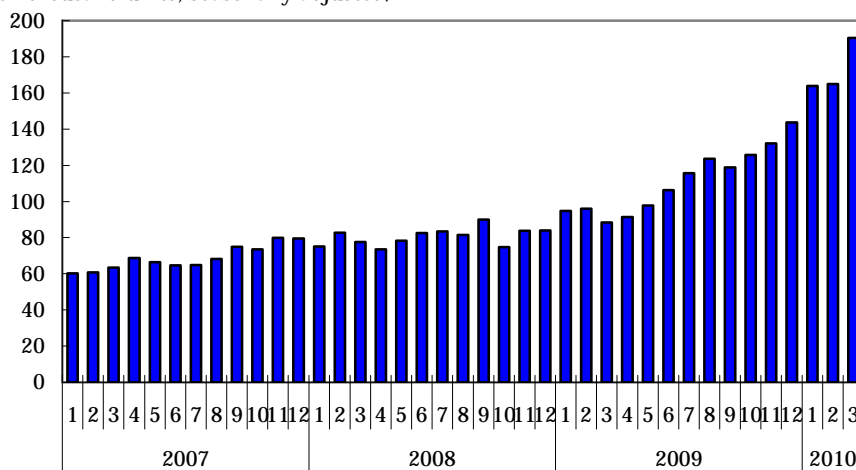
presumption that the total number of households is about 50 million (based on Household Projection for Japan, published by the National Institute of Population and Social Security Research). It is unlikely that households will replace all of these before the termination of analog TV broadcasting in July 2011, but these figures suggest the existence of substantial latent demand for flat-panel TVs to replace conventional TVs.

Looking to July 2011, demand for flat-panel TVs among the approximately 18.3 million households that do not own one at present is likely to emerge, but it will be only about 30% of total demand. Instead, most latent replacement demand will be for buying second TV sets by households that already have flat-panel TVs. The factors of the timing and the volume of demand for purchasing second sets, or even more flat-panel TVs, will determine how strong sales of these TVs will be going forward. These factors will also hold the key to how serious the slump in demand will be following the termination of the government's eco-point system for electric appliances.

(2010.5.13)

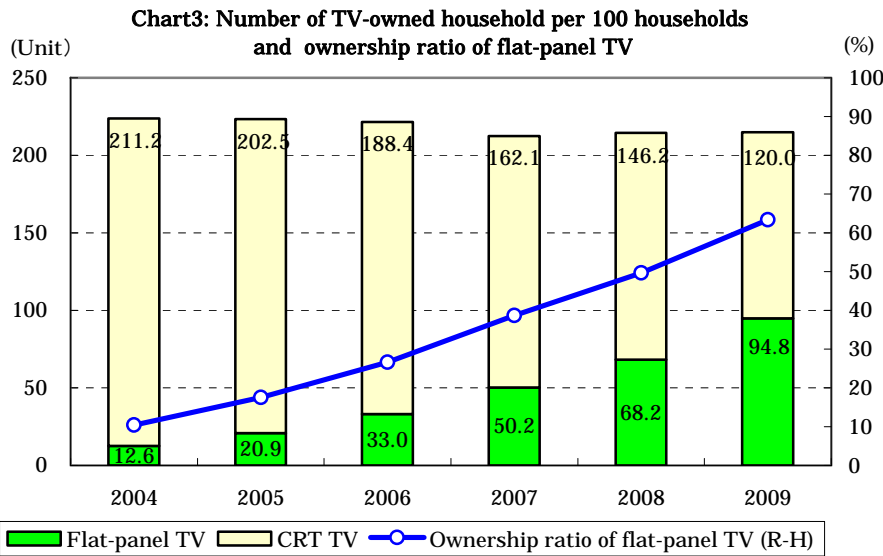
**Chart2: Domestic shipment of flat-panel TV**

(Ten thousand units, seasonally adjusted)



Note: Seasonal adjustment is carried out by our own.

Source: Japan Electronics and Information Technology Industries Association



Note: Figures are as of the end of each fiscal year. Data covers all household including single households. Source: Cabinet Office

## §Chinese Economy

### Inflationary pressures are rising steadily.

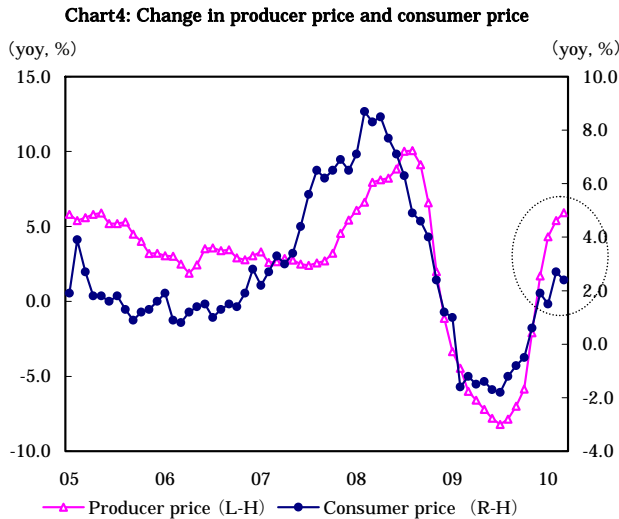
*By Mariko Noda, Economist*

Regarding inflation trends seen in March, in the upstream producers' prices rose a substantial 5.9% over the same period of the previous year, while in the downstream consumer prices rose 2.4% year on year in March, which was 0.3 percentage point lower than the figure for February (Refer to Chart 4). With these figures, some hold the view that China's current economic recovery is led by capital investment and that, if prices of food products, which have a weight of more than 30% in the consumer price index, remain stable, there is little possibility that the rate of increase in consumer prices will accelerate.

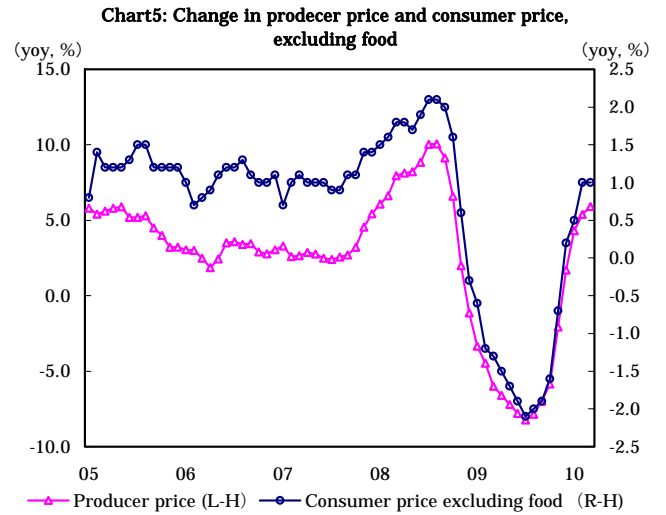
Nevertheless, the consumer price index (CPI), excluding food product, is on an accelerating trend similar to that of producers' prices (Refer to Chart 5). In addition, movements in the GDP deflator, which indicates the trends in prices in the economy as a whole, and those of CPI are mostly parallel, despite the fact that there is a slight divergence between the rate of increase in the two indexes, reflecting the current transition to a service economy in China (Refer to Chart 6). Thus, along with the recent expansion in the economy, inflationary pressures

should be rising steadily. The rate of increase in the price level will be moderate if stability in food prices is maintained, but if the increase in other prices, which make up 70% of the weight in the index, continues, it is quite certain that consumer prices will also begin to rise at a faster rate than now.

(2010.4.28)



Source: CEIC



Source: CEIC

