

Global Watch

July 2010

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§Japanese Economy

1. Overview of the economy

The Japanese economy is continuing to recover, but concerns persist about a weakening going forward.

By Shinichiro Kobayashi, Senior Economist

The Japanese economy has moved through a phase of improvement to recovery.

According to the Bank of Japan (BOJ)'s Tankan survey (Short-Term Survey of Enterprises in Japan) for June, the diffusion index (DI) for measuring sentiment regarding business conditions among large companies in the manufacturing sector rose 15 points from the previous survey, to 1, for the fifth consecutive quarterly increase. Background factors accounting for this include the favorable growth in exports to emerging countries and the strong sales of consumer durables as a result of the positive effects of government policies. This was the first time in two years, since the June survey of 2008, that the DI for views of business conditions has been positive, the last time being the June survey of 2008. The DI of large companies in the non-manufacturing sector rose 9 points from the previous survey, to -5. The DI measuring views of economic conditions among small and medium-sized companies is also continuing to improve. The trend toward recovery has spread from export-oriented companies and other specific industries to a broad range of industrial categories.

Nevertheless, the growth still remains dependent on exports and the positive effects of government policies. Private consumption, in particular, is expected to continue to be firm for the time being because of the positive impact of government measures, but the risk of a sudden downturn remains as the effect of these policies wears off in the latter half of the current fiscal year. In addition, there are lingering concerns that the rising uncertainty in credit markets in Europe set off by the fiscal crisis in Greece may also have an impact on Japan's exports. For the time being, economic recovery is expected to continue, but, going forward, the momentum is likely to weaken gradually.

Signs of weakening can be seen in a number of indicators. First, the Industrial Production Index in May declined, albeit by a small margin of 0.1%, mainly because of decreases in production in the transportation equipment and certain other industries. The Production Forecast Index calls for increases in June and July of 0.4% and 1.0%, respectively, which represents a clear decline in momentum compared with the rates of increase through the end of the previous fiscal year. In fact, there is a possibility that industrial production

growth may turn negative. The recovery trend in the general machinery, electric machinery, and certain other industries, where demand is improving in Japan and overseas, is expected to continue. However, momentum is weakening in the steel, electronic parts and devices, transport equipment, telecommunications equipment, and certain other industries where the strength of the recovery trend is gradually moderating.

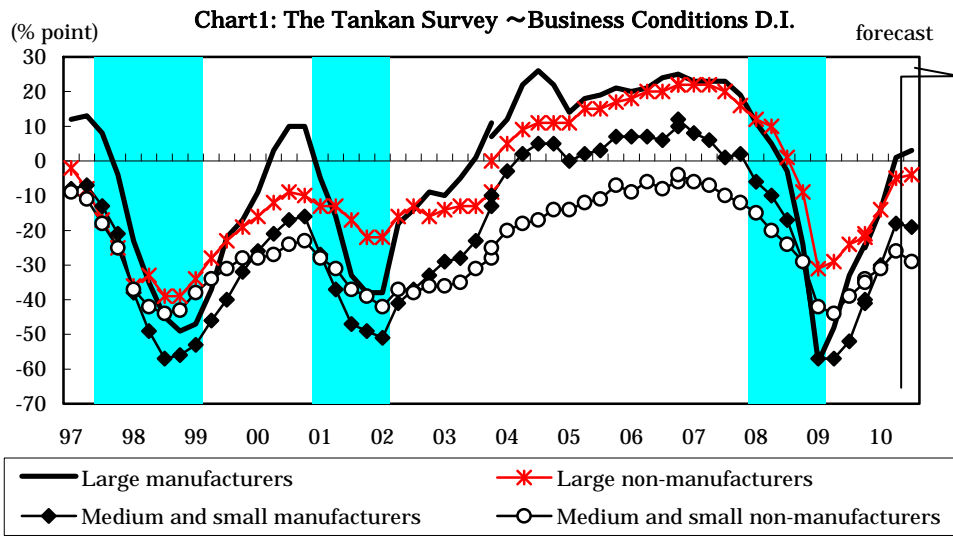
Turning next to exports, in May, real exports rose 0.9% over the previous month, the 15th consecutive monthly increase, but the rate of expansion was relatively low. The momentum of exports to the rest of Asia, which had been strong, is beginning to pause. Thus far, there have been no signs of a negative impact on exports of the increase in credit market uncertainties in Europe. However, the yen is appreciating along with these rising concerns, and there is a possibility that this may have a negative effect on Japan's exports.

Trends in corporate-sector capital investment are relatively weak. On a real GDP basis, private capital investment has increased over the previous period for two consecutive quarters, but the rate of increase has been small. According to the BOJ's Tankan survey in June, in fiscal 2010, large companies in the manufacturing and non-manufacturing sectors are planning to increase capital investment by a moderate 3.8% and 4.6%, respectively. However, if we take into consideration the fact that capital investment posted major declines during the previous two fiscal years, recovery in the drive to make capital investments among large corporations is still weak.

Employment conditions have moved out of the worst phase of the downturn but remain tough. The unemployment rate in May stood at 5.2%, after deteriorating for the third consecutive month. Also, total cash compensation per worker in May showed a decline of 0.2%, the first decrease in three months. The margin of decline in scheduled wages has diminished, and unscheduled compensation, principally in the manufacturing sector, rose, thus pushing the overall wage level upward, but special wage payments posted a steep decline. As a result of the recovery in industrial production, the positive impact is beginning to permeate down to the household sector, but the pace of improvement in employment and incomes remains moderate.

Consumer spending is continuing to show improvement, especially for durable goods, including automobiles and flat panel display (FPD) TVs. The index of consumer attitudes, which measures the state of consumer psychology, rose for the fifth consecutive month in May. However, concerns remain regarding a possible loss of momentum in the latter half of the fiscal year.

(2010.7.7)



Note: Shaded areas indicate the recession periods according to the Cabinet Office.
 Due to revision, data are not comparable before and after March 2004,
 March 2007 and March 2010
 Source: Bank of Japan

2. Topic of the month

Concerns about a further decline in the birthrate

By Miki Ohata, Economist

Since 1980, the total fertility rate (the average number of children that a woman bears during her lifetime, hereinafter “TFR”) in Japan is continuing on a downward trend. In 2005, TFR fell to a low point of 1.26, and after that, increased over the subsequent three years. Nevertheless, the increase in TFR paused in 2009 at 1.37, the same rate as in 2008.

By age categories of five years, each shows that in 1980, TFR was highest in the 25-to-29 age category, standing at 0.91. In 2009, however, TFR of the 20-to-29 age category had declined significantly, while there was only a slight increase in TFR of the 30-to-49 age-group. In 2009, TFR was highest in the 30-to-34 age category, but it was only 0.47, and did not compensate for the decline in TFR among women in their 20s (Chart 2).

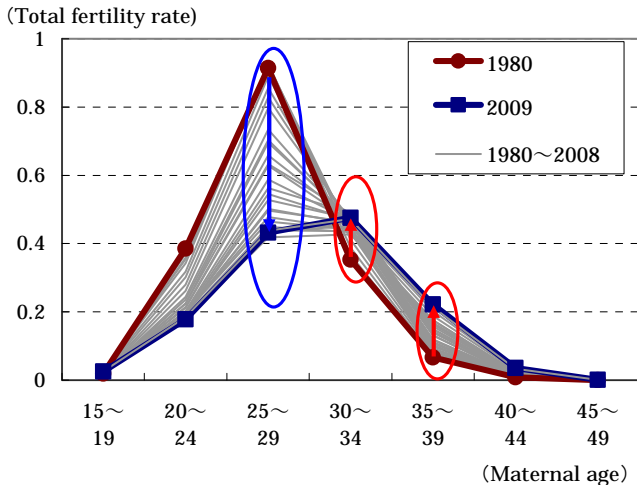
The tendency for women to have children later in life is strongly influenced by the trend to marry later, and this has brought the long-term downward trend in TFR. In 1980, the average age for women to marry was 25.2 years, but in 2009, it had risen by more than 3 years,

to 28.6 years. In addition, the time between marriage and having the first child has grown longer (Chart 3). In 1980, about 80% of women had their first child within two years after marriage, but in 2009, this percentage had dropped to 60%. Whereas the percentage of women who gave birth to their first child three years or more after marriage had risen to more than 20%. In this way, the average age of first marriages for women has risen, so the period when they are able to bear children after marriage is diminishing. Also, the time between marriage and the birth of the first child is lengthening. As a result, the number of children is unavoidably declining.

The rise in TFR in recent years may be a reflection of the fact that the sons and daughters of Japan's postwar baby boom generation have reached their 30s. For this reason, we cannot conclude that the trend toward having fewer children per family is moderating now, and there is a strong possibility that TFR will begin to decline again. Looking ahead, with the aim of increasing TFR and making basic improvements that will reverse the trend toward fewer children per family, it will be essential to create social systems that will make it easier for women to bear and raise children.

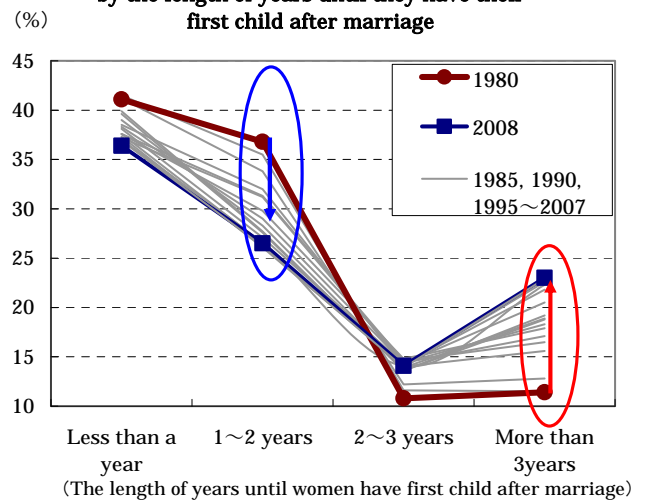
(2010.7.7)

Chart2: Total fertility rate by maternal age group



Source: Ministry of Health, Labour and Welfare

Chart3: The percentage of women who have children by the length of years until they have their first child after marriage



Source: Ministry of Health, Labour and Welfare