

Global Watch

February 2012

CONTENTS

§ Japanese Economy

1. Overview of the economy

The Movement toward Improvement in the Economy Is Continuing, but the Pace of Recovery Is Slowing. 1

2. Topic of the month

Unemployment Insurance Payments Finally Coming to an End 3

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

Economic Research Department

§Japanese Economy

1. Overview of the economy

The Movement toward Improvement in the Economy Is Continuing, but the Pace of Recovery Is Slowing

By Shinichiro Kobayashi, Senior Economist

The trend toward economic recovery is continuing, but the impetus created by recovery in supply capacity accompanying reconstruction in the wake of the Great East Japan Earthquake has paused and the pace of recovery is moderating. However, looking forward, some bright spots are emerging.

The real GDP growth rate (preliminary estimate) for the October-December quarter, announced on February 13, was -0.6% compared with the previous quarter. The principal reasons for negative growth were the drop in exports and public works investment. Data on private-sector demand—namely, personal consumption and private capital investment—maintained positive growth, but their contributions were not sufficient to make up for the slump in exports and public works investment. The latest GDP data allow us to confirm that the pace of recovery has moderated temporarily.

However, there are some bright signs going forward. Industrial production in December rose 3.8% over the previous month, in part because of major increases in the automobile and other industries, which were in reaction to the decline in production in the prior month caused by the flooding in Thailand. Since the summer months, production has remained virtually level within a narrow range, but, according to surveys of production forecasts, looking ahead, the outlook is for production to continue on a rising trend (with a 2.5% month-to-month rise in January and a 1.2% rise in February). According to trends in quarterly data, although production in the October-December quarter decreased 0.4% along with the weakening of the pace of recovery in the economy, there is a strong possibility that production will turn upward in the January-March quarter.

Another consideration is that inventories, which had been building previously, have now fallen for two consecutive months, suggesting that inventory adjustments are gradually being completed. Although inventory levels remain high, and there is a possibility that adjustment may continue for some time, the pressures to restrain production will gradually weaken.

Exports in real terms in December rose 1.1% over the previous month, the second

consecutive month-to-month increase. Automobile exports, which were delayed by the effects of the flooding in Thailand, are showing improvement. Indexes of exports in volume terms by region show that shipments to the United States, mainly of automobiles, are rising sharply and that exports to Asia are recovering.

On the other hand, trends in private capital investment are continuing to be weak. Orders for machinery (private demand, excluding shipping and electric power industries), which are a leading indicator for capital investment, rose a sharp 14.8% over the previous month in November, but recently, they have fluctuated without any signs of full-scale increases in evidence. Demand for reconstruction after the earthquake disaster is believed to be emerging, but, in part because of the appreciation of the yen, corporations are continuing to take a conservative stance toward investing.

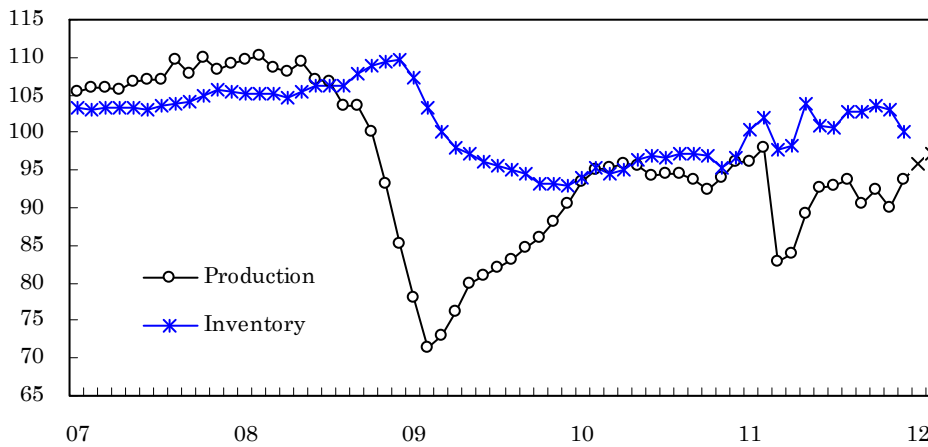
According to the household expenditure survey (covering households of two-or-more persons), real consumption in December slipped 1.0% from the previous month, for the second monthly decline. However, automobile sales are continuing to be strong, and trends, in general, suggest that consumption has not lost its underlying momentum. Nevertheless, the unemployment rate in December rose to 4.6% (one percentage point over the prior month), suggesting the pace of improvement in employment conditions is still weak. Improvement in income conditions is also weak, as evidenced by the 0.2% month-to-month decline in workers' total cash compensation in December, the second consecutive drop in this indicator. These indicators show that uncertainty remains regarding future trends in consumer spending.

Depending on trends in overseas economies, the risks that exports will decline and corporations will implement full-scale production adjustments have not been ruled out. However, in December, the value of public works construction contracted rose year on year for the fifth consecutive month. This and other indicators suggest that demand for reconstruction work, mainly public works investment, will give the economy a boost going forward. In addition, when we consider that it appears that production and sales of automobiles will remain favorable, there is a strong probability that the economy will avoid a loss of momentum.

(2012.2.10)

Chart1: Index of Industrial production

(Year 2005 = 100, seasonally adjusted)



Note: Cross marks indicate forecast figures based on the survey of production forecast in Manufacturing.

Source: Ministry of Economy, Trade and Industry

2. Topic of the month

Unemployment Insurance Payments Finally Coming to an End

By Miki Ohata, Economist

We are approaching the one-year mark since the Great East Japan Earthquake, but there are clear signs that reconstruction and recovery in the regions stricken by the disaster are lagging behind initial plans, and conditions in the labor environment there remain tough. In the three prefectures where the damage was the severest (Iwate, Miyagi, and Fukushima prefectures), the number of unemployed persons stood at approximately 120,000 as of December 2011. In the stricken areas, the sharp increase in the number of new job offers that occurred immediately after the disaster has subsided, and various kinds of mismatches have emerged between the workers that companies are looking for and workers actually available in the labor market. Therefore, the re-employment of jobless workers is not necessarily proceeding smoothly. Amid these conditions, unemployment benefits of employment insurance are providing important support for the livelihood of the people in the stricken areas. The number of beneficiaries in the three hardest-hit prefectures mentioned previously (general

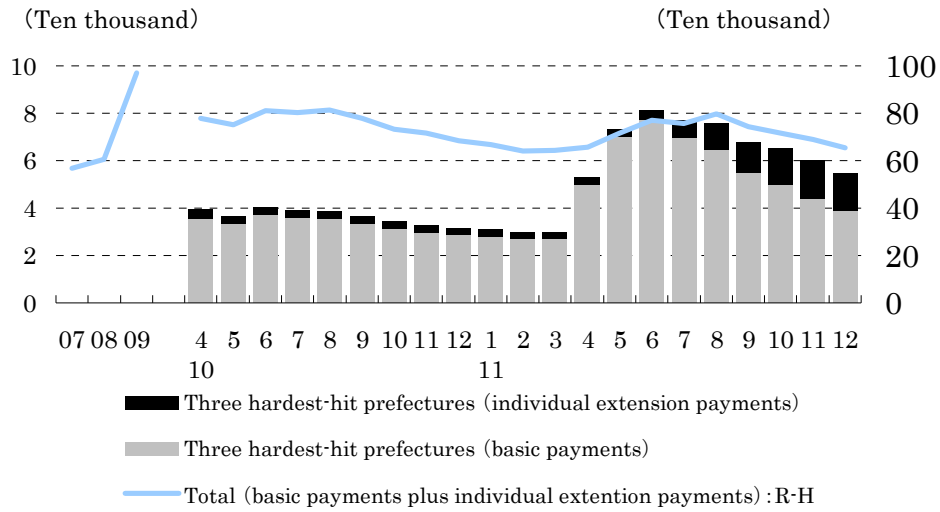
insured, including workers covered by individual insurance payment extensions) increased to more than 80,000 in June. Even after that, however, as of December 31, 2011, it remained at a relatively high level of 54,924 (Chart 2).

Previously, the number of days for the general insured to receive the basic allowance of unemployment benefits was set between 90 and 360 days depending on the term of insurance coverage, their age at the time of leaving their jobs, their reasons for leaving employment, and other factors. At the end of March 2009, because of the major deterioration in employment conditions following the collapse of Lehman Brothers, unemployment benefits were extended by 60 days. In addition, following the Great East Japan Earthquake, the period for benefits was extended, mainly in specified areas affected by the disaster, by 60 in May 2011 and by a further 90 days in October. However, even though labor conditions have shown little or no improvement in the stricken areas, the number of days for receiving unemployment benefits has not been extended further, and the period for payments is beginning to approach the termination date.

In fact, if we examine the three hardest-hit prefectures, we find that after rising to a peak in the post-disaster period of 31,423, the number of initial beneficiaries receiving the basic allowance (an increase of 255.3% year on year) in May 2011, the number has declined to 4,356 in December, a figure that was actually 21.4% lower year on year. On the other hand, the number of individual insurance payment extensions is rising, and stood at 3,642 in December, representing an increase of 297.6% year on year and well above the previous year (Chart 3). In the disaster-stricken regions, people who lost or left their jobs had severe difficulty in finding new employment, and it is clear that special measures in the form of extensions of unemployment benefits of employment insurance have played a major role in supporting the livelihood of unemployed persons. It is difficult for persons whose lives have been affected by the disaster to recover from the psychological shock, and, if their benefits are cut off before conditions in the labor environment improve, these persons will be facing very difficult living conditions.

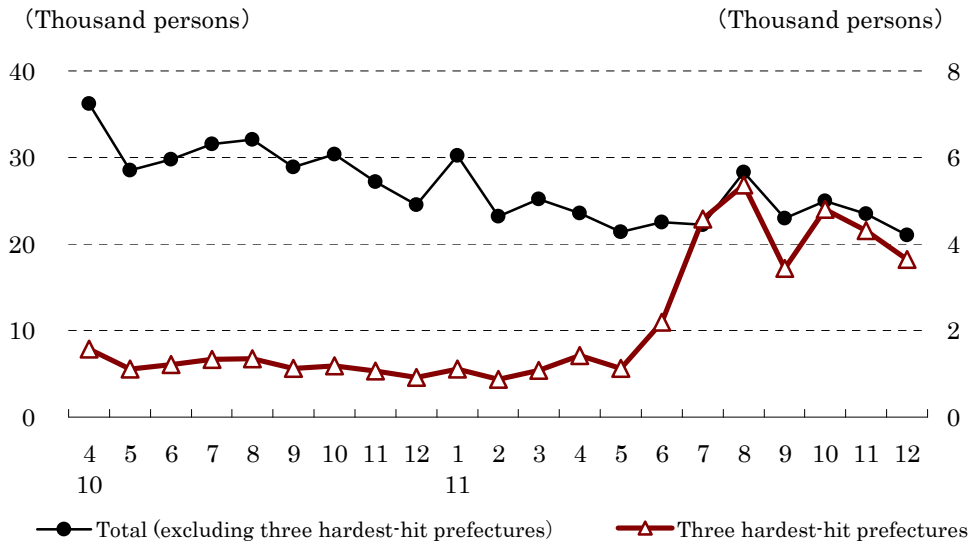
(2012.2.10)

Chart2: Number of persons receiving unemployment insurance payments



Note: Figures between 2007 and 2009 are the average of each fiscal year.
 Source: Ministry of Health, Labour and Welfare

Chart3: Number of persons receiving individual extension payments for the first time



Source: Ministry of Health, Labour and Welfare