

# Global Watch

## August 2012

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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**

Economic Research Department

## §Japanese Economy

### 1. Overview of the Japanese Economy

#### Conditions Are Showing Improvement at a Moderate Pace.

*By Shinichiro Kobayashi, Senior Economist*

As domestic demand continues to be firm, the Japanese economy is improving gradually. However, the risk that the economy may enter a period of temporary stagnation going forward should be given careful attention.

The index of industrial production in June declined 0.1% from the previous month, for the third consecutive monthly decrease. Although the size of the decline is marginal and there is a possibility that the final figures may show a rise, if we take into account the fact that the forecast index for production in the manufacturing sector called for a large turn upward of 2.7% in planned production in June, these figures give a strong impression that production activities in the manufacturing sector have weakened. As a result, industrial production in the April-June quarter decreased 2.2%, the first decline in four quarters. The forecast index for production in July indicates that manufacturers are planning to raise production by a sharp 4.5% over the previous month (followed by a decline of 0.6% in August), but recent data indicate that actual production is tending to fall below planned levels, and there is a strong possibility that the actual increase may be substantially below planned levels.

Factors accounting for the weakness in production include, first, the peaking out of automobile production as manufacturers were forecasting that the allocation for government subsidies for purchases of eco-cars would soon be fully used up. The second factor is that the improvement in exports is delayed.

Exports in real terms in May and June were below the level of the previous month. Automobile exports to the United States are continuing to be steady, but exports of steel, chemicals, and other products to Asia remain stagnant. When we consider that the pace of recovery in overseas economies is weakening, we cannot expect a steady improvement for some time.

Despite the slump in production in the April-June quarter, we believe that it is likely that real GDP growth has been positive over this period. The factors accounting for this divergence between trends in the overall economy and the manufacturing sector are the strength of the increase in public investment and expenditures on services, such as travel, which have little direct impact on production.

The positive effects of the government's third supplementary budget for fiscal 2011 are now being felt in public investment, and the upward trend is being sustained. In June, year-on-year

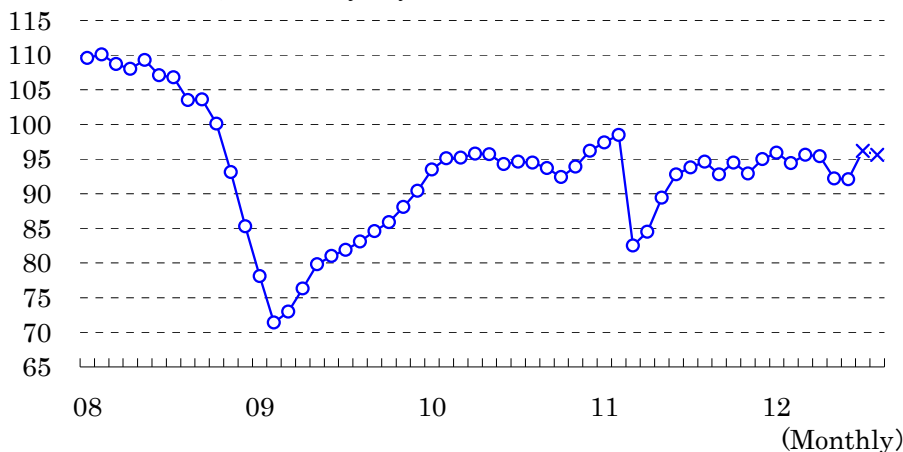
growth in the value of public works contracted was 14.1%, thus continuing at a high level. There is a strong possibility that, at least through the July-September quarter, public investment in the GDP statistics will rise over the previous quarter.

Employment is improving at a moderate pace. The ratio of the number of job offers to job seekers is rising steadily, and the unemployment rate declined to 4.3% in June. On the other hand, the income environment lacks strength, as evidenced by the fact that total cash compensation per worker in June decreased 0.6% from the previous month for the second consecutive monthly decline. In particular, non-scheduled wages in June, which contain the summer bonuses, were below the level of the previous year, and there is concern about the repercussions of this on consumption.

It was expected that there would be a surge in demand for automobiles in advance of the drying up of subsidies for eco-cars. However, as of July, there had not been any conspicuously sharp rise in automobile sales, and it appears that the allocations for these subsidies may not be used up during September. Even so, it is still true that some demand has been brought forward, and a temporary drop in the sales and production of automobiles will be unavoidable. If trends in exports remain weak, there will continue to be a risk that the economy will move into a period of temporary weakness. (2012.8.8)

**Chart 1: 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, "Indices of Industrial Production"

## 2. Topic of the Month

### Is It Correct that Wedding Rings Should Be Made of Platinum Rather than Gold?

*By Miki Ohata, Economist*

There may be many people who have decided on buying wedding rings made of platinum. Examination of retail prices in jewelry stores indicates that, for the same types of accessories, in almost all cases, those made of platinum are more expensive than those made of gold.<sup>1</sup> However, in commodity markets, since fall 2011, when the European fiscal and financial crises took a turn for the worse, gold prices have consistently exceeded platinum prices (Chart 2). Since the year 2000, data shows that gold prices have been on a consistently rising trend, but platinum prices, after a surge in early 2008, dropped substantially after the collapse of Lehman Brothers, resulting in a sudden shrinkage in the differential between gold and platinum prices. Compared with gold, prices of platinum are subject to wider fluctuations. Especially when the world economy slows or when there are concerns about a slowdown, platinum prices tend to drop significantly. In fact, the coefficient of fluctuation (historical volatility) in 2008 for platinum was 35.6%, while that for gold was 25.3%<sup>2</sup>.

One of the reasons why there are differences in the volatility of gold and platinum prices is the difference in the composition of demand for these two metals (Chart 3). For many years, the largest demand for gold came from the jewelry industry. In 2011, jewelry demand accounted for about 43% of the total demand for gold. Moreover, in recent years, demand for gold as an investment has been expanding. On the other hand, although the jewelry industry accounts for 30% of the demand for platinum, the largest single source of demand for platinum is autocatalysts, which are used for controlling automobile exhaust gas emissions. This means that the demand for platinum is influenced by trends in automobile production.

According to Johnson Matthey's *Platinum 2012*, the supply of platinum is forecast to exceed demand again in 2012. Since there are deep-rooted uncertainties about future trends in the world economy, for the present, demand for platinum for autocatalysts is expected to remain weak, especially in Europe. In addition, the expectation that palladium will continue to be substituted more widely for platinum, a trend that has already begun, will tend to depress platinum market prices. On the other hand, the policies of monetary easing in the industrialized countries are expected to continue for the time being. With surplus liquidity around the world, the demand for gold as an investment will remain firm, and gold prices are

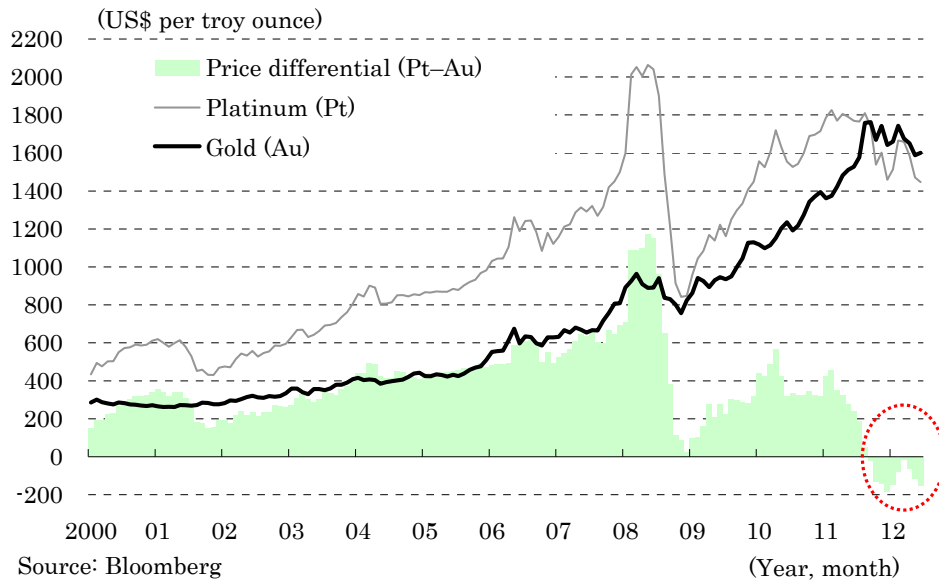
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<sup>1</sup> According to the website of TIFFANY & Co., as of August 2012, the Elsa Peretti® curved band ring (a wedding ring) in platinum costs 103,950 yen, while the gold version costs 77,700 yen.

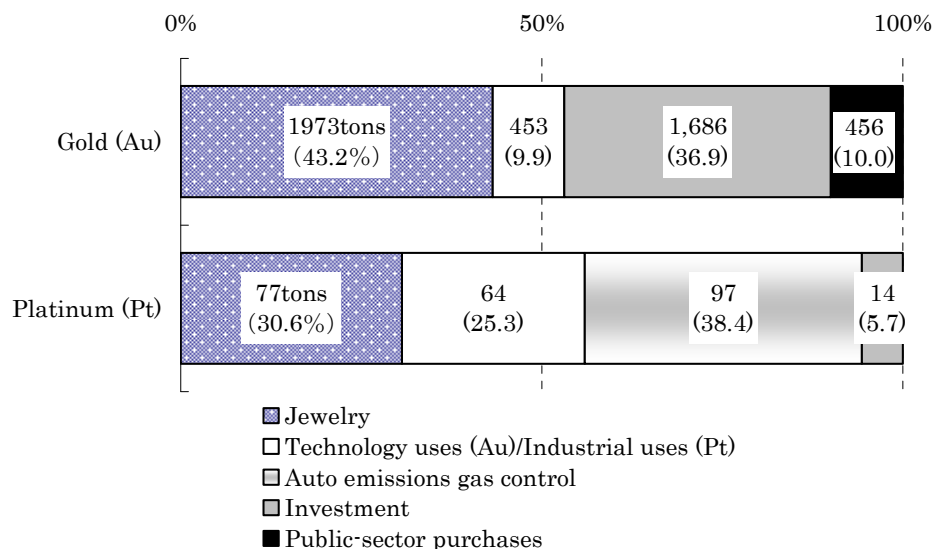
<sup>2</sup> A historical volatility of X% means that, with a probability of 68.3%, the fluctuation in price over a one-year period will be plus or minus X%

expected to remain high. For this reason, there is a possibility that gold prices may continue to exceed platinum prices. However, since the technology and equipment needed for processing platinum is more sophisticated than that required for processing gold, the cost of producing platinum accessories tends to run higher than for gold. Nevertheless, when retail jewelry prices move to match commodity prices, it would not be surprising if the stereotyped notion of “platinum rather than gold” held by many in Japan were overturned. (2012.8.8)

**Chart 2: Trends in Gold and Platinum Prices**



**Chart 3: Demand for Gold and Platinum (2011)**



Note: Figures in parentheses ( ) are the percentage composition.  
 Source: World Gold Council, Johnson Matthey