The Japanese Economy

a. Sales taxes imposed in April 1997 account for the recent jump in year-over-year price changes.

b. Index of 225 stocks listed in the first section of the Tokyo Stock Exchange.

c. Index of all stocks (1100+) listed in the first section of the Tokyo Stock Exchange.

SOURCES: Bank of Japan; Statistical Bureau of the Prime Minister (Japan); and DRI/McGraw–Hill.

Constrained by the weak state of its financial sector, Japan’s recovery from the recession of 1992 has been tenuous at best. The recent financial crisis in Southeast Asia has imposed additional economic burdens by reducing Japanese exports to that region and by further weakening the position of Japanese banks with heavy exposures there.

Japan’s GDP contracted 0.2% between the fourth quarters of 1996 and 1997, and most economists expect virtually no growth this year and very little in 1999. Economic activity, particularly industrial production and household spending, remains weak. The nation’s trade surplus has risen despite the drop-off in exports to Asia, with shipments to the U.S. and Europe taking up most of the slack.

The Japanese unemployment rate jumped to 3.9% in March from its previous record high of 3.6% in February. The magnitude of the one-month increase was unprecedented. And the news gets worse. Some economists are now predicting that the jobless rate will reach 4.5% this year and will rise above 5% in 1999.

Inflation remains nil. The current 2% reading (measured on a year-over-year basis) largely reflects the effect of sales taxes instituted in April 1997.

In an effort to regain its former strength, Japan recently unveiled a package of economic reforms that includes more than $91.5 billion of direct fiscal stimulus (temporary income tax cuts being one component). In addition, the government has taken measures to increase the deposit insurance subsidy and improve the capital base of the country’s financial institutions.