

# Japan first quarter GDP shrinks at record pace

## Japan 1Q GDP falls at annual pace of 15.2 percent; steepest drop since 1955

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TOKYO (AP) -- Japan's economy contracted at the fastest pace since 1955 as exports plunged, companies slashed production and families spent less.

Japan's real gross domestic product, or the total value of the nation's goods and services, shrank at an annual pace of 15.2 percent in the January-March period, the government said Wednesday.

The drop was the steepest since Japan began compiling GDP statistics more than five decades ago. It also marks the fourth straight quarter of decline after the GDP fell a revised 14.4 percent in the October-December period.

Economists surveyed by The Associated Press had expected a 15.8 percent contraction on average.

"Weakness in the corporate sector is gradually spreading to households," Prime Minister Taro Aso told lawmakers in a parliamentary budget hearing. "This is a very serious situation, so we need to respond appropriately."

On a quarterly basis, GDP fell 4.0 percent from the previous three-month period, according to the Cabinet Office's preliminary data.

Japan's first quarter results were markedly worse than other major economies, outpacing the euro zone's 2.5 percent quarterly decline and a 1.6 percent contraction in the U.S.

The world's second biggest economy had relied heavily on the rest of the world to buy its cars and gadgets to drive economic growth. Like its Asian neighbors, it has been pummeled by the unprecedented collapse in global demand triggered last year by the U.S. financial crisis.

Japan's exports plummeted a record 26 percent in the first quarter from the fourth quarter, the government said.

In response, major exporters such as Toyota Motor Corp. and Sony Corp. have moved quickly to adjust by reducing shifts, suspending factory lines and announcing thousands of job cuts over the past few months. Japan's jobless rate jumped to 4.8 percent in March, the highest in more than four years.

Capital expenditure -- business investment in factories and equipment -- fell 10.4 percent from the previous quarter, while consumer spending slipped 1.1 percent.

Unlike previous downturns, consumption has weakened much more than income, said Richard Jerram, chief economist at Macquarie Securities in Tokyo.

"The savings rate has gone up and that has worsened the severity of the recession," he said. "That is something which is novel about the last six months. It seems that the public has basically panicked about job security to an extent that hasn't happened in previous cycles."

Recent signs, however, suggest that the worst may have passed.

The decline in exports is slowing, and with companies aggressively trimming inventories, factories are beginning to boost production. Economists say that efforts by both the public and private sectors are also starting to pay off.

The government is trying to spark a turnaround with massive public spending. Its newest \$150 billion stimulus package includes incentives for consumers to buy environmentally friendly appliances and cars, as well as help for the unemployed and small businesses.

Tetsufumi Yamakawa, chief Japan economist at Goldman Sachs, predicts GDP will turn positive this quarter and then accelerate to 3 percent growth in the July-September period, helped by rebounding demand from China as well as the government's stimulus steps.

But it remains unclear whether any recovery can be sustained beyond the end of the year. Yamakawa warns that the "risk remains high for a slowdown" in the first half of 2010 as the impact of policy measures tapers off.

For the last fiscal period through March 31, Japan's GDP contracted by a record 3.5 percent from the previous year, the Cabinet Office said. It expects the economy to shrink 3.3 percent this fiscal year.

<http://finance.yahoo.com/news/Japan-first-quarter-GDP-apf-15298785.html/print>