

## **A glum outlook from Japanese firms**

Japanese companies have grown pessimistic about business conditions, according to a government survey released Monday, fueling fears that the Japanese economy may follow the United States into a recession.

The business survey index of sentiment at large manufacturers slumped to minus 12.9 for January-March from plus 5.2 in October-December in a joint survey by the Ministry of Finance and the Economic and Social Research Institute, an arm of the Cabinet Office.

The index readings for January-March were the lowest in all categories since the data began in April-June 2004.

The survey reinforced expectations that the Bank of Japan's closely watched tankan survey, due out April 1, would show a broad slide in the business mood and a lackluster capital spending plan.

"The data showed companies are getting cautious over capital spending as the economic outlook worsens and as the share prices and the dollar have fallen," said Junko Nishioka, an economist at ABN Amro Securities.

But the markets shrugged off the readings, which were seen as confirming weakness already reflected in other recent data.

The business malaise comes amid a slide in support for Prime Minister Yasuo Fukuda, due in large part to a political standoff that has left the post of central bank governor vacant for the first time in more than 80 years.

A newspaper poll published Monday showed that support for Fukuda had fallen to 31 percent, down nine percentage points from a month ago while another poll by a private broadcaster put his support below 25 percent.

The survey's index reading at large nonmanufacturers fell to minus 7.2 from minus 2.2 last quarter, while that at big companies overall was down at minus 9.3 against plus 0.5 in October-December.

The data Monday boded ill for the central bank's tankan corporate survey next week.

Economists expect the tankan's headline index for big manufacturer sentiment to fall to plus 13 from plus 19 three months ago, which would be the lowest reading since March 2004.

Rising raw material costs and uncertainty over the global economy seemed to have hurt the business mood, a Finance Ministry official said.

A Reuters survey last week showed that Japanese manufacturers' sentiment slipped to a four-year low in March, battered by high raw materials costs, slack domestic demand, the dollar's fall and worries over the U.S. economic outlook.

Japan's economy, driven by solid exports, grew 0.9 percent in the last three months of 2007, despite economists' expectations for much slower growth.

Although shipments to the United States have been slowing since the credit turmoil unfolded, exports to China and other developing countries have been unfettered.

But economists say deepening financial market problems could spell trouble for global economic growth, which Japan relies on heavily.

Domestic consumption has been tepid as wages have been kept in check, and though domestic housing investment appeared to have bottomed after a slump following the start of tighter building rules last June, uncertainty remains on the strength and the pace of its recovery.

Although many economists expect Japan to narrowly avoid a recession, some say its economy is already in recession and the Bank of Japan may have to cut interest rates later this year.

"The weak figures reflect growing concern about a U.S. recession and turbulence in financial markets," said Takehiro Sato, a Morgan Stanley economist. "It underscores our view that Japan and the United States will go through a minirecession."

Swap contracts on the overnight call rate, the central bank's policy target, are pricing in around a 30 percent chance of a rate cut by June.

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