

Japan's Growth Prospects US Response

Richard Katz

The Oriental Economist Report

© 2007 *rbkatz@ix.netcom.com*

www.orientaleconomist.com

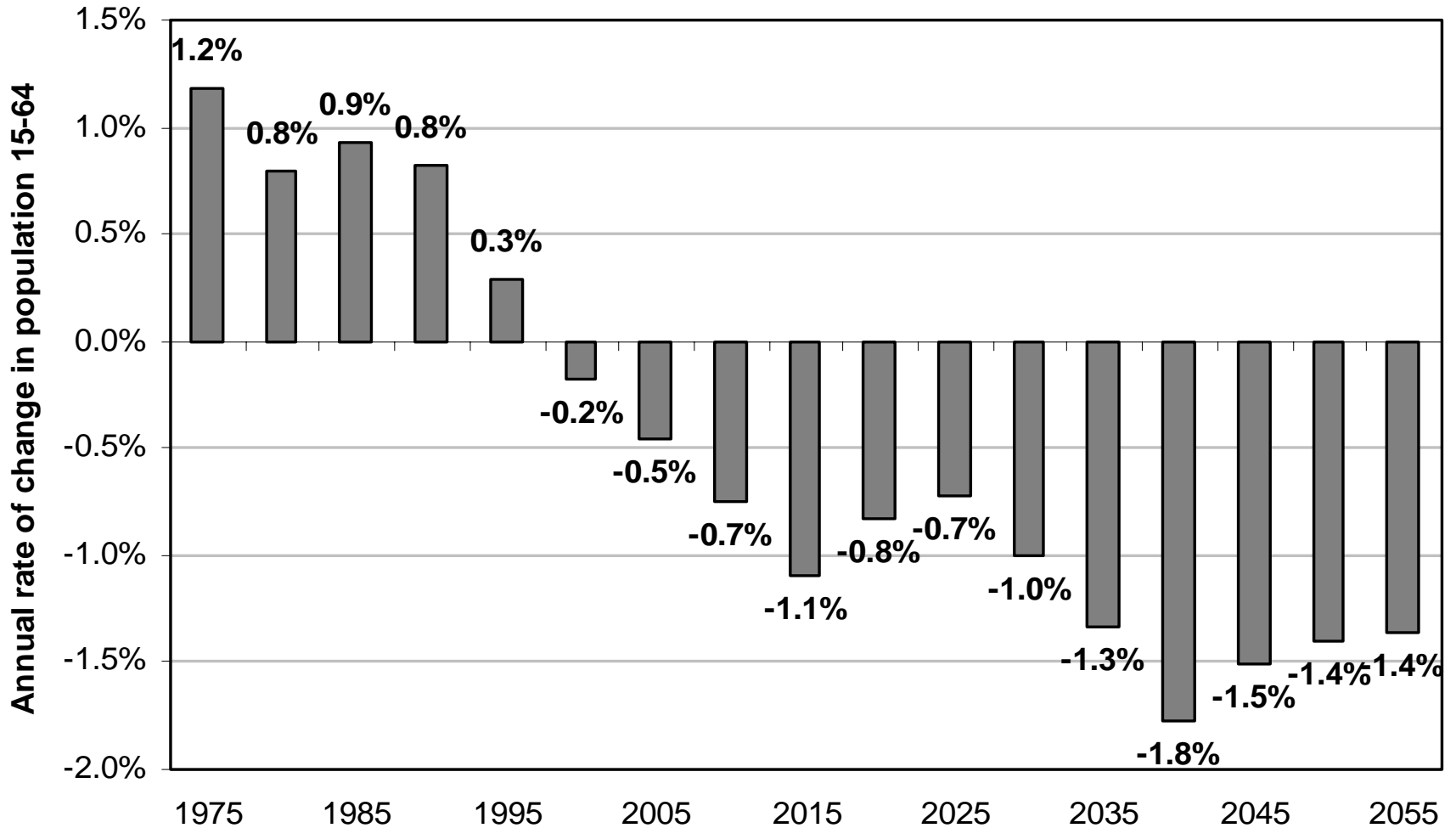
AEI

October 23, 2007

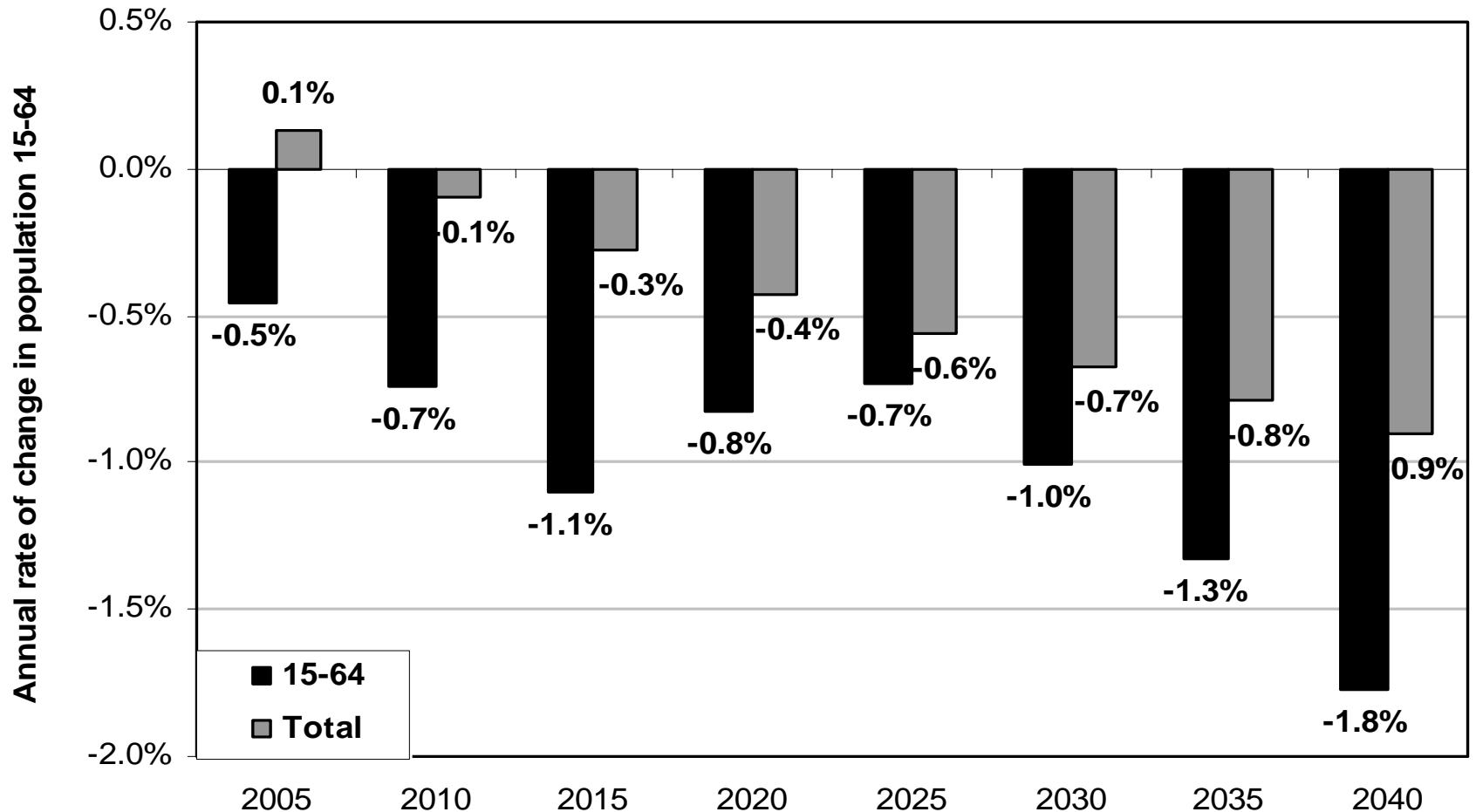
I.

**Without Productivity
Revolution,
Potential Full-Capacity Growth
Limited to 1.5% per year
(optimists say 2%)**

Working Age Population Shrinking

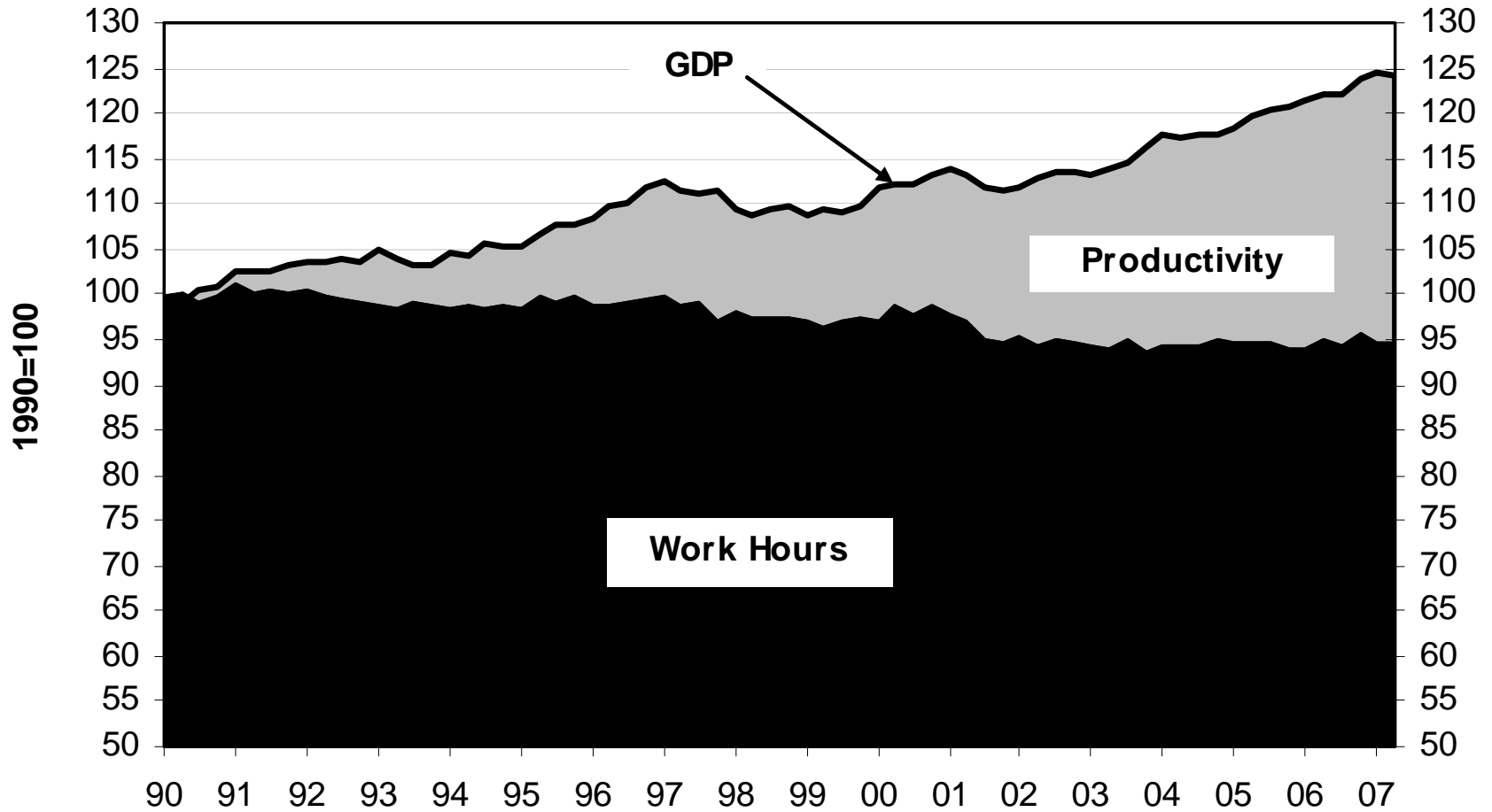


...Faster Than Total Population

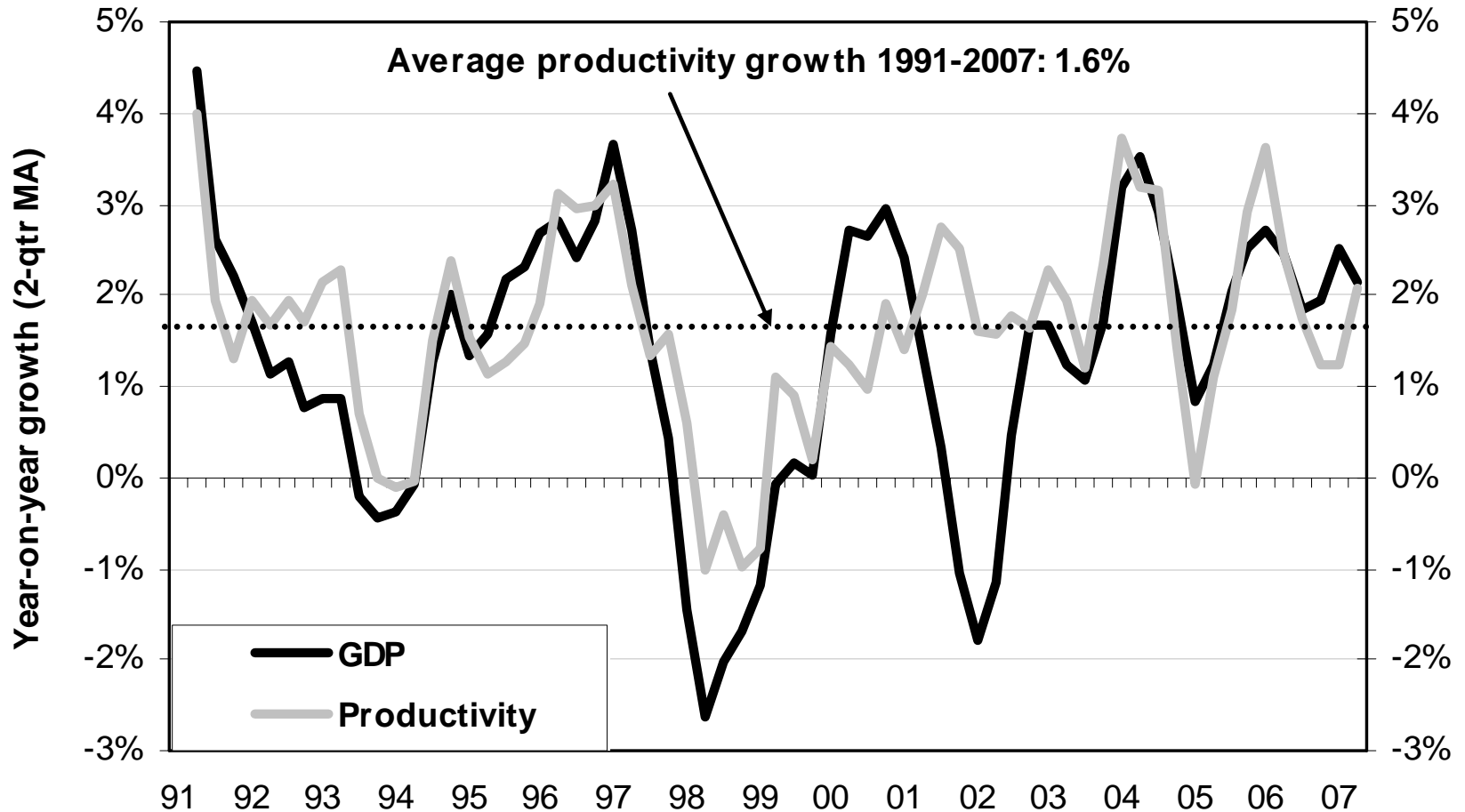


If the labor force falls 0.7% a year and the total population falls 0.1%, then even if per worker GDP stays the same, per capita GDP will fall 0.6% a year

Productivity Sole Source of Growth

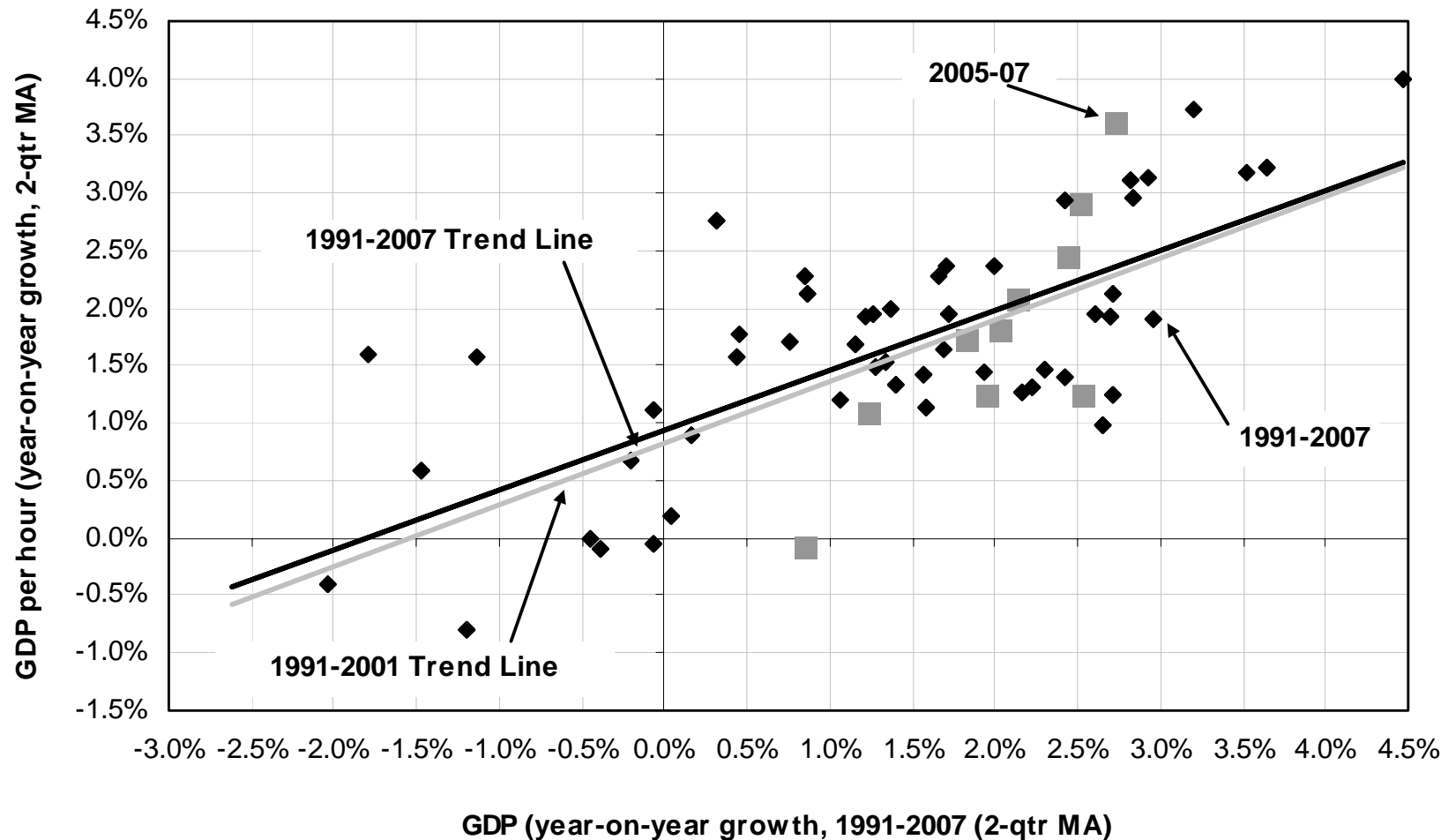


Productivity Figures Are Cyclical

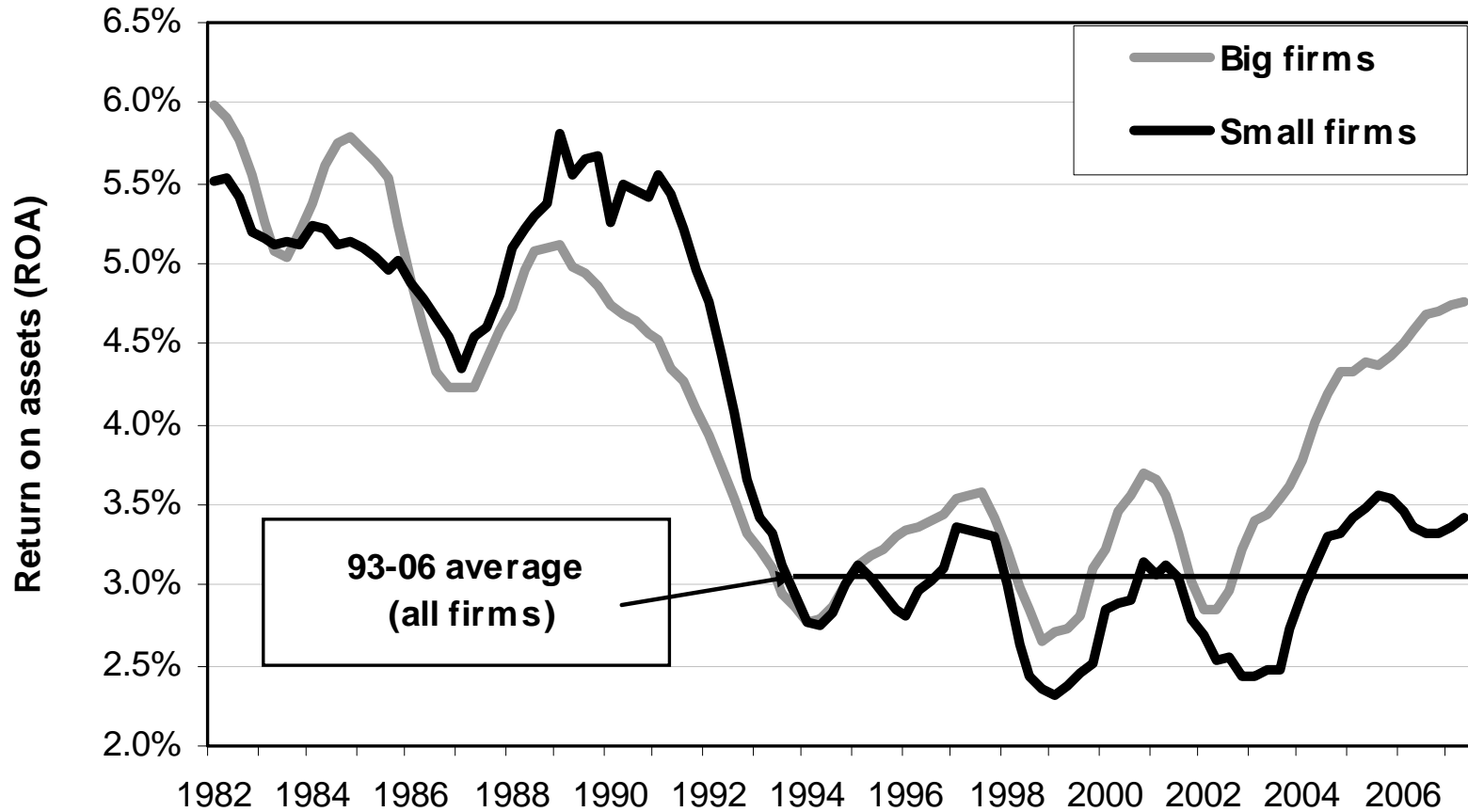


In slumps, GDP falls faster than hours; in recoveries the reverse is true. Recent claims of productivity acceleration neglect this factor.

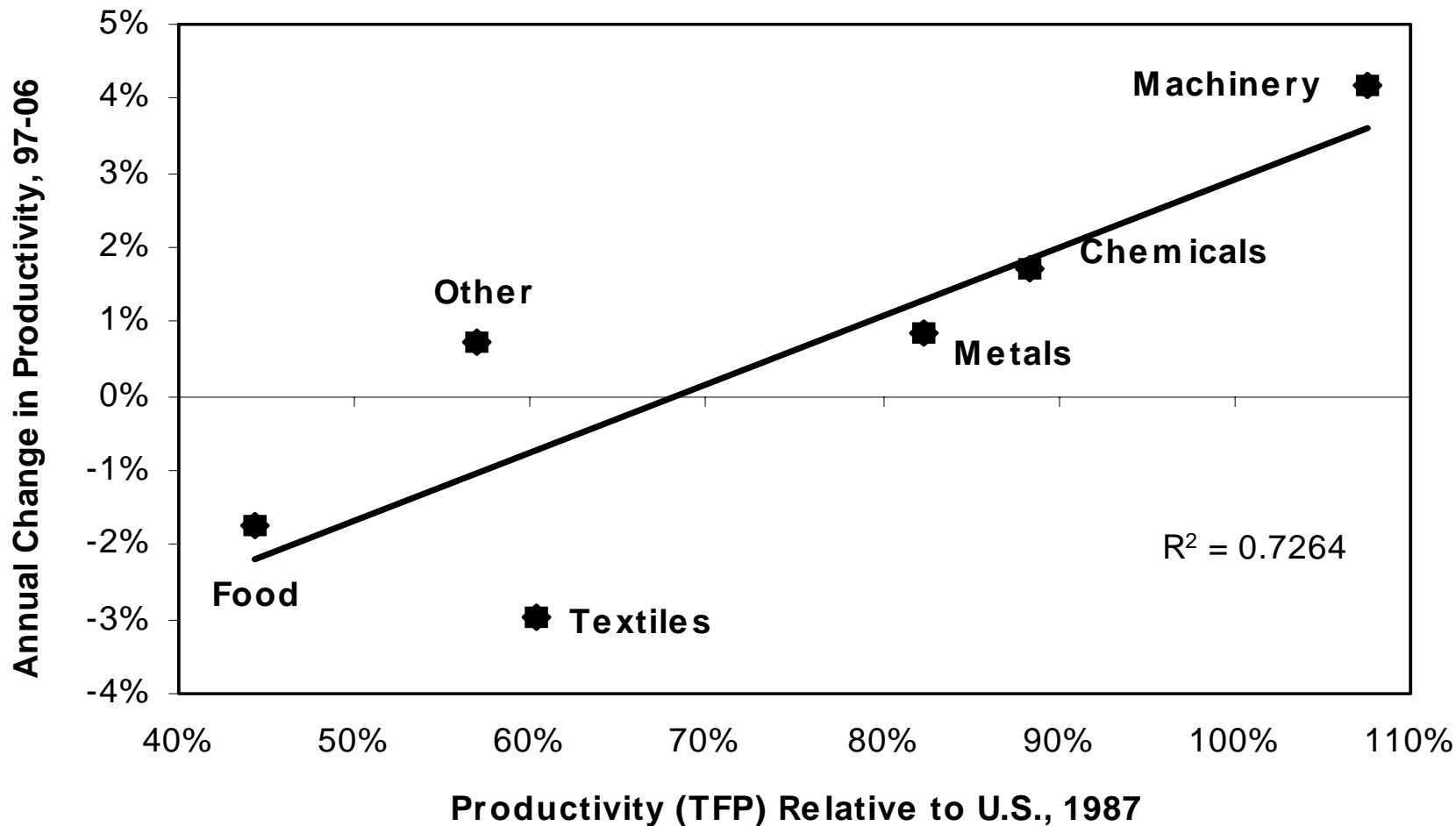
No Trend Hike in Productivity



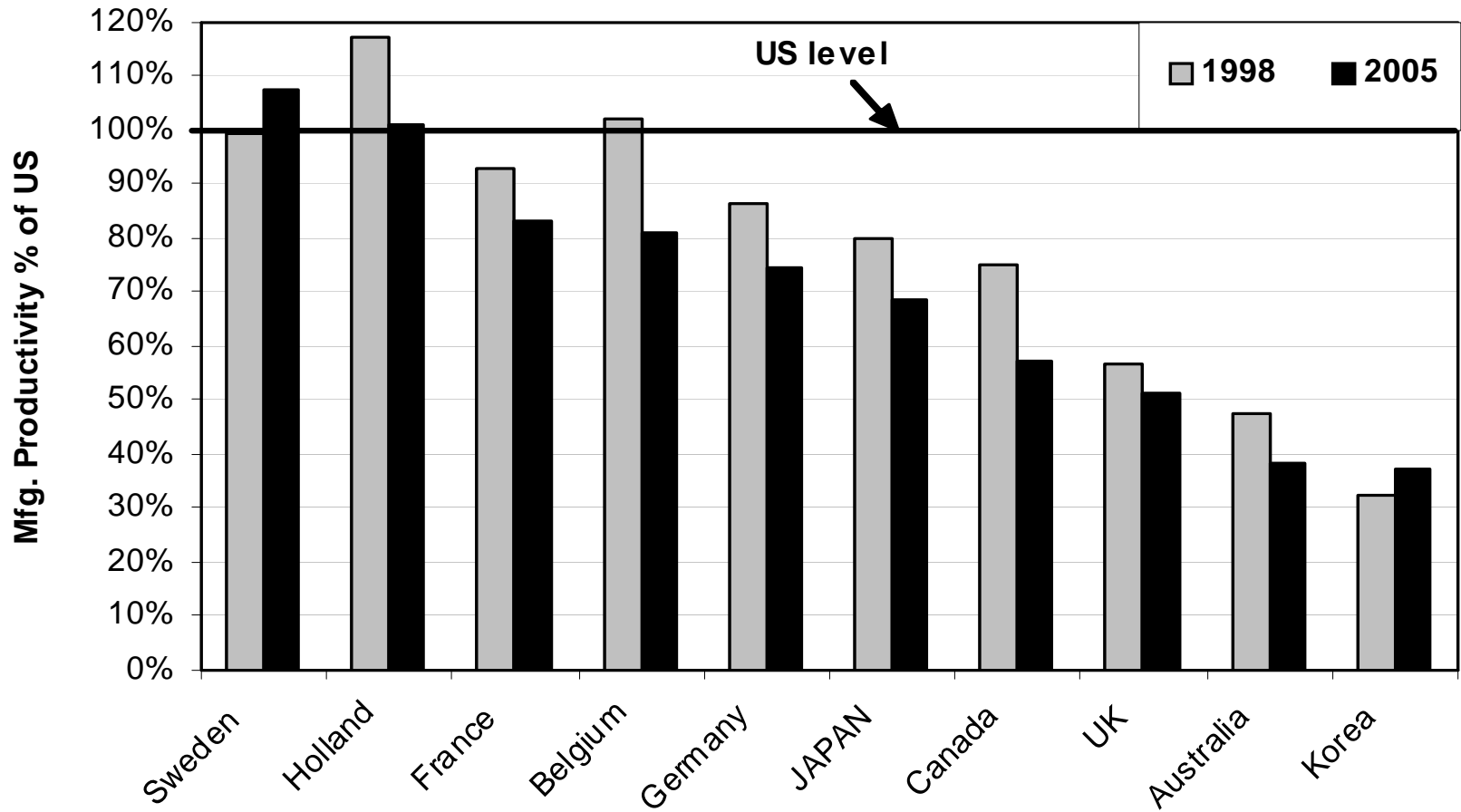
ROA: Big vs. Small



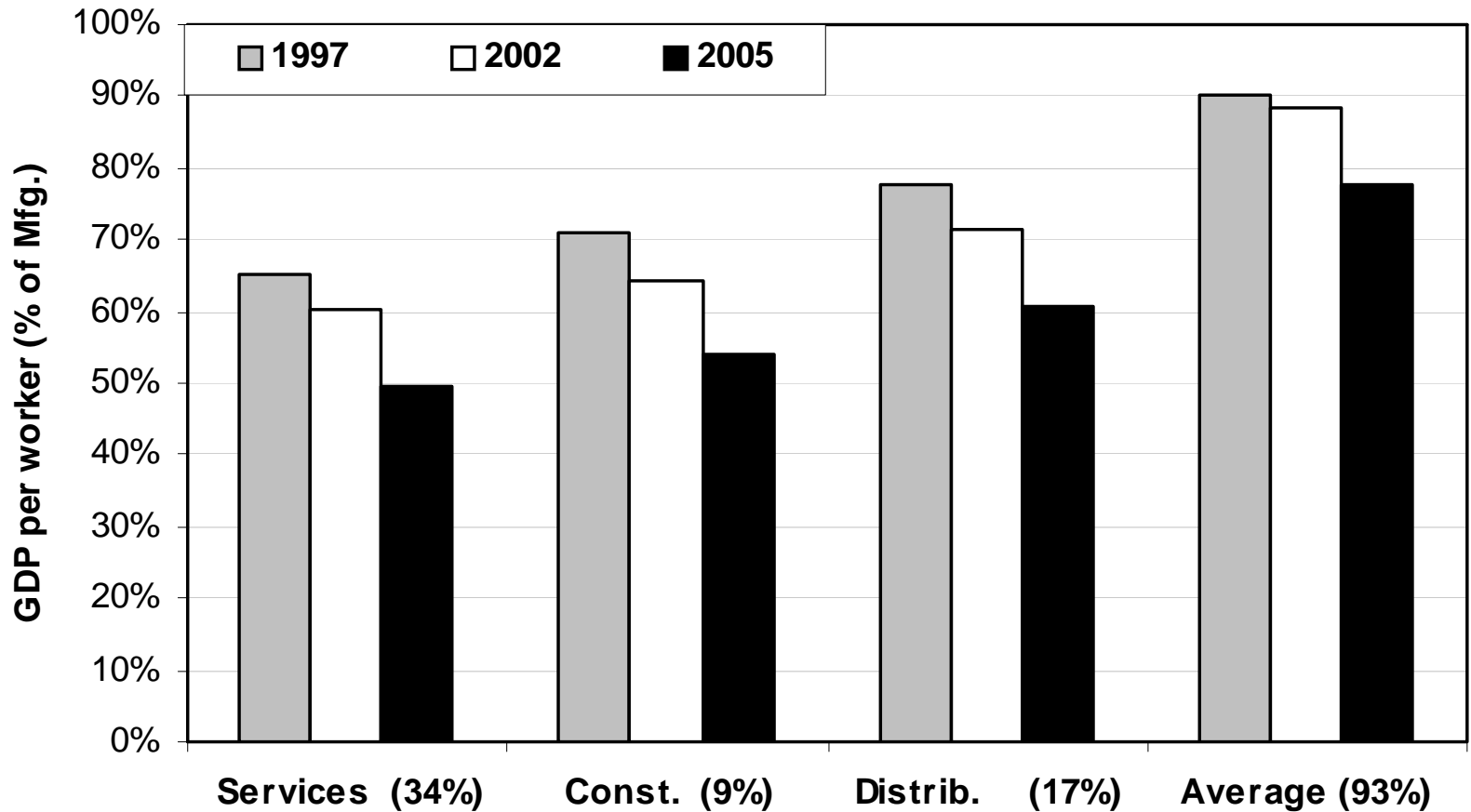
Within Mfg., Worst Sectors Show Least Improvement: 1997-2006



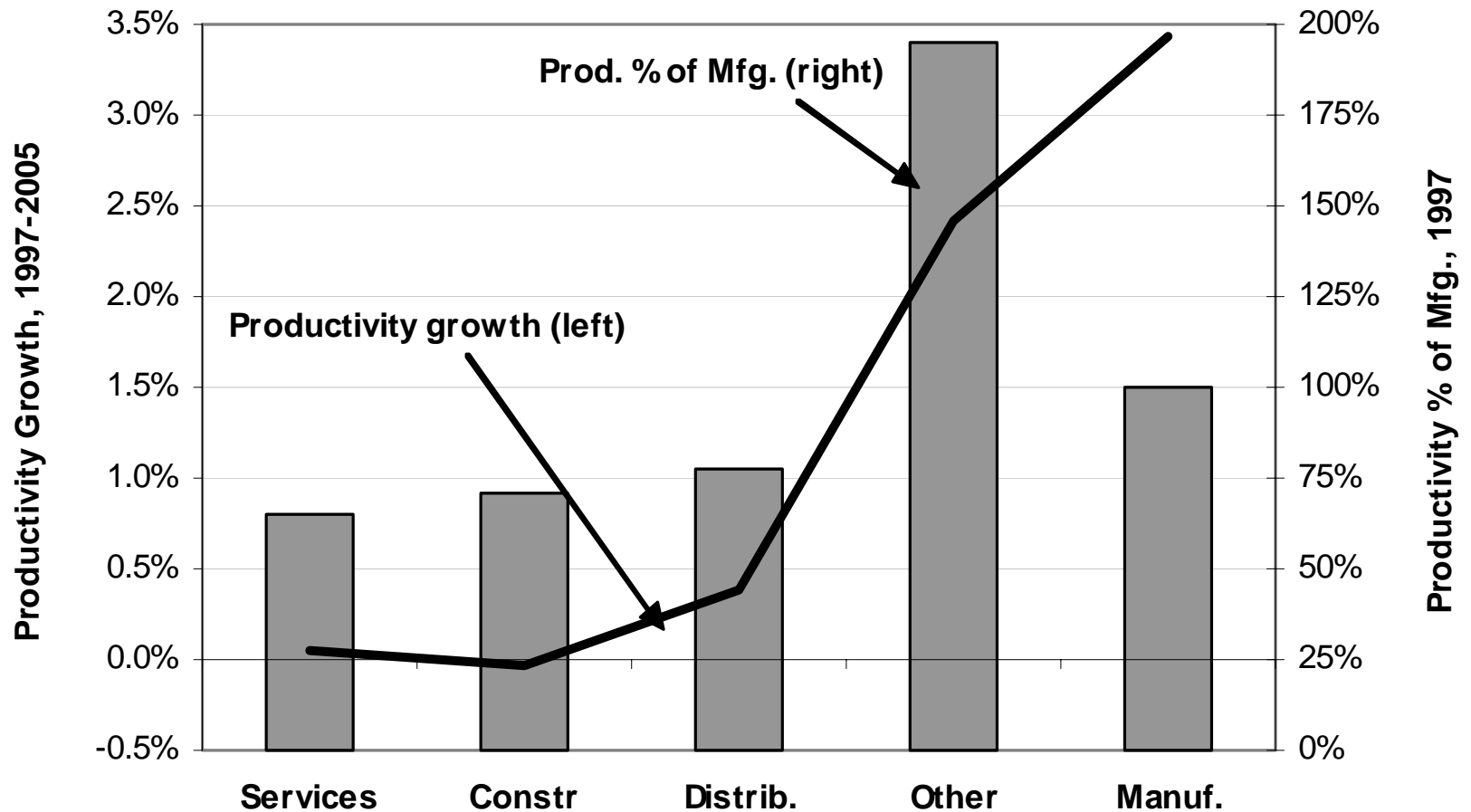
Japan's Manufacturing Productivity 30% Below US Level



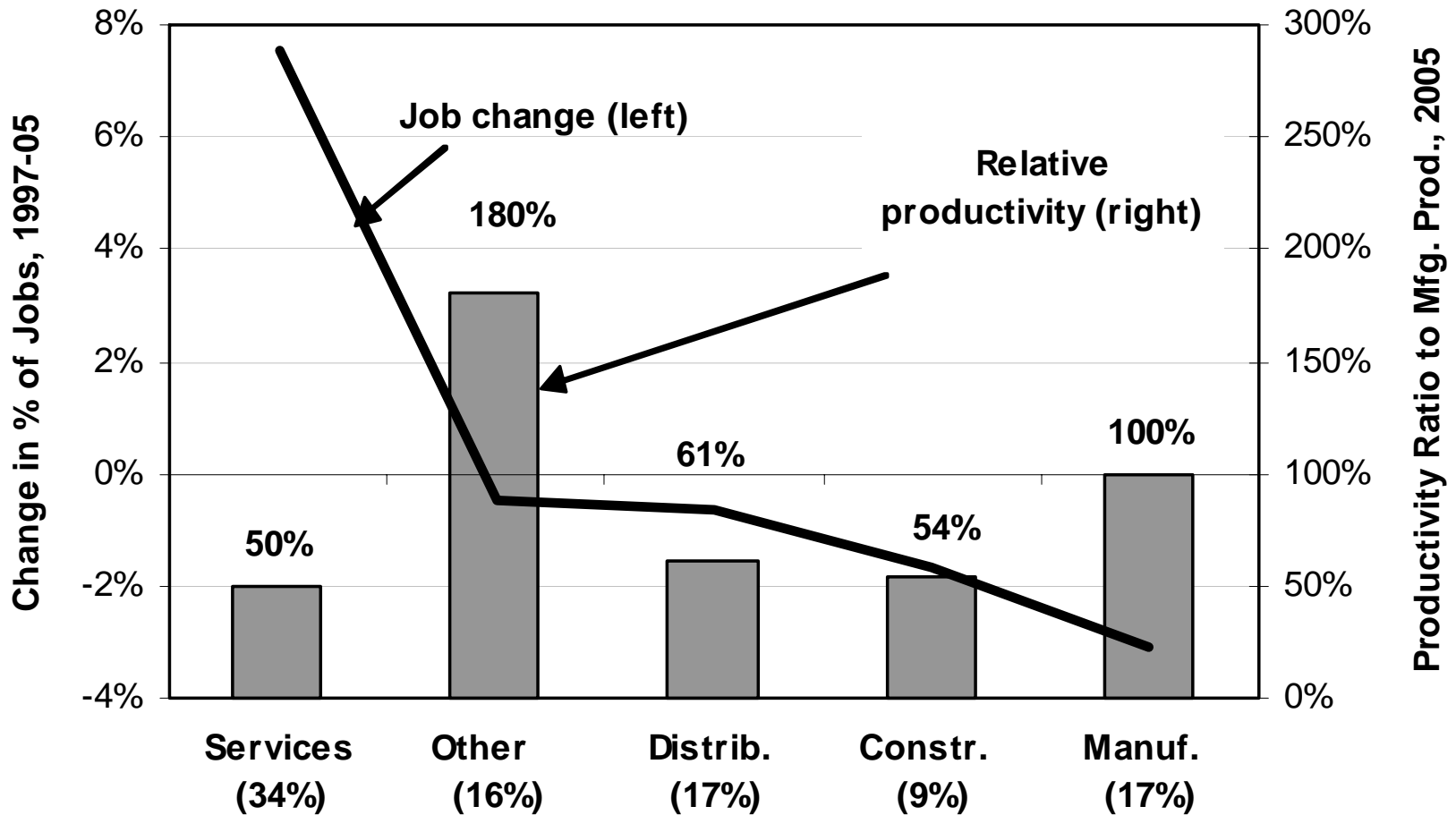
60% Of Jobs Are In Sectors With Only Half the Productivity of Mfg.



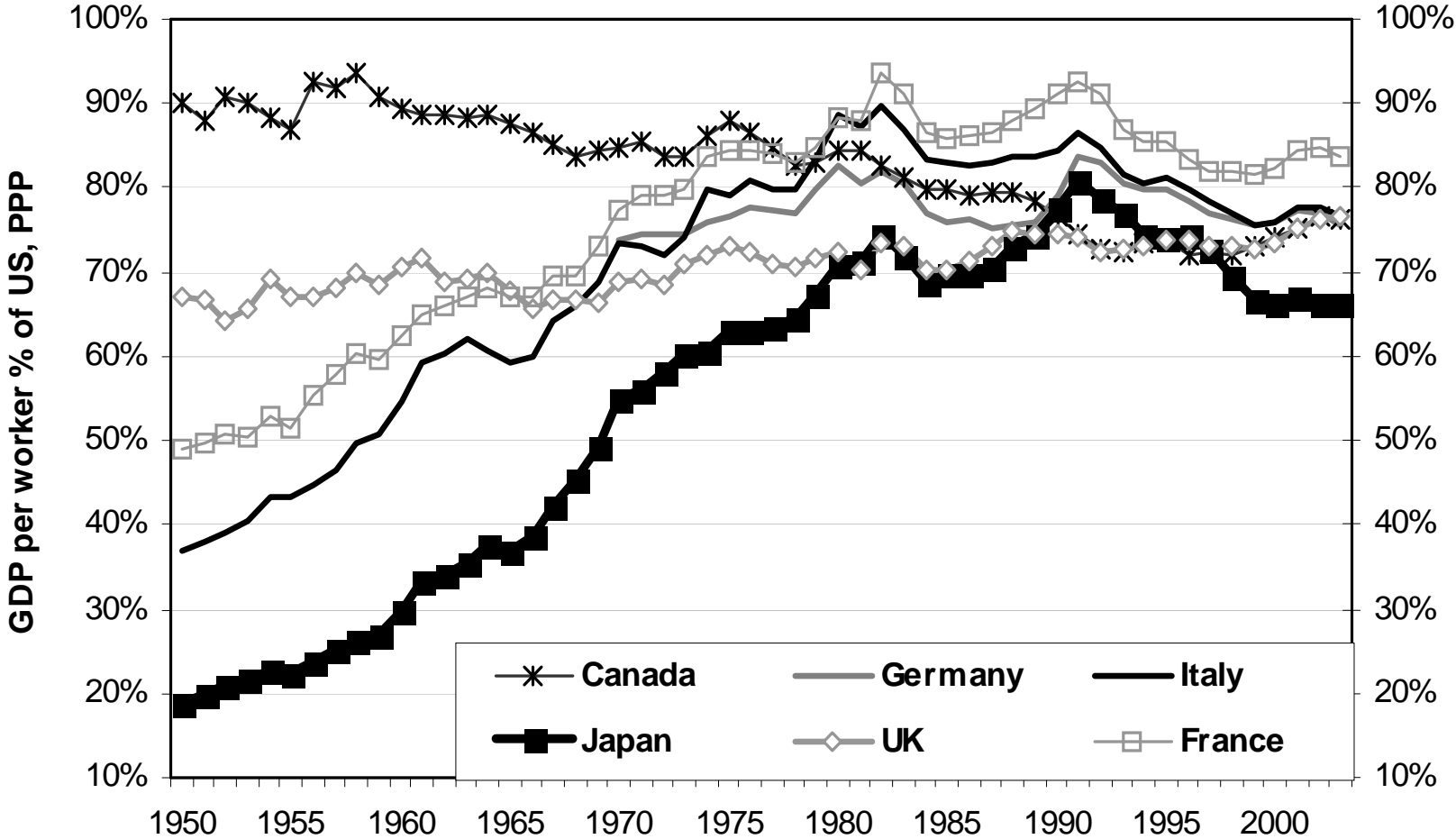
Sectors with Worst Productivity Show Least Improvement: 1997-2005



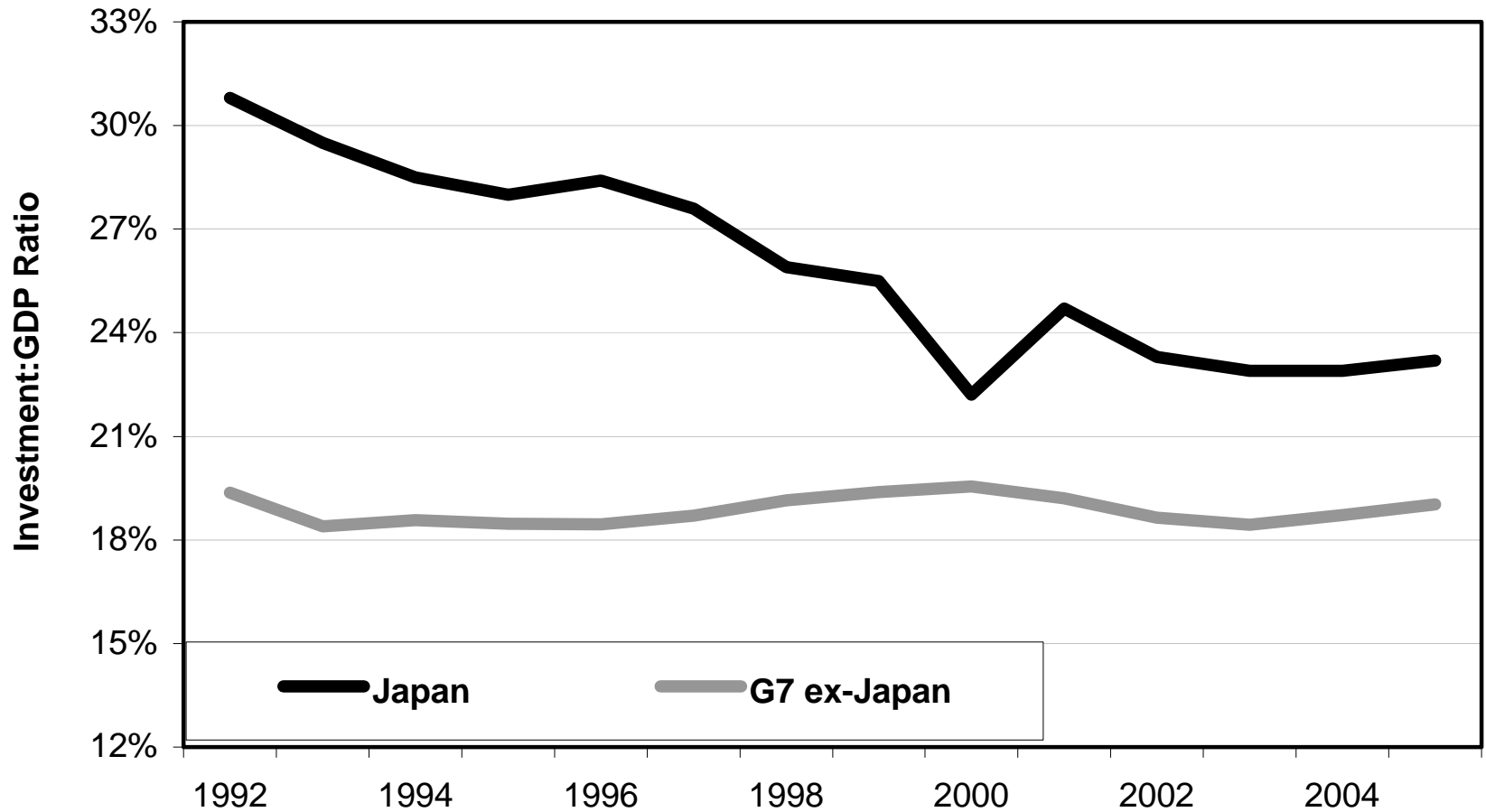
Jobs Grow in Least Productive Sector; Jobs Decline Most in Mfg.



Japan Falls Behind Other G7 in Output Per Worker



Japan Grows More Slowly Despite Investing More Than Others



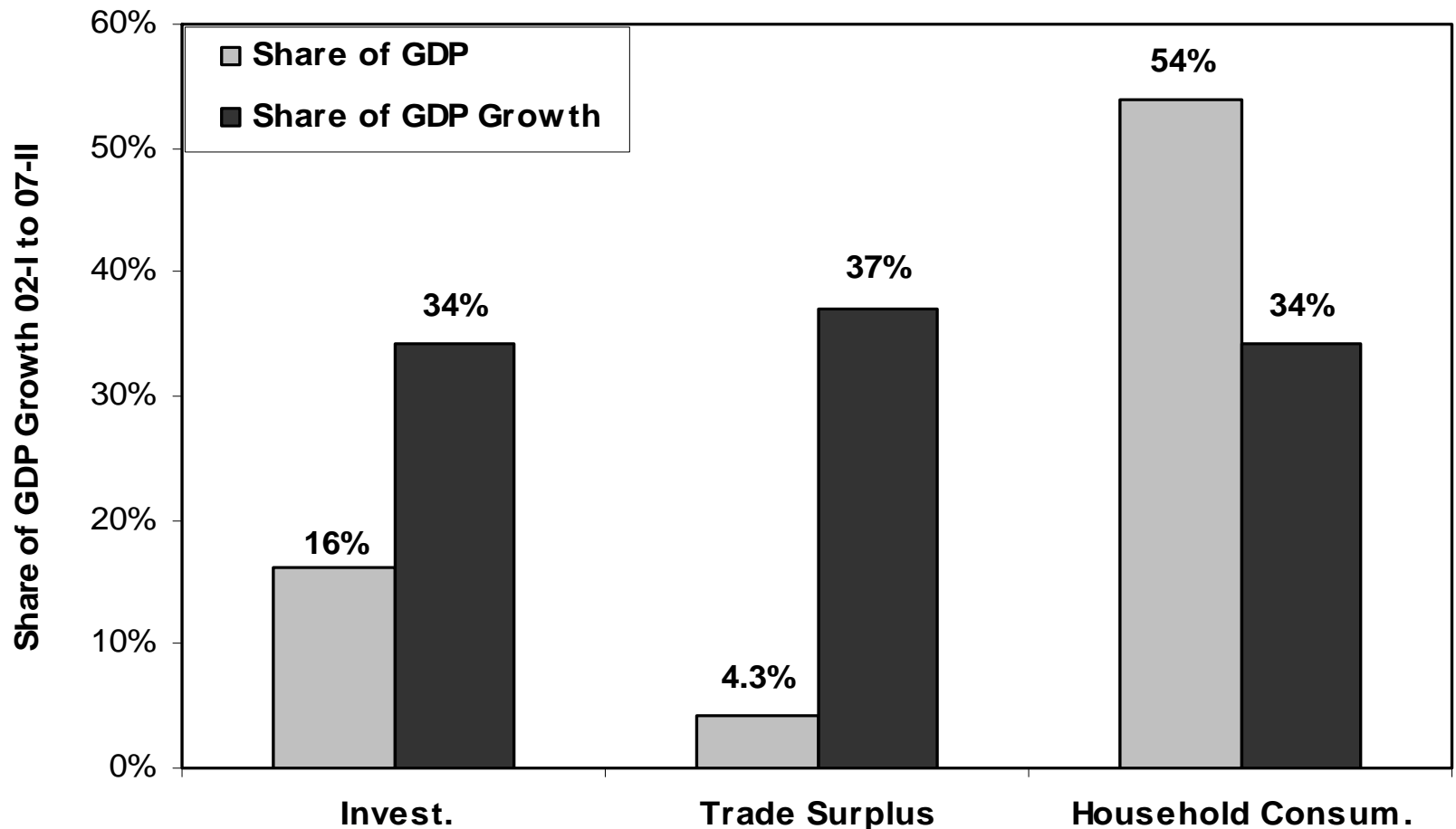
II.

Demand Growth Is Unbalanced

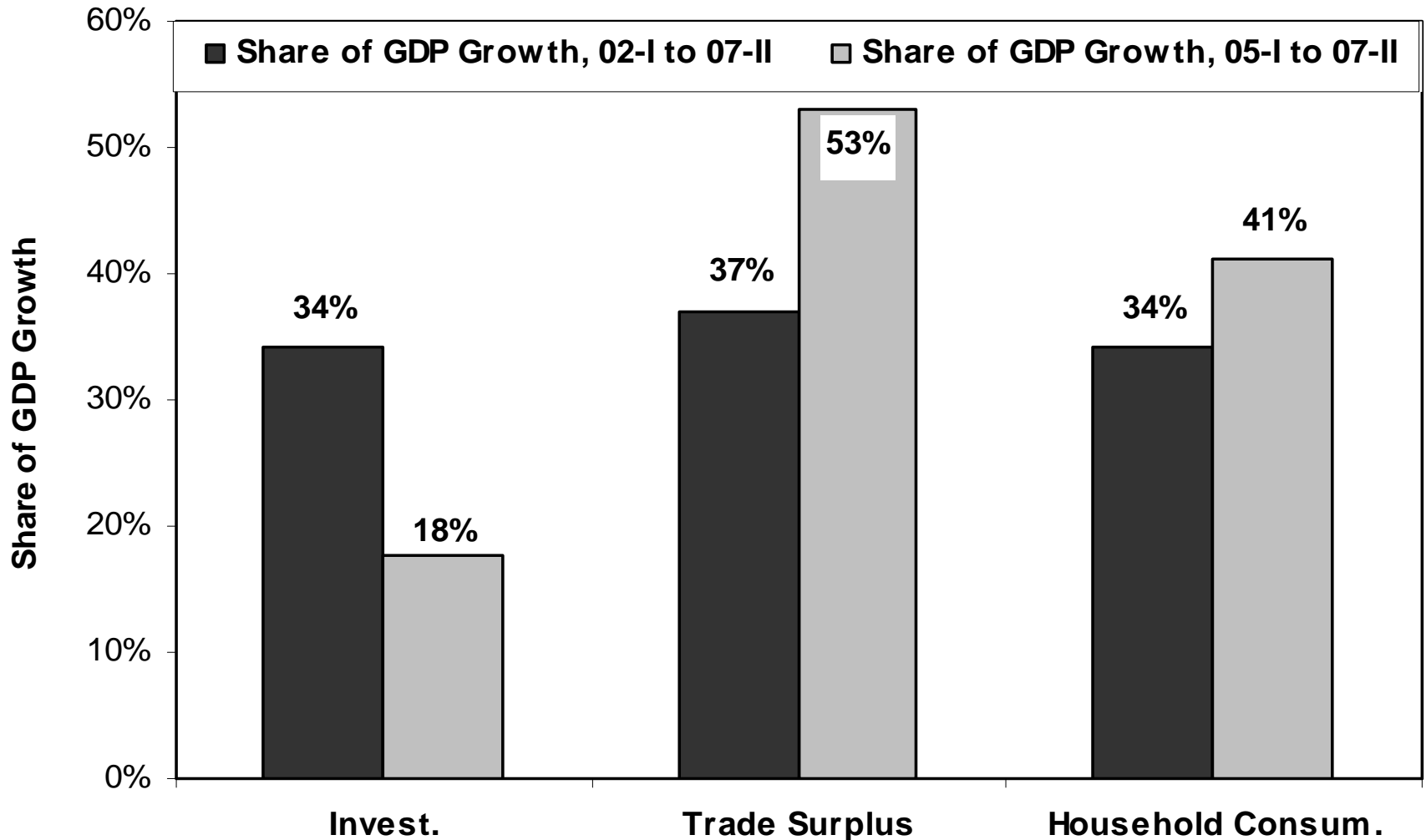
**Too Much Dependence on
Business Investment and
Trade Surplus**

Too Little Consumer Demand

Demand Ultra-Dependent On Investment and Trade Surplus

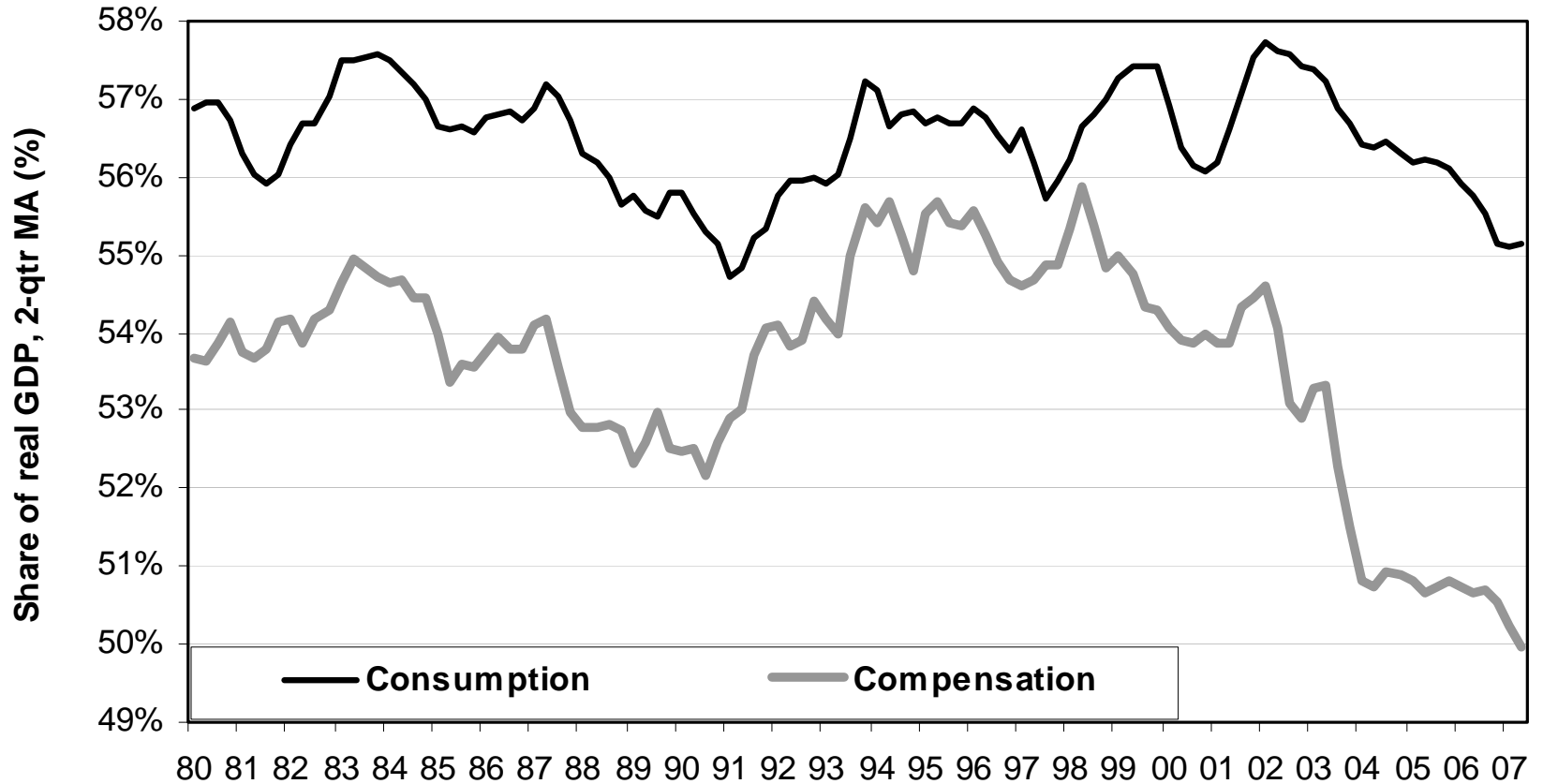


Baton Not Yet Passed to Consumer

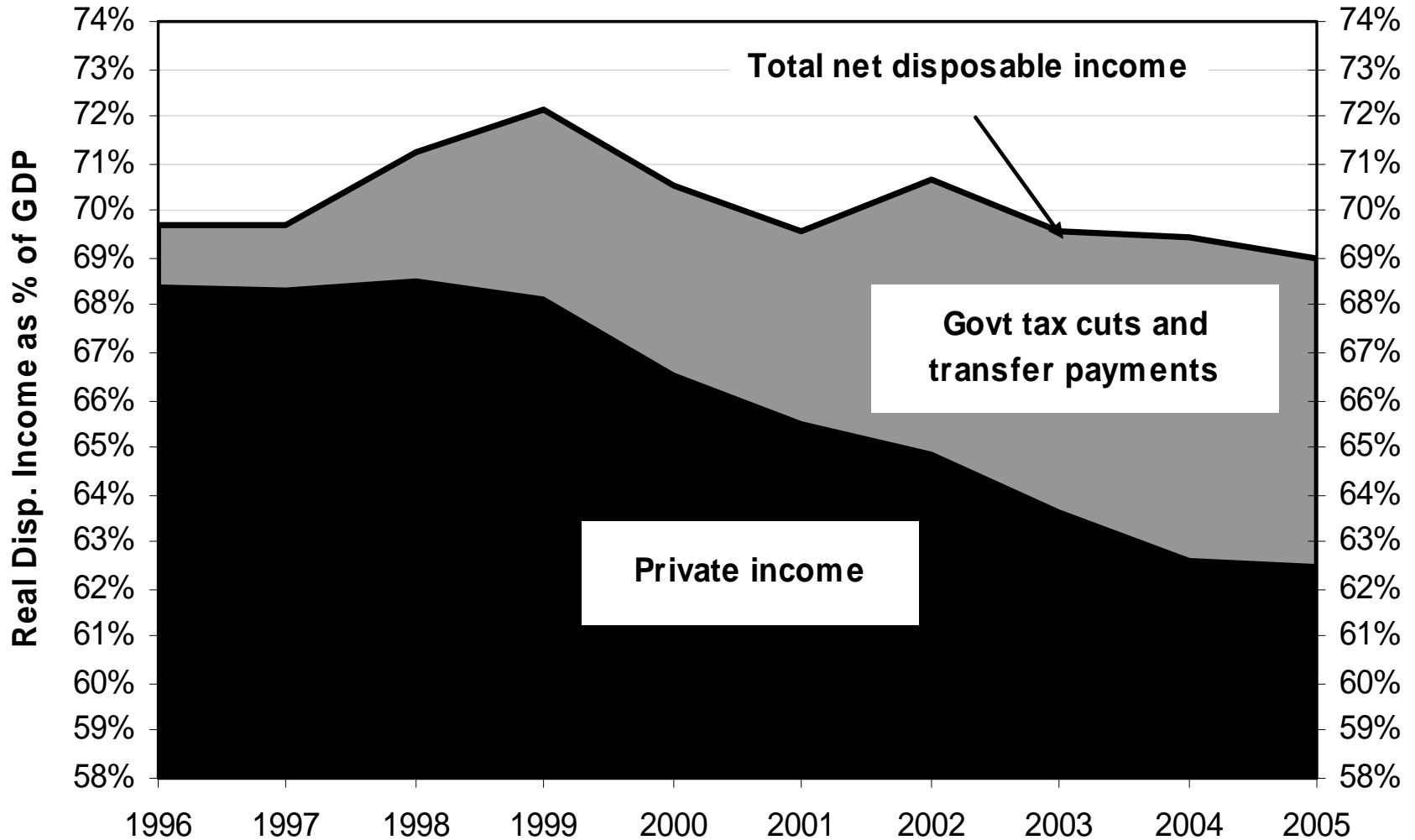


Fall in investment contribution in 05-07 reflects big fall in 07-II; from 05-I through 07-I, investment contribution was 34%

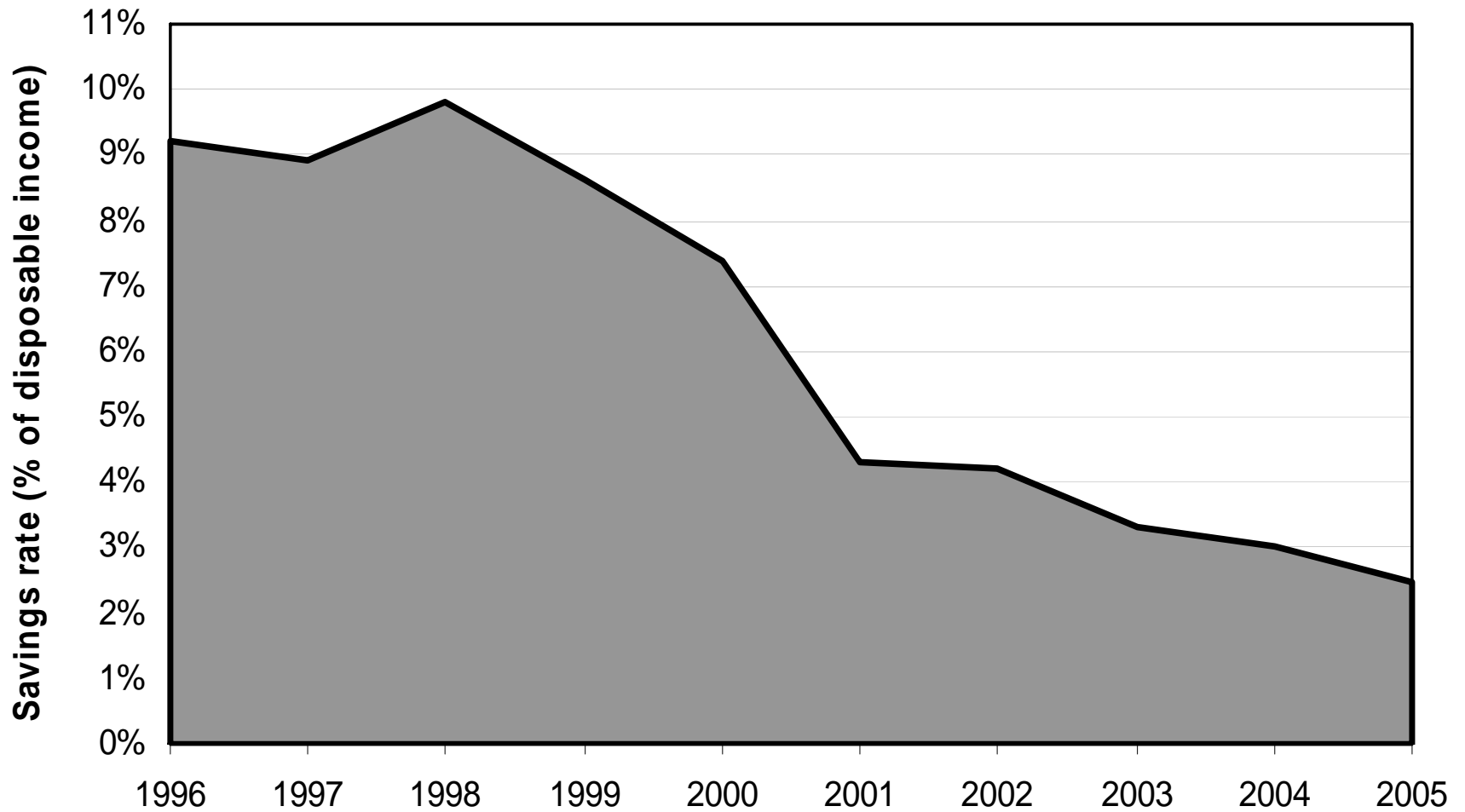
Wage Share of GDP Plunges



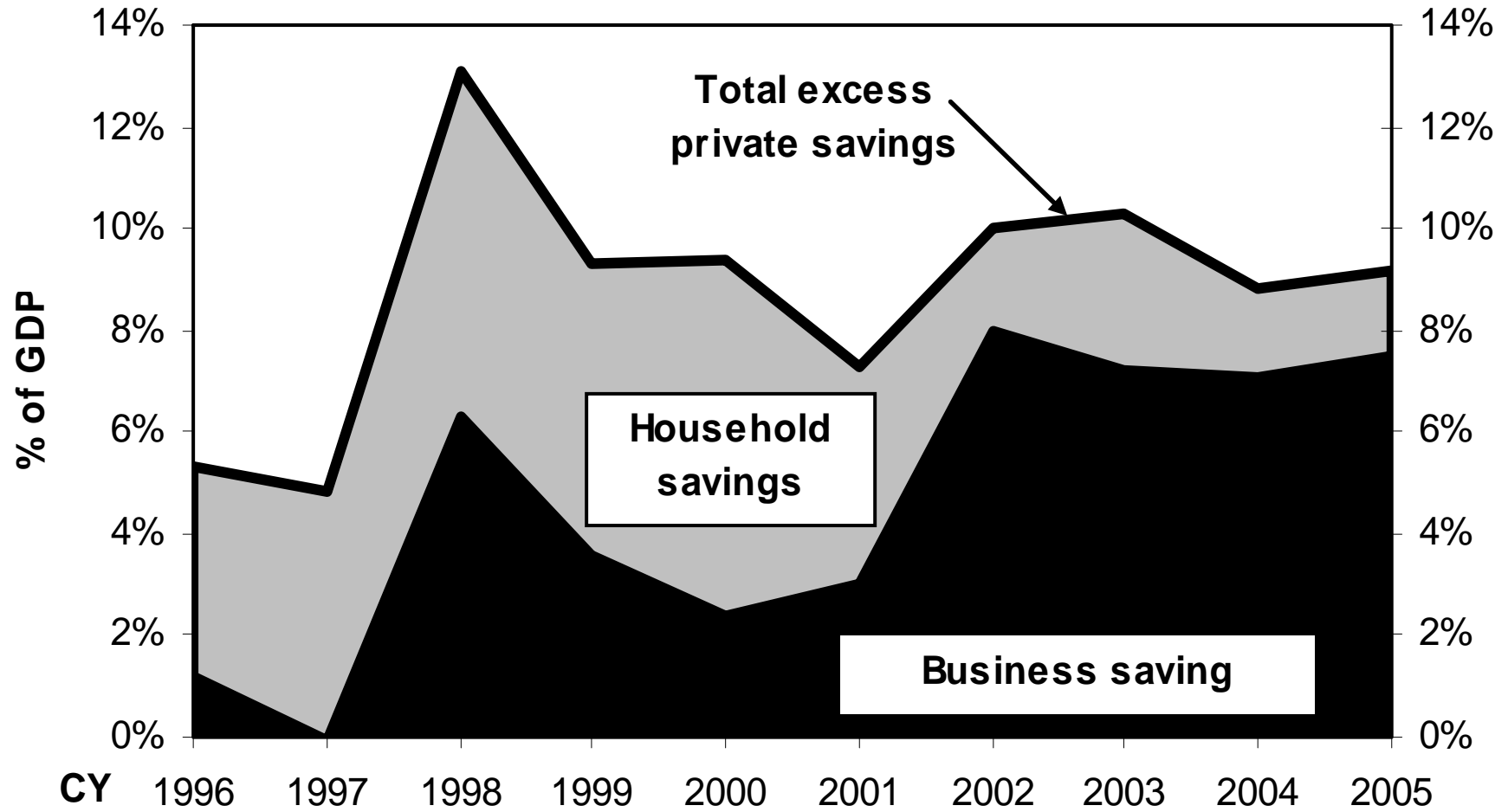
Income is Deficit-Financed



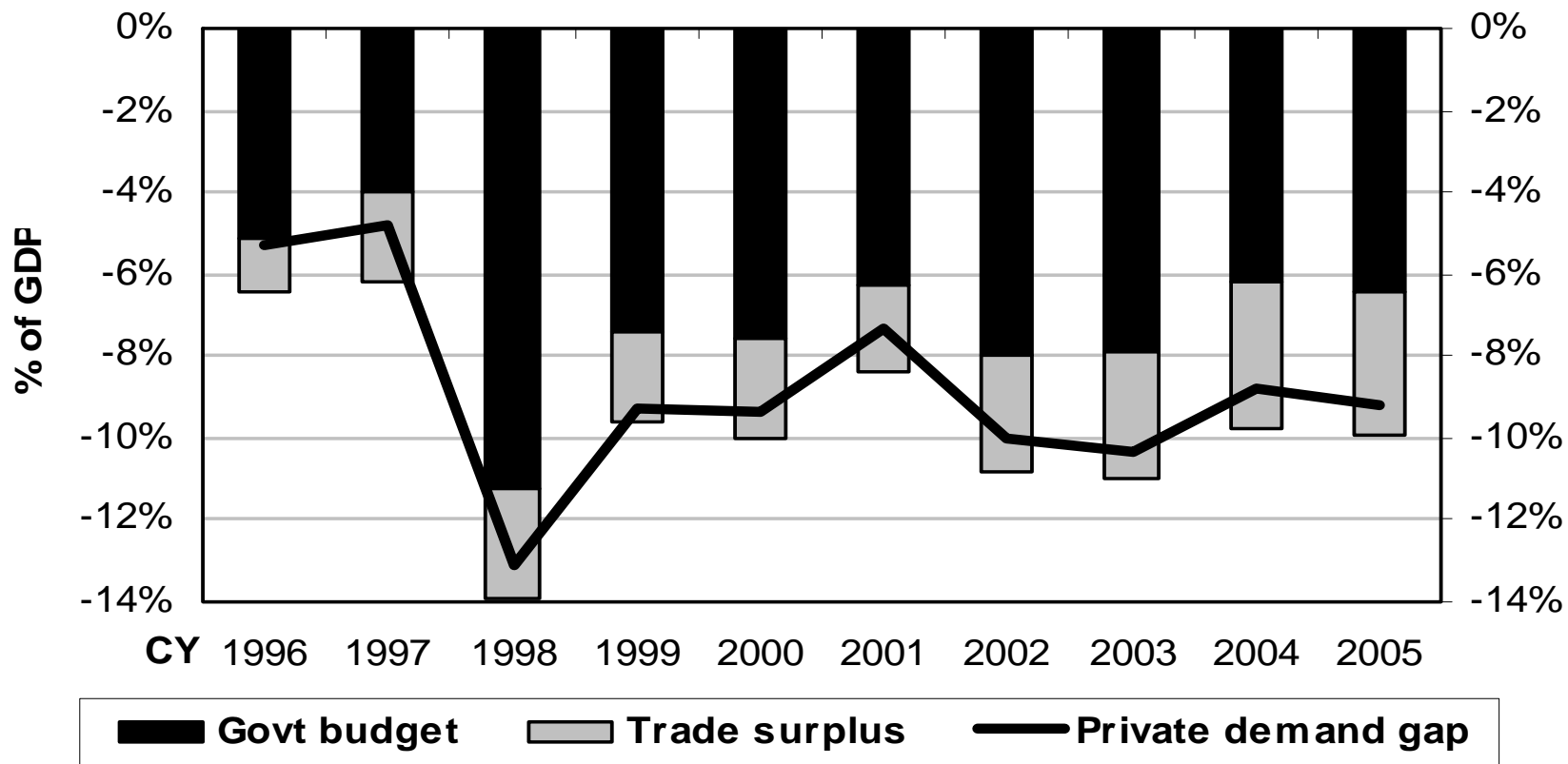
Household Savings Rate Drops



Firms Are Excess Savers

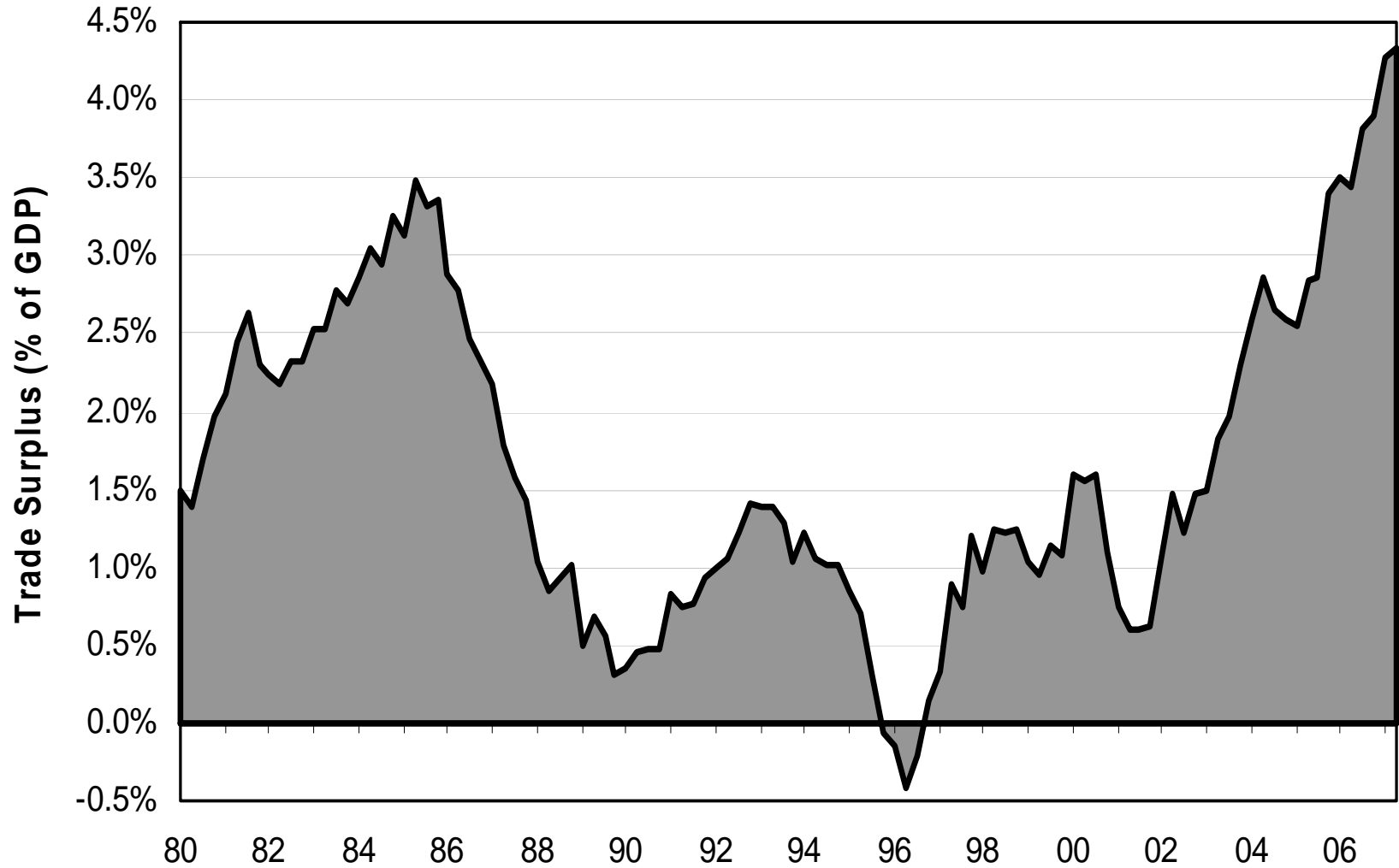


Budget Deficits, Trade Surplus Offset Excess Savings

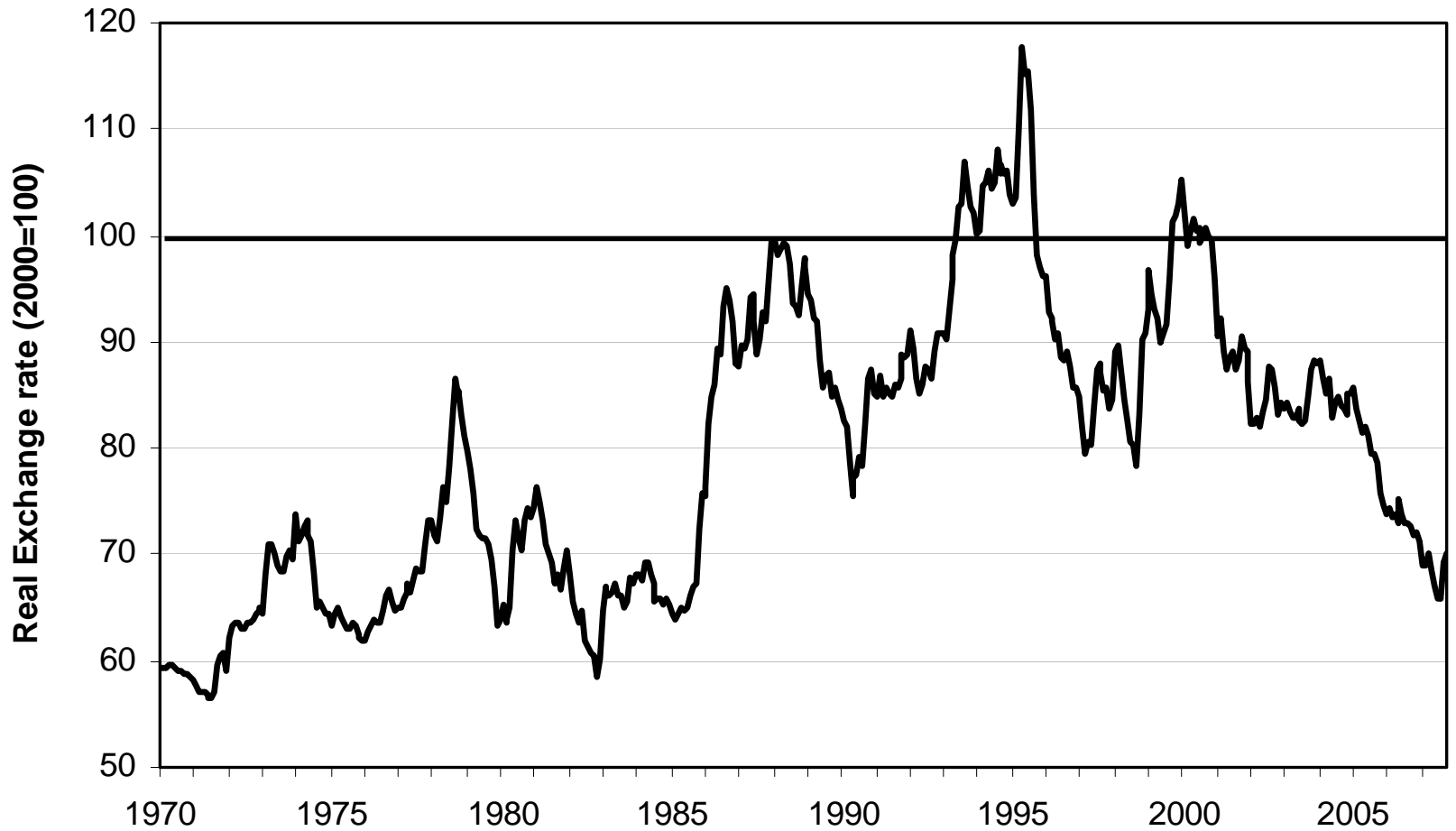


Black line in this slide equals total excess savings in previous slide

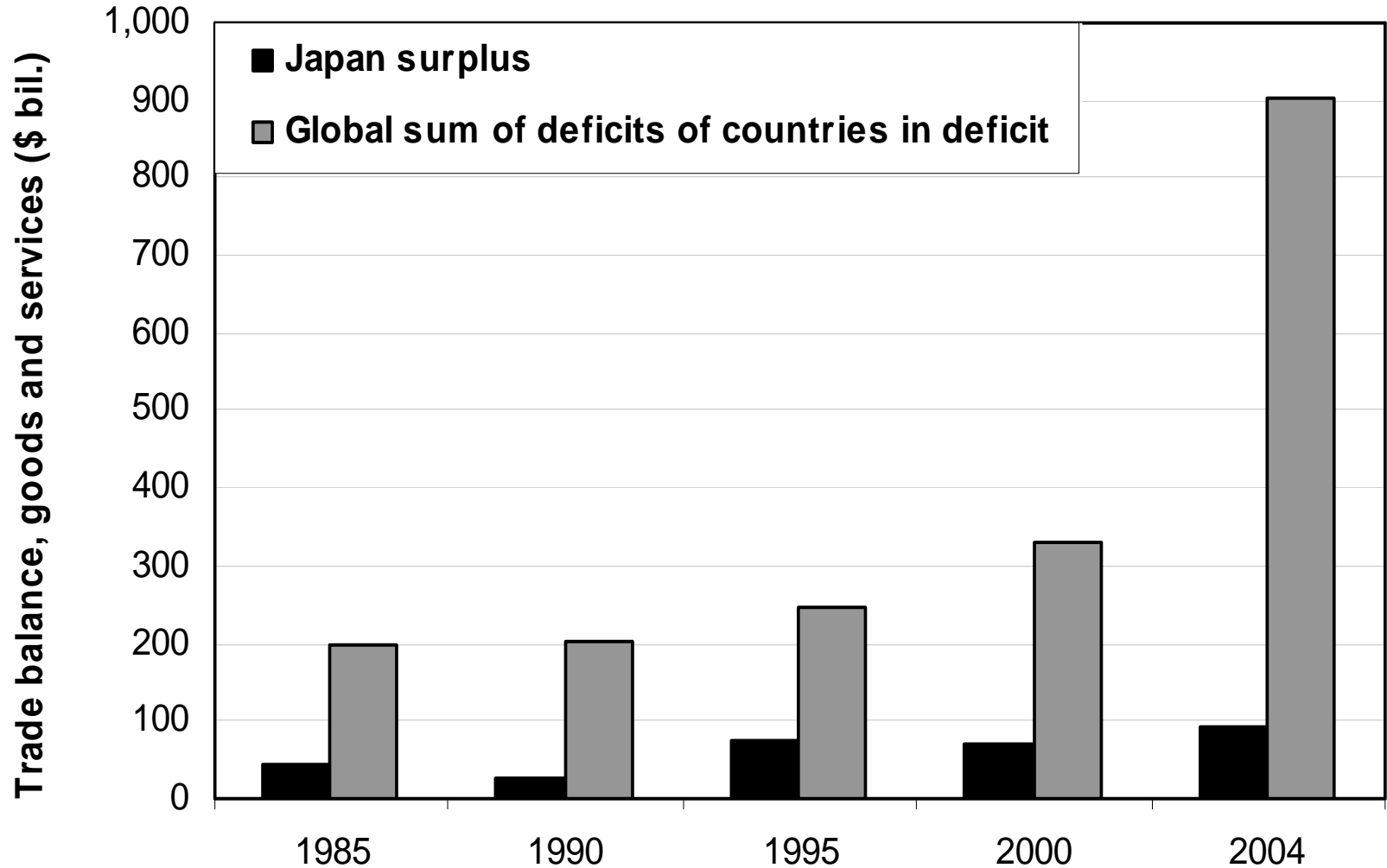
Trade Surplus Record % of GDP



Real Yen at 20-Year Low



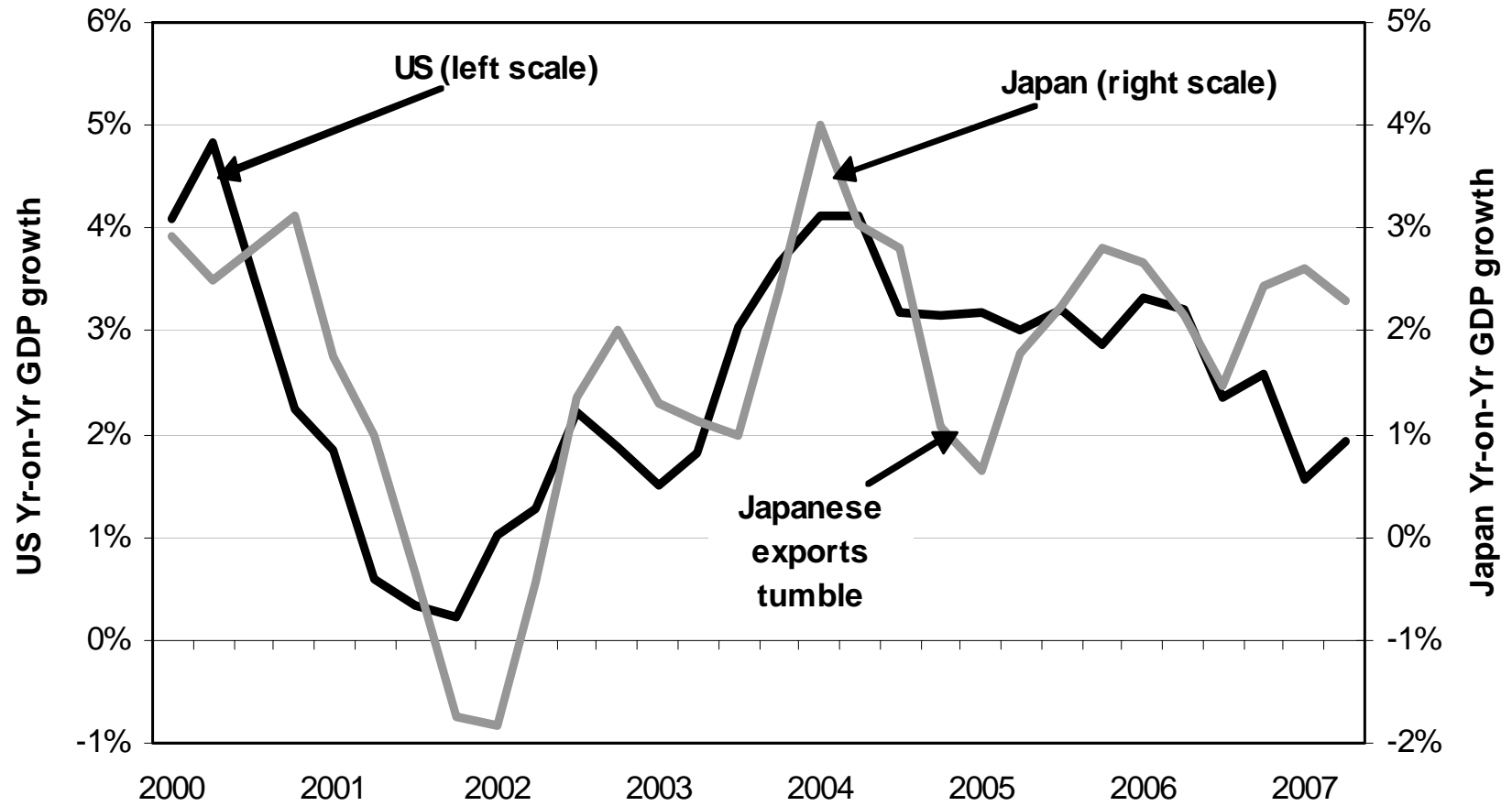
Falling % of Global Trade Surplus



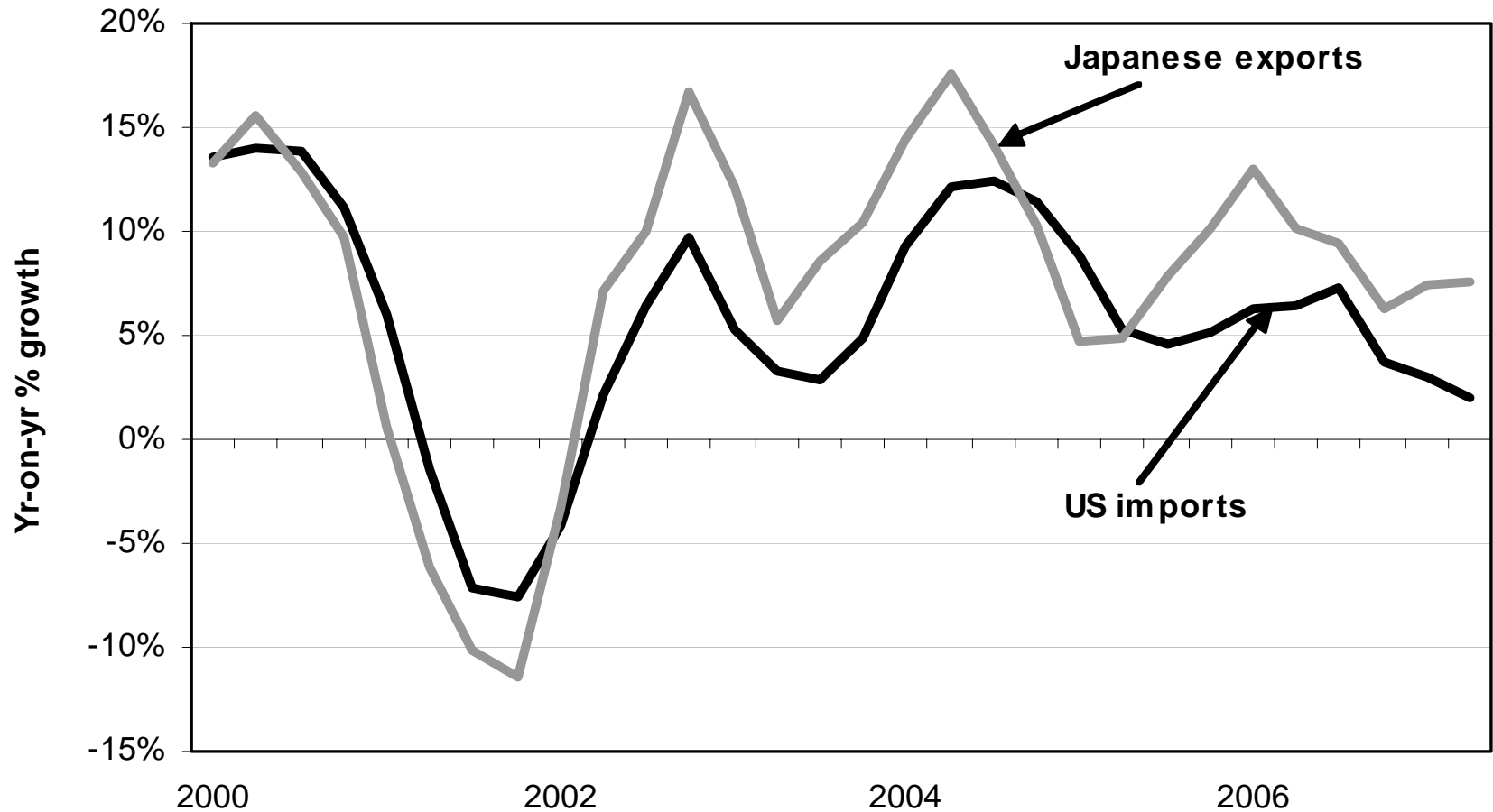
III.

**Japanese Medium-Term
Growth Dependent on
American Prospects,
Especially US Imports**

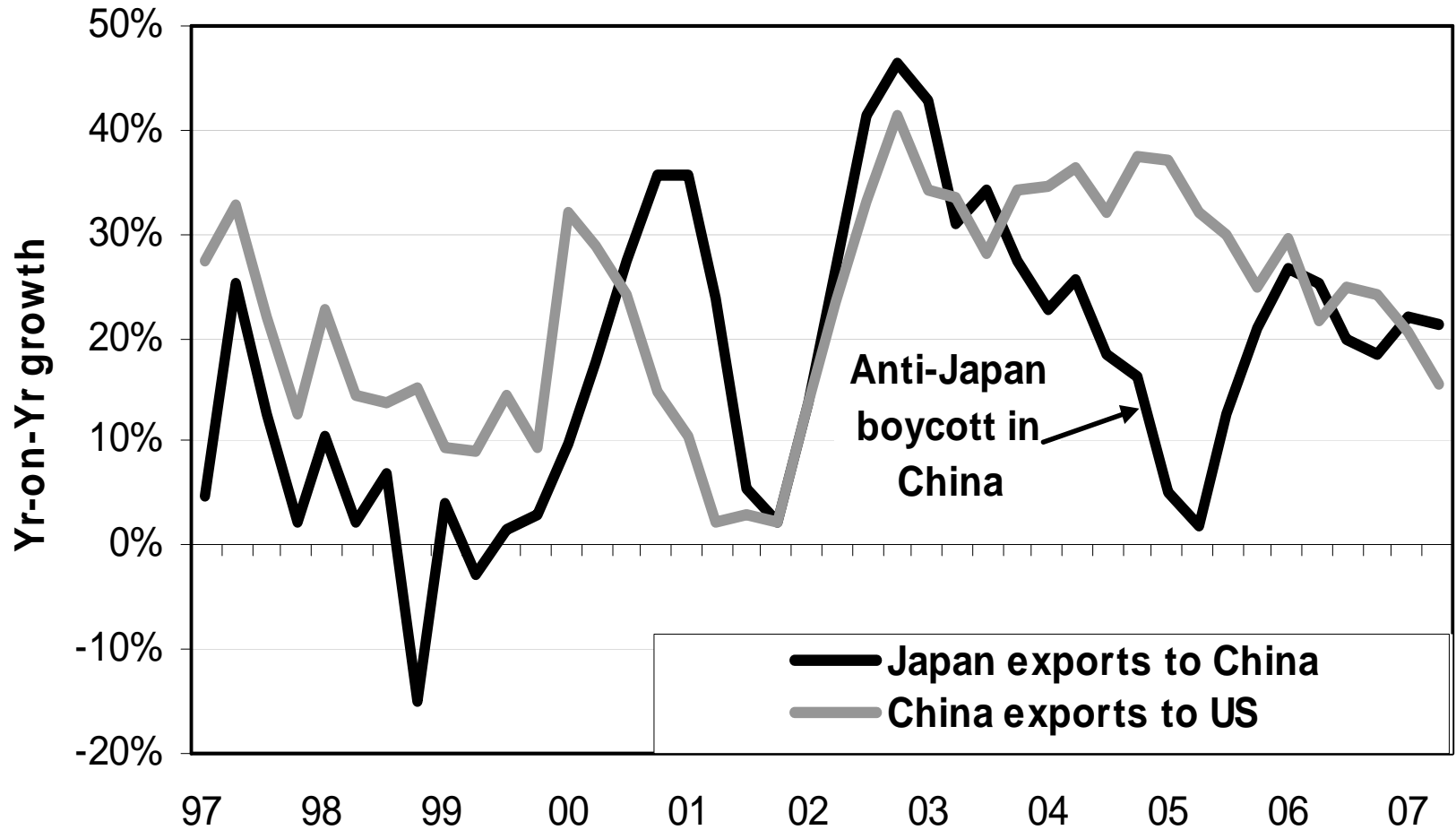
Last Seven Years: 70% Correlation Between US and Japanese GDP



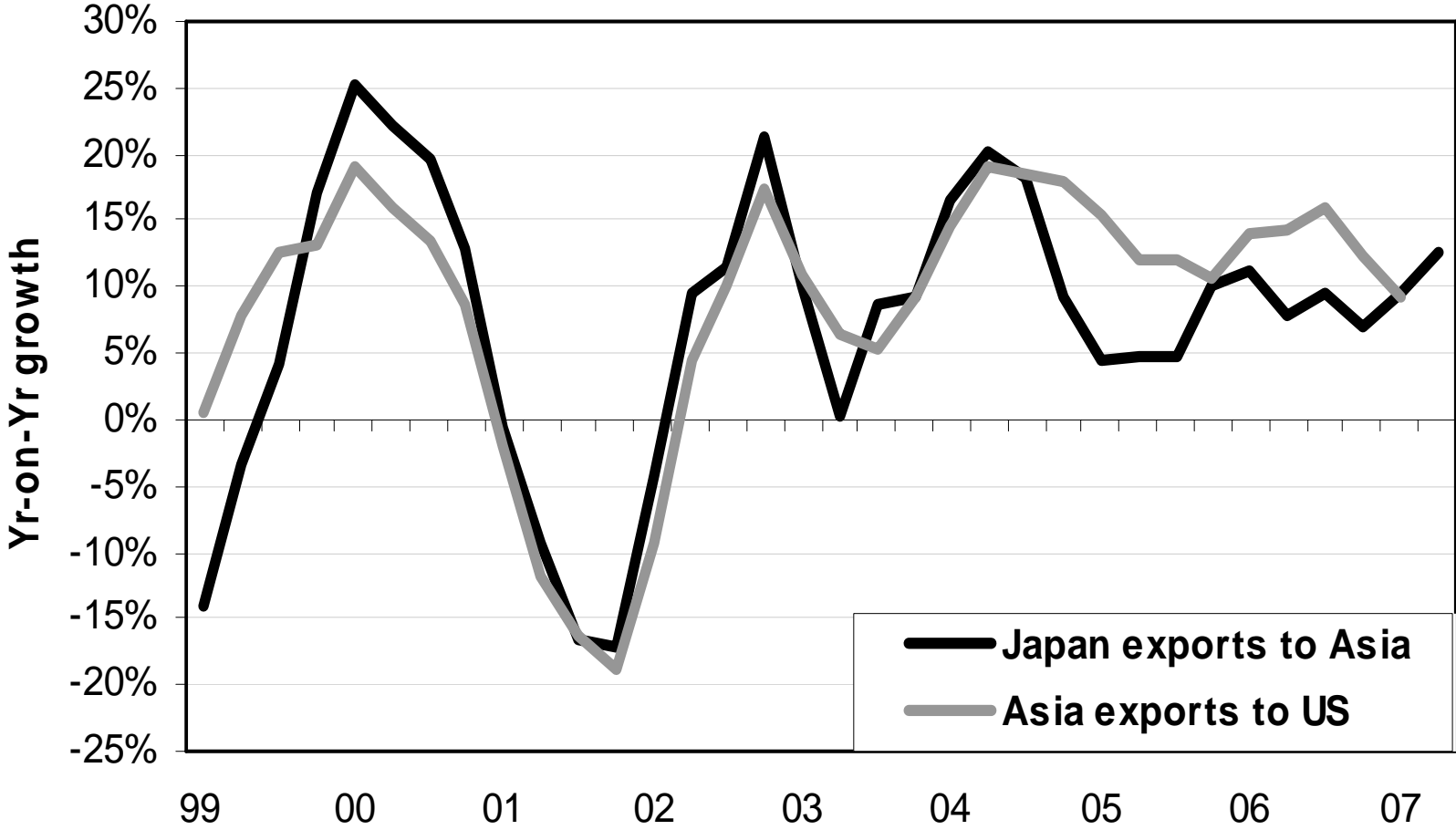
Japanese Global *Exports* Mirror US Global *Imports*



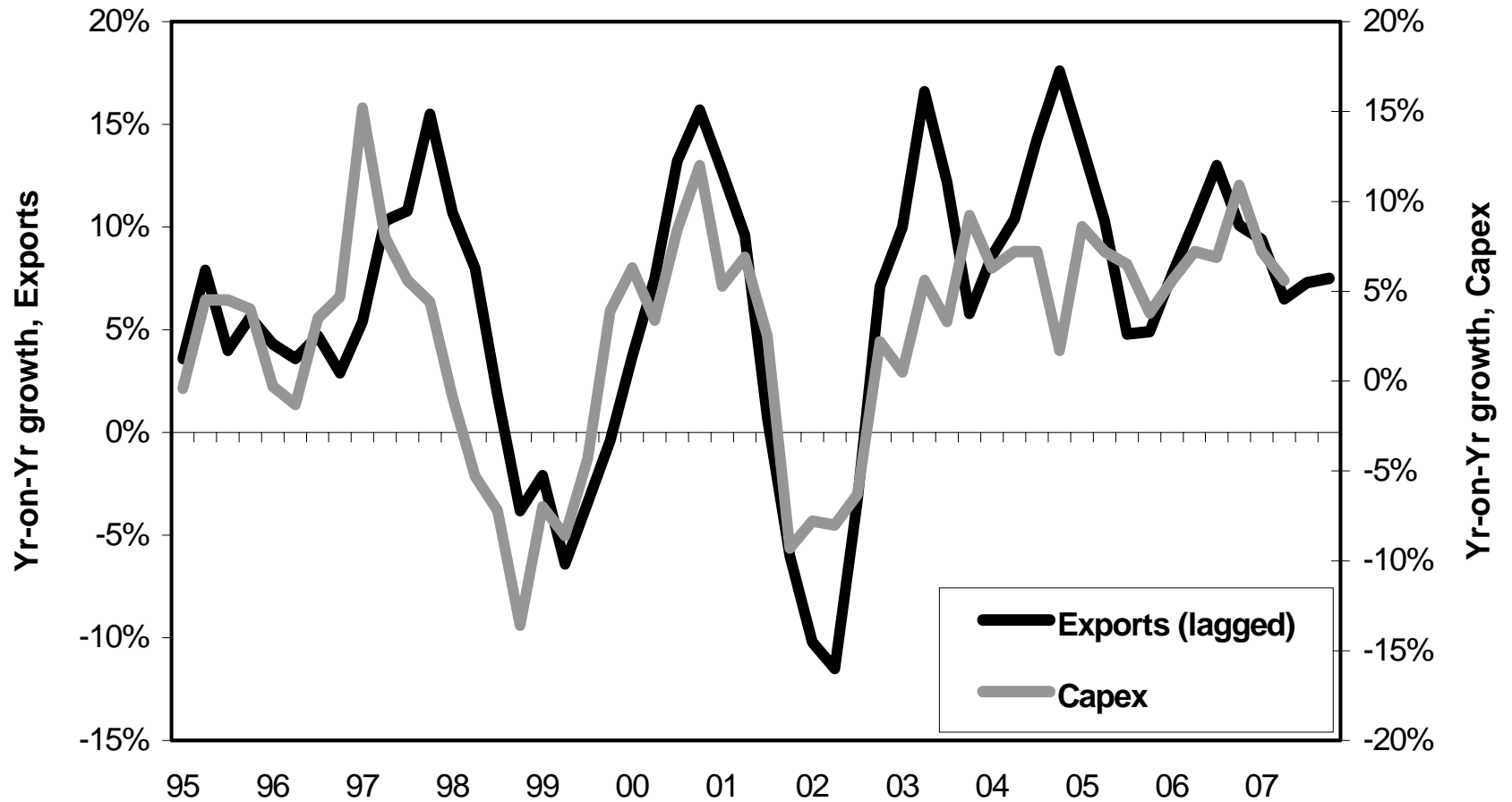
Japanese Exports to China Mirror Chinese Exports to US



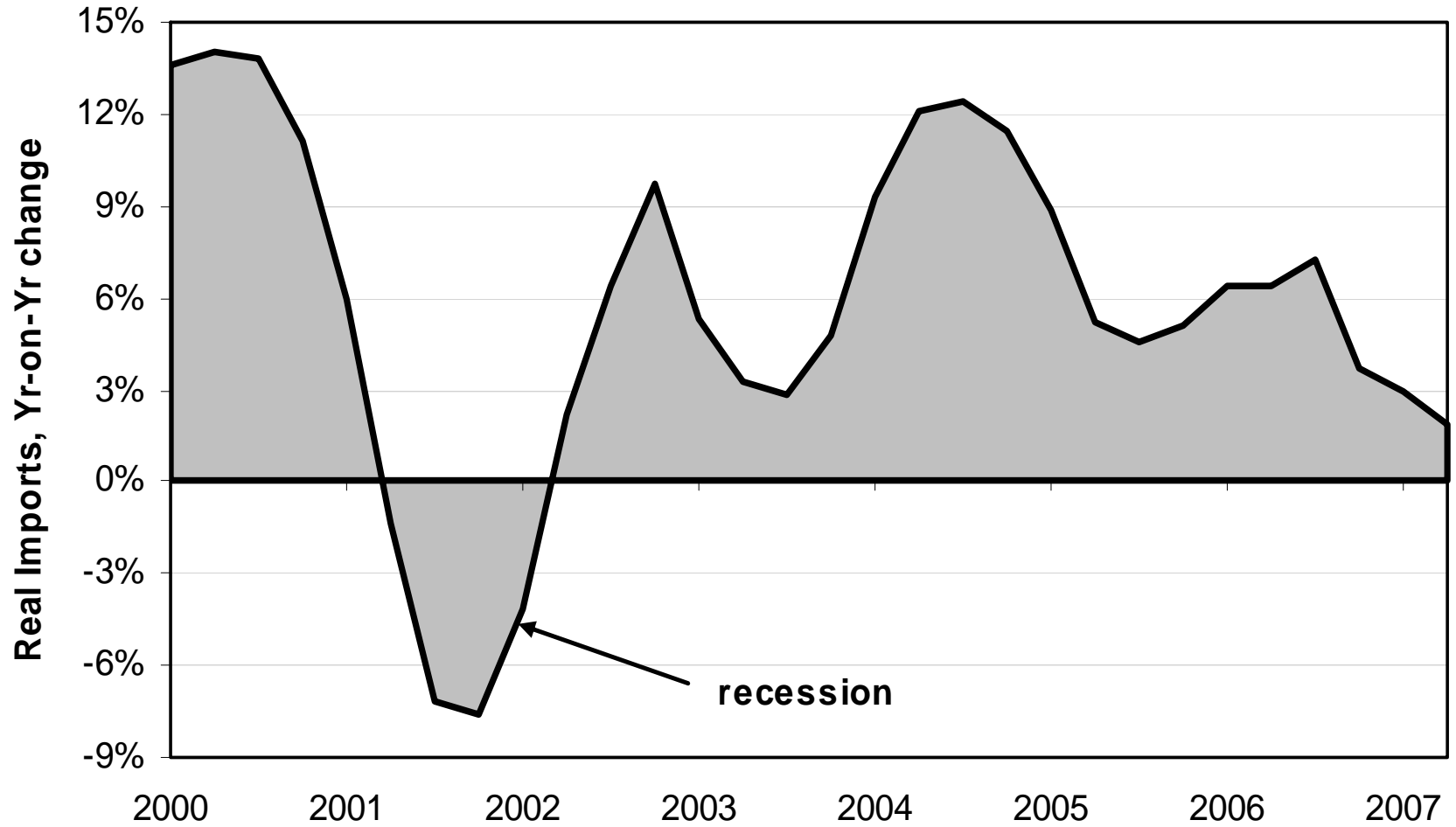
Japanese Exports to Asia Mirror Asian Exports to US



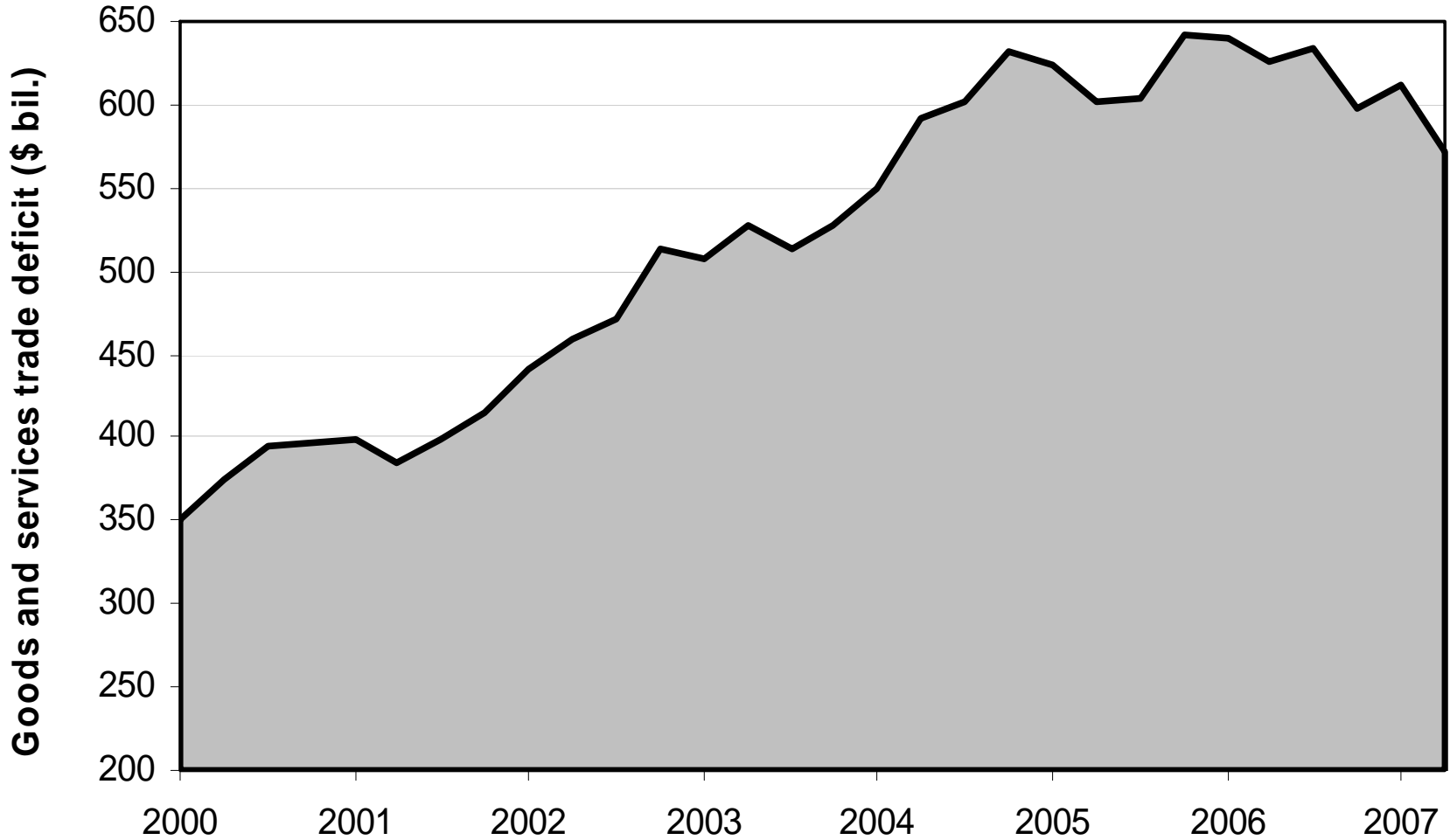
Capex Mirrors Exports Two Quarters Earlier



US Imports Decelerating



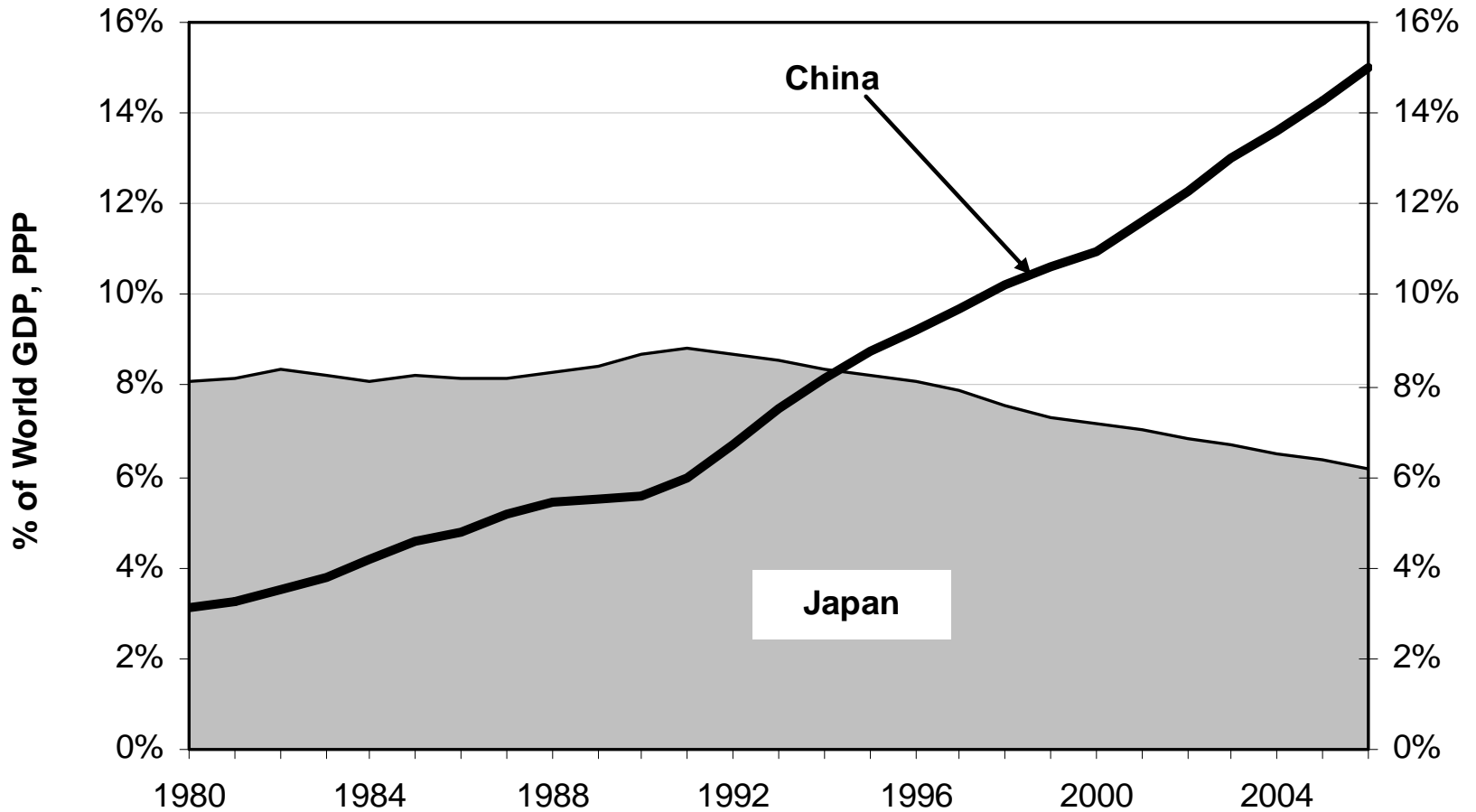
US trade deficit down 10% from peak



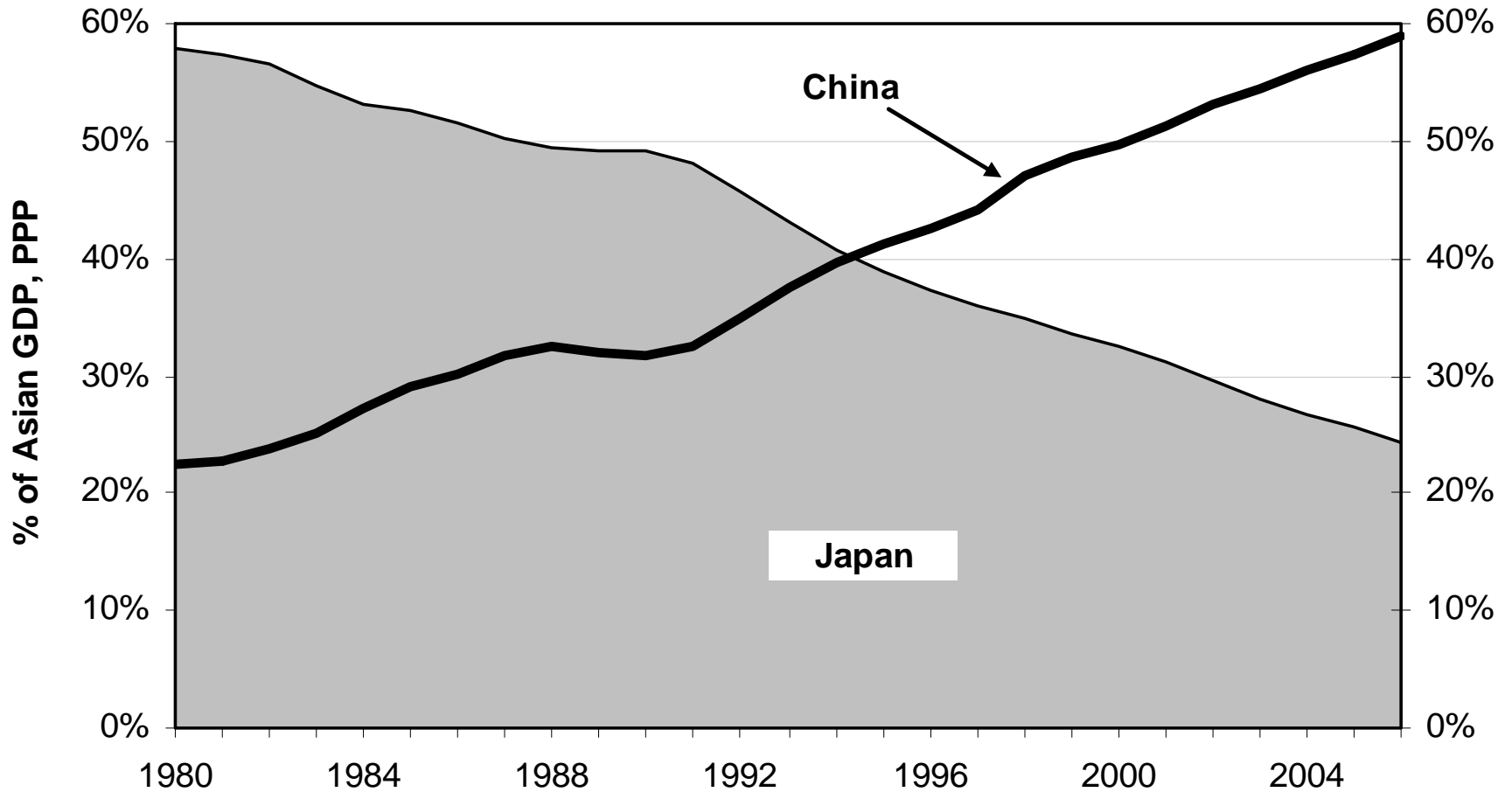
IV.

Japan's Declining Weight in the World

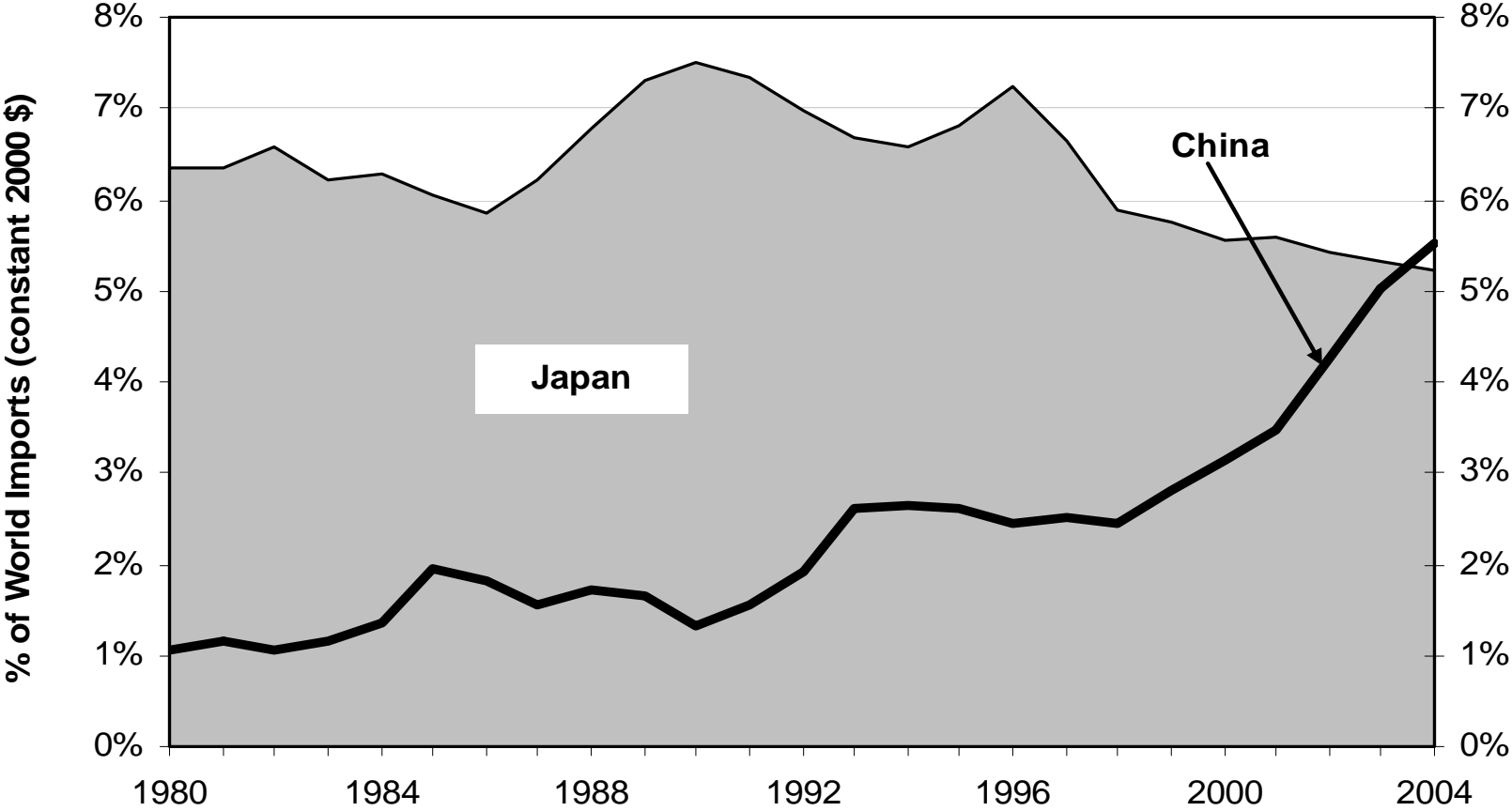
Japan's Declining Weight in World GDP (PPP)



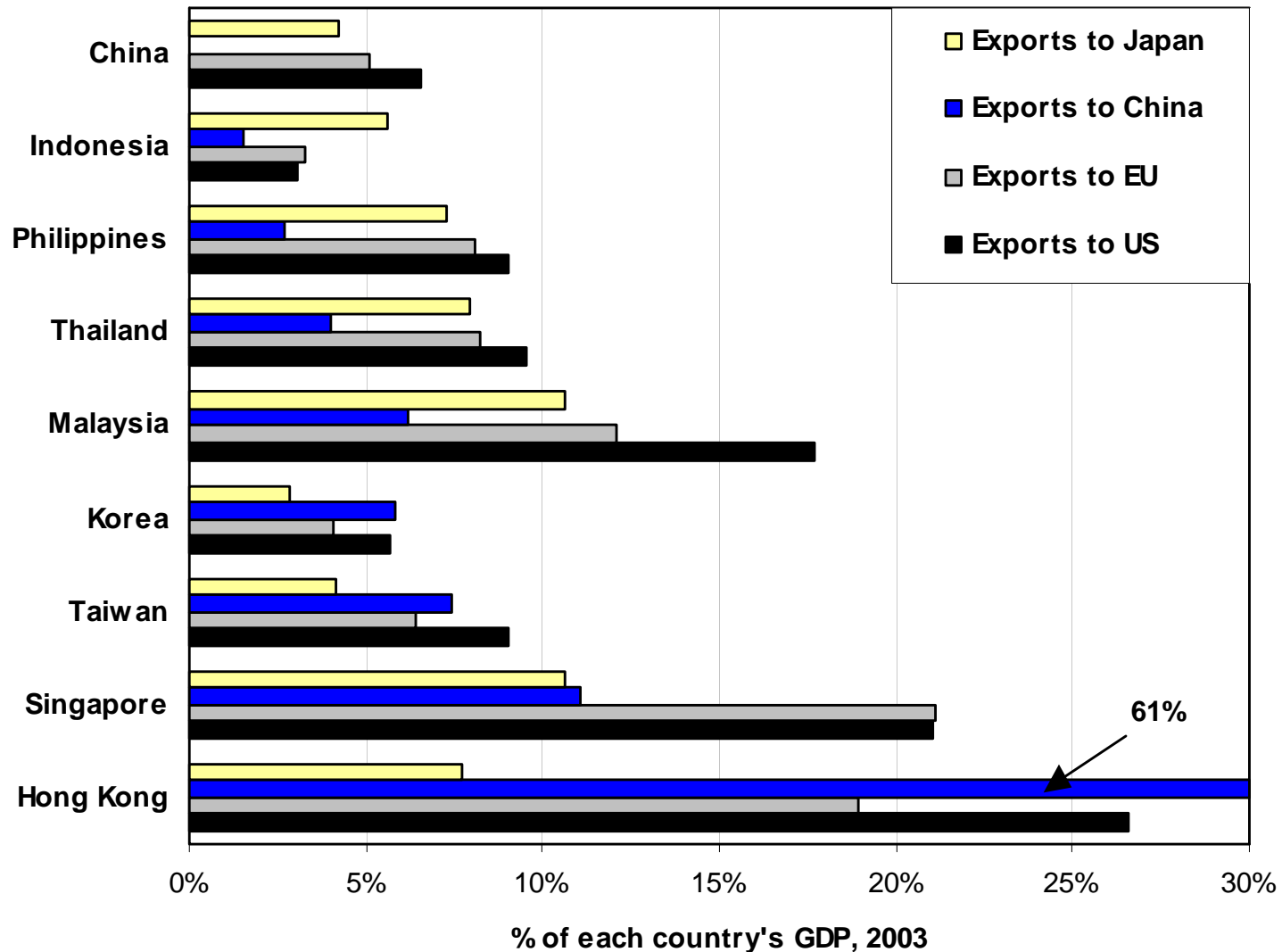
Japan's Declining Weight in Asian GDP (PPP)



Japan Falls Behind China in Global Imports



Japan Not Asia's Main Customer



V.

**Implications for
American Policy**

- Less vibrant Japan with less weight in world GDP and Trade is less of a counterweight to a rising China
- But economic reforms needed to raise growth pose political problems for ruling Liberal Democrats, some of whom ally with US on security issues
- Unlike under Koizumi, US could once again face trade-off between desire for economic vibrancy and desire for close co-thinkers on security policy
- Consider prolonged DC support for Shinzo Abe and disbelief he was doomed