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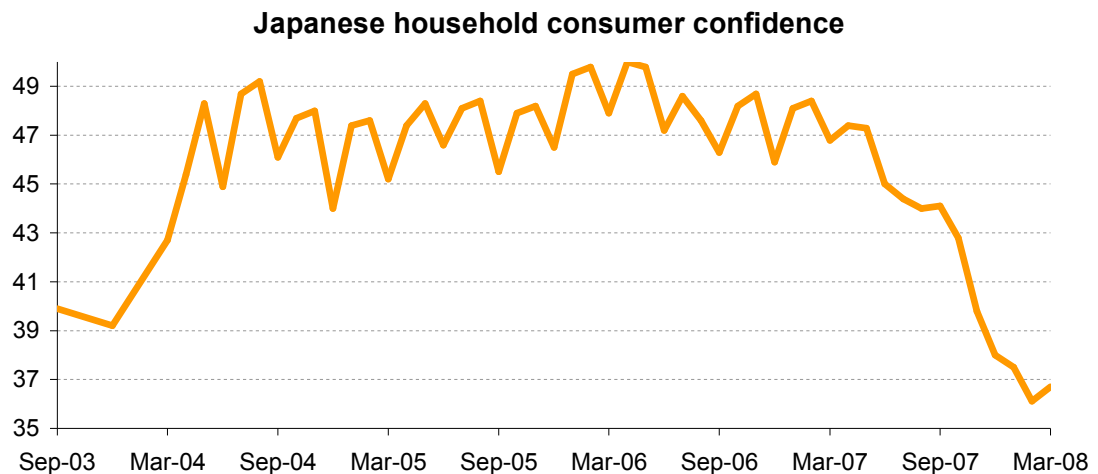
Daily Note: 18 April 2008

Japanese consumer confidence flickers

WE SUGGEST: Japanese consumer facing tough times

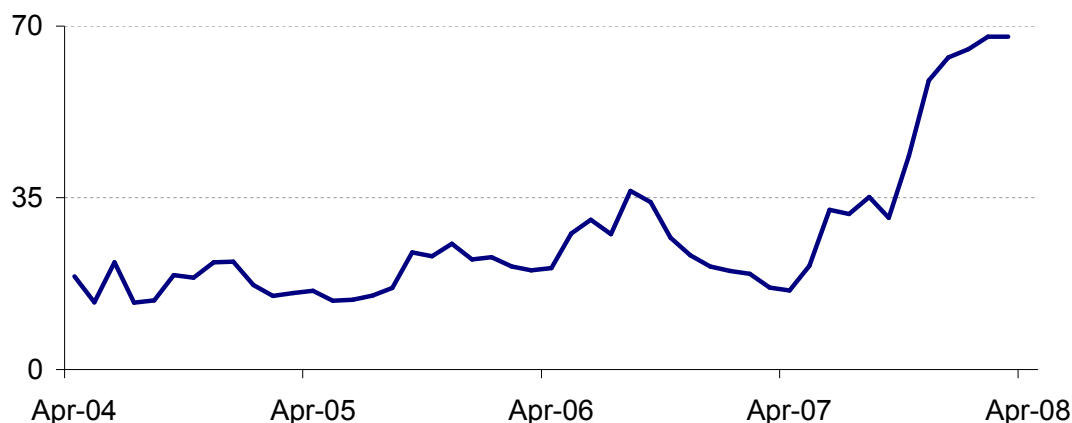
SUMMARY: Japanese consumer confidence picked up slightly in March. After collapsing in recent months, a bounce was perhaps to be expected. But the fundamentals for the consumer remain poor with expectations of higher inflation undermining confidence. Sub-trend growth remains the 2008 outlook.

Japanese consumer confidence ticked up slightly in March according to the monthly survey by the Cabinet Office. But the recovery was modest and comes after several months of plunging consumer confidence. (See chart.) The rise is hardly likely to herald a rising trend of confidence, especially as fundamentals for the consumer remain rather poor.



The survey revealed that consumers were more optimistic about employment, but less so about incomes. The concern about incomes is not surprising given consumer expectations about higher inflation. Recently Japanese CPI inflation has risen to a decade high of 1%. But over two-thirds of consumers expect inflation to rise above 2% in the next 12 months. These fears look well founded given the outlook for food prices (rice and wheat especially) and with food accounting for around $\frac{1}{4}$ of the total CPI basket. Despite the overall rise in consumer confidence the question relating to income prospects dipped again in March, reaching the lowest in over four years. And with the job-to-applicant ratio stuck below one in recent months, the outlook for employment is not likely to be positive for long.

Percentage of Japanese households expecting Inflation to be over 2% in a year's time



Also today the Cabinet Office published its latest Monthly Economic Report which described many GDP components as being flat, including consumption and business investment. The main positive influence in Japan is exports, which have remained resilient, especially to booming China. This may be sufficient to keep Japan out of recession in the first half of this year. But as growth in China fades later on the outlook for Japan remains tricky.

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