



Daily Note: 12 May 2008

## Japan: no credit crunch, not much credit

**WE SUGGEST: Japanese economy headed for trouble**

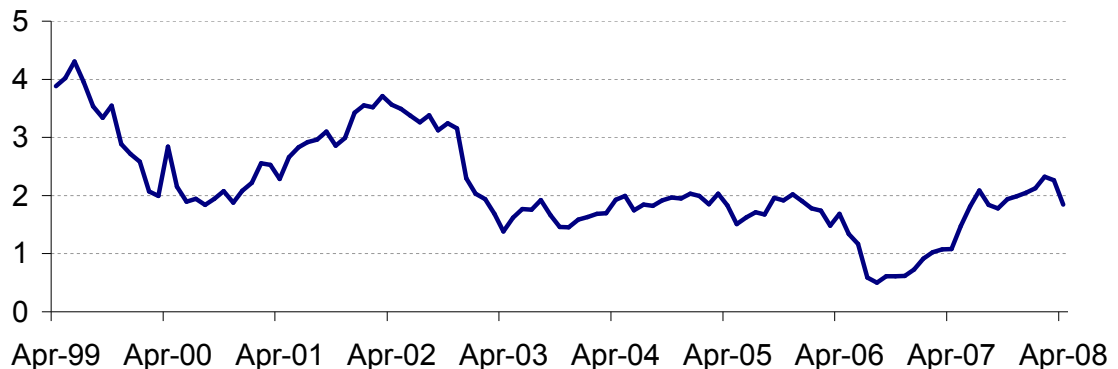
**SUMMARY: Japanese banks have escaped the worst of the credit crunch and are not tightening credit conditions. But credit growth remains weak and there is little sign of a pick up in loan demand or broad money growth. Meanwhile the Economy Watchers' survey dipped quite sharply in April, a further indication of a weakening outlook. Q1 GDP out this Friday may hold up, but the outlook is weak.**

Today's Japanese data do not change the outlook for the Japanese economy, which is heading for a period of weak growth at best, with a good chance of a recession later in the year. Broad money (M2+CDs) growth in Japan continues to expand rather modestly, up 1.9% in the 12-months to April, down from 2.2% last month.

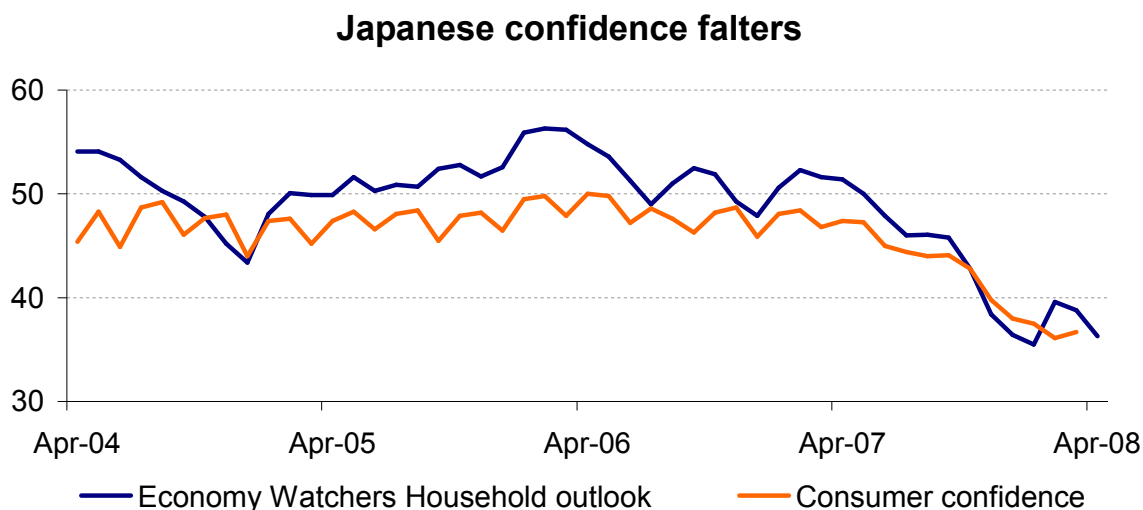
The good news from Japanese banks is that they are relatively little affected by the credit crunch. The recent senior loan officers' survey for Japan showed virtually no tightening in credit standards among Japanese banks over the last three months – in contrast to similar surveys in the US, UK and euro-zone all showed banks tightening credit conditions. Indeed overall Japanese banks eased credit conditions for all categories of loans to firms and households in Q1 this year. But despite this there is little sign of a significant acceleration in loan demand from households and the corporate sector, according to both the senior loan officers' survey and the latest monetary survey. However, the loan officers' survey suggests that fiscal policy may at last be being eased to support growth as the survey recorded a dramatic jump in loan demand from local government. The diffusion index measuring the strength of loan demand from local government jumped to +29 from -1 in the previous survey, the highest since the series began in 2000.

### Broad money growth (M2 +CDs)

12-monthly rate, %



Elsewhere, the April Economy Watchers' survey was also published today and recorded a dip in confidence after a brief improvement. This monthly survey of workers in business-cycle sensitive sectors can be used as an early measure of consumer confidence. As the chart below shows today's survey points to a fall in the main measure of consumer confidence published later this month. Of particular concern in this month's survey is the deterioration in employment prospects.



On Friday we get Q1 GDP growth estimate, with the current consensus being for 2.5% annualised growth i.e., a quarterly rate of 0.6%. A bounce in housing starts may be a boost in Q1 as recovery continues following the regulation-induced collapse last year. Recent growth has been supported by net exports and non-residential; construction. Consumer spending has been weak and is likely to remain so this year as higher inflation eats into negligible nominal earnings growth. Export growth has already begun to wane and will slow significantly once China addresses its overheating, post-Olympics. Japan's economic outlook remains poor.

Michael Taylor

[michael.taylor@lombardstreetresearch.com](mailto:michael.taylor@lombardstreetresearch.com)