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## **A Revised Forecast for the Japanese Economy in Fiscal 2001-2002**

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### **Summary**

In the wake of the terrorist attacks on the United States, and amid growing downward pressure on the economy due to the stagnation of share prices, it is likely that conditions will remain harsh in the second half of fiscal 2001.

1. As business performance and employment and income conditions continue to deteriorate, the growing uncertainty as to the future and the continued stagnation of share prices are likely to lead to a further downturn in consumer and business confidence, and the pace of the decline in consumer spending and private capital investment is likely to accelerate.
2. Given the prospect of a worldwide economic downturn, exports are likely to continue to fall.
3. As local governments are maintaining their stance of fiscal austerity and the central government is, basically, sticking to its policy of rebuilding public finance, the downward trend of public investment is likely to continue.

These factors suggest that the real economic growth rate for fiscal 2001 will be significantly negative, at around -1.4%.

Looking ahead to fiscal 2002, given the uncertainty as to when the US economy will begin to recover and the increasing downward pressure on the economy attendant on the process of structural reform, it is likely that the recession will continue and that real economic growth will be negative for the second year, at – 0.9%.

However, the present severe economic downturn is due to shrinking external and public sector demand, and, given the following considerations, it should be possible to avoid a chain reaction involving credit crunch and deterioration of the real economy:

1. The creation of a safety net will make it possible to prevent a monetary crisis of the kind that occurred in 1997-98.
2. Efforts to restructure over the past few years have achieved progress in the adjustment of excess capital equipment, and large-scale stock adjustments are unlikely.
3. Not only is deflation supporting the real purchasing power of the household sector, but share prices can also be expected to recover as progress is made with structural reform, and Japan should, therefore, be able to avoid a crash in consumer spending.

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