

This article explains the recent shrinking of Japanese Gross Domestic Product (GDP). Japanese GDP shrank 0.1 percent in the October-December quarter, the third straight quarter of contraction. Beforehand, there had been a consensus market forecast for 0.1 percent growth. This drop in GDP was the second straight in two quarters, meaning that the Japanese economy had thereby continued to meet the common definition of recession. Although the Japanese economic annual growth rate for 2004 was 2.6 percent, private consumption started to wane and slowed growth as the year progressed. The article concludes by explaining that Japanese exports suffered a significant slowdown and may impact otherwise optimistic forecasts for near-future Japanese economic performance.

One must take into account the expenditure approach to measuring GDP when analyzing the Japanese economy. There is a clear impact on GDP, Y, when private consumption, C decreases, because of the relationship, Y = C + I + G + (X - M). Private-sector consumption accounts for over 55 percent of economic activity in Japan, so its falling 0.3 percent in October-December accounts for: 0.003 x 55 = 0.165 percent of the total decline in Japanese GDP. Of course, other components of Japanese GDP increased, such as capital spending, but Japanese GDP suffered a net loss of 0.1 percent. External demand (X - M) was even more detrimental to Japanese GDP than was the decline in private consumption. Exports account for about 10 percent of economic activity in Japan, and their huge decline clipped 0.2 percent off growth. The October-December quarter was the second straight quarter in which external demand pulled down growth. When looking at the components of GDP, it seems that this Japanese recession could be partly caused by the changing aspects of the financing of investment in Japan. This is evident in the relationship, as learned in class, I = S + (T – G) + (M – X). National savings has decreased in Japan, while net exports have also decreased, meaning that foreign savings has increased. Consequently, the investment, I, component of Japanese GDP has had stability problems, perhaps leading to recession.

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