

POSITIVE EXPECTATIONS FOR THE TWO GIANT ECONOMIES

Is the U.S. Economy in a Recession, or Not ?

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With delays in the release of some economic data and also the harsh winter weather, it is not easy determining the state of the U.S. economy. Although the economy took on a softer feel at the end of 1995, a series of recent statistics shows that it is slowing sharply. One piece of negative news was that the economy lost 201,000 jobs in January as the unemployment rate jumped to 5.8 percent from 5.6 percent in December. Moreover, consumer and business confidence is being dampened by the partial government shutdowns, uncertainties about the negotiations over the fiscal budget, sluggish holiday sales and undesirable inventory accumulations. Some pessimistic analysts are aggressively expressing the situation as being a recession.

Despite the negative signs in the economy, one must be cautious in interpreting the current economic downturn as being a recession because of

the potential skewing of the data caused by a blizzard that shut down much of the eastern United States in January. The reductions in interest rates at the end of January will make the increased consumer debt burden more manageable, possibly promoting consumer spending. The booming stock market will also help to increase consumer spending by raising the net wealth of investors. On the banking side, the loan contraction is far from the credit crunch that led the economy into recession in 1990 as banks reduced loans sharply. It is also believed that the Fed has more room to respond to any further deterioration in the economy with lower interest rates supported by low inflation and coincidentally low international interest rates. In light of all these facts, the U.S. economy is not really sliding into a recession; instead, it is warming up for the coming spring.


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Economic Recovery in Japan Is Likely in the Near Future

Despite widespread suspicion about the pace of recovery, the Japanese Government's Economic Planning Agency officially announced that the economy is beginning to show signs of a moderate recovery. In the third quarter of 1995, real GDP grew at an annualized rate of 0.6 percent from the second quarter of 1995, showing an improvement over the forecast of negative growth.

However, officially using the word “recovery” seems to be a bit early given this current state of the economy because there are negative signs as well. For instance, household spending and retail sales continued to decline and unemployment stood at a record 3.4 percent. Furthermore, there

remains uncertainty over a number of things, including to what degree the Japanese economy will be able to absorb pressure from various structural reforms. For these reasons, interest rates in Japan will not be much higher than the historically low current level so long as inflationary pressure on the economy is not likely.

Combined with these prolonged low interest rates, the falling yen, increases in equity prices, improvements in corporate profits, and some progress in bad-debt issues will make it more adequate to refer to the economy as being in a “recovery” in the near future, as so desired by the government agency. 

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