

BETTER PICTURE FOR THE BIG TWO ECONOMIES

Economic Recovery Evident in U.S. and Japan

Recent U.S. economic data indicates that business activity has been gaining momentum after the sluggish 0.5% GDP growth of the final quarter in 1995. The GDP growth rate in the first quarter of this year was 2.8%, surprisingly higher than anticipated. Large gains have also been posted in employment, personal income, consumption spending, the use of consumer credit, home building and other leading business indicators. The NAPM index also jumped to 50.1% in April, up from 46.9% in March. It was the first time since last July that the index reached above 50%, indicating that manufacturing is expanding.


After the government reported a surprisingly rapid rebound in the overall economy, some forecasters began to worry that the Fed might reverse its policy stance at the FOMC's May meeting and begin raising rates. Actually, the long term government bond rate has been rising gradually, reaching almost 7%. However, the fact that the U.S. economy is growing at a moderate pace with little sign of any inflationary pressure will likely reduce those fears and increase expectations that the central bank will leave interest rates unchanged for now.

Recent data also supports the widespread optimism about the economic recovery of Japan. One piece of the evidence that business activity is firm is the strong gains in industrial production, which rose at a 15.6% annualized rate in the first two months of the year. The rise in new machinery orders in January and the rebound in the housing sector are also indicative of a strengthening economy. In addition, Japanese businesses and consumers continue to see the economy as gradually improving, according to recent surveys of both sectors.

Despite the improvement, uncertainty over the job market is a key factor holding back the Japanese economy. Unemployment has been above 3% for several months, which is extremely high by Japanese standards, and in February, it stood at 3.3%. Until consumers are reassured about the employment outlook, the economy may not be able to shift into a sustainable, private-demand-driven growth.

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Still-Staggering German Economy

The Bundesbank, Germany's central bank, cut its key rates by 0.5% points to quickly revive the nation's stagnant economy and to reduce the record-high unemployment rates. The rate cut by the German central bank was the latest in a series of declines that began in September 1992. The Bundesbank cut its discount rate and its Lombard rate, dropping them to 2.5% and 4.5%, respectively. Lowered interest rates are justified by the country's low inflation rate, even though the money supply has been accelerated recently. Some analysts seem to believe that the Bundesbank's decision could give industry some quick relief on exchange rates because a lower mark would make German exports more competitive in foreign markets. However, there is the view that the rate cut is not enough and too late to prop up the staggered economy. German industrial output in February fell 2.8% from January, more sharply than the 1.6% originally expected, and the GDP growth rate in the first quarter is expected to be minus 0.5%. Using only monetary easing will not be effective in kick-starting economy while fiscal spending remains restrained. 

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