

U.S. & JAPAN : HEADING IN OPPOSITE WAYS

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The U.S.: Robust Economic Growth Continues

In its initial release at the end of July, the U.S. government said that annual GDP growth rate for the second quarter was 2.2%, with the growth rate of the GDP deflator being 1.4%. Based on this data, financial investors thought that the U.S. economy was growing at a stable rate with low inflation, which was what the Fed had wanted when it raised the interest rate in March 1997. This interpretation made the dollar strong against the Japanese yen and the German mark, while the possibility of raising Japanese and German interest rates made the dollar depreciate against the yen and the mark. Despite the low inflation rate in the second quarter, the increase in the National Association of Purchasing Management Index in July made bond investors worry about a future increase in the official interest rate, which in turn resulted in higher current interest rates.

The U.S. Commerce Department said at the end of August that the revised second quarter estimate of the U.S. gross domestic product showed an annual growth rate of 3.6%, following the 4.9% growth of the first-quarter of this year and the 4.3% growth of the fourth-quarter last year. Thus, the U.S. economy has shown robust expansion for three straight quarters, since 2~2.25% growth rates are considered to be desirable for non-inflationary growth. The main reason for the rapid growth of the second quarter GDP was the faster growth of export and the increased inventory of wholesalers. Although the revised growth rate of the GDP deflator was 1.5%, the mildest in five years, and the growth rate of the consumer spending fell to 1% from 5.3% in the first quarter, it is very

likely that the Fed will raise the interest rate at the Federal Open Market Committee to be held on September 30.

Japan: Slumping Again

The Japanese economy is suffering another slump this year. From 1986-1990, the annual growth rate of the real GDP was 4.6%, but this fell to 1.4% for 1991-1995. Last year it rose to 3.7%, which was interpreted as a signal of a recovery from the long slump. This year was expected to be the second year of robust economic growth stimulated by the expansion of the private sector.

However, the impact of the consumption tax increase from 3% to 5% on April 1 turned out to be stronger than expected. This tax increase was necessary to reduce the fiscal deficit. The ratio of the accumulated fiscal deficits to GDP was 87.4% in 1996, compared to the 64.2% in the U.S. and 64.7% in Germany. Before the tax increase, OECD forecasted that the ratios in 1997 would be 64.0% in the U.S. but 93.1% in Japan. The Japanese government expected the negative effects of the tax increase on the economy to be temporary, but its impact is still lingering. Chain store sales and department store sales fell 4.1% and 3.4%, respectively in July from a year ago. Domestic car sales also decreased 10% in July from a year earlier. Furthermore, business inventories seem to be on the increase. On the other hand, Japanese exports have increased sharply by 69.7% in July from a year ago, mainly due to the weak yen.

The current economic situation in Japan makes it hard to raise the official interest rate, which was lowered to 0.5% in September 1995. **VIP**

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