

## U.S. MAINTAINING STRENGTH, FOR NOW

by Sung-Soo Yang  
(e-mail: yangss@hri.co.kr)

### *The U.S. Economic Slowdown Will Be Delayed*

Unexpectedly, the U.S. economic growth rate for the fourth quarter was 5.6% y-o-y. While other markets in the world have been sliding down, the U.S. seems to be maintaining strength. However, despite the booming economy, the S&P 500 earnings per share appeared to be up only 2% or so in the fourth quarter. As Alan Greenspan said in a Congressional testimony, it is unlikely that the U.S. can remain an oasis of prosperity while everyone else is struggling.

As overseas markets are showing moderate or even negative growth, export-oriented multinational firms will experience moderate earnings declines. So far, the Internet-related groups have stood out and led the overall bullish stock market, but they seem to be overestimated compared with their own intrinsic value, as Bill Gates said at the Davos Forum. A stock market correction from technology groups may happen soon. The earnings decline will bring about the decrease of capital spending and the rise of the unemployment rate. At the same time, individual consumption, which accounts for 70% of GDP, seems to be shrinking because the increase rate of consumption has exceeded personal income growth for six consecutive months.

Furthermore, Brazil's problems will probably have a limited influence on the U.S., but they will surely contribute to the deflationary pressures that are apparent in the global economy. Considering the above various factors, the U.S. slowdown will probably appear from the second quarter of this year.

### *Japan: The FSA's Efficient Measures and the MoF's Obscure Policies*

The economic deterioration in Japan is moderating gradually due to the increase in public investment. Net exports are basically increasing at a moderate pace, and public investment has turned to follow a distinct upward trend. Reflecting this development, the decline in production is slowing. However, corporate profits continue to worsen. Employment and household income conditions have deteriorated as the unemployment rate has marked a historical high again.

While the real sector still remains stagnant, financial conditions are improving with the effects of some policy measures. For example, recent announcement of the merger between Mitsui Trust & Banking and Chuo Trust has created a new wave of optimism about Japan's shaky financial reform. This merger shows the Financial Supervisory Agency (FSA)'s willingness to take an aggressive approach to cleaning up the banking sector.

While the FSA is helping restore confidence in the banking sector, the same cannot necessarily be said for the Ministry of Finance (MoF) and the Bank of Japan (BoJ). The recent announcement to reduce the bond purchasing limit by a government agency shocked the bond market and precipitated the recent huge rate increase, and consequently led to the strengthened yen.

The ruling Liberal Democratic Party (LDP) has always said aggressive stimulus packages will revive the Japanese economy, but paradoxically, the moves by MoF and BoJ are not necessarily conforming to this principle. **VIP**