

Business confidence deteriorates

JETRO surveys Japanese companies involved in ASEAN and India

The JETRO survey of 4,245 Japanese companies involved in the markets of the six ASEAN nations (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and India carried out between September 25 and October 31 regarding the operational income forecasts for 2008 and 2009, predicted a worsening of business confidence for many of the countries (1,473 companies responding for a response rate of 34.7%).

The answers given most often for the cause of worsening operational income forecasts for 2008 were cost increases due to the increased cost of resources, including oil, such as "increased procurement cost" (66.8%), "fuel cost / energy cost (electricity, gas, etc.) increase" (49.1%) and "inadequate shifting of costs" (36.5%).

For instance, in India, costs could not be adequately passed on to sales prices, causing a negative DI* (minus 11.7) when compared to 2007 performance. This is the first time since the survey began in 1997 that the business confidence of Japanese manufacturing companies

in India dropped.

On the other hand, in Indonesia, increased costs were shifted on to sales prices and many companies realized "increased prices / increased sales from raised prices" resulting in a major increase in the DI (40.0).

When the DI for each industrial sector in which Japanese companies are concentrated is examined, all of them show a major worsening with the automotive industry, in India at minus 61.4, the automotive industry in Thailand at minus 37.2, and the electrical and electronic industry in Malaysia at minus 28.2.

The DI for non-manufacturing industries also dropped for all countries when compared to 2007. The reasons given by Japanese companies for their forecast for deterioration are "reduced sales in the country's market" (46.9%), "increased personnel costs" (33.7%) and "fuel cost / energy cost (electricity, gas, etc.) increases" (32.0%). As with manufacturing, the forecast reflects the effect of reduced consumer spending and increased personnel costs against the backdrop

of the cost increase caused by the worsening inflation of 2008.

Looking at the DI comparing the operational income forecast for 2008 and 2009, "improved" was predicted for Singapore, Vietnam and India while "worsened" was predicted for Indonesia, Malaysia, the Philippines and Thailand. The most common reason for "improved" given for Singapore and Vietnam was "increased sales due to increased exports," showing that at the time of this survey (October), the effect of the recession which began in the US was not yet deeply felt locally. In 2009, while the pressure of cost increases due to the rise in resource prices is expected to relax, reduced demand due to the worldwide economic downturn is expected to put pressure on the profits of Japanese companies.

*DI is the abbreviation of "diffusion index" and represents the percent of companies which answered "improved" minus the percent of companies which answered "worsened." This figure shows the direction in which business confidence is heading.

Emergency grant to the Republic of Yemen for flood disaster

The Government of Japan decided to extend emergency grant aid of about US\$800,000 through the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Children's Fund (UNICEF), to support the victims of the serious flood disaster in the Republic of Yemen.

The Government of Japan decided to extend this emergency

Assistance for Palestine

The Government of Japan decided to extend assistance of about \$2,850,000 in total to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) to support the general fund, universal scholarship program and a project to expand the implementation of the Mother and Child Health Handbook.

The details of the assistance are (1) General fund of UNRWA: \$2,550,000, (2) University scholarship program:

Japan Economic Chronicle December 2008

2nd

● **BOJ pumps 3 trillion yen into corporate financing measures:** The Bank of Japan convened an emergency policy meeting in which it decided on the provision of new funds to financial institutions. In addition to easing conditions for using corporate debt as collateral towards the end of the year, when capital demand tends to increase, the BOJ will also implement a new system for providing low-interest loans. The BOJ expects that it will be able to provide approximately 3 trillion yen through such measures.

● **Major steelmakers consider temporary shutdowns of furnaces:** Major steelmakers, including JFE Steel and Kobe Steel, are considering a temporary shutdown of their furnaces, in the face of slumping demand. This is due to the global downturn in demand for automobiles, as the auto industry is one of the major customers of the steel industry.

4th

● **Nippon Oil and Nippon Mining to merge:** Japan's largest petroleum distributor Nippon Oil Corporation and sixth largest petroleum distributor Nippon Mining Holdings announced that they would integrate their management in the spring of 2010. The resulting company will be the world's eighth largest petroleum company, and will hold a 33% share of the domestic gasoline market.

5th

● **Honda announces withdrawal from F1:** Honda announced that it is to withdraw from the prestigious Formula One circuit. With demand for automobiles slumping around the world and with business results worsening, the estimated annual 50 billion yen it costs to maintain and run its F1 team was deemed to be too much of a burden.

7th

● **Overseas sales mark first drop:** It was reported that the overseas sales of major publicly listed Japanese companies have declined. Total sales for the period April to September 2008 stood at 67.04 trillion yen, 1% down on the previous year. In the United States the fall was close to 10%, centering on the auto industry, with operating earnings slashed by half.

8th

● **Bankruptcies at their highest level in five years:** Private-sector research institute Tokyo Shoko Research reported that the number of corporate bankrupt-

15th

● **A major drop in business confidence for the first time:** The Tankan survey announced its Short-term economic observation (Tankan) that shows the business confidence of major manufacturers at its lowest in six years and nine months, since March 2003. The drop from the last survey in September, the worst drop since 2003.

16th

● **Toshiba to temporarily shut down factories:** Toshiba announced it will temporarily close its primary semiconductor plant, the Kita Kyushu plant, for almost one month at the year's end. The product (Oita City) will close for three weeks. The Yokkaichi plant will also temporarily close.

17th

● **Honda forecasts operating loss for the second year:** Honda announced that its combined operational loss (US accounting standard) in March 2009 (from October 2008 to March 2009) is projected to be a loss of 445 billion yen (compared to a profit of 445 billion for the same period in 2008).

18th

● **Panasonic acquires Sanyo Electric:** It was announced that Panasonic has reached for Panasonic to acquire the stock of Sanyo Electric, one of the three major shareholders, including Goldman Sachs.

19th

● **BOJ cuts interest rates by 0.2%:** BOJ decided to cut the short-term interest rate from 0.3% to 0.1% at its financial policy decision meeting. The expansion of financial aid was decided upon, including the purchase of government bonds (CP) and increased purchase of long term government bonds. ● **Zero growth for next year:** The Government announced its "Economic Forecast" in which the real growth rate of the economy is expected to be 0%. Due to the rapidly worsening world economic situation, business investment is expected to drop drastically.

22nd

● **Government downgrades assessment:** The Government's monthly economy report for December that the overall assessment of the economy has been downgraded from "weakening" to "worsening" was announced was February 2002.

● **Biggest drop in exports:** The Minister of Finance announced that the amount of exports dropped 26.7% from the previous year, the greatest drop since 1980, the start of the competition with semiconductor exports decreased.

● **Toyota drastically revises production:** Toyota announced that it will drastically reduce its production of cars and trucks in the first half of 2009.