

Japan's economy sinks deeper into mire.By **Chaitanya Kalbag**

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TOKYO, Sept 14 (Reuter) - Japan's sickly economy has been contracting as its stubborn trade surplus balloons, government figures showed on Tuesday.

Gross national product (GNP) shrank 0.5 percent in the April/June quarter from the previous quarter after adjustment for inflation, the government's Economic Planning Agency said.

On an annualised basis, GNP -- a measure of the nation's total output of goods and services -- contracted 2.0 percent.

"The economy remains weak," said Matthew Berlow, economist at Credit Lyonnais Securities. "The (July-September) quarter will also be weak so we are looking at a negative figure for the year."

At the same time, the Finance Ministry announced that Japan's trade surplus widened in August to \$7.54 billion from \$7.02 billion a year earlier on a customs cleared basis and after adjustment for seasonal factors.

An official said imports had increased in volume, helped by the strong yen but the government hoped Japan's trade surplus would shrink following an expected expansion of domestic demand generated by more economic stimulus.

Prime Minister Morihiro Hosokawa is widely expected to unveil a broad package of pump-priming measures on Thursday. Later this month he heads for the United States for talks with President Bill Clinton, expected to include contentious bilateral trade issues.

Washington has been putting unrelenting pressure on Tokyo to rejuvenate domestic demand and slash its gargantuan trade surplus.

"There is not much the government can do to affect the figures this year," Berlow said. "The supplementary package (to be announced) should not make any difference...We won't see its effect until 1994."

Tsutomu Tanaka, Economic Planning Agency vice-minister, said that there were few clear signs of recovery. "Japan's economy appears to be dragging its feet on recovery," he told reporters.

In fiscal 1992/93 ending March, Japan's GNP rose a real 0.8 percent -- its slowest growth since 1974/75 -- after a 3.4 percent growth in 1991/92.

Economic analysts were equally negative about any change in the bulging trade surplus, which grew in August by some seven percent from a year earlier.

"Basically, there is no significant change in the underlying trend in Japan, looking at the August data," said Nobuyuki Saji, senior economist at the Nikko Research Center.

"Japan's surplus might in fact grow further in the coming months as the crude oil import price is expected to fall," Saji added.

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