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## Rays of recovery - Japan regaining business confidence

Wednesday, 07 Oct, 2009

AP reported that Japanese companies are feeling more confident about business for the second straight quarter. They just don't want to build new factories or hire more workers yet.

The Bank of Japan's closely watched Tankan survey of business sentiment showed the main index for large manufacturers at minus 33, lifted by an emerging recovery in global trade. Three months ago the index hit minus 48 after slumping to a record low of minus 58 in March.

The figure represents the percentage of companies saying business conditions are good minus those saying conditions are unfavorable. The less pessimistic mood is certainly a welcome development for Japan as it emerges from its worst recession since World War II. But with an uncertain profit outlook, companies remain wary of investing in factories or workers, a deep wrinkle that could undermine the country's nascent rebound.

Major manufacturers and non manufacturers unexpectedly reduced their capital spending plans and now expect to cut expenditures by an average 10.8% this fiscal year through March 2010. Analysts had expected a slight uptick from a 9.4% reduction forecast in June's survey.

Mr Martin Schulz senior economist at Fujitsu Research Institute in Tokyo said that "It doesn't help so much that companies are becoming a bit more optimistic. What they need to see is that we really have original new domestic demand. And this is simply not happening."

Japan's heavy reliance on exports, which drove economic expansion for five years through 2007, backfired in the aftermath of last year's global financial crisis. Between the third quarter of 2008 and the first quarter of 2009, Japanese exports plunged by the steepest margin among the Organization for Economic Cooperation and Development's 30 member countries.

Government data this week showed that industrial output in August increased 1.8% from the previous month. Persistent caution among companies, however, is hurting households and consumer spending, which accounts for more than half of the country's economy.

Japan's unemployment rate hit a record 5.7% in July and is expected to have worsened in August. Retail sales dropped 1.8% YoY in the 12th consecutive monthly decline.

The Bank of Japan surveyed a total of 10,235 companies between August 26th 2009 and September 30th 2009, of which 99% responded.

(Sourced from Associated Press)

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