
Recession reports - Bank of Japan sees consumer prices falling for 3 straight years

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The Bank of Japan warned that consumer prices would fall for three straight years, by 1.5% in 2009, 0.8% in 2010 and 0.4% in 2011. It added that it would wind down some of its emergency stimulus measures, but warned that Japan faced years of deflation as it claws back from its worst slump in decades.

Japan's economy showed fresh signs of a recovery with the jobless rate falling to a four month low in September and household spending rising. But the improvement was overshadowed by fears of another long bout of deflation as seen after Japan's economic bubble burst in the 1990s.

Mr Glenn Maguire chief Asia economist at Societe Generale in Hong Kong said that Japan could even face a decade of deflation. "In the absence of deep-seated structural reforms that lift potential growth. The crisis will prove to be the tipping point for the slow atrophy of the Japanese economy to begin."

Japan was stuck in a deflationary spiral for years after its asset price bubble burst in the early 1990s, hitting corporate earnings and prompting consumers to put off purchases in the hope of further price drops.

The Bank of Japan's decision to end in December purchases of corporate debt that were part of a fight against the credit crunch sets the stage for possible tensions with the government. Tokyo has urged the bank to be careful not to snuff out a nascent recovery by tightening policy too soon and Financial Services Minister Mr Shizuka Kamei has even accused the BoJ of talking in its sleep.

Mr Masaaki Shirakawa governor of BoJ said that "It may take some time until the Japanese economy returns to a full fledged growth track. The BoJ will keep providing support by keeping financial conditions extremely accommodative."

(Sourced from AFP)

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