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Asia Forecast Book

Q1 2011

Forecasts to 2015

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The **Asia Forecast Book** is designed to assist strategic planners look beyond the current cyclical pattern to likely structural changes in Asian markets over the next five years. The analysis draws on regular monthly discussions with clients operating in each market. It also extends the brief 18-month outlook provided in the monthly **Asia Pacific Executive Brief**. The forecasts are reviewed each quarter with clients operating in each of the Asian markets.

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Japan - Outlook

Risks

Political Rating: Moderate Outlook: Negative		Our "moderate/negative" outlook for political risk reflects our view that Japanese politics is heading for a crisis as neither of the two main parties – the ruling DPJ and the opposition LDP – currently have policies to prevent an economic crisis (see below). When that crisis hits it will trigger rapid policy change (and some firms not in Japan may wait for that time to enter the market)…
Economic Rating: Moderate Outlook: Negative		We've lowered the economic risk rating from "high" to "moderate" as a strong export recovery in 2010 is expected to continue into 2011, providing a temporary reprieve. But with gross public debt over 200% of GDP, Japan's politicians are at last talking about a fiscal crisis (steps to address this may include a big hike in the VAT rate, currently at 5%)…
Operating Rating: Low Outlook: Negative		Japan's operating environment is stable and generally marked by efficient, high-quality services. The main problems are excessive regulation and (in areas like construction) collusion…

Outlook by sector

	% Growth	
GDP		Japan is two decades into a structural decline and shows no sign of reversing that decline until a major deregulation program starts. We expect such a program to be launched following an economic/political crisis within the forecast period…
CAGR 2000-09	0.4	
2010	3.8	
2011	1.4	
CAGR 2010-15	1.0	
Consumer		Japan's households are expected to continue downscaling throughout the next five years due to weak income growth (average monthly cash earnings grew just 0.7%pa from 2000 to 2010), rapid ageing, fears about a weak pension system, and poor political leadership at a time of economic crisis…
CAGR 2000-09	0.7	
2010	1.7	
2011	1.0	
CAGR 2010-15	0.8	
Investment		Major constraints face all three sources of domestic investment. Households are not in a position to lift property investment. Moreover, car purchases (transport capex), which jumped in 2010 due to a government incentive, will retreat for several years…
CAGR 2000-09	-2.1	
2010	-0.6	
2011	-1.3	
CAGR 2010-15	-1.1	
Manufacturing		Manufacturing rebounded in 2010 thanks to a strong export recovery and a temporary government subsidy for the purchase of fuel-efficient cars (lifting car sales 7.4% in 2010). With the subsidy gone and a strong Yen in 2011, manufacturing growth will likely drop to 2% or less…
CAGR 2000-09	-0.7	
2010	17.0	
2011	2.0	
CAGR 2010-15	1.5	
Construction		There is scope for a lift in private sector construction, particularly in the renewal of residential and commercial space. But this is unlikely to happen until Japan extensively deregulates its property, construction, and financial markets…
CAGR 2000-09	-2.5	
2010	-2.5	
2011	-1.0	
CAGR 2010-15	-1.6	
Government		Japan's politicians (and many local analysts) have been sanguine about Japan's fast-growing mountain of public debt as it has cost little to fund (interest rates are close to zero), almost all is in Yen, and large public savings reduce 2010's gross debt of 227% of GDP to net debt of 121% of GDP…
Inflation & interest rates		Domestic demand is so weak and the yen sufficiently strong (reducing imported inflation) that mild deflation could continue until 2012 despite a global lift in prices…
Currency		We expect a decline in the Yen to 2015 due to rising risk in Japan and weak returns...