

The Current Crisis

In many ways Japan's situation is far more dangerous than that prior to the 1974-75 collapse. The financial situation of the banks, corporations, and government is far more precarious. So there is very little financial cushion if the present flatness in production turns into actual downturn.

The danger of a downturn is imminent unless action is taken on an international scale to remove Blumenthal, stabilize the dollar, and restore trade. Although increasing in dollar terms due to the yen appreciation, exports are falling both in yen terms (which determines the financial condition of corporations) and in real terms (which determines production levels of an entire economy). (See Graph I) Certified exports, a two-to-three-month leading indicator, were down 2 percent from February the year before, after a 0.1 percent fall from a year earlier in January — the first such decline since November 1975.

The entire economy follows the gloomy results of exports:

(1) Industrial production was virtually flat from November 1976 through October 1977 and the government expects the February-March results to significantly

reverse the November-January bulge; Japanese industry is now operating at 80-85 percent of capacity an average. (See Graph II)

(2) Quarterly consumption increases in household expenditures was the lowest in October-December since the government began the survey six years ago; real wages did not grow at all in 1977.

(3) While capital investment recovered somewhat in October-December, the level was still below the post-recession peak achieved in January-March 1977 and far below 1973 levels.

(4) Corporate profits for the term ending March 31 are estimated to have fallen 6 percent, following a 13 percent drop in the previous six-month term. One out of four firms will show a loss. Profit rates are the lowest since the start of the postwar recovery. Particularly hard hit have been export industries (see box).

(5) Domestic demand is so sluggish that both wholesale and consumer prices are falling, not because inflationary pressures have lessened, but because firms cannot pass on cost increases. Deflation of course worsens the debt position of the firms. (See Graph V)

(6) Corporate bankruptcies increased 30 percent in 1977 with liabilities totalling \$12 billion, while bankruptcies in Feb. 1978 alone hit \$2.1 billion (including the \$800 million Eidai).

Export Industries: How The Yen Rise Hit

Most export industries are now running losses due to the yen rise, and the threat of bankruptcy looms large. Several have been declared emergency cases qualifying for government aid:

TEXTILES (6 percent of exports, 10 percent of industrial production): The industry as a whole, both natural and synthetic, is running huge losses and has been declared an emergency case. It is feeling competition from Asia. The 16 largest firms are running a combined \$1 billion loss.

STEEL (15 percent of exports, 7 percent of production): Exports continue to decline. China is expected to replace the U.S. as Japan's biggest customer when 1977's 2 percent decline to U.S. is followed by a sharper fall in 1978. Operating at only 70 percent of capacity, the industry as a whole is running in deficit, and will cut capital investment by half in 1978 from 1976 peak. Normally their investment is 20 percent of Japan's total.

SHIPBUILDING (11 percent of exports): Orders are being cancelled, and this industry is at only 50 percent of capacity and running huge losses. Six major bankruptcies in the last few months in-

cluded Hashihama, at \$100 million. Top-level shipping firms in trouble include the Japan Line, connected to Nakasone, which asked for debt moratoria from government and private lenders on \$150 million. Komoto's own firm, Sanko Shipping, is in similar trouble, but has not yet asked for moratoria.

CHEMICALS (6 percent of exports, 9 percent of production): The top seven firms are running combined \$87 million in losses.

TV AND STEREOS (5 percent of exports): TV exports were off 5 percent in 1977, due to protectionism.

AUTOS (15 percent of exports): half of the industry's production was exported in 1977 as exports rose 17 percent, but the industry expects only a 2 to 3 percent rise this year.

PLANT AND EQUIPMENT (10 to 15 percent of exports, 23 percent of production): This had been a major bright spot, but now is losing orders due to the yen rise. In machine tools, exports rose as a percent of production from 7 in 1970 to 30 in 1977. But now orders are falling off, and what is sold is sold at a loss.