Japan Survey Shows Business Sentiment Darkening

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TOKYO (AP) — Japanese manufacturers are growing increasingly pessimistic, according to a survey released Friday that added to gloom over the economic outlook ahead of Sunday's parliamentary election.

The Bank of Japan's "tankan" index for the December quarter slumped to minus 12 from minus 3 in the previous quarter, a result that was much worse than expected. A reading below zero means pessimistic views outnumber optimists.

The report largely blamed tensions with China, which have slammed exports to one of Japan's biggest markets, for the deterioration in sentiment.

The survey raises the likelihood of further monetary easing by the central bank at its policy meeting next week.

"It seems there has been some deterioration, especially in manufacturing, and it is expected to continue to decline," government spokesman Osamu Fujimura said Friday in a regular briefing.

He said the government would continue to push ahead with stimulus measures.

The ruling Democratic Party of Japan nonetheless is widely expected to suffer a harsh rebuke from voters in a parliamentary election on Sunday, partly for having failed to instill a sustainable recovery following the March 2011 earthquake and tsunami disasters.

The front-runner to replace the DPJ's Yoshihiko Noda as prime minister, Shinzo Abe, has pledged to raise spending on public works to help generate demand and help the economy break out of a deflationary trap of lax demand and falling prices.

At midday Friday, the Japanese yen was trading at 83.87 to the U.S. dollar, its lowest level in nearly 20 months, on expectations Abe will push for policies to further weaken the currency if he replaces Noda.

The U.S. Federal Reserve's decision earlier this week to stimulate the slow-growing U.S. economy by spending $85 billion a month to help keep interest rates low also has helped weaken the dollar against other currencies.

The yen's prolonged strength has made Japanese exports relatively more costly in overseas markets, while eroding any profits repatriated to Japan.

Such factors have helped push Japan's economy into what economists forecast will

be its third quarter of contraction — and its fifth recession in 15 years.

The protracted European crisis sapped a recovery earlier in the year of its oomph. Then, a late summer resurgence in tensions with China over disputed islands in the East China Sea compounded the drag on exports.

The Bank of Japan survey showed manufacturers anticipate sentiment will remain negative in coming months, with the index forecast at minus 10.

The outlook among auto manufacturers, whose sales in China were battered by a spate of violent anti-Japanese protests, plummeted to minus 9 from positive 19.

Non-manufacturers also predicted sentiment would worsen slightly, to plus 4 from the current plus 5.

The outlook among smaller manufacturers was significantly more dismal than for larger ones, at minus 18.

The Bank of Japan surveyed 10,654 companies between mid-November and mid-December. About 99 percent responded.

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