Japan Economy Shrinks, Fueling Push For Weak Yen

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TOKYO (AP) — Japan's economy shrank in the last three months of 2012, its third straight quarter of contraction, giving the government ammunition to defend its "weak yen" strategy as necessary to getting growth back on track.

The 0.4 percent contraction in annualized terms in October-December was worse than expected. Many analysts had forecast the economy would emerge from recession in the final quarter of 2012 as the Japanese yen weakened against other major currencies, giving a boost to Japanese export manufacturers.

Chief government spokesman Yoshihide Suga acknowledged the lingering weakness in the economy, while voicing optimism over a global recovery.

"We also expect our nation's economy to make a gradual recovery," he said Thursday.

The data predate Prime Minister Shinzo Abe's administration, which took power in late December with a platform of aggressive spending and monetary stimulus that has helped drive the yen to near three-year lows after years of hovering at much higher levels due to the currency's status as a "safe haven" for investors.

Although the government has not directly intervened to bring the yen's value lower, its policies have convinced many in the markets that more money will be created, undermining its value. That has brought on a 20 percent depreciation of the yen against the dollar since October, raising concern over the potential for competitive devaluations of other currencies that could undermine growth.

The issue will likely come up at a meeting of top financial officials of the Group of 20 leading industrial and developing countries in Moscow beginning tomorrow.

Finance Minister Taro Aso, in a statement to supporters on his official web site, said he intended to thoroughly explain Japan's stance at that gathering.

"The world has been awed," Aso said of the recent surge in share prices and weakening yen that has "brought huge benefits to the export sector."

"All countries want to know how we have done this; it is absolutely not a result of us intervening in foreign exchange markets."

In a statement issued Tuesday, the Group of Seven richest nations — which includes Japan — issued a statement reaffirming their commitment to exchange rates driven by the market, not government or central bank policies.

The G-7 statement's lack of any direct criticism of Japan's economic strategy encouraged traders to continue selling the yen. On Thursday, the Japanese currency was trading at about 93.50 yen per U.S. dollar. Earlier in the week it hit a nearly three-year low of 94.40.

After all that volatility, the G-20 meeting may skirt the issue, said Tony Nash, managing director of IHS Consulting in Asia.

"I don't think there's a mood for any confusion," he said. "After all, Japan is the world's third-largest economy and you want to pull it along."

Apart from favoring a weaker yen, Abe successfully lobbied the central bank to set an inflation target of 2 percent, aimed at breaking Japan out of its long bout of deflation, or falling prices, that he says are inhibiting corporate investment and growth.

However, the Bank of Japan left monetary policy unchanged following a two-day meeting that ended Thursday, noting in a statement that "Japan's economy appears to have stopped weakening."

The current central bank governor, Masaaki Shirakawa, is due to step down on March 19, and Abe is expected to appoint as his successor an expert who favors his more activist approach to monetary policy.

Meanwhile on Thursday, the lower house of Japan's parliament approved a 13.1 trillion yen ($140 billion) supplementary budget for fiscal 2012, which ends in March, to support the stimulus program.

Although the opposition-dominated upper house of parliament may reject the budget, the approval by the lower house, which is controlled by Abe's Liberal Democratic Party, will prevail.

Japan's growth has stagnated since its "bubble economy" burst in the early 1990s, despite massive investments in public works that have pushed its national debt to the highest level among major industrial nations, at more than twice the size of the economy.

Last year began on an upbeat note with annual growth in the first quarter at 6 percent, spurred by strong government spending on reconstruction from the March 2011 tsunami disaster. But the economy slipped back into contraction in the second quarter and deteriorated further as frictions with China over a territorial dispute hammered exports to one of Japan's largest overseas markets.

For all of 2012, the economy grew 1.9 percent, after a 0.6 contraction in 2011.

Despite the dismal data for last year, many in Japan expect at least a temporary bump to growth from higher government spending on public works and other programs. An index measuring consumer confidence, released earlier this week,

jumped to its highest level since 2007, the biggest ever increase in a single month.

Earlier this week, Abe appealed to businesses to raise wages to help boost domestic demand and carry on momentum from government spending. Data for the fourth quarter showed that private consumption, which accounts for more than two-thirds of Japan's economic activity, rose 0.4 percent in the fourth quarter while housing investment climbed 3.5 percent. Investment by businesses, however, fell 2.6 percent and exports dropped 3.7 percent.

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