

“Are We in the Economic Boom?”

Economics Overview

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While various economic statistics of term ending September are being published, I would like to look into the current economic situation including the real estate investment.

Index will tell us the following facts: The diffusion index of September was over 50% for 17th continuous month, the same level as that of Bubble Economy. The capital investment of July to September increased 9.2 % compared to the previous year, record breaking number in past 11 years. The current account surplus of April to September is also improving with 6.7853 trillion yen (\$ 66 billion), 4.5 % increase compared to the previous year. The corporate performance is recovering steadily specially on the electrical equipments. The key of economic recovery lies on consumer spending and even though this is not fully recovered, prospect is good with increase in employment income for the first time in two and half years.

“Is current Japanese economy prosperous?” I would like to propose a very bold hypothesis by saying “YES”. There is no evidence of depression from the statistical figures ending September. GDP must be increasing as well. It is meaningless, at least from the investment point of view, to complicate the already complicated economy by saying “economy is it’s own creature”. In the light of real estate investment, it is crucial to consider that “economy has already recovered.” Therefore, it is dangerous to expect the recovery in rent considering that economy is going to recover in near future. Office market, at least in the investment real estate level, has already been recovering, and to consider that it would improve further is not very wise.

So, the economy is already recovering, what will happen now? Even with this bold hypothesis, problems such as prolonging slump in the stock market and low long-term interest still remain. Midst this structural reform of Japanese economy, both stock market and treasury market are unsure when their restructuring will complete. Collapse of traditional Keiretsu and balance sheet problems in Japanese industries (such as distribution industry, construction industry, and hotel industry) are all holding back the healthy recovery of the stock market and treasury market. Japanese economy cycle cannot recover properly unless these problems are solved.

Therefore, investment decision should be made based on these structural reforms. I believe another year is necessary to solve these Keiretsu and corporate balance sheet problems. However, this, I believe, would bring positive contribution to the investment, as real estate asset will gain directly from this structural reform.