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Japan economy slides to recession

Japan economy slides to recession The Japanese economy has officially gone back into recession for the fourth time in a decade. Gross domestic product fell by 0.1% in the last three months of 2004. The fall reflects weak exports and a slowdown in consumer spending, and follows similar falls in GDP in the two previous quarters. The Tokyo stock market fell after the figures were announced, but rose again on a widespread perception that the economy will recover later this year. On Wednesday, the government revised growth figures from earlier in 2004 which, when taking into account performance in the most recent period, effectively tips Japan into recession. A previous estimate of 0.1% growth between July and September was downgraded to a 0.3% decline. A recession is commonly defined as two consecutive quarters of negative growth, although the Japanese government takes other factors into account when judging the status of its economy. Figures released by the government's Cabinet Office showed that GDP, on an annualised basis, fell 0.5% in the last three months of 2004. However, politicians remain upbeat about prospects for an economic boost later in the year. "The economy has some soft patches but if you look at the bigger picture, it is in a recovery stage," said Economic and Fiscal Policy Minister Heizo Takenaka. Gross domestic product measures the overall value of goods and services produced in a country. "The economy must be assessed comprehensively and we cannot look at GDP alone," Mr Takenaka stressed. Ministers pointed to the fact that consumer spending had been depressed by one-off factors such as the unseasonably mild winter. Analysts said the figures were disappointing but argued that Japan's largest companies had been recording healthy profits and capital spending was on the rise. Japan's economy grew 2.6% overall last year - fuelled by a strong performance in the first few months - and is forecast to see growth of 2.1% in 2005. However, the economy's fragile recovery remains dependent on an upturn in consumer spending, a fall in the value of the yen and an improvement in global economies. "The results came in at the lower end of expectations but we shouldn't be too pessimistic about the current state and the outlook for the economy," said Naoki Iizuka, senior economist at the Dai-ichi Life Research Institute. Japan's economy has seen stretches of moderate growth over the past decade but has periodically slipped back into recession.

Weak data buffets French economy

Weak data buffets French economy A batch of downbeat government data has cast doubt over the French economy's future prospects. Official figures showed on Friday that unemployment was unchanged at 9.9% last month, while consumer confidence fell unexpectedly in October. At the same time, finance minister Nicolas Sarkozy warned that high oil prices posed a threat to French growth. "[Oil prices] will weigh on consumer spending in the short term, and potentially on confidence," he said. World oil prices have risen by more than 60% since the start of the year as production struggles to keep pace with soaring demand. Analysts said French companies, keen to protect their profit margins at a time of rising energy costs, were reluctant to take on extra staff. "[The unemployment figures] show the main problem of the French economy: we have growth but without an improvement in employment," said Marc Touati, an economist at Natexis Banques Populaires. "Politicians must have the will and guts to solve structural unemployment with thorough reforms, otherwise in five or ten years, it will be too late." Obligatory employer contributions to worker welfare programmes mean that it costs more to hire staff in France than in many other European economies. Many economists have urged the government to stimulate employment by reducing non-wage payroll costs, and by scrapping restrictions on working hours. The French statistics agency, INSEE, expects the economy to grow by about 2.4% this year, buoyed by strong consumer spending and business investment. That is above the projected eurozone average of just above 2%.

Israeli economy picking up pace

Israeli economy picking up pace Israel's economy is forecast to grow by 4.2% in 2004 as it continues to emerge from a three-year recession. The main driver of the faster-than-expected expansion has been exports, with tourism seeing a strong rebound, the statistical office said. The economy is benefiting from a quieter period in Palestinian-Israeli violence and a pick-up in global demand for technology products. The outlook is better than it has been for a number of years, analysts said. Many companies have focused on cost cutting and greater efficiency, while the government has been trying to trim public spending and push through reforms. The growth figures come about despite a strike earlier this year by about 400,000 public sector worker which closed banks, hospitals, postal services and transport facilities. Growth did slow in the second half, but only slightly. Exports for the year rose by 14%, while tourist revenues were up by 30%. Imports gained by 13%, signalling that domestic demand has picked up again. In 2003, imports declined by 1.8%. In 2003, the economy expanded by 1.3%

Business confidence dips in Japan

Business confidence dips in Japan Business confidence among Japanese manufacturers has weakened for the first time since March 2003, the quarterly Tankan survey has found. Slower economic growth, rising oil prices, a stronger yen and weaker exports were blamed for the fall. December's confidence level was below that seen in September, the Bank of Japan said. However, September's reading was the strongest for 13 years. "The economy is at a pause but unlikely to fall", the economy minister said. "It will feel a bit slower (next year) than this year, and growth may be a bit more gentle but the situation is that the recovery will continue," said economy minister Heizo Takenaka. In the Bank of Japan's December survey, the balance of big manufacturers saying business conditions are better, minus those saying they are worse, was 22, down from 26 in September. Japan's economy grew by just 0.1% in the three months to September, according revised data issued this month. With the recovery slowing, the world's second biggest economy is now expected grow by 0.2% in 2004. The Tankan index is based on a survey of 10,227 firms. Big manufacturers were even more pessimistic about the first quarter of 2005; their views suggest the March reading could go as low as 15 - still in positive territory, but weaker. The dollar's decline has strengthened the yen, making Japanese exports more expensive in the US. China's attempts to cool down its fast-growing economy have also hit Japanese industry's sales abroad. Confidence among non-manufacturers was unchanged in the final quarter of 2004, but it is forecast to drop one point in the March survey. Nonetheless, Japanese firms have been stepping up capital investment, and the survey found the pace is quickening. Companies reported they expect to invest 7.7% more in the year to March 2005 than the previous year - up from expectations of 6.1% increase in the September Tankan.

BBC poll indicates economic gloom

BBC poll indicates economic gloom Citizens in a majority of nations surveyed in a BBC World Service poll believe the world economy is worsening. Most respondents also said their national economy was getting worse. But when asked about their own family's financial outlook, a majority in 14 countries said they were positive about the future. Almost 23,000 people in 22 countries were questioned for the poll, which was mostly conducted before the Asian tsunami disaster. The poll found that a majority or plurality of people in 13 countries believed the economy was going downhill, compared with respondents in nine countries who believed it was improving. Those surveyed in three countries were split. In percentage terms, an average of 44% of respondents in each country said the world economy was getting worse, compared to 34% who said it was improving. Similarly, 48% were pessimistic about their national economy, while 41% were optimistic. And 47% saw their family's economic conditions improving, as against 36% who said they were getting worse. The poll of 22,953 people was conducted by the international polling firm GlobeScan, together with the Program on International Policy Attitudes (Pipa) at the University of Maryland. "While the world economy has picked up from difficult times just a few years ago, people seem to not have fully absorbed this development, though they are personally experiencing its effects," said Pipa director Steven Kull. "People around the world are saying: 'I'm OK, but the world isn't'." There may be a perception that war, terrorism and religious and political divisions are making the world a worse place, even though that has not so far been reflected in global economic performance, says the BBC's Elizabeth Blunt. The countries where people were most optimistic, both for the world and for their own families, were two fast-growing developing economies, China and India, followed by Indonesia. China has seen two decades of blistering economic growth, which has led to wealth creation on a huge scale, says the BBC's Louisa Lim in Beijing. But the results also may reflect the untrammelled confidence of people who are subject to endless government propaganda about their country's rosy economic future, our correspondent says. South Korea was the most pessimistic, while respondents in Italy and Mexico were also quite gloomy. The BBC's David Willey in Rome says one reason for that result is the changeover from the lira to the euro in 2001, which is widely viewed as the biggest reason why their wages and salaries are worth less than they used to be. The Philippines was among the most upbeat countries on prospects for respondents' families, but one of the most pessimistic about the world economy. Pipa conducted the poll from 15 November 2004 to 3 January 2005 across 22 countries in face-to-face or telephone interviews. The interviews took place between 15 November 2004 and 5 January 2005. The margin of error is between 2.5 and 4 points, depending on the country. In eight of the countries, the sample was limited to major metropolitan areas.

'Golden economic period' to end

'Golden economic period' to end Ten years of "golden" economic performance may come to an end in 2005 with growth slowing markedly, City consultancy Deloitte has warned. The UK economy could suffer a backlash from the slowdown in the housing market, triggering a fall in consumer spending and a rise in unemployment. Deloitte is forecasting economic growth of 2% this year, below Chancellor Gordon Brown's forecast of 3% to 3.5%. It also believes that interest rates will fall to 4% by the end of the year. In its quarterly economic review, Deloitte said the UK economy had enjoyed a "golden period" during the past decade with unemployment falling to a near 30 year low and inflation at its lowest since the 1960s. But it warned that this growth had been achieved at the expense of creating major "imbalances" in the economy. Deloitte's chief economic advisor Roger Bootle said: "The biggest hit of all is set to come from the housing market which has already embarked on a major slowdown. "Whereas the main driver of the economy in recent years has been robust household spending growth, this is likely to suffer as the housing market slowdown gathers pace." Economic growth is likely to be constrained during the next few years by increased pressure on household budgets and rising taxes, Deloitte believes. Gordon Brown will need to raise about $10bn a year in order to sustain the public finances in the short term, the firm claims. This will result in a marked slowdown in growth in 2005 and 2006 compared to last year, when the economy expanded by 3.25%. However, Deloitte stressed that the slowdown was unlikely to have any major impact on retail prices while it expected the Bank of England to respond quickly to signs of the economy faltering. It expects a series of "aggressive" interest rate cuts over the next two years, with the cost of borrowing falling from its current 4.75% mark to 3.5% by the end of 2006. "Although 2005 may not be the year when things go completely wrong, it will probably mark the start of a more difficult period for the UK economy," Mr Bootle.

IMF 'cuts' German growth estimate

IMF 'cuts' German growth estimate The International Monetary Fund is to cut its 2005 growth forecast for the German economy from 1.8% to 0.8%, the Financial Times Deutschland reported. The IMF will also reduce its growth estimate for the 12-member eurozone economy from 2.2% to 1.6%, the newspaper reported. The German economy has been faltering, with unemployment levels rising to a seventy-year high of 5.2 million. Its sluggish performance continues to hamper the entire eurozone. The IMF's draft World Economic Outlook - due to be published in April - would point to a marked deterioration in Germany's economy, the FT report said. In September, the IMF had said that German growth for the current year would be 1.8%. The IMF has also revised eurozone forecasts, the paper said, taking into account high oil prices, the strength of the euro and weak demand in many of the world's leading economies. Europe's economic difficulties have been highlighted by the Organisation for Economic Co-operation and Development, which argued in a report published on Tuesday that the continent could only achieve US living standards by freeing up its labour markets. "The eurozone does not look like it has a self-sustaining recovery," James Carrick, an economist with ABN Amro, told the newspaper. "It is too dependant on the rest of the world."

Australia rates at four year high

Australia rates at four year high Australia is raising its benchmark interest rate to its highest level in four years despite signs of a slowdown in the country's economy. The Reserve Bank of Australia lifted interest rates 0.25% to 5.5%, their first upwards move in more than a year. However, shortly after the Bank made its decision, new figures showed a fall in economic growth in the last quarter. The Bank said it had acted to curb inflation but the move was criticised by some analysts. The rate hike was the first since December 2003 and had been well-flagged in advance. However, opposition parties and some analysts said the move was ill-timed given data showing the Australian economy grew just 0.1% between October and December and 1.5% on an annual basis. The figures, representing a decline from the 0.2% growth in GDP seen between July and September, were below market expectations. Consumer spending remains strong, however, and the Bank is concerned about growing inflationary pressures. "Over recent months it has become increasingly clear that remaining spare capacity in the labour and goods markets is becoming rather limited," said Ian Macfarlane, Governor of the Reserve Bank. At 2.6%, inflation remains within the Bank's 2-3% target range. However, exports declined in the second half of 2004, fuelling a rise in the country's current account deficit - the difference in the value of imports compared to exports - to a record Australian dollar 29.4bn. The Australian government said the economy remained strong with unemployment at a near 30 year low. "The economy has been strong and it is properly moderating but it doesn't look to me like it's slowing in any unreasonable way," said Treasurer Peter Costello. Stock markets had factored in the likelihood of a rate rise but analysts still expressed concern about the strength of the economy. "That 1.5% annual growth rate is the lowest we have seen since the post-election slump we saw back in 2000-1," said Michael Blythe, chief economist at the Commonwealth Bank of Australia. "This suggests the economy really did slow very sharply in the second half of 2004."

Newest EU members underpin growth

Newest EU members underpin growth The European Union's newest members will bolster Europe's economic growth in 2005, according to a new report. The eight central European states which joined the EU last year will see 4.6% growth, the United Nations Economic Commission for Europe (UNECE) said. In contrast, the 12 Euro zone countries will put in a "lacklustre" performance, generating growth of only 1.8%. The global economy will slow in 2005, the UNECE forecasts, due to widespread weakness in consumer demand. It warned that growth could also be threatened by attempts to reduce the United States' huge current account deficit which, in turn, might lead to significant volatility in exchange rates. UNECE is forecasting average economic growth of 2.2% across the European Union in 2005. However, total output across the Euro zone is forecast to fall in 2004 from 1.9% to 1.8%. This is due largely to the faltering German economy, which shrank 0.2% in the last quarter of 2004. On Monday, Germany's BdB private banks association said the German economy would struggle to meet its 1.4% growth target in 2005. Separately, the Bundesbank warned that Germany's efforts to reduce its budget deficit below 3% of GDP presented "huge risks" given that headline economic growth was set to fall below 1% this year. Publishing its 2005 economic survey, the UNECE said central European countries such as the Czech Republic and Slovenia would provide the backbone of the continent's growth. Smaller nations such as Cyprus, Ireland and Malta would also be among the continent's best performing economies this year, it said. The UK economy, on the other hand, is expected to slow in 2005, with growth falling from 3.2% last year to 2.5%. Consumer demand will remain fragile in many of Europe's largest countries and economies will be mostly driven by growth in exports. "In view of the fragility of factors of domestic growth and the dampening effects of the stronger euro on domestic economic activity and inflation, monetary policy in the euro area is likely to continue to 'wait and see', the organisation said in its report. Global economic growth is expected to fall from 5% in 2004 to 4.25% despite the continued strength of the Chinese and US economies. The UNECE warned that attempts to bring about a controlled reduction in the US current account deficit could cause difficulties. "The orderly reversal of the deficit is a major challenge for policy makers in both the United States and other economies," it noted.

German economy rebounds

German economy rebounds Germany's economy, the biggest among the 12 countries sharing the euro, grew at its fastest rate in four years during 2004, driven by strong exports. Gross domestic product (GDP) rose by 1.7% last year, the statistical office said. The economy contracted in 2003. Foreign sales increased by 8.2% last year, compared with a 0.3% slide in private consumption. Concerns remain, however, over the strength of the euro, weak domestic demand and a sluggish labour market. The European Central Bank (ECB) left its benchmark interest rate unchanged at 2% on Thursday. It is the nineteenth month in a row that the ECB has not moved borrowing costs. Economists predict that an increase is unlikely to come until the second half of 2005, with growth set to sputter rather than ignite. "During 2004 we profited from the fact that the world economy was strong," said Stefan Schilbe, analyst at HSBC Trinkaus & Burkhardt. "If exports weaken and domestic growth remains poor, we cannot expect much from 2005." Many German consumers have been spooked and unsettled by government attempts to reform the welfare state and corporate environment. Major companies including Volkswagen, DaimlerChrysler and Siemens have spent much of 2004 in tough talks with unions about trimming jobs and costs. They have also warned there are more cost cutting measures on the horizon.

Japanese growth grinds to a halt

Japanese growth grinds to a halt Growth in Japan evaporated in the three months to September, sparking renewed concern about an economy not long out of a decade-long trough. Output in the period grew just 0.1%, an annual rate of 0.3%. Exports - the usual engine of recovery - faltered, while domestic demand stayed subdued and corporate investment also fell short. The growth falls well short of expectations, but does mark a sixth straight quarter of expansion. The economy had stagnated throughout the 1990s, experiencing only brief spurts of expansion amid long periods in the doldrums. One result was deflation - prices falling rather than rising - which made Japanese shoppers cautious and kept them from spending. The effect was to leave the economy more dependent than ever on exports for its recent recovery. But high oil prices have knocked 0.2% off the growth rate, while the falling dollar means products shipped to the US are becoming relatively more expensive. The performance for the third quarter marks a sharp downturn from earlier in the year. The first quarter showed annual growth of 6.3%, with the second showing 1.1%, and economists had been predicting as much as 2% this time around. "Exports slowed while capital spending became weaker," said Hiromichi Shirakawa, chief economist at UBS Securities in Tokyo. "Personal consumption looks good, but it was mainly due to temporary factors such as the Olympics. "The amber light is flashing." The government may now find it more difficult to raise taxes, a policy it will have to implement when the economy picks up to help deal with Japan's massive public debt.

Steady job growth continues in US

Steady job growth continues in US The US created fewer jobs than expected in December, but analysts said that the dip in hiring was not enough to derail the world's biggest economy. According to Labor Department figures, 157,000 new jobs were added last month. That took 2004's total to 2.2 million, the best showing in five years. Job creation was one of last year's main concerns for the US economy. While worries still remain, the conditions are set for steady growth in 2005, analysts said. The unemployment rate stayed at 5.4% in December, and about 200,000 jobs will need to be created each month if that figure is to drop. "It was a respectable report," said Michael Moran, analyst at Daiwa Securities. "Payroll growth in December was a little lighter than the consensus forecast, but we had upward revisions to the prior two months and an increase in manufacturing employment." "Manufacturing is a cyclical area of the economy and if it's showing job growth, it's a good indication that the economy is on a solid growth track." That means that the Federal Reserve is likely to continue its policy of raising interest rates. The Fed lifted borrowing costs five times last year to 2.25%, citing evidence the US economic recovery was becoming more robust. Job creation was one of last year's main concerns for the US economy, and proved to be a main topic of debate in the US presidential election. While demand for workers is far from booming, the conditions are set for steady growth. "Overall, compared to the previous year it looks great, it just keeps going stronger and stronger and I expect that to be the case" in 2005, said Kurt Karl, economist at Swiss Re in New York. Meanwhile, economists cautioned against reading too much into data from the Federal Reserve showing an unexpected $8.7bn drop in consumer debt in November. A fall in consumer spending, which makes up about two-thirds of all US economic activity, could help limit the extent of any future interest rate rises. But economists said there could be a number of reasons for a fall in the borrowing, which include credit cards and personal loans, while noting that such figures can vary on a month-to-month basis.

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German growth goes into reverse

German growth goes into reverse Germany's economy shrank 0.2% in the last three months of 2004, upsetting hopes of a sustained recovery. The figures confounded hopes of a 0.2% expansion in the fourth quarter in Europe's biggest economy. The Federal Statistics Office said growth for the whole of 2004 was 1.6%, after a year of contraction in 2003, down from an earlier estimate of 1.7%. It said growth in the third quarter had been zero, putting the economy at a standstill from July onward. Germany has been reliant on exports to get its economy back on track, as unemployment of more than five million and impending cuts to welfare mean German consumers have kept their money to themselves. Major companies including Volkswagen, DaimlerChrysler and Siemens have spent much of 2004 in tough talks with unions about trimming jobs and costs. According to the statistics office, Destatis, rising exports were outweighed in the fourth quarter by the continuing weakness of domestic demand. But the relentless rise in the value of the euro last year has also hit the competitiveness of German products overseas. The effect has been to depress prospects for the 12-nation eurozone as a whole, as well as Germany. Eurozone interest rates are at 2%, but senior officials at the rate-setting European Central Bank are beginning to talk about the threat of inflation, prompting fears that interest rates may rise. The ECB's mandate is to fight rising prices by boosting interest rates - and that could further threaten Germany's hopes of recovery.

'Strong dollar' call halts slide

'Strong dollar' call halts slide The US dollar's slide against the euro and yen has halted after US Treasury Secretary John Snow said a strong dollar was "in America's interest". But analysts said any gains are likely to be short-lived as problems with the US economy were still significant. They also pointed out that positive comments apart, President George W Bush's administration had done little to stop the dollar's slide. A weak dollar helps boost exports and narrow the current account deficit. The dollar was trading at $1.2944 against the euro at 2100GMT, still close to the $1.3006 record level set on 10 November. Against the Japanese yen, it was trading at 105.28 yen, after hitting a seven-month low of 105.17 earlier in the day. Policy makers in Europe have called the dollar's slide "brutal" and have blamed the strength of the euro for dampening economic growth. However, it is unclear whether ministers would issue a declaration aimed at curbing the euro's rise at a monthly meeting of Eurozone ministers late on Monday. Higher growth in Europe is regarded by US officials as a way the huge US current account deficit - that has been weighing on the dollar - could be reduced. Mr Snow who is currently in Dublin at the start of a four-nation EU visit, has applauded Ireland's introduction of lower taxes and deregulation which have helped boost growth. "The eurozone is growing below its potential. When a major part of the global economy is below potential there are negative consequences... for the citizens of those economies... and for their trading partners," he said. Mr Snow's comments may have helped shore up the dollar on Monday, but he was careful to qualify his statement. "Our basic policy, of course, is to let open, competitive markets set the values," he explained. "Markets are driven by fundamentals and towards fundamentals." US officials have also said that other economies need to grow, so the US is not the main global growth engine. Economists say that the fundamentals, or key indicators, of the US economy are looking far from rosy. Domestic consumer demand is cooling, and heavy spending by President Bush has pushed the budget deficit to a record $427bn (B£230bn). The current account deficit, meanwhile, hit a record $166bn in the second quarter of 2004. For many analysts, a weaker dollar is here to stay. "No end is in sight," said Carsten Fritsch, a strategist at Commerzbank . "It is only a matter of time until the euro reaches $1.30." Some analysts maintain the US is secretly happy with a lower dollar which helps makes its exports cheaper in Europe, thus boosting its economy.

S Korean consumers spending again

S Korean consumers spending again South Korea looks set to sustain its revival thanks to renewed private consumption, its central bank says. The country's economy has suffered from an overhang of personal debt after its consumers' credit card spending spree. Card use fell sharply last year, but is now picking up again with a rise in spending of 14.8% year-on-year. "The economy is now heading upward rather than downward," said central bank governor Park Seung. "The worst seems to have passed." Mr Park's statement came as the bank decided to keep interest rates at an all-time low of 3.25%. It had cut rates in November to help revive the economy, but rising inflation - reaching 0.7% month-on-month in January - has stopped it from cutting further. Economic growth in 2004 was about 4.7%, with the central bank predicting 4% growth this year. Other indicators are also suggesting that the country is inching back towards economic health. Exports - traditionally the driver for expansion in Asian economies - grew slower in January than at any time in 17 months. But domestic demand seems to be taking up the slack. Consumer confidence has bounced back from a four-year low in January, and retail sales were up 2.1% in December. Credit card debt is falling, with only one in 13 of the 48 million cards now in default - down from one in eight at the end of 2003. One of its biggest card issuers, LG Card, was rescued from collapse in December, having almost imploded under the weight of its customers' bad debts. The government last year tightened the rules for card lending to keep the card glut under control.

Singapore growth at 8.1% in 2004

Singapore growth at 8.1% in 2004 Singapore's economy grew by 8.1% in 2004, its best performance since 2000, figures from the trade ministry show. The advance, the second-fastest in Asia after China, was led by growth of 13.1% in the key manufacturing sector. However, a slower-than-expected fourth quarter points to more modest growth for the trade-driven economy in 2005 as global technology demand falls back. Slowdowns in the US and China could hit electronics exports, while the tsunami disaster may effect the service sector. Economic growth is set to halve in Singapore this year to between 3% and 5%. In the fourth quarter, the city state's gross domestic product (GDP) rose at an annual rate of 2.4%. That was up from the third quarter, when it fell 3.0%, but was well below analyst forecasts. "I am surprised at the weak fourth quarter number. The main drag came from electronics," said Lian Chia Liang, economist at JP Morgan Chase. Singapore's economy had contracted over the summer, weighed down by soaring oil prices. The economy's poor performance in the July to September period followed four consecutive quarters of double-digit growth as Singapore bounced back strongly from the effects of the deadly Sars virus in 2003.

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Industrial output falls in Japan

Industrial output falls in Japan Japanese industrial output fell in October while unemployment rose, casting further doubt on the strength of the country's economic recovery. Production dropped 1.6% in October, reflecting a decline in exports, while unemployment levels edged up 0.1% to 4.7%, slightly higher than forecast. The economy has grown for six quarters but growth slowed dramatically in the last quarter amid weaker global demand. Japan's government remains optimistic due to strong domestic demand. Analysts had been forecasting a 0.1% rise in month on month industrial output. According to figures from the Ministry of Economy, Trade and Industry (METI), the decline was led by a fall in demand for electronic parts for mobile phones and digital televisions. Although inventories fell 0.7% month on month, they were 36% higher than a year ago. "It's a sign that the economy's adjustment phase is stronger than expected," said Takashi Yamanaka, an economist with UFJ Bank. Japan downgraded its overall economic assessment earlier this month for the first time in a year. Growth slowed to 0.3% in the quarter ending September 30, down from 6.3% in the first quarter of 2004. Experts believe the economy -which stagnated for most of the 1990s -may be entering a softer patch on the back of rising oil prices and the falling dollar. Japanese government officials played down the latest data, arguing that domestic consumer demand was still resilient. "The outlook for November is positive so I don't think one can say that conditions have worsened just because of the fall in October," said a METI official. Despite the rise in unemployment, jobless figures are still some way below historical highs of recent years. The comparatively weak economic date preyed on shares with the Nikkei down 1% in afternoon trade.

German business confidence slides

German business confidence slides German business confidence fell in February knocking hopes of a speedy recovery in Europe's largest economy. Munich-based research institute Ifo said that its confidence index fell to 95.5 in February from 97.5 in January, its first decline in three months. The study found that the outlook in both the manufacturing and retail sectors had worsened. Observers had been hoping that a more confident business sector would signal that economic activity was picking up. "We're surprised that the Ifo index has taken such a knock," said DZ bank economist Bernd Weidensteiner. "The main reason is probably that the domestic economy is still weak, particularly in the retail trade." Economy and Labour Minister Wolfgang Clement called the dip in February's Ifo confidence figure "a very mild decline". He said that despite the retreat, the index remained at a relatively high level and that he expected "a modest economic upswing" to continue. Germany's economy grew 1.6% last year after shrinking in 2003. However, the economy contracted by 0.2% during the last three months of 2004, mainly due to the reluctance of consumers to spend. Latest indications are that growth is still proving elusive and Ifo president Hans-Werner Sinn said any improvement in German domestic demand was sluggish. Exports had kept things going during the first half of 2004, but demand for exports was then hit as the value of the euro hit record levels making German products less competitive overseas. On top of that, the unemployment rate has been stuck at close to 10% and manufacturing firms, including DaimlerChrysler, Siemens and Volkswagen, have been negotiating with unions over cost cutting measures. Analysts said that the Ifo figures and Germany's continuing problems may delay an interest rate rise by the European Central Bank. Eurozone interest rates are at 2%, but comments from senior officials have recently focused on the threat of inflation, prompting fears that interest rates may rise.