Industrial revival hope for Japan

Japanese industry is growing faster than expected, boosting hopes that the country's retreat back into recession is over.

Industrial output rose 2.1% - adjusted for the time of year - in January from a month earlier. At the same time, retail sales picked up faster than at any time since 1997. The news sent Tokyo shares to an eight-month high, as investors hoped for a recovery from the three quarters of contraction seen from April 2004 on. The Nikkei 225 index ended the day up 0.7% at 11,740.60 points, with the yen strengthening 0.7% against the dollar to 104.53 yen. Weaker exports, normally the engine for Japan's economy in the face of weak domestic demand, had helped trigger a 0.1% contraction in the final three months of last year after two previous quarters of shrinking GDP. Only an exceptionally strong performance in the early months of 2004 kept the year as a whole from showing a decline. The output figures brought a cautiously optimistic response from economic officials. "Overall I see a low risk of the economy falling into serious recession," said Bank of Japan chief Toshihiko Fukui, despite warning that other indicators - such as the growth numbers - had been worrying.

Within the overall industrial output figure, there were signs of a pullback from the export slowdown. Among the best-performing sectors were key overseas sales areas such as cars, chemicals and electronic goods. With US growth doing better than expected the picture for exports in early 2005 could also be one of sustained demand. Electronics were also one of the keys to the improved domestic market, with products such as flat-screen TVs in high demand during January.