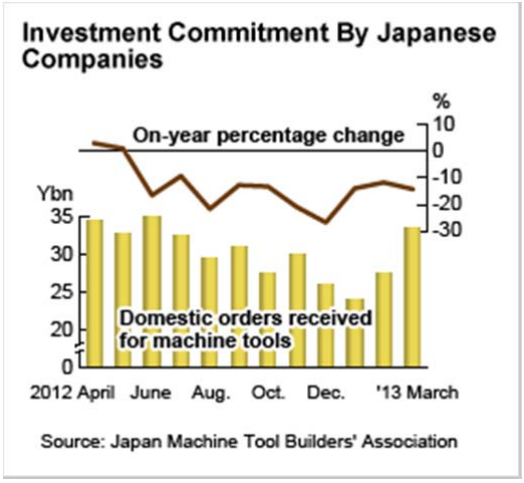
Weak Yen Could Set Long-Term Demand Into Motion



(Nikkei)--The yen's slide against other major currencies is beginning to generate the expected effect of rekindling Japan's sputtering growth engines.

Japan Display Inc. is one example. The company was created in April 2012 to integrate the manufacturing of small- and medium-sized displays for Hitachi Ltd., Toshiba Corp. and Sony Corp.

The company had been expected to have a hard time making a profit, because at the time of its founding, the exchange rate was around 80 yen per dollar. But now Japan Display is believed to have generated an operating profit of 3 billion yen for the year through March, thanks mainly to the yen's weakening.

Better Bookings

The yen has fallen by nearly 20 yen against the dollar in the past half year. This benefits Japanese exporters.

Nintendo Co. booked a foreign exchange profit of 22.2 billion yen for the April-December period last year thanks to an increase in the yen value of its foreign currency deposits.

A cheaper yen also helps increase foreign visitors to Japan.
In February, 730,000 overseas visitors came to Japan, an all-time high for the month. Record numbers of Taiwanese, Thai and Indian tourists came to Japan.

But Not Yet

If companies enjoying windfall profits from the yen's decline raise wages, this will increase consumer spending. And if companies ramp up investment, demand in related industries will rise.

These are two key ways that the benefits of a lower yen ripple through the economy. If these dynamics play out as expected, a virtuous cycle of economic growth could be triggered.

But it will take time. For now, the weaker yen will be more a curse than a blessing to many companies because it causes import prices to rise.

Paper product maker Daio Paper Corp., for instance, is facing the prospect of higher prices of films used to bundle boxes of tissue paper due to rising import prices of the basic ingredient naphtha. Negotiations have been dragging on between Daio and film manufacturers over prices.

Daio has urged these suppliers to cut costs by making films as thin as possible. The company is desperate to avoid price hikes as domestic growth prospects are dim.

There And Back Again

Despite renewed prospects, many Japanese manufacturers remain reluctant to expand capital spending. With production having been shifted overseas in response to the yen's appreciation in recent years, it is difficult to bring operations back home, according to Shoichiro Eguchi, president of JVC Kenwood Corp., an audio equipment maker.

If Japanese makers are to expand production at home, they need to create new markets by coming up with new types of products.

An example of such success is the emergence of smartphones. These devices totally reinvented the cell phone market, which had been saturated and looked to have little growth potential. Innovative and popular new products could sharply quicken the process of a weaker yen, laying a foundation for renewed economic growth.

Japan's March Consumer Confidence Up To Highest Level Since May '07

(Kyodo)--Japan's consumer confidence in March improved to its highest level since May 2007 as Prime Minister Shinzo Abe's economic policies weakened the yen and drove up stocks, raising hopes for an economic recovery, a government survey showed Wednesday.

The seasonally adjusted index of sentiment among households made up of two or more people climbed for the third straight month, up 0.6 point to 44.8 from the previous month, the Cabinet Office said, though it still stayed below 50. Readings below 50 indicate pessimists outnumber optimists.

The Cabinet Office upgraded its basic assessment of the index, saying consumer confidence "is showing signs of improvement." Last month, the government said it is "picking up."

The survey, meanwhile, showed that 71.8 percent of households predict consumer prices in the country will rise in the year ahead, up 2.3 points from 69.5 percent in February, suggesting the pledge by Abe's administration and the Bank of Japan to lift the economy out of deflationary recession has bolstered inflation expectations.

Two of the index's four components rose, with consumers' view of employment conditions gaining 1.7 points to 48.4, buoyed by the government's decision to take a stimulus package in an attempt to create at least 600,000 jobs.

Consumers' near-term willingness to purchase new durable goods climbed 0.7 points to 46.1. Their assessment of income growth and that of livelihood were flat at 41.6 and 43.0, respectively.

Japan Logs Record Trade Deficit Of Y8.17tln In FY 2012

(Kyodo)--Japan logged a record trade deficit of 8.17 trillion yen in fiscal 2012, the second straight year of red ink, as a territorial spat with China and the European debt crisis stifled exports, with energy imports surging due to the halt of nuclear power plants, the government said Thursday.

It was the first time that Japan's trade balance has remained in deficit for two years in a row since 1980, when the country was hit by the second oil crisis, the Finance Ministry said.

Among comparable data available since fiscal 1979, the previous largest trade deficit on a business year basis was 4.42 trillion yen logged last fiscal year.

Japan's trade balance is unlikely to improve soon, as demand for natural resources has been growing from domestic utilities boosting thermal power generation as an alternative to stalled atomic power, following the emergency at the Fukushima Daiichi nuclear power plant crippled by the March 2011 quake-tsunami disaster, analysts said.

In addition, Prime Minister Shinzo Abe's policy of pursuing drastic monetary easing, aimed at beating chronic deflation, could lower the yen further, pushing up import costs and preventing Japan's trade balance from improving substantially, they added.

In fiscal 2012, the value of exports fell 2.1 percent from a year earlier to 63.94 trillion yen, down for the second consecutive year, against a backdrop of fewer shipments of vehicles and engines to China as well as of semiconductors and other electronic parts to Europe, according to a preliminary report issued by the ministry.

Japan registered its first trade deficit with the European Union in the fiscal year through March, while also posting its largest deficit with China, which has been wrangling with Tokyo over a group of uninhabited islands in the East China Sea.

The trade deficit with the 27-member group hit 424.00 billion yen and that with China 4.00 trillion yen, respectively, the ministry said.

The value of imports was up 3.4 percent to 72.11 trillion yen for the third straight yearly increase as those of liquefied natural gas jumped 14.9 percent and of crude oil 5.3 percent, the ministry said.

Takeshi Minami, chief economist at the Norinchukin Research Institute, said, "There remains a high bar for Japan to restart the operation of nuclear reactors and imports of crude oil and LNG are likely to hover at high levels."

Imports could also soar as demand for goods at home would expand later this fiscal year in anticipation of planned consumption tax hikes from the current 5 percent to 8 percent in April 2014 and to 10 percent in October 2015, he added.

The trade deficit of Japan, which imports more than 90 percent of its energy resources from overseas, "could linger at least until the middle of fiscal 2014," starting April next year, Minami said.

The Finance Ministry, meanwhile, said the yen weakened against the U.S. dollar by 4.6 percent on an average basis in fiscal 2012 from the previous year.

A falling yen usually drives up import prices, though it bolsters exports by making products of Japanese firms cheaper and more in demand in other nations, and lifting the value of their overseas revenue in yen terms.

The Bank of Japan decided earlier this month on a set of new policy measures to promote stronger monetary easing to achieve its 2 percent inflation target within two years, which briefly jacked up the dollar to nearly 100 yen last week.

Taro Saito, senior economist in Tokyo at NLI Research Institute, said that the yen's depreciation could gradually help shrink Japan's trade deficit from around this summer.

In March alone, the balance stood at a deficit of 362.42 billion yen, marking the ninth straight month of red ink, as exports grew for the first time in two months, up 1.1 percent on year, but imports also climbed 5.5 percent, rising for the fifth consecutive month.

The trade figures were measured on a customs-cleared basis.

Japan Posts March Trade Deficit Of Y362.4bn

Japan's merchandise trade balance logged a deficit of Y362.4 billion in March, as the weak yen pushed up import prices.

The result compares with a median forecast for a deficit of Y430 billion in an survey of economists by Dow Jones Newswires and showed an improvement from a revised Y779.5 billion deficit in February.

Exports also showed some recovery, rising 1.1% from the same period last year to Y6.27 trillion, the Ministry of Finance data released Thursday showed. In February, exports had been down 2.9%.

While exports to China remained weak, falling 2.5% on year, sales to the U.S. jumped 7.0% as demand there began to rise amid a steady if somewhat subdued recovery.

Continuing to darken Japan's trade picture has been a sharp increase in energy imports. Crude oil imports were up 7.0% while liquefied natural gas imports were up 8.8%. Japan has been forced to sharply increase its purchases of fossil fuels for electricity production ever since the March 2011 nuclear plant accident in northern Japan. The total cost has been pushed higher by the decline in the yen since mid-November. Japan's currency has fallen nearly 20% over that period.

Overall, imports were up 5.5% to Y6.634 trillion.

Economists say that the trade balance will likely remain in the red in coming months but that the broader current account will rebound to a steady surplus as income from Japan's overseas investments outpace the merchandise trade deficits.

As the yen strengthened in recent years, manufacturers have been shifting production overseas to remain more competitive. While this reduces the level of exports and worsens the trade gap, the flow of earnings are captured in the current account figures.

World Waiting For Japan's Post-BOJ Credit Easing Moves

TOKYO (Nikkei)--The Bank of Japan's unprecedentedly bold monetary relaxation has sent a message to the world that the central bank is ready to do everything it can to ignite the economy.

The yen is nearing 100 against the dollar. But to reach the BOJ's target of 2% inflation within two years, the exchange rate needs to be around 120 yen to the dollar, says Julian Callow, chief economist at Barclays plc, a British financial services company.

This recent combination of the yen's depreciation and rising stock prices is stirring reactions abroad, both supportive and critical. Technically, there is nothing stopping the BOJ from putting its energy into ending deflation right now, instead of over two years. But by pushing monetary easing that has a more sweeping goal than just deflation-killing, the BOJ has given us a good opportunity to observe the dynamics of currency diplomacy.

Matter Of Perspective

Influential figures around the world have come out in support of the BOJ's looser monetary policy. Christine Lagarde, managing director of the International Monetary Fund, said Sunday it is a "welcome step."

U.S. Federal Reserve Board Chairman Ben Bernanke said Monday that easy-monetary policies by advanced economies benefit all nations.

Bank of Canada Gov. Mark Carney, who is set to become the governor of the Bank of England in July, also welcomed the BOJ's moves.

With key interest rates for monetary policy staying close to zero, these words of support appear to be a bellwether, showing that the depreciation of the yen will not be challenged, at least for now, if it means Japan's economic stagnation is ended and the world benefits from the subsequent expanded domestic demand.

But still, there are complaints. Following the BOJ's announcement on April 4, businesspeople in China grumbled that a weaker yen would put China at a disadvantage when competing with Japan. China's currency is essentially linked to the dollar. They also said that a massive inflow of funds into China would accelerate inflation.

Business interests in South Korea have also expressed dismay at the yen's recent moves.

A major German newspaper, meanwhile, has cheekily described BOJ Gov. Haruhiko Kuroda as a "soldier in a currency war."

Unlike the Japanese, U.S. and British central banks, the European Central Bank is not in a position to adopt economic-stimulus measures in collaboration with the 17 European governments it represents, says Thomas Mayer, senior adviser to Deutsche Bank.

Because of this limitation, Europe is growing concerned about Japan.

Pieces In Place

Currency diplomacy is a stage where nations clash with each other to pursue their own national interests by voicing great causes to justify their demands. The true motives of each nation can change very quickly, much like it does in financial markets.

The U.S. Fed supports the BOJ because it thinks the BOJ's moves will help ease the impact of a decrease in liquidity that will result when the Fed ends its third round of quantitative easing. If the pace of recovery in employment in the U.S. slows, the administration of President Barack Obama will have to pay greater attention to U.S. manufacturers' growing concern about the dollar's appreciation against the yen and less to the Fed's QE3 exit strategy.

In short, the world is watching Prime Minister Shinzo Abe, wondering if his government will truly implement economic growth strategies and drastic deregulation -- as well as trade liberalization and fiscal rehabilitation. The tacit understanding is that if Japan does all this, the world will learn to tolerate Tokyo's deflation-fighting moves and the weaker yen.

Key international conferences are to take place in the months ahead, including a gathering of Group of 20 finance ministers and central bank governors later this month. Unless Japan uses these opportunities to flesh out its reform plans for growth, global support for the BOJ's bold monetary relaxation could quickly end.

11 Nations To Welcome Japan To TPP Talks

(Nikkei)--The 11 nations negotiating the TTP deal will on Friday give Japan the nod to enter the talks, The Nikkei learned Thursday. Japan will be able to join as soon as July, following a 90-day consultation period required by the U.S. Congress.

Top trade officials from the U.S. and the 10 other countries will meet in Indonesia on Friday ahead of this weekend's Asia-Pacific Economic Cooperation ministerial meeting to discuss Japan's participation in the TPP talks. Plans for the meeting came together abruptly.

Japan needs the approval of all 11 countries to sit at the negotiating table. Economic and Fiscal Policy Minister Akira Amari will travel to Indonesia Friday for talks with counterparts from Australia, New Zealand and Canada, which have yet to give their consent, to make an in-person appeal for Japan's bid. Peru has also yet to give its approval.

Amari will also meet with Acting U.S. Trade Representative Demetrios Marantis. The U.S. agreed last Friday to Japan's joining the negotiations but has yet to notify Congress. This could happen as early as Friday. Amari is expected to ask Marantis to notify Congress as soon as possible.

Canada, New Zealand and other holdouts have pressured Japan not to seek exclusions from the TPP's goal of tariff elimination.

Japan intends "to put everything on the table" for negotiation, Economy, Trade and Industry Minister Toshimitsu Motegi assured his Canadian counterpart, Edward Fast, last Thursday. Talks continued over the weekend through embassy channels, leading to what a Japanese government source describes as basic agreements this week with all four countries that have not yet given their approval.

Among the countries being considered to host the July round of TPP negotiations is Malaysia. The members want to hold another round as early as September, followed by a summit in October at which they would seek a basic agreement.

Auto Trade Looms Large In Japan-EU Talks

(Nikkei)--Japan and the European Union will seek easier access to each other's automobile markets as they hammer out an economic partnership agreement.

The first round of negotiations began here Monday. Japan and the EU together produce roughly a third of global economic output.

Sorting through the many complex issues will take time, the chief negotiator for the EU, Mauro Petriccione, told the Japanese delegation. In particular, both camps are prepared to wrangle over automobiles. Japan wants the EU to drop a 10% tariff on imported autos, fearing a loss of competitiveness to South Korea, which has already signed a free trade agreement with the EU that will include a tariff cut.

Japan imposes no tariffs on imported autos, so the EU's focus appears to be on regulatory issues, such as treatment of minicars. European automakers, like their Japanese rivals, excel in compact models. But the European Automobile Manufacturers Association complains that Japan gives minicars preferential treatment, including tax advantages, that essentially shuts out European competitors.

The EU's demands are likely to include allowing European carmakers to export to Japan as long as they meet EU safety standards. With sales in their home market suffering from the economic chill caused by the euro crisis, the Europeans fear added Japanese competition. The EU is offering to lower tariffs only to the extent that Japan complies on deregulation.

It is also pressing Japan for greater access for European-made railway and aviation equipment. And it wants Japan to bring its food safety standards and rules for approving food additives in line with international norms.

The two began exploring the possibility of an EPA around 2009. They agreed just last month to begin negotiations, which will go on in parallel with preliminary FTA talks between the EU and the U.S. Some issues cut across both tracks. For instance, lower EU tariffs on Japanese cars would force U.S. automakers to compete harder in Europe.

The first round of Japan-EU negotiations will end Friday. The two sides have agreed to hold a second round in Tokyo in June and meet four to five times a year.

Abe Eager To Set Up Special Economic Zones To Spur Economy

(Kyodo)--Prime Minister Shinzo Abe expressed eagerness Wednesday to establish special economic zones in the nation's three major metropolitan areas, aiming to spur the economy by boosting investment and attracting foreign businesses to Japan.

"We'll make use of special economic zones to realize the environment where people can run businesses most easily in the world," Abe said during a meeting of the government's industrial competitiveness council.

His remarks came as private sector members of the panel, such as scholars and company executives, called for creating "Abenomics strategic special zones" in Tokyo as well as Osaka and Aichi prefectures, dubbing after the nickname of Abe's economic policies.
The members urged Abe to drastically lower corporate taxes in the zones to invigorate investment, but it is uncertain whether the request is feasible as the government would have to look for alternative sources of revenues should the tax cuts be carried out.

Among other proposals by the nongovernment members is allowing private organizations to operate infrastructure including water supply and sewerage systems, airports and toll roads, which have been mainly managed by the public sector.

The private sector members also asked the government to take steps to invite top universities overseas to set up facilities in Japan and increase the number of hospitals providing medical services in English to improve the living environment for foreigners.

The panel intends to include the measures in the government's economic growth strategies to be put forward in June.

Growth strategies are among the key policies Abe calls the "three arrows" to conquer Japan's more than a decade-long deflation, along with aggressive monetary easing and large-scale public works projects.

Free Up Corporate Farm Ownership As TPP Nears, Business Leaders Say

(Nikkei)--Japan should give companies the freedom to own farmland and take controlling stakes in farming businesses, private-sector members of a government competitiveness council will soon recommend.

The proposals, obtained Thursday by The Nikkei, are meant to make growers more globally competitive -- an important issue as Japan heads into negotiations on the Trans-Pacific Partnership free trade agreement.

Council member Takeshi Niinami, president of convenience store operator Lawson Inc. (2651), will present the recommendations Friday at a meeting of the council's working group on agriculture. The government will present its own reform plan at the next meeting of the full council. The conclusions of the debate will be reflected in a growth strategy due out in June.

Companies can currently lease farmland but not buy it outright, rendering long-term ventures all but impossible. Niinami and his fellow business leaders will call for ending the ban on direct purchases and easing conditions on forming agricultural production corporations, which can own farmland.

To make it easier to acquire existing agricultural production corporations, the council members want to do away with a cap that prohibits companies from owning 50% or more of voting stock. They will also seek to scrap the requirement for the number of days that executives of these corporations must spend on the farm each year.

The aim is to let firms take charge of management and put their ideas to work boosting quality and output.

The members will also call for consolidating farmland into bigger holdings and scaling back controls on rice growing, among other proposals. They see consolidation and corporate management as key to the "aggressive" farm policy that Prime Minister Shinzo Abe says he favors.

The Agriculture Ministry and farmers' cooperatives have long been wary of letting companies buy and sell farmland. Japan has fully allowed corporate leasing of farms only since 2009.

Same-Store Dept Store Sales Up 3.9% On Year In March

TOKYO (NQN)--All-store sales at department stores nationwide totaled 544.7 billion yen in March, while same-store sales rose 3.9% on the year, marking the third straight month of increase, the Japan Department Stores Association reported Thursday.

Sales of art and jewelry rose 15.6%.

Same-store sales at department stores in the Tokyo metropolitan area stood at 137.7 billion yen, up 6.4% and marking the third consecutive month of expansion.

Imported Fruit Prices Climb 20-60% On Soft Yen, Rising Costs

(Nikkei)--The weaker yen and increased shipping costs are driving up wholesale prices for imported fruit, which is now trading 20-60% higher than last fall.

In Tokyo's Ota market, the largest wholesale venue in Japan for fruits and vegetables, grapefruit sells for around 3,550 yen a carton, which contains about 40 units, up 29% since last fall. And a carton of around 88 oranges is trading 20% higher at about 3,650 yen.

Shipments to the Tokyo market in early April have dropped more than 30% for grapefruit and nearly 40% for oranges compared with the same period last year. Trading houses are curbing imports on "concerns that higher prices resulting from the weak yen could depress consumer demand," according to a wholesaler.

The wholesale price of Philippine bananas, which

account for 90% of the market, has jumped 60% since last fall as supplies decreased after a typhoon struck there late last year. Shipments to the Tokyo market have sunk 30% on the year.

Fare hikes by many marine shippers are also having an impact. The firms rose containership fares in January, with fares on a route connecting the U.S. West Coast and Japan apparently climbing 10-20% since the end of last year.

Supermarkets, for their part, are mostly leaving prices unchanged, partly due to sluggish demand for imported fruit. But the higher cost is prompting some to effectively raise prices by selling bags containing fewer pieces.

LDP Panel Seeks To Relax Visa Issuance Requirements

(Kyodo)--A ruling Liberal Democratic Party tourism committee compiled a set of proposals to the government Thursday to ease visa requirements in order to lift the number of foreign visitors to Japan.

The proposals are expected to be reflected in the government's policy for economic and fiscal management, to be compiled in June, as well as the party's election pledges for the upcoming House of Councillors election this summer.

The government aims to increase the annual number of foreign tourists to Japan from about 8.37 million in 2012 to 10 million in 2013, and 25 million in 2020.

The proposals seek to free Thais, Malaysians, and Indonesians from visa requirements while allowing Vietnamese and Russians to obtain multiple visas so they can visit Japan as many times as they want until the expiration date.

To restore the number of Chinese tourists to Japan, which fell amid soured diplomatic ties over territorial issues surrounding the Senkaku Islands in the East China Sea, the committee calls for revising the current system to issue multiple visas to Chinese tourists.

Such visas are currently available only for those staying overnight in Iwate, Miyagi or Fukushima, which were severely affected by the March 2011 earthquake and tsunami, as well as Japan's southern island prefecture of Okinawa.

To encourage more foreigners to visit Japan, the committee also seeks to make cosmetic goods duty free, introduce a discount on public transportation fees for foreigners and promote the installation of automated teller machines that can accept foreign credit cards.