2015.6.15

The Recovery of the Nikkei ～ What's needed for a Full Recovery

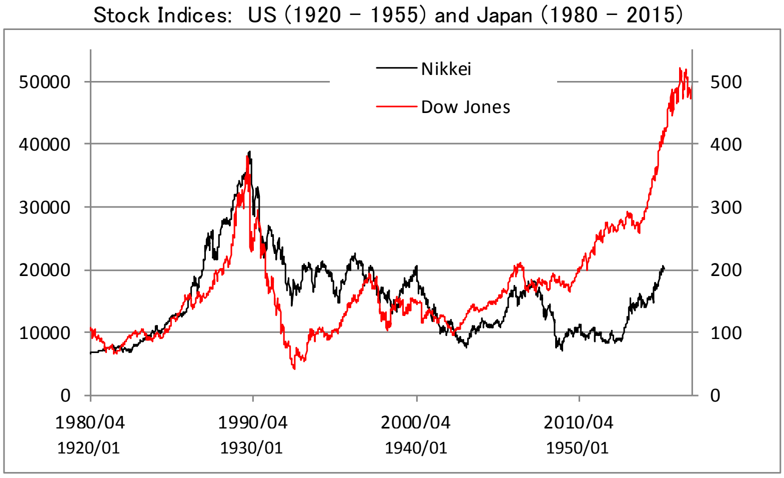
Koji Sakuma, Chief Economist
Institute for International Monetary Affairs

Although we have lately become used to the Nikkei being in the 20,000 yen mark, it is amazing recovery, looking back at the last three year. The sentiment of corporates and the households have become far better than what it was before Abenomics. Last week Bank of Japan's Governor Mr. Kuroda commented that the Japanese Yen is unlikely to depreciate further. Then the Yen prices went up and stock prices went down for a while. But the next day this trend stopped.

Fundamentals surrounding Japanese stocks are relatively good. Looking within Japan, the year 2015, with rise in wages and the effects of the consumer tax increase simmering down, is a year of improvement for the real disposable income of households. Outside Japan, the U.S. economy is basically fine. In Europe even with the crisis of Greece, concerns of deflation seem to have receded. Though long term interest rates of the advanced countries in general are rising, it seems to be an evidence of sound movement due to improved market sentiments.

But in comparison with the transition of U.S. stocks after the depression, an example of long term recession in share prices, the recovery of Japanese stocks is not even half way. It took 25 years for U.S. stocks to recover to what it was before the depression. What happened during those years were the Second World War and the Korean War, from which came huge military demand and after the war reconstruction demand from totally destructed Europe and Japan. This unprecedented scale of demand was undertaken only by U.S. corporates and their shares final recovered to what it was before the depression. During this time, the World Bank and

日米株価推移　大恐慌後の米国とバブル崩壊後の日本
Stock Indices: US (1920 – 1955) and Japan (1980 – 2015)



(Source) Datastream

IMF financially supported the manifestation of potential demands of the non-U.S. countries.

Looking at U.S.'s case in order for Japanese stocks to recovery further, at all events, demand is needed. Within Japan, deregulation is needed to manifest new hidden demands of the senior age society. Outside Japan, the U.S. economy needs to make a solid growth and the Euro Zone steadily needs to solve its structural problems. Most of all, Japan must take in the growth of its closest region, Asia. "Taking in the growth of Asia" sounds a bit old in the wording of corporate strategy in Japan, but new things such as "AIIB" and "One Road and One Belt" have appeared.

It is clear that "AIIB" and "One Road and One Belt" are results of China's own national growth strategies, who is entering a low growth period and digging up for demand by themselves. But this sort of self-convenient matter can be good at times. The development of an economy is not a zero-sum game; China's development can lead to the development of other countries. The world as a whole needs a lot of demand to recover from a long period of low growth after the Lehman Shock.

Japan's strategy is to proactively take action to push lending and investment that will promote not just an asset bubble but steady improvement of productivities of the Asian region. That would become the driving force for the further recovery of Japanese share prices. The worst scenario for Japan would be that the AIIB's finance expansion would end up to be only exporting China's construction and real estate bubble to its neighboring countries, influencing the Japanese economy into another recession. This must be avoided.