# A hollow recovery

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*Japan's recession has technically ended but voters are likely to see through the numbers*

SUMMERS in Tokyo are renowned for their diabolical heat. But salarymen sweating from Fukuoka to Sapporo might take comfort in economic data released on Monday August 17th showing that Japan’s economy has warmed up a little too. The country, which previously suffered four consecutive quarters of contraction, grew by 0.9% between April and June compared with the previous quarter (or 3.7% at an annualised rate). It follows a massive 11.7% annualised slump in first quarter. The growth means that Japan is no longer technically in recession.

Celebrations will be muted, however. The modest rebound after such a punishing slump is nothing to get excited about, either for the country, or the ruling party, which faces what could be a historic defeat in elections on August 30th. And it is the result of a quirk, due in part to small upticks in production, exports and domestic sales following a year of hefty shortfalls. Moreover, the positive blip will do little to help the ruling Liberal Democratic Party’s (LDP’s) electoral chances.

Its candidates are likely to make a lot of the data when the short campaign officially starts on Tuesday—after all, the government had promised that the economy would rebound by the summer. But the party has presided over two decades of economic hardship during its almost 53 years in control, and disenchantment is running high. Opinion polls suggest that the LDP is likely to be beaten by the Democratic Party of Japan because of a wide set of failings, not just its economic (mis)management. Japan is still expected to perform the worst among the G7 group of rich countries and its economy may contract by as much as 6% this year, around twice the rate of America's, according to some forecasters.

Those who doubt the sustainability of the upswing note that, above all, it was technical in nature. After a period of destocking, inventories fell so low that an upswing in production was inevitable—indeed, it was widely forecast to happen as far back as January.

Furthermore, some of the growth is due to one-off government stimulus measures. Big public-works projects pumped money into the economy, and the government has been credited for the aggressive way that it threw cash at the crisis. But economic stimulus packages can not boost an economy forever in a country with a ratio of government debt to GDP that is close to 200%, the largest of any rich country. On the consumer side it also offered financial incentives for consumers to buy new, energy-efficient cars and appliances, as well as handing out ¥12,000 ($127) per person. Household consumption grew by 0.8% quarter on quarter.

But they are short-term fillips. Domestic demand is expected to decline as joblessness rises and wages fall. The unemployment rate hit 5.4% in June, near a post-war peak of 5.5% in 2003. And Japan has a shrinking workforce which weakens growth further. Consumer sentiment is improving slightly, but only after deep declines.

Falling prices are also putting a brake on consumption; the rate of deflation is actually increasing. At the same time, capital investment is expected to shrink this year and even fall by 7.9% in 2010, according to analysts at HSBC. Taken together, this bodes ill for the world's second-largest economy. Heavily exposed to exports, Japan suffered when overseas demand shrivelled amid the downturn.

Rebalancing the economy towards domestic demand will be hard in Japan. Politicians are unlikely to countenance the sort of bold changes needed to stoke spending at home such as slashing the regulations that surround service industries, protecting them from competition. Farming too could be liberalised, as could heavily protected bits of the economy such as energy, transport, health care and education. The government's claim that the worst may be over may be true. But any recovery is probably too late to save its skin.

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