

World Economic Trends

The Autumn Report in 2009

Exit Strategy under Employment Crisis:
When Will the Economy Recover and
How to Exit?

(Summary)

November 30, 2009

Cabinet Office

Government of Japan

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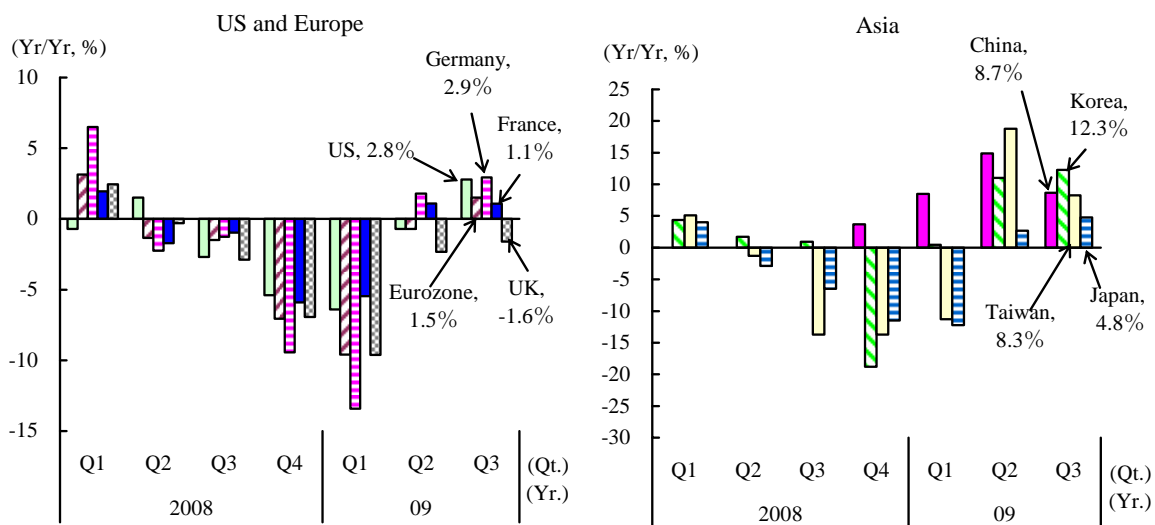
This report is prepared on the basis of data obtained by 13 November 2009.

Chapter 1 Sustainability of World Economic Recovery

§1. Characteristics of World Economic Recovery Patterns

- Although world economy had headed into a further deep recession since the fall of 2008, it has shown signs of economic recovery mainly in Asian countries since the summer of 2009 due to the effect of economic-stimulus packages and the economy has leveled off.

**Figure 1-1-1 Real Economic Growth Rates of Major Countries:
Returned to positive growth since the middle of 2009.**



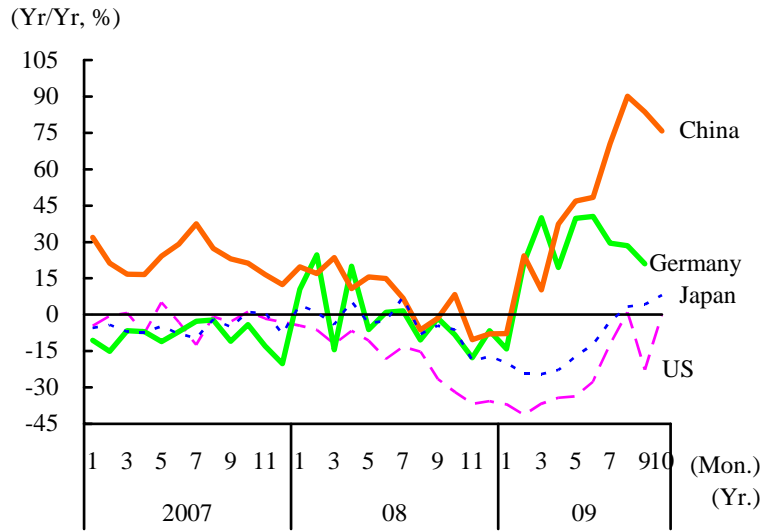
(Notes)1. Source: National or Regional statistics

2. Data of China are estimated by People's Bank of China. The data since the fourth quarter of 2008 are available.

Characteristic of this time's recovery pattern 1 : Recovery supported by policy effects

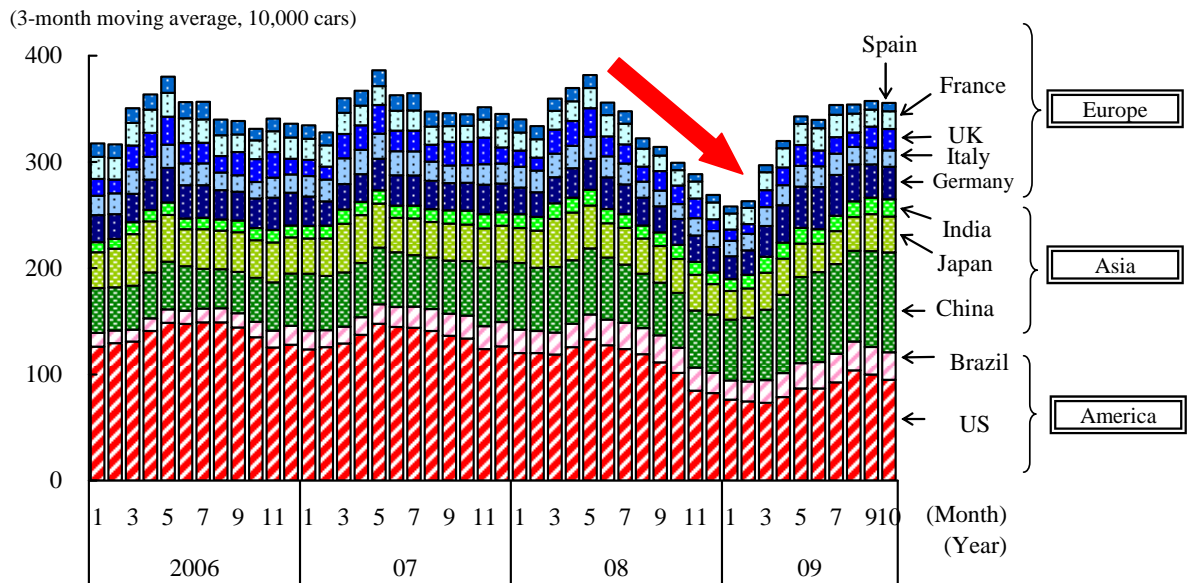
- The current world economic recovery is mainly supported by policy effects such as unprecedented large-scale fiscal and monetary expansion including unconventional measures. Particularly, car scrapping schemes have been implemented in many countries and demand of at least 10 million or more cars has been generated in the world. However, these schemes have already been terminated in the US and Germany and the recoil reduction would become obvious hereafter.

**Figure 1-1-6 Number of Cars Sold in Major Countries:
Rapidly increased by policy effects.**



(Note) Source: National Statistics

**Box 1-1 Number of New Car Registration/Sold in Major Countries
Recovering to the pre-crisis level in total**

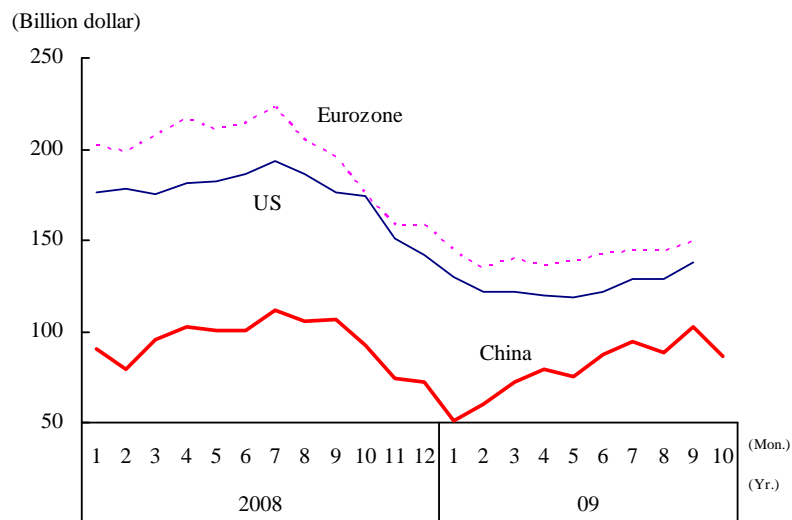


(Notes) 1. Source: National statistics.
 2. US data includes light trucks.
 3. Countries with monthly statistics were extracted from those with over 1 million of new car registrations in 2007 according to Japan Automobile Manufacturers Association, Inc. in descending order of the number of new car registrations by region.

Characteristic of this time's recovery pattern 2 : Asia, especially China lead the recovery.

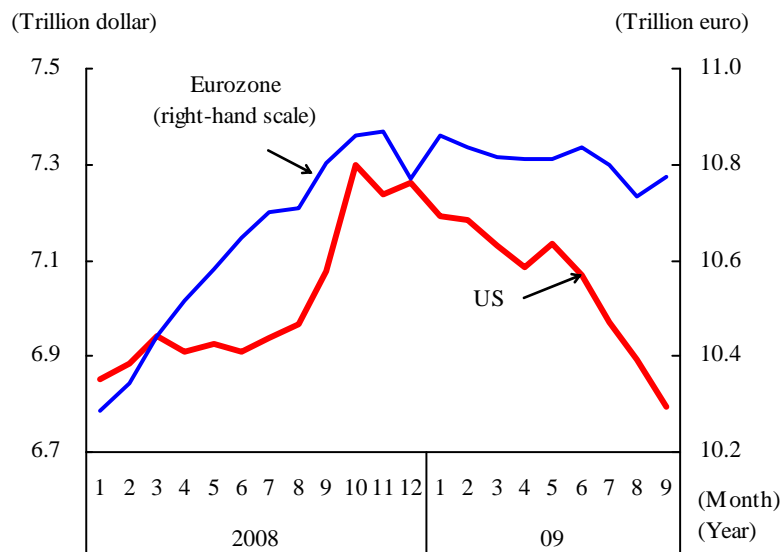
- The degree of economic recovery varies depending on the region and Asia supported by China's economic recovery leads the recovery. On the other hand, in the US and Europe, the epicenters of the financial crisis, although the economy generally shows signs of leveling off, the credit crunch has continued mainly in the field of indirect financing, which may have a negative impact on the pace of recovery in the future.

Figure 1-1-8 Imports of Major Countries:
China's exports lead the world trade recovery.



(Note) Source: National statistics

Figure 1-1-12 Banks' Loan Outstanding in the US and Europe:
Downward trend due to aftereffect of financial crisis

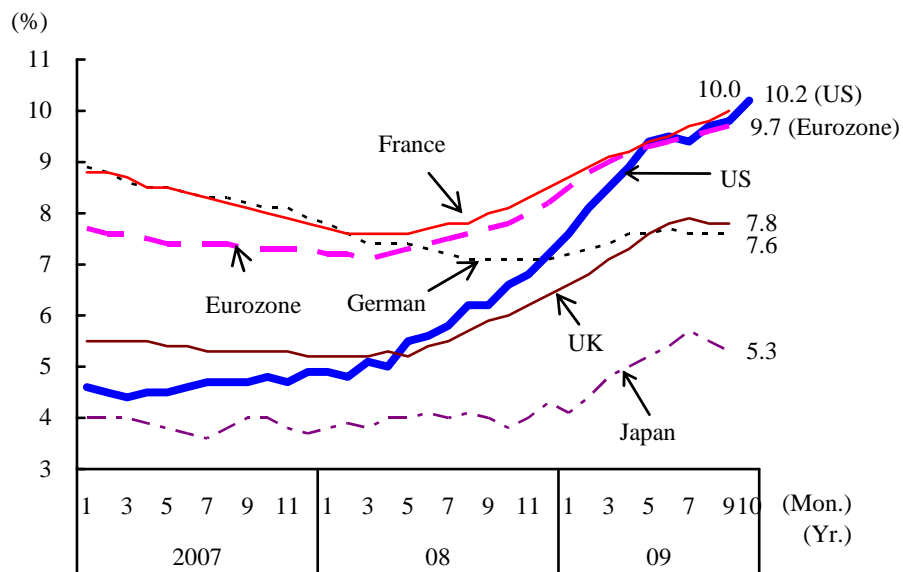


(Note) Source: National statistics

Characteristic of this time's recovery pattern 3 : From financial crisis to Job crisis

- In the US and Europe, unemployment rates are rising to about 10%. In the US, the number of long-term unemployed has increased to nearly 6 million, and youth unemployment rate has reached 20% in Eurozone. Such worsening employment situation dampens consumer spending and may prevent self-sustained economic recovery.

Figure 1-1-13 Unemployment Rates in the US and Europe: rising to about 10%

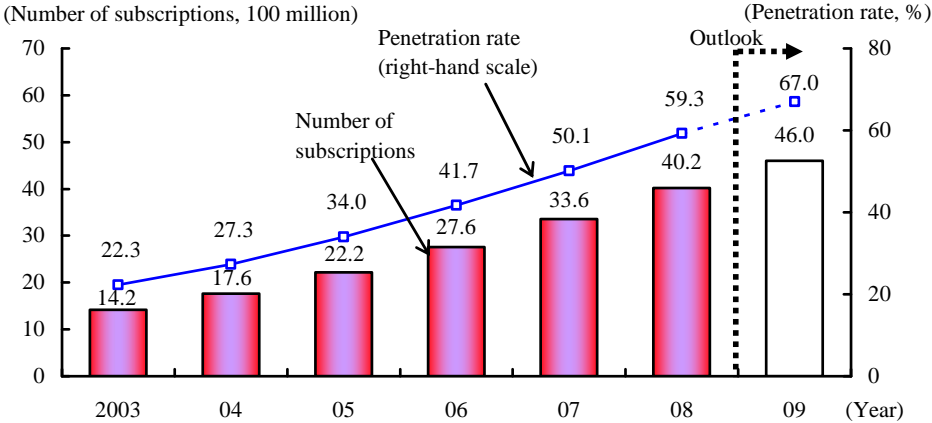


(Note) Source: National statistics

Box : Expansion of global consumer goods market – A case of cell phones

- The number of cell phone subscriptions in the world has rapidly increased by an average of 23.2% per year over the last five years, from 2003 to 2008. It was over 4 billion as of the end of 2008. The world's cell phone penetration rate has reached 59.3%, i.e., one out of two persons has a cell phone in the world. The number of cell phone subscriptions will reach 4.6 billion at the end of 2009 and the penetration rate will hit 67%. Potential demands of cell phone subscribers in China and India are estimated 1.5 billion people.

Box 1-2 The number of cell phone subscriptions:
Rapidly increased by an average of 23.2% per year



(Notes)1. Source: "ITU World Telecommunication/ICT Indicators Database."
2. Penetration rate = Number of cell phone subscriptions / Population.
Values are as of the end of each year.

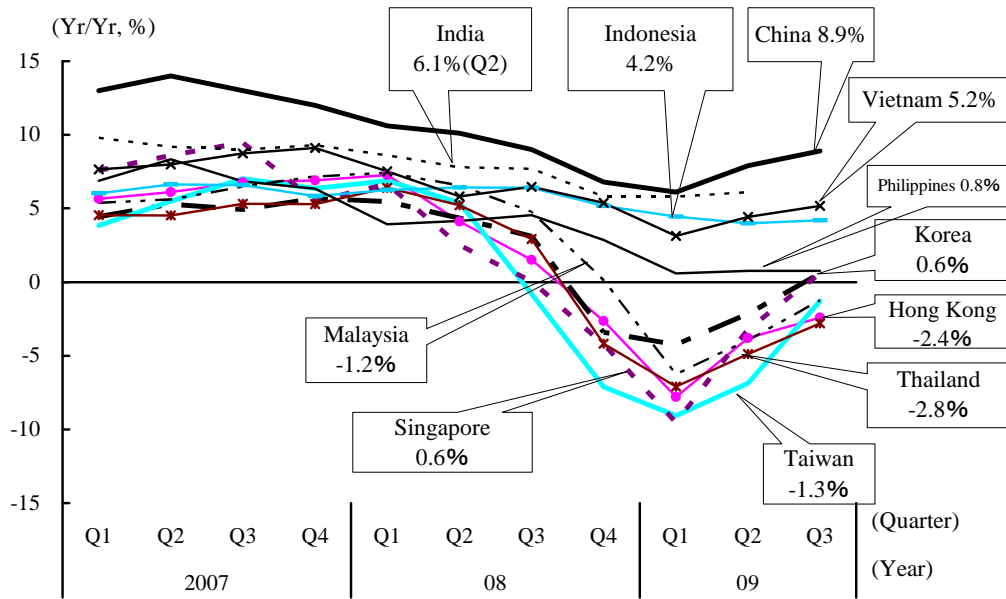
§2. Asian Economy

1. Driving forces for economic recovery: Stimulus policies and China's domestic demand expansion

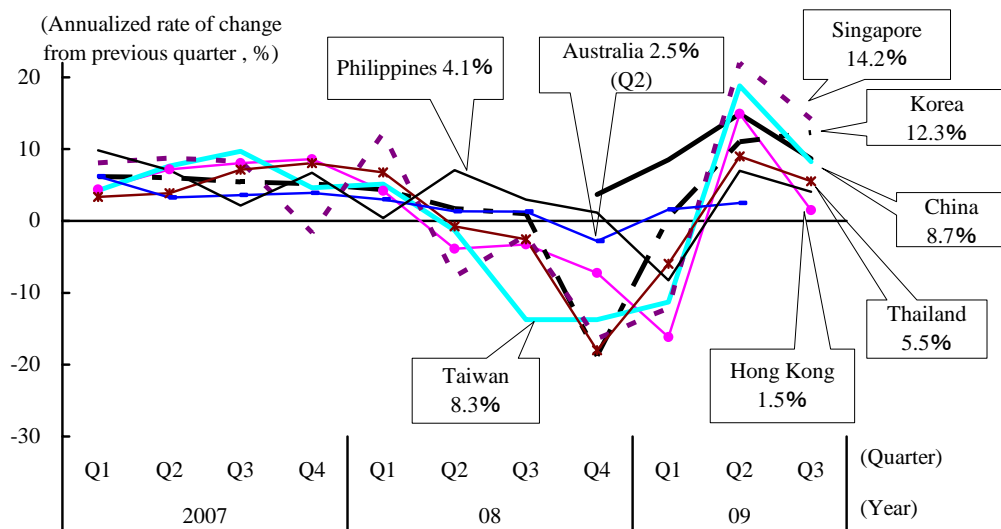
- Although Asian economy was strongly affected by the global financial crisis, fiscal and monetary policy stimulus have effected since the beginning of 2009 in China. Asian regions other than China are also led by the policy stimulus and China's domestic demand expansion. Korea, Taiwan and other Asian regions have generally shown economic recovery since around January-February and April-May 2009 respectively.
- On the other hand, India and Indonesia have maintained higher growth rates mainly in domestic demands compared to other Asian regions even after the global financial crisis.

Figure 1-2-1 Asian Regions' Real GDP Growth:
Improved since the spring 2009

(1) Year-to-year Comparison



(2) Annualized Rate of Change from Previous Quarter

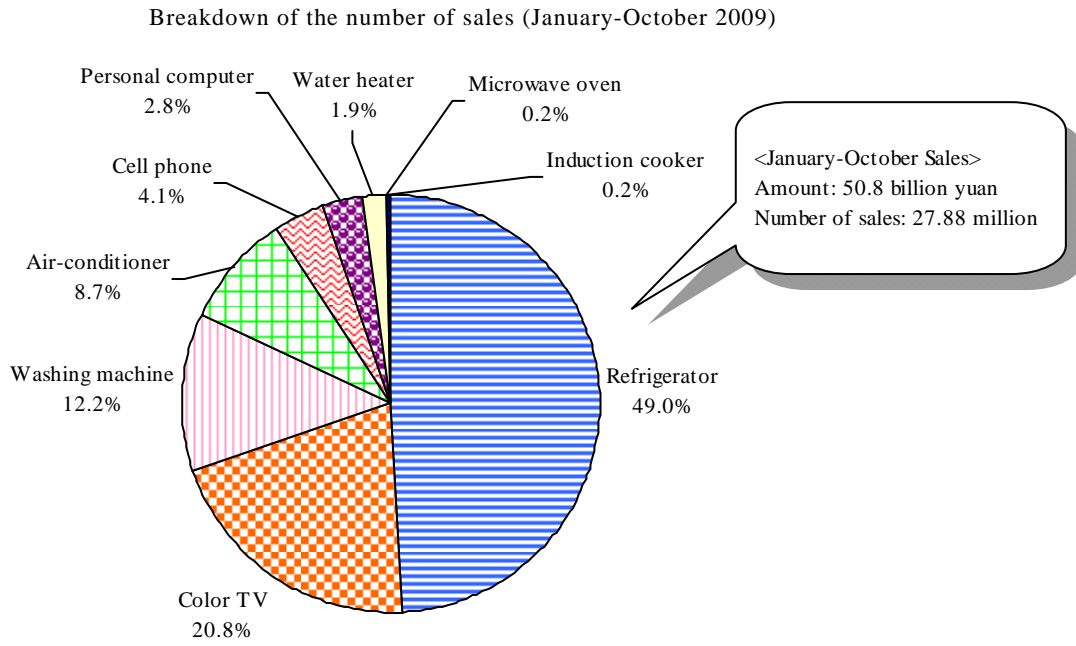


(Notes) 1. Source: National or regional Statistics
2. Values are third quarter's ones unless otherwise designated.

2. China's sustainability of consumption: China's household consumption will remain strong for the time being.

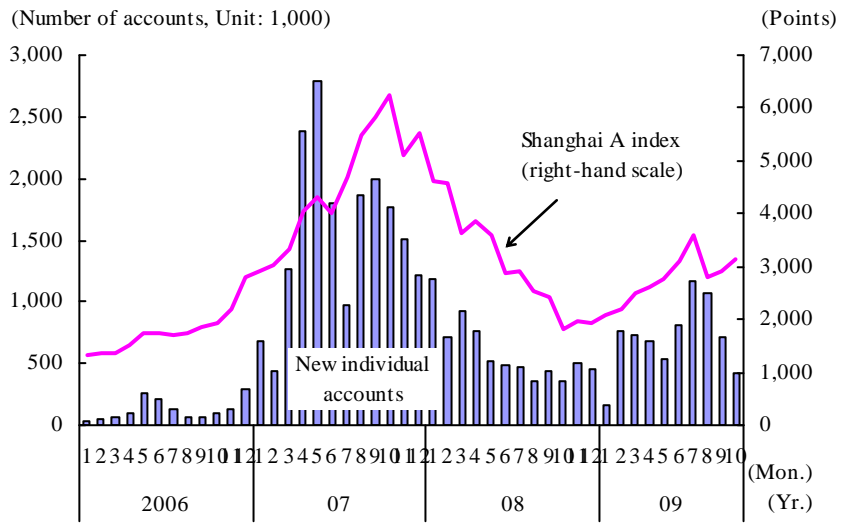
- The household consumption remains strong due to policies for promoting sales of home appliances and automobiles. Top three demand items in rural areas are refrigerator, color TV and washing machine. A strong growth in consumption driven by automobiles is also seen in urban areas.
- As for short-term prospects, although somewhat slowdown is expected due to partial termination of measures, the consumption will remain strong for the time being for the following reasons: 1) some measures will continue after 2010 and the coverage is expected to expand and 2) the employment situation has been improved as well as income environment and consumer confidence.
- In addition, an increase in households' motivation to invest has been seen reflecting rise in China's domestic stocks since the beginning of the year.

Figure 1-2-16 Sales Performance of Home Appliance Sales Promotion for Rural Areas:
Refrigerator, color TV and washing machine occupy high shares.



(Note) Source: Data released by Chinese Government

Figure 1-2-24 Number of New Individual Accounts for Shanghai A Stocks:
Linked to stock prices



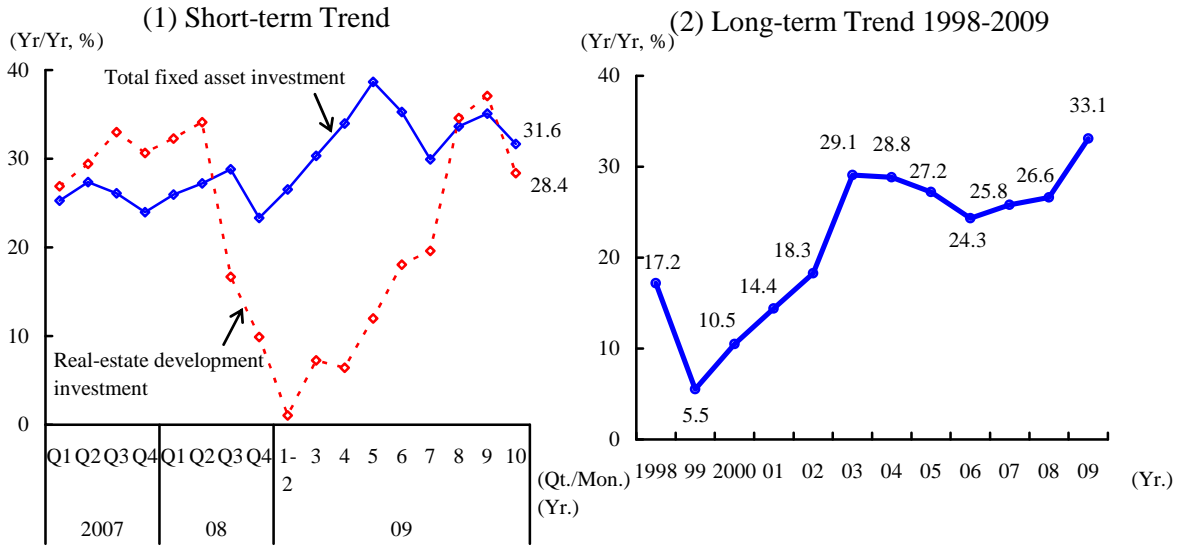
(Notes) 1. Source: Shanghai Stock Exchange
2. Stock prices are as of the end of month.

3. China's sustainability of investments: Investments will expand for the time being while there are some concerns.

- In 2009, the increase in investment growth is the highest in the past decade due to implementation of 4-trillion-yuan domestic-demand expansion policies including infrastructure investments and disaster restoration projects.
- As for short-term prospects, the investment will continue to increase since the measures continuously support it in 2010 and the Chinese Government continues monetary expansion for the time being.
- However, it is necessary to pay attention to 1) reduced investment in businesses with capacity over of production, 2) reduced public investment after full-scale economic recovery and 3) possibility of monetary tightening due to concerns on asset price bubbles.

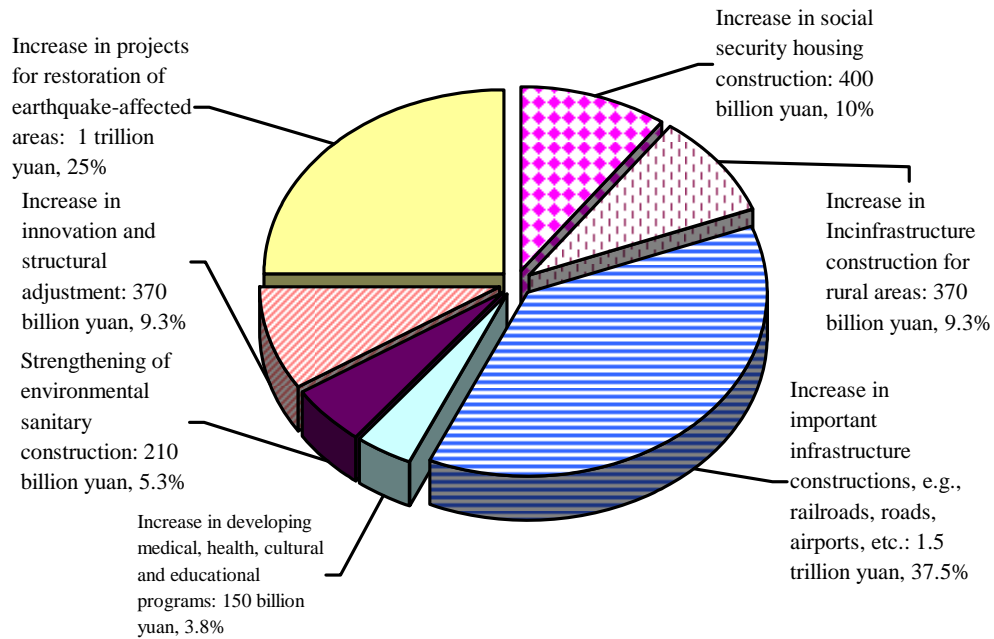
Figure 1-2-25 Investment in Fixed Assets in Urban Areas:

The increase in investment growth in 2009 is the highest in the past decade.



(Notes) 1. Source: National Bureau of Statistics of China
 2. Monthly and quarterly growths are estimated by the Cabinet Office.
 3. The Value of 2009 indicates a cumulative growth from January to October.

Figure 1-2-27 4-trillion-yuan Measures: Mainly infrastructure constructions

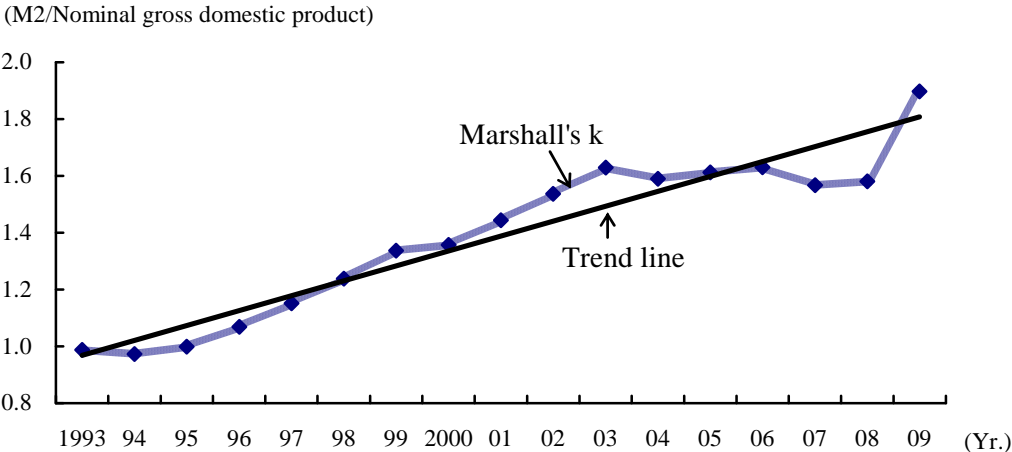


(Notes) 1. Source: National Development and Reform Commission
 2. As of March 2009

4. Possibility of China's Asset Bubbles: Requiring attention to boom in real estate in some major cities.

- Money supply (M2) shows a very high growth rate, about 30% increase over the previous year, accompanied with rapid increase in bank lending after the abolition of total lending volume control in November 2008. The growth rate of money supply far exceeds that of nominal gross domestic product and monetary policy is eased significantly.

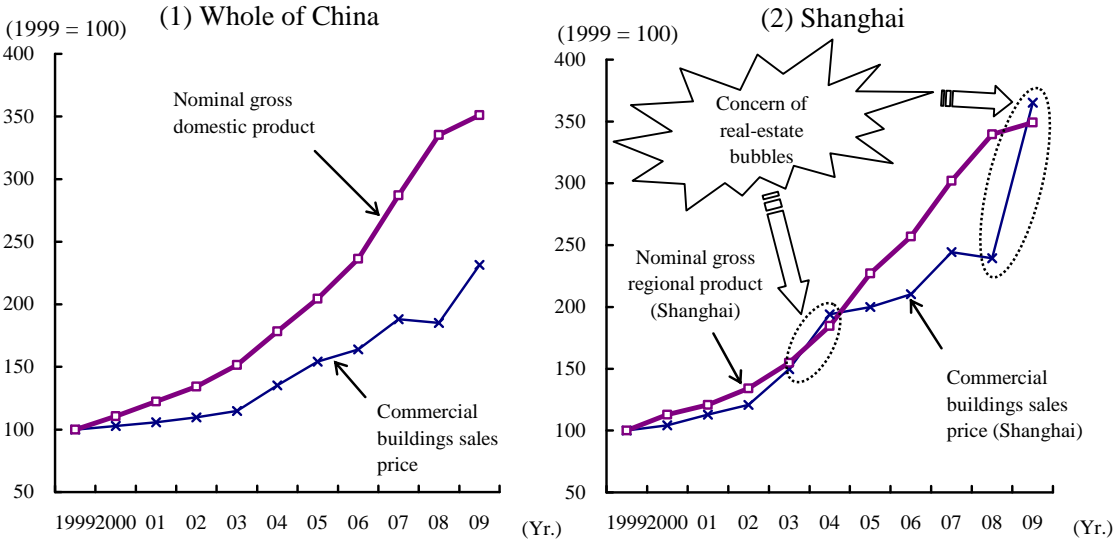
Figure 1-2-35 Marshall's k: Rapid rise in 2009



(Notes) 1. Source: National Bureau of Statistics of China and People's Bank of China
 2. The value of 2009 is calculated from January-October growth rate.

- In 2009, real-estate bubbles may have occurred in some cities including Shanghai.

Figure 1-2-48 Comparison of nominal gross domestic (regional) product and commercial buildings sales price: Real-estate bubbles may have occurred in Shanghai.

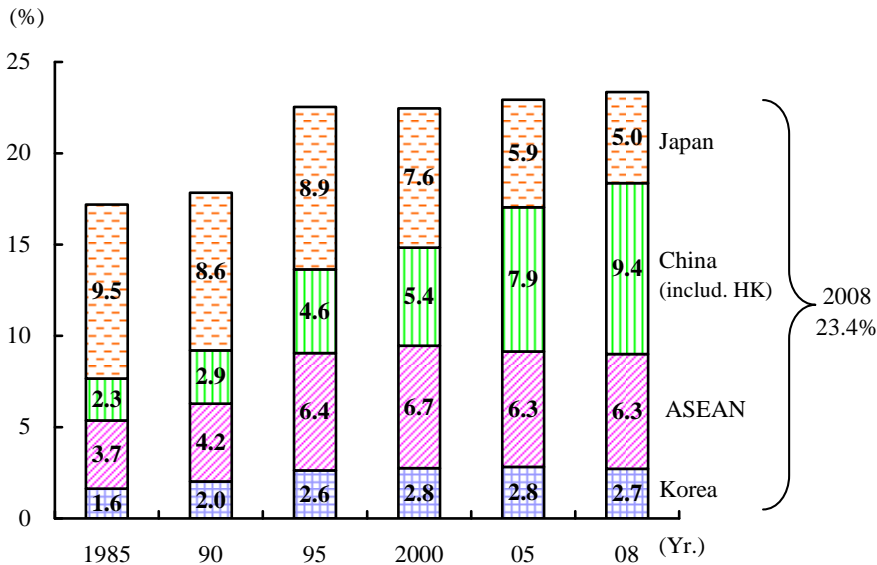


(Notes) 1. Source: National Bureau of Statistics of China and Statistical Yearbook of China 2009
 2. Nominal gross domestic (intraregional) product in 2009 was calculated using January-October cumulative growth rate multiplied by the value of 2008. Commercial buildings sales price in 2009 is the average price between January and October.

5. Sustainability of Exports from Asia: It takes time to attain the full recovery. The regional specialization structure of exports to the US and Europe through China has its limits. Asia is shifting its position to enjoy acquired affluence.

- Exports from East Asian countries/regions such as Korea, Taiwan and Singapore greatly decreased due to the global recession. Although exports to the US and Europe greatly decrease even now, exports to China have generally been recovered and have contributed to the pickup of economy.
- Looking back on the past two decades, East Asian trade/production structure has changed from a regional specialization with Japan at the time of Plaza Accord to a regional specialization structure with China, playing a key role in exporting products to the US and Europe. Therefore, exports from East Asian countries/regions to China are mainly intermediate goods such as parts/components and processed goods. Those final products processed/assembled in China are mainly consumed in the US and Europe.
- Since such structure is not expected to change significantly within a few years, the full-recovery of exports would depend on recovery in demand of the US and Europe.

Figure 1-2-57 Global Share of East Asia's Exports: Expanding mainly in China



(Notes) 1. Source: "Direction of Trade Statistics", IMF
 2. Taiwan is not included since it is exempt from this statistic.

Figure 1-2-59 Exports from China to Developed Countries Are Mainly Final Goods

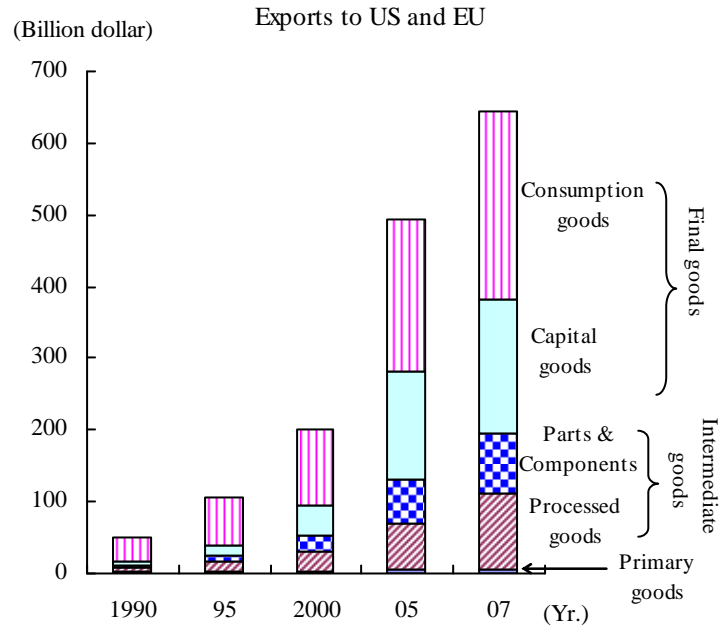
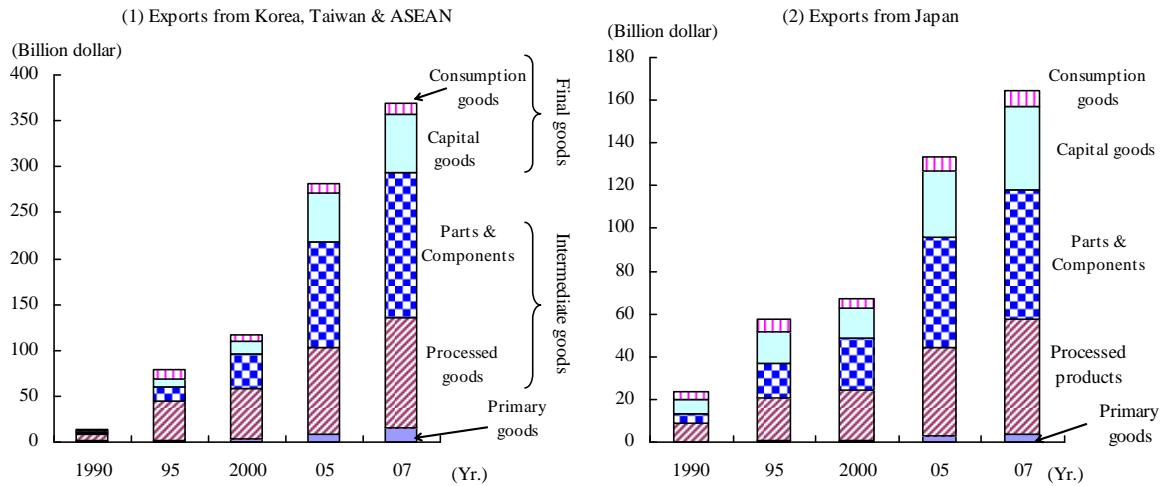


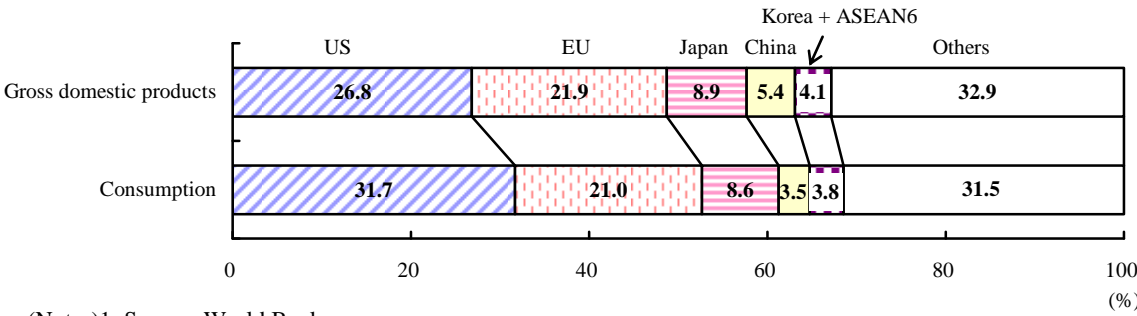
Figure 1-2-61 Exports from East Asia to China Are Mainly Intermediate Goods



(Notes) 1. Source: Research Institute of Economy, Trade and Industry Database "RIETI-TID2008"
 2. China includes HK.

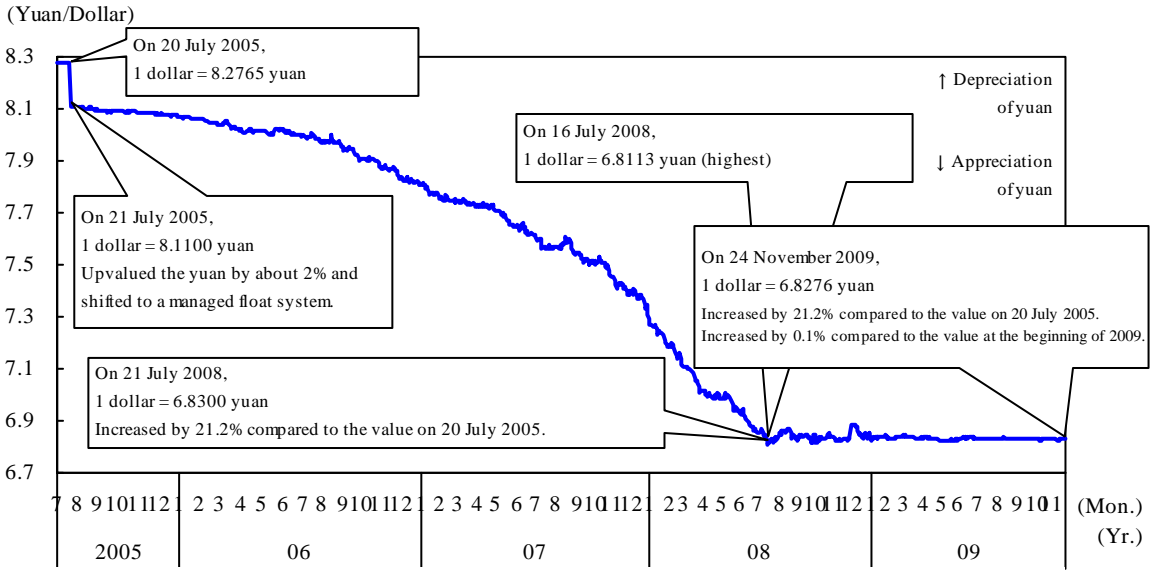
- The global share of consumption and gross domestic product is imbalanced. It was cleared with this global financial crisis that global economy is not decoupled but rather emerging countries are enjoying rapid economic progress by strengthening trade and investment linkages with the US and Europe.
- In Asia, the regional specialization structure for exports to the US and Europe through China has its limits. In order to achieve medium- to long-term stable self-sustaining growth, it is necessary for East Asia to transform its economic structure from the “factory of the world” into the place of consumption where people enjoy acquired affluence by stimulating intraregional demands. In China, in this case, it is necessary to increase the flexibility of Chinese yuan as well as to reform pension/healthcare system to reduce precautionary saving.

Figure 1-2-70 Shares of Households' Final Consumption and Gross Domestic Products in 2006: Consumption is imbalanced with gross domestic products.



(Notes) 1. Source: World Bank
 2. ASEAN6 consists of Singapore, Thailand, Malaysia, Indonesia, Philippines and Vietnam.

Figure 1-2-71 Exchange Rate of the Yuan: It has been flat since July 2008.



(Note) Source: Kyodo News Service and People's Bank of China

(Reference) Outline of China's Major Policies for stimulating consumption

	Coverage for subsidies	Period	Amount of subsidies	
Tax Reduction for the purchase of compact cars	<ul style="list-style-type: none"> ● Purchasing of a passenger car with engine displacements at or under 1,600cc 	20 January to 31 December 2009	Car Purchase tax reduces from 10% to 5%.	
Promotion of purchasing home appliances by rural residents	<ul style="list-style-type: none"> ● When a rural resident purchases either one of the following nine home appliances: 1) color TV (3,500 yuan), 2) refrigerator (2,500 yuan), 3) cell phone (1,000 yuan), 4) washing machine (2,000 yuan), 5) air-conditioner (wall-hanging: 2,500 yuan, floor: 4,000 yuan), 6) water heater (electric: 1,500 yuan, gas: 2,500 yuan, solar energy: 4,000 yuan), 7) personal computer (3,500 yuan), 8) microwave oven (1,000 yuan) and 9) induction cooker (600 yuan) *Figure in parenthesis indicates the maximum limit of sales price. 	1 February 2009 to 31 January 2013 (four years) (For some areas where advanced implementation was carried out, it will be terminated in November 2011 or 2012.)	<ul style="list-style-type: none"> ● 13% of sales price ● Up to two units per household 	
Promotion of purchasing automobiles by rural residents	<ul style="list-style-type: none"> ● When a rural resident scraps an old-fashioned three-wheeled vehicle or a low-speed truck and purchases a small/lightweight truck: ● When a rural resident purchases a passenger car with engine displacement at or under 1,300cc or a small/lightweight truck: <hr/> <ul style="list-style-type: none"> ● When a rural resident purchases a motorcycle: 	<p>Automobile: 1 March to 31 December 2009</p> <p>Motorcycle: 1 February 2009 to 31 January 2013</p>	<ul style="list-style-type: none"> ● 10% of sales price (maximum limit of subsidy: 5,000 yuan) ● Subsidy for vehicle scrap (three-wheeled vehicle: 2,000 yuan, low-speed truck: 3,000 yuan) ● Up to 1 unit per household ● 13% of sales price (maximum limit of subsidy: 650 yuan) ● Up to two units per household 	
Promotion of replacing automobiles/home appliances	Automobiles	1 June 2009 to 31 May 2010	<ul style="list-style-type: none"> ● When replacing the following automobile for a new one; 1) a small truck or a medium-sized taxi used within less than eight years or a middle-sized/lightweight truck or a middle-sized passenger car (except taxi) used within less than 12 years, 2) a car which does not meet a certain emission standard: 	<ul style="list-style-type: none"> ● Amount should be lower than purchase tax per car in principle (3,000 to 6,000 yuan depending on car type)
	Home appliances		<ul style="list-style-type: none"> ● When scrapping 1) a TV, 2) a refrigerator, 3) a washing machine, 4) an air-conditioner or 5) a personal computer and purchasing new one: ● It has been implemented on a trial basis in the following nine provinces and cities: Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Shandong, Guangdong, Fuzhou of Fujian and Changsha of Hunan (it will be expanded throughout all of China later). 	<ul style="list-style-type: none"> ● 10% of new home appliance's sales price ● Maximum limit of subsidies: TV: 400 yuan, refrigerator: 300 yuan, washing machine: 250 yuan, air-conditioner: 350 yuan and personal computer: 400 yuan
Promotion of Energy-saving product project	<ul style="list-style-type: none"> ● Subsidies are provided to companies producing energy-saving products which meet Chinese Government's energy efficiency (10 items such as air-conditioner, refrigerator, washing machine and flat-screen TV). The companies sell products with a price after deduction of the subsidy. ● Maximum limit of sales price: In the case of air-conditioner: 3,500 to 12,000 yuan 	<ul style="list-style-type: none"> ● Announced in May 2009. ● It will be implemented until the share of the energy-saving product market reaches a certain level. 	<ul style="list-style-type: none"> ● In the case of air-conditioner: 300 to 850 yuan per unit depending on the performance. 	

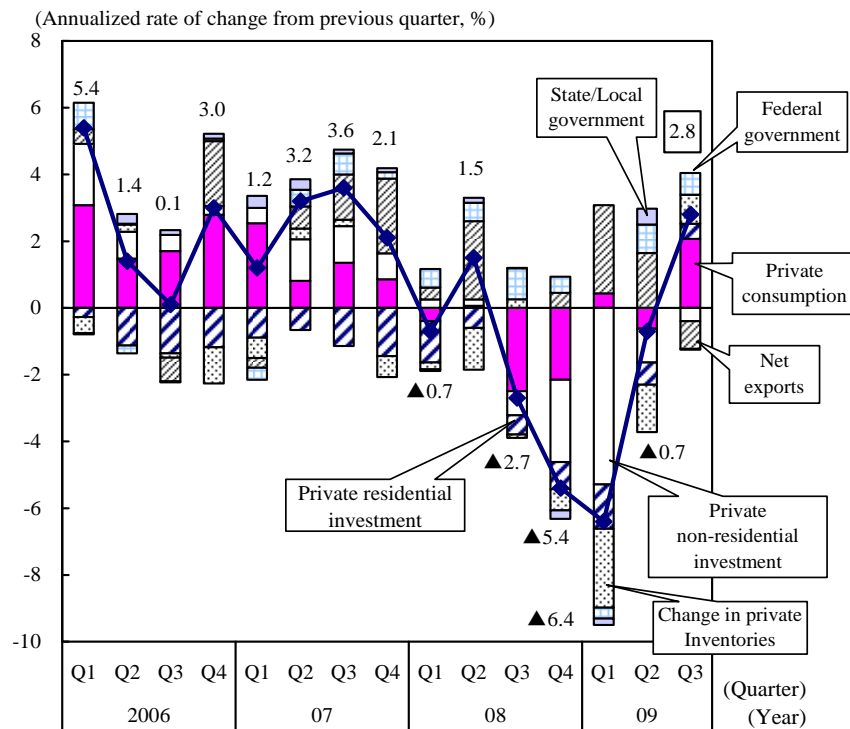
(Note) Source: Documents released by Chinese Government and other documents

§3. US Economy

1. US economy supported by policies

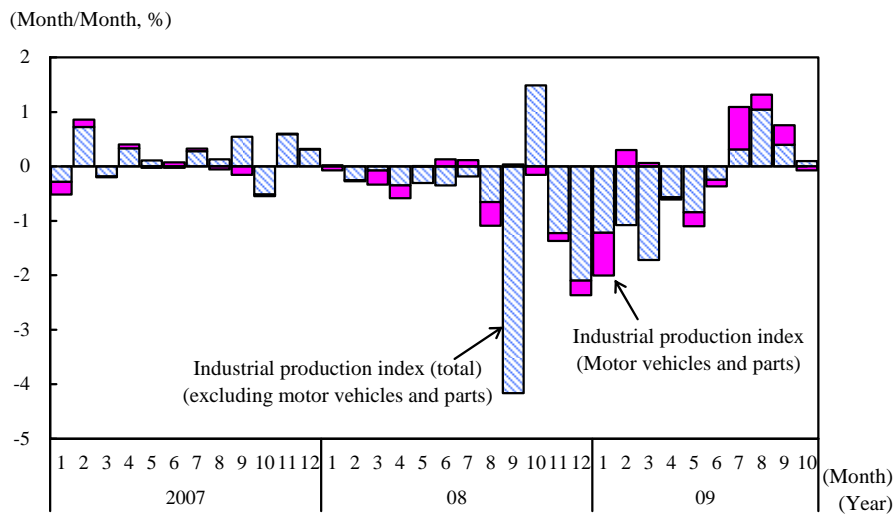
- Increased car production in the summer of 2009 is caused by the car scrapping scheme. The contribution from auto-related industry to the real GDP growth rate of the third quarter 2.8% was 1.5%.

Figure 1-3-1 Real gross domestic product growth rate: Economy has leveled off.



(Note) Source: US Department of Commerce

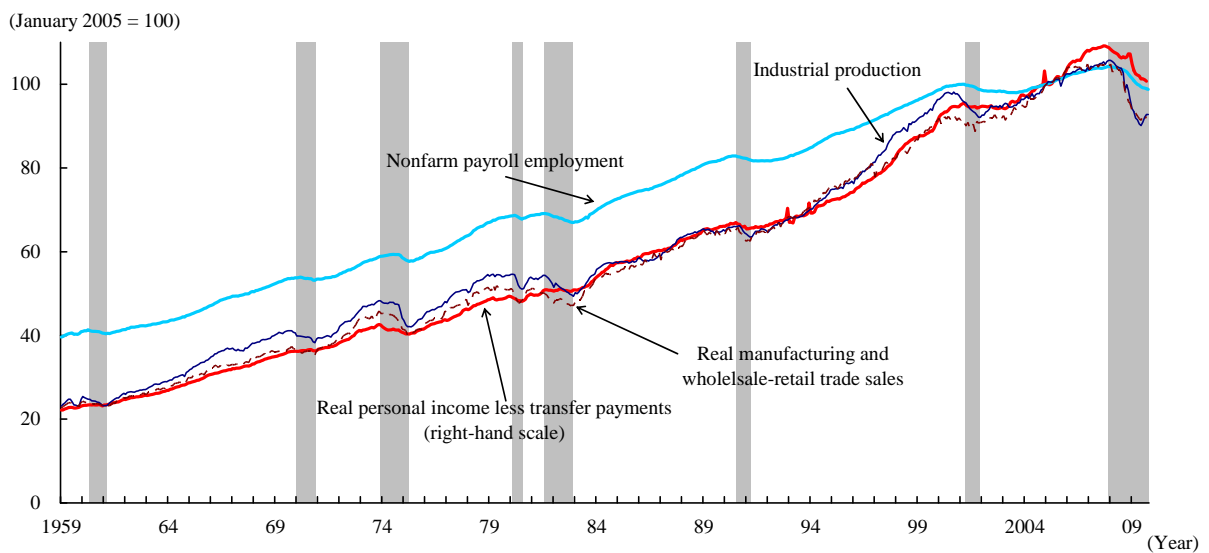
Figure 1-3-11 Industrial Production: Boost-up by auto sector is temporal.



(Note) Source: Federal Reserve Board

- Looking at this recessionary phase from the viewpoints of four indexes which are used to specify a business cycle date in the US, although industrial production and real manufacturing and wholesale-retail trade sales show signs of economic recovery, real personal income and payrolls continue to decrease. It shows a tendency similar to the recessionary phase in 2001 which led to jobless recovery.
- This indicates the possibility of long-term weak employment even after entering a recovery phase.

Figure 1-3-3 Coincident Series: Showing a tendency similar to the recessionary phase in 2001 which led to jobless recovery

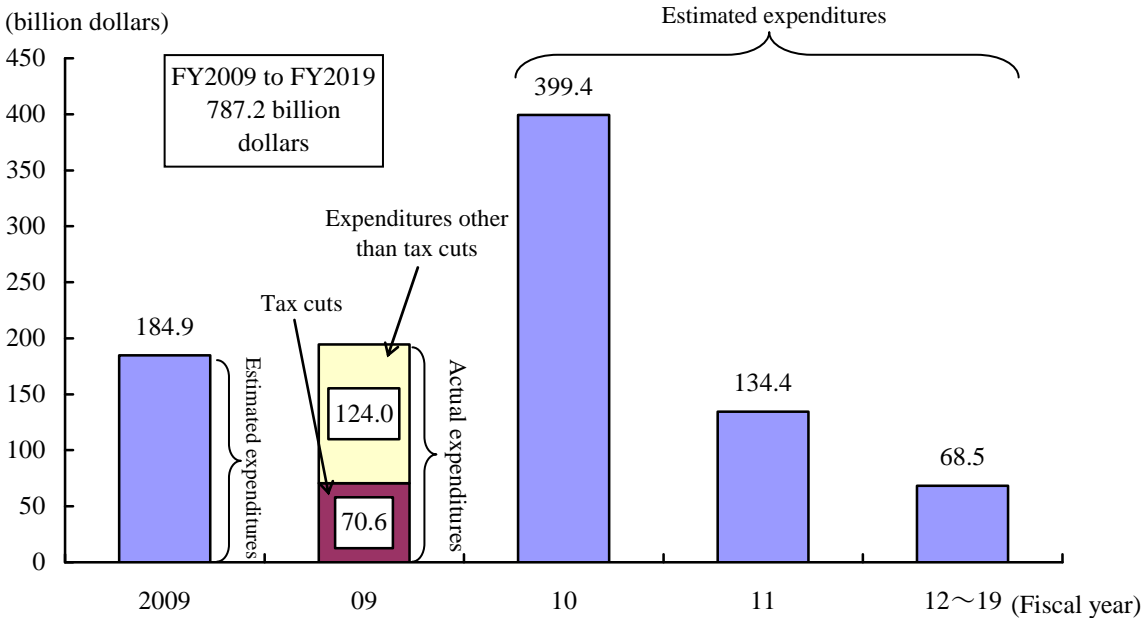


(Notes) Source: US Department of Commerce, US Department of Labor, Federal Reserve Board and Conference Board

2. Effect of stimulus program and future prospects: Government investment will go into full swing.

- Expenditures of stimulus program (total amount: 787.2 billion dollars, GDP ratio: 5.5%) in FY2009 become 194.5 billion dollars, exceeding originally estimated amount. Tax cuts, personal transfer expenditure and state fiscal relief program have carried out in advance.
- Half of total amount will be spent in 2010 and the government investment will go into full swing.

Figure 1-3-4 Expenditures for stimulus program and performance in FY2009: Exceeding estimated amount in FY2009



(100million dollars)

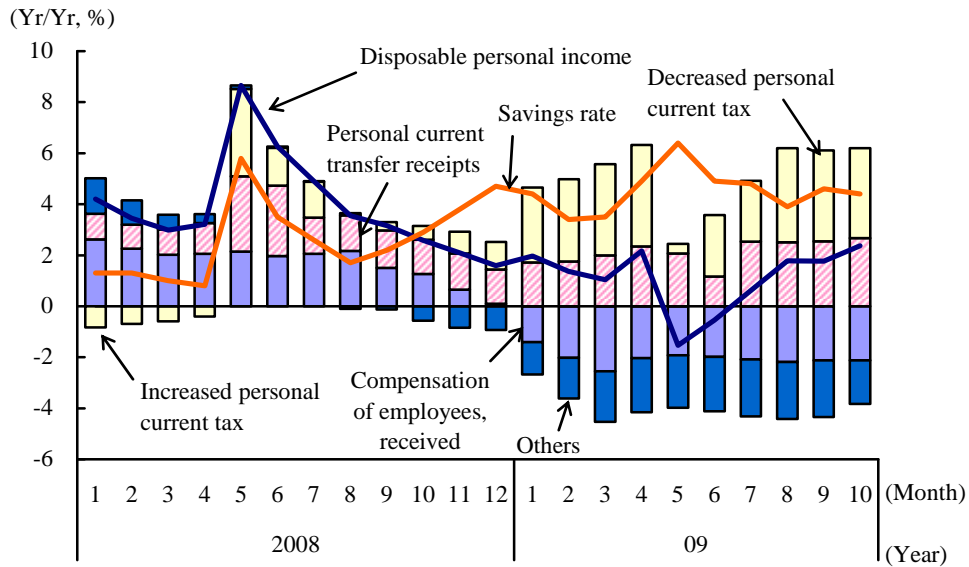
Fiscal year	2009	2010	2011	2012 to 2019	2009 to 2019
Estimated expenditures (CBO)	1,849	3,994	1,344	685	7,872
(Percentage of total)	(23.5)	(50.7)	(17.1)	(8.7)	
Expenditures	1,945	-	-	-	-
Tax cuts	706	-	-	-	-
Expenditures other than tax cuts	1,240	-	-	-	-
Progress rate (%)	24.7	-	-	-	24.7

(Notes)1. Source: Congressional Budget Office and Council of Economic Advisers
 2. US Government's fiscal year is from October to next September.

- In particular, tax cuts and personal transfer expenditures reduce the rapid worsening of consumption while credit crunch and worsened income environment occur due to the recession. The disposable personal income would decrease significantly if there was no such measure.

Figure1-3-6 Personal Income:

Disposable personal income is supported by policy measures.



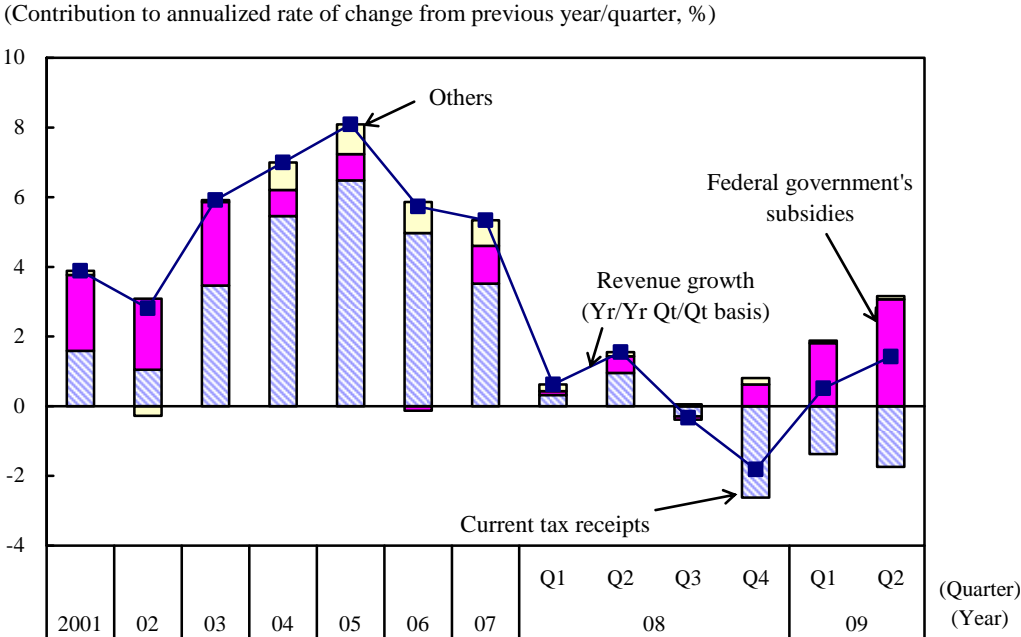
(Notes)1. Source: Bureau of Economic Analysis

2. "Others" indicate personal income receipts on assets, etc.

3. State/Local Governments' Finance Dampens the Economy

- State/local governments have played a major role in the US economy. Especially, they account for 15% in employment.
- State/local governments' fiscal deficit has continued since the beginning of current recession phase. Since state/local governments are obliged to reach a balanced finance, they carry out cuts in expenditures by curtailment of public services and employment adjustment or increase in tax when facing budget deficits. There is a possibility to cause further recession in those state/local municipalities.
- If self-sustained recovery of local economy is not achieved before the fiscal relief program supported by fiscal-stimulus program ends, state/local finance would dampen the economic recovery.

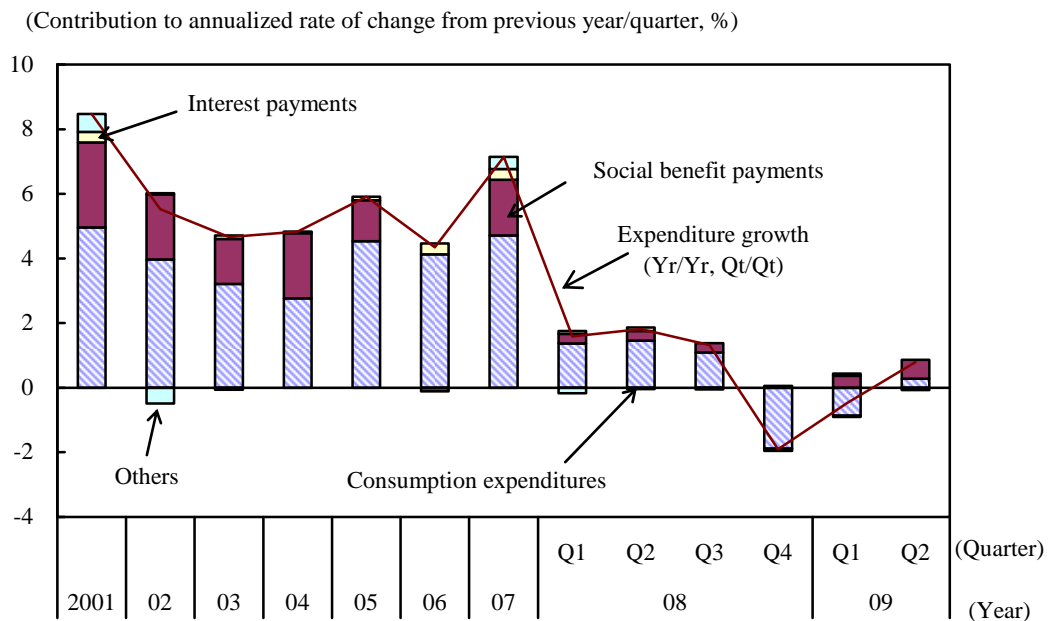
Figure 1-3-8 State/Local Government's Current revenue:
Federal government's subsidies compensate declined tax receipts.



(Note) Source: "National Income and Product Accounts Tables", Bureau of Economic Analysis

- Decreased tax receipts of state/local governments are compensated by increased subsidies from the federal government. State/local government expenditures increase very little due to cuts in expenditures in spite of strong pressure of increase in unemployment benefits due to the recession.

Figure 1-3-23 State/Local Governments' Current Expenditures: Decreased drastically.

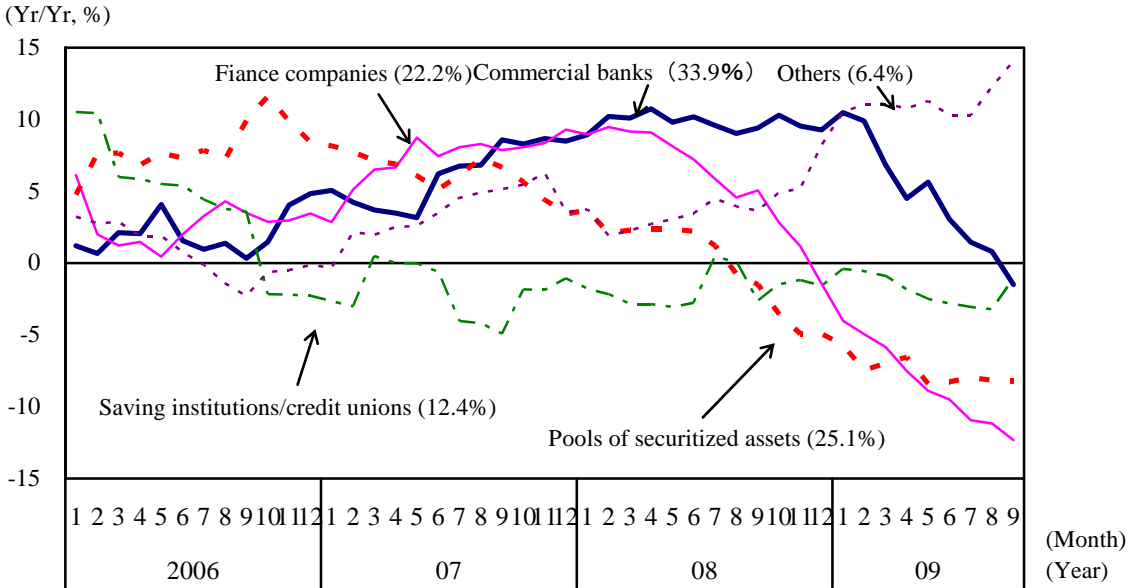


(Note) Source: "National Income and Product Accounts Tables", Bureau of Economic Analysis

4. Credit Crunch Continues: Downward pressure on consumption/business activity

- The bad assets ratio of financial institutions remains high and credit standards are still tight.
- Consumer loan is generally still on a downward trend. In particular, lending of finance companies (consumer loan-specialized nonbanks), which have the second largest lending scale after commercial banks, drastically decreases.

Figure 1-3-28 Consumer Credit Balance by Institution:
Commercial banks/finance companies continue to curb loans.

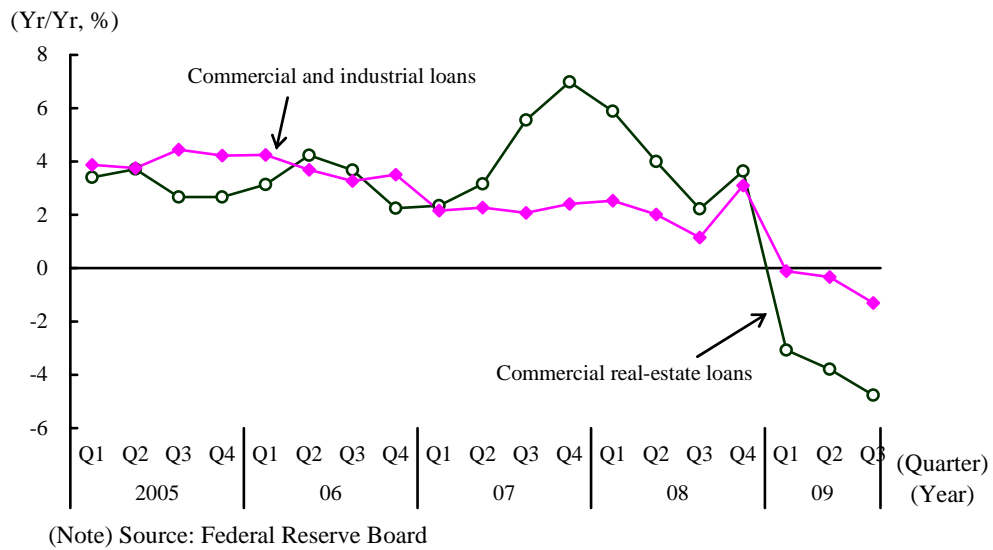


(Notes) 1. Source: Federal Reserve Board
2. Figure in parenthesis is a share of consumer credit balance as of the end of December 2008.

- Corporate loan has turned downward since January-March 2009 and the rate of decline increases.

Particularly, as for commercial real-estate loan, delinquency rate on loans and bad assets have increased and those might be risk factors of future financial system.

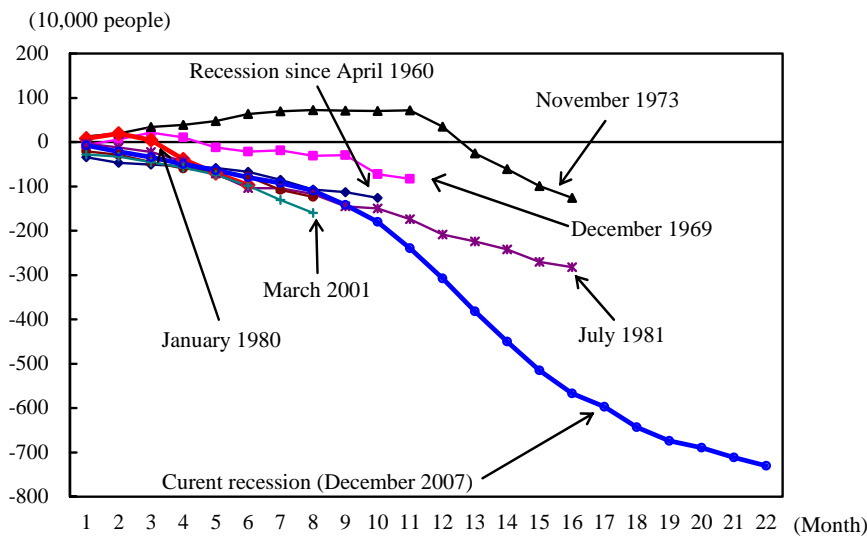
Figure 1-3-33 Corporate Loans from Commercial Banks:
Strengthen downward trend since 2009



5. Worsening Employment Situation and Possibility of Jobless Recovery

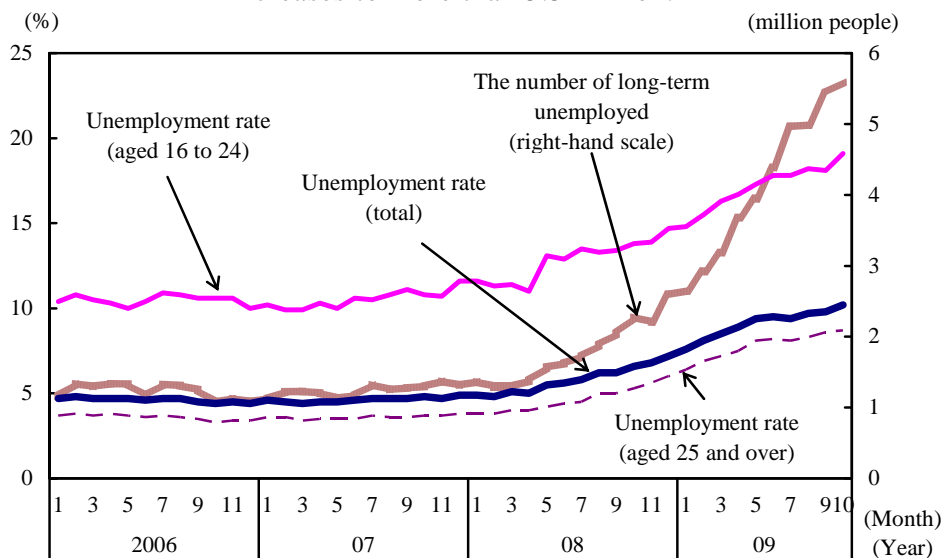
- Employment environment is the worst in postwar history. Unemployment rate is on an upward trend and became 10.2% in October 2009, the highest level since April 1983. Especially, the number of long-term unemployed has increased to nearly 6 million. Young unemployment rate is serious, 19.1%.

Figure 1-3-38 Decline Rate and Pace of the Number of Employed:
The decline period of the number of employed becomes the longest ever and the decline rate is also the largest ever.



(Notes) 1. Source: US Department of Labor
2. Graphs of each recession period are plotted regarding business peak as start point.

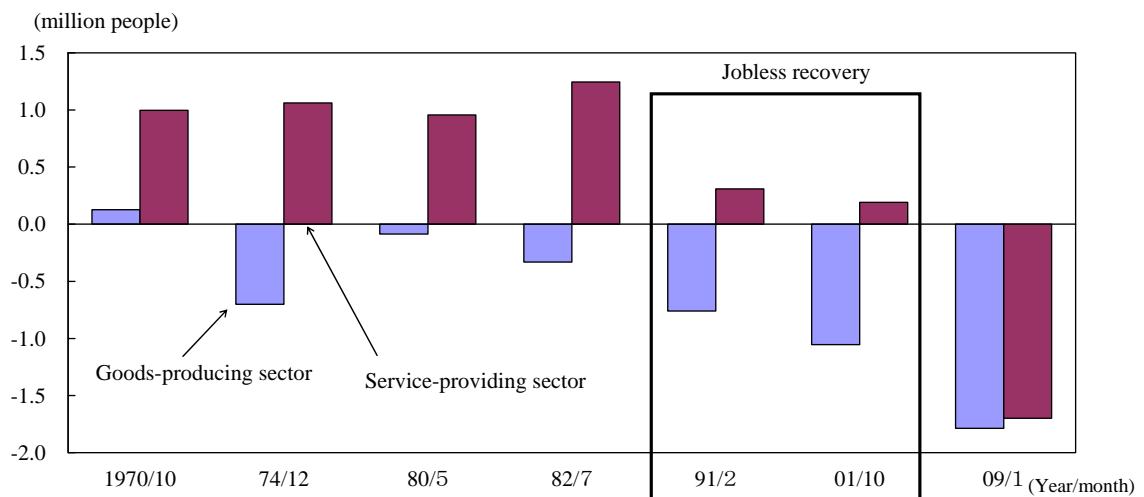
Figure 1-3-45 Unemployment Rate by Generation and Number of Long-term Unemployed:
Young unemployment rate increases to nearly 20% and the number of long-term unemployed increases to more than 5.5 million.



(Notes) 1. Source: US Department of Labor
2. Long-term unemployed means that their duration of unemployment is 27 weeks and over.

- Regarding employment at the turning point into economic recovery, until the 1980s, labor share decreased and the number of employment created in service-providing sector exceeded that of lost in goods-producing sector. However, in 1991 and 2001 when jobless recovery proceeded, the labor share remained at a high level and employment adjustment continued even in service sector. This time, although employment adjustment was largely carried out, the labor share remains at a high level and employment adjustment in service-providing sector is still progressing. It is highly possible that it leads to jobless recovery.

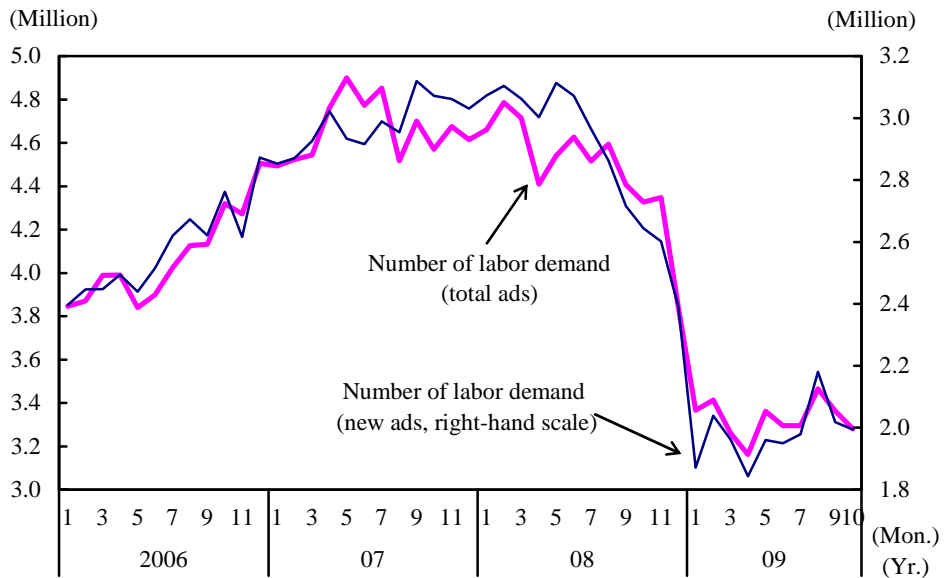
Figure 1-3-51 Increase/Decrease in the Number of Employed by Industry at the Turning Point from recession phase to recovery phase:
Employment creation is limited in service-providing sector in jobless recovery.



- (Notes) 1. Source: US Department of Labor
 2. Month indicates when the decline rate of the number of employed is the largest in each recession period.
 Bar chart indicates increase/decrease in the number of employed of each sector for one year from that month.
 3. Values of January 2009 are as of October 2009.

- Online job demand has been flat. On the other hand, since employment creation is expected in 2010 due to expansion of public investment, the worsening employment situation will slow down.

Figure 1-3-55 Online Job Demand: Leveling off after the beginning of 2009

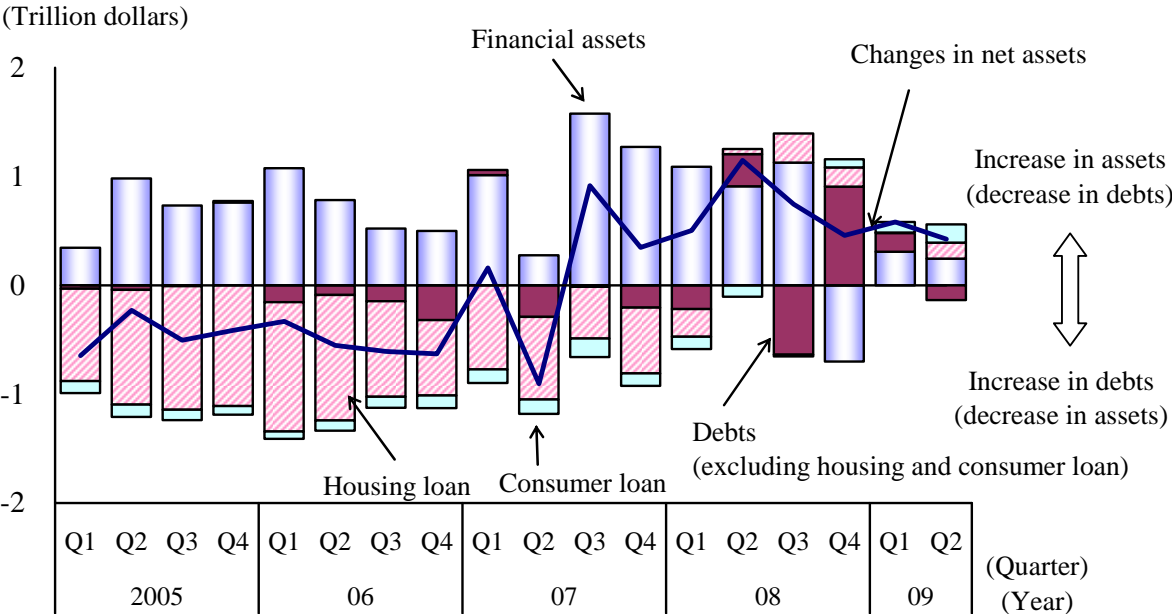


(Note) Source: Conference Board

6. Recovery Speed of Private Consumption Is Far Slower Compared to the Past

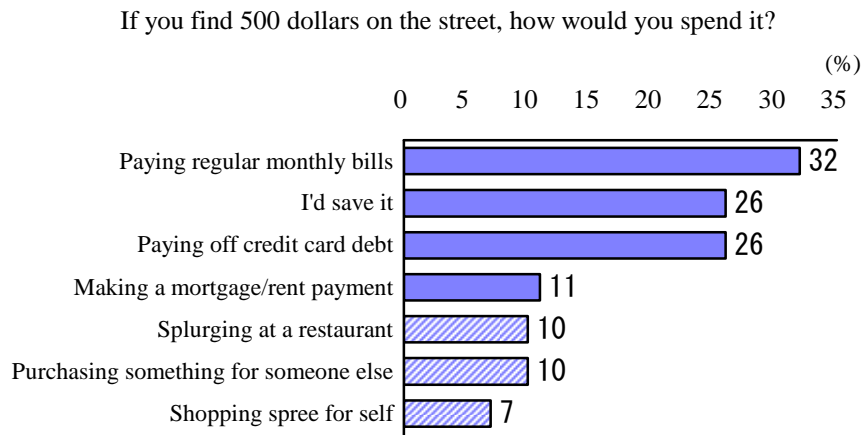
- Private consumption shows a movement of picking up due to supports by policy effects such as tax cuts and one-time benefits. On the other hand, the balance sheet of household has been adjusted; debts have turned into net decrease since 2008 due to loan repayment, consumption has been rapidly cut and the savings rate has increased.
- Environment surrounding consumption continues to be in a difficult situation due to worsening employment environment, continued credit crunch and diminishing of policy effects (e.g., decrease in tax cuts by half). Autonomous and sustained recovery of private consumption depends on the recovery of employment environment and the following increased income. Until then, the recovery of private consumption will be far slower compared to the past recovery phases.

Figure 1-3-70 Changes in Household's Financial Assets/Liabilities:
Turned into debt repayment since 2008



(Notes) 1. Source: Federal Reserve Board
2. Values are seasonally adjusted and include nonprofit organizations.

Box 1-6 Figure 3. Consumption/Savings Questionnaire:
Many of surplus funds are saved or used for debt repayment.



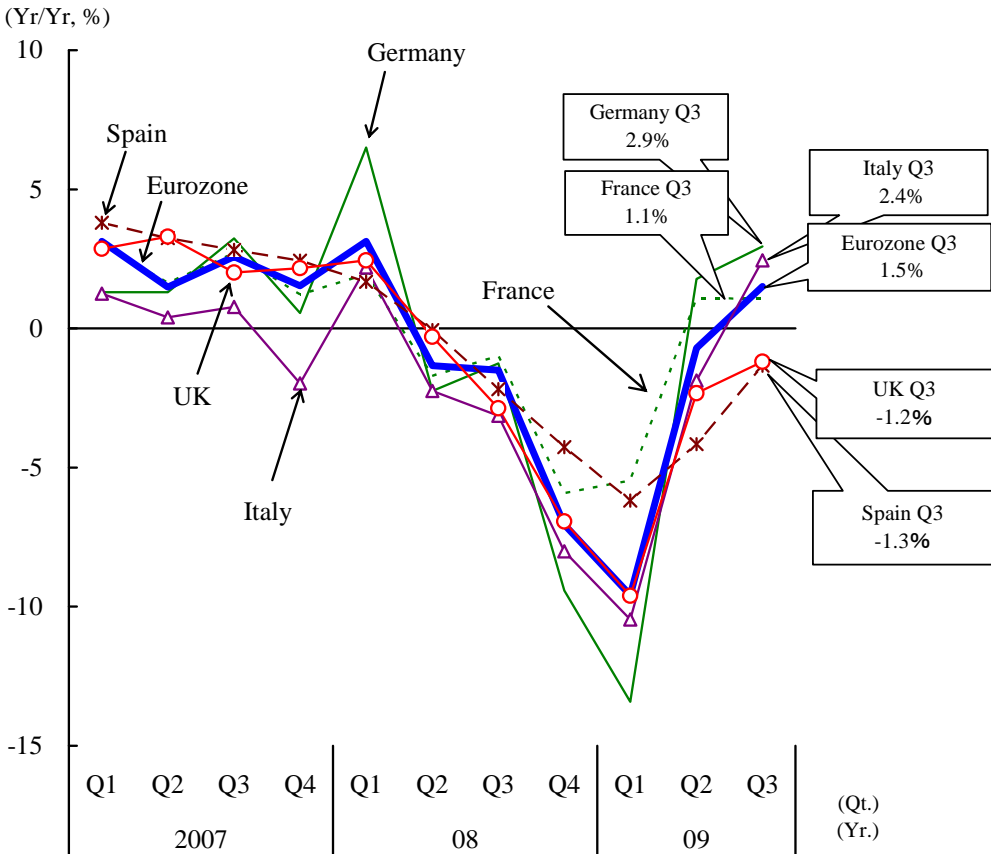
(Note) Source: "Spending and saving tracker", American Express, September 2009.

§4. European Economy

1. European economy has leveled off due to policy effects, but there is great variability among countries.

- European economy has leveled off due to policies such as car scrapping scheme, but the GDP growth rates vary widely among major countries. Although the effects of policy measures such as car scrapping scheme have become evident in many countries, some countries with structural problems, e.g., UK and Spain, still show a sluggish recovery. Looking ahead, the prospect entails high level of uncertainty and the road to a sustained recovery is unclear.

Figure 1-4-1 Real Economic Growth Rates of Major European Countries Have Levelled Off, but There Is Great Variability among Them

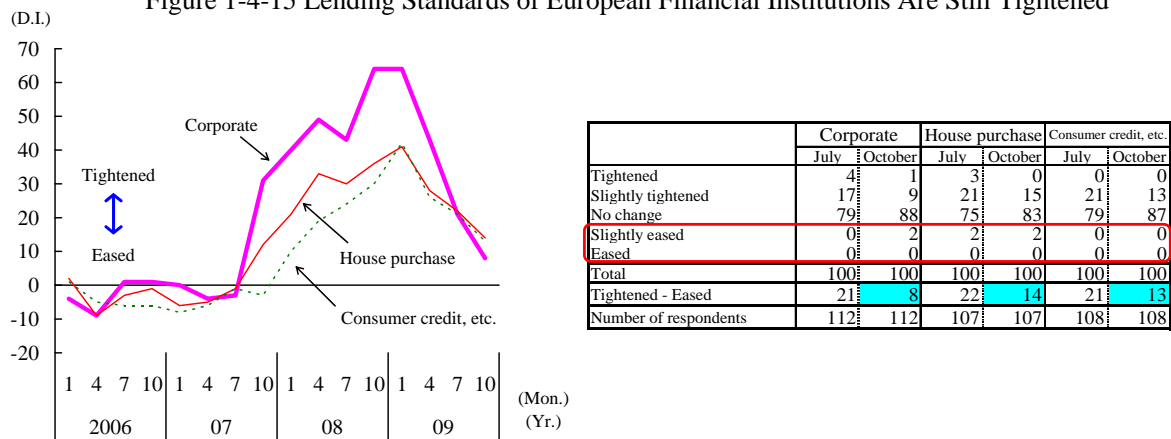


(Note) Source: Statistical Office of the European Commission (EUROSTAT), Federal Statistical Office of Germany, Institut national de la statistique et des études économiques (INSEE), National Institute of Statistics of Italy and Office for National Statistics, UK.

2. Continuing Credit Crunch

- Lending standards of European financial institutions are still tightened and are factors of depressed economic recovery. Bankruptcy cases are increasing and increased bad assets due to bankruptcy curb lending of financial institutions, and those are factors of a vicious cycle between credit crunch and worsening real economy.

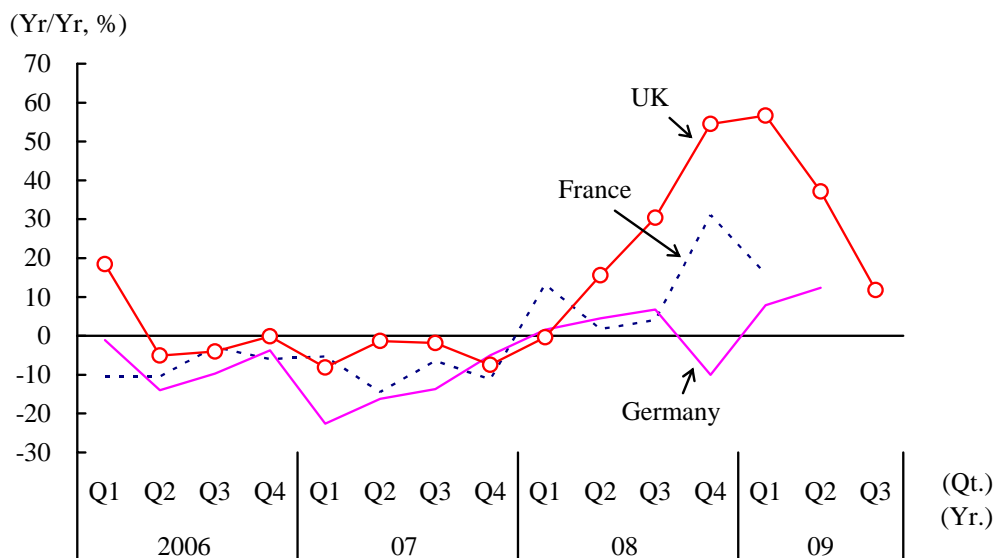
Figure 1-4-15 Lending Standards of European Financial Institutions Are Still Tightened



(Notes)1. Source: European Central Bank.

2. Index of lending standards is the percentage of financial institutions which answered the question about lending standards in the past three months as "Tightened" minus that of financial institutions which answered the question as "Eased."

Figure 1-4-22 Bankruptcy Cases Are Increasing



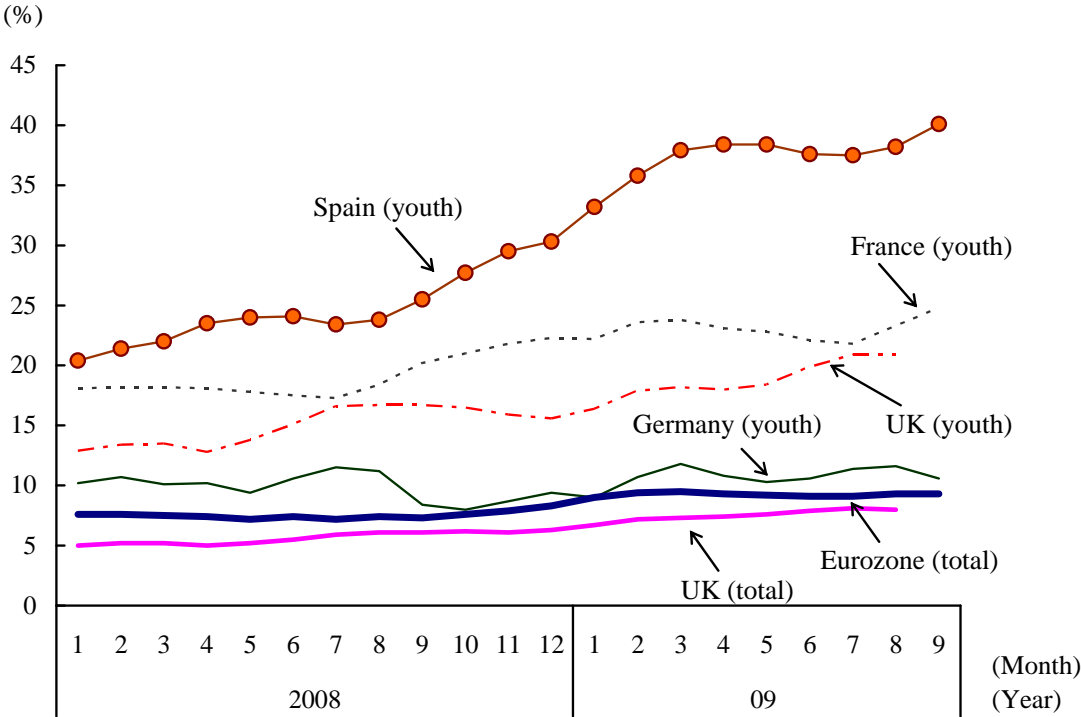
(Notes)1. Source: Federal Statistical Office of Germany, Institut national de la statistique et des études économiques (INSEE) and Office for National Statistics, UK.

2. Germany and France include court-led bankruptcy proceedings (legal liquidation) and UK includes voluntary liquidation (private liquidation) without legal procedures.

3. Worsening Employment

- Each country's unemployment rate is on an upward trend. The rise in unemployment rate not only becomes a drag on economic recovery through negative effect on consumption in the short term but also interferes with skill formation with increased long-term unemployment and depresses potential growth rate in the medium- and long-term.
- In Germany, the government provides an allowance for short-term operation to short-time workers in companies implementing short-term operation in order to compensate for a part of reduced wage and it decreases the unemployment rate by about 1%.
- Youth employment is easily influenced by business cycle and there is concern about decrease in potential growth rate through depreciation of labor quality.

Figure 1-4-34 Youth Unemployment Rate Is on an Upward Trend



(Notes) 1. Source: Statistical Office of the European Communities (EUROSTAT)
 2. Youth consists of people aged 15 to 24.
 3. Total consists of people aged 15 and over.

4. Possibility of Downturn in Consumption Again

- European income replacement rate for unemployment benefits is higher than that of Japan and the US. European consumption is supported by such benefits.
- In many countries, the private consumption in the second quarter of 2009 turned into increase due to car scrapping scheme (Germany, France, etc.) and the effect of temporary reduction in value-added tax rate (UK). As these policy effects come off, they might experience a downturn in consumption again.

Table 1-4-44 European Income Replacement Rate for Unemployment Benefits Is Higher than That of Japan and US

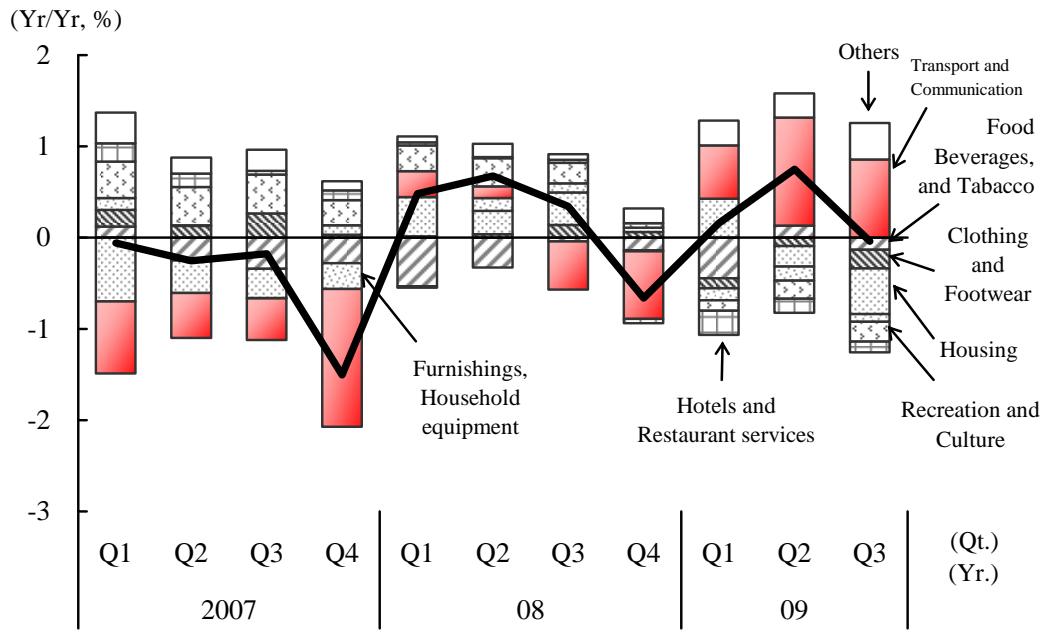
(%)

	1st year	2nd year	3rd year	4th year	5th year	5-year average
Germany	64	48	42	36	36	45
France	67	64	31	31	31	45
Spain	69	65	25	25	13	39
UK	28	28	28	28	28	28
Japan	45	3	3	3	3	11
Italy	37	0	0	0	0	7
US	28	0	0	0	0	6
OECD members average	52	40	25	13	9	28

(Notes)1. Source: "Employment Outlook, 2009", OECD

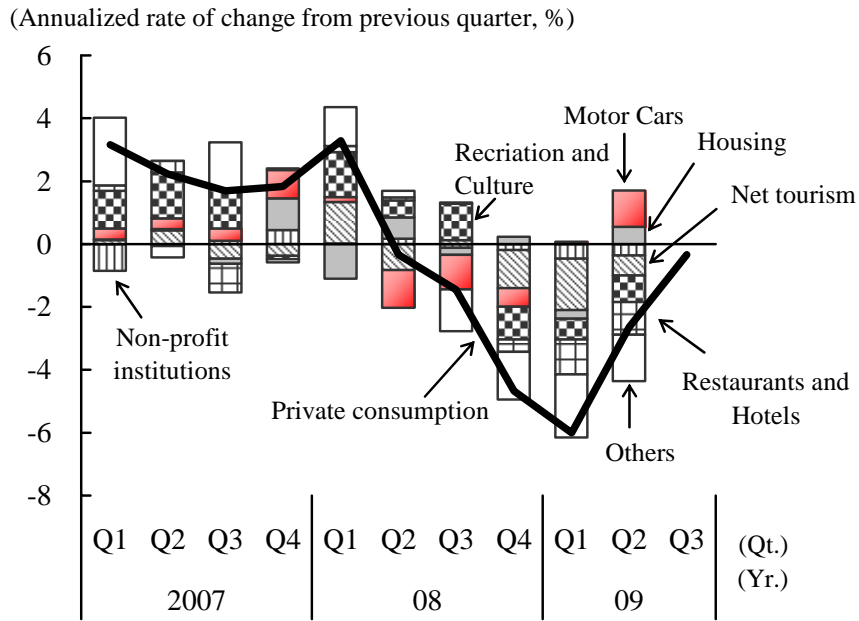
2. Figures indicate percentage of wage before unemployment to be paid as unemployment benefits.
3. OECD members average is an average value of 29 countries.
4. As for calculation of wage before becoming unemployed, weighted average is used in consideration of four family patterns; single, single-income couple, with and without child, and two wage levels; 100% and 67% of full-time work average.

Figure 1-4-38 Individual Consumptions in Germany



- (Notes) 1. Source: Federal Statistical Office of Germany
 2. "Housing" includes water, electricity, gas and other fuels.
 "Others" includes health, education, social security, financial service, etc.

Figure 1-4-40 Individual Consumptions in UK

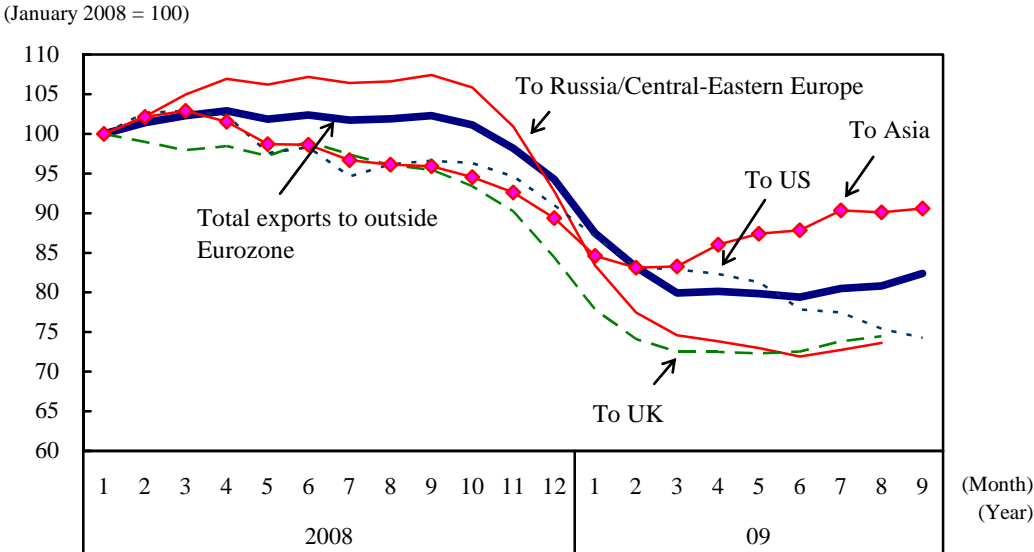


- (Notes) 1. Source: Office for National Statistics, UK
 2. Values other than "Private consumption" are annualized contribution rates.
 3. "Net tourism" is subtracting domestic consumption of non-UK residents from overseas consumption of residents in UK.

5. Exports from Eurozone appears to be Picking Up Due to Increased Exports to Asia

- Looking at the past European economic recovery phase, exports often became a driving force of recovery. While there is little sign of self-sustained budding recovery in domestic demand at this juncture, it is highly possible that the full-scale recovery of Eurozone economy has to await the recovery of major export destinations such as the US, Asia and Central and Eastern Europe.
- Although exports to Asia, most of which are directed to China have currently increased supported by China's domestic-demand expansion measures, China's share of exports to outside Eurozone is merely 4% that a strong recovery of exports is unlikely to be achieved in the near term.

Figure 1-4-51 Exports to Asia are Picking Up Due Mostly to Demand in China (seasonally-adjusted, 3-month moving average)



(Notes) 1. Source: Statistical Office of the European Commission(EUROSTAT)
 2. Asia means total of Japan, China, Hong Kong, Taiwan, Indonesia, Korea, Malaysia, Singapore, Thailand and India.
 3. Russia/Central-Eastern Europe means total of Russia, Czech Republic, Poland, Hungary, Estonia, Latvia, Lithuania, Rumania and Bulgaria.