



VIEWPOINT

Gerard Lyons looks at the problems besetting Tokyo but finds no cause for undue worry

Why Japan will bounce back into life

WHILE we hope for a British recovery, people in Japan are concerned about their economic prospects. It is easy to see why. Since the start of the year, Japanese output and investment have slumped and there has been a spectacular collapse in the Tokyo stock market.

Around £340 billion has been wiped off the value of Japanese shares, equivalent to more than half the annual output of the UK economy.

Japan's current problems stem partly from the excesses of the late 1980s. As in Britain, Japan experienced a surge in bank lending, land prices and the stock market. Indeed, land prices in Tokyo rose by a phenomenal 68.8% in 1989.

Alarmed about inflationary pressures, the Bank of Japan implemented a tight, anti-inflationary policy. Interest rates rose sharply, from 2.9% in June 1987 to 8.3% by December 1990.

In addition taxes were levied on holders of large amounts of land and banks were asked to restrict lending.

The policy proved successful, with inflationary pressures easing. Indeed, land prices fell last year for the first time in 17 years. However, one aspect of the policy backfired, forcing a change of tack in recent months.

While the authorities wanted to reduce excessive speculation on share prices, they never expected the stock market to collapse in the way it has.

This collapse now threatens consumption and investment, two of the pillars of Japan's recent economic success. As a result, the economy could be heading for recession.

Consumer wealth has fallen and confidence has declined, albeit from a very high level. Despite good employment prospects the risk is that spending could

weaken. People have already been reducing their purchases of high ticket items like cars.

Indeed, the poor state of the car sector is a good indicator of how difficult conditions are in Japan. At a time when Japanese car producers are making inroads into the UK market, they are finding it hard to sell cars in their own country.

New car registrations are down. Car production is down. This is adding to weakness in the industrial sector. And things will get worse. Not only is demand weak but companies will need to reduce their excessive stocks, which are now

'Firms can no longer automatically rely on a buoyant stock market as a source of cheap capital'

10% above last year's levels.

Corporate profits are suffering and the stock market collapse will make matters worse, hitting investment from a number of angles. No longer can firms automatically rely on a buoyant stock market as a source of cheap capital.

Banks are also finding the going tough. The stock market collapse has reduced their capital base, making it difficult for them to meet international capital adequacy requirements.

Although these limits do not become effective until next year they have already affected the banks' actions and will continue to do so.

Bank lending in Japan is already growing at an historically low rate of 4% and the falling stock market could prompt the banks to adopt a tighter lending stance.

It is easy to see why the

Japanese government has relaxed policy in recent months. Interest rates have been cut and an emergency economic package has been implemented.

The trouble though is that problems in Japan affect us all.

With the US economy weak and Germany stagnating, any downturn in Japan means that there is no area acting as a locomotive for world growth. This is why the other major countries last weekend were pressurising the Japanese government to do more.

Also, problems in Japan could limit the scope to which UK long term interest rates could fall. We require foreign capital to fund our deteriorating trade and budget deficits. So does the US.

And Japan's large current account surplus means that it is the world's major exporter of capital. If domestic problems persist then this could limit future outflows of capital.

Fortunately, the pragmatic response of the Japanese government to present difficulties is one reason why we should not become too concerned about Japan's longer-term economic health.

Also, the government has plenty of room for manoeuvre, as it is running a large trade and budgetary surplus.

It is likely that government spending on the infrastructure will rise later this year, accompanied by another interest rate cut.

How will Japanese companies cope? The playing fields are being levelled, as the cost of capital is now rising into line with that faced by companies in the US and Britain.

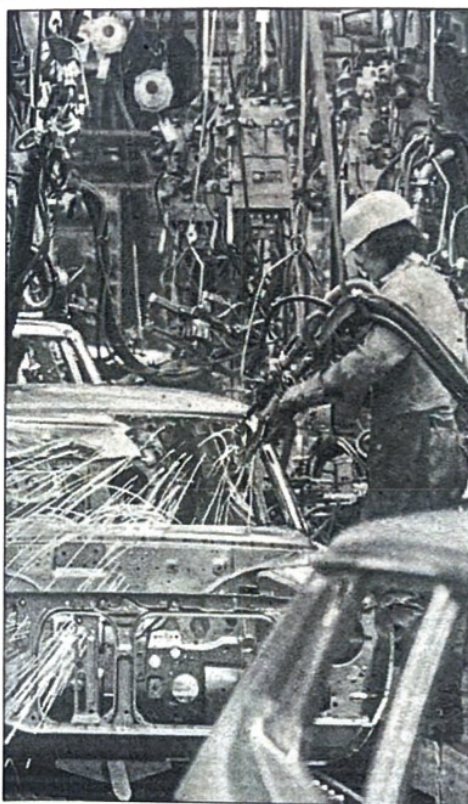
Undoubtedly Japanese firms will limit their operations this year as they adjust to the financial fall-out of the stock market collapse. Despite this, a sea-change in

Religion is still one area where discrimination operates openly and freely.

This all means that justice and free speech are things that fall by the wayside. Democracy is sacrificed for bureaucracy and nepotism.

Equal Earth would be disappointed to see the uneven playing fields in the Square Mile.

Incidentally, the release says "nationalistic governments and their ignorant voters" keep the population mill going, exhorting us to "make love, not children". PS is confused.



Car industry: investing to maintain its competitive edge

the operations of Japanese firms is unlikely.

Faced with an acute labour shortage at home, and given continued worries about protectionist trade pressures, Japanese companies will still need to invest in overseas subsidiaries, including those in Britain.

Also, increased future competition from foreign firms in Japanese markets means that Japanese companies will want to invest

heavily to maintain a competitive edge.

It is difficult to be pessimistic about longer term growth prospects. Of course we should monitor the situation closely. But think of Japan as a marathon runner merely taking a breather.

Dr Gerard Lyons is chief economist of DKB International, the London-based subsidiary of Dai-ichi Kangyo, the world's largest bank.

All change as B&J shapes up for future

by Tim Blackstone

BROWN & JACKSON today revealed its long-awaited reconstruction plans centred round the 234-strong chain of discount stores Poundstretcher.

The company plans to raise £15.6 million via a one-for-one placing and open offer to existing shareholders and to redeem its convertible preference shares through a three-for-one offer.

It is also selling its perfumes and toiletries business A&G Imports to the original vendor management for a net £1 million and has put the sale of three other small businesses under review.

John Jackson, chairman of several other companies including Graseby and Howden Group, has been recruited to head the reconstituted board, joining new chief executive Ian Gray and finance director Bob Ellis, who formerly ran the retail operations at Thorn EMI.

Brown & Jackson made a loss of £21.6 million in 1991 against a profit of £2.1 million the previous year. The loss includes £6.5 million relating to the reorganisation and an extraordinary provision of £11 million for the sale last February of alarms business ATI.

The new management is subscribing £100,000 in the placing and Gray and Ellis together have been granted 16.2 million share options at the placing price of 7.5p.



"SIGNIFICANT EUROPEAN EXPANSION"

- Proposed £75m offer for Finanzauto, the sole authorised dealer in Caterpillar equipment in Spain and Portugal.
- Profit before tax increased to £17.3m (1991: £16.97m).
- Earnings per share were 9.23p (1991: 9.68p), on the enlarged share capital following the 1 for 10 rights issue in May 1991.
- Interim dividend maintained at 2.85p.
- All divisions produced reasonable results, with the exception of the Agricultural Division which suffered from a further reduction in EC milk quotas.
- "I remain optimistic that, given reasonably favourable economic circumstances, the Group should show progress for the year as a whole".

Richard Mansell-Jones, Chairman.

SUMMARY OF RESULTS FOR THE 26 WEEKS ENDED 28 MARCH 1992

	1992	1991	Change
Profit before tax	£17.3m	£16.97m	+ 1.9%
Earnings per ordinary share	9.23p	9.68p	- 4.6%
Dividend per ordinary share	2.85p	2.85p	-

J. BIBBY & SONS PLC
16 STRATFORD PLACE, LONDON W1N 9AF

PS PS HAS been fortunate enough to receive a fascinating Press release from Equal Earth.

Writing from a place called The Shrine somewhere in Kent, it describes itself as "a worldwide, voluntary, non-profit making, non-political and non-denominational association with a common purpose of justice, free speech, freedom of expression and open democratic rights for all". How wholly unsuitable it

is for us to receive such a release. The last thing that PS and the City can relate to is everything that Equal Earth appears to stand for.

Non-profit making is anathema to the Square Mile and most who operate outside it too. Nor is voluntary a word that springs to mind when considering the toil in the City. Nothing is free.

As for politics, we defy Whitehall to produce more intrigue, backstabbing and plotting than the City and its employees.

Non-denominational is hardly appropriate either.