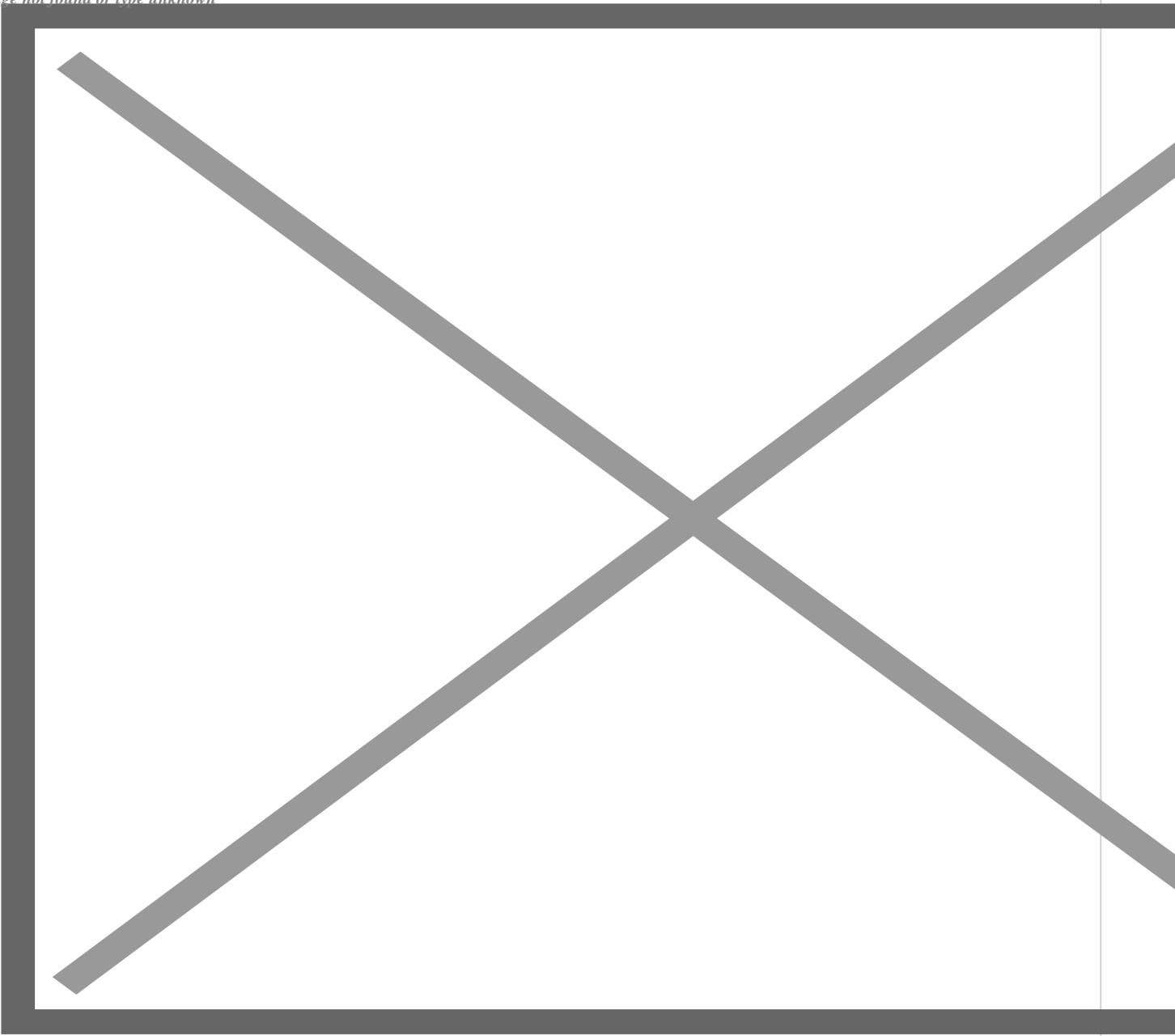


Japan risks recession if new COVID emergency declared

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New COVID-19 emergency measures could cover almost a quarter of Japan's population of 126 million people and about 30 percent of its gross domestic product [File: Kim Kyung-Hoon/Reuters]

Tokyo, April 23 (RHC)-- Japan's government is expected to place Tokyo and three western prefectures under a third state of emergency that could last for about two weeks, according to media reports, underscoring its struggle to deal with a surge in new COVID-19 case numbers.

Some analysts say the decision, expected to be made as early as Friday, may push Japan back into recession if retailers are asked to close during the Golden Week holidays, which start next week and run through early May.

A renewed state of emergency and a slow vaccine rollout would also cast doubt on whether Tokyo can host the Olympics in July, despite Prime Minister Yoshihide Suga's assurances it will proceed as planned. Tokyo 2020 organisers said a policeman who worked with the torch relay in western Kagawa prefecture had tested positive for the virus.

Another high-profile event, this year's Tokyo Motor Show, will be cancelled due to the pandemic, Japan Automobile Manufacturers Association Chairman Akio Toyoda said. It will be difficult to hold the show, staged every two years in Japan's capital, while seeking to ensure the safety of participants during the pandemic, Toyoda, who is also president of Toyota Motor Corp, told reporters at a briefing for the industry group.

Analysts say the prospects for Japan's economy appear bleak in the short term. "The risk of a double-dip recession has clearly heightened," said Hiroshi Shiraishi, senior economist at BNP Paribas Securities. "The impact of imposing curbs on Tokyo and Osaka alone would be quite big."

With thousands of new cases resulting from highly infectious strains of the virus, Suga said on Wednesday the government will decide this week whether to declare the state of emergency for key parts of the country. If adopted in all four regions that made requests, the emergency measures would cover almost a quarter of Japan's population of 126 million and about 30 percent of the gross domestic product (GDP).

Other media have raised the possibility of stronger curbs than those issued in January, such as requests for department stores and other big retailers to close. "We need to take stronger and more targeted steps than before including requests (for shops) to close," Economy Minister Yasutoshi Nishimura was quoted as saying by Kyodo news agency on Thursday.

"The timing is not good," as it would hit service spending during the spring leisure season, said Takumi Tsunoda, senior economist at Shinkin Central Bank Research Institute. Tsunoda cut his forecast for the second-quarter GDP growth to a 0.5 percent quarter-on-quarter rise, half the previously projected pace.

Japan's economy has emerged from last year's severe slump thanks to robust exports. But analysts expect GDP to have shrunk in the first quarter due to the hit to consumption from the second set of emergency curbs rolled out in January. They say a second consecutive contraction in the second quarter is possible.

Analysts define a recession as two straight quarters of negative economic growth. While fresh state of emergency curbs are unlikely to trigger additional monetary stimulus measures, it could affect the Bank of Japan's quarterly growth projections due out next week, analysts say.

"Given prospects of strong global demand, the BOJ probably won't make big changes to its forecast of a moderate recovery," said Izuru Kato, chief economist at Totan Research. "But a contraction in second-

quarter GDP can't be ruled out, so the BOJ will probably issue plenty of warnings on the risks to domestic demand," he said.

Tokyo reported 861 new cases on Thursday, the most since January 29 during the third wave of the pandemic and previous state of emergency. Osaka prefecture reported 1,242 daily infections, near the record high reported last week.

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