Abe Gets Ammunition for Sales-Tax Boost Ahead of G-20 Meet (1)
2013-09-02 01:23:42.648 GMT

(Updates with capital spending data in fifth paragraph.)

By Takashi Hirokawa and Norihiko Kosaka

Sept. 2 (Bloomberg) -- Japanese Prime Minister Shinzo Abe got ammunition to raise a sales tax, as capital-spending data pointed to faster economic growth than initially estimated and government panels backed an increased levy.

JPMorgan Chase & Co. and UBS AG said second-quarter gross domestic product may be revised up after investment data released today. A majority of those in seven consultative panels favored proceeding with the sales-tax increase, while also urging stimulus to offset the blow to consumption, Economy Minister Akira Amari told reporters Aug. 31 in Tokyo.

The consultation exercise and signs of strength in the economy may help Abe justify raising the sales tax to 8 percent in April from 5 percent now. While the move would shore up Japan's finances -- a topic Japan is set to discuss at a Group of 20 nations meeting in St. Petersburg, Russia, this week -- the blow to consumption could return the economy to contraction.

"We're only two quarters into Abenomics and I'm a little anxious that a sales-tax increase is going to undermine the process," said Tim Condon, head of Asia research at ING Groep NV in Singapore. He said that the government is more likely than not to proceed with the move.

Capital spending was unchanged from a year earlier in the second quarter after a 3.9 percent drop in the first three months of the year, the finance ministry said today in Tokyo.
The median estimate in a survey of economists by Bloomberg was for a 2.1 percent decline. Preliminary data showed GDP expanded an annualized 2.6 percent in the second quarter from the prior period.

Debt-Saddled

The Topix index rose 0.9 percent at 9:52 a.m. in Tokyo, lifted by a weaker yen and data yesterday that signaled a recovery in Chinese manufacturing. The yen fell 0.4 percent to 98.55 against the dollar.

Abe is trying to sustain a recovery driven by fiscal and monetary stimulus as he moves on to tackling changes such as deregulation, needed for a longer-term revival. The yen's 20 percent decline against the dollar in the past year and gains in stocks have helped fuel the nation's comeback.

A higher sales tax would boost government revenue, helping to maintain confidence in the debt-saddled nation's bonds. In July, Finance Minister Taro Aso said Japan would present a credible framework for fiscal consolidation at the G-20 meeting scheduled for this week.

Abe Advisers

Abe will decide whether to go ahead with the sales-tax increase by early October, Amari told reporters last week. Sixty economists, business leaders, regional representatives and other people gave their views on the panels. Forty-four supported the increase, NHK television reported.

"We expect the government to announce by around Oct. 5-6 that the consumption tax rate will indeed be raised from 5 percent to 8 percent, effective April 2014," Credit Suisse Group AG economist Hiromichi Shirakawa said in a note before the final panel meeting. The budget for the next fiscal year is likely to contain a range of stimulus measures to offset the effect, and the Bank of Japan may be called upon to deploy additional monetary easing, he said.

Those opposed to the plan included Abe’s economic advisers Etsuro Honda and Koichi Hamada. They called for the tax to rise by 1 percentage point a year to minimize the jolt to the economy. Japan shouldn’t raise taxes while it is still in deflation, Honda wrote in a panel submission.

Amari said that panel members “thought the risks of not raising the tax were much larger than the risks from increasing it as planned.” This move would be the first of two planned increases that would boost the levy to 10 percent by October 2015.

Growth, Inflation

Tokyo University Professor Takatoshi Ito last week cited improvements in the economy as helping to justify pressing ahead with the plan, while a statistics bureau report showed that rising energy prices are helping Abe to make progress in pulling the economy out of deflation.

“Economic indicators show the economy isn’t in a bad state and raising the sales tax wouldn’t slow the economy or the bid to end deflation,” Ito, a former finance ministry official, told reporters. Not proceeding could lead to falling stocks, a stronger yen and a spike in bond yields, Ito wrote in a submission.

Japan’s economy has expanded for three straight quarters and inflation was the fastest since 2008 in July, largely because of increased costs for imported energy. Excluding fresh food, consumer prices climbed 0.7 percent from a year earlier, exceeding analysts’ median 0.6 percent estimate.

Fiscal Stimulus

After taking office in December, Abe rolled out 10.3 trillion ($105 billion) in fiscal stimulus to spur growth and counter a 15-year deflationary malaise. In April, Bank of Japan Governor Haruhiko Kuroda announced unprecedented easing to expand the monetary base by 60 to 70 trillion yen per year.

Japan will need 5 trillion yen of stimulus to cushion the impact of a sales-tax increase, according to the median estimate in a survey of 23 economists by Bloomberg News. The economy will shrink an annualized 4.4 percent in the April-June quarter next year if the tax is raised, before returning to growth, according to a different survey.

For Related News and Information:
Ito Backs Japan Sales-Tax Plan as Hamada Calls for Gradual Rise Japan’s Below-Forecast Growth Fuels Sales-Tax Debate: Economy Japan Seen Needing $50 Billion Package to Cushion Sales-Tax Rise Top Stories: TOP<GO> Top Economy stories: TOP ECO <GO> Japan’s top stories: TOP JN <GO> Stories on central banks: NI CEN <GO> Stories on Bank of Japan NI BOJ <GO>

--With assistance from James Mayger in Tokyo. Editors: Arran Scott, James Mayger

To contact the reporters on this story:
Takashi Hirokawa in Tokyo at +81-3-3201-8641 or thirokawa@bloomberg.net; Norihiko Kosaka in Tokyo at +81-3-3201-8670 or nkosaka1@bloomberg.net

To contact the editor responsible for this story:
Paul Panckhurst at +852-2977-6603 or
ppanckhurst@bloomberg.net