



## Banzai!

The Sun is setting on the Land of the Rising Sun

*"What's old, slow and deep in debt? If you said "Europe", you'd be absolutely right. If you said "Japan", you're even more absolutely right".*

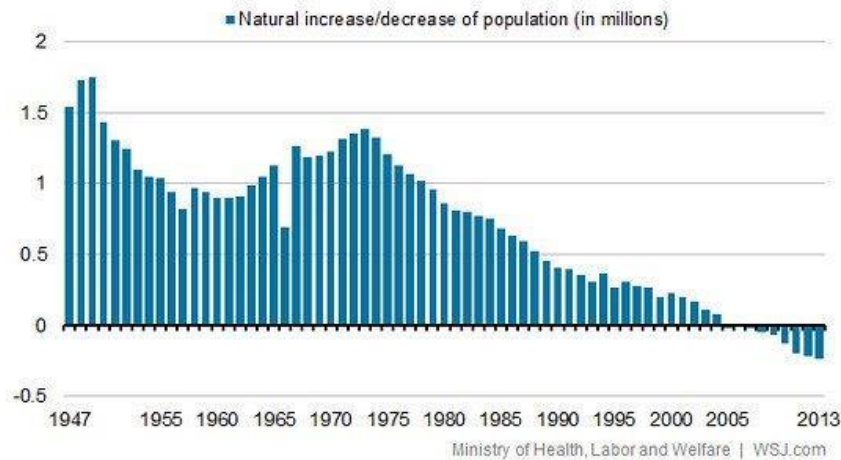
The slowly, but relentless ticking demographic time bomb which is Japan, the world's third largest economy. An aging population, weak economic growth, and prodigious debt all apply to Japan, and then some.

On demographics, for decades Japan's number of children born each year is in decline while Japan's elderly became a larger and larger percentage of its population. In 1980, children aged 0-14 years of age were 23.5% of its population at the time. By 2014, that percentage had fallen to 12.8% and is forecast to fall to 10.3% by 2030 (source: Dr. Clint Laurent, Global Demographics).

With respect to the working population, those between 15 to 64 in 1980 were 67.4% of the total population, and by 2014, that number had fallen to 59.2%.

But the real problem is those aged 65+. In 1980, they were 9.1% of the population, or 38% of those aged 0-14 at the time, but by 2014, those 65 years of age or older were 26% of the population, and now twice the number of those aged 0-14.

## Population in Decline



Simple math tells you the nation's future is in trouble, for it is unsustainable. The only answer is a mass immigration policy to be initiated, but that is something that Japan historically has never been willing to do.

On the economic front, Japan was the first nation to employ negative interest rates, yet here are the numbers for GDP:

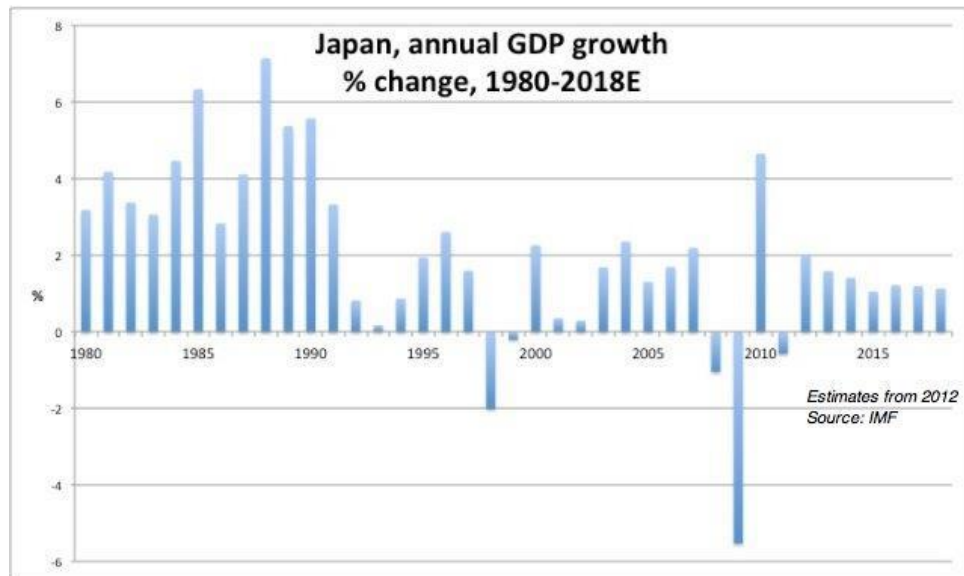
	2011	2012	2013	2014	2015
Japanese GDP	(-0.5%)	1.70%	1.40%	0.00%	0.50%

(source: Focus Economies.com)

Japan's economy has been in trouble for decades. In fact, its stock index peaked in 1989, and massive monetary and fiscal stimulus has failed to spur growth.



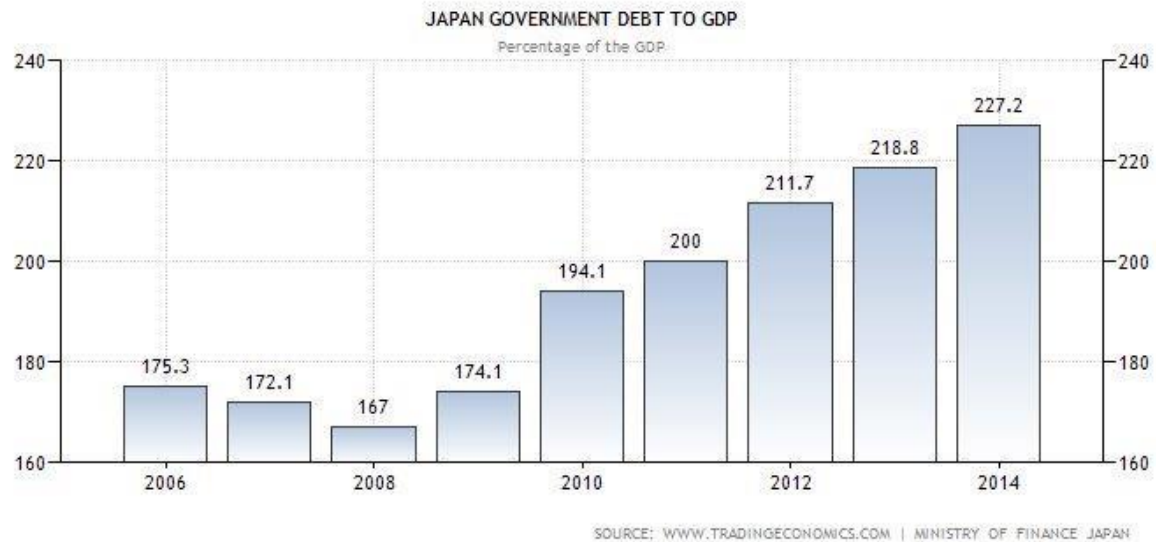
Prime Minister Shinzo Abe has embarked on many programs to help, better known as “Abenomics” but all it has done is weaken the Yen & boost corporate profits. But wages and domestic spending have remained fragile.



On the debt side, Japan’s government debt stands at about 230% of GDP, which is double Italy’s, another basket case, yet the Japanese can borrow for 10 years at just 1% (vs 5.45% for Italy).

Japan can borrow much more cheaply than Italy for 2 reasons. First, Japan borrows in a currency it controls. Second, almost all of Japan’s public debt is money it owes to its own people. Conversely, consider Italy’s situation. Because only the European Central Bank (ECB) can print Euros, it’s actually possible for Italy to run out of Euros. If investors ever think that might happen, they’ll dump Italian bonds and send Italian rates soaring. A classic run on a bank, but on a national level.

The same thing cannot happen to Japan, because it has its own central bank, the Bank of Japan (BOJ). Japan can’t run out of Yen. If panic did set in on Japanese banks, the BOJ could step in as a buyer of last resort. Japan has run massive current account surpluses for the past 30 years. They are net lenders to rather than new borrows from the rest of the world.



That's why Japan continues to devalue the Yen. A weaker Yen boosts exports by making their goods cheaper abroad. Export led growth would boost tax revenues and forest a situation where Japan would need to turn to foreign investors to buy their bonds. Risk of default continues to be averted.

But consider this: The total size of Japan's economy has fallen since 1992, maybe the only nation on the planet which can claim that. If the BOJ continues to treat subpar economic growth as an acceptable result, its even more thinkable that a default is possible, despite the fact that investors have been losing money for nearly two decades betting on a Japanese default.

However, perpetual money printing cannot fix the underlying issues, mainly demographics. Japan seems to be playing a game of musical chairs, and PM Abe just keeps turning up the music so everyone will enjoy themselves....until they don't.

Stay tuned,

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