Daiwa
Daiwa Institute of Research

14 February 2013 (No. of pages: 3)

Japanese report: 14 Feb 2013

Oct-Dec 2012 First Preliminary GDP Estimate

Negative growth for third consecutive quarter due to lower exports

Economic Research Dept
Masahiko Hashimoto
Mitsumaru Kumagai

Summary

- The first preliminary estimate of Oct-Dec real GDP (Cabinet Office) posted a slide of 0.1% q/q, annualized at –0.4%, the third quarterly negative growth in a row, falling short of the market consensus (+0.1%; annualized at +0.4%). Domestic demand saw the first positive contribution to q/q GDP growth in two quarters (+0.1 percentage point), while foreign demand saw the third quarterly negative contribution in a row (–0.2 points), dragging down real GDP growth. The negative contribution of foreign demand was as expected. In contrast, due to the negative contribution of private inventories (–0.2 points), the positive contribution of domestic demand undershot expectations, which is responsible for the lower-than-expected growth of real GDP.

- The first preliminary estimate confirmed persistent deterioration in the corporate sector, as evidenced by slides in exports and capex. In the household sector, the gain in personal consumption contrasted with the slide in employee compensation. As a whole, the Oct-Dec result was unfavorable. However, we expect GDP to turn around to positive growth from Jan-Mar 2013. After dragging down the economy for some time, exports will likely move toward an uptrend, supported by economic improvement in China and other Asian nations and also helped by the yen trending weaker from end-2012. Higher exports will not only push up corporate earnings, which will in turn induce capex, but also improve the household income environment, which will encourage personal consumption. Public works spending should accelerate the ongoing uptrend, spurred by government economic measures. We expect that after the short-term doldrums that started in early 2012, the economy will turn around to an expansionary phase from Jan-Mar 2013.

Unexpected negative GDP growth on domestic demand shortfall

The first preliminary estimate of Oct-Dec real GDP (Cabinet Office) posted a slide of 0.1% q/q, annualized at –0.4%, the third quarterly negative growth in a row, falling short of the market consensus (+0.1%; annualized at +0.4%). Domestic demand saw the first positive contribution to q/q GDP growth in two quarters (+0.1 percentage point), while foreign demand saw the third quarterly negative contribution in a row (–0.2 points), dragging down real GDP growth. The negative contribution of foreign demand was as expected. In contrast, due to the negative contribution of private inventories (–0.2 points), the positive contribution of domestic demand undershot expectations, which is responsible for the lower-than-expected growth of real GDP.

Nominal GDP declined (–0.4% q/q; annualized at –1.8%) for the third consecutive quarter. The GDP deflator saw a slide of 0.3% q/q for the 16th consecutive quarter and a slide of 0.6% y/y, the 13th quarterly slide in a row and evidence that a deflationary trend continues.

Firm household spending vs. ongoing stagnation in exports, capex

Personal consumption increased 0.4% q/q, the first gain in two quarters. Spending on durable goods made a substantial slide of 6.5%, following the end to the eco-car subsidy program. Spending on semi-durable and non-durable goods increased, accompanied by strong sales of seasonal goods due to lower temperatures, driving personal consumption. However, real employee compensation declined 0.5%, indicating that the weather factor pushed up personal spending beyond its underlying trend. Housing investment increased 3.5%, the third consecutive quarterly gain. Eco-points for housing reconstruction in areas affected by the 2011 earthquake/tsunami expired at end-Oct 2012 (such points available for reconstruction started by end-Oct 2012). This may have induced front-loaded demand in such areas, pushing up housing investment. In addition, the housing industry has made efforts to capture front-loaded demand prior to the consumption tax hike. As such, housing investment has been steady. Public investment increased 1.5%, the fourth consecutive quarterly gain, and pushed up domestic demand, thanks to progress of reconstruction projects. Capex declined 2.6%, the fourth quarterly slide in a row. Lower production has led to lower capacity utilization rates for manufacturing industries, which is responsible for their persistently cautious attitudes on capex. Exports declined 3.7%, the second consecutive quarterly slide. In *Trade Statistics of Japan* (Ministry of Finance), export volume has been on a downtrend, regardless of shipments to the US, EU or Asian trading partners, reflecting the slowdown in overseas economies. Imports declined 2.3% for the second quarter in a row due to sluggish exports and production. The plunge in exports was not offset by the slide in imports. Thus, foreign demand (net exports) pulled down GDP growth substantially for the third consecutive quarter.

GDP likely to return to uptrend in Jan-Mar 2013

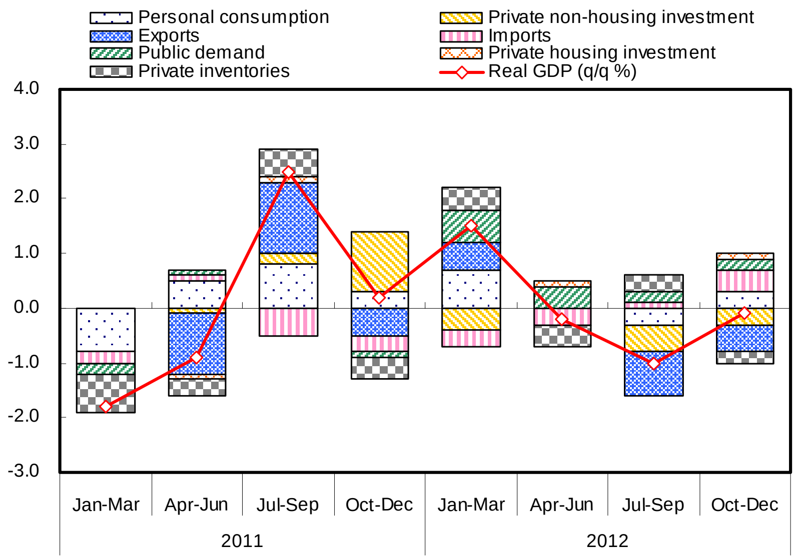
The first preliminary estimate of Oct-Dec real GDP confirmed a persistent deterioration in the corporate sector, as evidenced by slides in exports and capex. In the household sector, the gain in personal consumption contrasted with the slide in employee compensation, unfavorable as consumption is dependent on employee compensation. As a whole, the Oct-Dec result was not positive. However, we expect GDP to turn around to positive growth from Jan-Mar 2013 onward. After dragging down the economy for some time, exports will likely move toward an uptrend, supported by economic improvement in China and other Asian nations and also helped by the yen trending weaker from end-2012. Higher exports will not only push up corporate earnings, which will in turn induce capex, but also improve the household income environment, which will encourage personal consumption. Public works spending should accelerate the ongoing uptrend, spurred by government economic measures. We expect that after the short-term doldrums that started in early 2012, the economy will turn around to an expansionary phase from Jan-Mar 2013.

First Preliminary Oct-Dec 2012 GDP (chain-linked) Chart 1

		2011	2012			
		Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Real GDP	Q/q %	0.2	1.5	-0.2	-1.0	-0.1
Annualized	Q/q %	0.6	6.0	-1.0	-3.8	-0.4
Personal consumption	Q/q %	0.5	1.2	0.0	-0.5	0.4
Private housing investment	Q/q %	-0.9	-1.7	2.2	1.6	3.5
Private non-housing investment	Q/q %	8.6	-2.6	-0.2	-3.6	-2.6
Change in private inventories (contribution to real GDP growth)	Q/q % pts	-0.4	0.4	-0.4	0.3	-0.2
Government consumption	Q/q %	0.3	1.5	0.4	0.4	0.6
Public investment	Q/q %	-3.0	8.4	6.1	2.5	1.5
Exports of goods and services	Q/q %	-3.1	3.4	0.0	-5.1	-3.7
Imports of goods and services	Q/q %	1.7	2.1	1.7	-0.5	-2.3
Domestic demand (contribution to real GDP growth)	Q/q % pts	0.9	1.3	0.0	-0.3	0.1
Foreign demand (contribution to real GDP growth)	Q/q % pts	-0.7	0.2	-0.3	-0.7	-0.2
Nominal GDP	Q/q %	-0.1	1.4	-0.5	-1.1	-0.4
Annualized	Q/q %	-0.4	5.7	-2.2	-4.1	-1.8
GDP deflator	Y/y %	-1.5	-1.0	-0.9	-0.8	-0.6

Source: Cabinet Office; compiled by DIR.
Note: Due to rounding, contributions do not necessarily conform to calculations based on figures shown.

Contribution to Real GDP (q/q %; % pt) Chart 2



Source: Cabinet Office; compiled by DIR.