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Second Preliminary Estimate of 4Q 2012 GDP

Upgrade as expected

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Summary

- In the second preliminary estimate of Oct-Dec (4Q) 2012 GDP (Cabinet Office), real GDP was flat q/q, annualized at +0.2%, posting an upgrade from the first preliminary estimate (down 0.1%; down 0.4%), and almost on par with the market consensus (up 0.1%; up 0.2%). A broad range of GDP components (incl. capex, public works spending, personal consumption) saw upgrades.
- Industrial production is likely to see the first q/q gain in four quarters in Jan-Mar 2013, as February and March production is projected to increase m/m (Indexes of Industrial Production; Ministry of Economy, Trade, and Industry). Given the close relationship with industrial production, real GDP will likely show significant positive growth in Jan-Mar 2013.
- While whether the economy sees a stable recovery after Jan-Mar will depend on export trends, such trends will likely gradually increase going forward, given that the environment for exports has begun to turn around amid a recovery in overseas economies and improvement in price competitiveness triggered by the shift to a weaker yen. 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. In addition, 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.

Upgrade from first preliminary estimate

In the second preliminary estimate of Oct-Dec (4Q) 2012 GDP (Cabinet Office), real GDP was flat q/q, annualized at +0.2%, posting an upgrade from the first preliminary estimate (down 0.1%; down 0.4%), and almost on par with the market consensus (up 0.1%; up 0.2%). In terms of contribution to q/q growth in real GDP, domestic demand made the first positive contribution in two quarters (+0.2 percentage points; first preliminary estimate: +0.1 point) but overseas demand saw the third negative contribution in a row (-0.2 points for both first and second estimates). Thus, conditions surrounding real GDP were unchanged from those in the first preliminary estimate. In other words, sluggish overseas demand dragged down GDP growth. In addition, the upgrade was limited. Accordingly, our economic outlook remains unchanged.

Upgrade in capex, public works spending, personal consumption

By GDP demand component, capex saw an upgrade from the first preliminary estimate (from down 2.6% q/q to down 1.5%), as capex posted a better figure in *Financial Statements Statistics of Corporations by Industry* for 4Q 2012 (Ministry of Finance [MOF]; basic statistics for estimating GDP) than that assumed in the first preliminary estimate. Public works spending also saw an upgrade (from up 1.5% to up 1.8%), factoring in the synthetic construction indexes for December (Ministry of Land, Infrastructure, Transport and Tourism; basic statistics for estimating GDP; available in Japanese). Personal consumption saw an upgrade as well (from up 0.4% to up 0.5%). While a broad range of major components posted upgrades, inventory investments remained flat from the first preliminary estimate (contribution to real GDP growth: down 0.2 points in both estimates) after factoring in MOF statistics. Meanwhile, the GDP deflator declined 0.7% y/y, downgraded from the first estimate (down 0.6%).

Jan-Mar 2013 likely to show significant positive growth

Industrial production is projected to increase m/m in February and March (Survey of Production Forecast, a sub-set of data in Indexes of Industrial Production; Ministry of Economy, Trade, and Industry), meaning it is likely to see the first q/q gain in Jan-Mar 2013 in four quarters. Given the close relationship with industrial production, real GDP will likely show significant growth in Jan-Mar 2013.

Whether the economy sees a stable recovery thereafter will depend on export trends. While such trends have been weak compared to production momentum, they will likely gradually increase going forward, given that the environment for exports has begun to turn around amid a recovery in overseas economies and an improvement in price competitiveness triggered by the shift to a weaker yen. 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. In addition, 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.

Second Preliminary Oct-Dec 2012 GDP (chain linked)

Chart 1

			2011		2012			
			Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
							First	Second
Real GDP	Q/q %		0.1	1.5	-0.2	-0.9	-0.1	0.0
	Annualized Q/q %		0.4	6.1	-0.9	-3.7	-0.4	0.2
Personal consumption	Q/q %		0.5	1.2	-0.0	-0.5	0.4	0.5
Private housing investment	Q/q %		-0.9	-1.7	2.2	1.7	3.5	3.5
Private non-housing investment	Q/q %		8.0	-2.5	-0.1	-3.3	-2.6	-1.5
Change in private inventories (contribution to real GDP growth)	Q/q % pts		-0.4	0.3	-0.4	0.2	-0.2	-0.2
Government consumption	Q/q %		0.3	1.5	0.4	0.4	0.6	0.7
Public investment	Q/q %		-3.1	8.5	6.2	2.6	1.5	1.8
Exports of goods and services	Q/q %		-3.1	3.4	0.0	-5.1	-3.7	-3.7
Imports of goods and services	Q/q %		1.7	2.1	1.7	-0.5	-2.3	-2.3
Domestic demand (contribution to real GDP growth)	Q/q % pts		0.8	1.3	0.0	-0.2	0.1	0.2
Foreign demand (contribution to real GDP growth)	Q/q % pts		-0.7	0.2	-0.3	-0.7	-0.2	-0.2
Nominal GDP	Q/q %		-0.1	1.4	-0.5	-1.0	-0.4	-0.3
	Annualized Q/q %		-0.6	5.7	-2.1	-4.1	-1.8	-1.3
GDP deflator	Y/y %		-1.5	-1.0	-1.0	-0.8	-0.6	-0.7

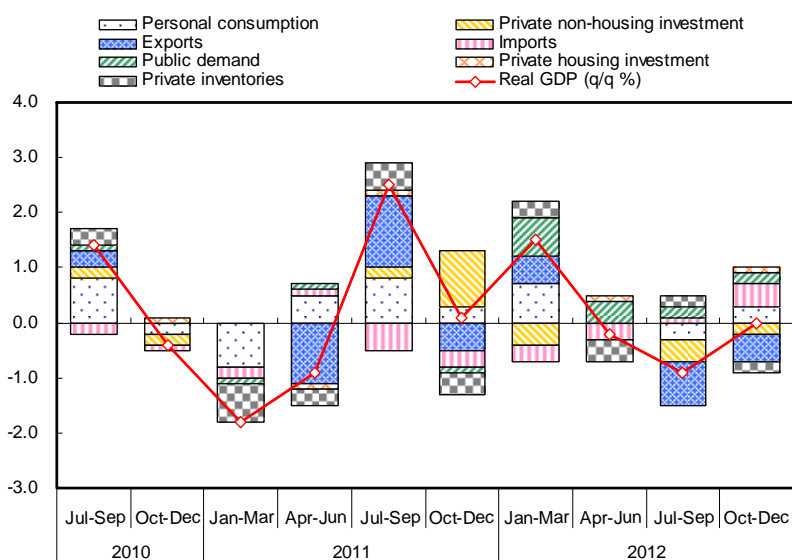
Source: Cabinet Office; compiled by DIR.

Notes: 1) Due to rounding, contributions do not necessarily conform to calculations based on figures shown.

2) Q/q figures seasonally adjusted by Cabinet Office.

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

Chart 2



Source: Cabinet Office; compiled by DIR.