16 May 2013 (No. of pages: 3)

Japanese report: 16 May 2013

Jan-Mar 2013 First Preliminary GDP Estimate

Positive growth with balanced domestic and foreign demand

Economic Research Dept

Masahiko Hashimoto

Summary

- The first preliminary estimate of Jan-Mar 2013 real GDP (Cabinet Office) posted an advance of 0.9% q/q, annualized at 3.5%, the second quarterly positive growth in a row and surpassing the market consensus (+0.7%; annualized at +2.7%). Domestic demand saw the second quarterly positive contribution to q/q GDP growth in a row (+0.5 percentage points), while foreign demand saw the first positive contribution in four quarters (+0.4 points). In other words, well-balanced domestic and foreign demand drove real GDP. Behind the higher-than-expected growth of real GDP was a larger-than-expected contribution of foreign demand, as exports and imports respectively overshot and undershot expectations.

- Personal consumption, exports, and other major demand components saw steady growth in general. However, capex declined 0.7%, the fifth quarterly slide in a row and falling short of market expectations of turning around to positive growth, evidencing that companies are maintaining a cautious attitude toward capex despite a likely improvement in the environment, such as improved earnings and increased exports.

- The ongoing uptrend in GDP is likely to continue in Apr-Jun and beyond, moving toward full-fledged recovery. Exports have finally shown signs of bottoming out and are very likely to move toward an uptrend, supported by an improvement in the US and Asian economies, and given that benefits from a weaker yen since end-2012 will start to materialize. Although capex did not increase in the Jan-Mar GDP estimate, higher corporate earnings and production driven by higher exports should give rise to capex going forward. At the same time, the improvement in corporate earnings should have positive effects on the environment surrounding household income, supporting personal consumption. Thus, we expect balanced growth to be seen among the household sector, corporate sector, and foreign demand in Apr-Jun and onward. We anticipate that the economy will likely gradually gain momentum in FY13, supported by such a cyclical recovery and other factors, including (1) public investment has decelerated to some extent but is very likely to accelerate again reflecting approval of the FY12 supplementary budget by the Diet at end-February 2013, and (2) personal consumption and housing investment will probably see forward-loaded demand emerging toward end-FY13, prior to an expected tax hike in April 2014.

First positive contribution of foreign demand in four quarters

The first preliminary estimate of Jan-Mar 2013 real GDP (Cabinet Office) posted an advance of 0.9% q/q, annualized at 3.5%, the second quarterly positive growth in a row and surpassing the market consensus (+0.7%; annualized at +2.7%). Domestic demand saw the second quarterly positive contribution to q/q GDP growth in a row (+0.5 percentage points), while foreign demand saw the first positive contribution in four quarters (+0.4 points). In other words, well-balanced domestic and foreign demand drove real GDP. Behind the higher-than-expected growth of real GDP was a larger-than-expected contribution of foreign demand, as exports slightly overshot expectations while imports undershot them.

Nominal GDP increased (+0.4% q/q; annualized at +1.5%) for the second consecutive quarter in a row. The GDP deflator declined q/q (–0.5%) for the 17th consecutive quarter and y/y (–1.2%) for the 14th, indicating that the deflationary trend continues. However, the decline was mainly due to a sharp rise in the import deflator triggered by a weaker yen. In contrast, the domestic deflator was flat q/q, putting a break on the persistent slide.

Firm in general but capex not turning around

Personal consumption increased 0.9% q/q, a rise for the second quarter in a row. At the same time, real employee compensation increased 0.5% for the first time in two quarters. However, the growing pace of the former was larger than the latter, thanks to improved consumer sentiment. While a boost in sales of high-end products has often been reported by the media, Jan-Mar GDP data shows that personal consumption saw a broad-based gain, regardless of type of goods/services. Housing investment increased 1.9%, improving for the fourth consecutive quarter. In addition to the ongoing lower housing loan rate, front-loaded demand prior to the consumption tax hike likely began to emerge, supporting steady housing investment. Public investment increased 0.8%, the fifth consecutive quarterly gain. Although the growing pace slowed, it continued to bolster the economy. Exports increased 3.8%, the first gain in four quarters. In *Trade Statistics of Japan* (Ministry of Finance), export volume has been on a downtrend for shipments to the EU and Asian trading partners, but it turned around for those to the US, driving overall exports. Along with improved exports and domestic demand, imports also increased, by 1.0%, the first advance in three quarters. However, the smaller gain in imports was offset by a larger gain in exports, and foreign demand (net exports) made a positive contribution of 0.4 points to GDP growth. Meanwhile, capex declined 0.7%, the fifth quarterly slide in a row, evidencing that companies are maintaining a persistently cautious attitude toward capex despite a likely improvement in the environment surrounding capex, such as improved earnings due to a weaker yen, and increased exports.

Full-fledged recovery likely in Apr-Jun 2013 and beyond

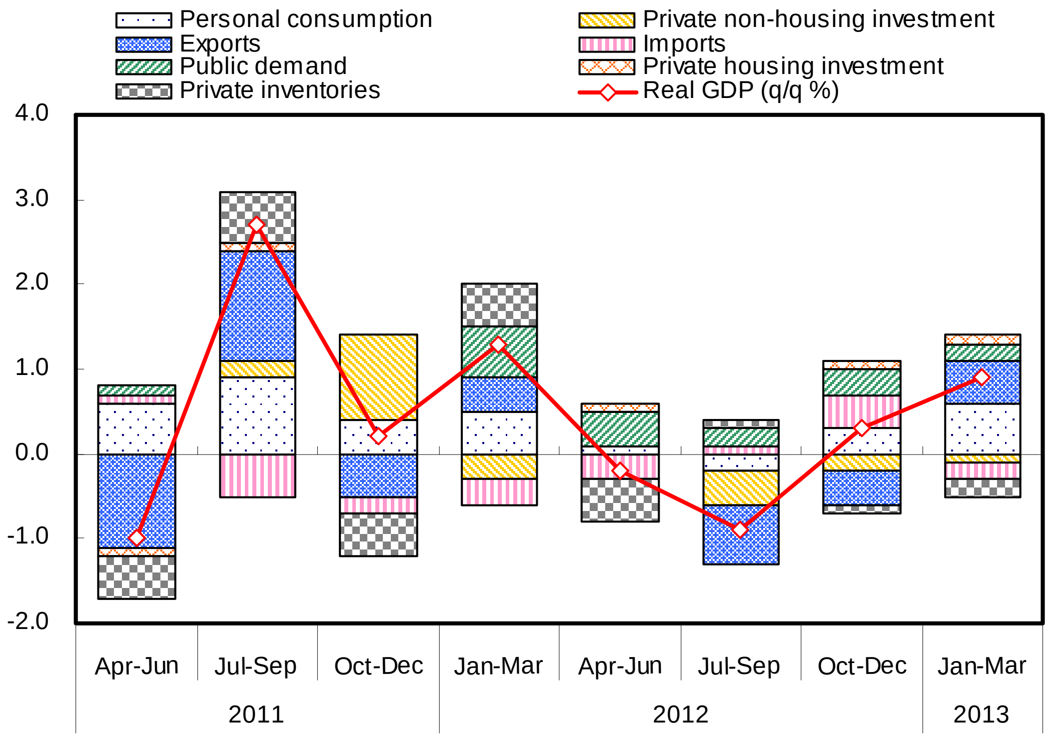
The ongoing uptrend in GDP is likely to continue in Apr-Jun and beyond, moving toward full-fledged recovery. Exports have finally shown signs of bottoming out and are very likely to move toward an uptrend, supported by economic improvement in the US and among Asian trading partners, and given that benefits from a weaker yen since end-2012 will start to materialize. Although capex did not see a gain in the Jan-Mar GDP estimate, higher corporate earnings and production driven by higher exports should give rise to capex going forward. At the same time, the improvement in corporate earnings should have positive effects on the environment surrounding household income, supporting personal consumption. Thus, we expect balanced growth to be seen among the household sector, corporate sector, and foreign demand in Apr-Jun and onward. We anticipate that the economy will likely gradually gain momentum in FY13, supported by such a cyclical recovery and other factors including (1) public investment has decelerated to some extent but is very likely to accelerate again reflecting approval of the FY12 supplementary budget by the Diet at end-February 2013, and (2) personal consumption and housing investment will probably see forward-loaded demand emerging toward end-FY13, prior to the expected tax hike in April 2014.

First Preliminary Jan-Mar 2013 GDP (chain-linked) — Chart 1

		2012				2013
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Real GDP	Q/q %	1.3	-0.2	-0.9	0.3	0.9
Annualized	Q/q %	5.3	-0.9	-3.5	1.0	3.5
Personal consumption	Q/q %	0.8	0.2	-0.4	0.4	0.9
Private housing investment	Q/q %	-1.5	2.3	1.5	3.5	1.9
Private non-housing investment	Q/q %	-2.4	-0.3	-3.3	-1.5	-0.7
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.5	-0.5	0.1	-0.1	-0.2
Government consumption	Q/q %	1.4	0.5	0.4	0.7	0.6
Public investment	Q/q %	6.7	6.3	3.4	2.8	0.8
Exports of goods and services	Q/q %	2.7	-0.0	-4.4	-2.9	3.8
Imports of goods and services	Q/q %	2.0	1.8	-0.3	-2.2	1.0
Domestic demand (contribution to real GDP growth)	Q/q % pts	1.2	0.1	-0.3	0.3	0.5
Foreign demand (contribution to real GDP growth)	Q/q % pts	0.1	-0.3	-0.6	-0.1	0.4
Nominal GDP	Q/q %	1.2	-0.6	-1.0	0.1	0.4
Annualized	Q/q %	4.9	-2.2	-3.9	0.3	1.5
GDP deflator	Y/y %	-1.0	-1.0	-0.8	-0.7	-1.2

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.