10 June 2013 (No. of pages: 3)

Japanese report: 10 Jun 2013

Second Preliminary Estimate of 1Q 2013 GDP

Upswing in inventories but as expected in general

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Summary

- In the second preliminary estimate of Jan-Mar (1Q) 2013 GDP (Cabinet Office), real GDP was +1.0% q/q, annualized at +4.1%, posting an upgrade from the first preliminary estimate (up 0.9%; up 3.5%), and slightly overshooting market expectations (up 0.9%; up 3.5%). Behind this was an upswing in inventories, meaning it was not particularly favorable.

- By GDP demand component, capex saw an upgrade from the first preliminary estimate (from down 0.7% q/q to down 0.3%), after factoring in figures in *Financial Statements Statistics of Corporations by Industry* for 1Q 2013 (Ministry of Finance [MOF]). However, given the persistent q/q decline, stagnation in capex will likely continue. Inventory investments also saw an upgrade (contribution to real GDP growth: down 0.2 points to down 0.0 points) after factoring in MOF statistics, which was a major factor for the upward revision to the real GDP.

- The uptrend in GDP is likely to continue in Apr-Jun and beyond, moving toward full-fledged recovery. Exports finally began bottoming out and are likely to move toward an uptrend, supported by improvement in overseas economies, and given that benefits from a weaker yen since end-2012 will start to materialize. Although capex is still stagnant, higher corporate earnings and production driven by higher exports should boost capex gradually. 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 beyond. We anticipate the economy gradually gaining momentum in FY13, supported by such a cyclical recovery and other factors including (1) public investment decelerating to some extent but likely accelerating again reflecting approval of the FY12 supplementary budget by the Diet at end-February 2013, and (2) personal consumption and housing investment probably seeing forward-loaded demand emerging toward end-FY13, prior to the expected tax hike in April 2014.

Upgrade from first preliminary estimate

In the second preliminary estimate of Jan-Mar (1Q) 2013 GDP (Cabinet Office), real GDP was +1.0% q/q, annualized at +4.1%, posting an upgrade from the first preliminary estimate (up 0.9%; up 3.5%), and slightly overshooting market expectations (up 0.9%; up 3.5%). Behind this was an upswing in inventories, meaning it was not particularly favorable.

Domestic demand saw the second quarterly positive contribution to q/q GDP growth in a row (+0.6 percentage points; first preliminary estimate: +0.5 points), while foreign demand saw the first positive contribution in four quarters (+0.4 points for first and second estimates). In other words, domestic and foreign demand saw well-balanced growth. Nevertheless, as the upgrade was limited, our economic outlook remains unchanged.

Upgrade in capex and inventory investments

By GDP demand component, capex saw an upgrade from the first preliminary estimate (from down 0.7% q/q to down 0.3%), after factoring in figures in *Financial Statements Statistics of Corporations by Industry* for 1Q 2013 (Ministry of Finance [MOF]). However, given the persistent q/q decline, ongoing stagnation in capex will continue. Inventory investments also saw an upgrade from the first preliminary estimate (contribution to real GDP growth: down 0.2 points to down 0.0 points) after factoring in MOF statistics, which was a major factor for the upward revision to the real GDP. In contrast, public works spending saw a downgrade (from up 0.8% to up 0.4%), factoring in the synthetic construction indexes for March (Ministry of Land, Infrastructure, Transport and Tourism; basic statistics for estimating GDP; available in Japanese), but which was almost on par with expectations. Meanwhile, the GDP deflator declined 1.1% y/y, upgraded from the first estimate (down 1.2%).

Economy likely to continue to grow beyond Apr-Jun 2013

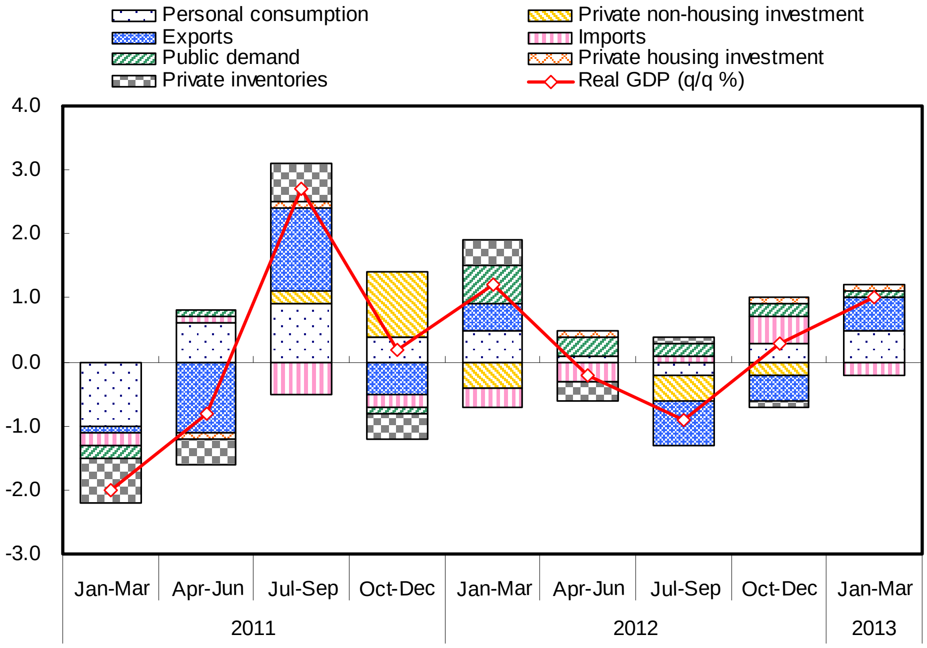
The ongoing uptrend in GDP is likely to continue in Apr-Jun and beyond, moving toward full-fledged recovery. Exports finally began bottoming out and are likely to move toward an uptrend, supported by improvement in overseas economies, and given that benefits from a weaker yen since end-2012 will start to materialize. Although capex is still stagnant, higher corporate earnings and production driven by higher exports should boost capex gradually. 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 the economy gradually gaining momentum in FY13, supported by such a cyclical recovery and other factors including (1) public investment decelerating to some extent but 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 probably seeing forward-loaded demand emerging toward end-FY13, prior to the expected tax hike in April 2014.

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

		2012				2013	
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	
						First	Second
Real GDP	Q/q %	1.2	-0.2	-0.9	0.3	0.9	1.0
Annualized	Q/q %	4.8	-0.6	-3.6	1.2	3.5	4.1
Personal consumption	Q/q %	0.8	0.2	-0.4	0.4	0.9	0.9
Private housing investment	Q/q %	-1.5	2.3	1.5	3.5	1.9	1.9
Private non-housing investment	Q/q %	-2.5	-0.2	-3.3	-1.5	-0.7	-0.3
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.4	-0.3	0.1	-0.1	-0.2	-0.0
Government consumption	Q/q %	1.5	0.2	0.4	0.7	0.6	0.4
Public investment	Q/q %	7.0	6.3	3.2	2.7	0.8	0.4
Exports of goods and services	Q/q %	2.7	-0.0	-4.4	-2.9	3.8	3.8
Imports of goods and services	Q/q %	2.0	1.8	-0.3	-2.2	1.0	1.0
Domestic demand (contribution to real GDP growth)	Q/q % pts	1.1	0.1	-0.3	0.4	0.5	0.6
Foreign demand (contribution to real GDP growth)	Q/q % pts	0.1	-0.3	-0.6	-0.1	0.4	0.4
Nominal GDP	Q/q %	1.1	-0.5	-1.1	0.2	0.4	0.6
Annualized	Q/q %	4.4	-2.0	-4.2	0.6	1.5	2.2
GDP deflator	Y/y %	-1.0	-1.0	-0.8	-0.7	-1.2	-1.1

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 basis.

Contribution to Real GDP (% pt; seasonally adjusted basis) — Chart 2



Source: Cabinet Office; compiled by DIR.