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# Second Preliminary Estimate of 2Q 2013 GDP

**Upgrade as expected; consumption tax hike more likely**

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## Summary

- In the second preliminary estimate of Apr-Jun (2Q) 2013 GDP (Cabinet Office), real GDP was +0.9% q/q, annualized at +3.8%, posting an upgrade from the first preliminary estimate (up 0.6%; up 2.6%). This was almost on par with market expectations (up 1.0%; up 3.9%) and confirmed a steady recovery of the economy.
- The economy grew supported by well-balanced growth of domestic and foreign demand. Domestic demand saw a positive contribution to q/q GDP growth (+0.7 percentage points; first preliminary estimate: +0.5 points), while foreign demand also made a positive contribution (+0.2 points for first and second estimates). In addition, domestic demand has recovered driven by personal consumption so far, but as witnessed by a turning around of capex in the second preliminary estimate (from negative growth in first preliminary estimate), improvement should be felt in the corporate sector. The second preliminary estimate of Apr-Jun 2013 GDP holds the key to weighing the possibility of the consumption tax hike being carried out, and the GDP figure indicates the tax hike is very likely to be implemented as scheduled.

### ***Upgrade from first preliminary estimate increases likelihood of consumption tax hike***

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### ***Capex upgraded to first gain in six quarters***

By GDP demand component, after factoring in figures in *Financial Statements Statistics of Corporations by Industry* for Apr-Jun 2013 (Ministry of Finance [MOF]), capex saw an upgrade from the first preliminary estimate (from down 0.1% q/q to up 1.3%) to the first gain in six quarters, confirming a firming up of capex after persistent stagnation. Inventory investments also saw an upgrade from the first preliminary estimate (contribution to real GDP growth: down 0.3 points to down 0.2 points) after factoring in MOF statistics. Public works spending saw an upgrade as well (from up 1.8% to up 3.0%), factoring in the synthetic construction indexes for June (Ministry of Land, Infrastructure, Transport and Tourism; basic statistics for estimating GDP; available in Japanese). Meanwhile, the GDP deflator declined 0.5% y/y, downgraded from the first estimate (down 0.3%).

### ***Economy likely to continue to grow beyond Jul-Sep 2013***

The ongoing uptrend in GDP is likely to continue in Jul-Sep and beyond. Although risk of a downswing in emerging market economies warrants monitoring, exports are likely to maintain an uptrend via improvement in overseas economies, centering on the US, and benefits from a weaker yen since end-2012 materializing with a lag. At the same time, the improvement in corporate earnings driven by higher exports should have positive effects on the environment surrounding household income, supporting personal consumption. Higher corporate earnings and improved corporate sentiment should also give rise to capex going forward. We anticipate the economy gradually gaining momentum in FY13, supported by such a cyclical recovery and other factors including (1) public investment likely accelerating again reflecting execution of the FY12 supplementary budget, and (2) personal consumption and housing investment likely to see a surge in demand toward 2H FY13, prior to the expected tax hike in April 2014.

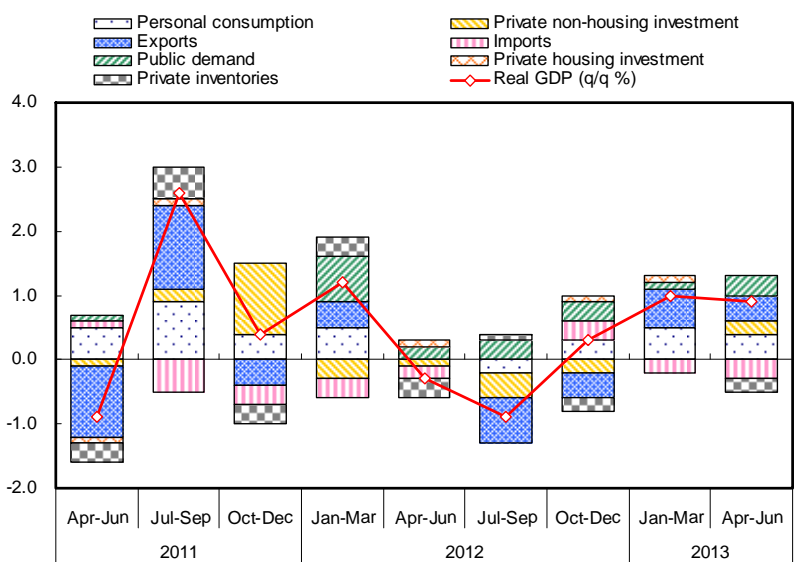
**Second Preliminary Apr-Jun 2013 GDP (chain linked) Chart 1**

|   |                  | 2012    |         |         | 2013    |         |        |
|---|------------------|---------|---------|---------|---------|---------|--------|
|   |                  | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun |        |
|   |                  |         |         |         |         | First   | Second |
| Real GDP  | Q/q %            | -0.3    | -0.9    | 0.3     | 1.0     | 0.6     | 0.9    |
|   | Annualized Q/q % | -1.2    | -3.5    | 1.1     | 4.1     | 2.6     | 3.8    |
| Personal consumption  | Q/q %            | 0.1     | -0.4    | 0.5     | 0.8     | 0.8     | 0.7    |
| Private housing investment                                      | Q/q %            | 2.1     | 1.6     | 3.6     | 1.9     | -0.2    | -0.3   |
| Private non-housing investment                                  | Q/q %            | -0.7    | -3.2    | -1.2    | -0.0    | -0.1    | 1.3    |
| Change in private inventories (contribution to real GDP growth) | Q/q % pts        | -0.3    | 0.1     | -0.2    | -0.0    | -0.3    | -0.2   |
| Government consumption  | Q/q %            | 0.1     | 0.4     | 0.6     | 0.0     | 0.8     | 0.7    |
| Public investment   | Q/q %            | 4.8     | 3.4     | 3.2     | 1.4     | 1.8     | 3.0    |
| Exports of goods and services                                   | Q/q %            | -0.2    | -4.5    | -2.7    | 4.0     | 3.0     | 3.0    |
| Imports of goods and services                                   | Q/q %            | 1.3     | -0.0    | -2.0    | 1.0     | 1.5     | 1.5    |
| Domestic demand (contribution to real GDP growth)               | Q/q % pts        | -0.1    | -0.2    | 0.3     | 0.6     | 0.5     | 0.7    |
| Foreign demand (contribution to real GDP growth)                | Q/q % pts        | -0.2    | -0.7    | -0.1    | 0.4     | 0.2     | 0.2    |
| Nominal GDP   | Q/q %            | -0.9    | -0.9    | 0.1     | 0.6     | 0.7     | 0.9    |
|   | Annualized Q/q % | -3.4    | -3.5    | 0.5     | 2.6     | 2.9     | 3.7    |
| GDP deflator  | Y/y %            | -1.0    | -0.8    | -0.7    | -1.1    | -0.3    | -0.5   |

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.