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Jul-Sep 2013 First Preliminary GDP Estimate

Fourth quarterly positive growth, momentum decelerated from Apr-Jun

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Summary

- The first preliminary estimate of Jul-Sep 2013 real GDP (Cabinet Office) posted an advance of 0.5% q/q, annualized at +1.9%, the fourth quarterly positive growth in a row and overshooting the market consensus (+0.4%; annualized at +1.7%). The major factor behind the overshoot was a larger-than-expected positive contribution of inventories (+0.4 percentage points). Other demand components were almost on par with expectations in general.

- Domestic demand saw the fourth positive contribution to q/q GDP growth in a row (+0.9 points), while foreign demand saw the first negative contribution in three quarters (–0.5 points) due to a slide in exports. In other words, a slide in foreign demand held down GDP growth.

- The ongoing uptrend in GDP is likely to continue in Oct-Dec and beyond. Personal consumption has driven the economy and is likely to maintain an uptrend, reflecting a possible improvement in income conditions. In addition, as last-minute demand is likely to surge in advance of the April 2014 consumption tax hike, personal consumption is likely to gain momentum toward end-FY13, driving GDP growth. Meanwhile, while exports turned to decline in Jul-Sep, they will likely return to an uptrend due to stronger export competitiveness reflecting a weaker yen, and also owing to expansion of overseas economies centering on the US. Reflecting higher exports and steady domestic demand, the ongoing improvement in corporate earnings is likely to continue, and hence, in turn, the current uptrend in capex should be maintained. Meanwhile, public investment is likely to remain at a high level for a while, peak out at some point, and then begin to trace a moderate decline. Thus, the effect of public investment in pushing up GDP growth is likely to diminish going forward.

Foreign demand saw the first negative contribution in three quarters

The first preliminary estimate of Jul-Sep 2013 real GDP (Cabinet Office) posted an advance of 0.5% q/q, annualized at +1.9%, the fourth quarterly positive growth in a row and overshooting the market consensus (+0.4%; annualized at +1.7%). The major factor behind the overshoot was a larger-than-expected positive contribution of inventories (+0.4 percentage points). Other demand components were almost on par with expectations in general. Domestic demand saw the fourth positive contribution to q/q GDP growth in a row (+0.9 points), while foreign demand saw the first negative contribution in three quarters (–0.5 points) due to a slide in exports. In other words, a slide in foreign demand held down GDP growth.

The GDP deflator declined 0.1% q/q, the first slide in two quarters, and declined 0.3% y/y, the 16th consecutive quarterly slide. The domestic demand deflator increased q/q for the first time in two quarters (+0.2%), reflecting q/q gains in personal consumption, housing investment, capex, and public investment deflators. Meanwhile, the import deflator increased q/q (+2.2%), reflecting higher commodity prices. (The former pushes up the GDP deflator, while the latter pulls it down, and the former effect was offset by the latter.) Nominal GDP increased (+0.4% q/q; annualized at +1.6%) for the fourth consecutive quarter.

Domestic demand firm, exports declined

Personal consumption increased 0.1% q/q, the fourth quarterly gain in a row. While spending on durables/semi-durables increased, that on non-durables and services declined, resulting in a moderate increase as a whole. Although the gain in personal consumption was limited, it was favorable bearing in mind that real employee compensation declined 0.6%, the first slide in three quarters, and also that improved consumer sentiment was the driving force, although it has recently turned to worsen.

Housing investment increased 2.7% q/q, the sixth quarterly gain in a row. While housing investment has been steady, supported by ongoing lower housing loan rates and reconstruction demand, it has gained momentum, likely reflecting a surge in demand in advance of the consumption tax hike in April 2014.

Capex increased 0.2% q/q, the third quarterly gain in a row. Although the increase was minor, the uptrend confirmed that corporate sentiment regarding capex has begun to turn around, perhaps reflecting improvement in corporate earnings due to higher sales owing to a weaker yen and firm domestic demand.

Public investment increased 6.5% q/q, the seventh consecutive quarterly gain. While investment level has been high, the pace of growth regained momentum along with the earnest execution of the FY12 supplementary budget, which propped up the economy.

Exports declined 0.6% q/q, the first slide in three quarters. Along with the bottoming out of the EU economy, exports to the EU have turned around from persistent stagnation. Meanwhile, reflecting a slowdown in ASEAN economies, exports to Asian trading partners were sluggish, pulling down overall exports. Imports increased 2.2%, the third quarterly advance in a row, accompanying firm domestic demand. As a result, foreign demand (net exports) posted the first negative contribution to GDP growth in three quarters (–0.5 points).

Growth to gain momentum reflecting last-minute demand in Oct-Dec/beyond

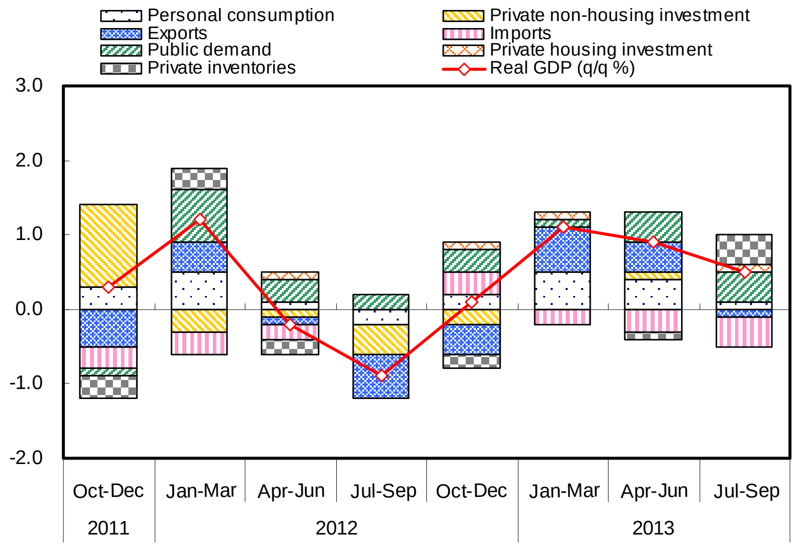
The ongoing uptrend in GDP is likely to continue in Oct-Dec and beyond. Personal consumption has driven the economy and is likely to maintain an uptrend, reflecting a possible improvement in income conditions. In addition, as last-minute demand is likely to surge in advance of the April 2014 consumption tax hike, personal consumption is likely to gain momentum toward end-FY13, driving GDP growth. Meanwhile, while exports turned to decline in Jul-Sep, they will likely return to an uptrend due to stronger export competitiveness reflecting a weaker yen, and also owing to expansion of overseas economies centering on the US. Reflecting higher exports and steady domestic demand, ongoing improvement in corporate earnings is likely to continue, and hence, in turn, the current uptrend in capex should be maintained. Meanwhile, public investment is likely to remain at a high level for a while, peak out at some point, and then begin to trace a moderate decline. Thus, the effect of public investment in pushing up GDP growth is likely to diminish going forward.

First Preliminary Jul-Sep 2013 GDP (chain linked) **Chart 1**

			2012		2013		
			Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep
Real GDP		Q/q %	-0.9	0.1	1.1	0.9	0.5
	Annualized	Q/q %	-3.7	0.6	4.3	3.8	1.9
Personal consumption		Q/q %	-0.3	0.4	0.8	0.6	0.1
Private housing investment		Q/q %	1.1	3.2	2.3	0.4	2.7
Private non-housing investment		Q/q %	-3.3	-1.2	0.1	1.1	0.2
Change in private inventories (contribution to real GDP growth)		Q/q % pts	0.0	-0.2	-0.0	-0.1	0.4
Government consumption		Q/q %	0.4	0.6	0.0	0.8	0.3
Public investment		Q/q %	1.2	3.3	2.5	4.8	6.5
Exports of goods and services		Q/q %	-3.8	-3.0	3.9	2.9	-0.6
Imports of goods and services		Q/q %	-0.3	-1.7	1.0	1.7	2.2
Domestic demand (contribution to real GDP growth)		Q/q % pts	-0.4	0.3	0.7	0.8	0.9
Foreign demand (contribution to real GDP growth)		Q/q % pts	-0.5	-0.1	0.4	0.1	-0.5
Nominal GDP		Q/q %	-1.2	0.2	0.7	1.1	0.4
	Annualized	Q/q %	-4.6	0.7	2.8	4.3	1.6
GDP deflator		Y/y %	-0.8	-0.7	-1.1	-0.5	-0.3

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 (% pt) **Chart 2**



Source: Cabinet Office; compiled by DIR.