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Second Preliminary Estimate of 3Q 2013 GDP

Growth downgrade short of consensus, but within scope of allowance

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Summary

- In the second preliminary estimate of Jul-Sep (3Q) 2013 GDP (Cabinet Office), real GDP was +0.3% q/q, annualized at +1.1%, a downgrade from the first preliminary estimate (up 0.5%; up 1.9%). The result was short of the market consensus (up 0.4%; up 1.6%) but does not show any particular negative surprise. We thus maintain our view on the economy.

- By GDP demand component, after factoring in figures in *Financial Statements Statistics of Corporations by Industry* for Jul-Sep 2013 (Ministry of Finance [MOF]), capex saw a downgrade from the first preliminary estimate (from up 0.2% q/q to up 0.0%). Inventory investments also saw a downgrade (contribution to real GDP growth: up 0.4 points to up 0.2 points) after factoring in MOF statistics, a major factor behind the downgrade of the second preliminary estimate. Contrary to expectations for an upgrade, public investment was almost flat from the first estimate, resulting in a shortfall to the consensus expectation.

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

		2012		2013			
		Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	
						First	Second
Real GDP	Q/q %	-0.8	0.1	1.1	0.9	0.5	0.3
Annualized	Q/q %	-3.2	0.6	4.5	3.6	1.9	1.1
Personal consumption	Q/q %	-0.5	0.6	1.0	0.7	0.1	0.2
Private housing investment	Q/q %	1.1	3.1	2.2	0.3	2.7	2.6
Private non-housing investment	Q/q %	-2.1	-0.6	-1.0	0.9	0.2	0.0
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.3	-0.3	0.0	-0.2	0.4	0.2
Government consumption	Q/q %	0.4	0.7	0.7	0.6	0.3	0.2
Public investment	Q/q %	-2.4	2.9	1.1	6.3	6.5	6.5
Exports of goods and services	Q/q %	-3.8	-3.0	3.9	2.9	-0.6	-0.6
Imports of goods and services	Q/q %	-0.4	-1.7	1.0	1.7	2.2	2.2
Domestic demand (contribution to real GDP growth)	Q/q % pts	-0.3	0.3	0.7	0.7	0.9	0.7
Foreign demand (contribution to real GDP growth)	Q/q % pts	-0.5	-0.1	0.4	0.1	-0.5	-0.5
Nominal GDP	Q/q %	-1.0	0.2	0.7	0.9	0.4	0.3
Annualized	Q/q %	-3.9	0.8	2.7	3.7	1.6	1.0
GDP deflator	Y/y %	-0.8	-0.7	-1.1	-0.5	-0.3	-0.3

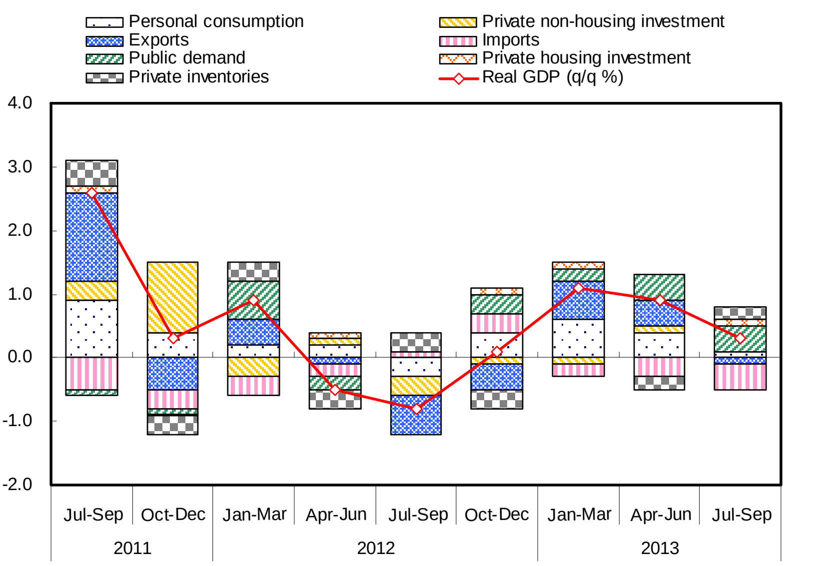
Source: Cabinet Office; compiled by DIR.
Notes: 1) Due to rounding, contributions do not necessarily conform to calculations based on figures shown.
2) Q/q figures seasonally adjusted by Cabinet Office.

Downgrade in GDP growth from first preliminary estimate

In the second preliminary estimate of Jul-Sep (3Q) 2013 GDP (Cabinet Office), real GDP was +0.3% q/q, annualized at +1.1%, a downgrade from the first preliminary estimate (up 0.5%; up 1.9%). The result was short of the market consensus (up 0.4%; up 1.6%) but does not show any particular negative surprise. We thus maintain our view on the economy.

By demand source, domestic demand made a contribution of +0.7 percentage points (first preliminary: +0.9 points) to Jul-Sep GDP q/q growth, while foreign demand made a contribution of –0.5 points (–0.5 points), meaning the gain in domestic demand cancelled out the decline in foreign demand, pushing up GDP growth. Personal consumption saw the forth quarterly gain in a row, although it lost some momentum in Jul-Sep, while housing investment saw the sixth quarterly gain in a row. Both confirm steadiness in housing sector demand. At the same time, public investment posted the fourth quarterly gain in a row, reflecting stimulus measures. Thus, among domestic demand, that of the housing and public sectors has driven the economy. Meanwhile, capex grew for the second consecutive quarter but only at a very limited pace.

Contribution to Real GDP (q/q %; % pt) **Chart 2**

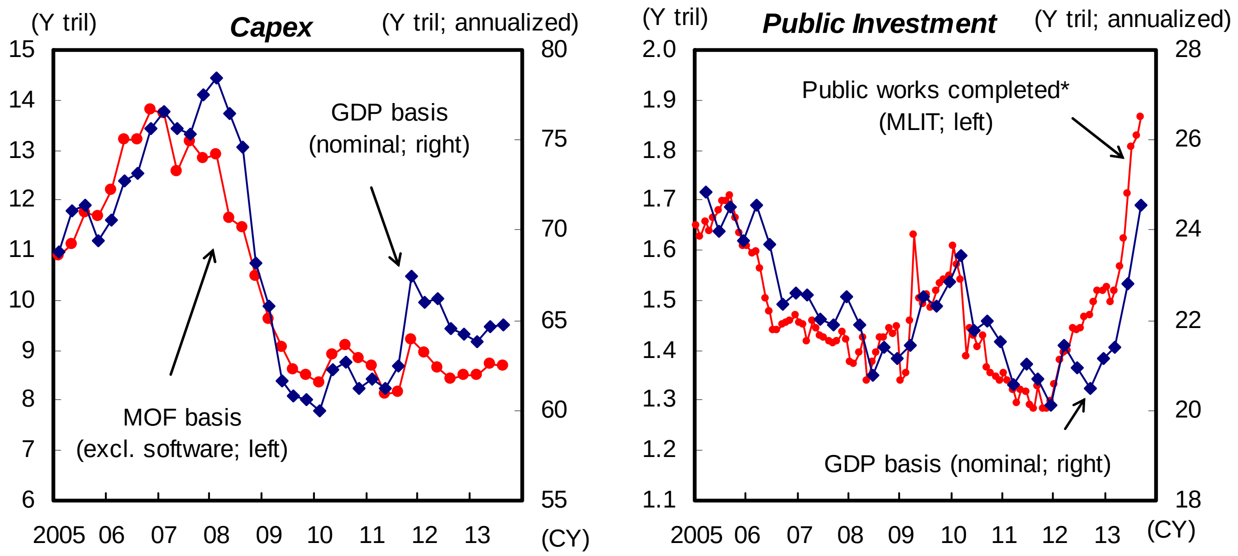


Source: Cabinet Office; compiled by DIR.

Downgrade in capex and inventory investments

By GDP demand component, after factoring in figures in *Financial Statements Statistics of Corporations by Industry* for Jul-Sep 2013 (MOF), capex saw a downgrade from the first preliminary estimate (from up 0.2% q/q to up 0.0%). Inventory investments also saw a downgrade (contribution to real GDP growth: up 0.4 points to up 0.2 points) after factoring in MOF statistics, a major factor behind the downgrade of the second preliminary estimate. Contrary to expectations for an upgrade, public investment was almost flat from the first estimate, resulting in a shortfall to the consensus expectation. Personal consumption saw a minor upgrade from the first estimate. Meanwhile, the GDP deflator declined 0.3% y/y, almost on par with the first estimate (down 0.3%).

Capex and Public Investment: GDP basis vs. Basic Statistics Chart 3

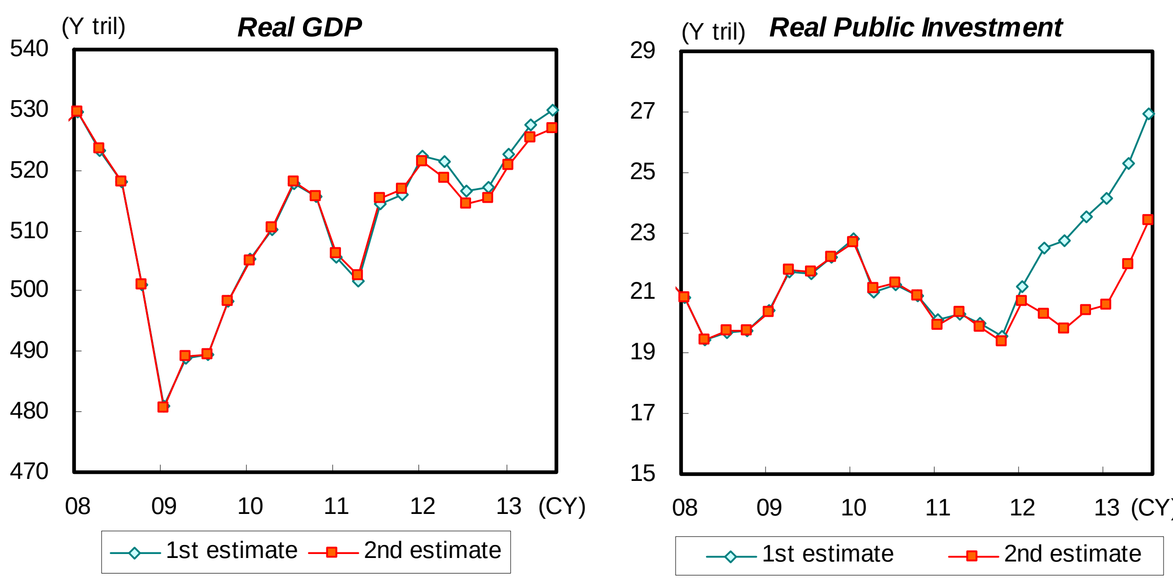


Source: Cabinet Office, Ministry of Finance (MOF), *Financial Statement Statistics of Corporations by Industry* for Jul-Sep 2013, Ministry of Land, Infrastructure, Transport and Tourism (MLIT), "Synthetic construction indexes" (available in Japanese); compiled by DIR.
*Seasonally adjusted by DIR.

Public investment saw substantial downgrade in revised estimate for FY12

Along with the second preliminary estimate for Jul-Sep 2013, annual revisions for FY11 and FY12 (from preliminary to revised estimate) were announced. Quarterly figures were revised retroactively along the annual revision. The real GDP growth rate for FY12 saw a downgrade from the preliminary estimate (from up 1.2% to up 0.7%). Factors responsible for the downgrade were a substantial downgrade in public investment (from up 14.9% to up 1.3%). The public investment trend in FY12 traced a persistent increase in the preliminary estimate, but it was almost flat in the revised estimate, suggesting that public investment fell behind schedule. Meanwhile, capex saw an upgrade (from down 1.3% to up 0.7%). Factoring in the annual revisions, the carryover of the real GDP growth rate to FY13 saw a minor upgrade from +0.6% to +0.7%.

Jul-Sep GDP 1st Preliminary Estimate vs. 2nd Preliminary Estimate Chart 4



Source: Cabinet Office; compiled by DIR.

Growth to gain momentum reflecting last-minute demand toward end-FY13

The ongoing uptrend in GDP is likely to continue in Oct-Dec and beyond. Household sector demand is likely to continue driving the economy, factoring in a likely improvement in income conditions. In addition, personal consumption is very likely to gain momentum toward end-FY13 in advance of consumption tax hike in April 2014, boosting the GDP growth rate. Although declining q/q in Jul-Sep, exports are likely to return to an uptrend via benefits from a weaker yen since end-2012 materializing with a lag, and improvement in overseas economies, centering on the US. Corporate earnings are likely to continue to improve driven by higher exports and steady domestic demand, which in turn will likely give rise to capex going forward. Meanwhile, we anticipate public investment will likely remain at a high level factoring in stimulus measures approved in December 2013 by the Cabinet. However, it will likely loose momentum gradually as the effects of previous stimulus measures are to disappear going forward.