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Oct-Dec 2013 First Preliminary GDP Estimate

Results not bad despite underperforming market outlook

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Summary

- The GDP growth rate for the Oct-Dec 2013 period was up by 1.0% q/q annualized (+0.3% q/q), thereby achieving positive growth for the fourth consecutive quarter. However, it fell well below market consensus (up 2.8% q/q annualized and up 0.7% q/q). This was due mainly to personal consumption, which had been expected to achieve major growth but ended up falling below the market outlook. However, all demand components except for private inventories saw q/q growth, so overall, results were not bad.

- As for the outlook for the Japanese economy, the period of Jan-Mar 2014 is expected to see a major increase in the growth rate due to the effect of last minute demand on personal consumption. The Oct-Dec 2013 GDP figures have been pushed up a certain amount due to last minute demand especially in the area of housing investment and durable goods. Meanwhile, immediately before the upcoming tax hike, non-durables and semi-durables are also expected to see last minute demand, putting increasing upward pressure on growth. But then a reaction to last minute demand in the form of a downturn is thought to be inevitable, so the period of Apr-Jun 2014 will likely see a decline in real GDP. However, exports, which moved into a growth trend this time around, are expected to strengthen that trend as overseas economies, lead by the U.S., continue to expand, and as Japan improves its global competitiveness thanks to the weak yen. Meanwhile, increasing exports will lead to production growth and improved earnings, and this is expected to trigger more CAPEX. This in turn should lead to an increase in wages, and could also lead to a recovery in household budgets. We believe that the Japanese economy will be back on the growth track by the period of July-Sept 2014.

Growth achieved for four consecutive quarters, but falls short of market outlook

The GDP growth rate for the Oct-Dec 2013 period was up by 1.0% q/q annualized (+0.3% q/q), thereby achieving positive growth for the fourth consecutive quarter. However, it fell well below market consensus (up 2.8% q/q annualized and up 0.7% q/q). This was due mainly to personal consumption, which had been expected to achieve major growth but ended up falling below the market outlook. However, all demand components except for private inventories saw q/q growth, so overall, results were not bad. Contributions from domestic and foreign demand sectors saw domestic demand up 0.8 percentage points, bringing in positive contribution for the fifth quarter in a row, while foreign demand fell for the second consecutive quarter by 0.5 percentage points q/q. The degree of contribution from foreign demand fell due to major growth in imports associated with expanding domestic demand.

The GDP deflator was up by 0.1% q/q, winning its first increase in two quarters though it was actually down by 0.4% on a y/y basis. It was in a decline for seventeen consecutive quarters. As for individual GDP components, personal consumption, housing investment, CAPEX, and public investment deflators all won q/q growth, while the domestic demand deflator recorded q/q growth of 0.3% increasing its margin of growth in comparison to the last quarter. Nominal GDP grew by +1.6% q/q annualized (+0.4% q/q), thereby winning its fifth consecutive quarter of growth.

Last minute demand boosts personal consumption and housing investment

Performance by demand component shows personal consumption up 0.5% q/q, its fifth consecutive quarter of growth. Performance by type of goods was as follows. Non-durables fell for the second consecutive quarter, while performance of semi-durable goods was flat in comparison to the previous quarter. Meanwhile, durables recorded major growth at +4.0% q/q, pushing up figures for personal consumption overall. This is thought to be due mainly to certain goods, such as automobiles and so on, which experienced last minute demand associated with the upcoming sales tax hike. Meanwhile, real employee compensation grew 0.1% q/q, exhibiting its second consecutive quarter of growth. Improvements in the income environment also appear to have contributed to growth in personal consumption.

Housing investment grew for the seventh consecutive quarter at +4.2% q/q. Housing is maintaining steady growth supported by a positive environment afforded by low interest rates and the general background of recovery demand. Housing investment is expected to continue steady growth. In addition, there was last minute demand ahead of the tax hike which is to take effect in April 2014 (growth began to accelerate during the quarter prior to its taking effect).

CAPEX grew for the third consecutive quarter at +1.3% q/q. The margin of growth was on the small side, but it confirms that there is gradual improvement in corporate willingness to carry out CAPEX. The growth in CAPEX is thought to be in connection with growth in sales due to the weak yen, continued improvements in corporate earnings supported by favorable domestic demand, and the gradual recovery of capacity utilization in the manufacturing industry which had been suffering a downturn.

Public investment was up 2.3% q/q achieving its fifth consecutive quarter of growth. It appears that the growth rate has slowed since the July-September period in which major gains were recorded due to the implementation of the 2012 supplementary budget. However, public investment is continuing at a high level.

Exports recorded growth of 0.4% q/q. Exports to the U.S. and Europe reflected a weak tone and brought down overall performance to a small margin of growth, but exports to Asia grew, winning overall figures their first increase in two quarters. As for imports, the fourth consecutive quarter of growth was won due to favorable domestic demand bringing q/q growth of 3.5%. As a result of the major increase in imports, the extent of contribution from foreign demand (net exports) posted negative figures for the second quarter in a row, falling by 0.5 percentage points.

Growth to gain momentum reflecting last-minute demand in Jan-Mar 2014

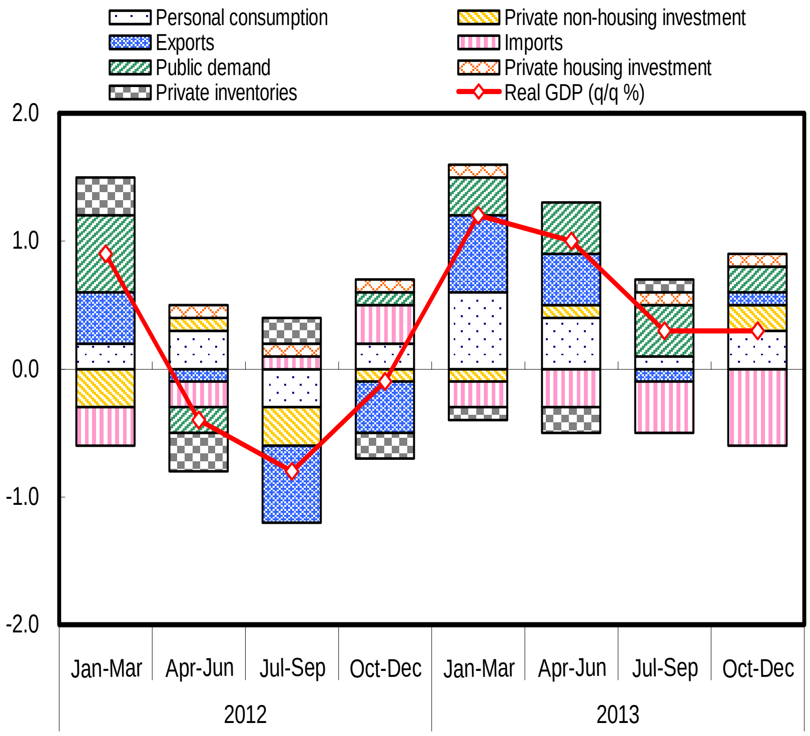
As for the outlook for the Japanese economy, the period of Jan-Mar 2014 is expected to see a major increase in the growth rate due to the effect of last minute demand on personal consumption. The Oct-Dec 2013 GDP figures have been pushed up a certain amount due to last minute demand especially in the area of housing investment and durable goods. Meanwhile, immediately before the upcoming tax hike, non-durables and semi-durables are also expected to see last minute demand, putting increasing upward pressure on growth. But then a reaction to last minute demand in the form of a downturn is thought to be inevitable, so the period of Apr-Jun 2014 will likely see a decline in real GDP. However, exports, which moved into a growth trend this time around, are expected to strengthen that trend as overseas economies, lead by the U.S., continue to expand, and as Japan improves its global competitiveness thanks to the weak yen. Meanwhile, increasing exports will lead to production growth and improved earnings, and this is expected to trigger more CAPEX. This in turn should lead to an increase in wages, and could also lead to a recovery in household budgets. We believe that the Japanese economy will be back on the growth track by the period of July-Sept 2014.

First Preliminary Oct-Dec 2013 GDP (chain linked) **Chart 1**

		2012	2013			
		Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Real GDP	Q/q %	-0.1	1.2	1.0	0.3	0.3
Annualized	Q/q %	-0.2	4.8	3.9	1.1	1.0
Personal consumption	Q/q %	0.4	1.0	0.6	0.2	0.5
Private housing investment	Q/q %	2.3	1.7	0.9	3.3	4.2
Private non-housing investment	Q/q %	-1.1	-0.9	1.1	0.2	1.3
Change in private inventories (contribution to real GDP growth)	Q/q % pts	-0.2	-0.1	-0.2	0.1	-0.0
Government consumption	Q/q %	0.7	0.7	0.6	0.2	0.5
Public investment	Q/q %	0.4	3.2	6.9	7.2	2.3
Exports of goods and services	Q/q %	-2.9	4.2	2.9	-0.7	0.4
Imports of goods and services	Q/q %	-1.9	1.1	1.8	2.4	3.5
Domestic demand (contribution to real GDP growth)	Q/q % pts	0.1	0.8	0.8	0.8	0.8
Foreign demand (contribution to real GDP growth)	Q/q % pts	-0.1	0.4	0.1	-0.5	-0.5
Nominal GDP	Q/q %	0.0	0.7	1.0	0.2	0.4
Annualized	Q/q %	0.1	3.0	4.1	0.7	1.6
GDP deflator	Y/y %	-0.7	-1.0	-0.5	-0.4	-0.4

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.