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# Oct-Dec 2013 2nd Preliminary GDP Estimate

## Results fall below market outlook, but no surprises

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### Summary

- The real GDP growth rate for the Oct-Dec 2013 period (second preliminary estimate) was revised downward from the first preliminary estimate (+1.0% q/q annualized and +0.3% q/q) to +0.7% q/q annualized and +0.2% q/q. Figures were down somewhat below market consensus (+0.9% q/q annualized and +0.2% q/q), but there were no surprises. We thus maintain our view on the economy.
- By GDP demand component, after factoring in figures in Financial Statements Statistics of Corporations by Industry (Ministry of Finance [MOF]), capex saw a downgrade from the first preliminary estimate (from +1.3% q/q to +0.8%). Meanwhile, public sector fixed capital formation, which attracted differing views, was revised downward from the first preliminary estimate of +2.3% q/q to +2.1%. In addition, personal spending was also downgraded somewhat from +0.5% q/q on the first preliminary estimate to +0.4% on the second preliminary estimate, helping to push the GDP growth rate further downward.

### Second Preliminary Oct-Dec 2013 GDP

### Chart 1

		2012	2013				
		Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
						First	Second
Real GDP	Q/q %	0.0	1.1	1.0	0.2	0.3	0.2
	Annualized Q/q %	0.1	4.5	4.1	0.9	1.0	0.7
Personal consumption	Q/q %	0.4	1.0	0.6	0.2	0.5	0.4
Private housing investment	Q/q %	2.3	1.7	0.9	3.3	4.2	4.1
Private non-housing investment	Q/q %	-0.9	-0.9	1.0	0.1	1.3	0.8
Change in private inventories (contribution to real GDP growth)	Q/q % pts	-0.2	-0.1	-0.2	0.1	-0.0	0.0
Government consumption	Q/q %	0.8	0.6	0.9	0.2	0.5	0.5
Public investment	Q/q %	0.4	3.2	6.8	7.2	2.3	2.1
Exports of goods and services	Q/q %	-2.9	4.2	2.9	-0.7	0.4	0.4
Imports of goods and services	Q/q %	-1.9	1.1	1.8	2.4	3.5	3.5
Domestic demand (contribution to real GDP growth)	Q/q % pts	0.2	0.7	0.9	0.7	0.8	0.7
Foreign demand (contribution to real GDP growth)	Q/q % pts	-0.1	0.4	0.1	-0.5	-0.5	-0.5
Nominal GDP	Q/q %	0.1	0.7	1.0	0.1	0.4	0.3
	Annualized Q/q %	0.4	2.8	4.2	0.5	1.6	1.2
GDP deflator	Y/y %	-0.7	-1.0	-0.5	-0.4	-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 basis.

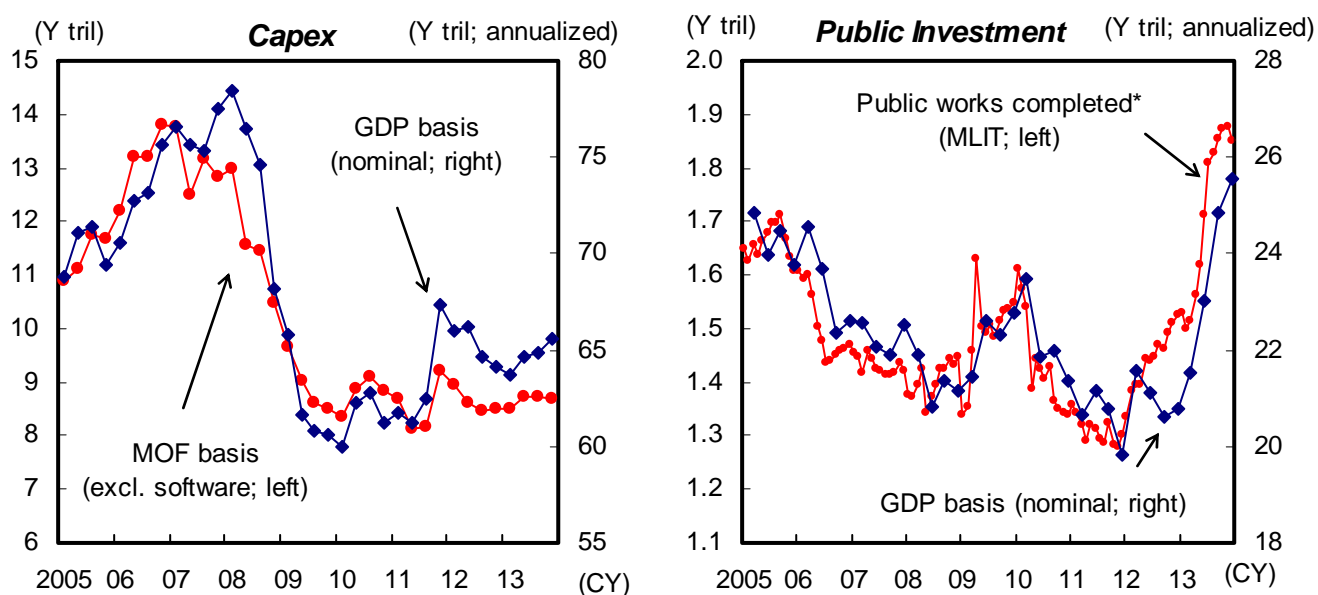
## Real GDP growth rate revised downward from first preliminary estimate

The real GDP growth rate for the Oct-Dec 2013 period (second preliminary estimate) was revised downward from the first preliminary estimate (+1.0% q/q annualized and +0.3% q/q) to +0.7% q/q annualized and +0.2% q/q. Figures were down somewhat below market consensus (+0.9% q/q annualized and +0.2% q/q), but there were no surprises. We thus maintain our view on the economy.

## Capex, public investment, and personal consumption revised downward

Revisions by demand component since the first preliminary estimate are as follows: capex saw a downgrade from the first preliminary estimate (from +1.3% q/q to +0.8%) reflecting Financial Statements Statistics of Corporations by Industry. Meanwhile, public sector fixed capital formation, which attracted differing views, was revised downward from the first preliminary estimate of +2.3% q/q to +2.1%. In addition, personal spending was also downgraded somewhat from +0.5% q/q on the first preliminary estimate to +0.4% on the second preliminary estimate, helping to push the GDP growth rate further downward. On the other hand, private sector inventories were revised slightly upward from the first preliminary estimate (q/q contribution to real GDP of -0.0% pt to +0.0% pt on the second preliminary) reflecting MOF statistics. As for the GDP deflator (+0.1% q/q), there was no change from the earlier report.

**Capex and Public Investment: GDP basis vs. Basic Statistics** Chart 2



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

\*Seasonally adjusted by DIR.

## Overall performance not bad, but recovery lags in corporate sector

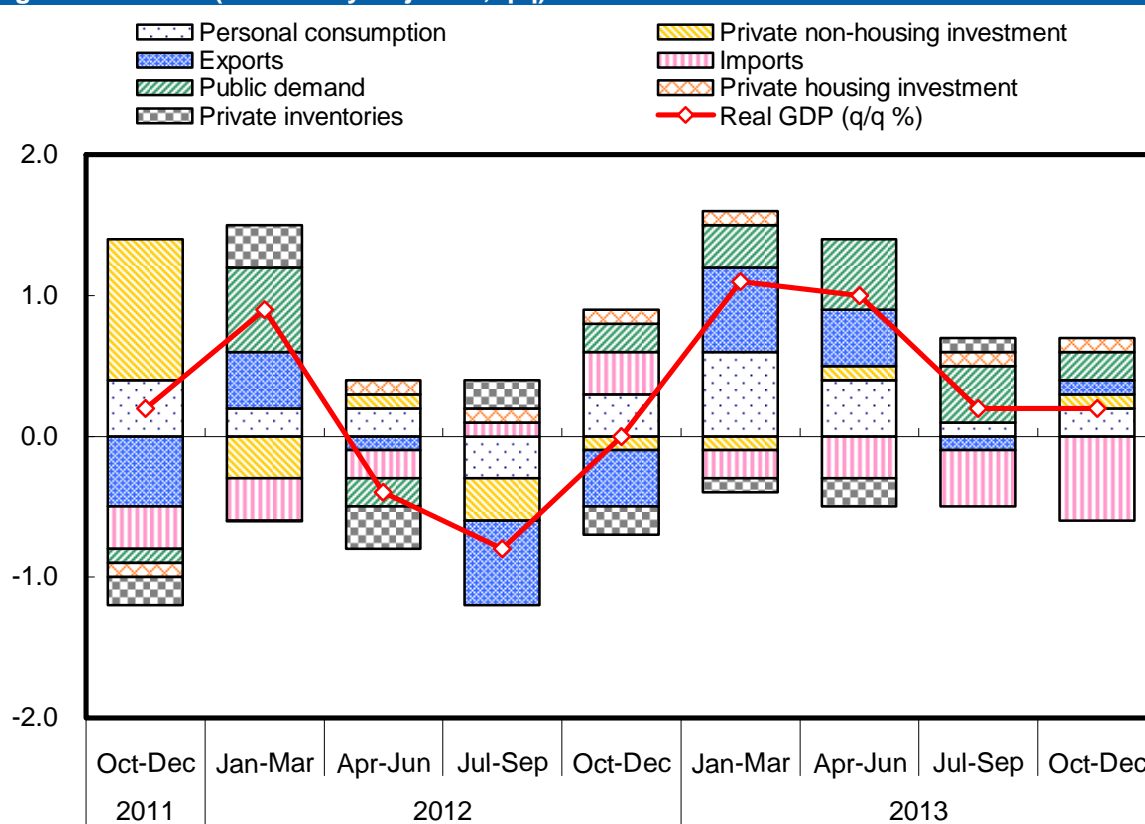
Contribution to real GDP growth from domestic and foreign demand sectors during the Oct-Dec 2013 period (q/q basis) was +0.7% pt for domestic demand (+0.8% pt on the first preliminary report) while foreign demand was down by 0.5% pt (unchanged from first preliminary). The contribution of foreign demand was down for the second consecutive quarter with only a slight amount of export growth coupled with major increases in imports due to growing domestic demand.

As for personal consumption, last minute demand has begun to rise to the surface, giving this sector its fifth consecutive quarter of growth. Growth in personal consumption has accelerated in comparison with the Jul-Sep period. Housing investment also reaped the benefits of last minute demand, giving this area its seventh consecutive quarter of growth, while households maintained robust performance. Meanwhile, public investment saw its growth rate slow somewhat, though government economic policy helped it to still achieve its fifth consecutive quarter of growth. The Japanese economy appears to be continuing to expand, pulled along by the household and public sectors

Meanwhile, capex grew for the third consecutive quarter, showing very gradual improvement. Exports grew for the first time in two quarters during the Oct-Dec period, but growth was slight. However, current results show all demand components with positive q/q growth, hence not bad at all in overall terms, but it is here where lagging recovery in the corporate sector has been confirmed.

Change in Real GDP (Seasonally Adjusted, q/q)

Chart 3



Source: Cabinet Office; compiled by DIR.

### Growth to accelerate in Jan-Mar 2014 due to last minute demand

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 spending. The Oct-Dec 2013 GDP figures are seen as having pushed the GDP numbers up a certain amount due to last minute demand in the area of housing investment and durable goods. Meanwhile, immediately before the upcoming tax hike, non-durables and semi-durables are 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

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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 equipment investment. This in turn should lead to an increase in wages, and could also lead to a recovery in the household sector. In conclusion, we believe that the Japanese economy will be back on the growth track by the period of Jul-Sep 2014.