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Jan-Mar 2014 First Preliminary GDP Estimate

High growth achieved due to last minute demand; growth rate same as during previous tax hike

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Summary

- The real GDP growth rate for Jan-Mar 2014 was up by 5.9% q/q annualized (+1.5% q/q), thereby achieving positive growth for the sixth consecutive quarter, while exceeding market consensus as well (up 4.2% q/q annualized and up 1.0% q/q). Domestic demand was up 1.7 percentage points due to major growth in personal consumption associated with last minute demand, bringing in positive contribution for the sixth quarter in a row.
- Performance by demand component shows personal consumption up 2.1% q/q, its sixth consecutive quarter of growth. Real compensation of employees fell for the third consecutive quarter with figures down by 0.3% q/q. Even so, personal consumption experienced growth associated with last minute demand prior to the consumption tax hike. The scale of last minute demand compared to the previous consumption tax hike in April, 1997 when personal consumption grew +2.1% q/q during the Jan-Mar period, is about the same when considering only a simple q/q rate of change.
- As for the outlook for the Japanese economy, the period of Apr-Jun 2014 is expected to see a decline in GDP for the first time in 7 quarters due to the reactionary decline occurring after last quarter's last minute demand. However, the effects of the reactionary decline are expected to hit bottom at the end of April and then begin easing up, supported by increases in base wages by some major corporations. Corporations in general are feeling pressured to raise wages due to the stringent supply and demand situation for labor. Therefore possibilities are good that personal consumption will enter a growth trend in q/q terms by the Jul-Sep quarter. Exports are expected to grow as overseas economies, led by the U.S., continue to expand, and as Japan improves its global competitiveness thanks to the weak yen. Increasing exports will lead to production growth and improved earnings, and this is expected to trigger more CAPEX. Hence we believe the Japanese economy will be back on the growth track by the Jul-Sep 2014 period.

Real GDP records positive growth for sixth consecutive quarter due to last minute demand

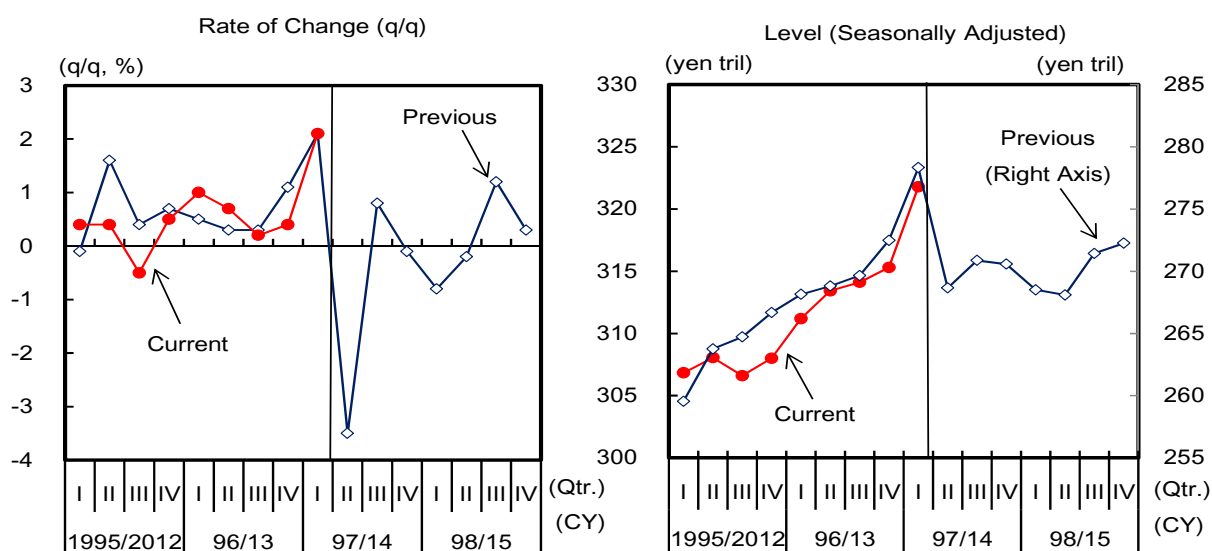
The real GDP growth rate for Jan-Mar 2014 was up by 5.9% q/q annualized (+1.5% q/q), thereby achieving positive growth for the sixth consecutive quarter, while exceeding market consensus as well (up 4.2% q/q annualized and up 1.0% q/q). Domestic demand was up 1.7 percentage points due to major growth in personal consumption associated with last minute demand, bringing in positive contribution for the sixth quarter in a row, while foreign demand fell for the third consecutive quarter by 0.3 percentage points q/q. While both imports and exports recorded growth, export growth was eclipsed by major growth in imports associated with expanding domestic demand.

The GDP deflator fell for the first time in two quarters, registering -0.2% q/q. However, looking more closely we see that the domestic demand deflator registered growth for the third consecutive quarter at +0.1% q/q, while the export deflator fell by -0.9% q/q and the import deflator rose by +0.7%. This was the reason for the drop in the GDP deflator. On a y/y basis the GDP deflator was at 0.0%, thereby leaving behind the minus range for the first time in 18 quarters. Nominal GDP was up 5.1% on an annual basis (+1.2% q/q), registering growth for the sixth consecutive quarter.

Trends by demand component: Last minute demand boosts personal consumption

Performance by demand component shows personal consumption up 2.1% q/q, its sixth consecutive quarter of growth. Real compensation of employees fell for the third consecutive quarter with figures down by 0.3% q/q. Even so, personal consumption experienced growth associated with last minute demand prior to the consumption tax hike. Personal consumption by type of goods was as follows. Durables recorded major growth at +13.7% q/q, pushing up figures for personal consumption overall. This is thought to be due mainly to certain goods, such as home electronics and automobiles, which experienced last minute demand. Meanwhile, both semi-durables (+6.4% q/q) and non-durables (+1.3%) posted high growth due to last minute demand in March just before the consumption tax hike. The scale of last minute demand compared to the previous consumption tax hike in April, 1997 when personal consumption grew +2.1% q/q during the Jan-Mar period, is about the same when considering only a simple q/q rate of change.

Real Personal Consumption During Last Minute Demand: Comparison with Previous Tax Hike Chart 1



Source: Cabinet Office, compiled by DIR.

Housing investment grew for the eighth consecutive quarter by +3.1% q/q. Growth in housing starts peaked in Dec 2013 and have since been in a downtrend, but housing investment on a GDP basis, which is recorded on a progressive basis, continues to grow.

CAPEX grew for the fourth consecutive quarter by +4.9% q/q. The margin of growth was considerably larger than the previous period, with many positive factors which confirm the improvement in corporate willingness to carry out CAPEX. Growth in CAPEX is due to continued improvements in corporate earnings supported by the weak yen and favorable domestic demand. In addition, the increasing sense in the non-manufacturing industries that there was not enough CAPEX being carried out, and the gradual resolving of the manufacturing industry's sense that CAPEX was excessive, are also thought to have encouraged growth.

Public investment was down by 2.4% q/q, the first decline it has experience in five quarters. During the first half of FY 2013 public investment continued to grow in association with implementation of the FY 2012 supplementary budget, but it appears that the effects of that budget period are gradually wearing thin. While public investment remains at a high level, this shows that the extent to which it provides support for the economy has begun to wane.

Exports recorded growth of 6.0% q/q. Exports to Asia were weak, but exports of goods centering on the U.S. grew by +5.0% q/q. In addition, export of services also won major growth at +12.4%, thereby shoring up the overall numbers for export growth. Meanwhile, imports registered major growth due to accelerating domestic demand associated with last minute demand, bringing q/q growth of +6.3%. However, as a result of the major increase in imports, the extent of contribution from foreign demand (net exports) posted negative figures for the third quarter in a row, falling by 0.3 percentage points.

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Chart 2

		2013				2014
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Real GDP	Q/q %	1.2	0.9	0.3	0.1	1.5
	Annualized Q/q %	4.9	3.5	1.3	0.3	5.9
Personal consumption	Q/q %	1.0	0.7	0.2	0.4	2.1
Private housing investment	Q/q %	1.8	0.8	3.3	4.3	3.1
Private non-housing investment	Q/q %	-2.0	1.0	0.7	1.4	4.9
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.0	-0.3	0.1	-0.0	-0.2
Government consumption	Q/q %	0.9	0.7	0.2	0.3	0.1
Public investment	Q/q %	4.5	6.4	6.9	1.2	-2.4
Exports of goods and services	Q/q %	4.3	2.9	-0.7	0.5	6.0
Imports of goods and services	Q/q %	1.1	1.8	2.4	3.7	6.3
Domestic demand (contribution to real GDP growth)	Q/q % pts	0.8	0.7	0.8	0.6	1.7
Foreign demand (contribution to real GDP growth)	Q/q % pts	0.4	0.1	-0.5	-0.6	-0.3
Nominal GDP	Q/q %	0.8	0.9	0.2	0.2	1.2
	Annualized Q/q %	3.1	3.5	0.8	0.8	5.1
GDP deflator	Y/y %	-1.0	-0.6	-0.4	-0.4	0.0

Source: Cabinet Office; compiled by DIR.

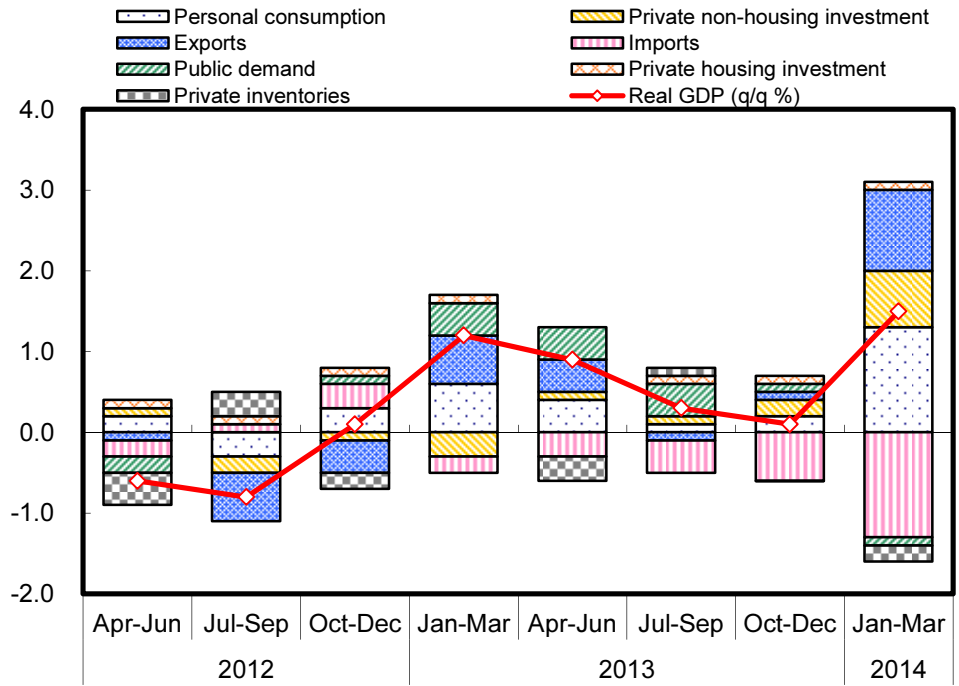
Note: Due to rounding, contributions do not necessarily conform to calculations based on figures shown.

Japanese economy back on growth track by Jul-Sep 2014 period

As for the outlook for the Japanese economy, the period of Apr-Jun 2014 is expected to see declines in personal consumption and housing investment for the first time in 7 quarters due to the reactionary decline occurring after last quarter's last minute demand. However, the effects of the reactionary decline are expected to hit bottom at the end of April and then begin easing up, supported by increases in base wages by major corporations feeling pressured to raise wages due to the stringent supply and demand situation for labor. Therefore possibilities are good that personal consumption will enter a growth trend in q/q terms by the Jul-Sep quarter. Exports are expected to grow as overseas economies, led by the U.S., continue to expand, and as Japan improves its global competitiveness thanks to the

weak yen. Increasing exports will lead to production growth and improved earnings, and this is expected to trigger more CAPEX. Hence we believe the Japanese economy will be back on the growth track by the Jul-Sep 2014 period.

Change in Real GDP **Chart 3**



Source: Cabinet Office; compiled by DIR.