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# Second Preliminary Estimate of 2Q 2012 GDP

## Capex/inventories downgraded but DIR economic outlook unchanged

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**Summary**

- In the second preliminary estimate of Apr-Jun (2Q) 2012 GDP (Cabinet Office), real GDP was downgraded to an annualized gain of 0.7% (up 0.2% q/q) from the first preliminary estimate (up 1.4%; up 0.3%), slightly short of the market consensus (up 1.0%; up 0.3%), mainly reflecting downgrades to capex and inventory investments. No surprises were seen in GDP components and our economic outlook remains unchanged.

- Capex was slightly downgraded to a gain of 1.4% q/q from the first preliminary estimate (up 1.5%) mirroring the fact that in *Financial Statements Statistics of Corporations by Industry for Apr-Jun* (Ministry of Finance; base statistics for capex in the GDP estimate) capex fell short of the projection made at the time of the first preliminary GDP estimate. However, the downgrade was relatively small, considering that capex posted negative q/q growth. The negative contribution of inventory investments to q/q growth in real GDP widened, reflecting lower q/q growth in work-in-process and inventories of raw materials/supplies in the statistics, compared to the projection made at the time of the first preliminary estimate.

- We believe Japan's economy will recover moderately supported by reconstruction demand related to the Great East Japan Earthquake. Meanwhile, we think overseas economies will gradually recover, supported by improvement in the US economy and Chinese and other emerging market economies, although EU economies will remain sluggish because of fiscal problems. However, Japan's imports of resources are likely to remain high, and net foreign demand (exports minus imports) will be slow to improve in terms of contribution to GDP growth. Hence, domestic demand is likely to support Japan's economy for the time being. At the same time, we should bear in mind four risks facing Japan's economy: (1) any deepening of the European sovereign debt crisis, (2) higher crude oil prices stemming from geopolitical risks, (3) further appreciation of the yen, and (4) the current account balance turning to a deficit in the future.

## Downgrade to real GDP growth

In the second preliminary estimate of Apr-Jun (2Q) 2012 GDP (Cabinet Office), real GDP was downgraded to an annualized gain of 0.7% (up 0.2% q/q) from the first preliminary estimate (up 1.4%; up 0.3%), slightly short of the market consensus (up 1.0%; up 0.3%), mainly reflecting downgrades to capex and inventory investments. The GDP deflator declined 0.9% y/y, upgraded from the first estimate (down 1.1%). In terms of contribution to q/q growth in real GDP, the positive contribution of domestic demand narrowed (from the first estimate of +0.4 points to +0.2) but made the fifth positive quarterly contribution in a row, while overseas demand remained flat (at -0.1), posting the first negative contribution in two quarters. Thus, conditions surrounding real GDP were unchanged from those in the first preliminary estimate, where domestic demand, centering on personal consumption and public works spending, supported GDP. At the same time, no surprises were seen in GDP components and our economic outlook remains unchanged.

## Capex and inventories downgraded

Capex was slightly downgraded to a gain of 1.4% q/q from the first preliminary estimate (up 1.5%) mirroring the fact that in *Financial Statements Statistics of Corporations by Industry for Apr-Jun* (released 3 Sep by the Ministry of Finance; base statistics for capex in the GDP estimate), capex fell short of the projection made at the time of the first preliminary GDP estimate. The downgrade was relatively small, considering that capex posted negative q/q growth. However, capex was slow to recover and insufficient to drive the economy. Meanwhile, the negative contribution of inventory investments to q/q growth in real GDP widened (from the first estimate of -0.0 point to -0.2 points), reflecting low q/q growth in work-in-process and inventories of raw materials/supplies in the statistics, compared to the projection made at the time of the first preliminary estimate. In contrast, fixed public capital formation saw a minor upgrade (from the first estimate of up 1.7% q/q to up 1.8%), mirroring June comprehensive construction statistics (Ministry of Land, Infrastructure, Transport and Tourism; base statistics for GDP estimate; available only in Japanese). While growth slowed from the previous quarter, fixed public capital formation remained firm, reflecting post-disaster construction projects, and posted the second consecutive quarterly gain. Other GDP components did not see any significant revisions.

## Japan’s economy to recover moderately but domestic and foreign risks remain

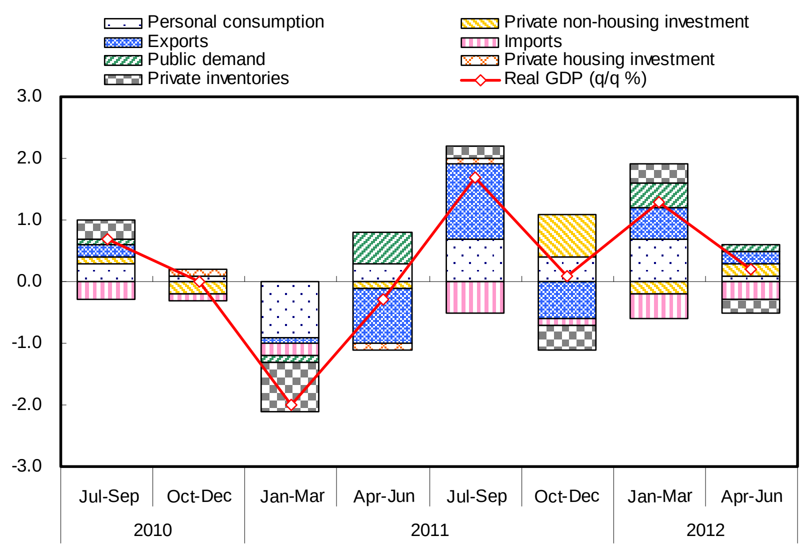
We believe Japan’s economy will recover moderately supported by reconstruction demand related to the Great East Japan Earthquake in March 2011. Meanwhile, we think overseas economies will gradually recover supported by the US economy and Chinese and other emerging market economies, although EU economies will remain sluggish because of fiscal problems. However, Japan’s imports of resources are likely to remain high, and thus net foreign demand (exports minus imports) will be slow to improve in terms of contribution to GDP growth. Hence, domestic demand is likely to support Japan’s economy for the time being. At the same time, we should bear in mind four risks facing Japan’s economy: (1) any deepening of the European sovereign debt crisis, (2) higher crude oil prices stemming from geopolitical risks, (3) further appreciation of the yen, and (4) the current account balance turning to a deficit in the future. Among the above risks, the first warrants close attention, as the European sovereign debt crisis will have the largest tail risk for Japan’s economy.

## Second Preliminary Apr-Jun 2012 GDP (chain linked) — Chart 1

| | | 2011 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Apr-Jun | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun | |
| | | | | | | First | Second |
| Real GDP | Q/q % | -0.3 | 1.7 | 0.1 | 1.3 | 0.3 | 0.2 |
| Annualized | Q/q % | -1.3 | 6.9 | 0.3 | 5.3 | 1.4 | 0.7 |
| Personal consumption | Q/q % | 0.6 | 1.1 | 0.7 | 1.2 | 0.1 | 0.1 |
| Private housing investment | Q/q % | -3.0 | 4.8 | 0.1 | -1.6 | 0.8 | 0.9 |
| Private non-housing investment | Q/q % | -0.9 | 0.3 | 5.5 | -1.6 | 1.5 | 1.4 |
| Change in private inventories (contribution to real GDP growth) | Q/q % pts | 0.0 | 0.2 | -0.4 | 0.3 | -0.0 | -0.2 |
| Government consumption | Q/q % | 0.6 | 0.2 | 0.4 | 1.1 | 0.3 | 0.2 |
| Public investment | Q/q % | 7.4 | -1.1 | -1.0 | 3.6 | 1.7 | 1.8 |
| Exports of goods and services | Q/q % | -5.8 | 7.8 | -3.6 | 3.4 | 1.2 | 1.2 |
| Imports of goods and services | Q/q % | 0.0 | 3.4 | 1.0 | 2.2 | 1.6 | 1.6 |
| Domestic demand (contribution to real GDP growth) | Q/q % pts | 0.6 | 1.0 | 0.8 | 1.2 | 0.4 | 0.2 |
| Foreign demand (contribution to real GDP growth) | Q/q % pts | -0.9 | 0.7 | -0.7 | 0.1 | -0.1 | -0.1 |
| Nominal GDP | Q/q % | -1.3 | 1.6 | -0.3 | 1.3 | -0.1 | -0.3 |
| Annualized | Q/q % | -5.1 | 6.4 | -1.1 | 5.5 | -0.6 | -1.0 |
| GDP deflator | Y/y % | -2.4 | -2.1 | -1.8 | -1.3 | -1.1 | -0.9 |

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 (q/q %; % pt) — Chart 2




Source: Cabinet Office; compiled by DIR.