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Jul-Sep 2012 First Preliminary GDP Estimate

First negative growth in three quarters, reflecting deterioration in domestic/overseas demand

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Summary

- The first preliminary estimate of Jul-Sep real GDP posted a slide of 0.9% q/q, annualized at –3.5%, the first negative growth in three quarters, almost on par with the market consensus (–0.9%; annualized at –3.6%). Domestic demand made a negative contribution to q/q GDP (–0.2% points). While public demand made a positive contribution (+0.3 points) due to higher public investment, private demand made a negative contribution (–0.4 points) due to lower personal consumption and capex. Overseas demand saw the second quarterly negative contribution in a row (–0.7 points) due to lower exports. Domestic and overseas demand worsened. Meanwhile, nominal GDP declined (–0.9% q/q; annualized at –3.6%) for the second consecutive quarter. The GDP deflator saw a minor q/q slide for the second consecutive quarter and a slide of 0.7% y/y, the 12th quarterly slide in a row and evidence that a deflationary trend continues.

- In the September Indexes of Business Conditions report (Cabinet Office) the economy was accessed as “signaling a possible turning point,” but this is very likely to be downgraded to “worsening” in the October report meaning that Japan’s economy appears to have entered a recession. Indeed, following the first negative growth in three quarters in Jul-Sep, real GDP is likely to face negative growth in Oct-Dec. Automobile sales will probably remain at a low level for the time being and continue to pull down personal consumption in Oct-Dec as was the case in Jul-Sep. In addition, reflecting the persistent deterioration of corporate earnings due to sluggish exports, conditions surrounding household income will likely continue to be harsh and place downward pressure on personal consumption and housing investment. Meanwhile, it will be some time before exports return to a full-fledged recovery because the EU economy is anticipated to remain stagnant, although the Chinese economy is showing signs of bottoming out. Thus, Japan’s economy is not likely to see a full-fledged recovery before 2013 when Japan’s exports are expected to prompt a course to recovery.

First Negative Growth in Three Quarters

The first preliminary estimate of Jul-Sep real GDP posted a slide of 0.9% q/q, annualized at –3.5%, the first negative growth in three quarters and almost on par with the market consensus (–0.9%; annualized at –3.6%). Domestic demand made a negative contribution to q/q GDP growth (–0.2% points)—while public demand made a positive contribution (+0.3 points), reflecting increases in public investment, private demand made a negative contribution (–0.4 points) due to lower personal consumption and capex. Overseas demand saw the second quarterly negative contribution in a row (–0.7 points) due to lower exports. Both domestic and overseas demand worsened. Meanwhile, nominal GDP declined (–0.9% q/q; annualized at –3.6%) for the second consecutive quarter. The GDP deflator saw a minor q/q slide (almost flat) for the second consecutive quarter and a slide of 0.7% y/y, the 12th quarterly slide in a row and evidence that a deflationary trend continues.

Increase in Public Demand vs. Declines in Private and Overseas Demand

Personal consumption declined 0.5% q/q, the second consecutive quarterly slide. After the 21 September application deadline for eco-car subsidies, domestic automobile sales plunged, which is responsible for lower personal consumption. Spending on durable goods declined 2.1%, the third consecutive quarterly slide. While that on semi-durable goods increased 0.3%, the gain was limited, compared to a slide seen in Apr-Jun. Spending on non-durable goods saw a dip of 1.0% and that on services a fall of 0.1%. All in all, personal consumption was weak, even excluding spending on durable goods. Meanwhile, real employee compensation maintains a recovery trend, increasing for the second quarter in a row (up 0.4%), indicating that worsening of consumer confidence likely pulled down personal spending.

Capex declined 3.2% q/q, the first slide in two quarters. Lower production due to sluggish exports resulted in lower capacity utilization rates for manufacturing industries, intensifying a feeling of excess production capacity, centering on manufacturing industries. At the same time, forex has been stable though the yen is strong. Such a situation is likely to dampen investment sentiment and companies will probably restrain or postpone investment.

Housing investment increased 0.9% q/q, the second consecutive gain and maintaining a moderate recovery, perhaps reflecting housing reconstruction in areas affected by the 2011 earthquake/tsunami.

Public fixed capital formation increased 4.0%, the third consecutive quarterly gain. Public investment has persistently increased since the start of 2012, reflecting the full-fledged progress of reconstruction projects. Public investment supported GDP when private and overseas demand declined.

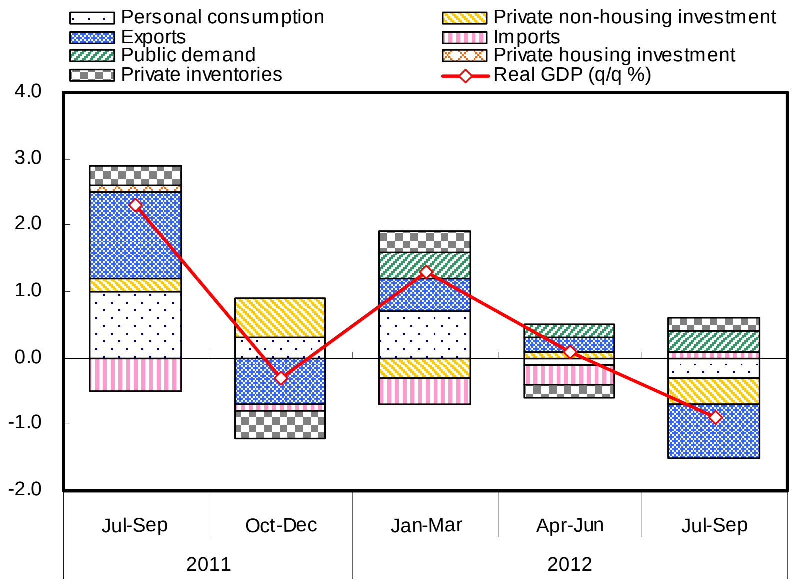
Exports declined 5.0% q/q, the first slide in three quarters. In addition to consistent slides in shipments to the EU (where economic slowdown continues) and China and other Asian trading partners, exports have also declined to the US. Meanwhile, after remaining at a high level owing to demand for fuel for power generation (as a substitute for nuclear power), imports declined 0.3% in Jul-Sep for the first time in five quarters, reflecting sluggish domestic demand. However, the plunge in exports was unable to be offset by the slide in imports, pulling down GDP growth substantially with a negative contribution of 0.7% points.

First Preliminary Jul-Sep 2012 GDP (chain linked) **Chart 1**

		2011		2012		
		Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep
Real GDP	Q/q %	2.3	-0.3	1.3	0.1	-0.9
Annualized	Q/q %	9.5	-1.2	5.2	0.3	-3.5
Personal consumption	Q/q %	1.6	0.5	1.2	-0.1	-0.5
Private housing investment	Q/q %	4.2	-0.1	-1.1	1.5	0.9
Private non-housing investment	Q/q %	1.3	5.0	-1.9	0.9	-3.2
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.3	-0.4	0.3	-0.2	0.2
Government consumption	Q/q %	0.4	0.3	1.1	0.5	0.3
Public investment	Q/q %	-2.6	-0.5	4.2	2.6	4.0
Exports of goods and services	Q/q %	8.8	-4.3	3.3	1.3	-5.0
Imports of goods and services	Q/q %	3.6	0.9	2.2	1.8	-0.3
Domestic demand (contribution to real GDP growth)	Q/q % pts	1.5	0.5	1.1	0.2	-0.2
Foreign demand (contribution to real GDP growth)	Q/q % pts	0.8	-0.8	0.1	-0.1	-0.7
Nominal GDP	Q/q %	2.1	-0.6	1.4	-0.3	-0.9
Annualized	Q/q %	8.5	-2.4	5.6	-1.3	-3.6
GDP deflator	Y/y %	-2.1	-1.8	-1.3	-0.9	-0.7

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.

Economy Likely to Have Entered Downturn; Recovery Unlikely Before 2013

In the September Indexes of Business Conditions report (released 6 Nov by the Cabinet Office) the economy was accessed as “signaling a possible turning point,” but this is very likely to be downgraded to “worsening” in the October report, meaning that Japan’s economy appears to have entered a recession. Indeed, following the first negative growth in three quarters in Jul-Sep, real GDP is likely to face negative growth again in Oct-Dec. Automobile sales will probably remain at a low level for the time being and continue to pull down personal consumption in Oct-Dec as was the case in Jul-Sep. In addition, reflecting the persistent deterioration of corporate earnings due to sluggish exports, conditions surrounding household income will likely continue to be harsh and place downward pressure on personal consumption and housing investment. Meanwhile, it will be some time before exports return to a full-fledged recovery because the EU economy is anticipated to remain stagnant, although the Chinese economy is showing signs of bottoming out. Thus, the economy is not likely to see a full-fledged recovery before 2013 when exports are expected to prompt a course to recovery.