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# Second Preliminary Estimate of 3Q 2012 GDP

## Remained flat from first preliminary estimate

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### Summary

- In the second preliminary estimate of Jul-Sep (3Q) 2012 GDP (Cabinet Office), real GDP posted a slide of 0.9% q/q, annualized at -3.5%, slightly short of the market consensus (down 0.8%; down 3.3%) but remaining flat from the first preliminary estimate. In terms of contribution to q/q growth in real GDP, domestic demand made the first negative contribution in six quarters (-0.2 percentage points) and overseas demand the second negative contribution in a row (-0.7 points). Thus, conditions surrounding real GDP were unchanged from the first preliminary estimate—where private and overseas demand dragged down the economy, although public works spending supported it—and our economic outlook remains unchanged.
- By demand component, capex saw a minor upgrade from the first preliminary estimate (from down 3.2% q/q to down 3.0%), as capex posted a better figure in Financial Statements Statistics of Corporations by Industry for 3Q 2012 (Ministry of Finance; basic data for estimating GDP) than that assumed in the first preliminary estimate. Factoring in the same data, inventory investments also saw a minor upgrade (contribution to real GDP growth: from up 0.2 points to up 0.3 points). Meanwhile, public works spending saw a downgrade (from up 4.0% to up 1.5%), factoring in the synthetic construction indexes for September (Ministry of Land, Infrastructure, Transport and Tourism; basic data; available in Japanese). Thus, real GDP growth remained flat from the first preliminary estimate.
- Japan's business cycle is very likely to have peaked in March 2012 and entered a downturn. Our examination of past business cycles shows that the driver of the recovery phase has clearly changed from fiscal/monetary measures to exports since the 1990s. In the current economic cycle, the economy is very likely to break out of the bottom, accompanied by increased exports, reflecting a recovery in overseas economies, and we believe that Japan's economy will recover moderately driven by exports from 2013 onward.

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## Upgrade in capex, inventory investments vs. downgrade in public works spending

By demand component, capex saw a minor upgrade from the first preliminary estimate (from down 3.2% q/q to down 3.0%), as capex posted a better figure in *Financial Statements Statistics of Corporations by Industry* for 3Q 2012 (Ministry of Finance; basic statistics for estimating GDP) than that assumed in the first preliminary estimate. Factoring in the same statistics, inventory investments also saw a minor upgrade (contribution to real GDP growth: from up 0.2 points to up 0.3 points). Personal consumption saw a minor upgrade as well (from down 0.5% to down 0.4%). In contrast, public works spending saw a downgrade (from up 4.0% to up 1.5%), factoring in the synthetic construction indexes for September (Ministry of Land, Infrastructure, Transport and Tourism; basic statistics for estimating GDP; available in Japanese). Thus, real GDP growth remained flat from the first preliminary estimate. Meanwhile, the GDP deflator declined 0.8% y/y, downgraded from the first estimate (down 0.7%).

## Capex upgraded in revised FY11 estimate

Along with the second preliminary estimate of 3Q 2012 GDP, the annual revision of FY11 GDP was released from the CAO and the FY10 GDP was retroactively revised. In the revised estimate of FY11, real GDP saw an upgrade from the preliminary estimate (from down 0.0% y/y to up 0.3%). A major factor behind the upgrade was a substantial upgrade in capex (from up 1.1% to up 4.1%). Meanwhile, public works spending saw a significant downgrade (from up 2.9% to down 2.3%), meaning that materialization of reconstruction demand was slower than that assumed in the preliminary FY11 estimate. Factoring in the annual revision, the carryover to FY12 in terms of real GDP growth widened from +1.4% to +1.7%.

## Japan's economy to recover driven by exports from 2013

Japan's business cycle is very likely to have peaked in March 2012 and entered a downturn. Our examination of past business cycles shows that the driver of the recovery phase has clearly changed from fiscal/monetary measures to exports since the 1990s. In the current economic cycle, the economy is very likely to break out of the bottom, accompanied by increased exports, reflecting a recovery in overseas economies. We believe that Japan's economy will recover moderately driven by exports from 2013 onward.

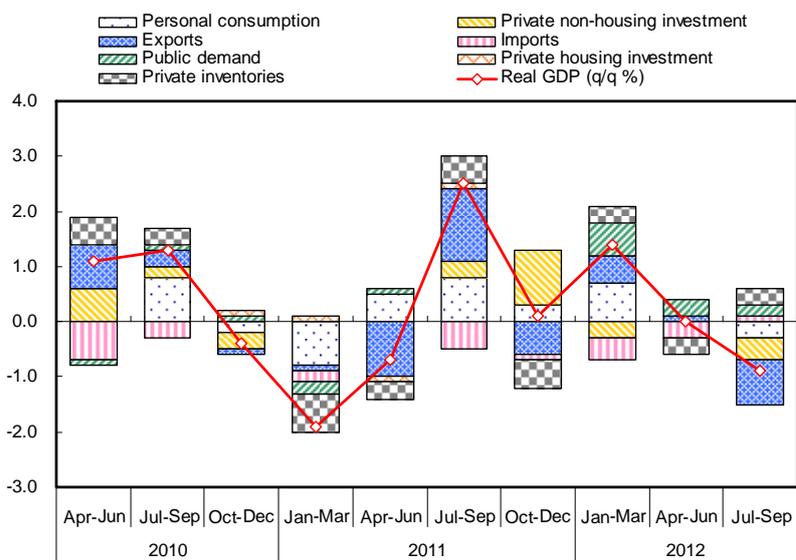
**Second Preliminary Jul-Sep 2012 GDP (chain linked) Chart 1**

		2011		2012		Jul-Sep	
		Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	First	Second
		Q/q %	Q/q %				
Real GDP	Annualized	2.5	0.1	1.4	-0.0	-0.9	-0.9
		10.4	0.3	5.7	-0.1	-3.5	-3.5
Personal consumption	Q/q %	1.4	0.5	1.1	0.1	-0.5	-0.4
Private housing investment	Q/q %	4.2	-0.1	-1.1	1.5	0.9	0.9
Private non-housing investment	Q/q %	2.2	7.3	-2.4	0.1	-3.2	-3.0
Change in private inventories (contribution to real GDP growth)	Q/q % pts	0.5	-0.5	0.3	-0.3	0.2	0.3
Government consumption	Q/q %	0.1	0.5	1.4	0.5	0.3	0.6
Public investment	Q/q %	-1.7	-1.3	7.8	5.4	4.0	1.5
Exports of goods and services	Q/q %	8.8	-3.8	3.3	0.8	-5.0	-5.1
Imports of goods and services	Q/q %	3.5	1.0	2.4	1.8	-0.3	-0.4
Domestic demand (contribution to real GDP growth)	Q/q % pts	1.7	0.8	1.3	0.1	-0.2	-0.2
Foreign demand (contribution to real GDP growth)	Q/q % pts	0.8	-0.7	0.1	-0.2	-0.7	-0.7
Nominal GDP	Annualized	2.3	-0.3	1.5	-0.5	-0.9	-0.9
		9.5	-1.1	6.0	-1.8	-3.6	-3.6
GDP deflator	Y/y %	-1.9	-1.6	-1.1	-1.0	-0.7	-0.8

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.