

【Fundamentals Navigator】

Japan Jul-Sep preliminary GDP estimate: Real GDP rebounds annualized 21.4% QoQ

(original Japanese report issued on November 16, 2020)

Goods exports and consumption revive, pandemic measures buoy government spending

Real GDP (preliminary estimate) rebounded 5.0% or an annualized 21.4% QoQ in 3Q 2020 in a comeback from the previous quarter's 28.8% drop. Personal consumption was up 4.7%. Services spending was hurt by the impact of the summer's widening pandemic on the amusement/leisure and dining sectors, but spending on durable goods improved thanks to the government's special fixed-benefit payouts. Growth was also buoyed by a notable increase in government spending on pandemic-related stimulus measures. GDP benefited from both a rise in overseas demand due to soaring goods exports, led by automobiles, and a falloff in goods imports with the fading effect of 2Q's special demand. While the renewed rise in infections is a concern, we retain our view that the economy should continue to recover throughout 2H FY20.

(1) Overview: Real GDP (preliminary estimate) rebounded 5.0% or an annualized 21.4% QoQ in 3Q 2020 in a comeback from the 28.8% slump in pandemic-hit 2Q. This was the first positive reading in four quarters and the strongest gain since a 5.7% rise in 4Q 1968. The economic level remains 3.6% below 1Q 2020.

(2) Consumer spending: Consumption was up 4.7% (2Q: -8.1%), ending a three-quarter decline. A sharp recovery in June after the lifting of the state of emergency has been followed by a steady comeback in subsequent months. Domestic household final consumption data before inbound/outbound adjustments reveal a solid improvement of 4.0% in durable goods (-5.1%). Air conditioners and such enjoyed a robust rise, helped by the government's special fixed-benefit payouts. Other goods and services also turned upward, but the recovery from 2Q's depleted levels remained lackluster. Services grew 6.6% (-12.1%) as medical spending returned to pre-pandemic levels, but concern over the summer's widening pandemic curbed the comeback in the amusement/leisure and dining sectors. Semi-durable goods were up 1.5% (-3.9%) and nondurable goods up 2.1% (-4.0%) as growth retreated in game equipment, books and masks, which had attracted high demand amid the pandemic.

(3) Other domestic demand: Government spending rose 2.2% for the quarter (2Q: -0.4%), the highest growth since a 4.4% gain in 4Q 1986. This probably owed to boosts from an upturn in medical spending and pandemic-related stimulus measures funded by budget reserves. Public-sector demand, including a 0.4% increase in government investment (+1.2%), raised real GDP by 0.5ppt.

Preliminary results

(Market forecasts from Bloomberg)

- (1) Real GDP: +5.0% QoQ
+21.4% annualized
(Market forecasts: +4.4 QoQ
+18.9% annualized)
- (2) Domestic demand:
+2.1ppt QoQ contribution
Net exports:
+2.9ppt QoQ contribution
- (3) Nominal GDP: +5.2% QoQ

Note: Second preliminary GDP figures slated for release on 8 Dec

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Capex fell 3.4% (-4.5%) in a second straight drop as companies remain wary of investment amid pandemic fears. Housing investment also slid 7.9% (-0.5%).

(4) Net exports: Net exports contributed a net 2.9ppt to real GDP (2Q: -3.3ppt). Exports increased 7.0% (-17.4%). Services continued to slide with an 8.1% decrease (-11.3%), but goods exports posted a powerful 11.0% comeback (-18.8%), led by automobiles. The 9.8% downturn in imports (+2.2%) also bolstered GDP. Goods imports shrank 9.2% (+2.1%) with the retreat in special demand for certain goods such as masks.

(5) Outlook: We expect sustained positive growth throughout the remainder of the fiscal year, albeit slower than 3Q 2020. While the renewed rise in coronavirus infections in Japan and abroad is a concern, we believe spending on amusement/leisure services will continue to expand, underpinned by policy support, and expect goods exports to remain steady.

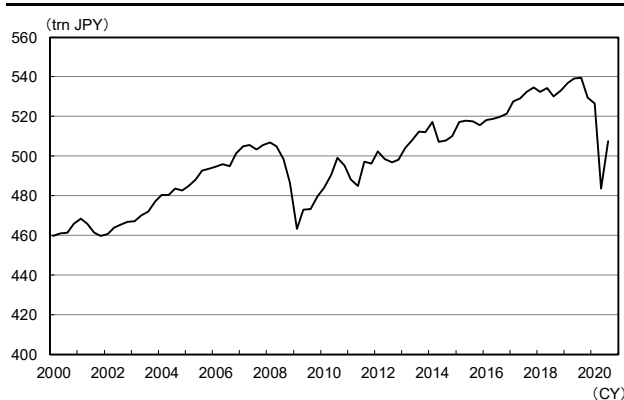
Figure 1. GDP growth, contribution by demand item

	(QoQ%, ppt unless otherwise noted)					
	19/4-6	7-9	10-12	20/1-3	4-6	7-9
Real GDP	0.4	0.0	▲ 1.8	▲ 0.6	▲ 8.2	5.0
(SAAR)	1.6	0.2	▲ 7.1	▲ 2.3	▲ 28.8	21.4
(YoY%)	0.9	1.7	▲ 0.7	▲ 1.8	▲ 10.2	▲ 5.8
Domestic Demand	(0.7)	(0.3)	(▲ 2.3)	(▲ 0.3)	(▲ 4.9)	(2.1)
Private Demand	(0.4)	(0.1)	(▲ 2.4)	(▲ 0.3)	(▲ 4.8)	(1.5)
Private Consumption	0.5	0.4	▲ 2.9	▲ 0.7	▲ 8.1	4.7
Residential Investment	▲ 0.2	1.3	▲ 2.3	▲ 4.0	▲ 0.5	▲ 7.9
Non-residential Investment	0.8	0.2	▲ 4.8	1.7	▲ 4.5	▲ 3.4
Change in Stocks	(0.0)	(▲ 0.2)	(0.0)	(▲ 0.1)	(0.3)	(▲ 0.2)
Public Demand	(0.3)	(0.2)	(0.1)	(▲ 0.0)	(▲ 0.0)	(0.5)
Government Consumption	1.0	0.9	0.3	0.0	▲ 0.4	2.2
Public Investment	1.5	0.8	0.7	▲ 0.3	1.2	0.4
Net Exports	(▲ 0.3)	(▲ 0.2)	(0.5)	(▲ 0.2)	(▲ 3.3)	(2.9)
Exports of Goods & Services	0.1	▲ 0.6	0.4	▲ 5.3	▲ 17.4	7.0
Imports of Goods & Services	1.8	0.7	▲ 2.4	▲ 4.1	2.2	▲ 9.8
Nominal GDP	0.5	0.4	▲ 1.5	▲ 0.4	▲ 7.8	5.2
(YoY%)	1.3	2.3	0.5	▲ 0.9	▲ 8.9	▲ 4.8
GDP Deflator (YoY%)	0.4	0.6	1.2	0.9	1.4	1.1
Domestic Demand Deflator (YoY%)	0.4	0.2	0.7	0.7	▲ 0.1	0.1

Note: Figures in parentheses indicate QoQ contribution to real GDP

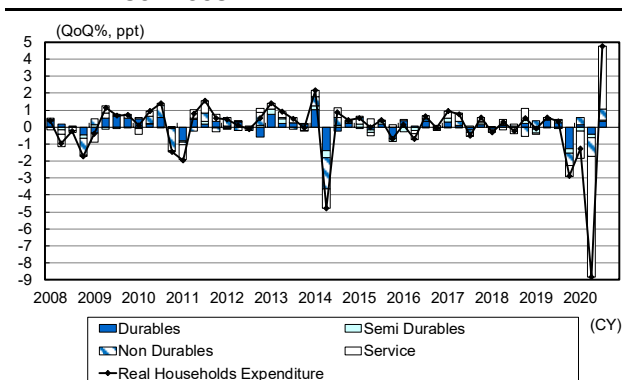
Source: MUMSS, from Cabinet office preliminary GDP data

Figure 2. Real GDP



Source: MUMSS, from Cabinet Office preliminary GDP data

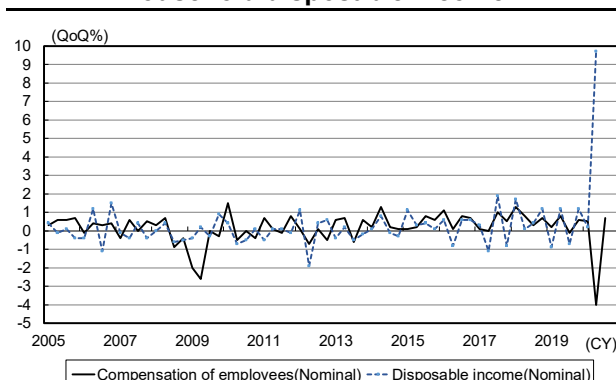
Figure 3. Personal consumption by goods and services



Note: Domestic household consumption expenditures (unadjusted for inbound/outbound) and QoQ contribution

Source: MUMSS, from Cabinet Office preliminary

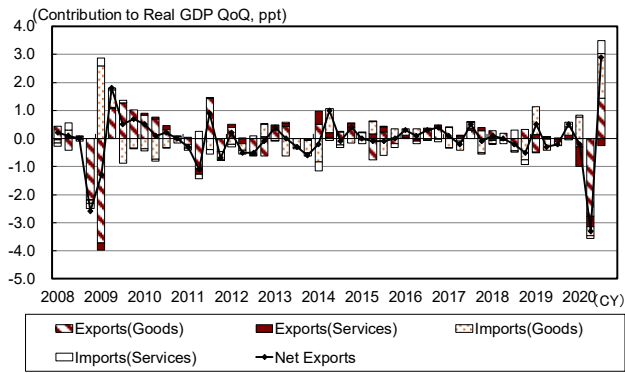
Figure 4. Employment compensation and household disposable income



Note: Latest figures for employment compensation for Jul-Sep 2020, household disposable income for Apr-Jun 2020.

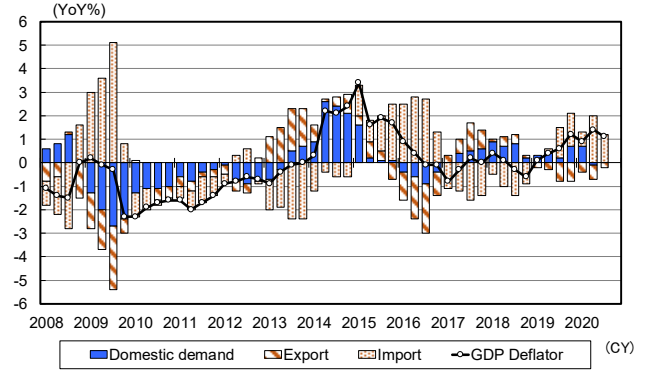
Source: MUMSS, from Cabinet Office preliminary

Figure 5. Imports/exports by goods and services



Note: Growth in imports depresses overall GDP growth
Source: MUMSS, from Cabinet Office preliminary GDP data

Figure 6. GDP deflator



Source: MUMSS, from Cabinet Office preliminary GDP data

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Appendix A

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