

【Fundamentals Navigator】

Japan Oct-Dec preliminary GDP estimate: Real GDP up 12.7% QoQ (annualized)

(original Japanese report issued on February 15, 2021)

Capex upturn spurs further double-digit p/a gain; 1Q to see brief decline

Real GDP (preliminary estimate) grew 3.0% or an annualized 12.7% QoQ in 4Q 2020, another double-digit gain after the previous quarter's 22.7% rise. Despite a year-end slump in dining and travel, personal consumption over the quarter was buoyed by the effects of the Go To travel subsidies and robust durable goods spending. The strong growth was helped as well by the upturn in capex after a two-quarter correction. We expect personal consumption to decline in 1Q 2021 due to lower dining and travel expenditures under the state of emergency, dragging growth downward, but the falloff should be brief. The continued favorable outlook for capex should ensure a renewed recovery starting in 2Q.

(1) Overview: Real GDP (preliminary estimate) grew 3.0% or an annualized 12.7% QoQ in 4Q 2020, another double-digit gain after the previous quarter's annualized 22.7% rise. The economy was back to just 0.5% below 1Q 2020 levels. Real GDP sank 4.8% YoY for the whole of 2020, the first negative year since a 5.7% downturn in 2009.

(2) Consumer spending: Personal consumption rose 2.2% QoQ in 4Q (3Q: +5.1%) for a second straight gain. Employee compensation (macro wages adjusted for changes in employee numbers) was hurt by the falloff in year-end bonuses, but spending increased on durable goods and services. Domestic household final consumption data prior to inbound/outbound adjustment show durable goods growth reaching 9.2% (+6.4%) thanks to autos and smartphones. Services consumption was up 3.0% (+7.4%). Despite a year-end slump in dining and travel, growth for the quarter was buoyed by the effects of the Go To travel campaign, which was expanded nationwide in October. At the same time, non-durable goods fell 0.5% (+2.0%), and semi-durable goods such as clothing remained weak with a 2.0% decline (-1.3%).

(3) Other domestic demand: Capex improved 4.5% (3Q: -2.4%) for the first upturn in three quarters on a recovery in machinery and software investment. Public demand was driven by continued high growth in government consumption at 2.0% (+2.8%) thanks to the enhanced Go To travel scheme (subsidies are posted as government consumption). Public works were up 1.3% (+0.9%) for a sixth successive rise due to infrastructure reinforcement and disaster reconstruction work.

(4) Net exports: Net exports boosted real GDP QoQ growth by 1.0ppt (3Q: +2.6ppt). Exports climbed 11.1%, with goods exports up 12.8% (+11.0%) for a second double-digit gain thanks to strong capital goods demand, while services, though slow amid a continued dearth of inbound demand, reverted to positive growth for the first time in four quarters at 3.6% (-6.0%). Imports rose 4.1%, with goods imports improving 6.3% (-8.5%) on a comeback in domestic demand.

Preliminary results

(Market forecasts from Bloomberg)

- (1) Real GDP: +3.0% QoQ
+12.7% annualized
(Market forecasts: +2.4 QoQ
+10.1% annualized)
- (2) Domestic demand:
+2.0ppt QoQ contribution
Net exports:
+1.0ppt QoQ contribution
- (3) Nominal GDP: +2.5% QoQ

Note: Second preliminary GDP figures slated for release on 9 Mar

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(5) GDP deflator: The GDP deflator slowed to 0.2% YoY (3Q: +1.2%). The fading impact of the October 2019 consumption tax hike reduced the figure by 0.8ppt.

(6) Outlook: We believe at this stage that 1Q 2021 growth will be roughly unchanged QoQ. We do not expect a downturn in personal consumption on the scale of April-May last year, as the negative impact of travel and dining spending under the state of emergency should be countered by steady goods spending. We also anticipate a sustained comeback in capex with the improvement in earnings and retreat in uncertainties. We forecast a renewed gradual recovery in the economy starting in 2Q. One downward risk would be a more serious or prolonged shortage of semiconductors.

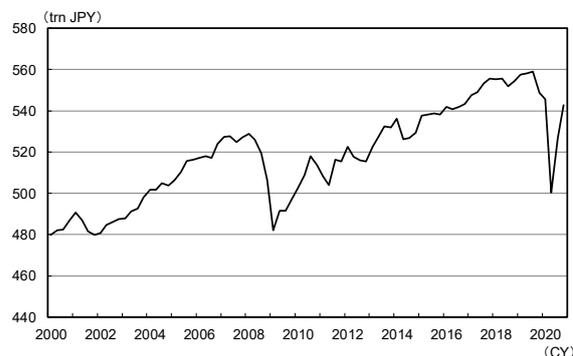
Figure 1. GDP growth, contribution by demand item

	(QoQ% ppt unless otherwise noted)						(YoY ppt)
	7-9	10-12	20/1-3	4-6	7-9	10-12	CY2020
Real GDP	0.2	▲ 1.8	▲ 0.6	▲ 8.3	5.3	3.0	▲ 4.8
(SAAR)	0.7	▲ 7.1	▲ 2.2	▲ 29.3	22.7	12.7	-
(YoY%)	1.3	▲ 1.1	▲ 2.0	▲ 10.3	▲ 5.8	▲ 1.2	-
Domestic Demand	(0.4)	(▲ 2.5)	(▲ 0.2)	(▲ 5.2)	(2.6)	(2.0)	(▲ 3.8)
Private Demand	(0.2)	(▲ 2.6)	(▲ 0.1)	(▲ 5.4)	(1.9)	(1.5)	(▲ 4.6)
Private Consumption	0.5	▲ 3.1	▲ 0.6	▲ 8.4	5.1	2.2	▲ 5.9
Residential Investment	0.0	▲ 1.9	▲ 3.7	0.5	▲ 5.7	0.1	▲ 7.1
Non-residential Investment	0.9	▲ 4.5	1.4	▲ 5.9	▲ 2.4	4.5	▲ 5.8
Change in Stocks	(▲ 0.2)	(▲ 0.1)	(0.1)	(0.1)	(▲ 0.2)	(▲ 0.4)	(▲ 0.1)
Public Demand	(0.2)	(0.1)	(▲ 0.0)	(0.2)	(0.7)	(0.5)	(0.7)
Government Consumption	0.8	0.4	▲ 0.3	0.2	2.8	2.0	2.7
Public Investment	1.5	0.6	0.1	2.2	0.9	1.3	3.5
Net Exports	(▲ 0.3)	(0.6)	(▲ 0.4)	(▲ 3.1)	(2.6)	(1.0)	(▲ 1.0)
Exports of Goods & Services	▲ 0.5	0.2	▲ 5.3	▲ 17.2	7.4	11.1	▲ 12.3
Imports of Goods & Services	0.9	▲ 3.2	▲ 3.1	1.3	▲ 8.2	4.1	▲ 6.8
Nominal GDP	0.3	▲ 1.2	▲ 0.5	▲ 8.0	5.5	2.5	▲ 3.9
(YoY%)	1.9	0.4	▲ 1.1	▲ 9.0	▲ 4.7	▲ 1.0	-
GDP Deflator (YoY%)	0.5	1.5	0.9	1.4	1.2	0.2	0.9
Domestic Demand Deflator (YoY%)	0.2	1.0	0.8	▲ 0.0	0.2	▲ 0.6	0.1

Note: Figures in parentheses indicate QoQ contribution to real GDP

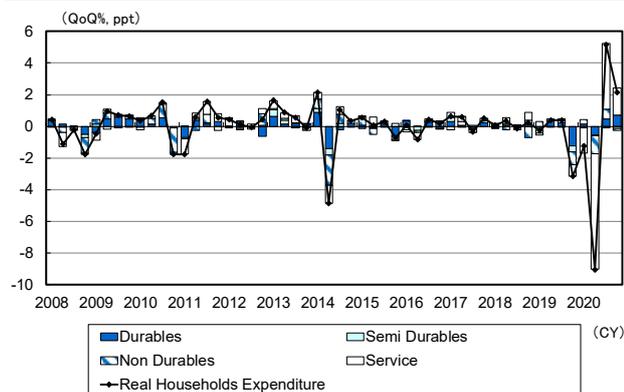
Source: MUMSS, from Cabinet office preliminary GDP data

Figure 2. Real GDP



Source: MUMSS, from Cabinet Office preliminary GDP data

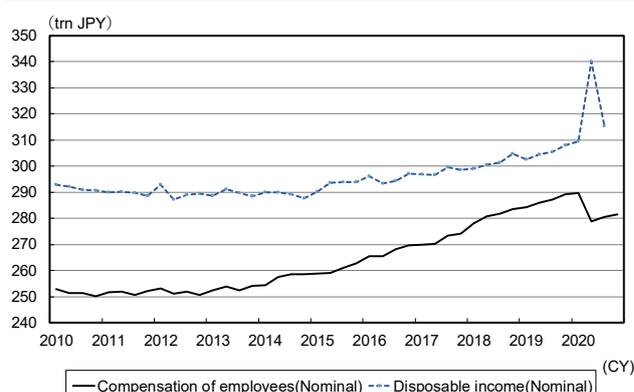
Figure 3. Personal consumption by goods and services



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

Source: MUMSS, from Cabinet Office preliminary GDP data

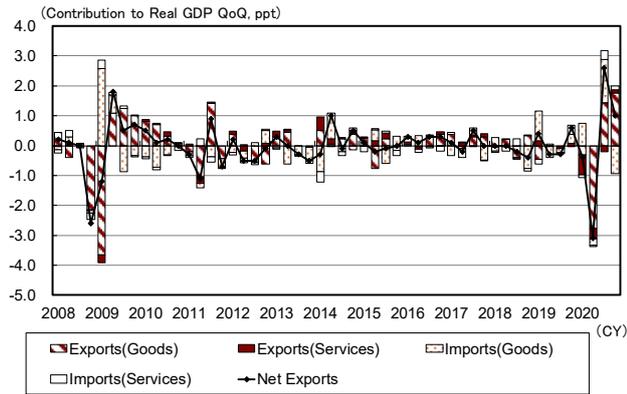
Figure 4. Employment compensation and household disposable income



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

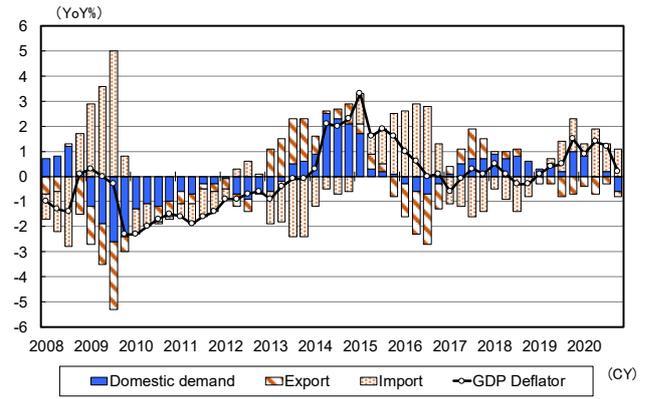
Source: MUMSS, from Cabinet Office preliminary GDP data

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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