

【Fundamentals Navigator】

Japan Apr- Jun preliminary GDP estimate: Key items rally for first rise in two quarters

(original Japanese report issued on August 16, 2021)

Consumption buoyed by new phone charges, could stagnate in 3Q due to pandemic; capex remains on rise

Real GDP (preliminary) rose 0.3% (annualized +1.3%) QoQ in 2Q 2021, returning to growth after a one-quarter decline. Major items all turned up. Personal consumption gained 0.8% as low prices reflecting cuts to mobile phone charges raised real telecom spending. Capex was supported by steady goods exports, and manufacturer machinery investment remained firm. Government spending benefited from the full-on start of vaccinations. We expect continued positive GDP growth in 3Q. Goods exports and capex should continue to recover, but consumption looks to be weak with new coronavirus cases now exceeding 10,000 per day. We think services spending will rebound in 2H FY21 as pandemic restrictions are scaled back, but that timing could be delayed.

(1) Overview: Real GDP was up after a one-quarter decline on a rebound in key items that had fallen the preceding quarter. The level was still 0.9% below the pre-pandemic 1Q 2020.

(2) Consumer spending: First rise in two quarters. Domestic final demand prior to adjustment for inbound/outbound spending showed services up a firm 1.5% QoQ (1Q: -2.2%). Travel, dining and other in-person services were listless amid the third state of emergency, but telecom spending was up on a real basis following the sharp drop in mobile phone charges in reflection of new pricing plans (services consumption deflator: -1.3%), contributing to the unexpectedly high GDP rise. Durable goods experienced a dull recovery due to sluggish automobile growth.

(3) Other domestic demand: Government spending turned back upward QoQ after the 1Q drop thanks to the full-on start of vaccinations. Capex also returned to the plus column for the first time in two quarters on steady growth in machinery and software investment by manufacturers. Overseas demand again hurt overall growth as an accelerated increase in vaccine imports resulted in goods imports outpacing growth in goods exports.

(4) GDP deflator: The YoY decline accelerated. While investment was higher, rising commodity prices pushed the import deflator (deduction item) up by an eight-year high of 14.5% YoY. Gross domestic income (GDI), which shows purchasing power adjusted by changes in terms of trade, fell 0.1% QoQ for a second straight decrease on the rise in import prices.

(5) Outlook: Goods exports and capex should ensure continued positive GDP growth in 3Q, but in-person services and other personal consumption look to stagnate. We expect services spending to recover in 2H FY21, but that timing could be delayed depending on the progress in vaccinations.

Preliminary results

(Market forecasts from Bloomberg)

- (1) Real GDP: +0.3% QoQ
+1.3% annualized
(Market forecasts: +0.1% QoQ
+0.5% annualized)
- (2) Domestic demand:
+0.6ppt QoQ contribution
Net exports:
-0.3ppt QoQ contribution
- (3) Nominal GDP: +0.1% QoQ

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

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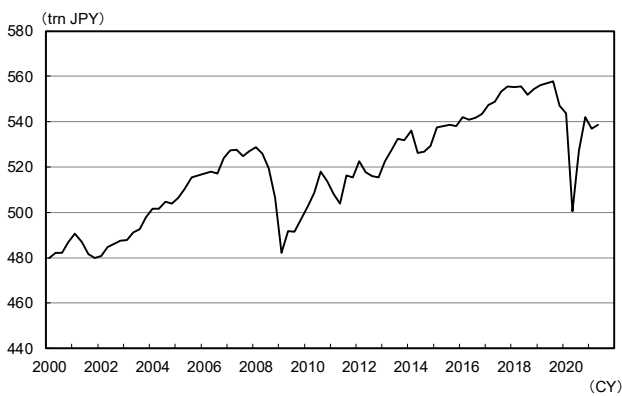
Figure 1. GDP growth, contribution by demand item

	20/1-3	4-6	7-9	10-12	21/1-3	4-6
Real GDP	-0.6	-7.9	5.3	2.8	-0.9	0.3
(SAAR)	-2.3	-28.2	22.8	11.9	-3.7	1.3
(YoY%)	-2.1	-10.1	-5.6	-1.0	-1.3	7.5
Domestic Demand	(-0.3)	(-5.1)	(-2.6)	(-1.8)	(-0.7)	(-0.6)
Private Demand	(-0.2)	(-5.4)	(-2.0)	(-1.4)	(-0.3)	(-0.6)
Private Consumption	-0.8	-8.3	5.1	2.3	-1.0	0.8
Residential Investment	-3.7	0.6	-5.7	0.0	0.9	2.1
Non-residential Investment	1.1	-6.0	-2.1	4.3	-1.3	1.7
Change in Stocks	(-0.2)	(-0.1)	(-0.2)	(-0.5)	(-0.4)	(-0.2)
Public Demand	(-0.1)	(-0.3)	(-0.7)	(-0.4)	(-0.4)	(0.0)
Government Consumption	-0.3	0.7	2.8	1.8	-1.7	0.5
Public Investment	0.1	2.9	0.7	1.0	-1.0	-1.5
Net Exports	(-0.3)	(-2.9)	(-2.6)	(1.0)	(-0.2)	(-0.3)
Exports of Goods & Services	-4.7	-17.5	7.3	11.7	2.4	2.9
Imports of Goods & Services	-3.0	-0.7	-8.2	4.8	4.0	5.1
Nominal GDP	-0.5	-7.6	5.4	2.3	-1.0	0.1
(YoY%)	-1.1	-8.9	-4.5	-0.8	-1.4	6.7
GDP Deflator (YoY%)	1.0	1.4	1.2	0.2	-0.1	-0.7
Domestic Demand Deflator (YoY%)	0.8	-0.1	0.1	-0.7	-0.4	0.6

Note: Figures in parentheses indicate QoQ contribution to real GDP

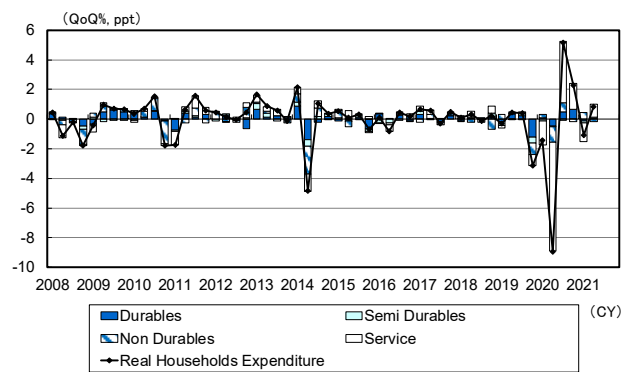
Source: MUMSS, from Cabinet office preliminary GDP data

Figure 2. Real GDP



Source: MUMSS, from Cabinet Office preliminary GDP data

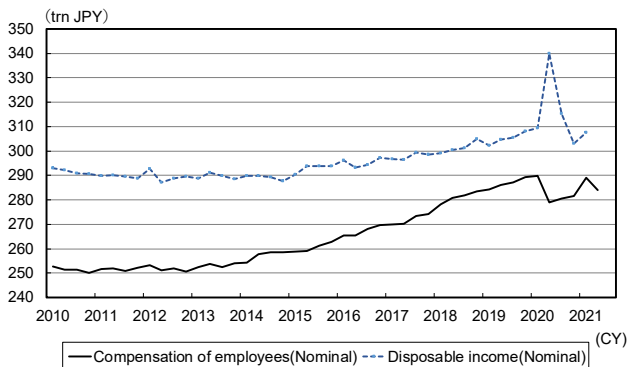
Figure 3. Personal consumption by goods and services



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

Source: MUMSS, from Cabinet Office preliminary GDP data

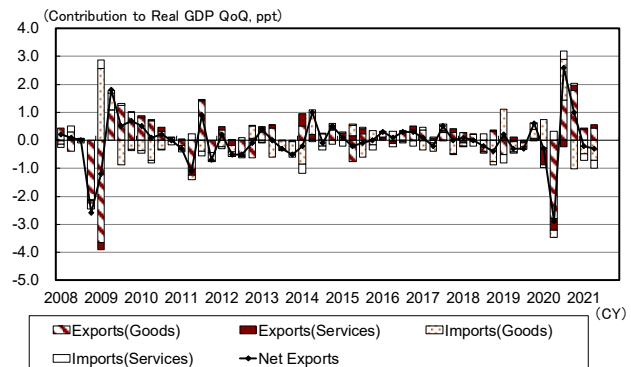
Figure 4. Employment compensation and household disposable income



Note: Latest figures for household disposable income for Jan-Mar 2021.

Source: MUMSS, from Cabinet Office preliminary GDP data

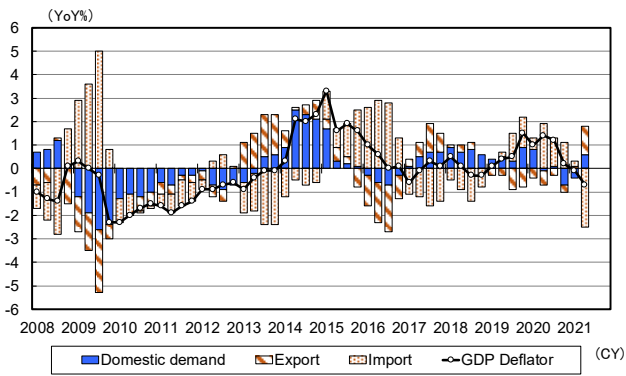
Figure 5. Imports/exports by goods and services



Note: Growth in imports depresses overall GDP growth

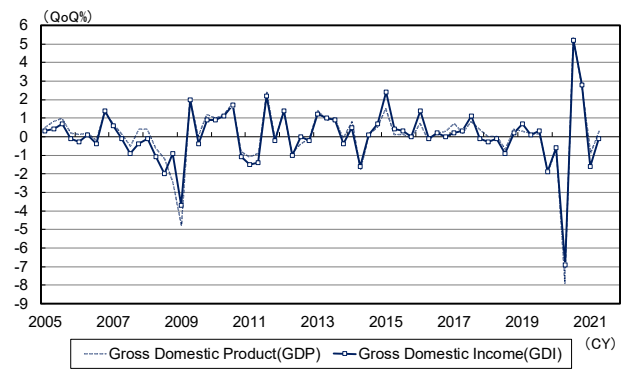
Source: MUMSS, from Cabinet Office preliminary GDP data

Figure 6. GDP deflator



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

Figure 7. Gross Domestic Income(GDI)



Source: MUMSS, from Cabinet Office preliminary GDP data

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Appendix A

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