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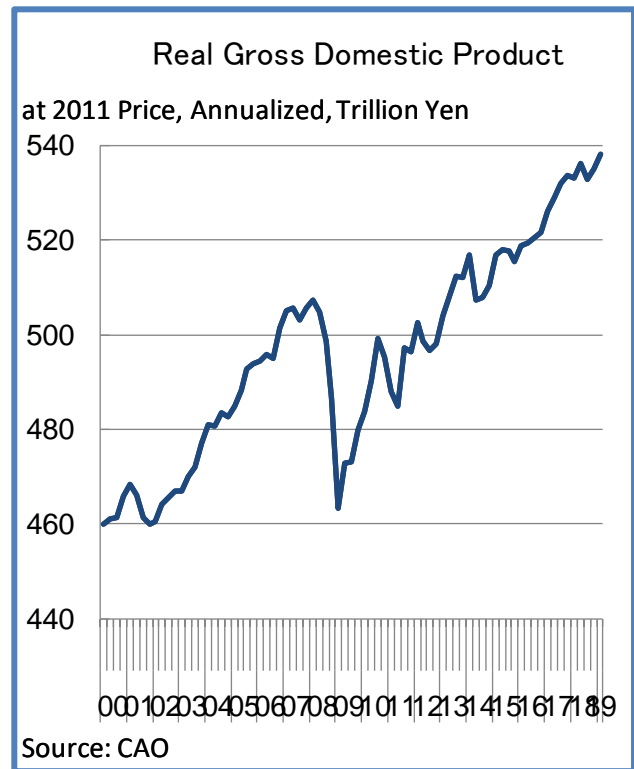
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GDP Maintains Positive Growth

Real GDP in the first quarter of 2019 grew by 0.6% (2.2% annualized) from the previous quarter, posting positive growth for two consecutive quarters. Looking at the contribution ratios to GDP growth, domestic demand stood at 0.1% and external demand at 0.4%, both positively contributing to the growth as a whole. However, many of the GDP demand items declined.

Private consumption* was down 0.1% from the previous quarter. This is partly attributable to the reactionary decline of car sales, which were strong in the previous quarter, and the sluggish sales of clothes due to warm winter. (*All subsequent references to GDP demand items are in real terms unless otherwise indicated.)

Private non-residential fixed investment rose by 0.3% from the previous quarter, growing for two consecutive quarters. According to the Financial Statements Statistics of Corporations, nominal non-residential fixed investment was up 2.8% from the previous quarter in the non-manufacturing industry (excluding financial and insurance sectors) while it was down 1.7% from the previous quarter in the manufacturing sector. As of June 2019, a Bank of Japan’s Short-Term Economic Survey of Enterprises in Japan (“Tankan” survey) shows that capital investment in all industries for fiscal 2019 is expected to grow 2.3% from the previous year.



	Real Gross Domestic Product (GDP)			
	2018	at 2011 Price, Calendar year		
		2018	2018	2019
	y/y%	7-9	10-12	1-3
		q/q%	q/q%	q/q%
Real Gross Domestic Product	0.8%	-0.6%	0.5%	0.6%
Private Consumption	0.4%	-0.3%	0.3%	-0.1%
Private Housing Investments	-5.8%	0.8%	1.4%	0.6%
Private Non-Resi. Fixed Investments	3.9%	-2.6%	2.7%	0.3%
Public Investments	-3.3%	-2.0%	-1.5%	1.2%
Government Consumption	0.8%	0.2%	0.7%	-0.1%
Exports of Goods & Services	3.3%	-2.0%	1.2%	-2.4%
(less) Imports of Goods & Services	3.4%	-1.0%	3.0%	-4.6%

Source: CAO

According to a survey by Teikoku Databank, demand will continue to be strong for facility renewal and automation technologies in fiscal 2019. On the other hand, some companies are cautious about making non-residential fixed investment due to uncertainty over the future, such as the slowdown of overseas economies.

Private housing investment was up 0.6% from the previous quarter, growing for three quarters in a row. However, new housing starts stood



at 942,000 units (annualized), down 1.4% from the previous quarter. There does not seem to have been many last-minute housing starts related to the consumption tax hike scheduled in October.

Exports of goods and services took a downward turn again, down 2.4% from the previous quarter. According to real exports calculated by the BOJ, exports of intermediate goods and information-related and capital goods-related exports significantly declined. In particular, exports to Asia including China were weak. Imports of goods and services declined by 4.6% from the previous quarter.

When it comes to public demand, public investment increased by 1.2% from the previous quarter, posting first positive growth in five quarters. Public investment is expected to remain strong going forward given that the fiscal 2018 second supplementary budget (2.7 trillion yen) was passed in February 2019 and that spending related to public works projects in the 2019 initial budget grew by 15.6% from the previous year, among other reasons. Meanwhile, government consumption declined by 0.1% from the previous quarter, recording the first negative growth in seven quarters.

The averages of forecasts by private economists of real GDP growth compiled by an ESP Forecast survey (June 2019) show that real GDP will grow year on year by 0.9% in 2019 and by 0.3% in 2020. In December 2018, the Cabinet Office officially acknowledged that the economic expansion phase that has continued since December 2012 became the second-longest economic boom in postwar Japan in September 2017, by exceeding the 57-month-long Izanagi boom during the high-growth period (from November 1965 to July 1970). At present, the government maintains a view that the current period of economic expansion, which became the longest in postwar Japan in January 2019, might have continued up until the present day. Modest recovery is expected to continue in the future, led by domestic demand which is supported by the further improvement of employment and income environments suggested by the unemployment rate of 2.4% on average in 2018, the lowest level in 26 years since 1992 at 2.2%.

Selected Economic Indicators

	Fiscal Year		2018			2019
	2017	2018	4-6	7-9	10-12	1-3
GDP at current prices (SAAR, Trillion Yen)	547.5	550.3	550.6	547.0	549.7	554.3
Real GDP at 2011 prices (SA, q/q%, Annualized)	1.9%	0.7%	2.3%	-2.6%	1.8%	2.2%
Industrial Production Index (SA, 2010=100)	103.5	103.8	104.3	103.6	105.0	102.4
Exports (SA, Trillion Yen)	79.2	80.7	20.5	20.4	20.3	19.5
Imports (SA, Trillion Yen)	76.8	82.3	20.2	20.9	21.3	19.8
Balance on Current Account (SA, Trillion Yen)	22.1	19.4	5.4	4.7	4.3	4.9
Corporate Bankruptcies	8,367	8,111	2,107	2,017	2,070	1,917
Unemployment Rate (SA, %)	2.7%	2.4%	2.4%	2.4%	2.4%	2.4%
Wage Index (SA, 2010=100)	101.4	102.3	102.4	102.2	102.9	101.1
Consumer Prices (y/y%)	0.7%	0.7%	0.6%	1.1%	0.9%	0.3%
Nikkei Stock Average	20,960	21,995	22,348	22,624	21,937	21,006
Japanese Government Bond Yields (%)	0.05	0.05	0.04	0.09	0.09	-0.02
Foreign Exchange Rate (Yen/ Dollar)	110.8	110.9	109.1	111.4	112.9	110.2

Note: SAAR means Seasonally Adjusted Annual Rate. SA means Seasonally Adjusted.

q/q% means %change from a quarter earlier. y/y% means %change from a year earlier.

Source: CAO, METI, MOF, Tokyo Shoko Research, MIC, MHLW, Nihon Keizai Shimbun, CEIC, BOJ

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