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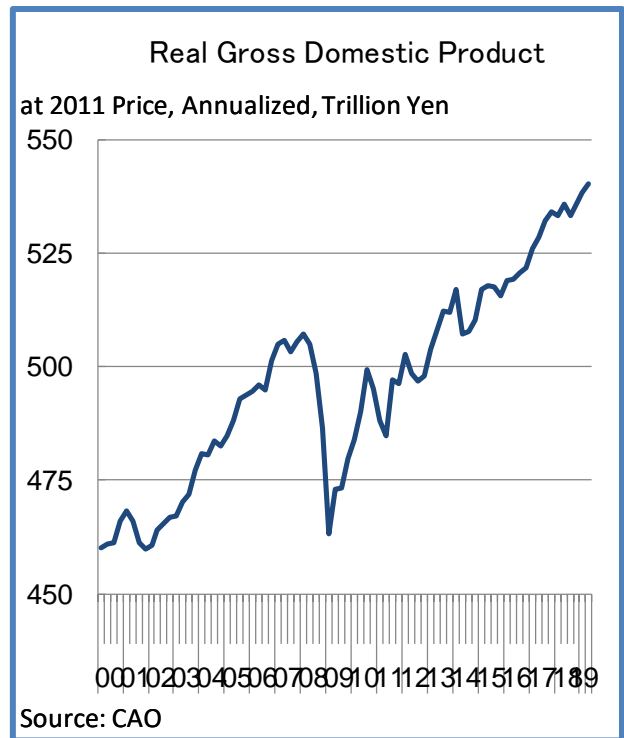
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Positive Growth for Three Straight Quarters

Real GDP in the second quarter of 2019 increased by 0.3% (1.3% annualized) on the previous quarter, meaning that there has been positive growth for three straight quarters. Domestic demand, such as private consumption* and public investment, was strong, and this contributed to real GDP growth of 0.6% pts. Meanwhile, external demand (net exports of goods and services) posted negative growth and reduced real GDP growth by 0.3% pts. Imports grew because domestic demand was relatively strong. (*All subsequent references to GDP demand items are in real terms, unless otherwise indicated.)

Private consumption rose by 0.6% on the previous quarter. Durable goods sold well. Releases of new car models had an impact on the increase in auto sales, and heat waves boosted the sales of air conditioners. Also, the Golden Week holidays encouraged people to spend more on accommodation, transportation, leisure, restaurants, and other services.

Private non-residential fixed investment grew by 0.2% on the previous quarter. According to the Financial Statements Statistics of Corporations, nominal investment was up by 4.7% on the previous quarter in the non-manufacturing industry (excluding the financial and insurance sectors) and down by 4.3% in the manufacturing industry, respectively. As for future prospects, the Bank of Japan's Short-Term Economic



Survey of Enterprises (“Tankan” survey), shows that, as of June 2019, capital investment for FY2019 are expected to grow by 2.3% in all industries on the previous year. According to a survey by Teikoku Databank, demands for equipment renewal, and for energy-saving and automation technologies for improving productivity, are expected to remain strong in FY2019. On the other hand, some companies, mainly in the manufacturing industry, are cautious about capital investment

Real Gross Domestic Product (GDP)

	at 2011 Price, Calendar year				
	2018	2018		2019	
		y/y%	10-12	1-3	4-6
Real Gross Domestic Product	0.8%	0.4%	0.5%	0.3%	
Private Consumption	0.3%	0.4%	-0.0%	0.6%	
Private Housing Investments	-5.8%	1.3%	0.8%	0.1%	
Private Non-Resi. Fixed Investments	3.9%	3.0%	-0.2%	0.2%	
Public Investments	-3.3%	-1.2%	1.5%	1.8%	
Government Consumption	0.8%	0.7%	-0.1%	1.2%	
Exports of Goods & Services	3.4%	1.2%	-2.0%	-0.0%	
(less) Imports of Goods & Services	3.4%	3.6%	-4.3%	1.7%	

Source: CAO



due to concerns over future uncertainties, such as the possible slowdown of overseas economies.

Private housing investment increased by 0.1% on the previous quarter, meaning that there has been positive growth for four consecutive quarters. However, the number of new housing starts reached 918,000 annually, which represents a 2.7% reduction on the previous quarter. This is mainly due to the decline in the number of housing starts available for rental. In addition, there were limited new housing starts that began with an eye on October's consumption tax hike.

Exports of goods and services remained almost unchanged as compared to the previous quarter. According to the real exports calculated by the Bank of Japan, exports of intermediate goods and information-related goods increased, while exports of automobile-related goods and capital goods declined. By region, exports to the United States grew, while those to the European Union declined. Imports of goods and services were up by 1.7% on the previous quarter.

Public investment was up 1.8% on the previous quarter, meaning that there has been growth for two quarters in a row. In the initial budget for fiscal 2019, spending related to public works projects increased by 15.6% on the previous year. For this and other reasons, public investment is expected to remain strong going forward. Government consumption rose by 1.2% on the previous quarter, the first increase in two quarters. The average forecasts by private economists of real GDP growth compiled by an ESP Forecast survey (September 2019) shows that real GDP will grow year on year by 0.8% in 2019, and by 0.2% in 2020. The consumption tax hike is believed to have put considerable negative pressure on the economy.

The government maintains the view that the current phase of economic expansion since December 2012 represented the longest growth period in postwar Japan in January 2019, and may still continue until today. The total unemployment rate remains at historically low levels. With employment and income environments improving, moderate recovery, which centers on domestic demand, is expected to continue in the future.

Selected Economic Indicators	Fiscal Year		2018		2019	
	2017	2018	7-9	10-12	1-3	4-6
GDP at current prices (SAAR, Trillion Yen)	547.5	550.4	547.3	549.7	554.9	556.5
Real GDP at 2011 prices (SA, q/q%, Annualized)	1.9%	0.7%	-1.9%	1.8%	2.2%	1.3%
Industrial Production Index (SA, 2010=100)	103.5	103.8	103.6	105.0	102.4	103.0
Exports (SA, Trillion Yen)	79.2	80.7	20.5	20.4	19.4	19.4
Imports (SA, Trillion Yen)	76.8	82.3	20.9	21.4	19.9	20.1
Balance on Current Account (SA, Trillion Yen)	22.2	19.2	4.7	4.3	4.7	4.8
Corporate Bankruptcies	8,367	8,111	2,017	2,070	1,917	2,074
Unemployment Rate (SA, %)	2.7%	2.4%	2.4%	2.4%	2.4%	2.4%
Wage Index (SA, 2010=100)	101.4	102.3	102.2	102.9	101.1	102.2
Consumer Prices (y/y%)	0.7%	0.7%	1.1%	0.9%	0.3%	0.8%
Nikkei Stock Average	20,960	21,995	22,624	21,937	21,006	21,417
Japanese Government Bond Yields (%)	0.05	0.05	0.09	0.09	-0.02	-0.08
Foreign Exchange Rate (Yen/ Dollar)	110.8	110.9	111.4	112.9	110.2	109.9

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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