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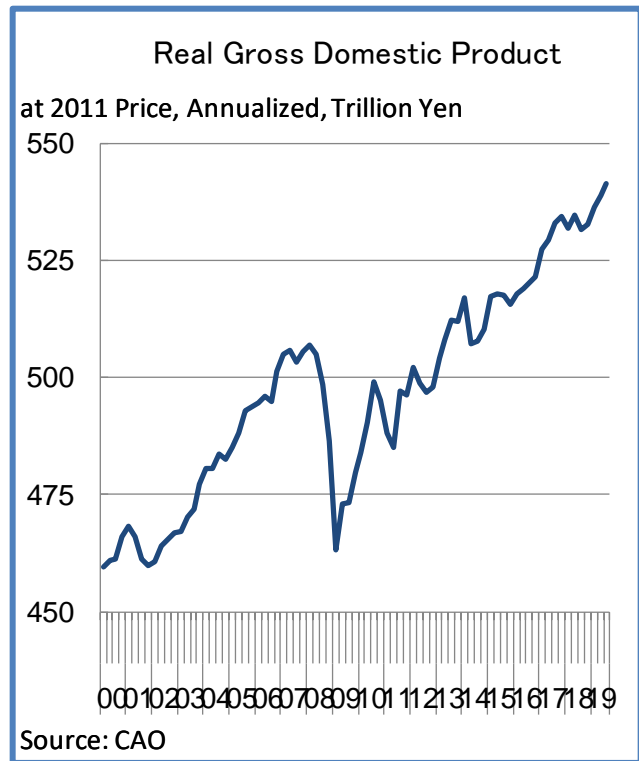
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Positive Growth for Four Straight Quarters

Real GDP in the third quarter of 2019 increased by 0.4% (1.8% annualized) from the previous quarter, recording positive growth for four straight quarters. Robust domestic demand, such as private consumption* and private non-residential fixed investment, contributed to pushing up real GDP by 0.6% pts. On the other hand, external demand (net exports of goods and services) reduced real GDP growth for two straight quarters in a row, due to the increase in imports against the backdrop of relatively strong domestic demand, among other reasons. (*All subsequent references to GDP demand items are in real terms unless otherwise indicated.)

Private consumption rose by 0.5% from the previous quarter. Partly due to the consumption tax hike that was slated for October, there were strong sales of durable goods such as TV sets and computers, and semi-durable goods such as clothing.

Private non-residential fixed investment recorded a quarterly growth of 1.8%, increasing for two straight quarters. According to the Financial Statements Statistics of Corporations, nominal investment was up 1.6% from the previous quarter in the manufacturing industry, while the non-manufacturing industry (excluding the



financial and insurance sectors) saw a quarter-on-quarter drop of 2%. When it comes to future prospects, the Bank of Japan's Short-Term Economic Survey of Enterprises ("Tankan" survey) shows that, as of December 2019, planned capital investment for FY2019 grew by 3.3% from the previous fiscal year in all industries. The Tankan survey found that current and future business confidence of corporations in both the manufacturing and non-

	Real Gross Domestic Product (GDP)			
	2018	at 2011 Price, Calendar year		
		2019		
	y/y%	1-3 q/q%	4-6 q/q%	7-9 q/q%
Real Gross Domestic Product	0.3%	0.6%	0.5%	0.4%
Private Consumption	-0.0%	0.2%	0.6%	0.5%
Private Housing Investments	-6.7%	1.1%	0.5%	1.6%
Private Non-Resi. Fixed Investments	2.1%	-0.2%	0.9%	1.8%
Public Investments	0.3%	2.0%	1.6%	0.9%
Government Consumption	0.9%	-0.3%	1.6%	0.7%
Exports of Goods & Services	3.4%	-2.1%	0.5%	-0.6%
(less) Imports of Goods & Services	3.4%	-4.1%	2.1%	0.3%

Source: CAO



manufacturing industries deteriorated. However, demand seems to remain robust for necessary investment such as energy-saving and automation technologies for increasing productivity, along with the demand for equipment renewal.

Private housing investment increased for five straight quarters by 1.6% from the previous quarter. However, the number of new housing starts was down 2.1% from the previous quarter to 899,000 annually. Housing starts for sale and rental both declined. New housing starts that began with an eye on October's consumption tax hike were limited, compared to the hike from 5% to 8% in April 2014.

Exports of goods and services fell by 0.6% from the previous quarter. According to real exports calculated by the Bank of Japan, automobile exports declined, while exports of intermediate goods, information-related goods, and capital goods increased. By region, exports to the United States fell, and those to the European Union and Asian countries increased. Imports of goods and services were up 0.3% from the previous quarter due to increasing imports of computers and other goods.

Looking at public demand, public investment increased for the third straight quarter by 0.9% from the previous quarter. On December 5, the Cabinet adopted the Comprehensive Economic Measures to Create a Future with Security and Growth, which earmarked 5.8 trillion yen for public works projects. For an official decision, we have to wait for the passage of the budget at the ordinary Diet session to be convened in January 2020. Public investment is expected to remain strong going forward. Meanwhile, government consumption rose by 0.7% from the previous quarter and grew for two consecutive quarters.

According to the average forecasts by private economists of real GDP growth compiled by an ESP Forecast survey (December 2019), real GDP will grow year on year by 1.0% in 2019 and 0.3% in 2020. If the negative effects of the consumption tax hike on personal consumption are prolonged, they are likely to put considerable downward pressure on the Japanese economy.

Selected Economic Indicators

	Fiscal Year		2018		2019	
	2017	2018	10-12	1-3	4-6	7-9
GDP at current prices (SAAR, Trillion Yen)	547.6	548.4	545.9	552.8	555.9	559.2
Real GDP at 2011 prices (SA, q/q%, Annualized)	1.9%	0.3%	1.0%	2.6%	2.0%	1.8%
Industrial Production Index (SA, 2010=100)	103.5	103.8	105.0	102.4	103.0	102.5
Exports (SA, Trillion Yen)	79.2	80.7	20.5	19.4	19.4	19.3
Imports (SA, Trillion Yen)	76.8	82.3	21.5	19.9	20.1	19.6
Balance on Current Account (SA, Trillion Yen)	22.2	19.2	4.3	4.7	4.9	4.9
Corporate Bankruptcies	8,367	8,110	2,070	1,916	2,074	2,182
Unemployment Rate (SA, %)	2.7%	2.4%	2.4%	2.4%	2.4%	2.3%
Wage Index (SA, 2010=100)	101.4	102.3	102.9	101.1	102.2	101.9
Consumer Prices (y/y%)	0.7%	0.7%	0.9%	0.3%	0.8%	0.3%
Nikkei Stock Average	20,960	21,995	21,937	21,006	21,417	21,264
Japanese Government Bond Yields (%)	0.05	0.05	0.09	-0.02	-0.08	-0.20
Foreign Exchange Rate (Yen/ Dollar)	110.8	110.9	112.9	110.2	109.9	107.3

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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