



Economics Group

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Weaker-Than-Expected Q4 for Japanese Economy

The worse-than-expected outturn for Japan is the latest indication that Abenomics is failing to deliver on its promise of economic growth and price stability.

Japanese GDP Disappoints Despite Low Expectations

Real GDP contracted at a 1.4 percent annualized rate in Japan during the final quarter of 2015. That put the full-year growth rate at just 0.5 percent for 2015 as a whole. On a sequential basis, real GDP growth has now been negative five times in the past nine periods. This raises doubts about the efficacy of the Bank of Japan's (BoJ) ¥80 trillion a year expansion of its monetary base. These numbers reflect fourth quarter figures so they do not yet capture the influence of the BoJ's new negative interest rate program which it introduced at the end of January.

Financial markets were braced for a decline, but the actual outturn was even worse than expected. Retail sales declined in two out of three months in the quarter, so it was little surprise that the largest negative in the report was consumer spending, which fell at an annualized rate of 3.3 percent. The drop in private consumption resulted in a 1.9 percentage point drag on headline growth.

Business spending increased at a scant 0.6 percent annualized clip, not enough to move the dial much for headline growth with a contribution of just 0.1 percent. Inventories grew, but did so at a slightly slower pace which resulted in a half a percentage point drag on headline growth.

The annualized rate of government spending at 2.1 percent was the fastest since 2013. Without that boost, the headline figure would have been even more negative.

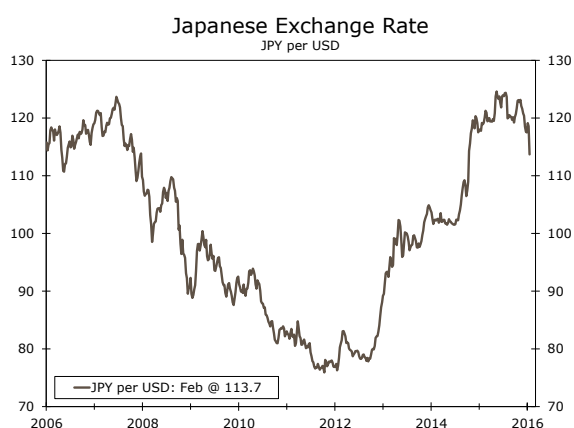
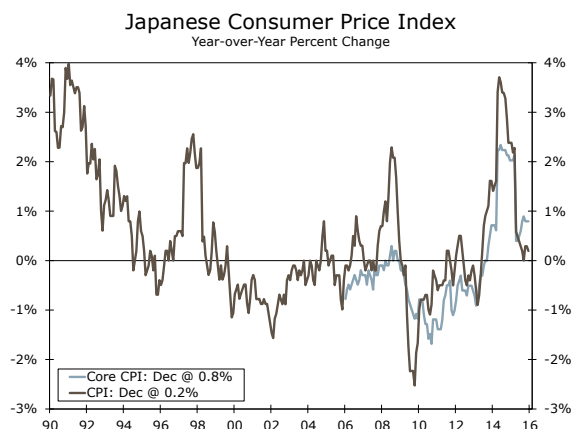
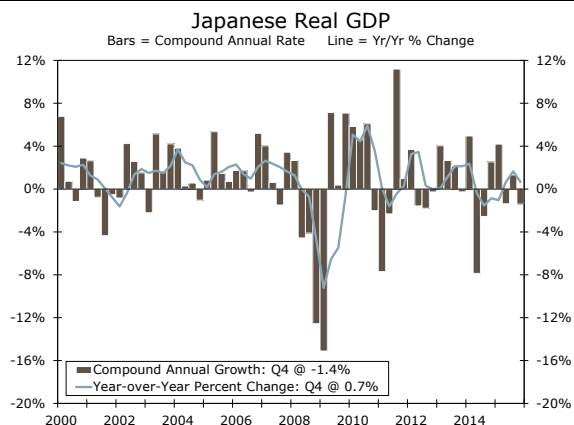
Net exports boosted the headline figure by another 0.3 percent, but take notice that this is more about arithmetic than strong trade dynamics. Exports fell at a 3.4 percent rate, but because imports fell at an even-faster 5.6 percent clip, the contribution from trade was a net positive.

Not Living Up to the Hype and Yen Strength

There were hopeful expectations in late 2012 and early 2013 when the combination of fiscal and monetary easing combined with structural reform was being introduced, that Japan could string together a few years of modest growth and throw off the yoke of chronic deflation.

After roughly three years, that new-car smell of Abenomics has worn off and the all-too-familiar Japanese problems of stagnant growth, flat prices and high government debt are settling back in.

Since the late January announcement of negative interest rates for new bank deposits, the yen has strengthened against the dollar to levels not seen since before the BoJ expanded the QQE program in October 2014. A strong yen is the last thing the BoJ wants to see as it makes the inflation target even harder to achieve while at the same time hurting the price competitiveness of Japanese-made goods overseas.



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