

Economics Group

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Business Sector to Blame in Latest Drop in Japanese GDP

A decline in business spending and inventory drag swamped positive contributions from consumer spending and net exports as Japanese GDP declined at a 0.8 percent annualized rate in Q3.

Inventories and Business Spending Drag Down the Economy

The Japanese economy contracted at an annualized rate of 0.8 percent in the third quarter. There is no such thing as a “good” decline in growth, but the underlying details were somewhat encouraging. Still, the optics of back-to-back declines in real GDP meet the threshold for one common guideline for recession, which bolsters the case for a faster pace of monetary base expansion for the Bank of Japan (BoJ), at least somewhat.

Consumer spending rebounded in the quarter, expanding at an annualized rate of 2.1 percent. That was the biggest increase in consumer spending in Japan since the first quarter of 2014 when Japanese consumers brought forward purchases ahead of the April 2014 increase in the consumption tax. Consumer spending was the largest positive driver of growth in the quarter, adding 1.2 percentage points to topline GDP growth.

The pickup in spending may have played a role in depleting inventories (which shaved 1.9 percentage points off headline GDP growth) as well as boosting imports (which increased at a 7.1 percent clip). Exports increased at an even faster rate of 10.9 percent, as a weak yen makes Japanese goods more affordable overseas, all else equal. Government spending nudged growth a bit higher as well.

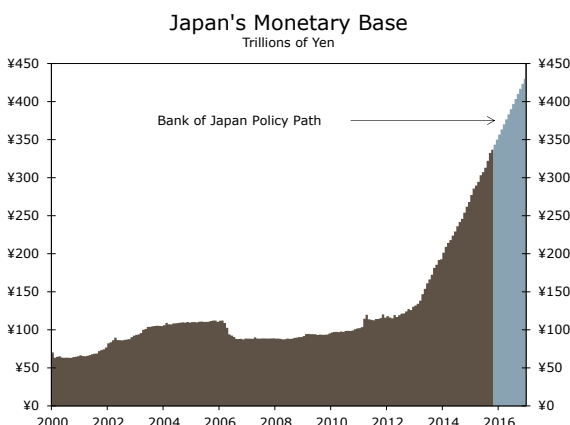
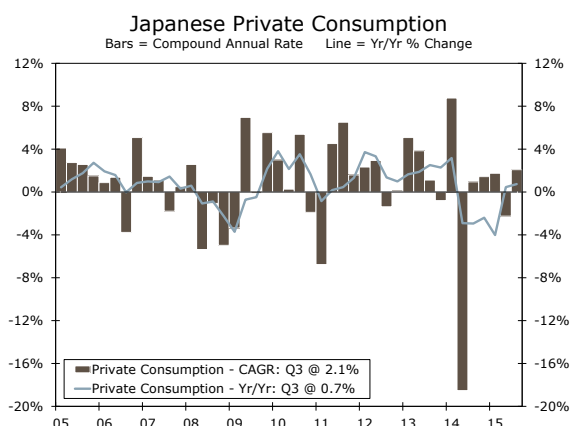
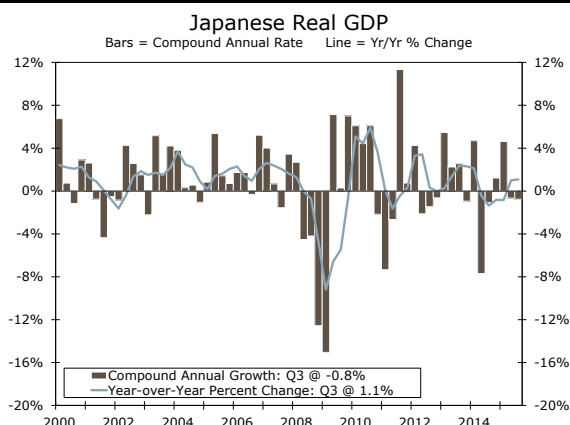
Positive contributions to GDP growth from faster consumer spending, increased net exports and a modest gain in government spending were swamped by the inventory drawdown and the decline in business spending, which together exerted a negative drag of 2.4 percentage points and pulled the headline growth rate into negative territory. Businesses remained concerned about the ongoing slowdown in China and implications for slower global growth.

Implications for BoJ and Outlook for the Future

In October, the BoJ opted not to expand the current pace of its quantitative and qualitative easing (QQE) program. In many other economies, consecutive quarterly contractions in GDP would elicit calls for swift central bank response. But stall-speed growth is de rigueur in Japan; since the start of 2011, Japan has had 10 quarterly declines in GDP growth and 9 quarters of growth.

We expect the ups and downs to continue with an increase in GDP in the current quarter, which is consistent with the latest forecast from the BoJ. While another increase in the pace of QQE cannot be ruled out at the BoJ's meeting this Thursday, today's disappointing GDP print has only a marginal influence.

There is potential for fiscal stimulus in 2016, but not much yet in the way of specific details. For full-year 2016, we expect little more than stall-speed growth of 0.9 percent and CPI inflation of about 0.8 percent.



Source: IHS Global Insight, Bank of Japan and Wells Fargo Securities, LLC

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