

Japanese GDP grows 0.2%QoQ in 3Q19

There is no evidence of front-loading of spending ahead of the October consumption tax hike, but does this mean we will not see any fall off afterwards?



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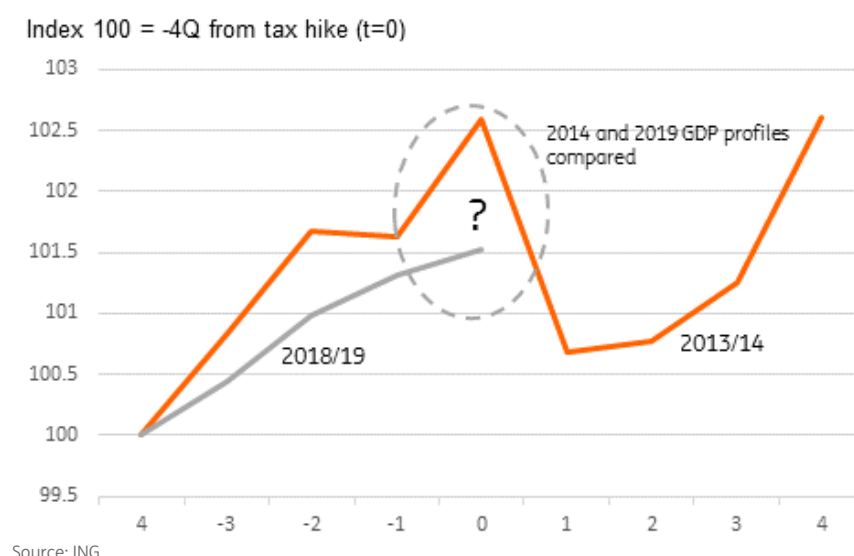
0.2%

3Q19 GDP

QoQ% annualised

Worse than expected

Where's the pre-tax spike?



Little evidence of front loading

In 1Q14, the last quarter ahead of the April 2014 consumption tax hike, GDP growth accelerated to 3.9%QoQ at an annualised rate, having registered -0.2% the previous quarter. The acceleration came from front-loading of spending ahead of the tax hike, on everything from cars to toilet rolls. There is no evidence of anything like this in 2019, ahead of the October consumption tax hike.

3Q19 GDP growth registered only 0.2%QoQ at an annualised rate. In other words, it barely grew at all on a strict quarter on quarter basis according to these preliminary, and admittedly prone-to-revision figures.

GDP components show abject weakness

Private consumer spending grew only 0.4%QoQ (seasonally adjusted annualised rate - saar). Business investment was a bit better at 0.9% on the same basis, but overall, domestic demand was exceptionally disappointing.

Admittedly, there was some drag from inventory destocking (-0.3pp) and net trade also took 0.2pp from the total. But neither of these facts make a material difference to what was clearly a very poor GDP figure.

The big question now is whether this weakness prevents a big drop off in 4Q19, as we saw in 2Q14 after all the front loading. Our first instinct is to say yes. Some drop off does seem probable, as households adjust to higher prices. But the overall profile may be somewhat flatter than we had expected. That may mean we don't have to do too much to our full-year 2019 1.2% GDP forecast - but a tentative re-working of the data assuming a small decline in 4Q19 puts the number closer to 1.0%.

Fiscal policy to the rescue?

Perhaps the clue to today's figures was the recent suggestion by PM Abe that there would be a fiscal stimulus package to help the economy through the rest of this year and through fiscal 2020.

From experience, such packages don't require any forecast response, as they usually mean that things are coming in worse than you had previously expected. And we can't expect any meaningful assistance on the growth front from the Bank of Japan, which despite protests to the contrary, is out of ammunition in our view.

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