

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?



Source: Shutterstock

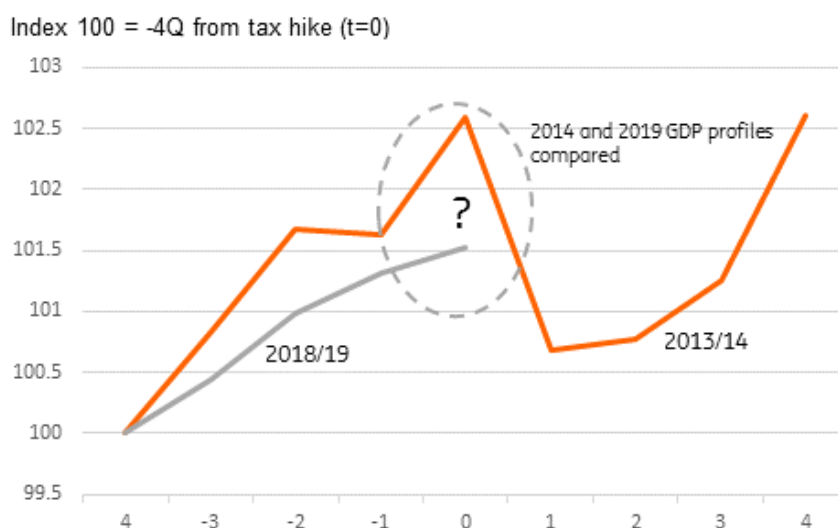
0.2%

3Q19 GDP

QoQ% annualised

Worse than expected

Where's the pre-tax spike?



Source: ING

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.