

Japan in technical recession and worse is to come

First-quarter GDP falls 0.9% in Japan. This sounds bad, and it confirms a technical recession (not that there was ever any doubt) but it compares well with other GDP released in Asia in the first quarter. 2Q20 will be much worse though



-0.9%

1Q20 GDP

QoQ% SA

Better than expected

Better than it looks

By now, most of us are probably becoming numb to dreadful economic data, so perhaps -0.9% QoQ doesn't sound all that bad? On a quarterly basis, it is an improvement on Korea's GDP (-1.3%) or Taiwan's (-1.5%), and a lot better than the -9.8% recorded by China in the same quarter.

But this isn't grounds for much optimism. Despite being one of the first countries globally to confirm cases of the coronavirus, this has been a slow burn in Japan, with the government only reluctantly announcing a state of emergency in early April (in other words, not until 2Q20) and not nationwide, but only in the most affected prefectures.

So even though the state of emergency has been criticised as being a half-hearted response to the pandemic, compared with many other nations, it has still resulted in a substantial reduction in economic activity, and will weigh on growth much more in 2Q20 than any voluntary social distancing undertaken in 1Q20.

On a more positive note, despite lacking the rigour of lockdowns elsewhere, Japan's Covid-19 outbreak has shown clear signs of easing. So even if there are questions about the extent of testing and reporting, the direction seems encouraging. Moreover, the current state of emergency now only applies to 8 of Japan's 47 prefectures, having been lifted in others recently. The remaining prefectures may well see their state of emergency lifted on 31 May.

Nonetheless, having weighed on the economy for two of the three months of 2Q20, it is inconceivable that the measures will not have a much more negative impact on 2Q20 GDP than seems evident in the figures just released for 1Q20.

Weakness across the board

By component, the GDP breakdown shows no bright spots. Private consumption fell 0.7%QoQ, residential investment fell (-4.5%), as did non-residential investment (-0.5%). Government consumption could only eke out a 0.1% gain, with public investment also falling -0.4%.

The public figures will likely rise in 2Q as economic stimulus measures begin to bear fruit. But the private numbers are likely to look considerably worse. Our -4.9% forecast for full year 2020 GDP still looks approximately right following today's data release. In any case, it makes little sense to play around with decimals when the story for 2020 is essentially one of varying degrees of dreadful.

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