

Japan: GDP falls 1.3%QoQ in 1Q21

The 1.3% QoQ GDP fall wasn't much worse than had been expected (ING f -1.2%), but it highlights the negative impacts of restrictions on movement during states of emergency, and with more of these being unfurled in 2Q21, the prospects for growth in the rest of the year are looking much weaker.



-1.3% 1QGDP QoQ%
Consensus -1.1%
Lower than expected

2Q won't be much better

While 1Q21 GDP was not much worse than we had imagined, at -1.3%QoQ (INGf -1.2%), we still probably have quite a bit of downward revision to full-year 2021 GDP to do.

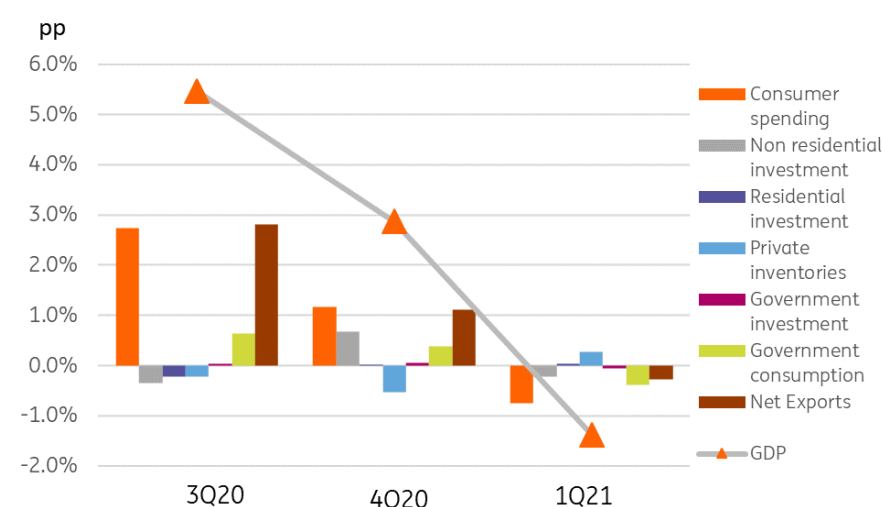
What the 1Q figures do is show the negative consequences of states of emergency linked to daily Covid cases, and with more prefectures being placed under such states of emergency this month

(nine in total currently) and growing calls for a national state of emergency as hospital beds fill up across the country, the outlook for 2Q GDP is for another decline, and that will make reaching 3.5% for the full year as we are currently forecasting all but impossible to achieve without an improbably large second-half bounceback.

Nothing in the detail to get excited about

Delving into the sub-components of the release, there was nothing too exciting to note. Consumer spending held up a little better than had been expected, but business investment was worse. Inventories added 0.3pp to the total, as weak demand led to involuntary stock accumulation, but net exports offset most of that subtracting 0.2pp from total GDP growth. A similarly, though perhaps slightly less weak 2Q figure seems probable.

Contributions to QoQ GDP



Source: CEIC, ING

Quick revision points to only 1.6% in 2021

A quick reworking of our forecasts, which are subject to considerable further finessing, suggests a further decline in 2Q21 followed by a relatively slow recovery in 2H21, would result in only 1.2% GDP growth for 2021 as a whole, less than half what we were forecasting previously. But with Japan still lagging behind even many developing Asian economies when it comes to vaccination rates, we believe a more rapid second-half improvement is unlikely.

There will undoubtedly be fiscal money poured on this problem to soften the blow, though after so much already, it is difficult to see this having more than a fairly marginal effect. And the Bank of Japan seems to be out of fresh policy stimulus ideas currently, so we don't anticipate anything new from them apart from extending existing measures.

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