1



Snap | 17 February 2020

Japan heads towards recession

Even before the economy was hit by Covid-19, Japan was contracting sharply. A recession now looks all but inevitable



-6.3% 4Q19 GDP

QoQ annualised

Worse than expected

4Q19 contraction was man-made

The 1.6%QoQ contraction in GDP in 4Q19 (-6.3%QoQ annualised) was a surprise only in its magnitude. The decline was not much in doubt. Following on from Japan's 2 percentage point October consumption tax hike, there was a wholly expected decline in expenditure, which was only unusual in that the pre-hike front-loading of spending was very muted. So the October consumption tax hike was all about "bust" and not about "boom", though the full-year GDP result of 0.8% is probably not all that far off potential and on a historical basis, isn't really a problem.

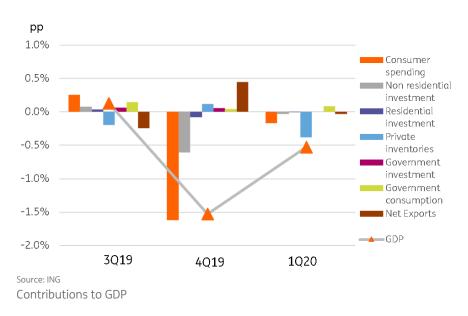
The outlook for 1Q20 though is still terrible

At the beginning of the year, even this awful 4Q19 GDP figures could have been written off as a

Snap | 17 February 2020

bygone, with 2020 shaping up to be buoyed by a less bellicose trade environment and a possible pick up in technology demand and production. The outlook was fair, rather than good, but that was before Covid-19 hit and now the story has changed substantially.

Contribution to GDP QoQ% 3Q and 4Q19 and 1Q20 forecast



1Q20 will also contract

Looking at what caused the 4Q19 contraction, there are few encouraging signs for 1Q20. Consumer spending, which slumped following the tax hike in 4Q19, will now struggle to do anything except contract further in 1Q20 as the impact of Covid-19 weighs on consumer sentiment, weighing in particular on the consumer services sector.

Right now, there are few reasons to assume that this will not also be a factor weighing on consumer spending in 2Q20.

The net export sector was actually a positive contributor to GDP growth in 1Q19, despite weak exports, as imports fell even more sharply (2.6%QoQ), and any recovery in 1Q or 2Q20 will only work to drag down again on those GDP figures.

The other side of weak imports is often inventory reduction. But not here. Private inventory building was supportive for growth in 4Q19 to the tune of about 0.1pp. This increase was almost certainly unplanned and undesired and will need working down before inventories can begin to be rebuilt in a way that might help lift GDP. That might happen in 2Q20, but probably not in 1Q20.

In short, recession looks unavoidable

Without labouring the point too much further, other aspects of GDP, such as private investment offer no rays of hope for near term GDP either. The current fiscal stimulus programme, although substantial, basically only offsets the negative impact of last year's consumption tax hike, and without any further stimulus, will do nothing to change the overall growth picture. Some further government spending may help to curb any further contraction in GDP beyond 1Q20. But that will not stop what started off as a technical downturn, from evolving into a full-blown recession.

Snap | 17 February 2020 2

We now see full-year GDP growth for 2020 at -1.1%. The BoJ may try to talk up its resolve to tackle this abysmal outlook, but in our view, they were out of viable options years ago, and we don't anticipate any meaningful policy responses from them.

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.

Snap | 17 February 2020 3