

## Japan's economy bounces in third quarter

Japan had a slightly stronger than expected bounceback in the third quarter, but not meaningfully better in the context of the massive swings we are seeing in economic activity



Source: Shutterstock

**21.4%** 3Q GDP  
Annualised growth  
Higher than expected

### No information in the consensus, so little response needed by US

In seasonally adjusted annualised terms, growth of 21.4% sounds very impressive for the third quarter. Though on the same basis, the economy contracted 28.8% in the second quarter of 2020 and still remains well below pre-Covid levels.

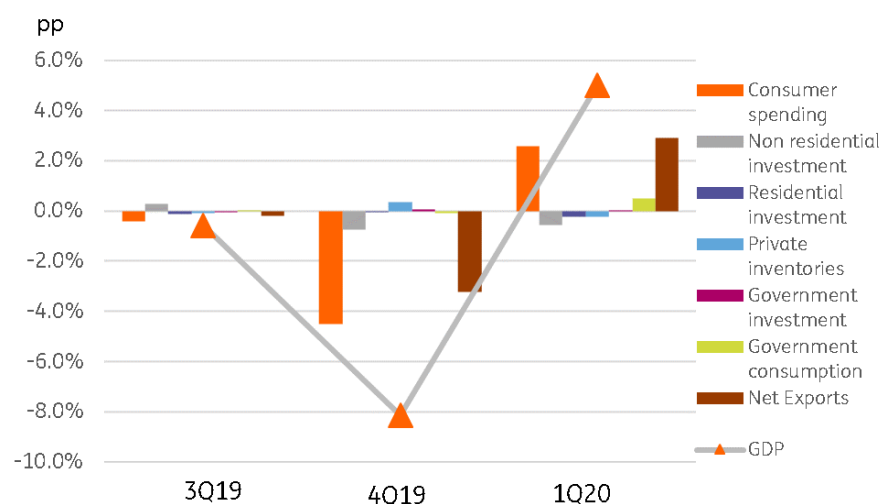
When we are dealing with such massive swings of economic activity in both directions, the

annualization of the numbers actually makes it harder to understand what is happening, so turning these figures back into plain quarter-on-quarter results shows that the 7.9% contraction in 2Q20 was met by a 5.0% bounceback in 3Q20.

The consensus was anticipating a slightly smaller 4.4% bounce. But with the numbers so massive, the error terms also diminish in their significance. So on balance, the consensus figure should be viewed as "broadly right". And there is little of significance to take away from this latest release.

We will take a look at our full-year forecasts (currently -5.4% for 2020 and +2.6% for 2021) as there may now be some upward bias to these, though only if 4Q GDP looks to be in line or exceeding our previous expectation for 0.9%QoQ growth. Even then, all this would do is soften the massive degree of overall contraction in 2020, and would not drastically alter the story of an economy that has been battered by the pandemic (though perhaps not as badly as elsewhere).

## Contribution to GDP - all from consumer spending and net exports



Source: CEIC, ING  
Contribution to QoQ GDP (pp)

## Sub-components are a mess

There isn't a great deal of merit ploughing through the various subcomponents of Japan's growth currently. And we show the main ones in the chart above in terms of their contribution to the overall 3Q20 GDP figure (right-hand side of the chart). What the chart shows is that the only significant drivers of GDP currently are private consumer spending and net exports. The rest just become rounding errors.

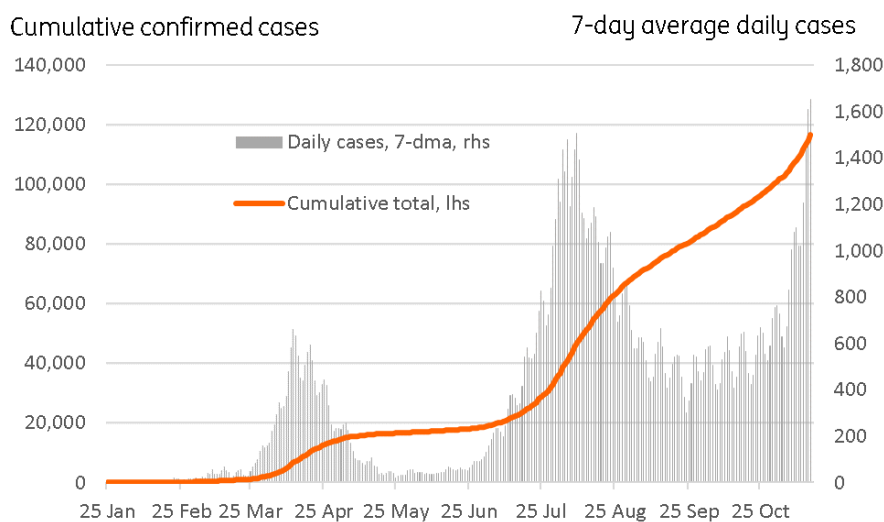
Private consumer spending by households rose 4.7% QoQ in 3Q20. Plunging residential investment (-7.9%QoQ) and a second consecutive quarter-on-quarter decline in capital investment (-3.4%) only slightly trim the impact of this consumer spending bounce.

The same goes for some stronger government spending figures, showing something at last from the claimed "40%" GDP equivalent of Covid-19 stimulus-response according to some government sources. Though at 1.9% QoQ in 3Q20, government spending is clearly providing a much more

modest level of support than the stimulus claims and that also shows up in the contribution to GDP chart above.

Net exports are providing a strong lift, though they are doing so as a combination of only a modest recovery of exports (+7.0% after the 17.4% contraction in 2Q - all QoQ figures) and a further dismal 9.8% contraction in imports after a 2.2% rise in 2Q20. We calculate net exports contributed 2.9pp of the 5.0% QoQ GDP bounce, more than the 2.pp coming from consumer spending. This won't last.

## Covid-19 on the rise, though still low compared to Europe or the US



Source: CEIC, ING

Covid-19 on the rise in Japan

## Virus could provide the answers

With our eyes firmly glued to Covid-19 cases globally, and on some slightly unsettling increase in Japan's recent daily cases (see chart above), any forecasting clearly still comes with a large degree of uncertainty attached to it. The current case numbers of more than 1500 a day look small by European or US standards, but they are trending in an unsettling direction. As other regions and countries show us, it only takes a few weeks for 1500 to become 15000 per day, and for the North Asian seasonal countries such as Japan, this is clearly a risk we need to be aware of, with the potential for a return to national or regional emergencies a distinct possibility.

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