

## Japan Watch

## Oct-Dec GDP (prelim): Waiting for the tide to turn

## GDP down again on broad-based dip in domestic spending

Preliminary estimates put 4Q CY23 GDP growth at -0.1% QoQ SA (-0.4% annualized), below the consensus for +0.2/+1.1%. Growth fell QoQ for a second straight quarter, following -0.8% in Jul-Sep (-3.3% annualized) (Exhibit 2).

Spending fell QoQ in all domestic demand categories, offsetting the moderate boost from external demand (Exhibit 3). Private consumption was down for a third straight quarter, by -0.2% QoQ (-0.9% annualized). Durables rebounded +6.4% QoQ, but all other subcategories were down, with the warm winter affecting apparel and other semi-durables, and slowdown in dining out depressing service spending (Exhibit 4).

In other domestic demand categories, housing investment (-1.0%), capex (-0.1%), and public-sector demand (-0.2%) all fell on the quarter, sustaining the broad-based downward pressure on GDP seen in Jul-Sep (Exhibit 3). Capex has fallen in real terms for three straight quarters despite companies' bullish FY23 plans; this may reflect curbs on investment from a jump in capital goods prices and the supply constraints created by labor shortages.

In contrast, real exports held up well in 4Q CY23, rising 2.6% QoQ, driven mainly by an 11.3% jump in service exports. This likely reflected an increase in inbound tourism. However, it should be noted that services exports also benefitted from a one-off jump in higher intellectual property (IP) licensing income, which is likely to reverse next quarter. Goods exports were broadly flat versus 3Q, rising 0.2%.

## Japan's economy in 2023: Slowdown in 2H after 1H bounce

The 4Q print means that Japan's GDP growth slowed from +4.1% annualized as the economy reopened in 1H CY23 to -1.9% in 2H (CY23 average growth was a strong 1.9%, Exhibit 2).

Nominal GDP rose by 0.3% QoQ (+1.2% annualized) in 4Q after falling 0.1% in 3Q. However, the drag on spending and investment from high inflation continues to affect real GDP. Gross national income (GNI) and employee compensation (earned income) were up respectively 0.5% and 0.4% QoQ in nominal terms, but flat in real terms, at +0.0% and +0.1% (Exhibit 5).

In big-picture terms, the 4Q GDP print was consistent with recent subdued economic activity and does not materially affect our view of the Japanese economy. We also do not expect the results to derail the BoJ's move towards an exit from NIRP and YCC in either March or April (our base case is the latter; see [BoJ Watch: Jan MPM Summary of Opinions: further signals for Mar/Apr policy change](#)).

## 2024 outlook: Another dip in 1Q, gradual rebound from 2Q

Looking ahead, we think real GDP is likely to continue falling in 1Q CY24.

(continued overleaf)

15 February 2024

Economics  
Japan

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## Exhibit 1: Oct-Dec '23 GDP (prelim)

% QoQ SA

	QoQ%	Contrib.
Real GDP %QoQ SA	-0.1	-0.1
Private consumption	-0.2	-0.1
Private capex	-0.1	0.0
Private inventories (contr.)	***	0.0
Pvt. Resid. Investment	-1.0	0.0
Gvmt consumption	-0.1	0.0
Public investment	-0.7	0.0
Exports of G&S	2.6	0.6
Imports of G&S	1.7	-0.4
Domestic demand	-0.3	-0.3
Private demand	-0.3	-0.2
Public demand	-0.2	-0.1
Net exports (contr.)	***	0.2
GDP deflator	0.4	***
Nominal GDP %QoQ SA	0.3	***

Source: CAO

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The 1 January Noto Peninsula earthquake and production stoppages at some automakers look to have severely depressed January manufacturing activity (Exhibit 6, METI forecasts a 10.5% MoM decline in January output, the first since the start of the pandemic in April 2020). Meanwhile, the payback from the 4Q CY23 boost to services exports from the one-off jump in IP licensing income will represent an additional tailwind to 1Q GDP<sup>1</sup>. Finally, we think consumer spending will lack direction in 1Q given the absence of clear catalysts, and would not expect it to drive overall economic growth.

However, we think the economy will return to a gradual recovery path from 2Q. We expect an overall uptrend in manufacturing as companies boost output to catch up following the supply shock and tech sectors rebound after bottoming in 4Q CY23 (Exhibit 7). In 2024, we expect renewed global semiconductor market growth<sup>2</sup> driven by a combination of structural demand in areas such as data centers and AI, and cyclical demand driven by a pickup in the replacement purchase cycle for smartphones and PCs, for which new purchases dwindled after the COVID-19 pandemic. We expect this to support a recovery in the semiconductor cycle.

On the domestic spending front, we also expect real household income to gradually pull out of its slump from April onwards, as inflation peaks and nominal household income is boosted by wage hikes from the FY24 Shunto round and higher pension payments<sup>3</sup> from the start of the new fiscal year (see our [6 February report](#) for our FY24 Shunto forecasts, and our [9 January report](#) for our inflation outlook). Combined with an improvement in consumer sentiment, which is already bottoming (see our [15 January report](#)), this should support a recovery in domestic spending.

## Revising our GDP forecasts: CY24 +0.3%, CY25 +1.4%

Taking on board the latest GDP results and our outlook for the economy as discussed above, we revise our GDP forecasts. We lower our average annual forecast for CY24 from +0.8% to +0.3% YoY, but raise our CY25 forecast from +1.0% to +1.4%. Average CY24 growth will depend heavily on the depth of the Jan-Mar dip, but we expect a sharp 1Q contraction to be followed by a rebound in 2Q and 3Q and a return to steady-state annualized growth of 0.5-1.0% from 4Q (see Exhibit 8 for details of our forecasts).

The dip we forecast in 1Q suggests that even if GDP gradually recovers from 2Q, average CY24 growth will fall well short of +1.9% in CY23. We then expect the Japanese economy to sustain a gradual uptrend in 2025 as the global economy gradually recovers.

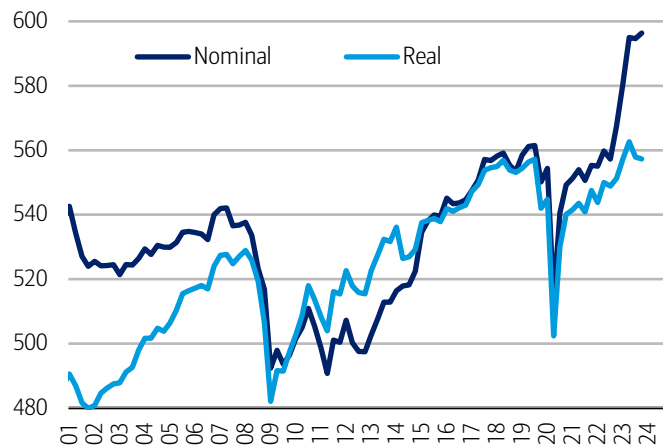
However, there is considerable uncertainty regarding the growth outlook for 2025, which could be skewed particularly by US policy developments following the presidential election and the resulting global economic and financial market trends. On the domestic front, we think growing supply constraints caused by further labor shortages will become increasingly important as a barrier to economic growth.

<sup>1</sup> We estimate that this one-off jump in IP licensing income boosted annualized 4Q CY23 real GDP growth by 0.4-0.5ppt. Thus, assuming the impact reverses, it would depress 1Q CY24 growth by a similar amount.

<sup>2</sup> The November 2023 World Semiconductor Trade Statistics (WSTS) global meeting forecast renewed market growth of 13.1% YoY in 2024 after a 9.4% dip in 2023. Our global semiconductor analysts also forecast semiconductor sales growth of 15% in 2024 (see Global Semiconductors: 2024 Playbook, 15 December 2023).

<sup>3</sup> Pension payments will increase by 2.7% YoY from April.

**Exhibit 2: Japan's GDP (JPYtn, annualized)**  
Slowdown in 2H after 1H bounce

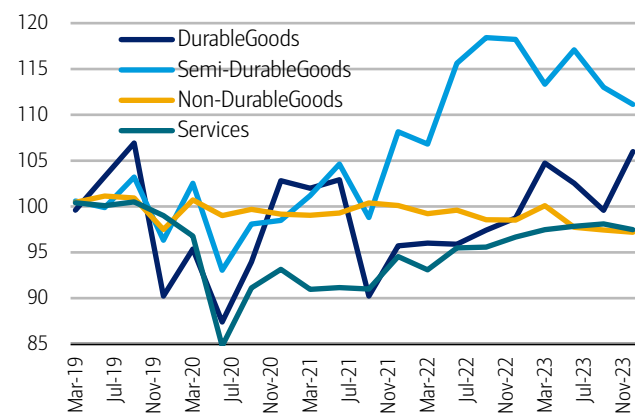


Source: BofA Global Research, Cabinet Office

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**Exhibit 4: GDP-based consumption (by goods/services, 2019 average=100)**

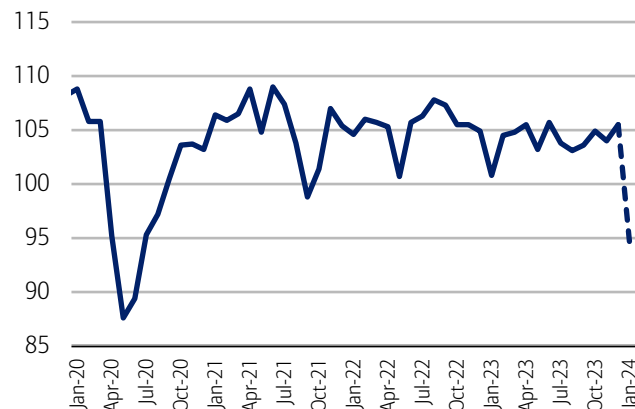
While durables rebounded, all other subcategories fell



Source: BofA Global Research, Cabinet Office

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**Exhibit 6: Industrial production: actual and forecasts (2020=100, SA)**  
Jan '24 production likely dropped sharply

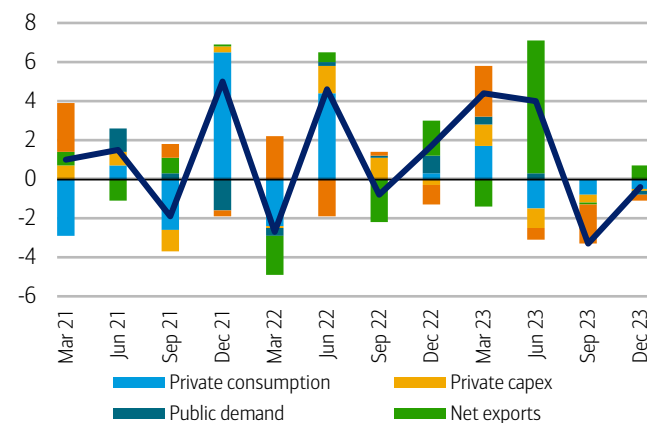


Source: BofA Global Research, METI \*Jan '24 production is forecasted by the government

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**Exhibit 3: Contribution to %QoQ annualized real GDP growth by expenditure component**

Spending fell QoQ in all domestic demand categories

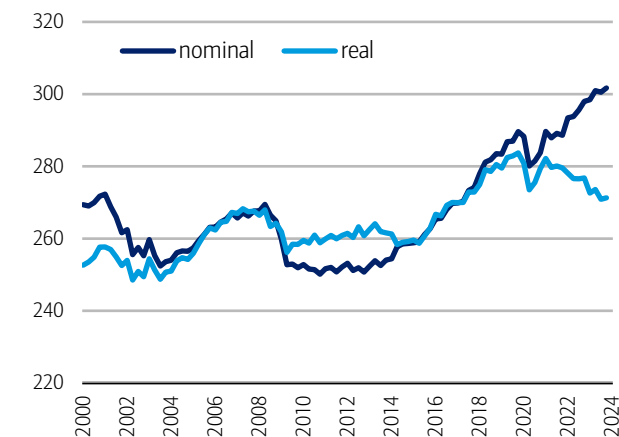


Source: BofA Global Research, Cabinet Office

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**Exhibit 5: Employee compensation (JPYtn, annualized)**

Real employee compensation remained flat in 4Q CY23

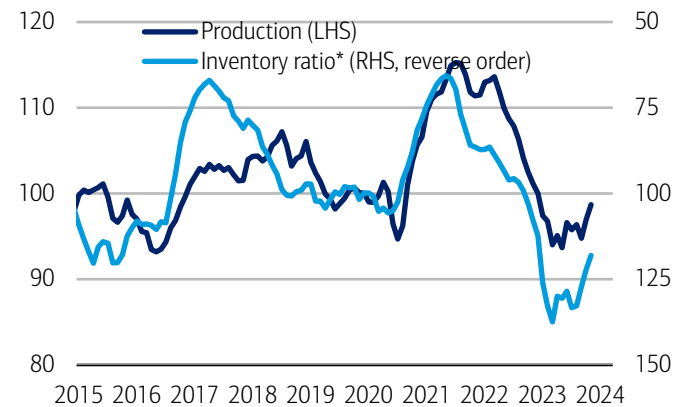


Source: BofA Global Research, Cabinet Office

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**Exhibit 7: Electronic parts/devices (2019=100, SA, 3mma)**

Production has finally bottomed out



Source: BofA Global Research, METI \*Inventory/shipment

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**Exhibit 8: Japan economic forecast summary**  
 2023-2026

	Calendar year				Fiscal year				Quarterly											
	2022 (A)	2023 (A)	2024 (F)	2025 (F)	2022 (A)	2023 (F)	2024 (F)	2025 (F)	2Q23 (A)	3Q23 (A)	4Q23 (A)	1Q24 (F)	2Q24 (F)	3Q24 (F)	4Q24 (F)	1Q25 (F)	2Q25 (F)	3Q25 (F)	4Q25 (F)	1Q26 (F)
Real GDP	1.0	1.9	0.3	1.4	1.5	1.0	1.2	0.9	4.0	-3.3	-0.4	-3.7	5.6	3.0	1.0	1.0	0.6	0.7	0.1	1.0
Private Consumption	2.2	0.7	0.2	0.7	2.7	-0.4	0.8	0.5	-2.7	-1.4	-0.9	0.8	1.3	1.8	1.1	0.2	0.7	0.2	0.3	0.3
Private Capex	1.9	1.3	0.6	2.9	3.4	-0.8	2.3	2.3	-5.5	-2.4	-0.3	-0.5	3.7	5.5	2.7	3.6	1.8	1.3	1.7	1.3
Private Resid. Investment	-3.5	1.1	0.0	0.6	-3.4	1.5	0.2	0.4	7.2	-2.4	-4.0	0.8	1.2	1.2	0.8	0.8	0.4	0.0	0.0	0.0
Private Inventories																				
Contribution	0.3	0.0	-0.3	-0.1	0.1	-0.2	-0.2	0.0	-0.9	-2.0	-0.1	0.3	-0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Government Consumption	1.7	0.9	0.5	0.3	1.4	0.6	0.5	0.3	-0.4	1.1	-0.5	1.2	0.0	1.2	0.8	-0.4	0.8	-0.4	0.0	0.4
Public Investment	-9.6	2.8	-0.3	0.6	-6.1	2.8	-0.3	0.6	9.1	-3.9	-2.8	0.0	0.0	0.4	0.8	0.8	0.8	0.4	0.4	0.4
Exports of Goods & Services	5.3	3.0	1.0	4.7	4.7	2.2	3.8	2.8	16.2	3.8	11.0	-28.9	32.4	6.1	1.4	4.6	1.0	4.2	0.3	4.9
Imports of Goods & Services	7.9	-1.3	-0.2	2.4	6.9	-3.1	1.5	2.2	-13.5	4.0	7.0	-9.9	6.6	1.9	2.2	2.2	2.2	2.2	2.2	2.2
<b>Contribution points</b>																				
Domestic Demand	1.5	-0.9	-0.1	-0.9	2.1	-0.2	0.7	0.7	-2.8	-3.2	-1.1	1.4	1.1	2.1	1.1	0.5	0.9	0.2	0.5	0.5
Private demand	1.7	0.5	0.0	0.8	1.7	-0.4	0.6	0.6	-3.1	-3.2	-0.8	0.9	1.1	1.8	0.9	0.6	0.6	0.3	0.5	0.3
Private final sales																				
Public demand	-0.2	0.3	0.1	0.1	0.4	0.2	0.1	0.1	0.3	0.0	-0.2	0.4	0.0	0.3	0.2	0.0	0.2	-0.1	0.0	0.1
Net Exports	-0.5	0.9	0.2	0.5	0.8	1.1	0.5	0.2	6.8	-0.1	0.7	-4.7	4.3	0.9	-0.1	0.5	-0.2	0.4	-0.4	0.6
Real GDP	1.0	1.9	0.3	1.4	1.5	1.0	1.2	0.9	2.3	1.7	1.0	-0.9	-0.5	1.1	1.4	2.6	1.4	0.8	0.6	0.6
Nominal GDP	1.3	5.7	2.5	2.9	2.3	5.0	3.0	2.3	6.1	6.9	4.9	2.4	1.4	2.8	3.2	4.6	2.9	2.3	2.0	2.0
GDP Deflator	0.3	3.8	2.0	1.6	0.8	3.9	1.8	1.5	3.7	5.2	3.8	2.8	2.0	1.6	1.6	2.0	1.6	1.5	1.5	1.4
Industrial Production																				
	-0.2	-1.1	-1.7	4.5	-0.3	-1.9	1.4	3.1	5.7	-4.9	5.7	-22.3	14.3	9.1	4.1	4.1	2.0	2.0	2.0	2.0
									1.1	-3.7	-0.3	-4.7	-2.8	0.6	0.2	7.8	4.8	3.0	2.5	2.0
Unemployment Rate	2.6	2.6	2.4	2.2	2.6	2.6	2.4	2.2	2.6	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.2	2.2	2.1

Sources: Cabinet Office, BoJ, MoF, MIA, METI, MLIT, Bloomberg, and BofA Global Research estimates.

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