

## Japan Watch

## Oct-Dec GDP (2nd prelim): Technical recession cancelled

## 4Q CY23 GDP revised up to modest positive growth

In the second estimates released today, 4Q CY23 GDP growth was revised up to +0.1% QoQ SA (+0.4% annualized) from -0.1%/-0.4% in the first estimates (Exhibit 1). The revisions mean Japan avoided the technical recession (two consecutive quarters of negative growth) indicated by the first print (see [Oct-Dec GDP \(prelim\): Waiting for the tide to turn](#), 15 February).

The main reason for the upward revision was strong growth in private capital expenditure carried across from the 4Q MoF Corporate Survey, released on 4 April. As a result, real private capital expenditure was revised up sharply from -0.1% QoQ to +2.0% SA, lifting headline QoQ real GDP growth by +0.3ppt.

Capital expenditure finally seems to have gained momentum in 4Q (especially in nominal terms) after several sluggish quarters that contrasted with bullish FY23 capex plans (Exhibit 4). According to the MoF Corporate Survey, investment rose strongly across a broad range of sectors (Exhibit 5), driven by capacity expansion by manufacturers to meet structural growth in IT demand and by investment in labor-saving technology by non-manufacturers to address labor shortages.

While today's upward revision to business investment was broadly in line with market expectations (+2.4% QoQ SA), revised GDP growth (+0.1% QoQ SA/+0.4% annualized) came in slightly below consensus (+0.3%/+1.1%) due to additional modest downward revisions for private consumption and public-sector demand, and a larger drag from private inventories.

## No change to our outlook for gradual recovery from 2Q

In light of today's revisions, we update our assessment of the Japanese economy in 4Q. The initial GDP print had pointed to a picture of broad-based weakness in domestic demand. The revised data suggest that the weakness was more concentrated in the household sector, particularly consumption, with capex faring better.

The results do not imply big changes to our forecasts for the Japanese economy. We still see the GDP slipping back into contraction in 1Q, reflecting still-weak consumption and the impact of negative supply side shocks in the manufacturing sector.

However, we continue to forecast a gradual recovery for growth from 2Q (see [Oct-Dec GDP \(prelim\): Waiting for the tide to turn](#), 15 February). In the manufacturing sector, some automakers restarted production from early March and output is likely to recover from supply-side shocks in 2Q. After bottoming out in 4Q CY23, a rebound in the IT sector should also help lift production.

In terms of domestic consumption, we see rising wages, higher pension payments from April, and peaking inflation driving an improvement in household real incomes. In particular, the summary of unions' wage demands released on 7 March imply this year's Shunto could result in a substantial jump in pay (see [Raise base-up estimate to 3.5% on strong union demands](#), 7 March). This makes our scenario for a gradual recovery in consumption from 2Q more likely. (continued overleaf)

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## Exhibit 1: Oct-Dec '23 GDP

% QoQ SA

	1st prelim	2nd prelim
Real GDP %QoQ SA	-0.1	0.1
Private consumption	-0.2	-0.3
Private capex	-0.1	2.0
Private inventories (contr.)	0.0	-0.1
Pvt. Resid. Investment	-1.0	-1.0
Gvmt consumption	-0.1	-0.2
Public investment	-0.7	-0.8
Exports of G&S	2.6	2.6
Imports of G&S	1.7	1.7
Domestic demand	-0.3	-0.1
Private demand	-0.3	0.0
Public demand	-0.2	-0.3
Net exports (contr.)	0.2	0.2

Source: CAO

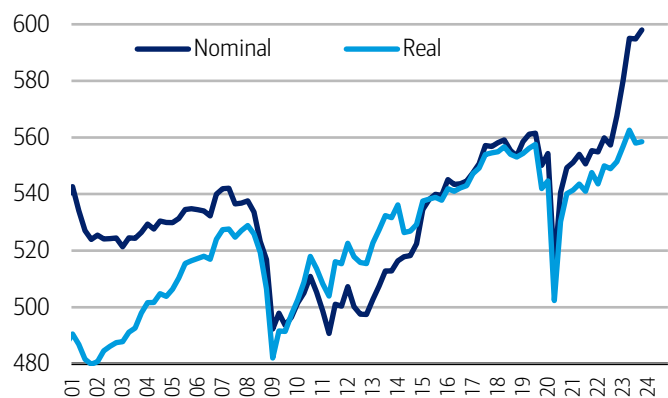
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Taking on board today's revisions to 4Q GDP, we raise our forecast slightly for CY23 GDP growth from +0.3% YoY to +0.4% YoY (the figure is 4-quarter average). This is a mechanical revision to factor in the upward revision for 4Q; we keep our forecasts for the path for underlying, QoQ growth unchanged.

The outlook for annual YoY CY24 growth will depend heavily on the depth of contraction in 1Q, which is subject to significant uncertainties. Overall, we think risks to our CY24 GDP growth forecast are skewed to the upside, given the increasing likelihood of a positive surprise for FY24 Shunto wage hikes.

#### Exhibit 2: Japan's GDP (JPYtn, annualized)

Real GDP remained largely flat in 2H CY2023

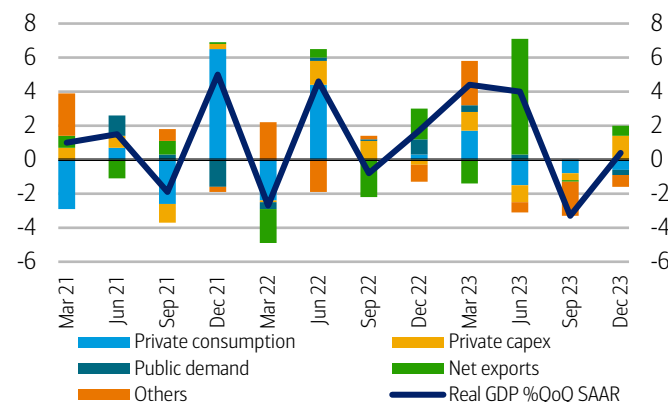


Source: BofA Global Research, Cabinet Office

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

Weakness was more concentrated in the household sector, particularly consumption, with capex faring better

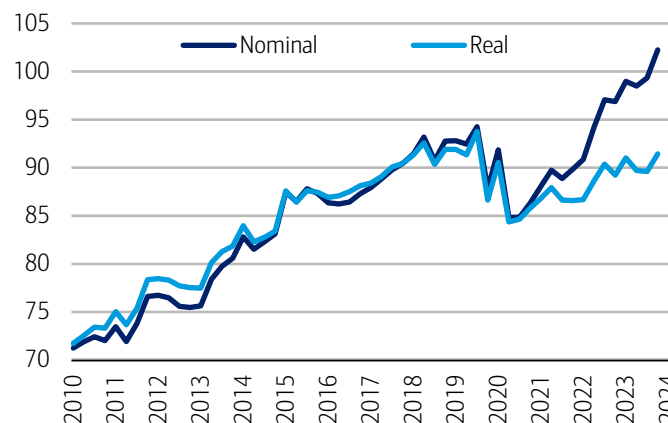


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#### Exhibit 4: GDP-based private capex (JPYtn, SAAR)

Strong growth in private capital expenditure

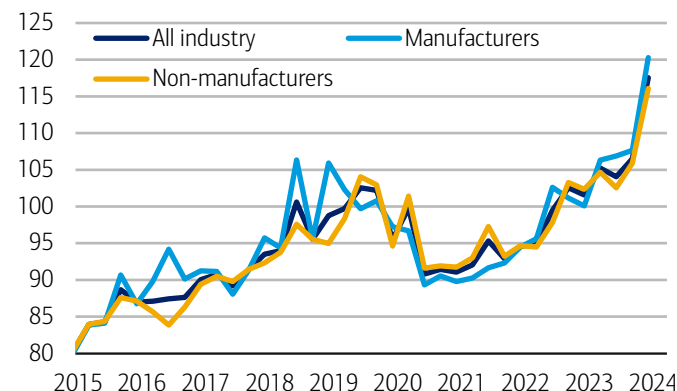


Source: BofA Global Research, Cabinet Office

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#### Exhibit 5: Private capex based on MoF corporate survey (2019=100 SA, nominal)

Strong growth in private capital expenditure



Source: BofA Global Research, MoF

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**Exhibit 6: Japan economic forecast summary**

Japan's economy is expected to recover gradually from 2Q onwards

	Calendar Year				Fiscal Year				Quarterly										
	2022 (A)	2023 (A)	2024 (F)	2025 (F)	2022 (A)	2023 (F)	2024 (F)	2025 (F)	3Q23 (A)	4Q23 (A)	1Q24 (F)	2Q24 (F)	3Q24 (F)	4Q24 (F)	1Q25 (F)	2Q25 (F)	3Q25 (F)	4Q25 (F)	
Real GDP	1.0	1.9	0.4	1.3	1.5	1.1	1.2	0.8	-3.2	0.4	-3.7	5.6	3.0	1.0	1.0	0.6	0.7	0.1	1.0
Private Consumption	2.2	0.6	0.2	0.7	2.7	-0.4	0.8	0.5	-1.4	-1.0	0.8	1.4	1.8	1.1	0.2	0.7	0.2	0.3	0.3
Private Capex	1.9	2.1	1.2	2.7	3.4	0.5	2.3	2.1	-0.5	8.4	-3.8	1.8	5.4	2.6	3.3	1.5	1.3	1.7	1.3
Private Resid. Investment	-3.5	1.1	0.1	0.8	-3.4	1.5	0.3	0.5	-2.5	-3.9	0.8	1.2	1.6	1.2	0.8	0.4	0.0	0.0	0.0
Private Inventories Contribution	0.3	-0.1	-0.2	-0.1	0.1	-0.3	-0.1	0.0	-2.2	-0.6	0.7	0.0	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	0.5	0.5	0.3	1.1	-0.7	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	2.7	-0.3	0.6	-4.0	-3.0	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	1.1	4.7	4.7	2.2	3.9	2.8	3.8	10.7	-28.6	32.8	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	4.0	6.9	-9.8	6.6	1.9	2.2	2.2	2.2	2.2	2.2	2.2
Contribution points																			
Domestic Demand	1.5	-0.9	-0.3	-0.9	2.1	-0.1	0.8	0.7	-3.1	-0.2	1.3	1.1	2.1	1.1	0.5	0.8	0.2	0.5	0.5
Private demand	1.7	0.6	0.1	0.8	1.7	-0.3	0.7	0.6	-3.1	0.1	0.8	1.1	1.8	0.9	0.5	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	0.0	-0.3	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	0.1	-0.1	0.6	-4.7	4.4	0.9	-0.1	0.5	-0.2	0.4	-0.4	0.6
Real GDP	1.0	1.9	0.4	1.3	1.5	1.1	1.2	0.8	1.6	1.2	-0.6	-0.3	1.3	1.4	2.6	1.4	0.8	0.6	0.6
Nominal GDP	1.3	5.7	2.6	2.9	2.3	5.2	3.1	2.3	6.9	5.1	2.7	1.6	3.0	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	5.2	3.9	2.9	1.9	1.6	1.5	1.9	1.6	1.5	1.5	1.4
Industrial Production									-4.9	5.1	-11.8	14.3	9.1	4.1	4.1	2.0	2.0	2.0	2.0
	-0.2	-1.1	1.4	4.5	-0.3	-1.2	3.8	3.1	-3.7	-0.5	-1.8	0.2	3.7	3.4	7.8	4.8	3.0	2.5	2.0
Unemployment Rate	2.6	2.6	2.4	2.2	2.6	2.5	2.3	2.1	2.6	2.5	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1	2.0

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

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