Economic News

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JAPAN

Another technical recession in Japan

HIGHLIGHTS

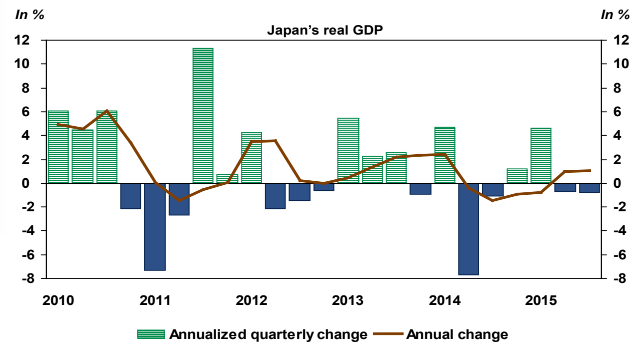
- Japan's real GDP contracted at an annualized rate of 0.8% in the third quarter. This comes on the heels of a 0.7% pullback in the spring.
- This negative real GDP growth comes mainly from a decline in non-residential investment (-5.0%). Meanwhile, changes in inventory made a strong, negative contribution of more than two percentage points. Consumer spending (+2.1%), residential investment (+8.0%) and government expenditures (+0.7%) all increased over the summer. Exports were up by 10.9%, while imports rose by 7.1%. Thus the contribution from foreign trade is positive.

COMMENTS

For the second time in a year, the Japanese economy has fallen into recession. In 2014, the downturn was caused by a hike in the consumption tax, which pulled some spending forward, with a severe pullback afterwards. This time, the production decline is more diffuse and appears to stem to a greater degree from businesses that have slowed their investments and, more importantly, got rid of their inventories.

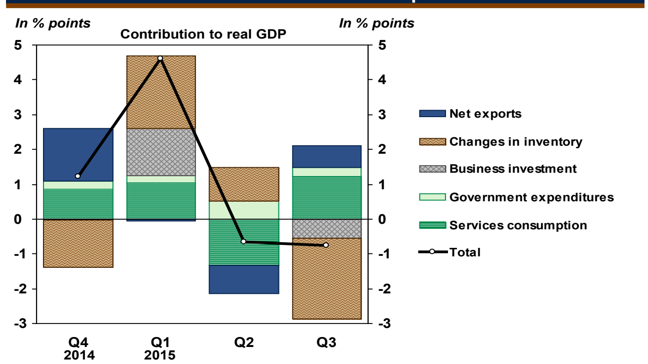
What we particularly note is that the Japanese economy is struggling to achieve sustainable growth. Since the beginning of the economic recovery in 2010, Japan's real GDP has recorded 11 quarters of contraction. Despite that, the cumulative gain since the trough of 2009 is 10.0% in Japan, not so far off from the 14.2% recorded in the United States, and better than the euro zone's 5.6%. Nevertheless, during the summer, economic activity remained below the peak that preceded the crisis. We also note that the Japanese economy is extremely volatile. The numerous technical recessions that have been recorded since the crisis (including that of 2011 which was caused by the earthquake and tsunami) have been preceded by sporadic episodes of strong growth. Given Japan's rather weak growth potential, estimated at 0.4% by the Organisation for Economic Co-operation and Development (OECD), it is normal for it to verge on the 0% mark, but the scope of the volatility is still astonishing. It shows, among other things, a sharp reaction to the various stimulus measures put in place by the government.

Recessions are quite commonplace in Japan



Sources: Cabinet Office and Desjardins, Economic Studies

Investments and, more importantly, changes in inventory are behind this new contraction in Japan's real GDP



Sources : Cabinet Office and Desjardins, Economic Studies

Implications: The growth of the world's fourth largest economy is still erratic. The potential of the Japanese economy is still weak, recessions are multiplying and the public debt (nearly 250% of GDP) remains enormous. This situation suggests that the Bank of Japan may further boost its support measures.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist