

 **JAPAN**

Another quarter of contraction wraps up 2015

HIGHLIGHTS

- Japan's real GDP fell an annualized 1.4% in the fourth quarter according to the advance estimate of the national accounts, following a 1.3% gain last summer, and another 1.4% retreat last spring.
- The real GDP contraction mainly comes from the drop in consumer spending, which pulled back an annualized 3.3%. Residential investment fell 4.8% following three quarters of solid growth. Business investment jumped 5.7%, while investment by public administrations tumbled 10.3%. Current government expenditures advanced 2.1%, their strongest growth since spring 2013. The change in inventories made a negative contribution, taking a 0.5-point bite. Exports dropped 3.4% but, because imports tumbled 5.6%, foreign trade continues to make a positive contribution.

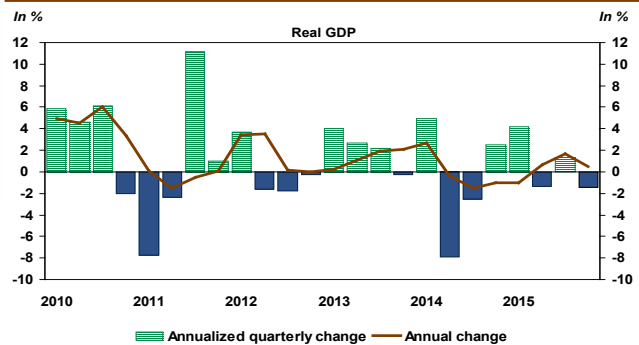
COMMENTS

Japan is still seeing many quarters of contraction. The situation reflects an economy that is flirting with recession. Note that, before it was upgraded to +1.3%, the advance estimate of the national accounts for Q3 showed a contraction of 0.8%. Japan did not see a technical recession in 2015, but, with annual growth of 0.4% for the whole year on the heels of 2014's stagnation, it is clear that the economy is sluggish.

The 1.4% drop is well below the consensus forecast, which was expecting the economy to contract by half that rate. This is especially disappointing as, in early fall, many indicators were doing better. Both retail sales and industrial production fell in the final months of 2015, quickly changing the situation. Japan could even once again be grappling with a recession, if only a technical one. Real GDP is even below where it was in the summer of 2013. *Abenomics*, the economic policy put in place by Japan's government, is not delivering the expected results. The economy remains shaky, with growth potential estimated to be around 0.4%.

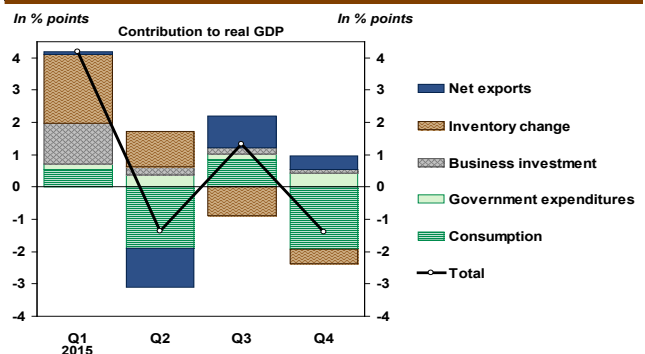
Implications: Japan's economy still seems to be on the edge of recession and deflation. The yen's relative strength

Quarters recording real GDP contractions are common in Japan



Sources: Cabinet Office and Desjardins, Economic Studies

The two quarters of contraction seen in 2015 were primarily due to drops in consumption



Sources: Cabinet Office and Desjardins, Economic Studies

since the end of the fall is not expected to help the situation at the start of 2016. Among other things, this explains why the Bank of Japan decided to join the ranks of those experimenting with negative key interest rates.

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