



JRI news release

A Forecast of GDP Statistics for the April-June Quarter of 2003

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1. April-June Quarter to Bring Negative Growth for First Time in Six Quarters

The GDP statistics for the April-June quarter of 2003 are likely to show that real economic growth declined by 0.0% on the previous quarter (or -0.2% when annualized), negative growth for the first time in six quarters. A sharp fall in consumer spending, a growing movement to cut inventories and the continued decline in public investment are all exerting downward pressure on the growth rate. However, the statistics are likely to confirm that the continued growth of capital investment has averted large-scale negative growth and that the economy has remained fairly steady.

Movement of the Major Elements of Demand

(1) Consumer Spending

The figures for consumer spending are set to show a decline of 0.6% on the previous quarter (annualized rate -2.3%). Although consumer spending has held steady overall despite the continued deterioration of income conditions, transient factors such as (i) the substantial fall in sales of passenger cars in reaction to the demand rush before the modifications to the "Green Tax" system and (ii) the decline in overseas travel as fears over the SARS epidemic spread (as this was offset by a decline in imports, the net impact on GDP was zero) exerted downward pressure on consumer spending during the April-June quarter.

(2) Housing Investment

Owing to the demand rush before the deadline for the housing tax reduction (December 31, 2003), which led to a substantial increase in the number of detached purchased in May and June, the figures for housing investment are likely to be up.

(3) Capital Investment

Against the background of a recovery in equipment utilization ratios and business results, figures for capital investment are set to rise for a fifth quarter, largely on the strength of investment in IT, etc., and the growth rate is also likely to be higher than that recorded in the January-March quarter. However, the increase is likely to be moderate on a nominal basis, and on a real basis, capital investment is still being underpinned by the significant weakening of the deflator.

(4) Public Investment

The figures are set to show a further decline in public investment, due not only to the continued deterioration in the financial position of local governments, but also to a fall in public investment by the central government as the boost provided by the fiscal 2001 supplementary budget tails off.

(5) Exports

Although the figures are set to show that exports have turned upwards for the first time in two quarters, their recovery potential remains weak. Although exports to the EU have risen and exports to the United States have recovered from the slump they recorded in the January-March quarter, exports to Asia have begun to slow due to the slowdown of the local economies.

(6) Imports

The figures are set to show that, although imports of goods have continued to rise, imports have seen a substantial fall overall due to the lump in services payments triggered by the fall in demand for overseas travel, among other factors.

2. Economic Trend Likely to Turn Upwards in Second Half of Fiscal 2003

Thus, the GDP statistics are likely to show that the economic trend has held level during the past few months, but the following two factors suggest that the prospects for recovery will remain poor into the July-September quarter:

- (i) The negative impact of a cool summer on consumer spending and agricultural production. It is thought that the downward pressure of the cool spell in July alone has been sufficient to reduce consumer spending in the July-September quarter by 0.2%.
- (ii) The slow recovery of overseas economies, and continued sluggishness of exports.

However, the following two factors suggest that the economy is likely to begin to recover from the autumn onwards:

- (i) The recovery of the US economy is likely to bring the start of a recovery in the Japanese economy.
- (ii) With business results still holding firm, capital investment is likely to continue to recover, especially in the manufacturing sector.