

The Japanese economy: topic of the month

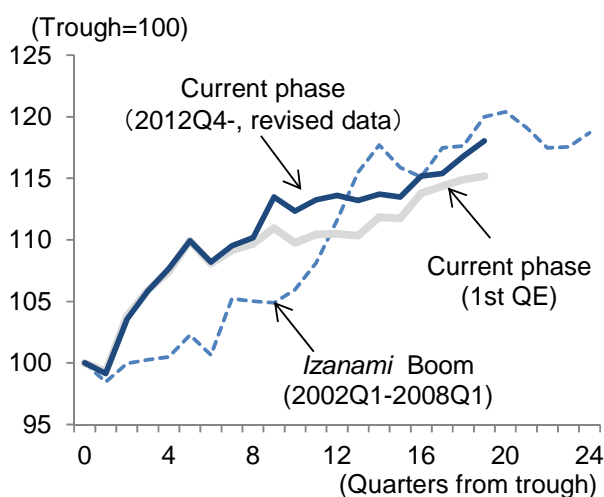
Upwardly-revised capital investment and lackluster personal consumption

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The Second Preliminary Quarterly Estimates of GDP (“2nd QE”, released on December 8) for the Jul-Sep quarter of 2017 revealed an upward revision of Japan’s economic growth (+1.4% q-o-q p.a. → +2.5% q-o-q p.a.), mainly in capital investment and inventory investment. Also reflecting the revisions of FY2015 and FY2016 GDP statistics to their Second and First Annual Estimates respectively, past levels of capital investment have been subject to relatively large revisions. **Chart 1** indicates that the recovery of capital investment from the trough of the current business cycle (2012Q4) is comparable to that of the longest post-war economic expansion, the *Izanami* Boom (which ran from February 2002 to February 2008). Defying commentaries that “capital investment is stagnant despite the strength of corporate earnings”, it has in fact been following a steady recovery.

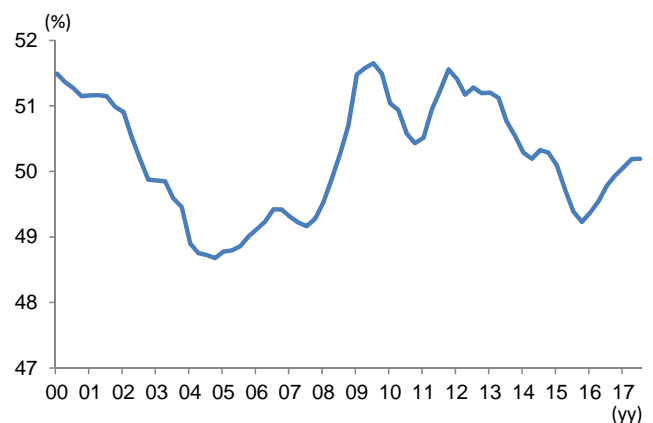
In contrast, personal consumption, which comprises the other main pillar of domestic demand, is only growing +0.5% p.a. during the current phase--- just half the size during the *Izanami* Boom (approximately +1% p.a.). Normally, the increase in capital investment would serve as tailwinds for personal consumption through

[Chart 1: Real capital investment]



Note: Indexed with the trough of the business cycle as 100.
Source: Made by MHRI based upon Cabinet Office, *National Accounts of Japan*

[Chart 2: Labor share]



Note: Nominal employee compensation / nominal GDP × 100.
4 quarter moving average.
Source: Made by MHRI based upon Cabinet Office,

the improvement of productivity and the rise of real wages. However, while the rise in productivity is not so bad in comparison to the past, the recovery of real wages has been tepid, resulting in the weakness of labor share ever since the start of *Abenomics* (**Chart 2**). The major challenge for the Japanese economy next year will be whether it can achieve a full-fledged recovery of personal consumption through the acceleration of wage hikes.

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