

Politics

# Japan's Shrinking Economy Fuels Expectation for Kishida Stimulus

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- ▶ Bigger-than-expected drop adds to concerns over lost momentum
- ▶ GDP slips 3% for fifth contraction in last eight quarters

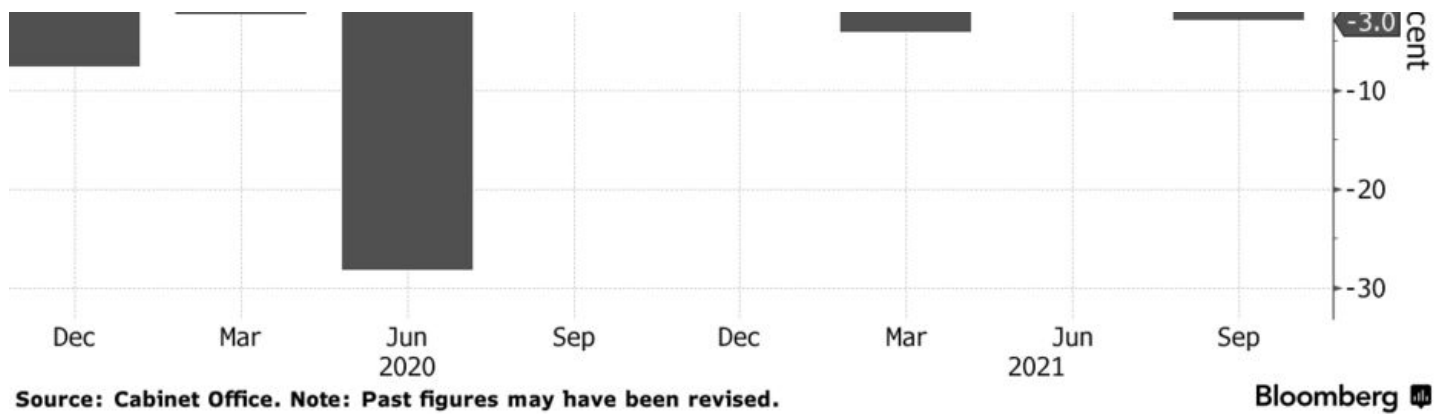
Japan's economy shrank more than expected last quarter as shoppers stayed home and factories pared production, ramping up expectations for Prime Minister Fumio Kishida's stimulus package.

Gross domestic product contracted at an annualized pace of 3% in the three months through September from the previous quarter, the Cabinet Office reported Monday. Economists had forecast a 0.7% decline.

## Falling Again

Japan's economy contracts as summer emergency restrictions weigh





Consumption dropped as a summer wave of Covid-19 cases hit the country, triggering a resumption and extension of emergency restrictions and caution among shoppers.

Supply-chain constraints hit production as Japanese companies ran short of chips and components, prompting some of the country's biggest manufacturers, including Toyota Motor Corp., to cut back on production. Those shortages also gave companies another reason to hold off on investment plans.

Kishida is expected to announce details of the package at the end of this week as he tries to restart the recovery and cement his hold on power ahead of more elections next year. The larger-than-expected contraction gives Kishida additional justification for spending to support the economy.

"Today's report should give more scope for Kishida to compile a big stimulus package," said Shinichiro Kobayashi, chief economist at Mitsubishi UFJ Research & Consulting. "Consumer spending was weaker than expected as a result of Covid and this adds to evidence that the economy stagnates when auto production is bad."

With his stimulus measures, the premier hopes to provide the economy with a short-term boost, while also securing growth over the medium to long term and a fairer distribution of income.

The stimulus measures will exceed 40 trillion yen (\$350 billion) in fiscal measures, according to a report by the Nikkei newspaper on Friday. Kishida has already said that 100,000 yen handouts will go to those 18 years and younger.

The measures are also expected to include a pay increase for caregivers, enhanced tax breaks for firms that raise wages and a resumption of subsidies for domestic travel. The amount of actual fresh spending is likely to be much smaller given that the government could recycle unused money from previous stimulus measures.

#### GDP DETAILS:

Private consumption fell at an annualized pace of 4.5% from the previous quarter

Capital spending dropped 14.4%

Government spending rose 4.7%

Exports fell 8.3%, but a bigger fall in imports meant trade added fractionally to growth overall

The economy has now shrunk in five of the past eight quarters. Excluding the pandemic lows, real GDP is now at its smallest size since late 2014.

Japan has been recovering at a slower pace than its global counterparts, partly because it suffered a relatively smaller blow to its economy at the height of the pandemic.

Still, after the initial rebound, subsequent growth has proved patchy, with pent-up demand yet to emerge as it has in other economies. The International Monetary Fund forecasts Japan will continue to post the slowest expansion among Group of Seven nations in 2022.

## What Bloomberg Economics Says...

“The deeper-than-expected drop in Japan’s third-quarter GDP increases the chances that Prime Minister Fumio Kishida will go big on fiscal stimulus in a package he’s set to detail later this week. We had expected fresh real spending of 12 trillion yen (2.2% of GDP). Given the setback, though, Kishida could bump it up to 15 trillion yen.”

-- Yuki Masujima, economist.

For the full report, [click here](#).

“I’m sure the government has largely put together its stimulus package already, but the data makes it easier for them to push measures to support consumers and companies. Higher oil prices are also going to have an impact on them from this point on,” said economist Harumi Taguchi at IHS Markit.

Like Kobayashi, Taguchi expects a rebound in services-related consumption in the fourth quarter given lower virus infections and reduced restrictions. Still, neither of them expect a surge given ongoing caution among Japanese consumers.

“Japan’s economy should pick up from here but there are plenty of potential factors for a downside surprise,” Kobayashi said. “You can’t simply be optimistic.”

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*(Adds economist comment and more details from release)*

