

Research and Development boosts growth in Japan

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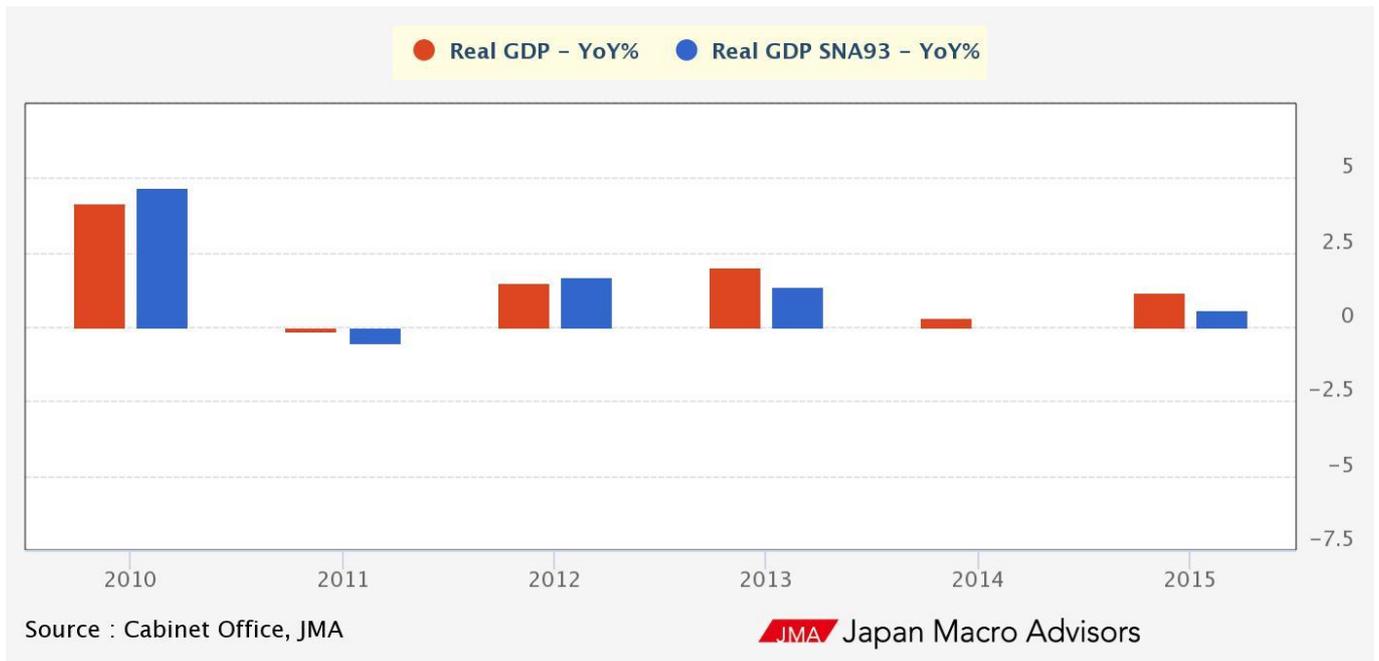
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Executive Summary

Japan finally caught up with other OECD countries in adopting SNA2008, the latest international standard for national accounts. Prime Minister Abe must be regretting not to have speeded up the efforts. The new set of statistics shows that the economy was growing much faster in 2014 and in 2015. The inclusion of Research and Development as a part of capital expenditure, rather than intermediate inputs, seems to have boosted both the level and the growth rate of the economy. While we would caution not to confuse a change in the definition of GDP as an actual change in the economy, the newly found growth does imply that the newer and perhaps more promising part of the economy are indeed growing much more rapidly than the rest of the economy.

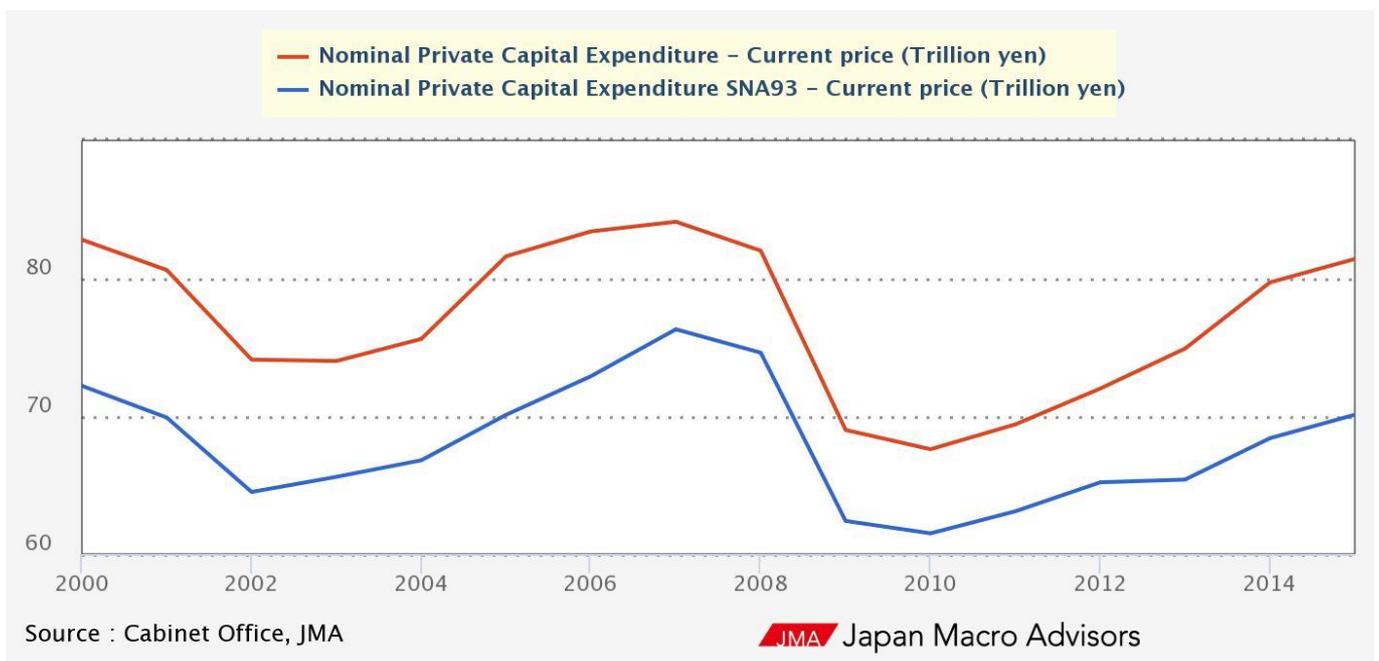
On December 8, Japanese government revised its GDP statistics to conform to the latest standard of national accounts, SNA2008. Before the revision, Japan was one of the last countries among OECD members not to be following the SNA2008 standard. Australia made the upgrade as early as in 2009. United State followed in 2013 and all EU member countries in 2014.

Japanese policy makers are probably regretting that they have not made the upgrade sooner though. The performance of the Japanese economy looks much better in the newer version of the GDP statistics, especially in the last few years. In the previous version called SNA93, the Japanese economy was estimated to have grown by 0% in 2014 and by 0.6% in 2015. In the newer version, the economy is estimated to have grown by 0.3% in 2014 and by 1.2% in 2015. For low growth country, such as Japan, a difference of 0.3-0.6% is quite significant.

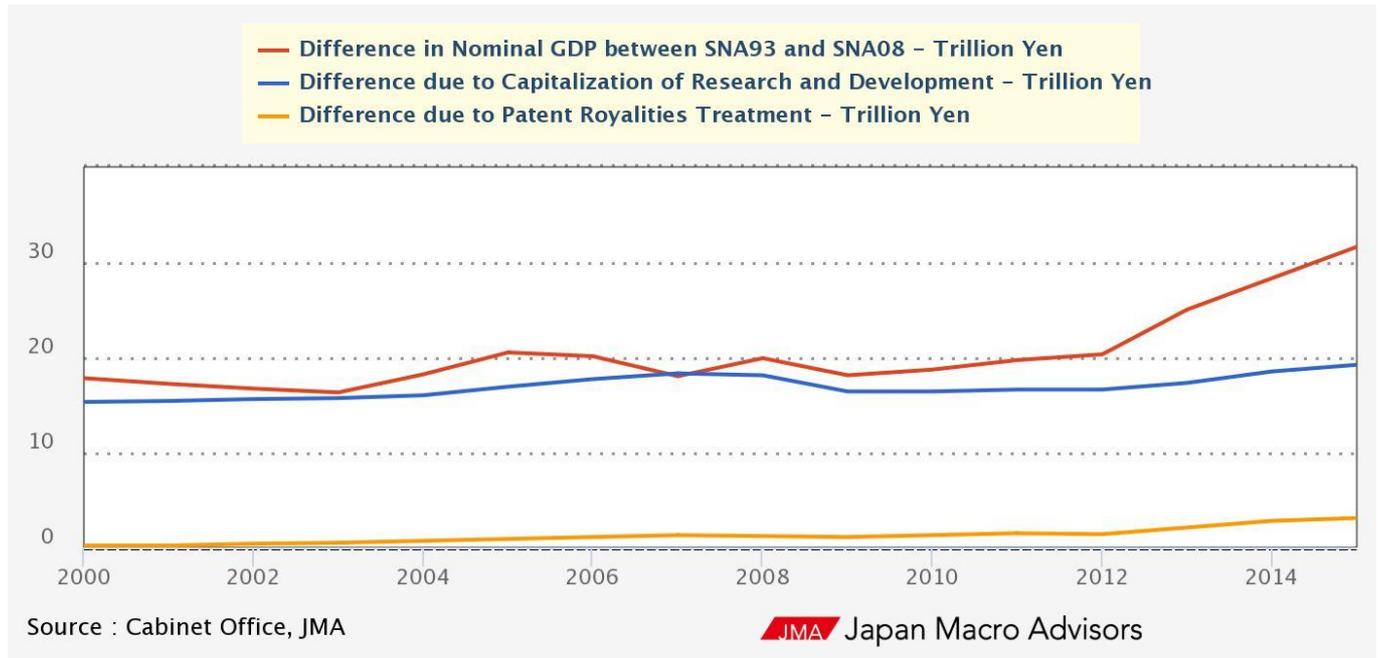


Where does the new growth come from?

The most significant change in the SNA2008 is the recognition of commercial R&D as capital expenditure. Prior to SNA2008, commercial R&D was not considered as a final demand items and thus not counted as a part of GDP. When Toyota spent its resources to develop new design for its vehicle line-up, these spending were not considered as capital investment, but rather as intermediate inputs. However, in SNA2008, R&D is now recognized as an asset with a lasting value and included in the private capital expenditure. As a result, the level of private capital expenditure has been revised upward significantly. The level of private capital expenditure in 2015 was revised up from 70.1 trillion yen in 81.4 trillion yen.



Including R&D expenditure by public sector, the inclusion of R&D as capital, accounts for 2/3 of the difference in the nominal GDP between SNA93 and SNA08. Other major sources of difference include Patent Royalties Treatment, Defence Equipment Capitalization and capitalization of Ownership Transfer Cost.



Now, we would caution not mistake the rise in the GDP as an actual rise in the economic activity. It is merely a change in the way economists define GDP. However, we still find it significant that the growth of the overall economy was revised up. It is evidence that the newly recognized part of the economy, R&D were growing more rapidly than the rest of the economy. The analysis published by Cabinet Office implies that the inclusion of the R&D would boost the growth rate by 0.2% point. For a country, whose trend growth was considered to be close to zero, that is significant.

Lastly, we also note that the boost to the size of the economy from adoption of SNA2008 was much bigger for Japan and for U.S. When U.S. adopted SNA2008 for its GDP statistics, the size of the U.S. economy in 2012 was revised up by 3.6%. For Japan, the upward revision was much bigger, 6.4%. Perhaps it implies that the in-house R&D activities tend to be larger in Japan than in U.S.

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