

BOJ, Cabinet Office in tug of war over Japan's GDP data

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TOKYO -- Debate on how to calculate Japan's economic health has been heating up between the Bank of Japan and the Cabinet Office just when the government released preliminary data on gross domestic product in the April-June quarter on Monday.

The exchange of words between economists considered to be GDP experts at the BOJ and Cabinet Office reveals problems long faced by Japanese statisticians.

A large number of people believe that a hike in the consumption tax inevitably is followed by an economic setback. This occurred when the Japanese economy took a tumble following the consumption tax increase in April 2014. With sales of automobiles, homes and other products shrinking extensively as a result of last-minute demand before the hike, Japan's GDP contracted 0.9% in real terms in fiscal 2014 from the previous year, according to the Cabinet Office.

With the outcome of that tax increase in mind, this year the administration of Prime Minister Shinzo Abe decided to put off an additional hike to 10%. The decision was partially prompted by political considerations before an upper house election.

Nevertheless, the contraction of GDP, as estimated by the Cabinet Office, was questioned by some experts.

30 trillion yen difference

In a meeting held at the Ministry of Internal Affairs and Communications in late July, Toshitaka Sekine, director-general of the Research and Statistics Department at the BOJ, released an estimate that real GDP increased 2.4% in fiscal 2014. Sekine described the estimate as "a BOJ official's personal dissertation."

GDP calculation methods

	CABINET OFFICE	BOJ
Value of nominal GDP in FY2014	490 trillion yen	519 trillion yen
	← Differ by 30 trillion yen →	
Data used	(For revised data) <ul style="list-style-type: none"> • Industrial statistics • Commercial statistics • Others 	<ul style="list-style-type: none"> • Residential, corporate income in addition to other tax information • Statistics on financial statements of incorporated businesses • Others
Accuracy	Based on international criteria set by United Nations; uses government, private-sector data as well as individual hearing surveys	Tax information covering all economic activities; based on criteria adopted by U.S.
Promptness, frequency	Preliminary data released on quarterly basis; revised data released nine months after end of each fiscal year	Released upon announcement of tax information, about 15 months after end of each fiscal year
Features	Calculation of personal consumption, capital investment, other data as well as of sector-by-sector data; occasional revision of past data	Limiting burden of surveys possible; adjustments, such as those of time lags in tax bookings, needed

In a "proposal of a new estimate," Sekine also reported that the value of nominal GDP in the year was 519 trillion yen (\$5.12 trillion), about 30 trillion yen more than the figure released by the Cabinet Office.

While the Japanese economy in fiscal 2014 has been widely seen as being stagnant to a significant extent, the estimate by Sekine shows a considerably different situation.

The Cabinet Office calculates the nation's GDP in accordance with criteria set by the United Nations. Using official government statistics and other data, it combines personal consumption, capital investment and other components of GDP.

In the dissertation, in contrast, the BOJ proposed to measure the nation's economic activity from residential and corporate income as well as other tax payments.

The U.S. uses various data, including state-by-state tax information, to estimate its GDP.

Put simply, the Cabinet Office estimates where money was spent, while the BOJ dissertation shows whom money was ultimately paid to. The difference between the two calculation methods reveals problems related to Japan's GDP data.

On the assumption of no tax evasion, the use of tax information enables "a complete survey with a high capture ratio," a BOJ official said. For example, new services, such as the sharing economy, which is expanding its presence, are used to show actual conditions seen from the viewpoint of profit recipients.

If official data fails to monitor changes created by new services, it is difficult to accurately calculate GDP.

While work to improve basic components of GDP is ongoing, a tug of war over the issue continues between the BOJ and the Cabinet Office.

During meetings of a task force on the improvement of the family income and spending survey convened at the internal affairs ministry in June and July, a member from the BOJ went as far as to say that the central bank is "reluctant" to use the survey as a macroeconomic index.

Thought an important statistic to estimate personal consumption for the compilation of preliminary GDP data, the survey has continued to be questioned because, among other reasons, respondents are mostly full-time housewives and elderly people.

In May, the BOJ announced a new index to be calculated on the basis of supermarket sales and other data. While the household spending survey found that personal consumption decreased in May and June, the new index, worked out by the BOJ, showed increases in both months.

Imperfect assessment

The proposal by the BOJ is far from ideal. For example, it takes some 15 months after the end of each fiscal year to calculate GDP using tax information. In other words, GDP data would be announced after the assessment of various policy measures runs its course, even though the prompt release of data is required.

GDP data based on tax information "should not necessarily be linked to economic activities in light of time lags with tax payments," said an official at the Cabinet Office.

While the BOJ and the government remain split over how to calculate GDP data, Yoshiaki Shinke, chief economist at Dai-ichi Life Research Institute, said, "There should be more reference materials before concluding that the BOJ method is correct, while the Cabinet Office and others should promote studies on it."

The government's current statistical system, in which each ministry and agency exercises jurisdiction over data concerned, poses obstacles to the improvement of statistics, a process that requires budgetary appropriation and manpower.

The Statistics Commission presides over government numbers, and calls are growing for reinforcing it so that government statistics will improve.

Mari Iwashita, chief market economist at SMBC Friend Securities who was involved in the study panel on the

household spending survey, said, "Instructions from cabinet ministers will become necessary" to improve government statistics.

As the potential growth rate of the Japanese economy has declined, differences after the decimal point now affect judgments on economic activity. While the government and the BOJ are trying to demonstrate their cooperation in rebooting Abenomics, analysts are closely watching to see if the two can cooperate in an important area that serves as the foundation of policy measures.

Constructive deliberations are needed on how to improve government statistics from the viewpoint of users.