

## Japan's Economy Grows 3.1% Annually in Q2 2024 Amid Consumption Boost

Japan's economy experienced a robust growth rate of 3.1% year-on-year in the second quarter of 2024, surpassing expectations and showing an improvement from the previous quarter. This growth was driven by a significant rebound in consumer spending and a gradual resumption of automotive production, which had been disrupted by a major industry scandal.

The official data released yesterday indicates that the economic expansion exceeded the market forecast of 2.1%, following a revised contraction of 2.3% in the first quarter. The quarterly growth rate of 0.8% also outpaced the expected 0.5% increase, highlighting a solid recovery in economic activity.

Kazutaka Maeda, an economist at the Meiji Yasuda Research Institute, noted, "The results are broadly positive, with signs of a resurgence in private consumption supported by real wage growth." Private consumption, a major component of Japan's economic output, rose by 1.0%, surpassing the forecasted 0.5% increase and marking the first rise in five quarters.

Despite this positive trend, private consumption remains a weak spot due to rising living costs, partly driven by higher import prices resulting from yen depreciation. However, the data supports the Bank of Japan's (BOJ) view that a strong economic recovery will help achieve the 2% inflation target sustainably, potentially justifying further interest rate hikes.

The BOJ recently raised interest rates and announced plans to reduce its substantial bond purchases, signaling a gradual shift away from its extensive monetary stimulus. Yasuda commented, "This supports the BOJ's view and bodes well for future rate hikes, though the central bank will remain cautious following the recent yen appreciation."

Capital expenditure, a key driver of growth fueled by private demand, increased by 0.9%, matching economists' expectations. On the downside, external demand, measured as exports minus imports, subtracted 0.1 percentage points from growth.

Overall, Japan's economic performance in the second quarter underscores a promising recovery trajectory, bolstered by stronger consumer spending and a rebound in production, setting a positive outlook for the remainder of 2024.