

4Q24 GDP grew much stronger than expected, supporting BoJ normalisation ahead

The Japanese economy continues to grow, faster than the BoJ's forecast. Given the upside risks to higher inflation, the BoJ is likely to raise rates as early as May if the Shunto wage negotiation results are as strong as last year



Japan's Tokyo Tower

0.7%

4Q24 GDP

Quarter on Quarter growth, Seasonally Adjusted

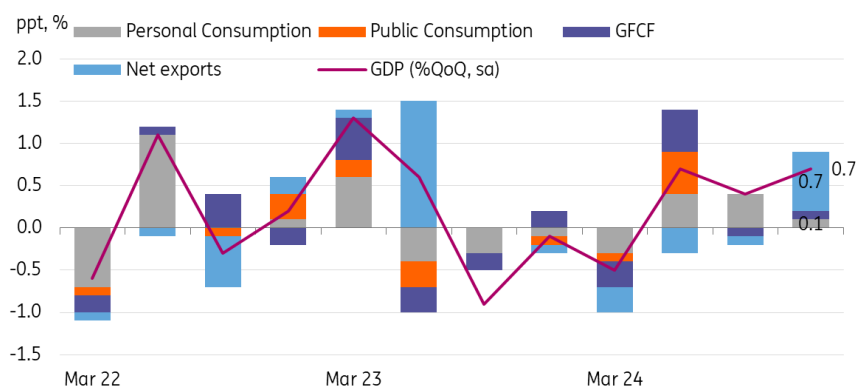
Higher than expected

Japan's GDP grew 0.7% QoQ sa in the fourth quarter (vs a revised 0.4% in 3Q24, 0.3% market consensus) thanks to solid external demand

Today's GDP data shows that the economy continues to grow steadily, with stronger-than-expected 4Q24 results and revised up 3Q24 growth (0.4% from 0.3%). Strong global demand for semiconductors appeared to have led to better exports and capex spending, while domestic demand softened a bit compared to the previous quarter.

- Private consumption growth moderated to 0.1% after solid growth of 0.7% in 3Q24, but it was stronger than the market consensus of -0.3%. In 4Q24, real wage growth turned positive, as did household spending. As such, we believe that solid wage growth is clearly leading the consumption recovery. Both durable goods consumption (3.6%) and services consumption (0.1%) are behind the resilient growth of household consumption. However, we believe that faster inflation growth (CPI 2.93% YoY 4Q24 vs 2.77% 3Q24) will weigh on consumption going forward.
- Meanwhile, business spending rebounded 0.5% (vs -0.1% 3Q24, 0.9% market consensus) mostly due to increases in tech investment related to semiconductors.
- The contribution of net exports to GDP was 0.7 ppt as exports rose 1.1%, while imports contracted -2.1%. A notable increase in exports of services (4.1%) seems largely due to inbound tourism and 0.1% growth in exports of goods due to strong IT exports.

4Q24 GDP grew stronger than expected mostly due to strong external demand



Source: CEIC

BoJ watch

Today's results are better than the BoJ's current GDP forecast (0.6% YoY for FY24 GDP). On the inflation front, headline prices are expected to jump to 4.0% YoY in January and remain at a high level of 3% for some time. Growth and inflation conditions point to faster-than-expected rate action by the BoJ. Current market pricing dynamics suggest a rate hike in July, but we believe that the BoJ may act as early as May. According to a local news report, the outcome of Spring wage negotiations is likely to be as strong as last year.

However, the main risk to our call is US President Trump's tariff policy. Tougher-than-expected

reciprocal tariffs on Japanese goods could complicate the BoJ's growth outlook. But, in our view, the BoJ's policy priority in the near term should be to contain excessive inflation. Thus, we maintain our BoJ forecast of a hike in May and October in 2025 and an additional hike in 2026.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.