

Japan's 2Q GDP expanded on solid private consumption

Japan's real GDP growth accelerated in the second quarter as Covid-19 restrictions eased. As expected, domestic demand, including private consumption and investment, led the recovery



Domestic demand is leading Japan's recovery

0.5% Quarter-on-quarter

Lower than expected

2Q GDP rose 0.5% QoQ sa (vs revised 0.0% in 1Q)

GDP grew 0.5% QoQ seasonally-adjusted in the second quarter, slightly missing the market consensus of 0.6%, while first quarter GDP was revised up from -0.1% to 0.0%. Private consumption, which accounts for about 60% of Japan's output, increased by 1.1%. Although the pent-up demand seems to have eased as the initial reopening effect fades, private consumption is highly likely to be the growth engine for the rest of the year. Inventory contributed negatively to the second quarter growth but the inventory cycle will likely turn favourable for the current

quarter's growth as global supply chain bottlenecks are expected to improve. Meanwhile, exports increased 0.9% in the second quarter, mainly due to solid demand from the US and EU. However, the contribution of net exports remained flat, as high commodity prices for imports offset most of the positive contribution from exports.

Future outlook and the BoJ

2Q GDP was slightly below the market consensus, but 1Q GDP was revised up, thus we keep the annual GDP growth unchanged. However, we expect GDP growth to slow this quarter due to high inflation and the re-emergence of new Covid cases. The Bank of Japan will remain accommodative as downside risks to a recovery increase while there are no clear signs of demand-driven inflation.

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