

Japan becomes fastest growing G7 country

Second quarter GDP came in much stronger than expectations, hitting 4 percent



4% 2Q17 GDP
annualised

Better than expected

Japanese gross domestic product (GDP) for the second quarter of 2017 has come in far stronger than was envisaged, achieving 1.0% quarter-on-quarter seasonally adjusted, or 4.0% QoQ in annualised terms. By our reckoning, that makes Japan the fastest growing economy in the G-7 this quarter and may re-start the chatter about Bank of Japan's eventual quantitative and qualitative (QQE) exit strategy.

Not only was growth strong, but it was the right sort of growth

As well as very respectable private consumption growth of 0.9% QoQ, there was also encouraging 2.4% QoQ growth of non-residential investment. Public investment added about 0.2pp to the QoQ growth total, while inventories had no effect on the overall figures and net exports were a slight drag of 0.3pp.

In other words, this was not one of those fluky one-offs that is caused by a surge in inventories that will be worked down in coming quarters, or one of those random spikes caused by exports and imports growing out of sync.

Although it is usually exactly the wrong thing to respond to volatile Japanese GDP data by revising full year forecasts, arithmetically, it is going to be hard for us to see the 1.2% for 2017 we currently have pencilled in, and an upgrade now seems extremely likely.

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