

## Why slowing GDP won't deter Japan's policy normalisation

The Japanese economy grew by 0.2% quarter-on-quarter seasonally adjusted in the third quarter of this year, slowing from 0.5%. But the BoJ is likely to pay attention to stronger-than-expected private consumption. From now until its December meeting, JPY movement will be a key factor in determining the timing of December or January rate hikes



Bank of Japan  
headquarters in Tokyo

0.2% GDP  
%QoQ, sa

As expected

## The growth slowdown was mainly due to weather related one-off issue

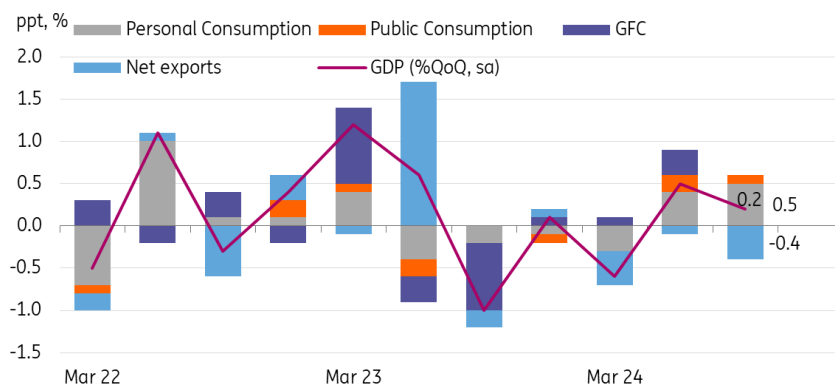
The Japanese economy grew by 0.2% QoQ sa in the third quarter of the year, decelerating from a revised 0.5% growth in the second quarter and in line with market consensus. In terms of the annualised growth rate, this grew 0.9% QoQ (seasonally adjusted annual rate), coming in a bit higher than the market consensus of 0.7%.

Weather-related problems, such as typhoons and a mega-earthquake alert, severely disrupted economic activity in August. The slowdown in GDP was therefore expected. We see the early signs of a recovery in the monthly activity data and therefore expect GDP to reaccelerate in the current quarter.

Private consumption growth was surprisingly strong, rising 0.9% QoQ sa (vs a revised 0.7% in the second quarter and 0.2% market consensus). This is all the more surprising given that bad weather may have dampened some activity and sentiment. The robust growth is likely due to solid wage growth and a temporary income tax cut. Business spending contracted -0.2% (in line with market consensus) after a 0.9% growth in the previous quarter. As core machinery orders appear to be bottoming out, we expect investment to recover in the current quarter.

Meanwhile, net exports made a negative contribution (-0.4ppt) to overall growth, as imports (2.1%) grew faster than exports (0.4%). We believe that exports were hit by the typhoons and should therefore improve. However, the recent depreciation of the JPY may push up imports further; net exports could remain a drag on current growth, but to a lesser extent.

### Private consumption rose robustly in 3Q24



Source: CEIC

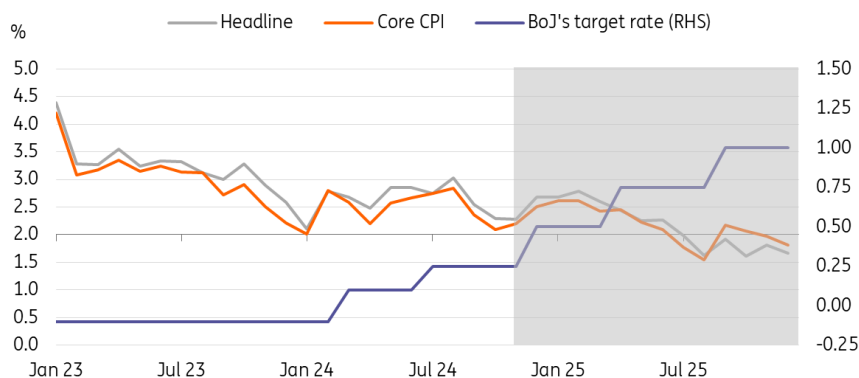
### BoJ watch

We don't think the Bank of Japan will be too concerned about the temporary slowdown and will pay more attention to the fact that private consumption has grown for a second consecutive quarter. Inflation remains above 2%, while private consumption is firming up, suggesting that the virtuous cycle between wage growth and consumption is materialising.

In our view, the BoJ is likely to take a closer look at yen movements. The yen has depreciated by almost 4.5% against the dollar over the past month, raising the possibility of higher import costs

and a subsequent overshooting of inflation. As for the Bank of Japan raising interest rates, we believe it is only a matter of time and that this should materialise in either December or January. We see a slightly higher probability of a December hike than a January hike, as we expect the JPY depreciation to continue for a while and for upcoming inflation data to provide more evidence of growing inflationary pressures. If this is confirmed, the Bank of Japan is likely to hike 25bp in December.

## We expect the BoJ's target rate to reach 1% by end of 2025



Source: CEIC, ING estimates

### Author

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto: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 <http://www.ing.com>.