



Economics Group

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Japanese Economy Extends Winning Streak in Q1

A better-than-expected print for first quarter Japanese GDP growth extends the longest winning streak there since 2006, although still-soft CPI likely means continued accommodation from the Bank of Japan.

Kampai...Longest Growth Stretch in 11 Years

The Japanese economy expanded at an annualized pace of 2.2 percent in the first quarter. Not only was that the fastest pace of growth since the first quarter of last year, it also marks the fifth consecutive quarterly expansion—the longest stretch of uninterrupted growth in Japan since 2006.

The growth rate came from broadly based support. The largest overall positive contributor came from consumer spending which grew at an annualized rate of 1.4 percent, enough to add 0.8 percentage points to the overall growth rate. Going into today's release, we already knew that retail sales in Japan had strung together three straight monthly increases which had lifted the yearly growth rate for store sales to the fastest pace since April 2015. In fact the surge in April of 2015 had to do with the 2014 implementation of a consumption tax hike which suppressed spending in April 2014. While there is no perfect way to adjust for the impact of the tax, the takeaway here is that consumers in Japan are spending again at a pace not seen in years.

Consumers are not the only ones feeling a bit more confident. The Tankan survey of large manufacturers rose in the first quarter to its fastest pace of expansion since 2015. That confidence has manifested itself in today's GDP report in the form of increased business spending. Admittedly, the 1.0 percent annualized pace of growth for business outlays is hardly overwhelming but, it marks the third consecutive quarterly increase—the longest winning streak for cap-ex since 2014.

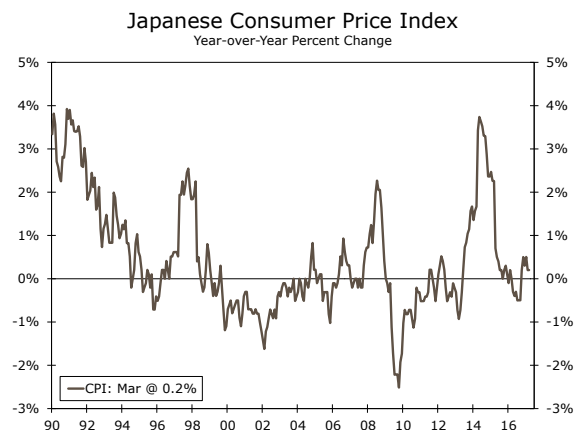
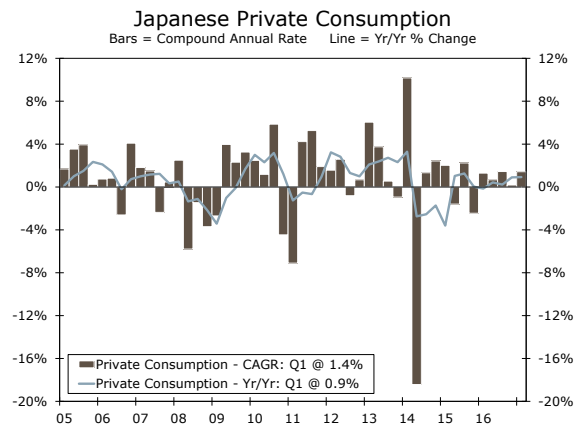
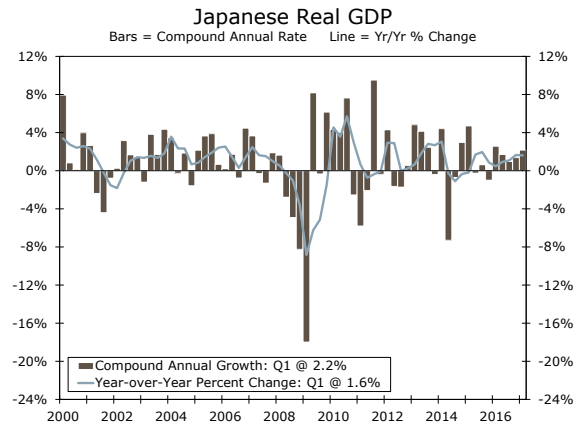
Who's Done With TPP?

The United States backing out of the Trans Pacific Partnership (TPP) was a blow to Japanese trade prospects, although the world's third largest economy is benefitting from trade even without that trade partnership. Japanese exports swelled again in the first quarter and even though imports also increased at the fastest pace in two years, net exports added half a percentage point to the first quarter's overall growth rate.

A factor in Japan's trade strength could be a Chinese boycott of South Korean goods and a resulting shift to Japan. Japan's exports to China surged by the most in two years in February and rose again in March.

FX and Monetary Policy

The risk-off sentiment in recent days has pushed the yen higher as periods of pronounced market risk often will, but our base case scenario is for continued yen weakness over time. Despite this better-than-expected GDP report, inflation moved further away from the central bank's target in March suggesting a continued dovish policy bias from the Bank of Japan.



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