# Japan's Economy Shrinks by 2% in Q1 2024 Amid Weak Consumer Spending and Auto Challenges



**Japan's Economy Contracts by 2% in Q1, Struggles with Weak Consumer Spending and Auto Challenges**

Tokyo — Japan's economy has experienced a contraction, shrinking by an annualized 2% in the first quarter of 2024, as reported by the Cabinet Office on Thursday. This decline follows weakened consumption and external demand, presenting new challenges for policymakers considering an interest rate hike. The contraction is sharper than the 1.5% drop forecasted by a Reuters poll of economists.

Gross Domestic Product (GDP) data show a quarterly contraction of 0.5%, compared to the expected 0.4% decline. Private consumption, a significant component of Japan's economy, fell by 0.7%—marking the fourth consecutive quarter of decline, the longest streak since 2009. Capital spending also decreased by 0.8%, slightly more than anticipated despite strong corporate earnings.

External demand subtracted 0.3 percentage points from GDP in the first quarter. Economists like Yoshimasa Maruyama of SMBC Nikko Securities predict a rebound in the economy due to rising wages and upcoming income tax cuts, although uncertainties in service consumption persist.

In addition to consumer spending woes, the Daihatsu unit of Toyota Motor Corp. faced production stoppages earlier this year due to a safety test scandal, further affecting GDP. The Japanese yen's historic low value against the U.S. dollar, trading at around 155 yen, has exacerbated living costs, impacting consumer spending.

Despite the Bank of Japan raising interest rates in March for the first time since 2007, policymakers are expected to move cautiously in adjusting monetary policies further, given the fragile economy. Unemployment remains low at around 2.6%, but slow wage growth and rising prices continue to pressure the economy.

### Key Points:

* Who: Japan's economy, policymakers, Bank of Japan
* What: GDP contracted by 2% annualized in Q1 2024
* Where: Tokyo, Japan
* When: January to March 2024
* Why: Declines in consumer spending, external demand, and issues at Toyota's Daihatsu unit; historic yen depreciation

The data underline significant hurdles for Japan's economic recovery, requiring a measured approach from the Bank of Japan regarding future interest rate policies.