Japan's Economy Slows As Consumer Spending Flags

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TOKYO (AP) — Japan's economy grew at a slower-than-expected annualized rate of 1.4 percent in April-June, adding to worries over the global outlook, as consumer spending flagged following a rebound from last year's earthquake and tsunami disasters.

The protracted crisis in Europe took a heavy toll, also, as feeble demand hit Japan's export sector.

Although the pace of growth dropped sharply from a revised 5.5 percent in the previous quarter, the economics minister, Motohisa Furukawa, struck an upbeat tone, saying in a statement that the economy "continues in an uptrend, led by domestic demand."

The fact that the economy expanded, on top of the robust growth for the previous quarter, is a positive sign, said Junko Nishioka, an economist at RBS Japan Securities.

Government subsidies for purchases of energy efficient vehicles are still helping support growth, she said. The economy will also be buttressed by strong public investment, which is due to peak in October-December, she said.

However, Nishioka said the risk of worsening deflation is a "pessimistic result" that might prompt Japan's central bank to consider further easing of monetary policy to support growth. Deflation, or falling prices, is a chronic problem for Japan and can be a drag on economic growth.

Consumer spending makes up more than half of Japan's economic activity. After the March 11 disaster last year, many Japanese held back on spending and excursions, adding to damage from disruptions to manufacturing from the twin disasters in northeastern Japan, where many auto and electronics plants ground to a halt.

Robust public investment in reconstruction of housing and other buildings in the devastated northeastern region is likely to wane in coming months, further reducing momentum. Meanwhile, the strong Japanese yen has clobbered exports, and costs for importing fuel to offset lost generation capacity from closed nuclear power plants have mounted.

Japan's economy grew 0.3 in the April-June quarter from the previous quarter. That was lower than economists' forecasts of over 2 percent, and translates to a 1.4 percent expansion in annualized terms. The economy 1 percent in January-March from the previous quarter.

The expansion in the latest quarter was the fourth straight quarter of growth, although still at fragile rates. The economy was virtually flat in October-December but did not shrink.

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