15 August 2025
Japanese report: 15 August 2025

Daiwa's Economic View

Apr-Jun GDP: Economy still resilient despite lingering uncertainties

- Japan's economy showed no impact from Trump's tariffs in Apr-Jun 2025, but be aware some may emerge from Jul-Sep 2025
- We forecast real GDP growth of +0.0% q/q (+0.2% annualized) for Jul-Sep 2025

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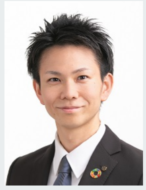


Summary

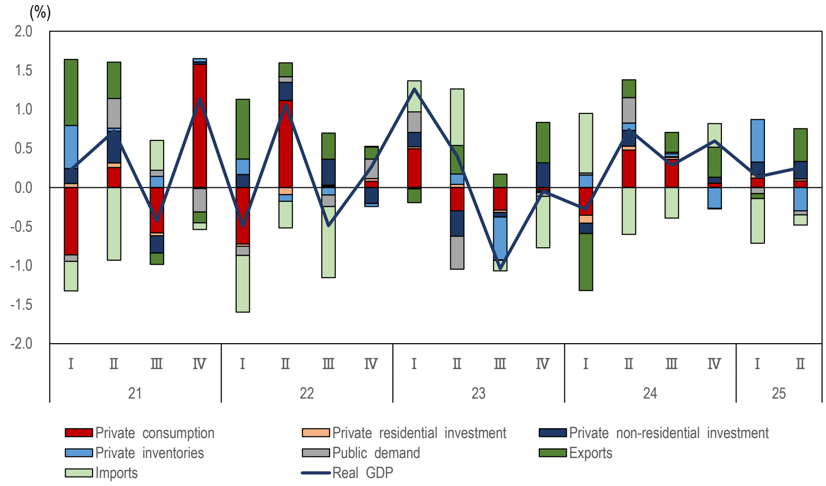
The first preliminary real GDP estimate for Apr-Jun 2025, released on 15 August, showed a q/q increase of +0.3% (+1.0% annualized), surpassing market expectations of +0.1% (+0.4% annualized) and marking the fifth consecutive quarter of growth. By component, capex exceeded expectations, while both personal consumption and exports also increased. However, inventory changes, which had surged in the previous quarter, decreased. As a result, domestic demand contributed -0.1% to overall growth. Excluding inventory changes, both domestic and external demand remained strong.

There were concerns that Trump's tariffs would hurt capex and export volume in Apr-Jun, but their effects have been limited thus far. We attribute this to companies, particularly in the automotive sector, mitigating the negative impacts on export volume by reducing export prices.

Although the US-Japan tariff agreement on 23 July eased some uncertainties, tariffs are still higher than they were, and we still see the potential for tariffs to impact the real economy from Jul-Sep.

We currently forecast real GDP growth of +0.0% q/q (+0.2% annualized) for Jul-Sep 2025.

Breakdown of Contributions to Real GDP



Source: Cabinet Office; compiled by Daiwa.

Personal consumption: Gradually recovering, but high prices and reduced working hours weigh on growth

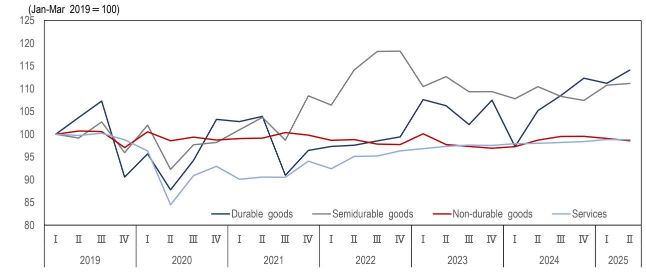
Real private final consumption expenditure in Apr-Jun increased +0.2% q/q (same as Jan-Mar), with durable goods consumption contributing positively. The private final consumption expenditure deflator did not change q/q (compared to +1.6% in Jan-Mar), and this supported personal consumption.

However, non-durable goods consumption continued to decline, by -0.5% q/q (same as in Jan-Mar), with rising food prices still dampening personal consumption. Service consumption remained flat q/q (vs. +0.4% in Jan-Mar), while durable goods consumption increased by a robust +2.6% q/q (vs. -1.0% in Jan-Mar), driven by higher automobile sales volume.

Looking ahead, and assuming inflationary pressures ease, we expect consumption to follow a gradual recovery path. However, persistent increases in food prices and slower-than-expected wage growth are factors that could slow the pace of recovery in FY25.

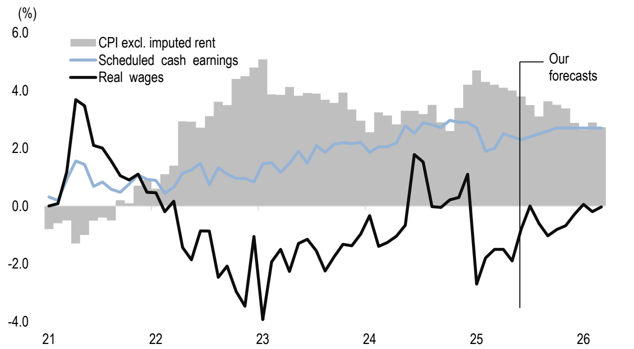
Nominal employee compensation only grew +1.3% y/y in Apr-Jun 2025, below the +1.8% increase in Apr-Jun 2024. Monthly Labour Survey also indicate that wage growth is underperforming expectations on reduced working hours, and this is likely to delay a turn to positive real wage growth. Consequently, we expect personal consumption to continue its gradual recovery, but still at a subdued pace.

Levels of Real Household Consumption by Type



Source: Cabinet Office; compiled by Daiwa.

Forecasts for Real Wages



Source: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.
Note: Actual figures based on data continuously collected from same establishments.

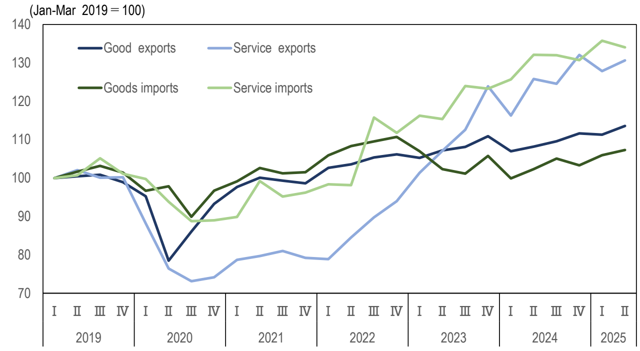
External demand: Exports strong in Apr-Jun, but look for downward pressure from Jul-Sep

Real goods exports increased by 2.0% q/q (+0.7% in Jan-Mar), as companies, particularly in the automotive sector, reduced export prices to mitigate the Trump tariffs and support export volumes to the US. By region, goods exports to the EU, NIEs, and ASEAN saw growth, while service export growth also turned positive, rising 2.2% q/q (vs. -3.2% in Jan-Mar), leading to growth in overall export of 2.0% q/q (vs. -0.3% in Jan-Mar). However, due to the reduction in export prices, nominal exports declined 0.8% q/q.

Meanwhile, overall imports rose by 0.6% q/q (vs. +2.9% in Jan-Mar), with a decline in services more than offset by an increase in goods. Thus, both exports and imports grew in Apr-Jun, but exports contributed more. As a result, external demand contributed +0.3% to overall growth.

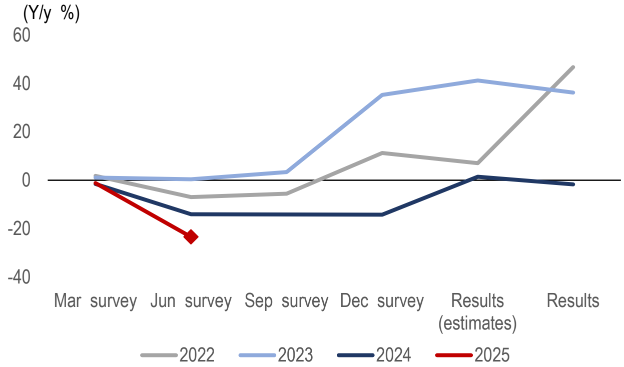
The export numbers for Apr-Jun do not show any clear impact from the Trump tariffs. However, media reports suggest that the combined FY25 earnings forecast for the seven major automakers will decline by approximately Y2.6tn, possibly owing to future price pass-throughs. If companies do start reflecting tariffs in their prices, it could reduce the price competitiveness of their export goods and possibly dampen export volumes. Additionally, a weakening US economy would likely put further pressure on Japan's exports.

Levels of Real Exports and Imports by Type



Source: Cabinet Office; compiled by Daiwa.

Recurring Profit Plans in Motor Vehicles Sector (BOJ Tankan)



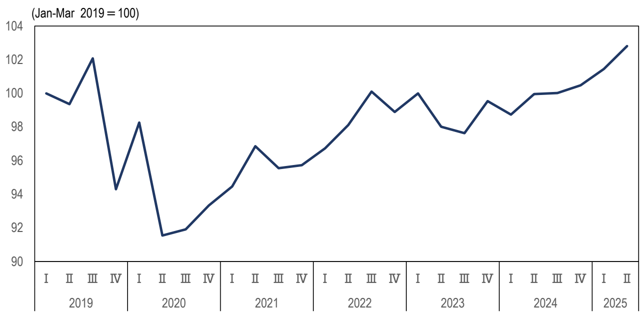
Source: BOJ; compiled by Daiwa.

Capital investment: Trump tariffs may have more impact in the future, but we expect capex to remain somewhat resilient

Real private sector capex in Apr-Jun grew by a somewhat respectable +1.3% q/q (vs. +1.0% in Jan-Mar), driven by structural investments in response to labor shortages and for digital transformation (DX), as well as by increased construction investment. While there were concerns about the impact of Trump tariffs on capex, no such impacts were evident during the quarter.

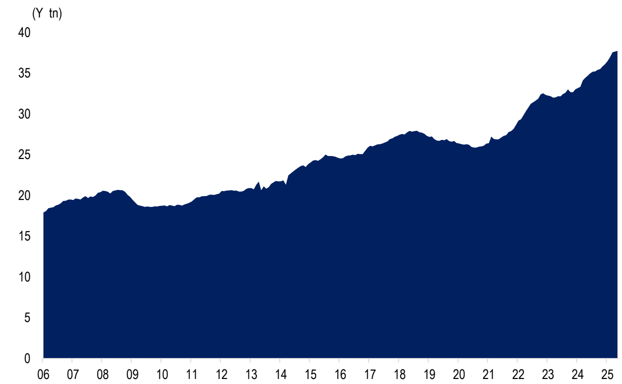
However, we expect the impact on capex to intensify from Jul-Sep, via declines in exports, production, and corporate earnings. Nonetheless, we expect such factors as increased structural investment demand and backlogs of orders to provide enough support to keep capex reasonably strong.

Level of Real Private Non-residential Investment



Source: Cabinet Office; compiled by Daiwa.

Backlog for Machinery Orders



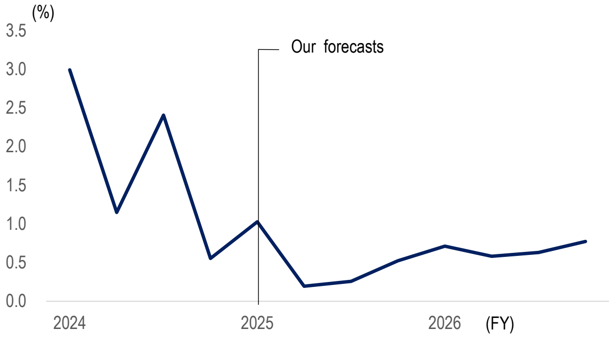
Source: Cabinet Office; compiled by Daiwa.

Economic outlook: We forecast GDP growth of +0.0% q/q (annualized +0.2%) for Jul-Sep 2025

Although the US-Japan tariff agreement on 23 July eased some uncertainties, tariff costs are still higher than they were. In Apr-Jun, companies, particularly in the automotive sector, mitigated the impact on export volumes by reducing export prices, but we expect the effects of the Trump tariffs to become more pronounced from Jul-Sep, and therefore look for greater downward pressure on exports, production, and capex.

However, as we noted earlier, we expect capex to remain reasonably strong on support from structural factors. While the pace of recovery in personal consumption is likely to slow, we expect domestic demand to remain strong overall. Based on the above, we currently forecast GDP growth of +0.0% (annualized +0.2%) for Jul-Sep 2025.

Forecast for Real GDP



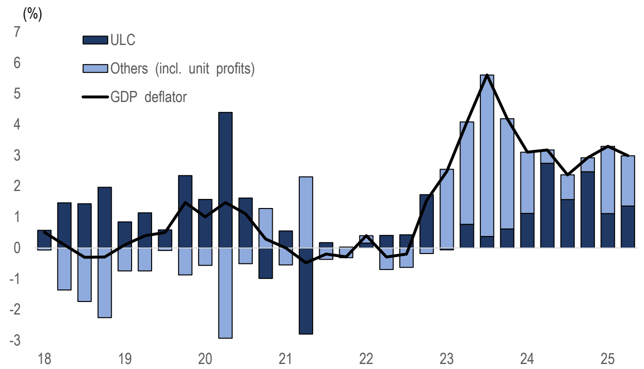
Source: Cabinet Office; compiled by Daiwa.

GDP deflator: Suggests continued price increases

The BOJ primarily looks at unit labor cost (ULC) and unit profit (UP) to confirm whether wages and prices are rising in tandem. The ULC is the labor cost per unit of value added produced, and thus represents the labor expenses necessary for a company to create value. Likewise, UP refers to the profit earned by a company per unit of value added, and thus measures a company's profitability. For price increases to be sustained requires not only that wages rise but also that corporate profits grow, hence balanced growth in both is essential.

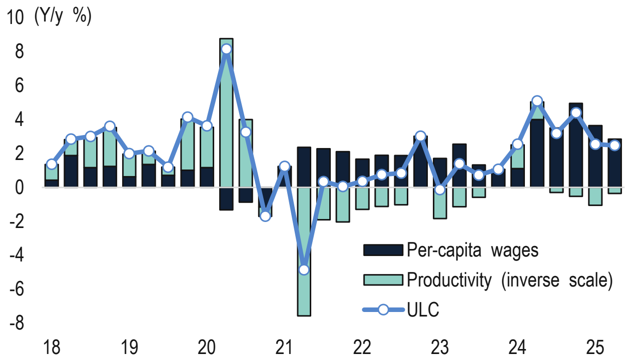
In Apr-Jun 2025, the GDP deflator was +3.0% y/y (vs. +3.3% in Jan-Mar), as both ULC and UP increased. A closer look at ULC indicates that productivity improvements have been partially offsetting the cost increases from rising wages for about a year. If, as we expect, real GDP remains positive in Jul-Sep, it would mark the fifth consecutive quarter of wage increases accompanied by productivity gains. This could support the BOJ's case for hiking rates.

Breakdown of GDP Deflator



Source: Cabinet Office; compiled by Daiwa.
Note: ULC = Nominal employee compensation / Real GDP.

Breakdown of ULC



Source: Cabinet Office, MIC; compiled by Daiwa.

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