

Daiwa's Economic View

Shift from saving to investing to boost household spending

- Consumer spending resilient despite falling real wages
- Companies remain committed to sustained wage hikes
- Sustained positive wage-price feedback loop looks more plausible

FICC Research Dept.

Kaori Ichikawa81-3-5555-8758
kaori.ichikawa@daiwa.co.jp**Kenji Yamamoto**81-3-5555-8784
kenji.yamamoto@daiwa.co.jp

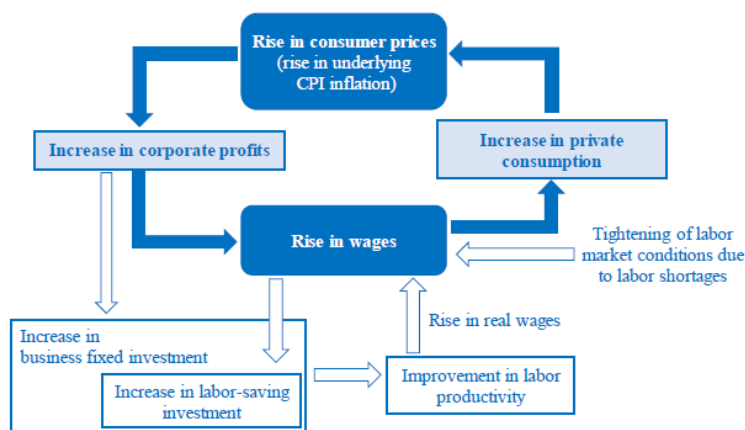
Daiwa Securities Co. Ltd.

The Bank of Japan (BOJ) raised its policy rate from 0.5% to 0.75% [at its December 2025 Monetary Policy Meeting \(MPM\)](#). One reason for the rate hike cited by BOJ Governor Kazuo Ueda was the likelihood of a sustained positive feedback loop between wages and prices as uncertainty about the US economy and other factors eases and downside risks recede.

The chart below shows how this wage-price feedback loop works. In a 25 December speech at Keidanren, Mr. Ueda noted the importance of the mechanism whereby rising wages increase household income and boost consumer spending, rising demand boosts consumer prices and output prices, and corporate earnings improve. He also argued that in current economic conditions, sustained growth in real wages is essential.

In this report, we analyze the positive feedback loop between wages and prices.

Cycle Between Wages and Prices



Source: Reprinted from BOJ materials.

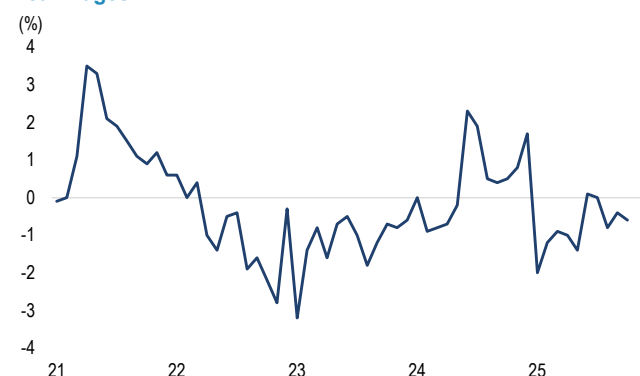
Consumer spending resilient despite falling real wages

Sustaining the wage-price feedback loop will require a boost to household spending from rising wages that in turn drives up corporate profits and leads to more aggressive wage-setting behavior. Properly passing through rising wages into output prices will also result in sustained inflation.

On the wage front, the outcomes of the past several years' spring labor negotiations are evidence of substantial growth in wages. This is supported by the BOJ's surveys of corporates' stance on FY26 wage hikes, which indicates that many plan to continue with substantial pay increases in FY26: for example, some firms plan to raise wages in line with FY25, partly in view of the impact on their suppliers (autos), while others are considering raising wages for full-time employee more than in FY25 to ease their sense of unfair treatment after last year's larger jump in part-timers' pay driven by the substantial increase in minimum wage (hotels). However, real wages continue to fall as inflation continues.

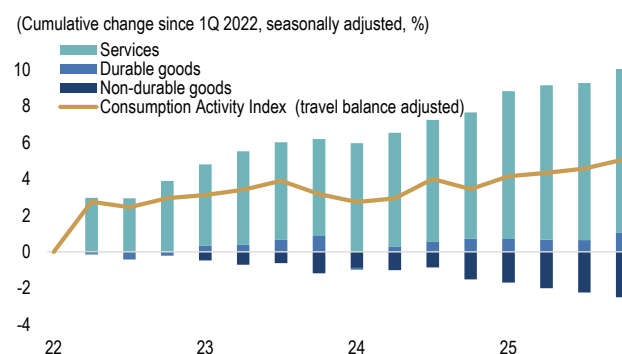
Despite this, consumer spending remains firm. While spending on non-durable goods remains weak due to soaring food prices, spending on services and durable goods is trending upward and overall spending remains firm. Consumer sentiment is also improving. However, it is improving more among younger age groups and more gradually in older demographics, resulting in [a K-shaped divergence between households](#) on sentiment as well.

Real Wages



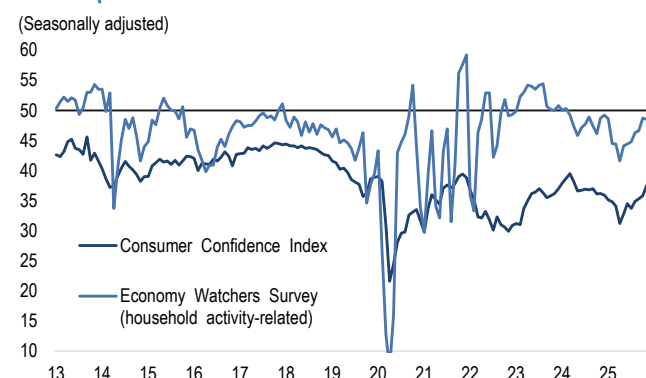
Source: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

Consumption Activity Index (real)



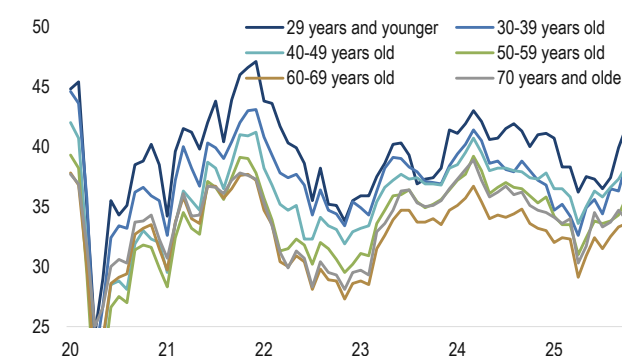
Source: BOJ; compiled by Daiwa.

Consumption Sentiment Indices



Source: Cabinet Office; compiled by Daiwa.

Consumer Confidence Index



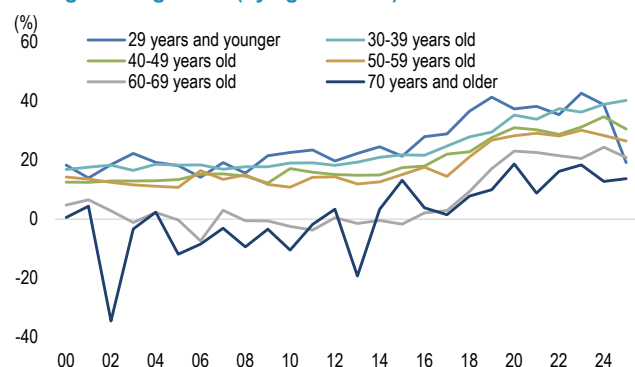
Source: Cabinet Office; compiled by Daiwa.

Shift from saving to investing supporting spending

Household spending remains firm despite falling real wages, with a shift from saving to investing helping to boost consumer sentiment. Firstly, average savings rates for all age groups have risen since the COVID-19 pandemic. While deposits still account for the majority of savings, the 2025 weighting for securities was up versus 2002 for all age groups. We think an increase in stock and investment trust ownership driven by households' shift from saving to investing is creating a wealth effect that is supporting spending.

Inflation also reduces the underlying value of cash and deposits, meaning that funds more readily flow into assets such as stocks; these changes in asset structure are supporting firm consumer spending.

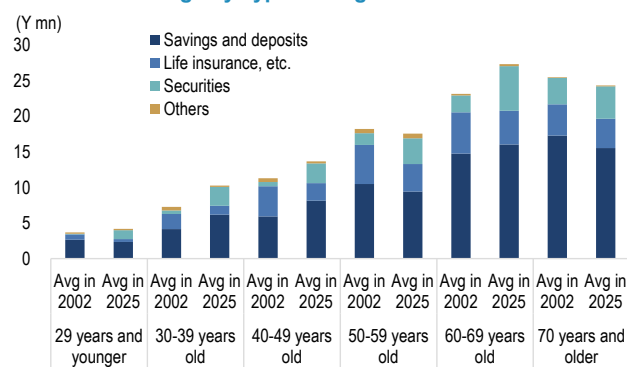
Average Savings Rate (by age bracket)



Source: MIC; compiled by Daiwa.

Note: Average savings rate = Net increase in savings / Disposable income × 100.

Amount of Savings by Type and Age Bracket



Source: MIC; compiled by Daiwa.

Companies still committed to passing through rising costs

We confirmed above that consumer spending remains firm despite falling real wages. However, sustaining the positive feedback loop between wages and prices will require companies to properly pass rising wages through into prices.

The latest CPI data also shows companies continuing to pass through higher costs. However, the BOJ's surveys suggest that companies are nearing the limit of their ability to do so, with some firms stating that pass-throughs remain inadequate and that they face losses if they continue with the current pace of wage hikes (food).

At the same time, the output and input price DIs in the BOJ Tankan remain virtually flat but are both elevated. We expect firms to continue with cost pass-throughs given that many indicate that they expect both output and input prices to rise.

66.0% of respondents to a Teikoku Databank survey cited labor costs as the reason for price hikes in Jan-Apr 2026, up sharply from 50.3% in 2025. We expect food manufacturers to continue raising prices to reflect labor costs. While companies are nearing the limits of their ability to pass through higher costs, we think they will need to continue doing so to some extent to secure earnings.

Output Price DIs (all-size enterprises, all industries)

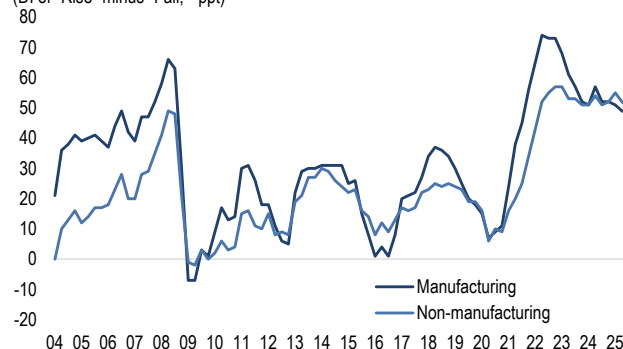
(DI of "Rise" minus "Fall," ppt)



Source: BOJ; compiled by Daiwa.

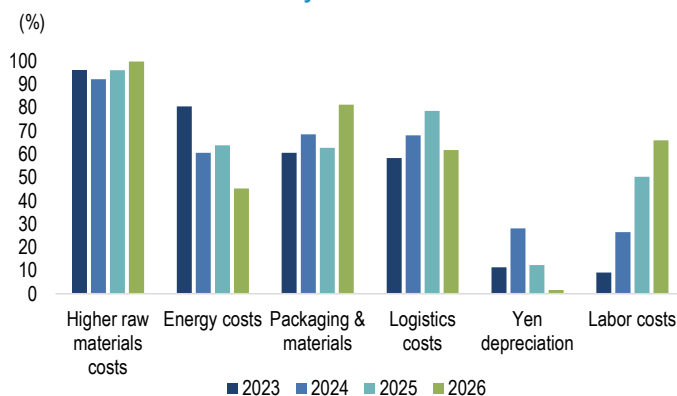
Input Price DIs (all-size enterprises, all industries)

(DI of "Rise" minus "Fall," ppt)



Source: BOJ; compiled by Daiwa.

Reasons for Price Increases by Food Manufacturers



Source: Teikoku Databank; compiled by Daiwa.

Note: Jan-Apr data used for 2026.

Wage-price feedback loop increasingly likely

We confirmed above that a sustained, albeit weak, positive feedback loop between wages and prices is now more likely.

While real wages are falling, consumer spending remains firm, partly reflecting the shift from saving to investing. A boost to consumer spending would improve corporate earnings and translate into wage hikes. The fact that companies are raising prices to reflect rising labor costs as well as raw material prices implies that the feedback loop between wages and prices is more likely to function properly.

However, if the yen were to weaken, this would worsen Japan's terms of trade and could prolong negative real wage growth. Sustained positive growth in real wages will be key to a positive feedback loop between wages and prices, and forex trends therefore need watching.

IMPORTANT DISCLOSURES

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities

Please refer to https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association