

# Monthly Report of Prospects for Japan's Economy

## June 2025

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

<https://www.jri.co.jp/english/periodical/>

This report is the revised English version of the May 2025 issue of the original Japanese version.

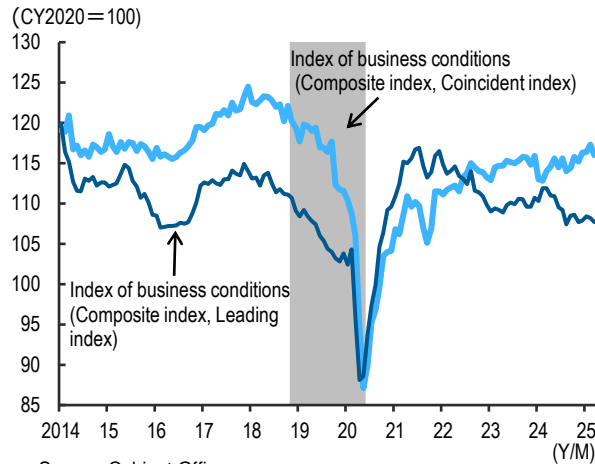
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# The General Situation – The economy is gradually recovering, though activity has slowed in some areas

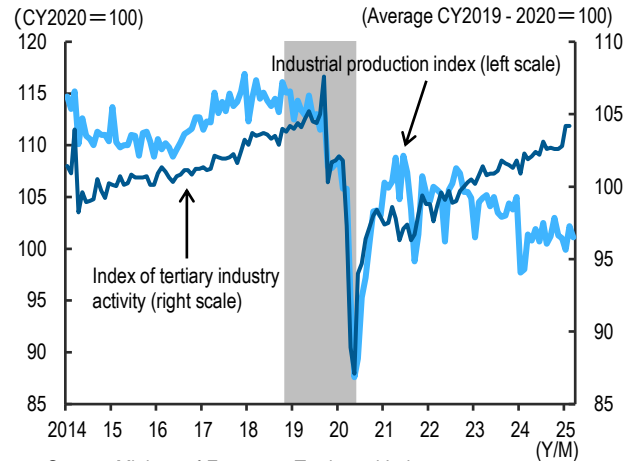
**Figure 1-1 Economic Activity**

Coincident economic indicators are improving, but leading indicators are weak.



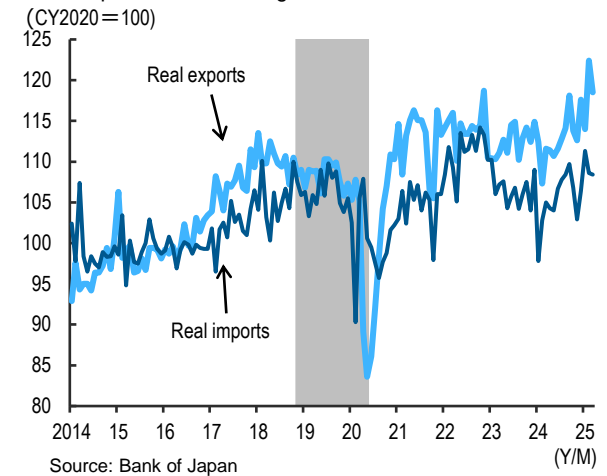
**Figure 1-2 The Corporate Sector**

Industrial production is weak.  
Economic activity in the service sector is recovering.



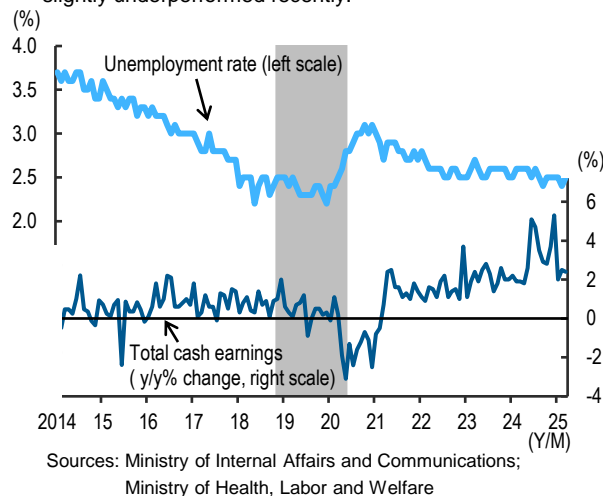
**Figure 1-3 Overseas Demand**

Exports have seen a temporary surge ahead of the U.S.'s imposition of new tariffs.  
Imports are increasing.



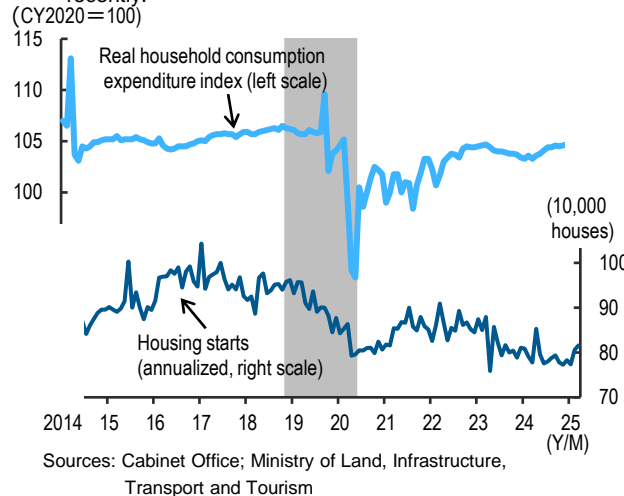
**Figure 1-4 Employment and Income**

The unemployment rate is hovering around 2.5%.  
Nominal wages are seeing strong growth overall but have slightly underperformed recently.



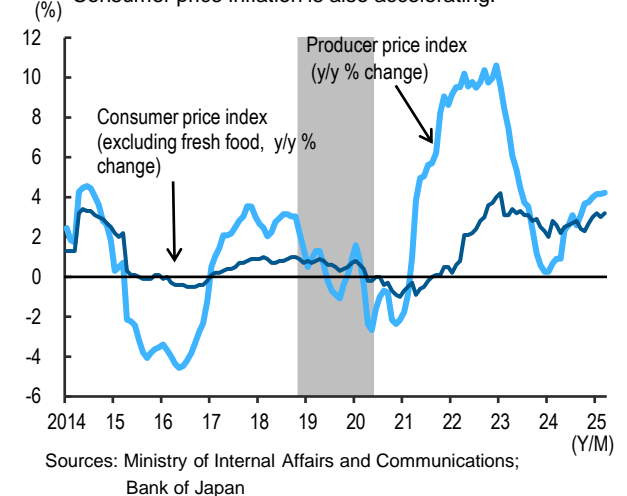
**Figure 1-5 The Household Sector**

Consumption is slowly picking up.  
Housing starts remain at a low level, but have increased recently.



**Figure 1-6 Prices**

Corporate price inflation is rising again, with the acceleration centered on petroleum products.  
Consumer price inflation is also accelerating.



\* The shaded area represents the period during which the Japanese economy was in recession.

# Annualized real GDP growth was -0.7% quarter over quarter (QoQ) in the first quarter

## ◆ A dip in foreign demand led to contraction

Real GDP growth in the January-March 2025 quarter was -0.7% quarter over quarter (QoQ), the first contraction in four quarters. Domestic demand, mainly from increased capital investment, contributed positively growth. The investment figure reflects equipment deliveries to newly built semiconductor factories, among other factors. However, imports accounted for the bulk of the investment and the increased imports reduced the growth figure.

## ◆ Production in the manufacturing industry remains weak

The Industrial Production Index dropped by 1.1% month over month (MoM) in March. A key reason was that exports of transportation machinery fell back after surging the previous month.

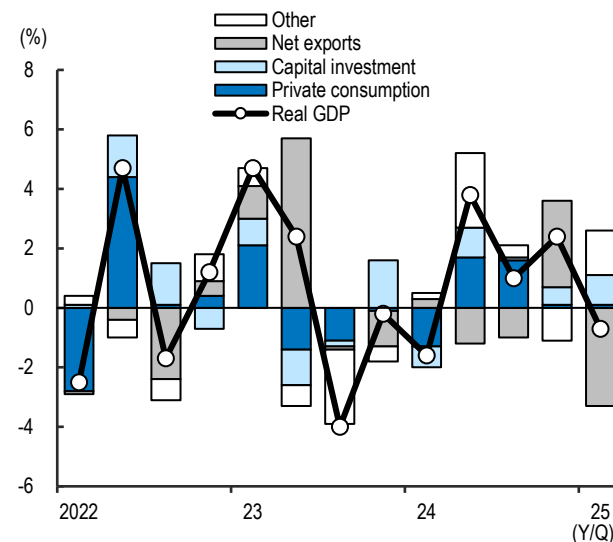
Near-future production plans indicate increases in output in April (+1.3% month over month (MoM)) and May (+3.9% MoM). Production looks set to recover slightly as output of information and communications equipment rises following lower production in March. However, as U.S. tariffs hit Japan's exports, production may fall

below the plans indicate. This is particularly true in machinery-related sectors as these tend to be export-oriented.

## ◆ Consumer confidence is deteriorating

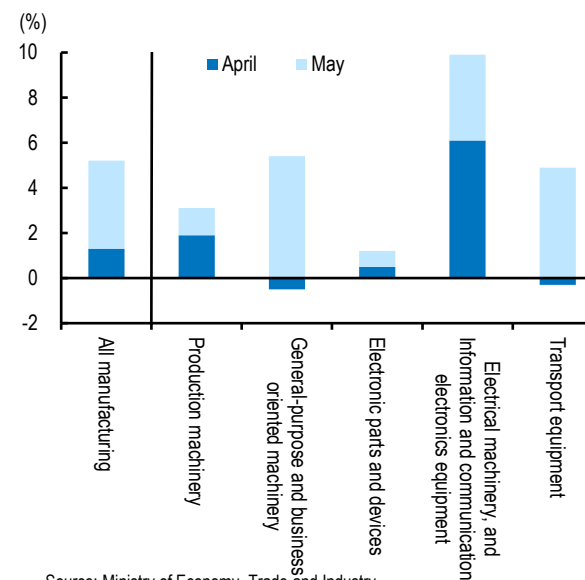
In April, the Consumer Confidence Index decreased for the fifth consecutive month, falling significantly (-2.9 points) from the previous month. Consumer sentiment may have been adversely impacted by factors including food prices continuing to rise and growing economic anxiety in response to U.S. tariffs and other policies.

Figure 2-1 Real GDP Growth Rate  
<QoQ % Change, Annualized>



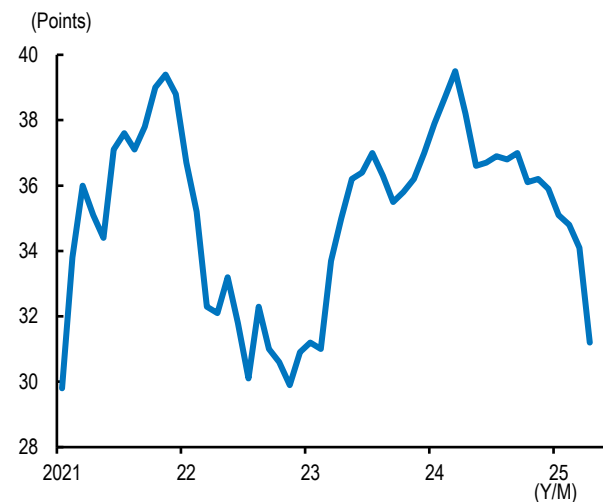
Source: Japan Research Institute, Ltd. based on data from the Cabinet Office

Figure 2-2 Production Plans by Industry <MoM>



Source: Ministry of Economy, Trade and Industry

Figure 2-3 Consumer Confidence Index



Source: Cabinet Office

# A worldwide economic slowdown is weighing on external demand

## ◆ Higher U.S. tariffs will push down goods exports

Goods exports are weak. Exports, which had been increasing since the beginning of the year, were down by 1.4% year over year (YoY) in mid-April. Exports to the U.S. may have fallen in response to U.S. tariff increases.

Going forward, U.S. tariff policy will continue to weigh on goods exports. Compounding the decline in Japan's exports to the U.S., a global economic slowdown driven by lower exports from other countries will also put downward pressure on external demand. Asian countries are Japan's main export destinations. Given a significant portion of their exports go to the U.S., the economic impact of the tariffs will be severe. If the U.S. raises tariffs further against many countries, global demand may decline more than expected, dealing an additional blow to already sluggish foreign demand.

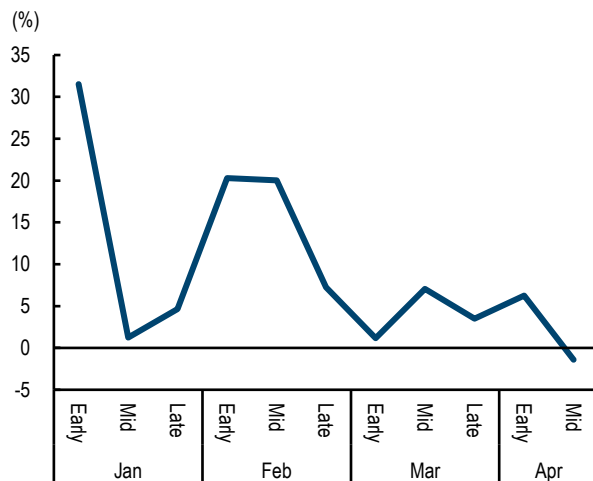
## ◆ The rise in demand from inbound tourists is slowing

Demand from inbound tourists is firm. The number of foreign visitors to Japan continues to exceed the pre-pandemic levels. By country/territory, the number of

travelers from the U.S., Australia, and Asian emerging countries have increased significantly. Chinese tourist arrivals, which had been slow to recover, have now rebounded to pre-pandemic levels. Given ongoing yen weakness, travel spending per visitor has also risen, and consumption by inbound tourists has recently reached almost double the pre-COVID figure.

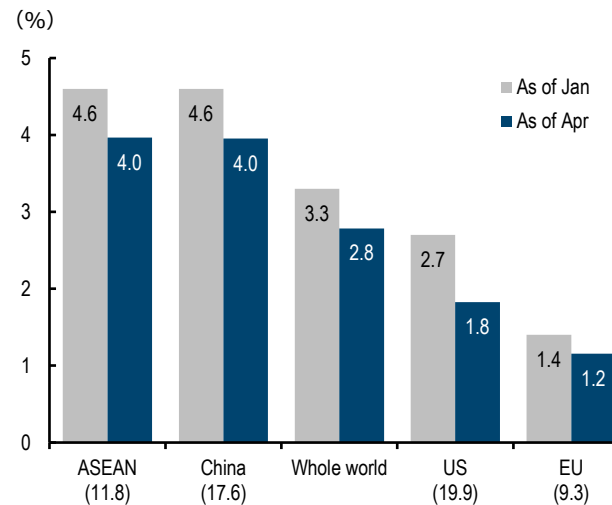
However, demand from inbound tourists is expected to lose momentum going forward. Due to the economic slowdown, income growth is predicted to stagnate in various countries, depressing foreign tourists' demand for international travel. In addition, the value of the yen, which has been trending downward since 2022, seems to be bottoming out, which will also weigh on demand by reducing tourists' purchasing power.

Figure 3-1 Value of Exports <2025, YoY>



Source: Japan Research Institute, Ltd. based on data from the Ministry of Finance  
Note: Data for late February has been adjusted to account for leap years.

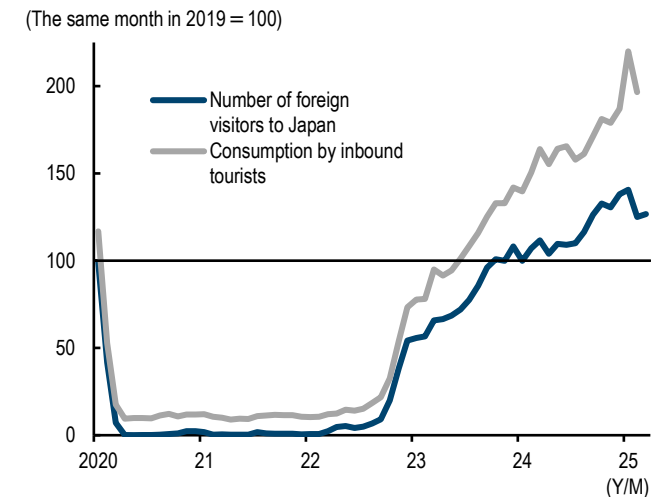
Figure 3-2 IMF Real GDP Growth Outlook <2025>



Source: Japan Research Institute, Ltd. based on data from the Ministry of Finance and the IMF

Note: Figures in parentheses are nominal export shares in 2024. 'ASEAN' refers only to the 5 major countries in the bloc.

Figure 3-3 Number of Foreign Visitors to Japan and Consumption by Inbound Tourists



Source: Japan Research Institute, Ltd. based on data from the Japan National Tourism Organization, the Ministry of Finance and the Bank of Japan

Note: 'Consumption by inbound tourists' is recorded as travel receipts, a component of the services balance.

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# The income environment for households is improving and personal consumption remains steady

## ◆ Wages are continuing to grow rapidly

In March, the YoY increase in total cash earnings (adjusted to reflect data discrepancies arising from a change in the companies surveyed) was 3.0%, slowing from the previous month (+3.6%) but remaining in the 3% range.

Wage growth is also expected to hold firm going forward. According to the fifth announcement by Rengo (Japan's largest trade union federation) on the outcome of the spring wage negotiations, the companies surveyed are hiking wages by 3.75% (excluding regular salary increases) on average in 2025, a higher rise than last year. Breaking down the data by business size, small and medium-sized enterprises (SMEs) also awarded bigger raises than last year. The average increase was 3.61%, almost on par with large corporations. This reflects the fact that at SMEs, labor shortages are more serious than at big companies, creating heavy pressure to raise wages. It is therefore likely that the income environment will improve for a wider range of workers than last year.

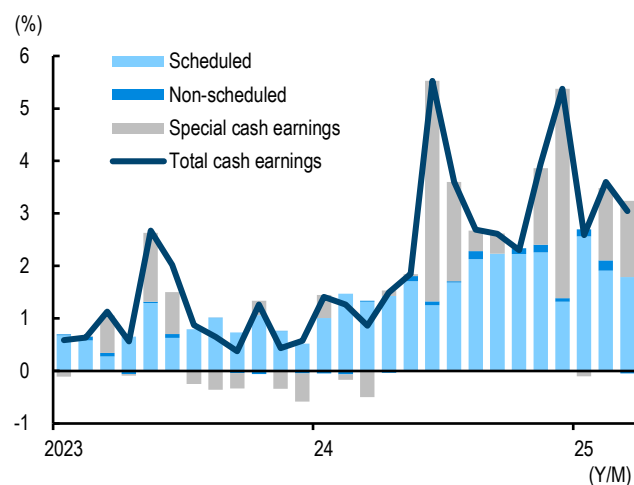
## ◆ Services consumption is steady

Personal consumption is picking up while fluctuating. Data on broad-ranging

services from the Indices of Tertiary Industrial Activity suggests that retail trade in consumer goods is weak. This is because households are tightening their purse strings due to high prices. However, consumption of services such as entertainment and daily necessities remains on the recovery track. Higher food prices could be causing a shift in consumption to services such as meals outside the home, and entertainment-related consumption is firm despite high prices.

Personal consumption is also expected to remain resilient going forward. Inflation will slow due to falling energy prices and a lull in soaring food prices, and with nominal wage growth remaining solid, real wages should increase from the summer onwards. The resulting improvement in the income environment is expected to support consumption.

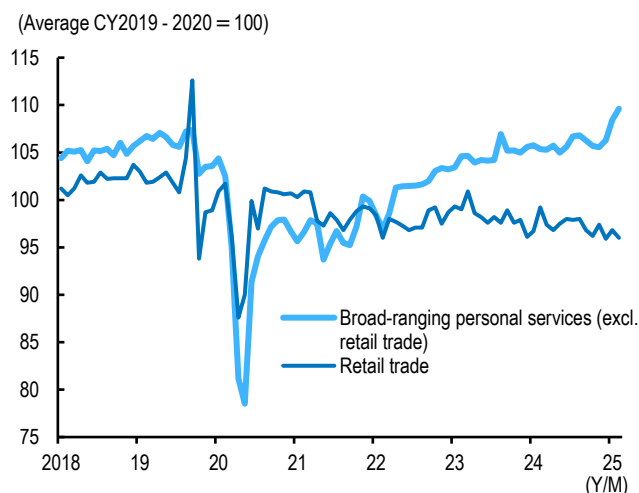
Figure 4-1 Total Cash Earnings <YoY>



Source: Japan Research Institute, Ltd. based on data from the Ministry of Health, Labour and Welfare

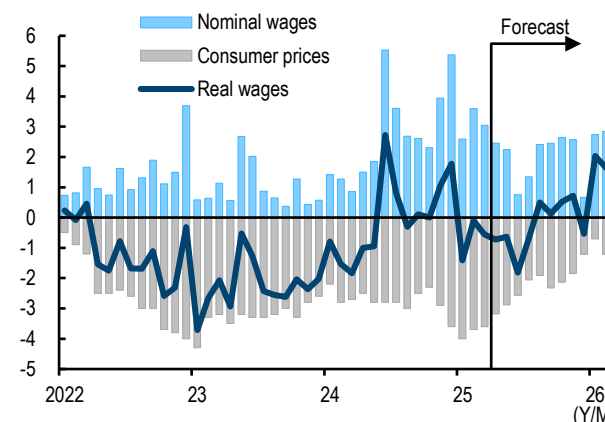
Note: Adjusted for data faults from the surveyed companies being changed.

Figure 4-2 Broad-ranging Personal Services in Index of Tertiary Industry



Source: Japan Research Institute, Ltd. based on data from the Ministry of Economy, Trade and Industry.

Figure 4-3 Real Wages <YoY>



Source: Japan Research Institute, Ltd. based on data from the Cabinet Office, the Ministry of Health, Labor and Welfare, and Ministry of Internal Affairs and Communications

Note: Adjusted for data faults from the surveyed companies being changed.

Nominal wages are the total cash earnings of all workers. Consumer prices are comprehensive.

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# Inflation is slowing

## ◆ The rise in food prices is beginning to level off

In March, consumer price inflation (all items) fell from the previous month to 3.6%, though it remains high. While fresh food price inflation slowed, core inflation (all items, less fresh food) accelerated from the previous month to 3.2%. This is because rice prices have stayed high, and increases in prices of agricultural produce have spilled over into meals outside the home and processed foods. Endogenously, moves to pass on higher wages to selling prices are gathering momentum. Looking at the frequency distribution for service price inflation, the number of items for which prices are unchanged has fallen, and the number of items for which prices have increased has risen.

Price growth is expected to slow until early next year and then stay at around 2%. Food prices will further level off and energy prices should fall due to a worldwide drop in energy demand and the effect of government energy subsidies. However, as higher wages continue being passed on to selling prices, service price growth is projected to support the overall price level.

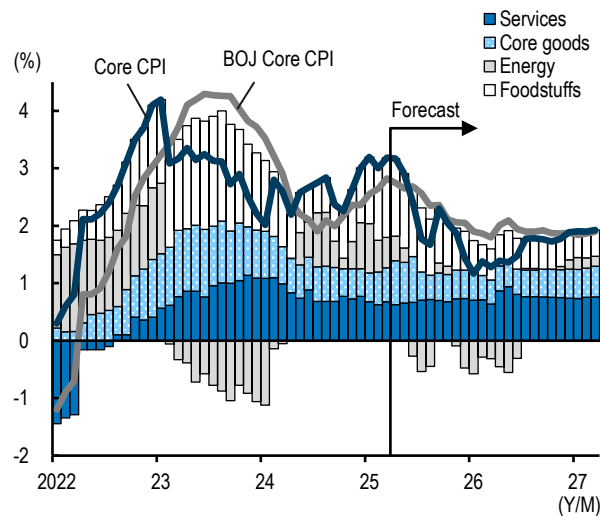
## ◆ The BOJ will keep its policy rate unchanged

At its monetary policy meeting at the beginning of May, the Bank of Japan (BOJ) decided to keep its policy rate unchanged.

Long-term interest rates were weak through early May. Expectations of a BOJ rate hike before the year-end later mounted in response to progress in tariff negotiations between the U.S. and other countries' governments. This pushed up interest rates.

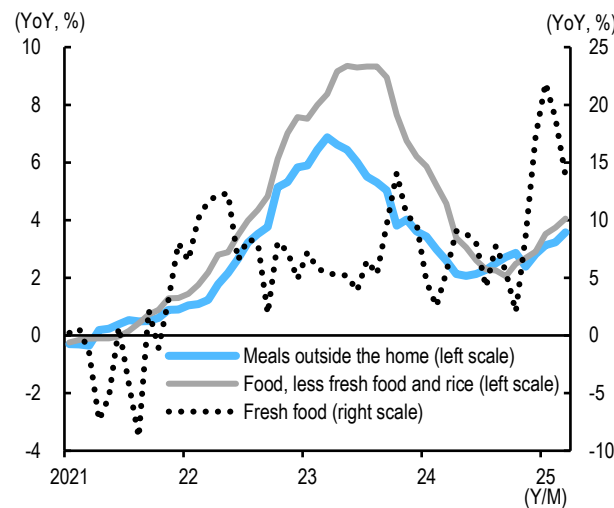
Amid lingering uncertainty surrounding U.S. tariff policy, the BOJ is expected to leave its policy rate unchanged in the near term. For the time being, long-term interest rates look likely to remain more or less flat.

Figure 5-1 Consumer Price Index <YoY>



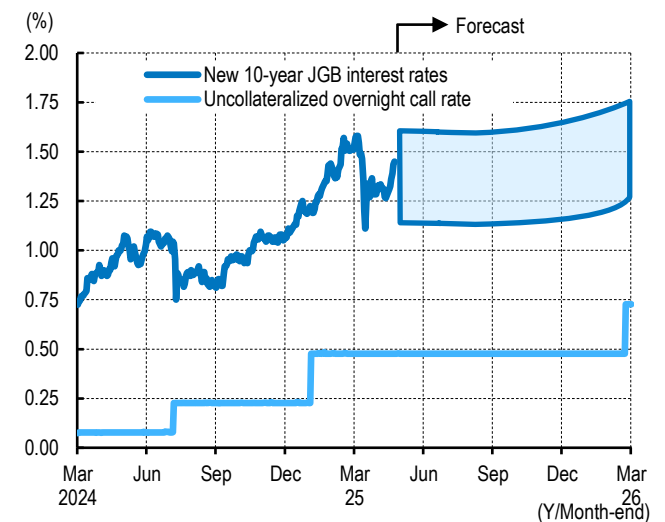
Source: Japan Research Institute, Ltd. based on data from the Ministry of Internal Affairs and Communications

Figure 5-2 Consumer Price of Fresh Food, Meals Outside the Home and Processed Food



Source: Japan Research Institute, Ltd. based on data from the Ministry of Internal Affairs and Communications

Figure 5-3 Outlook for Japan's Main Interest Rates



Source: NEEDS-FinancialQUEST

# Topic ①: The employment environment in the manufacturing industry is deteriorating

## ◆ Manufacturing employment is falling, particularly in the machinery sector

The number of manufacturing workers has been declining since last year. By sector, the decline in employment has been concentrated in the machinery sector, which includes transportation machinery and general machinery. At present, the non-manufacturing sector, in which business conditions are recovering, is absorbing workers, so overall unemployment remains low, but the unemployment rate in the manufacturing industry is on the rise.

## ◆ Shrinking manufacturing output is the underlying factor

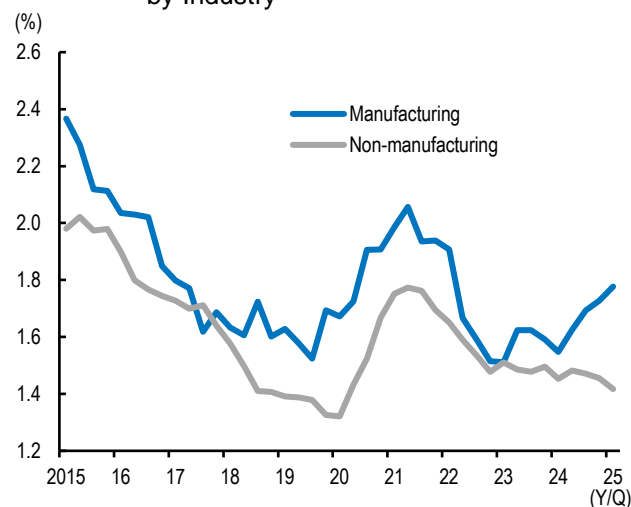
Although the decline in manufacturing employment is partly due to labor supply factors such as worker shortages, the primary driver is falling demand for labor. According to the Tankan diffusion index for employment conditions, perceptions of a labor shortage in the machinery sector – a key industry in Japan – have eased to levels lower than before the pandemic.

Contracting production underlies the weak labor demand in the manufacturing

sector. Since the Global Financial Crisis, manufacturing output has been trending downward, with the trend accelerating since the COVID pandemic. The underlying factor has been consolidation and reorganization of production facilities by manufacturers. Faced with weak global demand for goods, declining international competitiveness, and soaring costs, some companies have been consolidating production at certain plants and moving to reduce costs and improve efficiency. This process has involved shuttering factories and shifting production overseas, which may have led to reductions in domestic production capacity and lower employment. Just recently, some companies have announced plans to cut their workforces.

Looking ahead, it will be important to pay attention to the risk that U.S. tariff policy will accelerate the decline in Japanese manufacturing output and the relocation of production abroad, and thus further weaken demand for labor in the manufacturing industry.

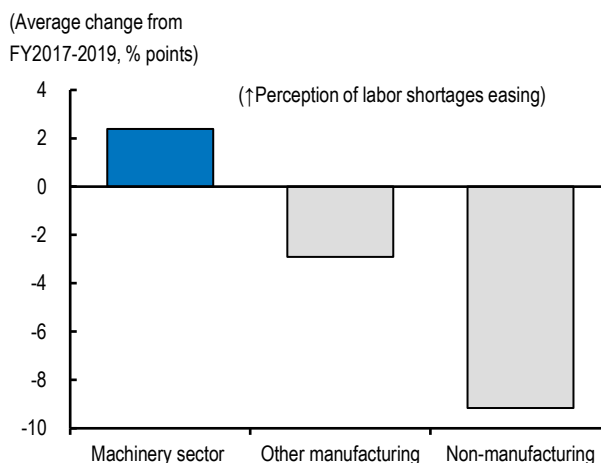
Figure 6-1 Unemployment Rate among Employees by Industry



Source: Japan Research Institute, Ltd. based on data from the Ministry of Internal Affairs and Communications

Note: Unemployment rate among employees = Number of unemployed who left the relevant industry within the past 3 years / (Number of employees in the relevant industry + Number of unemployed who left the relevant industry within the past 3 years)

Figure 6-2 TANKAN, DI for Employment Conditions

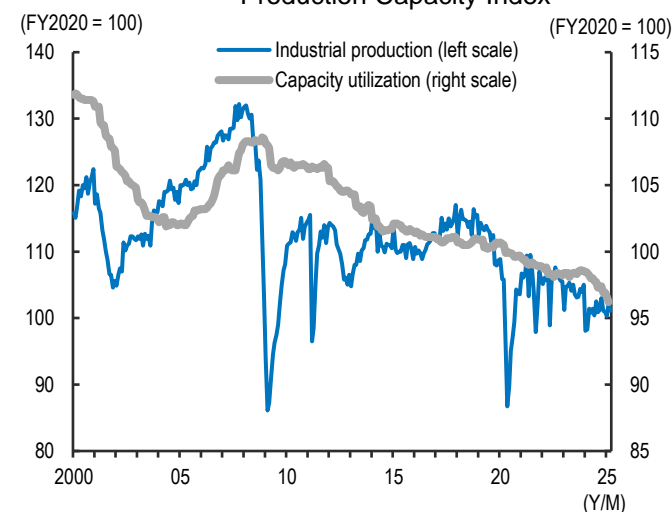


Source: Japan Research Institute, Ltd. based on data from the Bank of Japan

Note: Results from the March 2025 survey are compared to the 2017-19 average.

The machinery sector is recorded as the average diffusion index of the general purpose machinery, production & business oriented machinery, electrical machinery, and transportation machinery industries, weighted by the number of companies that responded validly to the survey.

Figure 6-3 Manufacturing Production and Production Capacity Index



Source: Ministry of Economy, Trade and Industry



## Topic②: U.S. tariffs also expose non-manufacturing to downside risks

### ◆ Non-manufacturing sectors have been performing well recently

Non-manufacturing is driving Japan's economy. While the manufacturing industry has been sluggish due to lackluster domestic and international demand for goods, the recovery of demand from inbound tourists and the expansion of corporate digitalization efforts have boosted the performance of relevant sectors.

### ◆ Non-manufacturing is in danger of being indirectly impacted by ripple effects

Going forward, although higher U.S. tariffs will further suppress manufacturing output, any direct negative impact from the dip in foreign demand is expected to be limited in non-manufacturing sectors, which are less reliant on exports. In non-manufacturing, goods exports account for about 4% of sales, which is low compared to the figure of 24% in the manufacturing industry.

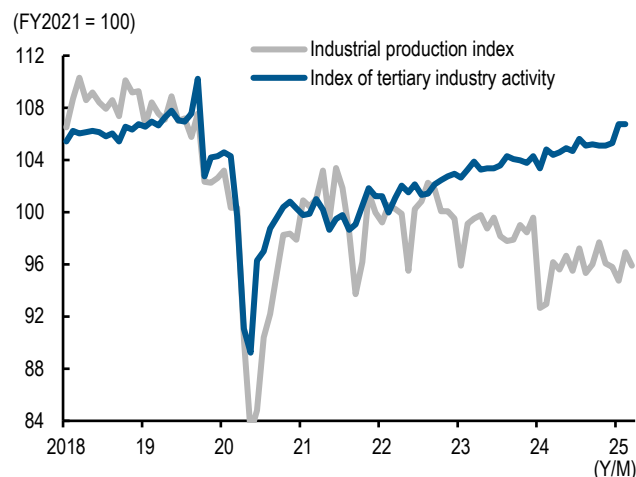
However, there is also a risk that deteriorating business conditions in the manufacturing industry will spread to affect non-manufacturing indirectly, worsening

downward pressure on the economy. This spread could occur via two channels:

The first is worsening business conditions in sectors that are highly dependent on manufacturing. In service industries such as wholesale, logistics, and electricity/gas, manufacturing companies account for a large proportion of customers. In the first half of 2019, when manufacturing output fell due to the impact of U.S.-China trade frictions, activity in these service industries also faltered.

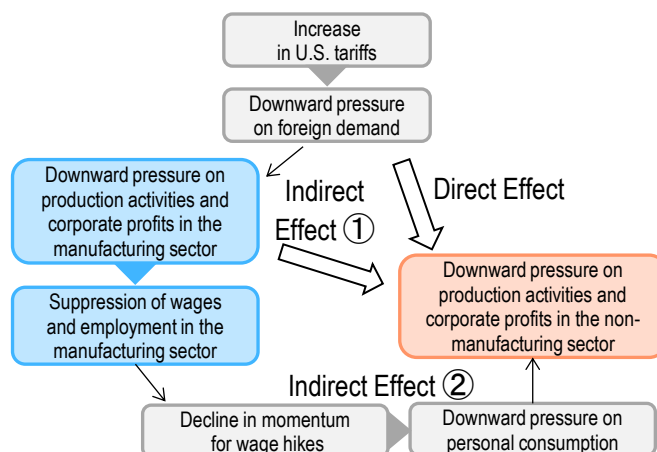
The second is wage growth losing steam. Many large enterprises are manufacturers such as automakers, which play an outsized role in determining overall wage levels. For example, big companies tend to all announce their answers to wage demands from the spring negotiations at the same time, which attracts a lot of attention. If these firms begin to curb their wage offerings, it could trigger a drop in wage growth momentum across a wide range of industries. This would cause personal consumption to stall, hitting businesses in non-manufacturing sectors.

Figure 7-1 Corporate Activity Index  
<seasonally adjusted>



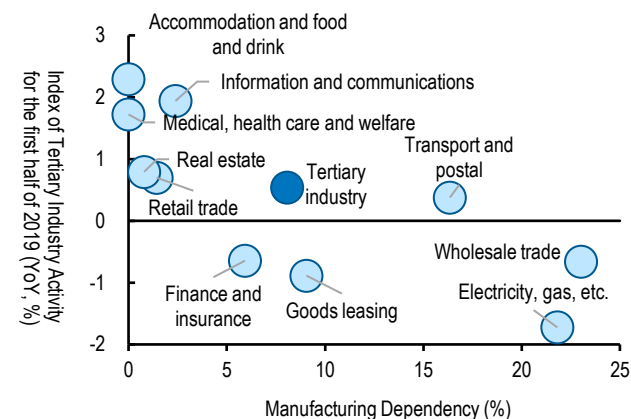
Source: Japan Research Institute, Ltd based on data from the Ministry of Economy, Trade and Industry

Figure 7-2 Channels for U.S. Tariff Hikes to Impact  
Non-Manufacturing Sectors



Source: Japan Research Institute, Ltd

Figure 7-3 Manufacturing Dependency and  
Index of Tertiary Industry Activity



Source: Japan Research Institute, Ltd based on data from the Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry  
Note: Manufacturing dependency is calculated as the percentage of each industry's output going to the manufacturing sector, based on the Input-Output Tables (2020).

## U.S. tariffs will create downward economic pressure

### ◆ Economic growth will slow

Looking ahead, Japan's economy is expected to see a slowdown. The U.S. has hiked tariffs for most of its trading partners, including Japan, to a flat 10%, but during the forecast period, no additional tariffs are expected to be imposed. China looks set to be slapped with additional tariffs of 30%, with Mexico and Canada subjected to additional tariffs of 25%. China's retaliatory tariffs are expected to be set at 10%.

Exports will fall in the near term due to deteriorations in the U.S. and Chinese economies as a result of the U.S. tariff hikes. This will cause corporate earnings to drop and wage increases to be curbed, so private-sector demand will weaken over the next fiscal year. In response to the adverse economic impact of the U.S. tariffs, the government will probably take steps to support the economy.

Personal consumption will remain resilient going forward, though the pace of increase will slow. Given worsening business performance, bonuses in the second half of this fiscal year will rise by a smaller margin. Basic salaries will continue to increase as a reflection of structural labor shortages, particularly in non-manufacturing, but the pace of increase is expected to slow.

Regarding capital investment, while software investment looks set to keep rising, there is a high degree of uncertainty about U.S. tariffs, and machinery investment in the manufacturing industry is weak.

### ◆ The growth rate for FY2025 is expected to be +0.2%

Real GDP growth is projected to be +0.2% in FY2025 and +0.7% in FY2026. However, if negotiations with the U.S. end badly and additional tariffs are imposed, the growth rates will be lower. In addition, the U.S., China, the EU and others imposing tit-for-tat tariffs would also push down growth.

Figure 8 Projections for GDP Growth and Main Indicators of Japan (as of May 16, 2025)

(seasonally adjusted, annualized % changes from the previous quarter)											(% changes from the previous fiscal year)		
		CY2025				CY2026				CY2027	FY2024	FY2025	FY2026
	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3				
	(Actual)	(Projection)									(Actual)	(Projection)	
Real GDP	-0.7	-0.5	0.4	0.7	0.7	0.8	0.9	0.9	0.9	0.8	0.2	0.7	
Private Consumption Expenditure	0.2	0.2	0.4	0.7	0.8	0.5	0.5	0.5	0.5	0.8	0.5	0.6	
Housing Investment	5.0	-0.1	-0.1	0.0	-0.0	0.0	0.0	-0.1	0.0	-1.0	0.9	-0.0	
Business Fixed Investment	5.8	-4.0	0.3	0.2	0.3	0.6	0.9	0.9	1.0	2.6	0.5	0.6	
Private Inventories (percentage points contribution)	( 1.2)	( 0.1)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.1)	( 0.1)	( 0.0)	( 0.0)	( 0.1)	( 0.0)	
Government Consumption Expenditure	-0.1	2.3	1.1	1.0	1.1	2.0	1.6	1.5	1.9	1.5	1.1	1.5	
Public Investment	-1.8	3.0	1.6	1.4	1.0	1.3	1.7	1.8	1.5	1.4	0.4	1.4	
Net Exports (percentage points contribution)	( -3.4)	( -0.8)	( -0.3)	( -0.1)	( -0.1)	( -0.1)	( -0.0)	( -0.0)	( -0.0)	( -0.4)	( -0.6)	( -0.1)	
Exports of Goods and Services	-2.3	-7.1	-0.3	0.5	0.5	0.7	0.9	1.1	1.2	1.7	-1.1	0.7	
Imports of Goods and Services	12.1	-3.6	0.9	1.0	1.0	1.1	1.2	1.2	1.3	3.4	1.4	1.1	

	(% changes from the same quarter of the previous year)									(% changes from the previous fiscal year)		
Nominal GDP	5.0	4.4	3.6	2.9	3.0	2.6	3.1	3.2	3.6	3.7	3.4	3.1
GDP deflator	3.3	3.9	3.3	3.2	2.7	2.0	2.3	2.4	2.7	2.9	3.3	2.4
Consumer Price Index (excluding fresh food)	3.1	2.8	1.9	1.8	1.3	1.4	1.8	1.8	1.9	2.7	2.0	1.7
Unemployment Rate (%)	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.5	2.4	2.4
Exchange Rates (JY/US\$)	153	145	144	142	140	141	140	140	138	153	143	140
Import Price of Crude Oil (US\$/barrel)	79	71	63	61	62	65	68	68	69	83	64	67

Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Economy, Trade and Industry; Ministry of Finance

The projection figures are based on those of the Japan Research Institute, Ltd.