

English translation published in December 2025

Monthly Report of Prospects for Japan's Economy

November 2025

Macro-economics Research Center
Economics Department



The Japan Research Institute, Limited

<https://www.jri.co.jp/en/reports/reports/>

Disclaimer:

This report is intended solely for informational purposes and should not be interpreted as an inducement to trade in any way. All information in this report is provided “as is”, with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will JRI, its officers or employees and its interviewee be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any damages, even if we are advised of the possibility of such damages. JRI reserves the right to suspend operation of, or change the contents of, the report at any time without prior notification. JRI is not obliged to alter or update the information in the report, including without limitation any projection or other forward looking statement contained therein.

The General Situation – The economic recovery has temporarily stalled

Figure 1-1 Economic Activity

The coincident index of business conditions is rebounding.
The leading index is picking up in response to rising stock prices.

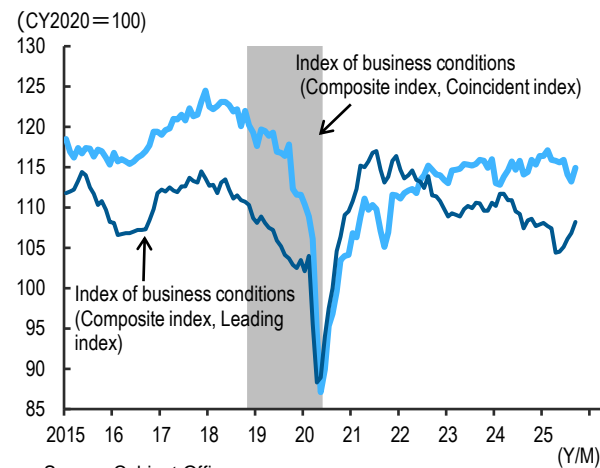


Figure 1-2 The Corporate Sector

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

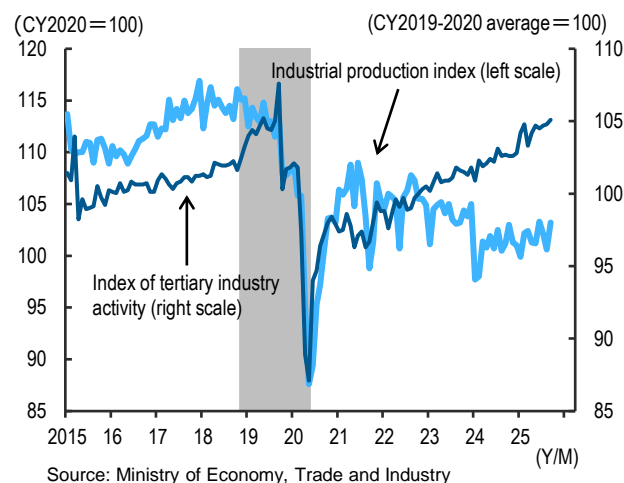


Figure 1-3 External Demand

Exports, particularly to the U.S., are weak.
Imports are also rebounding.



Figure 1-4 Employment and Income

The unemployment rate is low, hovering around 2.5%.
Nominal wage growth is solid on average.

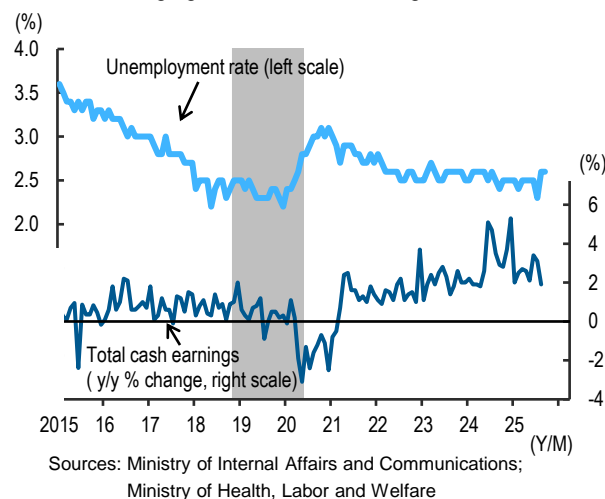


Figure 1-5 The Household Sector

Consumption is slowly picking up.
Housing starts are at a low level.

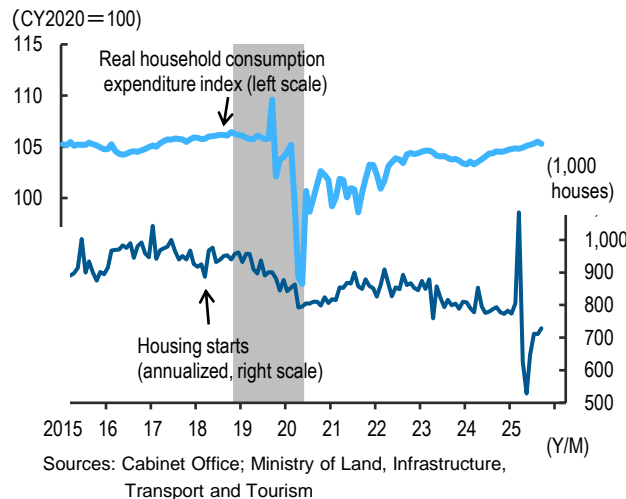
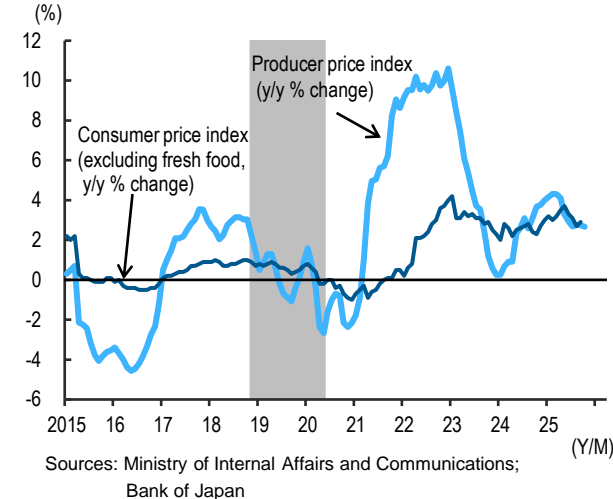


Figure 1-6 Prices

Producer price inflation is slowing, particularly in energy.
Consumer price inflation has dropped to the 2% range.



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

Annualized real GDP growth was -1.8% quarter over quarter (QoQ) in Q3 2025

◆ First negative growth in six quarters

Real GDP growth in the third quarter was -1.8% quarter over quarter (QoQ), the first negative growth in six quarters. Due to the impact of U.S. tariffs, goods exports, particularly to the U.S., declined, and housing investment plummeted. The reason for the drop in housing investment was legal changes that took effect in April this year. In anticipation of tighter building standards to comply with the new legislation and accompanying delays in completing construction application procedures, housing starts surged in March before falling back sharply from April onwards. This decrease in housing starts is reflected in the housing investment component (recorded on a percentage-of-completion basis) of GDP for the third quarter.

◆ Production in the manufacturing sector is fluctuating

In September, the Industrial Production Index increased by 2.2% month over month (MoM). Output of production machinery, particularly semiconductor manufacturing equipment, rose, as did that of chemicals.

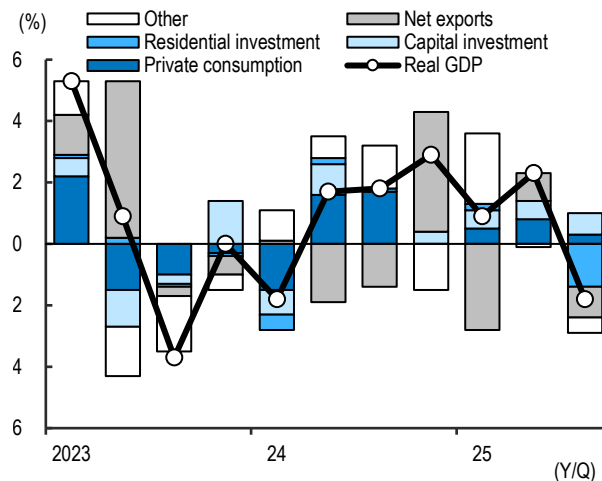
According to the Industrial Production Index Forecast (adjusted based on past

forecasting errors), near-future production plans indicate a decrease in output in October of 0.5% (MoM). Lower production of general-purpose and business-oriented machinery, as well as of electrical machinery and information/communications equipment, is expected to push down overall output.

◆ Economic activity in the service sector is recovering

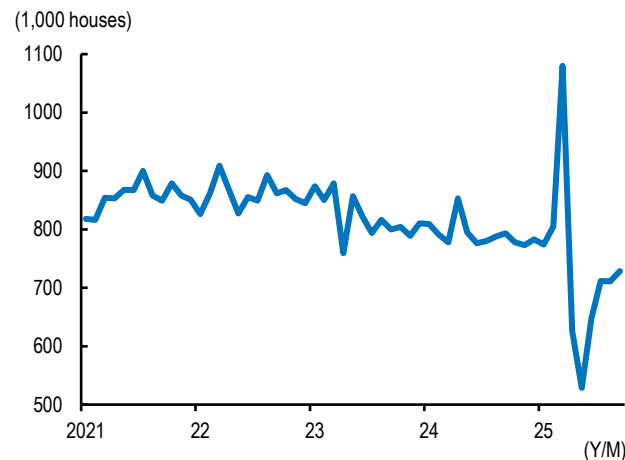
Tertiary industrial activity is trending upward. Manufacturing-related services, particularly wholesale and retail trade, are still weak, while non-manufacturing-related services, particularly finance and insurance, remain solid as stock prices move higher. In addition, a gradual rise in personal services such as entertainment has also boosted overall activity.

Figure 2-1 Real GDP Growth Rate
<QoQ % change, annualized>



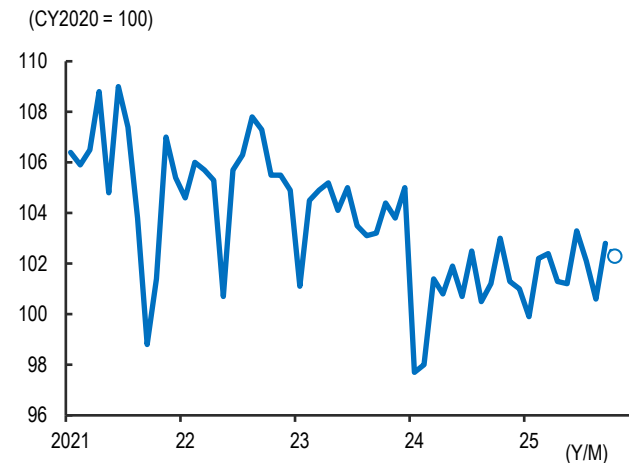
Source: Japan Research Institute, Ltd. based on data from the Cabinet Office

Figure 2-2 Housing Starts
<annualized, seasonally adjusted>



Source: Japan Research Institute, Ltd. based on data from the Ministry of Land, Infrastructure, Transport and Tourism

Figure 2-3 Industrial Production Index
<seasonally adjusted>



Source: Ministry of Economy, Trade and Industry
Note: The latest data is based on the adjustment value (Oct) calculated by the Ministry of Economy, Trade and Industry based on past adjustment patterns.

Goods exports are sluggish, but demand from foreign tourists remains firm

◆ Exports are now clearly feeling the impact of tariffs

Goods exports are weak. Exports to the U.S. have plunged. In response to the Japan-U.S. tariff agreement, companies seem to have begun passing through tariffs to sales prices in the U.S., and demand within the U.S. may be weakening. However, exports to countries other than the U.S. remain robust. One reason is rising semiconductor-related demand due to factors including as the global AI boom.

For the time being, goods exports are expected to remain lackluster, given the world economy's lack of momentum. Later, the global economy should recover as accommodative fiscal and monetary policies are deployed in various countries, and Japan's exports are also expected to bottom out. In addition, exports of IT-related goods look set to continue to expand going forward. World Semiconductor Trade Statistics expects the semiconductor market to hold firm through 2026 thanks to buoyant AI-related demand.

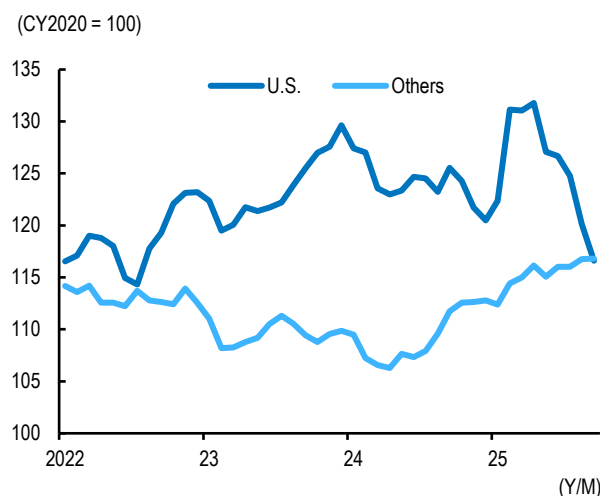
◆ Demand from foreign tourists continues to rise

The number of foreign visitors to Japan continued to climb in September, with the figure 43% higher than in the same month in 2019. The number of visitors from

China and other East Asian countries fell in June and July due to rumors of an impending natural disaster, but the impact of this faded in August.

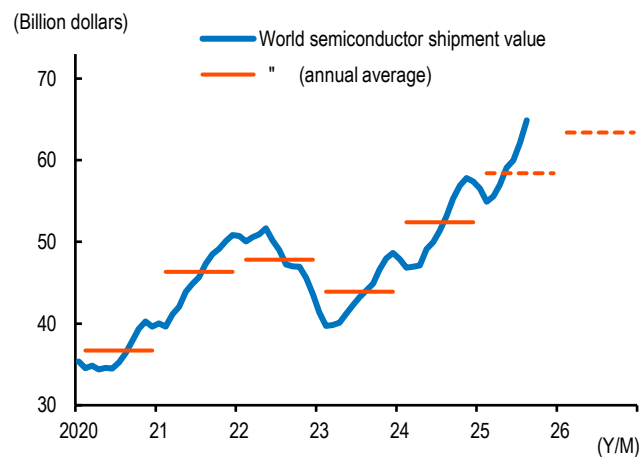
Demand from foreign tourists is also expected to stay robust going forward. The yen remains weak, and this is supporting consumption by these tourists. However, if the Chinese government's economic stimulus measures fail to have an impact and China's economic woes worsen, demand for travel to Japan could slump.

Figure 3-1 Real Exports by Partner Country
<seasonally adjusted>



Source: Japan Research Institute, Ltd. based on data from the Bank of Japan
Note: Backward 3-month average.

Figure 3-2 World Semiconductor Shipment Value

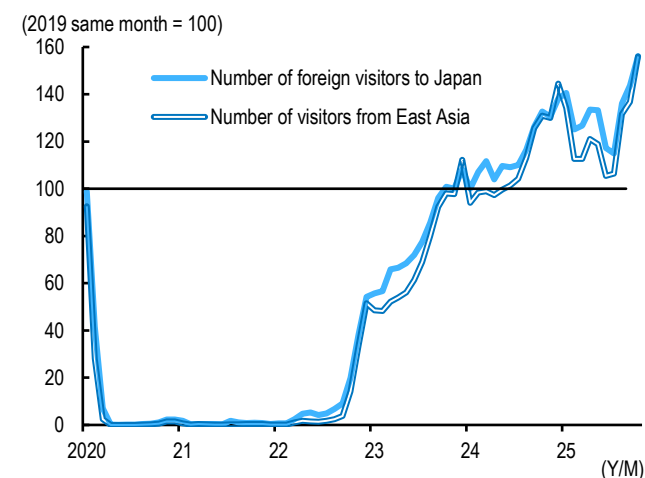


Source: Japan Research Institute, Ltd. based on data from the World Semiconductor Trade Statistics (WSTS)

Note 1: World semiconductor shipment value is a three-month moving average.

Note 2: Dashed line indicates WSTS's annual average forecast (as of June 2025).

Figure 3-3 Number of Foreign Visitors to Japan



Source: Japan Research Institute, Ltd. based on data from the Japan National Tourism Organization

Note: East Asia consists of China, South Korea, Taiwan and Hong Kong.

The employment/income environment is improving and consumption is gradually recovering

◆ A favorable employment/income environment is supporting personal consumption

Shored up by a favorable employment/income environment, personal consumption is gradually recovering. In September, the real incomes of employees increased by 1.6% year over year (YoY) for the 17th consecutive monthly rise. Although per-employee real wages are static due to soaring prices, an increase in the number of people employed is pushing up household incomes overall.

Regarding employees by industry, as manufacturers consolidate and reorganize their production facilities, there is weakness in terms of the number of people employed in manufacturing, but employment in non-manufacturing sectors such as information/communications and healthcare/welfare is driving the improvement.

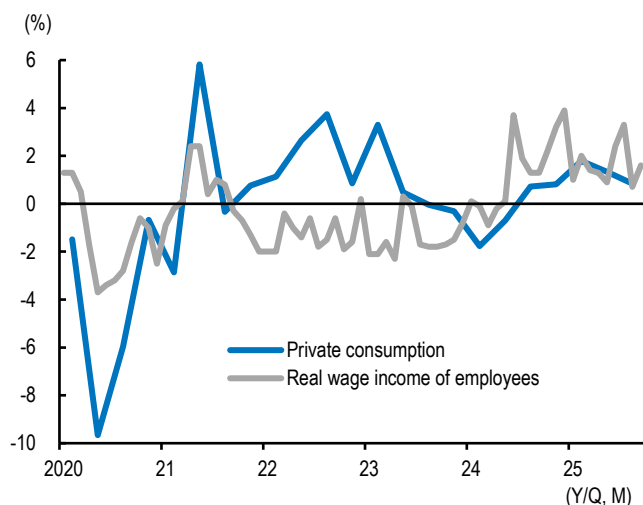
◆ The employment/income environment will continue to improve in the near term

Looking ahead, personal consumption is expected to continue its recovery as the real incomes of employees rise. Nominal wages are likely to continue growing rapidly. Amid labor shortages and rising prices, pressure from labor unions for wage increases

is strong. Employer organizations also remain committed to raising wages, with Keidanren (Japan Business Federation) emphasizing the establishment of strong momentum for wage increases. Generous wage hikes are thus expected to be seen again next fiscal year. And with inflation slowing, per-employee real wage growth should turn positive before long.

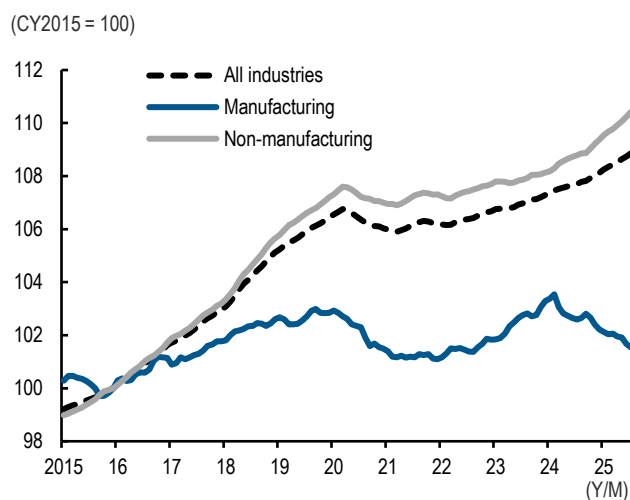
In addition, the number of employees is expected to increase gradually. Although the pace of expansion in the labor supply will slow, women, the elderly, and foreign nationals are expected to continue to be the main providers of additional labor amid strong demand for workers and the accompanying rises in wages.

Figure 4-1 Private Consumption and Real Wage Income of Employees <YoY>



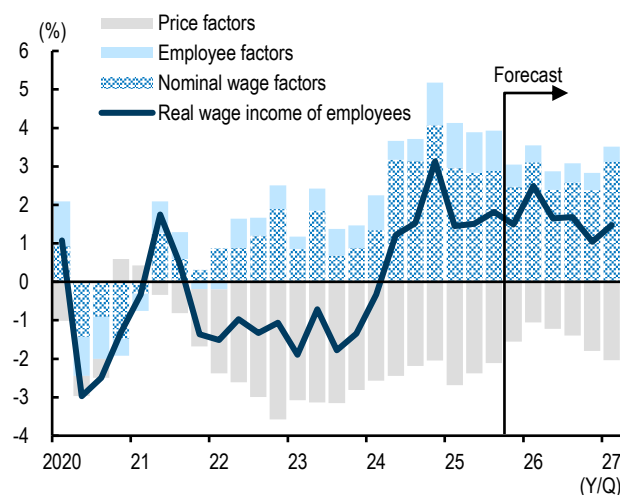
Source: Japan Research Institute, Ltd. based on data from the Cabinet Office
Note: Real employee compensation is deflated using the household final consumption expenditure deflator.

Figure 4-2 Number of Employed Persons <backward 12-month average>



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

Figure 4-3 Forecast of Real Wage Income of Employees <YoY>



Source: Japan Research Institute, Ltd. based on data from the Cabinet Office
Note: Real wage income of employees is deflated by consumption of households, excluding imputed rent deflator.

Inflation is set to slow

◆ Energy prices are pushing down inflation

In September, core inflation (all items, less fresh food) accelerated from the previous month to hit 2.9%. This was mainly due to energy price growth turning positive as a result of policy factors. However, the pace of food price rises slowed, causing the Bank of Japan's measure of core inflation (which excludes fresh food and energy) to rise to 3.0%, accelerating for the second consecutive month. Temporary fluctuations aside, the inflationary trend appears to be weakening.

Price growth is expected to slow until the middle of next year and then remain around 2%. The main reason will be lower energy prices. Background factors include falling market prices and the implementation of measures to control prices, such as the abolition of the provisional tax rate for gasoline. In addition, food price growth is also expected to slow. According to a survey by Teikoku Databank, since November moves by food manufacturers to raise prices have halted, and judging from next year's planned price changes, upward pressure on prices is highly likely to weaken going forward.

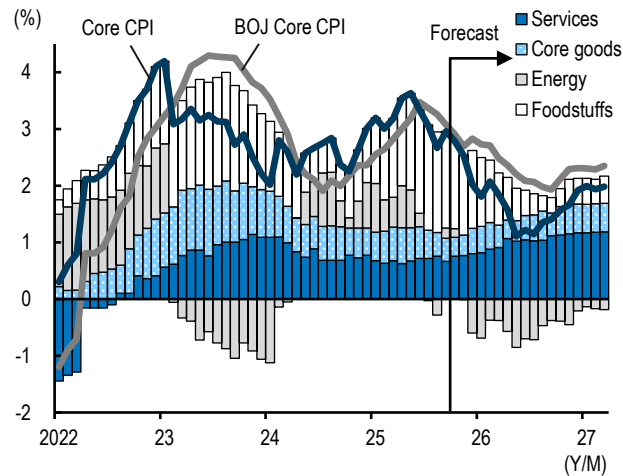
◆ The BOJ will raise interest rates in the new year

At its monetary policy meeting in October, the Bank of Japan (BOJ) decided to keep its policy rate unchanged.

Long-term interest rates have risen gradually in November. The rise in long-term rates reflects concerns about fiscal deterioration and the fact that long-term interest rates are increasing worldwide.

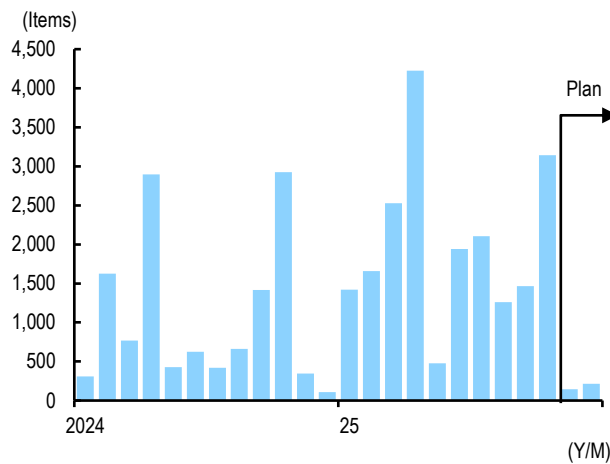
The BOJ is expected to raise interest rates in January 2026, after making its assessment of wage increase trends in the next fiscal year. Long-term interest rates look likely to trend upward, reflecting heightened anticipation of a rate hike by the BOJ and increased fiscal spending by the government. However, with negotiations concerning matters including the supplementary budget ongoing between ruling and opposition parties, if jitters about a deterioration in fiscal discipline or political turmoil are amplified, there is also a risk that long-term interest rates will soar.

Figure 5-1 Consumer Price Index <YoY>



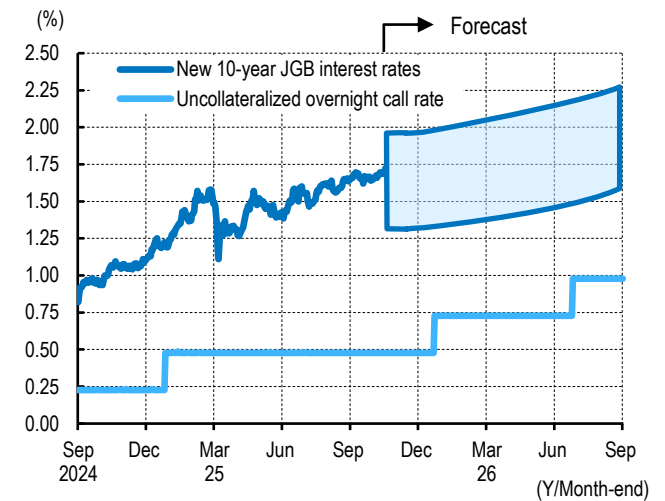
Source: Japan Research Institute, Ltd. based on data from the Ministry of Internal Affairs and Communications

Figure 5-2 Number of Items Subject to Price Increases by Food Manufacturers



Source: Japan Research Institute, Ltd. based on data from the Teikoku Databank
Note: Price revision plans of 195 major food manufacturers. As of October 31.

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



Source: NEEDS-FinancialQUEST

Topic ①: The abolition of the provisional tax rate will heighten oil-related risks in Japan

◆ Prime Minister Takaichi favors loose fiscal policy

The new government of Sanae Takaichi has advocated "responsible yet proactive fiscal policy," and its first measure to tackle high prices is expected to be a reduction in taxes on gasoline and diesel via the scrapping of the provisional tax rate. With the abolition of the provisional tax rate and the expanded gasoline subsidies that will be provided until the abolition takes effect, the tax per liter of gasoline will be reduced by about 15 yen, and core inflation for the year after the implementation of the policy is expected to be pushed down by 0.2 percentage points.

◆ Crude oil-related risks could also increase

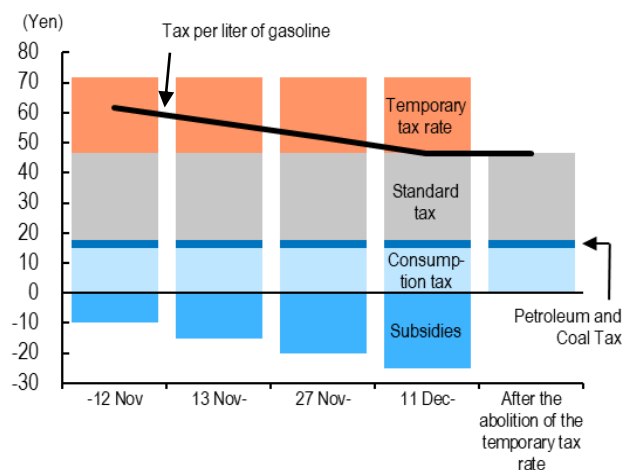
However, the government's loose fiscal and monetary policy stance, as manifested in the abolition of the provisional tax rate, may heighten two risks related to crude oil.

The first is the risk of an outflow of income due to yen depreciation. After Takaichi won the presidency of the ruling Liberal Democratic Party, financial markets began factoring in her accommodative policy stance. If concerns about fiscal deterioration

and delays to the normalization of monetary policy remain, the yen could depreciate further. According to estimates, if the yen drops by 10 yen against the dollar, the cost of crude oil imports will increase by 700 billion yen, meaning that income will flow overseas. As a result, the profits of importers will deteriorate, and the increase in costs will be passed through to the prices of petroleum products, increasing the burden on many companies and households. Based on past price pass-through trends, if the yen depreciates by 10 yen against the dollar, gasoline and diesel prices will rise by about four yen per liter, offsetting part of the tax reduction.

The second is economic security risk. Japan is heavily dependent on imports of crude oil from the Middle East, and a supply disruption due, for example, to a rise in tensions in that region would have a significantly damaging economic structural impact. Increased demand for crude oil could delay the shift from this vulnerable economic structure.

Figure 6-1 Gasoline Tax and Subsidies

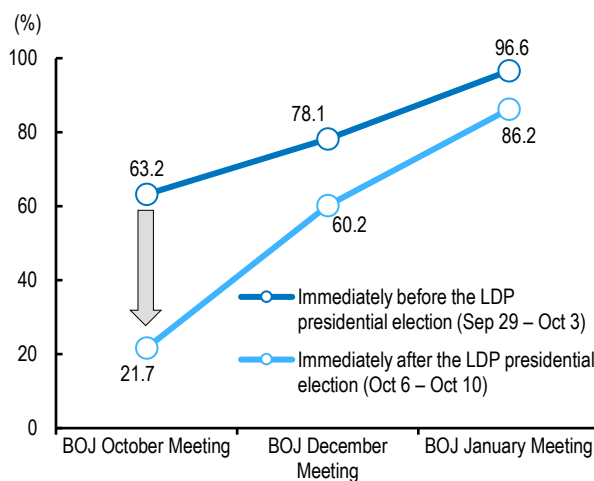


Source: Japan Research Institute, Ltd. based on Ministry of Finance and various reports

Note: The standard tax refers to the national Gasoline Tax and the local Gasoline Tax.

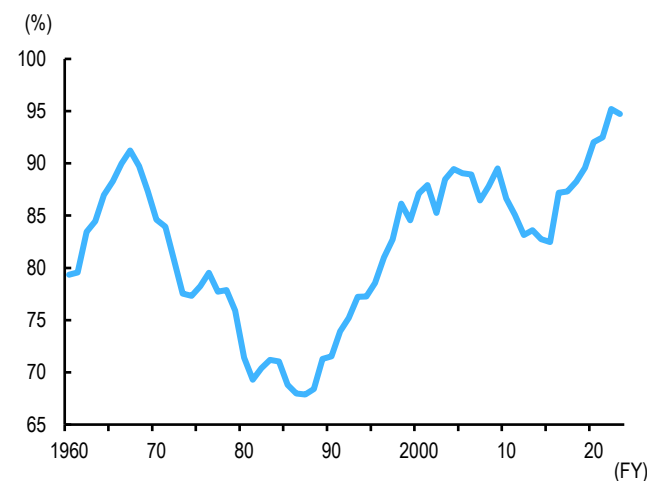
The temporary tax rate is a surcharge introduced to the standard tax in 1974 for purposes such as road maintenance.

Figure 6-2 Probability of BOJ Rate Hike Anticipated by Financial Markets



Source: Japan Research Institute, Ltd. based on data from Bloomberg L.P.

Figure 6-3 Japan's Dependence on Middle Eastern Crude Oil Imports



Source: Excerpted from Togano [2025], "LDP President Takaichi's Tax Cut Policy May Heighten Japan's Crude Oil-Related Risks," Japan Research Institute, Research Eye, No. 2025-095.

Monthly Report of Prospects for Japan's Economy November 2025
The Japan Research Institute, Limited

Topic②: Solid exports to the Middle East are supporting external demand

◆ Auto exports to the Middle East are buoyant

Amid weakness in Japan's exports, most notably in exports to the U.S. and China, exports to the Middle East remain robust. The main reason is an expansion in auto exports. More than 50% of Japan's exports to the Middle East are automobiles. The Middle East contains many desert regions, and demand for Japanese vehicles is strong due to their high quality, which enables them to withstand harsh driving conditions. As a result, around 50% of automobiles sold in the Middle East are Japanese. In the United Arab Emirates (UAE), which is a hub for the re-export of vehicles to Africa and South Asia, there is also a large demand for used vehicles, making the UAE the world's largest buyer of Japanese used car exports.

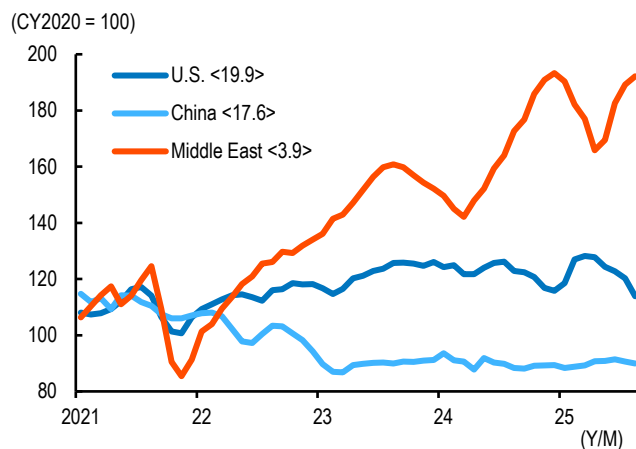
Ongoing motorization in the Middle East has also boosted Japan's exports. A notable development in recent years has been the increasing participation of women in society in Saudi Arabia. The female labor force participation rate has risen significantly over the past decade to reach almost 35%. Women in Saudi Arabia have been able to obtain driver's licenses since 2018, and this has also accelerated motorization.

◆ Exports are highly likely to continue increasing in the future

Auto ownership in the Middle East is low compared to developed countries, so there is plenty of room for further motorization. Considering the population growth in the Middle East, Japan's vehicle exports to the Middle East may increase by about 15% in the next five years (Note). Given the immense uncertainty surrounding external demand, as exemplified by the "America First" policies of the U.S., securing stable export destinations is vital for Japan.

Note: This estimate reflects demand expansion based on the IMF's population estimates for 2030 (assumes auto demand is directly proportional to population) and the policy of expanding automobile re-export in the UAE, as announced in D33 (10-year plan to double Dubai's economy by 2033) by the Dubai government in 2023.

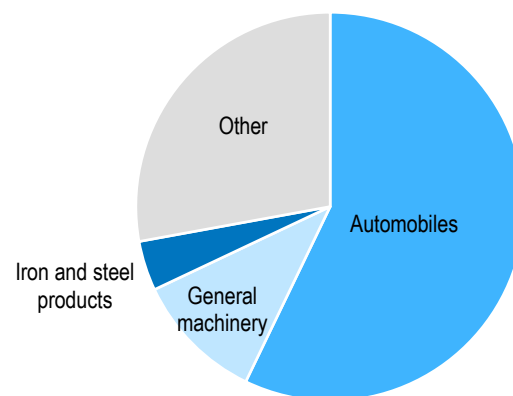
Figure 7-1 Real Exports by Partner Country
<seasonally adjusted>



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

Note: Backward 3-month average. Figures in angle brackets represent the overall percentage of total nominal exports in 2024.

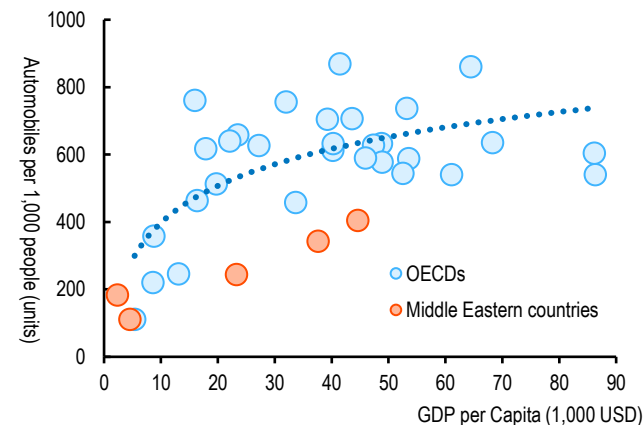
Figure 7-2 Exports to the Middle East by Product Category



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

Note: September 2024 to August 2025. Automobiles include automotive parts.

Figure 7-3 Automobile Ownership per 1,000 People and GDP per Capita



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

Note: 2020. Countries listed in "World Statistics 2025" are plotted. Middle Eastern countries include UAE, Saudi Arabia, Israel, Iran, and Iraq.

Monthly Report of Prospects for Japan's Economy November 2025
The Japan Research Institute, Limited

A domestically demand-driven recovery is expected

◆ External demand will dip temporarily but the economy will be bolstered by domestic demand

The Japanese economy is expected to gradually recover going forward. Personal consumption will support the economy. While wage hikes that reflect the agreements made at this fiscal year's shunto (spring wage negotiations) will continue, inflation will slow in the middle of next year, especially in energy and food. This should result in real wage growth turning positive, and then staying in positive territory next fiscal year as pay continues to be increased. Although corporate earnings will worsen due to U.S. tariff policy, with labor shortages intensifying, companies are expected to continue to increase labor's share of income and continue wage hikes.

Capital investment also looks set to keep rising. While they will feel the weight of deteriorating earnings, firms are expected to maintain an active investment stance, particularly with regard to software, as they work to address medium- to long-term challenges such as labor shortages and the digital transformation.

External demand will dip in the near term, but should soon bottom out. Later, the global economy, including the U.S. economy, is expected to recover as accommodative fiscal and monetary policies are deployed in various countries, and this should give Japan's exports a lift.

◆ Downside risks are significant

Real GDP growth is projected to remain solid, registering 1.0% in FY2025 and 0.8% in FY2026. However, there are significant downside risks for both domestic and external demand. The risks for domestic demand are 1) a slump in personal consumption due to prolonged food inflation and 2) capital investment and wage downturns due to a decline in corporate earnings. As for external demand, there is a risk of the U.S. imposing additional tariffs if, for example, Japan's trade surplus with the U.S. continues or its investment in the U.S. falls short of the agreed target.

Figure 8 Projections for Japan's GDP Growth and Main Indicators (as of November 17, 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	0.9	2.3	-1.8	0.8	1.1	1.1	1.0	1.0	0.9	0.6	1.0	0.8
Private Consumption Expenditure	1.0	1.5	0.6	0.7	1.1	1.1	0.8	0.7	0.6	0.7	1.0	0.9
Housing Investment	5.4	1.3	-32.5	9.2	1.1	0.6	0.0	-0.1	0.0	-0.6	-4.6	-1.0
Business Fixed Investment	3.5	3.3	4.2	1.0	1.2	1.3	1.5	1.7	1.7	1.9	2.7	1.5
Private Inventories (percentage points contribution)	(2.2)	(0.0)	(-0.9)	(0.0)	(0.0)	(-0.0)	(-0.0)	(-0.0)	(-0.0)	(0.1)	(0.2)	(-0.1)
Government Consumption Expenditure	-1.7	0.5	2.1	1.0	1.1	1.4	1.5	1.5	1.5	1.2	0.5	1.4
Public Investment	2.2	-0.4	0.5	0.8	0.9	1.0	1.1	1.2	1.2	0.6	0.2	1.0
Net Exports (percentage points contribution)	(-2.8)	(1.0)	(-0.9)	(-0.5)	(-0.2)	(-0.2)	(-0.1)	(-0.1)	(-0.1)	(-0.5)	(-0.1)	(-0.2)
Exports of Goods and Services	-1.6	9.6	-4.5	-2.4	0.0	0.3	0.8	1.0	1.0	1.5	2.3	-0.2
Imports of Goods and Services	10.4	5.1	-0.4	-0.3	0.9	1.2	1.3	1.3	1.3	3.5	2.8	0.9

(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)		
Nominal GDP	5.2	4.9	3.9	3.3	3.0	2.4	3.1	3.2	3.4	3.7	3.8	3.0
GDP deflator	3.3	2.9	2.8	2.9	2.4	2.2	2.2	2.2	2.4	3.1	2.7	2.3
Consumer Price Index (excluding fresh food)	3.1	3.5	2.9	2.4	1.9	1.3	1.3	1.7	2.0	2.7	2.7	1.6
Unemployment Rate (%)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Exchange Rates (JY/US\$)	153	145	147	150	148	148	146	146	147	153	147	147
Import Price of Crude Oil (US\$/barrel)	79	75	72	69	64	64	63	62	62	83	70	63

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 from the Japan Research Institute, Ltd.