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# Monthly Report of Prospects for Japan's Economy

April 2026

Macro-economics Research Center  
Economics Department



The Japan Research Institute, Limited

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

Figure 1-1 Economic Activity

The coincident index of business conditions has stopped falling. The leading index is picking up.

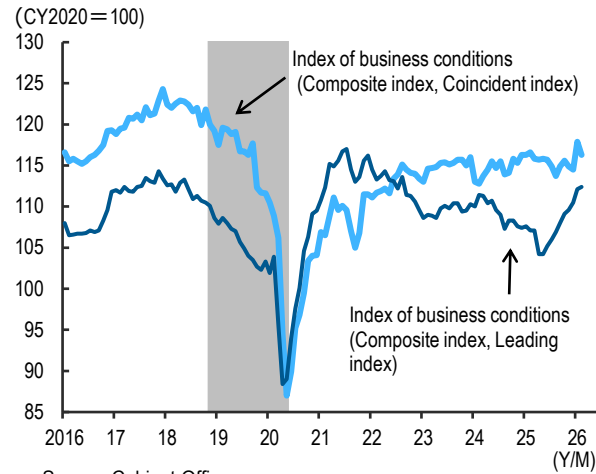


Figure 1-2 The Corporate Sector

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

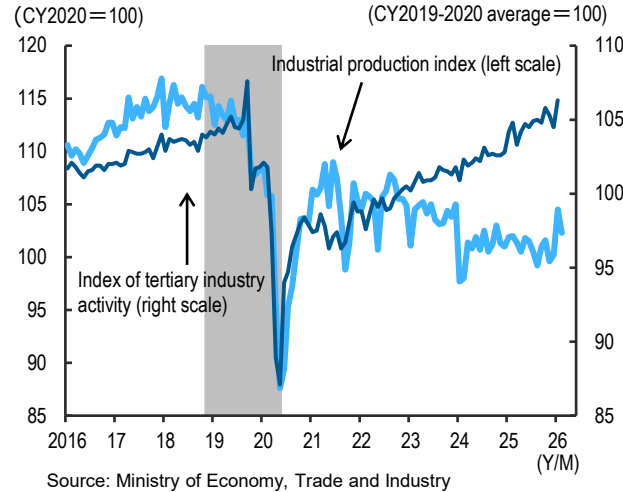


Figure 1-3 External Demand

Exports, particularly to Europe and Asia, are picking up. Imports are fairly flat overall.

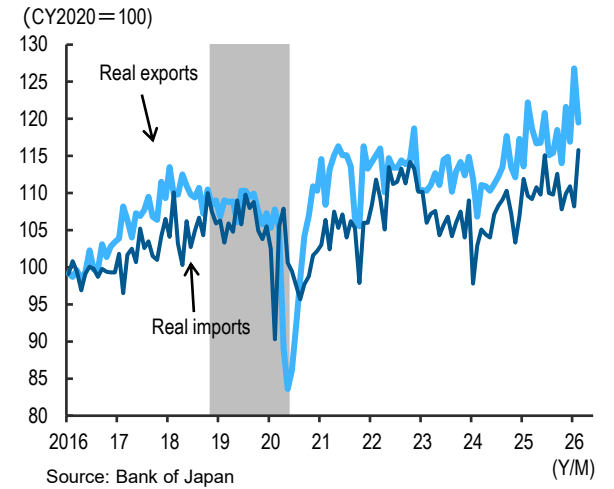


Figure 1-4 Employment and Income

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

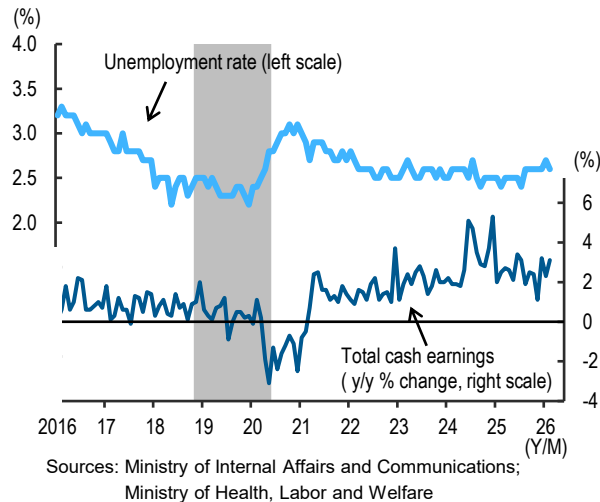


Figure 1-5 The Household Sector

Consumption is holding firm. Housing starts are weak.

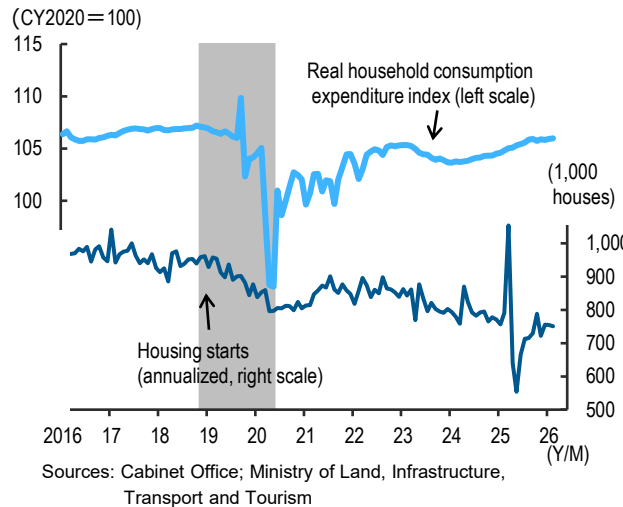
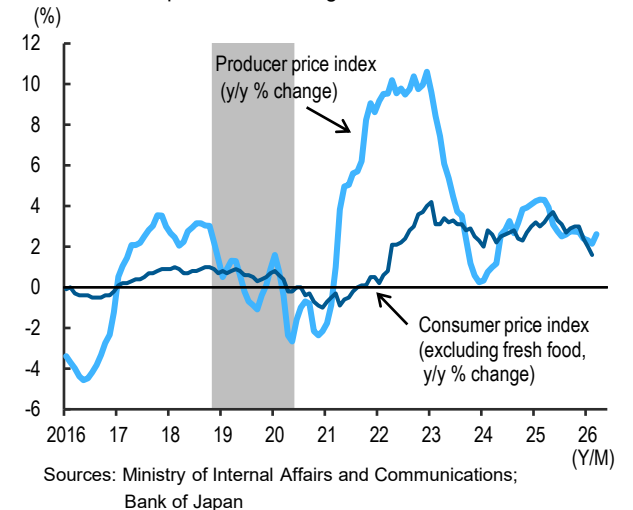


Figure 1-6 Prices

Producer price inflation has rebounded as oil prices rise. Consumer prices are slowing.



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

# Business confidence among companies is favorable overall

## ◆ Business confidence among companies is generally improving

In the March Tankan survey from the Bank of Japan (BOJ), the diffusion index (DI) for business conditions for large manufacturing enterprises was up one percentage point from the previous survey. Against a backdrop of solid AI-related demand, business confidence is improving in the area of non-ferrous metals for data centers, and also in the production machinery sector, which includes semiconductor manufacturing equipment.

The DI for large non-manufacturing enterprises was unchanged from the previous survey. Although the DIs for the transport/postal activities sector and the electric/gas utilities sector declined on concerns over rising crude oil prices amid heightened tensions in the Middle East, the DI for the goods rental and leasing sector improved markedly on the back of robust corporate capital investment appetite, while consumer-related sectors such as accommodation and eating/drinking services provided underlying support for the overall index, driven by a recovery in personal consumption.

## ◆ Production in the manufacturing sector is fluctuating

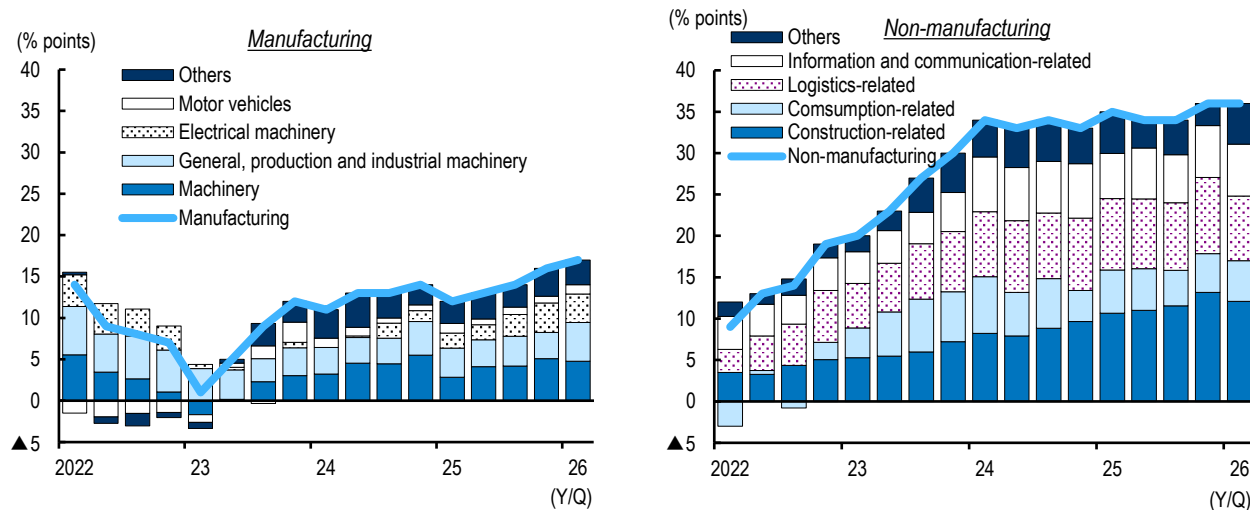
In February, the Industrial Production Index dropped by 2.1% month over month (MoM). While production of steel and non-ferrous metals rose, output of automobiles and production machinery declined.

According to the Industrial Production Index Forecast (adjusted based on past forecasting errors), near-future production plans indicate an increase in output of 3.8% MoM in March. One of the main reasons will be a rebound in output of production machinery.

## ◆ The service sector is on the recovery track

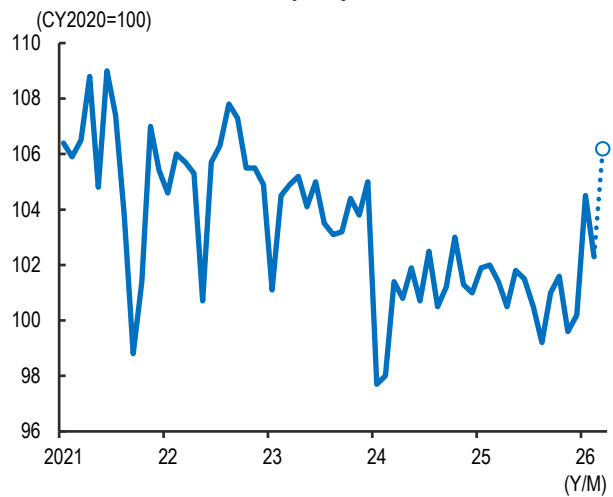
The recovery in the service sector is being maintained, both for personal and corporate services. In personal services, finance and insurance provided an overall lift as more financial transactions were conducted in response to rising stock prices and higher interest rates. As for corporate services, information and communications led the way, buoyed by strong digital transformation investment.

Figure 2-1 DI for Business Conditions of Large Companies



Source: Japan Research Institute, Ltd. based on data from the Bank of Japan  
 Note: The December 2025 survey used a new baseline after the company sample was revised.

Figure 2-2 Industrial Production Index <seasonally adjusted>



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

# Goods exports are picking up, and capital investment is firm

## ◆ Goods exports are slowly picking up but there are clouds on the horizon

Goods exports are picking up. By country/territory, exports to the U.S., which had slumped due to the impact of tariff hikes, appear to have bottomed out, while exports to Europe and Asia, centered on capital goods, continue to trend upward.

Looking ahead, however, goods exports are projected to weaken. While strong AI demand will provide underlying support for exports of related goods, the surge in crude oil prices will sap economic momentum globally, and particularly in Asia. In addition, exports to the Middle East are expected to decline in the near term amid disruptions to shipping. Although the Middle East's share of total Japanese exports is limited, Japan's exports to the region have grown at an annual rate of over 10% in recent years, centered on transportation machinery. Having contributed to overall export growth, Middle East-bound exports turning to decline would deal a substantial blow to Japan's exports overall.

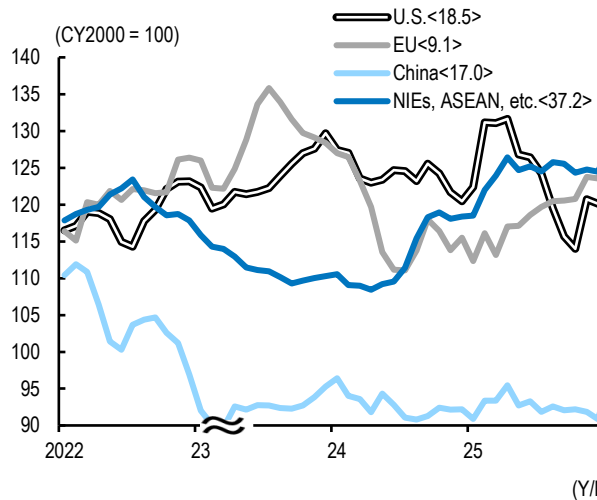
## ◆ Appetite for investment among companies is strong

Capital investment is firm. Looking at capital investment by type, software investment remains at a high level, and machinery and construction investment are

also increasing gradually.

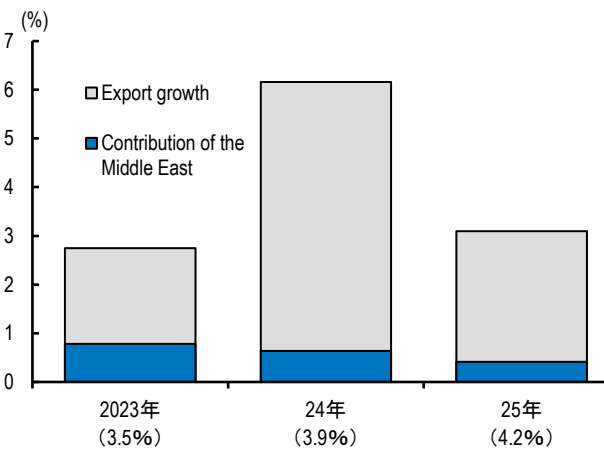
Capital investment is also expected to keep rising in the near term. Although increasing labor shortages in the construction and manufacturing sectors and soaring construction costs resulting from the turmoil in the Middle East will weigh on capital investment, companies' enthusiasm for investment to address medium- to long-term challenges such as labor saving and digital transformation will be maintained. According to the BOJ Tankan for March, planned capital investments (including software but excluding land) for FY2026 are up 3% year over year (YoY), a rate of growth on par with the same period a year ago.

Figure 3-1 Real Exports <by Country/Region>



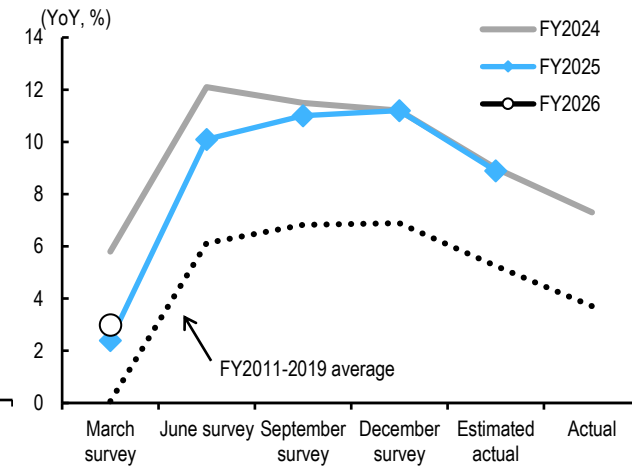
Source: Japan Research Institute, Ltd. based on data from the Bank of Japan  
Note: Backward 3-month average. Figures in angle brackets represent the share of each country and region in customs-cleared export value.

Figure 3-2 Decomposition of Export Growth <YoY>



Source: Japan Research Institute, Ltd. based on data from the Ministry of Finance  
Note: Figures in angle brackets represent the share of exports to the Middle East in each year.

Figure 3-3 Capital Investment Plans <All Sizes, All Industries>



Source: Japan Research Institute, Ltd. based on data from the Bank of Japan  
Note: Including software, excluding land.

# The household sector will avoid a sharp deterioration despite higher oil prices

## ◆ High rates of wage increase will be realized in 2026 as well

Rates of wage increase agreed at the 2026 shunto (spring wage negotiations) averaged at 5.09% (as of the third round of calculations), slightly below the previous year's figure but still maintaining strong growth. Looking at the figure by company size, small and medium-sized enterprises (SMEs, fewer than 300 union members) also awarded high wage increases comparable to those of large corporations. SMEs, which face particularly serious labor shortages, are maintaining proactive wage-raising stances to attract/retain workers and boost motivation. In addition, increases in minimum wages may also have prompted SMEs to raise wages further.

Looking ahead, the wage increases agreed during the shunto are expected to take effect toward the summer. With wage growth progressing for a wide range of workers, including those at SMEs, the breadth of those benefiting looks set to widen.

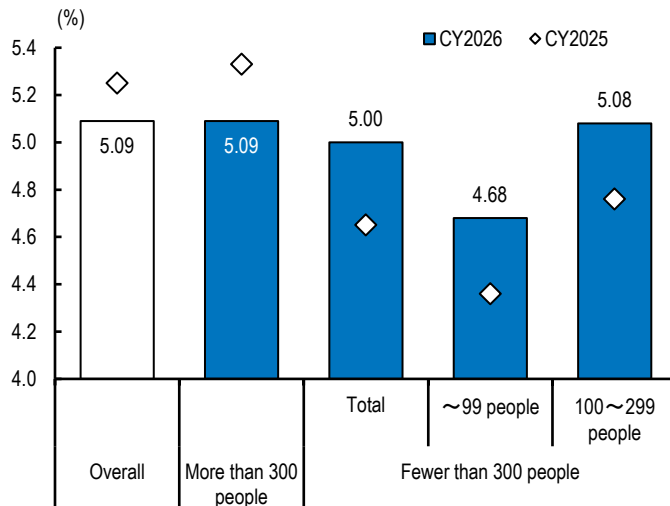
## ◆ Personal consumption remains firm

Personal consumption is gradually increasing. By type, goods consumption is stabilizing, thanks in part to easing inflation, while services consumption continues to

hold firm, particularly in amusement-related services.

Looking ahead, personal consumption is expected to remain resilient. Uncertainty surrounding the situation in the Middle East and concerns over rising prices are expected to depress consumer confidence, which will likely lead to some moderation in consumption growth. That said, with the government expected to employ measures such as subsidies to contain price increases, and with wage growth continuing at a pace comparable to the previous year, the income environment is likely to provide underlying support for personal consumption.

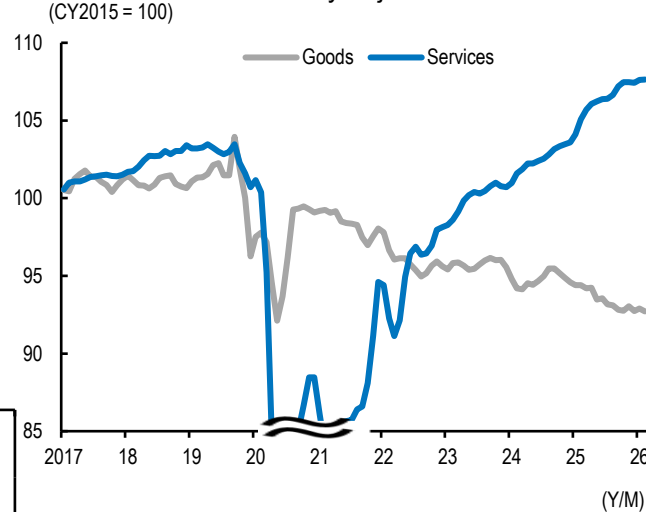
Figure 4-1 Rate of Wage Increases in Spring Wage Negotiations (by Union Size)



Source: Japan Research Institute, Ltd. based on data from the Japanese Trade Union Confederation

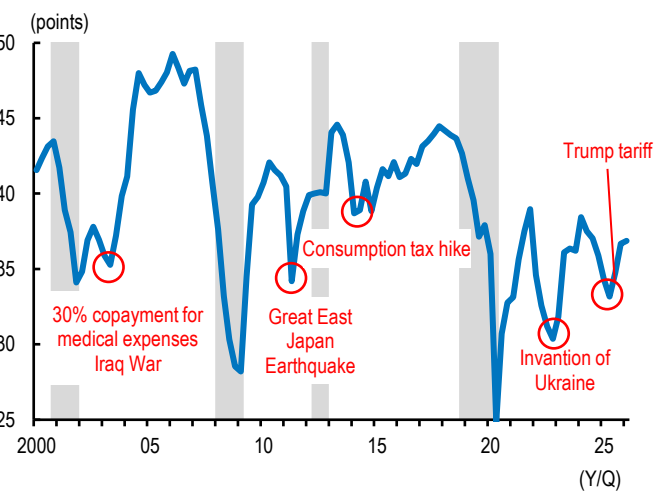
Note: The Data for CY2026 are based on the third round of the survey responses. The Data for CY2025 are based on the final tally.

Figure 4-2 Consumption Activity Index <seasonally adjusted> (CY2015 = 100)



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

Figure 4-3 Consumer Confidence Index and Economic Shock



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

Note: Seasonally adjusted data for two-or-more-person households.

The shaded areas indicate recession periods. The survey methodology was revised in April 2013 and October 2018.

# The government is moving to curb inflation

## ◆ Core inflation has fallen below 2% for the first time in about four years

In February, core inflation (all items, less fresh food) was 1.6%, dropping below 2% for the first time in approximately four years. The pace of energy price growth slowed due to government measures to curb inflation, and the rapid rise of food prices also moderated.

Inflation of approximately 2% is expected to continue in the near term. WTI crude oil futures prices should hover around \$100 before gradually declining. While some companies are expected to pass on higher raw material costs resulting from elevated oil prices to their selling prices, the government is likely to ease inflationary pressure through measures such as energy subsidies.

That said, if tensions in the Middle East persist for an extended period, there is a risk that the government may lose its ability to contain price increases, resulting in a significant rise in the inflation rate.

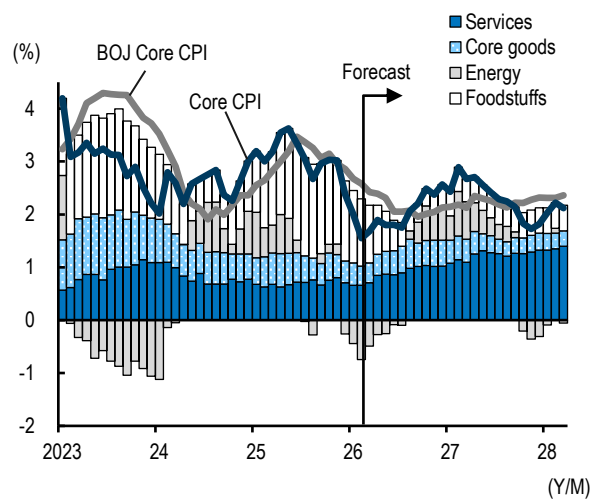
## ◆ The BOJ will continue to raise interest rates in phases

At its monetary policy meeting in March, the BOJ decided to keep its policy rate at 0.75%.

Long-term interest rates have risen. This reflects growing expectations for an early rate hike by the BOJ, as well as expansion of the view that surging oil prices could lead to an expansion of government expenditure.

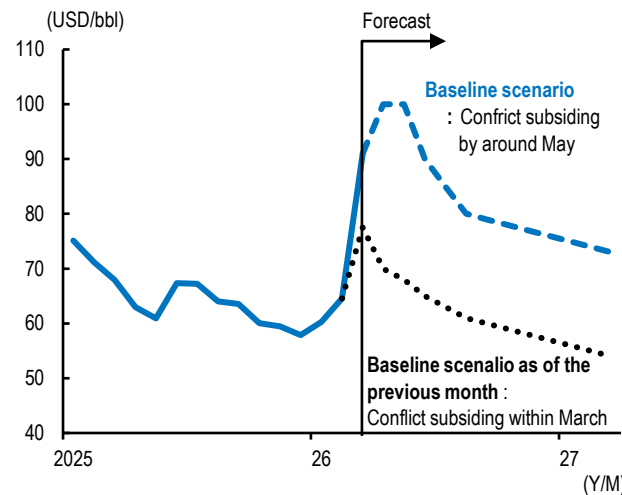
It is highly likely that the BOJ will continue to raise interest rates in stages while closely monitoring the impact of the Middle East crisis on the real economy and financial/capital markets. The next rate hike is expected to be in June. Long-term interest rates look likely to rise gradually, reflecting heightened anticipation of rate hikes by the BOJ and increased fiscal spending by the government. If jitters about a deterioration in fiscal discipline resulting from such measures as energy subsidies or consumption tax cuts take hold, there is also a risk that long-term interest rates will rise.

Figure 5-1 Consumer Price Index <YoY>



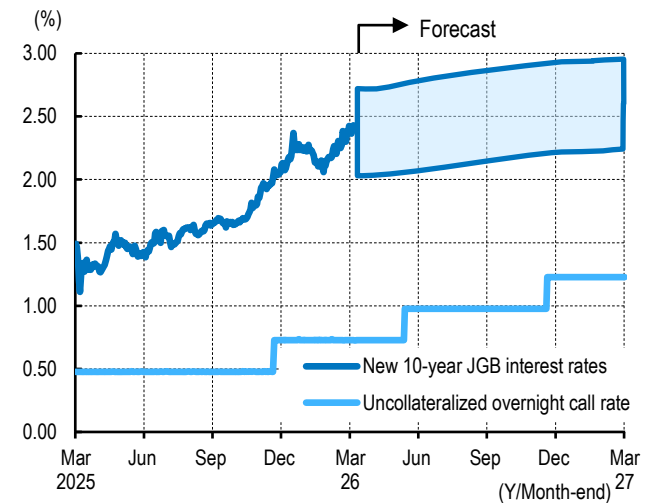
Source: Japan Research Institute, Ltd. based on data from the Ministry of Internal Affairs and Communications

Figure 5-2 WTI Crude Oil Futures Price Assumption



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 unemployment rate is at odds with the sense of labor shortages

## ◆ Occupational mismatch is widening

While companies are increasingly feeling labor shortages, the unemployment rate has stopped declining. Before the COVID pandemic, the unemployment rate and the BOJ Tankan DI for employment conditions generally moved in the same direction, but they have since been diverging to an increasing degree.

One factor behind this divergence is the growing number of unemployed individuals who are unable to find employment. With labor force participation by women increasing, a certain degree of inflow from the non-labor force population into the unemployed population has occurred, but the transition of people from unemployed to employed status has not been sufficient to absorb this. As a result, the number of people remaining unemployed has been rising, and this trend has become particularly pronounced in recent years. Compared to the pre-COVID period, the number of workers switching from unemployment to employment has fallen by 180,000.

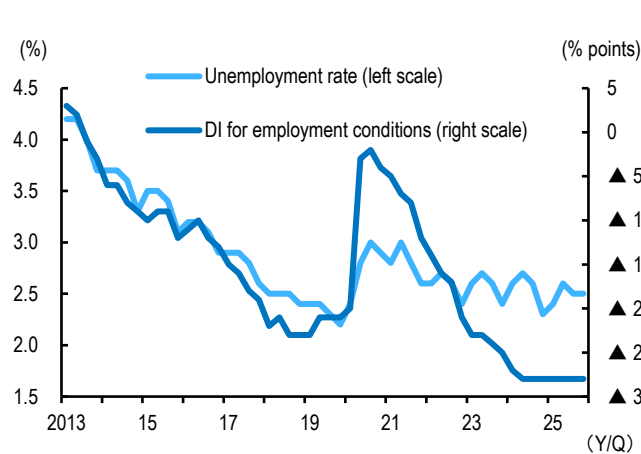
The primary driver of this dynamic is employment mismatch, and in particular, a widening mismatch across occupations. While there is an excess of people seeking

clerical and administrative roles, demand for workers exceeds supply in professional and technical occupations and in the service sector, and labor shortages are becoming increasingly severe in these areas. Cases in which job seekers are unable to find employment despite actively searching for work due to mismatches in skills or occupations are on the rise.

## ◆ Facilitating occupational mobility is an urgent priority

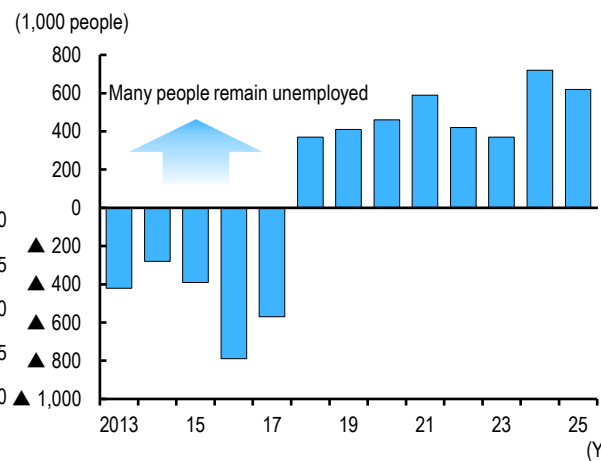
To resolve mismatches, mechanisms for facilitating smooth transitions into different fields are needed, alongside improvements in compensation and working conditions in labor-scarce occupations. Specific tasks include: 1) providing support for switching careers, 2) expanding recurrent education, and 3) improving information infrastructure through greater clarity in job descriptions and the visualization of skills.

Figure 6-1 Gap between Unemployment Rate and Sense of Labor Shortages



Source: Japan Research Institute, Ltd. based on data from the Cabinet Office  
Note: Both figures represent corporate equipment investment by private corporations.

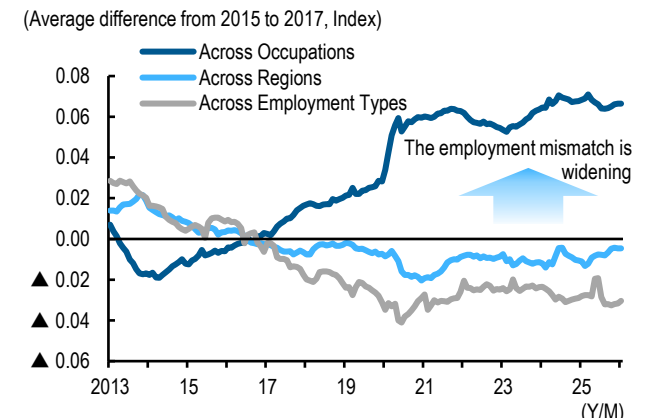
Figure 6-2 Stagnation in Unemployment Pool



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

Note: Stagnation in the employment pool is equal to the number of people moving from the non-labor force to the unemployed minus the number of people moving from unemployment to employment.

Figure 6-3 Employment Mismatch Index <seasonally adjusted>



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

Note: The employment mismatch index is calculated by summing the absolute differences between the number of active job seekers and the number of active job openings in each category. Occupations are categorized by major group; regions by prefecture; and employment status by four categories: regular (part-time and full-time) and temporary/seasonal (part-time and full-time). Occupations are adjusted for the break caused by the 2023 revision of the occupational classifications.

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## Topic②: Inequality among households is widening in a "world with interest rates"

### ◆ Japanese consumption remains firm overall

Recently, household consumption has been generally holding up well even as prices continue to rise. Two background factors underlie this: 1) growth in employment income and 2) growth in asset income. The real incomes of employees have increased on the back of rising numbers of people in employment and higher wages. On the asset side, households' interest income has been growing, and unrealized equity gains have also increased.

### ◆ Inequality among households is widening

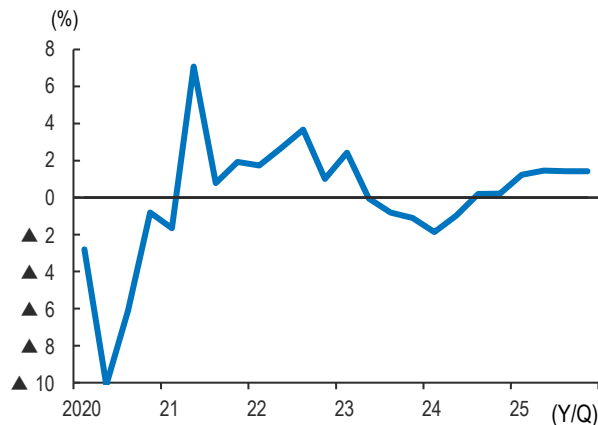
That said, inequality among households has been widening. The employment income environment varies considerably across households. Real income has increased markedly among regular employees at major companies (who account for 12% of all workers), but has been sluggish for workers at many other firms.

As Japan transitions to a "world with interest rates," the gap in interest income between the group receiving the least (the bottom 20% of those aged 39 and under) and the group receiving the most (the top 20% of those aged 60 and over) has widened from just under 700 yen per year in 2021 to approximately 120,000 yen per

year at present. The picture is similar for unrealized equity gains. It is only households in the bottom 20% for savings that are in a situation where such gains fail to cover the added burden of rising prices.

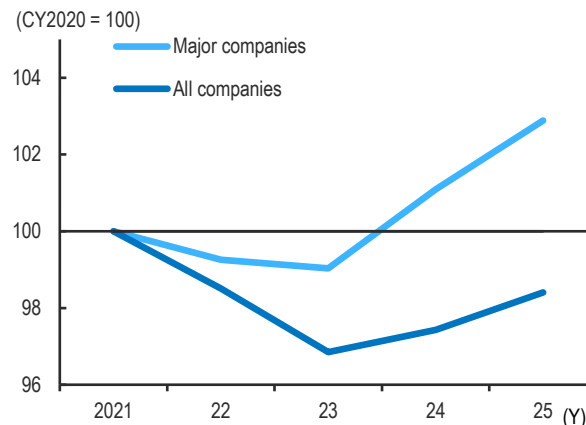
With the factors that support consumption distributed unevenly in this way, a reduction in the consumption tax on food items, which is currently under consideration, would disproportionately benefit wealthy households, who have greater spending capacity, and it could therefore exacerbate inequality. Targeted measures are needed to address the burden of rising prices on low-income households, and one such measure could be the introduction of a refundable tax credit system.

Figure 7-1 Real Private Consumption <YoY>



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

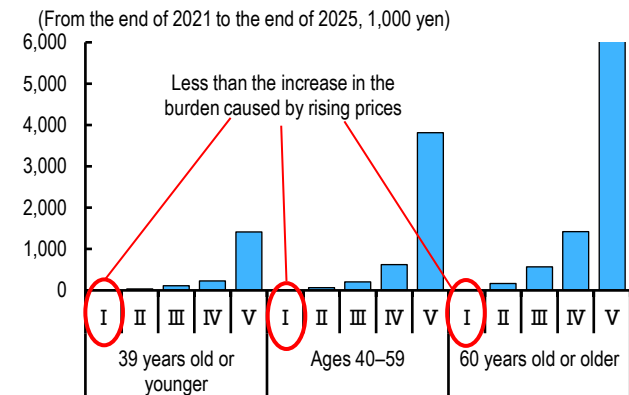
Figure 7-2 Real Scheduled Cash Earnings of Regular Employees



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

Note: The major companies are those included in the Ministry of Health, Labour and Welfare's survey on spring wage increase demands and settlement status. All companies are those with 10 or more regular employees, based on the Basic Survey on Wage Structure.

Figure 7-3 Stock Gains by Quintile of Household Head Age



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

Note: Households with two or more members.

# The economic recovery will pause in the near term due to rising oil prices

## ◆ Higher oil prices are putting downward pressure on the corporate sector

Japan's economic recovery is expected to stall in the near term due to the impact of higher crude oil prices. The conflict in the Middle East should subside by around May, with WTI crude oil futures prices hovering around \$100 before gradually declining.

The corporate sector will weigh on the economy. Although investment demand to address medium- to long-term challenges such as labor saving and digital transformation will hold steady, goods exports are expected to weaken as surging oil prices put downward pressure on national economies, particularly in Asia. Some companies may also face production constraints due to shortages of raw materials.

The dampening effect of higher oil prices on global economic activity, combined with rising fuel costs, is also expected to suppress inbound tourism demand. Coupled with the slump in Chinese visitors to Japan amid deteriorating Japan-China relations, growth in service exports is projected to slow.

The household sector, however, should remain resilient. The government looks set to ease oil price-driven inflationary pressure through measures such as energy subsidies. With high rates of wage growth continuing, a significant decline in real incomes is likely to be avoided.

## ◆ Middle East tensions pose downside risks

Real GDP growth is projected to remain solid, registering +0.6% in FY2025 and

+0.8% in FY2026.

That said, if tensions in the Middle East persist for an extended period, crude oil prices could rise further. This would intensify downward pressure on the corporate sector, and there is a risk that the government may be unable to fully mitigate the burden, leading to a deterioration in household real incomes and consumer confidence. Furthermore, if constraints on the supply of oil and related products tighten, a wide range of industries could be forced to curtail production, posing the risk of a significant economic downturn.

Figure 8 Projections for Japan's GDP Growth and Main Indicators (as of April 10, 2026)

	CY2025	(seasonally adjusted, annualized % changes from the previous quarter)									(% changes from the previous fiscal year)		
		CY2026				CY2027				CY2028	FY2025	FY2026	FY2026
		10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Projection)	(Projection)
Real GDP	1.3	1.3	0.5	0.6	0.9	0.9	0.8	0.7	0.7	0.7	1.0	0.6	0.8
Private Consumption Expenditure	1.1	1.2	0.3	0.5	0.7	0.7	0.6	0.5	0.5	0.5	1.5	0.8	0.6
Housing Investment	21.0	1.1	0.6	0.0	-0.1	-0.3	-0.4	-0.5	-0.5	-0.5	-3.6	0.5	-0.4
Business Fixed Investment	5.4	2.0	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.3	2.3	2.0	1.5
Private Inventories (percentage points contribution)	( -1.0)	( 0.1)	( 0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.0)	( -0.2)	( -0.0)
Government Consumption Expenditure	1.5	0.9	1.0	1.1	1.1	1.1	1.0	1.0	1.0	1.0	0.8	1.0	1.0
Public Investment	-2.0	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	-1.1	0.4	1.2
Net Exports (percentage points contribution)	( -0.0)	( -0.4)	( -0.5)	( -0.4)	( -0.1)	( -0.1)	( -0.0)	( -0.1)	( -0.0)	( -0.1)	( -0.2)	( -0.4)	( -0.1)
Exports of Goods and Services	-1.4	-0.2	-0.9	-0.2	1.4	1.6	1.8	1.8	1.8	1.8	1.9	-0.5	1.6
Imports of Goods and Services	-1.3	1.8	1.3	1.4	1.9	1.9	1.9	2.0	2.0	2.0	2.8	1.1	1.9

	(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)		
Nominal GDP	3.9	2.4	1.0	2.6	2.5	4.0	4.8	4.2	3.6	3.9	3.9	2.5	4.1
GDP deflator	3.4	1.4	0.9	1.7	1.8	3.3	4.0	3.4	2.8	3.2	2.9	1.9	3.3
Consumer Price Index (excluding fresh food)	2.8	1.8	1.8	2.0	2.5	2.7	2.6	2.2	1.8	2.1	2.7	2.2	2.2
Unemployment Rate (%)	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Exchange Rates (JY/US\$)	154	157	158	158	156	156	154	154	152	152	151	157	153
Import Price of Crude Oil (US\$/barrel)	71	68	114	91	84	81	78	76	76	76	72	92	76

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.