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Uncertainties for the Japanese Economy Caused by the Naphtha Problem

Rising prices are unavoidable, and if supply shortages occur, they could further drag down the economy

Economic Research Dept. **Hirohito Hatanaka**

Summary

- Since the de facto blockade of the Strait of Hormuz, concerns over supply shortages have been growing not only for crude oil but also for naphtha, which is refined from crude oil. Although domestic production accounts for about 40% of naphtha supply, more than 90% of the crude oil used as feedstock is sourced from the Middle East. When combined with naphtha imports from the Middle East, Japan relies on the region for over 80% of its naphtha supply. Naphtha is a key input in the upstream part of the supply chain, and supply disruptions or price spikes in naphtha lead to reduced production and higher prices across a wide range of products.
- Although production is proceeding through alternative sourcing from outside the Middle East and the use of oil reserves, domestic naphtha sales volume in April fell sharply by -36% compared to the same month last year. Against a backdrop of tight supply and demand and concerns about future supply, naphtha prices in May surged by 83% compared to the beginning of 2026, and prices for upstream products have also soared.
- If naphtha prices were to remain 80% higher, estimates suggest that input prices—which reflect business-to-business transactions—would rise by 1.1%, while consumer prices faced by households would increase by 0.23%. While the rise in input prices is largely driven by upstream chemical products and petroleum products—including naphtha—the impact on consumer prices extends across a wide range of goods. Furthermore, if the tail risk of a 50% reduction in naphtha supply were to materialize, real GDP would be pushed down by approximately 0.43%, primarily in the chemical sector.
- To mitigate the materialization of tail risks and curb the surge in naphtha prices, it is important—until logistics through the Strait of Hormuz recover—to continue pursuing alternative sources of crude oil and naphtha to ensure a stable supply, and to alleviate supply concerns by facilitating the smooth flow of goods.