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Japan's Economy: Monthly Outlook (Apr 2025)

Real GDP outlook revised in light of recent developments in Trump tariffs

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Summary

- The Trump administration's tariff policy (hereinafter referred to as "Trump tariffs") is causing turmoil in the Japanese and global economies. If we divide the Trump tariffs into country and region-specific tariffs and product-specific tariffs, and consider the planned tariff measures (semiconductors, electronic devices, and pharmaceuticals), the impact of country and region-specific tariffs on Japan's real GDP is estimated to be up to around -0.9%. (-2.2% if the additional tariff rates under reciprocal tariffs are reapplied), while product-specific tariffs are estimated to have an impact of around -0.5%.
- Different tariff rates imposed by country and region will change the competitiveness (relative prices) of products from each country and region within the US, potentially giving rise to substitute demand. The competitiveness of Japanese products within the US is likely to increase, particularly against Chinese products, potentially resulting in a windfall effect. However, the impact on real GDP is expected to be limited to around +0.3%. It is important to note that this will only partially offset the negative impact of the Trump tariffs.
- In response to the announcement of reciprocal tariffs, we revised our economic outlook downwards on April 4 for Japan, the US, Europe, and China. Subsequently, taking into account the 90-day suspension of the additional tariffs and the start of negotiations with the US in Japan and other countries and regions, we have revised our economic outlook once again. Assuming that the additional tariffs will not be applied during the forecast period, we expect Japan's real GDP growth rate to be +1.0% y/y in FY2025 and +0.9% in FY2026. Additionally, based on the results of the basic statistics published as of the date of this report, the real GDP growth rate for the Jan-Mar period of 2025 is expected to be near zero on a q/q annualized basis.