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# Japan's Economy: Monthly Outlook (Jun 2025)

**What are the current effects of the Trump tariffs? / Household support measures are key issues in House of Councillors election**

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## Summary

- Even after the Trump administration significantly strengthened its tariff measures (Trump tariffs) in April 2025, Japan's exports and capital investment, as well as other economic factors, maintained underlying strength. However, this is because companies exporting to the US as well as other companies have absorbed much of the tariff increases, thereby mitigating the impact of the Trump tariffs. For example, the export price of Japanese passenger vehicles to the US dropped by -22% y/y in May, offsetting most of the additional tariffs (25%). Such corporate responses are not sustainable, and they will eventually be forced to raise export prices.
- The additional tariff rate imposed by the US on Japan is estimated to be 16.0% as of the time of this writing, and the elasticity of Japanese product export prices due to changes in tariff rates is estimated to be -0.35. The increase in US import prices from Japan is calculated by subtracting the decline in Japan's export prices to the US (5.2%) from the additional tariff rate on Japan (16.0%), resulting in a 10.8% increase. The majority of the increased burden from the Trump tariffs is likely to be borne by the US private sector. Going forward, there is a possibility that the negative impact on the Japanese economy could spread through a deterioration in the US economy due to the renewed acceleration of inflation.
- In the House of Councillors election to be held on July 20, both the ruling and opposition parties have pledged household support measures. Of these, the cash handouts promised by the ruling Liberal Democratic Party- Komeito coalition are estimated to total 3.4 tril yen, with an estimated effect of 0.4 to 0.8 tril yen on GDP. Compared to measures such as reducing the consumption tax rate to zero for food items subject to the reduced tax rate (a 4.8 tril yen measure with an estimated boost to GDP of 0.3 tril yen) or unifying the consumption tax rate at 5% (a 15.3 tril yen measure with an estimated boost to GDP of 1.1 to 3.2 tril yen), the cash handouts have a higher cost-effectiveness ratio. However, there are significant concerns about the ruling coalition's plan to distribute the cash handouts uniformly to all households, including high-income earners, among other issues. It is necessary to establish an information infrastructure to provide targeted and generous support to those genuinely struggling due to rising prices, as well as to accelerate the digital transformation (DX) of administrative processes.