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Japan's Economy: Monthly Outlook (Sep 2025)

Trump tariffs cause sharp drop in exports to US. What impact will this have on manufacturing and wage increases?

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Summary

- An agreement was reached in the Japan-US tariff negotiations, but the resulting average US tariff rate on Japanese imports is estimated at 12.3%. While this is down from 14.5% in July, it remains high considering it was 1.5% at the start of the year. Caution is still needed regarding the impact of the Trump administration's high tariff policy (Trump tariffs) on exports to the US and other domestic and international economic activities, even after the Japan-US agreement.
- Japan's real exports have remained resilient overall, but since July, motor vehicles and related goods have declined significantly due to the impact of Trump tariffs, reaching their lowest level since November 2024 in August. This is likely due to increased local production and reduced price competitiveness. However, the reduction in US tariffs on Japanese automobiles should mitigate the negative price impact going forward. That said, Japanese auto exports to the US are more susceptible to domestic US demand than relative pricing. The US is experiencing worsening employment conditions and accelerating inflation, which could negatively impact exports from Japan.
- Japan's nominal exports to the US fell -13.8% y/y in August 2025. Assuming a similar rate of decline (-15%) going forward, calculations using input-output tables estimate the largest impact on manufacturing gross value added (GDP) would be in transportation equipment (-2.5%). General-purpose machinery would see the next largest impact (-1.5%). These sectors employ relatively large numbers of workers within manufacturing, raising concerns that the adverse effects could extend to the employment environment. Meanwhile, while we project real capital expenditure in 2026 to increase by +1.0% y/y, this would decline to +0.6% in the case of a -15% drop in exports to the US. In the worst-case scenario of a -40% decline in exports to

the US, real capital expenditure would turn negative for the first time in six years, falling by -0.1%.

- Our outlook for the rate of increase in wages in the spring labor negotiations, consistent with our economic outlook, is estimated at around 5.3% for 2026 and around 4.2% for 2027 (based on RENGO aggregate figures). If exports to the US decline by -40% and the wage-price cycle weakens, the 2027 wage increase rate could potentially drop to around 2.8%. This would be comparable to 1997 levels, when the Japanese economy was on the brink of falling into deflation. Should the impact of Trump tariffs become severe, it suggests that the Japanese economy, having transitioned to an inflationary phase, faces a heightened risk of reverting to deflation.
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