

5 December 2025 (No. of pages: 9)

Japanese report: 25 November 2025

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

## Economic Outlook Revised: Caution advised regarding worsening Japan-China relations and slowdown in the US economy

Economic Research Dept.

**Keiji Kanda****Shotaro Kugo****Munehisa Tamura****Kanako Nakamura**

### Summary

- In light of the announcement of the Jul-Sep 2025 GDP 1st preliminary results, we have revised our economic outlook. We now see growth in Japan's real GDP according to our main scenario at +0.9% in FY2025, and +0.7% in FY2026. (On a calendar year basis, we expect +1.3% in 2025 and +0.5% in 2026).
- Real wages (real employee compensation per capita) are expected to remain positive on a y/y basis, though with fluctuations, due to factors such as the anticipated spring labor negotiations in 2026 yielding increases at the same high level as the previous year, and a decline in the inflation rate. Improvements in household income conditions, government economic measures, continued accommodative financial environment, and high household savings are expected to support or boost the Japanese economy. On the other hand, caution is needed regarding downside risks to overseas demand, particularly from the US and China.
- Due to factors such as the cycle of wage increases and price pass-through, the underlying trend in the CPI growth rate is expected to remain around +2% through FY2026. Meanwhile, we assume that the Bank of Japan (BOJ) will raise the short-term interest rate to 0.75% in December 2025 while closely monitoring the economy, prices, and financial situation, followed by additional rate hikes at a pace of once every six months, 0.25%pt at a time. Short-term interest rates are expected to reach 1.25% by the end of the forecast period. Real interest rates are expected to remain negative throughout the forecast period, and monetary conditions are likely to remain accommodative for the time being.

## 1. Moderate Recovery Expected, but We Remain Wary of Possible Downturn in Overseas Demand

*Real GDP shifted into negative growth in the Jul-Sep 2025 period, but moderate recovery is expected to continue*

The real GDP growth rate for Jul-Sep 2025 (1st preliminary) was down by -1.8% q/q annualized (-0.4% q/q)<sup>1</sup>. It was the first time in six quarters for Japan's real GDP to experience negative growth.

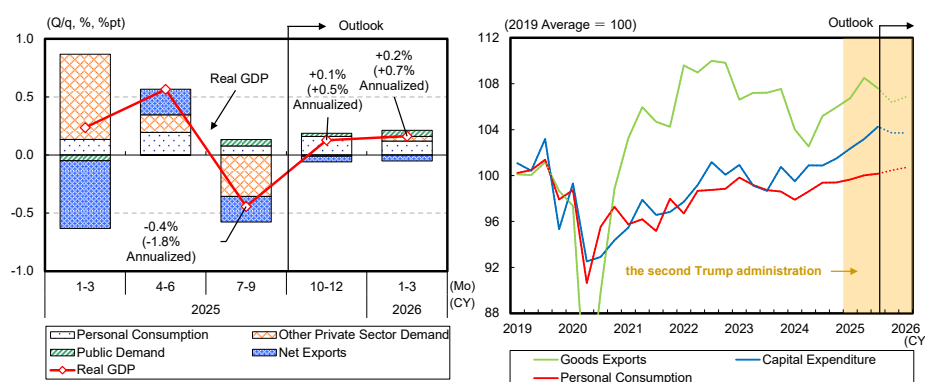
Goods exports declined for the first time in five quarters due to the impact of the Trump administration's high tariff policy (Trump tariffs). However, the primary factors dragging down real GDP growth in the Jul-Sep period were housing investment and private sector inventory. Regarding housing investment, the delayed reaction to the surge in demand before the March legal revision has now manifested. Considering that personal consumption increased for the sixth consecutive quarter and that capital expenditure increased for the fourth consecutive quarter, the Japanese economy appears to be continuing its gradual recovery trend at present.

Looking at performance by demand component (Chart 1, left), in the area of private sector demand, personal consumption and capital expenditure achieved growth, but housing investment declined sharply, and private sector inventories also contributed to pushing down the GDP growth rate by 0.2%pt in comparison to the previous quarter. As for public sector demand, both government consumption and public investment grew. Meanwhile, in the area of overseas demand, both exports and imports declined, with exports exceeding imports in the amount of decline, hence net exports pushed the real GDP growth rate down.

The GDP deflator rose 2.8% y/y, marking its 12th consecutive quarter of growth. Unit labor costs (nominal compensation per employee divided by real GDP) also increased 2.7% y/y, the 10th consecutive quarter of growth, indicating that wage-driven inflationary pressures remain persistent.

**Real GDP Growth Rate Results & Outlook (Left); Trends in Goods Exports, Capital Expenditure, and Personal Consumption (Right)**

**Chart 1**



Source: Cabinet Office; compiled by DIR.

Notes: Figures are seasonally adjusted. Outlook produced by DIR.

<sup>1</sup> See the DIR report by Keiji Kanda and Munehisa Tamura dated 17 November 2025, [Jul-Sep 2025 1st Preliminary GDP](#) (Japanese only).

We expect Japan's Oct-Dec 2025 period real GDP growth rate to shift slightly to the plus side at +0.5% q/q annualized (+0.1% q/q). Downward pressures on housing investment in the Jul-Sep period are expected to subside. Personal consumption is likely to continue its gradual recovery, supported by declining inflation and improving income conditions. Meanwhile, capital expenditure growth is expected to pause, partly reflecting a reaction to its strong performance, while goods exports are projected to continue declining (Chart 1, right).

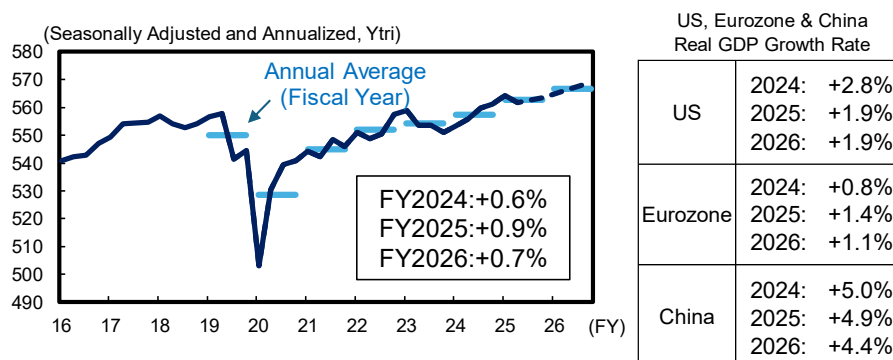
Caution is required regarding the potential for a significant decline in Chinese visitors to Japan and ripple effects on exports to China, stemming from the Chinese government's November 14 request for its citizens to refrain from travel to Japan.

***Assumptions regarding overseas economy etc.: positive growth is expected for major countries and regions, but downside risks persist in the US***

Chart 2 illustrates our main scenario for the trend in real GDP, based on our outlook for overseas economies. Our latest outlook for overseas economies dated November 21 is provided by our in-house experts on the overseas economy.

**Outlook for Japan's Real GDP and Assumptions Regarding Overseas Economies**

**Chart 2**



Source: Produced by DIR based on data from the Cabinet Office and statistics by various countries.

Note: The dashed line in the chart represents predicted values estimated by DIR. Outlooks for the US, Eurozone and China are based on predictions by DIR's in-house experts.

We expect growth in real GDP in 2025 to be up by +1.9% y/y for the US, +1.4% for the Eurozone, and +4.9% for China. Our outlooks for both the US and the Eurozone economies were revised upwards by 0.2%pt and 0.1%pt respectively in comparison to our report of September 8, 2025 ([Japan's Economic Outlook No. 226 Update](#) (Japanese only), hereafter "our previous outlook"), while our outlook for China remains the same level. Our outlook for growth rates in 2026 is +1.9% for the US (in comparison to our previous outlook at +0.2%pt), +1.1% for the Eurozone (previous outlook -0.1%pt), and +4.4% for China (previous outlook +0.2%pt). For details see the economic outlooks for each individual country.

Regarding the Trump tariffs, we assume the most recent tariff rates to continue. While tariffs imposed on Japanese exports to the U.S. have reached 15%, including automobiles, considering that the average tariff rate to the US in January was 1.5% (DIR estimate based on US Census Bureau data), tariff rates remain elevated even after reflecting the Japan-US tariff agreement. This situation is likely to persist, and will continue to exert downward pressure on the Japanese economy.

### *Japan's real GDP expected to grow at a moderate pace through FY2026*

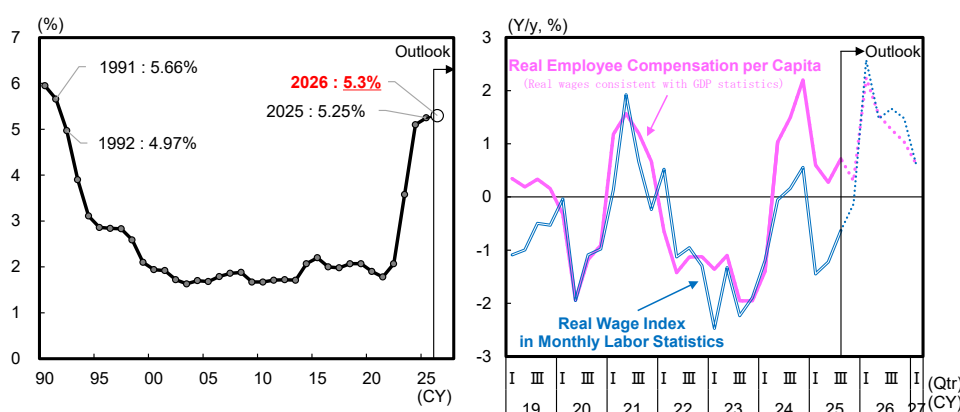
Based on the above overseas economic outlook, Japan's real GDP growth rate according to our main scenario is expected to be +0.9% y/y in FY2025, and +0.7% in FY2026 (Chart 2, +1.3% in 2025 and +0.5% in 2026 on a calendar year basis).

The outlook for the FY2025 growth rate was revised upwards by 0.1%pt. However, if we exclude carryover (real GDP growth rate that can be achieved with zero q/q growth in each quarter) it remains at the same level. Following the significant decline in the Jul-Sep period mentioned earlier, private sector housing investment was revised sharply downward, while capital expenditure, which continues to show steady growth, was revised upward. Exports were also revised upward, partly due to the downward revision of the actual value for FY2024 and partly because the decline in the Jul-Sep period of 2025 was smaller than previously anticipated.

We have revised our outlook for FY2026 downwards by -0.1%pt from the previous one. The main reason is carryover of -0.1%pt. Our view remains unchanged that a gradual economic recovery will continue through factors such as a rebound in personal consumption and growth in capital expenditure.

### **Outlook for Wage Increase Rates in Spring Labor Negotiations Based on Figures Compiled by RENGO (Left), Employee Compensation Per Capita and Outlook for Real Wage Index (Right)**

**Chart 3**



Source: Ministry of Health, Labour and Welfare, Ministry of Finance, Ministry of Internal Affairs and Communications, Japan Institute for Labour Policy and Training, Japanese Trade Union Confederation; compiled by DIR.

Notes: 1) The chart on the left estimates the following wage functions by extrapolating from our economic outlook of November 21, 2025, Japan's Economic Outlook No. 227 (Japanese only).

Wage increase rate from spring labor negotiations (Rengo-based) =  $2.08 + 0.03 \times \text{Real GDP growth rate of manufacturing industries} (-1) + 0.50 \times \text{CPI inflation rate} (-1) + 0.54 \times \text{CPI inflation rate} (-1) \times \text{Dummy variable for 2023 onwards} - 0.44 \times \text{Unemployment rate gap} (-1) + 2.15 \times \ln(\text{Terms of trade} (-1))$

Estimation period: 1976–2025. Coefficients are significant at 10% for manufacturing industry GDP growth rate, 5% for unemployment gap, and 1% for others. Adjusted  $R^2 = 0.91$ . Prior to 1988, wage increase rates based on Ministry of Health, Labour and Welfare data were used (level differences adjusted with dummy variables).

2) Real employee compensation per capita (real values based on household final consumption expenditure deflator) in the chart on the right is the seasonally adjusted y/y change. The dotted line represents DIR estimates.

Looking at performance by major demand components, we expect personal consumption to continue moderate growth. In addition to continued wage hikes in the spring labor negotiations, the growth rate in food prices is expected to decline, and government measures to counter high prices of goods are expected to bring further improvements in the income environment.

The wage increase rate in the spring labor negotiations, as compiled by the Japanese Trade Union Confederation (RENGO), was estimated using explanatory variables such as the consumer price index (CPI) growth rate, labor supply and demand, manufacturing profits, and terms of trade (all based on the previous year's values). Applying the economic outlook from our report of November 21, 2025, [\*Japan's Economic Outlook No. 227\*](#) (Japanese only), the 2026 wage increase rate from the spring wage negotiations is estimated to be around 5.3%, similar to the previous year's level (Chart 3, left). Real compensation per employee is projected to rise significantly on a y/y basis through the first half of 2026, reflecting the base effect from the accelerated inflation of the previous year. From the latter half of 2026 onward, it is expected to trend around +1%, in line with the historical labor productivity growth rate (Chart 3, right). Furthermore, the high level of household savings is expected to continue supporting personal consumption.

As for capital expenditure, we expect to see growth maintained with the continuation of an accommodative financial environment. Labor-saving investments will expand in response to factors such as the relative decline in capital costs accompanying aggressive wage increases. Additionally, software investments and R&D investments related to DX (digital transformation) and decarbonization are also expected to increase. However, the possibility is great that the impact of the Trump tariffs could bring a deterioration in corporate earnings while increased uncertainty over the outlook for overseas economies might bring a slowdown in capex. In addition, construction investment will likely continue to be burdened by delays in construction schedules caused by labor shortages.

Government consumption is expected to remain steady. In addition to an increase in medical and nursing care benefits due to the aging population, active wage increases by private companies are also expected to be reflected in public sector wages.

Among exports, goods exports are expected to see the impact of Trump tariffs run their course by the Oct-Dec 2025 period and turn upward in the Jan-Mar 2026 period (Chart 1, right). Service exports, however, are expected to remain weak, primarily due to inbound consumption, stemming from factors such as the Chinese government's request to avoid travel to Japan, as discussed later. They are projected to continue declining through the Jan-Mar period of 2026. From the Apr-Jun period of 2026 onwards, these negative impacts are expected to gradually fade, leading to a recovery.

***While improvements in income conditions and other factors will provide underlying support for the Japanese economy, caution is needed regarding the downside risks to overseas demand, particularly from the US and China***

The main factors expected to provide support or a boost to the Japanese economy are “improvement in the household income environment due to wage hikes and other factors,” “government economic measures,” “continuation of an accommodative monetary environment,” and “the high level of household savings.”<sup>2</sup>

As mentioned earlier, real wages (real employee compensation per capita) are expected to remain positive in y/y terms despite fluctuations. Furthermore, the increase in the basic

---

<sup>2</sup> Household financial assets, which stood at 2,239 tril yen as of the end of June 2025, are estimated to have reached approximately 2,300 tril yen as of the end of September. This amount is equivalent to 6.6 to 6.7 years' worth of nominal consumption, exceeding the pre-pandemic level (6.1 years' worth). Even if household income declines, there appears to be significant room to stabilize living standards by drawing down savings.

deduction and other measures included in the 2025 tax reform will be implemented (income tax refunds for 2025 will be processed through year-end adjustments, while resident tax will apply from the FY2026). Prime Minister Sanae Takaichi stated at the Tax Commission meeting held on November 18, “We will advance discussions on tax measures to further raise the income tax basic deduction in a manner linked to prices,<sup>3</sup>” indicating that measures to counter bracket creep (mitigating increased tax burdens due to price increases) are expected to be implemented continuously.

In addition, the Takaichi administration plans to discuss the design of a refundable tax credit system to reduce the tax and social insurance burden on middle- and low-income earners. For details on the refundable tax credit, please refer to [Japan's Economic Outlook No. 227](#) (Japanese only).

The Takaichi administration finalized its comprehensive economic measures on November 21, but as details were not yet clear at the time of this forecast's preparation, only certain policies—such as measures against rising prices and increases in public investment-related budgets<sup>4</sup>—were reflected in the economic outlook. The scale of expenditures for the FY2025 supplementary budget bill underpinning these comprehensive economic measures reached approximately 17.7 tril yen, exceeding the previous year's figure (13.9 tril yen). Including tax reduction measures such as the abolition of the old provisional rates for gasoline and light oil excise taxes, the total reaches approximately 21.3 tril yen. The overall project scale is about 42.8 tril yen, which is expected to provide a certain degree of support to the Japanese economy.

The outlook for prices and the Bank of Japan (BOJ)'s monetary policy will be discussed later. However, the CPI growth rate, which stood at +3.0% y/y in October 2025, is expected to moderate to around +2.0% due to factors such as a slowdown in the pace of food price increases. The BOJ is anticipated to implement additional interest rate hikes at a gradual pace.

### ***Caution required regarding downside risks to overseas demand centering on the US and China***

Our previous outlook mentioned “increased inbound demand” as a factor providing support or an economic boost. However, as mentioned earlier, the likelihood of a significant decline in Chinese visitors to Japan has increased due to the Chinese government's request to refrain from traveling to Japan. Consequently, the inbound outlook has been revised downward.

The new forecast for the number of foreign visitors to Japan in 2026 is approximately 41 million, while the forecast for real inbound consumption (the real value of direct purchases by non-resident households within Japan in the GDP statistics) is approximately 7.1 tril yen. Both figures are expected to decline for the first time in five years. The impact on Japan's real GDP is estimated to be around -0.1%. However, if the situation worsens further and spreads to areas like exports to China, the downward pressure could expand to around -0.4%<sup>5</sup>.

<sup>3</sup> <https://www.kantei.go.jp/jp/104/actions/202511/18zeicyou.html> (Japanese)

<sup>4</sup> Public investment is expected to remain at a high level due to the “Basic Act for National Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry.” Therefore, the public investment outlook anticipates an increase in the budget due to the supplementary budget, while also taking into account past trends.

<sup>5</sup> For details, see the DIR report dated 21 November (translated on 27 November), 2025, titled “[China's Request to Refrain from Traveling to Japan Expected to Reduce Japan's Real GDP by 0.1% - 0.4%](#)” by Akane Yamaguchi, Keiji Kanda, and Munehisa Tamura.



On the other hand, inflation in the United States remains high, partly due to the impact of Trump tariffs. Going forward, the pace of interest rate cuts may be slower than anticipated, and the continuation of tight monetary conditions could worsen corporate financing environments. This could lead to a sharper-than-expected slowdown in the US economy. Against this backdrop, an increase in bankruptcies within the private credit market, compounded by falling stock prices, poses a risk of further dragging down the economy, hence caution is required.

In the medium to long term, the US potential growth rate could decline due to factors such as increased manufacturing costs for US companies due to Trump tariffs and reduced labor supply due to illegal immigration policies, potentially affecting the Japanese economy as well. Should the US economy experience a downturn due to Trump tariffs, falling stock prices, or illegal immigration policies, Japan's real GDP could be pushed down by up to approximately -0.33% in 2029<sup>6</sup>.

## 2. Outlook for Prices and Monetary Policy

### *New core-core CPI expected to decline to around +2% y/y in first half of FY2026*

On an all items basis, CPI is projected to increase by +2.4% y/y in FY2025, with +1.9% expected in FY2026. On an all items basis, less fresh food (core CPI), is projected to increase by +2.6% y/y in FY2025, and +1.8% in FY2026 (Chart 4). Meanwhile, on an all items basis, less fresh food and energy (new core-core CPI), the forecast is +2.9% in FY2025 and +2.0% in FY2026.

Details of the government's measures against high energy prices were not yet clear at the time of this writing, but based on some news reports, it is anticipated that the burden on standard households for electricity and gas will be reduced by at least 3,000 yen in January 2026, with the subsidy amount gradually decreasing through March. The cumulative burden reduction from the electricity and gas subsidies implemented from July to September 2025 was approximately 3,000 yen over three months, indicating the scale of the measures is expected to expand significantly. Combined with the phased increase in gasoline subsidies and the subsequent abolition of the provisional tax rate, energy prices are likely to be substantially suppressed by policy factors.

The rate of increase in food prices, the primary driver of current inflation, is expected to gradually slow. While the impact on rice-related items is likely to continue for the time being, the rate of increase for rice itself, which had temporarily surged, is currently showing a downward trend.

We expect the trend of passing on increased labor costs to sales prices to continue. As mentioned earlier, wage increases in the 2026 spring labor negotiations are expected to remain high, comparable to the previous year (Chart 3, left). Against the backdrop of the structural challenge of worsening labor shortages, companies are likely to continue raising wages. The trend of passing on the resulting increase in labor costs to sales prices is also expected to

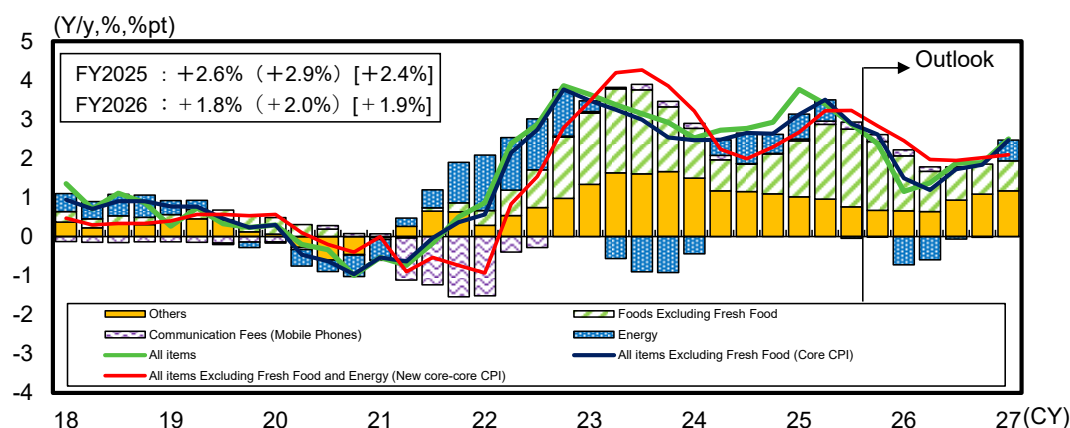
---

<sup>6</sup> For details, see the DIR report dated 25 November, 2025, titled "[\*Downside Risks to the US Economy in the Short and Medium-to-Long Term and Their Implications for the Japanese Economy\*](#) (Japanese only)," by Wakaba Kobayashi, Kanako Nakamura, and Shotaro Kugo.

persist. Supported by these movements, underlying inflation is projected to trend around +2% y/y through FY2026.

**Outlook for Core CPI (Figures in Parentheses are All Items Excluding Fresh Food and Energy, Square Brackets Indicate All Items Figures)**

**Chart 4**



Source: Ministry of Internal Affairs and Communications; compiled by DIR.

Notes: Price outlook assuming resource prices and exchange rates at the time of this writing. Gasoline subsidies are expected to be gradually increased starting mid-November 2025, reaching 25.1 yen/liter by December, after which both the subsidy and the old provisional tax rate will be abolished in January 2026. Subsidies for electricity and gas are expected to reduce the burden on a standard household by approximately 3,000 yen in January 2026, 2,500 yen in February, and 2,000 yen in March (reflected in the CPI the following month (February to April)).

***BOJ expected to raise interest rates in December 2025, and subsequently continue raising rates at a moderate pace***

We assume that the BOJ will raise the short-term interest rate to 0.75% in December 2025, followed by additional rate hikes at a pace of once every six months, 0.25%pt at a time (reaching 1.25% by the Jan-Mar period of 2027, the end of the forecast period, Chart 5).

Our main scenario expects that Japan's economy will continue its gradual recovery despite the adverse effects of Trump tariffs. Furthermore, considering domestic wage and price trends, the need for interest rate hikes to adjust the degree of monetary easing remains significant.

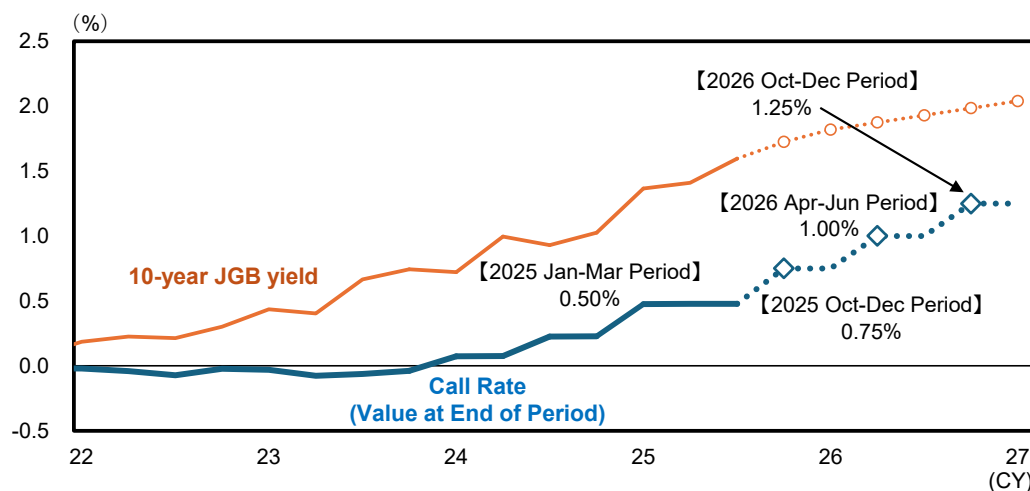
Japan's natural interest rate is estimated to be around zero percent at present, but we expect it to turn slightly negative in line with the decline in potential growth. We expect the inflation rate to remain at around +2% y/y, and the terminal rate (the final policy interest rate) consistent with this will be 1.75%.

We expect the long-term interest rate to rise to around 2% toward the end of the forecast period (Chart 5). The BOJ's gradual but steady increase in short-term interest rates is expected to push up long-term rates. Additionally, concerns are growing that the "responsible proactive fiscal policy" advocated by the Takaichi administration could trigger further inflation, while increased government bond issuance may ease supply-demand conditions. This heightened caution is also expected to push up long-term rates through an expansion of the risk premium (the additional return investors demand to compensate for future uncertainty).



## Outlook for Long and Short-Term Interest Rates in Japan

Chart 5



Source: Ministry of Finance, Bank of Japan; compiled by DIR.

Notes: The long-term interest rate is a period average, while the short-term interest rate is the value as of the end of the period. Dotted lines are DIR estimates.

## Japan's Economic Outlook No. 227 (November 21, 2025)

Chart 6

		2024			2025				2026				2027	FY2024	FY2025	FY2026
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	(CY)	(CY)	(CY)
Real GDP	Y tril; annualized	553.3	555.8	559.8	561.1	564.3	561.8	562.5	563.4	564.8	566.2	567.6	569.2	557.5	562.8	566.7
	Q/q %	0.4	0.4	0.7	0.2	0.6	-0.4	0.1	0.2	0.3	0.3	0.2	0.3			
	Q/q %, annualized	1.7	1.8	2.9	0.9	2.3	-1.8	0.5	0.7	1.0	1.0	1.0	1.1			
	Y/y %	-1.0	0.5	1.0	1.8	2.0	1.1	0.4	0.4	0.1	0.8	0.9	1.0	0.6	0.9	0.7
														(-0.2)	(1.3)	(0.5)
Private Consumption	Q/q %	0.7	0.8	0.0	0.3	0.4	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.7	1.1	0.9
Private Residential Investment	Q/q %	1.5	0.8	-0.1	1.3	0.3	-9.4	2.6	1.3	0.0	-0.6	-0.6	-0.6	-0.6	-4.2	-1.1
Private Non-Res. Investment	Q/q %	1.4	0.0	0.6	0.9	0.8	1.0	-0.5	0.0	0.3	0.4	0.4	0.4	1.9	2.2	0.9
Government Consumption	Q/q %	1.0	-0.1	0.3	-0.4	0.1	0.5	0.1	0.2	0.3	0.3	0.3	0.3	1.2	0.4	1.2
Public Investment	Q/q %	2.6	-0.4	-0.7	0.5	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	0.1	0.4
Exports	Q/q %	0.7	2.0	2.0	-0.4	2.3	-1.2	-1.2	-0.1	0.5	0.6	0.7	0.9	1.5	1.9	0.6
Imports	Q/q %	2.7	3.3	-2.2	2.5	1.3	-0.1	-1.0	0.1	0.6	0.6	0.7	0.8	3.5	2.3	1.1
Nominal GDP	Q/q %, annualized	7.9	4.1	5.1	3.8	6.5	0.5	1.6	1.7	2.5	2.6	2.7	2.9	3.7	3.6	2.2
GDP Deflator	Y/y	3.3	2.6	3.1	3.3	2.9	2.8	2.6	2.1	1.5	1.3	1.5	1.6	3.1	2.6	1.5
Industrial Production	Q/q %	2.1	0.3	0.4	-0.3	0.4	0.0	0.5	0.2	0.3	0.4	0.4	0.5	-1.4	0.8	1.3
Core CPI	Y/y %	2.5	2.7	2.6	3.1	3.5	2.9	2.6	1.5	1.2	1.7	1.8	2.5	2.7	2.6	1.8
Unemployment Rate	%	2.6	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.5	2.4	2.3
Call Rate	%	0.08	0.23	0.23	0.48	0.48	0.48	0.75	0.75	1.00	1.00	1.25	1.25	0.48	0.75	1.25
10-Year JGB Yield	%	1.00	0.93	1.03	1.37	1.41	1.60	1.72	1.82	1.88	1.93	1.99	2.04	1.08	1.64	1.96
Major assumptions																
Crude Oil Price (WTI futures)	\$/bbl	80.7	75.3	70.3	71.4	63.7	65.0	60.4	60.7	60.7	60.7	60.7	60.7	74.4	62.4	60.7
Exchange Rate	Yen/\$	155.8	149.1	152.4	152.5	144.6	147.5	153.9	155.5	155.5	155.5	155.5	155.5	152.4	150.4	155.5

Source: Compiled by DIR.

Notes: Shaded areas are DIR estimates. The estimated price of crude oil and the exchange rate are assumed to be fixed at recent levels.