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Japan's Economy: Monthly Outlook (Mar 2026)

While spring wage negotiations are expected to maintain a wage increase rate in the 5% range, the deteriorating situation in the Middle East is emerging as a new factor weighing on the economy

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Summary

- According to the aggregated results of the first round of responses released by the Japanese Trade Union Confederation (RENGO) on March 23, 2026, the weighted average wage increase rate – including regular pay raises – was 5.26% (down 0.20%pt from the same period last year). It is highly likely that the aggregated results of the final round of responses, to be released around July, will also remain in the 5% range. Although the gap in wage increase rates between large corporations and small and medium-sized enterprises (SMEs) has narrowed, partly due to an improved environment for price pass-through, challenges remain regarding the widespread implementation of wage increases among SMEs. Caution is needed regarding the possibility that the business environment will deteriorate due to factors such as the escalating situation in the Middle East, potentially leading to a widespread sense of so-called “wage hike fatigue,” particularly among SMEs.
- Although we estimate Japan's real GDP growth rate for fiscal year 2026 to be +1.0%, there is a risk of a significant downward revision due to factors such as escalating tensions in the Middle East. If, for example, the price of crude oil (WTI) remains at 150 USD/bbl and supply shortages occur both domestically and internationally due to reduced imports of crude oil and LNG from countries surrounding the Strait of Hormuz, real GDP growth for fiscal year 2026 will turn negative, falling to -1.0%. Under this scenario, the materials industries – including non-ferrous metals, petroleum and coal products, and rubber and plastics – would be particularly hard hit.
- The deterioration of Japan-China relations and the Trump administration's high-tariff policy (Trump tariffs) continue to weigh on the economy. Regarding the former, the

number of Chinese visitors to Japan has halved compared to before the deterioration of relations, and this downturn may last longer than the previous one (from fall 2012 onward). Although Japan's rare earth imports from China remained stable as recently as January 2026, if the chill in Japan-China relations persists and rare earth imports from China are cut off, Japan's real GDP could decline by approximately 1.3% (7 tril yen). On the other hand, if the situation in the Middle East stabilizes, the Trump administration's focus could shift to trade policy, and it is conceivable that Trump tariffs could be strengthened. If the US average effective tariff rate were raised by 10%pt in the second half of 2026, the downward pressure on Japan's real GDP in 2026 (2027) is estimated to be 0.20% (0.42%).
