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The Reiwa-Era Economic Expansion: Its Characteristics and Challenges as Japan's Longest Postwar Expansion

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Summary

- The current economic expansion, with May 2020 identified as its business cycle trough, reached 74 months in July 2026, making it highly likely that it exceeded the 73-month "Izanami expansion" of the 2000s and became the longest postwar expansion on record. However, after excluding the impact of the COVID-19 pandemic, real GDP grew at an average annual rate of only 0.8% between the fourth quarter of 2019 and the second quarter of 2026. Real GDP increased by just 5.6% over the period, well below the gains recorded during previous prolonged expansion periods.

- On the demand side, real income growth remained sluggish as wage increases failed to keep pace with high inflation, and private consumption was notably weaker than in other major economies. On the supply side, the manufacturing sector experienced sluggish growth in output, productivity, and employment amid the offshoring of production facilities and intensifying competition from other Asian countries. Productivity growth in the non-manufacturing sector, which absorbed much of the labor force, was also weak, and labor mobility toward high-productivity industries remained insufficient. As a result, despite the high likelihood that the current economic expansion has become the longest in the postwar period, the benefits of the expansion have not been substantially felt by households and firms.

- Achieving "an economic expansion that is broadly felt by households and firms" will require raising Japan's underlying growth trend, making it essential to strengthen growth potential through greater investment in areas such as AI. To revitalize consumption, steady real wage increase will be needed, along with measures to facilitate inflation-adjusted asset accumulation and enhance income redistribution toward low- and middle-income households. In addition, the analysis suggests widening disparities in educational expenditure across households, warranting close attention to their implications for human capital formation and medium- to long-term growth potential.