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Japan's Economy: Monthly Outlook (Mar 2025)

As uncertainty grows over Trump tariffs, wage increases in 2025 spring labor negotiations set to exceed previous year

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Summary

- Uncertainty in the global economy is rapidly increasing due to the tariff policy of the Trump administration ("Trump tariffs") in the US. The heightened uncertainty may have a negative effect on Japan's exports. Of particular concern are the reciprocal tariffs scheduled to be implemented on April 2. If additional tariffs are imposed on motor vehicles and other products, there are fears that this will cause severe damage to both the Japanese and the global economy.
- Using our macroeconomic model, we estimated the effects of Trump tariffs on Japan's real GDP. Our base scenario assumes that tariff measures already implemented at the time of the writing of this report will continue into the future. Compared to the case where Trump tariffs are not implemented, the Jan-Mar period of 2026 is expected to experience a decline of -0.1% (-0.2% in the Oct-Dec period of 2029). However, according to our risk scenario, in which additional tariffs are imposed on items such as automobiles and other products, the extent of the decline would be -0.7% (-1.2% in the Oct-Dec period of 2029). In our tail risk scenario where reciprocal tariffs (including an increase in the value-added tax rate for trading partner countries and regions) are imposed, the decline would expand significantly at -1.3% in 2026 (-1.9% in the Oct-Dec period of 2029).
- According to the aggregated results of the second round of responses released by the Japanese Trade Union Confederation (RENGO), the weighted average rate of wage increases on a y/y basis, including regular salary increases, was 5.40%, slightly higher than that of the same period last year. Considering the rate of price increases and corporate earnings in 2024, the rate of wage increases was likely to slow down. Even so, wage increases accelerated due to price hikes of certain foods and other items, which led to rapid growth in calls for higher wages. In addition, the shortage of labor has intensified competition among firms for human resources, and it has become easier to pass on prices. Once food price hikes subside, households will be more likely to realize wage increases, which is expected to support a recovery in personal consumption. On the other hand, if the economy deteriorates significantly due to Trump tariffs and other factors, this positive trend could be dampened.