

ECONOMIC RESEARCH – SEPTEMBER 2025

INVESTMENT INSIGHT JAPAN



- ✓ **Slowdown in Households are spending, but businesses are hesitant**
- ✓ **Slowdown likely until the end of the year**

POSSIBLE TURNING POINT FOR THE NIKKEI

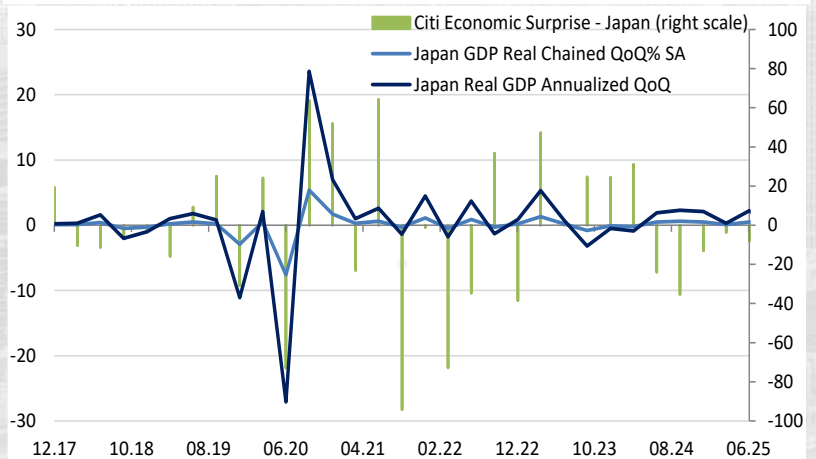
Unexpected growth driven by consumer spending

Japan's economy showed unexpected resilience in the second quarter of 2025, posting a robust performance that surpassed most forecasts. The primary driver of this growth was strong private consumption, which exceeded initial estimates and demonstrated a surprising dynamism within households. This momentum suggests that government measures and improving real wages are having a tangible positive effect on consumer behavior.

Investment weakness is a lingering concern

Despite the positive GDP figures, a closer look reveals a notable weakness in business investment. This key indicator was revised downward, reflecting a cautious approach from companies. This hesitation is likely influenced by rising borrowing costs and ongoing global uncertainties. The divergence between strong consumer spending and weak business investment highlights the economy's current dependence on domestic demand to sustain its momentum.

Japanese economic performance (GDP) in yen



Sources : Bloomberg, BBGI Group

Slowing momentum expected through year-end

Following the second quarter's robust performance, Japanese growth is widely expected to moderate for the remainder of the year. The initial boost from private consumption is not anticipated to fully offset the persistent headwinds from both domestic and international factors. This projected slowdown is supported by mixed signals from recent economic data, which indicate a potential loss of momentum.

Positive drivers counteract economic headwinds

While a slowdown is anticipated, several factors are working to support economic activity. Real wage growth, which has turned positive, is boosting household purchasing power and stimulating consumption. Additionally, targeted investments in key areas like digitization and clean energy remain dynamic, often supported by public subsidies. The yen's continued weakness is also providing a significant tailwind to exporters' profits.

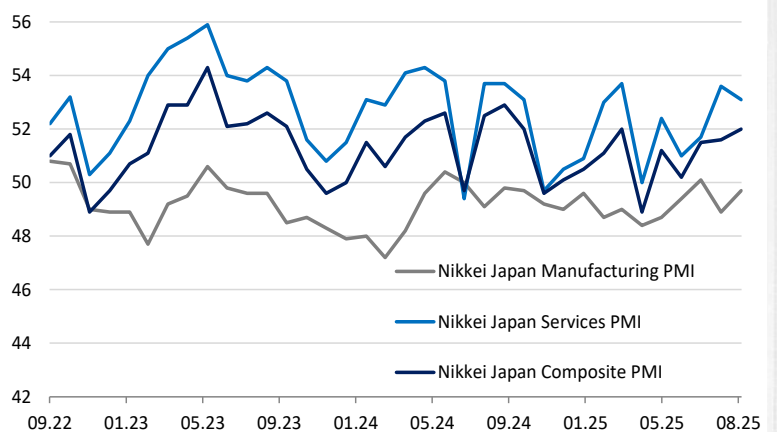
Inflationary trends and monetary policy

Core inflation is showing signs of easing, which is a positive development for consumers but could also be interpreted as a sign of cooling overall demand. Despite this, monetary policy remains accommodative, supporting a more stable financial environment. The Bank of Japan is carefully navigating these trends, balancing the need to support growth with its goal of achieving stable inflation.

The Yen's vulnerability and market rebalancing

The yen's persistent weakness remains a critical factor in the economic outlook. While it benefits exporters, it also reflects a lack of confidence among international investors and makes imports more expensive. In this environment, we are seeing a rebalancing of investor portfolios. A more cautious stance is recommended, with a focus on companies that are less exposed to currency fluctuations and have a strong domestic market presence.

PMI indicators (manufacturing, services, composite)



Sources : Bloomberg, BBGI Group

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