

**ECONOMIC RESEARCH – JUNE 2026**

**INVESTMENT INSIGHT**

**JAPAN**



- ✓ Economic momentum strengthens in Q1
- ✓ Uncertain Q2 amid energy shock and wage surge

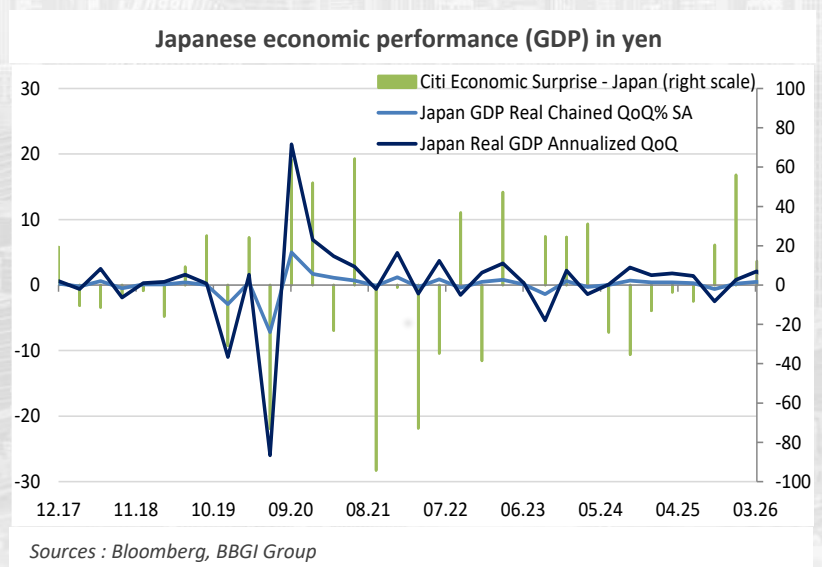
**IS THE BOJ'S SHIFT ENOUGH TO BOOST THE YEN?**

**Shunto Wage Surge vs. Stalling Capex**

Japan's economy began 2026 under a major structural transition, posting a real GDP growth of +0.5% (+2.1% annualized) for Q1. This expansion highlights a dramatic internal decoupling, as household consumption grew by +0.3% on the back of historic spring wage increases that finally pushed real wage growth back into positive territory. Conversely, business investment (Capex) ground to a screeching halt, collapsing from a +1.3% growth rate in late 2025 to a mere +0.3% in Q1.

**Trade Diversion Shields Against US Slump**

Foreign trade net exports rebounded to provide a +0.3% positive contribution to GDP in the first quarter, with export volumes rising by 0.4%. This recovery was driven entirely by a strategic reorientation of trade flows toward Southeast Asia and Europe, which successfully offset the persistent slump and protectionist headwinds in the U.S. market. This geographic agility showcases the structural adaptability of Japan's major export conglomerates under pressure. However, the sustainability of this trade pivot remains highly vulnerable to the broader global supply chain disruptions emanating from ongoing maritime conflicts.



## Public Sector Hampered by Construction Inflation

The public sector acted as a minor passive stabilizer in Q1, adding 0.1 percentage points to national wealth via a 0.2% increase in current government expenditures. However, public procurement and regional civil engineering projects are facing severe, chronic delays due to a broken bidding process. Skyrocketing construction labor costs regularly exceed rigid government-set project rates, causing successive calls for bids to fail entirely. This structural bottleneck leaves local public works unable to provide effective fiscal counter-cyclical support to regional economies.

## Q2 Energy Vise and the Imminent BoJ Dilemma

The maritime blockade in the Middle East has placed Japan's energy-dependent economy in a severe vise for Q2, dropping projected quarterly growth to +0.2%. With the yen under historic selling pressure hovering around 160 JPY/USD due to skyrocketing oil import bills, the Bank of Japan's policy dilemma has become highly acute. The central bank is widely expected to implement an imminent technical adjustment to its exchange rate policy by the end of June. This aggressive intervention aims to curb currency speculation without destroying domestic mortgage markets or crushing vulnerable small-to-medium enterprises.

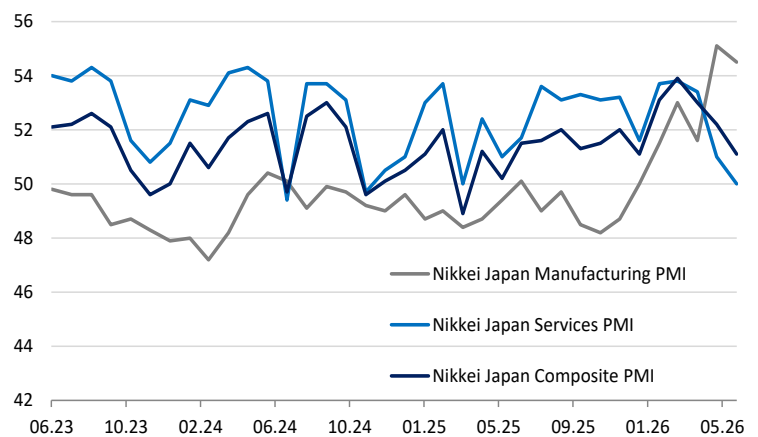
## Strategic Inventory Buffers and Industrial Trade-offs

Paradoxically, a sharp Q2 GDP contraction may be temporarily averted by emergency strategic restocking as major industrial groups scramble to secure raw input pipelines. This panic-driven inventory accumulation is expected to artificially support the investment component, masking an underlying contraction in actual manufacturing output. However, a prolonged blockade of the Strait of Hormuz will inevitably exhaust these national strategic reserves by Q3. Once depleted, factories will be forced into complex industrial trade-offs, severely threatening the recovery of the capital goods sector.

## Fiscal Subsidy Strains and Deficit Expansion

To protect household purchasing power from imported inflation, the Japanese government has aggressively deployed fiscal levers to subsidize consumer electricity and gas bills. While these emergency measures prevent an immediate collapse in domestic consumer sentiment, they are rapidly widening an already massive national fiscal deficit. Furthermore, the Bank of Japan's broader monetary tightening path is actively restricting government fiscal flexibility by driving up the long-term cost of servicing public debt. This growing friction between emergency fiscal relief and necessary monetary tightening limits Tokyo's capacity for direct economic support.

PMI indicators (manufacturing, services, composite)



Sources : Bloomberg, BBGI Group

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