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## Japan Economic Outlook (June 2026)

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Real GDP growth is forecast at +0.5% in FY2026 (May forecast: +0.5%) and +1.1% in FY2027 (previously +1.1%). On a calendar-year basis, growth is projected at +0.5% in 2026 (previously +0.5%) and +0.8% in 2027 (previously +0.8%). Although some adjustments have been made to reflect recent developments, the basic outlook remains unchanged, and the growth forecasts have been broadly left unchanged. While growth is expected to remain low in the first half of FY2026 due to downward pressure from worsening conditions in the Middle East, the view that the economy will gradually recover from the second half of FY2026 onward has been maintained.

With regard to developments in the Middle East, the main scenario assumes that concerns over navigation through the Strait of Hormuz will ease by the summer of 2026. Disruptions caused by supply uncertainty and sourcing difficulties are expected to weigh on the economy for the time being, but their impact is assumed to gradually ease as logistics normalize, inventories are utilized, and alternative sourcing progresses. At the same time, even if supply constraints begin to ease, crude oil prices are unlikely to quickly return to pre-crisis levels, given lingering caution over renewed tensions, elevated insurance premiums, and the time required for supply facilities and logistics networks in Middle Eastern countries to normalize. In this forecast, Dubai crude oil prices are assumed to be around USD 80 per barrel at end-2026 and around USD 70 per barrel at end-2027.

The possibility that a reduction in the consumption tax rate on food products will be implemented in FY2027 or later has been increasing. However, the measure has not been incorporated into the current outlook, as details of the policy design remain unclear at this stage, including the timing of implementation, the tax rate, whether cash benefits or subsidies will be provided, and how the measure will be financed. As a mechanical estimate, if the consumption tax rate on food products is lowered to 1% for two years from April 2027 and cash benefits of JPY 600 billion per year, equivalent to one percentage point of the consumption tax on food products, are also provided to households, real GDP growth in FY2027 would likely be boosted by slightly more than 0.2 percentage points.

Real GDP growth in Q1 2026 (January–March) came in at +1.8% on a quarter-on-quarter annualized basis, marking the second consecutive quarter of positive growth. Although the figure was revised down slightly

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from the first preliminary estimate, mainly due to business investment, growth remained above the potential growth rate. The data suggest that, prior to the full impact of worsening conditions involving Iran, Japan's economy had maintained a moderate recovery trend.

However, in the first half of FY2026, the impact of worsening conditions in the Middle East is likely to weigh on the economy. The primary concern is the adverse impact on production and investment activity through supply uncertainty and sourcing difficulties. As firms rush to secure inventories in order to ensure business continuity, bottlenecks in distribution and a tightening sense of supply-demand conditions have intensified, and some products have already begun to see price increases, delivery delays, and order restrictions. These developments could constrain economic activity through delays in production and shipments, as well as postponements or interruptions in construction work. Exports are also likely to face downward pressure, as exports to the Middle East are expected to remain weak for the time being, while supply constraints could weigh on production activity both in Japan and abroad. Against this backdrop, real GDP growth in Q2 2026 (April–June) is forecast to remain low, at +0.3% on a quarter-on-quarter annualized basis.

Although the economy is expected to stagnate in the near term, there is no need to conclude that the recovery scenario itself has collapsed. At present, concerns over declining imports and constrained supply are being compounded by firms' efforts to secure inventories in anticipation of future supply shortages, contributing to distribution bottlenecks and sourcing difficulties. If the situation surrounding the blockade of the Strait of Hormuz moves toward resolution and the outlook for supply normalization becomes clearer, the view that inventories and alternative sourcing can cover near-term needs is likely to spread. Supply uncertainty and related disruptions would then subside.

Even if the adverse effects of supply constraints ease, the impact on prices and the associated drag on the economy are likely to persist for some time. Resource prices remaining above pre-crisis levels will weigh on corporate profits, while higher inflation will exert downward pressure on private consumption. Food prices are expected to rise, reflecting higher costs for packaging materials and other inputs, while increases in electricity and gas charges are also expected to become more pronounced from the autumn of 2026 onward. As a result, real wages are likely to be restrained from the autumn, and growth in private consumption is expected to remain moderate.

That said, corporate profits are currently at historically high levels, suggesting that firms have a solid degree of resilience to the shock. Even amid rising costs, firms' positive stance toward business investment is expected to remain intact, particularly in areas such as digitalization and labor-saving investment. Private consumption is also unlikely to stall, despite the unavoidable negative impact of higher prices, supported by

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continued strong wage growth, government subsidies for energy prices, and a resilient labor market. Exports are expected to be underpinned by the resilience of the U.S. economy. As a resource-exporting country, the United States is less adversely affected by the terms-of-trade impact of higher oil prices than resource-importing economies, which should also support external demand. Although downside risks to the European and Asian economies remain a concern, exports as a whole are unlikely to decline sharply. As a result, the economy is expected to continue a moderate recovery in the second half of FY2026, albeit without strong momentum.

In FY2027, the recovery is expected to gain momentum gradually as the adverse effects of high oil prices fade. As the drag from worsening conditions in the Middle East eases, the global economy is expected to recover, supporting a pickup in exports. Corporate profits should also improve as cost pressures from elevated oil prices diminish, reinforcing firms' willingness to invest. In addition, as upward pressure on energy and food prices weakens and inflation peaks out, private consumption is expected to increase moderately. With both domestic and external demand improving, real GDP growth in FY2027 is forecast to recover to +1.1% year-on-year, from +0.5% in FY2026.

The key risk factor is a prolonged deterioration in Middle East conditions. The main scenario assumes that negotiations between Iran and the United States will reach an agreement, improving conditions surrounding the de facto blockade of the Strait of Hormuz and easing supply uncertainty. However, the outlook for negotiations remains uncertain, and prolonged tensions cannot be ruled out. In such a case, firms would become increasingly concerned about the limits of relying on inventories and alternative sourcing to cope with supply constraints. If firms accelerate inventory accumulation, disruptions could intensify further and upward pressure on prices would likely strengthen. Production activity and construction work could remain depressed for an extended period, while exports could face larger downside risks. If such a scenario materializes, FY2026 growth could turn negative, raising the risk of a recession.

The core consumer price index (CPI, excluding fresh food) is forecast to rise by +2.4% in FY2026 (May forecast: +2.5%) and +2.1% in FY2027 (previously +2.1%). The FY2026 forecast has been revised down slightly, mainly because the scale of electricity and gas subsidies to be implemented in the summer of 2026 was larger than expected and recent inflation has come in below expectations. Nevertheless, the view remains unchanged that upward pressure on prices will build going forward, reflecting elevated resource prices, pass-through from higher naphtha prices to packaging materials, logistics costs, and processed food prices, as well as lagged increases in electricity and gas charges. Firms' more proactive stance toward price pass-through compared with the past will also contribute to higher inflation, and consumer price inflation is likely to rise toward the second half of FY2026. In FY2027, these inflationary pressures are expected to gradually dissipate. On a quarterly basis, inflation is likely to peak in Q1 2027 and moderate thereafter.

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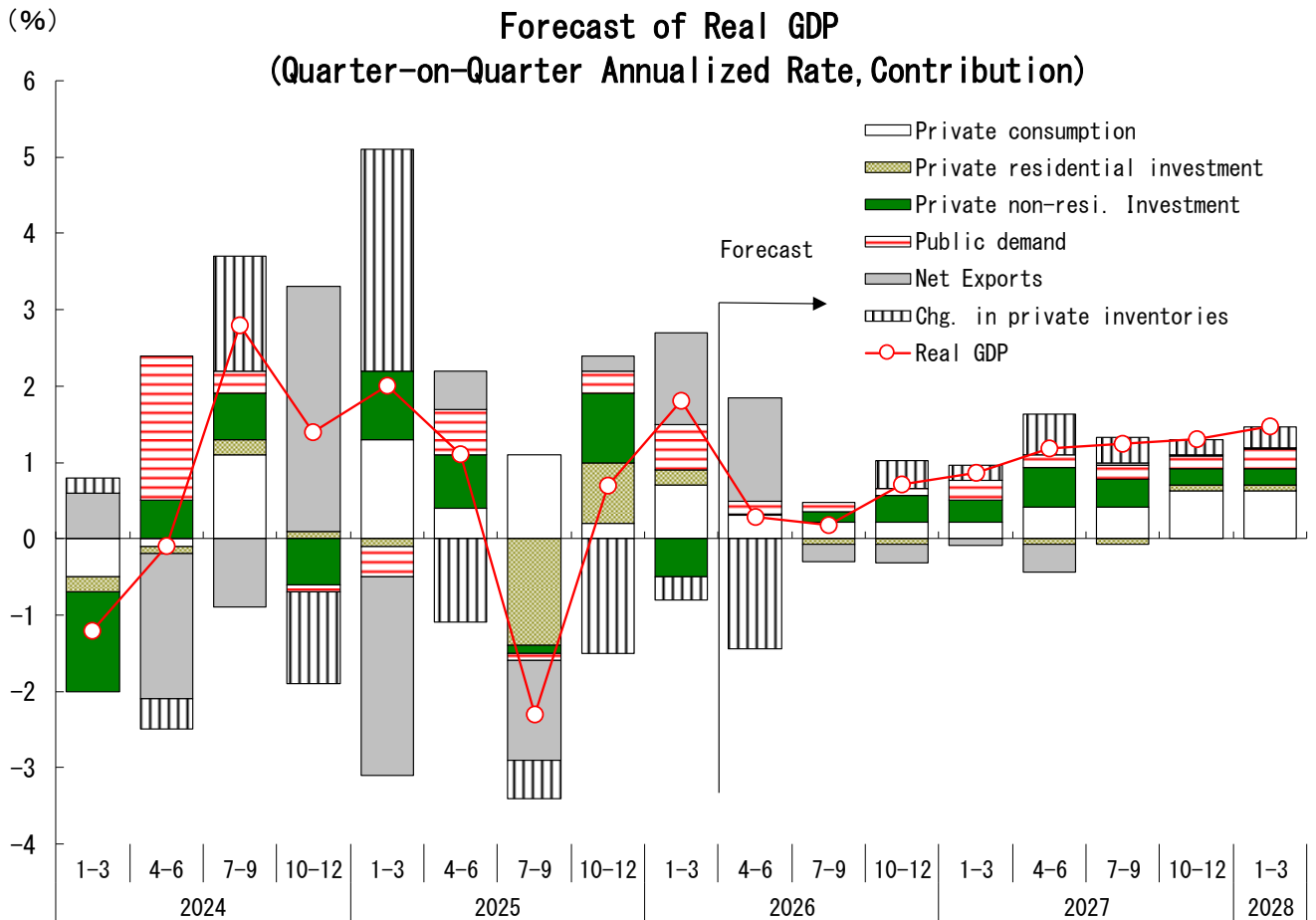
### Japan's Economic Outlook(Yearly)

### Previous Forecast (2026.5)

	Fiscal Year			Calendar Year			Fiscal Year		Calendar Year	
	2025 Actual	2026 Forecast	2027 Forecast	2025 Actual	2026 Forecast	2027 Forecast	2026	2027	2026	2027
Real GDP	0.8	0.5	1.1	1.1	0.5	0.8	0.5	1.1	0.5	0.8
Domestic demand(Cont.,% pts)	0.9	0.1	1.2	1.4	0.1	0.9	0.1	1.2	0.1	0.9
Private consumption	1.3	0.7	0.7	1.3	0.9	0.6	0.6	0.7	0.8	0.6
Private residential investment	▲ 3.4	0.5	▲ 0.9	▲ 2.5	0.0	▲ 1.1	0.3	▲ 0.6	▲ 0.3	▲ 0.7
Private non-resi. Investment	2.0	0.5	1.9	2.1	0.5	1.7	1.4	1.8	1.8	1.6
Chg. in private inventories (Cont.,% pts)	▲ 0.1	▲ 0.3	0.2	0.3	▲ 0.4	0.1	▲ 0.4	0.2	▲ 0.5	0.1
Government consumption	0.8	0.8	0.7	0.9	1.0	0.6	0.6	0.7	0.8	0.6
Public investment	▲ 0.5	1.3	0.9	▲ 0.4	1.3	0.9	1.2	0.9	1.1	0.9
Net exports of goods & services (Cont.,% pts)	▲ 0.1	0.4	▲ 0.1	▲ 0.3	0.4	▲ 0.1	0.4	▲ 0.1	0.4	▲ 0.1
Exports	2.0	1.0	2.5	2.5	1.3	2.2	0.8	2.6	1.1	2.2
Imports	2.5	▲ 1.3	3.6	3.8	▲ 1.0	2.8	▲ 1.5	3.6	▲ 1.1	2.7
GDP deflator	3.3	1.7	2.4	3.4	2.1	2.3	1.5	2.5	2.1	2.2
Nominal GDP	4.1	2.2	3.5	4.5	2.6	3.1	2.0	3.6	2.5	3.1
Industrial production	▲ 0.2	1.2	1.7	▲ 0.3	1.7	0.9	0.3	1.6	0.8	0.9
Unemployment rate	2.6	2.6	2.5	2.5	2.6	2.5	2.6	2.5	2.6	2.5
CPI (all items less fresh food)	2.7	2.4	2.1	3.1	2.0	2.6	2.5	2.1	2.1	2.6

Note: Forecasts are by the Dai-ichi Life Research Institute.

Source: Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications.



Note: Forecasts are by the Dai-ichi Life Research Institute.

Source: Cabinet Office.

### Japan's Economic Outlook(Quarterly)

		2026				2027				2028
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
		Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP	q/q	0.5	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.4
	SAAR	1.8	0.3	0.2	0.7	0.9	1.2	1.3	1.3	1.5
Domestic demand(Cont.% pts)		0.2	▲ 0.2	0.1	0.2	0.2	0.4	0.3	0.3	0.4
Private consumption	q/q	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.3
Private residential investment	q/q	0.9	0.1	▲ 0.5	▲ 0.5	0.0	▲ 0.5	▲ 0.5	0.5	0.5
Private non-resi. Investment	q/q	▲ 0.7	0.0	0.2	0.5	0.4	0.7	0.5	0.3	0.3
Chg. in private inventories (Cont.% pts)	q/q	▲ 0.1	▲ 0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Government consumption	q/q	0.3	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2
Public investment	q/q	1.5	0.2	0.2	0.0	0.5	0.0	0.5	0.0	0.5
Net exports of goods & services (Cont.% pts)		0.3	0.3	▲ 0.1	▲ 0.1	▲ 0.0	▲ 0.1	0.0	0.0	0.0
Exports	q/q	1.8	▲ 0.7	0.2	0.6	0.8	0.8	0.6	0.4	0.4
Imports	q/q	0.4	▲ 2.7	0.5	1.0	1.0	1.4	0.6	0.4	0.4

Note: Forecasts are by the Dai-ichi Life Research Institute.  
Source: Cabinet Office.

### Original in Japanese

<https://www.dlri.co.jp/report/macro/617891.html>

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