Daiichi Life Research Institute

Date: August.18, 2026

Japan Economic Outlook (August 2026)

Yoshiki SHINKE, Senior Executive Economist
Economic Research Department, Daiichi Life Research Institute Co., Ltd.

Real GDP growth is forecast at +0.9% in FY2026 (June forecast: +0.5%) and +1.2% in FY2027 (previously +1.1%). On a calendar-year basis, growth is projected at +0.9% in 2026 (previously +0.5%) and +1.0% in 2027 (previously +0.8%). The FY2026 growth forecast has been revised upward, mainly reflecting stronger-than-expected GDP growth in Q2 2026 (April–June) relative to our previous forecast, reduced risks that difficulties in securing resources will significantly constrain production activity as alternative sourcing by both the public and private sectors has progressed, and expanding global AI-related demand, which is providing support to both domestic and external demand. The FY2027 growth forecast has also been revised upward, reflecting the new assumption that the consumption tax rate on food products will be reduced from April 2027 and cash benefits will be provided to households.

Starting with the current forecast, we assume that the consumption tax rate on food products will be lowered to 1% for two years from April 2027, accompanied by annual cash benefits of JPY 600 billion to households, equivalent to one percentage point of the consumption tax on food products. The resulting increase in household purchasing power is estimated to boost real GDP growth in FY2027 by slightly more than 0.2 percentage points. The measures are also expected to lower the headline CPI by 1.4 percentage points and the core CPI (excluding fresh food) by 1.2 percentage points in FY2027.

Real GDP growth in Q2 2026 (April–June) came in at +1.1% on a quarter-on-quarter annualized basis, marking the third consecutive quarter of positive growth. Although growth fell short of market expectations, the result can be viewed positively given that the quarter coincided with a period when worsening conditions in the Middle East intensified headwinds from supply uncertainty and higher import prices. The continued recovery in Q2 following strong growth in Q1 can be viewed positively. The release of government stockpiles and progress in alternative sourcing from the United States and other countries helped avert severe supply constraints, while strengthening AI-related demand also supported economic activity. The economy's underlying recovery trend remains intact.

For Q3 2026 (July–September), real GDP growth is forecast at +0.7% on a quarter-on-quarter annualized basis. We expect the economy to maintain positive growth following Q2 and continue a moderate recovery.

Private consumption will receive less support from demand for durable goods such as automobiles and air conditioners than in Q2, but should be underpinned by strong wage growth and government subsidies for electricity and gas charges. Exports are also expected to be supported by resilient overseas economies and robust AI- and semiconductor-related demand. Meanwhile, underlying demand for business investment remains firm, particularly for labor-saving, digital, and AI-related investment. Sourcing difficulties for materials have largely eased recently as alternative sourcing has progressed, while uncertainty surrounding developments in the Middle East has also diminished. As a result, investment projects that had been postponed are expected to be gradually implemented, leading to a recovery in business investment.

In the second half of FY2026, the lagged pass-through of higher import prices and upstream costs already generated by the deterioration in Middle East conditions is likely to weigh on economic activity. Higher prices for food, daily necessities, electricity, and gas will erode households' real purchasing power, while higher costs will also put pressure on corporate profits, restraining the pace of economic recovery. On the positive side, however, supply-side risks have receded substantially. Progress in alternative sourcing by both the public and private sectors has reduced the risk that difficulties in securing resources will significantly constrain production activity.

Although downward pressure from higher prices will remain, the economy is likely to maintain a moderate recovery trend in the second half of FY2026. This reflects several factors: the risk of severe supply constraints has receded substantially; although higher costs will weigh on corporate activity, historically high corporate profits should provide a degree of resilience; expanding AI-related demand is supporting semiconductors, electronic components, and business investment; and strong wage growth and a resilient labor market should underpin private consumption. We therefore expect the main risk stemming from developments in the Middle East to shift from "supply-side constraints" in the spring to "price and income effects" going forward.

In FY2027, the recovery is expected to gradually gain momentum as the adverse effects of higher resource prices and procurement costs stemming from the deterioration in Middle East conditions fade. In the corporate sector, easing cost pressures should improve the earnings environment, while business investment is expected to increase, particularly in labor-saving, digital, and AI-related areas. Exports should also continue to be supported by resilient overseas economies and AI-related demand. Meanwhile, as upward pressure on energy and food prices weakens and inflation passes its peak, private consumption should receive additional support.

In addition, the current forecast newly incorporates a reduction in the consumption tax rate on food products and cash benefits to households from April 2027. These measures will increase household purchasing power, while the consumption tax cut will also substantially lower the inflation rate, thereby strengthening the recovery in private consumption. With both domestic and external demand improving, real GDP growth is forecast to accelerate to +1.2% in FY2027, from +0.9% in FY2026.

The core consumer price index (CPI, excluding fresh food) is forecast to rise by +2.4% in FY2026 (June forecast: +2.4%) and +1.0% in FY2027 (previously +2.1%). In FY2026, inflation is likely to accelerate toward the second half of the fiscal year. The recent moderation in food price inflation is showing signs of stalling, while price increases have also begun to emerge for daily necessities. In addition to the effects of earlier increases in resource prices and sourcing difficulties, rising costs for packaging materials and logistics are expected to be passed through to downstream prices with a lag, exerting upward pressure on inflation. Earlier increases in fuel prices will also feed through to electricity and gas charges with a lag. Although government subsidies will temporarily restrain CPI inflation during the summer, upward pressure from energy prices is likely to intensify from autumn into winter. With firms also becoming more proactive in passing higher costs on to prices, core CPI inflation is likely to exceed +3% year-on-year from late 2026 into early 2027.

In FY2027, by contrast, CPI inflation is expected to decline substantially as the earlier cost-push pressures begin to run their course and the consumption tax rate on food products is reduced from April. On a quarterly basis, inflation is expected to peak in Q1 2027 (January–March) and moderate thereafter. In the current forecast, the consumption tax cut is assumed to lower the headline CPI by 1.4 percentage points and the core CPI by 1.2 percentage points in FY2027. However, much of this decline will reflect the temporary impact of the policy change. Upward pressure on underlying inflation is not expected to weaken rapidly, given continued strong wage growth and associated increases in labor costs, persistent labor shortages, and firms' increasingly proactive price-setting behavior.

On monetary policy, we expect the Bank of Japan to deliver its next rate hike in September 2026. Concerns over upside risks to inflation have increased recently, and Governor Ueda has indicated that the pace of rate hikes could be accelerated depending on economic and price developments. Financial conditions remain accommodative even after the June rate hike. In addition, following the coordinated Japan–U.S. foreign exchange intervention, the view has gained ground that the United States supports further normalization of Japan's monetary policy. The government also appears to have less room to push back against further BOJ rate hikes, increasing the likelihood of an early move.

With concerns over upside risks to inflation likely to persist, we expect the BOJ to raise rates again in January 2027 and June 2027, bringing the policy rate to 1.75%. The BOJ is likely to gradually reduce the degree of monetary accommodation while assessing the impact on economic activity and prices. Moreover, if continued yen depreciation or other factors further heighten upside risks to underlying inflation, the possibility cannot be ruled out that, following a rate hike in September 2026, the BOJ could raise rates once every quarter—in December 2026, March 2027, and June 2027—bringing the policy rate to 2.0%.

Japan's Economic Outlook(Yearly)

	Fiscal Year			Calendar Year		
	2025 Actual	2026 Forecast	2027 Forecast	2025 Actual	2026 Forecast	2027 Forecast
Real GDP	0.9	0.9	1.2	1.2	0.9	1.0
Domestic demand(Cont.,% pts)	1.0	0.6	1.3	1.5	0.5	1.2
Private consumption	1.3	0.7	1.2	1.3	1.0	0.9
Private residential investment	▲ 2.6	0.5	▲ 0.5	▲ 1.9	0.1	▲ 0.5
Private non-resi. Investment	2.3	▲ 0.4	2.0	2.5	▲ 0.1	1.6
Chg. in private inventories (Cont.,% pts)	▲ 0.1	▲ 0.0	0.1	0.3	▲ 0.3	0.1
Government consumption	0.8	2.4	0.7	0.9	2.2	1.0
Public investment	▲ 0.3	0.8	0.6	▲ 0.3	0.9	0.3
Net exports of goods & services (Cont.,% pts)	▲ 0.1	0.1	▲ 0.2	▲ 0.3	0.2	▲ 0.3
Exports	2.0	2.2	2.5	2.5	2.3	2.5
Imports	2.5	1.7	3.8	3.8	1.0	4.2
GDP deflator	3.3	2.3	1.8	3.4	2.6	2.0
Nominal GDP	4.3	3.1	3.0	4.6	3.4	3.0
Industrial production	▲ 0.2	2.1	1.7	▲ 0.3	2.2	1.5
Unemployment rate	2.6	2.5	2.5	2.5	2.5	2.5
CPI (all items less fresh food)	2.7	2.4	1.0	3.1	2.0	1.8

Previous Forecast(2026.6)

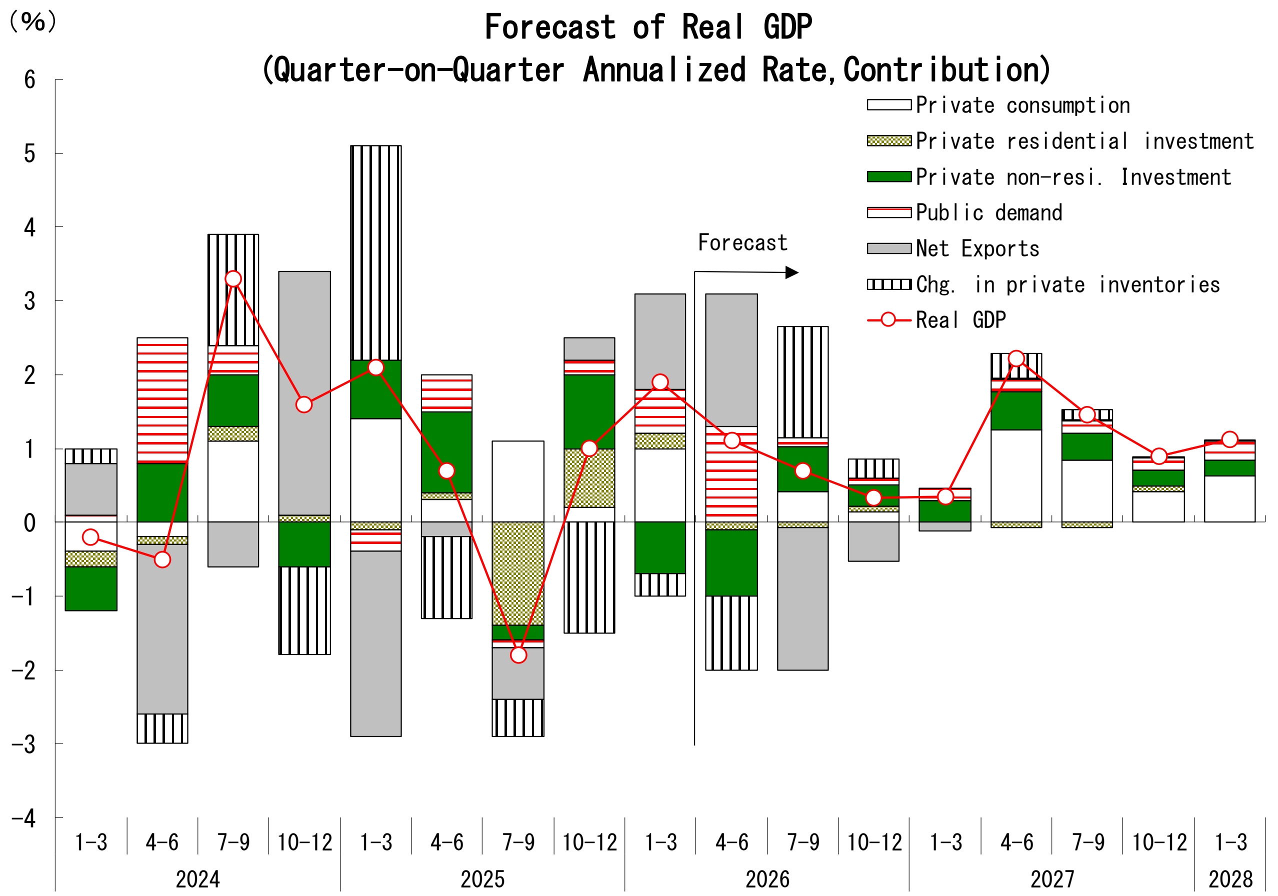
	Fiscal Year		Calendar Year	
	2026	2027	2026	2027
Real GDP	0.5	1.1	0.5	0.8
Domestic demand(Cont.,% pts)	0.1	1.2	0.1	0.9
Private consumption	0.7	0.7	0.9	0.6
Private residential investment	0.5	▲ 0.9	0.0	▲ 1.1
Private non-resi. Investment	0.5	1.9	0.5	1.7
Chg. in private inventories (Cont.,% pts)	▲ 0.3	0.2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

Japan's Economic Outlook(Quarterly)

		2026			2027				2028
		Apr-Jun Actual	Jul-Sep Forecast	Oct-Dec Forecast	Jan-Mar Forecast	Apr-Jun Forecast	Jul-Sep Forecast	Oct-Dec Forecast	Jan-Mar Forecast
Real GDP	q/q	0.3	0.2	0.1	0.1	0.6	0.4	0.2	0.3
	SAAR	1.1	0.7	0.3	0.3	2.2	1.5	0.9	1.1
Domestic demand(Cont.,% pts)		▲ 0.2	0.6	0.2	0.1	0.5	0.4	0.2	0.3
Private consumption	q/q	0.0	0.2	0.1	0.0	0.6	0.4	0.2	0.3
Private residential investment	q/q	▲ 0.5	▲ 0.5	0.5	0.0	▲ 0.5	▲ 0.5	0.5	0.0
Private non-resi. Investment	q/q	▲ 1.2	0.8	0.4	0.4	0.7	0.5	0.3	0.3
Chg. in private inventories (Cont.,% pts)	q/q	0.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Government consumption	q/q	1.6	0.1	0.1	0.2	0.2	0.1	0.2	0.2
Public investment	q/q	▲ 0.1	0.2	0.0	0.0	0.0	0.5	0.0	0.5
Net exports of goods & services (Cont.,% pts)		0.5	▲ 0.5	▲ 0.1	▲ 0.0	0.0	0.0	0.0	0.0
Exports	q/q	0.5	0.1	0.6	0.8	0.8	0.6	0.4	0.4
Imports	q/q	▲ 1.5	3.0	1.4	1.0	0.8	0.6	0.4	0.4

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



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

Original in Japanese

https://www.dlri.co.jp/report/macro/645343.html