

Weekly Analysis

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POSSIBLE TURNING POINT FOR THE NIKKEI

Resilient economy. Household consumption is recovering. Leading indicators still uncertain. Inflation still too high. No further rate hikes before 2026. Probable rise in the yen. The Nikkei is at an inflection point.

Key points



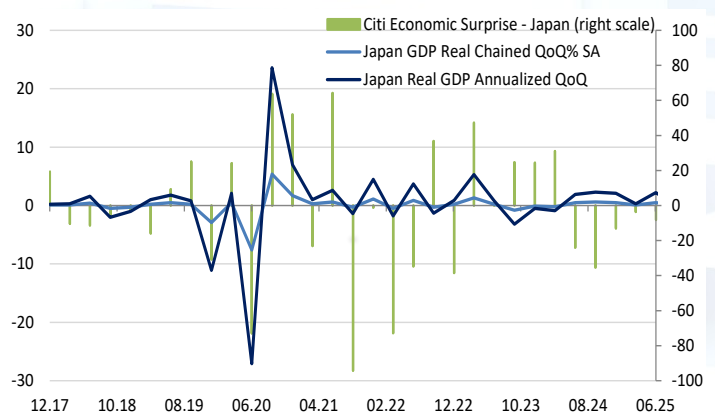
- Slowdown in Households are spending, but businesses are hesitant
- Slowdown likely until the end of the year
- Composite PMI supported by services PMI
- Resilient consumption supported by wages
- Inflation weakens slightly but remains too high
- No BoJ rate hike before 2026
- The bond market remains unattractive
- Interest rate differentials favorable to the yen
- Possible turning point for the Nikkei

Households are spending, but businesses are hesitant

Japan's economic growth surprised in the second quarter of 2025, driven by household consumption but overshadowed by weaker-than-expected business investment. The Japanese economy posted a robust performance, defying even the most cautious forecasts. Gross domestic product (GDP) grew by +0.5% compared to the previous quarter, exceeding the preliminary estimate of +0.3% and marking an acceleration after a +0.1% increase (revised figure) in the first quarter. On an annualized basis, growth reached +2.2%, a significant improvement on the initial estimate of +1.0% and the fastest pace since Q3 2024. This unexpected performance, which marks the fifth consecutive quarter of expansion, was largely driven by strong private consumption, the real engine of this upturn. Household consumption, which accounts for a substantial share of the Japanese economy, grew by +0.4%, double the initial estimate of 0.2%. This surprising momentum suggests that households spent more on goods, services, and leisure than initially anticipated, aided by government measures to ease cost pressures linked to

rising energy and food prices. Public spending remained stable, following a 0.5% decline in the previous quarter. Foreign trade also contributed positively to growth, adding +0.3 percentage points to overall GDP performance. This contribution was due to a significant rebound in exports, which rose by +2.0% after contracting by -0.3% in the first quarter, while imports slowed sharply, increasing by only +0.6%, compared with +2.9% previously. It is likely that exporters were able to accelerate their deliveries, particularly to the United States, in anticipation of the entry into force of new customs tariffs. On the other hand, the picture is less rosy on the business investment front. Initially estimated at +1.3%, this key indicator was revised downwards to +0.6%. This figure, which is lower than analysts' expectations of +1.2%, reflects greater caution on the part of businesses, possibly held back by higher borrowing costs and, above all, by persistent uncertainties on the international scene. Despite this slowdown in productive investment, strong consumer demand has been robust enough to compensate and drive overall growth upward. This divergence between consumption and investment is one of the main surprises in these latest figures, highlighting the Japanese economy's current dependence on domestic demand. Economists will remain attentive to developments in these two components in the coming quarters to assess the sustainability of the recovery.

Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA