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# WEEKLY ANALYSIS

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## STAGFLATION THREATENS JAPANESE ASSETS

Precarious balance for the economy in 2025. Conflict in the Middle East causes crude oil prices to skyrocket. Likely decline in consumer confidence. Industrial production under pressure. The BOJ faces stagflation.

### Key points

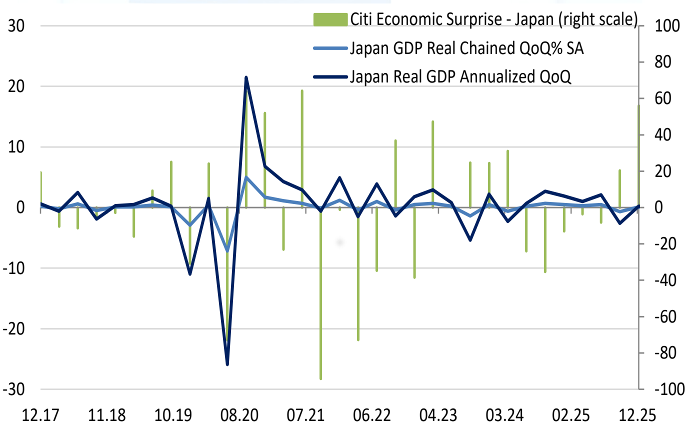
- A difficult recovery in Q4
- Q1 under pressure between resilience and external shocks
- Positive leading indicators before the energy crisis
- Likely further decline in consumer confidence
- Probable temporary rebound in inflation
- The equation has become more complex for the BoJ
- The specter of stagflation threatens the yield curve
- Yen under pressure from energy shock and monetary deadlock
- Stagflation risks threaten the Nikkei

### A difficult recovery in Q4

The Japanese economy ended 2025 in a precarious balance. While the transition from Q3 to Q4 helped avoid a technical recession, the drivers of Japanese growth are now running at very uneven speeds, under constant pressure from US customs barriers and domestic inflation that is struggling to slow down. Final data published in February 2026 confirm a technical rebound in real GDP of +0.1% (or +0.2% year-on-year). Although this figure marks a break with the -0.4% contraction recorded in the previous quarter, it highlights the fragility of the recovery. This underperformance relative to the initial consensus expectation of +1.6% can be explained by a very mixed sectoral breakdown. First, household consumption continued to show anemic growth of +0.1% for the seventh consecutive quarter. While demand was buoyed by the mobile phone and hotel sectors (driven by robust domestic tourism), spending on food and cars fell. The positive effect of government measures seems to have dissipated in the face of persistent inflation, particularly in food and energy prices, which continue to erode the purchasing power of the Japanese. Consumers are once again exercising caution, as inflation measured by the GDP deflator stagnated at +3.4% and continued to offset nominal wage increases, keeping real wages in negative territory for the 12th consecutive month in December.

On the corporate investment (Capex) side, the situation was more encouraging thanks to a clearly positive trend in non-residential investment, which rose by +0.8% after already recording a +1% increase in Q3. Business spending once again exceeded consensus expectations, despite the high level of uncertainty that companies still faced at the end of 2025. In our view, this trend does not appear to be cyclical but rather structural, as Japanese companies are investing heavily in automation software and artificial intelligence to counteract the labor shortage. As for the contribution of foreign trade, despite the weakness of the yen, its impact was negligible over the period. In volume terms, exports fell by 0.3%, weighed down by an 11.1% collapse in shipments to the United States (mainly automobiles and machine tools) following the tightening of customs tariffs. This shock was partially offset by the resilience of semiconductor exports to Europe and the rest of Asia, allowing the annual trade deficit to be halved compared to 2024. The public sector ceased to be the backup engine it had been in Q3, subtracting 0.1 percentage points from GDP growth due to a 0.3% decline over the quarter.

**Japanese economic performance (GDP) in yen**




*Sources: Bloomberg, BBGI Group SA*