Provisional Translation

Recent Economic Developments

October 27, 2026

Cabinet Office

<Assessment of the current state of the Japanese economy>

<Current Assessment>

The Japanese economy is recovering at a moderate pace, while attention should be given to the effects caused from the situation in the Middle East.

<Outlook>

Concerning short-term prospects, the improvement in the employment and income situation and the effects of the policies are expected to support a moderate recovery, while attention should be given to the effects caused from the situation in the Middle East. Also, attention should be given to the effects of fluctuations in the financial and capital markets and so on.

<Policy stance>

Based on the "Basic Policies on Economic and Fiscal Management and Reform 2026" approved by the Cabinet on July 21, the Government will strive to implement both “Strong Japanese Economy” and “fiscal sustainability” in an integrated manner, embracing an approach of “responsible and proactive public finances”. In the near term, the Government will ensure the transition to a growth-oriented economy by not returning to deflation, while responding flexibly to various risks.

In response to the situation in the Middle East, in the near term, the Government has carried out emergency measures to curb dramatic fluctuations in the price of fuel oil. Through alternative procurement of crude oil and the release of oil stockpiles, the Government will work to ensure a stable supply of crude oil when the situation requires it. The Government will also work to ensure a stable supply and the smooth distribution of critical materials. The Government will implement the FY2026 budget and the FY2026 supplementary budget, which was compiled to minimize risks, in an appropriate and flexible manner in response to developments in the situations.

The Government and the Bank of Japan will continue to work closely together to conduct flexible policy management in response to economic and price developments.

The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner, while confirming the virtuous cycle between wages and prices, by conducting appropriate monetary policy management in light of economic activity, prices and financial conditions.

Key points 1. Current Developments and Outlook for Private Consumption

- Private consumption has been showing movements of picking up, supported by rising incomes, although its growth remains moderate pace (Figure 1). One possible factor behind this is that rising price expectations, reflecting escalated tensions in the Middle East, have weighed on consumer sentiment (Figure 2).
- While overall rise in consumer price has been contained partly due to policy measures, food prices have continued to rise at a high rate (Figure 3). An analysis of recent developments using big data shows that price increases have accelerated since the second half of September, suggesting that higher costs associated with the escalated tensions in the Middle East have increasingly been passed on to consumers (Figure 4).

Figure 1. Consumption and income

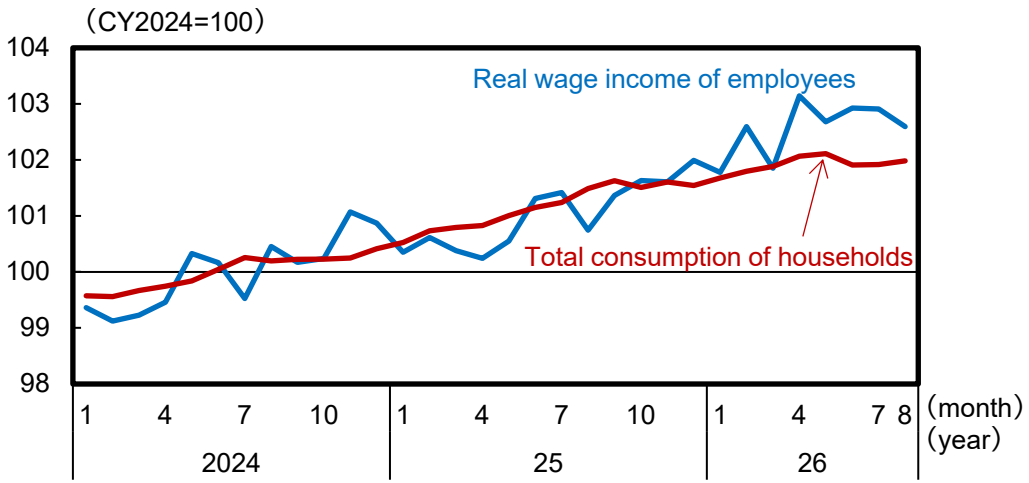


Figure 2. Consumer sentiment and price expectations

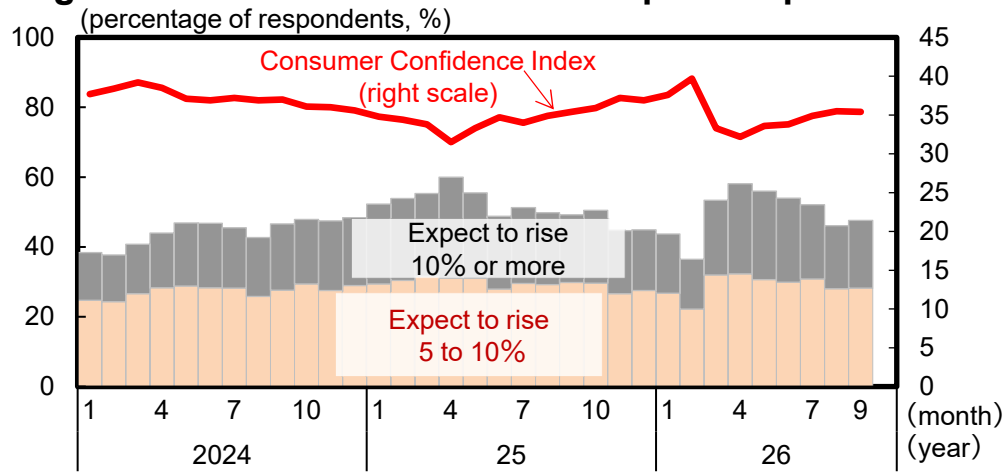
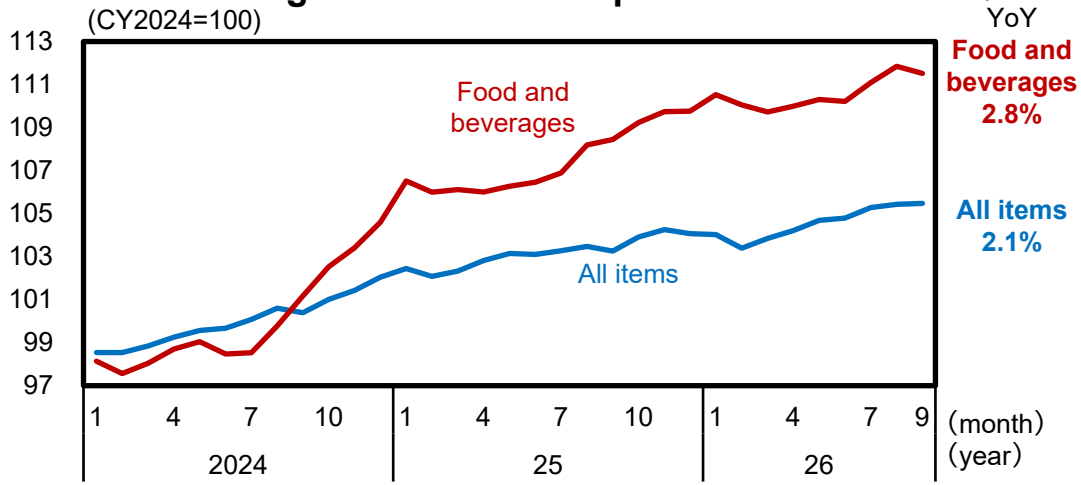
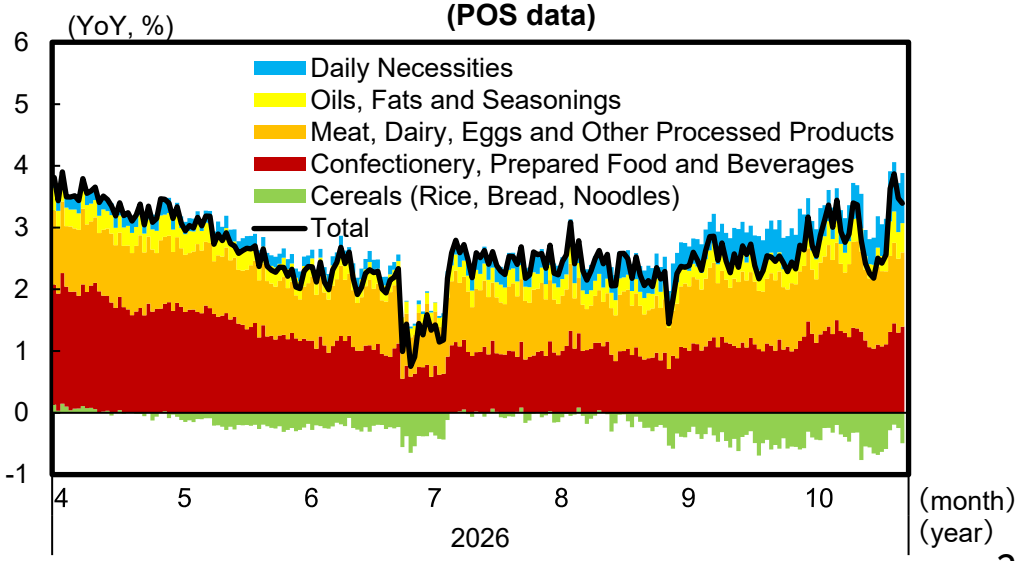


Figure 3. Consumer price index



Sep. 2026
YoY
Food and beverages 2.8%
All items 2.1%

Figure 4. Prices of food products and daily necessities (POS data)



Sources: Ministry of Internal Affairs and Communications, Cabinet Office, and Nowcast Inc..

Key points 2. Inflation, wage increases and consumer spending

- Japan has implemented measures to contain energy prices, keeping the rate of price increases faced by households lower than in other countries (Figure 1).
- In addition, supported by government and private-sector efforts to create an environment conducive to wage increases, nominal wages in Japan have risen at a rate comparable to those in other countries. Real wage growth has also outpaced growths in other countries, partly reflecting the effects of measures to mitigate rising prices (Figure 2).
- However, Japan has experienced particularly sharp increases in food prices, which have weighed on household consumption, especially spending on nondurable goods. Addressing this remains a key challenge (Figure 3).

Figure 1. Average consumer price inflation since March 2026

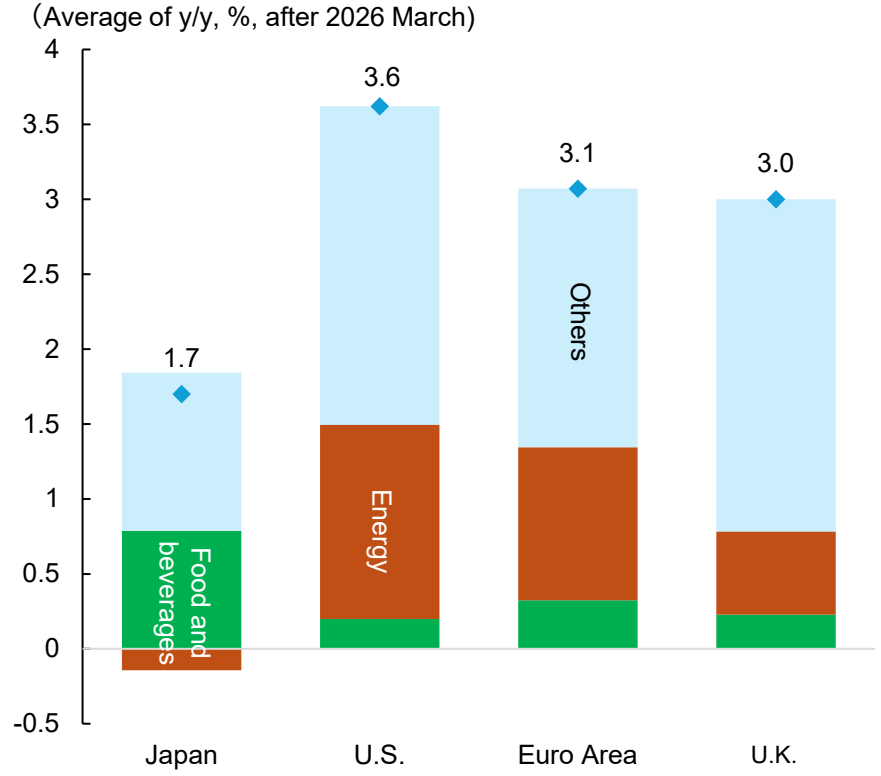


Figure 2. Real wage increases

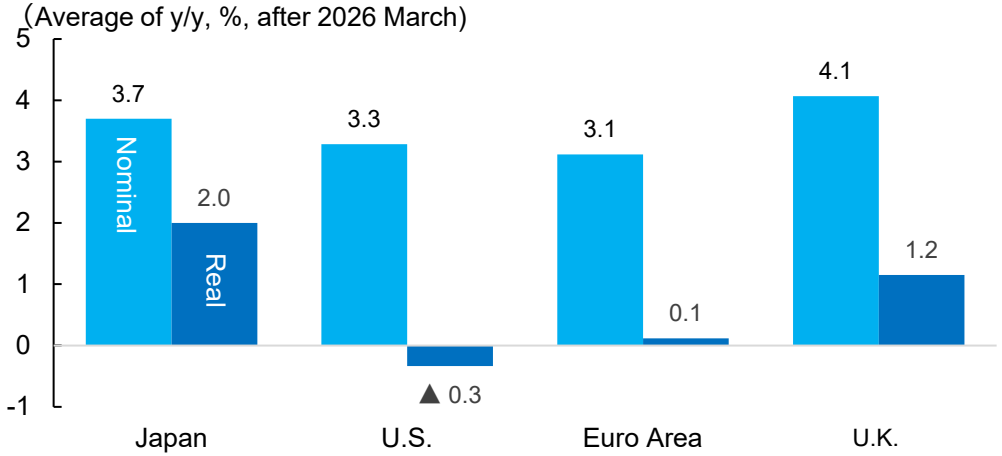
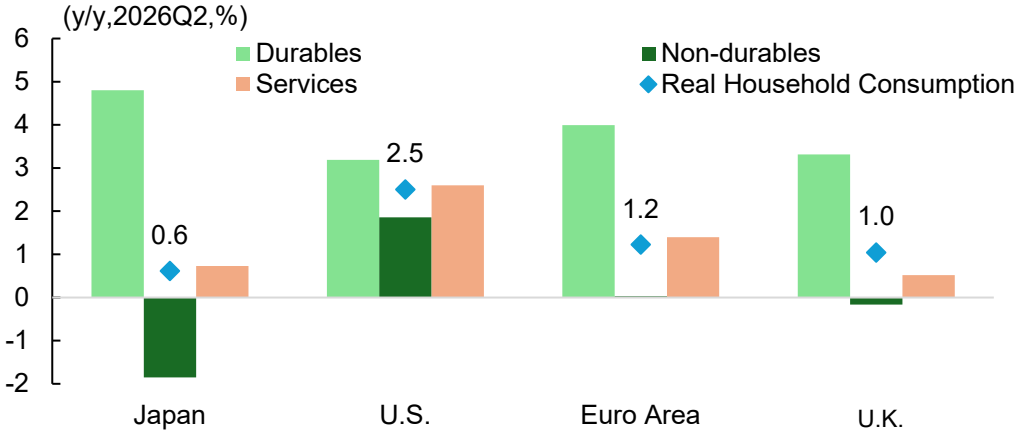


Figure 3. Consumer spending, April-June 2026



Sources: Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare, Cabinet Office, and each country's statistics.
For Figure 1, "Food and beverages" does not include alcoholic beverage for U.S. and U.K..
For Figure 2, "Wage" refers to monthly total cash earnings for Japan(March to August), hourly wages for U.S(March to September)., wages and salaries for Euro Area(Q2), and weekly wage for U.K.(March to August).
For Figure 3, Durables includes semi-durables in U.S.

Topics 1. Recent Developments of Private Consumption

- Private consumption was relatively subdued this summer, partly reflecting factors that are likely to be temporary. Weather conditions have weighed on spending on summer clothing, air conditioners, and eating-out, while natural disasters and other factors may have also affected the timing of purchases of durable goods, including automobiles (Figures 1–4).
- In addition to rising wages, household property income, including dividends and interest income, has also been increasing. These improvements in household income are expected to support a recovery in private consumption (Figure 5).

Figure 1. Sales of durable goods

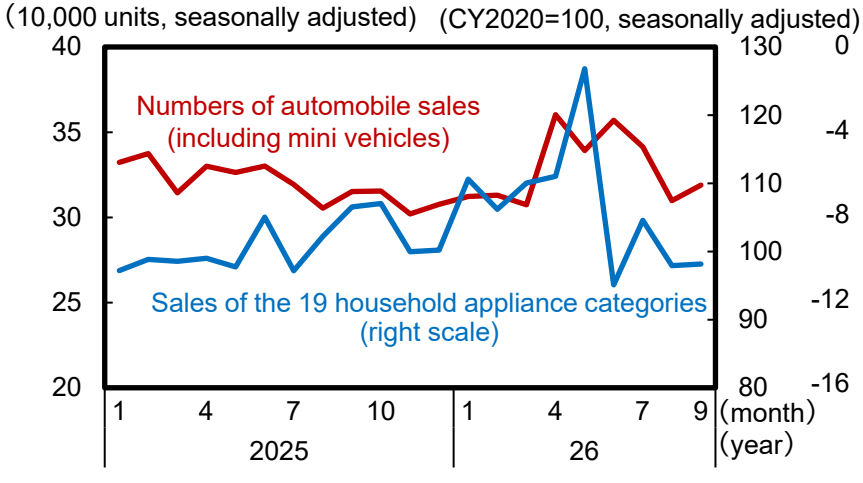


Figure 2. Retail sales of clothing

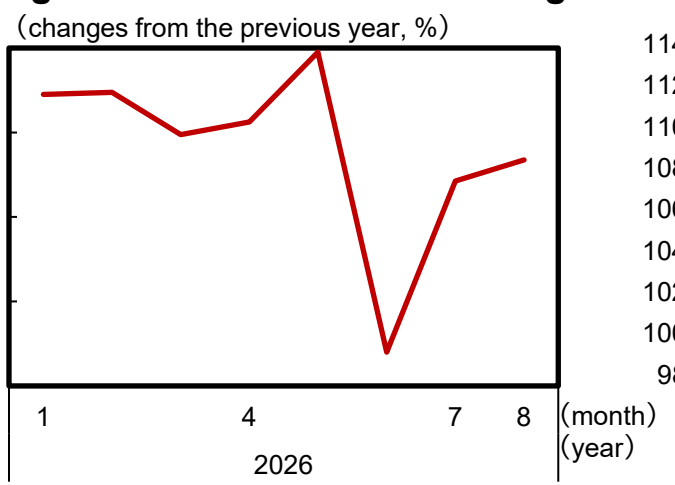


Figure 3. Sales in eating out industry

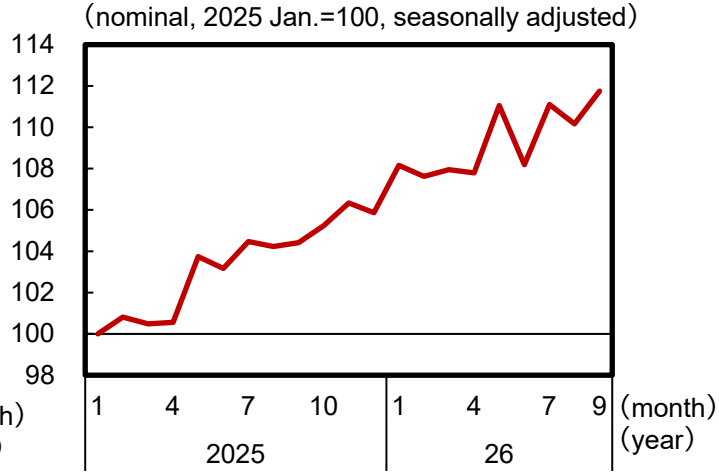


Figure 4. Average temperature and precipitation

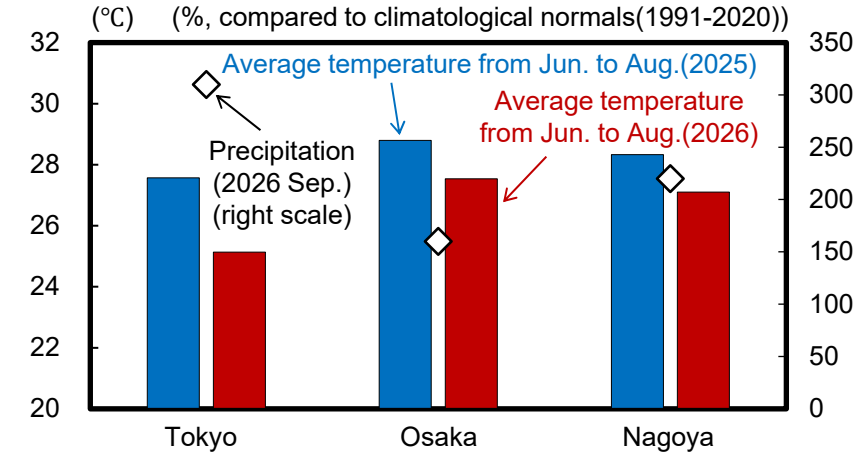
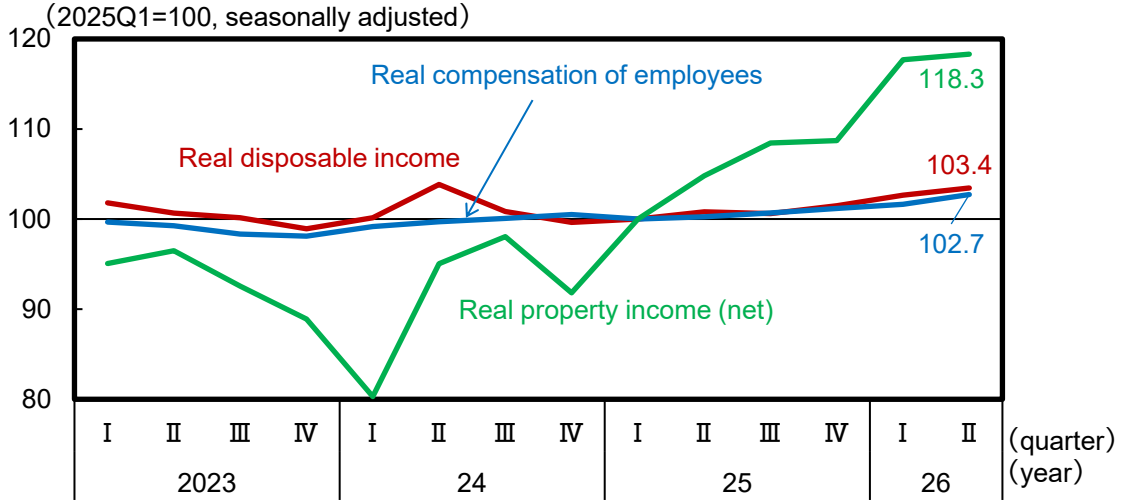


Figure 5. Disposable income and property income



Sources: Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association, GfK, Ministry of Economy, Trade and Industry, Japan Food Service Association, Japan Meteorological Agency, Cabinet Office.

Topics 2. Improving Business Conditions and Strengthening Supply Capacity

- Business sentiment shows remarkable movements of improvement, particularly in manufacturing, supported by strong global demand for AI-related products and semiconductors (Figure 1). Reflecting robust corporate investment demand, machinery orders, a leading indicator of business investment, and the total supply of capital goods, a coincident indicator, have continued to pick up (Figure 2).
- Machinery orders have been growing faster than the pace of deliveries, leading to an upward trend in the number of months of backlog orders (Figure 3). Strengthening production capacity to meet the growing orders driven by business investment demand is essential.

Figure 1. Business conditions

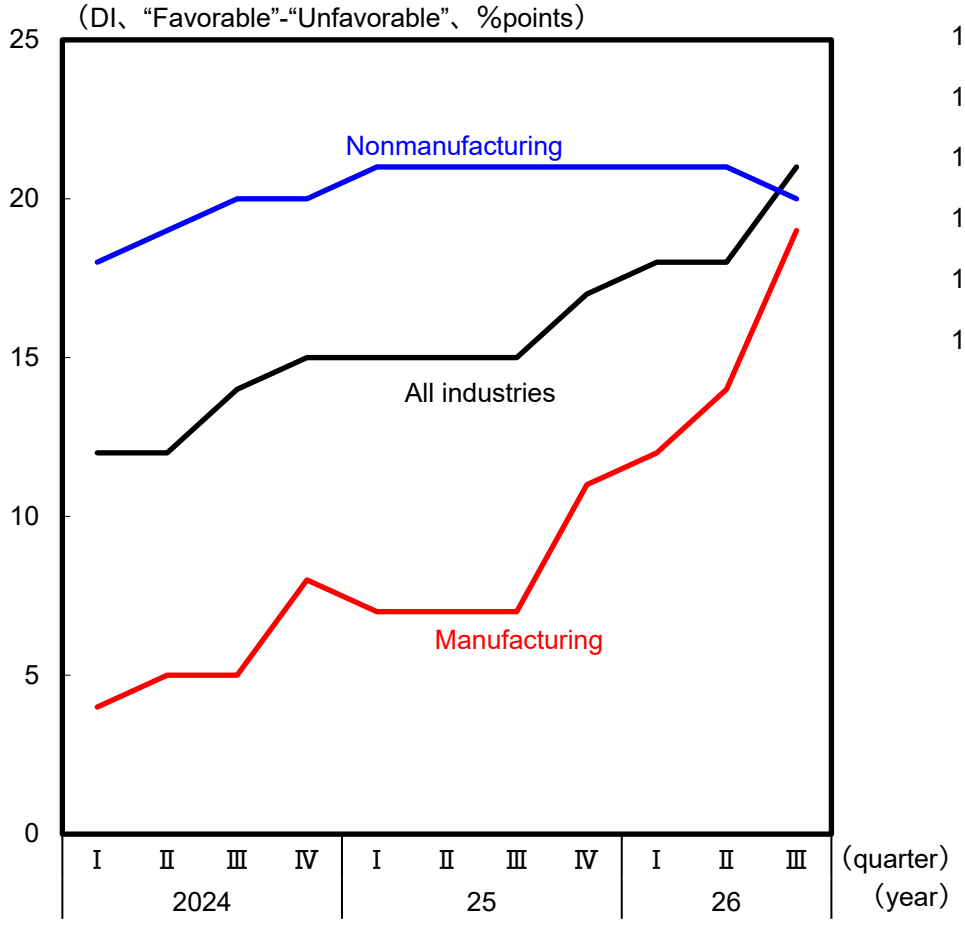


Figure 2. Machinery orders and total supply of capital goods

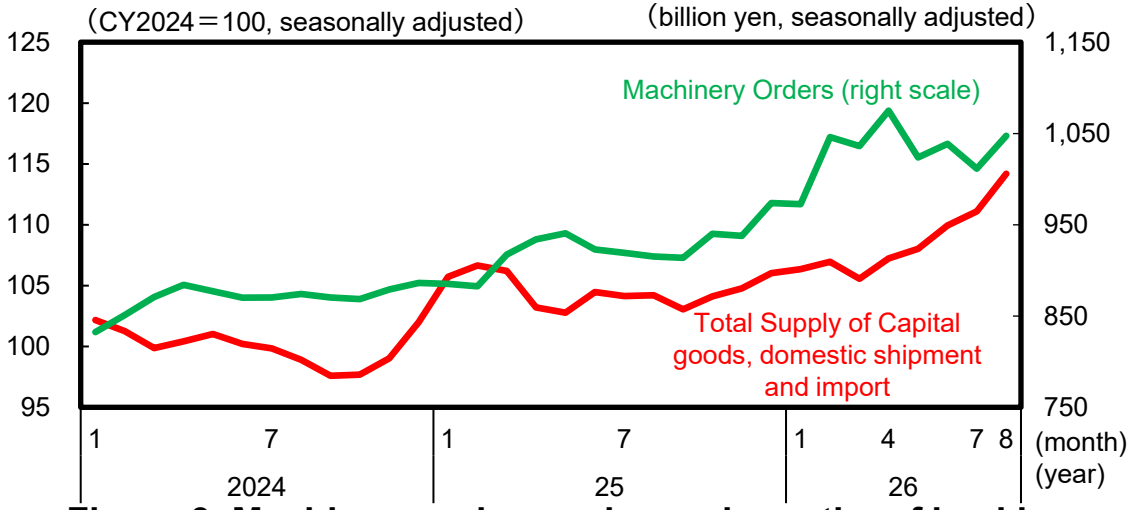
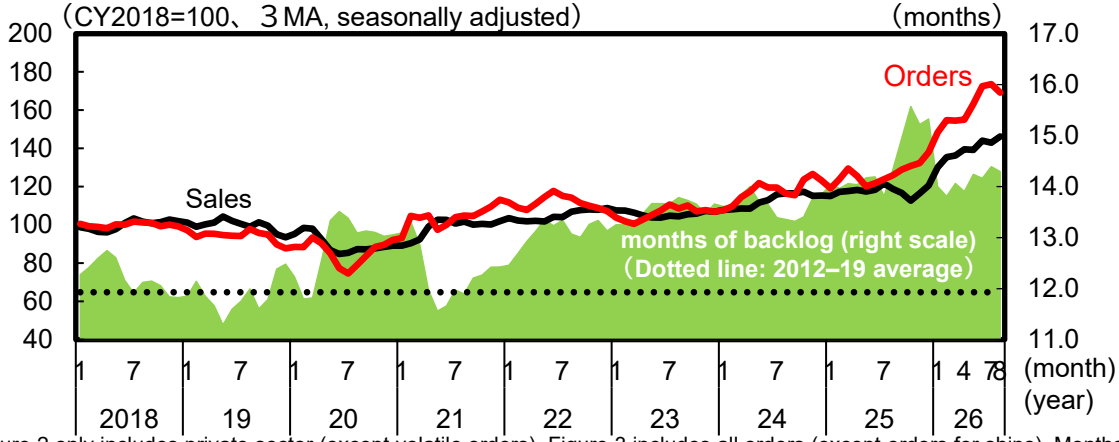


Figure 3. Machinery orders, sales and months of backlog



Sources：Bank of Japan, Ministry of Economy, Trade and Industry, Cabinet Office. For machinery orders, figure 2 only includes private sector (except volatile orders). Figure 3 includes all orders (except orders for ships). Months of backlog = backlog/sales(average of 3 months).

Topics 3. Developments of Public Investment

- The value of completed public works holds firm(Figure 1). Value of orders have also remained firm, while the value of construction work on hand has remained above past levels (Figures 2 and 3).
- Growth in public works-related expenditure under the previous fiscal year's supplementary budget and the current fiscal year's initial budget combined, which serves as a guide to the volume of public works this fiscal year, is higher than in the previous fiscal year (Table 4). As efforts continue to move away from dependence of supplementary budgets, maintaining a stable volume of construction work and distributing construction activity more evenly throughout the year will be important to improve predictability for contractors.

Figure 1. Public works, completed

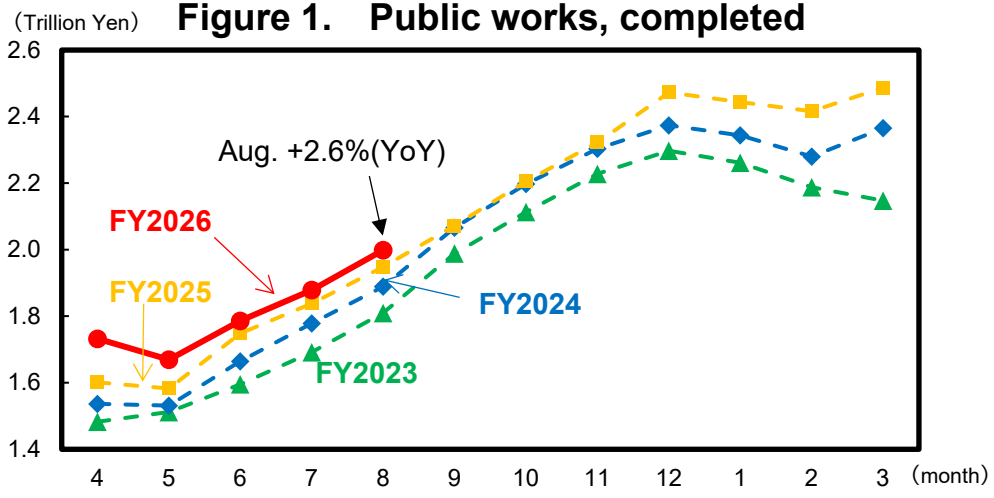


Figure 2. Public works orders, received

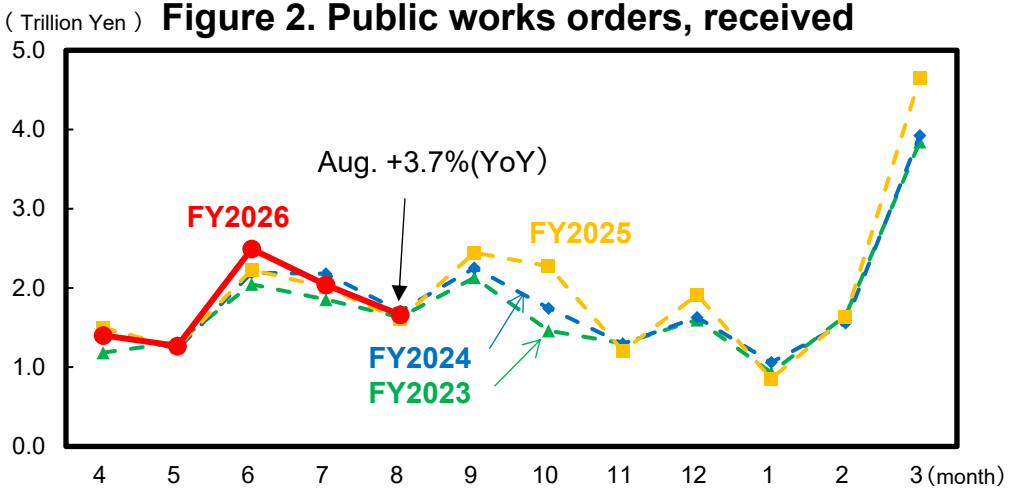


Figure 3. Public works contracts on hands

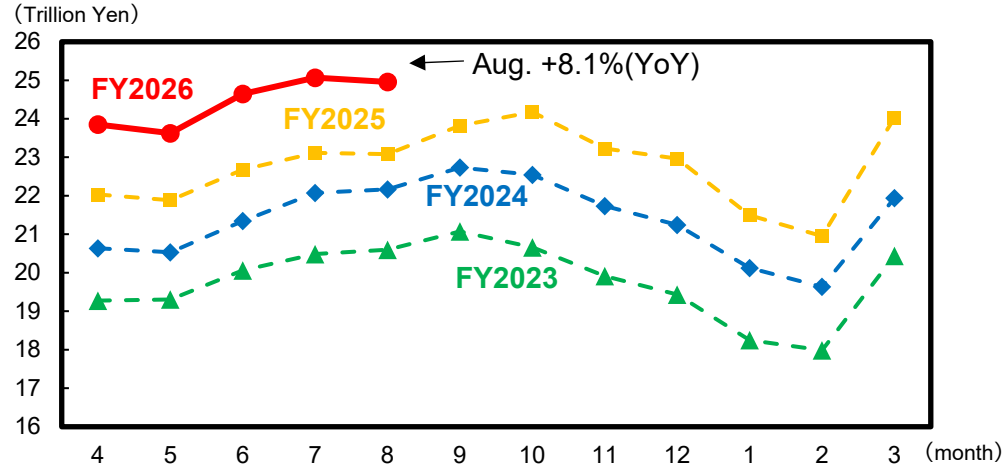


Table 4. Public-works related expenditures

(National government, general account)

(Fiscal Year, Trillion Yen)

	FY2023	FY2024	FY2025	FY2026
Initial Budget	6.1	6.1	6.1	6.1
Supplementary Budget	2.0	2.2	2.3	2.5
Initial+Previous FY's Supplementary Budget	8.1	8.3	8.4	8.6
YoY Change (%)	0.0%	2.8%	1.9%	2.5%
Settlement of accounts	8.2	8.4	8.6	-
YoY Change (%)	1.0%	2.2%	2.9%	-
(Reference)				
Date of Enactment of the Supplementary Budget for the Previous Fiscal Year	2022.12.2	2023.11.29	2024.12.17	2025.12.16

Sources: Ministry of Finance, Ministry of Land, Infrastructure, Transport and Tourism

Topics 4. Economic Impact of 2026 Kumamoto Earthquake

- In August, industrial production across Japan weakened temporarily, reflecting brief shutdowns in the transport equipment industry and other sectors immediately following the 2026 Kumamoto Earthquake. As factories in the affected areas have resumed operations, production nationwide is expected to recover from September onward (Figure 1).
- Demand for eating out, which fell sharply immediately after the earthquake, also appears to have largely recovered since September (Figure 2). The government will continue to steadily implement the “Package to Support the Lives and Livelihoods of the Affected People.”

Figure 1. Industrial production and transport equipment production

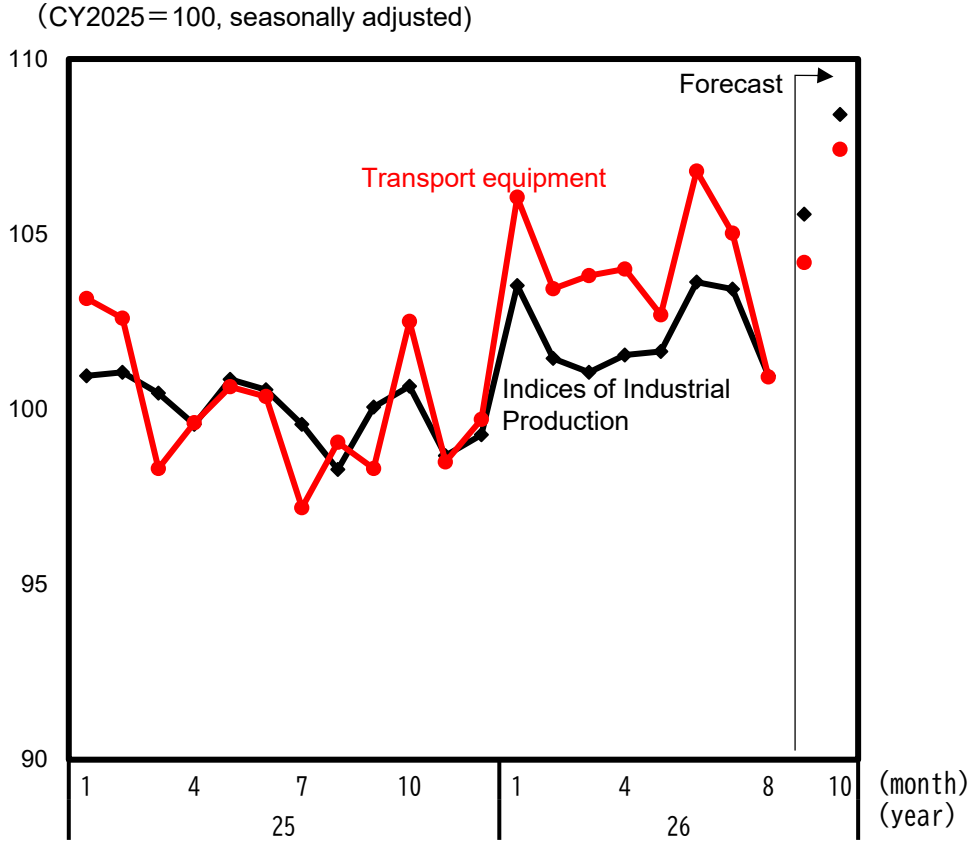
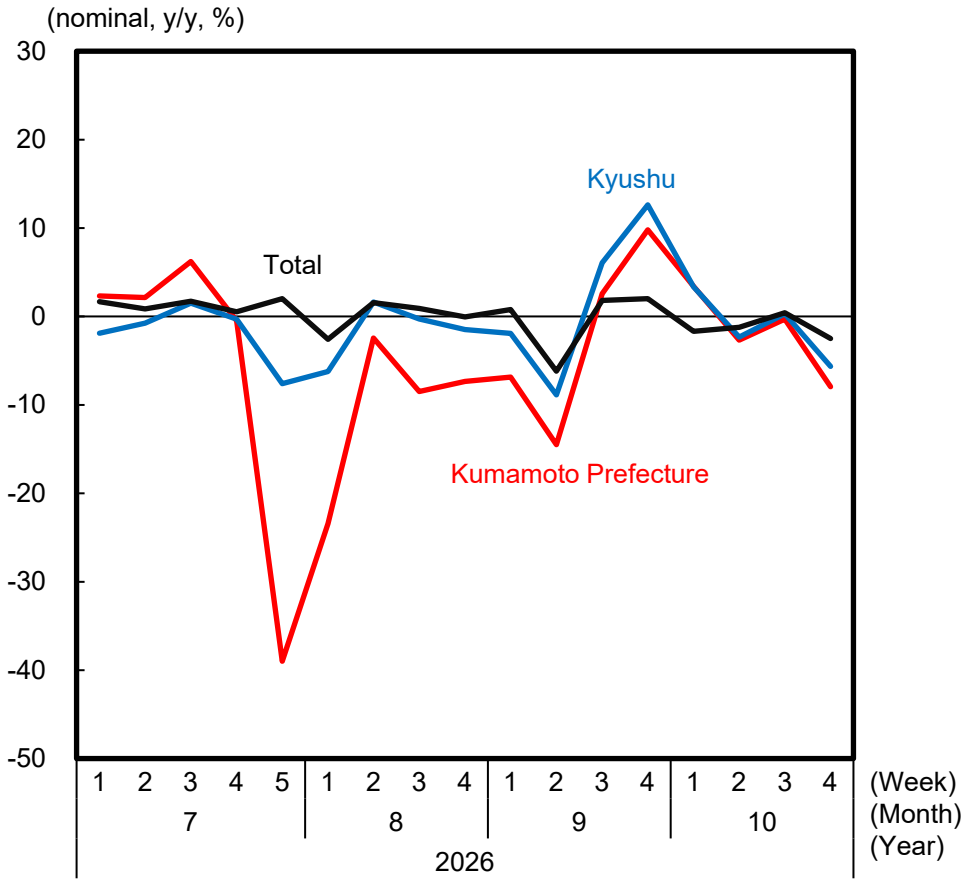


Figure 2. Sales in restaurants (POS data, by regions)



Sources：Ministry of Economy, Trade and Industry, POSTAS CO ., LTD. Kyushu stands for simple average for 7 prefectures (Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, and Kagoshima)

Topics 5. Inflation Facing the Global Economy and Policy Responses Across Countries

- ◆ According to the latest World Economic Outlook published by IMF, while there has been no significant change in growth projections since April, projections for consumer price inflation rate have been revised upwards (Figure. 1).
- ◆ IMF's analysis shows that the rise in prices faced by consumers tends to be higher for lower-income brackets (Figure. 2). Against this backdrop, various countries are extending or reinstating energy-related policies (Table 3).

Figure.1 Economic Outlook(IMF)

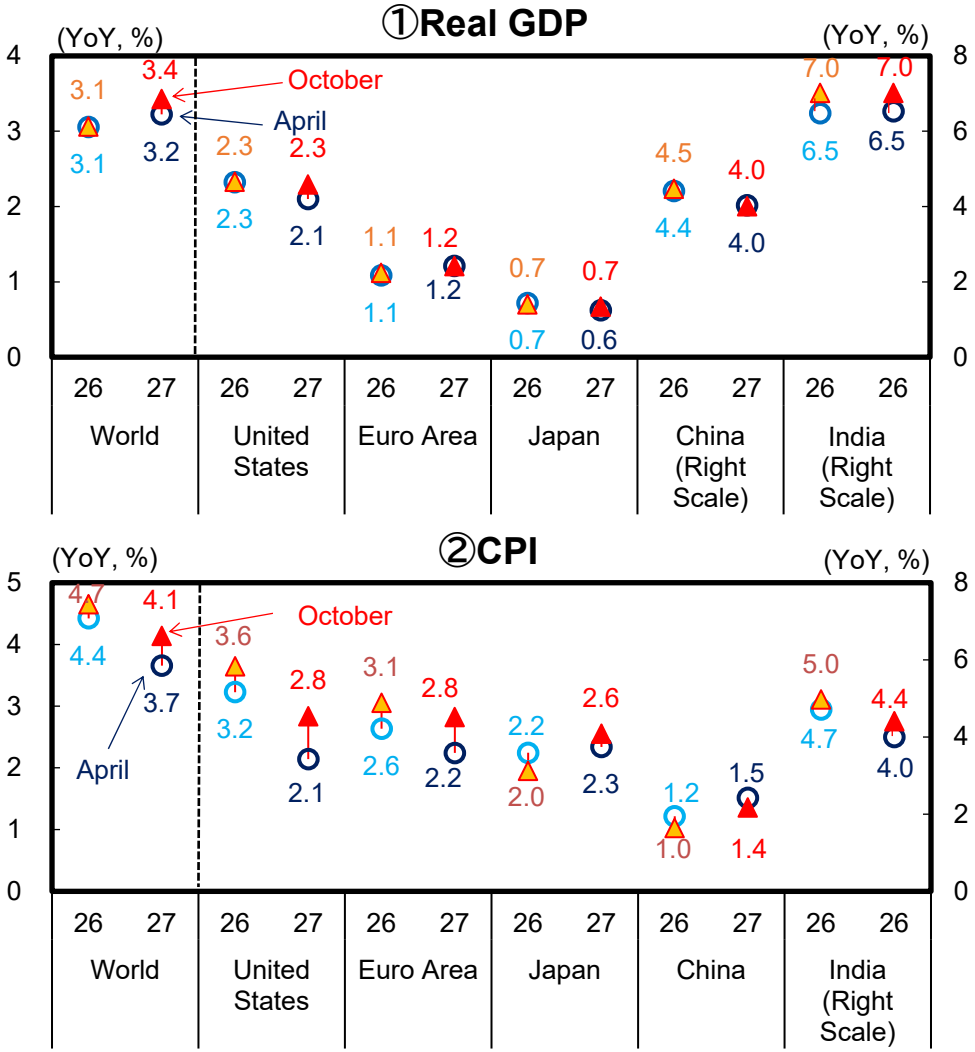


Figure.2 Inflation gaps by income quintile (Difference from the middle)

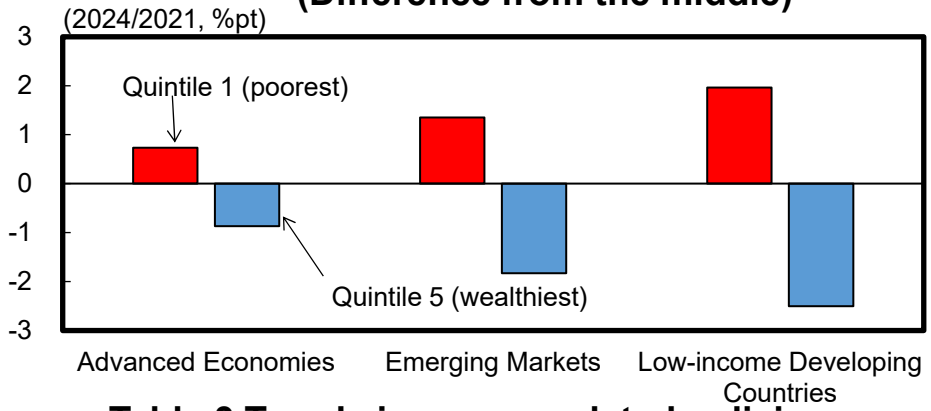


Table.3 Trends in energy-related policies

International Cooperation: In the G7 Leaders'Statement on October 2, the G7 announced the commitments with a coordinated release through the IEA of 100 million barrels of oil reserves, including diesel.
Germany: The energy tax on motor fuels was reduced by €0.14 per litre (around 20%) in May and June. After standard rates were restored in July, the same tax reduction was reintroduced from October through year-end.
France: A €100 fuel allowance for long-distance drivers was introduced in late May. The scheme was reinstated in October with the income eligibility threshold raised, expanding the number of potential beneficiaries from 3 million to 5.5 million.
Spain: Taxes on gasoline were reduced in March. After the tax cut was gradually scaled back from July, it was increased to €0.2 per litre (around 40%) in October and extended through the end of the year.
United Kingdom: The increase in wholesale energy prices resulting from the conflict in the Middle East was reflected in household electricity and gas bills from July. From October, VAT on domestic electricity was reduced from 5% to 0%.
China: Temporary adjustment measures on domestic retail price caps on fuels such as gasoline (measures to cap prices based on recent fluctuations in international crude oil prices) were resumed on September 11 for the first time in five months (the price increase, which would have been 435 yuan per ton of gasoline, was capped at 260 yuan).

Sources: ＩＭＦ World Economic Outlook(April 2026 and October 2026), announcements by national governments, media reports.
Note: For India, projections are presented on a fiscal year basis.

Topics 6. Resilient U.S. Economy and Rising Household Financial Burdens

- In the U.S., the economy is expanding moderately, driven by domestic demand (Figure 1). At the same time, prices for daily necessities have been rising recently (Figure 2), placing a heavier burden on lower-income households (Figure 3). Consumer sentiment data indicate that confidence among lower-income households has deteriorated in recent years(Figure 4).
- Amid rising long-term interest rates, mortgage rates have also been rising recently (Figure 5), making it increasingly difficult for households to purchase homes (Figure 6).

Figure 1. Real GDP growth rate

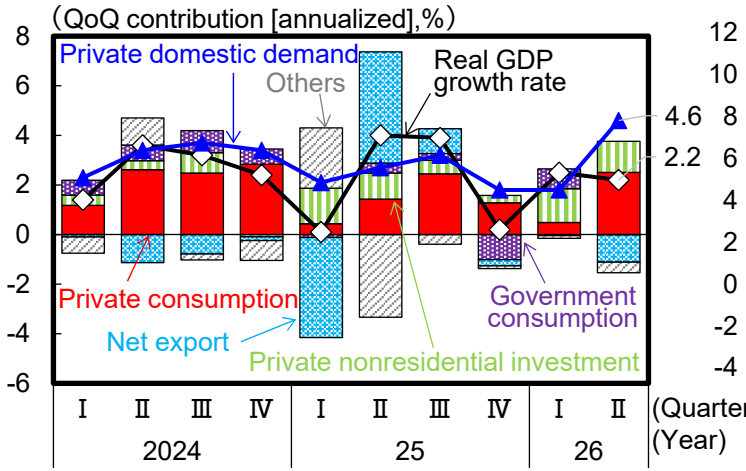


Figure 2. Inflation in the prices of daily necessities

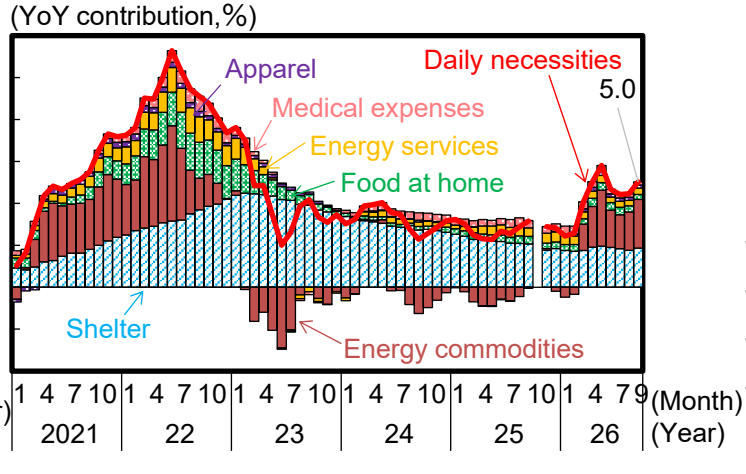


Figure 3. Inflation gaps by income group (difference from average)

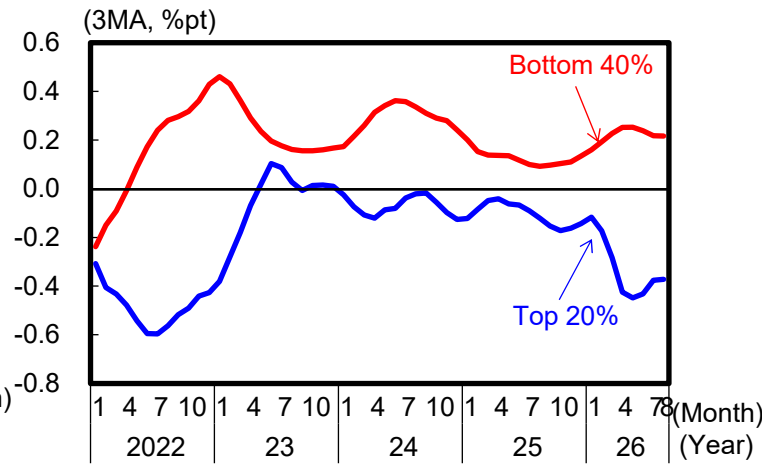


Figure 4. Consumer sentiment (by income tercile)

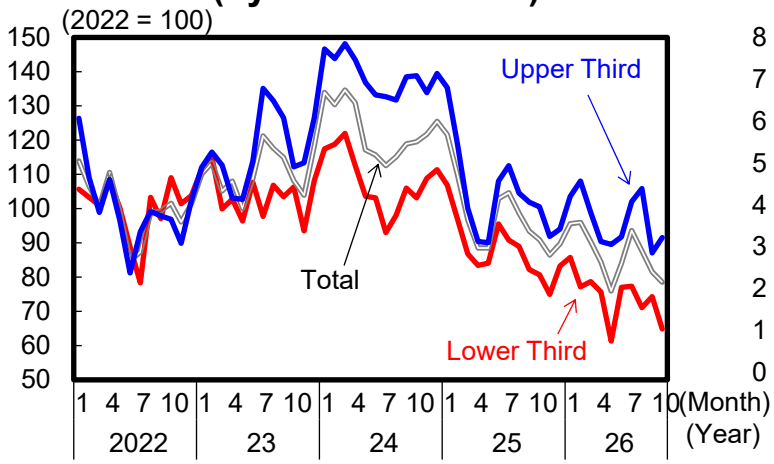


Figure 5. Long-term interest rates and mortgage rates

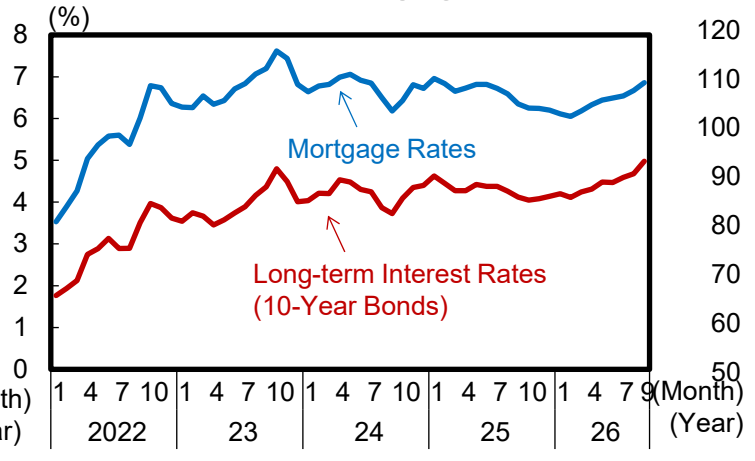
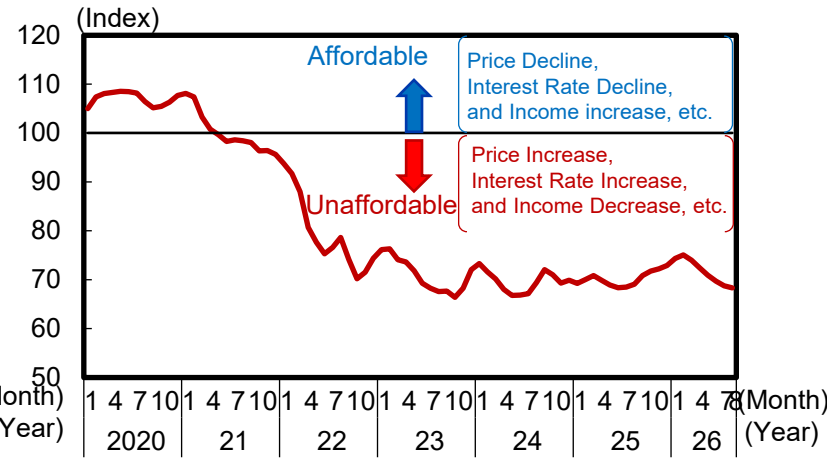


Figure 6. Home ownership affordability



Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Bank of New York, University of Michigan, Bloomberg, Federal Home Loan Mortgage Corporation, Federal Reserve Bank of Atlanta

【Reference】

<Assessment of Individual Components> (Underlined text indicates changes from the previous month.)

	September	October
Private Consumption	Private consumption shows movements of picking up.	Private consumption shows movements of picking up.
Business Investment	Business investment is picking up.	Business investment is picking up.
Housing Construction	Housing construction is flat as a whole.	Housing construction is flat as a whole.
Public Investment	Public investment holds firm.	Public investment holds firm.
Exports	Exports have been showing movements of picking up.	Exports appear to be pausing for picking up recently.
Imports	Imports are almost flat.	Imports are almost flat.
The balance of goods and services	The balance of goods and services is in deficit.	The balance of goods and services is in deficit.
Production	Industrial production shows movements of picking up as a whole.	Industrial production shows movements of picking up as a whole.
Corporate profits	Corporate profits are improving, while attention should be given to the effects caused from the situation in the Middle East.	Corporate profits are improving, while attention should be given to the effects caused from the situation in the Middle East.
Firms' judgment on current business conditions	Firms' judgment on current business conditions has been almost flat. However, their judgement on future business conditions is slightly more cautious. Therefore, attention should be given to the effects of the situation in the Middle East.	Firms' judgment on current business conditions shows movements of improvement as a whole. However, attention should be given continuously to the effects of the situation in the Middle East.
The number of corporate bankruptcies	The number of corporate bankruptcies is almost flat.	The number of corporate bankruptcies is almost flat.
The employment situation	The employment situation shows movements of improvement.	The employment situation shows movements of improvement.
Producer prices	Producer prices have been rising at a slower tempo recently.	Producer prices have been flat recently.
Consumer prices	Consumer prices have been rising moderately.	Consumer prices have been rising recently.