



FPCJ ONLINE PRESS BRIEFING

GLOBAL ECONOMIC AND FINANCIAL TRENDS AND JAPAN IN 2025

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Today's Briefing

Part 1

- Global Economic and Financial Situation: Reviewing the Past Year and Outlook for This Year

Part 2

- Japanese Economic and Financial Trends

Part 3

- US Economic and Financial Trends

PART 1

GLOBAL ECONOMIC AND FINANCIAL SITUATION

**—REVIEWING THE PAST
YEAR AND OUTLOOK FOR
THIS YEAR**

Looking Back at the 2024 Global Economy

US

- Good economic growth (growth rate of 2.5% or more)
- Stock prices highest ever with AI boom, others declined
- Continued high commodity prices, growing inequality with rising asset value

Europe

- German economic recession (EU growth rate around 0.8%)
- Growing political instability in Germany and France
- Dissatisfaction with fiscal austerity measures and high commodity prices

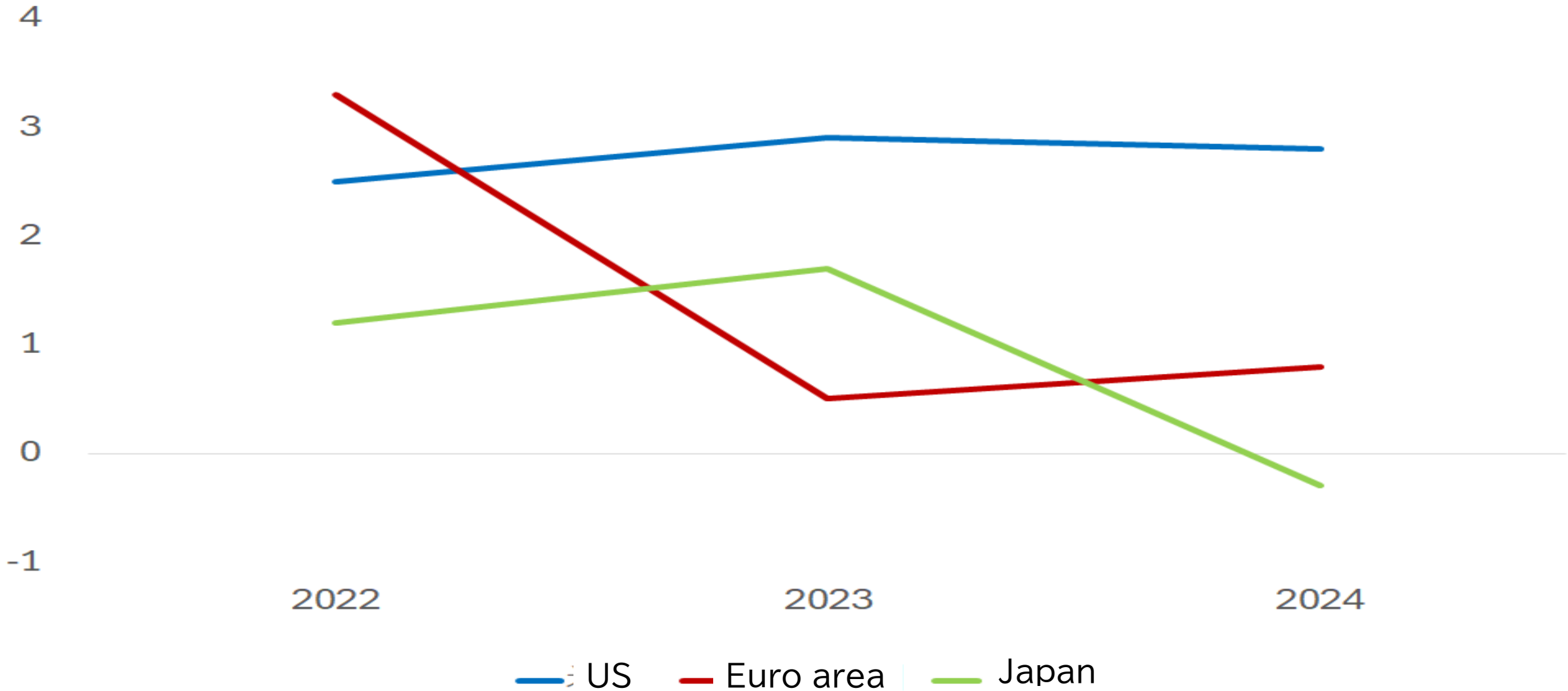
China

- Decreased economic growth (growth rate of around 4.9%)
- Continued slump in real estate sector, high youth unemployment rate (17%)
- Low inflation of near 0%. Internationally criticized for exporting deflation

Japan

- Slow economy, weak consumption (calendar year growth rate expected to be slightly minus)
- Trade deficit with extended weak yen, stock prices hit highest level in July.

Real GDP Growth Rate (%)



Japan, US, and Europe in 2024

Low unemployment rate

*Developed countries have labor shortages

Weak manufacturing industry

*Wage growth rate: Europe (5%), US (4%), Japan (3%)

*Geopolitics, rebuilding supply chains

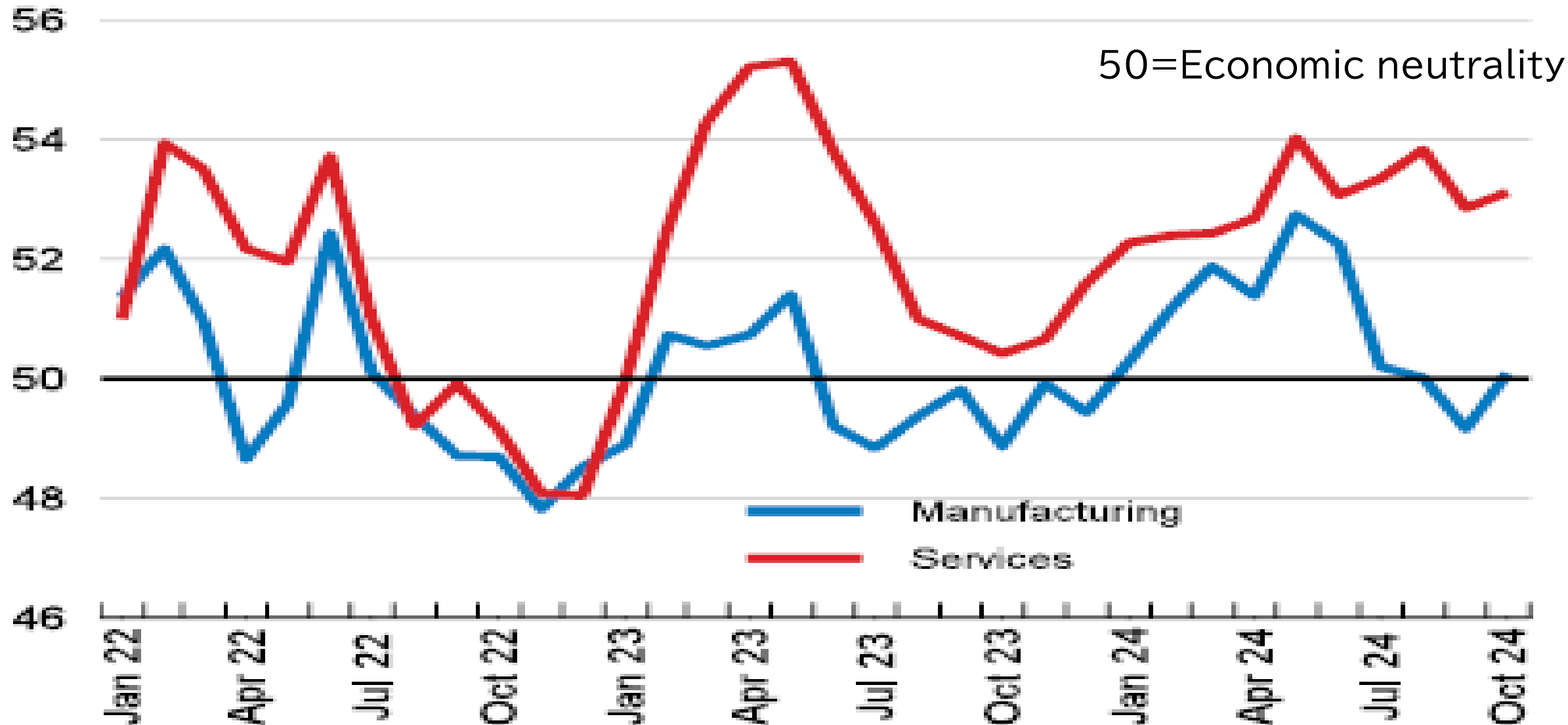
Strong service industry

*Strong employment, improved wages

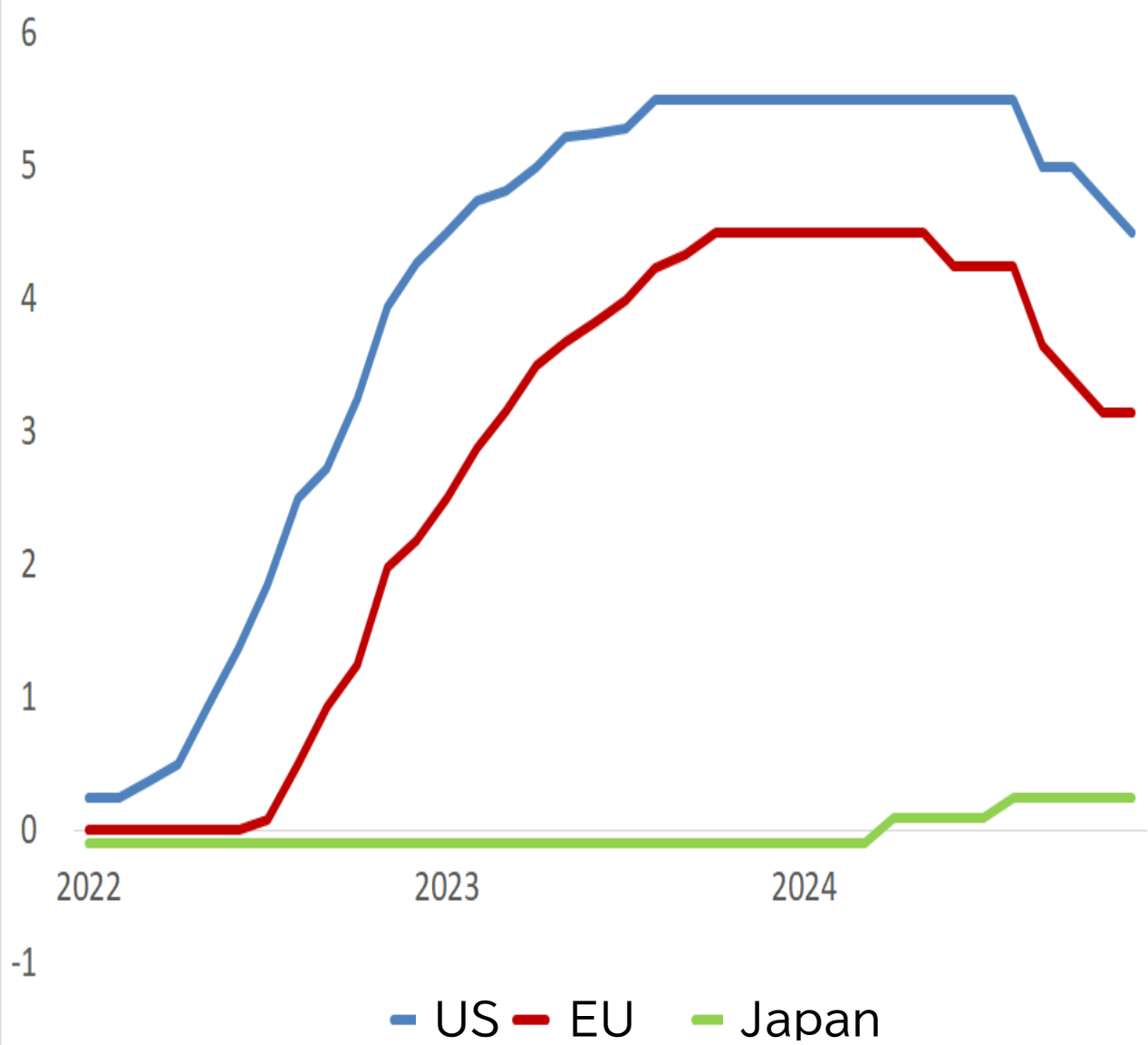
Decreased inflation rate

*Decreased cost of energy and food

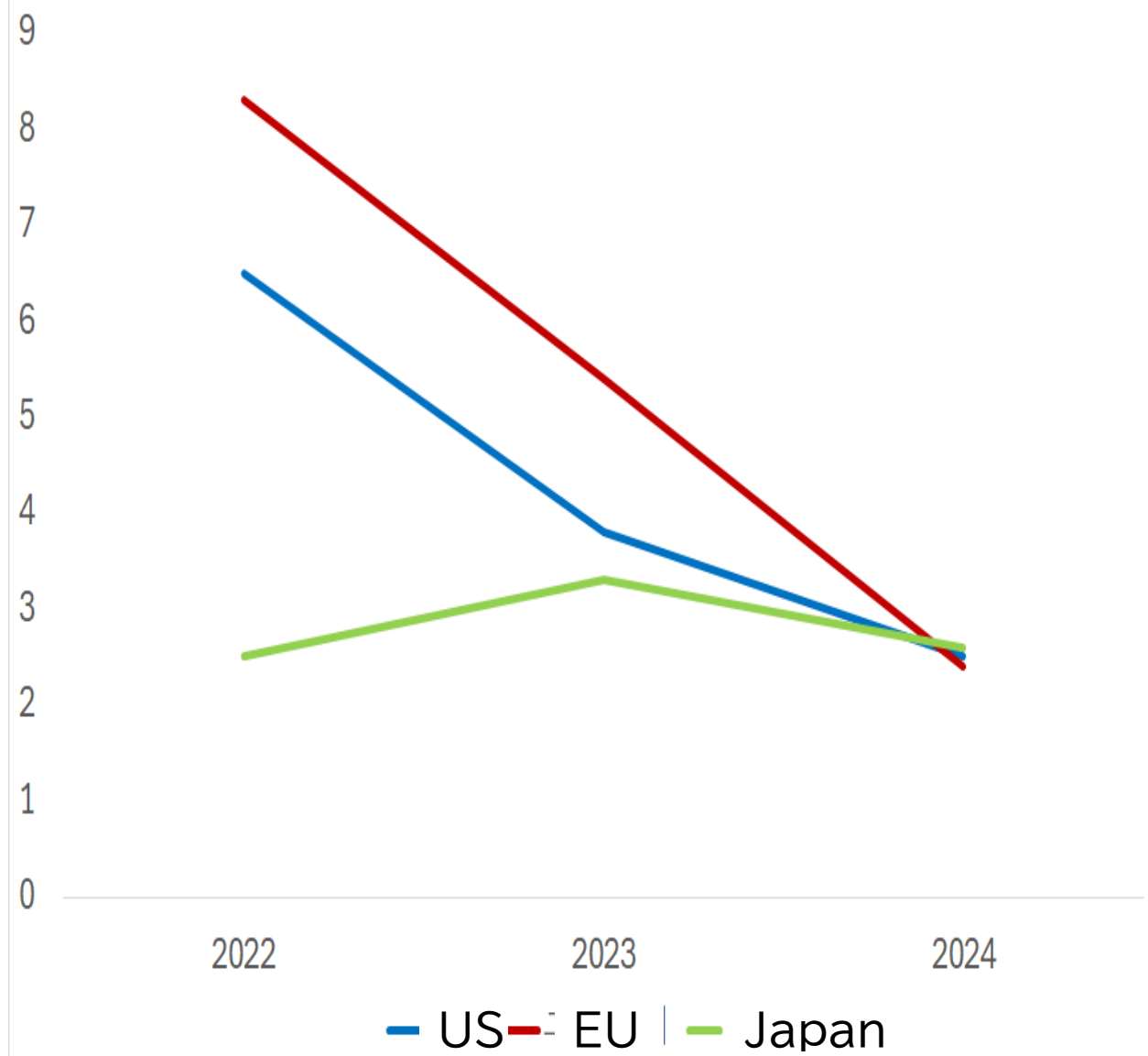
Global Purchasing Managers' Index (PMI)



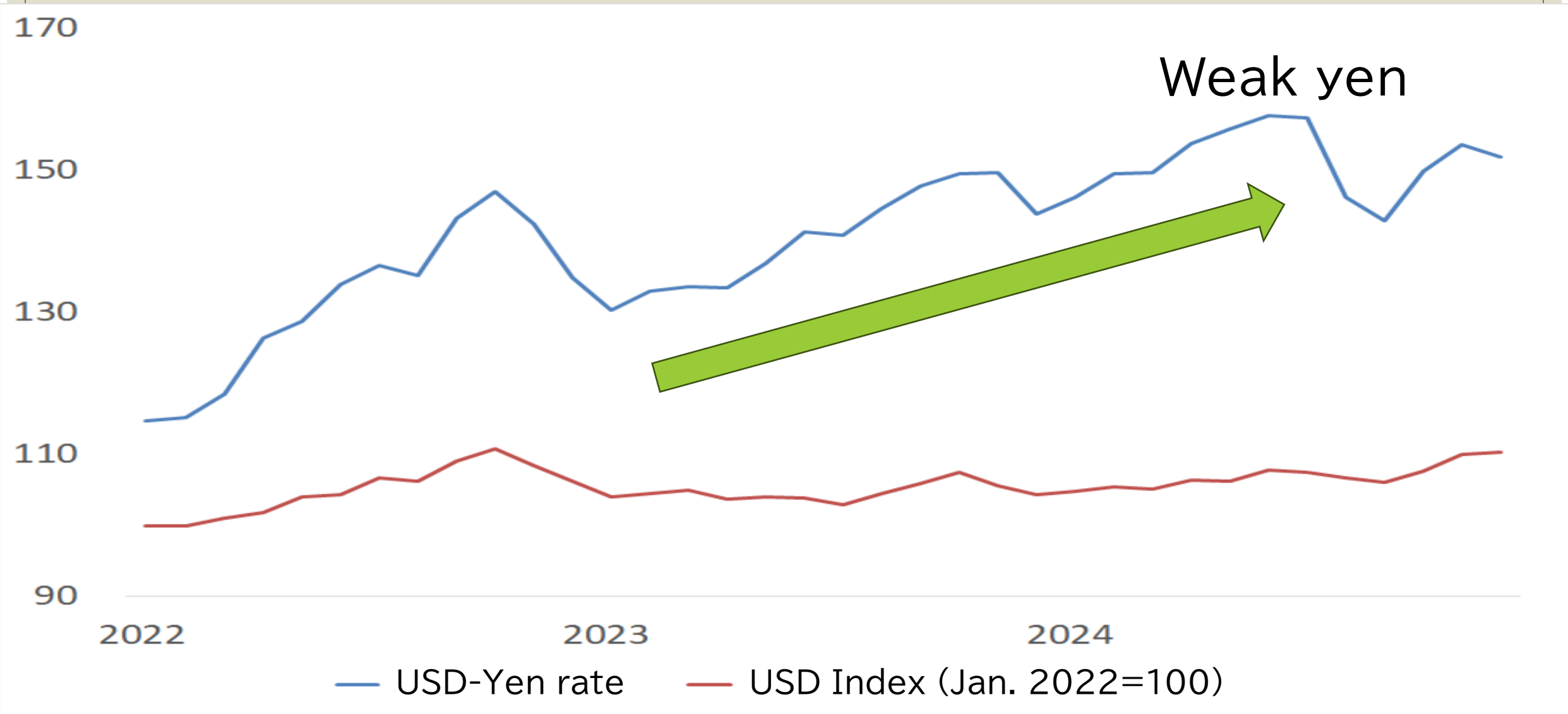
Japan, US, EU Policy Interest Rates (%)



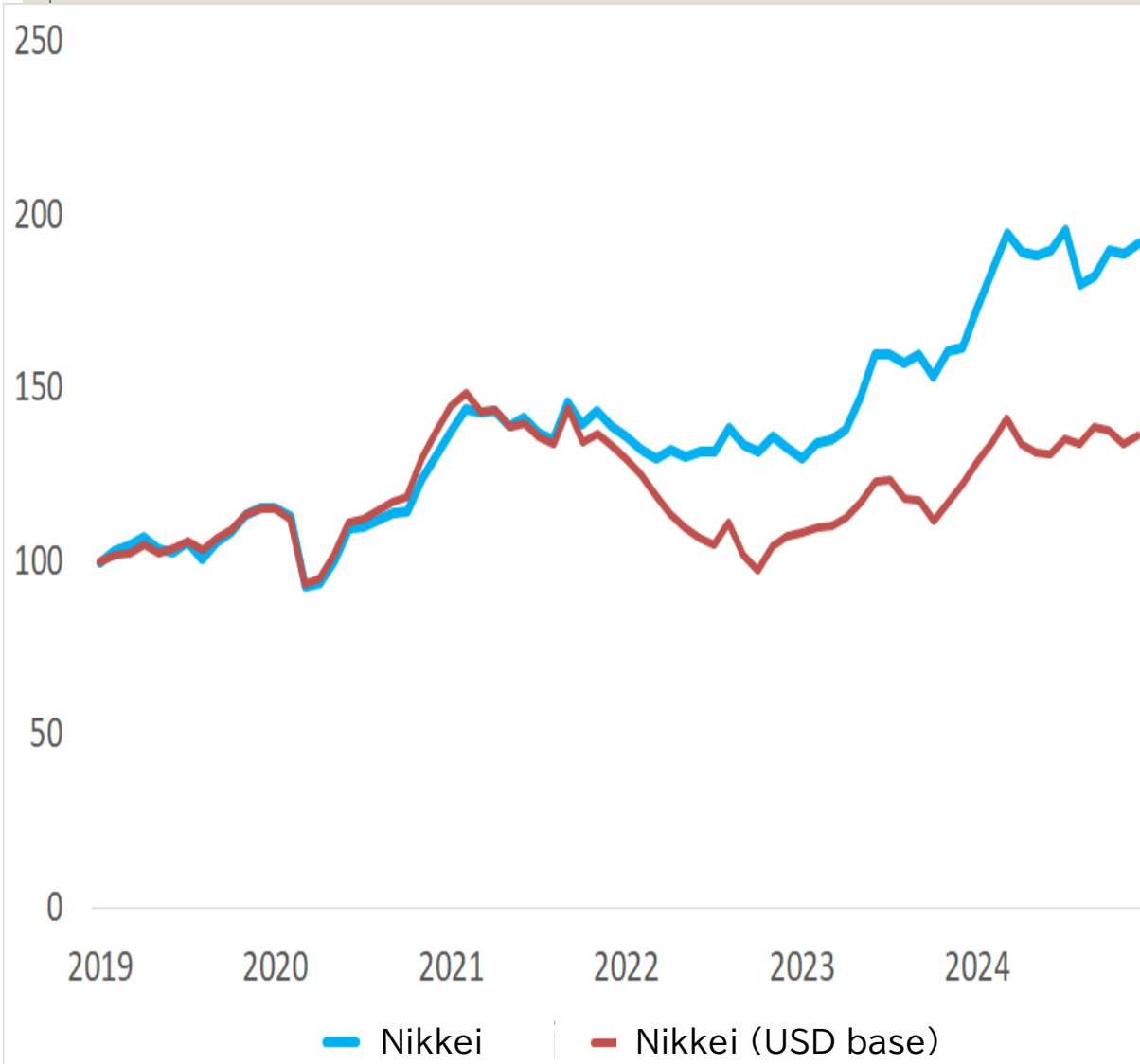
Inflation Rates (%)



Yen-USD Rate and USD Index



Japan and US Stock Prices (January 2019=100)



Outlook for the 2025 Global Economy

US

- Economic growth rate of 2% to 3%
- Continued momentum for high tech companies. Stock prices will rise (risk of decline)
- Inflation pressure will limit rate cuts (twice or less)

Europe

- EU growth rate will improve (1% to 1.5%) with rate cuts
- Results of German and French elections, increased tensions within EU

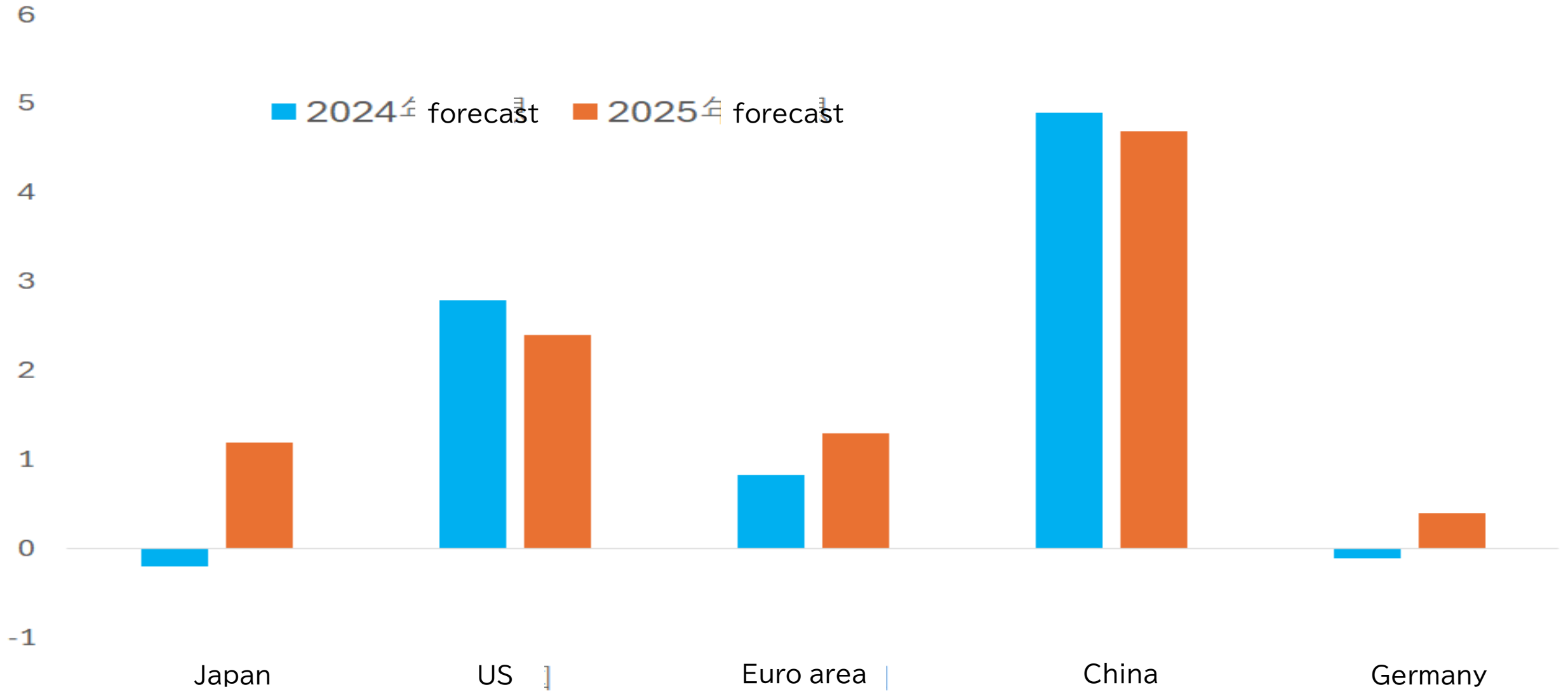
China

- More intense US-China conflict, growth rate dropping to around 4.5% (if no major fiscal or financial policy is implemented)

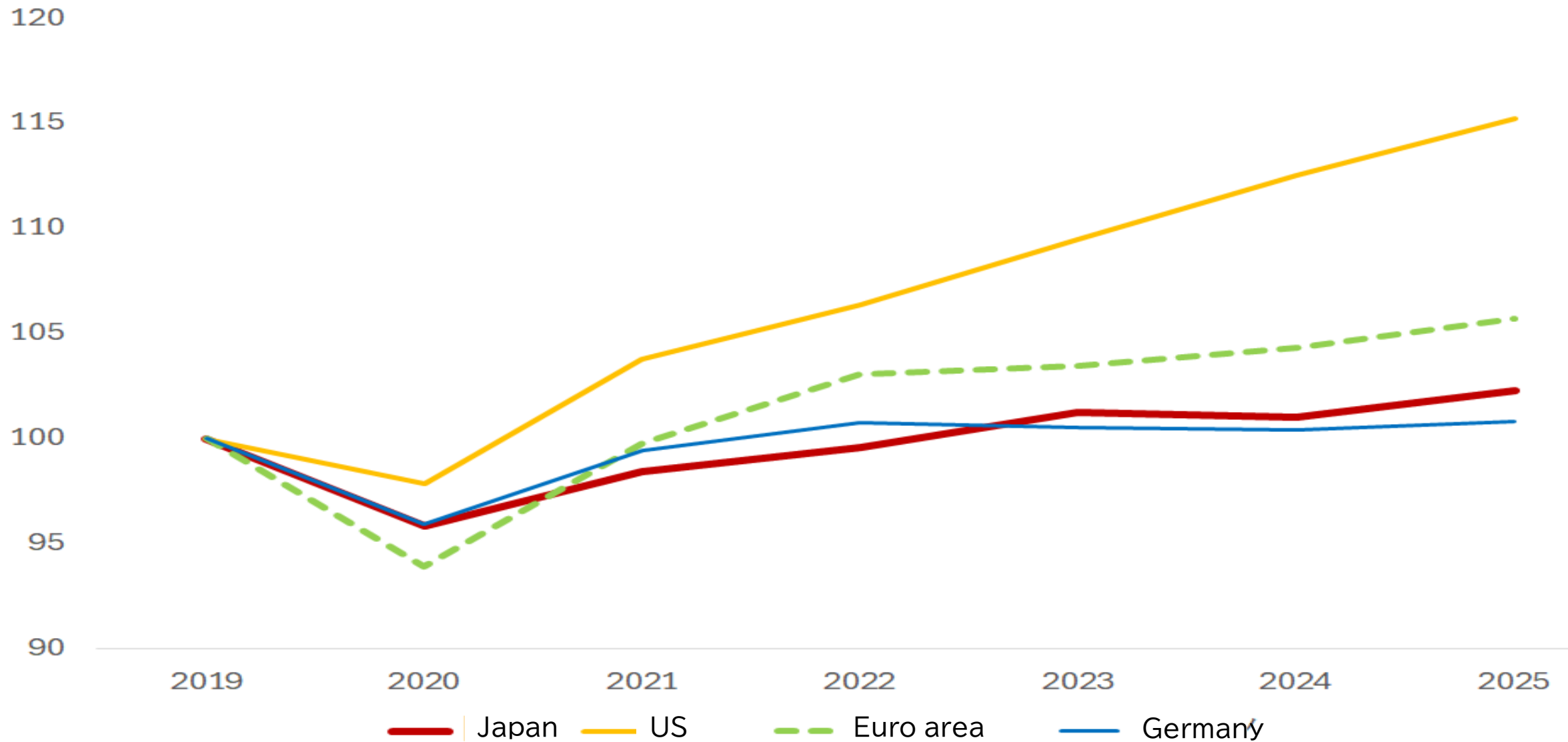
Japan

- Economic growth of over 1% (low growth if increased pressure from US)
- Very weak yen will continue, long-term interest rates rising trend. Expanded range of fluctuation.

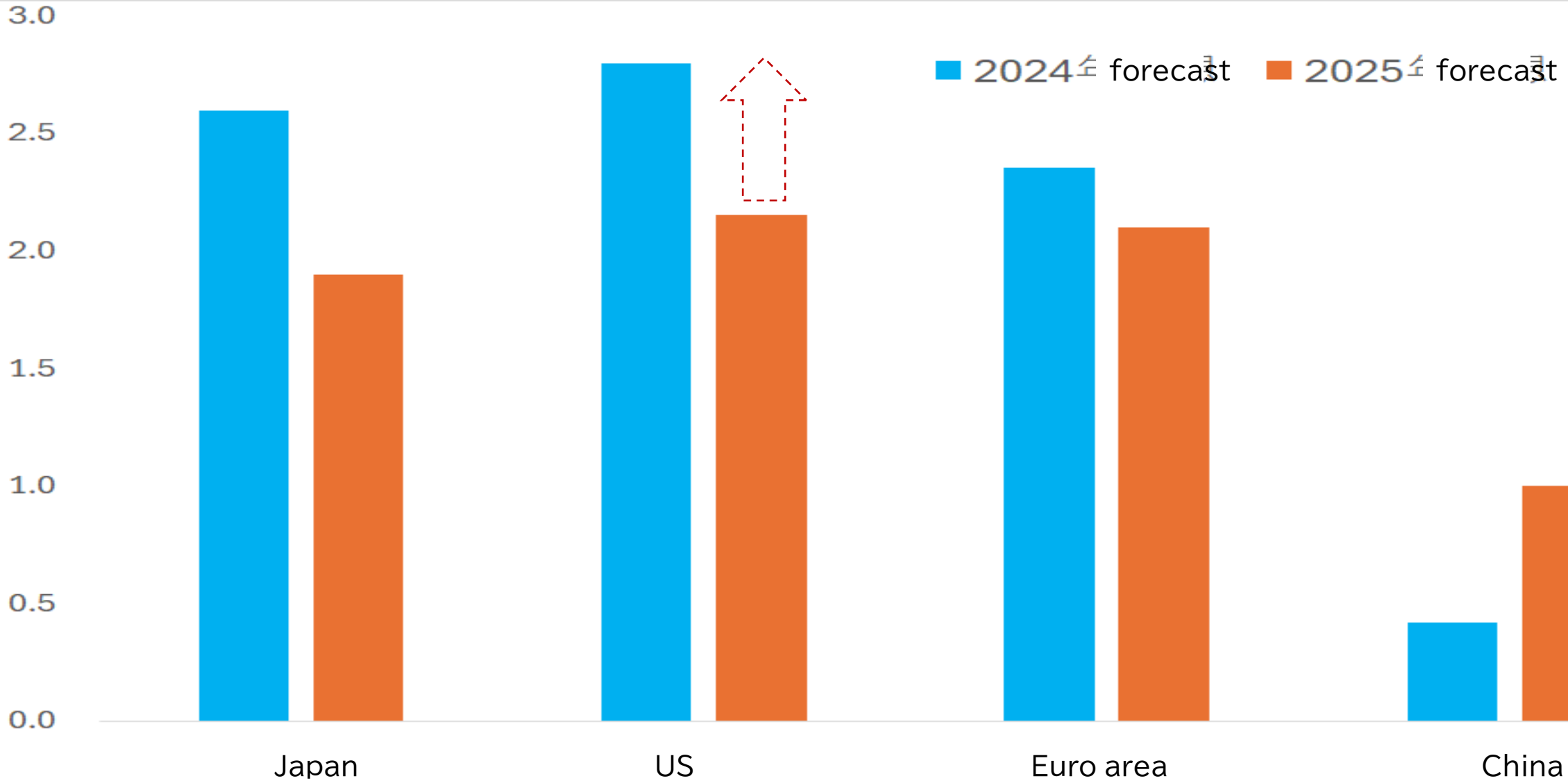
2025 Outlook for Real GDP Growth Rate (%)



Real GDP Levels (2019=100)



2025 Outlook for Inflation Rate (%)



PART 2

JAPANESE ECONOMIC AND FINANCIAL TRENDS

**—IS AN ESCAPE FROM COST-PUSH
INFLATION POSSIBLE?**

Looking Back at the 2024 Japanese Economy

Low growth rate
(2024)

- 0% or slightly minus growth (calendar year)
- Finally surpassed the level of Q1 2019

Inflation of over
2% becoming
long term

- Cost-push inflation (April 2022–Over 2%)
- Virtuous cycle between wages and prices not happening yet

Nominal wages
3%

- Real wages around 0%.
- Low growth in productivity, lagging behind in digitalization

Long-term weak yen

- Very weak yen far from purchasing power parity
- Impact of fiscal policy differences and productivity inequality

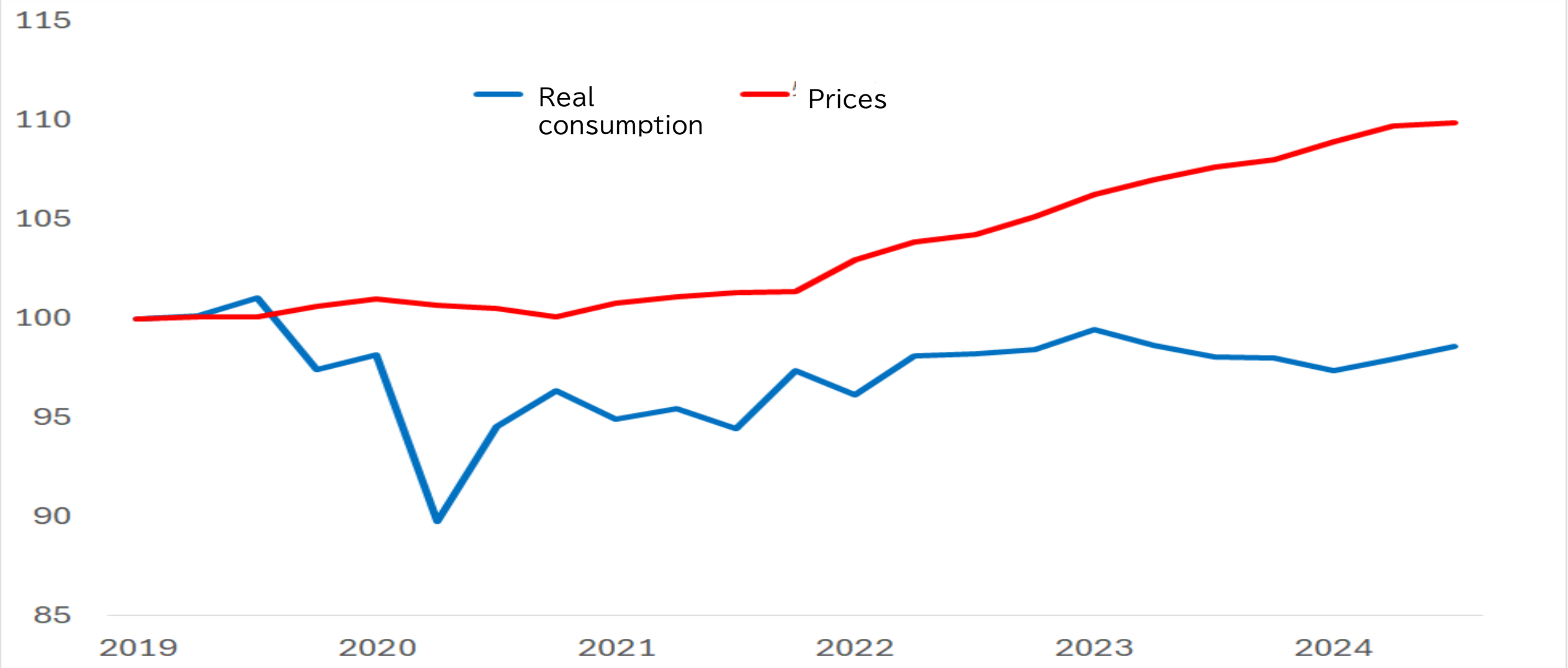
Long-term interest rates around 1%

- Downward pressure from government bonds held by Bank of Japan (1%)
- Low potential growth and long-term inflation predicted (over 1%)

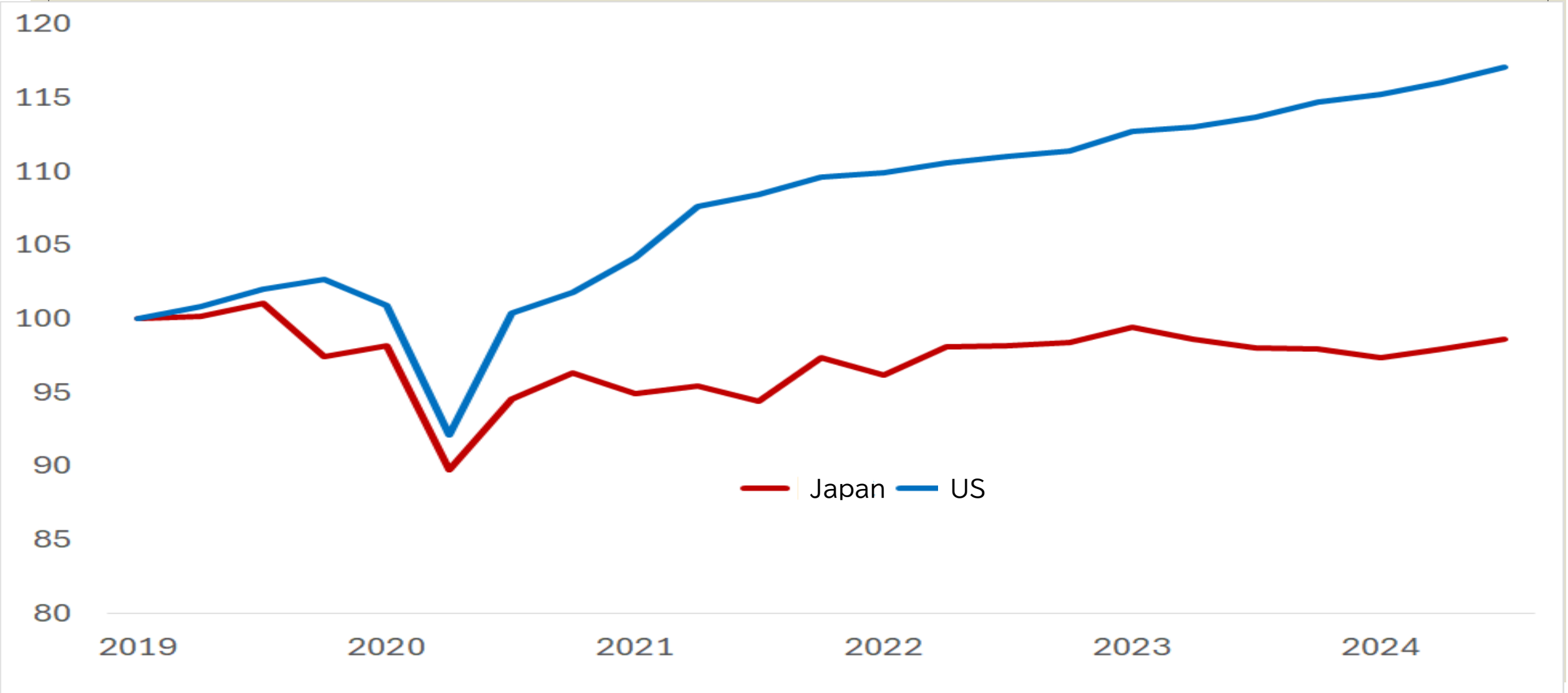
Stock prices rose

- Stock prices grew up until July, stagnant afterwards (weak yen, stock buybacks, foreign investors), around 40,000 yen at year end
- More transactions by individual investors from summer onwards

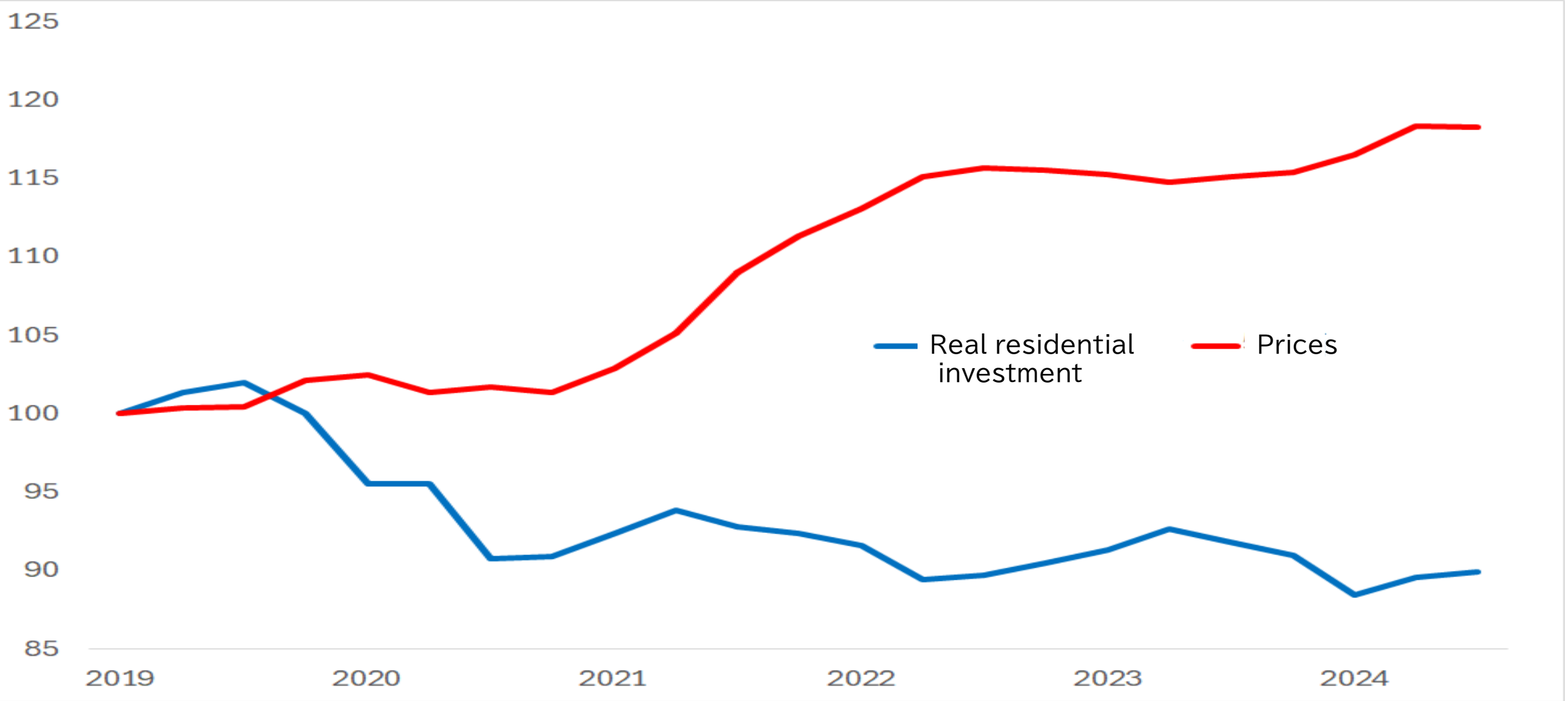
Consumption in the Face of Cost-push Inflation



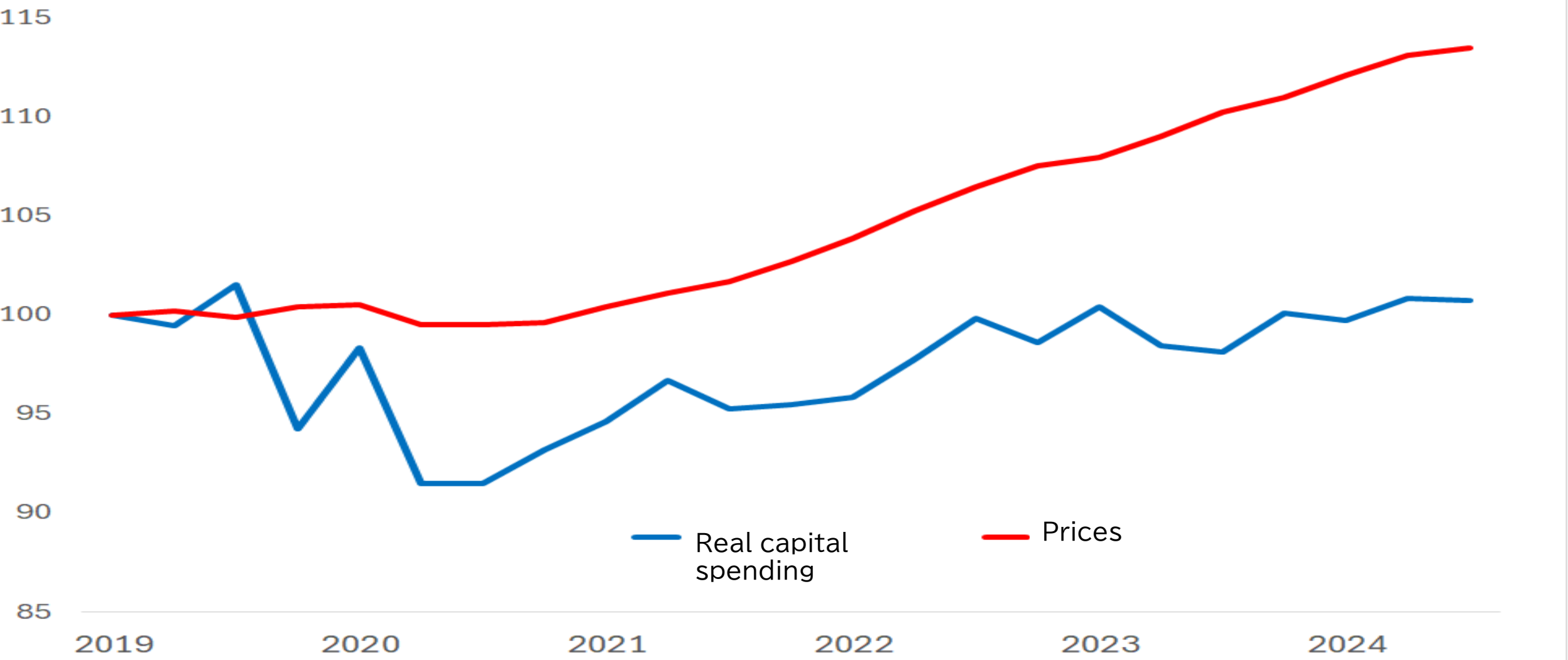
Japan-US Real Consumption Levels (Jan. to Mar. 2019=100)



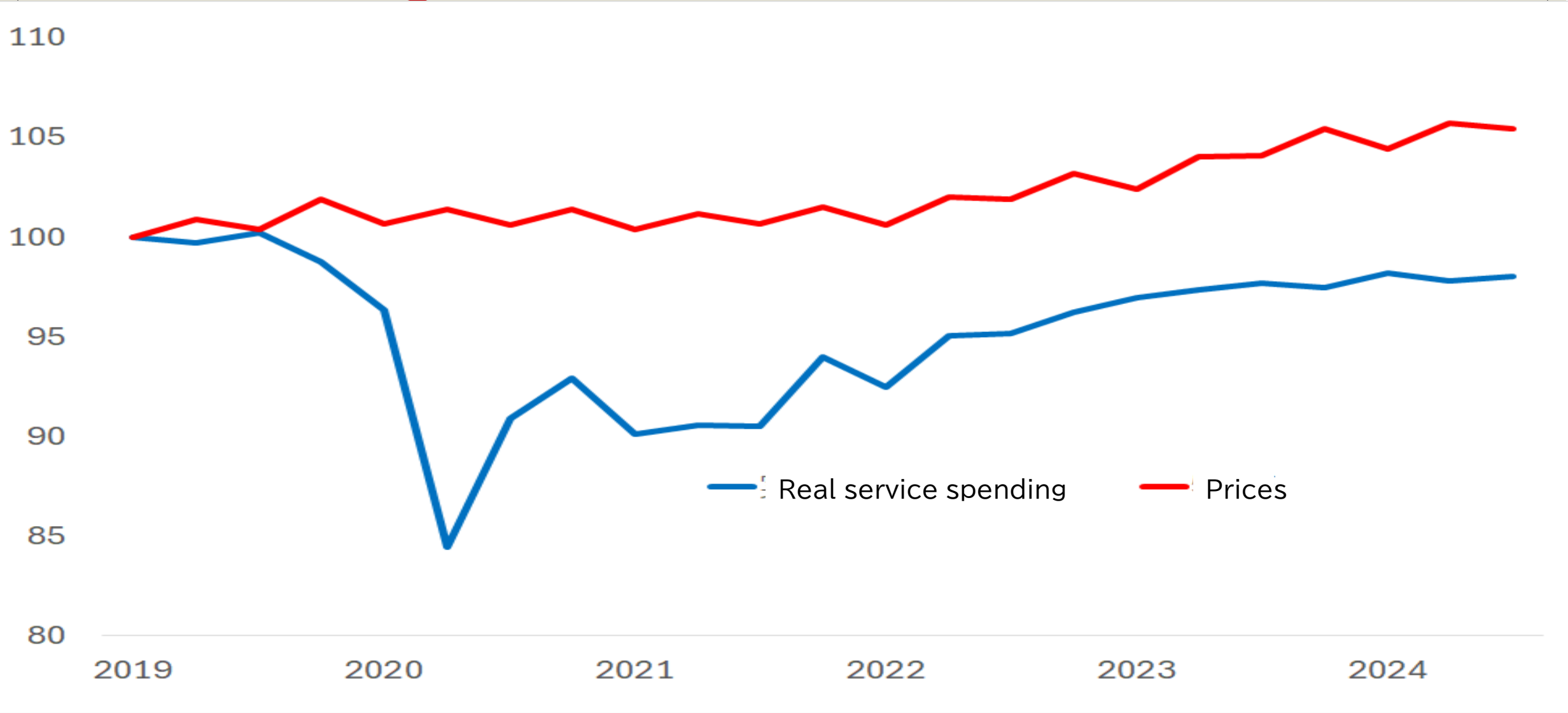
Large Price Increase in Residential Investment as Real Demand Decreases



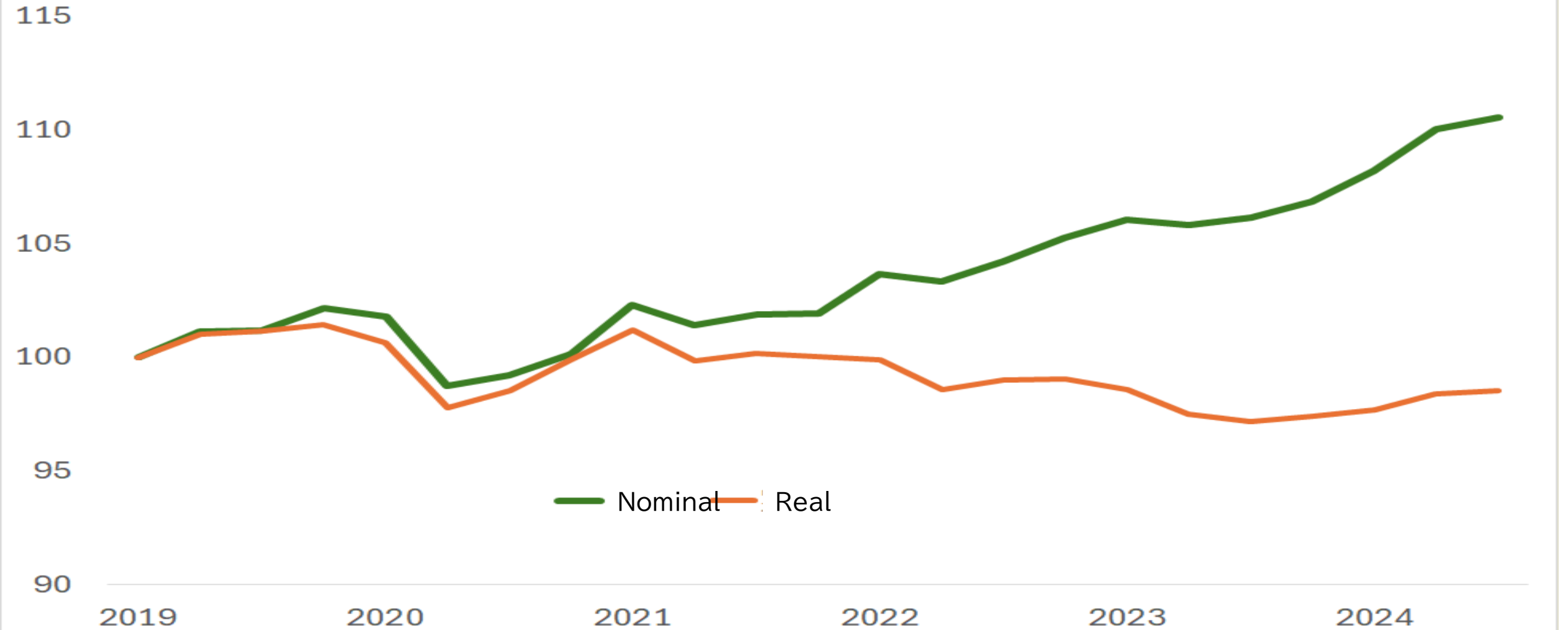
Gradual Increase in Capital Investment, Limited Capital Stock Accumulation



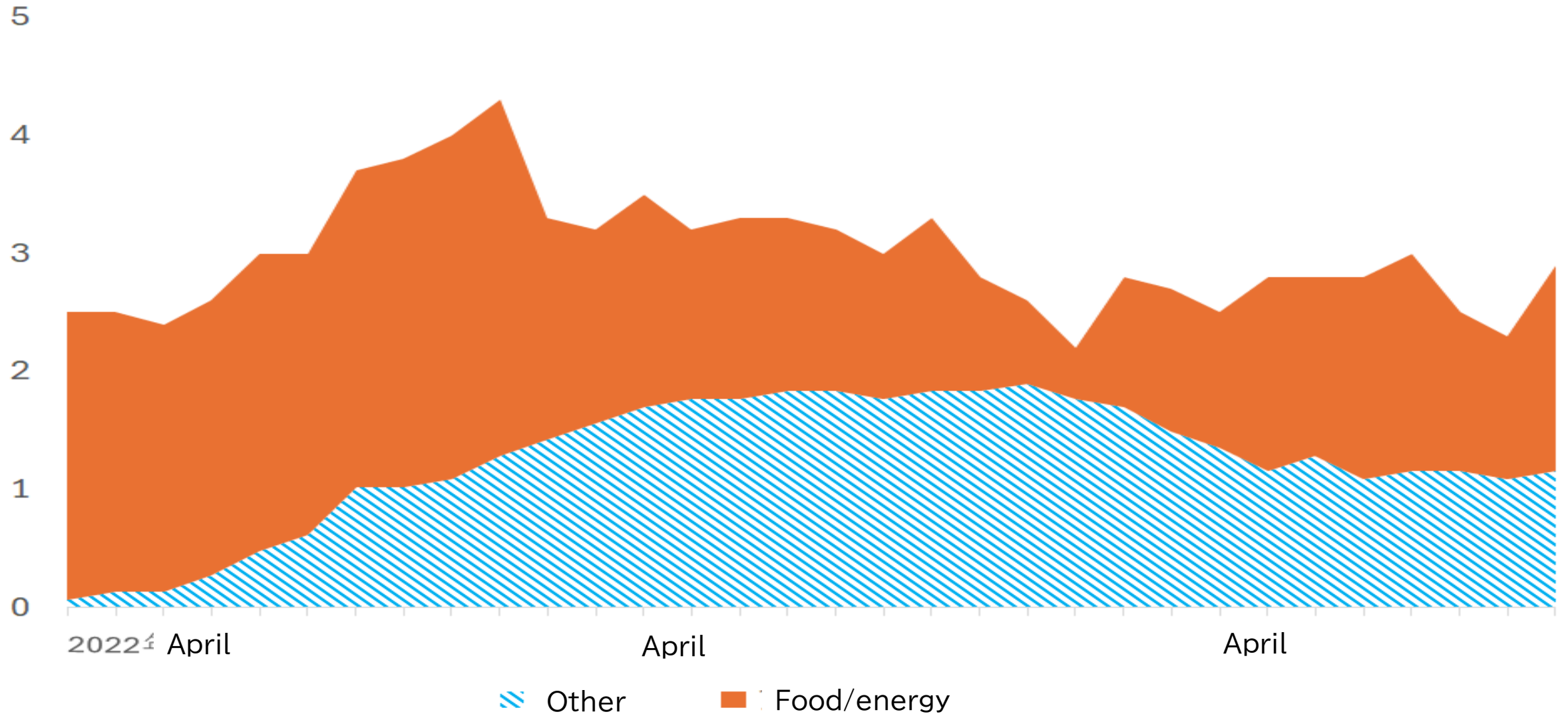
Increased Service Spending Is Key to Reaching 2% Inflation



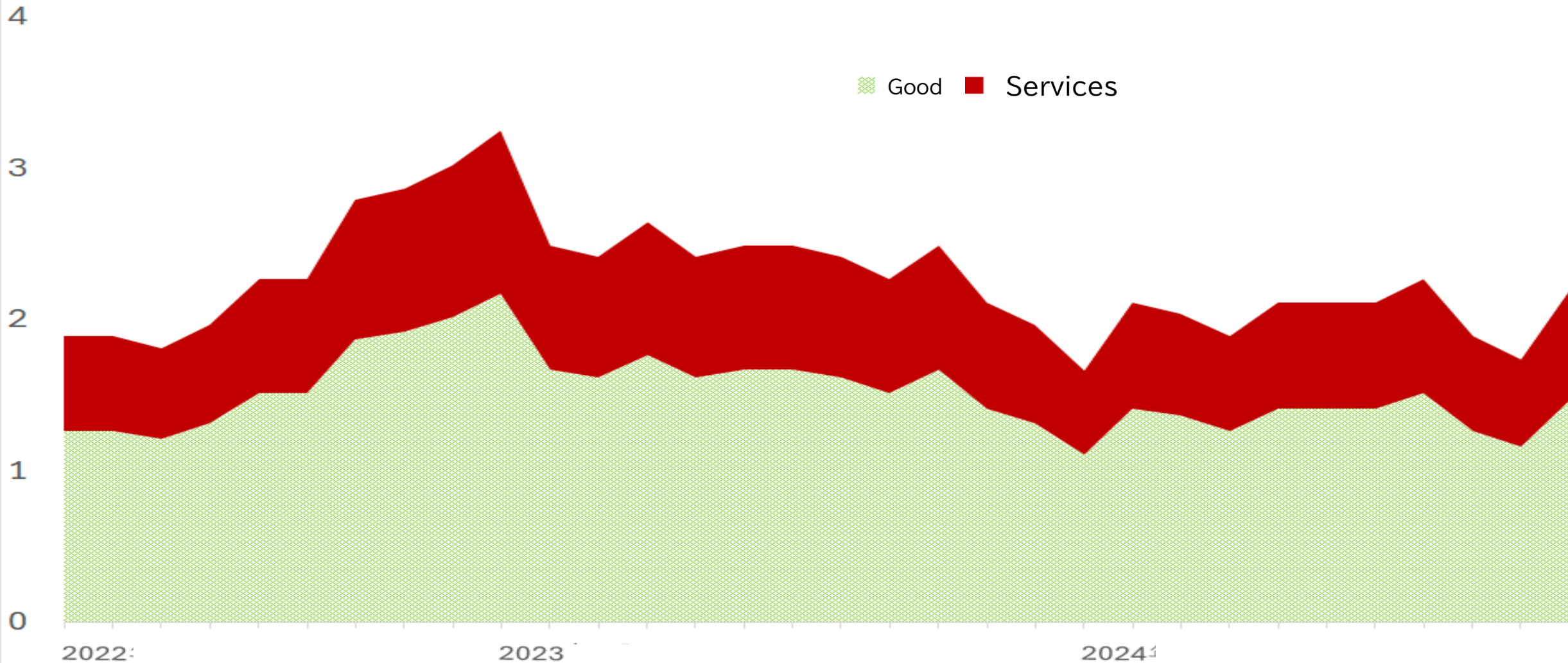
Worker Compensation (Jan. to Feb. 2019=100)



Inflation Is Centered Around Food and Energy



Service Inflation Is Limited



Meaning of the Virtuous Cycle Between Wages and Prices Sought by the BoJ

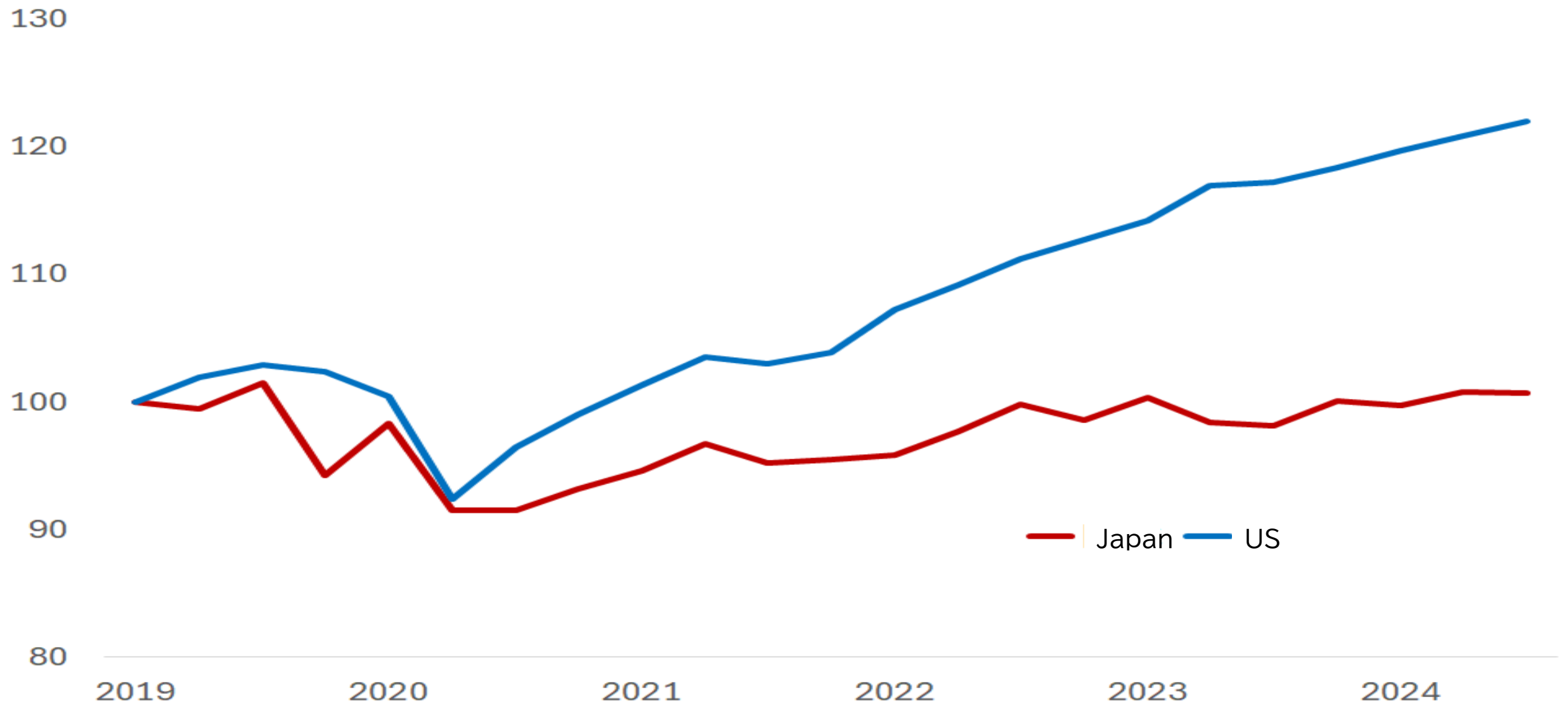
Wage increases due to a labor shortage is cost-push. Downward pressure on corporate profits

Improved labor efficiency is necessary to ensure corporate profits

If labor efficiency is improved, the increased wages will not be passed on to selling prices

Should the Bank of Japan not look at the strength of consumption and domestic demand if they want to achieve a stable 2%?

Japan-US Capital Investment Levels (Jan. to Mar. 2019=100)



Outlook for the 2025 Japanese Economy

Economic growth rate of over 1%

- Growth rate of over 1% expected due to recover from last year's weak growth

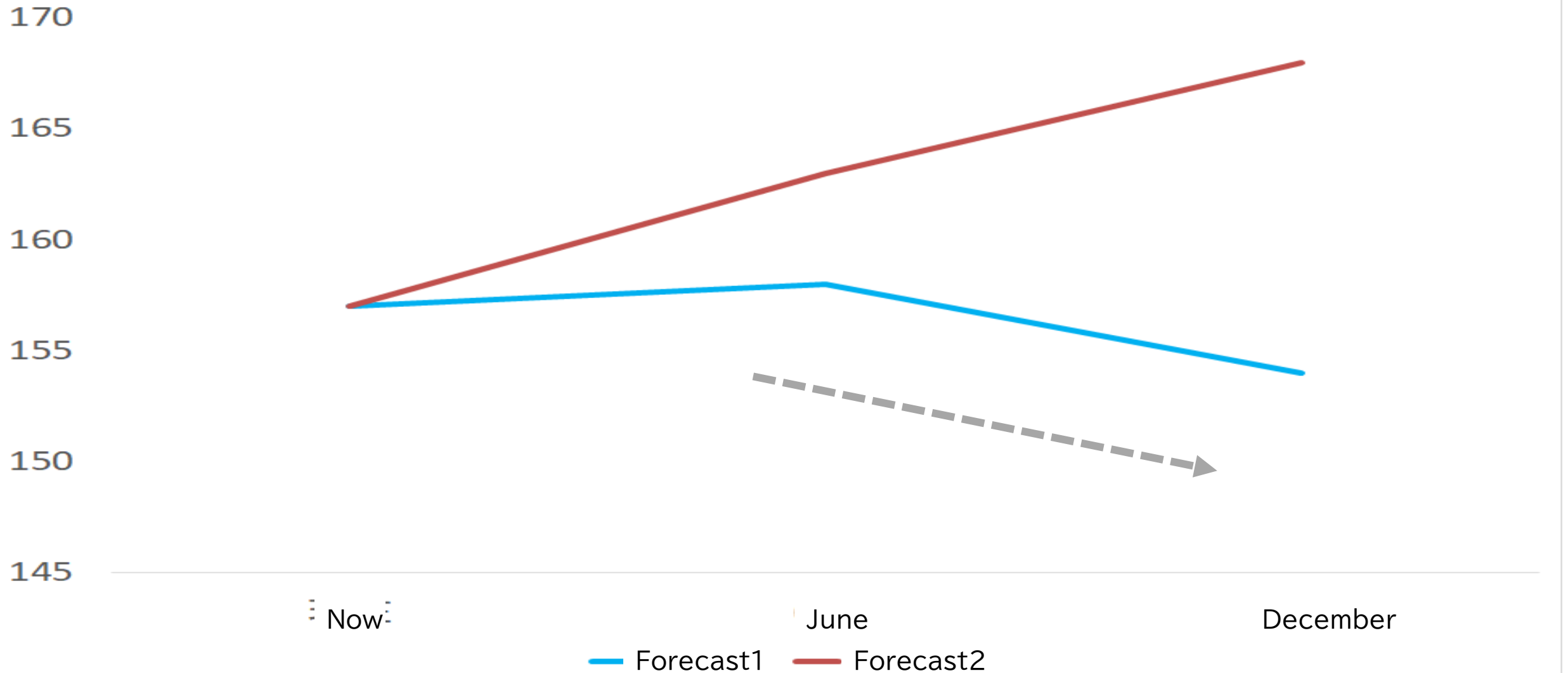
Decreased inflation rate of around 2%

- Cost-push inflation will slow down to some degree
- Virtuous cycle between wages and prices is limited

Nominal wages 3%

- Real wages slightly up with the decline in inflation

Exchange Rate Fluctuations Will Become More Extreme



PART 3

US ECONOMIC AND FINANCIAL SITUATION

**—THE US BECOMING
CONSERVATIVE AND
ISOLATED**

Why Is the US Strong?

Technology

- Nvidia (Magnificent 7)
- No. 1 in world for inward direct investment, skilled foreign workers

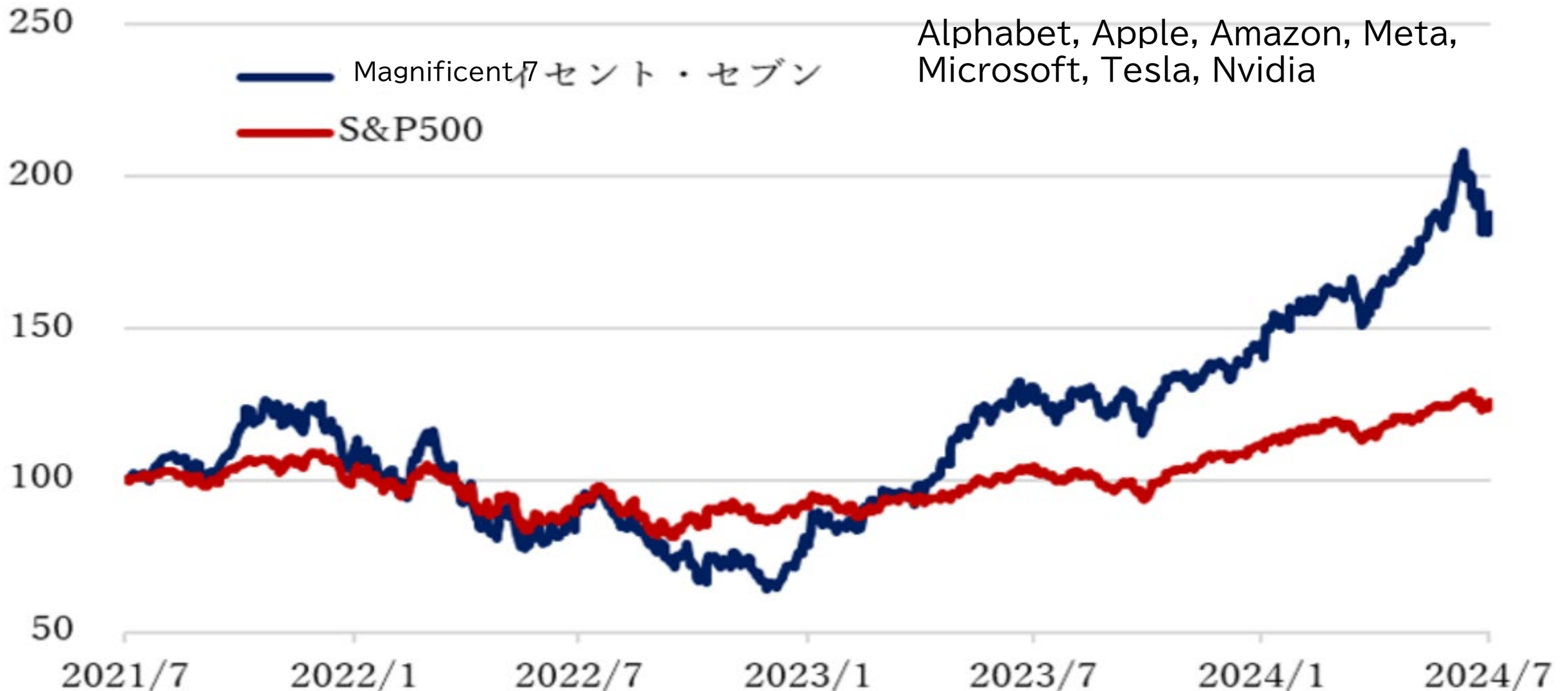
Natural Gas and Oil

- World's top natural gas producer and exporter with the shale revolution

Military Industry

- Highest defense spending in the world (3.4% of GDP)
- Highly competitive military industry

Tech Companies and Rising Stock Prices



Alphabet, Apple, Amazon, Meta, Microsoft, Tesla, Nvidia

Magnificent 7
セント・セブン
S&P500

Trump 2.0: Short Term (1-2 Years) Inflation and Economic Expansion

Increasing Tariffs

- 10-20% on all imports, 60% on China
- Already announced 20% for Canada and Mexico (drugs, illegal immigrants, to use in negotiations) and 10% for China. Being negotiated
- Warned that if the EU does not increase imports of US energy, will raise tariffs

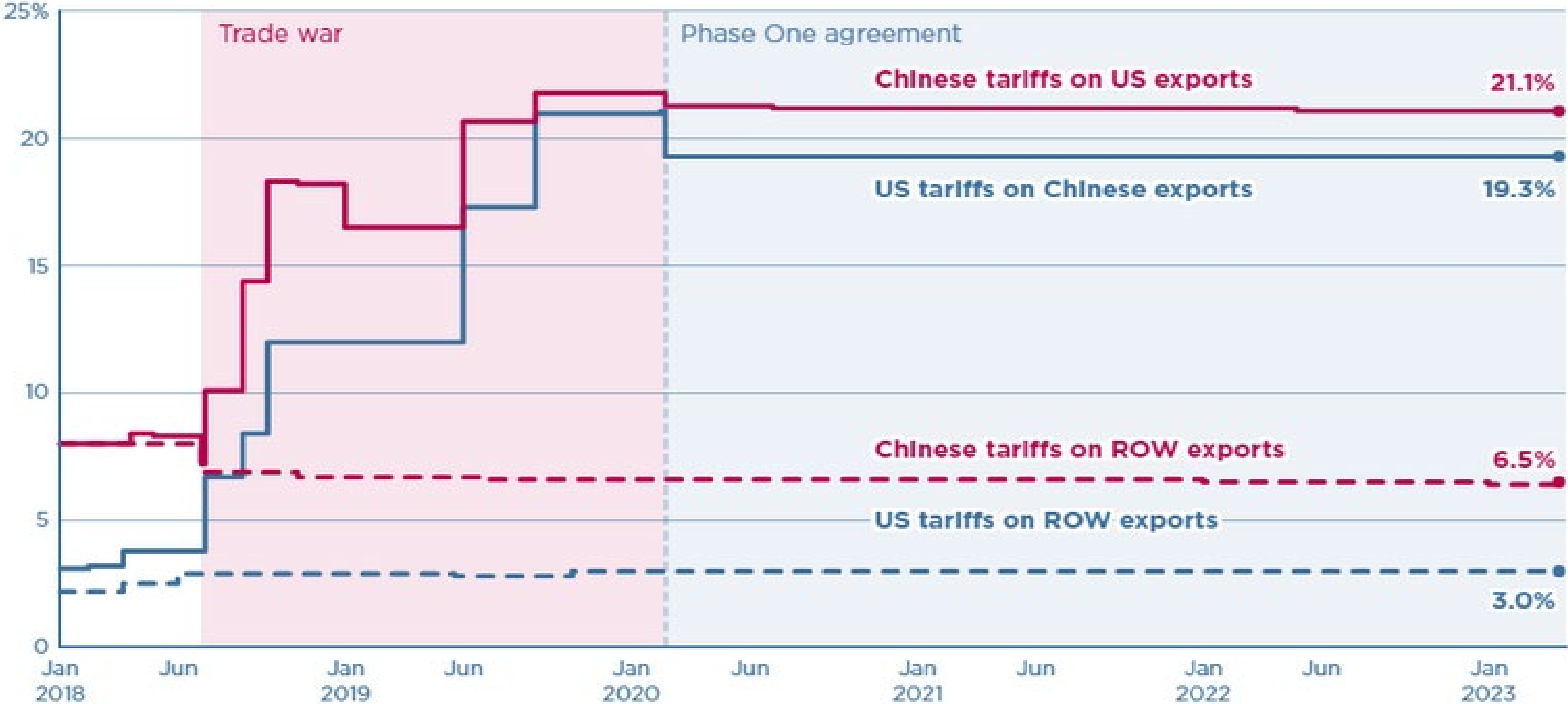
Extend and Expand Tax Cuts

- Continuation of 2017 major tax cuts
- Corporate tax rate for US manufacturers: from 21% to 15%
- Income tax (Max of 37.5%): Extension of expiration at end of 2025

Deportation of Illegal Immigrants

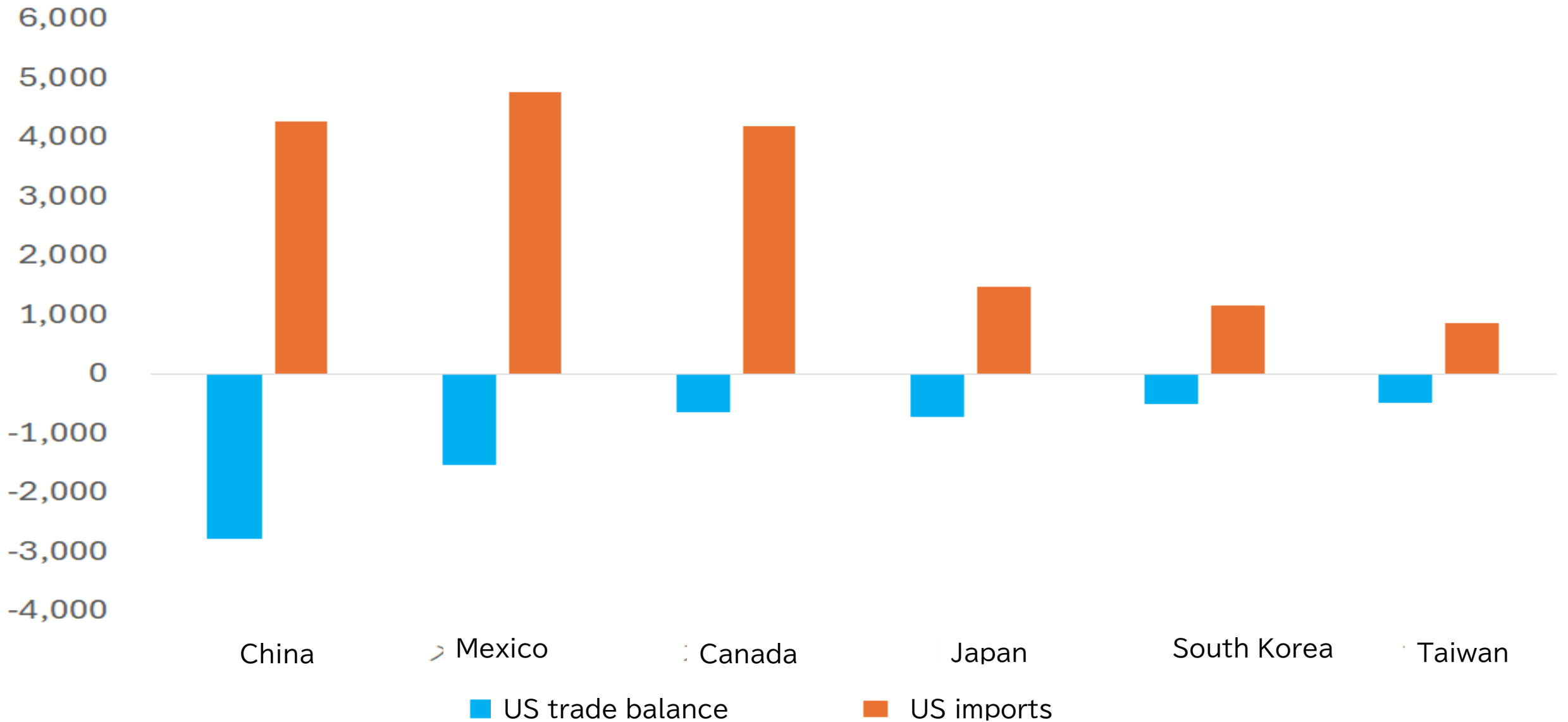
- Estimated 11 million
- At the same time as labor shortage and wage growth rate (4%)

US and China Tariffs (%)



Source: PIIF

US Balance of Trade and Imports (100 million USD)



US Short-term Influence on Finance and Capital Markets

Rising long-term interest rates

Economic expansion

Inflation pressure

Lowered pace of Federal Reserve lowering interest rates

Growing fiscal deficit

Overall strong USD

Increased interest rate differential

US advantages (size of economy, tech companies, size of finance market, gas/oil, military)

Improved productivity

High stock prices

Improved earnings

Stock buybacks

Outlook for the 2025 US Economy

Economic growth rate of 2% to 3%

- Continued economic growth with tax cut extension and expansion

Inflation rate will stay above 2%

- Inflation rate (November: CPI 12.9%, PCE 2.4%) will decrease but stay above 2%.
- Risk of higher inflation with increased tariffs and stronger economy

Improved real wages

- With full employment (unemployment 4.2%, wage growth rate 4%), labor shortages will become more severe with stronger economy and restricted immigration
- Real wages will grow further up with the decline in inflation

Negative Impacts on US Economy in the Long Term

1. Inflation pressure will make life more difficult for people in the US with low and middle incomes

- Commodity prices have already gone up a total of 20% since 2021 (under 9% in Japan)

2. In the case of mass deportations of illegal immigrants, the labor shortage will become even more severe. A blow to individually owned and small businesses.

- With even higher wage growth rate, inflation will increase. The Federal Reserve will raise interest rates
- The USD will become even stronger

3. Global trend to reduce reliance on the US as it pushes extreme nationalist policies

- Opposition with the West. Increased cooperation between emerging and developing countries

Reference Materials

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