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Abstract

Amid heightened global economic uncertainty, persistent domestic structural imbalances, and escalating geopolitical risks, Japan's economy in 2024 showed signs of a sluggish recovery and decelerating growth. Real GDP growth is projected to range between 0.3 percent and 0.9 percent, constrained by weak domestic demand, a sustained decline in real wages, and diminished corporate investment confidence. Although nominal wages have risen following spring labor-management negotiations, high inflation has led to 26 consecutive months of negative real wage growth, severely dampening consumer demand. The depreciation of the yen has temporarily boosted exports but has also increased import costs, widened the trade deficit and intensified inflationary pressures. Financial markets have experienced significant volatility, with sharp fluctuations in the Nikkei 225 Index, while Japan’s high dependence on energy imports exacerbates economic vulnerabilities amid energy price fluctuations and geopolitical tensions. Structural reforms, domestic demand stimulation, trade diversification, and energy security strategies are identified as critical pathways for Japan’s long-term sustainable economic growth.

Keywords: Japan's Economy, GDP Growth, Real Wages, Inflation, International Trade, Yen Depreciation, Stock Market Volatility, Energy Dependence, Weak Domestic Demand, Structural Reforms.

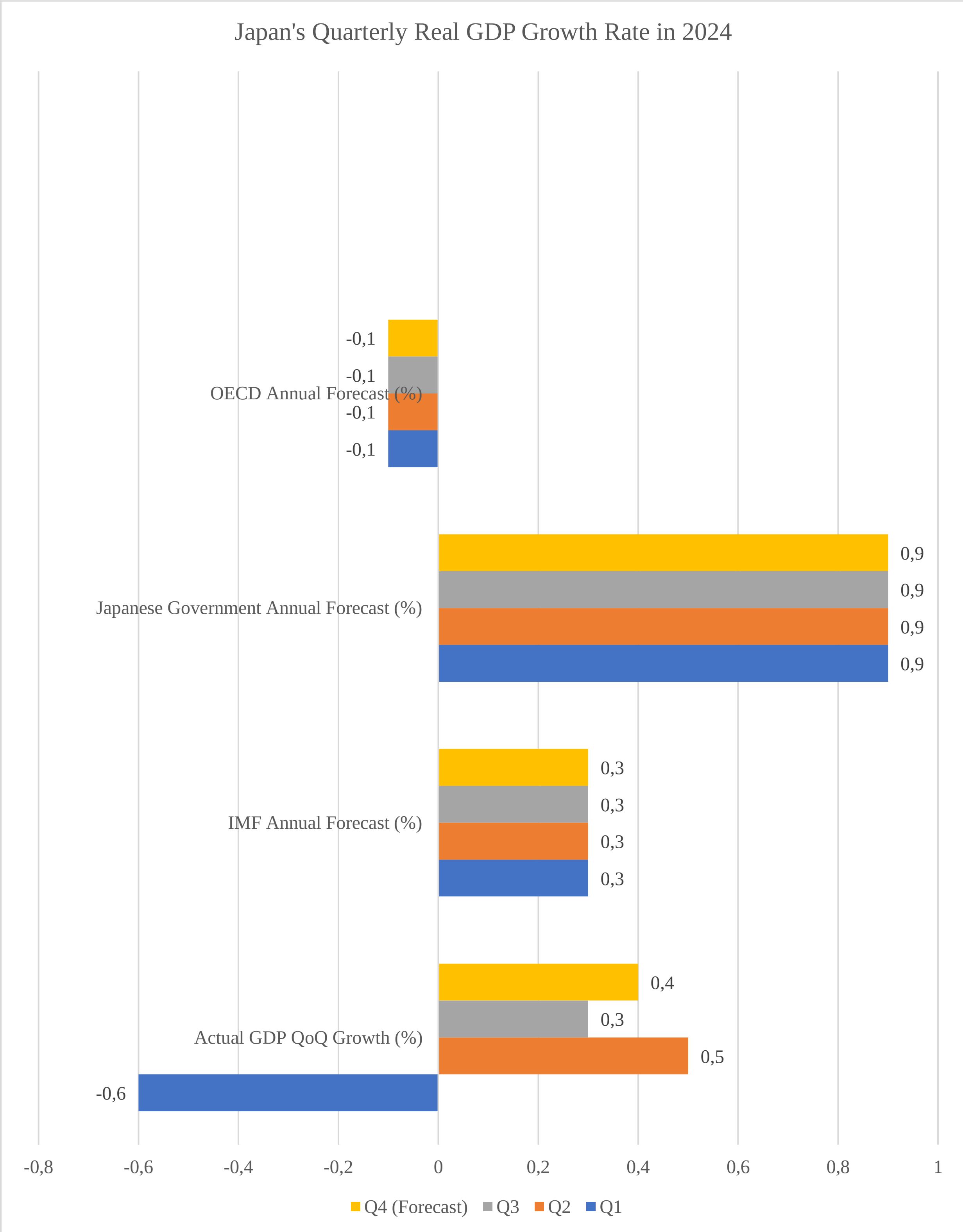
Slowing GDP Growth

Japan’s economic expansion faces considerable headwinds, with real GDP growth projected to decelerate markedly in 2024. According to data from the Cabinet Office of Japan and the International Monetary Fund (IMF), Japan’s real GDP growth for the year is estimated to range between 0.3 percent and 0.9 percent. The IMF has revised its forecast downward to 0.3 percent, while the Japanese government maintains a more optimistic projection of 0.9 percent. Some institutions, such as the Organization for Economic Co-operation and Development (OECD), even anticipate a contraction of -0.1 percent. Economic performance in 2024 has been characterized by pronounced volatility, with real GDP contracting by 0.6 percent quarter-on-quarter in the first quarter, primarily due to subdued domestic and external demand. Although modest rebounds were observed in the second and third quarters, with growth rates of 0.5 percent and 0.3 percent respectively, the recovery trajectory remained fragile, insufficient to offset the downturn experienced at the beginning of the year.

The main drag on Japan's economic growth has been weak domestic demand. Private consumption expanded by a mere 0.5 percent, falling significantly short of the 1.2 percent growth anticipated at the start of the year. Despite the annual 5.28 percent wage increase--the highest in 33 years—achieved during the spring labor negotiations, elevated inflation and a persistent decline in real wages have undermined consumer spending. Additionally, while the sharp depreciation of the yen has provided short-term support to export growth, it has concurrently increased import costs, fueling domestic inflation and further dampening household consumption.

On the external front, Japan's exports grew by 6.2 percent, buoyed by robust demand for semiconductor manufacturing equipment and automobiles. However, the global economic slowdown, the potential adoption of protectionist trade policies by the new U.S. administration, and heightened geopolitical tensions pose significant risks to Japan's export outlook. The annual trade deficit reached 5.33 trillion yen, representing a similar figure compared to the previous year but still exerting a negative impact on GDP growth.

In sum, Japan's economic recovery in 2024 remains precarious, constrained by sluggish domestic demand, mounting external uncertainties, the depreciating yen, and persistent inflationary pressures. The outlook for sustained growth is, therefore, decidedly bleak.



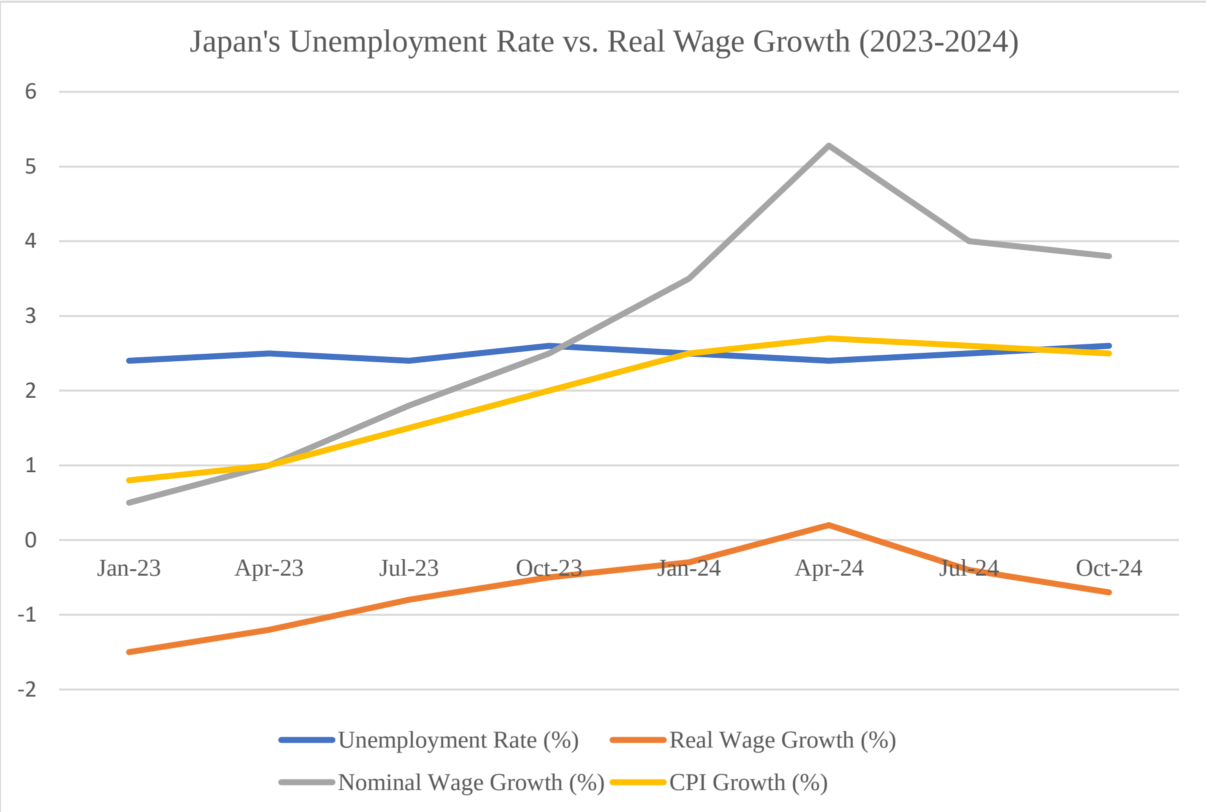
Sources: Chart created by the author based on data from the Cabinet Office of Japan, the International Monetary Fund (IMF), and the Organization for Economic Co-operation and Development (OECD).

Employment Challenges

Japan’s labor market, under the dual pressures of global economic uncertainty and domestic structural issues, exhibits an outward appearance of stability that belies its underlying fragility. According to data from the Cabinet Office of Japan, the national unemployment rate in 2024 is projected to remain within the range of 2.4 percent to 2.6 percent, suggesting a seemingly stable employment landscape-- Despite Japan's low unemployment rate of 2.4 percent to 2.6 percent in 2024, the labor market faces significant challenges, including 26 consecutive months of negative real wage growth due to persistent inflation, sector-specific employment imbalances, and a surge in corporate bankruptcies, indicating underlying fragility. However, real wages have continued to face downward pressure--Despite continuous increases in wage amounts, the purchasing power of real wages is continuously weakening. In other words, the purchasing power of real wages is continuously weakening. Despite achieving a 5.28 percent wage increase during the 2024 spring labor negotiations, the highest in 33 years—persistent price inflation has resulted in 26 consecutive months of negative real wage growth. A brief positive uptick occurred in June due to seasonal bonus payments, but the trend reverted to decline shortly thereafter. This gap between wage increases and rising prices has directly eroded household purchasing power, suppressed domestic consumption, and, consequently, dampened the momentum for economic recovery.

At the industry level, Japan's labor market imbalances are particularly pronounced, reflecting structural unemployment—where job openings exist, but there aren't enough qualified workers to fill them. While employment has grown in sectors such as information and communications technology, as well as hospitality and food services, traditional industries like manufacturing and retail are struggling with labor shortages and downsizing pressures. The automotive sector, in particular, has faced significant disruptions due to large-scale factory shutdowns linked to certification test fraud scandals, severely impacting job security. Moreover, corporate bankruptcies have surged to record levels, with 74 century-old enterprises declaring bankruptcy in the first half of 2024 alone. The total number of corporate bankruptcies for the year is expected to exceed 10,000.

Although the Japanese government has introduced a series of measures—including tax reductions, employment subsidies, and incentives for wage increases—to mitigate labor market stress, the effectiveness of these policies remains limited amid the backdrop of a slowing global economy and unresolved domestic structural challenges. I believe that the path to a sustainable recovery in Japan's employment market will require a multifaceted approach, encompassing the stimulation of domestic demand, optimization of industrial structures, and comprehensive labor market reforms.



Source: Chart created by the author based on data from the Cabinet Office of Japan.

Persistent Inflationary Pressures

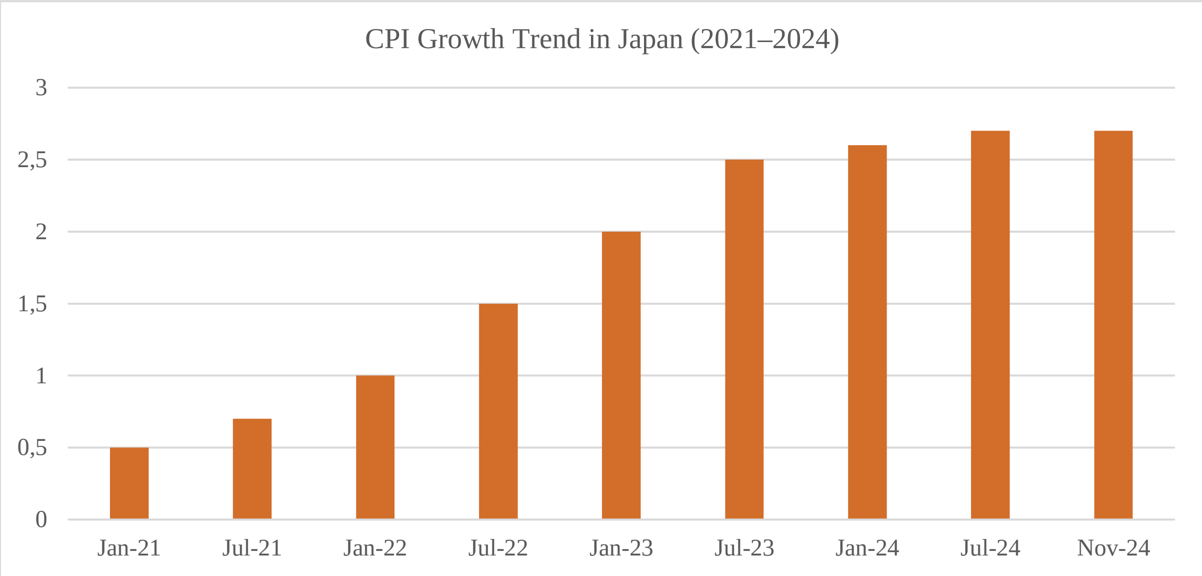
Japan continues to grapple with elevated inflation, which has emerged as one of the principal constraints on its economic recovery-- Japan's current inflation is not accompanied by significant GDP growth due to its cost-push nature, subdued domestic demand, and underlying structural economic issues. According to data released by the Ministry of Internal Affairs and

Communications, as of November 2024, Japan's core Consumer Price Index (CPI)—excluding fresh food—recorded a year-on-year increase of 2.7 percent, marking 39 consecutive months of positive growth. The surge in food and energy prices has been the predominant driver of inflationary pressures. Notably, rice prices soared by 58.9 percent year-on-year, the highest increase in four decades, largely attributable to supply chain disruptions following the Noto Peninsula earthquake and panic-driven hoarding triggered by natural disasters. Additionally, the sharp depreciation of the yen has significantly inflated import costs, further exacerbating domestic price levels for goods and energy.

Despite the implementation of a series of government measures in 2024 aimed at alleviating the burden of rising prices—including energy subsidies, the extension of gasoline subsidies, and direct cash transfers to low-income households—the overall effectiveness of these interventions has been limited. The Bank of Japan (BOJ) moderately raised interest rate in July, the benchmark rate to 0.25 percent in an attempt to curb inflationary pressures. However, due to persistent global economic uncertainties and the spillover effects of U.S. monetary policy, the yen has not experienced a meaningful appreciation, leaving import-driven price pressures largely unabated.

Simultaneously, wage growth has failed to keep pace with rising prices. Although the spring labor negotiations resulted in a 5.28 percent wage increase--the highest in 33 years—real wages[1] have continued to decline for 26 consecutive months, further eroding household purchasing power. Given the volatility of global energy prices, the ongoing uncertainty surrounding the yen's exchange rate, and subdued domestic consumption demand, Japan's inflationary pressures are expected to persist at elevated levels for an extended period.

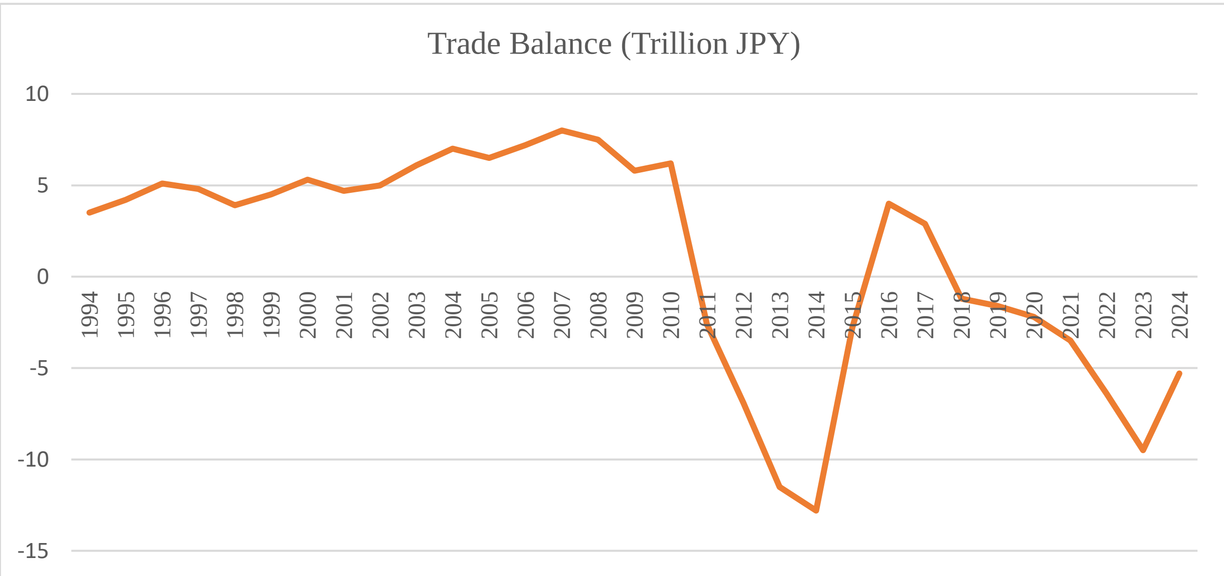
[1] Real wages refer to wages that have been adjusted for inflation, reflecting the purchasing power of income. This metric indicates the quantity of goods and services that can be bought with one's earnings, offering a more accurate representation of an individual's standard of living than nominal wages alone. For instance, if nominal wages increase by 5% but the inflation rate is 3%, the real wage growth is approximately 2%. Therefore, real wages are a crucial indicator for assessing changes in workers' living standards and purchasing power.



Source: Chart created by the author based on monthly data from the Statistics Bureau of Japan (SBJ) and the Cabinet Office of Japan.

Trade Deficits Amid Growth: Japan's International Trade Dynamics

Japan's international trade landscape continued to face formidable challenges in 2024, with the annual trade deficit reaching 5.33 trillion Yen, marking the fourth consecutive year of trade deficits.



Source: Chart created by the author based on monthly data from the Japan's Ministry of Finance

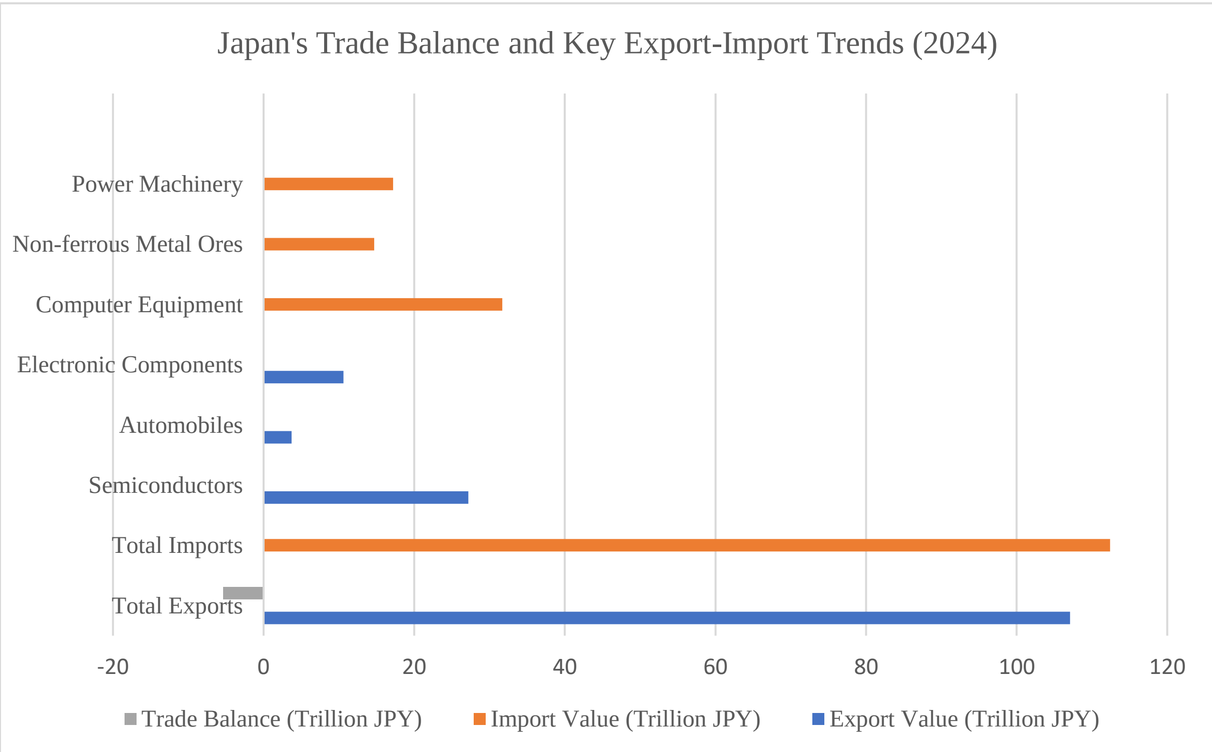
According to data from Japan's Ministry of Finance, Japan recorded a trade deficit of 5.33 trillion Yen in 2024, marking the fourth consecutive year of trade deficits. However, looking at trade data over the past 30 years, Japan has not always been in a trade deficit. In fact, from 1980 to 2010, Japan consistently recorded trade surpluses due to export growth. Following the Fukushima nuclear disaster in 2011, Japan was forced to increase its imports of fossil fuels and natural gas, leading to a shift in its trade balance to a deficit. Since then, despite a brief return to surplus in 2016 and 2017, the overall trend shows that Japan has experienced trade deficits more frequently in recent years. This indicates a gradual shift from a long-term trade surplus to a trade deficit, reflecting changes in Japan's trade structure and external economic environment.

Nevertheless, the deficit narrowed by 44 percent compared to the previous year, reflecting some improvement in external balances. On the export Japan's total exports surged to 107.09 trillion Yen, representing a robust year-on-year growth of 6.2 percent and setting a historical record. This expansion was primarily driven by strong performances in semiconductor manufacturing equipment, automobiles, and electronic components, which grew by 27.2 percent, 3.7 percent, and 10.6 percent, respectively. Notably, exports to the United States exhibited exceptional resilience, yielding a trade surplus of 8.64 trillion Yen, underscoring the strength of U.S.-Japan economic ties. However, the prospect of protectionist trade policies—including potential tariff hikes--under the new U.S. administration introduces significant uncertainties for Japan's export outlook.

Japan's total imports reached 112.42 trillion Yen in 2024, reflecting a modest year-on-year increase of 1.8 percent. Despite a decline in global energy prices, imports of coal, crude oil, and semiconductor-related electronic components decreased by 22.9 percent, 4.4 percent, and 12.6 percent, respectively. However, the sharp depreciation of the yen substantially inflated import costs, contributing to the overall growth in import value. Particularly, imports of computer equipment, non-ferrous metal ore, and power machinery surged by 31.7 percent, 14.7 percent, and 17.2 percent, respectively, indicating robust demand for high-tech and resource-intensive products. While the weaker yen temporarily enhanced export competitiveness, it concurrently amplified import price pressures, exacerbating domestic inflation and undermining Japan's trade balance resilience.

In terms of key trading partners, Japan maintained trade surpluses with the United States and other Asian economies, while recording deficits with the European Union and China. The trade deficit with China notably widened, driven in part by shifts in the bilateral trade structure and the ongoing diversification of supply chains. Moreover, global supply chain disruptions, persistent U.S.-China trade tensions, and geopolitical risks stemming from conflicts such as the Russia-Ukraine war have adversely impacted Japan's external trade environment.

Although sectors such as semiconductors and automobiles continue to offer growth potential, Japan's trade prospects remain vulnerable to global economic uncertainties, yen exchange rate volatility, and shifts in international trade policies. In response, Japan is likely to advance a trade diversification strategy, optimize its export structure, and bolster economic resilience to navigate the complexities of an increasingly volatile global trade landscape.



Source: Chart created by the author based on data from the Ministry of Finance of Japan, the Japan External Trade Organization (JETRO), and the Bank of Japan (BoJ).

Yen Depreciation and Stock Market Volatility

The Japanese yen experienced significant volatility against the U.S. dollar in 2024, with a pronounced depreciation trend. Over the course of the year, the yen weakened to as low as 161 JPY per USD, marking a 34-year low. This depreciation was primarily driven by the widening interest rate differential between Japan and the United States, capital outflows, and the Bank of Japan's (BOJ) prolonged commitment to a low-interest-rate policy. Although the BOJ implemented a modest rate hike to 0.25 percent in July in an attempt to stop the yen's decline, the limited scale of the adjustment proved insufficient to reverse the depreciation trajectory. Temporary support for the yen emerged mid-year, as weaker U.S. economic data fueled expectations of Federal Reserve rate cuts, prompting a brief appreciation to 139 JPY per USD. However, this rebound was largely a temporary market correction, and the yen continued to face persistent depreciation pressures due to mounting global economic uncertainties and escalating geopolitical tensions.

At the same time, Japan's stock markets experienced strong yet highly volatile performance. Early in the year, the Nikkei 225 Index surged past the 40,000 marks for the first time in history, driven by a mix of factors, including the weaker yen boosting export-driven corporate earnings, a global rebound in semiconductor demand, and stronger financial performance among Japanese companies. However, this upward momentum proved to be short-lived. In August 2024, the Nikkei 225 experienced a dramatic "Black Monday," plummeting by 4,451.28 points in a single session—a staggering 12.4 percent drop—marking the most severe one-day decline since 1987. The sharp sell-off was triggered by a confluence of factors, including market concerns over the BOJ's interest rate hike, synchronized corrections in global equity markets, and heightened uncertainty regarding potential U.S. tariffs on Japanese goods, particularly affecting the automotive and high-tech export sectors.

Looking ahead, both the yen and Japan's equity markets are poised to face substantial uncertainties. The exchange rate of the yen will be influenced by the divergence in monetary policies in Japan and the United States, the outlook for global economic growth, and shifts in international financial market risk sentiment. While further interest rate cuts by the Federal Reserve could offer the yen short-term support, structural depreciation pressures[2] are unlikely to dissipate entirely in the long run. In equity markets, although short-term volatility may persist, Japan's stock market holds long-term growth potential, underpinned by strategic emerging industries such as semiconductors, renewable energy, and advanced manufacturing. Monitoring global policy shifts, geopolitical developments, and domestic economic reforms will be critical for anticipating future market dynamics.

Japan's Yen Exchange Rate vs. Nikkei 225 Index (2024)

Month	JPY/USD Exchange Rate	Nikkei 225 Index
Jan	130	39000
Feb	135	39500
Mar	140	40000
Apr	145	40500
May	150	41000
Jun	155	41500
Jul	161	42000
Aug	139	37000
Sep	145	38000
Oct	150	39000
Nov	155	40000
Dec	158	40500

Source: Table created by the author based on data from the Bank of Japan (BoJ), the Ministry of Finance of Japan, and the Tokyo Stock Exchange (TSE).

The data from 2024 indicates a notable inverse relationship between the Japanese yen's exchange rate and the Nikkei 225 Index. As the yen depreciated against the U.S. dollar, the Nikkei 225 experienced an upward trend. This pattern suggests that a weaker yen may enhance the competitiveness of Japanese exporters, potentially boosting their profitability and, in turn,

[2] Structural depreciation pressures refer to persistent factors causing a currency, like the Japanese yen, to weaken over time. For the yen, these include prolonged low interest rates by the Bank of Japan, leading to capital outflows; reliance on imports resulting in trade deficits; and an aging population reducing economic growth prospects.

elevating stock market performance. However, this relationship is influenced by various factors, including global economic conditions and investor sentiment, which can cause deviations from this trend.

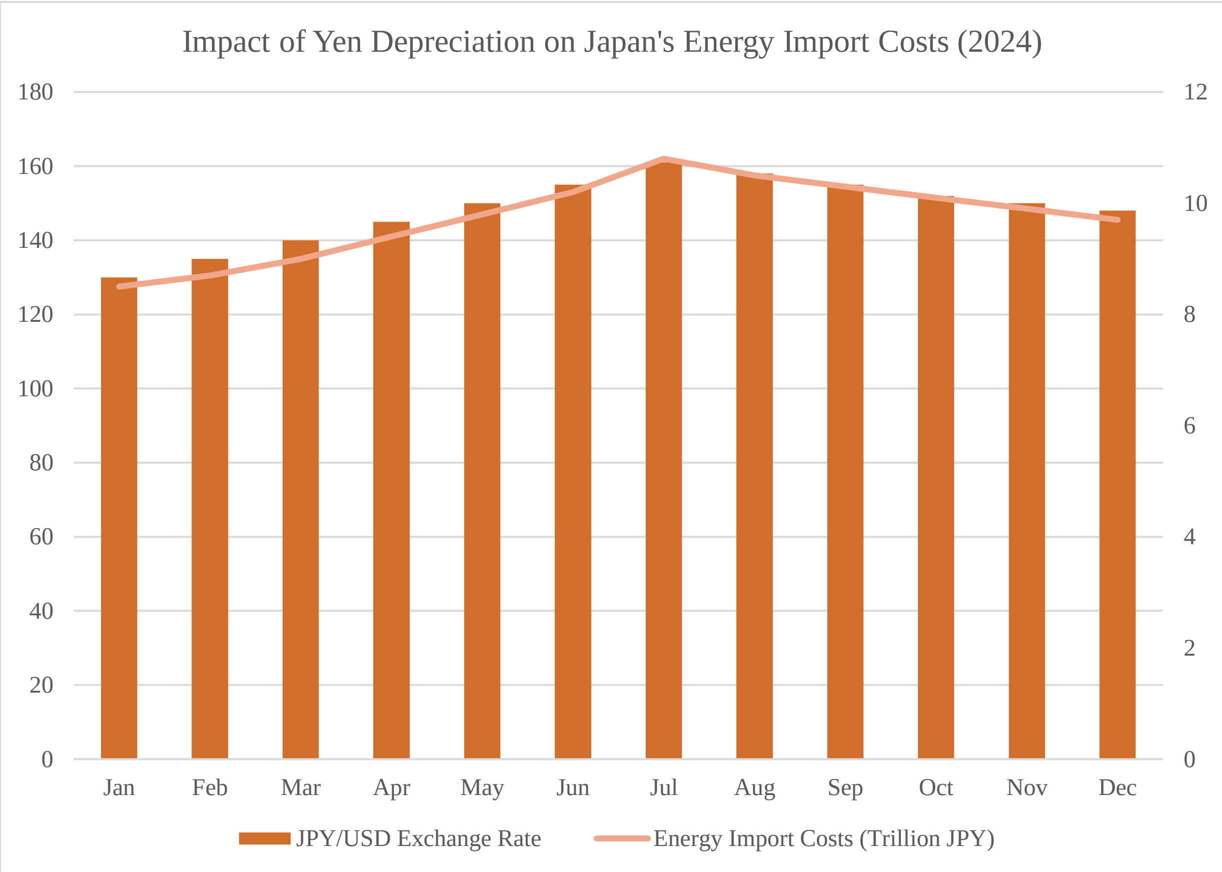
Rising Energy Costs and Import Dependence

Energy price volatility has become a major factor driving domestic inflation and slowing Japan's economic recovery. As a resource-scarce nation, Japan remains highly dependent on imports of essential energy commodities such as crude oil, liquefied natural gas (LNG), and coal. Although global energy prices eased at various points in 2024—reflected in a 22.9 percent drop in coal import costs and a 4.4 percent decline in crude oil import values--the sharp depreciation of the yen significantly raised the cost of imported energy. The yen fell to a 34-year low of 161 JPY per USD, drastically increasing Japan's energy import expenditures, which are primarily priced in dollars.

To help mitigate these rising costs, the Japanese government introduced measures such as subsidies for electricity and gas, as well as extended gasoline subsidies. However, these efforts were insufficient to fully offset the financial burden on businesses and households. Escalating energy costs have become one of the key drivers of core Consumer Price Index (CPI) inflation, further amplifying domestic price pressures.

Japan's heavy reliance on imported energy has made its economy increasingly vulnerable to global market fluctuations and geopolitical risks. In 2024, the country's energy import dependency exceeded 90 percent, with LNG imports heavily concentrated among key suppliers such as Australia and Middle Eastern countries. This structural dependence has left Japan with limited flexibility to absorb the impact of global energy price swings and supply chain disruptions. Ongoing geopolitical tensions—such as the Russia-Ukraine conflict, instability in the Middle East, and shifts in global energy supply chains--continue to pose challenges to Japan's energy costs and security.

To reduce exposure to these risks, Japan must work toward lowering its reliance on energy imports and optimizing its domestic energy mix. Expanding renewable energy sources will be a crucial step in boosting energy self-sufficiency, alongside efforts to diversify partnerships with a wider range of energy suppliers. By reducing dependence on single-source imports, strengthening energy security, and enhancing economic resilience, Japan can better navigate the challenges posed by energy price volatility.



Source: Chart created by the author based on data from the Ministry of Finance of Japan, the Bank of Japan (BoJ), and the Agency for Natural Resources and Energy (ANRE).

Summary

Japan's economy in 2024 faces a wide range of challenges, including sluggish growth, labor market imbalances, persistent inflation, a growing trade deficit, financial market volatility, and heavy reliance on energy imports. Real GDP is expected to grow between 0.3 percent and 0.9

percent, while private consumption is projected to rise by just 0.5 percent, reflecting weak domestic demand. Although nominal wages saw a 5.28 percent increas--the highest in 33 years--real wages have declined for 26 consecutive months, weighing down consumer confidence and spending. Business investment also remains sluggish due to concerns over global supply chain disruptions and policy uncertainties.

The labor market remains tight, with unemployment rates ranging between 2.4 percent and 2.6 percent. However, there is a growing shift towards non-regular employment, while traditional industries like manufacturing and retail face labor shortages and downsizing pressures. Corporate bankruptcies are expected to exceed 10,000, underscoring the vulnerability of small and medium-sized enterprises (SMEs) amid rising costs and weak demand. Inflation remains persistent, with the core Consumer Price Index rising 2.7 percent year-over-year, largely driven by soaring food and energy prices. Notably, rice prices have surged by 58.9 percent, marking the steepest increase in four decades. The yen's depreciation has further inflated import costs, adding to sustained inflationary pressures. Despite government interventions such as energy subsidies and interest rate hikes by the Bank of Japan, efforts to curb inflation have yielded only limited success.

Japan’s trade deficit has climbed to 5.33 trillion Yen, marking the fourth consecutive year in the red. While exports increased by 6.2 percent, the weaker yen has significantly raised import costs, particularly for energy and high-value-added components. Additionally, geopolitical tensions and the ongoing restructuring of global supply chains have heightened external uncertainties, making Japan more vulnerable to global economic fluctuations.

Financial markets have been highly volatile, with the yen depreciating to 161 JPY per USD--its lowest level in 34 years. While this has temporarily boosted export competitiveness, it has also exacerbated import costs, fueling domestic inflation. The Nikkei 225 Index experienced significant fluctuations, surpassing 40,000 points earlier in the year before plunging 12 percent on "Black Monday" in August--the sharpest single-day decline since 1987.

Japan remains heavily dependent on energy imports, with over 90 percent of its energy needs met from abroad. This makes the country particularly sensitive to global energy price fluctuations and geopolitical risks. The depreciation of the yen has further driven up energy import costs, keeping domestic energy prices high. While government subsidies have provided temporary relief, they have not fundamentally addressed the economic strain caused by rising energy costs.

In summary, Japan's economic recovery remains fragile. Tackling these complex challenges requires bold, forward-looking policy reforms to identify new drivers of growth and transition toward a more sustainable and resilient economy.