

# Japan's Transformation

## Japanese household and corporate behavioral transformation under global supply constraint

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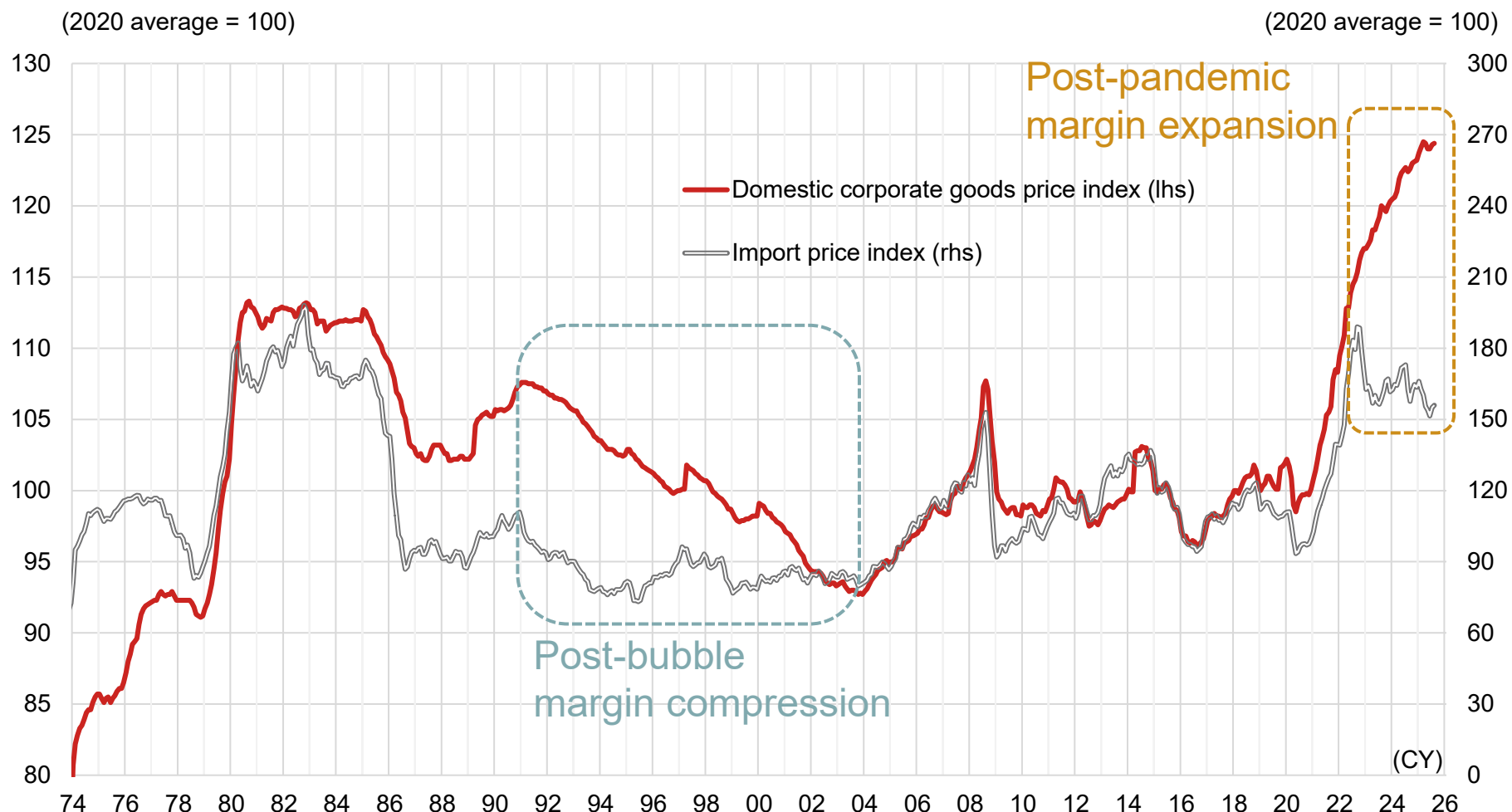
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October 2025

# No longer 'import-oriented' inflation

Yawning gap between peaking out in import prices and ongoing rise in domestic prices



Source: Nomura, based on BOJ data

# How has Japan emerged from deflation trap?

Two external shocks on Japan's inflation

Global inflation (2021-)  
triggered by COVID pandemic

Ukraine war (2022)

Allowed  
companies to  
raise prices  
without  
apology

Global reopening triggered surge in....

Inbound tourism (2023)

Government initiatives to enhance corporate governance

TSE requests (March 2023)

METI guidance for M&A (August 2023)

Government initiative to encourage retail investors

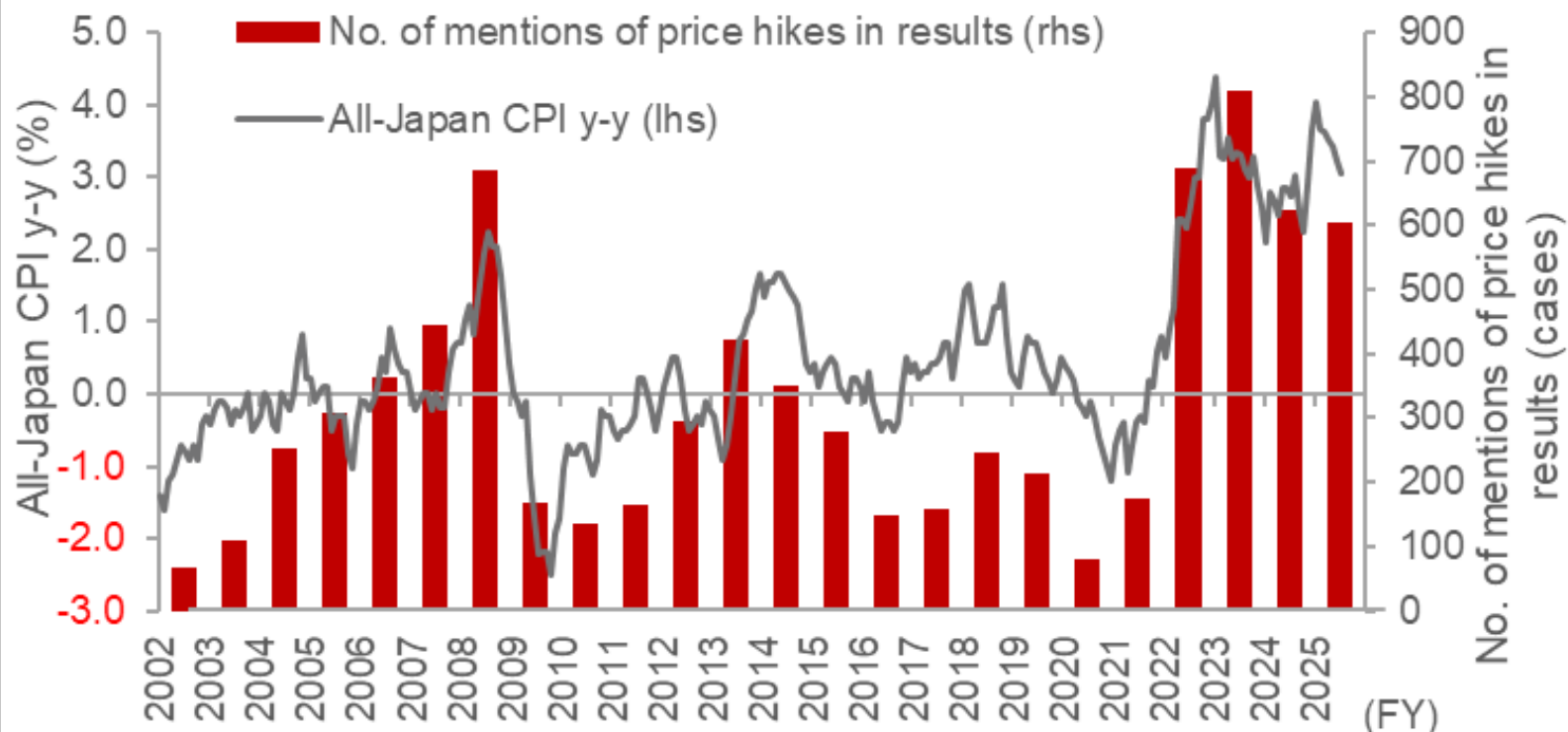
New NISA program (January 2024)

All these provided  
shock therapy to  
corporate Japan.  
Once it gets out  
from a deflationary  
trap, virtuous cycle  
is much easier to roll.

You can imagine a  
golf ball finally got  
out from a bunker.

# Price hikes are consistently mentioned

Number of mentions of price hikes in results and Japan's CPI

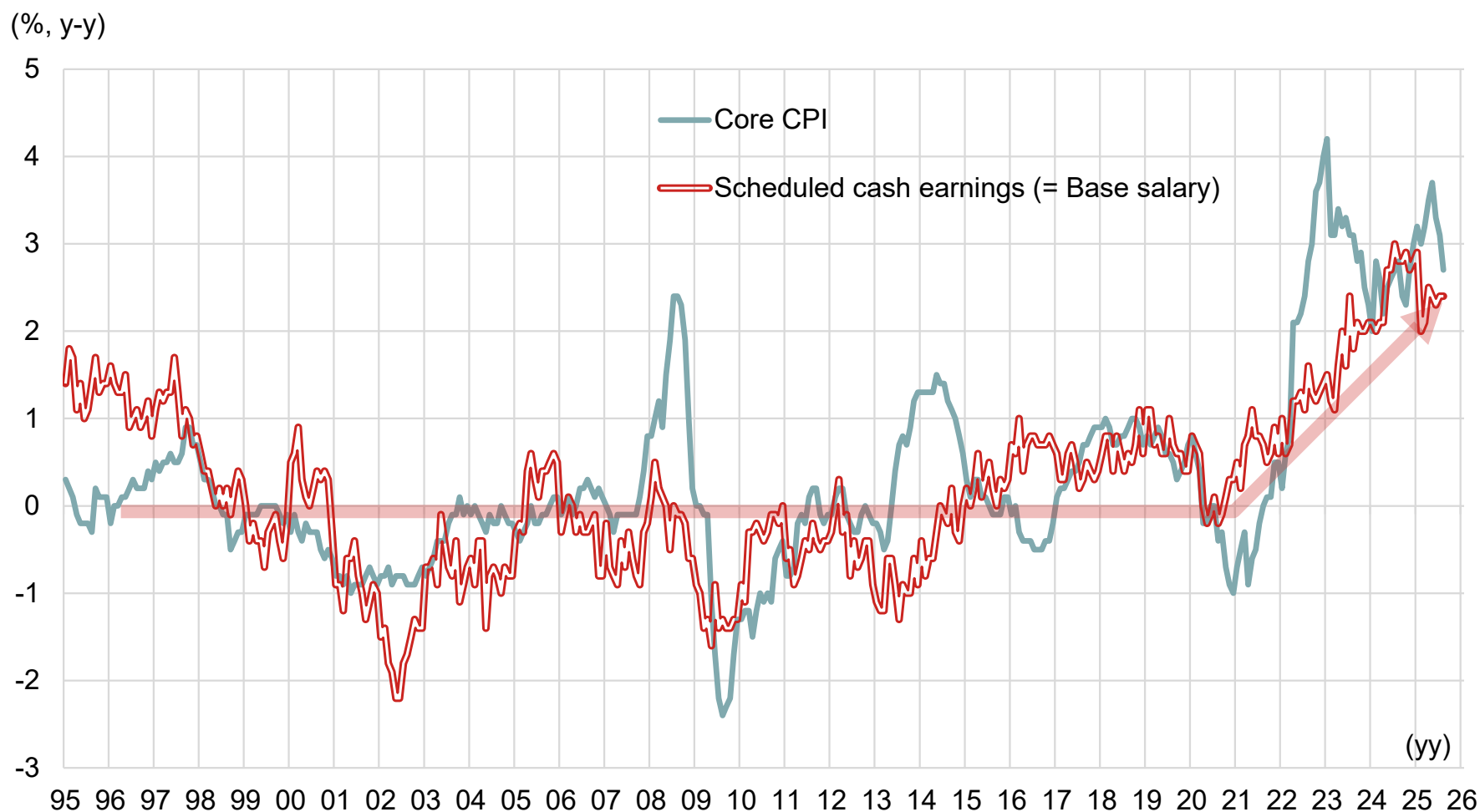


Note: All-Japan CPI data has been adjusted for consumption tax hikes. Most recent data is as of July 2025 for all-Japan CPI. Number of mentions of price hikes in FY25 results is an annualized figure of 606 mentions, calculated from 274 mentions between April 1, 2025, and September 12, 2025. We identified mentions of price hikes in results by (1) limiting our universe to companies that were TOPIX constituents at the beginning of each fiscal year. For FY2025, to exclude the impact of TOPIX deletions at the end of January 2025, the TOPIX constituents as of beginning CY 2025 are used. The analysis covers kessan tanshin disclosed between April 1, 2002, and September 12, 2025. Then (2) using word-based judgment to ascertain whether their kessan tanshin mentioned price hikes. Data compiled on results announcement date basis.

Source: Nomura, based on Ministry of Internal Affairs and Communications data and company disclosures

# Positive wage inflation in tandem with CPI

Base salary (enterprises with five employees or more) and CPI inflation

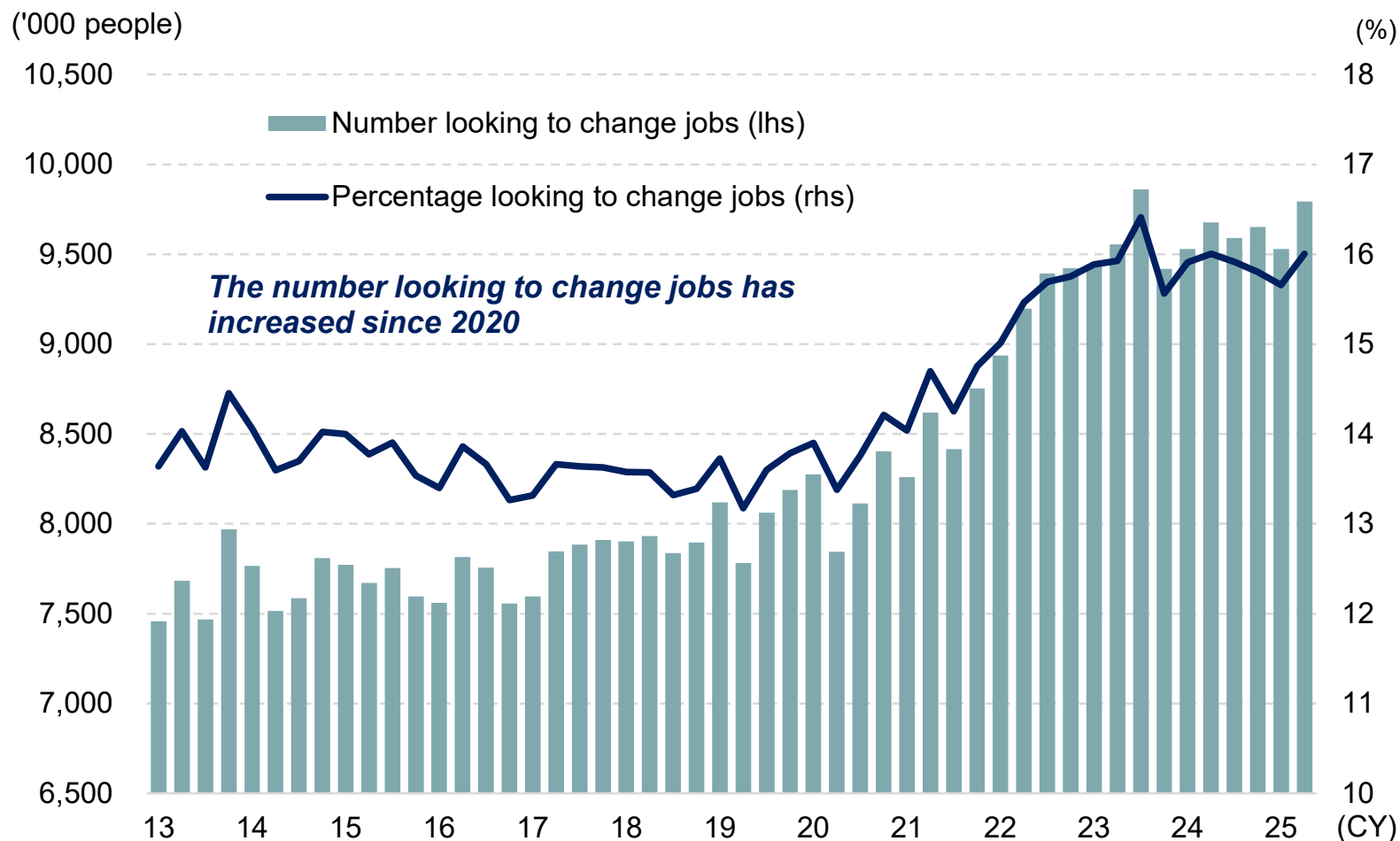


Note: Scheduled cash earnings in Jan 2016 and beyond is sample adjusted basis for full-time employees. Core CPI is CPI excluding fresh foods. Hikes in consumption tax rate (Apr 1989, Apr 1997, Apr 2014 and Oct 2019) are adjusted.

Source: Nomura based on MHLW and Statistics Bureau data

# Japanese workers becoming less loyal

Rising number of workers looking to change jobs means  
“wage competition” for employers

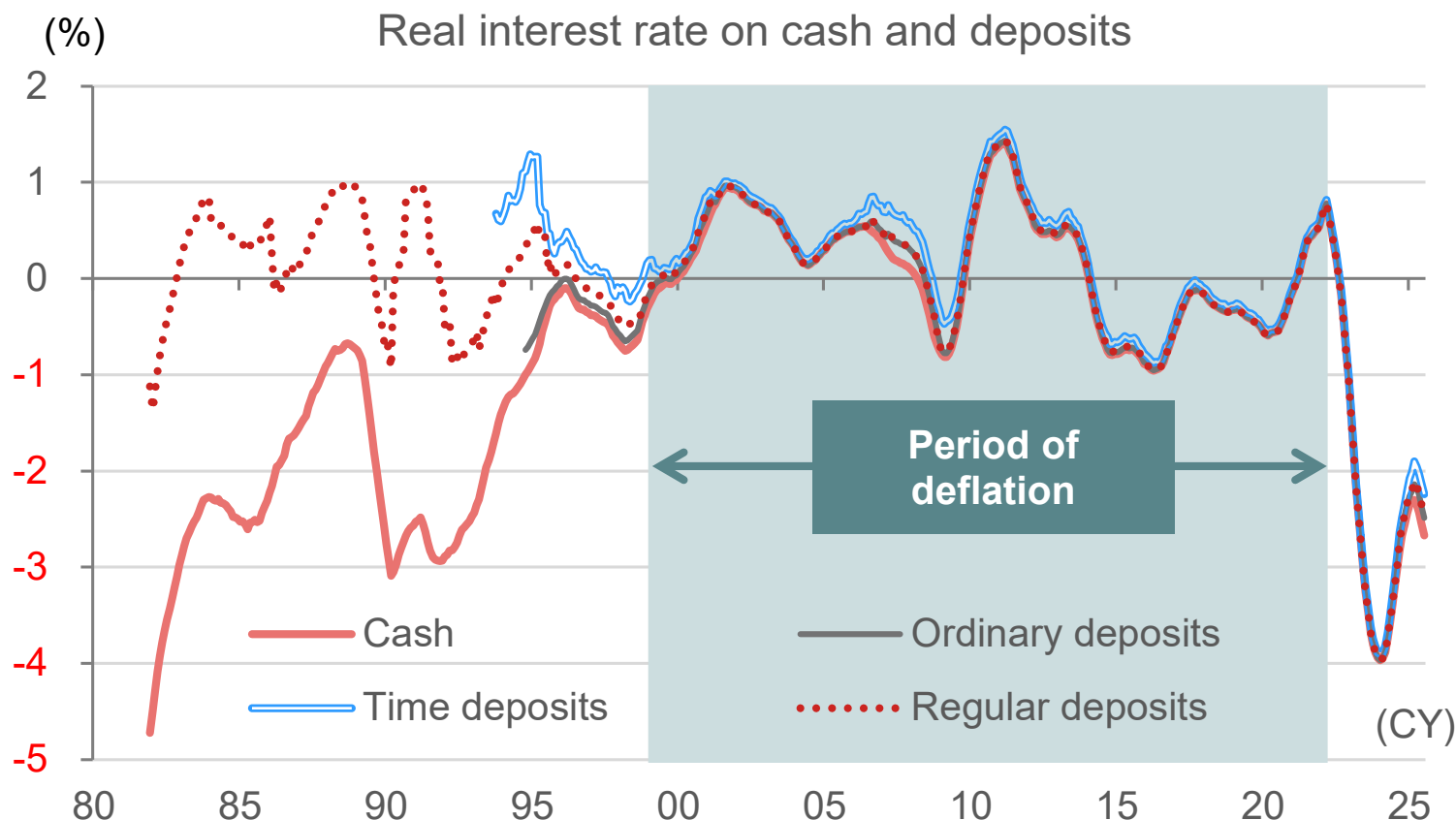


Note: Data seasonally adjusted by Nomura.

Source: Nomura, based on Ministry of Internal Affairs and Communications data

# What inflation means for retail money

Real interest rates on cash and deposits turning negative (and deep)



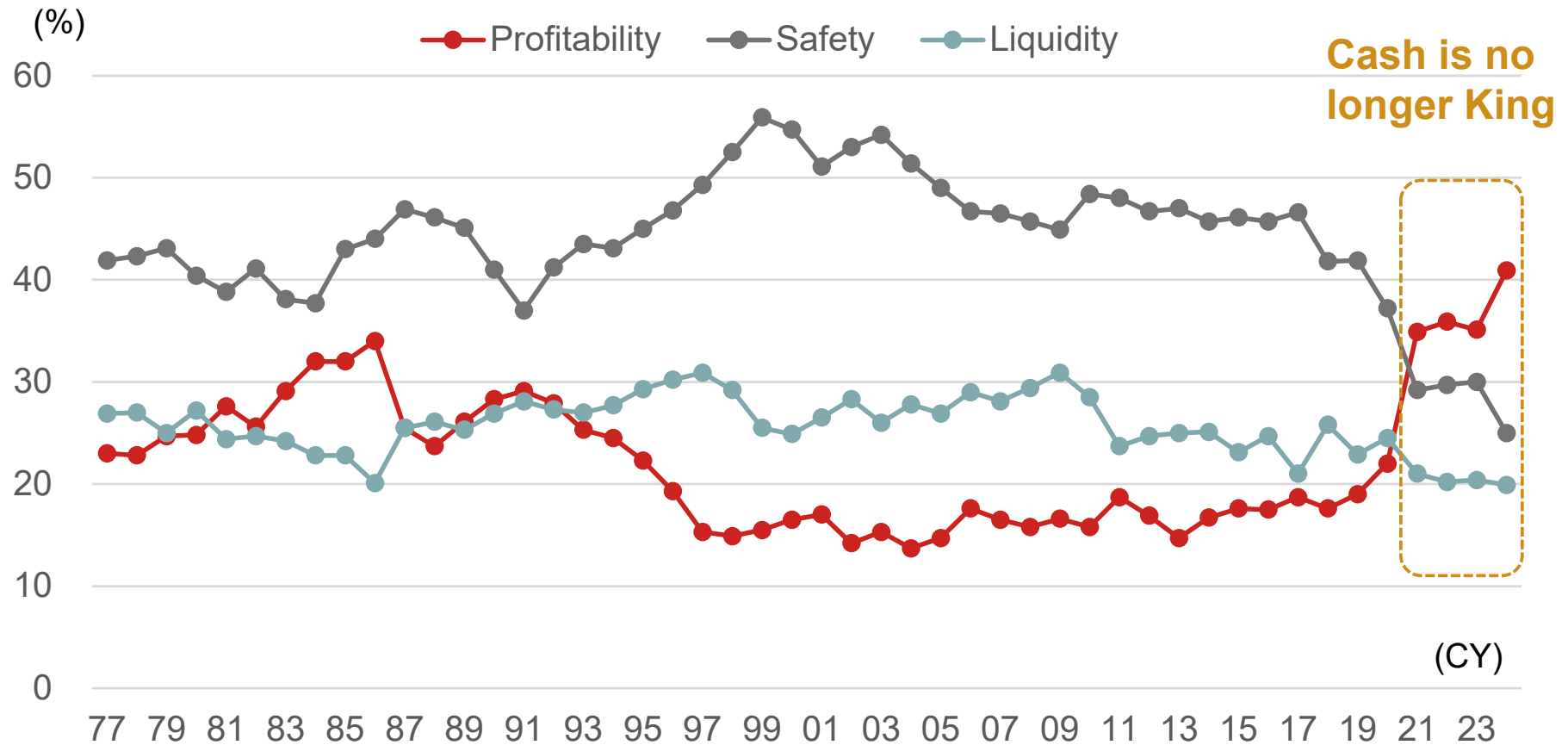
Note: (1) Real interest rate = nominal interest rate - y-y change in CPI (ex fresh food and energy) (12-month moving average). (2) Time deposits are weighted average (new deposits) for all maturities, regular deposits are postal savings. (3) We define period of deflation as period when y-y change CPI (ex fresh food and energy) was consistently (for roughly one to two years) in 0-1% range or below.

Source: Nomura, based on BOJ, Japan Post Bank data

# Survey on Japanese household preferences in selecting financial assets

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Dramatic shift from “safety” to “profitability” as domestic inflation turns positive

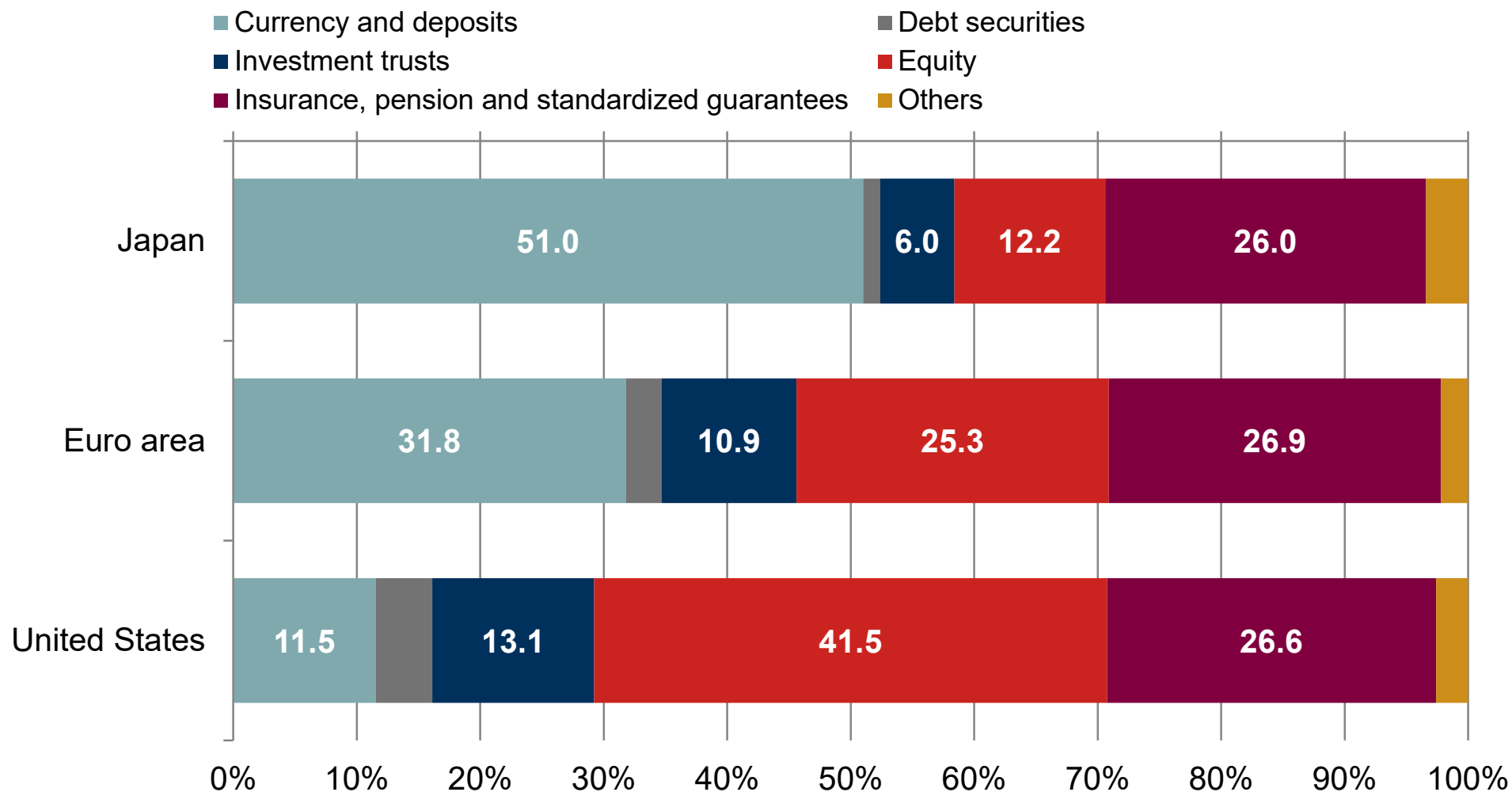


Source: Nomura, based on Central Council for Financial Services Information, J-FLEC data



# Household financial assets

More than half (51%) of JPY2,195trn in individual assets is sitting as cash



Note: Data as of March 2025.

Source: Nomura, based on Bank of Japan data

# New NISA launched in January 2024 (Nippon Individual Savings Account)

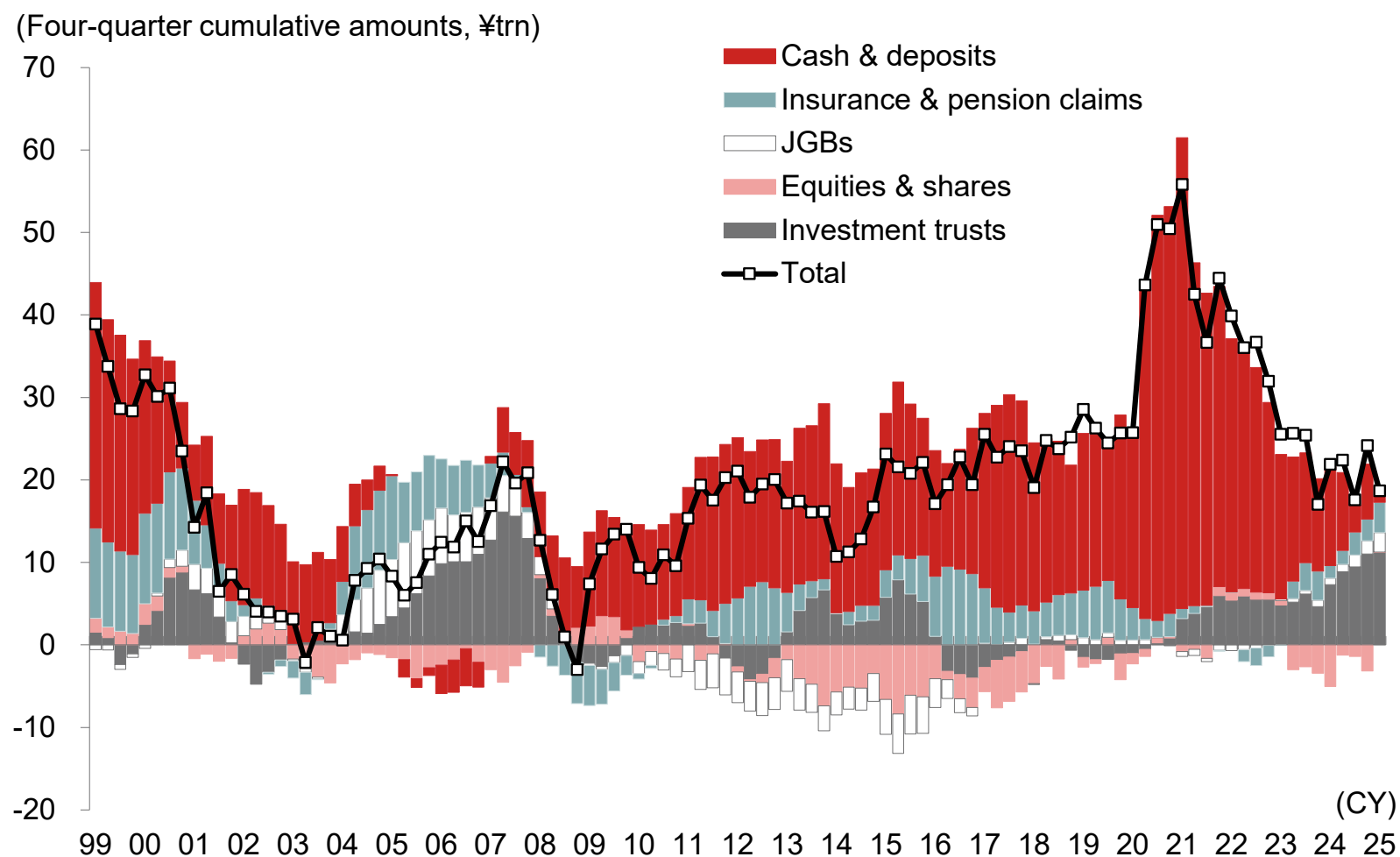
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New NISA increased the investing limit, abolished tax-exempt period limit, and approved combined usage of Tsumitate NISA (dollar-cost averaging investment) and Growth NISA

	Old NISA		New NISA Combined usage are approved	
	Tsumitate NISA	General NISA	Tsumitate NISA	Growth NISA
Annual investment quota	0.4 million yen	1.2 million yen	1.2 million yen Total: 3.6 million yen	2.4 million yen
Period of tax-exempt holding	20 years	5 years	No limit	No limit
Limit on the value of tax-exempt holdings	8 million yen	6 million yen	18 million yen with limit of 12 million yen in Growth NISA	
Eligible investment products	Stock investment trusts suited for long-term, dollar-cost averaging, diversified investment	Listed stocks, ETFs, REITs, stock investment trusts	A prescribed scope of investment trusts suited for long-term, dollar-cost averaging, diversified investment	Listed stocks, investment trusts, etc excluding investment trusts with a trust period of less than 20 years, monthly dividend type, and usage of derivative transactions
Account valid period	~2042	~2028	Permanent	Permanent

# Shifting into investment trusts

## Changes in household financial assets and their decomposition

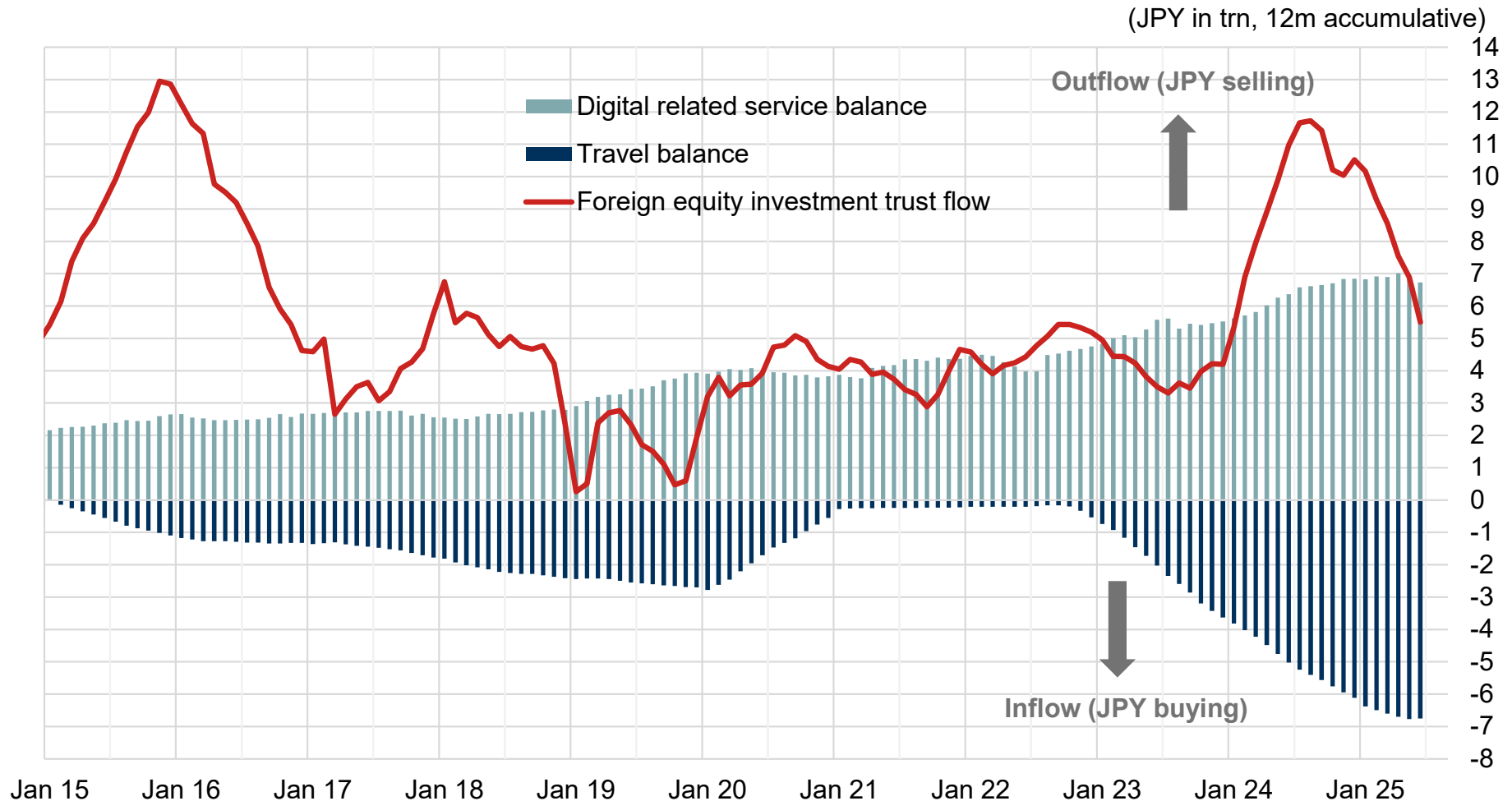


Source: Nomura, based on BOJ data

# In Japan's BOP, "digital deficit" is growing but is fully offset by tourism surplus

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Meanwhile, retail investors' "toshin flow" is consistent JPY weakening pressure



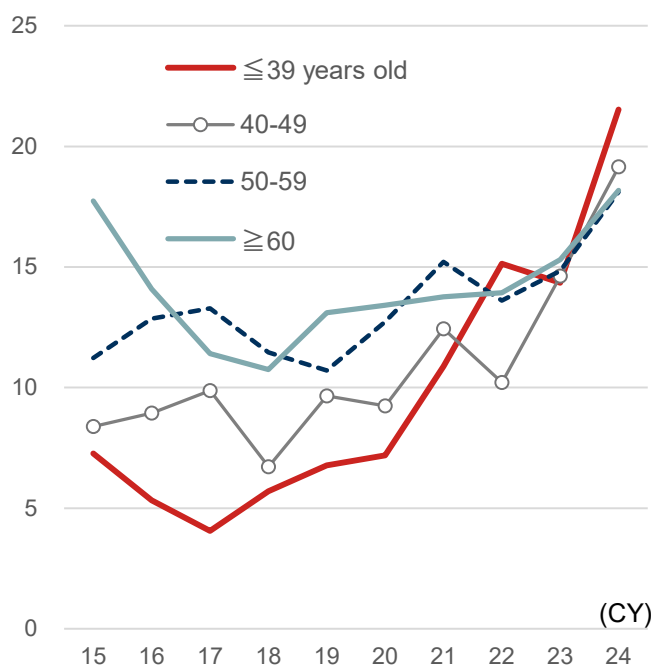
Source: Nomura, based on MOF data

# Japanese households' allocation of savings

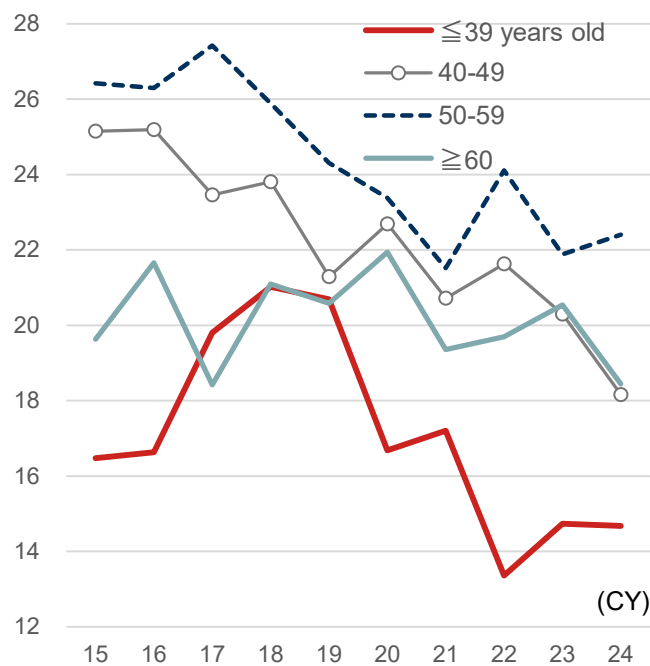
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Younger generations are more active in raising security portion of savings (flow basis)

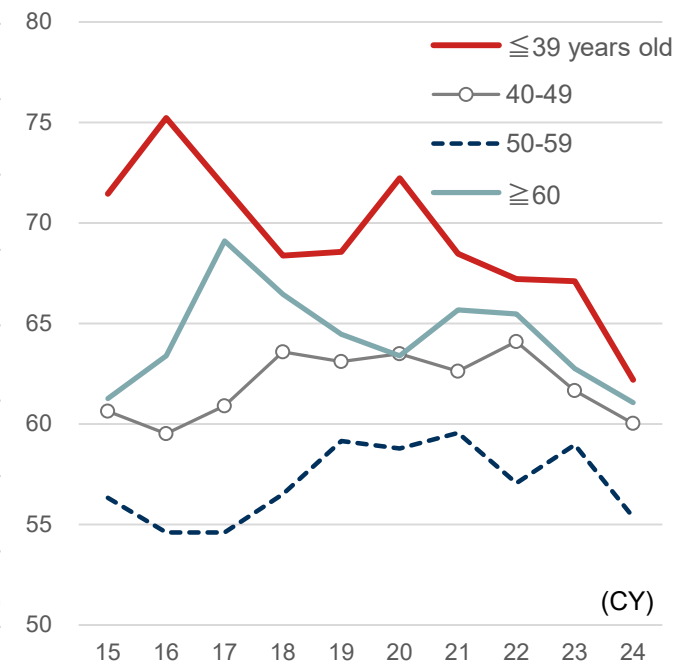
(Ratio to savings, %) **Securities**



(Ratio to savings, %) **Insurance**



(Ratio to savings, %) **Deposits**

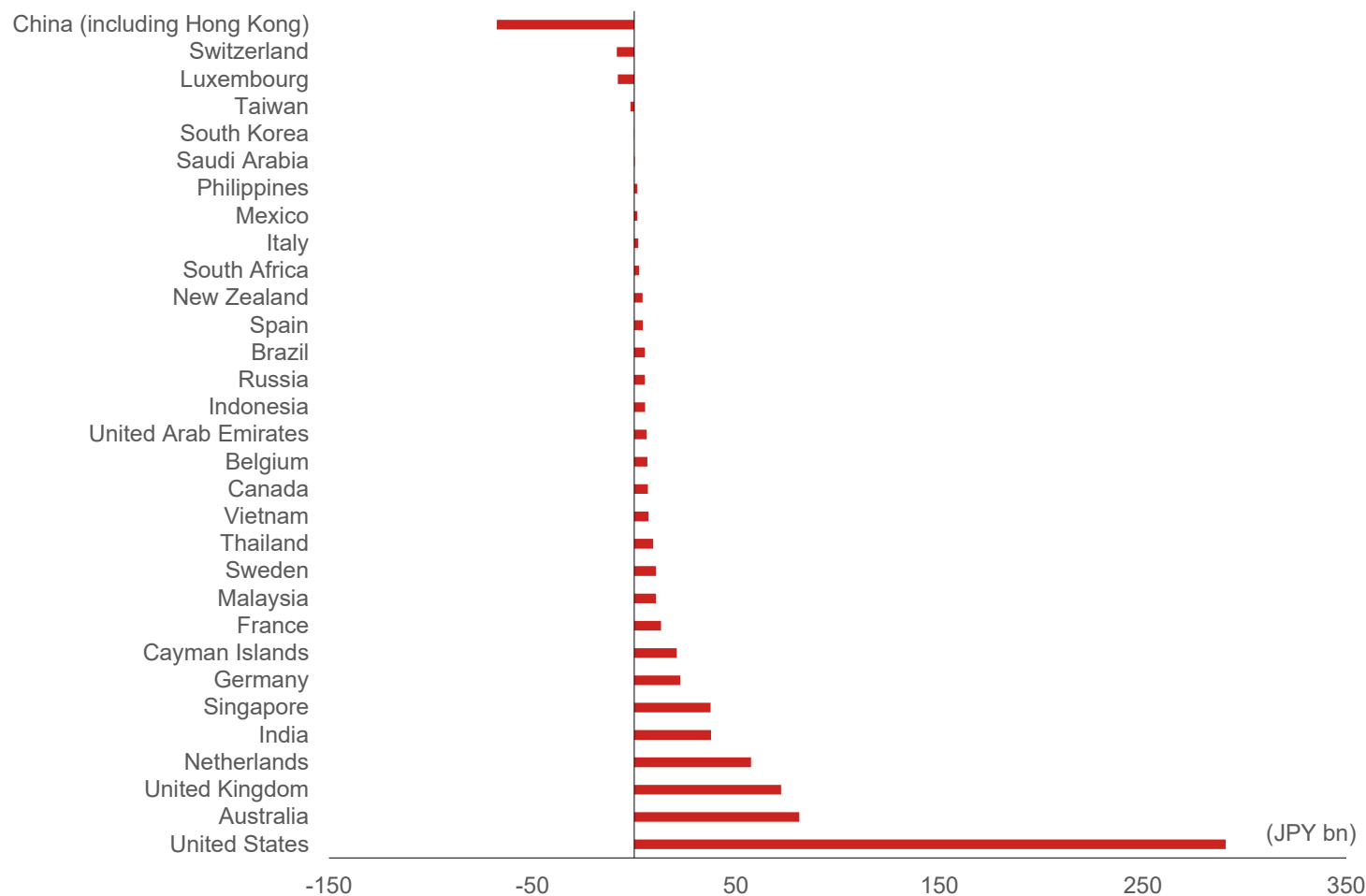


Note: Covers two-or-more-person working households. Savings refers to the sum of deposits, securities, insurance, and savings at non-financial Institutions.

Source: Nomura, based on Ministry of Internal Affairs and Communications data

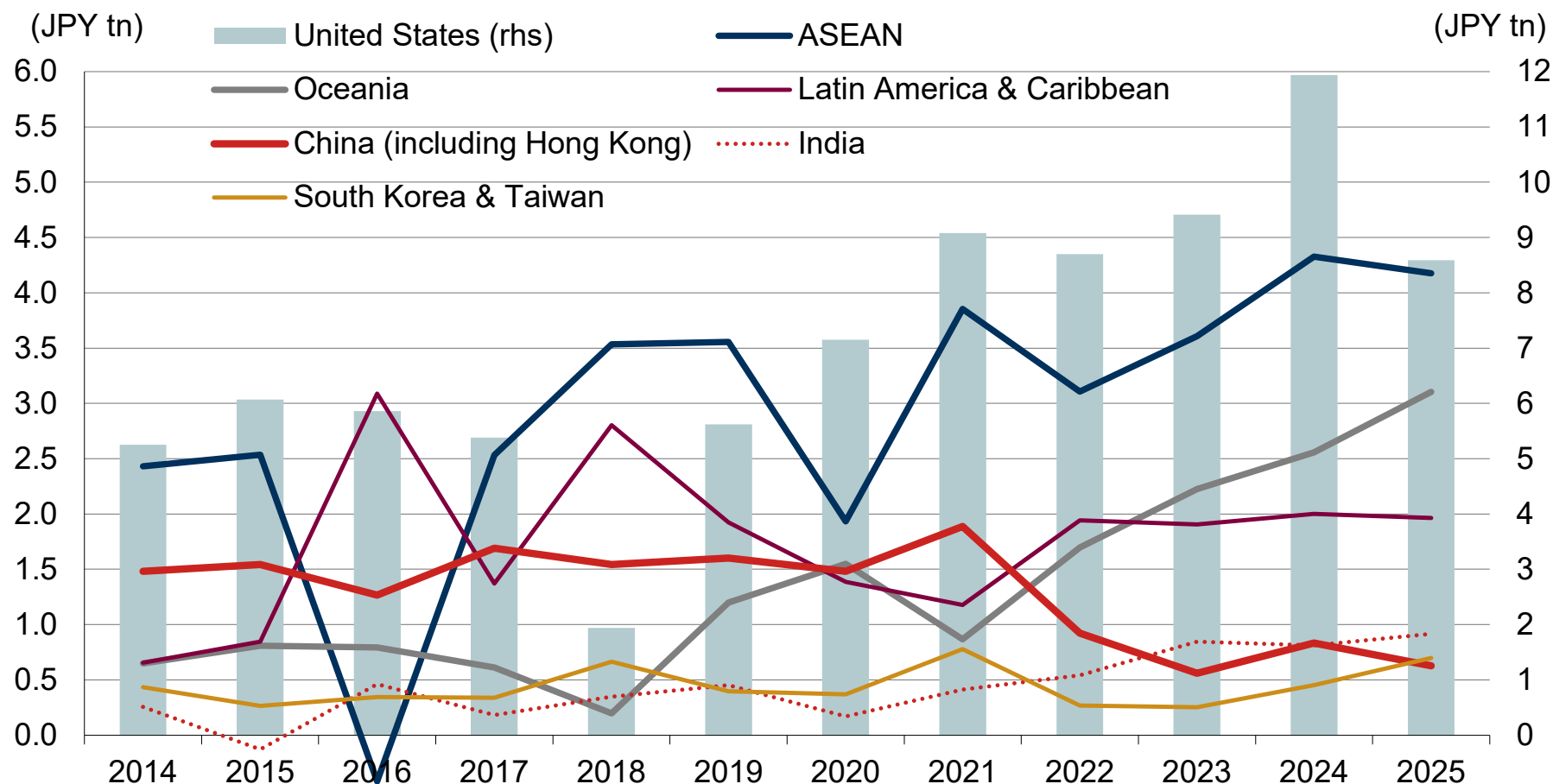
# Japan's FDI grew in US, shrank in China

Change of Japan's FDI by destination countries  
(monthly median in 2022-24 compared with 2019-21)



# Japan's FDI trend

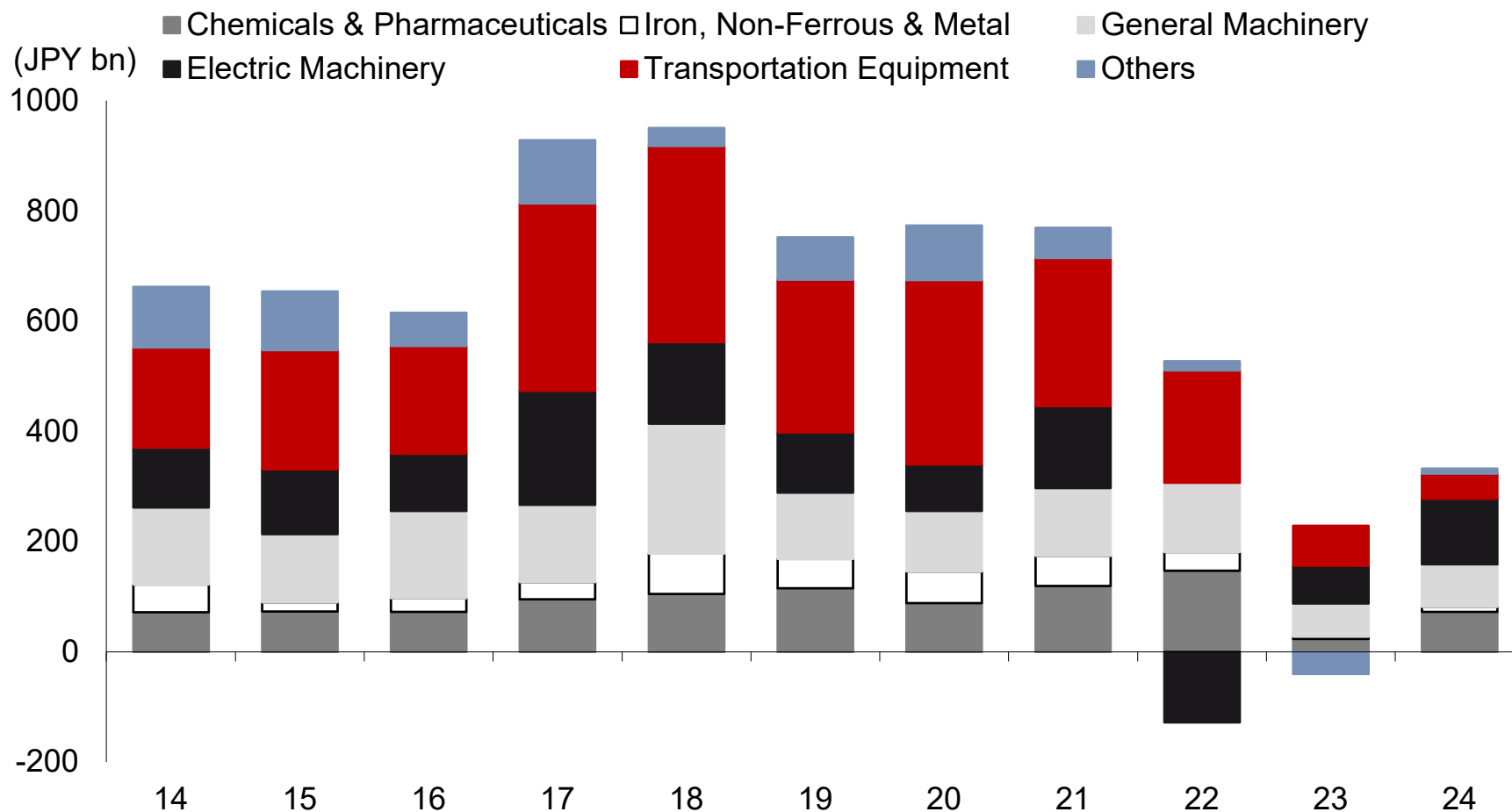
## Outward direct investment to selected regions



Note: Data for 2025 are estimate based on Jan-Jun data.

Source: Nomura based on MOF data

# Composition of Japan's direct investment to China (Manufacturing)



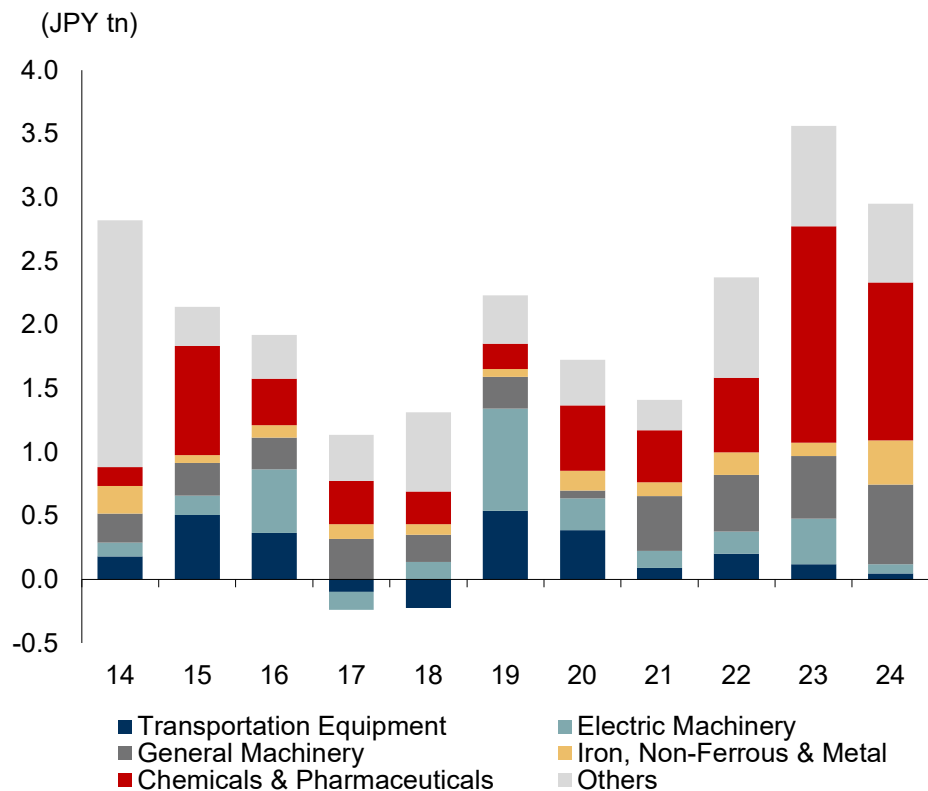
Source: Nomura based on MOF data



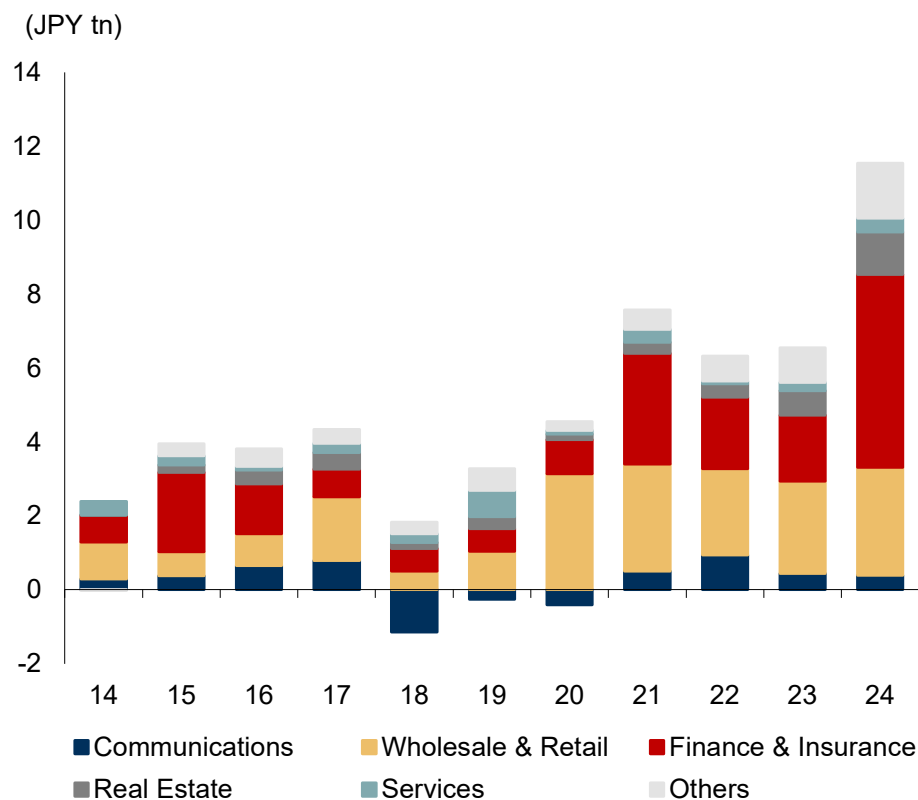
# Japan's FDI to US by sector

In addition to returning to Japan, companies plan to strengthen operations in the United States, Southeast Asia and India.

Composition of Japan's direct investment to US  
(Manufacturing)



Composition of Japan's direct investment to US  
(Non-Manufacturing)

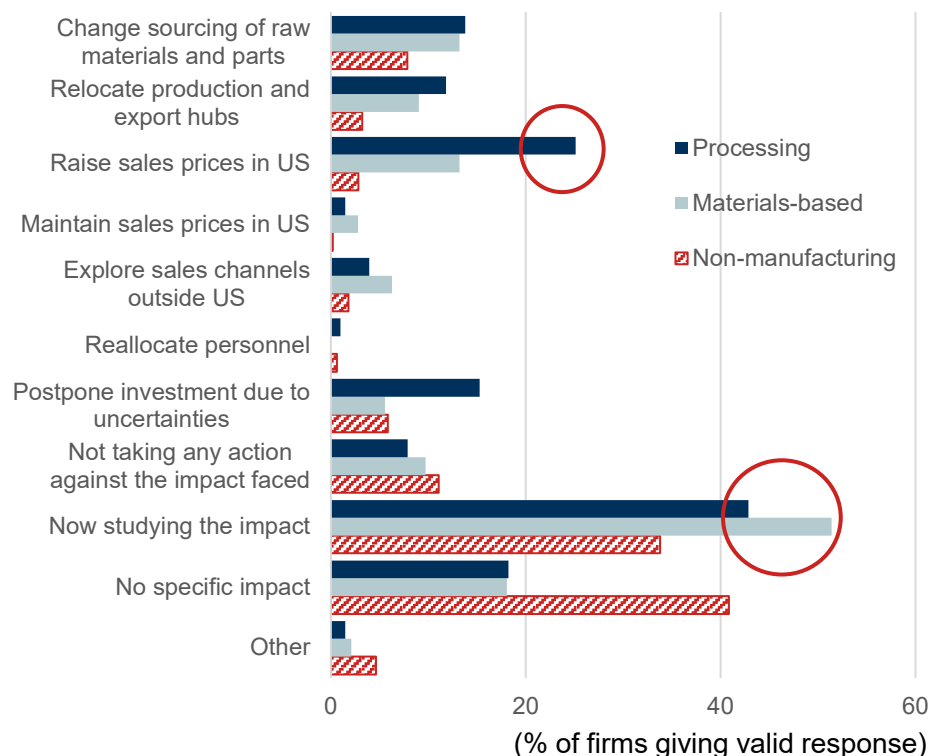


Source: Nomura based on MOF data

# How are they responding to the Trump Tariffs?

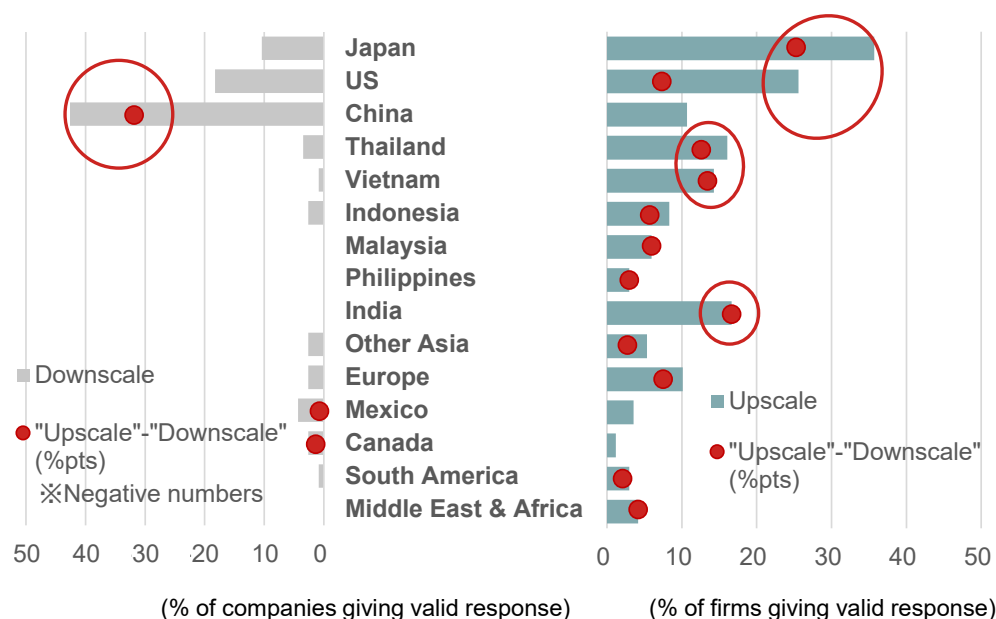
“Impact under review” with some price hikes in processed goods

## Response to US tariff hikes



Note: 1. Major firms. 2. Respondents may choose up to three answers.  
Source: Nomura, based on DBJ data

## Region to upscale or downscale operations as production and export sites (manufacturing)

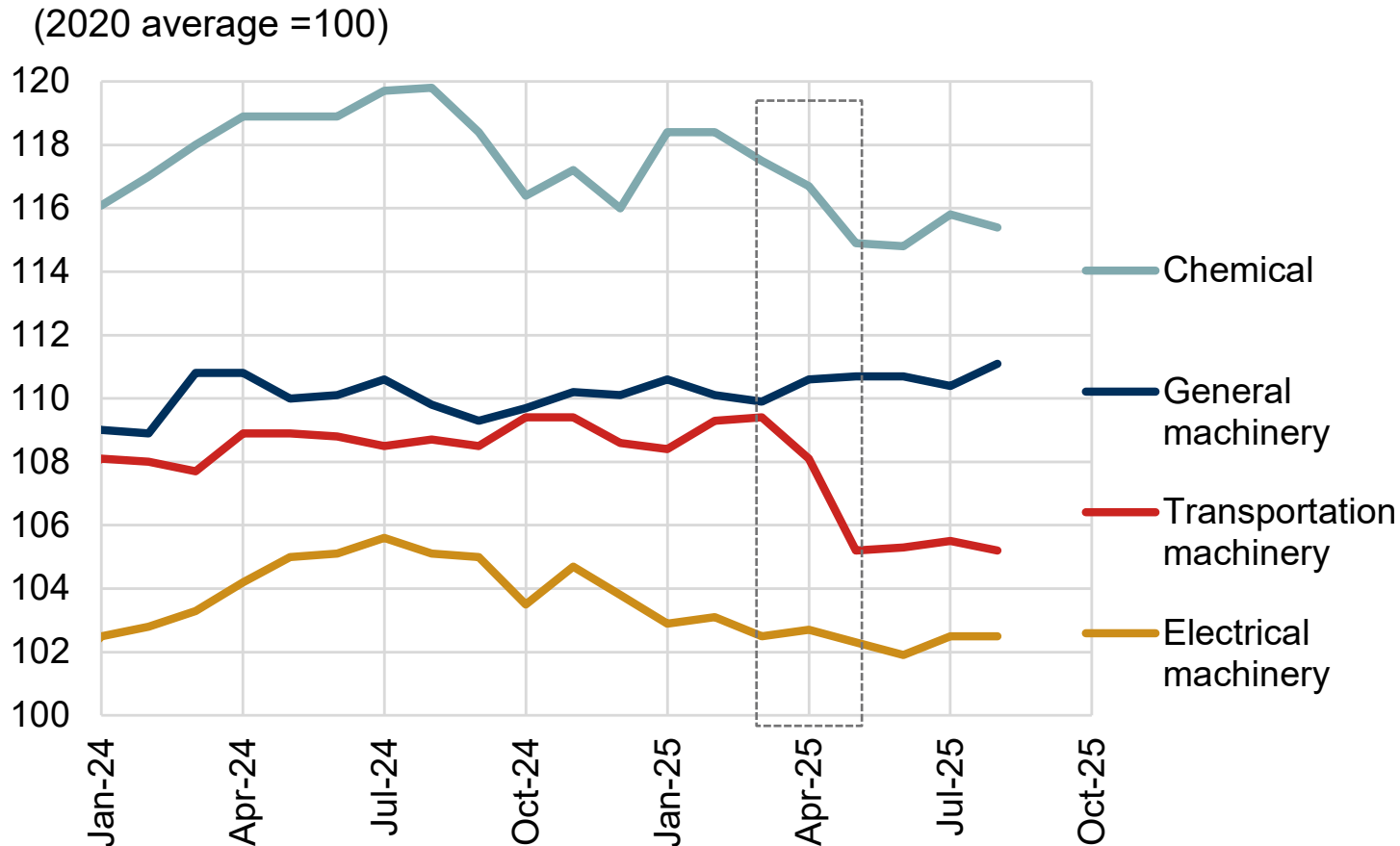


Note: 1. Major manufacturers 2. Respondents may choose up to five answers.  
Source: Nomura, based on DBJ data

# Price reduction in autos but not in general machinery

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Export price index (contractual currency basis, selected sectors)



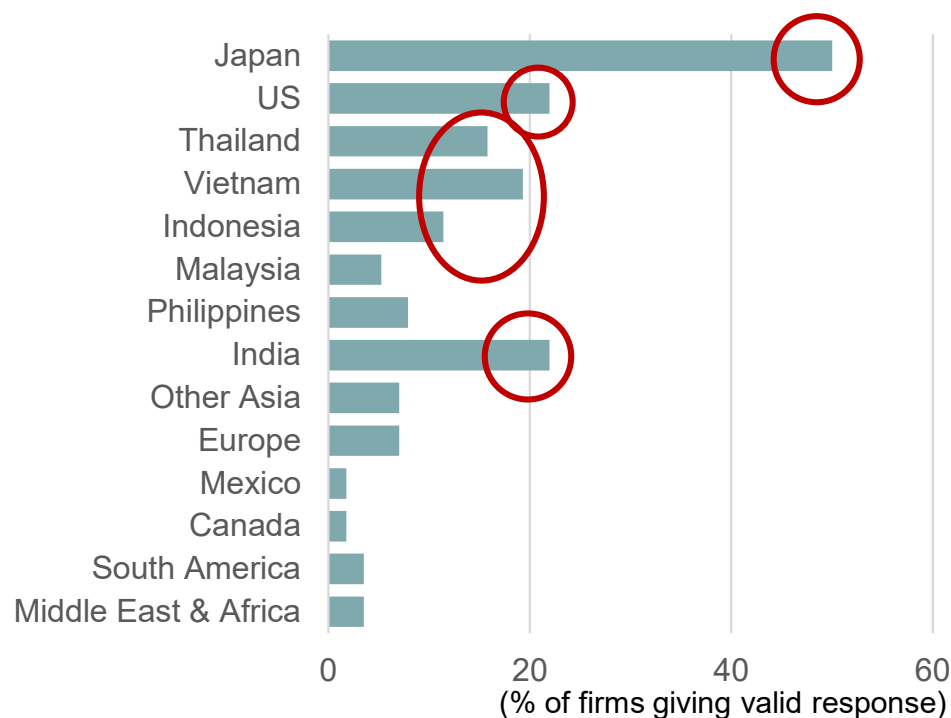
Source: Nomura based on BOJ data

# Questions for those already shrinking operations in China

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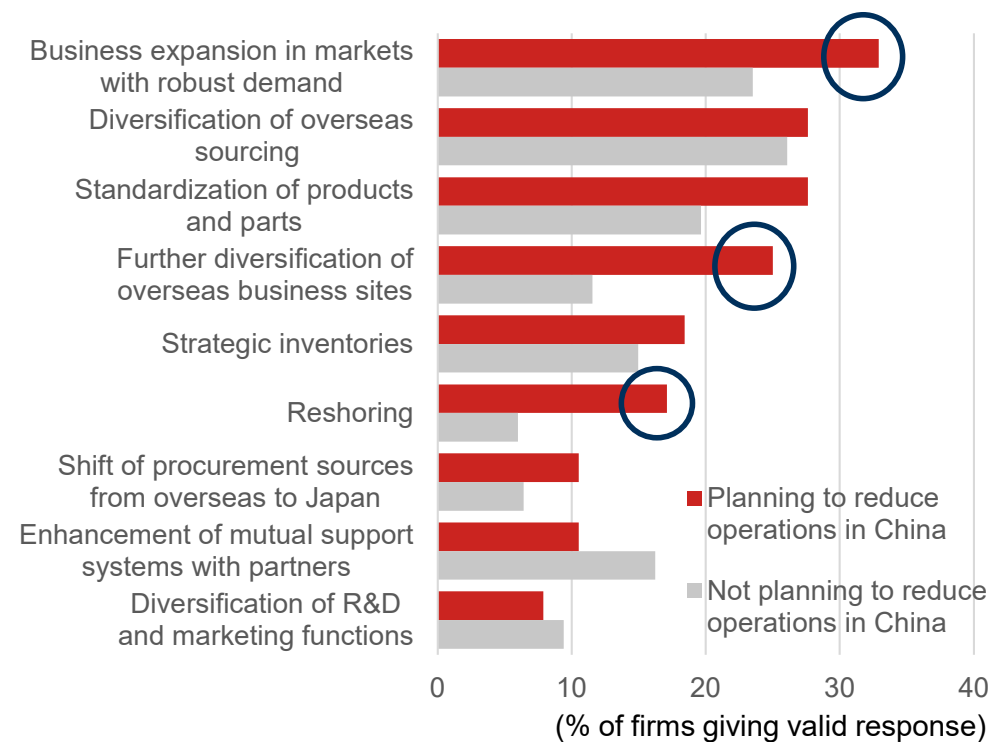
Reshoring to Japan, expansion in US, and reallocation in Asia

Expansion of production and export facilities by firms curtailing production and export operations in China (manufacturing)



Note: 1. Major and medium-sized manufacturers. 2. Respondents may choose up to five answers. 3. 114 firms responded to the relevant questions.  
Source: Nomura, based on DBJ data

Revision to supply chains among firms planning and not planning to curtail operations in China (manufacturing)

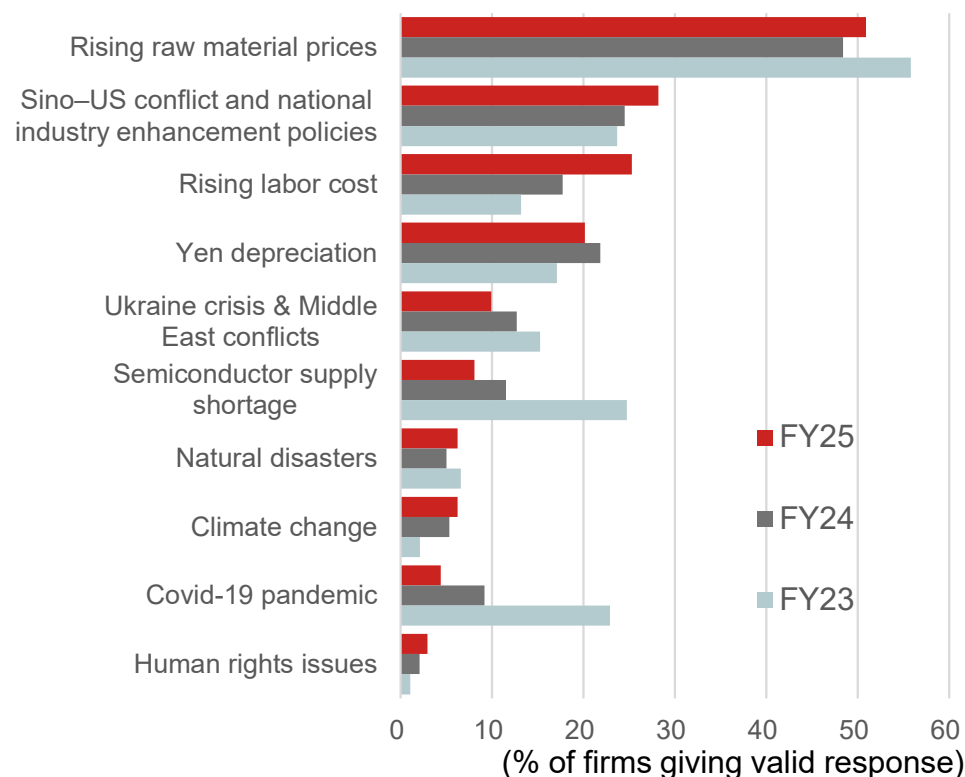


Note: 1. Major and medium-sized manufacturers 2. Respondents may choose up to three answers. 3. 76 firms plan to reduce operations in China.  
Source: Nomura, based on DBJ data

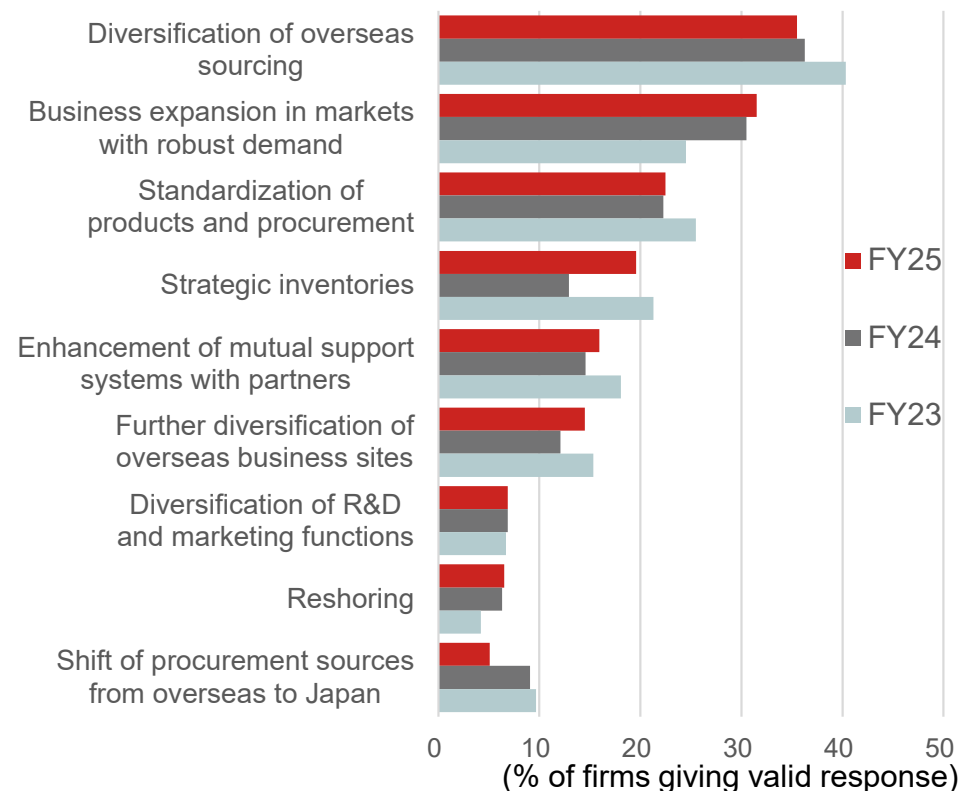
# Why are they reviewing supply chain?

US/China conflicts are a part of the reasons but not all of them

## Opportunities for revision of supply chains



## Actions to revise supply chains

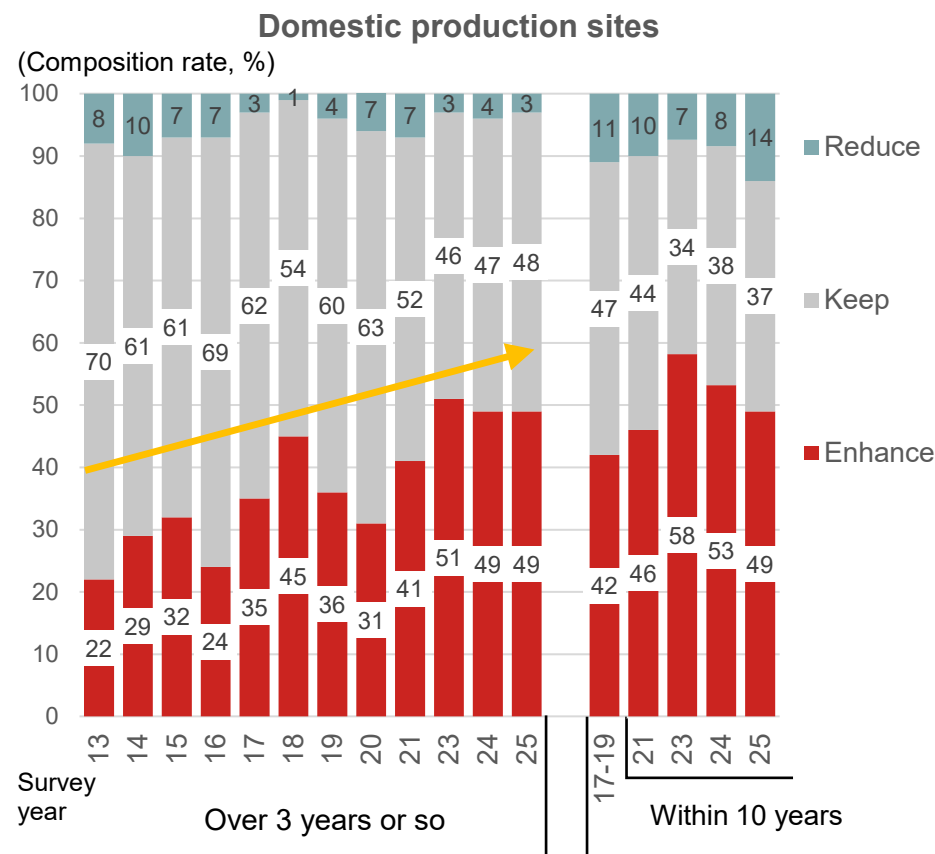
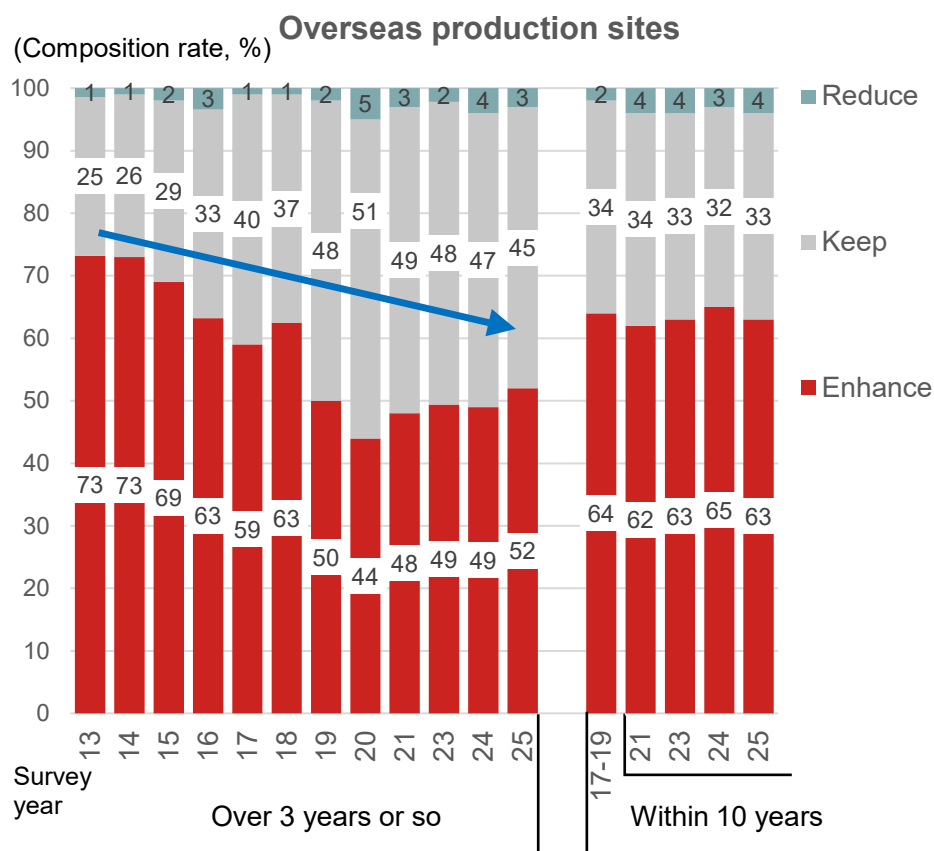


Note: 1. Major firms in all industries. 2. Respondents may choose up to three answers.  
Source: Nomura, based on DBJ data

# Where are they focused in mid-long term?

Long-term trend to refocus in Japan is increasingly vague

## Medium-Term Domestic and Overseas Supply Capacity (Manufacturing)



Note: 1. Major firms. 2. Data covers the firms reporting both domestic and overseas operations (FY2025: 176 firms [3-year perspective], 167 firms [10-year perspective]; survey not conducted in FY2022).

Source: Nomura, based on Development Bank of Japan data

# Appendix A-1

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As at 30 September 2025.

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When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J117 and subsequent issues, the maturity value shall not undercut the face amount.

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In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

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