

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

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Summary

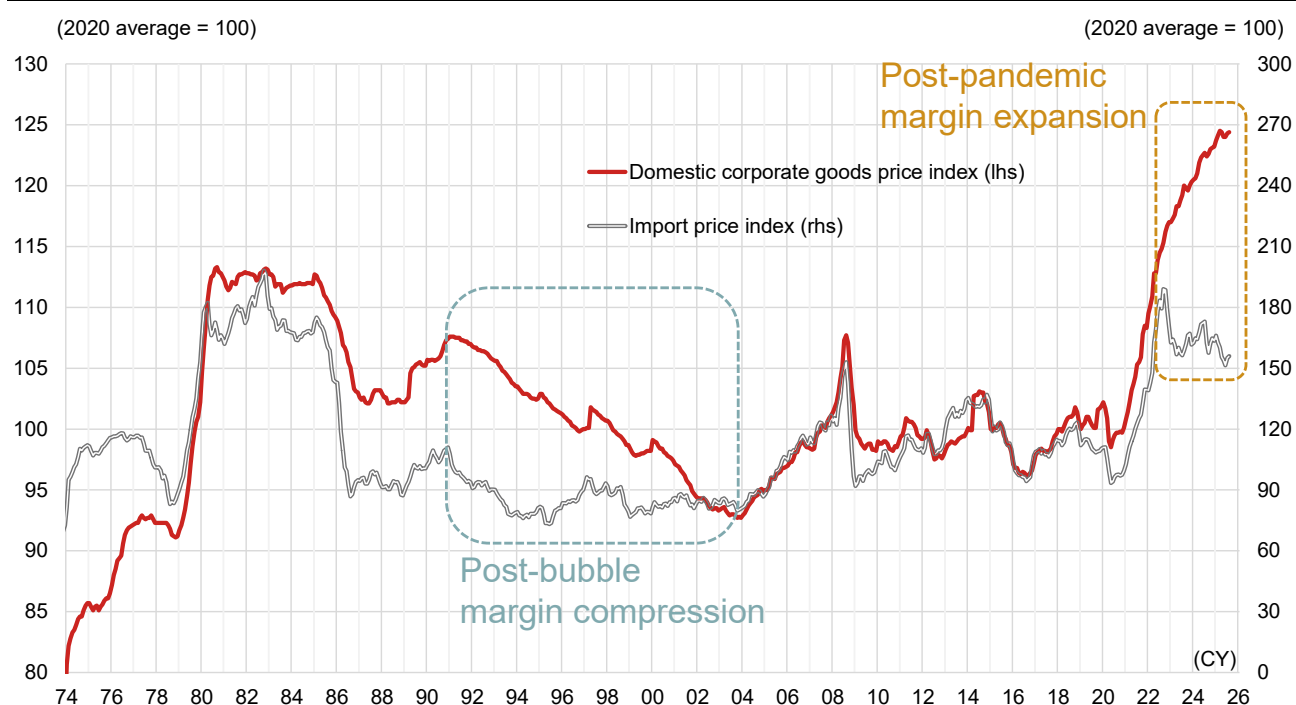
Over the past five years, global and domestic supply constraints have brought some significant shifts in the behavior of Japanese households and firms. First, as the COVID-19 pandemic coincided with a domestic labor shortage, Japanese companies began raising prices and wages simultaneously. The heightened willingness of workers to change jobs during the pandemic has been one factor pushing firms to increase wages. Second, Japan's inflation rate moving into positive territory has altered households' asset preference. With deposit rates in real terms turning negative, Japanese households, especially the younger generations, have been shifting assets from cash into investment trusts. Third, the destination of Japanese outward direct investment shows a clear divergence over the years: decreasing toward China and increasing toward the United States. There is little evidence, however, that this has been accelerated by U.S.-China trade frictions. Industry-level data indicate that Japanese companies have been stepping up M&A activities in the United States to capture its expanding markets, while in China the decline in direct investment largely reflects their loss of share in the Chinese automobile market.

<Chapter 1>

This chapter first discusses how strong supply constraints on both global and domestic fronts—namely COVID-19 and labor shortages—played a major role in Japan’s exit from deflation.

Has Japan really escaped deflation? It is a theme that should be tested against multiple data series, but the clearest evidence of “exit from deflation” is shown by the Bank of Japan’s Corporate Goods Price Index (CGPI) (Figure 1). Even though import prices peaked in mid-2022 and then fell, domestic corporate prices have continued to rise. It appears that, for the first time since the burst of the bubble, Japanese firms have been able to raise prices even without an increase in import costs.

Figure 1: Yawning gap between peaking out in import prices and ongoing rise in domestic prices



Source: Nomura, based on BOJ data

Behind Japan’s exit from deflation were overlapping inflation shocks (Figure 2). Exogenous shocks—global inflation driven by supply constraints caused by COVID-19 (2021) and the war in Ukraine (2022)—for the first time created an environment in which Japanese companies could raise prices without having to apologize to their customers. Strong inbound tourism also supported price hikes in services such as dining out. Events that impressed overseas investors with Japan’s transformation, including the Tokyo Stock Exchange’s requests to listed companies, METI’s M&A guidelines, and the launch of the new NISA, all happened in 2023–24. The confluence of these shocks made corporate

governance within Japanese firms more dynamic; in particular, firms shifted to and maintained an unprecedentedly proactive stance on pricing. One could say the Japanese economy, like a golf ball, has finally escaped the bunker.

Figure 2: How has Japan emerged from its 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)

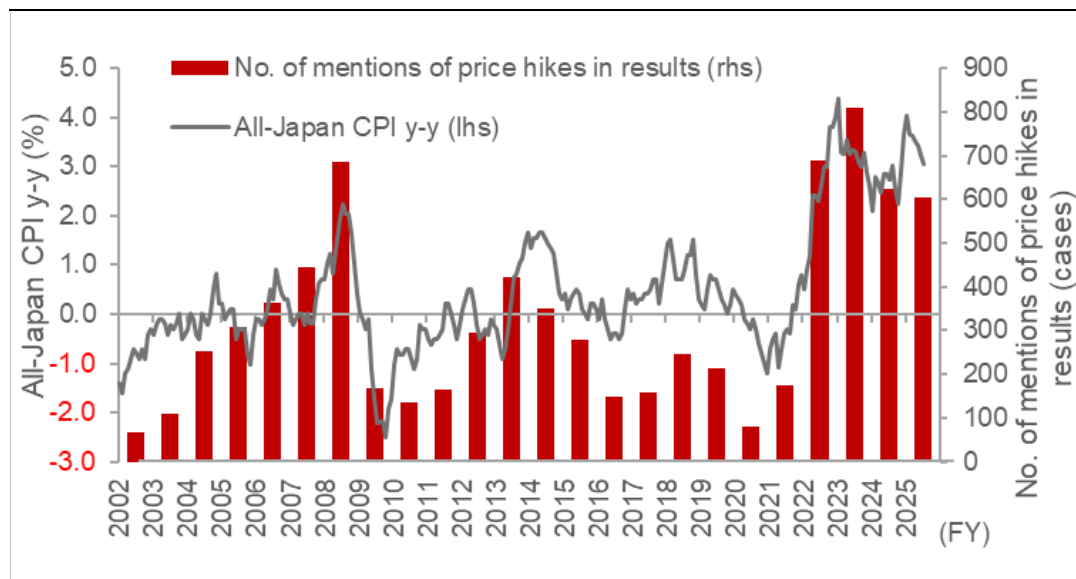
All these provided
shock therapy to
corporate Japan.
Once it gets out
from a deflationary
trap, virtuous cycle
is much easier to roll.

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

Source: Nomura

Figure 3 shows the total number of companies that mentioned "price increases" in their earnings summary reports. The number surged in fiscal 2022 and has remained high since. It clearly illustrates how routine price hikes have become and it aligns with the trajectory of the CPI.

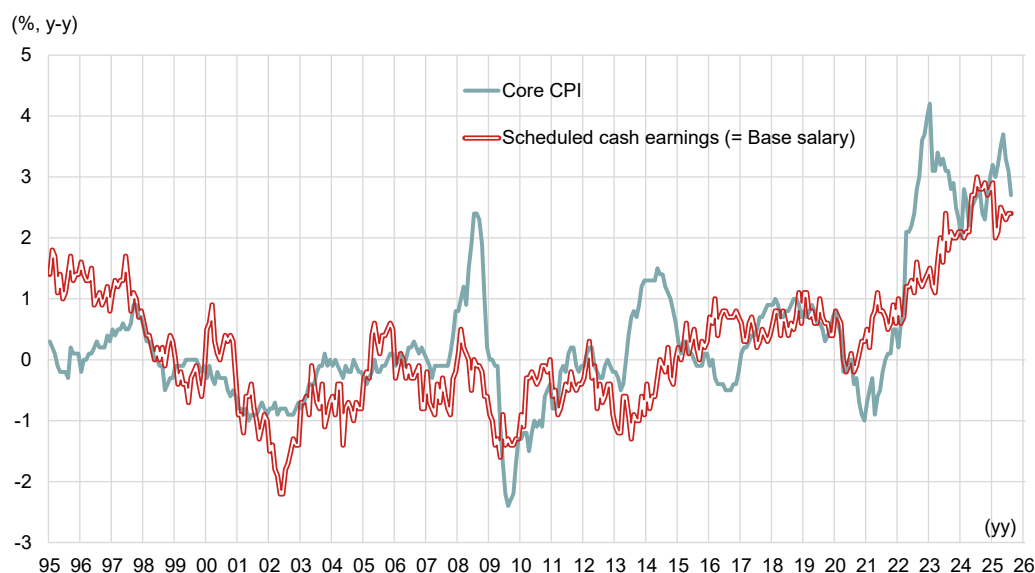
Figure 3: Number of mentions of price hikes in results and Japan's CPI



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

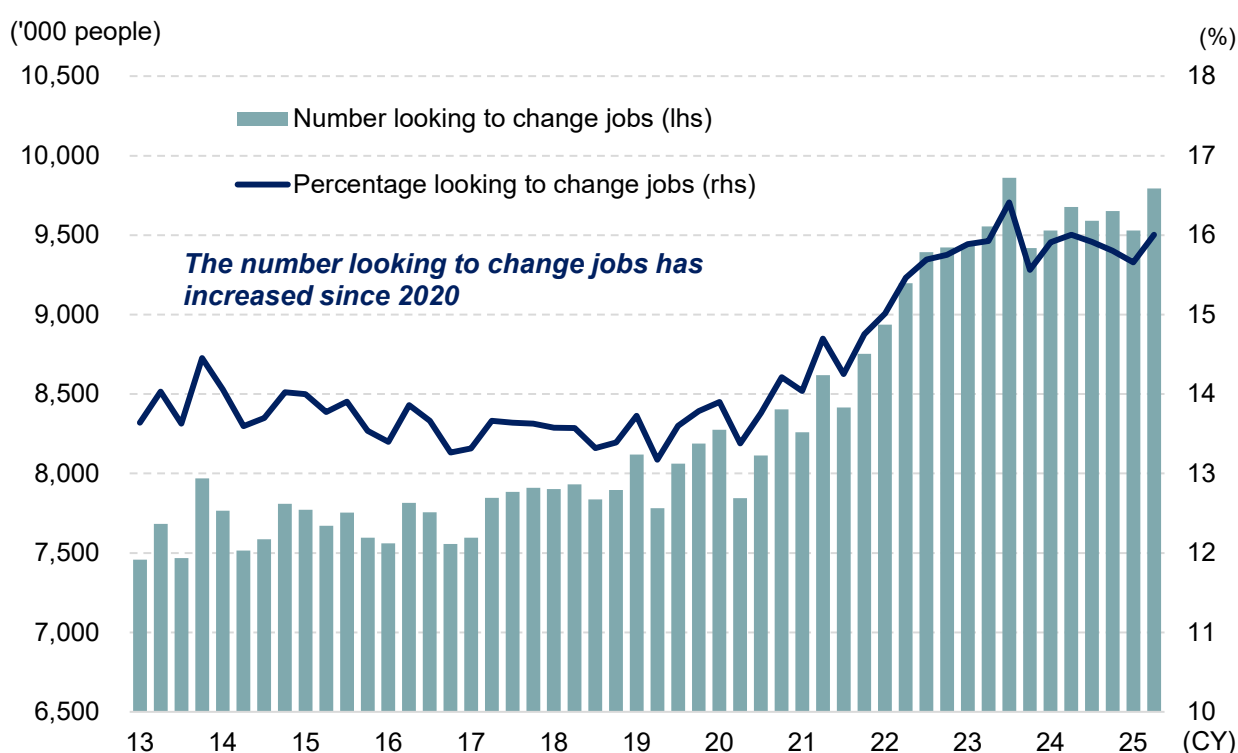
Figure 4: Base salary (enterprises with five employees or more) and CPI inflation



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 firms also began raising wages alongside price increases. Here, a second supply constraint—domestic labor shortages—has been at work. It is not only the aging and shrinking population as widely known. In Japan, the labor market has become more fluid since the pandemic, which is also an important factor. Stay-at-home behavior during COVID lowered young workers' psychological barriers to changing jobs, and together with the rapid spread of job search apps, has led to a surge in people seeking to change jobs (Figure 5). Companies are being forced to raise pay to attract and retain younger workers.

Figure 5: Rising number of workers looking to change jobs means “wage competition” for employers



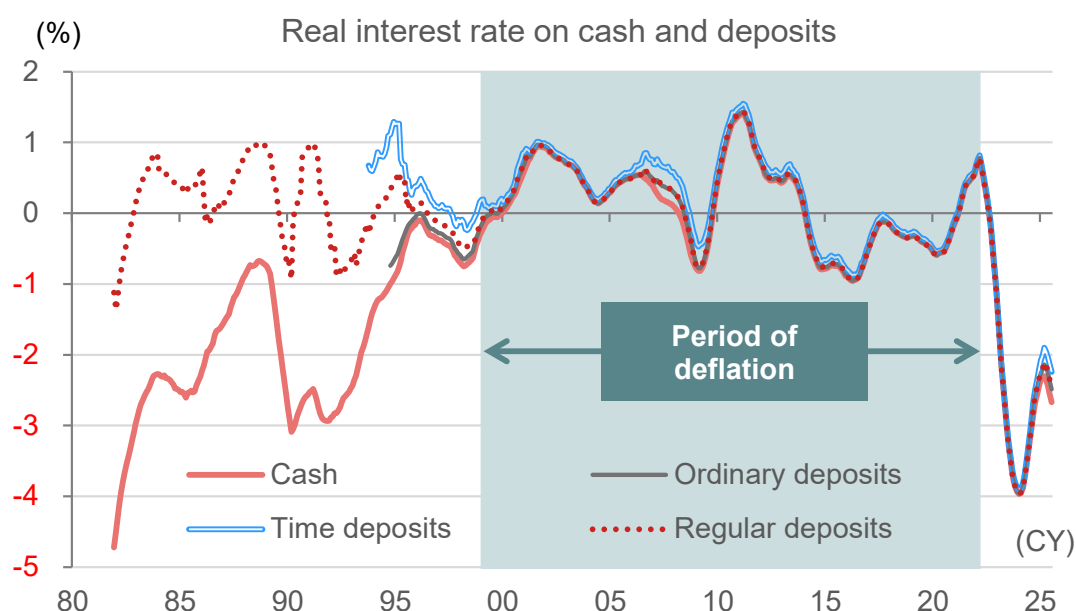
Note: Data seasonally adjusted by Nomura.

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

<Chapter 2>

This chapter looks at the major changes in households' choices of financial assets as Japan exits deflation for the first time since the bubble burst. Under deflation, Japan's CPI inflation hovered around 0%. From year 2000 onward, interest rates on various deposit accounts were pinned near 0%, yet on a real basis (deflated by CPI) and they did not stay long in negative territory (Figure 6). In other words, deposits were “assets that didn't lose.” Households had little incentive to actively shift into risk assets. However, as inflation has been persistently positive since COVID, household deposits have fallen into sharply “negative real interest rates.”

Figure 6: Real interest rates on cash and deposits turning negative (and deep)

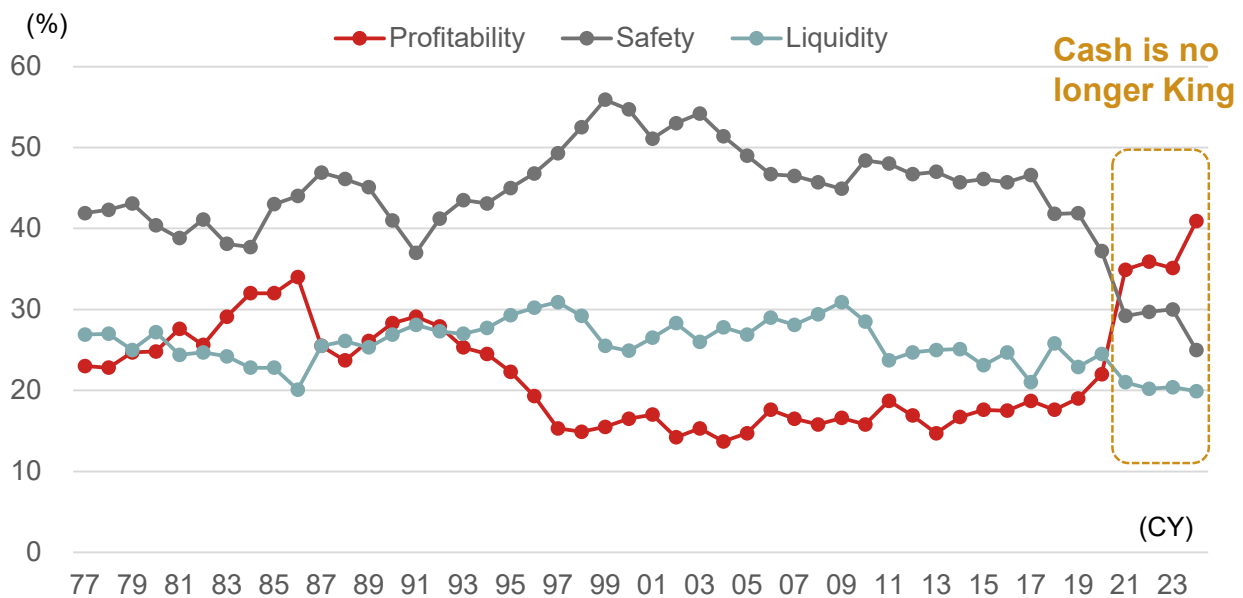


Note: (1) Real interest rate = nominal interest rate - y-y change in CPI (ex fresh food and energy) (12-month moving average). (2) Time deposits are weighted average (new deposits) for all maturities, regular deposits are postal savings. (3) We define period of deflation as period when y-y change CPI (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

Is this having an impact? J-FLEC conducts an annual “Public Opinion Survey on Household Financial Behavior” of 5,000 households nationwide. It includes a survey on criteria for choosing financial products, from which one can confirm a dramatic shift in household attitudes. Specifically, the long-standing top answer, “safety,” to the question “what is your priority when selecting financial products”, was overtaken by “profitability” in 2021, and the gap widened markedly by 2024 (Figure 7). Households’ determination to seek returns that beat inflation is clear. Cash and deposits, which

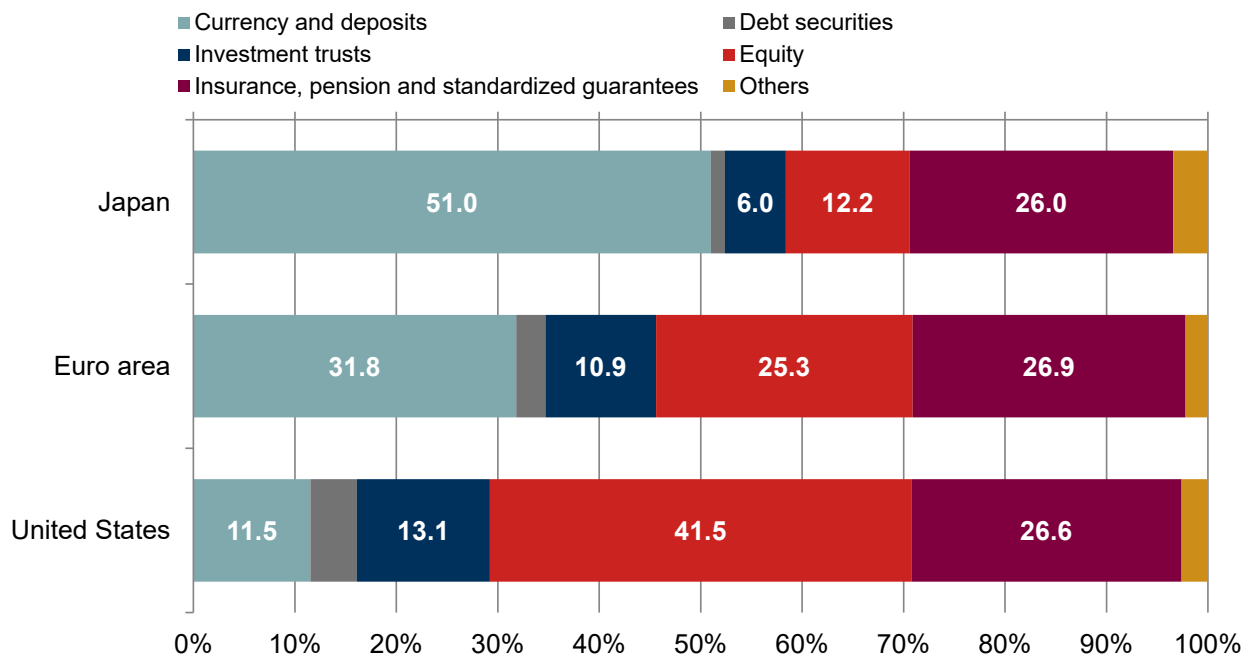
account for 51% of individuals' financial assets in Japan (Figure 8), are no longer as attractive as they once were.

Figure 7: Dramatic shift from “safety” to “profitability” as domestic inflation turns positive



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

Figure 8: 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

In this macro environment, the new NISA (Nippon Individual Savings Account) program was launched in January 2024. It allows households to make up to 3.6 million yen per year in tax-exempt

securities investments (Figure 9).

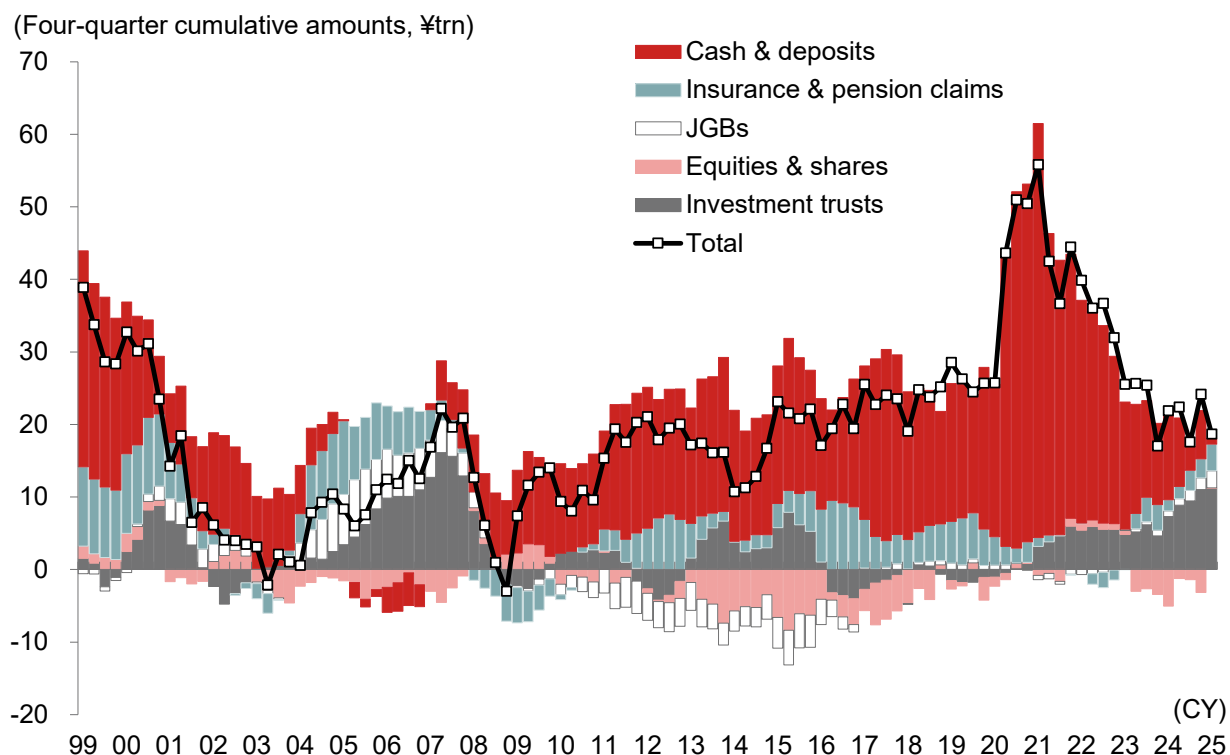
Figure 9: New NISA increased its investing limit, abolished tax-exempt period limit, and approved combined usage of Tsumitate NISA (dollar-cost averaging investment) and Growth NISA

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

Source: Nomura, based on FSA

The flow-of-funds data also reflect households' asset shifts. During COVID in 2020–21, cash handouts from the government combined with the forced suppression of household services expenditure led to cash and deposits accumulating at an annualized pace of 60 trillion yen (Figure 10). After reopening from COVID, households began to draw down excess savings. Notably, since 2021, extra savings allocated to investment trusts have been rising gradually but steadily. Especially since the new NISA program began in January 2024, the pace has accelerated somewhat to around ten trillion yen per year.

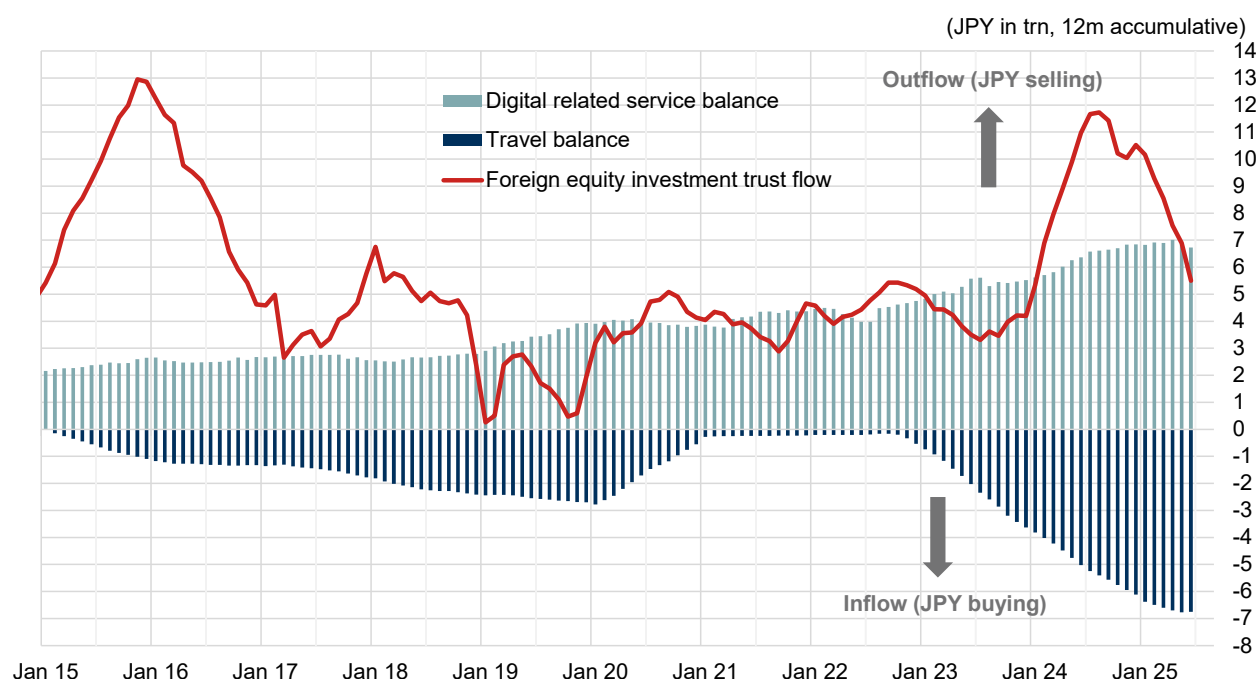
Figure 10: Changes in household financial assets and their decomposition



Source: Nomura, based on BOJ data

At present, roughly 80% of inflows into investment trusts go to foreign equity funds, creating a steady yen-selling pressure. When assessing the supply-demand balance for the yen in the foreign exchange market, such “toshin” investment trust flows are becoming more important (Figure 11). The much-discussed “yen selling due to the digital deficit” and “yen buying by inbound tourists” each run at around seven trillion yen and balance out, both moving stably, so their impact on the yen is relatively small.

Figure 11: Meanwhile, retail investors' "toshin flow" is consistently pressure for JPY weakening

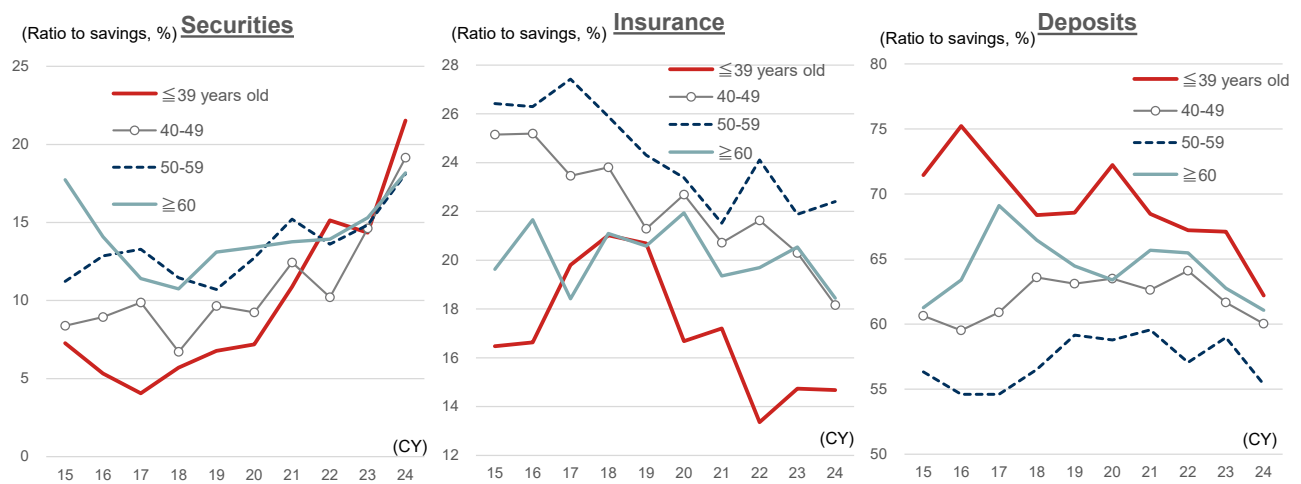


Source: Nomura, based on MOF data

Which age groups are moving away from cash and actively investing via investment trusts?

According to the Household Survey, Savings and Liabilities edition, net flows in securities investments (including investment trusts) relative to extra savings each year have been increasing across a broad range of age groups, but the trend is particularly pronounced among those aged 39 and under (Figure 12). At the same time, the under-39 cohort has significantly reduced not only cash and deposits but also their net allocation to insurance policies. We can see that “preparing for the future” is shifting from insurance to accumulate-type (systematic) toshin investment. In addition to the slide of cash and deposits into “negative real interest rates” due to inflation, the spread of online banking has made it easier for younger generations to flexibly change their asset mix, which is likely contributing to the shift from cash and insurance.

Figure 12: Younger generations are more active in raising securities portion of savings (flow basis)



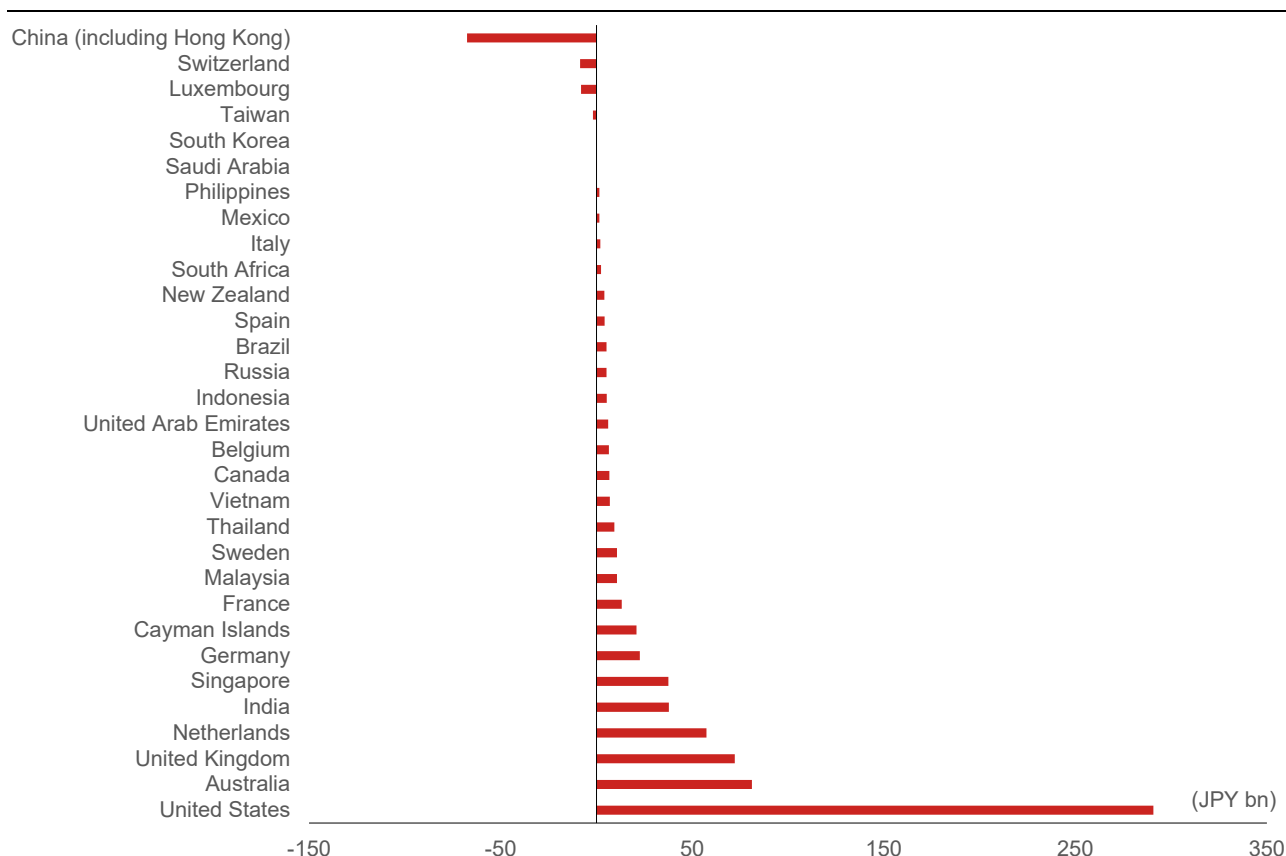
Note: Covers two-or-more-person working households. Savings refers to the sum of deposits, securities, insurance, and savings at non-financial Institutions.

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

<Chapter 3>

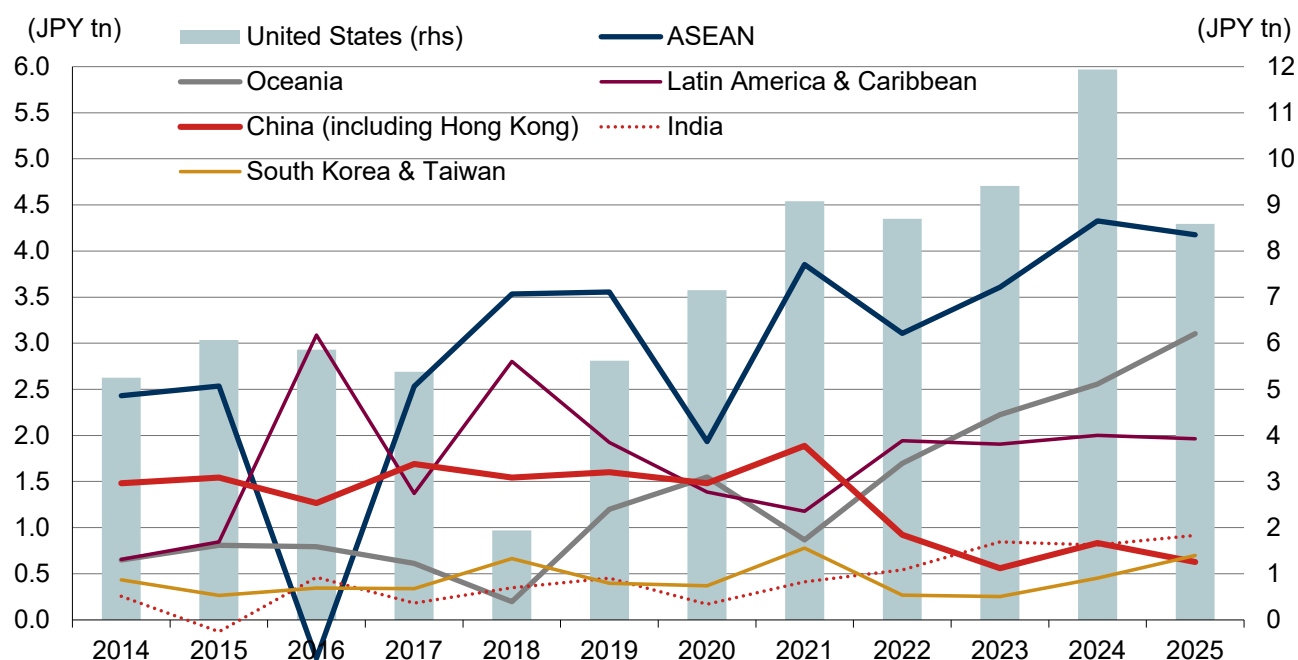
This chapter examines how Japanese companies' foreign direct investment (FDI) has changed under global supply constraints. First, Figure 13 compares the country breakdown of Japan's FDI for the three years through 2024 (monthly amounts, medians) with the preceding three years. By using the median rather than the average, the influence of large M&A is removed. The pattern is straightforward: a decline toward China (including Hong Kong) and an increase toward the United States. Looking at the amounts over time, FDI in China averaged 1.66 trillion yen per year in 2019–21, but fell to 0.77 trillion yen in 2022–24, less than half (Figure 14). The destinations absorbing this shift are ASEAN, Oceania, and India, indicating a diversification of production bases. Meanwhile, FDI in the United States has been rising steadily

Figure 13: Change in Japan's FDI by destination country
(monthly median in 2022-24 compared with 2019-21)



Source: Nomura based on MOF data

Figure 14: Foreign direct investment to selected regions

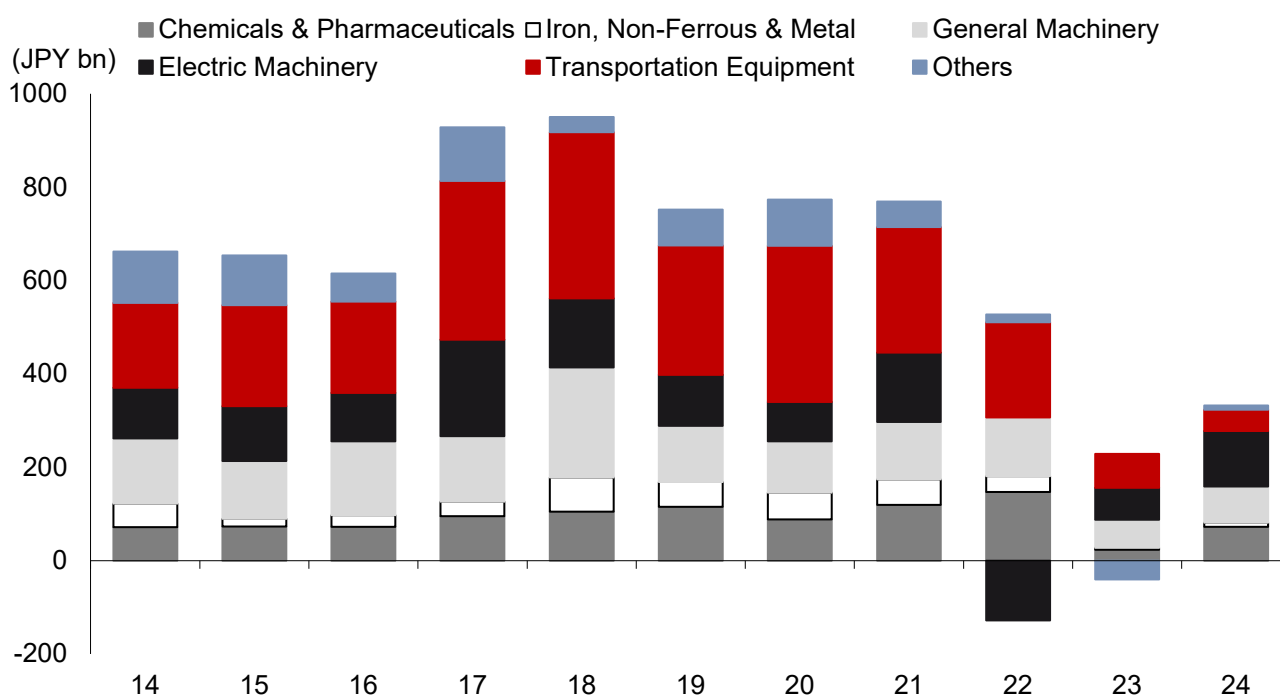


Note: Data for 2025 are estimate based on Jan-Jun data.

Source: Nomura based on MOF data

Looking at sectoral movements in Japan's FDI in China is also meaningful. The decline since 2021 is attributable to transportation equipment (mainly automobiles and parts) (Figure 15). Since 2021, domestic Chinese automakers have begun to pull far ahead of foreign makers in sales volume. At the same time, Japanese automakers' direct investment in China has dropped sharply, suggesting they are reducing production capacity along with shrinking market share. This points to different causes t from the U.S.–China confrontation.

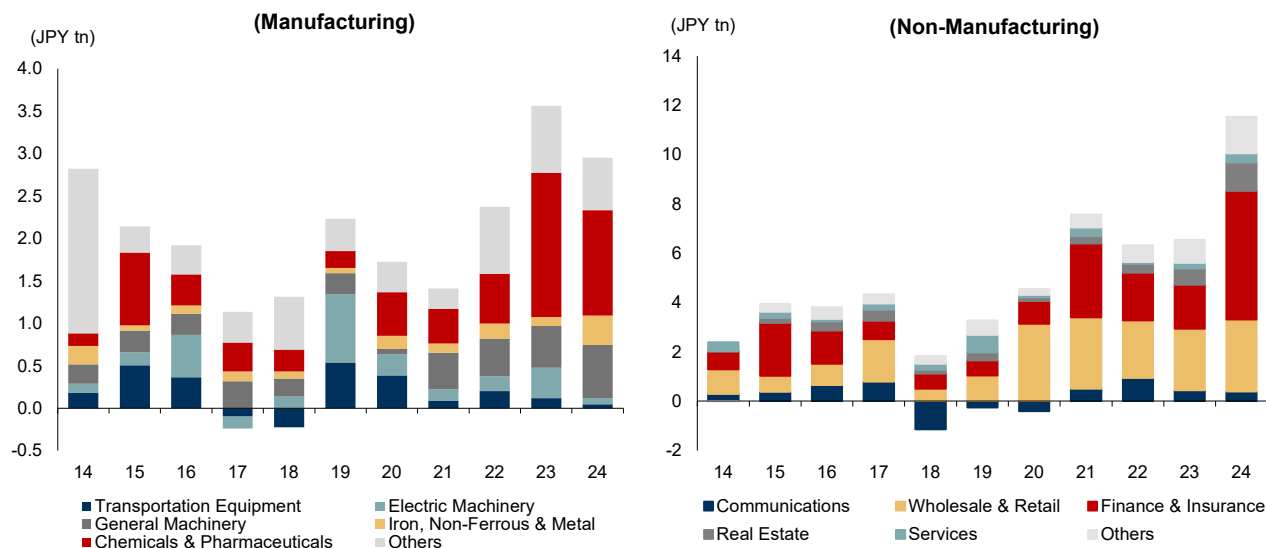
Figure 15: Composition of Japan's FDI to China (Manufacturing)



Source: Nomura based on MOF data

Conversely, a sectoral look at FDI in the U.S. shows strong contributions from chemicals and pharmaceuticals in manufacturing, and from wholesale/retail and finance/insurance in non-manufacturing (Figure 16). These are industries actively expanding through M&A. When we hear “a surge in FDI in the U.S.,” we might imagine the influence of investment subsidies under the IRA (Inflation Reduction Act) and the CHIPS for America Act, both enacted August 2022. However, based on Japan’s FDI data, contributions from electrical machinery and transportation equipment are relatively small. Thus, it is hard to argue that U.S. efforts to bolster domestic production of semiconductors and EVs (and parts) for economic security have accelerated Japanese companies’ overall FDI in the U.S. Rather, with the domestic market shrinking due to population decline, Japanese firms are seeking to capture the expanding U.S. market.

Figure 16: Composition of Japan's FDI to the US

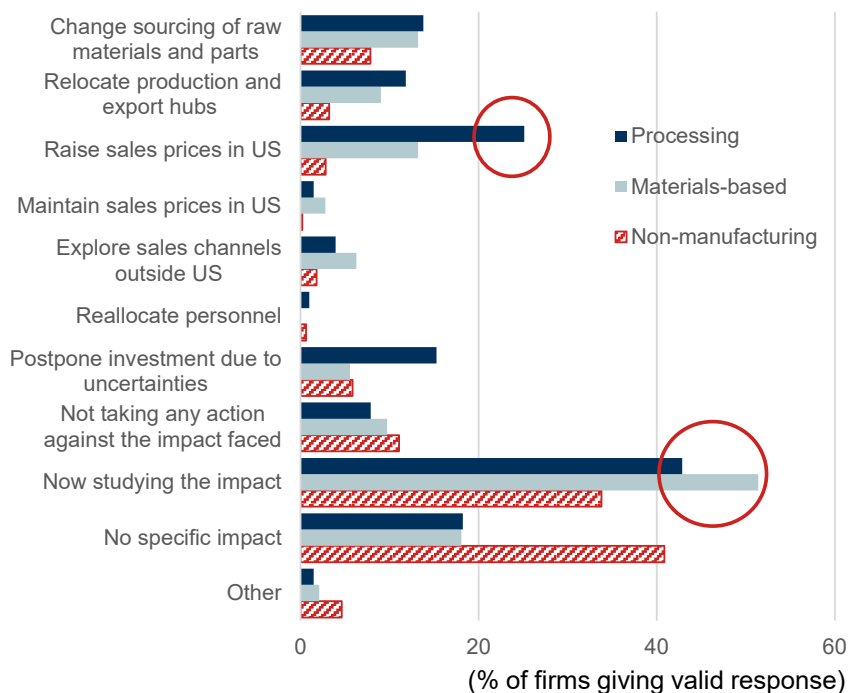


Source: Nomura based on MOF data

Is it possible to know how Japanese companies are responding to the “Trump tariffs”? On this point, the “Survey on Planned Capital Spending for FY2025” published by the Development Bank of Japan (DBJ) on August 4 this year is extremely useful. This survey features a special section on “Impacts of U.S. tariff strengthening, supply chains, and overseas investment.” The number of respondents was 919 large firms. Below, we look at the key points; DBJ has kindly granted permission to reproduce the figures.

First, to the question of what responses they are taking to the Trump tariffs, many answered that they have not taken specific actions yet and are “now studying the impact” (Figure 17-1, 17-2). Among processing industries, notably competitive general machinery, a higher share plan to “raise sales prices in US” Related data from the BOJ’s export price index are informative: while price cuts from April to May were apparent in transportation equipment, they did not occur in general machinery, highlighting sectoral differences (Figure 18).

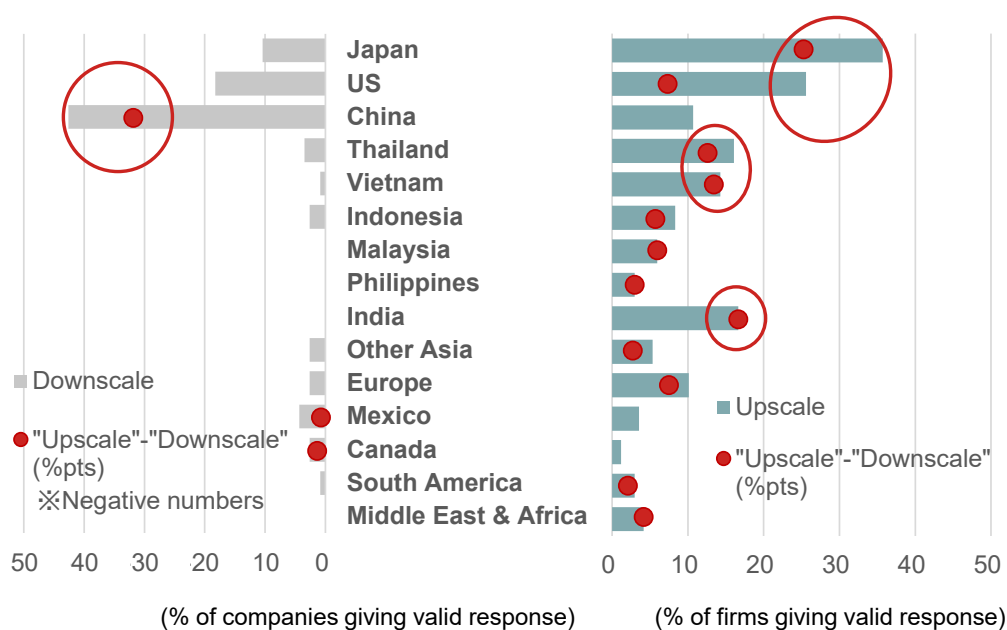
Figure 17-1: Response to US tariff hikes



Notes: 1. Major firms. 2. Respondents may choose up to three answers.

Source: Nomura, based on Development Bank of Japan data

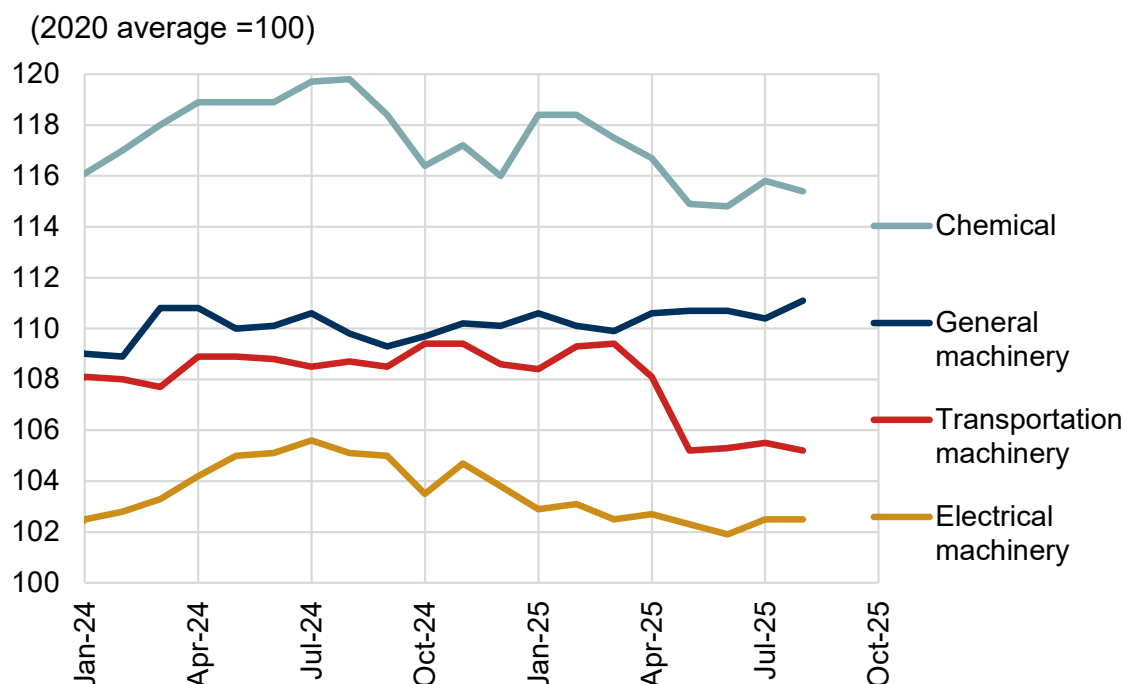
Figure 17-2: Region to upscale or downscale operations as production and export sites (manufacturing)



Note: 1. Major manufacturers 2. Respondents may choose up to five answers.

Source: Nomura, based on Development Bank of Japan data

Figure 18: Export price index (contractual currency basis, selected sectors)



Source: Nomura based on BOJ data

In processing industries, some postponement of investment due to uncertainty is evident, but moves such as changing supply chains are limited. Regarding changes to production/export facilities prompted by the Trump tariffs, a broad trend of downsizing China is evident, while Japan, Southeast Asia, and India are being expanded. For the U.S., there are many firms both expanding and shrinking. The “downscale” responses likely reflect tariffs imposed on parts exported to the U.S. from other regions.

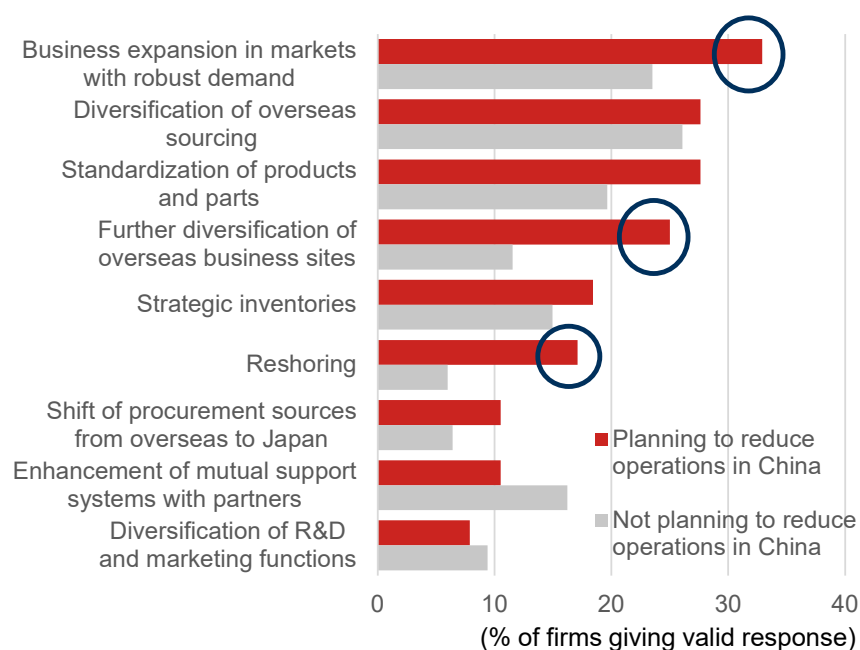
Focusing on firms that answered they are downscaling production/export bases in China, the bases they are expanding are in Japan, the U.S., Southeast Asia, and India (Figure 19-1, 19-2), which largely match Figure 17-2. Asking the firms “curtailing production and export operations in China” about how they reviewed their supply chain, “business expansion in markets with robust demand” corresponds to bolstering U.S. bases, “further diversification of overseas business sites” corresponds to entry into Southeast Asia/India, and “reshoring” corresponds to expanding capacity in Japan. The ranking of responses does not necessarily match across the two charts, but we can see the distribution across three patterns rather than a single unified approach. Firms downscaling in China also show a generally greater inclination to reset their supply chains, including switching from overseas procurement to domestic sourcing.

Figure 19-1: 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

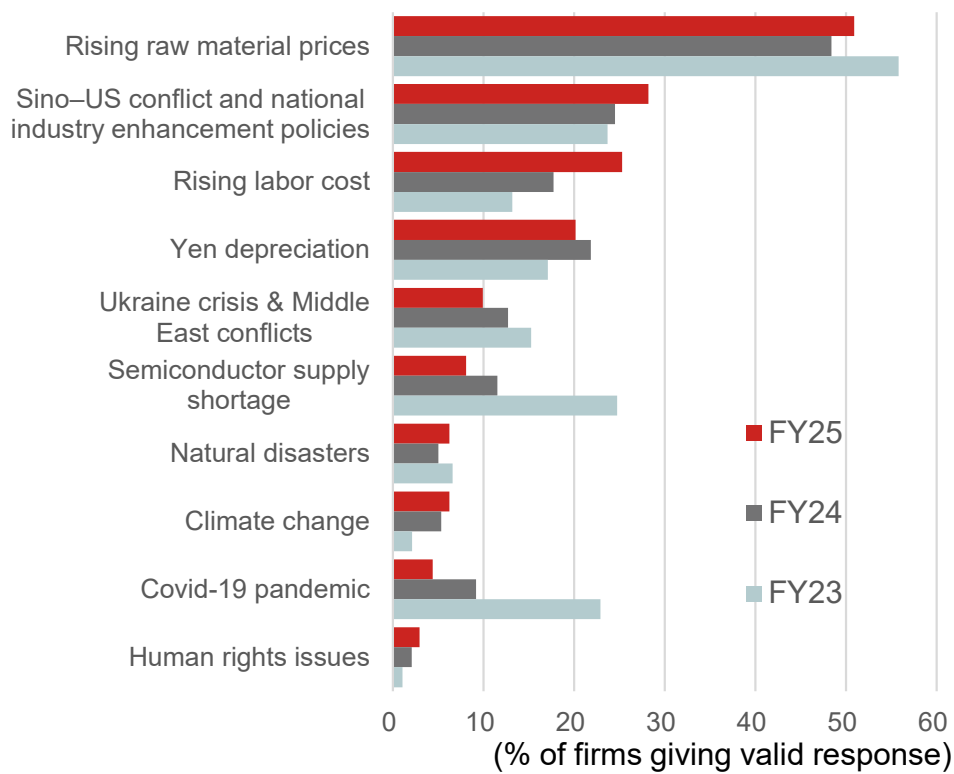
Figure 19-2: Revision to supply chains among firms planning and not planning to curtail operations in China (manufacturing)



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

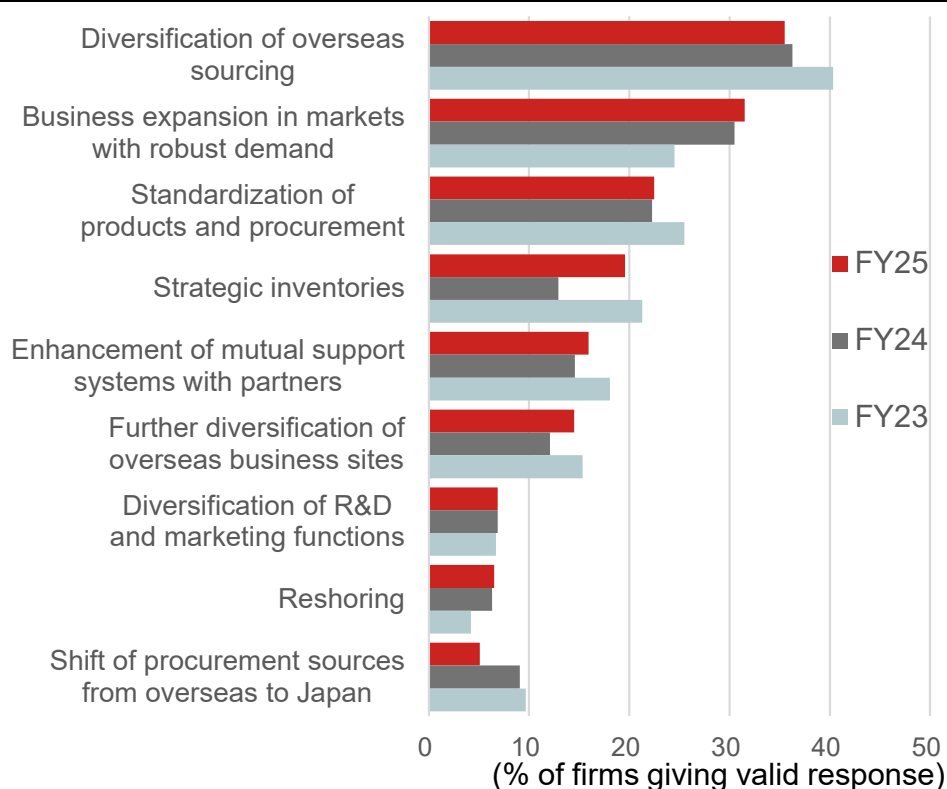
What about changes over time? The share of respondents citing “Sino-US conflict and national industry enhancement policies” as triggers to review supply chains rose somewhat in FY2025, indicating an impact from the Trump tariffs (Figure 20-1, 20-2). At the same time, the increased importance of “rising labor cost” should not be overlooked. The downsizing of China bases likely reflects not only U.S. tariff policy but also a consistent rise in labor costs in China. Moreover, although shortages of semiconductors and the impact of pandemic have eased in Figure 20-1, Figure 20-2 shows more firms aiming to secure strategic inventories. Here too we see the impacts of U.S.–China decoupling and tariff strengthening.

Figure 20-1: Opportunities for revision of supply chains



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

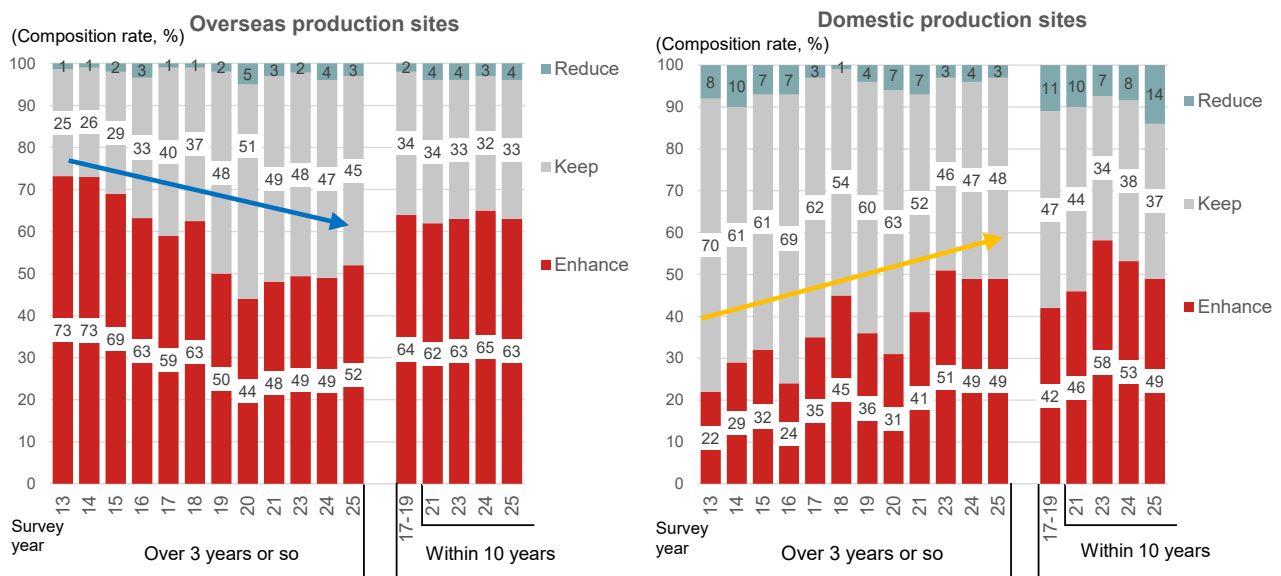
Figure 20-2: Actions to revise supply chains



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

As for the medium-term outlook for manufacturing supply capacity, responses indicating plans to “enhance” overseas capacity over the next three years have been weak but have picked up slightly (Figure 21). Meanwhile, responses indicating plans to “enhance” domestic production bases appear to be somewhat sluggish. Since 2013, the trend might be read as “domestic emphasis,” but since 2023 the trend is unclear. There is no sign that the 2025 Trump tariffs are accelerating Japanese companies’ inclination to reshoring.

Figure 21: 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

Conclusion

Over the past five years, global and domestic supply constraints have brought some significant shifts in the behavior of Japanese households and firms. First, as the COVID-19 pandemic coincided with a domestic labor shortage, Japanese companies began raising prices and wages simultaneously. The heightened willingness of workers to change jobs during the pandemic has been one factor pushing firms to increase wages. Second, Japan's inflation rate moving into positive territory has altered households' asset preferences. With deposit rates in real terms turning negative, Japanese households, especially the younger generations, have been shifting assets from cash into investment trusts. Third, the destination of Japanese outward direct investment shows a clear divergence over the years: decreasing toward China and increasing toward the United States. There is little evidence, however, that this has been accelerated by U.S.-China trade frictions. Industry-level data indicate that Japanese companies have been stepping up M&A activities in the United States to capture its expanding markets, while the decline in direct investment in China largely reflects their loss of share in the Chinese automobile market.