

Snap | 1 July 2025

JAPAN UNITED STATES

# Japanese businesses positive despite US trade uncertainty, supporting BoJ's rate hike cycle

Japanese businesses, large and small, remained positive overall despite trade war uncertainties. Manufacturers maintained a positive view, as evidenced by the manufacturing PMI moving into expansion for the first time in 12 months



## 12 Tankan large manufacturing outlook

(vs 12 in March)

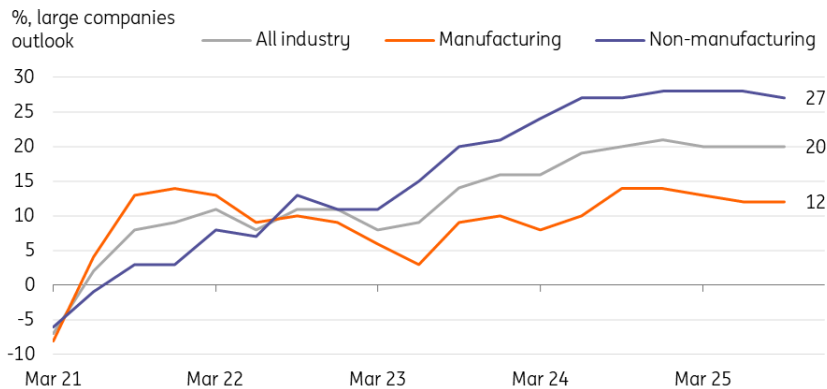
Higher than expected

### Manufacturers have a positive outlook

The overall results for Japanese manufacturers exceeded market expectations. The Tankan large manufacturer index increased to 13 in June (vs 12 in March, 10 market consensus), while the outlook index remained at 12 (vs 9 market consensus). The manufacturing purchasing

managers' index (PMI) also rebounded to 50.1, a bit lower than the flash print of 50.4, though. This marks the first expansionary result in 12 months. Output rose meaningfully, suggesting a rebound in manufacturing activity in the second quarter. Yet, new orders fell. So, the recovery remains quite vulnerable.

**Outlook remains stable despite US trade uncertainty**

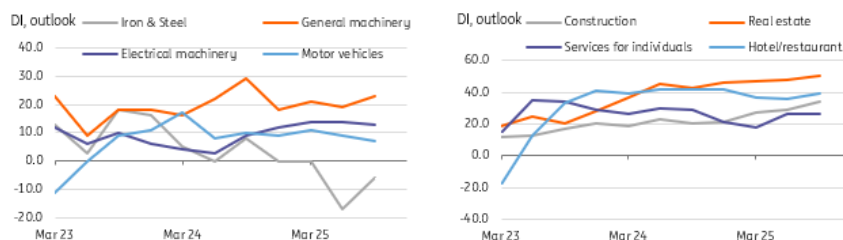


Source: CEIC

**Non-manufacturers expect some moderation in the coming months**

The large non-manufacturers index edged down to 34 (vs 35 in March, 34 market consensus) but still remained near historical highs. Yet the outlook index unexpectedly edged down to 27 (vs 28 in March, 29 market consensus). Given Japan's high dependency on domestic demand for economic growth, any rebound may be a bit smaller scale than we expected.

**US tariffs hit manufacturing outlook for steel and autos, but overall sentiment positive**



Source: CEIC

**Businesses expect inflation to rise above 2% for a while**

Also noteworthy, businesses anticipate an inflation rate of 2.3% for output prices over the next

year, with prices expected to continue accelerating over the next five years. This projection will be carefully monitored by the Bank of Japan to ensure that the sustainable 2% inflation target remains achievable.

### BoJ watch

The BoJ is expected to increase rates this year, but this will likely occur after a US-Japan trade agreement is signed. Despite resilient businesses and rising inflation, the BoJ may avoid raising rates anytime soon. Therefore, a 25 bp hike is anticipated in October. If a trade agreement is reached earlier than expected, and with more favourable terms, the hike could come sooner in September.

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