LAZARD
ASSET MANAGEMENT

Three Forces Driving Japan's Economic Renaissance

1.

The New Inflationary Mindset

For decades, deflation has stifled Japan's economic growth potential. From 1995 to 2021, prices for goods, services, and housing either declined or remained stagnant, excluding temporary jumps driven by consumption tax increases (Exhibit 1).

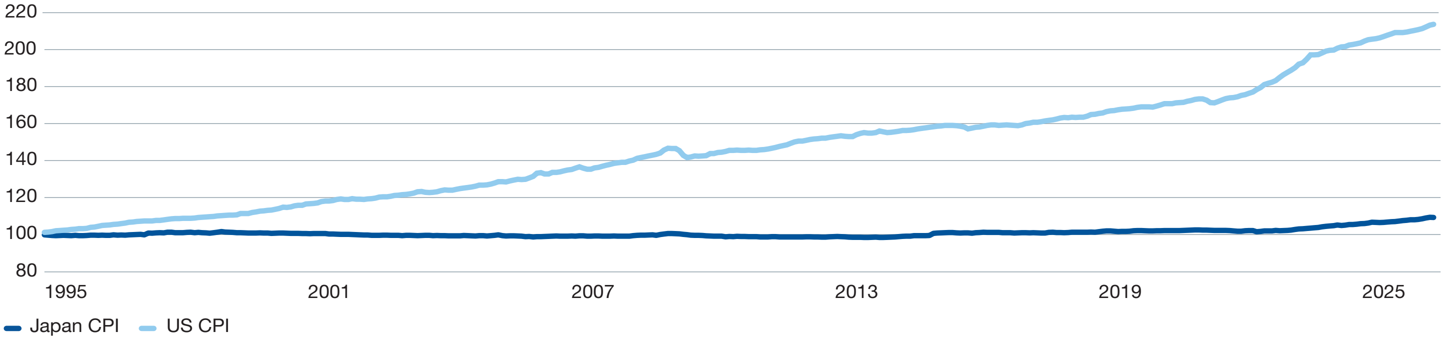
This has recently shifted. Over the past four years, inflation has remained in the 2%–3% range—and while it is currently higher than the central bank's target,[1] it remains moderate compared to US inflation, which has climbed as high as 9% in recent years.[2]

We expect this shift to have a positive impact on consumption, which might sound counterintuitive to those outside of Japan. US consumers accustomed to high inflation, for example, may associate rising prices with belt-tightening.

Exhibit 1

Persistent Headline Inflation for the First Time in Decades

Japan and US Consumer Price Indices (SA, 1995 = 100)

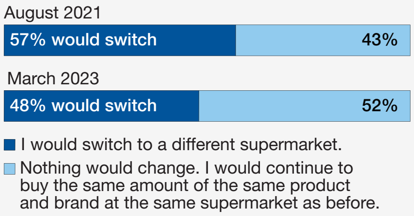


As of February 2025. Source: Haver Analytics, Japan Ministry of Internal Affairs and Communications, US Bureau of Labor Statistics

Exhibit 2

Consumers’ Adaptation to Rising Prices

Suppose that the price of a product that you always buy in your supermarket goes up by 10%. What would you do?



Source: See bottom of page

But in Japan, it is deflation—not inflation—that has hampered consumer spending for decades. In an environment of stable or declining prices, consumers have tended to delay purchases due to two simple questions: If prices are always declining or stable, why not wait to make a purchase? And if inflation is a rarity, why tolerate price mark-ups at any particular store?

In an environment of persistent, moderate inflation—not high enough to cause sticker shock and widespread enough to prevent bargain-hunting—we believe consumers can start to shed this way of thinking, and research from the University of Tokyo suggests they already are. A survey of roughly 11,000 Japanese consumers shows that they have become more willing to adapt to rising prices since inflation first took off (Exhibit 2). In 2021, 57% of Japanese consumers said they would switch grocery stores if the price of a regularly purchased item increased by 10%. By 2023, that percentage decreased to 48%, suggesting that just two years of moderate inflation have already started shifting consumer attitudes toward greater acceptance of rising prices.

2. Rising Wages

As prices rise, so too have Japanese wages. As a result of the 2024 *shunto* negotiations that take place each spring between labor unions and employers, wages increased by over 5% for the first time since 1991. This year’s *shunto* is seeking an even steeper increase of 6% for fiscal year 2025, which started in April.[3]

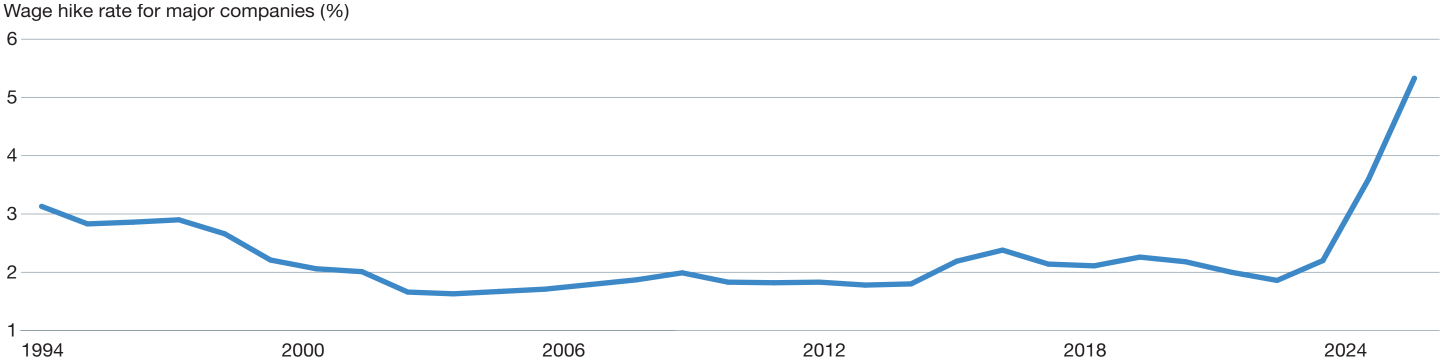
Last year’s wage hikes were driven by large companies (Exhibit 3), which tend to offer higher-paying jobs to begin with. But this year’s *shunto* will seek greater participation from small- to medium-sized firms, emphasizing the same message as last year: that “structural wage increases” are not a cost to companies but an investment in the Japanese economy. Beyond the *shunto*, Prime Minister Shigeru Ishiba is focused on raising the salaries of Japan’s lowest-income workers, targeting a 42% increase in the minimum wage by 2030.

With moderate inflation, workers’ *real* wages—the wages they keep after accounting for rising prices—should rise meaningfully. This means a greater share of salaries can go toward discretionary spending or investment, both of which stand to benefit the Japanese economy.

Exhibit 3

Rising Wages at Large Japanese Companies

Wage hike rate for major companies (%)



As of February 2025. Source: Ministry of Health, Labour and Welfare. Major companies are those listed on the first section of the Tokyo Stock Exchange with at least 2 billion yen in capital and 1,000 employees in labor unions.

As of March 2023. Source: Lazard, University of Tokyo. These survey results reflect the responses of 10,843 Japanese consumers. Other countries surveyed include Canada, Denmark, the United Kingdom, and the United States. The total number of respondents was 46,926.

3. Saving vs. Investing: Changing Risk Attitudes

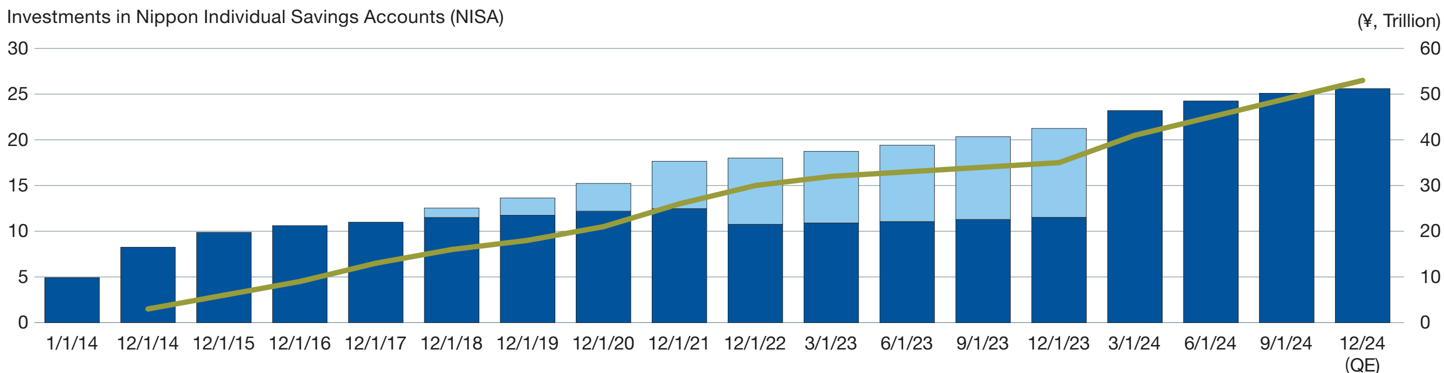
In this new environment of rising prices and rising wages, Japanese citizens are rethinking their approach to money. Traditionally, Japanese households have been known for saving: Over half of their assets (53%) have been held in bank deposits and only 13% have been invested in equities. By contrast, only 13% of US household assets are in bank deposits and 39% are in equities.[4]

The Japanese Nippon Individual Savings Account (NISA) system—a tax-exempt personal investing program for Japanese citizens aged 20 or older—is seeking to change this.[5] In 2024, NISA doubled the annual limit for "Ippan" investments (including domestic and international listed stocks, ETFs, and REITs) from 1.2 million yen to 2.4 million yen, and tripled the annual limit for "Tsumitate" investments (including long-term diversified investments, such as investment trusts) from 400,000 yen to 1.2 million yen.

Exhibit 4

Personal Investing Is Accelerating

Investments in Nippon Individual Savings Accounts (NISA)

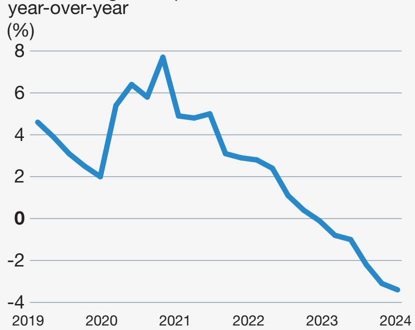


As of December 2024. Source: Ministry of Financial Services Agency

Exhibit 5

Japanese Households No Longer Clinging to Cash

Cash holdings of Japanese households year-over-year



As of December 2024. Source: Bank of Japan

Effectively, this increased the total lifetime investment limit from 6 million yen or 8 million yen (depending on type) to 18 million yen. NISA also now offers the option to combine both types of investments, and has changed the tax-free holding period from five years to indefinite. These incentives have already led to a meaningful rise in investments across the board (Exhibit 4).

Of particular note is the rise in Ippan investments. This likely signals Japanese citizens' willingness to invest more aggressively, and it runs parallel to another promising trend: a decline in cash holdings. Bank of Japan data indicate a steady (and quite steep) decline in Japanese households' cash holdings since 2021 (Exhibit 5), suggesting households are becoming less inclined to store "cash under the mattress" out of concern for the economy's growth prospects.

Investment Implications: Positioning for Japan's Economic Revival

In our view, rising prices, rising wages, and rising investments mark an inflection point for the Japanese economy. We believe these three structural shifts will help pull the Japanese economy out of decades-long stagnation and into a new phase of growth, making Japan an attractive market for investors seeking exposure to developed-market recovery themes.

By understanding these trends, investors can position themselves to benefit from Japan's trajectory of sustained economic growth.

Important Information

Notes

1. Monetary Policy Summary of Opinions (Bank of Japan, 28 March 2025)
2. Consumer Price Index 1913–2024 (Federal Reserve Bank of Minneapolis, 2024)
3. 2024 Shunto: The First Wage Increase Above 5% since 1991 with an Urgent Need to Spread the Trend to SMEs (Japan Institute for Labour Policy and Training, 2025)
4. Global Outlook 2025 (Lazard, 2024)
5. Japan's Tax Exemption Scheme for Investment by Individuals (NISA, 2025)

Disclosures

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