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Mizuho Economic Outlook & Analysis

July 2, 2025

Structural factors behind sluggish private consumption

Prolonged food inflation weighs on consumption

< Summary >

◆ Japan's private consumption has been sluggish for a long time due to stagnant real income growth. Currently, rising prices for food and other daily necessities are pushing down real income and hampering the expansion of private consumption.

◆ Essential consumer goods are highly susceptible to price increases by companies, which will likely continue to pressure household budgets. Food prices in particular are trending upwards affected by supply factors, creating concerns that food inflation will remain high for an extended period.

◆ Income growth exceeding inflation is necessary to boost private consumption, and labor productivity improvement is essential. In sectors with a high employment absorption capacity, such as healthcare, welfare, transportation, and postal services, productivity improvements through digitalization and mechanization are required.

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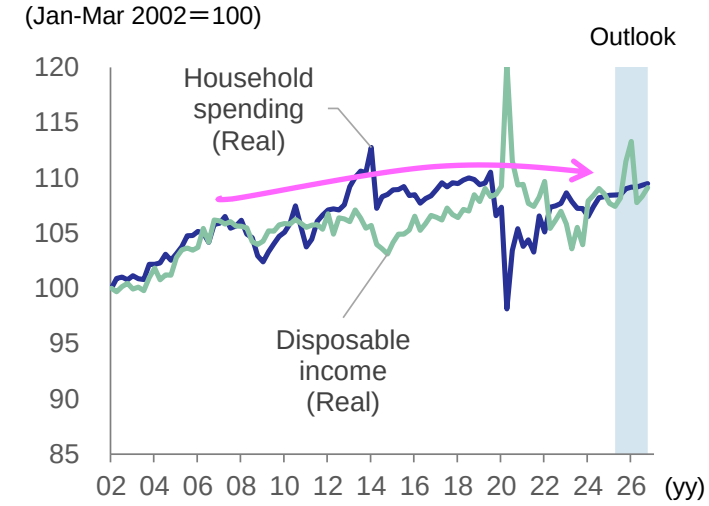
1. Consumer spending to remain sluggish over the long term

Private consumption in Japan has remained sluggish for a long period of time due to stagnant growth in real disposable income. Looking at the trends of real disposable income and real household consumption over the past 20 years, both have shown low growth rates averaging around +0.2% per annum (**Chart 1**).

In this report we focus on food inflation as the main cause of the recent stagnation in real income growth, which has led to years of sluggish private consumption, and analyze the underlying factors. We also examine the implications and challenges of improving productivity in industries with a high employment absorption capacity as a medium- to long-term countermeasure.

Chart 1: Real disposable income and real household consumption



Source: Made by MHRT based on the Cabinet Office.

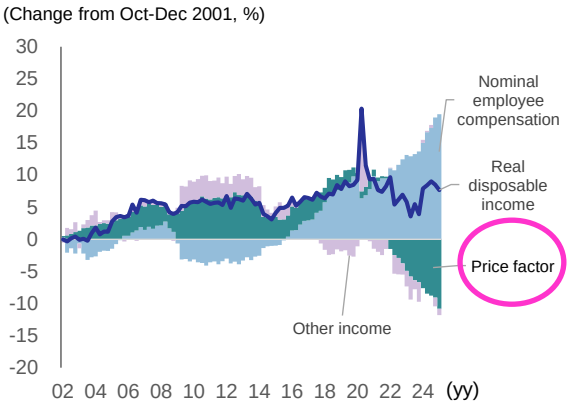
2. Inflation suppressing real income is the cause of sluggish consumption growth, with food inflation currently having a major impact

Income growth has been sluggish, hindering the expansion of consumption, but in nominal terms, income growth has not been stagnant. In recent years, nominal employee compensation has grown rapidly against the backdrop of labor shortages. However, rising prices have not helped to improve real disposable income, and real income growth remains low (**Chart 2**).

The current rise in prices (inflation) has been triggered mainly by daily necessities such as food. **Chart 3** depicts price changes for goods and services by item category. It shows

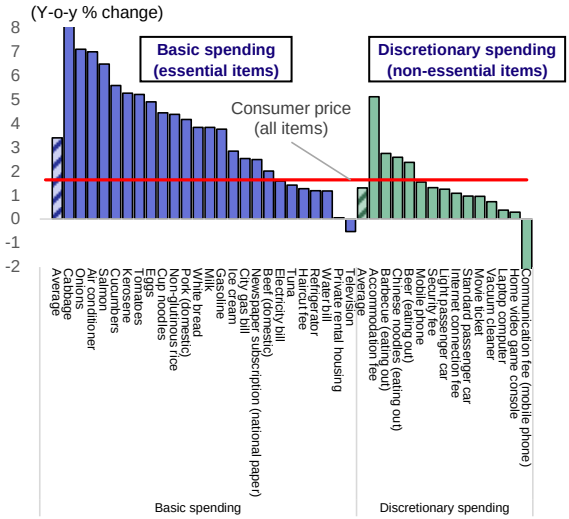
that recent price increases are concentrated on essential goods (basic spending [1]) indispensable to daily life. Among these goods, food prices have risen significantly. Food and agricultural and fishery products account for about half of the consumer price inflation rate. As discussed later, inflationary pressure on food prices is expected to persist in the long term on the back of such factors as the propensity of companies to raise prices on essential goods for which demand is inelastic, and the difficulty of expanding the nation's agricultural production capacity in the short term.

Chart 2: Trend of real disposable income



Source: Made by MHRT based on the Cabinet Office.

Chart 3: Price changes in basic and discretionary spending areas



Note: Comparison between 2019 and 2024.
Source: Made by MHRT based on the Ministry of Internal Affairs and Communications.

3. Market structure pushes food inflation by making it easy for companies to raise prices

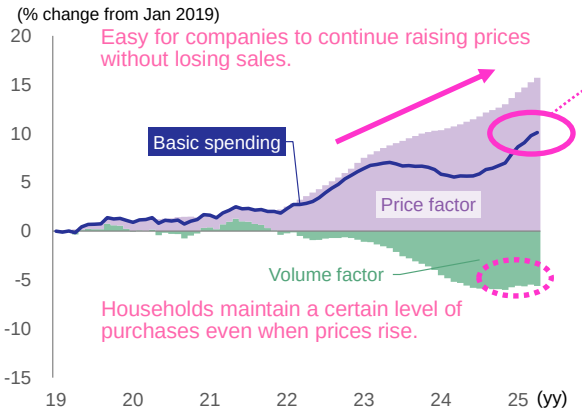
The rise in food prices, which is the main cause of the current inflation, is directly affecting household finances. There are signs that consumers are cutting back on the purchase of essential items (**Chart 4**), but there is a limit to how much spending on such items can be reduced because essential items such as food are indispensable to daily life; so even if prices rise, people will continue to purchase a certain amount of essential goods. As shown in **Chart 4**, even when prices rise, the purchase volume of essential items remains stable, and basic household expenditures continue to increase. Essential goods have become a burden on household finances, as consumers are "forced to buy them even

[1] The Ministry of Internal Affairs and Communications defines goods and services for which a 1% change in total consumer spending results in a change of less than 1% in spending (spending elasticity) as basic spending.

when prices rise."

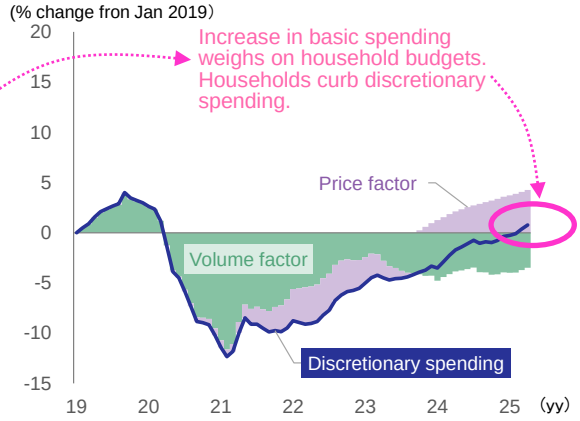
Food inflation affects not only basic expenditures but also discretionary expenditures[2] such as non-essential goods. It is difficult for households to significantly reduce spending on essential items such as food (basic spending), so they are inevitably forced to curb outlays on non-essential items (discretionary spending) (**Chart 5**). Purchases of non-essential items such as eating out, entertainment, and cosmetics (discretionary spending) greatly contribute to improving the quality of life, but they are not essential items for everyday living. Therefore, rising prices are likely to see consumption decline significantly. Companies are naturally cautious about raising prices, and price increases for discretionary goods are more moderate than for essential goods. However, given that the increase in basic expenditures is putting pressure on household budgets, the purchasing power for discretionary goods will likely contract.

Chart 4: Trend of basic spending



Note: Households with two or more people; 12-month moving average.
Source: Made by MHRT based on the Ministry of Internal Affairs and Communications.

Chart 5: Trend of discretionary spending



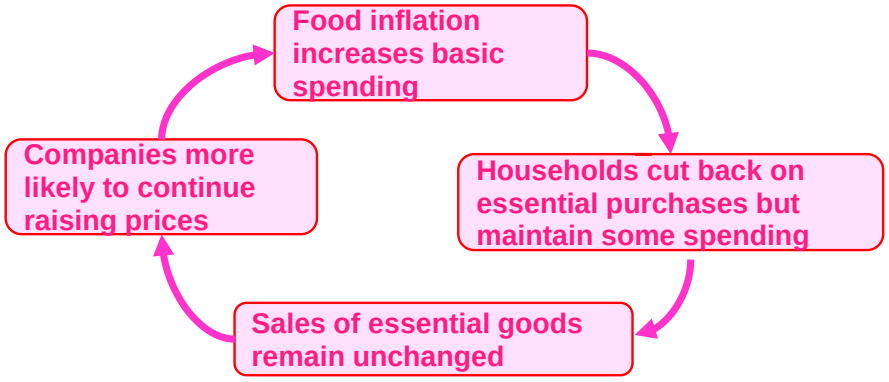
Note: Households with two or more people; 12-month moving average.
Source: Made by MHRT based on the Ministry of Internal Affairs and Communications.

This restraint in consumption caused by food inflation is expected to continue. The household behavior of not reducing purchase volumes even when prices rise is creating a situation in which companies can continue to raise prices for essential goods (**Chart 6**). In practice, sales of essential goods are on an upward trend, and companies can easily pass on cost increases to prices. Moreover, repeated price revisions are gradually weakening consumer resistance to price increases. According to a survey conducted by Teikoku Databank on food and beverage prices, as of June this year, price increases are already planned for 18,697 items, surpassing last year's figure (12,520 items in 2024). It is likely

[2] The Ministry of Internal Affairs and Communications defines goods and services for which a 1% change in total consumer spending results in a 1% or more change in spending (spending elasticity) as discretionary spending.

that companies will continue to raise prices in the future, and inflation is expected to linger, particularly for essential items such as food.

Chart 6: Structure facilitating sustained price increases for essential goods



Source: Made by MHRT.

4. Food inflation likely to continue for an extended period due to supply constraints and other factors

In addition to a "market structure that is prone to price increases," the decline in Japan's agricultural production capacity (supply constraint) is an important factor contributing to prolonged food inflation. This year's hike in rice prices is an obvious example. Production cannot be expanded quickly enough because of the government's previous rice production reduction policies, and with concerns that this year's extreme heat will negatively affect crop yields, rice produced in 2025 will most likely be sold at prices higher than usual.

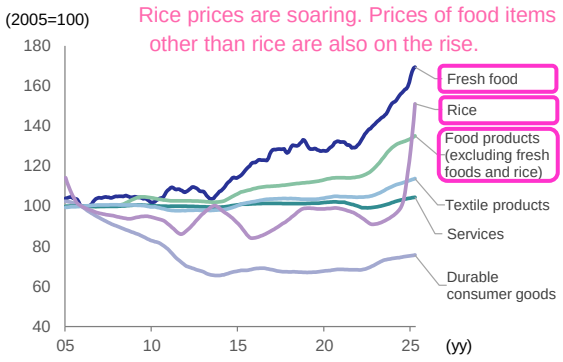
Furthermore, rising food prices are not limited to rice alone, but are also seen with other food products (**Chart 7**). The underlying causes are long-term structural factors such as supply constraints and climate change. The aging of workers is particularly serious in the agricultural sector, where the average age of full-time workers has now reached 69. A sharp decline in the agricultural population is inevitable in the future, and if the current situation continues, even the continuation of the domestic supply system will be in jeopardy (**Chart 8**). In addition, unusual weather and disasters caused by global warming are destabilizing the supply of fresh food, which is a constant factor in price increases. (As pointed out by Hiroshi Kawata (2024), fresh food prices have been on the rise since the mid-2010s.)

Global food supply shortages are another cause for concern. The combination of rising incomes in emerging countries and logistical disruptions caused by geopolitical risks has led to a situation where higher agricultural prices are also affecting food prices in Japan,

which is heavily reliant on food imports.

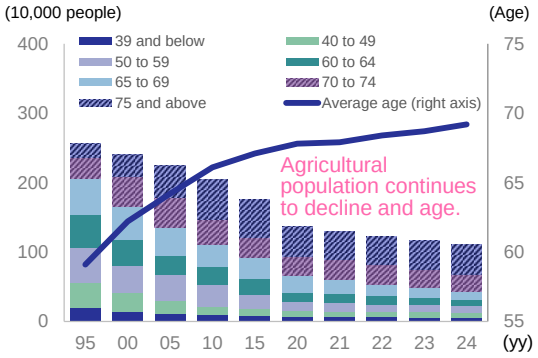
In this way, food inflation is not merely a short-term price fluctuation but is already becoming "structural" due to multiple factors such as supply constraints, climate change, and situations overseas. Factors such as these make it necessary to pay close attention to the possibility that food prices will continue to rise in the future and hinder the recovery of real income.

Chart 7: Price trends for goods and services



Source: Made by MHRT based on the Ministry of Internal Affairs and Communications.

Chart 8: Changes in agricultural population and average age



Note: The average age is calculated for core persons mainly engaged in farming.
Source: Made by MHRT based on the Ministry of Agriculture, Forestry and Fisheries.

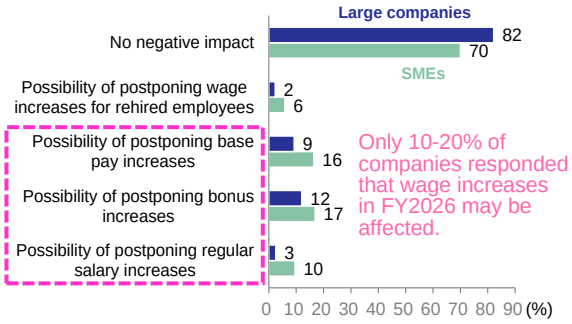
5. High wage increases will continue after 2025, while real income growth remains sluggish

Companies are expected to continue raising wages. The wage increase rate for the 2025 Spring Labor Offensive was 5.26% at the time of the sixth tally (compared to 5.08% in the same period last year), exceeding the high level of 2024, and is expected to settle at around 5.3%. With labor shortages becoming increasingly serious, there are high expectations for wage increases in the 2026 Spring Labor Offensive. One possible cause for concern is the impact of US tariffs, commonly referred to as "Trump tariffs." However, only about 10% to 20% of companies have responded that US tariffs will affect their base salary increases or bonuses in 2026 (**Chart 9**). Although the manufacturing industry, such as the automobile industry, will inevitably be hit hard by Trump tariffs, many companies, mainly in the non-manufacturing industry, which is less directly affected by tariffs, are posting high levels of corporate profits and are believed to have sufficient room to raise wages. (As pointed out by Mizuho Research & Technologies (2025), improvement in terms of trade accompanying the decline in crude oil prices will also have a significant impact on supporting corporate earnings.) As a result, the trend of rising wages is expected to

continue across companies on the back of labor shortages, and the wage increase rate for spring 2026 is expected to remain high at 4.7% (**Chart 10**). It is highly likely that nominal income will continue to rise in the form of base pay raises and bonus increases. (However, it is important to note that the situation remains highly uncertain, as no agreement has been reached in the Japan-US negotiations, and President Trump has suggested imposing tariffs of 30% to 35% on Japan.)

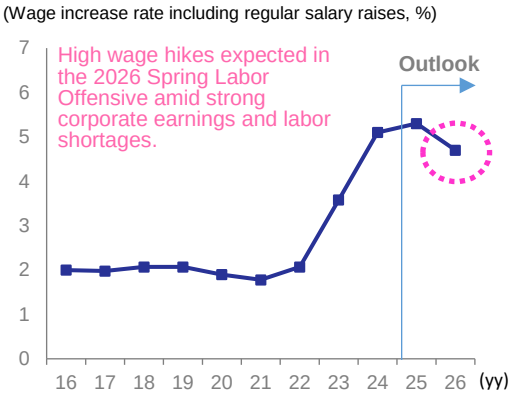
The problem lies in the fact that an increase in nominal income does not necessarily lead to an improvement in real income. Current wage hikes are generally limited to inflation-adjusted increases, and purchasing power on a real basis has not improved significantly. In other words, although companies are raising wages, the effects are being offset by the upward trend of prices, making it difficult to improve real household income.

Chart 9: Impact of Trump tariffs on wage increases in 2026



Note: The survey period was from June 2 to 9, 2025 (multiple answers allowed). Large companies are defined as companies with capital of 100 million yen or more, and small and medium-sized companies are defined as companies with capital of less than 100 million yen. The number of respondents was 431 large companies and 5,377 small and medium-sized companies.
Source: Made by MHRT based on Tokyo Shoko Research, *June 2025 questionnaire survey on Trump tariffs.*

Chart 10: Trends of wage increase rate including regular salary raises in the Spring Labor Offensive



Source: Made by MHRT based on RENGO.

6. Wage increases in industries with low labor productivity and a high employment absorption capacity, such as healthcare and welfare, are an issue

To achieve a sustained improvement in real income, it is essential to increase labor productivity while raising nominal wages in line with inflation. In particular, labor-intensive industries that employ the largest number of workers after manufacturing, such as healthcare, welfare, other services, transportation, and postal services, tend to have relatively low levels of labor productivity and wages (**Charts 11 and 12**). While these

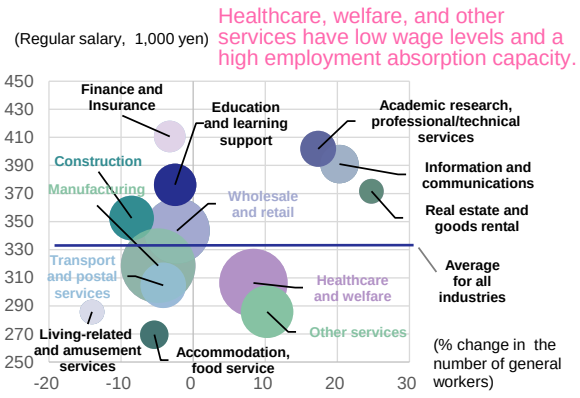
industries have a high capacity to absorb employment, they also suppress overall macroeconomic income growth and are considered a medium- to long-term issue for the Japanese economy.

In particular, the healthcare and welfare sectors can expect continued growth in employment demand as the nation's population ages, but wages are determined by "regulated prices" and are difficult to raise. For this reason, flexible increases in regulated prices, such as revisions to the medical and nursing care remuneration systems, will become an important policy measure for realizing wage increases.

Also, to raise wages in industries such as healthcare, welfare, other services, transportation, and postal services, it is essential to improve labor productivity through technological innovations such as digitalization and mechanization. For example, the introduction of monitoring sensors and power assist suits in the nursing care field, as well as initiatives such as self-checkout registers and robotic serving systems in service industries (outside the healthcare and welfare sectors), is already proving effective in both improving productivity and addressing labor shortages. Advancing these initiatives in the future will be an important issue.

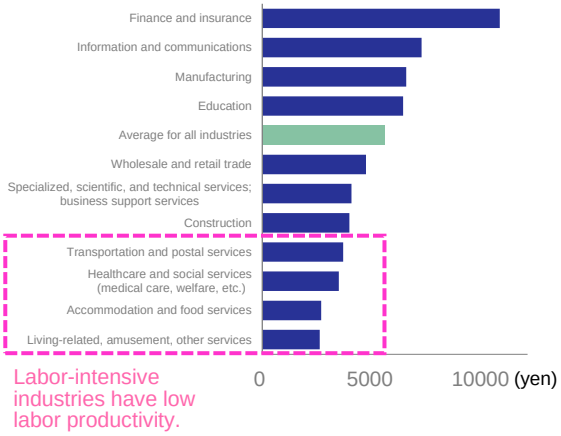
Going forward, the key to raising wages at a pace above inflation will be wage increases in industries with a strong employment absorption capacity. To raise overall macroeconomic wage levels and boost private consumption through improvements in real income, a long-term perspective combining labor productivity improvements and institutional environment reforms will be required.

Chart 11: “Wage levels” and “rate change in the number of workers”



Note: Bubble size represents the number of regular workers. Scheduled cash earnings are based on the actual figures for regular workers in FY2024. The rate of change in the number of regular workers is based on a comparison between FY2019 and FY2024.
Source: Made by MHRT based on the Ministry of Health, Labour and Welfare.

Chart 12: Real labor productivity by industry



Note: Hourly labor productivity by industry in 2023.
Source: Made by MHRT based on the Cabinet Office.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.
https://www.mizuho-rt.co.jp/publication/2025/pdf/insight-jp250702.pdf