Daiwa Securities

Daiwa's Economic View

FICC Research Dept.

Jul-Sep 2025 GDP (2nd preliminary estimates) could serve as factor to support fiscal expansion

- Jul-Sep 2025 GDP revised downward, but the level increased significantly due to benchmark revision
- Real GDP for Oct-Dec 2025 expected to turn positive; FY25 real GDP growth rate expected at +0.8%
- Downward revision to GDP and debt-to-GDP ratio likely to increase pressure for fiscal expansion

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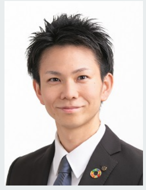
Daiwa Securities Co. Ltd.

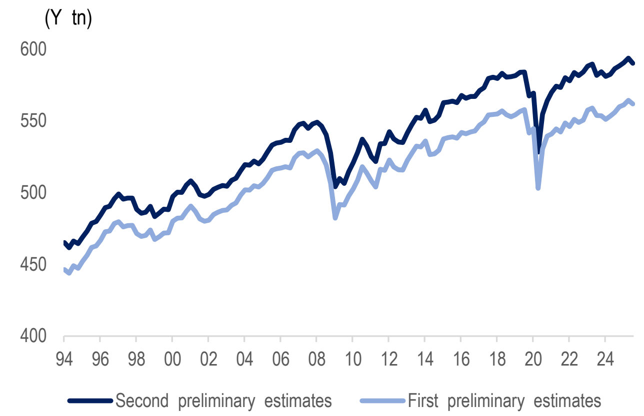


Jul-Sep GDP revised downward, but level significantly increased due to benchmark revision

On 8 December, the second preliminary estimates for Jul-Sep 2025 GDP were released. In this second estimates, a benchmark revision (to the 2020 base year) was implemented, reflecting structural statistics such as the 2020 input-output tables and the 2023 housing and land surveys.

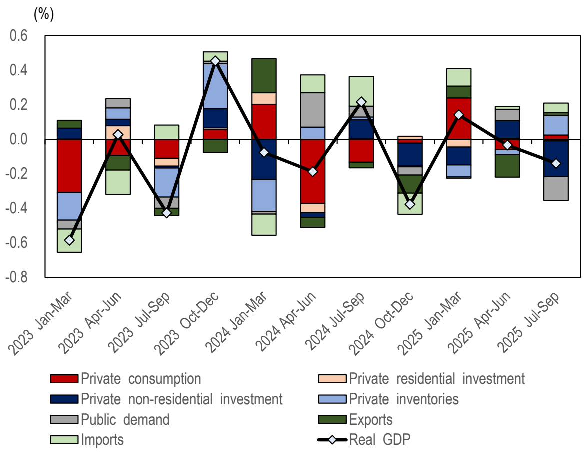
As a result, real GDP for Jul-Sep 2025, which was Y561.8tn in the first preliminary estimates, increased to Y590.1tn in this revision due to increases in the levels of private consumption and capital expenditure. This represents an upward revision of the level by about 5%. On the other hand, the q/q (annualized) growth rate for Jul-Sep 2025 was revised downward to –2.3% in the second preliminary estimates (from –1.8% in the first preliminary estimates). The main drivers of this downward revision were capital expenditure and public investment.

Levels of Real GDP



Source: Cabinet Office; compiled by Daiwa.

Difference in Contribution to Q/q Growth of Real GDP (2nd estimates minus 1st estimates)



Source: Cabinet Office; compiled by Daiwa.

In Jul-Sep 2025, real capital expenditure decreased by 0.2% q/q driven by weakness in transport equipment and machinery due to tariff policy effects—a sharp downward revision from +1.0% in the first preliminary estimates.

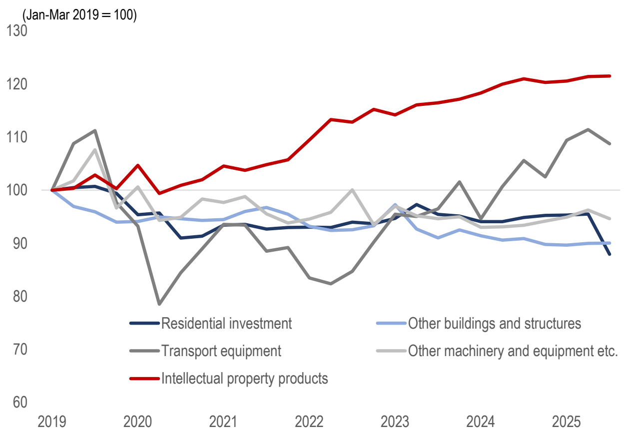
In the Financial Statements Statistics of Corporations by Industry (released on 1 Dec), nominal capital expenditure (including software) showed a seasonally adjusted q/q decrease of 1.4%. This newly released demand-side statistic is one of the reasons for the downward revision. Additionally, the impact of revisions related to investment was significant in the latest benchmark revision, including the expansion of the coverage of software investment and real estate brokerage fees (investment). It is possible that this benchmark revision also affected the q/q growth rate.

Meanwhile, the level of real capital expenditure expanded significantly. Looking at the level of capital expenditure by type, it has become clear that growth in intellectual property products since the COVID-19 pandemic had been underestimated. With the impact of tariff policies increasingly likely to be limited, we believe it is highly probable that capital expenditure will follow an uptrend, driven by factors such as DX and R&D investment.

Levels of Real Capital Expenditure

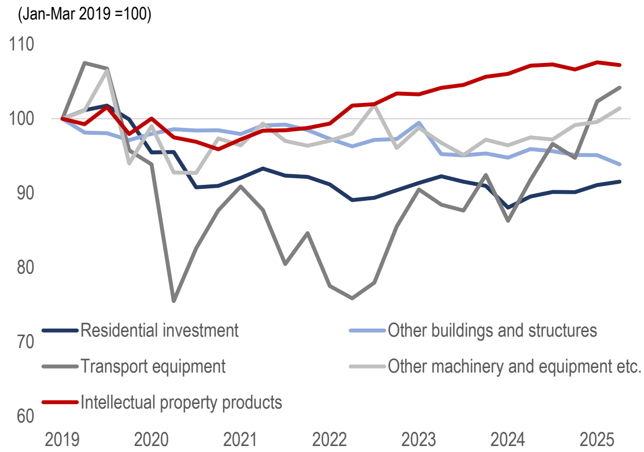
Source: Cabinet Office; compiled by Daiwa.

Levels of Capital Expenditure by Type (2nd preliminary estimates for Jul-Sep 2025)



Source: Cabinet Office; compiled by Daiwa.

Levels of Capital Expenditure by Type (2nd preliminary estimates for Apr-Jun 2025)

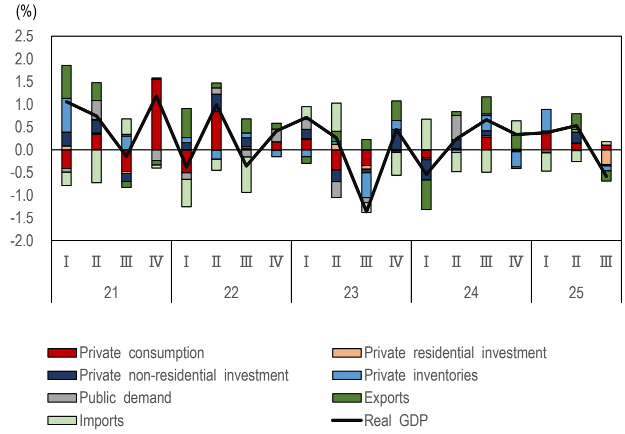


Source: Cabinet Office; compiled by Daiwa.

Although the negative GDP growth widened in Jul-Sep 2025, this was largely influenced by special factors such as housing investment, as before (a pullback from a surge in demand ahead of the April 2025 revisions to the Building Standards Act and the Energy Conservation Law, which mandated compliance with energy-saving standards). We maintain our forecast that real GDP will return to positive growth in Oct-Dec 2025 at +0.1% q/q (+0.3% annualized).

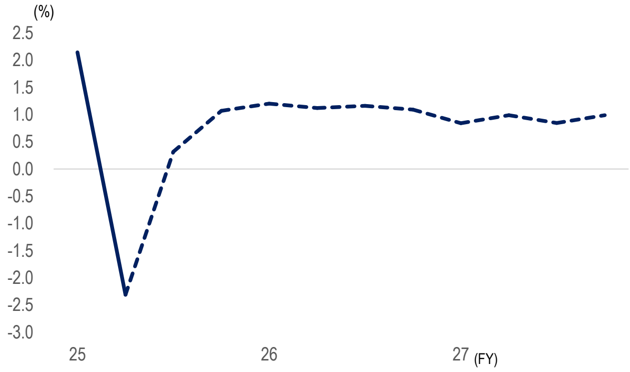
Meanwhile, based on the latest revision to real GDP growth, we now forecast FY25 real GDP growth to be +0.8% (previously +1.0%).

Breakdown of Contributions to Real GDP



Source: Cabinet Office; compiled by Daiwa.

Our Real GDP Forecasts



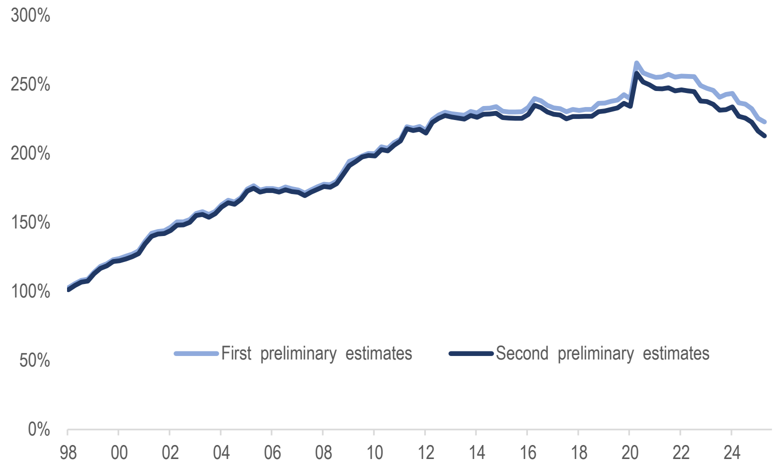
Source: Cabinet Office; compiled by Daiwa.

Downward revision to GDP and debt-to-GDP ratio likely to increase pressure for fiscal expansion

As the benchmark revision pushed up the level of GDP, it also showed that the degree of decline in the government debt-to-GDP ratio since 2020 has been more pronounced.

In response to recent warnings from the market, it appears that Prime Minister Sanae Takaichi herself is beginning to show consideration for the market. However, it should be noted that, at the very least, looking solely at this downward revision of GDP data and the decline in the government debt-to-GDP ratio, these factors could provide a rationale for government fiscal stimulus. It should also be noted that discussions on the economic trends for the FY26 initial budget will be based on the Jul-Sep GDP figures, even if Oct-Dec GDP turns positive as its release is scheduled for 16 February 2026.

Government Debt-to-GDP Ratio



Source: Cabinet Office, BOJ; compiled by Daiwa.