

# Japan Q4 GDP: momentum moderates in an inflation-distorted environment

## Q4 GDP disappointing but Japan still shows resilience from a full-year perspective

By Naomi Fink, Chief Global Strategist

16 February 2026

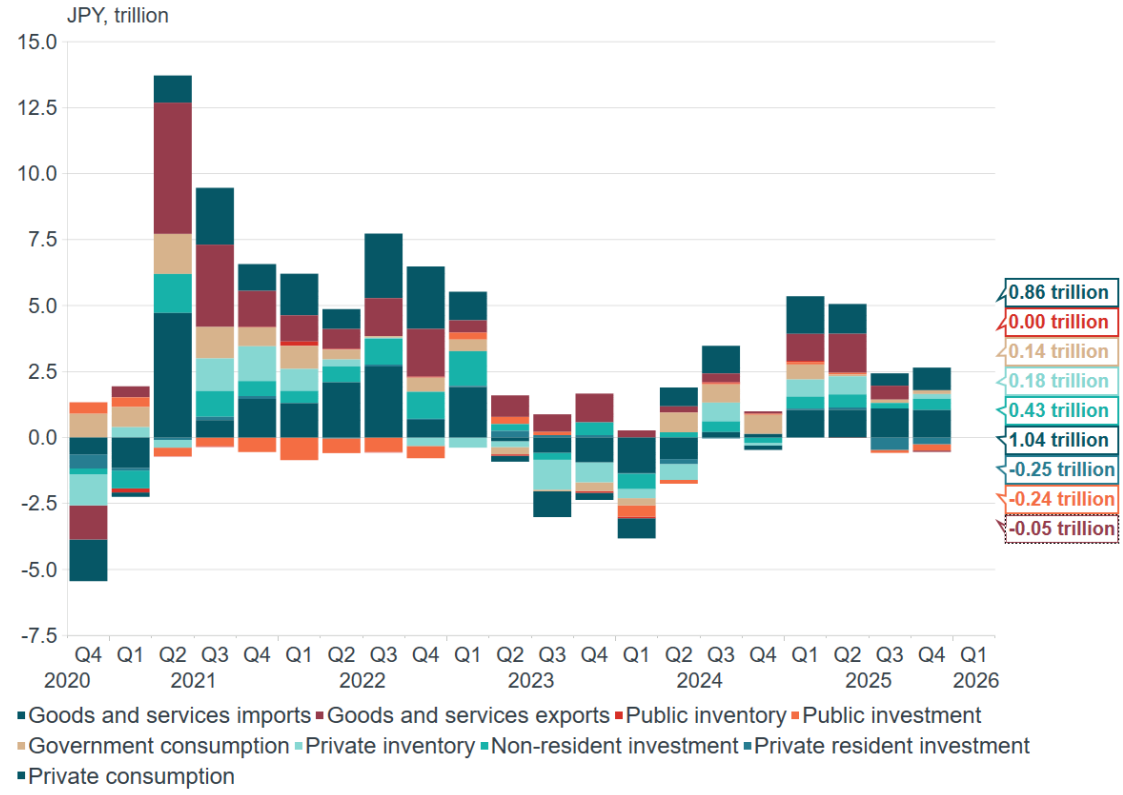
On the surface, Japan's Q4 2025 GDP was broadly disappointing, expanding only 0.1% quarter-on-quarter (QoQ) in real terms, and 0.6% in nominal terms (vs 1% expected). Capex also crept higher by 0.2% versus an expected 0.6%, which was a disappointment though not a reversal of the expansionary backdrop, driven by corporate pricing power and reflationary wage-price dynamics. Inventories decreased by more than expected (-0.2%), providing a small, incremental drag, and net exports also delivered a small negative surprise (0% QoQ). A great focal point, however, was the GDP deflator, which was up 3.4% year-on-year (YoY) vs 3.2% expected, underscoring the contribution that inflation, rather than stagnant demand, had made to the gap between nominal and real growth.

Some of the QoQ estimates reflect revisions to Q3 data, and on a seasonally adjusted basis, quarterly figures in 2025 showed greater swings than usual. It is therefore useful to look at both full-year data as well as YoY data, which help smooth out these technical fluctuations.

From a full-year perspective, Japan has delivered resilience in a year of significant uncertainty. Its full-year 2025 real GDP growth is estimated at 1.1%, which is well above potential (the Bank of Japan (BOJ) estimates it at around 0.5%). Private demand rebounded to expand 1.6% over the year after contracting in both 2024 and 2023. A big part of the recovery was driven by domestic consumption and private non-residential investment, all of which grew by well above 1% over the full year.

However, even these above-potential real growth outcomes pale in comparison with nominal growth exceeding 4% YoY in the sub-components mentioned above. This gap underscores the extent to which household's potential to engage in greater consumption is being eroded by price rises. Meanwhile, a weak yen is weighing on terms of trade, which reduces Japan's real purchasing power. Despite ongoing growth in the volume and value of exports over the full year (+0.6% YoY in real terms, +0.7% in nominal terms), the rising value of imports has constrained Japan's global purchasing power. We may also see many of these dynamics play out in YoY data (see Chart 1 below, which shows YoY real GDP growth in yen terms).

**Chart 1: Japan real GDP by expenditure component (constant prices, YoY change, yen)**




*Source: Amova Asset Management, CAO*

## What matters going forward? Wages, inflation and the yen

First and foremost, the BOJ has highlighted why we should pay greater attention to wage-price dynamics as a forward-looking indicator of Japan's reflationary potential. For households, real balances matter; specifically, this means whether wages are growing more quickly than the prices of goods and services in their consumption basket.

Wage-price dynamics also have important second-order effects on production capacity. Many quarters of labour supply shortages—which the BOJ now characterises as "chronic"—have weighed upon Japan's capacity to effectively utilise its physical capital before it is fully depreciated. To the extent that labour scarcity has become a constraint on capacity utilisation, increasing human capital would be paramount to maintaining the momentum of Japan's reflationary dynamics.

In this context, announcements surrounding the "shunto" spring wage negotiations and firms' continued investment in labour-saving technologies should be closely watched. Factors affecting labour supply growth in Japan, such as immigration, also warrant close attention.

## The fiscal-monetary policy mix: complementary is optimal

Whether inflation in Japan is demand-pull (wage-driven) or cost-push (influenced by price rises, foreign exchange and terms of trade) remains a complex question, and it cannot be resolved simply by contrasting household real vs. nominal consumption. The firm GDP deflator clearly shows that prices are driving a wedge between the volume and value of consumption.

A weak yen has been a key contributing factor to this terms-of-trade drag. With Japan's interest rates remaining far below those of its developed economy counterparts despite experiencing similar rates of inflation, the relatively cheaper yen has facilitated the financing of risk investments across the globe (as shown by the Ministry of Finance's portfolio flow data). These flows may have contributed to the yen's chronic weakness. All else equal, this dynamic may increase pressure on the BOJ to prioritise the normalisation of interest rates to contain imported inflation.

Expectations for significant fiscal stimulus have accompanied Prime Minister Sanae Takaichi's decisive snap election victory. However, the more meaningful contribution of this increase in political support may be that it gives the government the ability to stand back and allow an independent BOJ to fight inflation while it focuses on long-term fiscal sustainability.

**Important information:** This document is prepared by Amova Asset Management Co., Ltd. and/or its affiliates（hereinafter referred to as" the Group"）and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect the Group's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. The Group makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

The Group accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of the Group under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by the Group is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association, Type II Financial Instruments Firms Association

**United Kingdom:** This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**United States**: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Amova Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore**: This document is for information to institutional investors, accredited investors as defined in the Securities and Futures Act 2001, and intermediaries only. Amova Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Amova Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Amova Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

List of Additional Disclaimers for use in the following countries:

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia**: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Amova Asset Management UK Limited is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Amova Asset Management UK Limited and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the group or Sumitomo Mitsui Trust group and not available to Amova Asset Management UK Limited because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited. No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Amova Asset Management UK Limited.

**United Arab Emirates (excluding DIFC): This** document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Amova Asset Management UK Limited.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. The Company is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Canada**: The information provided herein does not constitute any form of financial opinion or investment advice on the part of the Company and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.