

**6 September 2024**

## **Underlying economic weakness remains as LDP transitions from Kishida**

### **Key takeaways**

- Prime Minister Kishida Fumio touted his government's achievements this week but acknowledged that the work of economic revitalization is unfinished – which new wage and consumption data confirmed.
- The candidates for Liberal Democratic Party's (LDP) leadership have begun articulating distinct approaches to the challenge of economic revitalization.

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With Prime Minister Kishida Fumio's tenure winding down, Kishida attended the final meeting of the Council on Economic and Fiscal Policy (CEFP) of his premiership on Tuesday, 3 September. Kishida used the meeting to summarize the achievements of his government, noting that under his watch Japan's nominal gross domestic product exceeded JPY 600tn (USD 4.2tn) for the first time, employers delivered the largest pay increases since 1991, and capital investment reached new highs. Japan's economy, Kishida argued, has the chance to transition to what he calls a new stage of "growth-driven economy" after decades of deflation.

The prime minister's tone was not, however, uniformly triumphalist, acknowledging that there is still more work to be done to boost incomes and productivity, suggesting that

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under Prime Minister Kishida Fumio's successor debate will continue about the wisdom and appropriate timing for monetary policy normalization, the measures the government should take to support household incomes and encourage consumption, and how the government should use industrial policy to encourage the shift of productive resources to high-growth sectors.

### **Wages and consumption grow, but...**

Government wage and consumption data released following the CFP meeting confirmed that while the Kishida government's and Bank of Japan's (BOJ) confidence that incomes and consumption are still on the right track is not entirely misplaced, there remains underlying weakness in household finances, suggesting that it is still unclear whether these gains are sustainable.

On Thursday, 5 September, the Ministry of Health, Labor, and Welfare (MHLW) reported that in July real wages rose for the second consecutive month, rising by 0.4% year-over-year. As in June, however, the gain appears to have been driven by seasonal bonuses rather than by increases in base pay outpacing inflation, suggesting that the real wage gains may not necessarily be sustained in coming months. Nevertheless, the increases in base pay resulting from this year's *shuntō* wage negotiations are increasingly visible in the government's data, as the MHLW survey found that "scheduled salaries," which reflect base pay data, rose 2.7% year-over-year in July, the largest increase since 1992.

Meanwhile, the Ministry of Internal Affairs and Communications (MIC) released its monthly survey of household consumption on Friday, 6 September, showing that real consumption rose 0.1% year-over-year in July, the first real growth in three months. However, this figure was well below market expectations and suggests that despite a 7.3% increase in disposable incomes due to higher bonus payments and the Kishida government's income tax cut, households are still not translating higher pay into more robust consumption.





Whoever succeeds Kishida as prime minister will therefore have to determine how best to consolidate these gains and prevent retrenchment. Some of the government's response has already been introduced, with the Ministry of Economy, Trade, and Industry (METI) announcing in June that it would provide gas and electricity subsidies from August through October that could reach an average of JPY 2125 (USD 15) per household. Kishida had also been considering a stimulus package for the autumn extraordinary session of the Diet, a measure that his successor will likely pursue for both economic and political reasons. Finally, given the underlying weakness in household data, the next prime minister is likely to continue the Kishida government's sustained focus on raising incomes, including ongoing intervention in wage talks.

Meanwhile, the next prime minister is also likely to face a BOJ that is still [committed](#) to monetary policy normalization and additional interest rate hikes in the coming months, with both BOJ Governor Ueda Kazuo (in a presentation to the CEEP) and policy board member Takata Hajime (in a speech in Kanazawa) stressing that they see both upside risks to inflation and room in the current economic climate for additional rate hikes. Takata suggested that the BOJ should not necessarily act with a particular policy rate in mind, but rather should raise rates gradually, taking care to monitor the impact on the economy and prices.

## Economic revitalization and the LDP race

### THE STATE OF THE LDP LEADERSHIP RACE

Possible candidates as of 6 September

Formally declared			Declaration scheduled	Declaration pending	Exploring	
						
Kobayashi Takayuki (49)	Kōno Tarō (61)	Motegi Toshimitsu (68)	Takaichi Sanae (63)	Kamikawa Yōko (71)	Saitō Ken (65)	Aoyama Shigeharu (72)
						
Ishiba Shigeru (67)	Hayashi Yoshimasa (63)	Koizumi Shinjirō (43)	Katō Katsunobu (68)	Noda Seiko (63)		



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The LDP's candidates have, to varying [degrees](#), begun laying out their proposals for encouraging growth. For example, LDP Secretary-General Motegi Toshimitsu, who launched his campaign on 4 September, emphasizing economic revitalization in rhetoric reminiscent of the late Abe Shinzō, announcing a break with Kishida's plans to raise taxes, and deploy industrial policy to encourage faster economic growth in Japan's depressed regions. Koizumi Shinjirō, who formally announced his candidacy on 6 September, has borrowed from his father Koizumi Junichirō's playbook, talking about structural reforms (including labor market reforms) "without sanctuary" and other regulatory reforms to encourage start-ups and higher productivity. Ishiba Shigeru, who is expected to release a more detailed platform next week, has spurred debate over measures to combat inequality.

As the field rounds into shape ahead of 12 September filing deadline – Economy Security Minister Takaichi Sanae will formally enter the race on 9 September, and

former chief cabinet secretary Katō Katsunobu on 10 September, while Foreign Minister Kamikawa Yōko could follow on 11 September – the competition over how to ensure growth in the post-Kishida era will likely intensify, with LDP rank-and-file members and the broader electorate being presented with candidates with meaningfully different approaches to economic growth. Koizumi, who is increasingly viewed as the frontrunner due to his popularity, will likely receive particularly heavy scrutiny, not least for his proposal to make it easier for firms to fire workers.