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Economic and energy outlook of Japan for FY2026

Seeking a new equilibrium amid unstable circumstances

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60th Anniversary

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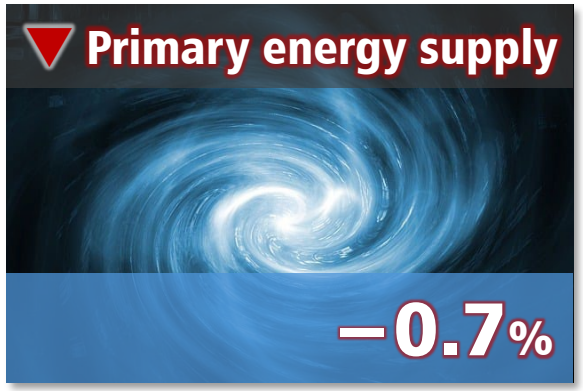
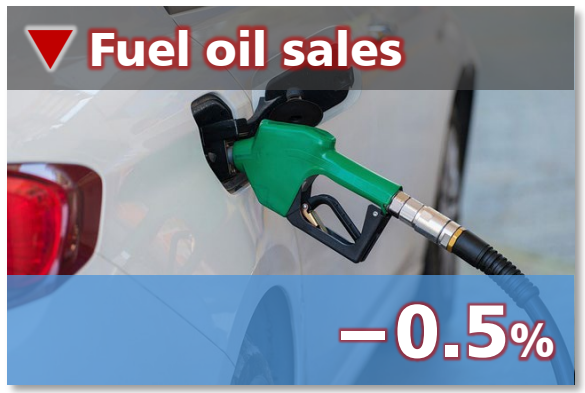
FY2026 The economy will expand at a moderate pace, the energy sector will show mixed results.





Key ‘assumptions’ of the Reference Scenario

Global economy

Growth of around 3%

- The US economy is expected to slow to around 2% in 2025. There will be no significant rebound in 2026 either.
- The European economy will experience modest growth, with sluggish Germany heading towards recovery through measures such as expansionary fiscal policy.
- The high-growth Asian economies will show signs of slowing, with both China and India experiencing a slight downturn.

Import c.i.f. prices

Oil and LNG prices will fall.

Nov. 2025 → FY2025, average → FY2026

- Crude oil: $71/bbl → 69 → 57
- LNG: $550/t → 550 → 458
  ($10.6/MBtu → 10.6 → 8.8)
- Steam coal: $117/t → 122 → 127

Referring to Morikawa “Outlook for International Oil Market in 2026”, Yanagisawa “Outlook for International Gas Market in 2026” and Takahashi “Outlook for International Coal Market in 2026”

Exchange rates

Yen depreciation correction

Nov. 2025 → FY2025, average → FY2026

- ¥153/$ → 150 → 147

Nuclear power generation

Two additional units will resume operation.

- A total of 14 reactors have restarted. In FY2026, two units will be added. Average operating months will be approximately 10 months (down 0.5 months), with electricity generated exceeding 100 TWh for the first time since FY2011.

Temperature

The summer will be considerably cooler.

- The winter of FY2025 is normal (Japan Meteorological Agency)—slightly colder than the previous year (−0.1°C)
- Normal thereafter—the summer of FY2026 will be considerably cooler than the previous year (−2.3°C), whilst the winter will be similar (±0.0°C).

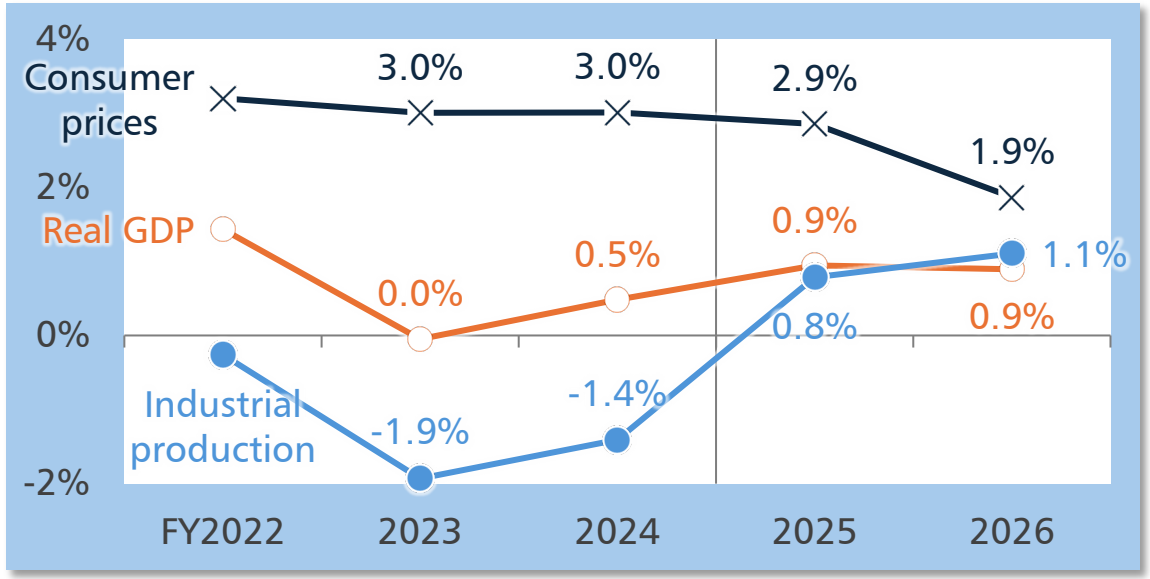
The economy is performing reasonably well. Industrial production continues to recover. Inflation will ease.

- Japan's economy will grow by 0.9% for the second consecutive year. Caution is needed regarding the rapid succession of disruptive factors.
- Industrial production will expand for the second consecutive year, driven by electrical machinery, marking the first increase in nine years. Automotive production still faces reduced exports.
- The inflation rate of around 3% will fall to 1.9% due to factors such as the decline in international energy prices and the correction in the weak yen.

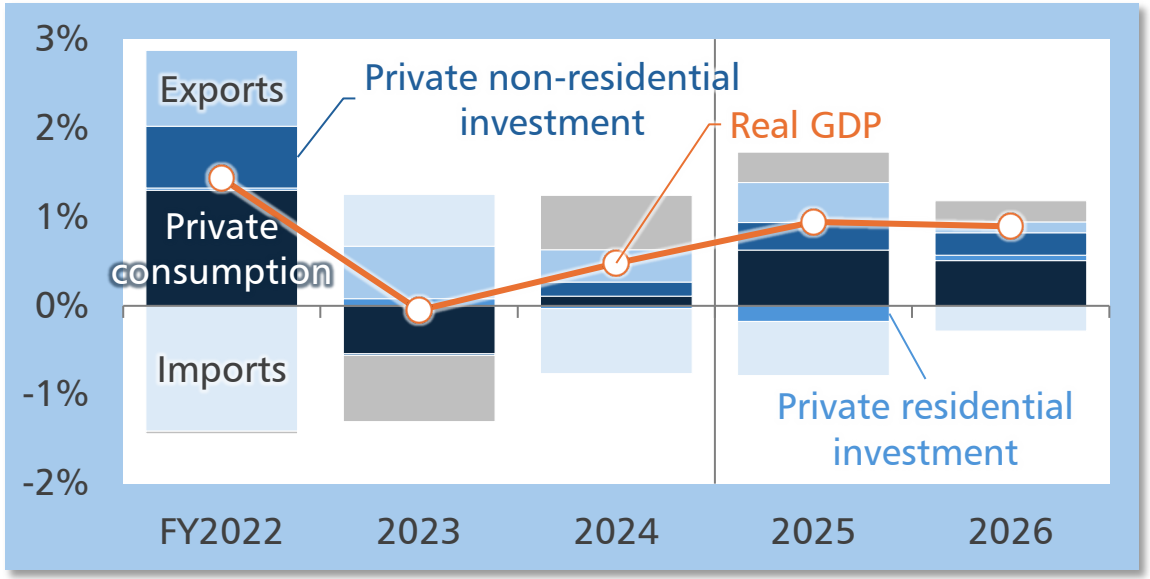
Fire Horse

- Private final consumption continues to be the primary contributor to growth despite slowing. Private residential investment fails to recover to FY2024 levels.
- Private non-residential investment continues to expand, driven by productivity improvements and measures to address labour shortages.
- External demand continues to make a negative contribution, constrained by the global economy and domestic supply capacity limitations. Exports, in particular, are slowing.

GDP, industrial production and consumer prices (Y-o-Y)



GDP growth rates and contributions (Y-o-Y)

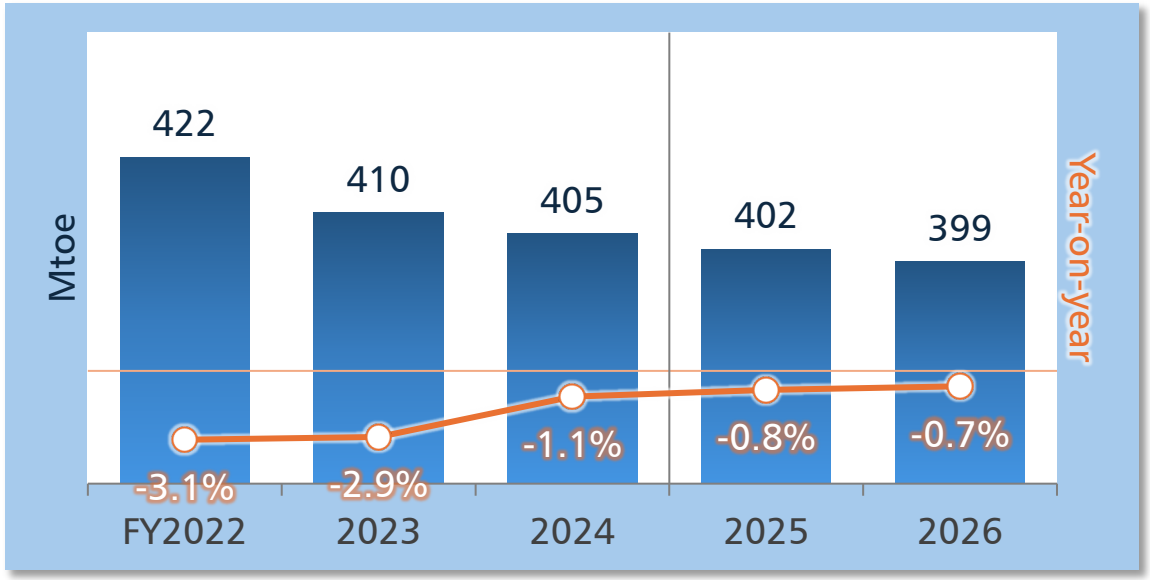


Energy consumption will return to levels seen 40 years ago. All fossil fuels are declining.

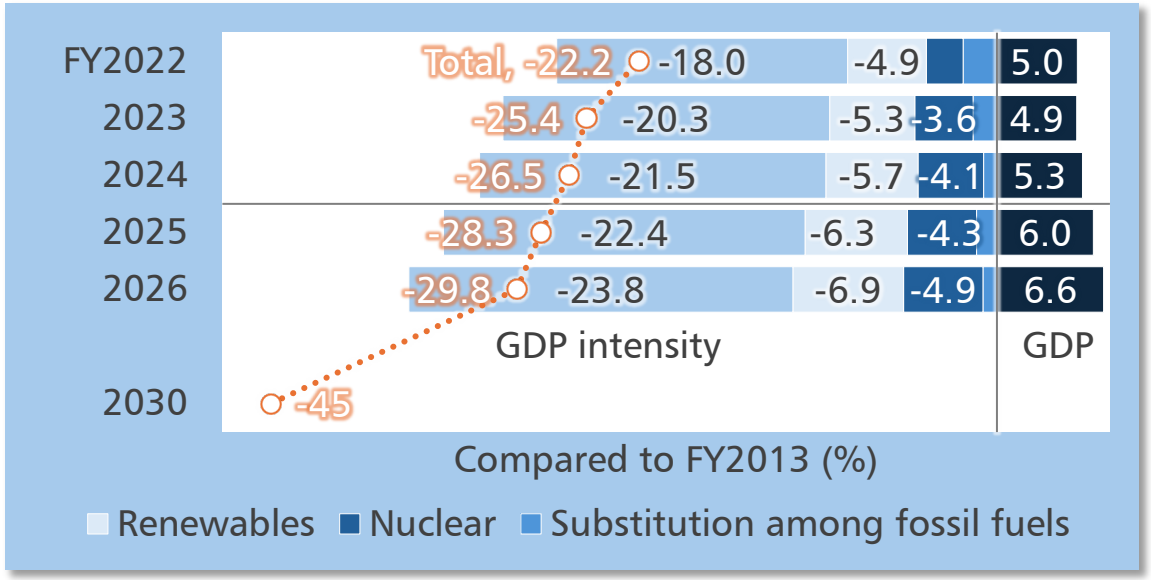
- Energy consumption will fall by 0.7% compared to the previous year, driven by a significantly cooler summer and reduced production of energy-intensive raw materials. This marks the first time consumption falls below 400 Mtoe since FY1986, the early bubble period.
- The decline is attributable to fossil fuels, particularly natural gas.
- Were temperatures at the previous year's level, consumption would decrease by 0.1%.

- CO_2 emissions will decrease by 2.1% from the previous year and by 29.8% compared to FY2013. A further reduction of 15 percentage points is required over the next four years to reach the target of a 45% reduction. However, the rate of reduction has been declining since peaking in FY2020.
- Significant contributions to CO_2 reduction stem from GDP intensity, which encompasses economic structural factors such as reduced production of raw materials.

Primary energy supply



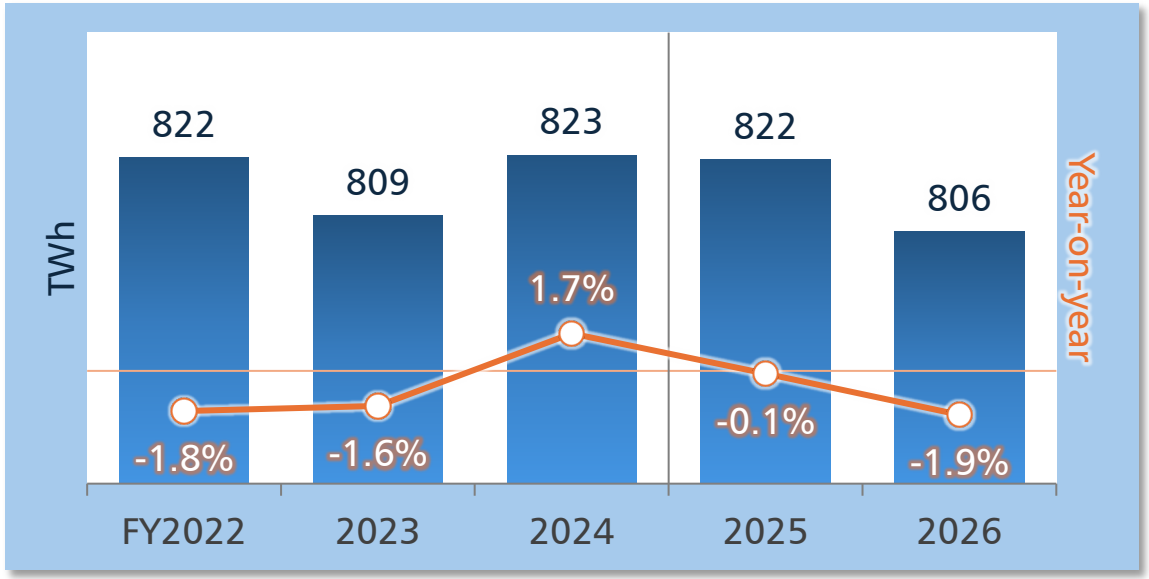
CO_2 emissions and contributions



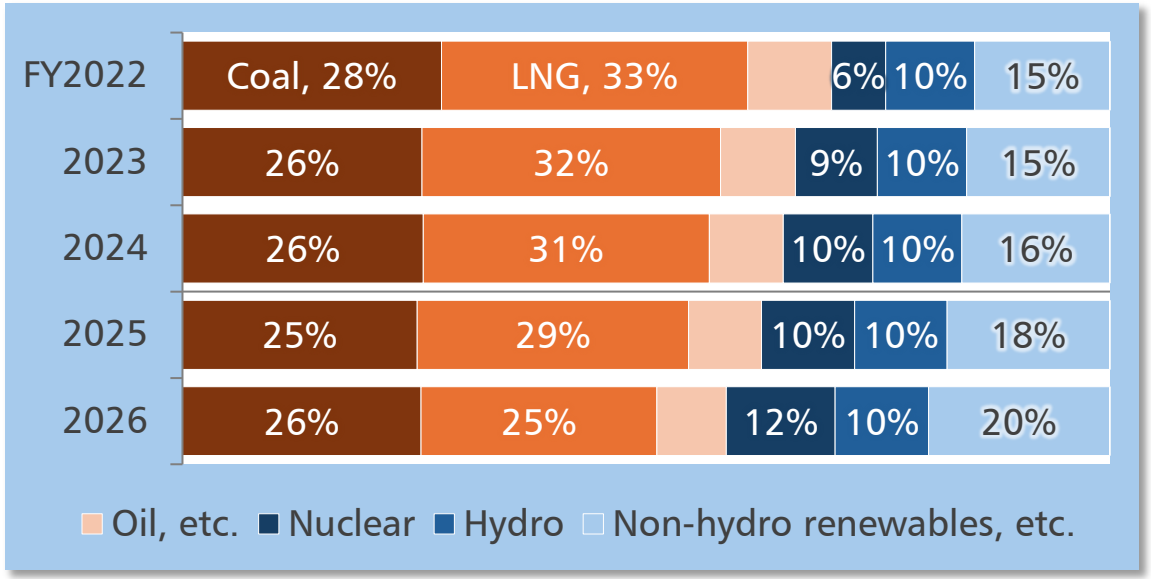
Electricity demand will see a significant reduction due to the cooler summer. Non-fossil fuel sources will account for over 40%.

- Electricity sales volume will fall by a significant 1.9%, marking the lowest level since full retail liberalisation (FY2016) for the first time in three years.
- Summer temperatures will be 2.3ºC cooler than the previous year, leading to a substantial drop in space cooling demand. 3Q alone will see a decrease of 12.8 TWh.
- Were temperatures similar to the previous year, total sales would fall by 0.1%.
- Electricity generated and received will decrease to 905.5 TWh due to reduced demand.
- Other renewable sources such as solar photovoltaics, alongside nuclear, will drive non-fossil fuel power generation. Their share will exceed 40%.
- LNG, which has long been the largest power source, will significantly decline, with its electricity generated and received falling below coal, which will see only a slight decrease as a baseload power source.

Electricity sales



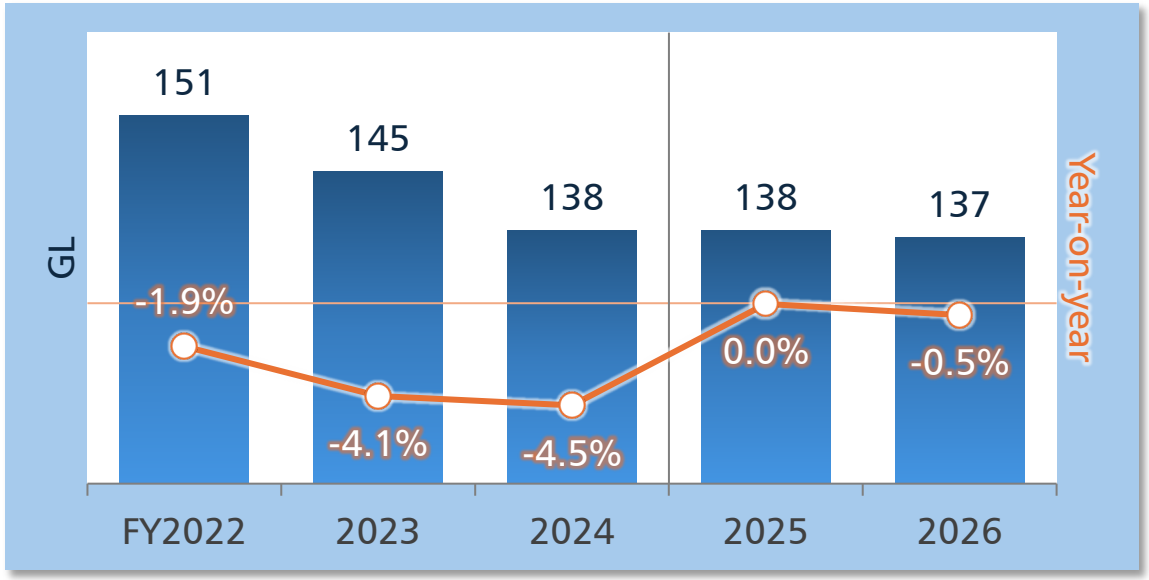
Electricity generated and received mix



Amidst declining oil and electricity sales, only city gas continues to increase.

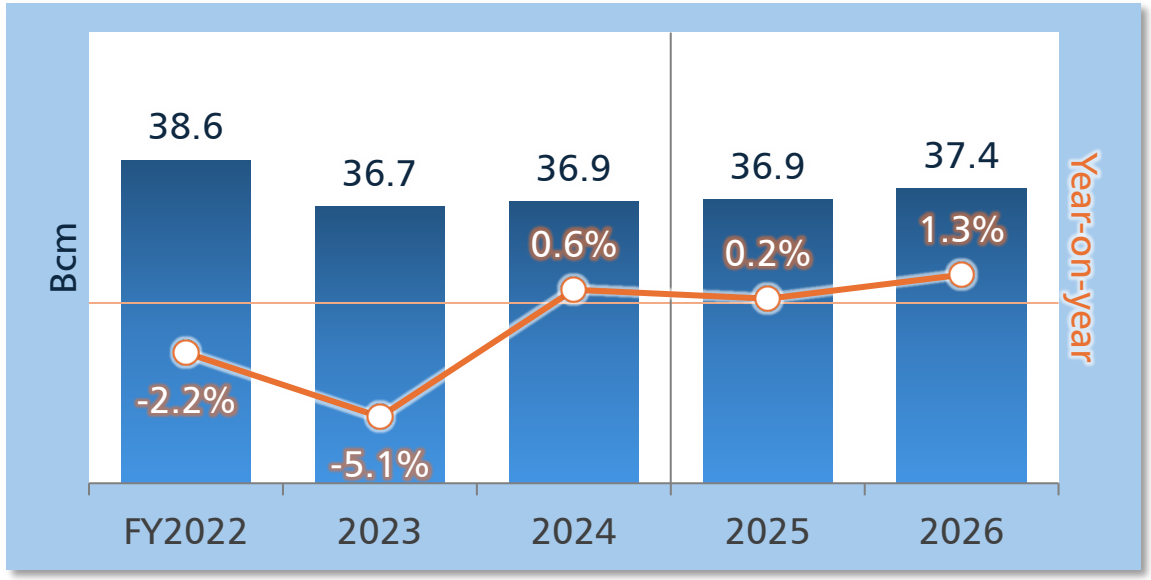
- Fuel oil sales volume halts its decline in FY2025 for the first time in four years but will return to a downward trend in FY2026. However, the 0.5% decrease is relatively modest by recent standards.
- Gasoline consumption will be stimulated by the abolition of the provisional tax rate, outweighing the impact of improved vehicle fuel efficiency.
- Naphtha will contribute −0.4% due to reduced ethylene production.

Fuel oil sales



- City gas sales volume will increase by 1.3%, differing from electricity and fuel oils. This marks the third consecutive year of growth since FY2007.
- The driving forces are residential use (+4.8%), boosted by increased water heating demand due to the cooler summer, and industrial use, benefiting from expanded production activities.
- Were temperatures similar to the previous year, residential use would rise by only 0.3%, with total sales volume increasing by just 0.6%.

City gas sales



Will substantial wage rises create a virtuous economic cycle? —Relying solely on wage rises is difficult.

Macro economy

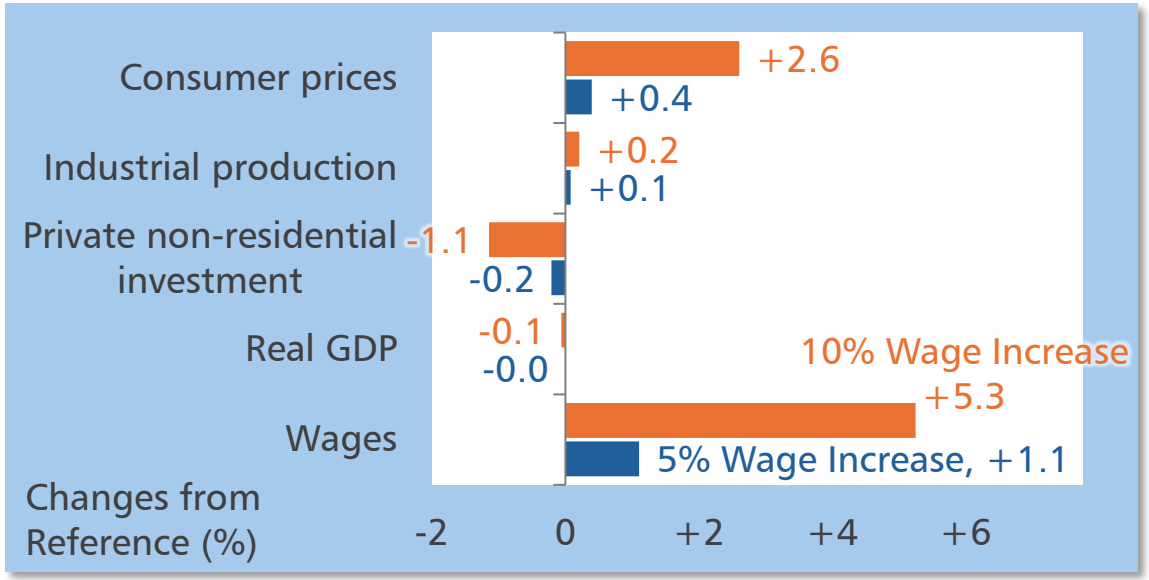
- Disposable income growth would stimulate private consumption.
- Downside factors include accelerating inflation driven by wage increases exceeding productivity gains, and reduced capital investment due to pressure on investment funds.
- Real GDP would not increase. Medium-term investment decline negatively impacts supply capacity and productivity improvements.

Energy sales

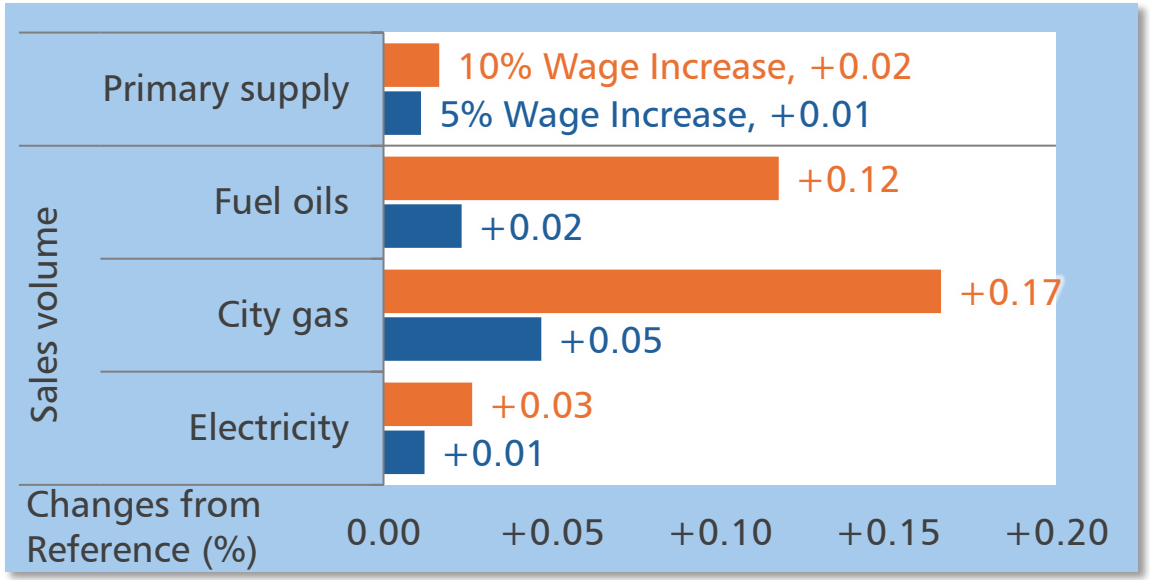
- City gas, electricity and diesel oil sales would increase due to production expansion boosting industrial and transport consumption.
- Gasoline and jet fuel oil sales would increase as rising incomes stimulates household travel demand.

However, the reality is… → Appendix 3

Economic impact of wage increases



Energy impact of wage increases



Notes: Assuming a 5% or 10% wage increase from FY2025 (based on the RENGO figure). Compared to the Reference Scenario. Wages in the figure represent compensation of employees per capita.

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Appendix

1/ Impact of slowing global economic growth

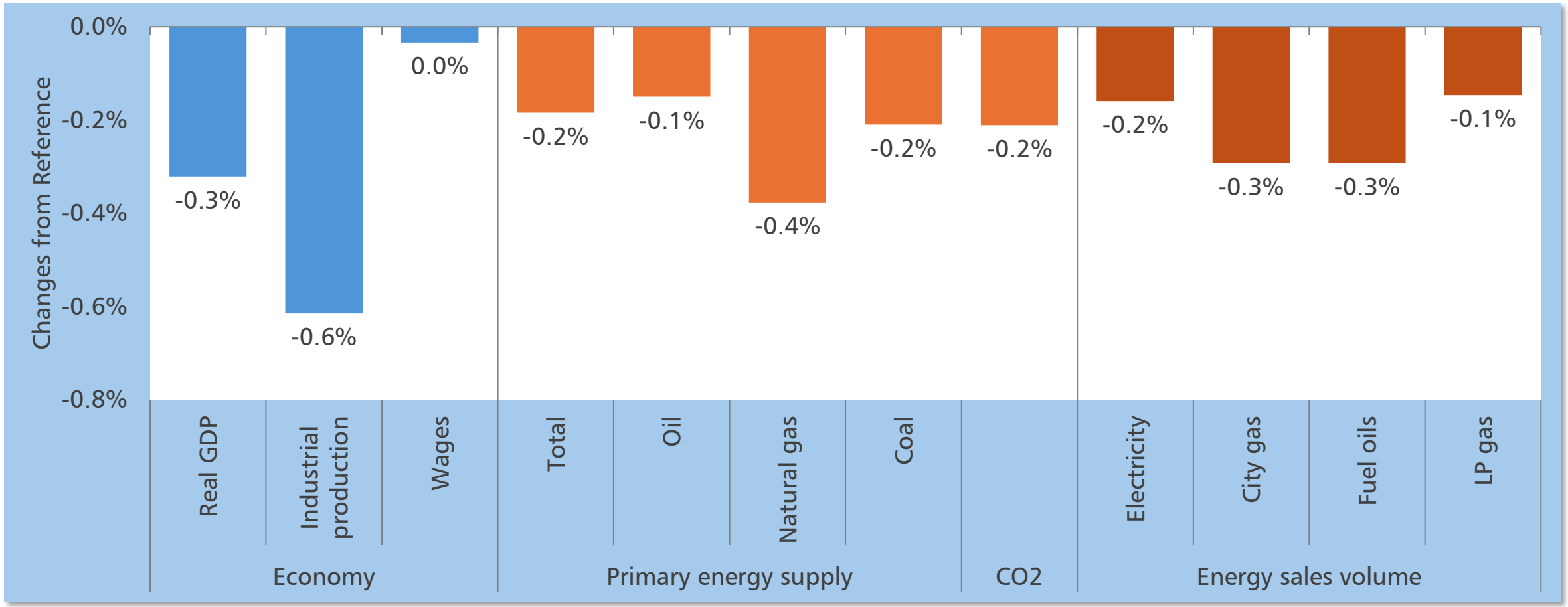
2/ Impact of the degree of nuclear power utilisation

3/ Actual wage increases and stimulating consumption

If the global economy is doused with cold water…

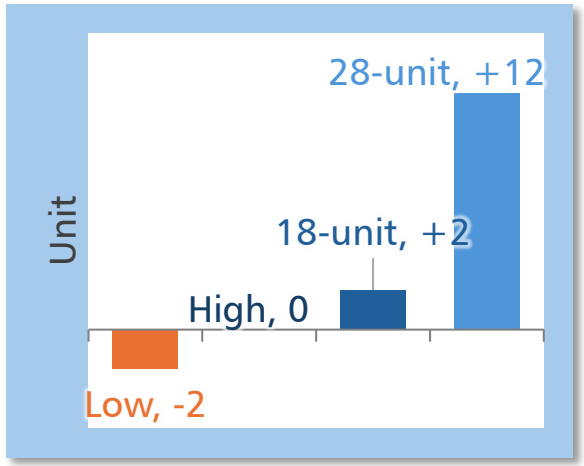
- Assuming a case where the global economy falls 0.5% below the Reference Scenario
- Directly, it would exert downward pressure on the domestic economy and production activities through reduced exports. In the energy sector, the impact would be relatively greater where industrial consumption accounts for a high proportion.

Global Economic Growth Slowdown Case [FY2026]

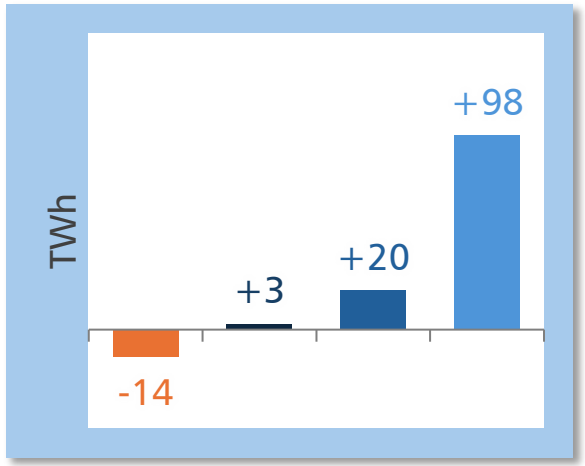


The appropriate utilisation of nuclear contributes to enhancing the 3Es.

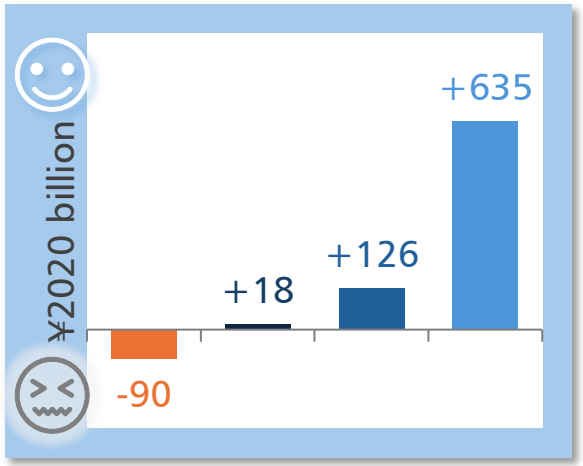
Restarted nuclear plants



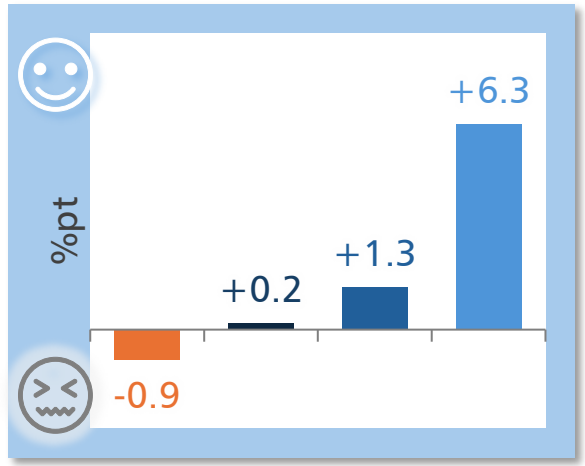
Nuclear power generation



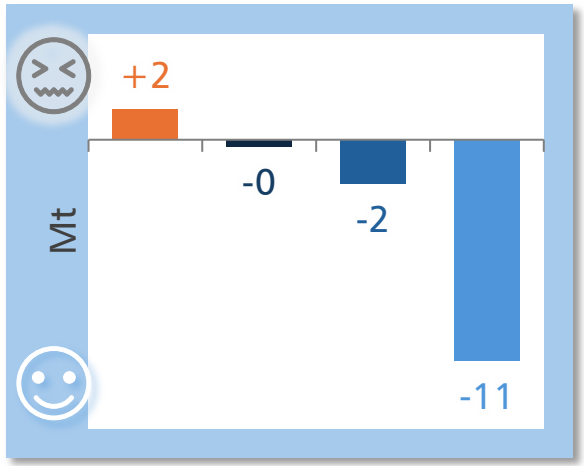
Real GDP



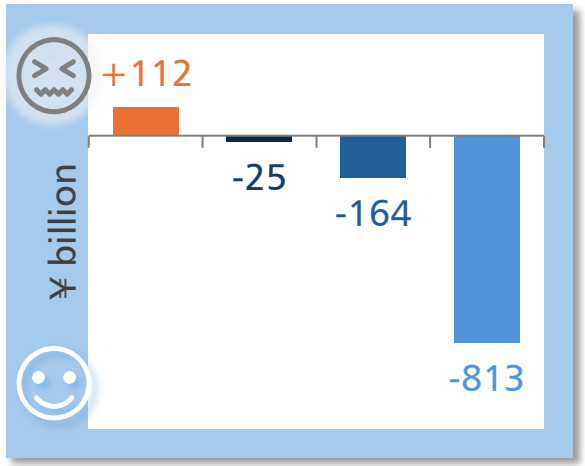
Self-sufficiency rate



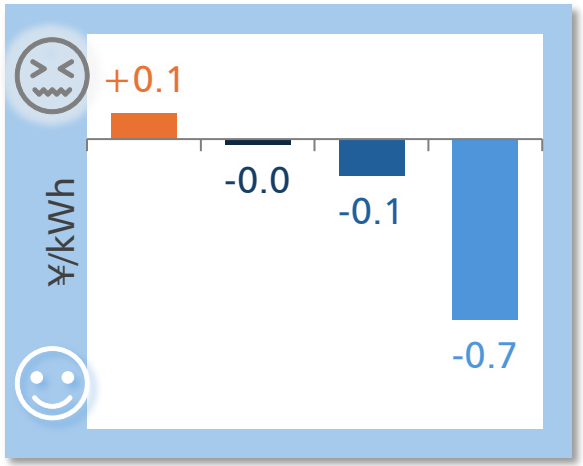
LNG imports



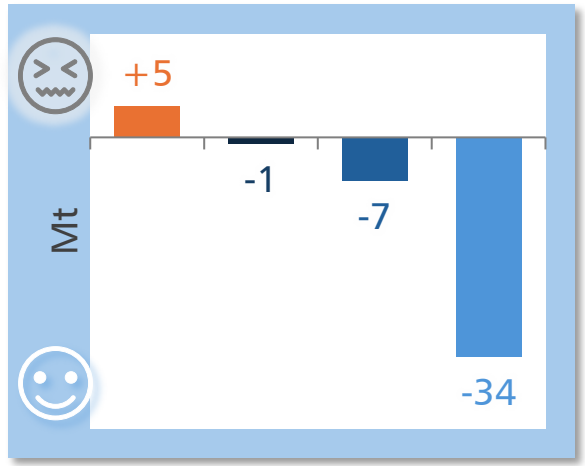
Fossil fuel imports



Electricity unit cost



CO_2 emissions



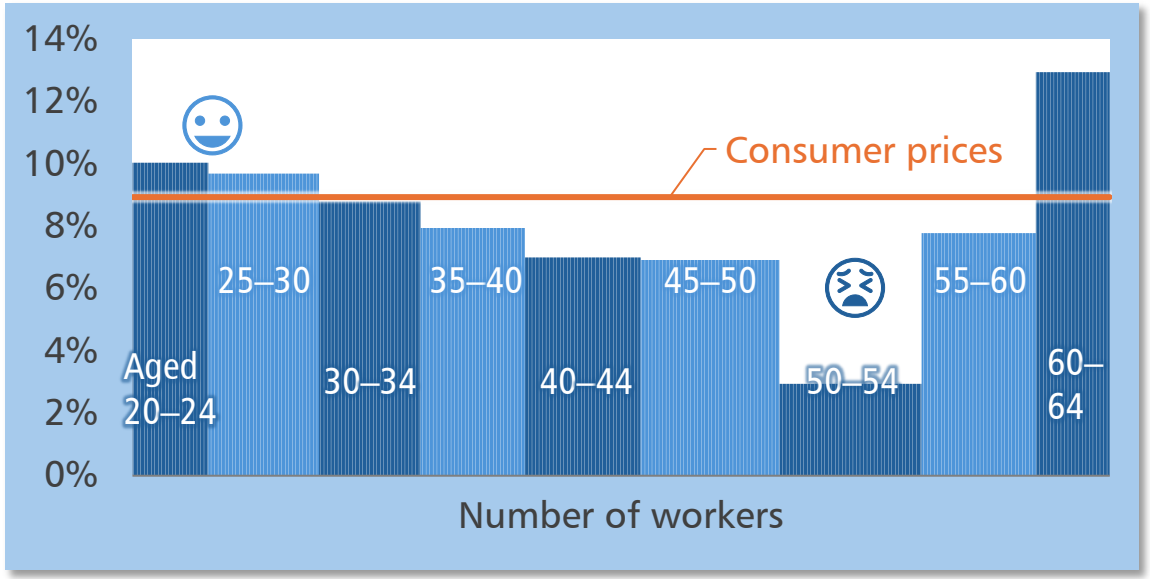
Notes: Low Case: No additional restart; High Case: One additional plant restart brought forward; 18-unit Case: 18 reactors approved under installation licensing standards operating at 80% of capacity factor; 28-unit Case: 27 plants applying for compliance with new regulatory standards plus one decommissioned and rebuilt reactor operating at 80% of capacity factor. FY2026, compared to Reference Scenario.

Appendix 3

A balanced and sustained increase in wages is essential.

- Wage increases vary significantly by age group. Younger generations see improvements outpacing inflation. The baby boomers' children (aged 50–54), who endured tough job markets, face further hardship here, particularly men.
- The pressure on this age group, which has a large population, is downward pressure on the overall economy. Moreover…

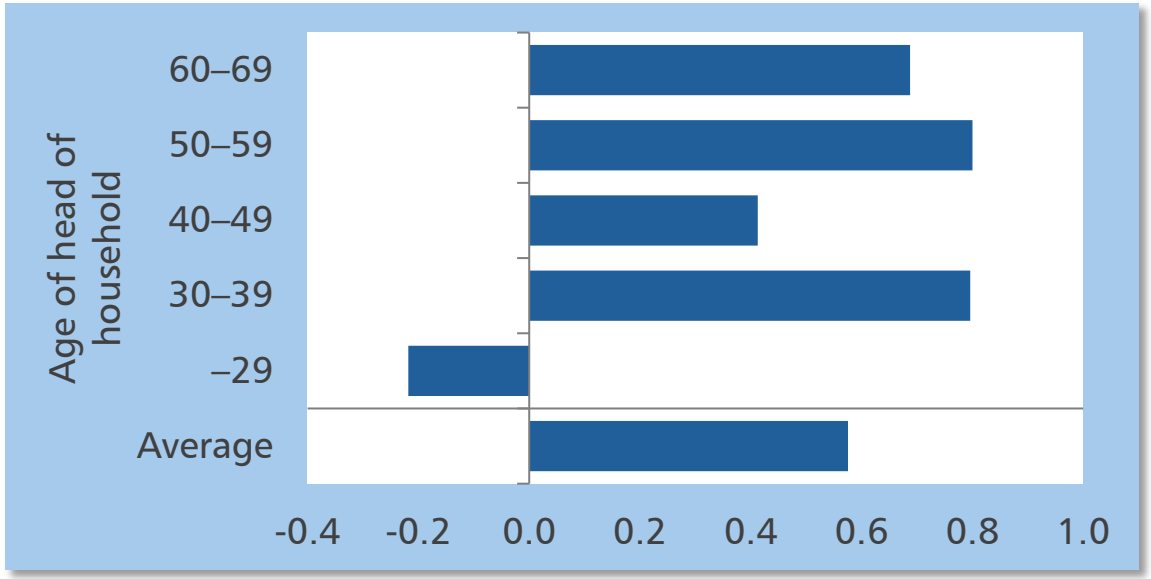
Increase rates of scheduled monthly wages and consumer prices



Note: 2019–2024

- Even when regular income increases in one's twenties, consumption expenditure does not rise accordingly, and thus no contribution to a virtuous economic cycle is anticipated.
- The age group where changes in regular income most significantly influence consumption is the fifties, where real wage cuts are particularly severe.
- This is advantageous in terms of avoiding accelerated inflation caused by additional demand under supply constraints…

Gross elasticity of household consumption expenditure with respect to regular income



Notes: Real, equivalent basis. Workers households. 2021–2024