Macro Roundup Article

Headline: Japan: The Land of the Rising Profits

Article Link: https://www.gmo.com/globalassets/articles/white-paper/2023/gmo_japan---the-land-of-the-rising-profits_10-23.pdf

Author(s)	James Montier
Publication	GMO
Publication Date	October 25, 2023

Tweet: James Montier @GMOInsights notes a decline in household savings rates has improved Japanese firms' profitability.

Summary: We see a near doubling of profits (ordinary, as defined above, as a percent of GDP). The key drivers of this increase (compared to the lost decades) were a rise in dividends and a further decline in household savings (each accounting for roughly 40% of the difference in profits performance). The decline in household savings is perfectly consistent with the argument used previously (that deleveraging has reduced the interest expense for Japanese corporates). Recall that interest expenses are paid to someone – ultimately a household as a form of income. Hence, given a fall in income (due to lower interest expenses paid by firms), to keep consumption levels unchanged, a fall in household savings would be required. So once again we see the very clear impact of the role of deleveraging in improving Japanese profitability.

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