



MCP

Japan, forward or backward?

Thinking about the meaning of the birth of PM Ishiba

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More LDP members supported Takaichi rather than PM Ishiba.

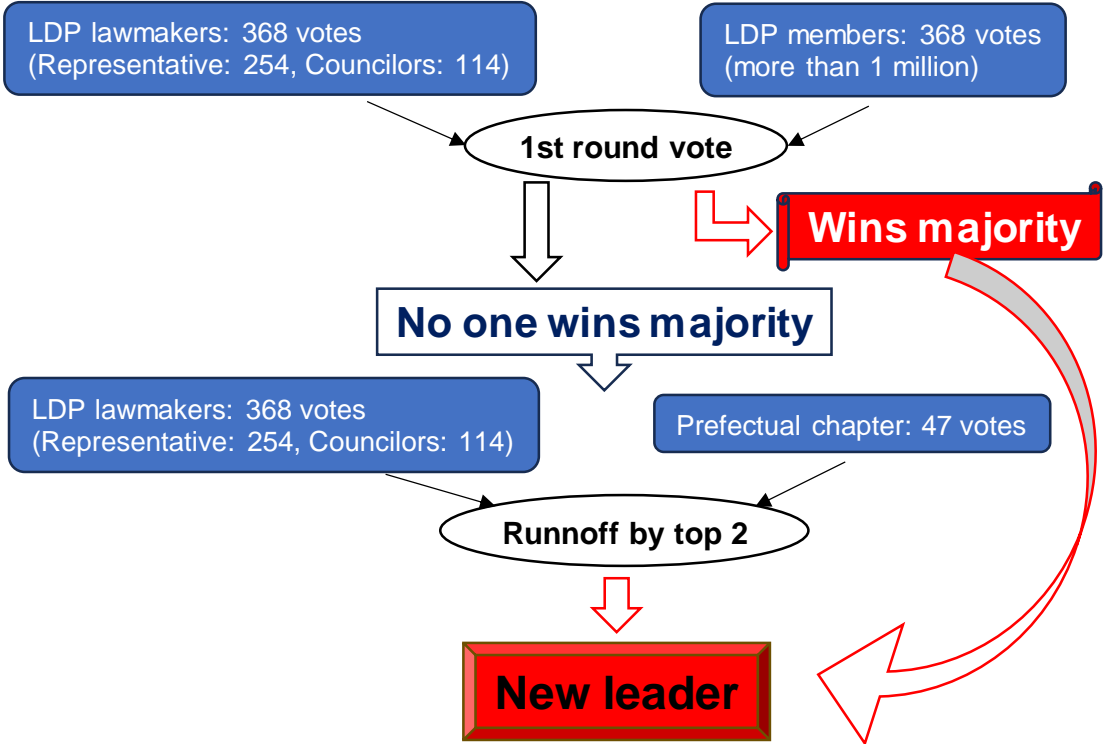
- Similarly to the US presidential election system, just because a candidate gets more votes does not mean he/she will win the LDP's leader election.

Table. Japan: Result of LDP's leadership election vote in 2024

	Runoff			1st round			
	Total	LDP lawmakers	LDP members Prefectural chapters	Total	LDP lawmakers	LDP members Rank-and file	
Ishiba	215	189	26	154	46	108	202,558
Takaichi	194	173	21	181	72	109	203,802

Sources; LDP, MCPAMJ

Chart. Japan: The LDP leadership election process



Sources; NHK, LDP, MCPAMJ

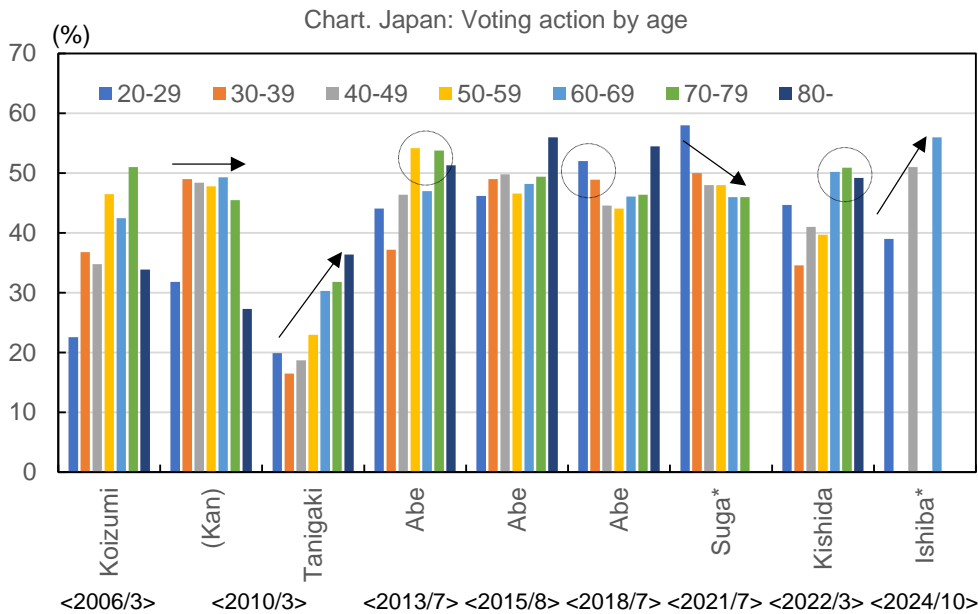
PM Ishiba is mainly supported by pensioners who live in the “rust belt”.

Table. Japan: The result of prefectural chapter by the LDP members & economic fundamentals

Prefecture	Metropolitan & 20 major cities	Winner of prefectural chapters	Average age (2021)	Population (2022)	Seats (Representative)
Akita		Ishiba	53.2	930,000	3
Kochi		Ishiba	51.5	676,000	2
Aomori		Ishiba	51.2	1,204,000	3
Iwate		Ishiba	50.9	1,181,000	3
Tokushima		Ishiba	50.8	704,000	2
Yamagata		Ishiba	50.7	1,041,000	3
Yamaguchi		Hayashi	50.6	1,313,000	3
Wakayama		Ishiba	50.5	903,000	2
Shimane		Ishiba	50.3	658,000	2
Niigata	○	Takaichi	50.2	2,153,000	5
Ehime		Ishiba	50.2	1,306,000	3
Hokkaido	○	Ishiba	50.1	5,140,000	12
Toyama		Ishiba	49.9	1,017,000	3
Oita		Ishiba	49.9	1,107,000	3
Nagasaki		Takaichi	49.9	1,283,000	3
Fukushima		Ishiba	49.8	1,790,000	4
Nagano		Takaichi	49.7	2,020,000	5
Kagoshima		Ishiba	49.5	1,563,000	4
Nara		Takaichi	49.4	1,306,000	3
Tottori		Ishiba	49.4	544,000	2
Miyazaki		Ishiba	49.4	1,052,000	3
Kagawa		Takaichi	49.3	934,000	3
Yamanashi		Ishiba	49.2	802,000	2
Kumamoto	○	Ishiba	48.8	1,718,000	4
Gumma		Ishiba	48.7	1,913,000	5
Shizuoka	○	Kamikawa	48.7	3,582,000	8
Gifu		Ishiba	48.7	1,946,000	5
Fukui		Takaichi	48.7	753,000	2
Mie		Takaichi	48.6	1,742,000	4
Ibaraki		Ishiba	48.5	2,840,000	7
Tochigi		Motegi	48.3	1,909,000	5
Saga		Ishiba	48.3	801,000	2

Sources; Cabinet Office, MIC, LDP

- Traditionally, the elderly have played a more important role in politics in Japan.
- Former PM Abe was the first leader who succeeded in getting the endorsements of younger people by anti-deflation policy.

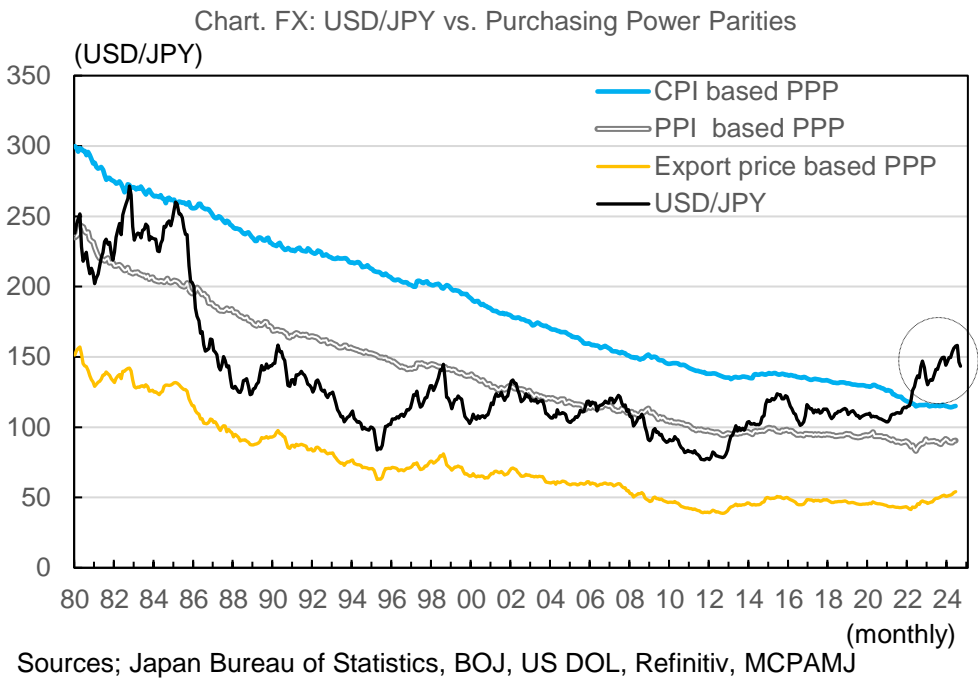
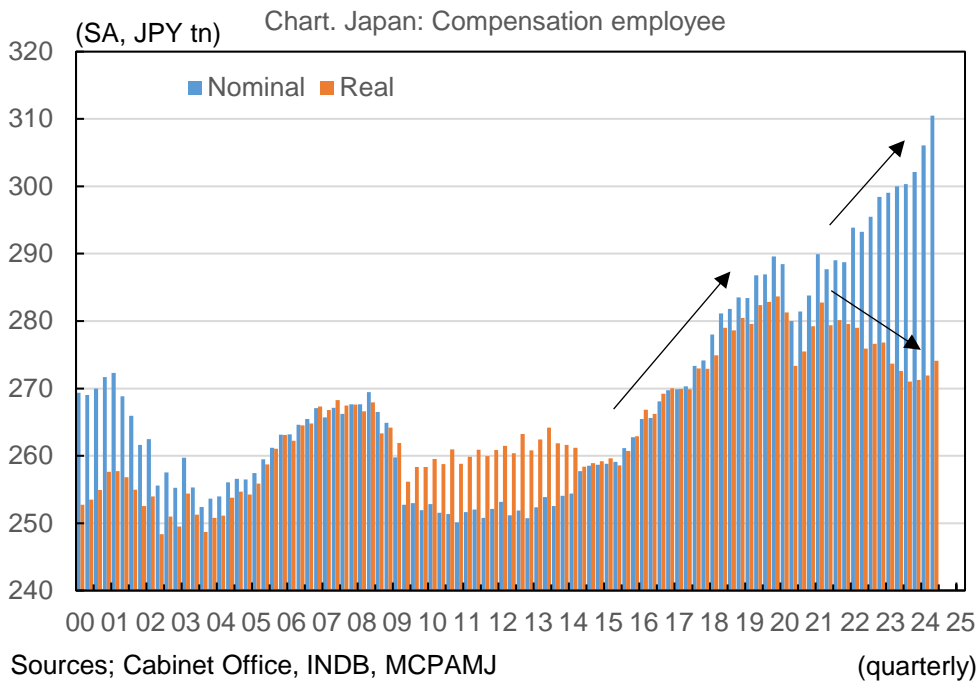


Notes; Kan was the PM and the leader of DPJ, while Tanigaki was the leader of LDP in opposition. Figures for "Suga" and "Ishiba" are approval rating based on public opinion polls. Sources; Association for promoting fair election, Nikkei, MCPAMJ

PM Ishiba is under pressure due to inflation caused by a weaker JPY.

- Abenomics succeeded to end the serious deflation.
- However, global inflation after the pandemic has overshadowed Japan which relies largely on imports for raw materials.

- Excessive JPY depreciation and the QQE with a negative interest rate became the target of criticism.



Negation of Abenomics causes a loss of the support of urban workers.

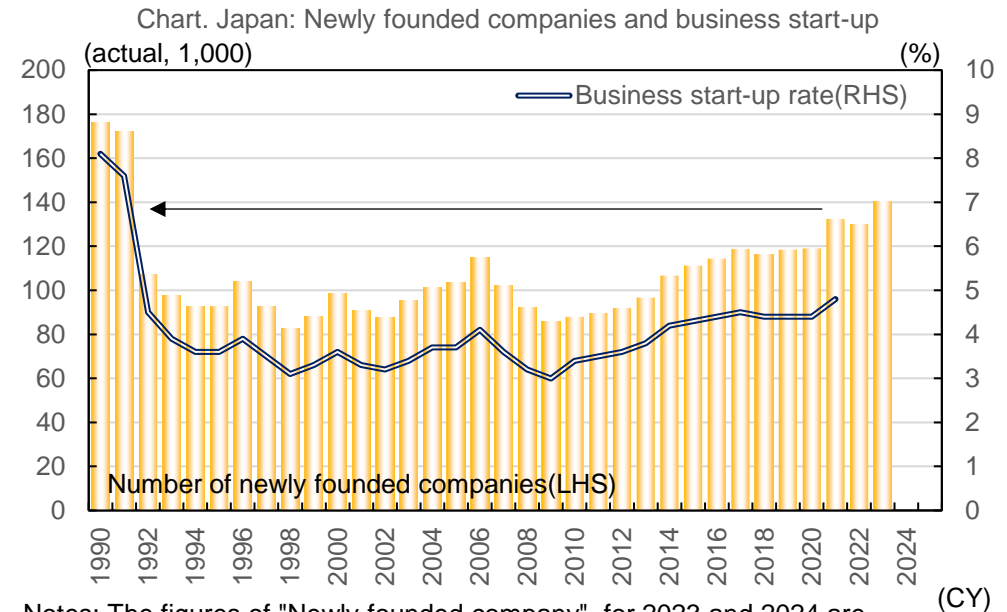
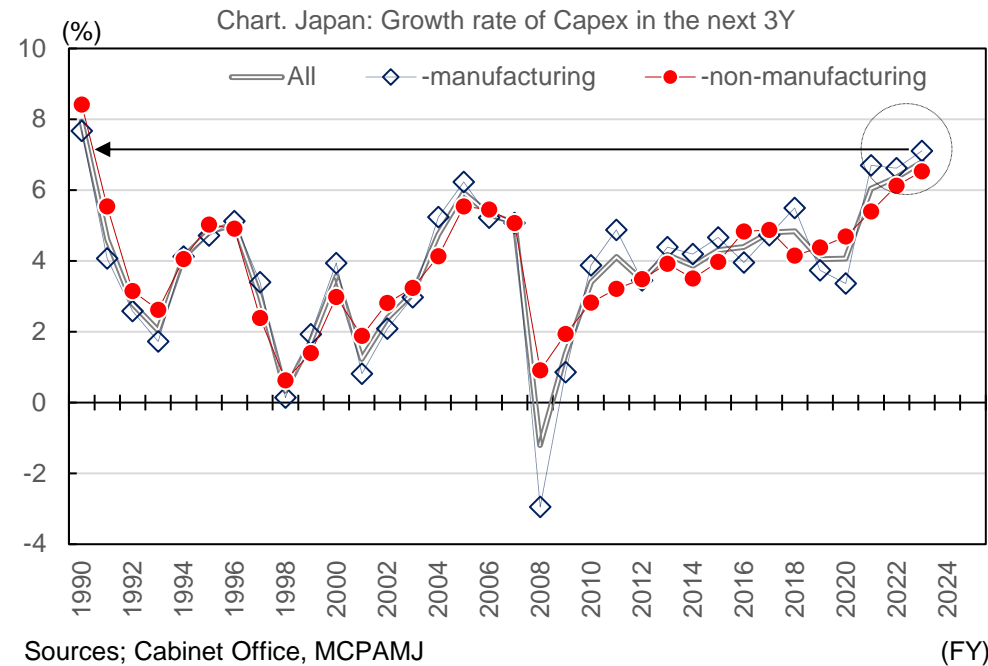
- PM Ishiba was once well-known for criticizing Abenomics, but he has changed his opinion and attitude.
- This is not surprising, given the need to win in Tokyo Metropolitan and major cities in the snap election.

Table. Japan: The result of prefectural chapter by the LDP members & economic fundamentals

Prefecture	Metropolitan & 20 major cities	Winner of prefectural chapters	Average age (2021)	Nominal GDP (2019) (JPY 1,000,000)	Population (2022)	Seats (Representative)
Tokyo	Metropolitan	Takaichi	45.5	115,063,263	14,038,000	30
Osaka	○	Takaichi	47.4	41,313,195	8,782,000	19
Aichi	○	Takaichi	46.0	40,816,158	7,495,000	16
Kanagawa	○	Koizumi	46.8	35,020,393	9,232,000	20
Saitama	○	Takaichi	47.1	23,599,330	7,337,000	16
Hyogo	○	Takaichi	48.2	22,311,704	5,402,000	12
Chiba	○	Takaichi	47.4	21,325,271	6,266,000	14
Hokkaido	○	Ishiba	50.1	20,561,714	5,140,000	12
Fukuoka	○	Takaichi	46.9	19,893,651	5,116,000	11
Shizuoka	○	Kamikawa	48.7	17,813,235	3,582,000	8
Ibaraki		Ishiba	48.5	14,084,221	2,840,000	7
Hiroshima	○	Takaichi	48.0	11,995,871	2,760,000	6
Kyoto	○	Takaichi	48.0	10,772,584	2,550,000	6
Miyagi	○	Takaichi	47.7	9,845,266	2,280,000	5
Tochigi		Motegi	48.3	9,343,324	1,909,000	5
Gumma		Ishiba	48.7	9,250,676	1,913,000	5
Niigata	○	Takaichi	50.2	9,182,845	2,153,000	5
Nagano		Takaichi	49.7	8,471,583	2,020,000	5
Mie		Takaichi	48.6	8,145,362	1,742,000	4

Sources; Cabinet Office, MIC, LDP

The 30-year high can be seen other than EQ prices or wage increases.



The reordering of supply chains is in motion.

- JPY depreciation under Abenomics has forced the business to review overseas production and move back to the domestic market.

- Japan is more likely to benefit from the reordering of the global supply chain driven by heightening geopolitical tension between the US and China.

Chart. Japan: Overseas production ratio (manufacturing industries)

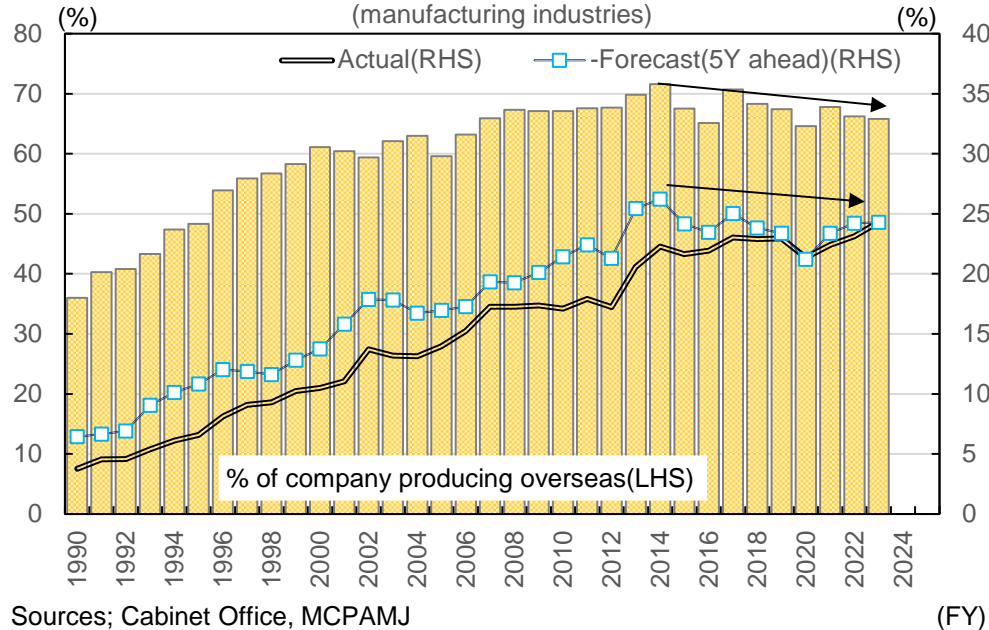
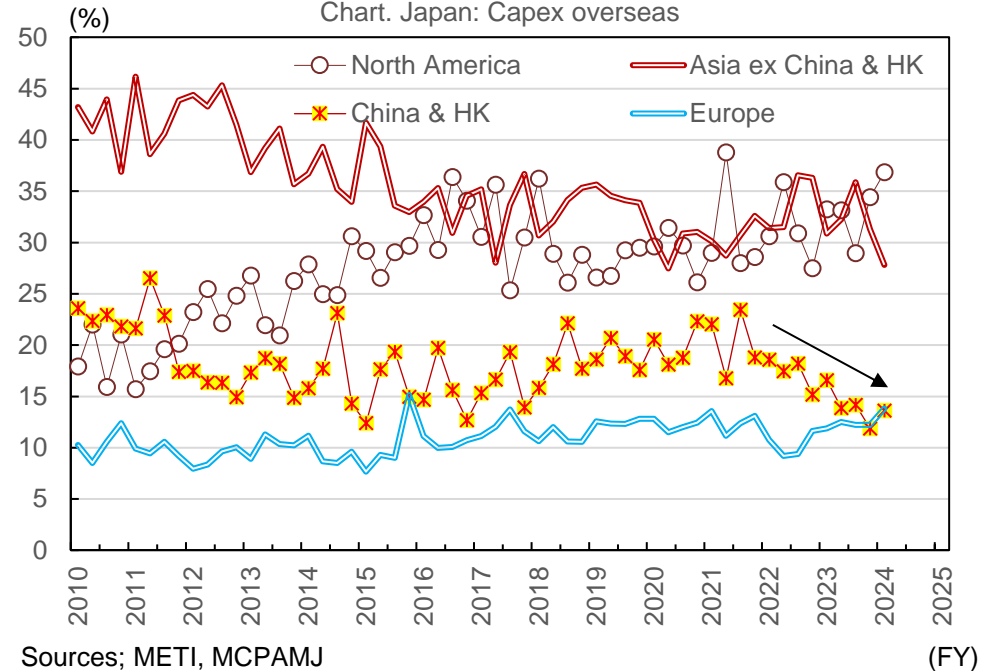


Chart. Japan: Capex overseas



Japan will move forward and will not go back to “Lost Decades”.

- The emergence of the Japanese economy that began under Abenomics is likely to continue getting the tailwind of the global supply chain reordering.
 - Deflation is over in Japan due to Abenomics.
 - But higher inflation after the pandemic has weighed on pensioners especially live in underpopulated areas.
 - They support PM Ishiba who was a well-known critic of Abenomics to end inflation.
 - The market and workers in urban areas are concerned that he will terminate all accommodative macroeconomic policies put in place under Abenomics.
 - As it is impossible to win the next general election without the endorsements of workers in urban areas, PM Ishiba has no choice but to continue a pro-growth macroeconomic policy similar to Abenomics.

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