

Domestic Economic Update

AI-Related Demand Underpins Domestic Economy Despite Middle East Risks

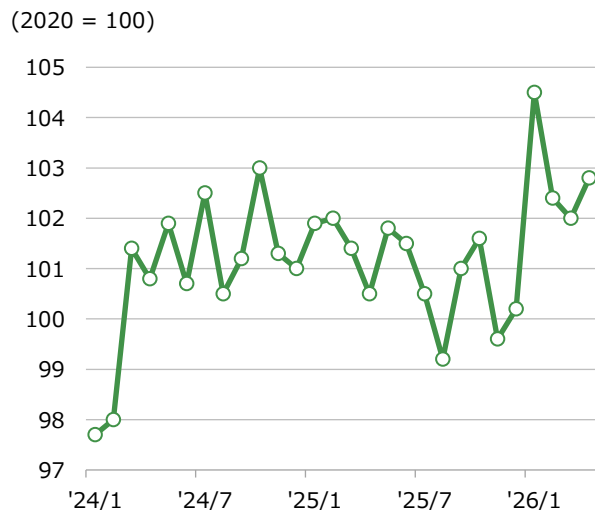
June 2, 2026

While the impact of supply constraints is becoming apparent in some areas, AI-related demand is driving production activity

The deterioration of the situation in the Middle East is exerting downward pressure on the Japanese economy through a “double shock” consisting of (1) a price hike in energy prices and (2) supply constraints on raw materials, symbolized by naphtha. In particular, Japan is highly dependent on imported energy resources, and its economic structure makes it vulnerable to rising crude oil prices, which tend to squeeze corporate profits and real income through a deterioration in terms of trade. Looking at trends in the real economy, these effects are already becoming apparent in some sectors of industrial production. A significant decline in production has been observed in energy and materials industries, such as petroleum and coal product manufacturing and inorganic and organic chemical manufacturing, suggesting that rising costs and difficulties in procuring raw materials are spilling over into production.

On the other hand, despite these downward pressures, overall production activity has not collapsed. This is due to strong demand in digital-related fields, particularly those centered on AI and semiconductors. Production of semiconductor manufacturing equipment, electronic components, and devices continues to grow strongly, and the expansion of structural capital spending is offsetting the decline in the energy and materials sectors to a certain extent, allowing overall industrial production to remain resilient. Thus, the current state of the Japanese economy differs from previous periods of a resource price hike. In the past, surging energy prices often triggered widespread declines in demand and production, leading directly to an overall economic slowdown. However, at present, there is a structural and global expansion of demand driven by AI-related investment, which is enhancing the economy’s resilience to exogenous shocks.

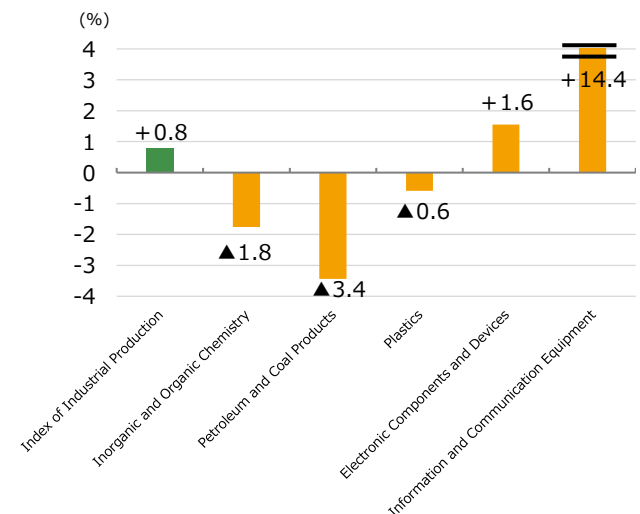
Indices of Industrial Production



※ Latest figure as of April 2026

Source: Ministry of Economy, Trade and Industry; Compiled by Daiwa Asset Management

MoM Change in Major Production Indices (Mar → Apr 2026)



Source: Ministry of Economy, Trade and Industry; Compiled by Daiwa Asset Management

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