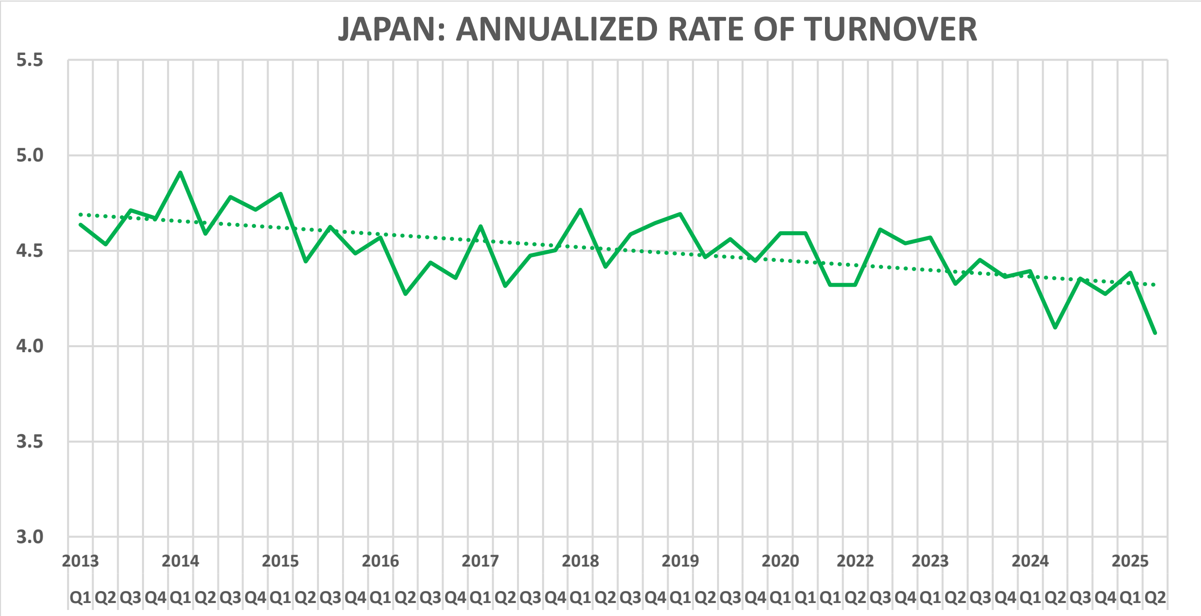
JAPAN & GERMAN PROFITABILITY IN Q2 2025 TURNS DOWN IN LINE WITH CHINA AND THE USA.

The Policy Research Institute at the Ministry of Finance Japan and Destatis the Germany Statistical Bureau both published the corporate data for Q2 2025. This completes my analysis of profitability which includes the USA and China. Together they represent just over 50% of Global GDP amounting to $111.33 billion (2024 Worldbank) making this a powerful study in global profitability.

(Note: all graphs, equations and data can be found on the two spreadsheets accompanying this article)

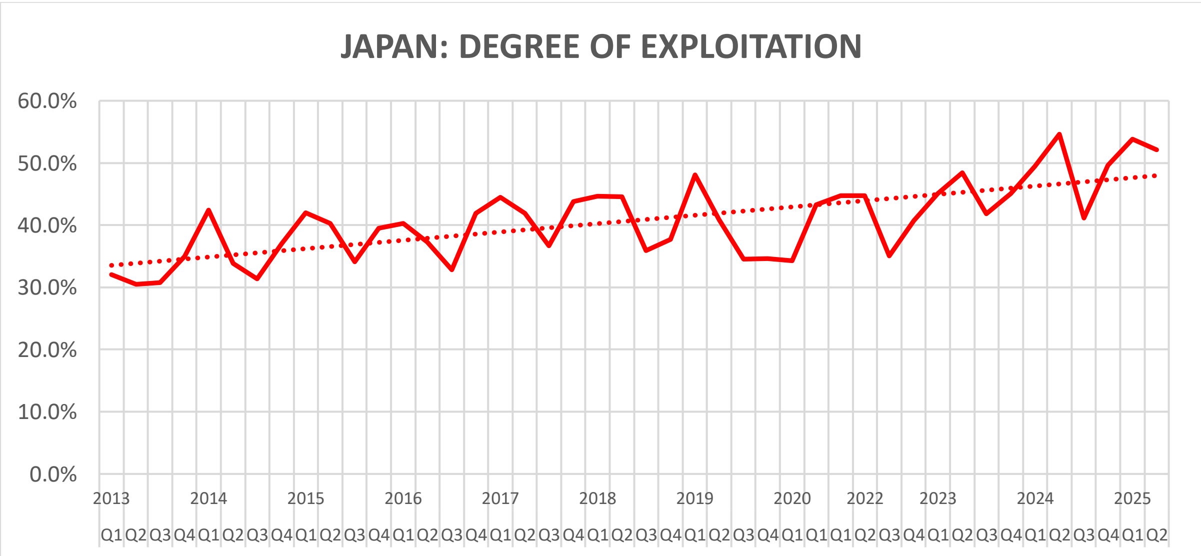
We will begin with Japan and turnover. Turnover significantly decelerated in Q2 to its lowest point in the series indicating a weakening in market conditions.

Graph 1.



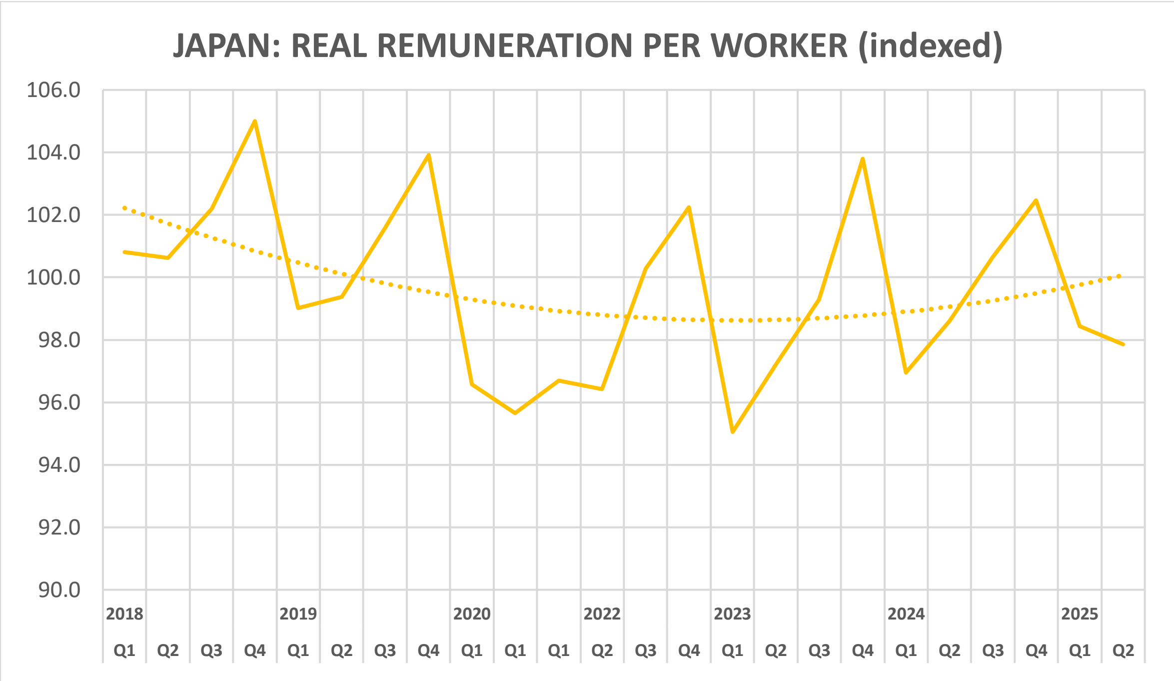
The degree of exploitation also weakened,

Graph 2.



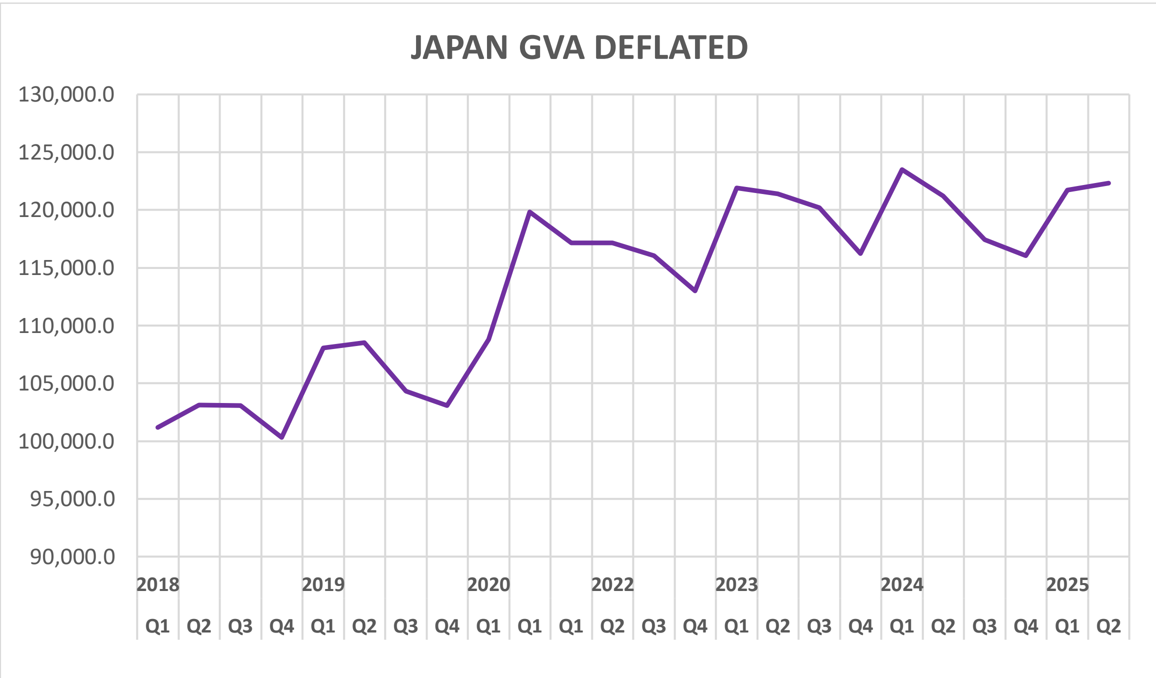
despite the fall in worker remuneration,

Graph 3.



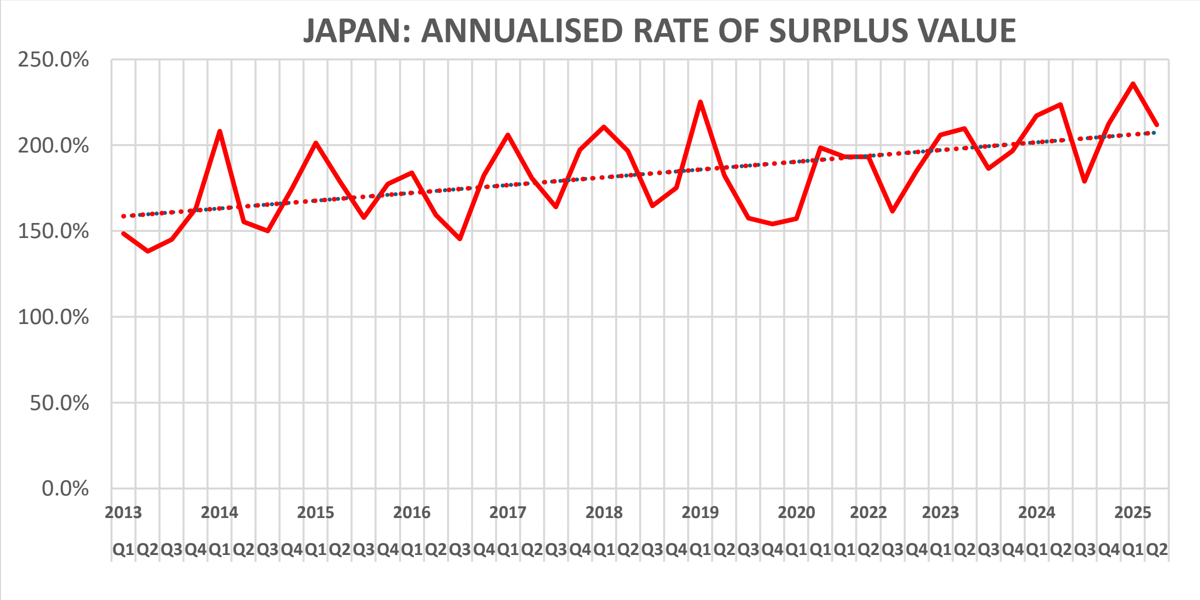
Meaning the problem lay on the revenue side. In short with the net surplus due to Gross Value Added not rising. It has been flat for two years. (Deflator used is the GDP deflator.)

Graph 4.



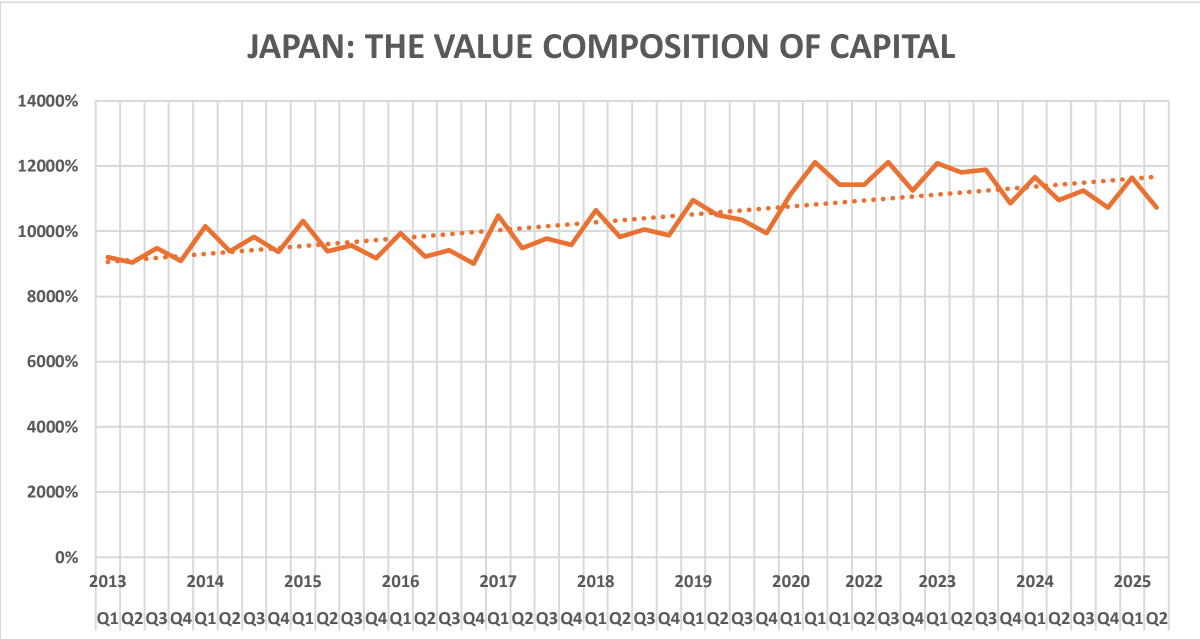
Worse the combination of a falling degree of exploitation as well as turnover saw an even steeper fall in the rate of surplus value which is based on exploitation times turnover.

Graph 5.



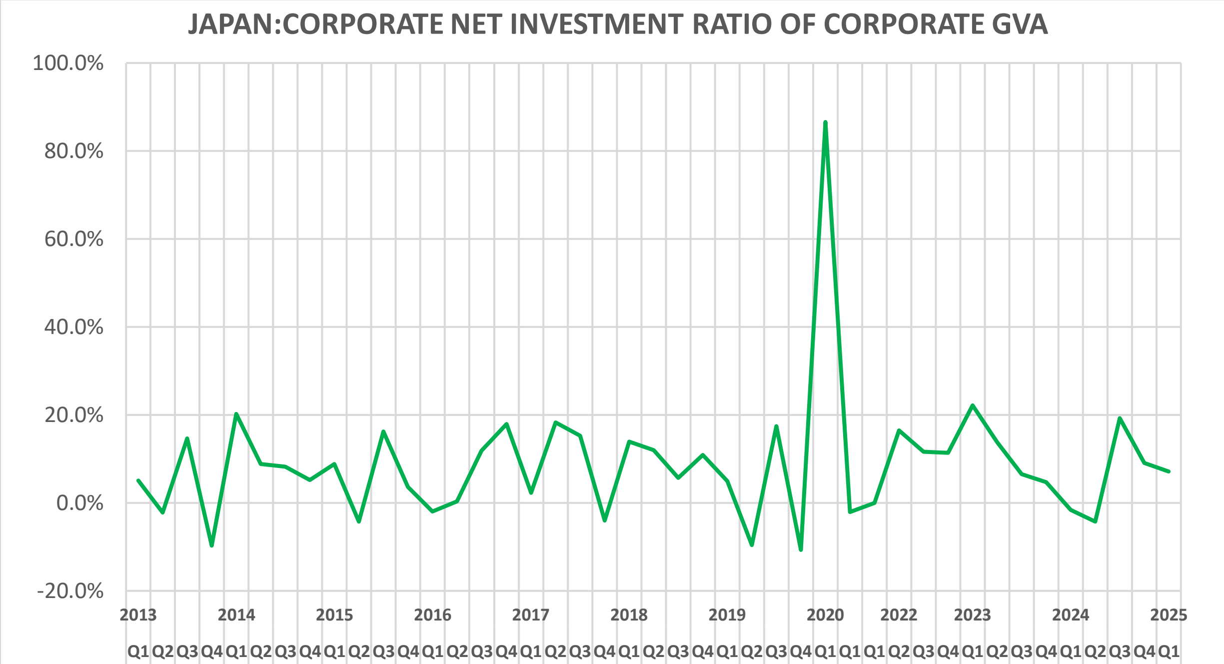
That completes the investigation on the profit side, what about the capital side? The capital side was kinder to the investor class. It reduced slightly due to weak investment. In line with the deindustrialisation in Japan, the composition declined to the levels last seen before the pandemic. Yet another sign that the pandemic anomalous legacy is well and truly over. In addition, the growing investment in immaterial production, being less capital intensive, also helped reduce the composition.

Graph 6.



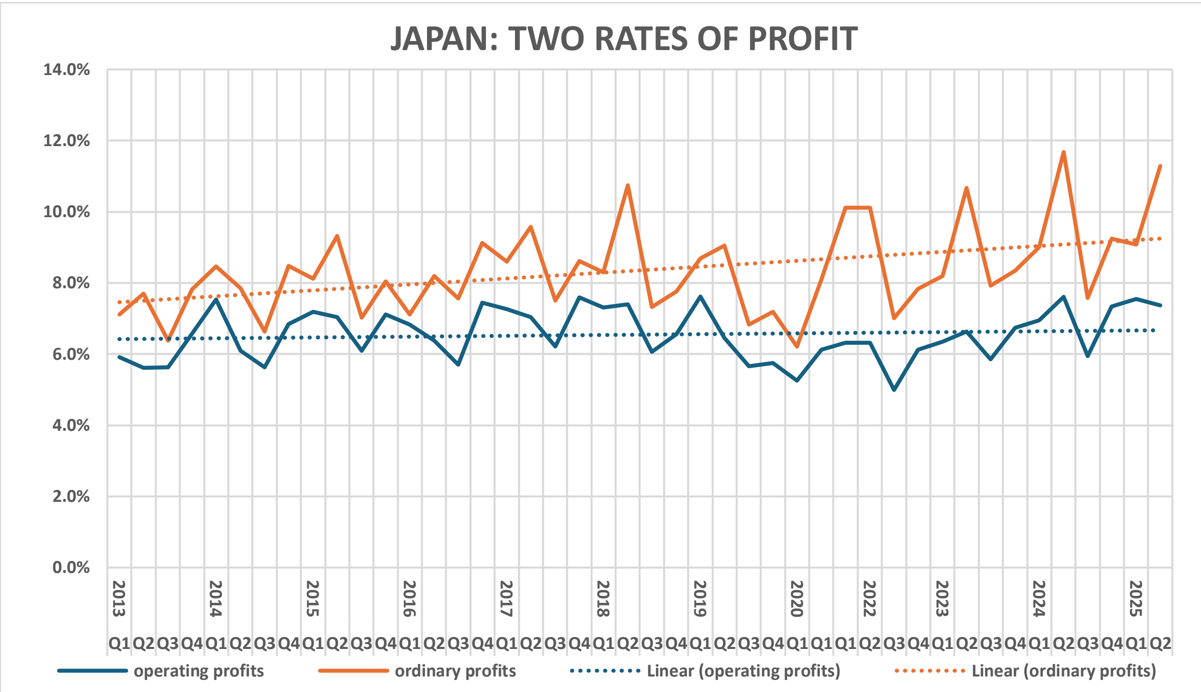
As the graph below shows there has been a significant deceleration in accumulation in H1 2025 due to slower investment in fixed assets. Graph 7 examines how much of the newly produced value is being thrown back into expanding production in the form of investment. The rate of accumulation has fallen back to the levels pre-pandemic.

Graph 7.



Having examined both sides of the equation which makes up the rate of profit we are now in a position to see how the two sides of the equation, capital and profit, interact. Capital in the graphs relating to Germany, Japan and the USA are all based on circulating capital plus fixed capital. China is the exception for while it is possible to extract circulating capital from the data, fixed capital tables are unavailable. In the case of Japan, the data covers industry, in Germany non-financial corporations.

Graph 8.



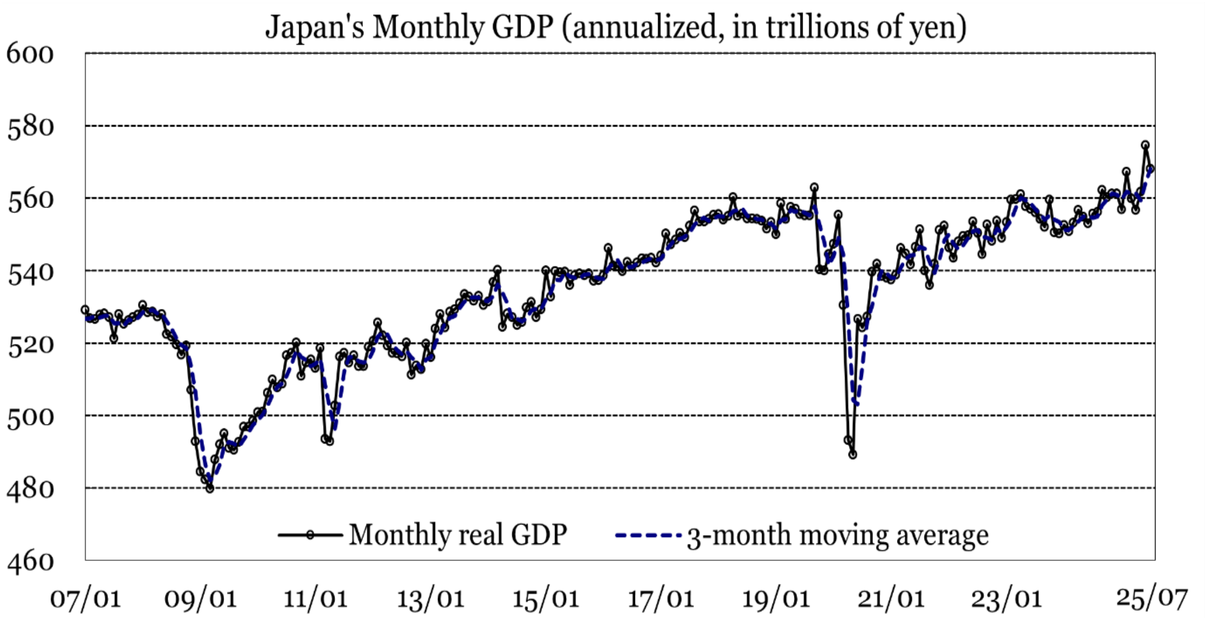
The key graph here is the blue one based on produced profits which exclude financial (fictitious) profits. Another leg down, which I expect for this quarter, will propel the rate back to levels last seen in 2019 when the world economy teetered on the edge of a global recession. I always include both Japanese rates to demonstrate that corporate Japan with its large cash pile and liquid investments gains considerably from these investments, sufficient to raise the 'ordinary' rate of profit well above that of the operating rate of profit. In the event of a fictitious asset collapse and accompanying write offs, then the ordinary rate will plunge below that of the operating rate of profit.

This detailed METI production survey in August released 30 September shows a sharp contraction in production in August. And this survey which consolidates the data shows a 1.2% fall in production compared to July and a 1.3% fall compared to August last year. This service sector survey was more optimistic, buoyed by the information sector. In terms of exports 54% of Japanese exports went to Asia, only 20% to North America and 12.5% to Europe. Exports were up 4.8% measured in dollars. The USA remained the single biggest export market with China second at ten percent lower. In contrast to the Bank of Japan The Finance Ministry was more optimistic finding a sharp improvement in business confidence covering the period July to September. This has everything to do with Trump arriving at a consensus over tariffs with Japan and little to do with actual underlying economic conditions. However, smaller businesses were far less optimistic, and they remained cautious about domestic conditions.

Then we have the authoritative TANKAN survey which shows a stable outlook in September compared to June. Its survey shows that 'not so favourable' when translated, means difficult market conditions dominate. In terms of the key issues, profits and sales, conditions have deteriorated confirming the outlook for profitability in Q3 as negative. Despite the stress and recession indicators remaining low, It's quite difficult to determine actual market conditions from all these surveys. They do not contradict my view that the medium term outlook for the Japanese economy is negative. What little props there are, namely a buoyant stock market, real estate and the AI bubble are not sustainable. What is real is the rate of turnover, the rate of surplus value and the rate of profit, they triangulate a different future.

Finally, nominal Japanese monthly GDP up in July is no higher than in 2019. Adjusted for inflation the picture is much bleaker.

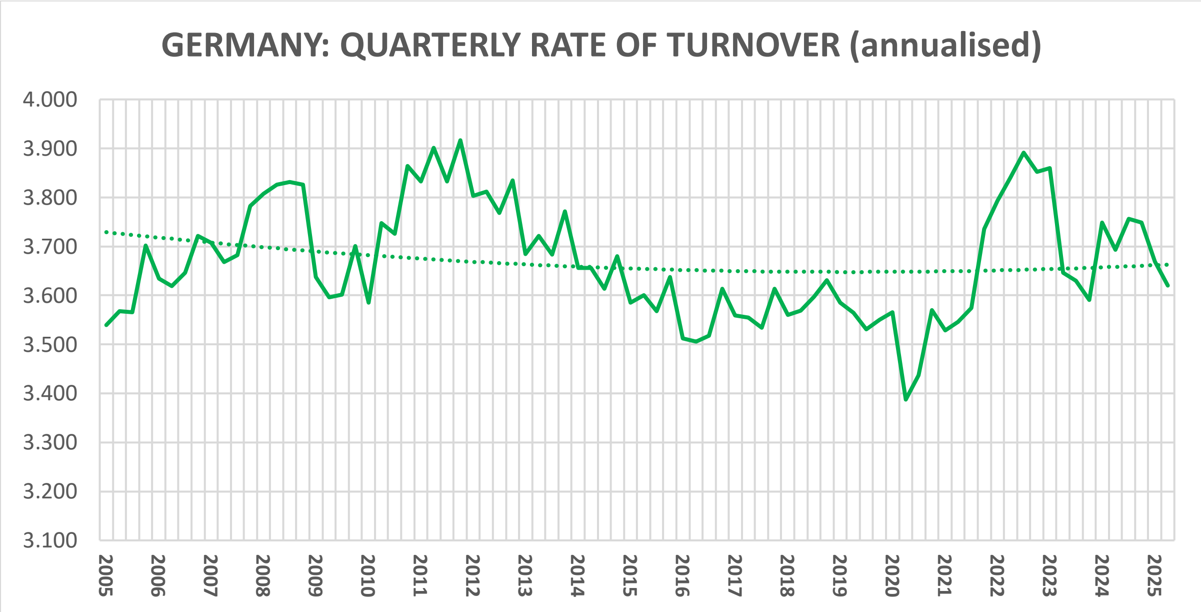
Graph 9.



Germany.

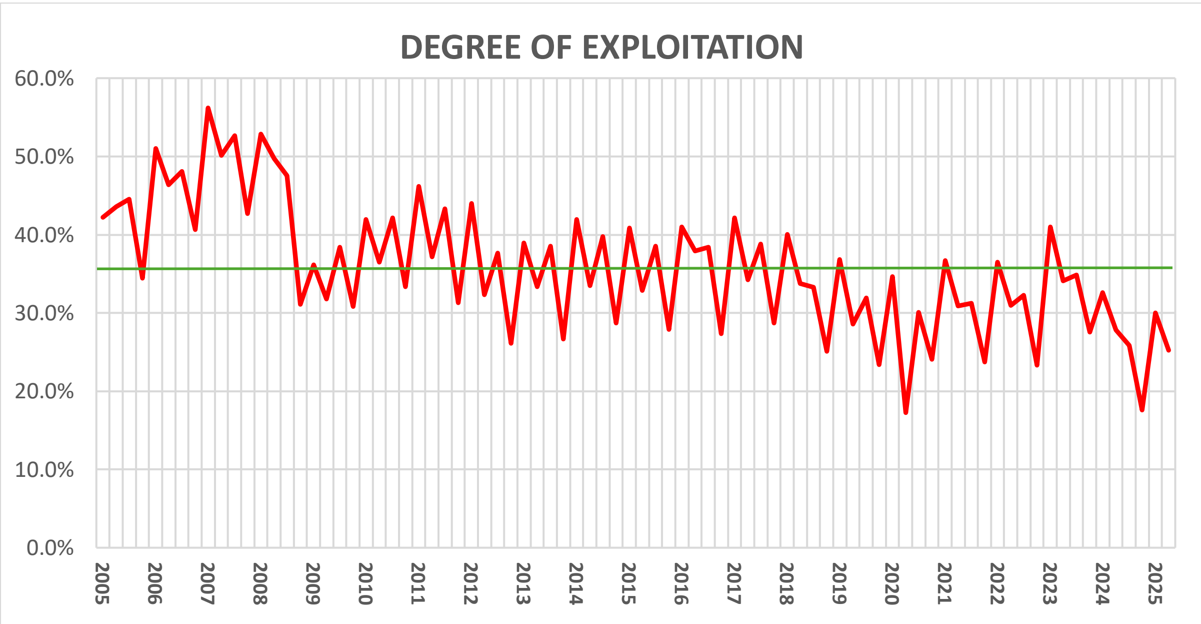
As in the case of Japan, we will commence with the first of the three key ratios, the rate of turnover. It has decelerated sharply in H1 2025 and is approaching pre-pandemic levels. Another leg down and it will be in pre-pandemic territory.

Graph 10.



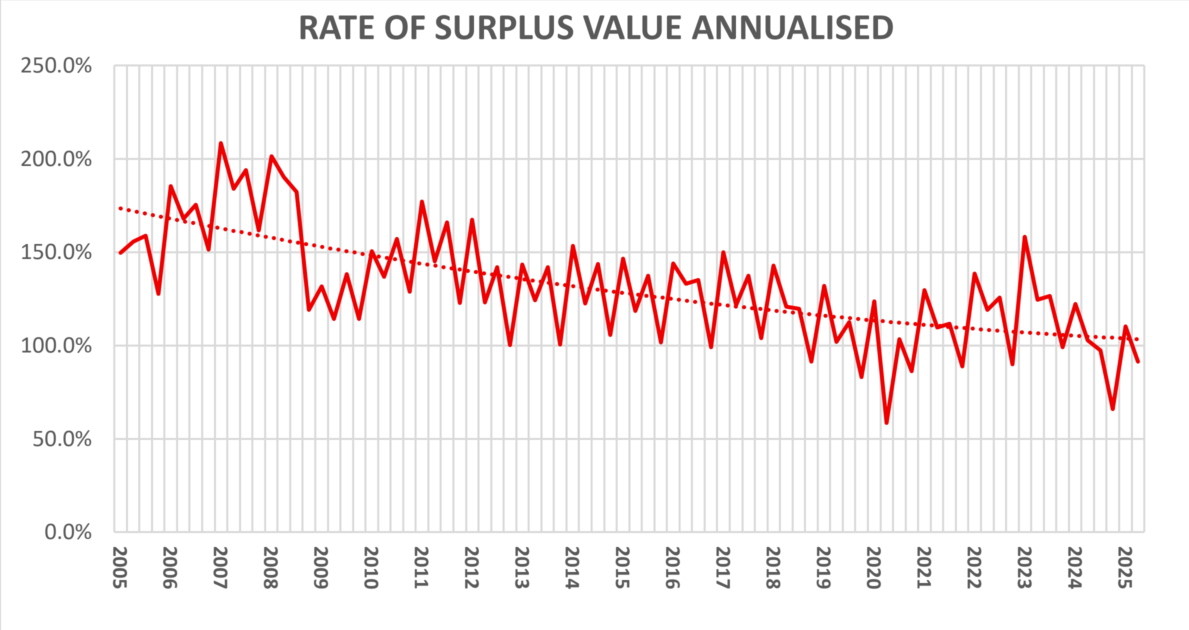
Exploitation turned down this quarter. The current degree of exploitation at 25% is well below the average of 36% since 2005 and is in line with 2019.

Graph 11.



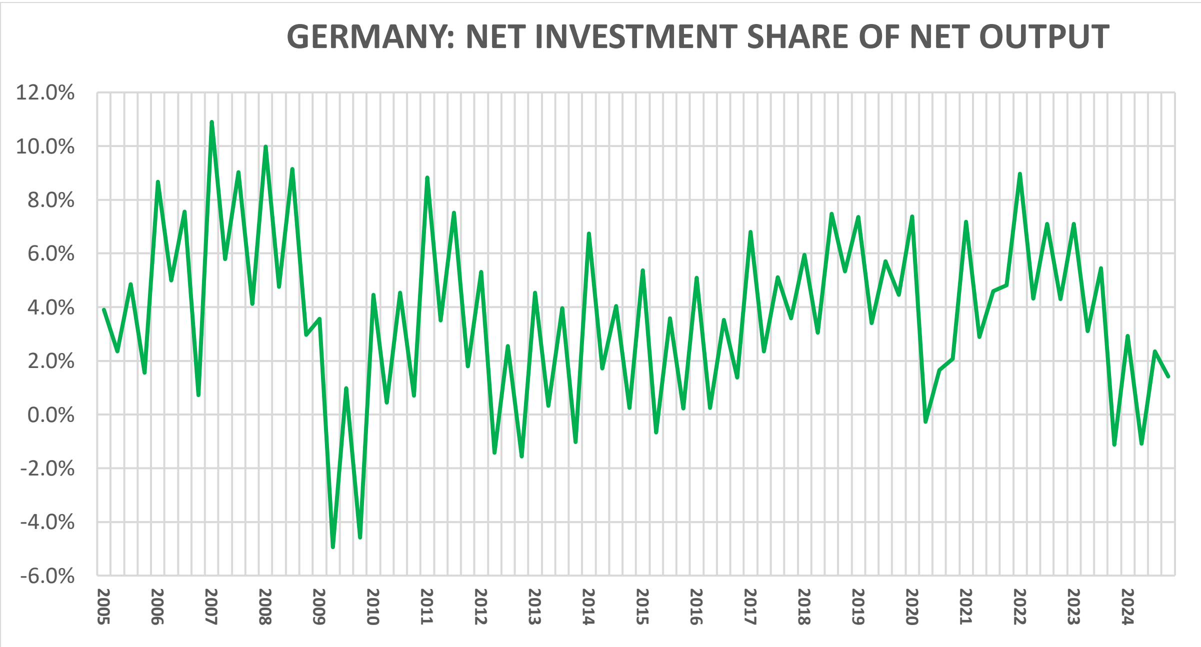
Add in a lower rate of turnover and the fall in the rate of surplus value is amplified bringing it down to below the average in 2019, but up from the trough at the end of 2024. The overall trend is sharply down from the period up to 2017 when Germany benefited from industrialising China.

Graph 12.



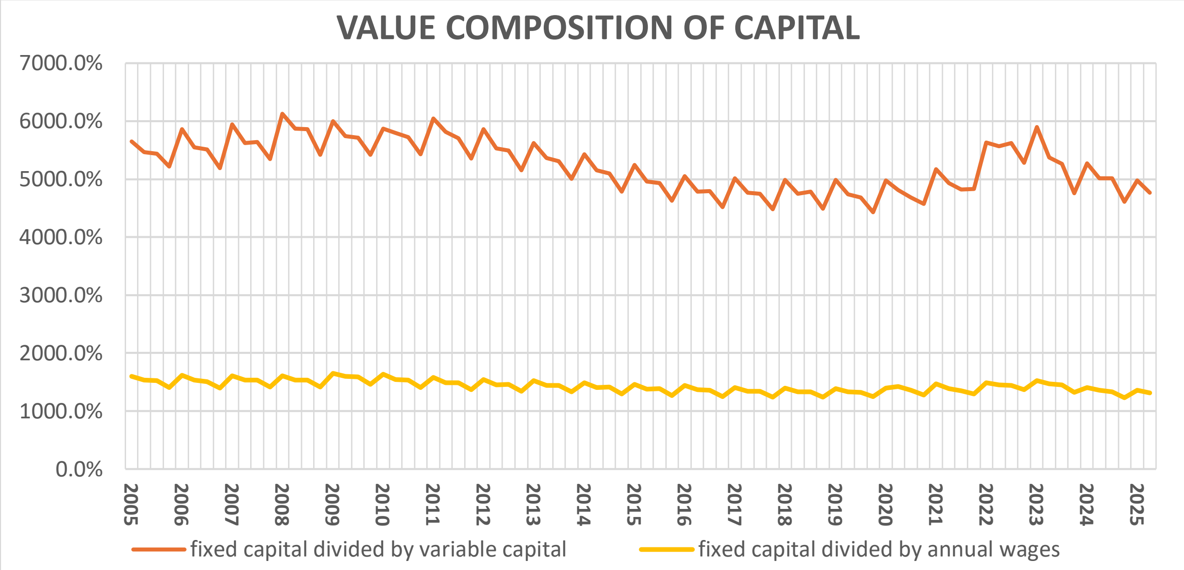
Next let us turn to the capital side. On the attached worktable are three graphs showing the rate of accumulation, I will only apply one here. The rate of accumulation has slowed down from the pandemic, and its pattern is reminiscent of the period after the financial crash in 2008.

Graph 13.



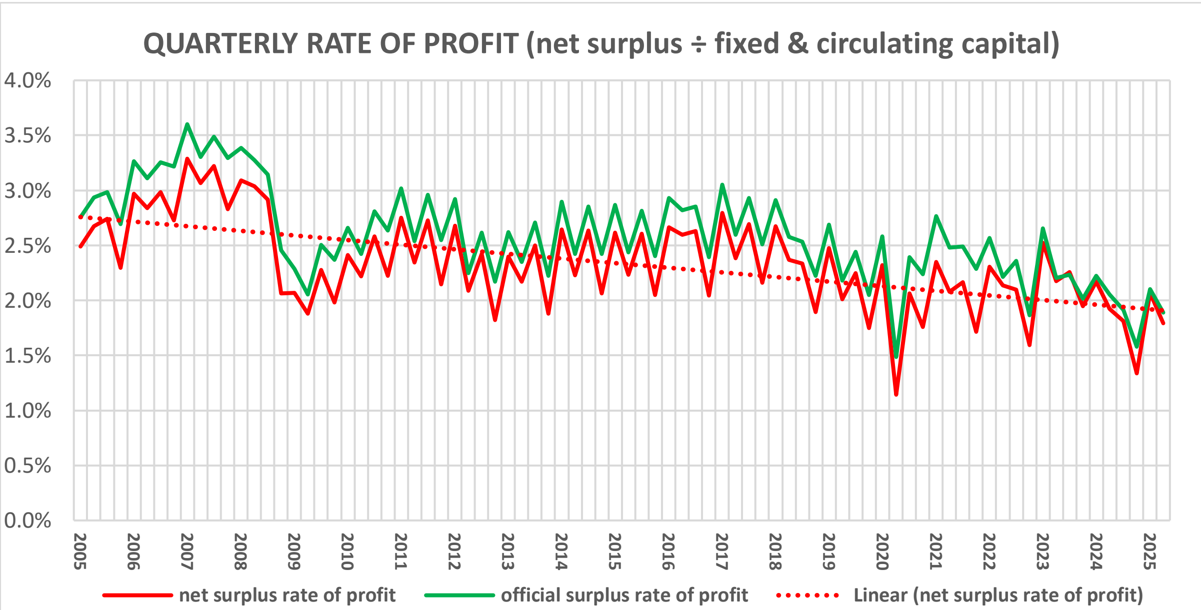
Which brings us to the value composition of capital. For comparison and explanatory purposes, I have introduced the ratio most Marxists use (the yellow graph below) which is based on the absurdity of annual wages being used as the denominator. However, note the rhythm of turnover in the brown graph which makes it more volatile, and how during the pandemic when the rate of turnover accelerated sharply, it reduced variable capital thereby elevating the composition of capital because the denominator being used is variable capital.

Graph 14.



Having examined both sides of the profitability equation we can now turn to the all-important rate of profit based on fixed and circulating capital.

Graph 16.



Unlike Japan, Germany manifests a clear downward trend in the rate of profit. Though the rate of profit has recovered from its second lowest point at the end of 2024 it still languishes below the levels immediately before the pandemic, aggravated by the fall during this last quarter.

Turning to GDP here is the latest release from Destatis.

"Gross domestic product ***(GDP), 2nd quarter of 2025***
-0.3% on the previous quarter (price, seasonally and calendar adjusted)
-0.2% on the same quarter a year earlier (price adjusted)
+0.2% on the same quarter a year earlier (price and calendar adjusted)

After price, seasonal and calendar adjustment, gross fixed capital formation decreased significantly (-1.4%) in the 2nd quarter of 2025, after registering a slight increase at the start of the year. Gross fixed capital formation in machinery and equipment was down 1.9%.

No positive contributions came from foreign trade either. In the 2nd quarter of 2025, total exports of goods and services were down 0.1% from the 1st quarter of 2025, after price, seasonal and calendar adjustment. This was due to a drop in exports of goods (-0.6%),

The year-on-year decline in the volume of investments continued in the 2nd quarter of 2025, dropping by a price adjusted 1.9%. Compared with the 2nd quarter of 2024, gross fixed capital formation in machinery and equipment fell significantly by 3.9%. Exports (price adjusted) declined substantially by 2.4% from the same quarter a year earlier. While exports of goods decreased significantly (-3.6%), The number of hours worked fell by 0.5% while productivity rose by an anaemic 0.3%"

In the graph below we note that while the population of Germany has grown in the six years since 2019 real GDP has not. Germany has become poorer not richer. Pivoting to a war economy may boost output but it will impoverish German society even further. And this can be seen in the table below the Graph, which shows the financial stresses a significant minority of German families are facing.

Graph 17.

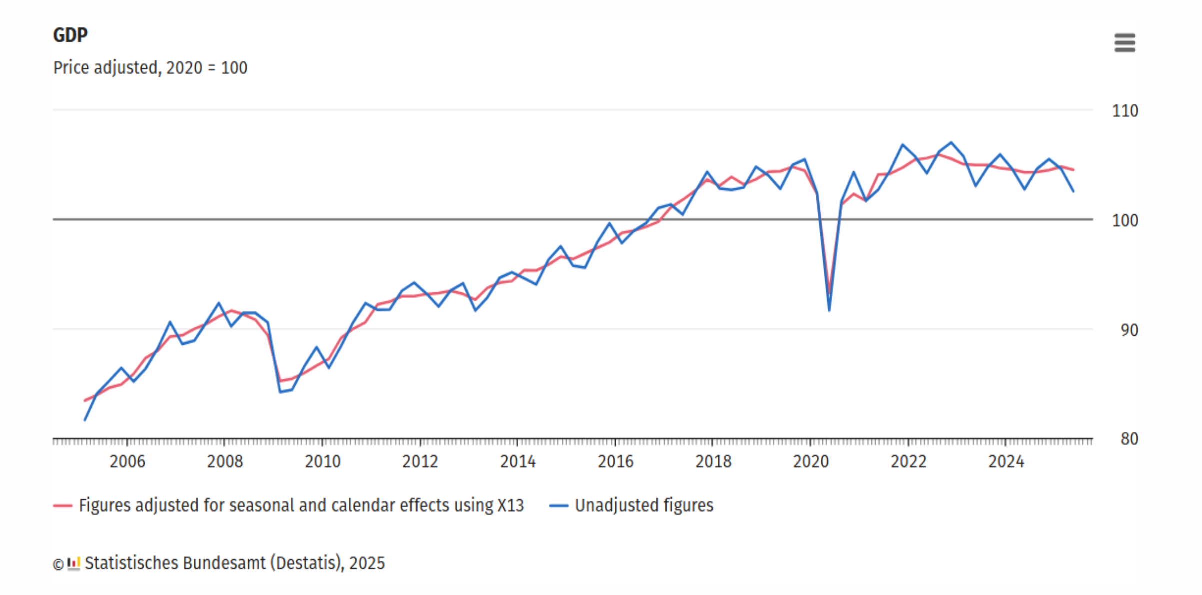


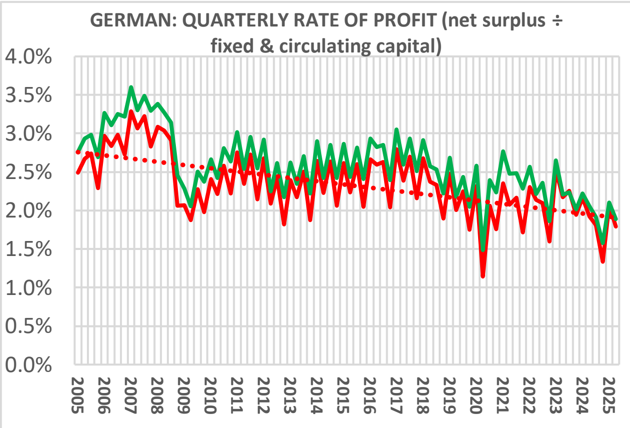
Table 1.

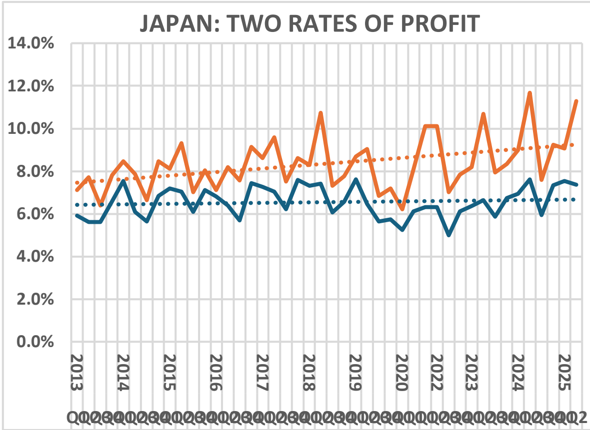
Country	People at risk (millions)	Poverty rate	Unbearable housing costs	Unable to cover financial emergencies
Germany	17.7	15.5%	12.0%	32.2%
Average EU27	93.3	16.1%	7.8%	29.7%

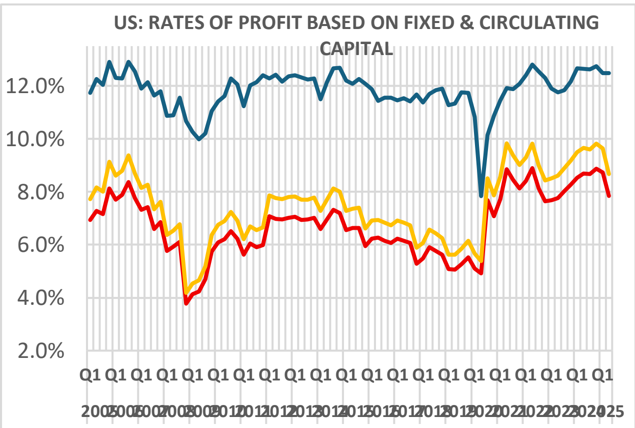
We note that the poverty indicators are about average for the whole of Europe despite Germany being the richest country in Europe. It explains the growing political restlessness found in that country and the erosion of support for the traditional parties the Social Democrats and Christian Democrats who oversaw this catastrophe.

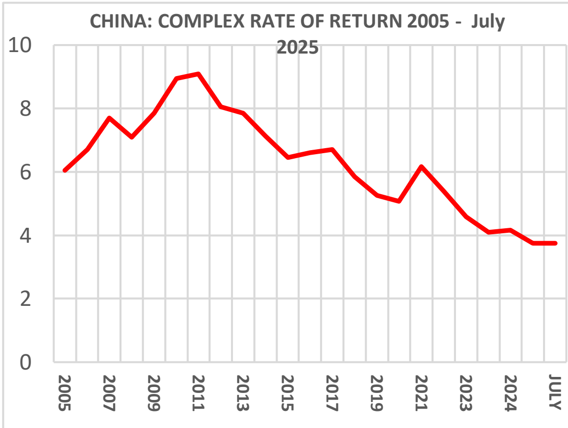
Conclusion.

I will conclude by presenting the four rates of profit for the dominant economies representing at least 60% of global realised profits. In all cases H1 2024 has seen a fall in the rate of profit. And this is happening despite the AI boom. And here we need to consider the issue in the round. AI is not only generating colossal profits for the few at the expense of the multitude of corporations, but because much of it is immaterial production, it also explains the reduction in the composition of capital we have seen in the graphs I have presented. And yet despite this, a crisis of turnover and with it, profitability is brewing. This is why we are at an inflection point. It’s only a question of time before Wall Street catches up. As Marx would have said, algorithms lag behind reality.









Brian Green, 3rd October 2025.