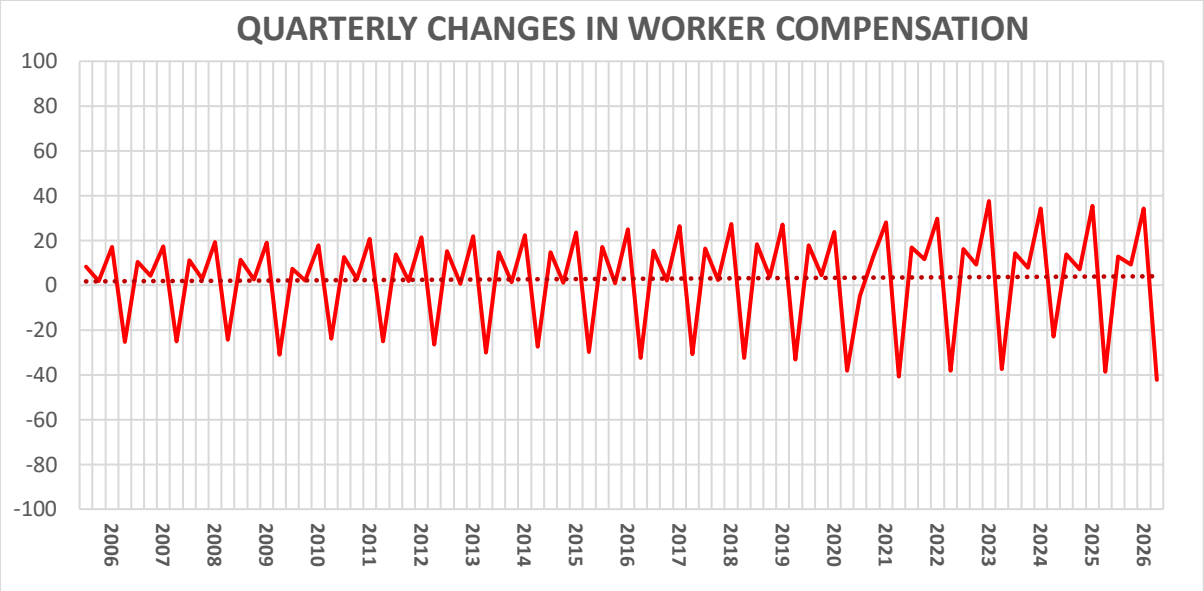
ANALYSING THE GERMAN AND JAPANESE ECONOMIES IN Q1 2026.

In line with the US and Chinese economies, there was a qoq improvement in economic and profit performance in the German and Japanese economy. All data and formulae can be found in the accompanying two spreadsheets. This improvement was likely due to an increase in the AI and defence sector. German source data can be found here. Japanese data can be found here. In the case of Germany the data refers to non-financial corporations and Japan to industrial corporations.

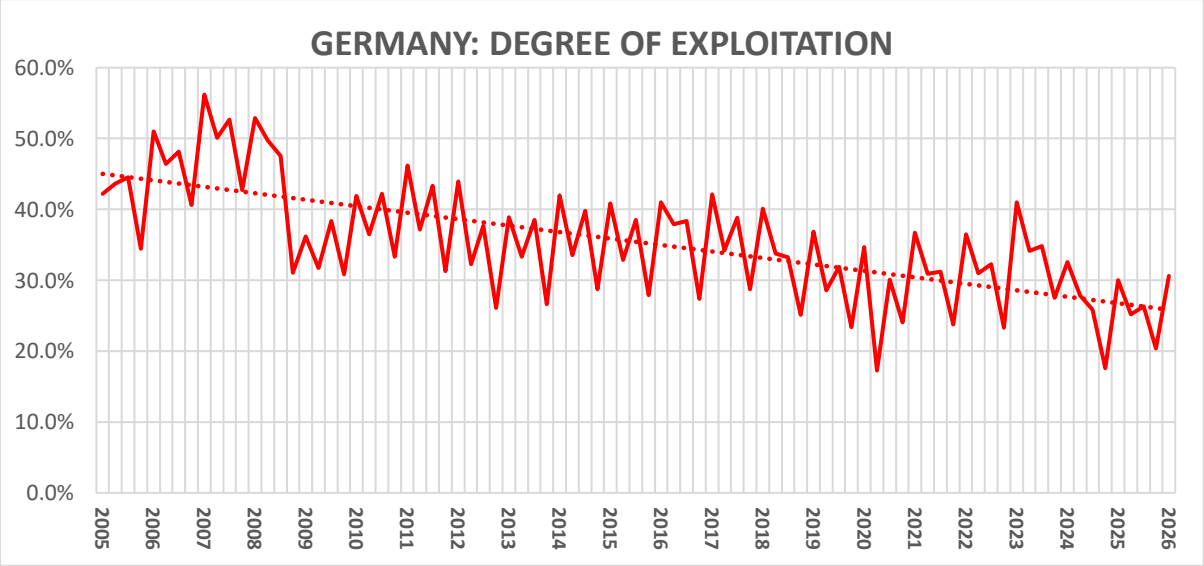
I will keep commentary to the minimum and let the graphs do the talking. German employers, taking advantage of growing unemployment continued to depress wages. Graph 1 represents the fall in compensation due to a fall in employment plus the fall in individual worker remuneration.

Graph 1.



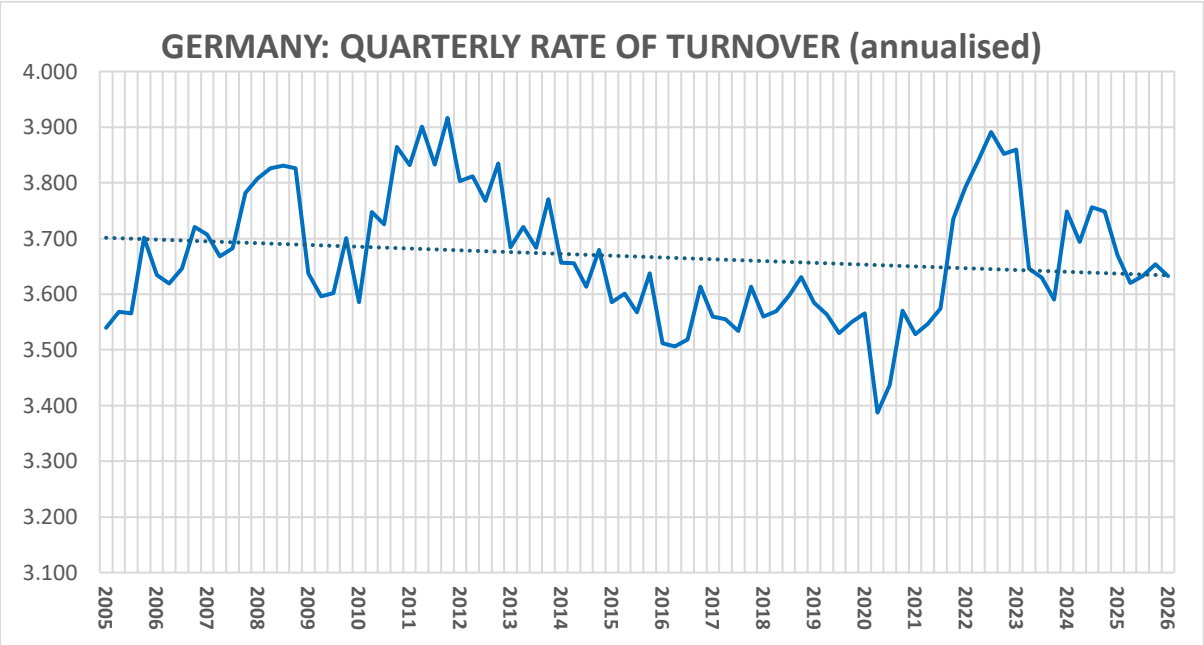
This resulted in a rise in exploitation which topped 30%, the first time for 24 months.

Graph 2.



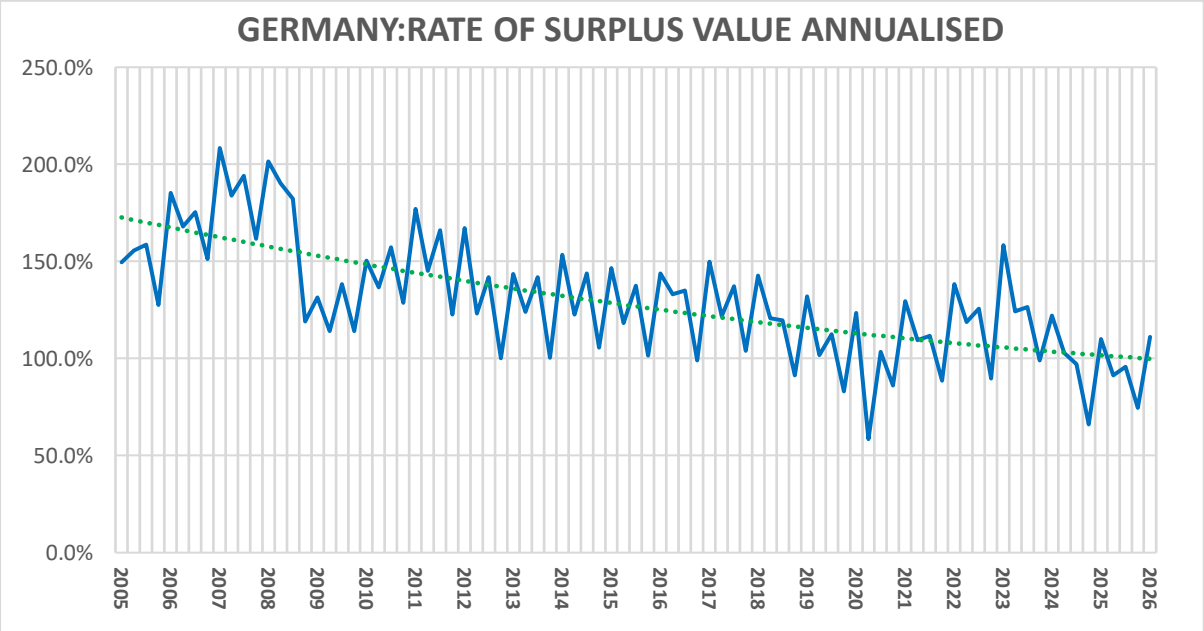
The rate of turnover remained steady remaining in its historical range of 3.6 to 3.7 turnovers p.a.

Graph 3.



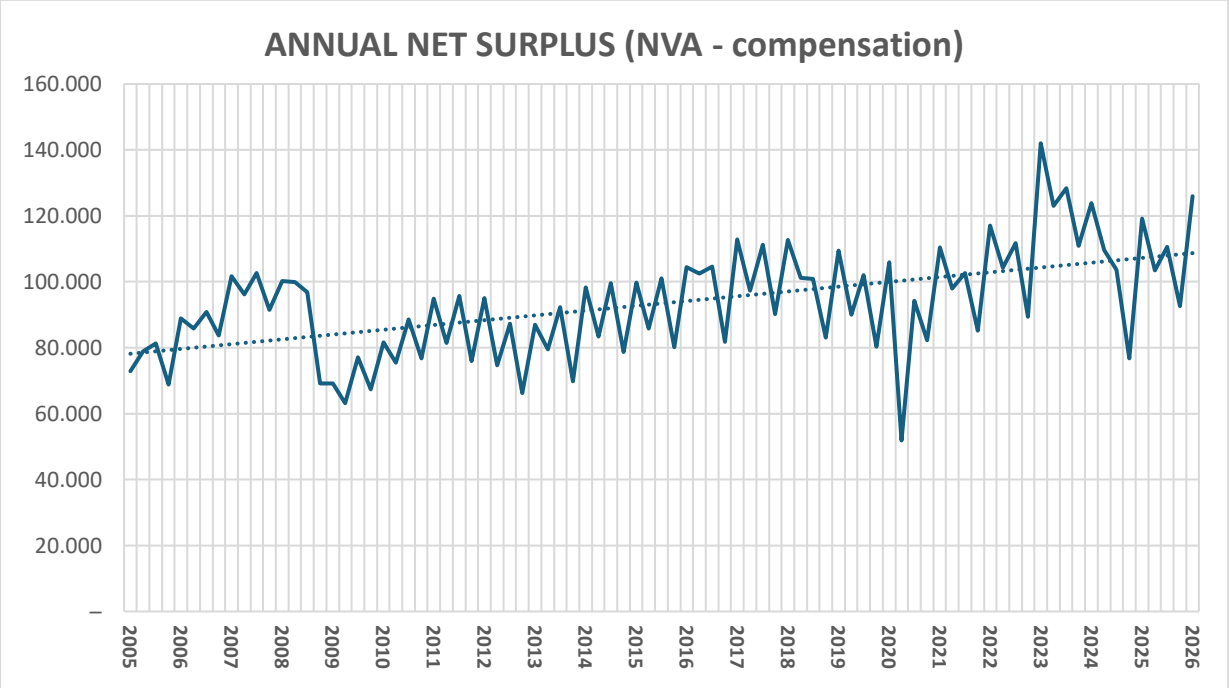
The rise in the degree of exploitation together with a stable rate of turnover resulted in a rise in the rate of surplus value, but not to levels last seen before the Pandemic. It is the rate of surplus value not the degree of exploitation which yields the mass of profits per cycle. Thus, the rate of surplus value can rise even if the degree of exploitation does not, provided turnover accelerates increasing the frequency when profits are realised.

Graph 4.



This rise in the rate of surplus value resulted in a rising corporate surplus. Wages versus profits, the unity of opposites, always at war, but inseparable.

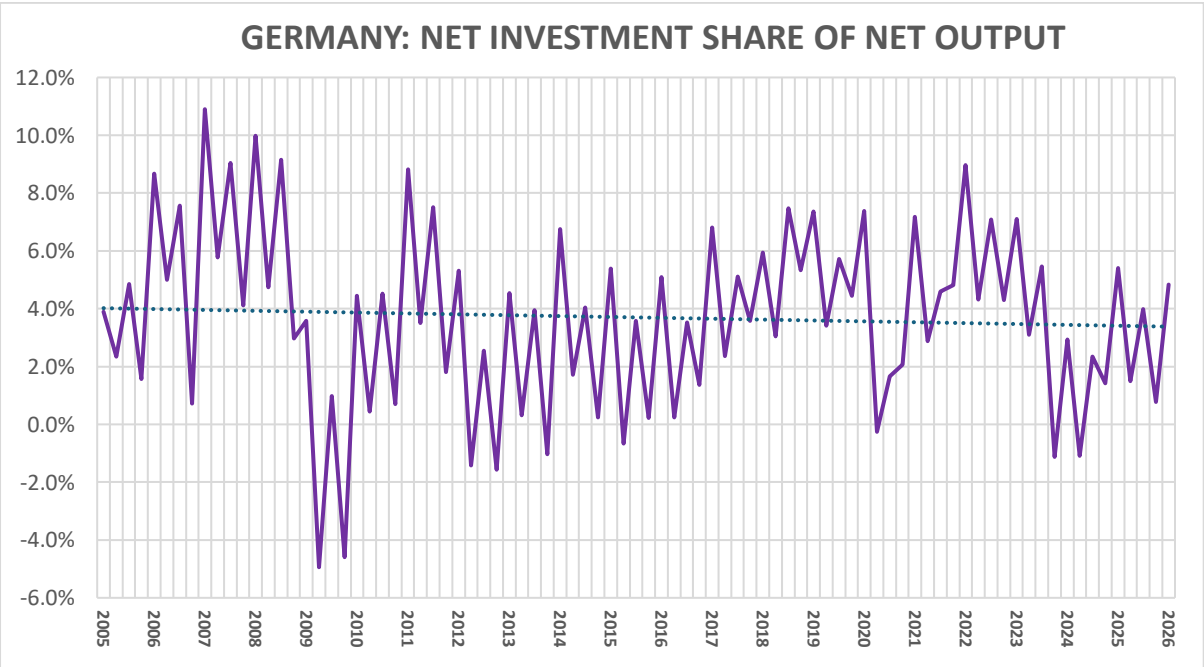
Graph 5.



This completes our analysis of the income side needed to calculate the rate of profit. We will now turn to the opposing side of the equation, the capital side.

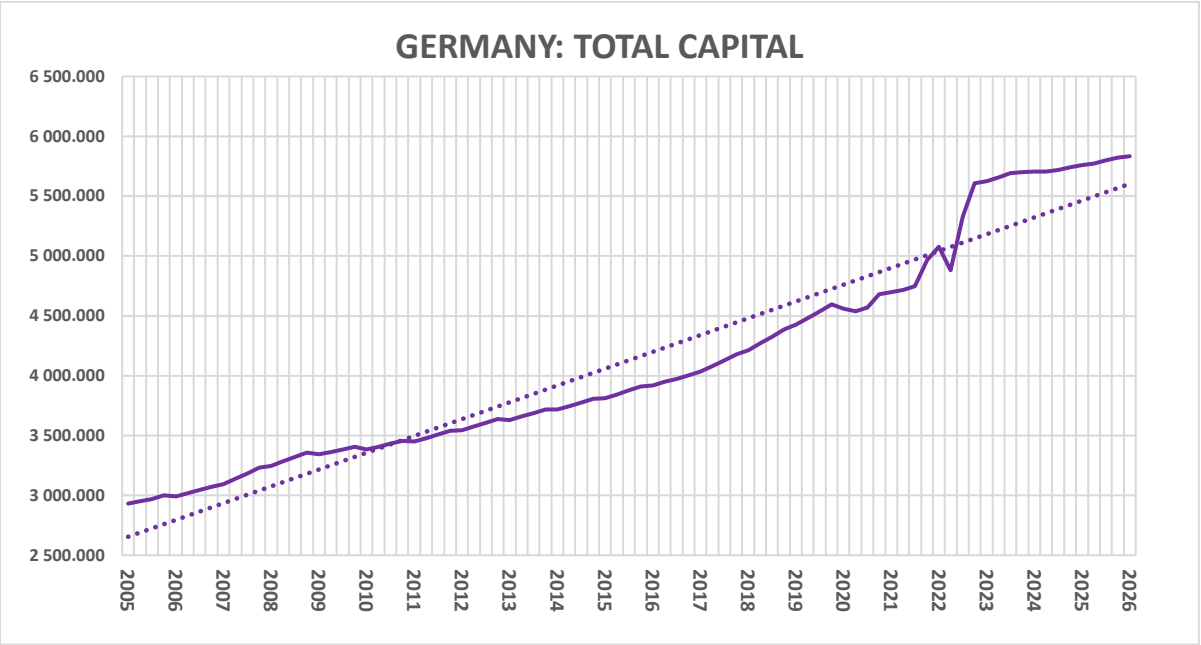
Net investment, despite talk of de-industrialisation picked up and was range bound. No doubt arms spending as well as AI investment helped.

Graph 6.



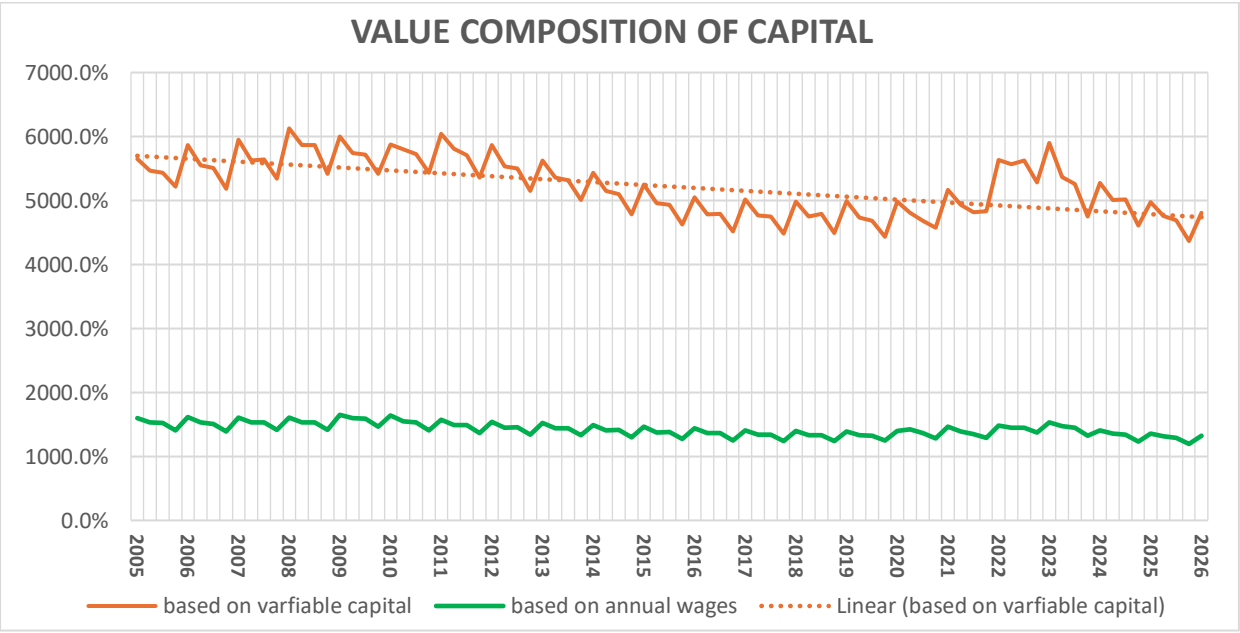
Total capital which includes circulating capital continued to increase by 1% p.a. in nominal terms over the four years since the end of the Pandemic.

Graph 7.



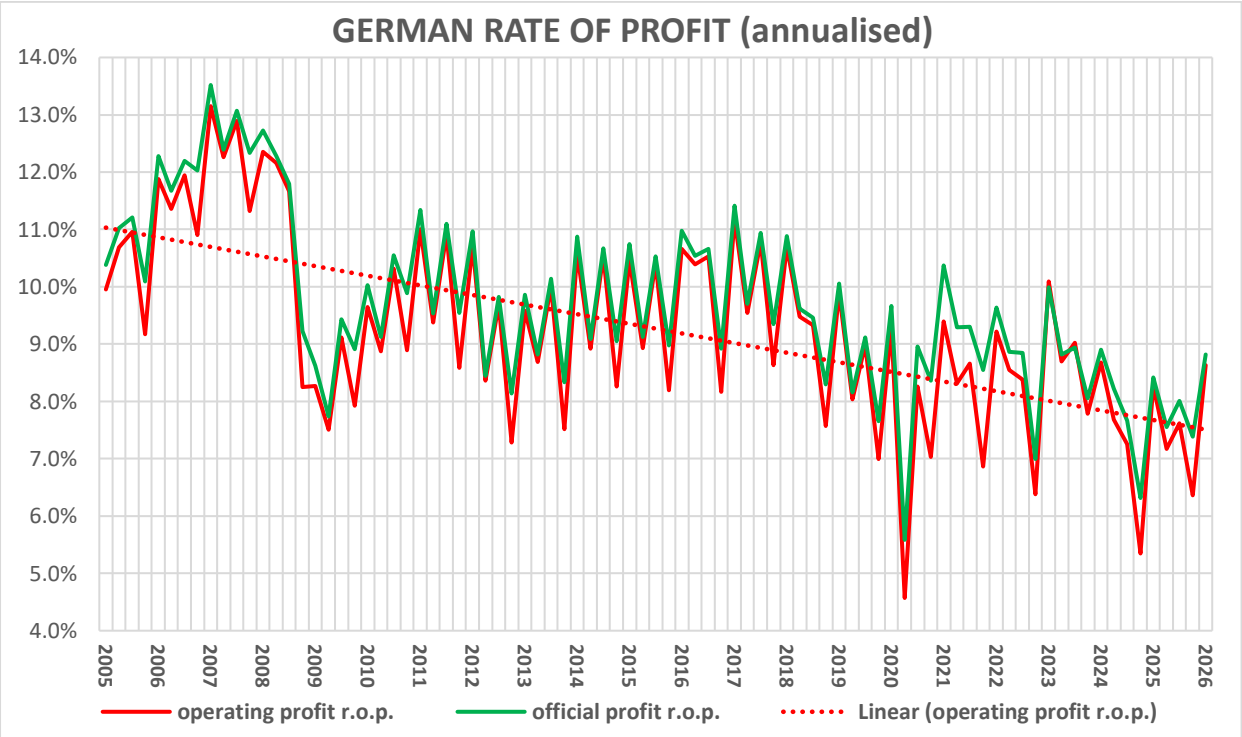
This resulted in a value composition (below) in line with the pre-pandemic period but lower than the heyday of German industrial investment powered by the growth of China which began to subside after 2012. The green graph is the crude graph, unaffected by the movement of turnover, and the one used by most Marxian analysts.

Graph 8.



The current rise in the rate of surplus value combined with a stable value composition of capital is likely to yield a rising rate of profit. And this is the case. Confirming for the umpteenth time the validity of Marx's methodology. The difference here is that the turnover formula is used to distil variable capital putting the v into s/v, c/v and s/(c+v) the three fundamental Marxian formulae, namely the rate of surplus value, the value composition of capital and the all-important rate of profit.

Graph 9.



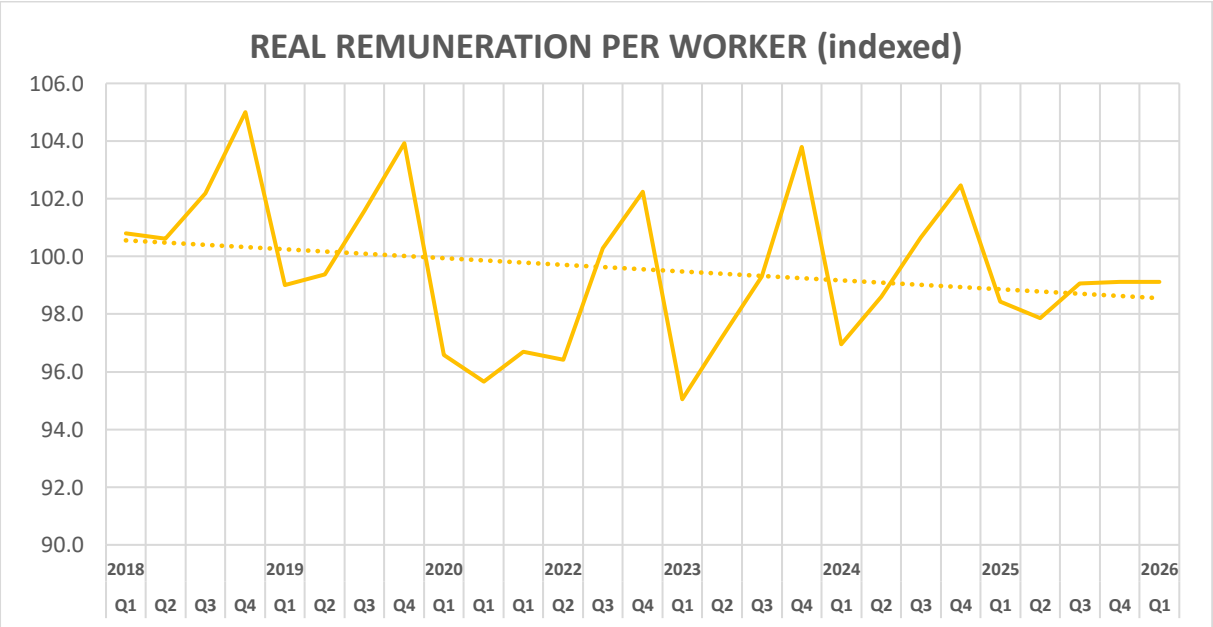
The longer-term German rate of profit in common with the Chinese one, but not the US rate, continues to fall. The US rate is supported by the burgeoning AI sector.

And with that we bid farewell to Germany. Auf Wiedersehen.

Japan.

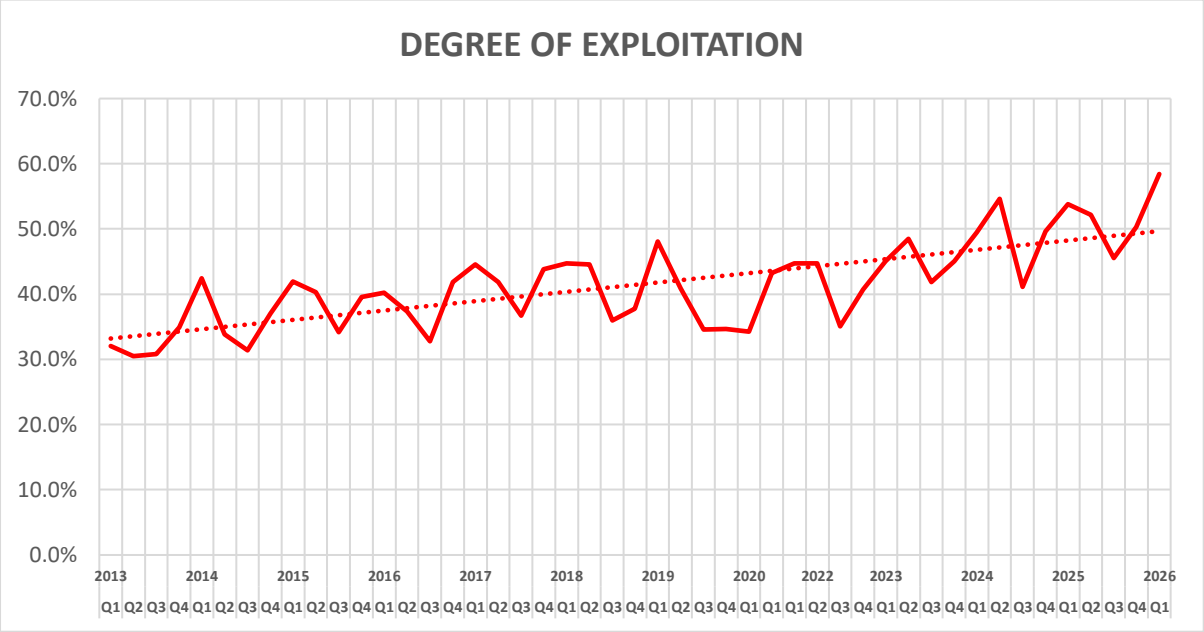
We will follow the same path as in Germany by beginning with worker remuneration. Despite government appeals to Japanese employers to raise wages, the trend continues downwards.

Graph 10.



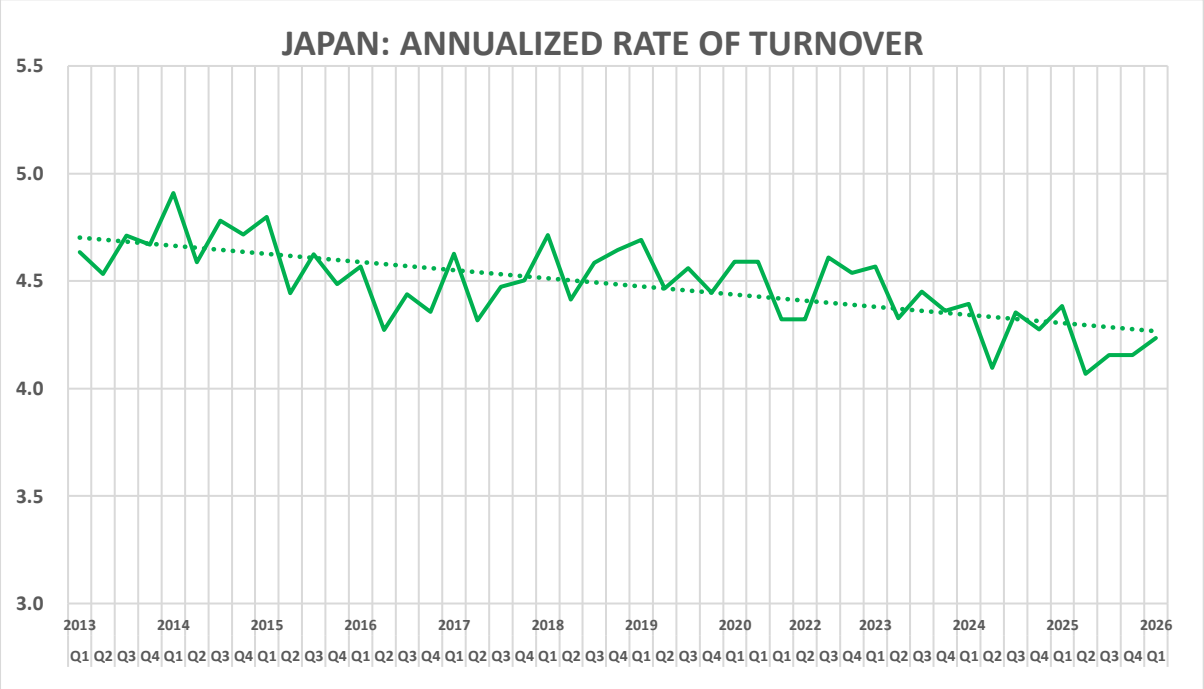
The result is a rising degree of exploitation.

Graph 11.

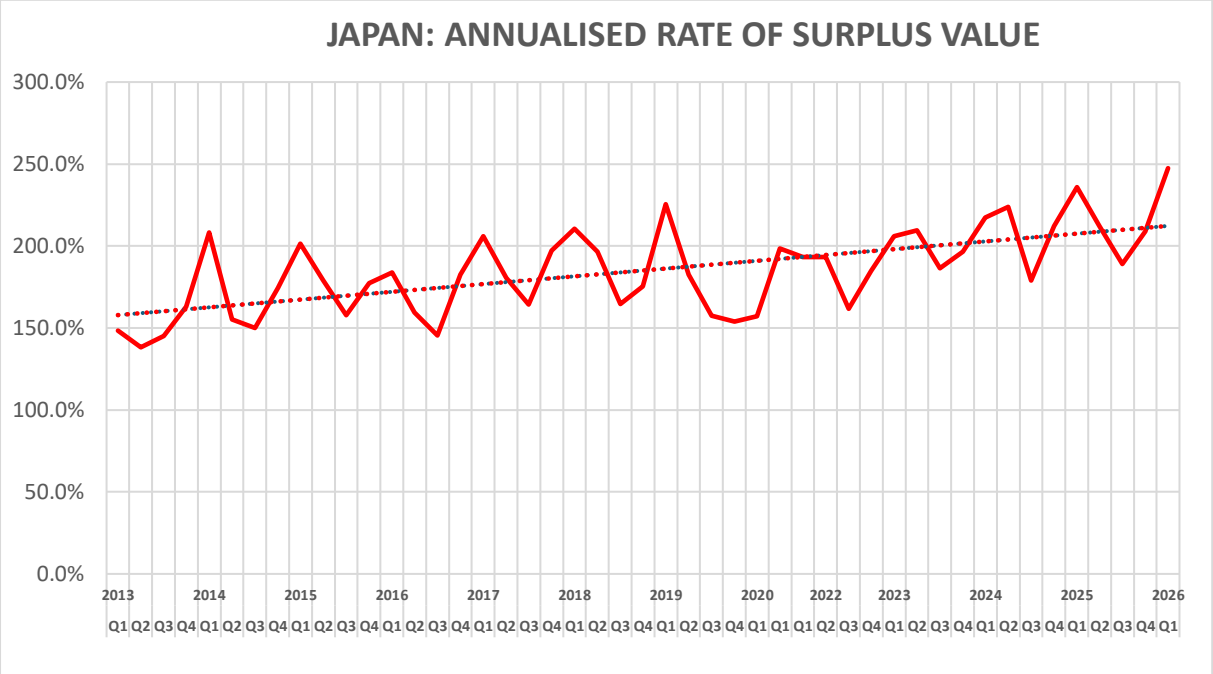


Since 2005 there has been a 12% fall in the rate of turnover compared to a 91% rise in the degree of exploitation, although this does not represent an equally weighted comparison, it has led to a rise of 66% in the rate of surplus value as seen in Graph 13. The fall in Japanese turnover is indicative of a sluggish market due to inadequate demand.

Graph 12.

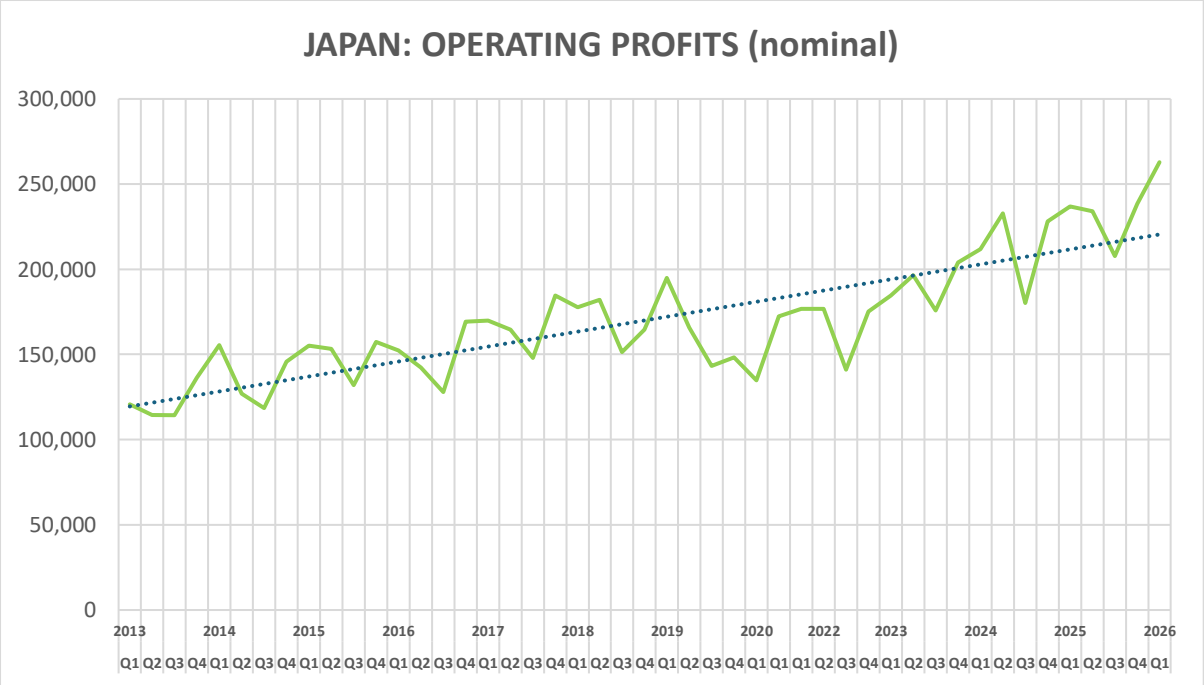


Graph 13.



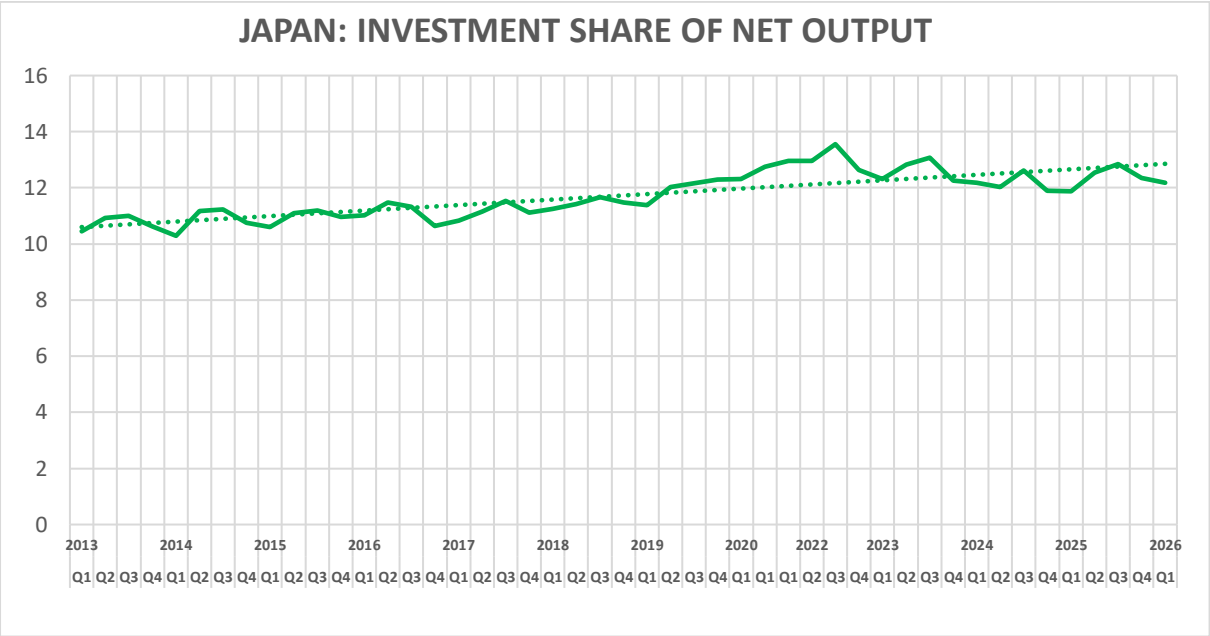
Predictably this rising rate of surplus value has been positive for profits. Although these figures are not adjusted for inflation, the relatively benign inflation found in Japan is indicative of accelerating profit growth recently.

Graph 14.



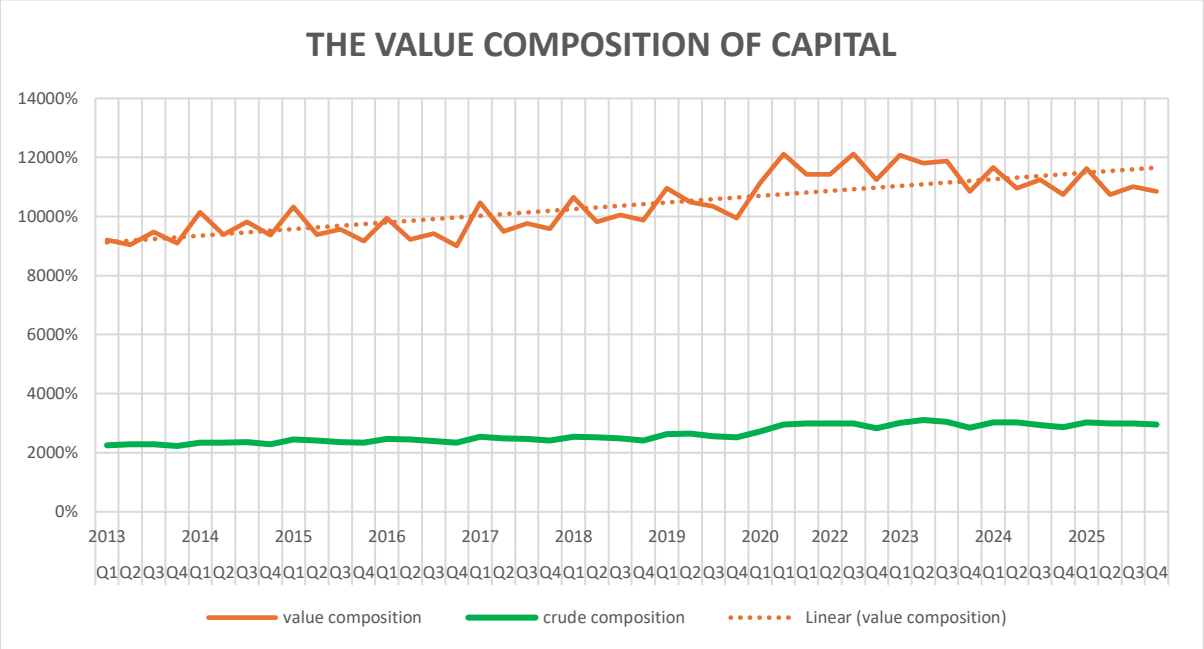
This more or less exhausts our investigation of the income side of the Japanese rate of profit. Our attention now turns to the capital side of the equation. In Graph 15 below the rate of investment is falling from its 2022 peak, but the rate of investment remains above that found before the Pandemic.

Graph 15.



This higher rate of investment has led to a slightly higher composition of capital compared to pre-Pandemic.

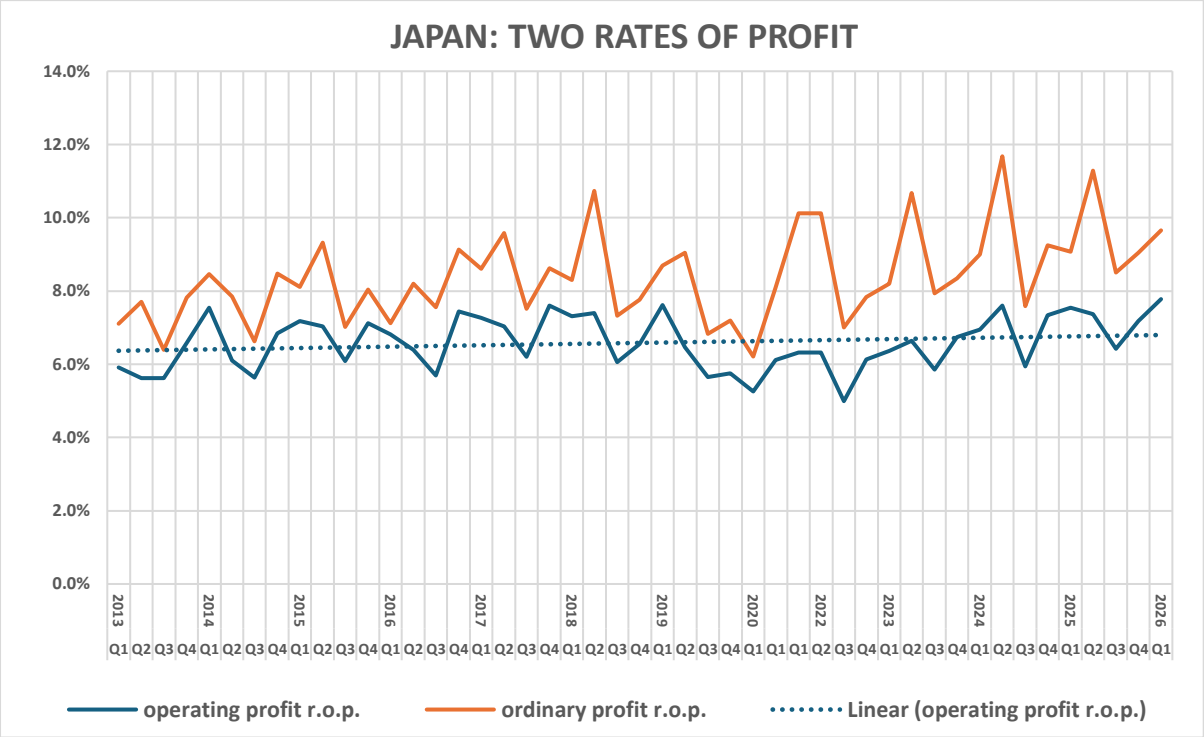
Graph 16.



However, given the more rapid increase in the rate of investment compared to the rate of composition, the rise in the composition of capital has been insufficient to prevent a rise in the rate of profit. In Graph 17 the important one is the blue graph. Unlike Germany there has been a rise not a fall in the rate of profit since 2005. The current rate of profit of 7.8% stands above the 7.6% peaks found in 2018. The brown graph is included as ordinary profits, as seen on the spreadsheet includes fictitious profits

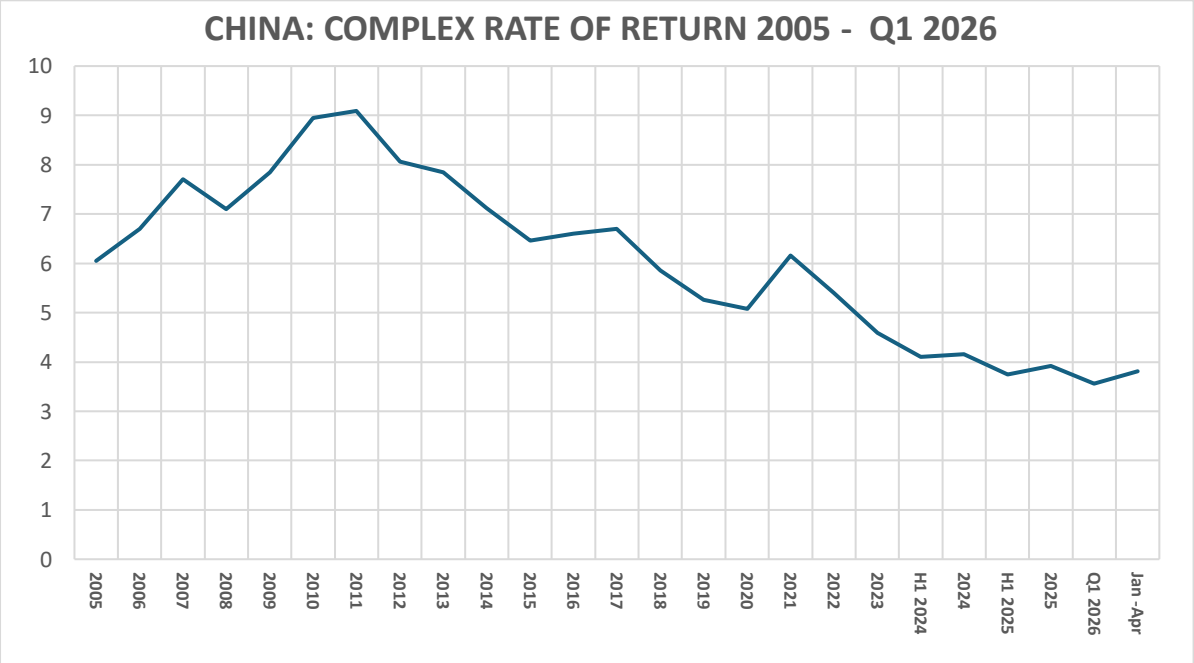
earned by corporations' courtesy of investing their large cash hoards, not in machinery but in speculative paper.

Graph 17.



Its worth including Chinese profitability. In the period Jan-April Chinese industrial profits rose 18.2% sufficient to reverse the first quarter fall in the rate of return. Like the USA, this uplift in profits was driven by the Hi-Tech sector, which in China's case is more broadly based than in the US.

Graph 18.



Conclusion.

We have now covered the US, China, Japan and Germany. Four out of the five largest economies with a combined 60% of global GDP. Measured by profit, their share of global profits would be even greater, making this a powerful study of global profitability. Whether the rise in profitability is a new trend induced by AI cannot be answered yet with any degree of certainty but must be kept under consideration. The issue of whether or not AI will raise productivity is a secondary issue, the primary issue will be its effect on profits.

One theoretical subject presents itself. Much of this overall rise in profit is driven by monopoly profits in the AI sector. Normally monopoly profits emerge in the form of a transfer of surplus value from captive customers through the act of sale at 'inflated' prices. In turn this has a depressive effect on the profits of these captive customers, aka, much of the rest of the economy. But there may be an additional source of surplus value driving these monopoly profits currently, and that is legacy value being folded into this sector in the form of over-investment, some of it being circular investment (where corporations are sufficiently cash rich to invest in each other driving up prices). Until this kind of over-investment wanes, it will be difficult to disentangle these two forms of value transfer and determine the actual levels of profitability.

One thing we can be clear about, booked profits will fall precipitously once the investment fever cools down and less capital flows into this sector. The canary in the silicon mine will be share prices. Friday showed a small tremor when Qualcomm disappointed the markets. It may be a signal of what is to come or another passing moment. We will know shortly. If markets get bad no doubt Trump will present a deal on the Gulf War to support the markets. He knows it is not Iranian missiles but elevated share prices which pose the greatest threat to the US economy.

This concludes the survey of profits covering the first quarter of 2026, the year of the super El-Nino.

Brian Green, 8th June 2026.