

NIGHT FLIGHT SPECIAL II

DOMESTIC ROUTE

WHERE DOES THE MONEY FLOW?

● ADVANCED ROUTE

Advanced / General Knowledge Level

Can Money Earned Around the World Be Turned into Prosperity at Home?

TAKEOFF

From “How Much Does Japan Have?” to “How Does the Money Flow?”

On our WORLD ROUTE, we saw how Japan’s way of earning money has changed.

The old picture was easy to understand:

Produce in Japan

↓

Export to the world

↓

Money returns to Japan

But today, the picture is more complex.

Japanese companies operate businesses overseas.

They invest abroad.

They receive income such as dividends and interest.

And capital can also move in the opposite direction:

World → Japan

So now we ask a different question:

What happens after the money arrives in Japan?

From this point onward, we are no longer looking only at:

“How much money does Japan have?”

We are following:

“How does Japan’s money actually flow?”

That is the mission of our Domestic Route.

A COMPANY IS NOT THE FINAL STATION FOR MONEY

Suppose a company earns profits at home and abroad.

That money can be used in many ways:

Wages.

Materials and components.

Capital investment.

Research and development.

Taxes.

Debt repayment.

Dividends.

Acquisitions.

Internal reserves.

Overseas reinvestment.

So:

A company earns money

≠

All of that money immediately reaches households.

But the opposite conclusion is also too simple.

Keeping money inside a company

≠

Automatically bad.

Companies may need funds for future investment, research and development, or protection against an economic downturn.

The important question is:

What was the money used for — and what new value did it create next?

That is the instrument we want to watch.



CAPITAL INVESTMENT:

THE MONEY PUMP

One of the most important channels on our Domestic Route is:

CAPITAL INVESTMENT

Imagine a semiconductor manufacturer builds a:

¥1 TRILLION FACTORY IN JAPAN.

That ¥1 trillion does not disappear inside the semiconductor company.

Construction work goes to construction companies.

Production equipment is ordered from semiconductor equipment manufacturers.

Those manufacturers then buy:

Precision components.

Electronic components.

Metal processing.

Sensors.

Control equipment.

The factory itself also needs:

Semiconductor materials.

Chemicals.

Specialty gases.

Ultrapure water.

Electricity.

Logistics.

Maintenance.

So from one giant capital investment—

MANY MONEY PIPELINES BEGIN TO EXTEND.

That is why we can think of capital investment as a:

MONEY PUMP.

The original Japanese text describes exactly this branching of expenditure from one major investment into numerous domestic channels.

 **HERE IT COMES:**

THE ECONOMIC RIPPLE EFFECT

Another term has appeared on the radar.

ECONOMIC RIPPLE EFFECT

One company invests.

↓

That becomes another company's sales.

↓

That company purchases materials.

↓

The materials producer receives new sales.

↓

Employment and income are created.

↓

Workers spend money.

↓

Retail and service businesses receive new sales.

In other words:

The original expenditure creates additional economic activity.

But we need to be careful.

A ¥1 trillion investment does **not** mean Japan automatically becomes ¥1 trillion richer.

Some equipment may be imported.

Some materials may come from overseas.

Some income may flow outside the region or outside Japan.

So the real question is not simply:

“How large was the investment?”

It is:

“How much new value was created inside Japan?”

And that brings us to our next instrument.

VALUE ADDED

Remember our flight through GDP?

GDP is, in simplified terms, the total:

VALUE ADDED

newly created within an economy.

Suppose a company sells a product for:

¥1,000,000

That does not mean the company created ¥1,000,000 of entirely new value.

It may have purchased materials and components from outside.

So when we examine the economy, we should not look only at:

SALES

We also need to ask:

HOW MUCH NEW VALUE WAS CREATED?

And when we move from the national economy down toward individual companies, this question begins to connect with another gauge that NIGHT FLIGHT has been watching closely:

GROSS PROFIT.

“SALES INCREASED!”

That Is Not Enough

Imagine an SME whose sales increase from:

¥10 billion → ¥12 billion

A 20% increase.

Wonderful?

Perhaps.

But during the same period:

Raw-material prices rise.

Electricity prices rise.

Logistics costs increase.

Outsourcing costs increase.

Then sales may rise while the profit remaining inside the company barely improves.

So:

HIGHER NOMINAL SALES

and:

STRONGER EARNING POWER

are two different things.

This is why NIGHT FLIGHT does not stop at the sales figure.

GROSS PROFIT AND OPERATING PROFIT

Let's simplify the income statement.

SALES

↓

Subtract purchases and manufacturing costs

↓

GROSS PROFIT

↓

Subtract selling expenses, personnel costs and other operating expenses

↓

OPERATING PROFIT

Real accounting is more complicated.

But for our flight, the central question is simple:

Did sales rise?

is not enough.

We need to ask:

Did the company retain an appropriate profit?

This becomes especially important for SMEs surrounding a giant new factory.

Are they receiving orders at:

FAIR PRICES?

That is one of our most important radar contacts.

WHY WATCH SME GROSS MARGINS?

A major corporation invests ¥1 trillion.

Orders to surrounding companies increase.

That makes the news.

But suppose an SME receiving those orders says:

“We have more work than ever — but almost no profit remains.”

What happens next?

It cannot replace old machinery.

It cannot raise wages.

It cannot hire new people.

It cannot invest sufficiently in research and development.

So the money successfully travelled:

LARGE CORPORATION → SME

but failed to continue through the next vessel:

SME → WAGES & NEXT CAPITAL INVESTMENT

The circulation becomes narrow at that point.

That is why NIGHT FLIGHT dives one level deeper.

Instead of asking only:

“How much did the giant corporation invest?”

we ask:

“How much profit remained with the companies around it?”

That is a much more demanding test of domestic revival.

PASSING ON COSTS

A Price Increase Is Not Always “Bad”

Now another instrument appears:

COST PASS-THROUGH

Raw-material costs rise.

Electricity prices rise.

Labor costs rise.

If a company cannot raise its selling prices at all, its profit margin may fall.

This can be particularly difficult for smaller suppliers with weaker bargaining power.

Then something strange happens:

Sales rise

but:

Profit does not.

So we should be careful about saying:

“All price increases are bad.”

Another question matters:

Can companies charge prices that properly reflect their costs and the value they create?

An economy in which appropriate prices can be accepted may allow companies to retain the margins needed for:

Wages.

Investment.

Research.

Growth.

And this connects directly with another NIGHT FLIGHT theme:

INFLATION CULTURE.

The original text makes this distinction explicitly: price increases should not automatically be treated as harmful if appropriate cost pass-through is necessary to preserve sustainable margins.

FROM GROSS PROFIT TO WAGES

Suppose the company now retains a healthy profit.

Where does the money go next?

This is another crucial junction.

Companies do not distribute every yen of profit as wages.

They also need money for:

Capital investment.

Research and development.

Debt repayment.

Dividends.

Future reserves.

But if corporate profits rise for a long period while household income does not benefit sufficiently, we may have discovered another narrow pipe:

COMPANY → HOUSEHOLD

If wages rise, that pipe becomes wider:

CORPORATE PROFIT

↓

WAGES

↓

HOUSEHOLD INCOME

But even here—

we are not ready to land.

NOMINAL WAGES ARE NOT ENOUGH

Suppose wages rise:

+3%

Excellent?

Perhaps.

But what if prices rise:

+5%?

Workers may actually be able to buy less.

That brings us to:

REAL WAGES

The question is not simply:

“Did the paycheck become larger?”

It is:

“How much can that paycheck actually buy?”

So even this route:

Corporate Profit ↑

↓

Nominal Wages ↑

is not enough.

We still need to check:

REAL INCOME

and:

HOUSEHOLD CONSUMPTION.

Only then can we see whether corporate prosperity is reaching everyday life.

NOW THE VIRTUOUS CYCLE APPEARS

Let's connect the entire route.

A COMPANY MAKES CAPITAL INVESTMENT

↓

ORDERS GO TO CONSTRUCTION, EQUIPMENT AND MATERIAL SUPPLIERS

↓

SALES RISE AT SURROUNDING COMPANIES

↓

FAIR COST PASS-THROUGH PRESERVES GROSS PROFIT

↓

OPERATING PROFIT RISES

↓

MONEY FLOWS INTO WAGES, R&D AND CAPITAL INVESTMENT

↓

HOUSEHOLD INCOME RISES

↓

CONSUMPTION INCREASES

↓

CORPORATE SALES RISE

↓

THE NEXT ROUND OF CAPITAL INVESTMENT BEGINS

And then—

it happens again.

And again.

That is the transformation we are looking for:

FROM A COUNTRY THAT “HAS MONEY”

to:

A COUNTRY WHERE “MONEY CIRCULATES.”

That is the central theme of this Domestic Route.

WHERE IS THE PIPE BLOCKED?

Of course, the entire cycle will not always connect perfectly.

Suppose:

Capital Investment ↑

but

SME Gross Profit →

Perhaps the problem lies in pricing or cost pass-through.

Or:

Corporate Profit ↑

but

Wages →

Perhaps the pipe from companies to household income is too narrow.

Or:

Wages ↑

but

Consumption ↓

Perhaps inflation, social-insurance costs or anxiety about the future is weakening

household spending.

So NIGHT FLIGHT does not ask only:

“Is the Japanese economy good or bad?”

That is too simple.

Instead we ask:

WHICH PIPE IS TOO NARROW?

That is our:

MONEY PIPELINE MAP.

 **AND THEN...**

THE CLASSROOM SHORTAGE BEGINS

Suppose domestic capital investment really accelerates.

Companies have money.

They want to invest.

But—

There are not enough construction workers.

Not enough engineers.

Not enough electrical capacity.

Not enough industrial land.

Not enough logistics capacity.

Not enough component-production capacity.

Now we have:

DEMAND

but insufficient:

SUPPLY CAPACITY.

Economics gives us another term:

SUPPLY CONSTRAINTS.

And now our old school story becomes useful again.

 **THE CHILDREN CAME BACK.**

BUT THERE AREN'T ENOUGH CLASSROOMS.

During a period of declining enrollment, schools were consolidated.

Under the conditions of the time, that may have been rational.

Then suddenly, the number of children rises.

Now:

There are not enough classrooms.

Not enough teachers.

Not enough school buildings.

Something similar can happen with domestic industrial investment.

For many years, Japan operated in an environment where expanding domestic production capacity was difficult.

Then suddenly:

Semiconductors.

AI.

Data centers.

Large-scale investment arrives.

The problem may no longer be:

“There is not enough money to invest.”

Instead:

“There is not enough capacity to absorb the investment.”

That is a completely different problem.

💡 BUT A SHORTAGE CAN ALSO BECOME THE NEXT INVESTMENT OPPORTUNITY

Here is where things become interesting.

Not enough electricity?

↓

Investment in generation and power-grid infrastructure.

Not enough workers?

↓

Automation, robotics and labor-saving investment.

Not enough logistics capacity?

↓

Investment in logistics facilities and transportation efficiency.

Not enough semiconductor materials?

↓

Capacity expansion by materials manufacturers.

So:

Finding what is missing

can also mean:

Finding where the money may flow next.

That is a very NIGHT FLIGHT way to read the economy.

 **AND NOW THE STOCK MARKET BECOMES:**

A RECONNAISSANCE AIRCRAFT

The stock market sometimes begins pricing future changes before they are fully visible in economic statistics.

Semiconductors move.

Wire and cable companies move.

Heavy industry moves.

Construction moves.

Banks move.

Capital may begin moving toward industries because investors are asking:

“What will be needed next?”

So NIGHT FLIGHT does not treat rising stock prices as:

PROOF THAT JAPAN HAS REVIVED.

Instead, we treat the stock market as:

A RECONNAISSANCE AIRCRAFT

searching ahead for the next possible destination of money.

Then we return to the real economy and check what the reconnaissance aircraft found.

Orders.

Sales.

Gross profit.

Operating profit.

Capital investment.

Wages.

That order matters.

Otherwise, we end up telling a story based only on stock prices.

 **IF WE WANT TO MEASURE A JAPANESE REVIVAL,
WHICH INSTRUMENTS SHOULD WE WATCH?**

We began with:

¥4,158 TRILLION.

But now our cockpit contains many more instruments:

Capital investment.

Machinery orders.

Corporate profits.

Gross margins and profit margins.

Cost pass-through.

Wages.

Real wages.

Household consumption.

Research and development investment.

Employment.

Production capacity.

And as leading indicators:

Stock prices.

Trading volume.

Trading value.

Capital rotation between industries.

The important thing is not one number.

It is:

WHETHER MULTIPLE INSTRUMENTS BEGIN POINTING IN THE SAME DIRECTION.

That is a much stronger signal than any single headline statistic.

FROM ¥4,158 TRILLION TO HERE

Our original question was wonderfully simple:

“Japan has ¥4,158 trillion. So why don’t we feel richer?”

As we followed the numbers, we discovered that:

Having assets

and:

Having an economy in which prosperity circulates

are not the same thing.

So our attention moved from:

STOCK

to:

FLOW.

Then we went one step further.

We stopped asking only:

“How large is the flow?”

and began asking:

“Which route did the money actually take?”

That is how we arrived at our:

MONEY PIPELINE MAP.

LANDING

What Would a Real Japanese Revival Look Like?

We cannot measure a Japanese revival only by:

¥4,158 trillion in assets.

We cannot measure it only by:

A giant new factory.

And we cannot measure it only by:

Rising stock prices.

What we want to see is:

DOMESTIC CAPITAL INVESTMENT

↓

ORDERS TO SURROUNDING COMPANIES

↓

HEALTHY GROSS MARGINS

↓

CORPORATE PROFITS

↓

WAGES

↓

HOUSEHOLD INCOME

↓

CONSUMPTION

↓

THE NEXT CAPITAL INVESTMENT

And while watching that circulation, we keep asking two questions:

“WHERE IS THE FLOW BLOCKED?”

and:

“WHAT WILL BECOME SCARCE NEXT?”

That is what NIGHT FLIGHT means by:

OBSERVING THE BLOOD FLOW OF THE JAPANESE ECONOMY.

RE-FLIGHT

Same Economy. Three Altitudes.

 BEGINNER

Follow the blood

Factory.

Companies.

Workers.

Wages.

Shopping.

Investment.

See how money moves through everyday life.

→ **Return to**  **Beginner**

INTERMEDIATE

Inspect the pipes

Capital investment.

Gross profit.

Wages.

Consumption.

Where does the flow become narrow?

→ **Return to**  **Intermediate**

ADVANCED

Read the instruments

Value added.

Gross margins.

Operating profit.

Cost pass-through.

Real wages.

Supply constraints.

Capital investment.

Stock-market reconnaissance.

This is the altitude we flew today.

→ **Return to**  **Advanced**

SELECT YOUR ALTITUDE

 **Beginner** →  **Intermediate** →  **Advanced**

Three altitudes.

One economy.

Different views of the same money.
You do not need to understand everything today.
Change altitude whenever you wish.
Return whenever another question appears.
Because on NIGHT FLIGHT:
You are the Captain.
You choose your own altitude.

NEXT FLIGHT

The Money Is Ready.
But Are There Enough Classrooms?
We began by asking:
“Does Japan have money?”
That question became:
“Is Japan’s money actually circulating?”
And now another question appears on the radar:
Companies are investing in Japan.
But does Japan have enough “classrooms” to receive that investment?
Are shortages a weakness?
Or—
Are the places where shortages appear precisely where the next money will flow?
Electricity.
Workers.
Construction.
Logistics.
Materials.
Equipment.
Technology.
Our reconnaissance aircraft is already searching ahead.
The next NIGHT FLIGHT will follow:
THE CLASSROOM SHORTAGE.

NIGHT FLIGHT SPECIAL II

Numbers Take Flight.
You are the Captain.
I am your Co-Pilot.

AI is in the Control Tower.

DOMESTIC ROUTE — ADVANCED

RE-FLIGHT COMPLETE.

NEXT FLIGHT:

THE CLASSROOM SHORTAGE

CLEARED FOR TAKEOFF. 