

【NEWS RELEASE】

June 8, 2021
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2021-2022(Update)

June 8, 2021(JST), “SMBC NIKKO Japan Economic Outlook for FY2021-2022” has been released, responding to the second preliminary of GDP (January-March 2021 period)

Vaccine Progress Getting Japan’s Economy Back on Track

- ◆ Real GDP: FY21 +3.0%, FY22 +2.6%
- ◆ Nominal GDP: FY21 +3.6%, FY22 +3.3%

Summary**• GDP growth rate outlook**

We revise our outlook to reflect the second preliminary Jan-Mar 2021 GDP data. We forecast real GDP growth of +3.0% YoY in FY21 and +2.6% in FY22. We make no change since last time (21 May).

- **Economic outlook**

Jan-Mar real GDP declined 3.9% QoQ annualized, as the third wave of Covid-19 forced a second lockdown. We think GDP will continue to correct in Apr-Jun as the spread of the fourth wave has resulted in a third state of emergency and subsequent lockdowns.

The fourth wave is being driven mainly by the UK variant of the virus, though we note that in countries where vaccinations have made good progress there has been a clear decline in the number of cases. Israel has now vaccinated an impressive 63.1% of its population, and the number of new positive cases is practically zero.

Japan's low vaccination rate can be attributed to the low supply of vaccines coming from the pharmaceutical companies, but that supply started increasing substantially in mid-May. Vaccination of the elderly is key, and the government wants to finish vaccinating seniors by end-July so its targets 1mn vaccinations per day to do that. Based on our calculations, the potential number of vaccinations per day is 1.38mn under our base case and 0.8mn under a conservative case. In either instance, vaccination of the elderly should be over in Jul-Aug, so we do not think the government will miss its target by much.

The threat of the pandemic will diminish considerably once the elderly have been vaccinated, allowing the economy to normalize. We anticipate a clear economic recovery for Japan from around early autumn.

- **Risks**

The main risk is inflation spurring higher interest rates.

Commodity prices are surging, but this alone is unlikely to lift general prices higher. Demand for durable goods during the pandemic has soared and pushed up commodity prices, but this demand should wind down as major economies get the pandemic under control, so commodity prices should peak out.

After returning to normal, however, the world's leading economies could start to overheat if excess savings fueled by massive stimulus programs prompt people to go out and spend. The Fed's economic outlook has US real GDP exceeding potential GDP in Oct-Dec 2021 with the economy shifting to excess demand. It projects the inflation gap will reach 3.5% at end-2022. Other concerns of the Fed seem to be fading as higher unemployment benefits end in September and the semiconductor shortage gets resolved. We may see Fed Chairman Powell give a signal on tapering at the Jackson Hole Symposium at the end of August, and US long-term interest rates could rise again toward end-2021.

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Quarterly forecasts for Japanese economy

	2020				2021				2022				2023	《(A)》→《(F)》 (Unit:%)			Comparison with previous forecasts (as at 21 May)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY20	FY21	FY22	FY21	FY22
Real GDP growth (QoQ)	-0.5	-8.1	5.3	2.8	-1.0	-0.9	1.9	0.9	0.8	0.7	0.3	0.3	0.3	-4.6	3.0	2.6	0.0	0.0
(annual rate)	-2.0	-28.6	22.9	11.7	-3.9	-3.4	7.6	3.6	3.1	2.7	1.3	1.2	1.1					
Domestic demand, contribution (QoQ)	-0.2	-5.2	2.6	1.8	-0.8	-1.2	1.8	1.0	0.9	0.8	0.4	0.4	0.4	-3.9	3.0	2.6	0.1	0.0
Private consumption (QoQ)	-0.8	-8.3	5.1	2.2	-1.5	-1.2	2.7	1.5	1.2	1.0	0.5	0.5	0.5	-6.0	3.1	4.1	0.0	0.0
Capex (QoQ)	-3.7	0.6	-5.7	0.0	1.2	1.0	1.5	1.0	1.0	0.8	0.0	-1.0	-1.5	-7.1	2.4	1.5	0.1	0.0
Residential investment (QoQ)	1.3	-6.1	-2.1	4.3	-1.2	0.0	2.0	1.0	1.0	0.8	0.5	0.5	0.5	-6.9	2.9	3.3	0.1	0.0
Public investment (QoQ)	0.4	2.2	0.8	1.3	-0.5	0.6	0.2	-0.2	-1.2	-0.7	-0.7	-0.7	-0.7	4.3	0.7	-2.7	0.5	0.0
Foreign demand, contribution (QoQ)	-0.3	-2.9	2.6	1.0	-0.3	0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	0.1	0.0	0.0	0.0
Exports (QoQ)	-4.7	-17.5	7.3	11.7	2.2	2.0	2.0	1.0	0.5	0.5	0.5	0.5	0.5	-10.5	13.4	2.6	-0.1	0.0
Imports (QoQ)	-3.0	-0.7	-8.2	4.8	3.9	0.2	1.5	1.5	1.0	1.0	1.0	1.0	1.0	-6.9	5.5	4.4	0.1	0.0
Nominal GDP growth (QoQ)	-0.6	-7.8	5.6	2.4	-1.3	-0.2	2.0	1.1	0.9	0.8	0.5	0.4	0.4	-3.9	3.6	3.3	0.0	0.0
Industrial production (YoY)	-4.7	-20.7	-12.7	-4.2	-1.5	19.1	9.8	4.9	4.6	4.0	3.5	3.0	2.0	-9.9	9.2	3.1	-0.2	0.0
Trade balance (Y tn, SAAR)	1.2	-9.8	3.1	8.1	3.4	4.0	4.5	3.9	3.4	2.8	2.2	1.6	1.0	1.2	4.0	1.9	-0.1	-0.2
Unemployment rate (%)	2.4	2.7	3.0	3.0	2.8	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.9	2.7	2.5	-0.1	0.0
Core CPI (YoY)	0.6	0.1	-0.2	-0.9	-0.4	-0.5	-0.2	0.1	0.3	0.5	0.6	0.8	0.9	-0.4	-0.1	0.7	0.0	0.0
(Ex effects of consumption tax hike)	-0.4	-0.9	-1.2	-0.9	-0.4	-0.5	-0.2	0.1	0.3	0.5	0.6	0.8	0.9	-0.9	-0.1	0.7	0.0	0.0
IOER (Eop)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
YCC 10y JGB yields target (Eop)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US real GDP growth (QoQ annualized)	-5.0	-31.4	33.4	4.3	6.4	9.2	6.8	4.8	3.7	3.0	2.5	2.5	2.5	-3.5	6.5	4.2	-0.1	-0.1
US unemployment rate (%)	3.8	13.0	8.8	6.7	6.2	5.8	5.8	5.2	4.8	4.4	4.2	4.0	3.8	8.1	5.8	4.4	0.0	0.0
US core CPI (YoY)	2.2	1.3	1.7	1.6	1.4	3.0	3.2	3.2	3.2	2.5	2.5	2.6	2.6	1.7	2.7	2.7	0.0	0.3
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.375	0.375	0.625	0.125	0.125	0.375	0.00	0.00

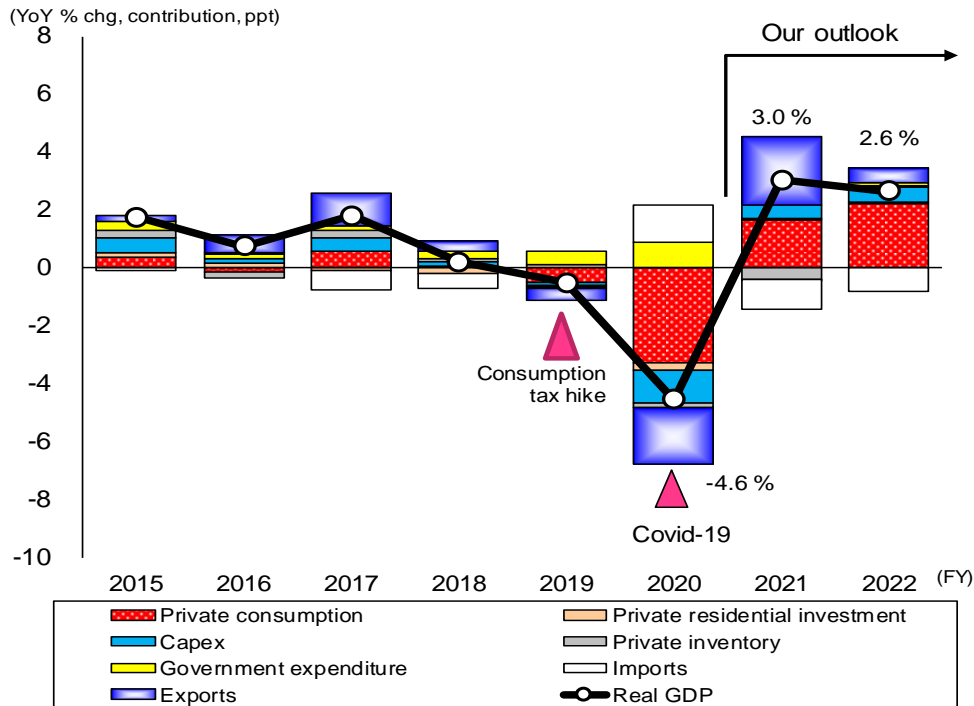
Assumptions: Forex rate (annual mean): Y110.0/\$ in FY21 and Y113.0/\$ in FY22.

Crude oil price (WTI annual mean): \$62.8/bbl in FY21 and \$60.0/bbl in FY22.

Notes: US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year.

Sources: Cabinet Office, Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry, and Bank of Japan, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: Cabinet Office, SMBC NIKKO estimates

APPENDIX

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