

【NEWS RELEASE】

December 8, 2022
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2022-2023(Update)

December 8, 2022(JST), “SMBC NIKKO Japan Economic Outlook for FY2022-2023” has been released, responding to the second preliminary of GDP (July-September 2022 period)

Spending is Back, Recovery on Track via Stimulus, Trade

- ◆ Real GDP: FY22 +1.6%, FY23 +2.2%
- ◆ Nominal GDP: FY22 +1.3%, FY23 +3.4%

Summary• **GDP growth outlook**

We revise our outlook to reflect the second preliminary Jul-Sep 2022 GDP data. We forecast real GDP growth of +1.6% YoY in FY22 and +2.2% in FY23. Compared to our previous forecast (18 Nov), we cut our FY22 forecast by 0.2ppt, as actual Jul-Sep consumer spending was lower than expected in second preliminary data.

- **Economic outlook**

We forecast a solid recovery in the Japanese economy heading into 2023 for six reasons.

Normalized consumption: Households are no longer fazed by the number of CV19 infections and recognize the limited danger of the virus, including the low fatality rate, so are loosening their purse-strings at last. The fatality rate of CV19 is currently around 0.04%, less than half that of influenza, so the real risk is low. We expect consumption to continue recovering as Covid-19 becomes less virulent.

Strong purchasing power: Households have held off on spending and have increased savings during the pandemic, so purchasing power has reached around Y350tn. Purchasing power is around Y60tn higher than consumption, so there is no need for households to reduce consumption. Households have sufficient purchasing power, so we do not expect income constraints to curb consumption.

Containing inflation: 75% of inflation in Japan comes from energy and food prices. International commodity prices are key, and crude oil and grain prices have already peaked out due to the Fed's QT policy. We expect domestic inflation to slow sharply heading into 2023 as commodity prices fall.

Wage growth: The previous year's inflation rate is referenced in the spring labor negotiations. We forecast inflation of around 2.5% in 2022, which should boost base salary hikes. We forecast wage hikes (scheduled salary escalator + base salary hikes) of around 3.3%. We expect real wages to rise as inflation slows.

Economic stimulus: The government has decided on a Y29.1tn stimulus package. This includes measures such as reducing household utility costs, encouraging wage hikes, promoting inbound tourism, and accelerating investment for building national resilience. We estimate this would boost GDP by about 1%.

Better terms of trade: We expect the terms of trade to improve as QT by the Fed pushes down resource prices. Terms of trade could improve by up to around Y30tn. This should stem the outflow of income overseas and boost domestic incomes.

Based on this, we expect a solid recovery in the Japanese economy heading into 2023 as CV19 weakens, purchasing power remains high, inflation subsides, wages rise, economic stimulus measures take effect, and terms of trade improve.

- **US recession and financial markets**

US recession: In the US, inflation has stimulated consumption by eroding the value of household cash/deposits, and inflation and consumption have thus fallen into a negative spiral of each pushing the other higher. At present, the Fed is attempting to promote savings by substantially hiking the policy rate, and in turn deposit rates. Given the lag between interest rates and savings rates, we look for the US economy to fall into recession around Jan-Mar 2023, led by declining consumption.

Lower outlook on the neutral rate: With the current US market medium-term outlook for inflation falling, there has been a downward revision to the neutral rate outlook. This has led to a drop in long-term rates, a spike in share prices, and depreciation of the dollar versus the yen. We see potential for US rates to decline by up to 20bp, which should be a near-term positive for share prices.

Quarterly forecasts for Japanese economy

	2021				2022				2023				2024	《A》←→《F》 (Unit:%)			Comparison with previous forecasts (as at 11 Nov 2022)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY21	FY22	FY23	FY22	FY23
Real GDP growth (QoQ)	-0.1	0.3	-0.5	1.2	-0.5	1.1	-0.2	0.6	0.7	0.6	0.6	0.5	0.4	2.5	1.6	2.2	-0.2	0.0
(annual rate)	-0.6	1.3	-1.8	4.9	-1.8	4.5	-0.8	2.4	2.8	2.4	2.6	1.9	1.8	2.1	1.2	2.2	-0.3	0.1
(Calendar year base)																		
Domestic demand, contribution (QoQ)	-0.2	0.5	-0.6	1.2	0.0	1.0	0.4	0.0	0.8	0.7	0.7	0.6	0.5	1.8	2.0	2.4	-0.3	-0.2
Private consumption (QoQ)	-1.7	0.1	-1.3	3.2	-1.0	1.7	0.1	0.3	0.5	0.6	0.6	0.4	0.4	1.5	2.5	1.9	-0.5	0.0
Capex (QoQ)	1.5	1.5	-1.6	-1.3	-1.7	-1.9	-0.5	0.0	0.0	0.5	0.7	0.7	0.7	-1.1	-4.6	1.4	-0.3	0.0
Residential investment (QoQ)	1.4	1.5	-1.8	0.7	-0.4	2.0	1.5	1.4	2.0	1.0	1.0	1.0	0.9	2.1	4.0	5.1	-0.3	-0.5
Public investment (QoQ)	0.1	-1.7	-3.3	-3.6	-3.1	0.7	0.9	0.8	0.8	0.8	1.3	1.3	1.0	-6.4	-2.6	4.0	-0.5	-0.1
Foreign demand, contribution (QoQ)	0.1	-0.2	0.1	0.0	-0.5	0.1	-0.6	0.6	-0.1	-0.1	0.0	-0.1	-0.1	0.7	-0.4	-0.3	0.1	0.2
Exports (QoQ)	2.5	3.0	-0.3	0.6	1.2	1.5	2.1	0.3	-0.1	-0.1	-0.1	0.2	0.2	12.3	4.4	0.6	-0.1	0.0
Imports (QoQ)	1.9	4.4	-1.2	0.3	3.7	1.0	5.2	-3.0	0.5	0.5	0.0	0.6	0.6	7.1	6.2	1.1	-0.7	-1.2
Nominal GDP growth (QoQ)	0.0	0.4	-0.6	0.9	0.2	1.0	-0.7	0.4	1.2	1.1	1.0	0.8	0.9	2.4	1.3	3.4	-0.5	-0.5
Industrial production (YoY)	-1.8	18.4	6.6	1.1	-0.6	-3.6	4.0	5.3	5.6	8.5	4.1	3.5	4.1	5.9	2.8	5.0	0.0	0.0
Trade balance (Y tn, SAAR)	2.9	-0.5	-3.9	-5.3	-11.7	-21.7	-26.2	-17.9	-15.4	-14.0	-10.8	-8.0	-5.1	-5.4	-20.3	-9.5	-0.2	2.2
Unemployment rate (%)	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.8	2.6	2.5	0.0	0.1
Core CPI (YoY)	-0.5	-0.6	0.0	0.4	0.6	2.1	2.7	2.9	2.4	1.8	1.2	1.0	1.0	0.1	2.5	1.2	0.1	0.1
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)	6.3	7.0	2.7	7.0	-1.6	-0.6	2.9	1.0	-1.0	-0.5	0.0	1.0	1.5	5.9	1.9	0.2	0.0	0.0
US unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.6	3.8	4.0	4.2	4.3	4.2	5.4	3.6	4.1	0.0	0.0
US core CPI (YoY)	1.4	3.7	4.1	5.0	6.3	6.0	6.3	5.0	4.7	4.5	4.2	4.1	3.8	3.6	5.9	4.4	0.0	0.0
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.375	1.625	3.125	4.375	5.125	5.125	5.125	5.125	5.125	0.125	4.375	5.125	0.0	0.25

Assumptions: Forex rate (annual mean): Y140/\$ in FY22 and Y135/\$ in FY23.

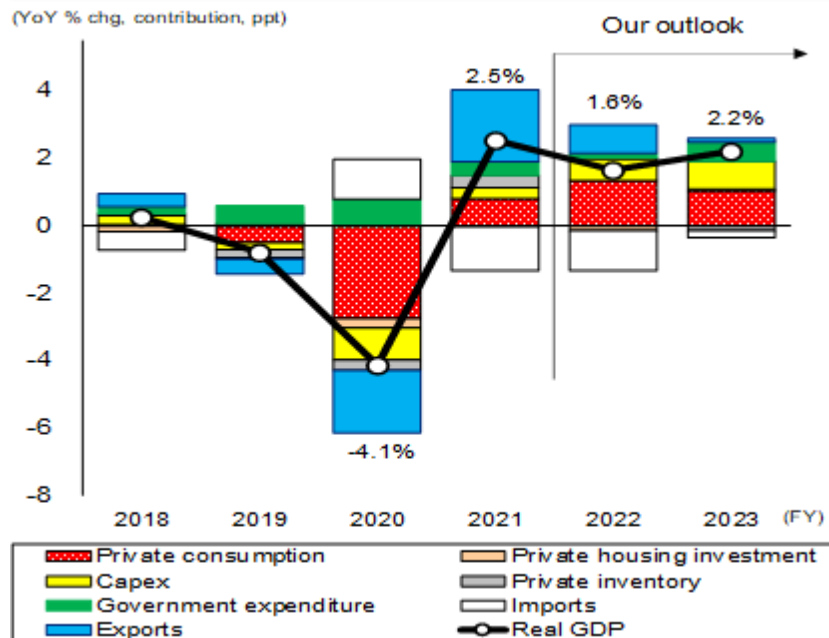
Crude oil price (WTI annual mean): \$89/bbl in FY22 and \$71/bbl in FY23.

Notes: 1) US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year.

2) Actual figures from Cabinet Office (CAO), Ministry of Internal Affairs and Communications (MIC), Ministry of Economy, Trade and Industry (METI), and Bank of Japan (BOJ). Forecasts by SMBC NIKKO.

Sources: CAO, MIC, METI, BOJ, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: CAO, SMBC NIKKO estimates

APPENDIX

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