

【NEWS RELEASE】

Nov 17, 2023
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2023-2024

Nov 17, 2023(JST), “SMBC NIKKO Japan Economic Outlook for FY2023-2024” has been released, responding to the first preliminary of GDP (July-September 2023 period)

Domestic Demand to Recover as Inflation Slows

- ◆ Real GDP: FY23 +1.4%, FY24 +1.5%
- ◆ Nominal GDP: FY23 +5.0%, FY24 +2.4%

Summary**• GDP growth outlook**

We update our economic outlook to reflect Jul-Sep 2023 GDP (first prelim). We now forecast real GDP growth of +1.4% YoY in FY23 and +1.5% in FY24, a downward revision of 0.6ppt versus our previous forecast for FY23 (8 September). The changes are the result of consumption and capex being dampened by elevated consumption/capital goods prices. Our FY24 outlook is unchanged.

- **Economic outlook**

We expect the Japanese economy to maintain resilient growth in the mid-1% range. We see three drivers:

Strong purchasing power: Household spending has been dampened by rising prices, but it has not seen a major collapse, likely thanks to substantial purchasing power, including excess savings and unrealized gains on equities, complementing disposable income. Purchasing power is currently around Y600tn, roughly double annual consumption. We think the strong purchasing power acts as a buffer preventing consumption from declining. Inflation needs to subside for consumption to recover, and we do in fact expect the CPI to slow gradually. We then expect household consumption to gradually transition to a recovery that involves volumes too.

Recovery in capex: Capex is currently hampered by elevated prices for capital goods. However, these prices look poised to peak out soon thanks to falling materials prices, so we expect capex to recover ahead. Moreover, Japan's manufacturing industry has (thanks to yen weakness driven by Abenomics and monetary easing under Kuroda) been reshoring capex since 2013, structurally bolstering domestic investment.

Fiscal policy: The government announced a Y21.8tn comprehensive stimulus package in November. We think the measures to spur investment (eg, subsidies for semiconductor plant development and "investment in national resilience") will have a greater impact than the household relief measures (eg, tax cuts/cash hand-outs and tax credits to incentivize wage hikes). The comprehensive stimulus package should, in its totality, boost demand by around Y10.1tn. We estimate this would lift GDP growth by around 1.8%.

- **BOJ monetary policy**

BOJ monetary policy: The BOJ continues to ease with the aim of achieving sustainable, stable 2% inflation accompanied by wage growth. Inflation expectations among household and corporations are currently around 0.8%, substantially below that 2% target. It appears, therefore, that households and corporations view the high rate of inflation at present as transient.

Should households and corporations grow confident in inflation reaching 2%, then we would expect households to increase their stock/investment asset holdings and corporations to hike wages by around 3%. We think that the emergence of such behavior would indicate that the public has been able to shake its deflationary mindset.

Clarity on macro-level wage hikes next year should come around next autumn. If wage growth rises to around 3% by this time, we would expect the BOJ to deem that underlying inflation has reached about 2% and begin the process of interest rates normalization.

Quarterly forecasts for Japanese economy

	《Actual》→《Forecasts》												《A》→《F》 (Unit:%)			Comparison with previous forecasts (as at 8 Sep 2023)		
	2022				2023				2024				2025	FY22	FY23	FY24	FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q					
Real GDP growth (QoQ)	-0.6	1.2	-0.1	-0.1	0.9	1.1	-0.5	0.1	0.4	0.6	0.4	0.5	0.6	1.3	1.4	1.5	-0.6	0.0
(annual rate)	-2.6	4.7	-0.4	-0.2	3.7	4.5	-2.1	0.5	1.5	2.3	1.4	2.2	2.3	0.9	1.7	1.2	-0.3	-0.4
(Calendar year base)																		
Domestic demand, contribution (QoQ)	-0.2	1.0	0.5	-0.3	1.1	-0.7	-0.4	0.3	0.4	0.5	0.3	0.4	0.4	1.8	0.3	1.3	-0.8	-0.2
Private consumption (QoQ)	-1.2	1.7	0.2	0.2	0.7	-0.9	0.0	0.2	0.3	0.4	0.4	0.4	0.4	2.5	-0.2	1.3	-0.7	-0.4
Capex (QoQ)	-1.4	-2.1	0.1	1.0	0.5	1.8	-0.1	0.2	0.4	0.4	0.5	0.5	0.5	-3.2	2.8	1.5	-0.8	-0.3
Residential investment (QoQ)	0.0	1.7	1.9	-0.9	1.7	-1.0	-0.6	0.0	0.3	0.2	0.5	0.8	1.0	3.0	-0.2	1.3	-2.0	-1.0
Public investment (QoQ)	-3.9	0.5	1.1	0.0	1.4	0.3	-0.5	1.3	0.7	0.5	0.5	0.7	0.7	-3.2	2.1	2.5	-0.6	0.7
Foreign demand, contribution (QoQ)	-0.4	0.1	-0.6	0.3	-0.2	1.8	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1	-0.5	1.2	0.2	0.3	0.2
Exports (QoQ)	1.5	1.9	2.2	1.5	-3.5	3.9	0.5	0.5	0.5	0.8	0.8	1.0	1.0	4.5	3.3	2.9	1.2	0.1
Imports (QoQ)	3.8	1.2	5.1	0.2	-2.1	-3.8	1.0	1.0	0.5	0.4	0.4	0.4	0.4	7.2	-2.7	2.1	-0.3	-0.6
Nominal GDP growth (QoQ)	0.2	0.9	-0.8	1.3	2.3	2.5	0.0	-0.2	0.7	0.9	1.0	0.2	1.0	1.2	5.0	2.4	0.0	-0.7
Industrial production (YoY)	-0.6	-3.6	4.0	0.6	-1.9	2.6	-2.6	1.5	4.4	3.6	4.1	4.1	4.1	-0.2	1.4	3.9	1.6	-2.0
Trade balance (Y tn, SAAR)	-11.4	-20.9	-26.0	-23.7	-16.6	-9.4	-6.3	-4.3	-2.8	-0.7	1.4	3.8	6.2	-21.8	-5.7	2.7	0.3	0.9
Unemployment rate (%)	2.7	2.6	2.6	2.5	2.6	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.6	2.6	2.6	-0.1	0.0
Core CPI (YoY)	0.6	2.1	2.7	3.8	3.5	3.2	3.0	2.5	2.5	2.3	2.1	1.4	1.5	3.0	2.8	1.8	0.5	0.8
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)	0.5	0.5	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
US real GDP growth (QoQ annualized)	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	0.8	1.3	1.3	1.3	1.5	1.8	1.9	2.4	1.7	0.6	0.7
US unemployment rate (%)	3.8	3.6	3.5	3.6	3.5	3.5	3.7	3.9	3.8	4.0	4.1	4.2	4.3	3.6	3.7	4.0	0.1	0.0
US core CPI (YoY)	6.3	6.0	6.3	6.0	5.6	5.2	4.4	4.0	3.7	3.4	3.1	2.8	2.5	6.2	4.8	3.3	-0.2	-0.3
Fed rate (Eop)	0.375	1.625	3.125	4.375	4.875	5.125	5.375	5.625	5.625	5.625	5.625	5.125	5.125	4.375	5.625	5.125	0.00	0.50

Assumptions:

Forex rate (annual mean): Y144/\$ in FY23 and Y145/\$ in FY24; Crude oil price (WTI annual mean): \$76/bbl in FY23 and \$67/bbl in FY24.

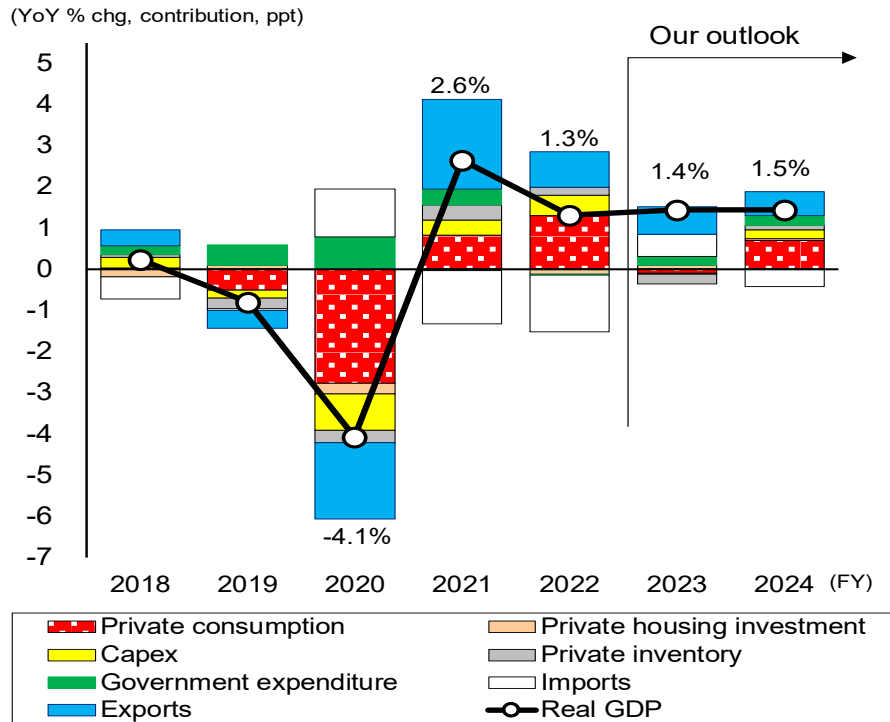
Notes: 1) US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year

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). Estimates are SMBC NIKKO estimates.

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

Outlook for real GDP growth



Sources: CAO, SMBC NIKKO estimates

APPENDIX

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