

【NEWS RELEASE】

November 20, 2024
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2024-2025

November 20, 2024(JST), “SMBC NIKKO Japan Economic Outlook for FY2024-2025” has been released, responding to the first preliminary of GDP (July-September 2024 period)

Japan on Recovery Path as Inflation Eases

- ◆ Real GDP: +0.5% in FY24, +1.3% in FY25
- ◆ Nominal GDP: +2.6% in FY24, +3.1% in FY25

Summary• **GDP growth outlook**

We revise our outlook to reflect the first preliminary Jul-Sep 2024 data. We forecast real GDP growth of +0.5% YoY in FY24 and +1.3% in FY25. These are down 0.2ppt vs our previous FY24 and FY25 estimates (9 September). We raise our FY24 forecast to reflect the recent increase in imports, but trim our FY25 forecast to reflect a slight cut to our overall domestic demand forecast.

- **Outlook for the economy**

Real GDP growth in Jul-Sep 2024 was +0.9% QoQ annualized, the second straight quarter of growth. Real GDP returned to pre-data falsification levels as the Apr-Jun and Jul-Sep rebounds offset the Jan-Mar slump caused by the data falsification scandal.

On average, real GDP growth for Jan-Mar through Jul-Sep was low at only +0.2% QoQ annualized. Real GDP is still well below nominal GDP, so inflation is curbing the economy.

We think the data shows that companies are excessively passing along higher materials costs in domestic prices. As a result, corporate earnings are at record highs even amid rising materials costs. However, we expect inflation to gradually subside as international commodity prices fall and the yen strengthens vs the dollar. As a result, we expect the economy to recover as purchasing power improves.

- **BOJ monetary policy**

We think current inflation mainly reflects excessive price pass-through amid soaring materials prices, unlike the virtuous cycle of wages and prices that the BOJ wants. Opinion is likely divided on whether the BOJ should rush to hike rates again.

That said, import prices are falling as resource prices decline and yen depreciation corrects, so we expect "bad" inflation to subside. In addition, the output gap, which affects the underlying inflation rate, is likely to remain roughly flat based on the BOJ's GDP outlook and potential GDP estimates, so we do not expect inflation to suddenly accelerate due to tightness in the output gap.

The data suggests the BOJ does not have to rush hike rates, so we expect it to adopt an accommodative stance for now to monitor economic and price trends.

Quarterly forecasts for Japan's economy

	《Actual》←→《Forecasts》												《A》←→《F》 (Unit:%)			Comparison with previous forecasts (as at 9 Sep 2024)		
	2023				2024				2025				2026	FY23	FY24	FY25	FY24	FY25
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q					
Real GDP growth (QoQ)	1.2	0.6	-1.0	0.1	-0.6	0.5	0.2	0.6	0.6	0.1	0.2	0.3	0.3	0.8	0.5	1.3	-0.2	-0.2
(annual rate)	5.0	2.6	-4.0	0.4	-2.4	2.2	0.9	2.4	2.4	0.5	0.8	1.1	1.1	1.7	-0.2	1.6	-0.2	-0.1
(Calendar year base)																		
Domestic demand, contribution (QoQ)	1.3	-1.0	-0.8	0.0	-0.2	0.7	0.7	0.4	0.4	0.3	0.3	0.3	0.3	-0.4	0.9	1.3	0.1	-0.1
Private consumption (QoQ)	0.8	-0.7	-0.4	-0.3	-0.6	0.7	0.9	0.3	0.4	0.3	0.3	0.3	0.3	-0.6	0.9	1.4	0.1	-0.1
Capex (QoQ)	0.7	1.2	-0.9	-1.0	-2.9	1.4	-0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.3	-1.2	1.9	-0.8	-0.1
Residential investment (QoQ)	2.3	-2.2	-0.1	2.1	-0.4	0.9	-0.2	0.8	0.6	0.6	0.6	0.5	0.5	0.3	1.9	2.2	-0.3	-0.2
Public investment (QoQ)	2.5	1.0	-2.0	-1.7	-1.1	4.1	-0.9	-0.4	0.5	0.7	0.7	0.7	0.7	0.7	1.3	1.7	1.1	0.4
Foreign demand, contribution (QoQ)	-0.1	1.7	-0.2	0.1	-0.4	-0.2	-0.4	0.2	0.2	-0.1	-0.1	-0.1	-0.1	1.2	-0.4	0.0	-0.3	-0.1
Exports (QoQ)	-2.1	3.1	0.2	2.9	-4.5	2.6	0.4	0.8	1.0	0.8	0.5	0.5	0.5	2.8	1.5	2.8	0.6	-0.3
Imports (QoQ)	-1.6	-4.1	0.9	2.4	-2.4	2.9	2.1	-0.5	0.0	1.5	0.8	0.8	0.8	-3.2	3.7	3.0	2.3	0.3
Nominal GDP growth (QoQ)	2.4	2.0	-0.1	0.8	-0.3	1.7	0.5	0.9	0.9	0.5	0.5	0.6	0.6	5.6	2.6	3.1	0.0	-0.1
Industrial production (YoY)	-1.8	0.8	-3.6	-0.9	-4.3	-2.9	-0.5	-1.0	4.8	2.6	2.5	3.0	3.5	-2.0	0.1	3.4	0.7	0.2
Trade balance (Y tn, SAAR)	-18.1	-8.9	-5.2	-5.7	-5.7	-7.4	-5.1	-5.9	-4.0	-4.5	-4.4	-4.3	-4.2	-6.4	-5.6	-4.4	-1.1	-2.3
Unemployment rate (%)	2.6	2.6	2.6	2.5	2.5	2.6	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.7	2.6	0.0	0.0
Core CPI (YoY)	3.5	3.2	3.0	2.5	2.5	2.5	2.7	2.2	2.5	2.0	1.5	1.5	1.0	2.8	2.5	1.5	0.2	0.0
IOER (Eop)	-0.1	-0.1	-0.1	-0.1	0.1	0.3	0.3	0.3	0.5	0.5	0.8	0.8	1.0	0.1	0.5	1.0	0.0	0.0
US real GDP growth (QoQ annualized)	2.8	2.4	4.4	3.2	1.6	3.0	2.8	1.6	1.7	1.7	1.6	1.8	2.0	2.9	2.7	1.9	0.0	0.0
US unemployment rate (%)	3.5	3.6	3.7	3.8	3.8	4.0	4.2	4.3	4.3	4.3	4.3	4.3	4.3	3.7	4.1	4.3	0.0	0.0
US core CPI (YoY)	5.6	5.2	4.4	4.0	3.8	3.4	3.2	2.9	2.6	2.3	2.3	2.3	2.3	4.8	3.3	2.4	0.0	0.0
Fed rate (Eop)	4.875	5.125	5.375	5.375	5.375	5.375	5.375	5.125	5.125	4.875	4.875	4.625	4.375	5.375	5.125	4.625	0.50	1.00

Assumptions:

Forex rate (annual mean): Y151/\$ in FY24 and Y144/\$ in FY25. Crude oil price (WTI annual mean): \$72/bbl in FY24 and \$64/bbl in FY25.

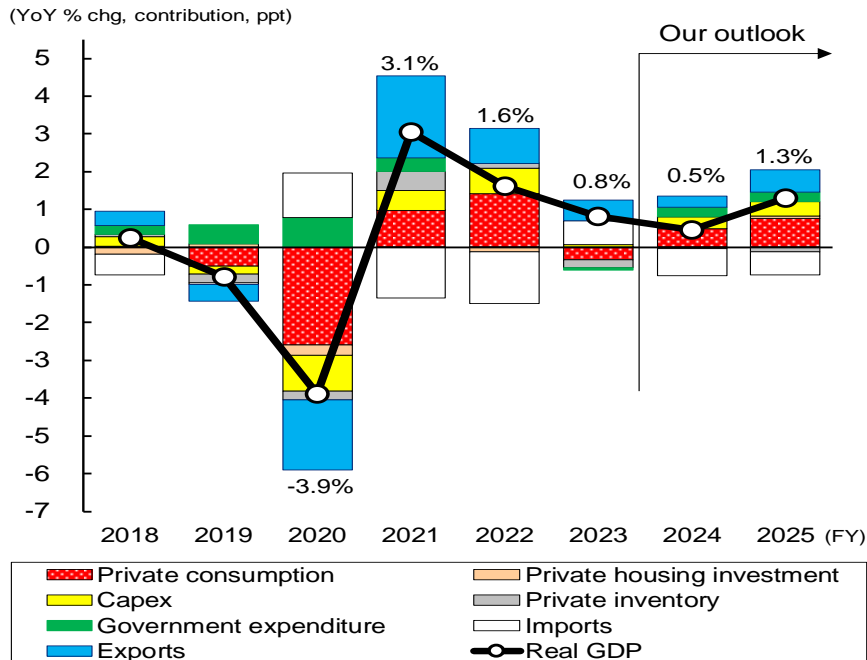
Notes: 1) US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year

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: Cabinet Office, MIC, METI, BOJ, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: Cabinet Office, SMBC NIKKO estimates

APPENDIX

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