

## 【NEWS RELEASE】

May 23, 2019  
SMBC Nikko Securities Inc.

**Quarterly Economy Outlook for FY 2019-2020**

May 23, 2019 (JST), “SMBC NIKKO Japan Economic Outlook for FY 2019-2020” has been released, responding to the first preliminary of GDP (January-March 2019 period).

**Downside Risks Linger, but Economy to Recover**

- ◆ Real GDP: +0.8% in FY19 and +0.9% in FY20
- ◆ Nominal GDP: +0.7% in FY19 and +1.5% in FY20

**Summary****• GDP growth outlook**

We revise our economic outlook in light of the first preliminary estimate for Jan-Mar 2019 GDP. We forecast real GDP growth of 0.8% YoY in FY19 and 0.9% in FY20. Compared with our previous estimates, we lower FY19 by 0.2ppt and FY20 by 0.1ppt to reflect the hit from additional US tariffs on China and the embargo on Huawei.

**• Exports strongly impact the Japanese economy**

Exports are having a major impact on Japan's economy, with real GDP growth sharply slowing from 1.9% in FY17 to only 0.6% in FY18 due to a slowdown in exports. Real exports grew 6.4% in FY17 but slowed significantly to 1.3% in FY18, indicating that exports determine economic momentum.

The slowdown in exports mainly reflects two factors: 1) shifts in the global economy (capex cycle) triggered by the Fed's switch to monetary tightening in 2015; and 2) corrections in the global semiconductor cycle. The global and Japanese economies are being impacted by two cycles: investment and semiconductors. However, the negative impact of these two cycles should subside over time. We estimate that the global economic cycle will turn upward from 2H 2019 and expect the Japanese economy to recover in line with this trend.

- **Risk factors**

However, we see the following risks: 1) US sanctions on China; and 2) Japan's consumption tax hike.

US sanctions on China: The US announced additional tariffs on China and an embargo on Huawei. As for the Japanese economy, we estimate these moves will curb GDP growth by 0.2ppt and NP for listed companies by around 5.1%. The latest salvo in this trade war will impact the macro economy to a certain extent but we doubt a recession will occur. The TOPIX's correction of 5.1% (same pace as NP erosion) from its recent peak looks reasonable for in our view.

Consumption tax hike: Inflation will rise when the tax is hiked, but with real incomes remaining up around 1% incomes are unlikely to slide into negative territory (real incomes down 2% at previous tax hike). Moreover, the government plans stimulus measures worth Y4.8tn, compared to an estimated Y2.2tn increased burden on households from the tax hike, which nets out to fiscal expansion of +Y2.6tn. The last time around the net impact would have been fiscally contractionary (-Y8tn), so the fiscal stance differs this time around. A consumption tax hike has an economic contractionary impact, but this time thanks to government stimulus the net impact will be expansionary. In that light, we expect the upcoming tax hike will not derail the economy.

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## Quarterly forecasts for Japanese economy

《Actual》 ← | → 《Forecasts》

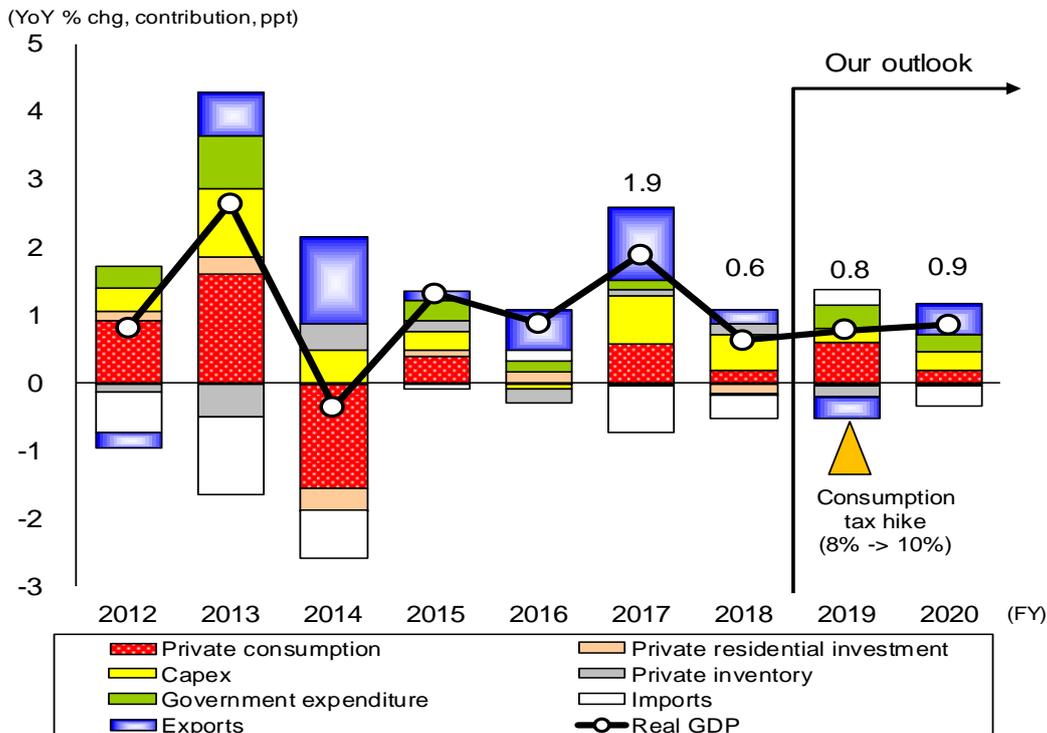
	2018				2019				2020				2021	《A》 ←   → 《F》 (Unit:%)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY18	FY19	FY20
Real GDP growth (QoQ)	-0.1	0.5	-0.6	0.4	0.5	0.2	-0.4	1.4	-0.9	0.5	0.3	0.4	0.3			
(annual rate)	-0.3	2.2	-2.5	1.6	2.1	0.7	-1.6	5.6	-3.6	1.9	1.2	1.5	1.3	0.6	0.8	0.9
Domestic demand, contribution (QoQ)	-0.1	0.6	-0.4	0.7	0.2	0.7	-0.9	1.7	-1.0	0.4	0.3	0.4	0.4	0.6	0.8	0.9
Private consumption (QoQ)	-0.1	0.6	-0.3	0.2	-0.1	1.5	-2.0	2.7	-2.0	0.3	0.1	0.2	0.2	0.4	1.1	0.4
Capex (QoQ)	-2.4	-2.1	0.8	1.4	1.1	3.0	-4.0	-4.0	0.0	0.5	1.0	1.0	1.0	-4.2	-0.4	-1.1
Residential investment (QoQ)	1.2	2.4	-2.5	2.5	-0.3	0.0	0.5	0.8	0.0	0.5	0.5	0.5	0.5	3.2	1.2	1.8
Public investment (QoQ)	-1.3	-0.7	-1.9	-1.4	1.5	1.0	2.0	1.0	0.0	-0.2	-0.5	-0.5	-0.5	-3.8	3.4	0.5
Foreign demand, contribution (QoQ)	0.0	-0.1	-0.2	-0.3	0.4	-0.5	0.5	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports (QoQ)	1.0	0.7	-2.0	1.2	-2.4	-1.0	0.0	1.0	0.8	0.5	0.5	0.5	0.2	1.3	-1.8	2.8
Imports (QoQ)	0.7	1.0	-1.0	3.0	-4.6	2.0	-3.0	3.0	0.5	0.3	0.5	0.5	0.5	2.0	-1.3	1.7
Nominal GDP growth (QoQ)	-0.2	0.3	-0.6	0.5	0.8	-0.5	-0.3	1.9	-1.2	0.8	0.5	0.7	0.2	0.5	0.7	1.5
Industrial production (QoQ)	2.1	1.1	0.5	0.5	1.9	1.4	2.4	3.6	1.1	0.8	2.5	1.0	4.1	1.0	2.1	2.1
Trade balance (Y tn, SAAR)	4.4	3.0	0.2	-1.9	3.0	1.3	4.5	-1.2	-0.6	0.3	1.0	1.8	2.2	1.1	1.0	1.3
Unemployment rate (%)	2.5	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.4	2.3
Core CPI (YoY)	0.9	0.8	0.9	0.9	0.8	0.3	0.2	0.7	0.8	1.0	1.2	0.6	0.8	0.8	0.5	0.9
(Ex effects of consumption tax hike)	0.9	0.8	0.9	0.9	0.8	0.3	0.2	-0.3	-0.2	0.0	0.2	0.6	0.8	0.8	-0.0	0.4
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
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
US real GDP growth (QoQ annualized)	2.2	4.2	3.4	2.2	3.2	2.6	2.5	2.3	2.2	2.2	2.2	2.2	2.2	3.3	2.4	2.2
US unemployment rate (%)	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.6	3.6	3.5	3.5	3.4	3.4	3.9	3.6	3.4
US core CPI (YoY)	1.9	2.2	2.2	2.2	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.2	2.3
Fed rate (Eop)	1.625	1.875	2.125	2.375	2.375	2.375	2.375	2.375	2.375	2.625	2.625	2.625	2.625	2.375	2.375	2.625

Assumptions: Forex rate (annual mean): Y112.8/\$ in FY19 and Y115.0/\$ in FY20; Crude oil price (WTI annual mean): \$64.0/bbl in FY19 and \$66.0/bbl in FY20.

Notes: 1) US GDP on a calendar basis, US unemployment rate is the average for the period, and FF rate at end of year. 2) Actual figures from Cabinet Office, MIC, METI, BOJ. Forecasts by SMBC NIKKO.

Sources: Cabinet office; Ministry of Economy, Trade and Industry (METI); Ministry of Internal Affairs and Communications (MIC); Bank of Japan (BOJ); SMBC NIKKO forecast

## Outlook for Real GDP growth



Source: CAO, SMBC NIKKO forecast

## APPENDIX

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NR: Not Rated  
RS: Rating Suspended

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