

【NEWS RELEASE】

August 20, 2020
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2020-2021

August 20, 2020(JST), “SMBC NIKKO Japan Economic Outlook for FY2020-2021” has been released, responding to the first preliminary of GDP (April-June 2020 period)

Economy to Recover as CV19 Threat Eases

- ◆ Real GDP: FY20 -6.0%, FY21 +4.8%
- ◆ Nominal GDP: FY20 -6.0%, FY21 +5.0%

Summary• **GDP growth outlook**

We revise our outlook to reflect the first preliminary Apr-June 2020 GDP data. We forecast real GDP growth of -6.0% YoY in FY20 and +4.8% in FY21, down 1.7ppt for FY20 and up 1.6ppt for FY21 from our previous estimates (as of 8 June). This is because private consumption fell more than expected in Apr-June, but we still expect a recovery from July-Sep.

- **Economic outlook**

We expect Japan's economy will trace a V-shaped recovery from a major bottom in Apr-June. The drivers of this will be recoveries from major slumps in private consumption and exports.

Private consumption: Consumer sentiment is improving and population mobility has recovered to pre-Covid levels. Goods consumption has also returned to pre-Covid levels, and there has been a clear rebound in consumption of services located close to the home, such as restaurants and short-haul rail travel. By contrast, the pace of recovery is slow for lodgings and air travel. We think this reflects data from before the removal of requests to refrain from cross-prefectural travel, and we expect the removal of these requests will result in a gradual shift in behavior. The government's "Go To Travel" campaign should also stimulate consumption, fueling demand. Meanwhile, increased savings should also bolster consumption. Household savings have nearly tripled during the pandemic as households curtailed spending. We think the recovery in sentiment and ample savings should be enough to fuel a self-sustained recovery in consumption.

Exports: The plunge in exports reflects a sharp fall in auto exports to the US and Europe. Recently though, auto sales in the US and Europe have rebounded sharply as lockdowns are lifted. Sales still trail potential demand, so could go much higher. We expect auto sales to lead Japanese exports out of their slump.

- **Threat of 2nd wave of Covid-19**

While the number of new cases is rising sharply, population mobility and share price levels have regained pre-Covid levels, suggesting people and markets are not overly concerned with the threat. The rise in case count is likely a factor of increased PCR testing, while the easing of testing requirements has also likely boosted the capture rate. The true gauge of whether the virus is spreading is the effective reproduction number, which is currently below 1, suggesting the outbreak is subsiding. We expect the number of positive cases will decline gradually as the infectivity of the virus weakens, and the virus becomes inactive about 10 days after infecting a host, including in as yet undetected cases. Meanwhile, the case fatality rate remains low, at 0.2% in July, or around 1/15th that of the 3.1% CFR recorded in Apr. Per capita fatality rates are also much lower in Japan than in the US and Europe.

The effective reproduction number and case fatality rate in Japan suggest the threat of a 2nd wave of the virus is not all that large. Japan should be able to resume normal social and economic activities, provided sufficient care is paid to outbreaks among the elderly.

As economic activity resumes, we think Japan could experience something near to a V-shaped recovery. We expect real GDP in Jan-Mar 2021 will be around 96.6% of the pre-Covid (Oct-Dec 2019) level.

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Quarterly forecasts for Japanese economy

	2019				2020				2021				2022	FY19 → FY21 (Unit:%)			Comparison with previous forecasts (as at 8 Jun 2020)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY19	FY20	FY21	FY20	FY21
Real GDP growth (QoQ)	0.7	0.4	0.0	-1.8	-0.6	-7.8	2.8	1.9	1.1	0.9	0.9	1.0	1.0					
(annual rate)	2.8	1.7	0.2	-7.0	-2.5	-27.8	11.6	7.8	4.3	3.7	3.8	3.9	3.9	0.0	-6.0	4.8	-1.7	1.6
Domestic demand, contribution (QoQ)	0.2	0.7	0.3	-2.3	-0.4	-4.8	1.3	0.7	0.8	0.8	0.9	0.9	0.9	0.2	-4.7	4.8	-1.5	1.8
Private consumption (QoQ)	0.1	0.5	0.4	-2.9	-0.8	-8.2	3.1	1.6	1.1	1.2	1.2	1.2	1.2	-0.6	-6.8	5.5	-1.7	2.4
Capex (QoQ)	1.4	-0.2	1.2	-2.2	-4.2	-0.2	-2.0	-1.0	0.0	0.8	0.8	0.8	0.8	0.5	-6.1	1.0	0.3	-2.2
Residential investment (QoQ)	-0.5	0.8	0.2	-4.7	1.7	-1.5	-2.0	-1.5	0.7	0.5	0.8	1.0	1.0	-0.3	-4.5	1.1	-3.1	-2.2
Public investment (QoQ)	2.5	1.4	1.1	0.6	-0.5	1.2	0.0	1.0	0.9	0.6	0.2	0.1	-0.2	3.3	2.1	1.9	2.3	0.0
Foreign demand, contribution (QoQ)	0.5	-0.3	-0.2	0.5	-0.2	-3.0	1.5	1.2	0.3	0.1	0.1	0.1	0.1	-0.2	-1.4	0.1	-0.3	-0.1
Exports (QoQ)	-1.8	0.2	-0.6	0.4	-5.4	-18.5	5.1	5.7	2.8	2.4	2.4	2.4	2.4	-2.6	-15.9	12.7	0.5	5.2
Imports (QoQ)	-4.5	1.8	0.7	-2.4	-4.2	-0.5	-4.0	-2.0	1.0	2.0	2.0	2.0	2.0	-1.5	-8.2	3.7	2.3	0.4
Nominal GDP growth (QoQ)	1.2	0.5	0.4	-1.5	-0.5	-7.4	1.6	2.2	1.0	1.1	1.1	1.1	1.1	0.8	-6.0	5.0	-1.4	1.3
Industrial production (QoQ)	-2.1	0.0	-1.1	-3.7	0.4	-4.0	-2.0	1.0	1.0	0.5	0.5	2.0	2.0	-3.6	-19.0	11.6	-12.5	7.2
Trade balance (Y tn, SAAR)	-2.9	-1.1	-1.0	2.8	1.5	-9.3	-4.2	1.0	0.8	-0.6	-2.1	-3.6	-4.3	0.5	-2.9	-2.7	-2.4	-1.3
Unemployment rate (%)	2.5	2.4	2.3	2.3	2.4	2.4	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.5	2.4	-0.5	-0.5
Core CPI (YoY)	0.8	0.8	0.5	0.6	0.6	0.1	-0.1	-0.7	-0.8	-0.6	-0.2	0.1	0.3	0.6	-0.4	-0.1	-0.4	-0.1
(Ex effects of consumption tax hike)	0.8	0.8	0.5	-0.4	-0.4	-0.9	-1.1	-0.7	-0.8	-0.6	-0.2	0.1	0.3	0.4	-0.9	-0.1	0.0	-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)	2.9	1.5	2.6	2.4	-5.0	-32.9	20.0	6.0	5.0	4.2	3.6	3.2	2.0	2.2	-5.1	3.5	-0.3	-0.1
US unemployment rate (%)	3.9	3.6	3.6	3.5	3.8	13.0	10.0	9.0	8.5	7.7	7.0	6.5	6.0	3.6	10.1	6.8	-1.2	0.3
US core CPI (YoY)	2.1	2.1	2.3	2.3	2.2	1.3	1.6	1.5	1.5	1.5	1.5	1.5	1.6	2.2	1.5	1.5	0.4	0.0
Fed rate (Eop)	2.375	2.375	1.875	1.625	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.00	0.00

Assumptions: Forex rate (annual mean): Y108.5/\$ in FY20 and Y110.0/\$ in FY21

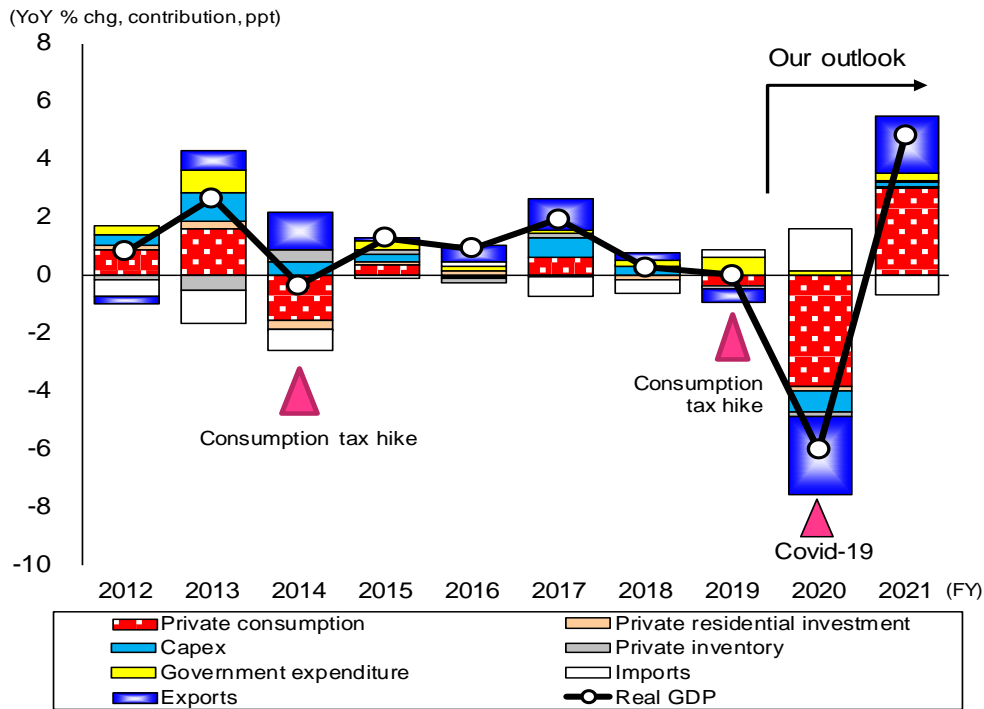
Crude oil price (WTI annual mean): \$40.8/bbl in FY20 and \$50.3/bbl in FY21

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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