

## 【NEWS RELEASE】

September 8, 2021  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2021-2022(Update)**

September 8, 2021(JST), “SMBC NIKKO Japan Economic Outlook for FY2021-2022” has been released, responding to the second preliminary of GDP (April-June 2021 period)

**Japan’s Economy to Recover with Vaccinations**

- ◆ Real GDP: FY21 +3.3%, FY22 +2.8%
- ◆ Nominal GDP: FY21 +3.4%, FY22 +3.7%

**Summary****• GDP growth rate outlook**

We revise our outlook to reflect the second preliminary Apr-Jun 2021 GDP data. We forecast real GDP growth of 3.3% YoY in FY21 and 2.8% in FY22. Our new FY21 forecast represents an upward revision of 0.2ppt from our previous outlook (as of 20 Aug). This reflects the upward revision to Apr-Jun GDP. Our outlook for economic recovery is unchanged.

- **Economic outlook**

Real GDP grew QoQ in Apr-Jun despite the 3rd lockdown, reflecting a sharp spike in private consumption from March. On a monthly basis, however, private consumption has been declining since April, indicating no recovery in overall trend. Jul-Sep remains uncertain with the 4th lockdown underway.

We think the Japanese economy will still sway on CV19 infections, and the three focus points are: 1) new case count, 2) risk of healthcare system collapse; and 3) vaccinations.

New CV19 infections are starting to peak out, as we suggested in our previous outlook. The effective reproduction number, which has a major impact on new case numbers, has fallen to 0.8, so we expect the number of new cases to continue falling as well. We expect risks of a healthcare system collapse to fade as 1) infected individuals with mild systems recuperate at home, and 2) the amended Infectious Diseases Control Law prompts private hospitals to admit CV19 patients.

Vaccinations: Pfizer and Moderna vaccines are highly effective in preventing hospitalizations of delta patients, so we watch for them to keep severe case and death rates down. Death rates have in fact dropped sharply, and vaccinations will likely enable Japan to reach herd immunity in September at the current pace. In Japan, only around 11% of people do want to be vaccinated, so vaccination rates should ultimately reach 80-90%.

Lower new infections and reaching herd immunity in September should allow the easing of business restrictions and set the stage for an economic recovery. Disposable income has recovered to pre-pandemic levels, and excess savings have reached around Y35tn (Y620,000 per household). With the carrying over of the FY20 budget, the government has plenty of capacity to immediately provide around Y36tn in funds.

From Oct-Dec we look for a full-scale recovery in the Japanese economy with the containment of CV19 and stimulus measures.

- **Risks**

Risks to our outlook come in the form of CV19 variants and higher US interest rates. As the former is unpredictable, we discuss the latter here.

US interest rates currently remain low and stable, reflecting fiscal and monetary policy. Government fund distributions are a fiscal factor, but this will likely taper off.

Monetary policy factors involve the Fed's new policy strategy. The new strategy is to continue monetary easing to the extent it does not lead to inflation or a bubble. The Fed says the current acceleration is temporary, but there are signs of a housing bubble with inflation already above 3%. The Fed rethinking its inflation approach would represent a clear shift to tightening. In this case, long-term interest rates could rise to around 1.8%. However, the economy is unlikely to slow given that the natural rate of interest is around 2.5% in the US. In equity markets, US-Japan relative share prices could reverse, making Japanese stocks more attractive.

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Quarterly forecasts for Japanese economy

	《Actual》← →《Forecasts》												《A》← →《F》 (Unit:%)			Comparison with previous forecasts (as at 20 Aug)			
	2020				2021				2022				2023	FY20	FY21	FY22	FY21	FY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q						
Real GDP growth (QoQ)	-0.6	-7.9	5.4	2.8	-1.1	0.5	0.1	1.3	0.9	0.7	0.5	0.6	0.5						
(annual rate)	-2.3	-28.1	23.2	11.9	-4.2	1.9	0.4	5.1	3.6	2.7	2.1	2.3	1.8	-4.4	3.3	2.8	0.2	0.0	
Domestic demand, contribution (QoQ)	-0.3	-5.1	2.7	1.8	-0.8	0.8	0.2	1.3	0.9	0.6	0.5	0.6	0.5	-3.8	3.4	2.8	0.2	0.0	
Private consumption (QoQ)	-0.8	-8.3	5.3	2.3	-1.3	0.9	-0.6	1.8	1.5	1.0	0.5	0.5	0.5	-5.8	3.2	3.7	0.0	0.0	
Capex (QoQ)	-3.7	0.6	-5.7	0.0	1.0	2.1	0.5	-0.5	-0.5	1.0	0.5	0.0	-0.5	-7.2	1.4	0.7	0.0	0.0	
Residential investment (QoQ)	1.1	-6.0	-2.1	4.3	-1.3	2.3	0.0	1.2	1.5	0.8	1.0	0.8	0.8	-6.8	3.9	3.9	0.6	0.0	
Public investment (QoQ)	0.1	3.0	0.6	0.9	-1.1	-1.7	-0.1	0.5	0.3	0.3	-0.7	-0.7	-0.7	4.2	-1.5	-0.2	-0.3	0.0	
Foreign demand, contribution (QoQ)	-0.3	-2.9	2.6	1.0	-0.3	-0.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0	-0.6	-0.1	0.0	0.0	0.0	
Exports (QoQ)	-4.7	-17.5	7.3	11.7	2.4	2.8	1.0	1.0	0.8	0.8	0.5	0.5	0.5	-10.4	13.7	2.9	-0.2	0.0	
Imports (QoQ)	-3.0	-0.7	-8.2	4.8	4.0	5.0	1.0	1.0	1.0	0.5	0.5	0.5	0.5	-6.8	9.9	2.8	-0.1	0.0	
Nominal GDP growth (QoQ)	-0.5	-7.6	5.4	2.3	-1.1	-0.1	1.3	1.4	1.0	0.8	0.7	0.7	0.6	-3.9	3.4	3.7	0.1	0.1	
Industrial production (YoY)	-4.7	-20.7	-12.7	-4.2	-1.5	19.9	10.5	5.6	5.3	4.0	3.5	3.0	2.0	-9.9	10.0	3.1	0.0	0.0	
Trade balance (Y tn, SAAR)	1.2	-9.6	3.2	7.9	3.7	2.7	0.5	0.4	0.1	0.3	0.2	0.1	-0.1	1.3	0.9	0.1	0.9	-0.1	
Unemployment rate (%)	2.4	2.7	3.0	3.0	2.8	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.9	2.8	2.5	0.0	0.0	
Core CPI (YoY)	0.6	0.1	-0.2	-0.9	-0.4	-0.2	0.4	0.6	0.8	1.0	1.1	1.3	1.4	-0.4	0.4	1.2	0.0	0.0	
(Ex effects of consumption tax hike)	-0.4	-0.9	-1.2	-0.9	-0.4	-0.2	0.4	0.6	0.8	1.0	1.1	1.3	1.4	-0.9	0.4	1.2	0.0	0.0	
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)	-5.1	-31.2	33.8	4.5	6.3	9.2	6.9	5.6	3.8	3.0	2.6	2.3	2.3	-3.4	6.1	4.3	0.0	0.0	
US unemployment rate (%)	3.8	13.0	8.8	6.7	6.2	5.9	5.7	5.5	5.2	5.0	4.8	4.5	4.2	8.1	5.8	4.9	0.0	0.0	
US core CPI (YoY)	2.2	1.3	1.7	1.6	1.4	3.7	4.2	4.0	3.8	3.4	3.2	3.2	3.2	1.7	3.3	3.4	0.0	0.0	
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.375	0.375	0.625	0.125	0.125	0.375	0.00	0.00	

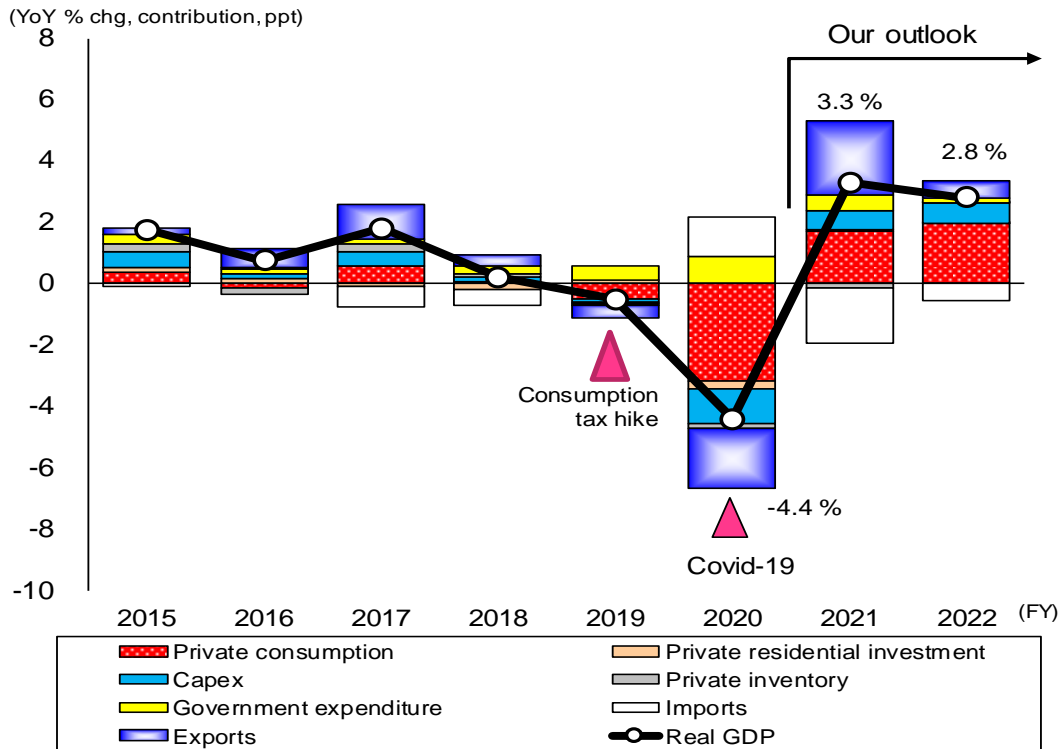
Assumptions: Forex rate (annual mean): Y110.5/\$ in FY21 and Y113.3/\$ in FY22.

Crude oil price (WTI annual mean): \$63.1/bbl in FY21 and \$60.0/bbl in FY22.

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

Sources: Cabinet Office, Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry, and Bank of Japan, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: Cabinet Office, SMBC NIKKO estimates

## APPENDIX

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