

## 【NEWS RELEASE】

May 23, 2022  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2022-2023**

May 23, 2022(JST), “SMBC NIKKO Japan Economic Outlook for FY2022-2023” has been released, responding to the first preliminary of GDP (January-March 2022 period)

**Gradual Recovery as Covid Lingers**

- ◆ Real GDP: FY22 +2.1%, FY23 +1.8%
- ◆ Nominal GDP: FY22 +2.0%, FY23 +2.5%

**Summary****• GDP growth outlook**

We revise our outlook to reflect the first preliminary Jan-Mar 2022 GDP data. We forecast real GDP growth of +2.1% YoY in FY22 and +1.8% in FY23. We cut our FY22 forecast by 0.9ppt from our previous forecast (9 March) mainly to reflect downward revisions to public investment.

- **Economic outlook**

Real GDP shrank by 1.0% QoQ in Jan-Mar, the first decline in two quarters, reflecting economic restrictions from CV19. Key points ahead will be CV19, faster inflation, and easing supply constraints.

CV19: The mortality rate for CV19 has fallen to about 0.01%, about 1/10 that of influenza. The rate of serious cases is also low at 0.02%. Private consumption was nearly flat QoQ in Jan-Mar, possibly due to lower CV19 risk. If variants continue to weaken in virulence, the risk of medical collapse falls and economic activity should normalize.

Inflation: Inflation concerns are high now, but we think a slump in consumption due to inflation is unlikely. Households currently have purchasing power of around Y311tn but consumption is only around Y293tn, leaving Y18tn in untapped purchasing power. Assuming this year's inflation rate is +1.6% YoY (consensus), households' real disposable income would decline by about Y5tn, but there would be a surplus of Y18tn in purchasing power. If we consider the Y47tn in excess savings, there is even more leeway. Purchasing power is more than adequate, so we do not expect consumption to be constrained by income.

Supply constraints: Auto production supply constraints continue to curb domestic sales and exports. Semiconductor supply/demand is key and we expect it will gradually loosen as WFH/stay-home high-tech demand fades globally as the Omicron wave subsides, and as global semiconductor majors increase capex.

In sum, we expect a solid recovery in the Japanese economy driven by waning CV19 virulence, sufficient purchasing power to withstand inflation, and easing supply constraints.

- **US inflation and rate hikes**

Rate hikes: Inflation in the US is not due to overheating demand, but rather a shortage of supply, making it difficult for rate hikes to curb inflation. Meanwhile, services prices account for about 70% of current inflation, but as services are not something you borrow to pay for the impact of rate hikes would be small. As a result, Fed rate hikes may be larger than normal. Markets are currently pricing in a rate hike to 3.05%, but the Taylor Rule implies a hike to 3.6%. Rate hikes are a way to guide the economy to a sustainable growth path, and we do not expect the economy to fall into recession. However, the scale of rate hikes this time around is larger and could have a direct impact on markets.

Forex: If the Fed hiked the FF rate to 3.6%, the US/Japan interest rate differential would widen, and the yen could weaken to around Y133/\$.

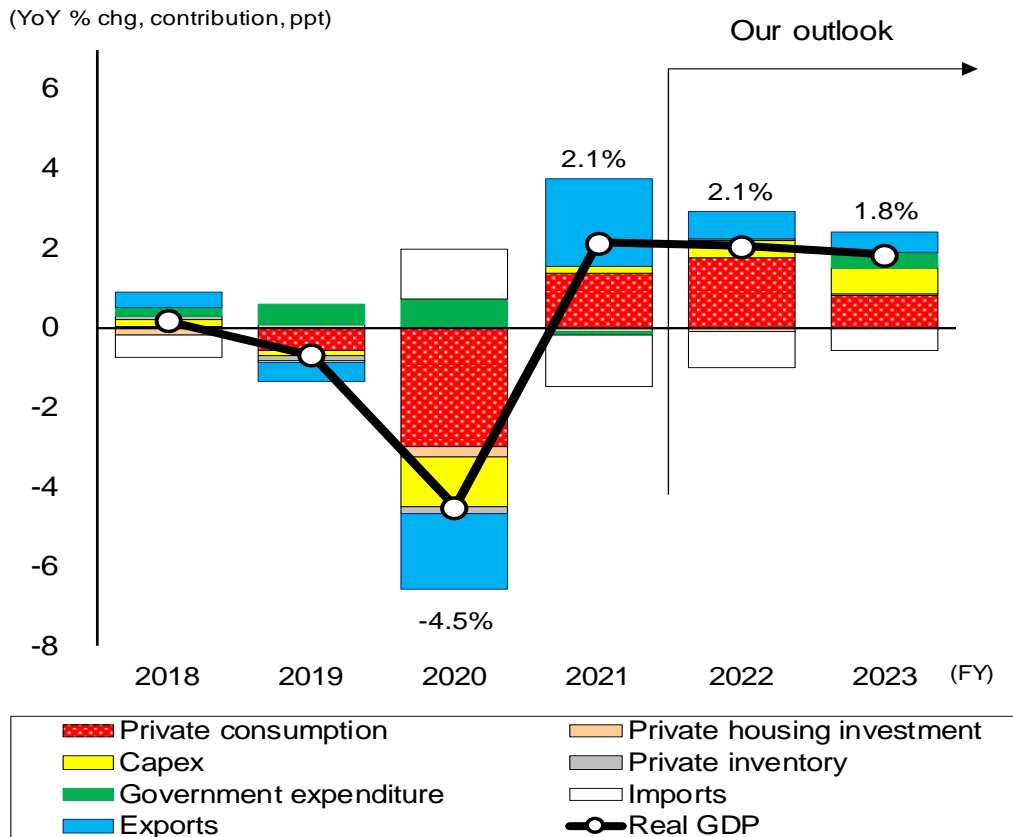
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Quarterly forecasts for Japanese economy

	2021				2022				2023				2024	《A》→《F》 (Unit:%)			Comparison with previous forecasts (as at 9 Mar 2022)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY21	FY22	FY23	FY22	FY23
Real GDP growth (QoQ)	-0.3	0.5	-0.7	0.9	-0.2	1.0	0.7	0.5	0.5	0.4	0.4	0.4	0.4					
(annual rate)	-1.3	2.1	-2.9	3.8	-1.0	3.9	2.9	2.1	2.0	1.6	1.8	1.6	1.6	2.1	2.1	1.8	-0.9	-
Domestic demand, contribution (QoQ)	-0.5	0.8	-0.8	0.8	0.2	0.9	0.7	0.5	0.5	0.4	0.5	0.4	0.4	1.4	2.2	1.9	-0.8	-
Private consumption (QoQ)	-0.8	0.7	-1.0	2.5	0.0	1.5	0.6	0.5	0.4	0.3	0.4	0.3	0.3	2.6	3.3	1.5	-0.4	-
Capex (QoQ)	1.0	1.0	-1.7	-1.2	-1.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	-1.6	-1.6	0.8	-0.5	-
Residential investment (QoQ)	0.0	2.2	-2.4	0.4	0.5	1.0	1.2	1.3	1.2	0.9	0.9	0.9	0.9	1.3	2.8	4.2	-0.5	-
Public investment (QoQ)	-0.1	-3.7	-3.8	-4.7	-3.6	-1.8	-0.5	0.3	0.3	0.3	0.3	0.3	0.3	-9.3	-7.3	1.0	-5.2	-
Foreign demand, contribution (QoQ)	0.2	-0.2	0.1	0.1	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.3	-0.1	-0.3	-
Exports (QoQ)	2.6	2.8	-0.3	0.9	1.1	1.0	1.0	0.7	0.6	0.6	0.6	0.6	0.6	12.5	3.6	2.6	-0.5	-
Imports (QoQ)	1.8	4.3	-0.8	0.3	3.4	1.0	1.0	0.6	0.7	0.7	0.7	0.7	0.7	7.2	4.8	2.9	1.2	-
Nominal GDP growth (QoQ)	-0.6	0.3	-1.0	0.3	0.1	0.9	0.8	0.5	0.9	0.6	0.4	0.4	0.4	1.1	2.0	2.5	-2.7	-
Industrial production (YoY)	-1.8	18.4	6.6	1.1	-0.6	1.6	4.5	4.8	6.1	4.6	4.6	4.6	4.1	5.9	4.3	4.4	-0.5	-
Trade balance (Y tn, SAAR)	3.3	-1.0	-3.6	-5.0	-11.0	-15.2	-14.7	-14.8	-11.4	-9.2	-9.4	-9.0	-8.6	-5.2	-14.0	-9.0	-6.7	-
Unemployment rate (%)	2.9	2.9	2.8	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.3	2.8	2.6	2.4	-0.1	-
Core CPI (YoY)	-0.5	-0.6	0.0	0.4	0.6	2.1	1.6	1.2	0.8	0.5	0.4	0.7	0.8	0.1	1.4	0.6	0.2	-
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	-
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	-
US real GDP growth (QoQ annualized)	6.3	6.7	2.3	6.9	-1.4	3.2	2.7	2.5	2.0	2.0	2.0	2.0	2.0	5.7	2.7	0.0	-1.0	-
US unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5	5.4	3.7	0.0	-0.3	-
US core CPI (YoY)	1.4	3.7	4.1	5.0	6.3	5.8	5.2	4.8	4.2	3.6	3.8	4.0	4.1	3.6	5.5	0.0	1.4	-
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.375	1.375	2.375	2.875	3.375	3.375	3.375	3.375	3.375	0.125	2.875	3.375	1.5	-

Assumptions: Forex rate (annual mean): ¥130/\$ in FY22 and ¥126/\$ in FY23.  
 Crude oil price (WTI annual mean): \$93/bbl in FY22 and \$85/bbl in FY23.  
 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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