

## 【NEWS RELEASE】

September 8, 2022  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2022-2023(Update)**

September 8, 2022(JST), “SMBC NIKKO Japan Economic Outlook for FY2022-2023” has been released, responding to the second preliminary of GDP (April-June 2022 period)

**Japan's Consumers Wake From CV19 Slumber**

- ◆ Real GDP: FY22 +2.2%, FY23 +2.1%
- ◆ Nominal GDP: FY22 +2.7%, FY23 +3.1%

**Summary****• GDP growth outlook**

We revise our outlook to reflect the second preliminary Apr-Jun 2022 GDP data. We forecast real GDP growth of +2.2% YoY in FY22 and +2.1% in FY23, raising our FY22 forecast by 0.2ppt vs previously (18 Aug). This reflects the upward revision to Apr-Jun capex.

- **Economic outlook**

Japan's real GDP growth for Apr-Jun was +3.5% QoQ annualized (Y544tn), above pre-CV19 levels. The economy has finally broken out of its CV19-induced slump over the past nine quarters, with key points ahead the outlook for CV19, purchasing power, and inflation.

Life with CV19: CV19 cases have risen six times in the past but households have gradually loosened purse strings. We think they are no longer dismayed by CV19 numbers and recognize the limited danger of the virus, including the low fatality rate. The recent Omicron BA.5 variant's fatality rate is currently around 0.03%, around one-third that for influenza. The real danger level is less than influenza, so we think private consumption could return to pre-CV19 levels, and it actually topped them in Apr-Jun. Assuming CV19 continues to weaken, we expect household spending to continue to recover.

Purchasing power: We think consumption is unlikely to weaken further as a result of inflation. Household real disposable income is currently around Y312tn, down around Y3tn due to recent inflation. However, this is still around Y15tn higher than consumption. Factoring in excess household savings (around Y49tn), it is around Y64tn higher than the value of consumption. Household purchasing power is well above consumption levels, so we don't think income is a limiting factor.

Inflation: In Japan it's largely due to rising commodity prices caused by soaring energy and food prices, but in global commodity markets, crude oil and grain prices are now peaking out. We expect inflation to cool as the Fed ramps up QT in earnest while gasoline and wheat prices in Japan are being kept in check by the government's price measures. We expect the CPI to slow rapidly from around the start of next year.

Thus, we expect a solid recovery in the Japanese economy as CV19 weakens, purchasing power is sufficient to withstand inflation, and inflation subsides.

- **US inflation and rate hikes**

US rate hikes: US inflation is skewed to the services sector; it is home-grown inflation driven by rising wages. To curb services consumption, the Fed will probably keep hiking the federal funds (FF) rate to encourage a shift from spending to savings. With the resultant decline in consumption (accounts for about 70% of GDP), the US economy is almost certain to fall into a recession.

L-shaped recovery: However, given that the Fed tightening is likely a measure to lift labor supply (cause of current US inflation), we would expect it to continue throughout and after the recession until labor supply recovers, resulting in an L-shaped rather than V-shaped recovery.

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Quarterly forecasts for Japanese economy

	(Actual)→(Forecasts)													(A)→(F) (Unit:%)			Comparison with previous forecasts (as at 18 Aug 2022) FY22 FY23	
	2021				2022				2023				2024	FY21	FY22	FY23		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q					
Real GDP growth (QoQ)	-0.3	0.4	-0.4	1.0	0.1	0.9	0.5	0.7	0.6	0.5	0.4	0.5	0.4	2.3	2.2	2.1	0.2	0.0
(annual rate)	-1.3	1.5	-1.8	3.9	0.2	3.5	1.9	2.9	2.2	1.9	1.7	2.0	1.7	1.7	1.7	2.3	0.2	0.0
(Calendar year base)																		
Domestic demand, contribution (QoQ)	-0.4	0.6	-0.6	0.9	0.5	0.8	0.5	0.7	0.5	0.5	0.5	0.5	0.5	1.5	2.4	2.1	0.2	0.0
Private consumption (QoQ)	-0.6	0.4	-0.9	2.4	0.3	1.2	0.5	0.8	0.5	0.3	0.4	0.5	0.4	2.6	3.3	1.9	0.0	0.0
Capex (QoQ)	0.7	1.6	-1.8	-1.3	-1.4	-1.9	0.0	0.2	0.2	0.2	0.2	0.2	0.2	-1.6	-3.8	0.8	0.0	0.0
Residential investment (QoQ)	0.9	1.0	-2.0	0.2	-0.1	2.0	1.0	1.4	1.0	1.2	0.9	0.9	0.9	0.6	3.3	4.3	0.7	0.0
Public investment (QoQ)	-0.2	-2.5	-3.3	-3.7	-3.2	1.0	0.5	0.8	0.3	0.3	0.3	0.3	0.3	-7.5	-2.9	1.5	0.0	0.0
Foreign demand, contribution (QoQ)	0.1	-0.2	0.2	0.0	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.2	-0.1	0.0	0.0
Exports (QoQ)	2.3	3.0	0.0	0.6	0.9	0.9	1.0	0.7	0.6	0.6	0.6	0.6	0.6	12.5	3.2	2.6	0.0	0.0
Imports (QoQ)	1.8	4.4	-1.1	0.4	3.5	0.6	0.8	0.6	0.5	0.5	0.8	0.8	0.8	7.2	4.2	2.6	-0.2	0.0
Nominal GDP growth (QoQ)	-0.6	-0.3	-0.4	0.4	0.4	0.6	1.1	1.2	0.9	0.9	0.6	0.3	0.4	1.3	2.7	3.1	0.3	0.0
Industrial production (YoY)	-1.8	18.4	6.6	1.1	-0.6	-3.6	0.2	1.5	1.7	4.6	4.1	3.5	4.1	5.9	-0.1	4.0	0.1	0.0
Trade balance (Y tn, SAAR)	3.1	-0.4	-3.7	-5.2	-11.6	-21.6	-15.7	-14.6	-12.4	-11.3	-10.5	-11.3	-12.2	-5.3	-16.1	-11.3	0.1	0.2
Unemployment rate (%)	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.4	2.4	2.3	2.8	2.6	2.4	0.1	0.1
Core CPI (YoY)	-0.5	-0.6	0.0	0.4	0.6	2.1	2.4	2.6	2.4	1.8	1.2	0.5	0.3	0.1	2.4	0.9	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)	6.3	6.7	2.3	6.9	-1.6	-0.6	-2.0	-1.0	2.0	1.5	1.5	1.5	1.5	5.7	1.1	0.6	0.0	0.0
US unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.6	3.7	3.8	3.8	3.7	3.6	3.6	3.6	5.4	3.7	3.7	0.0	0.0
US core CPI (YoY)	1.4	3.7	4.1	5.0	6.3	6.0	5.5	5.0	4.7	4.5	4.2	4.1	4.1	3.6	5.7	4.4	0.0	0.0
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.375	1.625	2.875	3.375	3.875	3.875	3.875	3.875	3.875	0.125	3.375	3.875	0.0	0.00

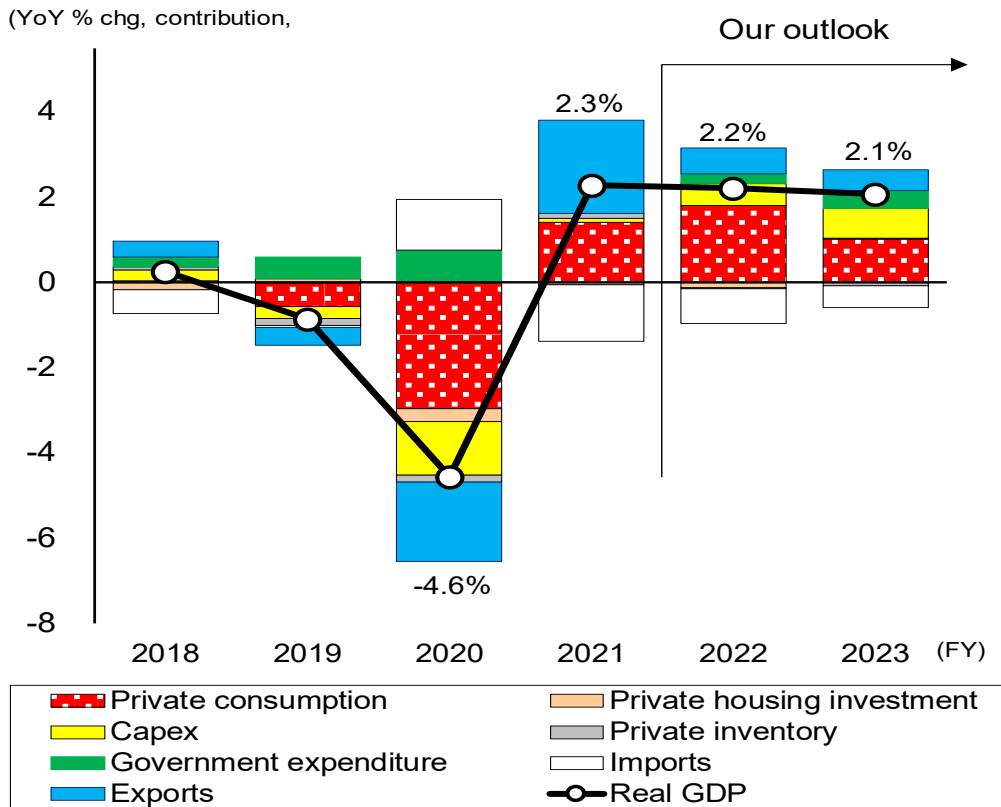
Assumptions: Forex rate (annual mean): Y132/\$ in FY22 and Y128/\$ in FY23.

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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