

【NEWS RELEASE】

May 22, 2023
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2023-2024

May 22, 2023(JST), “SMBC NIKKO Japan Economic Outlook for FY2023-2024” has been released, responding to the first preliminary of GDP (January-March 2023 period)

Rebound Continues as Spending, Terms of Trade Improve

- ◆ Real GDP: FY23 +1.6%, FY24 +1.4%
- ◆ Nominal GDP: FY23 +3.8%, FY24 +3.0%

Summary• **GDP growth outlook**

We revise our outlook to reflect the 1st preliminary estimate for Jan-Mar 2023 GDP. We cut our forecasts to real GDP growth of 1.6% YoY in FY23 and 1.4% in FY24, making a downward revision of 0.4ppt from last time (9 Mar 2023) for FY23. Our lower outlook reflects recent declines in exports.

• **Economic outlook**

We forecast a solid recovery in the Japanese economy towards 2024 for four reasons.

Normalized consumption: Automotive and travel-related consumption in particular have continued to recover. Combining disposable income and excess savings, households' purchasing power is around Y340tn, considerably higher than consumption (approx Y297tn). Incomes should therefore not pose any barrier to a recovery in consumption, which should continue to normalize.

Containing inflation: Just under 70% of inflation in Japan comes from commodities (energy and food prices). Commodity prices have already peaked due to the Fed's QT (quantitative tightening) policy, and this effect is likely to filter through to domestic prices. We look for the core CPI to slow to 1.9% YoY in FY23. In FY24, we think inflation will cool further to about 1.5% as one-time factors drop out.

Wage growth: Spring labor wage hikes appear likely to reach about 3.9%. At the macro level, we expect a 2.5% wage increase. Real wage growth is likely to turn positive from 2H FY23. At present, a heightened labor shortage is resulting in accelerated regular wage growth, and regular employment is also seeing consistent expansion. Given the tightening of the labor market, wage growth appears to be structural.

Better terms of trade: Terms of trade have been improving as resource prices fall, which is boosting nominal GDP through an enhanced trade balance. We see scope for a rise of about Y12tn in nominal GDP, with potential upside from corporate earnings and employee income.

All told, we expect a solid recovery in the Japanese economy toward 2024 boosted by both domestic factors (high purchasing power, subsiding inflation, rising wages) and overseas factors (improved terms of trade).

• **Monetary Policy in the U.S. and Japan**

US monetary policy: The US banking crisis, triggered by the failure of Silicon Valley Bank (SVB), has subsided on stabilizing bank lending and shrinking valuation losses on investment securities, with banking stocks now largely pricing in valuation write-downs. We currently see little downside risk for the economy. The Fed is seeking to strike a balance between inflationary and economic risk, but the rate increases made at the March and May FOMCs suggest that it is currently more concerned about the former. Any further hikes will hinge on inflation, but long-term interest rates appear unlikely to decrease significantly, even if the Fed were to end its rate increases. Our rationale is based on the strong market expectations for future rate cuts, which would likely result in rising short-term rates.

BOJ's monetary policy: In its April Outlook Report, the BoJ stated that it does not expect inflation to reach 2%, even by FY25. New governor Kazuo Ueda will closely monitor conditions as inflation may temporarily reach 2%, but there is a risk of subsequent decline. Mr. Ueda believes that the cost of waiting out an increase in underlying inflation is not high. He perceives a higher risk in not achieving the 2% target due to premature tightening, rather than delaying such action and experiencing sustained inflation above 2%. Under Mr. Ueda's leadership, it appears that the BoJ will adopt a patient approach, observing whether prices could potentially revert to a deflationary trajectory even if the 2% inflation target is reached. Accordingly, it is possible that interest rate normalization could be delayed beyond the current expectations of most observers.

Quarterly forecasts for Japanese economy

	《Actual》→《Forecasts》												《A》→《F》 (Unit:%)			Comparison with previous forecasts (as at 9 Mar 2023) FY23		
	2022				2023				2024				2025	FY22	FY23		FY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q					
Real GDP growth (QoQ)	-0.5	1.1	-0.2	0.0	0.4	0.7	0.4	0.5	0.5	0.3	0.3	0.3	0.3					
(annual rate)	-1.9	4.7	-1.0	-0.1	1.6	2.8	1.6	1.8	1.8	1.3	1.0	1.1	1.1	1.2	1.6	1.4		-0.4
(Calendar year base)														1.0	1.4	1.6		-0.5
Domestic demand, contribution (QoQ)	0.0	1.1	0.4	-0.4	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.3	0.3	1.8	1.7	1.2		-0.2
Private consumption (QoQ)	-1.1	1.7	0.0	0.2	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	2.4	1.7	1.4		-0.2
Capex (QoQ)	-1.8	-1.8	-0.5	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.5	0.7	0.7	-4.4	1.0	1.9		-0.5
Residential investment (QoQ)	-0.2	2.1	1.5	-0.7	0.9	1.0	1.0	0.8	0.5	0.5	0.3	0.3	0.3	3.0	3.0	2.0		-0.3
Public investment (QoQ)	-4.0	0.6	1.1	0.2	2.4	0.8	0.8	0.8	0.6	0.3	0.3	0.3	0.3	-2.6	4.1	1.8		0.8
Foreign demand, contribution (QoQ)	-0.5	0.1	-0.6	0.4	-0.3	0.1	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	-0.5	-0.1	0.2		0.0
Exports (QoQ)	1.2	1.5	2.5	2.0	-4.2	1.0	-0.1	0.7	1.0	0.8	0.6	0.6	0.6	4.4	0.0	2.8		-2.3
Imports (QoQ)	3.7	1.0	5.6	0.0	-2.3	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.5	7.1	0.3	1.8		-1.2
Nominal GDP growth (QoQ)	0.3	1.1	-0.8	1.1	1.7	1.1	0.6	0.8	1.2	0.5	0.5	0.1	0.3	1.3	3.8	3.0		1.2
Industrial production (YoY)	-0.6	-3.6	4.0	0.6	-2.8	2.0	0.0	-0.2	3.5	4.0	4.0	4.0	4.0	-0.5	-0.2	5.9		0.0
Trade balance (Y tn, SAAR)	3.0	-0.1	-3.7	-6.3	-11.9	-20.6	-25.8	-25.8	-25.8	-16.3	-12.4	-8.7	-3.6	-24.5	-10.2	-3.1		3.7
Unemployment rate (%)	2.7	2.6	2.6	2.5	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.4	2.6	2.6	2.5		0.2
Core CPI (YoY)	0.6	2.1	2.7	3.8	3.5	2.9	1.7	1.6	1.5	1.5	1.8	1.1	1.4	3.0	1.9	1.5		0.5
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)	-1.6	-0.6	3.2	2.6	1.1	-0.5	-0.2	0.8	1.5	1.5	1.5	1.8	2.0	2.1	1.0	1.0		0.4
US unemployment rate (%)	3.8	3.6	3.5	3.6	3.5	3.6	3.8	3.9	4.0	4.1	4.1	4.1	4.1	3.6	3.7	4.1		-0.1
US core CPI (YoY)	6.3	6.0	6.3	6.0	5.6	4.5	4.4	4.0	3.8	3.6	3.4	3.2	3.2	6.2	4.6	3.5		0.1
Fed rate (Eop)	0.375	1.625	3.125	4.375	4.875	5.125	5.125	5.125	5.125	5.125	4.875	4.375	4.375	4.375	5.125	4.375		-0.25

Assumptions:

Forex rate (annual mean): Y132/\$ in FY23 and Y129/\$ in FY24; Crude oil price (WTI annual mean): \$66/bbl in FY23 and \$60/bbl in FY24.

Notes: 1) US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year

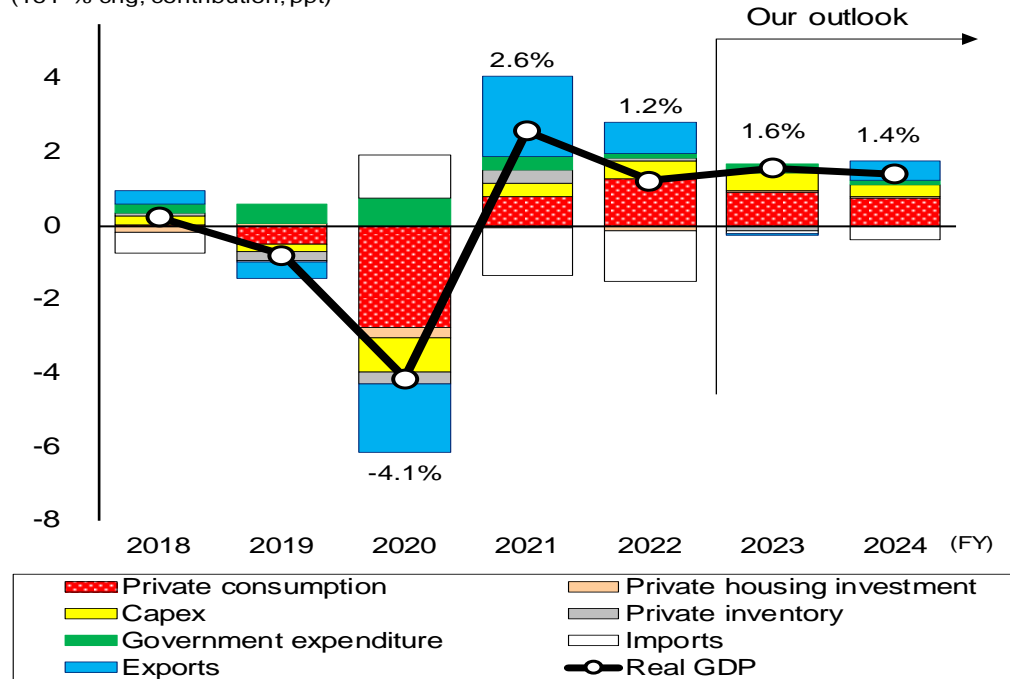
2) Actual figures from Cabinet Office (CAO), Ministry of Internal Affairs and Communications (MIC),

Ministry of Economy, Trade and Industry (METI), and Bank of Japan (BOJ). Estimates are SMBC NIKKO estimates.

Sources: CAO, MIC, METI, BOJ, SMBC NIKKO estimates

Outlook for real GDP growth

(YoY % chg, contribution, ppt)



Sources: CAO, SMBC NIKKO estimates

APPENDIX

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