【NEWS RELEASE】

Feb 19, 2024
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2023-2024

Feb 19, 2023(JST), *"SMBC NIKKO Japan Economic Outlook for FY2023-2024"* has been released, responding to the first preliminary of GDP (October-December 2023 period)

Japanese Economy to Recover as Inflation Subsides

- **Real GDP: FY23 +1.3%, FY24 +1.4%**
- **Nominal GDP: FY23 +5.7%, FY24 +3.1%**

Summary

- **GDP growth outlook**

  We revise our outlook to reflect the first preliminary Oct-Dec 2023 GDP data. We forecast real GDP growth of +1.3% YoY in FY23 and +1.4% in FY24. This is a downward revision of 0.1ppt for both FYs versus our previous outlook (8 Dec) and reflects slightly weaker-than-expected Oct-Dec GDP.

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- **Economic outlook**

Inflation is curbing demand in the Japanese economy and causing a wide gap between nominal GDP (incl inflation) and real GDP (ex inflation).

Nominal GDP growth driven by inflation is positive for share prices, but it is not sustainable. The preferable outcome for the national economy is a well-balanced recovery between real and nominal GDP. Getting inflation to cool down is key, and import prices, which have been the source of inflation, have turned down, so we expect domestic inflation to ease.

A recovery in private consumption and capex, spurred by a slower rise in consumer and capital goods prices should boost real GDP. Inflation is not falling into negative territory, so we expect nominal GDP to continue rising. Growth in nominal GDP should boost corporate earnings and raise employee incomes.

We expect a well-balanced recovery from around 2H 2024, with both real and nominal GDP trending solid. Share prices should also remain buoyant.

- **BOJ monetary policy**

The BOJ continues to take an accommodative stance with the aim of achieving "sustainable and stable 2% inflation accompanied by wage growth". Underlying inflation looks to be around +0.75%, putting the probability of achieving the 2% target at around 37.5%. Prospects for inflation to reach 2% are gradually brightening, but it is still a way off.

Assuming the BOJ scraps NIRP when there is a 70% likelihood of reaching the 2% target, we currently put the probability of scrapping NIRP at around 54%.

In qualitative terms, the current uptrend in inflation and wage hikes largely owes to import inflation driven by a surge in resources prices and yen depreciation, and with import prices turning down, the impact on domestic prices and wages will deserve attention. Also, macro wage growth is only around half that of last year's spring wage increases (shunto). This, in our view, reflects companies viewing today's high inflation as only temporary. The story now is whether underlying inflation, which is currently around +0.75%, reaches 2%.

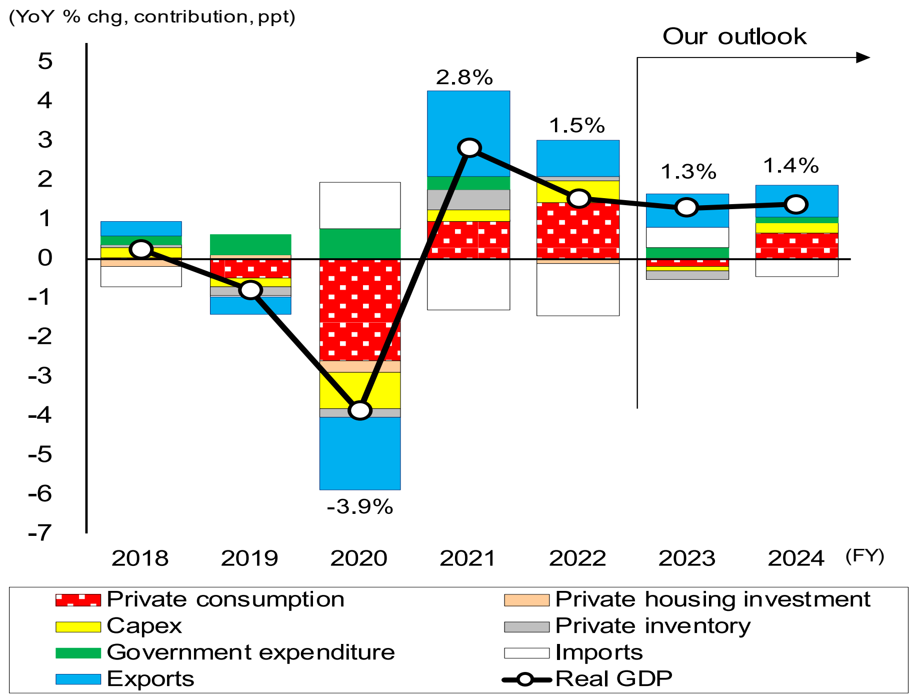
Quarterly forecasts for Japanese economy

《Actual》←┆→《Forecasts》 《A》←┆→《F》 (Unit:%)

	2022				2023				2024				2025				Comparison with previous forecasts (as at 8 Dec 2023)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY22	FY23	FY24	FY23	FY24
Real GDP growth (QoQ)	-0.7	1.1	-0.2	0.4	1.1	1.0	-0.8	-0.1	0.2	0.6	0.7	0.5	0.4					
(annual rate)	-2.7	4.6	-0.8	1.7	4.4	4.0	-3.3	-0.4	0.8	2.5	2.9	1.9	1.7	1.5	1.3	1.4	-0.1	-0.1
(Calender year base)														1.0	1.9	0.9	-0.1	-0.1
Domestic demand, contribution (QoQ)	-0.2	1.0	0.3	0.0	1.4	-0.7	-0.8	-0.3	0.3	0.5	0.6	0.4	0.4	1.9	-0.1	1.0	-0.4	-0.2
Private consumption (QoQ)	-1.1	2.0	0.0	0.2	0.8	-0.7	-0.3	-0.2	0.2	0.4	0.7	0.5	0.4	2.7	-0.4	1.2	-0.4	-0.1
Capex (QoQ)	-1.2	-2.6	0.4	0.7	0.3	1.8	-0.6	-1.0	-0.5	0.2	0.5	0.5	0.5	-3.4	1.3	-0.1	-0.9	-1.5
Residential investment (QoQ)	-0.1	2.1	1.7	-0.5	1.6	-1.4	-0.6	-0.1	0.2	0.5	1.0	0.8	0.5	3.4	-0.6	1.7	-0.3	0.1
Public investment (QoQ)	-4.5	-2.1	1.1	0.0	2.0	2.2	-1.0	-0.7	0.7	0.5	1.0	0.7	0.7	-6.1	3.0	1.3	-0.4	-1.1
Foreign demand, contribution (QoQ)	-0.5	0.1	-0.5	0.4	-0.4	1.7	0.0	0.2	-0.1	0.1	0.1	0.1	0.1	-0.4	1.4	0.4	0.3	0.2
Exports (QoQ)	1.6	2.2	2.1	1.4	-3.5	3.8	0.9	2.6	0.2	0.8	1.0	1.0	0.8	4.7	4.5	4.0	1.5	1.0
Imports (QoQ)	4.3	1.4	4.8	-0.8	-1.6	-3.6	1.0	1.7	0.0	0.4	0.4	0.6	0.6	6.9	-2.5	2.3	0.2	0.5
Nominal GDP growth (QoQ)	0.0	0.8	-0.5	1.9	2.3	2.5	-0.1	0.3	1.0	0.8	1.0	0.7	1.1	1.3	5.7	3.1	0.2	0.8
Industrial production (YoY)	-0.8	-3.4	3.7	0.7	-2.0	0.9	-3.4	-0.7	2.1	1.8	4.1	4.1	4.1	-0.3	-0.3	3.5	0.0	0.0
Trade balance (Y tn, SAAR)	-11.5	-21.4	-26.5	-24.2	-16.3	-9.6	-6.6	-5.3	-0.8	1.9	4.8	7.6	10.1	-22.1	-5.6	6.1	-0.5	2.2
Unemployment rate (%)	2.7	2.6	2.6	2.5	2.6	2.6	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.6	2.5	2.4	-0.1	0.0
Core CPI (YoY)	0.6	2.1	2.7	3.8	3.5	3.2	3.0	2.5	2.0	1.8	1.7	1.6	1.7	3.0	2.7	1.7	-0.1	-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)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	1.0	0.5	1.0	1.0	0.0	0.0
US real GDP growth (QoQ annualized)	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.3	2.8	2.0	1.8	1.6	1.4	1.9	2.5	2.7	0.1	1.0
US unemployment rate (%)	3.8	3.7	3.6	3.6	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.2	3.7	3.7	4.1	0.0	0.1
US core CPI (YoY)	6.3	6.0	6.3	6.0	5.6	5.2	4.4	4.0	3.7	3.4	3.1	2.8	2.5	6.2	4.8	3.3	0.0	0.0
Fed rate (Eop)	0.375	1.625	3.125	4.375	4.875	5.125	5.375	5.375	5.375	5.375	5.125	4.625	4.125	4.375	5.375	4.625	0.00	-0.25

Assumptions:
Forex rate (annual mean): Y144/$ in FY23 and Y144/$ in FY24; Crude oil price (WTI annual mean): $75/bbl in FY23 and $69/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



Sources: CAO, SMBC NIKKO estimates

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