【NEWS RELEASE】

May 21, 2025
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2025-2026

May 21, 2025(JST), *"SMBC NIKKO Japan Economic Outlook for FY2025-2026"* has been released, responding to the first preliminary of GDP (January-March 2025 period)

Economy to Rebound as Income Distortions Normalize

- **Real GDP: +0.7% in FY25, +1.0% in FY26**
- **Nominal GDP: +2.4% in FY25, +2.3% in FY26**

Summary

- **GDP growth outlook**

  We revise our outlook to reflect the first preliminary Jan-Mar 2025 data. We now forecast real GDP growth of +0.7% YoY in FY25, down 0.6ppt from our previous forecast (11 Mar), and +1.0% in FY26. This reflects weakness in private consumption and the impact of US tariffs on exports.

- **Outlook for the economy**

  Japan's real GDP shrank 0.7% QoQ annualized in Jan-Mar 2025, mainly due to a sharp rise in imports ahead of US tariffs. Domestic demand was also weak though, with real private consumption only +0.0% QoQ. There is a big gap between real and nominal GDP as inflation continues to weigh on the economy.

  The main driver of inflation is companies continuing to hike selling prices even as the rise in import costs tails off. Corporate earnings and government tax revenues are at all-time highs, whereas household real wages continue to decline due to rising prices. In other words, the distribution of income between companies/government on the one side and households on the other has become distorted.

  However, we expect inflation in Japan to gradually subside as global commodity prices fall and the yen strengthens vs the dollar. This will allow companies to maintain profit growth via higher margins without hiking prices, and households should see growth in real wages as price hikes tail off. We expect a well-balanced recovery in the Japanese economy as distortions in income distribution get ironed out.

- **BOJ monetary policy**

  We expect the BOJ to take a wait-and-see stance on monetary policy for now.

  There are five reasons for this: 1) the BOJ needs to see how US tariffs impact the economy and prices; 2) inflation is likely to fall below 2% from early autumn and remain below that level through FY26; 3) corporate inflation expectations for three years out are low at +0.7%; 4) the BOJ may want to wait for current "bad" inflation from excessive cost pass-through to pass before moving again; and 5) the environment is not conducive to real wage growth (virtuous wage-price cycle) with labor productivity growth at virtually zero.

  At the same time though, the BOJ is strongly committed to normalizing monetary policy at an early juncture, so we think it could move to hike rates further if the results of next March's spring labor negotiations are strong.

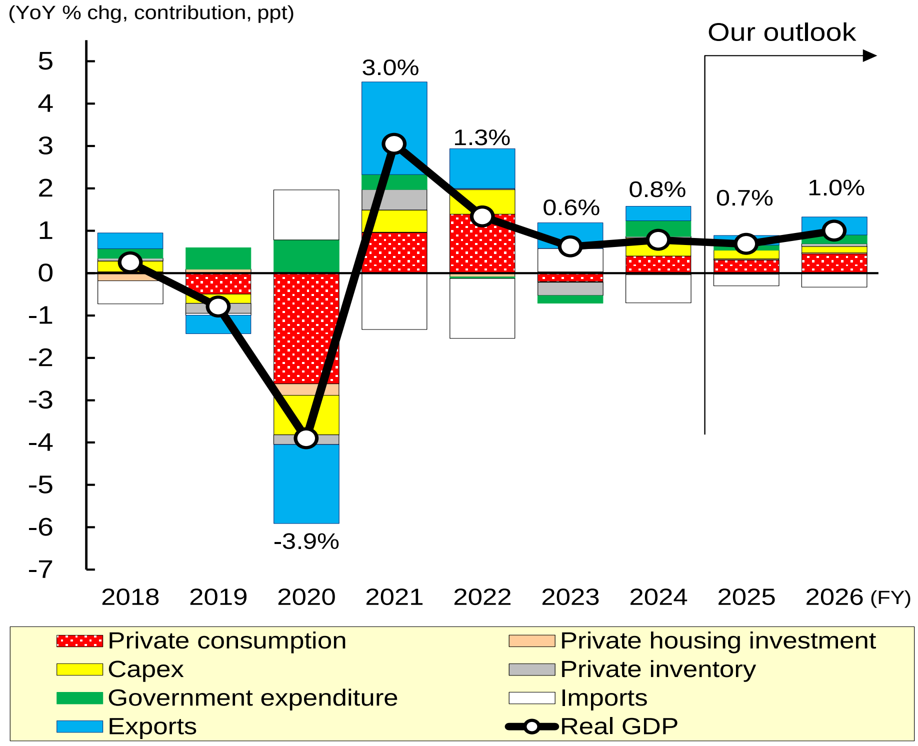
Quarterly forecasts for Japan's economy

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

	2024 1Q	2024 2Q	2024 3Q	2024 4Q	2025 1Q	2025 2Q	2025 3Q	2025 4Q	2026 1Q	2026 2Q	2026 3Q	2026 4Q	2027 1Q	FY24	FY25	FY26	Comparison with previous forecasts (as at 11 Mar 2025) FY25
Real GDP growth (QoQ)	-0.4	0.9	0.2	0.6	-0.2	0.1	0.1	0.3	0.4	0.3	0.2	0.2	0.2				
(annual rate)	-1.6	3.8	1.0	2.4	-0.7	0.4	0.6	1.1	1.5	1.0	0.7	0.7	0.7	0.8	0.7	1.0	-0.6
(Calender year base)														0.2	0.9	1.0	-0.7
Domestic demand, contribution (QoQ)	-0.5	1.2	0.5	-0.1	0.7	-0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	1.1	0.7	0.9	-0.3
Private consumption (QoQ)	-0.6	0.8	0.7	0.1	0.0	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.8	0.6	0.9	-0.4
Capex (QoQ)	-3.2	1.2	0.7	-0.2	1.2	-0.5	0.3	0.0	0.2	0.2	0.2	0.3	0.3	-1.0	0.8	0.8	-0.3
Residential investment (QoQ)	-1.1	1.4	0.1	0.8	1.4	-0.4	0.1	0.2	0.2	0.3	0.2	0.2	0.2	2.6	1.2	0.9	0.0
Public investment (QoQ)	-2.2	5.7	-1.1	-0.7	-0.4	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.4	-0.6	0.7	-0.6
Foreign demand, contribution (QoQ)	0.1	-0.3	-0.3	0.7	-0.8	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.1	-0.3
Exports (QoQ)	-3.6	1.5	1.2	1.7	-0.6	-0.3	0.3	0.7	0.5	0.5	0.5	0.5	0.5	1.7	1.1	2.1	-1.9
Imports (QoQ)	0.9	-0.6	-0.5	0.3	-0.7	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	3.4	1.4	1.6	-0.3
Nominal GDP growth (QoQ)	0.0	2.4	0.5	1.2	0.8	0.7	-0.1	0.3	1.1	0.9	0.2	0.2	1.0	3.7	2.4	2.3	-0.2
Industrial production (YoY)	-4.3	-3.5	-1.8	-2.5	2.5	0.9	1.6	2.0	2.0	2.0	2.0	2.0	2.0	-1.4	2.1	1.5	0.6
Trade balance (Y tn, SAAR)	-5.0	-6.0	-5.7	-5.7	-7.2	-10.0	-4.2	-2.5	-1.0	0.5	1.2	0.3	-0.5	-6.2	-4.4	0.4	-4.3
Unemployment rate (%)	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.2	2.5	2.4	2.3	0.0
Core CPI (YoY)	2.5	2.5	2.7	2.6	3.1	2.9	2.3	1.8	1.5	1.4	1.4	1.4	1.3	2.7	2.1	1.4	0.3
IOER (Eop)	0.1	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.8	0.8	1.0	1.0	1.0	0.5	0.8	1.0	0.0
Yen/Doller rate (JPY/USD)	148	156	149	152	153	145	143	142	140	139	137	136	134	153	142	136	-2.6
US real GDP growth (QoQ annualized)	1.6	3.0	3.1	2.4	-0.3	1.8	1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.8	1.6	1.9	-0.8
US unemployment rate (%)	3.8	4.0	4.2	4.2	4.1	4.2	4.2	4.3	4.2	4.2	4.1	4.1	4.1	4.1	4.2	4.2	0.1
US core CPI (YoY)	3.8	3.4	3.2	3.3	3.1	3.0	2.8	2.6	2.5	2.5	2.5	2.5	2.5	3.4	2.9	2.5	0.0
Fed rate (Eop)	5.375	5.375	4.875	4.375	4.375	4.375	4.125	3.875	3.625	3.375	3.125	3.125	3.125	4.375	3.875	3.125	0.00

Notes: 1) US GDP on a calendar year basis, US unemployment rate is the average for the period, FF rate is at the end of the period.
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 from SMBC NIKKO.
Sources: CAO, MIC, METI, BOJ, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: CAO, SMBC NIKKO estimates

This translation is based on the press release in Japanese announced on May 21, 2025. The content of the translation may not be coincident with the original.

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