【NEWS RELEASE】

August 20, 2025
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2025-2026

August 20, 2025(JST), *"SMBC NIKKO Japan Economic Outlook for FY2025-2026"* has been released, responding to the first preliminary of GDP (April-June 2025 period)

Economy to Rebound as Income Distortion Normalizes

- **Real GDP : +0.8% in FY25, +1.0% in FY26**
- **Core CPI : +2.8% in FY25, +1.4% in FY26**

Summary

- **GDP growth outlook**

We revise our outlook to reflect the first preliminary Apr-Jun 2025 data. We now forecast real GDP annualized growth of +0.8% YoY in FY25 and +1.0% in FY26. Compared to our previous outlook (9 June), we raise our FY25 forecast by 0.2ppt and lower our FY26 forecast by 0.1ppt. We lift FY25 to reflect rush exports during the 90-day pause on reciprocal US tariffs, while for FY26 we trim our export/import and capex numbers.

This translation is based on the press release in Japanese announced on August 20, 2025. The content of the translation may not be coincident with the original.

- **Outlook for the economy**

  Japan's real GDP growth for Apr-Jun 2025 (preliminary) was +1.0% QoQ annualized, mainly reflecting rush exports during the 90-day pause on reciprocal US tariffs. Real private consumption was only +0.2% QoQ, weak for a third straight quarter.

  Japan's economy is unlikely to recede because of the tariffs though, so we expect growth to remain in positive territory in FY25. That said, inflation is curbing demand and keeping a considerable gap between real and nominal GDP, so the key point will be whether inflation subsides or not.

  The main driver of inflation is companies continuing to hike selling prices despite the rise in import costs tailing off. Corporate earnings are at record highs, so government tax revenues are too. By contrast, real wages continue to fall due to the rising prices, distorting the income distribution between companies/government and households.

  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**

  At his post-MPM press conference in July, BOJ Governor Kazuo Ueda said one major factor for additional rate hikes would be whether the positive wage-price cycle gains traction and maintains that momentum.

  The positive cycle has yet to materialize given that real wages are falling, but we expect that decline to ease as the rise in food prices slows. We expect real wage growth to approach 0% next spring, and would expect the BOJ to hike rates again around March 2026 if the results of the spring labor negotiations were favorable.

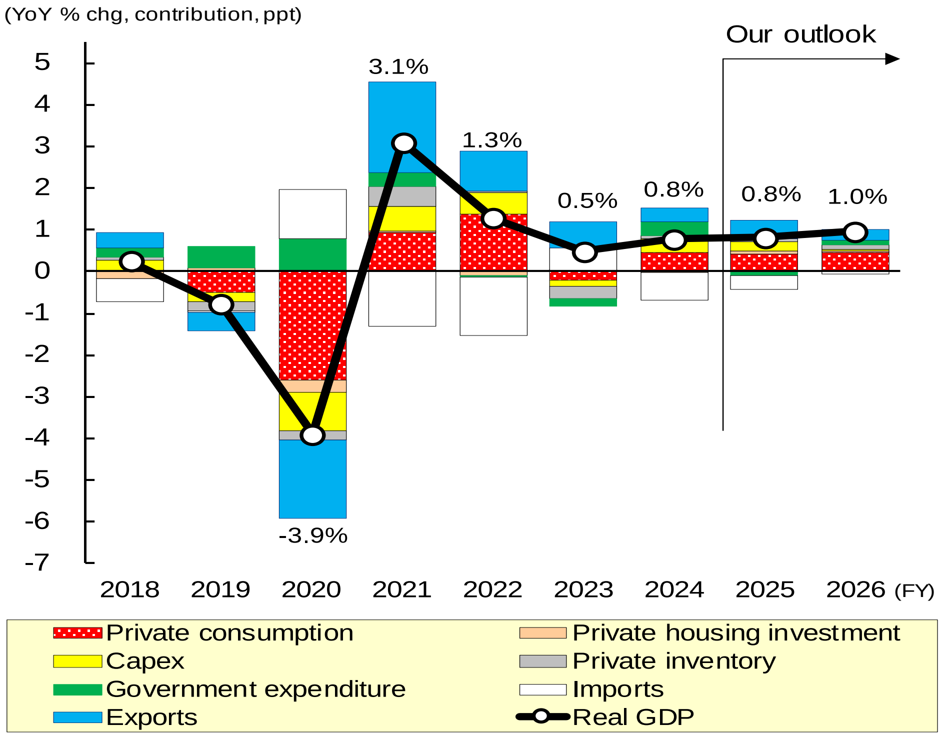
Quarterly forecasts for Japan's economy

《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 9 June 2025) FY25	FY26
Real GDP growth (QoQ)	-0.3	0.7	0.3	0.6	0.1	0.3	0.0	0.1	0.1	0.3	0.3	0.4	0.3					
(annual rate)	-1.1	3.0	1.1	2.4	0.6	1.0	0.0	0.5	0.5	1.1	1.4	1.8	1.2	0.8	0.8	1.0	0.2	-0.1
(Calender year base)														0.1	1.1	0.8	0.2	-0.1
Domestic demand, contribution (QoQ)	-0.4	1.2	0.5	-0.2	0.9	-0.1	0.2	0.0	0.1	0.2	0.3	0.4	0.2	1.1	0.7	0.7	0.2	-0.2
Private consumption (QoQ)	-0.7	0.9	0.7	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.3	0.3	0.8	0.8	0.8	0.2	-0.2
Capex (QoQ)	-3.0	1.5	0.8	-0.1	1.4	0.8	0.4	0.4	0.4	0.4	0.4	0.5	0.5	-0.4	2.6	1.7	1.3	0.9
Residential investment (QoQ)	-0.8	1.2	0.1	0.5	1.0	1.3	-1.3	0.0	0.1	0.2	0.2	0.2	0.2	2.0	1.3	0.2	0.6	-1.1
Public investment (QoQ)	-1.1	2.5	0.1	-0.8	0.1	-0.5	-0.7	-0.2	0.0	0.1	0.2	0.2	0.2	0.8	-1.3	0.1	-0.6	-0.6
Foreign demand, contribution (QoQ)	0.1	-0.5	-0.2	0.8	-0.8	0.3	-0.2	0.1	0.0	0.1	0.1	0.1	0.1	-0.3	0.1	0.2	0.0	0.1
Exports (QoQ)	-3.5	1.1	1.3	1.9	-0.3	2.0	-1.5	0.4	0.0	0.6	0.6	0.6	0.6	1.7	2.1	1.3	0.9	-0.9
Imports (QoQ)	0.9	-0.7	-0.5	0.4	-0.7	-0.2	-0.2	0.0	0.0	0.0	0.1	0.1	0.1	3.4	1.6	0.2	0.8	-1.4
Nominal GDP growth (QoQ)	0.0	2.2	0.7	1.3	1.0	1.3	0.5	0.9	0.6	0.6	0.4	0.5	0.4	3.7	3.8	2.3	1.5	-0.1
Industrial production (YoY)	-4.3	-3.5	-1.8	-2.5	2.5	0.1	0.0	-0.1	0.3	0.8	0.8	0.8	0.8	-1.4	0.1	0.8	-2.0	-0.7
Trade balance (Y tn, SAAR)	-5.3	-7.2	-6.3	-2.7	-6.7	-0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-5.7	0.6	1.0	4.4	-0.2
Unemployment rate (%)	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.5	2.5	2.3	0.0	0.0
Core CPI (YoY)	2.5	2.5	2.7	2.6	3.1	3.5	2.9	2.6	2.3	1.5	1.6	1.4	1.3	2.7	2.8	1.4	0.6	0.0
IOER (Eop)	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.50	0.50	0.75	-0.3	-0.2
Yen/Doller rate (JPY/USD)	148	156	149	152	153	145	147	146	144	143	141	140	138	153	145	140	3.1	4.2
US real GDP growth (QoQ annualized)	1.6	3.0	3.1	2.4	-0.5	3.0	1.0	1.2	1.5	2.0	2.1	2.2	2.0	2.8	1.6	1.7	-0.1	-0.3
US unemployment rate (%)	3.8	4.0	4.2	4.2	4.1	4.2	4.3	4.4	4.5	4.5	4.4	4.3	4.3	4.1	4.3	4.4	0.1	0.2
US core CPI (YoY)	3.8	3.4	3.2	3.3	3.1	2.8	2.8	2.6	2.5	2.4	2.4	2.3	2.2	3.4	2.8	2.4	-0.1	-0.1
Fed rate (Eop)	5.375	5.375	4.875	4.375	4.375	4.375	4.375	3.875	3.875	3.625	3.375	3.375	3.125	4.375	3.875	3.375	0.00	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

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