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【NEWS RELEASE】

Aug 20, 2026
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2026-2027

Aug 20, 2026(JST), *"SMBC NIKKO Japan Economic Outlook for FY2026-2027"* has been released, responding to the first preliminary of GDP (April-Jun 2026 period)

Domestic Economy to Pick Up on Slower Inflation, Growth Strategy

- **Real GDP: +0.8% in FY26, +1.1% in FY27**
- **Nominal GDP: +2.8% in FY26, +3.0% in FY27**

Summary

- **GDP growth outlook**

We revise our outlook to reflect the first preliminary Apr-Jun 2026 GDP data. We now forecast real GDP growth of +0.8% YoY in FY26 and +1.1% in FY27. We raise our FY26 forecast by 0.1ppt relative to our previous outlook (8 Jun) to reflect the positive impact of lower crude oil imports.

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- **Current state of economy and outlook**

  Japan's real GDP growth for Apr-Jun 2026 (preliminary) was +1.1% QoQ annualized, well below the Bloomberg consensus for +2%.

  While the economy grew for a third straight quarter, the underlying picture was underwhelming, with lower imports due to the Middle East crisis doing much of the lifting. There is no evidence that the crisis is hitting external demand, but private consumption and capex fell QoQ due to high inflation driven by rising crude oil prices and yen depreciation.

  We forecast that real GDP growth stays positive in Jul-Sep, despite a drag from net exports as oil imports increase, thanks to a recovery in capex and growth in private-sector inventories.

  Over the medium term, consumption, capex, and exports should get a lift from 1) ongoing large wage hikes and the consumption tax cut, 2) slowing inflation, 3) public-private investment spurred by the Takaichi administration, and 4) strong AI-related demand.

- **BOJ to hike faster**

  The Summary of Opinions from the July MPM (released 10 Aug) suggests that most policy board members were optimistic about the economy, concerned about upside risks to prices, and open to hiking the policy rate.

  There will be no turnover in policy board members until next July, meaning the policy board should have a majority of members who appear open to rate hikes for the next eight meetings. Of note, the BOJ estimates the neutral rate of interest at +1.1-2.5%, and the midpoint of that range is 1.8%.

  Taking into account these factors, we forecast three hikes (Sep 2026, Jan 2027, Jun 2027) assuming no major changes in the trajectory of the Japanese economy as a result of the hikes. This would take the policy rate up to 1.75%, at which point we expect the BOJ to stop hiking.

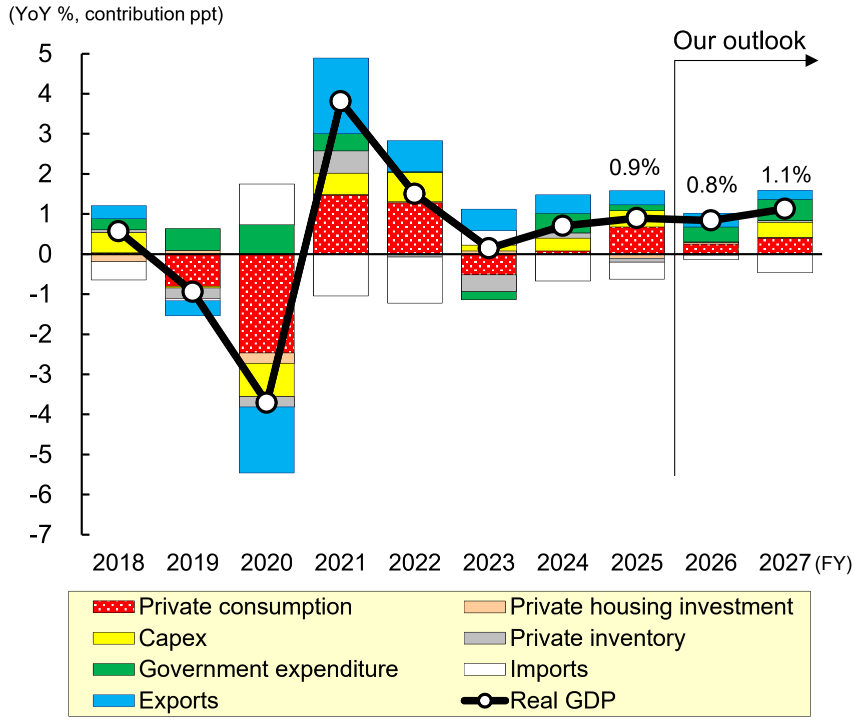
Quarterly forecasts for Japan's economy

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

	2025 1Q	2025 2Q	2025 3Q	2025 4Q	2026 1Q	2026 2Q	2026 3Q	2026 4Q	2027 1Q	2027 2Q	2027 3Q	2027 4Q	2028 1Q	FY25	FY26	FY27	Comparison with previous forecasts (as at 8 June 2026) FY25	FY26
Real GDP growth (QoQ)	0.5	0.2	-0.4	0.2	0.5	0.3	0.1	0.1	0.2	0.4	0.4	0.3	0.3					
(annual rate)	2.1	0.7	-1.8	1.0	1.9	1.1	0.6	0.5	0.6	1.6	1.5	1.3	1.3	0.9	0.8	1.1	0.1	0.0
(Calendar year base)														1.2	0.8	0.9	0.2	0.0
Domestic demand, contribution (QoQ)	1.2	0.2	-0.3	0.2	0.2	-0.2	0.7	0.3	0.2	0.4	0.4	0.3	0.4	1.0	0.6	1.4	-0.3	0.1
Private consumption (QoQ)	0.6	0.1	0.5	0.1	0.5	0.0	0.0	0.0	0.0	0.4	0.3	0.2	0.3	1.3	0.5	0.8	-0.1	0.0
Capex (QoQ)	-0.5	0.5	-8.0	5.0	0.9	-0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	-2.6	0.9	0.5	-0.2	-0.3
Residential investment (QoQ)	1.1	1.4	-0.3	1.3	-1.0	-1.2	1.0	0.6	0.4	0.2	0.7	0.6	0.6	2.3	-0.1	2.1	-1.3	0.0
Public investment (QoQ)	-0.7	0.7	-1.1	-0.4	1.5	-0.1	-0.1	0.0	0.0	0.1	0.1	0.2	0.2	-0.3	0.8	0.8	-0.4	0.0
Foreign demand, contribution (QoQ)	-0.6	0.0	-0.2	0.1	0.3	0.5	-0.5	-0.2	-0.1	0.0	0.0	0.0	0.0	-0.1	0.2	-0.2	0.3	0.0
Exports (QoQ)	-0.7	1.6	-1.4	0.1	1.7	0.5	0.2	0.2	0.4	0.4	0.3	0.3	0.2	2.0	1.9	1.2	0.7	0.2
Imports (QoQ)	2.0	1.8	-0.6	-0.1	0.3	-1.5	1.9	1.2	0.8	0.4	0.4	0.4	0.4	2.5	0.6	2.7	-1.3	0.8
Nominal GDP growth (QoQ)	0.9	1.8	0.3	0.9	0.7	1.2	0.3	0.3	0.8	1.2	2.0	-1.9	1.3	4.3	2.8	3.0	-0.1	0.1
Industrial production (YoY)	2.8	0.1	-1.2	-1.3	-0.9	-0.3	0.9	1.0	0.9	1.3	1.5	1.5	1.5	-0.8	0.6	1.5	0.0	0.2
Trade balance (Y tn, SAAR)	-3.8	-4.2	-2.5	-0.5	0.5	-3.7	-2.4	-3.0	-3.1	-2.7	-2.3	-2.5	-2.8	-1.7	-3.0	-2.6	-0.8	-1.1
Unemployment rate (%)	2.5	2.5	2.5	2.6	2.7	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.6	2.5	2.4	0.0	0.0
Core CPI (YoY)	3.1	3.5	2.9	2.8	1.8	1.5	1.7	1.7	2.7	1.1	1.3	0.9	0.6	2.8	2.0	1.0	0.0	0.0
IOER (Eop)	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.25	1.50	1.75	1.75	1.75	1.75	0.75	1.50	1.75	0.3	0.3
Yen/Dollar rate (JPY/USD)	153	145	147	154	157	159	155	154	152	151	150	149	148	151	155	150	2.0	5.0
US real GDP growth (QoQ annualized)	-0.6	3.8	4.4	0.5	2.1	1.5	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	-0.1	-0.1
US unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4.2	4.3	4.3	4.3	0.0	0.0
US core CPI (YoY)	3.1	2.8	3.1	2.6	2.5	2.7	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.9	2.5	2.5	0.0	0.0
Fed rate (Eop)	4.375	4.375	4.125	3.625	3.625	3.625	3.625	3.625	3.375	3.375	3.125	3.125	3.125	3.625	3.625	3.125	0.25	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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