【NEWS RELEASE】

Nov 19, 2026
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2026-2027

Nov 19, 2026(JST), *"SMBC NIKKO Japan Economic Outlook for FY2026-2027"* has been released, responding to the first preliminary of GDP (Jul-Sep 2026 period)

Corporate Sector Brisk; Consumption Rebound Needs Inflation to Slow

- **Real GDP: +0.8% in FY26, +1.0% in FY27**
- **Nominal GDP: +3.0% in FY26, +3.3% in FY27**

Summary

- **GDP growth outlook**

  We revise our economic outlook to reflect the first preliminary Jul-Sep 2026 GDP data. We now forecast real GDP growth of +0.8% YoY in FY26 and +1.0% in FY27. We raise our inflation outlook and revise down our FY27 forecast by 0.1ppt from our previous outlook (8 Sep) to reflect a more gradual recovery in consumption as higher prices weigh on spending.

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- **Current state of economy and outlook**

  Real GDP (first preliminary estimate) fell 0.1% QoQ annualized in Jul-Sep 2026, missing the Bloomberg consensus for +0.2% and falling for the first time in a year.

  Higher imports on progress in finding alternative sources for crude oil and lower consumption on unfavorable weather and a drop-off in durable goods weighed on growth. Conversely, private-sector capex increased, while the absence in Jul-Sep of the government oil-reserve releases that occurred in Apr-Jun also made a positive contribution in terms of a swing in public inventories.

  Consumption remains anemic even excluding one-off drags. Households are jittery about inflation, and growth in real employee compensation is not translating into a loosening of the purse strings. We expect consumption to recover if the consumption tax cut scheduled for FY27 shows a clear sign of helping to bring inflation down.

  Elsewhere, the corporate sector is robust thanks to the AI boom. Exports of semiconductor-related products have considerable room to run, and corporate capex appetites are hearty. Exports and capex should drive the economy going forward.

- **Accelerating inflation and BOJ rate hike trajectory**

  At its October MPM, the BOJ said that underlying inflation is roughly in line with its price stability target of 2%. At the same time, it stated in its Outlook Report that financial conditions remained accommodative, suggesting that the rate-hiking cycle is likely to continue for the time being.

  We expect the policy rate to reach 2% with three upcoming rate hikes (Dec 2026, Mar 2027, and Jul 2027) given the outlook for inflation to accelerate and the squeeze that inflation is putting on consumption in the real economy.

  Since the start of the year, the market-implied US-Japan policy rate differential has moved somewhat in tandem with the Y/$ rate. We see potential for the yen to firm up to the low Y150/$ range as expectations for rate hikes in Japan rise and as the excessive expectations for US rate hikes recede.

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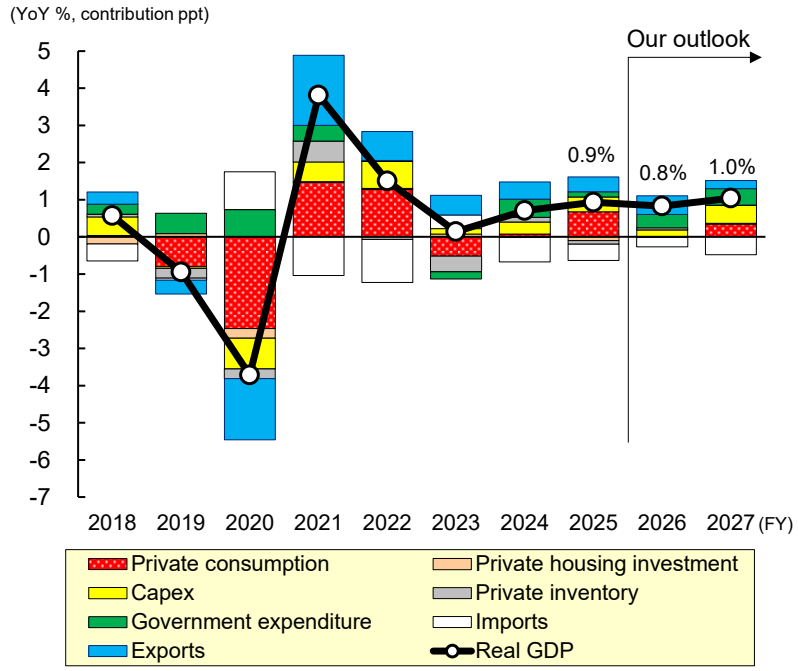
Quarterly forecasts for Japan's economy

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

	2025				2026				2027				2028	FY25	FY26	FY27	Comparison with previous forecasts (as at 20 August 2026)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q				FY25	FY26
Real GDP growth (QoQ)	0.5	0.2	-0.4	0.3	0.5	0.4	0.0	0.0	0.1	0.4	0.4	0.3	0.3					
(annual rate)	2.1	0.8	-1.5	1.1	1.9	1.7	-0.1	0.1	0.4	1.6	1.6	1.2	1.4	0.9	0.8	1.0	0.0	-0.1
(Calendar year base)														1.2	0.9	0.8	0.1	-0.1
Domestic demand, contribution (QoQ)	1.1	0.2	-0.3	0.3	0.1	-0.2	0.6	0.3	0.2	0.4	0.4	0.3	0.3	0.9	0.6	1.3	0.0	-0.1
Private consumption (QoQ)	0.6	0.1	0.7	0.0	0.4	-0.3	-0.3	0.0	0.1	0.4	0.3	0.1	0.2	1.3	0.0	0.7	-0.5	-0.1
Capex (QoQ)	-0.4	0.5	-8.0	5.2	0.7	-0.6	-1.1	0.4	0.3	0.1	0.2	0.2	0.2	-2.6	-0.2	0.5	-1.0	0.0
Residential investment (QoQ)	1.2	1.5	-0.9	1.7	-1.1	-0.4	1.6	0.6	0.2	0.6	0.8	0.9	0.6	2.2	1.0	2.7	1.2	0.7
Public investment (QoQ)	-0.9	0.8	-0.9	-0.5	1.3	-0.6	-1.1	0.0	0.0	0.1	0.1	0.2	0.2	-0.3	-0.8	0.5	-1.1	-0.3
Foreign demand, contribution (QoQ)	-0.6	0.0	-0.1	0.0	0.3	0.6	-0.6	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.2	-0.3	0.0	-0.1
Exports (QoQ)	-0.6	1.9	-1.6	0.4	1.8	1.6	-0.2	0.1	0.2	0.3	0.4	0.4	0.5	2.2	2.8	1.2	1.0	0.0
Imports (QoQ)	2.2	1.7	-1.2	0.5	0.3	-1.3	2.5	1.0	0.8	0.4	0.4	0.4	0.4	2.6	1.5	2.8	0.9	0.0
Nominal GDP growth (QoQ)	0.9	1.8	0.2	1.1	0.7	1.4	0.4	-0.2	0.9	2.0	1.2	-1.2	1.1	4.3	3.0	3.3	0.1	0.4
Industrial production (YoY)	2.8	0.1	-1.2	-1.3	1.2	1.9	3.2	3.2	1.0	1.3	1.5	1.5	1.5	-0.3	2.3	1.4	1.7	-0.1
Trade balance (Y tn, SAAR)	-4.0	-4.3	-2.9	-0.9	0.4	-3.8	-8.7	-4.0	-4.4	-3.9	-3.4	-3.3	-3.2	-1.9	-5.2	-3.4	-1.9	-0.5
Unemployment rate (%)	2.5	2.5	2.5	2.6	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.6	2.4	2.4	0.0	0.1
Core CPI (YoY)	3.1	3.5	2.9	2.8	1.7	1.5	1.9	2.3	2.6	1.6	1.6	1.2	1.3	2.7	2.1	1.5	0.1	0.5
IOER (Eop)	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.50	1.75	1.75	2.00	2.00	2.00	0.75	1.75	2.00	0.3	0.3
Yen/Dollar rate (JPY/USD)	153	145	147	154	157	159	159	157	155	153	151	149	147	151	158	151	3.0	1.0
US real GDP growth (QoQ annualized)	0.1	4.0	3.9	0.2	2.5	2.2	3.4	2.1	2.2	2.2	2.2	2.2	2.2	2.3	2.4	2.3	0.3	0.2
US unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.1	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	3.875	4.125	4.125	4.125	4.125	4.125	4.125	3.625	4.125	4.125	0.50	1.00

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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