

【NEWS RELEASE】

November 19, 2020
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2020-2021

November 19, 2020(JST), “SMBC NIKKO Japan Economic Outlook for FY2020-2021” has been released, responding to the first preliminary of GDP (July-September 2020 period)

Low Severity, Vaccines, Growth Strategy to Sustain Recovery

- ◆ Real GDP: FY20 -5.3%, FY21 +3.6%
- ◆ Nominal GDP: FY20 -5.0%, FY21 +3.5%

Summary**• GDP growth outlook**

We revise our outlook to reflect the first preliminary Jul-Sep 2020 GDP data. We forecast real GDP growth of -5.3% YoY in FY20 and +3.6% in FY21, up 0.9ppt for FY20 and down 1.2ppt for FY21 from our previous estimates (as of 8 Sep). We raise our FY20 forecast after Japan's Jul-Sep GDP beat our forecast substantially, and cut our FY21 forecast as the recovery has emerged faster than we previously expected.

• **Economic outlook**

Most Covid-19 cases in Japan remain low in severity, and this has helped consumer behavior normalize and the economy to reopen. Release of pent-up demand, rollout of vaccines, and the Suga administration's growth strategies could further add to momentum up ahead. Below we outline our short, medium, and long-term outlooks.

Short term: Most Covid-19 cases in Japan are low in severity, so the risk of a collapse in the healthcare system is low and the government is pushing ahead with economic reopening. The sharp rebound in Jul-Sep GDP owed largely to this economic reopening. As of 16 Nov there were only 272 severe cases of Covid-19 in Japan, and just 7.8% of beds for patients with severe cases were occupied. We expect the government to push on with economic reopening while keeping an eye on the risk to the healthcare system and to the elderly, who are more at risk of dying from Covid-19.

Medium term: Release of pent-up demand and vaccine rollout could add to momentum into next year. The pandemic has prevented many replacement purchases of durable goods, and the release of this pent-up demand could push demand up to pre-Covid levels.

We also expect vaccine rollout to start in 2H 2021. Vaccines in development by Pfizer and Moderna have produced favorable results in clinical trials (and Japan's government has already contracted with them to supply vaccines), and we expect the start of vaccine rollout in Japan will tamp down case count. Improved consumer sentiment should enable further reopening, adding to economic momentum.

Long term: Government growth strategies will be key over the long term. The "digital revolution" and "energy revolution" announced by PM Suga represent more sweeping and transformational growth strategies than Abenomics. Improved productivity would enable the rapid transportation of large volumes of people, goods, and money at low cost, and the digital revolution can achieve this by leveraging data. One could even say this has the potential to be a new kind of industrial revolution. Higher productivity boosts investment returns, which in turn stimulates investment. By inducing investment, which is the root of economic growth, the digital and energy revolutions will directly realize economic growth.

In summary, we expect Japan's economy will emerge from the worst of the pandemic thanks to the low severity of cases and the start of vaccine rollout, with the release of pent-up demand and Suga administration growth strategies boosting medium and long-term growth potential. Risks include the emergence of a mutated, more virulent form of the virus and the re-imposition of economic lockdowns.

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Quarterly forecasts for Japanese economy

	2019				2020				2021				2022	FY19 FY20 FY21 (Unit:%)			Comparison with previous forecasts (as at 8 Sep 2020)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY19	FY20	FY21	FY20	FY21
Real GDP growth (QoQ)	0.7	0.4	0.0	-1.8	-0.6	-8.2	5.0	1.0	0.8	0.4	0.4	0.8	0.8					
(annual rate)	2.9	1.6	0.2	-7.1	-2.3	-28.8	21.4	3.9	3.4	1.7	1.5	3.2	3.3	0.0	-5.3	3.6	0.9	-1.2
Domestic demand, contribution (QoQ)	0.2	0.7	0.3	-2.3	-0.3	-4.9	2.1	1.1	0.5	0.6	0.6	0.8	0.8	0.2	-4.1	3.7	1.0	-1.1
Private consumption (QoQ)	0.1	0.5	0.4	-2.9	-0.7	-8.1	4.7	2.2	0.8	0.8	0.8	1.0	1.0	-0.5	-5.4	5.1	1.2	-0.4
Capex (QoQ)	1.4	-0.2	1.3	-2.3	-4.0	-0.5	-7.9	-1.0	0.0	0.3	0.4	1.0	1.0	0.6	-10.5	-1.3	-4.3	-2.3
Residential investment (QoQ)	-0.5	0.8	0.2	-4.8	1.7	-4.5	-3.4	-1.0	0.7	0.5	1.0	1.2	1.5	-0.3	-8.2	1.4	0.4	0.7
Public investment (QoQ)	2.5	1.5	0.8	0.7	-0.3	1.2	0.4	0.6	0.8	0.6	0.2	0.1	-0.2	3.3	2.6	2.0	0.5	0.1
Foreign demand, contribution (QoQ)	0.5	-0.3	-0.2	0.5	-0.2	-3.3	2.9	-0.1	0.3	-0.2	-0.2	0.0	0.0	-0.2	-1.3	-0.1	-0.2	-0.2
Exports (QoQ)	-1.7	0.1	-0.6	0.4	-5.3	-17.4	7.0	5.0	4.0	3.0	3.0	3.0	3.0	-2.6	-13.4	15.4	0.1	1.7
Imports (QoQ)	-4.5	1.8	0.7	-2.4	-4.1	2.2	-9.8	5.5	2.0	4.0	4.0	3.0	3.0	-1.5	-6.3	11.2	1.2	7.2
Nominal GDP growth (QoQ)	1.2	0.5	0.4	-1.5	-0.4	-7.8	5.2	-0.1	0.7	0.6	0.5	0.9	1.0	0.8	-5.0	3.5	1.2	-1.6
Industrial production (QoQ)	-2.1	0.0	-1.1	-3.7	0.4	-16.9	8.8	3.0	1.0	0.5	0.5	2.0	2.0	-3.6	-11.5	8.1	7.5	-3.5
Trade balance (Y tn, SAAR)	-2.4	-0.5	-1.4	2.7	1.4	-10.4	3.2	0.2	0.1	-2.7	-5.7	-8.0	-9.2	0.6	-1.7	-6.4	-0.4	-6.1
Unemployment rate (%)	2.5	2.4	2.3	2.3	2.4	2.8	3.0	2.8	2.8	2.6	2.5	2.4	2.4	2.4	2.8	2.5	0.1	0.1
Core CPI (YoY)	0.8	0.8	0.5	0.6	0.6	0.1	-0.2	-0.7	-0.8	-0.6	-0.2	0.1	0.3	0.6	-0.4	-0.1	-0.1	0.0
(Ex effects of consumption tax hike)	0.8	0.8	0.5	-0.4	-0.4	-0.9	-1.2	-0.7	-0.8	-0.6	-0.2	0.1	0.3	0.4	-0.9	-0.1	-0.1	0.0
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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US real GDP growth (QoQ annualized)	2.9	1.5	2.6	2.4	-5.0	-31.4	33.1	6.0	5.0	4.2	3.6	3.2	2.0	2.2	-3.4	5.0	1.3	1.3
US unemployment rate (%)	3.9	3.6	3.6	3.5	3.8	13.0	8.8	6.8	6.5	6.2	5.9	5.6	5.3	3.6	8.8	5.8	-1.3	-1.0
US core CPI (YoY)	2.1	2.1	2.3	2.3	2.2	1.3	1.7	1.7	1.6	1.6	1.7	1.7	1.7	2.2	1.6	1.7	0.1	0.2
Fed rate (Eop)	2.375	2.375	1.875	1.625	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.00	0.00

Assumptions: Forex rate (annual mean): Y107.4/\$ in FY20 and Y110.0/\$ in FY21

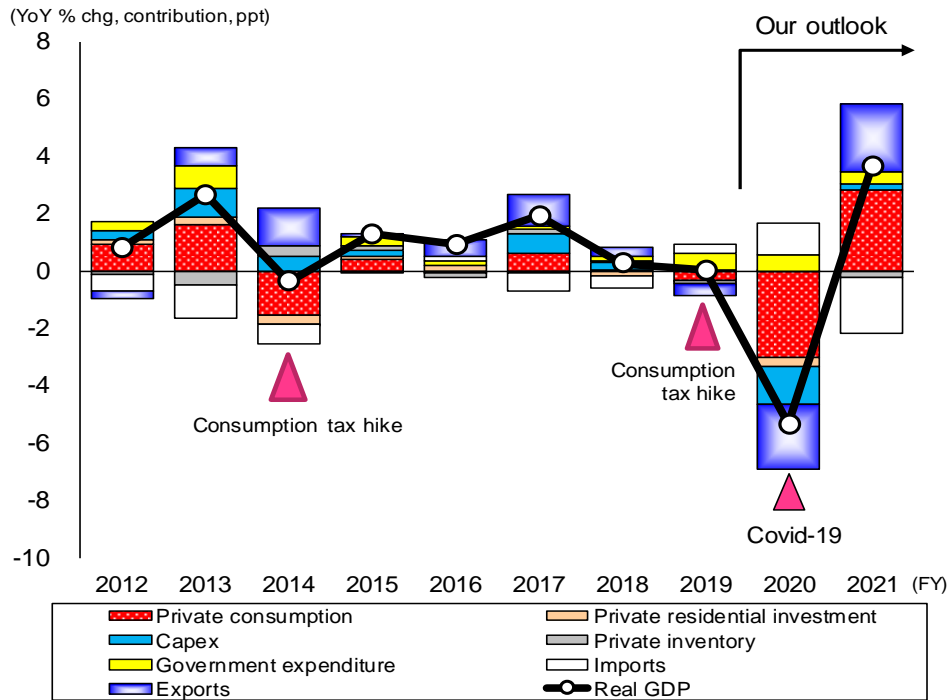
Crude oil price (WTI annual mean): \$41.4/bbl in FY20 and \$50.6/bbl in FY21

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). Forecasts by SMBC NIKKO.

Sources: CAO, MIC, METI, BOJ, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: CAO, SMBC NIKKO estimates

APPENDIX

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