

## 【NEWS RELEASE】

December 8, 2020  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2020-2021(Update)**

December 8, 2020(JST), “SMBC NIKKO Japan Economic Outlook for FY2020-2021” has been released, responding to the second preliminary of GDP (July-September 2020 period)

**Fewer New Cases, Vaccines, Growth Strategy to Sustain Recovery**

- ◆ Real GDP: FY20 -5.3%, FY21 +3.6%
- ◆ Nominal GDP: FY20 -4.4%, FY21 +5.3%

Summary• **GDP growth outlook**

We revise our outlook to reflect the second preliminary Jul-Sep 2020 GDP data. We forecast real GDP growth of -5.3% YoY in FY20 and +3.6% in FY21. Our forecasts are unchanged from our previous outlook (as of 19 Nov).

## • **Economic outlook**

While the number of Covid-19 cases in Japan is rising and clouding visibility, we expect new case numbers to peak out from the start of 2021, helping to normalize consumer behavior and reopen the economy. We also expect release of pent-up demand that has accumulated amid the pandemic, vaccine rollout, and the Suga administration's growth strategies to contribute to growth. Below, we outline our short-, medium-, and long-term outlooks.

**Short term:** New Covid-19 cases are rising at present, likely because 1) December is typically the peak for economic activity in the year, necessarily meaning more-frequent interpersonal contact, and 2) partitioning and ventilation measures at bars/restaurants are inadequate. However, there is generally a seasonal dip in economic activity from January, with February typically marking the trough in each year. We expect the number of new cases to naturally decline as interpersonal contact becomes less frequent, and we believe the government will continue with efforts to reopen the economy.

**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 and energy reforms announced by PM Suga represent more sweeping and transformational growth strategies than Abenomics. Increased productivity moves large quantities of people, things, and money at low cost, but digital reform achieves that by delivering them instantaneously in the form of information. This could be the most influential reform since the 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 should translate directly into economic expansion.

In summary, we expect Japan's economy will emerge from the worst of the pandemic as new cases slow and vaccines are rolled out. The release of pent-up demand and Suga administration growth strategies should boost 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	《(A)》→《(F)》 (Unit:%)			Comparison with previous forecasts (as at 19 Nov 2020)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY19	FY20	FY21	FY20	FY21
Real GDP growth (QoQ)	0.6	0.1	0.2	-1.9	-0.5	-8.3	5.3	0.8	0.9	0.4	0.4	0.7	0.7					
(annual rate)	2.3	0.3	0.7	-7.2	-2.1	-29.2	22.9	3.1	3.5	1.7	1.5	2.8	2.9	-0.3	-5.3	3.6	0.0	0.0
Domestic demand, contribution (QoQ)	0.1	0.4	0.4	-2.5	-0.2	-5.2	2.6	0.9	0.6	0.6	0.6	0.8	0.9	-0.1	-4.0	3.7	0.1	0.0
Private consumption (QoQ)	-0.1	0.4	0.5	-3.1	-0.6	-8.3	5.1	2.2	0.8	0.8	0.8	1.0	1.0	-0.9	-5.4	5.2	0.0	0.1
Capex (QoQ)	2.7	1.6	0.0	-1.8	-3.7	0.5	-5.8	-1.0	0.0	0.3	0.4	1.0	1.0	2.5	-7.9	-0.7	2.6	0.6
Residential investment (QoQ)	-0.7	0.2	1.0	-4.6	1.4	-5.7	-2.4	-1.0	0.7	0.5	1.0	1.2	1.5	-0.6	-8.6	1.6	-0.4	0.2
Public investment (QoQ)	2.2	-0.7	1.2	1.2	0.0	1.9	0.5	0.6	0.8	0.6	0.2	0.1	-0.2	1.5	3.9	2.0	1.3	0.0
Foreign demand, contribution (QoQ)	0.4	-0.3	-0.3	0.6	-0.4	-3.1	2.7	-0.1	0.3	-0.2	-0.2	-0.1	-0.1	-0.2	-1.3	-0.2	0.0	-0.1
Exports (QoQ)	-1.6	-0.1	-0.5	0.2	-5.3	-17.1	7.0	5.0	4.0	3.0	3.0	3.0	3.0	-2.6	-13.3	15.4	0.1	0.0
Imports (QoQ)	-3.9	1.7	1.0	-3.1	-3.1	1.4	-8.8	5.5	2.0	4.0	4.0	3.5	3.5	-1.2	-5.9	12.0	0.4	0.8
Nominal GDP growth (QoQ)	1.2	0.5	0.4	-1.5	-0.4	-7.8	5.2	3.5	0.8	0.6	0.5	0.9	0.9	0.5	-4.4	5.3	0.6	1.8
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	0.0	0.0
Trade balance (Y tn, SAAR)	-2.4	-0.5	-1.5	2.7	1.4	-10.4	3.2	3.9	3.9	1.0	-2.2	-5.0	-6.9	0.5	0.2	-3.3	1.9	3.1
Unemployment rate (%)	2.5	2.4	2.3	2.3	2.4	2.8	3.0	3.1	3.0	2.9	2.8	2.7	2.7	2.4	3.0	2.8	0.2	0.3
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	0.0	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	0.0	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	4.0	3.6	3.2	3.2	3.0	2.0	2.2	-3.5	4.0	-0.1	-1.0
US unemployment rate (%)	3.9	3.6	3.6	3.5	3.8	13.0	8.8	6.7	6.7	6.4	6.1	5.7	5.4	3.6	8.8	5.9	0.0	0.1
US core CPI (YoY)	2.1	2.1	2.3	2.3	2.2	1.3	1.7	1.6	1.6	1.6	1.7	1.7	1.7	2.2	1.6	1.7	0.0	0.0
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): Y106.6/\$ in FY20 and Y110.0/\$ in FY21

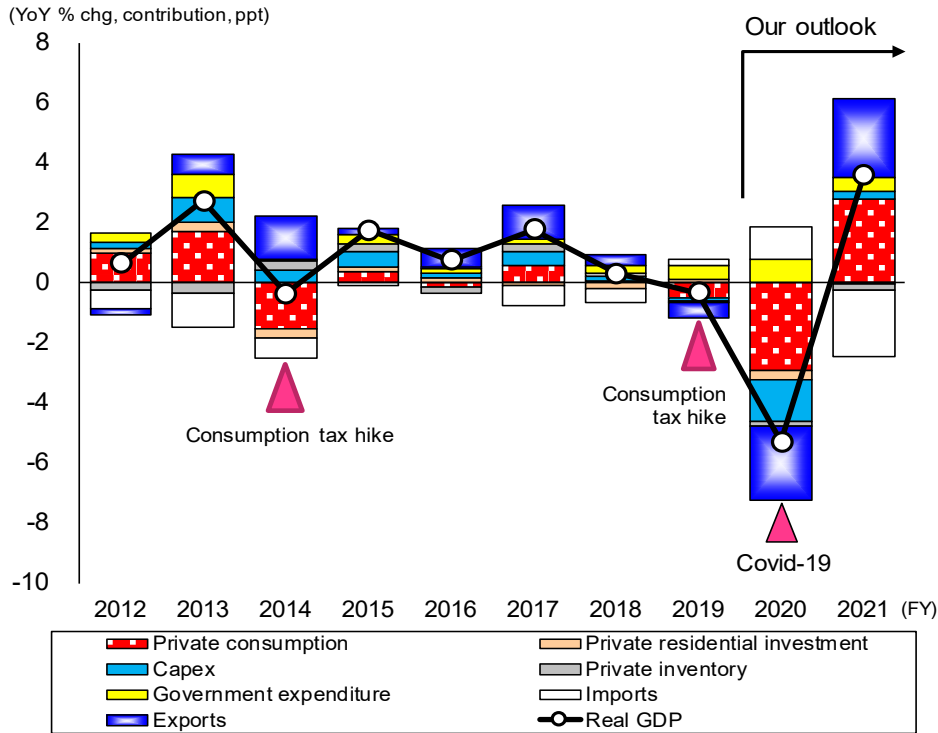
Crude oil price (WTI annual mean): \$41.0/bbl in FY20 and \$50.9/bbl in FY21

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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