

## 【NEWS RELEASE】

May 21, 2021  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2021-2022**

May 21, 2021(JST), “SMBC NIKKO Japan Economic Outlook for FY2021-2022” has been released, responding to the first preliminary of GDP (January-March 2021 period)

**Vaccine Progress Getting Japan’s Economy Back on Track**

- ◆ Real GDP: FY21 +3.0%, FY22 +2.6%
- ◆ Nominal GDP: FY21 +3.6%, FY22 +3.3%

**Summary****• GDP growth rate outlook**

We revise our outlook to reflect the first preliminary Jan-Mar 2021 GDP data. We forecast real GDP growth of +3.0% YoY in FY21 and +2.6% in FY22, down 0.7ppt for FY21 and up 1.0ppt for FY22 from our previous estimates (10 Mar). We expect Japan’s third state of emergency declaration to weaken private-sector consumption and now see the economic recovery coming at a later point and thus lower our outlook for FY21.

## • **Economic outlook**

Jan-Mar real GDP declined 5.1% QoQ annualized, as the third wave of Covid-19 forced a second lockdown. We think GDP will continue to slump in Apr-Jun as the spread of the fourth wave has resulted in a third state of emergency and subsequent lockdowns.

The fourth wave is being driven mainly by the UK variant of the virus, though we note that in countries where vaccinations have made good progress there has been a clear decline in the number of cases. Israel has now vaccinated an impressive 62.8% of its population, and the number of new positive cases is practically zero. In contrast, Japan's vaccination rate stands at only 3.9%, with the country unable to prevent the spread of the UK variant.

The reason why Japan's vaccination rate is so low is insufficient supply from pharmaceutical companies, though Japan's supply is expected to increase considerably from mid-May. If nationwide distribution of the vaccines goes as planned, then Japan should be able to carry out roughly 37.2mn vaccinations per month from June. The problem is whether local municipalities have the capacity to administer the vaccinations, though we estimate that vaccination capacity over a one-month period could be as high as 100mn based on plans for local vaccination centers, the number of participating doctors and nurses, and the number of shots that can be given. Vaccination capacity surpasses vaccine delivery volume, so we doubt there will be a major delay in rolling out vaccinations.

Getting Japan's elderly population vaccinated is critical. Younger people who contract Covid-19 often show no symptoms or only mild ones, but the virus can easily incapacitate seniors. In fact, the elderly account for 96% of Covid-related deaths in Japan. The government aims to have all of Japan's elderly population vaccinated by end-July, but that schedule could be delayed given the difficulties at the start of a large-scale vaccination program. We assume that vaccination of the elderly will be completed sometime between mid-August and mid-September after taking the following factors into consideration: current vaccine distribution plans and vaccination "infrastructure" and manpower at local municipalities, the government's target for completion, and current distribution plans and delays with vaccines.

The threat of the pandemic will diminish considerably once the elderly have been vaccinated, allowing the economy to normalize. We anticipate a clear economic recovery for Japan from around early autumn.

## • **Risks**

The main risk is inflation spurring higher interest rates. Commodity prices are surging, but this alone is unlikely to lift general prices higher. Demand for durable goods during the pandemic has soared, pushing commodity prices higher. However, this demand should wind down as major economies get the pandemic under control, with commodity prices likely to peak.

After returning to normal, however, the world's leading economies could start to overheat if excess savings fueled by massive stimulus programs prompt people to go out and spend. The Fed's economic outlook has US real GDP exceeding potential GDP in Oct-Dec 2021 with the economy shifting to excess demand. It projects the inflation gap will reach 3.5% at end-2022. Other concerns of the Fed seem to be fading as higher unemployment benefits end in September and the semiconductor shortage gets resolved. We may see Fed Chairman Powell give a signal on tapering at the Jackson Hole Symposium at the end of August, and US long-term interest rates could rise again toward end-2021.

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Quarterly forecasts for Japanese economy

	2020				2021				2022				2023	FY20	FY21	FY22	Comparison w/ previous forecasts (as at 10 Mar 2021)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q				FY21	FY22
Real GDP growth (QoQ)	-0.5	-8.1	5.3	2.8	-1.3	-0.7	1.9	0.9	0.8	0.7	0.3	0.3	0.3	-4.6	3.0	2.6	-0.7	1.0
(annual rate)	-1.9	-28.6	22.9	11.6	-5.1	-2.6	7.7	3.7	3.2	2.7	1.3	1.2	1.1	-4.0	2.9	2.6	-0.9	1.0
Domestic demand, contribution (QoQ)	-0.2	-5.2	2.6	1.8	-1.1	-1.0	1.8	1.0	0.9	0.8	0.4	0.4	0.4	-6.0	3.1	4.1	-0.6	0.9
Private consumption (QoQ)	-0.8	-8.3	5.1	2.2	-1.4	-1.2	2.7	1.5	1.2	1.0	0.5	0.5	0.5	-7.1	2.3	1.5	0.9	0.0
Capex (QoQ)	-3.7	0.6	-5.7	0.1	1.1	1.0	1.5	1.0	1.0	0.8	0.0	-1.0	-1.5	-6.9	2.8	3.3	-1.4	0.4
Residential investment (QoQ)	1.3	-6.1	-2.1	4.3	-1.4	0.0	2.0	1.0	1.0	0.8	0.5	0.5	0.5	4.0	0.2	-2.7	-1.8	0.0
Public investment (QoQ)	0.6	2.1	0.7	1.1	-1.1	0.6	0.2	-0.2	-1.2	-0.7	-0.7	-0.7	-0.7	-0.6	0.1	0.0	0.2	0.0
Foreign demand, contribution (QoQ)	-0.3	-2.9	2.6	1.0	-0.3	0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-10.4	13.5	2.6	0.4	0.0
Exports (QoQ)	-4.7	-17.5	7.3	11.7	2.3	2.0	2.0	1.0	0.5	0.5	0.5	0.5	0.5	-6.8	5.4	4.4	-1.5	-0.4
Imports (QoQ)	-3.0	-0.7	-8.2	4.8	4.0	0.0	1.5	1.5	1.0	1.0	1.0	1.0	1.0	-4.0	3.6	3.3	-0.4	1.0
Nominal GDP growth (QoQ)	-0.5	-7.8	5.5	2.4	-1.6	0.0	2.0	1.1	0.9	0.8	0.5	0.4	0.4	-9.9	9.4	3.1	1.4	0.0
Industrial production (YoY)	-4.7	-20.7	-12.7	-4.2	-1.3	19.3	10.0	5.1	4.6	4.0	3.5	3.0	2.0	1.2	4.1	2.1	-0.6	-2.2
Trade balance (Y tn, SAAR)	1.3	-9.7	3.3	8.0	3.4	4.2	4.7	4.1	3.6	3.0	2.4	1.8	1.2	2.9	2.8	2.5	0.0	0.0
Unemployment rate (%)	2.4	2.7	3.0	3.0	2.8	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	-0.4	-0.1	0.7	0.0	0.0
Core CPI (YoY)	0.6	0.1	-0.2	-0.9	-0.4	-0.6	-0.2	0.1	0.3	0.5	0.6	0.8	0.9	-0.9	-0.1	0.7	0.0	0.0
(Ex effects of consumption tax hike)	-0.4	-0.9	-1.2	-0.9	-0.4	-0.6	-0.2	0.1	0.3	0.5	0.6	0.8	0.9	0.0	0.0	0.0	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	0.0	0.0	0.0	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	-3.5	6.6	4.3	1.9	0.7
US real GDP growth (QoQ annualized)	-5.0	-31.4	33.4	4.3	6.4	9.4	6.8	4.8	3.7	3.0	2.5	2.5	2.5	8.1	5.8	4.4	-0.3	-0.9
US unemployment rate (%)	3.8	13.0	8.8	6.7	6.2	6.1	5.8	5.2	4.8	4.4	4.2	4.0	3.8	1.7	2.7	2.4	1.2	0.6
US core CPI (YoY)	2.2	1.3	1.7	1.6	1.4	3.0	3.1	3.2	3.2	2.2	2.2	2.0	2.0	0.00	0.125	0.375	0.00	0.00
Fed rate (Eop)	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.375	0.375	0.625					

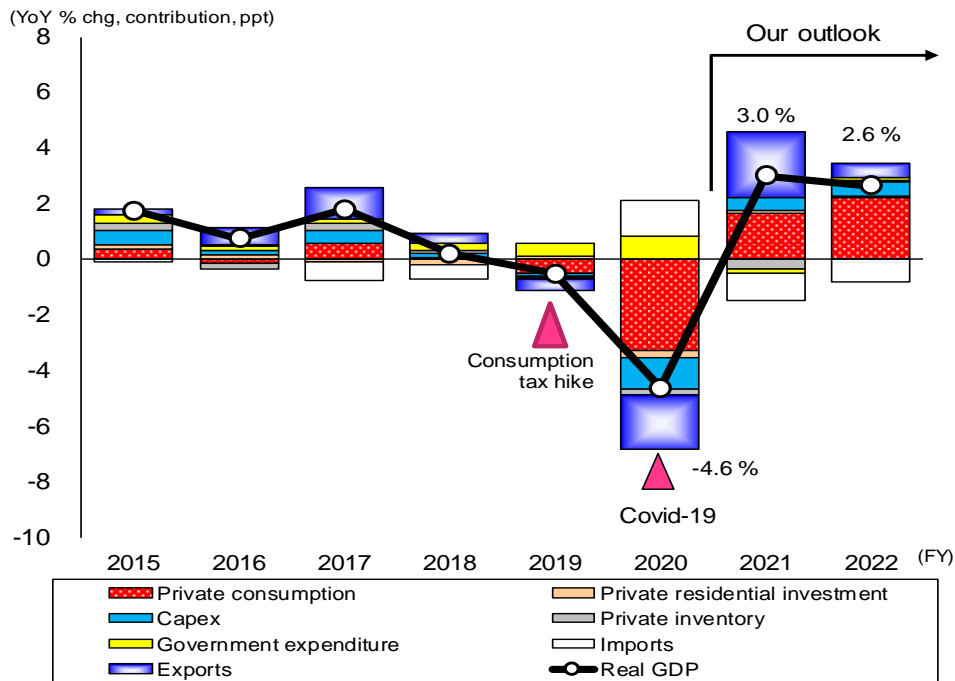
Assumptions: Forex rate (annual mean): Y110.0/\$ in FY21 and Y112.9/\$ in FY22.

Crude oil price (WTI annual mean): \$62.5/bbl in FY21 and \$60.0/bbl in FY22.

Notes: US GDP on a calendar basis, US unemployment rate is the average for the period, FF rate is at end of year.

Sources: Cabinet Office, Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry, and Bank of Japan, SMBC NIKKO estimates

Outlook for real GDP growth



Sources: Cabinet Office, SMBC NIKKO estimates

## APPENDIX

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