

## 【NEWS RELEASE】

November 18, 2021  
SMBC Nikko Securities Inc.

**Quarterly Economic Outlook for FY2021-2022**

November 18, 2021(JST), “SMBC NIKKO Japan Economic Outlook for FY2021-2022” has been released, responding to the first preliminary of GDP (July-September 2021 period)

**See Recovery Fueled by Pandemic and Policy Mix**

- ◆ Real GDP: FY21 +2.3%, FY22 +3.4%
- ◆ Nominal GDP: FY21 +2.2%, FY22 +4.5%

Summary• **GDP growth outlook**

We revise our outlook to reflect first preliminary Jul-Sep 2021 GDP data. We now forecast real GDP growth of +2.3% YoY in FY21 and +3.4% in FY22. Compared to our previous forecast (8 Sep), we cut our outlook for FY21 by 1.0ppt but raise it for FY22 by 0.6ppt. Demand has been pushed back more than expected due to supply constraints, so we now see an economic recovery in FY22.

## • **Economic outlook**

Japan's real GDP growth for Jul-Sep was -3.0% QoQ annualized, well under market forecasts. This mainly reflects a plunge in domestic auto sales and exports caused by parts shortages and falling production in the auto industry. We are not overly concerned as we think the main factor is supply constraints pushing back demand. We expect auto production to return to normal in Oct-Dec.

The number of new CV19 infections has converged at around 200/day. The number of new cases per capita in Japan is around 1/9 that of major European and US countries and mortality around 1/13. This indicates the high natural immunity for Japan, which lowers the R0 (basic reproduction number) and herd immunity threshold (derived from R0). We estimate that Japan's herd immunity threshold is around 60%, which is lower than the 80-90% for the US and Europe. Japan's vaccination rate has also increased to 82.3% (vs population aged 12 and over) as of 11 November, suggesting herd immunity may have been secured.

Consumer sentiment already exceeds pre-CV19 levels. Excess household savings amount to Y41tn, or around Y720,000/household. We see major potential for a recovery in private consumption given the high natural immunity and vaccination rates, and strong consumer sentiment and purchasing power.

For economic stimulus, PM Kishida is considering a package of over Y40tn. We estimate this could generate roughly Y13.0tn in demand (roughly 2.4% of GDP). We expect the Go To Travel campaign, regional digitalization, and public infrastructure investment to have major impact. In addition, the BOJ's monetary policy appears to allow for yen depreciation. This should benefit export sectors, real estate, and insurance.

We expect a full-fledged recovery for the Japanese economy from Oct-Dec as the pandemic is contained and economic policy enacted.

## • **Three risk factors**

We see major risks as i) global commodity inflation, ii) US stagflation, and iii) a bubble collapse in China.

i) Commodity inflation should subside as global industrial production peaks with easing housing demand.

ii) In the US, supply capacity has shrunk around 2% on a decrease in the labor force, so the stage may already be set for stagflation there. If demand (for services) increases ahead, the higher wages as a result could trigger homemade inflation. This could lead to higher interest rates, but we think an economic slowdown is unlikely as long as the long-term rate keeps to around 2.5% or less.

iii) We see little risk of a bubble collapse in China, as 96% of banks are state-owned. We expect the government to take the policy lead in maintaining economic order. That said, real estate financing regulations will likely curb credit creation and, in turn, curb economic growth. Over the medium term, we think China's real GDP could be depressed by around 2.7ppt, slowing growth to around 3.8%.

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Quarterly forecasts for Japanese economy

	2020				2021				2022				2023	《(A)》→《(F)》 (Unit:%)			Comparison with previous forecasts (as at 8 Sep 2021)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	FY20	FY21	FY22	FY21	FY22
Real GDP growth (QoQ)	-0.6	-8.0	5.4	2.8	-1.1	0.4	-0.8	0.5	1.6	1.0	0.9	0.6	0.5					
(annual rate)	-2.3	-28.2	23.5	11.8	-4.1	1.5	-3.0	2.0	6.5	4.2	3.6	2.3	1.9	-4.4	2.3	3.4	-1.0	0.6
Domestic demand, contribution (QoQ)	-0.3	-5.1	2.7	1.8	-0.8	0.7	-0.9	0.3	1.5	0.7	0.8	0.6	0.5	-3.8	2.3	3.4	-1.1	0.6
Private consumption (QoQ)	-0.8	-8.3	5.3	2.2	-1.3	0.9	-1.1	0.4	1.5	1.0	1.0	0.5	0.5	-5.8	2.0	3.2	-1.2	-0.5
Capex (QoQ)	-3.7	0.6	-5.7	0.0	1.1	2.0	-2.6	-1.0	-0.5	1.0	0.5	0.2	0.0	-7.2	-1.3	-0.1	-2.7	-0.8
Residential investment (QoQ)	1.2	-6.0	-2.2	4.3	-1.0	2.2	-3.8	0.5	3.0	1.0	1.0	0.8	0.8	-6.9	1.0	3.9	-2.9	0.0
Public investment (QoQ)	-0.2	2.9	1.3	0.7	-1.4	-2.1	-1.5	0.5	0.3	0.3	-0.7	-0.7	-0.7	4.2	-3.1	-0.5	-1.6	-0.3
Foreign demand, contribution (QoQ)	-0.3	-2.9	2.7	1.0	-0.3	-0.4	0.1	0.0	0.1	0.3	0.1	0.0	0.0	-0.6	0.0	0.0	0.1	0.0
Exports (QoQ)	-4.7	-17.6	7.4	11.7	2.4	3.2	-2.1	0.3	2.0	2.0	1.0	0.5	0.5	-10.4	11.5	4.3	-2.2	1.4
Imports (QoQ)	-3.1	-0.6	-8.2	4.8	4.0	5.3	-2.7	0.5	1.5	0.5	0.5	0.5	0.5	-6.8	7.0	1.9	-2.9	-0.9
Nominal GDP growth (QoQ)	-0.5	-7.6	5.5	2.3	-1.1	-0.2	-0.6	1.7	1.7	1.2	1.0	0.7	0.6	-3.9	2.2	4.5	-1.2	0.8
Industrial production (YoY)	-4.7	-20.7	-12.7	-4.2	-1.5	19.9	5.9	-1.8	-0.7	1.1	7.1	11.4	8.8	-9.9	5.3	7.0	-4.7	3.9
Trade balance (Y tn, SAAR)	1.3	-9.9	2.9	8.5	3.8	-0.3	-4.0	-4.3	-4.0	-2.5	-2.1	-2.2	-2.3	1.3	-3.2	-2.3	-1.6	-0.4
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	2.9	2.8	2.5	0.0	0.0
Core CPI (YoY)	0.6	0.1	-0.2	-0.9	-0.4	-0.2	0.3	1.0	1.2	1.4	1.9	1.6	1.8	-0.4	0.6	1.7	0.1	0.5
(Ex effects of consumption tax hike)	-0.4	-0.9	-1.2	-0.9	-0.4	-0.2	0.3	1.0	1.2	1.4	1.9	1.6	1.8	-0.9	0.6	1.7	0.1	0.5
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)	-5.1	-31.2	33.8	4.5	6.3	9.2	9.2	5.0	4.6	3.9	4.1	3.6	3.1	-3.4	5.5	4.2	-0.7	-0.1
US unemployment rate (%)	3.8	13.0	8.8	6.7	6.2	5.9	5.1	4.6	4.5	4.4	4.3	4.2	4.2	8.1	5.5	4.4	-0.3	-0.5
US core CPI (YoY)	2.2	1.3	1.7	1.6	1.4	3.7	4.1	4.6	3.8	3.4	3.2	3.2	3.2	1.7	3.5	3.4	0.2	0.0
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	0.125	0.125	0.375	0.00	0.00

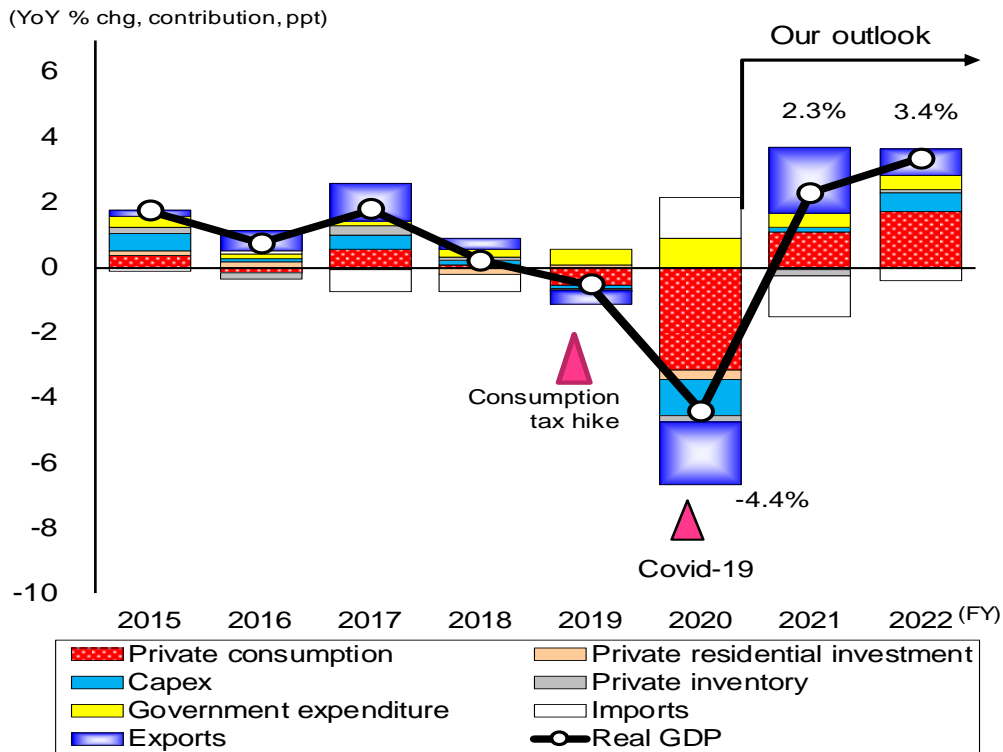
Assumptions: Forex rate (annual mean): Y112/\$ in FY21 and Y118/\$ in FY22.

Crude oil price (WTI annual mean): \$73.7/bbl in FY21 and \$79.4/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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