

【NEWS RELEASE】

February 20, 2025
SMBC Nikko Securities Inc.

Quarterly Economic Outlook for FY2024-2025

February 20, 2025(JST), “SMBC NIKKO Japan Economic Outlook for FY2024-2025” has been released, responding to the first preliminary of GDP (October-December 2024 period)

Economy to Recover as Income Distortions Normalize

- ◆ Real GDP: +0.9% in FY24, +1.3% in FY25
- ◆ Nominal GDP: +3.6% in FY24, +2.5% in FY25

Summary**• GDP growth outlook**

We revise our outlook to reflect the first preliminary Oct-Dec 2024 data. We forecast real GDP growth of +0.9% YoY in FY24 and +1.3% in FY25.

Compared to our previous outlook (9 Dec), we raise our FY24 forecast by 0.3ppt to reflect our lower import and higher export forecasts.

- **Outlook for the economy**

Real GDP growth in Oct-Dec 2024 was strong at +2.8% QoQ annualized. This mainly reflects a major decline in imports. Real private consumption was +0.1% QoQ, capex was +0.5%, and housing investment was +0.1%, indicating weak domestic demand. Nominal and real values have diverged significantly, indicating a continued impact from inflation.

We think the post-CV19 rise in inflation reflects companies excessively passing along higher import prices in domestic prices. Corporate earnings are at record highs thanks to wider margins. On the other hand, real household incomes are falling due to price hikes by companies going too far. This is distorting income distribution.

However, we expect inflation to gradually subside as global commodity prices fall and the yen strengthens vs the dollar. While corporate earnings growth should continue on lower import costs, real wages should rise as inflation slows. We expect a well-balanced recovery in the Japanese economy as distortions in income distribution get ironed out.

- **BOJ monetary policy**

We think current inflation mainly reflects excessive price pass-through amid higher materials prices, unlike the virtuous cycle of wages and prices that the BOJ wants. Opinions are likely divided on whether the BOJ should rush to hike rates again.

That said, import prices are falling as resource prices decline and the yen shores up, so we expect the inflationary spiral to subside. We expect core CPI to fall below 2% from summer.

The virtuous wage-price cycle envisioned by the BOJ has yet to materialize given the declines in the real wages and labor productivity that would underpin this.

Nevertheless, we think the BOJ is strongly committed to normalizing monetary policy at an early juncture, so we see potential for an additional rate hike in March, when inflation is expected to top 2% and the results of the spring labor negotiations are expected to be favorable. After that, however, we see potential for a pause in the rate hike cycle as inflation slows.

Quarterly forecasts for Japan's economy

	(Actual) → (Forecasts)												(A) → (F) (Unit:%)			Comparison with previous forecasts (as at 9 Dec 2024)		
	2023				2024				2025				2026	FY23	FY24	FY25	FY24	FY25
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q					
Real GDP growth (QoQ)	1.3	0.6	-0.9	-0.1	-0.5	0.7	0.4	0.7	0.5	0.1	0.2	0.3	0.3					
(annual rate)	5.2	2.4	-3.6	-0.3	-1.9	3.0	1.7	2.8	1.8	0.5	0.7	1.2	1.2	0.7	0.9	1.3	0.3	0.0
(Calendar year base)														1.5	0.1	1.6	0.2	0.0
Domestic demand, contribution (QoQ)	1.2	-0.9	-1.0	0.0	-0.2	1.1	0.6	-0.1	0.7	0.1	0.1	0.3	0.3	-0.5	1.1	1.0	0.0	-0.3
Private consumption (QoQ)	1.1	-0.7	-0.6	-0.1	-0.5	0.7	0.7	0.1	0.2	0.2	0.2	0.3	0.3	-0.4	0.8	1.0	0.1	-0.4
Capex (QoQ)	0.9	1.6	-0.8	-1.2	-2.8	1.4	0.5	0.1	0.2	0.2	0.3	0.4	0.4	0.8	-1.0	1.1	-0.1	-0.9
Residential investment (QoQ)	1.8	-1.9	-0.3	1.9	-0.4	1.1	-0.1	0.5	0.3	0.2	0.3	0.5	0.5	-0.1	1.9	1.2	-0.1	-0.9
Public investment (QoQ)	3.1	0.1	-2.0	-1.8	-2.0	5.7	-1.1	-0.3	0.1	0.2	0.1	0.1	0.2	-0.3	2.0	0.0	0.4	-1.7
Foreign demand, contribution (QoQ)	0.1	1.5	0.0	-0.1	-0.2	-0.4	-0.2	0.8	-0.2	0.0	0.0	0.0	0.0	1.2	-0.2	0.3	0.2	0.3
Exports (QoQ)	-1.7	2.4	0.7	2.8	-4.1	1.7	1.5	1.1	0.5	0.6	0.7	0.7	0.7	2.9	1.9	3.0	0.4	0.0
Imports (QoQ)	-1.8	-4.1	0.4	3.1	-2.8	3.0	2.0	-2.1	1.0	0.5	0.5	0.8	0.8	-3.3	3.2	1.7	-0.6	-1.4
Nominal GDP growth (QoQ)	2.8	2.0	0.0	0.3	-0.1	2.1	0.7	1.3	0.5	0.5	0.5	0.6	0.6	4.9	3.6	2.5	0.4	-0.1
Industrial production (YoY)	-1.8	0.8	-3.6	-0.9	-4.3	-2.9	-1.8	-2.4	3.4	1.1	2.5	3.0	3.5	-2.0	-1.0	3.1	0.0	0.0
Trade balance (Y tn, SAAR)	-18.3	-8.8	-5.5	-6.1	-5.9	-7.0	-5.2	-2.5	-1.6	-1.0	-0.2	0.1	0.5	-6.6	-4.1	-0.2	1.2	3.6
Unemployment rate (%)	2.6	2.6	2.6	2.5	2.5	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.6	2.5	2.4	0.0	0.0
Core CPI (YoY)	3.5	3.2	3.0	2.5	2.5	2.5	2.7	2.6	2.9	2.5	2.1	1.6	1.3	2.8	2.7	1.9	0.2	0.4
IOER (Eop)	-0.10	-0.10	-0.10	-0.10	0.10	0.25	0.25	0.25	0.75	0.75	0.75	0.75	0.75	0.10	0.75	0.75	0.3	0.0
US real GDP growth (QoQ annualized)	2.8	2.4	4.4	3.2	1.6	3.0	3.1	2.3	2.6	2.3	2.0	2.0	1.9	2.9	2.8	2.4	0.1	0.5
US unemployment rate (%)	3.5	3.6	3.7	3.8	3.8	4.0	4.2	4.2	4.0	4.1	4.1	4.2	4.3	3.7	4.1	4.1	0.0	-0.2
US core CPI (YoY)	5.6	5.2	4.4	4.0	3.8	3.4	3.2	3.3	3.2	3.0	2.8	2.6	2.5	4.8	3.4	2.9	0.0	0.1
Fed rate (Eop)	4.875	5.125	5.375	5.375	5.375	5.375	4.875	4.375	4.375	4.125	4.125	3.875	3.875	5.375	4.375	3.875	-0.25	0.00

Assumptions:

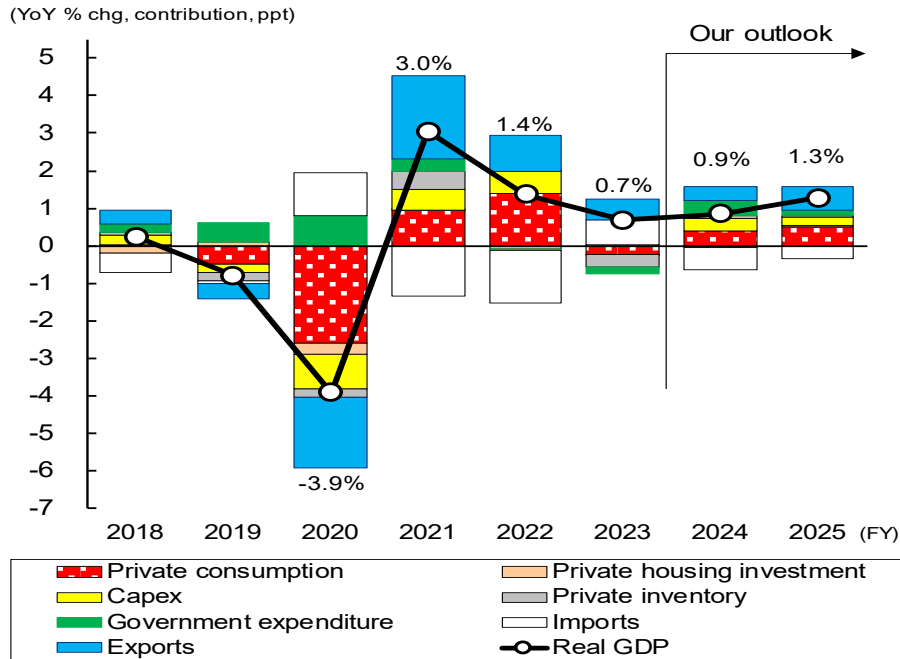
Forex rate (annual mean): Y152/\$ in FY24 and Y146/\$ in FY25. Crude oil price (WTI annual mean): \$71/bbl in FY24 and \$63/bbl in FY25.

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

APPENDIX

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