

FY2022 - FY2023 Economic Outlook

The global economy will slow down, given the surge of commodity prices accompanying Russia's invasion of Ukraine

April 26, 2022

Mizuho Research & Technologies, Ltd.

MIZUHO

The Mizuho logo consists of the word "MIZUHO" in a bold, white, sans-serif font, positioned above a thin, white, curved line that resembles a stylized wave or a bridge.

Key points of our outlook

- We expect that global economic growth will slow down to +2.6% y-o-y in 2022, reflecting the surge in commodity prices accompanying Russia's invasion of Ukraine. However, global economic growth will avoid a serious recession, given prospects that personal consumption will pick up during the normalization phase from the Covid-19 pandemic. In 2023, global economic growth should return to the +3% y-o-y range.
- Commodity prices are soaring due to supply constraints accompanying the invasion of Ukraine. Gas prices are expected to remain high, as Europe gradually reduces its dependence on Russia. The gas supply disruption has a significant impact on both Russia and Europe, inevitably presenting a risk. Oil prices are expected to decline through 2023 as supply concerns ease due to slowing demand from the global economic slowdown and the increase in oil production by other countries.
- The Fed will accelerate the pace of interest rate hikes and begin quantitative tightening (QT), in an effort to control prices. We expect prices to converge in the stability zone by 2023 as a result of monetary tightening. Even if the Fed pursues prompt interest rate hikes, it is unlikely that the US economy will fall into recession even if it slows down, given that real interest rates are negative (i.e., accommodative) under high inflation and that the strong demand in the labor market and the steady growth in income will also support the economy.
- The yen is expected to weaken against the dollar along with the rise of US interest rates, the deterioration of Japan's current account balance, and a yen selloff by speculators. However, from the second half of 2022, the yen will avoid excessive depreciation given confirmation of the peak-out of US prices and pause in deterioration of the current account balance due to the fall of crude oil prices. Although a weak yen is inherently positive for the Japanese economy, the slowdown in overseas economies and the downturn in inbound demand due to Covid-19 have made it difficult to reap the benefits of a weak yen. Particularly in the first half of 2022, the economic environment is raising people's awareness of the disadvantages caused by income outflows (suggesting "bad yen depreciation") due to rising commodity prices in addition to the weaker yen.

Base Scenario: outlook on the global economy

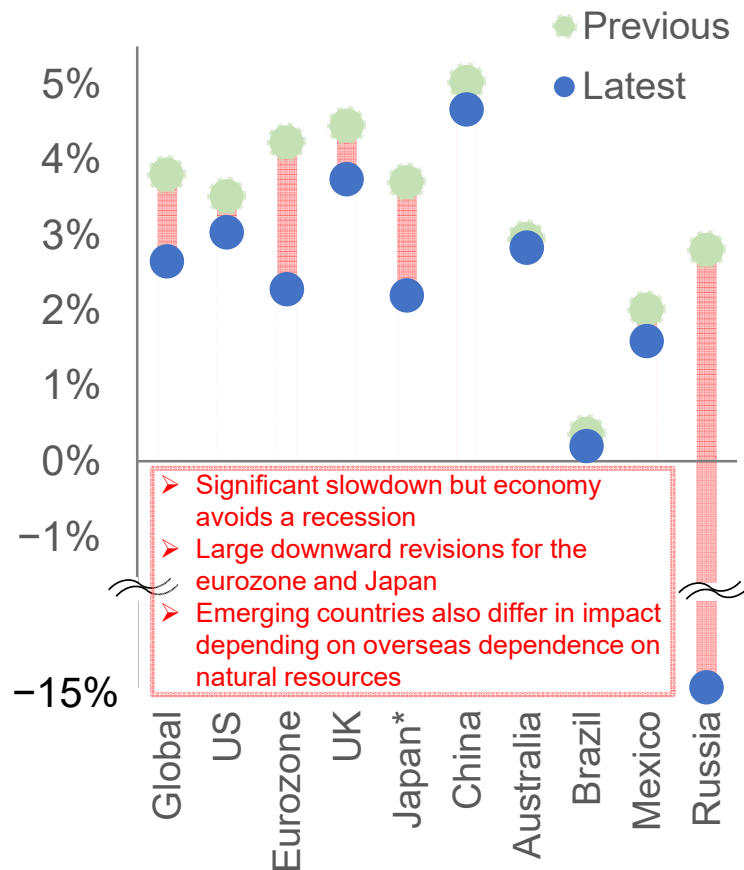
	(Y-o-y % change)				(% pt)		
	2020 CY	2021	2022 (Outlook)	2023	2022 (Comparison with the forecast in February)	2023	
Global real GDP growth	-3.1	5.8	2.6	3.3	-1.2	-	Highly impacted by income outflow due to rise of commodity prices
Japan, US, Europe	-5.0	5.2	2.6	2.4	-1.2	0.1	
US	-3.4	5.7	3.0	2.4	-0.5	0.1	Supported by recovery from the Covid-19 pandemic Subsidies, etc., offsetting the impact of the rise of commodity prices
Eurozone	-6.4	5.2	2.3	2.5	-1.9	-0.1	
UK	-9.4	7.5	3.7	1.7	-0.7	0.1	
Japan	-4.5	1.6	1.5	2.1	-1.4	-	Headwinds from global economic slowdown, but backed by current account improvement due to the rise of commodity prices
Asia	-0.9	7.1	5.1	5.0	-0.3	-	
China	2.2	8.1	4.7	5.2	-0.3	-	Although downward revisions will be made across the board, the extent of the revisions will vary by country/region.
NIEs	-0.7	5.4	2.6	2.7	-0.6	0.2	
ASEAN5	-3.6	3.3	5.2	4.9	-0.3	0.1	
India	-6.6	8.3	7.4	5.9	-0.2	0.1	
Australia	-2.2	4.7	2.8	2.6	-0.1	-	
Brazil	-3.9	4.6	0.2	2.2	-0.2	0.2	
Mexico	-8.2	4.8	1.6	2.3	-0.4	-	
Russia	-2.7	4.7	-13.3	-1.7	-16.1	-3.8	
Japan (FY)	-4.5	2.2	2.2	1.6	-1.5	0.4	

Note: Figures in the shaded areas are forecasts. The total for forecasted regions is calculated based on GDP share (PPP) by the IMF.
Source: Made by MHRT based upon releases by the IMF and the statistics of relevant countries and regions

Outlook on the global economy: downward revisions made to reflect the rise of commodity prices due to the situation in Ukraine and other factors

- We have revised our outlook on the global economic growth rate downward by 1.2% pt to 2.6% for 2022.
 - Despite the large downward revision, the economy will avoid a serious recession, as personal consumption is expected to pick up during the normalization phase after the Covid-19 pandemic.
 - In addition to the eurozone, which is the epicenter of the crisis the downward revision is large for Japan, which lacks in natural resources. Emerging countries are also affected in varying degrees, depending on their level of overseas dependence on natural resources.

Outlook on the global economy and points of revision



	2022 revision of growth rate	Discussion point of revision on outlook	(Reference) 2023 growth rate
Global	3.8% =>2.6%	Growth slowed significantly due to the situation in Ukraine. However, the situation will not lead to global recession, as the economy is in the phase of normalization from the Covid-19 pandemic.	3.3%
US	3.5% =>3.0%	Although the impact of Ukraine will be limited, growth will slow due to the fall of real purchasing power and higher interest rates due to the acceleration of inflation. The impact will remain in 2023.	2.4%
Eurozone	4.2% =>2.3%	The rise of gas and oil prices will serve as a drag on consumption. The transformation of the energy structure in a bid to end its energy dependence on Russia will also weigh on the economy.	2.5%
Japan (Fiscal year*)	3.7% =>2.2%	While the impact of high commodity prices and the slowdown of the European economy will be a downside factor, the economy will be supported by recovery from the Covid-19 pandemic mainly with higher consumption of services toward individuals.	1.6%
China	5.0% =>4.7%	Although the impact of the situation in Ukraine is limited, the resurgence of Covid-19 infections will put downward pressure on the economy. Even with the government's effort to support the economy with tax cuts and other fiscal policies, the growth rate will remain in the upper-4% range.	5.2%
Australia	2.9% =>2.8%	Although the rise of prices will put downward pressure on personal consumption, the current account surplus is expected to increase significantly driven by high commodity prices, offsetting the negative impact.	2.6%
Russia	2.8% =>-13.3%	Although the ruble will regain stability under strict control on capital, significant negative growth is inevitable due to restrictions on imports and business from/with Russia by the US and European countries.	-1.7%

* For Japan, growth rates in the fiscal year are shown.
 Source: Made by MHRT based upon releases by the IMF and the statistics of relevant countries and regions

Assessment of the impact of the Russian invasion of Ukraine and its repercussions as being key points of our recent outlook

- The most important key point in the revised outlook is (1) the situation in Ukraine and its impact. The direction of commodity prices is key.
 - The rise of commodity prices is directly linked to global inflation. Other key points include the (2) US inflation and monetary policy, including its spillover effect, and the (3) future course of the yen's depreciation against the dollar and its impact on the Japanese economy.

Top risks for the global economy in 2022 and three key points that need attention



Note: Top risks presented in the February 2022 outlook (with certain modification)
Source: Made by MHRT

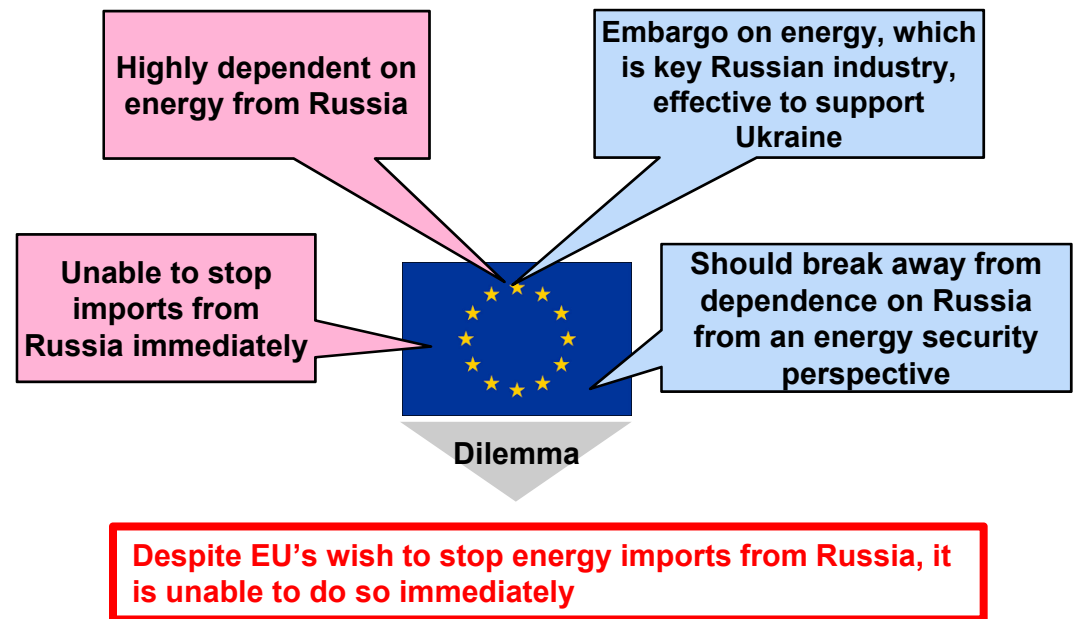
Key point (1): EU faces a dilemma over energy with Russia's invasion of Ukraine

- From an economic perspective, Russia is a resource-rich country and is not a manufacturing or financial powerhouse (its economy is not large). ⇒ Impact through commodities should be noted.
- While Western countries have imposed economic sanctions on Russia, the EU is more cautious than the US and UK, which decided on an energy embargo at an early stage.
 - Given the EU's strong energy dependence on Russia, it faces a dilemma that it is unable to stop energy imports immediately, even if it wishes to do so.

Russia's status from an economic perspective

	Positioning of Russia
Natural resources	<ul style="list-style-type: none"> • Oil: 3rd (Share: 12%) • Natural gas: 2nd (17%) • Wheat: 2nd (18%) • Palladium: 1st (43%)
Manufacturing	<ul style="list-style-type: none"> • Manufacturing competitiveness index: 32nd place
Finance	<ul style="list-style-type: none"> • Currency transaction volume: 17th place (RUB) (Share: 0.5%)
Size of economy	<ul style="list-style-type: none"> • Nominal GDP: 11th place (Share: 1.7%) • Nominal GDP per capita: 64th place

The EU's dilemma over Russian energy



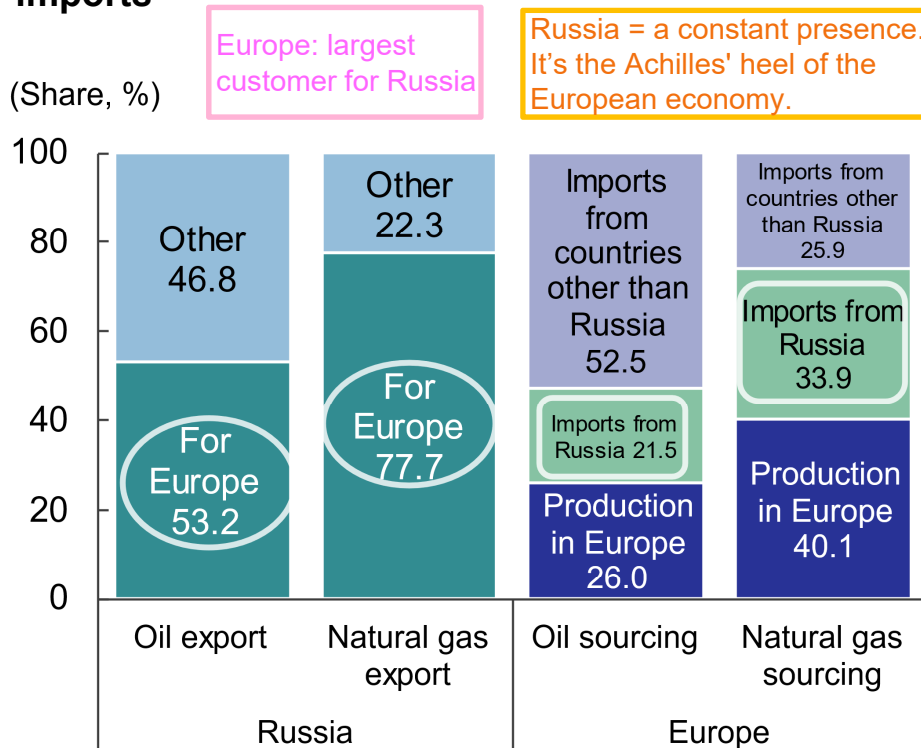
Note: The "Share" refers to the global share.
 Source: Made by MHRT based upon releases by the BP, Deloitte, BIS, and IMF

Source: Made by MHRT

The pace of reducing the EU's energy dependence on Russia will determine future energy prices

- Amid the prolonged invasion of Ukraine by Russia, Europe is considering the suspension of oil and natural gas imports from Russia in a bid to reduce its energy dependence on Russia.
 - An embargo on natural gas is a major blow to Russia (exports to Europe accounts for 80% of total).
- The natural gas embargo is also very damaging to Europe, given its high dependence on Russia.
 - Attitudes vary within the EU, as shown by a cautious stance on a gas embargo by Germany. The future course of the economy depends on the degree to which the EU can reduce its dependence on Russia.

Russian energy exports and European energy imports



Major EU leaders cautious about gas embargo

Germany	Chancellor Scholz: "We will need a longer period of time to end our dependence (on Russian gas)." (April 8)
Hungary	Prime Minister Orbán, who opposes the Russian gas embargo, was re-elected in the general election. (April 7)
Austria	Chancellor Nehammer: "If gas is not supplied, (Austrian) industry and households will be seriously affected." (April 14)
Italy	Prime Minister Draghi: "We do not anticipate (Russian gas supply disruptions)." (March 31)

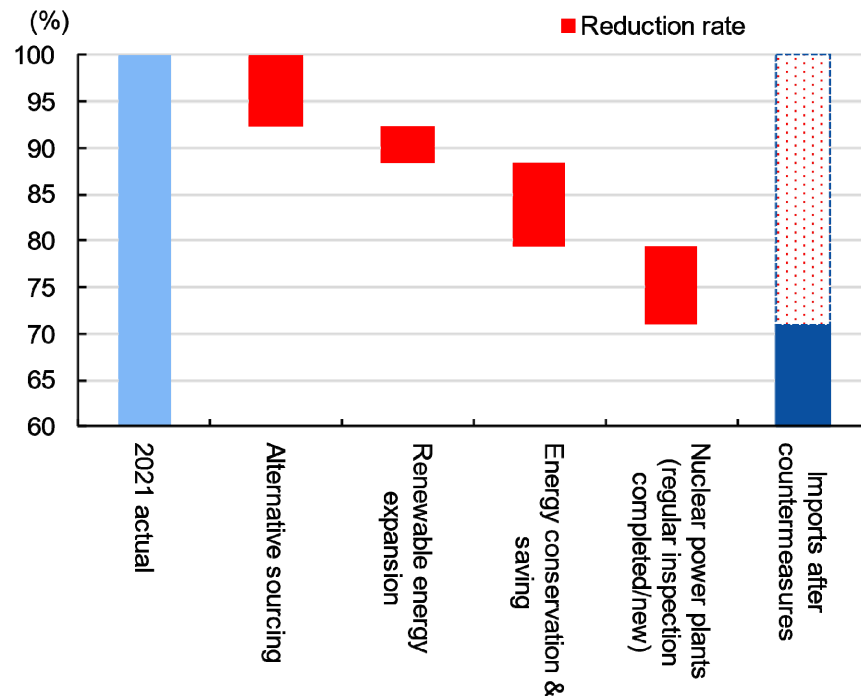
Note: "Production in Europe" refers to production within the European region, such as Norway and the UK "Imports" refer to procurement from outside the European region.
Source: Made by MHRT based upon releases by BP

Source: Made by MHRT based upon media reports

The reduction of gas imports from Russia by about 1/3 by the end of the year would be realistically possible

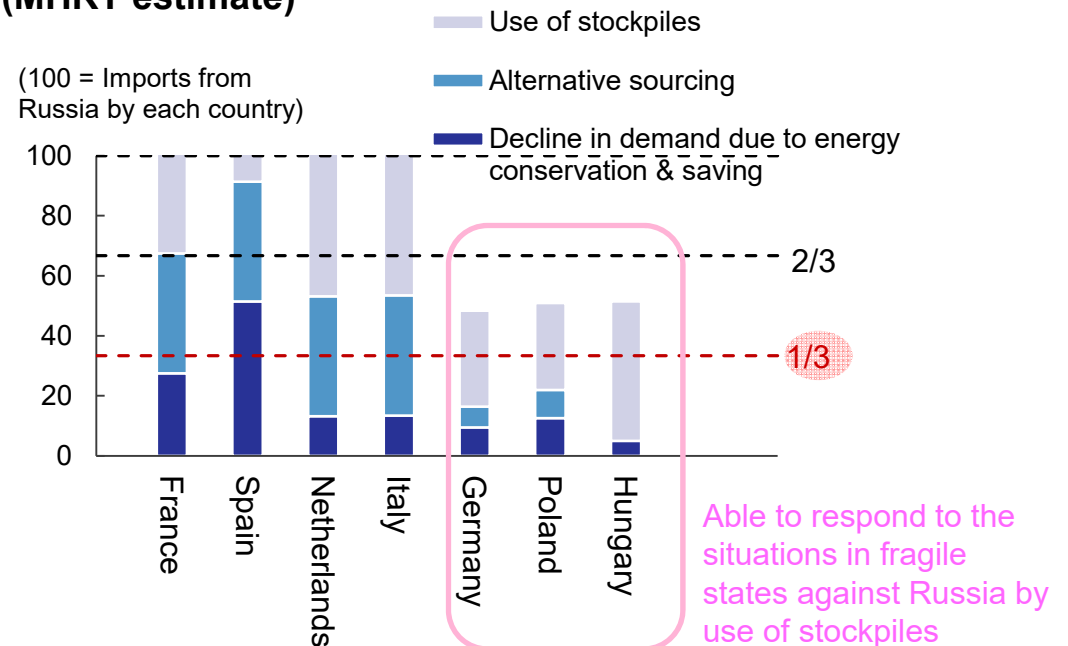
- In view of the significant impact of the suspension of imports of Russian gas upon the EU, the basic scenario is the continuation of imports from Russia.
- The European Commission has set a target of reducing gas imports from Russia by 2/3 by the end of the year, and is being reviewed among the EU countries.
 - On the other hand, the IEA estimates that a 1/3 reduction of gas imports from Russia is possible by the end of this year through alternative sourcing, acceleration of renewable energy, and other measures.
- Judging from the feasibility of Germany and Eastern Europe, which are highly dependent on Russian energy, it is estimated that a reduction in imports from Russia by about 1/3 by the end of the year is realistic and that an agreement is possible within the EU members.

Reduction of EU gas imports from Russia (IEA estimate)



Source: Made by MHRT based upon releases by the IEA

Ability to respond to reduction in gas imports from Russia (MHRT estimate)



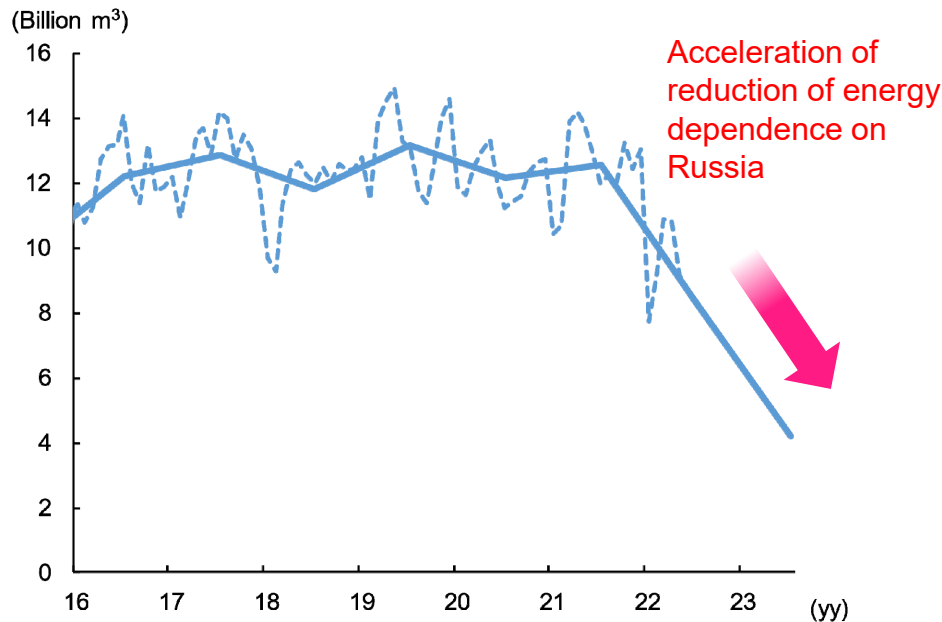
Note: Demand reduction due to energy conservation and renewable energy, etc., and import expansion were estimated based on IEA assumptions.

Source: Made by MHRT based upon releases by Eurostat and the IEA

The EU is planning a steady reduction of its energy dependence on Russia

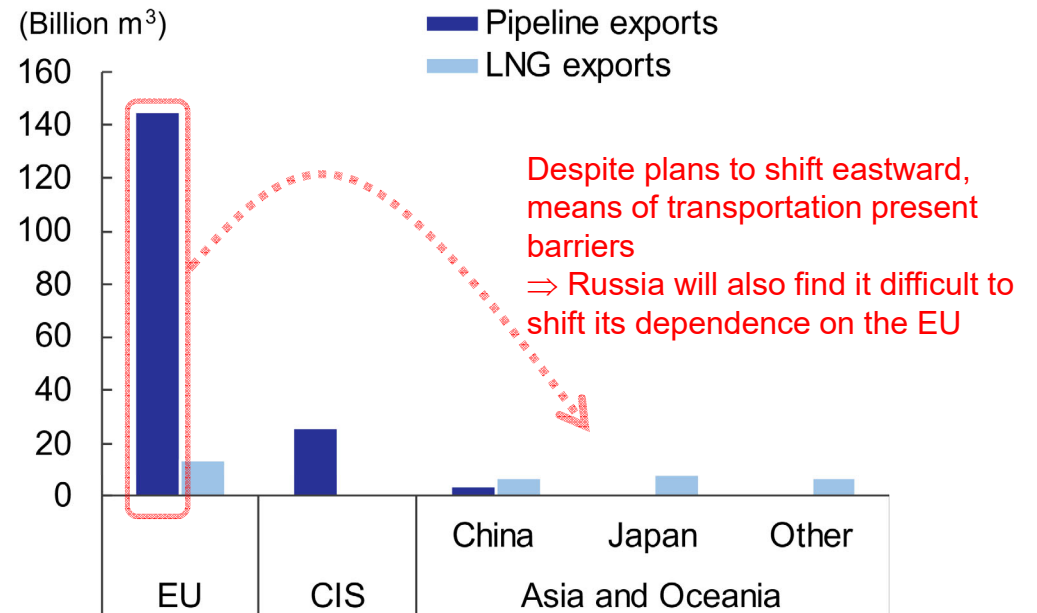
- The move away from dependence on Russia from an energy security perspective is expected to continue (reducing gas imports from Russia).
 - European Commission President Ursula von der Leyen plans to reduce gas imports from Russia with the target of achieving zero dependence by 2027.
 - EU imports from Russia are to be reduced by 1/3 by 2022 through alternative imports and the acceleration of energy conservation and renewable energy, assuming 2/3 reduction in 2023 compared to 2021 as set by the European Commission.
 - While Russia is seeking to expand exports to China, India, and other Asian countries to compensate for the decline in exports to the EU (eastward shift), means of transportation present barriers.

Assumptions on European natural gas imports



Source: Made by MHRT based upon releases by Eurostat, Bruegel, and the IEA

Natural gas export by Russia by region

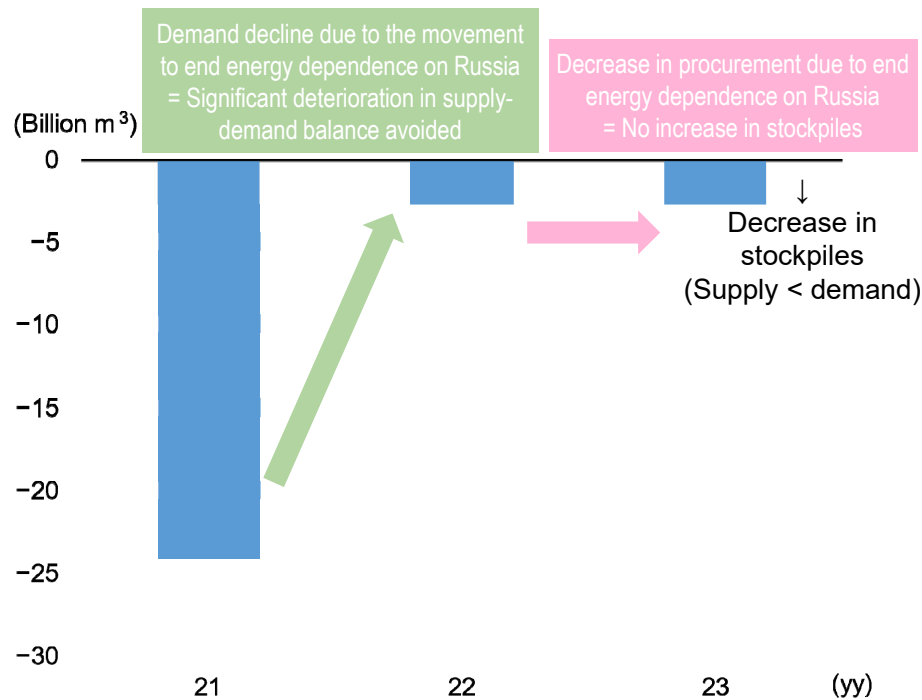


Source: Made by MHRT based upon releases by BP

Even though the rise of gas prices will slow down, prices will remain high

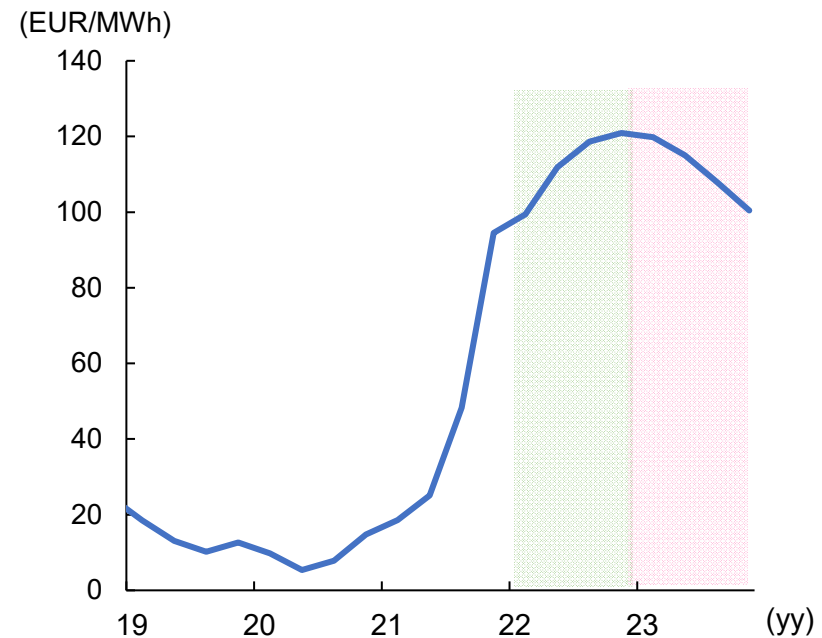
- The rise of European gas prices is expected to slow down.
 - A significant deterioration in supply & demand in 2022 will be avoided by speeding up the movement to end energy dependence on Russia (through alternative procurement and demand suppression).
- Even so, prices will remain high in 2023.
 - The supply-demand balance will not improve in 2023, as imports from Russia will continue to be reduced. This stems from limited downward pressures on prices from the supply & demand side.

EU natural gas supply & demand balance



Source: Made by MHRT based upon releases by Eurostat, AGSI+, Bruegel, and the IEA

Natural gas prices in Europe (hypothetical)

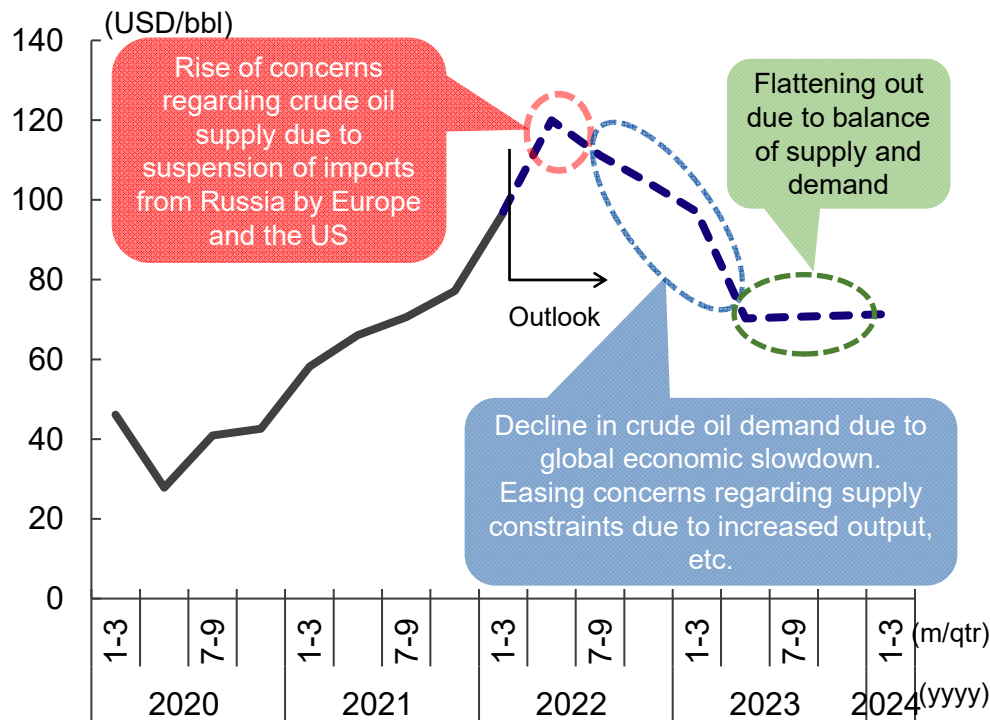


Source: Made by MHRT based upon releases by Refinitiv

While supply concerns have pushed up the price of crude oil, a downtrend should ensue due to both supply and demand factors

- In the short term, concerns about tight energy supplies will increase due to the expansion of economic sanctions against Russia, including the suspension of imports from Russia by the US and European countries.
 - Demand for other crude oil sources to replace Russian oil will increase, given the tightening of supply from oil-producing countries other than Russia.
- However, the decline is expected to continue in mid-2022 due to both supply and demand factors.
 - Global demand for oil will slow down due to the moderation of global economic growth. Global supply concerns should gradually subside, due in part to the rise of output by oil-producing countries other than Russia.

Crude oil prices (outlook)



Key points regarding the outlook on crude oil prices

Slowdown of global demand

- Global demand for crude oil is projected to decline due to the slowdown of the global economy.
- The supply-demand balance will improve compared to the level assumed at the beginning of Russia's military invasion of Ukraine.

Increase of output by oil-producing countries other than Russia

- Move to increase production of US shale oil
- Room to increase production in Saudi Arabia and UAE

Easing of geopolitical risks and supply-side concerns

- At the moment, moves such as the suspension of imports from Russia by US & European countries are leading to the rise of global supply concerns, which are serving as a factor pushing up the price of crude oil.
- On the other hand, supply concerns should gradually dissipate, given the shift of Russia's supply of oil to non-US/European countries, as exemplified by India's continuation of Russian crude oil imports

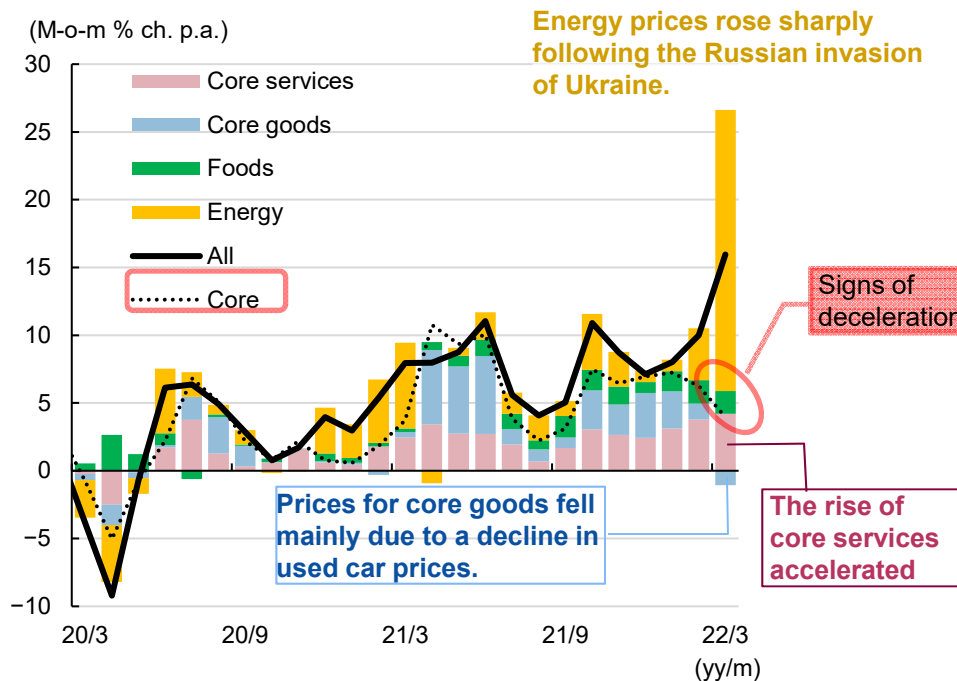
Source: Made by MHRT based upon releases by the IEA, EIA, etc.

Source: Made by MHRT based upon releases by the IEA, media reports, etc.

Key point (2): high inflationary pressures are lingering despite signs of slowdown

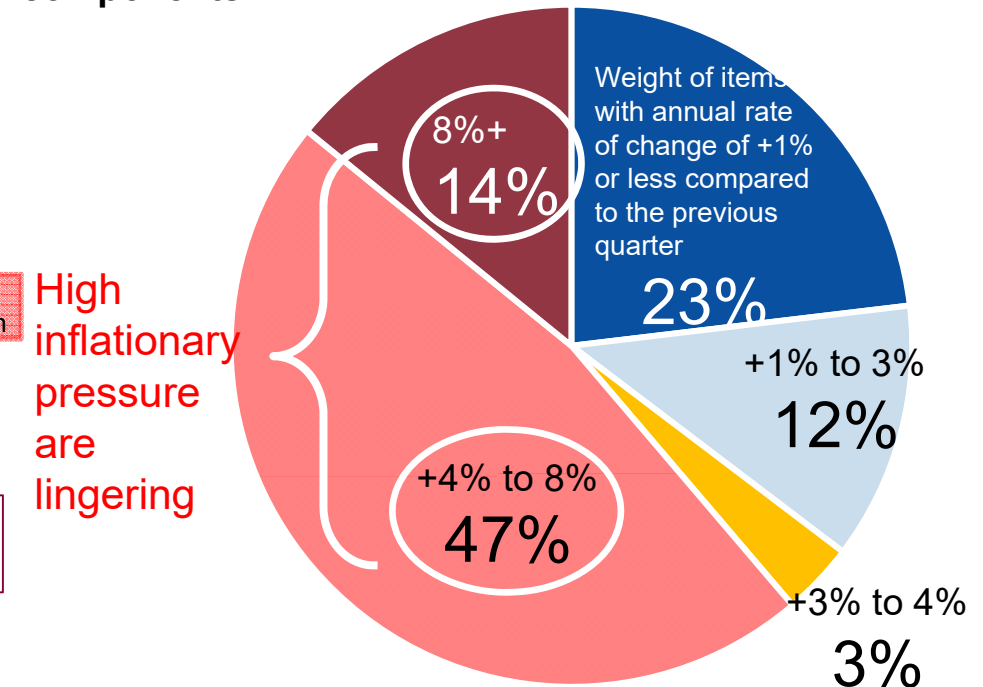
- In March, the core CPI excluding energy and food decelerated from the previous month. Expectations toward the peak out of inflation are rising in the financial markets.
- The main cause of the slowdown is the decline in used car prices. The outlook remains unpredictable, as service prices are rising at an accelerating pace.
 - The spread of inflation is also a concern, with almost half of the items with high inflation of 4% to 8% per annum and more than 10% of the items with inflation exceeding 8%.
 - March final demand PPI rose +1.4% m-o-m, while the core rose +1.0% m-o-m, both higher. Inflationary pressures in the corporate sector are rather in a deteriorating direction.

Consumer price inflation and variable factors



Source: Made by MHRT based upon releases by the US Department of Labor

Distribution of inflationary pressures for March core CPI components



Note: Weight-based share
Source: Made by MHRT based upon releases by the US Department of Labor

Strong inflationary pressures will serve as restraints upon inflation going forward through the decline of real income

- Although inflationary pressures remain strong, signs of a slowdown are evident.
- Financial conditions are tightening already, as shown by the rise of interest rates reflecting the shift to a tighter monetary policy stance.

Factors that reduce inflationary pressures in the US and current assessment (○: suppressing inflation, x: accelerating inflation)

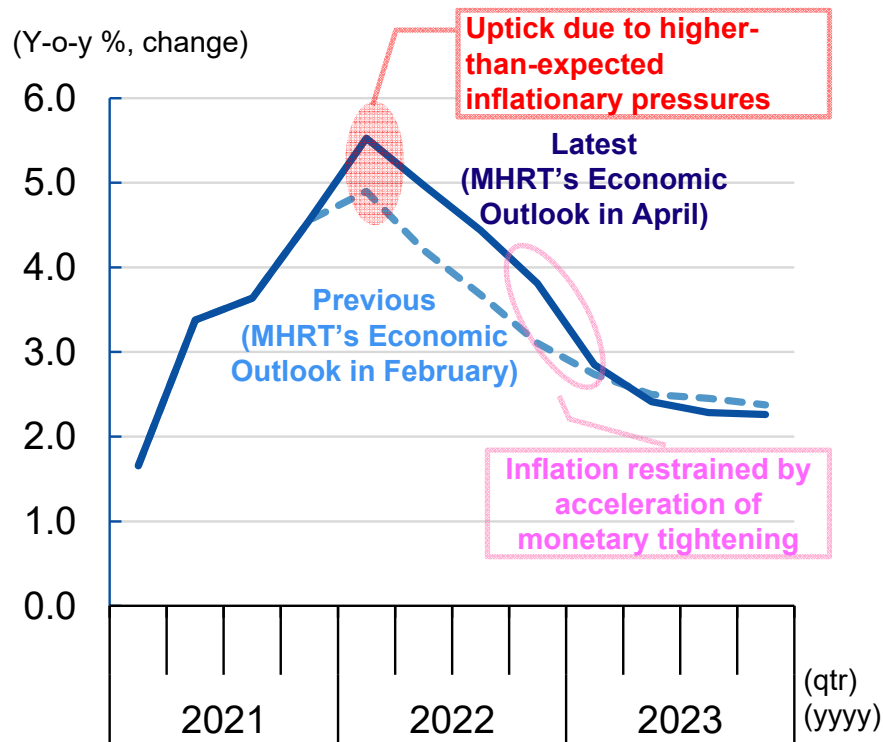
Easing of upward pressure on prices by calming logistics disruptions and reducing supply constraints	✗	<ul style="list-style-type: none"> ● Russia's invasion of Ukraine, China's zero-tolerance policy (lockdown)
Shift in demand for services due to receding infection concerns	○	<ul style="list-style-type: none"> ● Food services and travel services appear to have recovered in February and March due to the normalization of the economy. ● The rise of prices due to labor shortages still require attention
Decline in real disposable income due to higher inflation (autonomous adjustment)	○	<ul style="list-style-type: none"> ● Real disposable income declined m-o-m for seven consecutive months up to February 2022. ● Consumer sentiment continues to deteriorate since the end of last year.
Rise of cost-cutting incentive reflecting the rise of prices of daily necessities	○	<ul style="list-style-type: none"> ● Consumers answered that they have cut back on spending on dining out (53%), driving (39%), subscriptions (35%), and brand-name goods (32%) in the past six months because of inflation (CNBC survey, conducted in late March).
Reduction of support through fiscal measures	○	<ul style="list-style-type: none"> ● The US budget deficit narrowed to the same level as in previous years before the Covid-19 pandemic (i.e., the reduction of Covid-19 support is a background factor)
Monetary policy	○	<ul style="list-style-type: none"> ● The Fed will accelerate the pace of interest rate hikes and hasten to neutralize its monetary policy stance by starting quantitative tightening (QT) in May. In addition, the Fed will not hesitate to tighten monetary policy if necessary.

Source: Made by MHRT

Uptick of inflation should be restrained by tighter-than-expected monetary tightening

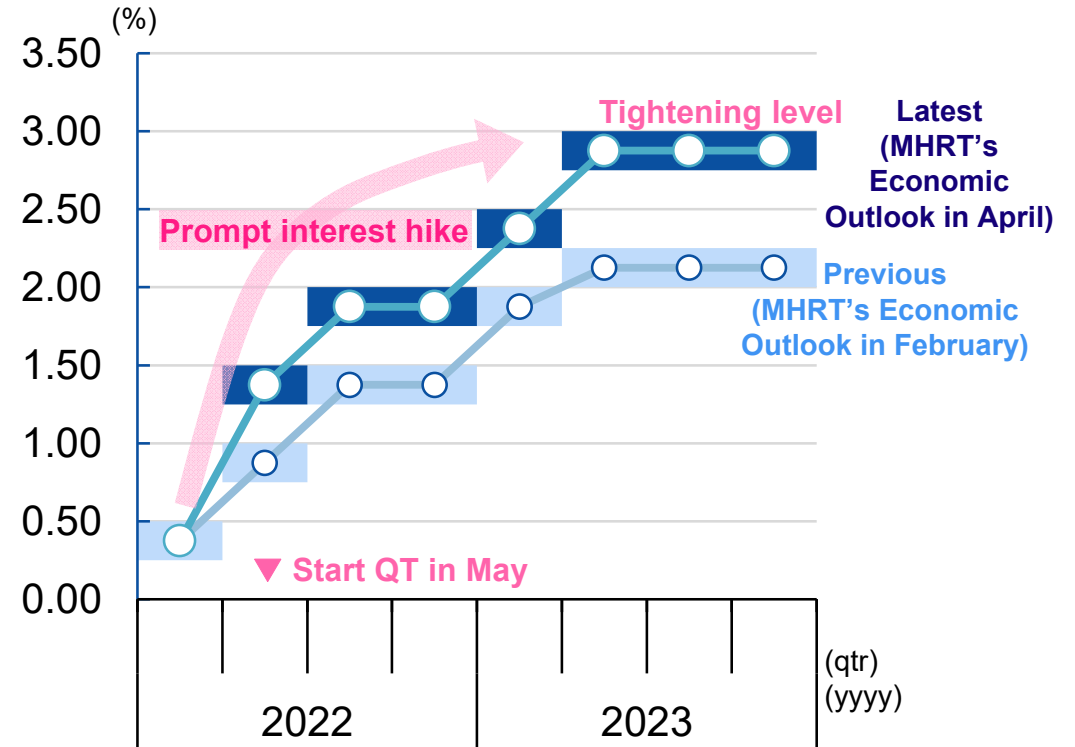
- Given the rise of inflationary pressures as of late March, we expect that core inflation in 2022 will be higher in comparison to MHRT's previous Economic Outlook in February.
 - Although core inflation will peak out in the first half of 2022, the slowdown of inflation will be gradual.
- The odds are high that the Fed will step up its inflation control stance, reflecting the reluctant decline of the core inflation rate.
 - The Fed will accelerate the pace of interest rate hikes and will begin quantitative tightening (QT) early.
 - Tighter monetary policy is expected to bring core inflation to the price stability zone in 2023.

Outlook on core inflation rate



Note: Actual results for 2021
Source: Made by MHRT based upon releases by the US Department of Commerce

Outlook on policy interest rate

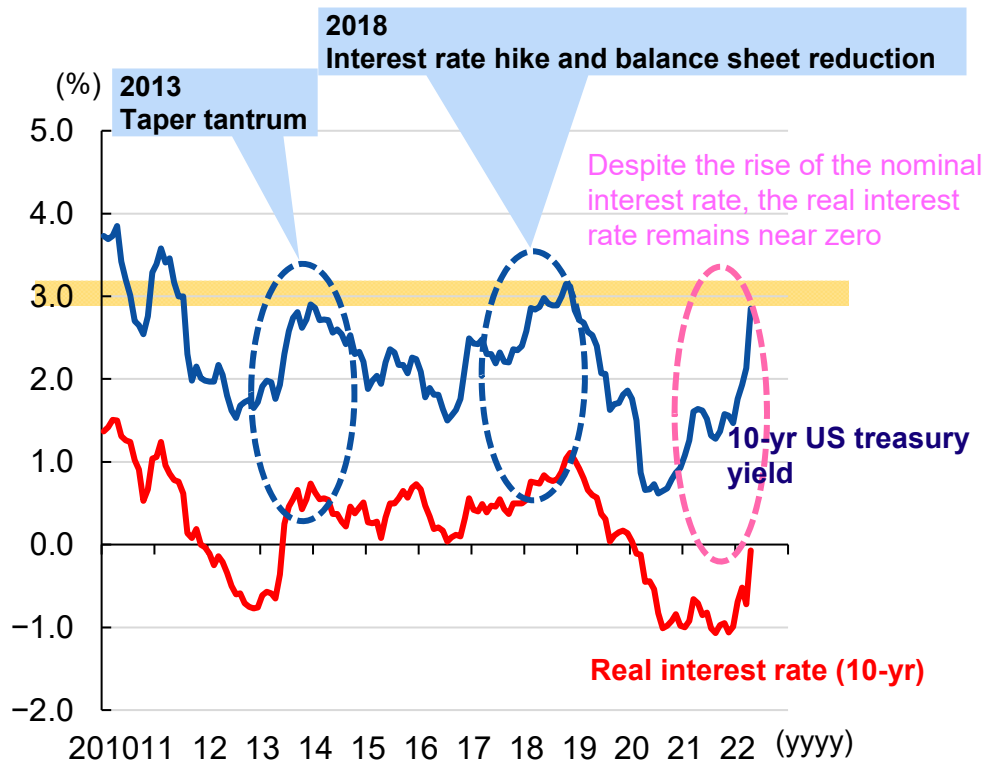


Source: Made by MHRT

Despite the rise of the 10-yr Treasury rate to almost 3%, real interest rates remain near zero (i.e., accommodative)

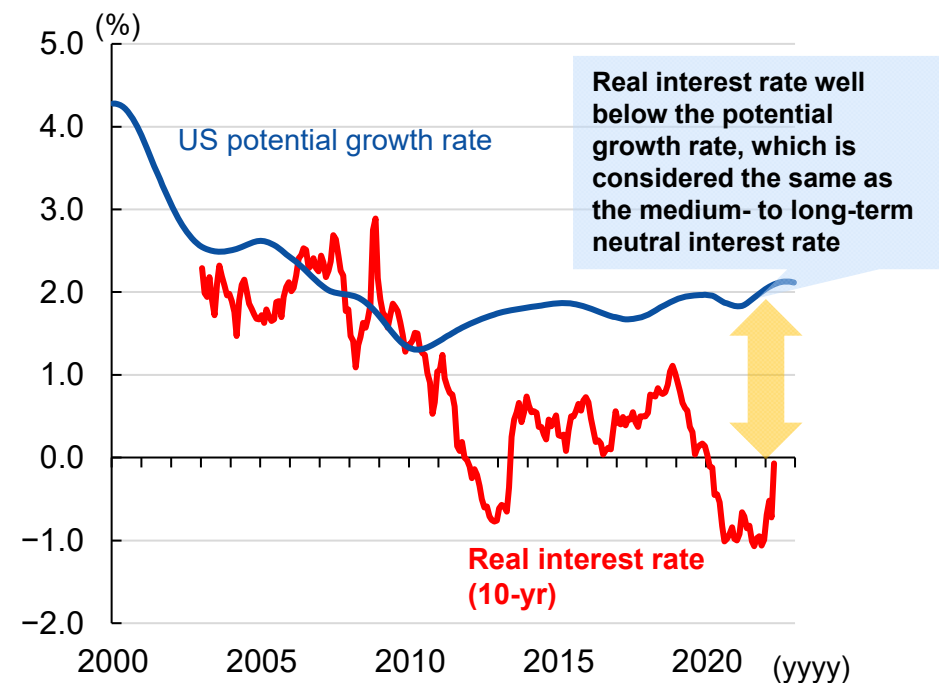
- 10-year US Treasury yields are rising to near 3%, indicating the rise of market attention on the risk of recession.
- The current situation is similar to the (1) taper tantrum (the Bernanke shock) of 2013 and the (2) interest rate hike and Fed balance sheet reduction of 2018. A recession did not occur in either of the cases.
 - The real interest rate, which is the nominal interest rate minus the inflation rate, was in positive territory in (1) and (2) but is now near zero.
 - The current situation is significantly more accommodative considering the strength of the US economy (i.e., the real potential growth rate).

US Treasury yields and real interest rates (both 10-yr)



Source: Made by MHRT based upon releases by the FRB

US potential growth rate and real interest rate

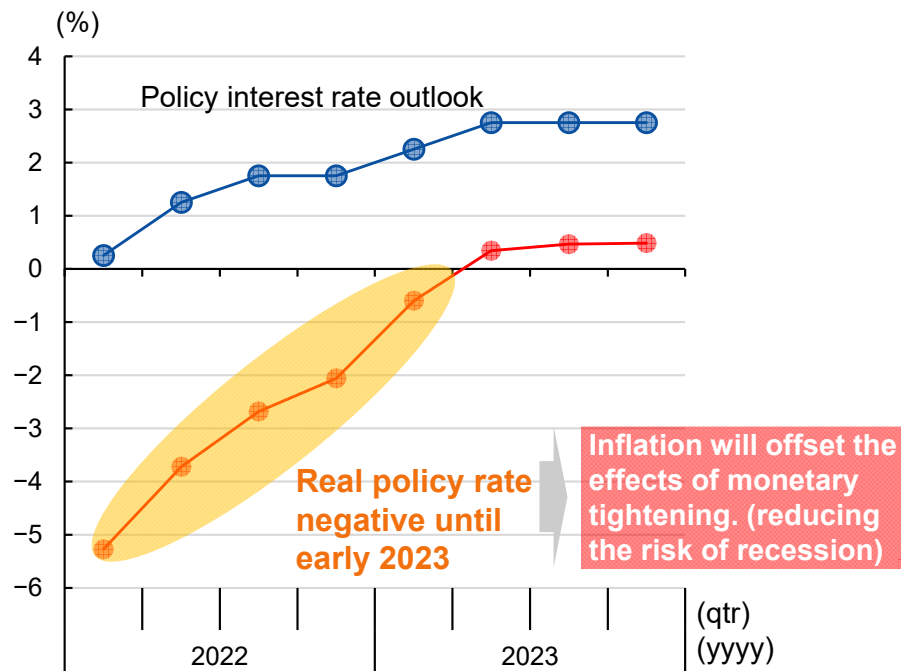


Source: Made by MHRT based upon releases by the FRB

Even if the FOMC moves quickly to raise rates, real policy rate to remain negative for a while

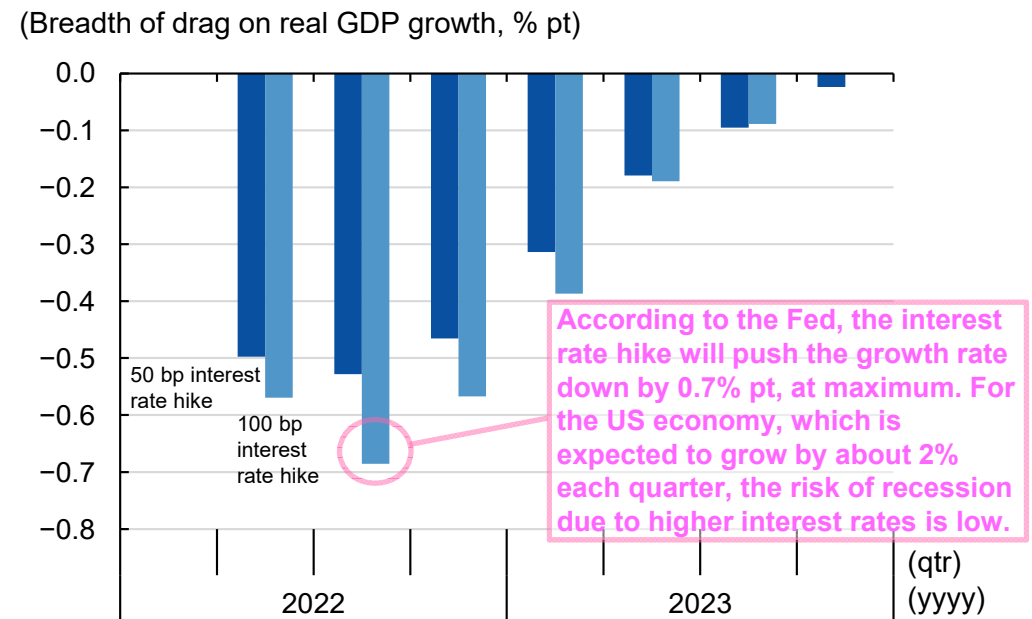
- Even if the Federal Open Market Committee (FOMC) moves quickly to raise rates, the real interest rate will remain negative (i.e. "accommodative") until early 2023 due to historically high inflation.
 - The insufficient monetary tightening by interest rate hikes will be supplemented by an early start of massive QT.
- According to the Fed's macroeconomic model, the interest hike from the end of February would only push real GDP growth down by 0.7% pt, at maximum (2022).
 - This suggests that the probability of the US economy falling into a recession is low, despite the inevitable deterioration in interest rate-sensitive areas such as housing and motor vehicle sales, etc.

Monetary policy rate (forecast and real)



Note: Realized using the core inflation rate (MHRT forecast)
 Source: Made by MHRT based upon releases by the FRB

Breadth of drag on real GDP growth due to the rise of interest rates

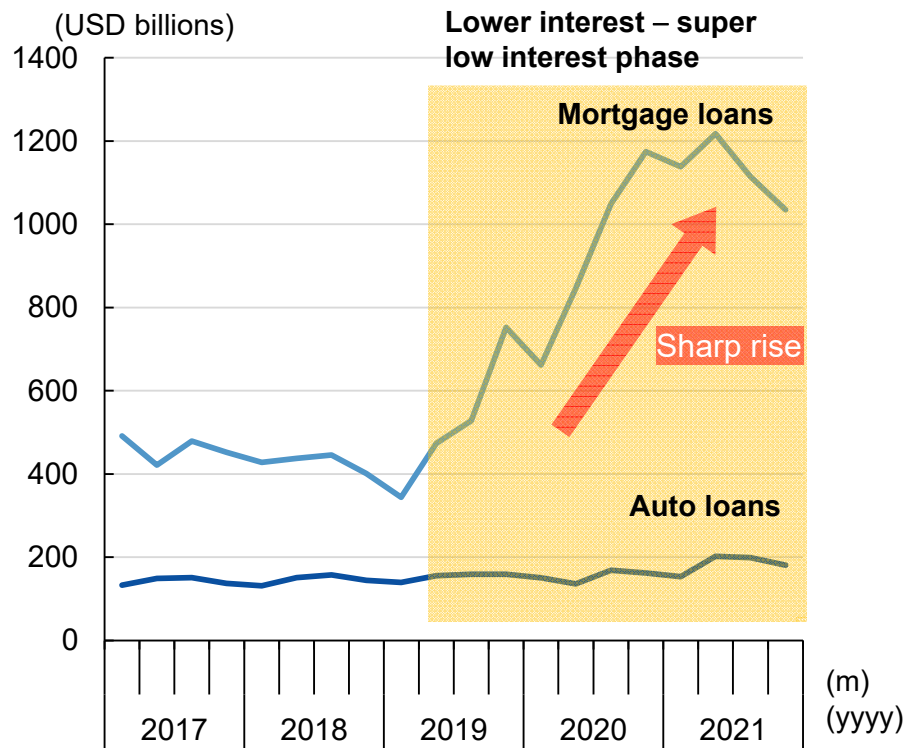


Note: Simulations on the combined effect factoring in the rise of the term premium from the end of February to April 11st (about 40 bp) and an unexpected interest rate hike of 50 bp or 100 bp in the Apr-Jun quarter of 2022 (cumulative); by the Fed's macroeconomic model
 Source: Made by MHRT based upon releases by the FRB

Given the financial health of US households, the risk of balance sheet adjustment due to the rise of interest rates are remote

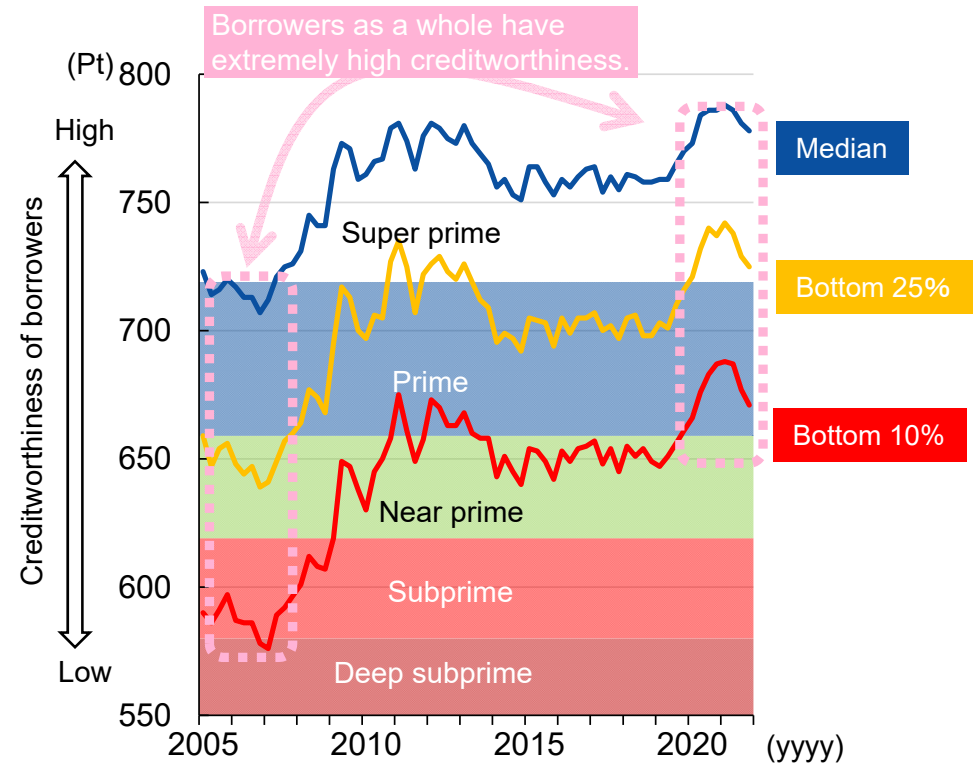
- Mortgages by US households surged on the back of low interest rates from 2019 onward.
 - The balances of auto loans and credit card loans are relatively small and will not serve as a risk factor for balance sheet adjustment.
- While loan volumes have increased significantly, the mortgage borrowers have extremely high creditworthiness (i.e., no evidence of unscrupulous lending).
 - Mortgage borrower credit scores are healthy, and even the bottom 10% belongs to the upper end of near prime or prime.
 - The risk of balance sheet adjustment for US households due to the rise of interest rates is very small, due in part to the fact that most borrowings are fixed rate loans.

New loan borrowing by US households



Source: Made by MHRT based upon releases by the Federal Reserve Bank of New York

Mortgage borrower credit (credit score) distribution

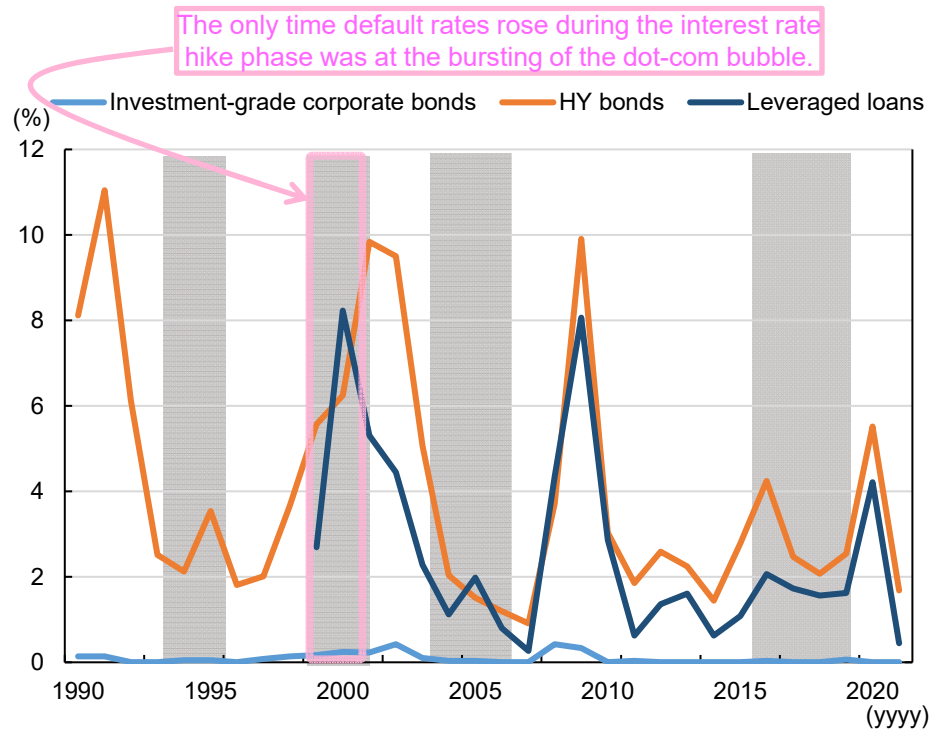


Source: Made by MHRT based upon releases by the Federal Reserve Bank of New York

Losses arising from LL and HY bond markets are in a manageable range, presenting only a minor risk of financial shock

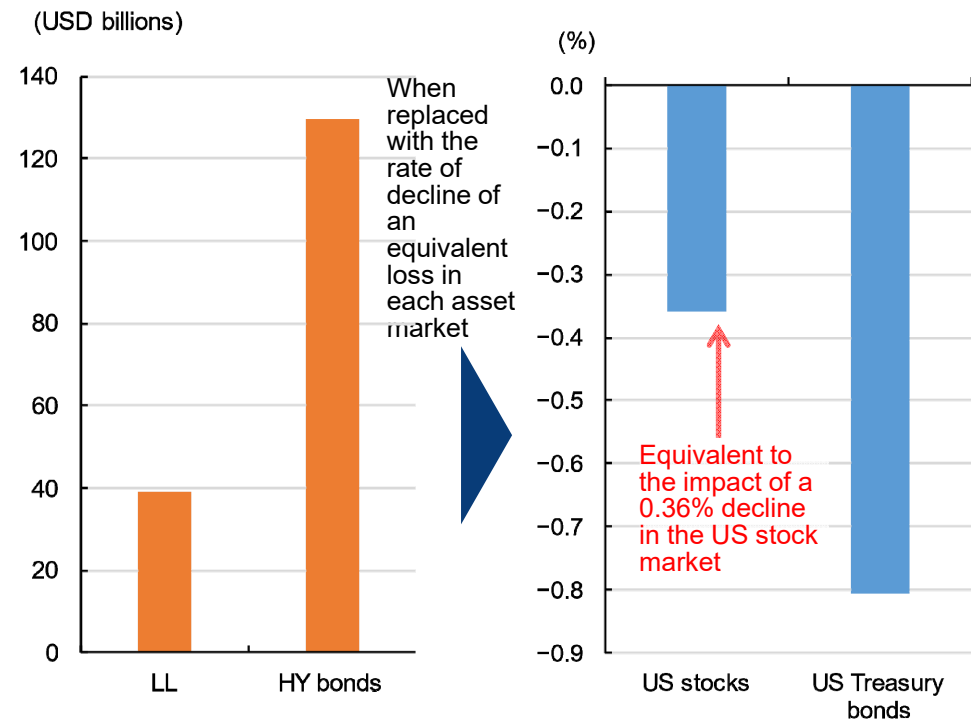
- **The rise of default rates is limited** for leveraged loans (LL) and high-yield (HY) bonds reflecting the rise of interest rates.
 - With the exception of the dot-com bubble period, the default rate has not increased significantly during the interest rate hike phase.
 - Even if default rates rise to levels comparable with the dot-com bubble period (LL: 8.2%, HY bonds: 9.8%) and debt collection rates decline (LL: 60%, HY bonds: 20%), **total losses would be approximately USD170 billion for the entire LL and HY bond markets.**
 - This loss amount has the same level of impact as **a 0.36% decline in US stock prices and a 0.81% decline in US bond prices.**

Default rates for LL, HY, and investment grade bonds



Note: Gray areas indicate the Fed's interest rate hike phase.
Source: Made by MHRT based upon S&P Global Ratings and S&P LCD

Losses on LL and HY bonds and percentage of decline in each asset that incurs the same amount of loss

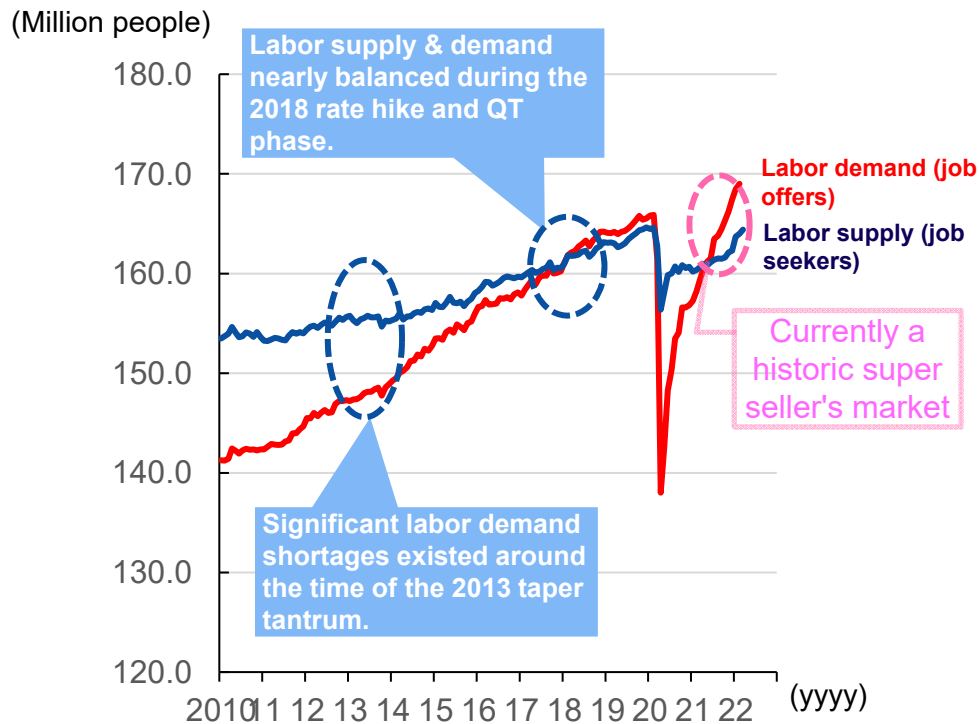


Note: Losses arising from LL and HY bonds are calculated assuming default rates of 8.2% and 9.8%, respectively, and recovery rates of 60% and 20%, respectively.
Source: Made by MHRT based upon releases by the FRB

High growth in labor demand and income also contributing to avoiding recession

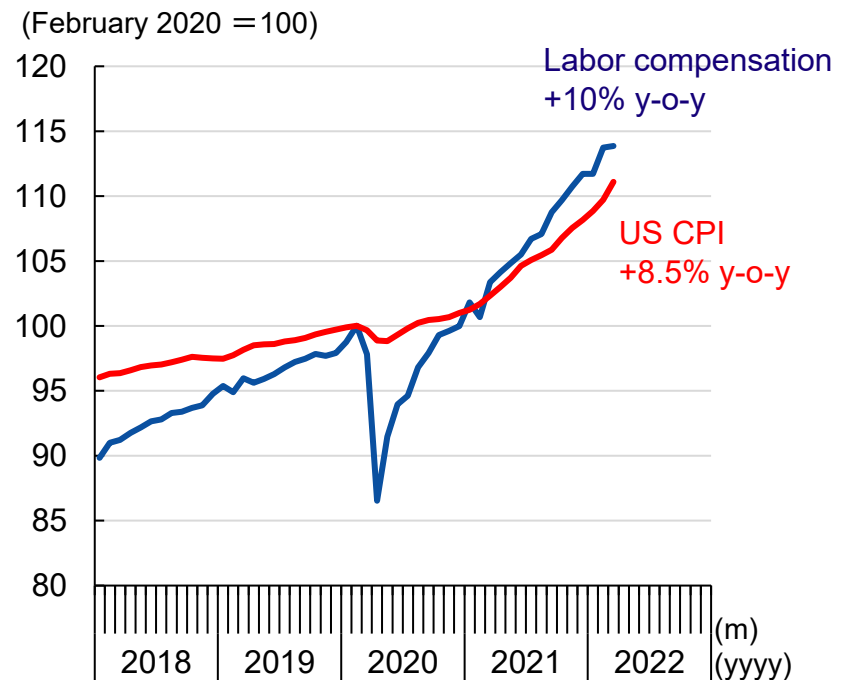
- The US labor market is experiencing a historic super sellers' market.
 - Household labor compensation is expanding at a high rate of +10% y-o-y, with inflation not keeping pace.
- There is little risk of a major break in the virtuous cycle of income \Rightarrow consumption \Rightarrow capital investment \Rightarrow corporate profits \Rightarrow employment \Rightarrow income.
 - The overall US economy will remain robust despite inevitable adjustments in interest rate-sensitive businesses such as automobile and housing sales.
- However, it should be noted that such strength of the US economy also carries the risk of higher-than-expected inflation ("behind the curve").

US labor demand and labor supply



Source: Made by MHRT based upon releases by the US Department of Labor

Labor compensation and inflation

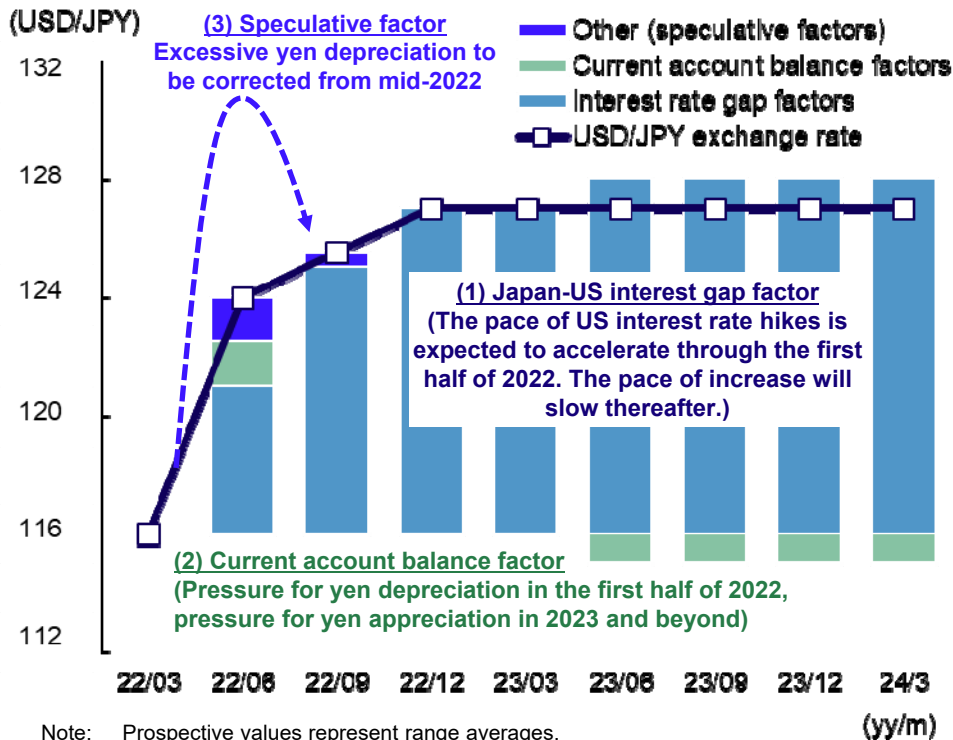


Note: Labor compensation is calculated based on weekly wages and total hours worked.
Source: Made by MHRT based upon releases by the US Department of Labor

Key point (3): yen expected to weaken against the dollar through the first half of 2022 and to reach the upper half of the JPY120/USD level from the second half of 2022

- The yen is expected to weaken against the dollar through the first half of 2022 and will hover at around the upper half of the JPY120/USD level from the second half of 2022.
 - Behind the yen's depreciation in the first half of 2022 are: (1) the widening gap between Japanese and US interest rates due to US rate hikes, (2) concerns over capital outflows due to the deterioration of the current account balance caused by soaring oil prices, and (3) speculators selling the yen in consideration of (1) and (2) above and the BOJ's maintenance of its current monetary policy stance.
 - ◆ Given scant market incentives for a reversal in the first half of 2022, it will be necessary to keep an eye on the possibility of the yen weakening further to the mid-JPY130/USD range by the end of the first half of 2022.
 - However, since the excessive yen depreciation pressure stemming from the three afore-mentioned factors is expected to subside from the second half of 2022, and the yen is forecast to remain in the upper-JPY120/USD range.

USD/JPY exchange rate outlook (quarterly)



Note: Prospective values represent range averages.
 Source: Made by MHRT

Three factors affecting the USD/JPY exchange rate and the outlook

Factor		1H 2022	2H 2022 and after
(1)	Japan-US interest rate gap	The rise of US interest rates is expected to accelerate due to US interest rate hikes. On the other hand, yen interest rates will remain low, widening the Japan-US interest rate gap further, which will serve as yen-weakening pressure.	If inflation indicators and other factors settle down in the US, the pace of US interest rate hikes will slow, causing less pressure on yen depreciation.
(2)	Current account balance	Current account deficit and concerns regarding capital outflows due to soaring oil prices will serve as yen-weakening pressure.	The current account balance will also improve to a surplus due to lower oil prices, serving as yen-strengthening pressure.
(3)	Speculators' moves	Excessive yen-selling reflecting (1) expectations that the interest rate gap will widen and (2) concerns regarding capital outflows	(1) A pause in the widening of interest rate gaps and (2) improvement in the current account balance, etc., should reduce the excessive selling of the yen.

Note: Red indicates yen weakening, while blue indicates yen strengthening. The size of the arrow indicates the degree of impact.
 Source: Made by MHRT

Impact of the weak yen and its durability; the advantages of a weak yen are fading and awareness of a "bad yen depreciation" are rising

- Although a weaker yen normally has a positive effect on the economy, the advantages are diminishing, and awareness of the disadvantages are currently rising.
 - From the perspective of economic impact, income outflow due to high commodity prices (disadvantage (1)) has a large impact.

Benefits of a weaker yen and impediments

Benefits of a weaker yen	Impediments	Impact on GDP
Increase in export volume	Trend and structural factors: (1) Rise of overseas production ratio, decline of export competitiveness	-0.3%
	Temporary factor: (2) Slowdown in overseas economies (accompanying the rise of commodity prices and interest rates)	-0.3%
Increase in inbound demand	Temporary factor: (3) Slump in inbound travelers due to continued measures to restrict entry of overseas tourists	-0.8%

Reasons for the rise of awareness on disadvantages

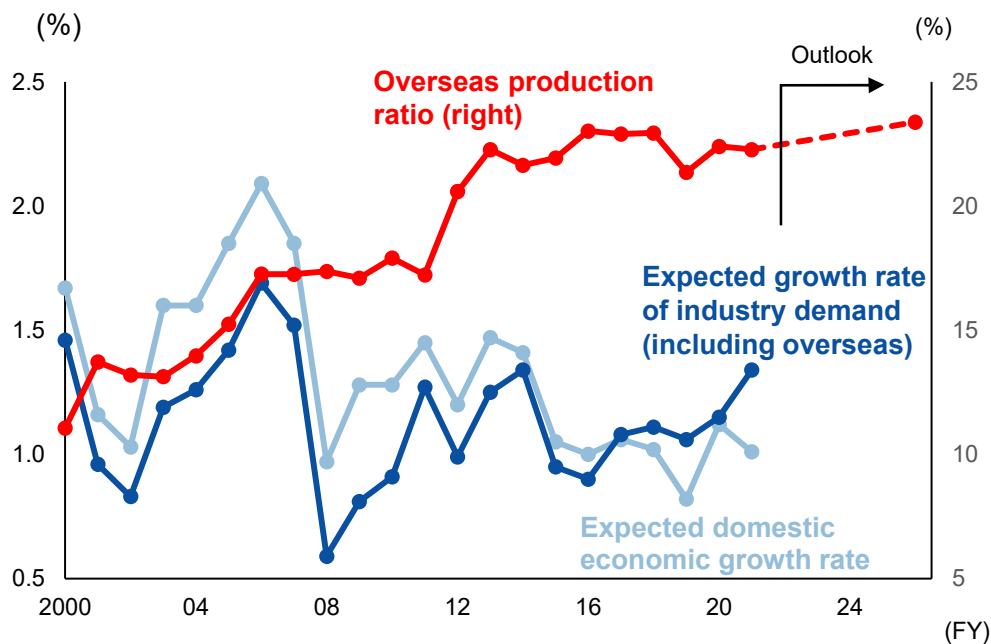
Disadvantage of a weaker yen	Reasons for the rise of awareness on "bad yen depreciation"	Impact on GDP
Rise of import prices	Temporary factor: (1) Concurrent rise in commodity prices amplifying the rise of import prices	-1.8%
	Structural factor: (2) Uneven distribution of impact (exporters benefit, but cost burdens are spread wider.)	-

Note: Theoretical value of impact calculated from the Cabinet Office and MHRT macro model
Source: Made by MHRT

Factors hampering the advantages of a weaker yen (1): shift to overseas production and decline of export competitiveness

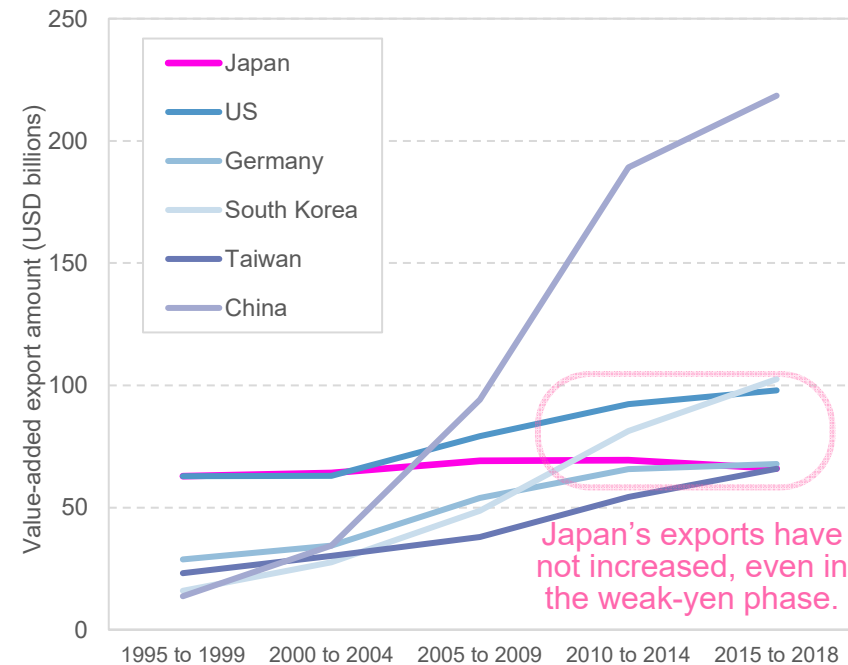
- The effect of the yen's depreciation on the increase in export volume is shrinking as the overseas production ratio continues to rise and industrial competitiveness declines.
 - The overseas production ratio has doubled over the past 20 years, making it difficult for export volume to increase even with a weaker yen.
 - Given the low rate of domestic economic growth, production is not expected to return to Japan even under a weak yen environment.
 - As the rise of competitiveness of Japan's electronics sector is stagnating, the rise of imports is unlikely even with the weak yen.
 - In the short term, supply constraints in vehicle-mounted semiconductors will also restrain recovery in production and exports.

Overseas production ratio and expected growth rate



Note: Expected growth rates are the forecast for the next five years.
 Source: Made by MHRT based upon the Cabinet Office, *Annual Survey of Corporate Behavior*

Value-added exports of electrical, electronic, and optical equipment

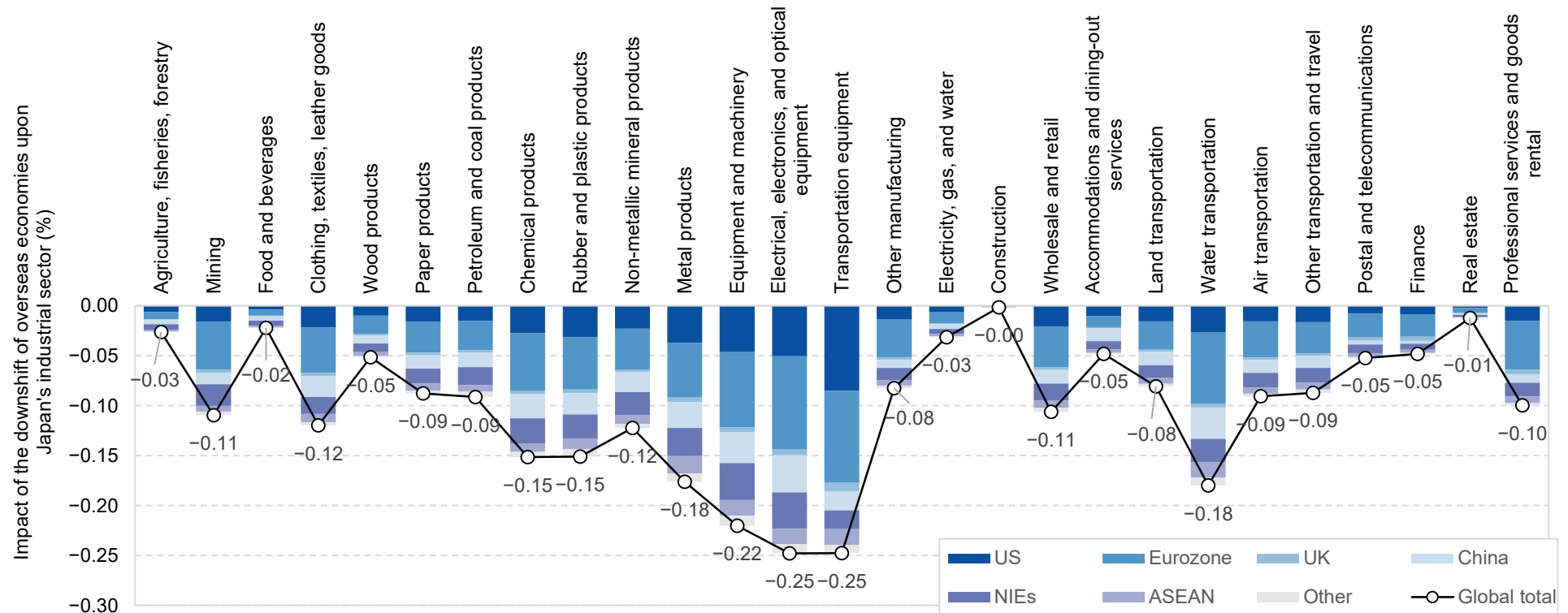


Note: Each country's value-added exports to the world
 Source: Made by MHRT based upon releases by the OECD

Factors hampering the advantages of a weaker yen (2): slowdown in overseas economies

- The global economy will slow down due to the rise of commodity prices and interest rates, making it difficult for exports to increase.
 - Global economic growth in 2022 will be around 1% lower than that before Russia's invasion of Ukraine.
 - Foreign demand for transportation machinery, electrical and electronics equipment, etc., mainly from the Eurozone, is lower than expected.

Impact of the downshift of overseas economies upon Japan's industrial sector (rate of decline in added values)

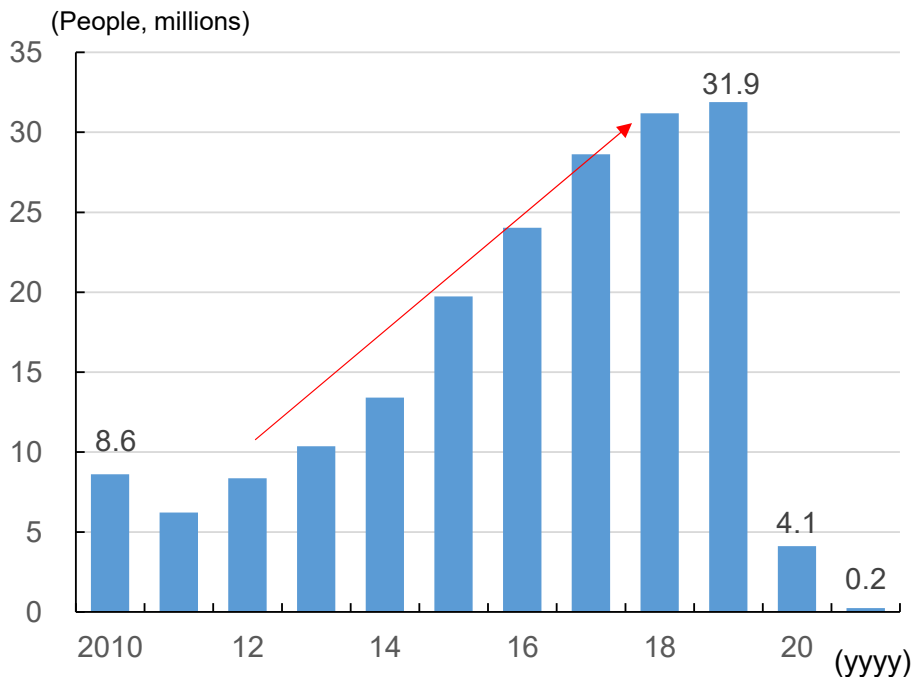


Note: Europe refers to the 19 countries of the Eurozone.
 Source: Made by MHRT based upon releases by the OECD

Factors hampering the advantages of a weaker yen (3): inbound travel/demand slumps due to prolonged Covid-19 measures restricting overseas tourists to Japan

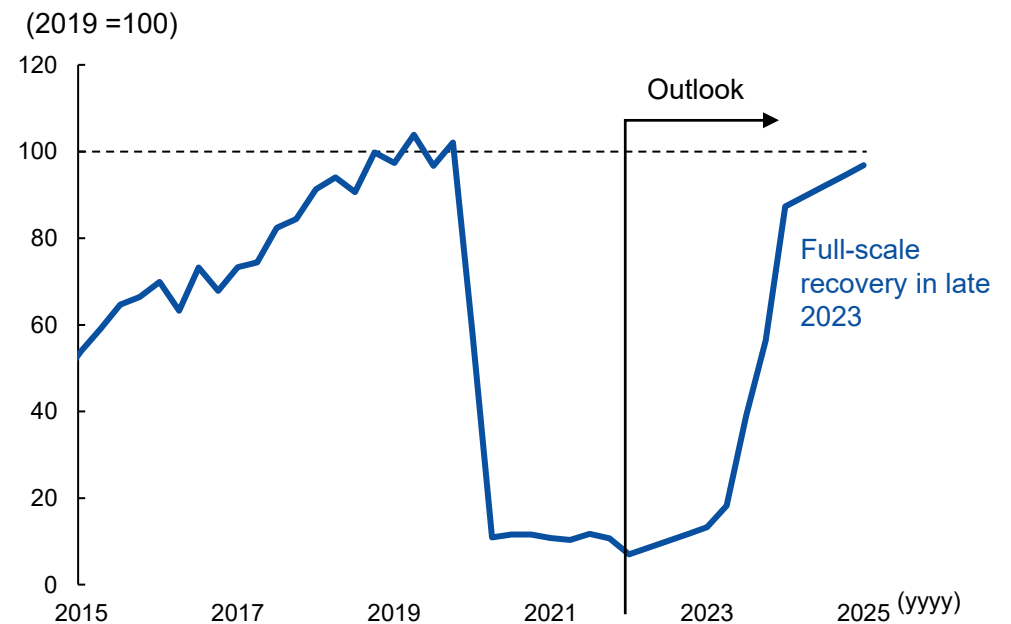
- Growth in inbound travel due to the weak yen is not expected in the near term.
 - During the weak yen phase of Abenomics, the number of inbound tourists surged, supported by the government's tourism promotion measures.
 - However, as long as the government continues its measures to prevent the spread of Covid-19 by restricting overseas tourists to Japan, we cannot expect the weak yen to stimulate the rise of inbound tourist to Japan. The full-scale recovery of inbound tourists will not occur at least until the second half of 2023, when vaccines and oral treatment drugs become available to emerging countries.

Trends in the number of inbound travelers



Source: Made by MHRT based upon Japan National Tourism Organization, *Statistics on Foreign Travelers Visiting Japan*

Outlook for consumption by inbound travelers



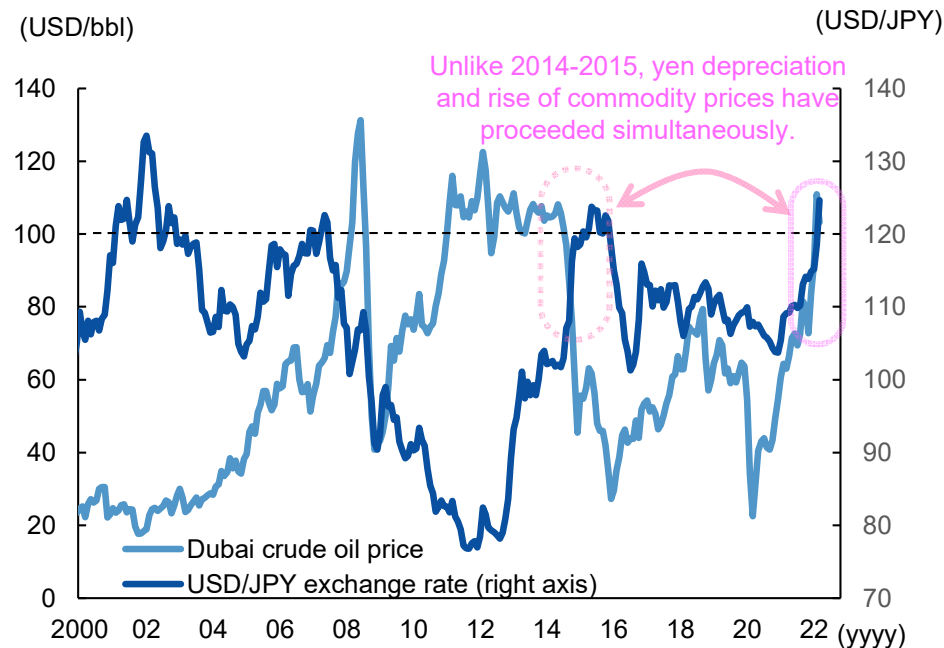
Source: Made by MHRT based upon the Cabinet Office, *National Accounts*

Reasons for rise of awareness on the disadvantages (1): concurrent rise in commodity prices amplifying rising import costs

- The simultaneous depreciation of the yen along with the rise of commodity prices is serving to amplify the rise in import prices.
 - As of Jan-Mar quarter 2022, the impact of yen depreciation will account for about one-fourth that of the rise of import prices. The main cause of worsening terms of trade (i.e., outflow of income overseas) is the rise in commodity prices, which amplifies the increase in import prices, and in turn tends to intensify awareness on the disadvantages of a weaker yen.

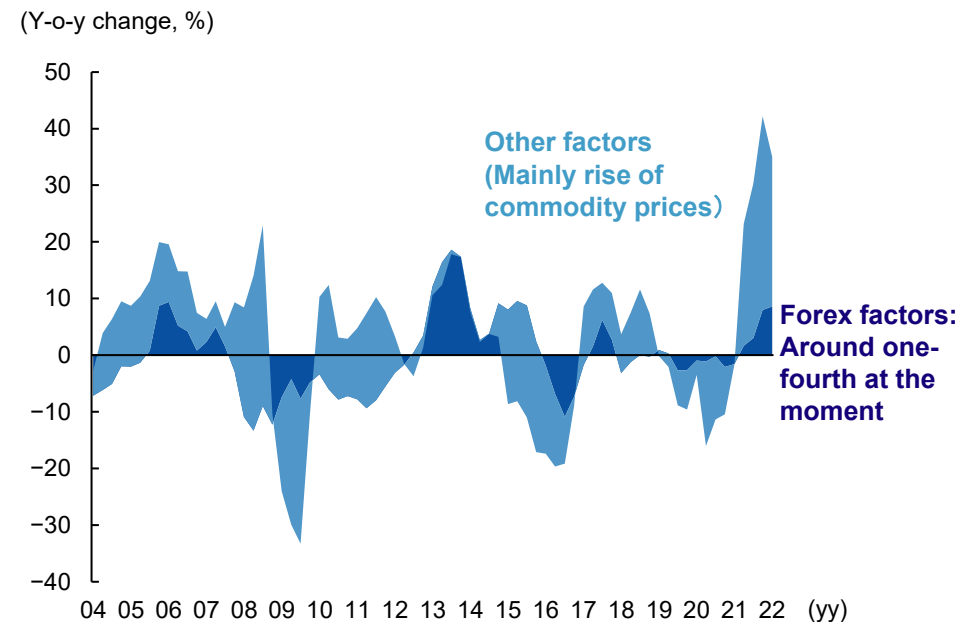
Note: As a weaker yen also raises export prices, its impact on the worsening terms of trade is actually limited. The main cause of worsening terms of trade is the rise in commodity prices.

Dubai oil price and the USD/JPY exchange rate



Note: Monthly average
Source: Made by MHRT based upon releases by the Bank of Japan and the *Nikkei*

Import Price Index and factor classification

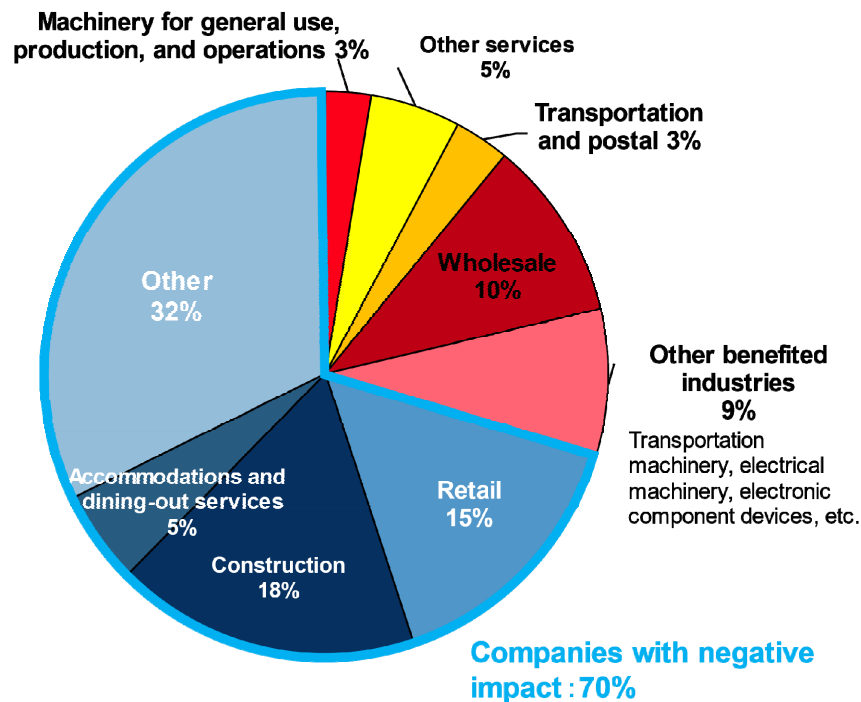


Note: Foreign exchange factors are the difference between the yen basis and the contract currency basis.
Source: Made by MHRT based upon the Bank of Japan, *Corporate Goods Price Index*

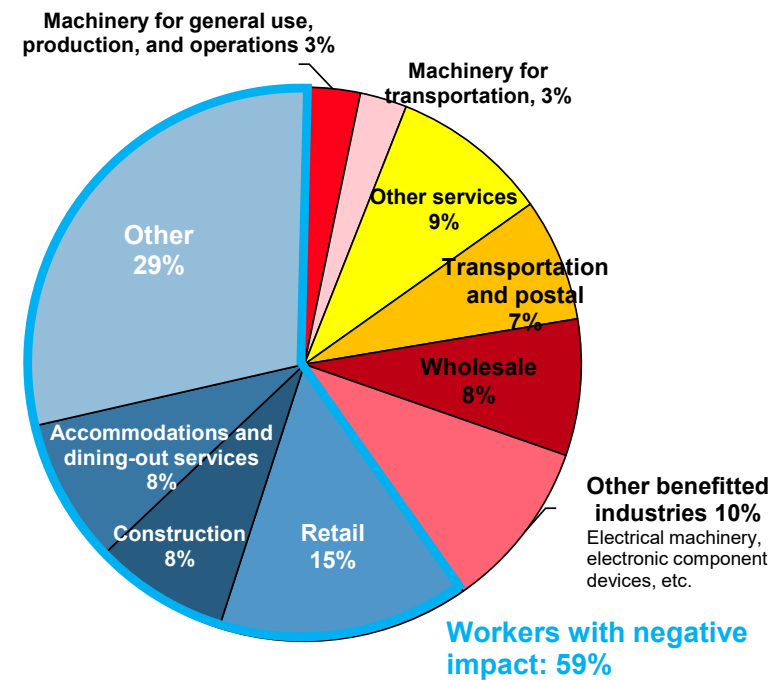
Reasons for rise of awareness on the disadvantages (2): only a few industries are benefitting from a weaker yen

- The benefits of a weaker yen (foreign exchange gains) are concentrated in industries and companies with global operations (transportation machinery, electrical machinery, wholesaling, etc.)
- The rise of import prices (worsening terms of trade) put downward pressure on corporate earnings mainly in the industries with high dependence on imports such as materials industries as well as in domestic demand-oriented industries such as food and services toward individuals.
- The number of companies in the negatively affected industries accounts for 70% of the total number of companies and 60% of the total number of workers. Only a few industries benefit from a weaker yen, while the increased cost of imports are borne widely across the industry.

Share of positive/negative impact-affected industries (number of companies)



Share of positive/negative impact-affected industries (number of workers)



Note: Based on an SNA input-output table for 2020; estimate assuming 100% spillover of price increases in domestic products due to higher import prices to other industries
 Source: Made by MHRT based upon the Cabinet Office, *National Accounts* and the Bank of Japan, *Component Ratio by Contract Currency in the EPI and IPI*

US: economy slowing moderately; growth forecast of +3.0% in 2022 and +2.4% in 2023

- In 2022, while the economy is slowing down due to the rise of inflation and interest rates, robust employment and income conditions are expected to support the economy and prevent a recession.
 - (1) The decline of real purchasing power of households, (2) monetary tightening, (3) contraction of fiscal spending, and (4) supply constraints will put downward pressure on the economy.
 - Core inflation will remain high during the year, and monetary policy will remain tight.
- In 2023, the US economy is expected to re-accelerate due to a pickup in personal consumption.
 - Even though housing investment and other interest-rate-sensitive sectors are lackluster, the US economy will re-accelerate with consumer spending serving as the driver of the overall economy.
 - The core inflation rate will decline toward the price stability zone, reflecting the economic slowdown in 2022.

Outlook for the US economy

		2021	2022	2023	2021				2022				2023			
		CY	(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch. p.a.	5.7	3.0	2.4	6.3	6.7	2.3	6.9	1.5	1.5	1.8	2.0	3.0	2.6	2.6	2.4
Personal consumption	Q-o-q % ch. p.a.	7.9	2.4	2.2	11.4	12.0	2.0	2.5	2.6	0.7	1.1	1.4	3.1	2.7	2.7	2.3
Housing investment	Q-o-q % ch. p.a.	9.2	-1.7	-0.2	13.3	-11.7	-7.7	2.2	0.5	-0.6	-2.0	-1.8	0.6	0.6	1.0	1.0
Capital investment	Q-o-q % ch. p.a.	7.4	4.1	3.3	12.9	9.2	1.7	2.9	5.4	3.9	3.7	3.6	3.3	2.9	3.1	3.1
Inventory investment	Q-o-q contribution p.a. % pt	0.4	1.0	0.1	-2.6	-1.3	2.2	5.3	-0.8	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Government consumption	Q-o-q % ch. p.a.	0.5	0.0	0.8	4.2	-2.0	0.9	-2.6	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net exports	Q-o-q contribution p.a. % pt	-1.4	-0.1	0.3	-1.6	-0.2	-1.3	-0.2	-0.3	0.3	0.5	0.5	0.2	0.1	0.1	0.1
Exports	Q-o-q % ch. p.a.	4.5	7.9	6.2	-2.9	7.6	-5.3	22.4	5.8	7.6	7.2	6.9	6.2	5.5	5.2	4.8
Imports	Q-o-q % ch. p.a.	14.0	6.9	2.8	9.3	7.1	4.7	17.9	6.5	3.3	2.2	1.9	3.1	3.2	3.3	3.0
Unemployment rate	%	5.4	3.6	3.5	6.2	5.9	5.1	4.2	3.8	3.5	3.4	3.5	3.5	3.5	3.6	3.6
PCE deflator	Y-o-y % ch.	3.9	5.6	2.0	1.8	3.9	4.3	5.5	6.8	6.1	5.3	4.2	2.3	1.9	1.9	1.9
Core, excl. food and energy	Y-o-y % ch.	3.3	4.7	2.5	1.7	3.4	3.6	4.6	5.5	5.0	4.4	3.8	2.8	2.4	2.3	2.3

Note: Figures in the shaded areas are forecasts by MHRT.

Source: Made by MHRT based upon releases by the US Department of Commerce and the US Department of Labor

Eurozone: despite positive growth in 2022, the rise of prices will serve as a drag mainly on consumption

- Real GDP growth for 2022 and 2023 is forecast to be +2.3% and +2.5%, respectively.
 - Despite positive growth expected in 2022, personal consumption, capital investment, and exports will decline through the first half of the year due to the rise of energy prices and uncertainties reflecting Russia's invasion of Ukraine.
 - In 2023, the downward pressure will pause due to the rebound from the previous year's decline and the ebb of inflation accompanying the peaking of energy prices.

Outlook for the eurozone economy

		2020 (CY)	2021	2022		2021				2022				2023			
				(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch.	-6.4	5.4	2.3	2.5	-0.1	2.2	2.3	0.3	0.3	-0.2	0.5	0.6	0.8	0.6	0.8	0.7
Domestic demand	Q-o-q % ch.	-6.2	4.2	2.4	2.1	-0.2	2.3	2.1	0.9	0.3	-0.6	0.5	0.6	0.8	0.5	0.5	0.5
Personal consumption	Q-o-q % ch.	-7.9	3.5	1.9	3.3	-2.3	3.9	4.5	-0.6	-0.7	-1.2	1.2	1.2	1.1	0.7	0.6	0.6
Gross fixed capital formation	Q-o-q % ch.	-7.0	4.3	3.4	2.0	0.1	1.3	-0.9	3.5	1.3	-0.4	0.1	0.3	0.5	0.7	1.1	0.9
Government consumption	Q-o-q % ch.	1.1	3.8	1.4	-0.1	-0.5	2.3	0.3	0.5	0.4	0.1	0.1	-0.4	0.0	0.1	0.0	0.0
Inventory investment	Q-o-q contribution, % pt	-0.5	0.4	0.3	-0.1	1.1	-0.5	-0.1	0.4	0.2	0.1	-0.2	-0.1	0.1	-0.1	-0.0	-0.0
External demand	Q-o-q contribution, % pt	-0.3	1.3	-0.0	0.4	0.1	-0.0	0.2	-0.7	0.1	0.4	0.0	0.0	-0.0	0.1	0.3	0.3
Exports	Q-o-q % ch.	-9.1	10.9	5.4	4.7	1.3	2.8	1.7	2.9	0.8	-0.2	1.4	1.3	1.3	1.1	1.3	1.0
Imports	Q-o-q % ch.	-9.0	8.7	5.8	4.2	1.2	3.1	1.4	4.6	0.6	-1.0	1.5	1.3	1.4	0.9	0.9	0.6
CPI	Y-o-y % ch.	0.3	2.6	8.0	4.2	1.1	1.8	2.8	4.6	6.5	8.6	8.7	8.4	6.8	4.5	3.3	2.5
Core, excl. food and energy	Y-o-y % ch.	0.7	1.5	2.4	1.8	1.2	0.9	1.4	2.4	2.5	2.4	2.3	2.2	2.1	1.9	1.7	1.6

Note: Figures in the shaded areas are forecasts by MHRT.
Source: Made by MHRT based upon releases by Eurostat

Emerging economies: zero-tolerance policy in China and accelerating inflation in emerging economies are hampering growth

- The rise of commodity prices and slowdown in external demand, against the backdrop of the escalation and prolongation of tensions regarding Russia and Ukraine, will serve as a drag on economic recovery especially in resource-poor countries.
 - The pace of recovery will slow down in 2022 due to inflation stemming from the rise of commodity prices and deterioration of external demand as a result of supply constraints and slowdown in overseas demand. Currency-weakening pressures reflecting US interest rate hikes are also aggravating inflation, and may lead to front-loading of rate hikes in some emerging economies.
 - From 2023 onward, we expect a gradual return to a recovery path reflecting the improvement of the Covid-19 pandemic.
- In China, although the zero-tolerance policy will put downward pressure on the economy, a sharp economic decline should be avoided as a result of fiscal support.

Outlook for Asian and emerging economies

	2020	2021	2022	2023	2020				2021				2022
				(Outlook)	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Asia	-0.9	7.1	5.1	5.0	-	-	-	-	-	-	-	-	-
China	2.2	8.1	4.7	5.2	-6.9	3.1	4.8	6.4	18.3	7.9	4.9	4.0	4.8
NIEs	-0.7	5.4	2.6	2.7	-	-	-	-	-	-	-	-	-
South Korea	-0.9	4.0	2.5	2.6	1.5	-2.6	-1.0	-1.1	1.9	6.0	4.0	4.2	-
Taiwan	3.4	6.4	3.4	2.6	3.0	0.6	4.3	5.3	9.2	7.8	4.4	4.9	-
Hong Kong	-6.5	6.4	1.0	3.8	-9.3	-9.4	-4.1	-3.4	8.0	7.6	5.5	4.8	-
Singapore	-4.1	7.6	2.5	2.7	1.2	-12.2	-4.6	-0.9	2.0	15.8	7.5	6.1	3.4
ASEAN5	-3.5	3.4	5.2	4.9	-	-	-	-	-	-	-	-	-
Indonesia	-2.1	3.7	4.9	4.4	3.0	-5.3	-3.5	-2.2	-0.7	7.1	3.5	5.0	-
Thailand	-6.2	1.6	3.0	4.1	-2.2	-12.3	-6.4	-4.2	-2.4	7.7	-0.2	1.9	-
Malaysia	-5.6	3.1	6.4	4.5	0.7	-17.2	-2.7	-3.4	-0.5	16.1	-4.5	3.6	-
Philippines	-9.5	5.7	5.8	5.8	-0.7	-16.9	-11.6	-8.2	-3.8	12.1	7.0	7.8	-
Vietnam	2.9	2.6	6.9	6.9	3.7	0.4	2.7	4.5	4.7	6.7	-6.0	5.2	5.0
India	-6.6	8.3	7.4	5.9	2.8	-23.8	-6.6	0.7	2.5	20.3	8.5	5.4	-
Australia	-2.2	4.7	2.8	2.6	1.6	-6.0	-3.8	-0.6	1.3	9.6	3.9	4.2	-
Brazil	-3.9	4.6	0.2	2.2	-0.1	-10.7	-3.7	-0.9	1.3	12.3	4.0	1.6	-
Mexico	-8.2	4.8	1.6	2.3	-1.0	-18.7	-8.5	-4.4	-3.8	19.9	4.5	1.1	-

Note: Real GDP growth rate (y-o-y, %); figures in the shaded areas are forecasts. Average figures are calculated based on the GDP share (PPP) by the IMF.
 Source: Made by MHRT based upon releases by the IMF and the statistics of relevant countries and regions

Japan: GDP growth to continue to recover in FY2022 (+2.2%) and FY2023 (+1.6%)

- The Japanese economy in FY2022 is forecasted to grow by 2.2% y-o-y. Although the deterioration of the terms of trade mainly due to the rise of commodity prices and the slowdown of overseas economies especially in Europe are expected to serve as negative pressures on the economy, the economy should continue to follow a recovery, mainly in personal consumption, along with the ebb of the Omicron variant.
- Growth in FY2023 is forecast to be +1.6% y-o-y. Although the impact of high prices will ease, wages and capital investment are not expected to grow faster due to a sluggish expected growth rate, and the growth rate will gradually return to cruise mode. Green investment will not serve as a significant boost.

Outlook for the Japanese economy

		2020	2021	2022	2023	2021				2022				2023				2024
		FY	(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch.	-4.5	2.2	2.2	1.6	-0.5	0.6	-0.7	1.1	-0.5	1.3	0.6	0.5	0.5	0.2	0.6	0.4	0.2
	Q-o-q % ch. p.a.	—	—	—	—	-2.2	2.4	-2.8	4.6	-2.1	5.3	2.6	2.2	1.8	0.8	2.5	1.4	0.8
Domestic demand	Q-o-q % ch.	-3.9	1.2	2.1	1.3	-0.4	0.7	-0.8	0.9	-0.3	1.3	0.6	0.5	0.4	0.1	0.5	0.3	0.1
Private-sector demand	Q-o-q % ch.	-6.2	1.7	2.3	1.4	-0.3	1.0	-1.2	1.6	-0.5	1.4	0.5	0.5	0.5	0.1	0.5	0.2	0.1
Personal consumption	Q-o-q % ch.	-5.4	2.4	2.7	1.1	-0.8	0.7	-1.0	2.4	-1.1	1.8	0.5	0.5	0.6	-0.2	0.4	0.1	0.1
Housing investment	Q-o-q % ch.	-7.8	-1.1	-1.4	-0.5	0.9	1.0	-1.6	-1.0	0.4	-1.1	0.1	0.2	0.0	-0.2	-0.3	-0.2	-0.1
Capital investment	Q-o-q % ch.	-7.5	1.1	1.2	2.3	0.4	2.0	-2.4	0.3	0.4	0.6	0.5	0.4	0.3	0.6	0.7	0.6	0.5
Inventory investment	Q-o-q contribution, % pt	(-0.2)	(-0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.1)	(-0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.0)	(-0.1)
Public-sector demand	Q-o-q % ch.	3.0	-0.1	1.7	0.9	-0.8	-0.1	0.2	-1.0	0.3	0.9	0.9	0.5	0.1	-0.0	0.4	0.4	0.2
Government consumption	Q-o-q % ch.	2.5	2.0	2.2	0.9	-0.6	0.7	1.1	-0.4	0.5	0.9	0.7	0.4	0.2	-0.1	0.3	0.3	0.2
Public investment	Q-o-q % ch.	5.2	-8.0	-0.6	1.3	-1.7	-3.4	-3.0	-3.8	-0.8	0.7	1.4	1.0	-0.2	0.0	0.5	0.5	0.2
External demand	Q-o-q contribution, % pt	(-0.6)	(0.9)	(0.1)	(0.3)	(-0.1)	(-0.1)	(0.1)	(0.2)	(-0.2)	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Exports	Q-o-q % ch.	-10.5	12.4	2.3	2.5	2.2	3.1	-0.3	0.9	0.2	0.8	0.7	0.6	0.4	0.7	0.8	0.6	0.5
Imports	Q-o-q % ch.	-6.7	6.4	1.8	0.8	3.0	3.8	-1.0	-0.4	1.4	0.6	0.4	0.3	0.2	0.1	0.2	0.2	0.2
GDP (nominal)	Q-o-q % ch.	-3.9	1.0	1.3	3.9	-0.5	0.2	-1.1	0.3	-0.3	0.0	1.0	0.8	1.7	0.9	0.7	0.4	1.3
GDP deflator	Y-o-y % ch.	0.7	-1.2	-0.9	2.2	-0.2	-1.1	-1.2	-1.3	-1.0	-2.3	-1.5	-0.4	0.5	2.8	2.4	2.0	1.8
Domestic demand deflator	Y-o-y % ch.	-0.3	0.8	1.6	0.1	-0.4	0.2	0.5	1.2	1.3	1.5	1.7	1.6	1.1	0.4	0.1	0.1	0.1

Note: Figures in the shaded areas are forecasts.

Source: Made by MHRT based upon the Cabinet Office, *Quarterly Estimates of GDP*

Japan: slow recovery in employment and wages; core CPI growth to expand to the 2% level from the Apr-Jun quarter

- Although labor compensation is recovering mainly in the service sector, reflecting the ebb of infections, in FY2022, a full-scale recovery is not expected until FY2023 or later, as the deterioration of terms of trade and the slowdown in overseas economies will serve as a drag on corporate earnings primarily in the manufacturing sector. Given the scant prospects of the rise of wages due to the limited shift of labor to high-productivity sectors, post-pandemic personal consumption and price increases are also expected to be sluggish.
- The core CPI (y-o-y) is forecast to be +2.0% in FY2022. The rise of core CPI is expected to accelerate from the Apr-Jun quarter and rise of the +2% level, when the downward impact of lower telecommunications rates fades. Although the expansion and extension of measures to mitigate drastic changes in fuel oil prices will push down prices by a fiscal year average of 0.4%, prices of daily necessities, especially energy and food, will continue to rise reflecting the rise of commodity prices and weaker yen, and weigh down upon real household incomes.

Outlook for the Japanese economy (key economic indicators)

		2020	2021	2022	2023	2021				2022				2023				2024
		FY	(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch.	-9.6	5.9	4.2	4.4	2.6	0.2	-1.9	0.2	0.9	1.7	1.5	1.4	1.1	1.0	1.1	0.8	0.7
Ordinary profits	Y-o-y % ch.	-15.6	35.9	10.9	10.7	26.0	93.9	35.1	24.7	10.6	12.7	10.7	10.1	9.9	13.0	11.6	9.3	8.9
Nominal compensation of employees	Y-o-y % ch.	-1.5	1.4	0.2	1.4	0.5	2.9	2.3	1.0	-0.8	-0.1	0.2	-0.0	1.0	1.5	1.6	1.6	1.1
Unemployment rate	%	2.9	2.8	2.8	2.4	2.9	2.9	2.8	2.7	2.8	2.8	2.9	2.9	2.7	2.5	2.4	2.4	2.4
New housing starts	P.a., 10,000 units	81.2	86.0	85.0	84.6	83.5	86.5	86.7	85.5	85.0	84.3	85.3	85.1	85.1	84.8	84.5	84.5	84.4
Current account balance	P.a., JPY tril	16.3	11.4	-0.3	16.1	20.4	17.9	11.7	11.8	6.0	-3.4	-1.8	0.8	3.4	13.4	14.7	15.7	20.0
Domestic corporate goods price	Y-o-y % ch.	-1.4	7.3	5.2	-2.9	-0.3	4.6	6.1	8.8	9.5	9.8	7.1	3.6	0.6	-3.5	-3.1	-2.5	-2.4
" (Excl. consumption tax)	Y-o-y % ch.	-2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer prices, excl. fresh food	Y-o-y % ch.	-0.4	0.1	2.0	0.9	-0.5	-0.6	-0.0	0.4	0.6	2.0	2.3	1.9	1.6	1.3	1.0	0.8	0.6
" (Excl. institutional factors)	Y-o-y % ch.	-0.4	-0.0	2.5	0.3	-0.4	-0.6	-0.2	-0.0	0.7	2.7	3.0	2.5	2.0	0.6	0.3	0.2	0.1
Consumer prices, excl. fresh food and energy	Y-o-y % ch.	0.1	-0.8	1.0	0.5	0.0	-0.9	-0.5	-0.7	-0.9	0.5	1.0	1.5	1.0	0.7	0.6	0.4	0.2
" (Excl. institutional factors)	Y-o-y % ch.	-	-0.9	1.2	0.3	0.1	-0.9	-0.7	-1.1	-0.9	0.6	1.2	1.7	1.2	0.6	0.4	0.2	-0.0

Note: 1. Figures in the shaded areas are forecasts. The readings above may differ from public releases because the rates of change are calculated on the basis of real-terms data.

2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries basis) (ex finance & insurance).

3. "Institutional factors" in consumer prices refer to the impacts of the consumption tax, free education, the GoTo Travel program, and measures to mitigate drastic changes in fuel oil prices.

Source: Made by MHRT based upon relevant statistics

Reference: key political events

	2022		2023		2024	
US	Nov	Mid-term elections	Mar	20 years since the Iraq War	Nov	Presidential election
Europe	Jun	France: legislative election	1H	Italy: legislative election	May	Russia: end of term of President Vladimir Putin
					May	UK: parliamentary elections European Parliamentary elections
					Jul-Sep	Paris Olympic and Paralympic Games
					Oct	End of term of European Commission President Ursula von der Leyen
Japan	Jul	End of term of office of members of House of Councilors	Apr	End of term of Bank of Japan Governor Haruhiko Kuroda	Jul	End of term of the governor of Tokyo
			Apr	Nationwide local elections		
			Apr	End of term of office of the governor of Osaka prefecture and mayor of Osaka city		
Asia	May	Hong Kong: Chief Executive election	Spring	China: National People's Congress	Jan	Taiwan: presidential election
	May	The Philippines: presidential and legislative elections	By Mar	Thailand: election of the House of Representatives (lower house)	Feb	Indonesia: presidential and parliamentary elections
	Autumn	China: 20th National Congress of the Communist Party	By Jul	Cambodia: general election	1H	South Korea: legislative election
			By Aug	Myanmar: general election	By mid-year	India: general election
			By Sep	Malaysia: general election		
Other	May	Australia: Senate and House of Representatives elections	Oct	Argentina: presidential and legislative elections	Jun	Mexico: presidential election
	Oct	Brazil: presidential and legislative elections	By year-end	Turkey: presidential and legislative elections		

Source: Made by MHRT based upon media reports

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