FY2023 - FY2024 Economic Outlook

Economic slowdown due to rise of inflation and interest rates

June 22, 2023

Mizuho Research & Technologies, Ltd.

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Key points of our outlook

- The global economy is expected to slow to +2.6% for the full year, with a growing sense of stagnation toward the second half of 2023 under the rise of interest rates and inflation. The US and European economies will enter a recession due to monetary tightening. Tepid global economic growth forecast of +2.7% in 2024 due to the slow recovery of the US and European economies and the ongoing slowdown of the Chinese economy.
- The US economy is expected to fall into a recession from the second half of 2023, as the effects of the rapid policy rate hikes to date spread throughout the economy. On the other hand, inflation is persistent due to the tight labor market, and policy rate cuts are not expected until after 2024, when inflationary pressures ease. The economic recovery in 2024 will be slow due to the policy impact of keeping interest rates high.
- In Europe, the ECB will continue to take a tightening stance due to persistent inflationary pressures amid economic conditions which have already fallen into a mild recession. The pace of economic growth is expected to remain in the low zero percent range in both 2023 and 2024, given the maintenance of high interest rates due to concerns over wage inflation, and prospects that interest rate will not be cut until next spring.
- In China, the rapid recovery of demand associated with the resumption of the economy has already run out of steam. Weakness in the private sector ‘s willingness to invest and hire and prolonged adjustment of the real estate market are expected to continue to serve as a drag upon the economy through 2024. In the NIEs and ASEAN, the economy is generally decelerating, in particular with respect to exports, due to the weakness of the US and European economies and prolonged adjustment of the semiconductor cycle.
- In FY2023, the Japanese economy is expected to recover at a moderate pace due to the US recession and prolonged adjustment of the semiconductor cycle, despite the continued recovery of consumption, especially in services. Although the economic recovery phase is expected to continue in FY2024, the pace of recovery is expected to remain moderate, as the effect of wage increases will be offset by inflation.
- In the financial markets, the US economic slowdown, interest rate cuts, and the Bank of Japan’s (BOJ) policy revisions are expected to narrow the gap between domestic and foreign interest rates, and the USD/JPY exchange rate is expected to gradually appreciate to around JPY130/USD through 2024 . The BOJ will remove yield curve control (YCC) and negative interest rates in the Jul-Sep quarter of 2024 based on its multidimentional review. We expect the BOJ to shift to a sustained monetary easing policy.

Issues considered in updating our Economic Outlook

	US and Europe	China	Japan
Current assessment of the economy	Persistent inflation High interest rate level	Loss of steam of economic recovery Real estate market slump	Progress in firms' pass-through of cost increases to their selling prices Strong thrift-consciousness
	Prolonged manufacturing sector adjustment (Counter reaction to special demand related to the Pandemic / easing of concerns over logistic disruptions)		
Pressures due to structural shifts (Changes in behavior patterns/norms)	Wage inflation, chronic labor shortage	US-China tensions, economic security, acceleration of derisking	Change in stance among consumers and businesses regarding price levels

What is the background to persistent inflation and the future of monetary policy?

What is behind the slow recovery? How long will the real estate adjustment continue?

Will companies continue to pass on costs to prices? What about the spillover to wages?

Will the manufacturing sector adjustment still continue? What is the impact on emerging economies and Japan?

What should we be wary of when looking at the post-Pandemic global economy?

Source: Compiled by Mizuho Research & Technologies (MHRT).

Outlook on the global economy: Strong sense of stagnation from late 2023 to early 2024

Outlook on the global economy (revised as of June)

	(Y-o-y % change)			(% Pt)	
	2022	2023	2024	2023	2024
		(Outlook)		(Comparison with the forecast as of Feb 2023)	
Global real GDP growth	3.3	2.6	2.7	0.3	- 0.2
Japan, US, Europe	2.6	0.5	0.3	0.6	- 0.3
US	2.1	0.5	0.1	0.8	- 0.4
Eurozone	3.5	0.2	0.3	0.3	- 0.3
UK	4.1	0.0	0.6	0.7	- 0.3
Japan	1.0	1.3	0.8	0.2	- 0.4
Asia	4.1	4.9	4.7	- 0.1	- 0.1
China	3.0	5.3	4.6	-	- 0.3
NIEs	2.1	1.7	1.9	- 0.2	- 0.1
ASEAN5	5.9	4.6	4.4	- 0.1	- 0.1
India	6.7	5.7	6.2	-	- 0.1
Australia	3.7	1.8	1.8	- 0.1	- 0.2
Japan (FY)	1.4	1.1	0.9	- 0.1	-

Strong sense of stagnation from late 2023 to early 2024 under the rise of interest rates and inflation

The economy will fall into a recession from 3Q2023 to 1Q2024 as the impact of rapid interest rate hikes emerges. Recovery will be slow in 2024 due to the continuation of high interest rates

Core inflation fails to ebb due to the tight labor market. Economic growth falls into negative territory from 4Q2023 to 1Q2024. The subsequent recovery will also be slow.

Despite a reactionary rebound from the zero-Covid policy in 2023, the economy will slow down in 2024 due to a cautious stance among businesses and households, and the slow recovery of the real estate sector.

Despite weak external demand due to inventory adjustment in the global manufacturing sector, service consumption and investment demand will keep growth in positive territory.

Note: The figures in shaded areas are forecasts. The total for forecasted regions is calculated based on GDP share (PPP) by the IMF.
Source: Compiled by MHRT based on IMF and statistics of the relevant country or region.

Issues and assessments on the major economies of the world

US	What is the background to the current firmness of the economy? What is the outlook for the economy going forward?	◆ The tightness of the labor market and the financial health of households will support the economy in the first half of 2023. ◆ In addition to stricter lending attitudes, excess savings will erode, leading to a recession in late 2023 to 1Q2024. ◆ The depth of the recession will be somewhat shallower than expected in February, with only a mild slowdown in inflation and a moderate deterioration of employment. The Fed will keep interest rates at high levels in 2023, and refrain from rate cuts until 2024.
Europe	What is the outlook for prices and wages and the ECB's monetary policy?	◆ Amid the tight labor market, wage growth will accelerate through summer 2023, following the current rise in prices. ◆ Although the fall of energy prices serves as downward pressure upon prices, core inflation is expected to remain under upward pressure given the pass-through of higher wages to prices. Core inflation will return to the 2% level in spring 2024. ◆ The ECB will continue to raise interest rates until July 2023. Subsequently, the ECB will keep interest rates high, and will not cut rates until spring 2024 or later.
Emerging countries	Where the Chinese economy is headed, and how the global economy will affect exports from emerging economies	◆ China's brisk economic recovery after the lifting of the zero-Covid policy has run out of steam. The economy will slow down through 2024 as the rise of policy uncertainty serves as a drag upon the economy and the real estate market remains in an inventory adjustment phase. ◆ The NIEs and ASEAN economies will generally slow down, especially in exports, due to a delay in the bottoming out of the semiconductor cycle, which is already slowing down, and the impact of recession and inventory adjustments in the US and Europe from the second half of 2023.
Japan	What is the outlook for prices and wages and the future of the economy?	◆ Although the core CPI (y-o-y change) will remain high during the summer due to cost-push pressures, it will gradually slowed to the 1% level. The underlying inflation rate will fall short of the 2%-level. Among the reasons are the persistent thrift-consciousness of households, prospects that the current high wages will gradually slow down, and the cautiousness among businesses about passing on labor costs to prices. ◆ Despite the weakness of external demand due to the slowdown of overseas economies, service consumption and investment demand will keep economic growth in positive territory.
Financial markets	What are the changes in monetary policy assumptions, interest rates, exchange rates, and stock prices?	◆ The BOJ will remove YCC and negative interest rates in the Jul-Sep quarter of 2024 from the perspective of the sustainability of monetary easing. ◆ Japan's long-term interest rates will stand just under 1% reflecting the BOJ's policy shift. US long-term interest rates will generally trend around the 3% range. ◆ As for the USD/JPY exchange rate, the yen will strengthen to the dollar against the backdrop of the narrowing Japan-US interest rate differential. The appreciation of the yen will accelerate due to the BOJ's policy shift. ◆ US stocks will pick up subsequent to a fall through early 2024. Japanese stocks will rise further in the summer of 2023

Source: Compiled by MHRT.

(1) US: Fall into a recession from mid-2023 due to impact of monetary tightening

- The rate of US economic growth should turn out to be slightly positive in 2023 (+0.5% y-o-y) and 2024 (+0.1% y-o-y).
  - In 2023, the impact of monetary tightening will spread throughout the economy, pushing the rate of economic growth into negative territory, and the US economy will fall into a recession from the Jul-Sep quarter. Personal consumption is expected to gradually slow down due to the deterioration of employment and the erosion of excess savings which was building up during the Covid-19 pandemic.
  - However, given the robust financial conditions of households, the depth of economic slowdown is expected to be shallow.
    - The breadth of GDP deterioration from the peak-to-bottom is expected to be -1.6%Pt in June, compared to -2.0%Pt in February.

Outlook on the US economy

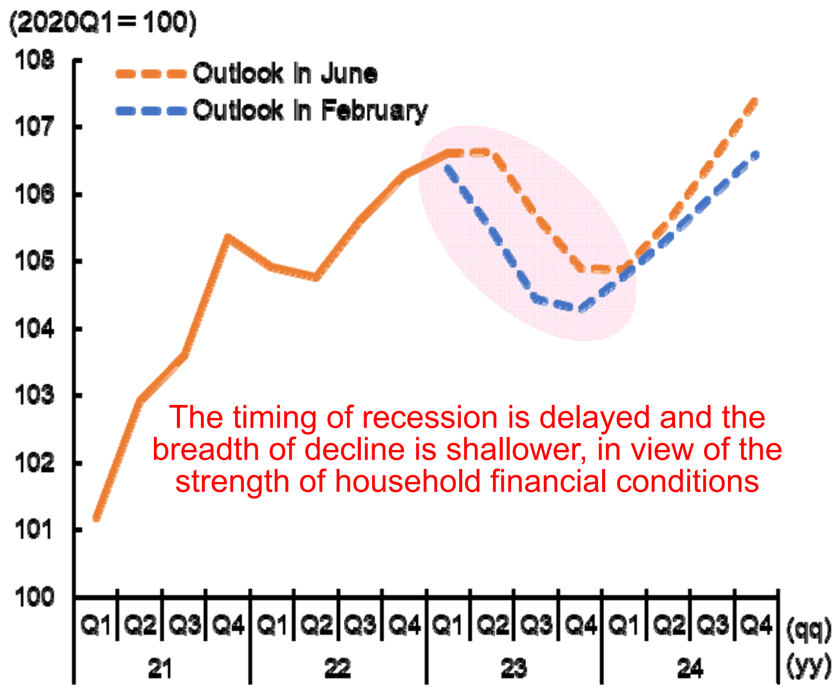
		2022	2023	2024	2022				2023				2024			
			(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch p.a.	2.1	0.5	0.1	-1.6	-0.6	3.2	2.6	1.3	0.0	-3.5	-2.9	- 0.1	2.7	3.5	3.5
Personal consumption	Q-o-q % ch p.a.	2.7	1.7	0.7	1.3	2.0	2.3	1.0	3.8	1.6	-0.8	-0.9	- 0.2	2.1	2.7	2.9
Housing investment	Q-o-q % ch p.a.	-10.6	-13.2	4.4	-3.1	-17.8	-27.1	-25.1	-5.4	-2.4	-8.1	-5.9	6.2	12.3	18.8	13.0
Capital investment	Q-o-q % ch p.a.	3.9	-0.0	- 0.1	7.9	0.1	6.2	4.0	1.4	- 2.7	- 7.6	- 5.8	1.1	5.2	5.1	5.3
Inventory investment	Q-o-q contribution p.a. % pt	0.0	- 1.2	0.5	0.2	- 1.9	- 1.2	1.5	- 2.1	- 0.1	- 1.5	- 1.0	- 0.1	0.6	0.8	0.8
Government consumption	Q-o-q % ch p.a.	- 0.6	2.3	- 0.8	- 2.3	- 1.6	3.7	3.8	5.2	0.0	0.0	- 1.0	-1.0	-1.0	-1.0	-0.3
Net exports	Q-o-q contribution p.a. % pt	0.0	- 0.2	- 0.3	- 3.1	1.2	2.9	0.4	0.0	- 0.5	- 0.1	- 0.1	-0.0	- 0.4	- 0.5	- 0.5
Exports	Q-o-q % ch p.a.	7.1	2.7	- 0.1	- 4.6	13.8	14.6	- 3.7	5.2	2.7	- 4.6	- 4.3	0.1	2.7	3.3	3.6
Imports	Q-o-q % ch p.a.	8.1	- 0.5	1.4	18.4	2.2	- 7.3	- 5.5	4.0	4.9	- 2.8	- 2.5	0.3	4.4	5.6	5.7
Unemployment rate	%	3.6	3.9	4.3	3.8	3.6	3.6	3.6	3.5	3.6	4.0	4.5	4.7	4.4	4.1	4.1
PCE deflator	Y-o-y % ch	6.3	4.0	2.8	6.4	6.6	6.3	5.7	4.9	4.0	3.7	3.4	3.1	2.8	2.7	2.7
Core, excl. food and energy	Y-o-y % ch	5.0	4.2	2.7	5.3	5.0	4.9	4.8	4.7	4.5	4.1	3.5	3.0	2.7	2.6	2.6

Note: The figures in shaded areas are forecasts by MHRT.
Source: Compiled by MHRT based on data from the US Department of Commerce and the US Department of Labor.

US: Despite inevitability of recession, the depth is expected to be somewhat shallower

- The tight labor market and financial health of households will support the economy in the first half of 2023.
- In addition to tighter lending attitudes, excess savings will erode, leading to a recession in 2H2023 to 1Q2024.
- The depth of the recession will be somewhat shallower than previously expected, with only a mild slowdown in inflation and a moderate deterioration in employment. The Fed will maintain high interest rates in 2023, with no rate cuts until 2024.

US GDP Growth Forecast and Key Points for Revision



Key points of revision

Point 1: Why is the US economy so strong?

A. Since the Global Financial Crisis of 2007-2008, the financial structure of households has improved significantly. The US economy is less susceptible to the effects of monetary tightening than in the past.

Point 2: Will there be a recession?

A. A recession is inevitable due to tighter lending attitudes and the erosion of excess savings (the recession is expected to be somewhat less severe due to stronger interest rate resilience).

Point 3: What is the outlook for inflation and monetary policy?

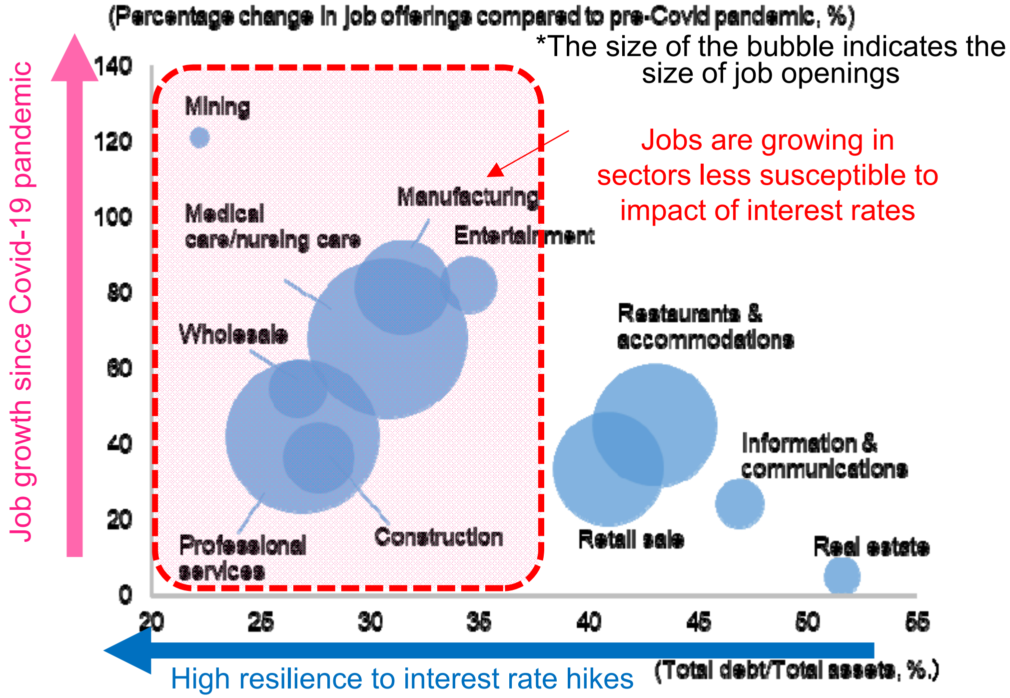
A. As the recession is expected to be mild, inflation will remain above the Fed target, and the Fed will leave monetary policy unchanged during the year

Source: Compiled by MHRT based on data from the US Department of Commerce.

US: (1) Background of resilience: growing resilience to interest rate hikes. Household debt burdens are at historically low levels.

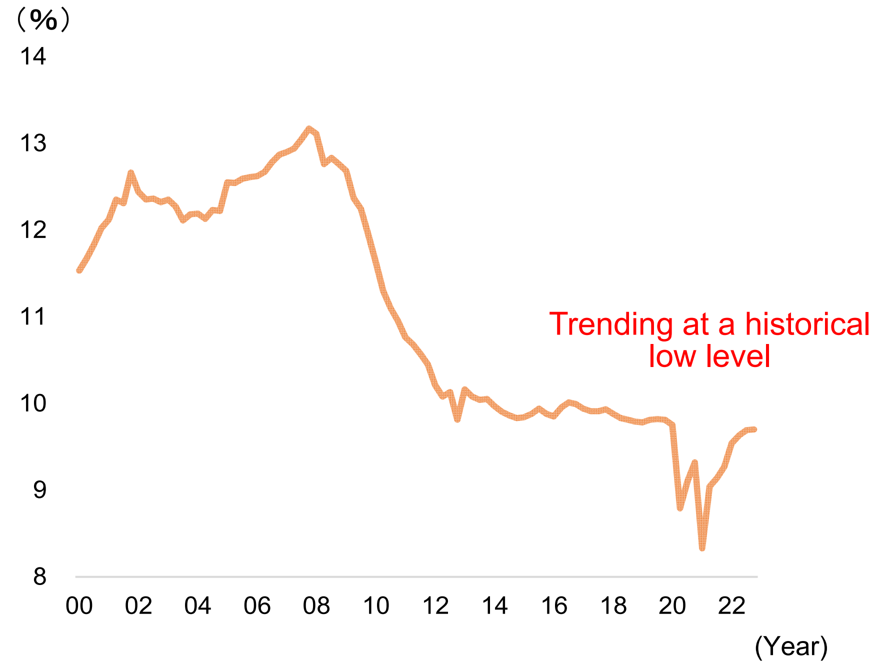
- The labor market remained tight in April with the job openings-to-unemployed ratio (number of job openings divided by number of unemployed) at 1.8x.
  - Companies in the medical/nursing care, professional services, and manufacturing sectors (shown in the red box in the left chart) are characterized by sound financial position and are less susceptible to the effects of monetary tightening. The industries with high resilience to interest rate hikes account for about 60% of all job openings, causing employment to be less susceptible to the effects of monetary tightening.
- Household debt service coverage is at a historic low
  - Possibility that the employment income environment is favorable and that the burden has been reduced by refinancing to a long-term fixed rate during the Covid-19 pandemic.

Percent change in job openings by industry and resilience to interest rate hikes



Note: Total liabilities/total assets are calculated based on data of listed companies in the US
Source: Compiled by MHRT based on data from the US Department of Labor and Bloomberg.

Household debt repayment burden ratio

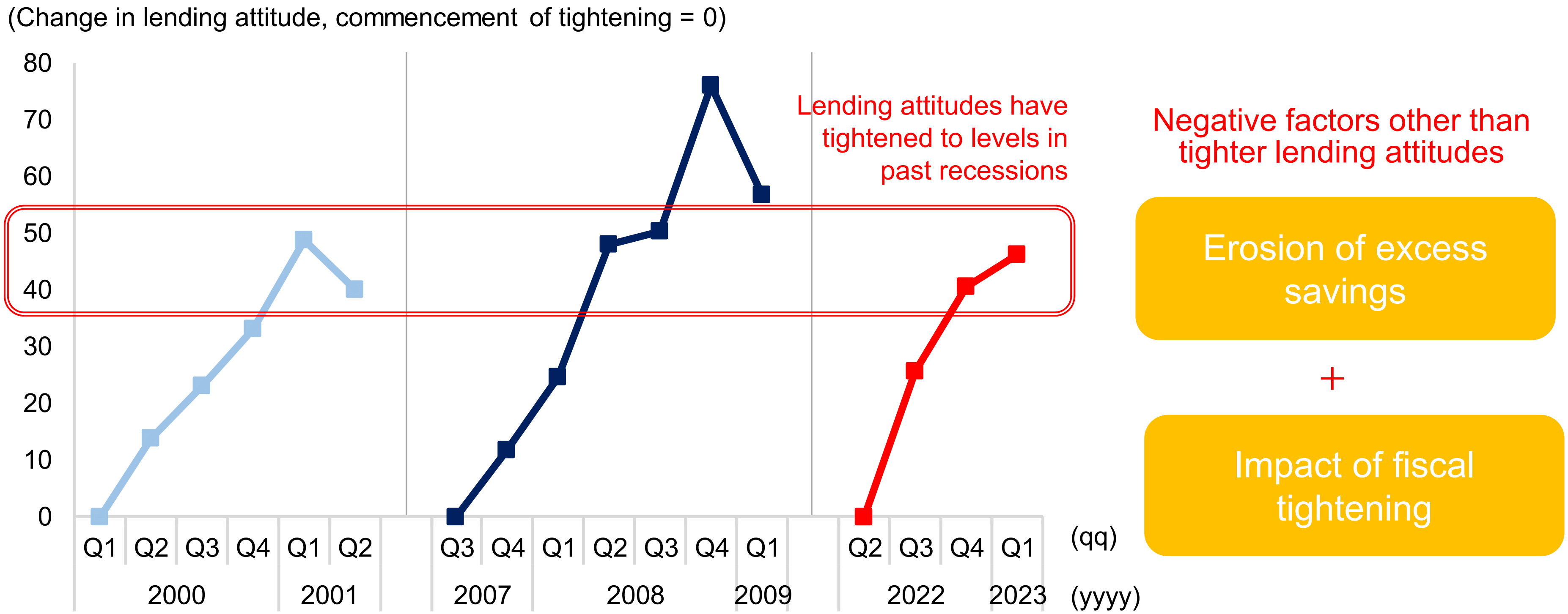


Note: Ratio of debt principal and interest payments to disposable income
Source: Compiled by MHRT from FRB

US: (2) Lending attitudes have tightened to levels in past recessions. A recession is inevitable

- Lending attitudes of financial institutions worsened at a rapid pace against a backdrop of monetary tightening by the Fed and growing financial destabilization.
  - Lending attitudes have already tightened to levels in past recessions. Our view remains unchanged that the economy has entered a recessionary phase due to the erosing of excess savings that had been supporting the economy and the impact of fiscal tightening measures.

Lending attitudes of financial institutions

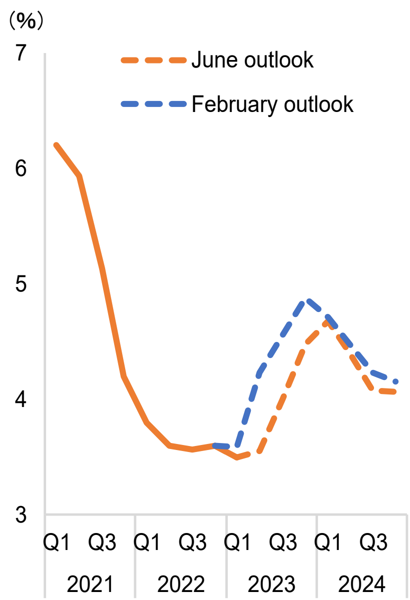


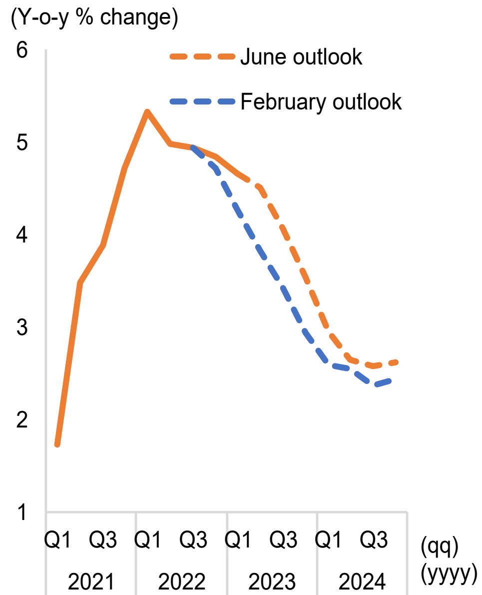
Note: Percentage of banks that have tightened their lending stance with respect to C&I loans to large companies
Source: Compiled by MHRT based on FRB

US: Fed to leave the federal funds rate unchanged during the year

- <u>The Fed is expected to leave the federal funds rate unchanged for the remainder of the year (the timing of the rate cut has been postponed compared to our previous assumption).</u>
  - We have revised upward our forecasts on employment and inflation from our outlook in February, given that the deterioration in the economy has been curbed due to support by households robust balance sheets.
  - The Fed is expected to keep the federal funds rate unchanged during the year in view of the strength of employment and inflation.

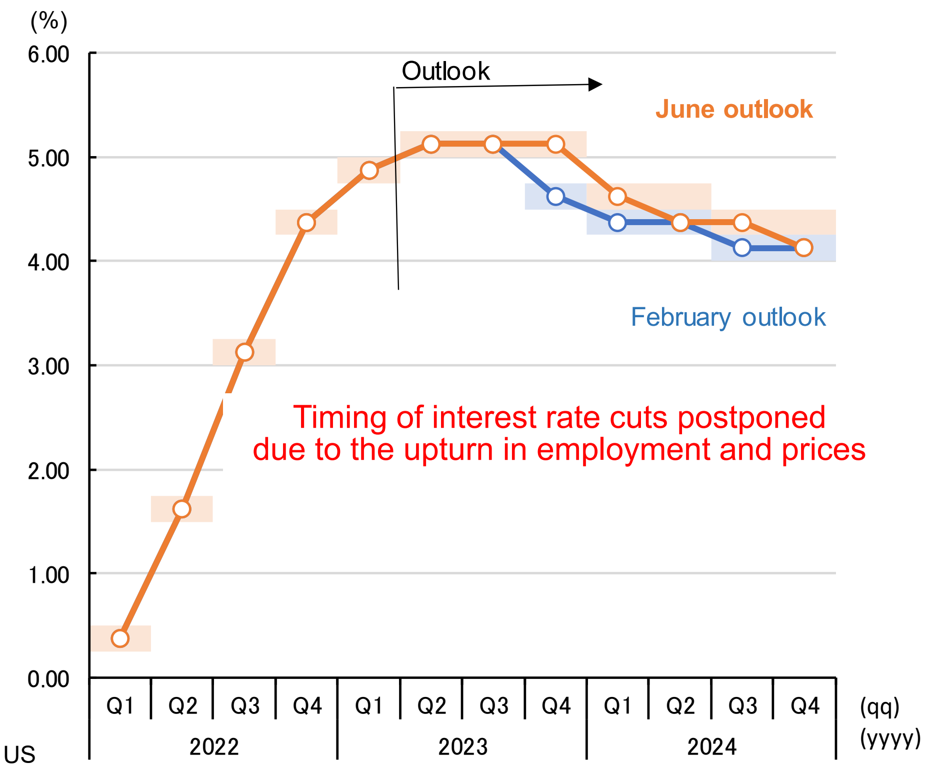
Unemployment and Inflation Outlook





Note: The core inflation rate is based on the PCE deflator.
Source: Compiled by MHRT based on data from the US Department of Commerce and the US Department of Labor

Monetary policy outlook



Source: Compiled by MHRT based data from the on FRB

(2) Eurozone: Slow growth in both 2023 and 2024 due to inflation and impact of interest rate hikes

- Forecast on Eurozone real GDP growth: 2023 (+0.2%) and (2024) +0.3%
  - In 2023, the weakness of consumption reflecting high inflation, decline of capital and housing investment due to interest rate hikes, and, slowdown in exports accompanying the deterioration of the US economy will serve as downward pressures on economic growth.
  - In 2024, although the improvement of real income due to the cool-down of inflation will serve as a boost for consumption, the economy is expected to remain in the doldrums as the impact of the interest rate hike will linger until around the middle of the year.

Outlook on the Eurozone economy

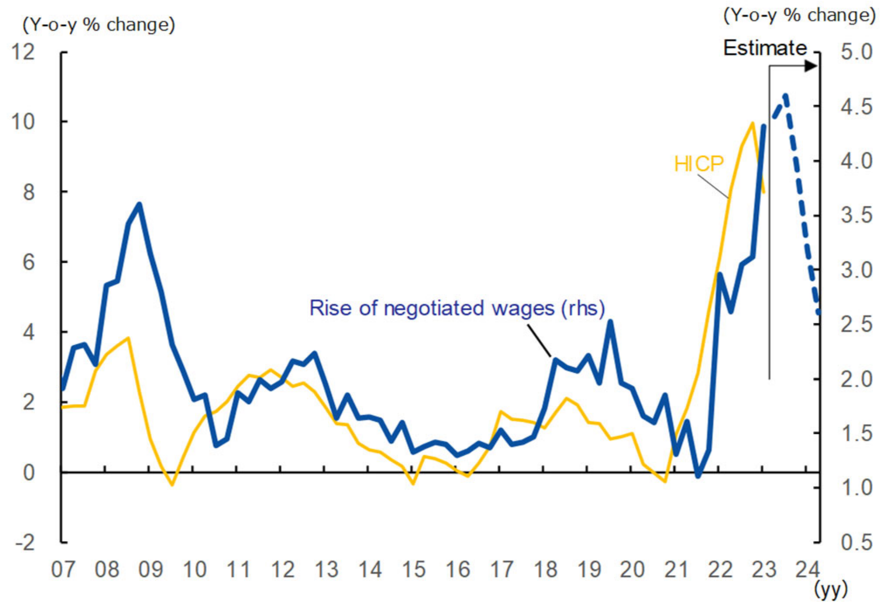
		2021	2022	2023	2024	2022				2023				2024			
				(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch	5.3	3.5	0.2	0.3	0.7	0.8	0.4	-0.1	-0.1	0.0	0.1	-0.2	-0.1	0.3	0.4	0.5
Domestic demand	Q-o-q % ch	4.1	3.8	-0.6	0.4	-0.1	0.8	1.8	-1.2	-0.8	0.2	0.2	-0.1	-0.1	0.2	0.3	0.4
Personal consumption	Q-o-q % ch	3.7	4.5	0.4	1.0	0.3	0.9	1.3	-1.0	-0.3	0.5	0.4	0.2	0.1	0.2	0.4	0.4
Gross fixed capital formation	Q-o-q % ch	3.9	3.7	-2.1	-2.4	-0.6	1.0	4.0	-3.5	0.6	-1.5	-1.0	-0.9	-0.9	-0.2	0.1	0.3
Government consumption	Q-o-q % ch	4.3	1.4	-0.4	0.6	0.2	-0.1	-0.0	0.8	-1.6	0.6	0.3	0.1	0.1	0.1	0.1	0.1
Inventory investment	Q-o-q contribution, % pt	0.2	0.2	-0.2	0.2	-0.2	0.1	0.2	-0.0	-0.3	0.1	0.2	-0.1	0.0	0.1	-0.0	0.1
External demand	Q-o-q contribution, % pt	1.3	-0.2	0.7	0.0	0.9	0.1	-1.3	1.1	0.6	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.1
Exports	Q-o-q % ch	10.7	7.2	0.7	0.1	1.7	1.8	1.2	-0.2	-0.1	0.1	-0.5	-0.3	0.1	0.2	0.4	0.6
Imports	Q-o-q % ch	8.4	8.3	-0.6	0.1	0.1	1.8	4.1	-2.5	-1.3	0.3	-0.3	-0.2	0.1	0.1	0.1	0.5
CPI	Y-o-y % ch	2.6	8.4	4.9	2.0	6.1	8.0	9.3	10.0	8.0	5.6	3.7	2.6	2.3	2.0	1.9	1.9
Core, excl. food and energy	Y-o-y % ch	1.5	3.9	4.4	2.5	2.7	3.7	4.4	5.1	5.5	4.8	3.9	3.5	3.0	2.6	2.3	2.1

Note: Figures in the shaded areas are forecasts by MHRT
Source: Compiled by MHRT from Eurostat

Eurozone: Wage growth accelerated along with prices. Rising concerns regarding wage inflation in the services sector

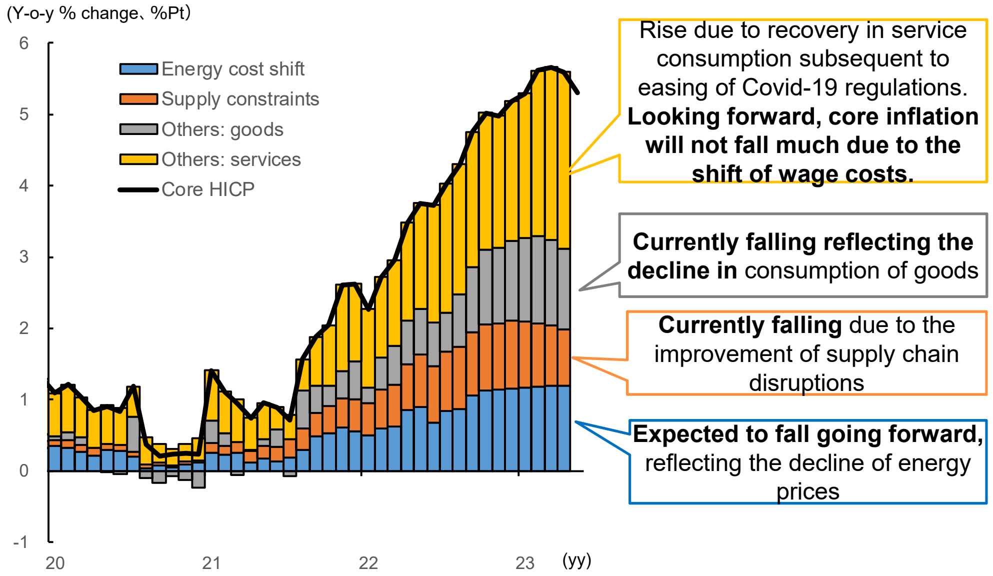
- Amid the rise of inflation and tight labor market conditions, wage growth accelerated to +4.3% y-o-y in the Jan-Mar quarter of 2023 (previous quarter: +3.1% y-o-y).
  - Eurozone wages tend to lag inflation, and are likely to accelerate further this summer.
- Core inflation remains high. While the upward pressures stemming from supply constraints and the shift of energy costs will begin to fade, service prices will continue to be subject to upward pressures from the shift of wage costs during the foreseeable future.

Eurozone: consumer prices (HICP) and wage growth



Note: Wage growth from 2Q2023 onward is based on estimates of the inflation rate (3-qtr lag) and the output gap (3-qtr lag).
Source: Compiled by MHRT based on data from the ECB, Eurostat, and the European Commission.

Eurozone: factor decomposition of core inflation

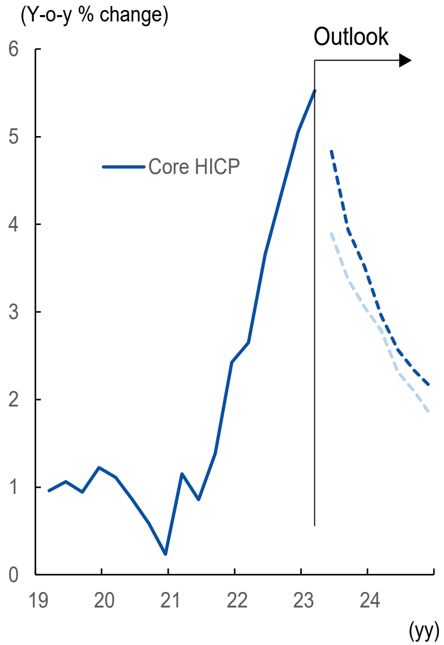


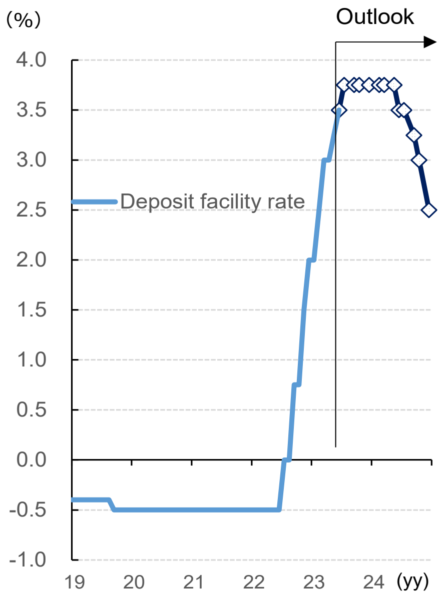
Note: "Energy cost shift" are contributions of items with significant Granger causality with energy prices (includes non-durable consumer goods, transportation services, and general merchandise). The "supply constraints" are contribution of automobiles (including used care), furniture, home appliances, etc.
Source: Compiled by MHRT from Eurostat.

Eurozone: ECB expected to continue interest rate hikes through July, serving as downward pressure on the economy from the end of this year onward

- ECB raises rates by +25bp at June Governing Council meeting
  - The ECB is expected to raise interest rates by an additional +25bp in July and raise the deposit facility rate to 3.75%, given its concerns regarding wage inflation. Subsequently, it will keep interest rates unchanged and assess the effects of monetary tightening so far.
  - A shift to interest rate cuts is expected after spring 2024, when a return to 2% inflation is expected.
- The recovery of economic growth is projected to be a lackluster +0.3% in 2024 against the backdrop of the decline in investment demand due to interest rate hikes.
  - There will be a lag of about six months until the impact of interest rate hikes begins to be felt in the real economy. Further interest rate hikes in the future will put downward pressure on the economy from the end of this year onward.

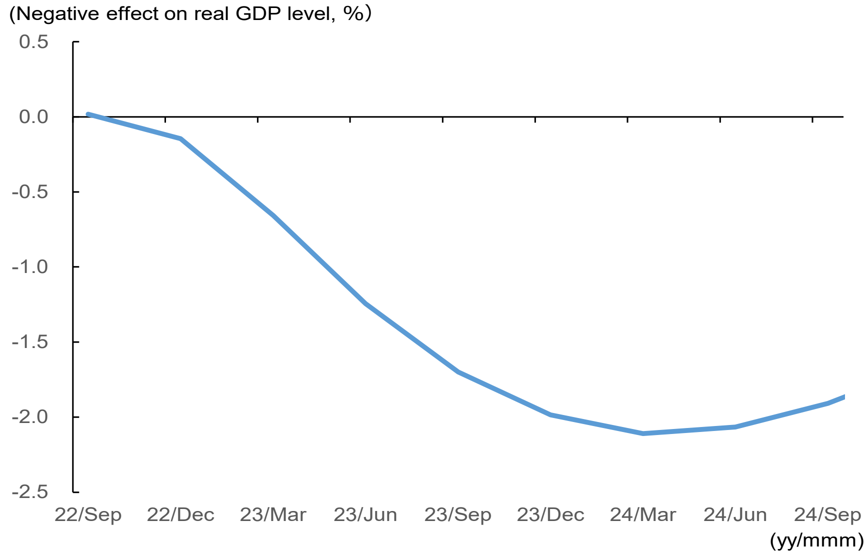
Eurozone: Core inflation and policy rate outlook





Source: Compiled by MHRT based on data from Eurostat and ECB

Eurozone: Impact of interest rate hikes on GDP (estimate)



Note: Estimated by FAVAR model consisting of approximately 100 macro and financial variables. Average downward pressure from the Jul-Sep quarter of 2022 to each point in time.
Source: Compiled by MHRT based on data from Eurostat, ECB, European Commission, etc.

(3) Emerging economies: China's recovery runs out of steam, NIEs and ASEAN exports slow down, and India’s domestic demand on firm footing

- The Chinese economy will slow down through 2024, as post-zero-Covid revenge demand runs out of steam, businesses and households take a cautious stance, and the real property sector remains in an adjustment phase.
- The NIEs and ASEAN economies will generally slow down due to the fall of exports.
  - The NIEs are forecast to slow down in 2023, reflecting the semiconductor cycle, and the ASEAN economy is projected to moderate through 2024 as the US and European economies fall into a recession going forward.
  - The decline of exports will spill over to domestic demand through the fall of employment in related industries. In particular, the degree of spillover is expected to be greater in countries that are dependent on external demand.
- Despite the slowdown of India ‘s economic growth in 2023 reflecting the interest rate hikes thus far and rise of prices, the economy will pick up in 2024 on the back of firm domestic demand.

Outlook on the Asian and emerging economies

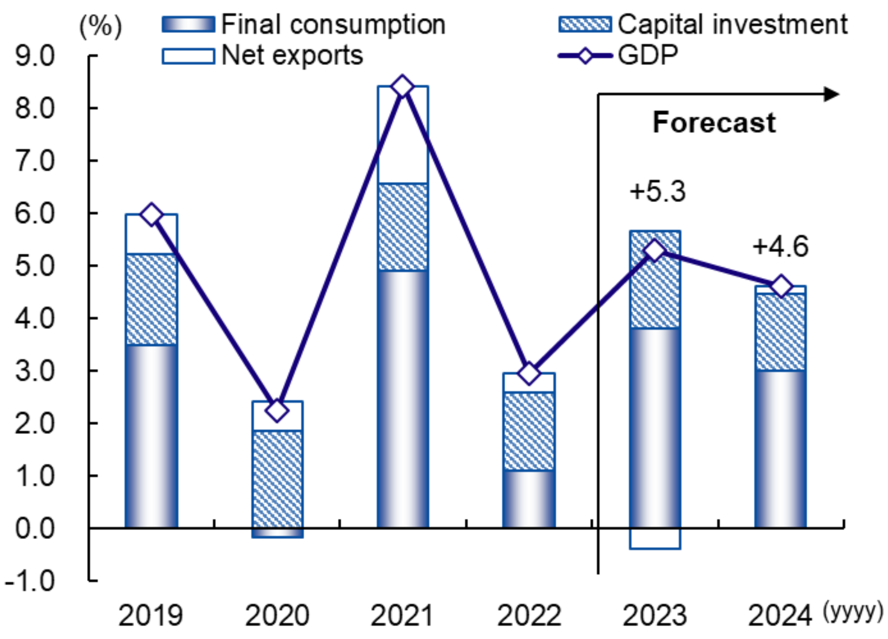
	2020	2021	2022	2023	2024	2021			2022				2023
				(Outlook)		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Asia	- 0.8	7.4	4.1	4.9	4.7	-	-	-	-	-	-	-	-
China	2.2	8.4	3.0	5.3	4.6	8.3	5.2	4.3	4.8	0.4	3.9	2.9	4.5
NIEs	- 0.6	5.7	2.1	1.7	1.9	-	-	-	-	-	-	-	-
South Korea	- 0.7	4.3	2.6	1.4	1.8	6.4	4.1	4.3	3.1	2.9	3.2	1.4	0.9
Taiwan	3.4	6.5	2.4	1.5	2.0	7.8	4.1	5.2	3.9	3.0	3.6	- 0.8	- 2.9
Hong Kong	- 6.5	6.4	- 3.5	3.6	2.7	7.6	5.5	4.7	- 3.9	- 1.2	- 4.6	- 4.1	2.7
Singapore	- 3.9	8.9	3.6	2.0	1.8	17.3	8.7	6.6	4.0	4.5	4.0	2.1	0.4
ASEAN5	- 3.5	3.4	5.9	4.6	4.4	-	-	-	-	-	-	-	-
Indonesia	- 2.1	3.7	5.3	4.4	4.4	7.1	3.5	5.0	5.0	5.5	5.7	5.0	5.0
Thailand	- 6.1	1.5	2.6	3.8	2.8	7.7	- 0.2	1.9	2.2	2.5	4.6	1.4	2.7
Malaysia	- 5.5	3.3	8.7	3.9	3.6	16.2	- 4.2	3.6	4.8	8.8	14.1	7.1	5.6
Philippines	- 9.5	5.7	7.6	5.4	5.4	12.0	7.0	7.9	8.0	7.5	7.7	7.1	6.4
Vietnam	2.9	2.6	8.0	5.6	6.3	6.6	- 6.0	5.2	5.1	7.8	13.7	5.9	3.3
India	- 6.0	8.9	6.7	5.7	6.2	21.6	9.1	5.2	4.0	13.1	6.2	4.5	6.1
Australia	- 1.8	5.2	3.7	1.8	1.8	10.4	3.9	4.5	2.9	3.3	5.8	2.7	2.5
Ref. NIEs+ASEAN5	- 2.4	4.3	4.4	3.5	3.5	-	-	-	-	-	-	-	-
Ref. Asia, excl. China	- 4.0	6.3	5.4	4.5	4.7	-	-	-	-	-	-	-	-

Note: Real GDP growth (y-o-y, %); figures in shaded areas are forecasts. The average is calculated based on IMF GDP share (purchasing power parity basis).
Source: Compiled by MHRT based on statistics of relevant countries and regions and the IMF, etc.

China: Growing policy uncertainty pushes economy lower; slowdown through 2024

- Despite an economic upturn in the Jan-Mar quarter of 2023 along with the resumption of the economy following the lifting of the zero-Covid policy, the upturn is expected to run out of steam.
  - Since the Apr-Jun quarter, policy uncertainty is serving as downward pressure on investment and hiring especially in the private sector. The slow recovery of private demand offset the economic upturn.
- In 2024, growth will slow to 4.6% as businesses and households remain cautious amid fading revenge demand.
  - The real estate market will remain in a prolonged inventory adjustment due to sluggish sales, and neither real estate sales nor new investment are expected to recover throughout 2024.

Real GDP growth rate (contribution by demand components)



Source: Compiled by MHRT based on data from China's National Bureau of Statistics and CEIC.

Overview of the Chinese economy (2023-2024)

	Negative factors	Positive factors
Consumption	● Slow recovery of employment ⇒ Cut down on consumption mainly of goods	Revenge consumption in 2023, mainly in services
Real estate	● Postponement of demand stimulus measures ● Prolonged adjustment due to sluggish sales	Avoidance of further deterioration through the measures such as provision of financial support to developers
Adoption of investment	● Growing policy uncertainty ⇒ Cautiousness, especially in the private sector	Infrastructure investment

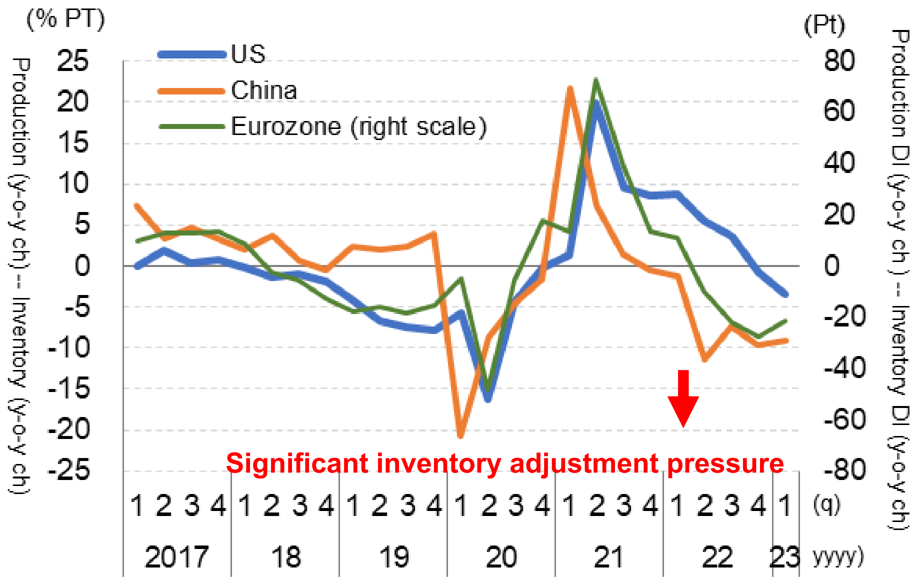
Despite an upturn at the beginning of the year due to the resumption of the economy, the upturn will run out of steam. The slow recovery of private demand offset the economic upturn. The economy will continue to slow down in 2024.

Source: Compiled by MHRT.

Asia: Exports are expected to decline, leading to a general slowdown in the economy.

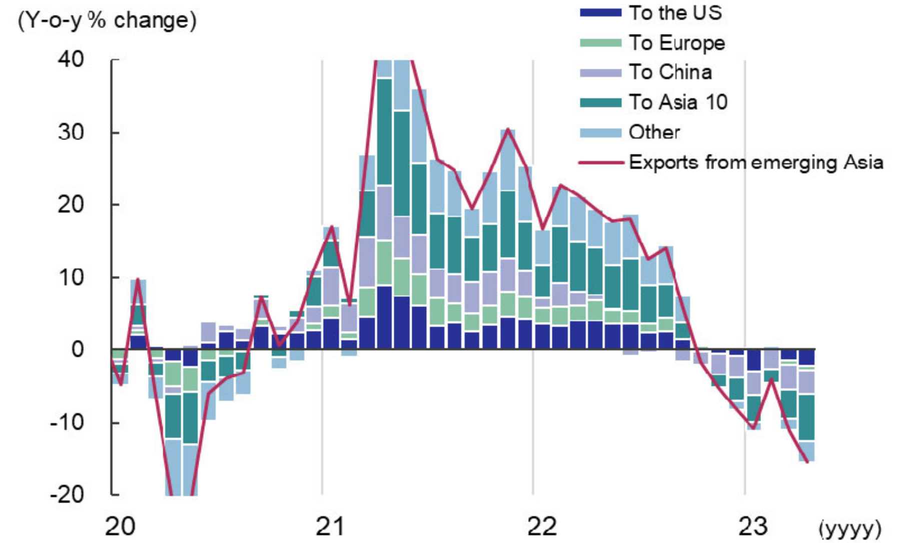
- In emerging Asian countries, exports are weaker than expected due to inventory adjustments in the US, Europe, and China.
  - The manufacturing sector has entered a global inventory adjustment cycle in a reaction to the accumulation of inventories due to logistical disruptions caused by the Covid-19 pandemic.
- Exports from emerging economies are expected to decline further due to the recession in the US and Europe and slowdown of the Chinese economy.
  - The South Korean and Taiwanese economies are slowing down already. Given a delay in bottoming out of the semiconductor cycle, the economies of South Korea and Taiwan are expected to bottom out in 2024.
  - In the ASEAN economies, current economic conditions are supported by domestic demand. However, the ASEAN economies will slow down through 2024 due to the impact of the recession in the US and Europe starting in the second half of 2023.

Production and inventory balance in major countries (US, Europe, China)



Source: Compiled by MHRT based on FRB, US Department of Commerce, European Commission, National Bureau of Statistics of China, and CEIC,

Exports from emerging countries (in value terms)



Note: Exports from emerging Asian countries are the sum of exports from India, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand, and Vietnam. "Asia 10" refers to India, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam, the Philippines, and Hong Kong. The breakdown of the most recent values are estimates.

Source: Compiled by MHRT based on statistics from relevant countries.

(4) Japan: The economy will maintain positive growth driven by domestic demand despite headwinds from overseas economic slowdown

- The Japanese economy is forecast to grow 1.1% y-o-y in FY2023. While service consumption, inbound demand, and capital investment continue to recover and are expected to grow at an annualized rate in the 1% range in the first half of the fiscal year, the pace of recovery will slow to the 0% range in the second half of the fiscal year due to the slowdown in overseas economies and the sluggish semiconductor market.
- FY2024 economic forecast: +0.9% y-o-y. The economy will remain on a moderate growth path due to the tepid recovery of overseas economies and the semiconductor market, and that personal consumption will slow down as the rise of prices will dampen the effect of wage hikes.

Outlook on the Japanese economy

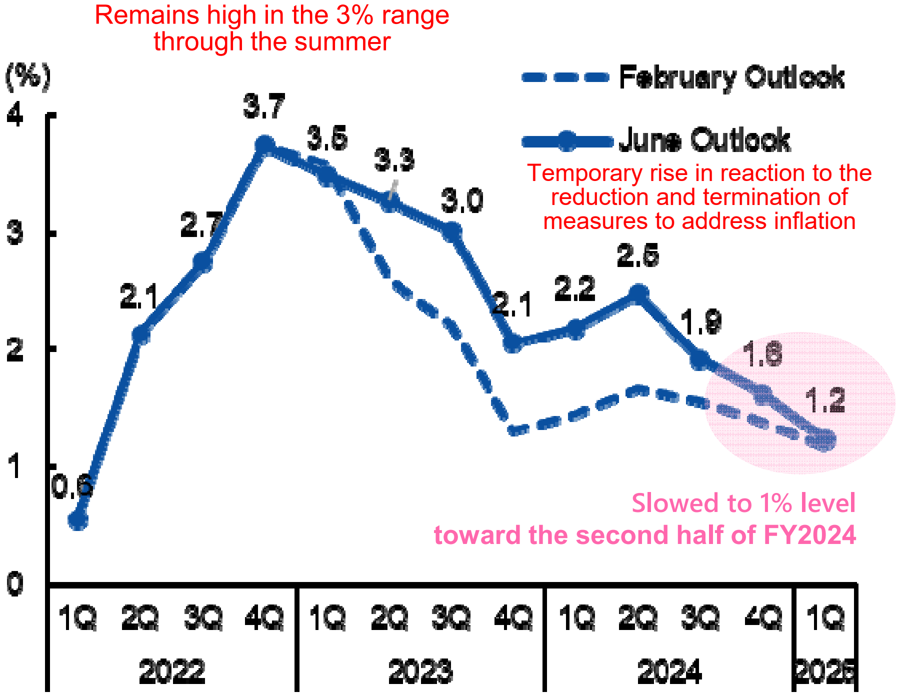
		2021	2022	2023	2024	2022				2023				2024				2025
		FY	(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	2.6	1.4	1.1	0.9	-0.7	1.4	-0.4	0.1	0.7	0.4	0.3	0.1	0.1	0.2	0.3	0.3	0.2
	Q-o-q % ch p.a.	—	—	—	—	-2.7	5.6	-1.5	0.4	2.7	1.5	1.2	0.4	0.4	0.9	1.3	1.2	0.9
Domestic demand	Q-o-q % ch	1.8	1.9	1.2	0.8	-0.2	1.3	0.3	-0.3	1.0	0.1	0.4	0.2	0.1	0.1	0.3	0.2	0.2
Private-sector demand	Q-o-q % ch	2.0	2.5	1.3	0.8	-0.2	1.5	0.3	-0.5	1.2	0.1	0.4	0.2	0.1	0.2	0.3	0.2	0.2
Personal consumption	Q-o-q % ch	1.5	2.4	1.2	0.8	-1.1	1.7	0.1	0.2	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Housing investment	Q-o-q % ch	-1.1	-4.4	0.2	-0.8	-1.8	-1.8	-0.5	0.1	-0.1	0.2	0.3	0.0	-0.4	-0.3	-0.2	-0.2	-0.2
Capital investment	Q-o-q % ch	2.1	3.1	1.9	1.7	-0.3	2.2	1.5	-0.6	1.4	0.6	0.4	0.0	-0.0	0.7	0.7	0.5	0.5
Inventory investment	Q-o-q contribution, % pt	(0.3)	(0.2)	(-0.1)	(-0.1)	(0.5)	(-0.1)	(-0.0)	(-0.4)	(0.4)	(-0.2)	(0.1)	(0.0)	(-0.0)	(-0.1)	(0.0)	(0.0)	(0.0)
Public-sector demand	Q-o-q % ch	1.3	0.2	1.0	0.8	-0.2	0.7	0.0	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.4	0.3	0.2
Government consumption	Q-o-q % ch	3.4	1.1	0.6	1.0	0.7	0.7	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.3
Public investment	Q-o-q % ch	-6.4	-3.0	3.2	0.3	-3.8	0.7	0.9	0.0	1.5	1.1	0.8	0.3	0.0	-1.0	0.8	0.6	0.1
External demand	Q-o-q contribution, % pt	(0.8)	(-0.6)	(-0.2)	(0.0)	(-0.5)	(0.1)	(-0.6)	(0.4)	(-0.3)	(0.2)	(-0.1)	(-0.1)	(-0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Exports	Q-o-q % ch	12.4	4.4	-0.6	2.1	1.2	1.5	2.5	2.0	-4.2	1.3	-0.1	-0.4	0.0	0.9	0.9	0.9	0.8
Imports	Q-o-q % ch	7.1	7.2	0.1	1.7	3.7	1.0	5.6	-0.0	-2.3	0.3	0.3	0.2	0.0	0.5	0.8	0.6	0.6
GDP (nominal)	Q-o-q % ch	2.4	2.0	3.6	1.8	0.1	1.2	-0.9	1.2	2.0	0.7	1.1	0.0	0.7	0.5	0.4	-0.0	0.6
GDP deflator	Y-o-y % ch	-0.1	0.6	2.5	0.9	0.3	-0.3	-0.4	1.2	2.0	2.3	3.8	2.4	1.7	1.6	0.9	0.7	0.4
Domestic demand deflator	Y-o-y % ch	1.8	3.0	1.5	0.9	2.6	2.7	3.2	3.3	2.8	2.0	1.8	1.0	1.1	1.4	1.0	1.0	0.7

Note: Figures in shaded areas are forecasts.
Source: Compiled by MHRT based on Cabinet Office, *Quarterly Estimates of GDP*.

Japan: The underlying rate of inflation will fall short of 2% in FY2024

- Even though inflation in Japan is poised to settle around 1%, the underlying rate of inflation will short of 2%.
  — Core CPI will remain high until the summer due to the pass-through of higher costs to prices, but will gradually slow down from then onward. Core CPI growth will slow to the +1% level by the second half of FY2024 due to households' deep-rooted thriftiness, a gradual slowdown in wage growth, and companies' caution in shifting labor costs to prices.

Key points in the forecast and revision of core CPI growth



Point 1: Outlook on cost-push inflation?

- Core CPI will remain high until this summer due to progress in passing on higher input prices. However, prices will gradually slow down as input prices decline.

Point 2: Evaluation of businesses' ability to pass on prices?

- Households are strongly inclined to save money. There are already signs that consumers are "weary of price rises".
- Companies are cautious about passing on costs to prices for items other than essentials. Compared to raw material costs, companies tend to avoid passing on labor costs.

Point 3) Will the norm change as wage hikes settle in?

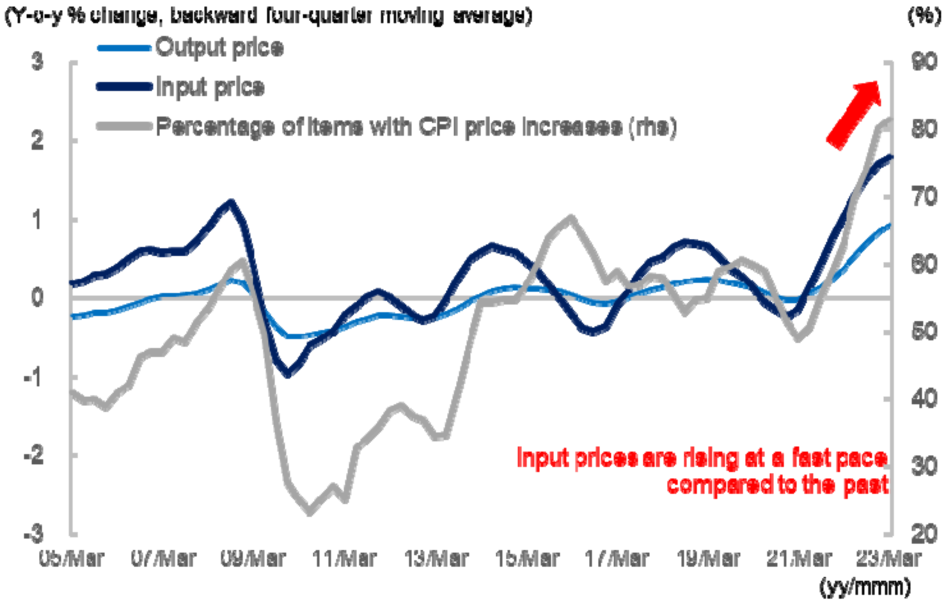
- The momentum for wage hikes in consideration of high prices are gradually receding. Wage growth is high but gradually slowing. The power to push up real purchasing power is not strong enough.
- Households' expectations for higher wages have yet to rise. It will take time for households to ease their tendency to cut costs and save.

Source: Compiled by MHRT based on Ministry of Internal Affairs and Communications, *Consumer Price Index*.

Japan: (1) Pressures to pass on costs to prices due to the rise of input prices are gradually receding

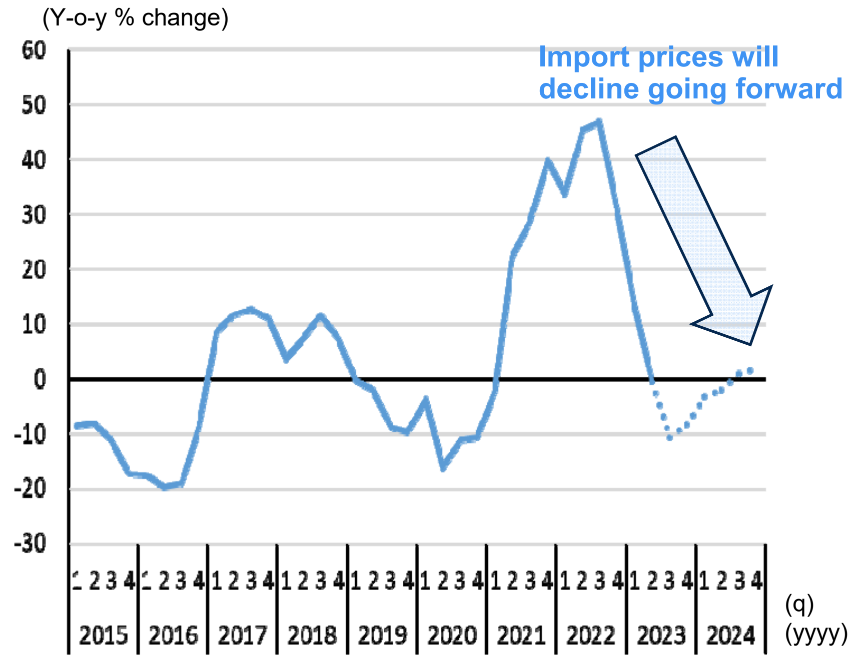
- Firms' pass-through of cost increases to their selling prices has progressed, given the significant increase in pressure on companies to raise input prices compared to the past.
  - Input price increases from 2021 onward have been larger than in the past, revealing that more companies have moved to raise prices than in the past.
- Looking ahead, pressure to pass on prices due to cost-push factors will gradually recede as import prices decline.

Output and input prices and frequency of price hike revisions



Note: Input and output prices are based on producer prices. Calculated by statistical estimations of the percentage of responses for "rise" and "fall" for the output price DI and the input price DI in the BOJ *Tankan Survey* and other sources.
Source: Compiled by MHRT based on Bank of Japan, *Short-term Economic Survey of Enterprises in Japan (Tankan), Corporate Goods Price Index*, and *Measures of underlying inflation*

Outlook on import prices

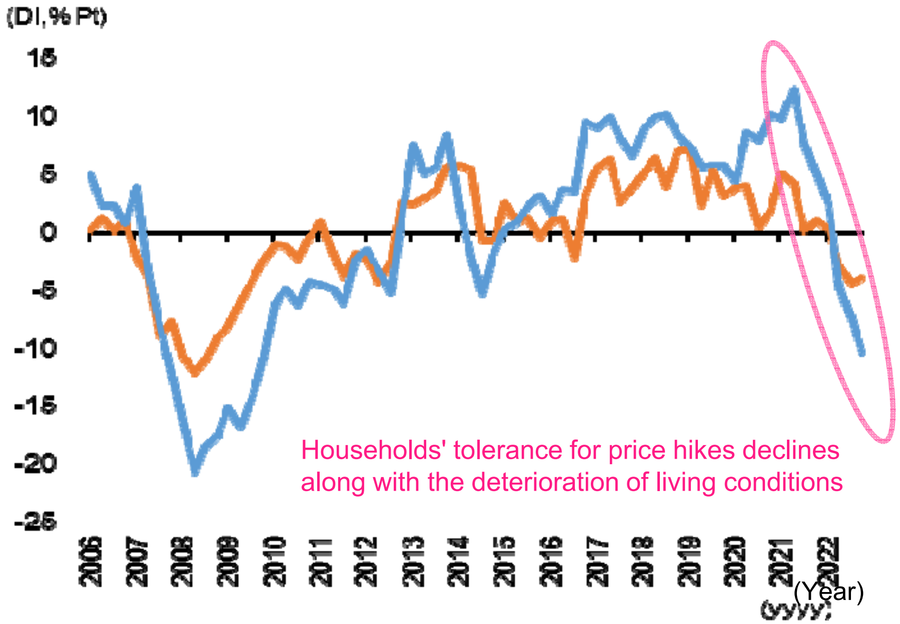


Source: Compiled by MHRT based on data from Bank of Japan

Japan: (2) Strong cost-consciousness among households. Companies are also wary that consumers are "weary of higher prices"

- Households are already "weary of price hikes" reflecting the rise of prices to the highest level in 40 years. There are indications that households are becoming more cost-conscious.
- On the part of businesses, companies remain concerned about the negative impact of the rise of prices on personal consumption.
  - Businesses have expressed caution toward consumers' cost-consciousness in the face of rising prices, revealing strong concerns about raising prices higher.

Households' tolerance for price increases, current living conditions



Note: The DI for tolerance of price hikes is calculated by subtracting the the percentage of respondents who answered that the rise of prices was "more or less unfavorable" from the percentage of respondents who answered that it was "more or less favorable". The DI for household circumstances is calculated by subtracting the percentage of respondents who answered that "circumstances have become worse off" from the percentage of those who answered that "circumstances have become better off" than a year before. Both are deviations from the average (for the period from June 2006 to March 2023)

Source: Compiled by MHRT based on Bank of Japan, *Opinion Survey on the General Public's Views and Behavior.*

Comments on the current situation showing consumers' cost-consciousness (May 2023)

Type of business	Evaluation	Comments
Clothing & apparel	Negative	It appears that customers are tightening their purse strings due to the rise of prices, and the number of items purchased and frequency of store visits are decreasing.
Department stores	Negative	Customer purchasing behavior has turned more cautious after media reports that electricity rate hikes have been finalized.
General restaurants	Negative	Customers' purse strings have turned tighter-than-expected due to the rise of prices and other factors.
Footwear	Negative	Customers' purse strings have become tighter due to the rise of prices of daily necessities.

Note: Comments are excerpts. "Negative" indicates that economic conditions are "slightly worse"

Source: Compiled by MHRT based on Cabinet Office, *Economy Watchers Survey*.

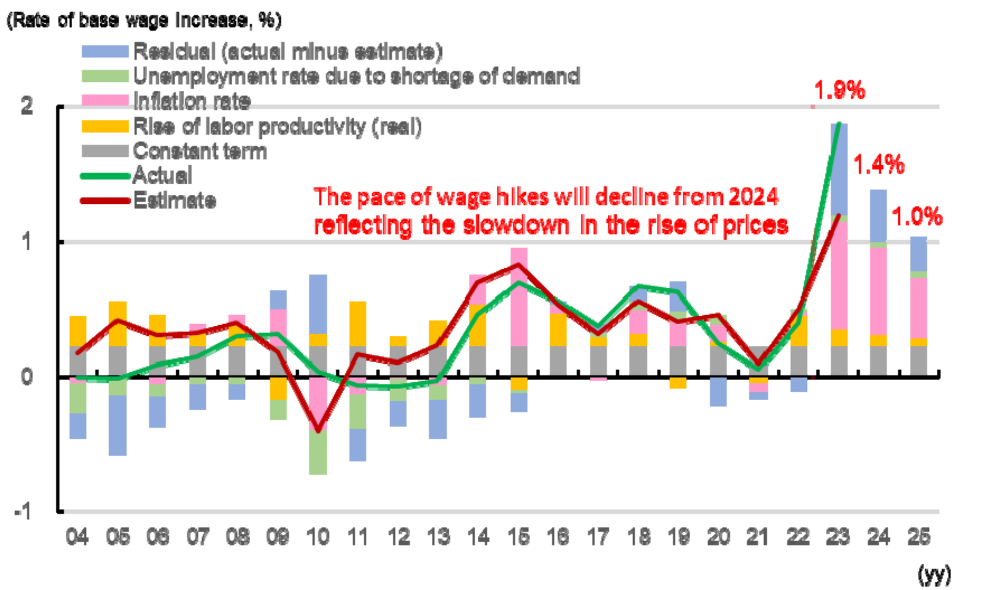
Japan: (3) Spring wage hike rate in 2024 will be high, but slower than in 2023

- A major factor behind the large base wage hike in 2023 is the change in wage revision behavior of companies in response to record-high rise of prices.
  - In 2023, it appears likely that there has been a tendency among companies to raise wages in the face of rising prices than in the past due to the surge of inflation. A survey by the Teikoku Databank reveals a significant increase in the number of companies raising wages in 2023 with price trends in mind.
- Even so, the rate of wage hikes in the 2024 annual wage negotiation in spring is expected to be somewhat weaker, reflecting the slowdown in the rate of price hikes during FY2023, and the ebb of the tendency to reflect price hikes in wage increases.

Reasons for the wage increase

Note: "To support the livelihood of employees" is a new item in FY2023.
Source: Compiled by MHRT based on Teikoku Databank, *Corporate Attitude Survey on Wage Trends in FY2023.*

Estimated wage hike rate (base increase) in the annual wage negotiation in spring

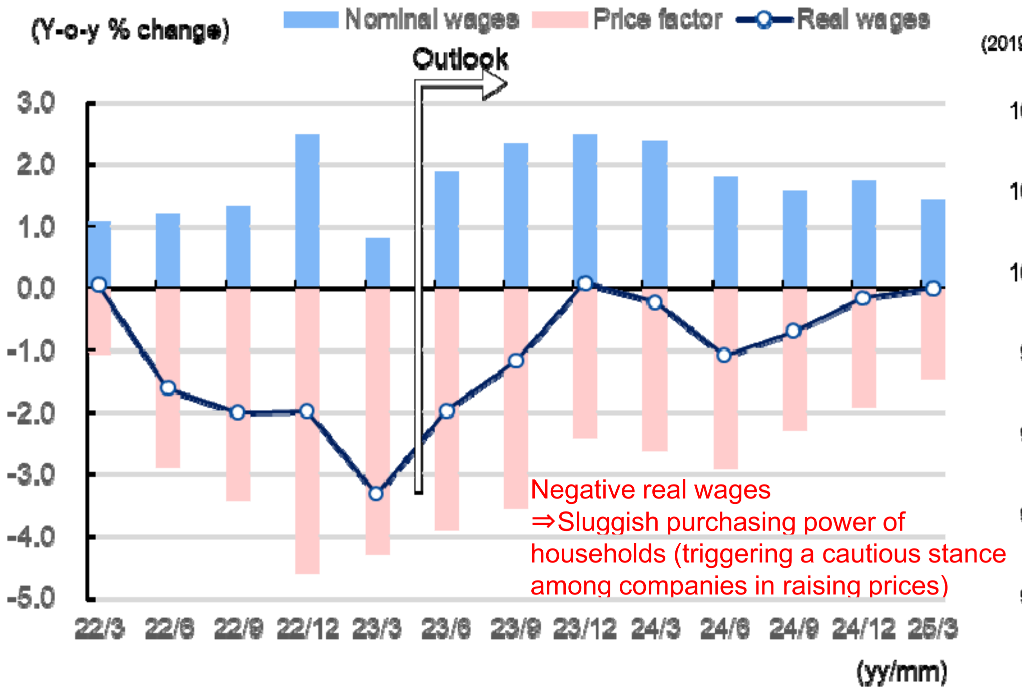


Note: Estimates based on (1) the real labor productivity growth rate, (2) the CPI (aggregate) growth rate, and (3) the insufficient demand unemployment rate (all with one period lag; estimation period: 1995-2022). Significant at the 5% level for (1), the 1% level for (2), and the 10% level for (3). Forward-looking residuals are calculated from the rate of change in the CPI in the second half of the year.
Source: Compiled by MHRT based on Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications, and Japan Institute for Labour Policy and Training.

Japan: Despite the recovery of personal consumption mainly in services, consumer spending will be subject to negative pressure as real wages remain in negative territory

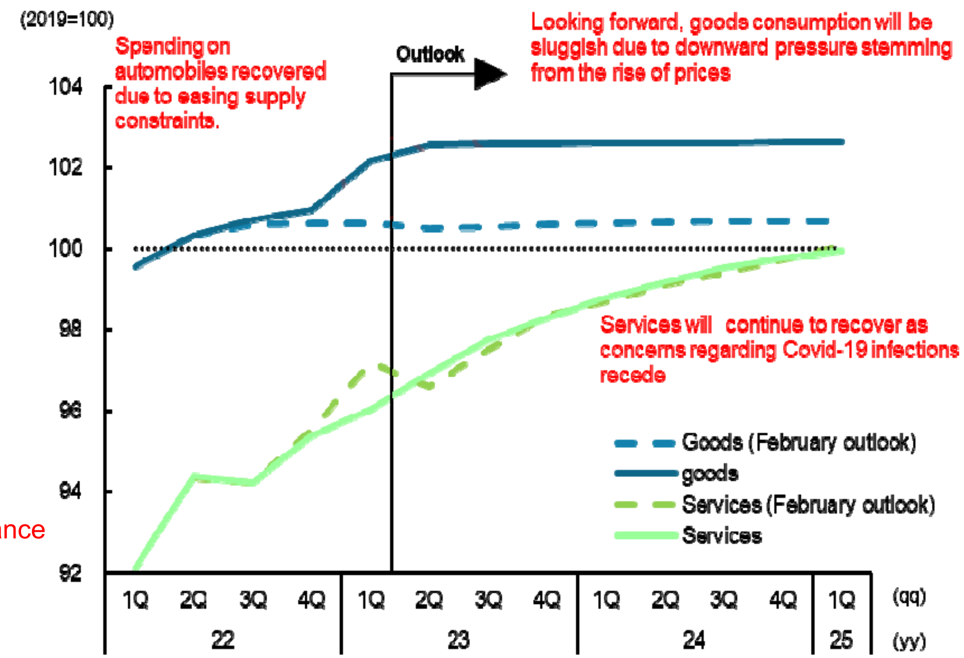
- As the rise of consumer prices will exceed nominal wages, real wages will remain negative y-o-y until FY2024. Households' real purchasing power will decrease, leading to a caution stance among companies in raising prices.
  - In the second half of FY2023, goods consumption is expected to be sluggish due to downward pressure from the rise of prices. However, service consumption is expected to remain on a solid recovery on the back of the change in the classification of Covid-19 infections and the extension of the national travel support program.

Real wages



Note: Adjusted for discontinuity of data. Concerted into real terms using the consumer price index excluding imputed rent of owner-occupied houses.
Source: Compiled by MHRT based on Ministry of Health, Labour and Welfare, *Monthly Labour Survey.*

Outlook on consumption of goods and services



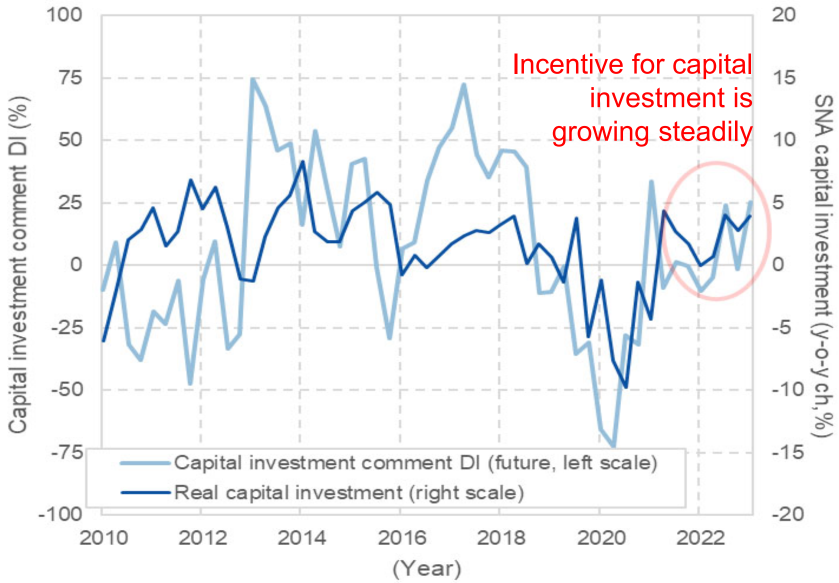
Source: Compiled by MHRT based on Cabinet Office, *National Accounts*

MIZUHO

Japan: Capital investment is following firm footing against a backdrop of structural investment demand for DX and GX

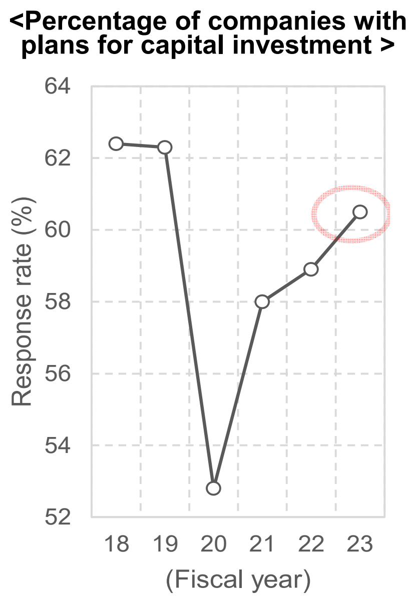
- While the economic slowdown in the US and Europe will put downward pressure on business conditions, especially in the manufacturing industry, capital investment is expected to remain firm.
  - The DI for capital investment, which is based on firms' comments, has returned to positive territory. This suggests that future capital investment will remain firm.
- Teikoku Databank's survey shows that the percentage of companies with plans for capital investment is nearing 2018-2019 levels before the Covid-19 pandemic.
  - In terms of the purpose of investments, in addition to renewal investments, the response rate for digital (IT, DX) and energy conservation (decarbonization, GX) investments increased.

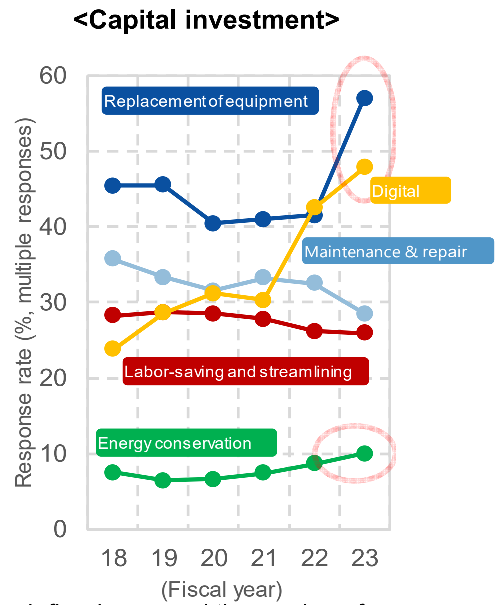
Capital investment comment DI and real capital investment



Note: The DI for capital investment-related comments is calculated by subtracting the number of negative responses (bad or slightly bad) from the number of positive responses (good or slightly good) for comments on business-related trends in the *Economy Watchers Survey* that include terms related to capital investment (equipment, investment, construction, construction work, operation, production capacity), divided by the total of positive and negative responses.
Source: Compiled by MHRT based on Cabinet Office, *Economy Watchers Survey* and *Quarterly Estimates of GDP.*

Capital investment survey





Note: The survey is conducted in April of each fiscal year, and the number of respondents is approximately 10,000 companies nationwide, including large and small companies. Digital investment is the total of "information technology-related investment" before 2021 and "information technology-related investment" and "DX" after 2022.
Source: Compiled by MHRT based on Teikoku Databank, *Survey of Corporate Attitudes toward Capital Investment.*

(5) Financial markets: Long-term interest rates will rise from 2024 in both Japan and the US, and the yen should strengthen against the dollar

- Japanese long-term interest rates are expected to rise to 0.8% in Jul-Sep quarter of 2024 following the BOJ's abolishment of yield-curve control (YCC) and negative interest rates. US long-term interest rates are expected to decline over the end of the year 2023, but generally remain in the 3% range.
- US stocks are expected to decline early in the year 2024 due to the US recession. While Japanese stocks are expected to rise further in the summer of 2023 and temporarily decline in mid-2024, they will rise again from 2025 onward.
- As for the dollar-yen exchange rate, the dollar is expected to weaken against the yen from the summer of 2023 onward. Despite a pause in the yen's appreciation around the spring of 2024, the Bank of Japan's monetary policy shift expected in the Jul-Sep quarter of 2024 is expected to serve as yen-strengthening pressure against the dollar.

Outlook on financial markets

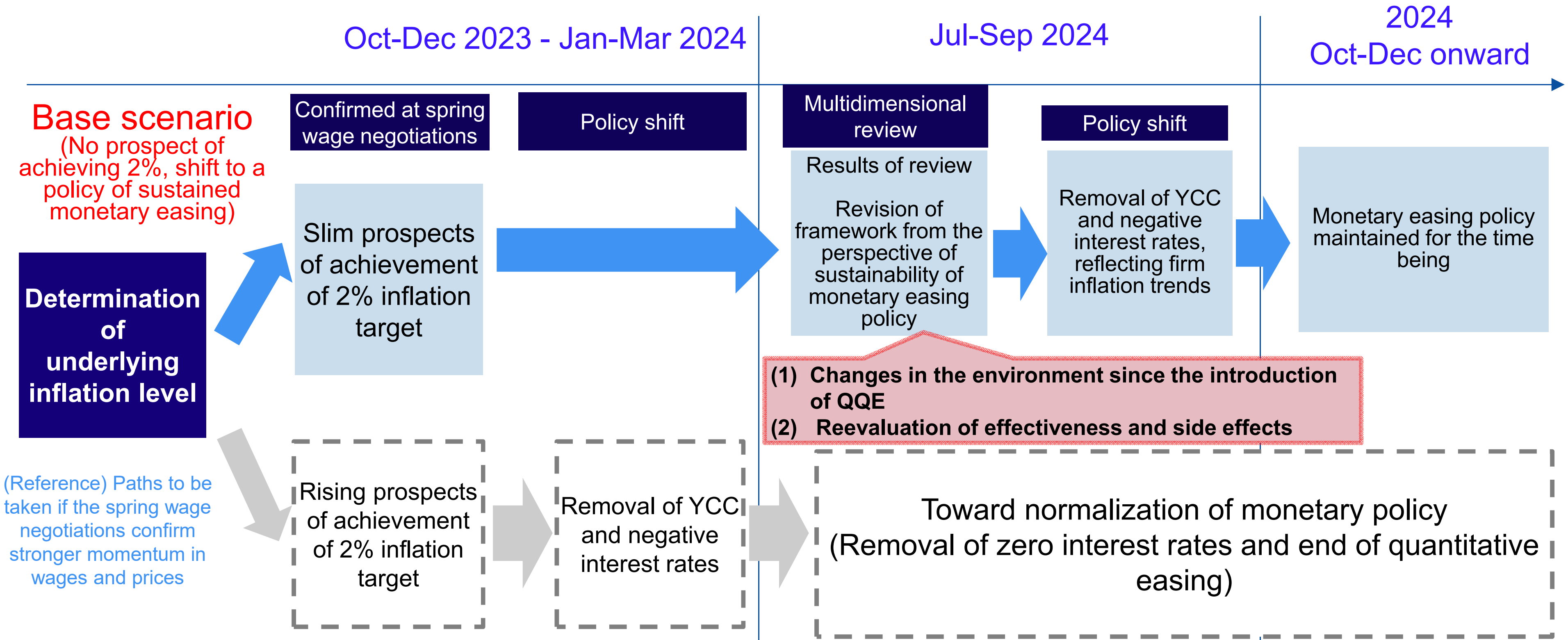
		2021 FY	2022 FY	2023 FY	2024 FY	2022 Jan-Mar	2022 Apr-Jun	2022 Jul-Sep	2022 Oct-Dec	2023 Jan-Mar	2023 Apr-Jun	2023 Jul-Sep	2023 Oct-Dec	2024 Jan-Mar	2024 Apr-Jun	2024 Jul-Sep	2024 Oct-Dec	2025 Jan-Mar
Japan																		
Interest rate on the policy rate balance	(End-of period value, %)	-0.10	-0.10	-0.10	0.00	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00
Newly issued JGBs	(10-year, %)	0.09	0.29	0.15 to 0.50	0.25 to 1.05	0.18	0.24	0.22	0.27	0.44	0.35 to 0.50	0.15 to 0.50	0.15 to 0.50	0.15 to 0.50	0.25 to 0.50	0.55 to 1.05	0.70 to 1.00	0.70 to 1.00
Nikkei Stock Average	(JPY)	28,387	27,272	26,800 to 37,000	26,400 to 35,200	27,156	26,891	27,611	27,362	27,291	27,400 to 34,500	28,800 to 37,000	27,400 to 34,800	26,800 to 34,000	26,600 to 33,800	26,400 to33,600	27,100 to 34,500	27,600 to 35,200
US																		
Federal Funds Rate (lower end)	(End-of period value, %)	0.25	4.75	4.50	4.00	0.25	1.50	3.00	4.25	4.75	5.00	5.00	5.00	4.50	4.25	4.25	4.00	4.00
Newly issued government bonds	(10-year, %)	1.59	3.37	2.95 to 3.95	3.10 to 4.00	1.95	2.92	3.10	3.82	3.65	3.15 to 3.95	3.00 to 3.70	2.95 to 3.65	3.00 to 3.70	3.10 to 3.80	3.15 to 3.85	3.25 to 3.95	3.30 to 4.00
Dow Jones Average	(USD)	34,812	32,549	27,200 to 7,000	27,500 to 33,800	34,679	32,688	31,774	32,490	33,219	32,700 to 35,500	29,300 to 37,000	27,500 to 32,500	27,200 to 32,200	27,500 to 32,500	27,800 to 33,000	28,200 to 33,400	28,600 to 33,800
Eurozone																		
ECB deposit facility rate	(End-of period value, %)	-0.50	3.00	3.75	2.00	-0.50	-0.50	0.75	2.00	3.00	3.50	3.75	3.75	3.75	3.50	3.25	2.50	2.00
German government bonds	(10-year, %)	-0.17	1.73	2.00 to 2.75	2.05 to 2.80	0.17	1.10	1.36	2.14	2.34	2.05 to 2.75	2.00 to 2.70	2.00 to 2.70	2.05 to 2.75	2.05 to 2.75	2.05 to 2.75	2.10 to 2.80	2.10 to 2.80
Exchange rates																		
USD/JPY	(USD/JPY)	112	135	127 to 146	121 to 140	116	130	138	141	132	131 to 144	130 to 146	130 to 144	127 to 141	126 to 140	121 to 135	121 to 135	121 to 135
EUR/USD	(EUR/USD)	1.16	1.04	1.01 to 1.14	1.02 to 1.14	1.12	1.06	1.01	1.02	1.07	1.06 to 1.13	1.04 to 1.14	1.03 to 1.13	1.01 to 1.11	1.01 to 1.11	1.02 to 1.12	1.03 to 1.13	1.04 to 1.14

Source: Compiled by MHRT based on Bloomberg

BOJ: Inflation level falls short of the 2% target. A transition to a sustained easing stance is expected after the BOJ's review.

- The BOJ will carefully assess underlying inflation levels. Subsequently, we expect the BOJ's transition to a sustained monetary easing based on its multidimentional review.
  - The BOJ will confirm the wage and price momentum in 2024 through spring wage negotiations and other events. In our forecast, the BOJ will judge that the inflation level falls short of the 2% target.
  - In the BOJ's multidimensional review, it will assess the effects and side effects based on the macroeconomic environment to date. From then onward, we expect a transition to a sustainable monetary easing policy.
    - In the event the prospects of the achievement of the 2% target rises in the spring wage negotiations, there is a possibility that the BOJ will revise its quantitative and qualitative easing policy (QQE) and take steps toward monetary policy normalization.

Forecast on the BOJ's monetary policy



Source: Compiled by MHRT

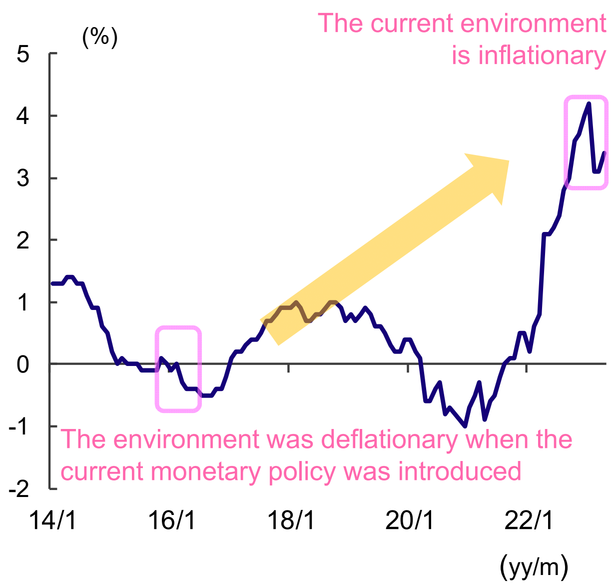
BOJ: The BOJ's Review will examine the positive and negative effects of monetary policy in light of the macroeconomic environment

- The Review is expected to examine (1) changes in the environment since the introduction of QQE (shift from a deflationary environment to an inflationary environment) and (2) the positive and negative effects and (negative effects include exchange rate volatility and negative impact on financial institutions). We expect that the BOJ will judge it appropriate to remove YCC and negative interest rates, taking into account the shift to an inflationary environment and the negative effects of prolonged continuation of QQE.

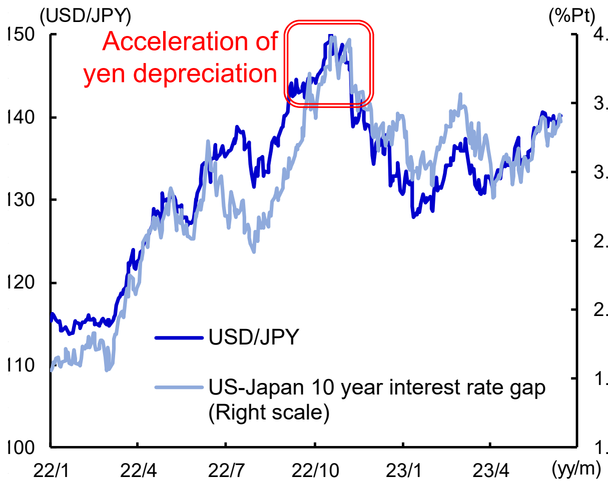
(1) Environmental changes since the time of introduction of QQE

(2) Evaluation of side effects

Core CPI (consumption tax adjusted)

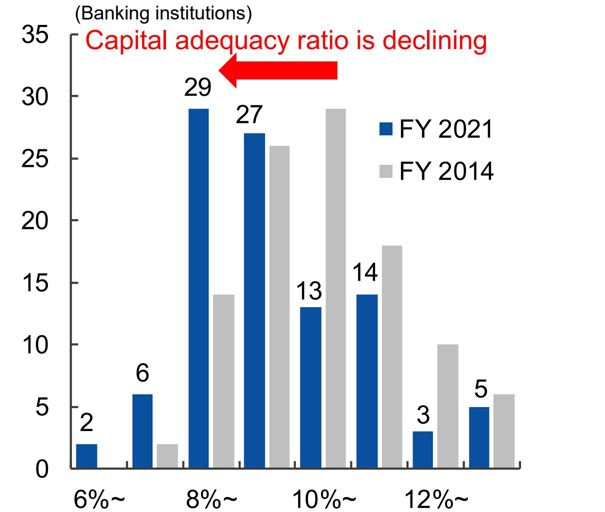


USD/JPY exchange rate



Risks of higher US interest rates are lingering
USD/JPY volatility is likely to increase

Capital adequacy ratio of regional banks



Amid difficulties in gaining interest rate spreads, rising costs are putting further pressure on earnings.

Reassessment of such factors as the shift to an inflationary environment and greater negative effects than at the time of introduction of QQE
Removal of YCC and negative interest rates from the perspective of a shift to a sustainable monetary easing policy
In addition, reinforcement of forward guidance in a bid to curb the sharp rise of interest rates

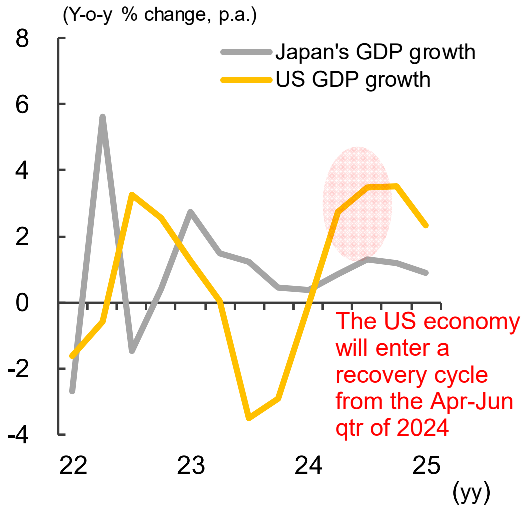
Source: Compiled by MHRT based on Ministry of Internal Affairs and Communications, Refinitiv, and Japanese Bankers Association.

BOJ: The timing of policy change is the Jul-Sep quarter of 2024 in light of the external environment. Long-term interest rate is projected to rise to 0.8%.

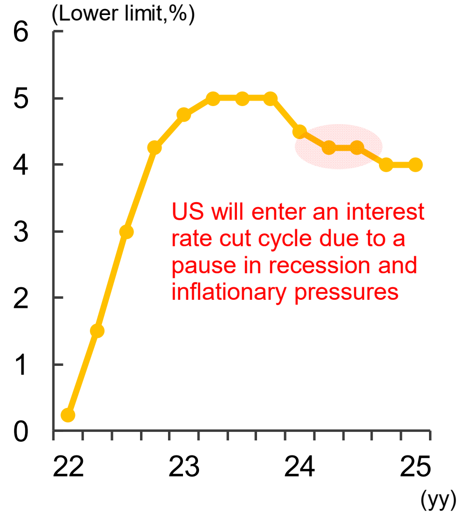
- A shift in the BOJ's monetary policy is expected in the Jul-Sep quarter of 2024 in consideration of the external environment.
  - Among the requisite factors are that the Japanese and US economies are in a recovery cycle and are thus able to withstand interest rate hikes, and US interest rates are in a rate-cutting cycle, minimizing the risk of excessive yen interest rate hikes.
- Japan's long-term interest rate is expected to rise to 0.8% in the Jul-Sep quarter of 2024 following the removal of YCC and negative interest rates.
  - However, since monetary policy will remain accommodative, an excessive rise of interest rates will be curbed by forward guidance.

External environment surrounding the BOJ's monetary policy

GDP (Japan, US)

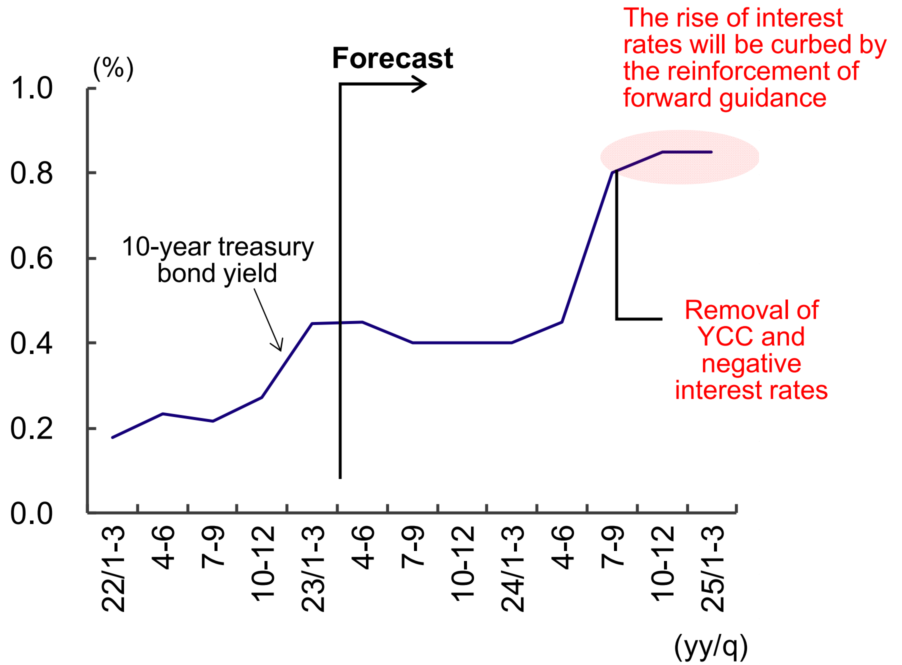


US federal funds rate



Source: Compiled by MHRT based on Cabinet Office, the Federal Reserve Board, and the US Department of Commerce.

Outlook on long-term interest rates

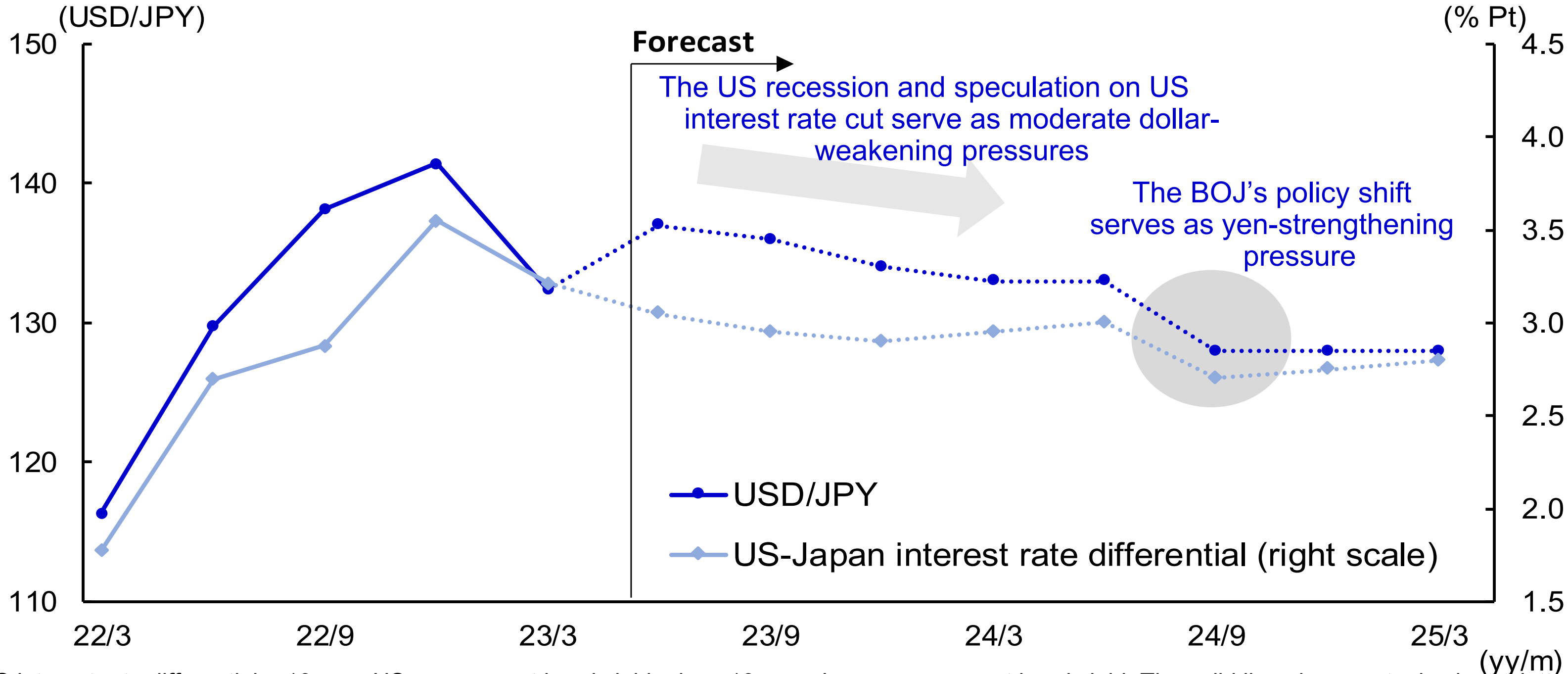


Source: Compiled by MHRT based on Bloomberg.

Forex: The yen is expected to gradually strengthen against the dollar

- We expect the USD/JPY exchange rate to shift to a yen-strengthening path against the US dollar from the summer of 2023 due to rising expectations of US interest rate cut amid fears of a US recession.
  - — Even so, since the pace of US interest rate cuts will likely remain moderate, a sharp appreciation of the yen to the dollar should be avoided.
- Although the appreciation of the yen is expected to come to a pause in the spring of 2024 due to the rise of US interest rates, we expect the resurgence of yen-strengthening pressures against the dollar due to prospects of the BOJ's revision of its monetary easing policy in the Jul-Sep quarter of 2024.

The current state and forecast on the USD/JPY exchange rate and US-Japan interest rate differential

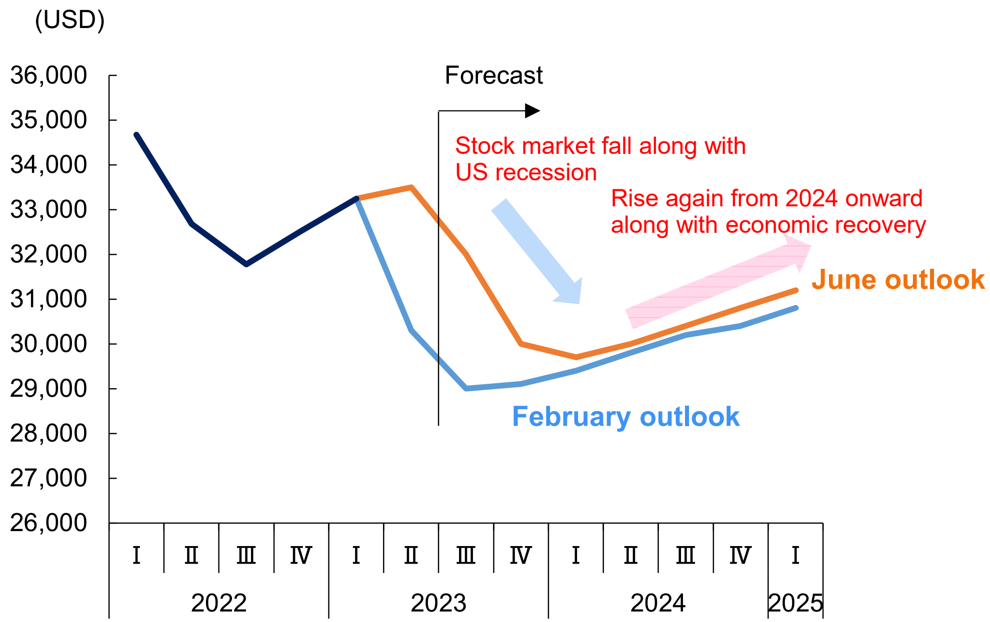


Note: Japan-US interest rate differential = 10-year US government bond yield minus 10-year Japan government bond yield. The solid line shows actual values, dotted line shows forecast values, and both actual and forecast values are averages for the period.
Source: Compiled by MHRT based on Refinitiv

Japanese and US stocks: US stocks will decline through early 2024. Japanese stocks will rise further in the summer of 2023

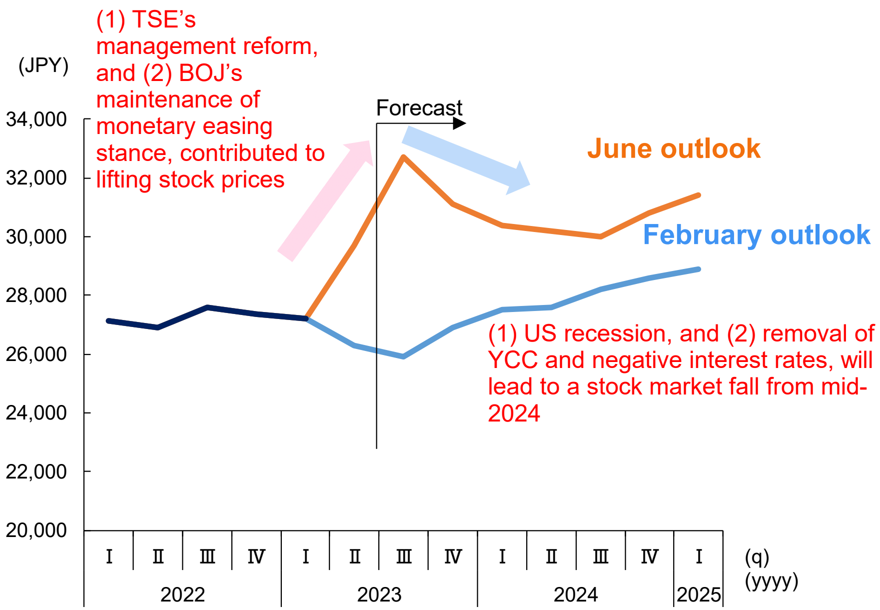
- US stocks will decline through early 2024 due to the US recession. A stock market recovery is expected some time after 2024.
  - In 2023, EPS will decline toward the end of the year due to the recession. PER will also decline given the rapid fading of market sentiment on overvaluation.
  - We expect an economic recovery from 2024. The EPS will rise, and US stocks will also follow an uptrend again.
- Japanese stocks will rise further in the summer of 2023. Despite a temporary stock market fall through mid-2024, the market will rise again from 2025 onward.
  - The Japanese stock market will rise further in summer 2023 due to expectations of improvement in response to the TSE's management reform and the BOJ's maintenance of monetary easing.
  - We expect a temporary decline through mid-2024 due to the US recession and the removal of YCC and negative interest rates

US stock market outlook (Dow Jones Industrial Average)



Source: Compiled by MHRT based on Refinitiv

Japanese stock market outlook (Nikkei 225)



Source: Compiled by MHRT based on Refinitiv

Reference: Key political events

	2023		2024		2025	
US			Nov	Presidential election		
Europe	Jun	Greece: legislative election	May	Russia: end of term of President Vladimir Putin	By Jan	British parliamentary election
	Jul	Spain: legislative election	May	European Parliament elections	By Oct	German federal parliament election
			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 the governor of Tokyo	Apr-Oct	EXPO 2025 Osaka Kansai
			Sep	End of term of the president of the Liberal Democratic Party	Jul	End of term of office of members of the House of Councilors
					Oct	End of term of office of members of the House of Representatives
Asia	Jul	Cambodia: general election	Jan	Taiwan: presidential election		
	Autumn	China: Third plenary session of the Communist Party of China	Feb	Indonesia: presidential and parliamentary elections		
			Mar	China: National People's Congress		
			Apr	South Korea: legislative election		
			By Feb	Myanmar: general election		
			Around spring	India: general election		
Other	Sep	G20 Summit (India)	Jun	Mexico: presidential election and legislative elections		
	Oct	Argentina: presidential and legislative elections	By year-end	G20 Summit (Brazil)		
	Nov	COP28 (UAE)	By year-end	COP29		

Source: Compiled by MHRT based on media reports, etc.