FY2023 - FY2024 Economic Outlook

The global economy is polarizing between the US and China. A sense of stagnation is gradually intensifying.

September 25, 2023

Mizuho Research & Technologies, Ltd.

MIZUHO

Key points of our outlook

- In our outlook, we expect to see more signs of global economic stagnation from the end of 2023 to the first half of 2024, reflecting the rise of inflation and interest rates in the US and Europe and the slowdown of the Chinese economy. The global economy is projected to slow to +2.9% for the full year 2023. In 2024, Europe and the US will fall into a recession due to the impact of monetary tightening. In China, the prolonged adjustment in the real estate sector will serve as a drag upon the economy. The global economy is only expected to grow +2.5%.
- In the US, the impact of the sharp rate hikes to date will spread to the overall economy, pushing the economy into a recession in the first half of 2024. On the other hand, given the persistence of inflation due to the tightening of the labor market, we expect that the rate cut will only take place sometime after 2024, when inflationary pressures are projected to ease. The pace of economic recovery from the second half of 2024 will be sluggish due to the continuation of monetary policy keeping interest rates high.
- In Europe, the effect of monetary tightening will gradually emerge, dragging the economy into a recession from the end of 2023 to the first half of 2024. Even so, the ECB will maintain its tightening policy due to persistent inflationary pressures. Given the continuation of the high interest rate policy due to concerns over wage inflation, and that interest rate cuts are only expected from the second half of next year, European economic growth will remain weak at the lower half of the 0%-range in 2023 and 2024.
- In China, the economic slowdown will intensify through 2024 amid the prolonged adjustment in the real estate sector. On the other hand, infrastructure investment and service consumption will support the economy and keep the slowdown moderate. Turning to the NIEs and ASEAN, economic conditions will generally slow down mainly with respect to exports, due to weak demand for goods in the US and Europe and the sluggish pace of inventory reduction in the semiconductor sector.
- In Japan, although service consumption and inbound tourist demand should continue to recover in FY2023, the slowdown in overseas economies and the ongoing stagnation of the semiconductor market will serve as negative pressures on the economy, resulting in low growth in the second half of the fiscal year. The pace of economic recovery is expected to be slow in FY2024, as pent-up demand for services is expected to run its course, and real labor compensation growth is expected to remain sluggish.
- In the financial markets, the US economic slowdown, interest rate cuts, and the Bank of Japan's (BOJ) policy shift are expected to narrow the gap between domestic and foreign interest rates, and the Japanese yen is expected to gradually strengthen against the US dollar to around JPY130/USD through 2024. The BOJ will remove the YCC (yield curve control) 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.

Outlook on the global economy: Growing sense of stagnation through 1H2024

Outlook on the global economy

	2022	2023 (Outlook) (Y-o-y % change)	2024 (Outlook) (Y-o-y % change)	2023 (Comparison with the outlook as of June 2023) (% pt)	2024 (Comparison with the outlook as of June 2023) (% pt)
Global real GDP growth	3.3	2.9	2.5	0.3	- 0.2
Japan, US, Europe	2.5	1.3	0.3	0.8	-
US	2.1	2.0	0.1	1.5	-
Eurozone	3.3	0.4	0.3	0.2	-
UK	4.1	0.2	0.6	0.2	-
Japan	1.0	1.9	0.8	0.6	-
Asia	4.1	4.8	4.5	- 0.1	- 0.2
China	3.0	4.8	4.4	- 0.5	- 0.2
NIEs	2.1	1.5	1.9	- 0.2	-
ASEAN5	5.9	4.7	4.4	0.1	-
India	6.7	6.7	6.2	1.0	-
Australia	3.7	1.8	1.8	-	-
Japan (FY)	1.4	1.8	0.8	0.7	- 0.1

Strong sense of stagnation from the end of 2023 to 1H2024, amid high interest rates and inflation in the US and Europe and China's economic slowdown

The economy will fall into a recession through 1Q to 2Q2024 as the impact of interest rate hikes emerges, and demand boosters such as excess savings gradually fade

Growth will fall into negative territory from 3Q2023 to 1Q2024 as the effects of rapid interest rate hikes emerges. The subsequent recovery will also be slow.

The Chinese economy will lack strength through 2024. Despite support by infrastructure investment, the real estate market and private investment will remain sluggish.

Consumption growth will be sluggish. Despite the pickup of global manufacturing, the recovery will be slow and external demand will be weak. Growth will remain moderate.

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 Mizuho Research & Technologies (MHRT) based on IMF and statistics of the relevant country or region.

Global view: Cool-down of global inflation, and the current and future outlook on the global economy

Cool-down of global inflation

Local factors determine the direction of inflation, leading to disparities among countries and regions

		US	Europe	Japan	China
Evaluation of current conditions	The economy, inflation, local factors / Policy outlook	Strong consumption	Sluggish consumption and weak sentiment	Sluggish consumption and weak sentiment	Adjustment in real estate sector
		Labor shortage / wage inflation ↓ Prolonged monetary tightening	Labor shortage / wage inflation ↓ Prolonged monetary tightening	Progress in wage hikes and pass-though of costs to prices ↓ Signs of change in wage and pricing behavior	Fall of residential prices Disinflationary pressures ↓ Support measures to avoid further economic deterioration
	Global factors	Prolonged manufacturing slump (fading pent-up demand /stagnant final demand) Upside risks in food and energy prices (geopolitical tensions / extreme weather)			
Outlook	Likely scenario / Growing sense of stagnation	Gradual spread of the impact of demand constraints due to rise of interest rates on borrowings		Change in norm?	Prolonged adjustment in the real estate sector
				Uncertainty in overseas economies	
		Mild economic slowdown / cool-down of inflation	Mild economic slowdown / cool-down of inflation	Moderate pace of economic recovery and rise of prices	Fall of growth rate

Source: Compiled by MHRT.

Our view on the various issues faced by the major economies of the world

US

Our view on the background for the resilience of the US economy

- The US economy's resistance to the rise of interest rates along with the improvement of the household sector's financial condition, and demand shocks such as expansionary fiscal policies implemented by the government in the Covid-19 pandemic, are serving as support for the current economy.
- Looking forward, however, the effects of monetary tightening, especially in the corporate sector, will emerge, and the positive impact of fiscal policy on the economy will gradually fade, leading to a gradual recession in 2024.

Europe

Our view on the future course of inflation, wages, and monetary policy in Europe

- While inflationary pressures stemming from corporate earnings margins are set to fade, the pace of slowdown in core inflation will be moderate as the transfer of wage costs pushes up service prices going forward.
- Despite the ECB's pause in interest rate hikes, we expect the ECB to keep rates at current levels until the first half of 2024 amid persistent inflationary pressures. The economy will stagnate from the second half of 2023 to 2024 under high interest rates.

Emerging countries

Our view on China's real estate market and the future course of the economy and external demand

- Despite downward pressures stemming from the adjustment of the real estate sector, we expect China 's target for economic growth for 2023 (around 5%) to be attainable, supported by infrastructure investment and service consumption. Growth will slow down further in 2024 as revenge spending runs its course.
- As for the NIEs and ASEAN, there will be disparities in the future course of the economies reflecting their dependence on external demand, against a backdrop of the slow recovery in overseas demand. The Indian economy should remain on solid footing in 2024, comparable to the pre-Covid-19 average, on the back of strong investment and firm consumption.

Source: Compiled by MHRT.

Our view on the various issues faced by the major economies of the world

Japan

Our view on the future course of prices and wages

- Consumption growth will remain moderate, and chances are slim that prices will be lifted from the demand side. The rate of wage hikes will gradually slow down as import prices decline, and the odds are low that momentum will build toward achievement of the 2% price target (Base scenario).
- However, if the intensification of the labor shortage triggers an acceleration in the rate of wage hikes from 2024 onward and progress is made in passing labor costs to prices, the achievement of the 2% price target may be possible (Subscenario).

Financial markets

Our view on when the Bank of Japan (BOJ) will shift its monetary policy stance, and how the market will react to the policy shift

- Under our Base scenario, we expect that the BOJ will introduce a "new monetary easing framework" in the Jul-Sep quarter of 2024, along with the lifting of negative interest rates. However, the probability of the Subscenario (early lifting in the Jan-Mar quarter pf 2024) will increase.
- Japanese long-term interest rates will rise to just below 1%. The yen will strengthen against the US dollar due to the narrowing of the Japan-US interest rate differential, and the stock market will weaken due to the US recession and the appreciation of the yen (Base scenario).

Source: Compiled by MHRT.

(1) US: The recession is expected to remain shallow due to financial strength of households

- In 2023, the rate of US economic growth is projected to mark a strong 2.0%. As for 2024, the economy will maintain a small but positive rate of growth.
  - Despite lingering factors that weaken the impact of the rise of interest rates, such as households fixing their borrowing rates, the effects of monetary tightening, especially in the corporate sector, will gradually emerge, and positive demand shocks, such as expansionary fiscal policies, will fade, leading to a mild recession in 2024.
  - The ebb of inflation is projected to be mild as the recession will turn out to be shallow.
    - Although the Fed will shift to an interest rate cut stance from 2024, the pace of rate cuts is expected to be moderate.

Outlook on the US economy

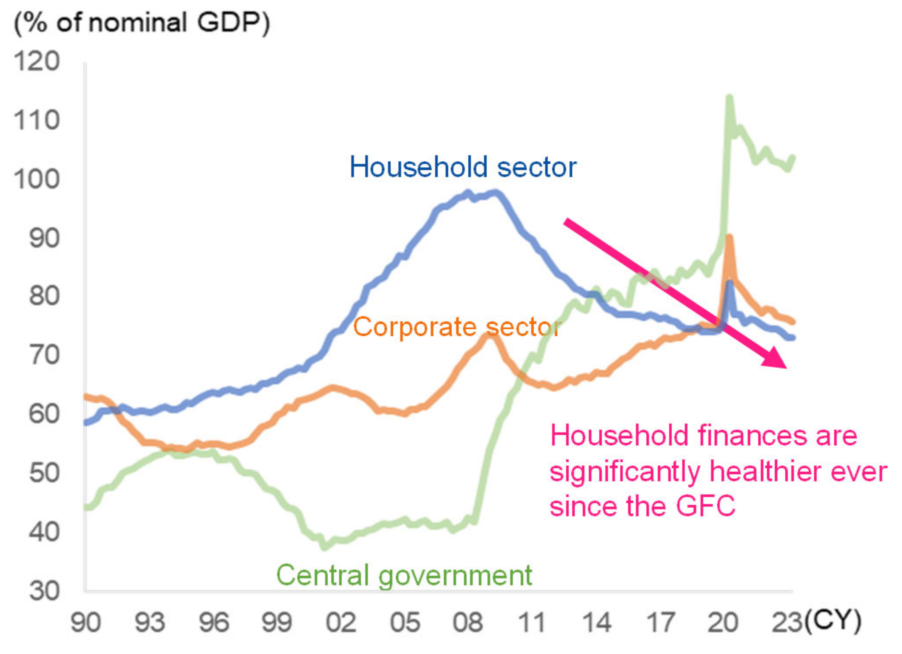
		2022	2023	2024	2022				2023				2024			
			(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch p.a.	2.1	2.0	0.1	-1.6	-0.6	3.2	2.6	2.0	2.1	2.4	0.0	-1.0	-0.8	0.0	1.5
Personal consumption	Q-o-q % ch p.a.	2.7	2.5	0.8	1.3	2.0	2.3	1.0	4.2	1.7	3.5	1.2	-0.2	-0.2	-0.1	2.0
Housing investment	Q-o-q % ch p.a.	-10.6	-12	0.6	-3.1	-17.8	-27.1	-25.1	-4.0	-3.6	0.4	-0.0	-3.1	-1.5	9.2	12.7
Capital investment	Q-o-q % ch p.a.	3.9	3.1	-0.3	7.9	0.1	6.2	4.0	0.6	6.1	3.4	-1.3	-2.1	-2.3	0.4	2.0
Inventory investment	Q-o-q contribution p.a. % pt	0.0	-0.5	-0.1	0.2	-1.9	-1.2	1.5	-2.1	-0.1	0.2	-0.1	-0.2	-0.1	-0.1	0.0
Government consumption	Q-o-q % ch p.a.	-0.6	3.0	0.0	-2.3	-1.6	3.7	3.8	5.0	3.3	0.8	-0.3	-0.3	-0.3	-0.3	-0.1
Net exports	Q-o-q contribution p.a. % pt	0.0	-0.2	-0.3	-3.1	1.2	2.9	0.4	0.6	-0.2	-0.8	-0.4	-0.1	-0.2	-0.3	-0.7
Exports	Q-o-q % ch p.a.	7.1	1.7	-1.2	-4.6	13.8	14.6	-3.7	7.8	-10.6	0.8	0.4	-1.0	-2.3	-0.2	0.9
Imports	Q-o-q % ch p.a.	8.1	-1.8	1.4	18.4	2.2	-7.3	-5.5	2.0	-7.0	5.9	3.1	0.2	-0.2	1.9	5.0
Unemployment rate	%	3.6	3.7	4.2	3.8	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.1	4.3	4.2	4.1
PCE deflator	Y-o-y % ch	6.3	3.8	2.9	6.4	6.6	6.3	5.7	4.9	3.7	3.4	3.2	2.9	2.9	2.9	2.8
Core, excl. food and energy	Y-o-y % ch	5.0	4.1	2.9	5.3	5.0	4.9	4.8	4.6	4.4	3.9	3.6	3.1	2.9	2.8	2.8

Note: Figures in the 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: Households are borrowing longer at low interest rates; resilience to the rise of interest rates will persist for the time being

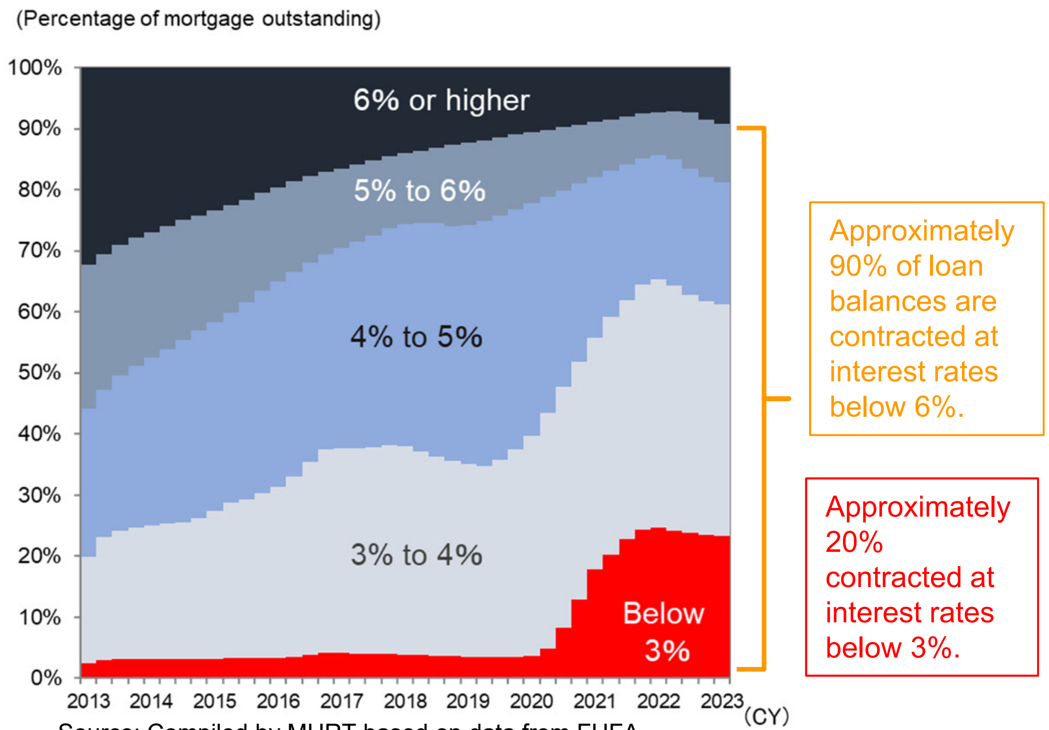
- Household leverage (debt-to-GDP ratio) is at historically low levels.
  - The growth of household debt has been subdued, given the cautiousness of financial institutions in lending to borrowers with poor financial health ever since the Global Financial Crisis (GFC).
- Mortgage loans, which account for 70% of household debt, have been refinanced under the low interest rate environment, curbing the rise of the interest payment burden even under the rise of interest rates.
  - Of the outstanding mortgage loans as of Q12023, about 90% were contracted at rates below 6% and 20% at rates below 3%. Given the lack of incentive among homeowners to refinance to higher interest rate loans to replace their homes, household resilience to interest rates is expected to linger for some time.

Debt to nominal GDP by sector



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

Mortgage contract interest rates

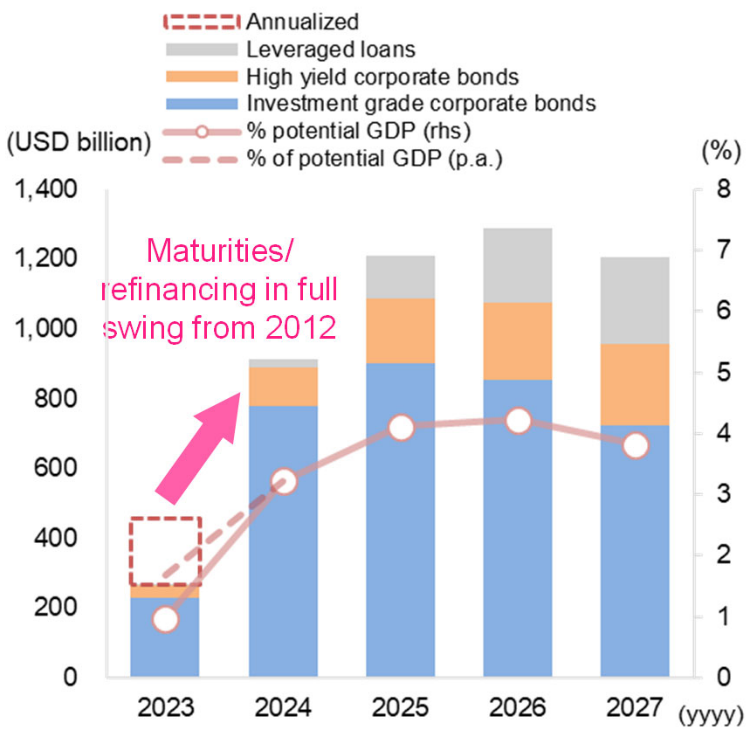


Source: Compiled by MHRT based on data from FHFA.

US: Given the shorter maturities of corporate borrowers than those of households, refinancing will rise from 2024 onward

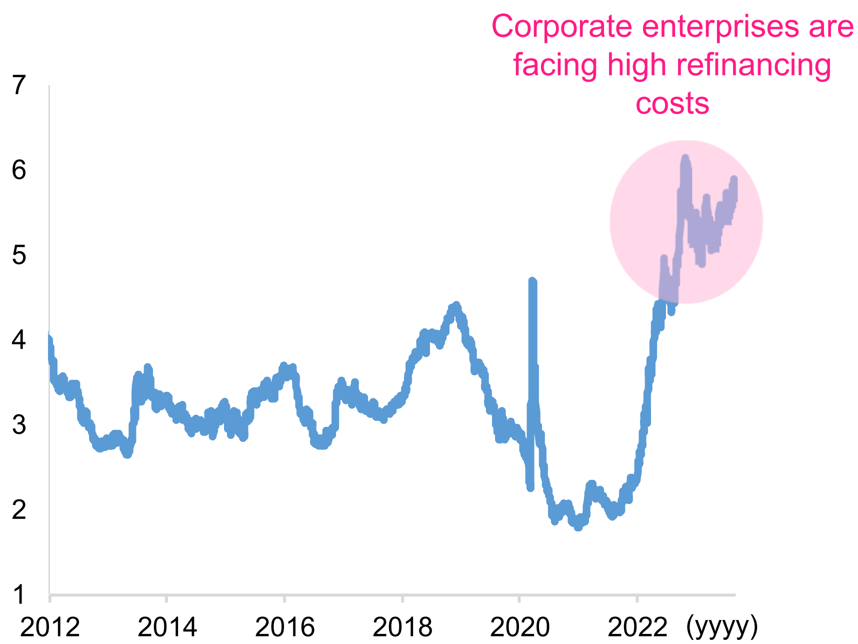
- Bonds issued under the Covid-19 pandemic will start to mature from 2024 onward.
  - Bond issuance reached USD2.3 trillion in 2020 and USD2.0 trillion in 2021, both approximately 1.5 times higher than in 2019. Since most of these bonds have maturities of three to four years, redemption/refinancing will begin from 2024 onward
  - Although a sharp rise of defaults is unlikely given the abundance of cash available to companies, corporate activity is expected to slow gradually due to higher refinancing costs.

Corporate bonds outstanding by year of redemption



Source: Compiled by MHRT based on data from Bloomberg and Pitchbook.

Corporate bond yields

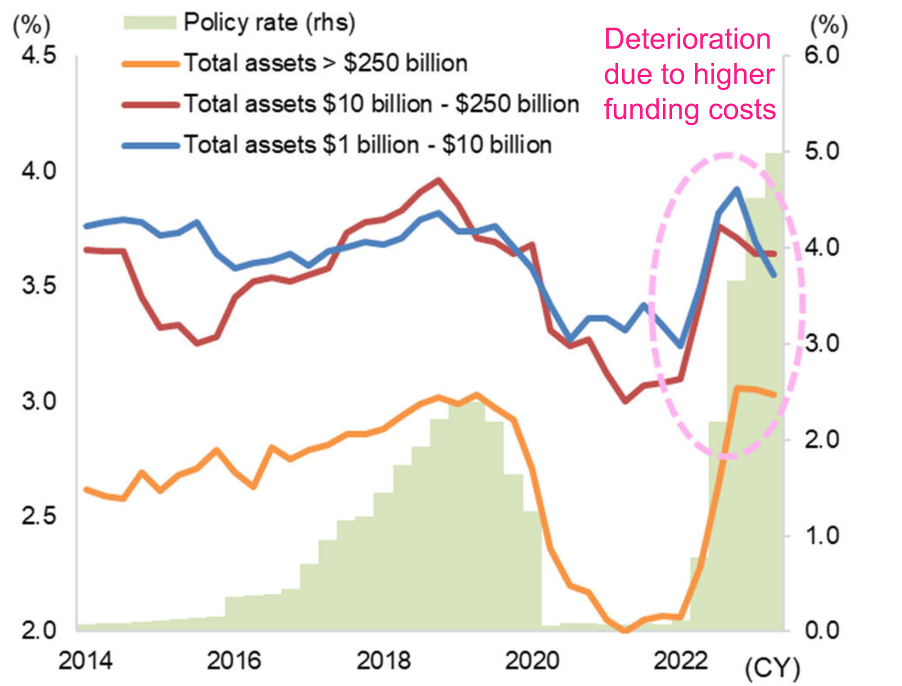


Source: Compiled by MHRT based on data from Bloomberg.

US: Bank interest margins are lackluster; the deterioration of lending attitudes will weigh on the real economy over the next year

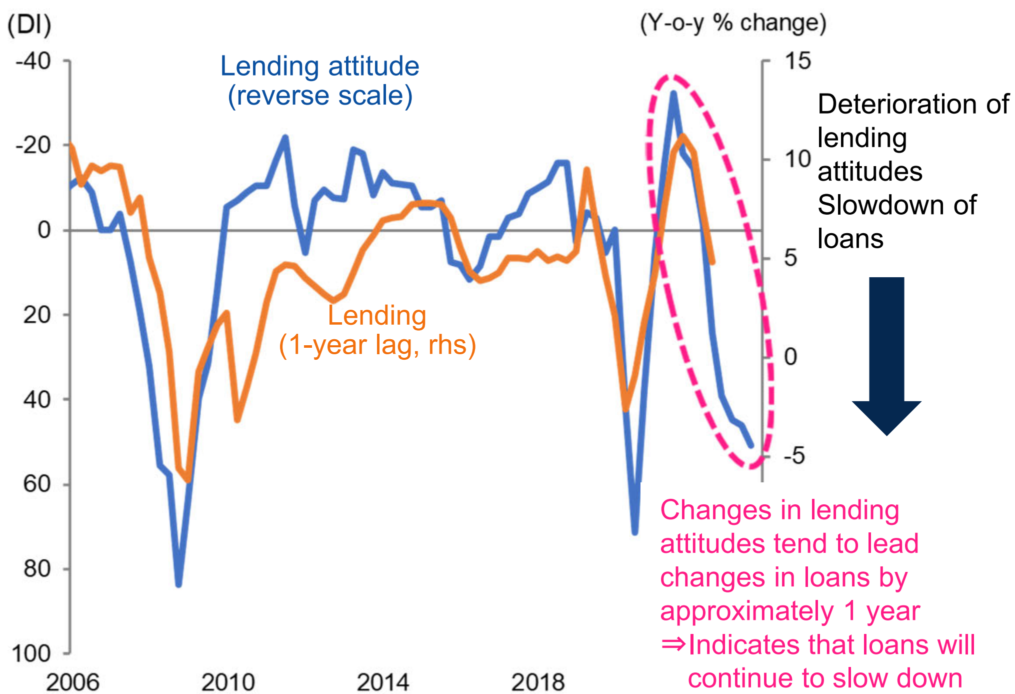
- Amid the trend to fix lending rates, funding costs have increased due to the move to secure deposits in response to financial uncertainties since March. As a result, the improvement of bank interest margins has already lost steam.
- Domestic banks' lending attitudes in the Apr-Jun quarter of 2023 deteriorated to levels comparable to past recessions.
  - Past experience shows that lending attitudes precede lending by about one year. Loan growth has already slowed and will serve as downward pressure on the real economy over the next year.

Net interest margins of US banks by asset size



Source: Compiled by MHRT based on data from FDIC and FRB.

Relationship between lending attitudes and loans

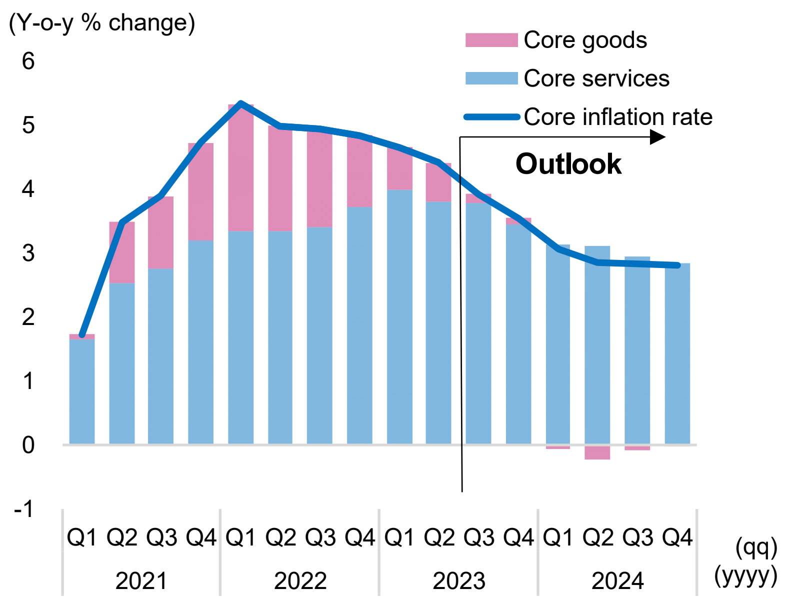


Note: Loans are lagged 4 quarters (one year) and the axis is reversed.
Source: Compiled by MHRT based on data from FRB

US: Although the Fed will cut interest rates in 2024 reflecting the recession, risks of further rate hikes will linger

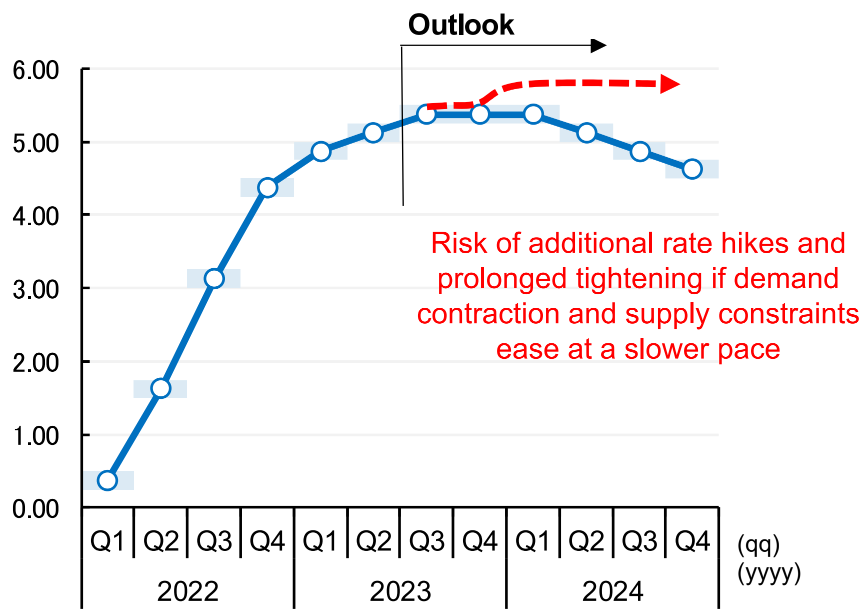
- The moderation of inflation will be sluggish since the recession will turn out to be shallow in the first half of 2024.
  - Considering that core inflation (PCED basis) is projected to be 2.8% at the end of 2024, the achievement of the inflation target will be a time-consuming process.
- The Fed will leave the policy rate unchanged during the rest of the year. Even though the Fed will shift to a rate cut mode from 2024, the pace of rate cuts will be mild.
  - Given that interest rates are expected to remain "higher for longer", the economic recovery is projected to lack strength from the second half of 2024.
  - There are risks of additional rate hikes and prolonged tightening if the contraction of demand and supply constraints ease at a slower pace.

Core PCED growth rate forecast



Note: "PCED" refers to the personal consumption expenditures deflator.
Source: Compiled by MHRT based on data from US Department of Commerce and US Department of Labor.

Monetary policy outlook



Note: The shaded areas indicate the lower and upper limits of the policy rate, and each point indicates the median.
Source: Compiled by MHRT from FRB

(2) Eurozone: Fall into a mild recession through this winter as the impact of interest rate hikes start to emerge

- Real GDP growth projected at +0.4% and +0.3% in 2023 and 2024.
  - In 1H2023, the recovery in travel demand is expected to slow down and downward pressures on consumption and capital investment due to higher interest rates will emerge, pushing growth into slightly negative territory through the winter.
  - In 2024, even though the recovery of real purchasing power is expected to serve as tailwinds on consumption, downward pressures on the economy from high interest rates will linger, thus keeping the recovery subdued.

Outlook on the Eurozone 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	3.3	0.4	0.3	0.7	0.8	0.3	-0.1	0.1	0.1	-0.1	-0.2	-0.1	0.2	0.4	0.5
Domestic demand	Q-o-q % ch	3.6	-0.2	0.3	-0.1	0.9	0.9	-0.6	-0.7	0.6	-0.3	-0.2	0.0	0.2	0.4	0.4
Personal consumption	Q-o-q % ch	4.3	0.4	0.7	0.0	1.1	0.9	-0.7	0.0	0.0	0.2	0.1	0.1	0.2	0.3	0.4
Gross fixed capital formation	Q-o-q % ch	2.8	0.2	-2.2	-0.6	0.9	0.9	-0.2	0.3	0.3	-1.1	-1.1	-0.8	-0.2	0.1	0.1
Government consumption	Q-o-q % ch	1.3	-0.1	0.3	0.4	-0.3	0.0	0.5	-0.6	0.2	0.1	-0.1	0.1	0.1	0.1	0.1
Inventory investment	Q-o-q contribution, % pt	0.4	-0.3	0.3	-0.1	0.2	0.2	-0.3	-0.5	0.4	-0.2	0.1	0.1	0.2	0.1	0.1
External demand	Q-o-q contribution, % pt	-0.1	0.5	0.0	0.8	-0.1	-0.6	0.5	0.6	-0.4	0.2	-0.0	-0.1	0.0	0.1	0.1
Exports	Q-o-q % ch	7.0	0.3	-0.3	1.6	1.7	1.2	-0.3	0.0	-0.7	0.2	-0.0	-0.3	-0.1	0.2	0.3
Imports	Q-o-q % ch	7.9	-0.7	-0.3	0.0	2.0	2.5	-1.4	-1.3	0.1	-0.2	0.0	-0.2	-0.2	0.1	0.2
CPI	Y-o-y % ch	8.4	5.3	2.2	6.1	8.0	9.3	10.0	8.0	6.2	4.1	3.3	2.5	2.4	2.1	2.0
Core, excl. food and energy	Y-o-y % ch	3.9	5.1	2.8	2.7	3.7	4.4	5.1	5.5	5.5	5.0	4.6	3.4	3.0	2.5	2.3

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

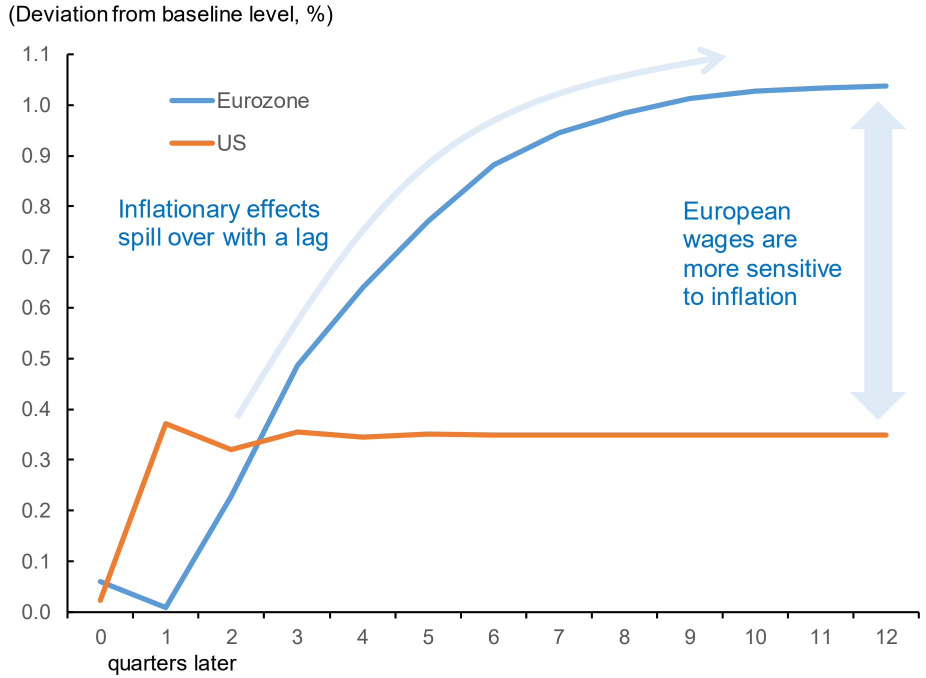
Eurozone: Inflationary pressures from the pass-through of wage costs will linger for the time being, serving to push up service prices

- Wages are forecast to continue to grow at a higher rate than in the past through 2024 as wages catch up with inflation.
  - — In Europe, the impact of inflation on wages tends to be larger than in the US, and has a tendency to spill over with a lag. This stems from differences in the rate of labor union organization, the spread of wage indexation, and the length of wage negotiations.
- For the time being, the pace of slowdown in core inflation is expected to remain moderate as the shift of wage costs to prices pushes up service prices.

Eurozone: Wages and service prices

Note: The final agreed wages are estimated based on a formula using the inflation rate (3-qtr lag) and the output gap (3-qtr lag).
Source: Compiled by MHRT based on data from the European Commission, ECB, and Eurostat.

US and Europe: Impact of inflation on wages (unit labor cost)

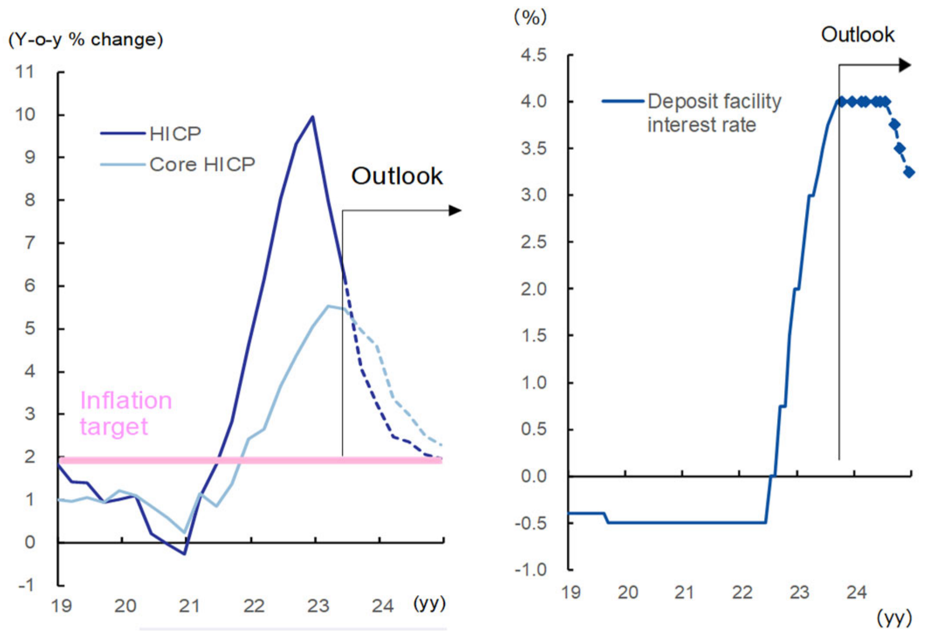


Note: Estimated using a VAR model consisting of two variables, the inflation rate and unit labor cost (estimation period is 1996Q2-2019Q4). Impulse response of unit labor coststo a +1% shock to the inflation rate
Source: Compiled by MHRT based on data from Eurostat and BEA.

Eurozone: ECB to pause interest rate hikes; persistent inflationary pressure will keep interest rates high for the time being

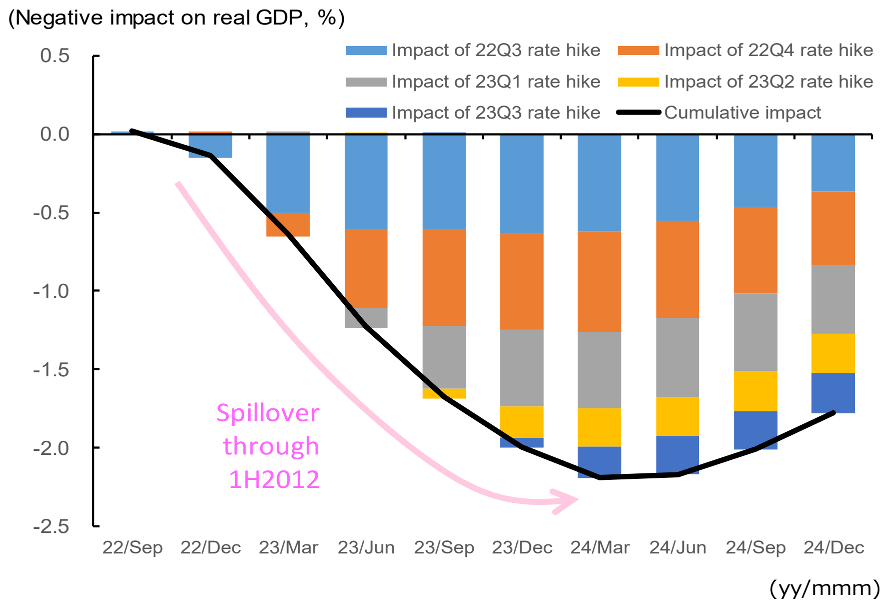
- The European Central Bank (ECB) will implement a +25bp interest rate hike at the September Governing Council meeting, raising the deposit facility rate to 4.0%.
  - The ECB will most likely to take a wait-and-see stance, given that the effects of monetary tightening in terms of borrowing demand and other factors are starting to emerge.
  - On the other hand, due to persistent upward pressure on core inflation, especially services, a rate cut is not expected until the Jul-Sep quarter of 2024.
- The impact of the spate of interest rate hikes is expected to spill over into 1H2024 with a lag. Given the fall of investment demand, the economic recovery will remain slow in 2024.

Eurozone: Inflation and policy rate outlook



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

Eurozone: Impact of interest rate hikes on GDP



Note: Estimated using the FAVAR model, which includes approximately 100 macro and financial variables.
Source: Compiled by MHRT based on data from Eurostat ECB, European Commission, etc.

(3) Emerging economies: Chinese economic slowdown; disparities in NIEs and ASEAN growth reflecting dependence on external demand; solid Indian domestic demand

- Even though we expect a downward revision of China's economic growth in 2023, mainly in real estate, growth should barely reach the government target of "around 5%".
  - In 2024, the economy will slow down as revenge spending in the services sector runs its course and the adjustment of the real estate sector persists.
- In the NIEs and ASEAN, we expect significant disparities in economic growth, reflecting their dependence on external demand, given the slow recovery in overseas demand.
  - The NIEs will continue to slow down due to the semiconductor cycle and inventory adjustments overseas, but will pick up in the second half of 2024 as overseas demand recovers.
  - In the ASEAN, countries dependent on external demand will continue to slow down as in the NIEs. In domestic demand-driven economies, consumption will remain firm, mainly due to the favorable employment environment.
- Despite weak external demand, India will continue to enjoy strong growth through 2024, comparable to the average before the Covid-19 pandemic, on the back of strong investment and firm consumption.

Outlook on the emerging economies

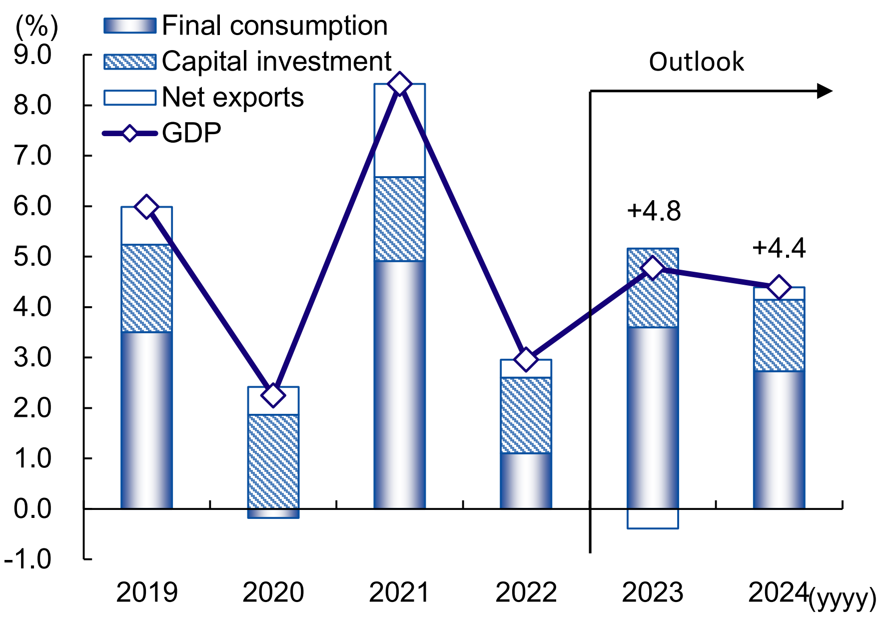
	2020	2021	2022	2023 (Outlook)	2024	2021 Jul-Sep	2021 Oct-Dec	2022 Jan-Mar	2022 Apr-Jun	2022 Jul-Sep	2022 Oct-Dec	2023 Jan-Mar	2023 Apr-Jun
Asia	− 0.8	7.4	4.1	4.8	4.5	−	−	−	−	−	−	−	−
China	2.2	8.4	3.0	4.8	4.4	5.2	4.3	4.8	0.4	3.9	2.9	4.5	6.3
NIEs	− 0.6	5.7	2.1	1.5	1.9	−	−	−	−	−	−	−	−
South Korea	− 0.7	4.3	2.6	1.3	1.7	4.1	4.3	3.1	2.9	3.2	1.4	0.9	0.9
Taiwan	3.4	6.5	2.4	1.1	2.0	4.1	5.2	3.9	3.0	3.6	− 0.8	− 3.3	1.4
Hong Kong	− 6.5	6.4	− 3.5	3.3	2.4	5.5	4.7	− 3.9	− 1.2	− 4.6	− 4.1	2.9	1.5
Singapore	− 3.9	8.9	3.6	1.6	1.8	8.7	6.6	4.0	4.5	4.0	2.1	0.4	0.5
ASEAN5	− 3.5	3.4	5.9	4.7	4.4	−	−	−	−	−	−	−	−
Indonesia	− 2.1	3.7	5.3	5.0	4.3	3.5	5.0	5.0	5.5	5.7	5.0	5.0	5.2
Thailand	− 6.1	1.5	2.6	3.4	3.1	− 0.2	1.9	2.2	2.5	4.6	1.4	2.6	1.8
Malaysia	− 5.5	3.3	8.7	4.0	3.7	− 4.2	3.6	4.8	8.8	14.1	7.1	5.6	2.9
Philippines	− 9.5	5.7	7.6	5.2	5.3	7.0	7.9	8.0	7.5	7.7	7.1	6.4	4.3
Vietnam	2.9	2.6	8.0	5.4	6.5	− 6.0	5.2	5.1	7.8	13.7	5.9	3.3	4.1
India	− 6.0	8.9	6.7	6.7	6.2	9.1	5.2	4.0	13.1	6.2	4.5	6.1	7.8
Australia	− 1.8	5.2	3.7	1.8	1.8	3.9	4.5	2.9	3.4	5.9	2.8	2.7	2.3
Ref. NIEs+ASEAN5	− 2.4	4.3	4.4	3.5	3.5	−	−	−	−	−	−	−	−
Ref. Asia, excl. China	− 4.0	6.3	5.4	4.9	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: Even though the real estate sector adjustment will serve as a drag, leading to an economic slowdown through 2024, it will avoid dipping below the bottom

- Outlook on GDP growth in 2023: +4.8%. Adjustments in the real estate sector will serve as a drag on the economy.
  - On the other hand, growth is expected to land within the government target of "around 5%" on the back of measures to support the real estate market and infrastructure investment.
- Outlook on GDP growth in 2024: +4.4% in 2024.
  - As revenge spending runs its course, a protracted adjustment in the real estate sector will serve as negative pressure on the economy.

Real GDP growth (contribution by components of demand)



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

Overview of the Chinese economy (2023-2024)

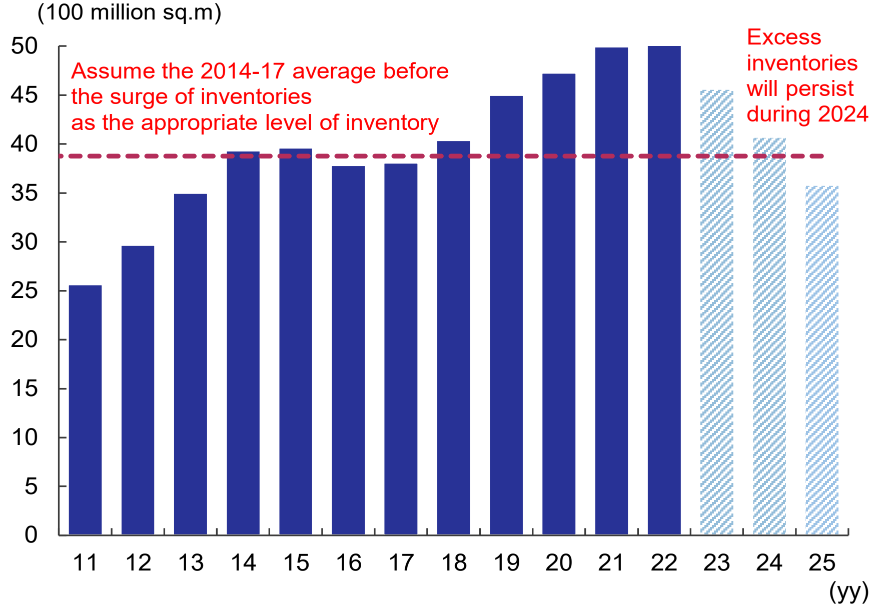
	Negative factors	Supporting factors
Real estate sector	･Deterioration of housing purchase sentiment ･Tightening of bank lending stance ⇒Lengthening of inventory adjustment	･Measures to promote construction of uncompleted properties
Capital investment	･Intensifying policy uncertainty ⇒Cut back on investment among private enterprises	･Expansion of infrastructure investment ･Progress of inventory adjustment ･Improvement of earnings environment
Consumption	･Slow recovery of employment ･Cost consciousness in the household sector	･Revenge spending after re-opening of economy (to fade out from next yea)

Source: Compiled by MHRT.

China: Housing inventory adjustment to be prolonged. Government is ready to support delivery of properties to prevent deterioration of sentiment.

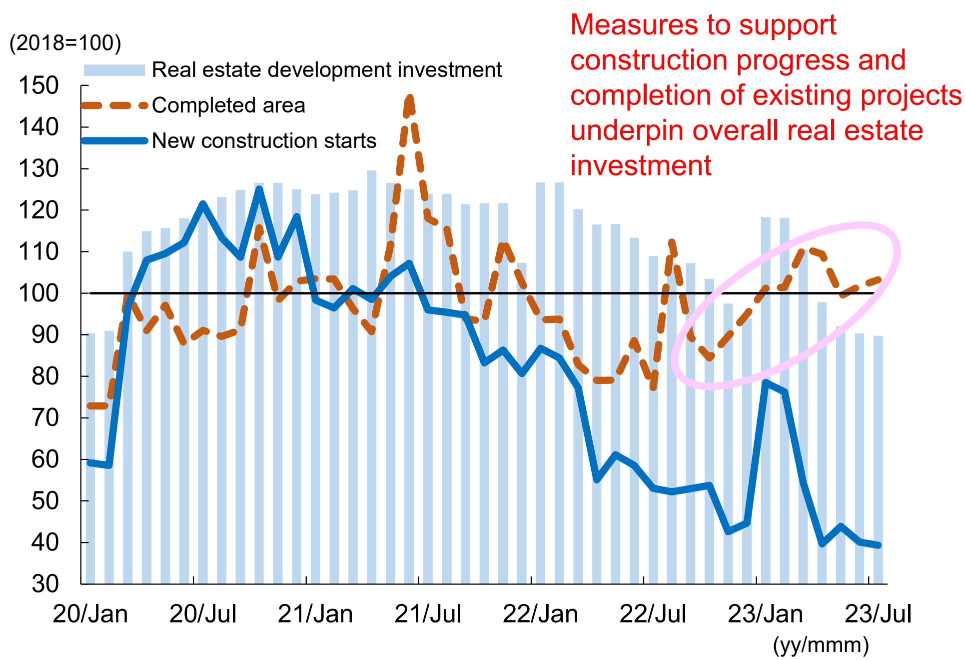
- Accumulated housing inventory stemming from overinvestment is expected to continue to serve as a drag on new investment.
  - Assuming a sales pace (1.2 billion square meter/year on average) that is considered to equate to potential demand, the inventory adjustment phase is expected to continue at least until 2024.
- The Chinese government is concerned that delays in the delivery of uncompleted properties that have already been sold could lead to social unrest. In order to prevent a deterioration in housing purchase sentiment, the government will support the completion and delivery of uncompleted properties that have already been sold through financial assistance to companies with deteriorating business conditions.

Adjustment of housing inventory



Note: 1. Housing inventory = constructed area + unsold area (completed inventory) - completed area - reserved sales area
2. From 2023, new construction starts (annualized from the cumulative results for the period from January to July 2023, assuming that construction starts increase at the same pace every year) are added to the previous year's housing inventory, and potential demand is subtracted from the estimated figure.
Source: Compiled by MHRT based on National Bureau of Statistics of China and, CEIC.

New construction area started, area completed, and real estate development investment

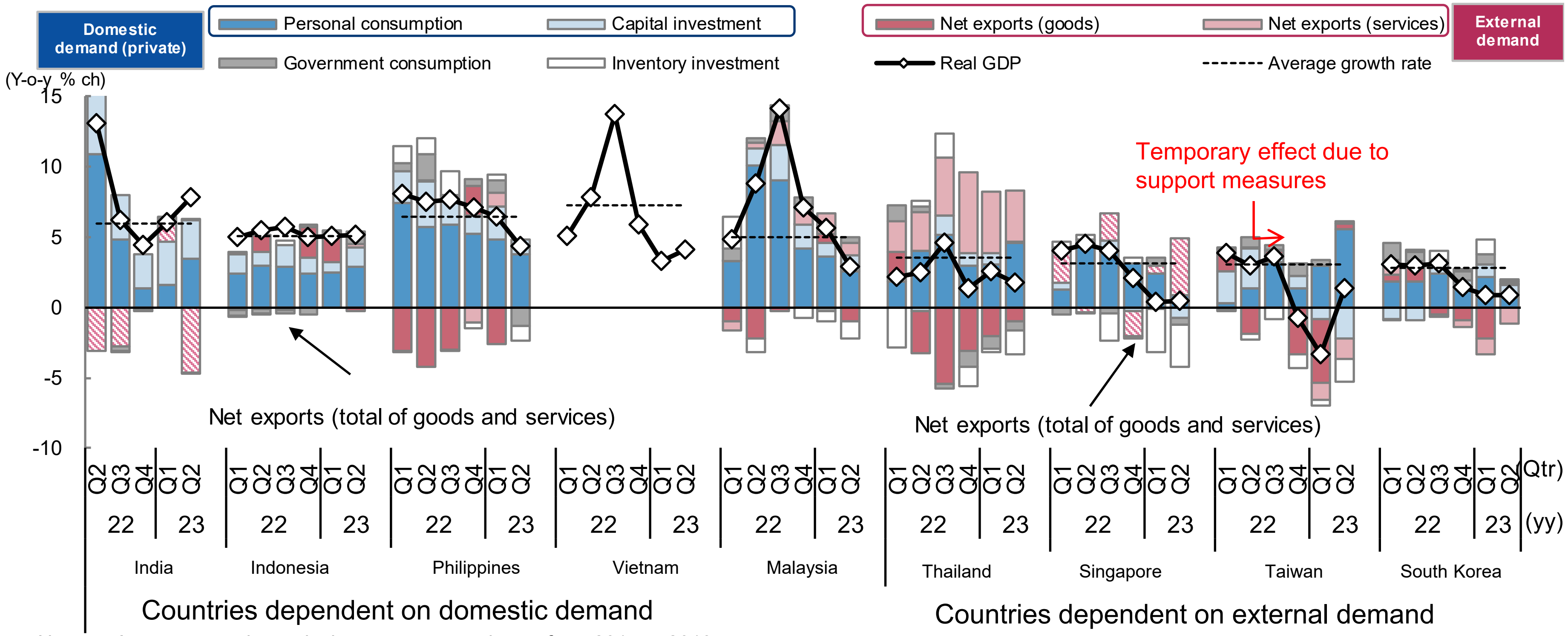


Note: Adjusted for seasonal factors by MHRT
Source: Compiled by MHRT based on National Bureau of Statistics of China and CEIC

Asia: Polarization between“stagnation of countries dependent on external demand" and “resilience of countries dependent on domestic demand"

- Countries dependent on external demand slowed due to decline of goods exports.
  - The Asian economies are projected to weaken, especially in countries dependent on external demand, due to the impact of the slowdown in the US and Chinese economies.
- Countries dependent on domestic demand are supported by strong consumption
  - Consumption is expected to remain resilient in domestic demand-dependent countries against a backdrop of favorable employment conditions and cool-down of inflation.

Real GDP growth rates of Asian countries

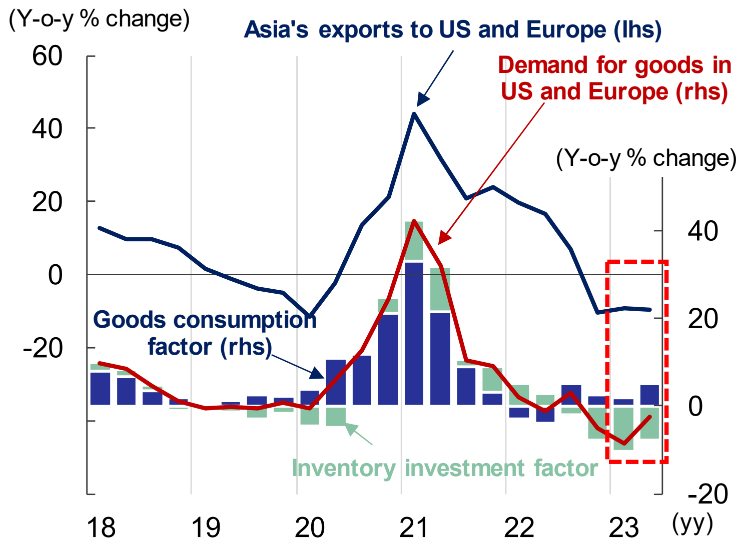


Note: Average growth rate is the average growth rate from 2017 to 2019
Source: Compiled by MHRT based on statistics of relevant countries.

Asia: We expect exports from Asia to remain stagnant until the first half of 2024

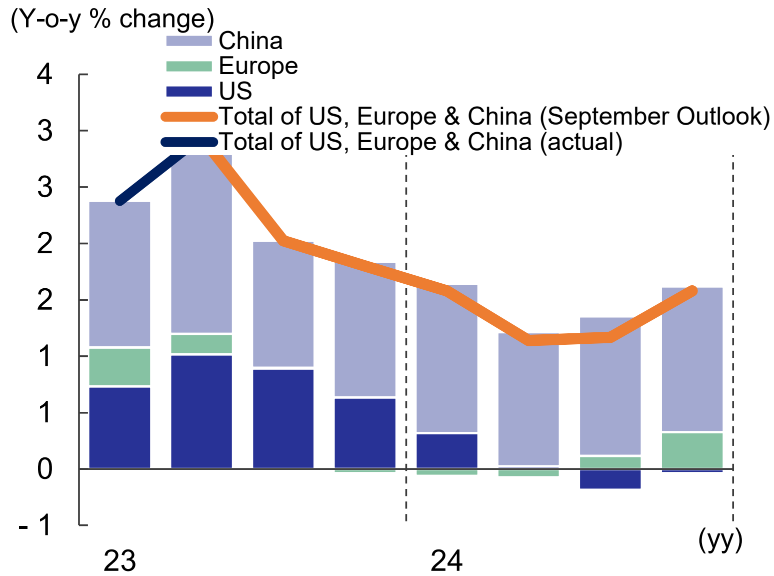
- The fall of exports from Asia is moderating, showing signs that they will bottom out.
  - The fall of demand for goods due to restraints upon inventory investment in the US and Europe will gradually ease, leading to progress in global inventory adjustment.
- Even so, an upturn of exports from Asia should take some more time.
  - Despite progress in inventory adjustment in the US and Europe, the growth of goods consumption is still sluggish. The pace of global semiconductor inventory reduction is also slow.
  - Asian exports are expected to remain stagnant until the first half of 2024 due to the economic slowdown in the US, Europe, and China which are the main centers of demand.

US and European demand for goods and Asia's exports to Europe and the US



Note: Asia's exports to the US and Europe are the sum of exports from India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam, and China. Demand for goods in Europe is estimated by MHRT.
Source: Compiled by MHRT from US Department of Commerce, Eurostat, and Refinitiv.

Outlook on real GDP growth (US, Europe and China)



Source: Compiled by MHRT based on data from the US Department of Commerce, Eurostat, National Bureau of Statistics of China, and Refinitiv.

(4) Japan: Weak growth in the 2H FY2023 due to headwinds from overseas economic slowdown; recovery to be moderate in FY2024

- FY2023 forecast: 1.8% y-o-y. Economic growth will dip slightly into negative territory in the Jul-Sep quarter, due to a backlash in external demand. Even though domestic demand should continue to recover for the rest of the fiscal year, the deterioration of the US and European economies and the ongoing weakness of the Chinese economy will serve as headwinds on external demand, dragging down Japan's economic growth to the mid-0% range.
- FY2024 forecast: +0.8% y-o-y. Exports are expected to pick up on the back of recovery in overseas demand and semiconductor markets. Even so, the recovery in service consumption and inbound demand stemming from the ebb of concerns regarding infections and pickup in automobile production due to easing supply constraints are forecast to come to a pause. We expect that personal consumption will lack strength and grow only moderately due to the slow rise of real labor compensation.

Outlook on the Japanese economy

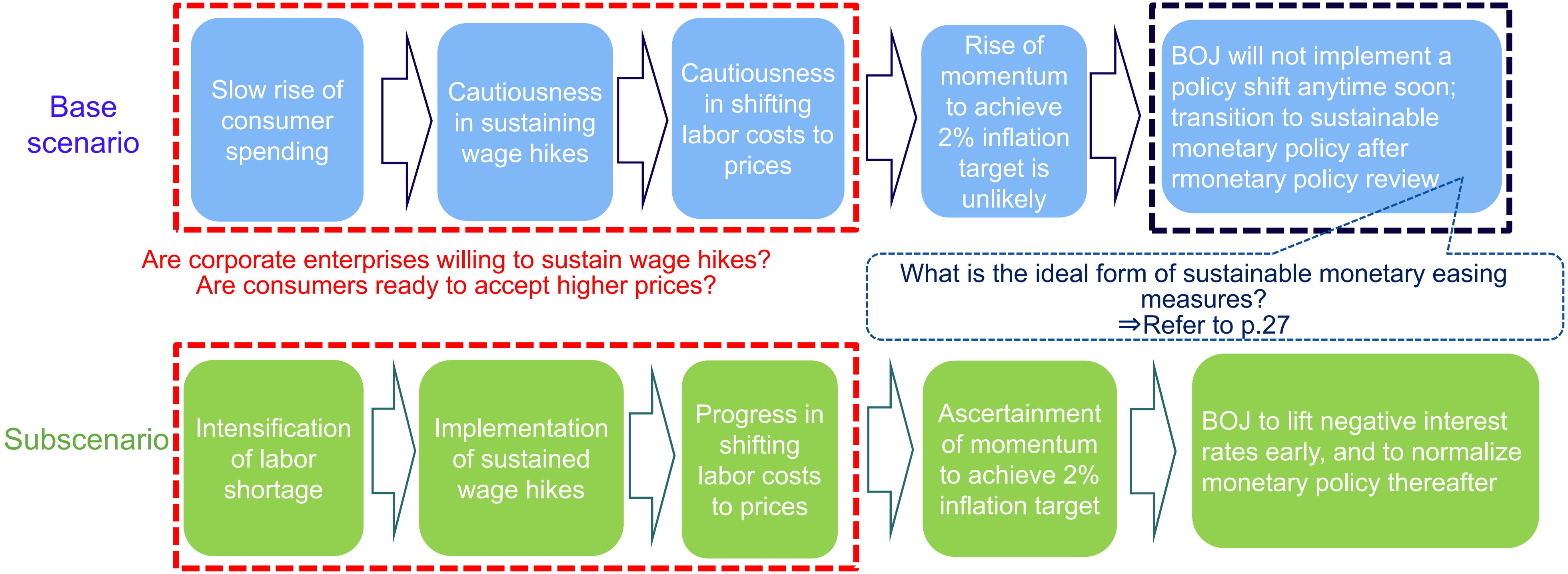
		2022	2023	2024	2022				2023				2024				2025
		FY	(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	1.4	1.8	0.8	-0.6	1.3	-0.3	0.1	0.8	1.2	-0.0	0.2	0.1	0.2	0.2	0.3	0.3
	Q-o-q % ch p.a.	—	—	—	-2.3	5.3	-1.2	0.2	3.2	4.8	-0.2	0.6	0.6	0.7	0.9	1.4	1.4
Domestic demand	Q-o-q % ch	1.9	0.5	1.0	-0.1	1.1	0.3	-0.3	1.0	-0.6	0.3	0.2	0.3	0.2	0.2	0.3	0.2
Private-sector demand	Q-o-q % ch	2.6	0.5	1.0	-0.1	1.4	0.4	-0.5	1.3	-0.8	0.4	0.2	0.3	0.2	0.2	0.3	0.2
Personal consumption	Q-o-q % ch	2.5	0.2	0.8	-1.0	1.8	-0.0	0.3	0.6	-0.6	0.2	0.1	0.2	0.2	0.1	0.2	0.2
Housing investment	Q-o-q % ch	-3.0	2.9	-1.1	-1.2	-1.8	-0.1	1.0	0.7	2.0	0.3	-0.3	-0.5	-0.3	-0.2	-0.2	-0.4
Capital investment	Q-o-q % ch	3.1	1.3	1.8	-0.0	2.0	1.5	-0.7	1.6	-1.0	0.9	0.7	0.4	0.1	0.5	0.5	0.7
Inventory investment	Q-o-q contribution, % pt	(0.2)	(-0.1)	(0.0)	(0.6)	(-0.2)	(0.1)	(-0.4)	(0.3)	(-0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(-0.1)
Public-sector demand	Q-o-q % ch	-0.1	0.7	0.9	-0.3	0.5	-0.0	0.3	0.3	0.1	0.1	0.2	0.3	0.1	0.3	0.3	0.3
Government consumption	Q-o-q % ch	0.7	0.3	0.9	0.6	0.5	-0.1	0.2	0.1	0.0	0.1	0.1	0.2	0.3	0.3	0.2	0.3
Public investment	Q-o-q % ch	-3.1	2.2	1.1	-3.9	0.6	1.0	0.1	1.4	0.2	0.3	0.4	0.4	-0.4	0.5	0.5	0.3
External demand	Q-o-q contribution, % pt	(-0.5)	(1.2)	(-0.2)	(-0.4)	(0.1)	(-0.6)	(0.3)	(-0.3)	(1.8)	(-0.3)	(-0.1)	(-0.2)	(-0.0)	(-0.0)	(0.1)	(0.1)
Exports	Q-o-q % ch	4.5	1.9	0.5	1.4	1.9	2.4	1.5	-3.8	3.1	0.9	-0.0	-0.6	0.1	0.1	0.7	1.1
Imports	Q-o-q % ch	7.2	-3.0	1.4	3.7	1.1	5.5	-0.1	-2.3	-4.4	2.3	0.3	0.1	0.2	0.2	0.5	0.5
GDP (nominal)	Q-o-q % ch	2.0	5.3	1.4	0.3	1.1	-0.9	1.2	2.2	2.7	0.3	0.3	0.5	0.5	-0.1	0.4	0.5
GDP deflator	Y-o-y % ch	0.7	3.4	0.7	0.3	-0.3	-0.4	1.2	2.0	3.5	4.8	3.3	2.4	1.2	0.6	0.6	0.3
Domestic demand deflator	Y-o-y % ch	3.0	2.2	0.9	2.6	2.7	3.2	3.3	2.8	2.4	2.5	1.9	1.7	1.4	1.0	0.9	0.7

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

Japan: Our Base scenario is a slowdown in the rate of wage hikes. Wage hikes may accelerate triggered by labor shortages.

- Our Base scenario is based on our view that the rate of wage hikes will slow down from 2024 amid the slow rise of personal consumption, and that there are slim prospects of the rise of momentum toward achievement of the inflation target. However, a further intensification of the labor shortage may trigger the progress of wage hikes and pass-through of labor costs to prices (our Subscenario).
  - Key point (1): Are corporate enterprises willing to keep raising wages? Are consumers ready to accept higher prices?
  - Key point (2): What is the ideal form of sustainable monetary easing measures in the event inflation does not reach the 2% target? (Refer to p.27)

Wages and prices, and the BOJ's monetary policy scenario



Source: Compiled by MHRT

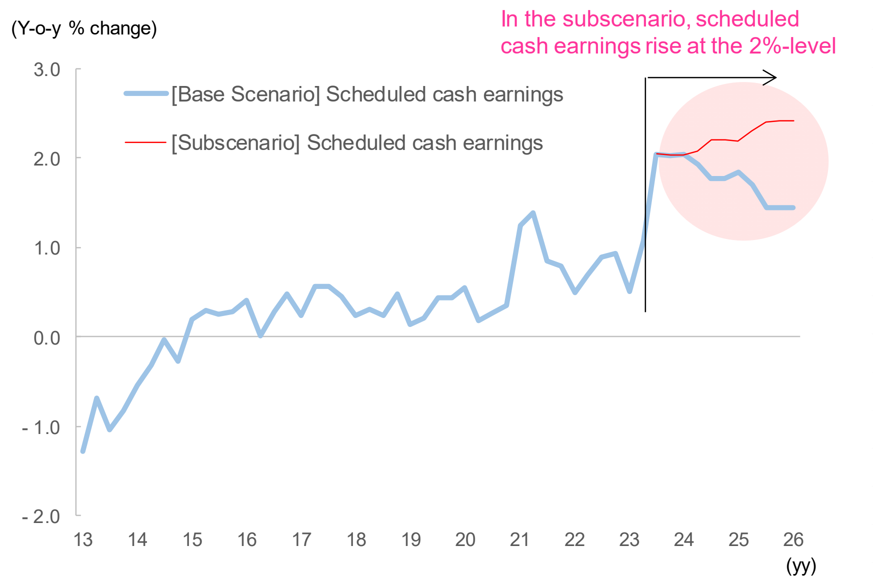
Japan: The main reason for the decision to raise wages is a short-term response to inflation. However, comments citing labor shortages are also increasing gradually.

- In 2023, there was a sharp increase in the number of articles citing "wage hikes in response to inflation". The current wage hikes are mainly due to allowances for the rise of import prices. Amid the slow growth of demand, the rate of wage hikes in the 2024 spring labor-management wage negotiations is expected to be slightly lower, albeit still high, than in 2023, due to the decline in import prices (base scenario).
- On the other hand, the number of articles citing "wage hikes in response to labor shortages" and "sustained wage hikes" also increased. The labor shortage appears to be driving the momentum for sustained wage hikes. If corporate enterprises turn more positive toward sustained wage hikes without being swayed by current demand trends, the rate of wage hikes may turn out to be higher than expected from 2024 onward (subscenario).

Number of articles related to wage hikes (by factor, 2019-2023)

Note: The number of articles in 2023 is an estimate based on the assumption that articles continue to increase at the pace of January to early August until the end of the year. The "wage hike in response to labor shortage," "sustained wage hike," and "wage hike in response to high prices" groups are counts of the number of articles in which the word "wage hike" co-occurs (both words are included within 5 words) with words that have a strong relationship with the group (labor shortage/human resource shortage, sustained/structural, high prices).
Source: Compiled by MHRT from the Nihon Keizai Shimbun morning edition

Rise of scheduled cash earnings (y-o-y % change)

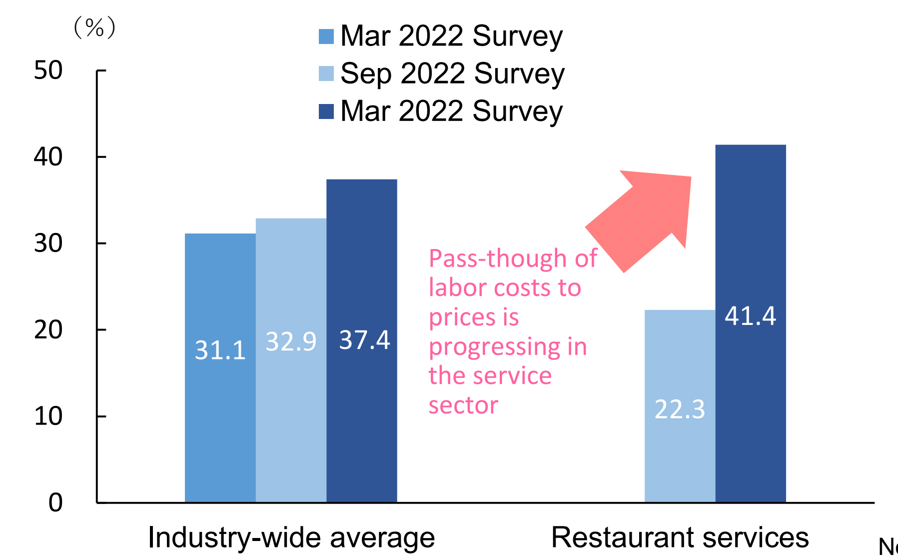


Note: The Base scenario assumes 3.4% in FY2024 and 3.0% in FY2025; the Subscenario assumes 3.8% in FY2024 and 4.0% in FY2025.
:Source: Compiled by MHRT based on Ministry of Health, Labour and Welfare, *Monthly Labour Survey*

Japan: The CPI may turn out to be higher than expected due to wage hikes and progress in pass-through of labor costs to prices.

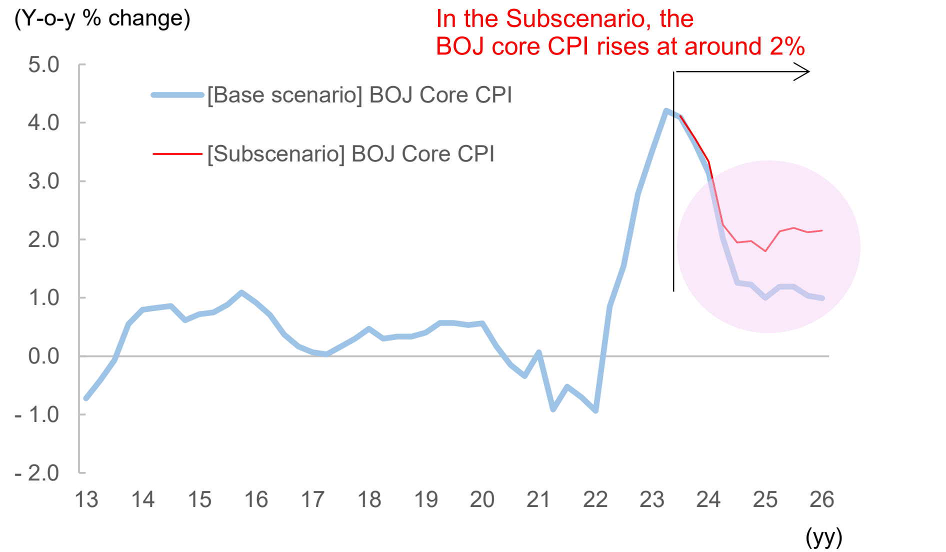
- There are signs of change in the pass-though of rising labor costs to prices. This will serve as upward pressure on service prices going forward.
  - General service prices are currently rising at a high rate in the lower half of the 2% range. Restaurants and household services contributed to the overall increase, affected by the cost push stemming from the weak yen, etc. On the other hand, in the service sector, businesses are moving to pass on higher labor costs to consumers in the form of price increases.
- Looking ahead, the BOJ core CPI y-o-y is expected to slow as cost-push pressures subside (Base scenario). However, if the rise of scheduled cash earnings remain around +2% y-o-y and consumers accept a further rise of the pass-though of labor costs to prices, the BOJ core CPI may be pinned at a high rate around +2% (Subscenario).

Pass-though of labor costs to prices



Note: Restaurant services are not included in the March 2022 survey.
Source: Compiled by MHRT based on the Small and Medium Enterprise Agency, *Follow-up Survey for the Price Negotiation Promotion Month*

BOJ Core CPI

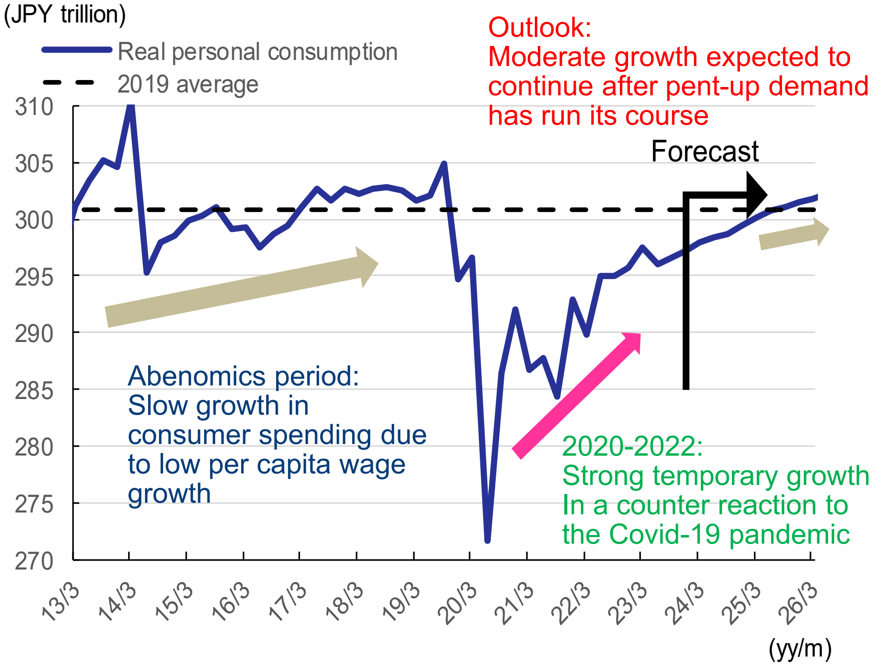


Note: The Subscenario is based on the assumption that the rise of wages in the spring wage negotiations will increase (3.8% in FY2024 and 4.0% in FY2025), and that the rise of scheduled cash earnings will remain in the 2% range and the pass-through of labor costs will increase further (the elasticity of y-o-y service price to y-o-y scheduled cash earnings will rise to about 2.5 times the historical average). (The elasticity of the y-o-y ratio of service prices to the y-o-y ratio of fixed salaries will increase to 2.5 times the historical average.
Source: Compiled by MHRT based on the Ministry of Internal Affairs and Communications *Consumer Price Index*

Japan: Income and consumption growth is moderate, and lacks the strength to drive the pass-though of labor costs to prices from the demand side

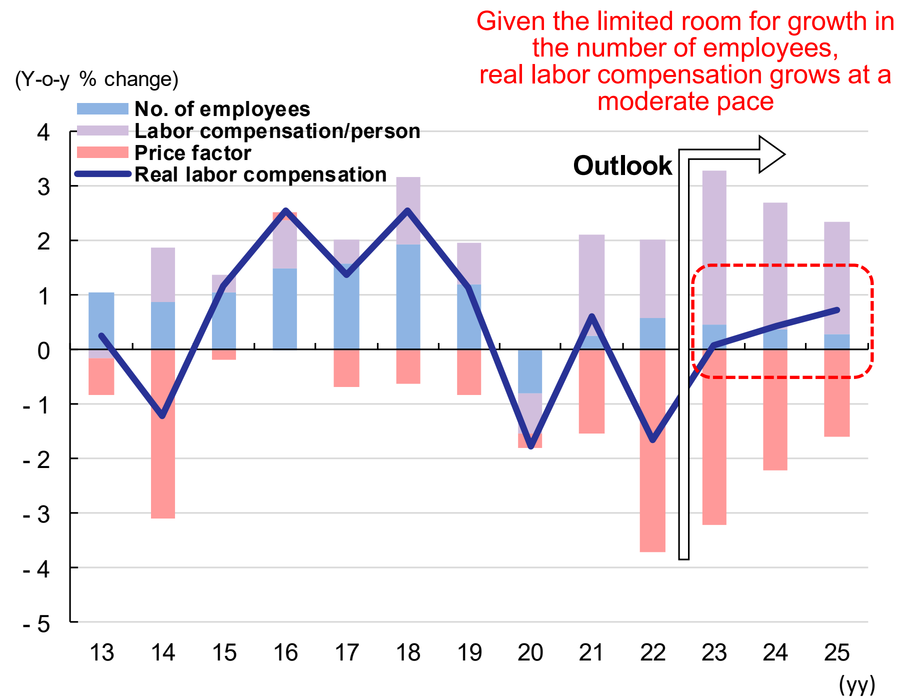
- Personal consumption growth is lackluster after pent-up demand has run its course. There is a lack of momentum from the demand side to boost the pass-through of labor costs to prices.
  - The growth of macro income formation (real labor compensation) is expected to be lower than the average during the Abenomics period, mainly due to slow growth in the number of employees stemming from the limited room for additional labor participation by women and the elderly, unlike in the Abenomics period.
  - Given these conditions, the recovery in personal consumption is also expected to remain moderate, around the mid- +0% p.a. range.

Personal consumption (actual and outlook)



Note: Seasonally adjusted basis
Source: Compiled by MHRT based on Cabinet Office, *National Accounts*

Trends in real labor compensation



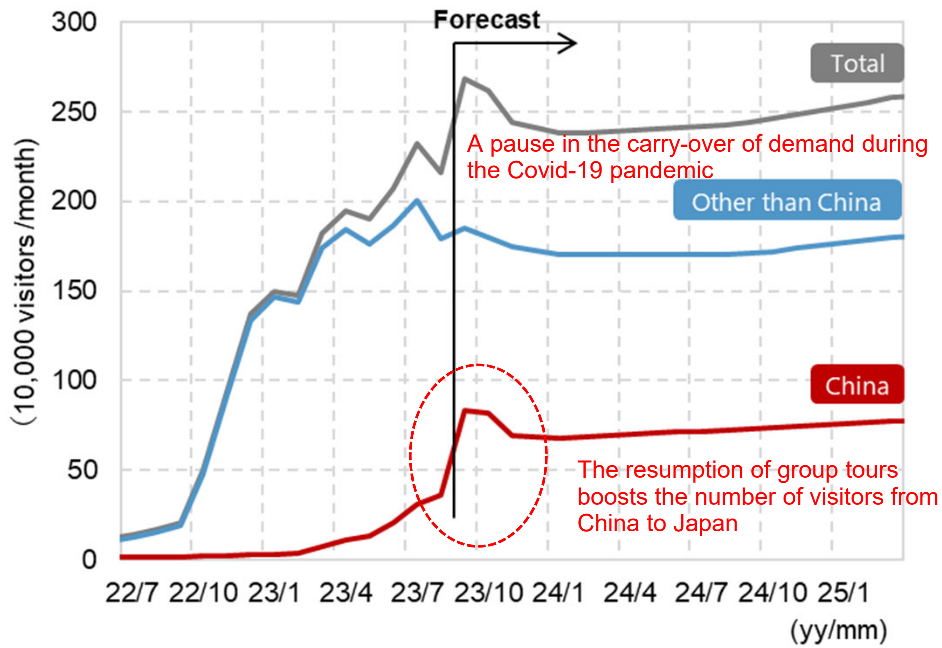
Source: Compiled by MHRT based on Cabinet Office, *National Accounts*

MIZUHO

Japan: Inbound tourism is continuing to recover. Note the downside risks regarding Chinese visitors to Japan.

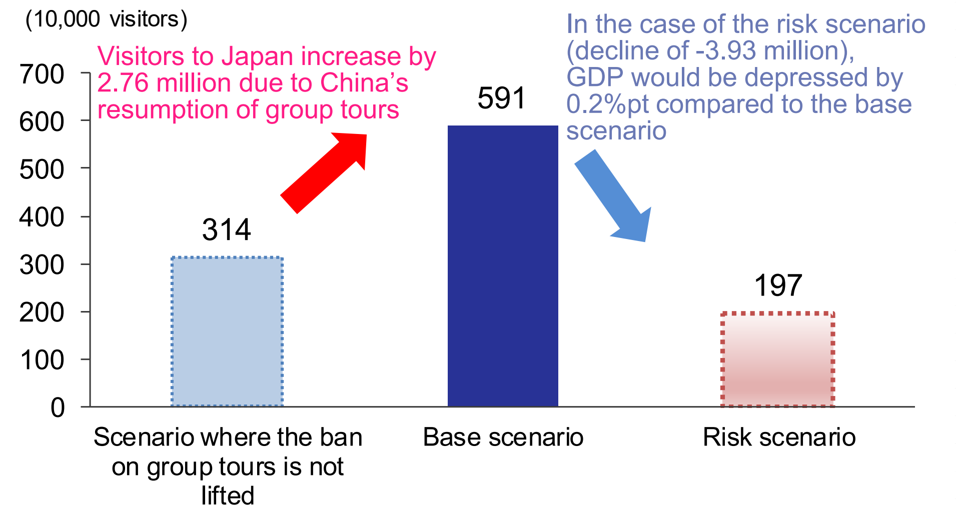
- The number of foreign visitors from a wide range of countries and regions to Japan is continuing to recover. Chinese visitors to Japan, which have been sluggish, are now in a full-fledged recovery due to the resumption of group tours.
  - The number of foreign visitors to Japan is expected to reach 27.2 million in FY2023 (FY2022: 3.83 million), boosting GDP by 0.5% in FY2023.
  - Although the recovery of Chinese visitors to Japan has been slow, we estimate that the number of Chinese visitors to Japan in FY2023 will reach 5.91 million, an increase of 2.76 million in comparison to the case in which group travel is not resumed (3.14 million) reflecting the Chinese government's lifting of the ban on group travel to Japan in August.
  - However, there are concerns regarding a downturn in Chinese visitors to Japan going forward, due to the impact of the discharge of treated water from the nuclear power plant and China's economic slowdown. If the pace of recovery of Chinese visitors to Japan slows sharply from September, it could depress FY2023 GDP by approximately 0.2% pt relative to the current forecast.

Outlook on the number of foreign visitors to Japan



Source: Compiled by MHRT based on Japan National Tourism Organization, *Number of international visitors to Japan and the number of Japanese travelers abroad*

Outlook on Chinese visitors to Japan in FY2023 (by scenario)



Note: The downswing case is based on the assumption that the pace of increase in the number of Chinese visitors to Japan from August is 16% (recovery rate from January to July 2023 compared to the same period in 2019).

Source: Compiled by MHRT based on data from the Japan National Tourism Organization, *Number of international visitors to Japan and the number of Japanese travelers abroad* and Japan Tourism Agency, *International Visitor Survey*

(5) Financial markets: Stronger yen, weaker stocks, and higher yen interest rates in 2024 along with the shift of the BOJ's monetary policy stance

- Along with the BOJ's lifting of the negative interest rate policy and introduction of a "new monetary easing framework," Japanese long-term interest rates are expected to rise to slightly below 1% in the Jul-Sep quarter of 2024. US long-term interest rates should remain in the upper 3% range through 2024 as policy rates remain high.
- We expect the USD/JPY exchange rate to remain firm during 2023 against the backdrop of a strong US economy and high US interest rates. From 2024, we expect the dollar to weaken against the yen to the mid-130 yen range toward the end of 2024, due to the fall of US interest rates and the shift of the BOJ's monetary policy.
- Although US stocks are expected to decline through mid-2024 due to the US recession, they are expected to gradually recover from then onward. Japanese stocks are expected to soften during 2024 due to the impact of the weak US stock market and the strong yen. A full-fledged recovery is not expected until 2025 or later.

Outlook on financial markets

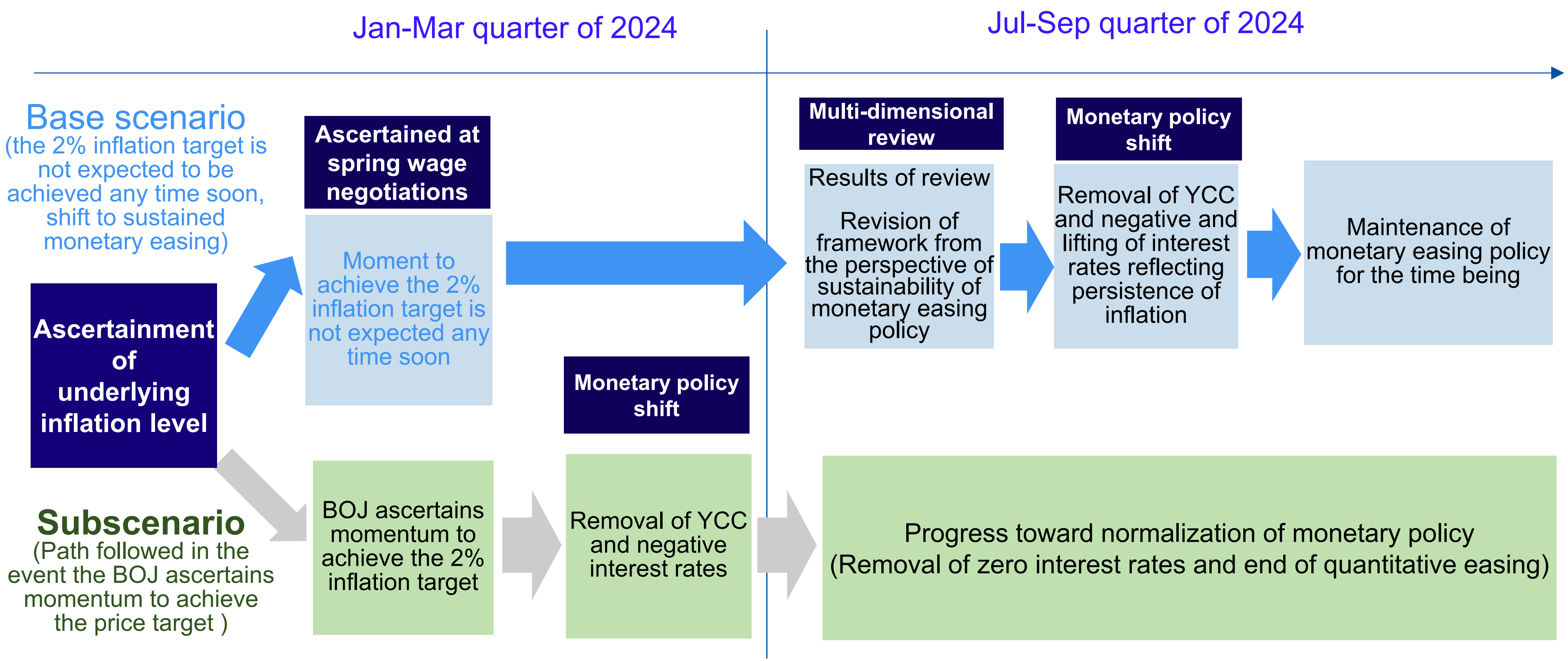
		2022 FY	2023 FY	2024 FY	2022 Jan-Mar	2022 Apr-Jun	2022 Jul-Sep	2022 Oct-Dec	2023 Jan-Mar	2023 Apr-Jun	2023 Jul-Sep	2023 Oct-Dec	2024 Jan-Mar	2024 Apr-Jun	2024 Jul-Sep	2024 Oct-Dec	2025 Jan-Mar
Japan																	
Interest rate on the policy rate balance	(End-of period value, %)	-0.10	-0.10	0.00	-0.10	-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, %)	0.29	0.35 ～0.80	0.35 ～1.20	0.18	0.24	0.22	0.27	0.44	0.42	0.35～0.80	0.40～0.80	0.30～0.80	0.35～0.90	0.60～1.20	0.65～1.15	0.70～1.15
Nikkei Stock Average	(JPY)	27,272	27,427 ～35,000	28,700 ～34,400	27,156	26,891	27,611	27,362	27,291	30,469	31,200～ 34,000	31,000～ 35,000	30,000～ 34,000	28,700～ 32,800	28,800～ 33,200	29,300～ 33,700	30,000～ 34,400
US																	
Federal Funds Rate (lower end)	(End-of period value, %)	4.75	5.25	4.25	0.25	1.50	3.00	4.25	4.75	5.00	5.25	5.25	5.25	5.00	4.75	4.50	4.25
Newly issued government bonds	(10-year, %)	3.37	3.31 ～4.65	3.35 ～4.30	1.95	2.92	3.10	3.82	3.65	3.59	3.70～4.65	3.65～4.65	3.45～4.30	3.35～4.05	3.45～4.15	3.55～4.25	3.60 ～4.30
Dow Jones Average	(USD)	32,549	30,800 ～37,000	29,200 ～35,500	34,679	32,688	31,774	32,490	33,219	33,643	33,700～ 35,700	33,500～ 37,000	30,800～ 35,000	29,200～ 33,000	30,700～ 34,000	32,200～ 35,000	32,700～ 35,500
Eurozone																	
ECB deposit facility rate	(End-of period value, %)	3.00	4.00	2.75	－0.50	－0.50	0.75	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.25	2.75
German government bonds	(10-year, %)	1.73	2.00 ～2.90	2.00 ～2.80	0.17	1.10	1.36	2.14	2.34	2.37	2.20～2.90	2.05～2.85	2.00～2.75	2.00～2.70	2.05～2.75	2.10～2.80	2.10～2.80
Exchange rates																	
USD/JPY	(USD/JPY)	135	127 ～152	127 ～148	116	130	138	141	132	138	140～151	140～152	135～148	133～145	129～141	127～139	128～140
EUR/USD	(EUR/USD)	1.04	1.05 ～1.13	0.96 ～1.14	1.12	1.06	1.01	1.02	1.07	1.09	1.05～1.13	1.01～1.13	1.00～1.12	0.98～1.11	0.96～1.10	0.98～1.12	1.00～1.14

Source: Compiled by MHRT based on Bloomberg

BOJ: Even though our outlook is unchanged that negative interest rates will be lifted after the BOJ's multi-dimentional review, the probability of early lifting is rising

- Base scenario: the 2% inflation target will not be achieved any time soon, and monetary easing will turn out to be a long-term task. After the multi-dimensional review, the BOJ will shift to sustained monetary easing under a new framework. The timing of the policy shift is expected to be the Jul-Sep quarter of 2024.
- Subscenario: the BOJ judges that there is momentum to achieve the inflation target and removes yield curve control (YCC) and lifts negative interest rates as soon as possible. Monetary policy will normalize from then onward.

Outlook on the BOJ's monetary policy



Source: Compiled by MHRT

BOJ: Continuation of monetary easing environment even under a new framework; lifting of negative interest rates

- The new monetary policy framework will focus on enhancing forward guidance.
  — This refers to a more specific presentation of the BOJ's monetary policy stance, including a longer-term outlook on the economy and prices, and a shift to a market-oriented policy approach.
- The negative interest rate policy which possesses negative effects will be lifted, presuming that real interest rates will remain negative (i.e. that monetary conditions will remain accommodative).
  — While there is no need to curb inflation through interest rate hikes any time soon, the BOJ will likely remove the negative effects of negative interest rates (decline in the functioning of short-term financial markets and financial intermediary function) from the perspective of balancing the positive and negative effects through a multilateral review, and move toward the sustainable strengthening of easing measures.

Proposal of new framework and issues to be considered in lifting negative interest rates

	Positive effects	Negative effects
Current monetary policy: Negative interest rates; YCC; Asset purchases	Adjust short-term interest rates at a low level under the negative interest rate policy Adjust long-term interest rates at a low level by YCC (However, the policy will become more flexible in July)	Decline in the functioning of the short-term money market (Low level of market financial transactions) Decline in financial intermediary function (Risks that will emerge as policy measures are prolonged)
New monetary easing framework: Zero interest rates; Forward guidance; Asset purchases	Short-term interest rates are low due to maintenance of the zero-interest-rate policy (Real short-term interest rates are negative) Control longer interest rates through enhanced forward guidance	Decline in the functioning of short-term financial markets (Despite lingering effect even if negative interest rate policy is removed, the negative effects will be reduced)

Negative real interest rates can be maintained in the new framework
(The monetary environment remains accommodative)

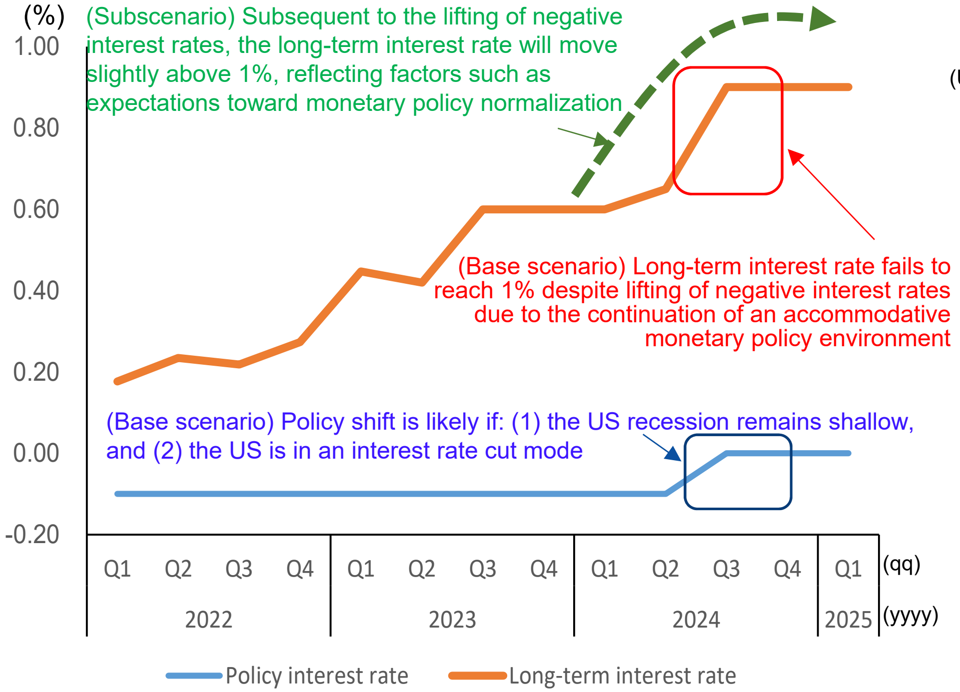
Reduce the negative effects of negative interest rate policy

Source: Compiled by MHRT

Yen interest rates and forex: In the Base scenario, the timing of BOJ policy shift is the Jul-Sep quarter of 2024

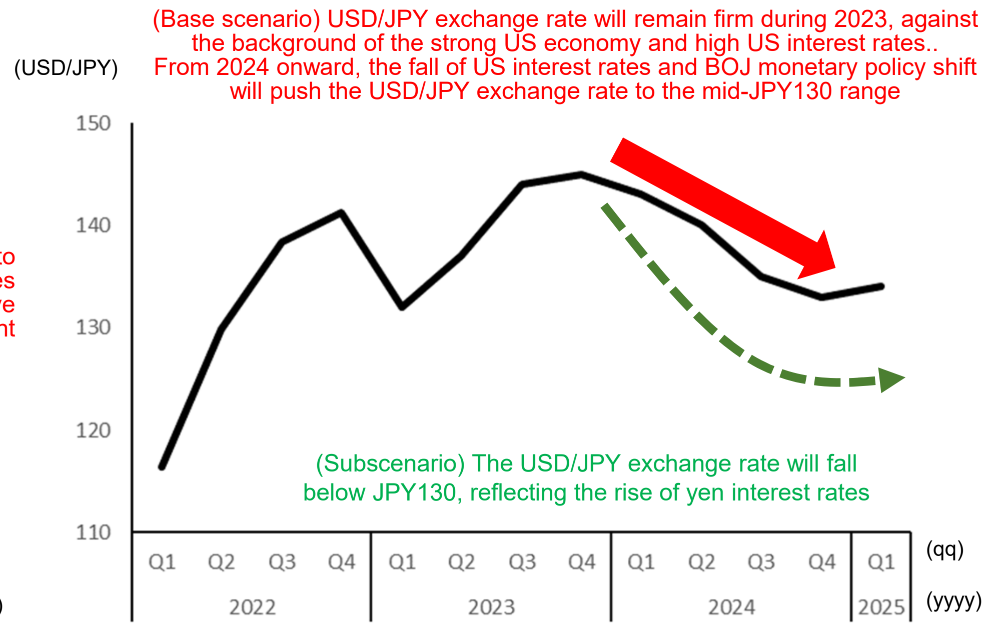
- In the Base scenario, we assume that the timing of the BOJ's policy shift will be in the Jul-Sep quarter of 2024. Subsequent to the shift, long-term interest rates are expected to be slightly below 1%.
  - Requisite external environment conditions for policy shift: (1) the US recession is shallow and has no significant impact on the Japanese economy, (2) the US is in an interest rate cut mode, and that the risk of an excessive rise of yen interest rates is small.
  - We expect the USD/JPY exchange rate to be in the mid-JPY130 range by the end of 2024 due to the fall of US interest rates and the BOJ's policy shift.
- In the Subscenario, which ascertains the momentum to achieve the 2% inflation target, we project that the Japanese long-term interest rate will move to the lower half of the 1% range due to expectations toward monetary policy normalization going forward.

Japan's policy rate and long-term interest rate



Source: Compiled by MHRT based on data from Bloomberg.

Outlook on the USD/JPY exchange rate

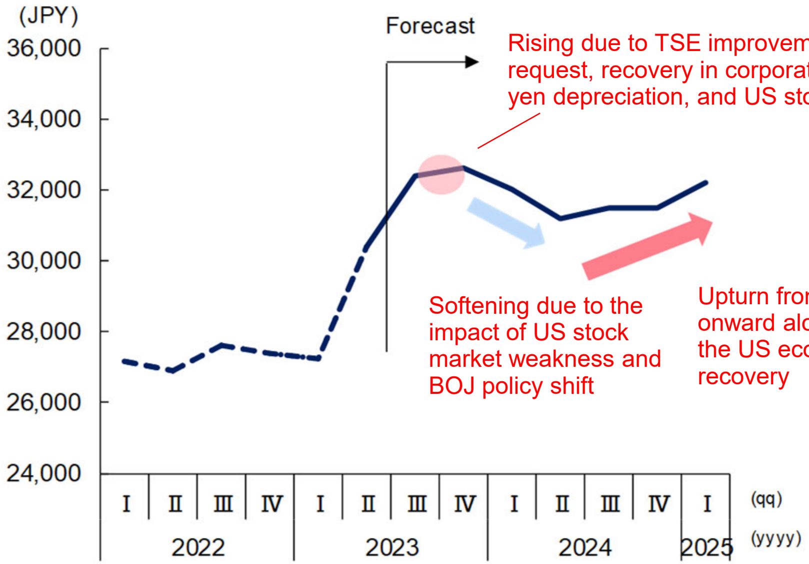


Source: Compiled by MHRT based on data from Refinitiv

Japanese stocks: Japanese stocks will soften in 2024 due to weak US stocks and yen appreciation stemming from the BOJ's policy shift

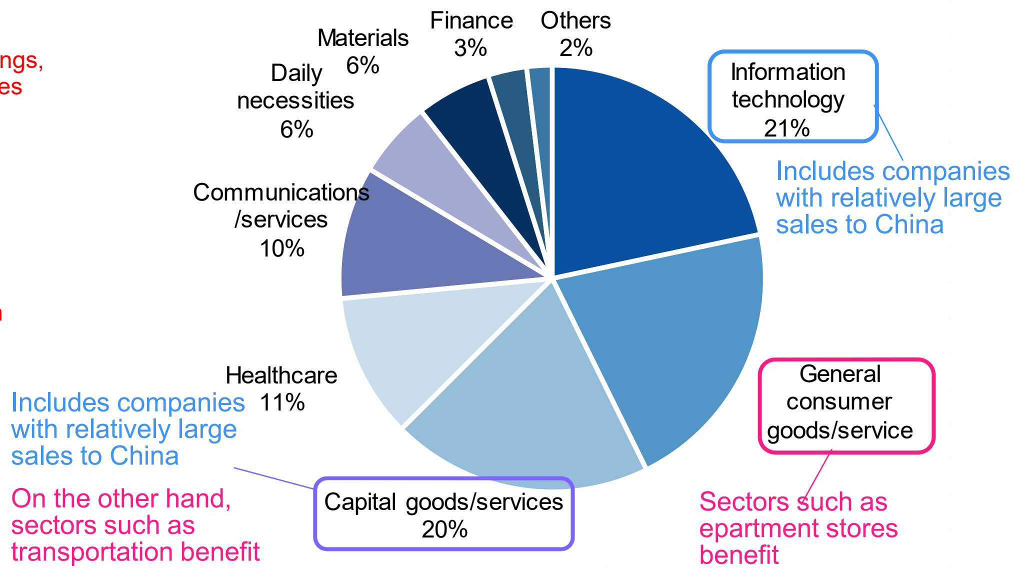
- Japanese stocks will soften in 2024 due to the weak US stock market and the appreciation of the yen stemming from the BOJ ‘s policy shift. A full-fledged recovery is only expected sometime from 2025 onward.
  - Currently, the market is firm due to multiple factors including the Tokyo Stock Exchange's (TSE) request for management improvement, expectations for recovery of Japanese companies' financial results, yen depreciation, and US stock prices.
  - However, from 2024 onward, the market will soften due to weak US stock prices and the yen ‘s appreciation due to the BOJ’ s policy shift. A full-fledged recovery is only expected sometime from 2025 onward.
  - Uncertainty over the Chinese economy is a concern for Japanese stocks. Note that this may serve as a market-moving factor.
    - The recovery of inbound tourist demand will benefit some sectors such as department stores and transportation.
    - On the other hand, there may be some downward pressure on the manufacturing industry which has a large percentage of sales to China.

Japanese stock market outlook



Note: The broken line represent actual values, and the solid line represents forecast values
Source: Compiled by MHRT based on data from Refinitiv

Nikkei Stock Average (composition by sector)



Notes: 1. Sector composition ratios are calculated based on the composition ratios published in Refinitiv. Other sectors include the real estate, energy, and utilities sectors.
2. Sales to China are calculated based on each company's annual securities report.
Source: Compiled by MHRT based on data from Refinitiv

MIZUHO