FY2024 – FY2025 Economic Outlook

Economies return to growth at varying speeds, facing polarization and widening gaps

Mizuho Research & Technologies, Ltd.

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Key points of our outlook

- The global economy will deteriorate slightly in the latter half of 2024, impacted by China's economic slowdown and high interest rates in the US and Europe. In 2025, prolonged property adjustments in China will continue to weigh down the economy, but the global economy is expected to gather steam slowly as continuous rate cuts promote a gradual recovery in Europe and the United States, while ASEAN and other economies turn around, driven by steady exports primarily to the US and Europe.
- In the US, the tech giants will see substantial profit growth, while high stock prices will spur consumption by the high-income class. High interest rates will continue to affect smaller companies and low-income households, but investment and consumption of leading firms and wealthy consumers will help avert a rapid economic slowdown. The Federal Reserve is expected to cut rates starting in September 2024. Due to the impact of past tightening measures, the economy is likely to slow toward the end of 2024, but will gradually regain strength in 2025.
- The European economy is expected to gain momentum, particularly in services. Manufacturing will bottom out and inflation will generally slow, but wages and service prices will remain high due to such factors as structural labor shortages. The ECB will cautiously cut interest rates on a quarterly basis. Falling inflation and continuous rate cuts will support the economy to make a gradual recovery toward 2025.
- China will continue to face structural factors pushing down the economy, such as prolonged property adjustments, population decline, and economic divides. Export expansion with reduced unit prices will gradually lose steam, leading to slower growth from 2024 to 2025. NIEs are projected to rebound in 2024, benefiting from the strong demand for advanced semiconductors. ASEAN economies are also expected to turn around toward 2025 as electronics demand improves, although the pace of recovery will vary from country to country.
- The Japanese economy will be buoyed by domestic demand in FY2024 with high corporate earnings supporting firms' spending behavior (pay hikes, capital investments), while real wage growth will prompt a gradual recovery in personal consumption. In FY2025, pay hikes will lose momentum, but real wages will continue to rise modestly, supporting the recovery of personal spending. Corporate earnings are likely to weaken, but capital investment will continue to grow, thanks partly to moves to strengthen domestic manufacturing bases.
- In the financial markets, the Bank of Japan is expected to raise rates to 0.5% in FY2024 and adopt a wait-and-see stance thereafter. Long-term rates are projected to rise to the mid-1% range. US long-term rates will gradually decline to around 4% in response to rate cuts anticipated as early as September 2024. The narrowing interest rate gap between Japan and the US will create pressure for a higher yen, but the continuing attractiveness of the carry trade will see the yen rise only slowly to the mid-140-yen level against the dollar by the end of FY2024.

Outlook on the global economy: Slow recovery mainly in the US and Europe, with the pace of growth varying among countries

Outlook on the global economy

(Y-o-y % change) (%pt)

	2023	2024 (Outlook)	2025 (Outlook)	2024 (Comparison with February 2024 outlook)	2025 (Comparison with February 2024 outlook)
Global real GDP growth	3.2	3.1	3.0	0.2	0.1
Japan, US, Europe	1.5	1.4	1.5	0.2	-
US	2.5	2.4	1.7	0.5	0.2
Eurozone	0.5	0.7	1.3	0.2	-0.2
UK	0.1	0.9	1.8	0.1	-
Japan	1.8	-0.3	1.2	-1.0	-
Asia	5.3	5.0	4.6	0.3	0.2
China	5.2	4.8	4.4	0.2	0.2
NIEs	1.5	2.5	1.8	0.1	-
ASEAN5	4.4	4.7	4.8	0.1	0.1
India	7.7	6.8	6.1	0.7	0.1
Australia	2.0	1.8	1.7	-	-
Japan (FY)	1.0	0.3	0.8	-0.9	-

The global economy will slow in the latter half of 2024 due to high interest rates in the US and Europe and a slowdown in China, but will gradually recover from 2025, particularly in the US and Europe.

The economy will slow in the second half of 2024 due to the persistent impact of high interest rates. Cooling inflation and rate cuts will lead to modest economic growth from 2025.

Slowing inflation and rate cuts will bolster overall demand, putting the economy back on a recovery track toward 2025.

Property adjustments will continue and consumer sentiment will remain weak. Export expansion with reduced unit prices will not last long. Economic growth will continue to decelerate.

With corporate earnings weakening, momentum for wage hikes and capital investment will decelerate slightly, but firms' growth expectations will be maintained. Personal spending will also pick up.

Note: Figures in the shaded areas are forecasts. The global growth rate is calculated based on the GDP share (PPP) by the IMF.
Source: Made by Mizuho Research & Technologies (MHRT) based on the IMF and the statistics of the relevant countries or regions.

Key issues and assessments of the major economies

Region	Key issue	Assessment
US	Economic impact of the polarization of companies and households	◆ Market-leading tech giants that have successfully adapted to generative AI will post substantial profit growth, while high stock prices will boost the financial assets of the high-income class. ◆ Smaller firms and low-income earners will continue to be impacted by rate hikes, but steady investment and consumption by leading companies and wealthy households will help avert a sharp economic decline. The growth rate will increase gradually from 2025. ◆ The Fed is expected to start cutting rates as early as September 2024 after confirming that inflation and the economy are cooling.
Eurozone	Outlook on prices, wages, and fiscal and monetary policies	◆ The economy will turn around particularly in the service sector. Manufacturing will bottom out and inflation will continue to ease, but wage growth and service prices will remain high due to structural labor shortages and labor hoarding. ◆ The ECB will continue to cut rates on a quarterly basis due to concerns about the risk of persistent inflation. The eurozone's fiscal deficits are projected to decline into 2025, but political pressure for fiscal expansion will intensify.
Emerging countries	China's export drive, and recovery of Asian countries' exports and domestic demand	◆ China will maintain growth at around 5% in 2024 backed by a recovery in exports. Growth will slow to the mid-4% range in 2025 as the export drive runs its course, combined with worsening corporate earnings and US and European tariffs on Chinese goods. ◆ Elsewhere in Asia, South Korea, Taiwan and Singapore will recover in 2024, thanks to a rebound in electronics exports. Recoveries in Vietnam, Malaysia, and Thailand will be delayed into 2025. The Indian and Indonesian economies will remain strong on the back of steady capital investment. The Philippines will start to turn around after interest rates are cut. Recovery in Australia will be delayed by continued high interest rates.
Japan	Outlook on corporate earnings and their impact on investment and consumption	◆ Corporate earnings will weaken in FY2024, particularly among SMEs, due to higher personnel costs and interest rate hikes (widening gaps in company profits), affecting the momentum of wage hikes and capital investment in FY2025. ◆ Meanwhile, company behaviors will continue to change. Steady capital investment will continue, prompted by sustained investment demands to strengthen domestic manufacturing bases, etc. Real wage growth will contribute to the recovery of personal spending, albeit a slow one.
Financial markets	The BOJ's policy changes and the market reaction	◆ The BOJ is expected to raise interest rates to 0.5% in FY2024 and continue to assess the situation thereafter. Long-term rates will climb to the mid-1% level. ◆ US long-term rates will fall slowly to around 4%, following rate cuts expected as early as September 2024. ◆ As for the USD/JPY exchange rate, the narrowing interest rate gap between Japan and the US will create pressure for a higher yen against the dollar, but the continuing attractiveness of the carry trade will see the yen rise only slowly to around the mid-140-yen level by the end of FY2024.

Source: Made by MHRT.

(1) US: Leading firms' strengths mitigate the impact of high interest rates and support the economy's soft landing

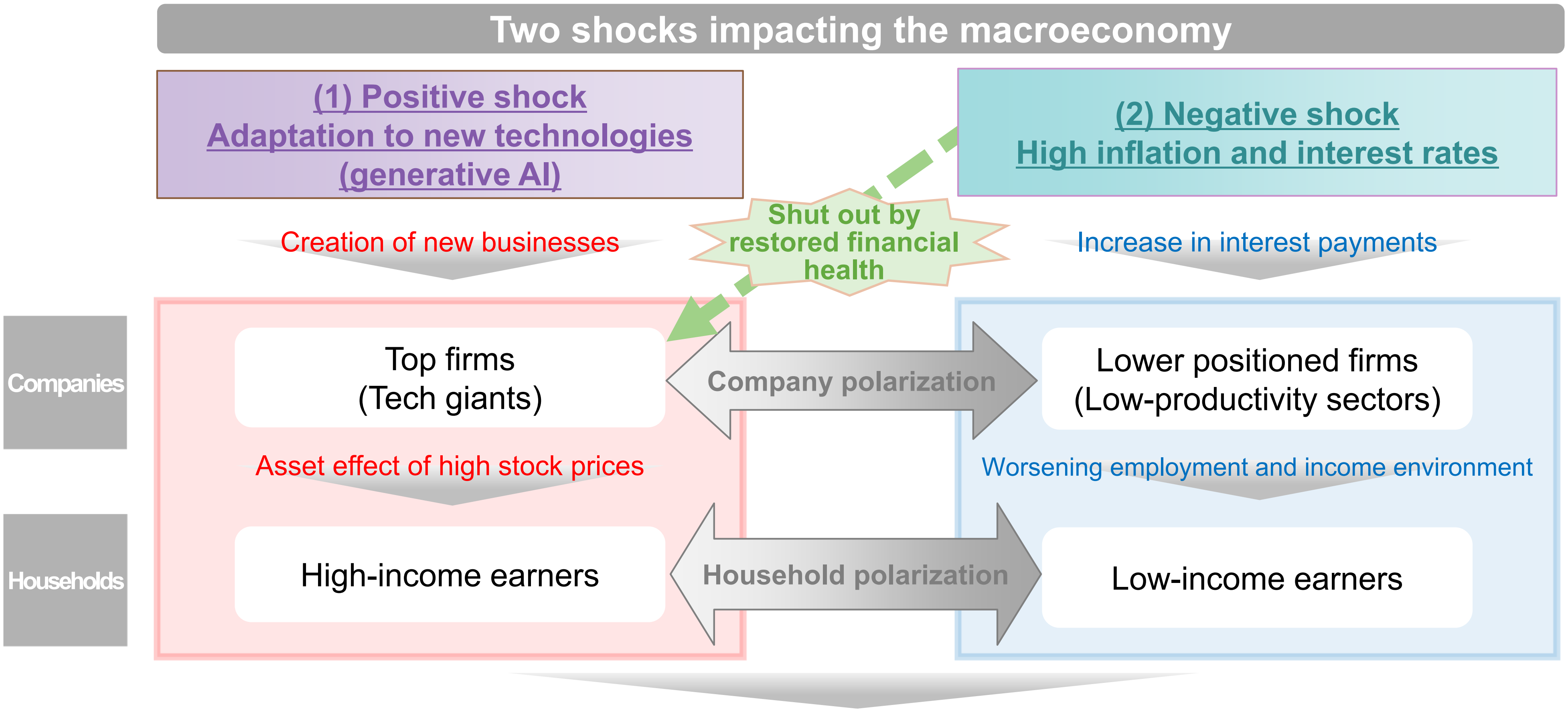
- Real GDP growth rates for 2024 and 2025 are forecast at +2.4% and +1.7% year-on-year, respectively.
  - Tech giants adapting to generative AI and other new technologies will post substantial profit growth. Strong results of the leading firms will drive stock prices upward and boost the financial assets and personal spending of the wealthy class through the asset effect.
  - Smaller firms and low-income consumers will increasingly feel the impact of rate hikes, but investment and consumption by the wealthy layer will help avert a sharp economic slowdown.
  - The Fed is expected to start cutting rates in September 2024 after confirming that inflation and the economy are cooling.

Outlook on the US economy

		2023	2024	2025	2023				2024				2025			
			(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.	2.5	2.4	1.7	2.2	2.1	4.9	3.4	1.4	2.0	1.6	1.5	1.6	1.7	1.8	1.8
Personal consumption	Q-o-q % ch p.a.	2.2	2.1	1.8	3.8	0.8	3.1	3.3	1.5	2.2	1.7	1.6	1.7	1.8	1.9	1.9
Housing investment	Q-o-q % ch p.a.	-10.6	5.1	4.7	-5.3	-2.2	6.7	2.8	16.0	-0.6	-1.0	5.0	6.1	6.5	6.5	5.8
Capital investment	Q-o-q % ch p.a.	4.5	3.0	1.5	5.7	7.4	1.4	3.7	4.4	2.3	1.1	0.7	1.1	2.0	2.3	2.8
Inventory investment	Q-o-q contribution % pt	-0.3	-0.1	0.1	-2.2	0.0	1.3	-0.5	-0.4	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Government consumption	Q-o-q % ch p.a.	4.1	2.7	1.2	4.8	3.3	5.8	4.6	1.8	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Net exports	Q-o-q contribution % pt	0.6	-0.2	-0.4	0.6	0.0	0.0	0.3	-0.7	-0.1	0.1	-0.1	-0.3	-0.4	-0.5	-0.5
Exports	Q-o-q % ch p.a.	3	3.3	3.5	6.8	-9.3	5.4	5.1	1.6	5.3	5.3	4.2	3.1	2.5	2.5	2.5
Imports	Q-o-q % ch p.a.	-1.7	3.5	4.3	1.3	-7.6	4.2	2.2	6.1	4.6	3.4	3.7	4.1	4.7	5.0	5.1
Unemployment rate	%	3.6	4.0	4.0	3.5	3.6	3.7	3.7	3.8	4.0	4.0	4.1	4.0	4.0	3.9	3.9
PCE deflator	Y-o-y % ch	3.7	2.6	2.3	5.0	3.9	3.3	2.8	2.6	2.7	2.5	2.5	2.3	2.3	2.2	2.2
Core, excl. food and energy	Y-o-y % ch	4.1	2.7	2.3	4.8	4.6	3.8	3.2	2.9	2.7	2.7	2.6	2.3	2.3	2.2	2.2

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

Points to the US economic outlook: The key to reading the future lies in two shocks and the "polarization" of companies and households



Will smaller firms and low-income earners drag down the economy?

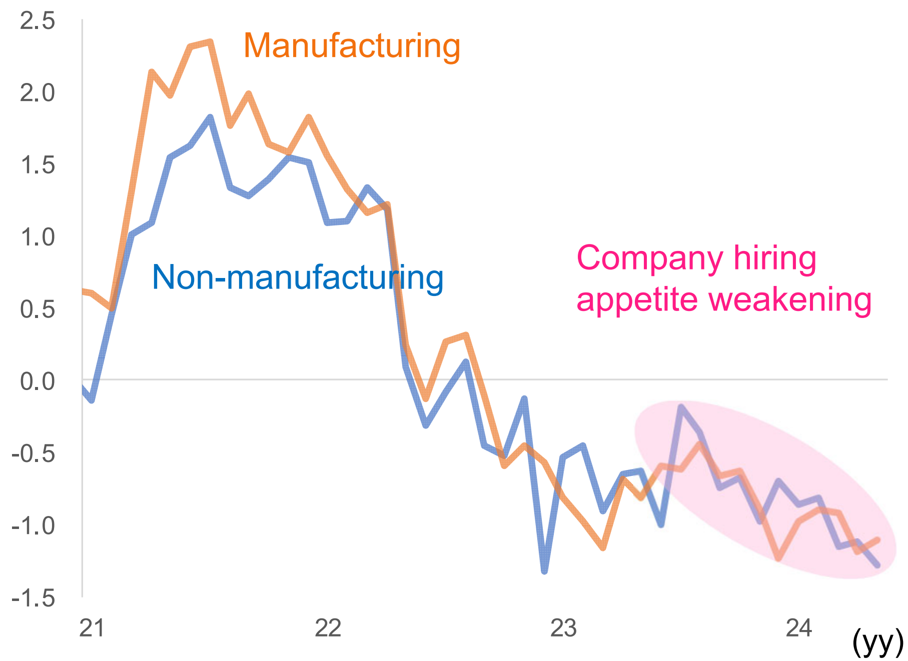
Main Scenario	● **From a macroeconomic viewpoint, companies and households will not face the burden of heavier interest payments because of debt restrictions and fixed borrowing rates.** ● **An economic slowdown will mainly affect smaller firms and low-income households, but the wealthy layer's resilience will mitigate its impact.** **-> US economy is expected to avoid a rapid slowdown (soft landing).**
Risk Scenario	● There is a risk that prolonged high interest rates and inflation will lead to a worse-than-expected employment and income environment or the burden of heavier interest payments for low-income earners, who account for a high percentage in the employment statistics, and create downward pressure on the economy or fuel social uncertainty.

Source: Made by MHRT.

US: Employment and income environment of low-income households expected to worsen

- The employment and income environment that has propped up low-income earners' consumption is expected to deteriorate.
  - Company hiring interest (≈ labor demand) is weakening, signaling future employment cutbacks.
  - Post-pandemic labor shortages have been a major boost to labor demand, allowing low-income earners to experience high wage growth, but the demand for low-paying jobs (employing 30% of workers) is declining steadily, signaling a future slowdown in wage growth.

US company recruitment trends



Note: The employment indices (hiring plans for the next six months) of the business sentiment surveys conducted by five Federal Reserve District Banks (Richmond, Kansas City, Dallas, Philadelphia, New York) were standardized and weighted by the number of employees in each region.
Source: Made by MHRT based on the Federal Reserve Banks of the respective districts.

Changes in job opening rate by sector

No change — Easing

Sector	Annual wage income ($10,000)	Worker ratio (%)	Job openings rate (difference from peak levels, %)															
			Jan 2023	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2024	Feb	Mar	Apr
Mining	8.5	0.5	-1.7	-1.5	-1.7	-1.5	-2.2	-2.4	-2.3	-2.6	-2.4	-3.1	-2.1	-2.0	-2.3	-1.8	-2.2	-2.7
Information	7.4	2.3	-4.7	-3.5	-3.4	-3.4	-3.1	-3.6	-3.1	-3.1	-4.6	-4.5	-3.2	-2.6	-1.8	-4.1	-3.3	-4.6
Construction	7.1	6.0	-1.8	-0.5	-1.9	-1.0	-0.9	-0.5	-1.2	-0.8	-0.4	-0.5	-0.1	-0.3	-0.4	-0.1	-1.4	-1.5
Finance	6.5	6.9	-2.0	-1.9	-1.3	-1.3	-2.1	-2.0	-1.9	-0.5	0.5	-2.2	-2.1	-1.5	-1.0	0.3	-1.4	-1.4
Professional services	6.5	17.1	-1.5	-2.4	-2.6	-2.5	-3.2	-3.4	-4.2	-3.0	-3.2	-3.2	-3.4	-3.2	-3.3	-3.5	-4.0	-3.5
Wholesaling	6.1	4.6	-1.1	-1.3	-1.2	-1.6	-1.8	-1.3	-1.9	-2.7	-2.4	-2.8	-1.4	-2.4	-2.7	-3.4	-2.9	-3.0
Transportation, warehousing, public services	5.8	5.4	-0.7	-1.2	-3.5	-1.7	-1.9	-2.9	-2.5	-2.9	-3.1	-1.8	-2.7	-3.6	-4.6	-4.5	-4.1	-4.1
Manufacturing	5.6	9.7	-1.9	-2.2	-2.1	-2.4	-2.8	-2.9	-3.2	-2.8	-2.7	-2.9	-3.1	-2.9	-2.8	-2.9	-3.2	-3.4
Education, healthcare	5.1	19.0	-1.3	-1.9	-1.6	-1.6	-1.9	-1.7	-1.6	-1.5	-1.8	-2.3	-1.8	-1.8	-1.5	-1.8	-2.0	-2.5
Other services	4.2	4.4	-1.8	-1.9	-2.0	-1.7	-2.2	-2.2	-2.8	-1.7	-2.9	-2.9	-2.4	-2.9	-2.8	-2.8	-3.2	-3.3
Retail trade	3.2	11.7	-2.6	-2.9	-3.5	-2.7	-3.3	-3.6	-3.4	-3.9	-3.8	-4.3	-4.2	-3.5	-4.5	-4.2	-4.8	-4.6
Leisure, accommodation	2.4	12.5	-2.3	-2.9	-2.8	-3.2	-3.6	-4.3	-4.1	-4.3	-3.4	-4.2	-4.5	-5.3	-4.6	-4.5	-4.3	-4.9

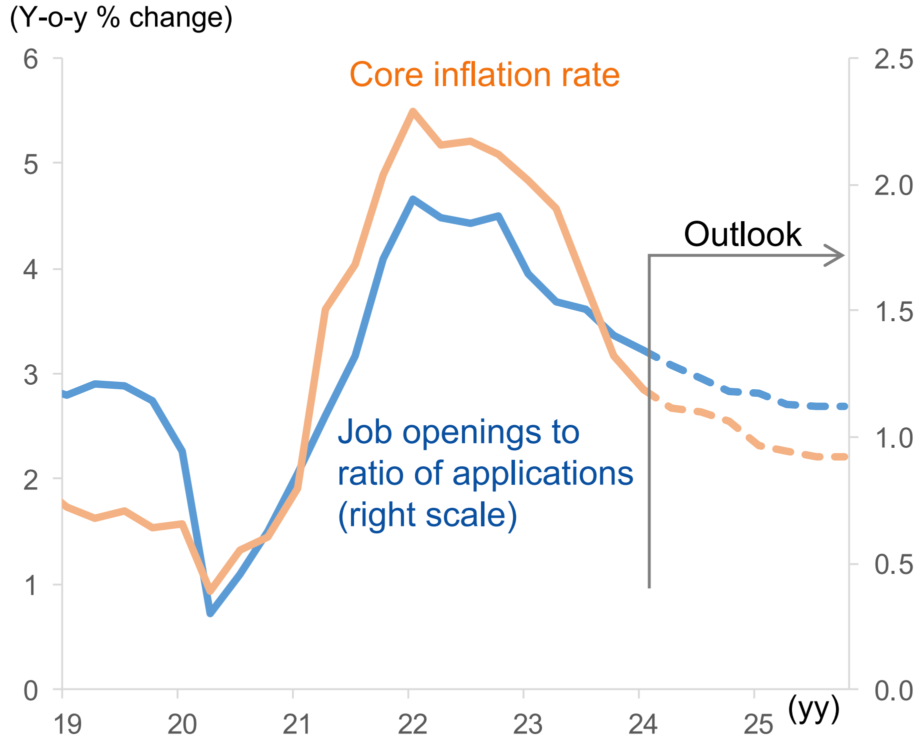
Labor demand for low-paying jobs (employing 30% of workers) is declining.
-> Low-income workers' wage growth is likely to slow.

Note: Annual wage income figures were calculated by annualizing weekly wages (multiplied by 52.)
Source: Made by MHRT based on the US Department of Labor.

US: Rate cuts by the Fed expected to begin in September 2024

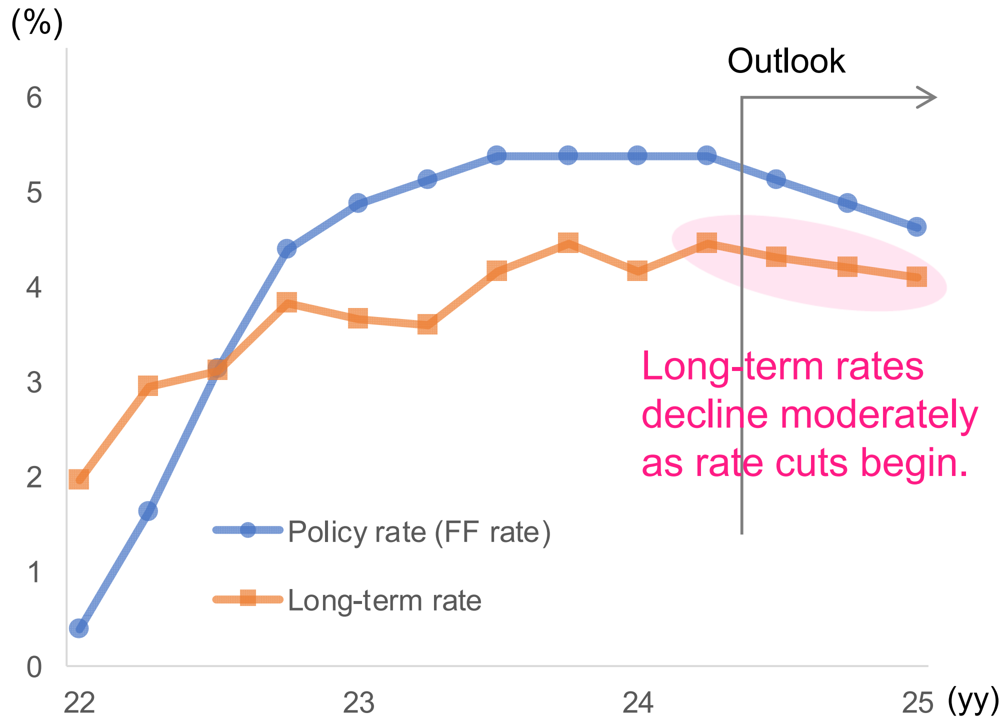
- Service prices are projected to decline moderately with labor demand weakening.
  - Core PCE deflator at the end of 2024 is forecast at +2.6% year-on-year (+0.2%pt from February's forecast).
- The Fed is expected to start cutting rates in September 2024 after confirming that inflation and the economy are cooling.
  - Toward the end of FY2024, the policy rate will gradually fall to the mid-4% range and long-term rates to around 4%.
  - The Fed will cut rates slowly due to concerns about inflation resurging on the back of a strong economy.

Outlook on labor supply and demand and inflation rate



Source: Made by MHRT based on data from the US Department of Commerce and the US Department of Labor.

Outlook on US interest rates



Note: Long-term rates are 10-year Treasury bond yields (quarterly average). The long-term rate outlook is the median value in the forecast range. Policy rates (FF target rates) are quarter-end values.
Source: Made by MHRT based on LSEG and the FRB.

(2) Eurozone: Economy bottoms out in 2024, but recovery is slow as interest rates remain high

- Real GDP growth rate in 2024 is forecast at +0.7% year-on-year.
  - The Eurozone economy is showing signs of bottoming out. Recovery will be driven by personal consumption, as real wages grow.
  - Meanwhile, as high interest rates weigh on the recovery in capital and housing investment, the economic turnaround will be moderate.
- Real GDP growth rate in 2025 is forecast at +1.3% year-on-year.
  - With concerns about service prices remaining high, the tight monetary policy will be kept longer, affecting the strength of economic growth.
  - Rate cuts are expected only once in a quarter.

Outlook on the Eurozone economy

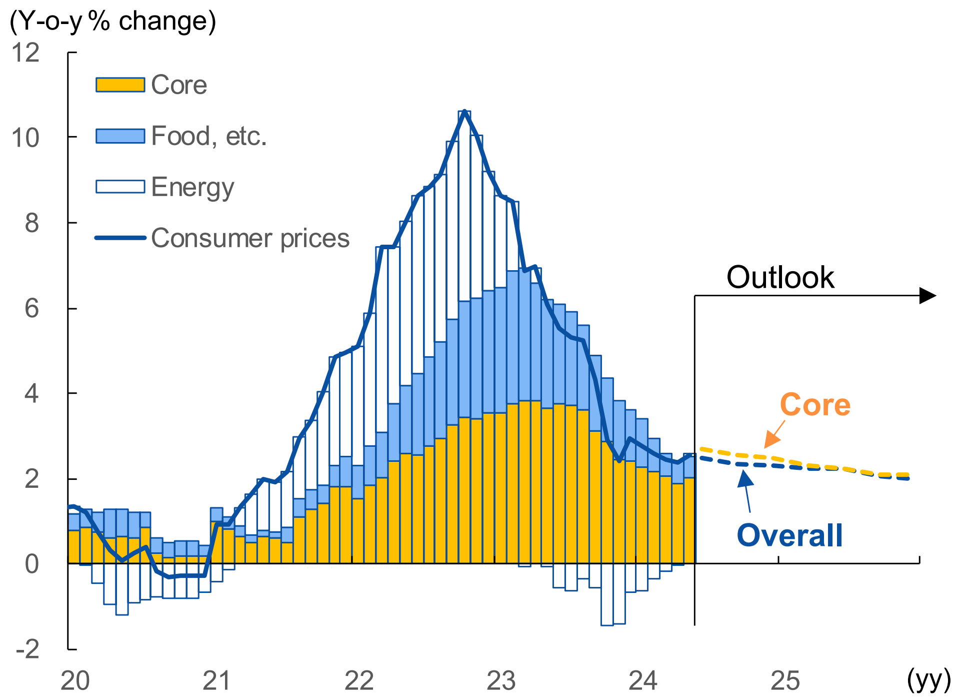
		2023	2024	2025	2023				2024				2025			
			(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch	0.5	0.7	1.3	0.1	0.1	0.0	-0.1	0.3	0.2	0.4	0.4	0.2	0.3	0.3	0.3
Domestic demand	Q-o-q % ch	0.2	0.3	1.3	-0.3	0.6	-0.1	0.1	-0.6	0.6	0.4	0.3	0.2	0.3	0.4	0.3
Personal consumption	Q-o-q % ch	0.5	0.9	1.1	0.0	0.1	0.4	0.2	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3
Gross fixed capital formation	Q-o-q % ch	1.2	-0.1	1.1	0.5	0.2	0.1	0.8	-1.5	0.5	0.6	0.2	0.2	0.2	0.3	0.3
Government consumption	Q-o-q % ch	0.9	1.0	0.4	-0.2	0.3	0.7	0.6	0.0	-0.0	0.1	0.1	0.1	0.1	0.1	0.1
Inventory investment	Q-o-q contribution % pt	-0.5	-0.4	0.3	-0.4	0.4	-0.4	-0.3	-0.3	0.3	0.1	0.1	0.0	0.0	0.1	0.1
External demand	Q-o-q contribution % pt	0.3	0.5	0.0	0.4	-0.4	0.0	-0.2	0.9	-0.3	0.0	0.1	0.0	0.1	-0.0	0.0
Exports	Q-o-q % ch	-0.8	1.2	1.0	-0.4	-1.0	-1.3	0.2	1.4	0.3	0.4	0.5	0.1	0.0	0.2	0.2
Imports	Q-o-q % ch	-1.4	0.3	1.0	-1.2	-0.2	-1.6	0.6	-0.3	1.0	0.4	0.4	0.2	-0.1	0.3	0.2
CPI	Y-o-y % ch	5.4	2.4	2.1	8.0	6.2	5.0	2.7	2.6	2.5	2.4	2.3	2.2	2.2	2.1	2.0
Core, excl. food and energy	Y-o-y % ch	5.0	2.7	2.2	5.5	5.5	5.1	3.7	3.1	2.7	2.6	2.5	2.3	2.2	2.1	2.1

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

Eurozone: Interest rates cautiously reduced with inflationary pressure closely monitored

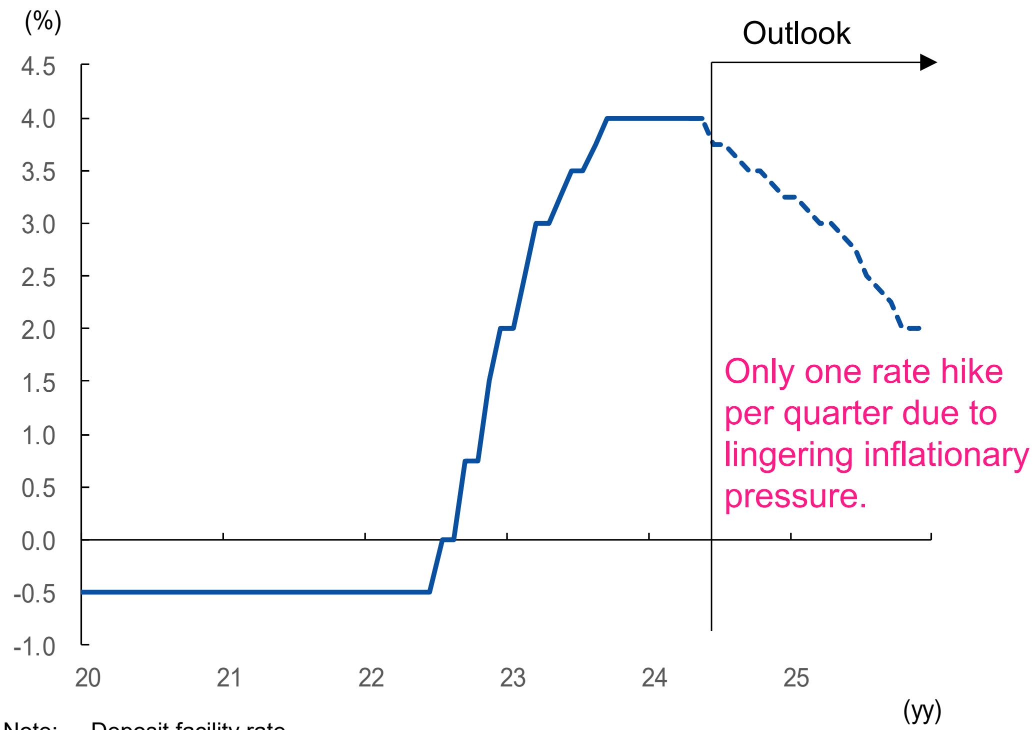
- The ECB's Governing Council decided to reduce interest rates in June, given that past rate hikes have effectively cooled the economy and inflation has fallen steadily.
- But future rate cuts are expected only at once-in-a-quarter pace.
  - Core HICP is predicted to continue its slow decline led mainly by service prices.
  - As price and wage uncertainties linger, interest rates will be reduced cautiously. With rates remaining high for the time being, economic recovery is likely to be slow.

Eurozone: Outlook on inflation rates



Source: Made by MHRT based on Eurostat.

Eurozone: Outlook on policy rates



Note: Deposit facility rate
Source: Made by MHRT based on the ECB.

(3) Emerging economies: China slows as other emerging Asian economies recover at varying speeds

- China's economy will grow at around 5% in 2024 led by a recovery in exports, but growth will slow to the mid-4% level in 2025 as the boost of strong exports runs its course.
  - The export drive of low-priced goods has contributed to immediate growth, but the effect will weaken with worsening corporate earnings and US and European tariffs on Chinese goods.
- Among Asia's export-dependent economies, electronics exporters will be the first to turn around in 2024. Exporters of other goods will not begin to recover until 2025.
  - In South Korea, Taiwan, and Singapore, advanced semiconductors will drive an export rebound, while Vietnam, Malaysia, and Thailand will be affected by slow recoveries in general-purpose chips and non-electronic equipment.
  - In Vietnam and Malaysia, prolonged tightening measures to control inflation and weak currencies will delay their economic turnaround, in addition to a sluggish recovery in exports.
- Among Asian countries dependent on domestic demand, the Indian and Indonesian economies will remain robust in 2024 and 2025. The Philippines will pick up in the second half of 2024 as inflation cools. The Australian economy will start to recover in late 2025 or later.

Outlook on emerging economies

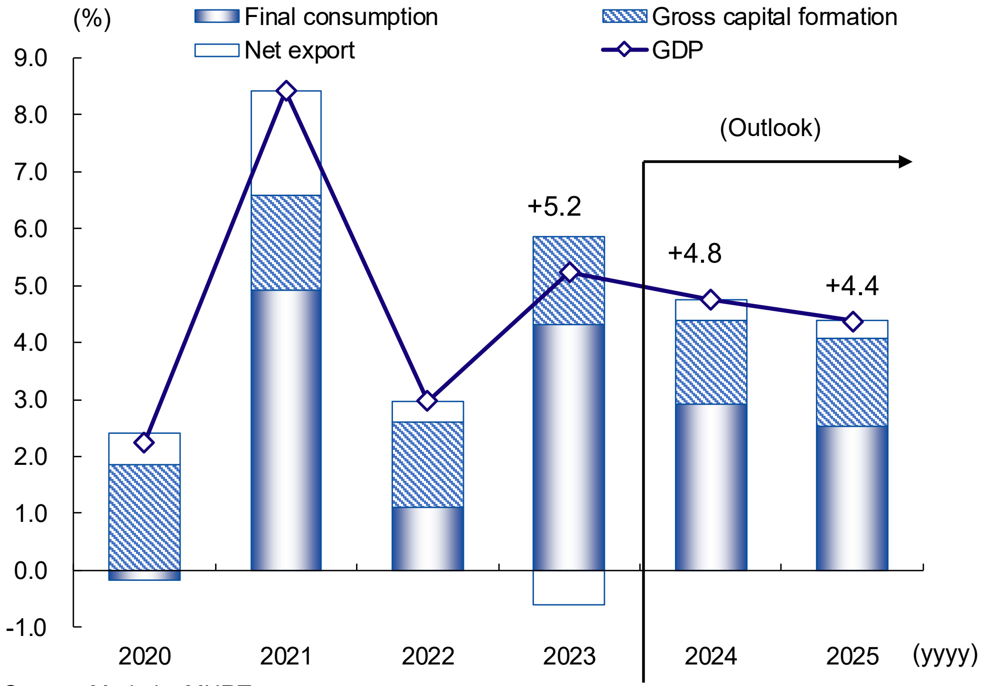
	2023	2024	2025	2023				2024
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Asia	5.3	5.0	4.6	-	-	-	-	-
China	5.2	4.8	4.4	4.5	6.3	4.9	5.2	5.3
NIEs	1.5	2.5	1.8	-	-	-	-	-
South Korea	1.4	2.2	1.7	1.1	1.0	1.4	2.1	3.3
Taiwan	1.3	3.4	1.7	-3.5	1.4	2.1	4.8	6.6
Hong Kong	3.3	2.0	2.1	2.8	1.6	4.2	4.3	2.7
Singapore	1.1	2.1	2.0	0.5	0.5	1.0	2.2	2.7
ASEAN5	4.4	4.7	4.8	-	-	-	-	-
Indonesia	5.0	5.0	4.7	5.0	5.2	4.9	5.0	5.1
Thailand	1.9	2.4	2.9	2.6	1.8	1.4	1.7	1.5
Malaysia	3.6	3.9	4.3	5.5	2.8	3.1	2.9	4.2
Philippines	5.5	5.7	5.8	6.4	4.3	6.0	5.5	5.7
Vietnam	5.0	5.7	6.2	3.3	4.1	5.5	6.7	5.7
India	7.7	6.8	6.1	6.2	8.2	8.1	8.6	7.8
Australia	2.0	1.8	1.7	2.4	1.8	2.3	1.4	1.2
Ref. NIEs+ASEAN5	3.3	3.9	3.7	-	-	-	-	-
Ref. Asia, excl. China	5.4	5.2	4.8	-	-	-	-	-

Note: Real GDP growth (y-o-y % change). Shaded areas are forecasts. The average is calculated based on the IMF GDP share (purchasing power parity basis).
Source: Made by MHRT based on the statistics of the relevant countries and regions, the IMF, and other sources.

Points to our outlook on China: Export drive loses steam and falling domestic demand slows the economy

- Real GDP growth in 2024 is forecast at +4.8%.
  - Real GDP growth for the Jan-Mar period was driven by net exports, beating market expectations (+4.6%) at +5.3% year-on-year.
  - Among the factors behind strong net exports was the boost in export quantities driven by lower pricing (= export drive).
- Real GDP growth for 2025 is forecast at +4.4%.
  - The economy will be supported by public spending, but the export drive will not be sustained. The prolonged property slump will hamper economic growth.
  - Factors such as population decline, tightened government controls, and US-China tensions will also continue to exert downward pressure on medium- to long-term growth.

Real GDP growth rate (contribution by demand component)



Source: Made by MHRT

Points to our outlook

What is the situation of the property market?

- Both sales and investment remain flat. Overcoming the slump will take time.
- The government program to purchase unsold properties is limited in scale and effect.

Will the measures to stimulate domestic demand be effective?

- The impact of the financial measures will likely appear in 2025 and promote investment.
- The lack of funds will limit the effects of the measures to encourage consumption.

What are the factors for strong net exports?

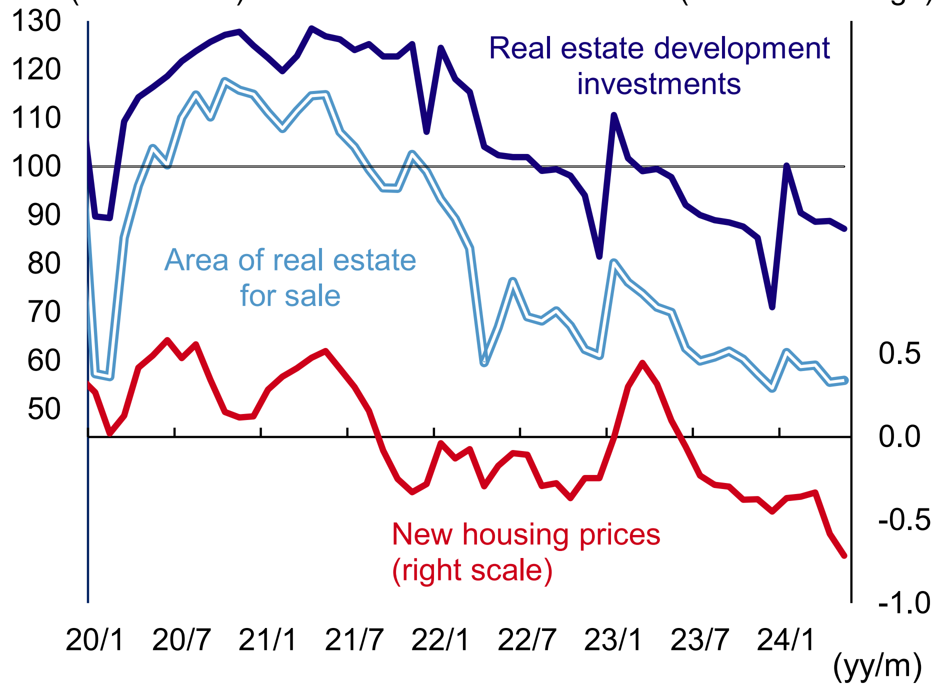
- A circulative recovery and export drive are contributing factors.
- Affected by declines in company margins and higher US and European tariffs, the impact of the export drive will gradually weaken.

Source: Made by MHRT.

China: Property market remains stagnant, with the government program to purchase unsold inventories limited in scale and effects

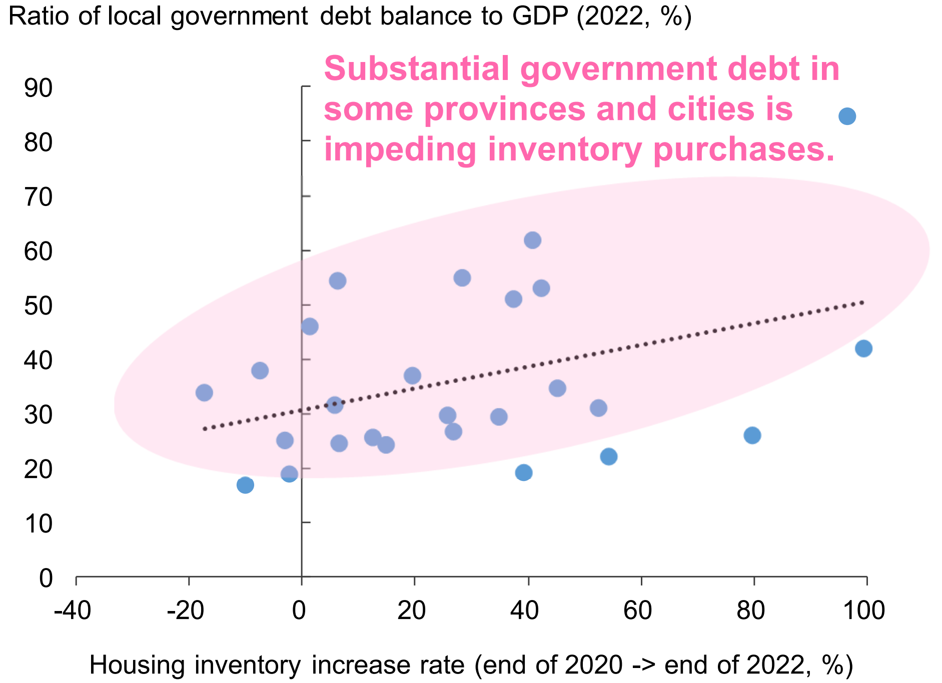
- The real estate indices show that both sales and investment remain flat.
  - New home prices in May fell 0.7% month-on-month, representing a greater decline than in the preceding month (-0.6% month-on-month), prompting buyers to hold out for bottom prices.
- The government announced a plan to provide low-interest loans through the People's Bank to encourage regional state-run companies to purchase unsold homes.
  - Unsold homes amounted to 390 million m2 as of the end of April (market price: roughly 4.2 trillion yuan). The People's Bank's 300 billion yuan relending plan is considered insufficient in scale.
  - Provinces and cities facing a rapid increase in home inventories have incurred substantial debts due to declining property income. Both local governments that borrow money and commercial banks that offer loans remain cautious about spending the full amount of the allocated funds.

Real estate indices (investments, sales areas, new home prices)



Note: Sales areas and investment are seasonally adjusted figures by MHRT.
Source: Made by MHRT based on China's National Bureau of Statistics and CEIC.

Home inventories of provinces and cities, local government debt

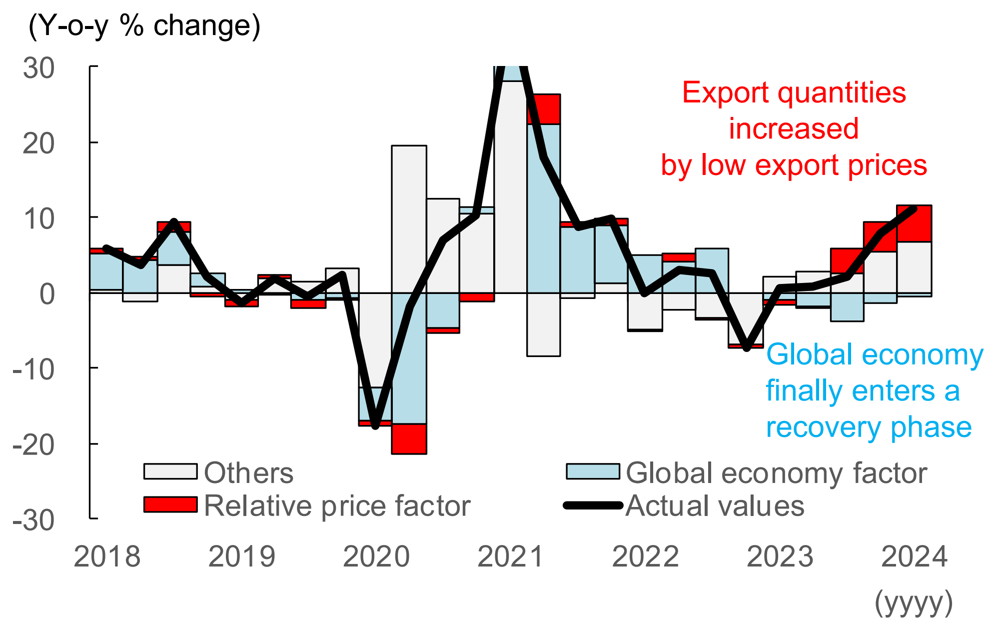


Note: Housing inventories are completed homes that have not been handed over.
Source: Made by MHRT based on China's National Bureau of Statistics, WIND and CEIC.

China: Export growth promoted by overcapacity, weak domestic demand, and exports driven by lowered unit prices

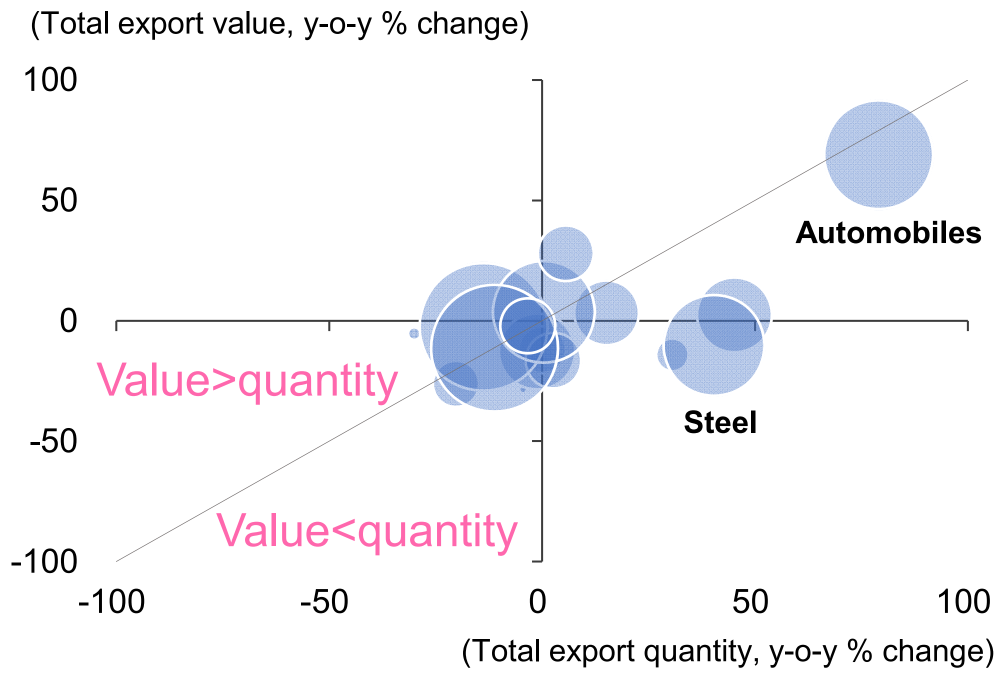
- The relative price factor is supporting China's export expansion. (China's export prices are lower than average global export prices.)
  - Despite sluggish domestic demand, production in China remains strong. As the overcapacity problem intensifies, the rising dollar/falling yuan has helped promote the export drive by selling off surplus inventories in overseas markets at reduced unit prices and increasing China's export volume in recent months.
  - With the export drive, a wide range of items, including steel and automobiles, which account for large shares in the total export value, have been sold in greater volumes at lower prices.

Analysis of the factors affecting China's export quantities



Note: The global economy factor is the world trade volume. The relative price factor was achieved by dividing China's unit export prices by the world's unit export prices. A multiple regression analysis was made using the two factors as explanatory variables, with China's export volume as an explained variable (estimate period from January 2012 to February 2024).
Source: Made by MHRT based on the Netherlands Bureau for Economic Policy Analysis.

Total values and quantities of China's dollar-denominated exports (2023)

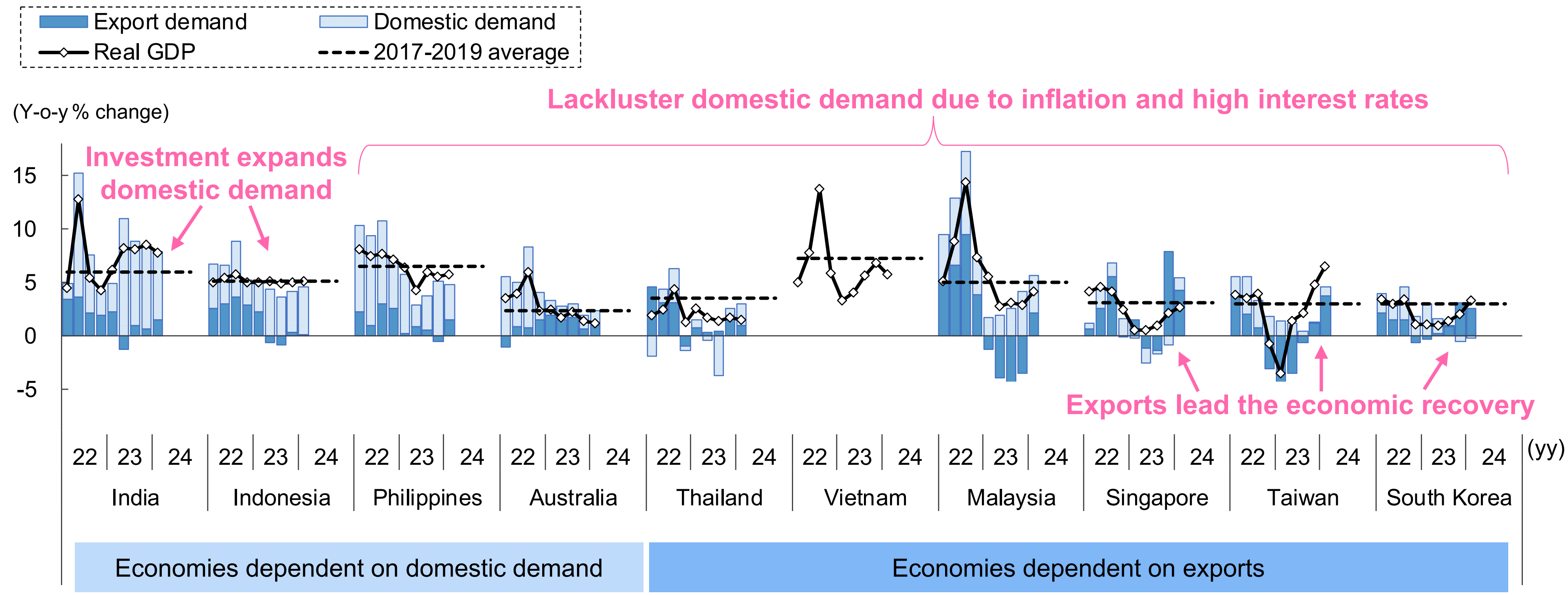


Note: Bubble sizes indicate the ratio to total dollar-denominated export value in 2023.
Source: Made by MHRT based on China's General Administration of Customs and CEIC.

Asia: Widening gap in recovery speed among countries in 2024

- Asia's exports are generally recovering with electronics exports to the US particularly brisk, but the pace of recovery varies among countries. (Main points of external demand)
  - The status of Asian countries' exports varies depending on "what the main export is."
  - With the pace of recovery differing among global manufacturers (depending on their products), Asian countries' exports will rebound at varying speeds for the time being.
- Meanwhile, inflation and high interest rate policies are affecting consumption in many countries, leading to sluggish domestic demand. (Main point of internal demand)
  - Depending on the future course of inflation and monetary policies, downward pressure on consumption may last longer in some countries.

Real GDP growth rates in Asian countries and regions

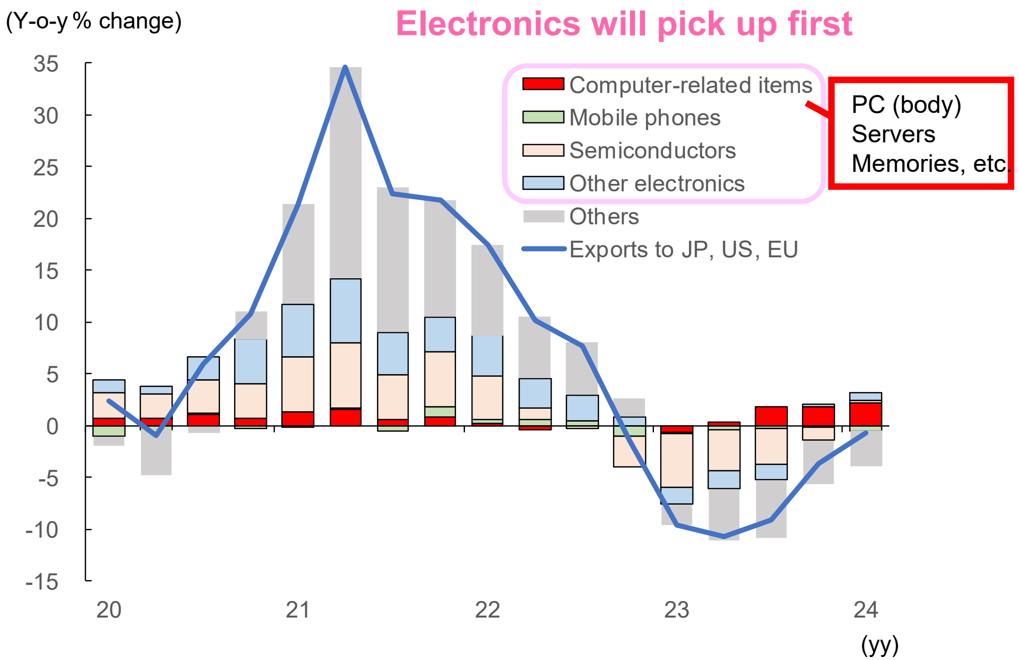


Source: Made by MHRT based on the GDP statistics of the relevant countries and regions.

Asia: Capacity to satisfy electronics demand determines the speed of recovery

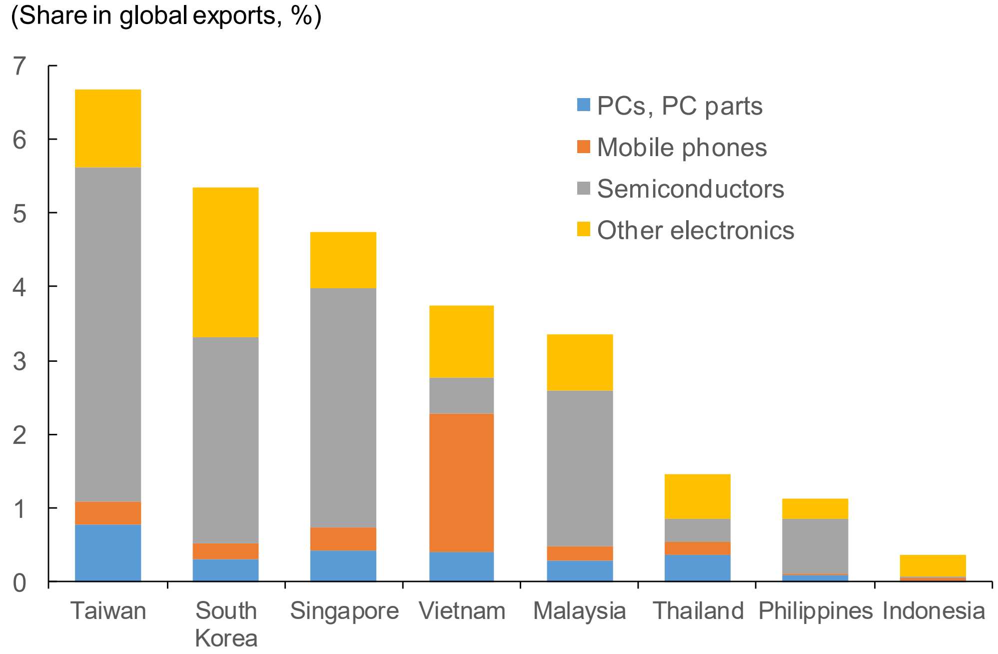
- The status of goods exports from Asia indicates that electronics demand is picking up faster than other items.
  - The demand for advanced semiconductors and electronics for data centers is strong, while exports of general-purpose chips and mobile phones remain weak.
- Exports of Taiwan and South Korea, both strong in advanced semiconductors, will turn around quickly, but export recovery in other economies will be delayed.
  - Repurchase demand for PCs and mobile phones will not fully recover until late 2024 (refer to P6). Vietnam, which mainly exports these products, and Malaysia, which has advantages in general-purpose semiconductors used for these products, will not see their exports recover for some time.
  - Electronics account for a small portion of Thailand's exports and its market share is low; unable to benefit from electronics demand, export recovery will take even longer.

Asia's customed exports (in value terms by items)



Note: Total of South Korea, Taiwan, Singapore, Thailand, Malaysia, Vietnam, Philippines, and Indonesia.
Source: Made by MHRT based on the trade statistics of the relevant countries and regions.

Electronics market share (2022)



Source: Made by MHRT based on UN Comtrade.

(4) Japan: With high-level corporate earnings contributing to higher wages and capital investment, domestic demand leads a moderate recovery

- Real GDP growth in FY2024 is forecast at +0.3% year-on-year (+1.1% growth excluding the carry-over effect from FY2023 (-0.8% pt)). Domestic demand is projected to improve with high corporate profits increasing wages and capital investment. Wage hikes exceeding last year's levels are set to lift real wages, supporting a moderate recovery in personal consumption.
- Real GDP growth in FY2025 is forecast at +0.8% year-on-year. Wage growth will slow, but real wages will continue to rise, supporting the recovery of personal spending. Despite the slowdown in corporate earnings, capital investment will continue to rise backed by improvements in expected growth rate, moves to strengthen domestic manufacturing sites, etc.

Outlook on the Japanese economy

		2023	2024	2025	2023				2024				2025				2026
		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	1.0	0.3	0.8	1.2	0.9	-1.0	0.0	-0.7	0.5	0.5	0.4	0.3	0.1	0.2	0.1	0.1
	Q-o-q % ch p.a.	—	—	—	4.7	3.7	-4.0	0.1	-2.9	1.9	1.9	1.5	1.2	0.4	0.7	0.6	0.4
Domestic demand	Q-o-q % ch	-0.4	0.4	0.7	1.3	-0.7	-0.8	-0.2	-0.4	0.4	0.5	0.3	0.3	0.1	0.2	0.2	0.1
Private-sector demand	Q-o-q % ch	-0.6	0.3	0.7	1.6	-1.0	-1.0	-0.0	-0.4	0.3	0.5	0.3	0.3	0.0	0.1	0.1	0.1
Personal consumption	Q-o-q % ch	-0.6	0.2	0.7	0.7	-0.7	-0.3	-0.4	-0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Housing investment	Q-o-q % ch	0.3	-3.4	-1.1	0.8	1.6	-0.9	-1.5	-2.9	-0.5	0.6	-0.2	-0.5	-0.3	-0.2	-0.3	-0.2
Capital investment	Q-o-q % ch	0.4	2.1	1.4	2.5	-2.1	-0.1	2.0	-0.4	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.3
Inventory investment	Q-o-q contribution, % pt	-0.2	-0.1	(-0.1)	(0.4)	(-0.1)	(-0.6)	(-0.1)	(0.3)	(-0.2)	(0.1)	(0.0)	(0.0)	(-0.1)	(0.0)	(0.0)	(-0.1)
Public-sector demand	Q-o-q % ch	0.1	0.6	0.9	0.4	0.0	-0.3	-0.6	-0.2	0.6	0.3	0.3	0.3	0.1	0.3	0.3	0.2
Government consumption	Q-o-q % ch	0.1	0.9	1.3	0.1	-0.4	0.2	-0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	0.8	-0.6	-0.6	2.2	2.4	-2.1	-2.4	-1.9	1.9	0.5	0.1	0.1	-0.8	0.0	0.1	0.1
External demand	Q-o-q contribution, % pt	(1.4)	(-0.1)	(0.1)	(-0.2)	(1.7)	(-0.1)	(0.2)	(-0.4)	(0.1)	(-0.0)	(0.1)	(0.0)	(0.0)	(-0.0)	(-0.0)	(0.0)
Export	Q-o-q % ch	3.0	1.5	3.6	-2.4	3.8	0.3	2.8	-5.1	2.2	1.4	1.2	1.3	0.8	0.6	0.5	0.7
Import	Q-o-q % ch	-3.2	1.8	3.0	-1.5	-3.6	0.9	1.8	-3.3	1.6	1.4	0.7	1.1	0.6	0.6	0.6	0.7
GDP (nominal)	Q-o-q % ch	5.0	2.6	2.4	2.3	2.4	-0.3	0.6	-0.2	1.0	1.3	0.7	0.9	0.4	0.4	0.5	0.4
GDP deflator	Y-o-y % ch	4.0	2.3	1.6	2.3	3.7	5.2	3.9	3.4	2.3	2.5	2.3	2.3	2.1	1.5	1.4	1.0
Domestic demand deflator	Y-o-y % ch	2.4	1.7	1.0	3.2	2.7	2.5	2.1	2.3	1.9	2.1	1.8	1.5	1.2	0.9	1.0	0.9

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

Japan: Underlying consumer price inflation falls short of 2% despite high wage growth

- Core CPI in FY2024 and FY2025 are forecast at +2.5% and +1.9% year-on-year, respectively.
  - With such factors as surging import prices hitting a pause and slowing wage growth in FY2025, core CPI is predicted to decline to the +1% range toward FY2025, failing to reach the 2% inflation target.
  - Spring wage negotiations in FY2024 achieved a major year-on-year increase in the +5% range, but the capacity of companies to increase wages is declining, particularly among SMEs, amid rising labor costs and other factors. Wage growth in FY2025 is projected to slow to the upper 3% range. However, the wage growth rate will remain above past averages, and companies' wage setting norms are expected to continue changing.

Outlook on the Japanese economy (key economic indicators)

		2023	2024	2025	2023				2024				2025				2026
		FY	(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch	- 1.9	1.0	2.2	- 1.7	1.3	- 1.4	1.1	- 5.2	2.9	1.8	0.8	0.6	0.4	0.3	0.3	0.3
Ordinary profits	Y-o-y % ch	14.6	1.4	0.2	4.3	11.6	20.1	13.0	15.1	2.2	2.9	4.1	-3.5	1.4	-0.2	0.4	-0.9
Nominal compensation of employees	Y-o-y % ch	1.9	3.7	3.0	1.6	2.6	1.5	1.3	2.1	3.2	3.7	4.1	4.0	3.6	2.9	2.8	2.8
Unemployment rate	%	2.6	2.5	2.3	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.4	2.4	2.3	2.3	2.2	2.2
New housing starts	P.a., 10,000 units	80.0	80.6	79.8	86.4	81.8	80.0	80.3	78.6	81.9	80.6	80.5	80.3	80.3	80.1	79.9	79.7
Current account balance	P.a., JPY tril	24.7	28.6	31.3	11.1	23.4	24.4	26.5	24.4	25.7	28.0	29.3	31.4	31.3	31.2	31.5	31.4
Domestic corporate goods price	Y-o-y % ch	2.3	2.0	0.7	8.3	5.0	3.0	0.6	0.7	2.0	2.4	2.2	1.4	0.4	0.4	0.6	1.3
Consumer prices, excl. fresh food	Y-o-y % ch	2.8	2.5	1.9	3.5	3.3	3.0	2.5	2.5	2.5	2.7	2.1	2.7	2.3	1.9	2.1	1.4
〃 (Excl. institutional factors)	Y-o-y % ch	3.1	1.9	1.4	4.5	4.0	3.6	2.8	2.2	2.1	2.0	1.8	1.8	1.4	1.4	1.4	1.4
Consumer prices, excl. fresh food and energy	Y-o-y % ch	3.9	1.9	1.6	3.5	4.2	4.3	3.8	3.2	2.4	2.0	1.7	1.7	1.6	1.5	1.5	1.5
〃 (Excl. institutional factors)	Y-o-y % ch	3.8	1.9	1.6	3.6	4.3	4.3	3.6	3.1	2.3	2.0	1.7	1.7	1.6	1.5	1.5	1.5

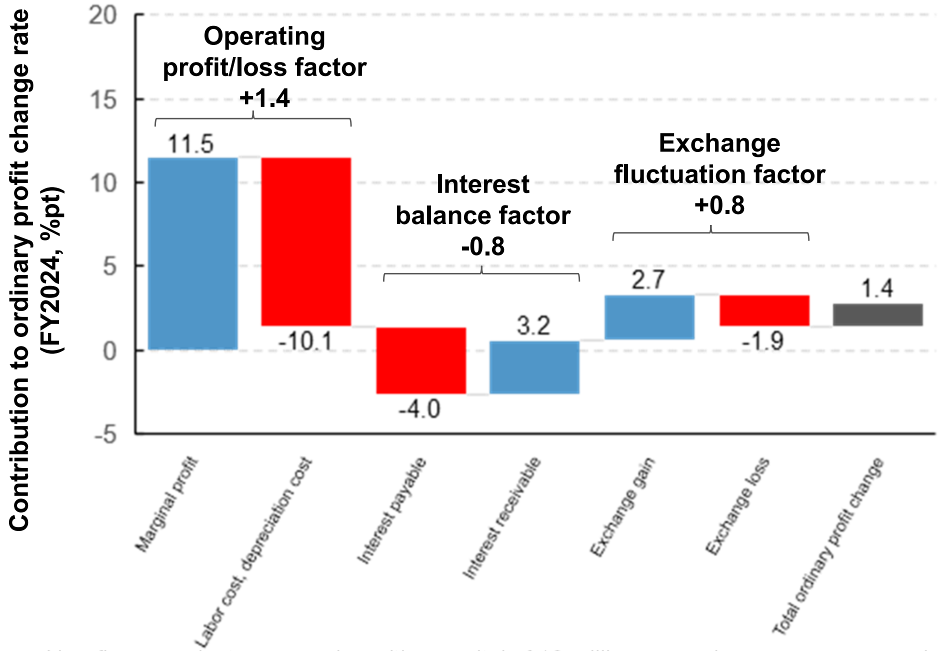
Note: 1. Figures in the shaded areas are forecasts. The readings may differ from public releases because the rates of change are calculated based on real-term data.
2. Ordinary profits are based on the *Financial Statements Statistics of Corporations by Industry* (all-industries basis) (excluding finance & insurance).
3. It is assumed that the consumer price figures for Sep-Nov 2024 will reflect the resumption of government measures to curb electricity and gas prices, and that measures to mitigate drastic changes in fuel oil prices will be extended until December 2024. (Note that the rebound from the termination of inflation measures will be a factor pushing up the year-on-year rate through FY2025.) "Excl. institutional factors" refers to the government's inflation measures and national travel support program.

Source: Made by MHRT based on relevant statistics.

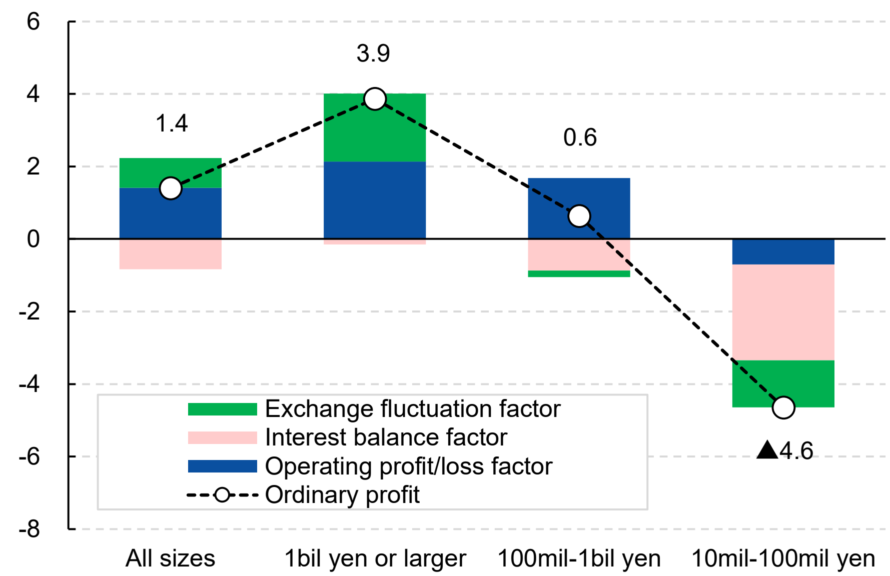
Japan: Growing labor costs and interest payments squeeze mainly the profits of SMEs

- Growth in ordinary profits will shrink from FY2024. Decelerating sales and higher labor costs will affect growth in the factors linked to operating profits.
  - Labor costs increased by wage hikes and rising long-term rates will be a factor pushing down profits (FY2024: -0.8%pt). Meanwhile, mainly large firms will see their profits inflated by the yen's depreciation (FY2024: +0.8%pt), mostly offsetting the impact of higher interest rates.
- Large firms' ordinary profits will increase by around 4% in FY2024, but SMEs will see profit declines, with the gap between small and large businesses widening.
  - Large firms will be relatively unaffected by rising labor costs. High operating profits will boost their earnings and the yen's depreciation will contribute to earnings growth. On the other hand, growing labor costs will weigh heavily on SMEs, and increased interest payments and surging costs due to the weak yen will undermine their profits

Breakdown of ordinary profit change rate (FY2024) by factors



Breakdown of ordinary profit change rate (FY2024) by company size



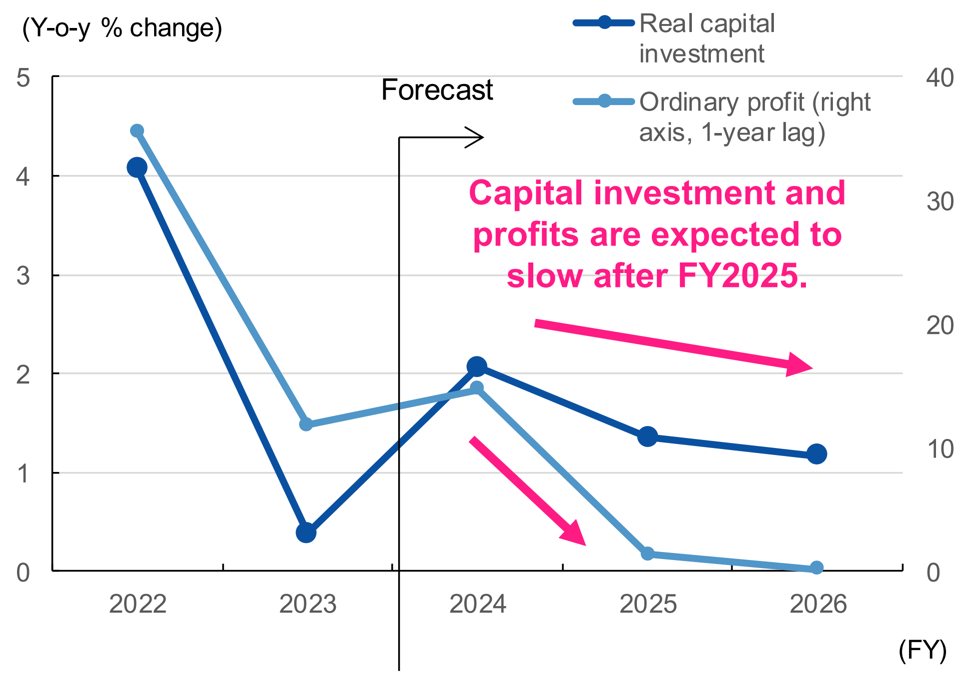
Note: Non-finance private companies with a capital of 10 million yen or larger were surveyed. Marginal profit = sales - variable cost; variable cost = sales cost + selling, general and administrative expenses - (fixed cost - interest payable); fixed cost = labor cost + depreciation cost + interest payable; and the exchange fluctuation factor is based on a 5.2% drop of the yen (144.0 -> 151.5 yen).

Source: Made by MHRT based on the Ministry of Finance, *Financial Statements Statistics of Corporations by Industry (annual, quarterly);* the Cabinet Office, *ESRI Short-Run Macroeconometric Model of the Japanese Economy (2022 version) Basic Structure, Multipliers, and Economic Policy Analyses*, *SNA Input-Output Table;* the Ministry of Finance and the Bank of Japan, *Direct Investment by Industry and Region;* and the Ministry of Economy, Trade and Industry, *Basic Survey of Japanese Business Structure and Activities.*

Japan: Recovery of companies' growth expectations and moves to strengthen domestic manufacturing bases promote capital investment

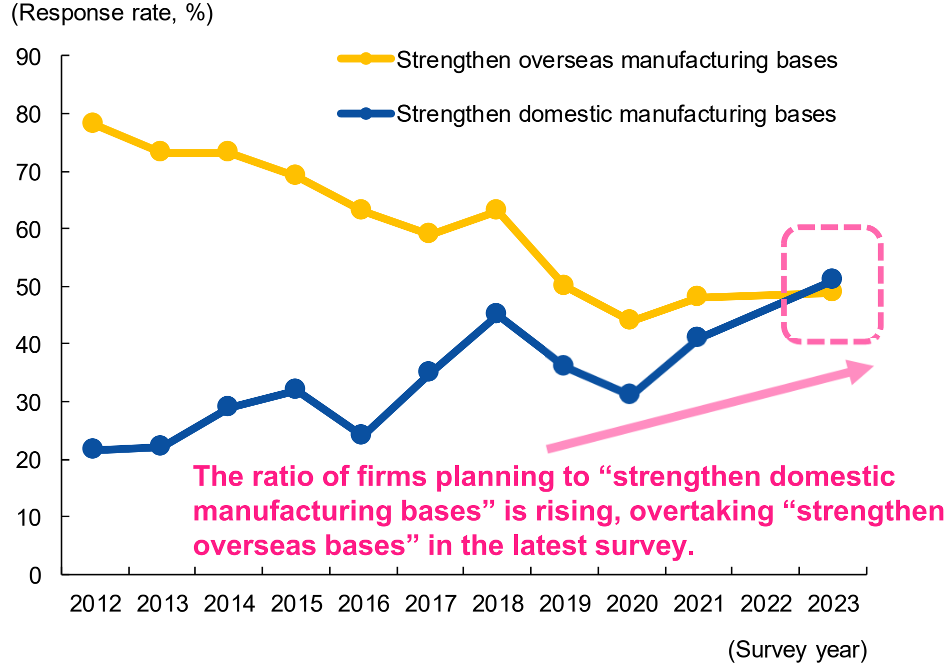
- Capital investment growth is expected to moderate from FY2025, but will remain solid backed by growing moves to strengthen domestic manufacturing bases, etc.
  - Real equipment investment will gradually decelerate as the slowdown in profits after FY2024 affects companies' capital investment capacity. But the expected growth rate of businesses has not turned downward. There are also moves to strengthen domestic manufacturing bases, and the growing trend is expected to continue.
- Moves to reinforce domestic production sites, particularly among the manufacturers of precision equipment and transport equipment, are likely to promote continuous investment.
  - Changes in the business environment, such as higher relative wages in emerging countries, reconsideration of global supply chains, and transition from excessive yen appreciation following Lehman's collapse, will gradually promote the reevaluation of the strategic importance of domestic manufacturing sites.

Outlook on real private capital investment and ordinary profits



Source: Made by MHRT based on the Cabinet Office, *National Accounts*, and the Ministry of Finance, *Financial Statements Statistics of Corporations by Industry*.

Companies' position on reinforcing domestic and overseas manufacturing bases



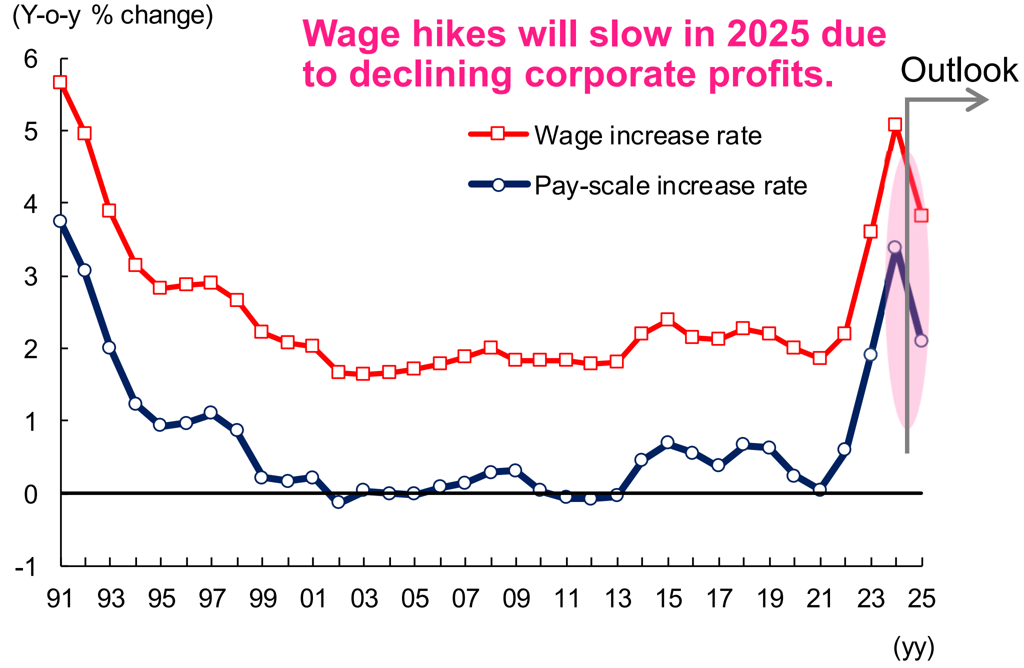
Note: Percentages of respondents planning to strengthen their domestic or overseas manufacturing sites in roughly the next three years. The survey covered large firms responding they are producing both in Japan and overseas. FY2022 was excluded from the survey.

Source: Made by MHRT based on the Development Bank of Japan, *Survey on Capital Spending.*

Japan: Wage growth slows to the upper 3% range, but wage setting norms continue to change

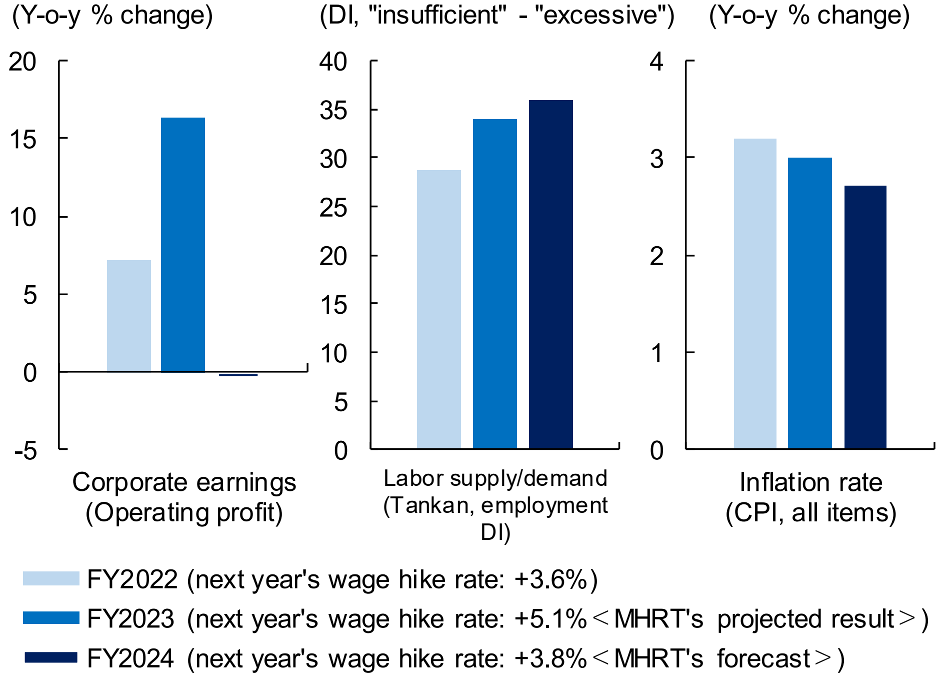
- Spring wage negotiations in FY2024 secured hefty wage hikes exceeding +5% year-on-year, on the basis of RENGO's aggregate results (as of the sixth aggregation).
  - Substantial wage growth will suppress corporate earnings, which marked high levels last year, thanks to cost pass-through efforts. Higher labor costs will be a factor pushing down profits and undermining firms' "pay increase capacity."
- The wage growth rate in FY2025 is projected to fall to the upper 3% range.
  - "Upward pressure on wages" is expected to remain high due to labor shortages and persistent inflation. The chance of the growth rate falling back to the levels of FY2022 or earlier (2% range including regular increases) is slim. Growth above FY2023 levels is likely to be maintained.

Outlook on spring wage hikes



Note: 1. Forecast of the pay-scale increase rate is an estimate with assumed figures of regular increases.
2. Figures for 2024 are based on RENGO aggregates. Other figures are based on data from the Ministry of Health, Labour and Welfare and major companies.
Source: Made by MHRT based on the Ministry of Health, Labour and Welfare, the Central Labour Relations Commission, and RENGO.

Environment surrounding wage growth



Note: FY2024 counts are based on (1) labor supply and demand remaining at the level of the March 2024 Tankan survey and (2) MHRT's forecasts for corporate earnings and inflation rates.
Source: Made by MHRT based on the Ministry of Finance, the Ministry of Internal Affairs and Communications, the Ministry of Health, Labour and Welfare and the Bank of Japan.

(5) Financial markets: Rate gap between Japan and the US narrows, but the attractiveness of the carry trade slows the yen's rise

- The BOJ is expected to raise rates to 0.5% within FY2024 and adopt a wait-and-see stance thereafter. Japan's long-term rates are predicted to rise to the mid-1% range.
- US long-term rates are expected to decline slowly to around 4%, following rate cuts anticipated as early as September 2024. As for the USD/JPY exchange rate, the narrowing rate gap between Japan and the US will create pressure for a higher yen, but the continuing attractiveness of the carry trade will see the yen rise only slowly to around the mid-140 yen level to the dollar by the end of FY2024.
- US stocks are predicted to climb moderately on the back of the economy's soft landing and falling interest rates. In Japan, slow economic recovery and the yen's appreciation will affect share prices, leading to slightly smaller gains compared with US markets.

Outlook on financial markets

		2023	2024	2025	2024				2025				2026
		FY	FY	FY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Japan													
Interest rate on policy rate balance	(End of period value, %)	0.10	0.50	0.50	0.10	0.10	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Newly issued JGBs	(10-year, %)	0.62	0.70 to 1.80	1.20 to 1.80	0.70	0.93	0.90 to 1.50	1.10 to 1.70	1.20 to 1.80	1.25 to 1.80	1.25 to 1.75	1.20 to 1.70	1.20 to 1.70
Nikkei Stock Average	(JPY)	33,227	36,500 to 44,000	37,400 to 46,000	37,510	38,693	36,500 to 42,000	36,600 to 43,000	37,200 to 44,000	37,400 to 44,200	37,600 to 44,500	38,000 to 45,000	38,400 to 46,000
US													
Federal Funds Rate (lower end)	(End of period value, %)	5.25	4.50	3.50	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50
Newly issued government bonds	(10-year, %)	4.08	3.65 to 5.05	3.40 to 4.50	4.15	4.45	3.80 to 4.85	3.75 to 4.70	3.65 to 4.55	3.60 to 4.50	3.55 to 4.45	3.40 to 4.35	3.40 to 4.30
Dow Jones Average	(USD)	35,441	37,600 to 44,900	39,100 to 46,900	38,512	38,812	37,800 to 43,800	38,400 to 44,600	38,700 to 44,900	39,100 to 45,500	39,500 to 45,900	40,000 to 46,400	40,300 to 46,900
Eurozone													
ECB deposit facility rate	(End of period value, %)	4.00	3.00	2.00	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.25	2.00
German government bonds	(10-year, %)	2.44	2.05 to 2.85	2.20 to 2.90	2.29	2.50	2.05 to 2.85	2.10 to 2.85	2.15 to 2.85	2.20 to 2.90	2.20 to 2.90	2.20 to 2.90	2.20 to 2.90
Exchange rates													
USD/JPY	(USD/JPY)	145	140 to 168	134 to 155	148	156	148 to 168	145 to 164	140 to 160	138 to 155	136 to 153	134 to 150	134 to 148
EUR/USD	(EUR/USD)	1.08	1.03 to 1.15	1.05 to 1.17	1.09	1.08	1.04 to 1.14	1.04 to 1.14	1.05 to 1.15	1.05 to 1.15	1.06 to 1.16	1.07 to 1.17	1.07 to 1.17

Source: Made by MHRT based on LSEG.

BOJ monetary policy: Rates rise to 0.5% in FY2024 with no further hikes in FY2025

- In FY2024, the BOJ is expected to raise rates twice (to 0.5%) by carefully monitoring the economic trends.
  - Substantial pay hikes achieved during the spring wage negotiations and inflation remaining above 2% year-on-year will prompt the BOJ to raise rates. However, with consumption lacking strength, the BOJ will keep a close watch on economic trends, raising rates only within an explicable range and maintaining an accommodative monetary environment.
- The policy rate is not expected to change in FY2025.
  - Decelerating corporate earnings will slow wage growth in FY2025. With inflation falling under 2%, the BOJ will maintain a wait-and-see stance.

Understanding the external environment surrounding the policy rate and BOJ's policy rate

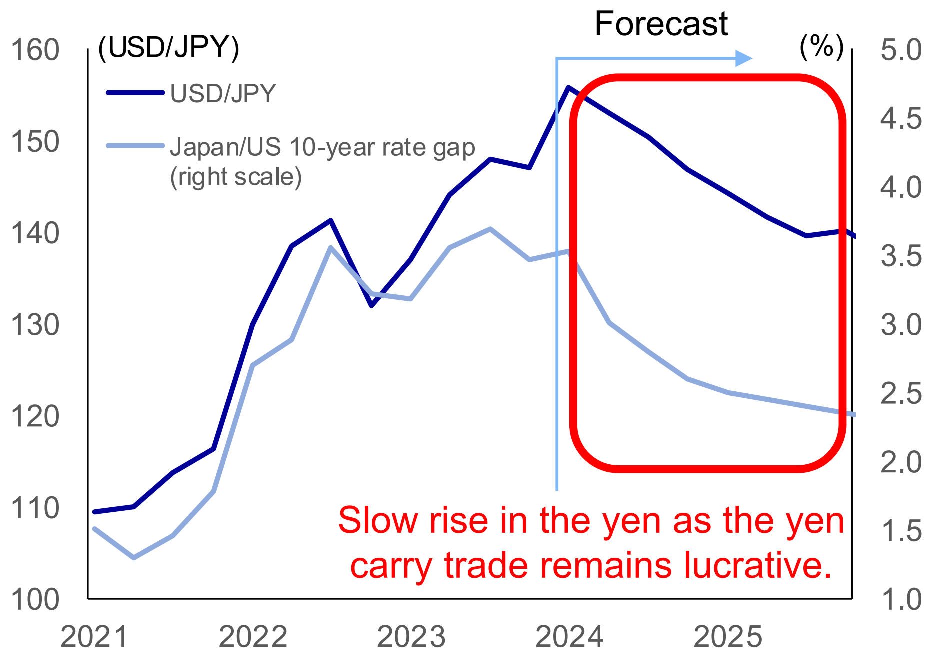
	FY2024	FY2025
Wages	Robust pay hikes following the spring wage talks (Nominal wage growth rate in the 3% range)	Decelerating corporate profit growth slows wage growth (Nominal wage growth rate in the 2% range)
Prices	**Inflation above 2%** (Core CPI +2.5% y-o-y, BOJ core CPI +1.9% y-o-y)	**Inflation below 2%** (Core CPI +1.9% y-o-y, BOJ core CPI +1.6% y-o-y)
Economy (Consumption)	Moderate recovery in consumption (Rebounds in Apr-Jun 2024 but growth is slow)	Slow recovery in consumption (Remains weak due to sluggish real wage growth)
Policy rate	**Cautious rate hikes based on economic trends** **(0.25% rate hikes in Jul-Sep 2024 and Jan-Mar 2025)**	**Wait-and-see stance maintained** **(Unchanged from 0.5%)**

Source: Made by MHRT.

USD/JPY exchange rate: Yen rises moderately to the mid-140 level against the dollar toward the end of FY2024

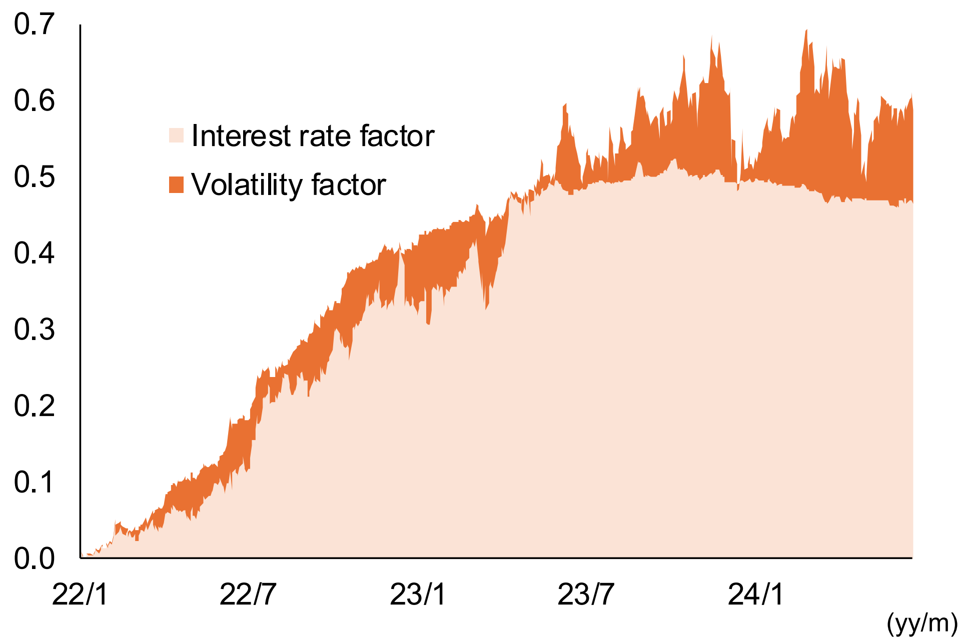
- The yen is expected to slowly rise against the US dollar. The rate will be at the mid-140-yen level to the dollar by the end of FY2024.
  - The yen's actual demand (yen-denominated trade) is projected to improve as the trade deficit contracts (pressure for a higher yen). But the pace will be slow due to the lackluster recovery in semiconductor demand (light pressure for a higher yen).
  - The interest rate differential between Japan and the US will narrow (pressure for a higher yen), but pressure for a higher yen will not be strong due to the continuing attractiveness of the carry trade.

Outlook on the US/Japan interest rate gap and USD/JPY exchange rate



Source: Made by MHRT based on LSEG.

Attractiveness of the carry trade (start of 2022 = 0)



Note: For the interest rate factor, 3-month rates in Japan and the US were used. Volatility is the yen's implied volatility. Investment attractiveness was calculated by dividing the interest rate gap by volatility. As volatility declines, investment appeal becomes stronger.
Source: Made by MHRT based on LSEG.

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