FY2024 - 2025 Economic Outlook

The global economy is heading for a soft landing, but the moderate pace of recovery with lingering risks

Mizuho Research & Technologies, Ltd.

February 27, 2024

MIZUHO

Innovating today. Transforming tomorrow.

Key points of our outlook

- The global economy in 2024 will decelerate toward the mid-year affected by the economic slowdown in China and high interest rates in the US and Europe. In 2025, while prolonged adjustments in China's real estate sector will weigh down the economy, the global economy is expected to recover moderately as the European and US economies gradually pick up on the back of continued interest rate cuts, while ASEAN and other countries will recover supported by external demand from developed countries.
- In the US, shortages of manpower in the labor market and shortages of goods across the supply chain (supply constraints) eased, which in turn led to the normalization of economic activity and lower inflation. The need for excessive monetary tightening and the accompanying economic downturn eased off. Monetary tightening to date will likely see the economy falloff through mid-2024, but the economy will likely be heading for a soft-landing. A moderate recovery is expected in 2025.
- The European economy is expected to remain sluggish through mid-2024 as the effects of monetary tightening become apparent. The ECB is projected to start cutting interest rates in June 2024, and the pace of rate cuts thereafter is forecast to remain gradual due to concerns about wage inflation. Economic growth in 2024 will be slow in the range of mid-zero percent. The economy is expected to recover in 2025, following lower inflation and continued interest rate cuts.
- Economic growth in China will continue to slow in 2024 and 2025 with lingering structural downward pressures, such as prolonged adjustments in the real estate sector, population decline, and US-China tensions. Disinflationary pressures will also likely remain. NIEs are expected to recover in 2024 fueled by a pickup in the semiconductor cycle, and ASEAN will recover in 2025 due to policy rate cuts and external demand recovery. The Indian economy is projected to remain robust, driven by investment.
- In Japan, economic activity will maintain its recovery trend in FY2024 as the high level of corporate earnings is translated into wages and capital investment, but the pace of recovery will be modest due to sluggish growth in real compensation of employees and a pause in the recovery in services consumption and inbound demand. In FY2025, economic growth is expected to slow down toward the potential growth rate as consumer spending lacks strength.
- In the financial markets, US interest rate cuts and the Bank of Japan's policy changes are expected to narrow the gap between domestic and foreign interest rates, and the US dollar-yen exchange rate is expected to gradually appreciate to the mid-130 yen against the US dollar by the end of 2024. The BOJ lifted negative interest rates and eliminated the yield curve control (YCC) in March 2024. Going forward, interest rates at low levels are expected to be maintained as the upward momentum of wages and prices gradually weakens.

Outlook on the global economy: Soft landing for the global economy with a slower pace of recovery thereafter

Outlook on the global economy

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

	2023 (Outlook)	2024 (Outlook)	2025 (Outlook)	2024 (Comparison with the December 2023 outlook)	2025 (Comparison with the December 2023 outlook)
Global real GDP growth	3.0	2.9	2.9	0.1	-
Japan, US, Europe	1.6	1.2	1.5	0.3	-
US	2.5	1.9	1.5	0.7	-
Eurozone	0.5	0.5	1.5	0.1	-
UK	0.3	0.8	1.8	0.1	-
Japan	1.9	0.7	1.2	-0.3	0.2
Asia	5.1	4.7	4.4	-	-
China	5.2	4.6	4.2	-	-
NIEs	1.5	2.4	1.8	0.3	0.1
ASEAN5	4.4	4.6	4.7	0.1	0.1
India	6.7	6.1	6.0	-	-
Australia	1.9	1.8	1.7	-	-
Japan (FY)	1.2	1.2	0.8	0.1	0.1

The global economy will decelerate through mid-2024 under high interest rates in the US and Europe and a slowdown in China, gradually recovering thereafter led by the US, Europe, and ASEAN.

Inflation will slow with the easing of supply constraints. The first half of 2024 will see a falloff from the effects of monetary tightening, but the employment and income environment will remain resilient. The growth rate will gradually increase thereafter.

High interest rates will exert downward pressure on aggregate demand, and the economy will shrink in the first half of 2024. Moderate recovery trend through 2025.

Infrastructure investment will support the economy until 2024, but adjustments in the real estate sector and weak private investment and consumer confidence will continue. The growth rate will continue to slow.

Consumption growth will be slow. The pickup in global manufacturing will be gradual and growth will remain moderate.

Note: Figures in the shaded areas are forecasts. The total for forecasted regions is calculated based on GDP share (PPP) by the IMF.
Source: Made by 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

US	**Background to the soft landing and the risk of resurgence of inflation**	◆ Although the impact of monetary tightening will gradually surface mainly in the corporate sector, slowing inflation will reduce the need for excessive monetary tightening and downward pressure on the economy. ◆ Financial conditions are easing. Spending by households and firms is supported by the wealth effect. ◆ Recovery of the productivity growth rate due to the recovering supply capacity (capital investment) will also contribute to curbing inflationary pressures.
Eurozone	**Outlook for prices, wages, and monetary policy**	◆ Wages have run their full catch-up to inflation. Weak domestic demand and deteriorating corporate performance will gradually increase the sense that the wage growth rate has peaked. The rate is expected to return to 2% around mid-2024. ◆ The ECB will begin cutting interest rates in June 2024. Borrowing demand from firms and households and inventory cycles in the manufacturing sector have picked up from a recent bottoming out. The growth rate is expected to rise moderately from the second half of 2024 onward.
Emerging countries	**Spillover effects of real estate adjustments on the Chinese economy and the assessment of disinflationary pressure**	◆ China's growth rate will continue to slow toward 2025 due to the prolonged adjustments in the real estate sector and structural downward pressures. Disinflationary pressure is also expected to persist mainly due to weak domestic demand. ◆ In NIEs and ASEAN, the economic recovery will be led first by NIEs, which are highly dependent on external demand, backed by the recovery in the semiconductor cycle. India is expected to remain steady at the pre-coronavirus average through 2024 on the back of strong investment and resilient consumption.
Japan	**Outlook for trend of personal consumption and real wages**	◆ Although the spring wage negotiations will likely see wages higher than the previous year, a price boost on the demand side is not expected due to sluggish consumption. The hurdles to a sustained increase in real wages accompanied by productivity growth are high, and companies remain cautious in their price setting. The sustainable and stable price target of 2% will not be realized (base scenario). ◆ However, there is the possibility that a worsening labor shortage will trigger the achievement of the 2% price target (sub-scenario).
Financial markets	**Outlook for the timing of the BOJ's policy changes and the market reaction**	◆ In the base scenario, the BOJ was expected to lift its triple policies of negative interest rates, YCC, and monetary base expansion in the April-June period of 2024, followed by holding interest rates at zero. The sub-scenario sees rate hikes in the short-term policy rate up to 1%. ◆ Japan's long-term interest rates are set to rise to the low 1% range. The yen is expected to strengthen against the US dollar due to the narrowing interest rate gap between Japan and the US, and the stock market is expected to maintain its upward trend despite temporary weakness due to the yen's appreciation.

Source: Made by MHRT.

(1) US: Financial conditions have already eased with the economy heading for a soft landing

- Real GDP growth for 2024 and 2025 is forecast to be +1.9% and +1.5% year-on-year, respectively, with the US economy headed for a soft landing.
  - Decelerating inflation reduces the need for excessive monetary tightening. In addition to improved real household incomes, personal consumption has remained strong due to the wealth effect of rising housing and stock prices. Although the impact of interest rate hikes will become apparent centering on the corporate sector, the easing of the financial environment and the recovery of corporate earnings will somewhat curb the increase in corporate interest payment burdens, and capital investment will remain firm.
  - The Fed is expected to cautiously continue cutting rates from April-June 2024 onwards after confirming a clear decline in inflationary pressures.

Outlook on the US economy

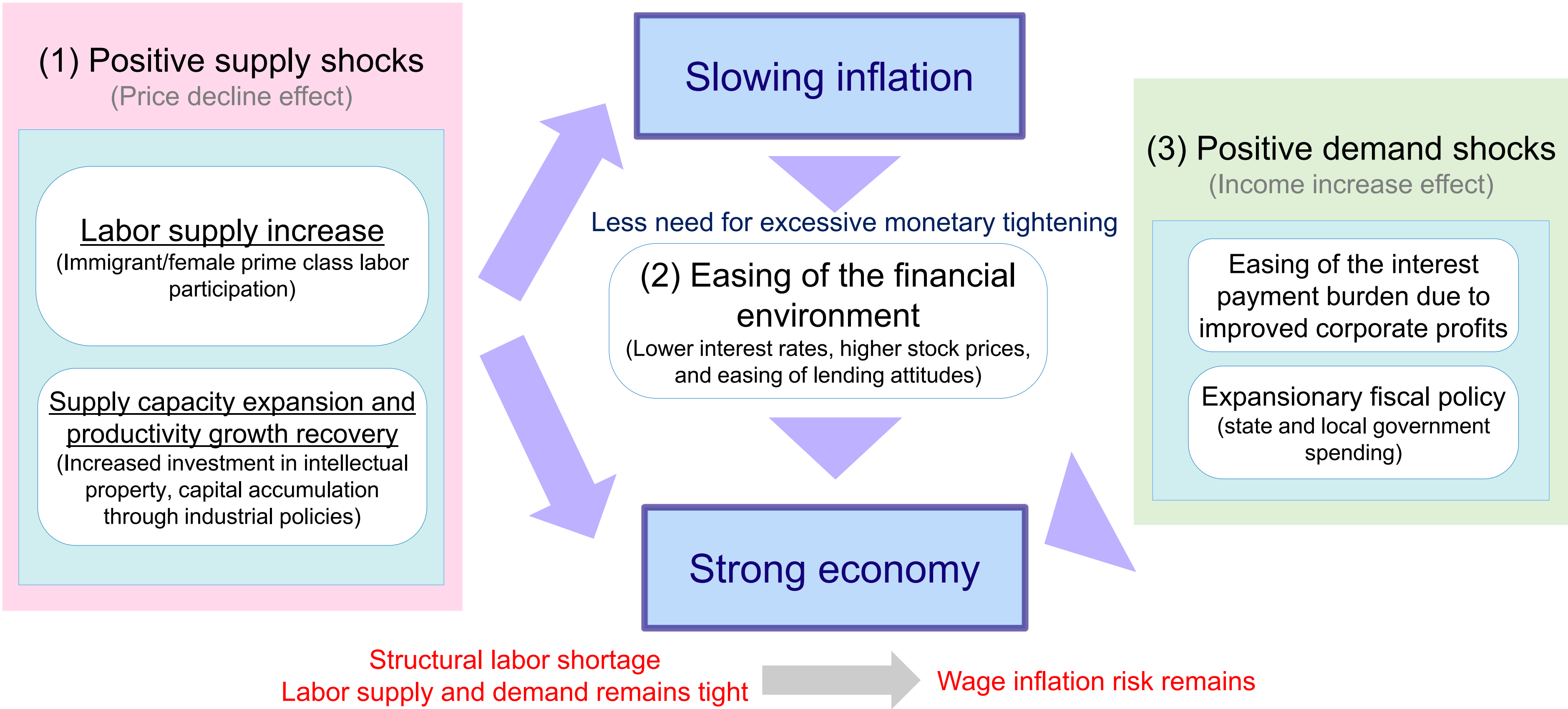
		2023	2024	2025	2023				2024				2025			
			(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch p.a.	2.5	1.9	1.5	2.2	2.1	4.9	3.3	1.5	0.5	0.6	1.4	1.8	1.9	1.8	1.7
Personal consumptions	Q-o-q % ch p.a.	2.2	1.9	1.7	3.8	0.8	3.1	2.8	2.1	1.0	1.0	1.8	1.7	2.0	2.0	2.0
Housing investment	Q-o-q % ch p.a.	-10.7	1.4	4.8	-5.3	-2.2	6.7	1.1	0.8	0.3	0.1	4.3	6.1	6.5	6.5	5.8
Capital investment	Q-o-q % ch p.a.	4.4	1.3	1.5	5.7	7.4	1.4	1.9	0.9	0.0	0.1	1.7	1.7	1.7	1.7	2.8
Inventory investment	Q-o-q contribution p.a. % pt	0.0	0.1	0.4	-2.2	0.0	1.3	0.1	0.1	0.0	0.0	0.1	0.5	0.5	0.4	0.2
Government consumption	Q-o-q % ch p.a.	4.0	2.3	0.9	4.8	3.3	5.8	3.3	1.3	1.1	1.1	1.2	0.8	0.8	0.8	0.8
Net exports	Q-o-q contribution p.a. % pt	0.0	-0.5	-0.6	0.6	0.0	0.0	0.4	-0.4	-0.4	-0.4	-0.6	-0.5	-0.6	-0.6	-0.6
Exports	Q-o-q % ch p.a.	2.7	1.8	0.7	6.8	-9.3	5.4	6.3	1.8	0.4	0.4	0.4	0.9	0.9	0.9	1.2
Imports	Q-o-q % ch p.a.	-1.7	2.5	4.1	1.3	-7.6	4.2	1.9	4.2	2.8	2.6	4.4	4.1	4.7	4.7	5.0
Unemployment rate	%	0.0	4.1	4.0	3.5	3.6	3.7	3.7	3.9	4.2	4.2	4.1	4.1	4.0	4.0	4.0
PCE deflator	Y-o-y % ch	0.0	2.5	2.2	5.0	3.9	3.3	2.7	2.5	2.5	2.5	2.5	2.3	2.2	2.2	2.2
Core, excl. food and energy	Y-o-y % ch	0.0	2.5	2.2	4.8	4.6	3.8	3.2	2.6	2.5	2.5	2.4	2.3	2.2	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.

US: Key points in understanding the prospects for a soft landing

- The US economy is expected to have a soft landing, with both “strong economy” and “slowing inflation” surfacing simultaneously.
  - There are three factors that make the soft landing possible: (1) positive supply shocks (labor supply increase, supply capacity expansion, and productivity growth recovery), (2) easing of the financial environment, and (3) positive demand shocks (easing of the interest payment burden due to improved corporate profits and an expansionary fiscal policy). However, labor supply and demand will remain tight due to structural labor shortages. Wage inflation remains a risk.

Background of “strong economy” and “slowing inflation”

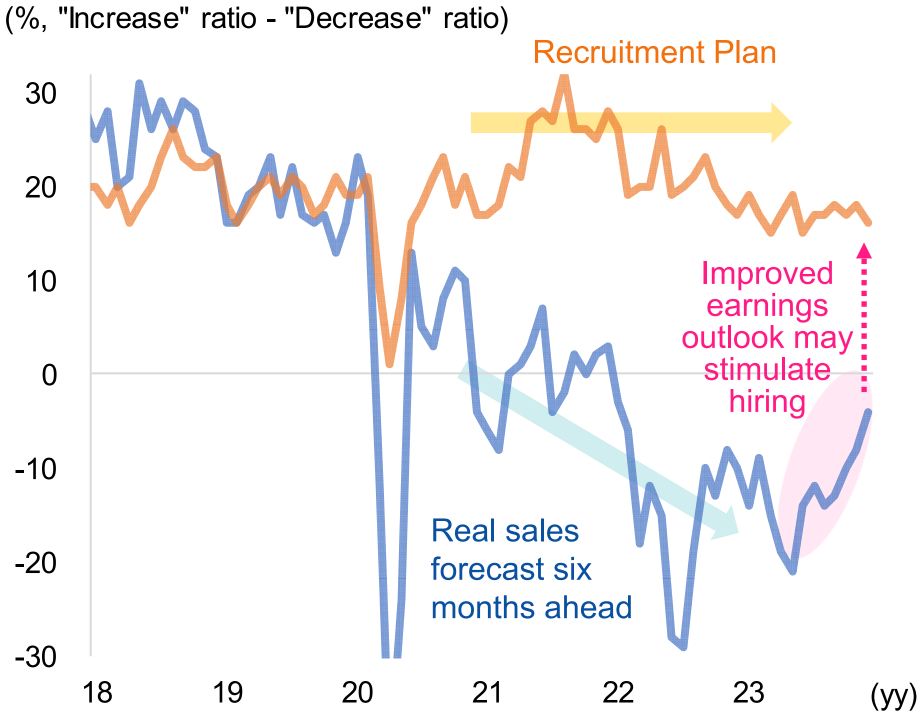


Source: Made by MHRT.

US: Improved corporate earnings including SMEs raise the risk of renewed wage inflation

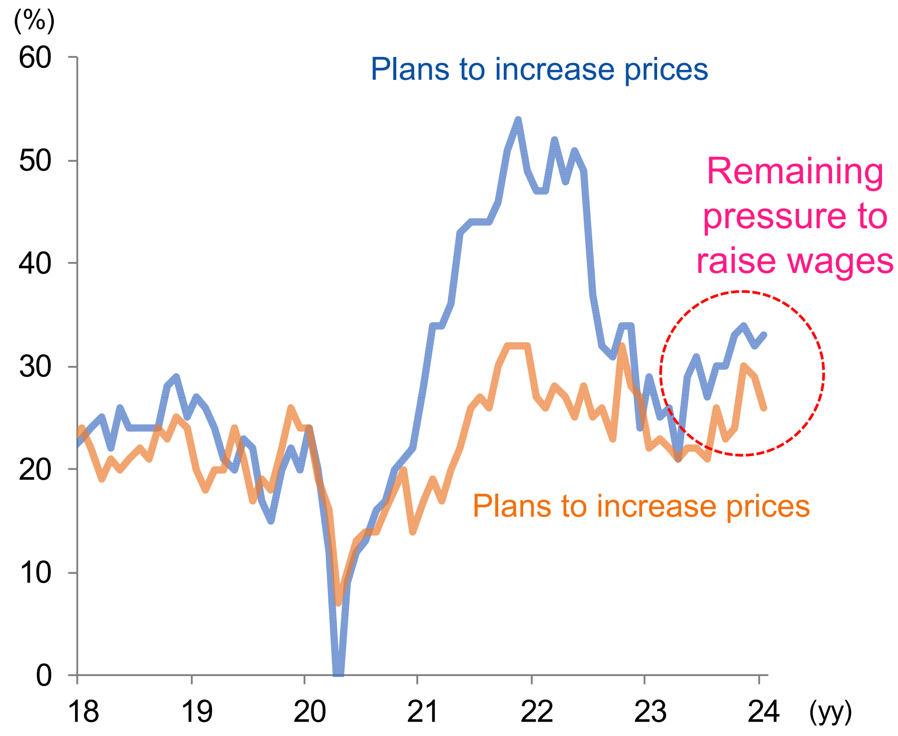
- Earnings forecasts and hiring plans continue to diverge. A reasonable number of small and medium-sized firms plan to increase hiring even in the face of deteriorating business performance.
  - The current earnings outlook has bottomed out due to the strength of the economy, which may stimulate hiring once again.
- The share of SMEs planning price and wage increases has risen slightly in recent months after bottoming out in mid-2023.

SMEs' hiring plans and outlook for real sales six months ahead



Source: Made by MHRT based on NFIB.

Share of SMEs planning to raise prices and wages



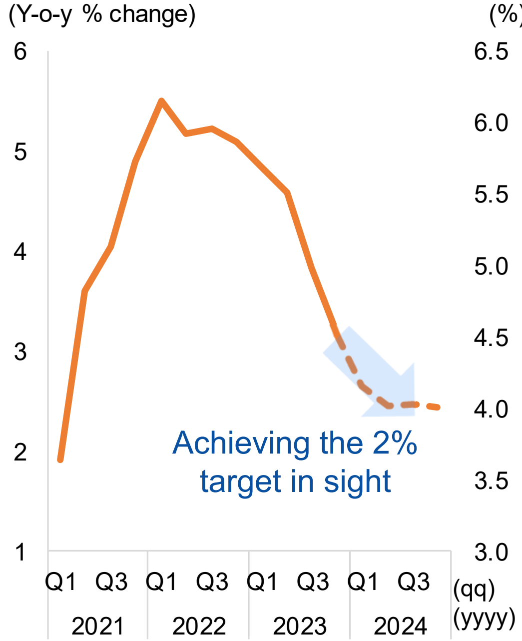
Note: Percentage (%) is net on a 3 months ahead basis.
Source: Made by MHRT based on NFIB.

US: Fed rate cuts expected to start in April-June 2024

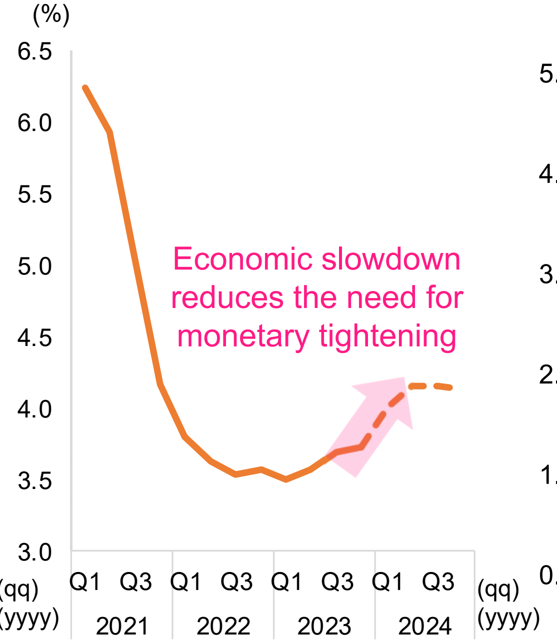
- Inflation is expected to slow steadily.
  - Core PCE deflator gradually slows to 2.4% at end of 2024 and 2.2% at end of 2025.
  - We expect the economy to slow down toward the middle of 2024 as the effects of monetary tightening become apparent, and the need for additional monetary tightening will diminish. However, wage inflation remains a possibility if structural labor shortages or an economic upswing occurs.
- The Fed will begin cutting interest rates in the April-June period of 2024. After that, we expect the Fed to continue cutting rates at a modest and gradual pace.

Core PCE deflator and unemployment rate outlook

Core inflation outlook

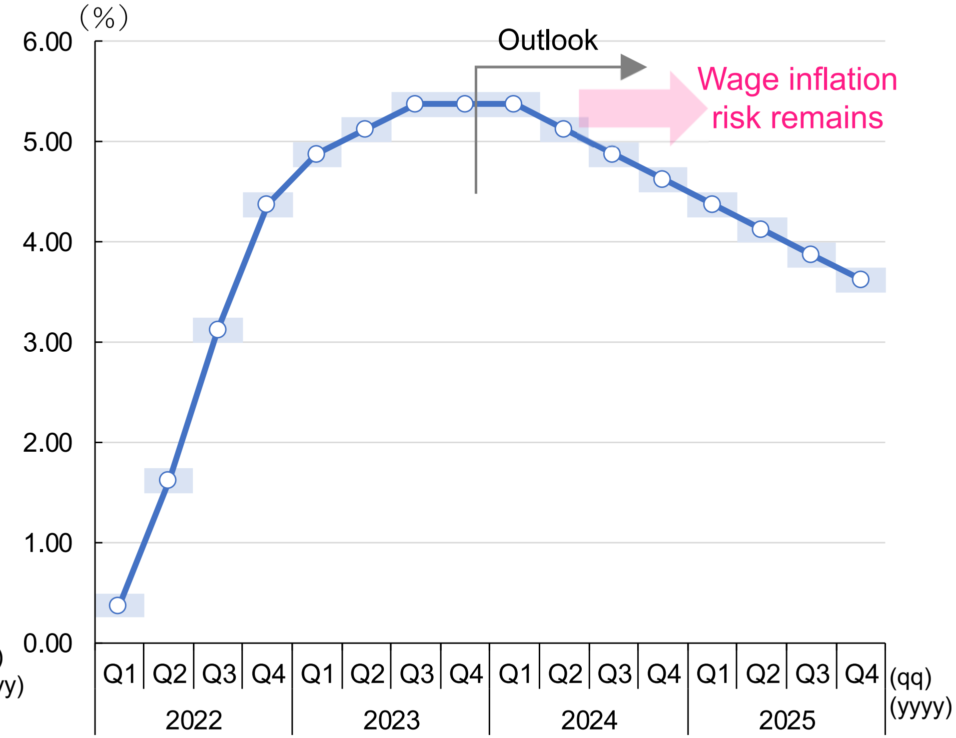


Unemployment rate outlook



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

Monetary policy outlook



Source: Made by MHRT based on the FRB.

(2) Eurozone: Economy stagnates through early 2024 with recovery beginning in the second half of 2024

- Real GDP growth in 2023 and 2024 is projected at +0.5% and +0.5% year-on-year, respectively.
  - The Eurozone economy is expected to remain stagnant through early 2024 due to the impact of domestic demand curbed by higher interest rates and the economic slowdown overseas.
- Real GDP growth in 2025 is projected at +1.5%.
  - The economy will pick up after the second half of 2024, when inflation will likely calm down and the European Central Bank (ECB) is expected to cut interest rates.

Outlook on the Eurozone economy

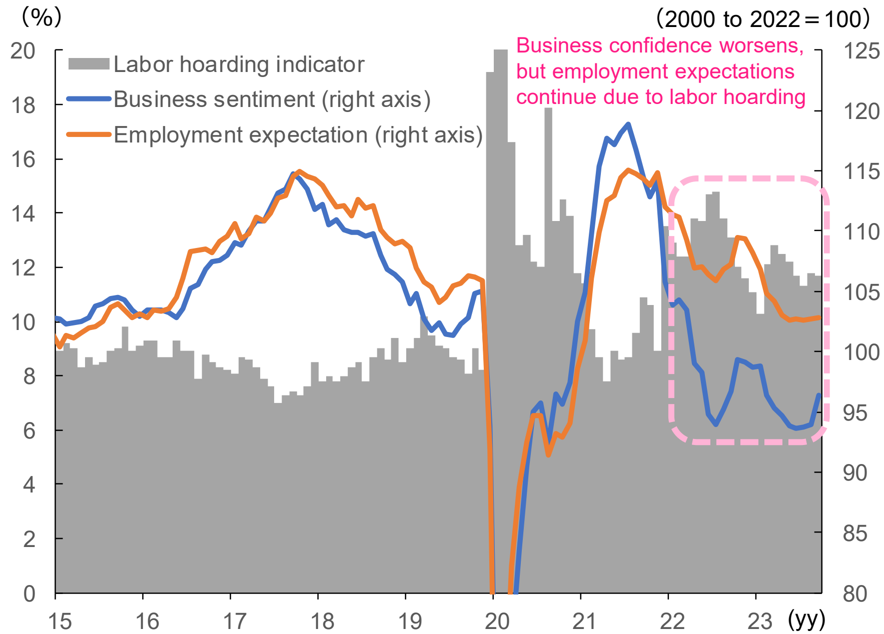
		2022	2023	2024	2025	2022				2023				2024				2025			
			(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch p.a.	3.4	0.5	0.5	1.5	0.7	0.8	0.5	- 0.1	0.1	0.1	- 0.1	0.0	- 0.0	0.3	0.4	0.5	0.4	0.3	0.3	0.2
Domestic demand	Q-o-q % ch p.a.	3.5	0.2	0.5	1.3	- 0.0	0.7	1.0	- 0.5	- 0.6	0.8	- 0.1	0.1	- 0.1	0.3	0.4	0.4	0.4	0.2	0.2	0.2
Personal consumption	Q-o-q % ch p.a.	4.2	0.5	0.8	1.2	- 0.0	0.8	1.3	- 0.8	0.1	0.0	0.3	0.1	0.1	0.2	0.3	0.4	0.3	0.3	0.3	0.3
Gross fixed capital formation	Q-o-q % ch p.a.	2.6	0.7	- 0.3	1.3	- 0.5	0.5	1.3	- 0.4	0.4	- 0.1	0.0	- 0.4	- 0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3
Government consumption	Q-o-q % ch p.a.	1.6	0.2	0.1	0.4	0.4	- 0.1	- 0.1	0.5	- 0.5	0.2	0.4	0.2	- 0.3	- 0.0	0.1	0.1	0.1	0.1	0.1	0.1
Inventory investment	Q-o-q contribution p.a. % pt	0.3	- 0.2	0.1	0.2	- 0.1	0.2	0.1	- 0.1	- 0.5	0.7	- 0.3	0.0	- 0.1	0.1	0.2	0.1	0.1	- 0.1	- 0.0	- 0.0
External demand	Q-o-q contribution p.a. % pt	- 0.0	0.2	0.0	0.3	0.8	0.2	- 0.5	0.4	0.6	- 0.6	- 0.0	- 0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.0	- 0.0
Exports	Q-o-q % ch p.a.	7.2	- 1.0	- 0.0	1.3	1.6	2.0	1.3	- 0.3	- 0.4	- 1.1	- 1.2	- 0.1	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Imports	Q-o-q % ch p.a.	7.9	- 1.5	- 0.1	0.9	0.1	1.8	2.5	- 1.1	- 1.7	- 0.0	- 1.2	- 0.1	0.1	0.4	0.3	0.2	0.3	0.1	0.2	0.2
CPI	Y-o-y % ch	8.4	5.4	2.1	2.0	6.1	8.0	9.3	10.0	8.0	6.2	5.0	2.7	2.3	2.1	2.0	2.0	1.9	2.0	1.9	2.0
Core, excl. food and energy	Y-o-y % ch	3.9	4.9	2.5	2.1	2.7	3.7	4.4	5.1	5.5	5.5	5.1	3.7	3.0	2.5	2.3	2.2	2.1	2.0	2.0	2.1

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

Eurozone: Even with labor supply and demand remaining tight, wages will gradually weaken due to deteriorating corporate performance

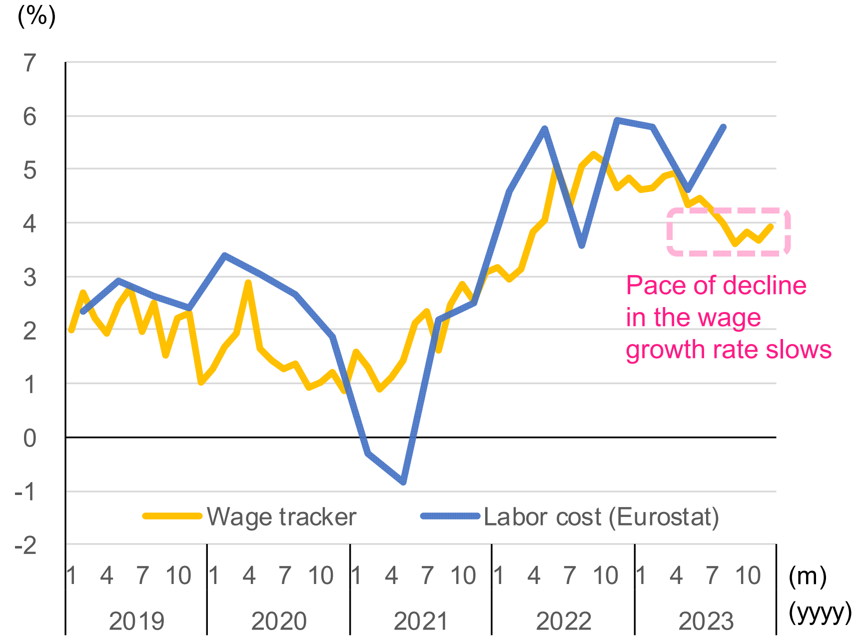
- The unemployment rate is at a record low of 6.4%. The pace of decline in the wage growth rate has slowed as labor supply and demand continues to tighten.
  - Despite worsening business confidence, companies' employment appetite has remained firm, suggesting that firms are maintaining their stance to retain employment from anticipation of future labor shortages.
- Looking ahead, however, given continued negative economic growth and an economic environment where companies are forced to reduce labor costs due to deteriorating business performance, the spring wage negotiations are expected to bring significantly lower increases than the previous year.

Eurozone: Business confidence and employment expectations



Note: The labor hoarding indicator is the percentage of firms that answered their employment expectations "increased" or "remained unchanged" among companies that answered their production expectations "decreased."
Source: Made by MHRT based on the European Commission.

Eurozone: Wage growth rate

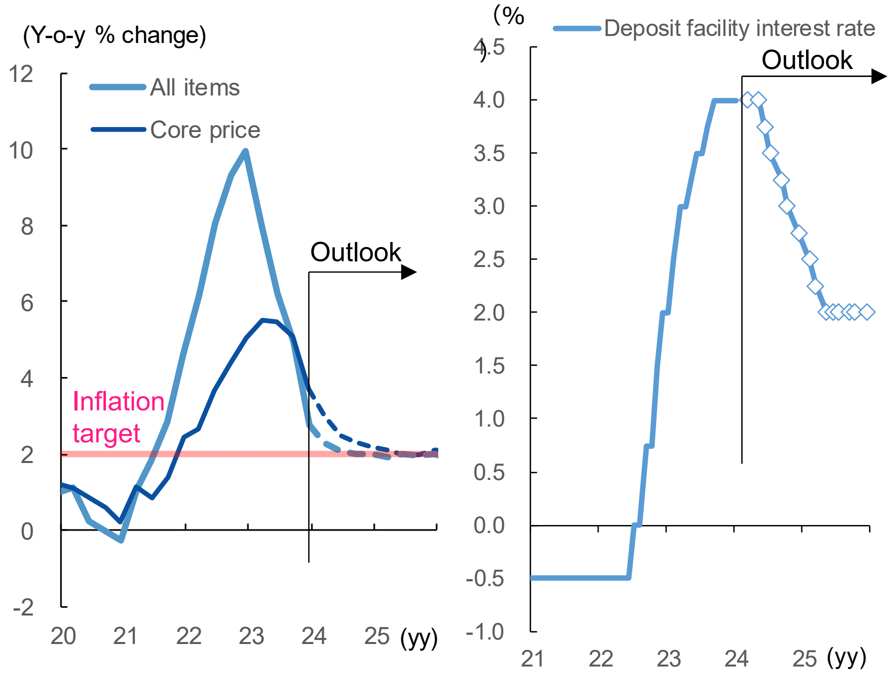


Source: Made by MHRT based on Eurostat and MacroMicro.

Eurozone: ECB expected to start cutting interest rates in June as business activity shows signs of improvement

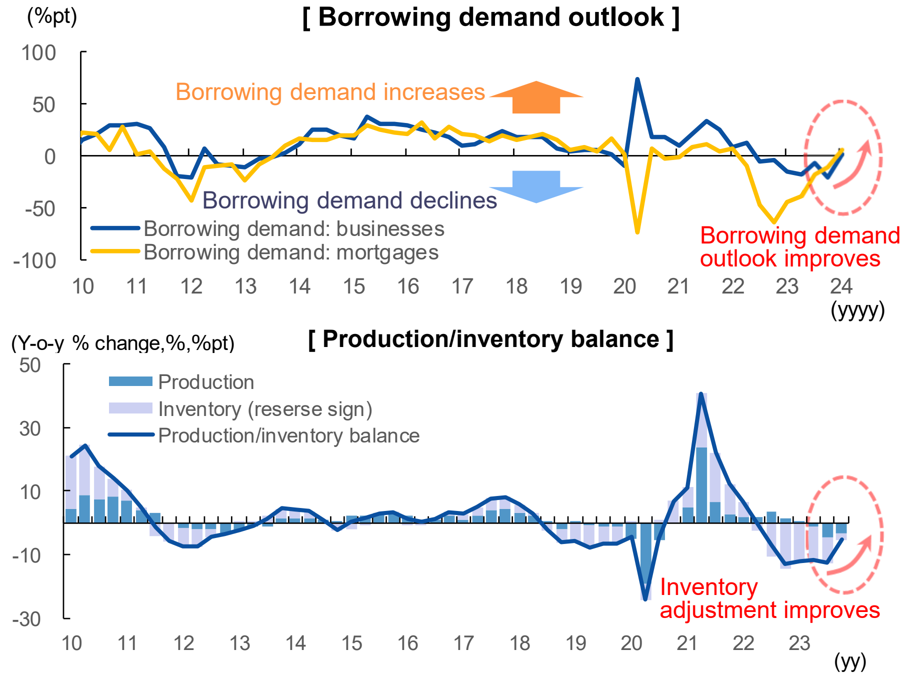
- The ECB is expected to cut rates in June 2024 after confirming the slowdown in wage growth.
- Amid the demand suppression effects of monetary tightening, there are signs that household and corporate spending momentum has bottomed out and is now picking up.
  - More banks expect borrowing demand to increase for both businesses and mortgages. This suggests that economic activity among businesses and households is coming out of its worst phase on the back of a lull in inflation and interest rate hikes. In addition, inventory adjustments are progressing in the still sluggish manufacturing sector.
  - The Eurozone economy is expected to pick up moderately from April-June 2024 onward.

Eurozone: Inflation and policy rate outlook



Source: Made by MHRT based on the ECB.

Eurozone: Borrowing demand outlook and production/inventory balance



Note: Production/inventory balance = y-o-y change in production - y-o-y difference in inventory judgment DI. Due to statistical limitations, inventory uses the inventory level DI.
Source: Made by MHRT based on Eurostat, the European Commission, and the ECB.

(3) Emerging economies: China is slowing, NIEs/ASEAN will recover after mid-2024, India remains steady

- China's economy is expected to slow due to sluggish consumption and a real estate slump, and structural factors will continue to weigh down the Chinese growth beyond 2025.
  - Infrastructure investment will support the economy in 2024, but a decline in the growth rate is inevitable. 2025 and beyond will continue to be weighed down by population decline and US-China tensions.
- NIEs to recover in line with the semiconductor cycle; ASEAN is also expected to pick up from mid-2024.
  - Yet, in both NIEs and ASEAN, domestic demand will remain weak in the first half of 2024 due to persistent inflation and high interest rates, temporarily pushing down their growth rates.
- India maintains high growth driven by investment.
  - Domestic demand is the main growth driver; nevertheless, the recent steady strengthening of its export capabilities is also fueling growth.

Outlook on emerging economies

	2022	2023	2024	2025	2021		2022				2023			
					Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Apr-Jul	Oct-Dec
Asia	4.1	5.1	4.7	4.4	-	-	-	-	-	-	-	-	-	-
China	3.0	5.2	4.6	4.2	5.2	4.3	4.8	0.4	3.9	2.9	4.5	6.3	4.9	5.2
NIEs	2.2	1.5	2.4	1.8	-	-	-	-	-	-	-	-	-	-
South Korea	2.6	1.4	2.1	1.7	4.1	4.3	3.1	2.9	3.2	1.4	0.9	0.9	1.4	2.2
Taiwan	2.6	1.4	3.2	1.7	4.2	5.1	3.8	3.5	4.0	-0.7	-3.5	1.4	2.3	5.1
Hong Kong	-3.5	3.2	1.6	2.1	5.5	4.7	-3.9	-1.2	-4.6	-4.1	2.9	1.5	4.1	4.3
Singapore	3.8	1.1	2.1	2.0	9.5	7.9	4.2	4.6	4.2	2.4	0.5	0.5	1.0	2.2
ASEAN5	6.0	4.4	4.6	4.7	-	-	-	-	-	-	-	-	-	-
Indonesia	5.3	5.0	5.0	4.7	3.5	5.0	5.0	5.5	5.7	5.0	5.0	5.2	4.9	5.0
Thailand	2.5	1.9	2.3	2.8	-0.1	1.9	1.9	2.4	4.4	1.3	2.6	1.8	1.4	1.7
Malaysia	8.7	3.7	2.7	3.9	-4.2	3.6	4.8	8.8	14.1	7.1	5.6	2.9	3.3	3.0
Philippines	7.6	5.6	5.7	5.3	7.0	7.9	8.0	7.5	7.7	7.1	6.4	4.3	6.0	5.6
Vietnam	8.0	5.0	6.4	6.8	-6.0	5.2	5.1	7.8	13.7	5.9	3.3	4.1	5.5	6.7
India	6.7	6.7	6.1	6.0	9.1	5.2	4.0	13.1	6.2	4.5	6.1	7.8	7.6	-
Australia	3.8	1.9	1.8	1.7	4.6	5.0	3.6	3.9	5.7	2.7	2.3	1.8	2.5	-
Ref. NIEs+ASEANS	4.5	3.3	3.8	3.6	-	-	-	-	-	-	-	-	-	-
Ref. Asia, excl. China	5.5	4.9	4.8	4.7	-	-	-	-	-	-	-	-	-	-

Note: Real GDP growth (y-o-y %); figures in the 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.

China: Consumption and real estate to remain sluggish in 2024, and structural factors will continue to weigh down growth in 2025 and beyond

- Real GDP growth in 2024 is predicted to be +4.6%.
  - Infrastructure investment to support the economy despite continued weak consumption and the sluggish real estate sector.
- Real GDP growth in 2025 is projected at +4.2%.
  - Real estate inventory adjustments are coming to an end, but structural downward pressure on growth will remain, including population decline, tighter domestic governance, and US-China tensions.

Points of our outlook

Is the Chinese economy in deflation?

- Core CPI is positive, so the current situation is rated as disinflationary.
- Strong deflationary pressure exists due to a lack of domestic demand on the back of economic stagnation.

How do we see deflationary pressure in the future?

- Excess inventory is finally eliminated, and deflationary pressure is in a final phase.
- There is a risk of deflation if prices continue to fall due to the lack of demand.

What about the threat of "deflationary exports" from China?

- Lower import prices are now one of the reasons for the decline in export prices.
- Import price recovery will ease downward pressure on export prices.

Source: Made by MHRT.

Overview of the Chinese economy (2024)

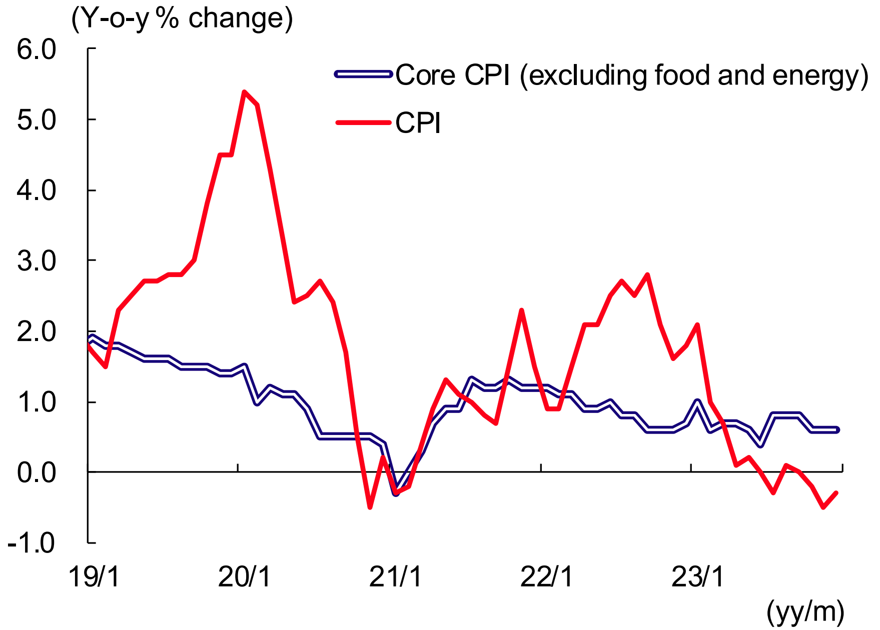
Sector	Direction	Points of our outlook
Consumption	↘	● Pent-up demand for services consumption has returned to the original. ● Consumption of goods continues to be sluggish due to worsening consumer confidence. ● Deceleration in real estate-related consumption also adds to downward pressure.
Real estate	↘	● Prolonged inventory adjustments curb new investment. ● Bank lending is also sluggish, and the completion of "bao jiao lou (保交楼)" still needs time.
Manufacturing	→	● Excess inventory has been largely eliminated. Production is growing steadily. ● The challenging earnings environment continues due to weak new orders, lack of demand, and intensified competition.
Infrastructure	↗	● Investment funded by the additional issuance of 1 trillion yuan of government bonds will support the economy. ● A policy of "moderate" expansion of fiscal spending in 2024. ● Special bonds may be issued in the second half of the year.

Note: "Bao jiao lou" aims to promote the completion and delivery of unfinished properties.
Source: Made by MHRT.

China: Not deflation, but disinflation backed by lower import prices and weak domestic supply and demand

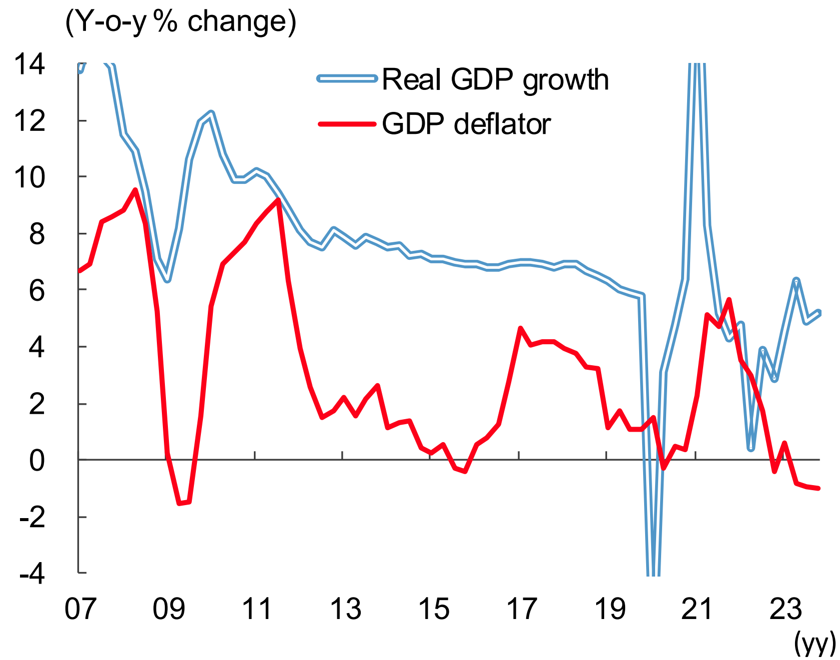
- While the consumer price index (CPI) was negative for three consecutive months, the core CPI excluding food and energy remained in positive territory, albeit low. This situation is more like disinflation than deflation.
- Easing domestic supply and demand and falling import prices are behind the disinflationary pressure.
  - The GDP deflator indicating domestic price trends has been negative for three consecutive quarters through October-December 2023, suggesting disinflationary pressure from the lack of domestic demand, in addition to falling prices of energy and other imports.

Consumer price index (CPI)



Source: Made by MHRT based on the National Bureau of Statistics of China and CEIC.

GDP deflator (quarterly basis)

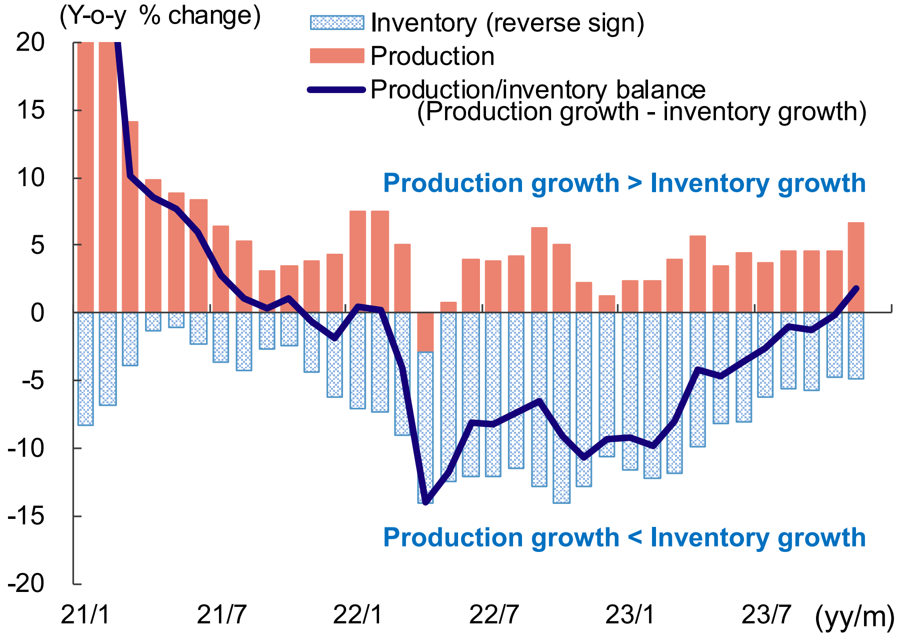


Source: Made by MHRT based on the National Bureau of Statistics of China and CEIC.

China: Excessive inventories in the manufacturing sector have been eliminated. The impact of real estate adjustments on the overall manufacturing sector has come to an end

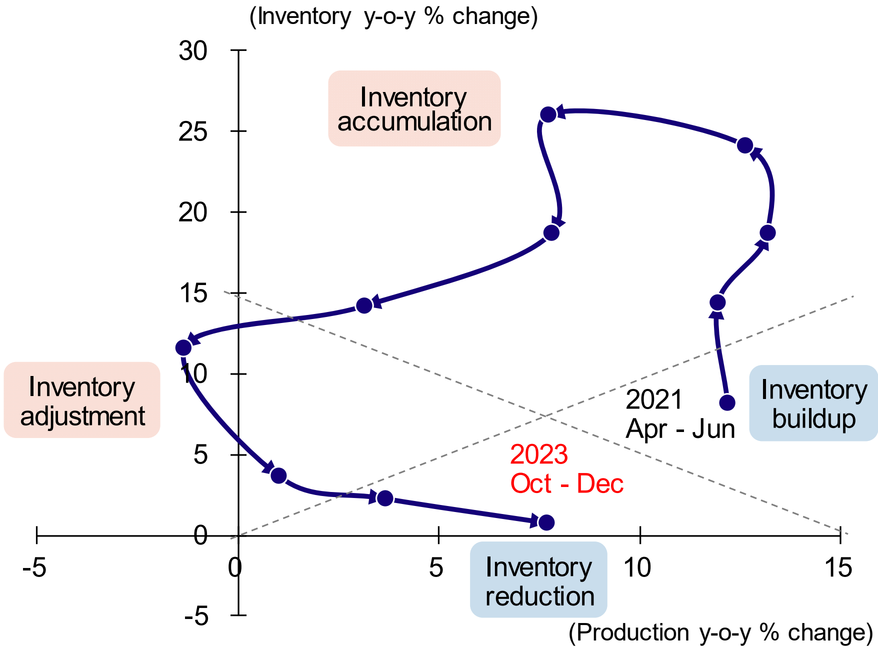
- Excessive inventories in the manufacturing sector have finally been eliminated, and production is growing steadily, suggesting the softening of deflationary pressure.
  - While the year-on-year change in inventories is slowing, production is growing and production adjustments to curb inventories appear to have eased.
  - In particular, it is welcomed to see that telecommunications and electronics equipment is moving toward an inventory buildup phase.
- However, the Purchasing Managers' Index (PMI) for new orders came in weak (49.0 in January), and the earnings environment remains difficult due to a lack of demand and increased competition.
  - Despite the easing of deflationary pressures, disinflationary conditions are expected to persist due to the slow recovery of demand.

Production/inventory balance (production growth/inventory growth)



Note: Inventory is on real terms using PPI.
Source: Made by MHRT based on the National Bureau of Statistics of China and CEIC.

Inventory cycle chart (telecommunications and electronics)

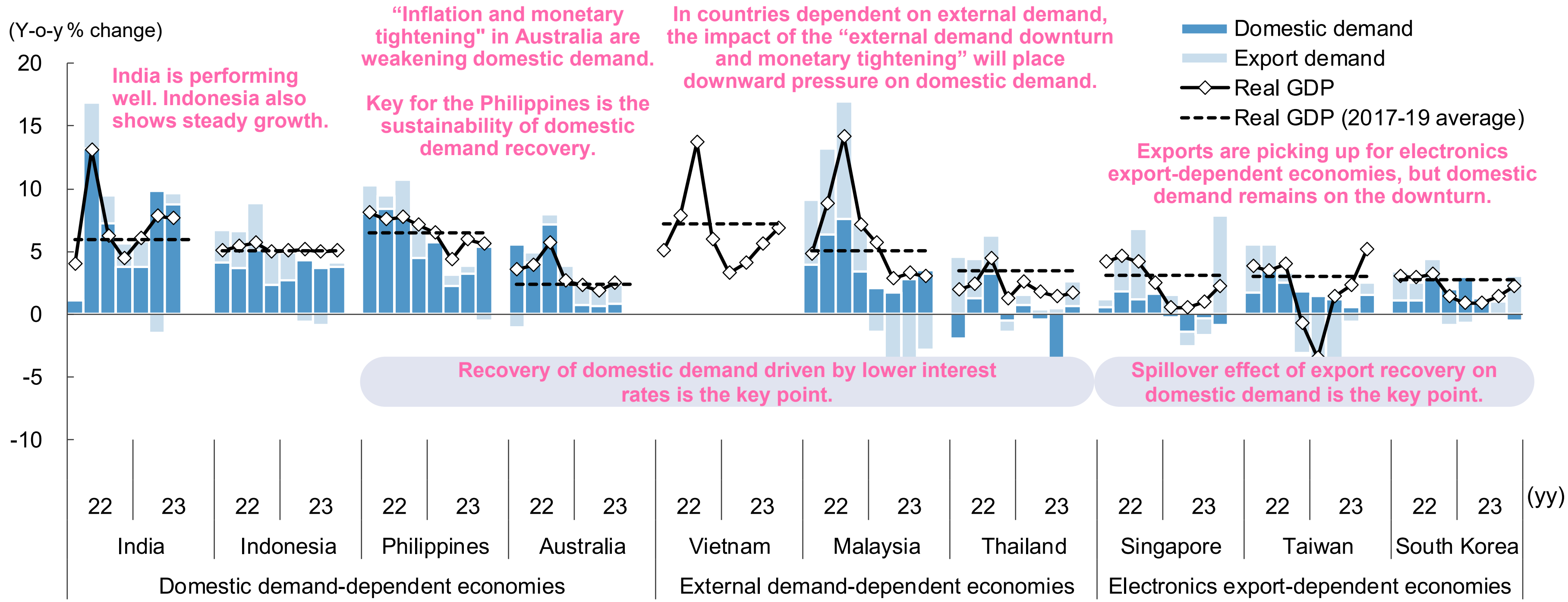


Note: Inventory is on real terms using PPI.
Source: Made by MHRT based on the National Bureau of Statistics of China and CEIC.

Asia: Asian economies on the road to recovery in 2024

- Exports to pick up with electronics export-dependent economies (South Korea, Taiwan, Singapore) leading the way.
  - Exports will rise in electronics export-dependent economies due to the recovery of the semiconductor cycle, and will have a spillover effect on domestic demand through expanded corporate earnings and employment.
  - Other external demand-dependent economies (Thailand, Malaysia, and Vietnam) are also expected to pick up from mid-2024, along with the recovery in the US and Europe.
- Monetary tightening will be lifted in many countries, easing downward pressure on domestic demand. India, where domestic demand is already robust, is expected to remain strong.
  - Inflation rates are now retreating. We expect interest rate cuts in the US to make room for rate cuts in Asia, and that monetary tightening will be lifted from mid-2024 onward. Investment-led growth is expected to continue in India, where domestic demand is strong even under the country's high interest rates.

Real GDP growth rates in Asian countries and regions

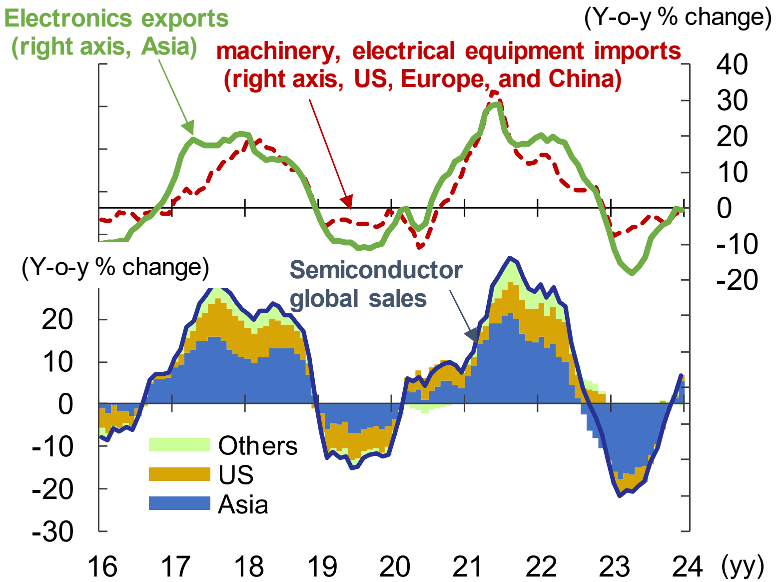


Source: Made by MHRT based on the GDP statistics of various countries and regions.

Asia: Recovery of the semiconductor cycle to create a tailwind for electronics export-dependent countries

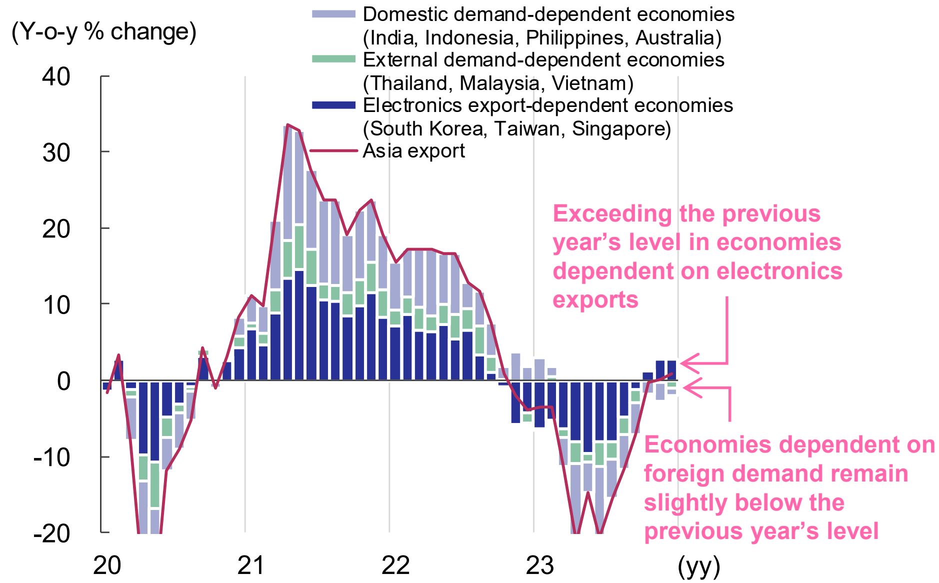
- With the recovery of the semiconductor cycle, demand for the electronics industry, which is predominantly in Asia, is expected to resume growth.
  - Global semiconductor sales had already recovered to the previous year's level by the end of 2023.
  - Recovery of machinery and electrical equipment imports is expected to continue in the US, Europe, and China, backed by improvements in the cyclical demand cycle and new demand from AI-related and other sectors.
- Export growth in 2024 will boost electronics export-dependent economies (South Korea, Taiwan, and Singapore).
  - Electronics exports will recover in South Korea, Taiwan, and Singapore, which are global suppliers of semiconductors and other IT-related goods.
  - In other economies dependent on external demand (Thailand, Malaysia, Vietnam), the benefits of the improved semiconductor cycle will be limited, and export recovery will be delayed.

Semiconductor cycle and electronics exports (in value terms)



Note: Electronics exports are the sum of NIEs and ASEAN5. Machinery and electrical equipment imports are the sum of HS 84 and 85 categories. Three-month moving average y-o-y change for each series.
Source: Made by MHRT based on the statistics of various countries and regions.

Trend of exports in emerging Asian economies (in value terms)

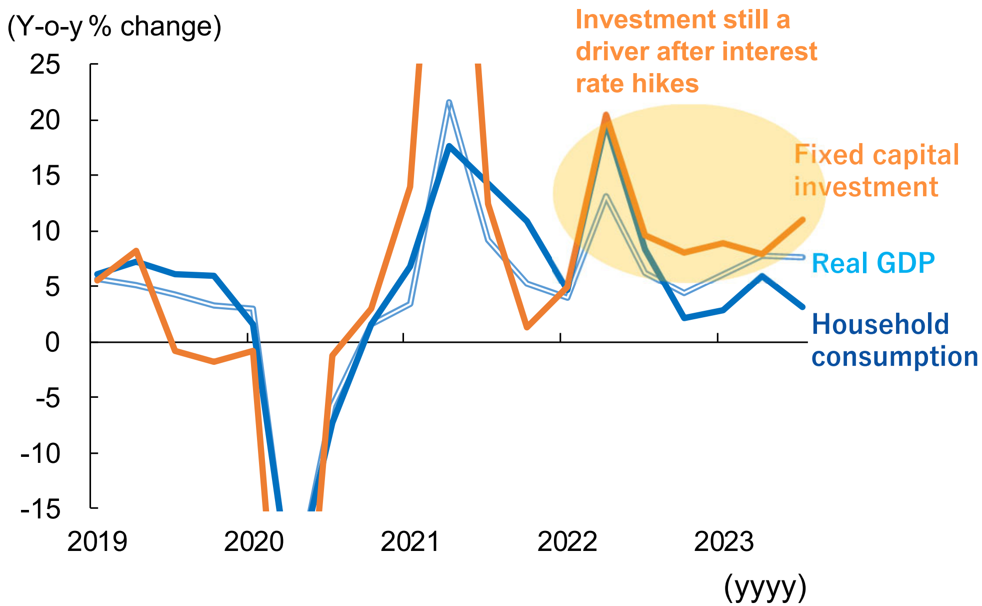


Source: Made by MHRT based on LSEG and the statistics of various countries and regions.

Asia: India's economy is robust and expected to maintain high growth led by investment

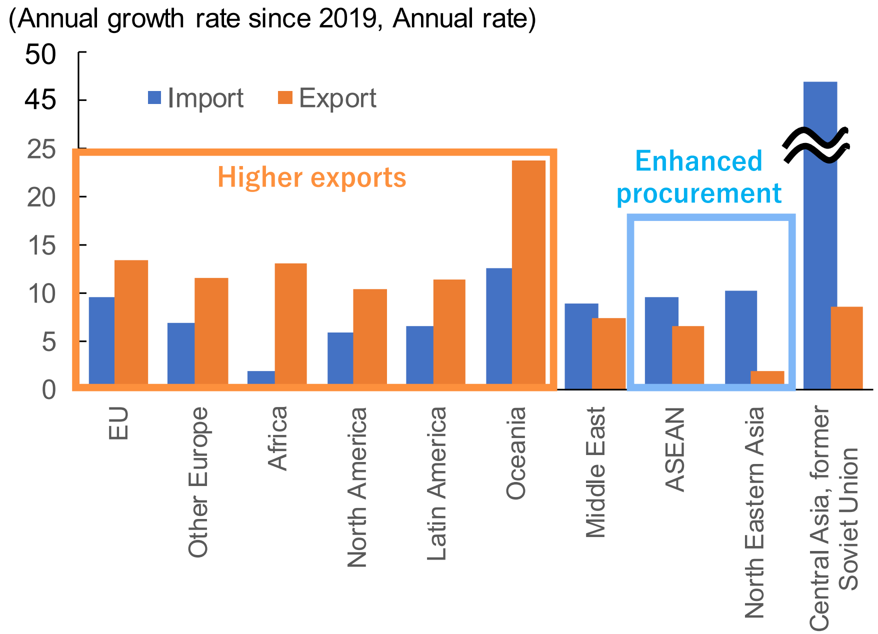
- India's recent growth rate is in the +6-7% year-on-year range, moving near its potential growth rate (mid-6%) and outpacing China (+5.2% in 2023).
  - Reflecting strong demand, inflation is hovering close to the upper end of the target range centered on food, while interest rates have risen and consumption is slowing down. However, the economy remains robust supported by investment.
- India's growth driver is investment, but its export capabilities have also strengthened, thanks to penetration into the global supply chain.
  - The supply chain is expanding to import parts and materials from ASEAN, China, and other Asian countries, which are then processed and assembled by domestic manufacturers and exported to Europe, the US, Africa, and Oceania.

India's real GDP growth rate



Source: Made by MHRT based on the Ministry of Statistics and Programme Implementation of India.

India's exports/imports by region



Source: Made by MHRT based on the Ministry of Commerce and Industry of India.

(4) Japan: Moderate pace of recovery due to a pause in demand in the services sector and supply constraints

- Real GDP growth in FY2023 is projected at +1.2% year-on-year. In the latter half of the fiscal year, personal consumption will be sluggish due to high prices, and the economic slowdown overseas, mainly in Europe and the US, will be a headwind for exports. Temporary factors such as natural disasters and cutbacks in automobile production will also combine to produce zero growth in the January-March period of 2024.
- Real GDP growth in FY2024 is forecast to be +1.2%. Although economic activity will maintain a recovery trend due to high corporate earnings, which will be reflected in wages and capital investment, the pace of recovery will be moderate due to a lull in the recovery of services consumption and inbound demand. Supply constraints due to labor shortages are also a cause for concern.
- Real GDP growth in FY2025 is forecast to be +0.8%. The growth of real compensation of employees will be sluggish and personal consumption will lack strength. Japan’s economy will slow down toward the potential growth rate.

Outlook on the Japanese economy

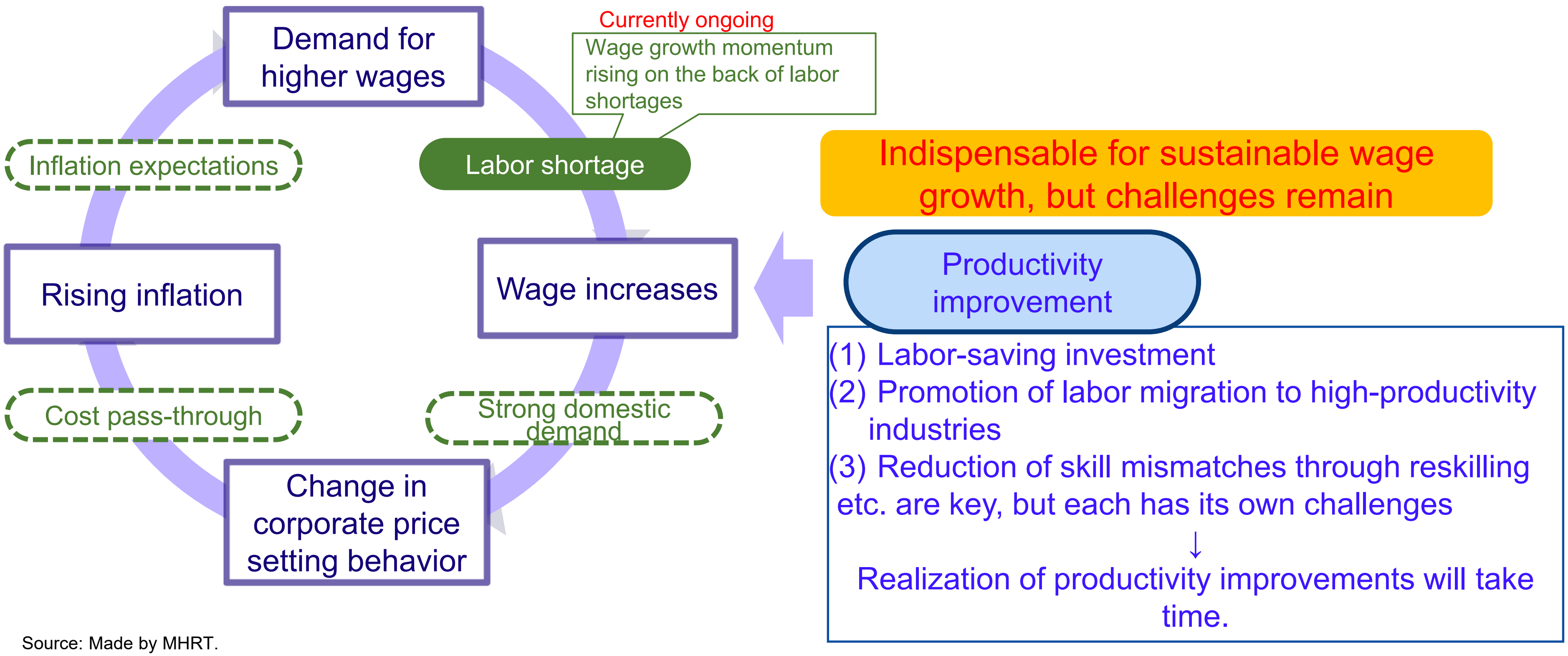
		2022	2023	2024	2025	2023				2024				2025				2026
		FY	(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	1.5	1.2	1.2	0.8	1.1	1.0	-0.8	-0.1	0.0	0.6	0.7	0.5	0.3	0.1	0.1	0.1	0.2
	Q-o-q % ch p.a.	—	—	—	—	4.4	4.0	-3.3	-0.4	0.1	2.3	2.6	1.8	1.2	0.4	0.3	0.2	0.8
Domestic demand	Q-o-q % ch	2.0	-0.3	1.0	0.8	1.4	-0.7	-0.8	-0.3	0.1	0.5	0.6	0.4	0.2	0.1	0.1	0.2	0.2
Private-sector demand	Q-o-q % ch	2.7	-0.7	1.0	0.7	1.8	-1.0	-1.1	-0.3	0.0	0.6	0.7	0.4	0.2	0.1	0.0	0.1	0.1
Personal consumption	Q-o-q % ch	2.7	-0.4	0.7	0.5	0.8	-0.7	-0.3	-0.2	-0.0	0.4	0.5	0.2	0.2	0.1	0.1	0.1	0.1
Housing investment	Q-o-q % ch	-3.4	1.5	-0.0	-0.3	0.3	1.8	-0.6	-1.0	0.1	0.2	0.2	0.1	0.0	-0.1	-0.3	-0.3	-0.2
Capital investment	Q-o-q % ch	3.4	-0.7	1.8	2.1	1.6	-1.4	-0.6	-0.1	0.1	0.7	0.7	0.8	0.7	0.5	0.4	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	(0.1)	-0.3	0.0	(-0.1)	(0.6)	(-0.2)	(-0.5)	(-0.0)	(0.0)	(0.1)	(0.1)	(0.0)	(-0.1)	(-0.0)	(-0.1)	(0.0)	(0.0)
Public-sector demand	Q-o-q % ch	-0.1	0.9	1.0	1.0	0.4	0.2	0.0	-0.2	0.2	0.3	0.4	0.4	0.4	0.1	0.2	0.2	0.2
Government consumptioı	Q-o-q % ch	1.4	0.6	1.0	1.1	0.1	-0.1	0.3	-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	-6.1	2.8	0.7	0.2	2.0	2.2	-1.0	-0.7	0.3	0.0	0.7	0.6	0.5	-0.7	0.1	0.1	0.1
External demand	Q-o-q contribution, % pt	(-0.5)	(1.6)	(0.2)	(0.1)	(-0.4)	(1.7)	(-0.0)	(0.2)	(-0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.0)	(-0.0)	(-0.1)	(0.0)
Export	Q-o-q % ch	4.7	3.7	1.4	2.8	-3.5	3.8	0.9	2.6	-2.5	0.6	0.7	0.9	1.0	0.6	0.7	0.3	0.6
Import	Q-o-q % ch	6.9	-3.0	0.5	2.5	-1.6	-3.6	1.0	1.7	-2.1	0.2	0.5	0.5	0.6	0.5	0.8	0.8	0.5
GDP (nominal)	Q-o-q % ch	2.3	5.1	2.9	1.8	2.3	2.5	-0.1	0.3	0.1	1.0	1.6	0.7	0.5	0.3	0.2	0.1	0.4
GDP deflator	Y-o-y % ch	0.8	3.9	1.7	1.0	2.3	3.7	5.2	3.8	2.8	1.7	1.8	1.7	1.8	1.7	0.8	0.6	0.6
Domestic demand deflator	Y-o-y % ch	3.2	2.3	1.1	0.8	3.1	2.7	2.6	2.0	1.9	1.2	1.1	0.8	1.0	1.0	0.8	0.8	0.8

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

Japan: Productivity growth is essential to achieve "sustainable" inflation with a virtuous cycle

- Sustained wage hikes require ongoing wage increase resources through "productivity improvements." But improving productivity is a time-consuming process.
  - The virtuous cycle mechanism of wage and price increases is as follows: Strong wage increases lead to stronger domestic demand and changes the pricing behavior of companies, which in turn strengthens the momentum for services price increases and heightens the expectations for inflation.
  - The key to achieving the virtuous cycle mechanism is sustainable wage increases. Wage momentum is up on the back of current labor shortages. Productivity growth is essential for sustainable wage growth, but challenges remain. The CPI is expected to fall below 2% due to unsustainable wage growth.

Virtuous cycle of wages and prices and challenges to its realization

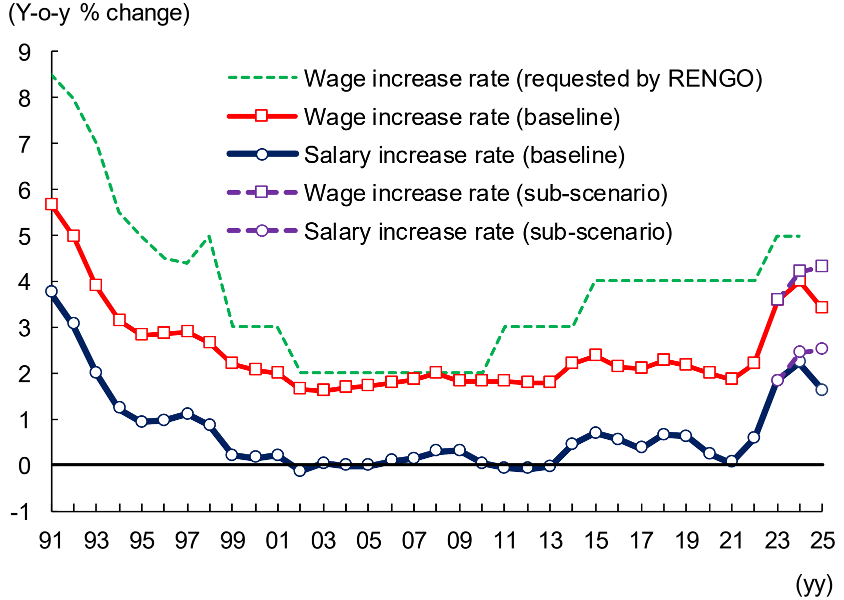


Source: Made by MHRT.

Japan: Spring wage hikes in 2024 to exceed last year's increases. Base scenario to slow from 2025 onward

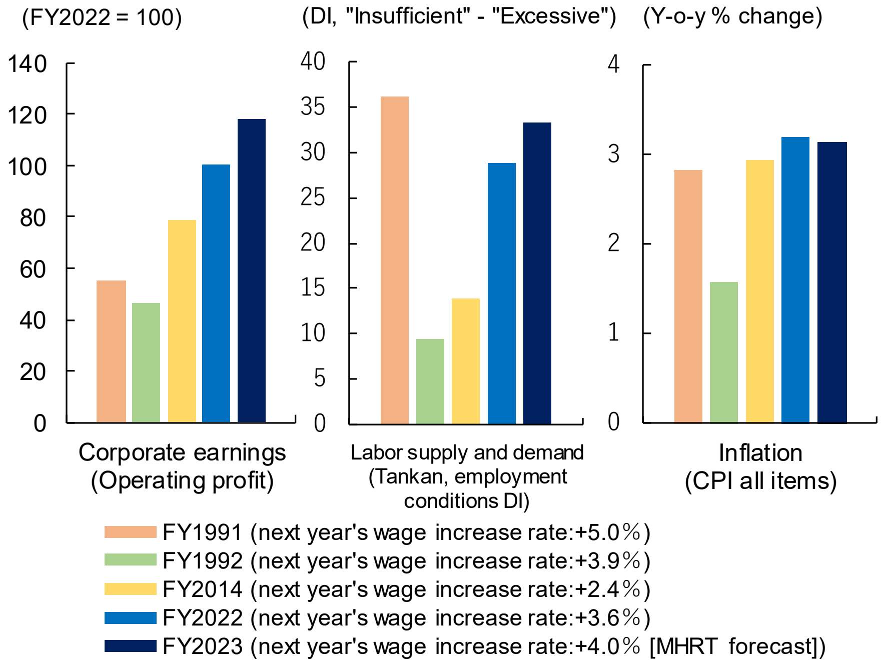
- The wage increase rate in 2024 is expected to surpass the previous year's +4.0% year-on-year against the backdrop of (1) record-high corporate profits exceeding the previous year's level, (2) a stronger sense of labor shortage than in the previous year, and (3) high inflation on roughly the same level as the previous year.
  - In light of the clearly higher demands from industrial and company-based labor unions compared with the year before, as well as a series of high-level wage increase announcements from the top management of large firms, we revised the wage increase rate forecast slightly upward from the December 2023 assumption (+3.8%).
  - [Base scenario] The growth rate will contract after 2025 due to slowing inflation and a reduced margin for wage increases.
  - [Sub-scenario] The rate of wage increases will accelerate after 2025 triggered by labor shortages.

Outlook for spring wage increase rates in 2024 and beyond



Note: Estimates of the salary increase rates are based on certain assumptions as to the level of fixed salary increases.
Source: Made by MHRI based on the Ministry of Health, Labour and Welfare, Central Labour Relations Commission, and RENGO.

Comparison of corporate earnings, labor supply and demand, and inflation in different phases

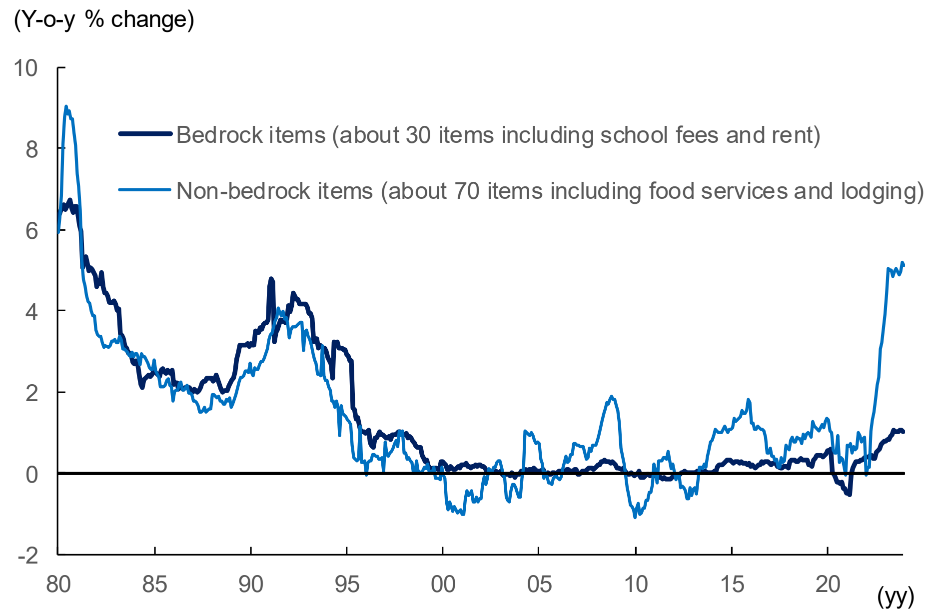


Note: FY2023 figures are wrap values for the period for which data were available at the time of this report.
Source: Made by MHRI based on the Ministry of Finance, Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare, and Bank of Japan.

Japan: Corporate pricing behavior is gradually changing, but hurdles to breaking through the "bedrock items" remain high

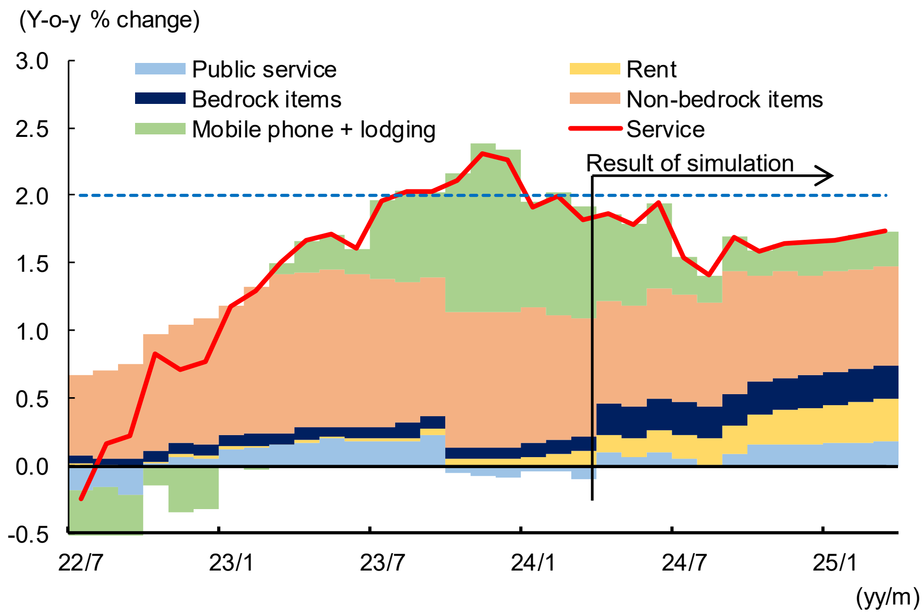
- With a strong recovery in consumer spending difficult to foresee, the hurdles to changing the norms of corporate pricing behavior are high.
  - The majority of the increase in the current CPI services items is from "food services" and "lodging." The rise in "bedrock items" (e.g., school fees and rent) highly linked to wages has been limited, and sustained wage growth is needed for the bedrock items to exceed 2%.
  - Even "assuming" that the second consecutive year of high wage increases will lead to a non-sequential change in the pricing stance of firms and that "bedrock items" excluding rent will significantly grow in April, CPI services will fall below 2% in the not-too-distant future and settle in the mid-1% range as the slowdown in food services and lodging growth becomes more evident and rent and utility growth remains subdued.

"Bedrock items" in CPI's general services



Note: Simple average of the y-o-y change by product category (based on 2020 baseline surviving products excluding mobile phone communication fees).
Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Consumer Price Index*.

Simulation of CPI services



Note: The simulation assumptions are as follows: The "bedrock items" excluding rent will increase to +2.5% y-o-y in April 2024. Non-bedrock items such as food services will increase by about +0.25% m-o-m (+3% y-o-y), and "mobile phone + lodging" will increase by about +1% m-o-m (+10%+ y-o-y). Rent is assumed to increase to about +1% y-o-y by the end of FY2024.
Source: Made by MHRI based on the Ministry of Internal Affairs and Communications, *Consumer Price Index*.

(5) Financial Markets: Yen appreciation and stock market declines due to BOJ's shift to monetary tightening are temporary. Yen interest rates to rise

- The Bank of Japan implemented the triple lifting of its "negative interest rates, YCC, and monetary base expansion policy" in March 2024. Japanese long-term interest rates are expected to remain in the low 1% range after the lifting of negative interest rates.
- US long-term interest rates are expected to fall due to an economic downturn, before moving to the upper 3% range. The dollar/yen exchange rate is projected to appreciate to the mid-130 yen per dollar range with the narrowing of the Japan-US interest rate differential.
- US stocks are expected to weaken slightly toward the middle of 2024, but will continue to rise overall. Japanese equities will soften toward mid-2024 due to the stronger yen, following an upward trend thereafter.

Outlook on financial markets

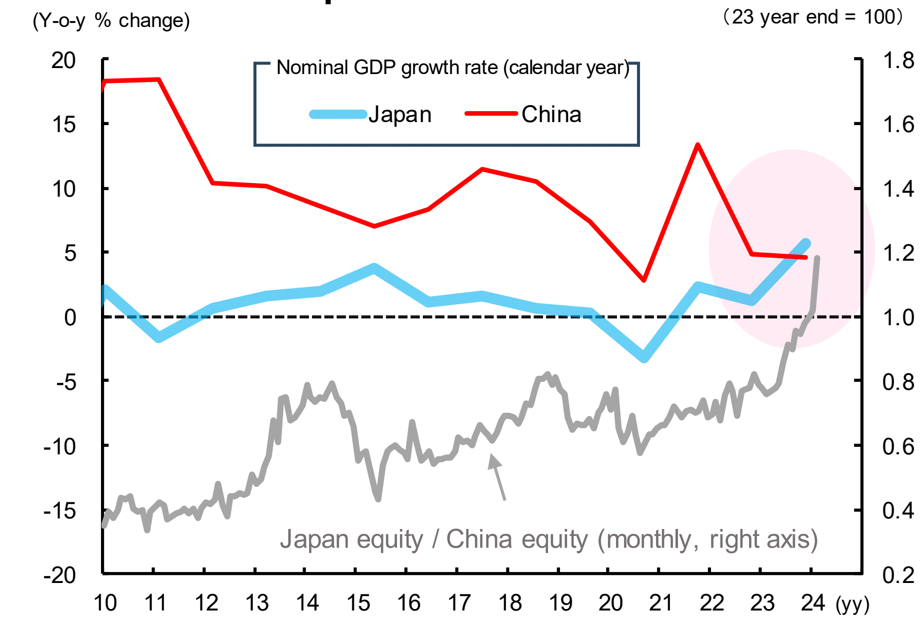
		2022 FY	2023 FY	2024 FY	2025 FY	2023 Jan-Mar	2023 Apr-Jun	2023 Jul-Sep	2023 Oct-Dec	2024 Jan-Mar	2024 Apr-Jun	2024 Jul-Sep	2024 Oct-Dec	2025 Jan-Mar	2025 Apr-Jun	2025 Jul-Sep	2025 Oct-Dec	2026 Jan-Mar
Japan																		
Interest rate on the policy rate balance	(End of period value, %)	- 0.10	- 0.10	0.00	0.00	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Newly issued JGBs	(10-year, %)	0.29	0.35 to 1.00	0.80 to 1.50	0.65 to 1.30	0.44	0.42	0.60	0.76	0.50 to 1.00	0.80 to 1.50	0.90 to 1.50	0.90 to 1.40	0.90 to 1.40	0.80 to 1.30	0.70 to 1.20	0.65 to 1.15	0.65 to 1.15
Nikkei Stock Average	(JPY)	27,272	27,427 to 41,000	32,800 to 40,300	34,800 to 42,900	27,291	30,469	32,517	32,479	32,600 to 41,000	33,500 to 39,500	32,800 to 38,500	33,800 to 39,200	34,200 to 40,300	34,800 to 41,100	35,100 to 41,900	35,500 to 42,300	36,000 to 42,900
US																		
Federal Funds Rate (lower end)	(End of period value, %)	4.75	5.25	4.25	3.25	4.75	5.00	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50	3.25
Newly issued government bonds	(10-year, %)	3.37	3.31 to 4.99	3.35 to 4.40	3.45 to 4.35	3.65	3.59	4.14	4.44	3.50 to 4.60	3.40 to 4.40	3.35 to 4.25	3.45 to 4.25	3.50 to 4.30	3.55 to 4.35	3.50 to 4.30	3.45 to 4.20	3.45 to 4.15
Dow Jones Average	(USD)	32,549	30,800 to 40,200	35,500 to 41,700	37,800 to 45,500	33,219	33,643	34,669	34,933	37,100 to 40,200	35,500 to 39,700	35,000 to 39,200	36,400 to 40,800	37,300 to 41,700	37,800 to 42,200	38,900 to 43,500	39,800 to 44,600	40,700 to 45,500
Eurozone																		
ECB deposit facility rate	(End of period value, %)	3.00	4.00	2.25	2.00	3.00	3.50	4.00	4.00	4.00	3.75	3.25	2.75	2.25	2.00	2.00	2.00	2.00
German government bonds	(10-year, %)	1.73	1.80 to 2.90	1.80 to 2.85	2.15 to 2.90	2.34	2.37	2.59	2.54	1.80 to 2.90	1.80 to 2.80	1.95 to 2.80	2.10 to 2.80	2.15 to 2.85	2.15 to 2.85	2.15 to 2.85	2.20 to 2.90	2.20 to 2.90
Exchange rates																		
USD/JPY	(USD/JPY)	135	130 to 152	128 to 155	128 to 141	132	138	145	148	140 to 152	136 to 155	130 to 145	128 to 140	128 to 140	129 to 141	129 to 141	128 to 140	128 to 140
EUR/USD	(EUR/USD)	1.04	1.04 to 1.13	0.99 to 1.14	1.04 to 1.21	1.07	1.09	1.09	1.08	1.04 to 1.13	1.00 to 1.12	0.99 to 1.11	1.00 to 1.12	1.02 to 1.14	1.04 to 1.16	1.06 to 1.18	1.08 to 1.20	1.09 to 1.21

Source: Made by MHRT based on Bloomberg.

Domestic and foreign stocks: Stronger-than-expected strength in Japanese stocks is backed by global money shifts and improved profitability

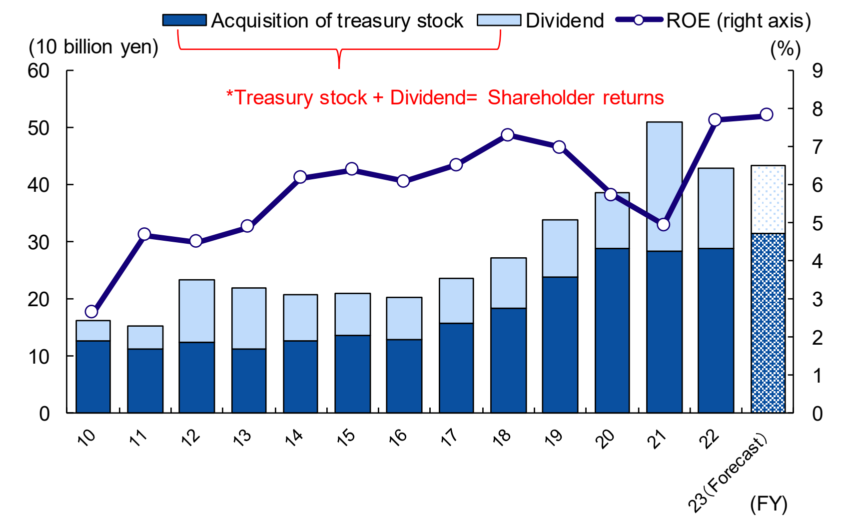
- Amid growing uncertainty about China's economic outlook, global money has shifted investments from China to Japan.
  - China's nominal GDP growth rate in 2023 was 4.6% and Japan's was 5.7%, the first reversal between the two countries since 1977 (46 years).
  - Stock price movements in Japan and China have also diverged, with Japanese stocks soaring from 2023 as Chinese stocks remained soft.
- The Tokyo Stock Exchange's request for management reform is also a factor in boosting Japanese equities. The expectations for reform of Japan's listed companies are apparently growing.
  - Investors are focusing on company efforts to improve capital efficiency, such as improving ROEs and enhancing shareholder returns.
  - ROEs and shareholder returns higher than in the past are expected in FY2023.

Nominal GDP growth rates of Japan and China and relative stock prices



Note: Tokyo Stock Price Index for Japanese stocks and Shanghai Composite Index for Chinese stocks
Source: Made by MHRT based on LSEG.

ROE and shareholder return of listed companies in Japan



Note: 1. ROE is based on a prime market consolidated basis, calculated from PBR and PER.
2. Shareholder returns are for stocks included in TOPIX for which data were available. Data for each company weighted by market value.
3. For FY2023, ROE is the average of the most recently announced numbers. Treasury stocks are estimated from the previous year's data based on various media reports. Dividends are company forecasts if available, and if not, last fiscal year's figures are used.
Source: Made by MHRT based on NEEDS-FinancialQUEST, INDB, and LSEG.