

# FY2021 - FY2022 Economic Outlook

The global economy is driven by the US and China. Disparities in capabilities to address the Covid-19 pandemic intensify.

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**MIZUHO**

## Key points of the new outlook

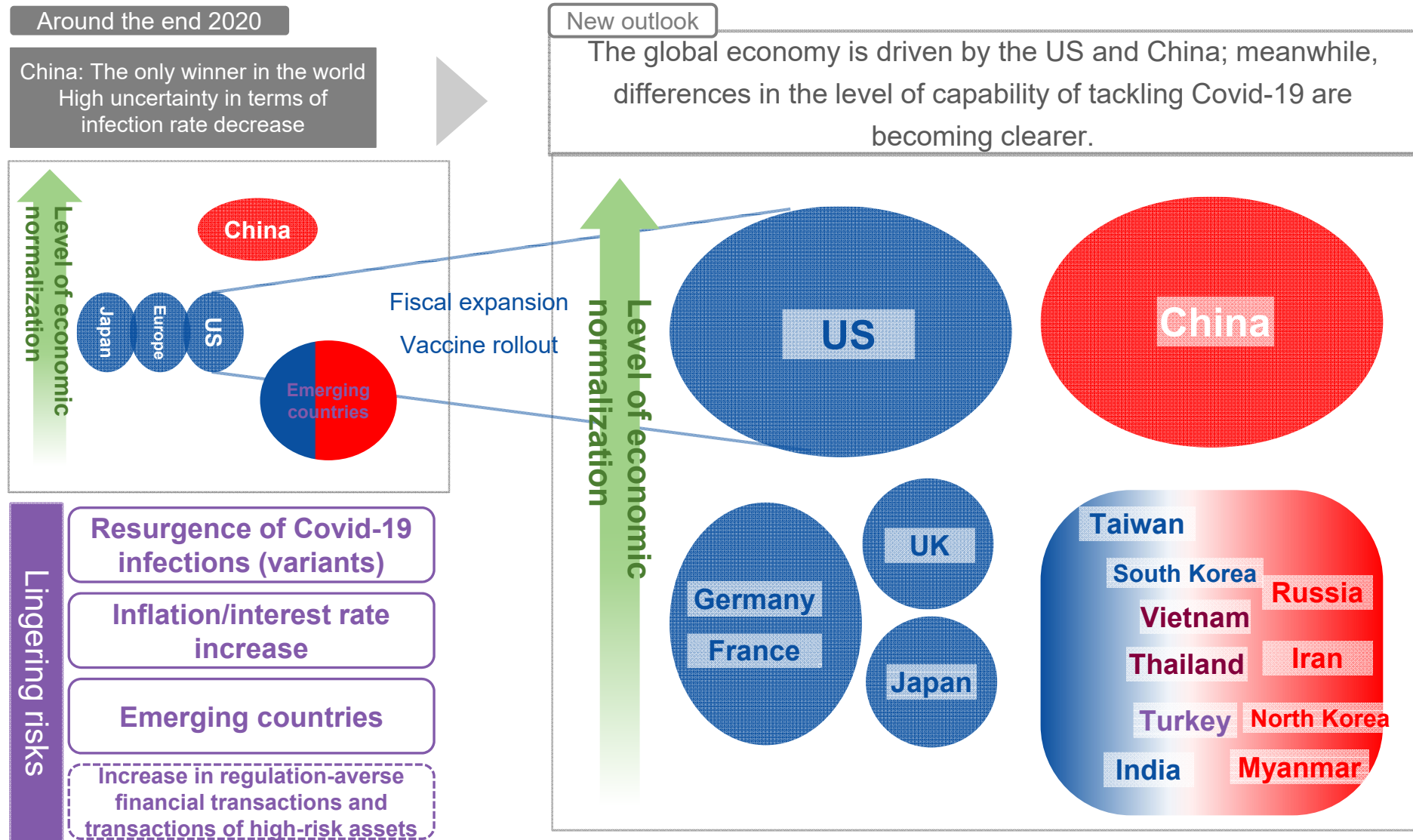
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- The global economy in 2021 and 2022 is expected to recover, driven by China, which has been successful in controlling Covid-19 infections, and by the US, where vaccination has spread rapidly. The pace of economic recovery in other countries will depend on how capable they are in tackling Covid-19. The differences will be clearer than ever.
- In each country, the timing of lifting restrictions on economic activities will be determined by factors such as the level of vaccine rollout, the level of infection in each country, and social tolerance. With regard to the rollout of vaccines, which will have a major impact, the US and UK are likely to complete vaccination for all citizens by the end of 2021 due to a stable vaccine supply via domestic production and an effective vaccination system. Developed countries such as Japan, which rely on imports of vaccines, are expected to complete vaccination in the first half of 2022, while emerging countries with issues in vaccination systems are expected to complete vaccination in the second half of 2022.
- A certain portion of the household savings accumulated during the Covid-19 pandemic are expected to be used for consumption, resulting in pent-up demand (catch-up consumption). Further, the US is likely to execute large-scale fiscal spending under the plans of the Biden administration, and this is expected to push the GDP upward by 1.4% pt in 2022.
- The employment and price situation in the US has improved as a result of the earlier-than-expected lifting of restrictions due to the spread of vaccines and a fiscal policy promoting massive spending. The Federal Reserve Board (FRB) is likely to begin tapering in the Apr-Jun quarter of 2022. The market has already factored in such a situation, and we expect a gradual rise in US interest rates and a stronger US dollar. US stocks will also remain strong, with a recovery in corporate financial performance.
- On the other hand, in Japan, economic growth in 2021 will be hampered by the current spread of infection, delays in the pace of vaccination, and semiconductor supply constraints. Full recovery will be seen in and after 2022, when vaccines become widely available.

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# 1. Overview

# Main world view scenario: A global economy driven by the US and China, with increasing "distortion" associated with recovery



Source: Made by MHRT

# Overview of the global economy: Global economy to recover in 2021, mainly in the US and China

## Outlook for the global economy

	(Y-o-y % change)					(Y-o-y % change)		(% pt)	
	2018 CY	2019	2020	2021 (Outlook)	2022	2021 (Outlook as of February)	2022	2021 (Comparison with previous forecast)	2022
Global real GDP growth	3.6	2.8	-3.2	5.7	4.1	4.9	3.8	0.8	0.3
Japan, US, Europe	2.2	1.6	-5.2	4.7	4.3	4.0	3.8	0.7	0.5
US	3.0	2.2	-3.5	6.0	4.0	4.5	3.3	1.5	0.7
Eurozone	1.9	1.3	-6.6	4.3	4.7	4.3	4.7	-	-
UK	1.3	1.4	-9.8	3.9	4.2	3.5	4.2	0.4	-
Japan	0.6	0.0	-4.7	1.4	4.2	1.4	2.3	-	1.9
Asia	6.3	5.2	-0.9	7.7	4.9	7.3	4.8	0.4	0.1
China	6.7	6.0	2.3	8.4	5.4	8.1	5.2	0.3	0.2
NIEs	2.9	1.9	-0.9	3.6	2.6	3.3	2.3	0.3	0.3
ASEAN5	5.3	4.8	-3.5	5.0	4.7	5.2	4.6	-0.2	0.1
India	7.3	4.8	-6.9	9.8	4.9	8.5	4.9	1.3	-
Australia	2.9	1.9	-2.5	3.0	2.6	2.8	2.3	0.2	0.3
Brazil	1.8	1.4	-4.1	2.8	2.7	3.0	2.6	-0.2	0.1
Mexico	2.2	-0.1	-8.2	4.8	3.0	3.5	2.6	1.3	0.4
Russia	2.8	2.0	-3.0	2.7	3.5	2.7	3.7	-	-0.2
Japan (FY)	0.2	-0.5	-4.6	2.7	4.0	3.0	2.2	-0.3	1.8

US: The highest growth rate in almost 40 years was marked in 2021. High growth will continue in 2022.

Japan: Recent spreading of infections, delays in vaccination, and semiconductor supply constraints will negatively affect the economy in 2021. Full-scale recovery is expected in 2022.

China: The only country in the survey to achieve positive growth in 2020, is expected to see its economy remain strong in 2021 and 2022.

Note: The total for forecasted regions is calculated based on GDP share (PPP) by the IMF.  
Source: Made by MHRT based upon releases by the International Monetary Fund (IMF) and statistics of relevant countries and regions

# Major issues: Expected timing of economic normalization in each country and the impact of higher US fiscal spending

## Issues and key points of evaluation based on the revised outlook

Issue	Key point	Prospect (evaluation)
<b>Timing of lifting the restrictions on economic activities reflecting the circumstances of each country and the impact of the normalization of economic activities (increase in service consumption)</b>		
(1) Pace and timing of vaccine rollout (70% of the population vaccinated)	<ul style="list-style-type: none"> <li>Evaluated based on <u>the amount of vaccines secured, dependency on imports and on the transportation systems, medical systems, and vaccination systems</u> of each country</li> </ul>	<ul style="list-style-type: none"> <li>◆ Oct-Dec quarter 2021 in US</li> <li>◆ Oct-Dec quarter 2021 in Europe</li> <li>◆ Apr-Jun quarter 2022 in Japan</li> </ul>
(2) Timing of lifting restrictions considering the infection rate of the virus, etc.	<ul style="list-style-type: none"> <li>In addition to (1), the <u>level of infectivity of the virus and the differences in policy stance for the reactivation of the economy</u> (level of focus on economic activities versus restrictions) of each country are considered.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Jul-Sep quarter 2021 in US</li> <li>◆ Jan-Mar quarter 2022 in Europe</li> <li>◆ Apr-Jun quarter 2022 in Japan</li> </ul>
<b>Impact of normalization of economic activities (increase in service consumption)</b>		
(3) Effect of the normalization of economic activities on consumption (excess savings and deferred demand)	<ul style="list-style-type: none"> <li>Measured excess savings as a source of consumption (US &gt; Japan &gt; Europe)</li> <li>● <b>Pent-up demand that usually arises after restrictions on economic activities are lifted is factored in.</b></li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>Pent-up demand will boost service consumption</b> after restrictions on economic activities are lifted (second half of 2021 to the first half of 2022 in the US, 2022 in Japan and Europe).</li> </ul>
<b>Impact of higher US fiscal spending</b>		
(4) Assumptions for the fiscal policies of the Biden administration	<ul style="list-style-type: none"> <li>The Biden administration's <u>plans to control Covid-19 and additional economic stimulus measures have received reasonable support from the public.</u></li> <li>● <u>Interpretation of the Congressional Budget and Impoundment Control Act of 1974 has been changed.</u> (Multiple implementations within a fiscal year is now possible.)</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>Plans of the Biden administration reasonably realized in the US</b></li> <li>◆ Fiscal policy in Japan and Europe implemented as expected (no change)</li> </ul>
(5) US monetary policy and future US interest rates and stock prices	<ul style="list-style-type: none"> <li>Employment and prices have improved significantly due to the early lifting of restrictions on economic activities and due to the implementation of fiscal policy measures.</li> <li>● It is considered that the <u>conditions for tapering are expected to be in place in the first half of 2022.</u></li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>FRB starts considering tapering in the Oct-Dec quarter 2021 and implements it in the Apr-Jun quarter 2022.</b> Interest rate hike occurs in 2024.</li> <li>◆ US interest rates rise moderately. Adjustment in stock prices is limited.</li> </ul>

Source: Made by MHRT

# (1) (2) Thoughts on the timing of lifting restrictions on economic activities as reflecting the situations of each country

- Three factors varying by country

**(a) Approach of vaccine rollout** → Influencing the timing of the rollout of vaccines

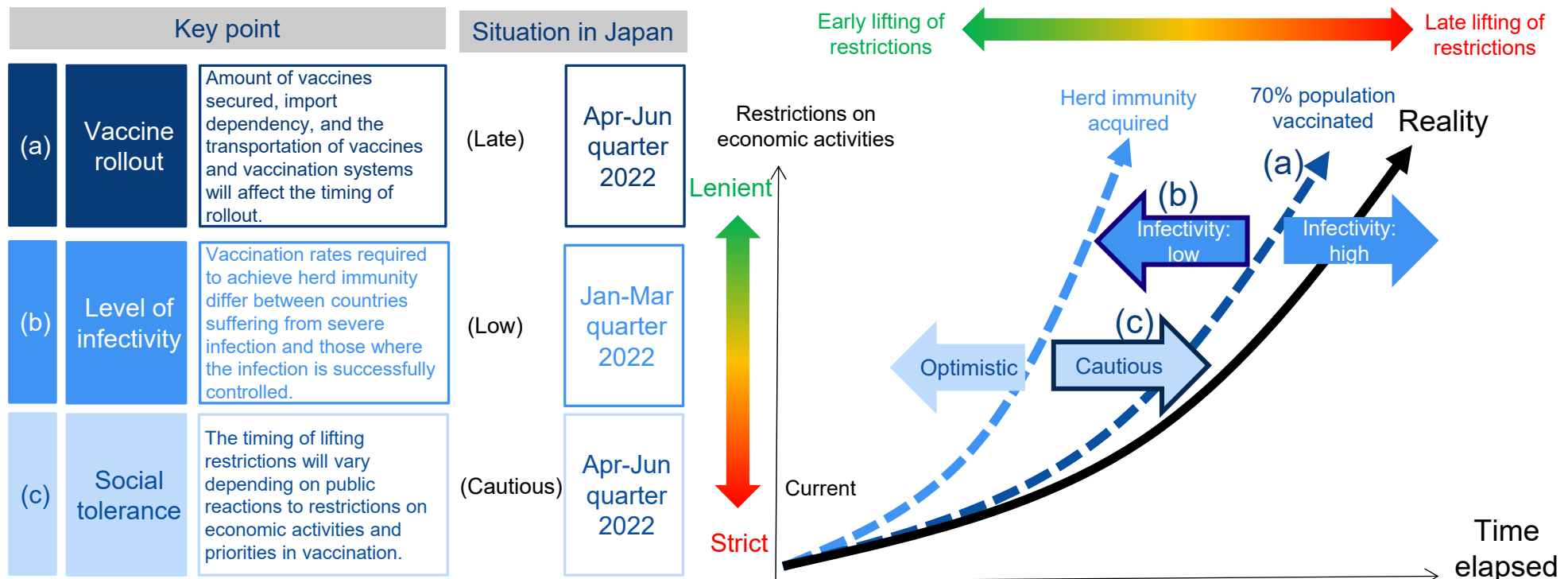
- Analyzing the pace of vaccination based on the amount of vaccines secured, import dependency, and the vaccine transportation and vaccination systems, etc.

**(b) Virus infection rate** → Influencing when herd immunity is acquired (i.e., the time when restrictions on economic activities can be lifted while preventing the spread of infection)

- Calculated logically based on epidemiological model simulations

**(c) Social tolerance** (Balance between economics and infection rates; public sentiment) → Influencing the timing of the actual lifting of restrictions

## Summary on the timing of lifting restrictions on economic activities (prediction for Japan)



Source: Made by MHRT

# (1) (2) Country-specific factors: US and Brazil prioritize their economies; Japan and Europe are cautious

## Policy stance and timing of lifting restrictions on economic activities

		(1) Vaccine rollout system Timing of rollout	(2)-(i) Timing when infection is controlled based on the level of infectivity	(2)-(ii) Social tolerance Government's stance on lifting restrictions	Timing of lifting restrictions
Large economic powers	US	Oct-Dec quarter 2021	Jul-Sep quarter 2021	Emphasis on economic activities (Republican-controlled state governments, etc., in particular)	Jul-Sep quarter 2021
	Eurozone	Oct-Dec quarter 2021	Jan-Mar quarter 2022	Vaccines rolled out, but restrictions lifted after lowered infection rate is confirmed	Jan-Mar quarter 2022
	UK	Jul-Sep quarter 2021	Oct-Dec quarter 2021	Vaccines rolled out, but restrictions lifted after lowered infection rate is confirmed	Oct-Dec quarter 2021
	Japan	Apr-Jun quarter 2022	Jan-Mar quarter 2022	Government being cautious, waiting for vaccine rollout, to lift restrictions	Apr-Jun quarter 2022
East Asia	China	Apr-Jun quarter 2022	Jan-Mar quarter 2022	Succeeded in controlling infections, no more restrictions than necessary	Oct-Dec quarter 2021
	South Korea	Jan-Mar quarter 2022	Oct-Dec quarter 2021	Restriction levels subdivided, flexible actions taken according to infection level	Oct-Dec quarter 2021
	Taiwan	Jan-Mar quarter 2022	Jul-Sep quarter 2021	Succeeded in controlling infections, no more restrictions than necessary	Jul-Sep quarter 2021
ASEAN	Indonesia	Jul-Sep quarter 2022	Jan-Mar quarter 2022	Effective measures not taken for infection control, government cautious about lifting restrictions	Apr-Jun quarter 2022
	Malaysia	Jul-Sep quarter 2022	Jan-Mar quarter 2023	Relatively short periods of restrictions, taking flexible actions	Jan-Mar quarter 2023
	The Philippines	Jul-Sep quarter 2022	Oct-Dec quarter 2022	Government cautious about lifting restrictions	Jan-Mar quarter 2023
	Thailand	Jul-Sep quarter 2022	Apr-Jun quarter 2022	Infection control working relatively effectively, no more restrictions than necessary	Apr-Jun quarter 2022
	Vietnam	Jan-Mar quarter 2023	Jul-Sep quarter 2022	Proactive measures taken, including complete containment in the event of an outbreak	Jul-Sep quarter 2022
Other	India	Jul-Sep quarter 2022	Apr-Jun quarter 2022	No financial resources for citizens' income support, government preferably wishing to lift restrictions as soon as possible	Apr-Jun quarter 2022
	Australia	Jan-Mar quarter 2022	Jan-Mar quarter 2022	Infections relatively controlled, with the government placing emphasis on economic activities	Jan-Mar quarter 2022
	Brazil	Jul-Sep quarter 2022	Jul-Sep quarter 2022	Prioritizing economic activities ahead of a presidential election, lifted restrictions before vaccine rollout	Apr-Jun quarter 2022

With highly infectious variants in Europe; countries will continue to be under restrictions until herd immunity (over 80%) is achieved.

Vaccine rollout is given priority in Japan.

Economic activities will be normalized according to the infection status in Asia, which has been successful in controlling infection.

The economy is given priority. Restrictions will be lifted before vaccine rollout.

Source: Made by MHRT



### (3) Excess savings: Total excess savings of households in Japan, the US, and Europe standing at about USD 2.5 trillion (about JPY 263 trillion)

- Household excess savings accumulated during the Covid-19 pandemic are expected to be about USD 2.5 trillion (about 6% of the GDP of Japan, US, and the eurozone).
  - The ratio of excess household savings to household disposable income in Japan and the US is slightly less than 10%. In the eurozone, the rate is smaller, at 6.9%. The main reason for the low level in the eurozone is that the government's cash support for income maintenance was smaller compared to the US and Japan.
  - As a result of the strict lockdowns, the decline in personal consumption was larger in the eurozone, which pushed up excess savings.

#### Comparison of excess savings of households

	US	Eurozone	Japan
Excess savings of the household	USD 1.6 trillion	USD 0.6 trillion (EUR 506.6 billion)	USD 0.3 trillion (JPY 28.9 trillion)
Ratio of excess household savings to household disposable income	9.9%	6.9%	9.5%
Ratio to GDP	7.5%	4.2%	5.1%

Note: "Excess savings" is the y-o-y difference in household savings in 2020.

Source: Made by MHRT based upon releases by the US Department of Commerce, Eurostat and Cabinet Office of Japan

## 3% pt-GDP boost expected via recovery to pre-pandemic levels and pent-up demand

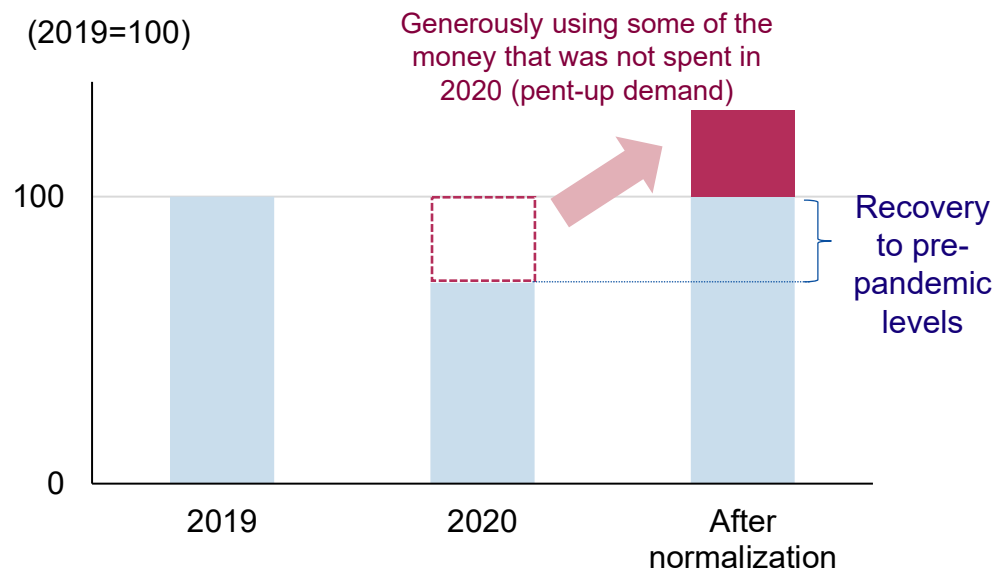
- After the vaccine rollout, consumption of dining out, travel, and entertainment, etc., will go back to normal while causing the pent-up demand.
  - The pent-up demand in major countries/regions is expected to emerge in the order of (1) US, (2) eurozone, and (3) Japan.
  - Recovery of services accompanying inter-personal contact to pre-pandemic levels, combined with pent-up demand, will boost GDP by about 3% pt for the period.
  - More than 10% of the excess savings generated in 2020 is expected to be spent in consumption, and the remainder will be deposited at financial institutions or used for the purchase of stocks. Most of the excess savings will be generated by the high-income segment (with a low propensity to consume). Due to the limitations in consumption by dining out and travel (frequency and capacity), we do not expect a significant use of savings.

### Recovery to pre-pandemic levels and pent-up demand incorporated in the analysis

	US	Eurozone	Japan
Timing of pent-up demand occurrence	2H 2021 - 1H 2022	2022	FY2022
Recovery to pre-pandemic levels	USD 452.1 billion	EUR 285.8 billion (USD 325.8 billion)	JPY 12.7 trillion (USD 119 billion)
Size of pent-up demand	USD 176.9 billion	EUR 43.2 billion (USD 49.2 billion)	JPY 3.0 trillion (USD 28.1 billion)
% to excess savings	10.9	10.9	10.3
<b>GDP push-up (% pt)</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>
Recovery to pre-pandemic levels	2.1	2.4	2.4
Size of pent-up demand	0.8	0.4	0.6

Source: Made by MHRT based upon releases by the US Department of Commerce, Eurostat and Cabinet Office of Japan, etc.

### Concept of "splash consumption" among high-income segments

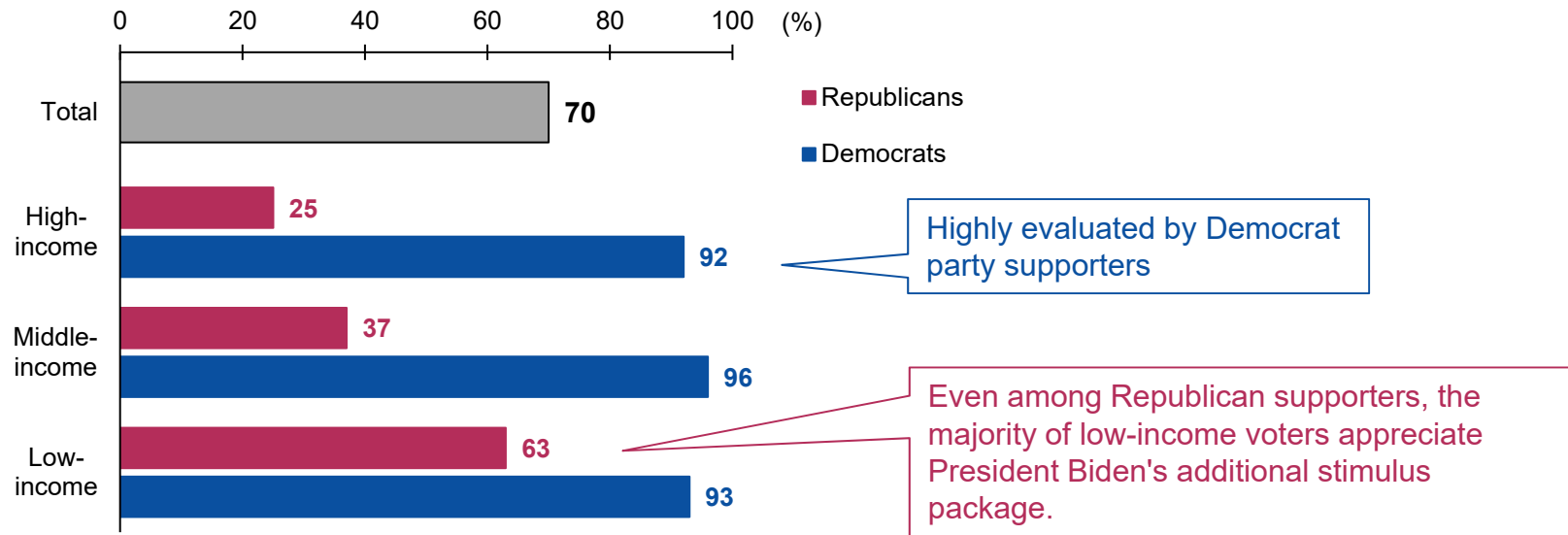


Source: Made by MHRT

## (4) US fiscal policy: Plans by the Biden administration on track to pass to a large extent

- US citizens, regardless of the party they support, are enjoying the additional stimulus measures. The political tailwind is blowing for large-scale fiscal spending.
  - 70% of US voters support the sixth round of additional economic stimulus measures. Even among Republican supporters, a majority of low-income households like the measures.
  - The Biden administration has succeeded in pushing through the additional stimulus package via the budget reconciliation process. The same method will be used for the plans of the Biden administration, which are expected to be established in FY2021 (by the end of September).

### Percentage of people that support the additional stimulus package (No. 6)



Note: Percentage of respondents that would "support" additional stimulus measures of USD 1.9 trillion (the size of the budget passed at the time of the survey) (Survey period: Mar. 1-7; number of people surveyed: 12,055)

Source: Made by MHRT based upon releases by Pew Research Center

## US: Plans of the Biden administration to boost the 2022 growth rate by 1.4% pt

- The American Family Plan (AFP) aims to improve the education and living environment of working households and to increase incomes through tax credits. The American Jobs Plan (AJP) focuses on support for domestic industries and improvement in the foundation of people's daily lives, in addition to investment in infrastructure such as transportation networks. The plans are expected to be financed by corporate tax hikes, tax hikes for the wealthy, etc.
- We assume that AFP, AJP and the tax hikes for the wealthy will be enacted at about the same size as announced. On the other hand, due to the concession to the moderates within the party, the scale of the corporate tax hike is assumed to be limited to about 40%. The largest impact on GDP growth will be seen in 2022 (+1.4% pt).
  - Even if the budget reconciliation bill is utilized, coordination within the party is required. The corporate tax rate, which has been pointed out even by some democrats as being too high, is expected to be fixed at 25%.

### Overview of the plans of the Biden administration

Area		Overview	Announced size
Investment	AFP (American Family Plan)	<ul style="list-style-type: none"> <li>• Investment in education (full enrollment in pre-kindergarten childcare services, support for school fees)</li> <li>• Support for livelihood and childcare (food aid for low-income households, etc.)</li> <li>• Support for household income (expansion of tax credits for households)</li> </ul>	USD 1.8 trillion
	AJP (American Jobs Plan)	<ul style="list-style-type: none"> <li>• Infrastructure investment (development of transportation networks, water supply systems)</li> <li>• Domestic industry reinforcement (support for R&amp;D, manufacturing)</li> <li>• Improvement in living infrastructure (improvement of medical and educational facilities)</li> </ul>	USD 2.3 trillion
Financial source	Tax hikes for the wealthy	<ul style="list-style-type: none"> <li>• Income tax (maximum tax rate to be raised from 37% to 39.6%)</li> <li>• Property tax (increase in capital gains tax rate, dividend tax rate, etc.)</li> <li>• Stricter taxation (stricter tax collection activities through income and asset capturing)</li> <li>• Others (stricter application of additional Medicare tax rates for high-income individuals)</li> </ul>	USD -1.5 trillion
	Tax hikes for corporations	<ul style="list-style-type: none"> <li>• Corporate tax (up from 21% to 28%)</li> <li>• Taxation on overseas earnings and large corporations (preferential taxation on overseas earnings abolished, global minimum tax introduced, etc.)</li> <li>• Additional measures for stricter taxation on companies (offshore punishment, onshore promotion, etc.)</li> </ul>	USD -1.6 trillion

Assumptions for outlook:  
Total investment amount and increase in wealth tax passes into law at about the same size as announced.

Corporate tax hikes will be reduced to about 40% of the announced scale. (The corporate tax rate is expected to be 25%.)

Note: The fiscal size is the total of the 10 years. Fiscal expansion is presented as positive, fiscal austerity as negative. Revenue measures are based on the Tax Policy Center (Oct. 15, 2020).  
Source: Made by MHRT based upon relevant materials

## No change from previous assumptions for 2021 fiscal spending in Japan and Europe

- Japan is expected to continue cashflow support for companies throughout the first half of FY2021. Additional cash support for households is not factored in.
  - If infections further increase, benefits for low-income earners and financial support for companies (such as the re-extension of subsidy programs for sustaining businesses and subsidies for employment adjustment) might be implemented. The scale of fiscal expenditures will be roughly the size of the reserve fund (the current balance is about JPY 4 trillion).
- In the EU, investment using EU recovery funds is expected to start full scale from 2022 onward, as initially expected.
  - In 2021, support in each country is only limited to subsidies for employment adjustment and support for working capital, and the effect of economic stimulus will be realized in and after 2022.

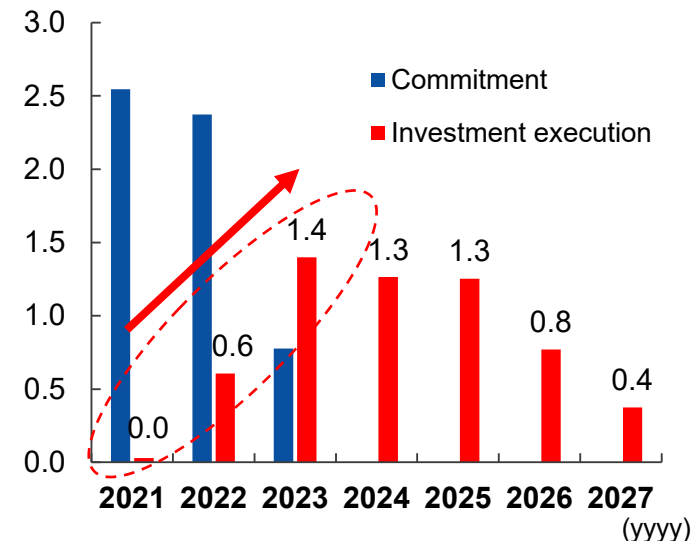
### Japan: A fiscal policy offering that could be implemented

	Area	Measure	Inclusion in outlook
FY2021	Support for the medical sector	• Support for medical institutions (partial compensation for declines in revenue, etc.)	Yes
		• Improvement of the vaccine rollout system	Yes
		• Benefits for medical personnel, etc.	Yes
	Support for households	• Cash support for low-income segments, etc.	No
		• Extension of special measures for subsidies for employment adjustment	Yes
	Support for businesses	• Support for business proprietors agreeing with the voluntary closure of business/shorter business hours	Yes
		• Resumption of subsidy programs for sustaining businesses	No
• Extension of special measures for subsidies for employment adjustment		Yes	
Support for municipal governments	• Increase in subsidies for promoting local revitalization	Yes	
FY2022	Support for households	• Measures to increase demand, such as resumption of the "GoTo" program (promotion of travel and eating-out)	Yes

Source: Made by MHRT

### Eurozone: Commitment and execution of the EU recovery fund

(% to 2020 GDP)



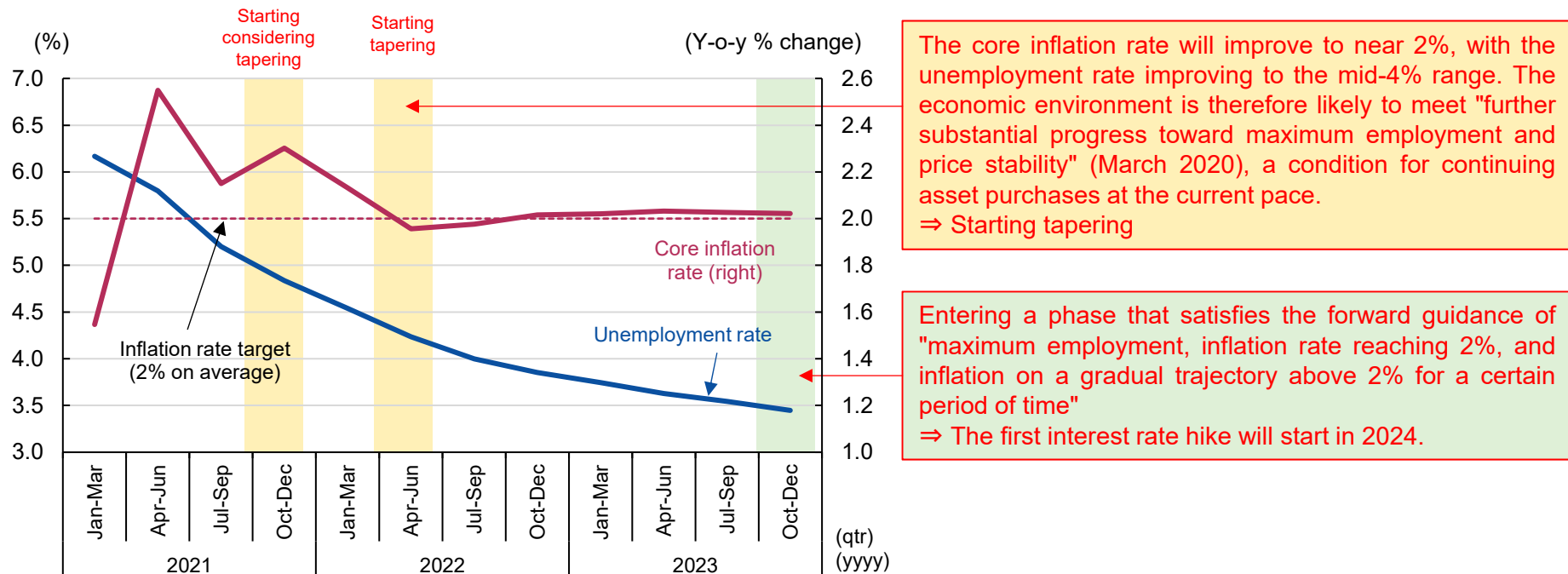
Note: "Commitment" refers to a commitment for a multi-year fiscal framework. "Investment execution" shows an assumption for the outlook.

Source: Made by MHRT based upon releases by the European Commission, Eurostat, and media coverage

## (5) US monetary policy: Tapering to begin in the first half of 2022, interest rate hikes expected in 2024

- Significant improvement is expected in employment and prices due to the early removal of restrictive measures with the rollout of vaccines and massive fiscal policy.
- The FRB is expected to begin tapering in the Apr-Jun quarter of 2022, due to the assumption that significant improvement has been made toward maximum employment and price stability.
  - When the reinvestment policy was curtailed in 2017, it took six months from the announcement of consideration to the start of tapering. Based on that experience, we expect the government to announce that it will start considering tapering in the Oct-Dec quarter of 2021.
- The economic environment will be ready to start the first rate hike in 2024.
  - The core inflation rate is expected to exceed 2% in the second half of 2023, with the unemployment rate falling to pre-pandemic levels.

### Outlook of unemployment rate and core inflation rate, with their relationship to monetary policy



The core inflation rate will improve to near 2%, with the unemployment rate improving to the mid-4% range. The economic environment is therefore likely to meet "further substantial progress toward maximum employment and price stability" (March 2020), a condition for continuing asset purchases at the current pace.  
 ⇒ Starting tapering

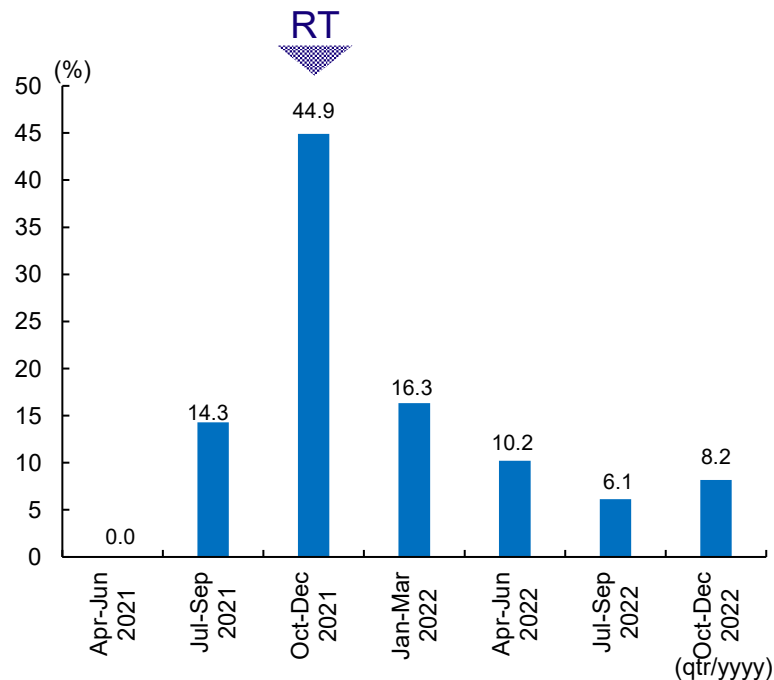
Entering a phase that satisfies the forward guidance of "maximum employment, inflation rate reaching 2%, and inflation on a gradual trajectory above 2% for a certain period of time"  
 ⇒ The first interest rate hike will start in 2024.

Note: Actual figures through the Jan-Mar quarter of 2021; thereafter, the unemployment rate and core inflation rate are both forecasts by MHRT.  
 Source: Made by MHRT based upon releases by the US Department of Labor and the US Department of Commerce

# US interest rates: Markets already factored in tapering and increases in interest rates

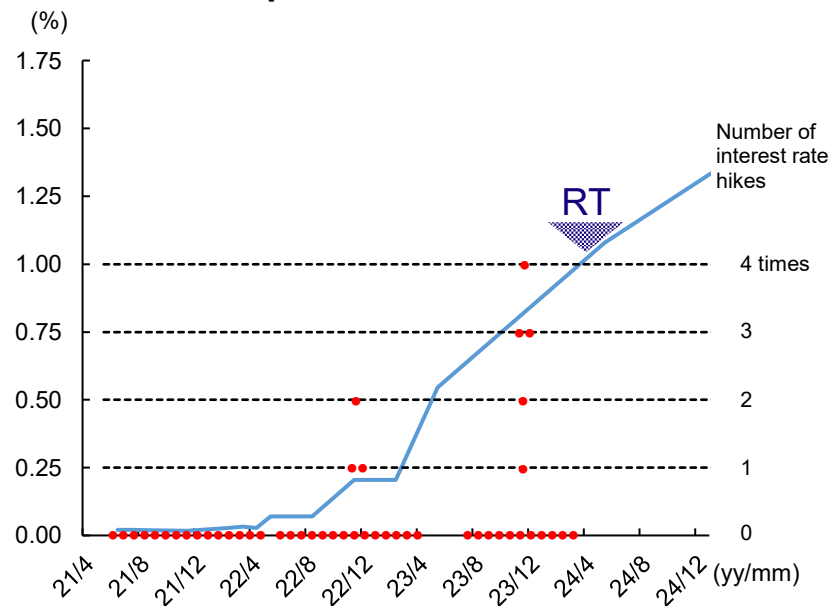
- According to Bloomberg's April survey, the median of the expected timing of announcement for the start of tapering is the Oct-Dec quarter of 2021.
  - While only slightly more than 10% of the surveyed expect the announcement for the start to be made in the Jul-Sep quarter of 2021, more than 40% expect the announcement to occur in the Oct-Dec quarter of 2021. Many (approx. 60%) expect the announcement for the start of tapering to be made by the end of the year.
- For the OIS forward rate, about one rate hike by the end of 2022 and about three rate hikes by the end of 2023 are incorporated.
  - The FRB has indicated that it will keep the policy rate unchanged until the end of 2023, while the market has anticipated a much-earlier rate hike.

## Expected timing of announcement for the start of tapering in the market



Source: Made by MHRT based upon releases by Bloomberg

## Market's anticipation of the interest rate hike



Note: The factor included is the FF rate subtracted from the one-month to four-year-ahead one-month OIS forward rate. The red dots show the distribution of policy rate forecasts (end of 2021, end of 2022, and end of 2023) on the dot chart presented during the March meeting of the Federal Open Market Committee (FOMC). The number of interest rate hikes is calculated with the assumption of a 0.25% rate hike per execution.

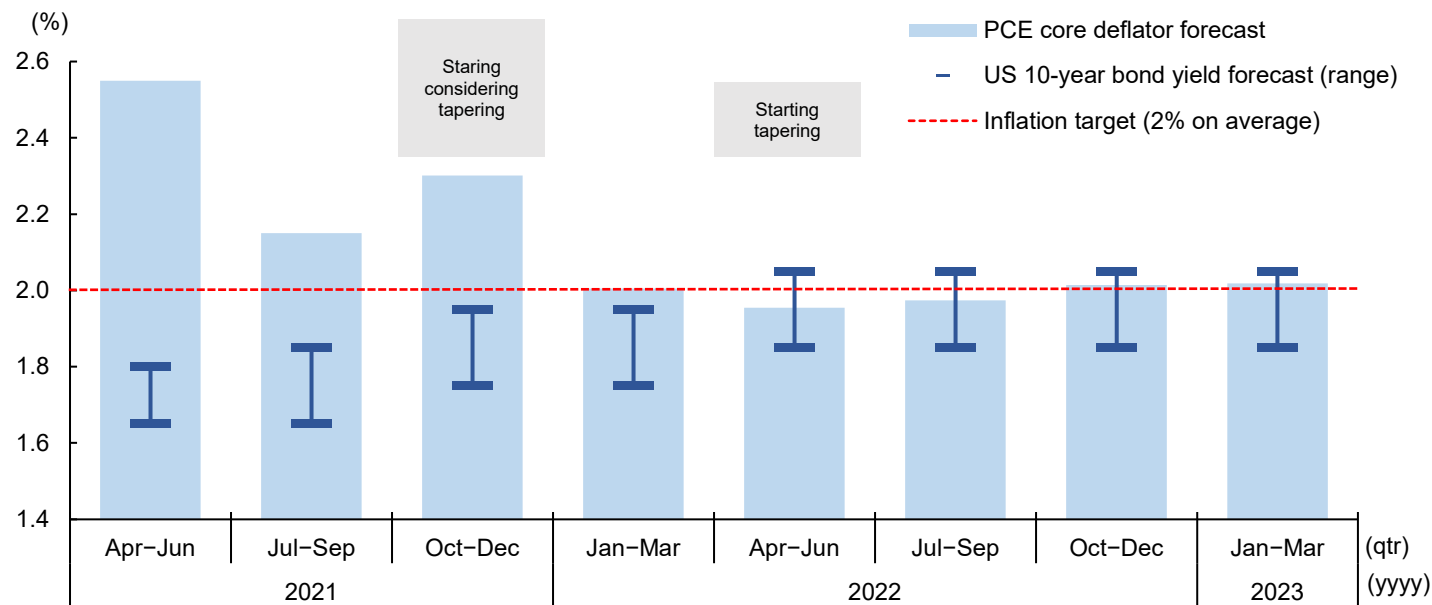
Source: Made by MHRT based upon releases by Bloomberg

# US interest rates: US long-term interest rates expected to keep rising moderately with prices hovering around 2%

- A gradual increase in interest rates is expected throughout the outlook period under tapering and the PCE core deflator\*, hovering at around 2%.
  - Term premiums are expected to increase in line with the start of tapering studies and implementation. The room for upside is limited, as the markets have already factored in tapering,
  - Expected inflation rate and inflation risk premiums are predicted to rise under the PCE core deflator, hovering at around 2%.

\* The PCE deflator is a measure of upward pressure on prices at the consumption stage, which is calculated by dividing nominal personal consumption expenditures by actual personal consumption expenditures. Because the scope of the survey is wider than that of consumer prices, the indicator is said to better reflect the trend of actual prices. The FRB considers this as the most-important indicator.

## Path of U.S. long-term interest rates and the PCE core deflator forecast



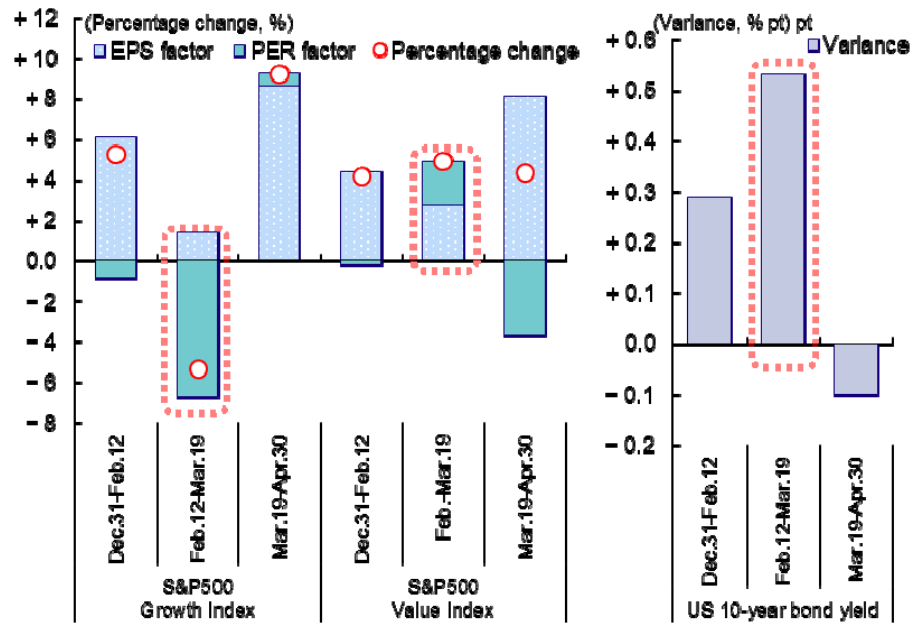
Source: Made by MHRT



# US stocks: Moderate rise in stock prices expected under the rise in US long-term interest rates due to economic expansion

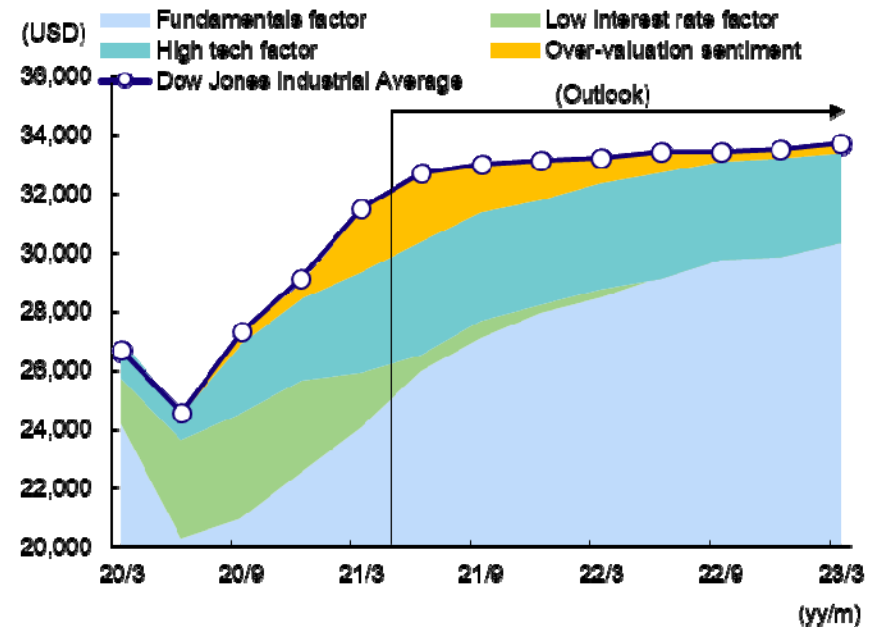
- Value stocks are expected to hold firm on the back of expectations for economic recovery despite rising long-term interest rates.
  - As the rise in long-term interest rates in the US accelerated from mid-February, growth stocks, which had been overvalued, began to decline. Value stocks remained steady.
  - Recently, the pace of interest rate hikes has slowed, and growth stocks have picked up.
- A moderate pace of interest rate increases is likely to prevent a major adjustment in valuation of growth stocks.
  - Low interest rates and high-tech stocks will gradually be reduced in their power to boost the economy, but better corporate performance due to the plans of the Biden administration will provide a tailwind.

## S&P 500 growth and value indices with US long-term interest rates



Note: PER and EPS factors are based on 12-month forward forecasts.  
Source: Made by MHRT based upon releases by Refinitiv

## Outlook for the Dow Jones Industrial Average



Note: Quarterly average of the Dow Jones Industrial Average; the forecasted values are the median of the forecast range. The factor for the fundamentals is forecast as EPS x (2015–2019 average forecast PER).

Source: Made by MHRT based upon releases by Refinitiv

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## 2. Economies of Each Country

## US: +6.0% projected for 2021 and +4.0% for 2022

- Real GDP growth in 2021 is projected to be +6.0%. Going back to normal from the Covid-19 pandemic will drive the economic recovery.
  - With a good pace of vaccine rollout, it is assumed that restrictions on economic activities will be lifted as early as this summer. We expect consumption and employment to rise, especially in the service industry, and at the same time, higher-income groups that were not spending as much money as before due to restrictions will increase their "splash consumption."
- Real GDP growth in 2022 is projected to be +4.0%. With political tailwinds blowing, the large-scale implementation of the plans of the Biden administration is likely to occur.
  - The Biden administration announced the AJP and the AFP. The plans are expected to be established this summer by the Democratic Party through the budget reconciliation process so as to boost the growth rate of 2022.

### Outlook for the US economy

		2019	2020	2021	2022	2020				2021				2022			
		CY		(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch. p.a.	2.2	- 3.5	6.0	4.0	- 5.0	- 31	33.4	4.3	6.4	7.9	5.8	3.2	3.7	3.9	3.2	2.4
Personal consumption	Q-o-q % ch. p.a.	2.4	- 3.9	7.6	3.7	- 6.9	- 33	41.0	2.3	10.7	9.5	6.2	3.2	3.1	3.1	2.0	2.0
Housing investment	Q-o-q % ch. p.a.	- 1.7	6.1	14.6	3.7	19.0	- 36	63.0	36.6	10.8	6.7	5.2	4.3	3.1	2.9	2.8	2.9
Capital investment	Q-o-q % ch. p.a.	2.9	- 4.0	7.0	3.6	- 6.7	- 27	22.9	13.1	9.9	3.8	5.1	4.1	3.1	2.8	3.4	3.3
Inventory investment	Q-o-q % contribution, % pt	- 0.0	- 0.6	0.3	0.2	- 1.3	- 3.5	6.6	1.4	- 2.6	0.9	0.9	0.3	0.1	0.1	0.1	0.1
Government consumption	Q-o-q % ch. p.a.	2.3	1.1	1.6	5.2	1.3	2.5	- 4.8	- 0.8	6.3	2.6	1.4	0.8	7.5	8.5	8.0	5.0
Net exports	Q-o-q % contribution, % pt	- 0.2	- 0.1	- 1.3	- 0.3	1.1	0.6	- 3.2	- 1.5	- 0.9	- 0.7	- 0.5	- 0.2	- 0.4	- 0.3	- 0.2	- 0.5
Exports	Q-o-q % ch. p.a.	- 0.1	- 13	6.4	8.7	- 9.5	- 64	59.6	22.3	- 1.1	10.5	11.3	7.9	8.6	8.8	8.6	5.0
Imports	Q-o-q % ch. p.a.	1.1	- 9	14.4	8.9	- 15	- 54	93.1	29.8	5.7	12.9	11.9	7.1	8.9	8.6	7.7	7.1
Unemployment rate	%	3.7	8.1	5.5	4.1	3.8	13.1	8.8	6.8	6.2	6.0	5.2	4.8	4.5	4.2	4.0	3.9
PCE deflator	Y-o-y % ch.	1.5	1.2	2.4	1.7	1.7	0.6	1.2	1.2	1.8	2.9	2.5	2.6	1.9	1.8	1.7	1.7
Core excluding food and energy	Y-o-y % ch.	1.7	1.4	2.1	2.0	1.8	1.0	1.4	1.4	1.5	2.5	2.1	2.3	2.0	2.0	2.0	2.0

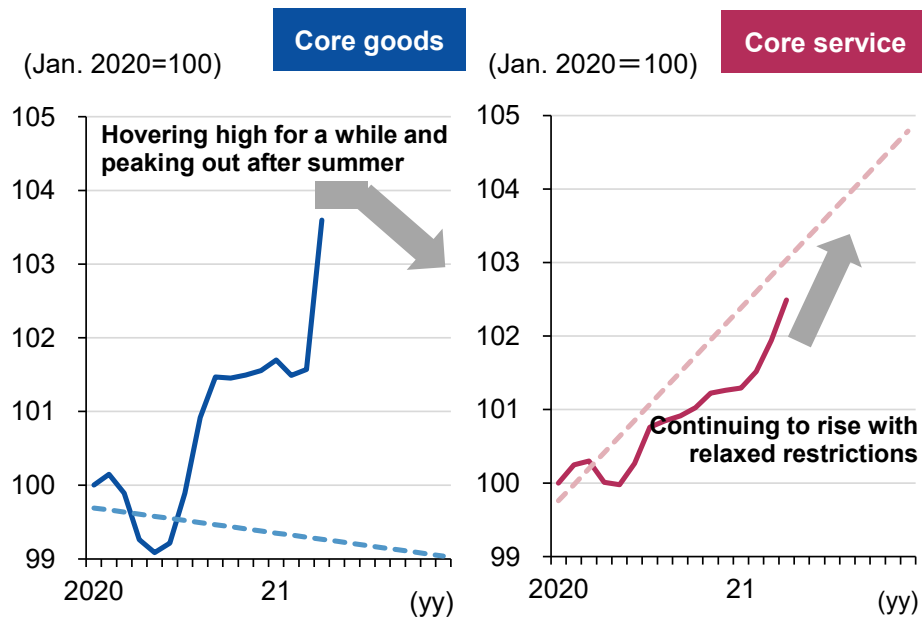
Note: The shaded areas are forecasts.

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

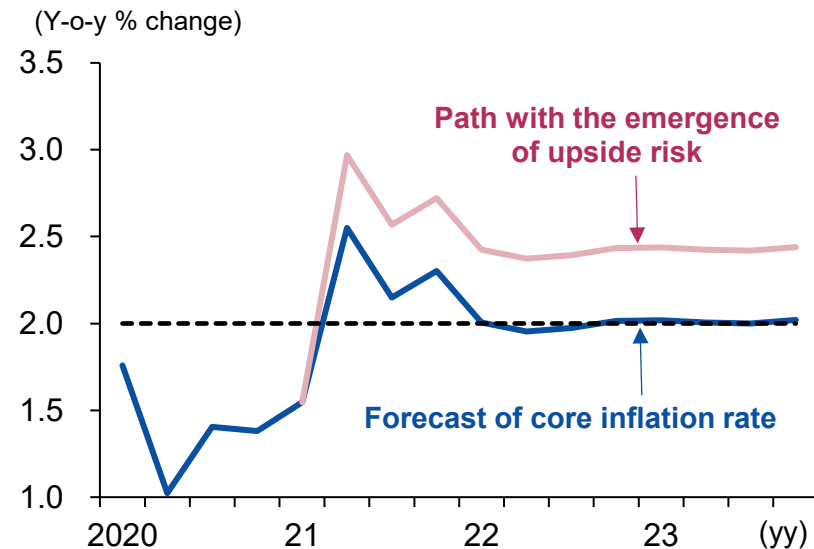
# US: Recent inflation rate above the 2% target, expected to converge to the target level in 2022

- The core inflation rate in 2021 is expected to remain above target, due to the pass-through of upstream price increases and the easing of restrictions.
  - Goods prices have remained high in the recent past. After the summer, demand for goods will slow down due to a shift in consumption (from goods to services) as restrictions are relaxed, and goods prices will peak out as labor shortages are resolved (with face-to-face classes resumed at schools and generous unemployment benefits terminated).
- The core inflation rate is expected to converge to the target in 2022, but upside risks remain.
  - The core inflation rate will remain in the mid-2% range even in 2022 if price shifting becomes more prevalent and if demand for services increases more than expected due to relaxed restrictions.

## Level of prices of goods & services



## Core inflation rate (forecast and upside risks)



Note: The dashed line shows the trend before the Covid-19 pandemic (Jan. 2015 to Dec. 2019).  
Source: Made by MHRT based upon releases by the US Department of Labor

Note: Forecast values for the Apr-Jun quarter of 2021 and thereafter; the path with the emergence of upside risk is the upper limit of the 70% confidence interval of the forecast value (one standard deviation of the forecast error is added to the forecast value).

Source: Made by MHRT based upon release by the US Department of Commerce

## Eurozone: GDP to return to pre-pandemic levels in the first half of 2022 due to a recovery in personal consumption and external demand

- Real GDP growth in the eurozone is expected to be +4.3% y-o-y and +4.7% y-o-y in 2021 and 2022, respectively. GDP is expected to return to pre-pandemic levels in the first half of 2022.
  - The economic recovery in 2021 is attributed to a pickup in consumer spending due to the vaccine rollout and an increase in exports owing to the economic recovery in the US and China.
  - In 2022, the use of the EU recovery fund will contribute to lifting GDP.

### Outlook for the eurozone economy

		2019	2020	2021	2022	2020				2021				2022			
		CY		(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP (real)	Q-o-q % ch.	1.3	- 6.6	4.3	4.7	- 3.8	- 11.6	12.5	- 0.7	- 0.6	1.8	2.1	1.3	1.3	0.7	0.5	0.1
Domestic demand	Q-o-q % ch.	1.9	- 6.3	2.4	5.4	- 3.4	- 11.1	10.3	- 0.7	- 0.6	1.0	1.4	1.0	2.5	1.3	0.3	- 0.0
Personal consumption	Q-o-q % ch.	1.3	- 8.0	- 1.3	8.7	- 4.4	- 12.6	14.2	- 3.3	- 3.8	0.1	2.3	3.0	3.9	2.1	0.1	- 2.0
Gross fixed capital formation	Q-o-q % ch.	5.7	- 8.2	7.4	3.0	- 5.9	- 16.1	13.8	1.9	1.5	3.1	0.7	0.1	0.9	0.6	0.6	0.5
Government consumption	Q-o-q % ch.	1.8	1.2	4.6	0.8	- 0.2	- 2.2	4.7	0.3	1.8	0.8	0.3	0.3	0.1	0.1	0.1	0.1
Inventory investment	Q-o-q contribution, % pt	- 0.5	- 0.3	0.4	- 0.0	0.5	- 0.1	- 1.5	0.7	0.6	0.1	- 0.0	- 0.7	0.1	0.0	0.1	0.9
External demand	Q-o-q contribution, % pt	- 0.5	- 0.4	2.0	- 0.5	- 0.5	- 0.7	2.5	- 0.1	0.0	0.8	0.7	0.4	- 1.0	- 0.5	0.2	0.1
Exports	Q-o-q % ch.	2.5	- 9.3	12.3	8.6	- 3.8	- 18.7	16.7	4.0	2.1	3.4	2.9	2.1	2.0	1.8	1.5	1.4
Imports	Q-o-q % ch.	3.9	- 9.0	8.7	10.4	- 2.9	- 18.1	11.8	4.5	2.2	1.9	1.6	1.4	4.4	3.1	1.3	1.3
CPI	Q-o-q % ch.	1.2	0.3	2.1	1.4	1.1	0.2	- 0.0	- 0.3	1.1	2.3	2.4	2.5	1.5	1.4	1.4	1.3
Core, excluding food and energy	Q-o-q % ch.	1.0	0.7	1.4	1.3	1.1	0.9	0.6	0.2	1.1	1.1	1.6	1.7	1.3	1.3	1.3	1.3

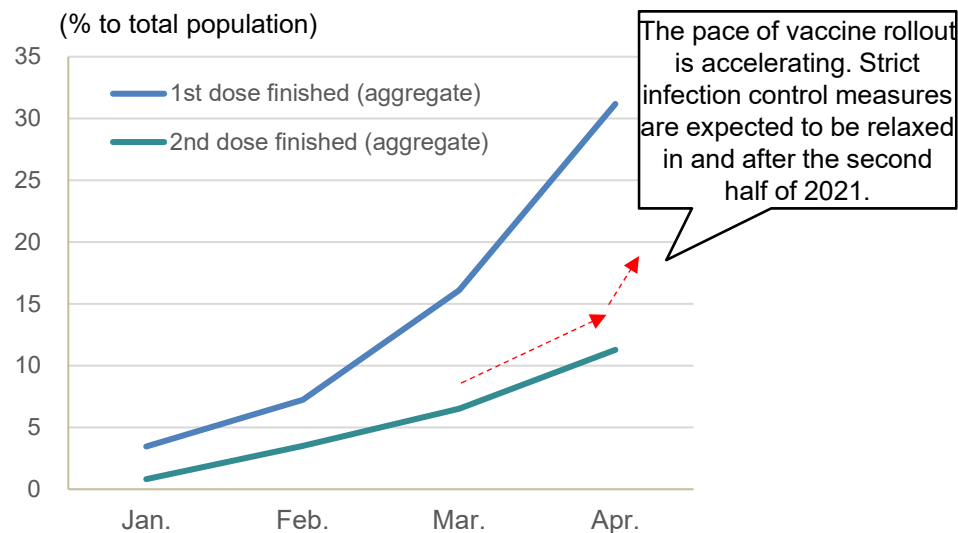
Note: The shaded areas are forecasts.

Source: Made by MHRT based upon releases by Eurostat

# Eurozone: Vaccine rollout driving a full-scale recovery in consumption, supported by savings during the lockdown

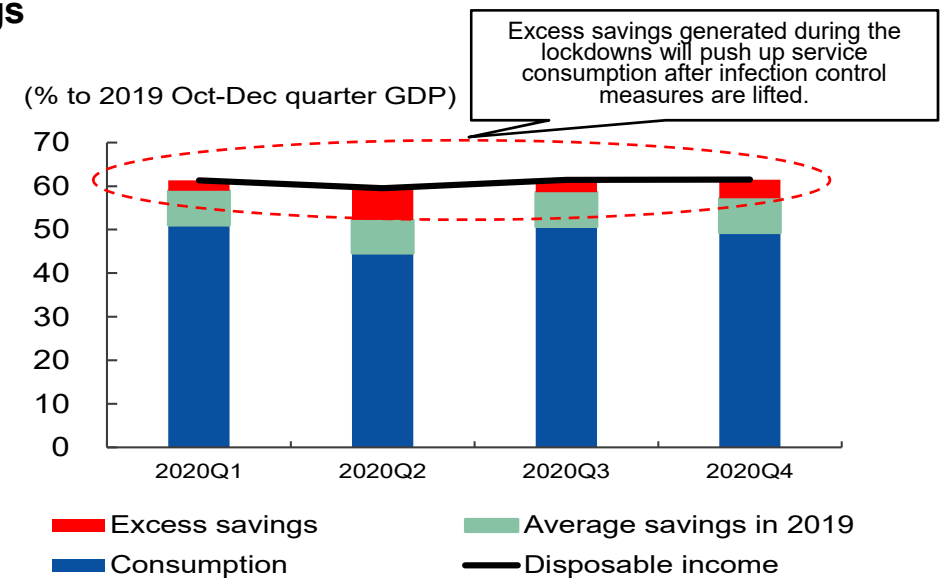
- From the second half of 2021 onward, infection control measures will be further relaxed with vaccine rollout progressing, and this is expected to support full-scale recovery in personal consumption.
  - The eurozone is expected to gain herd immunity in the Jan-Mar quarter of 2022, and infection control measures will be fully abolished.
- In the first half of 2022, after the lifting of infection control measures, the level of service consumption is expected to temporarily exceed pre-pandemic levels.
  - Excess savings were generated by households during the lockdown, mainly due to the loss of consumption opportunities. Excess savings are mainly held as cash deposits, and some of them are expected to be used for service consumption after the lifting of infection control measures.
  - However, the environment surrounding income will be severe due to a decline in wages. The increase in service consumption is therefore expected to be only temporary.

## Eurozone: Vaccinated population



Source: Made by MHRT based upon releases by ECDC

## Eurozone: Personal disposable income, consumption, and savings



Source: Made by MHRT based upon releases by Eurostat

## Emerging countries: Despite upturn to positive growth, delays in lifting restrictions hamper full-fledged recovery of domestic demand

- In 2021, the level of easing of restrictions on economic activities in response to the infection status and the degree of dependence on exports to the US will have big impact on the pace of economic recovery.
  - The main restraints on the recovery of domestic demand is the resurgence of infections due to the spread of variants. In newly industrialized economies (NIEs) and Mexico, which are highly dependent on the US, external demand is a main economic driver.
- In 2022, the pace of recovery will be slow in general, and many countries will still be under restrictions due to delays in vaccine rollout and the attainment of herd immunity.
  - Except for NIEs, Australia, and Russia, which have been relatively successful in controlling the infection, restrictions are not expected to be lifted at least until the spring of 2022.

### Outlook for the Asian and emerging countries

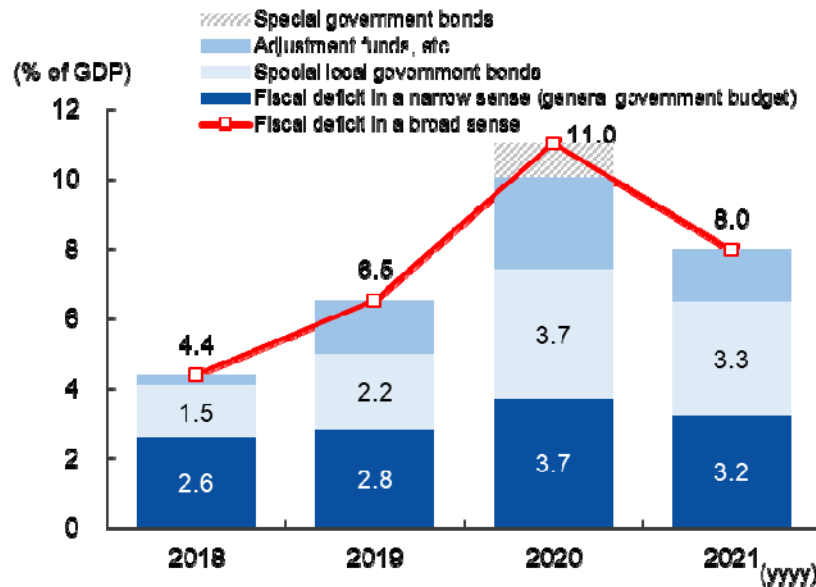
	2019	2020	2021 (Outlook)	2022	2020				2021
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
<b>Asia</b>	5.2	- 0.9	7.7	4.9	-	-	-	-	-
<b>China</b>	6.0	2.3	8.4	5.4	- 6.8	3.2	4.9	6.5	18.3
<b>NIEs</b>	1.8	- 0.9	3.6	2.6	-	-	-	-	-
South Korea	2.0	- 1.0	3.0	2.5	1.4	- 2.7	- 1.1	- 1.2	1.8
Taiwan	3.0	3.1	4.4	2.7	2.5	0.3	4.3	5.1	8.2
Hong Kong	- 1.7	- 6.1	3.5	2.4	- 9.1	- 9.0	- 3.6	- 2.8	7.9
Singapore	1.3	- 5.4	4.3	2.6	0.0	- 13.3	- 5.8	- 2.4	0.2
<b>ASEAN5</b>	4.8	- 3.5	5.0	4.7	-	-	-	-	-
Indonesia	5.0	- 2.1	4.5	4.5	3.0	- 5.3	- 3.5	- 2.2	- 0.7
Thailand	2.3	- 6.1	2.8	2.8	- 2.1	- 12.1	- 6.4	- 4.2	- 2.6
Malaysia	4.3	- 5.6	5.7	4.2	0.7	- 17.2	- 2.7	- 3.4	- 0.5
The Philippines	6.0	- 9.5	6.7	6.2	- 0.7	- 17.0	- 11.6	- 8.3	- 4.2
Vietnam	7.0	2.9	7.1	6.8	3.7	0.4	2.7	4.5	4.5
<b>India</b>	4.8	- 6.9	9.8	4.9	3.0	- 24.4	- 7.3	0.4	-
<b>Australia</b>	1.9	- 2.5	3.0	2.6	1.4	- 6.4	- 3.9	- 0.9	-
<b>Brazil</b>	1.4	- 4.1	2.8	2.7	- 0.3	- 10.9	- 3.9	- 1.1	-
<b>Mexico</b>	- 0.1	- 8.2	4.8	3.0	- 1.4	- 18.7	- 8.6	- 4.3	- 3.8
<b>Russia</b>	2.0	- 3.0	2.7	3.5	1.4	- 7.8	- 3.5	- 1.8	- 1.0

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

# China: Growth rate target set at “+6% y-o-y or higher,” without a drastic change in fiscal and monetary policies

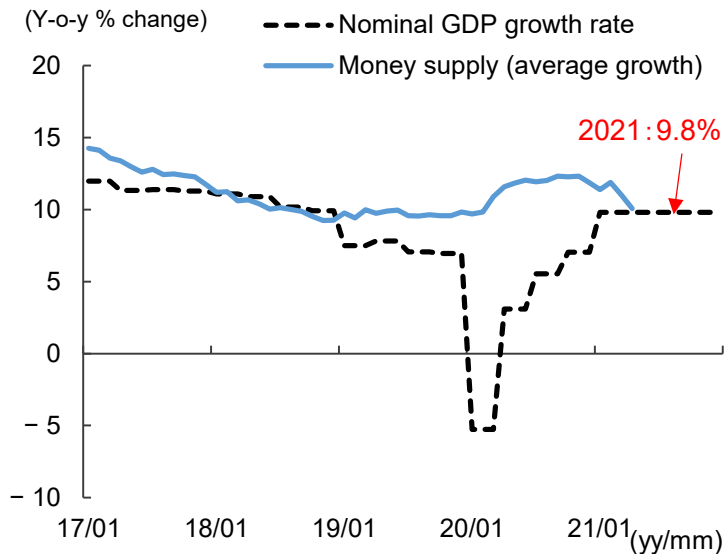
- The government has set a growth rate target for 2021 at “+6% y-o-y or higher.” This is the minimum number required for economic stability with due consideration to infection trends.
- While seeking to shift from crisis response, the government plans no urgent change in fiscal and monetary policies.
  - The government has set a target of the “budget deficit-to-GDP ratio” being 3.2%, which is higher than the pre-pandemic target, and has taken a stance of continuing and implementing spending and tax cuts so as to stabilize the economy.
    - The size of the budget deficit in a broad sense, including local government bonds and the Budget Stabilization & Adjustment Fund, is also higher than pre-pandemic levels.
  - It appears that monetary policy will be normalized at a cautious pace. A sharp tightening will be avoided, while taking measures to address the real estate bubble.
    - Growth in the money supply is expected to return to pre-pandemic levels (about +10% y-o-y, on par with nominal GDP growth).

## Fiscal deficit



Source: Made by MHRT based upon releases by the Ministry of Finance of the People's Republic of China and CEIC Data

## Money supply (M2 + balance of outstanding social loans) and nominal GDP



Notes: 1.. Money supply refers to the total of money supply (M2) and social loans outstanding.  
2. The nominal GDP growth rate for 2021 is an estimate from the fiscal budget plan.

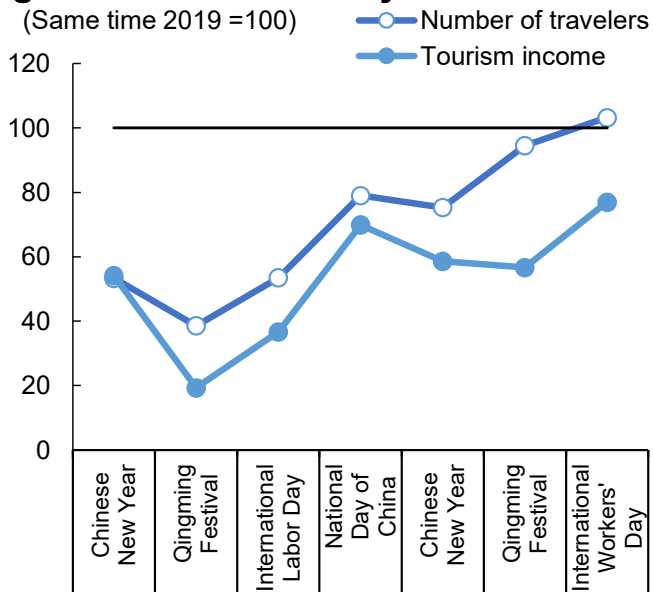
Source: Made by MHRT based upon releases by People's Bank of China and CEIC Data



# China: Consumer spending heading for recovery, but polarization remaining as an issue

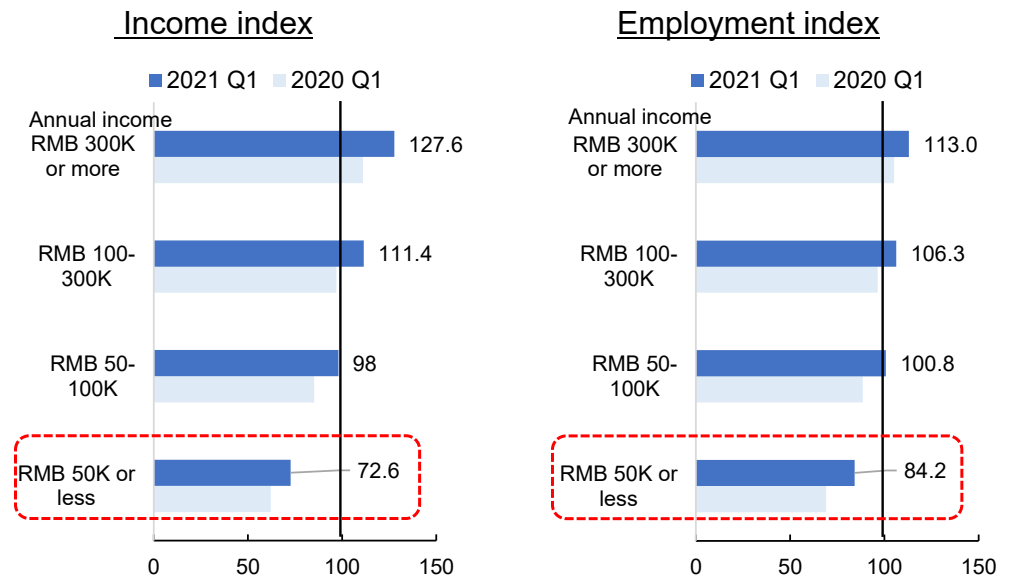
- Recovery in service consumption due to vaccine rollout and steady improvement in employment and income are expected to support recovery in personal consumption.
  - The number of travelers during the International Workers' Day holidays (May 1–5) exceeded pre-pandemic levels. Domestic travel recovered with expanded vaccination.
  - According to a survey of urban workers, the unemployment rate and the average weekly work hours have both recovered to their pre-pandemic levels. The growth of real disposable income is also accelerating.
- Despite the recovery of overall consumption, the polarization between the high- and low-income segments is a problem.
  - The pace of improvement in the employment and income situation of low earners is slow.
  - The government is supporting the economy, such as by helping companies that expand social insurance for non-regular employees and that maintain their employment (until the end of 2021).

## Number of domestic travelers and tourism income during consecutive holidays



Source: Made by MHRT based upon releases by the Ministry of Culture and Tourism of the People's Republic of China, CEIC Data, and media coverage

## Employment and income indices by income segment



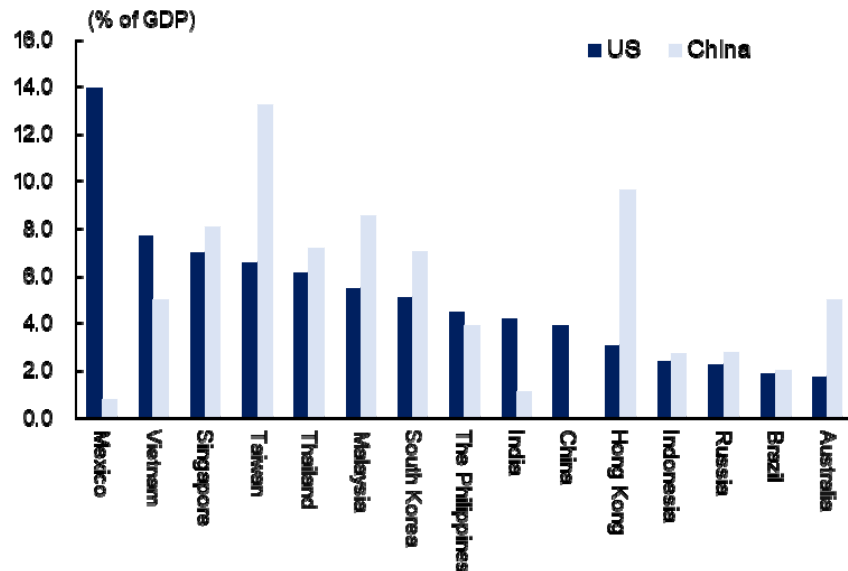
Note: Employment and income indices are based on a survey using questionnaires. A value above 100 indicates improvement, while a value below 100 indicates deterioration.

Source: Made by MHRT based upon releases by the National Bureau of Statistics of China and the Research Center for China Household Finance of Southwestern University of Finance and Economic and Ant Group Research Institute, *China Household Wealth Index Survey Report (2021Q1)*

# Emerging countries: External demand driving economic recovery, especially in countries with high dependence on transactions with the US

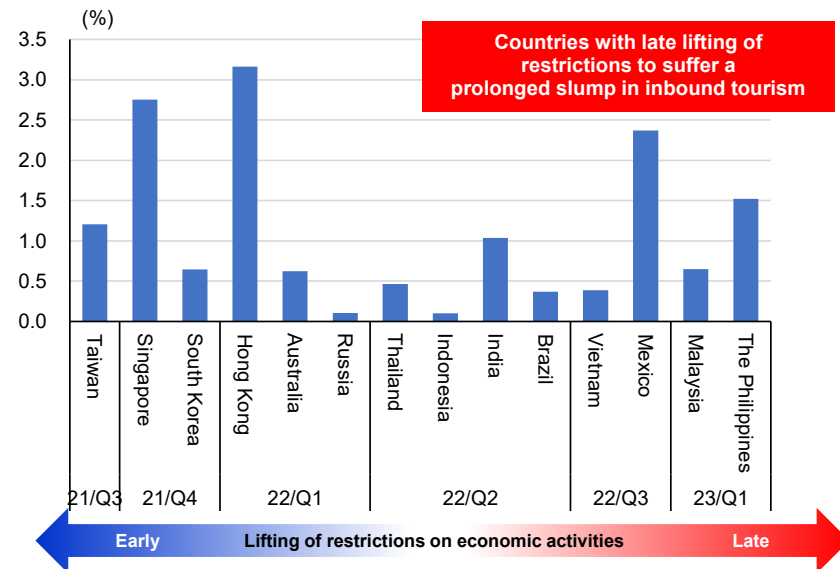
- The US economy is recovering quickly via economic stimulus measures. External demand is driving economic recovery, especially in countries heavily dependent on US demand.
  - Mexico and Vietnam, the countries highly dependent on demand from the US, are receiving great benefit. Resource-exporting countries are enjoying a surge in prices of natural resources that pushed up external demand.
  - The increase in global demand for semiconductors has been pushing up the economy of Taiwan as a manufacturing base. Under friction between the US and China, companies are relocating their production bases, which is supporting ASEAN's electronics and electrical equipment exports.
  - Recovery of the US economy will be more driven by services, with a shift from goods. Benefits from exporting goods will be weakened in and after the second half of 2021.
    - Countries that are slow in lifting restrictions on economic activities may not be able to fully benefit from the recovery in demand for services such as inbound tourism.

**Value-added by final demand location in major countries (% of GDP)**



Note: Ratio of value-added to GDP in each country with the US and China as a final demand location (data as of 2015)  
 Source: Made by MHRT based upon releases by OECD and TIVA

**Services exports of major emerging countries to the US (% of GDP)**



Notes: 1. Data is based on the US imports of services by country.  
 2. Dates (years/quarters) under each country are the assumed dates when restrictions on economic activities would be lifted.  
 Source: Made by MHRT based upon releases by OECD and IMF

## (5) Japanese economy: Pace of recovery expected to be slow in FY2021, high growth predicted for FY2022

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- In the Jan-Mar quarter of 2021, the pace of GDP growth (*First Preliminary Quarterly Estimates of GDP, “1<sup>st</sup> GE”*) was -5.1% q-o-q, p.a., recording negative growth for the first time in three quarters. Exports such as capital goods and information-related goods followed an upward trend amid the recovery in overseas capital investment (mainly in the US and China) and increase of online demand. On the other hand, due to the reissuance of the declaration of a state of emergency following the resurgence of infections, personal consumption, especially for services accompanying inter-personal contact, fell sharply.
- FY2021 GDP growth is projected to be +2.7%. For the Apr-Jun quarter, we expect negative growth (-2.8% q-o-q, p.a.) for the second consecutive quarter. This stems from the government's declaration of a state of emergency for the third time to cope with the resurgence of infections of new variants, as well as the downward pressure caused by the production cutback of automobiles due to the shortage of semiconductors for automotive applications. Restrictions on economic activities are expected to continue even after the lifting of the state of emergency, leading to a slow pace of recovery.
- FY2022 GDP growth is projected to be +4.0%. The economy is expected to be boosted by pent-up demand, especially in consumption of high-end services, due to the vaccine rollout and government measures to stimulate demand. Exports and capital investments are also expected to remain strong, against the background of the strong overseas economies.
- As for risks, it will be necessary to keep a close eye upon the possibility of prolonged effects of the widespread infection of the variants. Countermeasures such as the early isolation of infected people with an expanded testing system and the concurrent vaccination of the elderly and working-age population are necessary.

## Japan: Economic growth rate projected to be +2.7% in FY2021 and +4.0% in FY2022

- Japan's economy is expected to grow by 2.7% y-o-y in FY2021. The Apr-Jun quarter will see negative growth for the second consecutive quarter due to the third declaration of a state of emergency and a reduction in automobile production due to semiconductor shortages. As restrictions on economic activities will continue in the future, the pace of recovery will be slow.
- The economy is expected to grow by 4.0% y-o-y in FY2022, boosted by pent-up demand especially in service consumption, against the backdrop of vaccine rollout and government measures to stimulate demand.

### Outlook for the Japanese economy

		2020	2021	2022	2021				2022				2023
		(Outlook)			Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	-4.6	2.7	4.0	-1.3	-0.7	1.1	1.3	1.4	1.7	0.4	0.0	0.1
	Q-o-q % ch p.a.	—	—	—	-5.1	-2.8	4.3	5.2	5.6	6.9	1.6	0.0	0.3
Domestic demand	Q-o-q % ch	-4.0	1.8	4.2	-1.1	-0.6	1.0	1.2	1.3	2.0	0.4	-0.0	0.0
Private sector demand	Q-o-q % ch	-6.5	2.1	5.3	-0.9	-0.9	1.2	1.5	1.7	2.7	0.4	-0.1	-0.0
Personal consumption	Q-o-q % ch	-6.0	2.2	6.3	-1.4	-1.3	1.6	1.2	2.2	3.9	0.0	-0.4	-0.2
Housing investment	Q-o-q % ch	-7.1	-0.4	4.0	1.1	-0.5	0.2	0.6	1.0	1.8	0.7	0.7	0.7
Capital investment	Q-o-q % ch	-6.9	3.4	3.6	-1.4	0.5	1.5	1.7	1.2	0.8	0.7	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	(-0.2)	(-0.2)	(-0.2)	(0.3)	(0.0)	(-0.2)	(0.2)	(-0.2)	(-0.3)	(0.2)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	3.2	1.0	1.0	-1.6	0.2	0.4	0.4	0.4	-0.0	0.4	0.3	0.2
Government consumption	Q-o-q % ch	3.1	0.7	1.2	-1.8	0.1	0.3	0.3	0.4	0.4	0.3	0.2	0.2
Public investment	Q-o-q % ch	4.0	2.1	0.4	-1.1	0.8	1.0	1.0	0.3	-1.4	0.8	0.6	0.3
External demand	Q-o-q contribution, % pt	(-0.6)	(0.9)	(-0.2)	(-0.2)	(-0.1)	(0.1)	(0.1)	(0.0)	(-0.3)	(-0.0)	(0.1)	(0.0)
Exports	Q-o-q % ch	-10.4	11.4	5.3	2.3	-1.4	2.8	2.0	2.6	0.5	1.0	0.8	0.6
Imports	Q-o-q % ch	-6.8	5.6	6.4	4.0	-0.8	2.3	1.6	2.2	2.1	1.0	0.4	0.4
GDP (nominal)	Q-o-q % ch	-4.0	2.1	4.2	-1.6	-2.2	2.7	1.4	1.5	-0.2	2.2	0.3	0.6
GDP deflator	Q-o-q % ch	0.7	-0.6	0.2	-0.2	-2.0	-0.6	-0.2	0.3	-0.1	0.1	0.2	0.7
Domestic demand deflator	Q-o-q % ch	-0.2	1.1	0.4	-0.5	1.2	0.9	1.3	1.0	0.4	0.4	0.3	0.4

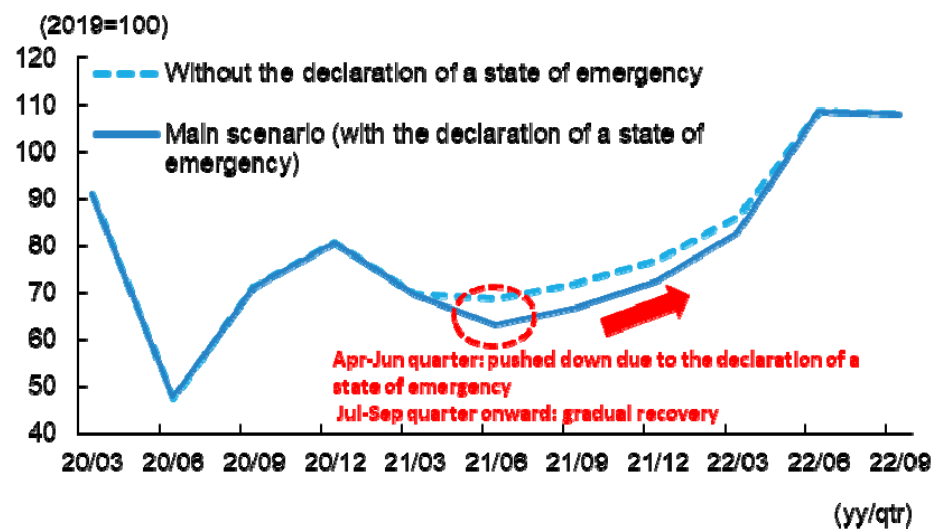
Note: The shaded areas are forecasts.

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

## Japan: Declaration of a state of emergency expected to drag down FY2021 growth by 0.4% pt

- The recent declaration of a state of emergency is expected to push down the rate of economic growth in FY2021 by 0.4% pt.
  - In the Apr-Jun quarter, consumption of personal services will decline -6% (-15% in the areas in scope of the declaration), while overall personal consumption is expected to decrease -1%, and the GDP will be dragged down (-0.5%).
  - The pace of recovery is also expected to be slow in the Jul-Sep quarter due to the quasi-emergency measures and continued measures at the prefectural level, while a gradual recovery will be seen in the second half of FY2021 due to the early isolation of infected people through the expansion of testing systems.
  - In FY2021, the drag upon consumption of personal services is projected to be -6.1%, personal consumption -0.9% (about JPY -3 trillion), and GDP -0.4%.

### Impact on the path of the consumption of personal services



Source: Made by MHRT based upon releases by Cabinet Office, etc.

### Impact on the decline in consumption of personal services (FY2021)

	Japan overall (%)	
		Areas of state of emergency
Eating out	- 2.8	- 4.9
Accommodation	- 11.5	- 21.0
Travel/transportation	- 10.5	- 19.4
Entertainment	- 6.2	- 12.4
Personal services total	- 6.1	- 11.4

Note: The rate of decline was calculated by comparing the forecasts before/after considering the impact of the state of emergency.

Source: Made by MHRT based upon releases by Cabinet Office, etc.

## Japan: After the Covid-19 pandemic subsidies, we expect the emergence of pent-up demand including consumption of high-value services

- Household savings (more or less equivalent to disposable income minus consumption) in 2020 amounted to JPY 35.8 trillion. The difference from the previous year was JPY +28.9 trillion (which is considered to be excess savings).
  - The main sources of savings were an increase in current transfer income (such as special cash payments by the government) (JPY +13.9 trillion) and smaller service consumption (JPY -15.5 trillion).
  - Most of the excess savings (over 60%) occurred in high-income households. Most of the excess is staying as deposits.
- After the pandemic subsidies (subsequent to the widespread uptake of vaccines in and after FY2022t), pent-up demand will emerge, especially for high-end service consumption.
  - The government is expected to launch measures to stimulate demand, such as in the full-scale resumption of the "Go To Travel" campaign (promoting travel and eating out), after the pandemic subsidies.
  - Consumption of personal services is expected to increase by about 7% (JPY 3 trillion, or approximately 1.0% of total personal consumption) in FY2022, compared with pre-pandemic levels.

### Savings status of households (SNA-based)

(JPY trillion)

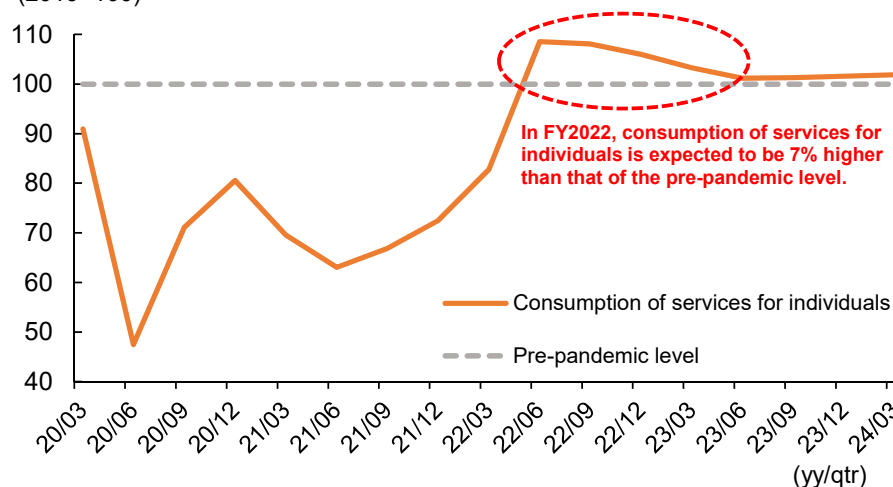
	2019	2020	Y-o-y change
<b>Disposable income</b>	305.4	316.2	10.8
Labor compensation	286.9	282.5	- 4.4
Other current transfer (including special cash payments by the government)	- 1.9	12.0	13.9
Other (mixed income, ordinary tax, etc.)	20.4	21.7	1.3
<b>Household consumption expenditures</b>	298.4	280.3	- 18.1
Durable goods	23.2	21.8	- 1.4
Semi-durable goods	16.7	15.8	- 0.9
Nondurable goods	83.4	80.9	- 2.4
Services	177.7	162.2	- 15.5
<b>Savings</b>	6.9	35.8	28.9

Note: Un-adjusted data

Source: Made by MHRT based upon Cabinet Office, SNA (National Accounts of Japan)

### Pent-up demand of services for individuals

(2019=100)

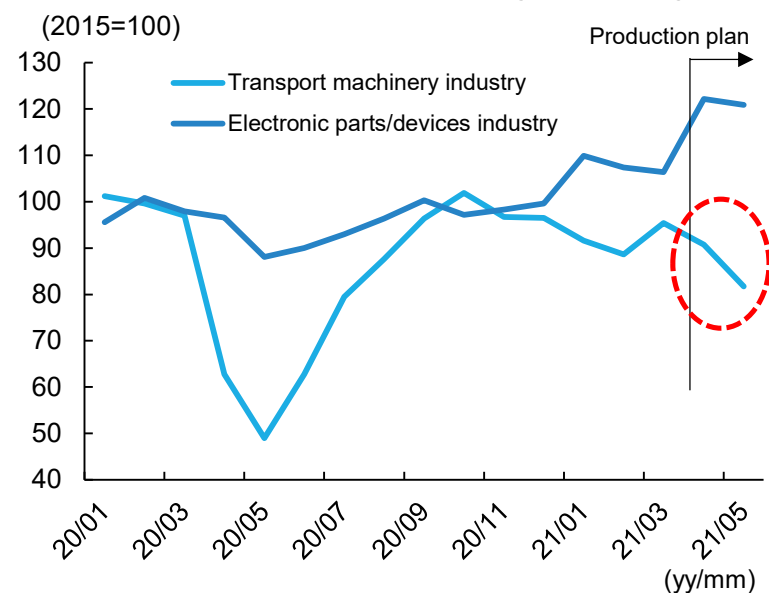


Source: Made by MHRT based upon Cabinet Office, SNA (National Accounts of Japan), etc.

# Japan: Reduction in motor vehicle production due to semiconductor shortage expected to push down GDP by 1.5% pt in the Apr-Jun quarter

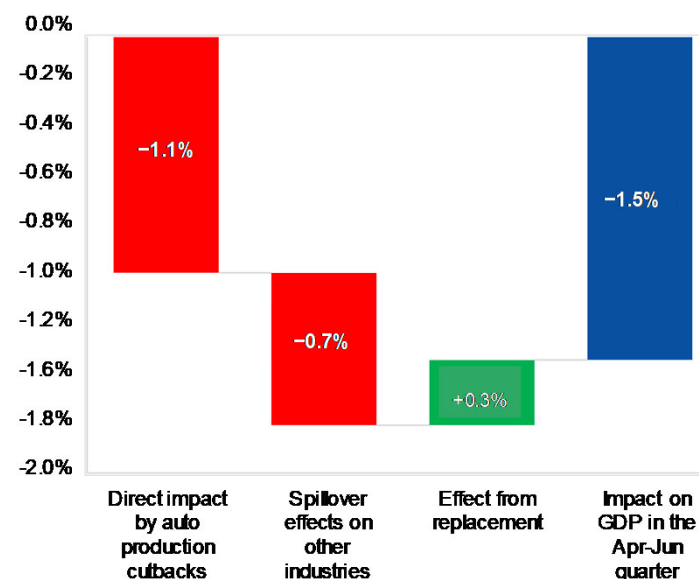
- The global shortage of semiconductors for automotive applications and a fire at a factory of a Japanese semiconductor manufacturer are expected to serve as drags upon the economy from the Apr-Jun quarter onward.
  - According to the Indices of Industrial Production of the Ministry of Economy, Trade and Industry, the electronic components/devices industry (including semiconductors) plans to increase production in April (+14.8% m-o-m) and reduce production in May (-1.0% m-o-m). On the other hand, the transportation machinery industry plans to reduce production in April (-4.9% m-o-m) and May (-9.9% m-o-m).
    - The impact of the fire at a factory of a semiconductor manufacturer does not seem to be fully factored into the analysis; automobile production is likely to decline further.
  - Domestic automobile production is expected to decline by more than 500 thousand units in the Apr-Jun quarter due to the shortage of semiconductors. Considering the spillover effects on other industries and substitute demand for other goods (effect of replacement), we estimate that the downward pressure on GDP in the Apr-Jun quarter will be -1.5% pt.

## Actual/planned production by industry



Source: Made by MHRT based upon Ministry of Economy, Trade and Industry, *Indices of Industrial Production*

## Impact of reduction in motor vehicle production on Japan's GDP in the Apr-Jun quarter

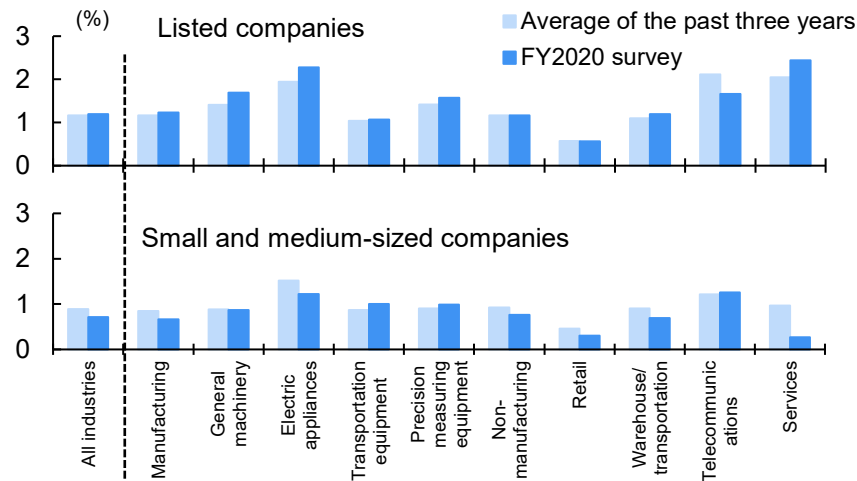


Source: Made by MHRT based upon ADB input-output tables

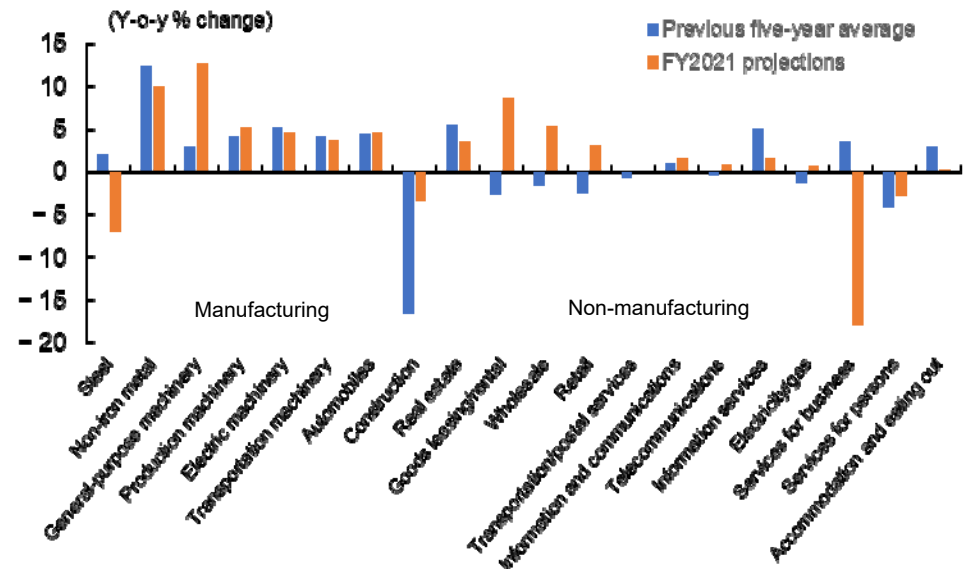
# Japan: firm growth expectations; recovery of capital investment due to manufacturing sector recovery and demand generated by measures to address the Covid-19 pandemic

- Demand outlooks among large companies have not changed much from the pre-pandemic period. Capital investment in FY2021 is expected to increase steadily, especially in the manufacturing sector.
  - Unlike the global financial crisis, there has been no downward swings in growth expectations from the emergence of Covid-19, and adjustments in capital investment will be required only for the short term. Although the performance of small and medium-sized companies looks fragile, the overall outlook is steady.
- Capital investment projections for FY2021 are also aggressive, especially in the manufacturing sector. The global recovery of manufacturing and the growth in the semiconductor market are expected to boost capital spending. The growth of software investment will also be considerable due to demand for adaptation to teleworking arrangements, expansion of e-commerce, and non-contact apparatus.

## Demand outlooks for the next three years (by business size and industry)



## Capital investment projections (by industry)



Note: The survey for small and medium-sized companies started in FY2016.  
 Source: Made by MHRT based upon Cabinet Office, *Annual Survey of Corporate Behavior*

Source: Made by MHRT based upon Bank of Japan, *TANKAN: Short-term Economic Survey of Enterprises in Japan*



# Financial markets: gradual rise of stock market and interest rates along with economic recovery

- US long-term interest rates are expected to follow a gradual uptrend, against a backdrop of global economic recovery, mainly in the US, driven by large-scale economic stimulus measures.
- Both Japanese and US stocks are expected to follow a gradual uptrend, given the ongoing improvement of corporate performance due to the recovery of actual economic conditions.

## Outlook for financial markets

	2020	2021	2022	2021				2022				2023
	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 balances (End-of-period value, %)	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10	- 0.10
Newly-issued government bonds (10-year, %)	0.03	0.05 to 0.15	0.10 to 0.20	0.07	0.05 to 0.15	0.05 to 0.15	0.05 to 0.15	0.05 to 0.15	0.10 to 0.20	0.10 to 0.20	0.10 to 0.20	0.10 to 0.20
Nikkei Stock Average (JPY)	24,462	28,400 to 30,800	29,800 to 31,500	28,988	28,400 to 29,400	28,900 to 29,900	29,700 to 30,700	29,800 to 30,800	29,800 to 31,300	29,800 to 31,300	29,900 to 31,400	30,000 to 31,500
US												
Federal Funds rate (End-of-period value, %)	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25
Newly-issued government bonds (10-year, %)	0.87	1.65 to 1.95	1.85 to 2.05	1.30	1.65 to 1.80	1.65 to 1.85	1.75 to 1.95	1.75 to 1.95	1.85 to 2.05	1.85 to 2.05	1.85 to 2.05	1.85 to 2.05
Dow Jones Average (USD)	28,110	32,200 to 33,700	32,700 to 34,500	31,493	32,200 to 33,200	32,500 to 33,500	32,600 to 33,600	32,700 to 33,700	32,700 to 34,200	32,700 to 34,200	32,800 to 34,300	33,000 to 34,500
Eurozone												
ECB deposit facility rate (End-of-period value, %)	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
German government bond (10-year, %)	- 0.48	-0.45 to -0.20	-0.40 to -0.15	- 0.41	-0.45 to -0.30	-0.45 to -0.25	-0.40 to -0.20	-0.40 to -0.20	-0.40 to -0.15	-0.40 to -0.15	-0.40 to -0.15	-0.40 to -0.15
Exchange rate												
USD/JPY (USD/JPY)	106	107 to 111	108 to 112	106	107 to 109	107 to 109	108 to 111	108 to 111	108 to 112	108 to 112	108 to 112	108 to 112
EUR/USD (EUR/USD)	1.17	1.15 to 1.22	1.14 to 1.18	1.21	1.19 to 1.22	1.18 to 1.21	1.15 to 1.19	1.15 to 1.19	1.14 to 1.18	1.14 to 1.18	1.14 to 1.18	1.14 to 1.18

Note: The forecasts for policy rates refer to the end-of-period value. Forecasts for those other than policy rates indicate our view that the average value of the period will fall within each of the relevant ranges.  
Source: Made by MHRT based upon releases by Bloomberg

## Reference: Key political events

	2021		2022		2023	
US	Jul	End of the suspension of the federal debt ceiling	Jan	Expiration of the term of FRB Vice Chair Richard H. Clarida	Mar	20 years since the Iraq War
	Sep	20 years since 9/11	Feb	Expiration of the term of office of FRB Chair Jerome H. Powell		
	Oct	Expiration of the term of office of FRB Vice Chair Randal K. Quarles (in charge of bank supervision)	Nov	Mid-term elections		
Europe	Sep	Russia: Legislative election	Apr	France: Presidential election	1H	Italy: Legislative election
	Sep	Germany: Legislative election	Jun	France: Legislative election		
	Autumn	Germany: Chancellor Angela Merkel scheduled to step down				
Japan	Jul	Tokyo Metropolitan Assembly election	Jul	End of term of office of Upper House members	Apr	End of term of Bank of Japan Governor Haruhiko Kuroda
	Jul to Sep	Tokyo Olympic and Paralympic Games			Apr	Nationwide local elections
	Sep	End of term of office of the LDP president			Apr	End of term of office of the governor of Osaka prefecture and mayor of Osaka city
	Oct	End of term of office of Lower House members				
Asia	Jul	100th anniversary of the establishment of the Communist Party of China	Feb-Mar	Beijing Olympic and Paralympic Games	By year-end	Turkey: presidential and legislative elections
	Dec	Hong Kong: Legislative Council election	Mar	South Korea: Presidential election		
			Mar	Hong Kong: Chief Executive election		
			Around May	The Philippines: Presidential and legislative elections		
			Autumn	China: 20th National Congress of the Communist Party		
Other	Jun	Mexico: Mid-term election of the Congress of the Union (Lower House)	1H	Australia: Senate and House of Representatives elections		
			Oct	Brazil: Presidential election		

Source: Made by MHRT based upon media reports

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