

MOODY'S

Japan Economic Outlook Webinar 2024H2: What's Next?

Please attribute information in this document to Moody's Analytics, which is a division within Moody's that is separate from Moody's Ratings. Accordingly, the viewpoints expressed herein do not reflect those of Moody's Ratings.

Stefan Angrick, Senior Economist, Moody's Analytics

Steven G. Cochrane, Chief APAC Economist, Moody's Analytics

12 December 2024

Agenda

1

Current Conditions

2

Outlook

3

Risks

4

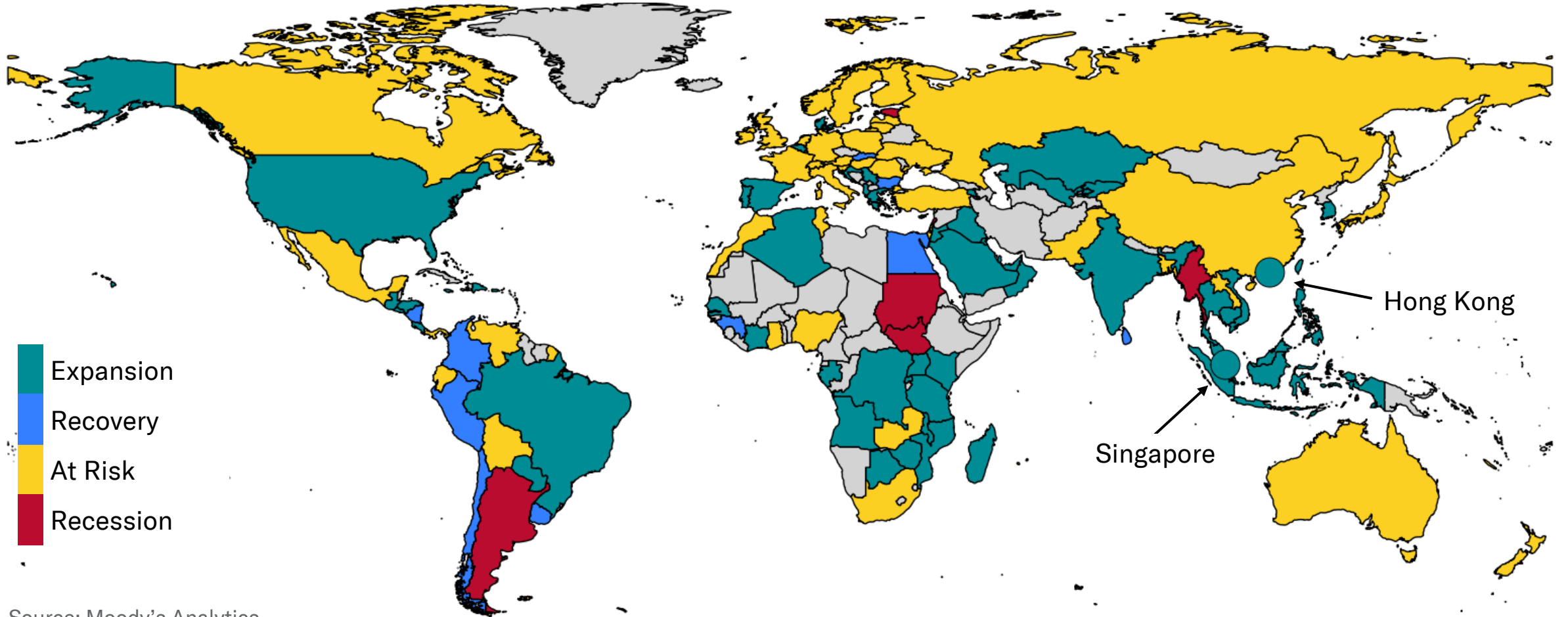
Q&A

The background is a solid dark blue color. It features two abstract, wavy line patterns. The larger pattern on the left and center consists of many thin, overlapping lines that create a grid-like effect as they curve and intersect. A smaller, similar pattern is located on the right side of the image. The overall aesthetic is modern and digital.

Current Conditions

Global Economy Finds Its Footing...

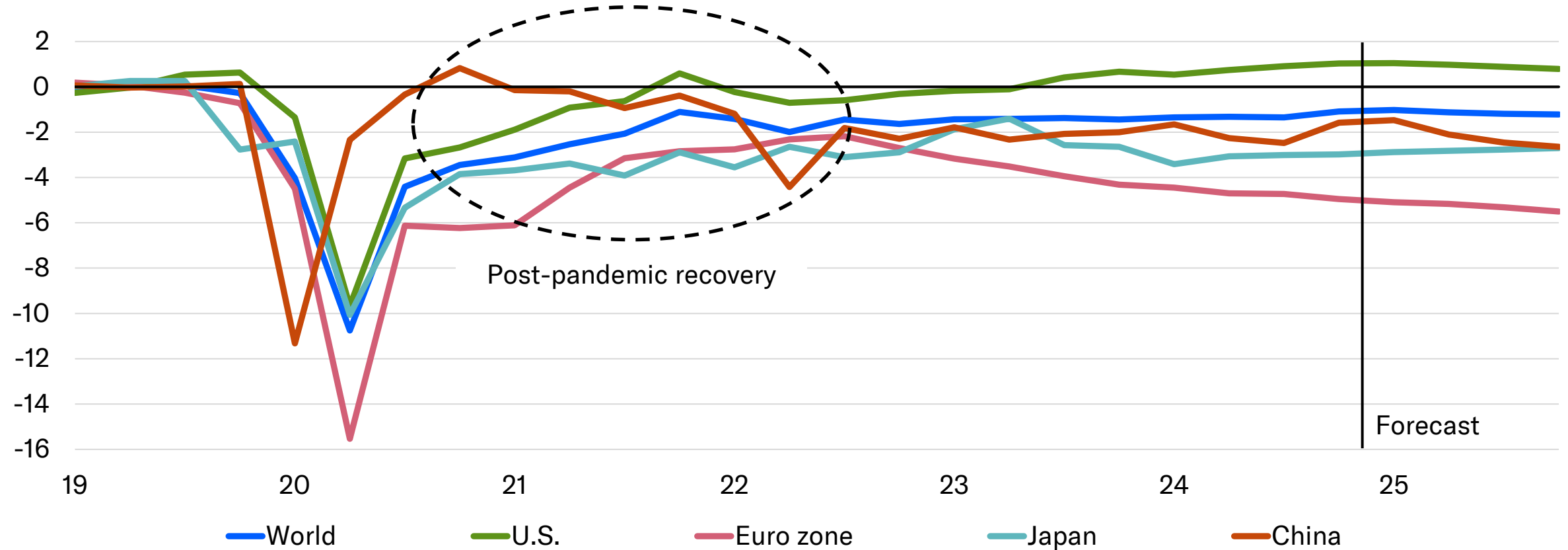
Moody's Analytics business cycle status map, December 2024



Source: Moody's Analytics

...But With Some Big Differences

Real GDP, % deviation from pre-pandemic trend (2015-2019), Moody's Analytics Dec 2024 baseline



Sources: National statistical offices, Moody's Analytics

Inflation Heads Back to Central Banks' Target...

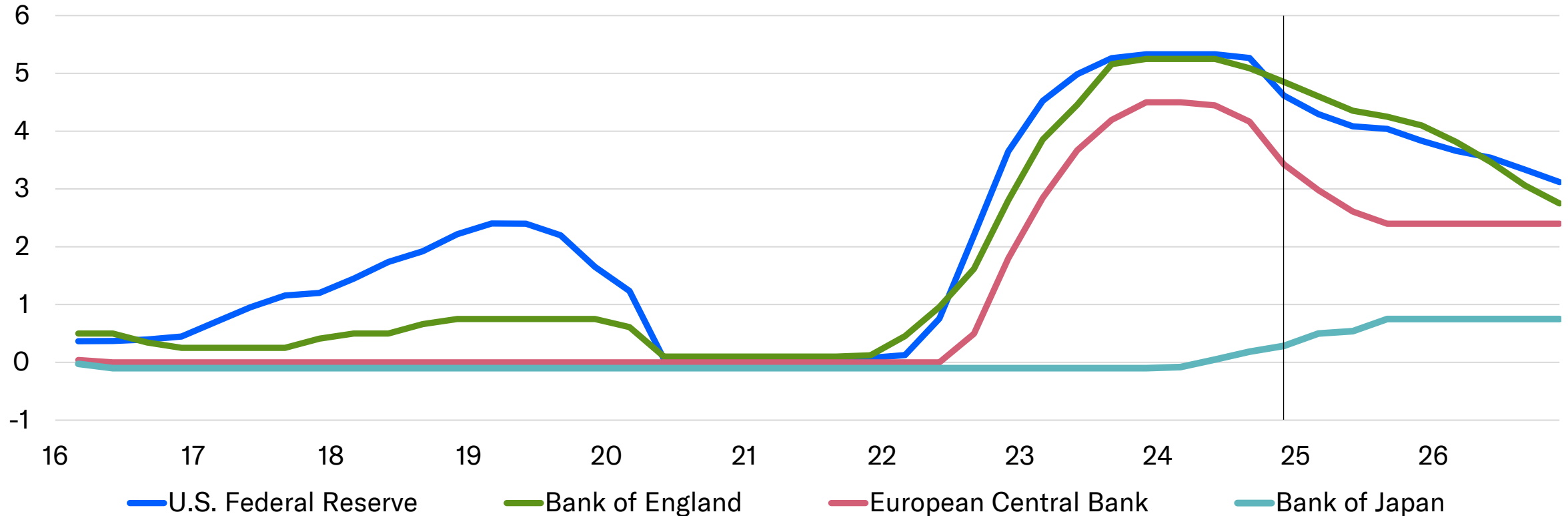
U.S. consumer price inflation, % change yr ago, Moody's Analytics Dec 2024 baseline



Sources: BLS, Moody's Analytics

...Allowing for Monetary Policy to Ease (Mostly)

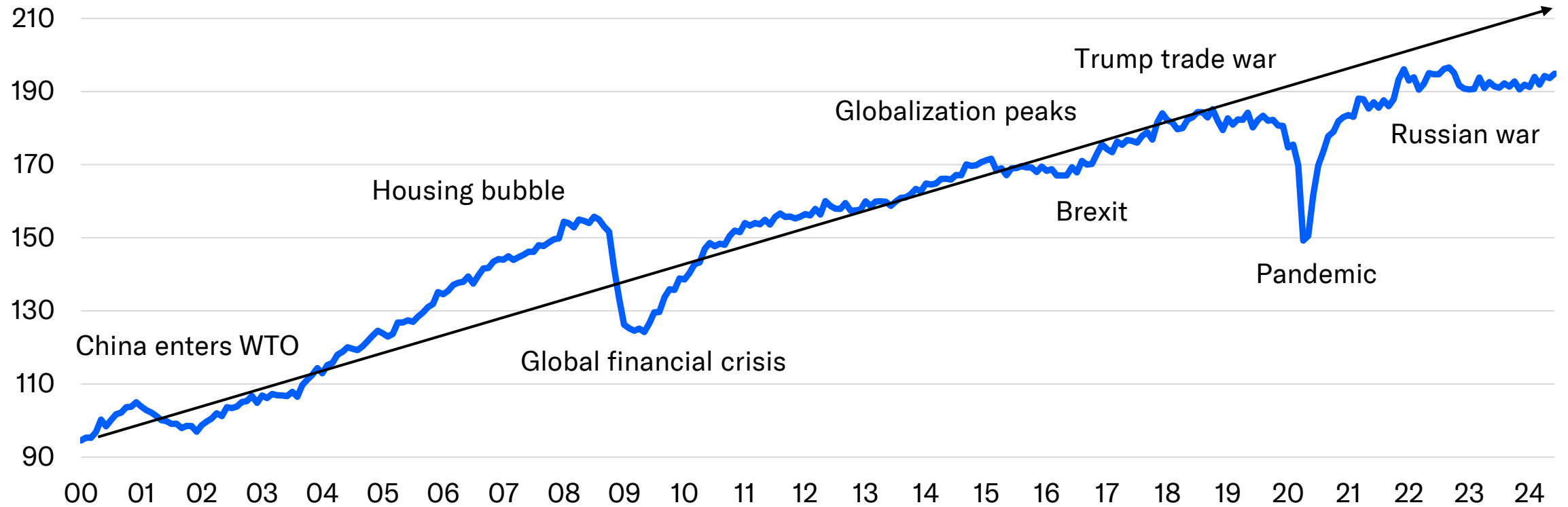
Central bank short-term monetary policy rate, %, Moody's Analytics Dec 2024 baseline



Sources: Federal Reserve, Moody's Analytics

Globalisation Stalls

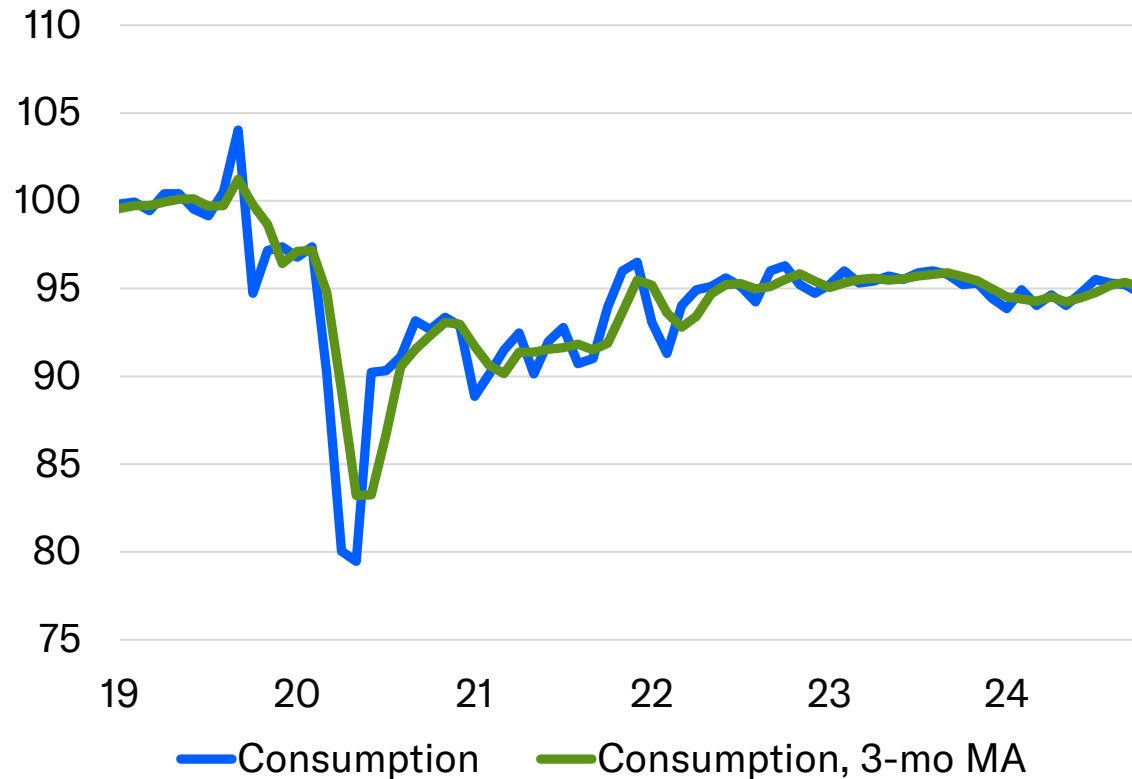
Global merchandise exports plus imports, volume basis, 2001=100



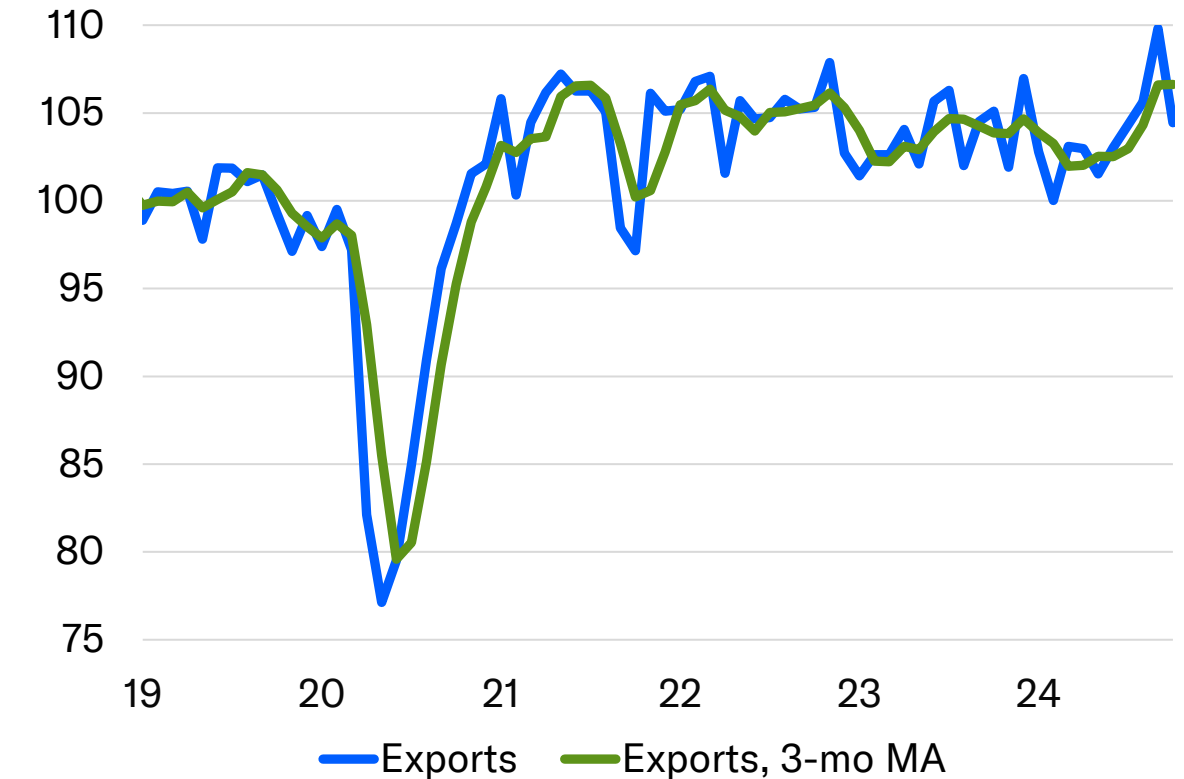
Sources: CPB World Trade Monitor, Moody's Analytics

Weakness Left and Right

Japan real consumption activity, 2019=100



Japan real exports, 2019=100



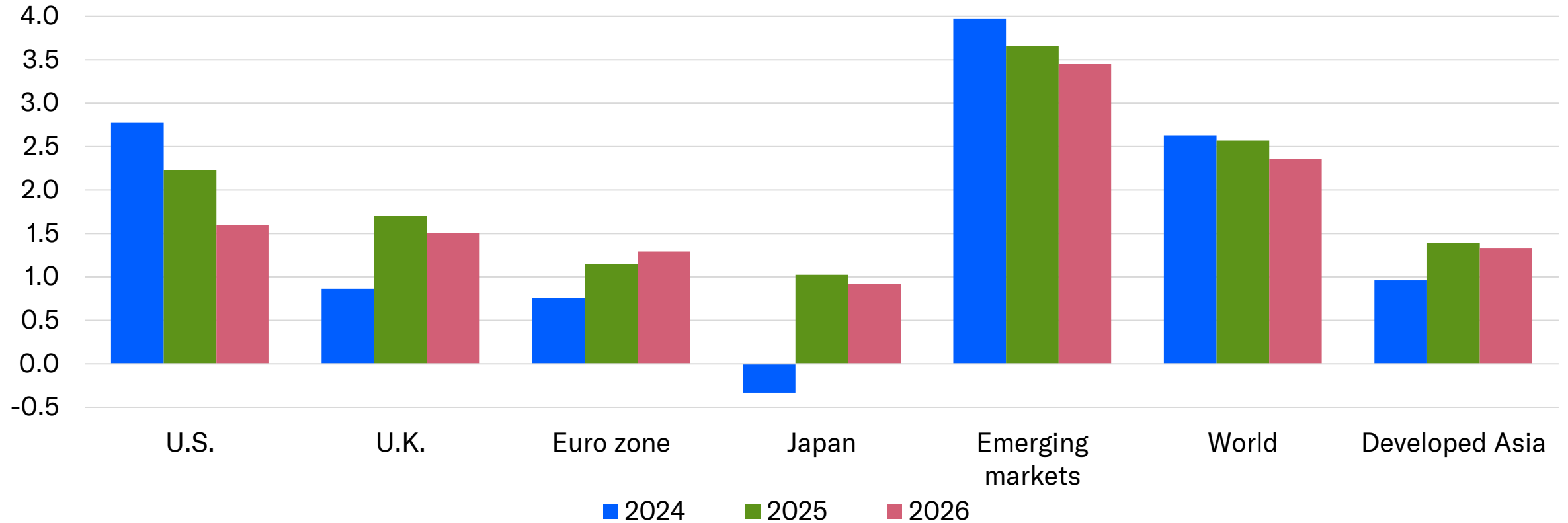
Sources: BoJ, Moody's Analytics

The background is a solid dark blue color. It features two large, abstract, wavy patterns made of thin, light blue lines. One pattern is on the left side, and another is on the right side. The lines in these patterns are closely spaced and create a sense of depth and movement, resembling a grid or a series of overlapping waves. The word "Outlook" is written in a white, serif font in the lower-left quadrant of the image.

Outlook

A Mixed Bunch

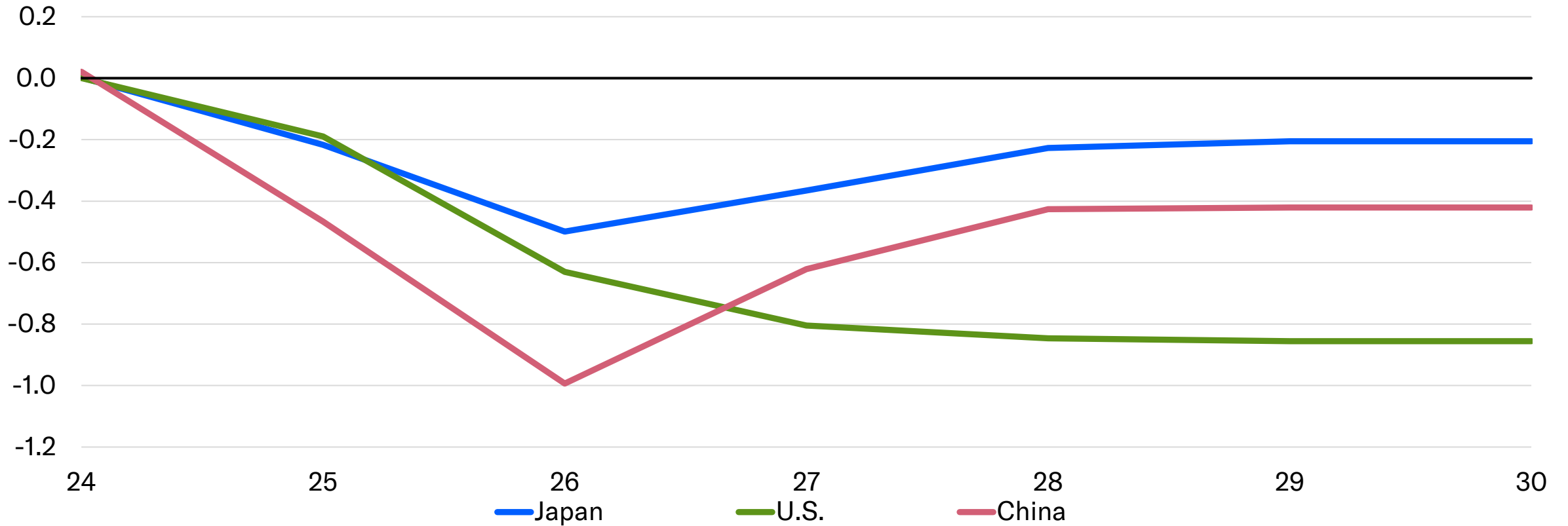
Real GDP growth, % change, Moody's Analytics Dec 2024 baseline



Source: Moody's Analytics

Trump 2.0 Will Weigh on Global Growth

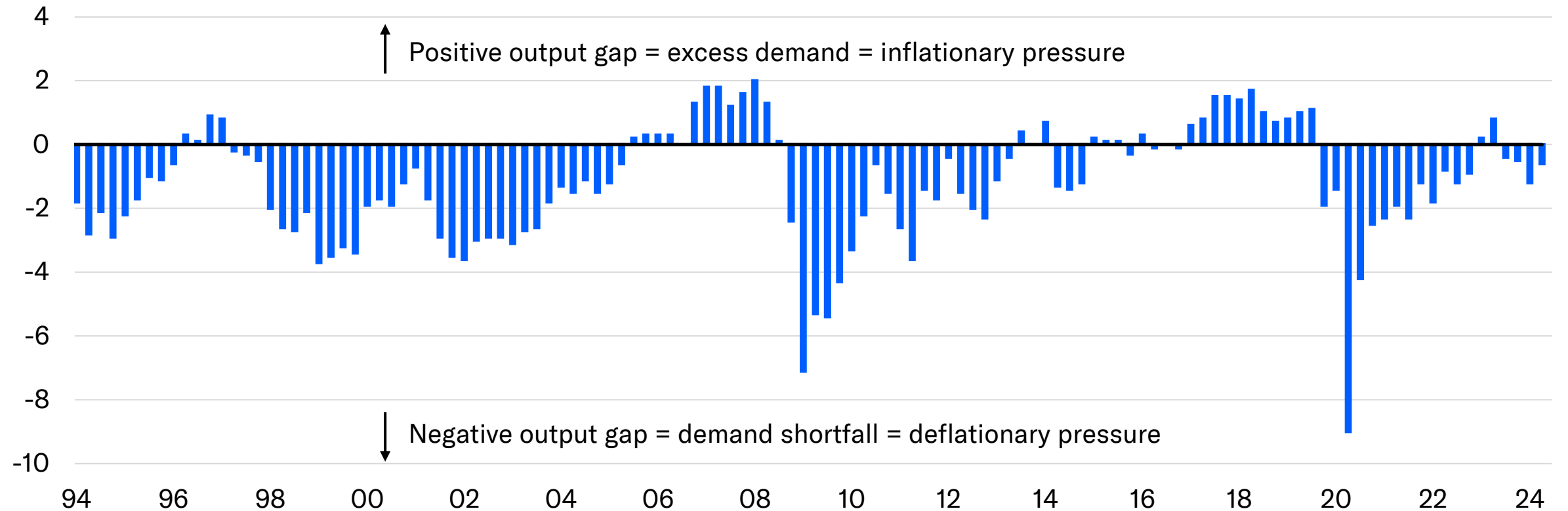
Real GDP, Moody's Analytics Dec 2024 baseline deviation from Nov baseline, %



Sources: National statistical offices, Moody's Analytics

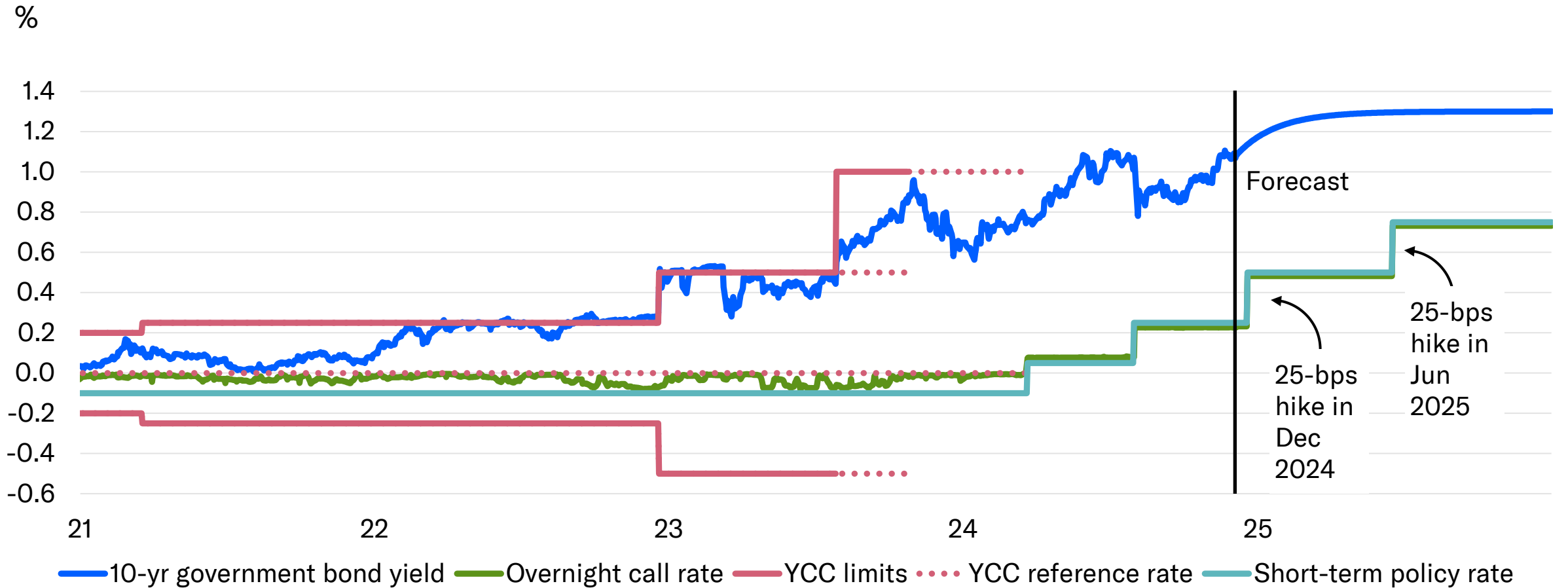
Demand Dearth Gets Fiscal Attention

Output gap, % of potential GDP



Sources: Cabinet Office, Moody's Analytics

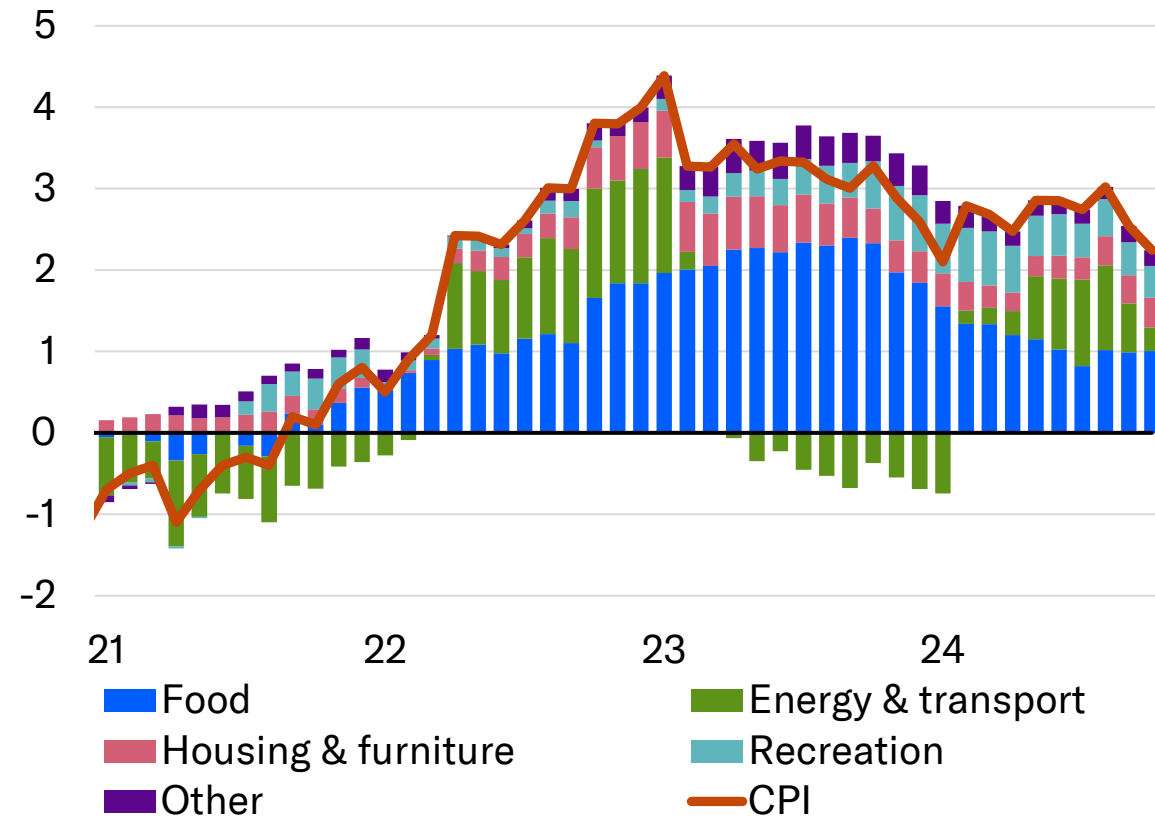
Rates Are Going Up



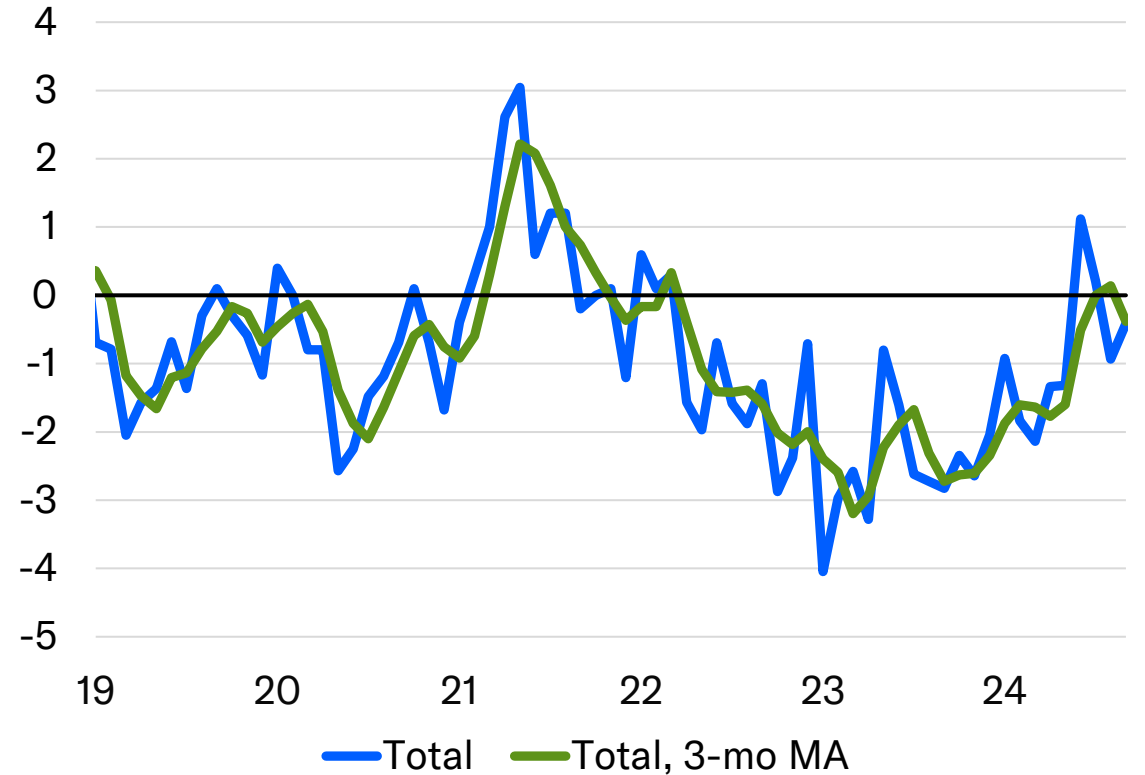
Sources: BoJ, Moody's Analytics

Sticky Inflation, Wobbly Wages

CPI, % change yr ago, ppt contribution by component



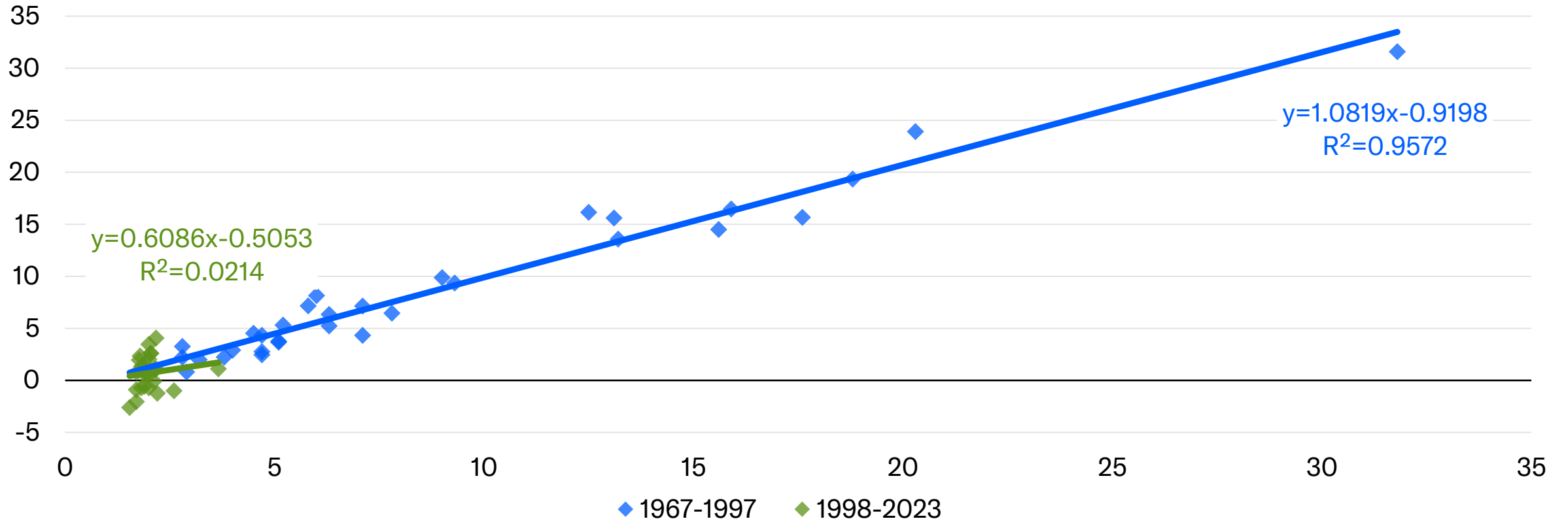
Real cash earnings, % change yr ago



Sources: Statistics Bureau Japan, Ministry of Health, Labour and Welfare of Japan, Moody's Analytics

Excited by 2023's and 2024's Strong Shunto Results? Don't Be

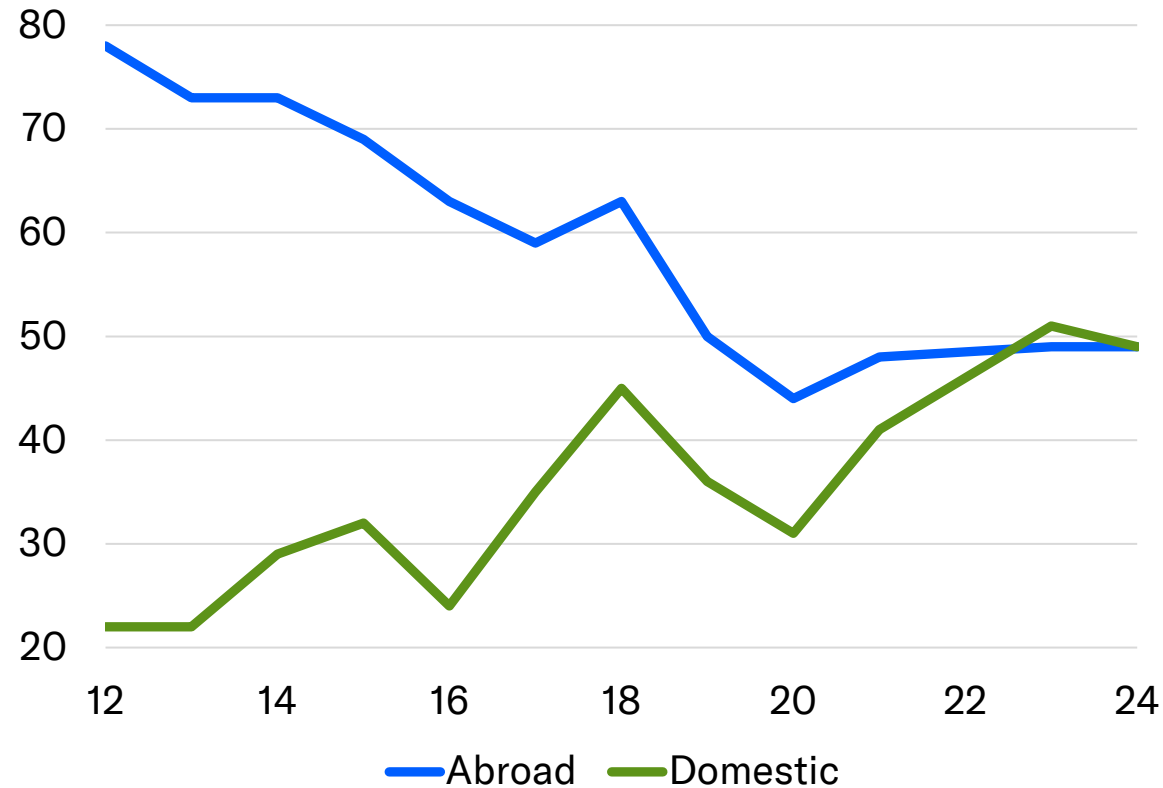
Growth in compensation per hr, % (y-axis) vs. total shunto pay gain, % (x-axis)



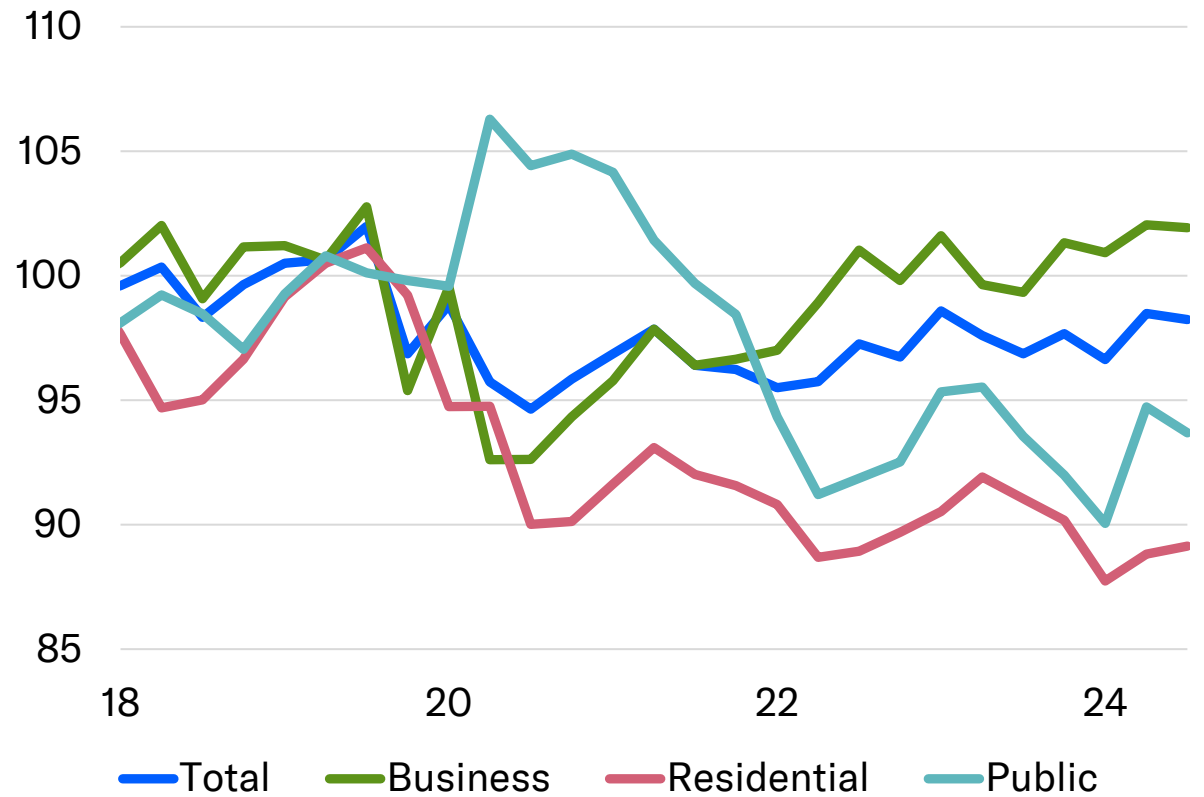
Sources: Japanese Trade Union Confederation, Central Labour Relations Commission, Moody's Analytics

Domestic Investment Is Struggling to Get Traction

% of Japanese firms planning to increase investment*



Real fixed investment by type, 2019=100



*Note: Percentage share of large manufacturers that plan to strengthen production bases over the next 3 yrs.

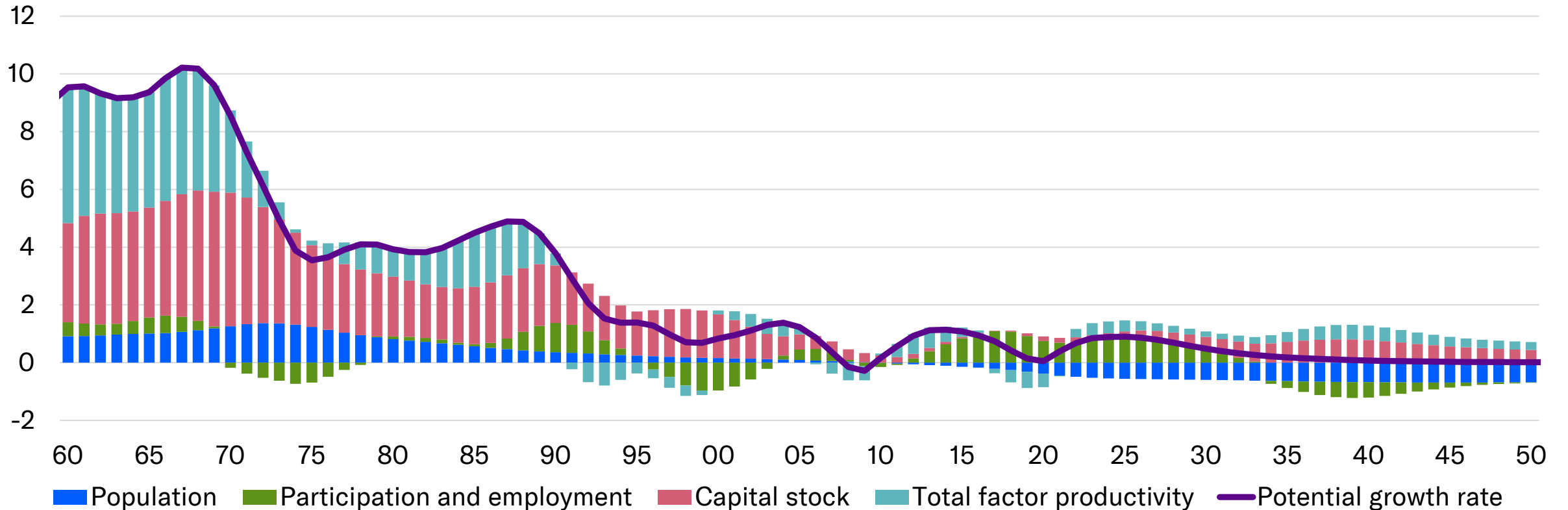
Sources: Cabinet Office, Development Bank of Japan, Moody's Analytics

The background features a dark blue gradient with intricate, glowing blue wavy lines that create a sense of depth and movement. These lines are composed of many thin, overlapping curves that form a complex, organic pattern. The lines are most prominent in the upper left and lower right corners, with a smaller section appearing on the right side. The overall effect is a modern, digital aesthetic.

Risks

Demographic Change Can Be Managed

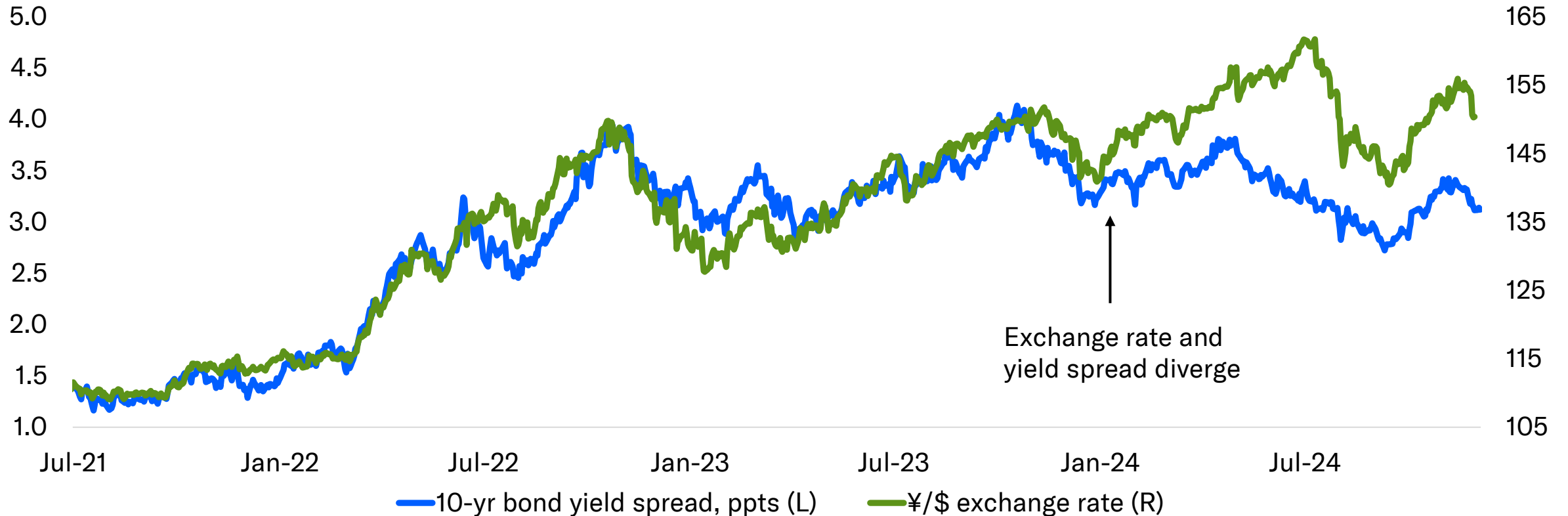
Potential GDP growth, % change yr ago; ppt contribution by source



Sources: Cabinet Office, Penn World Tables, Moody's Analytics

The Yen Is Weaker Than the Yield Spread Suggests

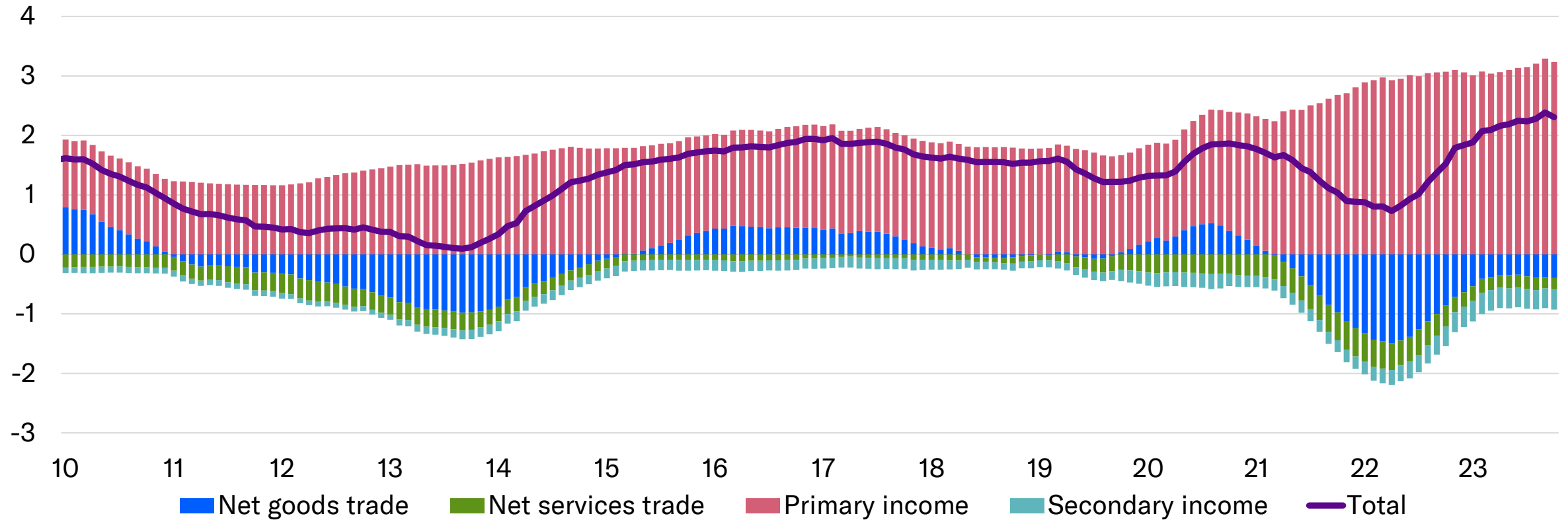
Spread between 10-yr government bond yields, ¥/\$ exchange rate



Sources: U.S. Federal Reserve, Ministry of Finance Japan, Moody's Analytics

Japan Runs a Robust Current Account Surplus

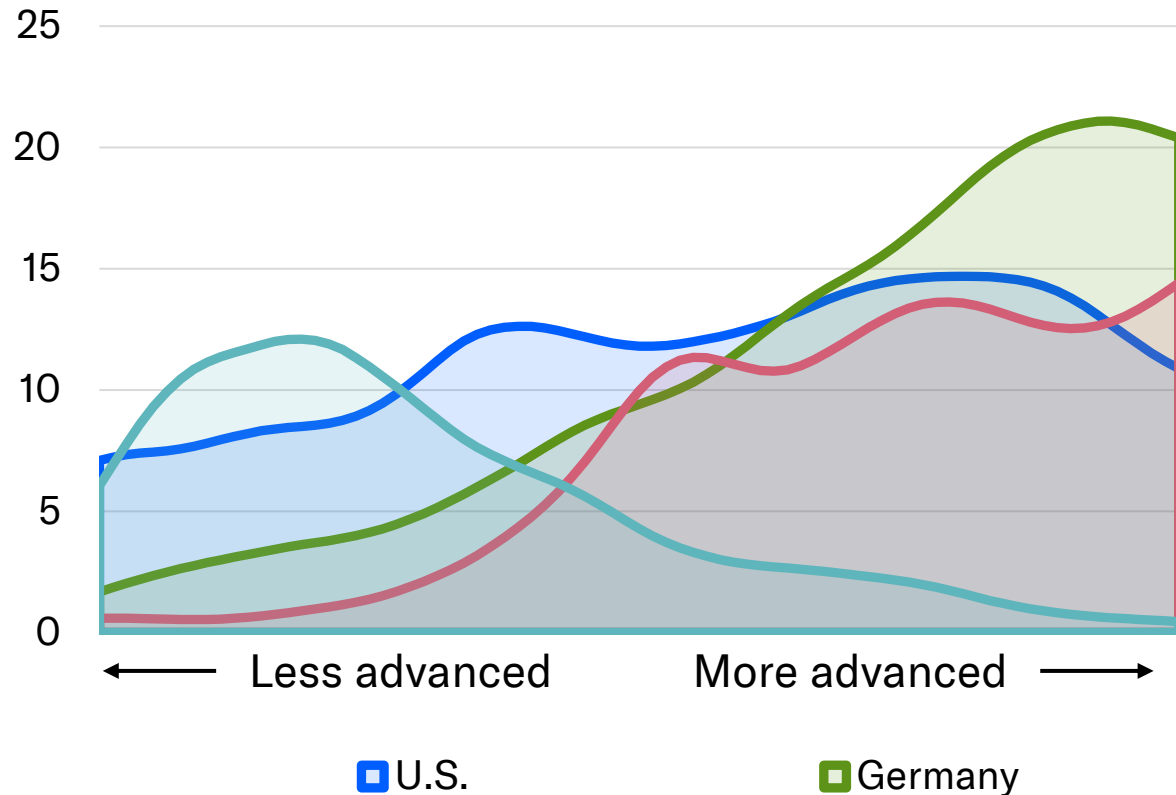
Current account, ¥ tril, SA, 12-mo MA



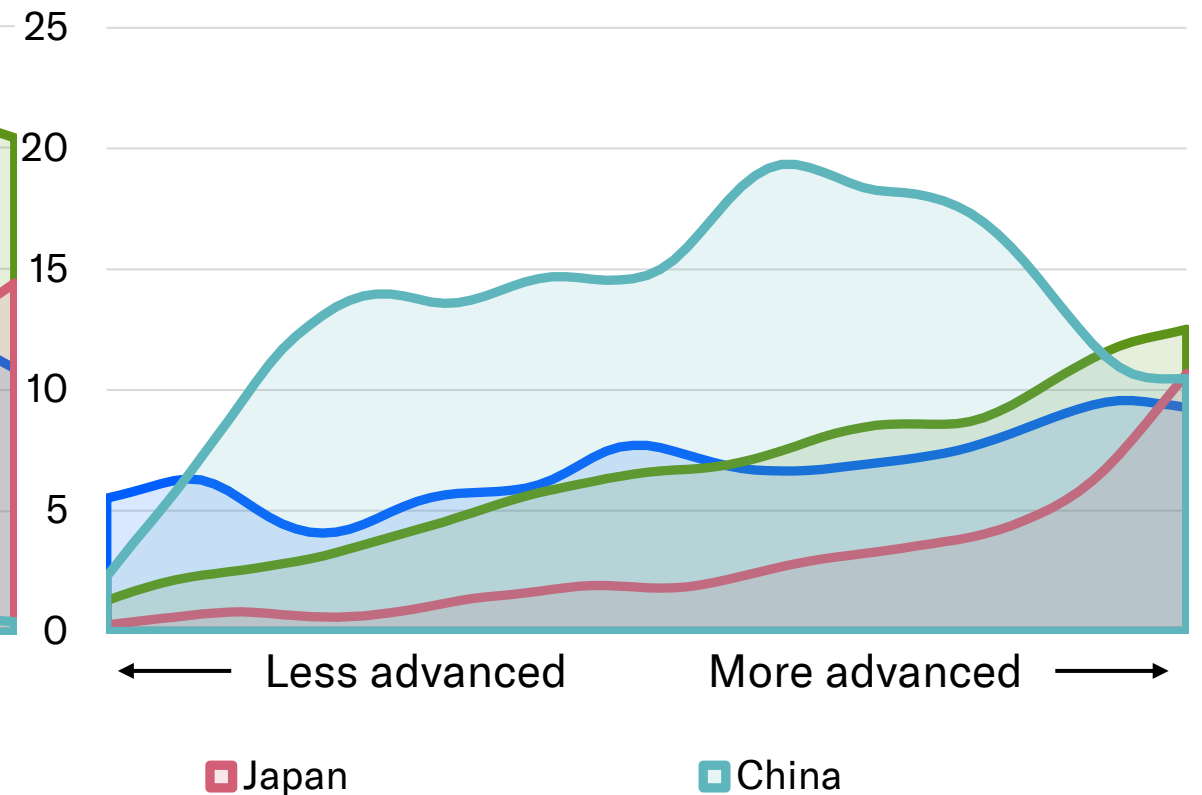
Sources: BoJ, Moody's Analytics

Everything Is 'Made in China'

World export share, %, 1995, by type



World export share, %, 2023, by type



Sources: Atlas of Economic Complexity, U.N. Comtrade, Moody's Analytics

The background is a solid dark blue color. It features two abstract, wavy line patterns. The larger pattern on the left consists of many thin, overlapping lines that create a grid-like effect, with the lines curving and flowing across the frame. A smaller, similar pattern is located on the right side. The overall aesthetic is modern and digital.

Q&A

MOODY'S

Thank you

Contact Us

Email	helpeconomy@moodys.com
U.S./Canada	+1.866.275.3266
EMEA	+44.20.7772.5454 (London) +420.234.747.505 (Prague)
Asia/Pacific	+852.3551.3077
All Others	+1.610.235.5299

www.economy.com

Please attribute information in this document to Moody's Analytics, which is a division within Moody's that is separate from Moody's Ratings. Accordingly, the viewpoints expressed herein do not reflect those of Moody's Ratings.

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Materials.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V., I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Clasificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.