Outlook for the Japanese and Overseas Economies

ECONOMIC RESEARCH OFFICE
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MUFG Bank, Ltd.
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Contents

Executive Summary

Global economic recovery to gain momentum in 2021 and 2022 as the spread of COVID-19 slows on rising vaccination rates, mainly in developed economies

- In 2020, economies around the world took a major hit from the spread of COVID-19 and strict public health measures were imposed to curb infection. After the initial shock, countries and regions sought economic recovery by balancing public health measures and economic activity as governments carried out large-scale economic relief measures and people adopted new ways of life. However, with no vaccine or cure available, the road to economic recovery was no smooth sailing through to the end of 2020.
- With vaccines rolled out in some countries at the end of 2020, data thus far suggests that their effect is significant, raising hope for a long-awaited end to the pandemic. The speed of vaccine rollout varies by country, but vaccination rates are rising and will likely reach meaningful levels by the end of 2021 in developed economies. Based on results in the UK and the US, where vaccines first became available, COVID-19 infection will likely come under control mainly in developed countries with rising vaccination rates, and economic recovery is expected to gain momentum as activity restrictions are gradually eased. Real GDP in major developed economies will likely return to their pre-pandemic levels of 2019 by 2022. That being said, the US may be the only major developed economy to revert to its pre-pandemic growth trend by the end of 2022, supported by large-scale economic relief measures.
- Newly emerging economies (except China) have struggled to curb COVID-19 cases as vaccine rollouts have been slow. Their real GDPs are projected to grow at a reasonable rate in 2021 due to their relatively high potential growth rates and a rebound from the previous year. However, economic activity will likely remain below the trajectory it was on before the pandemic in many countries. China's real GDP has already reverted to its pre-pandemic trajectory and will likely continue increasing at a pace comparable to that of the pre-pandemic era.
  - Global economy: Real GDP is projected to grow by 5.7% YoY in 2021 and by 4.4% in 2022, with the US and China driving growth, but the level of real GDP will likely remain below the trend established before the pandemic.
  - US: Vaccine rollout has been relatively quick compared with other developed economies. Real GDP is projected to grow by 6.0% YoY in 2021 and by 4.3% in 2022, supported by large-scale economic relief measures. Real GDP reverted to its pre-pandemic level of 2019 in the January-March 2021 quarter on an annualised basis, and annual real GDP in 2021 is projected to significantly surpass that level. In 2022, real GDP is projected to revert to its pre-pandemic growth trend.
  - Eurozone: The pace of inoculation is speeding up and the Eurozone is catching up with other economies after initial delays. Real GDP is projected to grow by 4.0% YoY in 2021 and by 4.4% in 2022. Annual real GDP is projected to return to its pre-pandemic level of 2019 in 2022, but will likely remain below its pre-pandemic growth trend.
  - Japan: The vaccine rollout has been slow so far, but based on the assumption that Japan achieves the government's vaccination target, real GDP is projected to grow by 2.2% YoY in 2021 and by 3.0% in 2022. Annual real GDP is projected to return to its pre-pandemic level of 2019 in 2022, but will likely remain below its pre-pandemic growth trend.
  - China: The real GDP has already reverted to its pre-pandemic growth trend, and is projected to continue growing at a pace comparable to that of the pre-pandemic era as support from policies bolsters the economy. With a base effect at play, annual real GDP is projected to grow by 8.4% YoY in 2021, surpassing the minimum target of 6.0% set forth at the National People's Congress. In 2022, growth is projected to slow down to 5.5% YoY.
- Areas of uncertainty for the future include the speed of vaccine rollout, the course of the pandemic with virus variants in the picture, the continuity of governments' economic policy measures, and US-China tension (see note below). When it comes to vaccine rollouts and course of the pandemic, both upside and downside risks exist, but our forecast factors in more upside risks. Countries and regions are expected to keep economic relief measures in place through 2022 while re-examining scale and scope. US-China tension will likely remain elevated after intensifying during the previous US administration.

Note: The global tide of decarbonisation is another area to be watched closely. To achieve the ambitious goal of carbon neutrality by 2050 set forth at the UN Climate Change Conference, investment in areas such as renewable energy, hydrogen energy and storage batteries is essential. It is unclear how much of such green investment will materialise in the period covered in this Outlook report (next year and a half). However, European, US governments have expressed an intent to strengthen these efforts, so policy moves in this area should be watched closely along with moves by private-sector companies.

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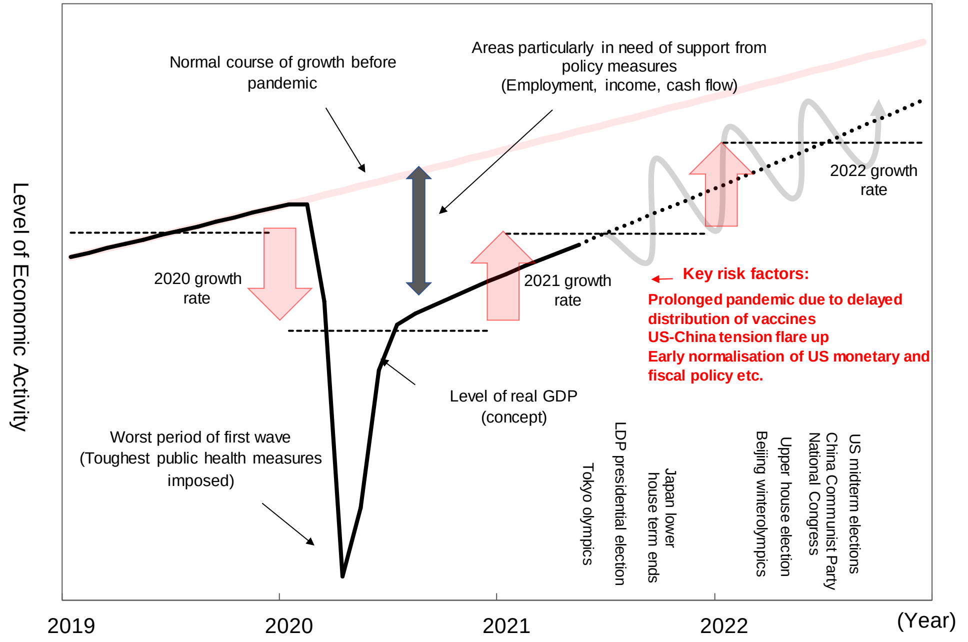
1. Overview

- In 2021 and 2022, recovery of the global economy will likely go into full swing as the spread of COVID-19 slows on rising vaccination rates mainly in developed economies.
- Annual real GDP levels in major economies are projected to return to their 2019 pre-pandemic levels in 2021 in the US, and in 2022 in the Eurozone and Japan. In China, real GDP has mostly reverted to the trajectory it was on before the pandemic and will likely continue increasing at a pace comparable to that of the pre-pandemic era.

Assumptions

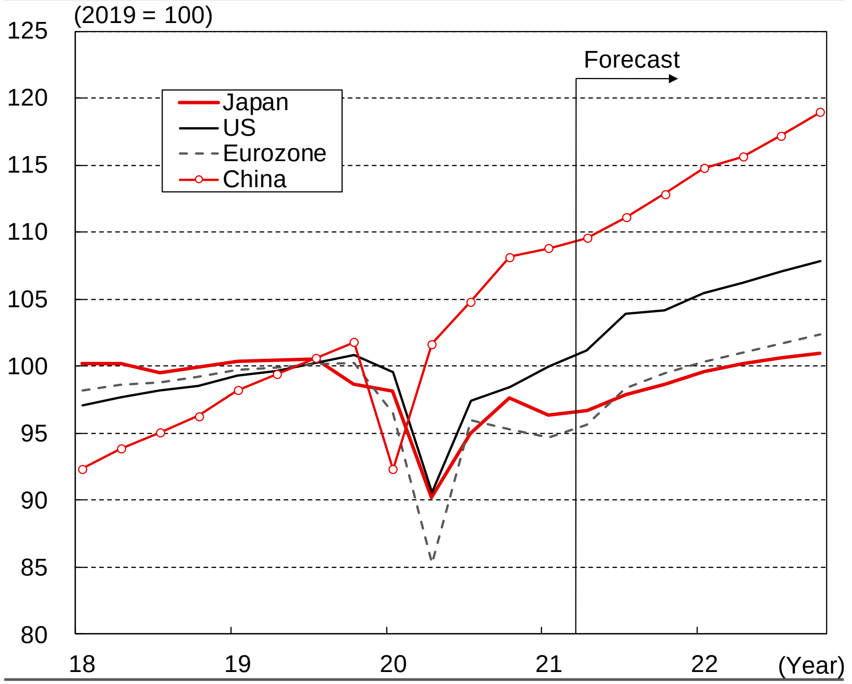
- ✓ **Effect of treatments and vaccines**: The spread of COVID-19 infection will be curbed as vaccination rates rise mainly in developed economies. The timing of widespread vaccine rollouts will vary from country to country.
- ✓ **Pandemic**: The spread of COVID-19 infections will come under control in countries with higher vaccination rates. In countries with lower vaccination rates, the situation will gradually improve as public-health measures for curbing infection are continually adjusted in terms of stringency (public-health measures will not be as extensive as they were during the first wave of infection last year).
- ✓ **Policy response**: While avoiding drastic changes, countries and regions will maintain monetary and fiscal policy measures albeit on a reduced scale or scope.

Post COVID-19 Economic Activity (Concept mainly for developed economies)



Note: Line chart is a concept illustration and not a precise depiction of GDP levels.
Source: Various statistics, MUFG Bank Economic Research Office

Real GDP in Major Economies



Source: Statistics from each country, MUFG Bank Economic Research Office

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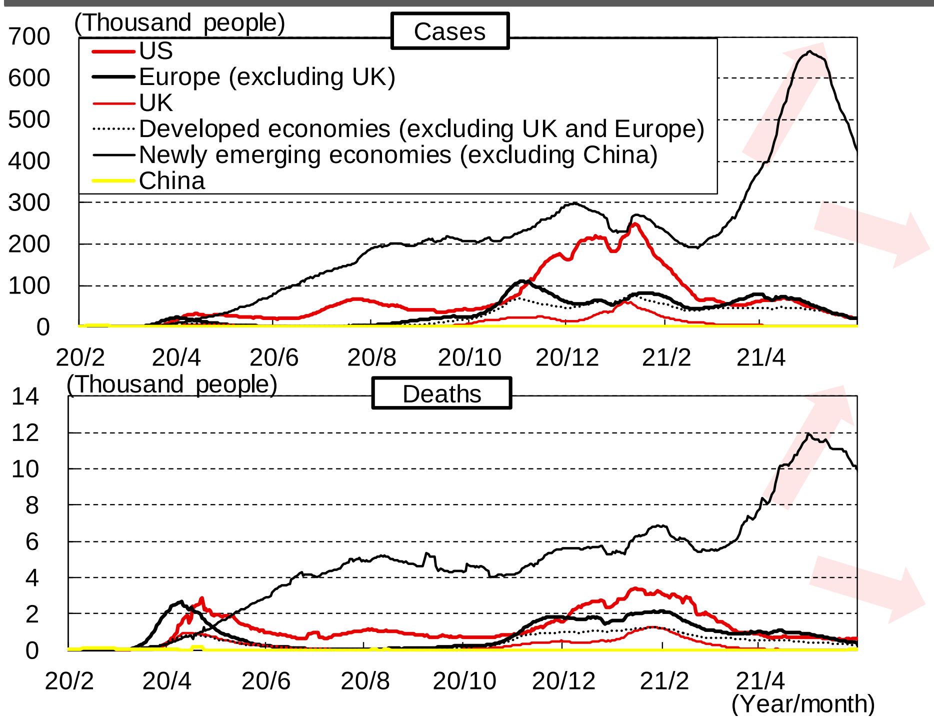
2. Forecasting the COVID-19 Pandemic: Number of Cases

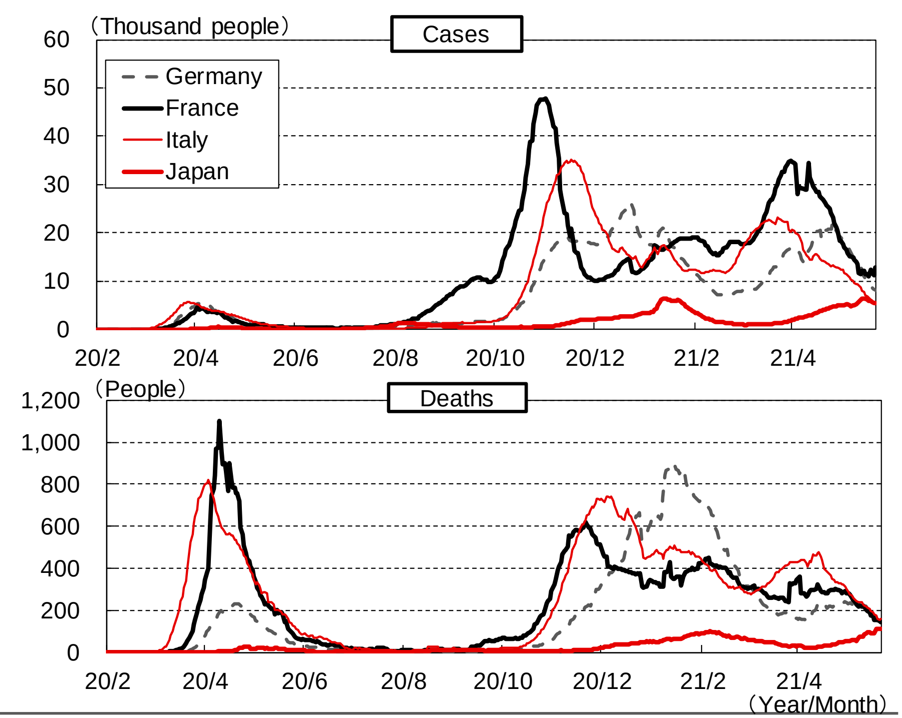
- As of 30 May 2021, cumulative cases totalled 169 million and deaths 3.53 million according to the World Health Organization.
- Progress of COVID-19 vaccine rollout and developments surrounding virus variants are the latest topics of focus.

Status of Vaccine Rollout and COVID-19 Spread by Country

US and UK	Vaccine rollout has been relatively quick, and COVID-19 case counts have decreased even with the gradual easing of movement restrictions.
Europe (excluding UK)	Catching up to other countries with inoculations. Third wave of infection has peaked.
Japan	Vaccine rollout has been slow and the country has yet to start catching up. Currently in fourth wave of infection.
Newly emerging economies including India and Brazil (excluding China)	Vaccine rollout has been slow, and virus variants are wreaking havoc. India's recent surge in cases has peaked.

COVID-19 New Cases and New Deaths by Country and Region





Note: *Europe* includes Germany, France, Italy and Spain
Source: World Health Organization, MUFG Bank Economic Research Office

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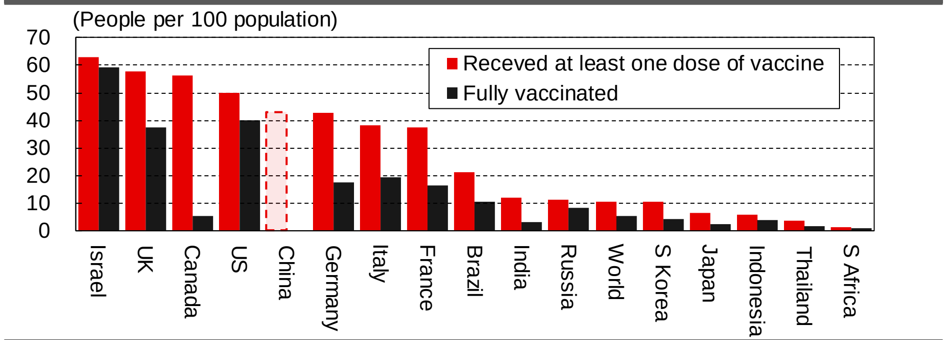
2. Forecasting the COVID-19 Pandemic: Vaccinations

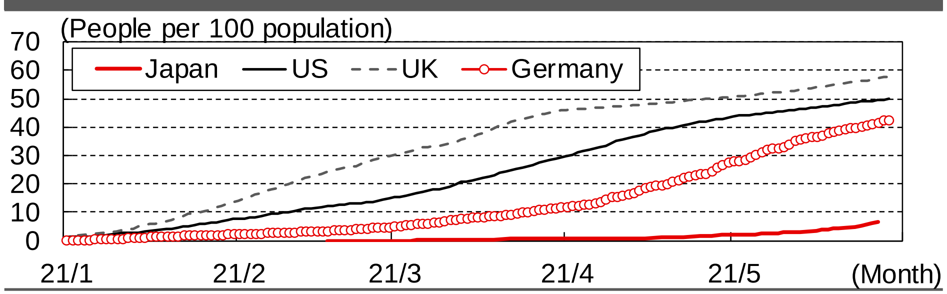
- Israel, UK, US and Eurozone have been relatively quick to distribute vaccines widely (US aims to have 70% of its adult population receive at least one dose of vaccine by the 4 July Independence Day, and the UK targets the same for 50% of its adult population by the end of July.)
- The speed of vaccine rollouts vary widely by country. As of the end of May, the global vaccination rate is only around 10%. Newly emerging economies have been particularly slow in this respect, laying bare the economic divide with developed economies. As a developed country, Japan has been lagging behind in inoculations, and its vaccination rate is comparable to that of newly emerging economies as of 29 May.
- Going forward, developed economies that can secure enough supply of vaccines will likely make swift progress and reach a vaccination rate high enough to curb the spread of COVID-19 by the end of this year. Newly emerging economies, meanwhile, will likely need more time, with some countries unable to carry out a full-scale vaccination rollout until 2022.
- As for Japan, the capacity to administer vaccines has increased sharply (according to government data), so its vaccination rate is presumed to reach at least the Eurozone's current vaccination rate by the end of this year.

Vaccination Rates of Major Economies (as of 29 May)



Note: For *China*, comparable data is not available so the number of doses given is presumed to be equal to number of people who received at least one dose (shown in red dotted line) .
Source: *Our World in Data* website run by Oxford University, MUFG Bank Economic Research Office

Cumulative Number of People Who Received at Least One Dose



Source: *Our World in Data* website run by Oxford University, MUFG Bank Economic Research Office

Japan Vaccination Plan (Health ministry's assumption)

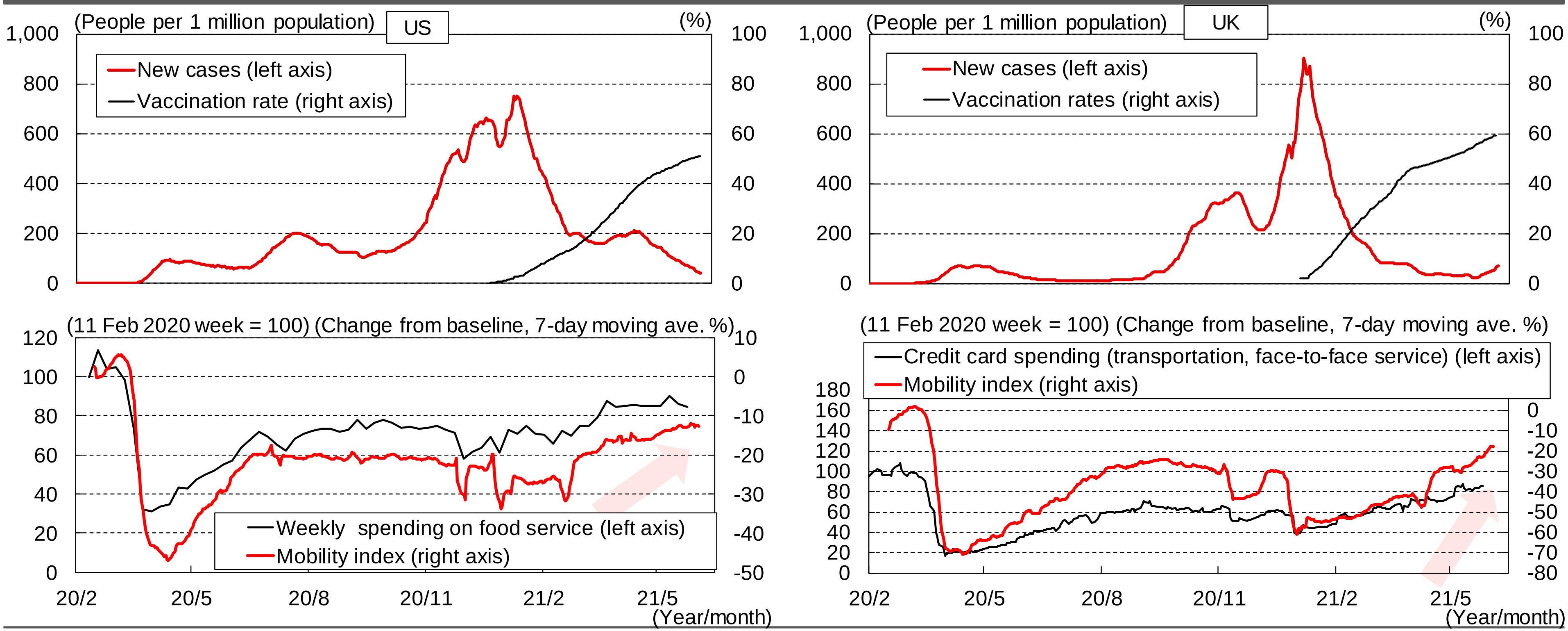
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Healthcare workers (first 20,000 people)	Vaccinated							
Healthcare workers (3.7 million people)		Vaccinated						
Seniors (age 65+) (36 million people)		Voucher sent	Vaccinated					
Senior care workers (2 million people)			Voucher sent		Vaccinated			
People with underlying illness (8.2 million people)			Voucher sent		Vaccinated			
Age 60-64 (7.5 million)			Voucher sent		Vaccinated			
Other people (~50% of population)	Vaccines to be available in phases based on supply etc. (No timeline has been set for those 16 and younger)							
Supply plan	Supply 244 million doses by the end of September (194 million Pfizer vaccine, 50 million Moderna vaccine)							

Source: Japan Ministry of Health, Labour and Welfare, MUFG Bank Economic Research Office

2. Forecasting the COVID-19 Pandemic: The Relationship between Vaccinations and Mobility and Consumption

- In the US and UK, which have been relatively quick to roll out vaccines, infection rates have declined noticeably.
- In both countries, restrictions on activities are being lifted in phases. As people's level of activity increases, household spending on face-to-face services has picked up. In the US, consumer spending on food services has recovered to over 80% of pre-pandemic levels.
- When it comes to questions about the duration of protection offered by vaccines and how often they will be needed, there is no medical or epidemiological consensus. Nevertheless, at least for the short term, vaccines are evidently effective in curbing the spread of COVID-19. Economic recoveries are expected to accelerate when vaccine rates rise to certain levels and the pandemic comes under control as public health measures are gradually eased and consumer and business sentiment improves.

Vaccination Rates, Numbers of COVID-19 Cases, Mobility and High-Frequency Data for US and UK

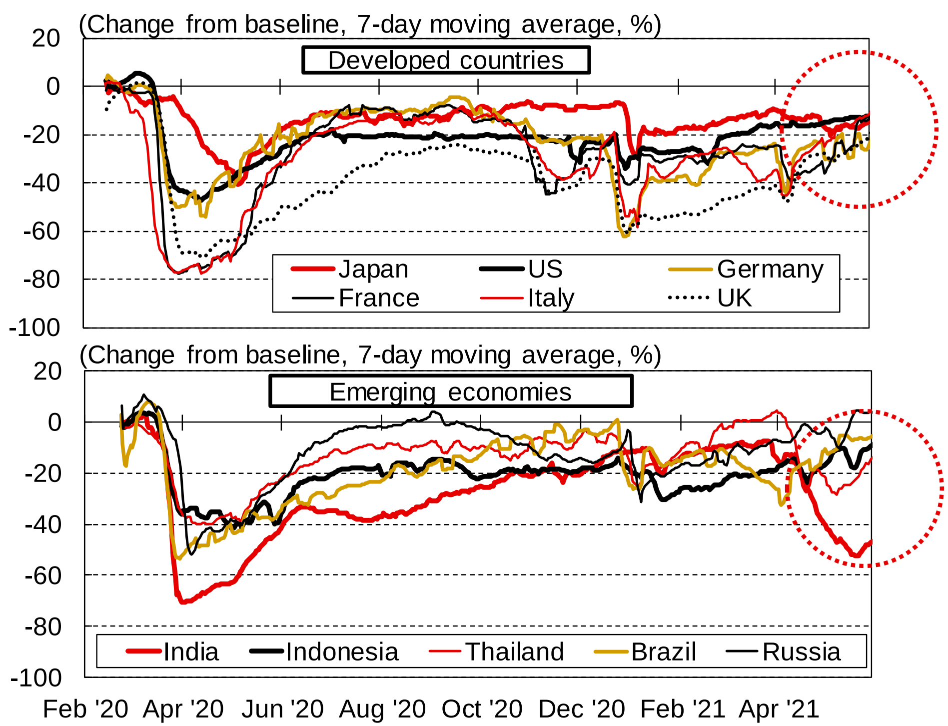


Note: For mobility, the baseline is the median value, for the corresponding day of the week, during the 5-week period 3 Jan–6 Feb, 2020.
Source: Google, Out World in Data website run by Oxford University, UK office for National Statistics, Bank of England, Federal Reserve of New York, US Department of Commerce, MUFG Bank Economic Research Office

3. The Global Economy: Mobility and Economic Growth

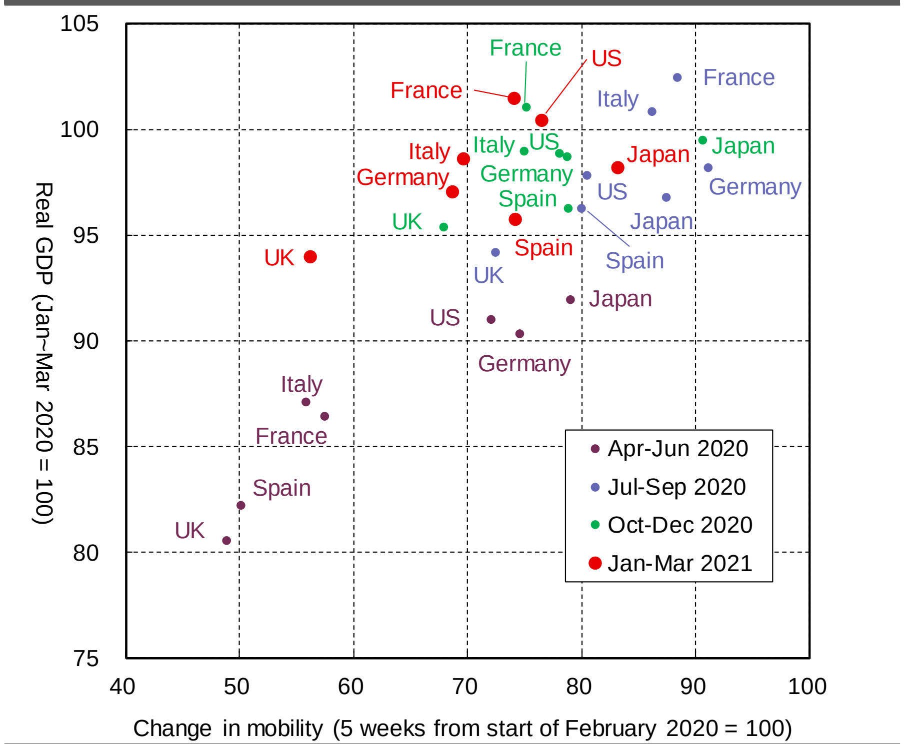
- During the pandemic, restrictions on movement and reduced activity took a heavy toll on economic growth. High-frequency data such as mobility data can serve to gauge the extent of the fall in activity and should continue to be monitored (the data has a short history, so it is important to bear in mind the seasonal impacts on mobility).
  - ✓ Mobility data shows a slump during the first wave of infections last year and then a subsequent rebound. However, mobility has not yet returned to its pre-COVID-19 levels and it continues to fluctuate in response to increases and decreases in the number of new cases.
  - ✓ Currently, mobility is still below pre-pandemic levels in most countries and is putting downward pressure on economic activities. That being said, lifestyles are adapting to COVID-19 and there are signs that the relationship between mobility and the level of economic activity is starting to weaken (the level of economic activity is rising for the same level of mobility).

Mobility Trends in Developed and Newly Emerging Economies*



Note: Baseline is calculated based on data from 3rd Jan through 6th Feb 2020.
*Mobility covers retail and recreation, grocery and pharmacy, transit stations and workplaces
Source: Google, MUFG Bank Economic Research Office

Mobility and Real GDP Level in Major Economies



Note: Mobility data is quarterly average of median values for retail and recreation, grocery and pharmacy, transit stations, and workplaces.
Source: Google, MUFG Bank Economic Research Office

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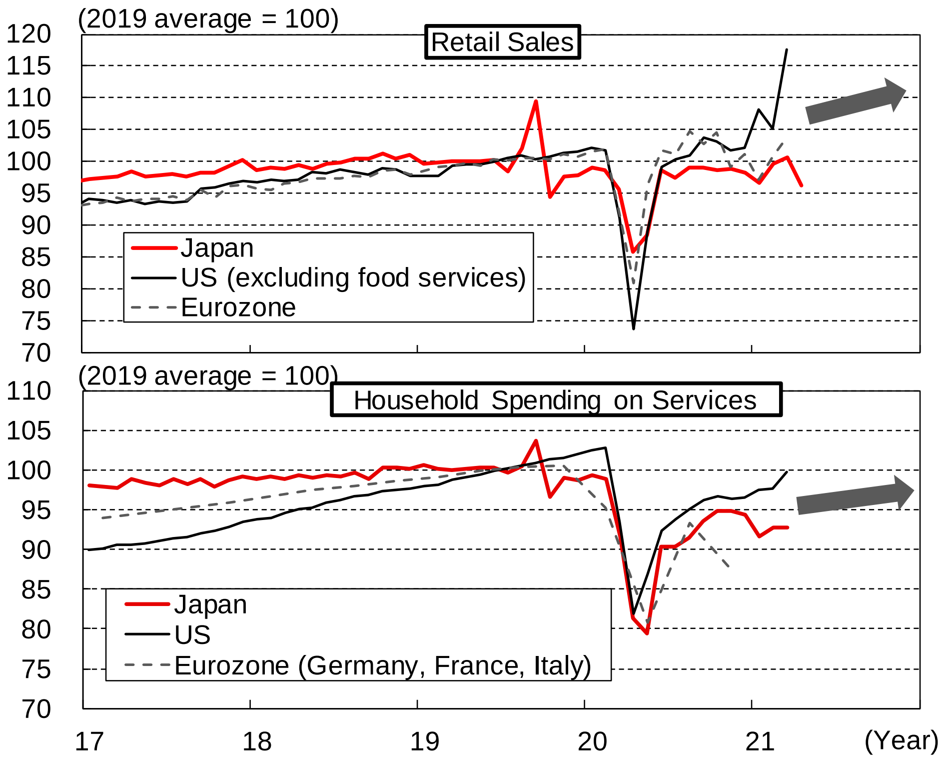
3. The Global Economy: Consumption (Developed Economies) and Production

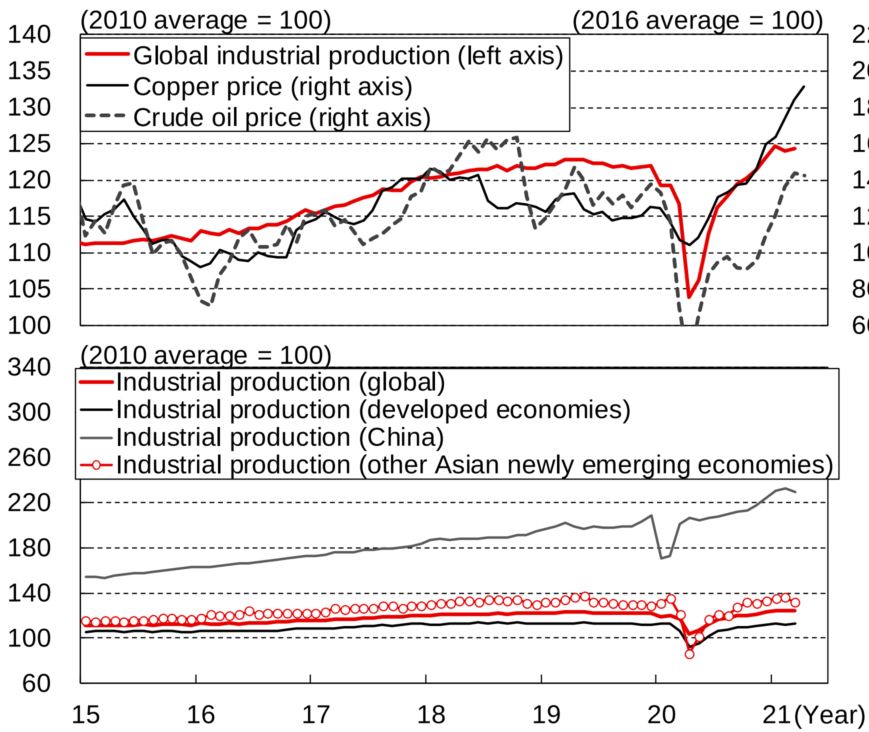
- As for consumer spending in major developed economies, consumer spending on services has been slow to recover in different parts of the world, especially for face-to-face services. Meanwhile, spending on goods has generally returned to pre-pandemic levels. Consumer spending on goods has been faring particularly well in the US compared with other economies.
- The recovery of consumer spending on goods has led to an increase in production activities in many countries, with China being a prime example. Global industrial production has returned to pre-pandemic levels and resource prices have risen sharply starting in the second half of 2020. Pent-up demand continues to be strong, and new types of demand are expected to emerge from the pandemic. A sharp recovery in production activities early on in an economic recovery often does not last long, so the recovery of production activities will likely run its course soon.

Retail Sales and Service Spending in Major Developed Economies



Note: Household spending on services is on real terms for Japan and nominal terms for US and Eurozone
Source: Statistics from each country, MUFG Bank Economic Research Office

Global Industrial Production, Copper and Oil Prices and Industrial Production by Region

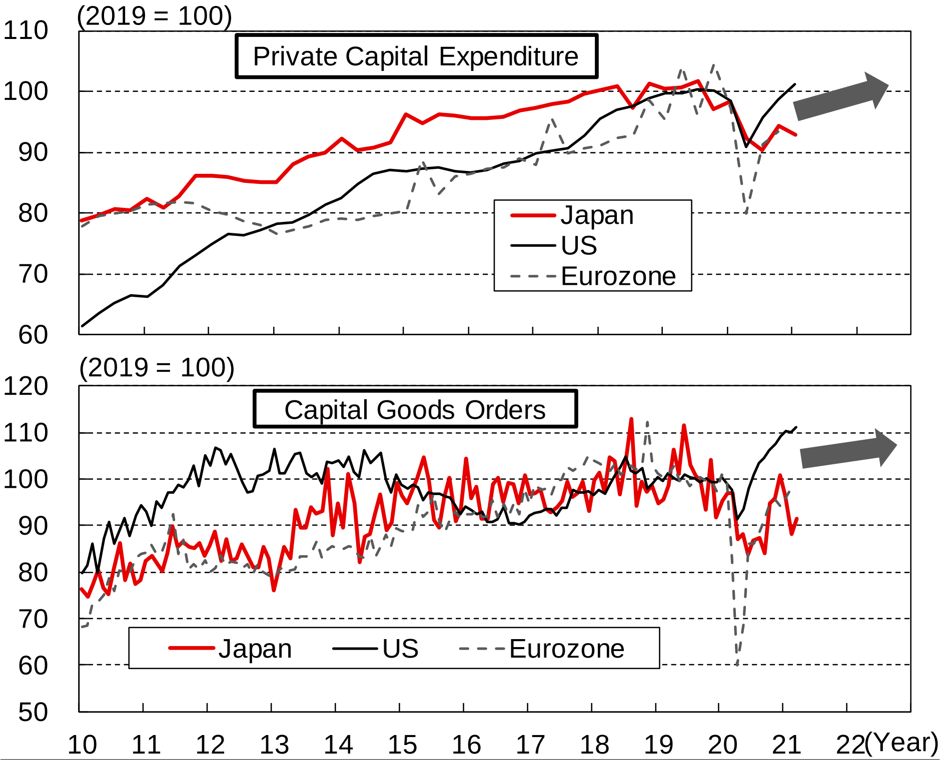


Source: CPB Netherlands Bureau for Economic Policy Analysis, Bloomberg, MUFG Bank Economic Research Office

3. The Global Economy: Capital Expenditure and Exports (Developed Economies)

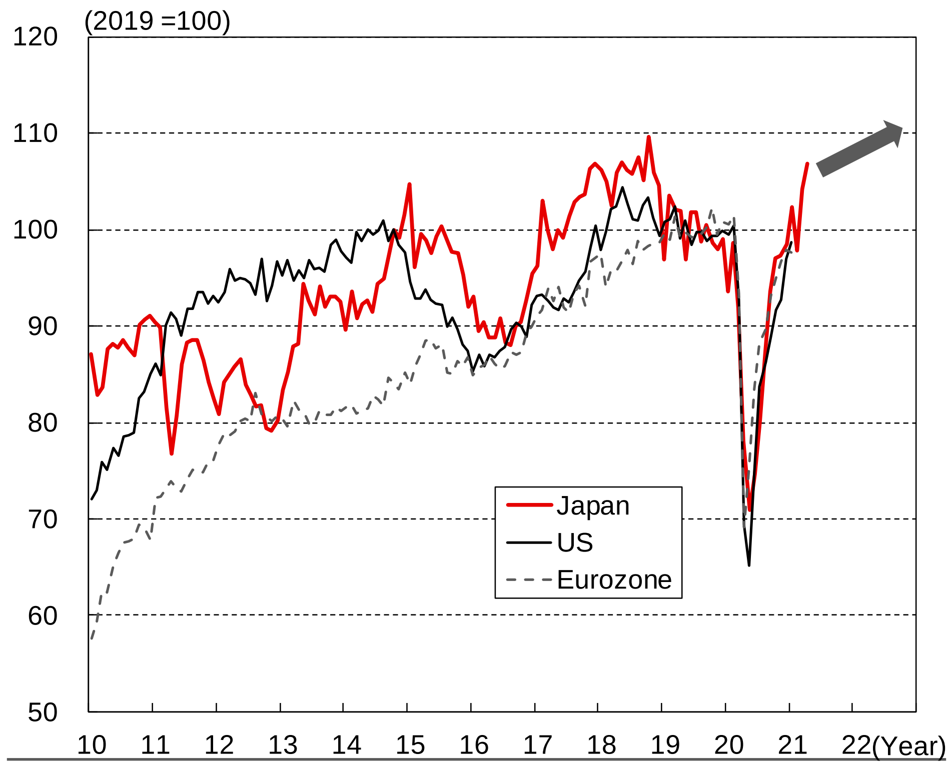
- Private capital expenditure in major developed economies declined sharply when the pandemic started. However the leading indicator of capital expenditure is now rising steadily as business earnings improve, especially for manufacturers. The increase in working from home, along with other factors, seems to have boosted IT investment. In service industries, where earnings have been slow to recover and there is a great deal of uncertainty about the future, capital expenditure will likely remain subdued. Nevertheless, capital expenditure is expected to recover at a moderate pace on the whole, with manufacturers driving the growth.
- With consumer spending trends strong or steady in the US and China and a rebound in manufacturing production, major developed economies' exports of goods have increased steadily. Exports will likely stay on growth trend as domestic demand recovers gradually in other major developed economies as well.

Private Capital Expenditure and Capital Goods Orders



Note: Capital goods orders for Japan are private-sector machinery orders excluding for ships and from power companies; for US are nondefense capital goods excluding aircraft; for Eurozone are manufacturing capital goods new orders.
Source: Japan Cabinet Office, US Department of Commerce, Eurostat, MUFG Bank Economic Research Office

Exports of Major Developed Economies



Source: Ministry of Finance, Department of Commerce, Eurostat, MUFG Bank Economic Research Office

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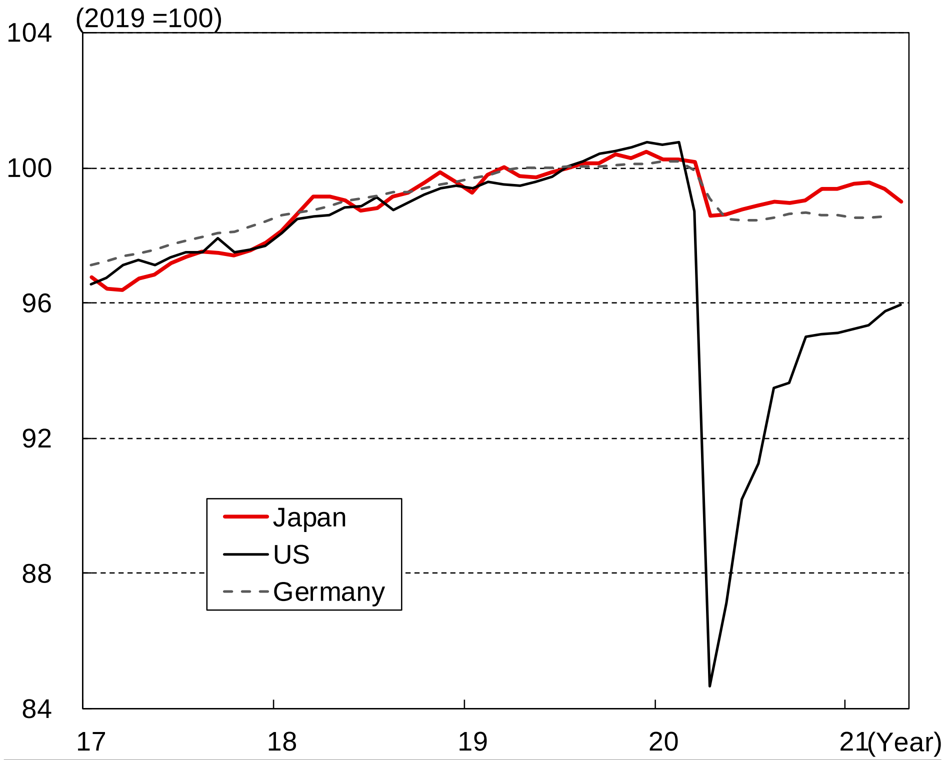
3. The Global Economy: Employment (Developed Economies)

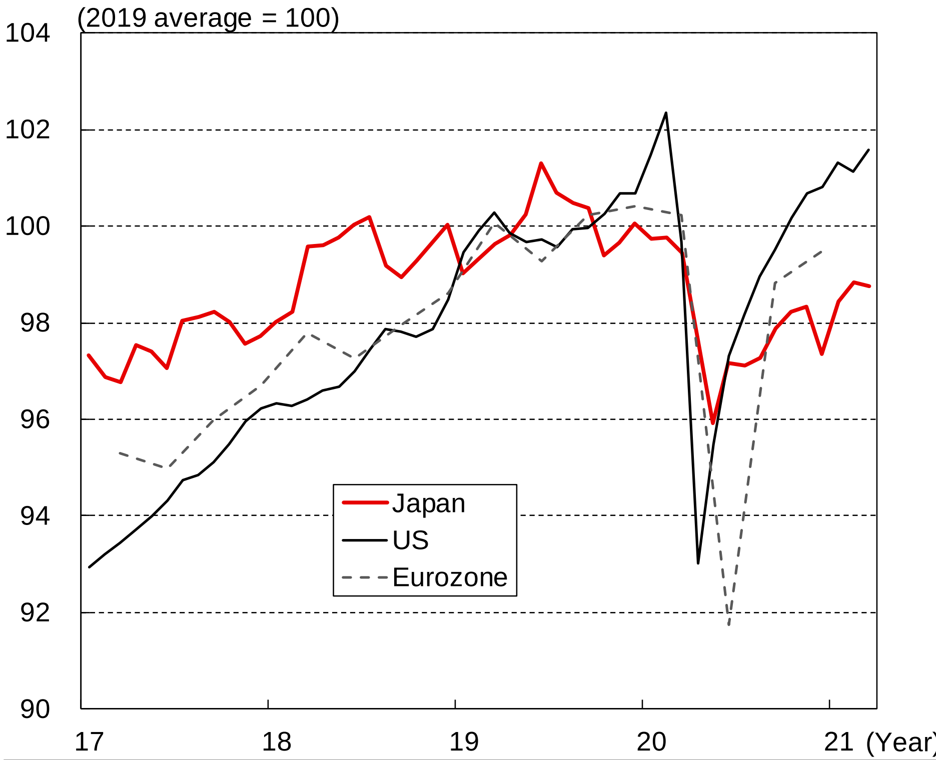
- The employment situation in major developed economies worsened in different ways depending on the location. In the US, the number of employees decreased sharply last year because companies mainly responded to demand declines by adjusting their employee count, which still is significantly lower than it was before the pandemic. In Japan and Europe, declines in the number of employees were limited last year as companies mainly adjusted working hours, but a full-fledged recovery in the number of employees. Face-to-face service industries like food and lodging continue to face harsh business conditions in many countries. However, as vaccination rates rise and activity restrictions ease, increases in employee counts will likely accelerate.
- In Japan, the US and Eurozone, total employee income remains below their pre-pandemic growth trends due to reduced employment in face-to-face service industries, which were affected severely by the pandemic. As the economy normalises going forward, recovery in total employee income will likely be more pronounced, although the pace of recovery will vary from industry to industry.

Numbers of Employees in Japan, US and Germany



Source: Statistics from each country, MUFG Bank Economic Research Office

Real Employee Income in Japan, US and Eurozone

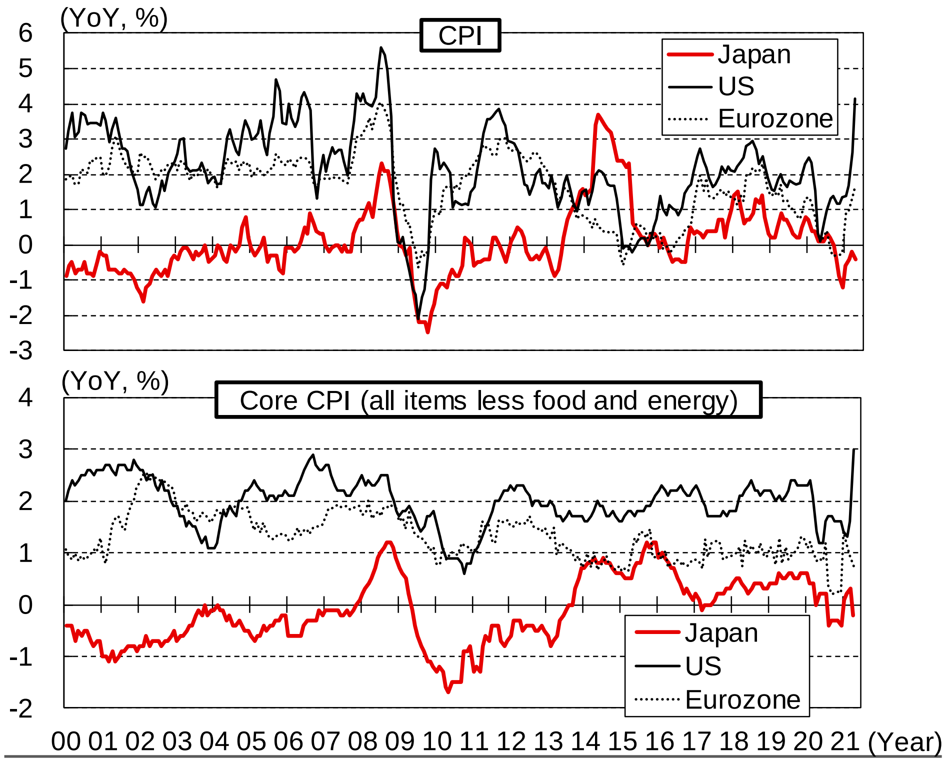


Source: Statistics from each country, MUFG Bank Economic Research Office

3. The Global Economy: Prices (Developed Economies)

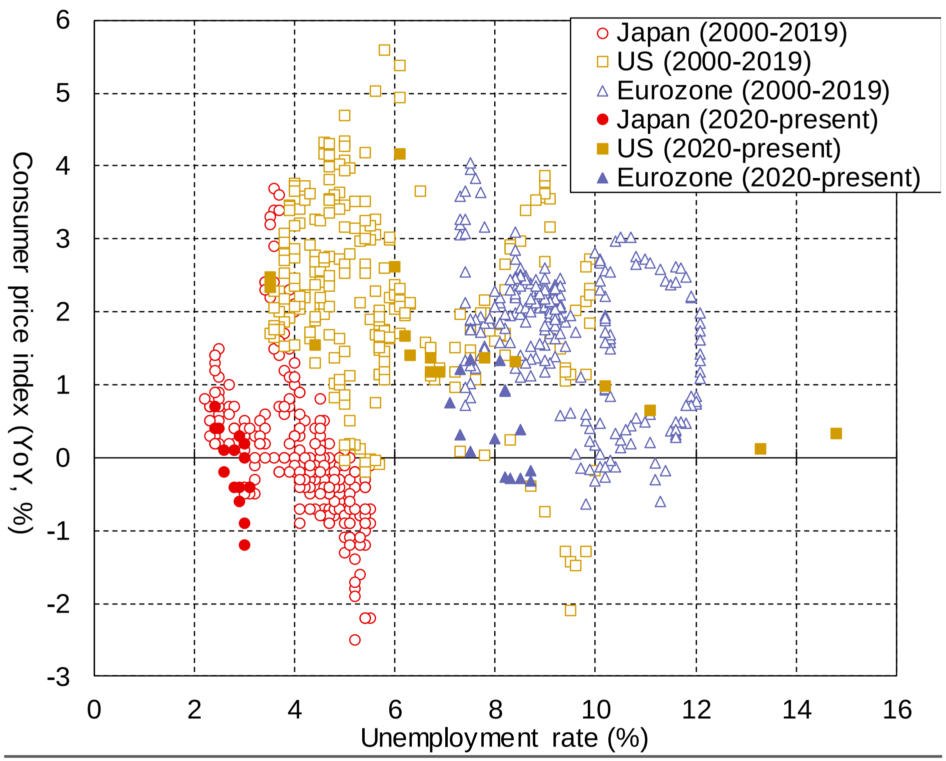
- The Consumer Price Index (CPI) of major developed economies shows the slowdown in inflation caused by the pandemic was limited in the US, both for all-item CPI and core CPI, and inflation has accelerated sharply in recent months owing to a rise in vaccination rates, support for the economy from multiple economic relief measures, and a rise in energy prices. Yet many of the contributors to higher inflation appear to be temporary factors, such as an increase in used vehicle prices due to tight supply-demand balance, and a rebound in air fares.
- Eurozone inflation has accelerated in 2021, but this is due to temporary factors such as the expiration of value-added tax (VAT) rate reduction in Germany. Meanwhile, in Japan, inflation slowed further due to the pandemic, and the rebound has been limited. In April 2021, all-item CPI and core CPI both declined YoY due in part to cuts in mobile phone service charges.
- In Japan, the US and Eurozone, unemployment rates (a proxy for the output gap) have a mild inverse correlation with CPI inflation. As economies recover from pandemic-related declines, there is forecast to be a temporary acceleration in inflation due in part to a rebound. However, as temporary factors gradually fade, CPI inflation will likely revert to pre-pandemic levels.

Consumer Price Index in Japan, US, Eurozone



Note: Core CPI for Japan excludes fresh food and energy
Source: Japan Ministry of Internal Affairs and Communication, US Department of Labor, Eurostat, MUFG Bank Economic Research Office

CPI (all items) and Unemployment Rates in Japan, US, Eurozone

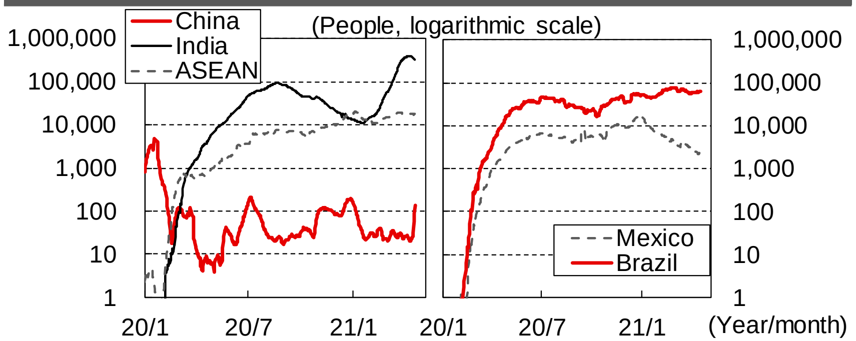


Source: Japan Ministry of Internal Affairs and Communication, US Department of Labor, Eurostat, MUFG Bank Economic Research Office

3. The Global Economy: Newly Emerging Economies

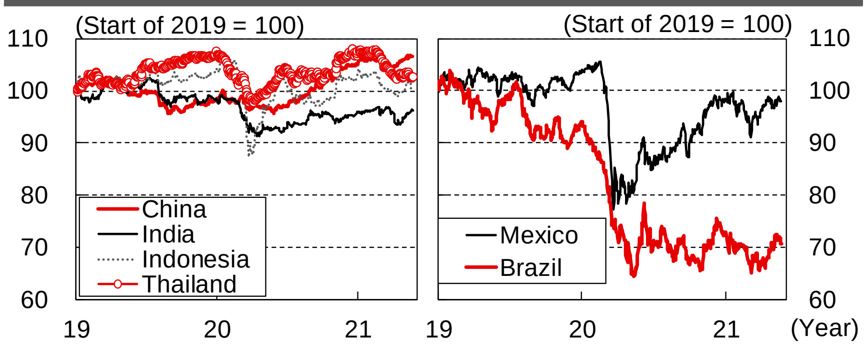
- As for newly emerging economies, a wide gap remains between China and others in terms of economic recovery. While China has successfully curbed the spread of infection, ASEAN and India have experienced a surge in cases this year and Brazil's case count remains elevated. These countries have started to inoculate their populations, but will likely lag behind developed economies in broad-based vaccine distribution, which means public health measures will continue to be key in curbing infection for the time being. Evolution of the pandemic needs to be monitored carefully.
- Recovery of automobile sales – an indicator of consumer spending – has run its course in Latin America and ASEAN. Automobile sales in India have returned to 2019's pre-pandemic levels when sales were reduced due to credit tightening, but there are concerns they will decline sharply due to another rise in COVID-19 cases.
- Foreign exchange rate trends are in line with economic fundamentals, and Asian currencies are generally strong. Many countries have adopted expansive monetary policies amid the prolonged pandemic, but Brazil raised its policy rate due to its persistently weak currency and concerns about inflation.

New Cases by Country



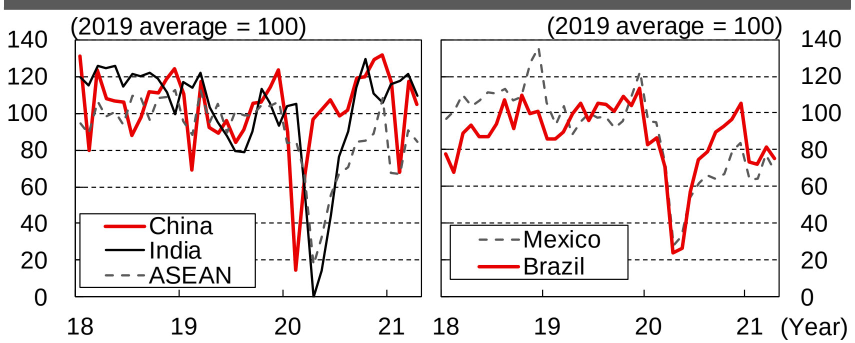
Note: 7-day moving average. ASEAN = Indonesia, Thailand, Malaysia, Philippines and Vietnam
Source: WHO, MUFG Bank Economic Research Office

Foreign Exchange Rates by Country



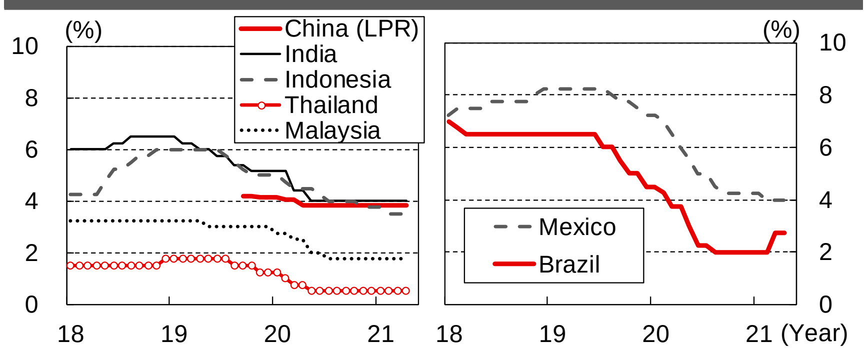
Source: Bloomberg, MUFG Bank Economic Research Office

Number of Automobile Sales by Country



Note: 7-day moving average. ASEAN = Indonesia, Thailand, Malaysia, Philippines and Vietnam
Source: Statistics from each country, MUFG Bank Economic Research Office

Policy Rates by Country

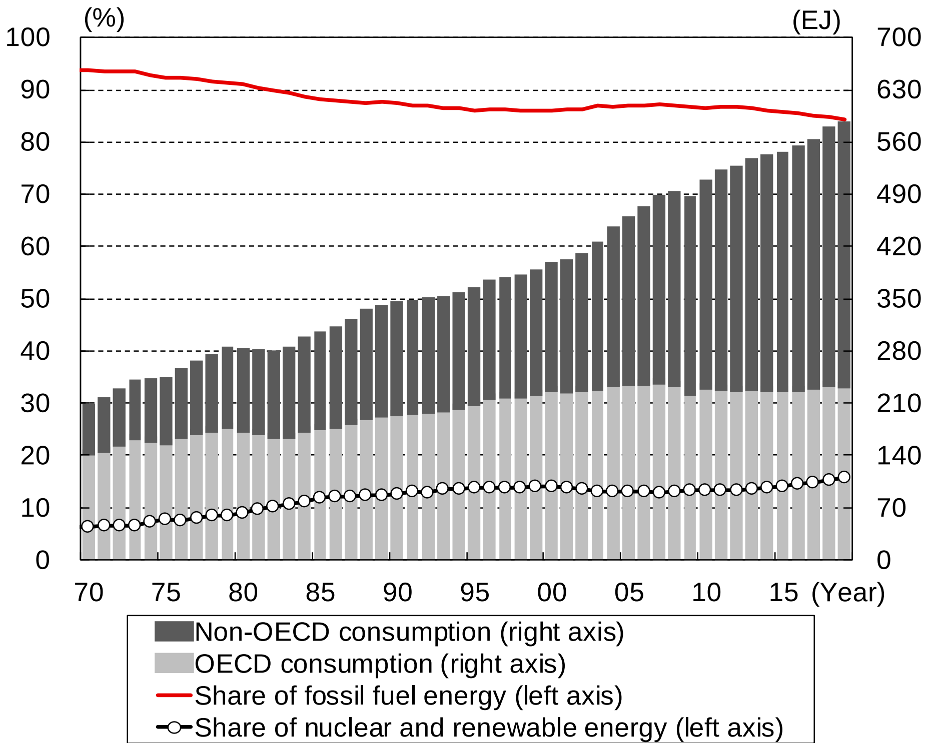


Source: Bloomberg, others, MUFG Bank Economic Research Office

3. The Global Economy: Green Energy

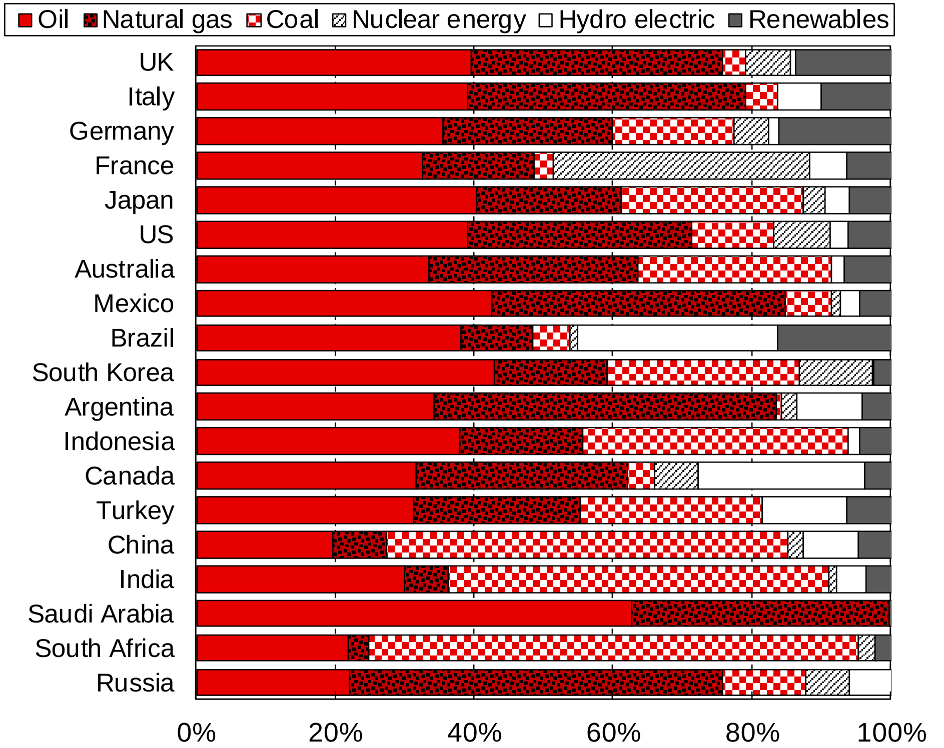
- Growth of primary energy consumption has been generally flat in developed economies but has been increasing sharply in newly emerging economies, resulting in a continued increase globally. The breakdown of the energy mix shows that fossil fuels still account for more than 80% of the total while their proportion is declining. Nuclear and renewable energy are still limited in although their shares are rising.
- To achieve the ambitious goal of carbon neutrality by 2050 set forth at the UN climate conference, investment in areas such as renewable energy, hydrogen energy and storage batteries is essential. It is unclear how much of this kind of green investment will materialise in the period covered in this Outlook, but European and US governments have expressed an intent to strengthen their efforts. Policy decisions in this field should be monitored closely along with any moves by private-sector companies.

Global Primary Energy Consumption by Fuel Type and Country Group



Note 1: *Fossil fuel* is a sum of oil, natural gas and coal consumption.
2: Energy unit *exajoule* (EJ) is equal to 10^{18} (one quintillion) joules.
Source: BP Statistical Review of World Energy 2020, MUFG Bank Economic Research Office

G20 Primary Energy Consumption by Fuel Type (as of 2019)



Source: BP Statistical Review of World Energy 2020, MUFG Bank Economic Research Office

4-1. Overview

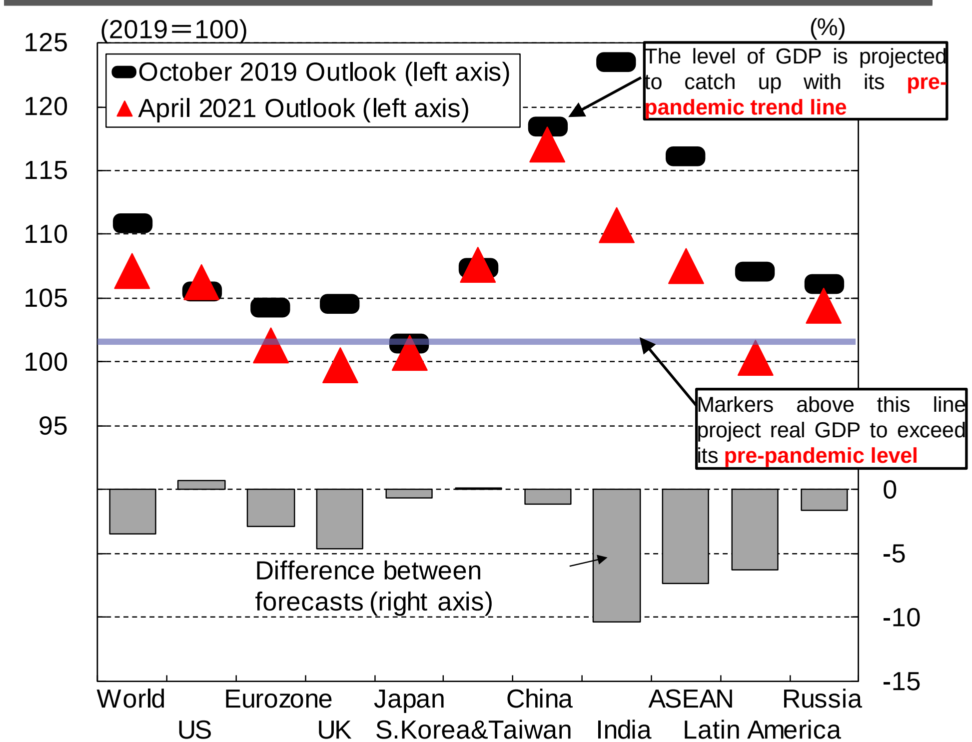
- US has had a relatively rapid vaccination rollout that rivals many other developed countries. Following this, we forecast that the US real GDP growth rate will be 6.0% YoY in 2021 and 4.3% YoY in 2022, supported by large-scale economic policies. This means that US real GDP is likely to return to its pre-pandemic level (2019) during 2021. It appears that real GDP in 2021 will return to the level it was at before the pandemic (2019). When it comes to the definition of "pre-COVID-19 growth trend", there is some room for interpretation, but it is likely that the pace of growth in 2022 will have returned to the level it would have reached without the existence of COVID-19.
- Meanwhile, we forecast real GDP growth in the Eurozone to be 4.0% YoY in 2021 and 4.4% YoY in 2022. Although real GDP will recover to pre-pandemic levels in 2022, if these annual growth rates are achieved, it is expected that it will still not reach the "pre-pandemic growth trend line" over our forecast horizon. This also applies to Japan, where we anticipate that real GDP annual growth will be 2.2% YoY in 2021 and 3.0% YoY in 2022.
- China is one country which has already seen its economy return to its pre-pandemic level. It continues with its steady growth, partly due to policy support. We estimate that the growth rate will reach 8.4% YoY in 2021 with some baseline effect, and 5.5% YoY in 2022. We expect that the US and China will be the drivers of global economic growth over the next few years with the global real GDP growth rate estimated to be 5.7% YoY in 2021 and 4.4% YoY in 2022.

Global Economic Outlook Table (Selected Countries and Regions)

Real GDP Growth (%)	2020	ERO Forecast (May) 2021	ERO Forecast (May) 2022	IMF Forecast (April) 2021	IMF Forecast (April) 2022
World	- 4.1	5.7	4.4	6.0	4.4
United States	- 3.5	6.0	4.3	6.4	3.5
Eurozone	- 6.6	4.0	4.4	4.4	3.8
United Kingdom	- 9.8	6.0	5.2	5.3	5.1
Japan (FY)	- 4.6	3.6	2.6	-	-
Japan (Calendar Year)	- 4.7	2.2	3.0	3.3	2.5
Asia (11)	- 0.8	7.3	5.3	8.2	5.7
China	2.3	8.4	5.5	8.4	5.6
ASEAN (5)	- 3.4	4.7	5.0	4.9	6.1
Indonesia	- 2.1	4.3	4.5	4.3	5.8
Thailand	- 6.1	2.2	4.0	2.6	5.6
Malaysia	- 5.6	5.9	5.1	6.5	6.0
Philippines	- 9.6	6.2	6.1	6.9	6.5
Vietnam	2.9	6.8	6.4	6.5	7.2

Source: Various countries' statistics, IMF, MUFG Economic Research Office

IMF Economic Outlook for Major Regions (Projected 2022 Real GDP Levels) (Pre-pandemic vs Latest Forecasts)



Source: IMF, MUFG Bank Economic Research Office

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4-2. Financial Market Trends: Outlook for Monetary Policy and Interest Rates

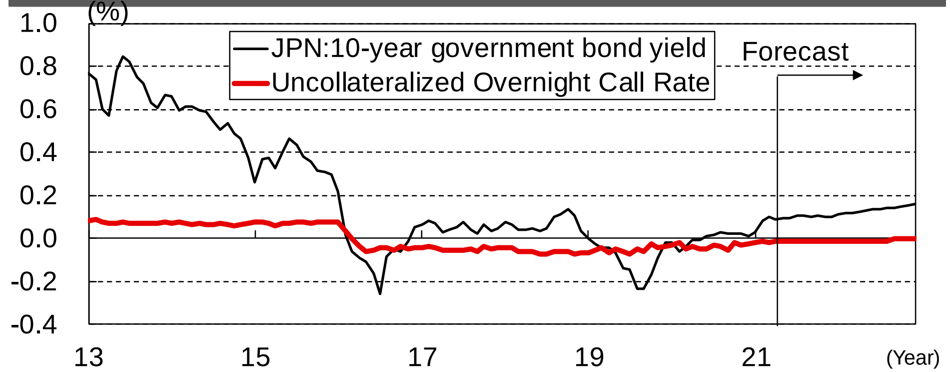
- Japan and the US strengthened their stances on monetary easing from the start of the pandemic. The US re-introduced quantitative easing and zero-interest rates policies as a matter of practice. It introduced forward guidance to allow inflation to momentarily exceed 2% in September for some time last year. This suggests that monetary easing will be extended further. In order to stabilise the yield curve at a low level, Japan made further aggressive purchases of government bonds.
- In the US, despite the fact that inflation is accelerating, the influence of temporary factors are significant, and the employment rate is still far from its level before the pandemic. In Japan, there is no prospect of an early achievement of the inflation target. In March, a policy was implemented that plans for the prolonged improvement in monetary easing measures. We forecast that the policy rate will be maintained at its present low level both in the Japan and the US.
- In the US, the rise in long-term interest rates subsided since the enactment of an additional economic package in March. They were within the range of about 1.55-1.75%. The FOMC is expected to come out with a reduction in quantitative easing policies (tapering) within the year. But, we surmise that there will be limited room for rising interest rates as it is already factored in the market that monetary policy will be normalised at a gradual rate.

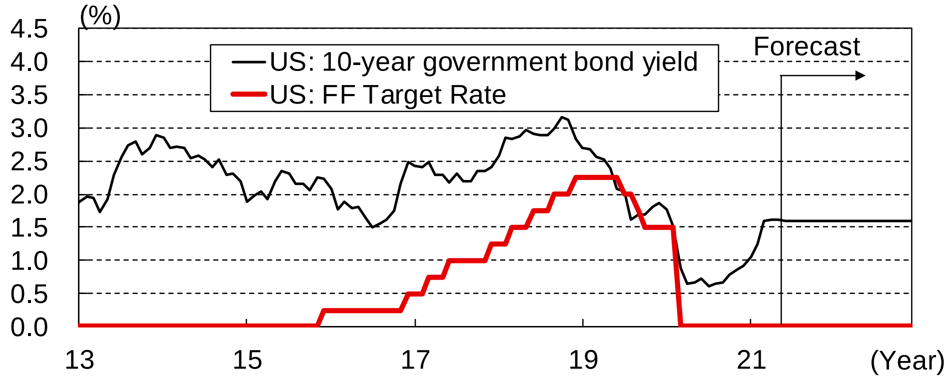
Japan-US Current and Future Monetary Policies

	Federal Reserve Bank	Bank of Japan
Current plans for policy rate management	Effective Federal Funds Rate (FF) target rate: 0-0.25％. Maintain stance to reach maximum employment in the labour market at a sustainable level, achieve a rise of 2% for inflation and be on track for it to moderately exceed 2% for some time.	Short-term: Bank rate balance applies a negative interest rate of -0.1 for the current deposit of the Bank of Japan. Long-term: Purchase of long-term government bonds to maintain 10-Year bond yields around 0%.
Bonds purchasing plan	Add at least 80 billion dollars in MBS per month in US government bonds, and increase holdings of MBS at a monthly pace of at least USD 40 billion dollars (balance).	Purchasing of required amount of long-term government bonds without limit.
Comments regarding future of monetary policy	(In response to the question: "Is it time to start talking about tapering?") "No, it is not time yet." (Chair Powell, 28 April)	The bank is observing the influence of COVID-19 and will not hesitate to take additional monetary easing measures if necessary. It also expects short- and long-term interest rates to remain at or below the present levels. (Governor Kuroda, 28 April)

Source: Various countries' Central Banks, MUFG Bank Economic Research Office

US-Japan Policy Rates & Long-term Yields



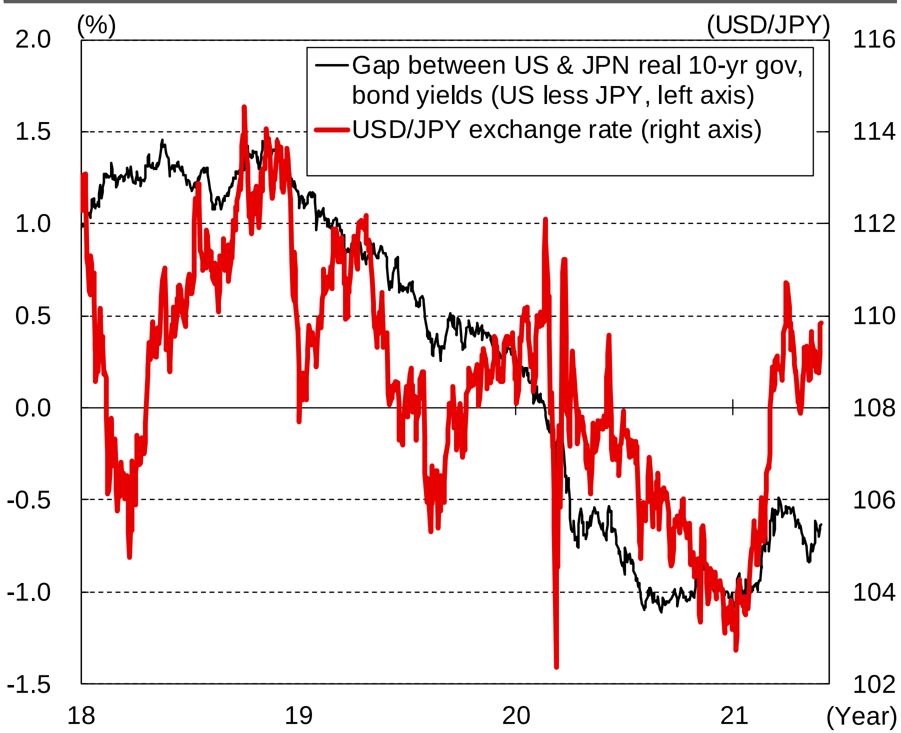


Source: Bloomberg, MUFG Economic Research Office

4-2. Financial Market Trends: Outlook for the USD/JPY Exchange Rate

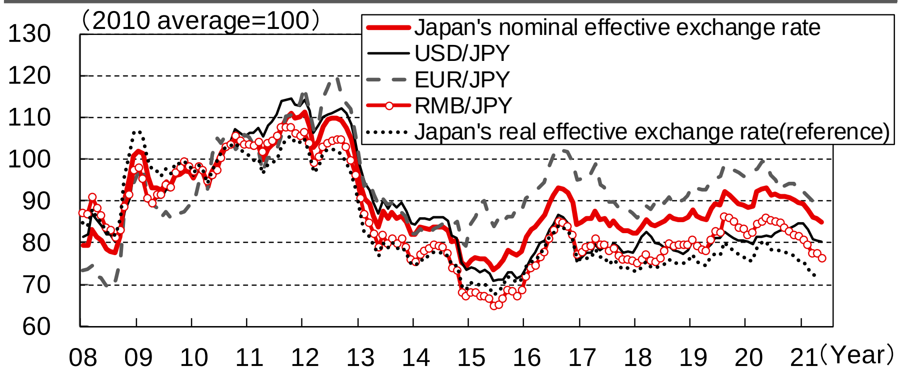
- There are inflation concerns in the US, and nominal long-term interest rates have risen past the expected inflation rate (i.e. a rise in the US real interest rates). This was accompanied by a decrease in the difference between the US and Japan's real interest rates (US less Japan). Against this backdrop, JPY temporarily depreciated to around JPY110 against USD. The difference between the US and Japan's real long-term interest rates has started to increase as the US break- even inflation rate rises further (i.e. a fall in US real interest rates).
- The US inflationary concerns should only be temporary and it appears the US inflation rate is expected to settle at around 2%. On the other hand, the US real interest rate is forecast to start to rise because it appears that the US nominal long-term interest rate has stopped rising. Japan's real interest rate is predicted to remain at current levels which means downward pressure on the yen is expected to persist for the time being based on the past relationship between the USD/JPY exchange rate and the difference between the US and Japan's real interest rates.
- However, while the yen real effective exchange rate is still historically low, the purchasing power parity in view of the inflation gap between the US and Japan in the USD exchange rate market continues to be under long-term upward pressure. It is expected that the long-term yen appreciation trend line will return to the conventional trend after the rise in the US's real interest rates has run its course. Therefore, while there is a possibility that the USD/JPY market will swing into a depreciation of the yen for a short while, we forecast that the overall trend will be a gradual appreciation of the yen.

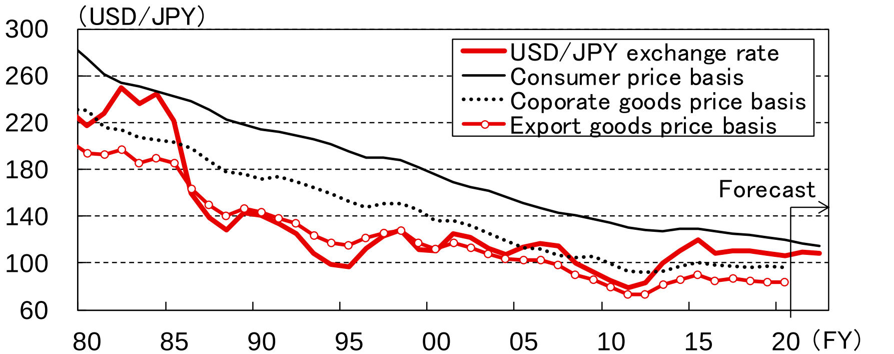
USD-JPY and Gap between US & JPN 10-Yr Real Gov. Bond Yields



Note: Real interest rate is calculated by subtracting the expected inflation rate (breakeven inflation) from the nominal interest rate.
Source: Bloomberg, MUFG Bank Economic Research Office

USD/JPY by Purchasing Power Parity





Note: 1. "Japan's real effective exchange rate" values are up to end Apr 2021. "Japan's nominal effective exchange rate" values are up to 25 May 2021. Other currency values are up until 28 May 2021. Values are all monthly averages.
2. "Purchasing power parity" is (Japan's price index less US price index) X standard rate
Source: Bloomberg, BIS, other countries' statistical offices, MUFG Bank Economic Research Office

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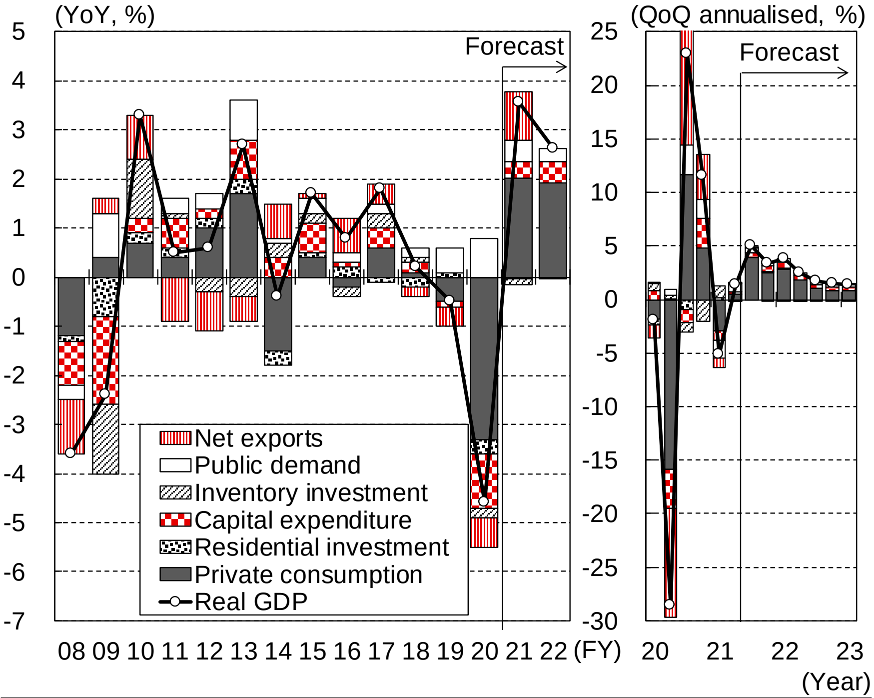
4-3. Japanese Economy: Overview

- The real GDP growth rate for the January-March quarter (first preliminary estimate) was -5.1% QoQ annualised – the first negative growth in three quarters. Domestic demand was notably weak; there was a slump in private consumption, especially services, and capital expenditure fell for the first time in two quarters due to the effects of a second state of emergency imposed at the start of the year in response to a third wave of COVID-19 infections.

- Restrictions such as a state of emergency are in place in most regions at present, and the economy will probably only record a small recovery in domestic demand in the April-June quarter too. That being said, the pace of economic recovery is forecast to accelerate from autumn this year to spring next year, assuming COVID-19 will start to recede as people are vaccinated* and restrictions will be lifted in stages.
  * Assuming the government's target of 1 million vaccinations per day is achieved from now on and around half the population will receive at least one dose within the year.

- The real GDP growth rate is forecast to recover to 3.6% YoY in FY2021, after which it will continue to record strong growth of 2.6% YoY in FY2022. In terms of the level of real GDP, the economy will return to its pre-COVID-19 level (FY2019) in FY2022.

Japan Real GDP and Outlook (Fiscal Year, Quarterly)



Source: Cabinet Office, MUFG Bank Economic Research Office

Japan Real GDP and Outlook (Fiscal Year, QoQ Annualised)

	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Outlook)	FY2021 (Outlook)
Real GDP	-0.5	-4.6	3.6	2.6
Private consumption	-1.0	-6.0	3.8	3.6
Residential investment	2.5	-7.1	-0.7	-0.1
Capital expenditure	-0.6	-6.9	2.1	2.8
Inventory investment (contribution)	0.0	-0.2	-0.1	0.0
Public demand	1.9	3.2	1.5	1.0
Net exports (contribution)	-0.4	-0.6	1.0	0.0
Exports	-2.2	-10.4	12.6	3.2
Imports	0.2	-6.8	6.6	3.3
Nominal GDP	0.3	-4.0	3.3	2.8
GDP Deflator	0.9	0.6	-0.3	0.2

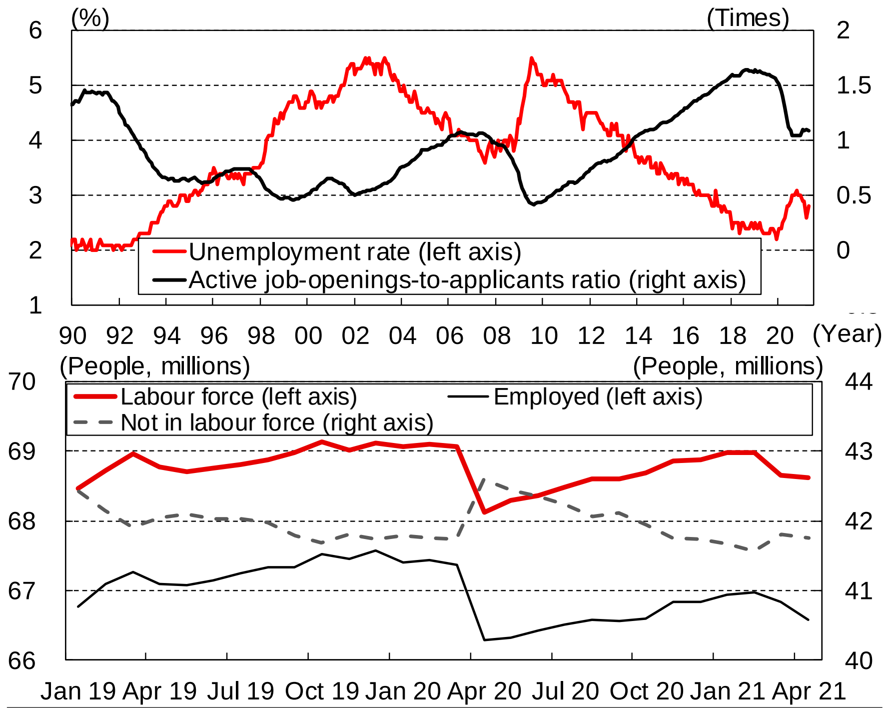
Source: Cabinet Office, MUFG Bank Economic Research Office

4-3. Japanese Economy: The Labour Market and Wages

- The unemployment rate increased in April (2.8%) from the previous month. There has been an increase in people leaving the labour market since March and the recovery has taken a downturn due to the effects of the state of emergency. On the whole, the government's policies to support employment are starting to be scaled back and drawn to a close, and downward pressure on the economy from the pandemic is growing in the short term. As a result, it will be important to keep an eye on the possibility that some sectors will make changes to employment and that there will be an impact on the unemployment rate. As mentioned on the previous page, if the pace of economic recovery speeds up in the latter half of the year, demand for labour will recover and the labour market will continue to improve on the whole, resulting in a gradual decrease in the unemployment rate.

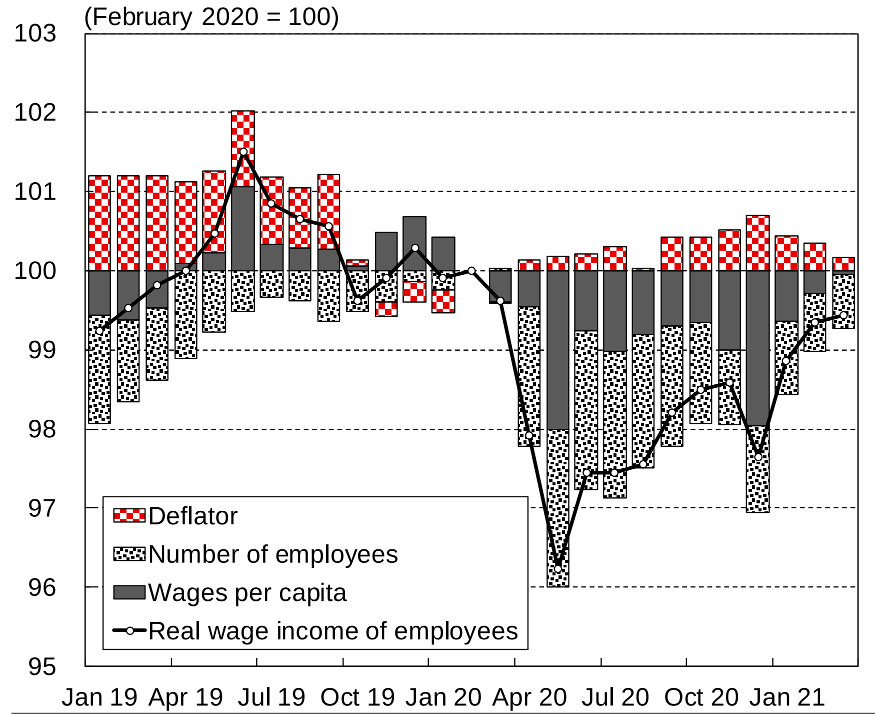
- Analysis of the real wage income of employees by month reveals wages per capita and the number of employees have been falling since the start of the pandemic in February 2020 as demand for labour fails to return to its pre-COVID-19 level. Nevertheless, the decline in the real wage income of employees has been relatively small and the result for March shows it has recovered to 1% lower than the level in February 2020 thanks to employment support from the government up until now. Despite continued weakness caused by a slow recovery of the employment situations in some industries, it appears income will continue to recover as demand for labour picks up on the whole, which in turn will underpin private consumption in the future.

Labour-Related Indicators



Source: Ministry of Internal Affairs and Communications,
MUFG Bank Economic Research Office

Real Wage Income of Employees



Source: Cabinet Office, Ministry of Internal Affairs and Communications,
MUFG Bank Economic Research Office

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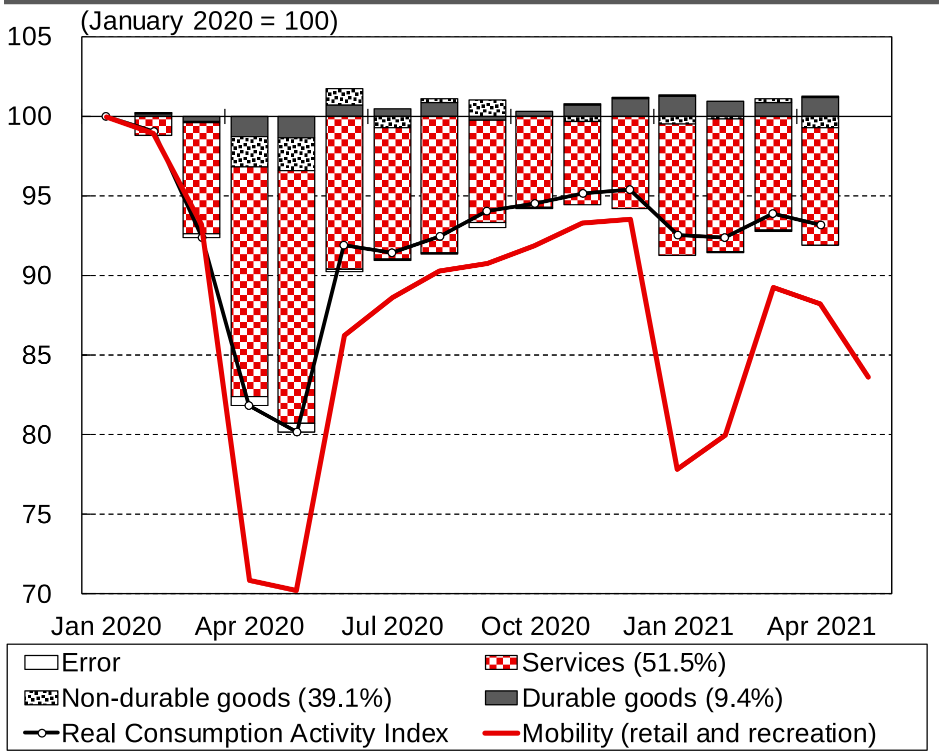
4-3. Japanese Economy: Private Consumption

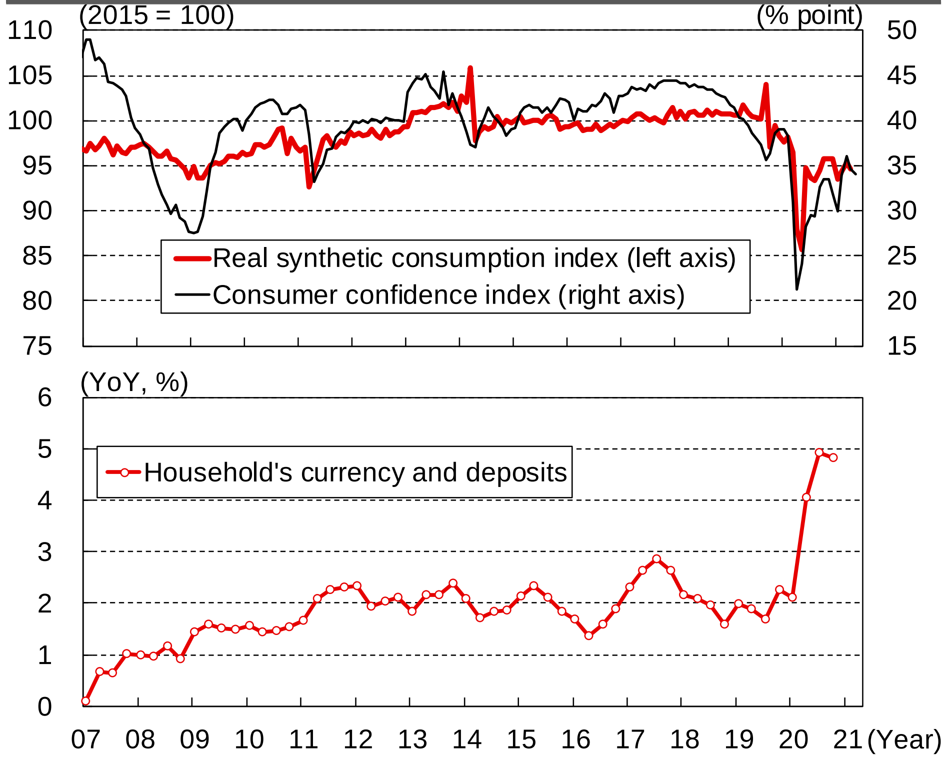
- Restrictions on businesses are currently in place under the third state of emergency, particularly those on drinking and dining establishments. The trend of consumption up until now shows efforts to balance curbing the spread of infection with economic activities and healthy online consumption have meant the impact on consumption from restrictions has generally been small, particularly on goods. Yet, it appears a slump is services is unavoidable. After the state of emergency is lifted, consumption of goods in particular is forecast to rebound, but until a certain level of vaccinations are achieved, consumption will not return to normal and the recovery will remain gradual.
- Consumer sentiment is expected to pick up in the period from autumn this year until the start of next year due to changes in Japan's circumstances, such as an easing of restrictions and a curbing of infection as vaccines are rolled out. Currently, consumer sentiment and private consumption are moving in tandem for the most part, which means the recovery in private consumption is likely to pick up speed as sentiment improves. At this time, the deposits accumulated by households during the pandemic are predicted to support consumption.

Consumption Activity Index by Item



Note: Figure in brackets denotes weight of item as a contribution to the Consumption Activity Index.
Source: Bank of Japan, MUFG Bank Economic Research Office

Private Consumption, Consumer Sentiment and Households' Deposits



Source: Cabinet Office, Bank of Japan, MUFG Bank Economic Research Office

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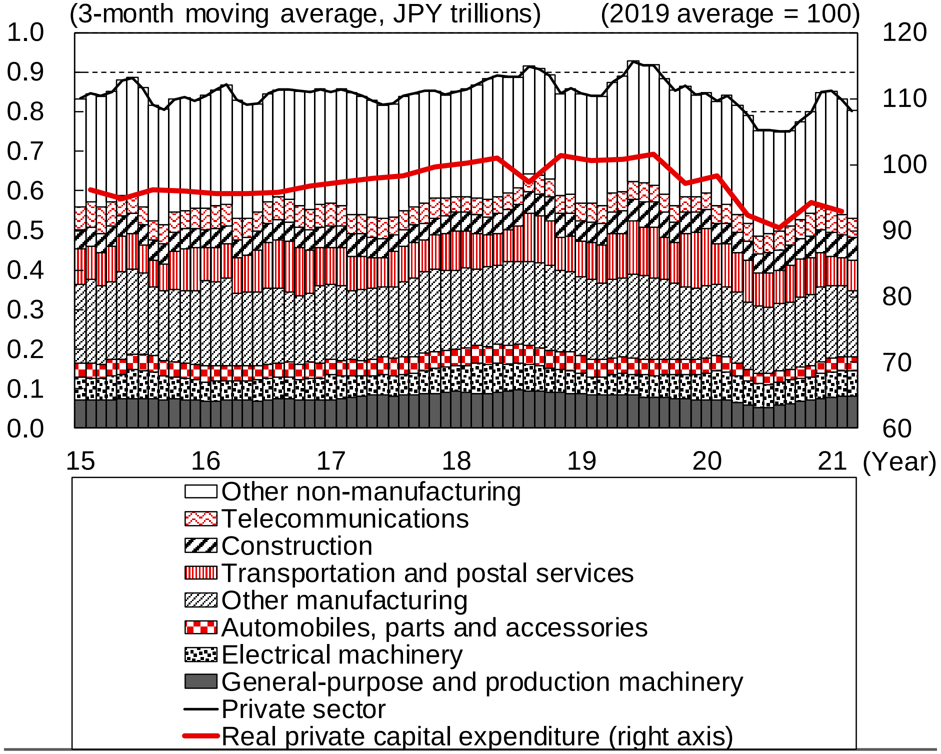
4-3. Japanese Economy: Capital Expenditure and Exports

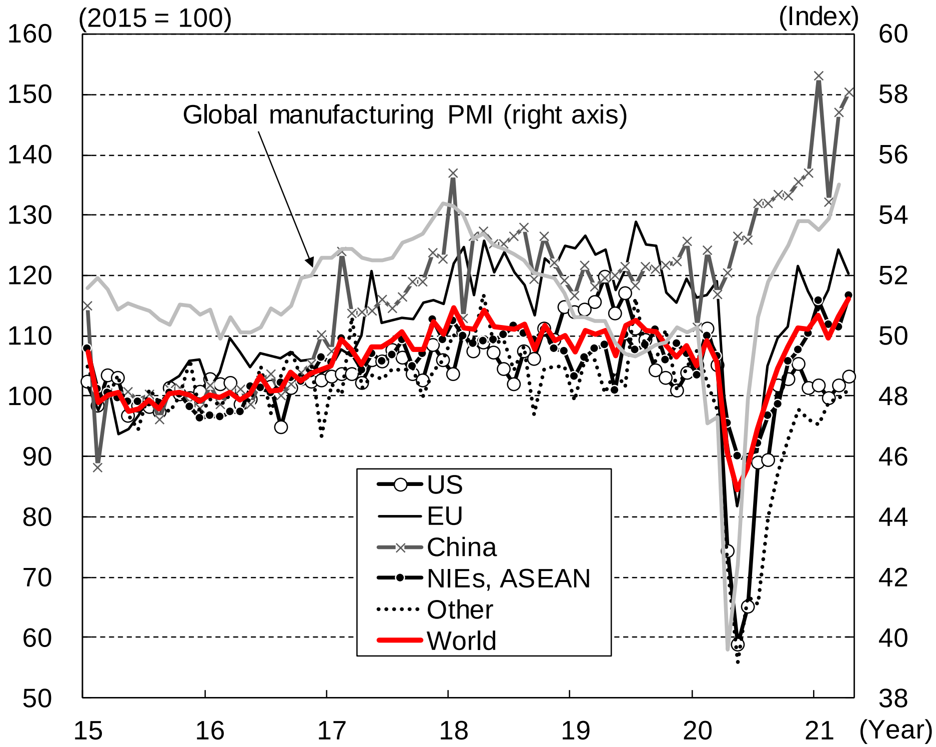
- Analysis of machinery orders – a leading indicator of capital expenditure – reveals growth is solid in the manufacturing sector as profits continue to pick up and the feeling of excess capital subsides. On the other hand, growth of orders in the non-manufacturing sector is weak owing to the third wave of COVID-19 cases, and total machinery orders have fallen again.
- Assuming the COVID-19 pandemic will start to recede due to vaccine rollouts, foreign demand will continue and strong domestic demand will return in the manufacturing sector, and the sense of uncertainty in the non-manufacturing sector – which has been faltering up until now – will slowly dissipate. This is expected to result in a clear recovery of capital expenditure as a whole.
- Growth of real exports of goods slowed in the January-March quarter from the previous quarter, yet it remains robust owing to a recovery of economies overseas. A breakdown of exports by country and region shows exports to China are rising at a strong pace and those to Europe are recovering. There is a possibility that the downward pressure from the fall in automobile production brought about by a shortage of semiconductors will continue, but this negative impact is likely to grow smaller as supply constraints ease. In general, it seems exports will continue to increase at a robust pace as economies continue to recover, such as China and the US.

Real Capital Expenditure and Machinery Orders by Industry



Note: "Private sector" excludes orders for ships and from communications electric power
Source: Cabinet Office, Bank of Japan, MUFG Bank Economic Research Office

Real Exports by Country and Region

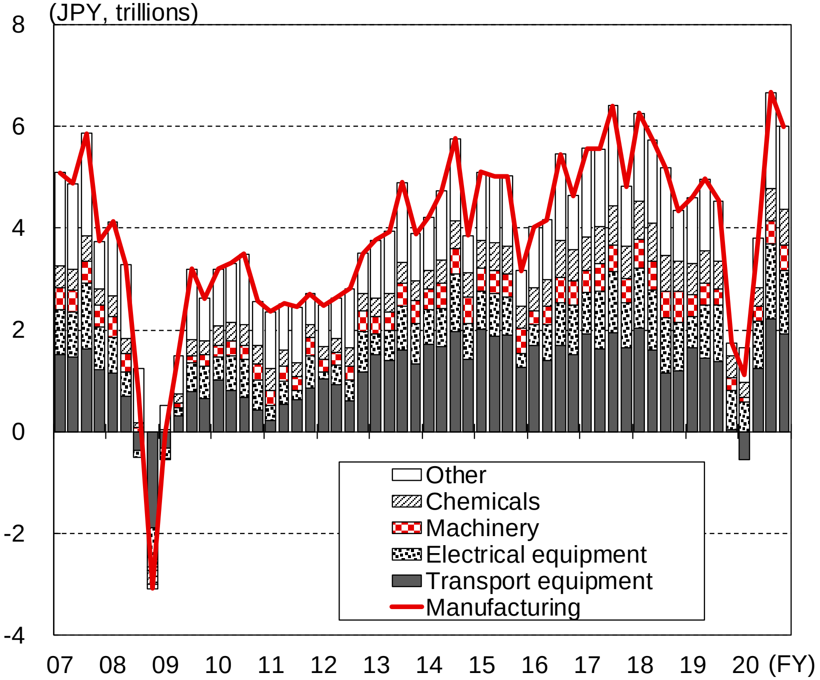


Note: the UK is included in "other" for the entire period shown
Source: Bank of Japan, MUFG Bank Economic Research Office

4-3. Japanese Economy: Business Results

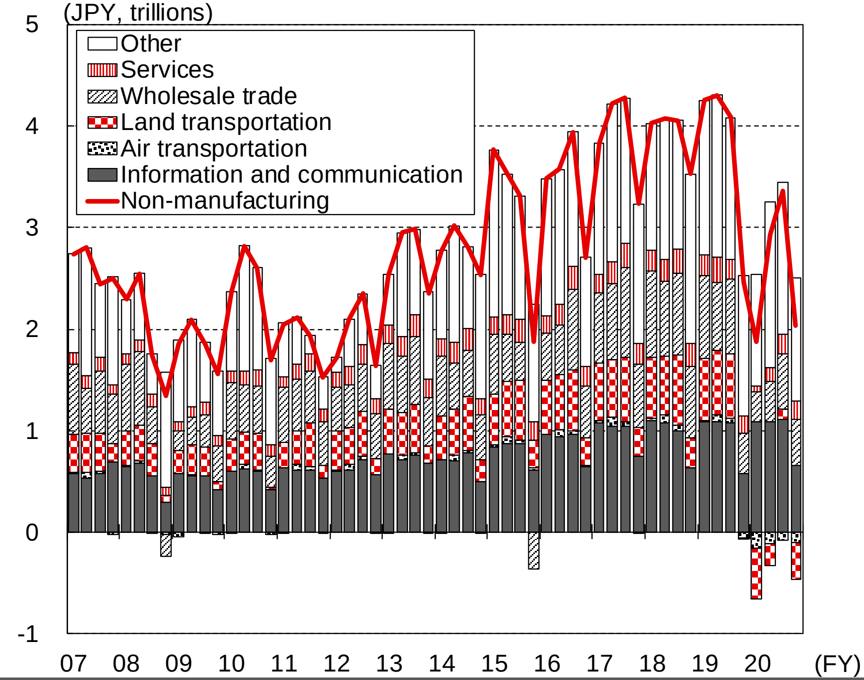
- Ordinary profits of corporations listed on the first section of the Tokyo Stock Exchange (excluding financial corporations) have been recovering since the slump that took place in the April-June quarter last year – the first fall since the global financial crisis. In the January-March quarter of this year, total ordinary profits recorded positive growth for the second consecutive quarter.
- Ordinary profits show a clear difference between industries; the recovery of profits in the manufacturing sector continues to be driven by some industries, such as “machinery”, “transport equipment” and “electrical equipment”, resulting in the January-March quarter recording the highest level of profits in 15 years. On the other hand, while there was a rise in ordinary profits of industries such as “information and communication”, “wholesale trade” and “services” in the non-manufacturing sector, “air transportation” recorded a deficit for the fifth consecutive quarter and “land transportation” also fell back into the red, reflecting the difficult business conditions still facing some industries. On the whole, the recovery of ordinary profits in the non-manufacturing sector is sluggish.
- Although it appears business results in the manufacturing sector will grow at a firm pace as the Japanese and overseas economies pick up, total results will probably recover at a gradual pace for the time being due to downward pressure from some industries in the non-manufacturing sector, particularly face-to-face services such as “air transportation”. However, an improvement in face-to-face services due to a rise in the inoculated population may cause profits in the non-manufacturing sector to recover at an accelerated pace.

Ordinary Profits of Manufacturing Corporations Listed on the First Section of Tokyo Stock Exchange



Note: “Ordinary profits” of 692 firms that have published their Jan-Mar 2021 results as of 31 May and have published data continually since FY2006.
Source: Bloomberg, MUFG Bank Economic Research Office

Ordinary Profits of Non-Manufacturing, Non-Financial Corporations Listed on the First Section of Tokyo Stock Exchange



Note: "Ordinary profits" of 615 firms that have published their Jan-Mar 2021 results as of 31 May and have published data continually since FY2006
Source: Bloomberg, MUFG Bank Economic Research Office

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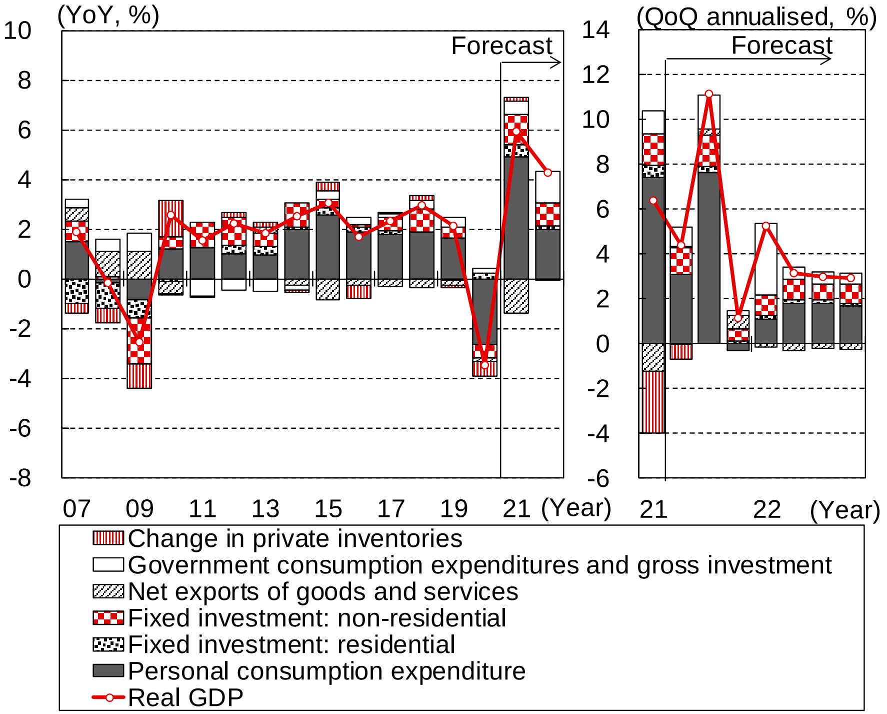
4-4. US Economy: Overview

- The US real GDP growth rate for the January-March quarter (second estimate) accelerated from the previous quarter to hit 6.4% QoQ annualised. The level of real GDP (quarterly annualised rate) has also recovered for the most part since the start of the COVID-19 pandemic (2019). Various economic policies established under both the Trump and Biden administrations have boosted household income, and personal consumption expenditure has increased 11.3% QoQ annualised. In addition, residential and non-residential fixed investment continued to record strong growth (10.8% QoQ annualised and 12.7% QoQ annualised respectively) owing to the need to shift to working from home and demand for home ownership which has risen dramatically since the start of the pandemic.
- As restrictions continue to be eased further, it appears the upward pressure on growth from residential and non-residential fixed investment due to the factors described above will decrease in the future, whereas personal consumption expenditure – which has been supported by a rise in savings thanks to a number of economic policies – will increase and will likely drive the recovery of the US economy.
- There has been opposition, not just from the Republican Party but also from within the Democratic Party, to the series of new economic policies announced by the Biden administration in March and April, and the hurdle to passing them into law is high. Nevertheless, the Republicans also support some investment in infrastructure, so it is likely the policies will be passed on some scale, which will support growth in 2022 and onwards.

Real GDP and Breakdown of Demand Components



Source: Department of Commerce, MUFG Bank Economic Research Office

GDP Outlook by Calendar Year

	2020 (actual)	2021 (outlook)	2022 (outlook)
Real GDP	-3.5	6.0	4.3
Personal consumption	-3.9	7.2	2.9
Residential investment	6.1	13.7	4.2
Non-residential investment	-4.0	8.6	6.1
Change in inventories (contribution)	-0.6	0.1	0.0
Government consumption expenditure	1.1	2.9	7.3
Net exports (contribution)	-0.1	-1.4	0.0
Exports	-12.9	4.5	5.5
Imports	-9.3	11.2	3.7
Nominal GDP	-2.3	9.1	6.9

Source: Department of Commerce, MUFG Bank Economic Research Office

4-4. US Economy: The Government's Economic Policies

- In the US, the share of infrastructure investment and R&D by the government has fallen since the 1960s. With this issue in mind, the Biden administration announced its "American Jobs Plan" spanning the next eight years in March. There has been opposition to which infrastructure will receive support and the source of funding from the Republican Party as well as from within the Democratic Party. As a result, the Biden administration announced in May that it will decrease the scale of spending, but the discussion on this issue is still ongoing. That being said, the Republican Party also acknowledges the need for some spending on infrastructure so it is thought that a bipartisan agreement can be reached for an infrastructure plan of some size.

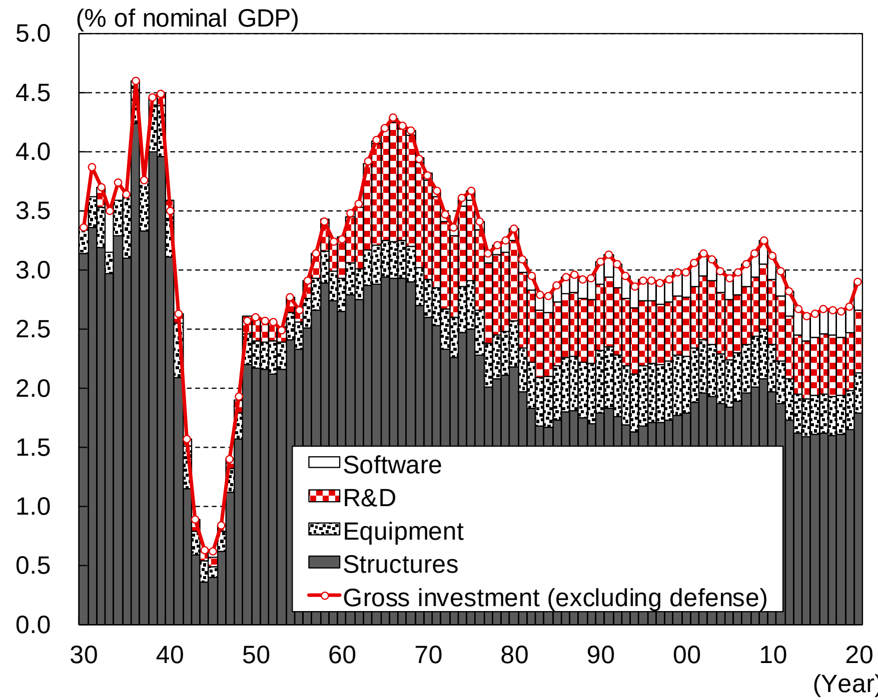
- The Biden administration also announced the American Families Plan in April which covers support for child care and education as well as higher taxes for wealthier Americans (time scale of ten years). Taking into account that consent from the Republicans in both the House and Senate was not given for The American Rescue Plan enacted in March, reaching a bipartisan agreement will be even more challenging than it was for the American Jobs Plan (this Outlook assumes the scale of the American Jobs Plan will be USD1 trillion when passed, but it does not take into account the American Families Plan).

Overview of the American Jobs Plan and the American Families Plan

The American Jobs Plan	Amount (USD tn)	The American Families Plan	Amount (USD tn)
Expenditure (8 years)	2.25	**Expenditure (10 years)**	1.8
Transform infrastructure	1.26	**Extend and make permanent the tax cuts in the American Rescue Plan**	0.8
Expand access to care	0.4		
Revitalize manufacturers and small businesses	0.3	**Education**	0.5
Invest in R&D	0.18	**Child care**	0.5
Workforce development	0.11	**-**	-
Income (15 years)	2.75	**Income (10 years)**	1.5
Raise corporate tax rate	1.3	**Revitalise system of tax collection**	0.7
Raise minimum tax rate	0.75	**Eliminate tax loopholes for capital gains and dividends**	0.4
Eliminate tax incentives for FDII	0.4	**Consistent application of Medicare tax**	0.2
Other	0.3	**Other**	0.2

Source: The White House, MUFG Bank Economic Research Office

Gross Fixed Capital Formation by Federal and State Governments

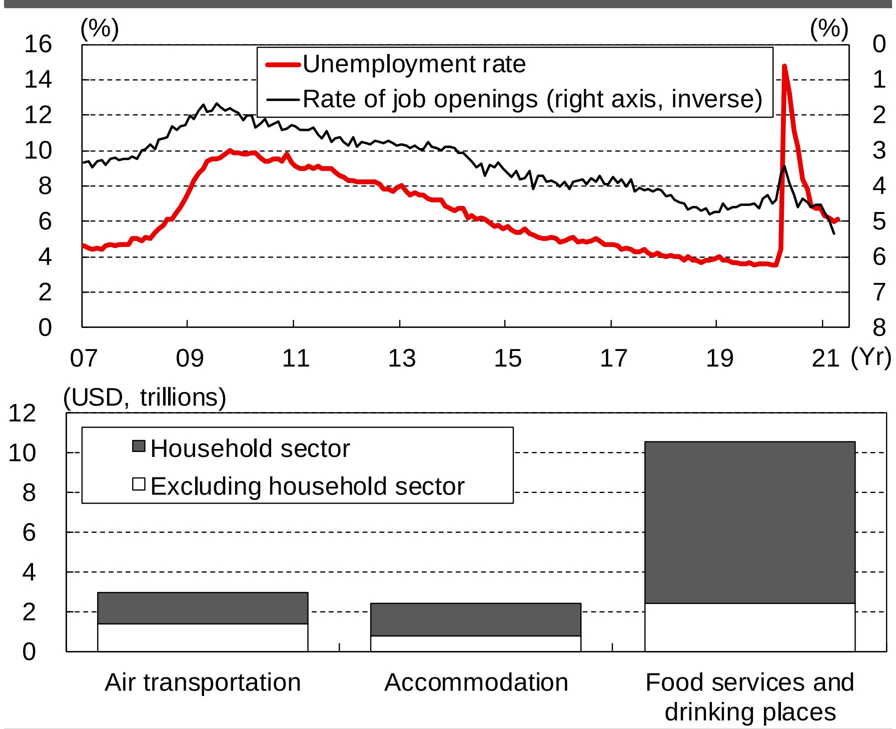


Source: Department of Commerce, MUFG Bank Economic Research Office

4-4. US Economy: Labour and Private Consumption

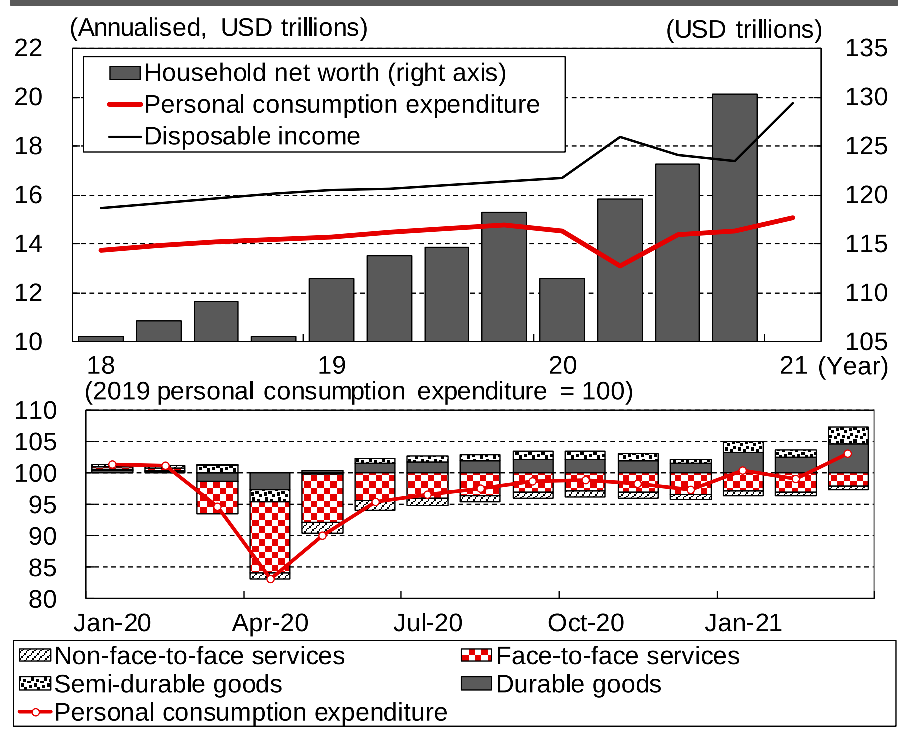
- Although total nonfarm payroll employment rose by 266,000 from the previous month in April, the pace decelerated. The unemployment rate increased 0.1% points to 6.1% month on month. Currently, the pace of recovery in the workforce has slowed temporarily due to issues with labour availability (e.g. parents need to take care of children while schools are closed). In the mid-to-long term, it is still unclear as to what level demand for workers will recover in the end in face-to-face services– the area of the job market hit the hardest by COVID-19. However, as more people receive vaccines, the spread of cases ends and schools reopen, it seems a given that the labour market will steadily improve.
- Meanwhile, disposable income increased 23.0% from the previous month in April thanks to cash benefits received as part of the additional stimulus package enacted in March. Although this boost to income by the government is temporary, the amount of unprecedented cash benefits up until now used for consumption is still limited, and the amount of household deposits has increased significantly. Furthermore, the rise in value of risker assets, such as stocks, means households' net worth is increasing. Looking ahead, private consumption is forecasted to grow faster than income for the time being, as restrictions ease further.

Unemployment and Job Opening Rates and Composition of Demand for Face-to-Face Services (2019)



Source: Department of Labor, Department of Commerce, MUFG Bank Economic Research Office

Disposable Income, Household Net Worth and Personal Consumption Expenditure

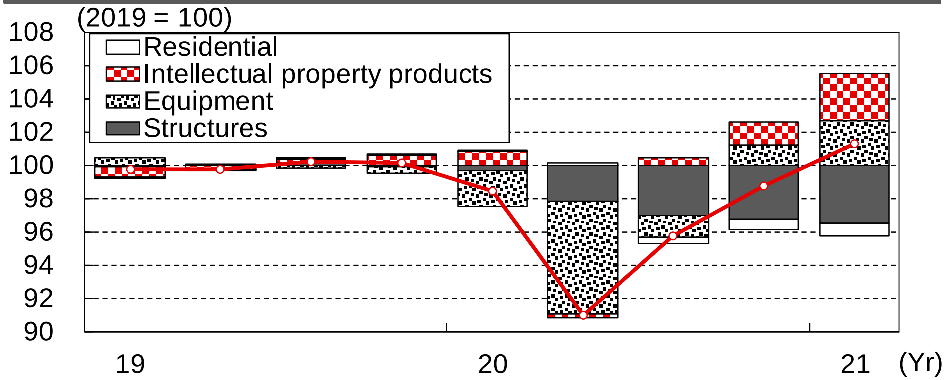


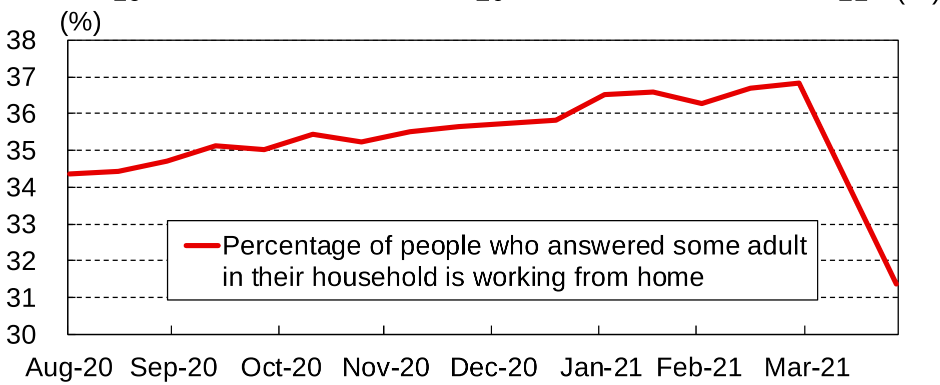
Source: Department of Commerce, MUFG Bank Economic Research Office

4-4. US Economy: Capital Expenditure

- Non-residential fixed investment increased 10.8% QoQ annualised in the January-March quarter and has recovered to the level (quarterly annualised rate) it was at before the pandemic (2019). Growth of investment in computers and software remains at high levels owing to the need to shift to working from home since the outbreak of the pandemic (during previous economic recessions, it was normal for investment related to IT to decrease, but this time growth of investment in IT has accelerated directly after the start of this economic recession, which is unique). Currently, the percentage of people working from home is decreasing as restrictions are eased, which means there is a possibility that growth of investment will slow for a short while after such strong growth. However, with increased awareness of the possibility of remote working due to the pandemic, investment in IT is expected to underpin overall investment in the medium and long term.
- The appetite for fixed non-residential investment by the manufacturing sector is strong owing to healthy domestic demand. Production of automobiles – which has plateaued – is expected to rise again as the shortage of semiconductors is resolved, and investment is also expected to recover at a faster pace. Although it is difficult to predict the amount of investment in clean energy, it will probably rise slowly in line with government policies (for more information please refer to page 28).

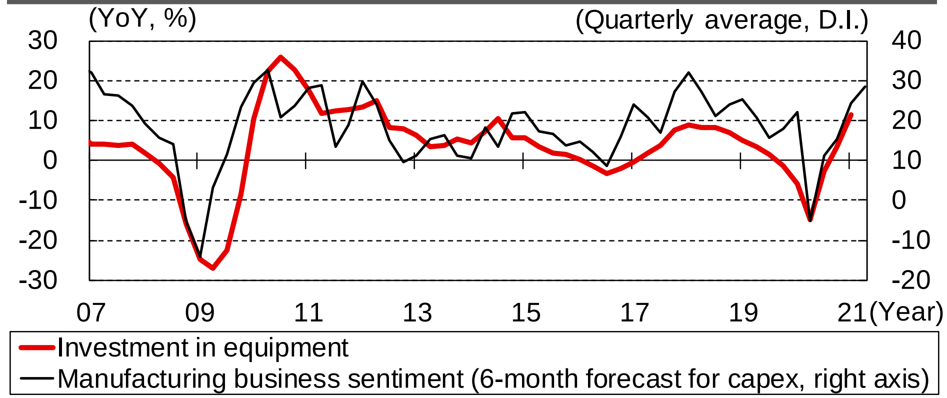
Fixed Non-Residential Investment and Teleworking Rate

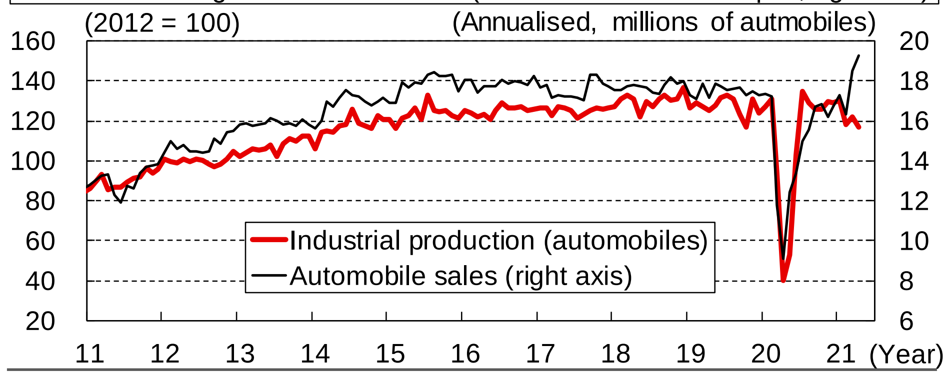




Source: Department of Commerce, MUFG Bank Economic Research Office

US Industrial Production





Note: Result of each product indexed to Feb 2020 = 100. X axis shows weight of each product as of Feb 2020 used to calculate industrial production

Source: Federal Reserve Board, MUFG Bank Economic Research Office

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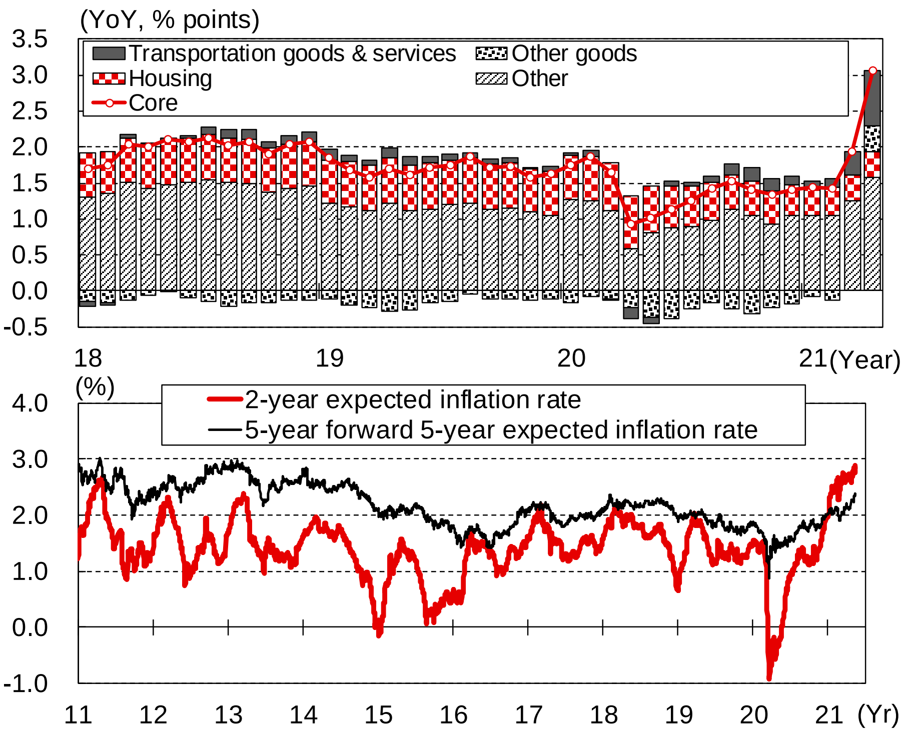
4-4. US Economy: Monetary Policies

- At the press conference after the Federal Open Market Committee meeting in April, Chairman Powell said “it is likely to take some time for substantial progress to be achieved” in reaching their maximum-employment and price-stability goals. He also added that it’s not time to discuss tapering (reducing the scale of quantitative easing).
- Personal Consumption Expenditures Price Index (PCE) accelerated to 3.1% YoY on a core basis in April. The main reasons for this, however, was a reaction to the fall the previous year and a rise in transitory factors like a rise in used car prices. The US Fed will tolerate inflation (PCE deflator) of over 2% for the time being as long as inflation expectations are stable.
- Looking ahead, improvements to the labour situation will be vital. Although the unemployment rate was still 2.6% points higher in April than it was in February just before the outbreak of the COVID-19 pandemic, employment is recovering as restrictions are eased further and the unemployment rate is expected to fall to just over 1% higher than it was before the pandemic at some point this year. As a result, a plan to exit quantitative easing is predicted to be announced this year during an FOMC meeting. Nevertheless, as was the case with the previous exit strategy, there is still some way to go before a policy rate increase. Also, the Fed has placed important on communicating clear signals to markets and therefore any impact on the long-term interest rate should be limited.

well in advance PCE Deflator and Expected Inflation Rate



Source: Department of Commerce, Bloomberg, MUFG Bank Economic Research Office

Change in Major US Domestic and Foreign Policies

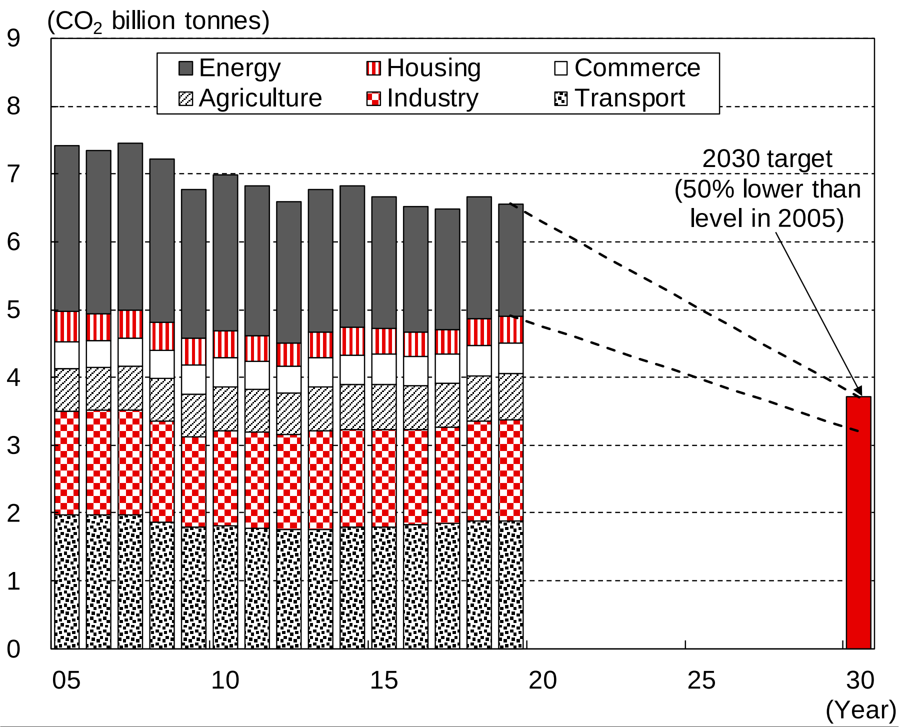
Speaker	Date	Details
Governor Brainard	11 May	▪ By any measure, employment remains far from our goals. There is an employment shortfall of 8.2 million relative to the pre-pandemic level. ▪ I will remain attentive to the risk that what seem like transitory inflationary pressures could prove persistent. But recent experience suggests we should not lightly dismiss the risk (of not achieving inflation goal due to a premature tightening of financial conditions) on the other side.
Vice Chair Clarida	12 May	▪ The true unemployment rate adjusted for participation is closer to 8.9 percent than to 6.1 percent. ▪ Under my baseline outlook, these one-time increases in prices are likely to have only transitory effects on underlying inflation, and I expect inflation to return to—or perhaps run somewhat above—our 2 percent longer-run goal in 2022 and 2023
Governor Waller	13 May	▪ I expect that inflation will exceed 2 percent this year and next year. After that, it should return to target. And in my view, this fluctuation is okay. ▪ The May and June jobs report may reveal that April was an outlier, but we need to see that first before we start thinking about adjusting our policy stance.

Source: Board of Governors of the Federal Reserve System,
MUFG Bank Economic Research Office

4-4. US Economy: Green Policies

- At the Leader Summit on Climate held in April, President Biden pledged the US will reduce its greenhouse gas emissions by between 50% and 52% (compared with 2005) by 2030. He also set a target for eliminating coal-fired power from the energy sector by 2035. As of 2019, emissions from the energy sector have fallen by 33% compared with 2005, but other sectors have only reduced emissions by 1%, resulting in an overall total of only -12%. The US will need to increase the pace at which it is reducing its emissions. The government said it will spend at least around USD 412 billion (2% of 2019's nominal GDP) on clean energy in its American Jobs Plan (initial).
- Currently, investment in energy is slow to recover, even though fossil fuel prices (oil and natural gas) have picked up. Looking ahead, it is likely that growth of investment in fossil fuels will be lower than it was before due to downward pressure on demand for fossil fuels and a higher bar set for funding as awareness of climate change issues grows. The amount of macro investment in clean energy is expected to increase, but it will be important to keep an eye on the possibility that it will be partially offset by pressure caused by a reduction of investment in fossil fuels.

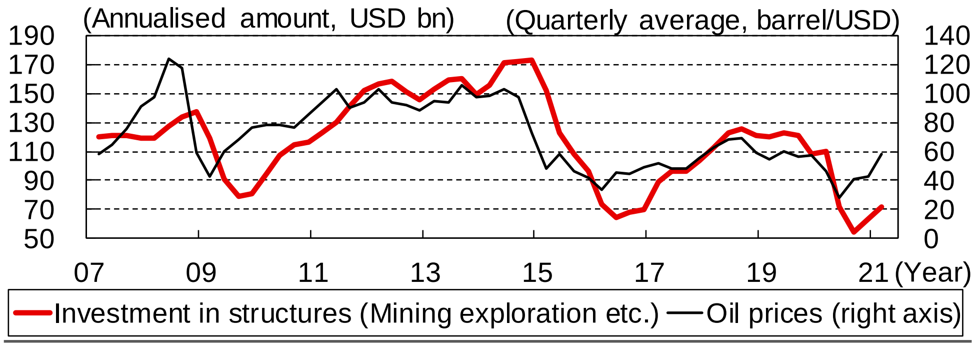
Amount of Greenhouse Gas Emissions



Note: The dashed line shows the path that the energy sector will take if emissions are reduced in a linear fashion to meet the overall target.
Source: Environmental Protection Agency, MUFG Bank Economic Research Office

Clean Energy Spending in the American Jobs Plan, Investment in Minerals

Area	Details	USD bn
General	▪ Invest in research and development related to climate change ▪ Establish a Clean Energy and Sustainability Accelerator to mobilise private investment	62
Transport	▪ Give point of sale rebates and tax incentives to buy EVs, give Grants to build a network of EV chargers, electrify the federal fleet of vehicles	174
Industry	▪ Support clean energy manufacturing through federal procurement	50
Housing	▪ Construct energy-efficient houses	126

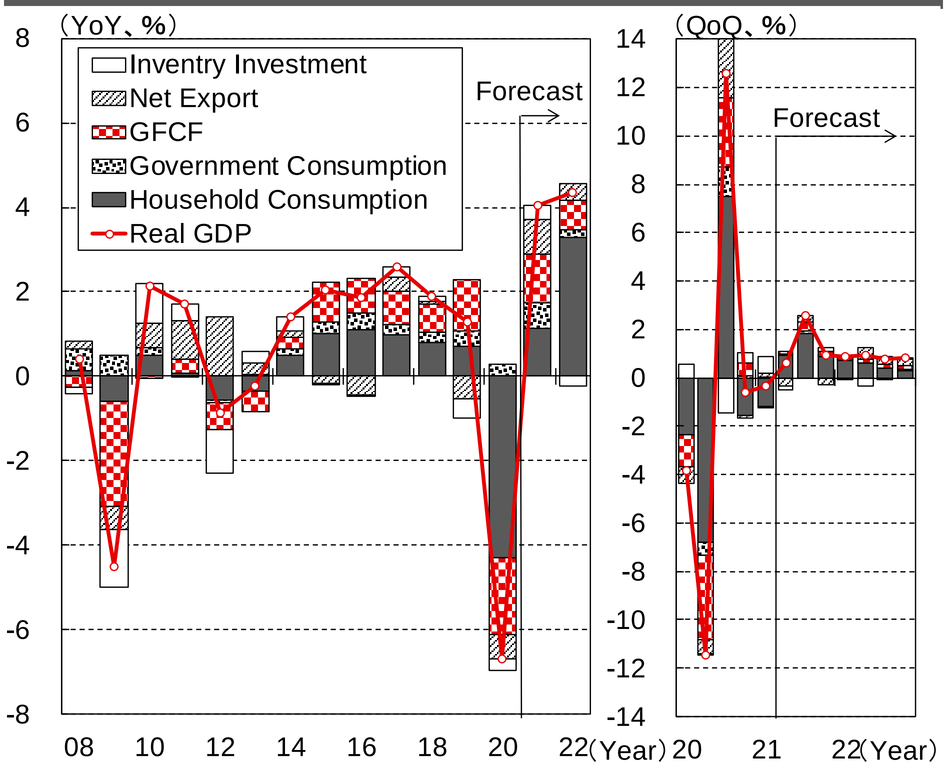


Source: White House, Department of Commerce, Bloomberg
MUFG Bank Economic Research Office

4-5. European Economies: Eurozone - Overview

- Eurozone real GDP in Q1 fell by 0.6% QoQ and was negative for a second consecutive quarter. The 2nd wave of the pandemic took place in autumn last year and restrictions that were strengthened again within major countries continued into the 3rd wave this year.
- However, the third wave has passed its peak, and there has been a change in the direction regarding the gradual relaxation of restrictions with a steady increase in the pace of vaccination programmes in each Eurozone country. This, together with the expectation that infections are under control, makes it seem highly likely that economic conditions will continue to recover over time.
- Following on from this, the real GDP growth rate in Q2 will increase from the previous year, and the pace at which restrictions are eased will increased greatly during the second half of the year. We forecast that the economy will continue to recover provided that the pandemic gradually calms and comes to an end. After taking 2 years to recover from the deep slump in 2020, the real GDP growth rate is forecast to be 4.0% YoY in 2021 and 4.4% YoY in 2022. It is likely it will return to pre-pandemic levels (2019) in 2022.

Eurozone Real GDP Forecast



Note: Q1 breakdown data is a MUFG Bank prediction.

Source: Eurostat, MUFG Bank Economic Research Office

Table of Real GDP Forecast of Major European Countries

(QoQ, %)

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Eurozone	-3.8	-11.6	12.5	-0.7	-0.6
Germany	-2.0	-9.7	8.7	0.5	-1.7
France	-5.8	-13.6	18.5	-1.4	0.4
Italy	-5.6	-12.9	15.8	-1.8	-0.4
UK	-2.8	-19.5	16.9	1.3	-1.5

(QoQ, %)

	2020	2021	2022
	(Actual)	Forecast	Forecast
Eurozone	-6.6	4.0	4.4
Germany	-4.8	3.3	4.1
France	-8.1	5.6	4.0
Italy	-8.9	4.4	4.0
UK	-9.8	6.0	5.2

Source: Eurostat, Office of National Statistics, MUFG Bank Economic Research Office

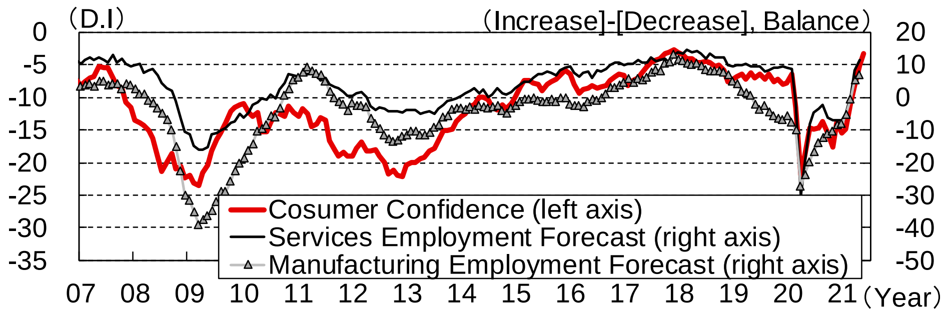
4-5. European Economies: Eurozone - Labour Market and Private Consumption

- The restrictions that were re-introduced in the Eurozone in response to the second wave of COVID-19 infections were still in place at the start of the year (Germany and Italy) or they had been tightened again (France) after being eased for a while at the end of last year. As a result, the Eurozone's industrial employment forecast was slow to recover from last year's slump at the start of the pandemic until the start of this year. However, there was a change in direction regarding the relaxation of each country's restrictions on movement from the end of April through to May with an acceleration of vaccination programmes and the expectation that any future spread of infection would be curbed. Consequently, the employee forecasts for the manufacturing and services industries recovered at a rapid pace to a level where "increase" exceeds "decrease" and it appears the employment situation will start to improve in the future.

- The unemployment rate in the Eurozone is improving by at a slow pace from the previous month, recording 8.1% in March. However, the combination of furlough policies with controls on economic activities in the Eurozone means the rise in unemployment up until now is small in comparison to past economic falls. We think that there will be a fall in the unemployment rate and an upturn in the labour market.

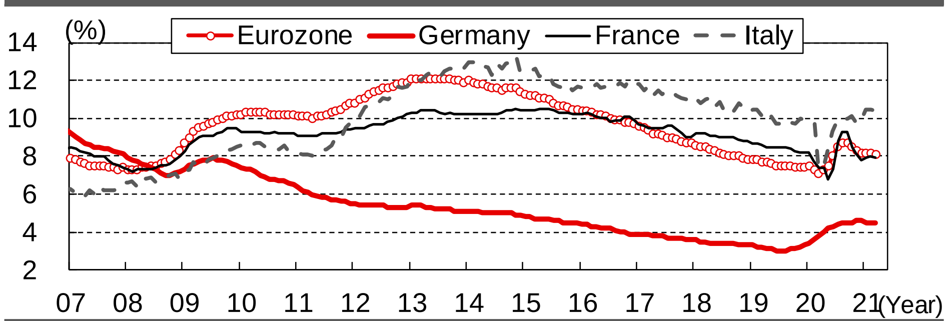
- Mobility is still somewhat below the level before the 2nd wave of the pandemic (p8), but from a policy standpoint, income support has increased and consumer sentiment has improved greatly. Therefore, we predict household consumption will grow from Q2.

Eurozone Industrial Employment Forecast and Consumption



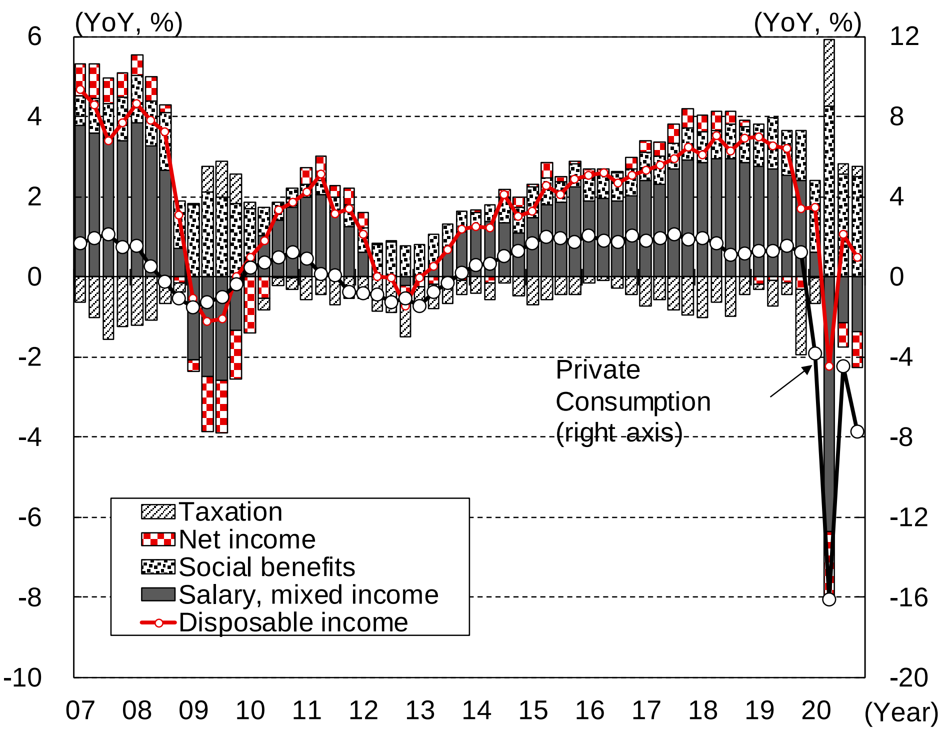
Source: Eurostat, European Commission, MUFG Bank Economic Research Office

Eurozone Unemployment Rate



Source: Eurostat, MUFG Bank Economic Research Office

Eurozone Disposable Household Income and Private Consumption

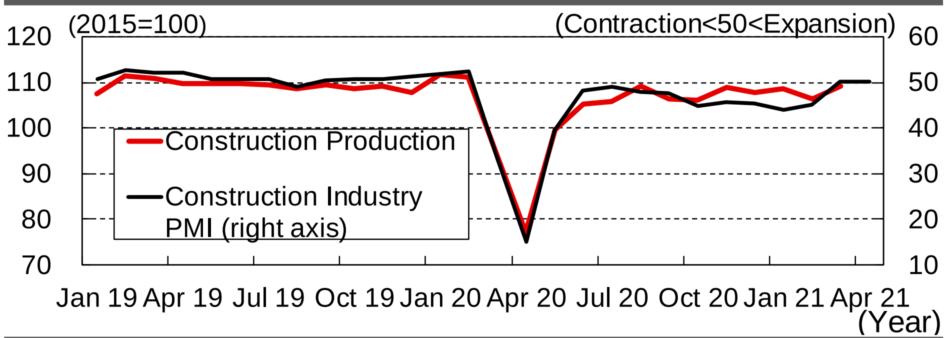


Source: Eurostat, MUFG Bank Economic Research Office

4-5. European Economies: Eurozone – Capital Expenditure

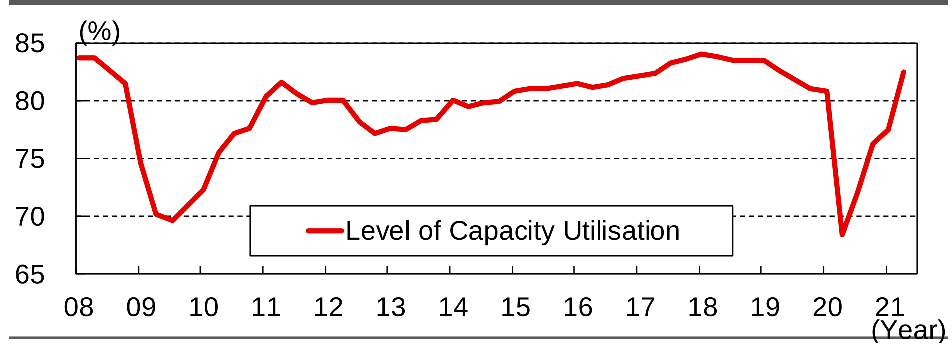
- Eurozone construction output in March recovered slightly from previous months. Similarly, Construction PMI reached a turning point and rose to the breakeven mark of 50. That said, the ratio of corporations that cite insufficient demand as a main factor limiting building activity is low compared to past crises. We predict that construction investment will recover as restrictions are eased.
- The Eurozone capacity utilisation rate in April was 82.5% (5.0% MoM in Q1), and recovered to pre-pandemic levels. The number of corporations that cite “insufficient equipment” as the main factor limiting manufacturing activity increased, so we expect a recovery in machinery investment together with the gradual reduction in uncertainty following the pandemic.

Eurozone Construction Production and Sentiment



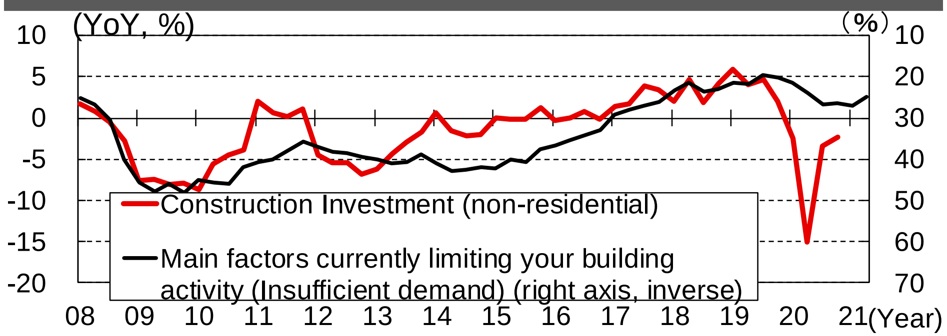
Source: Eurostat, IHS Markit, MUFG Bank Economic Research Office

Eurozone Capacity Utilisation



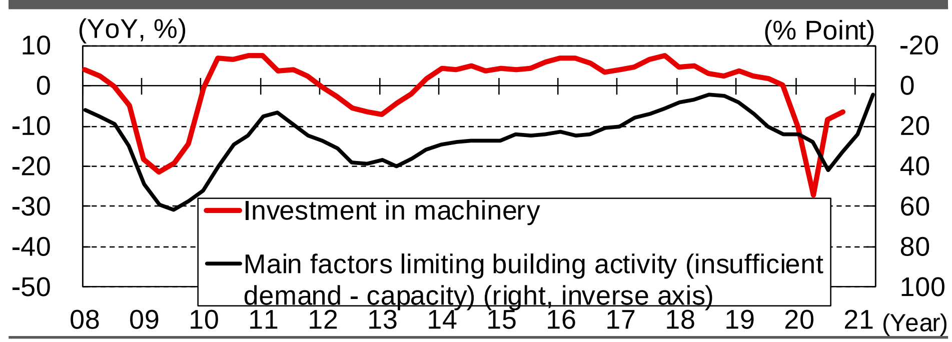
Source: European Commission, MUFG Bank Economic Research Bank

Eurozone Construction Investment



Source: Eurostat, European Commission, MUFG Bank Economic Research Office

Eurozone Machinery Investment

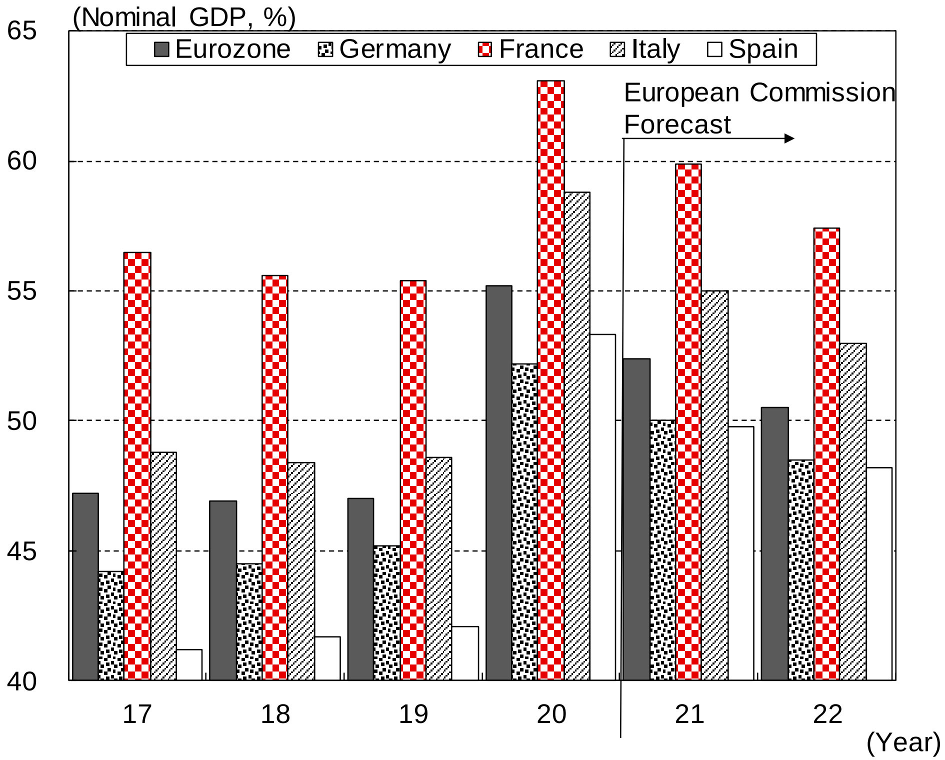


Source: Eurostat, European Commission, MUFG Bank Economic Research Office

4-5. European Economies: Eurozone – Policy Response

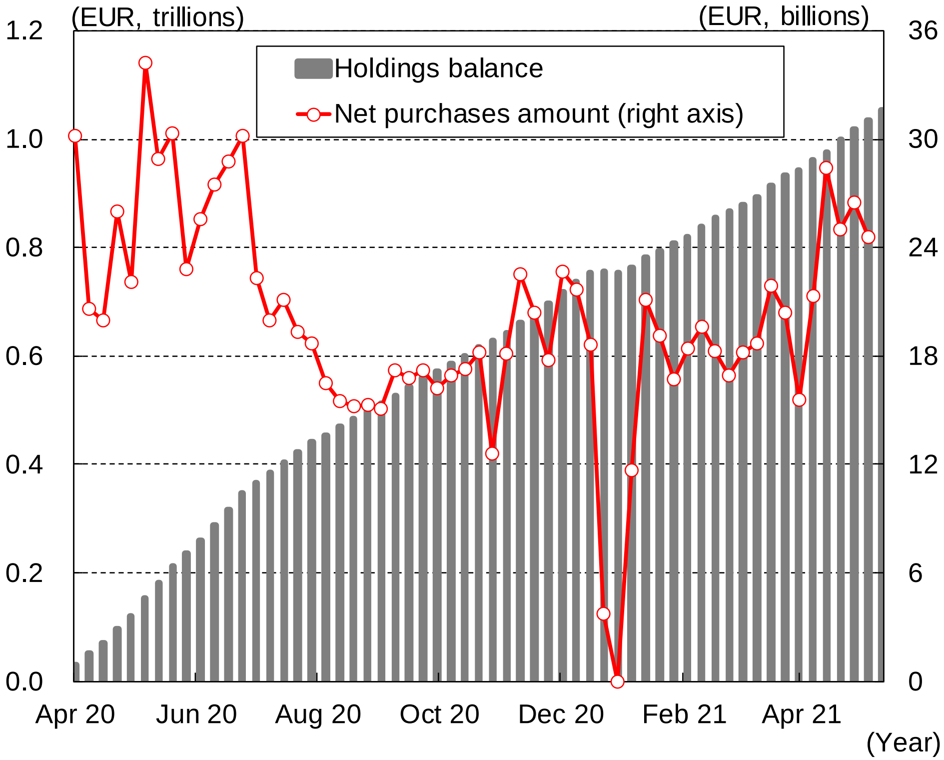
- The 2021 budget expenditure for each country within the Eurozone is predicted to be smaller compared to 2020, which is a result of the reduced pandemic response in line with economic recovery. However, we predict that with an expansion of environmental policy-related spending and provision of the Next Generation EU Fund that was introduced in July, high levels are likely to persist compared to pre-pandemic times (before 2019). We cannot deny that there may be a negative impact to reducing the budget expenditure, but it is likely to be limited in scope.
- The ECB decided to further bolster its comprehensive monetary policy easing measures in December last year. The envelope of its pandemic emergency purchase programme (PEPP) was further expanded and the borrowing conditions for the targeted longer-term refinancing operations (TLTRO-III) were relaxed. At the March meeting, in response to the rise in US long-term interest rates, a policy to accelerate the pace of PEPP purchases was announced, but it seems that the current policies will continue to the next meeting in June.
- When looking into monetary policy until next year, we can say that an increase in inflationary pressures is not a given because of the uncertainty around future economic conditions. We expect that the ECB will preserve its accommodative monetary setting and maintain the low interest rate.
- Note: The European Commission stated in its May's economic outlook that the Eurozone inflation rate in 2022 will be expected to stay at 1.3% YoY.

Eurozone National Budget



Source: European Commission, MUFG Bank Economic Research Office

Asset Purchases for Pandemic Emergency Purchase Programme

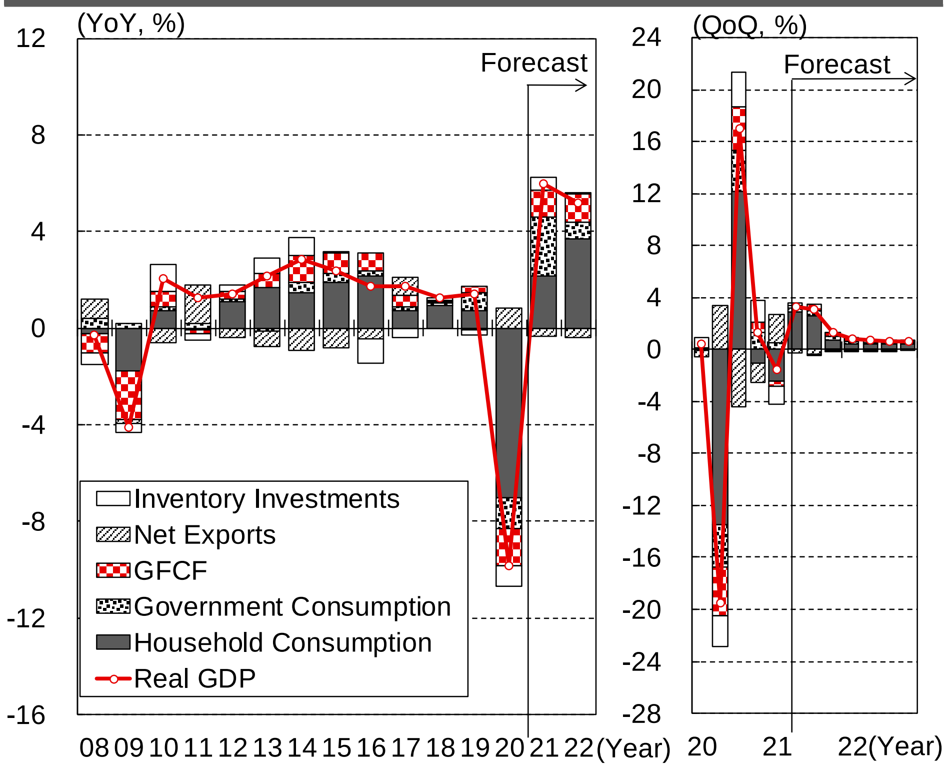


Source: ECB, MUFG Bank Economic Research Office

4-5. European Economies: UK Economy – Overview

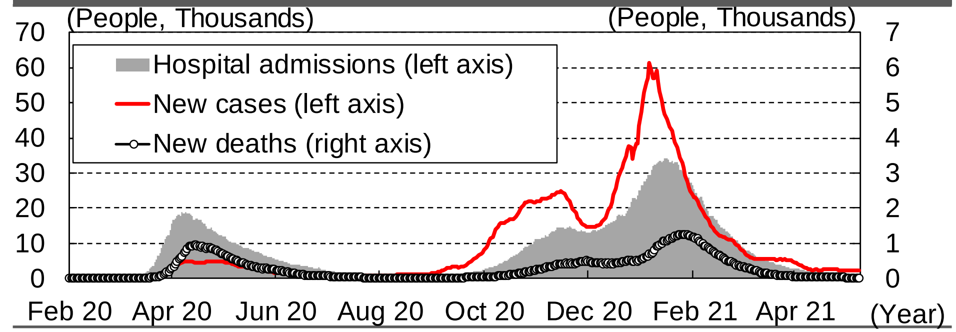
- UK real GDP in Q1 was -1.5% QoQ as a third lockdown was introduced nationwide on the 5 January in response to the increase in COVID-19 infections. It is the first time negative growth has occurred in three quarters since Q3 in 2019.
- However, due to the progress of the vaccination programme and the improvement in the number of infection cases, the lockdown was relaxed progressively from April.
- It is likely that with the progression of the easing of lockdown, the pent-up demand in private consumption will be apparent. The government's emergency support measures to protect employment are to be withdrawn slowly, but we expect that the high level of fiscal spending and accommodative monetary policy that is supporting the economy will continue.
- The UK economy has been following a favourable W-shaped recovery trajectory from Q2 last year, and real GDP is likely to return to pre-pandemic levels in 2022. We forecast the real GDP growth to be 6.0% YoY in 2021 and 5.2% YoY in 2022.

Real GDP Outlook for the UK



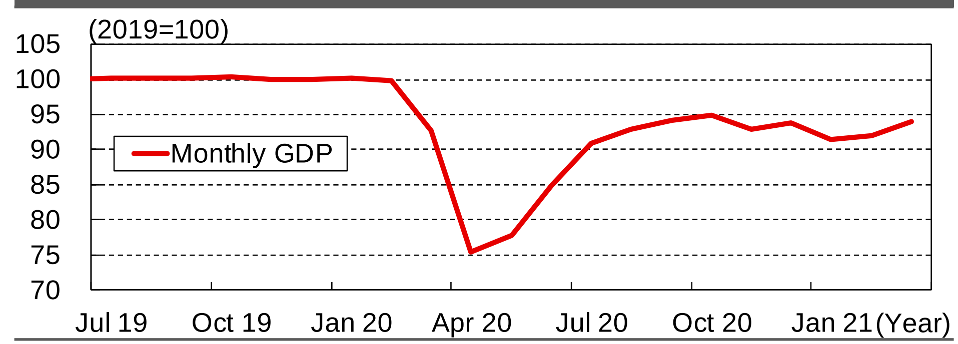
Source: ONS, MUFG Bank Economic Research Office

New COVID-19 Cases and Hospital Admissions in the UK



Source: WHO, NHS, MUFG Bank Economic Research Office

UK Monthly GDP



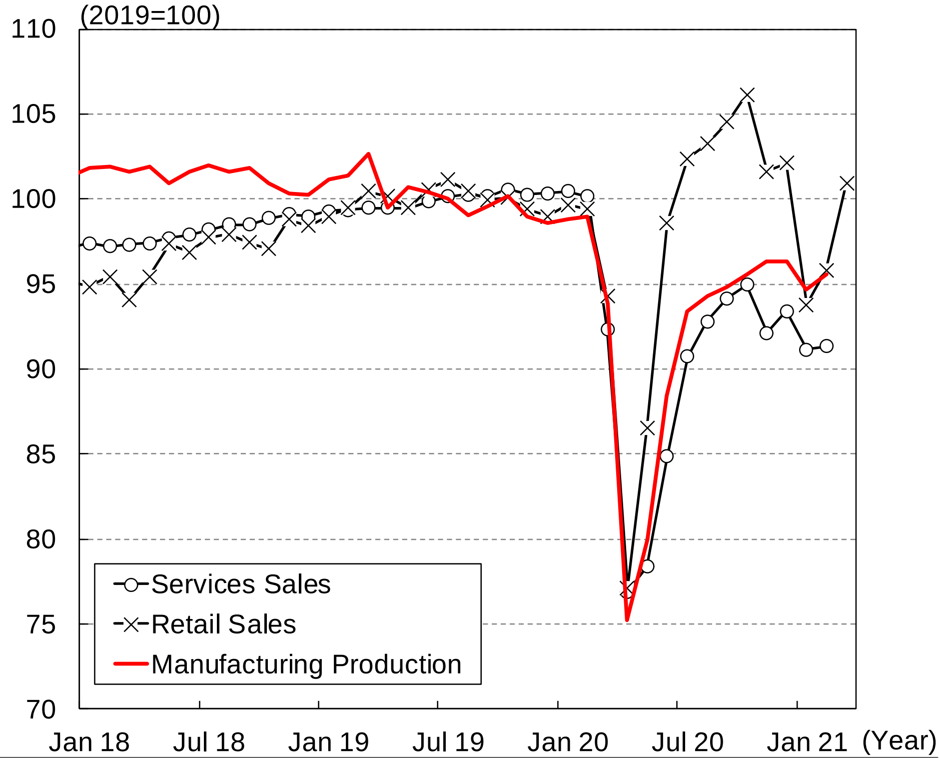
Source: ONS, MUFG Bank Economic Research Office

MUFG

4-5. European Economies: UK Economy – Corporate and Household Sectors

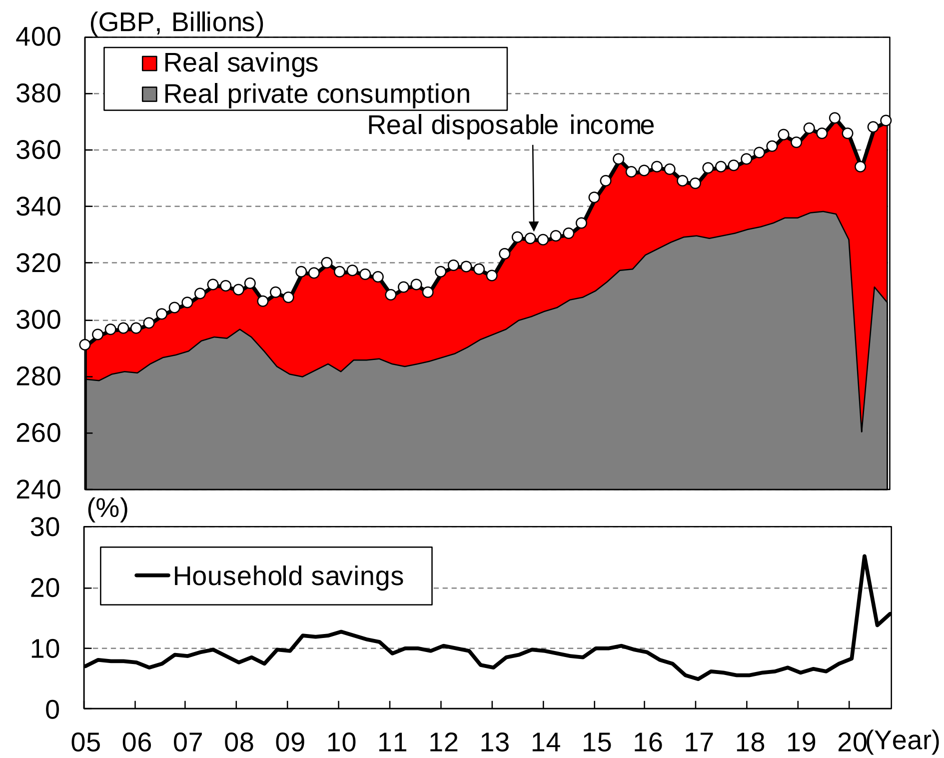
- The UK corporate sector activity is recovering, but there are some differences between industries. In the retail industry, businesses dealing with daily necessities were permitted to remain open, and it was possible to supplement their business with online transactions. Therefore, the sector has already recovered to pre-pandemic levels. However, delays continue for the services industry with restrictions on shops and constraints on the number of people allowed into food and leisure venues under the lockdown.
- When looking at financial support, a fall in households' disposable income was alleviated by government schemes to maintain employment, while the lockdown forced a constraint on consumption. This has led to a large increase in saving and the rate of household savings during the pandemic is remarkably high compared with past economic crises.
- We predict that with the easing of lockdown, the increase in savings will be diverted to consumption and there may be a rebound in private consumption in the summer. However, for the services industry, there is a likelihood of infections remaining after the vaccination rollout, so it is highly likely that the elderly will remain cautious of the situation, and the return of previous footfall to physical shops for the retail industry will be slow. We forecast that the recovery will continue to be different for each industry.

UK Manufacturing, Retail and Services Sales Index



Source: ONS, MUFG Bank Economic Research Office

UK Real Household Income, Savings and Private Consumption

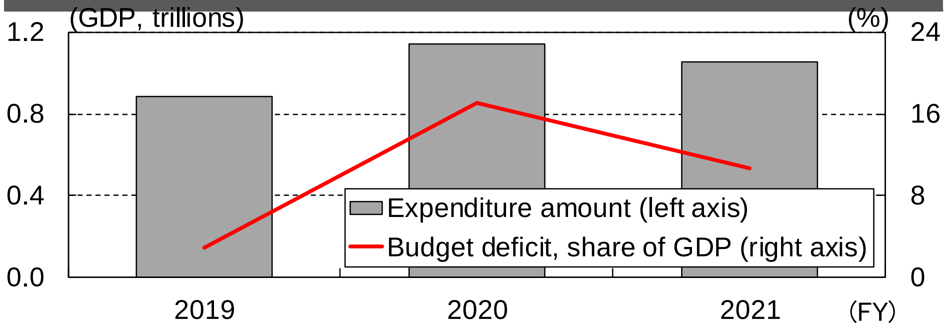


Source: ONS, MUFG Bank Economic Research Office

4-5. European Economies: UK Economy – Policy Response

- The UK government budget for 2021 is smaller compared to last year, but policies that continue to allow large budget deficits and continue high levels of spending remain in place. The gradual reduction of fiscal measures such as the furlough schemes are planned to take place in the second half of the year, but the increase in corporate tax for rebalancing public finances is to take place in 2023: 2 years from now. We predict that the government's stance on positive fiscal policy will not change and will adopt a flexible response. We also forecast that the BOE will maintain its present monetary policy of low bank rate (0.1%) and large-scale asset purchases.
- The UK started a new relationship with the EU based on a new trade agreement in January, and immediately following this, the amount of trade with the EU fell due to a reaction to inventory stockpiling and regulations. However, trade has mostly recovered to levels before the trade agreement. There is some mayhem in the fishing industry and customs, but overall it is a smooth transition.
- Independence-supporting political parties, which are dominated by the SNP (Scottish National Party), won a majority at the Scottish elections in May. We believe that the possibility of a legally-binding referendum for independence being held under the Conservative government led by PM Johnson is very low, but the for-against sides for independence in the opinion poll have recently been quite even. We cannot deny that the possibility of independence if there is a change in government after the UK's general election (2024).

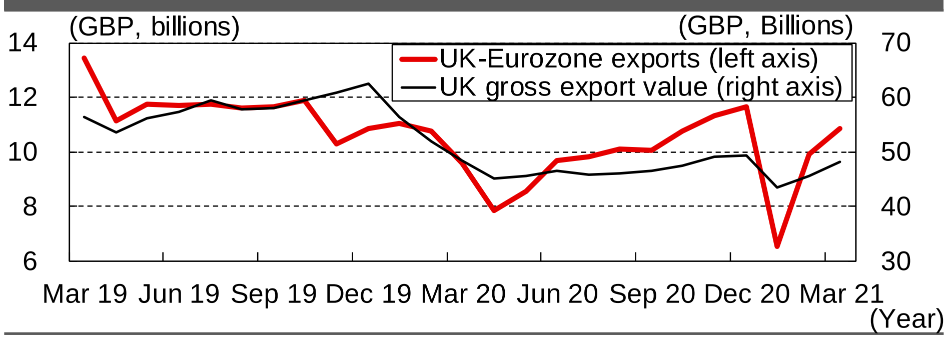
UK Expected Expenditure and Budget Deficit



Note: The UK's financial year is from April to March of the next year.

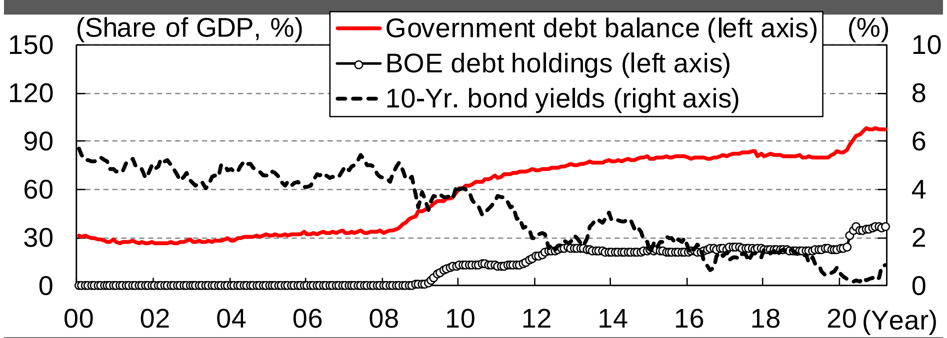
Source: ONS, MUFG Bank Economic Research Office

UK – Eurozone Trade and Gross Trade Value



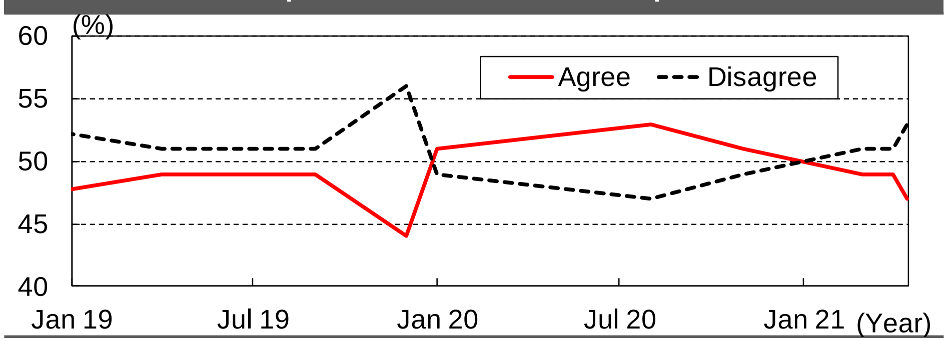
Source: ONS, MUFG Bank Economic Research Office

UK Government Debt Balance and Central Bank 10-Yr Bond Yields



Source: ONS, MUFG Bank Economic Research Office

Public Opinion Poll for Scotland Independence



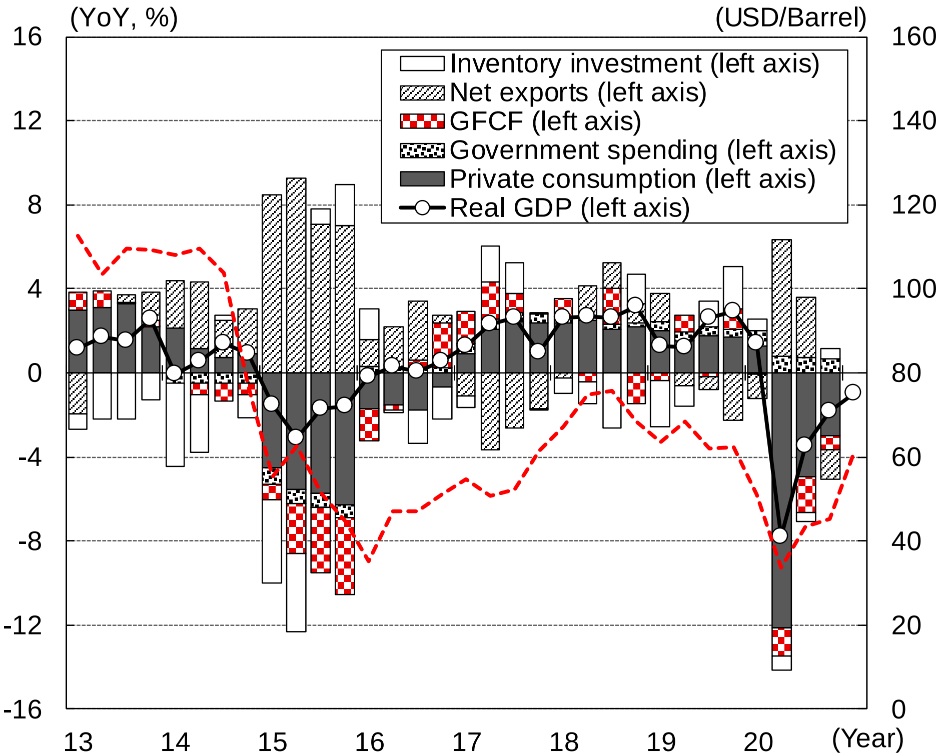
Source: ONS, MUFG Bank Economic Research Office

MUFG

4-5. European Economies: UK Economy – Russia

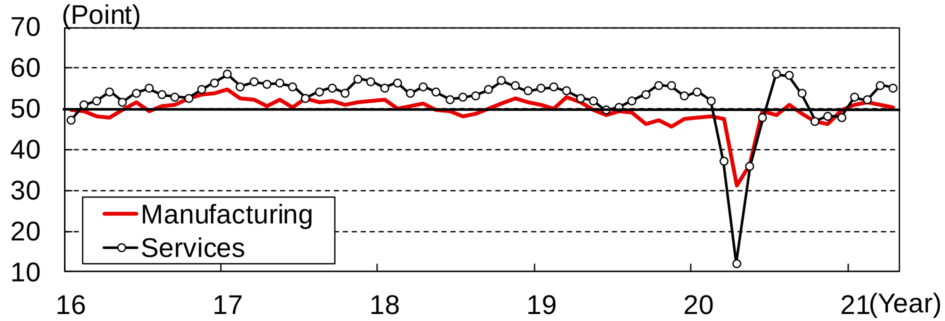
- The real GDP growth rate for Russia in Q1 is -1.0%YoY, and is lower than the previous year for 4 consecutive quarters. However, the degree of the negative growth has decreased.
- Russia faced a second pandemic wave from last autumn similar to Europe, but without introducing strict movement restrictions such as a lockdown, the downturn in the services industry is comparatively small. In the manufacturing sector, coordinated production cuts with OPEC are pushing down oil production. The return to production levels is likely to be slow while commodity prices, which include crude oil, recover.
- In terms of policy, the policy is to keep the restraints on public spending. The Russia government also took the bold course of increasing interest rates through March and April to deal with the rise in inflation. They will implement cautious measures to deal with the policies in consideration of inflation and the financial situation. Therefore, there is a large possibility that the support of the economy from policies will be restrained further. The rate of vaccinations administrated is approximately 10%, which is slower than many major countries in the western world. The number of cases is expected to remain high, so we forecast that the restrictions on movement will continue through 2021. Thus, we project real GDP growth to recover slowly from -3.0% YoY in 2020 to 2.8% YoY in 2021 and 2.5% YoY in 2022.

Russia Real GDP Growth and Brent Crude Oil Prices



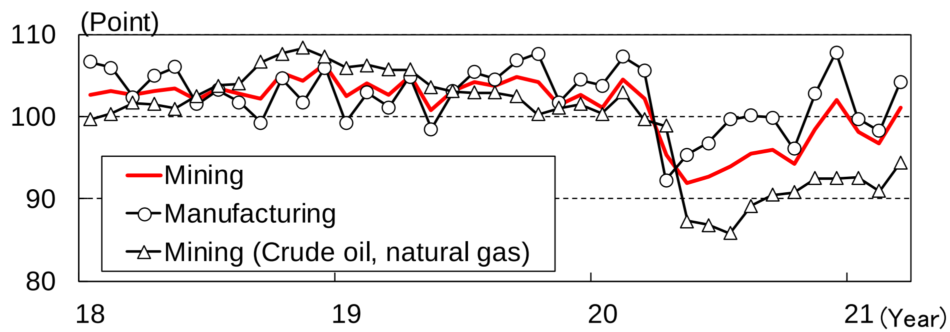
Source: Russia Statistics Office, MUFG Bank Economic Research Office

Russia PMI by Industry



Source: IHS Markit , MUFG Bank Economic Research Office

Russia Industrial Production Index



Source: Oxford, Google, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: Overview

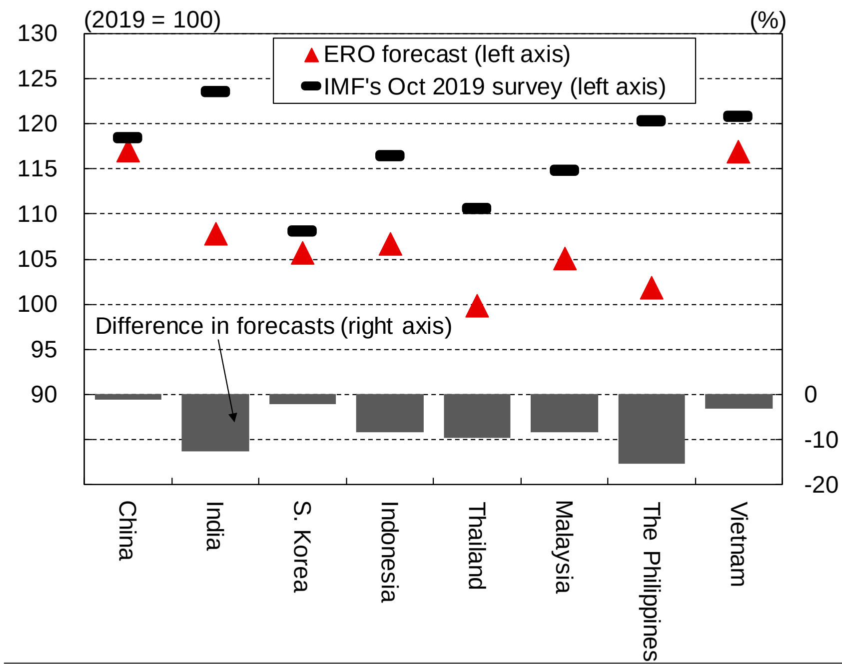
- China has been successful in finding a balance between controlling the spread of infection domestically and maintaining economic activities, and its economy has returned to a level higher than the growth trajectory it was following before the pandemic. The economy is forecast to continue to grow in line with its former trajectory with a real GDP growth rate of 8.4% YoY in 2021 and 5.5% YoY in 2022.
- Although international tourism is still on pause on the foreign demand front, NIEs and ASEAN have seen robust growth in exports of goods reflecting the improved growth of overseas economies, particularly the US and China. Meanwhile, although domestic demand is picking up, the pace of recovery differs depending on the degree of COVID-19 infection in each economy. It appears foreign demand will continue to drive exports of goods in the future. On the other hand, it appears private consumption will be sluggish for the time being due to the current rise of COVID-19 cases, but it may return to a path of gradual recovery again if infections are brought under control and restrictions are eased. The real GDP growth rate forecast for 2021 for NIEs and ASEAN is 4.4% YoY and 4.7% YoY respectively, and for 2022 is 3.0% YoY and 5.0% YoY (ASEAN remains some distance from its pre-pandemic growth trajectory).
- Australia's economy continues to recover smoothly on the back of robust private consumption and exports, and the real GDP growth rate is forecast at 4.4% YoY for 2021 and 2.6% YoY for 2022, assuming the domestic and foreign economies return to normal. However, a further rise in tension between itself and China could lead to negative effects on the Australian economy.

Outlook for Asian and the Australian Economies

	Real GDP growth rate (%)			Consumer Price Index (%)		
	2020 (Actual)	2021 (Forecast)	2022 (Forecast)	2020 (Actual)	2021 (Forecast)	2022 (Forecast)
Asia (11 countries/regions)	- 0.8	7.3	5.3	2.9	2.3	2.7
China	2.3	8.4	5.5	2.5	1.5	2.3
India (FY basis)	- 7.5	9.3	6.6	6.2	4.9	4.6
NIEs	- 0.9	4.4	3.0	0.2	1.4	1.5
South Korea	- 1.0	3.6	3.1	0.5	1.5	1.5
Taiwan	3.0	4.9	2.8	- 0.2	1.4	1.3
Hong Kong	- 6.1	5.3	3.0	0.3	1.5	2.0
Singapore	- 5.4	5.4	3.3	- 0.2	1.2	1.2
ASEAN 5	- 3.4	4.7	5.0	1.4	2.4	2.6
Indonesia	- 2.1	4.3	4.5	2.0	2.2	3.0
Thailand	- 6.1	2.2	4.0	- 0.8	1.1	1.2
Malaysia	- 5.6	5.9	5.1	- 1.1	1.8	1.8
The Philippines	- 9.6	6.2	6.1	2.6	4.1	3.0
Vietnam	2.9	6.8	6.4	3.1	3.3	3.7
Australia	- 2.5	4.4	2.6	0.8	1.8	1.8

Source: National statistics of each country, MUFG Bank Economic Research Office

Level of Real GDP Forecasts of Major Asian Economies for 2022 (Comparison of IMF's Pre-Pandemic and ERO's May Outlooks)



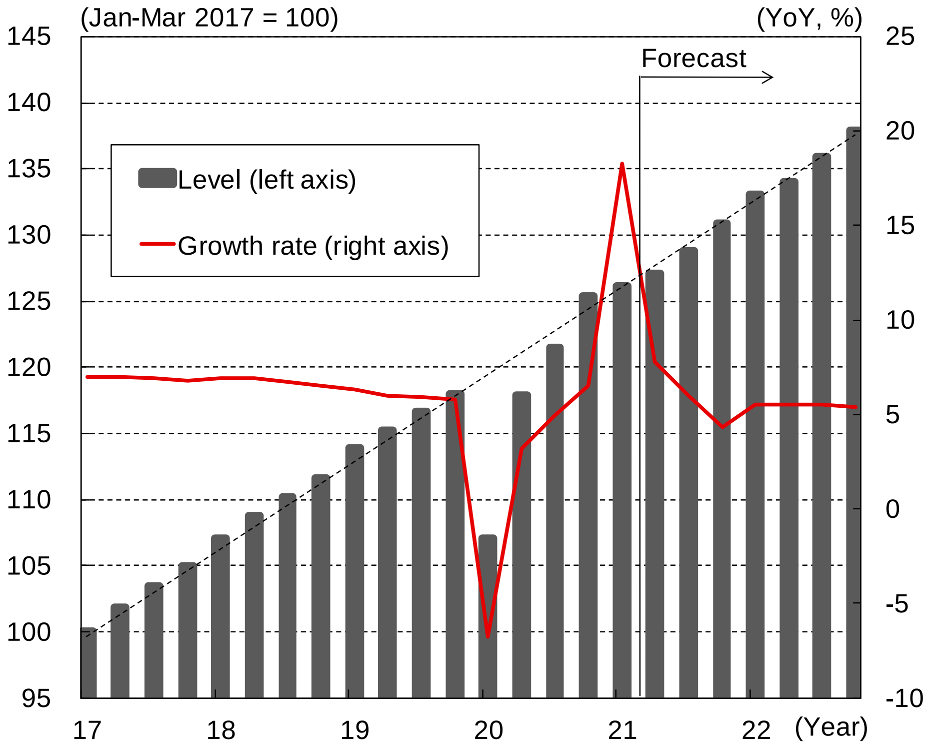
Note: Forecast calculated using the IMF's forecast made in October 2019 and assumptions about the level of real GDP based on the trend of growth since the start of the COVID-19 pandemic
Source: IMF, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: China – Overview and Investment

- China's real GDP for the January-March quarter rose 18.3% YoY. This was the highest growth since 1992 when quarterly records began and was due to a rebound from the negative growth the previous year brought about by the effects of the pandemic. In terms of the level of GDP, last quarter's result was in line with the trajectory of growth before the pandemic. China has been successful in finding a balance between controlling the spread of infection domestically and maintaining economic activities. It is also pushing forwards with its vaccine rollout.
- Fixed asset investment continues to grow at a robust pace and exceeds the level it was at in 2019 before the pandemic. At the National People's Congress in March, the government decided to issue RMB 3.65 trillion special government bonds to fund infrastructure (RMB 2.15 trillion in 2019, RMB 3.75 trillion in 2020). Meanwhile, it is thought to be unlikely that monetary and fiscal policies will be tightened considerably next year (2022). In addition, "new infrastructure investment" – a continued focal point of the government – is expected to underpin total fixed asset investment, which means investment is likely to remain firm going forwards.

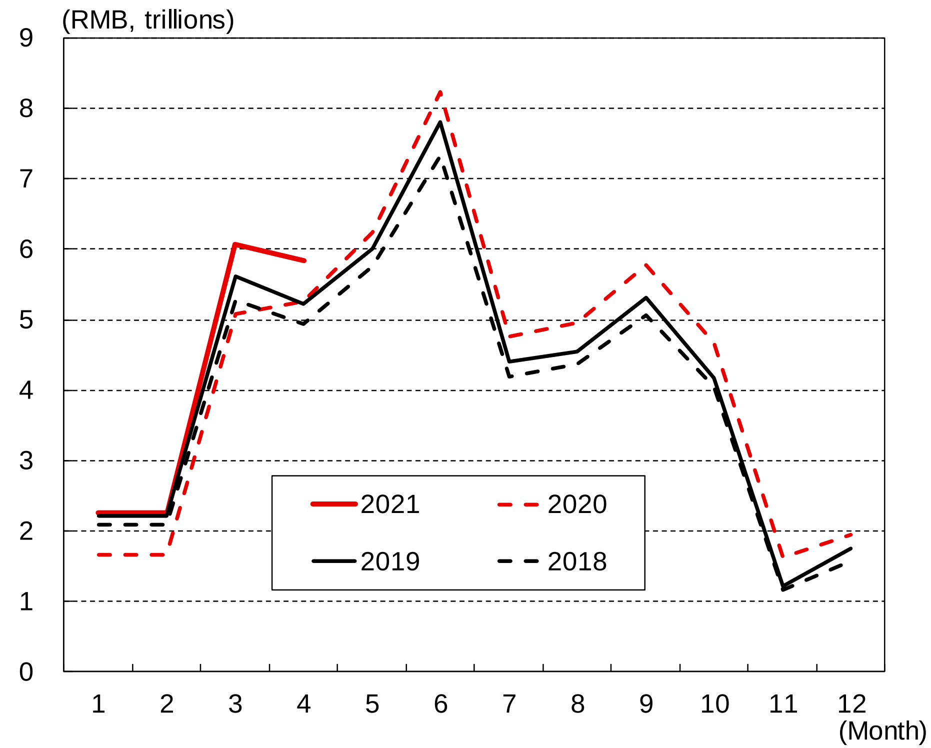
"New investment infrastructure" is comprised of 3 fields: information infrastructure (5G, IoT, AI), fusion infrastructure (a shift away from conventional technology using internet and big data) and innovation infrastructure (high-tech public infrastructure that supports scientific research).

China's Real GDP Growth Rate



Note: "Level" is calculated based on YoY seasonally adjusted figures published by the National Bureau of Statistics
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

China's Fixed Asset Investment

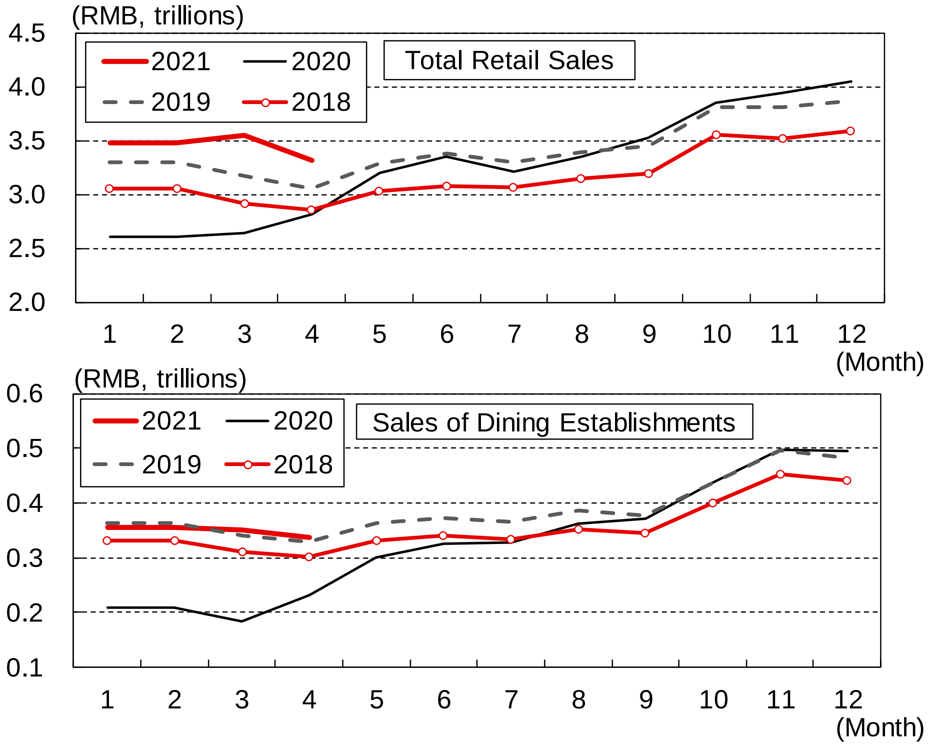


Note: Data for each month is calculated from the amount published by the National Bureau of Statistics for January to December 2020 and using the growth rates for other months
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: China – Private Consumption

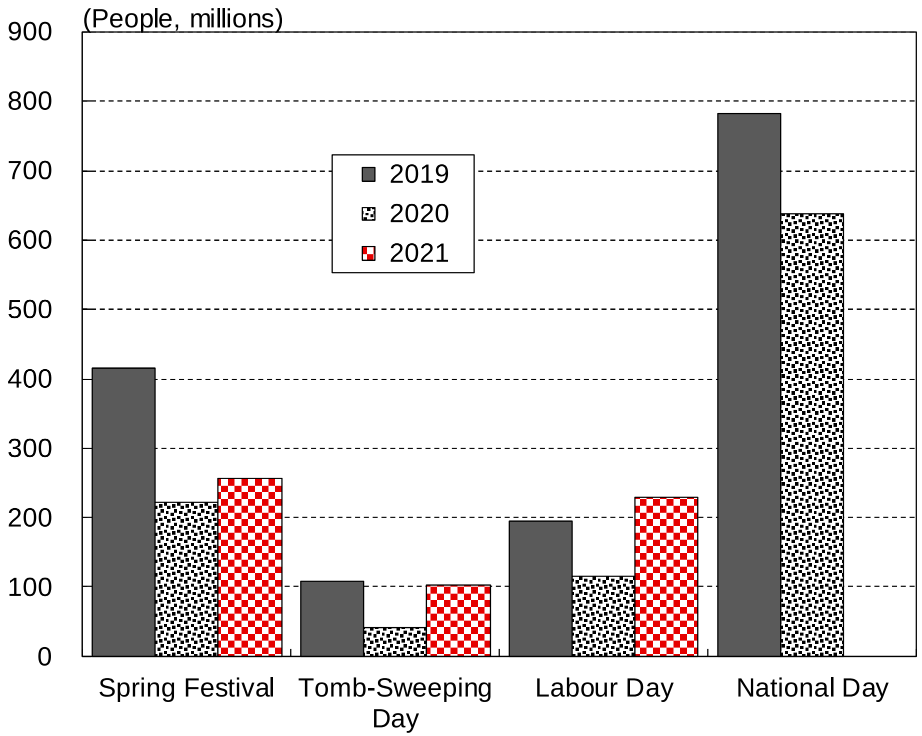
- Private consumption grew at a robust pace with retail sales totalling RMB 3.3 trillion in April (growth of 17.7% YoY and 8.4% compared with 2019 before the pandemic) and automobile sales underpinning overall consumption. While the recovery of sales of dining establishments has been comparatively slow, they exceed pre-COVID levels for the second month in a row.
- Since retail statistics for face-to-face sales are difficult to obtain, analysis of the number of domestic tourists instead shows a recovery which is gaining strength, with 230 million recorded during the Labour Day holiday (1st~5th May) this year – exceeding the level in 2019 for the same period.
- Looking ahead, the recovery in face-to-face services – the area hardest hit by the pandemic – is expected to continue, and private consumption is predicted to grow at a robust pace on the whole as household consumption slowly returns to normal.

Total Retail Sales and Sales of Dining Establishments in China



Note: Result for January and February is the total of both months divided equally into two
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Number of Domestic Tourists during Major Holidays



Note: The date of each major holiday changes every year
Source: Ministry of Culture and Tourism, MUFG Bank Economic Research Office

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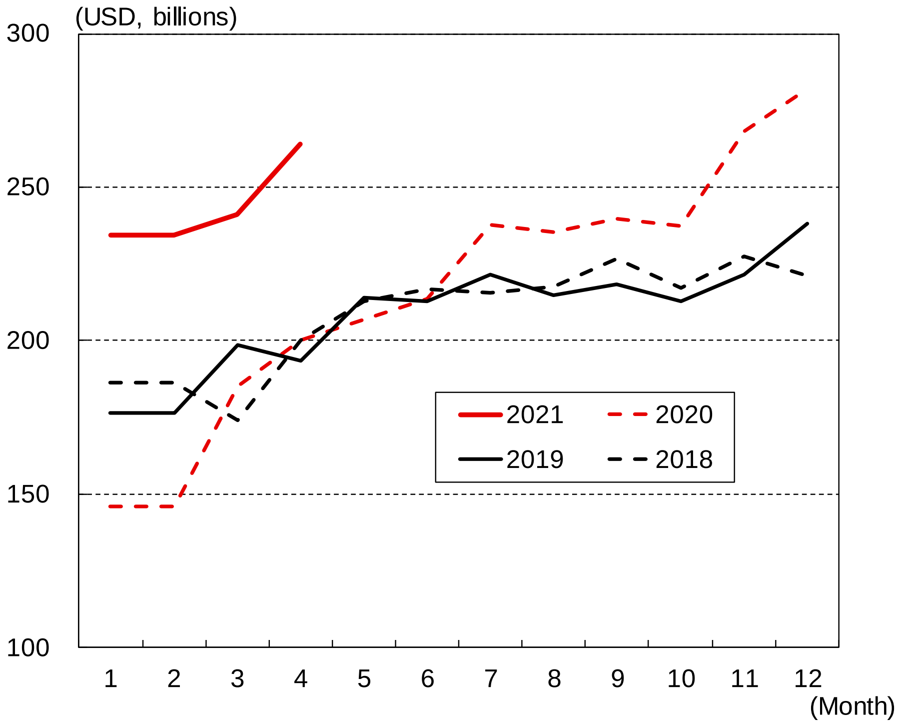
4-6. Asian and the Australian Economies: China – Exports and Production

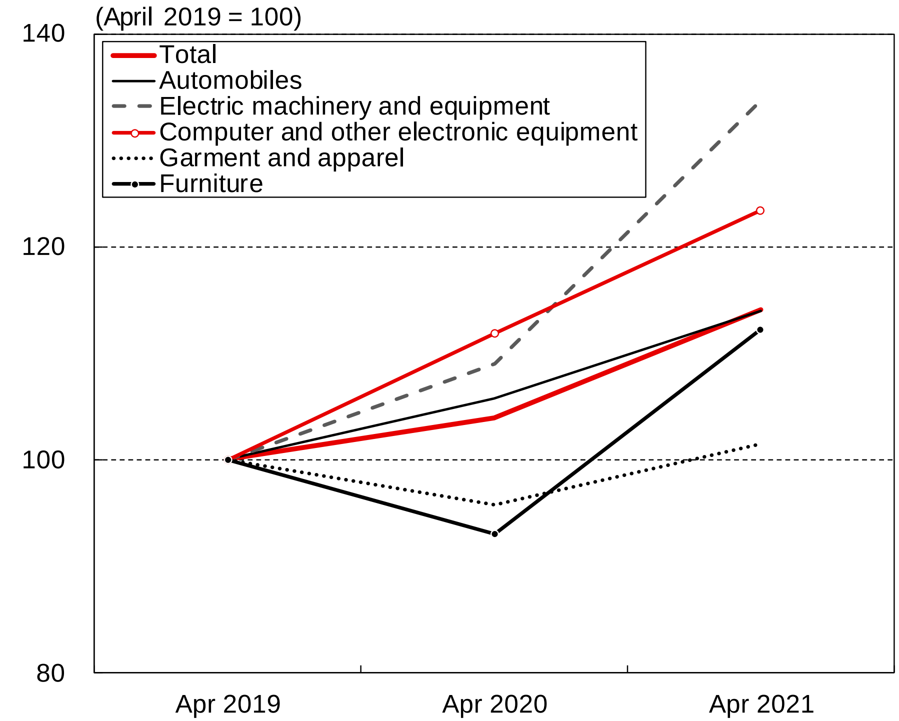
- Exports were strong in April at USD 263.9 billion (32.3% YoY), led by “machinery and electronic equipment” – China’s major exports. Looking ahead, It is possible growth will enter a phase where it decelerates as demand subsides in countries and regions whose economies were quick to recover, such as the US. The recovery of countries’ economies and the change in global demand caused by the pandemic (demand for machinery due to an increase in remote working) will be positive factors, and exports are forecast to remain at high levels for the time being.
- Real added value industrial production is at a high level on the whole owing to strong exports and robust private consumption. Although “garment and apparel” is slow to return to previous levels, “electrical machinery and equipment” is driving growth, thereby reflecting the change in households and businesses’ behaviour since the start of the pandemic. There is a possibility that production of some items may start to decline in the future as pent-up demand fades, but real added value industrial production is expected to remain at high levels on the whole for the time being.
- Under the trade agreement between China and the US that came into effect during the Trump administration, China will increase its imports (including services) from the US for two years (2020 and 2021) by USD 200 billion compared with 2017, but achieving this target seems particularly challenging at present. There is also a possibility that tensions between the two countries over human rights issues will be exacerbated further under the Biden administration. The direction taken by both countries over these issues will warrant close examination.

China’s Exports



Note: In order to smooth the irregularities caused by the lunar new year, figures for January and February are an average of the two months
Source: General Administration of Customs, MUFG Bank Economic Research Office

China’s Real Added-Value Industrial Production



Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

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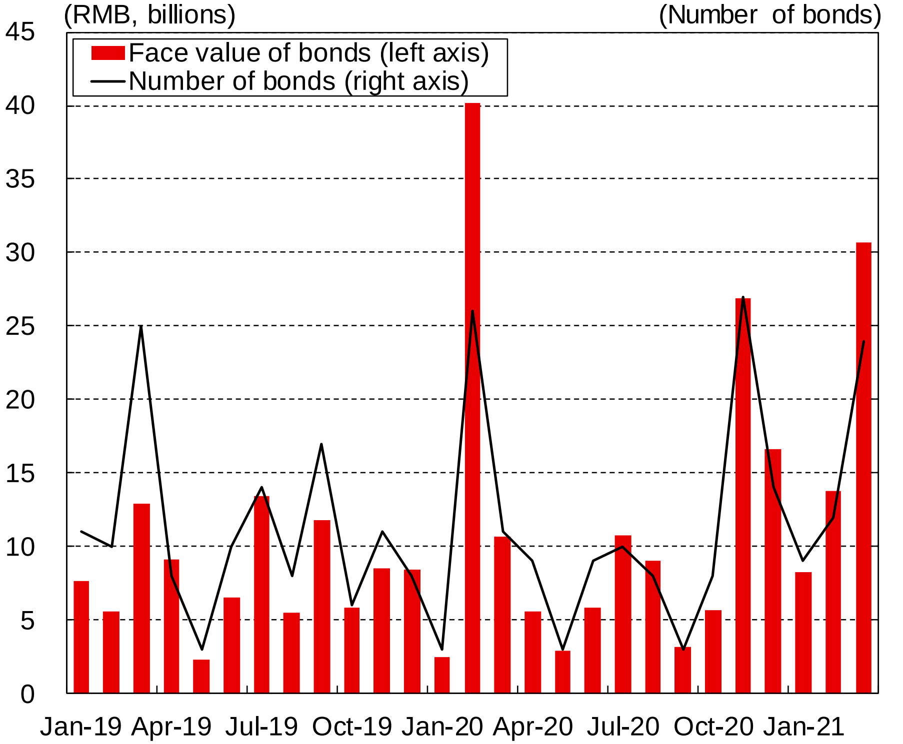
4-6. Asian and the Australian Economies: China – Debt

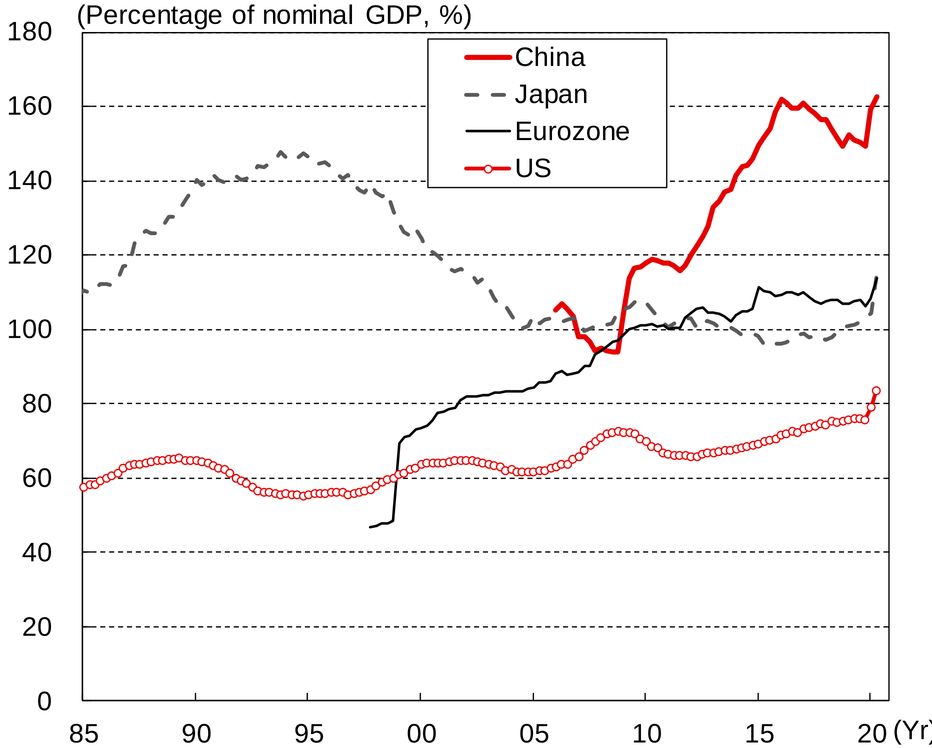
- The Chinese economy continues to recover, but the financial market shows a frequent occurrence of corporate bond defaults as the face value of bond defaults in March reached the highest level since February 2020.
- The government has emphasised that a crisis in the financial system will not happen and that it will avoid large disruption to markets. Meanwhile, it is curbing investors and businesses' reliance on implicit government guarantees and has expressed a strong will to carry out deleveraging and structural reforms, yet it is tolerant of defaults by SOEs to some extent. That being said, there is an undeniable possibility that a sharp rise in defaults may put downward pressure on investment by eroding investors' appetite for corporate bonds and increasing the difficulty facing businesses in raising capital. It will be important to keep an eye on this point in the future.
- There was a huge increase in China's non-financial businesses' corporate debt as a percentage of nominal GDP due its large-scale economic policies following the global financial crisis and the level remains high, which has been attracting attention for some time. Since 2015, this percentage started to fall as the government carried out deleveraging (reducing excess corporate debt), but it rose to another all-time high owing to the COVID-19 pandemic. It will be necessary to monitor this closely in future.

No. and Value of Defaults on Corporate Bonds by Chinese Companies



Source: China Central Depository & Clearing Co., MUFG Bank Economic Research Office

Amount of Corporate Debt in Major Countries and Regions

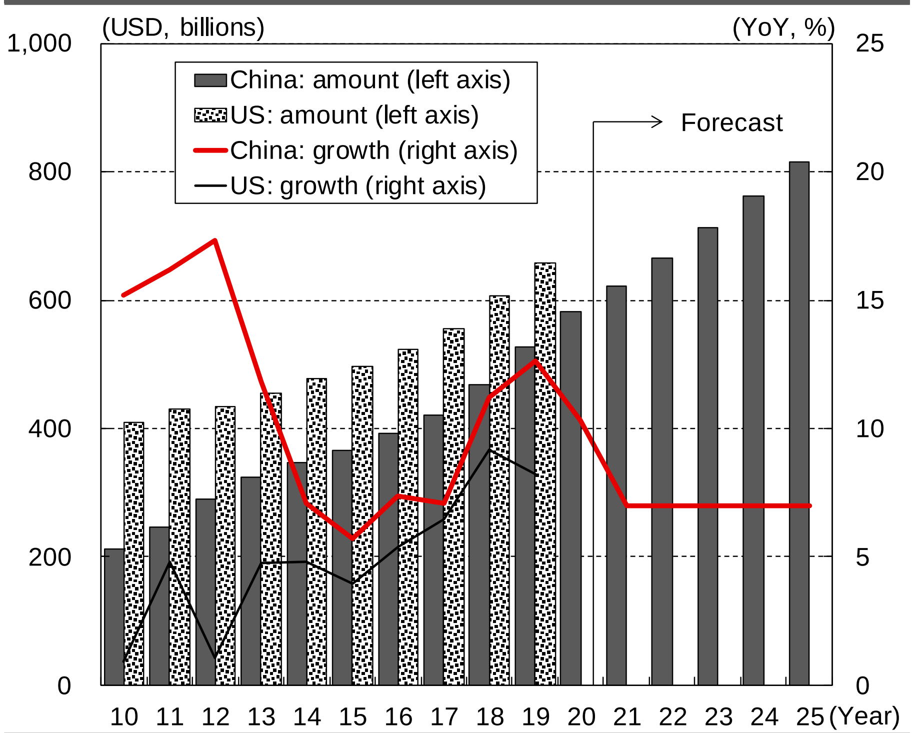


Source: BIS, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: China – Policies

- The 14th Five-Year Plan (2021~2025) was officially adopted at the National People's Congress held from 5th to 11th March. A target for the real GDP growth rate over the next five years has not been set due to the large degree of uncertainty at present. Nevertheless, one of the targets included this time was to raise R&D (RMB-denominated) by an annual average of more than 7%. If China achieves this target, it is possible the cost of R&D will reach the level projected for the US in 2025.
- At the start of FY2021, a real GDP growth rate target of more than 6.0% YoY was set for this fiscal year, but this target is more conservative than most economists' projections. In addition, the government has indicated it will keep the level of debt compared with nominal GDP generally stable. This suggests that the government will turn its attention to maintaining stable growth in the medium term for the time being, rather than boosting the economy, and it is likely that policies from now will be focused on medium- and long-term growth.
- President Xi announced a new model for development called the "Dual Circulation Strategy" as part of the 14th Five Year Plan. While pushing forwards with its "international circulation", namely the development of overseas investment, the main focus will be on its "internal circulation", whereby domestic demand will drive growth and reliance on other economies will be reduced. This will be achieved by stimulating consumption and increasing the level of sophistication of its industries. This policy suggests China believes the conflict between itself and the US will be prolonged.

R&D Spending by China and US (PPP Basis)



Note: For "China" from 2019 calculated assuming USD 1 = RMB 4.2 (OECD's PPP rate as of 2018). Forecast from 2021 calculated assuming an RMB-denominated growth rate of 7% YoY (lower limit of NPC's target)
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Targets for 2022 Set During the National People's Congress

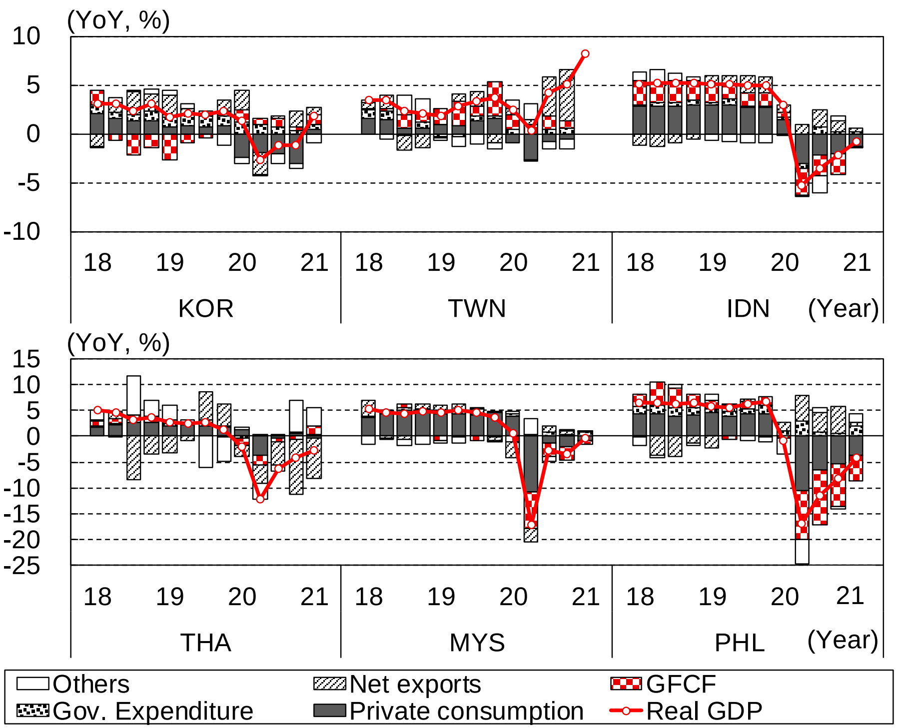
	2019 Target	2020 Target	2021 Target
Real GDP growth rate (YoY, %)	6.0~6.5	Not set	6.0+
Consumper Price Index (YoY, %)	Approx. 3.0	Approx. 3.5	Approx 3.0
Budget deficit (percentage of nominal GDP, %)	2.8	3.6+	Approx 3.2
Special government bonds (RMB, trillions)	None	1	None
Local government bonds (RMB trillions)	2.15	3.75	3.65
Surveyed unemployment rate (%)	Approx 5.5	6	Approx 5.5
Social financing	In line with the nominal GDP growth rate	More than last year's growth rate	Largely in line with nominal GDP growth

Source: Various news reports, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: Other Asian Economies – Overview, Private Consumption and Exports

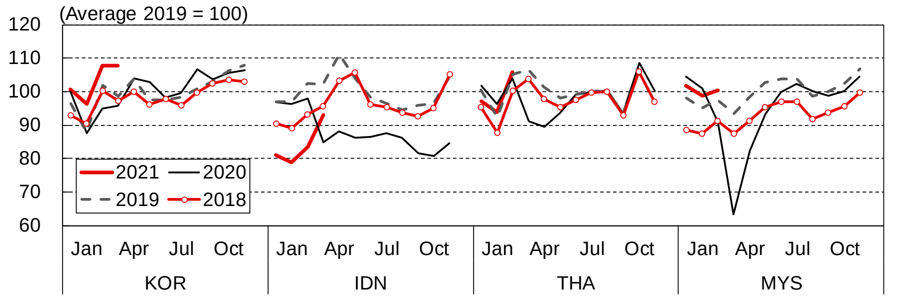
- The real GDP growth of NIEs and ASEAN (5 countries) for the January-March quarter was 4.0% YoY and -0.7% YoY respectively – both showing improvements for the second consecutive quarter. However, while there is a clear recovery in NIEs, ASEAN is slow to pick up again with the decline only just slowing at present.
- The overall trend of economic growth is being affected by domestic and foreign demand, which in turn is being affected by the spread of COVID-19. In terms of domestic demand, retail sales – an indicator of domestic consumption – continue to recover on the whole in each economy, although the pace of recovery in Indonesia is noticeably slower. There is a strong possibility that a rise in COVID-19 cases will slow economic recovery in the future, particularly in ASEAN, but if restrictions on movement to control the pandemic continue to be eased, there is momentum to return to a path of gradual growth. In terms of foreign demand, the situation in the tourism industry is still severe. Meanwhile, exports of goods continue to recover and economies of major export destinations are expected to expand, particularly those of the US and China. As a result, exports are forecast to grow at a robust pace and drive economic growth.
- The outlook for the real GDP growth rate in NIEs and ASEAN is 4.4% YoY and 4.7% YoY in 2021 respectively, and 3.0% and 5.0% in 2022. The recovery of real GDP growth rates differs between economy but, on the whole, they are predicted to return to pre-COVID-19 levels by 2021. That being said, growth is not forecast to return to pre-COVID-19 trajectories until 2022.

Real GDP of Major Asian Economies



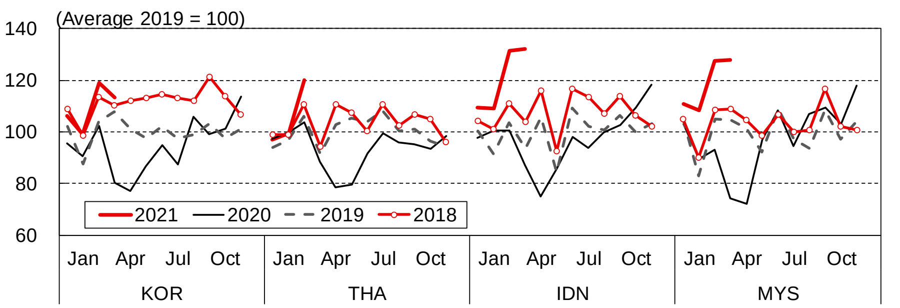
Source: National statistics of each country/region, MUFG Economic Research Office

Retail Sales of Major Economies in Asia



Source: National statistics of each country/region, MUFG Bank Economic Research Office

Exports of Major Economies in Asia



Source: National statistics of each country/region, MUFG Bank Economic Research Office

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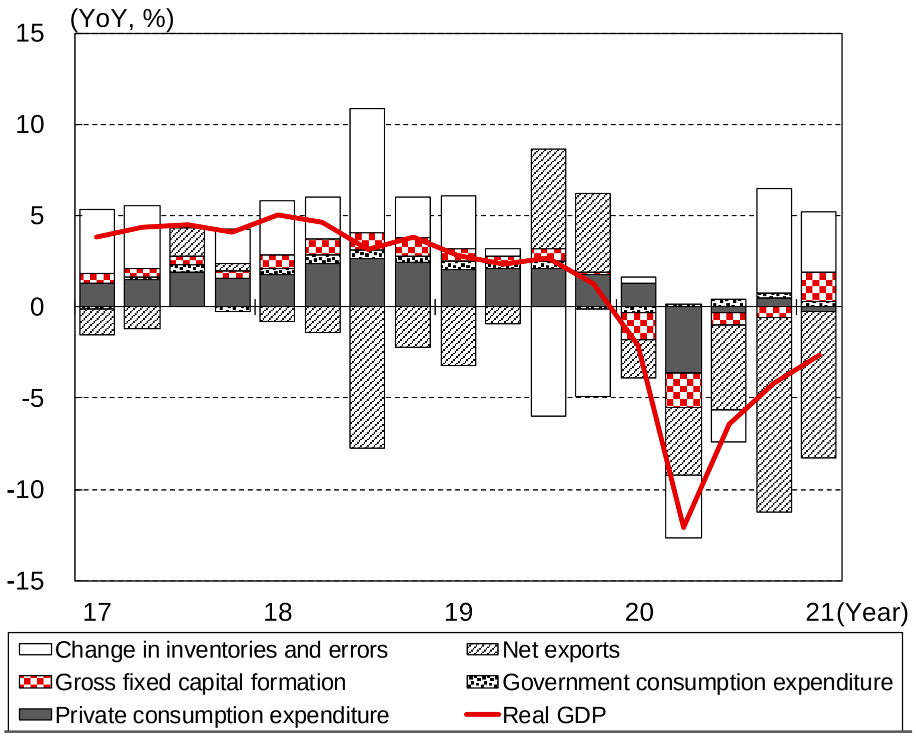
4-6. Asian and the Australian Economies: Other Asian Economies – Thailand

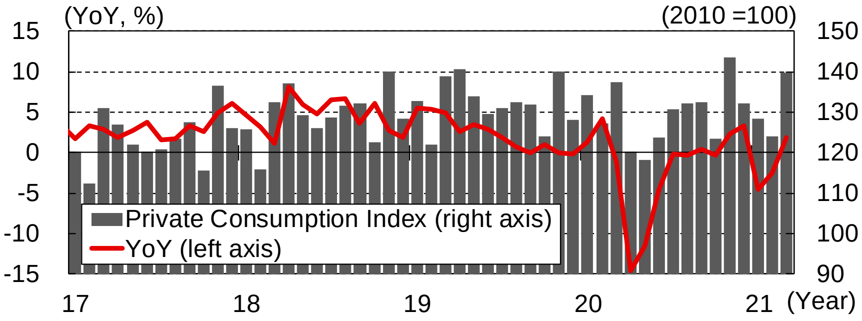
- Thailand's real GDP growth rate for the January-March quarter last year was -2.6% YoY, declining for the fifth consecutive quarter. Private consumption fell 0.5% YoY owing to the rise in COVID-19 cases at the start of the year, and the decline of 10.5% YoY in exports also put downward pressure on overall growth, particularly exports of services as the tourism industry has still not re-opened.
- The rise in consumption activities plateaued at the start of the year due to the increased number of COVID-19 cases. On the other hand, in March, the Private Consumption Index exceeded the level recorded for the same month the previous year before the pandemic. Exports of goods continue to recover, but the number of foreign visitor arrivals remains close to zero.
- An end to the spread of infection remains out of sight as new daily cases hit a new all-time high at the start of April. As a result, the recovery in private consumption is very likely to slow once more. In addition, it is also unlikely there will be a recovery of the tourism industry (a major industry for Thailand) this year, which means only exports of goods will be driving economic growth for the time being. The real GDP growth rate for 2021 is forecast to remain low at 2.2% YoY. The outlook for 2022 depends on the spread of COVID-19 and international tourism, but it appears real GDP will finally return to pre-pandemic levels for the most part, and will grow 4.0% YoY.

Thailand's Real GDP



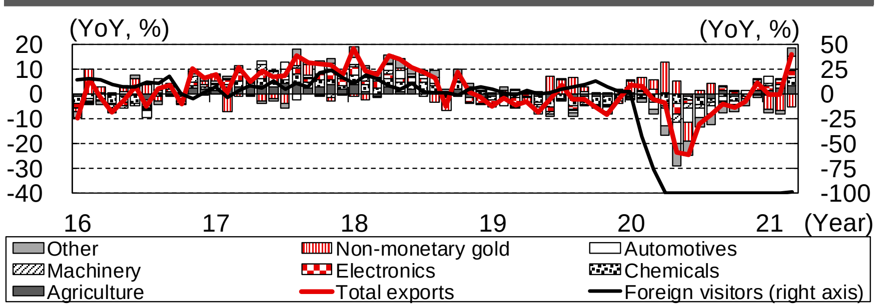
Source: Thailand Office of the National Economic and Social Development Board, MUFG Bank Economic Research Office

Thailand's Private Consumption Index



Source: Bank of Thailand, MUFG Bank Economic Research Office

Thailand's Exports and Number of International Visitors



Source: Ministry of Commerce of Thailand, Ministry of Tourism and Sport, MUFG Bank Economic Research Office

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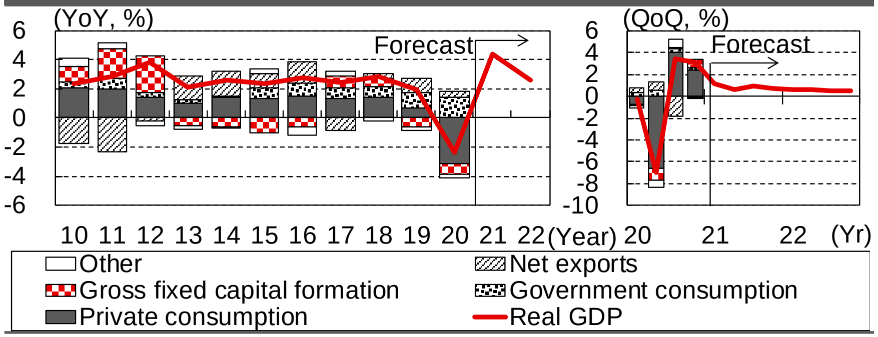
4-6. Asian and the Australian Economies: Other Asian Economies – Australia

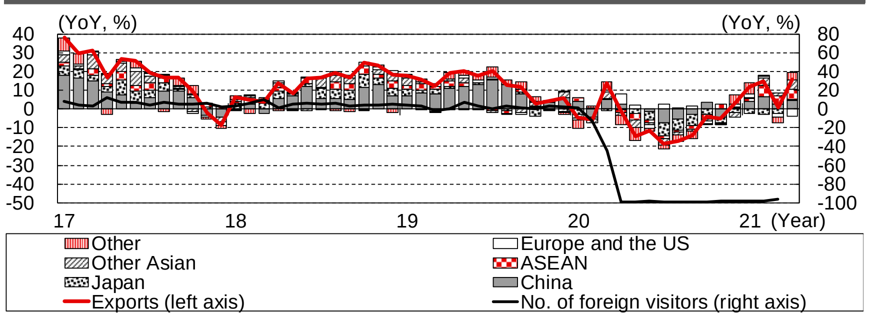
- Australia is forecast to record a positive result for its real GDP growth rate for the January-March quarter due to the contribution from the recovery in private consumption (scheduled release: 2nd June).
- With the exception of just at the start of the pandemic, retail sales have been higher than the former trend set before the pandemic, and domestic demand is picking up. The reason for this appears to be the support for employees from Job Keeper Payments. In terms of foreign demand, the recovery of overseas economies – particularly the US and China – and the resulting increase in natural resource prices provided a headwind for exports, which maintained positive growth. Nevertheless, with the number of foreign visitors still close to zero, the tourism industry is not recovering, which continues to put downward pressure on services especially.
- This year, private consumption will maintain its current, robust pace of growth as vaccinations continue, and exports are expected to remain firm due to the recovery of the global economy. The real GDP growth rate for 2021 will accelerate to 4.4% YoY due in part to a rebound from the low growth the previous year. In 2022, the fluctuations in the number of COVID-19 cases will settle and, assuming the domestic and foreign economies will continue to normalise, real GDP will increase by around 2.6% YoY. However, it will be important to keep an eye on the impact on trade from the conflict between Australia and China, such as a complete halt to imports of Australian coal by China (since December 2020).

Australia's Real GDP



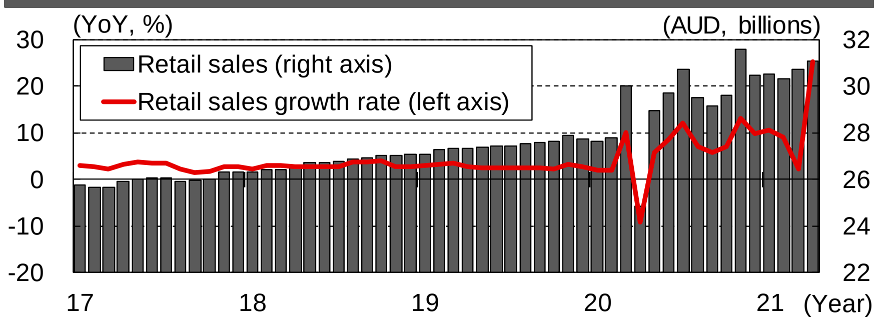
Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's Exports and Number of Foreign Visitors



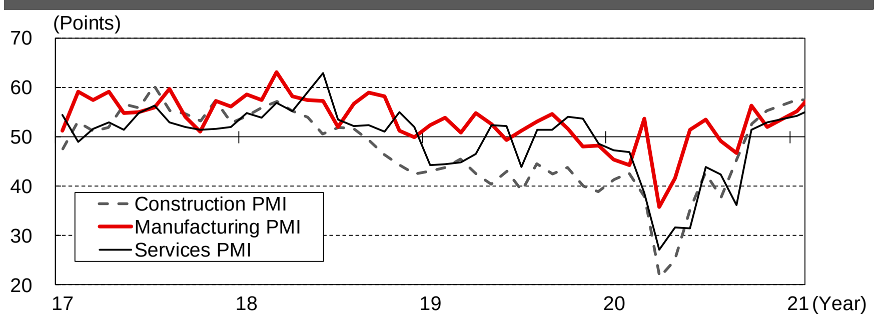
Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's No. of Employees, Retail Sales & Consumer Sentiment



Source: Australian Bureau of Statistics, Westpac, MUFG Bank Economic Research Office

Australia's PMI

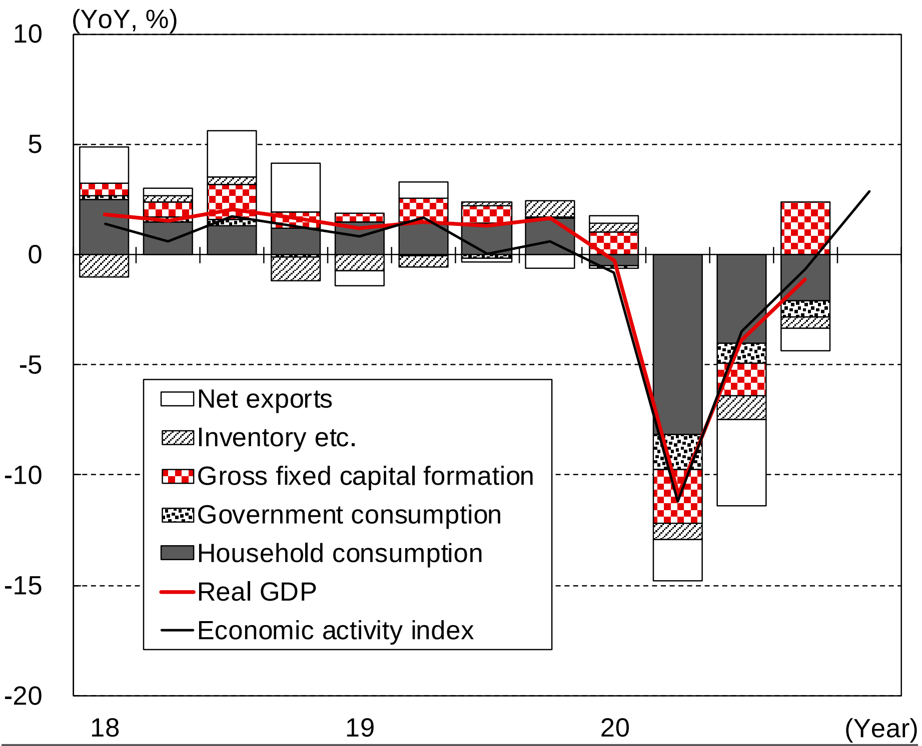


Source: The Australian Industry Group, MUFG Bank Economic Research Office

4-7. Central and South American Economies: Brazil

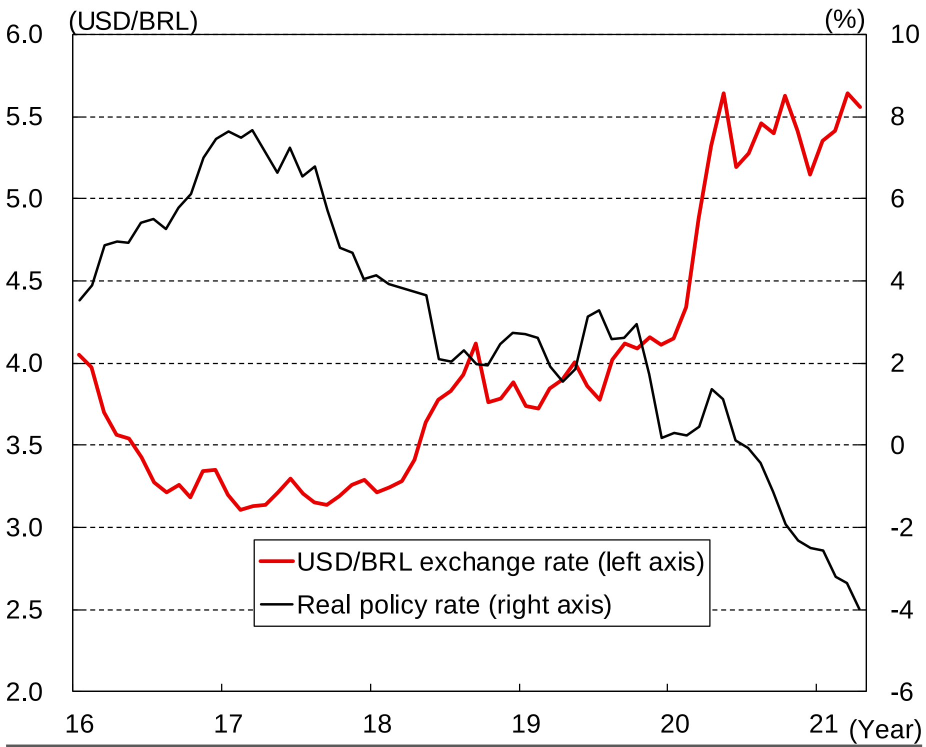
- Brazil's real GDP declined 1.1% YoY in the October-December 2020 quarter, marking a fourth straight quarter of negative growth. Yet the decline was smaller than the previous quarter's -3.9% due in part to the effects of economic relief measures which amounted to 18% of nominal GDP. The real GDP declined 4.1% YoY in 2020.
- Brazil's exports increased 14.9% YoY in the January-March 2021 quarter – the first increase in three years – led by exports to China. The Economic Activity Index also turned positive YoY; however, the recovery of household spending and manufacturing production has plateaued lately as COVID-19 cases remain elevated due to the spread of a variant.
- In 2021, annual real GDP is projected to increase 3.3% YoY due to a rise in exports on the back of US and China economic recovery, and direct payments to low-income households resume. However, the slower vaccine rollout (compared with developed economies) could pose a hurdle to economic recovery, as could the interest rate hikes that have been implemented to address concerns about high inflation resulting from the weak BRL and increases in commodity prices. Real GDP is unlikely to return to 2019's pre-pandemic level in 2021. For 2022, real GDP is projected to increase 2.3% YoY, slowing from the 2021 growth rate but likely returning to pre-pandemic levels.

Brazil Real GDP and Economic Activity Index



Source: Brazilian Institute of Geography and Statistics, Central Bank of Brazil, Institute for International Monetary Affairs

Brazil Real Policy Rate and USD/BRL Exchange Rate

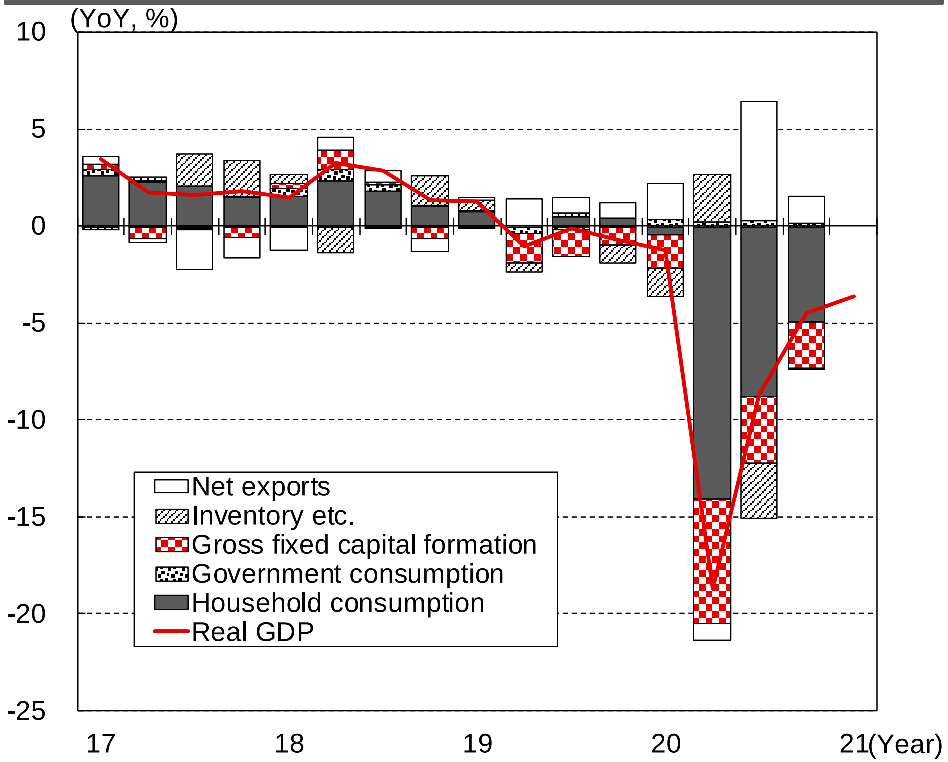


Note: Real policy rate is calculated by subtracting Consumer Price Index inflation rate
Source: Central Bank of Brazil, Institute for International Monetary Affairs

4-7. Central and South American Economies: Mexico

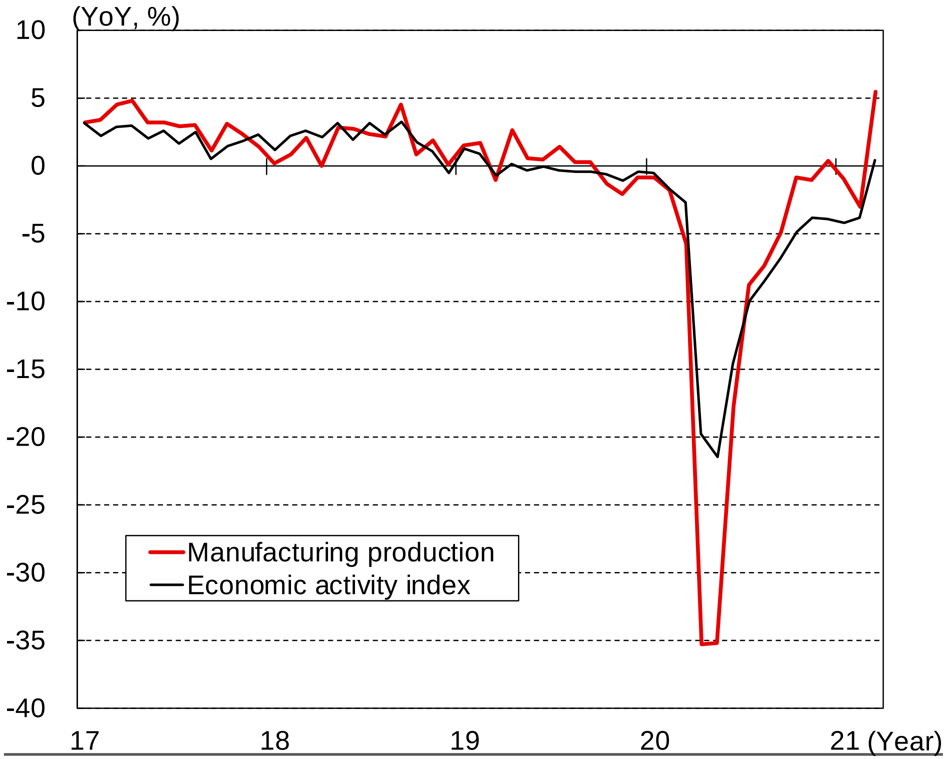
- Mexico's real GDP declined 3.6% YoY in the January-March quarter, less than the previous quarter's 4.5% drop but still a sizable decline as the government limits economic relief measures to a small scale.
- As for domestic demand, a moderate recovery is projected owing to the fall in the number of new COVID-19 cases and the sharp increase in the minimum wage in January. The Mexican economy is influenced heavily by the US economy. Mexico's exports increased 5.8% YoY in the January-March quarter as the US economy recovers, and manufacturing production rose 5.5% YoY in March, rising for the first time in three months. Mexico's economic recovery is projected to gain traction as domestic demand grows and the US economy fares well.
- In 2021, Mexico's real GDP YoY growth rate is projected to turn positive in the April-June quarter, and annual real GDP is projected to grow by 4.5% YoY. But real GDP is unlikely to return to the pre-pandemic level of 2019 this year. In 2022. real GDP increase will likely slow down to 2.1%, roughly in line with Mexico's potential growth rate.

Mexico Real GDP by Demand Component



Source: National Institute of Statistics and Geography, Institute for International Monetary Affairs

Mexico Manufacturing Production and Economic Activity Index



Source: National Institute of Statistics and Geography, Institute for International Monetary Affairs

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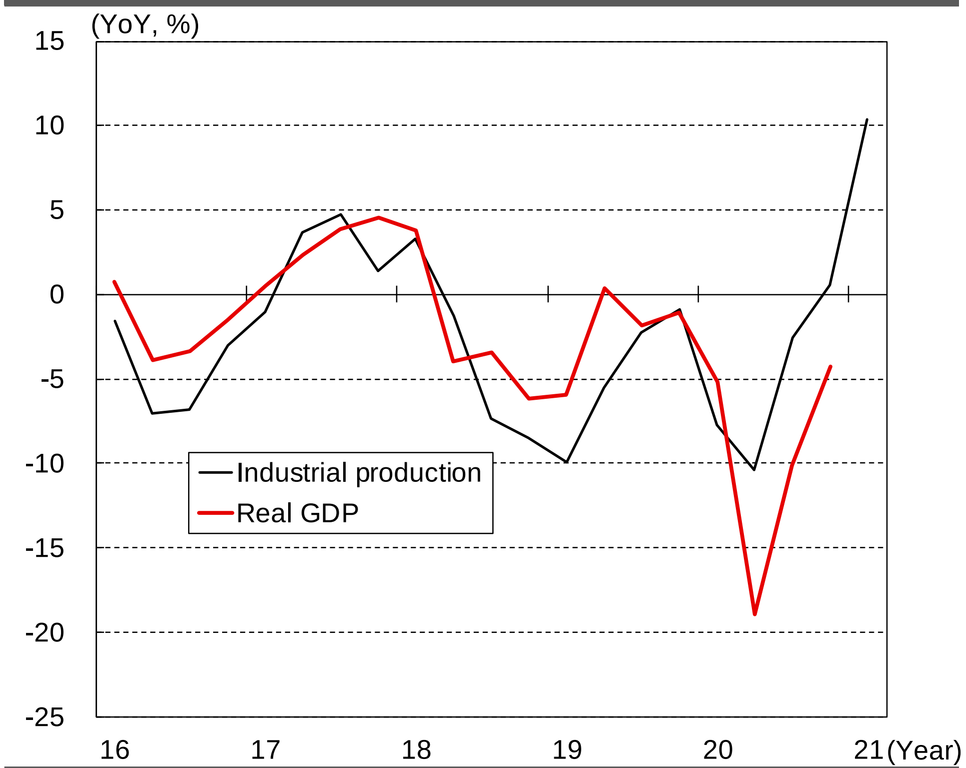
4-7. Central and South American Economies: Argentina

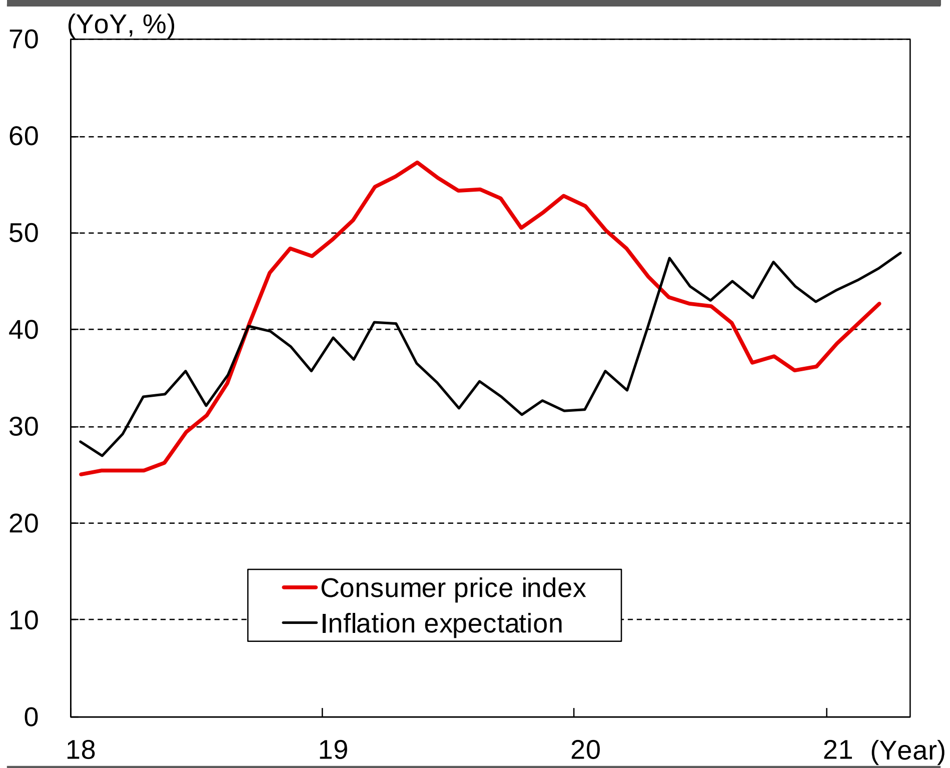
- Argentina's economy has been declining due to concerns about a default from even before the pandemic, which has exacerbated the decline. Argentina's real GDP declined 9.9% YoY in 2020, marking a third straight year of decline.
- As the world economy recovers, the YoY growth rate for Argentina's exports turned positive in the January-March quarter to 15.5%, and industrial production increased by 6.3% YoY in the same quarter, accelerating from the previous quarter. Argentina's annual real GDP growth rate is projected to turn positive in 2021 to 5.0%.
- Still, Argentina could face downward pressure on its economy as the IMF pushes it to tighten fiscal spending and monetary policy as a condition for debt restructuring. The pace of economic recovery will likely slow due to high levels of inflation and COVID-19 cases and the effects of the economic boost from foreign demand start to wane during the second half of 2021. In 2022, Argentina's real GDP is projected to grow by 2.5% YoY but will remain below the pre-pandemic level of 2019.

Argentina Real GDP and Industrial Production



Source: National Institute of Statistics and Censuses, Institute for International Monetary Affairs

Argentina Consumer Price Index and Inflation Expectation

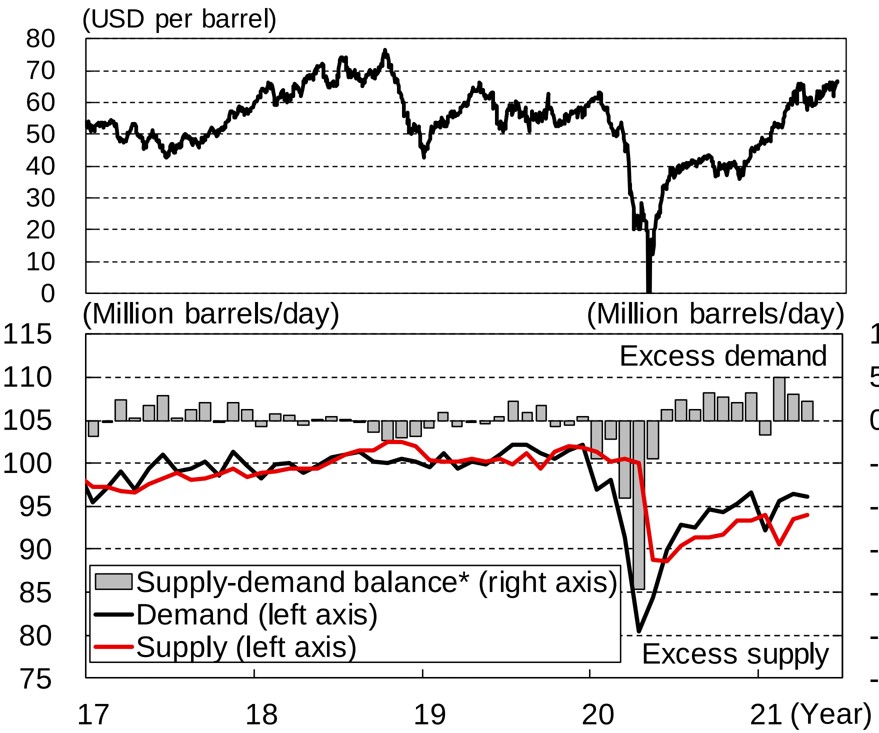


Source: National Institute of Statistics and Censuses, Institute for International Monetary Affairs

4-8. Oil Prices: Overview

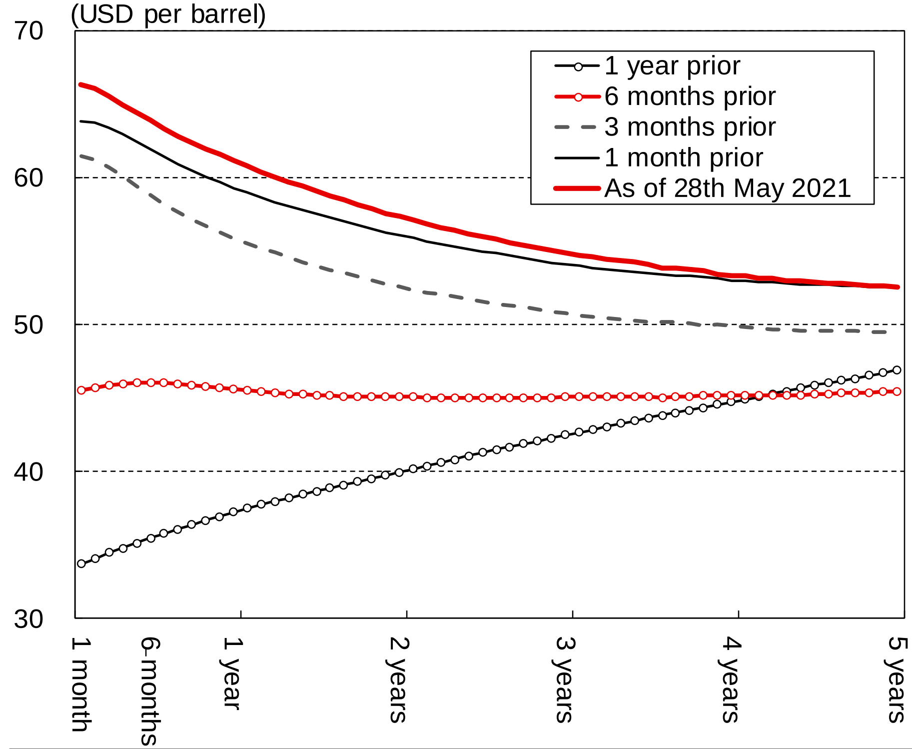
- Oil prices (WTI front month, USD per barrel) fell to around USD58 per barrel after the decision by OPEC+ to shrink the scale of their oil production cuts from May on 1st April. However, oil prices rose again in response to the International Energy Agency (IEA) raising their demand forecast for this year due to an acceleration of the vaccine rollout. Subsequently, the rise in new COVID-19 cases in India put downward pressure on oil prices, but this was countered by expectations that economic activities will pick up as countries, such as the US, ease their restrictions on movement, and oil prices are currently around USD66.
- According to the US Energy Information Administration (EIA)'s monthly report released in May, the excess demand for oil remained; the volume of global oil demand was 96.18 million barrels per day in April and supply was 94.04 million barrels per day. That being said, excess demand was lower in April than it was in February, when a cold snap in Texas, US, caused an increase in demand and decrease in supply, and in March, when supply was disrupted due to a container ship becoming stuck in the Suez Canal.
- The WTI futures curve (1 month ~ 5 year) shows 5-year futures are just above USD50, which is close to the median of the prices recorded over the last few years, and when compared with current prices, shows a growing expectation that prices will fall.

Oil Prices and the Current Balance of Global Supply and Demand



Note: Supply-demand balance is demand less supply
Source: US Energy Information Administration, Bloomberg, MUFG Bank Economic Research Office

Oil Futures Curve (WTI)



Source: Bloomberg, MUFG Bank Economic Research Office

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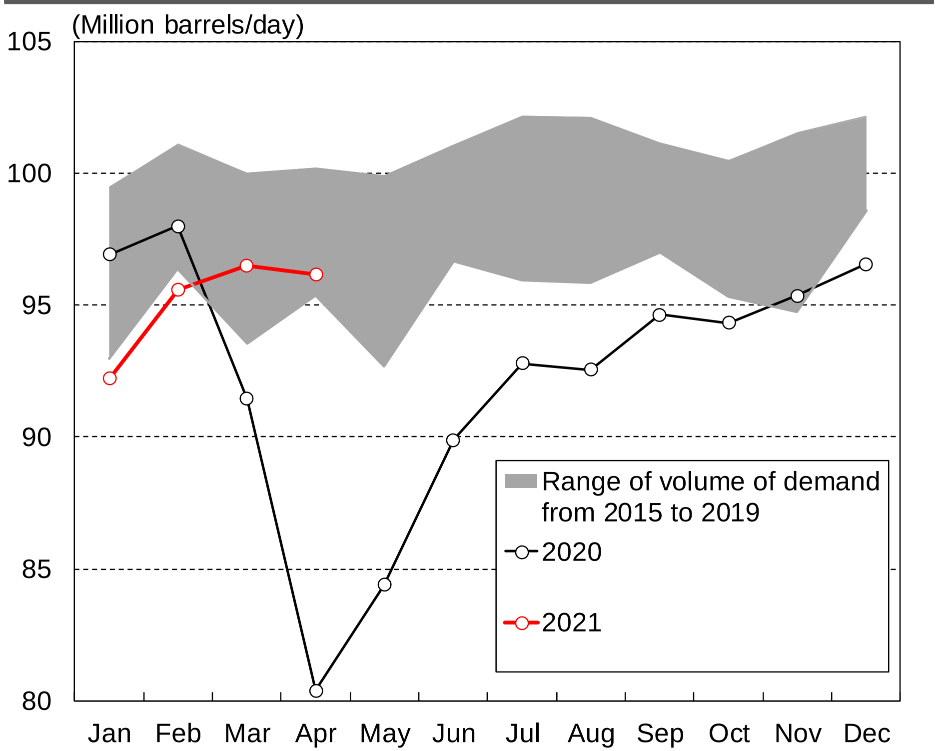
4-8. Oil Prices: Demand

- Demand for oil plummeted for a short while due to the loss of demand for transportation (such as gasoline and jet fuel) caused by restrictions on movement at the start of the COVID-19 pandemic in March and April last year. However, it has been on an upward trend since May last year. Up until February this year, some demand – such as that related to air transportation – had failed to recover, which meant demand remained at the lower limit of the range recorded from 2015 to 2019. Nevertheless, it appears demand is starting to rise within that range since March.
- The recovery of oil demand is partly reliant on demand for air transportation and, although some developed countries are easing their restrictions on movement, it is highly likely that demand will take some time to return to the level it was at before the pandemic in light of the number of global COVID-19 cases. The forecast for the global available seat kilometres* for 2021 published by the International Air Transport Association is still 40% to 50% lower compared to the level in 2019.

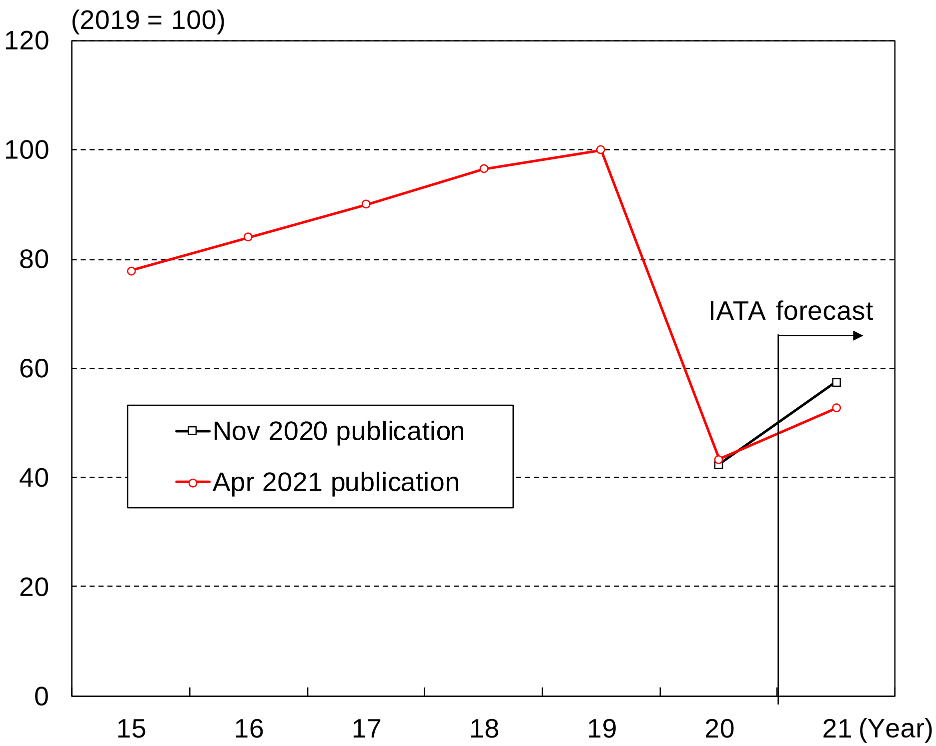
  *Unit of available seat kilometres = total number of seats multiplied by distance flown.
- Up until now, demand for oil has been increasing at a relatively fast pace as economies recover, but as a complete recovery of demand for transportation will take some time, overall demand appears to be slowly peaking at present. Although the recovery will continue on the whole, the pace is forecast to remain gradual.

Oil Demand



Source: US Energy Information Administration (EIA), MUFG Bank Economic Research Office

Commercial Flight's Available Seat Kilometres



Note: Figure for 2020 in "Nov 2020 publication" is a forecast made at that time
Source: International Air Transport Association (IATA), MUFG Bank Economic Research Office

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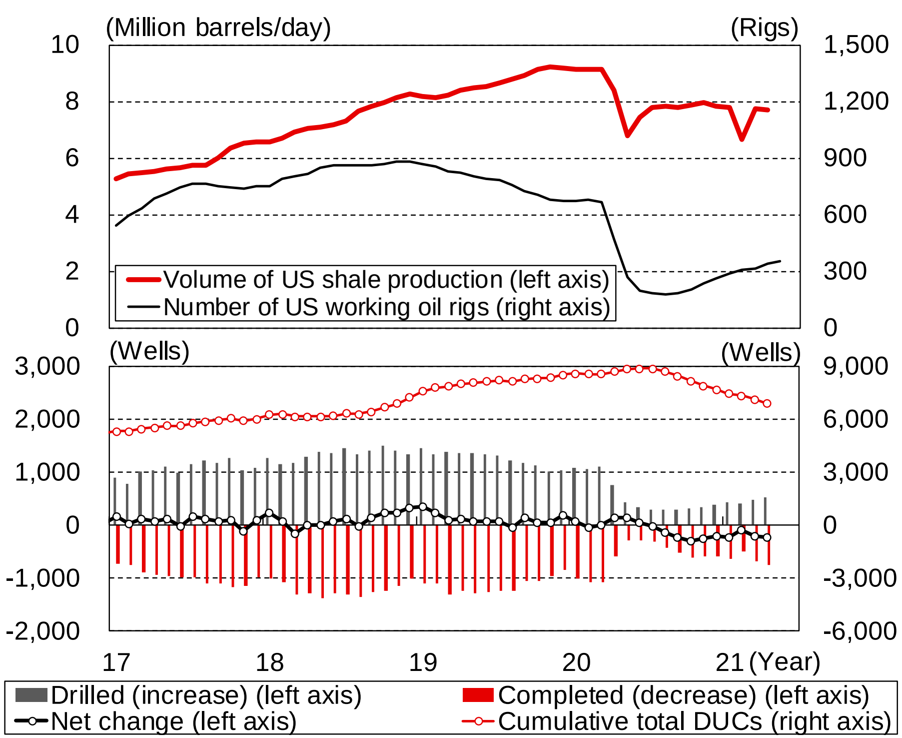
4-8. Oil Prices: Supply

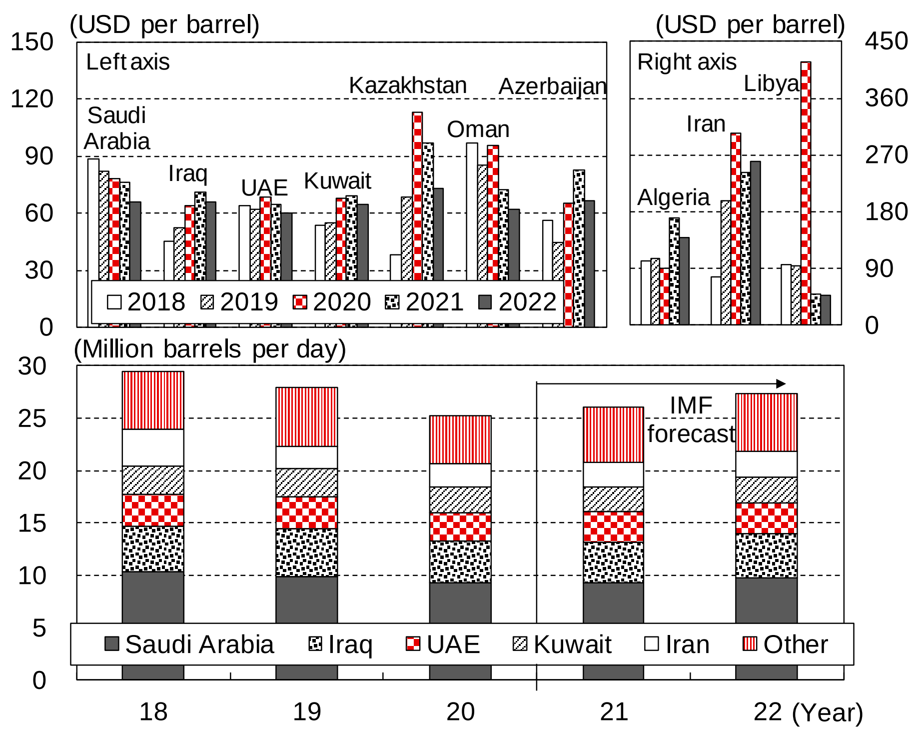
- The number of working US oil rigs is recovering, but the pace is gradual. Currently, oil prices are above the level that means drilling new oil wells is profitable (generally said to be USD50), yet the number of working rigs remains around 50% of the level before COVID-19, and the number of drilled but uncompleted wells (DUC) are on a downward trend as new oil drilling is curbed. It appears that stance taken by the Biden administration when it comes to policies related to the environment and climate change means it is assumed regulations will tighten in the future, which is a barrier to increasing production. Therefore, US shale oil production is forecast to rise at a gradual pace for the time being.
- The influence of US shale on the oil market is declining, whereas that of OPEC+ is increasing. In April, OPEC+ announced its plan to reduce the scale of its current oil production cuts (i.e. increase output), and supply is forecast to increase up until July. In addition, the IMF published its outlook for the fiscal breakeven oil price of countries in the Middle East. In many countries, the fiscal balance is expected to improve on the back of increased oil output in the future as demand improves, and the fiscal breakeven oil price is estimated to fall to between USD60 and USD69 by 2022. Currently, oil prices are close to the fiscal breakeven oil price, and OPEC+ members will probably keep their fiscal balances in mind when adjusting the volume of supply. Oil production is expected to increase in the medium-to-long term.

No. of Working US Oil Rigs, Volume US Shale Oil Output and DUC



Source: Baker Hughes, International Energy Agency, MUFG Bank Economic Research Office

Breakeven Oil Price and Oil Output of OPEC+ Middle East Members



Note: "Breakeven Oil Price" is fiscal breakeven oil price. 2021 and 2022 are forecasts by IMF
Source: IMF, MUFG Bank Economic Research Office

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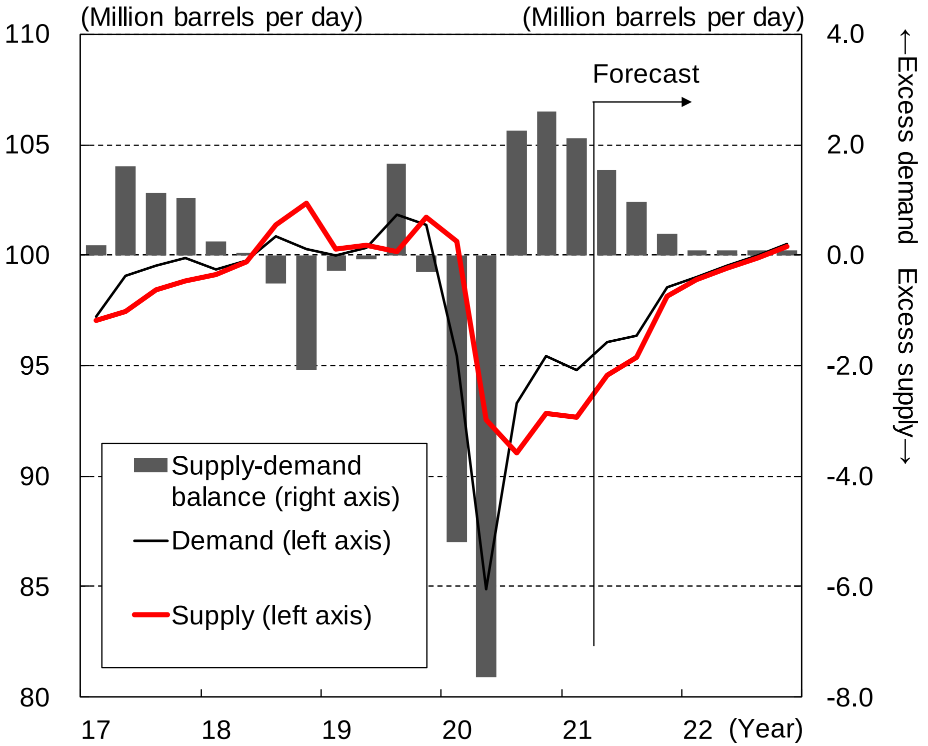
4-8. Oil Prices: Outlook

- Looking ahead, it seems demand for oil will continue to increase as the global economy recovers, but the pace will remain gradual since demand for transportation has not yet fully recovered. Nevertheless, while it is unlikely that US shale oil production will increase significantly, output by OPEC+ is forecast to increase as they reduce the scale of their production cuts. As a result, the scale of excess demand in 2021 onwards will be smaller than it was during the latter half of last year. While it is difficult to predict the outcome of the nuclear agreement with Iran, it will be important to keep an eye out for an outcome where Iran increases its oil exports.
- Oil prices have been rising at a comparatively quicker pace since January this year and are currently around the USD 66 mark. However, there will be an increased likelihood of repositioning by investors when prices high this level. Furthermore, OPEC+ have decided to reduce the scale of their oil production cuts until July, and members will probably keep their fiscal balances in mind when considering the trend of oil prices and increases in production in the medium-to-long term. In light of this, the rise in oil prices is expected to stop at a certain level. Although oil prices will fluctuate in response to events, they are forecast to remain close to the USD60 mark until the end of 2022.

Outlook for Balance of Oil Demand and Supply



Source: US Energy Information Agency, MUFG Bank Economic Research Office

Oil Price Forecast

	WTI future (USD/barrel)	YoY (%)	Brent future (USD/barrel)	YoY (%)
2020 Q1	45.8	-16.6%	50.8	-20.4%
Q2	28.0	-53.3%	33.4	-51.2%
Q3	40.9	-27.5%	43.3	-30.1%
Q4	42.7	-24.9%	45.3	-27.5%
2021 Q1	58.1	27.0%	61.3	20.7%
Q2	64.0	128.6%	67.0	100.7%
Q3	63.3	54.8%	66.3	53.0%
Q4	62.7	46.8%	65.7	45.1%
2022 Q1	62.0	6.6%	65.0	6.0%
Q2	61.3	-4.2%	64.3	-4.0%
Q3	60.7	-4.2%	63.7	-4.0%
Q4	60.0	-4.3%	63.0	-4.1%
2020	39.3	-31.0%	43.2	-32.7%
2021	62.0	57.7%	65.1	50.6%
2022	61.0	-1.7%	64.0	-1.7%

Forecast

Note: Prices shown are average for period
Source: Bloomberg, MUFG Bank Economic Research Office

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Appendix: Global Economic Outlook

Forecast for the Global Economy

		World (weighted average of nominal GDP)				Japan (FY)	Americas					Europe					
			Developed countries	Emerging countries	Other		US	Central and South America (6 countries)				Eurozone (19 countries)				UK	Russia
									Brazil	Mexico	Argentina		Germany	France	Italy		
Nominal GDP (2019)	USD trillions	142.0	51.0	52.7	38.3	5.3	20.9	8.1	3.2	2.4	0.9	15.9	4.5	3.0	2.5	3.0	4.1
	Japan = 100	2,673	960	992	720	100	394	153	59	46	18	299	85	56	46	56	77
Real GDP YoY, %	2020 Actual	-4.0	-4.7	-1.9	-6.2	-4.6	-3.5	-6.7	-4.1	-8.2	-10.0	-6.6	-4.8	-8.1	-8.9	-9.8	-3.0
	2021 Forecast	5.7	4.8	6.8	5.5	3.8	6.0	4.5	3.3	5.0	5.0	4.0	3.3	5.6	4.4	6.0	2.8
	2022 Forecast	4.4	4.1	4.9	4.0	2.6	4.3	2.6	2.3	2.1	2.5	4.4	4.1	4.0	4.0	5.2	2.5
CPI (YoY, %)	2020 Actual	3.4	0.7	3.9	6.4	-0.4	1.2	7.6	3.2	3.4	42.0	0.3	0.4	0.5	-0.1	0.9	3.4
	2021 Forecast	3.7	1.8	3.4	6.5	0.1	2.5	7.6	5.0	3.5	40.0	1.7	2.4	1.4	1.3	1.6	5.3
	2022 Forecast	3.2	1.4	3.6	5.1	0.3	1.7	7.0	3.8	3.1	40.0	1.3	1.4	1.1	1.1	1.9	4.2

		Asia and Oceania														
		Asia (11 countries and regions)														Australia
			China	India (FY)	NIEs (4 countries and regions)					ASEAN (5 countries)						
						S. Korea	Taiwan	Hong Kong	Singapore		Indonesia	Thailand	Malaysia	Philippines	Vietnam	
Nominal GDP (2019)	USD trillions	45.1	24.1	8.9	4.6	2.3	1.3	0.4	0.6	7.5	3.3	1.3	0.9	0.9	1.1	1.3
	Japan = 100	850	454	168	87	43	25	8	11	140	62	24	17	17	20	25
Real GDP (YoY, %)	2020 Actual	-0.8	2.3	-7.5	-0.9	-1.0	3.0	-6.1	-5.4	-3.4	-2.1	-6.1	-5.6	-9.6	2.9	-2.5
	2021 Forecast	7.3	8.4	9.3	4.4	3.6	4.9	5.3	5.4	4.7	4.3	2.2	5.9	6.2	6.8	4.4
	2022 Forecast	5.3	5.5	6.6	3.0	3.1	2.8	3.0	3.3	5.0	4.5	4.0	5.1	6.1	6.4	2.6
CPI (YoY, %)	2020 Actual	2.9	2.5	6.2	0.2	0.5	-0.2	0.3	-0.2	1.4	2.0	-0.8	-1.1	2.6	3.1	0.8
	2021 Forecast	2.3	1.5	4.9	1.4	1.5	1.4	1.5	1.2	2.4	2.2	1.1	1.8	4.1	3.3	1.8
	2022 Forecast	2.7	2.3	4.6	1.5	1.5	1.3	2.0	1.2	2.6	3.0	1.2	1.8	3.0	3.7	1.8

Note: 1. "Nominal GDP" is based on purchasing power parity
2. For "CPI", Japan is composite figure excluding fresh food, Eurozone and the UK are the EU standardised inflation rate (HICP)
3. Figures for Japan and India based on their financial years (April to following March) except Japan's nominal GDP
4. "World", "developed countries", "emerging countries" calculated using Japan data based on the calendar year, India data based on the fiscal year for nominal GDP only and other countries' data based on the calendar year
5. "Developed countries" is a total of Japan, NIEs (4 countries and regions), Australia, US, Eurozone (19 countries) and the UK. "Emerging countries" is a total of China, India, ASEAN (5 countries), Central and South America (6 countries) and Russia
6. "Central and South America (6 countries)" is a total of Brazil, Mexico, Argentina, Colombia, Chile and Peru

Source: National statistics of each country, MUFG Bank Economic Research Office

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Appendix: Outlook for the Japanese Economy and Financial Markets

Outlook for the Japanese Economy (First Preliminary Estimate of GDP Statistics for Jan-Mar 2021)

Forecast

	2020				2021				2022				2023	FY2020	FY2021	FY2022
	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1			
1. The Real Economy (QoQ annualized change)																
Real GDP	-1.9	-28.6	22.9	11.6	-5.1	1.4	5.0	3.3	3.8	2.4	1.7	1.5	1.4	- 4.6	3.6	2.6
Private Consumption	-3.2	-29.2	22.0	9.0	-5.4	0.8	7.5	4.7	5.4	3.5	1.9	1.6	1.6	- 6.0	3.8	3.6
Housing Investment	-14.1	2.3	-21.0	0.3	4.5	-1.2	0.4	0.8	0.2	-0.4	-0.4	-0.6	-0.6	- 7.1	- 0.7	- 0.1
Private Business Fixed Investment	5.1	-22.3	-8.1	18.3	-5.5	1.6	2.4	3.6	4.1	2.8	2.2	2.0	1.6	- 6.9	2.1	2.8
Business Inventory (Contribution)	0.7	0.3	-0.8	-2.0	1.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	- 0.2	- 0.1	0.0
Government Expenditures	0.2	2.1	10.1	6.6	-6.2	3.0	1.6	1.5	1.2	0.9	0.9	0.8	0.8	3.2	1.5	1.0
Public Investment	2.5	8.9	2.9	4.7	-4.2	1.6	1.5	1.3	1.3	1.0	1.0	0.8	0.8	4.0	0.8	1.1
Net Exports (Contribution)	-1.2	-10.2	11.2	4.2	-0.9	0.0	0.2	-0.2	-0.1	-0.1	0.1	0.1	0.1	- 0.6	1.0	0.0
Exports	-17.6	-53.7	32.5	55.7	9.7	7.0	4.9	4.1	3.6	3.2	2.8	2.2	2.0	- 10.4	12.6	3.2
Imports	-11.4	-2.6	-29.0	20.7	16.8	7.0	4.1	5.3	4.1	3.6	2.2	1.8	1.6	- 6.8	6.6	3.3
Nominal GDP	-2.1	-27.7	24.1	10.0	-6.3	-2.9	12.3	3.9	0.9	-1.3	8.5	2.3	-1.2	-4.0	3.3	2.8
GDP Deflator (YoY)	1.0	1.4	1.2	0.2	-0.2	-1.4	-0.0	0.4	-0.0	0.1	0.1	0.2	0.3	0.6	-0.3	0.2
Industrial Production Index (QoQ)	0.0	-16.8	9.0	5.7	3.0	1.6	1.5	1.3	1.1	0.9	0.7	0.6	0.6	-9.5	11.0	3.8
Domestic Corporate Goods Price Index (YoY)	0.6	-2.3	-0.8	-2.1	-0.3	3.0	0.5	1.0	0.3	0.3	0.4	0.6	0.8	-1.4	1.2	0.6
Consumer Price Index (excl. fresh food, YoY)	0.6	-0.1	-0.2	-0.9	-0.4	-0.4	0.2	0.4	0.2	0.2	0.4	0.4	0.4	-0.4	0.1	0.3
2. Balance of Payments																
Trade Balance (billion yen)	583	-1,472	1,229	2,436	1,439	35	1,626	1,834	916	-158	1,126	1,416	478	3,905	4,411	2,863
Current Balance (billion yen)	4,603	2,184	4,111	6,410	5,052	3,840	5,439	5,634	4,711	3,639	4,918	5,203	4,260	18,204	19,623	18,019
3. Financial																
Uncollateralized overnight call rate	0.0	0.0	-0.1	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Euro-Yen TIBOR (3-month rate)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Exchange Rate (USD/JPY)	109	108	106	104	106	110	109	109	109	108	108	108	108	106	109	108

Note: Uncollateralized overnight call rate is the average rate during the last month of the period. Euro-Yen TIBOR (3-month rate), Newly Issued 10-Year Government Bonds Yield and Exchange Rate (USD/JPY) are averages during the period.
Source: Various statistics, Bloomberg, MUFG Bank Economic Research Office

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Appendix: Outlook for the US Economy and Financial Markets

Outlook for the US Economy

Forecast →

	2020				2021				2022				2020 (Actual)	2021 (Forecast)	2022 (Forecast)
	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12			
1. Main Economic Indicators															
Real GDP (QoQ annualized, %)	-5.0	-31.4	33.4	4.3	6.4	4.5	11.5	1.1	5.3	3.1	3.0	2.9	-3.5	6.0	4.3
Personal Consumption Expenditures	-6.9	-33.2	41.0	2.3	11.3	4.4	11.3	-0.4	1.6	2.6	2.6	2.4	-3.9	7.2	2.9
Fixed Investment (Residential)	19.0	-35.5	63.0	36.6	12.7	-1.2	7.8	3.2	4.6	4.2	4.2	4.0	6.1	13.7	4.2
Fixed Investment (Nonresidential)	-6.7	-27.2	22.9	13.1	10.8	7.8	9.8	3.8	6.5	6.1	4.8	5.5	-4.0	8.6	6.1
Changes in Business Inventories (Contribution)	-1.3	-3.5	6.6	1.4	-2.8	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	0.1	0.0
Government Expenditures	1.3	2.5	-4.8	-0.8	5.7	5.0	9.1	1.1	19.3	3.0	2.8	2.8	1.1	2.9	7.3
Net Exports (Contribution)	1.1	0.6	-3.2	-1.5	-1.2	0.1	0.2	0.6	-0.2	-0.3	-0.2	-0.2	-0.1	-1.4	0.0
Exports	-9.5	-64.4	59.6	22.3	-2.9	5.3	7.3	7.9	4.9	4.5	4.1	4.3	-12.9	4.5	5.5
Imports	-15.0	-54.1	93.0	29.9	6.7	3.2	3.5	1.8	4.3	4.6	3.9	4.2	-9.3	11.2	3.7
Domestic Private End User Demand	-6.0	-32.3	38.6	5.3	11.3	4.8	10.9	0.4	2.5	3.3	3.1	3.0	-3.5	7.7	3.5
Nominal GDP (QoQ annualized, %)	-3.4	-32.8	38.3	6.3	11.0	8.8	14.7	3.0	8.4	5.1	4.9	4.9	-2.3	9.1	6.9
Industrial Production (QoQ annualized, %)	0.4	-6.8	-42.6	43.3	9.5	4.8	4.8	3.3	4.1	2.2	1.0	1.6	-5.8	3.2	3.2
Unemployment Rate (%)	3.8	13.0	8.8	6.7	6.2	5.8	5.5	5.0	4.9	4.8	4.7	4.6	8.1	5.6	4.8
Producer Price Index (YoY, %)	1.1	-1.1	-0.1	0.8	2.9	5.4	4.9	4.5	3.1	2.2	2.0	2.0	0.2	4.4	2.3
Consumer Price Index (YoY, %)	2.1	0.4	1.2	1.2	1.9	3.3	2.5	2.4	2.0	1.6	1.6	1.6	1.2	2.5	1.7
2. Balance of Payments															
Trade Balance (hundred million dollars)	-1,937	-2,215	-2,475	-2,530	-2,647	-2,733	2,710	2,659	2,666	2,682	2,692	2,704	-9,156	-10,749	-10,745
Current Account (hundred million dollars)	-1,146	-1,632	-1,809	-1,885	-2,124	2,144	2,073	1,974	1,931	1,947	1,957	1,969	-6,472	-8,315	-7,805
3. Financial Indicators															
FF Rate Target (%)	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	1.50-1.75	0.00-0.25	0.00-0.25
Euro Dollar (3M) (%)	1.5	0.6	0.3	0.2	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.7	0.2	0.2
10-year Treasury Note's Yield (%)	1.4	0.7	0.6	0.9	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	0.9	1.6	1.6

Note: FF Rate Targets is end-of-period figures, Euro Dollar (3M) and 10-year Note's Yield are averages for periods
Source: Various reports, Bloomberg, MUFG Bank Economic Research Office

Appendix: Outlook for the European Economies and Financial Markets

Outlook for European Economies

1. Overview

	Real GDP growth rate (YoY, %)			CPI (YoY, %)			Current Account (USD billions)		
	2020 (Actual)	2021 (Forecast)	2022 (Forecast)	2020 (Actual)	2021 (Forecast)	2022 (Forecast)	2020 (Actual)	2021 (Forecast)	2022 (Forecast)
Eurozone	- 6.6	4.0	4.4	0.3	1.7	1.3	2546	2951	2735
Germany	- 4.8	3.3	4.1	0.4	2.4	1.4	2647	2919	2675
France	- 8.1	5.6	4.0	0.5	1.4	1.1	- 501	- 314	- 879
Italy	- 8.9	4.4	4.0	- 0.1	1.3	1.1	669	647	892
UK	- 9.8	6.0	5.2	0.9	1.6	1.9	- 949	- 1061	- 986
Russia	- 3.0	2.8	2.5	3.4	5.3	4.2	339	594	558

2. Forecast by Demand Component (YoY, %)

	Eurozone			UK		
	2020 (Actual)	2021 (Forecast)	2022 (Forecast)	2020 (Actual)	2021 (Forecast)	2022 (Forecast)
Nominal GDP	- 5.1	5.8	5.8	- 4.8	8.0	7.0
Real GDP	- 6.6	4.0	4.4	- 9.8	6.0	5.2
Contribution by domestic demand	- 6.0	3.0	4.2	- 10.7	6.3	5.6
Contribution by foreign demand	- 0.6	1.0	0.2	0.8	- 0.3	- 0.4
Private consumption	- 8.0	2.4	6.4	- 10.6	3.5	6.0
Government consumption	1.2	2.5	0.8	- 6.5	12.5	3.4
Gross fixed capital formation	- 8.4	5.1	3.7	- 8.8	6.1	6.3
Inventory investment (contribution)	- 0.3	0.2	- 0.1	- 0.5	0.2	0.1
Exports	- 9.6	9.7	5.4	- 15.8	- 0.8	4.9
Imports	- 9.2	8.3	5.4	- 17.8	0.3	6.2

Note: 1. "Eurozone" is total of 19 countries - Germany, France, Italy, Ireland, Estonia, Austria, The Netherlands, Cyprus, Greece, Spain, Slovakia, Slovenia, Finland, Belgium, Portugal, Malta, Luxembourg, Lithuania
2. "CPI" is the standardised inflation rate for the EU (HICP)

Source: Eurostat, UK Office for National Statistics, MUFG Bank Economic Research Office

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Contact Information

MUFG Bank, Economic Research Office

Authors: Akihiko Sato (Chief Economist)	**e-mail: akihiko_sato@mufg.jp**
Rei Tsuruta (overview)	**e-mail: rei_tsuruta@mufg.jp**
Naoki Shiga (overview)	**e-mail: naoki_shiga@mufg.jp**
Ryo Yamada (Japan)	**e-mail: riyou_yamada@mufg.jp**
Sai Yabuki (US)	**e-mail: sai_yabuki@mufg.jp**
Takasuke Tanaka (Europe)	**e-mail: takasuke_tanaka@mufg.jp**
Takayuki Miyado (Europe)	**e-mail: takayuki.miyado@uk.mufg.jp**
Shohei Takase (Asia, and Australia)	**e-mail: shiyouhei_takase@mufg.jp**
Yohei Nose (Asia and Australia)	**e-mail: youhei_nose@mufg.jp**
Hiroshi Morikawa (Central and South America)	**e-mail: morikawa@iima.or.jp**
Naoki Fuse (oil prices)	**e-mail: naoki_fuse@mufg.jp**
Rina Takasu (oil prices)	**e-mail: rina_takasu@mufg.jp**
Nakayama Kengo (FX)	**e-mail: kengo_nakayama@mufg.jp**

Translators: Elizabeth Foster (Tokyo)
Chie Okada-Wighe (New York)
Rebecca Whitter (London)