Daiwa Securities

Economic Commentary

ESP Forecast survey (Dec 2025 survey)

- Consensus expects core CPI to exceed 2% again in Jan–Mar 2027
- Excluding policy effects, CPI is projected to remain above 2%

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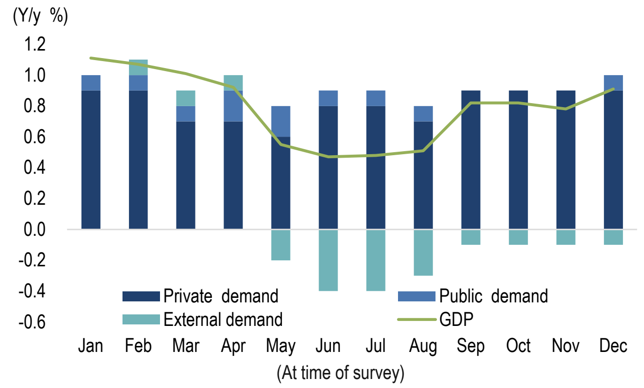
The December ESP Forecast survey (conducted 2-9 Dec) was released on 15 December 15. This survey, conducted by the Japan Center for Economic Research (JCER), targets 38 Japanese economic forecasters (both individuals and institutions) and compiles their projections for GDP and CPI.

In the latest survey, the average forecast for real GDP growth in FY25 was revised upward by 0.13ppt to +0.91% y/y (previous: +0.78%). The FY26 figure was also revised upward by 0.06ppt to +0.80% y/y (previous: +0.74%). The upward revision is considered consistent, given that (1) the previous survey was conducted before the release of the first preliminary estimates for Jul-Sep 2025 GDP and (2) the latest survey reflects the benchmark revision implemented with the release of the second preliminary estimates for Jul-Sep 2025 GDP. The consensus among economists is that there is no significant change in the outlook for the future, despite the revision to the benchmark.

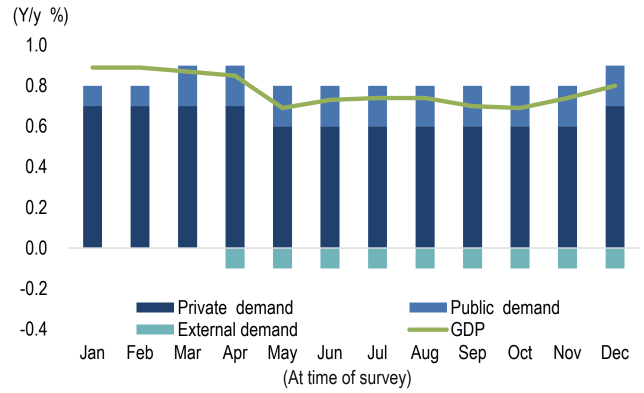
In response to the results of Jul-Sep 2025 GDP, the contribution of domestic demand was revised slightly upward to +1.0ppt (previous survey: +0.9ppt). Due to the benchmark revision, there is now a statistical carry-over effect of +0.62% y/y for FY25. Compared with the upwardly revised forecast of +0.91%, growth remains below the potential growth rate.

Trend of Average Forecasts for FY25 Real GDP Growth Rate



Source: Japan Center for Economic Research (JCER); compiled by Daiwa.

Trend of Average Forecasts for FY26 Real GDP Growth Rate



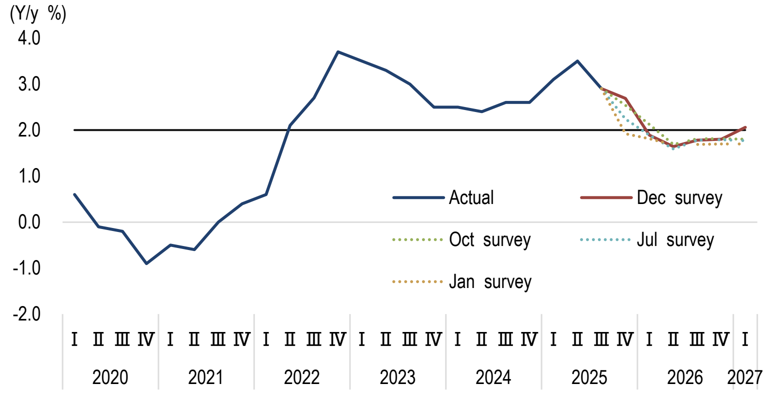
Source: JCER; compiled by Daiwa.

Regarding core CPI, the FY25 average forecast was virtually unchanged at +2.74% y/y (previous: +2.75%), while FY26 figure was revised upward to +1.81% (previous: +1.75%). These projections are broadly aligned with the median forecast of the BOJ's policy board members in the October *Outlook for Economic Activity and Prices* report (*Outlook Report*), which was +2.7% for FY25 and +1.8% for FY26. However, it is important to note that the forecasts in the October *Outlook Report* do not include the effects of government policies.

Quarterly core CPI figures showed notable changes. For Oct–Dec 2025, the forecast was revised upward to +2.69% (previous: +2.55%). This seems to be reflecting stronger-than-expected price pass-through for food products indicated by the latest CPI in the ward-area of Tokyo.

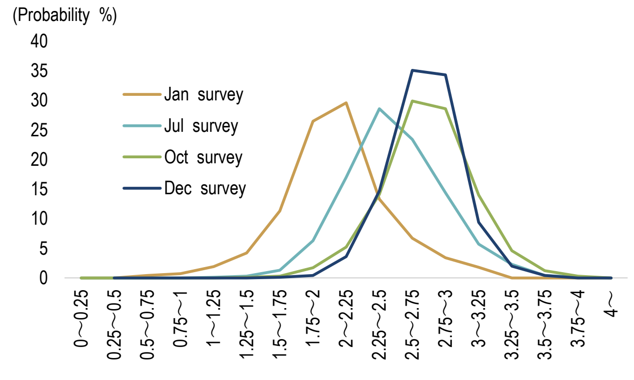
Due to the price-suppressing effects of the government's comprehensive economic package, which was approved by the Cabinet on 21 November, economists expect core CPI to fall to +1.89% y/y in Jan-Mar 2026 (previous survey: +2.08%) and trend below 2% for some time. However, the figure is expected to rise above 2% again in Jan-Mar 2027 to +2.06% y/y (previous survey: +1.84% y/y). This is because the base effects from the government's measures against high prices are expected to push up core CPI.

Core CPI: Actuals and Forecasts (quarterly)



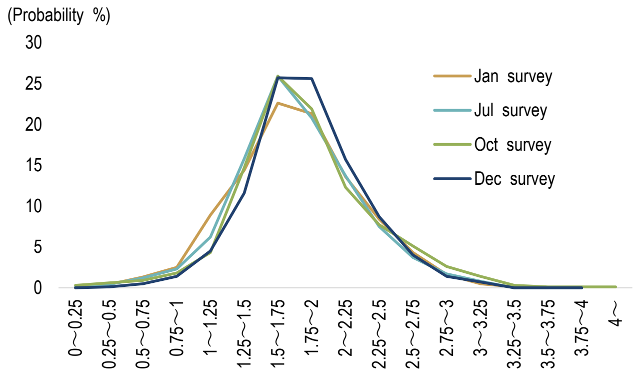
Source: Ministry of Internal Affairs and Communications (MIC), JCER; compiled by Daiwa.

FY25 CPI Forecast Distribution



Source: JCER; compiled by Daiwa.

FY26 CPI Forecast Distribution



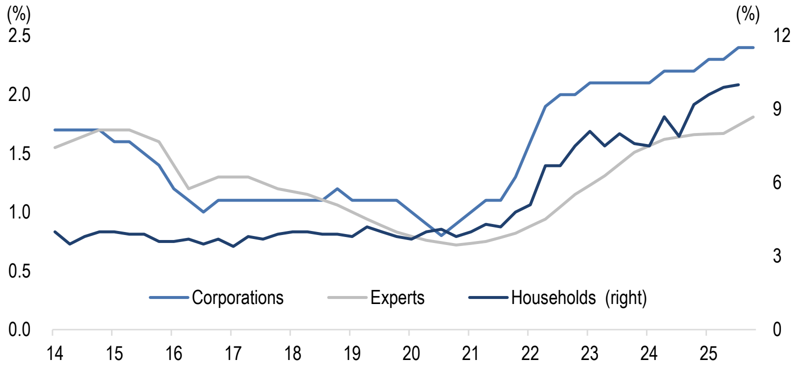
Source: JCER; compiled by Daiwa.

In the special survey section of the December survey, an investigation was conducted on the effects of the "Comprehensive Economic Measures to Build a Strong Japanese Economy," approved by the Cabinet on 21 November. The average forecast for the upward effect on GDP was +0.43ppt, while that for the downward effect on CPI was –0.24ppt (annually) from the abolition of the provisional gasoline tax and –0.41ppt (during Feb-Apr 2026) from electricity/gas subsidies. According to government estimates, the boost to GDP is about +1.4ppt, and the downward effect on CPI is about –0.30ppt (annually) from the abolition of the provisional gasoline tax rate, and about –0.4ppt (during Feb-Apr 2026) from electricity/gas subsidies. It appears that the consensus among economists is that FY26 core CPI (excl. policy effects) will trend above 2% y/y.

In the long-term forecast survey (conducted in Jun and Dec), the December survey showed the average core CPI inflation rate for FY22-26 at +2.62% (previous survey: +2.51%) and for FY27-31 at +1.81% (previous survey: +1.67%). As such, economists have substantially raised their inflation expectations, following households and corporations.

It is necessary to remain cautious about risks that could push CPI above 2% over the medium to long term, such as stronger-than-expected price pass-through for food products and an expansion of the output gap due to fiscal stimulus.

Inflation Expectations by Agent



Source: BOJ, JCER; compiled by Daiwa.

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