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Economic and energy outlook of Japan for FY2025

Uncertainty casting a shadow over the path to recovery

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FY2025 Towards recovery. Suspicious clouds are a concern.

Oil prices (import, c.i.f.)

−$14/bbl

Economic growth

+1.1%

Prices (consumer prices)

+2.0%

Primary energy supply

−0.2%

Fossil fuel imports

−17.8%

CO_2 emissions

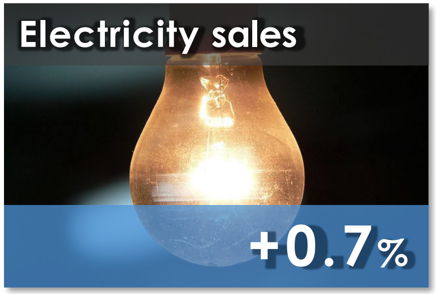

−1.1%

Fuel oil sales


−1.0%

City gas sales

+1.4%

Electricity sales

+0.7%

Geopolitical risks
Trade war
Insufficient productivity gains
Bad interest rate rise
Non-functioning of the Security Council
Infectious disease
US-China conflict
Middle East
Exchange rate fluctuations
Undecided politics
Extreme weather
Populism
Decline in the effectiveness of international law
China's low growth
Block economy
Ukraine

Key 'assumptions' of the Reference Scenario

Global economy

- The US economy is heading for a soft landing due to lower inflation and a strong labour market.
- European economy will recover moderately on the back of monetary easing, although Germany, the largest economy, stagnates.
- Asian economies, some of which are slowing down, will not stall significantly and maintain growth of around 5%.

Import c.i.f. prices

Nov. 2024 → FY2024, average → FY2025

- Crude oil: \$78/bbl → 80 → 67
- LNG: \$626/t → 611 → 548
  (\$12.1/MBtu → 11.8 → 10.6)
- Steam coal: \$154/t → 154 → 153

Referring to Morikawa "Outlook for International Oil Market in 2025", Yanagisawa "Outlook for Gas Market in 2025" and Takahashi "Coal Market Outlook for 2025"

Exchange rates

Nov. 2024 → FY2024, average → FY2025

- ¥154/\$ → 152 → 145

Nuclear power generation

- A total of 14 reactors have restarted, with the addition of Onagawa 2 and Shimane 2.
- Another unit will be added in FY2025. Electricity generated will exceed 100 TWh for the first time since FY2011.

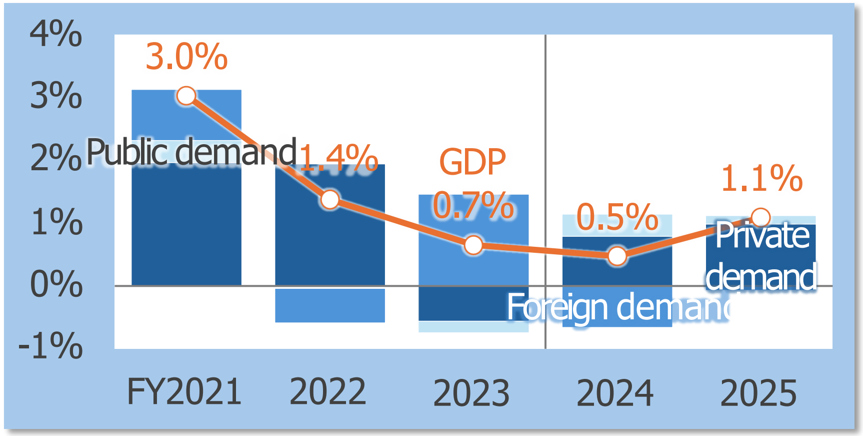
Temperature

- Winter in FY2024 is normal (JMA)
  —colder than the previous year (−1.0°C).
- Normal thereafter—much cooler (−2.0°C) summer in FY2025 and slightly warmer (+0.2°C) winter than the previous year.

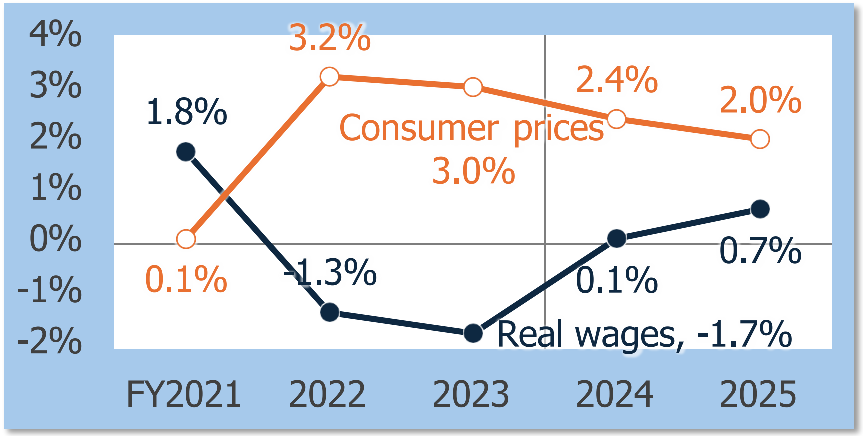
Economy moves into recovery. Price increases gradually eases.

- Japanese economy will accelerate to 1.1% growth, well above potential growth rates. Beware of supply constraints.
- Private demand will lead the recovery, with non-residential investment rising by 2.1% and consumption exceeding ¥300 trillion for the first time in seven years. Foreign demand, which fell to a negative contribution in FY2024, will make an almost zero contribution.
- Prices continue to rise, but consumer prices will decelerate slightly to 2.0%, partly due to a correction of the extreme depreciation of the yen and a fall in international energy prices.
- Wages, which had been undercut by price increases, gradually start to turn up and turn into a clear increase in real term. There, however, are uncertainties about sustainability.

GDP growth rates and contributions



Changes in consumer prices and real wages

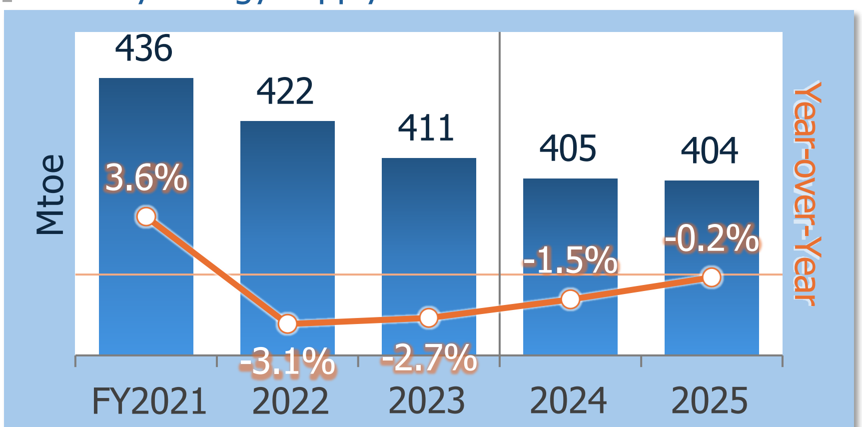


Note: Real wages are employer compensation per capita/consumer prices.

Decline in energy consumption shrinks. CO_2 reductions also persist but slow down.

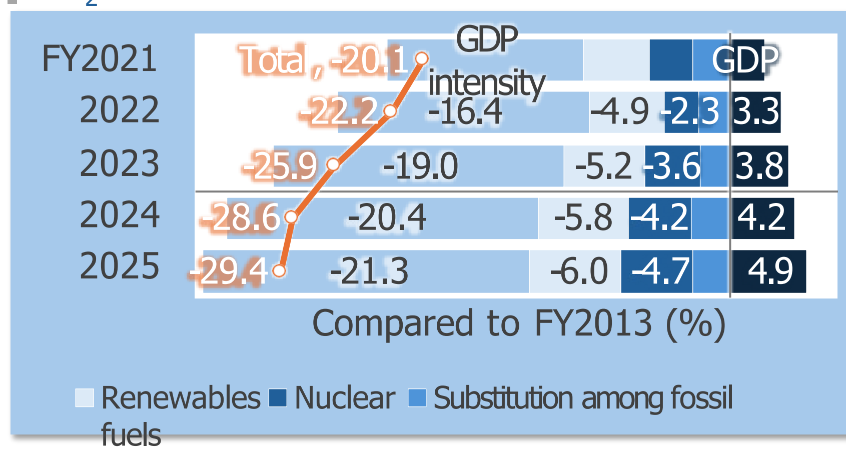
- Energy consumption will fall for the three consecutive year in FY2024 by 1.5%, mainly due to stagnation in manufacturing production.
- Energy consumption will decline slightly in FY2025 by 0.2% as a cooler summer offsets the contribution of increase due to a recovery in economic activity. If temperatures remain at the same level as the previous year, it will increase by 0.8% for the first time in four years.

Primary energy supply

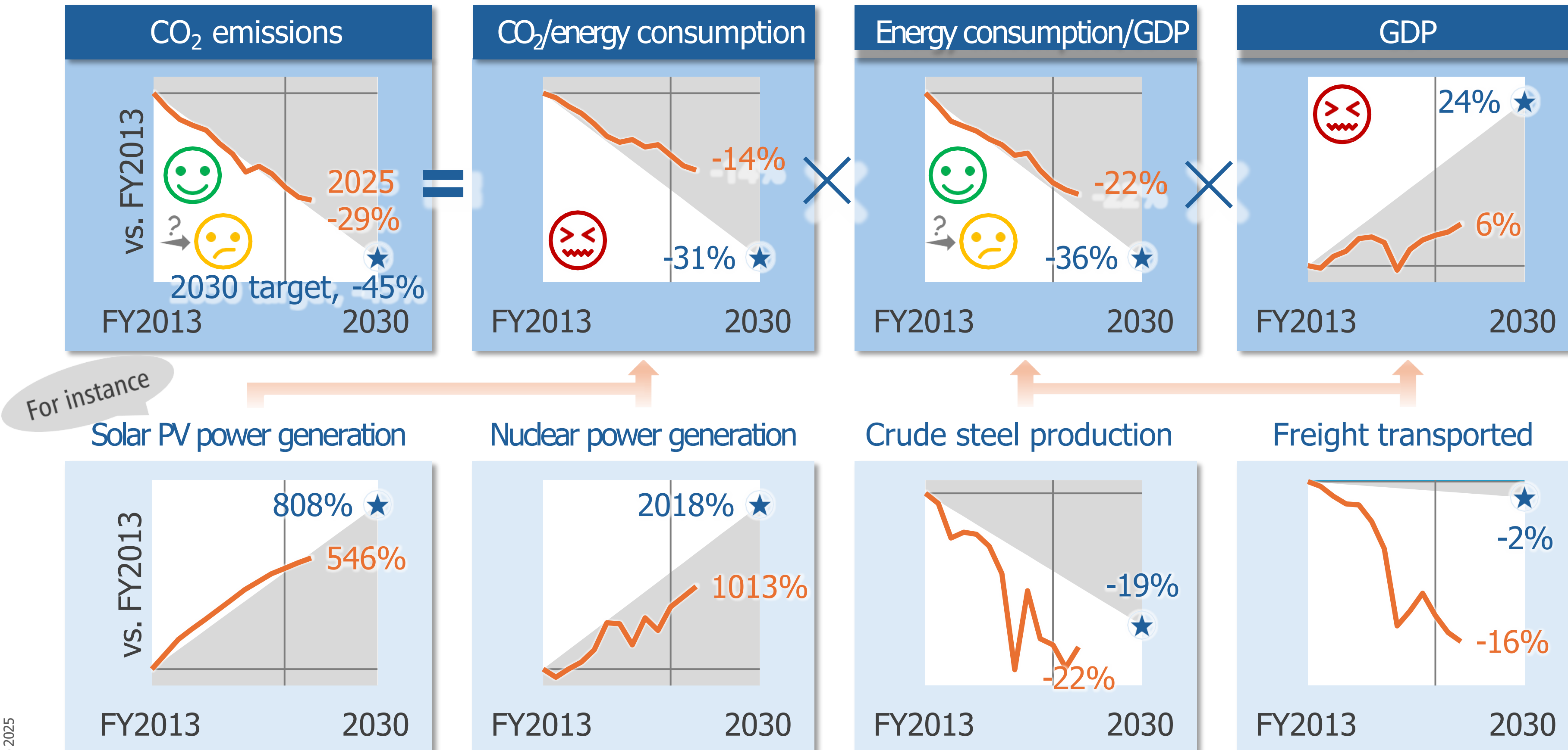


- CO_2 emissions will decline for four year in a row, falling below 900 Mt. The rate of decline in FY2025, however, is only 1.1%.
- The contribution of macro energy efficiency (GDP intensity) to CO_2 reduction is significant. Renewables, the second largest, will reduce additional reduction contribution in FY2025 due to a slowdown in the introduction of FIT power sources and levelling off hydro.

CO_2 emissions and contributions



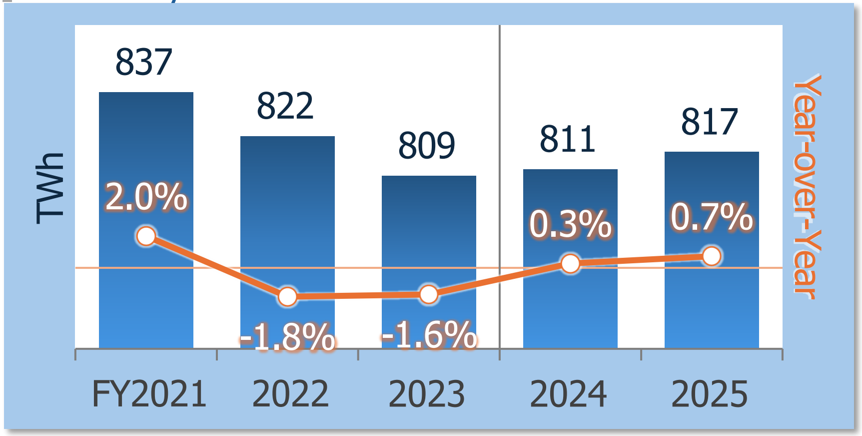
Approaching the CO_2 target in an unexpected way. Concerns about ‘on-track’.



Even as electricity demand increases, power supply low-carbonisation progresses.

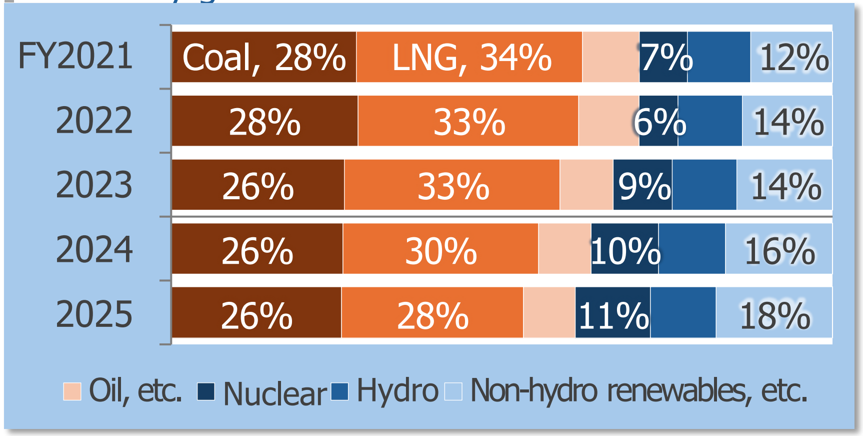
- Electricity sales will rise by 0.7% for two years in a row. Increase in sales for power contracts driven by the tailwind of a recovery in production activity will contribute to it.
- Space cooling demand will fall sharply as the summer will be 2ºC cooler than the previous year. Sales for lighting contracts, the most affected, will fall by 2.0%.
- Sales total +3.4% if temperatures remain at the previous year's level.

Electricity sales



- Electricity generated and received will also increase as demand recovers. The figure below 900 TWh ends in FY2023 single year.
- Other renewables, such as solar PVs, and nuclear will expand their share of the composition by more than 1 percentage point each.
- Meanwhile, thermal power is expected to reach the 50% level in the near future, with LNG-fired at less than 30%.

Electricity generated and received mix

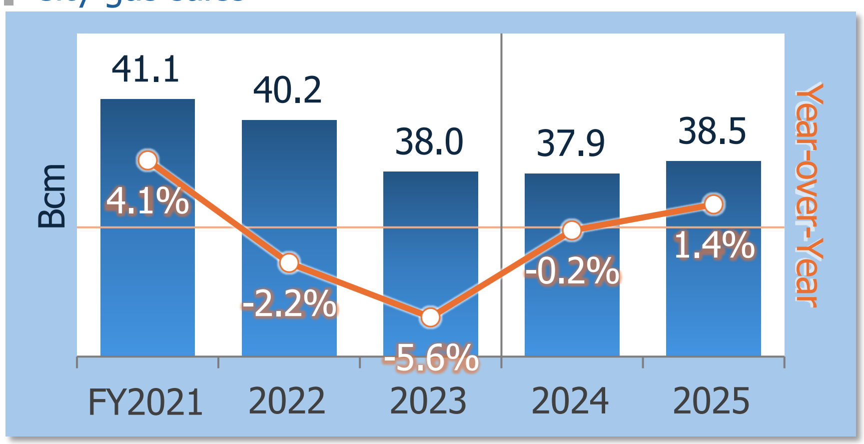


City gas bottoms out and starts to increase, whilst fuel oil declines ease.

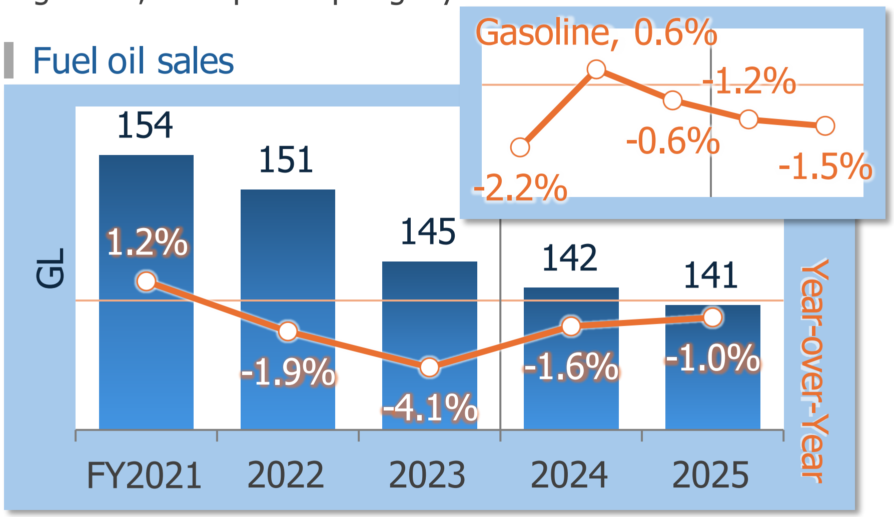
- City gas sales will increase for the first time in four years by 1.4%. It, however, is far from the 40 Bcm level due to the significant impact of the fall in FY2023.
- Whilst sales for industry will increase for the first time in four years (+3.1%) with the backdrop of a recovery in manufacturing production, those for all other uses will below the previous year's level.

- Fuel oil sales will experience the smallest decline in the last four years, supported by naphtha, which is increasing due to increased petrochemical production.
- The effects of the jet fuel oil recovery that followed the relaxation of behavioural restrictions will be largely exhausted.
- On the other hand, gasoline's decline, which has been gradual, will speed up slightly.

City gas sales



Fuel oil sales

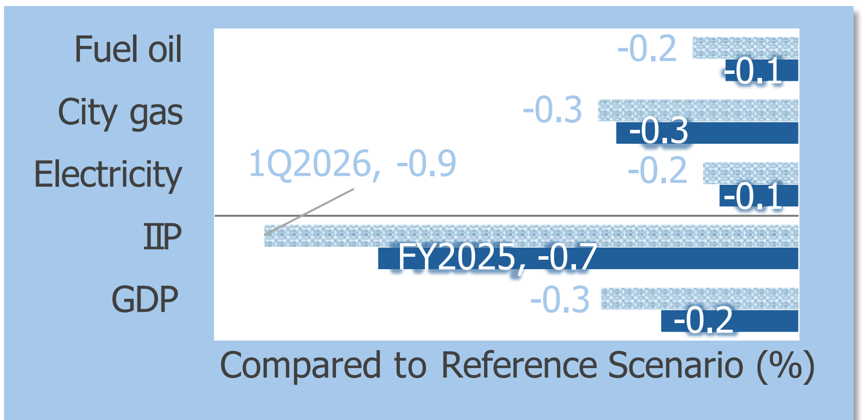


Dark clouds of uncertainty from the U.S.

1/ If the tariff...

- Additional and retaliatory tariffs of 10% are assumed among the three regions US–Europe– China and between the US and other regions*1.
- Japan's GDP and industrial production (IIP) would fall by 0.2% and 0.7% respectively, triggered by the fall in foreign demand, and the negative impact is likely to further increase*2.
- Energy sales would also fall by 0.1% to 0.3%*2.

Impacts of tariff increases

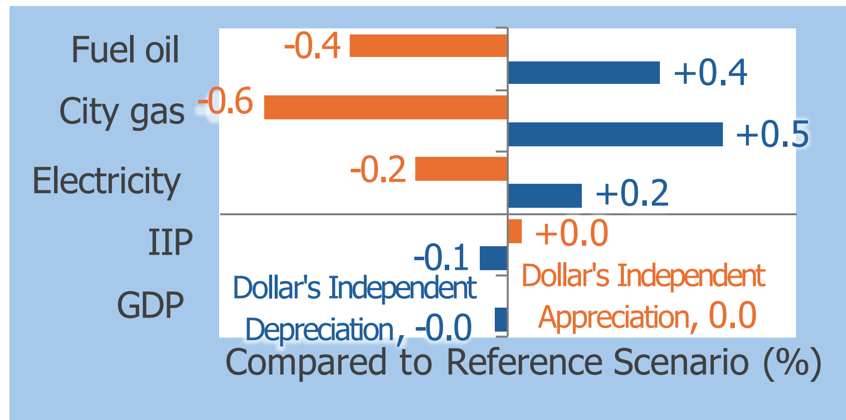


*1: Referring to Scenario A of IMF "World Economic Outlook" (Oct. 2024) *2: IEEJ estimates

2/ If the exchange rate...

- The dollar's independent appreciation (5%, equivalent to ¥7/$ against the yen), combined with the recent trend of simultaneous appreciation of the dollar and oil, would drown out any macro benefits of a weaker yen.
- Conversely, the dollar's independent depreciation (5%) accompanied by lower oil prices would be slightly negative for macro economy. On the other hand, it would be a tailwind for price inflation control and energy sales.

Impacts of the dollar/yen rate [FY2025]



Notes: Assuming a uniform 5% change in the dollar against major currencies. Against the yen, ±¥7/$ from the Reference Scenario of ¥145/$.

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