



# Global Economic Outlook

## Q2 2026

**June 8, 2026**

*(Original Japanese version released May 29, 2026)*

# Global summary

## The global economy is exposed to uncertainty caused by the conflict in the Middle East

- The rise in commodity prices and supply constraints triggered by the situation in the Middle East has led to growing concerns of a global economic slowdown. Our base case is that the conflict in the Middle East will ease in the near term, that oil supply will start to recover and oil prices will fall from now until the latter half of 2027. We therefore expect economies will slow this year before gradually expanding next year. However, it is likely that uncertainty will remain elevated owing to geopolitical risks – especially in the Middle East – and US policymaking under the Trump administration. There is a possibility that a change in US policy will lead to a sharper downturn in financial markets and economies. There is also a risk of non-linear changes due to expansive fiscal policies in major economies and a shift in expectations around AI.

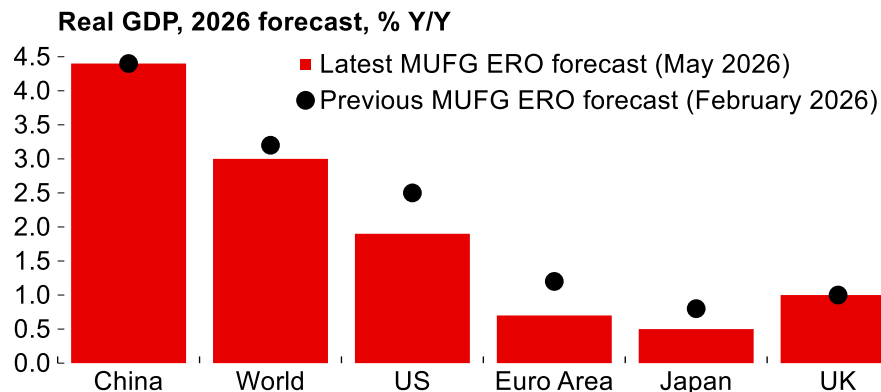
### Base case for oil supply and prices

- ✓ The US and Iran reach an agreement in the near term that reflects the interests of both countries. The blockade of the Strait of Hormuz is lifted and shipping through the Strait gradually normalises (however, uncertainty remains high due to factors such as mine-clearing operations, insurance and escorts for ships and the recovery of ports and shipping infrastructure).
  - ✓ The situation in the Middle East stabilises and oil supply recovers in oil-producing countries (there is a possibility of decreased production due to damage to oil-related facilities) and oil output increases in the US, Russia and other countries. As a result, oil supply returns to the level it was at before the start of the conflict in February 2026 by the first half of 2027.
  - ✓ The oil price (WTI) peaks at around USD 95/bbl in Q2 2026 and then gradually falls through H2 2027 as oil supply recovers. However, oil prices will settle above pre-February levels (around USD 60/bbl) to an average of just above USD 70/bbl.
- Given the deterioration of the situation in the Middle East, our current forecast for the global inflation rate is significantly higher than our previous forecast (February 2026). As a result, we have revised our outlook for the global economy downwards. In the US, we expect the impact of oil supply constraints will be smaller than in other countries given the high rate of energy independence and capacity to produce oil and related products. In addition, private consumption remains firm, particularly among high-income households, and there is solid growth in AI-related investment. As such, we forecast a moderate deceleration of the US economy. In Europe, direct imports from the Middle East are limited, but dependence on commodity imports is high and there has been a considerable impact from the sharp rise in commodity prices. In addition, we expect the boost from Germany's fiscal policies, which were expected to drive growth, will be smaller than initially assumed due to delays in implementation. Like Europe, Japan is also highly reliant on commodity imports, of which the Middle East accounts for a large share. In addition to commodity prices, Japan will be affected by raw material and commodity supply chain disruptions, which we expect will result in a more pronounced deceleration of the Japanese economy in the short term. However, we forecast the economy will then pick up, underpinned by government policy, strong wage growth, and firm business investment appetite.
  - Central banks are likely to revise their monetary policies. In the US, the Fed has maintained its current benchmark rate for three consecutive meetings since January. Before the escalation of the conflict in the Middle East, the Fed was considering cutting rates but is now expected to hold rates steady for the time being due to uncertainty about inflation outlook. Still, given the soft labor market, we expect rate cuts towards the neutral rate will resume once the effects of tariffs and the conflict in the Middle East have subsided. In the euro area, the ECB's benchmark rate hit the neutral rate last year, but the inflation rate appears to be rising again. Therefore, it is likely the ECB will carry out preventative rate hikes (twice in 2026) focused on stabilising inflation expectations. Once the impact of the Middle East conflict has dissipated in H2 2027, we expect the ECB will cut rates to bring its benchmark rate in line with the neutral rate (around 2%). In Japan, the BoJ carried out a rate hike in December last year and had been in a tightening phase. While it will be necessary for the BoJ to monitor the effects of the Middle East conflict on the Japanese economy, we expect it will carry out another rate hike in July this year as confidence builds that the downside risks to the Japanese economy are limited. From then, the BoJ will continue to raise rates gradually as it continues to assess the situation in the Middle East and impacts on the Japanese economy (we forecast another rate hike next year following the conclusion of spring labour negotiations).

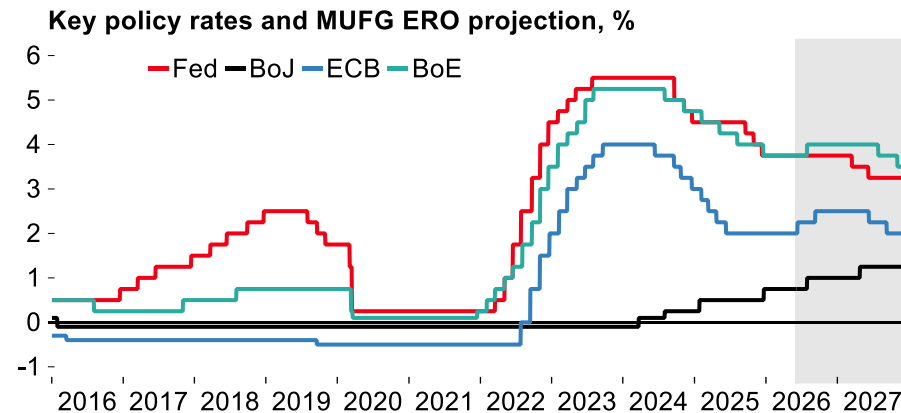
# Key changes to our outlook

## Growth conditions have deteriorated as inflation rates rise, affecting central banks' monetary policy decisions

- Growth:** We revised our real GDP forecast for the global economy down slightly to 3.0% y/y in 2026 and 3.1% y/y in 2027 (2026:+ 0.2% points; 2027: -0.1% point). For major economies, we expect firm growth of 1.9% y/y in 2026 and 2.0% y/y in 2027 for the US and more moderate growth in the euro area (0.7% y/y in 2026 and 1.2% y/y in 2027) and Japan (0.5% y/y in FY2026 and 0.7% y/y in FY2027). Meanwhile, the impact on China is likely to be limited with real GDP forecast at 4.4% y/y for 2026 and 4.2% y/y for 2027.
- Inflation:** We revised our global inflation forecast upwards 2.9% y/y in 2026 (+ 0.9% points) and 2.3% y/y in 2027 (+ 0.2% points). We expect the average inflation rates in 2026 will rise considerably in the euro area and the US to 2.9% y/y and 3.5% y/y respectively, and will fall slightly in Japan to just above 2% y/y. However, labor markets are softer than they were at the outbreak of the Ukraine war and the risk that the rise in commodity prices causes a sustained rise in prices through secondary effects, as was the case then, is low.
- Monetary policy:** We have revised our monetary policy forecasts, factoring in the impact of the Middle East conflict. We still anticipate two rate cuts by the Fed but have pushed back the timing (from June and September 2026 to March and June 2027). In Europe, it is likely the ECB and BoE will carry out preventative rate hikes. With inflation significantly above the current policy rate, we expect the ECB to raise rates twice this year (June and September). Meanwhile, the BoE's benchmark rate is still restrictive and the labor market is weak. As such, we forecast one rate hike this year (July). In Japan, the BoJ is already tightening its monetary policy and we expect it will raise its policy rate to 1.25% by the end of 2027.



Note: Forecasts for Japan are for the fiscal year  
Source: Macrobond, MUFG Bank Economic Research Office



Source: Macrobond, MUFG Bank Economic Research Office

# Our key projections - GDP & inflation

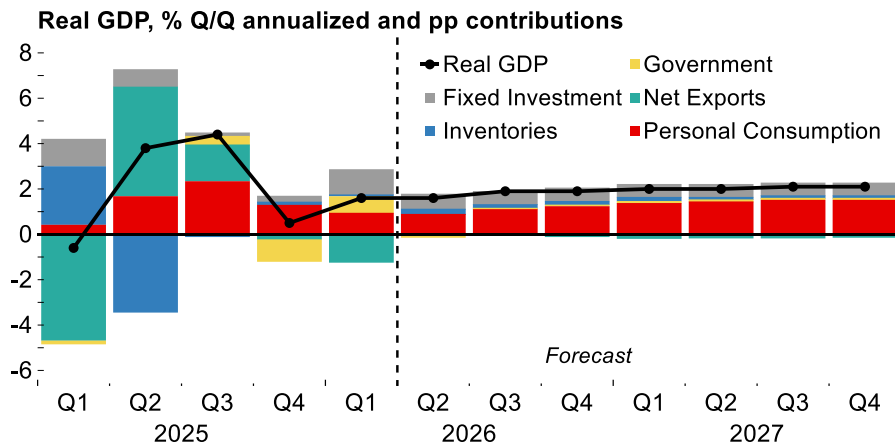
Economies face strong headwinds from the rise in energy prices resulting from the Middle East conflict

	GDP (% Y/Y)				CPI (% Y/Y)		
	2025	2026f	2027f		2025	2026f	2027f
<b>World</b>	3.6	3.0	3.1	<b>World</b>	1.9	2.9	2.3
<b>US</b>	2.1	1.9	2.0	<b>US</b>	2.7	3.5	2.4
<b>Euro area</b>	1.4	0.7	1.2	<b>Euro area</b>	2.1	2.9	2.2
Germany	0.2	0.5	1.2	Germany	2.3	3.0	2.2
France	0.8	0.7	1.0	France	0.9	2.3	2.0
Italy	0.5	0.5	0.8	Italy	1.6	2.8	2.0
<b>UK</b>	1.4	1.0	1.1	<b>UK</b>	3.4	3.3	2.3
<b>Japan (FY)</b>	0.8	0.5	0.7	<b>Japan (FY)</b>	2.7	2.4	2.3
<b>India (FY)</b>	7.6	6.2	6.5	<b>India (FY)</b>	2.2	4.8	4.4
<b>China</b>	5.0	4.4	4.2	<b>China</b>	0.0	1.5	1.0
<b>ASEAN 5</b>	5.0	4.4	4.8	<b>ASEAN 5</b>	1.7	3.6	2.7
Indonesia	5.1	4.8	5.0	Indonesia	1.9	3.4	2.7
Thailand	2.4	1.4	2.0	Thailand	-0.1	2.6	1.4
Malaysia	5.2	4.7	4.5	Malaysia	1.4	2.1	2.0
Philippines	4.4	3.8	5.3	Philippines	1.7	5.8	3.7
Vietnam	8.0	6.9	6.7	Vietnam	3.3	4.6	3.7

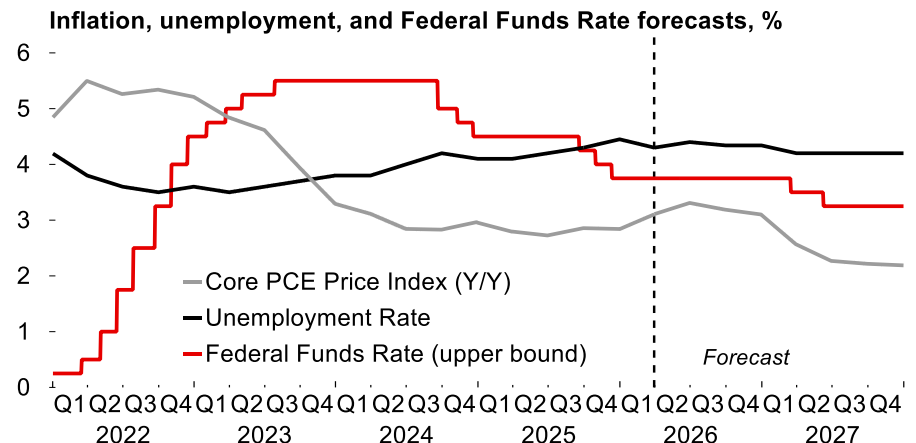
# United States

## Consumer resilience and robust investment expected to limit headwinds to growth

- Real GDP growth rose to 1.6% q/q annualized in Q1 from 0.5% in Q4, driven by a rebound in government spending and strong capital investment. Consumption remained solid but slowed. Near-term growth is likely to soften as a weaker labor market and elevated inflation weigh on real incomes. However, resilient demand, especially among higher-income earners supported by wealth effects from higher stock prices and tax cuts, along with robust AI-related investment, should cushion the slowdown. As uncertainties, especially around the conflict in the Middle East, ease and labor conditions improve, we project real GDP growth at 1.9% y/y in 2026 and 2.0% in 2027.
- Inflation recently picked up with CPI rising to 3.8% y/y in April, largely due to higher energy prices. Despite the increase, underlying inflation pressures appear contained as housing cost increases reflect temporary factors and core services inflation is easing due to softer wage growth. While tariffs and elevated resource prices may keep goods and transport inflation high in the near term, these effects should diminish. As a result, core PCE inflation is projected to decelerate and return to the low 2% range by the second half of 2027.
- The Fed held its policy rate unchanged at 3.50–3.75%, maintaining a cautious, wait-and-see stance. While policymakers acknowledge both upside risks to inflation and downside risks to employment, they remain reluctant to ease policy until greater clarity emerges on energy prices and tariff impacts. Currently, we expect the Fed to keep rates on hold for the rest of the year, before gradually resuming cuts toward a neutral level once external uncertainties subside, disinflation becomes more firmly established, and signs of softening in the labor market become more pronounced.



Source: BEA, Macrobond, MUFG Bank Economic Research Office

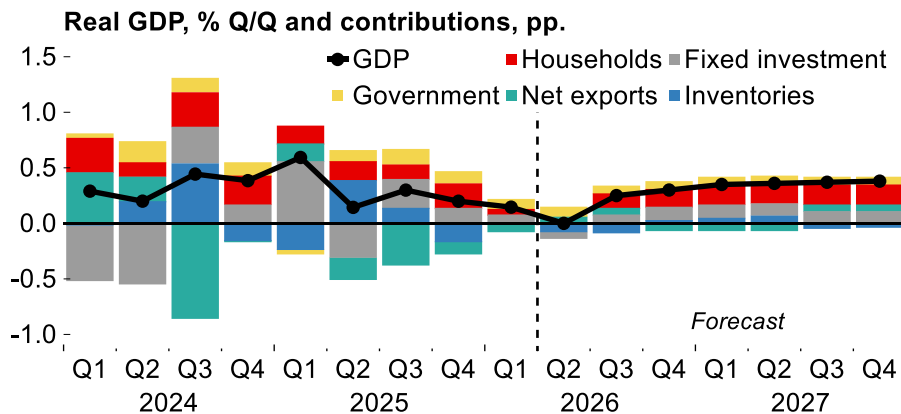


Source: BLS, BEA, Federal Reserve, Macrobond, MUFG Bank Economic Research Office

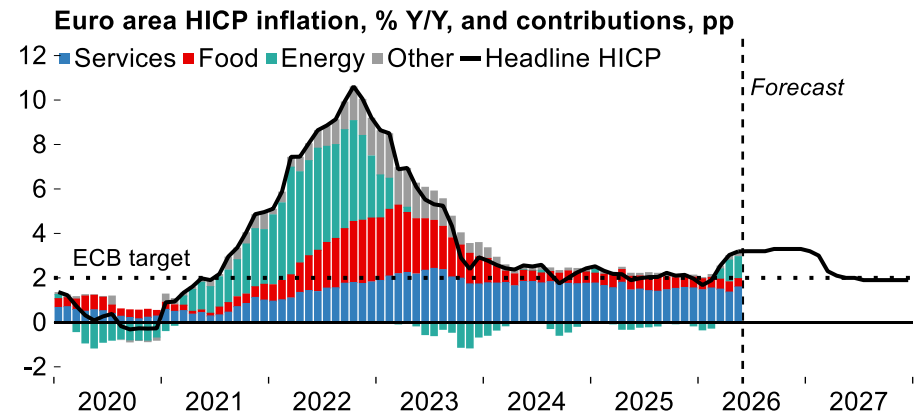
# Euro area

## Growth softens as risks remain tilted to the downside

- Real GDP slowed a little to 0.6% q/q in Q1 from the previous quarter. Among the major economies, Germany's economy expanded 1.4% q/q and there was strong growth in Spain of 2.5% q/q, while France's economy remained stagnant at -0.0% q/q. Ireland's economy also contracted, reversing a gain from the previous quarter.
- Sentiment has rapidly deteriorated since March due to the sharp rise in commodity prices triggered by the situation in the Middle East. We expect the rise in prices and a tightening of monetary policy by central banks in response will be a major headwind for households and businesses. In addition, it appears that the boost from Germany's fiscal policies that was expected to drive growth in the euro area this year will be weaker than expected due to delays. We forecast real GDP in the euro area will slow considerably to 0.7% y/y in 2026 before picking up to 1.2% y/y in 2027 as the impact of the situation in the Middle East fade.
- For now, risks are tilted to the downside. There is a possibility that the effects of the conflict in the Middle East will be felt for longer than expected and that there will be another rise in tensions over trade with the US. There are also concerns about political instability in Europe ahead of national elections in major countries, such as the French presidential election.



Source: Eurostat, Macrobond, MUFG Bank Economic Research Office

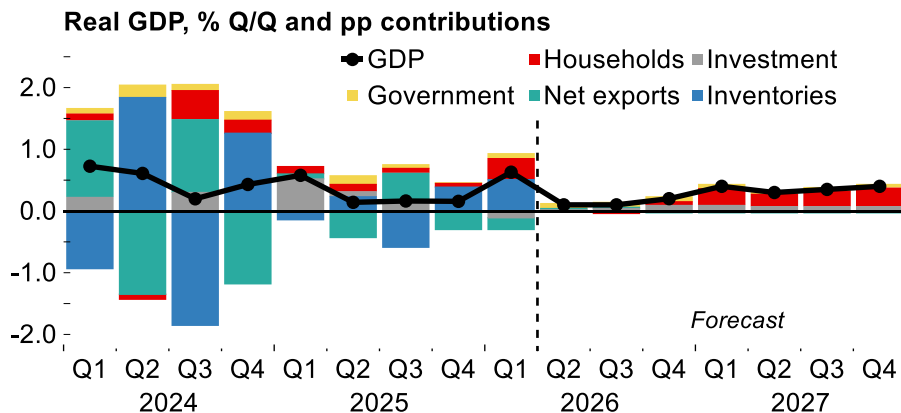


Source: Eurostat, Macrobond, MUFG Bank Economic Research Office

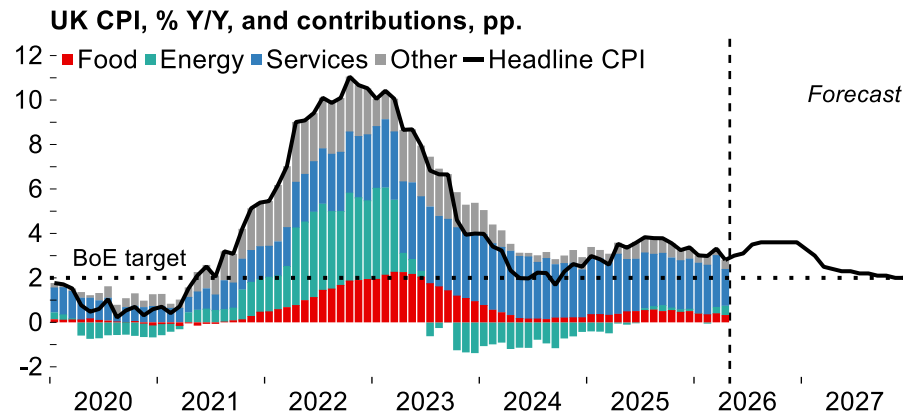
# United Kingdom

## After strong growth in Q1, we expect the UK economy will slow as the effects of the Middle East conflict take hold

- UK growth accelerated significantly in Q1 (2.5% q/q) from the previous quarter (0.6% q/q). This was largely due to robust private consumption (2.2% q/q) and inventories investment.
- We expect downward pressure on the economy to increase as the effects of the conflict in the Middle East take hold. The labor market, which is already weak, is likely to deteriorate further and weigh on private consumption along with a rise in prices. Investment activities will decrease owing to subdued sentiment, disruption to supply chains and a rise in interest rates. So far, the Bank of England has adopted a wait-and-see approach and chose to maintain its benchmark rate at 3.75% at its meeting in April. However, it is likely to prioritize curbing inflation expectations and we forecast a pre-emptive rate hike by the end of 2026. It is possible that a prolonged period of high interest rates will lead to another rise in concern about the UK fiscal situation. In addition, significant losses at the regional elections in May for the governing Labour Party have triggered a rise in uncertainty about the future of the party's leadership.
- Despite a strong start to the year, we forecast real GDP growth of 1.0% y/y in 2026. We expect growth to remain modest in 2027 at 1.1% y/y due to the continued effects of the Middle East conflict.



Source: ONS, Macrobond, MUFG Bank Economic Research Office



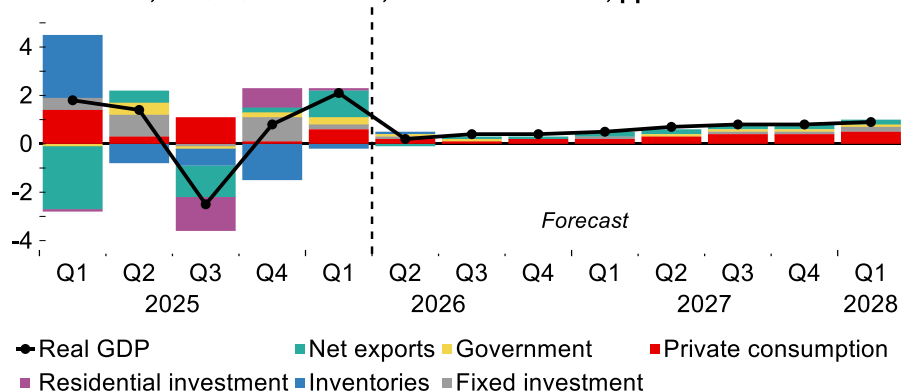
Source: ONS, Macrobond, MUFG Bank Economic Research Office

# Japan

## Temporary slowdown, recovery supported by wages and investment

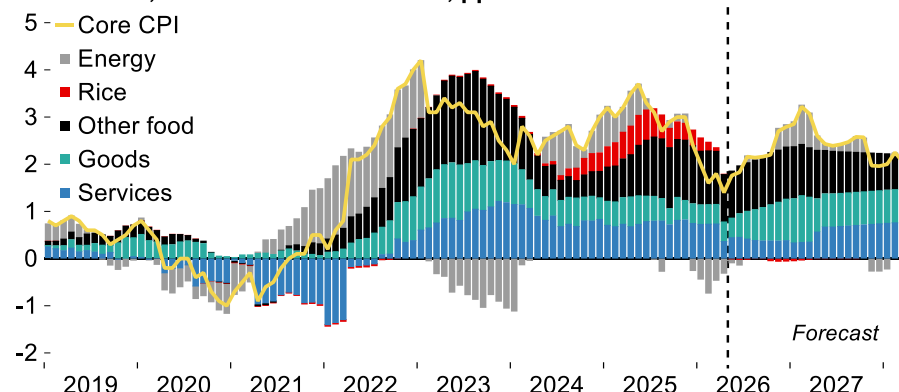
- The Japan economy grew at an annualized rate of 2.1% q/q in Q1, marking a second consecutive quarter of positive growth. Easing inflation, supported by government measures to address rising prices, helped boost real incomes and underpin personal consumption, while a recovery in automobile exports to the US lifted external demand. Looking ahead, higher resource prices and supply constraints driven by Middle East tensions are likely to weigh on growth in the near term, making a slowdown hard to avoid. However, policy support, strong wage growth, and firm investment should help sustain a recovery thereafter. Therefore, we forecast the growth at 0.5% y/y in FY2026 and 0.7% in FY2027.
- Core CPI (ex. fresh food) rose 1.8% y/y in March, remaining below 2% despite a surge in oil prices, supported by measures to curb gasoline price increases. Cost pass-through is broadening in food (ex. rice) and goods (ex. food and energy), while cost-push pressures beyond labor costs are also re-emerging, partly driven by higher raw material costs. Although, the impact from oil is expected to gradually fade. Overall, while core CPI may continue to fluctuate, we expect core-core CPI (ex. fresh food and energy) to be above 2% for the rest of the year.
- Following the April policy meeting, Governor Ueda signaled that rate hikes could proceed if upside risks to inflation increase, even amid tensions in the Middle East, as long as the downside risks to the economy remain limited. We expect the next hike in July and another around next spring; however, upside inflation risks could bring hikes forward, potentially pushing the policy rate above 1.5%.

Real GDP, % QoQ annualized, and contributions, pp.



Note: Forecast based on the first estimate of GDP for Q1 2026  
Source: Japan Cabinet Office, MUFG Bank Economic Research Office

Core CPI, % Y/Y and contributions, pp.

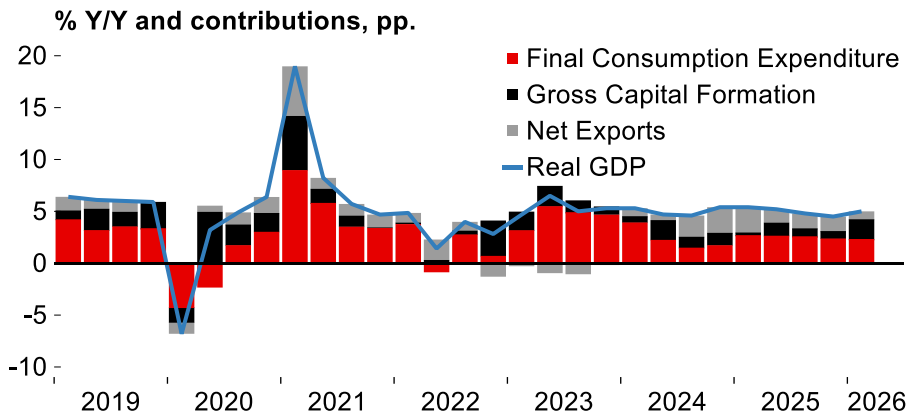


Note: "Core CPI" excludes fresh food. "Other food" excludes fresh food and rice. "Goods" excludes food and energy.  
Source: Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

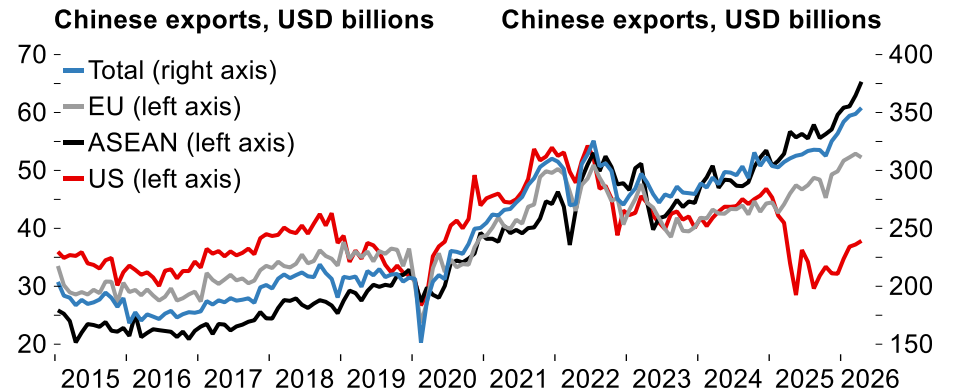
# China

## Chinese economy to decelerate as high oil prices add to pressures from weak sentiment, a soft labor market and US tariffs

- Economic growth in China picked up in the first quarter of 2026 to 5.0% y/y from 4.5% y/y the previous quarter. This was mostly due to a recovery in investment, particularly in infrastructure.
- Looking ahead, against the backdrop of demographic challenges and the ongoing real estate downturn, the Chinese economy is expected to slow, weighed down by weaker household sentiment and a softer labor market. In the short term, we expect the government and central bank to respond with flexible fiscal and monetary policy to underpin the economy amid downward pressure from the Middle East conflict and US tariff policy. We forecast real GDP growth of 4.4% y/y in 2026 and 4.2% y/y in 2027.
- China is a net importer of oil, around half of which it imports from the Middle East. Higher energy prices have caused the inflation rate to rise, particularly for transportation, which has weighed on consumption. Still, China has around 6 months' worth of oil in its strategic inventory and around half of its primary energy mix is coal, which means it is likely the rise in oil prices can be managed through government policy. However, there is a risk from spillover effects, such as domestic refining capacity becoming insufficient for chemical-related products and downside risks to external demand in the event of a prolonged conflict in the Middle East. If the US raises its tariff rate on Chinese goods again, it is likely growth of the Chinese economy can be managed by adjusting and expanding policies.



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



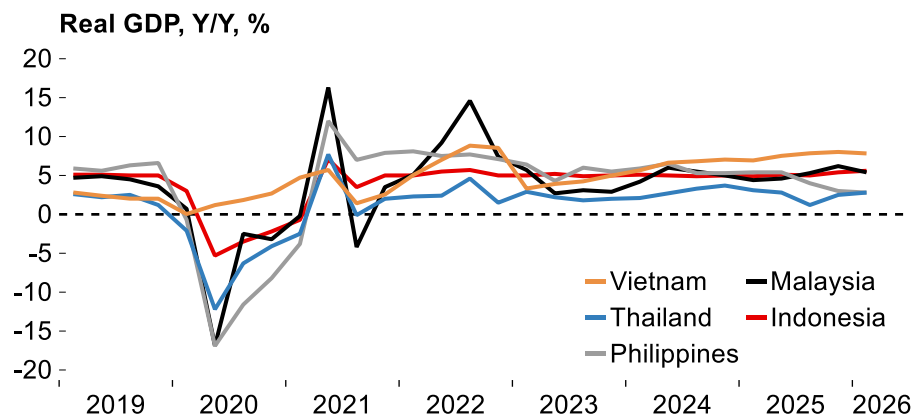
Note: Data is seasonally adjusted

Source: China General Administration of Customs (GAC), MUFG Bank Economic Research Office

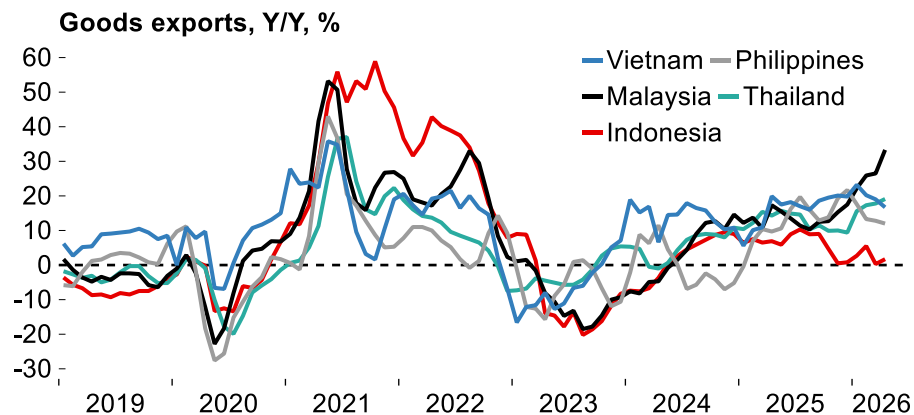
# ASEAN economies

## Growth slows amid energy price pressures and weakening demand

- Real GDP growth slowed to 5.1% y/y in Q1 this year across the five major ASEAN economies (an aggregate of Indonesia, Thailand, Malaysia, Philippines and Vietnam). Oil and gas accounts for a large share of the primary energy mix in Asian economies, and the majority are net importers of oil and gas. As a result, higher commodity prices and logistics constraints weigh more heavily than in other regions, with impacts varying by economies' resilience to these issues (e.g., size of their strategic inventories), and alternative demand (e.g., AI).
- Looking ahead, we expect the rise in inflation rates due to the Middle East conflict and government policies to curb demand will put downward pressure on consumption in ASEAN economies. In addition, foreign demand will face headwinds from a reduction to logistics and tourism from higher transportation costs and a fall in exports after the front-loading of orders ahead of US tariffs. As a result, we forecast real GDP will slow to 4.4% y/y in 2026 before recovering to 4.8% y/y in 2027.
- Although ASEAN economies have an advantage as an export base to the US, there are downside risks to exports and investment (e.g., in Vietnam) if the US tightens restrictions on imports from China via Asia. There is also a possibility that an influx of cheap Chinese goods caused by a sharp slowdown in AI demand or increased trade tension with the US will put downward pressure on industries and labor markets in ASEAN, particularly manufacturing.



Source: <Property Source not found.>, MUFG Bank Economic Research Office

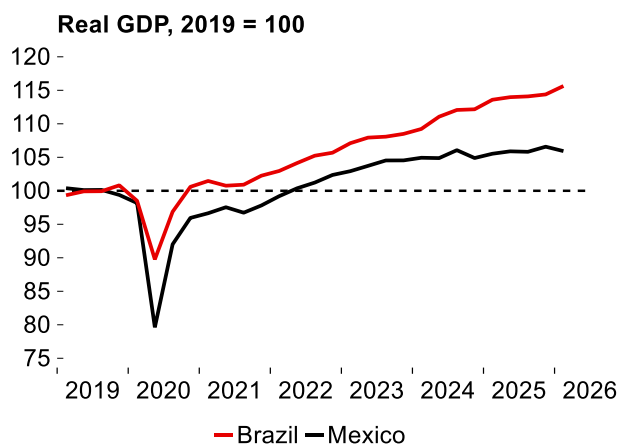


Source: National sources, Macrobond, MUFG Bank Economic Research Office

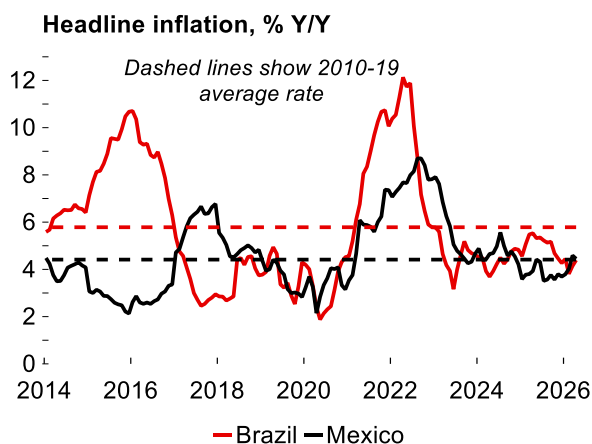
# Latin America

## Inflation pressures, policy constraints, and external headwinds weigh on growth

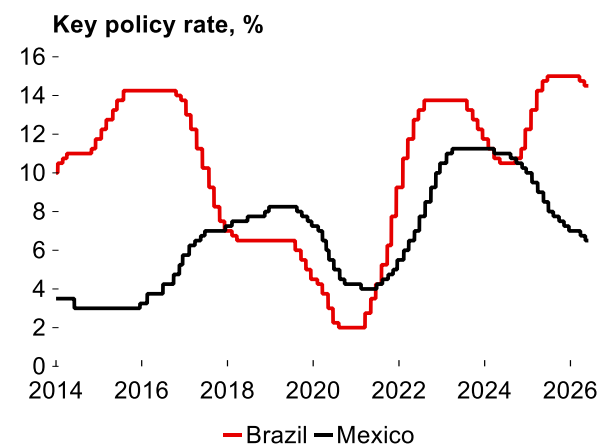
- Brazil GDP growth held steady at 1.8% y/y in Q4 2025, with stronger consumption and exports offsetting weak investment under high interest rates. Inflation was 4.3% y/y in December, below the central bank's target ceiling, but has picked up again in early 2026 amid higher energy prices. The central bank cut rates in March and April but has since adopted a cautious stance as inflation risks re-emerge. In the run-up to the presidential election in October this year, we are mindful of the risk that a rise in long-term interest rates could exert downward pressure on the economy if President Lula, whose approval rating is declining, seeks to pursue a more expansionary fiscal policy. Overall, growth is expected to remain resilient with real GDP growth projected at 1.9% in 2026 and 2.0% in 2027.
- Mexico's GDP growth rate for Q1 this year was 0.2% y/y, decelerating from the previous quarter as inventory investment significantly slowed while fixed investment stagnated. Inflation remained elevated, with CPI rising 4.6% y/y in March and 4.4% in April. Although the Bank of Mexico cut rates in May, it has indicated a pause in further easing. Looking ahead, the economy is expected to receive some support from solid wage growth and resilient exports outside the automotive sector. However, persistent uncertainty over US trade policy and a vulnerable energy procurement structure (exporting crude oil while importing refined petroleum products) are likely to somewhat weigh on growth. As a result, real GDP growth is projected to remain moderate at 1.3% in 2026 and 1.5% in 2027.



Source: IBGE, INEGI, MUFG Bank Economic Research Office



Source: IBGE, INEGI, MUFG Bank Economic Research Office

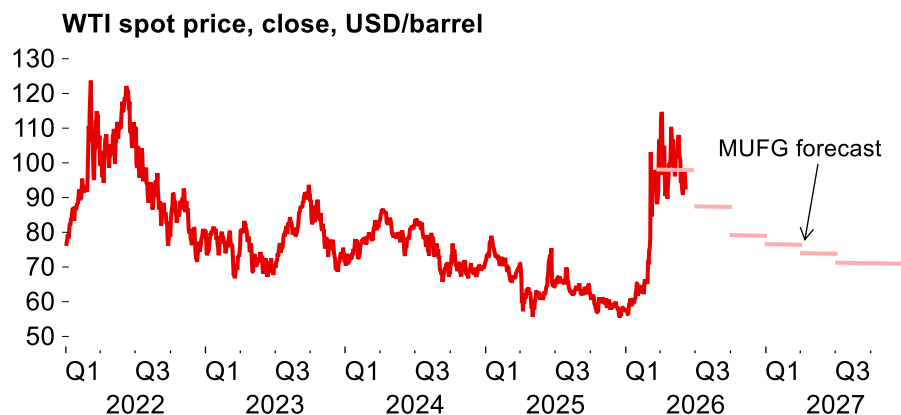


Source: Macrobond, MUFG Bank Economic Research Office

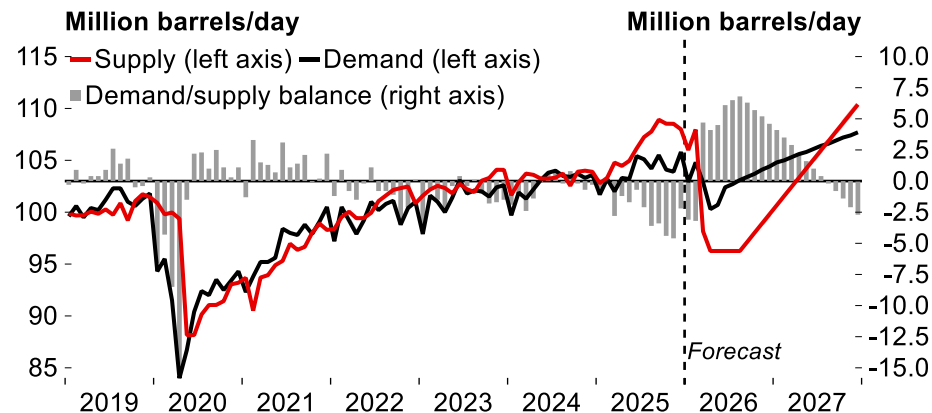
# Oil market

## Upside shift in oil prices amid persistent geopolitical risks but gradual market normalization expected

- Following the de facto closure of the Strait of Hormuz triggered by the US-Israel–Iran conflict in late February, vessel traffic through the Strait declined sharply.
- We expect oil demand to recover to pre-conflict levels as navigation through the Strait of Hormuz normalizes, before gradually increasing in line with global economic growth. However, a prolonged closure poses a risk of meaningful downward pressure on demand.
- On the supply side, output from the OPEC+ is likely to normalize as agreements allow navigation to resume, although some lag is expected due to the time required to restart facilities. We expect supply to recover to pre-conflict levels (February) by the first half of 2027. US shale oil production is also expected to increase modestly, as oil prices remain above the break-even cost for new drilling (around USD 66/bbl).
- Oil prices are expected to peak in Q2 this year and decline toward the second half of next year on a quarterly basis. However, prices are likely to shift up from the previous USD 60/bbl to the low USD 70s/bbl, as the risk of a renewed closure of the Strait of Hormuz remains priced in.

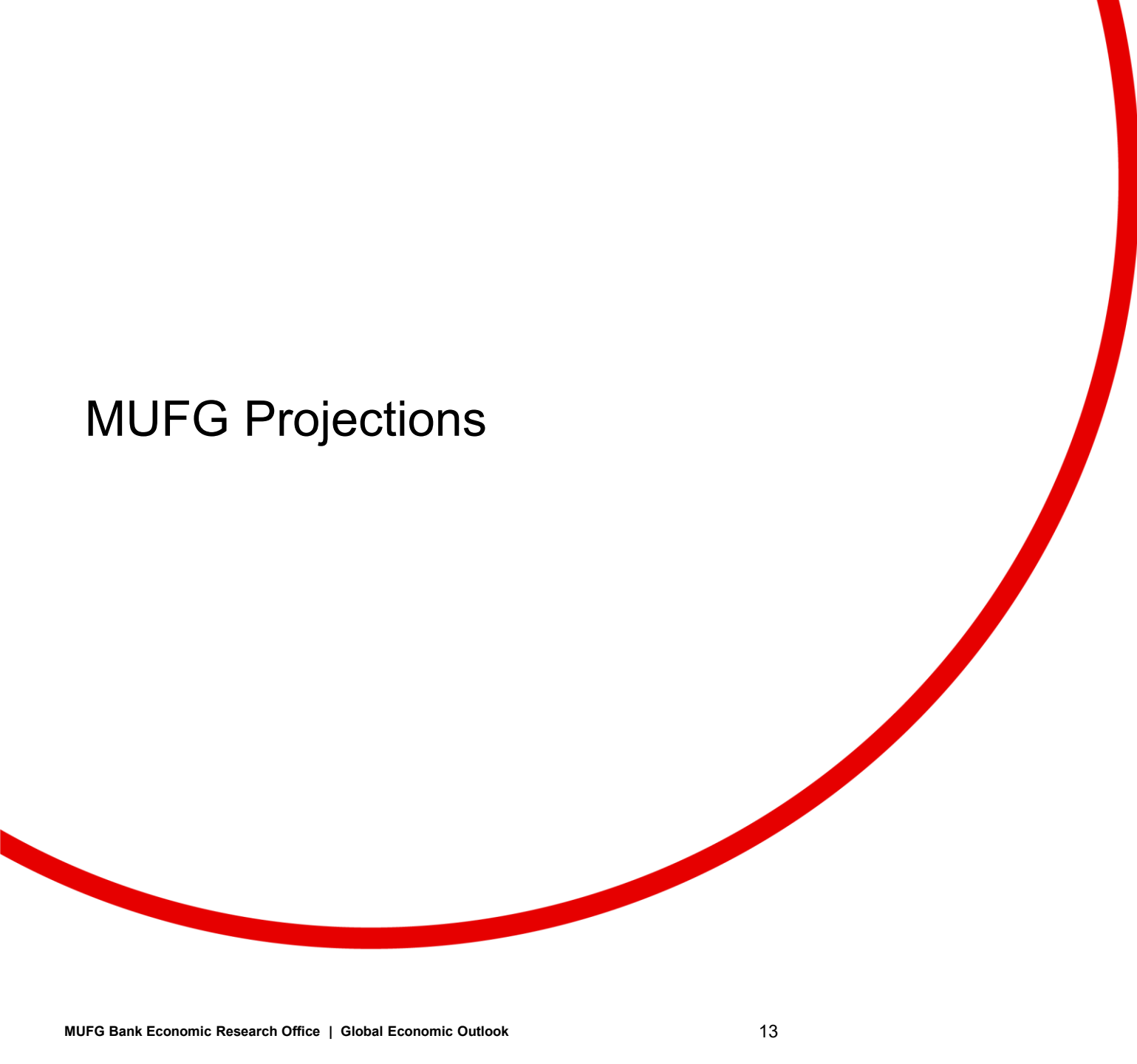


Source: Macrobond, MUFG Bank Economic Research Office



Source: EIA, Energy Institute, MUFG Bank Economic Research Office

# MUFG Projections



# MUFG Bank GDP & Inflation projections

	GDP (% Y/Y)				CPI (% Y/Y)		
	2025	2026f	2027f		2025	2026f	2027f
<b>World</b>	3.6	3.0	3.1	<b>World</b>	1.9	2.9	2.3
Advanced economies	1.9	1.5	1.6	Advanced economies	2.5	3.1	2.3
Emerging economies	5.1	4.4	4.5	Emerging economies	1.3	2.7	2.2
<b>US</b>	2.1	1.9	2.0	<b>US</b>	2.7	3.5	2.4
<b>Japan (FY)</b>	0.8	0.5	0.7	<b>Japan (FY)</b>	2.7	2.4	2.3
<b>Euro area</b>	1.4	0.7	1.2	<b>Euro area</b>	2.1	2.9	2.2
Germany	0.2	0.5	1.2	Germany	2.3	3.0	2.2
France	0.8	0.7	1.0	France	0.9	2.3	2.0
Italy	0.5	0.5	0.8	Italy	1.6	2.8	2.0
<b>UK</b>	1.4	1.0	1.1	<b>UK</b>	3.4	3.3	2.3
<b>Asia (11 economies)</b>	5.5	4.8	4.6	<b>Asia (11 economies)</b>	0.9	2.4	2.0
<b>China</b>	5.0	4.4	4.2	<b>China</b>	0.0	1.5	1.0
<b>India (FY)</b>	7.6	6.2	6.5	<b>India (FY)</b>	2.2	4.8	4.4
<b>Advanced Asian Economies</b>	4.1	3.9	2.4	<b>Advanced Asian Economies</b>	1.8	2.3	1.9
South Korea	1.0	2.4	1.9	South Korea	2.1	2.6	2.1
Taiwan	8.7	7.3	3.3	Taiwan	1.7	1.9	1.7
Hong Kong SAR	3.6	2.6	2.5	Hong Kong SAR	1.4	2.2	1.8
Singapore	5.0	2.9	2.4	Singapore	0.9	2.2	2.0
<b>ASEAN 5</b>	5.0	4.4	4.8	<b>ASEAN 5</b>	1.7	3.6	2.7
Indonesia	5.1	4.8	5.0	Indonesia	1.9	3.4	2.7
Thailand	2.4	1.4	2.0	Thailand	-0.1	2.6	1.4
Malaysia	5.2	4.7	4.5	Malaysia	1.4	2.1	2.0
Philippines	4.4	3.8	5.3	Philippines	1.7	5.8	3.7
Vietnam	8.0	6.9	6.7	Vietnam	3.3	4.6	3.7
<b>Australia</b>	2.0	2.0	1.9	<b>Australia</b>	2.8	4.3	2.8
<b>Latin America (5 economies)</b>	1.8	1.8	1.9	<b>Latin America (5 economies)</b>	4.3	4.6	3.9
Brazil	2.3	1.9	2.0	Brazil	5.0	4.9	4.4
Mexico	0.6	1.3	1.5	Mexico	3.8	4.5	3.5

\* Advanced Asian Economies is an aggregate of South Korea, Taiwan, Hong Kong SAR and Singapore, formerly classified as NIEs

# United States – Detailed forecasts

	2025				2026				2027				2025	2026f	2027f
	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f			
<b>Main Economic Indicators</b>															
Real GDP (QoQ annualized, %)	-0.6	3.8	4.4	0.5	1.6	1.6	1.9	1.9	2.0	2.0	2.1	2.1	2.1	1.9	2.0
Personal Consumption Expenditures	0.6	2.5	3.5	1.9	1.4	1.3	1.6	1.8	2.0	2.1	2.2	2.2	2.6	1.9	1.9
Fixed Investment (Residential)	-1.0	-5.1	-7.1	-1.7	-6.2	1.0	2.0	2.0	2.0	2.0	2.0	2.0	-2.2	-2.6	1.9
Fixed Investment (Nonresidential)	9.5	7.3	3.2	2.4	10.1	4.0	3.3	3.3	3.2	3.2	3.1	3.1	4.1	5.1	3.3
Changes in Private Inventories (Contributic	3.0	-4.3	-0.4	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	-0.1	-0.2	0.2
Government Expenditures	-1.0	-0.1	2.2	-5.6	4.4	-0.7	0.4	0.5	0.5	0.5	0.5	0.5	1.1	0.2	0.4
Net Exports (Contribution)	-4.7	4.8	1.6	-0.2	-1.3	0.0	0.0	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2	0.1	-0.1
Exports	0.2	-1.8	9.6	-3.2	13.1	0.8	1.0	1.0	1.0	1.2	1.2	1.5	1.6	3.9	1.1
Imports	38.0	-29.3	-4.4	-1.0	21.1	0.8	1.0	1.5	2.0	2.0	2.0	2.0	2.7	2.2	1.7
Final sales to private domestic purchasers	1.9	2.9	2.9	1.8	2.4	3.2	1.9	2.1	2.2	2.3	2.4	2.4	2.6	2.5	2.3
Nominal GDP (QoQ annualized, %)	2.9	6.0	8.3	4.2	5.1	6.2	4.4	4.3	4.3	4.3	4.3	4.4	5.0	5.5	4.4
Unemployment Rate (%)	4.1	4.2	4.3	4.5	4.3	4.4	4.3	4.3	4.2	4.2	4.2	4.2	4.3	4.4	4.2
Consumer Price Index (YoY, %)	2.7	2.4	2.9	2.8	2.7	4.0	3.8	3.7	3.3	2.1	2.0	2.0	2.7	3.5	2.4
<b>Balance of Payments</b>															
Trade Balance, Goods (USD billions)	-464	-269	-266	-241	-255	-257	-258	-262	-268	-273	-279	-283	-1241	-1031	-1103
Current Account (USD billions)	-438	-248	-239	-191	-205	-206	-207	-211	-217	-222	-228	-232	-1116	-828	-900
<b>Financial Indicators</b>															
Federal Funds Rate (upper limit, %)	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.75	3.75	3.25
3-Month SOFR (%)	4.3	4.3	4.2	3.8	3.7	3.7	3.7	3.7	3.5	3.2	3.1	3.1	4.2	3.7	3.2
10-Year Treasury Yield (%)	4.5	4.4	4.3	4.1	4.2	4.4	4.4	4.3	4.2	4.0	4.0	4.0	4.3	4.3	4.1

# Japan – Detailed forecasts

	2025				2026				2027				2028	FY2025	FY2026f	FY2027f
	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f			
<b>The Real Economy (QoQ annualized change)</b>																
Real GDP	1.8	1.4	-2.5	0.8	2.1	0.2	0.4	0.4	0.5	0.7	0.8	0.8	0.9	0.8	0.5	0.7
Private Consumption	2.7	0.6	2.1	0.2	1.1	0.4	0.3	0.4	0.4	0.6	0.8	0.8	0.9	1.2	0.6	0.6
Housing Investment	-1.9	0.0	-28.7	21.3	2.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	-3.5	0.7	0.1
Private Business Fixed Investment	2.8	5.0	-0.4	5.6	1.1	0.3	0.0	0.2	0.6	0.2	0.5	0.5	0.9	2.4	1.0	0.4
Business Inventory (Contribution)	0.7	-0.2	-0.2	-0.4	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	0.0
Government Expenditures	-0.6	2.0	-0.4	0.9	1.4	0.4	0.5	0.2	0.2	0.5	0.5	0.5	0.5	0.5	0.6	0.4
Public Investment	-3.0	1.6	-4.2	-0.7	5.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-0.6	1.3	1.0
Net Exports (Contribution)	-0.6	0.1	-0.3	0.0	0.3	-0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	-0.2	0.1	0.2
Exports	-2.2	6.7	-6.2	0.7	7.1	-0.9	0.8	0.8	1.1	1.1	0.9	1.1	1.1	1.9	1.1	1.0
Imports	9.2	4.4	-0.7	0.0	1.9	-0.1	0.1	0.3	0.1	-0.1	-0.1	-0.1	0.2	2.6	0.3	0.0
Nominal GDP	3.1	8.2	0.3	3.8	3.4	3.3	5.2	3.2	3.1	1.6	5.2	1.7	3.3	4.2	3.5	3.1
GDP Deflator (YoY)	3.6	3.2	3.5	3.4	3.4	2.6	3.0	3.0	3.3	2.7	2.6	2.2	2.1	3.4	3.0	2.4
Industrial Production Index (QoQ)	0.0	-0.5	-1.1	0.3	2.4	-0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	-0.3	1.8	0.6
Domestic Corporate Goods Price Index (YoY)	4.3	3.3	2.6	2.6	2.5	4.6	4.2	5.1	4.9	3.1	3.2	2.0	1.7	2.8	4.7	5.2
Consumer Price Index (excl. fresh food, YoY)	3.1	3.4	2.9	2.8	1.7	1.7	2.2	2.7	3.1	2.5	2.6	2.1	2.2	2.7	2.4	2.3
<b>Balance of Payments</b>																
Trade Balance (JPY billions)	-995	-136	42	377	1,043	-1,869	-678	-237	79	172	223	275	311	1,326	-2,705	981
Current Balance (JPY billions)	7,580	7,355	8,910	8,272	9,772	6,952	8,191	8,679	9,043	9,122	9,159	9,198	9,219	34,309	32,865	36,697
<b>Financial</b>																
Uncollateralized overnight call rate	0.5	0.5	0.5	0.6	0.7	0.7	1.0	1.0	1.0	1.2	1.2	1.2	1.2	0.7	1.0	1.2
3-month TORF	0.5	0.5	0.5	0.6	0.8	0.8	1.0	1.0	1.1	1.2	1.2	1.2	1.3	0.6	1.0	1.2
Newly Issued 10-Year Government Bonds Yield	1.3	1.4	1.6	1.8	2.2	2.5	2.4	2.4	2.5	2.5	2.5	2.6	2.6	1.7	2.5	2.5
Exchange Rate (USD/JPY)	153	145	147	154	157	159	158	157	156	155	154	153	153	151	158	154

## Europe – Detailed forecasts

	Real GDP (YoY, %)			CPI (YoY, %)		
	2025	2026f	2027f	2025	2026f	2027f
<b>Euro Area</b>	1.4	0.7	1.2	2.1	2.9	2.2
Germany	0.2	0.5	1.2	2.3	3.0	2.2
France	0.8	0.7	1.0	0.9	2.3	2.0
Italy	0.5	0.5	0.8	1.6	2.8	2.0
<b>United Kingdom</b>	1.4	1.0	1.1	3.4	3.3	2.3

	Euro Area (YoY, %)			UK (YoY, %)		
	2025	2026f	2027f	2025	2026f	2027f
<b>Nominal GDP</b>	3.9	3.5	4.0	5.1	4.4	4.2
<b>Real GDP</b>	1.4	0.7	1.2	1.4	1.0	1.1
Domestic demand (contribution)	2.1	1.0	1.3	2.1	1.3	1.3
Foreign demand (contribution)	-0.6	-0.3	-0.1	-0.7	-0.3	-0.1
Private consumption	1.6	0.8	1.2	1.0	0.9	1.1
Government consumption	1.6	1.8	1.2	1.6	1.3	1.4
Gross fixed capital formation	3.1	1.3	1.9	4.3	0.1	1.6
Inventory investment (contribution)	0.4	0.1	0.0	-0.1	0.5	0.0
Exports	2.2	0.8	1.8	2.1	1.3	1.4
Imports	3.7	1.7	2.1	4.2	1.9	1.6

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