

REVISED
to reflect the
2nd QE for the
Oct-Dec Qtr
of 2014

FY2014, FY2015, FY2016 Economic Outlook

- The Japanese and US economies should gather pace despite the slow recovery of the global economy -

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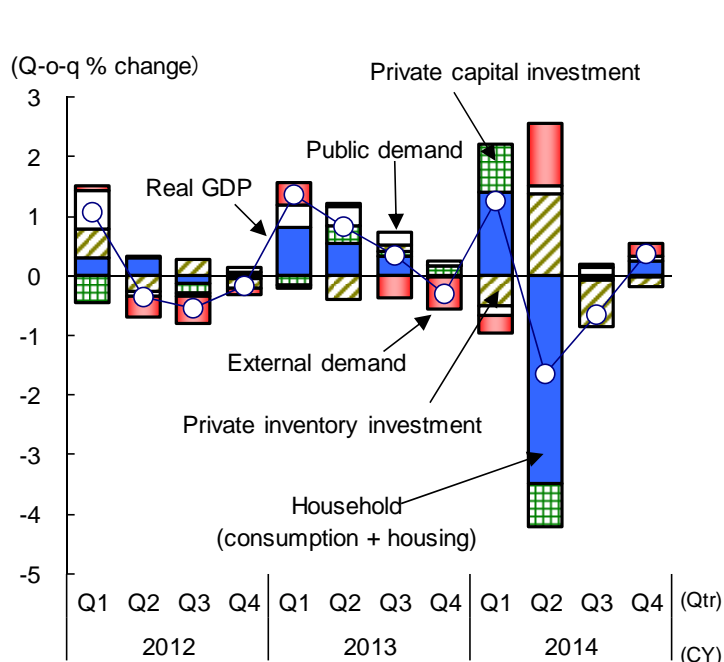
The Japanese economy – expansion on the tailwinds of the “Triple Merits”

- Japan’s economic growth in the Oct-Dec quarter of 2014 was revised downward in the *Second Preliminary Quarter Estimates of GDP (2nd QE)*. However, a closer look reveals that the contents of growth were not so bad, with a significant downward revision of inventory investment and an upward revision of personal consumption. The economy should maintain its gradual recovery in the Jan-Mar quarter of 2015. Even so, growth turned out to be negative (-1.0%) in FY2014 due to the slump in the first half of the fiscal year.
- In FY2015, personal consumption should follow firm footing, given tailwinds provided by the wage hikes in the *shunto* labor-management wage negotiations amid the improvement of labor market conditions. The recovery of exports and increase of capital investment will continue under the “Triple Merits” of ① the yen depreciation/stock market rise accompanying the additional monetary easing by the Bank of Japan (BOJ), ② fiscal policy measures such as emergency economic stimulus measures, and ③ sharp fall of crude oil prices, leading to the expansion of the economy. FY2015 growth forecast: +2.1%.
- In FY2016, a last-minute demand prior to the consumption tax hike (in April 2017) will emerge in the second half of the fiscal year. The rise of personal consumption and housing investment should lead to strong growth for two years in a row (FY2016: +1.9%).
- Given the sharp fall of crude oil prices, the year-on-year change of the core CPI (excluding the impact of the consumption tax hike) will dip into negative territory toward the middle of FY2015. The inflation target of “2% in two years” will most likely prove difficult to achieve. Even so, the underlying inflation rate excluding the impact of volatile items such as energy will improve steadily amid the rise of wages.

1. The 2nd QE for the Oct-Dec quarter of 2014: inventory investment was revised down sharply

- The *Second Preliminary Quarterly Estimates of GDP (2nd QE)* for the Oct-Dec quarter of 2014 released by the Cabinet Office revealed that Japan's real GDP grew (+0.4% q-o-q or +1.5% p.a.) slower than initially estimated in the *First Preliminary Quarterly Estimates of GDP (1st QE)* (+0.6% q-o-q or +2.2% p.a.).
- Inventory investment was revised down sharply. Even so, since the downward revision of inventory investment indicates the progress of inventory adjustment, it is a positive factor for the economy going forward.
- Personal consumption was revised upward. Despite the downward revision of growth in the latest 2nd QE, the contents of growth were not bad.

[GDP in the Oct-Dec quarter of 2014 (2nd QE)]



	(Q-o-q % change)				1st QE Oct-Sep
	2014 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
Gross domestic production	1.3	-1.6	-0.7	0.4	0.6
(Q-o-q change, p.a.)	5.1	-6.4	-2.6	1.5	2.2
(Y-o-y change)	2.4	-0.3	-1.4	-0.8	-0.5
Domestic demand	1.5	-2.6	-0.7	0.2	0.3
	(1.6)	(-2.7)	(-0.7)	(0.2)	(0.3)
Private demand	2.2	-3.6	-1.1	0.1	0.4
	(1.7)	(-2.8)	(-0.9)	(0.1)	(0.3)
Personal consumption	2.2	-5.0	0.3	0.5	0.3
Housing investment	2.4	-10.3	-7.0	-1.2	-1.2
Capital investment	5.9	-5.0	-0.2	-0.1	0.1
Inventory investment	(-0.5)	(1.4)	(-0.8)	(-0.2)	(0.2)
Public demand	-0.6	0.5	0.6	0.3	0.1
	(-0.2)	(0.1)	(0.2)	(0.1)	(0.0)
Government consumption	-0.3	0.4	0.2	0.3	0.1
Public investment	-2.2	1.1	2.1	0.8	0.6
Net exports of goods & services	(-0.3)	(1.1)	(0.1)	(0.2)	(0.2)
Exports	6.5	-0.3	1.5	2.8	2.7
Imports	6.9	-5.3	1.0	1.3	1.3
Nominal GDP	1.4	0.3	-0.9	1.0	1.1
GDP deflator (y-o-y change)	0.1	2.2	2.0	2.4	2.3

Source: Made by Mizuho Research Institute (MHRI) based upon Cabinet Office, *National Accounts*.

Note: The figures in parentheses indicate the contributions to gross domestic production.
Source: Cabinet Office, *National Accounts*.

2. Outlook on the Japanese economy: recovery by the “Triple Merits”. A last-minute rush of demand will materialize in FY2016

- The “Triple Merits” will reboot the Japanese economy on to a virtuous cycle leading to economic recovery. A last-minute rush of demand will materialize in the second half of FY2016.
- In FY2015, the economy will expand given the benefits of the fall of crude oil prices and the weakness of the yen and rise of stock prices accompanying the BOJ’s additional monetary easing. The economy is forecast to grow +2.1% in real terms.
- In FY2016, a last-minute rush of demand will materialize in view of the next consumption tax hike in April 2017. The economy is forecast to grow +1.9% in real terms.

[Outlook on the Japanese economy]

		2013	2014	2015	2016	2014		2015				2016				2017
		FY				Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	2.1	-1.0	2.1	1.9	-0.7	0.4	0.7	0.7	0.7	0.5	0.4	0.4	0.6	0.4	0.6
	Q-o-q % ch p.a.	--	--	--	--	-2.6	1.5	2.7	2.7	2.6	2.2	1.5	1.5	2.4	1.8	2.5
Domestic demand	Q-o-q % ch	2.5	-1.5	1.7	1.8	-0.7	0.2	0.6	0.6	0.6	0.5	0.3	0.3	0.5	0.5	0.9
Private sector demand	Q-o-q % ch	2.3	-2.2	2.3	2.2	-1.1	0.1	1.0	0.8	0.7	0.6	0.4	0.4	0.6	0.6	1.1
Personal consumption	Q-o-q % ch	2.5	-2.9	1.9	1.8	0.3	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.4	0.6	1.7
Housing investment	Q-o-q % ch	9.3	-11.9	2.3	5.8	-7.0	-1.2	1.8	1.5	1.3	1.1	0.7	0.3	4.2	1.0	1.3
Capital investment	Q-o-q % ch	4.0	-0.0	3.2	3.3	-0.2	-0.1	1.7	0.8	0.7	0.9	0.8	0.7	0.8	1.0	0.9
Inventory investment	Q-o-q contribution, % pt	-0.5	0.4	0.2	0.0	-0.8	-0.2	0.2	0.2	0.1	0.1	0.0	0.1	0.0	-0.1	-0.3
Public sector demand	Q-o-q % ch	3.2	0.8	-0.0	0.5	0.6	0.3	-0.6	-0.1	0.2	0.1	0.0	0.1	0.2	0.2	0.2
Government consumption	Q-o-q % ch	1.6	0.6	1.0	1.0	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Public investment	Q-o-q % ch	10.3	1.8	-4.2	-1.6	2.1	0.8	-3.9	-2.0	0.1	0.0	-1.0	-0.7	-0.3	0.0	0.2
External demand	Q-o-q contribution, % pt	-0.4	0.6	0.3	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	-0.0	-0.3
Exports	Q-o-q % ch	4.7	7.2	6.2	6.3	1.5	2.8	1.1	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.7
Imports	Q-o-q % ch	6.7	2.9	4.1	5.5	1.0	1.3	0.8	0.9	1.0	1.1	1.2	1.1	1.2	1.8	3.0
GDP (nominal)	Q-o-q % ch	1.8	1.5	2.8	1.9	-0.9	1.0	1.8	0.5	0.4	0.7	0.5	-0.2	1.0	0.8	0.8
GDP deflator	Y-o-y % ch	-0.3	2.5	0.8	-0.1	2.0	2.4	3.4	1.3	1.2	0.7	-0.2	-0.7	-0.0	0.2	0.2
Domestic demand deflator	Y-o-y % ch	0.4	2.1	-0.2	0.5	2.3	2.1	1.3	-0.3	-0.3	-0.3	0.1	0.2	0.5	0.7	0.7

Notes: Figures in the shaded areas are forecasts.

Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*.

Japan: core inflation will dip into negative territory. However, the underlying inflation rate will still be positive

[Outlook on the Japanese economy (major economic indicators)]

		2013	2014	2015	2016	2014		2015				2016				2017
		FY				Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch	3.2	-0.4	3.2	4.3	-1.9	1.7	2.3	-0.1	0.8	0.9	0.7	1.0	1.2	1.3	2.2
Ordinary profits	Y-o-y % ch	20.9	8.4	12.5	9.3	7.4	12.1	10.8	18.2	17.6	7.7	8.8	7.3	8.6	9.3	11.6
Nominal compensation of employees	Y-o-y % ch	1.0	1.9	1.7	2.1	2.4	2.1	1.1	1.6	1.8	1.9	1.3	2.1	2.0	2.3	2.1
Unemployment rate	%	3.9	3.5	3.4	3.3	3.6	3.5	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
New housing starts	P.a., 10,000 units	98.7	87.9	90.2	95.1	86.1	88.0	88.6	89.5	90.2	90.6	90.9	95.4	95.8	97.1	91.6
Current account balance	P.a., JPY tril	0.8	7.2	14.7	13.1	2.3	9.9	12.3	13.7	13.5	19.4	12.2	11.0	12.7	18.9	9.9
Domestic corporate goods prices	Y-o-y % ch	1.9	2.7	-1.6	1.0	4.0	2.4	0.1	-2.9	-2.0	-1.4	-0.1	0.8	1.1	1.0	1.0
Consumer prices (ex fresh food)	Y-o-y % ch	0.8	2.8	0.0	1.2	3.2	2.7	2.2	0.1	-0.3	-0.1	0.5	0.8	1.2	1.4	1.4
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.8	0.9	0.0	1.2	1.2	0.7	0.2	-0.0	-0.3	-0.1	0.5	0.8	1.2	1.4	1.4
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.2	0.5	0.5	0.7	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.7	0.7	0.8	0.8
Uncollateralized overnight call rate	%	0.04	0~0.10	0~0.10	0~0.10	0.03	0.07	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10
Yield on newly-issued 10-yr JGBs	%	0.69	0.50	0.50	0.65	0.53	0.44	0.35	0.45	0.50	0.50	0.60	0.60	0.65	0.65	0.70
Nikkei average	JPY	14,424	16,200	19,400	20,300	15,562	16,705	18,000	18,900	19,000	19,600	19,900	20,100	20,300	20,400	20,500
Exchange rate	JPY/USD	100	110	123	128	104	115	119	121	123	124	126	127	128	128	129
Crude oil price (WTI nearest term contract)	USD/bbl	99	81	58	65	97	73	49	55	58	59	60	61	64	66	68

- Notes: 1. Figures in the shaded areas are forecasts. The readings above may differ from public releases because the rates of change are calculated based upon actual results.
2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries) (ex finance & insurance, and production, transmission and distribution of electricity).
3. Quarterly data on the unemployment rate, new housing starts and current account balance are seasonally-adjusted. The number of new housing starts are seasonally-adjusted monthly data converted into quarterly averages (annualized).
4. Of the finance-related indices, the uncollateralized overnight call rate refers to the rate at the end of term, the yield on newly-issued 10-yr JGBs refers to the average of the end-of-month rates during the relevant term, and all others are averages during the relevant terms.

Sources: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*, Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Quarterly*, Ministry of Internal Affairs and Communications, *Labor Force Survey*, *Consumer Price Index*, Ministry of Land, Infrastructure, Transport and Tourism, *Current Survey on Construction Statistics*, Bank of Japan, *Balance of Payments*, *Corporate Goods Price Index*, *Financial and Economic Statistics Monthly*, *Foreign Exchange Rates*, Japan Bond Trading Co., Ltd., *Latest Daily JGB Rates*, Nikkei Inc. and Bloomberg.

3. The global economy should gradually expand in 2016

- Even though global economic growth (the countries and regions included in MHRI's forecast) should remain around the previous year level in 2015, the pace should rise in 2016.
 - 2015: despite the rise of economic growth among developed economies such as the US and Japan, this will be offset by China's economic slowdown and fall of the commodities-exporting countries.
 - 2016: the global economy as a whole should gather momentum as the downward pressures stemming from the fall of commodities prices upon Brazil and Russia eases.

[Outlook on the global economy]

Calendar year	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2012 (Actual)	2013 (Actual)	2014 (Forecast)	2015 (Forecast)	2016 (Forecast)	2015 (February forecast)	2016	2015 (breadth of revision from Feb)	2016
Total of forecast area	3.3	3.3	3.3	3.3	3.6	3.3	3.6	—	—
Japan, US, Eurozone	1.1	1.1	1.5	2.1	2.2	2.2	2.2	-0.1	—
US	2.3	2.2	2.4	3.1	2.8	3.1	2.8	—	—
Eurozone	-0.8	-0.5	0.9	1.3	1.5	1.3	1.5	—	—
Japan	1.8	1.6	-0.0	1.2	2.0	1.2	2.0	—	—
Asia	6.2	6.1	6.0	6.0	5.9	6.0	5.9	—	—
China	7.7	7.7	7.4	7.1	6.8	7.1	6.8	—	—
NIEs	2.3	2.9	3.3	3.2	3.1	3.1	3.1	0.1	—
ASEAN5	6.1	5.1	4.6	5.1	5.0	5.1	4.9	—	0.1
India (FY2011 basis)	N.A.	6.4	7.2	7.6	7.9	7.6	7.9	—	—
(Ref: FY2004 basis)	4.8	4.7	5.2	5.6	5.9	5.6	5.9	—	—
Australia	3.7	2.0	2.7	2.2	2.7	2.3	2.7	-0.1	—
Brazil	1.0	2.5	0.0	-0.3	1.0	-0.3	1.0	—	—
Russia	3.4	1.3	0.6	-4.5	0.5	-4.5	0.5	—	—
Japan (FY)	1.0	2.1	-1.0	2.1	1.9	2.1	1.9	—	—
Crude oil price (WTI, USD/bbl)	94	98	93	55	63	54	63	1	—

Note: The total of the forecast area is calculated upon the 2012 GDP share (PPP) by the IMF. The values regarding India when calculating the "total of forecast area" and "Asia" is based upon FY2004 basis.

Sources: Made by MHRI based upon International Monetary Fund (IMF) and statistics of relevant countries and regions.

(Reference) Key political events

	2015		2016	
Global	Apr	Spring meetings of World Bank Group and the IMF	Apr	Spring meetings of World Bank Group and the IMF
	May	Annual meeting of the Asian Development Bank	Aug	Brazil summer Olympic Games
	Jun	G7 Summit Meeting	Sep	UN General Assembly
	Sep	UN General Assembly	Oct	General meetings of World Bank Group and the IMF
	Oct	General meetings of World Bank Group and the IMF	Dec	COP22
	Dec	COP21		
US	Mar	Expiration of measure to raise the debt ceiling	Nov	US presidential election
Europe	May	UK general elections	by end of year	Irish general elections
	Oct	Portugal general elections		
	Dec	Spain general elections		
Japan	Apr	Unified local elections	around Jul	Upper House election
	Sep	LDP presidential election		
Asia	Mar	National People's Congress (NPC), China	beginning of year	Thailand upper house and lower house elections
	Autumn	Fifth Plenary Session of the CPC Central Committee, China	around Jan	Taiwan presidential election
	end of year	launch of ASEAN Economic Community (AEC)	around Mar	NPC (13th 5-Year Plan scheduled), China
			around Apr	South Korean national assembly election
			around May	Singapore parliamentary election
			May	Philippines general elections
			Sep	Australia upper house and lower house elections
			around Sep	Hong Kong Legislative Council election
			Autumn	Sixth Plenary Session of the CPC Central Committee (China)
			by end of year	Vietnam Communist Party Congress
			by end of year	India upper house election

Source: Made by MHRI based upon media reports.

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