

REVISED  
to reflect the  
2<sup>nd</sup> QE for the  
Jan-Mar Qtr  
of 2015

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## **FY2015, FY2016 Economic Outlook**

**- Despite a downward revision of US growth, our outlook on a recovery from the Apr-Jun quarter remains unchanged -**

June 8, 2015

Mizuho Research Institute

## The Japanese economy – the recovery should gather momentum on the tailwinds of the “Triple Merits”

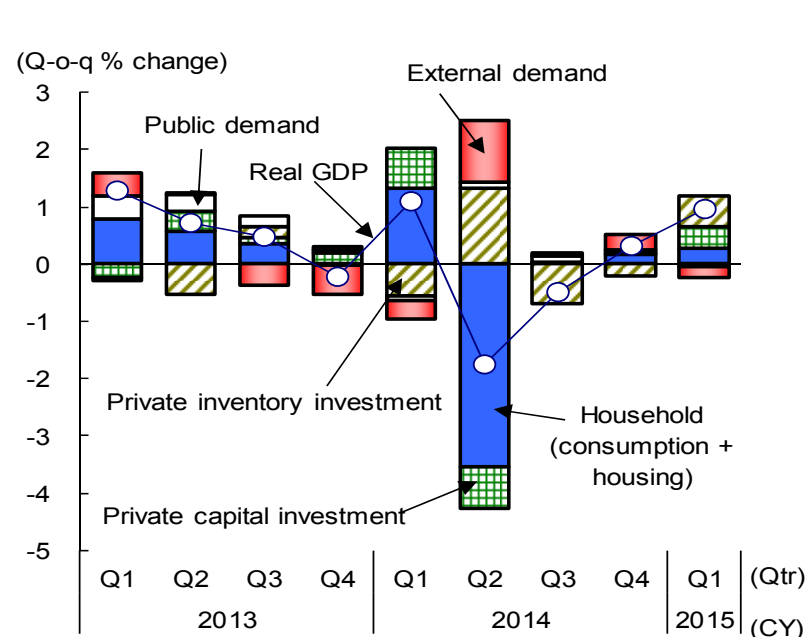
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- ❑ Japan’s economy recorded growth in positive territory for the second consecutive quarter in the Jan-Mar quarter of 2015. Personal consumption and exports continued to follow a recovery track and capital investment also picked up. On a full year-basis, growth dipped into negative territory (-0.9%) in FY2014 due in part to a slump in the first half of the fiscal year.
- ❑ In FY2015, personal consumption should continue to recover, reflecting the improvement of consumer confidence and real income. Exports and capital investment should also continue to increase under the “Triple Merits” of (1) the weak yen/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. In FY2015, the Japanese economy is forecast to grow +1.8%.
- ❑ In FY2016, a last-minute rush of demand will emerge in the second half of the fiscal year prior to the consumption tax hike (in April 2017). The rise of personal consumption and housing investment should lead to strong growth for two years in a row (FY2016: +2.0%).
- ❑ Given the sharp fall of crude oil prices, the y-o-y rise of the core CPI (excluding the impact of the consumption tax hike) will dip into negative territory toward the spring to autumn of 2015. From then onward, energy prices should rise at a faster pace amid the gradual rise of the underlying inflation rate, lifting the inflation rate above 1% toward the latter half of the forecast horizon. Even so, inflation is expected to fall short of the Bank of Japan’s (BOJ) outlook that inflation will reach close to 2% “around the first half of FY2016”.

# 1. The 2<sup>nd</sup> QE for the Jan-Mar 2015: sharp upward revision mainly in capital investment and inventory investment

- The *Second Preliminary Quarterly Estimates of GDP (2<sup>nd</sup> QE)* for the Jan-Mar quarter of 2015 released by the Cabinet Office revealed that Japan's real GDP grew (+1.0% q-o-q or +3.9% p.a.) faster than initially estimated in the *First Preliminary Quarterly Estimates of GDP (1<sup>st</sup> QE)* (+0.6% q-o-q or +2.4% p.a.).
  - The upward revision of inventory investment requires attention as a cause of future adjustment pressures. Even so, considering that this may be due partially to an intentional build-up of inventories, there is no need for excessive alarm.
  - Viewed overall, the latest 2<sup>nd</sup> QE revealed the recovery of investment incentive in the corporate sector amid the ongoing recovery of personal consumption and exports.

[ GDP in the Jan-Mar quarter of 2015 (2<sup>nd</sup> QE) ]



	(Q-o-q % change)				2015 Jun-Mar	1st QE Jan-Mar
	2014 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
Gross domestic production	1.1	-1.7	-0.5	0.3	1.0	0.6
(Q-o-q change, p.a.)	4.4	-6.8	-2.0	1.2	3.9	2.4
(Y-o-y change)	2.4	-0.4	-1.4	-1.0	-0.9	-1.4
Domestic demand	1.4	-2.7	-0.5	0.0	1.1	0.7
(Contributions)	(1.4)	(-2.8)	(-0.5)	(0.0)	(1.1)	(0.8)
Private demand	2.0	-3.7	-0.9	0.0	1.6	1.1
(Contributions)	(1.5)	(-2.9)	(-0.7)	(0.0)	(1.2)	(0.8)
Personal consumption	2.1	-5.1	0.4	0.4	0.4	0.4
Housing investment	2.0	-10.8	-6.4	-0.6	1.7	1.8
Capital investment	5.1	-4.8	0.1	0.3	2.7	0.4
Inventory investment	(-0.6)	(1.3)	(-0.7)	(-0.2)	(0.6)	(0.5)
Public demand	-0.4	0.4	0.5	0.2	-0.2	-0.2
(Contributions)	(-0.1)	(0.1)	(0.1)	(0.0)	(-0.1)	(-0.0)
Government consumption	-0.3	0.3	0.2	0.3	0.1	0.1
Public investment	-0.9	0.7	1.6	0.1	-1.5	-1.4
Net exports of goods & services	(-0.3)	(1.1)	(0.1)	(0.3)	(-0.2)	(-0.2)
Exports	6.1	-0.0	1.6	3.2	2.4	2.4
Imports	6.6	-5.2	1.1	1.4	2.9	2.9
Nominal GDP	1.3	0.1	-0.7	0.8	2.3	1.9
GDP deflator (y-o-y change)	0.1	2.2	2.1	2.4	3.4	3.4

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: Made by MHRI based upon Cabinet Office, *National Accounts*.

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

- Driven by the “Triple Merits”, the Japanese economy will start to follow a virtuous cycle leading to economic recovery. A last-minute rush of demand will also 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 +1.8% in real terms
    - There have been no revisions since the previous outlook (May). The upward revision of capital investment accompanying the rise of the carry-over of growth was offset by the downward revision of exports in the Apr-Jun quarter.
  - In FY2016, a last-minute rush of demand will materialize toward the second half of the fiscal year in view of the next consumption tax hike in April 2017. The economy is forecast to grow +2.0% 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	-0.9	1.8	2.0	-0.5	0.3	1.0	0.1	0.6	0.6	0.5	0.4	0.5	0.4	0.6
	Q-o-q % ch p.a.	--	--	--	--	-2.0	1.2	3.9	0.5	2.4	2.5	2.0	1.7	1.9	1.5	2.4
Domestic demand	Q-o-q % ch	2.5	-1.5	1.5	1.8	-0.5	0.0	1.1	0.1	0.4	0.5	0.4	0.4	0.4	0.4	0.9
Private sector demand	Q-o-q % ch	2.3	-2.2	2.1	2.2	-0.9	0.0	1.6	0.3	0.4	0.7	0.6	0.5	0.5	0.5	1.1
Personal consumption	Q-o-q % ch	2.5	-3.1	1.5	1.8	0.4	0.4	0.4	0.3	0.5	0.4	0.3	0.2	0.4	0.6	1.7
Housing investment	Q-o-q % ch	9.3	-11.7	2.4	5.9	-6.4	-0.6	1.7	1.4	1.2	1.1	0.5	1.0	3.8	0.9	1.1
Capital investment	Q-o-q % ch	4.0	0.4	3.5	3.0	0.1	0.3	2.7	0.3	0.4	1.2	0.9	0.6	0.6	0.7	0.8
Inventory investment	Q-o-q contribution, % pt	-0.5	0.5	0.1	0.0	-0.7	-0.2	0.6	-0.0	-0.1	0.1	0.1	0.1	-0.1	-0.1	-0.3
Public sector demand	Q-o-q % ch	3.2	0.7	-0.1	0.5	0.5	0.2	-0.2	-0.4	0.2	0.1	0.0	0.1	0.1	0.2	0.3
Government consumption	Q-o-q % ch	1.6	0.4	0.9	1.0	0.2	0.3	0.1	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	10.3	2.0	-4.2	-1.6	1.6	0.1	-1.5	-3.4	0.1	0.0	-0.9	-0.7	-0.4	0.0	0.1
External demand	Q-o-q contribution, % pt	-0.5	0.6	0.2	0.1	0.1	0.3	-0.2	-0.0	0.2	0.1	0.0	0.1	0.1	-0.0	-0.3
Exports	Q-o-q % ch	4.4	8.0	5.9	6.4	1.6	3.2	2.4	-0.4	1.7	1.4	1.5	1.5	1.6	1.7	1.7
Imports	Q-o-q % ch	6.7	3.7	4.1	5.2	1.1	1.4	2.9	-0.3	0.5	0.9	1.2	1.1	1.2	1.8	3.0
GDP (nominal)	Q-o-q % ch	1.8	1.6	2.4	2.1	-0.7	0.8	2.3	-0.2	0.1	0.9	0.7	0.0	0.3	1.2	0.9
GDP deflator	Y-o-y % ch	-0.3	2.5	0.6	0.1	2.1	2.4	3.4	1.2	0.9	0.7	-0.4	-0.4	-0.0	0.5	0.6
Domestic demand deflator	Y-o-y % ch	0.4	2.1	-0.1	0.7	2.3	2.1	1.4	-0.2	-0.2	-0.1	0.3	0.5	0.7	0.8	0.9

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 rise at a gradual pace

### [ 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	2.3	4.2	-1.4	0.8	1.5	-0.6	1.0	1.2	1.2	0.8	0.9	1.1	1.4
Ordinary profits	Y-o-y % ch	20.9	5.1	11.3	7.7	7.4	12.1	-1.0	12.9	12.0	7.0	13.7	6.3	7.2	7.5	9.8
Nominal compensation of employees	Y-o-y % ch	1.0	1.7	1.7	2.0	2.2	1.8	1.4	1.5	2.0	1.8	1.2	1.8	2.1	2.2	1.5
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	88.0	90.9	96.0	86.1	88.0	89.6	90.0	90.8	91.3	91.9	96.2	96.7	98.1	92.5
Current account balance	P.a., JPY tril	1.5	7.8	14.2	13.0	2.0	10.7	14.9	13.2	12.0	18.0	13.5	11.6	10.4	18.0	12.0
Domestic corporate goods prices	Y-o-y % ch	1.9	2.8	-0.8	1.2	4.0	2.4	0.4	-2.1	-1.3	-0.6	0.7	1.3	1.3	1.1	1.0
Consumer prices (ex fresh food)	Y-o-y % ch	0.8	2.8	0.1	1.3	3.2	2.7	2.1	0.0	-0.3	-0.0	0.6	0.9	1.3	1.5	1.5
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.8	0.8	0.0	1.3	1.2	0.7	0.1	-0.1	-0.3	-0.0	0.6	0.9	1.3	1.5	1.5
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.2	0.5	0.4	0.8	0.6	0.5	0.4	0.3	0.5	0.5	0.5	0.7	0.7	0.8	0.8
Uncollateralized overnight call rate	%	0.04	0.02	0~0.10	0~0.10	0.03	0.07	0.02	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	0.48	0.50	0.65	0.53	0.44	0.34	0.40	0.50	0.50	0.60	0.60	0.65	0.65	0.70
Nikkei average	JPY	14,424	16,272	20,800	21,800	15,562	16,705	18,175	20,100	20,500	21,100	21,400	21,600	21,800	21,900	22,000
Exchange rate	JPY/USD	100	110	125	129	104	115	119	122	125	127	128	128	129	129	131
Crude oil price (WTI nearest term contract)	USD/bbl	99	81	61	69	97	73	49	58	61	62	64	65	68	70	72

- 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.  
5. The core inflation rate refers to the y-o-y change of the CPI (general ex fresh food), and the underlying inflation rate refers to the y-o-y change of the CPI (general ex food (ex alcohol) and energy).

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: despite a slowdown at the beginning of the year, the global economy should gradually expand from Apr-Jun 2015

- Even though our outlook on global growth in 2015 was revised downward to reflect the fall of US growth into negative territory in the Jan-Mar quarter, our view remains unchanged that the global economy will recover from the Apr-Jun quarter.
  - In 2015, our outlook on the Japanese economy was revised upward in contrast to a downward revision with respect to the US, NIEs and India, resulting in a slight downward revision regarding the overall global economy.
  - As for 2016, even though our outlook on the NIEs and India was revised downward, our outlook on overall global growth remains unchanged that the pace of growth will gradually gather momentum.

#### [ Outlook on the global economy ]

Calendar year	(Y-o-y % change)				(Y-o-y % change)		(% point)	
	2013 (Actual)	2014 (Actual)	2015 (Forecast)	2016 (Forecast)	2015 (May forecast)	2016	2015 (breadth of revision from May)	2016
Total of forecast area	3.4	3.5	3.3	3.8	3.4	3.8	-0.1	—
Japan, US, Eurozone	1.1	1.5	1.8	2.2	1.9	2.2	-0.1	—
US	2.2	2.4	2.4	2.8	2.7	2.8	-0.3	—
Eurozone	-0.4	0.9	1.4	1.6	1.4	1.6	—	—
Japan	1.6	-0.1	1.1	2.0	0.9	2.0	0.2	—
Asia	6.4	6.4	6.3	6.2	6.3	6.3	—	-0.1
China	7.7	7.4	7.0	6.7	7.0	6.7	—	—
NIEs	2.9	3.3	2.9	3.0	3.0	3.1	-0.1	-0.1
ASEAN5	5.1	4.6	4.8	4.8	4.8	4.8	—	—
India	6.4	7.1	7.5	7.8	7.6	7.9	-0.1	-0.1
Australia	2.1	2.7	2.3	2.6	2.2	2.7	0.1	-0.1
Brazil	2.7	0.1	-1.2	0.8	-1.2	0.8	—	—
Russia	1.3	0.6	-4.0	0.5	-4.0	0.5	—	—
Japan (FY)	2.1	-0.9	1.8	2.0	1.8	2.0	—	—
Crude oil price (WTI, USD/bbl)	98	93	58	67	58	67	—	—

Note: The total of the forecast area is calculated upon the 2012 GDP share (PPP) by the IMF.

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

## (Reference) Key political events

	2015	2016
Global	Jun 167th Meeting of the Conference of the OPEC Jun G7 Summit Meeting Sep UN General Assembly Oct General meetings of World Bank Group and the IMF Nov G20 Summit Meeting Nov - Dec COP21	Apr Spring meetings of World Bank Group and the IMF Aug Brazil summer Olympic Games Sep UN General Assembly Oct General meetings of World Bank Group and the IMF Dec COP22
US		Nov US presidential election
Europe	Oct Portugal general elections Dec Spain general elections	by end of year Irish general elections
Japan	Sep LDP presidential election	around Jul Upper House election
Asia	Mar National People's Congress (NPC), China Autumn Fifth Plenary Session of the CPC Central Committee, China end of year launch of ASEAN Economic Community (AEC)	around Jan Taiwan presidential election 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 by end of year Thailand upper house and lower house elections

Source: Made by MHRI based upon media reports.

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