

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

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## FY2015, FY2016 Economic Outlook

- A slight upward revision on Japan's growth, given the upturn of Japan's real GDP growth into positive territory in the Jul-Sep quarter of 2015 -

December 8, 2015

Mizuho Research Institute

## The Japanese economy – our view remains unchanged that the pace of recovery will be moderate, given the persistence of uncertainties

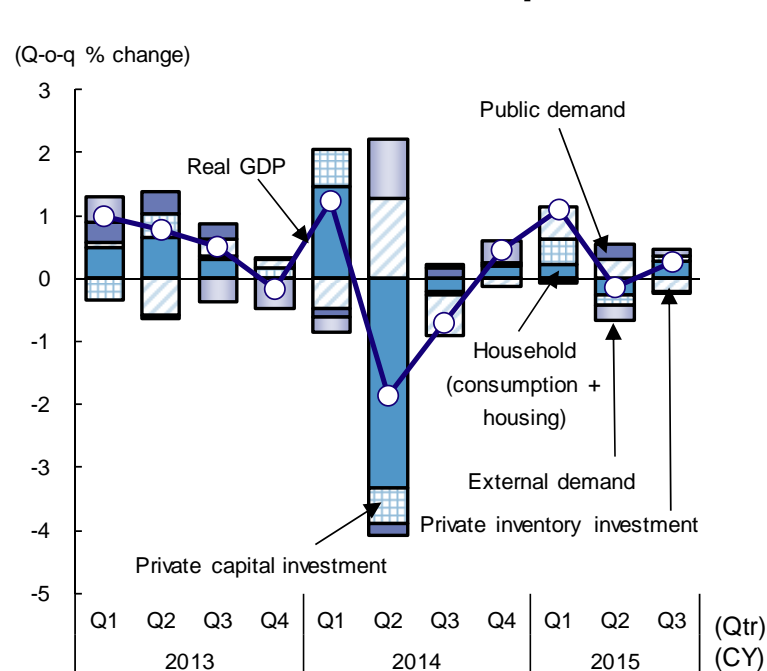
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- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2<sup>nd</sup> QE”) revealed an upward revision of Japan’s real GDP in the Jul-Sep quarter of 2015, mainly in capital investment and inventory investment. The solid growth of capital investment was a positive factor. On the other hand, since the upward revision of inventory investment indicates that inventory adjustment pressures were larger than initially presumed at the time of the *First Preliminary Quarter Estimates of GDP* (“1<sup>st</sup> QE”), this may not be deemed as a positive factor for the future course of the Japanese economy.
- ❑ Despite persisting uncertainties from the Oct-Dec quarter of 2015 onward, the economy should return to a gradual recovery path on the back of firm corporate earnings and labor market conditions. In the second half of FY2016, we expect to see a rush of demand prior to the consumption tax hike (in April 2017).
- ❑ In comparison to our *Economic Outlook* as of November 2015, our forecast on growth in FY2015 was revised upward mainly with respect to capital investment and inventory investment to reflect the 2<sup>nd</sup> QE for the Jul-Sep quarter. The Japanese economy is forecast to grow +1.0% (our forecast as of November was +0.8%) in FY2015 and +1.5% (forecast as of November +1.5%) in FY2016.
- ❑ Given the sharp fall of crude oil prices, the y-o-y rise of the core CPI should trend around zero toward the end of 2015. From then onward, energy prices should rise to positive territory along with the gradual rise of the underlying trend in inflation, lifting the inflation rate to around the lower half of the 1%-level in the latter half of the forecast horizon. Even so, inflation will likely fall short of the BOJ outlook that inflation will reach around 2% “around the second half of FY2016”.

# 1. The 2<sup>nd</sup> QE for the Jul-Sep quarter of 2015: upward revision mainly in capital investment and inventory investment

- The *Second Preliminary Quarterly Estimates of GDP (2<sup>nd</sup> QE)* for the Jul-Sep quarter of 2015 released by the Cabinet Office revealed that Japan's real GDP grew at a solid pace (+0.3% q-o-q or +1.0% p.a.) in contrast to the *First Preliminary Quarterly Estimates of GDP (1<sup>st</sup> QE)* (-0.2% q-o-q or -0.8% p.a.).
  - In contrast to the downward revision of public investment, capital investment and inventory investment were revised up sharply.
  - The solid growth of capital investment was a positive factor. On the other hand, since the upward revision of inventory investment indicates that inventory adjustment pressures were larger than initially presumed at the time of the 1<sup>st</sup> QE, this may not be deemed as a positive factor for the future course of the Japanese economy.

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



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

	(Q-o-q % change)					
	2014		2015			1st QE
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Jul-Sep
Gross domestic production	-0.7	0.5	1.1	-0.1	0.3	-0.2
(Q-o-q change, p.a.)	-2.8	1.8	4.4	-0.5	1.0	-0.8
(Y-o-y change)	-1.5	-1.0	-1.1	0.7	1.6	1.0
Domestic demand	-0.7	0.1	1.1	0.1	0.1	-0.3
	(-0.7)	(0.1)	(1.1)	(0.1)	(0.1)	(-0.3)
Private demand	-1.2	0.1	1.5	-0.1	0.2	-0.5
	(-0.9)	(0.1)	(1.1)	(-0.1)	(0.2)	(-0.3)
Personal consumption	0.0	0.4	0.3	-0.5	0.4	0.5
Housing investment	-6.9	-0.7	2.0	2.5	2.0	1.9
Capital investment	-0.4	0.2	2.7	-1.3	0.6	-1.3
Inventory investment	(-0.6)	(-0.1)	(0.5)	(0.3)	(-0.2)	(-0.5)
Public demand	0.6	0.1	-0.2	0.9	-0.1	0.2
	(0.2)	(0.0)	(-0.0)	(0.2)	(-0.0)	(0.0)
Government consumption	0.2	0.4	0.2	0.4	0.3	0.3
Public investment	1.6	-0.5	-2.0	3.3	-1.5	-0.3
Net exports of goods & services	(0.1)	(0.3)	(-0.0)	(-0.2)	(0.1)	(0.1)
Exports	1.6	2.9	1.9	-4.3	2.7	2.6
Imports	1.1	0.8	1.7	-2.6	1.7	1.7
Nominal GDP	-0.9	0.8	2.0	0.2	0.4	0.0
GDP deflator (y-o-y change)	2.0	2.3	3.3	1.5	1.8	2.0

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: despite persisting uncertainties, the economy should return to a gradual recovery path

- Japan's economic growth is taking a pause. Despite persisting uncertainties, the economy should return to a gradual recovery path on the back of firm corporate earnings and labor market conditions.
- The Japanese economy is forecast to grow +1.0% (our forecast as of November was +0.8%) in FY2015 and +1.5% (forecast as of November +1.5%) in FY2016.
  - We have revised upward our forecast on growth in FY2015, due mainly to the uptick of capital investment and inventory investment in the 2<sup>nd</sup> QE for the Jul-Sep quarter of 2015.

### [ 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	2.0	-1.0	1.0	1.5	-0.7	0.5	1.1	-0.1	0.3	0.0	0.1	0.4	0.5	0.5	0.8
	Q-o-q % ch p.a.	--	--	--	--	-2.8	1.8	4.4	-0.5	1.0	0.2	0.5	1.6	2.0	2.0	3.2
Domestic demand	Q-o-q % ch	2.4	-1.5	0.9	1.4	-0.7	0.1	1.1	0.1	0.1	-0.1	0.1	0.4	0.5	0.6	1.1
Private sector demand	Q-o-q % ch	2.2	-1.9	0.9	1.8	-1.2	0.1	1.5	-0.1	0.2	-0.0	0.3	0.4	0.6	0.7	1.3
Personal consumption	Q-o-q % ch	2.3	-2.9	0.4	1.8	0.0	0.4	0.3	-0.5	0.4	0.3	0.2	0.2	0.3	0.6	1.8
Housing investment	Q-o-q % ch	8.8	-11.7	2.0	3.8	-6.9	-0.7	2.0	2.5	2.0	-2.1	-1.2	0.9	5.1	0.5	1.3
Capital investment	Q-o-q % ch	3.0	0.1	1.8	3.0	-0.4	0.2	2.7	-1.3	0.6	0.8	1.0	0.6	0.7	0.7	0.9
Inventory investment	Q-o-q contribution, % pt	-0.3	0.6	0.2	-0.2	-0.6	-0.1	0.5	0.3	-0.2	-0.3	-0.1	0.1	-0.0	0.0	-0.3
Public sector demand	Q-o-q % ch	3.2	-0.3	0.6	0.4	0.6	0.1	-0.2	0.9	-0.1	-0.2	-0.3	0.2	0.3	0.3	0.3
Government consumption	Q-o-q % ch	1.6	0.1	1.2	1.0	0.2	0.4	0.2	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	10.3	-2.6	-1.1	-2.7	1.6	-0.5	-2.0	3.3	-1.5	-1.7	-2.5	-0.4	0.3	0.3	0.3
External demand	Q-o-q contribution, % pt	-0.5	0.6	0.1	-0.0	0.1	0.3	-0.0	-0.2	0.1	0.1	0.0	0.0	0.0	-0.1	-0.3
Exports	Q-o-q % ch	4.4	7.8	1.6	4.3	1.6	2.9	1.9	-4.3	2.7	1.2	0.9	0.9	1.0	0.9	0.6
Imports	Q-o-q % ch	6.7	3.3	1.0	4.1	1.1	0.8	1.7	-2.6	1.7	0.5	0.8	0.8	0.9	1.5	2.0
GDP (nominal)	Q-o-q % ch	1.7	1.5	2.5	2.1	-0.9	0.8	2.0	0.2	0.4	1.0	-0.6	1.0	0.7	0.9	0.0
GDP deflator	Y-o-y % ch	-0.3	2.5	1.5	0.6	2.0	2.3	3.3	1.5	1.8	2.2	0.6	0.8	0.9	0.4	0.3
Domestic demand deflator	Y-o-y % ch	0.4	2.1	0.2	0.9	2.3	2.1	1.4	0.0	0.0	0.3	0.5	0.7	0.8	1.0	1.0

Notes: Figures in the shaded areas are forecasts.

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

## Japan: core inflation will rise to the lower half of the 1%-level. The underlying trend in inflation should gradually rise

### [ 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	-1.0	2.8	-1.4	0.8	1.5	-1.4	-1.2	0.2	0.8	0.8	0.8	1.0	1.3
Ordinary profits	Y-o-y % ch	20.9	5.1	12.6	7.7	7.4	12.1	-1.0	21.0	8.5	7.0	14.0	8.1	8.0	7.0	7.9
Nominal compensation of employees	Y-o-y % ch	0.8	1.9	1.0	1.9	2.4	1.8	1.8	0.9	1.7	0.6	1.1	1.8	1.5	2.3	2.2
Unemployment rate	%	3.9	3.5	3.3	3.2	3.6	3.5	3.5	3.3	3.4	3.2	3.2	3.2	3.2	3.2	3.2
New housing starts	P.a., 10,000 units	98.7	88.0	91.7	94.3	86.1	88.0	89.6	95.3	91.5	89.1	90.6	94.7	95.0	96.1	91.1
Current account balance	P.a., JPY tril	1.5	7.9	17.1	16.3	2.0	10.7	15.5	16.9	14.8	21.6	14.6	20.3	16.3	18.4	9.9
Domestic corporate goods prices	Y-o-y % ch	1.9	2.8	-2.4	0.6	4.0	2.4	0.5	-2.2	-3.6	-2.5	-1.2	-0.2	0.3	1.1	1.2
Consumer prices (ex fresh food)	Y-o-y % ch	0.8	2.8	0.1	1.1	3.2	2.7	2.1	0.1	-0.1	0.0	0.5	0.6	1.0	1.3	1.3
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.8	0.8	0.1	1.1	1.2	0.7	0.1	0.0	-0.1	0.0	0.5	0.6	1.0	1.3	1.3
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.2	0.5	0.7	0.7	0.6	0.4	0.4	0.4	0.8	0.8	0.6	0.6	0.6	0.8	0.7
Uncollateralized overnight call rate	%	0.04	0.02	0~0.10	0~0.10	0.03	0.07	0.02	0.01	0.01	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	0.40	0.55	0.53	0.44	0.34	0.40	0.39	0.32	0.35	0.45	0.55	0.55	0.60
Nikkei average	JPY	14,424	16,273	19,800	21,500	15,562	16,705	18,175	20,049	19,412	19,300	20,500	21,100	21,400	21,700	21,800
Exchange rate	JPY/USD	100	110	123	127	104	115	119	121	122	123	126	126	126	127	127
Crude oil price (WTI nearest term contract)	USD/bbl	99	81	49	54	97	73	49	58	47	43	49	51	53	54	56

- 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.  
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 year-on-year change of consumer prices (ex fresh food). The underlying trend in inflation is judged on the basis of a broad range of indicators, of which the year-on-year change of consumer prices (ex food (ex alcohol) and energy) is a representative indicator.

Sources: Made by MHR 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 recovery toward 2016, the pace of recovery will be slow

- Even though the rate of growth in the forecast area should moderate in 2015 and pick up in 2016, global growth should register a slight improvement when excluding Brazil and Russia.
  - In 2015, we have made a slight downward revision on the overall global economy, due to a downward revision of Brazil reflecting the current economic slump.
  - As for 2016, in contrast to a downward revision of the Brazilian economy, our outlook on overall global growth remains unchanged from our previous outlook due to an upward revision on growth in Japan and the NIEs.

#### [ 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 (Forecast as of November)	2016	2015 (Breadth of revision from November)	2016
Total of forecast area	3.3	3.5	3.1	3.4	3.2	3.4	-0.1	—
Japan, US, Eurozone	0.8	1.5	1.8	1.9	1.8	1.9	—	—
US	1.5	2.4	2.4	2.5	2.4	2.5	—	—
Eurozone	-0.2	0.9	1.5	1.4	1.5	1.4	—	—
Japan	1.4	-0.0	0.6	1.0	0.6	0.9	—	0.1
Asia	6.4	6.3	6.2	6.1	6.2	6.1	—	—
China	7.7	7.3	7.0	6.7	7.0	6.7	—	—
NIEs	2.9	3.4	2.0	2.4	2.0	2.3	—	0.1
ASEAN5	5.1	4.6	4.6	4.4	4.6	4.4	—	—
India	6.4	7.1	7.4	7.7	7.4	7.7	—	—
Australia	2.0	2.6	2.3	2.6	2.2	2.5	0.1	0.1
Brazil	3.0	0.1	-3.7	-2.5	-3.0	-1.5	-0.7	-1.0
Russia	1.3	0.6	-4.1	-0.4	-4.1	-0.4	—	—
Japan (FY)	2.0	-1.0	1.0	1.5	0.8	1.5	0.2	—
Crude oil price (WTI, USD/bbl)	98	93	49	52	49	52	—	—

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		2017	
US			Nov	US presidential election		
Europe	Dec	Spain general elections	by end of year	Irish general elections	Mar	Netherlands general elections
					Apr*May	French general elections
					Jun	French legislative elections
					Sep	Germany general elections
Japan			Summer	Upper House election	Apr	Consumption tax hike
Asia	end of year	Launch of ASEAN Economic Community (AEC)	Jan	Taiwan presidential & legislative elections	by end of year	Hong Kong election of Legislative Council President
	end of year	Launch of Asian Infrastructure Investment Bank (AIIB)	around Feb	Selection of president (Myanmar)	around Dec	South Korean presidential election
			around Mar	NPC (13th 5-Year Plan scheduled)	Autumn	19th National Congress of the Communist Party of China
			Apr	South Korean national assembly election		
			May	Philippines presidential & congressional elections		
			around Sep	Australia upper house & lower house elections		
			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	Hong Kong Legislative Council election		
Others	Dec	Venezuela legislative elections	Aug	Brazil summer Olympic Games		
			Sep	Russia lower house election		

Source: Made by MHRI based upon media reports.

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