

Summary

FY2015, FY2016, FY2017 Economic Outlook

- Note the risk of the EM slowdown setting off a global contagion -

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Key points of our forecast

- ❑ The emerging market (EM) slowdown is spreading to developed market (DM) economies, triggering a sharp downward revision of the global economic outlook.
- ❑ The fall of crude oil prices and EM slowdown centering around China is setting off alarms regarding the global economy and financial sector. The financial market turmoil is leading to the contraction of corporate and household sentiment.
- ❑ Given the low level of crude oil prices and moderation of the Chinese economy, keep a close watch upon a further downturn.
- ❑ Note the risk of the third phase of the global balance sheet adjustment process (Phase 3: the EM debt crisis) spreading to a global recession (Phase 4).
- ❑ Amid rising concerns regarding the downside risks of the global economy, the Federal Reserve Board (FRB) is expected to put off its interest rate hike. By the same token, the Bank of Japan (BOJ) and European Central Bank (ECB) is expected to take further monetary easing steps. There is also the possibility of the G-20 taking coordinated policy measures comprised mainly of fiscal expansion.
- ❑ Even though the Japanese economy should gradually pick up, it will remain vulnerable to downside risks. Given the rise of concerns regarding Japan's downside risks stemming from the slowdown of overseas economies, Japan may opt to forgo its next consumption tax hike.
- ❑ As Japan's inflation rate dips below zero again, the key to success of the BOJ's further monetary easing is its coordination with the government.

Overview – note the risk of the EM slowdown spilling over to the DM economies, leading to a global recession

- ❑ We expect the global economy (the weighted average of countries and regions included in MHRI's forecast) to slow down in 2016 (+3.1%) for two years in a row (2014: +3.5%, 2015: +3.2%). In 2017, overall global economic conditions should recover along with the recovery of DM economies and a halt to the deterioration of commodity-producing countries.
- ❑ The US economy is moderating, dragged down by the appreciation of the dollar and EM slowdown. A further interest rate hike is unlikely during 2016 in view of the slowdown of the economy and labor market conditions. In the eurozone, the ECB will implement further monetary easing measures, given the weakness of economic conditions and low inflation. Since Japan is also vulnerable to downside risks, the BOJ will take further monetary easing measures.
- ❑ The EM economies should continue to slow down for the time being. In China, the state of actual economic conditions which are felt are weaker than the data on real GDP growth. The economic recovery among other EM economies will likely remain tepid, with Russia and Brazil projected to record growth in negative territory for the second year in a row.
- ❑ As the EM slowdown spills over to the DM economies, the possibility of a global recession scenario is gradually increasing. Keep a close eye upon the risk of a further EM slowdown and crude oil price fall leading to the escalation of financial market turmoil and credit risks.
- ❑ Note the risks of sporadic economic events spreading to the financial sector through the credit market and setting off a global contagion.

The global economy is slowing down, with a recovery only expected from 2017

[Outlook on the global economy]

Calendar year	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2013 (Actual)	2014 (Actual)	2015 (Forecast)	2016 (Forecast)	2017 (Forecast)	2015 (Forecast as of December)	2016	2015 (Breadth of revision from December)	2016
Total of forecast area	3.3	3.5	3.2	3.1	3.6	3.3	3.6	-0.1	-0.5
Japan, US, Eurozone	0.8	1.5	1.8	1.4	1.7	1.8	1.9	—	-0.5
US	1.5	2.4	2.4	1.8	2.3	2.4	2.5	—	-0.7
Eurozone	-0.3	0.9	1.5	1.2	1.4	1.5	1.4	—	-0.2
Japan	1.4	-0.0	0.4	0.5	0.6	0.6	1.0	-0.2	-0.5
Asia	6.4	6.3	6.1	6.0	6.0	6.2	6.1	-0.1	-0.1
China	7.7	7.3	6.9	6.6	6.5	7.0	6.7	-0.1	-0.1
NIEs	2.9	3.4	2.0	1.9	2.1	2.0	2.4	—	-0.5
ASEAN5	5.1	4.6	4.7	4.4	4.5	4.6	4.4	0.1	—
India	6.3	7.0	7.3	7.6	7.5	7.4	7.7	-0.1	-0.1
Australia	2.0	2.6	2.3	2.5	2.5	2.3	2.6	—	-0.1
Brazil	3.0	0.1	-3.8	-3.5	0.0	-3.7	-2.5	-0.1	-1.0
Russia	1.3	0.7	-3.7	-3.3	0.5	-4.1	-0.4	0.4	-2.9
Japan (FY)	2.0	-1.0	0.7	0.9	0.3	1.0	1.5	-0.3	-0.6
Crude oil price (WTI, USD/bbl)	98	93	49	29	30	49	52	—	-23

Note: The total of the forecast area is calculated upon the 2013 GDP share (PPP) by the IMF.

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

The Japanese economy averted a loss of momentum but still lacks strength

- ❑ The Japanese economy is still stalling, as revealed by its contraction for the first time in two quarters in the Oct-Dec quarter of 2015. The economy will likely remain in a soft patch in the Jan-Mar quarter of 2016, due to factors such as the fall of IT-related demand. FY2015 growth forecast: +0.7% [growth during FY2015 would be virtually zero (-0.1%) when excluding the impact of the strong growth in the second half of FY2014].
- ❑ Even though the Japanese economy will gradually pick up in FY2016, the overseas economic slowdown and financial market turmoil are expected to weigh down upon growth. In the second half of the fiscal year, a last-minute rush of demand prior to the consumption tax hike (in April 2017) will emerge and push up the rate of growth to +0.9% in FY2016.
- ❑ In FY2017, the pace of economic growth is forecast to slow down to +0.3% due to a backlash to the last-minute rush of demand. The Japanese economy should be able to avoid a loss of momentum as the backlash wears off in the second half of the fiscal year. Note that Japan may postpone its next consumption tax hike depending upon the future course of the economy and financial market. [In the event the scheduled consumption tax hike is postponed to April 2018, our forecast on growth would be changed as follows: FY2016 (around +0.7%), FY2017 (around +1.3%).]
- ❑ Given the fall of crude oil prices, the year-on-year (y-o-y) change of the core CPI should trend below zero until around the end of 2016. From then onward, the y-o-y change of energy prices should rise to positive territory, lifting the core inflation rate to nearly 1% (excluding the impact of the consumption tax hike) in FY2017. The underlying trend in inflation excluding the impact of energy prices should gradually improve.

**Japan: FY2016 growth is revised downward, reflecting the deterioration of the external environment
FY2017 growth should turn out to be weak, given the impact of the consumption tax hike**

[Outlook on the Japanese economy]

		2014	2015	2016	2017	2015			2016				2017				2018
		FY				Apr-Jun	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	-1.0	0.7	0.9	0.3	-0.3	0.3	-0.4	0.2	0.3	0.3	0.3	0.6	-0.6	-0.2	0.4	0.4
	Q-o-q % ch p.a.	--	--	--	--	-1.4	1.3	-1.4	1.0	1.4	1.0	1.2	2.6	-2.5	-0.7	1.5	1.7
Domestic demand	Q-o-q % ch	-1.5	0.6	1.1	0.1	-0.0	0.1	-0.5	0.3	0.4	0.3	0.5	0.9	-0.9	-0.2	0.3	0.4
Private sector demand	Q-o-q % ch	-1.9	0.5	1.1	-0.3	-0.3	0.2	-0.6	0.3	0.3	0.3	0.6	1.1	-1.6	-0.3	0.5	0.4
Personal consumption	Q-o-q % ch	-2.9	-0.4	1.2	-0.6	-0.8	0.4	-0.8	0.6	0.2	0.3	0.5	1.6	-2.5	0.1	0.4	0.3
Housing investment	Q-o-q % ch	-11.7	1.4	-1.1	-2.3	2.3	1.6	-1.2	-4.1	-0.9	1.6	2.2	3.6	-4.3	-3.5	0.8	1.2
Capital investment	Q-o-q % ch	0.1	2.1	2.4	0.7	-1.2	0.7	1.4	0.7	0.4	0.5	0.4	0.2	-0.5	0.4	0.5	0.5
Inventory investment	Q-o-q contribution, % pt	0.6	0.3	-0.2	0.1	0.3	-0.2	-0.1	-0.1	0.1	-0.0	0.0	-0.3	0.5	-0.3	0.0	0.0
Public sector demand	Q-o-q % ch	-0.3	0.8	1.1	1.4	0.9	-0.2	-0.1	0.3	0.6	0.2	0.1	0.3	1.0	0.1	-0.1	0.3
Government consumption	Q-o-q % ch	0.1	1.3	1.2	1.1	0.5	0.2	0.5	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Public investment	Q-o-q % ch	-2.6	-1.3	0.4	2.7	3.3	-2.0	-2.7	0.4	2.3	-0.4	-0.7	0.5	4.3	-0.9	-1.4	0.2
External demand	Q-o-q contribution, % pt	0.6	0.1	-0.2	0.1	-0.3	0.2	0.1	-0.1	-0.0	-0.1	-0.2	-0.3	0.3	0.1	0.1	0.0
Exports	Q-o-q % ch	7.8	0.3	1.7	2.6	-4.6	2.6	-0.9	0.4	0.5	0.5	0.4	0.2	0.7	0.9	0.9	0.9
Imports	Q-o-q % ch	3.3	-0.2	2.5	2.1	-2.6	1.3	-1.4	0.7	0.7	0.7	1.4	1.9	-1.1	0.6	0.7	0.7
GDP (nominal)	Q-o-q % ch	1.5	2.2	2.7	1.2	-0.0	0.6	-0.3	0.9	1.1	0.7	0.5	0.4	0.3	0.1	0.2	0.0
GDP deflator	Y-o-y % ch	2.5	1.5	1.8	1.0	1.5	1.8	1.5	1.3	1.8	2.0	2.0	1.2	1.3	1.2	0.8	0.6
Domestic demand deflator	Y-o-y % ch	2.1	0.0	-0.2	1.3	0.0	0.0	-0.2	-0.0	-0.3	-0.5	-0.2	0.1	1.0	1.3	1.4	1.4

Notes: Figures in the shaded areas are forecasts.

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

Japan: the y-o-y change of core CPI will remain in negative territory until the end of 2016 due to low crude oil price levels

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

		2014	2015	2016	2017	2015			2016				2017				2018
		FY				Apr-Jun	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	-0.4	-0.7	2.3	0.9	-1.4	-1.2	0.6	0.5	0.6	0.6	0.9	1.5	-1.4	-0.1	0.6	1.2
Ordinary profits	Y-o-y % ch	5.1	10.3	4.9	8.5	21.0	8.5	5.0	7.4	4.1	4.3	4.0	7.2	4.9	9.0	9.9	10.3
Nominal compensation of employees	Y-o-y % ch	1.9	1.4	1.8	1.7	0.9	1.7	1.8	1.3	1.9	1.7	1.8	1.9	1.8	1.6	1.8	1.8
Unemployment rate	%	3.5	3.3	3.2	3.1	3.3	3.4	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1
New housing starts	P.a., 10,000 units	88.0	90.1	90.6	85.6	95.6	91.7	86.8	85.6	89.0	90.1	92.7	90.3	87.2	85.3	84.6	85.1
Current account balance	P.a., JPY tril	7.9	17.6	24.8	25.1	16.9	14.6	18.2	19.0	27.5	24.1	25.1	20.7	28.5	24.7	24.8	20.6
Domestic corporate goods prices	Y-o-y % ch	2.8	-3.2	-3.1	3.1	-2.2	-3.6	-3.6	-3.3	-3.7	-3.9	-3.3	-1.6	1.4	3.0	3.9	4.1
Consumer prices (ex fresh food)	Y-o-y % ch	2.8	0.0	-0.2	1.8	0.1	-0.1	0.0	0.0	-0.5	-0.4	-0.1	0.3	1.6	1.8	1.8	1.9
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.8	0.0	-0.2	0.7	0.0	-0.1	0.0	0.0	-0.5	-0.4	-0.1	0.3	0.6	0.7	0.8	0.8
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.6	0.7	0.2	0.6	0.4	0.8	0.8	0.7	0.3	0.2	0.2	0.2	0.5	0.5	0.7	0.7
Uncollateralized overnight call rate	%	0.02	0.00	-0.10	-0.10	0.01	0.01	0.04	0.00	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Yield on newly-issued 10-yr JGBs	%	0.48	0.30	0.10	0.25	0.40	0.39	0.31	0.07	0.00	0.00	0.10	0.20	0.20	0.25	0.25	0.30
Nikkei average	JPY	16,273	18,700	16,500	17,600	20,049	19,412	19,053	16,400	16,300	16,300	16,500	16,700	17,000	17,300	17,800	18,300
Exchange rate	JPY/USD	110	120	110	116	121	122	121	115	113	108	109	111	113	115	118	120
Crude oil price (WTI nearest term contract)	USD/bbl	81	44	29	31	58	47	42	31	30	29	28	28	29	30	32	33

- 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.
- 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, *Labour 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.

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