

REVISED
to reflect the
2nd QE for the
Oct-Dec Qtr
of 2015

FY2015, FY2016, FY2017 Economic Outlook

- The Japanese economy is forecast to remain in a soft patch in the Jan-Mar quarter of 2016 -

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Mizuho Research Institute

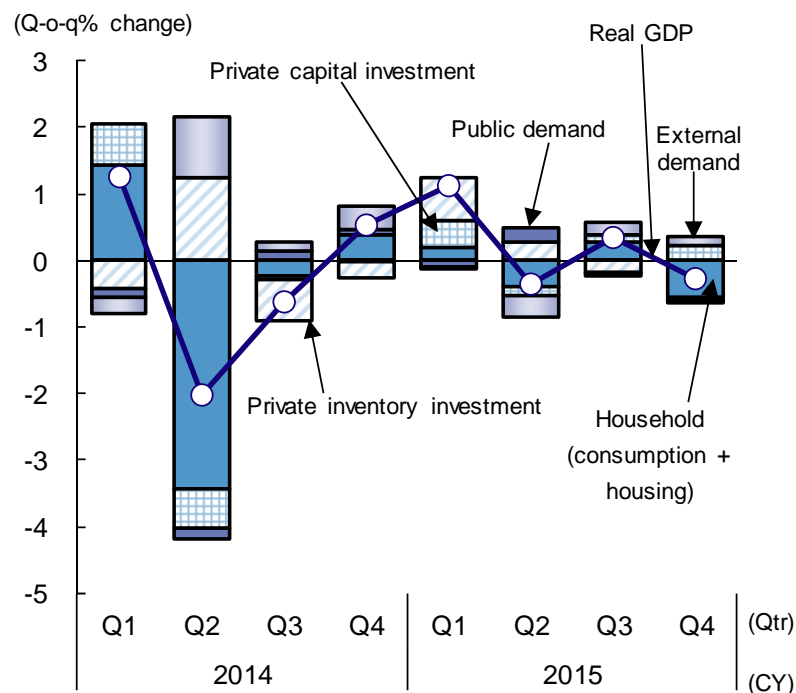
The Japanese economy will avoid entering a recession, but still lacks strength. The risks of another delay of the next tax hike may not be overlooked

- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”) revealed a slight upward revision of Japan’s real GDP in the Oct-Dec quarter of 2015 from the *First Preliminary Quarterly Estimates of GDP* (“1st QE”). Even so, the 2nd QE turned out to confirm that the economy remained in a soft patch, contracting for the first time in two quarters. Given factors such as the fall in IT-related demand, the economy is forecast to remain in a soft patch in the Jan-Mar quarter of 2016. FY2015 growth forecast: +0.7% (growth during FY2015 would be -0.2% 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) should 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. As the backlash wears off in the second half of the fiscal year, the Japanese economy will most likely avoid a recession. Note that Japan may delay the 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.

1. The 2nd QE for the Oct-Dec quarter of 2015: despite an upward revision, economic growth still remained in negative territory

- ❑ The 2nd QE for the Oct-Dec quarter of 2015 revealed a slight upward revision of Japan's real GDP to -0.3% q-o-q (-1.1% p.a.) from the 1st QE (-1.4% p.a.).
 - In contrast to the downward revision of public investment, capital investment and inventory investment were revised upward.
 - ✓ Once again, the 2nd QE underscored the firmness of capital investment. Even so, our view remains unchanged that the Japanese economy remained in a soft patch due to factors such as the weakness of personal consumption stemming from the impact of the unseasonable warm winter weather among other causes.

[GDP in the Oct-Dec quarter of 2015 (2nd QE)]



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

	(Q-o-q % change)					
	2014 Oct-Dec	2015 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1st QE Oct-Dec
Gross domestic production	0.5	1.1	-0.4	0.3	-0.3	-0.4
(Q-o-q change, p.a.)	2.2	4.6	-1.4	1.4	-1.1	-1.4
(Y-o-y change)	-1.0	-1.0	0.7	1.7	0.7	0.5
Domestic demand	0.2	1.1	-0.1	0.1	-0.4	-0.5
(0.2)	(1.1)	(-0.1)	(0.1)	(-0.4)	(-0.5)	
Private demand	0.2	1.6	-0.4	0.2	-0.5	-0.6
(0.1)	(1.2)	(-0.3)	(0.2)	(-0.4)	(-0.5)	
Personal consumption	0.7	0.2	-0.8	0.4	-0.9	-0.8
Housing investment	-0.4	2.1	2.3	1.6	-1.2	-1.2
Capital investment	-0.1	2.9	-1.1	0.7	1.5	1.4
Inventory investment	(-0.3)	(0.6)	(0.3)	(-0.2)	(-0.0)	(-0.1)
Public demand	0.3	-0.4	0.9	-0.2	-0.1	-0.1
(0.1)	(-0.1)	(0.2)	(-0.1)	(-0.0)	(-0.0)	
Government consumption	0.3	0.2	0.5	0.2	0.6	0.5
Public investment	1.0	-3.0	3.2	-2.1	-3.4	-2.7
Net exports of goods & services	(0.3)	(-0.0)	(-0.3)	(0.2)	(0.1)	(0.1)
Exports	3.2	2.1	-4.6	2.6	-0.8	-0.9
Imports	1.1	1.9	-2.5	1.3	-1.4	-1.4
Nominal GDP	0.9	2.0	-0.1	0.6	-0.2	-0.3
GDP deflator (y-o-y change)	2.3	3.3	1.5	1.8	1.5	1.5

Note: The figures in parentheses indicate the contributions to gross domestic production.
Source: Made by MHRI based upon Cabinet Office, *National Accounts of Japan*.

2. Outlook on the Japanese economy: despite persisting uncertainties, the economy should return to a gradual recovery path

- ❑ In the Jan-Mar quarter of 2016, the Japanese economy is forecast to remain in a soft patch due to factors such as the fall of IT-related demand.
 - The rate of growth is forecast to remain virtually flat at +0.0% q-o-q in the Jan-Mar quarter of 2016. The possibility of another postponement of the consumption tax hike may not be overlooked.
- ❑ Although the Japanese economy should gradually return to a recovery track in FY2016, we still have concerns about strong ongoing uncertainty due to factors such as the slowdown of overseas economies.
 - The growth rate should rise to +0.9%, since a pre-consumption tax hike rush of demand will emerge in the second half of the fiscal year.
- ❑ In FY2017, we forecast a fall of the growth rate to +0.3% due in part to a backlash to the rush in demand ahead of the consumption tax hike. The economy should pick up in the second half of the year and avoid a recession.

[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	-0.4	0.3	-0.3	0.0	0.4	0.3	0.3	0.6	-0.6	-0.2	0.4	0.4
	Q-o-q % ch p.a.	--	--	--	--	-1.4	1.4	-1.1	0.2	1.5	1.2	1.0	2.5	-2.4	-0.7	1.4	1.4
Domestic demand	Q-o-q % ch	-1.5	0.6	1.1	0.1	-0.1	0.1	-0.4	0.1	0.4	0.3	0.4	0.9	-0.9	-0.2	0.3	0.3
Private sector demand	Q-o-q % ch	-1.9	0.5	1.0	-0.3	-0.4	0.2	-0.5	0.0	0.3	0.4	0.6	1.1	-1.5	-0.3	0.4	0.3
Personal consumption	Q-o-q % ch	-2.9	-0.4	1.2	-0.6	-0.8	0.4	-0.9	0.5	0.2	0.3	0.5	1.6	-2.5	0.1	0.4	0.3
Housing investment	Q-o-q % ch	-11.7	1.5	-0.9	-3.1	2.3	1.6	-1.2	-4.2	-0.9	2.5	1.2	3.6	-3.8	-3.1	-1.1	-0.5
Capital investment	Q-o-q % ch	0.1	2.2	2.4	0.7	-1.1	0.7	1.5	0.6	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	0.0	-0.2	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	0.7	1.2	1.5	0.9	-0.2	-0.1	0.5	0.6	0.3	0.0	0.3	1.0	0.1	0.0	0.2
Government consumption	Q-o-q % ch	0.1	1.4	1.3	1.2	0.5	0.2	0.6	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-2.6	-1.5	0.4	2.7	3.2	-2.1	-3.4	1.5	1.9	-0.1	-1.3	0.3	4.6	-0.9	-1.2	-0.1
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	0.2	1.3	2.7	-4.6	2.6	-0.8	-0.2	0.5	0.5	0.4	0.2	0.7	0.9	0.9	0.9
Imports	Q-o-q % ch	3.3	-0.3	2.2	2.1	-2.5	1.3	-1.4	0.3	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	2.5	1.3	-0.1	0.6	-0.2	0.7	1.1	0.7	0.4	0.4	0.3	0.2	0.2	-0.1
GDP deflator	Y-o-y % ch	2.5	1.5	1.6	1.0	1.5	1.8	1.5	1.2	1.7	1.8	1.9	1.1	1.3	1.2	0.9	0.7
Domestic demand deflator	Y-o-y % ch	2.1	-0.1	-0.4	1.4	0.0	0.0	-0.2	-0.1	-0.5	-0.7	-0.3	0.0	1.0	1.4	1.5	1.5

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 the core CPI is forecast to remain negative until the end of 2016, due to the fall of crude oil prices

[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	-1.2	1.5	1.1	-1.4	-1.2	0.5	-1.2	0.8	1.0	1.1	1.7	-1.4	-0.1	0.6	1.2
Ordinary profits	Y-o-y % ch	5.1	7.3	3.7	7.2	21.0	8.5	-3.1	4.6	2.4	2.7	3.3	6.1	4.6	7.3	8.2	8.9
Nominal compensation of employees	Y-o-y % ch	1.9	1.4	1.6	1.7	0.9	1.7	1.8	1.4	1.7	1.4	1.5	1.8	1.8	1.6	1.6	1.6
Unemployment rate	%	3.5	3.3	3.2	3.1	3.4	3.4	3.3	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	24.6	24.9	15.5	16.2	19.6	19.0	27.4	24.1	24.9	20.6	28.3	24.5	24.6	20.5
Domestic corporate goods prices	Y-o-y % ch	2.8	-3.1	-3.2	3.1	-2.2	-3.6	-3.6	-3.2	-3.7	-3.9	-3.3	-1.6	1.3	2.9	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	1.9	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	0.06	0.00	0.00	0.10	0.20	0.20	0.25	0.25	0.30
Nikkei average	JPY	16,273	18,800	16,700	17,600	20,049	19,412	19,053	16,700	16,900	16,500	16,500	16,700	17,000	17,300	17,800	18,300
Exchange rate	JPY/USD	110	120	111	116	121	122	121	116	114	109	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, *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: growth to slow down, with a recovery expected only sometime from 2017

- The rate of growth in the forecast area should continue to slow down in 2016 subsequent to 2015, with a recovery expected only sometime from 2017.
 - 2016: our outlook on the global economy remains unchanged with a slight downward revision about the Japanese and Brazilian economies and a modest upward revision on the NIEs and ASEAN5 economies.
 - 2017: despite the weak EM recovery, the global economy as a whole should pick up on the back of a DM recovery and alleviation of the deterioration among commodity-producing countries.

[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)	2016 (Forecast as of February)	2017	2015 (Breadth of change from February)	2016
Total of forecast area	3.3	3.5	3.2	3.1	3.6	3.1	3.6	—	—
Japan, US, Eurozone	0.8	1.5	1.8	1.4	1.7	1.4	1.7	—	—
US	1.5	2.4	2.4	1.8	2.3	1.8	2.3	—	—
Eurozone	-0.3	0.9	1.5	1.2	1.4	1.2	1.4	—	—
Japan	1.4	-0.0	0.5	0.4	0.6	0.5	0.6	-0.1	—
Asia	6.4	6.3	6.1	6.0	6.0	6.0	6.0	—	—
China	7.7	7.3	6.9	6.6	6.5	6.6	6.5	—	—
NIEs	2.9	3.4	2.0	2.0	2.2	1.9	2.1	0.1	0.1
ASEAN5	5.0	4.6	4.7	4.5	4.5	4.4	4.5	0.1	—
India	6.3	7.0	7.3	7.6	7.5	7.6	7.5	—	—
Australia	2.0	2.6	2.5	2.6	2.5	2.5	2.5	0.1	—
Brazil	3.0	0.1	-3.8	-3.6	0.0	-3.5	0.0	-0.1	—
Russia	1.3	0.7	-3.7	-3.3	0.5	-3.3	0.5	—	—
Japan (FY)	2.0	-1.0	0.7	0.9	0.3	0.9	0.3	—	—
Crude oil price (WTI, USD/bbl)	98	93	49	29	30	29	30	—	—

Note: The total of the forecast area is calculated upon the 2013 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

	2016	2017	2018
US	Nov Presidential election		Feb Fed Chair Yellen's term of office ends Nov Mid-term presidential elections
Europe	Feb General election (Ireland)	Mar General election (The Netherlands) Apr-May Presidential election (France) Jun Legislative election (France) Sep General election (Germany)	H1 General election (Italy)
Japan	Summer Upper House election	Apr Consumption tax hike	Apr BOJ Governor Kuroda's term of office ends Sep LDP general election Dec * Lower House members' term of office end
Asia	Jan Presidential & legislative election (Taiwan) Mar Selection of president (Myanmar) Mar * NPC (13th 5-Year Plan scheduled) (China) Apr National assembly election (South Korea) May Presidential & congressional election (The Philippines) Sep * Upper house & lower house elections (Australia) Autumn 6th Plenary Session of the CPC Central Committee (China) This year Communist Party Congress (Vietnam) This year Upper house election (India) This year Legislative Council election (Hong Kong)	This year Election of Legislative Council President (Hong Kong) Dec * Presidential election (South Korea) Autumn 19th National Congress of the Communist Party of China (China)	May Legislative election (Malaysia) Autumn 3rd Plenary Session of the CPC Central Committee (China) This year Upper house election (India) This year Legislative election (Cambodia)
Others	May G7 Summit Meeting (Japan) Aug Brazil summer Olympic Games Sep G20 Summit Meeting (China) Sep Lower House election (Russia)		Mar Presidential election (Russia) Oct Presidential election (Brazil) * = Approximate date

Source: Made by MHRI based upon media reports.

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