

Summary

FY2016, FY2017 Economic Outlook

- Amid persisting concerns of a global economic downturn, fiscal stimulus will underpin the economy -

May 20, 2016

Mizuho Research Institute

Key points of our forecast

- ❑ As the emerging market (EM) slowdown spreads to developed market (DM) economies, we maintain a cautious outlook on the global economy.
- ❑ The Japanese economy will remain subject to strong uncertainties due to the slowdown of the global economy and the impacts of the earthquake and the strong yen. Even though a consumption tax hike is desirable from the point of fiscal rehabilitation, the hike may be postponed again amid strong concerns regarding an economic downturn.
- ❑ Even though the financial market turmoil since the beginning of the year has subsided, market destabilization risks linger since the fundamental picture remains unchanged that the EM slowdown centering around China may trigger uncertainties regarding the global economy and financial sector.
- ❑ The dollar will likely be subject to weakening pressures for some time reflecting US monetary authorities' unease with a strong dollar. The strong dollar may remain under scrutiny for a prolonged period, depending upon a downturn of the US economy and the future course of the US presidential election.
- ❑ We have revised down our forecasts on the pace and target of interest rate hikes from 2017 onward as the Federal Reserve Board (FRB) is expected to take a more cautious stance toward interest rate hikes amid rising concerns regarding risks of a secular stagnation of the US economy.
- ❑ Despite the continuance of a bias toward easing around the world, the rise of concerns regarding a currency war and the limits of monetary policy are leading to a slight shift toward fiscal stimulus to prop up the economy.

Even though the global economy is forecast to follow a DM-led recovery, note that downside risks linger

[Outlook on the global economy]

	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2013 (Actual)	2014 (Actual)	2015 (Actual)	2016 (Forecast)	2017 (Forecast)	2016 (Forecast as of March)	2017	2015 (Breadth of change from March)	2016
Total of forecast area	3.3	3.5	3.2	3.2	3.7	3.1	3.6	0.1	0.1
Japan, US, Eurozone	0.8	1.5	1.9	1.4	1.7	1.4	1.7	—	—
US	1.5	2.4	2.4	1.6	2.3	1.8	2.3	-0.2	—
Eurozone	-0.3	0.9	1.6	1.4	1.4	1.2	1.4	0.2	—
Japan	1.4	-0.0	0.6	0.5	0.6	0.4	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	1.8	2.2	2.0	2.2	-0.2	—
ASEAN5	5.0	4.6	4.7	4.6	4.5	4.5	4.5	0.1	—
India	6.3	7.0	7.3	7.5	7.5	7.6	7.5	-0.1	—
Australia	2.0	2.6	2.5	2.6	2.5	2.6	2.5	—	—
Brazil	3.0	0.1	-3.8	-3.5	0.6	-3.6	0.0	0.1	0.6
Russia	1.3	0.7	-3.7	-1.2	1.0	-3.3	0.5	2.1	0.5
Japan (FY)	2.0	-0.9	0.8	0.9	0.2	0.9	0.3	—	-0.1
Crude oil price (WTI, USD/bbl)	98	93	49	44	46	29	30	15	16

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

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

Even though the Japanese economy lacks strength due to the slow recovery of overseas economies, it avoided a fall into recession

- ❑ Although the Japanese economy edged up into positive territory in the Jan-Mar quarter of 2016, the pace of growth is flat when averaged out with the decline in the Oct-Dec quarter of 2015. Accordingly, the current state of the economy would still be described as a soft patch. FY2015 growth forecast: +0.8% [growth during FY2015 would be virtually zero (-0.0%) when excluding the effect of the strong growth in the second half of FY2014].
- ❑ Japan's economic growth will likely lack strength in FY2016, as 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%, above the potential rate of growth (estimated to be +0.2% to +0.3%) in FY2016.
- ❑ In FY2017, the pace of economic growth is forecast to slow down to +0.2% 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 discussions at the Ise-Shima G7 Summit. (If we exclude the effect of the consumption tax hike, our forecast on growth would be approximately +0.6% in FY2016 and around +1.0% in FY2017.)
- ❑ Given the fall of crude oil prices, the year-on-year (y-o-y) change of the core CPI should trend close to 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) toward the latter half of the forecast horizon. The underlying trend in inflation excluding the impact of energy prices should gradually improve.

Japan: the Japanese economy should remain subject to strong uncertainties due to the slowdown of overseas economies, the earthquake and the strong yen

[Outlook on the Japanese economy]

		2014	2015	2016	2017	2015		2016				2017				2018
		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	-0.9	0.8	0.9	0.2	0.4	-0.4	0.4	0.0	0.5	0.4	0.5	-0.6	-0.3	0.4	0.4
	Q-o-q % ch p.a.	--	--	--	--	1.6	-1.7	1.7	0.1	1.9	1.5	2.0	-2.5	-1.0	1.4	1.6
Domestic demand	Q-o-q % ch	-1.5	0.7	1.0	0.0	0.3	-0.5	0.2	0.1	0.5	0.6	0.8	-0.9	-0.3	0.3	0.4
Private sector demand	Q-o-q % ch	-1.9	0.7	0.7	-0.3	0.5	-0.7	0.1	0.0	0.4	0.6	0.9	-1.4	-0.4	0.4	0.3
Personal consumption	Q-o-q % ch	-2.9	-0.3	1.2	-0.6	0.5	-0.8	0.5	0.1	0.4	0.5	1.6	-2.5	0.1	0.4	0.3
Housing investment	Q-o-q % ch	-11.7	2.4	3.2	-6.6	1.7	-1.0	-0.8	2.2	1.9	0.7	-0.6	-3.5	-3.2	-2.0	-0.8
Capital investment	Q-o-q % ch	0.1	1.6	1.0	0.6	0.7	1.2	-1.4	0.1	0.5	0.9	0.9	-0.8	0.0	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	0.6	0.4	-0.4	0.2	-0.1	-0.1	-0.0	-0.1	-0.1	0.0	-0.4	0.7	-0.3	0.0	0.0
Public sector demand	Q-o-q % ch	-0.3	0.8	1.8	1.1	-0.3	-0.1	0.6	0.4	0.8	0.4	0.4	0.4	-0.0	0.2	0.4
Government consumption	Q-o-q % ch	0.1	1.6	1.5	1.4	0.2	0.7	0.7	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Public investment	Q-o-q % ch	-2.6	-2.2	3.0	0.2	-2.2	-3.5	0.3	1.7	2.9	0.5	1.0	0.6	-1.7	-1.0	0.4
External demand	Q-o-q contribution, % pt	0.6	0.1	-0.1	0.1	0.1	0.1	0.2	-0.1	-0.0	-0.2	-0.3	0.3	0.1	0.0	0.0
Exports	Q-o-q % ch	7.9	0.4	1.0	2.7	2.6	-0.8	0.6	-0.4	0.5	0.4	0.3	0.7	0.9	0.9	0.9
Imports	Q-o-q % ch	3.4	-0.1	1.5	2.1	1.7	-1.1	-0.5	0.3	0.7	1.4	1.9	-1.1	0.6	0.7	0.7
GDP (nominal)	Q-o-q % ch	1.5	2.2	1.3	1.8	0.7	-0.2	0.5	-0.5	1.2	0.4	0.7	-0.6	1.2	0.8	0.1
GDP deflator	Y-o-y % ch	2.4	1.4	0.4	1.7	1.8	1.5	0.9	0.2	0.6	0.4	0.5	1.0	1.7	2.2	1.7
Domestic demand deflator	Y-o-y % ch	2.1	-0.2	-0.2	1.8	-0.1	-0.2	-0.5	-0.6	-0.6	-0.1	0.7	1.6	1.8	2.0	1.8

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 trend around zero in the second half of 2016

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

		2014	2015	2016	2017	2015		2016				2017				2018
		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	-0.5	-1.0	1.1	1.4	-1.0	0.1	-1.0	-0.3	1.6	1.4	1.7	-1.4	-0.1	0.6	1.1
Ordinary profits	Y-o-y % ch	5.1	5.0	-4.0	3.1	8.5	-3.1	-3.9	-6.5	-3.6	-4.4	-0.9	-5.6	1.5	5.9	11.3
Nominal compensation of employees	Y-o-y % ch	1.9	1.7	1.9	1.9	1.7	1.9	2.5	1.9	1.8	1.9	1.7	1.7	1.8	2.0	1.9
Unemployment rate	%	3.5	3.3	3.2	3.1	3.4	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.0	3.0
New housing starts	P.a., 10,000 units	88.0	92.1	94.4	86.1	91.7	86.8	94.7	94.8	95.4	95.0	92.1	88.6	85.8	84.8	85.2
Current account balance	P.a., JPY tril	8.7	18.0	17.5	18.1	15.9	19.2	19.8	18.7	18.6	16.9	13.8	15.2	19.1	18.9	16.0
Domestic corporate goods prices	Y-o-y % ch	2.7	-3.2	-2.0	3.2	-3.7	-3.7	-3.4	-3.8	-2.9	-1.5	0.4	2.7	2.9	3.6	3.5
Consumer prices (ex fresh food)	Y-o-y % ch	2.8	-0.0	0.1	2.0	-0.1	0.0	-0.1	-0.5	-0.3	0.2	0.9	2.1	2.1	2.0	1.8
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.8	-0.0	0.1	1.1	-0.1	0.0	-0.1	-0.5	-0.3	0.2	0.9	1.2	1.2	1.0	0.8
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.6	0.7	0.2	0.8	0.8	0.8	0.7	0.4	0.0	0.1	0.3	0.7	0.8	0.8	0.6
Uncollateralized overnight call rate	%	0.02	-0.00	-0.05	-0.05	0.01	0.04	-0.00	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.48	0.30	-0.08	-0.09	0.39	0.31	0.06	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.05
Nikkei average	JPY	16,273	18,841	16,100	16,800	19,412	19,053	16,849	16,400	15,700	16,000	16,300	16,500	16,700	16,900	17,200
Exchange rate	JPY/USD	110	120	107	111	122	121	115	108	105	106	108	109	110	112	113
Crude oil price (WTI nearest term contract)	USD/bbl	81	45	47	47	47	42	34	46	48	48	45	45	47	48	49

- 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 MHRl 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.

Mizuho Research Institute Ltd.

This publication is compiled solely for the purpose of providing readers with information and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice.