

**Summary**

# FY2016, FY2017 Economic Outlook

- “New normal” under prolonged 3Ls (Low growth, Low inflation, Low interest rates),  
swirling uncertainties in the world -

August 16, 2016

Mizuho Research Institute

## Key points of our forecast

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- ❑ The global economy is subject to rising uncertainties stemming from mounting issues such as the future direction subsequent to “Brexit”, political developments in Europe, outcome of the US presidential election and structural adjustments of the Chinese economy. Keep a close eye upon downside risks.
- ❑ In addition to the impact of Brexit upon the European economy, it will be necessary to watch developments of political issues and nonperforming loan (NPL) problems.
- ❑ The US economy is continuing to fly at low altitudes, amid the coexistence of weak investment and strong employment. Our view remains unchanged that US monetary policy will be kept on hold during the year and that a policy shift may even be delayed further, reflecting uncertainties in the global and domestic economies including the outcome of the US presidential election.
- ❑ The Asian economies lacks strength for a self-sustained recovery. Given a number of countries subject to excessive debt problems, the area remains vulnerable to capital outflows. NPLs are rising in China and India, providing reasons to believe that balance sheet adjustment pressures will continue to persist.
- ❑ Japan’s economic growth will likely lack strength due to factors including the slowdown of overseas economies, and should remain dependent upon public sector demand for some time. The economic stimulus measures (cumulative total of multiple years) should push up GDP by approximately 1.1%. To boost inflation expectations, the introduction of “wage targets” may be an option.
- ❑ Since pressures to correct the strength of the dollar are likely to increase in the run-up to the US presidential election, the strong yen will serve as a drag upon the Japanese economy.
- ❑ The core CPI should remain around zero in FY2016. The Bank of Japan (BOJ) may realign its monetary easing scheme on a long-term perspective along with a comprehensive review of its policy stance.

**(1) Overview of the global economy: the global economy will continue to slow down in 2016. Keep a close eye upon downside risks**

Calendar year	[ Outlook on the global economy ] (Y-o-y % change)				(% point)		(% point)	
	2014 (Actual)	2015 (Actual)	2016 (Forecast)	2017 (Forecast)	2016 (Breadth of change from June)	2017	2016 (Breadth of change from July)	2017
Total of forecast area	3.5	3.3	3.2	3.6	-0.1	-0.1	-0.1	-
Japan, US, Eurozone	1.5	2.0	1.3	1.6	-0.2	-0.2	-0.2	-
US	2.4	2.6	1.4	2.2	-0.4	-0.1	-0.4	-0.1
Eurozone	0.9	1.7	1.5	1.1	-	-0.3	0.1	-
Japan	-0.0	0.5	0.5	0.7	-	-0.2	0.2	0.2
Asia	6.4	6.1	6.0	6.0	-	-	-	-
China	7.3	6.9	6.6	6.5	-	-	-	-
NIEs	3.4	1.9	1.8	2.2	-	-	-	-
ASEAN5	4.6	4.8	4.7	4.6	0.1	0.1	0.1	0.1
India	7.0	7.2	7.7	7.6	-	-0.1	-	-0.1
Australia	2.7	2.5	2.7	2.5	-	-	-	-
Brazil	0.1	-3.8	-3.4	0.8	-	-	-	-
Russia	0.7	-3.7	-1.2	1.0	-	-	-	-
Japan (FY)	-0.9	0.8	0.6	0.9	-	-0.1	0.2	0.2
Crude oil price (WTI, USD/bbl)	93	49	42	45	-2	-1	-2	-1

Note: The total of the forecast area is calculated upon the 2014 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.

**(2) The Japanese economy: Japan's economic recovery will be dependent upon public sector demand for some time, given the lack of strength reflecting factors such as the slow recovery of overseas economies**

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- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Apr-Jun quarter of 2016 revealed that the Japanese economy recorded growth in positive territory for the second quarter in a row. Even so, growth was tepid, given the prolonged stagnation of private sector demand and exports. The results confirmed that the Japanese economy has not yet emerged out of the “soft patch” from the second half of 2015.
- ❑ From the Jul-Sep quarter of 2016, the Japanese economy should gradually pick up supported by public sector demand, despite downward pressures stemming from the slowdown of overseas economies etc. The pace of economic growth in FY2016 is forecast to reach +0.6%, above the potential rate of growth (estimated to be +0.3% to +0.5%). The pace of economic growth should rise to +0.9% in FY2017, given the full-fledged implementation of economic stimulus measures.
- ❑ The recovery of exports will likely lack strength due to structural adjustments in the Chinese economy, the weakness of capital investment by US corporations, as well as headwinds stemming from the sharp appreciation of the yen since the beginning of the year. On the other hand, turning to domestic demand, public sector demand should follow firm footing as the impact of the economic stimulus measures gradually emerge. Capital investment should also pick up gradually considering that the investment cycle of large corporations is in a recovery phase. Personal consumption – albeit lacking in strength – should gradually recover along with the improvement of the employment environment.
- ❑ In addition to the strong yen and fall of crude oil prices, thrift-consciousness among households will also serve as downward pressures, keeping the year-on-year (y-o-y) change of the core CPI in negative territory 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 around 1% toward the latter half of the forecast horizon. We expect a gradual improvement of the underlying trend in inflation excluding the impact of energy prices.

**Japan: The overseas economic slowdown and strong yen will serve as a drag upon the Japanese economy. Even though the Japanese economy will pick up toward FY2017, the recovery will be dependent upon public sector demand**

[ 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	0.6	0.9	0.5	-0.4	0.5	0.0	0.3	0.0	0.2	0.2	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	2.0	-1.7	2.0	0.2	1.3	0.1	0.7	0.8	1.0	1.2	1.1
Domestic demand	Q-o-q % ch	-1.5	0.7	0.6	1.0	0.3	-0.5	0.4	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Private sector demand	Q-o-q % ch	-1.9	0.8	0.2	0.6	0.4	-0.6	0.2	0.2	0.0	-0.1	0.2	0.2	0.2	0.2	0.3
Personal consumption	Q-o-q % ch	-2.9	-0.2	0.7	1.0	0.5	-0.8	0.7	0.2	0.4	-0.1	0.3	0.3	0.3	0.3	0.3
Housing investment	Q-o-q % ch	-11.7	2.4	5.1	-3.7	1.1	-0.5	-0.1	5.0	2.9	-2.3	-3.4	-0.8	0.3	-0.3	0.4
Capital investment	Q-o-q % ch	0.1	2.1	0.5	1.7	0.7	1.2	-0.7	-0.4	0.5	0.3	0.4	0.4	0.5	0.5	0.4
Inventory investment	Q-o-q contribution, % pt	0.6	0.3	-0.5	-0.2	-0.1	-0.2	-0.1	-0.0	-0.4	0.0	0.0	-0.1	-0.1	-0.0	0.0
Public sector demand	Q-o-q % ch	-0.3	0.7	1.9	1.9	-0.1	0.0	0.8	0.6	0.4	0.4	0.3	0.5	0.6	0.6	0.4
Government consumption	Q-o-q % ch	0.1	1.6	1.6	1.7	0.2	0.8	0.9	0.2	0.2	0.2	0.2	0.5	0.6	0.5	0.5
Public investment	Q-o-q % ch	-2.6	-2.7	3.0	3.1	-1.9	-3.3	0.1	2.3	1.6	1.6	0.8	0.5	0.6	1.0	-0.1
External demand	Q-o-q contribution, % pt	0.6	0.1	0.0	-0.1	0.2	0.1	0.1	-0.3	0.2	-0.0	-0.0	-0.1	-0.0	-0.0	-0.1
Exports	Q-o-q % ch	7.9	0.4	0.3	2.1	2.6	-0.9	0.1	-1.5	1.6	0.6	0.5	0.4	0.4	0.5	0.4
Imports	Q-o-q % ch	3.4	-0.0	0.2	2.8	1.2	-1.1	-0.5	-0.1	0.4	0.8	0.8	0.7	0.7	0.7	0.7
GDP (nominal)	Q-o-q % ch	1.5	2.2	1.1	1.5	0.6	-0.3	0.8	0.2	0.6	-0.4	-0.3	0.9	1.1	0.1	-0.2
GDP deflator	Y-o-y % ch	2.4	1.4	0.4	0.6	1.8	1.5	0.9	0.8	0.9	0.4	-0.3	0.2	0.7	0.8	0.9
Domestic demand deflator	Y-o-y % ch	2.1	-0.2	-0.3	0.8	-0.1	-0.2	-0.5	-0.6	-0.5	-0.2	0.1	0.4	0.7	0.9	1.0

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 stay around zero in the second half of 2016, and around 1% in FY2017

### [ 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	0.6	2.6	-1.0	0.1	-1.0	0.2	1.2	0.9	0.5	0.6	0.5	0.5	0.7
Ordinary profits	Y-o-y % ch	5.1	3.5	-4.2	5.6	8.5	-3.1	-9.6	-6.9	-2.3	-3.8	-3.1	0.9	2.7	6.6	12.7
Nominal compensation of employees	Y-o-y % ch	1.9	1.7	1.8	1.7	1.7	1.9	2.5	1.9	1.6	1.7	1.5	1.4	1.7	1.8	1.7
Unemployment rate	%	3.5	3.3	3.2	3.1	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.1	3.1	3.0	3.0
New housing starts	P.a., 10,000 units	88.0	92.1	96.1	90.7	91.7	86.8	94.7	100.5	97.9	95.0	91.0	89.7	90.5	91.4	91.2
Current account balance	P.a., JPY tril	8.7	18.0	18.3	19.0	15.9	19.2	19.9	18.8	17.1	15.5	16.2	16.0	15.7	15.7	16.9
Domestic corporate goods prices	Y-o-y % ch	2.7	-3.2	-2.7	1.1	-3.7	-3.7	-3.4	-4.3	-3.6	-2.3	-0.4	0.6	1.1	1.5	1.4
Consumer prices (ex fresh food)	Y-o-y % ch	2.8	-0.0	-0.0	0.9	-0.2	-0.1	-0.1	-0.4	-0.2	-0.0	0.5	0.8	0.9	1.1	1.1
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.7	-0.0	-0.0	0.9	-0.2	-0.1	-0.1	-0.4	-0.2	-0.0	0.5	0.8	0.9	1.1	1.1
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.5	0.5	0.3	0.6	0.5	0.6	0.6	0.5	0.4	0.3	0.3	0.5	0.7	0.6	0.7
Uncollateralized overnight call rate	%	0.02	0.00	-0.05	-0.05	0.01	0.04	-0.00	-0.06	-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	-0.12	-0.09	0.39	0.31	0.06	-0.12	-0.19	-0.15	-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	16,408	16,300	15,800	15,800	16,100	16,600	16,900	17,500
Exchange rate	JPY/USD	110	120	103	105	122	121	115	108	103	100	101	103	105	106	107
Crude oil price (WTI nearest term contract)	USD/bbl	81	45	44	45	47	42	34	46	42	45	44	44	45	46	46

- 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.

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