

REVISED
to reflect the
2nd QE for the
Apr-Jun Qtr
of 2016

FY2016, FY2017 Economic Outlook

- The Japanese economy will continue to follow a public demand-dependent recovery (no material change from our outlook released in August) -

September 8, 2016

Mizuho Research Institute

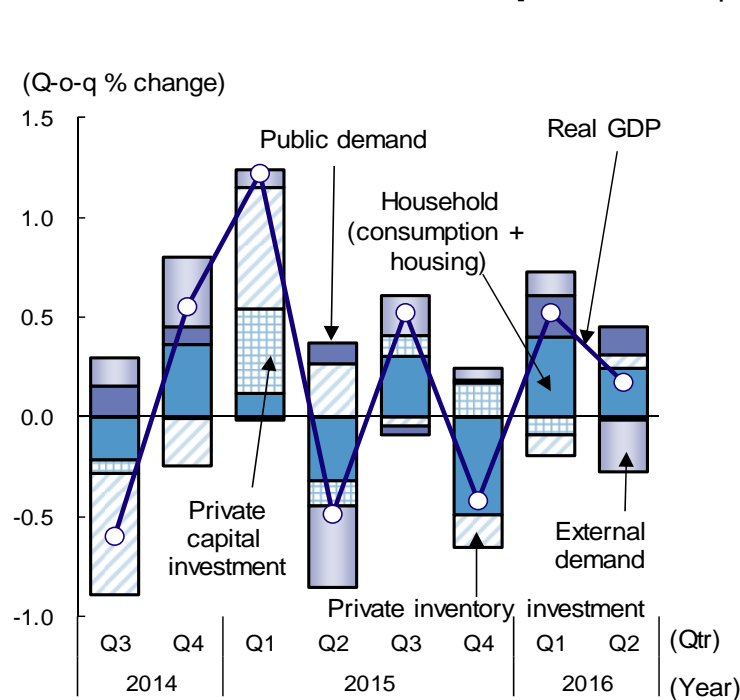
The Japanese economy: Japan's economic recovery will depend upon public sector demand for amid the weakness of external and private sector demand

- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”) for the Apr-Jun quarter of 2016 revealed a slight upward revision of Japan's economic growth from the *First Preliminary Quarterly Estimates of GDP* (“1st QE”). Even so, the revision was minimal and our view remains unchanged that the Japanese economy was in a soft patch.
- ❑ From the Jul-Sep quarter of 2016, the Japanese economy should follow a recovery dependent upon public sector demand, amid the weakness of external and private sector demand. The pace of economic growth in FY2016 is forecast to slow down to +0.6% from FY2015 (+0.8%). In FY2017, the pace of economic growth should rise to +0.9%, 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. Turning to private sector demand, capital investment should remain tepid, reflecting the erosion of corporate profits due to the appreciation of the yen. Personal consumption will likely lack in strength, given the decline of disposable income accompanying the rise of social security burdens.
- ❑ Japan's economic stimulus package decided by Cabinet on August 2, 2016 (totaling approximately JPY28 trillion, of which actual government spending is approximately JPY6 trillion) is expected to lift Japan's real GDP growth in FY2016 and FY2017 by 0.1 to 0.3 % pt.
- ❑ Given the appreciation of the yen and fall of crude oil prices, the year-on-year (y-o-y) change of the core CPI will remain 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.

1. The 2nd QE for the Apr-Jun quarter of 2016: despite an upward revision, the Japanese economy was still in a soft patch

- The 2nd QE for the Apr-Jun quarter of 2016 revealed a slight upward revision of Japan's real GDP to +0.2 % q-o-q (+0.7% p.a.) from the 1st QE (+0.2% p.a.).
 - Of the major components of growth which were revised, private sector inventory investment was revised upward, indicating that there were more inventory adjustment pressures than in the 1st QE.
 - Furthermore, while capital investment was subject to a slight upward revision, it was still flat on a quarterly basis.

[GDP in the Apr-Jun quarter of 2016 (2nd QE)]



	(Q-o-q % change)					
	2015			2016		1st QE
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Apr-Jun
Gross domestic production	-0.5	0.5	-0.4	0.5	0.2	0.0
(Q-o-q change, p.a.)	-1.9	2.1	-1.7	2.1	0.7	0.2
(Y-o-y change)	0.7	1.8	0.7	0.2	0.8	0.6
Domestic demand	-0.1	0.3	-0.5	0.4	0.4	0.3
(-0.1)	(0.3)	(-0.5)	(0.4)	(0.4)	(0.3)	
Private demand	-0.2	0.5	-0.6	0.3	0.4	0.2
(-0.2)	(0.4)	(-0.5)	(0.2)	(0.3)	(0.2)	
Personal consumption	-0.6	0.4	-0.8	0.7	0.2	0.2
Housing investment	1.7	1.1	-0.5	-0.1	5.0	5.0
Capital investment	-1.0	0.8	1.2	-0.6	-0.1	-0.4
Inventory investment	(0.3)	(-0.0)	(-0.2)	(-0.1)	(0.1)	(-0.0)
Public demand	0.4	-0.2	0.1	0.8	0.5	0.6
(0.1)	(-0.0)	(0.0)	(0.2)	(0.1)	(0.1)	
Government consumption	0.4	0.2	0.8	0.9	0.1	0.2
Public investment	0.9	-1.8	-3.2	0.2	2.6	2.3
Net exports of goods & services	(-0.4)	(0.2)	(0.1)	(0.1)	(-0.3)	(-0.3)
Exports	-4.2	2.6	-0.9	0.1	-1.5	-1.5
Imports	-1.8	1.2	-1.1	-0.5	-0.0	-0.1
Nominal GDP	-0.1	0.6	-0.3	0.8	0.3	0.2
GDP deflator (y-o-y change)	1.4	1.8	1.5	0.9	0.7	0.8

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

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: FY2016 and FY2017 growth remain unchanged from MHRI's outlook released in August

- Our outlook on growth in FY2016 and FY2017 remain unchanged from our forecasts as of August 2016.
 - FY2016: the Japanese economy will slow down from FY2015, given the impact of the overseas economic slowdown and appreciation of the yen. Even so, the growth rate should remain above the potential rate of growth (estimated to be around +0.3% to +0.5% by MHRI), as the rise of public demand serves as underpinnings,
 - FY2017: the pace of economic growth is forecast to rise to +0.9% due to the full-fledged implementation of the economic stimulus package.

[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	0.2	0.1	0.0	0.1	0.3	0.2	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	2.1	-1.7	2.1	0.7	0.6	0.1	0.6	1.2	0.9	1.2	1.1
Domestic demand	Q-o-q % ch	-1.5	0.7	0.7	1.0	0.3	-0.5	0.4	0.4	0.1	0.0	0.2	0.4	0.3	0.3	0.3
Private sector demand	Q-o-q % ch	-1.9	0.8	0.3	0.7	0.5	-0.6	0.3	0.4	-0.0	-0.2	0.1	0.3	0.2	0.2	0.3
Personal consumption	Q-o-q % ch	-2.9	-0.2	0.7	1.0	0.4	-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	6.0	-4.6	1.1	-0.5	-0.1	5.0	2.3	-0.6	-1.8	-2.5	-1.9	0.2	1.2
Capital investment	Q-o-q % ch	0.1	2.1	0.6	1.7	0.8	1.2	-0.6	-0.1	0.0	0.5	0.6	0.6	0.2	0.2	0.4
Inventory investment	Q-o-q contribution, % pt	0.6	0.3	-0.4	-0.1	-0.0	-0.2	-0.1	0.1	-0.3	-0.1	-0.1	0.1	0.0	-0.0	0.0
Public sector demand	Q-o-q % ch	-0.3	0.7	1.9	1.9	-0.2	0.1	0.8	0.5	0.5	0.5	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	0.1	0.3	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	-1.8	-3.2	0.2	2.6	1.1	1.5	0.7	0.6	0.6	1.1	-0.1
External demand	Q-o-q contribution, % pt	0.6	0.1	-0.1	-0.2	0.2	0.1	0.1	-0.3	0.0	0.0	-0.0	-0.1	-0.1	-0.0	-0.1
Exports	Q-o-q % ch	7.9	0.4	-0.2	1.9	2.6	-0.9	0.1	-1.5	0.9	0.7	0.5	0.4	0.4	0.5	0.3
Imports	Q-o-q % ch	3.4	-0.0	0.2	3.0	1.2	-1.1	-0.5	-0.0	0.7	0.5	0.8	0.9	0.8	0.7	0.7
GDP (nominal)	Q-o-q % ch	1.5	2.2	1.2	1.6	0.6	-0.3	0.8	0.3	0.4	-0.2	-0.1	0.8	1.0	0.1	0.1
GDP deflator	Y-o-y % ch	2.4	1.4	0.5	0.7	1.8	1.5	0.9	0.7	0.8	0.5	0.0	0.3	0.8	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	-0.7	-0.6	-0.1	0.3	0.5	0.8	0.8	0.9

Notes: Figures in the shaded areas are forecasts.

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

Japan: a slight downward revision of the core inflation rate in FY2016 and FY2017 (revised by -0.1%pt for each fiscal year)

[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	0.2	2.1	-1.0	0.1	-1.0	0.2	0.4	0.9	1.0	0.2	0.4	0.3	0.6
Ordinary profits	Y-o-y % ch	5.1	3.5	-5.7	3.8	8.5	-3.1	-9.6	-9.5	-6.5	-4.0	-2.1	-0.6	4.5	6.5	5.2
Nominal compensation of employees	Y-o-y % ch	1.9	1.7	1.7	1.9	1.7	1.9	2.5	2.0	1.6	1.8	1.5	1.6	1.8	2.2	2.0
Unemployment rate	%	3.5	3.3	3.1	3.0	3.4	3.3	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	2.9
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	18.1	18.9	15.9	19.2	19.9	18.8	16.3	15.5	16.5	16.1	15.1	15.5	17.2
Domestic corporate goods prices	Y-o-y % ch	2.7	-3.2	-2.8	1.0	-3.7	-3.7	-3.4	-4.3	-3.7	-2.4	-0.6	0.3	1.0	1.5	1.3
Consumer prices (ex fresh food)	Y-o-y % ch	2.8	-0.0	-0.1	0.8	-0.2	-0.1	-0.1	-0.4	-0.4	-0.2	0.3	0.6	0.9	1.0	1.0
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.7	-0.0	-0.1	0.8	-0.2	-0.1	-0.1	-0.4	-0.4	-0.2	0.3	0.6	0.9	1.0	1.0
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	0.3	0.2	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	0.29	-0.10	-0.09	0.39	0.31	0.06	-0.12	-0.15	-0.10	-0.10	-0.10	-0.10	-0.10	-0.05
Nikkei average	JPY	16,273	18,841	16,200	16,800	19,412	19,053	16,849	16,408	16,500	16,200	15,800	16,100	16,600	16,900	17,500
Exchange rate	JPY/USD	110	120	103	105	122	121	115	108	102	100	101	103	105	106	107
Crude oil price (WTI nearest term contract)	USD/bbl	81	45	45	45	47	42	34	46	45	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 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: the global economy will continue to slow down in 2016. Keep a close eye upon downside risks

- The rate of growth in the forecast area should slow down for the second year in a row. Even though we maintain our view of an upturn toward 2017, note that uncertainties are rising.
 - Although we have revised our forecasts on growth from our outlook in August in some of the countries and areas to reflect the Apr-Jun quarter GDP results, our overall outlook on the global economy remains unchanged.

[Outlook on the global economy]

Calendar year	(Y-o-y % change)				(% point)			
	2014 (Actual)	2015 (Actual)	2016 (Forecast)	2017 (Forecast)	2016 (Forecast as of August)	2017	2016 (Breadth of change from August)	2017
Total of forecast area	3.5	3.4	3.2	3.6	3.2	3.6	-	-
Japan, US, Eurozone	1.6	2.1	1.3	1.6	1.3	1.6	-	-
US	2.4	2.6	1.4	2.2	1.4	2.2	-	-
Eurozone	1.1	2.0	1.5	1.1	1.5	1.1	-	-
Japan	-0.0	0.5	0.5	0.7	0.5	0.7	-	-
Asia	6.4	6.1	6.0	6.0	6.0	6.0	-	-
China	7.3	6.9	6.6	6.5	6.6	6.5	-	-
NIEs	3.4	1.9	1.9	2.2	1.8	2.2	0.1	-
ASEAN5	4.6	4.8	4.8	4.6	4.7	4.6	0.1	-
India	7.0	7.2	7.6	7.5	7.7	7.6	-0.1	-0.1
Australia	2.7	2.5	2.8	2.5	2.7	2.5	0.1	-
Brazil	0.1	-3.8	-3.2	1.0	-3.4	0.8	0.2	0.2
Russia	0.7	-3.7	-1.2	1.0	-1.2	1.0	-	-
Japan (FY)	-0.9	0.8	0.6	0.9	0.6	0.9	-	-
Crude oil price (WTI, USD/bbl)	93	49	42	45	42	45	-	-

Note: The total of the forecast area is calculated upon the 2014 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	Jan	Inauguration of new administration/ new Congress	Feb	FRB Chair Yellen's term of office ends
Europe	Oct	Austria: Presidential election (runoff)	Mar	Netherlands: Legislative election	Nov	Mid-term election
	Oct-Dec	Italy: Referendum on constitutional reform	Apr-May	France: Presidential election	H1	Italy: Legislative election
Japan			Jun	France: Legislative election		
			Sep	Germany: Legislative election	Apr	BOJ Governor Kuroda's term of office ends
Asia					Sep	LDP presidential election
	Oct	China: 6th Plenary Session of the CPC Central Committee	Mar	Hong Kong: election of Legislative Council	Dec*	Lower House members' term of office end
Others			Dec*	South Korea: Presidential election	May	Malaysia: Legislative election
	Sep	Russia: Lower house election	Autumn	China: 19th National Congress of the Communist Party of China	Autumn	China: 3rd Plenary Session of the CPC Central Committee
			By year-end	Thailand: Lower House election	Mar	Russia: Presidential election
					Jul	Mexico: Presidential election
					Oct	Brazil: Presidential election

Note: * = approximate date
Source: Made by MHRI.

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