

**Summary**

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# **FY2016, FY2017 Economic Outlook**

**- The global economy will gradually pick up. Will Trump change the world? -**

November 15, 2016

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## Key points of our forecast

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- ❑ Even though the global economy will pick up in 2017, “low growth, low inflation and low interest rate” conditions will persist.
- ❑ Given lingering uncertainties including political issues in Europe and structural adjustments of the Chinese economy, it will be necessary to monitor any signs of downside risks.
- ❑ Donald Trump turned out to surprise as the victor of the US presidential election. In view of the possibility that the new Trump administration’s policy measures may serve as a game changer of the global monetary and fiscal policy framework, keep a close eye upon upcoming developments.
- ❑ The US policy mix of fiscal expansion and interest rate hike may accelerate the appreciation of the US dollar. However, since an excessive strengthening of the dollar may serve as downside risks to the US economy and emerging market (EM) economies, it may serve to trigger a protectionist US stance.
- ❑ Global trade will likely stagnate for some time due to structural factors, and serve as a drag upon global growth.
- ❑ Even though the Japanese economy will pick up in 2017, it will be dependent upon public demand due to the lack of strength in both domestic and external demand.
- ❑ As the Abe administration draws closer to extending its term in office as the longest government in power in post-war Japan, Abenomics is also entering a long drawn-out battle. Despite the rise of expectations toward fiscal policy, its economic impact will be temporary. Looking forward, the next step will shift to the achievement of “Inclusive Growth” through the implementation of the full range of policy measures.
- ❑ Although interest rates will remain low around the world, note the presence of upward pressures upon interest rates stemming from expectations toward the new US administration.

**(1) Overview of the global economy: although the global economy should pick up in 2017, developments in the US will serve as the key**

[ Outlook on the global economy ]

Calendar year	(Y-o-y % change)				(% point)		(% point)	
	2014 (Actual)	2015 (Actual)	2016 (Forecast)	2017 (Forecast)	2016 (Forecast in Sep)	2017	2016 (Breadth of change from Sep)	2017
Total of forecast area	3.6	3.4	3.3	3.6	3.2	3.6	0.1	-
Japan, US, Eurozone	1.6	2.1	1.4	1.6	1.3	1.6	0.1	-
US	2.4	2.6	1.5	2.1	1.4	2.2	0.1	-0.1
Eurozone	1.2	2.0	1.6	1.1	1.5	1.1	0.1	-
Japan	-0.0	0.6	0.7	1.0	0.5	0.7	0.2	0.3
Asia	6.4	6.1	6.1	6.0	6.0	6.0	0.1	-
China	7.3	6.9	6.7	6.5	6.6	6.5	0.1	-
NIEs	3.4	1.9	1.9	2.1	1.9	2.2	-	-0.1
ASEAN5	4.6	4.8	4.8	4.6	4.8	4.6	-	-
India	7.0	7.2	7.6	7.5	7.6	7.5	-	-
Australia	2.7	2.4	2.8	2.5	2.8	2.5	-	-
Brazil	0.1	-3.8	-3.2	1.2	-3.2	1.0	-	0.2
Russia	0.7	-3.7	-0.7	1.0	-1.2	1.0	0.5	-
Japan (FY)	-0.9	0.9	0.9	1.0	0.6	0.9	0.3	0.1
Crude oil price (WTI, USD/bbl)	93	49	43	55	42	45	1	10

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: given the mild recovery of private sector and external demand, Japan's growth will be dependent upon public sector demand for some time**

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- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Jul-Sep quarter of 2016 revealed that the Japanese economy recorded growth in positive territory for the third quarter in a row. Exports are picking up, providing reasons to believe that economic conditions are about to lift off from the landing. However, given the weakness of the twin pillars of domestic demand – consumer spending and capital investment – it is still too early to say that the Japanese economy has returned to a self-sustained recovery track.
- ❑ From the Oct-Dec quarter of 2016, the Japanese economy should gradually pick up supported by the implementation of public works accompanying the economic stimulus measures. The pace of economic growth in FY2016 is forecast to stand at +0.9%, levelling off from the previous fiscal year (+0.9%). The pace of economic growth should rise to +1.0% in FY2017, given the full-fledged implementation of economic stimulus measures.
- ❑ Drags upon exports such as the weakness of capital investment around the world are lingering. 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 gradually pick up, considering the steady demand to renew existing equipment. Consumer spending will also recover gradually along with the improvement of the employment environment.
- ❑ Note that the inauguration of president-elect Donald Trump has both upside and downside risks upon the Japanese economy. Keep a close eye upon (1) financial market volatility, (2) direction of trade policy, (3) US economic trends, and (4) policy uncertainties.
- ❑ Given the strong yen and fall of crude oil prices, the year-on-year (y-o-y) change of the core CPI should 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 above 1% toward the latter half of the forecast horizon. The underlying trend in inflation excluding the impact of energy prices should remain slightly positive.

## Japan: 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	0.9	0.9	1.0	0.4	-0.4	0.5	0.2	0.5	0.1	0.1	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	1.6	-1.6	2.1	0.7	2.2	0.2	0.4	1.3	1.3	1.3	1.2
Domestic demand	Q-o-q % ch	-1.5	0.8	0.8	1.1	0.4	-0.5	0.4	0.3	0.1	0.4	0.2	0.3	0.3	0.3	0.2
Private sector demand	Q-o-q % ch	-1.9	0.8	0.6	0.9	0.5	-0.6	0.3	0.4	0.1	0.3	0.1	0.2	0.3	0.3	0.2
Personal consumption	Q-o-q % ch	-2.9	-0.1	0.6	0.9	0.5	-0.8	0.7	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Housing investment	Q-o-q % ch	-11.7	2.4	6.6	-5.2	1.2	-0.4	-0.3	5.0	2.3	0.8	-2.6	-2.4	-2.4	-0.2	0.7
Capital investment	Q-o-q % ch	0.1	2.1	0.5	1.6	0.8	1.2	-0.7	-0.1	0.0	0.5	0.4	0.5	0.3	0.4	0.3
Inventory investment	Q-o-q contribution, % pt	0.6	0.3	-0.1	0.0	-0.0	-0.1	-0.1	0.1	-0.1	0.0	-0.0	0.0	0.1	-0.0	-0.1
Public sector demand	Q-o-q % ch	-0.3	0.7	1.5	1.7	-0.0	-0.1	0.8	0.1	0.2	0.9	0.5	0.4	0.3	0.3	0.3
Government consumption	Q-o-q % ch	0.1	1.6	1.3	1.3	0.3	0.6	0.9	-0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-2.6	-2.7	2.1	3.5	-1.2	-3.4	0.0	2.3	-0.7	3.1	0.8	0.8	0.7	0.5	0.3
External demand	Q-o-q contribution, % pt	0.6	0.1	0.1	-0.0	-0.0	0.1	0.1	-0.2	0.5	-0.4	-0.1	0.0	0.0	0.0	0.1
Exports	Q-o-q % ch	7.9	0.4	0.6	2.6	2.6	-1.0	0.1	-1.5	2.0	0.7	0.5	0.5	0.5	0.6	0.6
Imports	Q-o-q % ch	3.4	0.0	0.0	2.8	2.4	-1.2	-0.6	-0.6	-0.6	2.7	1.1	0.2	0.4	0.3	0.3
GDP (nominal)	Q-o-q % ch	1.5	2.3	1.0	0.9	0.8	-0.3	0.8	0.1	0.2	0.2	-0.3	0.6	0.3	0.5	0.0
GDP deflator	Y-o-y % ch	2.5	1.4	0.0	-0.1	1.7	1.5	0.9	0.7	-0.1	0.1	-0.6	-0.4	-0.0	-0.1	0.1
Domestic demand deflator	Y-o-y % ch	2.1	-0.2	-0.5	0.7	-0.1	-0.2	-0.5	-0.7	-1.0	-0.3	-0.1	0.2	0.7	0.8	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 rise above 1% in FY2017 due to the recovery of crude oil prices.  
The underlying trend in inflation will hover around the lower half of the 0% level**

[ 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	0.5	1.9	-1.0	0.1	-1.0	0.2	1.3	0.4	0.5	0.5	0.4	0.3	0.3
Ordinary profits	Y-o-y % ch	5.1	3.5	-5.9	0.8	8.5	-3.1	-9.6	-9.5	-5.8	-3.7	-4.1	-1.5	0.3	2.3	2.1
Nominal compensation of employees	Y-o-y % ch	1.9	1.7	1.9	2.0	1.7	1.9	2.5	2.0	2.0	1.9	1.9	1.9	2.1	2.1	1.9
Unemployment rate	%	3.5	3.3	3.1	3.0	3.4	3.3	3.2	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
New housing starts	P.a., 10,000 units	88.0	92.1	97.4	91.5	91.7	86.8	94.7	100.5	98.2	96.6	93.5	92.1	91.7	91.2	91.2
Current account balance	P.a., JPY tril	8.7	18.0	20.0	18.0	15.9	19.2	19.9	18.5	19.6	22.3	17.4	18.8	15.3	19.5	16.4
Domestic corporate goods prices	Y-o-y % ch	2.7	-3.2	-2.7	1.4	-3.7	-3.7	-3.5	-4.4	-3.6	-2.1	-0.6	0.6	1.5	1.7	1.9
Consumer prices (ex fresh food)	Y-o-y % ch	2.8	-0.0	-0.2	0.9	-0.2	-0.1	-0.1	-0.4	-0.5	-0.3	0.1	0.4	0.8	1.1	1.2
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	0.7	-0.0	-0.2	0.9	-0.2	-0.1	-0.1	-0.4	-0.5	-0.3	0.1	0.4	0.8	1.1	1.2
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	o-y % ch	0.5	0.5	0.2	0.2	0.5	0.6	0.6	0.5	0.2	0.0	0.0	0.1	0.2	0.3	0.4
Uncollateralized overnight call rate	%	0.02	-0.00	-0.05	-0.05	0.01	0.04	-0.00	-0.06	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.48	0.29	-0.07	-0.05	0.39	0.31	0.06	-0.12	-0.13	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Nikkei average	JPY	16,273	18,841	16,900	18,400	19,412	19,053	16,849	16,408	16,497	17,300	17,500	17,900	18,200	18,600	19,000
Exchange rate	JPY/USD	110	120	105	106	122	121	115	108	102	106	104	105	105	106	107
Crude oil price (WTI nearest term contract)	USD/bbl	81	45	47	58	47	42	34	46	45	47	50	52	56	59	62

- 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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