

[Summary](#)

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# FY2016, FY2017, FY2018 Economic Outlook

- While the global economy is on growth track, US policy agenda and European political developments are risk factors -

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## Key points of our forecast

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- ❑ The global economy is forecast to follow an expansion track in 2017 and 2018, driven by the recovery of the US economy and upturn of the commodity-producing economies.
- ❑ The current global economic recovery stems from (1) the improvement of the IT cycle, (2) the upturn of China's imports along with the recovery of its domestic demand, and (3) the rise of commodity prices.
- ❑ The sustainability of the expansion depends upon the direction of US policy measures and rests upon the premise that due fiscal expansion and deregulation are implemented.
- ❑ The pursuit of excessively protectionist policies would serve as downside risks to the global economy. "Border adjustment" by the US may have a negative impact upon the global economy via the decline of exports.
- ❑ Even though the US policy mix (fiscal expansion and interest rate hike) is a dollar-strengthening factor, an excessive strengthening of the dollar may lead to greater EM risks through capital flight and rise of interest rates.
- ❑ Given a number of key events such as the German and French elections and Brexit notification, European political developments also provide sources of concern.
- ❑ The Japanese economy will pick up in FY2017. The recovery of overseas economies, the improvement of the inventory cycle, and the implementation of public investment along with the economic stimulus measures will serve as positive factors. Japan's economic growth will continue in FY2018 as the driver of growth shifts from external to domestic demand.
- ❑ Japan's core inflation rate will rise to the 1%-level. However, the improvement of the underlying trend in inflation excluding the impact of energy prices will remain moderate. The Bank of Japan (BOJ) will most likely keep monetary policy on hold while gradually reducing the amount of government bond purchases.

## (1) Overview of the global economy: the global economy is projected to expand in 2017 and 2018

### [ Outlook on the global economy ]

Calendar year	(Y-o-y % change)							(% point)	
	2014 (Actual)	2015 (Actual)	2016 (Actual)	2017 (Forecast)	2018 (Forecast)	2016 (Forecast in Dec)	2017	2016 (Breadth of change from Dec)	2017
Total of forecast area	3.6	3.4	3.3	3.8	3.9	3.3	3.7	-	0.1
Japan, US, Eurozone	1.6	2.2	1.6	1.9	1.9	1.5	1.7	0.1	0.2
US	2.4	2.6	1.6	2.3	2.3	1.6	2.2	-	0.1
Eurozone	1.2	2.0	1.7	1.5	1.6	1.6	1.3	0.1	0.2
Japan	0.3	1.2	1.0	1.3	1.4	1.0	1.1	-	0.2
Asia	6.4	6.1	6.0	6.0	6.1	6.0	6.0	-	-
China	7.3	6.9	6.7	6.5	6.4	6.7	6.5	-	-
NIEs	3.5	2.0	2.1	2.2	2.5	2.0	2.2	0.1	-
ASEAN5	4.6	4.8	4.9	4.9	5.0	4.8	4.7	0.1	0.2
India	7.0	7.2	7.0	7.5	7.5	7.0	7.6	-	-0.1
Australia	2.8	2.4	2.4	2.2	2.7	2.4	2.5	-	-0.3
Brazil	0.1	-3.8	-3.4	1.0	2.0	-3.4	1.0	-	-
Russia	0.7	-2.8	-0.2	1.0	1.5	-0.7	1.0	0.5	-
Japan (FY)	-0.4	1.3	1.2	1.4	1.3	1.2	1.2	-	0.2
Crude oil price (WTI, USD/bbl)	93	49	43	57	65	43	55	-	2

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: the economy is picking up, reflecting the upturn of overseas economies

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- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Oct-Dec quarter of 2016 revealed that the Japanese economy recorded growth in positive territory for the fourth quarter in a row. Despite the sluggish recovery of personal consumption, economic conditions are picking up mainly with respect to exports and capital investment, reflecting the upturn of the overseas economies.
- ❑ The Japanese economy will pick up in FY2017. The recovery of overseas economies, the improvement of the domestic inventory cycle, the rise of capital investment related to the 2020 Tokyo Olympic Games and productivity improvement, and the implementation of public investment accompanying Japan’s economic stimulus measures will serve to push up growth. Even though personal consumption will continue to lack strength, adjustment pressures upon durable goods will ease, and serve to maintain the recovery. The pace of economic growth in FY2017 is forecast to rise to +1.4% from the previous fiscal year (+1.2%).
- ❑ The Japanese economy will continue to grow above its potential rate of growth as the engine of growth shifts from external demand to domestic demand. Personal consumption will also be boosted by the improvement of real wages. FY2018 economic growth is projected to stand at +1.3%.
- ❑ There are still significant downside risks due to uncertainties regarding political and economic developments overseas. Keep a close eye upon protectionists developments in the US, direction of major elections in Europe and economic policy following the National Congress of the Communist Party of China.
- ❑ Given the upturn of the year-on-year (y-o-y) change of energy prices into positive territory, the core inflation rate should rise to the 1%-level in the second half of FY2017. On the other hand, the improvement of the underlying trend in inflation excluding the impact of energy prices should only remain modest.

## Japan: forecast on growth revised upward for FY2017 (+1.4%) and growth in FY2018 is forecast to stand at +1.3%

### [ Outlook on the Japanese economy ]

		2015	2016	2017	2018	2016			2017				2018				2019	
		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	1.3	1.2	1.4	1.3	0.4	0.3	0.2	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	1.8	1.4	1.0	1.1	1.7	1.3	1.5	1.5	1.3	1.1	1.2	1.1	1.1
Domestic demand		1.1	0.6	1.0	1.2	0.5	-0.1	-0.0	0.2	0.5	0.3	0.3	0.2	0.3	0.3	0.4	0.2	0.5
Private sector demand		1.1	0.7	0.8	1.2	0.9	-0.1	0.0	0.1	0.4	0.2	0.2	0.2	0.3	0.3	0.4	0.2	0.5
Personal consumption		0.5	0.6	0.7	0.8	0.2	0.3	-0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Housing investment		2.7	5.9	-4.7	-1.3	3.3	2.4	0.2	-1.5	-2.7	-2.0	-0.2	-0.1	-0.6	-0.8	0.6	0.2	1.0
Capital investment		0.6	1.8	2.5	2.1	1.3	-0.3	0.9	0.5	0.8	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.5
Inventory investment		Q-o-q contribution, % pt	0.3	-0.3	-0.0	0.1	0.2	-0.3	-0.1	-0.1	0.2	0.0	-0.0	0.1	0.1	0.1	0.1	0.2
Public sector demand		1.2	0.3	1.8	1.5	-0.7	0.0	-0.0	0.6	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.4	0.3
Government consumption		2.0	0.8	1.4	1.7	-1.1	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Public investment		-2.0	-1.5	3.4	0.7	1.1	-0.7	-1.8	2.0	1.7	0.8	0.6	0.5	0.2	0.0	-0.3	-0.4	-0.4
External demand		Q-o-q contribution, % pt	0.2	0.6	0.3	0.1	-0.0	0.4	0.2	0.0	-0.0	0.1	0.1	0.1	-0.0	-0.1	-0.2	-0.2
Exports		0.8	2.8	4.2	2.0	-1.2	2.1	2.6	1.1	0.3	0.7	1.0	0.9	0.4	0.2	0.2	0.2	-0.0
Imports		-0.2	-0.9	2.3	1.7	-1.0	-0.2	1.3	0.9	0.5	0.4	0.3	0.1	0.4	0.5	0.7	0.7	1.0
GDP (nominal)		2.8	1.2	1.7	1.8	0.3	0.2	0.3	0.0	0.7	0.8	0.3	0.0	0.8	0.8	0.2	-0.2	-0.2
GDP deflator		Y-o-y % ch	1.4	-0.1	0.3	0.5	0.4	-0.1	-0.1	-0.4	-0.1	0.6	0.4	0.3	0.4	0.5	0.5	0.4
Domestic demand deflator		Y-o-y % ch	0.0	-0.4	0.9	0.9	-0.7	-0.8	-0.3	0.3	0.7	1.0	0.8	1.2	1.1	1.0	0.9	0.8

Notes: Figures in the shaded areas are forecasts.

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

## Japan: even though the core inflation rate will rise to the 1%-level, the underlying trend of inflation will likely remain below 1%

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

		2015	2016	2017	2018	2016			2017				2018				2019
		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	-1.0	1.4	3.6	1.8	0.2	1.3	2.0	0.7	0.5	0.8	0.8	0.6	0.4	0.3	0.2	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	3.5	-0.0 (-2.8)	1.1 (4.1)	3.4	-10.0	11.5 (-5.8)	0.3	1.3	3.2	-7.8 (4.7)	4.3	4.4	4.5	3.7	3.5	1.8
Nominal compensation of employees	Y-o-y % ch	1.5	1.9	1.8	2.3	2.2	2.3	2.0	1.2	1.7	1.8	1.9	1.8	2.3	2.2	2.4	2.0
Unemployment rate	%	3.3	3.1	3.0	2.9	3.2	3.0	3.1	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.9	2.8
New housing starts	P.a., 10,000 units	92.1	96.4	91.1	90.6	99.1	98.0	95.3	93.0	91.9	91.2	90.9	90.7	89.4	89.5	91.1	92.5
Current account balance	P.a., JPY tril	18.0	21.5	22.4	20.8	18.5	19.9	21.6	22.8	22.1	20.4	20.6	22.1	20.5	19.2	19.1	19.0
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.4	2.2	2.0	-4.5	-3.8	-2.1	0.8	1.5	2.4	2.7	2.2	2.2	2.2	1.9	1.5
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	1.1	1.0	-0.4	-0.5	-0.3	0.4	0.8	1.2	1.3	1.3	1.2	1.1	1.1	0.8
Consumer prices (ex fresh food, ex consumption tax)	Y-o-y % ch	-0.0	-0.2	1.1	1.0	-0.4	-0.5	-0.3	0.4	0.8	1.2	1.3	1.3	1.2	1.1	1.1	0.8
Consumer prices (ex food (ex alcohol) and energy, ex consumption tax)	Y-o-y % ch	0.5	0.2	0.3	0.6	0.5	0.2	0.1	0.1	0.1	0.3	0.4	0.5	0.5	0.6	0.7	0.7
Uncollateralized overnight call rate	%	-0.00	-0.05	-0.05	-0.05	-0.06	-0.06	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.29	-0.05	0.05	0.05	-0.12	-0.13	-0.01	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	18,841	17,600	20,000	21,100	16,408	16,497	17,933	19,400	19,400	19,800	20,200	20,600	20,900	21,100	21,300	21,000
Exchange rate	JPY/USD	120	109	116	119	108	102	110	114	114	115	116	117	118	119	120	118
Crude oil price (WTI nearest term contract)	USD/bbl	45	48	59	65	46	45	49	53	55	58	61	63	65	66	66	65

Notes: 1. Figures in the shaded areas are forecasts. The readings above may differ from public releases because the rates of change are calculated by MHRI.

2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries basis) (ex finance & insurance). The figures in parentheses on the lower line excludes factors unique to individual companies which occurred during the Jul-Sep quarter of 2016 for pure holding companies.

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, *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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