

REVISED  
to reflect the  
2<sup>nd</sup> QE for the  
Oct-Dec Qtr  
of 2016

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# FY2016, FY2017, FY2018 Economic Outlook

- The 2<sup>nd</sup> QE indicates a clearer recovery of the Japanese economy driven by the corporate sector -

March 8, 2017

Mizuho Research Institute

## The Japanese economy: the economy will pick up reflecting the recovery of overseas economies

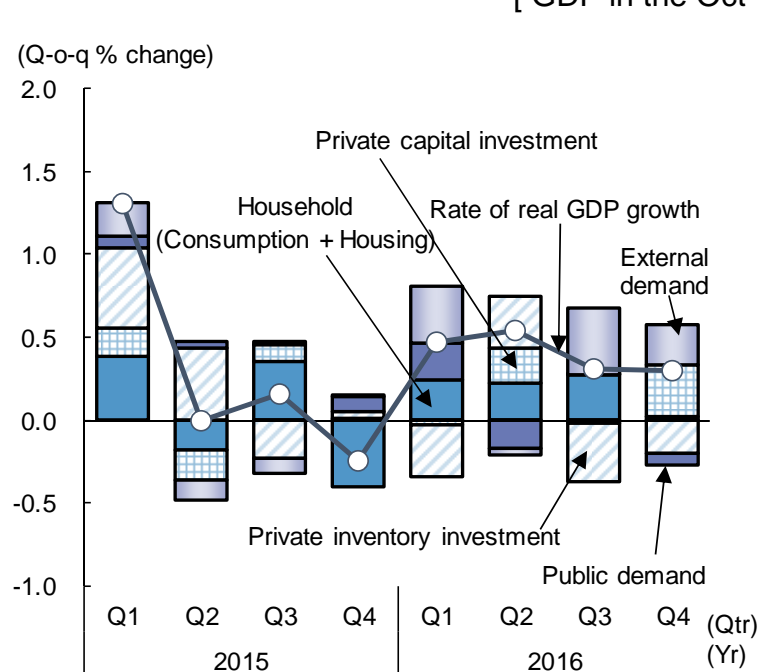
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- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2<sup>nd</sup> QE”) for the Oct-Dec quarter of 2016 revealed an upward revision of Japan’s economic growth from the *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”). Despite still-subdued personal spending, the recovery of the corporate sector is clearer, reflecting the upturn of overseas economies.
- ❑ Economic conditions 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 (+1.3%).
- ❑ In FY2018, the Japanese economy will continue to grow above its potential growth rate 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 protectionist developments in the US, outcome of major elections in Europe and China’s economic policy.
- ❑ 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 remain modest.

## 1. Japan: overview of the 2<sup>nd</sup> QE for the Oct-Dec quarter of 2016 – a clearer recovery of the corporate sector

- The 2<sup>nd</sup> QE for the Oct-Dec quarter of 2016 revealed an upward revision of Japan's real GDP to +0.3% q-o-q (+1.2% p.a.) from the 1<sup>st</sup> QE (+1.0% p.a.).
  - Although inventory investment and public investment were downwardly revised, capital investment was revised upward. The rise of capital investment was the largest since the Jan-Mar quarter of 2014.
  - Viewed overall, despite lingering concerns regarding the recovery momentum of personal consumption, the 2<sup>nd</sup> QE indicated more clearly than the 1<sup>st</sup> QE that the Japanese economy is following a gradual recovery path driven mainly by exports and capital investment reflecting the improvement of overseas economies.

[ GDP in the Oct-Dec quarter of 2016 (2<sup>nd</sup> QE) ]



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

	(Q-o-q % change)					
	2015 Oct-Dec	2016 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1st QE Oct-Dec
Gross domestic production	-0.2	0.5	0.5	0.3	0.3	0.2
(Q-o-q change, p.a.)	-1.0	1.9	2.2	1.2	1.2	1.0
(Y-o-y change)	1.1	0.4	0.9	1.1	1.6	1.7
Domestic demand	-0.3	0.1	0.6	-0.1	0.1	-0.0
(-0.3)	(0.1)	(0.6)	(-0.1)	(0.1)	(-0.0)	
Private demand	-0.5	-0.1	1.0	-0.1	0.2	0.0
(-0.3)	(-0.1)	(0.7)	(-0.1)	(0.1)	(0.0)	
Personal consumption	-0.6	0.4	0.2	0.3	0.0	-0.0
Housing investment	-1.0	1.5	3.3	2.4	0.1	0.2
Capital investment	0.1	-0.2	1.4	-0.1	2.0	0.9
Inventory investment	(0.0)	(-0.3)	(0.3)	(-0.3)	(-0.2)	(-0.1)
Public demand	0.3	0.9	-0.7	0.0	-0.3	-0.0
(0.1)	(0.2)	(-0.2)	(0.0)	(-0.1)	(-0.0)	
Government consumption	0.7	1.3	-1.1	0.2	0.3	0.4
Public investment	-1.3	-1.2	1.0	-0.9	-2.5	-1.8
Net exports of goods & services	(0.0)	(0.3)	(-0.0)	(0.4)	(0.2)	(0.2)
Exports	-0.8	0.9	-1.2	2.1	2.6	2.6
Imports	-0.8	-1.1	-1.0	-0.3	1.3	1.3
Nominal GDP	-0.2	0.7	0.4	0.1	0.4	0.3
GDP deflator (y-o-y change)	1.5	0.9	0.4	-0.1	-0.1	-0.1

Note: The figures in parentheses indicate the contributions to gross domestic production  
Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*

## 2. Japan: forecasts on growth in FY2017 and FY2018 remain unchanged from our *Economic Outlook* in February

- FY2017 GDP forecast: +1.4%. The overseas economic recovery and improvement of the domestic inventory cycle should lead to the recovery of the Japanese economy.
  - However, there are still significant downside risks due to uncertainties regarding overseas political and economic developments.
- FY2018 GDP forecast: +1.3%. Despite the high possibility of a slowdown from a cyclical perspective, the Japanese economy should maintain above-potential growth rate as the engine of growth shifts to domestic demand.

### [ 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	1.3	1.4	1.3	0.5	0.3	0.3	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	2.2	1.2	1.2	0.9	1.7	1.4	1.6	1.5	1.3	1.1	1.0	1.1	1.1
Domestic demand	Q-o-q % ch	1.1	0.6	1.1	1.2	0.6	-0.1	0.1	0.3	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Private sector demand	Q-o-q % ch	1.1	0.8	0.9	1.2	1.0	-0.1	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.5	0.5
Personal consumption	Q-o-q % ch	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	Q-o-q % ch	2.7	6.0	-4.0	-1.9	3.3	2.4	0.1	-1.2	-2.3	-1.7	-0.3	-0.3	-0.9	-1.0	0.6	1.0	1.0
Capital investment	Q-o-q % ch	0.6	2.5	3.2	2.2	1.4	-0.1	2.0	0.1	0.9	0.8	0.8	0.7	0.5	0.5	0.4	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	0.3	-0.3	-0.1	0.1	0.3	-0.3	-0.2	0.0	0.0	0.1	-0.0	-0.1	0.1	0.1	0.1	0.2	0.2
Public sector demand	Q-o-q % ch	1.2	0.2	1.7	1.4	-0.7	0.0	-0.3	0.6	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Government consumption	Q-o-q % ch	2.0	0.8	1.4	1.7	-1.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Public investment	Q-o-q % ch	-2.0	-2.1	2.9	0.6	1.0	-0.9	-2.5	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	0.0	-0.0	0.4	0.2	-0.1	0.0	0.0	0.1	0.1	0.0	-0.0	-0.1	-0.2	-0.2
Exports	Q-o-q % ch	0.8	2.6	4.0	1.9	-1.2	2.1	2.6	0.6	0.6	0.5	0.9	0.9	0.4	0.2	0.2	-0.0	-0.0
Imports	Q-o-q % ch	-0.2	-0.9	2.3	1.7	-1.0	-0.3	1.3	1.1	0.4	0.4	0.4	0.0	0.4	0.5	0.7	1.0	1.0
GDP (nominal)	Q-o-q % ch	2.8	1.2	1.7	1.9	0.4	0.1	0.4	0.1	0.6	1.0	0.0	0.1	0.8	1.0	-0.1	0.1	0.1
GDP deflator	Y-o-y % ch	1.4	-0.0	0.3	0.6	0.4	-0.1	-0.1	-0.3	-0.0	0.8	0.3	0.2	0.4	0.5	0.6	0.7	0.7
Domestic demand deflator	Y-o-y % ch	0.0	-0.4	0.9	1.0	-0.7	-0.8	-0.3	0.3	0.7	1.0	0.8	1.2	1.1	1.0	0.9	0.8	0.8

Notes: Figures in the shaded areas are forecasts

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

## Japan: the core inflation rate will rise to the 1%-level in FY2017 (unchanged from our *Economic Outlook* in February)

### [ 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	1.3	3.5	1.9	0.2	1.3	2.0	-0.0	0.8	0.9	0.8	0.7	0.4	0.3	0.2	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	3.5	5.6 (2.8)	2.4 (5.3)	3.0	-10.0	11.5 (-5.8)	16.9	7.1	7.2	-6.3 (6.2)	4.4	3.6	3.5	3.2	3.2	1.9
Nominal compensation of employees	Y-o-y % ch	1.5	2.0	1.8	2.3	2.2	2.3	2.2	1.2	1.7	1.7	1.9	1.8	2.3	2.2	2.5	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	97.2	91.3	90.8	99.1	98.0	95.3	96.4	91.8	91.4	91.1	90.9	89.6	89.7	91.4	92.8
Current account balance	P.a., JPY tril	18.0	20.4	19.9	20.2	19.4	19.9	20.9	18.3	20.1	18.1	18.9	18.0	19.2	17.9	19.2	17.6
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.4	2.3	2.0	-4.5	-3.8	-2.1	0.8	1.5	2.4	2.8	2.3	2.3	2.3	1.9	1.4
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	1.1	1.0	-0.4	-0.5	-0.3	0.3	0.7	1.1	1.2	1.4	1.3	1.2	1.1	0.8
Consumer prices (ex fresh food and energy)	Y-o-y % ch	1.0	0.4	0.6	0.7	0.7	0.4	0.2	0.2	0.3	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Consumer prices (ex food (ex alcohol) and energy)	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	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	18,841	17,500	20,000	21,100	16,408	16,497	17,933	19,300	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	117	118	119	120	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 based upon actual results  
2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries) (ex finance & insurance) . The figures in parentheses on the lower line excludes positive effects stemming from factors regarding holding companies in the Jul-Sep quarter of 2016  
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 will expand in 2017 and 2018

- Although growth in the forecast area is forecast to expand toward 2018, US policy measures and European political developments are risk factors.
  - In comparison to our *Economic Outlook* in February, we have revised upward our forecasts on the Eurozone, Hong Kong, Singapore and Australia due to upticks with respect to the Oct-Dec quarter. In contrast, Brazil has been revised downward reflecting a downturn of growth.
  - In India, the negative pressure stemming from the abolition of high-denomination banknotes turned out to be smaller than initially expected. Given the current expansion of consumer spending, we have revised downward our forecast on 2017 in view of its backlash.

#### [ 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 Feb)	2017	2016 (Breadth of change from Feb)	2017
Total of forecast area	3.6	3.5	3.4	3.7	3.9	3.8	3.9	-0.1	-
Japan, US, Eurozone	1.6	2.2	1.6	1.9	1.9	1.9	1.9	-	-
US	2.4	2.6	1.6	2.3	2.3	2.3	2.3	-	-
Eurozone	1.2	2.0	1.7	1.6	1.6	1.5	1.6	0.1	-
Japan	0.3	1.2	1.0	1.3	1.4	1.3	1.4	-	-
Asia	6.3	6.2	6.1	6.0	6.1	6.0	6.1	-	-
China	7.3	6.9	6.7	6.5	6.4	6.5	6.4	-	-
NIEs	3.5	2.0	2.2	2.3	2.6	2.2	2.5	0.1	0.1
ASEAN5	4.6	4.8	4.9	4.9	5.0	4.9	5.0	-	-
India	6.8	7.4	7.4	7.4	7.5	7.5	7.5	-0.1	-
Australia	2.8	2.4	2.4	2.3	2.8	2.2	2.7	0.1	0.1
Brazil	0.5	-3.8	-3.6	0.6	2.0	1.0	2.0	-0.4	-
Russia	0.7	-2.8	-0.2	1.0	1.5	1.0	1.5	-	-
Japan (FY)	-0.4	1.3	1.3	1.4	1.3	1.4	1.3	-	-
Crude oil price (WTI, USD/bbl)	93	49	43	57	65	57	65	-	-

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**

	2017		2018	
US			Feb	FRB Chair Yellen's term of office ends
			Nov	Mid-term election
Europe	Mar	Netherlands: Legislative election	1H	Italy: General election
	Apr-May	France: Presidential election		
	Jun	France: Legislative election		
	Sep	Germany: Legislative election		
Japan			Apr	BOJ Governor Kuroda's term of office ends
			Sep	LDP Presidential election
			Dec	Lower House members' term of office end
Asia	Mar	Hong Kong: Chief Executive election	around May	Malaysia: Legislative 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	South Korea: Presidential election	By year end	India: Upper house election
			By year end	Thailand: General election
Others	May	G7 Summit (Italy, Sicily)	Mar	Russia: Presidential election
	Jul	G20 Summit (Germany, Hamburg)	Jul	Mexico: Presidential election
			Oct	Brazil: Presidential election

Source: Made by MHRI

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