

Summary

FY2017, FY2018 Economic Outlook

- While the global economy is following a gradual expansion, keep a close eye upon US policy agenda and geopolitical risks -

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Key points of our forecast

- ❑ The global economy is forecast to follow an expansion path in 2017 and 2018, driven by the recovery of the US economy and upturn of commodity-producing economies.
- ❑ Even though the US economy showed signs of moderation, the global economy is generally following a recovery track driven by factors such as the upturn of the Chinese economy.
- ❑ The US economy is forecast to return to an expansion path from the Apr-Jun quarter of 2017. While tax cuts and infrastructure investment will serve as underpinnings for the US economy, its actual implementation is expected to be postponed to 2018. Keep a close eye upon developments regarding the “Russiagate” scandal.
- ❑ Turning to China, we forecast an economic slowdown due to policy measures to curb housing purchases and the full-fledged adjustments in sectors saddled with excessive production capacity. Even so, the overall economic slowdown will most likely be mild due to fiscal support such as infrastructure investment.
- ❑ Geopolitical risks such as the situation surrounding North Korea will linger. As far as conditions do not spiral out to extreme cases such as military clashes, the impact of the “North Korea risk” upon the real economy should be benign. Even so, note that the financial market turmoil may have a negative impact upon economic conditions.
- ❑ The US Federal Reserve Board (FRB) is expected to raise interest rates at a gradual pace and start to scale down its reinvestment policy from 2018. Although the rise of US long-term interest rates should remain moderate, currency weakening and the rise of rate hike pressures are sources of concern for some emerging market (EM) countries.
- ❑ The Japanese economy will pick up in FY2017. In addition to the recovery of overseas economies, the increase of capital investment related to the 2020 Tokyo Olympic Games and rise of productivity will serve as positive factors. In FY2018, the Japanese economy will continue to grow due to the strength of domestic demand, despite the slowdown of external demand.
- ❑ Japan’s core inflation rate will rise to temporarily 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)					(Y-o-y % change)		(% point)	
	2014 (Actual)	2015 (Actual)	2016 (Actual)	2017 (Forecast)	2018 (Forecast)	2017 (Forecast in Mar)	2018	2017 (Breadth of change from Mar)	2018
Total of forecast area	3.6	3.4	3.4	3.7	3.8	3.7	3.8	-	-
Japan, US, Eurozone	1.6	2.2	1.6	1.9	1.9	1.9	1.9	-	-
US	2.4	2.6	1.6	2.1	2.2	2.3	2.3	-0.2	-0.1
Eurozone	1.2	2.0	1.8	1.7	1.7	1.6	1.6	0.1	0.1
Japan	0.3	1.1	1.0	1.5	1.4	1.3	1.4	0.2	-
Asia	6.3	6.2	6.1	6.1	6.1	6.0	6.1	0.1	-
China	7.3	6.9	6.7	6.6	6.4	6.5	6.4	0.1	-
NIEs	3.5	2.0	2.3	2.5	2.5	2.3	2.6	0.2	-0.1
ASEAN5	4.6	4.8	4.9	4.9	5.0	4.9	5.0	-	-
India	6.9	7.5	7.5	7.4	7.5	7.4	7.5	-	-
Australia	2.8	2.4	2.4	2.3	2.8	2.3	2.8	-	-
Brazil	0.5	-3.8	-3.6	0.6	2.0	0.6	2.0	-	-
Mexico	2.3	2.6	2.3	1.8	2.1				
Russia	0.7	-2.8	-0.2	1.0	1.5	1.0	1.5	-	-
Japan (FY)	-0.5	1.2	1.3	1.5	1.3	1.4	1.3	0.1	-
Crude oil price (WTI, USD/bbl)	93	49	43	53	55	57	65	-4	-10

Note: The total of the forecast area is calculated upon the 2015 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 recovering, reflecting the overseas economic expansion and solid domestic demand

- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1st QE”) for the Jan-Mar quarter of 2017 revealed that the Japanese economy recorded growth in positive territory for the fifth consecutive quarter for the first time in 11 years. In addition to the continuation of the export recovery, the upturn of personal consumption and factors such as the commencement of construction of the Tokyo Olympic Village served to push up growth.
- ❑ 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 the rise of energy prices will serve as downward pressures upon personal consumption, the Japanese economy will continue to maintain healthy growth due to the recovery of durable goods consumption and the easing of households’ budget-consciousness. The pace of economic growth in FY2017 is forecast to rise to +1.5% from the previous fiscal year (+1.3%).
- ❑ In FY2018, the Japanese economy will continue to grow above its potential rate of growth due to the steady rise of domestic demand despite a slowdown of external demand. In particular, the improvement of real wages will serve as tailwinds upon personal consumption. In FY2018, the economy is projected to grow +1.3%.
- ❑ Despite the alleviation of uncertainties regarding political and economic developments overseas, they still pose significant downside risks. Keep a close eye upon the Trump administration’s policy developments and China’s economic policy management.
- ❑ The core inflation rate will rise temporarily to the 1%-level, given a faster year-on-year rise of energy prices. On the other hand, the improvement of the underlying trend in inflation excluding the impact of energy prices will remain mild.

Japan: forecast on growth remains unchanged for FY2017 (+1.5%) and FY2018 (+1.3%)

[Outlook on the Japanese economy]

		2015	2016	2017	2018	2016		2017				2018				2019
		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	1.2	1.3	1.5	1.3	0.2	0.3	0.5	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	1.0	1.4	2.2	1.7	1.1	1.1	1.6	1.4	1.3	1.3	1.3
Domestic demand	Q-o-q % ch	1.1	0.5	1.1	1.3	-0.1	-0.0	0.4	0.4	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	1.1	1.3	-0.1	0.1	0.5	0.4	0.2	0.2	0.3	0.3	0.4	0.5	0.4
Personal consumption	Q-o-q % ch	0.5	0.6	0.9	1.0	0.4	0.0	0.4	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3
Housing investment	Q-o-q % ch	2.8	6.5	-0.3	-2.2	2.7	0.4	0.7	0.1	-0.9	-1.3	-1.6	-0.2	-0.5	0.7	0.2
Capital investment	Q-o-q % ch	0.6	2.3	3.4	2.2	-0.2	1.9	0.2	0.9	1.0	0.8	0.6	0.5	0.4	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	0.4	-0.3	-0.2	0.1	-0.4	-0.2	0.1	0.0	-0.1	-0.1	0.1	-0.0	0.1	0.1	0.1
Public sector demand	Q-o-q % ch	1.2	-0.1	1.1	1.3	-0.1	-0.5	0.1	0.5	0.6	0.4	0.4	0.3	0.3	0.3	0.3
Government consumption	Q-o-q % ch	2.1	0.6	1.0	1.3	0.2	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-1.9	-3.2	2.0	1.6	-1.3	-3.0	-0.1	1.4	1.9	0.8	0.6	0.2	0.3	0.1	-0.0
External demand	Q-o-q contribution, % pt	0.1	0.8	0.4	0.0	0.4	0.4	0.1	0.0	-0.0	0.0	0.1	0.0	-0.0	-0.1	-0.0
Exports	Q-o-q % ch	0.7	3.1	4.9	1.8	1.9	3.4	2.1	0.5	0.4	0.3	0.6	0.5	0.5	0.2	0.2
Imports	Q-o-q % ch	0.2	-1.4	2.6	1.7	-0.2	1.3	1.4	0.5	0.4	0.3	0.2	0.3	0.7	0.9	0.4
GDP (nominal)	Q-o-q % ch	2.7	1.2	1.9	1.9	0.1	0.4	-0.0	1.3	0.4	0.3	-0.3	1.3	0.6	0.4	-0.5
GDP deflator	Y-o-y % ch	1.5	-0.2	0.4	0.5	-0.1	-0.0	-0.8	0.2	0.5	0.4	0.4	0.4	0.6	0.6	0.5
Domestic demand deflator	Y-o-y % ch	0.0	-0.4	0.7	0.6	-0.8	-0.3	0.1	0.5	0.8	0.6	0.8	0.7	0.7	0.5	0.4

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 temporarily to around 1%, the underlying trend of inflation will likely remain at the 0%-level

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

		2015	2016	2017	2018	2016		2017				2018				2019
		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	-0.9	1.1	4.1	1.7	1.6	1.8	0.2	2.0	0.2	0.6	0.5	0.5	0.4	0.3	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	3.5	6.1 (3.4)	4.1 (6.9)	3.1	11.5 (-5.8)	16.9	9.6	10.5	-4.5 (8.0)	5.2	4.4	3.1	3.2	3.3	2.5
Nominal compensation of employees	Y-o-y % ch	1.5	1.9	1.8	2.3	2.3	2.2	0.8	1.8	1.9	2.0	1.5	2.4	2.3	2.5	2.1
Unemployment rate	%	3.3	3.0	2.9	2.8	3.0	3.1	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
New housing starts	P.a., 10,000 units	92.1	97.4	93.7	92.7	98.0	95.3	97.5	94.6	94.1	93.5	92.8	91.5	91.6	93.3	94.7
Current account balance	P.a., JPY tril	17.9	20.2	22.0	23.3	19.4	20.6	21.0	22.3	19.6	21.6	23.5	23.0	21.6	23.9	24.0
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	1.9	1.0	-3.8	-2.1	1.0	2.1	2.4	2.0	1.2	1.4	1.3	0.8	0.4
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	0.8	0.7	-0.5	-0.3	0.2	0.5	0.9	1.1	1.0	0.9	0.8	0.6	0.4
Consumer prices (ex fresh food and energy)	Y-o-y % ch	0.9	0.3	0.4	0.5	0.4	0.2	0.1	0.2	0.3	0.5	0.6	0.6	0.6	0.5	0.5
Consumer prices (ex food (ex alcohol) and energy)	Y-o-y % ch	0.5	0.2	0.1	0.3	0.2	0.1	-0.1	-0.2	-0.0	0.1	0.2	0.3	0.4	0.4	0.4
Uncollateralized overnight call rate	%	-0.00	-0.06	-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
Yield on newly-issued 10-yr JGBs	%	0.29	-0.05	0.05	0.05	-0.13	-0.01	0.07	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	18,841	17,520	20,100	20,900	16,497	17,933	19,241	19,400	19,900	20,400	20,700	21,000	21,300	20,800	20,500
Exchange rate	JPY/USD	120	108	115	117	102	110	114	112	114	116	117	118	118	116	115
Crude oil price (WTI nearest term contract)	USD/bbl	45	48	53	55	45	49	52	50	54	55	55	56	55	54	53

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).

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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