

REVISED
to reflect the
2nd QE for the
Jan-Mar Qtr
of 2017

FY2017, FY2018 Economic Outlook

- The Japanese economy is enjoying the recovery of both domestic and external demand -

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Mizuho Research Institute

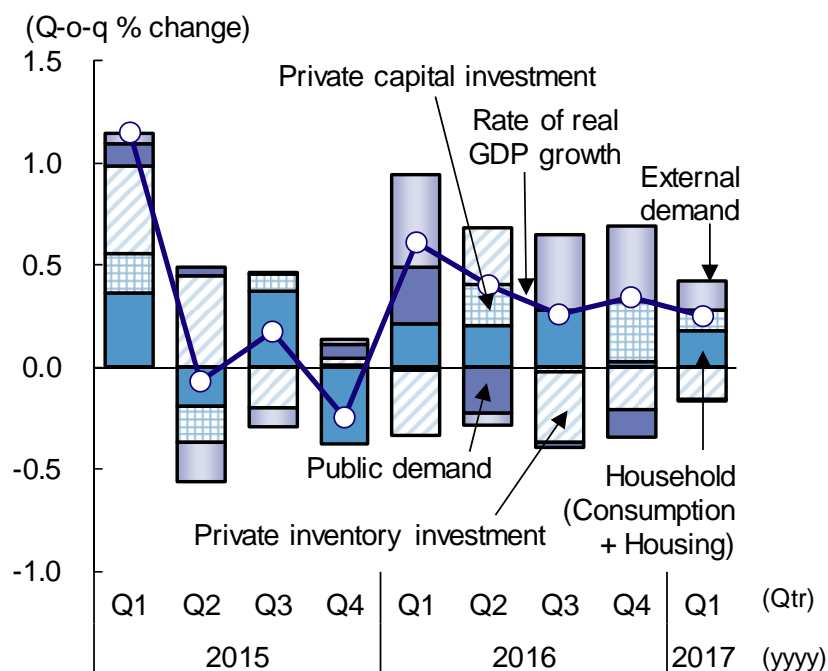
The Japanese economy: economic conditions are picking up reflecting the overseas economic expansion and firm domestic demand

- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”) for the Jan-Mar quarter of 2017 revealed a downward revision of Japan’s economic growth from the *First Preliminary Quarterly Estimates of GDP* (“1st QE”). Even so, since the main culprit was the downturn in inventory investment, the contents are not so bad. Our assessment of the 2nd QE is that it indicates a spread of Japan’s economic recovery, as shown by a more definite rise of capital investment in addition to the increase of exports and upturn of personal consumption.
- ❑ Economic conditions will continue to recover 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 pick up due to the recovery of durable goods consumption and the easing of households’ budget-consciousness. The pace of economic growth is forecast to rise to +1.4% in FY2017 from +1.2% in FY2016.
- ❑ Despite the slowdown of external demand, the Japanese economy will continue to grow above its potential growth rate in FY2018 given the firm growth of domestic demand. As for personal consumption, the improvement of real wages will boost its recovery. FY2018 economic growth is projected to stand at +1.3%.
- ❑ Despite the alleviation of uncertainties regarding political and economic conditions 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 around 1%, 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.

1. Japan: overview of the 2nd QE for the Jan-Mar quarter of 2017 – despite a downward revision, the contents are not so bad

- The 2nd QE for the Jan-Mar quarter of 2017 revealed an downward revision of Japan's real GDP to +0.3% q-o-q (+1.0% p.a.) from the 1st QE (+2.2% p.a.).
 - Among the major items which were revised, capital investment was revised upward while inventory investment was revised down sharply.
 - Even though Japan's growth rate was revised downward, since this was due mainly to a downturn in raw material inventories, the contents are not so bad. In addition to the increase of exports and upturn of personal consumption, the rise of capital investment is also turning more definite, the 2nd QE indicates that the economic recovery is spreading.

[GDP in the Jan-Mar quarter of 2017 (2nd QE)]



Source: Made by MHRI based upon Cabinet Office, *National Accounts*

	2016				(Q-o-q % change)	
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2017 Jan-Mar	1st QE Jan-Mar
Gross domestic production	0.6	0.4	0.3	0.3	0.3	0.5
(Q-o-q change, p.a.)	2.5	1.6	1.0	1.4	1.0	2.2
(Y-o-y change)	0.5	0.9	1.1	1.6	1.3	1.6
Domestic demand	0.2	0.5	-0.1	-0.0	0.1	0.4
(Q-o-q change, p.a.)	(0.2)	(0.5)	(-0.1)	(-0.0)	(0.1)	(0.4)
Private demand	-0.2	0.9	-0.1	0.2	0.2	0.5
(Q-o-q change, p.a.)	(-0.1)	(0.7)	(-0.1)	(0.1)	(0.1)	(0.4)
Personal consumption	0.3	0.2	0.4	0.0	0.3	0.4
Housing investment	1.2	3.1	2.6	0.2	0.3	0.7
Capital investment	-0.1	1.3	-0.2	1.9	0.6	0.2
Inventory investment	(-0.3)	(0.3)	(-0.3)	(-0.2)	(-0.1)	(0.1)
Public demand	1.1	-0.9	-0.1	-0.6	-0.0	0.1
(Q-o-q change, p.a.)	(0.3)	(-0.2)	(-0.0)	(-0.1)	(-0.0)	(0.0)
Government consumption	1.4	-1.2	0.2	0.0	-0.0	0.1
Public investment	-0.3	0.7	-1.3	-3.0	-0.1	-0.1
Net exports of goods & services	(0.5)	(-0.1)	(0.4)	(0.4)	(0.1)	(0.1)
Exports	0.5	-1.4	1.9	3.4	2.1	2.1
Imports	-2.0	-1.1	-0.2	1.3	1.4	1.4
Nominal GDP	0.9	0.2	0.1	0.4	-0.3	-0.0
GDP deflator (y-o-y change)	0.9	0.4	-0.1	-0.0	-0.8	-0.8

Note: The figures in parentheses indicate the contributions to gross domestic production
 Source: Made by MHRI based upon Cabinet Office, *National Accounts*

2. Japan: despite a slight downward revision of our outlook in view of the 2nd QE, our outlook remains unchanged that the economy is recovering

- FY2017 GDP forecast: revised downward to +1.4% from our forecast as of May (+1.5%). The main reason is the contraction of the “carry-over of growth” due to the downward revision of the Jan-Mar quarter GDP growth in the 2nd QE.
 - Our outlook remains unchanged that Japan’s economic recovery will continue to grow on the back of the upturn of the overseas economies and progress in implementation of Japan’s economic stimulus measures.
- FY2018 GDP forecast: +1.3% (unchanged from our *Economic Outlook* in May). Despite the slowdown of overseas demand, domestic demand should remain on firm footing, maintaining Japan’s economy above its potential rate of growth.

[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	1.2	1.4	1.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	1.0	1.4	1.0	1.6	1.6	1.4	1.6	1.2	1.2	1.2	1.4
Domestic demand	Q-o-q % ch	1.1	0.5	1.0	1.3	-0.1	-0.0	0.1	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Private sector demand	Q-o-q % ch	1.1	0.7	1.0	1.3	-0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.4
Personal consumption	Q-o-q % ch	0.5	0.6	0.9	1.0	0.4	0.0	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.3
Housing investment	Q-o-q % ch	2.8	6.3	0.5	-1.6	2.6	0.2	0.3	0.5	-0.2	-0.8	-1.3	-0.2	-0.5	0.7	0.2
Capital investment	Q-o-q % ch	0.6	2.5	3.6	2.2	-0.2	1.9	0.6	0.9	1.1	0.6	0.6	0.5	0.5	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	0.4	-0.4	-0.4	0.1	-0.3	-0.2	-0.1	-0.1	-0.0	0.1	0.1	-0.1	0.1	0.1	0.1
Public sector demand	Q-o-q % ch	1.2	-0.3	1.0	1.3	-0.1	-0.6	-0.0	0.5	0.6	0.4	0.4	0.3	0.3	0.3	0.2
Government consumption	Q-o-q % ch	2.1	0.4	0.8	1.2	0.2	0.0	-0.0	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	1.5	1.9	0.8	0.6	0.2	0.3	0.1	-0.1
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	1.1	1.7	1.9	0.1	0.4	-0.3	1.2	0.5	0.3	-0.2	1.3	0.5	0.4	-0.4
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	0.0	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 MHIRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*

**Japan: even though the core inflation rate will rise temporarily to 1%, the underlying trend in inflation will remain around 0%
(unchanged from our *Economic Outlook* in May)**

[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	3.8	1.7	1.6	1.8	0.2	1.7	0.3	0.6	0.5	0.5	0.4	0.3	0.2
Ordinary profits (Lower line: excludes impact of special factors)	o-y %	4.9	10.0 (7.3)	7.0 (9.7)	3.2	11.5 (-5.8)	16.9	26.6	16.0	1.4 (13.8)	6.0	4.7	3.5	3.3	3.1	2.9
Nominal compensation of employees	Y-o-y % ch	1.5	2.0	1.9	2.4	2.3	2.2	1.0	1.8	1.8	2.0	2.0	2.4	2.3	2.5	2.3
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	94.9	92.7	98.0	95.3	97.5	98.0	95.1	93.8	92.9	91.5	91.6	93.3	94.7
Current account balance	P.a., JPY tril	17.9	20.2	21.9	23.3	19.4	20.6	21.0	22.3	19.5	21.4	23.5	22.9	21.5	23.8	24.0
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	1.8	1.0	-3.8	-2.1	1.0	2.1	2.2	1.8	1.0	1.3	1.3	0.8	0.5
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	0.4	0.5	0.5	0.6	0.6	0.5	0.5
Consumer prices (ex food (ex alcohol) and energy)	% 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	52	53	45	49	52	49	51	53	53	54	53	52	51

- 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, *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

3. The global economy will expand in 2017 and 2018

- Although growth in the forecast area is forecast to expand toward 2018, keep a close eye upon US policy agenda and political developments in China.
 - In consideration of the new released GDP data for the Jan-Mar quarter of 2017, we have revised downward our forecasts on Japan and India and revised upward our forecast on the US economy from our *Economic Outlook* in May.

[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 May)	2018	2017 (Breadth of change from May)	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	2.2	2.2	2.1	2.2	0.1	-
Eurozone	1.2	2.0	1.8	1.7	1.7	1.7	1.7	-	-
Japan	0.3	1.1	1.0	1.3	1.4	1.5	1.4	-0.2	-
Asia	6.3	6.2	6.2	6.1	6.1	6.1	6.1	-	-
China	7.3	6.9	6.7	6.6	6.4	6.6	6.4	-	-
NIEs	3.5	2.0	2.2	2.5	2.5	2.5	2.5	-	-
ASEAN5	4.6	4.8	4.9	5.0	5.1	4.9	5.0	0.1	0.1
India	6.9	7.5	7.9	7.1	7.5	7.4	7.5	-0.3	-
Australia	2.8	2.4	2.4	2.2	2.8	2.3	2.8	-0.1	-
Brazil	0.5	-3.8	-3.6	0.6	2.0	0.6	2.0	-	-
Mexico	2.3	2.6	2.3	1.9	2.1	1.8	2.1	0.1	-
Russia	0.7	-2.8	-0.2	1.0	1.5	1.0	1.5	-	-
Japan (FY)	-0.5	1.2	1.2	1.4	1.3	1.5	1.3	-0.1	-
Crude oil price (WTI, USD/bbl)	93	49	43	51	53	53	55	-2	-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 International Monetary Fund (IMF) and statistics of relevant countries and regions

(Reference) Key political events

	2017		2018	
US	Oct Around Oct - Nov	Start of FY2018 The Treasury Department will run out of measures to avoid a government default, leading to a resurgence of a debt ceiling crisis	Feb Nov	FRB Chair Yellen's term of office ends Mid-term election
Europe	Jun Jun Sep	France: Legislative election UK: General election Germany: Legislative election	1H	Italy: General election (may be accelerated to 2017)
Japan			Apr Sep Around Dec	BOJ Governor Kuroda's term of office ends LDP Presidential election Lower House members' term of office end
Asia	Autumn	China: 19th National Congress of the Communist Party of China	By May Autumn By year end By year end	Malaysia: Legislative election China: 3rd Plenary Session of the CPC Central Committee India: Upper house election Thailand: General election
Others	May Jul	G7 Summit (Italy, Sicily) G20 Summit (Germany, Hamburg)	Mar Jul Oct	Russia: Presidential election Mexico: Presidential election Brazil: Presidential election

Source: Made by MHRI

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