

**Summary**

---

## **FY2017, FY2018 Economic Outlook**

**- Even though the global economy is continuing to grow, the “new normal” is a world of low inflation and low interest rates -**

August 15, 2017

Mizuho Research Institute

## Key points of our forecast

---

- ❑ The global economy should follow a gradual expansion path in 2017 and 2018, driven by the recovery of the developed market economies and upturn of commodity-producing economies. However, the recovery momentum will gradually moderate as the Chinese economy slows down and the IT cycle runs its course.
- ❑ Inflationary pressures are not expected to rise despite the global economic recovery. The decline of the labor share due to technological innovation, globalization and structural-institutional factors are serving as a drag upon the rise of wages and inflation.
- ❑ Despite the ebb of IT-related demand, iPhones, in-vehicle devices and Internet of Things (IoT) will serve to support demand. However, the expansion of China's semiconductor output capacity may lead to a supply glut from 2018.
- ❑ On the political front, risks related to Europe should ebb slightly. On the other hand, US congressional developments related to issues such as the debt ceiling and the course of the "Russiagate" scandal are destabilizing factors. Geopolitical risks such as the situation surrounding North Korea will also linger.
- ❑ Keep a close eye upon financial market dislocation as Europe and the US progress on their exit strategies. In particular, note the risk of the negative impact upon the global economy stemming from the rise of capital outflow pressures from emerging market (EM) countries where capital inflows are continuing.
- ❑ The Japanese economy is picking 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. Despite the slowdown of external demand, the Japanese economy will maintain growth above 1% in FY2018 due to the strength of domestic demand.
- ❑ Japan's core inflation rate will fail to reach 1% and 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.

## (1) Overview of the global economy: the global economy should recover in 2017 and keep growing at the same pace in 2018

### [ Outlook on the global economy ]

Calendar year	(Y-o-y % change)				(Y-o-y % change)		(% point)	
	2015 (Actual)	2016 (Actual)	2017 (Forecast)	2018 (Forecast)	2017 (Forecast in June)	2018	2017 (Breadth of change from June)	2018
Total of forecast area	3.5	3.4	3.8	3.8	3.7	3.8	0.1	-
Japan, US, Eurozone	2.3	1.5	2.0	1.9	1.9	1.9	0.1	-
US	2.9	1.5	2.1	2.2	2.2	2.2	-0.1	-
Eurozone	2.0	1.8	2.0	1.8	1.7	1.7	0.3	0.1
Japan	1.1	1.0	1.7	1.2	1.3	1.4	0.4	-0.2
Asia	6.2	6.2	6.1	6.1	6.1	6.1	-	-
China	6.9	6.7	6.8	6.4	6.6	6.4	0.2	-
NIEs	2.0	2.3	2.6	2.4	2.5	2.5	0.1	-0.1
ASEAN5	4.8	4.9	5.0	5.1	5.0	5.1	-	-
India	7.5	7.9	7.1	7.5	7.1	7.5	-	-
Australia	2.4	2.4	2.2	2.8	2.2	2.8	-	-
Brazil	-3.8	-3.6	0.5	1.9	0.6	2.0	-0.1	-0.1
Mexico	2.6	2.3	1.9	2.1	1.9	2.1	-	-
Russia	-2.8	-0.2	1.0	1.5	1.0	1.5	-	-
Japan (FY)	1.3	1.3	1.7	1.2	1.4	1.3	0.3	-0.1
Crude oil price (WTI, USD/bbl)	49	43	50	52	51	53	-1	-1

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: economic recovery driven by the expansion of the overseas economies and strength of domestic demand

---

- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Apr-Jun quarter of 2017 revealed that the Japanese economy recorded growth in positive territory for the sixth consecutive quarter for the first time in 11 years. Even though exports took a dip in a reaction to the rapid recovery thus far, the recovery of personal consumption and capital investment, and the progress of economic stimulus measures 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 recover due to purchases to replace durable goods and wage hikes mainly among small and medium-sized companies. The pace of economic growth in FY2017 is forecast to rise to +1.7% from the previous fiscal year (+1.3%).
- ❑ In FY2018, domestic demand such as personal consumption will remain on solid footing despite the slowdown of exports. In FY2018, the economy is projected to grow +1.2%.
- ❑ Despite the alleviation of uncertainties regarding political and economic developments overseas, keep a close eye upon a slower-than-expected growth of the Chinese economy.
- ❑ The core inflation rate will rise temporarily to almost 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.

## Japan: forecast on growth for FY2017 (+1.7%) and FY2018 (+1.2%)

### [ 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	1.3	1.3	1.7	1.2	0.3	0.4	0.4	1.0	0.2	0.1	0.2	0.4	0.4	0.4	0.3
	Q-o-q % ch p.a.	--	--	--	--	1.3	1.7	1.5	4.0	0.7	0.5	0.9	1.4	1.4	1.4	1.2
Domestic demand	Q-o-q % ch	1.2	0.5	1.7	1.2	-0.1	0.1	0.2	1.3	0.1	0.1	0.2	0.4	0.4	0.3	0.3
Private sector demand	Q-o-q % ch	1.2	0.8	1.9	1.3	-0.1	0.3	0.3	1.3	0.2	0.3	0.1	0.4	0.4	0.4	0.4
Personal consumption	Q-o-q % ch	0.6	0.7	1.5	1.1	0.4	0.1	0.4	0.9	0.1	0.1	0.2	0.3	0.4	0.3	0.3
Housing investment	Q-o-q % ch	2.8	6.5	2.0	-1.7	2.8	0.3	0.9	1.5	-0.2	-0.8	-1.3	-0.2	-0.5	0.7	0.2
Capital investment	Q-o-q % ch	0.6	2.5	4.7	1.6	0.0	2.2	0.9	2.4	0.1	0.6	0.5	0.5	0.4	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	0.4	-0.4	-0.2	0.1	-0.4	-0.2	-0.2	0.0	0.1	0.1	-0.1	0.1	0.1	0.0	0.1
Public sector demand	Q-o-q % ch	1.2	-0.3	1.0	1.0	0.0	-0.5	0.1	1.3	-0.0	-0.3	0.3	0.4	0.4	0.3	0.2
Government consumption	Q-o-q % ch	2.0	0.4	0.7	1.1	0.2	0.0	-0.1	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-1.9	-3.2	2.2	0.7	-0.8	-2.5	0.6	5.1	-1.0	-2.4	0.3	0.8	0.9	0.3	0.0
External demand	Q-o-q contribution, % pt	0.1	0.8	0.1	-0.0	0.4	0.3	0.1	-0.3	0.1	-0.0	0.1	-0.0	-0.1	0.0	-0.1
Exports	Q-o-q % ch	0.7	3.2	3.9	1.6	2.1	3.1	1.9	-0.5	0.6	0.6	0.5	0.3	0.3	0.3	0.2
Imports	Q-o-q % ch	0.2	-1.4	3.6	1.9	-0.2	1.4	1.3	1.4	0.3	0.6	0.2	0.5	0.8	0.2	0.5
GDP (nominal)	Q-o-q % ch	2.7	1.1	2.0	1.6	0.1	0.5	-0.0	1.1	1.0	-0.1	-0.3	0.7	1.2	0.3	-0.2
GDP deflator	Y-o-y % ch	1.5	-0.2	0.2	0.5	-0.1	-0.1	-0.8	-0.4	0.7	0.3	0.3	0.4	0.4	0.5	0.6
Domestic demand deflator	Y-o-y % ch	0.0	-0.4	0.5	0.5	-0.8	-0.3	0.0	0.4	0.8	0.4	0.6	0.6	0.6	0.5	0.5

Notes: Figures in the shaded areas are forecasts.

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

## Japan: the underlying trend of consumer prices (excluding food and energy) will likely remain around the lower half of 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	4.4	1.7	1.6	1.8	0.2	1.9	0.8	0.6	0.5	0.5	0.3	0.2	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	4.9	10.0 (7.3)	8.2 (10.9)	2.5	11.5 (-5.8)	16.9	26.6	16.4	1.5 (14.0)	7.5	7.3	4.3	3.4	1.6	0.9
Nominal compensation of employees	Y-o-y % ch	1.5	2.0	1.7	1.7	2.3	2.2	1.0	1.7	1.7	1.7	1.6	1.5	1.7	1.8	1.8
Unemployment rate	%	3.3	3.0	2.8	2.8	3.0	3.1	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
New housing starts	P.a., 10,000 units	92.1	97.4	95.2	92.6	98.0	95.3	97.5	100.2	94.7	93.4	92.5	91.1	90.9	93.1	95.8
Current account balance	P.a., JPY tril	17.9	20.4	21.3	21.4	19.4	20.6	21.7	18.9	19.9	22.1	23.4	19.4	18.9	23.0	23.4
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	1.7	0.7	-3.8	-2.1	1.0	2.1	2.6	1.4	0.7	0.9	0.8	0.6	0.4
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	0.7	0.7	-0.5	-0.3	0.2	0.4	0.7	0.8	0.8	0.7	0.7	0.6	0.5
Consumer prices (ex fresh food and energy)	Y-o-y % ch	0.9	0.3	0.2	0.4	0.4	0.2	0.1	0.0	0.2	0.3	0.4	0.5	0.5	0.4	0.3
Consumer prices (ex food (ex alcohol) and energy)	Y-o-y % ch	0.6	0.2	0.0	0.3	0.2	0.1	-0.1	-0.2	-0.1	0.1	0.2	0.3	0.3	0.3	0.2
Uncollateralized overnight call rate	%	-0.00	-0.06	-0.05	-0.05	-0.06	-0.06	-0.06	-0.07	-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	20,200	20,700	16,497	17,933	19,241	19,503	20,200	20,400	20,600	20,800	21,000	20,600	20,300
Exchange rate	JPY/USD	120	108	112	113	102	110	114	111	112	112	114	115	113	112	111
Crude oil price (WTI nearest term contract)	USD/bbl	45	48	50	52	45	49	52	48	49	51	52	53	52	51	50

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.

---

**Mizuho Research Institute Ltd.**

**This publication is compiled solely for the purpose of providing readers with information and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice.**