

**Summary**

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# **FY2017, FY2018 Economic Outlook**

**- The global economy will continue to expand in 2018 -**

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Mizuho Research Institute

## Key points of our forecast

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- ❑ Our economic outlook sees that global economy will remain on growth track in 2018. Despite a slowdown of the Chinese economy, the above-potential growth of developed market (DM) economies, recovery of commodity-producing economies, and - in Asia - the upturn of ASEAN domestic demand and the Indian economy should serve as underpinnings.
- ❑ The global economy is robust, with overall real GDP growth firm albeit a slight decline among the DM economies in the Jul-Sep quarter. A virtuous cycle is taking hold, namely the expansion of the economy is driving the rise of stock prices and the stock market rise is serving as a further engine of the economy. However, note that there are risks of a US stock market adjustment.
- ❑ Global semiconductor sales is following an uptrend. Demand for semiconductors in new forms such as computer servers should keep global IT demand on solid footing for some time.
- ❑ As for risk factors, keep a close eye upon the military situation in North Korea and political upheaval in Europe. The escalation of the North Korea crisis would raise yen-appreciation risks and also serve as downside risks through supply chain disruptions upon the global economy, should the situation spiral into military conflict.
- ❑ Following a landslide victory of Japan's ruling coalition in the lower house election, the measures in its policy platform such as its project to "revolutionize" human resource development will materialize under the continuation of Abenomics. Even though free preschool education is an appropriate measure, this should serve as an opportunity to review the entire system and nature of preschool education.
- ❑ FY2017 will turn out to be a year of well-balanced economic recovery for Japan with both domestic and external demand serving as drivers. Even though exports are forecast to slow down in FY2018, the firm growth of domestic demand should maintain Japan's growth above its potential. Japan's exit from its post-Bubble slump may come into view.
- ❑ Japan's core inflation rate will rise temporarily to the 1%-level, given the expansion of the breadth of the y-o-y change in positive territory. On the other hand, the underlying trend in inflation excluding the impact of energy prices will remain moderate.

## Overview of the global economy: the global economy will remain on firm footing 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 September)	2018	2017 (Breadth of change from September)	2018
Total of forecast area	3.5	3.4	3.8	3.9	3.8	3.8	-	0.1
Japan, US, Eurozone	2.3	1.5	2.1	2.0	2.1	1.9	-	0.1
US	2.9	1.5	2.2	2.2	2.2	2.2	-	-
Eurozone	2.1	1.8	2.3	1.9	2.2	1.8	0.1	0.1
Japan	1.1	1.0	1.5	1.4	1.4	1.4	0.1	-
Asia	6.2	6.2	6.1	6.0	6.0	6.0	0.1	-
China	6.9	6.7	6.8	6.4	6.8	6.4	-	-
NIEs	2.0	2.3	3.0	2.5	2.6	2.4	0.4	0.1
ASEAN5	4.8	4.9	5.2	5.2	5.1	5.1	0.1	0.1
India	7.5	7.9	6.6	7.3	6.6	7.3	-	-
Australia	2.4	2.5	2.3	2.8	2.3	2.8	-	-
Brazil	-3.8	-3.6	0.7	2.0	0.6	1.9	0.1	0.1
Mexico	3.3	2.9	2.0	2.0	2.0	2.1	-	-0.1
Russia	-2.8	-0.2	1.5	1.5	1.0	1.5	0.5	-
Japan (FY)	1.3	1.3	1.5	1.2	1.5	1.2	-	-
Crude oil price (WTI, USD/bbl)	49	43	51	59	49	51	2	8

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.

## The Japanese economy: economic recovery driven by the expansion of the overseas economies and strength of domestic demand

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- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Jul-Sep quarter of 2017 revealed that the Japanese economy recorded growth in positive territory for the seventh consecutive quarter for the first time in 17 years. Even though domestic demand fell in a reaction to the rise in the Apr-Jun quarter, net exports served to push up growth, reflecting the increase of IT-related exports.
- ❑ 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 +1.5% from the previous fiscal year (+1.3%).
- ❑ In FY2018, domestic demand will remain on solid footing despite the slowdown of exports. In FY2018, the Japanese 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 and risks related to North Korea.
- ❑ 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 moderate.

## Japan: forecast on growth for FY2017 (+1.5%) 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	1.5	1.2	0.2	0.4	0.3	0.6	0.3	0.3	0.3	0.3	0.3	0.2	0.3
	Q-o-q % ch p.a.	--	--	--	--	0.9	1.6	1.0	2.6	1.4	1.1	1.3	1.3	1.3	0.9	1.3
Domestic demand	Q-o-q % ch	1.2	0.5	1.2	1.2	-0.1	0.1	0.1	0.9	-0.2	0.3	0.3	0.4	0.3	0.3	0.4
Private sector demand	Q-o-q % ch	1.2	0.8	1.2	1.3	-0.2	0.3	0.2	0.7	0.0	0.4	0.4	0.4	0.3	0.3	0.4
Personal consumption	Q-o-q % ch	0.6	0.7	0.9	0.8	0.4	0.1	0.4	0.7	-0.5	0.2	0.2	0.3	0.3	0.3	0.3
Housing investment	Q-o-q % ch	2.8	6.6	1.8	-0.9	2.9	0.3	0.9	1.1	-0.9	-0.1	-0.8	-0.2	-0.3	0.5	0.1
Capital investment	Q-o-q % ch	0.6	2.5	2.9	2.8	-0.1	1.9	0.5	0.5	0.2	1.3	1.3	0.5	0.5	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	0.4	-0.4	-0.1	0.1	-0.5	-0.2	-0.2	0.0	0.2	0.0	-0.1	0.1	0.0	0.0	0.1
Public sector demand	Q-o-q % ch	1.2	-0.4	1.1	1.0	0.2	-0.5	0.0	1.6	-0.6	0.1	0.2	0.4	0.4	0.3	0.3
Government consumption	Q-o-q % ch	2.0	0.4	0.7	1.1	0.3	0.0	-0.0	0.6	-0.1	0.2	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-1.9	-3.2	2.5	0.7	-0.4	-2.7	0.1	5.8	-2.5	-0.4	0.0	0.7	0.7	0.1	0.3
External demand	Q-o-q contribution, % pt	0.1	0.8	0.4	0.0	0.4	0.3	0.1	-0.2	0.5	-0.1	-0.0	-0.0	-0.0	-0.1	-0.1
Exports	Q-o-q % ch	0.7	3.2	4.8	2.0	2.1	3.0	1.9	-0.2	1.5	0.7	0.3	0.6	0.5	0.2	0.0
Imports	Q-o-q % ch	0.2	-1.3	2.5	2.1	0.1	1.2	1.4	1.4	-1.6	1.1	0.4	0.8	0.7	0.6	0.4
GDP (nominal)	Q-o-q % ch	2.7	1.1	1.5	1.1	0.0	0.5	-0.0	0.6	0.6	0.2	0.2	0.1	0.4	0.5	0.3
GDP deflator	Y-o-y % ch	1.5	-0.2	-0.1	-0.1	-0.1	-0.0	-0.8	-0.4	0.1	-0.1	0.2	-0.2	-0.3	-0.0	0.0
Domestic demand deflator	Y-o-y % ch	0.0	-0.4	0.5	0.4	-0.8	-0.3	0.0	0.3	0.5	0.4	0.6	0.4	0.5	0.4	0.3

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	4.5	1.9	1.6	1.8	0.2	2.1	0.4	1.3	0.3	0.4	0.3	0.3	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	4.9	10.0 (7.3)	11.2 (13.9)	3.3	11.5 (-5.8)	16.9	26.6	22.6	5.7 (18.2)	10.4	6.3	4.5	4.4	2.4	2.1
Nominal compensation of employees	Y-o-y % ch	1.5	2.0	2.1	2.0	2.3	2.2	1.0	2.1	2.1	2.4	1.9	2.0	1.9	2.1	2.0
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	96.0	93.7	98.0	95.3	97.5	100.2	95.6	94.6	93.6	92.2	92.0	94.2	97.0
Current account balance	P.a., JPY tril	17.9	20.4	22.4	20.0	19.4	20.6	21.7	19.1	24.5	21.4	24.1	19.8	16.9	19.4	23.3
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	2.6	1.8	-3.8	-2.1	1.0	2.1	2.9	3.1	2.4	2.0	2.5	1.9	1.0
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	0.7	1.0	-0.5	-0.3	0.2	0.4	0.6	0.9	1.0	1.0	1.1	1.0	0.9
Consumer prices (ex fresh food and energy)	Y-o-y % ch	0.9	0.3	0.2	0.5	0.4	0.2	0.1	0.0	0.2	0.3	0.4	0.4	0.5	0.5	0.5
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	0.2	0.3	0.3	0.4
Uncollateralized overnight call rate	%	-0.00	-0.06	-0.05	-0.05	-0.06	-0.06	-0.06	-0.07	-0.06	-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	21,000	23,100	16,497	17,933	19,241	19,503	19,880	22,000	22,600	22,800	23,000	23,200	23,500
Exchange rate	JPY/USD	120	108	112	115	102	110	114	111	111	113	114	115	115	115	115
Crude oil price (WTI nearest term contract)	USD/bbl	45	48	52	60	45	49	52	48	48	56	55	58	63	61	57

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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