

REVISED
to reflect the
2nd QE for the
Jul-Sep Qtr
of 2017

FY2017, FY2018 Economic Outlook

- Outlook on Japan's economic growth in FY2017 revised up, to a strong pace of growth reaching almost +2% -

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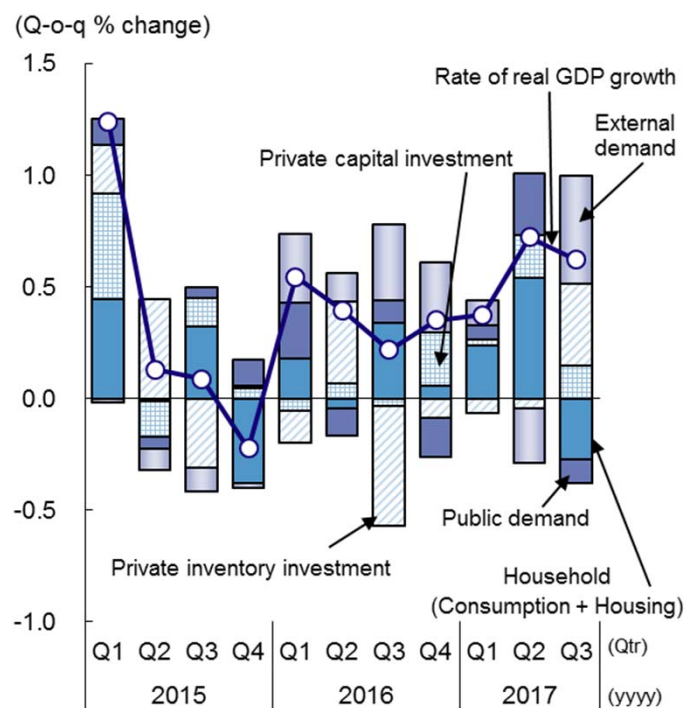
The Japanese economy: economic conditions are picking up reflecting the overseas economic expansion and firm domestic demand

- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”) for the Jul-Sep quarter of 2017 revealed an uptick of Japan’s economic growth from the *First Preliminary Quarterly Estimates of GDP* (“1st QE”), mainly in capital investment and inventory investment. The results underscore that the impact of the global economic recovery from the second half of 2016 is spreading to Japan’s domestic capital investment.
- ❑ From the Oct-Dec quarter onward, we expect the Japanese economy to remain on a gradual recovery path due to the ongoing growth of exports reflecting the recovery of overseas economies along with the continuing rise of domestic demand. In FY2018, even though exports are forecast to slow down from the strong growth in FY2017, domestic demand such as personal consumption and capital investment should follow firm footing.
- ❑ In comparison to our forecast as of November, we have revised up our outlook on Japan’s economic growth mainly in capital investment and inventory investment, to reflect the 2nd QE for the Jul- Sep quarter of 2017. Japan’s economic growth is projected to grow +1.8% in FY2017 (MHRI’s *Economic Outlook* in November: +1.5%), and +1.3% in FY2018 (*Economic Outlook* in November: +1.2%).
- ❑ Even though uncertainties regarding political and economic conditions overseas are receding, it will be necessary to keep a close eye upon China’s economic slowdown and geopolitical risks such as conditions surrounding 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.

1. Japan: overview of the 2nd QE for the Jul-Sep quarter of 2017 – upward revision of capital investment and inventory investment

- The 2nd QE for the Jul-Sep quarter of 2017 revealed an upward revision of Japan’s real GDP to +0.6% q-o-q (+2.5% p.a.) from the 1st QE (+1.4% p.a.).
 - The upward revision of inventory investment contributed to the uptick of growth. Following the strong growth in the Apr-Jun quarter, capital investment grew strongly, surpassing +1%.
 - The results underscore that the impact of the global economic recovery from the second half of 2016 is spreading also to Japan’s domestic capital investment.

[GDP in the Jul-Sep quarter of 2017 (2nd QE)]



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

	(Q-o-q % change)					
	2016 Jul-Sep	2016 Oct-Dec	2017 Jan-Mar	2017 Apr-Jun	2017 Jul-Sep	1st QE Jul-Sep
Gross domestic production	0.2	0.3	0.4	0.7	0.6	0.3
(Q-o-q change, p.a.)	0.9	1.4	1.5	2.9	2.5	1.4
(Y-o-y change)	0.9	1.5	1.5	1.6	2.1	1.7
Domestic demand	-0.1	0.0	0.3	1.0	0.1	-0.2
(Contributions)	(-0.1)	(0.0)	(0.3)	(1.0)	(0.1)	(-0.2)
Private demand	-0.3	0.3	0.3	0.9	0.3	0.0
(Contributions)	(-0.2)	(0.2)	(0.2)	(0.7)	(0.3)	(0.0)
Personal consumption	0.4	0.1	0.4	0.9	-0.5	-0.5
Housing investment	3.0	0.2	0.9	1.3	-1.0	-0.9
Capital investment	-0.2	1.5	0.2	1.2	1.1	0.2
Inventory investment	(-0.5)	(-0.1)	(-0.1)	(-0.0)	(0.4)	(0.2)
Public demand	0.4	-0.7	0.2	1.1	-0.5	-0.6
(Contributions)	(0.1)	(-0.2)	(0.1)	(0.3)	(-0.1)	(-0.2)
Government consumption	0.5	-0.3	0.2	0.2	0.0	-0.1
Public investment	0.3	-2.4	0.3	4.6	-2.4	-2.5
Net exports of goods & services	(0.3)	(0.3)	(0.1)	(-0.2)	(0.5)	(0.5)
Exports	2.1	3.0	1.9	-0.1	1.5	1.5
Imports	0.1	1.3	1.3	1.5	-1.6	-1.6
Nominal GDP	-0.1	0.5	0.1	0.8	0.8	0.6
GDP deflator (y-o-y change)	-0.1	-0.1	-0.9	-0.4	0.1	0.1

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

2. Japan: we have made an upward revision of our outlook to reflect the 2nd QE. Strong growth of nearly +2% is expected in FY2017

- FY2017 GDP forecast: revised upward to +1.8% from our forecast as of November (+1.5%). The main factor was the uptick of the 2nd QE for the Jul-Sep quarter of 2017.
 - The ripple effect of the gradual recovery of the overseas economies to domestic capital investment is turning more definite than at the time of our previous *Economic Outlook* in November.
- FY2018 GDP forecast: +1.3% (a slight upward revision from our *Economic Outlook* in November (+1.2%)). This is due to rise of the “carry-over of growth” accompanying the uptick of GDP in the Jul-Sep quarter.

[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	1.4	1.2	1.8	1.3	0.2	0.3	0.4	0.7	0.6	0.2	0.2	0.4	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	0.9	1.4	1.5	2.9	2.5	0.7	1.0	1.4	1.3	1.0	1.3
Domestic demand	Q-o-q % ch	1.3	0.4	1.4	1.3	-0.1	0.0	0.3	1.0	0.1	0.2	0.2	0.4	0.4	0.3	0.4
Private sector demand	Q-o-q % ch	1.4	0.4	1.7	1.4	-0.3	0.3	0.3	0.9	0.3	0.3	0.3	0.4	0.3	0.3	0.4
Personal consumption	Q-o-q % ch	0.8	0.3	1.1	0.8	0.4	0.1	0.4	0.9	-0.5	0.2	0.2	0.3	0.3	0.3	0.3
Housing investment	Q-o-q % ch	3.7	6.2	1.9	-0.7	3.0	0.2	0.9	1.3	-1.0	-0.1	-0.6	-0.0	-0.3	0.6	0.2
Capital investment	Q-o-q % ch	2.3	1.2	3.6	2.9	-0.2	1.5	0.2	1.2	1.1	0.9	0.9	0.7	0.6	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	0.2	-0.3	0.0	0.1	-0.5	-0.1	-0.1	-0.0	0.2	-0.0	-0.1	0.1	0.0	0.0	0.1
Public sector demand	Q-o-q % ch	1.1	0.5	0.7	0.9	0.4	-0.7	0.2	1.1	-0.5	-0.1	0.1	0.4	0.4	0.3	0.3
Government consumption	Q-o-q % ch	1.9	0.5	0.5	1.1	0.5	-0.3	0.2	0.2	0.0	0.2	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-1.6	0.9	1.2	0.1	0.3	-2.4	0.3	4.6	-2.4	-1.4	-0.3	0.7	0.7	0.3	0.3
External demand	Q-o-q contribution, % pt	0.1	0.8	0.4	-0.0	0.3	0.3	0.1	-0.2	0.5	-0.0	-0.0	-0.0	-0.0	-0.1	-0.1
Exports	Q-o-q % ch	0.7	3.4	4.8	2.0	2.1	3.0	1.9	-0.1	1.5	0.7	0.3	0.6	0.5	0.2	0.0
Imports	Q-o-q % ch	0.3	-1.1	2.5	2.1	0.1	1.3	1.3	1.5	-1.6	1.1	0.4	0.8	0.7	0.6	0.4
GDP (nominal)	Q-o-q % ch	3.0	1.0	1.8	1.1	-0.1	0.5	0.1	0.8	0.8	0.1	0.2	0.2	0.3	0.6	0.3
GDP deflator	Y-o-y % ch	1.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.9	-0.4	0.1	-0.1	0.3	-0.1	-0.3	-0.0	0.0
Domestic demand deflator	Y-o-y % ch	0.0	-0.5	0.5	0.4	-0.8	-0.4	-0.0	0.3	0.5	0.4	0.6	0.4	0.6	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 the CPI (ex food & energy) will 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	2.0	1.6	1.8	0.2	2.1	0.4	1.0	0.6	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)	11.1 (13.8)	3.3	11.5 (-5.8)	16.9	26.6	22.6	5.5 (17.9)	9.4	7.3	4.3	4.6	2.7	1.6
Nominal compensation of employees	Y-o-y % ch	1.5	2.4	2.2	2.0	2.8	2.7	1.4	2.2	2.2	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	17.0	19.5	23.3
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	2.6	1.9	-3.8	-2.1	1.0	2.1	2.9	3.1	2.4	2.1	2.5	1.9	1.1
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	22,100	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 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 is recovering in 2017 and should continue to grow around at the same level in FY2018

- Although growth in the forecast area is predicted to follow an uptrend in 2018, it will be necessary to keep a close eye upon China's economic slowdown and geopolitical risks.
 - Reflecting the newly-released revised GDP data for the Jul-Sep quarter of 2017, we have revised upward our forecast on Japan, the US, the Eurozone, the NIEs, ASEAN5 and Brazilian economies and have revised downward our forecast on India.

[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 Nov)	2018	2017 (Breadth of change from Nov)	2018
Total of forecast area	3.6	3.4	3.9	3.9	3.8	3.9	0.1	-
Japan, US, Eurozone	2.4	1.5	2.2	2.0	2.1	2.0	0.1	-
US	2.9	1.5	2.2	2.3	2.2	2.2	-	0.1
Eurozone	2.1	1.8	2.4	2.0	2.3	1.9	0.1	0.1
Japan	1.4	0.9	1.7	1.4	1.5	1.4	0.2	-
Asia	6.2	6.2	6.1	6.1	6.1	6.0	-	0.1
China	6.9	6.7	6.8	6.4	6.8	6.4	-	-
NIEs	2.1	2.2	3.1	2.6	3.0	2.5	0.1	0.1
ASEAN5	4.8	4.9	5.3	5.3	5.2	5.2	0.1	0.1
India	7.5	7.9	6.3	7.3	6.6	7.3	-0.3	-
Australia	2.5	2.6	2.3	2.8	2.3	2.8	-	-
Brazil	-3.5	-3.5	1.0	2.2	0.7	2.0	0.3	0.2
Mexico	3.3	2.9	2.0	2.0	2.0	2.0	-	-
Russia	-2.8	-0.2	1.5	1.5	1.5	1.5	-	-
Japan (FY)	1.4	1.2	1.8	1.3	1.5	1.2	0.3	0.1
Crude oil price (WTI, USD/bbl)	49	43	51	59	51	59	-	-

Note: The total of the forecast area is calculated upon the 2015 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

	2018		2019	
US	Feb	FRB Chair Yellen's term of office ends		
	Nov	Mid-term election		
Europe	1H	Italy: General election	1H	European Parliament election
			Oct	ECB President Mario Draghi's term of office ends
Japan	Apr	BOJ Governor Kuroda's term of office ends	Around spring	Nationwide local elections
	Sep	LDP Presidential election	End of Apr	Abdication of the current Emperor
			May	Accession of the new Emperor, change of era
			Around summer	Upper House election
			Oct	Consumption tax hike
Asia	By May	Malaysia: Legislative election	Around Apr	Indonesia: Legislative election
	Autumn	China: 3rd Plenary Session of the CPC Central Committee	Around May	India: Lower House election
	By year end	Thailand: General election	Around Jul	Indonesia: Presidential election
			Around Sep	Australia: Upper House and Lower House elections
			Autumn	China: 4th Plenary Session of the CPC Central Committee
Others	Mar	Russia: Presidential election		
	Jul	Mexico: Presidential election		
	Oct	Brazil: Presidential election		

Source: Made by MHRI

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