

Summary

FY2017, FY2018, FY2019 Economic Outlook

- While the global economy will continue to expand, keep a close eye upon shifts in the financial market -

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Mizuho Research Institute

Key points of our forecast

- ❑ The global economy will continue to follow an expansion track in 2018 and continue to follow firm footing in 2019. However, the growth momentum will gradually moderate due to the slowdown of the Chinese economy and peak-out of the IT cycle.
- ❑ Even though Oct-Dec quarter growth fell among major countries, economic conditions among each of the countries generally remain sound. Among the developed market (DM) countries, capital investment – which had led to concerns regarding secular stagnation – is showing signs of recovery due in part to policy support in the US.
- ❑ In the US, reform of the tax system is stimulating consumption and investment, leading to the prolongation of economic expansion. The Federal Reserve Board (FRB) under its new Chairman, Jerome H. Powell, will likely continue to pursue interest rate hikes during 2018. Even so, given the inflation target still a long way to go, a policy review is likely from 2019.
- ❑ The risks factors are a sharp fluctuation of the financial markets, a slower-than-expected growth of the Chinese economy, and geopolitical risks in areas such as the Middle East. In particular, it will be necessary to keep a close eye upon US long-term interest rates and stock prices which are showing signs of a shift.
- ❑ Turning to the Japanese economy in FY2018, even though exports are forecast to slow down along with the moderation of the pace of recovery of the IT sector and the Chinese economy, capital investment should continue to follow a gradual recovery, supported by investment related to the 2020 Tokyo Olympic Games and investment to boost productivity.
- ❑ In FY2019, even though the consumption tax hike in October will serve as a drag upon the Japanese economy, the economy should continue to record growth in positive territory for the fifth consecutive year.
- ❑ Japan's core inflation rate (excluding energy) should hover low, around 0.5%. In the absence of prospects that it can achieve the inflation target, the Bank of Japan (BOJ) will likely keep monetary policy on hold for some time.

Overview of the global economy: an upward revision mainly with respect to the US economy

[Outlook on the global economy]

Calendar year	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2015 (Actual)	2016 (Actual)	2017 (Estimate)	2018 (Forecast)	2019 (Forecast)	2017 (Forecast in Dec 2017)	2018	2017 (Breadth of change from Dec 2017)	2018
Total of forecast area	3.6	3.4	3.9	4.0	3.9	3.9	3.9	-	0.1
Japan, US, Eurozone	2.4	1.5	2.2	2.2	2.0	2.2	2.0	-	0.2
US	2.9	1.5	2.3	2.5	2.4	2.2	2.3	0.1	0.2
Eurozone	2.1	1.8	2.5	2.2	1.8	2.4	2.0	0.1	0.2
Japan	1.4	0.9	1.6	1.4	1.1	1.7	1.4	-0.1	-
Asia	6.2	6.2	6.1	6.2	6.0	6.1	6.1	-	0.1
China	6.9	6.7	6.9	6.5	6.4	6.8	6.4	0.1	0.1
NIEs	2.1	2.2	3.1	2.8	2.5	3.1	2.6	-	0.2
ASEAN5	4.9	4.9	5.3	5.3	5.1	5.3	5.3	-	-
India	7.5	7.9	6.3	7.3	7.3	6.3	7.3	-	-
Australia	2.5	2.6	2.3	2.8	2.7	2.3	2.8	-	-
Brazil	-3.5	-3.5	1.0	2.3	2.6	1.0	2.2	-	0.1
Mexico	3.3	2.9	2.1	2.1	2.4	2.0	2.0	0.1	0.1
Russia	-2.8	-0.2	1.5	1.7	1.5	1.5	1.5	-	0.2
Japan (FY)	1.4	1.2	1.7	1.3	0.8	1.8	1.3	-0.1	-
Crude oil price (WTI, USD/bbl)	49	43	51	65	72	51	59	-	6

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

- ❑ The *First Preliminary Quarterly Estimates of GDP* (“1st QE”) for the Oct-Dec quarter of 2017 revealed that the Japanese economy grew +0.5% q-o-q p.a., recording growth in positive territory for the eight consecutive quarter. Even though the pace of economic growth itself moderated due to the sharp rise of imports, our view is that the economy is continuing to follow a firm recovery. Growth in FY2017 is forecast to reach a strong +1.7 %.
- ❑ In FY2018, while export growth should slow down along with the moderation of the pace of recovery in the IT sector and the Chinese economy, capital investment will continue to pick up, supported by investment related to the 2020 Tokyo Olympic Games and productivity improvement. Even though the rise of energy prices will weigh down upon real wages, wage hikes primarily among small and medium-sized enterprises should keep personal consumption on solid footing. The pace of economic growth in FY2018 is forecast to stand at +1.3%.
- ❑ In FY2019, the consumption tax hike in October will serve as a drag upon growth, leading to a contraction of growth to +0.8%. Even so, the Japanese economy will maintain growth in positive territory for the fifth consecutive year.
- ❑ It will be necessary to keep a close eye upon the rise of uncertainties accompanying fluctuations in the financial market, the slower-than-expected growth of the Chinese economy due to structural reforms, and geopolitical risks mainly with respect to conditions surrounding North Korea.
- ❑ Even though the core inflation rate will temporarily rise to the 1%-level due to upward pressures stemming from the rise of energy prices, the underlying trend in inflation excluding the impact of energy prices is forecast to remain around 0.5%.

Japan: forecast on growth for FY2017 (+1.7%), FY2018 (+1.3%) and FY2019 (+0.8)

[Outlook on the Japanese economy]

		2016	2017	2018	2019	2017				2018				2019				2020
		FY				Jan-Mar	Apr-Jun	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	1.7	1.3	0.8	0.3	0.6	0.6	0.1	0.4	0.4	0.3	0.1	0.4	0.4	0.4	-0.5	0.2
	Q-o-q % ch p.a.	—	—	—	—	1.2	2.5	2.2	0.5	1.6	1.5	1.3	0.6	1.5	1.5	1.6	-2.1	0.8
Domestic demand	Q-o-q % ch	0.4	1.3	1.1	0.9	0.2	0.9	0.0	0.1	0.2	0.4	0.3	0.2	0.4	0.5	0.7	-1.0	0.1
Private sector demand	Q-o-q % ch	0.3	1.5	1.3	0.9	0.3	0.9	0.2	0.3	0.2	0.4	0.3	0.3	0.4	0.5	0.7	-1.4	0.1
Personal consumption	Q-o-q % ch	0.3	1.1	0.8	0.6	0.3	0.9	-0.6	0.5	0.1	0.3	0.2	0.2	0.2	0.4	1.4	-2.6	0.5
Housing investment	Q-o-q % ch	6.2	0.5	-1.5	0.3	1.2	0.9	-1.5	-2.7	0.5	-0.4	-0.5	0.5	1.5	1.9	1.1	-5.0	-4.5
Capital investment	Q-o-q % ch	1.2	3.3	2.6	2.5	0.1	1.2	1.0	0.7	0.7	0.6	0.6	0.5	0.5	0.6	1.1	0.2	0.3
Inventory investment	Q-o-q contribution, % pt	(-0.3)	(-0.0)	(0.1)	(-0.1)	(-0.0)	(-0.1)	(0.4)	(-0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	(-0.5)	(0.5)	(-0.1)
Public sector demand	Q-o-q % ch	0.5	0.6	0.6	1.0	0.1	1.2	-0.5	-0.2	0.3	0.2	0.5	-0.0	0.2	0.2	0.4	0.3	-0.0
Government consumption	Q-o-q % ch	0.5	0.4	0.9	0.9	0.1	0.2	0.0	-0.1	0.4	0.2	0.3	0.3	0.3	0.3	0.3	-0.1	0.2
Public investment	Q-o-q % ch	0.9	1.3	-0.5	1.3	-0.2	4.7	-2.6	-0.5	-0.4	0.1	1.6	-1.3	-0.2	0.1	1.2	1.6	-1.0
External demand	Q-o-q contribution, % pt	(0.8)	(0.4)	(0.2)	(-0.1)	(0.1)	(-0.3)	(0.5)	(-0.0)	(0.1)	(0.0)	(-0.0)	(-0.0)	(0.0)	(-0.1)	(-0.3)	(0.5)	(0.1)
Exports	Q-o-q % ch	3.4	6.3	3.6	2.4	2.0	0.0	2.1	2.4	0.4	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Imports	Q-o-q % ch	-1.0	4.0	2.5	2.7	1.7	1.9	-1.2	2.9	-0.4	0.7	0.7	0.8	0.5	1.1	2.0	-1.8	0.0
GDP (nominal)	Q-o-q % ch	1.0	1.6	0.6	1.2	0.1	0.9	0.6	-0.0	-0.2	0.5	0.0	-0.1	0.2	0.5	0.2	0.5	0.3
GDP deflator	Y-o-y % ch	-0.2	-0.1	-0.7	0.3	-0.8	-0.3	0.2	0.0	-0.5	-0.6	-0.8	-1.0	-0.4	-0.4	-0.4	1.0	1.2
Domestic demand deflator	Y-o-y % ch	-0.5	0.6	0.7	0.7	0.0	0.4	0.5	0.5	0.9	0.8	0.8	0.7	0.5	0.5	0.4	1.1	1.0

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 0.5%

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

		2016	2017	2018	2019	2017				2018				2019				2020
		FY				Jan-Mar	Apr-Jun	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	1.1	4.7	2.4	1.7	0.2	2.1	0.4	1.8	0.0	0.7	0.5	0.4	0.4	0.8	1.3	-1.2	-0.1
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0 7.3	11.6 13.8	4.0	2.7	26.6	22.6	5.5 17.9	11.8	6.5	7.4	5.0	1.9	1.8	5.8	8.2	-1.7	-0.6
Nominal compensation of employees	Y-o-y % ch	2.4	2.2	2.3	2.1	1.4	2.2	2.2	1.9	2.7	2.6	2.5	2.3	1.9	1.9	2.1	2.1	2.1
Unemployment rate	%	3.0	2.8	2.8	2.7	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.7
New housing starts	P.a., 10,000 units	97.4	95.6	95.6	98.6	97.2	98.7	95.5	94.8	93.2	94.2	94.5	94.3	99.9	103.4	102.3	96.9	91.2
Current account balance	P.a., JPY tril	20.4	20.8	17.9	17.2	21.7	19.1	24.7	22.5	17.7	18.6	19.0	18.6	16.2	16.2	14.8	19.0	19.8
Domestic corporate goods prices	Y-o-y % ch	-2.3	2.6	2.3	2.0	1.0	2.1	2.9	3.4	2.3	2.1	2.6	2.6	1.9	1.4	1.0	2.7	2.7
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	1.1	-	-	-	-	-	-	-	-	-	-	-	0.9	0.9
Consumer prices, ex fresh food	Y-o-y % ch	-0.3	0.7	1.1	1.3	0.2	0.4	0.6	0.9	1.0	1.1	1.2	1.1	1.0	0.8	0.7	1.7	1.7
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	-	0.8	-	-	-	-	-	-	-	-	-	-	-	0.7	0.6
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.4	0.2	0.4	1.0	0.1	0.0	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	1.4	1.5
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	0.3	-	-	0.5	-	-	-	-	-	-	-	-	-	-	-	0.5	0.5
Uncollateralized overnight call rate	%	-0.06	-0.05	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	-0.05	0.05	0.08	0.08	0.07	0.04	0.05	0.05	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Nikkei average	JPY	17,520	21,200	24,500	24,700	19,241	19,503	19,880	22,188	23,200	24,000	24,300	24,600	24,900	25,000	24,700	24,200	24,700
Exchange rate	JPY/USD	108	111	111	109	114	111	111	113	109	111	112	111	111	110	109	109	108
Crude oil price (WTI nearest term contract)	USD/bbl	48	53	67	74	52	48	48	55	62	64	66	67	69	71	73	75	76

- 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 relevant statistics

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