

REVISED
to reflect the
2nd QE for the
Oct-Dec Qtr
of 2017

FY2017, FY2018, FY2019 Economic Outlook

- Firm outlook on both domestic and overseas economic growth remains unchanged -

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Mizuho Research Institute

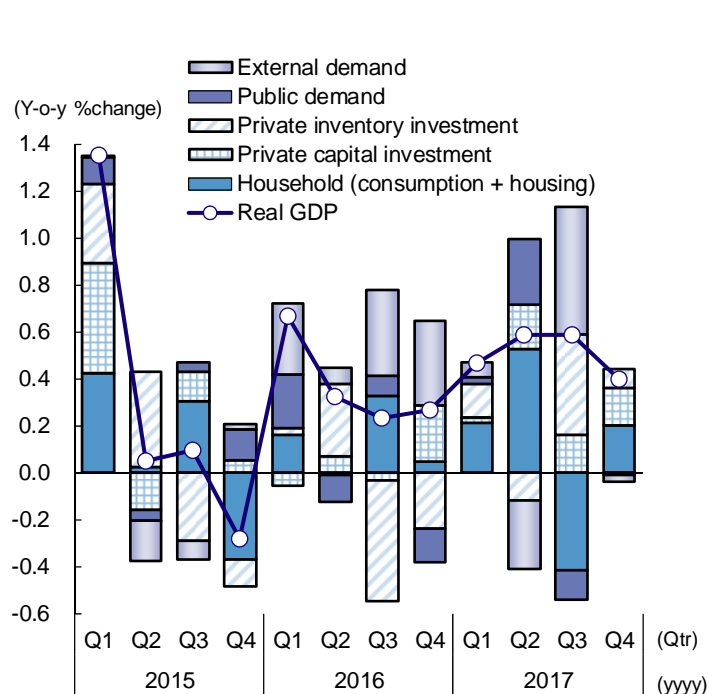
The Japanese economy: economic conditions are picking up reflecting the overseas economic expansion and firm domestic demand

- ❑ The *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”) for the Oct-Dec quarter of 2017 revealed a sharp upward revision of Japan’s economic growth from the *First Preliminary Quarterly Estimates of GDP* (“1st QE”). The results revealed a clearer recovery of domestic demand, mainly in the corporate sector. We have revised upward our outlook on Japan’s economic growth in FY2017 to +1.9% from our earlier outlook released in February (+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 is forecast to stand at +1.3% (unchanged from our outlook in February).
- ❑ In FY2019, the consumption tax hike in October will serve as a drag upon growth, leading to a contraction of growth to +0.8% (unchanged from our outlook in February). Even so, the Japanese economy will still maintain growth in positive territory for the fifth consecutive year.
- ❑ In addition to downside risks stemming from the financial market, it will be necessary to keep a close eye upon China’s progress in structural reforms, US trade policy and 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 Oct-Dec quarter of 2017 – upward revision mainly in the corporate sector

- The 2nd QE for the Oct-Dec quarter of 2017 revealed a sharp upward revision of Japan’s real GDP to +1.6% p.a. from the 1st QE (+0.5% p.a.).
 - The uptick of capital investment and inventory investment, and the upward revision of public investment contributed to the upward revision of growth. Japan’s real GDP continued to grow above +1% in annualized terms for the fifth quarter in a row.
 - The results underscored a clearer recovery of domestic demand mainly in the corporate sector.

[GDP in the Oct-Dec quarter of 2017 (2nd QE)]



	2017			2nd QE	1st QE
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Oct-Dec
Gross domestic production	0.5	0.6	0.6	0.4	0.1
(Q-o-q change, p.a.)	1.9	2.4	2.4	1.6	0.5
(Y-o-y change)	1.4	1.5	1.9	2.0	1.5
Domestic demand	0.4	0.9	0.1	0.4	0.1
	(0.4)	(0.9)	(0.0)	(0.4)	(0.1)
Private demand	0.5	0.8	0.2	0.6	0.3
	(0.4)	(0.6)	(0.2)	(0.4)	(0.2)
Personal consumption	0.3	0.9	-0.6	0.5	0.5
Housing investment	1.2	0.9	-1.7	-2.6	-2.7
Capital investment	0.2	1.2	1.0	1.0	0.7
Inventory investment	(0.1)	(-0.1)	(0.4)	(0.1)	(-0.1)
Public demand	0.1	1.2	-0.5	-0.0	-0.2
	(0.0)	(0.3)	(-0.1)	(-0.0)	(-0.1)
Government consumption	0.1	0.2	0.1	-0.0	-0.1
Public investment	-0.2	4.8	-2.6	-0.2	-0.5
Net exports of goods & services	(0.1)	(-0.3)	(0.5)	(-0.0)	(-0.0)
Exports	2.0	0.0	2.1	2.4	2.4
Imports	1.7	1.9	-1.2	2.9	2.9
Nominal GDP	0.3	0.9	0.7	0.3	-0.0
GDP deflator (y-o-y change)	-0.8	-0.3	0.2	0.1	0.0

Note: In the table on the right hand side, the readings are q-o-q ch in real terms unless otherwise stated. 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 forecast on FY2017 to reflect the 2nd QE.

- FY2017 GDP forecast: revised upward to +1.9% from our forecast as of February (+1.7%) to reflect the uptick in the 2nd QE for the Oct-Dec quarter of 2017.
- FY2018 GDP forecast: +1.3%; FY2019 GDP forecast: +0.8% (both unchanged from our outlook in February). Despite a gradual slowdown of external demand, domestic demand will continue to follow firm footing.

[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	1.9	1.3	0.8	0.5	0.6	0.6	0.4	0.2	0.3	0.3	0.2	0.4	0.4	0.4	-0.5	0.1
	Q-o-q % ch p.a.	—	—	—	—	1.9	2.4	2.4	1.6	0.9	1.1	1.3	0.8	1.5	1.4	1.5	-2.2	0.5
Domestic demand	Q-o-q % ch	0.4	1.4	1.0	0.9	0.4	0.9	0.1	0.4	0.1	0.3	0.3	0.2	0.4	0.4	0.6	-1.0	0.1
Private sector demand	Q-o-q % ch	0.3	1.6	1.3	0.9	0.5	0.8	0.2	0.6	0.1	0.3	0.2	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	0.2	-2.1	0.7	1.2	0.9	-1.7	-2.6	-0.1	-0.8	-0.3	0.9	1.6	2.0	1.1	-5.1	-4.5
Capital investment	Q-o-q % ch	1.2	3.6	2.7	2.4	0.2	1.2	1.0	1.0	0.7	0.6	0.6	0.6	0.5	0.6	1.1	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	(-0.3)	(0.1)	(0.1)	(-0.0)	(0.1)	(-0.1)	(0.4)	(0.1)	(-0.1)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(-0.5)	(0.5)	(-0.1)
Public sector demand	Q-o-q % ch	0.5	0.7	0.3	1.0	0.1	1.2	-0.5	-0.0	0.1	-0.0	0.5	-0.0	0.2	0.2	0.5	0.2	0.0
Government consumption	Q-o-q % ch	0.5	0.4	0.7	0.9	0.1	0.2	0.1	-0.0	0.2	0.1	0.3	0.3	0.3	0.2	0.2	-0.1	0.4
Public investment	Q-o-q % ch	0.9	1.6	-1.3	1.4	-0.2	4.8	-2.6	-0.2	-0.6	-0.7	1.5	-1.3	-0.3	0.3	1.5	1.2	-1.3
External demand	Q-o-q contribution, % pt	(0.8)	(0.4)	(0.3)	(-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)	(0.0)
Exports	Q-o-q % ch	3.4	6.4	3.8	2.4	2.0	0.0	2.1	2.4	0.4	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.4
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	0.3
GDP (nominal)	Q-o-q % ch	1.0	1.7	0.6	0.9	0.3	0.9	0.7	0.3	-0.4	0.4	0.3	-0.1	0.1	0.5	0.4	0.0	-0.1
GDP deflator	Y-o-y % ch	-0.2	-0.1	-0.7	0.1	-0.8	-0.3	0.2	0.1	-0.5	-0.6	-0.7	-0.9	-0.5	-0.5	-0.4	0.5	0.7
Domestic demand deflator	Y-o-y % ch	-0.5	0.6	0.7	0.6	0.0	0.4	0.5	0.6	0.9	0.9	0.8	0.6	0.4	0.4	0.4	1.0	0.9

Notes: Figures in the shaded areas are forecasts

Source: Made by MHRI based upon releases by the Cabinet Office

Japan: the underlying trend of the CPI (ex food & energy) will remain around the mid-0% level

[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	1.6	0.2	2.1	0.4	1.8	0.0	0.7	0.5	0.4	0.4	0.8	1.3	-1.2	-0.4
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0	7.9	1.0	0.1	26.6	22.6	5.5	0.9	4.0	3.2	0.8	0.2	-0.4	1.6	2.7	-2.9	-0.7
		7.3	13.8					17.9										
Nominal compensation of employees	Y-o-y % ch	2.4	2.2	2.4	1.8	1.4	2.2	2.2	1.9	2.7	2.6	2.4	2.4	2.0	1.8	1.8	1.8	1.8
Unemployment rate	%	3.0	2.8	2.7	2.7	2.9	2.9	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
New housing starts	P.a., 10,000 units	97.4	95.2	95.0	98.2	97.2	98.7	95.5	94.8	91.7	93.3	93.9	93.9	99.5	102.9	101.9	96.5	90.8
Current account balance	P.a., JPY tril	20.4	21.3	19.1	17.9	21.8	19.9	22.9	23.2	19.9	19.0	20.9	20.0	17.0	16.8	17.0	19.3	19.3
Domestic corporate goods prices	Y-o-y % ch	-2.3	2.6	2.0	1.8	1.0	2.1	2.9	3.4	2.3	2.5	2.4	1.8	1.3	1.0	0.8	2.5	2.6
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	0.8	-	-	-	-	-	-	-	-	-	-	-	0.7	0.7
Consumer prices, ex fresh food	Y-o-y % ch	-0.2	0.7	1.1	1.2	0.2	0.4	0.6	0.9	1.0	1.1	1.2	1.1	1.0	0.9	0.8	1.6	1.6
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	-	0.7	-	-	-	-	-	-	-	-	-	-	-	0.7	0.6
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.2	0.4	0.9	0.1	0.0	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	1.4	1.4
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	-	-	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	0.06	0.05	0.07	0.04	0.05	0.05	0.07	0.08	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	17,520	21,000	24,100	24,700	19,241	19,503	19,880	22,188	22,600	23,200	23,800	24,600	24,900	25,000	24,700	24,200	24,700
Exchange rate	JPY/USD	108	111	108	106	114	111	111	113	108	107	108	109	108	107	106	105	104
Crude oil price (WTI nearest term contract)	USD/bbl	48	53	67	74	52	48	48	55	63	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

3. Outlook on the global economy (mainly the US) revised upward to reflect the US budget deal

- The global economy will continue to expand in 2018 and follow firm footing in 2019.
 - In February, the US Congress agreed to increase discretionary spending by USD300 billion in two years. To reflect this move, we have revised upward our outlook on the US and global economies.

[Outlook on the global economy]

Calendar year	(Y-o-y % change)					(% pt)		
	2015 (Actual)	2016 (Actual)	2017 (Actual)	2018 (Forecast)	2019 (Forecast)	2017 (Breadth of change from Feb 2018)	2018	2019
Total of forecast area	3.6	3.4	4.0	4.1	4.0	0.1	0.1	0.1
Japan, US, Eurozone	2.4	1.5	2.3	2.4	2.1	0.1	0.2	0.1
US	2.9	1.5	2.3	2.8	2.6	-	0.3	0.2
Eurozone	2.1	1.8	2.5	2.2	1.8	-	-	-
Japan	1.4	0.9	1.7	1.4	1.1	0.1	-	-
Asia	6.2	6.2	6.2	6.2	6.0	0.1	-	-
China	6.9	6.7	6.9	6.5	6.4	-	-	-
NIEs	2.1	2.3	3.2	2.9	2.5	0.1	0.1	-
ASEAN5	4.9	4.9	5.3	5.3	5.1	-	-	-
India	7.6	7.9	6.4	7.3	7.3	0.1	-	-
Australia	2.5	2.6	2.3	2.8	2.7	-	-	-
Brazil	-3.5	-3.5	1.0	2.3	2.6	-	-	-
Mexico	3.3	2.9	2.0	2.1	2.4	-0.1	-	-
Russia	-2.8	-0.2	1.5	1.7	1.5	-	-	-
Japan (FY)	1.4	1.2	1.9	1.3	0.8	0.2	-	-
Crude oil price (WTI, USD/bbl)	49	43	51	65	72	-	-	-

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		2020	
US	Nov	Mid-term election			Nov	Presidential election
Europe			1H Oct	European Parliament election ECB President Mario Draghi's term of office ends	By end of Jul	Spain: General election
Japan	Sep	LDP Presidential election	Apr May Around spring Around summer Oct	Abdication of the current Emperor Accession of the new Emperor, change of era Nationwide local elections Upper House election Consumption tax hike	Jul-Sep	Tokyo Olympic and Paralympic Games
Asia	By August Nov	Malaysia: Legislative election Thailand: General election (may be postponed until Mar 2019)	Around Apr By May Around Jul By Nov Autumn	Indonesia: Legislative election India: Lower House election Indonesia: Presidential election Australia: Upper House and Lower House elections China: 4th Plenary Session of the CPC Central Committee	Jan Apr Autumn Around Sep Sep	Taiwan: Presidential and legislative elections South Korea: Legislative election China: 5th Plenary Session of the CPC Central Committee Singapore: Legislative election Hong Kong: Legislative election
Others	Mar Jul Oct	Russia: Presidential election Mexico: Presidential election Brazil: Presidential election				

Source: Made by MHRI

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