

[Summary](#)

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## FY2018, FY2019 Economic Outlook

- Despite the ongoing expansion of the global economy, keep a close eye upon protectionism and risks of higher interest rates -

May 17, 2018

Mizuho Research Institute

## Key points of our forecast

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- ❑ The global economy is forecast to remain on 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 Jan-Mar quarter growth fell sharply for Japan, the US and Europe, the slowdown should prove to be temporary and start to pick up from the Apr-Jun quarter mainly in the US where policy measures such as tax cuts are expected to have effect.
- ❑ The risks to growth are the spread of protectionism, rise of long-term interest rates, escalation of Middle East tensions, and rise of crude oil prices.
- ❑ As for protectionism, the US is exerting stronger external pressures regarding trade principally toward China. Should US-China trade frictions escalate, it would serve as negative pressures not only upon the US and China but upon the global economy as well.
- ❑ There are risks of the rise of US long-term interest rates due to mounting inflation expectations stemming from the rise of crude oil prices and concerns regarding supply constraints. The rise of US long-term interest rates will lead to the rise of capital outflow pressures from the stock market and emerging market (EM) countries and serve as downside risks upon the economy.
- ❑ Turning to the Japanese economy in FY2018 and FY2019, despite a gradual moderation of growth, the economy should continue to follow a gradual recovery. Keep a close eye upon the shift of corporate business sentiment toward a cautious stance and appreciation of the yen reflecting US trade policy, and the rise of crude oil prices along with geopolitical risks.
- ❑ While the rise of labor costs and raw material prices will serve as upward pressures upon Japan's core CPI, the achievement of the 2% inflation target looks unlikely, thus keeping the Bank of Japan (BOJ) from shifting its monetary policy stance.

## Overview of the global economy: our outlook on global growth remains unchanged from MHRI's *Economic Outlook* in March

### [ Outlook on the global economy ]

Calendar year	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2015 (Actual)	2016 (Actual)	2017 (Actual)	2018 (Forecast)	2019 (Forecast)	2018 (Forecast in Mar 2018)	2019	2018 (Breadth of change from forecast in Mar 2018)	2019
Total of forecast area	3.6	3.4	3.9	4.1	4.0	4.1	4.0	-	-
Japan, US, Eurozone	2.4	1.5	2.2	2.3	2.1	2.4	2.1	-0.1	-
US	2.9	1.5	2.3	2.8	2.6	2.8	2.6	-	-
Eurozone	2.1	1.8	2.4	2.2	1.8	2.2	1.8	-	-
Japan	1.4	1.0	1.7	1.0	1.1	1.4	1.1	-0.4	-
Asia	6.2	6.2	6.2	6.2	6.0	6.2	6.0	-	-
China	6.9	6.7	6.9	6.5	6.4	6.5	6.4	-	-
NIEs	2.1	2.3	3.2	2.9	2.5	2.9	2.5	-	-
ASEAN5	4.9	4.9	5.3	5.3	5.1	5.3	5.1	-	-
India	7.6	7.9	6.4	7.3	7.3	7.3	7.3	-	-
Australia	2.5	2.6	2.3	2.8	2.7	2.8	2.7	-	-
Brazil	-3.5	-3.5	1.0	2.3	2.6	2.3	2.6	-	-
Mexico	3.3	2.9	2.0	2.0	2.4	2.1	2.4	-0.1	-
Russia	-2.8	-0.2	1.5	1.6	1.5	1.7	1.5	-0.1	-
Japan (FY)	1.4	1.2	1.5	1.1	0.9	1.3	0.8	-0.2	0.1
Crude oil price (WTI, USD/bbl)	49	43	51	68	72	65	72	3	-

Note: The total of the forecast area is calculated upon the 2016 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: the economy will remain on recovery track, driven by the expansion of the overseas economies and strength of domestic demand

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- ❑ According to the *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”) for the Jan-Mar quarter of 2018, the Japanese economy contracted for the first time in nine quarters (-0.6% q-o-q p.a.). Even though the contribution to growth by external demand edged up, private sector demand all weakened such as the slight decline of personal consumption and capital investment. The results indicate that Japan’s economic recovery has come to a pause.
- ❑ In FY2018, while the driving force of the IT sector will gradually weaken, we forecast a gradual recovery of exports supported by the firm demand for IoT-related goods and solid demand for capital goods. In addition to the overseas economic recovery, capital investment should follow firm footing, supported by investment related to the 2020 Tokyo Olympic Games and productivity improvement. Even though the decline of fresh food prices and mild acceleration of wage hikes will serve as tailwinds upon personal consumption, the rise of energy prices will weigh down upon real wages, thus keeping personal consumption subdued. The pace of economic growth in FY2018 is forecast to stand at +1.1%.
- ❑ In FY2019, economic growth is forecast to contract to +0.9%, given downward pressures due to the consumption tax hike in October, and forecasts of a cyclical slowdown of capital investment. Even so, the Japanese economy will maintain growth in positive territory for the fifth consecutive year.
- ❑ Turning to the risks to MHRI’s economic outlook, it will be necessary for the time being to keep a close eye upon the impact of the protectionist trade policy of the US. The Trump administration’s hardline stance could lead to the appreciation of the yen and a shift of corporate business sentiment to a cautious stance. The rise of crude oil prices accompanying the escalation of Middle East tensions also requires close attention.

## Japan: forecast on growth for FY2018 (+1.1%), FY2019 (+0.9%)

### [ 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	1.5	1.1	0.9	0.7	0.5	0.5	0.1	-0.2	0.5	0.3	0.2	0.3	0.4	0.4	-0.6	0.2
	Q-o-q % ch p.a.	—	—	—	—	2.6	2.0	2.0	0.6	-0.6	2.2	1.2	0.9	1.3	1.5	1.5	-2.2	0.7
Domestic demand	Q-o-q % ch	0.4	1.1	0.8	0.9	0.6	0.8	-0.0	0.2	-0.2	0.5	0.3	0.2	0.3	0.5	0.6	-1.0	0.2
Private sector demand	Q-o-q % ch	0.4	1.3	1.0	0.9	0.7	0.7	0.1	0.3	-0.3	0.6	0.2	0.3	0.4	0.6	0.7	-1.4	0.1
Personal consumption	Q-o-q % ch	0.3	0.8	0.6	0.6	0.5	0.7	-0.7	0.2	-0.0	0.3	0.2	0.2	0.2	0.4	1.4	-2.6	0.5
Housing investment	Q-o-q % ch	6.2	-0.3	-3.4	0.8	1.2	0.9	-1.6	-2.7	-2.1	-1.1	0.4	0.7	1.6	2.0	1.1	-5.1	-4.6
Capital investment	Q-o-q % ch	1.2	3.0	2.8	2.4	0.6	0.8	1.0	0.6	-0.1	1.3	0.7	0.6	0.5	0.6	1.0	0.4	0.3
Inventory investment	Q-o-q contribution, % pt	(-0.3)	(0.1)	(0.1)	(-0.1)	(0.1)	(-0.1)	(0.4)	(0.1)	(-0.1)	(0.1)	(-0.1)	(0.0)	(0.0)	(0.0)	(-0.5)	(0.5)	(-0.1)
Public sector demand	Q-o-q % ch	0.5	0.7	0.3	0.9	0.2	1.1	-0.5	-0.1	0.0	0.1	0.4	-0.0	0.2	0.2	0.5	0.1	0.3
Government consumption	Q-o-q % ch	0.5	0.4	0.7	0.9	0.2	0.2	0.0	-0.0	0.0	0.3	0.2	0.3	0.2	0.3	0.2	-0.1	0.4
Public investment	Q-o-q % ch	0.9	1.5	-1.1	1.4	-0.0	4.7	-2.6	-0.4	0.0	-0.6	1.2	-1.4	0.1	-0.1	1.5	1.1	-0.1
External demand	Q-o-q contribution, % pt	(0.8)	(0.4)	(0.2)	(-0.0)	(0.1)	(-0.3)	(0.5)	(-0.1)	(0.1)	(0.1)	(0.0)	(-0.0)	(0.0)	(-0.1)	(-0.3)	(0.5)	(0.0)
Exports	Q-o-q % ch	3.6	6.2	3.9	2.4	2.1	-0.1	2.0	2.2	0.6	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.4
Imports	Q-o-q % ch	-0.8	4.0	2.8	2.7	1.6	1.8	-1.3	3.1	0.3	0.5	0.5	0.8	0.5	1.1	2.0	-1.8	0.3
GDP (nominal)	Q-o-q % ch	1.0	1.6	1.0	1.4	0.1	0.9	0.8	0.1	-0.4	0.6	0.4	0.1	0.3	0.6	0.4	0.1	0.0
GDP deflator	Y-o-y % ch	0.1	0.1	0.0	0.5	-0.3	0.1	0.1	0.5	0.5	0.1	-0.1	-0.2	0.0	0.2	0.1	1.1	0.9
Domestic demand deflator	Y-o-y % ch	0.6	0.5	1.0	0.9	0.4	0.5	0.6	0.9	0.9	1.0	1.2	0.9	0.7	0.7	0.5	1.1	1.2

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	1.0	4.1	2.4	1.5	0.2	1.8	0.5	1.6	-1.4	2.0	0.5	0.3	0.3	0.8	1.3	-1.2	-0.5
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0	7.4	0.7	0.1	26.6	22.6	5.5	0.9	2.0	2.6	0.3	0.1	-0.5	1.6	2.7	-2.9	-0.8
		7.3	13.8					17.9										
Nominal compensation of employees	Y-o-y % ch	2.4	2.3	2.1	1.7	1.4	2.2	2.2	1.9	3.2	2.7	2.1	1.9	1.7	1.7	1.8	1.6	1.6
Unemployment rate	%	3.0	2.7	2.6	2.7	2.9	2.9	2.8	2.7	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7
New housing starts	P.a., 10,000 units	97.4	94.6	92.1	95.2	97.2	98.7	95.5	94.8	89.2	90.6	91.1	91.0	96.5	99.9	98.8	93.5	87.9
Current account balance	P.a., JPY tril	21.0	21.7	16.8	16.3	21.4	20.0	23.2	23.6	18.4	17.5	16.8	15.9	15.4	14.8	13.0	17.4	18.3
Domestic corporate goods prices	Y-o-y % ch	-2.4	2.7	2.2	1.7	0.9	2.1	2.8	3.3	2.5	2.8	2.8	1.8	1.4	0.8	0.7	2.7	2.6
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	0.8	-	-	-	-	-	-	-	-	-	-	-	0.8	0.8
Consumer prices, ex fresh food	Y-o-y % ch	-0.2	0.7	1.2	1.2	0.2	0.4	0.6	0.9	0.9	1.1	1.3	1.2	1.1	0.8	0.7	1.7	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	0.5	0.9	0.1	0.0	0.1	0.3	0.5	0.4	0.5	0.6	0.5	0.5	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	-0.07	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.07	-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	0.05	0.05	0.07	0.04	0.05	0.05	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	17,520	20,984	23,400	24,700	19,241	19,503	19,880	22,188	22,366	22,000	23,000	24,000	24,500	25,000	24,700	24,200	24,700
Exchange rate	JPY/USD	108	111	106	104	114	111	111	113	108	108	107	106	105	105	104	104	103
Crude oil price (WTI nearest term contract)	USD/bbl	48	54	70	74	52	48	48	55	63	69	70	70	71	72	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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