

REVISED
to reflect the
2nd QE for the
Jan-Mar Qtr
of 2018

FY2018, FY2019 Economic Outlook

- The Japanese economy will return to a gradual recovery track -

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Mizuho Research Institute

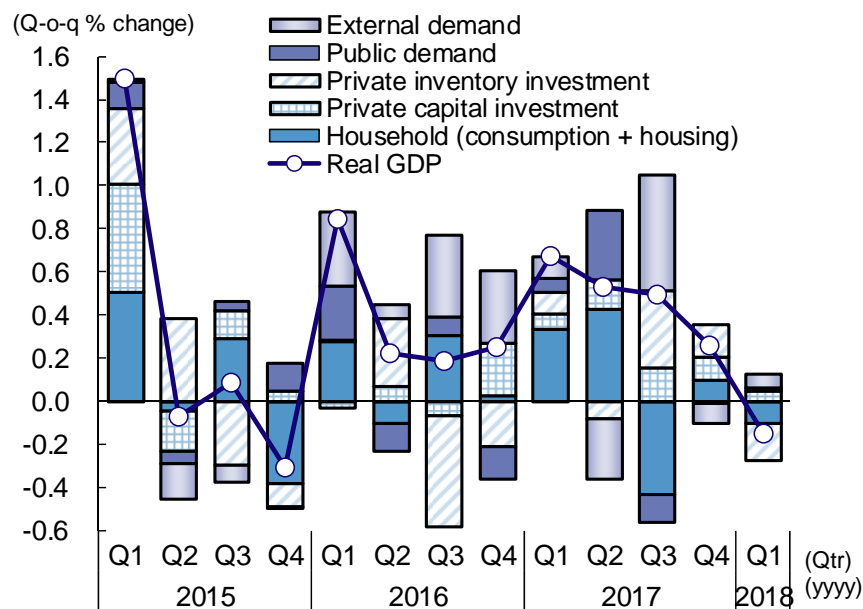
The Japanese economy: economic conditions should return to a recovery track, reflecting the expansion of the overseas economies and upturn of domestic demand

- ❑ Japan's GDP growth in the Jan-Mar quarter of 2018 remained unchanged from the *First Preliminary Quarterly Estimates of GDP* ("1st QE"). The results revealed that the Japanese economy contracted for the first time in nine quarters, reconfirming that Japan's economic recovery has come to a pause.
- ❑ In FY2018, while the driving force of the IT sector will gradually weaken, the gradual recovery of exports should continue, 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 rise of energy prices will weigh down upon real wages, the decline of fresh food prices and favorable employment environment should keep personal consumption on an upward path. The pace of economic growth in FY2018 is forecast to stand at +1.2%.
- ❑ In FY2019, economic growth is forecast to contract to +0.8%, 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 external factors such as the US protectionist trade policy, political developments in Europe, conditions in the Middle East and the situation surrounding North Korea. These factors could lead to a shift of corporate business sentiment to a cautions stance, the appreciation of the yen and the rise of crude oil prices.

1. Japan: overview of the 2nd QE for the Jan-Mar quarter of 2018 – growth remains unchanged from the 1st QE

- According to the 2nd QE for the Jan-Mar quarter of 2018, Japan's real GDP remained unchanged from the 1st QE at -0.6% p.a.
 - Japan's GDP growth dipped into negative territory for the first time in nine quarters, and our view remains unchanged that Japan's economic recovery has come to a pause.
 - The silver lining is the upward revision of capital investment to positive growth on a quarter-on-quarter basis which brings the rise of capital investment to six consecutive quarters.

[2018 Jan-Mar quarter GDP (2nd QE)]



	2017				2018	1 st QE
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	
Real GDP	0.7	0.5	0.5	0.3	-0.2	-0.2
(Q-o-q change, p.a.)	2.7	2.1	2.0	1.0	-0.6	-0.6
(Y-o-y change)	1.4	1.6	2.0	1.9	1.1	0.9
Domestic demand	0.6	0.8	-0.0	0.4	-0.2	-0.2
	(0.6)	(0.8)	(-0.0)	(0.4)	(-0.2)	(-0.2)
Private demand	0.7	0.7	0.1	0.5	-0.3	-0.3
	(0.5)	(0.5)	(0.1)	(0.4)	(-0.2)	(-0.2)
Personal consumption	0.6	0.7	-0.7	0.3	-0.1	-0.0
Housing investment	1.1	0.9	-1.6	-2.7	-1.8	-2.1
Capital investment	0.4	0.9	1.0	0.7	0.3	-0.1
Inventory investment	(0.1)	(-0.1)	(0.4)	(0.2)	(-0.2)	(-0.1)
Public demand	0.3	1.3	-0.5	-0.0	0.0	0.0
	(0.1)	(0.3)	(-0.1)	(-0.0)	(0.0)	(0.0)
Government consumption	0.3	0.4	0.1	0.1	0.1	0.0
Public investment	0.0	4.7	-2.6	-0.4	-0.1	0.0
External demand	(0.1)	(-0.3)	(0.5)	(-0.1)	(0.1)	(0.1)
Exports	2.1	-0.1	2.0	2.2	0.6	0.6
Imports	1.6	1.8	-1.3	3.1	0.3	0.3
Nominal GDP	0.1	0.9	0.8	0.2	-0.4	-0.4
GDP deflator (y-o-y change)	-0.8	-0.3	0.1	0.1	0.5	0.5

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 a slight upward revision of our forecast on FY2018

- FY2018 GDP forecast: revised upward to +1.2% from our forecast as of May (+1.1%) to reflect the current strength of personal consumption-related indicators.
- FY2019 GDP forecast: +0.8% (revised downward from our forecast in May). Among the background factors are the impact of the consumption tax hike and the cyclical slowdown of capital investment.

[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	1.6	1.2	0.8	0.7	0.5	0.5	0.3	-0.2	0.7	0.3	0.2	0.3	0.4	0.4	-0.6	0.2
	Q-o-q % ch p.a.	—	—	—	—	2.7	2.1	2.0	1.0	-0.6	2.7	1.2	0.7	1.3	1.6	1.5	-2.3	0.7
Domestic demand	Q-o-q % ch	0.4	1.3	1.0	0.9	0.6	0.8	-0.0	0.4	-0.2	0.6	0.3	0.2	0.3	0.5	0.6	-1.0	0.2
Private sector demand	Q-o-q % ch	0.4	1.4	1.2	0.8	0.7	0.7	0.1	0.5	-0.3	0.8	0.2	0.3	0.3	0.6	0.7	-1.4	0.1
Personal consumption	Q-o-q % ch	0.3	0.9	0.8	0.6	0.6	0.7	-0.7	0.3	-0.1	0.6	0.2	0.2	0.2	0.4	1.4	-2.6	0.5
Housing investment	Q-o-q % ch	6.2	-0.3	-3.0	-0.0	1.1	0.9	-1.6	-2.7	-1.8	-0.3	0.1	0.0	1.1	2.0	1.1	-5.1	-4.6
Capital investment	Q-o-q % ch	1.2	3.2	2.8	2.4	0.4	0.9	1.0	0.7	0.3	1.0	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)	(0.2)	(-0.2)	(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	0.9	0.3	0.9	0.3	1.3	-0.5	-0.0	0.0	0.1	0.4	-0.1	0.2	0.2	0.5	0.1	0.3
Government consumption	Q-o-q % ch	0.5	0.7	0.7	0.9	0.3	0.4	0.1	0.1	0.1	0.2	0.2	0.3	0.2	0.3	0.2	-0.2	0.4
Public investment	Q-o-q % ch	0.9	1.4	-1.0	1.3	0.0	4.7	-2.6	-0.4	-0.1	-0.4	1.2	-1.5	0.1	-0.1	1.5	1.0	-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	1.7	1.2	1.3	0.1	0.9	0.8	0.2	-0.4	0.8	0.4	-0.0	0.3	0.6	0.4	0.1	-0.0
GDP deflator	Y-o-y % ch	-0.2	0.1	0.0	0.5	-0.8	-0.3	0.1	0.1	0.5	0.1	0.0	-0.1	0.0	0.1	0.0	1.0	0.9
Domestic demand deflator	Y-o-y % ch	-0.5	0.6	0.9	0.8	0.0	0.4	0.5	0.6	0.9	1.0	1.1	0.8	0.7	0.6	0.6	1.2	1.2

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 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	2.3	1.5	0.2	1.8	0.5	1.6	-1.3	1.7	0.6	0.3	0.3	0.8	1.2	-1.1	-0.5
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0	6.9	0.7	0.1	26.6	22.6	5.5	0.9	0.2	2.1	1.2	0.1	-0.6	1.9	2.5	-3.0	-0.9
		7.3	12.5					17.9										
Nominal compensation of employees	Y-o-y % ch	2.4	2.3	2.2	1.6	1.4	2.2	2.2	1.9	3.2	2.7	2.1	1.9	2.2	1.6	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	92.9	95.2	97.2	98.7	95.5	94.8	89.2	93.4	91.1	91.0	96.5	99.9	98.8	93.6	88.0
Current account balance	P.a., JPY tril	21.0	21.7	17.1	16.4	21.4	20.0	23.2	23.6	18.4	17.8	17.2	16.2	15.4	15.0	13.1	17.5	18.3
Domestic corporate goods prices	Y-o-y % ch	-2.4	2.7	2.1	1.8	0.9	2.1	2.8	3.3	2.5	2.4	2.5	1.8	1.4	0.9	0.8	2.7	2.6
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	0.9	-	-	-	-	-	-	-	-	-	-	-	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	-0.06	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.06	-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	23,500	24,700	19,241	19,503	19,880	22,188	22,366	22,300	23,000	24,000	24,500	25,000	24,700	24,200	24,700
Exchange rate	JPY/USD	108	111	107	104	114	111	111	113	108	109	107	106	105	105	104	104	103
Crude oil price (WTI nearest term contract)	USD/bbl	48	54	69	74	52	48	48	55	63	67	68	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). "Special factors" refer to factors unique to the stock holding company which occurred 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 relevant statistics

3. Outlook on the global economy (mainly the US) remains unchanged from our view in May, and looks forward to firm growth in 2019

- The global economy will continue to expand in 2018, given policy support by the US. Despite a slight slowdown in 2019, we look forward to firm growth.
 - Looking closer, we revised downward our forecasts on economic growth of the NIEs, Brazil and Mexico, while making slight upward revisions to our forecasts on India and Australia.

[Outlook on the global economy]

Calendar year	(Y-o-y % change)					(Y-o-y % change)		(%pt)	
	2015 (Actual)	2016 (Actual)	2017 (Actual)	2018 (Forecast)	2019 (Forecast)	2018 (Forecast as of May 2018)	2019	2018 (Breadth of change from May 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	2.3	2.4	2.1	2.3	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	1.1	1.1	1.0	1.1	0.1	-
Asia	6.2	6.2	6.1	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	2.8	2.5	2.9	2.5	-0.1	-
ASEAN5	4.9	4.9	5.3	5.3	5.1	5.3	5.1	-	-
India	7.6	7.9	6.2	7.4	7.4	7.3	7.3	0.1	0.1
Australia	2.5	2.6	2.2	3.0	2.7	2.8	2.7	0.2	-
Brazil	-3.5	-3.5	1.0	2.0	2.5	2.3	2.6	-0.3	-0.1
Mexico	3.3	2.9	2.0	1.9	2.3	2.0	2.4	-0.1	-0.1
Russia	-2.5	-0.2	1.5	1.6	1.5	1.6	1.5	-	-
Japan (FY)	1.4	1.2	1.6	1.2	0.8	1.1	0.9	0.1	-0.1
Crude oil price (WTI, USD/bbl)	49	43	51	67	72	68	72	-1	-

Note: The total of the forecast area is calculated upon the 2016 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	European Parliament election	By end of Jul	Spain: General election
			Oct	ECB President Mario Draghi's term of office ends		
Japan	Sep	LDP Presidential election	Apr	Abdication of the current Emperor	Jul-Sep	Tokyo Olympic and Paralympic Games
			May	Accession of the new Emperor, change of era		
			Around spring	Nationwide local elections		
			Around summer	Upper House election		
			Oct	Consumption tax hike		
Asia	Nov	Thailand: General election (may be postponed until Mar 2019)	Around Apr	Indonesia: Legislative election	Jan	Taiwan: Presidential and legislative elections
			By May	India: Lower House election	Apr	South Korea: Legislative election
			Around Jul	Indonesia: Presidential election	Autumn	China: 5th Plenary Session of the CPC Central Committee
			By Nov	Australia: Upper House and Lower House elections	Around Sep	Singapore: Legislative election
			Autumn	China: 4th Plenary Session of the CPC Central Committee	Sep	Hong Kong: Legislative election
Others	Mar	Russia: Presidential election				
	Jul	Mexico: Presidential election				
	Oct	Brazil: Presidential election				

Source: Made by MHRl

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