

[Summary](#)

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## FY2018, FY2019 Economic Outlook

- Despite ongoing expansion, the global economy is maturing. Keep a close eye upon the escalation of trade friction -

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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, as the economy is maturing, the growth momentum will gradually moderate due to the slowdown of the Chinese economy and peak-out of the IT cycle.
- ❑ Even though the global economy picked up from the soft patch in the Jan-Mar quarter, the global economy lacks momentum with the exception of the US economy, as evidenced by the slowdown of the Eurozone and Chinese economies in the Apr-Jun quarter.
- ❑ The escalation of trade friction, the spread of concerns regarding the emerging market (EM) economies, Middle East tensions, and the rise of crude oil prices pose risks to global growth.
- ❑ As for trade friction, 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.
- ❑ Concerns regarding the EM economies will spread to China - which is a direct party in trade friction - and the neighboring countries of Asia, reflecting US-China trade friction. In certain countries such as Turkey, capital outflows and currency weakening are spreading to financial problems.
- ❑ Turning to the Japanese economy in FY2018 and FY2019, despite the impact of the consumption tax hike, the economy should continue to follow a recovery at a pace on par with its potential growth rate. The Trump administration's protectionist policies pose risks to growth, with additional tariffs related to motor vehicles having a serious impact upon Japan.
- ❑ Despite uncertainties accompanying trade issues, the improvement of corporate earnings mainly in the developed market (DM) countries is serving to support the stock market. The tendency of the stock market to recover after US mid-term elections is also a positive factor.

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

### [ Outlook on the global economy ]

	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2015 Calendar year	2016	2017	2018	2019	2018 (Forecast in June 2018)	2019 (Forecast in June 2018)	2018 (Breadth of change from forecast in June 2018)	2019 (Breadth of change from forecast in June 2018)
Total of forecast area	3.6	3.4	3.9	4.1	4.0	4.1	4.0	-	-
Japan, US, Eurozone	2.4	1.6	2.2	2.3	2.1	2.4	2.1	-0.1	-
US	2.9	1.6	2.2	2.9	2.7	2.8	2.6	0.1	0.1
Eurozone	2.1	1.8	2.4	2.0	1.7	2.2	1.8	-0.2	-0.1
Japan	1.4	1.0	1.7	1.0	1.3	1.1	1.1	-0.1	0.2
Asia	6.2	6.2	6.1	6.2	6.0	6.2	6.0	-	-
China	6.9	6.7	6.9	6.6	6.4	6.5	6.4	0.1	-
NIEs	2.1	2.3	3.2	2.8	2.5	2.8	2.5	-	-
ASEAN5	4.9	4.9	5.3	5.3	5.0	5.3	5.1	-	-0.1
India	7.6	7.9	6.2	7.4	7.3	7.4	7.4	-	-0.1
Australia	2.5	2.6	2.2	3.0	2.7	3.0	2.7	-	-
Brazil	-3.5	-3.5	1.0	1.5	2.5	2.0	2.5	-0.5	-
Mexico	3.3	2.9	2.0	2.1	2.5	1.9	2.3	0.2	0.2
Russia	-2.5	-0.2	1.5	1.6	1.3	1.6	1.5	-	-0.2
Japan (FY)	1.4	1.2	1.6	1.2	0.9	1.2	0.8	-	0.1
Crude oil price (WTI, USD/bbl)	49	43	51	68	72	67	72	0	-

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 Apr-Jun quarter of 2018, the Japanese economy expanded for the first time in two quarters (+1.9% q-o-q p.a.). In addition to the large increase of personal consumption, capital investment also accelerated, growing for the seventh quarter in a row for the first time since the bubble period. On the other hand, exports lacked momentum, and the contribution by external demand dipping slightly into negative territory.
- ❑ Looking forward, while momentum of the IT sector will gradually weaken as a driver of the economy, exports should gradually pick up, supported by IoT-related goods and capital goods. In addition to the recovery of overseas economies, capital investment should follow firm footing, supported by investment related to the 2020 Tokyo Olympic Games and productivity improvement. Even though the favorable employment environment will serve as tailwinds upon personal consumption, the rise of prices such as 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 +1.2%.
- ❑ In FY2019, economic growth is forecast to moderate to +0.9%, given downward pressures due to the consumption tax hike in October, and slowdown of exports and capital investment (previous forecast: +0.8%; upwardly revised due to the carry-over of growth). However, even in consideration of the consumption tax hike, the downward pressure upon real income will turn out to be smaller than initially expected due to the implementation of various income support measures.
- ❑ 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 US’ protectionist trade policy. In addition to the possibility that the rise of uncertainty would lead to a shift in corporate sentiment to a more cautious stance, the imposition of additional tariffs related to motor vehicles & parts would having a serious impact upon the Japanese economy.

## Japan: forecast on growth for FY2018 (+1.2%), 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	1.6	1.2	0.9	0.7	0.5	0.6	0.2	-0.2	0.5	0.5	0.3	0.4	0.3	0.3	-0.5	0.1
	Q-o-q % ch p.a.	—	—	—	—	2.7	2.1	2.3	0.8	-0.9	1.9	1.9	1.3	1.6	1.4	1.1	-1.8	0.6
Domestic demand	Q-o-q % ch	0.4	1.2	1.1	0.9	0.6	0.8	0.0	0.3	-0.3	0.6	0.4	0.3	0.4	0.4	0.5	-0.9	0.1
Private sector demand	Q-o-q % ch	0.4	1.4	1.3	1.0	0.7	0.6	0.2	0.5	-0.4	0.7	0.4	0.4	0.4	0.5	0.6	-1.2	0.2
Personal consumption	Q-o-q % ch	0.3	0.8	0.9	0.7	0.5	0.8	-0.7	0.3	-0.2	0.7	0.3	0.1	0.2	0.4	1.5	-2.5	0.5
Housing investment	Q-o-q % ch	6.2	-0.3	-4.3	-0.2	0.8	1.3	-1.3	-3.0	-2.3	-2.7	1.3	1.1	1.3	1.9	-1.2	-3.8	-4.2
Capital investment	Q-o-q % ch	1.2	3.1	3.3	2.4	0.6	0.5	1.2	0.8	0.5	1.3	0.7	0.6	0.5	0.6	0.9	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)	(-0.2)	(0.0)	(-0.1)	(0.1)	(0.1)	(0.0)	(-0.5)	(0.5)	(-0.1)
Public sector demand	Q-o-q % ch	0.6	0.9	0.4	0.8	0.3	1.4	-0.5	-0.1	-0.1	0.2	0.4	0.1	0.3	0.1	0.4	0.0	0.0
Government consumption	Q-o-q % ch	0.5	0.7	0.7	0.8	0.3	0.4	0.1	0.1	0.0	0.2	0.2	0.3	0.3	0.2	0.2	-0.1	0.3
Public investment	Q-o-q % ch	0.9	1.4	-0.6	1.1	-0.2	5.4	-2.9	-0.6	-0.4	-0.1	1.1	-0.6	0.3	-0.3	1.4	0.7	-0.8
External demand	Q-o-q contribution, % pt	(0.8)	(0.4)	(0.1)	(0.0)	(0.1)	(-0.3)	(0.6)	(-0.1)	(0.1)	(-0.1)	(0.1)	(0.0)	(0.0)	(-0.1)	(-0.3)	(0.5)	(0.0)
Exports	Q-o-q % ch	3.6	6.3	3.6	2.7	1.9	0.2	2.1	2.1	0.6	0.2	1.1	0.8	0.7	0.6	0.6	0.6	0.4
Imports	Q-o-q % ch	-0.8	4.1	3.3	2.7	1.4	1.9	-1.5	3.3	0.2	1.0	0.5	0.8	0.5	1.1	2.0	-1.8	0.3
GDP (nominal)	Q-o-q % ch	1.0	1.7	1.3	1.4	0.2	0.8	0.8	0.3	-0.4	0.4	0.8	0.3	0.1	0.6	0.4	0.2	-0.1
GDP deflator	Y-o-y % ch	-0.2	0.1	0.2	0.5	-0.8	-0.3	0.1	0.1	0.5	0.1	0.3	0.2	0.1	0.3	0.1	0.8	0.8
Domestic demand deflator	Y-o-y % ch	-0.5	0.6	0.9	0.7	0.0	0.4	0.5	0.6	0.9	0.5	1.1	0.9	0.7	0.7	0.4	0.9	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	1.0	4.1	2.0	1.8	0.2	1.8	0.5	1.6	-1.3	1.2	0.8	0.5	0.5	0.8	1.2	-1.2	-0.4
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0 7.3	6.9 12.5	0.0	0.7	26.6	22.6	5.5 17.9	0.9	0.2	0.8	-1.4	0.5	-0.1	1.8	6.7	-3.1	-1.6
Nominal compensation of employees	Y-o-y % ch	2.4	2.3	2.5	1.7	1.4	2.2	2.2	1.9	3.1	4.3	2.1	1.8	1.7	1.5	1.9	1.7	1.7
Unemployment rate	%	3.0	2.7	2.5	2.6	2.9	2.9	2.8	2.7	2.5	2.4	2.5	2.5	2.6	2.5	2.6	2.7	2.6
New housing starts	P.a., 10,000 units	97.4	94.6	96.2	92.5	97.2	98.7	95.5	94.8	89.2	96.8	93.9	96.2	98.5	99.3	93.7	89.8	86.9
Current account balance	P.a., JPY tril	21.0	21.8	20.1	17.3	21.4	20.0	23.2	23.6	18.7	22.0	20.6	19.1	17.4	15.9	14.7	18.7	18.5
Domestic corporate goods prices	Y-o-y % ch	-2.4	2.7	2.3	1.8	0.9	2.1	2.8	3.3	2.5	2.6	2.9	2.1	1.4	0.9	0.8	2.8	2.7
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	0.8	-	-	-	-	-	-	-	-	-	-	-	0.9	0.9
Consumer prices, ex fresh food	Y-o-y % ch	-0.2	0.7	1.0	0.8	0.2	0.4	0.6	0.9	0.9	0.7	1.1	1.0	1.0	0.8	0.6	1.0	1.1
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	-	0.4	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.2	0.4	0.6	0.1	0.0	0.1	0.3	0.5	0.3	0.4	0.4	0.5	0.4	0.4	0.8	0.8
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1
Uncollateralized overnight call rate	%	-0.06	-0.06	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.06	-0.07	-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	0.10	0.07	0.04	0.05	0.05	0.06	0.04	0.08	0.10	0.10	0.10	0.10	0.10	0.10
Nikkei average	JPY	17,520	20,984	23,400	24,700	19,241	19,503	19,880	22,188	22,366	22,341	22,800	24,000	24,500	25,000	24,700	24,200	24,700
Exchange rate	JPY/USD	108	111	109	106	114	111	111	113	108	109	110	108	107	107	106	106	105
Crude oil price (WTI nearest term contract)	USD/bbl	48	54	69	74	52	48	48	55	63	68	69	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 on the basis of real-terms data  
2. Consumer prices (both including and excluding the impact of the consumption tax hike) reflect the impact of free pre-school education for the Oct-Dec quarter of 2019 and the Jan-Mar quarter of 2020  
3. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries basis) (ex finance & insurance)  
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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