

REVISED
to reflect the
2nd QE for the
Apr-Jun Qtr
of 2018

FY2018, FY2019 Economic Outlook

- The Japanese economy is continuing to follow a recovery track -

September 10, 2018

Mizuho Research Institute

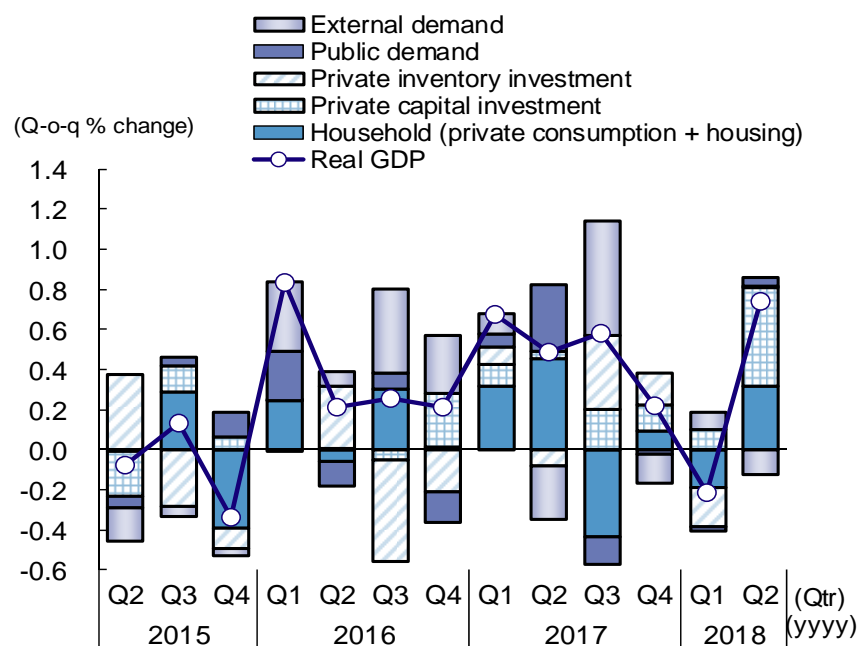
The Japanese economy: economic conditions should return to a recovery track, reflecting the expansion of the overseas economies and upturn of domestic demand

- ❑ In the *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”), Japan’s GDP growth in the Apr-Jun quarter of 2018 turned out to grow faster (+3.0% p.a.) than the *First Preliminary Quarterly Estimates of GDP* (“1st QE”). Given a substantial upward revision of capital investment, the two main pillars of domestic demand - personal consumption and capital investment - served as the drivers of growth.
- ❑ 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. Even though we forecast a temporary softening of capital investment in a backlash to the high growth thus far, it should continue to follow an uptrend, driven by investment related to the 2020 Tokyo Olympic Games and productivity improvement as well as the recovery of overseas economies. As for personal consumption, while the favorable employment environment will serve as tail winds, wages in real terms will stagnate.
- ❑ In FY2018, the Japanese economy is forecast to grow +1.2% (unchanged from our previous outlook in August). In FY2019, economic growth is forecast to moderate to +0.8%, given downward pressures due to the consumption tax hike in October, and slowdown of exports and capital investment (revised down by 0.1% pt from August due to the effect of the carry-over of growth).
- ❑ The risks to growth are the rise of uncertainties accompanying the escalation of trade frictions. Furthermore, in the event additional tariffs are implemented on automobiles and automotive parts, it would have a severe impact. Note also the prolonged impact of natural disasters.
- ❑ The core inflation rate momentarily rose to 1%, given the expansion of the year-on-year rise of energy prices. Meanwhile, the underlying trend in inflation excluding the impact of energy prices is forecast to remain around 0.5%.

1. Japan: overview of the 2nd QE for the Apr-Jun quarter of 2018 – sharp upward revision of capital investment

- According to the 2nd QE for the Apr-Jun quarter of 2018, Japan's real GDP was revised upward to 0.7% q-o-q (+3.0% p.a.) from the 1st QE (+1.9% p.a.)
 - Capital investment was revised up sharply. The pace accelerated amid the longest expansion period (the seventh consecutive quarterly rise of capital investment) since the “bubble” era. Other components of demand remained more or less unchanged.
 - As a whole, Japan's economic growth turned out to be the strongest since the Jan-Mar quarter of 2016, driven by personal consumption and capital investment - the two main pillars of private demand.

[2018 Apr-Jun quarter GDP (2nd QE)]



	2017		2018		1st QE
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	
Real GDP	0.5	0.6	0.2	-0.2	0.7
(Q-o-q change, p.a.)	2.0	2.3	0.9	-0.9	3.0
(Y-o-y change)	1.6	2.0	2.0	1.0	1.3
Domestic demand	0.8	0.0	0.4	-0.3	0.9
	(0.8)	(0.0)	(0.4)	(-0.3)	(0.9)
Private demand	0.6	0.2	0.5	-0.4	1.1
	(0.4)	(0.1)	(0.4)	(-0.3)	(0.8)
Personal consumption	0.8	-0.7	0.3	-0.2	0.7
Housing investment	1.3	-1.4	-3.0	-2.5	-2.4
Capital investment	0.2	1.3	0.9	0.7	3.1
Inventory investment	(-0.1)	(0.4)	(0.2)	(-0.2)	(0.0)
Public demand	1.4	-0.5	-0.1	-0.1	0.2
	(0.3)	(-0.1)	(-0.0)	(-0.0)	(0.0)
Government consumption	0.4	0.1	0.1	0.0	0.2
Public investment	5.3	-2.8	-0.6	-0.4	0.0
External demand	(-0.3)	(0.6)	(-0.1)	(0.1)	(-0.1)
Exports	0.2	2.1	2.1	0.6	0.2
Imports	1.9	-1.5	3.3	0.2	0.9
Nominal GDP	0.8	0.8	0.3	-0.4	0.7
GDP deflator (y-o-y change)	-0.3	0.1	0.1	0.5	0.1

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, *Quarterly Estimates of GDP*

2. Japan: we have made a slight upward revision of our forecast on FY2018

- FY2018 GDP forecast: remained unchanged at +1.2% in our forecast as of August. Despite the uptick in the 2nd QE, we have taken into consideration a backlash to capital investment in the Jul-Sep quarter, and have also made a downward revision of exports in view of current conditions.
 - Our forecast on exports factors in the latest economic data releases and impact of natural disasters.
- FY2019 GDP forecast: +0.8% (forecast as of August: +0.9%). We have made a slight downward revision due to a lower carry-over of growth.

[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	0.6	0.2	-0.2	0.7	0.2	0.2	0.4	0.4	0.3	-0.4	0.1
	Q-o-q % ch p.a.	—	—	—	—	2.7	2.0	2.3	0.9	-0.9	3.0	0.6	0.9	1.6	1.4	1.1	-1.8	0.6
Domestic demand	Q-o-q % ch	0.4	1.2	1.1	0.8	0.6	0.8	0.0	0.4	-0.3	0.9	0.1	0.2	0.3	0.4	0.5	-0.9	0.1
Private sector demand	Q-o-q % ch	0.4	1.3	1.4	0.8	0.7	0.6	0.2	0.5	-0.4	1.1	0.1	0.3	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	-0.4	-4.1	-0.3	0.9	1.3	-1.4	-3.0	-2.5	-2.4	1.5	1.2	1.1	1.7	-1.2	-3.8	-4.2
Capital investment	Q-o-q % ch	1.2	3.1	3.8	1.8	0.7	0.2	1.3	0.9	0.7	3.1	-1.1	0.4	0.5	0.5	1.0	0.4	0.3
Inventory investment	Q-o-q contribution, % pt	(-0.3)	(0.1)	(0.1)	(-0.0)	(0.1)	(-0.1)	(0.4)	(0.2)	(-0.2)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(-0.5)	(0.5)	(-0.1)
Public sector demand	Q-o-q % ch	0.6	0.9	0.3	0.8	0.3	1.4	-0.5	-0.1	-0.1	0.2	0.3	0.0	0.3	0.2	0.3	0.1	0.1
Government consumption	Q-o-q % ch	0.5	0.7	0.6	0.8	0.3	0.4	0.1	0.1	0.0	0.2	0.2	0.2	0.3	0.3	0.1	-0.1	0.3
Public investment	Q-o-q % ch	0.9	1.4	-0.6	1.1	-0.2	5.3	-2.8	-0.6	-0.4	0.0	0.9	-0.6	0.3	-0.1	1.2	0.6	-0.8
External demand	Q-o-q contribution, % pt	(0.8)	(0.4)	(0.0)	(-0.0)	(0.1)	(-0.3)	(0.6)	(-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	6.3	3.4	2.6	1.9	0.2	2.1	2.1	0.6	0.2	0.8	0.8	0.7	0.6	0.6	0.6	0.4
Imports	Q-o-q % ch	-0.8	4.1	3.4	2.7	1.4	1.9	-1.5	3.3	0.2	0.9	0.7	0.8	0.5	1.1	2.0	-1.8	0.3
GDP (nominal)	Q-o-q % ch	1.0	1.7	1.3	1.3	0.2	0.8	0.8	0.3	-0.4	0.7	0.6	0.2	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	0.6	0.4	0.9	1.0

Notes: Figures in the shaded areas are forecasts

Source: Made by MHRI based upon Cabinet Office, *Quarterly Estimates of GDP*

Japan: the underlying trend of the CPI (ex food & energy) will remain around the lower half of the 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	1.0	4.1	1.6	2.0	0.2	1.8	0.5	1.6	-1.3	1.3	-0.5	1.1	0.7	0.8	1.2	-1.2	-0.4
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	10.0	6.9	4.1	0.1	26.6	22.6	5.5	0.9	0.2	17.9	-3.0	-0.6	0.0	-1.1	7.6	-2.9	-1.7
		7.3	12.5					17.9										
Nominal compensation of employees	Y-o-y % ch	2.4	2.3	2.4	1.7	1.4	2.2	2.2	1.9	3.1	4.1	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	96.4	92.6	97.2	98.7	95.5	94.8	89.2	96.8	94.6	96.2	98.5	99.4	93.7	89.8	87.0
Current account balance	P.a., JPY tril	21.0	21.8	20.3	17.6	21.4	20.0	23.2	23.6	18.7	22.0	20.5	19.5	17.8	16.5	14.8	18.8	19.1
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	3.0	2.1	1.4	0.9	0.8	2.8	2.7
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	0.9	-	-	-	-	-	-	-	-	-	-	-	0.9	0.9
Consumer prices, ex fresh food	Y-o-y % ch	-0.2	0.7	0.9	0.9	0.2	0.4	0.6	0.9	0.9	0.7	0.9	1.0	0.9	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	0.7	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	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-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	22,700	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	111	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

3. Outlook on the global economy: the global economy will expand in 2018 and continue to follow firm footing in 2019

- Economic growth in the total forecast area will continue to expand in 2018 and follow firm footing in 2019. However, the growth momentum will gradually slow down.
 - Reflecting the announcements of GDP, we have revised downward our forecasts on economic growth of the US and India. On the other hand, we have made a downward revision of our forecast on Japan due to the effect of the carry-over of growth.

[Outlook on the global economy]

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

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			Mar	Deadline of UK exit from EU	By end of Jul	Spain: General election
			May	European Parliament 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		
			Spring	Nationwide local elections		
			Summer	Upper House election		
			Oct	Consumption tax hike		
Asia			By Feb	Thailand: Legislative election	Jan	Taiwan: Presidential and legislative elections
			Apr	Indonesia: Presidential and legislative elections	Apr	South Korea: Legislative election
			By May	India: Lower House election	Around Spring	Singapore: Legislative election
			By Nov	Australia: Upper House and Lower House elections	Sep	Hong Kong: Legislative Council election
			By year end	China: 4th Plenary Session of the CPC Central Committee	By year end	China: 5th Plenary Session of the CPC Central Committee
Other	Oct	Brazil: Presidential election				

Source: Made by MHRI

Mizuho Research Institute Ltd.

This publication is compiled solely for the purpose of providing readers with information on a free-of-charge basis and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice. In the event readers do not wish to receive information free of charge from Mizuho Research Institute, readers are requested to notify their wish to suspend subscription.