

[Summary](#)

FY2018, FY2019 Economic Outlook

- Despite slower growth in 2019, the economy should remain firm. Keep a close eye upon the rise of uncertainties -

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Mizuho Research Institute

Key points of our forecast

- ❑ The global economy will peak in 2018 and moderate in 2019. China's economic slowdown and decelerating demand for semiconductors will serve as drags upon global growth. Even so, the strength of the US economy will underpin global growth, keeping it on solid footing.
- ❑ While the US economy remained on a solid expansion track in in the Jul-Sep quarter, the Eurozone and Chinese economies slowed down and Japan's growth fell into negative territory.
- ❑ Among the risk factors are the escalation of US-China trade tensions, a sharp slowdown of the Chinese economy, European political turmoil such as the breakdown Brexit negotiations, spread of concerns regarding the emerging market (EM) economies. There are concerns that the global economy may revisit the economic slowdown experienced during 2015 to 2016.
- ❑ Turning to trade tensions, there is a lingering possibility that the US may take a more hard-line stance amid the ongoing global power struggle. Should the tensions escalate, the slowdown of the Chinese economy and deterioration of US business confidence would drag down the global economy.
- ❑ Semiconductor sales have shifted into low gear. Although sales should bottom out by mid-2019, it will be necessary to keep a close eye upon a supply glut due to the acceleration of China's drive to produce semiconductors domestically in addition to trade tensions between the US and China.
- ❑ The Federal Open Market Committee (FOMC) will continue to gradually increase the federal funds rate in 2019 as long as the US economy remains on a strong expansion track, in a bid to restrain potential inflationary pressures and expansion of a financial bubble. The risks of EM fund outflows will continue to linger.
- ❑ On the Japanese economy in FY2019, even though our outlook forecasts an economic slowdown reflecting the consumption tax hike in October and a slower pace of export growth, various income support measures should keep the downward pressures subdued.

Overview of the global economy: we have revised down our outlook on global growth from MHRI's *Economic Outlook* in September in view of factors such the impact of trade tensions

[Outlook on the global economy]

| | (Y-o-y % change) | | | | | (Y-o-y % change) | | (% point) | |
|--------------------------------|-----------------------|------|------|------|------|--------------------------------|------|--|------|
| | 2015 Calendar year | 2016 | 2017 | 2018 | 2019 | 2018 (Forecast in Sep 2018) | 2019 | 2018 (Breadth of change from forecast in Sep 2018) | 2019 |
| Total of forecast area | 3.6 | 3.4 | 3.9 | 4.0 | 3.8 | 4.1 | 3.9 | -0.1 | -0.1 |
| Japan, US, Eurozone | 2.4 | 1.6 | 2.2 | 2.2 | 2.0 | 2.3 | 2.1 | -0.1 | -0.1 |
| US | 2.9 | 1.6 | 2.2 | 2.9 | 2.7 | 3.0 | 2.7 | -0.1 | - |
| Eurozone | 2.1 | 1.8 | 2.4 | 1.9 | 1.5 | 2.0 | 1.7 | -0.1 | -0.2 |
| Japan | 1.4 | 1.0 | 1.7 | 0.9 | 1.2 | 1.0 | 1.1 | -0.1 | 0.1 |
| Asia | 6.2 | 6.2 | 6.1 | 6.2 | 5.9 | 6.2 | 6.0 | - | -0.1 |
| China | 6.9 | 6.7 | 6.9 | 6.6 | 6.2 | 6.6 | 6.4 | - | -0.2 |
| NIEs | 2.1 | 2.3 | 3.2 | 2.8 | 2.4 | 2.8 | 2.5 | - | -0.1 |
| ASEAN5 | 4.9 | 4.9 | 5.3 | 5.3 | 4.9 | 5.3 | 5.0 | - | -0.1 |
| India | 7.6 | 7.9 | 6.2 | 7.6 | 7.3 | 7.6 | 7.3 | - | - |
| Australia | 2.5 | 2.6 | 2.2 | 3.2 | 2.6 | 3.2 | 2.7 | - | -0.1 |
| Brazil | -3.5 | -3.5 | 1.0 | 1.4 | 2.4 | 1.3 | 2.3 | 0.1 | 0.1 |
| Mexico | 3.3 | 2.9 | 2.0 | 2.2 | 2.2 | 2.1 | 2.5 | 0.1 | -0.3 |
| Russia | -2.5 | -0.2 | 1.5 | 1.6 | 1.3 | 1.6 | 1.3 | - | - |
| Japan (FY) | 1.4 | 1.2 | 1.6 | 1.0 | 0.8 | 1.2 | 0.8 | -0.2 | - |
| Crude oil price (WTI, USD/bbl) | 49 | 43 | 51 | 66 | 72 | 68 | 72 | -2 | - |

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: even though growth is expected to slow down, the economy should remain on firm footing

- ❑ Japan's economic growth fell into negative territory (-1.2% q-o-q p.a.) for the first time in two quarters in the Jul-Sep quarter of 2018. A series of natural disasters including the torrential rain in western Japan, Typhoon No. 21 and the Hokkaido earthquake led to store shut-downs, suspension of factory operations and severance of logistics networks, serving as negative pressures upon consumption and exports. Capital investment growth also grinded down to a pause in a backlash to the strong growth in the Apr-Jun quarter.
- ❑ MHRI's FY2018 forecast on Japan's GDP: +1.0%. Even though strong labor market conditions will serve as tailwinds upon personal consumption, the pace of economic recovery will turn out to be mild since inflation will push down real wages. Capital investment should remain on firm footing mainly in labor-saving investments, reflecting the strength of investment incentive. Exports should gradually slow down, given the impact of the Chinese economy's entry into a stagnation cycle and signs that the IT sector is peaking out.
- ❑ In FY2019, Japan's economic growth is forecast to moderate to +0.8%, reflecting downward pressures reflecting the consumption tax hike in October and the slowdown of exports. However, the downward pressures upon real income should turn out to be milder than in April 2015 (the previous consumption tax hike) due to the implementation of various income support measures at the time of the consumption tax hike.
- ❑ Turning to the risks, it will be necessary for the time being to keep a close eye upon the escalation of trade tensions. There are concerns that the rise of uncertainty would depress corporate sentiment. Furthermore, in the event of a further escalation of US-China trade tensions, it would serve indirectly as negative pressures upon Japan's economy. Should the US impose additional tariffs related to motor vehicles, it would have a serious impact upon Japan.

Japan: forecast on growth for FY2018 (+1.0%), FY2019 (+0.8%)

[Outlook on the Japanese economy]

| | | 2016 | 2017 | 2018 | 2019 | 2017 | | | 2018 | | | | 2019 | | | | 2020 |
|--------------------------|--------------------------|--------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | FY | | | | 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 | 1.0 | 0.8 | 0.5 | 0.7 | 0.2 | -0.3 | 0.8 | -0.3 | 0.6 | 0.4 | 0.3 | 0.6 | -1.0 | 0.2 |
| | Q-o-q % ch p.a. | — | — | — | — | 1.9 | 2.9 | 0.8 | -1.1 | 3.0 | -1.2 | 2.3 | 1.8 | 1.2 | 2.4 | -4.0 | 0.9 |
| Domestic demand | Q-o-q % ch | 0.4 | 1.2 | 1.0 | 0.9 | 0.8 | 0.1 | 0.3 | -0.3 | 0.9 | -0.2 | 0.5 | 0.4 | 0.4 | 0.9 | -1.4 | 0.2 |
| Private sector demand | Q-o-q % ch | 0.4 | 1.3 | 1.3 | 0.8 | 0.6 | 0.3 | 0.5 | -0.4 | 1.1 | -0.2 | 0.5 | 0.4 | 0.4 | 1.1 | -1.9 | 0.3 |
| Personal consumption | Q-o-q % ch | 0.3 | 0.8 | 0.6 | 0.7 | 0.8 | -0.6 | 0.3 | -0.2 | 0.7 | -0.1 | 0.4 | 0.2 | 0.4 | 1.5 | -2.5 | 0.5 |
| Housing investment | Q-o-q % ch | 6.2 | -0.3 | -4.0 | -0.4 | 1.6 | -1.8 | -3.2 | -2.1 | -1.9 | 0.6 | 1.5 | 1.2 | 1.7 | -1.2 | -3.8 | -4.1 |
| Capital investment | Q-o-q % ch | 1.2 | 3.1 | 4.5 | 1.9 | 0.2 | 1.5 | 0.7 | 0.7 | 3.1 | -0.2 | 0.3 | 0.5 | 0.4 | 1.0 | 0.3 | 0.2 |
| Inventory investment | Q-o-q contribution, % pt | (-0.3) | (0.1) | (0.0) | (-0.1) | (-0.1) | (0.4) | (0.2) | (-0.2) | (0.0) | (-0.1) | (0.0) | (0.0) | (-0.1) | (-0.1) | (0.1) | (0.0) |
| Public sector demand | Q-o-q % ch | 0.6 | 0.9 | 0.1 | 1.2 | 1.3 | -0.4 | -0.1 | -0.1 | 0.1 | -0.2 | 0.5 | 0.5 | 0.5 | 0.2 | 0.0 | -0.1 |
| Government consumption | Q-o-q % ch | 0.5 | 0.7 | 0.6 | 0.8 | 0.4 | 0.1 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | -0.0 | 0.1 |
| Public investment | Q-o-q % ch | 0.9 | 1.5 | -1.5 | 2.7 | 5.0 | -2.2 | -0.8 | -0.5 | -0.3 | -1.9 | 1.8 | 1.6 | 1.1 | 0.2 | 0.3 | -0.6 |
| External demand | Q-o-q contribution, % pt | (0.8) | (0.4) | (0.0) | (-0.0) | (-0.3) | (0.6) | (-0.1) | (0.1) | (-0.1) | (-0.1) | (0.1) | (0.0) | (-0.1) | (-0.3) | (0.4) | (-0.0) |
| Exports | Q-o-q % ch | 3.6 | 6.3 | 1.9 | 1.8 | -0.2 | 2.7 | 2.1 | 0.5 | 0.3 | -1.8 | 1.4 | 0.8 | 0.4 | 0.4 | 0.3 | 0.3 |
| Imports | Q-o-q % ch | -0.8 | 4.1 | 2.0 | 2.1 | 1.7 | -1.0 | 3.1 | 0.1 | 1.0 | -1.4 | 1.0 | 0.6 | 0.9 | 1.9 | -1.8 | 0.3 |
| GDP (nominal) | Q-o-q % ch | 1.0 | 1.7 | 0.9 | 1.2 | 0.7 | 1.1 | 0.2 | -0.5 | 0.6 | -0.3 | 1.0 | -0.1 | 0.6 | 0.5 | -0.2 | 0.0 |
| GDP deflator | Y-o-y % ch | -0.2 | 0.1 | -0.1 | 0.4 | -0.3 | 0.1 | 0.1 | 0.5 | 0.0 | -0.3 | 0.0 | -0.3 | 0.2 | 0.0 | 0.6 | 0.8 |
| Domestic demand deflator | Y-o-y % ch | -0.5 | 0.6 | 0.6 | 0.9 | 0.4 | 0.5 | 0.6 | 0.9 | 0.5 | 0.8 | 0.6 | 0.5 | 0.7 | 0.5 | 1.0 | 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 CPI ex fresh food (y-o-y change) should gradually slow down from mid-2019

[Outlook on the Japanese economy (major economic indicators)]

| | | 2016 | 2017 | 2018 | 2019 | 2017 | | | 2018 | | | | 2019 | | | | 2020 |
|--|--------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | FY | | | | 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 | 0.9 | 1.7 | 1.9 | 0.0 | 1.2 | -1.1 | 1.2 | -1.3 | 1.3 | 0.8 | 0.7 | 1.2 | -1.3 | -0.3 |
| Ordinary profits | Y-o-y % ch | 10.0 | 6.9 | 3.5 | -0.4 | 22.6 | 5.5 | 0.9 | 0.2 | 17.9 | -5.9 | -0.9 | 0.5 | -1.5 | 7.8 | -3.6 | -2.4 |
| Nominal compensation of employees | Y-o-y % ch | 2.5 | 2.2 | 2.7 | 2.0 | 2.2 | 2.0 | 1.8 | 2.7 | 3.4 | 2.5 | 2.9 | 2.1 | 2.0 | 2.2 | 2.1 | 2.0 |
| Unemployment rate | % | 3.0 | 2.7 | 2.4 | 2.4 | 2.9 | 2.8 | 2.7 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.5 |
| New housing starts | P.a., 10,000 units | 97.4 | 94.6 | 96.9 | 93.1 | 98.7 | 95.5 | 94.8 | 89.2 | 96.8 | 95.3 | 96.8 | 99.1 | 99.9 | 94.3 | 90.3 | 87.5 |
| Current account balance | P.a., JPY tril | 21.0 | 21.8 | 20.4 | 17.9 | 20.0 | 23.2 | 23.6 | 18.7 | 22.1 | 17.0 | 20.2 | 19.3 | 16.5 | 14.6 | 19.0 | 18.6 |
| Domestic corporate goods prices | Y-o-y % ch | -2.4 | 2.7 | 2.4 | 2.3 | 2.2 | 2.8 | 3.3 | 2.5 | 2.4 | 3.0 | 2.5 | 1.8 | 1.4 | 1.1 | 3.4 | 2.9 |
| Domestic corporate goods prices (ex consumption tax) | Y-o-y % ch | - | - | - | 1.4 | - | - | - | - | - | - | - | - | - | - | 1.5 | 1.0 |
| Consumer prices, ex fresh food | Y-o-y % ch | -0.2 | 0.7 | 0.9 | 1.1 | 0.4 | 0.6 | 0.9 | 0.9 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 1.3 | 1.3 |
| Consumer prices, ex fresh food (ex consumption tax) | Y-o-y % ch | - | - | - | 0.6 | - | - | - | - | - | - | - | - | - | - | 0.3 | 0.3 |
| Consumer prices, ex fresh food and energy | Y-o-y % ch | 0.3 | 0.2 | 0.4 | 0.7 | 0.0 | 0.1 | 0.3 | 0.5 | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.9 | 0.9 |
| Consumer prices, ex fresh food and energy (ex consumption tax) | Y-o-y % ch | - | - | - | 0.3 | - | - | - | - | - | - | - | - | - | - | 0.0 | 0.0 |
| Uncollateralized overnight call rate | % | -0.06 | -0.06 | -0.05 | -0.05 | -0.07 | -0.06 | -0.06 | -0.06 | -0.07 | -0.06 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 | -0.05 |
| Yield on newly-issued 10-yr JGBs | % | -0.05 | 0.05 | 0.11 | 0.15 | 0.04 | 0.05 | 0.05 | 0.06 | 0.04 | 0.10 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Nikkei average | JPY | 17,520 | 20,984 | 22,700 | 23,800 | 19,503 | 19,880 | 22,188 | 22,366 | 22,341 | 22,654 | 22,600 | 23,300 | 24,000 | 23,500 | 23,500 | 24,000 |
| Exchange rate | JPY/USD | 108 | 111 | 112 | 115 | 111 | 111 | 113 | 108 | 109 | 111 | 113 | 114 | 115 | 116 | 115 | 113 |
| Crude oil price (WTI nearest term contract) | USD/bbl | 48 | 54 | 67 | 73 | 48 | 48 | 55 | 63 | 68 | 69 | 63 | 68 | 71 | 73 | 74 | 75 |

- 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. Nominal compensation of employees for FY2017, FY2018, and the Jun-Mar and Apr-Jun quarters of 2018 excludes the effects of a benchmark renewal in the *Monthly Labour Survey*.
5. 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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