

REVISED  
to reflect the  
2<sup>nd</sup> QE for the  
Jul-Sep Qtr  
of 2018

---

# FY2018, FY2019 Economic Outlook

- Japan's economic recovery will moderate due to the slowdown of exports -

December 10, 2018

Mizuho Research Institute

## The Japanese economy: despite support by solid domestic demand, Japan's economic recovery will moderate due to the slowdown of exports

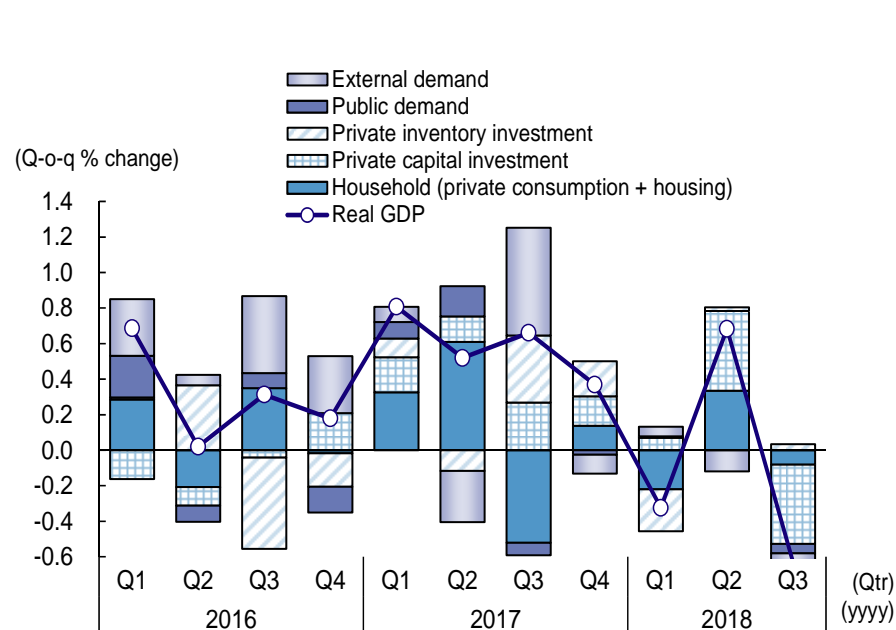
---

- ❑ According to the *Second Preliminary Quarterly Estimates of GDP* (“2<sup>nd</sup> QE”) of the Jul-Sep quarter of 2018, Japan's GDP growth contracted (-2.5% p.a.) in a downward revision from the *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”). Apart from a sharp downturn of capital investment, personal consumption and public investment were also revised downward. In addition to the impact of natural disasters, capital investment grinded down to a pause, ascertaining once again that the Japanese economy is stalling.
- ❑ The impact of the natural disasters is already subsiding. Looking forward, we expect personal consumption to follow firm footing reflecting Japan's strong employment conditions, and capital investment to remain solid on the back of demand for labor-saving investment. However, China's economic slowdown and peak-out of IT-related demand will likely serve as drags upon exports, leading to the slowdown of Japan's economic recovery.
- ❑ In comparison to our forecast as of November, we have revised downward our forecast on growth in FY2018 as follows, mainly with respect to capital investment, to reflect the preliminary quarterly estimates of GDP: FY2018 growth +0.7% (revised down from +1.0% in our previous outlook in November), FY2019 growth +0.7% (revised down from +0.8% in our previous outlook in November).
- ❑ The risk to growth is that the rise of uncertainties accompanying the escalation of trade frictions may serve as further downward pressures upon capital investment. Furthermore, in the event additional tariffs are implemented on automobiles and automotive parts, it would have a severe impact.
- ❑ The rise of prices will gradually slow down due to a pause in the rise of energy prices. From around mid-FY2019, the measure to make early childhood education free will also serve as negative pressure upon prices.

## 1. Japan: overview of the 2<sup>nd</sup> QE for the Jul-Sep quarter of 2018 – sharp downward revision of capital investment

- According to the 2<sup>nd</sup> QE for the Jul-Sep quarter of 2018, Japan's real GDP was revised downward to -0.6% q-o-q (-2.5% p.a.) from the 1<sup>st</sup> QE (-1.2% p.a.).
  - In addition to a significant downward revision of capital investment, personal consumption and public investment were also subject to slight downward revisions.
  - Subsequent to the softening of consumption and exports stemming from the impact of natural disasters which was ascertained at the time of the 1<sup>st</sup> QE, the 2<sup>nd</sup> QE revision provided reconfirmation that the Japanese economy is stalling.

[ 2018 Jul-Sep quarter GDP (2<sup>nd</sup> QE) ]



	2017		2018		1st QE	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun		Jul-Sep
Real GDP	0.7	0.4	-0.3	0.7	-0.6	-0.3
(Q-o-q change, p.a.)	2.7	1.5	-1.3	2.8	-2.5	-1.2
(Y-o-y change)	2.1	2.4	1.2	1.4	0.0	0.3
Domestic demand	0.1	0.5	-0.4	0.8	-0.6	-0.2
	(0.1)	(0.5)	(-0.4)	(0.9)	(-0.5)	(-0.2)
Private demand	0.2	0.7	-0.5	1.1	-0.7	-0.2
	(0.1)	(0.5)	(-0.4)	(0.8)	(-0.5)	(-0.2)
Personal consumption	-0.8	0.4	-0.3	0.7	-0.2	-0.1
Housing investment	-1.8	-3.3	-2.1	-1.9	0.7	0.6
Capital investment	1.7	1.1	0.4	2.8	-2.8	-0.2
Inventory investment	(0.4)	(0.2)	(-0.2)	(0.0)	(0.0)	(-0.1)
Public demand	-0.3	-0.1	0.0	0.0	-0.2	-0.2
	(-0.1)	(-0.0)	(0.0)	(-0.0)	(-0.1)	(-0.1)
Government consumption	0.2	0.0	0.2	0.1	0.2	0.2
Public investment	-2.3	-0.6	-0.5	-0.5	-2.0	-1.9
External demand	(0.6)	(-0.1)	(0.1)	(-0.1)	(-0.1)	(-0.1)
Exports	2.7	2.1	0.5	0.3	-1.8	-1.8
Imports	-1.0	3.1	0.2	1.0	-1.4	-1.4
Nominal GDP	1.0	0.5	-0.6	0.5	-0.7	-0.3
GDP deflator (y-o-y change)	0.2	0.1	0.5	0.0	-0.3	-0.3

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 downward revisions of our forecasts on FY2018 and FY2019

- FY2018 GDP forecast: +0.7% y-o-y, revised downward from previous forecast in November (forecast as of November: +1.0% y-o-y).
  - Our forecast factors in the downward revision of capital investment in the 2<sup>nd</sup> QE.
- FY2019 GDP forecast: +0.7% (forecast as of November: +0.8%). 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				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	0.9	1.9	0.7	0.7	0.5	0.7	0.4	-0.3	0.7	-0.6	0.5	0.5	0.3	0.6	-1.0	0.2
	Q-o-q % ch p.a.	—	—	—	—	2.1	2.7	1.5	-1.3	2.8	-2.5	2.0	1.9	1.1	2.4	-3.8	0.9
Domestic demand	Q-o-q % ch	0.1	1.5	0.7	0.8	0.8	0.1	0.5	-0.4	0.8	-0.6	0.4	0.4	0.4	0.9	-1.4	0.2
Private sector demand	Q-o-q % ch	-0.1	1.8	0.9	0.6	0.9	0.2	0.7	-0.5	1.1	-0.7	0.4	0.4	0.4	1.1	-1.9	0.3
Personal consumption	Q-o-q % ch	0.0	1.0	0.6	0.7	1.0	-0.8	0.4	-0.3	0.7	-0.2	0.4	0.2	0.4	1.5	-2.5	0.5
Housing investment	Q-o-q % ch	6.3	-0.7	-4.3	-1.5	1.9	-1.8	-3.3	-2.1	-1.9	0.7	1.2	0.7	1.4	-1.2	-4.2	-4.7
Capital investment	Q-o-q % ch	-0.5	4.6	2.7	2.0	0.9	1.7	1.1	0.4	2.8	-2.8	1.2	0.6	0.5	1.0	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	(-0.2)	(0.1)	(0.0)	(-0.2)	(-0.1)	(0.4)	(0.2)	(-0.2)	(0.0)	(0.0)	(-0.1)	(0.0)	(-0.1)	(-0.1)	(0.1)	(0.0)
Public sector demand	Q-o-q % ch	0.7	0.5	0.1	1.2	0.7	-0.3	-0.1	0.0	-0.0	-0.2	0.4	0.6	0.3	0.2	0.2	0.0
Government consumption	Q-o-q % ch	0.7	0.4	0.7	0.8	-0.1	0.2	0.0	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.0	0.1
Public investment	Q-o-q % ch	0.6	0.5	-1.7	2.9	3.3	-2.3	-0.6	-0.5	-0.5	-2.0	1.4	2.3	0.5	0.0	1.1	-0.4
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	6.4	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	-0.9	4.1	2.1	2.1	1.7	-1.0	3.1	0.2	1.0	-1.4	1.0	0.6	0.9	1.9	-1.8	0.3
GDP (nominal)	Q-o-q % ch	0.7	2.0	0.7	1.1	0.7	1.0	0.5	-0.6	0.5	-0.7	1.1	0.3	0.2	0.4	-0.0	0.1
GDP deflator	Y-o-y % ch	-0.2	0.1	0.0	0.4	-0.3	0.2	0.1	0.5	0.0	-0.3	0.2	0.3	0.3	0.1	0.5	0.5
Domestic demand deflator	Y-o-y % ch	-0.5	0.6	0.5	0.8	0.4	0.6	0.6	0.9	0.5	0.6	0.4	0.4	0.5	0.6	1.1	1.1

Notes: Figures in the shaded areas are forecasts

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

## Japan: the rise of prices should gradually slow down due to factors such as the pause in rise of energy prices

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

		2016	2017	2018	2019	2017	2017	2017	2018	2018	2018	2018	2019	2019	2019	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	1.1	-1.3	-0.3
Ordinary profits	Y-o-y % ch	10.0	6.9	5.6	0.4	22.6	5.5	0.9	0.2	17.9	2.2	-0.3	0.9	-0.8	8.1	-3.0	-1.6
Nominal compensation of employees	Y-o-y % ch	2.4	2.2	2.7	2.0	1.8	1.8	1.4	2.6	3.7	2.7	2.9	2.1	2.0	2.2	2.1	1.9
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	96.4	91.3	98.7	95.5	94.8	89.2	96.8	95.3	95.9	98.1	98.6	92.9	88.3	85.0
Current account balance	P.a., JPY tril	21.0	21.8	21.8	19.4	20.0	23.2	23.6	18.7	22.1	17.0	22.0	22.7	18.6	15.3	20.5	20.3
Domestic corporate goods prices	Y-o-y % ch	-2.4	2.7	2.1	2.5	2.2	2.8	3.3	2.5	2.4	3.0	2.2	0.7	0.9	1.1	3.9	3.8
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-	1.5	-	-	-	-	-	-	-	-	-	-	2.0	1.9
Consumer prices, ex fresh food	Y-o-y % ch	-0.2	0.7	0.8	1.1	0.4	0.6	0.9	0.9	0.7	0.9	0.9	0.8	0.7	0.7	1.3	1.4
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	-	0.6	-	-	-	-	-	-	-	-	-	-	0.4	0.4
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	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	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	22,600	23,800	19,503	19,880	22,188	22,366	22,341	22,654	22,300	23,300	24,000	23,500	23,500	24,000
Exchange rate	USD/JPY	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	64	72	48	48	55	63	68	69	60	60	66	72	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

### 3. Outlook on the global economy: the global economic recovery will gradually slow down

- Even though economic growth in the total forecast area will moderate slightly in 2019, the strong US economy will serve as support and keep the global economy on firm footing.
  - Reflecting the announcements/revisions of GDP in the Jul-Sep quarter, we have revised downward our forecasts on economic growth of Japan, the NIEs, the ASEAN5, India and Australia.

#### [ Outlook on the global economy ]

	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2015 Calendar year	2016	2017	2018	2019	2018 (Forecast in Nov 2018)	2019 (Forecast in Nov 2018)	2018 (Breadth of change from forecast in Nov 2018)	2019 (Breadth of change from forecast in Nov 2018)
Total of forecast area	3.6	3.4	3.9	4.0	3.8	4.1	3.8	-0.1	-
Japan, US, Eurozone	2.4	1.6	2.2	2.2	2.0	2.2	2.0	-	-
US	2.9	1.6	2.2	2.9	2.7	2.9	2.7	-	-
Eurozone	2.1	1.9	2.4	1.9	1.5	1.9	1.5	-	-
Japan	1.2	0.6	1.9	0.7	1.0	0.9	1.2	-0.2	-0.2
Asia	6.2	6.2	6.1	6.2	5.9	6.2	5.9	-	-
China	6.9	6.7	6.9	6.6	6.2	6.6	6.2	-	-
NIEs	2.1	2.4	3.2	2.7	2.3	2.8	2.4	-0.1	-0.1
ASEAN5	4.9	4.9	5.3	5.2	5.0	5.3	4.9	-0.1	0.1
India	7.6	7.9	6.2	7.5	7.2	7.6	7.3	-0.1	-0.1
Australia	2.5	2.8	2.4	3.1	2.5	3.2	2.6	-0.1	-0.1
Brazil	-3.5	-3.3	1.1	1.4	2.4	1.4	2.4	-	-
Mexico	3.3	2.9	2.1	2.2	2.2	2.2	2.2	-	-
Russia	-2.5	-0.2	1.5	1.6	1.3	1.6	1.3	-	-
Japan (FY)	1.3	0.9	1.9	0.7	0.7	1.0	0.8	-0.3	-0.1
Crude oil prices (WTI, USD/bbl)	49	43	51	65	68	66	72	-1	-4

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**

	2019		2020	
US	Jan - Feb	Start of Japan-US trade talks	Jan	Entry into force of "new NAFTA" (prospective goal)
	Mar	Reinstatement of debt ceiling	Nov	Presidential election
Europe	Mar	Deadline of UK exit from EU	up to Jul	Spain: General election
	May	European Parliament election		
	Oct	ECB President Mario Draghi's term of office ends		
Japan	Apr	Abdication of current Emperor	Jul-Sep	Tokyo Olympic and Paralympic Games
	May	Accession of new Emperor, change of era		
	Spring	Nationwide local elections		
	Jun	G20 Summit (Osaka)		
	Summer	Upper House election		
	Oct	Consumption tax hike		
Asia	Feb-May	Thailand: legislative election	Jan	Taiwan: Presidential and legislative elections
	Apr	Indonesia: Presidential and legislative elections	Apr	South Korea: Legislative election
	up to May	India: Lower House election	up to Sep	Singapore: Legislative election
	up to 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
Others				

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.**