

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

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# **FY2018, FY2019, FY2020 Economic Outlook**

**- The Japanese economy will continue to lack strength due to the slowdown of exports -**

March 8, 2019

Mizuho Research Institute

## The Japanese economy: the Japanese economy will continue to lack strength due to the stagnation of exports and slowdown of capital investment

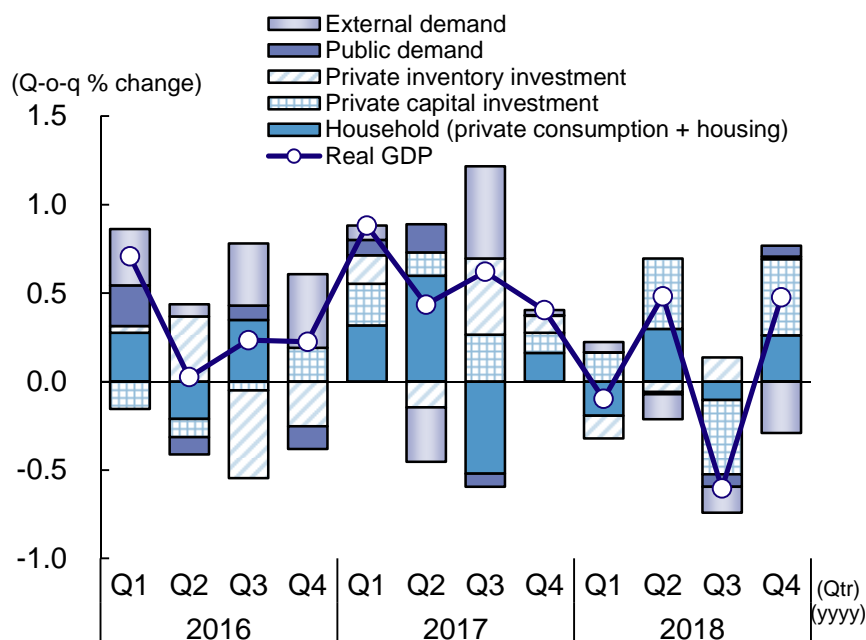
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- ❑ According to the *Second Preliminary Quarterly Estimates of GDP* (“2<sup>nd</sup> QE”) for the Oct-Dec quarter of 2018, Japan’s GDP growth (+1.9% p.a.) was revised upward from the *First Preliminary Quarterly Estimates of GDP* (“1<sup>st</sup> QE”). Despite a downward revision of personal consumption and public investment, the uptick in capital investment and inventory investment served as positive contributions to growth. However, as the economy fell short of recouping the drop in the Jul-Sep quarter of 2018, our view remains unchanged that the Japanese economy lacks strength.
- ❑ Looking forward, the Japanese economy will most likely continue to lack strength, reflecting the stagnation of exports and slowdown of capital investment. Personal consumption should follow firm footing, reflecting Japan’s strong employment conditions. Even though labor-saving investment will serve to underpin capital investment, the pace of growth is forecast to moderate due to the gradual rise of adjustment pressures mainly in the manufacturing sector. Turning to Japan’s exports, we are inclined to believe that exports will stagnate for some time due to the ongoing slowdown of the overseas economies such as the Chinese economy in particular, and adjustment pressures upon IT demand.
- ❑ In comparison to our forecast as of November, we have revised downward our forecast on growth in FY2018 as follows, to reflect the preliminary quarterly estimates of GDP for the Oct-Dec quarter of 2018: FY2018 growth +0.6% (forecast as of November: +0.5%), FY2019 growth +0.5% (forecast as of November: +0.5%).
- ❑ 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 Oct-Dec quarter of 2018 – both capital investment and inventory investment were revised upward

- According to the 2<sup>nd</sup> QE for the Oct-Dec quarter of 2018, Japan's real GDP was revised upward to +0.5% q-o-q (+1.9% p.a.) from the 1<sup>st</sup> QE (+1.4% p.a.).
- While personal consumption and capital investment turned out to be weaker than the 1<sup>st</sup> QE, both capital investment and inventory investment were revised upward.
- However, as the economy fell short of recouping the drop in the Jul-Sep quarter of 2018, our view remains unchanged that the Japanese economy lacks strength.

[ 2018 Oct-Dec quarter GDP (2<sup>nd</sup> QE) ]



	2017		2018		Oct-Dec	1 <sup>st</sup> QE
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep		
Real GDP	0.4	-0.1	0.5	-0.6	0.5	0.3
(Q-o-q change, p.a.)	1.6	-0.4	1.9	-2.4	1.9	1.4
(Y-o-y change)	2.4	1.3	1.5	0.1	0.3	-0.0
Domestic demand	0.4	-0.2	0.6	-0.5	0.8	0.7
	(0.4)	(-0.2)	(0.6)	(-0.4)	(0.8)	(0.6)
Private demand	0.5	-0.2	0.9	-0.5	0.9	0.7
	(0.4)	(-0.2)	(0.6)	(-0.4)	(0.7)	(0.5)
Personal consumption	0.5	-0.2	0.6	-0.2	0.4	0.6
Housing investment	-3.2	-2.0	-2.0	0.6	1.1	1.1
Capital investment	0.7	1.0	2.5	-2.6	2.7	2.4
Inventory investment	(0.1)	(-0.1)	(-0.1)	(0.1)	(0.0)	(-0.2)
Public demand	0.0	-0.0	-0.1	-0.3	0.2	0.4
	(0.0)	(0.0)	(-0.0)	(-0.1)	(0.1)	(0.1)
Government consumption	0.0	0.2	0.1	0.2	0.7	0.8
Public investment	-0.1	-0.7	-0.7	-2.3	-1.7	-1.2
External demand	(0.0)	(0.1)	(-0.1)	(-0.1)	(-0.3)	(-0.3)
Exports	2.2	0.4	0.4	-1.4	1.0	0.9
Imports	2.3	0.0	1.3	-0.7	2.7	2.7
Nominal GDP	0.2	-0.3	0.4	-0.5	0.4	0.3
GDP deflator (y-o-y change)	0.1	0.5	-0.1	-0.4	-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 (The Second Preliminary)*

## 2. Outlook on the Japanese economy: FY2018 (+0.6%), FY2019 (+0.6%), FY2020 (+0.5%)

- We have revised upward our forecast on FY2018 GDP to +0.6% y-o-y from our previous forecast in November (+0.5% y-o-y).
  - The foregoing factors in the upward revision of capital investment and inventory investment in the 2<sup>nd</sup> QE.
- Our forecast on FY2019 (+0.6% y-o-y) and FY2020 (+0.5% y-o-y) remain unchanged from our previous forecasts in November.

### [ Outlook on the Japanese economy ]

		2017	2018	2019	2020	2018				2019				2020				2021
		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	1.9	0.6	0.6	0.5	-0.1	0.5	-0.6	0.5	0.0	0.3	0.5	-0.5	0.3	0.2	0.2	0.1	0.1
	Q-o-q % ch p.a.	—	—	—	—	-0.4	1.9	-2.4	1.9	0.1	1.1	1.8	-1.8	1.1	0.6	0.9	0.5	0.4
Domestic demand	Q-o-q % ch	1.5	0.8	0.7	0.3	-0.2	0.6	-0.5	0.8	-0.0	0.3	0.7	-0.9	0.2	0.2	0.2	0.1	0.1
Private sector demand	Q-o-q % ch	1.8	1.1	0.5	0.1	-0.2	0.9	-0.5	0.9	-0.2	0.3	0.9	-1.4	0.2	0.3	0.2	0.0	0.2
Personal consumption	Q-o-q % ch	1.1	0.5	0.5	0.1	-0.2	0.6	-0.2	0.4	0.0	0.4	1.2	-2.0	0.4	0.3	0.1	0.1	0.3
Housing investment	Q-o-q % ch	-0.7	-4.6	-4.3	-6.4	-2.0	-2.0	0.6	1.1	-0.5	-0.3	-2.0	-3.9	-3.7	-1.5	0.1	0.4	0.2
Capital investment	Q-o-q % ch	4.6	3.5	2.1	1.2	1.0	2.5	-2.6	2.7	0.0	0.3	1.0	0.5	0.4	0.4	0.5	-0.4	-0.3
Inventory investment	Q-o-q contribution, % pt	(0.1)	(0.1)	(-0.1)	(0.0)	(-0.1)	(-0.1)	(0.1)	(0.0)	(-0.1)	(-0.0)	(-0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	0.6	-0.1	1.3	1.1	-0.0	-0.1	-0.3	0.2	0.3	0.4	0.2	0.7	0.3	0.0	0.3	0.5	0.0
Government consumption	Q-o-q % ch	0.4	0.9	0.9	0.9	0.2	0.1	0.2	0.7	-0.1	0.3	0.3	0.1	0.1	0.3	0.3	0.2	0.3
Public investment	Q-o-q % ch	0.5	-3.8	3.0	2.0	-0.7	-0.7	-2.3	-1.7	2.2	0.7	-0.3	3.3	1.2	-1.0	0.5	1.3	-1.1
External demand	Q-o-q contribution, % pt	(0.4)	(-0.2)	(-0.1)	(0.2)	(0.1)	(-0.1)	(-0.1)	(-0.3)	(0.1)	(-0.0)	(-0.2)	(0.4)	(0.0)	(-0.1)	(0.0)	(-0.0)	(-0.0)
Exports	Q-o-q % ch	6.4	1.9	1.4	1.5	0.4	0.4	-1.4	1.0	0.4	0.4	0.4	0.4	0.3	0.4	0.5	0.4	0.2
Imports	Q-o-q % ch	4.0	3.2	2.1	0.7	0.0	1.3	-0.7	2.7	0.1	0.7	1.7	-2.0	0.1	0.6	0.3	0.5	0.4
GDP (nominal)	Q-o-q % ch	2.0	0.5	1.1	1.3	-0.3	0.4	-0.5	0.4	0.5	0.4	0.3	-0.1	0.2	0.8	0.5	-0.2	0.2
GDP deflator	Y-o-y % ch	0.1	-0.1	0.6	0.8	0.5	-0.1	-0.4	-0.3	0.4	0.7	0.4	0.9	0.2	0.7	1.2	0.5	0.8
Domestic demand deflator	Y-o-y % ch	0.6	0.5	0.4	0.6	0.9	0.5	0.6	0.5	0.3	0.3	0.2	0.6	0.8	0.9	0.7	0.3	0.4

Notes: Figures in the shaded areas are forecasts

Source: Made by MHRI based upon Cabinet Office, *Quarterly Estimates of GDP (The Second Preliminary)*

## 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) ]

		2017	2018	2019	2020	2018				2019				2020				2021
		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	2.9	0.7	0.2	0.4	-1.1	1.2	-1.3	1.9	-1.5	0.5	0.8	-0.8	-0.2	0.4	0.6	-0.3	0.2
Ordinary profits	Y-o-y % ch	6.9	3.6	2.9	0.6	0.2	17.9	2.2	-7.0	-0.0	-1.1	7.4	-0.6	-0.5	1.1	-0.4	-0.0	1.3
Nominal compensation of employees	Y-o-y % ch	2.2	2.7	2.0	1.5	2.6	3.8	2.6	3.1	2.1	1.8	1.9	1.1	1.5	1.2	1.4	1.3	1.3
Unemployment rate	%	2.7	2.4	2.6	2.7	2.5	2.4	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.6	2.6	2.7
New housing starts	P.a., 10,000 units	94.6	95.3	88.5	85.0	89.7	96.6	95.3	95.5	94.4	94.7	89.2	85.7	84.0	84.6	85.1	85.2	85.3
Current account balance	P.a., JPY tril	21.8	18.3	13.9	17.3	20.2	21.1	18.2	17.5	18.0	16.0	12.5	15.3	16.1	17.3	18.5	18.4	18.7
Domestic corporate goods prices	Y-o-y % ch	2.7	2.1	0.9	1.1	2.5	2.4	3.0	2.3	0.5	-0.2	-1.0	2.3	2.4	1.8	2.0	0.3	0.5
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	-0.1	0.2	-	-	-	-	-	-	-	0.5	0.6	-0.1	0.1	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	0.8	0.7	0.8	0.9	0.7	0.9	0.9	0.7	0.5	0.4	0.9	1.0	1.1	1.0	0.5	0.5
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	0.2	0.3	-	-	-	-	-	-	-	-0.1	0.0	0.1	0.0	0.4	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.2	0.3	0.8	0.8	0.5	0.3	0.3	0.3	0.4	0.5	0.5	0.9	0.9	1.1	1.0	0.6	0.4
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	-	0.3	0.3	-	-	-	-	-	-	-	0.0	0.0	0.2	0.1	0.5	-
Uncollateralized overnight call rate	%	-0.06	-0.05	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.05	-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	0.00	0.08	0.06	0.04	0.10	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.10	0.10
Nikkei average	JPY	20,984	22,000	22,000	22,900	22,366	22,341	22,654	21,897	21,000	22,500	21,500	21,500	22,500	22,500	22,500	23,000	23,500
Exchange rate	USD/JPY	111	111	109	109	108	109	111	113	111	110	109	109	108	108	108	109	109
Crude oil price (WTI nearest term contract)	USD/bbl	54	63	55	55	63	68	69	59	54	57	56	55	54	53	54	55	56

- 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 Jan-Mar, Apr-Jun, and Jul-Sep 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 economy will slow down during the forecast period

- Economic growth in the total forecast area will fall during the forecast period, given the stagnation of the Chinese economy, slowdown of IT demand, and fading impact of US policy measures.
- Reflecting the latest economic indicators, we have revised downward our forecasts on economic growth of the US, the Eurozone, Brazil and Australia, and the overall global economy for the year 2019.

#### [ Outlook on the global economy ]

	(Y-o-y % change)						(Y-o-y % change)		(% point)	
	2015	2016	2017	2018	2019	2020	2019	2020	2019	2020
	Calendar year						(Forecast in Feb 2019)		(Breadth of change from forecast in Feb 2019)	
Total of forecast area	3.5	3.4	3.9	3.9	3.6	3.5	3.7	3.5	-0.1	-
Japan, US, Eurozone	2.4	1.6	2.2	2.1	1.8	1.4	1.8	1.4	-	-
US	2.9	1.6	2.2	2.9	2.6	1.7	2.7	1.7	-0.1	-
Eurozone	2.1	2.0	2.4	1.8	1.2	1.4	1.3	1.4	-0.1	-
UK	2.3	1.8	1.8	1.4	1.3	1.5	1.3	1.5	-	-
Japan	1.2	0.6	1.9	0.8	0.5	0.5	0.5	0.5	-	-
Asia	6.2	6.4	6.2	6.2	5.8	5.8	5.8	5.8	-	-
China	6.9	6.7	6.8	6.6	6.2	6.1	6.2	6.1	-	-
NIEs	2.1	2.4	3.3	2.8	2.3	2.0	2.3	2.0	-	-
ASEAN5	4.9	4.9	5.4	5.2	5.0	4.8	5.0	4.8	-	-
India	7.6	8.6	6.6	7.3	7.2	7.2	7.2	7.2	-	-
Australia	2.5	2.8	2.4	2.7	2.3	2.1	2.5	2.3	-0.2	-0.2
Brazil	-3.5	-3.3	1.1	1.1	2.2	2.1	2.4	2.3	-0.2	-0.2
Mexico	3.3	2.9	2.1	2.0	1.8	1.7	1.8	1.7	-	-
Russia	-2.5	-0.3	1.6	2.3	1.3	1.7	1.3	1.7	-	-
Japan (FY)	1.3	0.9	1.9	0.6	0.6	0.5	0.6	0.5	-	-
Crude oil prices (WTI, USD/bbl)	49	43	51	65	56	54	56	54	-	-

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		2021	
US	Mar	Reinstatement of debt ceiling	Jan	Entry into force of "new NAFTA" (prospective goal)	Sep	20th anniversary of the September 11 Terrorist Attacks
Europe	Mar	Deadline of UK exit from EU	Nov	Presidential election	Sep Autumn	German federal election Angela Merkel will step down as German Chancellor
	May	European Parliament election	by end of Jul	Spain: General election		
	Oct	ECB President Mario Draghi's term of office ends				
Japan	Apr	Abdication of current Emperor	Jul-Sep	Tokyo Olympic and Paralympic Games	Mar	10th anniversary of the Great East Japan Earthquake
	Apr	Nationwide local elections			Sep	End of term of next LDP president
	May	Accession of new Emperor, change of era			Oct	End of term of members of the Lower House
	Jun	G20 Summit (Osaka)				
	Summer	Upper House election				
	Oct	Consumption tax hike				
Asia	Mar	Thailand: legislative election	Jan	Taiwan: Presidential and legislative elections	by year-end	National congress of the Communist Party of Vietnam
	Apr	Indonesia: Presidential and legislative elections	Apr	South Korea: Legislative election		
	by May	India: Lower House election	around Sep	Singapore: Legislative election		
	May	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

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