

[Summary](#)

FY2019, FY2020 Economic Outlook

- The global economy is gradually slowing down, and a further downshift may ensue if trade tensions escalate -

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Overview: despite the solid US economy and economic stimulus measures supporting the Chinese economy, the direction of trade tensions requires close attention

- ❑ The global economy is headed for a gradual slowdown through 2020. In 2019, the deceleration of the Chinese and European economies and the deterioration of the IT cycle will serve as drags upon growth. In 2020, in addition to China's economic slowdown, the US economy will also decelerate as the effect of fiscal stimulus wears off.
- ❑ Even though Jan-Mar quarter growth among the major countries of the world picked up from the previous quarter, this was due largely to external demand pushing up growth because of the decline of imports in the case of Japan and the US. When also considering the weakness of corporate business sentiment in the Eurozone, the overall global economy lacks strength.
- ❑ The risk factors are the escalation of trade tensions, US domestic political discord, a “no-deal Brexit”, return of Italy's debt crisis, China's economic slowdown and its spread to emerging market (EM) economies, Middle East geopolitical risks and rise of crude oil prices.
- ❑ In particular, the impact of the trade tensions require close attention. While our main scenario outlook forecasts the continuation of sanctions up to the third round of tariff hikes, a downward revision of our outlook on global economic growth would be inevitable in the event the US implements its fourth round of tariff hikes upon Chinese goods.
- ❑ Although the Chinese economy is predicted to maintain growth at the 6%-level, there is the possibility that the pace of growth will fall below 6% even with the implementation of additional economic stimulus measures, in the event further tariff hikes leads to the deterioration of corporate and household sentiment.
- ❑ Given the large impact of the fourth round of tariff hikes upon the IT supply chain, IT demand will also slow down further.

The global economy will gradually slow down through 2020

[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 Mar 2019)		(Breadth of change from forecast in Mar 2019)	
Total of forecast area	3.5	3.5	3.9	3.9	3.6	3.5	3.6	3.5	-	-
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	2.8	1.7	2.6	1.7	0.2	-
Eurozone	2.1	2.0	2.4	1.9	1.2	1.4	1.2	1.4	-	-
UK	2.3	1.8	1.8	1.4	1.4	1.4	1.3	1.5	0.1	-0.1
Japan	1.2	0.6	1.9	0.8	0.7	0.4	0.5	0.5	0.2	-0.1
Asia	6.2	6.4	6.2	6.2	5.8	5.8	5.9	5.8	-0.1	-
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	2.1	2.0	2.3	2.0	-0.2	-
ASEAN5	4.9	5.0	5.3	5.2	5.0	4.8	5.0	4.8	-	-
India	7.5	8.7	6.9	7.4	7.2	7.2	7.2	7.2	-	-
Australia	2.5	2.8	2.4	2.7	2.3	2.1	2.3	2.1	-	-
Brazil	-3.5	-3.3	1.1	1.1	1.4	1.9	2.2	2.1	-0.8	-0.2
Mexico	3.3	2.9	2.1	2.0	1.4	1.6	1.8	1.7	-0.4	-0.1
Russia	-2.3	0.3	1.6	2.3	1.3	1.7	1.3	1.7	-	-
Japan (FY)	1.3	0.9	1.9	0.6	0.5	0.5	0.6	0.5	-0.1	-
Crude oil prices (WTI, USD/bbl)	49	43	51	65	60	58	56	54	4	4

Note: The total of the forecast area is calculated upon the 2017 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: prospects that the economy will continue to lack strength

- ❑ Japan's real GDP grew +2.1% q-o-q p.a. in the Jan-Mar quarter of 2019, recording growth in positive territory for the second consecutive quarter. However, since the main factor pushing up growth in the latest quarter was the fall of imports accompanying the decline of consumption and capital investment, the state of the Japanese economy actually lacked strength. The growth of personal consumption, mainly of durable goods, came to a pause. Capital investment and exports dipped into negative territory, reflecting the slowdown of the Chinese economy and IT demand.
- ❑ FY2019 forecast on Japan's GDP: +0.5% q-o-q p.a. The global economic slowdown and lingering uncertainties regarding US-China trade tensions are serving as drags upon the growth of exports and capital investment. Despite the continuation of a favorable employment environment, personal consumption will likely be tepid due to a slight deceleration of income growth because of the reduction of overtime hours stemming from Japan's work-style reforms. However, the impact of the consumption tax hike should turn out to be milder than the period from 2014 to 2015 due to the implementation of various income support measures.
- ❑ FY2020 forecast on Japan's GDP: +0.5% q-o-q p.a. The rise of adjustment pressures upon capital investment will serve as restraints upon GDP growth. Even so, the reactionary decline following the 2020 Tokyo Olympic Games should turn out to be benign, given the current delay in progress of construction due to the shortage of construction workers.
- ❑ Turning to the risks, it will be necessary for the time being to keep a close eye upon the escalation of trade tensions. In the event the US carries out its fourth round of tariff hikes upon Chinese goods, thus triggering retaliatory measures, they would send downward pressures upon the Japanese economy, and could lead to the possibility of a postponement of the consumption tax hike.

Japan: forecast on growth for FY2019 (+0.5%), FY2020 (+0.5%)

[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	0.5	0.5	-0.1	0.5	-0.6	0.4	0.5	-0.2	0.7	-0.6	0.2	0.3	0.2	0.2	0.0
	Q-o-q % ch p.a.	—	—	—	—	-0.3	2.2	-2.5	1.6	2.1	-0.7	2.7	-2.3	0.9	1.0	0.6	0.7	0.1
Domestic demand	Q-o-q % ch	1.5	0.7	0.5	0.4	-0.1	0.6	-0.4	0.7	0.1	-0.0	0.7	-0.8	0.2	0.3	0.2	0.1	0.0
Private sector demand	Q-o-q % ch	1.8	1.0	0.3	0.2	-0.2	0.8	-0.5	0.8	0.1	-0.1	0.9	-1.3	0.3	0.3	0.2	0.1	0.1
Personal consumption	Q-o-q % ch	1.1	0.4	0.4	0.2	-0.1	0.6	-0.3	0.2	-0.1	0.4	1.1	-1.7	0.4	0.3	0.1	0.2	0.2
Housing investment	Q-o-q % ch	-0.7	-4.2	-3.8	-5.6	-2.4	-2.1	0.8	1.4	1.1	-0.9	-2.6	-3.8	-3.3	-1.2	0.1	0.6	0.7
Capital investment	Q-o-q % ch	4.5	3.2	0.9	1.3	1.2	2.4	-2.5	2.5	-0.3	-0.9	1.5	0.4	0.5	0.4	0.4	-0.4	-0.3
Inventory investment	Q-o-q contribution, % pt	(0.1)	(0.2)	(-0.1)	(-0.0)	(-0.2)	(-0.0)	(0.1)	(0.1)	(0.1)	(-0.1)	(-0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	0.5	-0.1	1.3	1.1	-0.1	-0.1	-0.2	0.3	0.2	0.4	0.4	0.8	0.0	0.3	0.3	0.4	-0.2
Government consumption	Q-o-q % ch	0.4	0.8	0.9	1.0	0.3	0.1	0.2	0.7	-0.2	0.3	0.2	0.2	0.2	0.4	0.2	0.3	0.2
Public investment	Q-o-q % ch	0.5	-3.8	2.9	1.4	-1.3	-0.7	-1.9	-1.4	1.5	0.5	1.1	3.1	-0.7	-0.3	0.8	0.9	-1.7
External demand	Q-o-q contribution, % pt	(0.4)	(-0.1)	(-0.0)	(0.1)	(0.0)	(-0.1)	(-0.2)	(-0.3)	(0.4)	(-0.2)	(-0.1)	(0.2)	(0.0)	(-0.0)	(-0.1)	(0.0)	(-0.0)
Exports	Q-o-q % ch	6.4	1.3	0.8	1.5	1.0	0.7	-2.0	1.2	-2.4	1.7	1.0	0.2	0.3	0.4	0.3	0.4	0.3
Imports	Q-o-q % ch	4.1	2.0	0.8	1.2	0.7	1.0	-1.0	3.0	-4.6	2.7	1.4	-1.1	0.2	0.5	0.6	0.3	0.4
GDP (nominal)	Q-o-q % ch	2.0	0.5	0.9	1.1	-0.2	0.3	-0.6	0.5	0.8	-0.5	0.8	-0.4	0.8	0.1	0.3	0.1	0.6
GDP deflator	Y-o-y % ch	0.1	-0.1	0.3	0.6	0.5	-0.1	-0.4	-0.3	0.2	0.1	0.2	0.4	0.6	0.8	0.7	0.4	0.4
Domestic demand deflator	Y-o-y % ch	0.6	0.5	0.3	0.5	0.9	0.5	0.6	0.5	0.3	0.3	0.1	0.3	0.6	0.7	0.6	0.3	0.5

Notes: Figures in the shaded areas are forecasts

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

Japan: the CPI excluding fresh food (y-o-y change) should gradually slow down

[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	0.3	-0.3	0.7	-0.9	0.8	-0.7	1.4	-2.5	0.8	1.3	-1.4	0.5	0.4	0.7	-0.4	0.0
Ordinary profits	Y-o-y % ch	6.9	3.2	0.0	0.6	0.2	17.9	2.2	-7.0	-1.7	-1.5	6.5	-3.3	-0.5	0.8	0.1	0.4	1.0
Nominal compensation of employees	Y-o-y % ch	2.2	2.7	2.0	1.5	2.6	3.8	2.6	3.1	1.1	1.6	1.7	1.4	1.4	1.2	1.4	1.3	1.2
Unemployment rate	%	2.7	2.4	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.6	2.6	2.5	2.5	2.6
New housing starts	P.a., 10,000 units	94.6	95.3	88.6	85.9	89.7	96.6	95.0	95.5	94.2	94.6	88.9	85.9	84.9	85.2	85.6	86.3	86.8
Current account balance	P.a., JPY tril	22.2	19.4	18.7	19.5	19.9	21.8	18.7	17.2	19.6	18.7	17.6	19.8	19.4	19.5	19.4	19.5	19.5
Domestic corporate goods prices	Y-o-y % ch	2.7	2.2	1.7	1.6	2.5	2.6	3.1	2.3	0.9	0.7	0.2	2.7	3.0	2.1	2.4	0.6	1.0
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	0.8	0.6	-	-	-	-	-	-	-	0.9	1.2	0.2	0.5	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	0.8	0.5	0.8	0.8	0.8	0.9	0.8	0.8	0.6	0.3	0.5	0.6	0.8	0.9	0.5	0.5
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	0.1	0.1	-	-	-	-	-	-	-	-0.4	-0.4	-0.2	-0.1	-	-
Consumer prices, ex fresh food and enerav	Y-o-y % ch	0.2	0.3	0.4	0.7	0.5	0.3	0.4	0.3	0.4	0.5	0.3	0.5	0.5	0.8	0.9	0.6	0.5
Consumer prices, ex fresh food and enerav (ex consumption tax)	Y-o-y % ch	-	-	0.0	0.2	-	-	-	-	-	-	-	-0.4	-0.4	-0.1	-0.0	-	-
Uncollateralized overnight call rate	%	-0.06	-0.06	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.06	-0.03	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.05	0.04	-0.00	0.08	0.06	0.04	0.10	0.07	-0.04	-0.01	0.00	0.00	0.00	0.00	0.10	0.10	0.10
Nikkei average	JPY	20,984	21,973	21,800	22,900	22,366	22,341	22,654	21,897	21,000	21,800	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	110	111	109	109	108	108	108	109	109
Crude oil price (WTI nearest term contra	USD/bbl	54	63	61	59	63	68	69	59	55	63	62	60	59	58	58	59	60

- 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. For the Oct-Dec quarter of 2019 and the Jan-Mar quarter of 2020, the impact of free pre-school education is reflected in the outlooks on consumer prices (both including and excluding the impact of the consumption tax hike)
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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