

REVISED
to reflect the
2nd QE for the
Jan-Mar Qtr
of 2019

FY2019, FY2020 Economic Outlook

- The Japanese economy will continue to lack strength -

June 10, 2019

Mizuho Research Institute

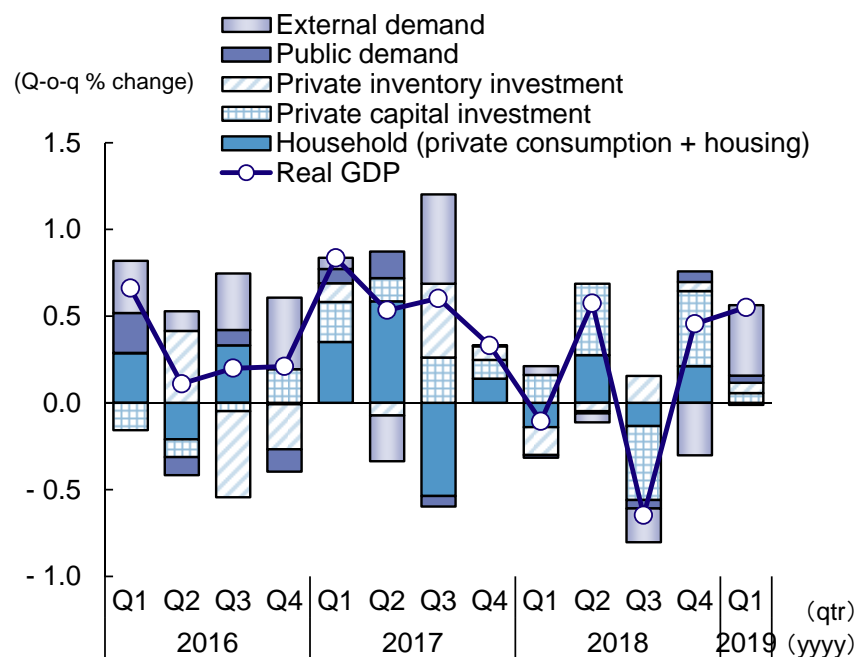
The Japanese economy: the Japanese economy will continue to lack strength, given the slowdown of both domestic demand and exports

- ❑ Japan's economic growth in the Jan-Mar quarter of 2019 grew +2.2% p.a. (*Second Preliminary Quarterly Estimates of GDP, "2nd QE"*), remaining more or less unchanged from the *First Preliminary Quarterly Estimates of GDP ("1st QE")* (+2.1% q-o-q). While capital investment improved, housing investment turned out to be lower than expected. Even though the fall of imports lifted the rate of growth, our view remains unchanged that the Japanese economy lacks strength in view of the tepid growth of domestic demand.
- ❑ FY2019 GDP growth forecast: +0.6% (forecast in May: +0.5%). FY2020 GDP growth forecast: +0.5% (forecast in May: +0.5%). The Japanese economy will most likely continue to lack strength.
- ❑ While we expect labor market conditions to remain favorable, restrictions upon overtime hours accompanying the enforcement of workstyle reform-related legislation may serve to limit the rise of wages. Although the impact of the consumption tax hike should be milder than in 2014 at the time of the previous consumption tax hike due to the implementation of various income support measures, the growth of personal consumption should remain tepid as the consumption of durable goods shifts into an adjustment phase.
- ❑ Export growth is forecast to follow weak footing, reflecting the slowdown of the global economy. Turning to capital investment, even though investment in labor-saving devices should serve as underpinnings, we expect the growth of capital investment to slow down due to the gradual rise of adjustment pressures. Lingering uncertainties such as US-China trade tensions will serve as restraints upon corporate investment sentiment.
- ❑ The rise of prices will gradually slow down due to a pause in the rise of energy prices and reduction of communication fees.

1. Overview 2019 Jan-Mar GDP (2nd QE) : both the readings and evaluations remain unchanged from the 1st QE

- According to the 2nd QE for the Jan-Mar quarter of 2019, Japan's real GDP grew +0.6% q-o-q (+2.2% p.a.), remaining more or less unchanged from the 1st QE (+2.1% p.a.).
- In contrast to a slight upward revision of capital investment, housing investment was revised downward.
- Even though the fall of imports pushed up the rate of growth, our view remains unchanged that the Japanese economy lacks strength as domestic demand was more or less flat at +0.1%.

[2019 Jan-Mar quarter GDP (2nd QE)]



	2018				2019	1 st QE
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	
Real GDP	-0.1	0.6	-0.6	0.5	0.6	0.5
(Q-o-q change, p.a.)	-0.4	2.3	-2.6	1.8	2.2	2.1
(Y-o-y change)	1.3	1.5	0.1	0.3	0.9	0.8
Domestic demand	-0.2	0.6	-0.5	0.8	0.1	0.1
	(-0.2)	(0.6)	(-0.5)	(0.8)	(0.1)	(0.1)
Private demand	-0.2	0.9	-0.5	0.9	0.1	0.1
	(-0.1)	(0.6)	(-0.4)	(0.7)	(0.1)	(0.1)
Personal consumption	-0.1	0.6	-0.3	0.3	-0.1	-0.1
Housing investment	-2.3	-2.0	0.8	1.4	0.6	1.1
Capital investment	1.0	2.6	-2.6	2.7	0.3	-0.3
Inventory investment	(-0.2)	(-0.0)	(0.2)	(0.1)	(0.1)	(0.1)
Public demand	-0.1	-0.1	-0.2	0.3	0.2	0.2
	(-0.0)	(-0.0)	(-0.0)	(0.1)	(0.0)	(0.0)
Government consumption	0.3	0.1	0.2	0.7	-0.1	-0.2
Public investment	-1.1	-0.7	-2.0	-1.5	1.2	1.5
External demand	(0.0)	(-0.1)	(-0.2)	(-0.3)	(0.4)	(0.4)
Exports	1.0	0.7	-2.0	1.2	-2.4	-2.4
Imports	0.7	1.0	-1.0	3.0	-4.6	-4.6
Nominal GDP	-0.2	0.3	-0.6	0.5	0.8	0.8
GDP deflator (y-o-y change)	0.5	-0.1	-0.4	-0.3	0.1	0.2

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

- Japan's GDP growth is forecast to grow +0.6% y-o-y in FY2019 and +0.5% y-o-y in FY2020.
- Although the impact of the consumption tax hike should be milder than in 2014 at the time of the previous consumption tax hike due to the implementation of various income support measures, the growth of personal consumption should remain tepid as the consumption of durable goods shifts into an adjustment phase.
- The slowdown of the global economy will serve as downward pressure upon the growth of exports and investment going forward. However, we do not expect a sharp fall in a backlash after the 2020 Tokyo Olympic Games.

[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	0.7	0.6	0.5	-0.1	0.6	-0.6	0.5	0.6	-0.1	0.5	-0.5	0.2	0.3	0.2	0.1	0.0
	Q-o-q % ch p.a.	—	—	—	—	-0.4	2.3	-2.6	1.8	2.2	-0.3	2.2	-2.1	0.9	1.1	0.6	0.6	0.0
Domestic demand	Q-o-q % ch	1.5	0.8	0.6	0.4	-0.2	0.6	-0.5	0.8	0.1	0.1	0.6	-0.8	0.2	0.3	0.2	0.1	-0.0
Private sector demand	Q-o-q % ch	1.8	1.1	0.4	0.2	-0.2	0.9	-0.5	0.9	0.1	0.0	0.6	-1.2	0.3	0.3	0.2	0.1	0.1
Personal consumption	Q-o-q % ch	1.1	0.4	0.5	0.2	-0.1	0.6	-0.3	0.3	-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	-4.3	-3.9	-5.0	-2.3	-2.0	0.8	1.4	0.6	-0.8	-2.5	-3.6	-3.0	-1.0	0.2	0.6	0.8
Capital investment	Q-o-q % ch	4.5	3.5	1.6	1.0	1.0	2.6	-2.6	2.7	0.3	-0.2	0.8	0.3	0.5	0.5	0.4	-0.4	-0.6
Inventory investment	Q-o-q contribution, % pt	(0.1)	(0.1)	(-0.2)	(-0.0)	(-0.2)	(-0.0)	(0.2)	(0.1)	(0.1)	(-0.1)	(-0.2)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	0.5	-0.1	1.4	1.1	-0.1	-0.1	-0.2	0.3	0.2	0.3	0.6	0.8	0.0	0.3	0.3	0.4	-0.2
Government consumption	Q-o-q % ch	0.4	0.9	0.9	1.1	0.3	0.1	0.2	0.7	-0.1	0.2	0.3	0.2	0.2	0.4	0.3	0.2	0.1
Public investment	Q-o-q % ch	0.5	-3.9	3.1	1.4	-1.1	-0.7	-2.0	-1.5	1.2	0.6	1.7	2.9	-0.6	-0.3	0.7	0.8	-1.6
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	1.4	1.0	0.7	-2.0	1.2	-2.4	1.7	1.0	0.2	0.2	0.4	0.3	0.3	0.4
Imports	Q-o-q % ch	4.1	2.0	0.8	1.1	0.7	1.0	-1.0	3.0	-4.6	2.6	1.3	-1.1	0.2	0.4	0.6	0.3	0.2
GDP (nominal)	Q-o-q % ch	2.0	0.5	1.0	1.2	-0.2	0.3	-0.6	0.5	0.8	-0.2	0.6	-0.3	0.9	0.3	0.3	-0.0	0.6
GDP deflator	Y-o-y % ch	0.1	-0.1	0.4	0.7	0.5	-0.1	-0.4	-0.3	0.1	0.2	0.2	0.4	0.8	0.9	1.0	0.6	0.4
Domestic demand deflator	Y-o-y % ch	0.6	0.4	0.4	0.7	0.9	0.5	0.6	0.5	0.2	0.3	0.1	0.3	0.8	0.9	0.9	0.5	0.5

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 slow down reflecting the pause in rise of energy prices and reduction of communication fees

[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	-0.6	0.5	-0.9	0.8	-0.7	1.4	-2.5	0.8	1.2	-1.8	0.4	0.4	0.7	-0.4	0.0
Ordinary profits	Y-o-y % ch	6.9	6.2	-5.6	0.9	0.2	17.9	2.2	-7.0	10.3	-11.4	6.8	-3.3	-10.8	0.8	2.0	0.5	0.4
Nominal compensation of employees	Y-o-y % ch	2.2	2.7	2.0	1.5	2.6	3.8	2.6	3.1	1.3	1.6	1.7	1.2	1.4	1.1	1.3	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	89.0	86.8	89.7	96.6	95.0	95.5	94.2	94.7	89.2	86.5	85.5	86.1	86.4	87.2	87.9
Current account balance	P.a., JPY tril	22.2	19.4	20.8	21.6	19.9	21.8	18.7	17.2	19.6	20.6	19.7	21.9	21.5	21.6	21.5	21.4	21.7
Domestic corporate goods prices	Y-o-y % ch	2.7	2.2	1.6	1.8	2.5	2.6	3.1	2.3	0.9	0.5	-0.2	2.9	3.2	2.5	3.1	0.7	1.0
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	0.7	0.9	-	-	-	-	-	-	-	1.0	1.3	0.7	1.2	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	0.8	0.6	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.2	0.6	0.8	0.9	1.0	0.5	0.6
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	0.1	0.3	-	-	-	-	-	-	-	-0.3	-0.2	-0.1	0.0	0.4	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.2	0.3	0.5	0.6	0.5	0.3	0.4	0.3	0.4	0.5	0.3	0.5	0.6	0.7	0.8	0.6	0.5
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	-	0.0	0.2	-	-	-	-	-	-	-	-0.4	-0.4	-0.2	-0.1	0.5	-
Uncollateralized overnight call rate	%	-0.06	-0.06	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.06	-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	0.04	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	22,000	21,700	22,900	22,366	22,341	22,654	21,897	21,000	21,300	21,500	21,500	22,500	22,500	22,500	23,000	23,500
Exchange rate	USD/JPY	111	111	109	108	108	109	111	113	110	110	109	109	108	108	108	108	109
Crude oil price (WTI nearest term contract)	USD/bbl	54	63	59	59	63	68	69	59	55	59	57	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. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries basis) (ex finance & insurance)

3. 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. The global economy will gradually slow down through 2020, and is subject to downside risks in the event of an escalation of US-China trade tensions

- Our forecast on global economic growth in the forecast area remains unchanged from our outlook in May. Even so, in view of mounting downside risks to the global economy, it will be necessary to watch closely the escalation of US-China trade tensions such as the US' implementation of the fourth round of punitive tariffs toward Chinese products.
- On the basis of current conditions, we have revised downward our forecasts on economic growth for certain emerging market countries and commodities-producing countries.

[Outlook on the global economy]

	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2016	2017	2018	2019	2020	2019	2020	2019	2020
	Calendar year					(Forecast in May 2019)		(Breadth of change from forecast in May 2019)	
Total of forecast area	3.5	3.9	4.0	3.6	3.5	3.6	3.5	-	-
Japan, US, Eurozone	1.6	2.2	2.2	1.9	1.4	1.8	1.4	0.1	-
US	1.6	2.2	2.9	2.8	1.7	2.8	1.7	-	-
Eurozone	1.9	2.4	1.9	1.2	1.4	1.2	1.4	-	-
UK	1.8	1.8	1.4	1.4	1.4	1.4	1.4	-	-
Japan	0.6	1.9	0.8	0.8	0.4	0.7	0.4	0.1	-
Asia	6.4	6.2	6.2	5.8	5.8	5.8	5.8	-	-
China	6.7	6.8	6.6	6.2	6.1	6.2	6.1	-	-
NIEs	2.4	3.2	2.8	2.1	1.8	2.1	2.0	-	-0.2
ASEAN5	5.0	5.3	5.2	5.0	4.8	5.0	4.8	-	-
India	8.7	6.9	7.4	6.9	7.2	7.2	7.2	-0.3	-
Australia	2.8	2.5	2.7	2.1	2.0	2.3	2.1	-0.2	-0.1
Brazil	-3.3	1.1	1.1	1.2	1.9	1.4	1.9	-0.2	-
Mexico	2.9	2.1	2.0	1.2	1.4	1.4	1.6	-0.2	-0.2
Russia	0.3	1.6	2.3	1.3	1.7	1.3	1.7	-	-
Japan (FY)	0.9	1.9	0.7	0.6	0.5	0.5	0.5	0.1	-
Crude oil prices (WTI, USD/bbl)	43	51	65	58	58	60	58	-2	-

Note: The total of the forecast area is calculated upon the 2017 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			Jan	New NAFTA takes effect (Target)	Sep	20 years since the September 11 terrorist attacks
Europe	Oct	ECB President Draghi's term of office ends			Sep	Germany: Federal election
	Oct	Brexit deadline			Autumn	Chancellor Merkel scheduled to step down
Japan	Jun	G20 Summit (Osaka)	Jul-Sep	Tokyo Olympic and Paralympic Games	Mar	10 years since the Great East Japan Earthquake
	Summer	Upper House election			Sep	Term of office expires for the next president of the LDP
	Oct	Consumption tax hike			Oct	Term of office for Lower House members ends
Asia	By year end	China: Fourth Plenary Session of the CPC Central Committee	Jan	Taiwan: Presidential and legislative elections	By year end	Vietnam: National Congress of the Communist Party
			Apr	South Korea: Legislative election		
			@Sep	Singapore: Legislative election		
			Sep	Hong Kong: Legislative Council election		
			By year end	China: Fifth Plenary Session of the CPC Central Committee		

Note: "@ Sep" indicates that the event will be held sometime around September

Source: Made by MHRI from various reports

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.