

[Summary](#)

FY2019, FY2020 Economic Outlook

- The global economy will continue to slow down due to the escalation of US-China trade tensions -

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Key points of our outlook

- ❑ Reflecting the mounting possibility that the US will launch its fourth round of punitive tariffs upon Chinese goods, we have revised down our outlook on the economy premised upon such launch. The global economy should continue to slow down in 2020. Even though the US will most likely avoid the “fiscal cliff” in 2020, a “no-deal Brexit” in addition to US-China trade tensions will serve as downward pressures.
- ❑ The impact of trade tensions will accelerate the adjustment of the Chinese economy and IT cycle, leading to the deceleration of global economic growth led mainly by the manufacturing sector. The growth of trade volume in 2019 will fall short of the growth rate of the global economy, thus falling back again into slow trade.
- ❑ On the other hand, fiscal and monetary policy measures will underpin the global economy. As exemplified by the US taking a shift toward interest rate cuts against a backdrop of rising uncertainties and low inflation, monetary policy is turning accommodative around the world. As a whole, fiscal policy is also expansionary.
- ❑ The risks factors are: the escalation of US-China trade tensions, the downshift of the Chinese economy and IT-related demand and their spillovers to the emerging market (EM), the sharp fall of confidence due to a “no deal” Brexit, the rise of fiscal and financial sector uncertainties in southern Europe stemming from Europe’s economic stagnation, the creation of a bubble due to prolonged monetary easing, the deterioration of the credit cycle accompanying the reversal of economic conditions, and Middle East risks and rise of crude oil prices.
- ❑ In FY2019 and FY2020, the Japanese economy will continue to record tepid growth due to the rise of adjustment pressures on capital investment and durable goods consumption. Given the cautious stance among corporate enterprises about raising sales prices, the rise of the core CPI (excluding the impact of the consumption tax hike) is forecast to moderate.
- ❑ The Bank of Japan (BOJ) will keep monetary policy unchanged until it determines the impact of the consumption tax hike. Even though the BOJ will most likely address a downshift of the economy merely by tweaking its forward guidance, it could resort to pushing interest rates further down into negative territory in the event of a sharp appreciation of the yen.

The global economy will slow down through 2020

[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 June 2019		Comparison with the forecast in June 2019	
Total of forecast area	3.5	4.0	4.0	3.5	3.4	3.6	3.5	-0.1	-0.1
Japan, US, Eurozone	1.6	2.3	2.2	1.7	1.3	1.9	1.4	-0.2	-0.1
US	1.6	2.4	2.9	2.4	1.8	2.8	1.7	-0.4	0.1
Eurozone	1.9	2.4	1.9	1.2	1.1	1.2	1.4	-	-0.3
UK	1.8	1.8	1.4	1.3	0.9	1.4	1.4	-0.1	-0.5
Japan	0.6	1.9	0.8	1.0	0.0	0.8	0.4	0.2	-0.4
Asia	6.4	6.2	6.2	5.7	5.7	5.8	5.8	-0.1	-0.1
China	6.7	6.8	6.6	6.2	6.0	6.2	6.1	-	-0.1
NIEs	2.4	3.2	2.8	1.8	1.6	2.1	1.8	-0.3	-0.2
ASEAN5	5.0	5.3	5.2	4.9	4.8	5.0	4.8	-0.1	-
India	8.7	6.9	7.4	6.9	7.1	6.9	7.2	-	-0.1
Australia	2.8	2.5	2.7	2.1	2.0	2.1	2.0	-	-
Brazil	-3.3	1.1	1.1	0.8	1.9	1.2	1.9	-0.4	-
Mexico	2.9	2.1	2.0	0.6	1.2	1.2	1.4	-0.6	-0.2
Russia	0.3	1.6	2.3	1.0	1.8	1.3	1.7	-0.3	0.1
Japan (FY)	0.9	1.9	0.7	0.7	0.4	0.6	0.5	0.1	-0.1
Crude oil prices (WTI, USD/bbl)	43	51	65	56	57	58	58	-2	-1

Note: The total of the forecast area is calculated upon the 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: the growth of the economy will remain tepid for some time, given the weakness of investment and consumption

- ❑ Japan's real GDP grew +0.4% q-o-q p.a. in the Apr-Jun quarter of 2019, recording growth in positive territory for the third consecutive quarter. Even though exports served as downward pressures, domestic demand such as consumption, investment and public demand continued to follow firm footing, helping to push up the rate of growth. However, this should be taken with a grain of salt since the growth of consumption may be attributed in part to temporary factors such as the long Golden Week holidays this year.
- ❑ Forecast on the rate of Japan's GDP growth: FY2019 (+0.7% q-o-q p.a.), FY2020 (+0.4% q-o-q p.a.). A recovery in exports is unlikely, considering negative pressures stemming from the rise of uncertainties due to the fourth round of punitive tariff hikes by the US. Production activity should also remain stagnant for some time.
- ❑ The rise of uncertainties surrounding trade tensions and consumption tax hike are weighing down upon corporate capital investment sentiment. Corporate expectations on economic growth remain tepid, providing reasons to believe that capital investment will slow down.
- ❑ Despite temporary fluctuations before and after the consumption tax hike, personal consumption will likely be tepid when averaged out. The impact of restrictions upon overtime hours stemming from Japan's work-style reforms and the stagnation of production activity will curb the growth of income. Durable consumer goods will shift into adjustment phase, serving as downward pressures upon consumption.
- ❑ Corporate enterprises are taking a cautious stance toward raising sales prices. Given institutional factors such as free preschool education, we expect that the rise of the core CPI (excluding the impact of the consumption tax hike) will moderate for some time.

Japan: forecast on growth for FY2019 (+0.7%), FY2020 (+0.4%)

[Outlook on the Japanese economy]

		2018	2019	2020	2018			2019				2020				2021
		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	0.7	0.7	0.4	0.4	-0.5	0.4	0.7	0.4	0.0	-0.9	0.1	0.4	0.3	0.2	0.2
	Q-o-q % ch p.a.	—	—	—	1.6	-1.9	1.6	2.8	1.8	0.2	-3.4	0.3	1.6	1.1	0.9	0.6
Domestic demand	Q-o-q % ch	0.8	0.7	0.2	0.4	-0.3	0.8	0.3	0.7	0.1	-1.3	-0.0	0.4	0.3	0.2	0.1
Private sector demand	Q-o-q % ch	1.1	0.5	-0.1	0.6	-0.3	1.0	0.3	0.7	0.2	-1.9	0.1	0.4	0.3	0.1	0.3
Personal consumption	Q-o-q % ch	0.5	0.4	-0.0	0.4	-0.1	0.4	0.1	0.6	0.8	-2.2	0.2	0.4	0.2	0.2	0.2
Housing investment	Q-o-q % ch	-4.4	-3.8	-6.8	-1.9	0.8	1.3	0.6	0.2	-3.3	-4.3	-2.5	-1.2	-0.6	-0.5	-0.4
Capital investment	Q-o-q % ch	3.5	1.9	0.8	2.5	-2.6	2.7	0.4	1.5	-0.4	-0.7	0.1	0.6	0.7	-0.3	0.5
Inventory investment	Q-o-q contribution, % pt	(0.1)	(-0.1)	(0.0)	(-0.1)	(0.2)	(0.1)	(0.1)	(-0.1)	(-0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	-0.1	1.6	0.9	-0.2	-0.2	0.3	0.2	0.9	0.0	0.7	-0.2	0.2	0.3	0.6	-0.2
Government consumption	Q-o-q % ch	0.9	1.4	0.7	0.1	0.2	0.7	-0.1	0.9	-0.2	0.4	0.0	0.4	0.0	0.2	0.1
Public investment	Q-o-q % ch	-4.0	2.7	1.4	-1.2	-1.8	-1.3	1.4	1.0	0.9	2.0	-1.1	-0.6	1.4	1.9	-1.4
External demand	Q-o-q contribution, % pt	(-0.1)	(-0.1)	(0.2)	(0.0)	(-0.2)	(-0.4)	(0.4)	(-0.3)	(-0.1)	(0.4)	(0.1)	(0.0)	(-0.0)	(-0.0)	(0.0)
Exports	Q-o-q % ch	1.5	0.2	1.8	0.8	-2.1	1.2	-2.0	-0.1	1.3	1.0	0.6	0.3	0.2	0.2	0.3
Imports	Q-o-q % ch	2.1	0.6	0.5	0.8	-1.2	3.6	-4.3	1.6	1.8	-1.2	0.2	0.2	0.3	0.2	0.2
GDP (nominal)	Q-o-q % ch	0.5	1.4	0.7	0.2	-0.4	0.4	1.0	0.4	0.4	-0.8	0.7	0.1	0.2	0.1	0.9
GDP deflator	Y-o-y % ch	-0.1	0.7	0.4	-0.1	-0.4	-0.3	0.1	0.4	0.7	0.8	1.1	0.8	0.3	0.1	0.2
Domestic demand deflator	Y-o-y % ch	0.5	0.4	0.7	0.5	0.6	0.5	0.3	0.5	0.3	0.4	0.6	0.7	0.7	0.5	0.6

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)]

		2018	2019	2020	2018			2019				2020				2021
		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	0.3	-1.3	0.6	0.8	-0.7	1.4	-2.5	0.5	0.7	-1.2	-0.0	0.6	0.8	-0.5	0.2
Ordinary profits	Y-o-y % ch	6.2	-6.2	1.1	17.9	2.2	-7.0	10.3	-10.9	4.3	-2.9	-12.2	1.2	3.1	-0.7	0.5
Nominal compensation of employees	Y-o-y % ch	2.7	2.0	1.5	3.8	2.6	3.1	1.3	2.0	1.5	1.1	1.3	0.9	1.2	1.3	1.3
Unemployment rate	%	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.6
New housing starts	P.a., 10,000 units	95.3	87.6	83.8	96.6	95.0	95.5	94.2	91.8	88.0	85.6	84.7	84.3	83.8	83.5	83.3
Current account balance	P.a., JPY tril	19.2	21.8	20.9	21.8	18.7	17.2	18.8	19.4	20.4	23.8	23.9	21.7	20.3	20.7	20.9
Domestic corporate goods prices	Y-o-y % ch	2.2	0.9	2.0	2.6	3.1	2.3	0.9	0.6	-0.7	1.6	2.1	1.9	2.9	1.2	1.7
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	0.0	1.0	-	-	-	-	-	-	-0.3	0.3	0.0	1.0	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.8	0.8	0.9	0.8	0.9	0.8	0.8	0.7	0.4	0.8	1.0	0.9	1.1	0.7	0.9
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	0.3	0.4	-	-	-	-	-	-	-0.1	-0.0	-0.1	0.1	-	-
Consumer prices, ex fresh food (ex consumption tax, free preschool education)	Y-o-y % ch	-	0.6	0.7	-	-	-	-	-	-	0.4	0.5	0.4	0.7	-	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.7	0.6	0.3	0.4	0.3	0.4	0.6	0.5	0.9	0.9	0.8	0.8	0.4	0.3
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	0.2	0.2	-	-	-	-	-	-	0.0	-0.0	-0.1	-0.1	-	-
Uncollateralized overnight call rate	%	-0.06	-0.05	-0.05	-0.07	-0.06	-0.06	-0.06	-0.08	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.04	-0.14	-0.09	0.04	0.10	0.07	-0.04	-0.10	-0.15	-0.15	-0.15	-0.15	-0.10	-0.10	0.00
Nikkei average	JPY	22,000	20,900	21,300	22,341	22,654	21,897	21,000	21,414	21,000	20,500	20,500	21,000	21,000	21,500	21,500
Exchange rate	USD/JPY	111	107	106	109	111	113	110	110	107	105	105	106	106	106	107
Crude oil price (WTI nearest term contract)	USD/bbl	63	56	59	68	69	59	55	60	55	54	53	57	59	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

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