

REVISED
to reflect the
2nd QE for the
Apr-Jun Qtr
of 2019

FY2019, FY2020 Economic Outlook

- The Japanese economy should remain on weak footing given the stagnation of exports and slowdown of domestic demand -

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Mizuho Research Institute

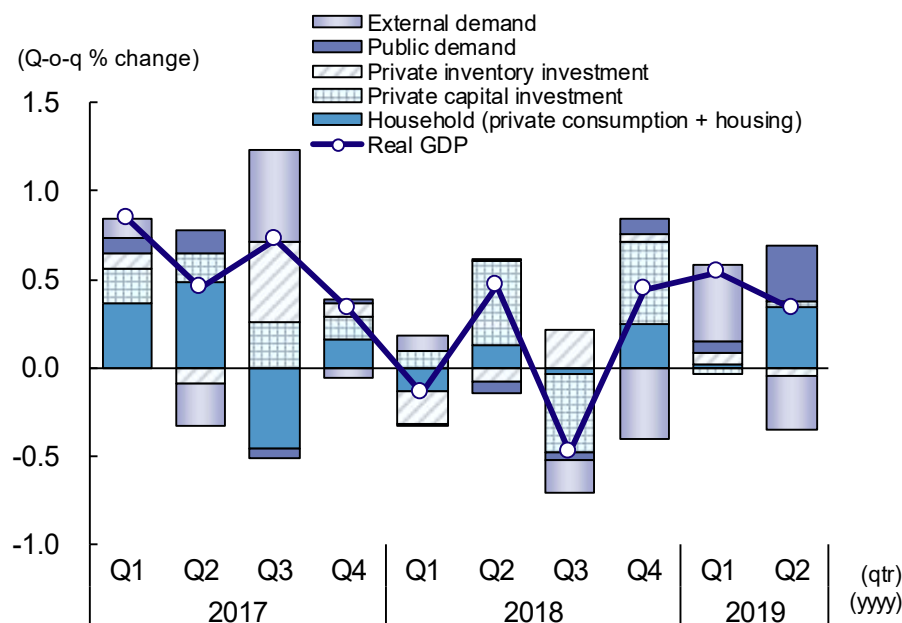
The Japanese economy: The Japanese economy should remain on weak footing for some time given the stagnation of exports and slowdown of domestic demand

- ❑ Japan's economic growth in the Apr-Jun quarter of 2019 was revised downward to +1.3% p.a. (*Second Preliminary Quarterly Estimates of GDP, "2nd QE"*) from the *First Preliminary Quarterly Estimates of GDP ("1st QE")* (+1.8%). In contrast to stronger-than-expected public investment, capital investment and inventory investment underwhelmed. Even though the external demand served as downward pressure upon Japan's economic growth in the Apr-Jun quarter, our view remains unchanged that domestic demand remained firm.
- ❑ FY2019 GDP growth forecast: +0.6% (forecast in August: +0.7%). FY2020 GDP growth forecast: +0.3% (forecast in August: +0.4%). The Japanese economy will most likely continue to lack strength.
- ❑ Export growth will remain stagnant, amid the slowdown of the global economy reflecting factors such as the escalation of US-China trade tensions. We are inclined toward the view that production activity will lack strength along with the stagnation of exports. Even though capital investment will be supported by investment in labor-saving devices, we expect capital investment growth to moderate due mounting adjustment pressures and strong uncertainties such as trade tensions serving as negative factors.
- ❑ While we expect labor market conditions to remain favorable going forward, the tepid rise of wages, stemming from the stagnation of production activity, will most likely fall short of lifting personal consumption. With the exception of temporary fluctuations before and after the consumption tax hike, personal consumption will lack strength when averaged out.
- ❑ The rise of prices will gradually slow down due to stagnation of energy prices and institutional factors such as free preschool education.

1. Overview 2019 Apr-Jun GDP (2nd QE) : downward revision from the 1st QE

- According to the 2nd QE for the Apr-Jun quarter of 2019, Japan's real GDP grew +0.3% q-o-q (+1.3% p.a.), revealing a downward revision from the 1st QE (+1.8% p.a.).
- Despite the uptick of government consumption and public investment, the downward revision of capital investment served as a drag.
- Even though the external demand served as negative pressure upon Japan's economic growth in the Apr-Jun quarter, our view remains unchanged that domestic demand remained firm.

[2019 Apr-Jun quarter GDP (2nd QE)]



	2018			2019		1 st QE
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	
Real GDP	0.5	-0.5	0.4	0.5	0.3	0.4
(Q-o-q change, p.a.)	1.9	-1.9	1.8	2.2	1.3	1.8
(Y-o-y change)	1.5	0.1	0.3	1.0	1.0	1.2
Domestic demand	0.5	-0.3	0.8	0.1	0.6	0.7
	(0.5)	(-0.3)	(0.8)	(0.2)	(0.6)	(0.7)
Private demand	0.7	-0.4	1.0	0.1	0.4	0.7
	(0.5)	(-0.3)	(0.8)	(0.0)	(0.3)	(0.5)
Personal consumption	0.3	-0.1	0.4	-0.0	0.6	0.6
Housing investment	-1.8	0.8	1.3	0.8	0.1	0.2
Capital investment	3.0	-2.8	3.0	-0.2	0.2	1.5
Inventory investment	(-0.1)	(0.2)	(0.0)	(0.1)	(-0.0)	(-0.1)
Public demand	-0.2	-0.1	0.4	0.2	1.3	0.9
	(-0.1)	(-0.0)	(0.1)	(0.1)	(0.3)	(0.2)
Government consumption	0.1	0.3	0.7	-0.1	1.2	0.9
Public investment	-1.4	-1.8	-1.2	1.5	1.8	1.0
External demand	(0.0)	(-0.2)	(-0.4)	(0.4)	(-0.3)	(-0.3)
Exports	0.8	-2.1	1.2	-2.0	-0.0	-0.1
Imports	0.8	-1.2	3.6	-4.3	1.7	1.6
Nominal GDP	0.2	-0.5	0.4	1.0	0.3	0.4
GDP deflator (y-o-y change)	-0.1	-0.4	-0.3	0.1	0.3	0.4

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, *Preliminary Quarterly Estimates of GDP*

2. Outlook on the Japanese economy: FY2019 (+0.6%), FY2020 (+0.3%)

- Japan's GDP growth is forecast to keep growing at a slow pace of +0.6% y-o-y in FY2019 and +0.3% y-o-y in FY2020.
 - Japan's exports will continue to slump due to the global economic slowdown accompanying the US-China trade tensions, and capital investment will slow down reflecting the rise of adjustment pressures.
 - Given the tepid rise of wages due to the stagnation of production activity, personal consumption will lack strength, with the exception of temporary fluctuations before and after the consumption tax hike.

[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	0.6	0.3	0.5	-0.5	0.4	0.5	0.3	0.1	-0.7	0.0	0.3	0.2	0.2	0.1
	Q-o-q % ch p.a.	—	—	—	1.9	-1.9	1.8	2.2	1.3	0.6	-2.7	0.2	1.2	0.7	0.6	0.5
Domestic demand	Q-o-q % ch	0.8	0.7	0.1	0.5	-0.3	0.8	0.1	0.6	0.2	-1.1	0.1	0.3	0.2	0.2	0.1
Private sector demand	Q-o-q % ch	1.1	0.3	-0.1	0.7	-0.4	1.0	0.1	0.4	0.3	-1.7	0.3	0.2	0.2	0.1	0.2
Personal consumption	Q-o-q % ch	0.4	0.3	-0.0	0.3	-0.1	0.4	-0.0	0.6	0.8	-2.2	0.2	0.4	0.2	0.2	0.2
Housing investment	Q-o-q % ch	-4.3	-3.2	-6.1	-1.8	0.8	1.3	0.8	0.1	-3.3	-3.2	-2.5	-1.1	-0.6	-0.4	-0.3
Capital investment	Q-o-q % ch	3.5	1.0	0.8	3.0	-2.8	3.0	-0.2	0.2	0.1	-0.2	0.5	0.2	0.4	-0.2	0.2
Inventory investment	Q-o-q contribution, % pt	(0.1)	(0.0)	(0.0)	(-0.1)	(0.2)	(0.0)	(0.1)	(-0.0)	(-0.2)	(0.1)	(0.1)	(-0.1)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	-0.1	1.8	0.7	-0.2	-0.1	0.4	0.2	1.3	-0.1	0.6	-0.4	0.4	0.2	0.4	-0.1
Government consumption	Q-o-q % ch	0.9	1.5	0.6	0.1	0.3	0.7	-0.1	1.2	-0.3	0.3	0.0	0.4	0.0	0.2	0.2
Public investment	Q-o-q % ch	-4.0	3.3	1.1	-1.4	-1.8	-1.2	1.5	1.8	0.9	1.9	-2.0	0.3	1.1	1.2	-1.1
External demand	Q-o-q contribution, % pt	(-0.1)	(-0.0)	(0.2)	(0.0)	(-0.2)	(-0.4)	(0.4)	(-0.3)	(-0.0)	(0.4)	(-0.0)	(0.0)	(-0.0)	(-0.0)	(0.0)
Exports	Q-o-q % ch	1.5	0.3	1.3	0.8	-2.1	1.2	-2.0	-0.0	1.6	1.3	-0.4	0.4	0.1	0.1	0.2
Imports	Q-o-q % ch	2.1	0.6	0.4	0.8	-1.2	3.6	-4.3	1.7	1.8	-1.2	-0.2	0.2	0.3	0.2	0.2
GDP (nominal)	Q-o-q % ch	0.5	1.3	0.6	0.2	-0.5	0.4	1.0	0.3	0.4	-0.6	0.8	0.0	0.0	0.0	0.9
GDP deflator	Y-o-y % ch	-0.1	0.6	0.4	-0.1	-0.4	-0.3	0.1	0.3	0.6	0.7	1.0	0.8	0.3	0.2	0.2
Domestic demand deflator	Y-o-y % ch	0.5	0.3	0.7	0.5	0.6	0.5	0.3	0.5	0.2	0.3	0.5	0.7	0.8	0.6	0.7

Notes: Figures in the shaded areas are forecasts

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

Japan: the rise of prices should moderate reflecting the stagnation of energy prices and free preschool education

[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	-1.4	0.1	0.8	-0.7	1.4	-2.5	0.6	0.2	-0.7	-0.6	0.4	0.9	-0.6	0.3
Ordinary profits	Y-o-y % ch	6.2	-6.6	0.9	17.9	2.2	-7.0	10.3	-12.0	3.5	-2.3	-12.4	0.9	3.1	-0.8	0.3
Nominal compensation of employees	Y-o-y % ch	2.8	1.4	1.1	3.8	2.6	3.1	1.3	1.9	1.4	1.1	1.2	0.8	1.2	1.2	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	83.9	96.6	95.0	95.5	94.2	91.8	88.0	85.6	84.8	84.5	83.9	83.7	83.5
Current account balance	P.a., JPY tril	19.2	21.8	21.0	21.8	18.7	17.2	18.8	19.4	20.5	24.1	23.5	21.6	20.5	21.0	21.1
Domestic corporate goods prices	Y-o-y % ch	2.2	0.8	2.1	2.6	3.1	2.3	0.9	0.6	-1.0	1.4	2.1	2.0	3.1	1.5	1.7
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-0.2	1.2	-	-	-	-	-	-	-0.5	0.2	0.1	1.2	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.8	0.7	0.8	0.8	0.9	0.8	0.8	0.7	0.3	0.8	0.9	0.7	1.0	0.6	0.6
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	0.3	0.2	-	-	-	-	-	-	-0.2	-0.1	-0.3	-0.0	-	-
Consumer prices, ex fresh food (ex consumption tax, free preschool education)	Y-o-y % ch	-	0.5	0.6	-	-	-	-	-	-	0.3	0.4	0.3	0.5	-	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.7	0.5	0.3	0.4	0.3	0.4	0.6	0.5	0.9	0.9	0.7	0.8	0.4	0.3
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	0.2	0.1	-	-	-	-	-	-	-0.0	-0.0	-0.2	-0.2	-	-
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	-0.20	-0.16	0.04	0.10	0.07	-0.04	-0.10	-0.21	-0.25	-0.25	-0.20	-0.20	-0.15	-0.10
Nikkei average	JPY	22,000	20,700	21,000	22,341	22,654	21,897	21,000	21,414	21,000	20,500	20,000	20,500	21,000	21,000	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

3. The global economy will gradually slow down through 2020, reflecting the escalation of US-China trade tensions

- We have revised downward our forecast on global economic growth in the forecast area from our outlook in August, as a result of the addition of the following preconditions: the partial postponement of the fourth round of US punitive tariffs toward Chinese goods, measures in retaliation by China, and further retaliatory measures by the US.
- Given the escalation of US-China trade tensions, we have also revised downward our forecasts on economic growth for Japan and the NIEs. We have also revised down our forecast on India's growth, based on our view that the Indian economy will continue to follow weak footing for some time.

[Outlook on the global economy]

	(Y-o-y % change)					(Y-o-y % change)		(% point)	
	2016 Calendar year	2017	2018	2019	2020	2019 (Forecast in Aug 2019)	2020	2019 (Breadth of change from forecast in Aug 2019)	2020
Total of forecast area	3.5	4.0	4.0	3.4	3.3	3.5	3.4	-0.1	-0.1
Japan, US, Eurozone	1.6	2.3	2.2	1.7	1.2	1.7	1.3	-	-0.1
US	1.6	2.4	2.9	2.4	1.6	2.4	1.8	-	-0.2
Eurozone	1.9	2.5	1.9	1.2	1.1	1.2	1.1	-	-
UK	1.8	1.8	1.4	1.3	0.9	1.3	0.9	-	-
Japan	0.6	1.9	0.8	0.9	0.0	1.0	0.0	-0.1	-
Asia	6.4	6.2	6.2	5.5	5.5	5.7	5.7	-0.2	-0.2
China	6.7	6.8	6.6	6.2	5.9	6.2	6.0	-	-0.1
NIEs	2.4	3.2	2.8	1.8	1.5	1.8	1.6	-	-0.1
ASEAN5	5.0	5.3	5.2	4.9	4.8	4.9	4.8	-	-
India	8.7	6.9	7.4	6.0	6.6	6.9	7.1	-0.9	-0.5
Australia	2.8	2.5	2.7	2.0	1.9	2.1	2.0	-0.1	-0.1
Brazil	-3.3	1.1	1.1	0.8	1.9	0.8	1.9	-	-
Mexico	2.9	2.1	2.0	0.6	1.2	0.6	1.2	-	-
Russia	0.3	1.6	2.3	1.0	1.8	1.0	1.8	-	-
Japan (FY)	0.9	1.9	0.7	0.6	0.3	0.7	0.4	-0.1	-0.1
Crude oil prices (WTI, USD/bbl)	43	51	65	56	57	56	57	-	-

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			Nov	Presidential election	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	Oct	Consumption tax hike	Jul-Sep	Tokyo Olympic and Paralympic Games	Mar	10 years since the Great East Japan Earthquake
					Sep	Term of office expires for the next president of the LDP
Asia					Oct	Term of office for Lower House members ends
	Oct	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
	Nov	APEC Summit	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

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