

REVISED
to reflect the
2nd QE for the
Jul-Sep Qtr
of 2019

FY2019, FY2020 Economic Outlook

- The Japanese economy will remain on weak footing due to the slowdown of capital investment and tepid recovery of consumer spending -

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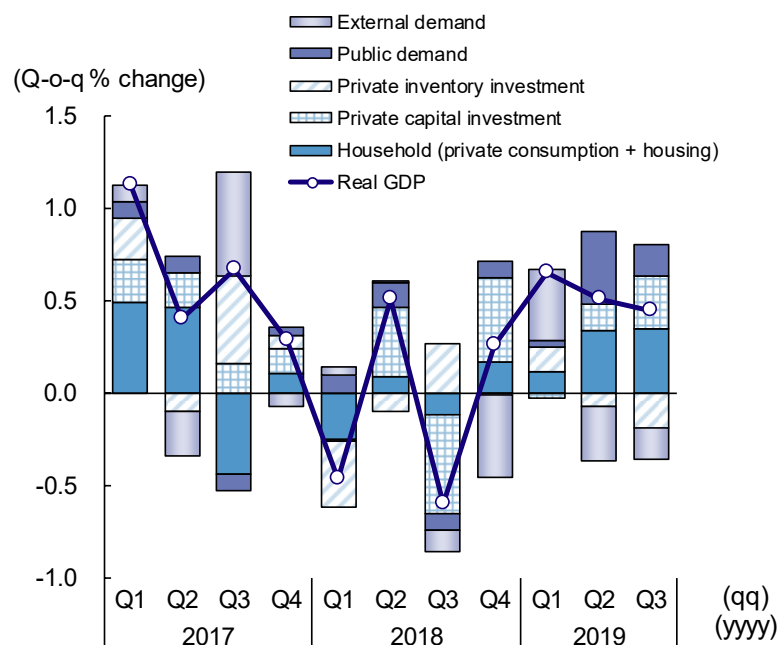
The Japanese economy: while exports are forecast to bottom out, the pace of Japan's economic growth should remain weak due to the slowdown of capital investment and tepid recovery of consumer spending

- ❑ According to the *Second Preliminary Quarterly Estimates of GDP* (“2nd QE”), Japan’s economic growth in the Jul-Sep quarter of 2019 (+0.8% p.a.) was revised upward from the *1st QE*. The uptick of capital investment and public investment contributed to the upward revision. Even though the results depict the strength of private and public demand, the firmness of private demand is due largely to the front-loading of demand in the run-up to the consumption tax hike. Private demand is far from strong, given the deterioration of the environment surrounding consumption and capital investment, such as weak income growth and stagnant corporate earnings.
- ❑ Forecast on the rate of Japan’s GDP growth: FY2019 (+0.8% y-o-y), FY2020 (+0.5% y-o-y). Even though exports are forecast to bottom out, Japan’s economic growth should follow weak footing due to the slowdown of capital investment and tepid recovery of consumption. While the economic stimulus measures will serve to support growth, it will fall short of serving as a driver of the Japanese economy.
- ❑ Exports should gradually pick up as the global IT cycle has bottomed out. However, export growth will likely remain mild amid the weak recovery of the global economy. Although we do not expect the reactionary fall after the 2020 Tokyo Olympics to have a large impact upon capital investment, it should slow down going forward, reflecting the stagnation of corporate earnings. Strong uncertainties such as the US-China tensions will also serve as a factor suppressing the growth of capital investment.
- ❑ In addition to stagnant employment growth amid the lack of expectations toward a strong recovery of production, the rise of wages is also unlikely due to the softening of corporate earnings. Turning to personal consumption, while the reactionary decline after the consumption tax hike should gradually fade in 2020, the recovery of consumer spending should be weak amid the lackluster growth of employment and wages.

1. Overview 2019 Jul-Sep GDP (2nd QE) : slight upward revision from the 1st QE

- According to the 2nd QE for the Jul-Sep quarter of 2019, Japan's real GDP grew +0.4% q-o-q (+1.8% p.a.), revealing a slight upward revision from the 1st QE (+0.2% p.a.). The uptick of capital investment and personal consumption contributed to the upward revision.
- Even though external demand served as a drag, private and public demand grew firmly. However, the firmness of private demand is due largely to the front-loading of demand in the run-up to the consumption tax hike. Private demand is far from strong given the deterioration of the environment surrounding consumer spending and capital investment, such as weak income growth and stagnant corporate earnings.

[2019 Jul-Sep quarter GDP (2nd QE)]



	2018		2019		Jul-Sep	1 st QE
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun		
Real GDP	-0.6	0.3	0.6	0.5	0.4	0.1
(Q-o-q change, p.a.)	-2.4	1.0	2.6	2.0	1.8	0.2
(Y-o-y change)	-0.3	-0.2	0.8	0.9	1.7	1.3
Domestic demand	-0.5	0.7	0.3	0.8	0.6	0.2
	(-0.5)	(0.7)	(0.3)	(0.8)	(0.6)	(0.2)
Private demand	-0.5	0.8	0.3	0.5	0.6	0.1
	(-0.4)	(0.6)	(0.2)	(0.4)	(0.4)	(0.1)
Personal consumption	-0.2	0.2	0.2	0.6	0.5	0.4
Housing investment	0.4	1.1	1.1	0.5	1.6	1.4
Capital investment	-3.4	3.0	-0.2	0.9	1.8	0.9
Inventory investment	(0.3)	(-0.0)	(0.1)	(-0.1)	(-0.2)	(-0.3)
Public demand	-0.3	0.3	0.1	1.6	0.7	0.6
	(-0.1)	(0.1)	(0.0)	(0.4)	(0.2)	(0.1)
Government consumption	0.2	0.6	-0.3	1.6	0.7	0.5
Public investment	-2.4	-0.7	2.0	1.6	0.9	0.8
External demand	(-0.1)	(-0.4)	(0.4)	(-0.3)	(-0.2)	(-0.2)
Exports	-1.8	1.2	-2.1	0.5	-0.6	-0.7
Imports	-1.3	3.8	-4.1	2.1	0.3	0.2
Nominal GDP	-0.6	-0.0	1.3	0.6	0.6	0.3
GDP deflator (y-o-y change)	-0.3	-0.6	0.1	0.4	0.6	0.6

Notes: Figures in the right hand chart are changes over the previous quarter (in real terms) unless otherwise noted. The figures in parentheses represent the contributions to growth.
Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*

2. Outlook on the Japanese economy: FY2019 (+0.8%), FY2020 (+0.5%)

- Japan's GDP growth is forecast to keep growing at a slow pace of +0.8% y-o-y in FY2019 and +0.5% y-o-y in FY2020.
- Even though Japan's exports will gradually pick up due to the recovery of the global IT cycle, the pace of recovery of consumer spending should be weak amid the stagnant growth of employment and income. Capital investment is also forecast to slow down due to the stagnation of corporate earnings. Even though the economic stimulus measures will serve as support, the pace of growth of the overall Japanese economy should remain weak for some time.

[Outlook on the Japanese economy]

		2018 FY	2019	2020	2018 Apr-Jun	Jul-Sep	Oct-Dec	2019 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2020 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2021 Jan-Mar
GDP (real)	Q-o-q % ch	0.3	0.8	0.5	0.5	-0.6	0.3	0.6	0.5	0.4	-1.2	0.4	0.3	0.3	0.3	0.2
	Q-o-q % ch p.a.	—	—	—	2.1	-2.4	1.0	2.6	2.0	1.8	-4.8	1.4	1.4	1.0	1.3	0.7
Domestic demand	Q-o-q % ch	0.4	1.0	0.2	0.5	-0.5	0.7	0.3	0.8	0.6	-1.4	0.3	0.3	0.2	0.2	0.1
Private sector demand	Q-o-q % ch	0.2	0.6	-0.1	0.5	-0.5	0.8	0.3	0.5	0.6	-2.0	0.4	0.2	0.1	0.2	0.1
Personal consumption	Q-o-q % ch	0.1	0.2	0.0	0.3	-0.2	0.2	0.2	0.6	0.5	-2.1	0.4	0.3	0.2	0.2	0.1
Housing investment	Q-o-q % ch	-4.9	1.6	-4.7	-1.8	0.4	1.1	1.1	0.5	1.6	-2.2	-1.8	-1.3	-1.1	-0.9	-0.5
Capital investment	Q-o-q % ch	1.7	2.0	0.9	2.3	-3.4	3.0	-0.2	0.9	1.8	-1.7	0.7	0.4	0.4	0.2	0.2
Inventory investment	Q-o-q contribution, % pt	(0.0)	(-0.0)	(-0.1)	(-0.1)	(0.3)	(-0.0)	(0.1)	(-0.1)	(-0.2)	(0.1)	(0.0)	(-0.1)	(-0.1)	(0.1)	(0.0)
Public sector demand	Q-o-q % ch	0.8	2.4	1.2	0.6	-0.3	0.3	0.1	1.6	0.7	0.1	0.0	0.6	0.4	0.2	-0.0
Government consumption	Q-o-q % ch	0.9	2.2	0.7	0.1	0.2	0.6	-0.3	1.6	0.7	0.0	0.0	0.3	0.1	0.2	0.1
Public investment	Q-o-q % ch	0.6	3.2	3.1	2.5	-2.4	-0.7	2.0	1.6	0.9	0.2	0.0	1.5	1.6	0.3	-0.4
External demand	Q-o-q contribution, % pt	(-0.1)	(-0.3)	(0.3)	(0.0)	(-0.1)	(-0.4)	(0.4)	(-0.3)	(-0.2)	(0.2)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Exports	Q-o-q % ch	1.6	-0.9	3.0	0.7	-1.8	1.2	-2.1	0.5	-0.6	0.7	0.7	0.8	0.9	1.0	1.0
Imports	Q-o-q % ch	2.2	0.6	1.3	0.8	-1.3	3.8	-4.1	2.1	0.3	-0.6	0.4	0.4	0.5	0.5	0.4
GDP (nominal)	Q-o-q % ch	0.1	1.3	1.1	0.3	-0.6	-0.0	1.3	0.6	0.6	-1.7	1.4	0.5	0.4	-0.8	1.3
GDP deflator	Y-o-y % ch	-0.1	0.5	0.6	0.1	-0.3	-0.6	0.1	0.4	0.6	0.3	0.8	0.9	0.9	0.3	0.3
Domestic demand deflator	Y-o-y % ch	0.5	0.4	0.6	0.7	0.8	0.2	0.3	0.4	0.2	0.4	0.7	0.7	0.8	0.4	0.4

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 the CPI should remain gradual amid tepid domestic demand

[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	-3.1	0.2	0.8	-0.7	1.4	-2.5	0.6	-0.5	-4.3	2.0	0.5	0.5	0.2	0.2
Ordinary profits	Y-o-y % ch	6.2	-9.7	0.4	17.9	2.2	-7.0	10.3	-12.0	-5.3	-7.7	-12.3	-1.6	1.0	2.6	0.4
Nominal compensation of employees	Y-o-y % ch	3.0	1.3	0.9	4.0	2.9	3.3	1.7	2.3	1.6	0.4	1.0	0.7	0.8	1.0	0.9
Unemployment rate	%	2.4	2.3	2.5	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.4	2.4	2.5	2.5	2.6
New housing starts	P.a., 10,000 units	95.3	89.0	84.5	96.6	95.0	95.5	94.2	91.8	89.9	87.6	86.5	85.6	84.4	84.0	83.8
Current account balance	P.a., JPY tril	19.2	19.7	21.6	21.8	18.7	17.2	18.8	19.7	19.4	19.3	20.5	20.9	21.8	21.6	22.1
Domestic corporate goods prices	Y-o-y % ch	2.2	0.4	0.9	2.6	3.1	2.3	0.9	0.6	-0.9	0.3	1.5	1.3	2.0	0.1	0.1
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-0.4	0.1	-	-	-	-	-	-	-1.2	-0.1	-0.2	0.4	0.0	-
Consumer prices, ex fresh food	Y-o-y % ch	0.8	0.7	0.6	0.7	0.9	0.9	0.8	0.8	0.5	0.6	0.7	0.6	0.8	0.5	0.5
Consumer prices, ex fresh food (ex consumption tax, free education)	Y-o-y % ch	-	0.5	0.5	-	-	-	-	-	-	0.3	0.4	0.3	0.5	0.5	0.6
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.6	0.5	0.3	0.4	0.3	0.4	0.5	0.6	0.8	0.8	0.6	0.6	0.3	0.3
Consumer prices, ex fresh food and energy (ex consumption tax, free education)	Y-o-y % ch	-	0.5	0.4	-	-	-	-	-	-	0.5	0.4	0.4	0.4	0.4	0.4
Interest rate on Policy-Rate Balances	%	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Yield on newly-issued 10-yr JGBs	%	0.05	-0.11	-0.03	0.04	0.09	0.09	-0.02	-0.08	-0.20	-0.12	-0.05	-0.05	-0.05	0.00	0.00
Nikkei average	JPY	22,000	22,000	23,300	22,341	22,654	21,897	21,000	21,414	21,270	23,000	22,500	23,000	23,000	23,500	23,500
Exchange rate	USD/JPY	111	108	107	109	111	113	110	110	107	109	108	108	106	106	106
Crude oil price (WTI nearest term contract)	USD/bbl	63	57	59	68	69	59	55	60	56	57	56	58	59	60	60

- Note: 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 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
4. (Ex consumption tax, free education) pertains to the data series excluding consumption tax (including preferential tax rate) and free preschool and higher education

Source: Made by MHRI based upon relevant statistics

3. Even though the global economy should gradually bottom out through 2020, the recovery will be weak

- Our view on global economic growth remains unchanged from our economic outlook as of November. We have made a slight downward revision of our forecast on global economic growth in the forecast area in 2019 to reflect recent developments.
- To reflect the Jul-Sep 2019 quarter GDP, we have revised down our forecasts regarding the ASEAN5, India and Australia. For 2020, while we have revised down our forecast on India due to the weakness of the underlying strength of the economy, we have revised upward our forecasts on the NIEs to reflect the bottoming of the IT cycle and the front-loading of South Korea's fiscal spending.

[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 Nov 2019)		(Breadth of change from forecast in Nov 2019)	
Total of forecast area	3.5	4.0	3.9	3.2	3.3	3.3	3.3	-0.1	-
Japan, US, Eurozone	1.6	2.4	2.1	1.7	1.3	1.7	1.3	-	-
US	1.6	2.4	2.9	2.3	1.8	2.3	1.8	-	-
Eurozone	1.9	2.5	1.9	1.2	1.1	1.2	1.1	-	-
UK	1.9	1.9	1.4	1.3	1.1	1.3	1.1	-	-
Japan	0.5	2.2	0.3	0.9	0.3	0.8	0.3	0.1	-
Asia	6.4	6.2	6.2	5.2	5.4	5.3	5.4	-0.1	-
China	6.7	6.8	6.6	6.1	5.9	6.1	5.9	-	-
NIEs	2.7	3.3	2.8	1.6	1.6	1.5	1.4	0.1	0.2
ASEAN5	5.0	5.3	5.2	4.8	4.9	4.9	4.9	-0.1	-
India	8.7	6.9	7.4	5.1	6.0	5.3	6.3	-0.2	-0.3
Australia	2.8	2.5	2.7	1.8	2.0	2.0	1.9	-0.2	0.1
Brazil	-3.3	1.3	1.3	1.0	2.0	0.8	1.9	0.2	0.1
Mexico	2.9	2.1	2.1	0.1	1.0	0.1	1.0	-	-
Russia	0.3	1.6	2.3	1.0	1.8	1.0	1.8	-	-
Japan (FY)	0.9	1.9	0.3	0.8	0.5	0.6	0.5	0.2	-
Crude oil prices (WTI, USD/bbl)	43	51	65	57	58	57	58	-	-

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

(Reference) Key political events

	2020		2021	
US	Nov	Presidential and congressional elections	Sep	20 years since the September 11 terrorist attacks
Europe	Jan	Brexit deadline	Sep	Germany: Federal election
	Jan	Expiration of term of office of BOE Governor Mark Carney	Autumn	Chancellor Merkel scheduled to step down
Japan	Jul	Tokyo Gubernatorial election	Mar	10 years since the Great East Japan Earthquake
	Jul-Sep	Tokyo Olympic and Paralympic Games	Sep	Inauguration of the next president of the LDP
Asia			Oct	Term of office for Lower House members ends
	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

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