

**Summary**

# FY2019 - FY2021 Economic Outlook

Dark clouds gather over the global economic recovery scenario due to the spread of novel coronavirus (COVID-19)

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Mizuho Research Institute Ltd.

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## Key points of our outlook

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- Despite a slowdown of the global economy in the first half of 2020 due to the novel corona virus (COVID-19), we forecast a global economic recovery from the second half of 2020 through 2021. Even so, as our forecast is based upon the assumption that COVID-19 will peak in March and end in June, it will be necessary to monitor the developments.
- Standing on the foregoing premises, calculations based upon the international input-output table show that the impact upon the rate of real GDP growth in 2020 would be as follows: global (-0.2%pt), China (-0.5%pt), Japan (-0.1%pt). However, the expected recovery of production to make up for lost production and additional economic stimulus measures, particularly in China, should limit the decline in actual growth.
- Among the risk factors are: China's economic downturn and impact on supply chains caused by the prolonged spread of COVID-19, a global economic downturn due to protectionism, a reversal of the credit cycle stemming from the deterioration of economic conditions, and risks regarding the Middle East and rise of crude oil prices.
- Turning to the Japanese economy, both exports and domestic demand are expected to slow down in FY2020, and the rate of GDP growth should turn out to be weak, around the 0% to 0.5% range. However, a gradual recovery is expected in FY2021, as exports are expected to turn upward along with the global economic recovery, and domestic demand is also expected to pick up. There is little concern that the post-Olympics slump of construction investment will cause a serious recession, and should pick up again on the back of factors including the progress of redevelopment projects.

# Overview of our economic forecast: the global economy will slow down in the 1H2020 due to the impact of novel coronavirus (COVID-19)

## Outlook on the global economy

	(Y-o-y % change)						(Y-o-y % change)		(% point)	
	2016	2017	2018	2019	2020	2021	2019	2020	2019	2020
	CY						(Forecast in Dec 2019)		(Breadth of change from forecast in Dec 2019)	
Total of forecast area	3.5	4.0	4.0	3.2	3.1	3.5	3.2	3.3	-	-0.2
Japan, US, Eurozone	1.6	2.4	2.1	1.7	1.2	1.5	1.7	1.3	-	-0.1
US	1.6	2.4	2.9	2.3	1.9	1.8	2.3	1.8	-	0.1
Eurozone	1.9	2.5	1.9	1.2	1.0	1.3	1.2	1.1	-	-0.1
UK	1.9	1.9	1.3	1.4	1.0	1.3	1.3	1.1	0.1	-0.1
Japan	0.5	2.2	0.3	0.7	-0.2	0.9	0.9	0.3	-0.2	-0.5
Asia	6.5	6.3	6.2	5.2	5.1	5.5	5.2	5.4	-	-0.3
China	6.8	6.9	6.7	6.1	5.7	5.9	6.1	5.9	-	-0.2
NIEs	2.7	3.4	2.8	1.7	1.7	2.2	1.6	1.6	0.1	0.1
ASEAN5	5.0	5.3	5.2	4.8	4.6	5.2	4.8	4.9	-	-0.3
India	8.7	6.9	7.4	5.0	5.6	6.2	5.1	6.0	-0.1	-0.4
Australia	2.8	2.5	2.7	1.8	2.1	2.4	1.8	2.0	-	0.1
Brazil	-3.3	1.3	1.3	1.1	2.0	2.3	1.0	2.0	0.1	-
Mexico	2.9	2.1	2.1	-0.1	0.8	1.6	0.1	1.0	-0.2	-0.2
Russia	0.3	1.6	2.3	1.3	1.8	1.6	1.0	1.8	0.3	-
Japan (FY)	0.9	1.9	0.3	0.4	0.3	0.7	0.8	0.5	-0.4	-0.2

Note: The shaded areas are forecasts. 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: forecast of weak growth in FY2020 followed by a gradual recovery in FY2021

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- The rate of GDP growth for the Oct-Dec quarter of 2019 stood at -1.6% q-o-q, revealing a drop comparable to the fall at the time of the previous consumption tax hike (Apr-Jun quarter of 2014: -1.9% q-o-q). Even in consideration of drags stemming from special factors such as the impact of the large typhoons, our view is that the Japanese economy is weakening. Production has been stagnant since November when the counter reaction to the tax hike should have faded, leading to a high possibility that the Japanese economy is in a recession.
- In FY2020, given the weakness of both exports and domestic demand, GDP is expected to remain at +0.3% y-o-y. As exports are expected to take a downturn in the Jan-Mar quarter due to factors such as the impact of COVID-19, the economy will only bottom out in the second half of the year. While demand for labor-saving investment remains strong, growth in capital investment is expected to be sluggish due to the weakness of construction investment. The recovery of consumption will most likely be limited due to the weakness of employment and income.
- In FY2021, exports are expected to pick up along with the recovery of the global economy. Domestic demand should also start to pick up, leading to a moderate GDP growth rate of +0.7% y-o-y. In capital investment, machinery investment is expected to increase moderately along with a recovery in the manufacturing industry. There is little concern that the post-Olympics slump of construction investment will cause a serious recession, and should pick up again on the back of factors including the progress of redevelopment projects. The employment and income environment will gradually pick up from the recovery of production and profits, and personal consumption will also begin to recover. Even so, the pace of recovery is expected to be moderate.
- The BOJ core CPI is expected to slow as the output gap will remain in negative territory after the consumption tax hike and unit labor costs are also expected to weaken.

# The Japanese economy: forecast for FY2020 (+0.3%), FY2021 (+0.7%)

## Outlook on the Japanese economy

		2018 FY	2019	2020	2021 FY	2019 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2020 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2021 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2022 Jan-Mar
GDP (real)	Q-o-q % ch	0.3	0.4	0.3	0.7	0.6	0.5	0.1	-1.6	0.2	0.3	0.3	0.5	0.1	0.1	0.2	0.2	0.1
	Q-o-q % ch p.a.	—	—	—	—	2.6	1.9	0.5	-6.3	1.0	1.3	1.4	2.1	0.4	0.4	0.7	0.8	0.3
Domestic demand	Q-o-q % ch	0.4	0.6	0.1	0.7	0.2	0.8	0.4	-2.1	0.5	0.3	0.1	0.3	0.1	0.1	0.2	0.2	0.1
Private sector demand	Q-o-q % ch	0.2	-0.1	-0.3	0.7	0.2	0.5	0.2	-2.9	0.7	0.2	0.1	0.3	0.2	0.1	0.2	0.2	0.2
Personal consumption	Q-o-q % ch	0.1	-0.3	-0.2	0.6	0.0	0.6	0.5	-2.9	0.6	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Housing investment	Q-o-q % ch	-4.9	0.6	-4.6	-2.3	1.5	-0.2	1.2	-2.7	-2.9	-0.9	-0.3	-0.0	-1.0	-0.8	-0.6	-0.4	-0.4
Capital investment	Q-o-q % ch	1.7	0.2	0.3	1.9	-0.5	0.8	0.5	-3.7	1.2	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Inventory investment	Q-o-q contribution, % pt	(0.0)	(0.0)	(-0.0)	(-0.0)	(0.2)	(-0.1)	(-0.2)	(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	0.8	2.7	1.3	0.6	0.1	1.7	0.8	0.4	-0.0	0.6	0.2	0.4	-0.2	0.1	0.3	0.4	-0.2
Government consumption	Q-o-q % ch	0.9	2.5	1.1	1.1	-0.4	1.6	0.7	0.2	0.4	0.3	0.0	0.2	0.2	0.4	0.2	0.3	0.3
Public investment	Q-o-q % ch	0.6	3.6	2.2	-1.0	2.1	1.8	1.2	1.1	-1.5	1.6	0.9	1.1	-1.5	-1.0	0.7	0.7	-1.8
External demand	Q-o-q contribution, % pt	(-0.1)	(-0.2)	(0.2)	(0.0)	(0.5)	(-0.3)	(-0.3)	(0.5)	(-0.3)	(0.1)	(0.2)	(0.2)	(-0.0)	(-0.0)	(-0.0)	(-0.0)	(-0.0)
Exports	Q-o-q % ch	1.6	-2.0	1.3	3.4	-1.9	0.4	-0.7	-0.1	-2.7	0.7	2.2	2.2	0.7	0.5	0.4	0.5	0.5
Imports	Q-o-q % ch	2.2	-0.7	0.1	3.3	-4.3	2.0	0.7	-2.6	-1.0	0.4	1.1	1.3	0.8	0.7	0.7	0.6	0.6
GDP (nominal)	Q-o-q % ch	0.1	1.2	1.1	1.1	1.2	0.5	0.5	-1.2	0.7	0.4	0.4	0.5	0.3	0.2	0.0	0.3	0.4
GDP deflator	Y-o-y % ch	-0.1	0.9	0.7	0.4	0.2	0.4	0.6	1.2	1.2	1.3	1.0	0.5	0.3	0.3	0.1	0.4	0.4
Domestic demand deflator	Y-o-y % ch	0.5	0.5	0.5	0.4	0.3	0.4	0.2	0.7	0.7	0.7	0.3		0.3	0.5	0.3	0.5	0.5

Note: Figures in the shaded areas are forecasts.

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

# The Japanese economy: year-on-year rise of consumer prices (ex fresh food) to remain tepid

## Outlook on the Japanese economy (major economic indicators)

		2018	2019	2020	2021	2019				2020				2021				2022
		FY			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	0.3	-3.4	0.2	1.8	-2.5	0.6	-0.5	-4.0	0.4	0.4	1.2	1.0	0.5	0.2	0.3	0.2	0.3
Ordinary profits	Y-o-y % ch	6.2	-10.8	-0.1	3.8	10.3	-12.0	-5.3	-8.1	-16.2	-3.7	-0.4	1.9	2.7	5.8	3.8	3.1	2.1
Nominal compensation of employees	Y-o-y % ch	3.0	1.7	0.8	1.1	1.7	2.3	1.6	1.7	1.1	0.6	0.7	1.0	0.8	1.1	1.1	1.2	1.1
Unemployment rate	%	2.4	2.3	2.4	2.5	2.4	2.4	2.3	2.3	2.3	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	88.2	82.9	81.0	95.6	92.5	90.6	86.5	85.5	84.9	83.6	83.2	82.1	82.1	81.6	81.5	81.2
Current account balance	P.a., JPY tril	19.2	21.1	24.5	24.3	18.8	19.7	19.3	21.0	22.1	22.6	23.6	24.8	24.7	24.1	23.5	23.5	23.7
Domestic corporate goods prices	Y-o-y % ch	2.2	0.3	0.8	1.2	0.9	0.6	-0.9	0.2	1.2	1.0	1.3	-0.1	0.8	1.5	1.2	1.3	1.0
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-0.5	0.0	-	-	-	-	-1.4	-0.4	-0.6	-0.2	-	-	-	-	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.8	0.6	0.5	0.5	0.8	0.8	0.5	0.5	0.4	0.4	0.6	0.4	0.4	0.5	0.5	0.5	0.5
Consumer prices, ex fresh food (ex consumption tax, free education)	Y-o-y % ch	-	0.4	0.3	-	-	-	-	0.3	0.0	0.1	0.3	-	-	-	-	-	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.3	0.6	0.5	0.3	0.3	0.4	0.4	0.4	0.8	0.7	0.6	0.4	0.2	0.3	0.3	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	0.5	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	-0.10	-0.10
Yield on newly-issued 10-yr JGBs	%	0.05	-0.10	-0.05	0.00	-0.02	-0.08	-0.20	-0.09	-0.04	-0.05	-0.05	0.00	0.00	0.00	0.00	0.00	0.00
Nikkei average	JPY	22,000	22,200	23,400	24,300	21,000	21,414	21,270	23,045	23,100	22,600	23,000	23,800	24,000	24,000	24,200	24,400	24,400
Exchange rate	USD/JPY	111	109	108	107	110	110	107	109	108	107	107	108	108	107	107	107	107
Crude oil price (WTI nearest term contract)	USD/bbl	63	57	56	61	55	60	56	57	54	54	56	57	58	59	60	62	62

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 interest rate on Policy-Rate Balances refers to the end-of-term rate, 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

Source: Made by MHRI based upon relevant statistics

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