

[Summary](#)

FY2020 - FY2021 Economic Outlook

The recovery of mobility will be slow. Level of GDP among developed countries will fall short of a rebound to pre-Covid levels

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Key points of our outlook

- The rate of global real GDP growth in 2020 is forecast to be -4.1%, the worst negative growth since the end of World War II. The recovery in 2021 will be slow. GDP growth among the major developed countries will fall short of a rebound to pre-Covid levels even at the end of 2021, with a recovery to the level of 2019 only from 2022 onward.
- The key to predicting the future course of the global economy is the direction of mobility. Based upon the view that social distancing requirements will continue, mobility will not return to pre-Covid levels until the Jan-Mar quarter of 2022 when the widespread uptake of the Covid-19 vaccine is expected. The recovery of mobility will likely proceed gradually in an ebb-and-flow path reflecting the recurring cessation and resurgence of infections. The recovery will follow a sawtooth pattern.
- A downturn of the economy should be averted in 2020 due to the implementation of aggressive fiscal policies. However, a reactionary decline due in part to the fading impact of income support will arise through 2021 and serve as a drag upon economic recovery. Corporate behavior placing priority on securing liquidity on hand may also serve to dampen capital investment growth.
- We forecast that the rate of Japan's real GDP growth will stand at -6.0% in FY2020 due to self-restraints on consumption and downward pressures upon exports. The Japanese economy is forecast grow only +3.4% in FY2021, being unable to bounce back from the steep fall in FY2020. The pace of recovery until the end of FY2021 will remain sluggish, due to the progress of adjustments in employment, wages, and capital investment, ongoing restrictions on consumption activities such as eating out, travel, and entertainment, and concerns regarding the resurgence of Covid-19 infections which dampen household and corporate business activities.

Overview of the global economic outlook: overall negative growth in 2020 including emerging market economies, with a slow recovery in 2021

Outlook on the global economy

	(Y-o-y % change)					(Y-o-y % change)		(Pt)	
	2017 CY	2018	2019	2020 (Outlook)	2021	2020 (Forecast as of April)	2021	2020 (Comparison with April forecast)	2021
Global real GDP growth	3.9	3.6	2.9	-4.1	4.3	-2.4	4.4	-1.7	-0.1
Japan, US, Eurozone	2.3	2.2	1.6	-6.9	3.7	-4.8	3.3	-2.1	0.4
US	2.3	3.0	2.2	-5.0	2.7	-3.7	2.9	-1.3	-0.2
Eurozone	2.5	1.9	1.3	-9.1	5.1	-6.2	4.5	-2.9	0.6
UK	1.9	1.4	1.5	-10.8	6.8	-2.8	1.0	-8.0	5.8
Japan	2.2	0.3	0.7	-5.7	2.1	-6.0	3.2	0.3	-1.1
Asia	6.3	6.1	5.2	-0.8	5.7	-0.1	5.7	-0.7	-
China	6.9	6.7	6.1	1.3	7.0	0.7	7.0	0.6	-
NIEs	3.4	2.9	1.7	-2.3	2.9	-3.7	2.7	1.4	0.2
ASEAN5	5.4	5.3	4.8	-3.7	5.4	-1.1	5.4	-2.6	-
India	6.6	6.8	4.9	-3.4	3.9	0.1	4.0	-3.5	-0.1
Australia	2.5	2.8	1.8	-4.2	2.9	-2.6	3.5	-1.6	-0.6
Brazil	1.3	1.3	1.1	-7.5	2.7	-2.8	2.5	-4.7	0.2
Mexico	2.1	2.2	-0.3	-11.1	2.5	-6.0	3.5	-5.1	-1.0
Russia	1.8	2.5	1.3	-4.6	2.9	-1.3	1.8	-3.3	1.1
Japan (FY)	1.9	0.3	0.0	-6.0	3.4	-6.5	5.3	0.5	-1.9

Note: The shaded areas are forecasts. The total of the forecast area is calculated upon the GDP share (PPP) by the IMF.

Source: Made by MHRI based upon releases by the International Monetary Fund (IMF) and statistics of relevant countries and regions

Japan: even though growth in the Jul-Sep quarter will be strong, the pace of recovery will be slow

- Japan's real GDP growth rate for FY2020 is forecast to be -6.0%. Consumption and exports fell sharply in the Apr-Jun quarter, reflecting self-restraints upon consumption and lockdown overseas. In the Jul-Sep quarter, when the declaration of a state of emergency in Japan was lifted and lockdowns were eased in major countries of the world, exports and consumption recovered due to a reactionary rebound from the previous quarter, leading to higher growth.
- However, the pace of recovery until the end of FY2021 will be sluggish due to (1) progress in adjustments in employment, wages, and the capital investment; (2) partial restrictions upon consumption activities such as eating out, travel, and entertainment during the post-emergency declaration phase dubbed the "withCorona" (coexistence with the coronavirus) phase; and (3) uncertainty over the resurgence of infections serving to dampen household and corporate activities. The Japanese economy is forecast grow only +3.4% in FY2021, falling short of a rebound from the steep fall in FY2020.
- After the declaration of a state of emergency was lifted, personal consumption, mainly in the fields of motor vehicles, home electrical appliances and other goods, recovered due in part to the effects of special cash payments. On the other hand, the recovery in consumption of services, such as eating out, travel and entertainment, has been slow due to concerns over the resurgence of Covid-19 infections. In FY2021, household disposable income is forecast to decline due to a backlash to the emergency cash payments, serving to hamper the recovery of consumption.
- The negative output gap will widen, putting downward pressure on prices. The BOJ core CPI (y-o-y change) will most likely turn negative and deflationary concerns are expected to intensify.

Japan: FY2020 real GDP growth is forecast to fall deep into negative territory, given the fall of domestic and external demand due to the Covid-19 pandemic

- Japan's real GDP growth rate for FY2020 is forecast to be -6.0%. The rebound in FY2021 will be limited due to lingering concerns regarding the resurgence of Covid-19 infections.

Outlook on the Japanese economy

		2019 FY	2020 (Forecast)	2021	2020				2021				2022
					Jan-Mar	Aor-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Aor-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	0.0	-6.0	3.4	-0.6	-7.8	3.5	0.9	0.9	0.5	0.6	0.5	0.4
	Q-o-q % ch p.a.	—	—	—	-2.5	-27.8	14.9	3.8	3.7	2.2	2.5	2.0	1.5
Domestic demand		0.2	-3.9	2.6	-0.4	-4.8	2.2	0.7	0.8	0.5	0.5	0.4	0.3
Private sector demand		-0.5	-5.7	3.3	-0.5	-6.5	2.7	1.0	1.0	0.5	0.5	0.5	0.4
Personal consumption		-0.6	-5.4	3.2	-0.8	-8.2	5.4	1.3	0.7	0.4	0.2	0.2	0.2
Housing investment		0.5	-8.6	-0.3	-4.2	-0.2	-4.8	-1.9	0.1	0.6	0.7	0.9	0.6
Capital investment		-0.3	-6.4	4.5	1.7	-1.5	-6.2	0.5	2.0	1.5	1.8	1.7	1.5
Inventory investment		Q-o-q contribution, % pt	(-0.1)	(0.0)	(-0.1)	(-0.0)	(0.2)	(-0.0)	(0.1)	(-0.1)	(-0.0)	(-0.0)	(-0.1)
Public sector demand		2.5	1.2	1.0	-0.0	-0.0	1.1	-0.1	0.0	0.2	0.7	0.0	0.0
Government consumption		2.3	0.8	1.3	0.0	-0.3	0.4	0.3	0.4	0.3	0.2	0.2	0.3
Public investment		3.3	3.0	-0.2	-0.5	1.2	3.6	-1.5	-1.6	-0.2	2.3	-0.8	-1.0
External demand		Q-o-q contribution, % pt	(-0.2)	(-2.0)	(0.7)	(-0.2)	(-3.0)	(1.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Exports		-2.6	-15.2	9.0	-5.4	-18.5	8.5	2.8	2.0	1.5	1.5	1.6	1.7
Imports		-1.5	-3.7	3.8	-4.2	-0.5	0.2	1.2	1.0	0.9	0.9	0.9	0.9
GDP (nominal)		0.8	-5.9	2.0	-0.5	-7.4	3.0	0.3	0.5	-0.0	0.9	0.1	-0.0
GDP deflator		0.8	0.0	-1.4	0.9	1.5	0.3	-0.5	-1.1	-2.2	-1.3	-1.0	-1.1
Domestic demand deflator		0.5	-0.2	0.1	0.7	0.1	0.2	-0.5	-0.4	0.2	-0.1	0.0	0.0

Note: Figures in the shaded areas are forecasts.

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

Japan: adjustments in employment and wages will progress. The BOJ core CPI (y-o-y ch) will fall into negative territory

- The unemployment rate is forecast to rise to the 3%-level and the nominal compensation of employees is expected to fall sharply in FY2020. The BOJ core CPI (consumer prices, ex fresh food and energy) is expected to turn negative through FY2021.

Outlook on the Japanese economy (major economic indicators)

		2019 FY	2020 (Forecast)	2021	2020				2021				2022
					Jan-Mar	Aor-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Aor-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch	-3.8	-11.0	9.3	0.4	-16.7	8.8	2.4	2.2	1.8	1.6	1.7	1.5
Ordinary profits	Y-o-y % ch	-13.1	-41.6	18.9	-28.4	-59.1	-49.7	-29.4	-21.4	32.9	18.3	14.1	13.8
Nominal compensation of employees	Y-o-y % ch	1.8	-3.8	1.2	1.7	-2.7	-3.3	-5.8	-2.9	0.6	0.5	2.4	1.2
Unemployment rate	%	2.4	3.1	2.9	2.4	2.8	3.3	3.2	3.1	3.0	2.9	2.8	2.8
New housing starts	P.a., 10,000 units	88.4	76.1	76.4	86.3	79.8	75.6	75.4	75.0	76.0	76.5	77.3	77.5
Current account balance	P.a., JPY tril	19.7	10.5	7.9	19.4	8.5	12.4	12.3	10.0	8.4	8.9	8.9	6.9
Domestic corporate goods prices	Y-o-y % ch	0.1	-1.6	0.4	0.6	-2.2	-0.5	-2.5	-1.2	2.2	-0.2	-0.3	-0.1
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-0.6	-2.5	-	-1.0	-3.7	-2.1	-	-	-	-	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	-0.1	0.1	0.6	-0.1	0.4	-0.1	-0.3	0.4	0.1	0.0	0.1
Consumer prices, ex fresh food (ex consumption tax, free education)	Y-o-y % ch	0.5	-0.2	-	0.2	-0.5	0.1	-0.1	-0.2	-	-	-	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.6	0.0	-0.2	0.7	0.3	0.4	-0.1	-0.4	-0.3	-0.2	-0.2	-0.2
Consumer prices, ex fresh food and energy (ex consumption tax, free education)	Y-o-y % ch	0.5	-0.1	-	0.5	0.2	0.1	-0.0	-0.4	-	-	-	-

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)

Source: Made by MHRI based upon relevant statistics

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