

REVISED
to reflect the
2nd QE for the
Apr-Jun Qtr
of 2020

FY2020 - FY2021 Economic Outlook

Forecast of a slow recovery of the Japanese economy due to concerns regarding a resurgence of Covid-19 infections

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The Japanese economy: Apr-Jun quarter real GDP was revised downward. Even though growth in the Jul-Sep quarter will be strong due to a counter reaction, the pace of recovery will be slow

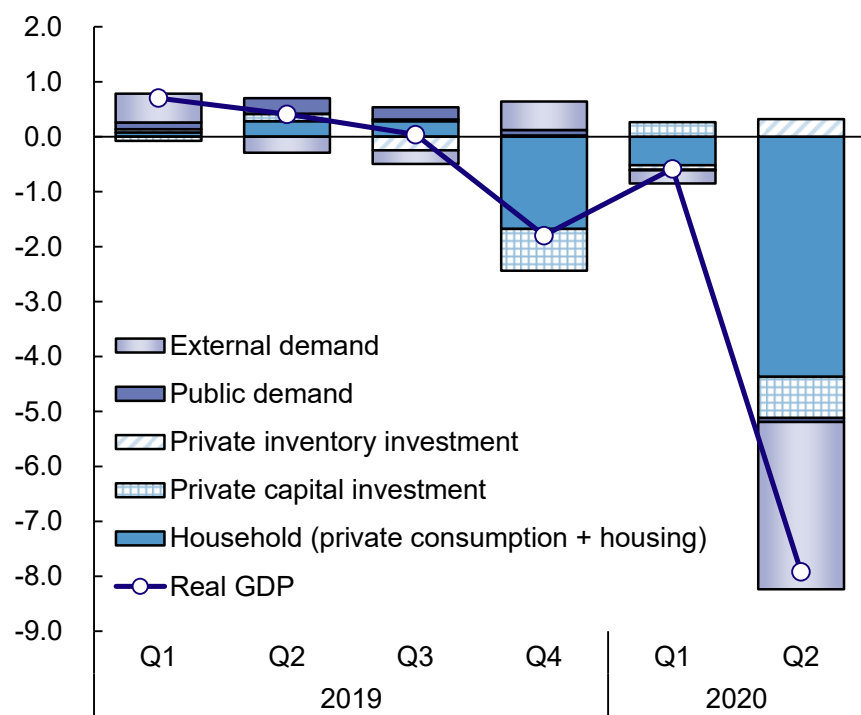
- According to the *Second Preliminary Quarterly Estimates of GDP* ("2nd QE"), Japan's economic growth in the Apr-Jun quarter of 2020 (-28.1% q-o-q p.a.) was revised down from the 1st QE (-27.8% q-o-q p.a.). The downturn of capital investment and government consumption served as a drag upon growth. All components of final demand other than public investment fell, underscoring the huge impact of the Covid-19 pandemic.
- Japan's FY2020 real GDP growth is forecast to be -6.0% (MHRI outlook as of August: -6.0%). Reflecting the lifting of the declaration of a state of emergency in Japan and the easing of lockdowns in the major countries of the world, Japan's exports and consumption should pick up in the Jul-Sep quarter 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) the continuation of partial restrictions upon consumption activities such as eating out, travel, and entertainment; (2) uncertainty over the resurgence of infections serving to dampen household and corporate activities; and (3) progress of adjustments in employment, wages, and the capital investment going forward.
- 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 Japanese economy is forecast to grow only +3.4% in FY2021, falling short of a rebound from the fall in FY2020.
- The negative output gap will widen, putting downward pressure on prices. The BOJ core CPI (y-o-y change) will most likely turn negative, leading to the intensification of deflationary concerns.

1. Overview of Apr-Jun 2020 quarter GDP (2nd QE): downward revision due to factors such as the downturn of capital investment

- According to the 2nd QE for the Apr-Jun quarter of 2020, Japan's real GDP fell -7.9% q-o-q (-28.1% p.a.), revealing a slight downward revision from the 1st QE (-7.8% p.a., -27.8% p.a.). All told, our view remains unchanged since Japan's economic growth is still mired in negative territory according to the latest data.
 - In contrast to the upturn of personal consumption and inventory investment, both capital investment and government consumption turned out to be lower than initially reported. All components of final demand other than public investment fell, underscoring the huge impact of the Covid-19 pandemic.

2020 Apr-Jun quarter GDP (2nd QE)

(Q-o-q % change)



	2019			2020		1st QE
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	
Real GDP	0.4	0.0	-1.8	-0.6	-7.9	-7.8
(Q-o-q change, p.a.)	1.6	0.2	-7.0	-2.3	-28.1	-27.8
(Y-o-y change)	0.9	1.7	-0.7	-1.8	-9.9	-9.9
Domestic demand	0.7	0.3	-2.3	-0.3	-4.9	-4.8
(Contributions)	(0.7)	(0.3)	(-2.3)	(-0.3)	(-4.9)	(-4.8)
Private demand	0.6	0.1	-3.2	-0.5	-6.5	-6.5
(Contributions)	(0.4)	(0.1)	(-2.4)	(-0.3)	(-4.8)	(-4.8)
Personal consumption	0.5	0.4	-2.9	-0.7	-7.9	-8.2
Housing investment	-0.2	1.2	-2.2	-4.0	-0.5	-0.2
Capital investment	0.8	0.2	-4.7	1.7	-4.7	-1.5
Inventory investment	(0.0)	(-0.2)	(0.0)	(-0.1)	(0.3)	(-0.0)
Public demand	1.1	0.9	0.4	-0.0	-0.3	-0.0
(Contributions)	(0.3)	(0.2)	(0.1)	(-0.0)	(-0.1)	(-0.0)
Government consumption	1.0	0.8	0.3	0.0	-0.6	-0.3
Public investment	1.4	1.1	0.6	-0.5	1.1	1.2
External demand	(-0.3)	(-0.2)	(0.5)	(-0.2)	(-3.0)	(-3.0)
Exports	0.2	-0.6	0.4	-5.4	-18.5	-18.5
Imports	1.8	0.7	-2.4	-4.2	-0.5	-0.5
Nominal GDP	0.5	0.4	-1.5	-0.5	-7.6	-7.4
GDP deflator (y-o-y change)	0.4	0.6	1.2	0.9	1.3	1.5

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 Japan's real GDP growth: FY2020 (-6.0%), FY2021 (+3.4%)

- Forecast on FY2020: Japan's economic growth is forecast to fall deep into negative territory (-6.0% y-o-y)
- Forecast on FY2021: Japan's economic growth should reach +3.4% y-o-y, revealing a limited rebound amid lingering concerns regarding the resurgence of Covid-19 infections

Outlook on the Japanese economy

		2019 FY	2020 (Forecast)	2021	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	0.0	-6.0	3.4	-0.6	-7.9	3.5	1.0	1.0	0.6	0.6	0.5	0.3
	Q-o-q % ch p.a.	—	—	—	-2.3	-28.1	14.5	4.0	3.9	2.3	2.4	2.0	1.4
Domestic demand	Q-o-q % ch	0.2	-4.1	2.4	-0.3	-4.9	2.1	0.6	0.7	0.4	0.5	0.3	0.2
Private sector demand	Q-o-q % ch	-0.5	-5.9	2.9	-0.5	-6.5	2.5	0.9	1.0	0.6	0.4	0.4	0.2
Personal consumption	Q-o-q % ch	-0.5	-5.4	3.2	-0.7	-7.9	5.0	1.3	0.7	0.4	0.2	0.2	0.2
Housing investment	Q-o-q % ch	0.6	-8.7	-0.3	-4.0	-0.5	-4.8	-1.9	0.1	0.6	0.7	0.9	0.6
Capital investment	Q-o-q % ch	-0.3	-8.3	3.9	1.7	-4.7	-4.2	-0.1	2.0	1.5	1.3	1.2	1.0
Inventory investment	Q-o-q contribution, % pt	(-0.1)	(0.2)	(-0.2)	(-0.1)	(0.3)	(-0.0)	(-0.0)	(0.0)	(-0.1)	(-0.1)	(-0.0)	(-0.1)
Public sector demand	Q-o-q % ch	2.5	1.0	1.0	-0.0	-0.3	1.1	0.0	0.1	0.1	0.7	0.0	-0.0
Government consumption	Q-o-q % ch	2.3	0.5	1.5	0.0	-0.6	0.5	0.3	0.4	0.3	0.3	0.3	0.4
Public investment	Q-o-q % ch	3.3	3.0	-0.8	-0.5	1.1	3.3	-1.1	-1.3	-0.8	2.2	-1.0	-1.5
External demand	Q-o-q contribution, % pt	(-0.2)	(-1.9)	(1.0)	(-0.2)	(-3.0)	(1.3)	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Exports	Q-o-q % ch	-2.6	-15.2	9.0	-5.4	-18.5	8.5	2.8	2.1	1.5	1.5	1.6	1.7
Imports	Q-o-q % ch	-1.5	-4.2	2.2	-4.2	-0.5	0.0	0.6	0.6	0.6	0.6	0.6	0.5
GDP (nominal)	Q-o-q % ch	0.8	-6.2	2.1	-0.5	-7.6	2.9	0.3	0.6	0.0	0.9	0.1	-0.0
GDP deflator	Y-o-y % ch	0.8	-0.2	-1.4	0.9	1.3	0.1	-0.7	-1.3	-2.2	-1.2	-1.1	-1.1
Domestic demand deflator	Y-o-y % ch	0.5	-0.4	0.1	0.7	-0.1	0.0	-0.6	-0.6	0.2	-0.1	0.0	0.0

Note: Figures in the shaded areas are forecasts.

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

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

Outlook on the Japanese economy (major economic indicators)

		2019 FY	2020 (Forecast)	2021	2020				2021				2022
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch	- 3.8	- 11.2	9.2	0.4	- 16.9	8.8	2.4	2.2	1.8	1.6	1.7	1.5
Ordinary profits	Y-o-y % ch	- 13.1	- 37.4	21.0	- 28.4	- 46.6	- 49.7	- 29.4	- 19.9	38.3	18.3	14.1	13.0
Nominal compensation of employees	Y-o-y % ch	1.8	- 3.8	1.2	1.7	- 2.8	- 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	- 1.7	0.2	0.6	- 2.2	- 0.4	- 2.6	- 1.7	2.0	- 0.3	- 0.4	- 0.2
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	- 0.6	- 2.6	-	- 1.0	- 3.7	- 1.9	- 2.7	-	-	-	-	-
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	0.0	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	- 0.5	- 0.3	- 0.3	- 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	0.2	- 0.1	- 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
Yield on newly-issued 10-yr JGBs	%	- 0.10	0.00	0.00	- 0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nikkei average	JPY	21,900	22,200	22,800	21,932	20,746	22,700	22,600	22,600	22,600	22,800	22,900	23,000
Exchange rate	USD/JPY	109	107	108	109	108	107	107	107	107	108	108	108
Crude oil price (WTI nearest term contract)	USD/bbl	55	40	50	46	28	42	45	46	48	49	51	52

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

3. Outlook on the global economy: the pace of recovery in 2021 will be slow, given the difficulty to terminate the spread of Covid-19 infections

- Based upon our view that it will take time for the widespread uptake of the Covid-19 vaccine and that it will be difficult to terminate the spread of infections, the pace of global economic recovery will be slow in 2021.
- In comparison to our forecast as of August, we have revised downward our outlook on the Indian economy in view of its greater-than-expected impact from the lockdown accompanying the Covid-19 pandemic.

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 August)	2021	2020 (Comparison with August forecast)	2021
Global real GDP growth	3.9	3.6	2.9	-4.6	4.7	-4.1	4.3	-0.5	0.4
Japan, US, Eurozone	2.4	2.2	1.6	-6.9	3.7	-6.9	3.7	-	-
US	2.3	3.0	2.2	-5.0	2.7	-5.0	2.7	-	-
Eurozone	2.6	1.9	1.3	-9.1	5.1	-9.1	5.1	-	-
UK	1.9	1.4	1.5	-10.8	6.8	-10.8	6.8	-	-
Japan	2.2	0.3	0.7	-5.7	2.1	-5.7	2.1	-	-
Asia	6.3	6.1	5.2	-2.2	6.9	-0.8	5.7	-1.4	1.2
China	6.9	6.7	6.1	1.3	7.0	1.3	7.0	-	-
NIEs	3.4	2.9	1.7	-2.3	2.9	-2.3	2.9	-	-
ASEAN5	5.4	5.3	4.8	-3.7	5.4	-3.7	5.4	-	-
India	6.6	6.8	4.9	-9.8	9.8	-3.4	3.9	-6.4	5.9
Australia	2.5	2.8	1.8	-4.2	2.9	-4.2	2.9	-	-
Brazil	1.3	1.3	1.1	-7.5	2.7	-7.5	2.7	-	-
Mexico	2.1	2.2	-0.3	-11.1	2.5	-11.1	2.5	-	-
Russia	1.8	2.5	1.3	-4.6	2.9	-4.6	2.9	-	-
Japan (FY)	1.9	0.3	0.0	-6.0	3.4	-6.0	3.4	-	-

Note: Global real GDP growth 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

Reference: Key political events

	2020		2021		2022	
US	Nov	Presidential and congresssional elections	Jan	Presidential inauguration	Feb	End of term of office of Federal Reserve Chair Jerome H. Powell
			Sep	20 years since the September 11 attacks	Nov	Mid-term elections
Europe	Dec	Scheduled end of Brexit transition period	Sep	Russia: Legislative election	Apr	France: Presidential election
			Oct	Germany: Legislative election	Jun	France: Legislative election
			Autumn	Germany: Chancellor Merkel scheduled to step down		
Japan	Sep	Presidential election of the Liberal Democratic Party	Mar	10 years since the Great East Japan Earthquake	Jul	End of term of office of Upper House members
			Jul-Sep	Tokyo Olympic and Paralympic Games		
			Sep	End of term of office of the LDP president		
			Oct	End of term of office of Lower House members		
Asia	Oct	China: Fifth Plenary Session of the CPC Central Committee	Jan	Vietnam: National Congress of the Communist Party	By year-end	Hong Kong: Chief Executive election
			Jul	100th anniversary of the establishment of the Communist Party of China	Mar	South Korea: Presidential election
			Sep	Hong Kong: Legislative Council election	Around May	The Philippines: Presidential and legislative election
					1H	Australia: Senate and House of Representatives elections
					Autumn	China: 20th National Congress of the Communist Party
Others					Oct	Brazil: Presidential election

Source: Made by MHRI based upon media coverage

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