

Summary

FY2020 - FY2021 Economic Outlook

Even though the global economy should recover, the pace of recovery will be varied among countries due to differences in household and corporate behavior

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Key points of our outlook

- The global economy is forecast to grow +4.8% y-o-y in 2021, recovering from the sharp negative growth in 2020 (-4.0% y-o-y). We assume that the impact of Covid-19 infections will diminish gradually along with the spread of vaccines, albeit the occurrence of temporary and local rise in infections. The global economy should start to recover amid the maintenance of an accommodative economic and monetary policy stance.
- In view of the need to secure a vaccine supply system and to develop a transportation and vaccination system, the acquisition of herd immunity will be a time-consuming process. We expect that the vaccine will become widely available worldwide and that social distance restrictions will be lifted in the first half of 2022. As a result, the pace of economic recovery is expected to remain moderate.
- The pace of recovery to pre-Covid levels varies among countries. China had already returned to pre-Covid levels, and the US will recover to pre-Covid levels by the end of 2021 due to additional economic stimulus measures. Japan and Europe will likely return to pre-Covid-19 levels by mid-2022, given their relative cautiousness toward consumption and investment.
- Household and corporate behavior is changing due to the Covid-19 pandemic, and the transformation is irreversible. In the US, transformations such as the shift to remote work are rapidly advancing, creating demand for adaptation to the Covid-19 pandemic, such as household housing investment and corporate IT investment. While the pace is slower than in the US, Japan is also expected to gradually shift to remote work and e-commerce. In Europe, digital green investment is expected to grow, driven by the government.

The global economy: even though the global economy should recover in FY2021 along with the spread of vaccines, the pace of recovery will be varied among countries

- The rate of global economic growth in 2021 is expected to increase by +4.8% y-o-y, recording a recovery from 2020 (-4.0% y-o-y).
 - Even though the economies of the world should recover from 2020, the pace of recovery will be varied among countries.

Outlook on the global economy

	(Y-o-y % change)				(Y-o-y % change)	
	2018 CY	2019	2020 (Outlook)	2021 (Outlook)	2020 (Outlook as of September)	2021 (Outlook as of September)
Global real GDP growth	3.5	2.8	-4.0	4.8	-4.6	4.7
Japan, US, Europe	2.2	1.6	-5.6	4.0	-6.9	3.7
US	3.0	2.2	-3.7	3.9	-5.0	2.7
Eurozone	1.9	1.3	-7.3	4.5	-9.1	5.1
UK	1.3	1.3	-10.9	5.6	-10.8	6.8
Japan	0.6	0.3	-5.2	1.9	-5.7	2.1
Asia	6.1	5.2	-1.6	6.8	-2.2	6.9
China	6.7	6.1	1.9	7.1	1.3	7.0
NIEs	2.9	1.8	-1.2	3.0	-2.3	2.9
ASEAN5	5.3	4.8	-3.9	5.3	-3.7	5.4
India	6.8	4.9	-8.8	8.8	-9.8	9.8
Australia	2.8	1.8	-3.1	2.8	-4.2	2.9
Brazil	1.8	1.4	-4.5	3.0	-7.5	2.7
Mexico	2.2	-0.1	-9.0	3.0	-11.1	2.5
Russia	2.5	1.3	-3.9	2.7	-4.6	2.9
Japan (FY)	0.3	-0.3	-5.4	3.4	-6.0	3.4

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 economic stimulus measures will lift growth, the recovery will be slow amid lingering concerns regarding the spread of Covid-19 infections

- The Japanese economy grew +22.9% y-o-y p.a. in the Jul-Sep quarter of 2020 (*Second Preliminary Quarterly Estimates of GDP, "2nd QE"*). Due in part to a in reaction to the sharp drop in the previous quarter, consumption and exports grew strongly. From the Oct-Dec quarter onward, the pace of economic recovery is expected to slow, as the spread of Covid-19 in Japan and abroad will push down consumption and exports, and wages and capital investment will be adjusted further. For FY2020, we project a growth rate of -5.4%.
- The pace of recovery is expected to be slow also in FY2021. Among the background factors are, (1) the continuation of some restrictions on consumption activities such as dining out, travel, and entertainment; (2) the drag upon household and corporate activities stemming from uncertainties regarding the spread of Covid-19 infections; and (3) the decline in household disposable income due to a counter reaction stemming from the benefit payments amid the weak rebound in employee compensation.
- For FY2021, we project a growth rate of +3.4%. Even though public investment related to national land resilience, reflecting the government's economic stimulus measures, will serve as a positive factor, it will not be able to make up for the decline in FY2020.
- Household spending is changing because of restraints upon outings due to the Covid-19 pandemic. Certain changes associated with the spread of remote working lifestyles and online consumption are expected to continue even after the end of the Covid-19 pandemic.
- The output gap will remain in negative territory, putting downward pressure on prices. Excluding institutional factors (consumption tax hike, free education, GoTo Travel program), the BOJ core CPI (y-o-y change) will remain negative.

Japan: forecasts on growth in FY2020 (-5.4%) and FY2021 (+3.4%). The pace of recovery will be slow

- FY2020 growth forecast: -5.4% y-o-y. Despite the strong growth in the Jul-Sep quarter, the pace of recovery will slow down in the second half of the fiscal year as the spread of Covid-19 infections in Japan and overseas serve as negative pressures upon consumption and exports, and adjustments in wages and capital investment progresses.
- FY2021 growth forecast: +3.4% y-o-y. Even though public investment related to national land resilience under the government's economic stimulus measures and the extension of the GoTo Travel program are expected to push up the rate of economic growth, the rebound is expected to be limited due to concerns regarding the resurgence of Covid-19 infections.

Outlook on the Japanese economy

		2019 FY	2020 (Outlook)	2021	2020				2021				2022
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	-0.3	-5.4	3.4	-0.5	-8.3	5.3	1.0	-0.2	0.9	0.4	0.6	0.7
	Q-o-q % ch p.a.	—	—	—	-2.1	-29.2	22.9	4.2	-0.6	3.5	1.8	2.6	2.8
Domestic demand	Q-o-q % ch	-0.1	-4.3	2.5	-0.2	-5.2	2.5	0.4	0.0	0.8	0.4	0.6	0.6
Private sector demand	Q-o-q % ch	-0.7	-6.7	2.8	-0.1	-7.1	2.6	0.6	-0.0	1.0	0.4	0.6	0.8
Personal consumption	Q-o-q % ch	-0.9	-5.9	3.3	-0.6	-8.3	5.1	1.2	0.1	0.7	0.2	0.5	0.5
Housing investment	Q-o-q % ch	2.5	-7.3	-4.3	-3.7	0.5	-5.8	0.6	-0.3	-2.2	-0.6	-1.0	0.5
Capital investment	Q-o-q % ch	-0.6	-8.5	2.9	1.4	-5.7	-2.4	0.1	-0.8	1.8	1.5	1.2	1.5
Inventory investment	Q-o-q contribution, % pt	(-0.1)	(-0.1)	(-0.0)	(0.1)	(0.1)	(-0.2)	(-0.2)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	1.9	2.7	1.8	-0.2	0.6	2.3	-0.1	0.2	0.5	0.4	0.5	0.3
Government consumption	Q-o-q % ch	2.0	2.4	1.2	-0.3	0.3	2.8	-0.5	0.2	0.3	0.2	0.3	0.3
Public investment	Q-o-q % ch	1.5	4.0	3.9	-0.0	1.9	0.5	1.3	0.2	1.1	1.2	1.5	0.6
External demand	Q-o-q contribution, % pt	(-0.2)	(-1.0)	(0.9)	(-0.4)	(-3.1)	(2.7)	(0.6)	(-0.2)	(0.0)	(0.0)	(0.1)	(0.1)
Exports	Q-o-q % ch	-2.6	-12.9	9.8	-5.3	-17.1	7.0	7.3	0.9	1.5	1.4	1.6	1.5
Imports	Q-o-q % ch	-1.2	-6.9	4.0	-3.1	1.4	-8.8	3.1	2.1	1.4	1.3	1.2	1.1
GDP (nominal)	Q-o-q % ch	0.5	-4.9	2.9	-0.5	-7.9	5.5	0.5	-0.7	0.7	1.6	-0.3	0.1
GDP deflator	Y-o-y % ch	0.8	0.5	-0.5	1.0	1.4	1.2	0.1	-0.6	-1.1	0.0	-0.4	-0.5
Domestic demand deflator	Y-o-y % ch	0.6	0.0	0.6	0.8	-0.1	0.1	-0.2	0.0	1.0	0.6	0.4	0.3

Note: Figures in the shaded areas are forecasts.

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

Japan: the recovery in employment and wages will be sluggish. The BOJ core CPI (y-o-y change) should remain negative

- The recovery in employment and wages is expected to be slow in FY2021, and the breadth of increase in employee compensation is small compared with the decline in FY2020. The growth of disposable income should fall into negative territory in FY2021 as the effect of the cash benefits fades, hampering the recovery of consumption. Although a sharp rise of the unemployment rate should be avoided due to the extension of the special measures for employment adjustment subsidies, the unemployment rate is expected to continue to hover at the 3%-level amid the weakness of the willingness to hire.
- Given downward pressures stemming from the negative output gap, the BOJ core CPI (y-o-y change) excluding institutional factors (consumption tax hike, free education, GoTo Travel program) should remain negative. The core CPI (y-o-y change) is expected to remain around the lower half of the 0% range.

Outlook on the Japanese economy (major economic indicators)

		2019 FY	2020 (Outlook)	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	-10.2	9.4	0.4	-16.9	8.7	6.0	-0.1	1.6	1.7	1.8	1.7
Ordinary profits	Y-o-y % ch	-13.1	-28.2	23.5	-28.4	-46.6	-28.4	-17.8	-13.5	41.9	24.0	15.7	15.2
Nominal compensation of employees	Y-o-y % ch	2.0	-3.0	1.0	1.8	-2.3	-2.3	-5.0	-2.0	0.3	0.7	2.0	1.0
Unemployment rate	%	2.4	3.0	3.0	2.4	2.8	3.0	3.1	3.1	3.1	3.0	3.0	2.9
New housing starts	P.a., 10,000 units	88.4	79.3	77.1	86.3	80.0	82.1	80.8	75.8	77.4	76.8	77.9	78.1
Current account balance	P.a., JPY tril	20.1	16.8	17.9	19.8	7.9	16.0	23.3	20.2	18.8	18.9	18.7	16.8
Domestic corporate goods prices	Y-o-y % ch	0.1	-1.9	0.3	0.5	-2.2	-0.8	-3.1	-1.4	1.6	-0.5	0.1	-0.2
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-0.7	-2.6	-	-1.0	-3.8	-2.3	-	-	-	-	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	-0.5	0.2	0.6	-0.1	-0.2	-0.9	-0.7	-0.1	0.3	0.4	0.4
Consumer prices, ex fresh food (ex institutional factors)	Y-o-y % ch	0.5	-0.5	0.2	0.2	-0.5	-0.3	-0.4	-0.2	0.3	0.1	0.0	0.0
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.6	-0.3	-0.1	0.7	0.3	0.1	-0.7	-0.9	-0.7	0.0	0.2	0.2
Consumer prices, ex fresh food and energy (ex institutional factors)	Y-o-y % ch	0.5	-0.2	-0.2	0.5	0.2	0.1	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2

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. "Institutional factors" in consumer prices refer to the impacts of the consumption tax, free education, and the GoTo Travel program

Source: Made by MHRI based upon relevant statistics

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