

**Summary**

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# **FY2018, FY2019, FY2020 Economic Outlook**

**- The global economy is headed for a slowdown in 2020, and uncertainties remain high -**

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Mizuho Research Institute

## Key points of our forecast

- ❑ The global economy is headed for a slowdown in 2020. In 2019, the moderation of the IT cycle will also serve as a drag in addition to the deceleration of the Chinese and European economies. In 2020, while the Chinese economy will continue to follow a slowdown, the US economy will also moderate as the effect of fiscal stimulus wears off.
- ❑ The Japanese, Eurozone and Chinese economies are slowing down. Even though the US economy remains on solid footing and continues to decouple from the rest of the world, in 2019 the global economy may revisit the economic slowdown experienced during 2015 to 2016 in the event the US economy loses momentum.
- ❑ The sharp slowdown of the Chinese economy and semiconductor market resembles the situation in 2015 to 2016. Crude oil market trends and yen appreciation risks reflecting the receding prospects of US interest rate hikes must be watched closely.
- ❑ Monetary policy is turning accommodative around the world, reflecting the slower growth of the global economy. In addition to the US suspending its interest rate hikes, the Eurozone has also put off its interest rate hike. Although US fiscal policy is still expansionary, it could tighten in 2020 in the absence of additional fiscal expenditures.
- ❑ Among the risk factors are the escalation trade tensions, US domestic political discord, breakdown of Brexit negotiations, return of Italy's debt crisis, China's economic slowdown and its spread to emerging market (EM) economies, Middle East geopolitical risks and rise of crude oil prices.
- ❑ In FY2019 and FY2020, Japan's economic growth is forecast to remain below its potential growth rate and lack strength. The drags upon growth are the deceleration of exports In FY2019, and the adjustment of capital investment in FY2020.
- ❑ The Bank of Japan (BOJ) will keep the policy interest rate unchanged and will have little room for further monetary easing in the event of an economic downturn. While one option may be to push interest rates further into negative territory in the event of a sharp appreciation of the yen, the option is limited in consideration of its negative side effects.

## Overview of the global economy: the global economy will gradually slow down in 2020

### [ Outlook on the global economy ]

	(Y-o-y % change)						(Y-o-y % change)		(% point)	
	2015 Calendar year	2016	2017	2018	2019	2020	2018 (Forecast in Dec 2018)	2019	2018 (Breadth of change from forecast in Dec 2018)	2019
Total of forecast area	3.5	3.4	3.9	4.0	3.7	3.5	3.9	3.8	0.1	-0.1
Japan, US, Eurozone	2.4	1.6	2.2	2.2	1.8	1.4	2.2	2.0	-	-0.2
US	2.9	1.6	2.2	2.9	2.7	1.7	2.9	2.7	-	-
Eurozone	2.1	2.0	2.4	1.8	1.3	1.4	1.9	1.5	-0.1	-0.2
UK	2.3	1.8	1.8	1.4	1.3	1.5	-	-	-	-
Japan	1.2	0.6	1.9	0.7	0.5	0.5	0.7	1.0	-	-0.5
Asia	6.2	6.2	6.1	6.2	5.8	5.8	6.2	5.9	-	-0.1
China	6.9	6.7	6.8	6.6	6.2	6.1	6.6	6.2	-	-
NIEs	2.1	2.4	3.2	2.8	2.3	2.0	2.7	2.3	0.1	-
ASEAN5	4.9	4.9	5.3	5.2	5.0	4.8	5.2	5.0	-	-
India	7.6	7.9	6.2	7.5	7.2	7.2	7.5	7.2	-	-
Australia	2.5	2.8	2.4	3.1	2.5	2.3	3.1	2.5	-	-
Brazil	-3.5	-3.3	1.1	1.4	2.4	2.3	1.4	2.4	-	-
Mexico	3.3	2.9	2.1	2.0	1.8	1.7	2.2	2.2	-0.2	-0.4
Russia	-2.5	-0.3	1.6	2.3	1.3	1.7	1.6	1.3	0.7	-
Japan (FY)	1.3	0.9	1.9	0.5	0.6	0.5	0.7	0.7	-0.2	-0.1
Crude oil prices (WTI, USD/bbl)	49	43	51	65	56	54	65	68	-	-12

Note: The total of the forecast area is calculated upon the 2016 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: lacks strength

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- ❑ Japan's economic growth turned positive (1.4% q-o-q p.a.) for the first time in two quarters in the Oct-Dec quarter of 2018. However, in consideration of an expected rebound due to the fading impact of the natural disasters last summer, Japan's growth turned out to lack strength, falling short of recouping the dip in the Jul-Sep quarter of 2018. Despite the firmness of domestic demand, external demand served as a drag, reflecting the slowdown of China-bound exports, and public investment also contributed as negative pressures due to the decline of the rate of progress of public works projects.
- ❑ FY2019 forecast on Japan's GDP: +0.6% q-o-q p.a. Export growth turned out to be tepid, reflecting the slowdown of the Chinese economy and moderation of IT demand. Personal consumption is continuing to follow firm footing, reflecting strong labor market conditions. Although a temporary surge in consumption and subsequent reactionary decline should occur before and after the consumption tax hike, the decline of consumption through the fall of real income should turn out to be milder than the period from 2014 to 2015 due to the implementation of various income support measures.
- ❑ FY2020 forecast on Japan's GDP: +0.5% q-o-q p.a. Capital investment will moderate along with the gradual rise of adjustment pressures. Turning to construction investment, the reactionary decline will turn out to be benign, given the delay in progress of construction due to the shortage of construction workers.
- ❑ Turning to the risks, it will be necessary for the time being to keep a close eye upon the escalation of trade tensions. There are concerns that the rise of uncertainty would serve as downward pressures upon the Japanese economy through the decline of exports and capital investment.

## Japan: forecast on growth for FY2018 (+0.5), FY2019 (+0.6%), FY2020 (+0.5%)

### [ Outlook on the Japanese economy ]

		2017	2018	2019	2020	2018				2019				2020				2021
		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
GDP (real)	Q-o-q % ch	1.9	0.5	0.6	0.5	-0.2	0.6	-0.7	0.3	0.2	0.3	0.4	-0.5	0.3	0.2	0.2	0.2	0.1
	Q-o-q % ch p.a.	—	—	—	—	-0.9	2.2	-2.6	1.4	0.7	1.1	1.6	-2.0	1.2	0.8	0.9	0.7	0.5
Domestic demand	Q-o-q % ch	1.5	0.7	0.7	0.4	-0.3	0.7	-0.5	0.7	0.2	0.3	0.6	-0.9	0.3	0.3	0.2	0.2	0.2
Private sector demand	Q-o-q % ch	1.8	1.0	0.6	0.2	-0.4	0.9	-0.6	0.7	0.2	0.3	0.8	-1.5	0.2	0.4	0.2	0.1	0.2
Personal consumption	Q-o-q % ch	1.1	0.6	0.6	0.1	-0.2	0.6	-0.2	0.6	0.0	0.4	1.2	-2.0	0.4	0.3	0.1	0.1	0.3
Housing investment	Q-o-q % ch	-0.7	-4.4	-2.6	-8.3	-2.0	-2.0	0.5	1.1	0.6	1.0	-1.8	-4.5	-4.7	-2.4	-0.2	0.5	0.2
Capital investment	Q-o-q % ch	4.6	3.3	2.2	1.2	1.0	2.5	-2.7	2.4	0.2	0.4	1.0	0.5	0.4	0.4	0.5	-0.4	-0.3
Inventory investment	Q-o-q contribution, % pt	(0.1)	(-0.0)	(-0.2)	(0.1)	(-0.3)	(0.0)	(0.1)	(-0.2)	(0.1)	(-0.1)	(-0.1)	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Public sector demand	Q-o-q % ch	0.6	-0.1	1.2	1.1	0.0	-0.1	-0.3	0.4	0.2	0.3	0.1	0.7	0.4	-0.0	0.3	0.5	0.1
Government consumption	Q-o-q % ch	0.4	0.9	0.8	0.9	0.2	0.1	0.2	0.8	-0.3	0.3	0.3	0.1	0.1	0.3	0.2	0.3	0.3
Public investment	Q-o-q % ch	0.5	-3.4	2.8	1.9	-0.7	-0.6	-2.1	-1.2	2.0	0.6	-0.7	3.2	1.7	-1.3	0.4	1.1	-0.4
External demand	Q-o-q contribution, % pt	(0.4)	(-0.2)	(-0.2)	(0.2)	(0.1)	(-0.1)	(-0.1)	(-0.3)	(-0.0)	(-0.0)	(-0.2)	(0.4)	(0.0)	(-0.0)	(0.0)	(-0.0)	(-0.0)
Exports	Q-o-q % ch	6.4	1.9	1.4	1.5	0.4	0.4	-1.4	0.9	0.4	0.4	0.4	0.4	0.3	0.4	0.5	0.4	0.2
Imports	Q-o-q % ch	4.0	3.3	2.4	0.7	0.0	1.3	-0.7	2.7	0.4	0.7	1.7	-2.0	0.1	0.6	0.3	0.5	0.4
GDP (nominal)	Q-o-q % ch	2.0	0.4	1.7	1.4	-0.4	0.5	-0.6	0.3	0.6	0.7	0.5	0.0	0.5	0.9	0.2	-0.3	0.2
GDP deflator	Y-o-y % ch	0.1	-0.1	1.2	0.9	0.5	-0.1	-0.4	-0.3	0.4	0.9	0.9	1.4	1.3	1.4	1.4	0.5	0.2
Domestic demand deflator	Y-o-y % ch	0.6	0.5	0.6	0.6	0.9	0.5	0.6	0.5	0.4	0.4	0.3	0.8	0.9	1.1	0.8	0.3	0.3

Notes: Figures in the shaded areas are forecasts

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

## Japan: the CPI ex fresh food (y-o-y change) should gradually slow down

[ Outlook on the Japanese economy (major economic indicators) ]

		2017	2018	2019	2020	2018				2019				2020				2021
		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	2.9	1.0	0.6	0.4	-1.1	1.2	-1.3	1.9	-0.5	0.3	0.7	-0.8	-0.2	0.4	0.6	-0.3	0.2
Ordinary profits	Y-o-y % ch	6.9	5.8	0.9	0.6	0.2	17.9	2.2	1.0	0.6	-1.0	7.4	-1.1	-0.4	1.1	-0.4	0.2	1.3
Nominal compensation of employees	Y-o-y % ch	2.2	2.7	2.0	1.5	2.6	3.8	2.6	3.2	2.0	1.8	2.1	1.5	1.7	1.4	1.3	1.3	1.2
Unemployment rate	%	2.7	2.4	2.5	2.7	2.5	2.4	2.4	2.4	2.4	2.5	2.4	2.5	2.6	2.6	2.7	2.7	2.8
New housing starts	P.a., 10,000 units	94.6	96.0	89.8	84.9	89.7	96.6	95.3	95.5	97.6	97.2	91.3	86.7	83.8	84.5	84.9	85.0	85.2
Current account balance	P.a., JPY tril	21.8	18.7	14.4	18.0	18.7	22.1	17.2	16.8	18.2	16.2	12.6	15.5	16.2	17.5	18.6	18.6	18.9
Domestic corporate goods prices	Y-o-y % ch	2.7	2.0	1.0	1.1	2.5	2.4	3.0	2.3	0.4	-0.2	-1.0	2.3	2.5	1.8	2.0	0.3	0.5
Domestic corporate goods prices (ex consumption tax)	Y-o-y % ch	-	-	0.0	0.2	-	-	-	-	-	-	-	0.5	0.7	-0.1	0.1	-	-
Consumer prices, ex fresh food	Y-o-y % ch	0.7	0.8	0.7	0.8	0.9	0.7	0.9	0.9	0.7	0.5	0.4	0.9	1.0	1.2	1.0	0.5	0.5
Consumer prices, ex fresh food (ex consumption tax)	Y-o-y % ch	-	-	0.2	0.3	-	-	-	-	-	-	-	-0.1	0.0	0.1	0.0	0.4	-
Consumer prices, ex fresh food and energy	Y-o-y % ch	0.2	0.3	0.8	0.8	0.5	0.3	0.3	0.3	0.4	0.5	0.5	0.9	0.9	1.1	1.0	0.6	0.4
Consumer prices, ex fresh food and energy (ex consumption tax)	Y-o-y % ch	-	-	0.3	0.3	-	-	-	-	-	-	-	0.0	0.0	0.2	0.1	0.5	-
Uncollateralized overnight call rate	%	-0.06	-0.05	-0.05	-0.05	-0.06	-0.07	-0.06	-0.06	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.05	0.07	0.10	0.10	0.06	0.04	0.10	0.07	0.07	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Nikkei average	JPY	20,984	22,000	22,000	22,900	22,366	22,341	22,654	21,897	21,000	22,500	21,500	21,500	22,500	22,500	22,500	23,000	23,500
Exchange rate	USD/JPY	111	111	109	109	108	109	111	113	109	109	109	109	108	108	108	109	109
Crude oil price (WTI nearest term contract)	USD/bbl	54	63	55	55	63	68	69	59	54	57	56	55	54	53	54	55	56

- Notes: 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. Consumer prices (both including and excluding the impact of the consumption tax hike) reflect the impact of free pre-school education for the Oct-Dec quarter of 2019 and the Jan-Mar, Apr-Jun and Jul-Sep quarters of 2020  
3. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries basis) (ex finance & insurance)  
4. Nominal compensation of employees is based upon the renewed data of the *Monthly Labour Survey* by the Ministry of Health, Labour and Welfare.  
5. Of the finance-related indices, the uncollateralized overnight call rate refers to the rate at the end of term, 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

Sources: Made by MHRI based upon relevant statistics

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