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Despite the current year not living up to expectations, the 'triple merits' mean Japan could have greater than anticipated economic growth next year

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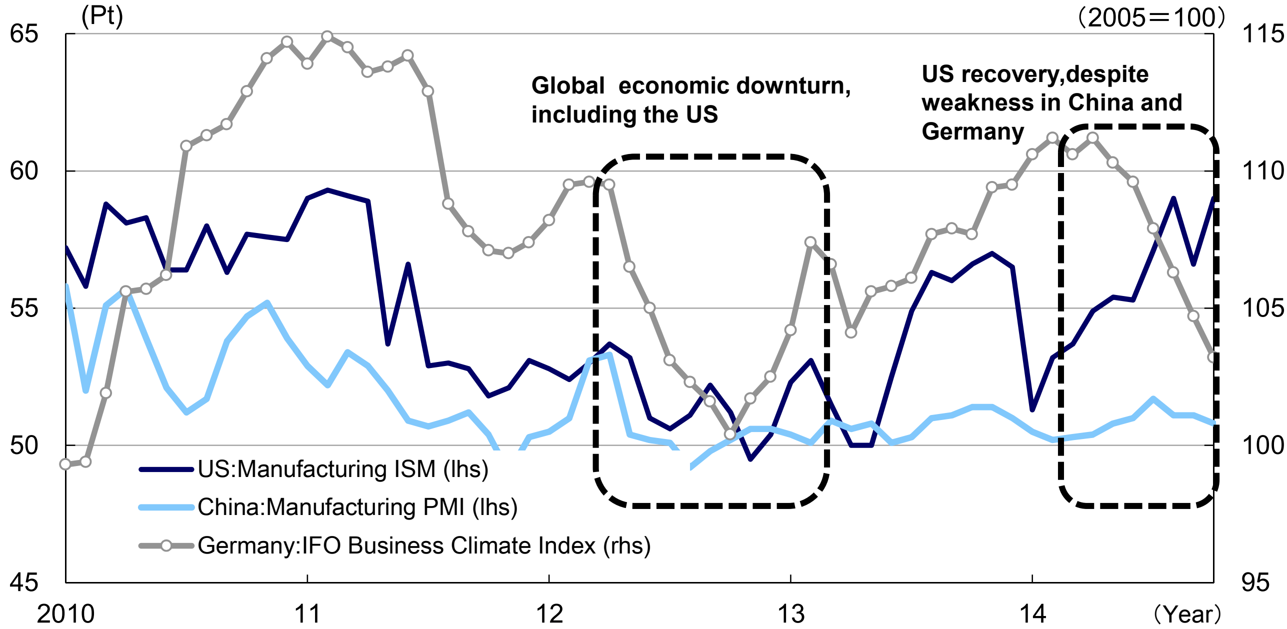
The downturn in global demand led to the release of the Brisbane Action Plan, which aimed to boost GDP by 2.1%, at the G20 Summit held in Brisbane on November 15 and 16. This indicates the extent to which there is downside risk caused by the recent lack of demand in the global economy. The Japanese economy has faced a period of ongoing adjustment since the beginning of the year, as well as a short-term economic downturn in reaction to the consumption tax hike. Comparison is often made with the previous economic downturn of 2012. Whereas there was a uniform slowdown for major countries in the US, China and Europe at the time as shown in Chart 1, the economy is currently underpinned by the strength in the US economy. The recovery in Europe has been disappointing with talk of 'Japanization' and growing concerns about deflation. There are also geopolitical uncertainties and ongoing concerns about developing countries that are weighing on the global economy. Nevertheless, there is not a worldwide 'major bottom', as there was in 2012. The situation was so serious in the latter half of 2012 that the US was forced to introduce QE3, and there is a symbolic difference now with the US ending QE3. In addition, although Japanese consumer sentiment is weak, there have been signs of recovery in production since September.

The recent economy has concealed concerns, and there is no change to the view that the moderate recovery scenario continues given the expectations of improvement in Japan and Europe and growth in the US. Moreover, the delay in the consumption tax hike could ironically provide an unexpected boost to the economy in FY2015. Furthermore, the substantial depreciation of the yen and stock market rise, triggered by the BOJ's additional easing on October 31, are likely to boost corporate profits. The decline in the price of crude oil will also provide an extra boost to corporate profits, which could be positive for small and medium-sized companies that tended to be negatively affected by a weak yen. While we anticipate a near term slump, momentum for improvement is likely in 2015. Ultimately, the 'triple merits' provided by (1) monetary easing, (2) fiscal expansion, and (3) a weak yen and lower crude oil prices have 'fired up' the economic stimulus measures. The 'sluggish economy' has simply been used as a pretext for political expediency, and could ultimately overstep the mark in terms of policy. For that reason alone, although long-term yields remain stable because of the BOJ's outright purchases of JGBs, we need to watch out for possible fluctuations due to concerns about a shift towards fiscal consolidation in 2015.

[Chart 1. Business sentiment indices in the US, China and Germany]



Source: Compiled by Mizuho Research Institute from US Institute for Supply Management, Germany's IFO Institute for Economic Research and China's National Bureau of Statistics materials

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