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REVISED
to reflect the
2nd QE for the
Apr-Jun Qtr
of 2017

FY2017, FY2018 Economic Outlook

- The Japanese economy is still following firm footing despite a downward revision of growth reflecting the *Second Preliminary Quarterly Estimates of GDP* -

September 8, 2017

Mizuho Research Institute

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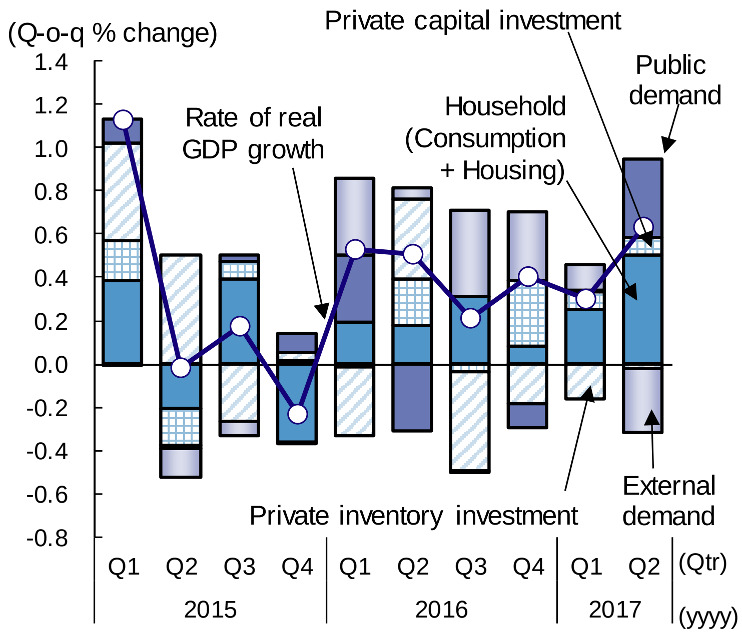
The Japanese economy: economic conditions are picking up reflecting the overseas economic expansion and firm domestic demand

- The *Second Preliminary Quarterly Estimates of GDP* ("*2nd QE*") for the Apr-Jun quarter of 2017 revealed a sharp downward revision of Japan's economic growth, mainly in capital investment, from the *First Preliminary Quarterly Estimates of GDP* ("*1st QE*"). Even so, given the strength of capital investment in the *1st QE*, the results were still relatively strong even after the downward revision. Our view remains unchanged that Japan's growth overall remained relatively strong due to a substantial rise of personal consumption and public investment.
- Economic conditions are picking up in FY2017. The recovery of overseas economies, the improvement of the domestic inventory cycle, the rise of capital investment related to the 2020 Tokyo Olympic Games and productivity improvement, and the implementation of public investment accompanying Japan's economic stimulus measures will serve to push up growth. Even though the rise of energy prices will serve as downward pressures upon personal consumption, the Japanese economy will continue to pick up due to new purchases of durable goods and wage hikes mainly among small and medium-sized enterprises. The pace of economic growth is forecast to rise to +1.5% in FY2017 from +1.3% in FY2016 (a downward revision of -0.2%pt from our *Economic Outlook* in August reflecting the *2nd QE* for the Apr-Jun quarter).
- In FY2018, domestic demand such as personal consumption should follow firm footing despite the slowdown of exports. FY2018 economic growth is projected to stand at +1.2% (unchanged from our *Economic Outlook* in August).
- Despite the alleviation of uncertainties regarding political and economic conditions overseas, it will be necessary to keep a close eye upon downside risks to the Chinese economy.
- The core inflation rate will rise temporarily to the upper half of the 0%-level, given a faster year-on-year rise of energy prices. On the other hand, the improvement of the underlying trend in inflation excluding the impact of energy prices will remain moderate.

1. Japan: overview of the 2nd *QE* for the Apr-Jun quarter of 2017
– relatively strong growth despite downward revision of capital investment

- The 2nd *QE* for the Apr-Jun quarter of 2017 revealed an downward revision of Japan's real GDP to +0.6% q-o-q (+2.5% p.a.) from the 1st *QE* (+4.0% p.a.).
  - Among the major items which were revised, public investment was revised upward while capital investment was revised down sharply.
  - Even so, given the strength of capital investment in the *1st QE*, the results were still relatively solid even after the downward revision. Our view remains unchanged that Japan's overall growth remained relatively strong due to the large increase of personal consumption and public investment.

[GDP in the Apr-Jun quarter of 2017 (2nd *QE*)]



Source: Made by MHRI based upon Cabinet Office, *National Accounts*

(Q-o-q % change)

	2016 Apr-Jun	Jul-Sep	Oct-Dec	2017 Jan-Mar	Apr-Jun	1st QE Apr-Jun
Gross domestic production	0.5	0.2	0.4	0.3	0.6	1.0
(Q-o-q change, p.a.)	2.0	0.9	1.6	1.2	2.5	4.0
(Y-o-y change)	0.9	1.1	1.7	1.5	1.4	2.0
Domestic demand	0.4	-0.2	0.1	0.2	0.9	1.3
	(0.4)	(-0.2)	(0.1)	(0.2)	(0.9)	(1.3)
Private demand	1.0	-0.2	0.3	0.2	0.8	1.3
	(0.8)	(-0.2)	(0.2)	(0.2)	(0.6)	(1.0)
Personal consumption	0.1	0.4	0.1	0.4	0.8	0.9
Housing investment	3.2	2.8	0.2	1.0	1.2	1.5
Capital investment	1.4	-0.3	2.0	0.5	0.5	2.4
Inventory investment	(0.4)	(-0.5)	(-0.2)	(-0.1)	(-0.0)	(0.0)
Public demand	-1.2	-0.0	-0.4	0.0	1.5	1.3
	(-0.3)	(-0.0)	(-0.1)	(0.0)	(0.4)	(0.3)
Government consumption	-1.3	0.2	0.0	-0.1	0.4	0.3
Public investment	-0.6	-0.9	-2.4	0.4	6.0	5.1
Net exports of goods & services	(0.1)	(0.4)	(0.3)	(0.1)	(-0.3)	(-0.3)
Exports	-0.9	2.1	3.1	1.9	-0.5	-0.5
Imports	-1.2	-0.2	1.4	1.3	1.4	1.4
Nominal GDP	0.2	-0.0	0.5	-0.1	0.7	1.1
GDP deflator (y-o-y change)	0.4	-0.1	-0.1	-0.8	-0.4	-0.4

Note: The figures in parentheses indicate the contributions to gross domestic production
Source: Made by MHRI based upon Cabinet Office, *National Accounts*

2. Japan: despite a slight downward revision of our outlook in view of the 2nd *QE*, our outlook remains unchanged that the economy is picking up

- FY2017 GDP forecast: revised downward to +1.5% from our forecast as of August (+1.7%). The main factor was the downshift of the *2nd QE* for the Apr-Jun quarter of 2017.
  - Our outlook remains unchanged that Japan's domestic and external demand will continue to pick up amid the gradual expansion of the overseas economies.
- FY2018 GDP forecast: +1.2% (unchanged from our *Economic Outlook* in August). Even though external demand will slow down, domestic demand should remain on firm footing.

[Outlook on the Japanese economy]

		2015	2016	2017	2018	2016		2017				2018				2019
		FY				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	1.3	1.3	1.5	1.2	0.2	0.4	0.3	0.6	0.2	0.3	0.4	0.3	0.3	0.3	0.3
	Q-o-q % ch p.a.	--	--	--	--	0.9	1.6	1.2	2.5	0.9	1.4	1.5	1.1	1.2	1.3	1.0
Domestic demand	Q-o-q % ch	1.2	0.5	1.4	1.3	-0.2	0.1	0.2	0.9	0.2	0.3	0.4	0.3	0.3	0.3	0.4
Private sector demand	Q-o-q % ch	1.2	0.8	1.5	1.4	-0.2	0.3	0.2	0.8	0.3	0.5	0.4	0.3	0.3	0.4	0.4
Personal consumption	Q-o-q % ch	0.6	0.7	1.5	1.0	0.4	0.1	0.4	0.8	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Housing investment	Q-o-q % ch	2.8	6.6	1.9	-1.6	2.8	0.2	1.0	1.2	-0.2	-0.8	-1.3	-0.2	-0.5	0.7	0.2
Capital investment	Q-o-q % ch	0.6	2.5	3.5	2.4	-0.3	2.0	0.5	0.5	1.2	1.0	0.8	0.5	0.4	0.3	0.3
Inventory investment	Q-o-q contribution, % pt	0.4	-0.4	-0.2	0.2	-0.5	-0.2	-0.2	-0.0	-0.0	0.2	0.1	-0.0	0.0	0.0	0.1
Public sector demand	Q-o-q % ch	1.2	-0.3	1.1	1.0	-0.0	-0.4	0.0	1.5	-0.1	-0.4	0.3	0.4	0.4	0.3	0.2
Government consumption	Q-o-q % ch	2.0	0.4	0.7	1.1	0.2	0.0	-0.1	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Public investment	Q-o-q % ch	-1.9	-3.2	2.9	0.5	-0.9	-2.4	0.4	6.0	-1.0	-2.4	0.3	0.8	0.9	0.3	0.0
External demand	Q-o-q contribution, % pt	0.1	0.8	0.1	-0.1	0.4	0.3	0.1	-0.3	0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.1
Exports	Q-o-q % ch	0.7	3.2	3.8	1.6	2.1	3.1	1.9	-0.5	0.6	0.7	0.3	0.3	0.4	0.3	0.2
Imports	Q-o-q % ch	0.2	-1.4	3.7	2.0	-0.2	1.4	1.3	1.4	0.4	0.6	0.4	0.6	0.5	0.4	0.8
GDP (nominal)	Q-o-q % ch	2.7	1.1	1.7	1.7	-0.0	0.5	-0.1	0.7	1.1	0.1	-0.1	0.5	1.1	0.2	0.0
GDP deflator	Y-o-y % ch	1.5	-0.2	0.3	0.4	-0.1	-0.1	-0.8	-0.4	0.7	0.3	0.4	0.4	0.3	0.4	0.5
Domestic demand deflator	Y-o-y % ch	0.0	-0.4	0.5	0.5	-0.8	-0.3	0.0	0.3	0.7	0.4	0.6	0.6	0.6	0.5	0.5

Notes: Figures in the shaded areas are forecasts
Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*

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Japan: the underlying trend of the CPI (ex food & energy) will remain around the lower half of the 0%-level

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

		FY 2015	FY 2016	FY 2017	FY 2018	2016 Jul-Sep	2016 Oct-Dec	2017 Jan-Mar	2017 Apr-Jun	2017 Jul-Sep	2017 Oct-Dec	2018 Jan-Mar	2018 Apr-Jun	2018 Jul-Sep	2018 Oct-Dec	2019 Jan-Mar
Industrial production	Q-o-q % ch	-0.9	1.1	4.4	1.7	1.6	1.8	0.2	2.1	0.4	0.8	0.6	0.5	0.3	0.2	0.2
Ordinary profits (Lower line: excludes impact of special factors)	Y-o-y % ch	4.9	10.0 (7.3)	9.7 (12.4)	2.7	11.5 (-5.8)	16.9	26.6	22.6	3.1 (15.6)	6.3	7.2	4.0	3.5	2.2	1.0
Nominal compensation of employees	Y-o-y % ch	1.5	2.0	1.9	1.9	2.3	2.2	1.0	2.1	1.9	2.1	1.7	2.0	1.9	2.1	1.7
Unemployment rate	%	3.3	3.0	2.8	2.8	3.0	3.1	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
New housing starts	P.a., 10,000 units	92.1	97.4	95.2	92.6	98.0	95.3	97.5	100.2	94.7	93.4	92.5	91.1	90.9	93.1	95.8
Current account balance	P.a., JPY tril	17.9	20.4	21.4	21.2	19.4	20.6	21.7	18.9	19.9	22.3	23.7	19.3	19.0	22.3	23.4
Domestic corporate goods prices	Y-o-y % ch	-3.3	-2.3	1.9	0.7	-3.8	-2.1	1.0	2.1	2.9	1.6	0.9	0.9	0.8	0.6	0.4
Consumer prices (ex fresh food)	Y-o-y % ch	-0.0	-0.2	0.7	0.7	-0.5	-0.3	0.2	0.4	0.7	0.8	0.8	0.7	0.7	0.7	0.6
Consumer prices (ex fresh food and energy)	Y-o-y % ch	0.9	0.3	0.3	0.5	0.4	0.2	0.1	0.0	0.2	0.4	0.5	0.5	0.5	0.4	0.4
Consumer prices (ex food (ex alcohol) and energy)	Y-o-y % ch	0.6	0.2	0.1	0.3	0.2	0.1	-0.1	-0.2	0.0	0.2	0.2	0.3	0.3	0.3	0.3
Uncollateralized overnight call rate	%	-0.00	-0.06	-0.05	-0.05	-0.06	-0.06	-0.06	-0.07	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05
Yield on newly-issued 10-yr JGBs	%	0.29	-0.05	0.05	0.05	-0.13	-0.01	0.07	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05
Nikkei average	JPY	18,841	17,520	20,100	20,700	16,497	17,933	19,241	19,503	19,833	20,333	20,600	20,800	21,000	20,600	20,300
Exchange rate	JPY/USD	120	108	112	113	102	110	114	111	111	112	114	115	113	112	111
Crude oil price (WTI nearest term contract)	USD/bbl	45	48	49	51	45	49	52	48	48	50	51	53	52	51	50

Notes: 1. Figures in the shaded areas are forecasts.The readings above may differ from public releases because the rates of change are calculated based upon actual results
2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries) (ex finance & insurance) . The figures in parentheses on the lower line excludes positive effects stemming from factors regarding holding companies in the Jul-Sep quarter of 2016
3. Quarterly data on the unemployment rate, new housing starts and current account balance are seasonally-adjusted
4. 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 Cabinet Office, *Preliminary Quarterly Estimates of GDP*, Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Quarterly*, Ministry of Internal Affairs and Communications, *Labour Force Survey, Consumer Price Index*, Ministry of Land, Infrastructure, Transport and Tourism, *Current Survey on Construction Statistics*, Bank of Japan, *Balance of Payments*, *Corporate Goods Price Index*, *Financial and Economic Statistics Monthly, Foreign Exchange Rates*, Japan Bond Trading Co., Ltd., *Latest Daily JGB Rates*, Nikkei Inc. and Bloomberg

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3. The global economy is recovering in 2017 and should continue to grow around at the same level in FY2018

- Although growth in the forecast area is predicted to follow an uptrend toward 2018, it will be necessary to keep a close eye upon China's economic slowdown and impact stemming from the ebb of the IT cycle.
  - Reflecting the newly-released revised GDP data for the Apr-Jun quarter of 2017, we have revised upward our forecast on the US, the Eurozone and Brazilian economies and have revised downward our forecasts on Japan and India.

[Outlook on the global economy]

Calendar year	2015 (Actual) (Y-o-y % change)	2016 (Actual)	2017 (Forecast)	2018 (Forecast)	2017 (Forecast in Aug) (Y-o-y % change)	2018 (Forecast in Aug)	2017 (Breadth of change from Aug) (% point)	2018 (Breadth of change from Aug)
Total of forecast area	3.5	3.4	3.8	3.8	3.8	3.8	-	-
Japan, US, Eurozone	2.3	1.5	2.1	1.9	2.0	1.9	0.1	-
US	2.9	1.5	2.2	2.2	2.1	2.2	0.1	-
Eurozone	2.0	1.8	2.2	1.8	2.0	1.8	0.2	-
Japan	1.1	1.0	1.4	1.4	1.7	1.2	-0.3	0.2
Asia	6.2	6.2	6.0	6.0	6.1	6.1	-0.1	-0.1
China	6.9	6.7	6.8	6.4	6.8	6.4	-	-
NIEs	2.0	2.3	2.6	2.4	2.6	2.4	-	-
ASEAN5	4.8	4.9	5.1	5.1	5.0	5.1	0.1	-
India	7.5	7.9	6.6	7.3	7.1	7.5	-0.5	-0.2
Australia	2.4	2.4	2.3	2.8	2.2	2.8	0.1	-
Brazil	-3.8	-3.6	0.6	1.9	0.5	1.9	0.1	-
Mexico	2.6	2.3	2.0	2.1	1.9	2.1	0.1	-
Russia	-2.8	-0.2	1.0	1.5	1.0	1.5	-	-
Japan (FY)	1.3	1.3	1.5	1.2	1.7	1.2	-0.2	-
Crude oil price (WTI, USD/bbl)	49	43	49	51	50	52	-1	-1

Note: The total of the forecast area is calculated upon the 2014 GDP share (PPP) by the IMF
Sources: Made by MHRI based upon International Monetary Fund (IMF) and statistics of relevant countries and regions

(Reference) Key political events

	2017		2018	
US	Oct	Start of FY2018	Feb	FRB Chair Yellen's term of office ends
			Nov	Mid-term election
Europe	Sep	Germany: Legistlative election	1H	Italy: General election
Japan			Apr	BOJ Governor Kuroda's term of office ends
			Sep	LDP Presidential election
			Around Dec	Lower House members' term of office end
			End of year	Abdication of the current Emperor, accession of the new Emperor(possibly March 2019)
Asia	October	China: 19th National Congress of the Communist Party of China	By May	Malaysia: Legislative election
			Autumn	China: 3rd Plenary Session of the CPC Central Committee
			By year end	Thailand: General election
Others			Mar	Russia: Presidential election
			Jul	Mexico: Presidential election
			Oct	Brazil: Presidential election

Source: Made by MHRI