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SA175 Short-Term Forecast (2018/7-9—2020/1-3)

Economic Expansion amid Uncertainty

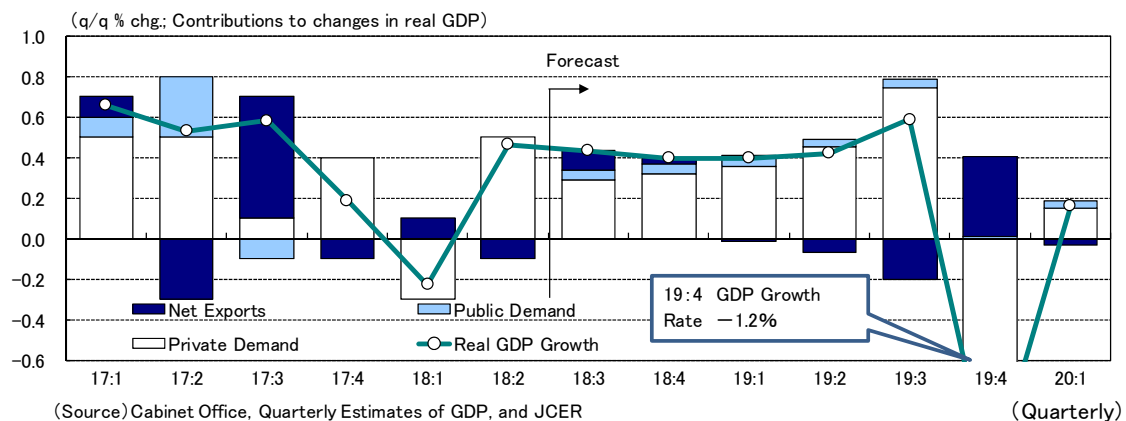
—Though Projections for Growth Rates are Unchanged, There is a Heightened Risk of Downturn—

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In the April-June quarter of 2018, Japan's real GDP growth rate was up 0.5% from the previous quarter, returning to positive growth for the first time in two quarters. There are no changes in an expanding trend driven by corporate sectors, spurred by overseas demand. Forecasts for the real growth rate suggest gradual economic growth, with estimates for 1.2% growth in FY2018, and 0.9% growth in FY2019. There are no changes to the previous forecast (SA174R). However, caution is required regarding the Japanese economy's precarious position given the lackluster state of domestic demand, which is centered on consumption by individuals. Further, there are increasing uncertainties about protectionist trade policies from the US and the currencies of emerging economies.

The global outlook remains unchanged from SA174R, which predicted that the global economic growth rate would gradually decelerate from 3.9% in 2018 to 3.6% in 2019. The US is anticipated to exceed its potential growth rate of around 2% (up 2.8% in 2018 and 2.5% in 2019), as a result of the economic stimulus from its expansionary fiscal policy. Although the Eurozone is expected to see gradually slowing growth, its relaxed financial environment should support economic recovery. Its growth will exceed the potential growth rate of around 1.5% (up 2.1% in 2018 and 1.9% in 2019). The UK is predicted to continue its sluggish economic growth (up 1.3% in 2018 and 1.5% in 2019), given uncertainties about the future stemming from Brexit. Although China will see slowing economic growth through FY2019, flexible fiscal and monetary policies are expected give way to continued stable growth (up 6.5% in 2018 and 6.2% in 2019). Newly industrializing economies (NIES) in Asia are expected to see modest growth in the region of 2.5-3% (up 2.9% in 2018 and 2.5% in 2019). The four key members of ASEAN (Indonesia, Thailand, Malaysia, and the Philippines) are expected to continue their growth in the region of 5% (up 5.2% in 2018 and 5% in 2019). [see Figure]



Spurred by firm growth in the global economy, the corporate sector in Japan will remain in good condition. Moderate, though decelerating, growth in exports and production is expected to continue. Overseas capital investment and automobile sales are robust, and related exports are on the rise. Although demand for smartphones is levelling off, the trend for growth in exports of information technology related goods is also expected to continue increasing, supported by demand for data centers and semiconductors for automobiles.

An increase in firms' capital investment is also anticipated. The Bank of Japan's June Tankan survey forecasts robust growth for capital investment plans (excluding land investment, but including software, firms of all sizes, and industries). At the time of the June survey, capital investment had seen the largest growth since statistics began being recorded in 2004. Growth in investment is anticipated to strengthen capabilities in new technologies, such as next-generation automobiles and IoT, as well as construction investment leading up to the Tokyo Olympics. Laborsaving investments to alleviate labor shortages are expected to gain more momentum. However, public-sector demand is expected to weaken as the impact of past economic policy wears off.

In contrast to the buoyant corporate sector, a lack of momentum will continue in the household sector. Uncertainties about future household finances and wage stagnation are suppressing individual consumption. It is possible that the lack of progress in fiscal consolidation, with delayed social security reforms, is causing uncertainty about the future. In addition, increases in base salaries for regular employees are failing to take hold, causing wage stagnation. Although the outlook for business operations is unclear, it is necessary for firms to secure the long-term employment of regular employees. Given this, firms are being cautious in raising base salaries, leading to the expectation that individual consumption will be limited. Since demand for tax saving related to inheritance tax has tapered off, residential investment is expected to be weak.

Consumer price inflation is slowing down. There have been few moves to offset the rise in resource prices and heightened labor costs for part-time workers in consumer prices.

Instead, many companies have absorbed the increased costs through working style reforms. Wage increases, including those for regular employees, are unlikely to take hold, and price increases will be sluggish.

As described above, Japan currently has weak domestic demand and there is little room to deal with it using fiscal and monetary policy. Risks from overseas, which have been increasing recently, need to be monitored. If these risks play out, the adverse effects could cause an economic downturn.

One risk from abroad is the international trade policy of the US government. There is likely to be a significant impact if the US goes through with the tariff hikes for Chinese products and automobiles that it is currently considering. The Japanese automobile industry, as well as those of Canada and Mexico, will take a particular blow if tariff rates for automobiles are increased. Japanese automakers supply parts and components to countries around the world. As a result, aside from the direct impact on exports to the US, indirect impacts from the supply chain will also affect results in the automobile industry.

Risks related to US monetary policy are also on the rise. Inflation in the US has reached 2% this year, and market participants anticipate policy rates will rise at a faster pace. In particular, rising interest rates in the US are causing capital outflows from emerging markets, and their currencies and stock prices are becoming susceptible to decline. Emerging countries with a vulnerable balance of payments, such as Argentina and Turkey, have already seen significant decreases in currencies and stock prices. The risk of this spreading to the entire market is a common source of concern.

The political situation in Europe is also a point of concern. The possibility has arisen that the UK's March 2019 departure from the EU will not go according to plan. For Brexit to proceed smoothly with a transitional period until the end of 2020, the UK needs to reach agreements with the EU on various matters, such as managing the border with Ireland and forming new economic relationships. If the UK departs from the EU without reaching such agreements, there will likely be disorder in trade and financial transactions. This year also saw the formation of a Eurosceptic administration in Italy. The new Italian administration has launched far-reaching fiscal policies, including moves to decrease taxes and guarantee a minimum income. This gives rise to fears of conflict with the EU, which demands strict fiscal discipline.

If these risks play out, it could affect Japan through trade and the financial markets. Conversely, if this can be overcome, there is the potential for the longest period of economic expansion post-war. Fiscal reform initiatives focusing on social security and labor market reforms, including an improvement of the system for regular and non-regular employment, are also important for increasing Japan's resilience against overseas risk.

Summary Table of the 175th Quarterly Forecast

四半期／年度／暦年 Quarter / Fiscal Year / Calendar Year	単位 Unit	Forecast																			
		2017				2018				2019				年度(FY) 2016 (実績) Actual	年度(FY) 2017 (実績) Actual	年度(FY) 2018 (予測) Forecast	年度(FY) 2019 (予測) Forecast	暦年(CY) 2016 (実績) Actual	暦年(CY) 2017 (実績) Actual	暦年(CY) 2018 (予測) Forecast	暦年(CY) 2019 (予測) Forecast
		4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3								
実質国内総支出 (2011暦年連鎖価格) Real GDE (Chained 2011 Yen)	前期比% ** 前年同期比% ****	0.5 1.6	0.6 2.0	0.2 2.0	-0.2 1.0	0.5 1.0	0.4 0.9	0.4 1.1	0.4 1.7	0.4 1.7	0.6 1.8	-1.2 0.2	0.2 -0.0	1.2 0.4	1.6 1.2	1.2 1.1	0.9 0.9	1.0 0.4	1.7 1.2	1.0 0.9	1.3 1.4
国内需要 Domestic Demand	寄与度%ポイント ++	0.8	0.0	0.3	-0.3	0.6	0.3	0.4	0.4	0.5	0.8	-1.6	0.2	0.4	1.2	1.1	0.9	0.4	1.2	0.9	1.4
民間最終消費支出 Private Consumption	前期比% **	0.8	-0.7	0.3	-0.2	0.7	0.3	0.2	0.4	0.7	1.2	-2.6	0.3	0.3	0.8	0.9	0.8	0.1	1.0	0.6	1.3
民間住宅投資 Private Residential Investment	前期比% **	1.3	-1.3	-3.0	-2.3	-2.7	0.3	1.0	1.6	1.8	0.4	-1.0	-2.1	6.2	-0.3	-5.1	2.8	5.7	2.7	-6.4	3.1
民間企業設備投資 Private Non-Residential Investment	前期比% **	0.5	1.2	0.8	0.5	1.3	0.8	0.7	0.5	0.3	0.5	0.2	0.2	1.2	3.1	3.4	1.7	0.6	2.9	3.4	2.2
公的固定資本形成 Public Investment	前期比% **	5.4	-2.9	-0.6	-0.4	-0.1	0.2	0.2	0.2	-0.0	-0.0	-0.6	0.0	0.9	1.4	-1.2	-0.1	-0.1	1.2	-1.0	0.2
外需 Net Exports of Goods & Services	寄与度%ポイント ++	-0.3	0.6	-0.1	0.1	-0.1	0.1	0.0	-0.0	-0.1	-0.2	0.4	-0.0	0.8	0.4	0.1	0.0	0.6	0.6	0.1	-0.0
財貨・サービスの輸出 Exports of Goods & Services	前期比% **	0.2	2.1	2.1	0.6	0.2	1.4	1.0	0.8	0.8	0.7	0.6	0.5	3.6	6.3	4.1	3.1	1.7	6.7	4.5	3.4
財貨・サービスの輸入 Imports of Goods & Services	前期比% **	1.9	-1.5	3.3	0.2	1.0	0.8	0.9	0.9	1.1	1.7	-1.6	0.6	-0.8	4.1	3.7	3.1	-1.6	3.4	3.8	3.5
名目国内総支出 GDE at Current Prices	前期比% ** 前年同期比% ****	0.8 1.2	0.8 2.1	0.3 2.0	-0.4 1.5	0.4 1.1	0.4 0.7	0.4 0.8	0.7 1.9	0.5 2.0	0.7 2.4	-0.3 1.7	0.5 1.4	1.0 1.0	1.7 1.7	1.1 1.1	1.9 1.9	1.2 1.2	1.5 1.5	1.0 1.0	2.0 2.0
鉱工業生産指数 Indices of Industrial Production	前期比% **	1.8	0.5	1.6	-1.3	1.2	-0.1	1.2	0.6	0.5	0.9	-1.2	-0.3	1.0	4.1	1.8	1.5	-0.1	4.4	1.6	2.3
企業物価指数 Corporate Goods Price Index	前年同期比% ****	2.1	2.8	3.3	2.5	2.6	3.0	1.2	1.2	1.2	1.2	3.1	3.1	-2.4	2.7	2.0	2.1	-3.5	2.3	2.3	1.7
消費者物価指数(生鮮食品除く) Consumer Price Index excl. Fresh Food	前年同期比% ****	0.4	0.6	0.9	0.9	0.7	0.9	0.9	1.1	1.1	1.1	2.0	2.0	-0.2	0.7	0.9	1.6	-0.3	0.5	0.9	1.3
名目雇員報酬 Compensation of Employees	前期比% ** 前年同期比% ****	0.6 2.2	0.8 2.2	0.4 1.9	1.4 3.1	1.5 4.3	-0.5 2.9	0.5 3.0	0.6 2.1	1.3 1.9	-0.4 2.1	0.7 2.3	0.9 2.6	2.4	2.3	3.0	2.2	2.7	1.9	3.3	2.1
完全失業率 Unemployment Rate	% *	2.9	2.8	2.7	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.4	2.4	3.0	2.7	2.4	2.4	3.1	2.8	2.4	2.4
新発10年国債流通利回り(店頭基準気配) 10-Year Government Bond Yield	%	0.041	0.047	0.049	0.059	0.041	0.080	0.100	0.100	0.100	0.100	0.100	0.100	-0.046	0.049	0.080	0.100	-0.051	0.052	0.070	0.100
日経平均株価 Nikkei Stock Average	円 / yen	19,520	19,873	22,182	22,334	22,348	22,373	22,453	22,520	22,533	22,550	22,656	22,662	17,519	20,961	22,423	22,600	16,920	20,209	22,377	22,565
IMFベース経常収支 Current Account Balance (IMF)	千億円/100 Billion yen* 名目GDP比% #	49.9 3.7	58.1 4.2	58.9 4.3	46.8 3.4	55.0 4.0	52.4 3.8	51.1 3.7	51.2 3.7	53.8 3.8	48.4 3.4	53.8 3.8	53.6 3.8	210.2 3.9	218.1 4.0	210.0 3.8	209.4 3.7	210.6 3.9	219.5 4.0	208.6 3.8	205.4 3.6
対ドル円レート Yen to US Dollar Exchange Rate	円/ドル yen / dollar	111.1	111.0	112.9	108.1	109.1	111.4	111.9	111.9	112.2	112.3	112.6	112.7	108.3	110.8	111.1	112.4	108.8	112.1	110.1	112.2
WTI原油価格 WTI Crude Oil Price	ドル/バレル dollar / barrel	48.2	48.2	55.3	62.9	67.9	68.1	65.8	64.6	63.6	63.3	63.3	63.3	47.9	53.6	66.6	63.4	43.5	50.9	66.2	63.7
米国実質国内総支出 U.S. Real GDP	前期比年率% ***	3.0	2.8	2.3	2.2	4.1	2.7	2.5	2.4	2.4	2.3	2.2	2.1	1.7	2.4	2.9	2.4	1.6	2.2	2.8	2.5
中国実質国内総支出 China Real GDP	前年同期比% ****	6.9	6.8	6.8	6.8	6.7	6.4	6.3	6.2	6.2	6.2	6.2	6.1	6.8	6.8	6.4	6.2	6.7	6.9	6.5	6.2

(注) 1. *季節調整値、**季節調整済み前期比
 2. ***季節調整済み前期比年率換算、****前年同期比
 3. # 名目GDP比
 4. ++ 前期比寄与度

[Note] 1. * Seasonally adjusted, ** Seasonally adjusted changes from the previous quarter
 2. *** Seasonally adjusted changes from the previous quarter in annual rate, **** Year-on-year percentage change
 3. # % of nominal GDP
 4. ++ Contributions to changes from the previous quarter