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*SA171 Short-Term Forecast (2017/7-9—2019/1-3)*

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## ***Can the Expansion Be Sustained?***

***— Projections Revised Upward, but Economy Still Short of Self-Sustaining Growth —***

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The economy is in a moderate expansionary phase, with GDP growing in real terms for the sixth consecutive quarter in April–June 2017. Exports declined for the first time in four quarters, but domestic consumption registered robust growth, rising an annualized 4.0% over the previous quarter. There are clear signs that between the second half of 2016 and the first half of 2017 the prime engine of growth has shifted from exports to domestic demand. And the fruits of the recent expansion appear, at long last, to be manifesting as greater spending at home.

Our projections going forward are for the moderate expansion to continue. We expect the Japanese economy to grow by 1.7% in real terms in fiscal 2017, buttressed by stronger growth in foreign markets and highly expansionary monetary and fiscal policies. The impact of fiscal stimulus will wear thin thereafter, but this should be offset by stepped up spending on redevelopment as the 2020 Tokyo Games approach and on automation technologies in the light of a growing labor shortage. Real growth in fiscal 2018 is likely to be 1.0%—slightly higher than the potential growth rate. That said, growth will continue to be driven mainly by exports and the corporate sector; the economy is not yet at the level of self-sustained growth powered by household consumption and other domestic-demand factors.

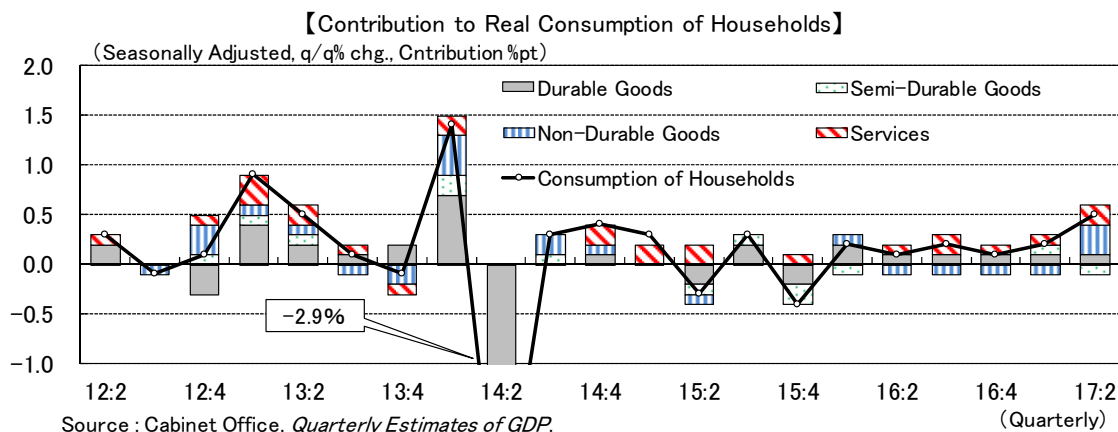
The global economy is on a firm uptrend, given the improvements in manufacturing worldwide and the recovery in international trade. The United States is projected to grow by over 2%—slightly higher than the potential growth rate—in spite of the Trump administration’s failure to achieve key policy objectives. The eurozone should continue to register steady, domestic-demand-led growth, although Britain may see a slowdown as Brexit negotiations drag on. China is expected to grow by 6.7% in 2017 with the 19th CPC National Congress coming up this fall, but the growth rate will fall in 2018 as excess debt is written off. The Asian NIES are projected to grow by around 2.5% in both 2017 and 2018, while the ASEAN 4 countries of Indonesia, Malaysia, the Philippines, and Thailand should expand by over 5% in both years.

These global trends will lead to higher Japanese exports. Other factors bolstering exports include improvements in the IT cycle worldwide—expanding demand for electronic parts and devices, as well as for semiconductor manufacturing equipment—and the anticipated weakening of the yen in currency markets. The saturation of the smartphone market, though, could blunt the rise in exports in fiscal 2018.

Looking at the domestic picture, capital expenditures are projected to sustain their moderate rise. Spending should grow to meet higher demand from inbound tourism; to promote urban redevelopment as Tokyo prepares to host the 2020 Games; to maintain and replace existing equipment; and to upgrade energy efficiency. Proactive investments on new software and R&D to bolster competitiveness should also increase. There is little room for automation or standardization, though, in such service sectors as restaurants, hotels, healthcare, and welfare, in spite of a labor shortage. Measures are thus needed to work around the shortage, such as by making greater use of new information technologies to improve labor productivity, as well as to create friendlier workplace environments for female and elderly workers and to broaden employment opportunities for foreign workers. The implementation of a large economic stimulus package will lead to higher government spending in fiscal 2017, but the impact of such expenditures will dissipate the following year. There are increasing delays in construction projects due to a lack of skilled workers, and this is heightening risks of a slowdown in public works.

As for the employment and income outlook, wages of part-time and other nonregular workers are rising as the labor market tightens, with unemployment dipping below 3%. The 2017 spring labor offensive resulted in a hike of just under 2%—including the annual pay rise—which is narrowly lower than last year. The fact that higher wages were seen in broader sectors of the economy, including at SMEs, is encouraging, but there is persisting anxiety about future prospects. With the domestic market unlikely to register robust growth, management appears reluctant to boost employee wages. Worker income is thus likely to grow only moderately going forward.

Personal consumption, meanwhile, expanded significantly during the April–June quarter. Sales of consumer durables continued to rise thanks to the market launch of new car models and to replacement buying. There was steady growth in services, and nondurables registered a big jump (see figure). Higher consumer spending is partly due to temporary factors like unseasonable weather. Absent the higher demand from replacement buying, the rise in household consumption will be moderate at best. Structural factors depressing spending include the increase in elderly, nonworking households, as well as higher social security payments and uncertainty about the future, encouraging penny-pinching behavior among working-age households.



Housing investment will continue to rise for the foreseeable future, with many home builders promoting the construction of rental units as a tax saving measure for those faced with high inheritance taxes. Home starts will gradually begin to decline, though, as the effectiveness of such measures wanes. Last-minute purchases before the scheduled consumption-tax hike in October 2019 should begin in the latter half of fiscal 2018. The vacancy rate of rental units in the metropolitan Tokyo area has been rising of late, suggesting that the supply of multiunit dwellings, including condominiums, may be far outpacing demand.

We anticipate prices to rise as the ongoing expansion improves the supply-and-demand gap. Some indices show that both households and companies expect prices to begin edging upward, but in the face of continuing price rigidity, core CPI will fall short of the 2% target, reaching only 0.8% in fiscal 2017 and 0.9% the following year.

External risks bear continued close watching, moreover. The US shift to a protectionist trade policy may spark similar trends in other countries around the world, which would have grave consequences for the global economy. A disruption in international financial market could emerge should the Fed normalize its monetary policy too quickly, as the emerging economies with substantial dollar-backed debts may have trouble paying off those debts in the face of rising interest rates and a stronger dollar. There is also a need to keep an eye on geopolitical risks, notably Pyongyang's nuclear development program.

Risks on the domestic front include the increasingly elusive goal of fiscal consolidation. Market trust could crumble should it deem the government to be squandering efforts to restore fiscal discipline, relying instead on economic growth to boost tax revenue. With the economy in an expansionary phase, now is the time to shift to a path of sustained and dynamic growth by reinforcing the growth trend and alleviating future uncertainties, thereby creating a virtuous cycle of growth, with its benefits shared more broadly throughout society.

# Summary Table of the 171<sup>th</sup> Quarterly Forecast

四半期／年度／暦年 Quarter / Fiscal Year / Calendar Year	単位 Unit	Forecast												2015 (実績)				2016 (実績)				2017 (予測)				2018 (予測)			
		2016				2017				2018				年度(FY) 2015 (実績)	年度(FY) 2016 (実績)	年度(FY) 2017 (予測)	年度(FY) 2018 (予測)	暦年(CY) 2015 (実績)	暦年(CY) 2016 (実績)	暦年(CY) 2017 (予測)	暦年(CY) 2018 (予測)	年度(FY) 2015 (実績)	年度(FY) 2016 (実績)	年度(FY) 2017 (予測)	年度(FY) 2018 (予測)				
		4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	Actual	Actual	Forecast	Forecast	Actual	Actual	Forecast	Forecast	Actual	Actual	Forecast	Forecast				
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% ****	0.3 0.9	0.3 1.1	0.4 1.7	0.4 1.5	1.0 2.0	0.1 1.9	0.1 1.5	0.2 1.4	0.4 0.8	0.2 0.9	0.2 1.1	0.3 1.1	1.3 1.3	1.3 1.7	1.0 1.0	1.1 1.0	1.0 0.7	1.0 0.4	1.7 1.4	1.1 1.4	1.1 1.1							
国内需要 Domestic Demand	寄与度%ポイント ++	0.3	-0.1	0.1	0.2	1.3	-0.0	0.1	0.2	0.4	0.2	0.3	0.3	1.2	0.5	1.6	1.0	0.7	0.4	1.4	1.1	1.1							
民間最終消費支出 Private Consumption	前期比% **	0.1	0.4	0.1	0.4	0.9	-0.2	0.0	0.2	0.3	0.3	0.4	0.4	0.6	0.7	1.2	1.0	-0.3	0.4	1.3	0.8	0.8							
民間住宅投資 Private Residential Investment	前期比% **	3.2	2.8	0.3	0.9	1.5	-0.6	-1.4	-1.2	-0.1	0.8	1.4	2.0	2.8	6.5	1.4	-0.0	-1.6	5.6	3.6	-1.5	-1.5							
民間企業設備投資 Private Non-Residential Investment	前期比% **	0.7	0.0	2.2	0.9	2.4	0.2	0.2	0.4	0.6	0.6	0.6	0.6	0.6	2.5	4.5	2.0	1.1	1.3	4.6	2.1	2.1							
公的固定資本形成 Public Investment	前期比% **	-0.8	-0.8	-2.5	0.6	5.1	0.6	0.4	0.6	1.2	-3.8	-3.4	-3.0	-1.9	-3.2	4.9	-3.2	-2.1	-3.0	2.3	0.6	0.6							
外需 Net Exports of Goods & Services	寄与度%ポイント ++	0.1	0.4	0.3	0.1	-0.3	0.1	-0.0	0.0	-0.0	0.0	-0.0	-0.0	0.1	0.8	0.1	0.0	0.4	0.6	0.3	-0.0	-0.0							
財貨・サービスの輸出 Exports of Goods & Services	前期比% **	-0.9	2.1	3.1	1.9	-0.5	1.2	0.4	0.5	0.6	0.7	0.7	0.7	0.7	3.2	4.4	2.5	2.9	1.2	5.6	2.3	2.3							
財貨・サービスの輸入 Imports of Goods & Services	前期比% **	-1.2	-0.2	1.4	1.3	1.4	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.2	-1.4	3.8	2.4	0.8	-2.3	3.4	2.4	2.4							
名目国内総支出 GDE at Current Prices	前期比% ** 前年同期比% ****	0.0 1.3	0.1 0.9	0.5 1.6	-0.0 0.7	1.1 1.6	0.0 1.7	0.3 1.4	0.4 1.9	0.4 1.2	0.3 1.4	0.4 1.6	0.5 1.6	2.7 1.1	1.1 1.7	1.4 1.4	3.2 3.2	1.3 1.3	1.3 1.3	1.5 1.5	1.9 1.9	1.9 1.9							
鉱工業生産指数 Indices of Industrial Production	前期比% **	0.3	1.6	1.8	0.2	2.1	0.8	0.1	0.2	0.5	0.4	0.4	0.4	-0.9	1.1	4.3	1.5	-1.2	-0.1	4.5	1.9	1.9							
企業物価指数 Corporate Goods Price Index	前年同期比% ****	-4.5	-3.8	-2.1	1.0	2.1	2.4	2.1	0.6	0.3	0.5	0.5	0.4	-3.3	-2.3	1.8	0.4	-2.3	-3.5	1.9	0.5	0.5							
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	-0.5	-0.3	0.2	0.4	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.0	-0.2	0.8	0.9	0.5	-0.3	0.6	0.9	0.9							
名目雇者報酬 Compensation of Employees	前期比% ** 前年同期比% ****	-0.1 2.2	0.7 2.3	0.3 2.2	0.1 1.0	0.6 1.7	0.4 1.4	0.5 1.7	0.5 2.1	0.4 1.9	0.4 1.9	0.3 1.7	0.2 1.3	1.5 3.3	2.0 3.0	1.7 2.8	1.7 2.7	1.3 3.4	2.3 3.1	1.5 2.9	1.9 2.8	1.9 2.8							
完全失業率 Unemployment Rate	% *	3.2	3.0	3.1	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.7	2.7	3.3	3.0	2.8	2.7	3.4	3.1	2.9	2.8	2.8							
新発10年国債流通利回り(店頭基準気配) 10-Year Government Bond Yield	%	-0.121	-0.128	-0.005	0.072	0.041	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.288	-0.046	0.048	0.050	0.360	-0.051	0.053	0.050	0.050							
日経平均株価 Nikkei Stock Average	円 / yen	16,394	16,500	17,952	19,245	19,520	19,657	19,729	19,798	19,853	19,892	19,908	19,927	18,855	17,519	19,676	19,895	19,204	16,920	19,538	19,863	19,863							
IMFベース経常収支 Current Account Balance (IMF)	千億円/100 Billion yen* 名目GDP比% #	47.4 3.5	48.6 3.6	51.5 3.8	54.2 4.0	47.3 3.5	50.3 3.7	51.7 3.8	50.5 3.7	51.2 3.7	50.9 3.7	50.8 3.7	50.5 3.6	178.6 3.4	203.8 3.8	202.4 3.7	203.3 3.7	162.4 3.1	203.4 3.8	203.5 3.7	203.8 3.7	203.8 3.7							
対ドル円レート Yen to US Dollar Exchange Rate	円／ドル yen / dollar	108.0	102.4	109.5	113.6	111.1	111.0	111.0	111.0	111.8	112.5	113.3	114.0	120.1	108.3	111.0	112.9	121.1	108.8	111.7	112.1	112.1							
WTI原油価格 WTI Crude Oil Price	ドル／バレル dollar / barrel	45.6	44.9	49.3	51.8	48.2	48.5	49.4	50.2	50.9	51.7	52.4	53.3	45.1	47.9	49.1	52.1	48.8	43.5	49.5	51.3	51.3							
米国実質国内総支出 U.S. Real GDP	前期比年率% ***	2.2	2.8	1.8	1.2	2.6	2.5	2.3	2.0	2.2	2.2	2.2	2.2	2.3	1.6	2.1	2.1	2.9	1.5	2.1	2.2	2.2							
中国実質国内総支出 China Real GDP	前年同期比% ****	6.7	6.7	6.8	6.9	6.9	6.6	6.3	6.3	6.2	6.2	6.1	6.0	6.9	6.8	6.5	6.1	6.9	6.7	6.7	6.2	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