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SA173 Short-Term Forecast (2018/1-3—2020/1-3)

Japan on Course to Log Its Longest Postwar Boom

— Basic Trajectory Remains Unchanged; Projections Revised Slightly Upward —

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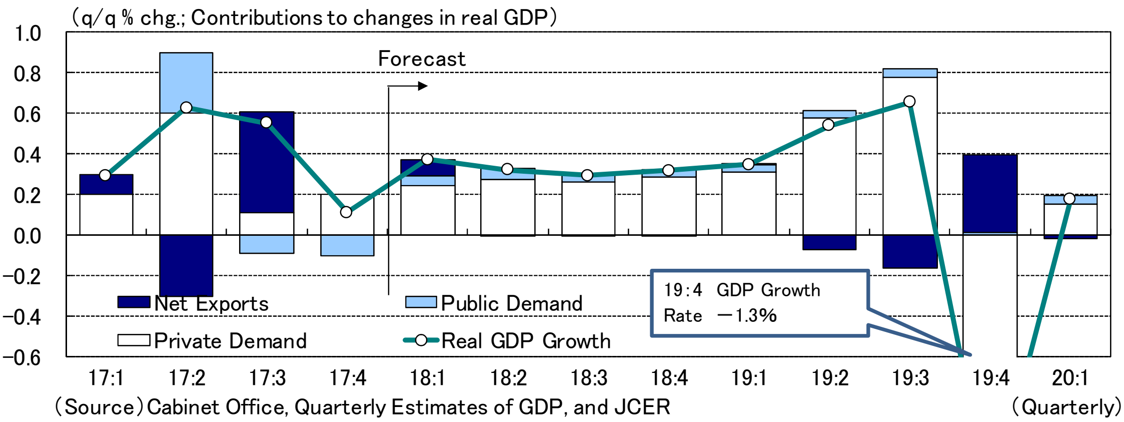
Japan's real GDP expanded for the eighth consecutive quarter in October–December 2017, rising 0.1% over the previous quarter, or an annual rate of 0.5%. While a surge in imports slowed the pace of growth—which had exceeded 2% annually in the two previous quarters—the economy, on the whole, is being buoyed by balanced growth in both domestic and external demand. The current expansion, which began in December 2012, is thought to have surpassed the Izanagi boom of 1965–1970 to become the second longest in Japan's postwar history.

The boom will likely continue on the strength of a robust global economy. We project 1.7% growth in fiscal 2017 and 1.3% in fiscal 2018—both well above Japan's potential growth rate of around 1%. The growth rate is likely to ease to 0.9% in fiscal 2019 as Olympics-related demand peaks and the consumption tax is hiked to 10%, but there should be no change in the overall expansionary trend. We do not foresee the expansion hitting a snag as long as there are no major external shocks, such as panic in the international financial market or an abrupt deterioration in global economic conditions. By January 2019, the current recovery phase is likely to emerge as the longest in Japan's postwar history [see figure].



（Source）Cabinet Office, Quarterly Estimates of GDP, and JCER

Many foreign economies are now experiencing a strong, simultaneous recovery. That said, the impact of the Trump administration's tax overhaul centered on massive tax cuts may be limited, as the US economy—now virtually at full employment—could start to overheat. We expect the US growth rate to hover close to 3% during 2018 and ease to just above 2% in the second half of 2019. The eurozone should see steady growth of 2.2% in 2018 and 1.8% in 2019, with a lax monetary policy driving domestic demand. Britain, meanwhile, is projected to decelerate to 1.5% in both 2018 and 2019 as Brexit talks stall. China will be hard pressed to meet its targets to both double its 2010 GDP and achieve a "moderately prosperous society" by 2020, but it is nonetheless expected to continue expanding by more than 6% in 2018 (6.4%) and 2019 (6.2%). We expect the Asian NIEs to grow by 2.8% in 2018 and 2.5% in 2019 and the ASEAN Four (Indonesia, Malaysia, the Philippines, and Thailand) to maintain around 5% growth through 2019.

As for the domestic outlook, we anticipate exports and production to keep rising thanks to strong growth in foreign markets. Leading the uptrend will be capital goods—a sector in which Japan enjoys a comparative advantage—as well as smartphones, data centers, and on-vehicle electronic components and devices. There has been a steady rise in the number of foreign visitors to the country, and this has pushed up Japan's service exports.

Corporate capital expenditures will remain strong, registering steady growth in fiscal 2017 and stay bullish the following year as severe worker shortages trigger investment for automation equipment. Businesses are also likely to spend more on intangible assets like software and R&D to boost competitiveness, and construction investment will step up as Tokyo prepares to host the 2020 Olympic Games. External factors could impact negatively on capital spending from fiscal 2019, though, as Olympics-related demand peaks and capital stock accumulates over the prolonged expansion. Public capital formation is projected to rise by 1.4% fiscal 2017, thanks to an earlier, large-scale fiscal stimulus package. The trend could weaken slightly from fiscal 2018 despite fresh spending—including a fiscal 2017 supplementary budget, public works projects in the fiscal 2018 budget, and additional infrastructure investment through fiscal 2020 under the government's "productivity revolution" policy package.

For the economy to shift to domestic-demand-led growth in the face of improved corporate earnings, the benefits must trickle down to the household sector. Prospects are not altogether bright here, though, as wage hikes are likely to remain limited, despite strong social and political pressure. The 2018 labor offensive should result in higher wages, including at SMEs, but much of the increase will come from annual pay hikes and bonuses; a raise in base wages, which is critical to boosting consumption, will remain marginal as management hopes to avoid driving up fixed costs. Wage hikes are likely to fall short of the 3% target outlined by the government, and growth in household income will be lackluster.

Personal consumption will consequently rise only moderately, reflecting the sluggish growth in household income. Future anxieties are prompting many—particularly the younger generation—to put their earnings into savings, and higher tax and social security burdens will further dampen spending. That said, the consumption tax hike scheduled for October 2019 is not expected to have the devastating impact of the previous hike in April 2014. The margin of the increase is smaller this time, and there will be reduced rates for foodstuffs and newspapers. We believe that the higher tax will push down GPD growth in fiscal 2019 by only around 0.2 percentage points—small enough to allow the current expansion to continue.

Housing investment will remain weak through the first half of fiscal 2018 as the building of rental units to avoid a higher inheritance tax will subside and as the total number of households declines. There should be last-minute purchases between the second half of fiscal 2018 and the first half of fiscal 2019 in anticipation of the consumption tax hike, after which investments will decline. As with personal consumption, though, we project the negative consequences of the upcoming tax hike to be smaller than in 2014.

The government prioritizes four indices in judging whether deflation has ended. The demand-supply gap is positive and rising, and the core CPI will hover stably around 1% going forward, although still short of the BOJ's 2% target. Both the GDP deflator and unit labor costs are on an upward trajectory. Given the ongoing expansion, an announcement by the government that deflation is over could be made by early 2019, although such a decision will rest on political considerations.

External developments present a number of major risks, particularly North Korea's nuclear weapons and missile development program. Should Washington unilaterally take military action against Pyongyang or turn against Beijing by imposing sanctions on starting a trade war, the Asia-Pacific supply chain would become seriously disrupted, leading to adverse consequences for the global economy. Caution would also be advised should an expansionary fiscal policy cause the US economy to overheat and lift inflation above 2%. If the Fed rushes to raise interest rates, thereby triggering a jump in long-term lending rates, the consequence would be a recession not only in the US but markets around the world, resulting in massive outflows of capital from emerging economies with dollar-denominated debts. Continued vigilance is also required against protectionist tendencies in the United States, the destabilization of the Middle East, and the problems surrounding China's excess corporate debt.

We see few immediate risks in Japan, as the economy and financial system are relatively sound and well balanced. The risks are longer term, given the continued aging and dwindling of the population.

In the light of Japan's demographic challenges, measures that discourage women and seniors from taking on gainful employment need to be promptly revised. The government should also begin studying the idea of easing restrictions on immigration. Labor productivity should be bolstered through workstyle reforms and programs for human resources development and worker training. And a virtuous cycle of growth need to be enhanced with sustained, higher wages fueling expanded consumer spending. The government must reform its tax and social security systems to balance burdens and benefits, achieving sustainability and alleviating future anxieties. With the economy in an expansionary phase, now is the time for bold action.

Summary Table of the 173rd Quarterly Forecast

予測 → Forecast

四半期／年度／暦年 Quarter / Fiscal Year / Calendar Year	単位 Unit	2017				2018				2019				年度(FY) 2016 (実績) Actual	年度(FY) 2017 (予測) Forecast	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% **	0.6	0.6	0.1	0.4	0.3	0.3	0.3	0.3	0.5	0.7	-1.3	0.2	1.2	1.7	1.3	0.9	0.9	1.6	1.4	1.2
	前年同期比% ****	1.5	1.9	1.5	1.7	1.4	1.1	1.3	1.3	1.5	1.9	0.2	0.0								
国内需要 Domestic Demand	寄与度%ポイント ++	0.9	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.6	0.8	-1.7	0.2	0.4	1.3	1.1	0.9	0.4	1.0	1.1	1.3
民間最終消費支出 Private Consumption	前期比% **	0.9	-0.6	0.5	0.3	0.3	0.3	0.3	0.4	0.8	1.2	-3.0	0.3	0.3	1.1	1.1	0.8	0.1	1.1	1.0	1.3
民間住宅投資 Private Residential Investment	前期比% **	0.9	-1.5	-2.7	-0.2	-0.2	-0.1	1.1	1.5	1.7	0.6	-1.1	-1.7	6.2	0.3	-1.2	2.8	5.6	2.7	-2.7	3.5
民間企業設備投資 Private Non-Residential Investment	前期比% **	1.2	1.0	0.7	0.8	0.7	0.7	0.6	0.5	0.4	0.6	0.1	0.3	1.2	3.3	2.8	1.8	0.6	2.8	3.1	2.1
公的固定資本形成 Public Investment	前期比% **	4.7	-2.6	-0.5	0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-0.1	0.9	1.4	-1.2	-0.6	-0.1	1.0	-0.7	-0.6
外需 Net Exports of Goods & Services	寄与度%ポイント ++	-0.3	0.5	-0.0	0.1	-0.0	-0.0	-0.0	0.0	-0.1	-0.2	0.4	-0.0	0.8	0.4	0.1	-0.0	0.6	0.5	0.2	-0.0
財貨・サービスの輸出 Exports of Goods & Services	前期比% **	0.0	2.1	2.4	1.3	1.0	1.0	0.9	0.9	0.8	0.7	0.6	0.6	3.4	6.7	5.2	3.2	1.3	6.8	5.7	3.4
財貨・サービスの輸入 Imports of Goods & Services	前期比% **	1.9	-1.2	2.9	0.8	1.0	1.0	0.9	0.9	1.2	1.6	-1.5	0.7	-1.0	4.3	4.2	3.2	-1.9	3.6	4.4	3.7
名目国内総支出 GDE at Current Prices	前期比% **	0.9	0.6	-0.0	0.4	0.7	0.1	0.3	0.7	0.9	0.6	-0.0	0.6	1.0	1.7	1.6	2.2	1.2	1.4	1.6	2.1
	前年同期比% ****	1.2	2.1	1.6	2.0	1.8	1.2	1.6	1.8	2.0	2.5	2.1	2.1								
鉱工業生産指数 Indices of Industrial Production	前期比% **	2.1	0.4	1.8	0.6	0.7	0.7	0.7	0.6	0.6	0.5	0.4	0.3	1.1	4.9	3.2	2.3	-0.1	4.5	3.7	2.5
企業物価指数 Corporate Goods Price Index	前年同期比% ****	2.1	2.9	3.4	2.3	2.0	1.7	1.0	0.7	0.8	0.9	2.9	3.2	-2.3	2.7	1.3	1.9	-3.5	2.4	1.7	1.3
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	1.0	0.9	0.9	0.9	1.1	1.1	1.2	2.1	2.4	-0.2	0.8	1.0	1.7	-0.3	0.5	0.9	1.4
名目雇用者報酬 Compensation of Employees	前期比% **	1.1	0.5	0.2	-0.1	1.6	0.6	0.3	-0.2	1.5	0.7	0.5	-0.3	2.4	2.0	2.2	2.2	2.7	1.9	2.1	2.2
	前年同期比% ****	2.2	2.2	1.9	1.7	2.2	2.2	2.3	2.2	2.1	2.2	2.4	2.3								
完全失業率 Unemployment Rate	% *	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.6	3.0	2.8	2.7	2.6	3.1	2.8	2.7	2.6
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	0.070	0.100	0.100	0.100	0.100	0.200	0.200	0.200	0.200	-0.046	0.052	0.100	0.200	-0.051	0.052	0.092	0.175
日経平均株価 Nikkei Stock Average	円 / yen	19,520	19,873	22,182	22,463	22,531	22,613	22,710	22,810	22,880	22,977	23,076	23,161	17,519	21,010	22,666	23,024	16,920	20,209	22,579	22,936
IMFベース経常収支 Current Account Balance (IMF)	千億円/100 Billion yen*	47.7	61.8	56.2	49.2	51.9	52.1	52.6	52.8	52.4	46.3	53.3	53.6	203.8	214.9	209.7	205.5	203.4	218.7	209.6	203.7
	名目GDP比% *#	3.5	4.5	4.1	3.6	3.7	3.7	3.8	3.8	3.7	3.3	3.7	3.7	3.8	3.9	3.8	3.6	3.8	4.0	3.8	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	110.2	110.7	110.9	112.4	112.7	112.8	113.0	113.2	113.5	108.3	111.3	111.7	113.1	108.8	112.1	111.1	112.9
WTI原油価格 WTI Crude Oil Price	ドル／バレル dollar / barrel	48.2	48.2	55.3	62.6	60.9	61.0	61.0	61.2	61.3	61.6	61.8	62.0	47.9	53.6	61.0	61.7	43.5	50.9	61.4	61.5
米国実質国内総支出 U.S. Real GDP	前期比年率% ***	3.1	3.2	2.6	2.2	2.7	2.6	2.4	2.1	2.3	2.2	2.1	2.0	1.6	2.4	2.5	2.2	1.5	2.3	2.6	2.3
中国実質国内総支出 China Real GDP	前年同期比% ****	6.9	6.8	6.8	6.7	6.4	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.8	6.8	6.3	6.2	6.7	6.9	6.4	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