

## World Economic Outlook

### World economy continues to recover despite uncertainties

#### —Persistent fragility in domestic demand making growth acceleration difficult—

#### Overview

- ◆ Despite persistent uncertainties with regard to politics and policies, the world economy continues to recover throughout all regions. The global money flow is also performing fairly calmly.
- ◆ Looking ahead to the future, it seems that crude oil prices, which have a significant effect on the world economy, may have re-entered a low price phase, judging from supply and demand factors. While crude oil consuming countries continue to enjoy low inflation rates, crude oil producing countries are expected to experience protracted economic stagnation.
- ◆ The industrialized economies are expected to be able to maintain their recovery trends, supported by improved domestic and foreign demand. Nevertheless, there is variation among individual countries. The economic growth rate is accelerating in the US, where personal consumption has strong powers of recovery and fiscal expenditure is expected to increase. In Japan and the Euro Area, also, the pace of growth is in excess of the potential growth rates. On the other hand, the UK is experiencing a slower pace of growth as the negative effects of Brexit begin to intensify. In terms of monetary policy also, the normalization of US monetary policies is progressing, which will likely set a strong tone for the dollar for the time being.
- ◆ The emerging economies are also enjoying strong recovery, with domestic demand playing the role of growth driver as households' purchasing power increases and infrastructure demand grows strongly. In China too, where there have been concerns over economic deceleration, steady growth controlled by the authorities is expected to continue. However, there is a possibility that IT demand, which has tended to expand recently, will hit a growth peak along the way.
- ◆ As both the industrialized economies and the new emerging economies are en route to recovery, the global economy is also trending towards a stronger growth rate. Nevertheless, in comparison with the previous prediction (December, 2016), the growth rate has been revised slightly downwards,

reflecting the slow progress of the Trump administration.

- ◆ Also, given the fragility of the strength of recovery in domestic demand in many countries, the pace of growth is a bit slower than it was in the 2000s. Part of the background to this has been the failure of the income environment to improve, due to increased employment in lower paid industries, such as services, and a decline in labor productivity. Factors such as uncertainty over the future and declining expected rates of return have blunted appetites for plant and equipment investment. Also, adjustment pressure on Chinese over-investment has been another drag on the global economy.
- ◆ Risk factors include excess money accumulating principally in the industrialized economies. Capital shows a tendency to avoid fund management difficulties and flow towards real estate markets, with signs of an impending housing price bubble in some countries. In addition, there is a possibility that these will also become factors in the disruption of the international money flow.

Overview of the World Economic Outlook  
<Real GDP Growth Rate and Forecast>

	(Year, %)			
	2015 (Actual)	2016 (Actual)	2017 (Forecast)	2018 (Forecast)
World	3.3	3.1	3.4	3.6
Advanced Economies	2.1	1.7	1.9	2.0
United States	2.6	1.6	2.1	2.5
Euro Area	2.0	1.8	1.9	1.6
United Kingdom	2.2	1.8	1.4	1.3
Japan	1.0	0.9	1.4	1.1
Emerging Market and Developing Economies	4.1	4.0	4.4	4.6
BRICs	5.1	5.1	5.7	5.7
China	6.9	6.7	6.7	6.4
India	7.9	6.8	7.2	7.2
NIEs	2.0	2.3	2.3	2.5
ASEAN5	4.9	4.9	5.1	5.1

Notes 1: World is composed of 192 countries. Advanced Economies is composed of 35 countries: United States, Euro Area (19 countries), Japan, Australia, Canada, Czech Republic, Denmark, Iceland, Israel, Macao SAR, New Zealand, Norway, Puerto Rico, San Marino, Sweden, Switzerland, and United Kingdom. Emerging Market and Developing Economies includes other countries.

Notes 2: World and Regional growth rates are calculated by purchasing power parity.

Notes 3: India's data and forecasts are presented on a fiscal year basis (from Apr to Mar).

Source: IMF, and statistics of individual countries and areas

## **Main points of Japanese economic outlook**

- ◆ The Japanese economy is on a recovery trend. Against the backdrop of an increase in exports, corporate production activity is robust, and construction investment also is continuing solidly. On the other hand, the pace of growth in personal consumption is moderate in comparison with past phases of economic expansion. In looking ahead to the future of the economy, three important points are 1) the sustainability of increased export growth, 2) the direction of robust construction investment, and 3) the power of recovery of personal consumption.
- ◆ As part of the reason behind the increase in export growth, the recovery of global demand for electronic parts and devices as well as capital goods, in which Japan has competitive strength, can be pointed out. In the future, growing demand for semiconductors in the mid to long term, principally for Cloud computing and IoT, and an improvement in the global appetite for plant and equipment investment, will have the effect of supporting export growth. Further, new “earning power” has emerged, such as increased revenues from intellectual property royalties, which grow as Japanese firms expand their operations abroad, and increased exports of cosmetics and pharmaceuticals, which are the frequent purchases of visitors to Japan.
- ◆ As for construction investment, the building of new accommodation facilities accompanying the increase in visitors to Japan, the construction of logistics facilities in response to the spread of e-commerce, and the re-development of inner-city office buildings, will be the drivers of growth. Further, public works investments are expected to convert to faster growth, sooner or later, encouraged by the implementation of the second fiscal 2016 supplementary budget and the full-scale commencement of Olympics related construction work.
- ◆ Incomes, which are the source of personal consumption growth, are expected to improve. In particular, as the labor shortage becomes more acute, there are signs of increasing upward pressure on wages. As the active opening ratio for regular employees almost doubles, wages are increasing markedly among workers changing jobs where the state of the labor supply and demand is reflected quickly, and in industries such as transportation in which labor shortages are becoming serious. As the labor shortage spreads, it is anticipated that upward pressure on wages will intensify in various industries and job types.
- ◆ Nevertheless, there is only faint expectation of a full recovery in personal consumption growth. An increased burden of social security payments continues to exert downward pressure on household disposable incomes. In addition, while consumer prices convert to positive growth, “macro-economic indexing”, which controls pension payment increases in line with the rise in prices, is exerting downward pressure on the purchasing power of households receiving pensions. In younger households, the burden of housing loan repayments due to soaring housing prices is a heavy weight on consumption activity.
- ◆ Based on the foregoing analyses, Japan’s economy will continue to grow in the 1% range, for the time being, due to solid domestic and foreign demand. However, the persistent fragility of personal consumption means that there can be no expectation of the kind of full-scale recovery that would realize an economic scale of 600 trillion yen. In order to further strengthen the virtuous cycle mechanism and ensure economic recovery and an escape from deflation, it is indispensable to

enhance the driving power of personal consumption for the economy by way of, for instance, reviewing the burden of social security and strengthening the earning power of the elderly.

### Projections for GDP Growth and Main Indicators of Japan

	(seasonally adjusted, annualised % changes from the previous quarter)										(% changes from the previous fiscal year)			
	CY2016		CY2017				CY2018				CY2019	FY2016	FY2017	FY2018
	10~12 (Actual)	1~3 (Actual)	4~6 (Projection)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	4~6 (Projection)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	(Actual)	(Projection)	(Projection)	
Real GDP	1.4	1.0	2.1	1.5	1.1	0.9	0.9	1.2	1.3	1.2	1.2	1.4	1.1	
Private Consumption Expenditure	0.1	1.1	0.6	0.7	0.8	0.8	0.7	0.7	0.8	0.8	0.6	0.8	0.8	
Housing Investment	0.8	1.1	▲1.8	▲3.5	▲2.4	0.3	0.5	0.6	0.8	1.0	6.3	▲0.5	▲0.1	
Business Fixed Investment	7.9	2.5	2.6	2.7	2.9	2.9	3.0	3.0	2.9	2.9	2.5	3.1	2.9	
Private Inventories (percentage points contribution)	(▲0.8)	(▲0.6)	(1.0)	(0.5)	(0.2)	(0.0)	(▲0.2)	(0.0)	(0.0)	(0.0)	(▲0.4)	(0.1)	(0.0)	
Government Consumption Expenditure	0.2	▲0.0	0.8	0.9	1.1	1.1	1.2	1.2	1.2	1.2	0.4	0.6	1.1	
Public Investment	▲11.5	▲0.6	17.6	9.7	▲1.4	▲4.9	▲2.0	1.6	0.7	▲1.2	▲3.2	3.7	▲0.8	
Net Exports (percentage points contribution)	(1.5)	(0.6)	(▲0.5)	(▲0.3)	(▲0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.8)	(0.2)	(0.1)	
Exports of Goods and Services	14.1	8.7	1.5	2.0	2.5	2.6	2.7	2.8	2.8	2.8	3.1	5.0	2.6	
Imports of Goods and Services	5.3	5.6	4.8	3.6	2.9	2.1	2.1	2.2	2.2	2.1	▲1.4	4.0	2.3	
(Ref.) Domestic Private Demand (percentage points contribution)	(0.5)	(0.5)	(1.8)	(1.2)	(1.1)	(0.9)	(0.7)	(0.9)	(0.9)	(0.9)	(0.5)	(0.9)	(0.9)	
(Ref.) Public Demand (percentage points contribution)	(▲0.6)	(▲0.0)	(0.9)	(0.6)	(0.1)	(▲0.0)	(0.1)	(0.3)	(0.3)	(0.2)	(▲0.1)	(0.3)	(0.2)	
	(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)			
Nominal GDP	1.6	0.5	0.9	1.4	1.4	2.1	1.5	1.5	1.6	1.9	1.1	1.4	1.6	
GDP deflator	▲0.0	▲0.8	▲0.5	▲0.1	▲0.0	0.7	0.4	0.4	0.5	0.7	▲0.2	0.0	0.5	
Consumer Price Index (excluding fresh food)	▲0.3	0.2	0.4	0.6	0.8	0.8	0.8	1.0	1.0	1.1	▲0.2	0.7	1.0	
Unemployment Rate (%)	3.0	2.9	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.6	3.0	2.8	2.7	
Exchange Rates (¥/US\$)	109	114	111	113	114	115	115	116	116	116	108	113	116	
Import Price of Crude Oil (US\$/barrel)	46	55	54	52	58	60	61	62	63	64	47	56	63	

Source: The Cabinet Office; The Ministry of Internal Affairs and Communications; The Ministry of Economy, Trade and Industry; The Ministry of Finance.  
The projection figures are based on those of The Japan Research Institute, Ltd.

Note: "▲" indicates minus.

## **Main points of US economic outlook**

- ◆ The US economy is in a phase of autonomous recovery, because of a recovery in the employment situation and improved corporate earnings.
- ◆ On the other hand, the realization of the Trump policies that were expected to result in an economic booster effect has significantly deviated from the initial plans. Tax cuts are likely to be a good deal smaller than what was promised to achieve a balance with fiscal reconstruction. Infrastructure investment is expected to fall below planned levels at the implementation stage due to the shortage of construction laborers.
- ◆ Trade protectionism is not thought likely to have a major impact. It will be difficult to make large scale increases in customs tariffs in the face of opposition from retailers and others, and anti-dumping taxation levied on certain items is expected to be limited.
- ◆ Therefore, the economic booster effect of the Trump policies will be significantly smaller than first expected, with GDP being boosted a mere 0.3% in 2018.
- ◆ Regardless, even without a policy booster effect, the US economy remains robust. Improvements in the employment and income environments have meant that personal consumption continues to be a driver of economic growth. In the corporate sector, the growth momentum in exports has been sustained, and plant and equipment investment continues to improve.
- ◆ Encouraged by a robust real economy, FRB is expected to push ahead with the normalization of its monetary policies. However, the pace of the normalization will be moderate, because upward inflationary pressure is limited.
- ◆ Given that the US economy is in a healthy state, the needed policies are not demand stimulus measures, but measures geared to raise the potential growth rate by expanding the supply capacity. However, Trump administration's policies have prepared measures that go against the raising of the potential growth rate. There are risks of a decline in growth potential over the mid-term.

<Projections for GDP Growth and CPI of US>

(seasonally adjusted, annualized % changes from the previous quarter) (% changes from previous year)

	2016		2017				2018				2016	2017	2018
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12			
	(Actual)		(Forecast)										
Real GDP	3.5	2.1	1.4	2.5	2.2	2.3	2.4	2.6	2.7	2.7	1.6	2.1	2.5
Personal Consumption Expenditures	3.0	3.5	1.1	2.6	2.3	2.3	2.5	2.6	2.7	2.7	2.7	2.5	2.5
Residential Investment	-4.1	9.6	12.9	4.2	4.3	4.5	4.2	3.9	3.8	3.6	4.9	5.4	4.1
Business Fixed Investment	1.4	0.9	10.4	3.5	4.3	4.5	4.7	4.8	5.1	5.3	-0.5	4.4	4.6
Private Inventories	0.4	1.0	-1.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	-0.4	-0.1	0.1
Government consumption expenditures and gross investment	0.8	0.2	-0.9	1.4	0.5	0.4	1.0	1.0	1.0	0.9	0.8	0.1	0.9
Net Exports	0.9	-2.0	0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.1	-0.3	-0.3
Exports	10.0	-4.5	7.0	3.8	3.9	3.8	3.6	3.5	3.5	3.5	0.4	3.6	3.6
Imports	2.2	8.9	4.0	4.2	4.3	4.2	4.5	4.5	4.6	4.6	1.1	4.5	4.4
Final sales of domestic product	3.1	0.9	2.6	2.5	2.2	2.2	2.4	2.4	2.6	2.6	2.0	2.3	2.4
Consumer Price Index (yoy)	1.1	1.8	2.5	2.0	2.3	2.3	2.0	2.4	2.3	2.2	1.3	2.3	2.2
All items less food and energy (yoy)	2.2	2.2	2.2	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.2

Source: Bureau of Economic Analysis "National Economic Accounts"; Bureau of Labor Statistics "Consumer Price Index".

The forecast figures are based on those of The Japan Research Institute, Ltd.

Note: Private inventories and Net Exports are percentage points contribution.

## **Main points of European economic outlook**

- ◆ While the recovery of the Eurozone economy is growing in strength, questions remain as to the sustainability of high growth rates. Though unemployment rates continue to fall, the persistence of “slack” in the labor market is constraining wage growth. Coupled with downward pressure on real incomes as a result of rising prices, personal consumption is expected to continue to recover at a modest pace. Also, Italy and France are posing a hindrance to the pace of economic growth in the Eurozone. Labor market reforms have failed to make headway in either country, meaning that they have not been able to fully enjoy the benefits of the recovery in external demand, and that their unemployment rates are falling only very slowly, hindering the pace of recovery in domestic demand. In addition, in Italy, concerns on the political and financial fronts are discouraging corporate activity.
- ◆ In terms of EU integration, there is a growing tendency towards “multi-speed Europe”. Of course, among the major economies also, there are significant gaps in terms of economic circumstances and the people’s levels of awareness, and there is no way to predict at the moment whether the pace of discussion will accelerate or not.
- ◆ In the UK, meanwhile, the pace of economic growth has fallen sharply, due mainly to the slump in personal consumption growth. In the future also, significant price rises while wages are still struggling to grow are likely to continue to restrain personal consumption growth. Even in the corporate sector, against the backdrop of a strongly persistent sense of uncertainty over the future of Brexit, there can be little expectation of a full recovery in plant and equipment investment.
- ◆ In negotiations over Brexit, the weakening of Prime Minister May’s administrative base and a greater than expected economic deceleration have caused the UK to adopt a more flexible stance, and it is anticipated that a hard Brexit can be avoided. However, the sense of uncertainty over Brexit looks likely to persist for a protracted length of time. In addition, immigration restrictions and sluggish investment due to Brexit may well cause a deterioration in the UK’s economic growth potential in the mid term.
- ◆ In terms of the economic outlook based on the foregoing, in the Eurozone, the expectation is that growth will continue to be sluggish, at around the mid to upper 1% range, caused by poor personal consumption growth and the slow pace of recovery of the Italian and French economies. In the UK, against the backdrop of the continuing sense of uncertainty with regard to Brexit and stagnation in personal consumption growth and plant and equipment investment, the outlook is that the pace of economic growth will slow to the low 1% range.
- ◆ The risk factors arising from the scenarios described above are assumed to be those of Italian political turmoil, a British hard Brexit, and overseas economic deceleration.

<Projections for GDP Growth and CPI of Europe>

(seasonally adjusted, annualized % changes from the previous quarter)

(% changes from previous year)

		2016					2017				2018				2016	2017	2018				
		1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12								
		(Actual)					(Forecast)												(Actual)	(Forecast)	
Euro Area	Real GDP	2.1	1.4	1.8	2.1	2.3	1.8	1.6	1.7	1.6	1.6	1.7	1.8	1.7	1.9	1.6					
	HICP (yoy)	0.1	-0.1	0.3	0.7	1.8	1.5	1.6	1.6	1.5	1.7	1.5	1.6	0.2	1.6	1.6					
Germany	Real GDP	2.9	1.9	0.7	1.7	2.4	1.9	1.7	1.8	1.6	1.6	1.7	1.8	1.8	1.8	1.7					
	HICP (yoy)	0.1	0.0	0.4	1.0	1.9	1.9	1.6	1.5	1.6	1.7	1.7	1.6	0.4	1.7	1.6					
France	Real GDP	2.2	-0.3	0.7	2.1	1.9	1.3	1.4	1.5	1.4	1.5	1.5	1.6	1.1	1.4	1.4					
	HICP (yoy)	0.0	0.1	0.4	0.6	1.5	1.5	1.3	1.4	1.2	1.4	1.4	1.3	0.3	1.3	1.3					
UK	Real GDP	0.6	2.4	2.0	2.7	0.9	0.9	1.0	1.2	1.3	1.4	1.4	1.5	1.8	1.5	1.3					
	HICP (yoy)	0.3	0.4	0.7	1.2	2.1	2.7	2.8	2.7	2.5	2.6	2.4	2.4	0.7	2.6	2.5					

Source: Eurostat, ONS. The forecast figures are based on those of The Japan Research Institute, Ltd.



## **Main points of Asia economic outlook**

- ◆ Despite a loss of momentum in recovery in some countries, the Asian economies (NIEs, ASEAN, China, India), have overall continued to post gradual recovery since the start of 2017. Three of the main factors are 1) the gradual convergence of capital outflow, 2) the support of domestic demand and 3) expansion in export growth.
- ◆ China's real GDP growth rate in the January to March quarter of 2017 was 6.9%, compared to the same period in the previous year, an increase in the pace of growth, albeit by a small margin. The recovery in the private sector has overlapped where the effects of government economic stimulus measures had materialized, creating an upswing effect. However, concerns have grown over a range of issues related to economic overheating, and the government's fiscal and financial stances are gradually becoming tighter. As the priority of economic policy shifts from supporting the economy to structural adjustment, the expectation is that the economy will once again trend towards gradual deceleration.
- ◆ India's economic growth rate in the January to March quarter, 2017, slowed to 6.1% growth, compared to the same period in the previous year, due to investment stagnation and the effects of the November, 2016, demonetization of high denomination banknotes. In terms of the future outlook, in addition to a gradual waning of the impact of the demonetization of high denomination banknotes, the economy is expected to recover at a modest pace, due to an easier monetary stance adopted as a result of lower inflation, etc. For the time being, India's economic growth rate is expected to continue to top China's in the 7% range.
- ◆ In other Asian economies also, the recent trend of recovery is expected to continue. Domestic demand will be underpinned by infrastructure demand and growth in personal consumption supported by low inflation. Exports are expected to increase at a steady pace, encouraged by economic recovery in the US and other industrialized nations, and growth in global IT demand. Encouraged by the tailwinds of domestic and overseas demand, the pace of NIEs and ASEAN economic growth will likely accelerate somewhat.
- ◆ Downside risks include 1) the modulation of the Chinese economy as a result of the imbalance between structural reform and economic stability, 2) the intensification of the Trump administration's protectionist stance, and 3) adjustments in global IT demand. In all of these cases, the factors are strongly exogenous, making it difficult for Asian countries to do anything to control the emergence of these risks. In order to be able to withstand various external shocks, it will be necessary for them to strengthen their domestic economic and industrial bases.

<Real GDP Growth Rate and Forecast in Asia>

(Year, %)

	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast
Asia	6.3	6.3	6.1	6.0
NIEs	2.1	2.3	2.3	2.5
Korea	2.8	2.8	2.6	2.8
Taiwan	0.7	1.5	1.9	2.1
Hong Kong	2.4	2.0	2.1	2.2
ASEAN	4.8	4.9	5.1	5.1
Indonesia	4.9	5.0	5.1	5.3
Malaysia	5.0	4.2	5.1	4.5
Philippines	6.1	6.9	6.7	6.7
Thailand	2.9	3.2	3.2	3.2
Vietnam	6.7	6.2	6.1	6.2
India (Fiscal Year)	8.0	7.1	7.2	7.2
China	6.9	6.7	6.7	6.4
Asia (Excluding China)	5.5	5.8	5.3	5.6

Source: IMF "World Economic Outlook" (April, 2017)

Note: GDP figures are calculated by Purchasing Power Parity of the year 2015.

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