

INVESTMENT STRATEGY & RESEARCH

Global Macroeconomic Research (SMRE 2)

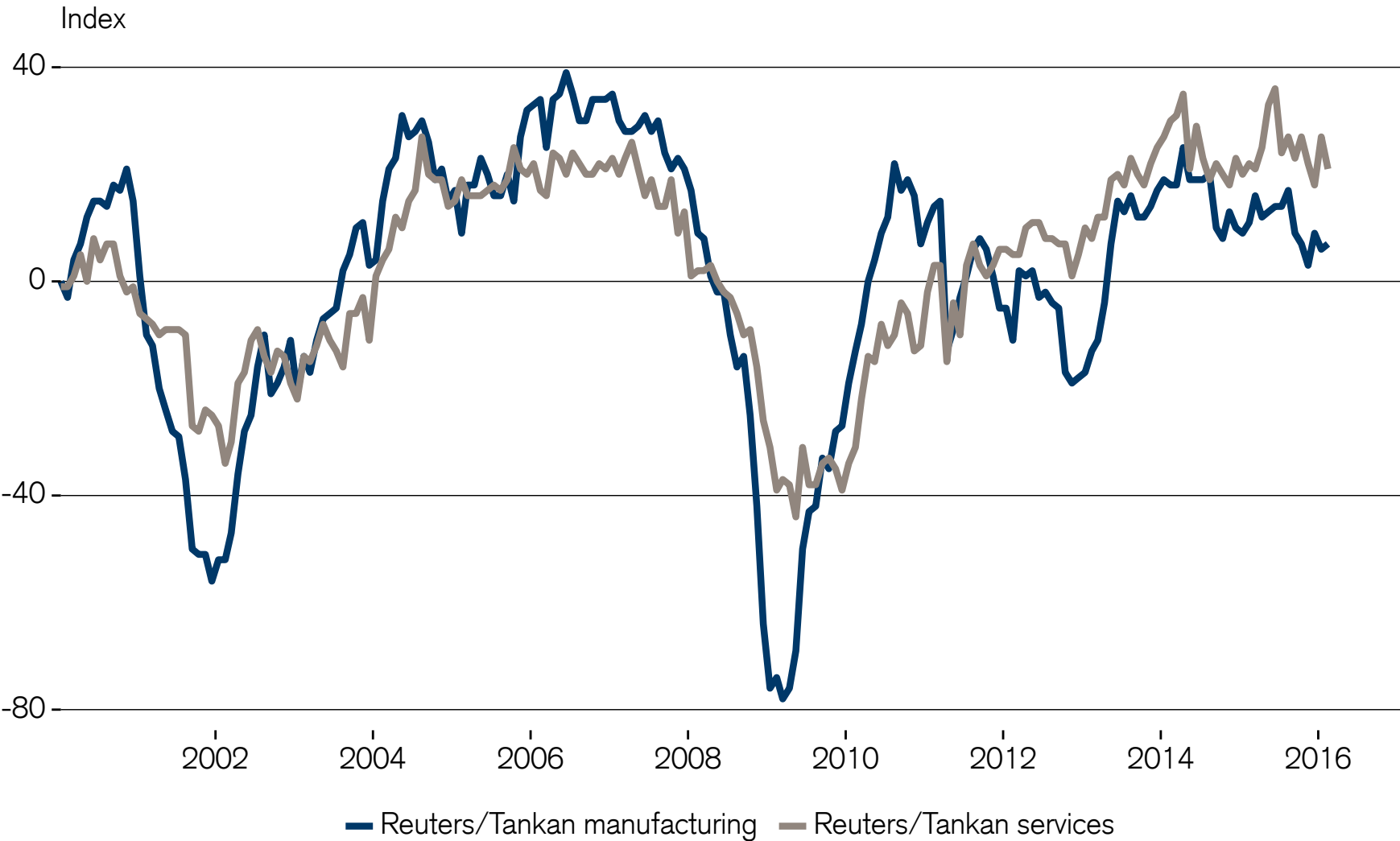
07 March 2016

Dr. Björn Eberhardt, CFA, Head of Global Macro Research

Economic outlook for Japan

Challenges remain as monetary policy approaches its limits

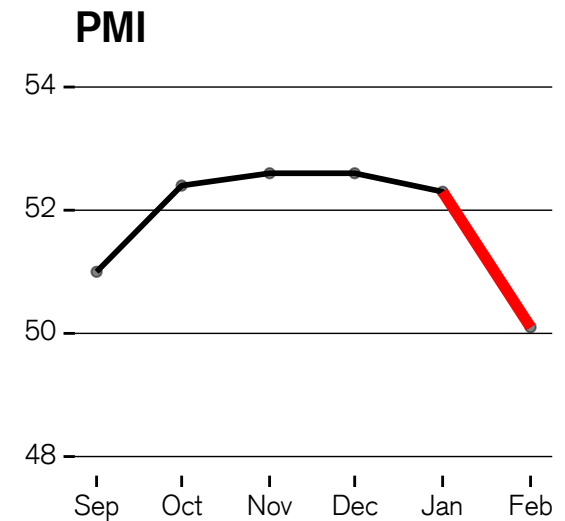
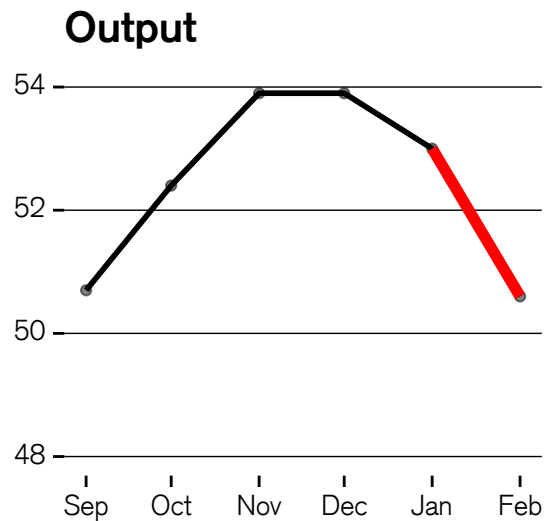
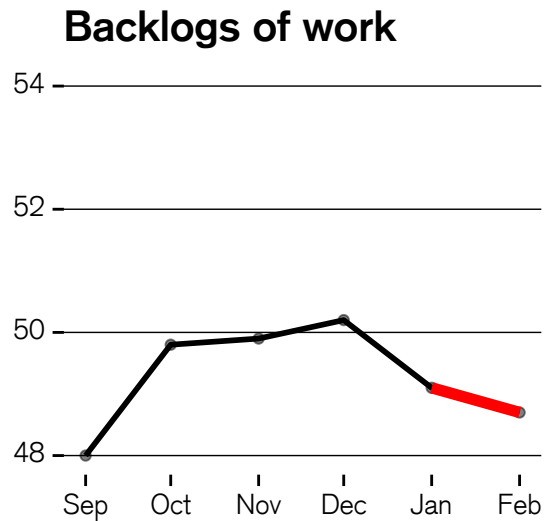
Reuters Tankan Indices



Last data point: February 2016

Source: Datastream, Credit Suisse

Japan: Manufacturing PMI & subcomponents



Last data point: February 2016

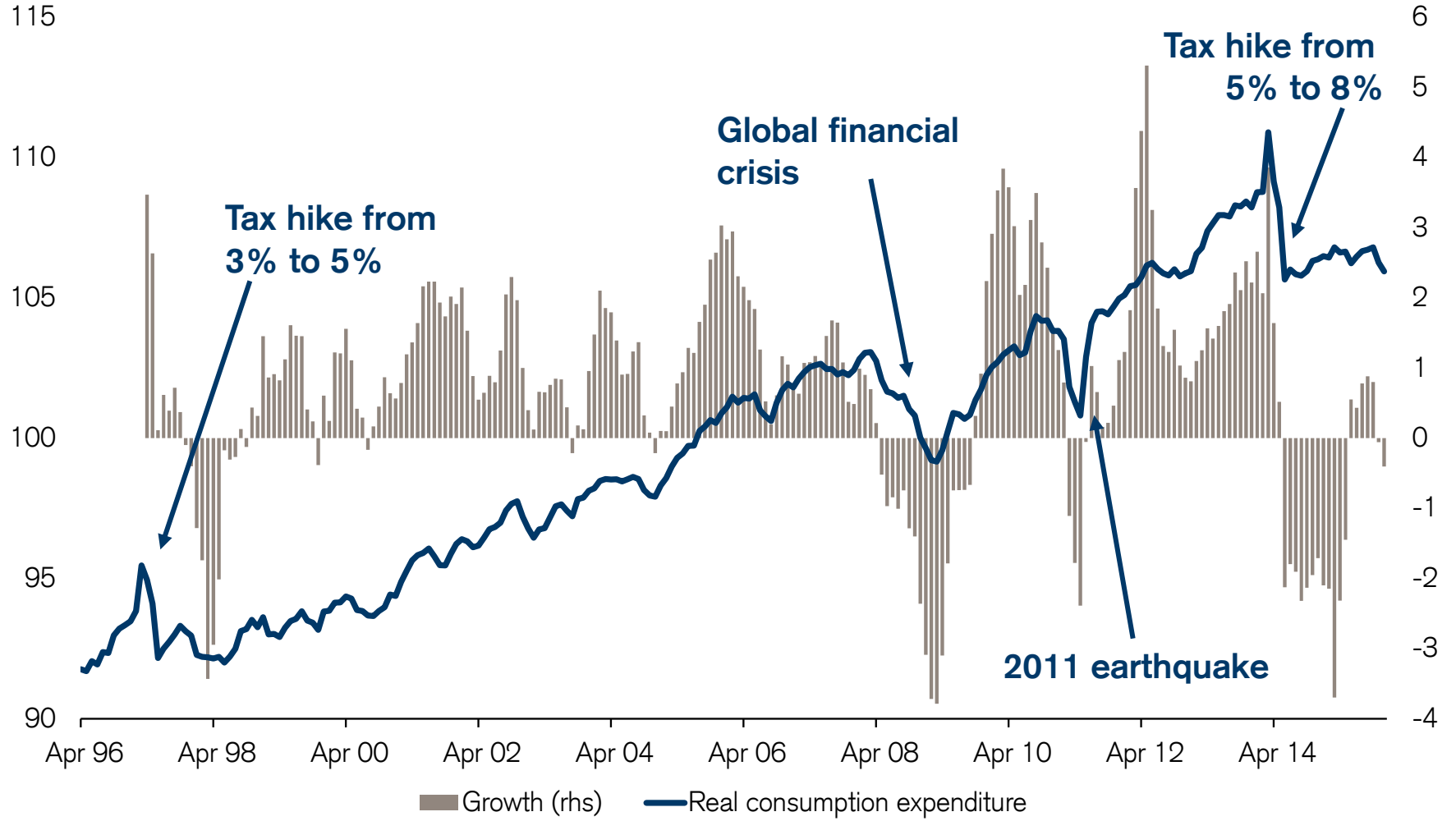
Source: Bloomberg, Credit Suisse

Japan's main problem: weak consumption...

Index (3mma)

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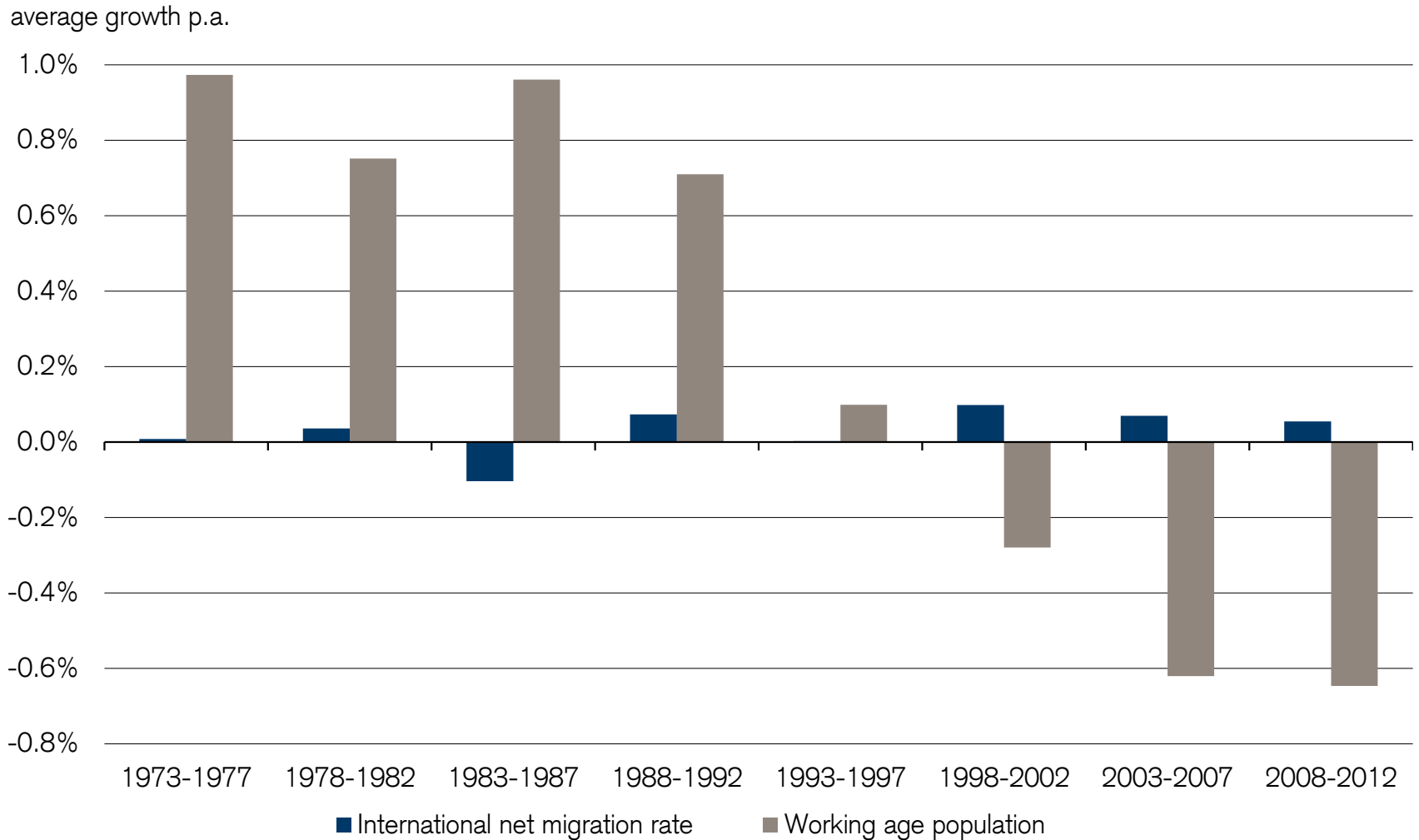
% YoY



Last data point: 15.12.2015

Source: Datastream, Credit Suisse / IDC

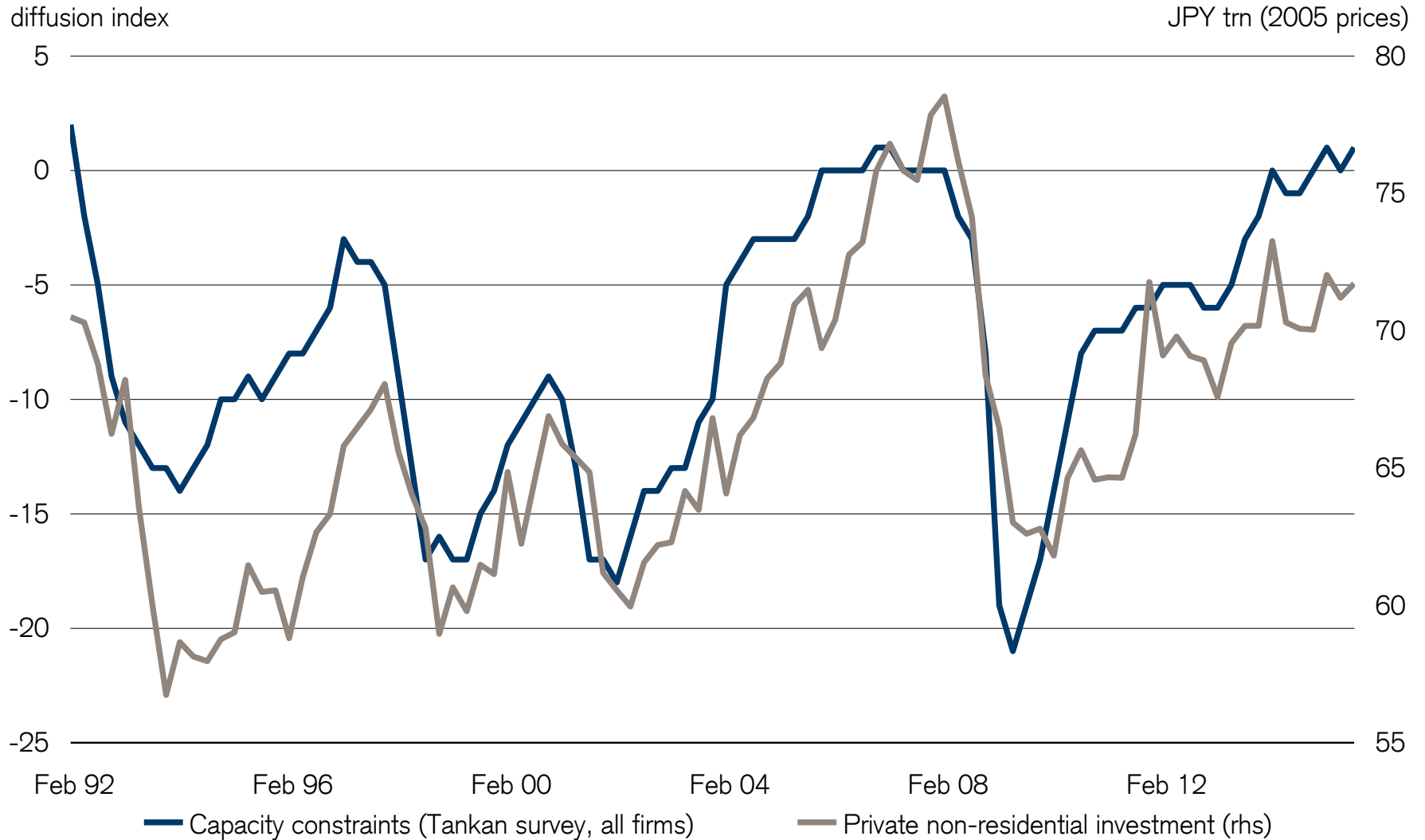
... exacerbated by unfavorable demographics



Last data point: 23.02.2016

Source: Datastream, Credit Suisse / IDC

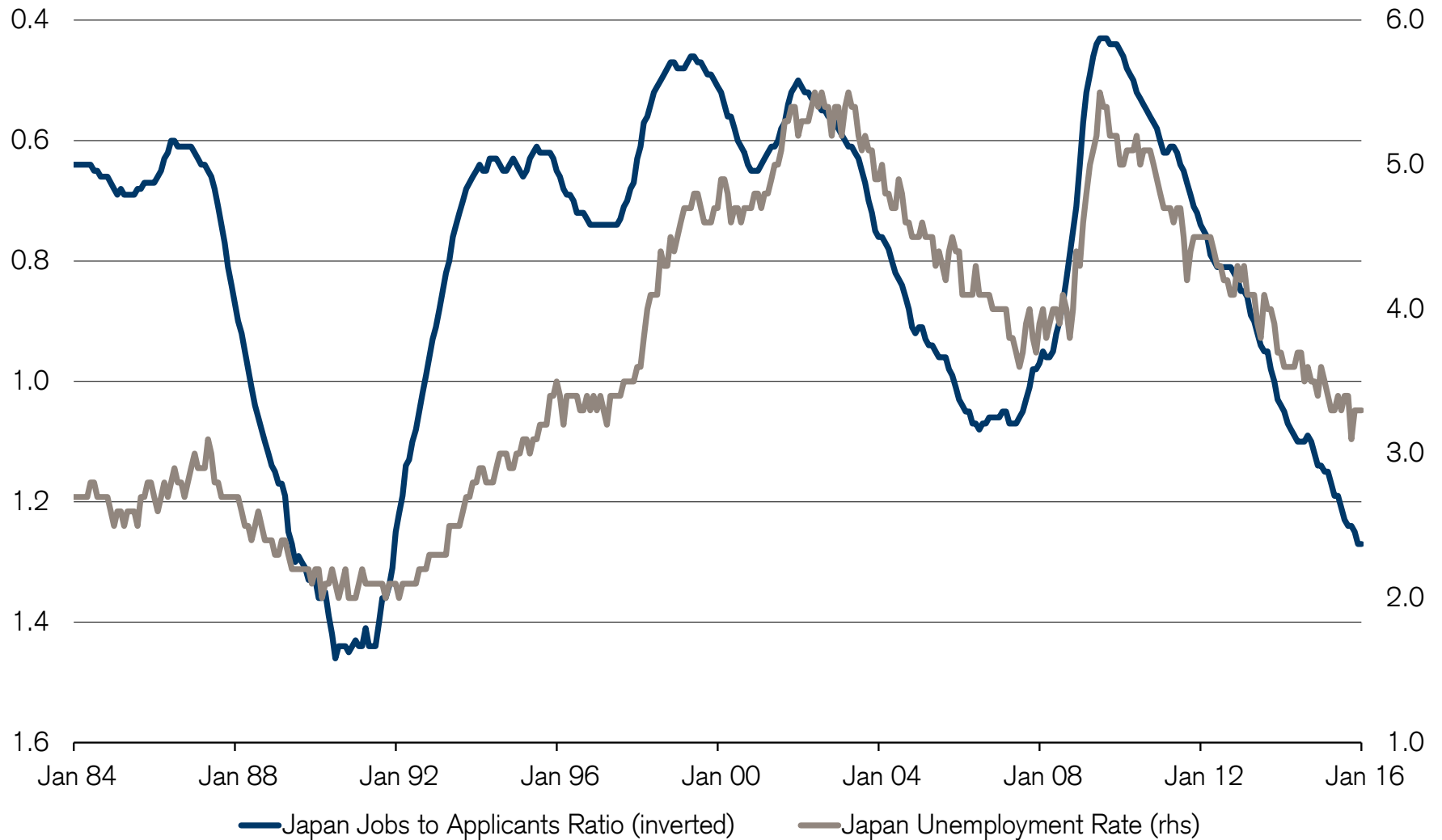
However, investment cycle likely to remain in place...



Last data point: 15.11.2015

Source: Datastream, Credit Suisse / IDC

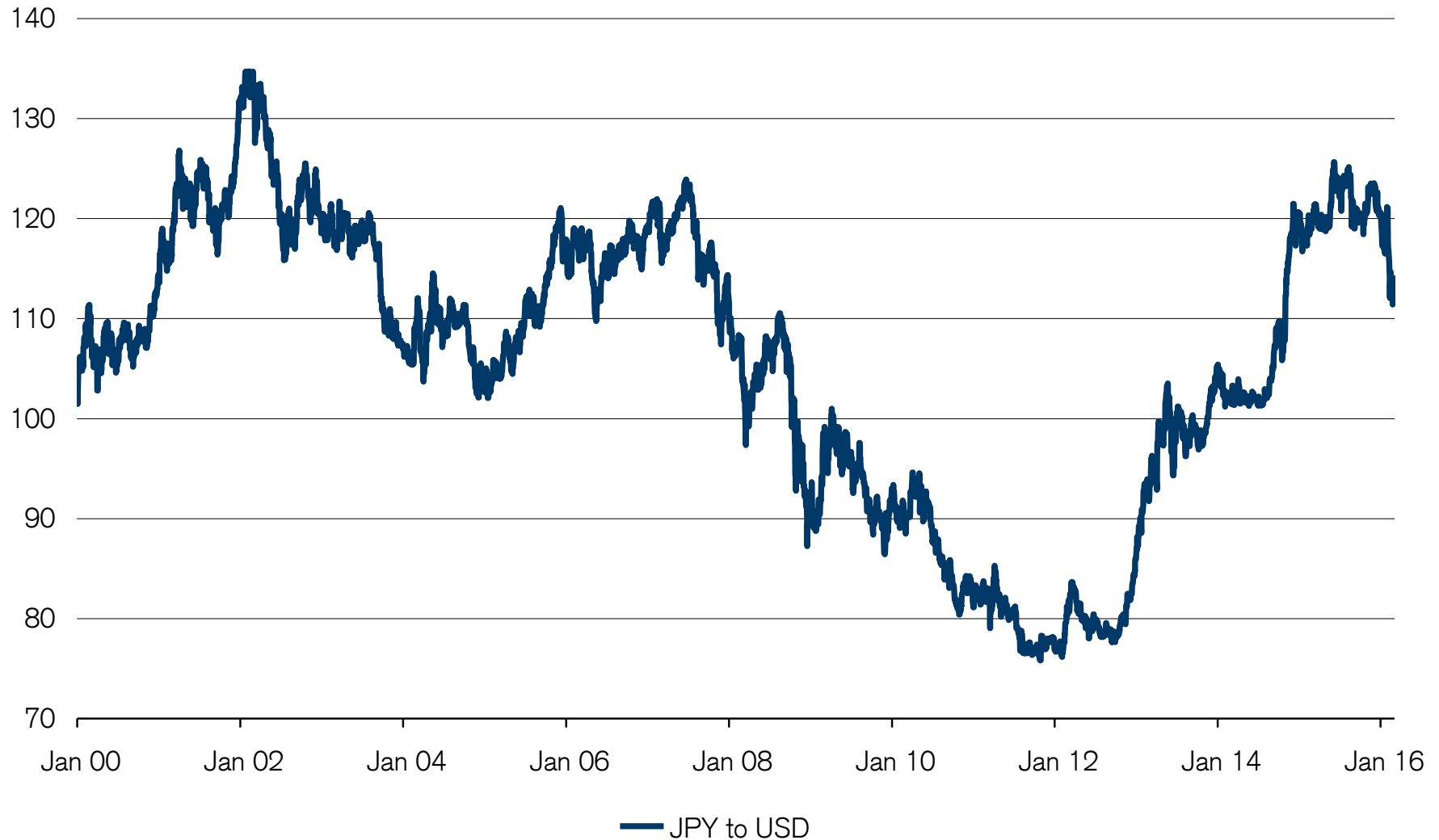
... not least due to a tight labor market



Last data point: 31.01.2016

Source: Bloomberg, Labour and Welfare, Ministry of Health, Ministry of Internal Affairs, Credit Suisse / IDC

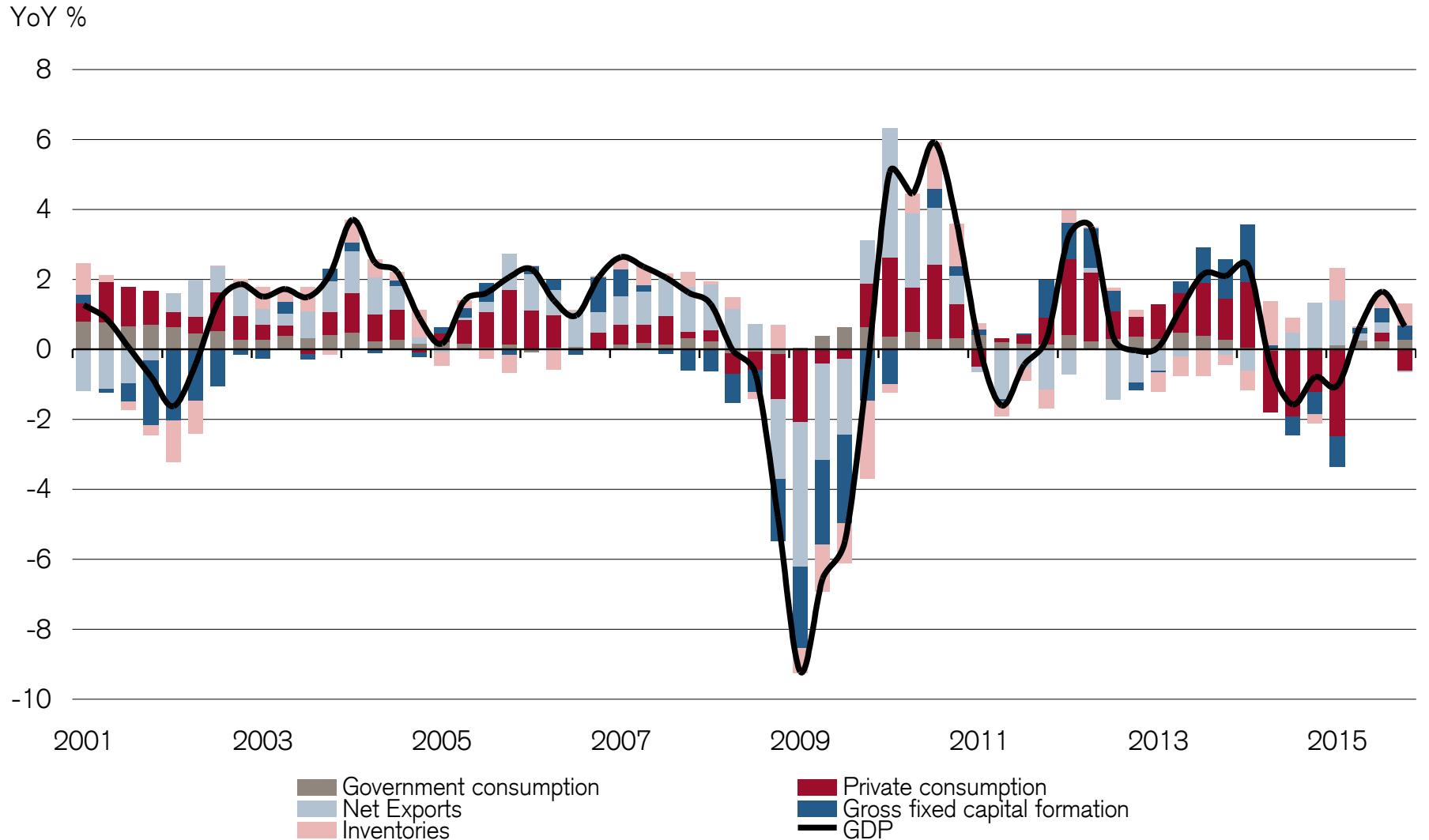
JPY appreciation posing downside risks to growth



Last data point: 02.03.2016

Source: Bloomberg, Credit Suisse / IDC

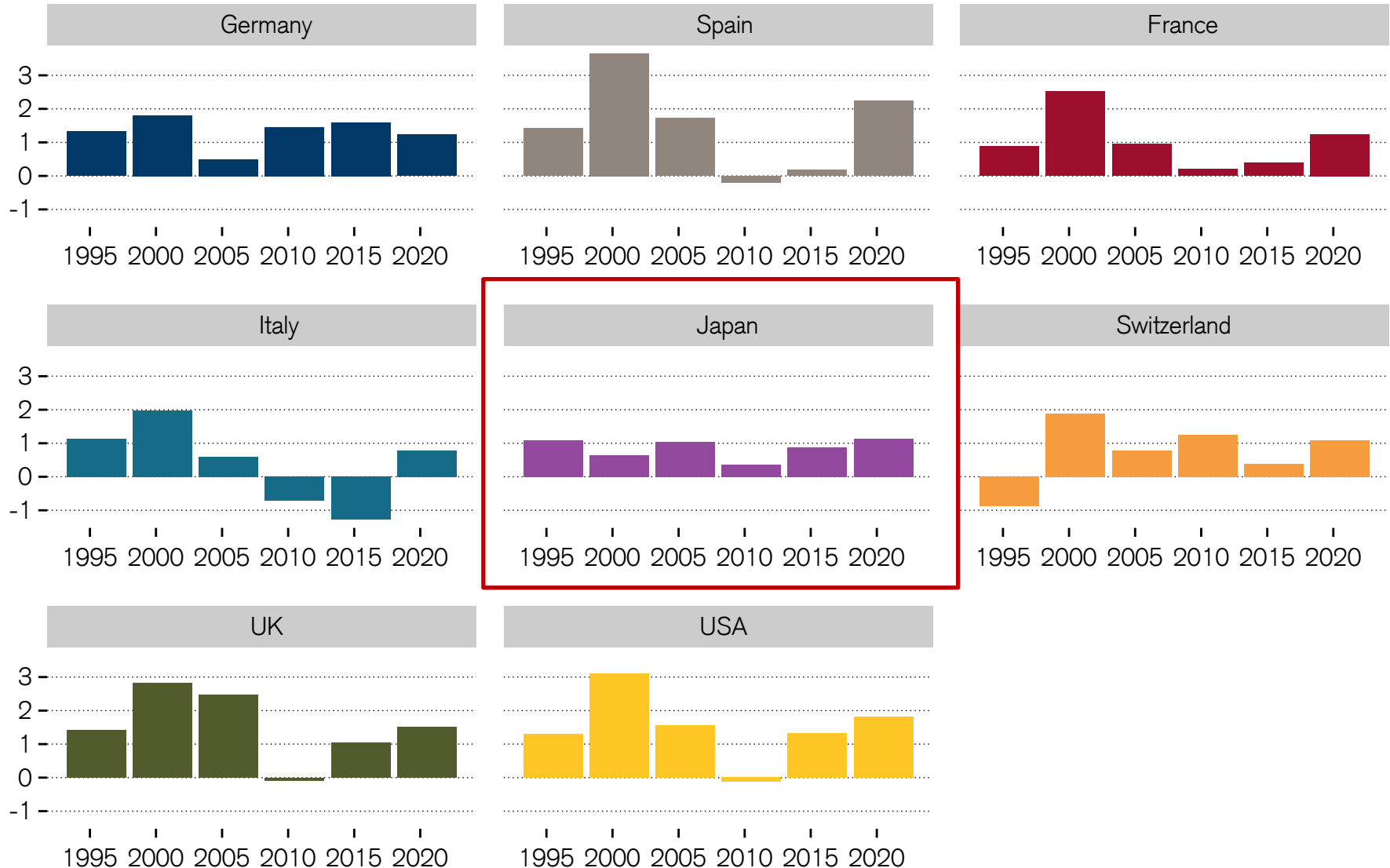
GDP growth and contributions



Last data point: 15.11.2015

Source: Datastream, Credit Suisse / IDC

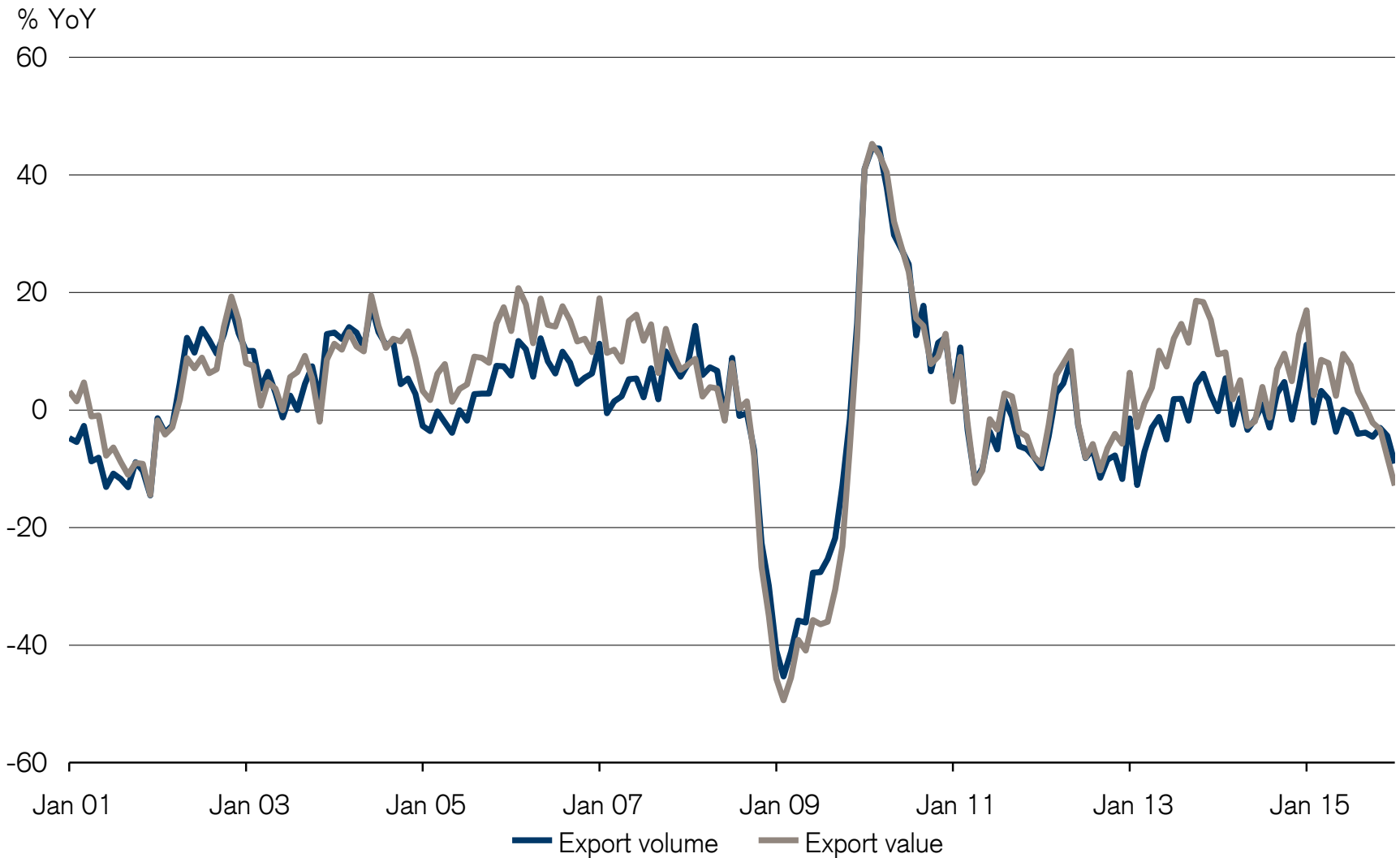
Per capita GDP growth (5-year averages)



Last data point: October 2015 IMF World Economic Outlook

Source: Datastream, Credit Suisse

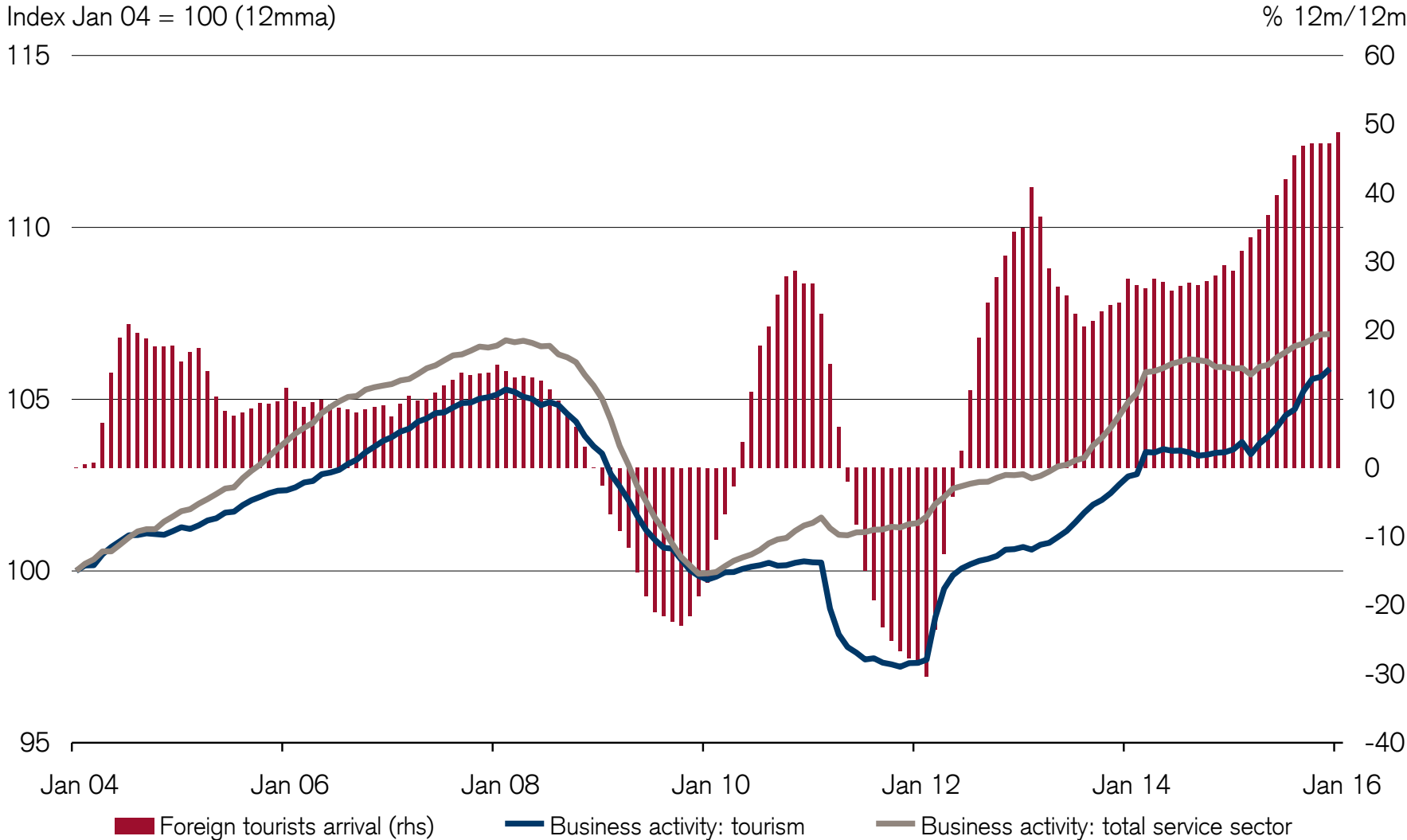
Risk 1: fading export dynamics



Last data point: 15.01.2016

Source: Datastream, Credit Suisse

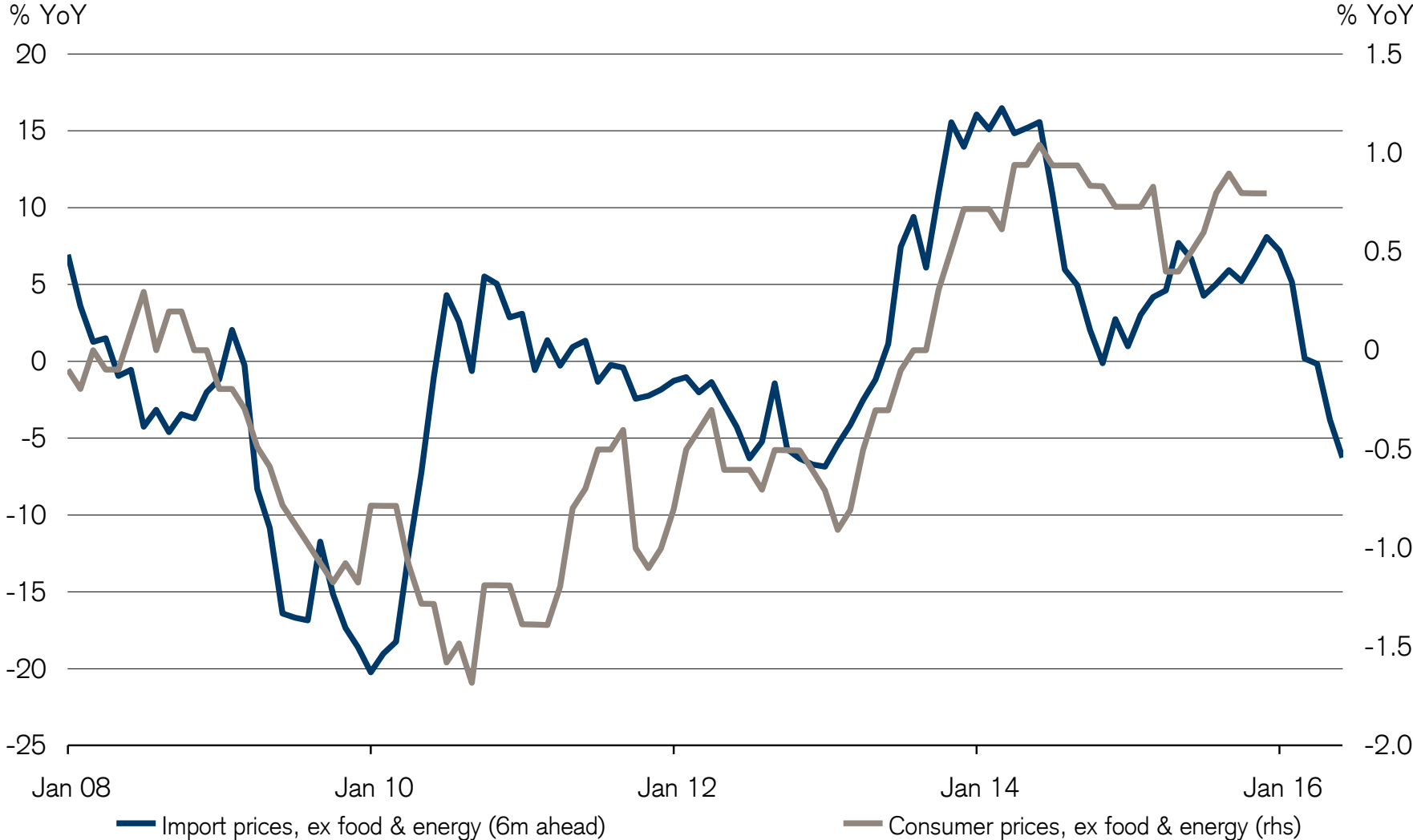
Risk 2: Slower growth in the booming tourism sector



Last data point: 15.01.2016

Source: Datastream, Credit Suisse / IDC

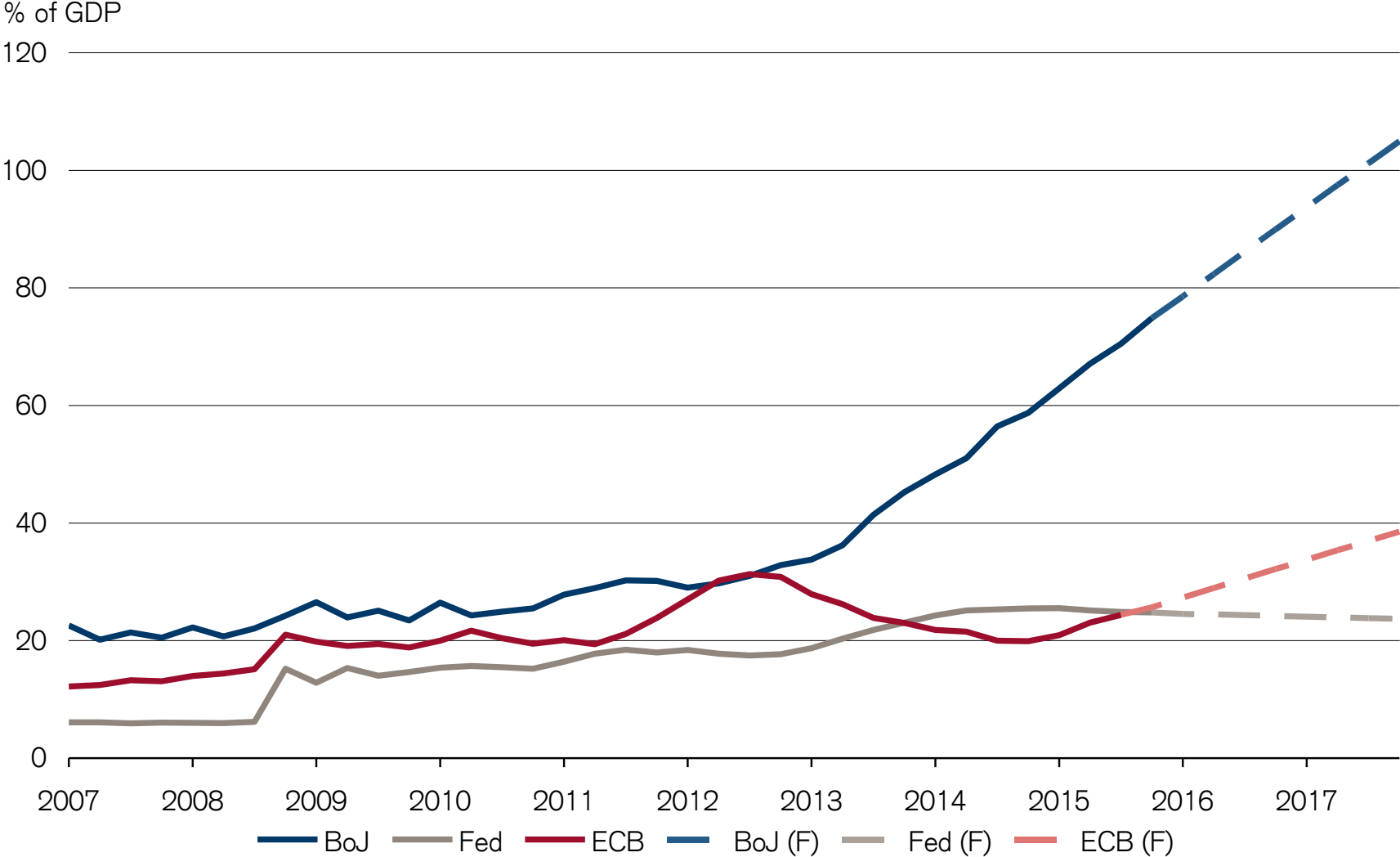
Risk 3: Falling import prices to weigh on core inflation



Last data point: 15.12.2015

Source: Datastream, Credit Suisse / IDC

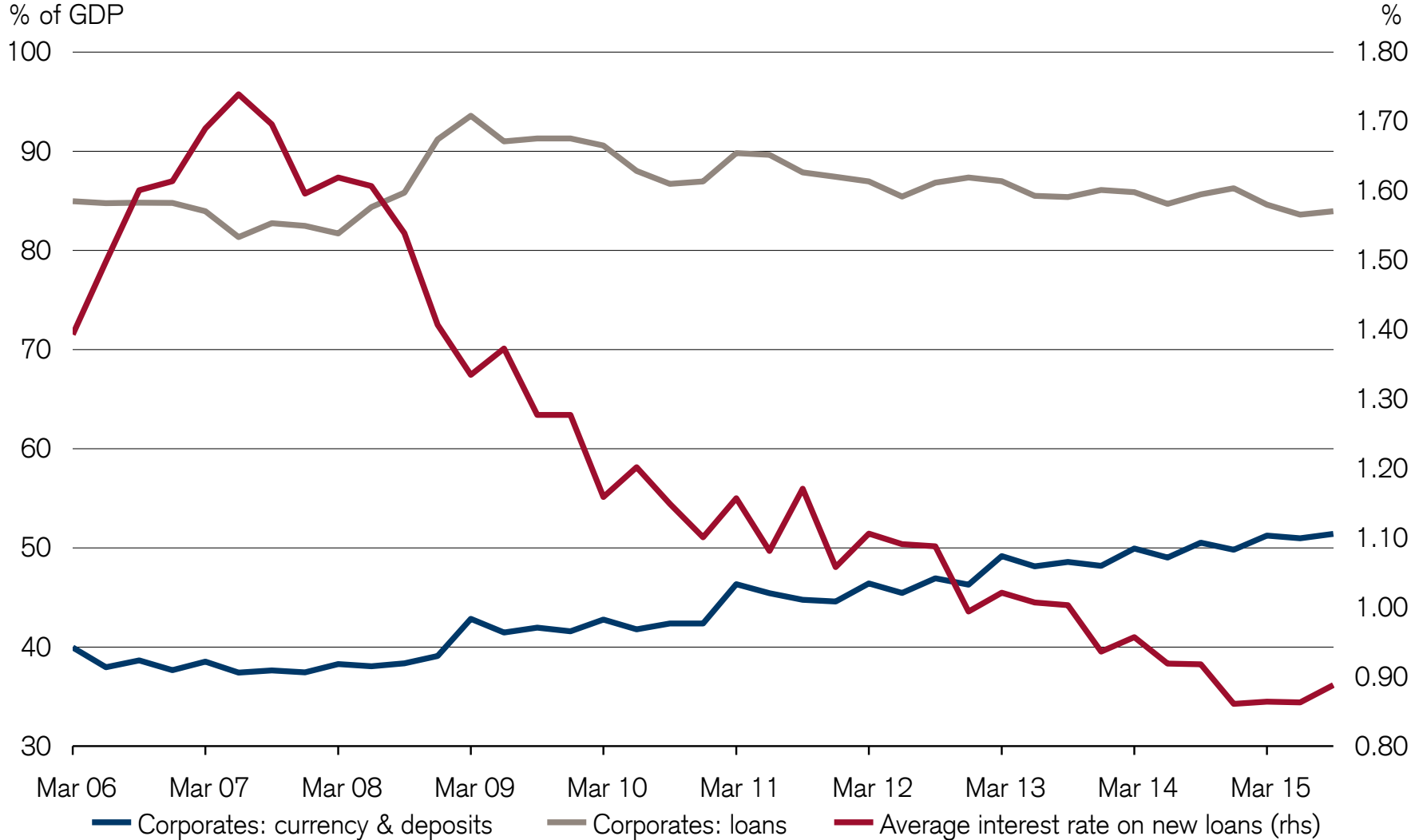
BoJ therefore likely to keep very loose monetary policy



Last data point: 15.02.2016

Source: Datastream, Credit Suisse / IDC

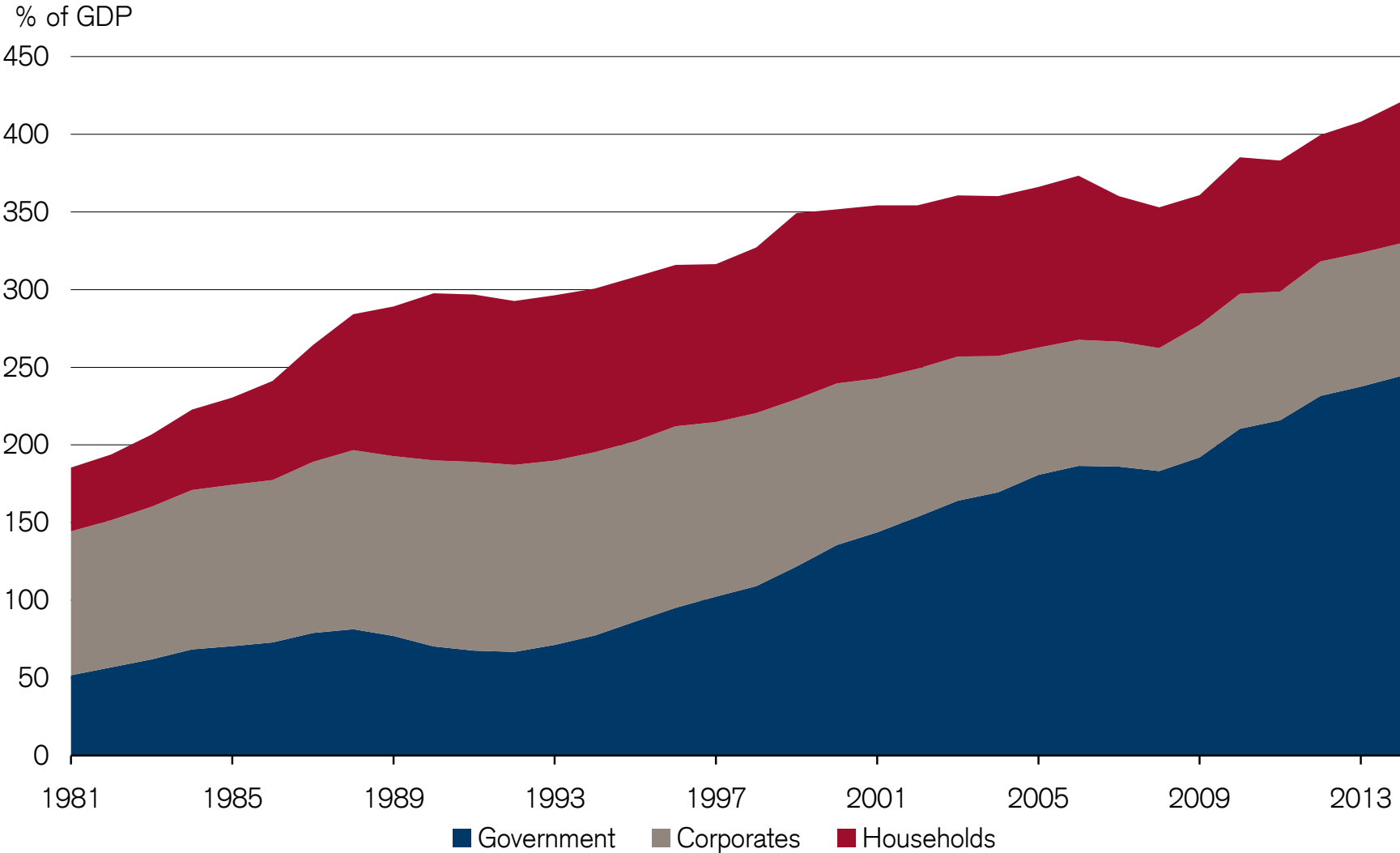
Negative interest rates unlikely to boost credit growth



Last data point: 15.11.2015

Source: Datastream, Credit Suisse / IDC

Debt outlook still problematic



Last data point: 15.11.2015

Source: Datastream, Credit Suisse / IDC

2016: A year shaped by politics

- Upper House elections in July 2016 (half of seats)
- Next general election only in 2018. Snap elections possible given the weakness of the opposition → Potentially combined Upper and Lower House elections in July
- Consumption tax hike scheduled for April 2017, but non-negligible risk of another delay
- Fiscal stimulus added with JPY 3.5 trn supplementary budget.
- Meanwhile, moderate progress on Third Arrow. “Abenomics 2.0” mainly symbolic

Source: Credit Suisse

Forecast Table GDP and inflation

	GDP			Inflation				GDP			Inflation		
Country / region	2015E	2016E	2017E	2015E	2016E	2017E	Country / region	2015E	2016E	2017E	2015E	2016E	2017E
Global	3.0	3.1	3.3	3.4	3.6	3.4	Non-Japan Asia	5.9	5.8	5.5	2.5	2.8	2.9
G-3	1.8	1.6	1.6	0.2	0.7	1.8	China	6.9	6.5	6.0	1.4	1.7	1.8
BRIC	4.8	5.0	5.4	4.5	4.0	3.6	Hong Kong	2.4	2.0	1.8	3.0	2.3	2.5
EM-8	5.2	5.1	5.2	3.5	3.7	3.6	India (fiscal year)	7.1	7.3	7.3	5.4	6.0	6.0
USA	2.4	1.8	2.0	0.1	1.0	2.0	Indonesia	4.7	4.9	4.7	6.4	4.8	5.0
Canada	1.2	1.4	2.0	1.2	1.8	2.1	South Korea	2.6	2.7	2.5	0.7	1.0	1.4
Eurozone	1.5	1.5	1.5	0.0	0.2	1.4	Singapore	2.0	2.0	1.8	-0.5	0.3	0.8
Germany	1.6	1.5	1.4	0.1	0.2	1.5	Thailand	2.5	2.8	2.5	-0.9	1.2	1.5
Italy	0.6	1.1	1.1	0.1	0.4	1.4	CEE & Russia	-0.8	0.9	2.2	11.8	6.8	5.5
France	1.1	1.3	1.6	0.1	0.3	1.2	Poland	3.6	3.5	3.5	-0.9	0.7	1.7
Spain	3.2	2.7	2.2	-0.6	0.0	1.4	Russia	-3.7	-1.2	1.2	15.6	8.1	6.0
United Kingdom	2.2	2.2	2.0	0.0	0.7	1.4	Turkey	3.2	2.8	3.2	7.7	8.0	7.3
Norway	1.0	1.5	2.3	2.2	2.6	2.5	Latin America	-0.6	-0.7	1.6	16.2	19.4	12.7
Sweden	3.2	2.7	2.6	0.0	1.1	1.8	Argentina	1.5	-0.7	2.8	27.2	32.0	23.6
Switzerland	0.8	1.0	1.5	-1.0	-0.5	0.0	Brazil	-3.7	-3.3	0.7	9.0	8.5	6.0
Japan-Pacific	0.9	1.1	1.0	0.9	0.6	2.1	Mexico	2.5	2.2	2.2	2.7	3.3	3.4
Japan	0.5	0.8	0.5	0.8	0.2	2.0	Middle East & Africa	3.0	2.6	3.1	5.0	5.6	5.3
Australia	2.2	2.4	2.6	1.5	2.1	2.5	GCC	3.1	2.1	2.4	2.4	3.0	3.0
New Zealand	2.4	2.3	2.6	0.3	0.5	2.0	South Africa	1.3	0.7	1.0	4.6	6.2	5.5

G-3: EMU, Japan, USA. EM-8: Brazil, China, India, Indonesia, South Korea, Mexico, Turkey and South Africa.

GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE. Regional figures are PPP-weighted.

Source: Credit Suisse Forecasts as of: 18/02/2016

Source: Bloomberg, Datastream, Credit Suisse / IDC

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