



Japanese Economy Monthly Forecast

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Yoshihisa Inada,
Head of Center for Quantitative Economic Analysis, APIR
e-mail: inada-y@apir.or.jp

Headlines

●Review of data released in May

▶According to the first preliminary estimates, 2018Q1 GDP shrank annualized -0.6% QoQ, registering the first decrease in 9 quarters. The figure was far below the market consensus of +0.12%, but a tad above the -1.0% projected by our Current Quarter Model (CQM).

▶The **Index of Industrial production (IIP)** for April rose by 0.3% MoM for the third consecutive month. It was +1.9% higher than the Q1 average.

▶ Shipment indices for **durable consumption and non-durable consumption** in April increased +10.7% and +2.1% respectively, compared to the Q1 averages. This trend suggests that real **private final consumption expenditure (PFCE)** has overcome the Q1 stagnation.

▶After April data updates, forecast levels for **real private housing** and **real private capital expenditure** in Q1 are both revised upwards from last week, but that for **change in corporate inventory** was revised downwards.

▶While **exports** in April fell 0.1% compared to Q1 in volume terms, there was a +3.4% increase in real value terms. In contrast, **imports** shrank by any measure, having decreased -1.2% in volume terms, and -3.8% in real value terms. Consequently, **net exports** in April expand from the Q1 average.

●2018Q2 GDP growth forecast update

▶This week's Current Quarter Model (CQM) **expenditure side real GDP forecast** for 2018Q2 is +3.9% QoQ annualized growth. **Domestic demand** and **net exports** are projected to make well-balanced contributions to GDP growth.

▶Our Current Quarter Model's **principal component analysis (production-side) forecast** was +3.2% QoQ annualized real GDP growth. Both models predict robust positive growth, reversing the trend from the previous quarter. The estimates imply that the Q1 flat trend was temporary (Figure 1).

●2018Q2 inflation forecast update

▶In April, the overall **consumer price index** increased +0.6% YoY, marking the 19th consecutive month of positive growth. The growth rate decelerated by 0.5%pts from the previous month due to lower fresh-food prices.

▶This week, the Current Quarter Model (CQM) forecasts a -0.8% QoQ decrease in the **private final consumption expenditure deflator** and a -0.4% one in the **domestic demand deflator** in 2018Q2. As the terms of trade are expected to worsen, the **GDP deflator** is forecast to decline -0.6% QoQ in Q2 (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2018 (% , QoQ annualized growth)

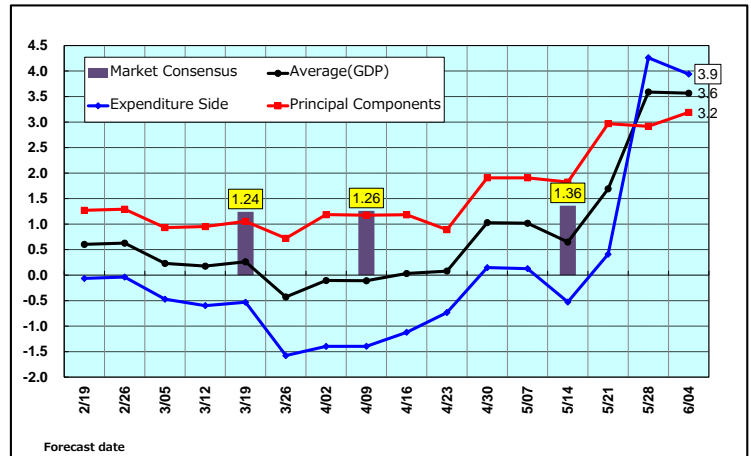
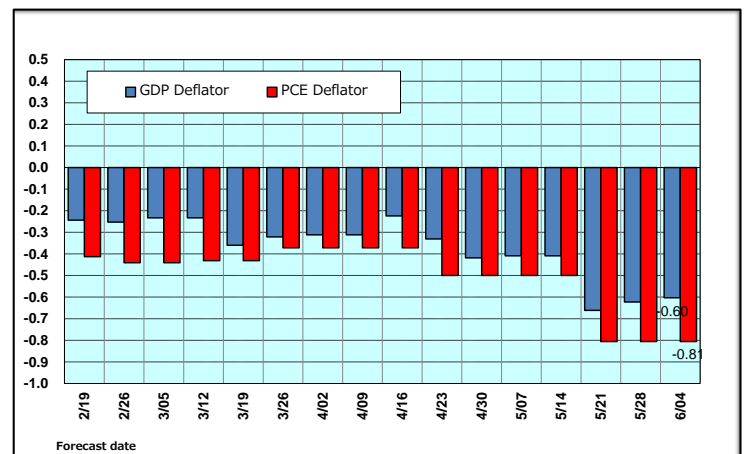


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2018 (% , QoQ growth)



Based on the idea and method of Current Quarter Model developed by Professor L. R. Klein, we have applied them to a forecasting model for the Japanese economy. We forecast it using two models from demand side and production side (principal component analysis). We treat forecast of the former model as the main series and that of the latter model and the average of both model forecasts as the reference series.

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
6/1	May	New Car Sales (vehicles)	307,723		-1.50%
5/31	April	Indices of Industrial Production (preliminary figures, 2010=100)			
		Production	104.4	+0.3%	
		Shipments	103.3	+1.8%	
		Inventory	113	-0.4%	
	April	New Housing Starts			
		New housing starts (SA, Unit)	84,226	+10.9%	+0.3%
		Planned dwelling construction cost (billion JPY)	1373.6	+9.5%	-4.4%
	March	Construction Costs Deflator (2011=100)			
		Housing construction	108.8		+2.5%
		Public works	109.9		+2.5%
5/30	April	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	12,001.0	+1.4%	+1.6%
	May	Consumer Confidence Index (SA)	43.8	+0.2	
	April	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	98.1		+3.3%
		Output price	99.7		+1.8%
5/29	April	Labour Force Survey			
		Total employment (millions)	66.93	-0.01	
		Total unemployment (millions)	1.72	-0.01	
		Unemployment rate (%)	2.5%	0.0%pts	
	April	General Job Placement Situation			
		Job offer ratio	1.59	+0.01pts	
5/28	April	Corporate Service Price Index (2010=100)			
		Overall index	104.6		0.9%
5/25	May	Tokyo Region Consumer Price Index (2015=100)			
		Core	100.5	0.0%	0.5%
5/24	March	Index of Business Conditions (revised, 2010=100)			
		Leading indicator	104.4	-1.5	
		Consensus	116.3	0.3	
		Lagging indicator	118.5	0.1	
5/23	March	Industrial Activity Indices (2010=100)			
		All industries	105.3	0.0%	
		Construction industry	113.9	-0.8%	
	March	Monthly Labour Statistics (interim figures)			
		Total cash salary per capita (JPY)	284,367		+2.0%
		Total working hours	142.7		-1.3%
5/21	April	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	626.0	+223.5%	+30.9%
		Exports (billion JPY)	6,822.3	+4.6%	+7.8%
		Imports (billion JPY)	6,196.3	-1.2%	+5.9%
5/18	March	Overall Construction Statistics			
		Private construction: Non-residential (billion JPY)	846.8		+7.5%
		Public works (billion JPY)	2,047.6		+0.5%
	April	National Consumer Price Index (2015=100)			
		Core	100.9	-0.1%	+0.7%

5/17	March	Private Core Machinery Orders (billion JPY)	856.6	-3.9%	
5/16	March	Indices of Industrial Production (official, 2010=100)			
		Production capacity index	94.3		+0.2%
		Operation ratio index	102.4	+0.5%	
		Production	104.1	+1.4%	
		Shipments	101.5	+1.2%	
		Inventory	113.5	+3.3%	
5/15	March	Tertiary Industry Activity Index (2010=100)	105	-0.3%	
	April	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	2,177.7		+5.5%
		Number of contracts	18,142		+6.3%
5/14	March	Information Services Industry Sales (billion JPY)	1692.3		-1.5%
	April	Domestic Corporate Price Index (2010=100)			
		Corporate Price	100.4	+0.1%	+2.0%
		Export Price	95.8	+0.5%	+2.2%
		Import Price	96.0	+1.2%	+5.0%
5/11	March	Synthetic Consumption Index (2011=100)	104.0	-0.5%	
5/10	April	Economy Watchers Survey			
		Current Conditions Diffusion Index	49.0	+0.1	
		Future Conditions Diffusion Index	50.1	+0.5	
	March	Balance of Payments			
		Current account (billion JPY)	3,122.3	84.0%	4.2%
		Exports (billion JPY)	7,447.9	0.8%	3.7%
		Imports (billion JPY)	6,257.2	-10.7%	-0.9%
5/9	March	Monthly Labour Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	284,464		+2.1%
		Total working hours	142.6		-1.4%
	March	Index of Business Conditions (preliminary, 2010=100)			
		Leading indicator	105.0	-0.9	
		Consensus	116.4	+0.4	
		Lagging indicator	118.0	-0.4	
	March	Consumption Activity Index	102.6	-0.7%	
5/8	March	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	301,230	-1.2%	1.1%
		Real consumption expenditure		-0.1%	-0.2%