



Japanese Economy Monthly Forecast

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Headlines

●Review of data released in June

- ▶ The second preliminary **real GDP** estimates for 2018Q1 remained unchanged from the first ones, indicating an annualized negative growth of -0.6% QoQ.
- ▶ The **Index of Industrial production (IIP)** in May registered a decrease for the first time in four months, dropping -0.2% MoM. The average for April-May was +2.0% higher than the Q1 average.
- ▶ The **durable consumption index** in May decreased MoM for the first in 2 months, while the **non-durable consumption index** sustained a positive MoM growth for the third consecutive month. The indices grew +5.7% and +2.7% in April-May respectively, compared to the Q1 average, suggesting that the Q1 stagnation has effectively ended.
- ▶ Following data updates in May, forecasts for **real private housing, changes in private inventories and government investment** in Q2 were all revised upwards from last week, but the forecast for **private capital investment** was revised downwards.
- ▶ The average April-May **export volume index** was +1.2% higher than the Q1 average, and the export value index was +1.5% higher. Although **imports** expanded +3.2% in volume terms, the real-value change was -0.2%. As a result, although the average April-May **net exports** contributed negatively to GDP growth in volume terms, there was a positive contribution in real value terms.

●2018Q2 real GDP growth forecast update

- ▶ This week's forecast of **expenditure-side real GDP growth** in 2018Q2 based on the Current Quarter Model (CQM) is an annualized +2.8% QoQ. **Domestic demand** is projected to make a contribution to GDP recovery.
- ▶ The forecast based on the Current Quarter Model **principal component analysis (production-side)** is for +3.1% QoQ annualized real GDP growth. Both models predict robust positive growth, reversing the trend from the previous quarter. The estimates reaffirm that the Q1 flat trend was temporary (Figure 1).

●2018Q2 inflation forecast update

- ▶ In May, the **core consumer price index** increased +0.7% YoY, marking the 17th consecutive month of positive growth. In seasonally adjusted terms, it remained unchanged from the previous month. Rising energy and food prices (excluding fresh food) were the main contributors to CPI inflation.
- ▶ This week's 2018Q2 Current Quarter Model (CQM) forecasts a -0.7% QoQ decrease in the **private final consumption expenditure deflator**, and a -0.3% fall in the **domestic demand deflator**. As the Q2 terms of trade are expected to worsen, the overall **GDP deflator** is forecast to decline -0.5% QoQ in Q2 (Figure 2).

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

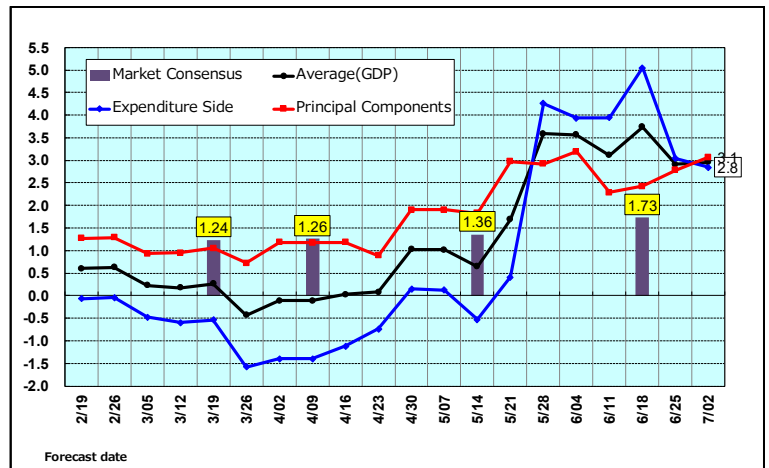
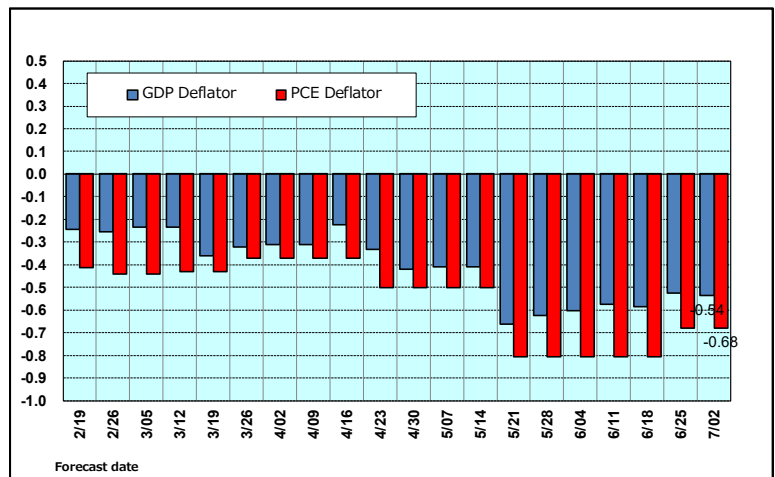


Fig 2 CQM Forecast: Inflation
Apr-Jun (Q2) 2018 (% , QoQ growth)



We applied the Current Quarter Model (CQM) methodology developed by Professor Emeritus L. R. Klein to create two forecasting models for the Japanese economy: a demand-side model and a production-side (principal component analysis) model. We refer to the forecasts by the former model as the main series, and those by the latter model, as well as the average of both models, as the reference series. Forecasts made using the CQM model are renewed continuously, incorporating the latest weekly data, which makes it possible to determine and trace the impacts of the latest short-term trends on macroeconomic conditions.

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
6/29	May	Labour Force Survey				
		Total employment (millions)	66.73	-0.20		
		Total unemployment (millions)	1.51	-0.21		
			Unemployment rate (%)	2.2%	-0.3%pts	
	May	General Job Placement Situation				
			Job offer ratio	1.60	+0.01%pts	
	May	Indices of Industrial Production (preliminary figures, 2010=100)				
			Production	104.4	-0.2%	
			Shipments	101.4	-1.6%	
			Inventory	113.5	+0.6%	
	May	Current Survey of Commerce (preliminary figures)				
			Retail trade (billion JPY)	11,837.0	-1.7%	+0.6%
	May	New Housing Starts				
			New housing starts (SA, Unit)	79,539	+0.4%	+1.3%
		Planned dwelling construction cost (billion JPY)	1333.1	+1.6%	+2.5%	
June	Consumer Confidence Index (SA)		43.7	-0.1		
June	Tokyo Region Consumer Price Index (2015=100)					
		Core	100.5	+0.2%	+0.7%	
April	Construction Costs Deflator (2011=100)					
		Housing construction	108.0		+1.8%	
		Public works	109.2		+2.0%	
6/28	May	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	99.7		+4.5%	
		Output price	100.5		+2.7%	
6/26	May	Corporate Service Price Index (2010=100)				
		Overall index	104.6		+1.0%	
6/25	April	Index of Business Conditions (revised, 2010=100)				
		Leading indicator	106.2	+1.7		
		Consensus	117.5	+1.5		
		Lagging indicator	117.3	-0.8		
6/22	April	Industrial Activity Indices (2010=100)				
		All industries	105.3	0.0%		
		Construction industry	113.9	-0.8%		
	April	Monthly Labour Statistics (interim figures)				
		Total cash salary per capita (JPY)	276,663		+0.6%	
		Total working hours	146.2		-1.2%	
	May	National Consumer Price Index (2015=100)				
		Core	101.0	0.0%	+0.7%	
6/18	April	Overall Construction Statistics				
		Private construction: Non-residential (billion JPY)	816.5		+5.9%	
		Public works (billion JPY)	1,455.3		+0.3%	
	May	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-578.3	n.a.	+182.9%	
		Exports (billion JPY)	6,323.3	-1.0%	+8.1%	
		Imports (billion JPY)	6,901.6	+10.6%	+14.0%	
6/15	May	Public Works Advanced Securities Statistics				
		Contract amount (billion JPY)	1,285.7		+3.5%	

		Number of contracts	16,396		+8.2%
6/14	April	Indices of Industrial Production (official, 2010=100)			
		Production capacity index	94.0		0.0%
		Operation ratio index	104.2	+1.8%	
		Production	104.6	+0.5%	
		Shipments	103.1	+1.6%	
		Inventory	112.8	-0.6%	
6/12	April	Tertiary Industry Activity Index (2010=100)	106.1	+1.0%	
	May	Domestic Corporate Price Index (2010=100)			
		Corporate Price	101.1	+0.6%	+2.7%
		Export Price	96.9	+1.1%	+2.4%
		Import Price	98.6	+2.7%	+6.5%
6/11	April	Synthetic Consumption Index (2011=100)	105.0	+1.0%	
	April	Private Core Machinery Orders (billion JPY)	943.1	+10.1%	
	April	Information Services Industry Sales (billion JPY)	707.1		-0.1%
6/8	May	Economy Watchers Survey			
		Current Conditions Diffusion Index	47.1	-1.9	
		Future Conditions Diffusion Index	49.2	-0.9	
	April	Balance of Payments			
		Current account (billion JPY)	1,845.1	+84.0%	+4.2%
		Exports (billion JPY)	6,632.1	+4.6%	+7.4%
		Imports (billion JPY)	6,583.0	+2.0%	+7.7%
6/7	April	Consumption Activity Index (2011=100)	105.2	+2.4%	
	April	Index of Business Conditions (preliminary, 2010=100)			
		Leading indicator	105.6	-1.1	
		Consensus	117.7	+1.7	
		Lagging indicator	116.9	-1.3	
6/6	April	Monthly Labour Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	277,272		+0.8%
		Total working hours	146.5		-1.0%
6/5	April	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	294,439	-1.1%	-0.5%
		Real consumption expenditure		-1.6%	-1.3%
6/4	May	Food Buffer Stock (billion JPY)	10.2		+4.9
6/1	May	New Car Sales (vehicles)	307,723		-1.5%