



# Japanese Economy Monthly Forecast

August 2018

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

## Headlines

### ●Review of data released in August

▶ According to the first preliminary estimates, real GDP in 2018Q2 expanded annualized +1.9% QoQ, growing for the first time in two quarters. The actual growth was higher than the market consensus forecast of +1.46% (ESP August Survey), and approximately the same as our final CQM forecast (expenditure side) of +2.0%.

▶ Due to the torrential rains in West Japan and the impacts of trade frictions, the **Index of Industrial production (IIP)** in July continued its MoM decline for the third consecutive month. This is the longest period of continuous decline since the one in June-August 2014, which was caused by the consumption tax hike. As a result, it fell -1.4% from the Q2 average.

▶ The index of durable consumer goods production in July registered a MoM decline for the first time in two months. In contrast, the index for non-durable consumer goods maintained its upward trend for five months in a row. Compared to the Q2 average, the former fell -8.5%, and the latter rose +1.8%.

▶ Following the data updates in July, our forecasts for **real private housing** and **changes in private inventories** in Q3 were revised upwards from last week. However, we revised down the **private capital investment** forecast.

▶ Compared to the April-June average, the real **export** index in July declined -1.5%, while the real import index grew +1.3%. As a result, the growth in **net exports** saw a QoQ deceleration.

### ●2018Q3 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's forecast of **real GDP growth** in 2018Q3 based on our Current Quarter Model (CQM) is an annualized -0.9%. The contribution of **domestic demand** is expected to remain unchanged, whereas that of **net exports** will decrease slightly.

▶ The forecast for real GDP growth in Q3 based on the Current Quarter Model **principal component analysis (production-side)** is -1.0% YoY. The growth forecast has remained negative in the past two weeks (Figure 1). If the GDP data for the first half of 2018 is smoothed, it becomes evident that Japan's economy has reached a plateau and this raises concerns for the future.

### ●2018Q3 inflation forecast update

▶ In July, the **consumer price index** rose +0.9% YoY, marking the 22<sup>nd</sup> month of uninterrupted growth. The seasonally adjusted figure is +0.3% MoM, remaining positive for the third month in a row. In YoY terms, the July growth rate accelerated by 0.2%pts compared to the previous month.

▶ This week's Current Quarter Model (CQM) forecasts a +0.2% QoQ increase in the private final consumption expenditure deflator, and a +0.2% one in the domestic demand deflator. As the Q3 terms of trade are expected to worsen, the overall GDP deflator is forecast to decline -0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2018 (% , QoQ annualized growth)

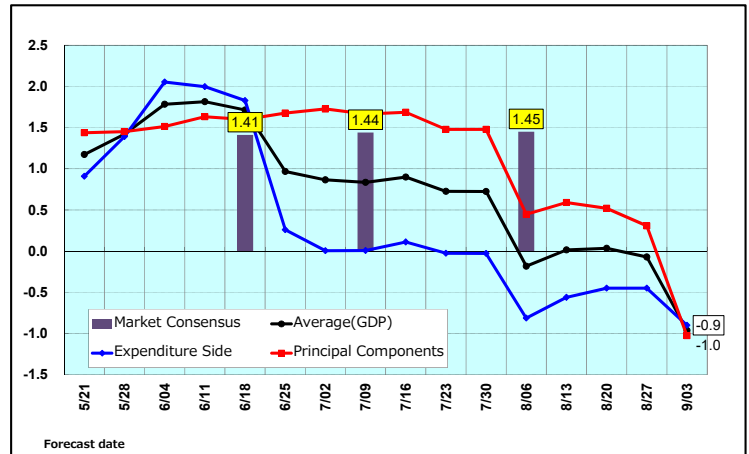
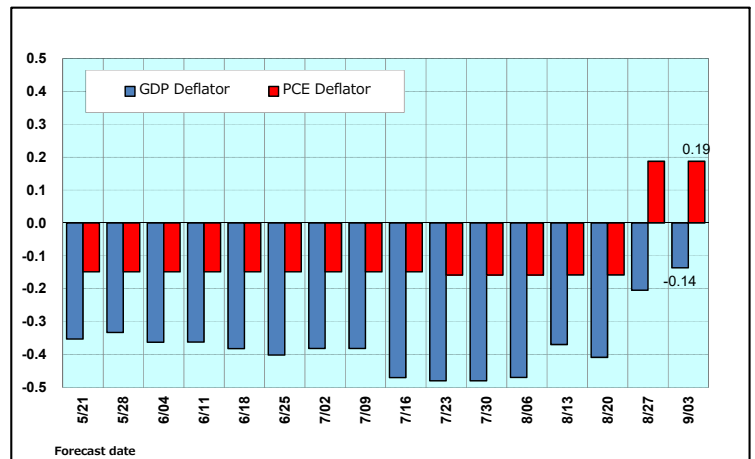


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2018 (% , QoQ growth)



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	
8/31	July	<b>Labour Force Survey</b>				
		Total employment (millions)	66.36	+0.04		
		Total unemployment (millions)	1.71	+0.06		
			Unemployment rate (%)	2.5%	+0.1%pts	
	July	<b>General Job Placement Situation</b>				
		Job offer ratio	1.63	+0.01%pts		
	July	<b>Indices of Industrial Production (preliminary figures, 2010=100)</b>				
		Production	102.4	-0.1%		
		Shipments	99.9	-1.9%		
		Inventory	111.2	-0.2%		
July	<b>New Housing Starts</b>					
	New housing starts (SA, Unit)	82615	+4.7%	-0.7%		
	Planned dwelling construction cost (billion JPY)	1348.5	+7.2%	+2.0%		
June	<b>Construction Costs Deflator (2011=100)</b>					
	Housing construction	113.7		+4.9%		
	Public works	115.5		+5.5%		
August	<b>Tokyo Region Consumer Price Index (2015=100)</b>					
	Core	101.0	+0.3%	+0.9%		
8/30	July	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	12414	+0.1%	+1.5%	
8/29	August	<b>Consumer Confidence Index (SA)</b>	43.3	-0.2		
8/28	July	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	101.0		+6.5%	
		Output price	101.0		+3.2%	
8/24	July	<b>National Consumer Price Index (2015=100)</b>				
		Core	100.9	+0.1%	+0.8%	
July	<b>Corporate Service Price Index (2010=100)</b>					
		Overall index	104.9		+1.1%	
8/23	June	<b>Index of Business Conditions (revised, 2010=100)</b>				
		Leading indicator	105.9	-2.2		
		Consensus	116.4	-0.4		
		Lagging indicator	116.9	-1.0		
8/22	June	<b>Monthly Labour Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	447205		+3.3%	
		Total working hours	147.7		-1.0%	
June	<b>Industrial Activity Indices (2010=100)</b>					
		All industries	105.4	-0.8%		
		Construction industry	113.4	-2.5%		
8/17	July	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	-231.2	-653.2	-128.6	
		Exports (billion JPY)	6747.4	+1.0%	+3.9%	
		Imports (billion JPY)	6978.6	+2.9%	+14.6%	
8/16	June	<b>Overall Construction Statistics</b>				
		Private construction: Non-residential (billion JPY)	844.4		+4.4%	
		Public works (billion JPY)	1479.7		-1.7%	
8/15	July	<b>Public Works Advanced Securities Statistics</b>				
		Contract amount (billion JPY)	1252.0		-2.9%	
		Number of contracts	26,293		+5.0%	
8/14	June	<b>Indices of Industrial Production (official, 2010=100)</b>				
		Production capacity index	93.7		-0.4%	
		Operation ratio index	99.8	-2.2%		

		Production	102.5	-1.8%	
		Shipments	101.8	+0.3%	
		Inventory	111.4	-1.9%	
8/10	June	<b>Tertiary Industry Activity Index (2010=100)</b>	104.3	+0.4%	
	July	<b>Domestic Corporate Price Index (2010=100)</b>			
		Corporate Price	101.8	+0.5%	+3.1%
		Export Price	97.6	+0.5%	+2.8%
		Import Price	101.7	+1.0%	+11.5%
8/9	June	<b>Synthetic Consumption Index (2011=100)</b>	104.3	+0.4%	
	June	<b>Private Core Machinery Orders (billion JPY)</b>	827.6	-8.8%	
8/8	June	<b>Information Services Industry Sales (billion JPY)</b>	1053.5		+1.6%
	July	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	46.6	-1.5	
		Future Conditions Diffusion Index	49.0	-1.0	
	June	<b>Balance of Payments</b>			
		Current account (billion JPY)	1175.6	-4.7%	+27.1%
		Exports (billion JPY)	6975.2	+0.0%	+9.3%
		Imports (billion JPY)	6154.8	-2.5%	+4.9%
8/7	June	<b>Monthly Labour Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	448,919		+3.6
		Total working hours	147.9		-0.8%
	June	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	267,641	+2.8%	-0.4%
		Real consumption expenditure		+2.9%	-1.2%
	June	<b>Consumption Activity Index (2011=100)</b>	103.3	+0.3%	
	June	<b>Consumption Trends Index (2015=100)</b>	101.6	+0.3%	
	June	<b>Index of Business Conditions (preliminary, 2010=100)</b>			
		Leading indicator	105.2	-1.7	
		Consensus	116.3	-0.5	
		Lagging indicator	115.6	-2.3	
8/1	July	<b>Food Buffer Stock (billion JPY)</b>	-7.7		1.1
	July	<b>New Car Sales (vehicles)</b>	368887		0.033