



Japanese Economy Monthly Forecast

September 2018

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Headlines

●Review of data released in September

▶According to the second preliminary estimate, real GDP in 2018Q2 expanded an annualized +3.0%, which is a major upward revision from the first preliminary estimate of +1.9%.

▶Although the **Index of Industrial production (IIP)** in August registered the first MoM increase in four months, the growth remained subdued at +0.7%. As a result, the July-August average was down -1.1% from the Q2 average.

▶The index of durable consumer goods production in August registered a MoM increase of +0.7%. In contrast, non-durable consumer goods production declined -0.9% MoM. Comparing the July-August average, the former index fell -5.3%, whereas the latter one saw a slight increase of +0.6%.

▶Following the data updates in August, we revised upwards our Q3 forecast for **private capital investment**. However, the Q3 forecasts for **real private housing, changes in private inventories and government investment** were revised downwards.

▶Compared to the April-June average, the **export volume index** and the **real export index** declined respectively -2.2% and -0.4% in the July-August average. On the opposite, the **import volume index** grew +2.3% and **real imports** expanded +2.0%. As a result, the July-August growth in **net exports** decelerated both in volume and in real terms.

●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 (expenditure side) is an annualized -1.3%. The contributions of both **domestic demand** and **net exports** are expected to be negative.

▶The forecast for real GDP growth in Q3 based on our **principal component analysis (production-side)** is an annualized -0.3% (Figure 1). The average of both models is -0.8%, suggesting that the negative growth trend observed so far still persists.

●2018Q3 inflation forecast update

▶In September, the **Tokyo Region Consumer Price Index** maintained its upward move for the fourth consecutive month, growing +0.1% MoM (a mid-month preliminary estimate). As a result, the overall Q3 change is +0.5%, which is the first increase in two quarters.

▶According to this week's Current Quarter Model (CQM) forecast, in Q3 the private final consumption expenditure deflator and the domestic demand deflator are projected to expand +0.4% QoQ each. Due to the worsening terms of trade in Q3, the GDP deflator is forecast to increase +0.2% QoQ, pushing inflation into positive territory for the first time in three quarters (Figure 2).

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

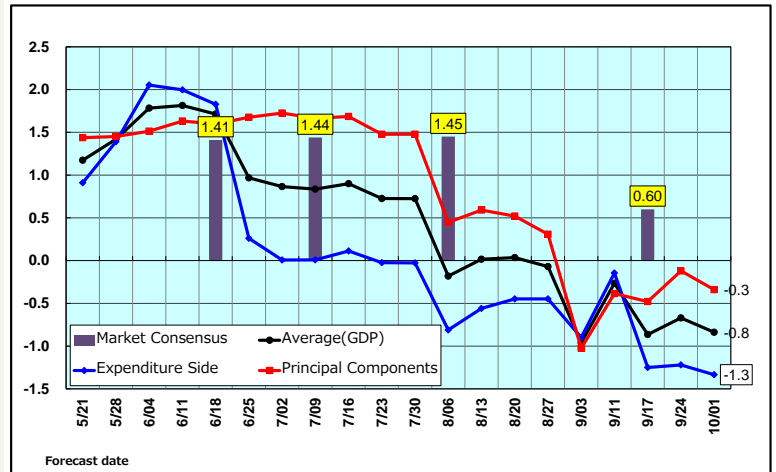
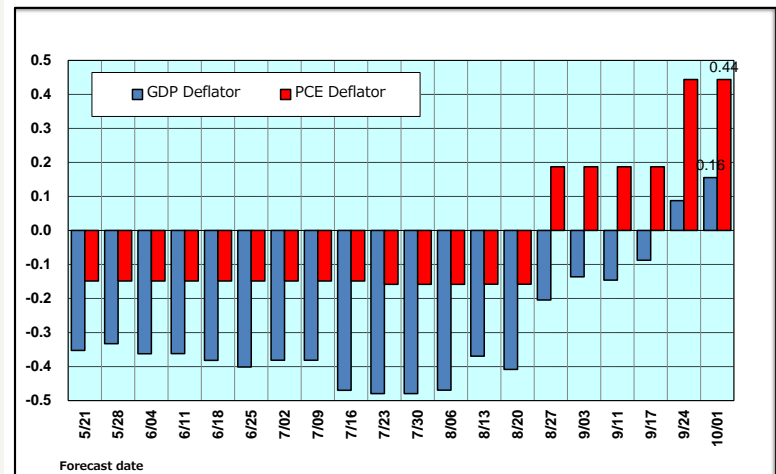


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2018 (% , QoQ growth)



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	
9/28	August	Labor Force Survey				
		Total employment (millions)	66.62	+0.26		
		Total unemployment (millions)	1.67	-0.05		
			Unemployment rate (%)	2.4%	-0.1%pts	
	August		General Job Placement Situation			
			Job offer ratio	1.63	0.00%pts	
	August		Indices of Industrial Production (preliminary figures, 2010=100)			
			Production	103.0	+0.7%	
			Shipments	101.9	+2.1%	
			Inventory	110.7	-0.4%	
	August		Current Survey of Commerce (preliminary figures)			
			Retail trade (billion JPY)	11812.0	+0.9%	+2.7%
	August		New Housing Starts			
		New housing starts (SA, Unit)	81860	-0.0%	+1.6%	
		Planned dwelling construction cost (billion JPY)	1281.5	-5.4%	-1.5%	
July		Construction Costs Deflator (2011=100)				
		Housing construction	113.0		+6.6%	
		Public works	114.5		+7.1%	
September		Tokyo Region Consumer Price Index (2015=100)				
		Core	101.0	+0.1%	+1.0%	
9/27	August	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	100.6		+6.2%	
		Output price	100.8		+3.0%	
9/25	July	Index of Business Conditions (revised, 2010=100)				
		Leading indicator	103.9	-0.7		
		Consensus	116.1	-0.8		
			Lagging indicator	117.5	-0.6	
	August		Corporate Service Price Index (2010=100)			
		Overall index	104.9		+1.3%	
9/21	July	Industrial Activity Indices (2010=100)				
		All industries	105.4	0.0%		
			Construction industry	112.8	-0.6%	
	July		Monthly Labor Statistics (final figures)			
			Total cash salary per capita (JPY)	376,619		+1.6%
			Total working hours	145.3		-0.4%
August		National Consumer Price Index (2015=100)				
		Core	101.2	+0.3%	+0.9%	
9/19	August	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-444.6	-88.0	-554.1	
		Exports (billion JPY)	6691.6	+0.4%	+6.6%	
		Imports (billion JPY)	7136.2	+1.6%	+15.4%	
9/18	July	Overall Construction Statistics				
		Private construction: Non-residential (billion JPY)	887.4		+5.5%	
		Public works (billion JPY)	1540.2		-1.8%	
9/14	July	Indices of Industrial Production (official, 2010=100)				
		Production capacity index	93.7		-0.6%	
		Operation ratio index	99.2	-0.6%		
		Production	102.3	-0.2%		
		Shipments	99.8	-2.0%		
			Inventory	111.2	-0.2%	
	August		Public Works Advanced Securities Statistics			
			Contract amount (billion JPY)	1124.1		-2.2%
			Number of contracts	23,794		+1.8%

9/13	July August	Private Core Machinery Orders (billion JPY) Domestic Corporate Price Index (2010=100) Corporate Price Export Price Import Price	918.6 101.7 97.1 101.1	+11.0 0.0% -0.3% -0.6%	+3.0% +2.9% +12.2%
9/12	July	Synthetic Consumption Index (2011=100)	104.2	-0.8%	
9/11	July	Tertiary Industry Activity Index (2010=100)	105.7	+0.1%	
9/10	July August	Information Services Industry Sales (billion JPY) Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index	764.4 48.7 51.4		-0.2%
	July	Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	2009.7 6770.8 6771.7	-15.8% +1.8% +3.2%	-14.4% +6.2% +16.6%
9/7	July	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours	376,338 145.4		+1.5% -0.4%
	July	Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure	283,387	-0.9% -1.1%	+1.2% +0.1%
	July	Consumption Activity Index (2011=100)	104.2	+0.5%	
	July	Consumption Trends Index (2015=100)	101.8	+0.1%	
	July	Index of Business Conditions (preliminary, 2010=100) Leading indicator Consensus Lagging indicator	103.5 116.3 117.7	-1.1 -0.6 -0.2	
9/4	August	Food Buffer Stock (billion JPY)	-62.1		-11.0
9/3	August	New Car Sales (vehicles)	302,338		+4.0%