



# Japanese Economy Monthly Forecast

January 2019

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## Headlines

### ●Review of data released in January

▶ Our forecasts for Japan's GDP reflect the latest official data updates. As of February 1<sup>st</sup>, data on most of the GDP-related indicators has already been released.

▶ The **Index of Industrial production (IIP)** in December declined MoM for the second consecutive month (-0.1%). However, thanks to the robust growth in October, the overall Q4 change was +1.9% over Q3, which was the first positive QoQ movement in two quarters.

▶ The October-November average Synthetic Consumption Index (a composite measure for private final household expenditure) increased +0.8% over the Q3 average, suggesting a robust recovery in the overall Q4 private final consumption expenditure.

▶ The number of **new housing starts** in December increased +0.6% MoM, maintaining the upward trend for the third month in a row. As a result, the Q4 average increased a tad (+0.5%) over the Q3 average, marking the first positive QoQ change in two quarters.

▶ After factoring in the December data updates, we revised upwards our Q4 forecasts for **real private housing** and **changes in private inventories**. However, there was no revision in our Q4 forecasts for **real private capital investment**.

▶ Japan's **real export value** in Q4 expanded +1.2% over Q3, while the **real import value** grew faster at +3.5%. As a result, **real net exports** growth decelerated slightly compared to Q3.

### ●2018Q4 real GDP growth forecast update

▶ Reflecting the December data updates, this week's forecast for Q4 **real GDP growth** based on the Current Quarter Model (expenditure side) is +0.5% QoQ, or +2.2% when annualized, which is an upward revision from the previous forecast. The contributions of **domestic demand** and **net exports** are expected to be +0.9%pt and -0.3%pt QoQ, respectively.

▶ The **production-side** forecast figure based on the principal component analysis model is +1.2% (annualized). The average of the production-side and the **expenditure-side** forecasts is +1.7% annualized growth (Figure 1).

### ●2018Q4 inflation forecast update

▶ December was the second consecutive month of MoM decline in the **National Consumer Price Index** (-0.2%). As a result, Q4 prices showed a flat trend, decelerating from Q3.

▶ According to this week's Current Quarter Model (CQM), the private final consumption expenditure deflator and the domestic demand deflator in Q4 are both estimated to have declined -0.1% QoQ. Due to the worsening terms of trade, we forecast an overall GDP deflator decline of -0.2% (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Oct-Dec (Q4) 2018 (% , QoQ annualized growth)

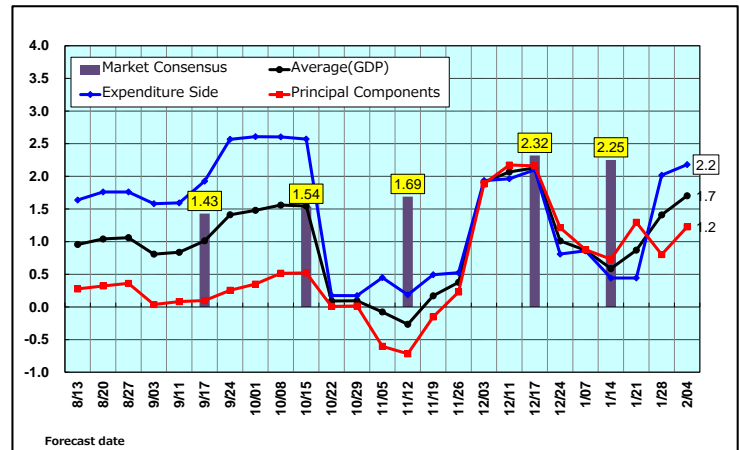
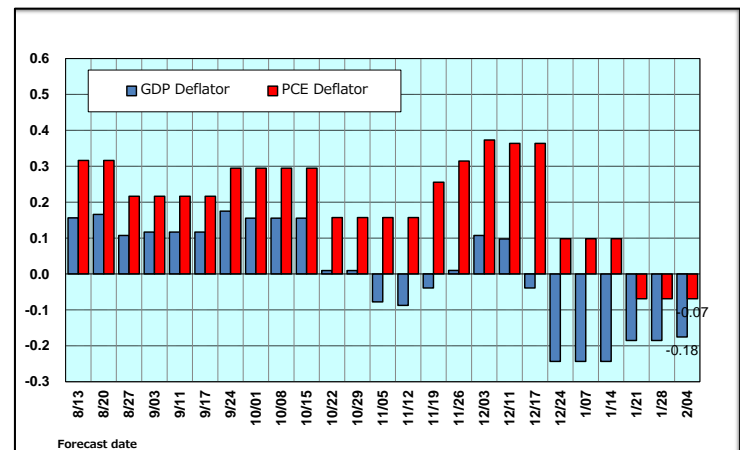


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2018 (% , QoQ growth)



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
2/1	January	<b>New Car Sales (vehicles)</b>	342,477		+0.9%
	December	<b>Labor Force Survey</b>			
		Total employment (millions)	66.68	-0.45	
		Total unemployment (millions)	1.67	-0.06	
		Unemployment rate (%)	2.4%	-0.1%pts	
	December	<b>General Job Placement Situation</b>			
		Job offer ratio	1.63	0.00%pts	
1/31	December	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>			
		Production	104.7	-0.1%	
		Shipments	103.6	+0.3%	
		Inventory	102.4	+1.0%	
	December	<b>New Housing Starts</b>			
	New housing starts (SA, Unit)	78,364	+0.8%	-0.6%	
	Planned dwelling construction cost (billion JPY)	1,275.5	+1.1%	+5.1%	
1/30	December	<b>Current Survey of Commerce (preliminary figures)</b>			
		Retail trade (billion JPY)	14,126.0	+0.9%	+1.3%
	January	<b>Consumer Confidence Index (SA)</b>	41.9	-0.8	
	December	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>			
		Input price	100.2		+1.7%
	Output price	100.6		+0.7%	
1/28	December	<b>Corporate Service Price Index (2010=100)</b>			
		Overall index	105.4		+1.1%
1/25	December	<b>Tokyo Region Consumer Price Index (2015=100)</b>			
		Core	100.9	+0.2%	+1.1%
1/24	November	<b>Consumption Trends Index (2015=100)</b>	102.1	-0.1%	
	November	<b>Index of Business Conditions (revised, 2015=100)</b>			
		Leading indicator	99.1	-0.6	
		Consensus	102.9	-1.7	
		Lagging indicator	104.0	+0.7	
1/23	November	<b>Monthly Labor Statistics (final figures)</b>			
		Total cash salary per capita (JPY)	285,196		+1.7%
		Total working hours	147.4		+1.3%
	November	<b>Industrial Activity Indices (2010=100)</b>			
		All industries	106.4	-0.3%	
		Construction industry	112.6	+1.9%	
	December	<b>Trade Statistics (customs clearance level)</b>			
		Trade balance (billion JPY)	-55.3	-61.8%	-414.0
	Exports (billion JPY)	7,240	-1.3%	-3.8%	
	Imports (billion JPY)	7,793	-5.3%	+1.9%	
1/21	November	<b>Synthetic Consumption Index (2011=100)</b>	105.1	-0.4%	
1/18	November	<b>Indices of Industrial Production (official, 2010=100)</b>			
		Production capacity index	98.9		-0.4%

		Operation ratio index	106.3	+1.0%	
		Production	104.8	-1.0%	
		Shipments	103.3	-1.2%	
		Inventory	101.4	+0.1%	
	November	<b>Overall Construction Statistics</b>			
		Private construction: Non-residential (billion JPY)	921.8		+0.5%
		Public works (billion JPY)	1,996.5		-4.2%
	December	<b>National Consumer Price Index (2015=100)</b>			
		Core	101.4	-0.0%	+0.9%
1/16	November	<b>Tertiary Industry Activity Index (2010=100)</b>	106.6	-0.3%	
	November	<b>Private Core Machinery Orders (billion JPY)</b>	863.1	-0.0%	
	December	<b>Domestic Corporate Price Index (2010=100)</b>			
		Corporate Price	101.5	-0.6%	+1.5%
		Export Price	96.5	-1.5%	-1.2%
		Import Price	104.4	-3.9%	+3.3%
1/15	November	<b>Information Services Industry Sales (billion JPY)</b>	836.6		+6.0%
	December	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	834.0		+4.6%
		Number of contracts	19,402		-0.9%
1/11	November	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	281,041	+1.1%	+0.4%
		Real consumption expenditure		+1.1%	-0.6%
	November	<b>Consumption Activity Index (2011=100)</b>	104.3	-0.6%	
	November	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	48.0	-3.0	
		Future Conditions Diffusion Index	48.5	-3.7	
	November	<b>Balance of Payments</b>			
		Current account (billion JPY)	757.2	+18.8%	-43.5%
		Exports (billion JPY)	6,918.0	-2.5%	+1.9%
		Imports (billion JPY)	7,477.2	-2.7%	+13.5%
1/10	October	<b>Index of Business Conditions (preliminary, 2015=100)</b>			
		Leading indicator	99.3	-0.3	
		Consensus	103.0	-1.9	
		Lagging indicator	104.0	+0.4	
1/9	November	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	283,607		+2.0%
		Total working hours	147.9		+1.6%
1/8	December	<b>Consumer Confidence Index (SA)</b>	42.7	-0.2	
1/7	December	<b>Food Buffer Stock (billion JPY)</b>	-50.0		+15.0
	December	<b>New Car Sales (vehicles)</b>	319,670		-3.2%