



Japanese Economy Monthly Forecast

February 2025

Yoshihisa Inada

Head of the Center for Quantitative Economic Analysis, APIR

e-mail: inada-y@apir.or.jp

Headlines

• Review of latest official data

▶ This forecast reflects official data released through the end of February. About one-third of the basic monthly data required for an accurate estimate of 2025 Q1 GDP have been released. Data related to the labor market, household consumption, public works, and the balance of payments are not available yet.

▶ According to the first advance official GDP estimate released on February 17, Japan's 2024 Q4 real GDP grew at an annualized rate of +2.8%, marking the third consecutive quarter of positive growth. The figure was much higher than the market consensus final forecast. On the other hand, APIR's CQM final forecast was in the bull's eye.

▶ The January production index fell -1.1% MoM for the third consecutive month. The January level was -2.0% lower than the 2024 Q4 average.

▶ Comparing January figures with the 2024 Q4 averages, planned construction expenditure increased by +1.5%, but the index for shipments of capital goods fell sharply by -9.7%, indicating that real business investment is likely to be sluggish in 2025 Q1.

▶ Comparing January figures with the 2024 Q4 averages, real exports fell -1.6% and real imports rose +6.7%. As a result, the net exports of goods made a negative contribution to real GDP growth in January. This was partly due to the impact of the Chinese New Year.

• 2025 Q1 real GDP growth forecast update

▶ As a result of the latest data update, APIR's expenditure-side CQM forecast for real GDP growth in 2025 Q1 is -0.6% QoQ, or an annualized -2.4%. Within the -0.6% QoQ growth figure, domestic demand is expected to contribute +0.1 percentage point (pp), while net exports are expected to suppress growth by -0.7 pp, partly due to the impact of the Chinese New Year. On the other hand, APIR's principal component analysis model forecasts an annualized growth of -1.6% 2025 Q1. The average forecast for both models is an annualized -2.0%, which is substantially lower than the market consensus forecast for February (an annualized +1.11%, Figure 1).

• 2025 Q1 inflation forecast update

▶ The national CPI rose +4.0% YoY in January, marking the 41st consecutive month of inflation. This is the first time since January 2023 (+4.3% YoY) that the inflation rate has exceeded 4%.

▶ APIR's CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2025 Q1 are respectively +1.1% and +0.8% QoQ. Considering the deteriorating terms of trade, we forecast a headline inflation rate (GDP deflator) of +0.2% QoQ in 2025 Q1 (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jan-Mar (Q1) 2025 (% , QoQ annualized growth)

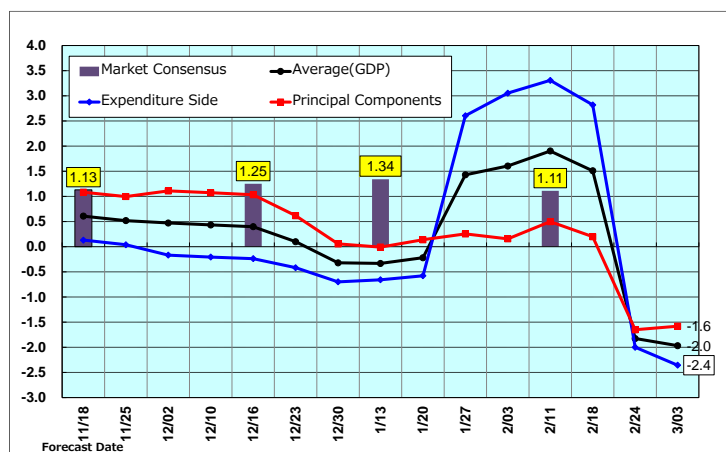
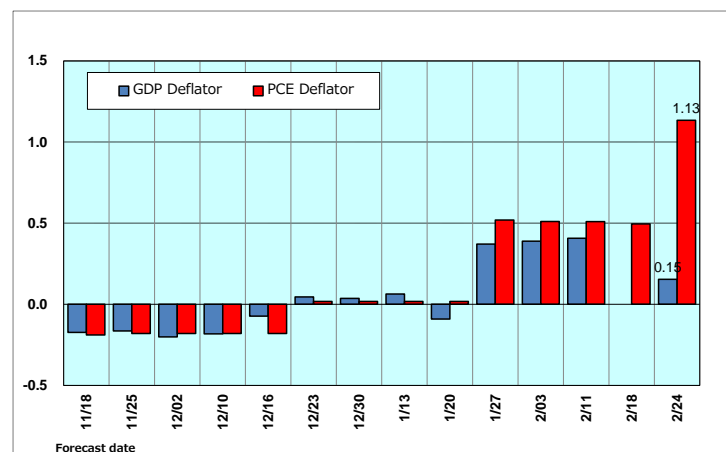


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2025 (% , QoQ growth)



We used 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.

Table 1: Main Economic Indicators (latest)

Re- lease Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
2/28	January	Indices of Industrial Production (preliminary figures, 2020=100)			
		Production	100.5	-1.1%	
		Shipments	98.5	-1.5%	
		Inventories	101.5	+0.9%	
	January	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	13,623.0	+0.5%	+3.9%
	January	New Housing Starts			
		New housing starts (SA, Unit)	56,134	-1.2%	-4.6%
		Planned residential construction expenditure (billion JPY)	1,215.4	-0.2%	+6.5%
	December	Construction Costs Deflator (2015=100)			
		Housing construction	129.9		+4.9%
		Public works	130.6		+5.8%
	February	Tokyo Region Consumer Price Index (2020=100)			
		Core index	108.7	-0.1%	+2.2%
2/27	January	Producer Price Index for Intermediate and Final Demand (2015=100)			
		Capital goods	111.2		+2.5%
		Consumer goods	121.7		+8.1%
2/26	December	Index of Business Conditions (revised, 2020=100)			
		Leading indicators	108.3	+0.5	
		Coincident indicators	116.4	+1.0	
		Lagging indicators	108.0	-0.2	
2/25	December	Monthly Labor Statistics (final figures)			
		Gross average salary per worker (JPY)	617,375		+4.4%
		Total working hours	136.7		-1.1%
	January	Corporate Services Price Index (2020=100)			
		Overall index	108.6		+3.1%
2/21	January	National Consumer Price Index (2020=100)			
		Core index	109.8	+0.3%	+3.2%
2/19	December	Private Core Machinery Orders (billion JPY)	889.3	-1.2%	
	January	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	-2,755.8	+287.6%	+56.2%
		Exports (billion JPY)	7,863.7	-2.0%	+7.2%
		Imports (billion JPY)	10,622.5	+4.7%	+16.7%
2/17	December	Indices of Industrial Production (final figures, 2020=100)			
		Production	101.6	-0.2%	
		Shipments	100.0	+0.2%	
		Inventory	100.6	-0.7%	
		Production capacity index	96.8		-1.7%
		Capacity utilization ratio	102.4	-0.2%	
	December	Tertiary Industry Activity Index (2015=100)	101.9	+0.1%	
	December	General Construction Statistics			
		Private non-residential construction (billion JPY)	967.5		+1.5%
		Public works (billion JPY)	2,331.1		+4.1%

2/14	January	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	566.2 8,807		-1.3% -5.0%
2/13	January	Domestic Corporate Price Index (2020=100) Corporate Price Export Price Import Price	125.3 141.4 166.3	+0.3% +1.3% +1.5%	+4.2% +4.5% +2.3%
2/10	January December	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index International Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	48.6 48.0 +1,077.3 9,473.7 9,411.3	-0.4 -1.4 -9.9% +6.4% +3.5%	 +17.8% -0.9% -0.3%
2/7	December December December December December	Household Expenditure (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2020=100) Consumption Activity Index (2015=100) Information Services Industry Sales (billion JPY) Index of Business Conditions (preliminary figures, 2020=100) Leading indicators Coincident indicators Lagging indicators	352,633 104.1 96.9 1,947.3 108.9 116.8 107.7	+3.0% +2.3% 0.0% -0.5% +1.1 +1.4 -0.4	+7.0% +2.7% +13.3%
2/5	December	Monthly Labor Statistics (preliminary figures) Gross average salary per worker (JPY) Total working hours	619,580 136.7		+4.8% -1.1%
2/4	January	Food Buffer Stock (billion JPY)	+14.1		+5.6
2/3	January	New Car Sales (vehicles)	328,205		+15.0%
1/31	December December	Labor Force Survey Total employment (millions) Total unemployment (millions) Unemployment rate (%) General Job Placement Situation Job offers-to-applicants ratio	68.22 1.70 2.4% 1.25	+0.14 -0.02 -0.1%pt 0.00%pt	
1/29	January	Consumer Confidence Index (SA)	35.2	-1.0	

Table 2: CQM Forecast: GDP Tracking

Forecast date	Real GDP			Deflator		Real GDP			Deflator		Real GDP			Deflator	
	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE
	2024Q4					2025Q1					2025Q2				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
11/18	1.7	1.0	1.3	0.1	0.1	0.1	1.1	0.6	-0.2	-0.2					
11/25	-1.1	0.4	-0.4	0.1	0.1	0.0	1.0	0.5	-0.2	-0.2					
12/02	0.1	1.6	0.9	0.1	0.1	-0.2	1.1	0.5	-0.2	-0.2					
12/09															
12/10	1.4	1.0	1.2	0.1	0.1	-0.2	1.1	0.4	-0.2	-0.2					
12/16	1.6	0.8	1.2	0.3	0.1	-0.2	1.0	0.4	-0.1	-0.2					
12/23	2.3	0.5	1.4	0.6	0.5	-0.4	0.6	0.1	0.0	0.0					
12/30	2.1	1.2	1.6	0.6	0.5	-0.7	0.1	-0.3	0.0	0.0					
1/13	2.0	1.3	1.6	0.6	0.5	-0.7	-0.0	-0.3	0.1	0.0					
1/20	2.8	1.3	2.1	0.7	0.5	-0.6	0.1	-0.2	-0.1	0.0					
1/27	4.1	1.9	3.0	0.8	0.8	2.6	0.3	1.4	0.4	0.5					
2/03	3.9	1.7	2.8	0.9	0.8	3.1	0.2	1.6	0.4	0.5					
2/11	2.5	3.1	2.8	1.0	0.9	3.3	0.5	1.9	0.4	0.5					
2/17	<u>2.8</u>			<u>0.6</u>	<u>0.1</u>										
2/18						2.8	0.2	1.5	0.0	0.5	0.8	0.6	0.7	0.0	0.3
2/24						-2.0	-1.7	-1.8	0.2	1.1	1.2	0.7	0.9	0.1	0.3
3/03						-2.4	-1.6	-2.0	0.2	1.1	0.4	0.3	0.4	0.1	0.3

Note: Underlined figures are 1st preliminary estimates.

Table 3-1: Gross Domestic Product at Chained 2015 Price: Y Billion

	Quarterly			Forecast		CY		FY	
	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	556,369	558,673	562,477	559,136	559,747	557,019	557,407	555,895	559,164
Private Consumption	296,915	299,122	299,526	300,144	300,538	297,985	297,642	296,654	298,927
Residential Investment	18,350	18,441	18,461	18,628	18,519	18,779	18,342	18,629	18,470
Nonresidential Investment	92,736	92,660	93,102	91,857	91,910	91,394	92,524	91,217	92,589
Change in Private Inventory	555	1,317	171	1,024	589	819	671	595	767
Government Consumption	119,454	119,605	119,943	120,411	120,896	118,264	119,329	118,029	119,853
Public Investment	26,763	26,461	26,373	26,030	25,708	26,428	26,191	25,970	26,407
Change in Public Inventory	-26	24	-76	-15	-19	40	-13	26	-23
Net Exports	2,029	1,536	5,069	1,149	1,699	3,306	3,001	4,638	2,446
Exports of Goods & Services	112,139	113,811	115,029	114,300	114,940	111,684	112,829	112,063	113,820
Imports of Goods & Services	110,110	112,275	109,960	113,151	113,242	108,378	109,828	107,425	111,374
Gross National Income	584,988	588,151	590,596	584,615	583,731	579,070	585,199	579,978	587,087
Memo:									
Total Demand	666,479	670,948	672,437	672,287	672,989	665,397	667,234	663,320	670,538
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.7	0.4	0.7	-0.6	0.1				
SAAR	3.0	1.7	2.8	-2.4	0.4				
% Change Year Ago	-0.7	0.6	1.3	1.2	0.6	1.5	0.1	0.7	0.6
Private Consumption	0.7	0.7	0.1	0.2	0.1				
% Change Year Ago	-0.5	0.8	1.1	1.8	1.2	0.8	-0.1	-0.4	0.8
Residential Investment	1.4	0.5	0.1	0.9	-0.6				
% Change Year Ago	-3.4	-2.1	-0.8	2.9	0.9	1.5	-2.3	0.8	-0.9
Nonresidential Investment	1.1	-0.1	0.5	-1.3	0.1				
% Change Year Ago	2.4	2.6	1.1	0.1	-0.9	1.5	1.2	-0.1	1.5
Government Consumption	0.9	0.1	0.3	0.4	0.4				
% Change Year Ago	1.6	1.3	1.6	1.8	1.2	-0.3	0.9	-0.8	1.5
Public Investment	5.7	-1.1	-0.3	-1.3	-1.2				
% Change Year Ago	-0.3	0.6	2.1	2.8	-3.9	1.5	-0.9	-0.3	1.7
Exports of Goods & Services	1.7	1.5	1.1	-0.6	0.6				
% Change Year Ago	0.9	1.7	0.0	3.6	2.5	3.0	1.0	2.9	1.6
Imports of Goods & Services	3.0	2.0	-2.1	2.9	0.1				
% Change Year Ago	3.7	5.3	0.0	5.9	2.8	-1.5	1.3	-3.3	3.7
Gross National Income	1.4	0.5	0.4	-1.0	-0.2				
SAAR	5.9	2.2	1.7	-4.0	-0.6				
% Change Year Ago	0.2	1.5	1.9	1.4	-0.2	2.3	1.1	2.0	1.2
Total Demand	1.1	0.7	0.2	0.0	0.1				
SAAR	4.5	2.7	0.9	-0.1	0.4				
% Change Year Ago	0.0	15.4	1.1	2.0	1.0	1.0	0.3	0.0	1.1
Contribution to GDP Growth Rate									
Domestic Demand	1.0	0.5	-0.1	0.1	0.0	0.5	0.2	-0.7	1.0
Private Demand	0.6	0.5	-0.1	0.1	0.0	0.4	0.0	-0.5	0.6
Public demand	0.5	0.0	0.0	0.0	0.0	0.0	0.1	-0.2	0.4
Net Exports	-0.3	-0.1	0.7	-0.7	0.1	1.0	-0.1	1.4	-0.4

Table 3-2: Gross Domestic Product at Current Prices: Y Billion

	Quarterly		Forecast			CY		FY	
	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	608,246	612,754	620,456	618,146	619,537	591,912	609,289	595,169	614,901
Private Consumption	328,621	331,955	332,801	337,282	338,829	322,530	329,425	323,047	332,665
Residential Investment	22,447	22,551	22,646	22,975	23,024	22,356	22,378	22,235	22,655
Nonresidential Investment	105,822	106,093	107,270	106,402	106,945	100,992	105,649	101,843	106,397
Change in Private Inventory	1,174	1,490	422	1,317	802	930	862	640	1,100
Government Consumption	125,393	126,285	127,484	128,680	129,201	122,976	125,580	122,458	126,960
Public Investment	32,000	31,764	31,862	31,529	31,360	30,621	31,355	30,378	31,789
Change in Public Inventory	-33	31	-111	-19	-22	77	-19	51	-33
Net Exports	-7,176	-7,415	-1,918	-10,019	-10,601	-8,569	-5,942	-5,483	-6,632
Exports of Goods & Services	139,096	139,390	142,258	146,196	146,449	129,342	138,645	132,250	141,735
Imports of Goods & Services	146,272	146,804	144,175	156,215	157,051	137,911	144,587	137,733	148,366
Gross National Income	648,340	653,702	659,196	656,486	657,336	627,124	648,557	631,298	654,431
Memo:									
Total Demand	754,518	759,559	764,631	774,360	776,588	729,824	753,876	732,902	763,267
Compensation of Employee	312,026	314,167	319,564	320,056	320,507	301,296	313,683	302,364	316,453
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	2.1	0.7	1.3	-0.4	0.2				
SAAR	8.9	3.0	5.1	-1.5	0.9				
% Change Year Ago	2.3	3.1	4.1	3.8	1.9	5.6	2.9	4.9	3.3
Private Consumption	1.5	1.0	0.3	1.3	0.5				
% Change Year Ago	1.9	3.0	3.1	4.1	3.1	3.9	2.1	2.4	3.0
Residential Investment	2.8	0.5	0.4	1.4	0.2				
% Change Year Ago	-0.4	0.7	1.9	5.3	2.6	1.8	0.1	0.9	1.9
Nonresidential Investment	2.1	0.3	1.1	-0.8	0.5				
% Change Year Ago	6.2	5.6	3.9	2.6	1.1	5.1	4.6	3.5	4.5
Government Consumption	2.1	0.7	0.9	0.9	0.4				
% Change Year Ago	3.0	2.9	3.9	4.8	3.0	1.8	2.1	0.3	3.7
Public Investment	6.9	-0.7	0.3	-1.0	-0.5				
% Change Year Ago	3.4	3.6	5.1	5.3	-2.0	5.1	2.4	3.1	4.6
Exports of Goods & Services	3.9	0.2	2.1	2.8	0.2				
% Change Year Ago	10.6	6.4	3.0	9.2	5.3	7.1	7.2	7.1	7.2
Imports of Goods & Services	3.7	0.4	-1.8	8.4	0.5				
% Change Year Ago	10.9	8.8	0.8	10.7	7.4	-2.6	4.8	-5.8	7.7
Gross National Income	2.5	0.8	0.8	-0.4	0.1				
SAAR	10.6	3.3	3.4	-1.6	0.5				
% Change Year Ago	2.9	3.8	4.2	3.8	1.4	5.4	3.4	4.9	3.7
Memo:									
Total Demand	2.4	0.7	0.7	1.3	0.3				
SAAR	10.1	2.7	2.7	5.2	1.2				
% Change Year Ago	0.0	38.2	3.5	5.1	2.9	0.0	4.0	0.0	2.7
Compensation of Employee	1.7	0.7	1.7	0.2	0.1				
% Change Year Ago	3.9	4.3	5.6	4.3	2.7	2.0	4.1	1.9	4.7

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	109.3	109.7	110.3	110.6	110.7	106.3	109.3	107.1	110.0
Private Consumption	110.7	111.0	111.1	112.4	112.7	108.2	110.7	108.9	111.3
Residential Investment	122.3	122.3	122.7	123.3	124.3	119.0	122.0	119.4	122.7
Nonresidential Investment	114.1	114.5	115.2	115.8	116.4	110.6	114.2	111.6	114.9
Government Consumption	105.0	105.6	106.3	106.9	106.9	104.0	105.2	103.8	105.9
Public Investment	119.6	120.0	120.8	121.1	122.0	115.9	119.7	116.9	120.4
Exports of Goods & Services	124.0	122.5	123.7	127.9	127.4	115.7	122.9	118.0	124.5
Imports of Goods & Services	132.8	130.8	131.1	138.1	138.7	127.2	131.7	128.2	133.2
Unit Profit	115.5	116.0	116.1	115.7	115.9	113.2	115.1	114.3	115.8
Unit Labor Cost	104.1	104.4	105.4	106.2	106.3	100.4	104.4	100.9	105.0
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.4	0.3	0.6	0.2	0.1				
	3.1	2.5	2.7	2.5	1.2	4.1	2.9	4.2	2.7
Private Consumption	0.7	0.3	0.1	1.1	0.3				
	2.4	2.1	2.0	2.3	1.9	3.0	2.3	2.9	2.2
Residential Investment	1.4	0.0	0.3	0.5	0.8				
	3.1	2.9	2.8	2.3	1.6	0.3	2.5	0.1	2.8
Nonresidential Investment	1.0	0.3	0.6	0.5	0.5				
	3.8	3.0	2.8	2.5	2.0	3.6	3.3	3.6	3.0
Government Consumption	1.2	0.6	0.7	0.6	0.0				
	1.4	1.6	2.3	3.0	1.8	2.1	1.2	1.2	2.1
Public Investment	1.1	0.4	0.6	0.3	0.7				
	3.7	3.0	3.0	2.4	2.0	3.5	3.3	3.5	3.0
Exports of Goods & Services	2.2	-1.3	1.0	3.4	-0.4				
	9.6	4.6	3.0	5.4	2.7	4.0	6.2	4.2	5.6
Imports of Goods & Services	0.6	-1.6	0.3	5.3	0.5				
	6.9	3.3	0.8	4.6	4.4	-1.0	3.5	-2.6	3.9
Unit Profit	0.0	0.4	0.1	-0.3	0.2				
	0.0	15.5	1.2	2.0	0.3	8.0	1.6	7.5	1.3
Unit Labor Cost	0.0	0.3	1.0	0.8	0.0				
	0.0	19.1	4.2	3.0	2.1	0.5	4.0	1.2	4.0