



Japanese Economy Monthly Forecast

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Headlines

• Review of latest official data

▶ In this forecast, data released through the end of August has been updated. Excluding household consumption, public works, and the balance of payments, one-third of the basic monthly data necessary for estimating accurate GDP for the July-September period has been updated.

▶ According to the preliminary GDP figures released on August 15, real GDP for the April-June quarter rose an annualized +1.0% QoQ, marking five consecutive quarters of positive growth. This was higher than market consensus and CQM's final forecast.

▶ The production index for July fell 1.6% MoM, marking the first decline in two months. As a result, it was down 0.3% compared to the April-June average. The Ministry of Economy, Trade and Industry maintained its assessment of the production trend for July as "one step forward, one step back," unchanged from the previous month.

▶ Compared to the April-June average, the consumer goods shipment index fell by -2.8% in July. Planned construction expenditure for dwelling increased by +20.7%, and the capital goods shipment index remained sluggish at -6.3%. Real private demand for the July-September period is likely to decrease from the previous quarter.

▶ Comparing July's export and import trends (based on Bank of Japan data) with the April-June average, real exports decreased by -2.3% and real imports fell by -1.9%. Real net exports of goods in July made a negative contribution to real GDP growth.

• 2025 Q3 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 Q3 is -0.7% QoQ, or an annualized -2.6%. This represents a downward revision from the previous forecast. Within the -0.7% QoQ growth figure, domestic demand is expected to contribute -0.4 percentage point (pp), while net exports are expected to contribute -0.2 pp. On the other hand, APIR's principal component analysis model forecasts an annualized growth of -0.9% in 2025 Q3. As a result, the average forecast for both models stands at -1.8% (see Figure1), indicating a high likelihood of negative growth for the first time in six quarters.

• 2025 Q3 inflation forecast update

▶ The national core CPI rose by +3.1% YoY in July, marking the 47th consecutive month of increases, with the inflation rate exceeding 3% for the eighth consecutive month.

▶ APIR's CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2025 Q3 are respectively +0.1% and +0.2% QoQ. However, considering the ameliorating terms of trade, we forecast a headline inflation rate (GDP deflator) of +0.5% QoQ in 2025 Q3 (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2025 (% , QoQ annualized growth)

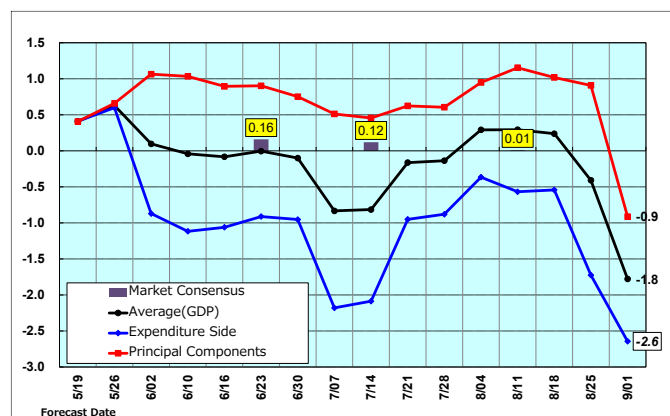
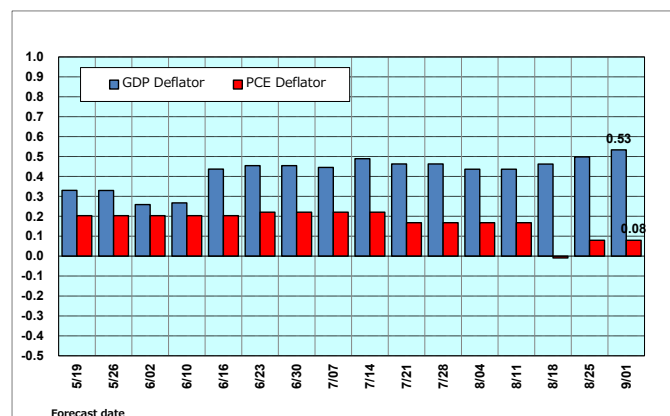


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2025 (% , QoQ growth)



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
8/29	July	Labor Force Survey			
		Total employment (millions)	68.31	-0.01	
		Total unemployment (millions)	1.64	-0.08	
		Unemployment rate (%)	2.3%	-0.2%pt	
	July	General Job Placement Situation			
		Job offers-to-applicants ratio	1.22	0.00pt	
	July	Indices of Industrial Production (preliminary figures, 2020=100)			
		Production	101.6	-1.6%	
		Shipments	98.9	-2.5%	
		Inventories	100.0	+0.8%	
	July	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	13,335.0	-1.6%	+0.3%
	July	New Housing Starts			
		New housing starts (SA, Unit)	61,409	+9.9%	-9.7%
		Planned residential construction expenditure (billion JPY)	1,323.7	+13.5%	-2.4%
	August June	Consumer Confidence Index (SA)	34.9	+1.2	
		Construction Costs Deflator (2015=100)			
	August	Housing construction	130.5		+2.6%
		Public works	131.8		+3.3%
		Tokyo Region Consumer Price Index (2020=100)			
		Core index	110.6	+0.1%	+2.5%
8/28	July	Producer Price Index for Intermediate and Final Demand (2020=100)			
		Capital goods	113.4		+2.8%
		Consumer goods	122.9		+5.0%
8/26	July	Corporate Services Price Index (2020=100)			
		Overall index	111.0		+2.9%
8/25	June	Index of Business Conditions (revised, 2020=100)			
		Leading indicators	105.6	+0.8	
		Coincident indicators	116.7	+0.7	
8/22	June	Lagging indicators	113.3	-0.6	
		Monthly Labor Statistics (final figures)			
		Gross average salary per worker (JPY)	514,106		+3.1%
	June	Total working hours	139.6		-0.4%
		Information Services Industry Sales (billion JPY)	3,227.2		+8.4%
	July	National Consumer Price Index (2020=100)			
		Core index	111.6	+0.1%	+3.1%
8/20	June	Private Core Machinery Orders (billion JPY)	941.2	+3.0%	
	June	General Construction Statistics			
		Private non-residential construction (billion JPY)	924.8		+1.4%
		Public works (billion JPY)	1,706.8		+4.7%
	July	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	-117.5	+22.4%	-81.3%
		Exports (billion JPY)	9,359.1	-0.2%	-2.6%

		Imports (billion JPY)	9,476.6	+0.4%	-7.5%
8/18	June	Tertiary Industry Activity Index (2019-20=100)	105.0	+0.5%	
8/15	June	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	1,676.5		+9.5%
		Number of contracts	26,518		+0.2%
8/13	June	Indices of Industrial Production (final figures, 2020=100)			
		Production	103.3	+2.1%	
		Shipments	101.4	-0.8%	
		Inventory	99.2	-0.3%	
		Production capacity index	95.9		-1.9%
		Capacity utilization ratio	103.1	-1.8%	
	July	Domestic Corporate Price Index (2020=100)			
		Corporate Price	126.6	+0.2%	+2.6%
		Export Price	136.6	+1.6%	-5.4%
		Import Price	155.2	+2.4%	-10.4%
8/08	June	Household Expenditure (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	295,419	-5.3%	+5.2%
		Real consumption expenditure		-5.2%	+1.3%
	June	Consumption Trend Index (2020=100)	105.3	+0.1%	
	July	Economy Watchers Survey			
		Current Conditions Diffusion Index	45.2	+0.2	
		Future Conditions Diffusion Index	47.3	+1.4	
	June	International Balance of Payments			
		Current account (billion JPY)	+1,348.2	-14.9%	-23.6%
		Exports (billion JPY)	8,962.7	+3.0%	-2.4%
		Imports (billion JPY)	8,493.0	-0.0%	-1.3%
8/07	June	Consumption Activity Index (2015=100)	98.3	+0.9%	
	June	Index of Business Conditions (preliminary figures, 2020=100)			
		Leading indicators	106.1	+1.3	
		Coincident indicators	116.8	+0.8	
		Lagging indicators	112.0	-1.5	
8/06	June	Monthly Labor Statistics (preliminary figures)			
		Gross average salary per worker (JPY)	511,210		+2.5%
		Total working hours	139.7		-0.3%
8/02	July	Food Buffer Stock (billion JPY)	-37.1		-33.5
8/01	July	New Car Sales (vehicles)	326,326		-3.7%

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
	2025Q2					2025Q3					2025Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/16															
5/19	0.4	1.9	1.1	0.7	0.2	0.4	0.4	0.4	0.3	0.2					
5/29	-0.5	1.6	0.6	0.8	0.3	0.6	0.7	0.6	0.3	0.2					
6/02	-1.9	-1.4	-1.6	0.6	0.3	-0.9	1.1	0.1	0.3	0.2					
6/09															
6/10	-1.8	-1.8	-1.8	0.7	0.3	-1.1	1.0	-0.0	0.3	0.2					
6/16	-1.4	-2.1	-1.7	0.8	0.3	-1.1	0.9	-0.1	0.4	0.2					
6/23	-0.9	-2.4	-1.7	0.8	0.3	-0.9	0.9	-0.0	0.5	0.2					
6/30	-0.7	-2.7	-1.7	0.8	0.3	-1.0	0.8	-0.1	0.5	0.2					
7/07	-0.5	-2.3	-1.4	0.9	0.3	-2.2	0.5	-0.8	0.4	0.2					
7/14	0.1	-2.4	-1.2	0.9	0.3	-2.1	0.5	-0.8	0.5	0.2					
7/21	-0.2	-2.8	-1.5	0.9	0.3	-1.0	0.6	-0.2	0.5	0.2					
7/28	0.1	-2.7	-1.3	0.9	0.3	-0.9	0.6	-0.1	0.5	0.2					
8/04	-0.1	-2.8	-1.4	0.9	0.3	-0.4	0.9	0.3	0.4	0.2					
8/11	0.2	-2.4	-1.1	0.9	0.3	-0.6	1.2	0.3	0.4	0.2					
8/15	<u>1.0</u>			<u>1.0</u>	<u>0.0</u>										
8/18						-0.5	1.0	0.2	0.5	-0.0	1.6	-0.3	0.6	0.2	0.5
8/25						-1.7	0.9	-0.4	0.5	0.1	1.5	-0.4	0.6	0.2	0.5
9/01						-2.6	-0.9	-1.8	0.5	0.1	1.7	-0.5	0.6	0.2	0.5

Note: Underlined figures are 1st preliminary estimates.

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

	Quarterly		Forecast			CY		FY	
	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4	2024	2025	2024	2025
GDP/GDE									
Gross Domestic Products	560,774	561,551	562,988	559,231	561,557	556,418	561,332	558,931	561,865
Private Consumption	299,661	300,340	300,812	300,976	301,369	297,825	300,874	299,229	301,218
Residential Investment	18,491	18,745	18,894	17,265	17,377	18,365	18,070	18,522	17,709
Nonresidential Investment	92,331	93,226	94,478	94,007	94,772	91,676	94,121	92,366	94,538
Change in Private Inventory	-332	2,718	1,050	456	779	480	1,251	1,140	1,012
Government Consumption	119,880	119,261	119,262	119,191	119,659	119,355	119,343	119,568	119,560
Public Investment	26,076	26,115	25,977	26,114	26,271	26,025	26,119	26,159	26,141
Change in Public Inventory	-89	46	-114	-149	-135	-11	-88	5	-134
Net Exports	5,093	1,544	3,169	1,910	2,005	3,129	2,157	2,460	2,360
Exports of Goods & Services	115,880	115,526	117,888	116,220	116,865	113,271	116,625	114,346	117,135
Imports of Goods & Services	110,787	113,982	114,719	114,310	114,860	110,142	114,468	111,887	114,775
Gross National Income	589,250	591,122	592,718	591,068	592,624	584,329	591,883	588,392	592,828
Memo:									
Total Demand	671,562	675,533	677,707	673,540	676,417	666,560	675,799	670,817	676,640
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.6	0.1	0.3	-0.7	0.4				
SAAR	2.4	0.6	1.0	-2.6	1.7				
% Change Year Ago	1.3	1.8	1.3	0.3	0.1	0.1	0.9	0.8	0.5
Private Consumption	0.1	0.2	0.2	0.1	0.1				
% Change Year Ago	1.0	1.9	1.2	0.5	0.6	-0.1	1.0	0.8	0.7
Residential Investment	-0.1	1.4	0.8	-8.6	0.6				
% Change Year Ago	-0.8	3.7	2.9	-6.7	-6.0	-2.0	-1.6	-0.4	-4.4
Nonresidential Investment	0.5	1.0	1.3	-0.5	0.8				
% Change Year Ago	0.9	2.7	2.9	2.3	2.6	0.9	2.7	2.0	2.4
Government Consumption	0.2	-0.5	0.0	-0.1	0.4				
% Change Year Ago	1.6	0.7	-0.2	-0.3	-0.2	0.9	0.0	1.3	0.0
Public Investment	-0.8	0.1	-0.5	0.5	0.6				
% Change Year Ago	0.6	1.9	-1.1	-0.7	0.7	-1.4	0.4	0.8	-0.1
Exports of Goods & Services	1.9	-0.3	2.0	-1.4	0.6				
% Change Year Ago	0.7	4.0	5.0	2.2	0.8	1.1	3.0	1.7	2.4
Imports of Goods & Services	-1.5	2.9	0.6	-0.4	0.5				
% Change Year Ago	-0.4	6.5	4.0	1.6	3.7	1.0	3.9	3.4	2.6
Gross National Income	0.3	0.3	0.3	-0.3	0.3				
SAAR	1.2	1.3	1.1	-1.1	1.1				
% Change Year Ago	1.8	2.8	1.3	0.6	0.6	1.1	1.3	1.6	0.8
Total Demand	0.2	0.6	0.3	-0.6	0.4				
SAAR	1.0	2.4	1.3	-2.4	1.7				
% Change Year Ago	0.0	16.1	1.7	0.5	0.7	0.2	1.4	1.2	0.9
Contribution to GDP Growth Rate									
Domestic Demand	-0.2	0.9	-0.1	-0.4	0.4	0.1	1.1	1.2	0.5
Private Demand	-0.2	0.9	0.0	-0.4	0.3	0.0	1.1	0.9	0.6
Public demand	0.0	-0.1	-0.1	0.0	0.1	0.1	0.0	0.3	0.0
Net Exports	0.8	-0.7	0.3	-0.2	0.0	0.0	-0.2	-0.4	0.0

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

	Quarterly			Forecast		CY		FY	
	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4	2024	2025	2024	2025
GDP/GDE									
Gross Domestic Products	619,502	625,417	633,305	632,435	636,294	608,399	631,863	616,128	635,757
Private Consumption	333,277	339,537	340,091	340,563	342,740	329,691	340,733	333,433	342,043
Residential Investment	22,735	23,252	23,714	21,758	21,918	22,414	22,661	22,771	22,290
Nonresidential Investment	106,675	108,423	110,422	110,468	112,016	104,733	110,332	106,441	111,400
Change in Private Inventory	-389	2,939	1,238	210	438	589	1,206	1,358	831
Government Consumption	127,392	127,099	127,680	128,239	128,755	125,652	127,943	126,538	128,487
Public Investment	31,620	31,856	31,941	32,338	32,382	31,179	32,129	31,637	32,229
Change in Public Inventory	-123	-4	-173	-164	-152	-15	-123	-16	-160
Net Exports	-1,685	-7,684	-1,609	-977	-1,803	-5,844	-3,018	-6,034	-1,363
Exports of Goods & Services	143,045	142,408	141,215	141,513	142,754	139,221	141,972	141,412	142,037
Imports of Goods & Services	144,730	150,092	142,824	142,491	144,557	145,065	144,991	147,446	143,400
Gross National Income	658,515	667,287	671,987	671,745	675,771	647,867	671,698	656,985	674,999
Memo:									
Total Demand	764,233	775,509	776,128	774,926	780,851	753,464	776,853	763,573	779,157
Compensation of Employee	319,030	320,741	323,840	327,272	327,915	313,531	324,942	316,386	326,984
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.3	1.0	1.3	-0.1	0.6				
SAAR	5.3	3.9	5.1	-0.5	2.5				
% Change Year Ago	4.2	5.2	4.2	3.4	2.7	3.0	3.9	3.7	3.2
Private Consumption	0.3	1.9	0.2	0.1	0.6				
% Change Year Ago	3.0	4.8	3.4	2.5	2.8	2.2	3.3	3.2	2.6
Residential Investment	0.4	2.3	2.0	-8.2	0.7				
% Change Year Ago	2.1	6.8	5.5	-3.9	-3.6	0.4	1.1	2.6	-2.1
Nonresidential Investment	1.3	1.6	1.8	0.0	1.4				
% Change Year Ago	3.9	6.0	5.2	4.9	5.0	4.3	5.3	5.3	4.7
Government Consumption	0.9	-0.2	0.5	0.4	0.4				
% Change Year Ago	3.9	3.3	1.8	1.5	1.1	2.2	1.8	3.3	1.5
Public Investment	0.0	0.7	0.3	1.2	0.1				
% Change Year Ago	3.9	5.6	1.4	2.3	2.4	2.0	3.0	4.1	1.9
Exports of Goods & Services	2.3	-0.4	-0.8	0.2	0.9				
% Change Year Ago	3.7	6.4	0.8	1.2	-0.2	7.3	2.0	6.6	0.4
Imports of Goods & Services	-2.0	3.7	-4.8	-0.2	1.4				
% Change Year Ago	0.4	6.6	-2.9	-3.5	-0.1	4.5	-0.1	6.3	-2.7
Gross National Income	0.8	1.3	0.7	0.0	0.6				
SAAR	3.3	5.4	2.8	-0.1	2.4				
% Change Year Ago	4.2	5.8	3.6	2.8	2.6	3.5	3.7	4.2	2.7
Memo:									
Total Demand	0.7	1.5	0.1	-0.2	0.8				
SAAR	2.6	6.0	0.3	-0.6	3.1				
% Change Year Ago	0.0	41.1	2.8	2.1	2.2	0.0	3.3	0.0	4.2
Compensation of Employee	1.7	0.5	1.0	1.1	0.2				
% Change Year Ago	5.5	4.7	3.5	4.3	2.8	4.1	3.6	4.6	3.3

Table 3-3: Deflator : 2015=100

	Quarterly			Forecast		CY		FY	
	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4	2024	2025	2024	2025
GDP/GDE									
Gross Domestic Products	110.5	111.4	112.5	113.1	113.3	109.3	112.6	110.2	113.2
Private Consumption	111.2	113.1	113.1	113.2	113.7	110.7	113.3	111.4	113.6
Residential Investment	123.0	124.0	125.5	126.0	126.1	122.0	125.4	122.9	125.9
Nonresidential Investment	115.5	116.3	116.9	117.5	118.2	114.3	117.2	115.2	117.8
Government Consumption	106.3	106.6	107.1	107.6	107.6	105.2	107.2	105.8	107.5
Public Investment	121.3	122.0	123.0	123.8	123.3	119.8	123.0	120.9	123.3
Exports of Goods & Services	123.4	123.3	119.8	121.8	122.2	122.9	121.7	123.7	121.3
Imports of Goods & Services	130.6	131.7	124.5	124.7	125.9	131.7	126.7	131.8	124.9
Unit Profit	116.3	117.7	119.3	118.4	119.2	115.0	118.6	116.4	119.2
Unit Labor Cost	105.6	106.0	106.7	108.6	108.4	104.6	107.4	105.0	108.0
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.7	0.8	1.0	0.5	0.2				
	2.8	3.4	2.9	3.1	2.6	2.9	3.0	2.9	2.7
Private Consumption	0.2	1.7	0.0	0.1	0.5				
	2.0	2.8	2.2	2.0	2.3	2.3	2.3	2.3	1.9
Residential Investment	0.5	0.9	1.2	0.4	0.1				
	3.0	3.0	2.6	3.0	2.6	2.5	2.8	3.0	2.4
Nonresidential Investment	0.8	0.7	0.5	0.5	0.6				
	2.9	3.2	2.3	2.6	2.3	3.4	2.6	3.2	2.3
Government Consumption	0.6	0.3	0.5	0.5	0.0				
	2.3	2.6	2.0	1.9	1.3	1.2	1.9	2.0	1.6
Public Investment	0.9	0.6	0.8	0.7	-0.5				
	3.2	3.6	2.6	3.0	1.7	3.4	2.7	3.4	2.0
Exports of Goods & Services	0.4	-0.1	-2.8	1.7	0.3				
	3.0	2.3	-4.0	-1.0	-1.1	6.2	-0.9	4.8	-2.0
Imports of Goods & Services	-0.5	0.8	-5.5	0.1	1.0				
	0.8	0.0	-6.7	-5.1	-3.7	3.5	-3.8	2.8	-5.2
Unit Profit	0.0	1.3	1.3	-0.7	0.6				
	0.0	17.3	3.6	2.1	2.5	1.8	3.2	2.0	2.5
Unit Labor Cost	0.0	0.4	0.7	1.7	-0.2				
	0.0	20.9	2.2	4.0	2.6	4.0	2.7	3.8	2.8