Japanese Economy Monthly Forecast

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Headlines

● Review of latest official data

This forecast updates data released through early October. Excluding household consumption-related data, public works, and balance of payments figures, two-thirds of the basic monthly data required for the July-September quarter GDP estimate has been updated.

According to the Bank of Japan's September Tankan survey, the business conditions DI for large corporations improved for the second consecutive quarter in the manufacturing sector. Meanwhile, in the non-manufacturing sector, it remained unchanged from the previous survey but continues to hold at a high level. This survey was conducted following the Japan-U.S. tax agreement, and uncertainty has decreased compared to the previous survey.

The production index for August fell 1.2% MoM, marking the second consecutive month of decline. As a result, the July-August average decreased 0.4% compared to the April-June average. METI maintained its assessment of the underlying trend as “one step forward, one step back” from the previous month.

Comparing the July-August average to the April-June average, the consumer goods shipment index fell by 2.0%. While the planned construction costs increased by 15.8%, the capital goods shipment index remained sluggish at -5.7%. Real private demand for the July-September quarter is highly likely to decrease from the previous quarter.

Comparing the average trade trends for July-August (Bank of Japan basis) with the April-June average, real exports decreased by -2.0% and real imports fell by -2.1%. Real net goods exports for July-August made a small positive contribution to real GDP growth.

● 2025 Q3 real GDP growth forecast update

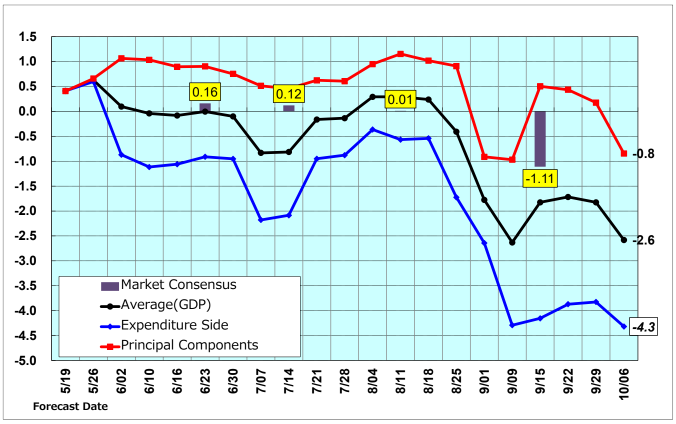
Based on the latest data update, CQM (expenditure side) forecasts negative growth for real GDP in the July-September quarter at an annualized rate of -4.3% QoQ. This represents a downward revision from the previous forecast. Meanwhile, the production side (principal component analysis model) forecasts -0.8% for the same period. As a result, the average forecast from both models is -2.6%, indicating a high likelihood of negative growth for the first time in six quarters (see Figure 1). The market consensus also forecasts negative growth at -1.11%.

● 2025 Q3 inflation forecast update

The national core CPI rose 2.7% YoY in August, marking the 48th consecutive month of increase. The inflation rate slowed for the third consecutive month compared to the previous month, falling into the 2% range for the first time since November 2024.

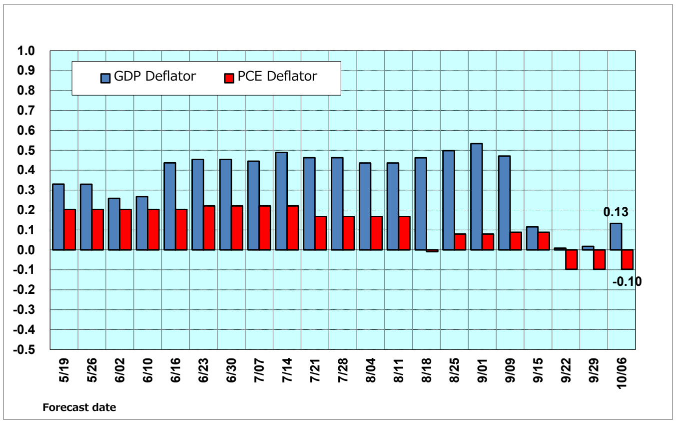
APIR’s CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2025 Q3 are respectively -0.1% and +0.2% QoQ. As terms of trade deteriorate, it forecasts headline (GDP deflator) inflation at +0.1% QoQ (see Figure 2).

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



Source: Author's calculation

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



Source: Author's calculation

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)

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change MoM	Change YoY
10/03	August	**Labor Force Survey**			
		Total employment (millions)	68.10	-0.21	
		Total unemployment (millions)	1.79	+0.15	
		Unemployment rate (%)	2.6%	+0.3%pt	
	August	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.20	-0.02pt	
10/02	September	**Food Buffer Stock (billion JPY)**	+2.8		-19.3
	September	**Consumer Confidence Index (SA)**	35.3	+0.4	
10/01	September	**New Car Sales (vehicles)**	357,461		-2.4%
9/30	August	**Indices of Industrial Production (preliminary figures, 2020=100)**			
		Production	100.9	-1.2%	
		Shipments	99.8	+0.5%	
		Inventories	99.1	-1.0%	
	August	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	12,683.0	-1.1%	-1.1%
	August	**New Housing Starts**			
		New housing starts (SA, Unit)	60,275	-0.1%	-9.8%
		Planned residential construction expenditure (billon JPY)	1,248.5	-8.1%	-4.1%
	July	**Construction Costs Deflator (2015=100)**			
		Housing construction	136.2		+5.7%
		Public works	137.5		+6.3%
9/29	August	**Producer Price Index for Intermediate and Final Demand (2020=100)**			
		Capital goods	114.0		+2.8%
		Consumer goods	122.5		+4.6%
9/26	July	**Index of Business Conditions (revised, 2020=100)**			
		Leading indicators	106.1	+1.1	
		Coincident indicators	114.1	-1.8	
		Lagging indicators	113.6	+0.4	
	July	**Monthly Labor Statistics (final figures)**			
		Gross average salary per worker (JPY)	416,744		+3.4%
		Total working hours	141.8		+0.3%
	September	**Tokyo Region Consumer Price Index (2020=100)**			
		Core index	110.0	+0.1%	+2.5%
9/25	August	**Corporate Services Price Index (2020=100)**			
		Overall index	111.2		+2.7%
9/24	July	**Information Services Industry Sales (billion JPY)**	2,734.6		+9.9%
	August	**National Consumer Price Index (2020=100)**			
		Core index	111.6	0.0%	+2.7%
9/18	July	**Private Core Machinery Orders (billion JPY)**	898.0	-4.6%	
	July	**General Construction Statistics**			
		Private non-residential construction (billion JPY)	933.2		+0.8%

		Public works (billion JPY)	1,798.6		+3.1%
9/17	August	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	-242.5	-48.7%	-65.9%
		Exports (billion JPY)	8,425.2	-0.1%	-0.1%
		Imports (billion JPY)	8,667.7	-1.6%	-5.2%
9/16	July	**Tertiary Industry Activity Index (2019-20=100)**	105.0	+0.5%	
9/12	August	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	1,096.6		+2.7%
		Number of contracts	19,201		-7.0%
	July	**Indices of Industrial Production (final figures, 2020=100)**			
		Production	102.1	-1.2%	
		Shipments	99.3	-2.1%	
		Inventory	100.1	+0.9%	
		Production capacity index	96.0		-1.7%
		Capacity utilization ratio	102.0	-1.1%	
9/11	August	**Domestic Corporate Price Index (2020=100)**			
		Corporate Price	126.5	-0.2%	+2.7%
		Export Price	137.2	+0.2%	-0.3%
		Import Price	155.9	+0.5%	-3.9%
9/08	August	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	46.7	+1.5	
		Future Conditions Diffusion Index	47.5	+0.2	
	July	**International Balance of Payments**			
		Current account (billion JPY)	+2,684.3	-21.5%	-19.1%
		Exports (billion JPY)	9,006.3	-3.2%	-4.9%
		Imports (billion JPY)	9,195.6	+1.3%	-7.4%
9/05	July	**Household Expenditure (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	305,694	+1.8%	+5.1%
		Real consumption expenditure		+1.7%	+1.4%
	July	**Consumption Trend Index (2020=100)**	105.2	0.0%	
	July	**Consumption Activity Index (2015=100)**	97.7	-0.4%	
	July	**Index of Business Conditions (preliminary figures, 2020=100)**			
		Leading indicators	105.9	+0.8	
		Coincident indicators	113.3	-2.6	
		Lagging indicators	114.2	+0.8	
	July	**Monthly Labor Statistics (preliminary figures)**			
		Gross average salary per worker (JPY)	419,668		+4.1%
		Total working hours	141.6		+0.1%

Source: Compiled from publicly available materials

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
9/08	***2.2****			***1.1****	***0.0****										
9/09						-4.3	-1.0	-2.6	0.5	0.1	1.5	-0.6	0.5	0.2	0.5
9/15						-4.2	0.5	-1.8	0.1	0.1	1.9	-0.3	0.8	0.0	0.5
9/22						-3.9	0.4	-1.7	0.0	-0.1	1.8	-0.2	0.8	-0.1	0.4
9/29						-3.8	0.2	-1.8	0.0	-0.1	1.7	-0.1	0.8	-0.1	0.4
10/06						-4.3	-0.8	-2.6	0.1	-0.1	1.5	-0.3	0.6	-0.0	0.4

Note: Underlined figures are preliminary estimates. Figures marked with an asterisk (*) are revised estimates. Please note that seasonal adjustments are applied retroactively when data is revised, so past values (seasonally adjusted figures) change each time.
Source: Author’s calculation

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	560,847	561,265	564,279	558,087	560,113	556,418	560,936	558,729	561,270
Private Consumption	299,567	299,667	300,861	301,156	301,530	297,825	300,804	298,982	301,357
Residential Investment	18,487	18,721	18,813	17,373	17,867	18,365	18,193	18,519	18,005
Nonresidential Investment	92,436	93,109	93,710	92,904	93,488	91,676	93,303	92,402	93,413
Change in Private Inventory	-292	3,138	2,942	1,729	1,356	480	2,291	1,140	2,109
Government Consumption	119,884	119,286	119,301	119,240	119,709	119,355	119,384	119,577	119,607
Public Investment	26,083	26,140	25,996	25,557	25,769	26,025	25,865	26,168	25,774
Change in Public Inventory	-89	46	-119	-101	-91	-11	-66	5	-100
Net Exports	5,100	1,560	3,105	558	814	3,129	1,509	2,459	1,433
Exports of Goods & Services	115,886	115,538	117,795	115,048	115,574	113,271	115,989	114,346	116,186
Imports of Goods & Services	110,786	113,978	114,690	114,489	114,760	110,142	114,479	111,887	114,753
Gross National Income	589,315	590,819	594,061	587,914	588,203	584,329	590,249	588,190	590,207
Memo:									
Total Demand	671,633	675,244	678,969	672,576	674,873	666,560	675,416	670,616	676,023
	Upper Row : % change from the previous quarter Low er Row : % change from a year earlier								
Gross Domestic Products	0.5	0.1	0.5	-1.1	0.4				
SAAR	***2.1***	***0.3***	***2.2***	***-4.3***	***1.5***				
% Change Year Ago	1.3	1.6	1.7	0.0	-0.1	0.1	0.8	0.7	0.5
Private Consumption	0.1	0.0	0.4	0.1	0.1				
% Change Year Ago	1.0	1.6	1.2	0.6	0.7	-0.1	1.0	0.7	0.8
Residential Investment	-0.1	1.3	0.5	-7.7	2.8				
% Change Year Ago	-0.8	3.6	2.4	-6.1	-3.4	-2.0	-0.9	-0.4	-2.8
Nonresidential Investment	0.6	0.7	0.6	-0.9	0.6				
% Change Year Ago	0.9	2.8	1.9	1.1	1.1	0.9	1.8	2.1	1.1
Government Consumption	0.2	-0.5	0.0	-0.1	0.4				
% Change Year Ago	1.6	0.8	-0.2	-0.3	-0.1	0.9	0.0	1.3	0.0
Public Investment	-0.8	0.2	-0.6	-1.7	0.8				
% Change Year Ago	0.6	2.1	-1.0	-2.8	-1.2	-1.4	-0.6	0.8	-1.5
Exports of Goods & Services	1.9	-0.3	2.0	-2.3	0.5				
% Change Year Ago	0.7	4.0	4.9	1.2	-0.3	1.1	2.4	1.7	1.6
Imports of Goods & Services	-1.5	2.9	0.6	-0.2	0.2				
% Change Year Ago	-0.4	6.5	4.0	1.8	3.6	1.0	3.9	3.4	2.6
Gross National Income	0.2	0.3	0.5	-1.0	0.0				
SAAR	***0.9***	***1.0***	***2.2***	***-4.1***	***0.2***				
% Change Year Ago	1.8	2.7	1.7	0.0	-0.2	1.1	1.0	1.6	0.3
Total Demand	0.2	0.5	0.6	-0.9	0.3				
SAAR	***0.7***	***2.2***	***2.2***	***-3.7***	***1.4***				
% Change Year Ago	0.0	16.1	2.1	0.3	0.5	0.2	1.3	1.2	0.8
Contribution to GDP Grow th Rate									
Domestic Demand	-0.3	0.8	0.2	-0.6	0.3	0.1	1.2	1.1	0.6
Private Demand	-0.2	0.9	0.3	-0.6	0.2	0.0	1.2	0.8	0.7
Public demand	0.0	-0.1	-0.1	-0.1	0.1	0.1	0.0	0.3	-0.1
Net Exports	0.8	-0.7	0.3	-0.5	0.0	0.0	-0.3	-0.4	-0.2

Note: Actual values are from the Cabinet Office's “Quarterly GDP Preliminary Report for April-June 2025 (Second Preliminary Release)”; shadow values are CQM forecasts.
Source: Author’s calculation

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	619,626	625,137	635,136	629,012	631,034	608,399	630,080	615,908	632,769
Private Consumption	333,235	338,786	340,194	340,181	341,957	329,691	340,279	333,157	341,583
Residential Investment	22,724	23,229	23,651	22,130	22,952	22,414	22,991	22,766	22,932
Nonresidential Investment	106,756	108,360	109,725	109,362	110,677	104,733	109,531	106,482	110,272
Change in Private Inventory	-309	3,413	3,589	1,704	1,220	589	2,482	1,358	2,206
Government Consumption	127,401	127,132	127,751	128,330	128,847	125,652	128,015	126,547	128,573
Public Investment	31,629	31,905	32,016	32,361	32,399	31,179	32,170	31,648	32,261
Change in Public Inventory	-123	-4	-180	-125	-117	-15	-107	-16	-135
Net Exports	-1,685	-7,684	-1,609	-4,931	-6,900	-5,844	-5,281	-6,034	-4,923
Exports of Goods & Services	143,045	142,408	141,215	140,463	141,890	139,221	141,494	141,412	141,382
Imports of Goods & Services	144,730	150,092	142,824	145,394	148,790	145,065	146,775	147,446	146,305
Gross National Income	658,639	667,007	673,819	668,090	670,311	647,867	669,807	656,765	671,855
Memo:									
Total Demand	764,357	775,228	777,960	774,406	779,824	753,464	776,854	763,353	779,074
Compensation of Employee	319,021	320,913	324,393	327,300	327,836	313,531	325,110	316,386	327,127
	Upper Row : % change from the previous quarter Lower Row : % change from a year earlier								
Gross Domestic Products	1.2	0.9	1.6	-1.0	0.3				
SAAR	***5.0***	***3.6***	***6.6***	***-3.8***	***1.3***				
% Change Year Ago	4.2	5.1	4.7	2.8	1.8	3.0	3.6	3.7	2.7
Private Consumption	0.4	1.7	0.4	0.0	0.5				
% Change Year Ago	3.0	4.4	3.5	2.5	2.6	2.2	3.2	3.1	2.5
Residential Investment	0.3	2.2	1.8	-6.4	3.7				
% Change Year Ago	2.1	6.7	5.2	-2.3	1.0	0.4	2.6	2.6	0.7
Nonresidential Investment	1.4	1.5	1.3	-0.3	1.2				
% Change Year Ago	3.9	6.1	4.4	3.8	3.7	4.3	4.6	5.4	3.6
Government Consumption	0.9	-0.2	0.5	0.5	0.4				
% Change Year Ago	3.9	3.4	1.8	1.6	1.1	2.2	1.9	3.3	1.6
Public Investment	0.1	0.9	0.3	1.1	0.1				
% Change Year Ago	3.9	5.7	1.7	2.4	2.4	2.0	3.2	4.2	1.9
Exports of Goods & Services	2.3	-0.4	-0.8	-0.5	1.0				
% Change Year Ago	3.7	6.4	0.8	0.4	-0.8	7.3	1.6	6.6	0.0
Imports of Goods & Services	-2.0	3.7	-4.8	1.8	2.3				
% Change Year Ago	0.4	6.6	-2.9	-1.5	2.8	4.5	1.2	6.3	-0.8
Gross National Income	0.8	1.3	1.0	-0.9	0.3				
SAAR	***3.1***	***5.2***	***4.1***	***-3.4***	***1.3***				
% Change Year Ago	4.2	5.7	4.1	2.2	1.8	3.5	3.4	4.2	2.3
Memo:									
Total Demand	0.6	1.4	0.4	-0.5	0.7				
SAAR	***2.4***	***5.8***	***1.4***	***-1.8***	***2.8***				
% Change Year Ago	0.0	41.0	3.2	1.9	2.0	0.0	3.3	0.0	4.2
Compensation of Employee	1.7	0.6	1.1	0.9	0.2				
% Change Year Ago	5.5	4.7	3.8	4.3	2.8	4.1	3.7	4.6	3.4

Note: Actual values are from the Cabinet Office's “Quarterly GDP Preliminary Report for April-June 2025 (Second Preliminary Release)”; shadow values are CQM forecasts.
Source: Author’s calculation

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	112.6	112.7	112.7	109.3	112.3	110.2	112.7
Private Consumption	111.2	113.1	113.1	113.0	113.4	110.7	113.1	111.4	113.4
Residential Investment	122.9	124.1	125.7	127.4	128.5	122.0	126.4	122.9	127.4
Nonresidential Investment	115.5	116.4	117.1	117.7	118.4	114.3	117.4	115.2	118.1
Government Consumption	106.3	106.6	107.1	107.6	107.6	105.2	107.2	105.8	107.5
Public Investment	121.3	122.1	123.2	126.6	125.7	119.8	124.4	120.9	125.2
Exports of Goods & Services	123.4	123.3	119.9	122.1	122.8	122.9	122.0	123.7	121.7
Imports of Goods & Services	130.6	131.7	124.5	127.0	129.7	131.7	128.2	131.8	127.5
Unit Profit	116.3	117.6	119.5	117.3	117.5	115.0	118.0	116.3	118.2
Unit Labor Cost	105.6	106.1	106.7	108.8	108.6	104.6	107.6	105.1	108.2
	Upper Row : % change from the previous quarter Lower Row : % change from a year earlier								
Gross Domestic Products	0.7	0.8	1.1	0.1	0.0				
	2.8	3.4	3.0	2.8	2.0	2.9	2.8	3.0	2.3
Private Consumption	0.3	1.6	0.0	-0.1	0.4				
	2.0	2.8	2.3	1.8	2.0	2.3	2.2	2.3	1.7
Residential Investment	0.5	1.0	1.3	1.3	0.8				
	3.0	3.0	2.7	4.1	4.5	2.5	3.6	3.0	3.6
Nonresidential Investment	0.8	0.8	0.6	0.5	0.6				
	3.0	3.2	2.5	2.7	2.5	3.4	2.7	3.2	2.5
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	0.7	0.9	2.8	-0.7				
	3.2	3.6	2.8	5.3	3.7	3.4	3.8	3.4	3.6
Exports of Goods & Services	0.4	-0.2	-2.7	1.8	0.6				
	3.0	2.3	-3.9	-0.7	-0.5	6.2	-0.7	4.8	-1.6
Imports of Goods & Services	-0.5	0.8	-5.4	2.0	2.1				
	0.8	0.0	-6.7	-3.3	-0.8	3.5	-2.7	2.8	-3.3
Unit Profit	0.0	1.1	1.6	-1.8	0.1				
	0.0	17.2	3.9	1.1	1.0	1.8	2.6	2.0	1.6
Unit Labor Cost	0.0	0.5	0.5	2.0	-0.2				
	0.0	21.0	2.0	4.3	2.9	4.0	2.9	3.9	2.9

Note: Actual values are from the Cabinet Office's “Quarterly GDP Preliminary Report for April-June 2025 (Second Preliminary Release)”; shadow values are CQM forecasts.
Source: Author’s calculation