



Japanese Economy Monthly Forecast

July 2026

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Headlines

Review of Data Released in July

► In this forecast, we have incorporated data released through the end of July. With the exception of June data on household consumption and public works, nearly all monthly data needed to estimate Q2 GDP are now available.

► The seasonally adjusted production index rose 1.3% MoM in June, marking its third consecutive monthly increase. For Q2 as a whole, the index was unchanged from the previous quarter. METI maintained its assessment of the underlying production trend as “one step forward, one step back,” unchanged from the previous month.

► Employment conditions improved in Q2, with the number of employed persons increasing by 480,000 and wage earners by 430,000 from the previous quarter. The labor market showed relatively strong improvement during the quarter.

► From the previous quarter, retail sales increased 1.8%, while planned construction costs and the capital goods shipment index declined 0.7% and 1.2%, respectively. Overall, real private demand is expected to have recovered moderately in Q2.

► According to Bank of Japan data, real exports fell 0.5% QoQ in Q2, while real imports declined 2.4%. As a result, real net exports of goods made a positive contribution to real GDP growth.

Trends in Real GDP Growth Forecasts for Q2

► Based on the latest data, CQM's expenditure-side model projects real GDP growth of +0.8% QoQ, or +3.2% annualized, for Q2. The production-side principal component analysis model projects growth of +2.3% QoQ. The average forecast across the two approaches is +2.8%. By contrast, the July market consensus is +0.8% QoQ, significantly below the CQM forecast (Figure 1).

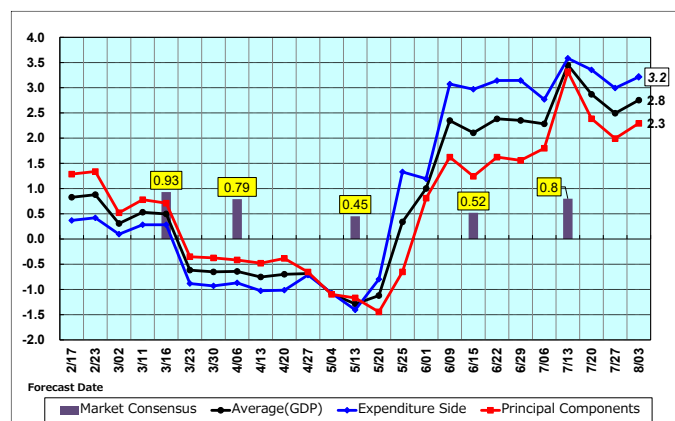
► On the expenditure side, domestic demand is expected to contribute +0.5 percentage points to QoQ real GDP growth, while net exports are projected to contribute +0.3 percentage points. The market consensus also expects both components to make modest positive contributions.

Trends in Inflation Forecasts for Q2

► The June CPI excluding fresh food rose 1.6% YoY, marking the 58th consecutive month of increase. However, inflation has remained below 2% for five consecutive months.

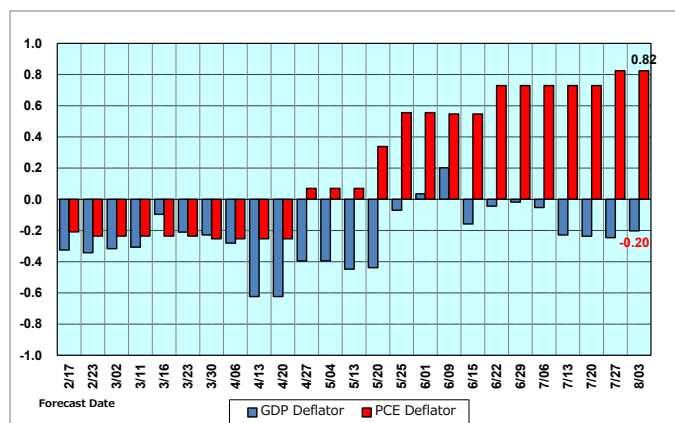
► In this CQM report, we project the final private consumption expenditure deflator to rise 0.8% QoQ and the domestic demand deflator to increase 1.1%. With the terms of trade expected to deteriorate significantly, headline inflation is projected to decline 0.2% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Apr-Jun (Q2) 2026 (% , QoQ annualized growth)



Source: Compiled by the author

Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2026 (% , QoQ growth)



Source: Compiled by the author

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	YoY
7/31	June	Labor Force Survey			
		Total employment (millions)	684.6	-0.4	
		Total unemployment (millions)	1.75	+0.0	
		Unemployment rate (%)	2.5	+0.0	
	June	General Job Placement Situation			
		Effective job offers-to-applicants ratio	1	+0.01	
	June	Indices of Industrial Production (preliminary figures, 2020=100)			
		Production	104	+1.3	
		Shipments	101.1	-0.4	
		Inventories	97.1	+2.3	
	June	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	13,190.0	-4.1	+0.5
	June	New Housing Starts			
		New housing starts (SA, Unit)	66,344.0	+3.9	+18.6
		Planned residential construction expenditure (billion JPY)	1,498.3	+13.1	+25.9
	June	Construction Costs Deflator (2020=100)			
		Housing construction	127.1		+5.2
		Public works	125.7		+5.4
	July	Tokyo Region Consumer Price Index (2020=100)			
		Core index	112.6	+0.3%	+1.9%
7/30	July	Consumer Confidence Index (SA)	34.9	1.1	
7/29	May	Producer Price Index for Intermediate and Final Demand (2020=100)			
		Capital goods	117.80		3.5%
		Consumer goods	126.6		3.3%
	May	Index of Business Conditions (revised, 2020=100)			
		Leading indicators	116.5	0.4	
		Coincident indicators	117.9	-0.2	
		Lagging indicators	111.4	-0.2	
		Corporate Services Price Index (2020=100)			
		Overall index	114.3		3.2%
	May	Monthly Labor Statistics (final figures)			
		Gross average salary per worker (JPY)	311,448		3.3%
		Total working hours	129.3		-3.9
		Information Services Industry Sales (billion JPY)	2,697.3		4.3
7/24	May	National Consumer Price Index (2025=100)			
		Core index	113.1	0.2	1.6%
	June	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	-406.9	298.9%	-529.2
		Exports (billion JPY)	10,929.0	0.5%	19.3%
		Imports (billion JPY)	11,335.9	6.6%	25.4%
	June	Real Import and Export Trends: (2020=100: July)			
		Real Exports: 120.2 (+0.7% MoM)	119.5	0.4%	
		Real Imports: 115.0 (+0.1% MoM)	115.1	2.3%	
	May	General Construction Statistics			
		Private non-residential construction (billion JPY)	965.5		2.6%
7/17	May	Public works (billion JPY)	1,670		5.5%
		Tertiary Industry Activity Index (2019-20=100)	107.3	1.1	
	May	Private Core Machinery Orders (billion JPY)	962.0	-12.4%	
		Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	2,023.5		0.20%
		Number of contracts	24,415		6.2%
	May	Indices of Industrial Production (final figures, 2020=100)			
		Production	102.6	0.1%	
		Shipments	101.5	0.5%	
		Inventory	94.9	-1.1%	
		Production capacity index	94.5		-1.3%
		Capacity utilization ratio	103.0	0.1%	
7/10		Domestic Corporate Price Index (2020=100)			
		Corporate Price	135.4	0.4%	7.1%
		Export Price	162.6	0.4%	20.7%
		Import Price	196.6	1.3%	29.7%
	July	Economy Watchers Survey			
		Current Conditions Diffusion Index	45.7	+1.7	
		Future Conditions Diffusion Index	45.8	+0.1	
	June	International Balance of Payments			
		Current account (billion JPY)	3,968.3	-27.2%	19.5%
		Exports (billion JPY)	9,360.2	1.8%	14.7%
		Imports (billion JPY)	9,353.3	4.6%	8.1%
7/7	May	Monthly Labor Statistics (preliminary figures)			
		Gross average salary per worker (JPY)	311,165		3.2%
		Total working hours	129.4		-3.8%
	May	Household Expenditure (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	320,345	4.0%	1.3%
		Real consumption expenditure		3.7%	-0.4%
	May	Consumption Trend Index (2020=100)	106.4	0.1%	
		Consumption Activity Index (2020=100)	108.1	0.6%	
	May	Index of Business Conditions (preliminary figures, 2020=100)			
		Leading indicators	116.8	+0.7	
		Coincident indicators	118.5	+0.4	
		Lagging indicators	111.5	-0.4	
7/2	June	Food Buffer Stock (billion JPY)	+6.5		1.0
7/1	June	New Car Sales (vehicles)	360,452		9.5%

Source: Prepared by the author based on various official statistics.

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
	2026Q1					2026Q2					2026Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
<u>2/16</u>															
2/17	0.4	0.0	0.2	0.5	0.3	0.4	1.3	0.8	-0.3	-0.2					
2/23	3.9	2.4	3.1	0.4	-0.1	0.4	1.3	0.9	-0.3	-0.2					
3/02	3.8	4.3	4.1	0.4	-0.1	0.1	0.5	0.3	-0.3	-0.2					
<u>3/10</u>									0.0	0.0					
3/11	4.8	4.5	4.7	0.5	-0.2	0.3	0.8	0.5	-0.3	-0.2					
3/16	4.8	4.9	4.9	0.7	-0.2	0.3	0.7	0.5	-0.1	-0.2					
3/23	2.9	3.2	3.1	0.5	-0.2	-0.9	-0.4	-0.6	-0.2	-0.2					
3/30	3.2	3.3	3.2	0.4	-0.2	-0.9	-0.4	-0.7	-0.2	-0.3					
4/06	2.8	2.6	2.7	0.5	-0.2	-0.9	-0.4	-0.6	-0.3	-0.3					
4/13	2.0	2.3	2.1	0.4	-0.2	-1.0	-0.5	-0.8	-0.6	-0.3					
4/20	2.0	3.0	2.5	0.4	-0.2	-1.0	-0.4	-0.7	-0.6	-0.3					
4/27	2.4	3.0	2.7	0.5	-0.1	-0.7	-0.7	-0.7	-0.4	0.1					
5/04	2.3	2.8	2.6	0.5	-0.1	-1.1	-1.1	-1.1	-0.4	0.1					
5/13	1.9	2.5	2.2	0.4	-0.1	-1.4	-1.2	-1.3	-0.4	0.1					
<u>5/19</u>	<u>2.1</u>			<u>0.3</u>	<u>0.4</u>										
5/20						-0.8	-1.4	-1.1	-0.4	0.3	1.4	0.6	1.0	-0.1	-0.1
5/25						1.3	-0.7	0.3	-0.1	0.6	1.1	0.8	1.0	-0.1	-0.1
6/01						1.2	0.8	1.0	0.0	0.6	1.2	0.5	0.8	-0.1	-0.1
<u>6/08</u>	<u>1.8*</u>			<u>0.2*</u>	<u>0.4*</u>										
6/09						3.1	1.6	2.3	0.2	0.5	-0.3	0.3	-0.0	-0.2	-0.1
6/15						3.0	1.2	2.1	-0.2	0.5	-0.3	0.5	0.1	0.1	-0.1
6/22						3.1	1.6	2.4	-0.0	0.7	0.9	0.7	0.8	0.2	-0.0
6/29						3.1	1.6	2.4	-0.0	0.7	0.9	0.7	0.8	0.2	-0.0
7/06						2.8	1.8	2.3	-0.1	0.7	0.4	0.7	0.5	0.2	-0.0
7/13						3.6	3.3	3.5	-0.2	0.7	0.1	0.4	0.2	-0.3	-0.0
7/20						3.4	2.4	2.9	-0.2	0.7	0.4	0.2	0.3	-0.2	-0.0
7/27						3.0	2.0	2.5	-0.2	0.8	0.9	-0.2	0.3	-0.1	0.2
8/03						3.2	2.3	2.8	-0.2	0.8	1.4	0.3	0.9	-0.0	0.2

Note: Underlined figures are 1st preliminary estimates.

Source: Compiled by the author

Table 3-1: Gross Domestic Product at Chained 2020 Price: Y Billion

	Quarterly					CY		FY	
	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3	2025	2026	2025	2026
GDP/GDE									
Gross Domestic Products	589,459.8	590,545.8	593,218.8	597,929.9	599,991.4	591,081.7	598,437.9	587,134.8	591,660.1
Private Consumption	308,937.0	309,199.8	310,270.5	311,957.5	312,070.6	308,077.3	311,711.5	305,076.8	308,973.9
Residential Investment	21,255.6	22,308.8	22,514.0	22,452.8	22,377.2	22,432.3	22,462.7	23,056.9	22,281.2
Nonresidential Investment	106,126.3	107,357.4	106,588.7	106,831.4	107,903.6	106,241.4	107,553.5	104,530.3	106,569.9
Change in Private Inventory	498.4	-1,408.0	-1,748.4	-1,132.3	-531.1	723.2	-805.1	207.7	-361.1
Government Consumption	122,150.9	122,614.7	123,001.0	123,433.3	123,943.7	122,032.6	123,708.6	121,486.9	122,461.5
Public Investment	27,394.7	27,359.4	27,770.2	27,863.7	27,626.9	27,490.3	27,750.8	27,686.0	27,554.8
Change in Public Inventory	-49.1	-74.2	-98.6	61.6	13.5	-48.0	-3.0	-47.0	-77.2
Net Exports	4,406.6	4,625.0	6,125.7	7,666.2	7,791.2	5,037.2	7,263.2	5,737.5	5,267.1
Exports of Goods & Services	106,054.1	106,264.9	108,190.8	107,726.8	109,489.1	106,490.9	108,809.6	104,991.9	107,040.7
Imports of Goods & Services	101,647.5	101,639.9	102,065.1	100,060.6	101,697.8	101,453.7	101,546.4	99,254.5	101,773.7
Gross National Income	621,365.7	620,189.3	622,987.5	620,575.7	620,116.7	619,683.3	622,003.0	613,373.3	621,212.5
Memo:									
Total Demand	691,107.3	692,185.7	695,283.9	697,990.5	701,689.2	692,535	699,984	686,389	693,434

Upper Row : % change from the previous quarter Lower Row : % change from a year earlier

Gross Domestic Products	-0.6	0.2	0.5	0.8	0.3				
SAAR	-2.3	0.7	1.8	3.2	1.4				
% Change Year Ago	0.5	0.4	0.3	0.8	1.8	1.1	1.2	0.5	0.8
Private Consumption	0.5	0.1	0.3	0.5	0.0				
% Change Year Ago	1.3	1.4	1.1	1.5	1.0	1.3	1.2	0.1	1.3
Residential Investment	-8.0	5.0	0.9	-0.3	-0.3				
% Change Year Ago	-7.9	-4.0	-2.6	-2.8	5.3	-2.5	0.1	-0.7	-3.4
Nonresidential Investment	-0.1	1.2	-0.7	0.2	1.0				
% Change Year Ago	1.2	3.2	1.3	0.6	1.7	2.1	1.2	0.8	2.0
Government Consumption	0.1	0.4	0.3	0.4	0.4				
% Change Year Ago	0.5	0.8	1.4	1.1	1.5	0.9	1.4	2.3	0.8
Public Investment	-1.0	-0.1	1.5	0.3	-0.9				
% Change Year Ago	-1.7	-1.5	0.8	0.7	0.8	-0.4	0.9	0.1	-0.5
Exports of Goods & Services	-1.6	0.2	1.8	-0.4	1.6				
% Change Year Ago	1.1	-0.3	2.1	0.0	3.2	2.5	2.2	2.7	2.0
Imports of Goods & Services	-0.2	0.0	0.4	-2.0	1.6				
% Change Year Ago	1.2	3.2	1.3	-1.7	0.0	3.8	0.1	4.0	2.5
Gross National Income	0.3	-0.2	0.5	-0.4	-0.1				
SAAR	1.1	-0.8	1.8	-1.5	-0.3				
% Change Year Ago	1.4	1.0	0.9	0.1	-0.2	1.6	0.4	1.1	1.3
Total Demand	-0.5	0.2	0.4	0.4	0.5				
SAAR	-2.1	0.6	1.8	1.6	2.1				
% Change Year Ago	2.4	1.9	0.5	0.5	1.5	1.5	1.1	1.0	1.0
Contribution to GDP Growth Rate									
Domestic Demand	-0.3	0.1	0.1	0.5	0.3	1.4	0.8	0.8	0.9
Private Demand	-0.2	0.1	0.0	0.4	0.3	1.2	0.5	0.3	0.8
Public demand	0.0	0.1	0.1	0.1	0.0	0.2	0.3	0.5	0.1
Net Exports	-0.3	0.0	0.3	0.3	0.0	-0.3	0.4	-0.3	-0.1

Source: Compiled by the author

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

	Quarterly					Forecast		CY		FY	
	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3			2025	2026	2025	2026
GDP/GDE											
Gross Domestic Products	665,583.7	671,469.3	675,610.5	679,589.0	681,678.1			663,465.6	680,443.7	642,781.2	669,369.2
Private Consumption	352,708.9	354,921.0	357,481.9	362,413.3	363,175.6			350,839.4	361,626.0	340,184.7	353,601.5
Residential Investment	26,151.2	27,581.8	28,208.4	28,504.7	28,623.2			27,447.2	28,535.5	27,563.3	27,500.7
Nonresidential Investment	124,110.5	126,733.9	127,067.5	128,709.8	131,130.1			123,675.8	130,092.1	119,190.9	125,303.0
Change in Private Inventory	496.0	-1,973.7	-3,826.7	-1,392.0	551.1			759.3	-1,055.6	197.3	-777.5
Government Consumption	132,159.4	133,014.9	134,147.3	135,261.7	135,823.9			131,604.3	135,404.8	129,100.3	132,626.4
Public Investment	32,568.4	32,797.3	33,612.9	34,399.7	34,270.0			32,526.3	34,102.5	32,018.6	32,925.8
Change in Public Inventory	-47.5	-79.4	-94.9	21.3	-17.8			-72.3	-27.7	-76.3	-98.2
Net Exports	-2,563.1	-1,526.5	-985.9	-8,329.5	-11,878.1			-3,314.2	-8,233.9	-5,397.6	-1,712.4
Exports of Goods & Services	144,493.7	149,904.8	156,278.1	162,350.7	166,492.8			145,306.2	163,503.1	143,444.4	148,614.6
Imports of Goods & Services	147,056.8	151,431.2	157,264.1	170,680.2	178,370.9			148,620.5	171,737.0	148,842.2	150,327.0
Gross National Income	708,977.4	711,846.3	717,712.3	720,726.0	722,564.7			704,245.0	722,071.0	682,509.5	710,454.5
Memo:											
Total Demand	812,640.5	822,900.5	832,874.6	850,269.2	860,049.0			812,086.1	852,180.7	791,623.4	819,696.2
Compensation of Employee	323,683.7	327,221.6	329,310.9	334,325.4	334,059.1			323,092.8	333,202.5	314,173.2	325,475.6

Upper Row : % change from the previous quarter Lower Row : % change from a year earlier

Gross Domestic Products	0.2	0.9	0.6	0.6	0.3				
SAAR	0.6	3.6	2.5	2.4	1.2				
% Change Year Ago	4.0	3.8	3.6	2.3	2.4	4.5	2.6	3.7	4.1
Private Consumption	1.0	0.6	0.7	1.4	0.2				
% Change Year Ago	4.2	4.1	3.2	3.8	3.0	4.2	3.1	2.8	3.9
Residential Investment	-7.0	5.5	2.3	1.1	0.4				
% Change Year Ago	-4.7	-0.8	0.8	1.3	9.5	0.7	4.0	2.6	-0.2
Nonresidential Investment	0.9	2.1	0.3	1.3	1.9				
% Change Year Ago	4.4	6.6	5.1	4.7	5.7	5.2	5.2	4.2	5.1
Government Consumption	0.6	0.6	0.9	0.8	0.4				
% Change Year Ago	2.5	2.7	3.4	3.0	2.8	3.0	2.9	4.6	2.7
Public Investment	-0.2	0.7	2.5	2.3	-0.4				
% Change Year Ago	1.8	1.7	4.4	5.4	5.2	3.1	4.8	3.9	2.8
Exports of Goods & Services	0.7	3.7	4.3	3.9	2.6				
% Change Year Ago	1.2	3.2	8.8	13.2	15.2	3.0	12.5	7.9	3.6
Imports of Goods & Services	1.2	3.0	3.9	8.5	4.5				
% Change Year Ago	-1.5	3.3	4.2	17.5	21.3	1.6	15.6	7.2	1.0
Gross National Income	0.8	0.4	0.8	0.4	0.3				
SAAR	3.4	1.6	3.3	1.7	1.0				
% Change Year Ago	4.4	3.9	3.5	2.5	1.9	4.6	2.5	4.1	4.1
Memo:									
Total Demand	0.3	1.3	1.2	2.1	1.2				
SAAR	1.4	5.1	4.9	8.6	4.7				
% Change Year Ago	6.9	5.6	3.7	5.0	5.8	4.0	4.9	4.4	3.5
Compensation of Employee	0.5	1.1	0.6	1.5	-0.1				
% Change Year Ago	3.4	3.4	3.6	3.8	3.2	3.7	3.1	4.1	3.6

Source: Compiled by the author

Table 3-3: Deflator : 2020=100

	Quarterly		Forecast			CY		FY	
	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025	2026	2025	2026
GDP/GDE									
Gross Domestic Products	112.9	113.7	113.9	113.7	113.6	112.2	113.7	109.5	113.1
Private Consumption	114.2	114.8	115.2	116.2	116.4	113.9	116.0	111.5	114.4
Residential Investment	123.0	123.6	125.3	127.0	127.9	122.4	127.0	119.5	123.4
Nonresidential Investment	117.0	118.1	119.2	120.5	121.5	116.5	121.0	114.0	117.5
Government Consumption	108.2	108.5	109.1	109.6	109.6	107.8	109.5	106.3	108.3
Public Investment	118.9	119.9	121.0	123.5	124.1	118.3	122.9	115.6	119.4
Exports of Goods & Services	136.3	141.1	144.5	150.7	152.1	136.4	150.3	136.6	138.8
Imports of Goods & Services	144.7	149.0	154.1	170.6	175.4	146.5	169.1	150.0	147.7
Unit Profit	117.8	118.4	118.5	117.3	117.7	116.9	117.8	113.7	118.1
Unit Labor Cost	108.3	109.3	109.5	110.2	109.8	107.8	109.8	105.4	108.3

	UpperRow : %change from the previous quarter					LowerRow : %change from a year earlier			
Gross Domestic Products	0.8	0.7	0.2	-0.2	0.0				
	3.5	3.4	3.2	1.4	0.6	3.4	1.3	3.2	3.3
Private Consumption	0.5	0.5	0.4	0.8	0.2				
	2.8	2.7	2.0	2.2	1.9	2.9	1.9	2.7	2.6
Residential Investment	1.1	0.5	1.3	1.3	0.8				
	3.5	3.4	3.5	4.3	4.0	3.3	3.8	3.3	3.3
Nonresidential Investment	1.0	0.9	1.0	1.1	0.9				
	3.1	3.2	3.7	4.1	3.9	3.0	3.9	3.3	3.1
Government Consumption	0.6	0.3	0.5	0.5	0.0				
	1.9	1.9	1.9	1.9	1.3	2.1	1.5	2.2	1.9
Public Investment	0.9	0.8	1.0	2.0	0.5				
	3.6	3.3	3.6	4.7	4.3	3.5	3.9	3.8	3.3
Exports of Goods & Services	0.1	3.6	6.7	13.2	11.6	0.5	10.2	5.1	1.6
Imports of Goods & Services	1.4	3.0	3.4	10.7	2.8				
	-2.7	0.1	2.9	19.5	21.2	-2.2	15.5	3.1	-1.6
Unit Profit	0.0	0.5	0.1	-1.1	0.3				
	0.0	5.5	3.2	0.0	-0.1	4.2	0.8	2.9	3.9
Unit Labor Cost	0.0	0.9	0.2	0.7	-0.4				
	0.0	4.1	3.3	2.9	1.4	2.6	1.9	3.6	2.8

Source: Compiled by the author