Japanese Economy Monthly Forecast

August 2026

Yoshihisa Inada
Head of the Center for Quantitative Economic Analysis, APIR
e-mail: inada-y@apir.or.jp

Headlines

Review of Data Released in August

▶ This forecast incorporates data released through the end of August and the first preliminary Q2 GDP estimate (see Figure 1). About one-third of the monthly data used to estimate Q3 GDP has been updated.

▶ Several factors explain why the market consensus and CQM forecast significantly exceeded the preliminary Q2 estimate, with an overestimation of changes in public inventories being the main factor.

▶ The production index rose 0.1% MoM in July, its fourth consecutive monthly increase, leaving it unchanged from the Q2 average. METI maintained its assessment of the underlying trend as “one step forward, one step back.”

▶ From the Q2 average, July retail sales rose 0.3%, planned construction costs 8.8%, and capital goods shipments 9.9%, pointing to a solid recovery in private demand in Q3.

▶ Compared with the Q2 average, July real exports and imports rose 2.1% and 3.2%, respectively. Real net exports of goods made a negative contribution to real GDP growth.

Trends in Real GDP Growth Forecasts for Q3

▶ The latest CQM forecast puts Q3 real GDP growth at +0.5% QoQ, or +2.0% annualized, on the expenditure side, while the production-side model forecasts -1.5% QoQ. The average is +0.3%, close to the August market consensus of +0.05% QoQ. The two CQM estimates currently diverge, but may converge as more data become available (see Figure 1).

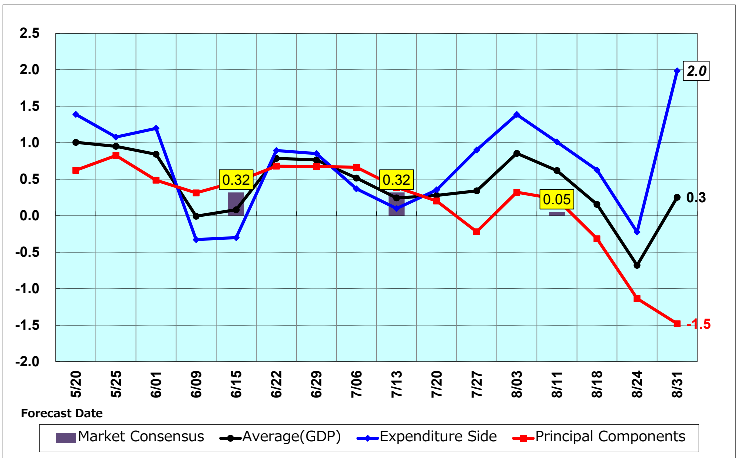
▶ Domestic demand is expected to contribute +0.7 percentage points to QoQ growth, while net exports contribute -0.2 percentage points. The market consensus also expects a modestly positive contribution from domestic demand and a slightly negative contribution from net exports.

Trends in Inflation Forecasts for Q3

▶ The July Core CPI (excluding fresh food) rose 1.8% YoY, its 59th consecutive monthly increase. Inflation, however, has remained below 2% for seven consecutive months.

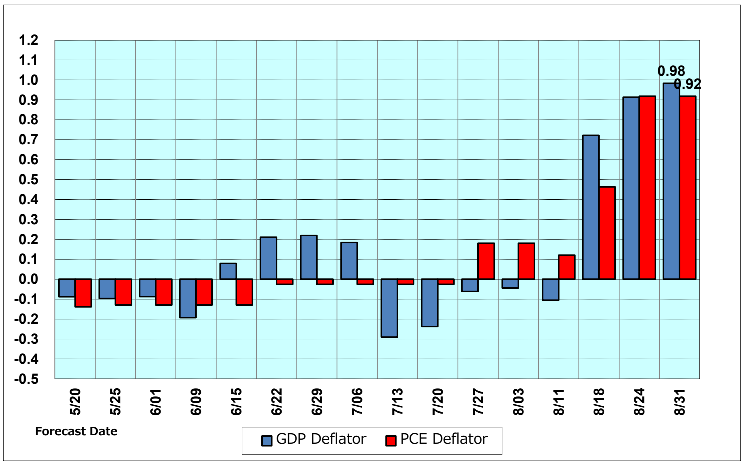
▶ CQM forecasts the private final consumption expenditure deflator to rise 0.9% QoQ and the domestic demand deflator 1.3% in Q3. With the terms of trade expected to deteriorate significantly, headline inflation is forecast to rise 1.0% QoQ (see Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2026 (%, QoQ annualized growth)



Source: Compiled by the author

Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 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
8/31	July	**Indices of Industrial Production (preliminary figures, 2020=100)**			
		Production	104.7	+0.1	
		Shipments	103.5	+2.2	
		Inventories	98.1	+0.5	
	July	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	13,880	+2.4	+4.0
	July	**New Housing Starts**			
		New housing starts (SA, Unit)	66,439	+8.2%	+11.4%
		Planned residential construction expenditure (billon JPY)	1,548.7	+17.0%	+20.3%
	June	**Construction Costs Deflator (2020=100)**			
		Housing construction	126.9		+4.4%
		Public works	125.1		+4.1%
8/28	July	**Labor Force Survey**			
		Total employment (millions)	68.31	-0.15	
		Total unemployment (millions)	1.67	-0.08	
		Unemployment rate (%)	2.4%	-0.1%pt	
	July	**General Job Placement Situation**			
		Effective job offers-to-applicants ratio	1.18	0.00pt	
	August	**Tokyo Region Consumer Price Index (2020=100)**			
		Core index	102.3	+0.1%	+1.8%
	June	**Producer Price Index for Intermediate and Final Demand (2020=100)**			
		Capital goods	134.2		+3.5%
		Consumer goods	135.7		+4.3%
8/26	July	**Corporate Services Price Index (2020=100)**			
		Overall index	115.1		+3.6%
8/25	June	**Index of Business Conditions (revised, 2020=100)**			
		Leading indicators	116.5	0.0	
		Coincident indicators	118.5	+0.6	
		Lagging indicators	111.8	+0.5	
8/24	June	**Monthly Labor Statistics (final figures)**			
		Gross average salary per worker (JPY)	534,823		4.0%
		Total working hours	139.3		-0.2%
		Information Services Industry Sales (billion JPY)	3,587.7		+7.7%
8/21	July	**National Consumer Price Index (2025=100)**			
		Core index	102.1	+0.3%	+1.8%
8/20	July	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	635	26.0%	306%
		Exports (billion JPY)	11,511.8	2.8%	23.2%
		Imports (billion JPY)	12,146.3	0.4%	27.8%
		Real Import and Export Trends: (2020=100: July)			
		Real Exports: 120.2 (+0.7% MoM)	120.2	+0.7%	
		Real Imports: 115.0 (+0.1% MoM)	115.0	+0.1%	
8/19	June	**Private Core Machinery Orders (billion JPY)**	1,055.8	9.7%	
8/17	June	**Tertiary Industry Activity Index (2019-20=100)**	106.7	-0.2%	
	June	**Indices of Industrial Production (final figures, 2020=100)**			
		Production	104.6	1.9%	
		Shipments	101.3	-0.2%	
		Inventory	97.6	+2.8%	
		Production capacity index	94.7		-1.3%
		Capacity utilization ratio	107.2	+4.1%	
	June	**General Construction Statistics**			
		Private non-residential construction (billion JPY)	987.2		+4.3%
		Public works (billion JPY)	1,786.2		+2.2%
8/14	July	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	1,720.5		+2.6%
		Number of contracts	26,059		+1.7%
8/13	July	**Domestic Corporate Price Index (2020=100)**			
		Corporate Price	135.8	+0.1%	+7.2%
		Export Price	163	+0.1%	+18.9%
		Import Price	199.7	+1.3%	+29.1%
8/10	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)	-92.3	-54.4%	-1,374.0
		Exports (billion JPY)	10,480.1	-1.6%	+16.3%
		Imports (billion JPY)	10,615.3	+6.1%	+24.3%
8/7	June	**Household Expenditure (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	290,886	-6.2%	-1.5%
		Real consumption expenditure		-6.4%	-3.3%
	June	**Consumption Trend Index (2020=100)**	106.3	-0.1%	
	June	**Consumption Activity Index (2015=100)**	106.7	-1.7%	
	June	**Index of Business Conditions (preliminary figures, 2020=100)**			
		Leading indicators	116.4	+0.0	
		Coincident indicators	118.2	+0.3	
		Lagging indicators	112.3	+0.9	
8/5	June	**Monthly Labor Statistics (preliminary figures)**			
		Gross average salary per worker (JPY)	531,677		+3.4%
		Total working hours	139.2		-0.3%
8/4	June	**Food Buffer Stock (billion JPY)**	+5.4		+42.5
8/3	June	**New Car Sales (vehicles)**	351,462		+7.7%
7/30	July	**Consumer Confidence Index (SA)**	34.9	+1.1	

Source:Prepared by the author based on various official sta-

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
	2026Q2					**2026Q3**					**2026Q4**				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/19															
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					
6/08															
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					
8/11	2.7	2.0	2.4	-0.2	0.9	1.0	0.2	0.6	-0.1	0.1					
8/17	***1.1***			***0.9***	***1.1***										
8/18						0.6	-0.3	0.2	0.7	0.5	1.8	0.6	1.2	-0.0	-0.2
8/24						-0.2	-1.1	-0.7	0.9	0.9	1.7	0.7	1.2	-0.0	-0.2
8/31						2.0	-1.5	0.3	1.0	0.9	0.8	0.4	0.6	0.1	-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			Forecast		CY		FY	
	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025	2026	2025	2026
GDP/GDE									
Gross Domestic Products	593,781	596,624	598,288	601,234	602,441	593,735	599,647	594,555	601,671
Private Consumption	309,267	310,752	310,694	310,778	311,228	308,122	310,863	309,094	311,076
Residential Investment	22,593	22,805	22,701	22,695	23,023	22,671	22,806	22,558	22,855
Nonresidential Investment	109,756	108,690	107,425	109,803	110,501	108,462	109,105	108,865	109,693
Change in Private Inventory	-1,411	-1,820	-437	307	-294	716	-561	-370	59
Government Consumption	122,648	123,102	125,124	124,427	124,959	122,024	124,403	122,462	125,001
Public Investment	27,366	27,766	27,740	27,342	27,409	27,531	27,564	27,593	27,401
Change in Public Inventory	-77	-99	-2,336	-271	-284	-48	-748	-78	-793
Net Exports	4,860	6,411	8,537	7,314	7,059	5,037	7,330	5,301	7,540
Exports of Goods & Services	106,355	108,185	108,744	109,369	109,717	106,491	109,004	107,080	109,503
Imports of Goods & Services	101,495	101,774	100,207	102,055	102,658	101,454	101,673	101,780	101,963
Gross National Income	623,121	625,479	622,692	622,907	625,837	622,334	624,229	624,122	624,756
Memo:									
Total Demand	695,276	698,398	698,495	703,289	705,098	695,189	701,320	696,335	703,634
	Upper Row: % change from the previous quarter Lower Row: % change from a year earlier								
Gross Domestic Products	0.2	0.5	0.3	0.5	0.2				
SAAR	***1.0***	***1.9***	***1.1***	***2.0***	***0.8***				
% Change Year Ago	0.5	0.4	0.5	1.5	1.5	1.2	1.0	0.9	1.2
Private Consumption	0.1	0.5	0.0	0.0	0.1				
% Change Year Ago	1.4	1.3	1.1	0.6	0.6	1.3	0.9	1.3	0.6
Residential Investment	5.0	0.9	-0.5	0.0	1.4				
% Change Year Ago	-3.3	-1.9	-2.9	5.5	1.9	-1.9	0.6	-2.6	1.3
Nonresidential Investment	1.3	-1.0	-1.2	2.2	0.6				
% Change Year Ago	3.6	1.5	-1.1	1.3	0.7	2.5	0.6	2.3	0.8
Government Consumption	0.4	0.4	1.6	-0.6	0.4				
% Change Year Ago	0.8	1.5	2.6	1.9	1.9	0.9	1.9	0.8	2.1
Public Investment	-0.4	1.5	-0.1	-1.4	0.2				
% Change Year Ago	-1.5	0.6	-0.1	-0.5	0.2	-0.3	0.1	-0.3	-0.7
Exports of Goods & Services	0.1	1.7	0.5	0.6	0.3				
% Change Year Ago	-0.3	2.1	1.0	3.0	3.2	2.5	2.4	2.0	2.3
Imports of Goods & Services	-0.1	0.3	-1.5	1.8	0.6				
% Change Year Ago	3.1	1.3	-2.0	0.4	1.1	3.8	0.2	2.5	0.2
Gross National Income	-0.2	0.4	-0.4	0.0	0.5				
SAAR	***-0.7***	***1.5***	***-1.8***	***0.1***	***1.9***				
% Change Year Ago	1.1	1.0	0.0	-0.2	0.4	1.7	0.3	1.4	0.1
Total Demand	0.2	0.4	0.0	0.7	0.3				
SAAR	***0.7***	***1.8***	***0.1***	***2.8***	***1.0***				
% Change Year Ago	0.0	20.1	0.2	1.3	1.4	1.5	0.9	1.1	1.0
Contribution to GDP Growth Rate									
Domestic Demand	0.2	0.2	-0.2	0.7	0.2	1.5	0.5	1.0	0.7
Private Demand	0.1	0.0	0.0	0.5	0.1	1.3	0.3	0.9	0.6
Public demand	0.1	0.1	-0.2	0.2	0.1	0.2	0.2	0.1	0.1
Net Exports	0.1	0.3	0.5	-0.2	0.0	-0.3	0.5	-0.1	0.5

Source: Compiled by the author

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

	Quarterly			Forecast		CY		FY	
	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025	2026	2025	2026
GDP/GDE									
Gross Domestic Products	674,967	679,771	687,718	697,925	699,927	666,442	691,335	672,645	697,263
Private Consumption	355,088	358,347	362,067	365,488	365,387	350,911	362,822	353,772	364,523
Residential Investment	27,893	28,524	28,809	29,133	29,572	27,730	29,009	27,825	29,266
Nonresidential Investment	129,516	129,637	129,769	134,368	136,537	126,270	132,578	128,009	134,785
Change in Private Inventory	-2,008	-3,851	-184	1,085	-505	749	-864	-788	89
Government Consumption	133,028	134,449	137,974	138,212	138,822	131,594	137,365	132,622	138,611
Public Investment	32,812	33,623	34,065	33,637	33,476	32,574	33,700	32,965	33,623
Change in Public Inventory	-84	-95	-4,867	-653	-658	-72	-1,569	-100	-1,709
Net Exports	-1,278	-864	85	-3,345	-2,704	-3,314	-1,707	-1,660	-1,924
Exports of Goods & Service	150,097	157,450	163,626	164,112	166,141	145,306	162,832	148,681	165,336
Imports of Goods & Service	151,375	158,313	163,541	167,456	168,845	148,621	164,539	150,341	167,260
Gross National Income	715,077	721,065	725,948	734,277	737,704	707,221	729,748	713,747	734,547
Memo:									
Total Demand	826,342	838,084	851,259	865,381	868,771	815,062	855,874	822,985	864,523
Compensation of Employee	327,432	330,178	336,864	338,916	339,834	323,093	336,448	325,476	338,836

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

	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	CY 2025	CY 2026	FY 2025	FY 2026
Gross Domestic Products	0.9	0.7	1.2	1.5	0.3				
SAAR	***3.7***	***2.9***	***4.8***	***6.1***	***1.2***				
% Change Year Ago	3.9	3.8	3.1	4.4	3.7	4.6	3.7	4.3	3.7
Private Consumption	0.7	0.9	1.0	0.9	0.0				
% Change Year Ago	4.1	3.4	3.7	3.6	2.9	4.3	3.4	4.0	3.0
Residential Investment	5.4	2.3	1.0	1.1	1.5				
% Change Year Ago	0.0	1.3	1.2	10.0	6.0	1.4	4.6	0.5	5.2
Nonresidential Investment	2.1	0.1	0.1	3.5	1.6				
% Change Year Ago	6.9	5.2	3.3	6.0	5.4	5.6	5.0	5.4	5.3
Government Consumption	0.7	1.1	2.6	0.2	0.4				
% Change Year Ago	2.7	3.5	5.2	4.6	4.4	3.0	4.4	2.7	4.5
Public Investment	0.5	2.5	1.3	-1.3	-0.5				
% Change Year Ago	1.7	4.2	4.2	3.0	2.0	3.2	3.5	3.0	2.0
Exports of Goods & Service	4.1	4.9	3.9	0.3	1.2				
% Change Year Ago	3.3	9.2	14.5	13.8	10.7	3.0	12.1	3.7	11.2
Imports of Goods & Service	3.3	4.6	3.3	2.4	0.8				
% Change Year Ago	3.4	4.3	12.8	14.2	11.5	1.6	10.7	1.0	11.3
Gross National Income	0.4	0.8	0.7	1.1	0.5				
SAAR	***1.6***	***3.4***	***2.7***	***4.7***	***1.9***				
% Change Year Ago	4.0	3.7	2.8	3.1	3.2	4.7	3.2	4.2	2.9
Memo:									
Total Demand	1.3	1.4	1.6	1.7	0.4				
SAAR	***5.5***	***5.8***	***6.4***	***6.8***	***1.6***				
% Change Year Ago	0.0	52.4	4.8	6.1	5.1	0.0	4.1	0.0	3.7
Compensation of Employee	1.1	0.8	2.0	0.6	0.3				
% Change Year Ago	3.4	3.7	4.9	4.6	3.8	3.7	4.1	3.6	4.1

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	113.7	113.9	115.0	116.1	116.2	112.2	115.3	113.1	115.9
Private Consumption	114.8	115.3	116.5	117.6	117.4	113.9	116.7	114.5	117.2
Residential Investment	123.5	125.1	126.9	128.4	128.5	122.3	127.2	123.3	128.1
Nonresidential Investment	118.0	119.3	120.8	122.4	123.6	116.5	121.5	117.5	122.9
Government Consumption	108.5	109.2	110.3	111.1	111.1	107.8	110.4	108.3	110.9
Public Investment	119.9	121.1	122.8	123.0	122.1	118.3	122.3	119.3	122.7
Exports of Goods & Service	141.1	145.5	150.5	150.1	151.4	136.4	149.4	138.8	151.0
Imports of Goods & Service	149.2	155.6	163.2	164.1	164.5	146.5	161.8	147.7	164.0
Unit Profit	127.0	127.1	127.2	129.6	129.7	125.5	128.4	126.7	129.3
Unit Labor Cost	102.3	102.7	104.5	104.6	104.7	101.0	104.1	101.6	104.5
	Upper Row: % change from the previous quarter Lower Row: % change from a year earlier								
Gross Domestic Products	0.7	0.2	0.9	1.0	0.1				
	3.4	3.3	2.6	2.8	2.2	3.4	2.7	3.3	2.5
Private Consumption	0.6	0.4	1.1	0.9	-0.2				
	2.7	2.1	2.6	3.0	2.3	2.9	2.5	2.6	2.4
Residential Investment	0.4	1.3	1.5	1.2	0.1				
	3.4	3.3	4.2	4.4	4.0	3.3	4.0	3.2	3.8
Nonresidential Investment	0.8	1.1	1.3	1.3	1.0				
	3.2	3.7	4.4	4.6	4.7	3.0	4.3	3.1	4.6
Government Consumption	0.3	0.7	1.0	0.7	0.0				
	1.8	2.0	2.6	2.7	2.4	2.1	2.4	1.9	2.4
Public Investment	0.9	1.0	1.4	0.2	-0.7				
	3.3	3.6	4.4	3.5	1.9	3.5	3.3	3.3	2.8
Exports of Goods & Service	4.0	3.1	3.4	-0.3	0.9				
	3.6	6.9	13.3	10.6	7.3	0.5	9.5	1.6	8.8
Imports of Goods & Service	3.4	4.3	4.9	0.5	0.2				
	0.3	2.9	15.1	13.8	10.3	-2.2	10.5	-1.6	11.1
Unit Profit	0.0	0.1	0.1	1.8	0.1				
	0.0	26.7	0.9	2.6	2.1	4.4	2.3	4.0	2.0
Unit Labor Cost	0.0	0.4	1.7	0.1	0.1				
	0.0	17.2	4.3	3.1	2.3	2.5	3.1	2.7	2.9

Source: Compiled by the author