Japanese Economy Monthly Forecast

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Headlines

Review of Data Released in October

▶ This forecast incorporates data released through the end of October. Except for September data on household consumption expenditure and public works, nearly all monthly indicators required to estimate 2026 Q3 GDP have been updated (Table 1).

▶ Industrial production rose +2.2% MoM in September, its first increase in three months. As a result, Q3 saw a slight increase of +0.3% QoQ, marking the fourth consecutive quarter of growth. METI maintained its assessment of production as "one step forward, one step back."

▶ Compared with Q2, retail sales fell 0.7% in Q3, while planned construction costs rose 2.2% in nominal terms but declined in real terms. Capital goods shipments, by contrast, increased +7.8%. Real private demand in Q3 remained sluggish, excluding private non-residential investment.

▶ Public works spending in July–August averaged a -2.3% decrease compared to Q2. Real public demand for Q3 is expected to remain flat.

▶ Real exports and imports of goods (Bank of Japan data) rose +1.0% and +4.0% QoQ, respectively, their first increases in two quarters. As imports outpaced exports, real net exports of goods in Q3 made a negative contribution to real GDP growth.

Trends in Real GDP Growth Forecasts for Q3

▶ The CQM expenditure-side model forecasts Q3 real GDP growth of +0.0% QoQ and +0.1% annualized, up from the previous QoQ forecast of -0.7%. This implies virtually flat growth, broadly in line with the October market consensus of +0.08% (Figure 1). In contrast, the production-side model (principal component analysis) projects a -3.0% QoQ contraction, putting the average of the two forecasts at -1.5% (Figure 1 and Table 2).

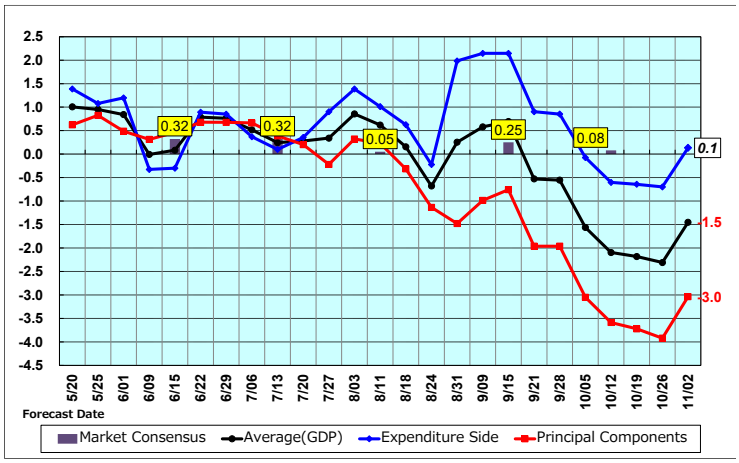
▶ Domestic demand is expected to contribute +0.6 percentage point (pp) to QoQ real GDP growth, while net exports subtract -0.6 pp. The domestic demand contribution was revised up from +0.4 pp (Detailed Table 3-1).

Trends in Inflation Forecasts for Q3

▶ The National Consumer Price Index rose +2.1% YoY in September, marking 61 consecutive months of increases and its first reading above 2% in nine months. Q3 inflation averaged +1.9% YoY, the 20th consecutive quarter of positive growth.

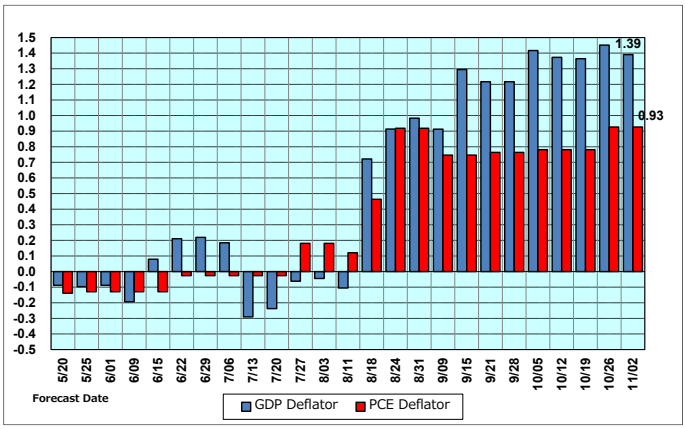
▶ The CQM forecast puts the private final consumption expenditure deflator up +0.9% QoQ and the domestic demand deflator up +1.4% in Q3. With the terms of trade also expected to improve, the headline inflation rate (GDP deflator) is projected at +1.4% QoQ, slightly below the previous forecast of +1.5% (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
10/30	September	**Labor Force Survey**			
		Total employment (millions)	68.68	+0.3	
		Total unemployment (millions)	1.67	-0.1	
		Unemployment rate (%)	2.4	-0.1%pt	
	September	**General Job Placement Situation**			
		Effective job offers-to-applicants ratio	1.19	+0.01pt	
	September	**Indices of Industrial Production (preliminary figures, 2020=100)**			
		Production	104.1	+2.2	
		Shipments	101.0	+0.6	
		Inventories	99.9	+2.5	
	September	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	12,873.0	-0.7%	2.3%
	September	**New Housing Starts**			
		New housing starts (units)	61,926.0	-5.2%	-2.7%
		Planned construction expenditure (billion JPY)	13,564.00	-6.0%	-0.3%
	August	**Construction Costs Deflator (2020=100)**			
		Housing construction	128.3		5.6%
		Public works	126.4		5.3%
	October	**Tokyo Region Consumer Price Index (2025=100)**			
		Core index	103.3	0.3%	2.6%
10/29	October	**Consumer Confidence Index**	35.0	-0.4	
	September	**Price Index for Final and Intermediate Demand Goods (2020=100)**			
		Capital goods	119.2		2.9%
		Consumer goods	125.6		4.4%
10/27	September	**Corporate Services Price Index (2020=100)**			
		Overall index	115.5		3.7
10/26	August	**Index of Business Conditions (revised, 2020=100)**			
		Leading indicators	118.0	0.4	
		Coincident indicators	118.8	-1.8	
		Lagging indicators	112.4	-0.5	
10/23	August	**Monthly Labor Statistics (final figures)**			
		Total cash earnings (JPY)	311,563.0		3.9%
		Total actual working hours	129.4		0.2%
	August	**Information Services Industry Sales (billion JPY)**	2,853.2		3.5%
	September	**National Consumer Price Index (2025=100)**			
		Core index	102.3	0.5%	2.1%
10/21	September	**Trade Statistics (customs-cleared basis)**			
		Trade balance (billion JPY)	-536.5	-12.1%	93.2%
		Exports (billion JPY)	10,972.3	-1.1%	16.7%
		Imports (billion JPY)	11,508.8	-1.9%	18.9%
	September	**Real Import and Export Trends (2020=100)**			
		Real exports	118.7	-0.2%	
		Real imports	115.6	-0.8%	
10/20	August	**General Construction Statistics**			
		Private non-residential construction (billion JPY)	10336		7.5%
		Public works (billion JPY)	19,986.0		2.6%
10/19	August	**Tertiary Industry Activity Index (2019-20=100)**	106.8	-0.1	
10/15	August	**Indices of Industrial Production (final figures, 2020=100)**			
		Production	101.9	-2.4	
		Shipments	100.4	-2.9	
		Inventories	97.5	-0.6	
		Production capacity	94.2		-1.4
		Capacity utilization rate	103.2	-4.2	
	August	**Private Core Machinery Orders (billion JPY)**	10,698.0	5.2	
	September	**Public Works Advanced Securities Statistics**			
		Number of contracts	22,684.0		-8.0%
		Contract amount (billion JPY)	13,087.0		-8.8%
10/13	September	**Domestic Corporate Goods Price Index (2020=100)**			
		Domestic corporate goods price	135.7	-0.3%	6.8%
		Export prices	163.0	0.5%	17.9%
		Import prices	193.8	-0.2%	24.5%
10/9	August	**Household Expenditure (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	310,975	-0.4	-1.0
		Real consumption expenditure		0.1	-3.1
	August	**Consumption Trend Index (2025=100)**	100.8	0.1%	
10/8	September	**Economy Watchers Survey**			
		Current conditions diffusion index	47.0	0.6	
		Future conditions diffusion index	47.4	-0.9	
	August	**Balance of Payments**			
		Current account balance (billion JPY)	4,062.0	18.1	12.0
		Exports (billion JPY)	9,862.3	-0.8	16.9
		Imports (billion JPY)	10,550.0	-0.3	26.7
10/7	August	**Monthly Labor Statistics (preliminary figures)**			
		Total cash earnings (JPY)	311,364		3.8
		Total actual working hours	129.8		0.5
	August	**Consumption Activity Index (2020=100)**	105.8	-0.8	
	August	**Index of Business Conditions (preliminary figures, 2020=100)**			
		Leading indicators	118.0	0.4	
		Coincident indicators	118.7	-1.9	
		Lagging indicators	112.1	-0.9	
10/5	September	**Consumer Confidence Index**	35.4	-0.1	
10/2	September	**Food Buffer Stock (billion JPY)**	13.4		10.6
10/1	September	**New Car Sales (vehicles)**	360743		0.9%

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
	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
9/08						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9/09						2.1	-1.0	0.6	0.9	0.7	0.9	0.4	0.7	0.1	-0.2
9/15						2.1	-0.8	0.7	1.3	0.7	0.9	0.6	0.8	0.4	-0.2
9/21						0.9	-2.0	-0.5	1.2	0.8	0.6	0.7	0.6	0.3	-0.2
9/28						0.9	-2.0	-0.6	1.2	0.8	0.6	0.7	0.6	0.3	-0.2
10/05						-0.1	-3.1	-1.6	1.4	0.8	0.5	0.1	0.3	0.4	-0.1
10/12						-0.6	-3.6	-2.1	1.4	0.8	0.4	0.2	0.3	0.4	-0.1
10/19						-0.6	-3.7	-2.2	1.4	0.8	0.3	0.1	0.2	0.5	-0.1
10/26						-0.7	-3.9	-2.3	1.5	0.9	0.1	-0.3	-0.1	0.6	0.1
11/02						0.1	-3.0	-1.5	1.4	0.9	-0.4	1.2	0.4	0.6	0.1

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	593,959	596,799	598,951	599,148	598,611	593,690	598,377	594,533	599,508
Private Consumption	309,357	310,743	310,766	310,743	311,228	308,065	310,870	309,073	311,084
Residential Investment	22,593	22,806	22,672	22,293	22,144	22,671	22,479	22,561	22,288
Nonresidential Investment	109,750	108,653	107,634	109,818	110,454	108,462	109,140	108,837	109,697
Change in Private Inventory	-1,368	-1,643	-89	1,442	75	717	-54	-369	684
Government Consumption	122,689	123,150	125,211	124,534	125,067	122,044	124,490	122,492	125,104
Public Investment	27,360	27,731	27,604	26,470	26,574	27,531	27,095	27,593	26,764
Change in Public Inventory	-77	-99	-2,320	-289	-304	-48	-753	-78	-805
Net Exports	4,867	6,412	8,554	5,221	4,456	5,032	6,161	5,298	5,776
Exports of Goods & Services	106,354	108,156	108,593	106,830	106,897	106,486	107,619	107,074	107,457
Imports of Goods & Services	101,487	101,745	100,039	101,609	102,441	101,454	101,459	101,776	101,682
Gross National Income	623,296	625,647	623,308	625,866	628,775	622,291	625,899	624,099	627,389
Memo:									
Total Demand	695,446	698,544	698,990	700,757	701,052	695,144	699,836	696,309	701,190
	Upper Row : % change from the previous quarter Low er Row : % change from a year earlier								
Gross Domestic Products	0.3	0.5	0.4	0.0	-0.1				
SAAR	***1.1***	***1.9***	***1.4***	***0.1***	***-0.4***				
% Change Year Ago	0.5	0.5	0.7	1.1	0.8	1.2	0.8	0.9	0.8
Private Consumption	0.2	0.4	0.0	0.0	0.2				
% Change Year Ago	1.5	1.3	1.2	0.6	0.6	1.3	0.9	1.3	0.7
Residential Investment	5.0	0.9	-0.6	-1.7	-0.7				
% Change Year Ago	-3.3	-1.9	-3.0	3.6	-2.0	-1.9	-0.8	-2.6	-1.2
Nonresidential Investment	1.3	-1.0	-0.9	2.0	0.6				
% Change Year Ago	3.6	1.4	-0.9	1.3	0.6	2.5	0.6	2.2	0.8
Government Consumption	0.4	0.4	1.7	-0.5	0.4				
% Change Year Ago	0.9	1.5	2.7	1.9	1.9	0.9	2.0	0.8	2.1
Public Investment	-0.5	1.4	-0.5	-4.1	0.4				
% Change Year Ago	-1.5	0.6	-0.7	-3.7	-2.9	-0.3	-1.6	-0.3	-3.0
Exports of Goods & Services	0.1	1.7	0.4	-1.6	0.1				
% Change Year Ago	-0.3	2.1	0.9	0.6	0.5	2.5	1.1	2.0	0.4
Imports of Goods & Services	-0.2	0.3	-1.7	1.6	0.8				
% Change Year Ago	3.1	1.3	-2.2	0.0	0.9	3.8	0.0	2.5	-0.1
Gross National Income	-0.2	0.4	-0.4	0.4	0.5				
SAAR	***-0.6***	***1.5***	***-1.5***	***1.7***	***1.9***				
% Change Year Ago	1.2	1.1	0.1	0.3	0.9	1.7	0.6	1.4	0.5
Total Demand	0.2	0.4	0.1	0.3	0.0				
SAAR	***0.8***	***1.8***	***0.3***	***1.0***	***0.2***				
% Change Year Ago	0.0	20.1	0.3	1.0	0.8	1.5	0.7	1.1	0.7
Contribution to GDP Grow th Rate									
Domestic Demand	0.2	0.2	-0.1	0.6	0.0	1.5	0.5	1.0	0.6
Private Demand	0.1	0.0	0.1	0.6	-0.1	1.3	0.4	0.9	0.6
Public demand	0.1	0.1	-0.2	0.0	0.1	0.2	0.1	0.1	0.0
Net Exports	0.1	0.3	0.5	-0.6	-0.1	-0.3	0.3	-0.1	0.2

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	675,001	680,104	689,219	698,999	702,445	666,441	692,692	672,670	699,390
Private Consumption	355,096	358,425	362,126	365,478	366,503	350,908	363,133	353,797	365,103
Residential Investment	27,896	28,522	28,743	28,762	28,757	27,730	28,696	27,827	28,713
Nonresidential Investment	129,506	129,774	130,484	135,046	137,192	126,270	133,124	128,004	135,414
Change in Private Inventory	-1,968	-3,704	678	2,638	-92	750	-120	-786	899
Government Consumption	133,029	134,459	138,040	138,297	138,908	131,594	137,426	132,622	138,692
Public Investment	32,804	33,587	33,931	33,226	33,044	32,574	33,447	32,965	33,271
Change in Public Inventory	-84	-95	-4,866	-660	-667	-72	-1,572	-100	-1,715
Net Exports	-1,278	-864	85	-3,788	-1,201	-3,314	-1,442	-1,660	-986
Exports of Goods & Services	150,097	157,450	163,626	161,282	162,218	145,306	161,144	148,681	162,783
Imports of Goods & Services	151,375	158,313	163,541	165,069	163,418	148,621	162,585	150,341	163,769
Gross National Income	715,111	721,399	727,449	739,251	744,201	707,220	733,075	713,772	739,679
Memo:									
Total Demand	826,376	838,418	852,760	864,068	865,864	815,061	855,277	823,010	863,159
Compensation of Employee	327,375	330,496	337,500	340,106	341,113	323,093	337,304	325,476	339,908

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

Gross Domestic Products	0.9	0.8	1.3	1.4	0.5				
SAAR	***3.7***	***3.1***	***5.5***	***5.8***	***2.0***				
% Change Year Ago	3.9	3.8	3.4	4.5	4.1	4.6	3.9	4.3	4.0
Private Consumption	0.7	0.9	1.0	0.9	0.3				
% Change Year Ago	4.1	3.4	3.8	3.6	3.2	4.3	3.5	4.0	3.2
Residential Investment	5.3	2.2	0.8	0.1	0.0				
% Change Year Ago	0.0	1.3	1.0	8.6	3.1	1.4	3.5	0.5	3.2
Nonresidential Investment	2.1	0.2	0.5	3.5	1.6				
% Change Year Ago	6.9	5.2	3.9	6.5	5.9	5.6	5.4	5.4	5.8
Government Consumption	0.7	1.1	2.7	0.2	0.4				
% Change Year Ago	2.7	3.5	5.3	4.7	4.4	3.0	4.4	2.7	4.6
Public Investment	0.4	2.4	1.0	-2.1	-0.5				
% Change Year Ago	1.7	4.2	3.7	1.7	0.7	3.2	2.7	3.0	0.9
Exports of Goods & Services	4.1	4.9	3.9	-1.4	0.6				
% Change Year Ago	3.3	9.2	14.5	11.9	8.1	3.0	10.9	3.7	9.5
Imports of Goods & Services	3.3	4.6	3.3	0.9	-1.0				
% Change Year Ago	3.4	4.3	12.8	12.6	8.0	1.6	9.4	1.0	8.9
Gross National Income	0.4	0.9	0.8	1.6	0.7				
SAAR	***1.6***	***3.6***	***3.4***	***6.6***	***2.7***				
% Change Year Ago	4.0	3.7	3.0	3.8	4.1	4.7	3.7	4.2	3.6
Memo:									
Total Demand	1.3	1.5	1.7	1.3	0.2				
SAAR	***5.5***	***6.0***	***7.0***	***5.4***	***0.8***				
% Change Year Ago	0.0	52.5	5.1	6.0	4.8	0.0	4.1	0.0	3.7
Compensation of Employee	1.0	1.0	2.1	0.8	0.3				
% Change Year Ago	3.4	3.8	5.1	5.0	4.2	3.7	4.4	3.6	4.4

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	113.6	114.0	115.1	116.7	117.4	112.3	115.8	113.1	116.7
Private Consumption	114.8	115.3	116.5	117.6	117.8	113.9	116.8	114.5	117.4
Residential Investment	123.5	125.1	126.8	129.0	129.9	122.3	127.7	123.3	128.8
Nonresidential Investment	118.0	119.4	121.2	123.0	124.2	116.5	122.0	117.5	123.4
Government Consumption	108.4	109.2	110.3	111.1	111.1	107.8	110.4	108.3	110.9
Public Investment	119.9	121.1	122.9	125.5	124.4	118.3	123.5	119.3	124.3
Exports of Goods & Services	141.1	145.6	150.7	151.0	151.8	136.4	149.7	138.8	151.5
Imports of Goods & Services	149.2	155.6	163.5	162.5	159.5	146.5	160.3	147.7	161.1
Unit Profit	127.0	127.1	127.4	130.0	131.0	125.5	128.9	126.7	130.1
Unit Labor Cost	102.3	102.8	104.6	105.3	105.7	101.0	104.6	101.6	105.2

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

Gross Domestic Products	0.7	0.3	1.0	1.4	0.6				
	3.4	3.3	2.6	3.3	3.3	3.4	3.1	3.4	3.1
Private Consumption	0.5	0.5	1.0	0.9	0.1				
	2.7	2.1	2.6	3.0	2.6	3.0	2.6	2.7	2.5
Residential Investment	0.4	1.3	1.4	1.8	0.7				
	3.4	3.3	4.1	4.9	5.2	3.3	4.4	3.2	4.5
Nonresidential Investment	0.9	1.2	1.5	1.4	1.0				
	3.2	3.8	4.9	5.1	5.3	3.0	4.7	3.1	5.0
Government Consumption	0.2	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	1.5	2.1	-0.9				
	3.3	3.6	4.5	5.6	3.7	3.5	4.4	3.3	4.2
Exports of Goods & Services	4.0	3.2	3.5	0.2	0.5				
	3.6	6.9	13.5	11.2	7.5	0.5	9.8	1.6	9.1
Imports of Goods & Services	3.4	4.3	5.1	-0.6	-1.8				
	0.3	2.9	15.3	12.6	7.0	-2.2	9.4	-1.5	9.1
Unit Profit	0.0	0.1	0.2	2.0	0.8				
	0.0	26.6	1.0	2.9	3.1	4.4	2.7	4.0	2.7
Unit Labor Cost	0.0	0.5	1.8	0.7	0.4				
	0.0	17.2	4.4	3.8	3.4	2.5	3.6	2.7	3.6

Source: Compiled by the author