



Japanese Economy Monthly Forecast

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Headlines

• Review of latest official data

▶ This forecast reflects official data released June through the first week of July. Excluding public works and international balance of payments, approximately two-thirds of the basic monthly data required for an accurate estimate of 2025 Q2 GDP have been released.

▶ The production index for May rose 0.5% MoM, marking the first increase in two months. As a result, the average for April and May was unchanged from the average for January to March. The METI maintained its assessment of the production trend for May at “mixed,” unchanged from the previous month.

▶ When comparing the April-May average with the January-March average, the consumer goods shipment index rose slightly by +0.1%. The planned construction expenditure for dwelling decreased significantly by -35.3%, while the capital goods shipment index increased by +2.8%. Additionally, public works in April increased by +4.6% compared to the January-March average. Real private demand and public demand for the April-June quarter are likely to expand slightly from the previous quarter.

▶ Comparing the average trade trends for April-May (based on Bank of Japan data) with those for January-March, real exports decreased by -1.0% and real imports increased by +0.1%. Real net exports of goods for the April-June period are likely to contribute negatively to Q2 real GDP growth.

• 2025 Q2 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 Q2 is -0.1% QoQ, or an annualized -0.5%. This is an upward revision from last month's forecast (annualized -1.9%). Within the -0.1% QoQ growth figure, domestic demand is expected to contribute +0.2 percentage point (pp), while net exports are expected to contribute -0.3 pp. On the other hand, APIR's principal component analysis model forecasts an annualized growth of -2.3% in 2025 Q2. The average of the two forecasts is an annualized -1.4%. The possibility of negative growth for two consecutive quarters has increased. The market consensus is +0.04%, which is almost zero growth (Figure 1).

• 2025 Q2 inflation forecast update

▶ The national core CPI rose by +3.7% YoY in May, marking the 45th consecutive month of inflation. As a result, CPI inflation exceeded the 3%-mark six months in a row.

▶ APIR's CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2025 Q2 are respectively +0.3% and +0.5% QoQ. However, considering the ameliorating terms of trade, we forecast a headline inflation rate (GDP deflator) of +0.9% QoQ in 2025 Q2 (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Apr-Jun (Q2) 2025 (% , QoQ annualized growth)

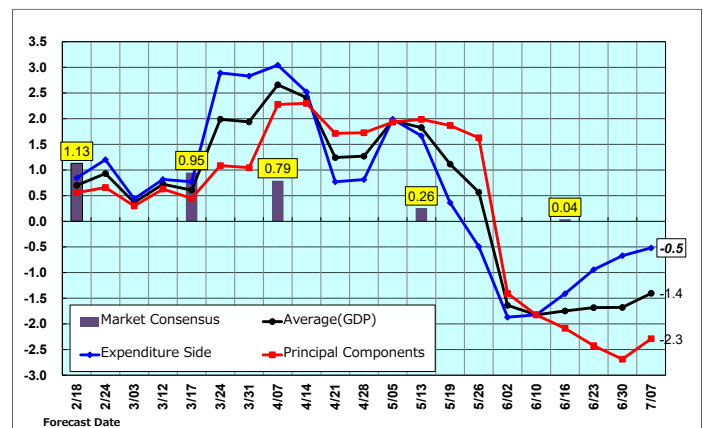
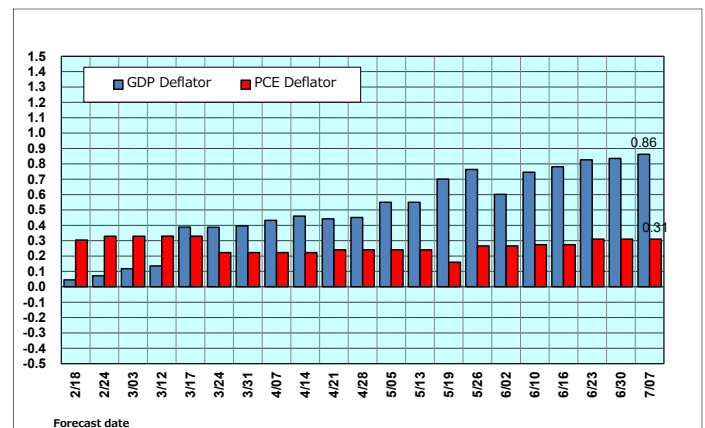


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2025 (% , QoQ growth)



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		
7/04	May	Household Expenditure (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure	316,085	+5.0%	+8.9%		
	May	Consumption Trend Index (2020=100)	105.1	+0.1%			
	7/02	May	Food Buffer Stock (billion JPY)	+6.4		-22.4	
7/01	June	New Car Sales (vehicles)	329,118		+5.5%		
	June	Consumer Confidence Index (SA)	34.5	+1.7			
6/30	May	Indices of Industrial Production (preliminary figures, 2020=100) Production Shipments Inventories	101.8 102.0 99.4	+0.5% +2.2% -1.9%			
	May	New Housing Starts New housing starts (SA, Unit) Planned residential construction expenditure (billion JPY)	43,237 941.9	-15.6% -17.1%	-34.4% -32.1%		
	April	Construction Costs Deflator (2015=100) Housing construction Public works	129.1 130.3		+2.7% +3.4%		
	6/27	May	Labor Force Survey Total employment (millions) Total unemployment (millions) Unemployment rate (%)	68.37 1.72 2.5%	+0.33 -0.04 0.0%pt		
		May	General Job Placement Situation Job offers-to-applicants ratio	1.24	-0.02pt		
		May	Current Survey of Commerce (preliminary figures) Retail trade (billion JPY)	12,84.0	-0.2%	+2.2%	
	June	Tokyo Region Consumer Price Index (2020=100) Core index	110.4	-0.1%	+3.1%		
	May	Producer Price Index for Intermediate and Final Demand (2015=100) Capital goods Consumer goods	112.5 122.3		+2.6% +6.1%		
	6/25	April	Index of Business Conditions (revised, 2020=100) Leading indicators Coincident indicators Lagging indicators	104.2 116.0 112.5	-3.4 +0.2 +1.5		
		May	Corporate Services Price Index (2020=100) Overall index	110.7		+3.3%	
6/24		April	Monthly Labor Statistics (final figures) Gross average salary per worker (JPY) Total working hours	301,698 139.5		+2.0% -1.3%	
		6/23	April	Information Services Industry Sales (billion JPY)	2,582.2		+9.4%
		6/20	April	General Construction Statistics Private non-residential construction (billion JPY) Public works (billion JPY)	923.1 1,568.6		+3.3% +3.5%

	April	National Consumer Price Index (2020=100) Core index	111.4	+0.5%	+3.7%
6/18	April May	Private Core Machinery Orders (billion JPY) Trade Statistics (customs clearance level) Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	919.0 -637.6 8,135.0 8,772.6	-9.1% -12.5% +0.1% -0.3%	 -48.0% -1.7% -7.7%
6/13	April	Tertiary Industry Activity Index (2019-20=100)	104.1	+0.3%	
	April	Indices of Industrial Production (final figures, 2020=100)			
		Production	101.3	-1.1%	
		Shipments	99.8	-1.1%	
		Inventory	101.3	-0.8%	
		Production capacity index	95.9		-2.1%
		Capacity utilization ratio	102.9	+1.3%	
	May	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	1,654.1 16,496		+4.0% -6.9%
6/11	May	Domestic Corporate Price Index (2020=100) Corporate Price Export Price Import Price	126.3 134.1 153.8	-0.2% -0.7% -1.1%	+3.2% -6.4% -10.3%
6/09	May April	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index International Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	44.4 44.8 +2,258.0 8,769.1 8,801.9	+1.8 +2.1 -15.3% -2.7% -3.3%	 +3.2% +4.0% -2.9%
6/06	April April	Consumption Activity Index (2015=100) Index of Business Conditions (preliminary figures, 2020=100) Leading indicators Coincident indicators Lagging indicators	98.4 103.4 115.5 112.5	+0.2% -4.2 -0.3 +1.3	
6/05	April	Monthly Labor Statistics (preliminary figures) Gross average salary per worker (JPY) Total working hours	302,453 139.7		+2.3% -1.2%

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
	2025Q1					2025Q2					2025Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/18	2.8	0.2	1.5	0.0	0.5	0.8	0.6	0.7	0.0	0.3					
2/24	-2.0	-1.7	-1.8	0.2	1.1	1.2	0.7	0.9	0.1	0.3					
3/03	-2.4	-1.6	-2.0	0.2	1.1	0.4	0.3	0.4	0.1	0.3					
3/11															
3/12	-2.2	-2.3	-2.2	0.2	1.0	0.8	0.6	0.7	0.1	0.3					
3/17	-2.2	-2.6	-2.4	0.5	1.0	0.8	0.4	0.6	0.4	0.3					
3/24	2.0	-1.6	0.2	0.5	0.9	2.9	1.1	2.0	0.4	0.2					
3/31	2.2	-1.7	0.2	0.5	0.9	2.8	1.0	1.9	0.4	0.2					
4/07	2.8	-1.6	0.6	0.6	0.9	3.0	2.3	2.7	0.4	0.2					
4/14	0.5	-1.8	-0.7	0.5	0.9	2.5	2.3	2.4	0.5	0.2					
4/21	-0.4	-2.1	-1.2	0.5	1.0	0.8	1.7	1.2	0.4	0.2					
4/28	-0.3	-2.1	-1.2	0.5	1.0	0.8	1.7	1.3	0.5	0.2					
5/05	0.1	0.6	0.3	0.5	1.0	2.0	1.9	2.0	0.5	0.2					
5/13	0.3	1.1	0.7	0.6	1.0	1.7	2.0	1.8	0.5	0.2					
5/16	<u>-0.7</u>			<u>0.9</u>	<u>1.5</u>										
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	-0.2*			0.9*	1.5*										
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

Note: Underlined figures are 1st preliminary estimates.

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

	Quarterly			Forecast			CY		FY	
	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3		2024	2025	2023	2024
GDP/GDE										
Gross Domestic Products	558,680	562,011	561,056	558,416	557,197		557,434	558,858	555,440	559,789
Private Consumption	299,400	299,592	299,720	300,279	300,631		297,845	300,403	296,787	299,041
Residential Investment	18,428	18,394	18,618	18,409	17,602		18,305	18,105	18,629	18,434
Nonresidential Investment	92,787	93,561	94,888	94,655	94,622		92,561	94,765	91,195	93,557
Change in Private Inventory	1,190	-285	1,377	1,264	615		483	934	592	782
Government Consumption	119,594	119,984	119,950	120,029	120,509		119,362	120,370	118,029	119,747
Public Investment	26,432	26,246	26,129	26,668	26,658		26,137	26,544	25,968	26,325
Change in Public Inventory	41	-59	58	-196	-187		-11	-127	26	4
Net Exports	1,372	4,872	989	-2,018	-2,581		3,129	-1,464	4,229	2,423
Exports of Goods & Services	113,850	115,773	115,097	112,189	112,206		113,271	113,140	112,389	114,291
Imports of Goods & Services	112,478	110,900	114,108	114,207	114,787		110,142	114,604	108,160	111,869
Gross National Income	588,408	590,297	591,412	590,090	589,946		585,348	590,512	579,641	589,199
Memo:										
Total Demand	671,158	672,911	675,164	672,623	671,984		667,576	673,462	663,599	671,658
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier										
Gross Domestic Products	0.2	0.6	-0.2	-0.5	-0.2					
SAAR	1.0	2.4	-0.7	-1.9	-0.9					
% Change Year Ago	0.7	1.4	1.6	0.2	-0.3		0.2	0.3	0.6	0.8
Private Consumption	0.7	0.1	0.0	0.2	0.1					
% Change Year Ago	0.9	1.0	1.6	1.0	0.4		0.0	0.9	-0.4	0.8
Residential Investment	0.7	-0.2	1.2	-1.1	-4.4					
% Change Year Ago	-2.1	-1.5	3.0	0.6	-4.5		-2.5	-1.1	0.8	-1.0
Nonresidential Investment	0.1	0.8	1.4	-0.2	0.0					
% Change Year Ago	2.8	1.2	3.8	2.1	2.0		1.3	2.4	-0.1	2.6
Government Consumption	0.1	0.3	0.0	0.1	0.4					
% Change Year Ago	1.3	1.7	1.3	0.5	0.8		0.9	0.8	-0.8	1.5
Public Investment	-1.1	-0.7	-0.4	2.1	0.0					
% Change Year Ago	0.5	1.4	3.3	-0.3	0.9		-1.1	1.6	-0.3	1.4
Exports of Goods & Services	1.2	1.7	-0.6	-2.5	0.0					
% Change Year Ago	1.3	0.6	3.8	-0.3	-1.4		1.1	-0.1	3.1	1.7
Imports of Goods & Services	2.2	-1.4	2.9	0.1	0.5					
% Change Year Ago	4.6	-0.3	6.5	3.8	2.1		1.0	4.1	-2.7	3.4
Gross National Income	0.4	0.3	0.2	-0.2	0.0					
SAAR	1.4	1.3	0.8	-0.9	-0.1					
% Change Year Ago	1.7	1.9	2.6	0.6	0.3		1.2	0.9	2.0	1.6
Total Demand	0.6	0.3	0.3	-0.4	-0.1					
SAAR	2.3	1.0	1.3	-1.5	-0.4					
% Change Year Ago	0.0	15.7	2.4	0.8	0.1		0.3	0.9	0.1	1.2
Contribution to GDP Growth Rate										
Domestic Demand	0.5	-0.1	0.6	0.1	-0.1		0.1	1.2	-0.7	1.2
Private Demand	0.5	-0.1	0.6	0.0	-0.2		0.0	0.9	-0.5	0.8
Public demand	0.0	0.0	0.0	0.1	0.1		0.1	0.2	-0.2	0.4
Net Exports	-0.2	0.7	-0.8	-0.5	-0.1		0.0	-0.9	1.3	-0.4

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

	Quarterly			Forecast		CY		FY	
	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3	2024	2025	2023	2024
GDP/GDE									
Gross Domestic Products	612,838	620,063	624,792	625,574	625,817	609,448	626,146	594,708	616,910
Private Consumption	332,210	333,074	338,282	339,828	340,916	329,667	340,530	323,194	333,144
Residential Investment	22,533	22,618	23,093	22,850	21,803	22,344	22,450	22,235	22,653
Nonresidential Investment	106,274	107,966	110,409	110,821	111,290	105,744	111,150	101,820	107,748
Change in Private Inventory	1,359	-321	1,743	1,524	588	591	1,024	636	1,033
Government Consumption	126,319	127,544	127,525	127,891	128,410	125,644	128,190	122,458	126,676
Public Investment	31,747	31,802	31,899	32,616	32,654	31,317	32,456	30,378	31,811
Change in Public Inventory	41	-89	14	-175	-168	-15	-124	51	-17
Net Exports	-7,645	-2,531	-8,171	-9,781	-9,677	-5,844	-9,529	-6,064	-6,136
Exports of Goods & Services	139,591	142,929	142,887	132,534	133,075	139,221	135,653	132,640	141,363
Imports of Goods & Services	147,235	145,460	151,059	142,315	142,752	145,065	145,181	138,703	147,499
Gross National Income	654,088	659,352	667,293	668,089	668,966	648,916	669,031	631,034	657,750
Memo:									
Total Demand	760,073	765,522	775,851	767,889	768,568	754,512	771,327	733,412	764,408
Compensation of Employee	314,103	319,035	321,094	323,880	324,429	313,531	323,795	302,364	316,352
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.5	1.2	0.8	0.1	0.0				
SAAR	2.2	4.8	3.1	0.5	0.2				
% Change Year Ago	3.2	4.2	5.0	2.6	2.1	3.1	2.7	4.9	3.7
Private Consumption	1.0	0.3	1.6	0.5	0.3				
% Change Year Ago	3.0	3.0	4.4	3.3	2.6	2.2	3.3	2.5	3.1
Residential Investment	0.7	0.4	2.1	-1.1	-4.6				
% Change Year Ago	0.7	1.4	5.9	2.1	-3.2	-0.1	0.5	0.9	1.9
Nonresidential Investment	0.5	1.6	2.3	0.4	0.4				
% Change Year Ago	5.9	4.2	6.9	4.8	4.7	4.7	5.1	3.5	5.8
Government Consumption	0.7	1.0	0.0	0.3	0.4				
% Change Year Ago	2.9	4.0	3.8	2.0	1.7	2.2	2.0	0.3	3.4
Public Investment	-0.7	0.2	0.3	2.2	0.1				
% Change Year Ago	3.5	4.7	6.7	2.0	2.9	2.3	3.6	3.1	4.7
Exports of Goods & Services	-0.2	2.4	0.0	-7.2	0.4				
% Change Year Ago	6.0	3.7	6.4	-5.3	-4.7	7.3	-2.6	7.4	6.6
Imports of Goods & Services	0.7	-1.2	3.8	-5.8	0.3				
% Change Year Ago	8.1	0.5	6.8	-2.7	-3.0	4.5	0.1	-5.2	6.3
Gross National Income	0.7	0.8	1.2	0.1	0.1				
SAAR	2.7	3.3	4.9	0.5	0.5				
% Change Year Ago	3.9	4.3	5.6	2.8	2.3	3.5	3.1	4.8	4.2
Memo:									
Total Demand	0.6	0.7	1.3	-1.0	0.1				
SAAR	2.3	2.9	5.5	-4.0	0.4				
% Change Year Ago	0.0	39.2	5.3	1.6	1.1	0.0	3.3	0.0	2.8
Compensation of Employee	0.7	1.6	0.6	0.9	0.2				
% Change Year Ago	4.3	5.5	4.6	3.8	3.3	4.1	3.3	1.9	4.6

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3	2024	2025	2023	2024
GDP/GDE									
Gross Domestic Products	109.7	110.3	111.4	112.0	112.3	109.3	112.0	107.1	110.2
Private Consumption	111.0	111.2	112.9	113.2	113.4	110.7	113.4	108.9	111.4
Residential Investment	122.3	123.0	124.0	124.1	123.9	122.0	124.0	119.4	122.9
Nonresidential Investment	114.5	115.4	116.4	117.1	117.6	114.3	117.3	111.6	115.1
Government Consumption	105.6	106.3	106.3	106.6	106.6	105.2	106.5	103.8	105.8
Public Investment	120.1	121.2	122.1	122.3	122.5	119.8	122.3	116.9	120.8
Exports of Goods & Services	122.6	123.5	124.1	118.1	118.6	122.9	119.9	118.0	123.7
Imports of Goods & Services	130.9	131.2	132.4	124.6	124.4	131.7	126.7	128.2	131.9
Unit Profit	116.0	116.2	117.5	117.2	117.4	115.2	117.4	114.2	116.5
Unit Labor Cost	104.3	105.3	106.2	107.6	108.0	104.4	107.5	101.0	104.9
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.3	0.6	0.9	0.6	0.3				
	2.5	2.8	3.3	2.4	2.4	2.9	2.5	4.2	2.9
Private Consumption	0.3	0.2	1.5	0.3	0.2				
	2.1	2.0	2.7	2.3	2.2	2.3	2.4	2.9	2.3
Residential Investment	0.0	0.6	0.9	0.1	-0.2				
	2.9	3.0	2.8	1.5	1.3	2.5	1.6	0.1	3.0
Nonresidential Investment	0.4	0.8	0.8	0.6	0.5				
	3.0	3.0	3.0	2.6	2.7	3.4	2.6	3.6	3.2
Government Consumption	0.6	0.6	0.0	0.2	0.0				
	1.6	2.3	2.5	1.5	0.9	1.2	1.2	1.2	2.0
Public Investment	0.4	0.9	0.8	0.2	0.2				
	3.0	3.3	3.3	2.3	2.0	3.4	2.1	3.5	3.3
Exports of Goods & Services	-1.4	0.7	0.6	-4.8	0.4				
	4.6	3.0	2.5	-5.0	-3.3	6.2	-2.5	4.2	4.9
Imports of Goods & Services	-1.5	0.2	0.9	-5.9	-0.2				
	3.4	0.9	0.3	-6.3	-5.0	3.5	-3.8	-2.6	2.9
Unit Profit	0.0	0.2	1.1	-0.2	0.1				
	0.0	15.8	3.6	1.2	1.2	1.8	1.9	7.4	2.0
Unit Labor Cost	0.0	1.0	0.8	1.3	0.4				
	0.0	20.2	3.0	3.6	3.6	3.9	3.0	1.3	3.8