



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in May

▶ This forecast incorporates all official data released by May 28th, including the first advance GDP estimate. Almost all statistics required for a complete estimation of Q1 GDP are already available. Regarding April indicators, the only currently available data is labor and trade statistics, the National Consumer Price Index, and the Domestic Corporate Price Index.

▶ According to the first advance estimates, the real GDP shrank -5.1% in 2021 Q1, marking the third consecutive quarter of negative growth. As a result, the overall GDP growth in FY 2020 (2020 Q2 through 2021 Q1) was -4.6%. The decline was larger than the one registered in the years of the Global Financial Crisis (FY 2008 and FY 2009).

▶ The Index of Industrial Production in Q1 remained lower than its pre-pandemic level in 2020 Q1. However, judging by the results of the April survey, the index seems likely to recover to its 2020 Q1 level within 2021 Q2.

▶ The service industry is still halfway through to a full recovery. The Q1 index on services requiring face-to-face interaction was 15.5 points lower than its pre-pandemic level in 2020 Q1. The recovery of goods versus services is likely to diverge into a K-shaped pattern, as long as social distancing measures remain in place. An acceleration of the vaccination rollout is a prerequisite for a full recovery.

▶ According to the Bank of Japan, real exports in April increased for the second month in a row (+2.6% MoM). Real imports increased for the first time in two months (+9.4% MoM). Relative to the Q3 average, real exports and imports in April were respectively +3.6% and +5.9% higher. As the growth in imports was greater, net exports made a negative contribution to GDP growth in April.

● 2021 Q2 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2021 Q2 is an annualized +0.1% QoQ. The production-side forecast figure is an annualized +1.3% QoQ. The average of the two is an annualized +0.7%. This quarter is likely to extend the weak trend seen in Q1 (Figure 1).

● 2021 Q2 inflation forecast update

▶ In April, the National Consumer Price Index (CPI) decreased -0.4% YoY, marking the first decline in four months. Although energy prices jumped, mobile phone charges were reduced significantly, exerting downward pressure on the overall price level.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2021 Q2 are respectively -0.2% and 0.0% QoQ. However, as the terms of trade are deteriorating, we forecast a GDP deflator of -0.9% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2021 (% , QoQ annualized growth)

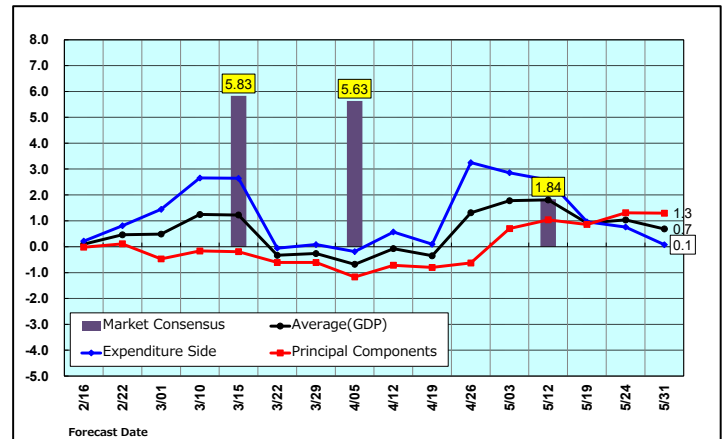
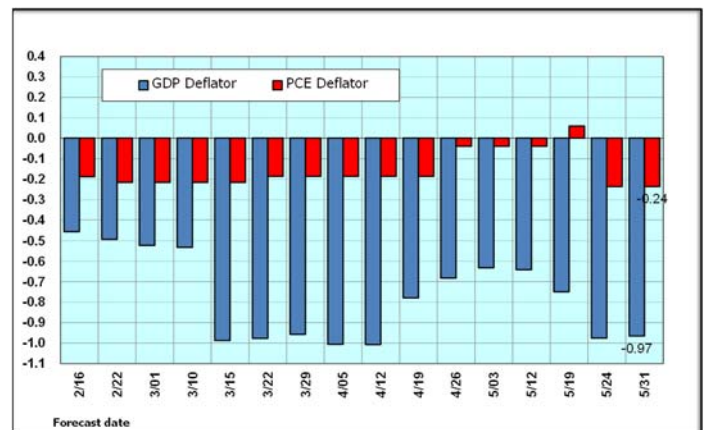


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2021 (% , QoQ growth)



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.

Main Economic Indicators (latest)

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
5/28	March	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	282,898		+0.6%
		Total working hours	138.2		+0.8
	April	Labor Force Survey			
		Total employment (millions)	66.58	-0.26	
		Total unemployment (millions)	1.94	+0.14	
		Unemployment rate (%)	2.8%	+0.2%pt	
	April	General Job Placement Situation			
		Job offers-to-applicants ratio	1.09	-0.01%pt	
	April	Manufacturing Industry Input-Output Price Index (2011=100)			
	Input price	101.4		+8.8%	
	Output price	101.2		+4.9%	
May	Tokyo Region Consumer Price Index (2015=100)				
	Core	101.6	+0.3%	-0.2%	
5/26	March	Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	102.5	+3.6	
		Coincident indicators	93.0	+3.1	
		Lagging indicators	93.7	+2.7	
	April	Corporate Services Price Index (2015=100)			
	Overall index	104.9		+1.0%	
5/24	March	Synthetic Consumption Index (2015=100)	95.8	+1.8%	
5/21	March	General Construction Statistics			
		Private non-residential construction (billion JPY)	764.9		-7.3%
		Public works (billion JPY)	2,251.3		+5.5%
April	National Consumer Price Index (2015=100)				
	Core index	101.5	-0.5%	-0.1%	
5/20	March	Private Core Machinery Orders (billion JPY)	798.1	+3.7%	
	April	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	255.3	-82.5%	+1,192.3
		Exports (billion JPY)	7,181.1	+2.5%	+38.0%
		Imports (billion JPY)	6,925.8	+7.5%	+12.8%
5/19	March	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	97.0		-1.2%
		Capacity utilization ratio	98.2	+5.6%	
		Production	97.2	+1.7%	
		Shipments	94.8	+0.4%	
		Inventory	94.8	+0.4%	
5/18	March	Industrial Activity Index (2015=100)	97.5	+1.4%	
	March	Tertiary Industry Activity Index (2015=100)	97.5	+1.1%	
5/17	April	Domestic Corporate Price Index (2015=100)			
		Corporate Price	103.0	+0.7%	+3.6%
		Export Price	96.8	+1.5%	+8.2%
		Import Price	97.0	+2.4%	+15.1%

5/14	March	Information Services Industry Sales (billion JPY)	2,056.8		-3.3%
	April	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	2,094.0		-9.2%
5/13	April	Economy Watchers Survey			
		Current Conditions Diffusion Index	39.1	-9.9	
		Future Conditions Diffusion Index	41.7	-8.1	
	March	Balance of Payments			
		Current account (billion JPY)	2,650.1	-8.0%	-+37.3%
Exports (billion JPY)		7,282.1	+6.1%	+16.6%	
	Imports (billion JPY)	6,299.0	-6.8%	+3.1%	
5/12	March	Consumption Activity Index (2011=100)	97.5	+1.2%	
	March	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	103.2	+4.3	
		Coincident indicators	93.1	+3.2	
		Lagging indicators	93.3	+2.2	
5/11	March	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	309,800	+7.7%	+6.0%
		Real consumption expenditure		+7.2%	+6.2%
	March	Consumption Trend Index (2015=100)	95.8	+1.5%	
5/7	March	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	282,164		+0.2%
		Total working hours	137.6		+0.4%
	April	Food Buffer Stock (billion JPY)	-1.1		+4.0
5/6	April	New Car Sales (vehicles)	288,398		+31.5%
4/30	March	Labor Force Survey			
		Total employment (millions)	66.84	-0.13	
		Total unemployment (millions)	1.80	-0.23	
		Unemployment rate (%)	2.6%	-0.3%pt	
	March	General Job Placement Situation			
		Job offers-to-applicants ratio	1.10	+0.01%pt	
	March	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	97.7	+2.2%	
		Shipments	95.2	+0.8%	
		Inventories	94.5	+0.1%	
	April	Consumer Confidence Index (SA)	34.7	-1.4	
	April	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.4	-0.4%	-0.2%

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
	2021Q1					2021Q2					2021Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
11/17	1.7	3.9	2.8	-0.1	-0.1										
11/23	2.3	3.7	3.0	-0.1	-0.1										
12/01	1.8	3.4	2.6	-0.1	-0.1										
2/15															
2/16	-1.6	-2.6	-2.1	-0.4	-0.2	0.2	0.0	0.1	-0.5	-0.2					
2/22	-1.2	-3.1	-2.1	-0.1	0.3	0.8	0.1	0.5	-0.5	-0.2					
3/01	-1.8	-2.8	-2.3	-0.1	0.3	1.4	-0.5	0.5	-0.5	-0.2					
3/09	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
3/10	-5.3	-3.5	-4.4	0.0	0.3	2.7	-0.2	1.2	-0.5	-0.2					
3/15	-5.3	-3.5	-4.4	-0.5	0.3	2.6	-0.2	1.2	-1.0	-0.2					
3/22	-9.5	-4.5	-7.0	-0.4	0.4	-0.1	-0.6	-0.3	-1.0	-0.2					
3/29	-8.5	-4.5	-6.5	-0.4	0.4	0.1	-0.6	-0.3	-1.0	-0.2					
4/05	-8.3	-6.7	-7.5	-0.3	0.4	-0.2	-1.2	-0.7	-1.0	-0.2					
4/12	-8.1	-5.9	-7.0	-0.4	0.4	0.6	-0.7	-0.1	-1.0	-0.2					
4/19	-8.3	-6.0	-7.1	-0.3	0.4	0.1	-0.8	-0.4	-0.8	-0.2					
4/26	-4.2	-6.0	-5.1	-0.4	0.5	3.2	-0.6	1.3	-0.7	0.0					
5/03	-4.9	-4.5	-4.7	-0.3	0.5	2.9	0.7	1.8	-0.6	0.0					
5/12	-3.8	-2.3	-3.0	-0.3	0.5	2.6	1.0	1.8	-0.6	0.0					
5/18	<u>-5.1</u>			<u>-0.3</u>	<u>0.2</u>										
5/19						1.0	0.9	0.9	-0.7	0.1	4.2	2.4	3.3	-0.4	-0.1
5/24						0.8	1.3	1.0	-1.0	-0.2	4.8	4.5	4.7	-0.4	-0.1
5/31						0.1	1.3	0.7	-1.0	-0.2	5.7	5.2	5.4	-0.4	-0.1

Note: Underlined figures are 1st preliminary estimates, and figures marked by * are 2nd preliminary estimates.