



# Japanese Economy Monthly Forecast

June 2021

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## Headlines

### ● Review of data released in June

▶ This forecast reflects official data released by the end of June 2021, which is about two-thirds of all data required for a complete calculation of Q2 GDP.

▶ According to the Tankan survey by the Bank of Japan, the manufacturing industry diffusion index (DI) in June improved substantially thanks to the recovery of the global economy and the depreciation of the Japanese yen. It has already reached its level in March 2019. In contrast, the third state of emergency, which limited human mobility, exerted downward pressure on the service industry DI, which is only halfway through to a full recovery.

▶ The Index of Industrial Production in May decreased for the first time in three months (-5.9% MoM), largely influenced by the insufficient supply of semi-conductors. As a result, the April-May average was only +0.5% higher than the Q1 average.

▶ The Synthetic Consumption Index declined -0.7% in April, marking the first decrease in three months. The April figure was only +0.2% above the Q1 average. Judging by the latest data on human mobility, the index is likely to decline further in Q2.

▶ On a volume basis, exports in May decreased for the first time in three months (-3.8% MoM), and imports – for the first time in four months (-13.1% MoM). Whereas in the case of exports the April-May average was +5.0% higher than the Q1 average, the figure for imports was just +0.6%. As a result, net exports made a positive contribution to GDP growth.

### ● 2021 Q2 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2021 Q2 is an annualized -0.7% QoQ. The production-side forecast figure is an annualized -1.5% QoQ. The average of the two is an annualized -1.1%. Our forecast reflects the negative economic impact of the COVID-19 state of emergency (Figure 1).

### ● 2021 Q2 inflation forecast update

▶ In June, the Q1 Tokyo Metropolitan Consumer Price Index remained unchanged YoY. On the other hand, the seasonally adjusted figure was +0.3% MoM, marking the second consecutive months in positive territory. On a quarterly basis, the change in Q2 was -0.3% YoY, marking the third consecutive quarter of YoY deflation. The QoQ figure was 0.0%.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2021 Q2 are respectively -0.1% and +0.1% QoQ. However, as the terms of trade are deteriorating, we forecast a GDP deflator of -0.6% QoQ (Figure 2).

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

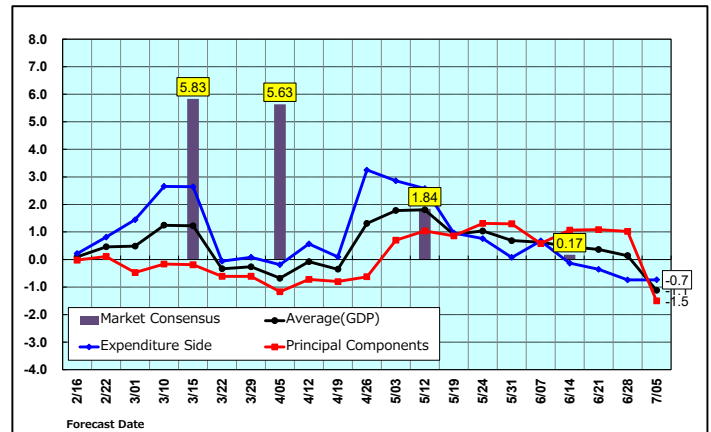
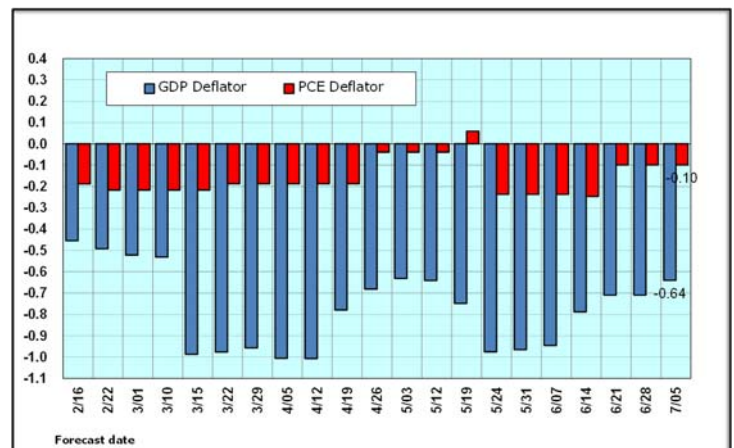


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2021 (% , QoQ growth)



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	
7/2	June	<b>Food Buffer Stock (billion JPY)</b>	-19.7		-32.5	
7/1	June	<b>New Car Sales (vehicles)</b>	296,623		+4.5%	
6/30	May	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>				
		Production	94.1	-5.9%		
		Shipments	93.1	-4.7%		
			Inventories	93.1	-1.7%	
	May	<b>New Housing Starts</b>				
		New housing starts (SA, Unit)	70,178	-0.9%	+9.9%	
			Planned residential construction expenditure (billion JPY)	1,229.6	+7.6%	+16.5%
	April	<b>Construction Costs Deflator (2015=100)</b>				
		Housing construction	109.1		+1.8%	
			Public works	110.2		+1.8%
June		<b>Consumer Confidence Index (SA)</b>	37.4	+3.3		
6/29	May	<b>Labor Force Survey</b>				
		Total employment (millions)	66.45	-0.13		
		Total unemployment (millions)	2.04	+0.10		
			Unemployment rate (%)	3.0%	+0.2%pt	
	May	<b>General Job Placement Situation</b>				
		Job offers-to-applicants ratio	1.09	0.00%pt		
	May	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	11,947.0	-0.4%	+8.2%	
	May	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	102.8		+13.0%	
	Output price	102.0		+6.4%		
6/25	June	<b>Tokyo Region Consumer Price Index (2015=100)</b>				
		Core	101.6	+0.1%	0.0%	
6/24	May	<b>Corporate Services Price Index (2015=100)</b>				
		Overall index	104.8		+1.5%	
6/23	April	<b>Index of Business Conditions (revised figures, 2015=100)</b>				
		Leading indicators	103.8	+1.4		
		Coincident indicators	95.3	+2.4		
		Lagging indicators	94.2	+0.5		
6/22	April	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	278,680		+1.4%	
		Total working hours	143.4		+4.1	
	April	<b>Synthetic Consumption Index (2015=100)</b>	94.6	-0.7%		
6/18	May	<b>National Consumer Price Index (2015=100)</b>				
		Core index	101.7	+0.2%	+0.1%	
6/17	April	<b>General Construction Statistics</b>				
		Private non-residential construction (billion JPY)	739.3		-5.0%	
		Public works (billion JPY)	1,667.4		+2.3%	
6/16	April	<b>Private Core Machinery Orders (billion JPY)</b>	802.9	+0.6%		

	May	<b>Trade Statistics (customs clearance level)</b> Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	-187.1 6,261.3 6,448.4	-48.9% -0.0% +0.7%	-78.2% +49.6% +27.9%
6/15	April April May	<b>Industrial Activity Index (2015=100)</b> <b>Tertiary Industry Activity Index (2015=100)</b> <b>Public Works Advanced Securities Statistics</b> Contract amount (billion JPY) Number of contracts	98.4 98.0 1,413.3 16,650	0.0% -0.7%	+6.3% +0.8%
6/14	April	<b>Indices of Industrial Production (final figures, 2015=100)</b> Production Shipments Inventory Production capacity index Capacity utilization ratio	100.0 97.7 94.7 96.7 99.3	+2.9% +3.1% -0.1% +1.1%	-0.9%
6/10	May	<b>Domestic Corporate Price Index (2015=100)</b> Corporate Price Export Price Import Price	103.9 98.0 99.3	+0.7% +1.0% +2.2%	+4.9% +11.0% +25.4%
6/8	April April April April May May April	<b>Monthly Labor Statistics (preliminary figures)</b> Total cash salary per capita (JPY) Total working hours <b>Consumption Activity Index (2011=100)</b> <b>Index of Business Conditions (preliminary, 2015=100)</b> Leading indicators Coincident indicators Lagging indicators <b>Information Services Industry Sales (billion JPY)</b> <b>Economy Watchers Survey</b> Current Conditions Diffusion Index Future Conditions Diffusion Index <b>Balance of Payments</b> Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	279,135 143.7 96.2 103.0 95.5 93.7 972.4 38.1 47.6 1,321.8 6,825.5 6,536.0	-0.7% +0.6 +2.6 +0.2 -1.0 +5.9	+1.6% +4.3% +6.8% +540.2% +38.0% +11.3%
6/4	April April	<b>Family Income and Expenditure Survey (households with 2 or more people)</b> Nominal consumption expenditure (JPY) Real consumption expenditure <b>Consumption Trend Index (2015=100)</b>	301,043 95.4	-0.4% +0.1% -0.1%	+12.4% +13.0%

### 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										
<b>2/15</b>															
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					
<b>3/09</b>	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					
<b>5/18</b>	<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
6/07						0.7	0.6	0.6	-0.9	-0.2	5.7	3.9	4.8	-0.4	-0.1
6/08	<b>-3.9*</b>			<b>-0.3*</b>	<b>0.2*</b>										
6/14						-0.1	1.1	0.5	-0.8	-0.2	5.6	4.4	5.0	-0.1	-0.1
6/21						-0.4	1.1	0.4	-0.7	-0.1	5.3	4.3	4.8	-0.1	-0.1
6/28						-0.7	1.0	0.1	-0.7	-0.1	4.7	4.3	4.5	-0.1	-0.1
7/05						-0.7	-1.5	-1.1	-0.6	-0.1	4.8	1.6	3.2	-0.1	-0.1

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