



Japanese Economy Monthly Forecast

December 2021

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Headlines

● Review of data released in December

▶ This forecast reflects data released by December 31, 2021. About two-thirds of the data required for an accurate estimation of Q4 GDP have been released, except for data on household consumption and public works.

▶ The Index of Industrial Production rose sharply by 7.2% MoM in November, marking the second consecutive month in positive territory. The Ministry of Economy, Trade and Industry (METI) upgraded its assessment of the economy from the previous month, saying that there are signs of pick up. As a result, the October-November average was up +0.4% from the Q3 average.

▶ The flow of people to retail stores and entertainment facilities, which is a good indicator of private consumption, accelerated in October and November. Based on that, we estimate that the overall consumption index rose by about +2.3% MoM in both October and November.

▶ Planned construction in November declined MoM for the first time in two months, while capital goods shipment index rose for the second consecutive month. Comparing the October-November average with the Q3 average, the former was +1.4%, and the latter +0.8% higher.

▶ Public works in October decreased for the fourth consecutive month, down -0.8% from the previous month. The October figure was -3.3% lower than the Q3 average.

▶ The export volume index increased for the second consecutive month in November, up +3.9% MoM. The import volume index increased for the first time in three months up +10.8% MoM. Comparing the October-November average with the Q3 average, exports declined by -1.9%, and imports by -3.2%. As the latter declined more, the contribution of net exports to GDP growth was positive in October-November.

● 2021 Q4 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2021 Q4 is an annualized +7.7% QoQ. The production-side forecast figure is an annualized +7.0% QoQ. The average of the two is an annualized +7.4% (Figure 1). Our forecast is tad higher than the market consensus figure (+6.39%).

● 2021 Q4 inflation forecast update

▶ In November, the national Consumer Price Index (CPI) increased +0.6% YoY, marking the third consecutive month of inflation. The Corporate Services Price Index rose +1.1%, logging nine straight months of increase. Currently, the inflation is accelerating.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2021 Q4 are respectively -0.1% and +0.3% QoQ. However, as the terms of trade are deteriorating, we forecast a GDP deflator of -0.7% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Oct-Dec (Q4) 2021 (% , QoQ annualized growth)

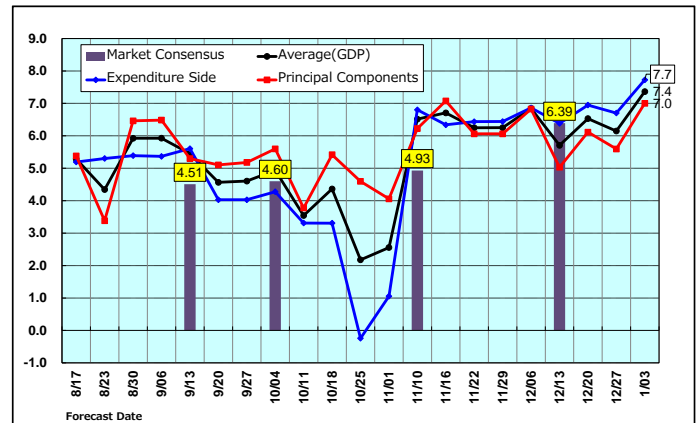
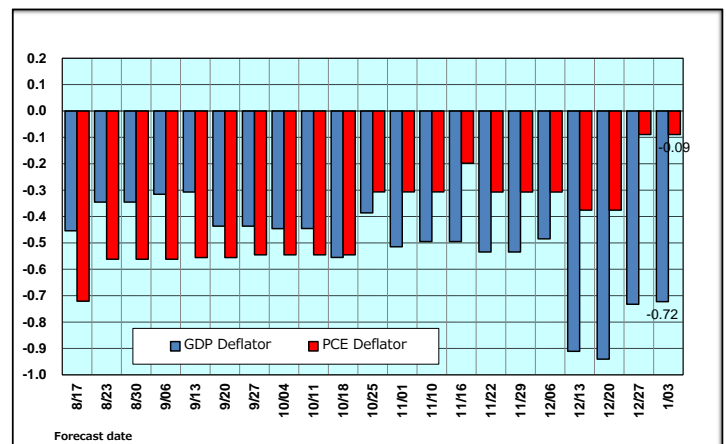


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2021 (% , QoQ growth)



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.

Table 1: Main Economic Indicators (latest)

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
12/28	November	Labor Force Survey				
		Total employment (millions)	66.24	0.00		
		Total unemployment (millions)	1.92	-0.10		
			Unemployment rate (%)	2.8%	+0.1%pt	
	November	General Job Placement Situation				
		Job offers-to-applicants ratio	1.15	-0.00pt		
	November	Indices of Industrial Production (preliminary figures, 2015=100)				
	Production	97.7	+7.2%			
	Shipments	95.3	+7.4%			
	Inventories	100.4	+1.7%			
12/27	November	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	12,799.0	+1.2%	+1.9%	
	November	Manufacturing Industry Input-Output Price Index (2011=100)				
	Input price	111.9		+19.2%		
	Output price	107.0		+9.7%		
12/24	November	New Housing Starts				
		New housing starts (SA, Unit)	73,414	-4.9%	+3.7%	
		Planned residential construction expenditure (billion JPY)	1,264.2	-5.0%	+9.6%	
	November	National Consumer Price Index (2020=100)				
		Core index	100.1	+0.3%	+0.5%	
	November	Corporate Services Price Index (2015=100)				
		Overall index	105.7		+1.1%	
October	Construction Costs Deflator (2015=100)					
	Housing construction	115.7		+8.2%		
	Public works	113.1		+4.4%		
12/23	October	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	101.5	+1.3		
		Coincident indicators	89.8	+1.1		
	Lagging indicators	93.1	-0.3			
12/22	October	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	271,121		+0.2%	
	Total working hours	138.5		-1.8%		
12/17	October	General Construction Statistics				
		Private non-residential construction (billion JPY)	847.5		+3.2%	
	Public works (billion JPY)	2,017.0		-8.2%		
12/16	November	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-954.8	+16.4%	-1,280.7	
		Exports (billion JPY)	7,367.1	+5.3%	+20.5%	
	Imports (billion JPY)	8,321.8	+5.9%	+43.8%		
12/15	October	Tertiary Industry Activity Index (2015=100)	97.4	+1.5%		
	November	Public Works Advanced Securities Statistics				
		Contract amount (billion JPY)	753.4		-14.5%	
	Number of contracts	18,594		-8.5%		

12/14	October	Indices of Industrial Production (final figures, 2015=100) Production Shipments Inventory Production capacity index Capacity utilization ratio	91.1 88.7 98.7 96.1 89.7	+1.8% +2.4% +0.6% +6.2%	-1.2%
12/13	October	Private Core Machinery Orders (billion JPY)	870.8	+3.8%	
12/10	November	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	108.7 103.5 119.3	+0.6% +0.9% +4.9%	+9.0% +15.0% +44.3%
12/9	October	Information Services Industry Sales (billion JPY)	1,016.2		+7.9%
12/8	November October	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	56.3 53.4 1,180.1 7,080.0 6,913.2	+0.8 -4.1 +34.5% +0.9% -2.9%	-39.4% +11.7% +28.3%
12/7	October October October October October	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2020=100) Consumption Activity Index (2015=100) Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators	271,023 138.4 281,996 101.0 94.6 102.1 89.9 93.2	 +2.7% +3.4% +0.2% +4.3% +1.9 +1.2 -0.2	+0.2% -1.9% -0.5% -0.6%
12/3	September	Synthetic Consumption Index (2015=100)	93.9	-0.1%	
12/2	November November	Consumer Confidence Index (SA) Food Buffer Stock (billion JPY)	39.2 +25.7	0.0	-3.8
12/1	November	New Car Sales (vehicles)	291,665		-13.4%

Table 2: CQM Forecast: GDP Tracking

Forecast date	Real GDP			Deflator		Real GDP			Deflator		Real GDP			Deflator	
	Expenditur e side	Production side (PCA)	Average	GDP	PCE	Expenditur e side	Production side (PCA)	Average	GDP	PCE	Expenditur e side	Production side (PCA)	Average	GDP	PCE
	2021Q3			2021Q4			2022Q1			2022Q1			2022Q1		
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/19	4.2	2.4	3.3	-0.4	-0.1										
5/24	4.8	4.5	4.7	-0.4	-0.1										
5/31	5.7	5.2	5.4	-0.4	-0.1										
6/07	5.7	3.9	4.8	-0.4	-0.1										
6/08															
6/14	5.6	4.4	5.0	-0.1	-0.1										
6/21	5.3	4.3	4.8	-0.1	-0.1										
6/28	4.7	4.3	4.5	-0.1	-0.1										
7/05	4.8	1.6	3.2	-0.1	-0.1										
7/12	3.8	1.3	2.6	-0.1	-0.1										
7/19	4.1	0.8	2.5	-0.4	-0.1										
7/26	3.9	0.4	2.1	-0.3	0.1										
8/02	3.2	4.8	4.0	-0.3	0.1										
8/11	3.0	4.3	3.7	-0.3	0.1										
8/16															
8/17	1.6	0.2	0.9	-0.1	0.1	5.2	5.4	5.3	-0.5	-0.7					
8/23	3.8	2.3	3.1	0.0	0.2	5.3	3.4	4.3	-0.3	-0.6					
8/30	3.7	2.8	3.3	0.0	0.2	5.4	6.5	5.9	-0.3	-0.6					
9/06	4.0	2.2	3.1	0.0	0.2	5.4	6.5	5.9	-0.3	-0.6					
9/08															
9/13	4.0	1.7	2.8	0.0	0.2	5.6	5.3	5.5	-0.3	-0.6					
9/20	2.2	1.2	1.7	-0.1	0.2	4.0	5.1	4.6	-0.4	-0.6					
9/27	2.2	1.2	1.7	-0.1	0.2	4.0	5.2	4.6	-0.4	-0.5					
10/04	0.9	-1.7	-0.4	0.0	0.2	4.3	5.6	4.9	-0.4	-0.5					
10/11	-0.1	-1.9	-1.0	0.0	0.2	3.3	3.8	3.5	-0.4	-0.5					
10/18	-0.2	-2.1	-1.2	-0.1	0.2	3.3	5.4	4.4	-0.6	-0.5					
10/25	-1.7	-2.7	-2.2	0.0	0.4	-0.2	4.6	2.2	-0.4	-0.3					
11/01	-1.8	-4.0	-2.9	0.1	0.4	1.1	4.1	2.6	-0.5	-0.3					
11/10	-0.7	-3.8	-2.2	0.1	0.4	6.8	6.2	6.5	-0.5	-0.3					
11/15	-3.0			0.1	0.3										
11/16						6.3	7.1	6.7	-0.5	-0.2	1.2	3.6	2.4	0.4	0.5
11/22						6.4	6.1	6.2	-0.5	-0.3	0.3	3.5	1.9	0.4	0.5
11/29						6.4	6.1	6.3	-0.5	-0.3	0.3	3.5	1.9	0.4	0.5
12/06						6.9	6.8	6.8	-0.5	-0.3	0.6	2.2	1.4	0.4	0.5
12/08	-3.6*			-0.1*	0.3*										
12/13						6.4	5.0	5.7	-0.9	-0.4	2.4	2.5	2.4	-0.1	0.4
12/20						6.9	6.1	6.5	-0.9	-0.4	5.3	2.9	4.1	-0.1	0.4
12/27						6.7	5.6	6.1	-0.7	-0.1	5.2	2.6	3.9	-0.0	0.5
1/03						7.7	7.0	7.4	-0.7	-0.1	5.1	2.9	4.0	0.0	0.5

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

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

	Quarterly			Forecast		CY		FY	
	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2020	2021	2020	2021
GDP/GDE									
Gross Domestic Products	535,013	537,631	532,778	542,784	549,547	528,179	537,051	525,658	540,685
Private Consumption	287,141	288,839	285,102	293,415	296,721	285,181	288,624	282,948	291,019
Residential Investment	18,734	18,922	18,623	18,295	18,203	19,016	18,643	18,823	18,511
Nonresidential Investment	84,587	86,311	84,335	84,428	84,821	85,389	84,916	83,944	84,974
Change in Private Inventory	-249	-131	421	1,964	1,936	651	501	451	1,048
Government Consumption	114,279	115,090	116,259	116,818	117,337	113,042	115,611	113,764	116,376
Public Investment	29,386	28,625	28,049	27,152	27,071	29,126	28,303	29,527	27,724
Change in Public Inventory	-19	-33	-87	-22	-20	-24	-40	-32	-40
Net Exports	1,108	-229	-80	578	3,322	-4,519	344	-4,163	898
Exports of Goods & Services	100,155	102,669	101,760	102,367	106,176	91,662	101,738	91,885	103,243
Imports of Goods & Services	99,048	102,898	101,840	101,789	102,854	96,181	101,394	96,048	102,345
Gross National Income	556,199	556,799	548,305	555,139	559,456	550,508	554,110	548,247	554,925
Memo:									
Total Demand	634,060	640,529	634,618	644,573	652,401	624,360	638,445	621,707	643,030
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.7	0.5	-0.9	1.9	1.2				
SAAR	-2.9	2.0	-3.6	7.7	5.1				
% Change Year Ago	-1.8	7.3	1.1	0.7	2.7	-4.5	1.7	-4.5	2.9
Private Consumption	-1.1	0.6	-1.3	2.9	1.1				
% Change Year Ago	-3.0	6.9	0.4	1.1	3.3	-5.3	1.2	-5.5	2.9
Residential Investment	0.9	1.0	-1.6	-1.8	-0.5				
% Change Year Ago	-4.0	-2.9	0.3	-1.5	-2.8	-7.9	-2.0	-7.8	-1.7
Nonresidential Investment	0.4	2.0	-2.3	0.1	0.5				
% Change Year Ago	-5.8	3.3	1.3	0.2	0.3	-6.5	-0.6	-7.5	1.2
Government Consumption	-0.6	0.7	1.0	0.5	0.4				
% Change Year Ago	2.6	3.0	1.9	1.6	2.7	2.3	2.3	2.5	2.3
Public Investment	-1.5	-2.6	-2.0	-3.2	-0.3				
% Change Year Ago	5.0	-1.9	-5.4	-9.0	-7.9	3.9	-2.8	5.1	-6.1
Exports of Goods & Services	2.3	2.5	-0.9	0.6	3.7				
% Change Year Ago	1.1	26.6	15.5	4.5	6.0	-11.8	11.0	-10.5	12.4
Imports of Goods & Services	3.2	3.9	-1.0	0.0	1.0				
% Change Year Ago	-0.4	5.1	11.5	6.1	3.8	-7.2	5.4	-6.6	6.6
Gross National Income	-1.2	0.1	-1.5	1.2	0.8				
SAAR	-4.6	0.4	-6.0	5.1	3.1				
% Change Year Ago	-1.6	6.4	-0.2	-1.4	0.6	-3.9	0.7	-3.9	1.2
Total Demand	-0.1	1.0	-0.9	1.6	1.2				
SAAR	-0.5	4.1	-3.6	6.4	4.9				
% Change Year Ago	0.0	10.1	2.7	1.5	2.9	-4.9	2.3	-4.9	3.4
Contribution to GDP Growth Rate									
Domestic Demand	-0.6	0.7	-0.9	1.8	0.7	-3.7	0.8	-3.9	1.9
Private Demand	-0.4	0.7	-1.0	1.8	0.7	-4.4	0.5	-4.7	1.8
Public demand	-0.2	0.0	0.1	-0.1	0.1	0.7	0.3	0.8	0.1
Net Exports	-0.1	-0.2	0.0	0.1	0.5	-0.8	0.9	-0.6	1.0

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

	Quarterly			Forecast		CY		FY		
	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2020	2021	2020	2021	
GDP/GDE										
Gross Domestic Products	543,530	543,807	538,151	544,279	551,149	538,156	542,442	535,510	544,346	
Private Consumption	291,113	291,306	288,266	296,403	301,324	289,499	291,772	286,940	294,325	
Residential Investment	19,926	20,558	20,853	20,987	20,971	20,021	20,581	19,832	20,842	
Nonresidential Investment	85,450	87,875	86,373	87,277	88,264	86,027	86,744	84,498	87,447	
Change in Private Inventory	-435	-431	-61	1,728	1,801	289	201	69	759	
Government Consumption	114,520	115,613	117,640	118,411	119,111	113,185	116,546	113,706	117,694	
Public Investment	30,946	30,467	30,115	29,390	29,323	30,449	30,230	30,911	29,824	
Change in Public Inventory	-34	-44	-136	-42	-40	-15	-64	-28	-65	
Net Exports	2,044	-1,536	-4,899	-9,876	-9,604	-1,300	-3,567	-419	-6,479	
Exports of Goods & Services	93,977	98,989	100,182	102,928	107,737	83,729	99,019	84,125	102,459	
Imports of Goods & Services	91,933	100,525	105,082	112,804	117,342	85,029	102,586	84,544	108,938	
Gross National Income	563,661	564,538	558,968	567,178	574,019	557,672	563,586	554,667	566,176	
Memo:										
Total Demand	635,463	644,332	643,233	657,083	668,490	623,185	645,028	620,054	653,285	
Compensation of Employee	289,504	288,359	288,131	288,403	289,492	283,352	288,599	283,664	288,596	
	Upper Row : % change from the previous quarter					Lower Row : % change from a year earlier				
Gross Domestic Products	-0.7	0.1	-1.0	1.1	1.3					
SAAR	-3.0	0.2	-4.1	4.6	5.1					
% Change Year Ago	-1.9	6.2	0.0	-0.6	1.4	-3.6	0.8	-3.9	1.7	
Private Consumption	-0.7	0.1	-1.0	2.8	1.7					
% Change Year Ago	-3.4	6.0	-0.1	1.1	3.5	-5.0	0.8	-5.5	2.6	
Residential Investment	2.3	3.2	1.4	0.6	-0.1					
% Change Year Ago	-3.7	0.4	6.8	7.8	5.2	-6.9	2.8	-7.3	5.1	
Nonresidential Investment	0.9	2.8	-1.7	1.0	1.1					
% Change Year Ago	-6.1	4.7	3.2	3.1	3.3	-6.7	0.8	-7.9	3.5	
Government Consumption	0.1	1.0	1.8	0.7	0.6					
% Change Year Ago	2.0	3.6	2.8	3.5	4.0	1.7	3.0	1.7	3.5	
Public Investment	-0.7	-1.5	-1.2	-2.4	-0.2					
% Change Year Ago	5.5	0.3	-2.8	-5.7	-5.2	4.7	-0.7	5.5	-3.5	
Exports of Goods & Services	5.0	5.3	1.2	2.7	4.7					
% Change Year Ago	1.8	36.3	24.6	15.0	14.6	-14.1	18.3	-12.1	21.8	
Imports of Goods & Services	9.6	9.3	4.5	7.3	4.0					
% Change Year Ago	-1.8	20.7	32.5	34.4	27.6	-14.2	20.6	-13.4	28.9	
Gross National Income	-0.7	0.2	-1.0	1.5	1.2					
SAAR	-2.6	0.6	-3.9	6.0	4.9					
% Change Year Ago	-2.0	6.5	0.4	0.0	1.8	-3.9	1.1	-4.2	2.1	
Memo:										
Total Demand	0.6	1.4	-0.2	2.2	1.7					
SAAR	2.5	5.7	-0.7	8.9	7.1					
% Change Year Ago	0.0	17.2	4.2	4.0	5.2	0.0	-5.2	0.0	-5.3	
Compensation of Employee	1.9	-0.4	-0.1	0.1	0.4					
% Change Year Ago	0.3	2.9	2.3	1.6	0.0	-1.2	1.9	-1.5	1.7	

Table 3-3: Deflator : 2015=100

	Quarterly			Forecast		CY		FY	
	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2020	2021	2020	2021
GDP/GDE									
Gross Domestic Products	101.6	101.2	101.0	100.3	100.3	101.9	101.0	101.9	100.7
Private Consumption	101.4	100.9	101.1	101.0	101.6	101.5	101.1	101.4	101.1
Residential Investment	106.4	108.6	112.0	114.7	115.2	105.3	110.4	105.4	112.6
Nonresidential Investment	101.0	101.8	102.4	103.4	104.1	100.7	102.2	100.6	102.9
Government Consumption	100.2	100.5	101.2	101.4	101.5	100.1	100.8	100.0	101.1
Public Investment	105.3	106.4	107.4	108.2	108.3	104.5	106.8	104.6	107.6
Exports of Goods & Services	93.8	96.4	98.5	100.6	101.5	91.3	97.3	91.5	99.2
Imports of Goods & Services	92.8	97.7	103.2	110.8	114.1	88.4	101.1	88.0	106.5
Unit Profit	103.0	103.1	101.8	102.3	103.3	104.7	102.6	104.0	102.6
Unit Labor Cost	100.4	99.5	100.4	98.6	97.8	99.6	99.7	100.1	99.0
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.0	-0.4	-0.1	-0.7	0.0				
	-0.1	-1.0	-1.1	-1.3	-1.3	0.9	-0.9	0.7	-1.2
Private Consumption	0.4	-0.5	0.3	-0.1	0.5				
	-0.4	-0.8	-0.5	0.0	0.2	0.3	-0.4	0.0	-0.3
Residential Investment	1.4	2.1	3.1	2.4	0.4				
	0.3	3.5	6.5	9.4	8.3	1.1	4.9	0.5	6.9
Nonresidential Investment	0.5	0.8	0.6	0.9	0.7				
	-0.3	1.3	1.9	2.8	3.0	-0.3	1.4	-0.5	2.3
Government Consumption	0.7	0.2	0.7	0.2	0.2				
	-0.6	0.6	0.9	1.9	1.3	-0.6	0.7	-0.8	1.2
Public Investment	0.8	1.1	0.9	0.8	0.1				
	0.4	2.2	2.7	3.6	2.9	0.7	2.3	0.4	2.9
Exports of Goods & Services	2.7	2.8	2.1	2.1	0.9				
	0.7	7.7	7.9	10.0	8.1	-2.6	6.6	-1.9	8.5
Imports of Goods & Services	6.1	5.3	5.6	7.4	3.0				
	-1.4	14.9	18.8	26.7	22.9	-7.6	14.5	-7.3	21.0
Unit Profit	0.0	0.1	-1.2	0.5	1.0				
	0.0	2.7	-3.6	-3.6	0.3	-1.8	-2.0	-2.0	-1.3
Unit Labor Cost	0.0	-0.9	0.8	-1.8	-0.9				
	0.0	13.5	1.1	0.8	-2.6	3.4	0.2	3.2	-1.1