



Japanese Economy Monthly Forecast

January 2022

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Headlines

● Review of data released in January

▶ This forecast reflects data released by the end of January. With the exception of public works-related data, the basic data required for an accurate Q4 GDP estimate has been released. This is our final Q4 estimate.

▶ The Index of Industrial Production declined -1.0% MoM in December 2021, marking the first decline in three months. The Q4 figure was up +1.0% from the previous quarter, marking the first increase in two quarters.

▶ The amount of people visiting retail stores and entertainment facilities, which is a good indicator for private consumption, has almost recovered to its pre-pandemic level. As a result, the Q4 Synthetic Consumption Index is likely to have increased for the first time in two quarters.

▶ Planned construction declined for the second consecutive month in December, while capital goods shipments remained unchanged after rising for two consecutive months. On a quarterly basis, the former increased by +0.7% QoQ, and the latter by +2.3% QoQ in Q4.

▶ Public works in November declined for the fifth consecutive month, down -1.0% from the previous month. As a result, the October-November average was down -3.8% from the Q3 average.

▶ The export volume index increased for the third consecutive month in December, up +1.1% MoM. The import volume index decreased for the first time in two months, down -1.5% MoM. In Q4, the export volume index declined by -0.9% QoQ, and the import volume index saw a larger decline of -2.1% QoQ. As a result, the contribution of net exports to Q4 GDP growth was positive.

● 2021 Q4 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2021 Q4 is an annualized +6.5% QoQ. The production-side forecast figure is an annualized +6.7% QoQ. The average of the two is an annualized +6.6% (Figure 1). Our forecast is similar to the market consensus (January forecast: 6.50%).

● 2021 Q4 inflation forecast update

▶ In December, the National Consumer Price Index (CPI) increased +0.8% YoY, marking the fourth consecutive monthly increase. The Corporate Services Price Index rose for the 10th consecutive month by +1.1%. Prices have been rising at an accelerating pace.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2021 Q4 are respectively -0.0% and +0.4% QoQ. However, as the terms of trade have deteriorated significantly, we forecast a GDP deflator of -0.6% QoQ (Figure 2).

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

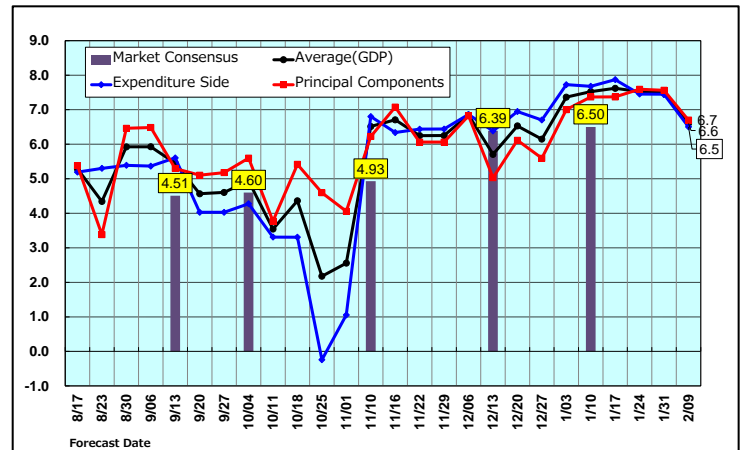
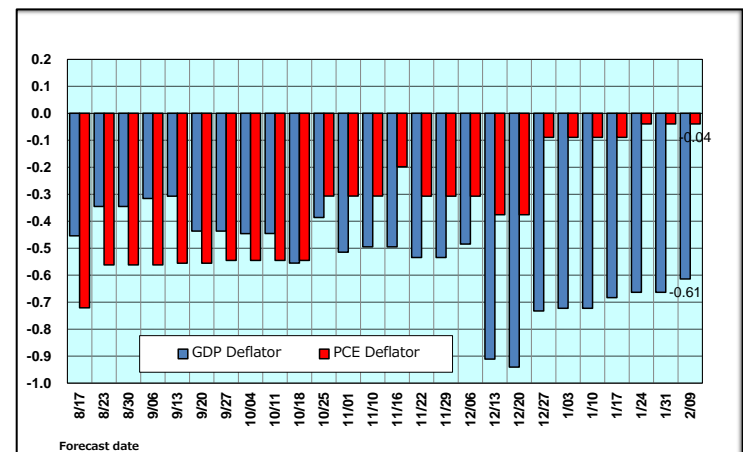


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2021 (% , QoQ growth)



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
2/8	December	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	546,580		-0.2%
		Total working hours	138.4		+1.1%
	December	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	317,206	+0.5%	+0.7%
		Real consumption expenditure		+0.1%	-0.2%
	December	Consumption Trend Index (2020=100)	102.2	-0.1%	
	December	Information Services Industry Sales (billion JPY)	1,441.0		+6.5%
	January	Economy Watchers Survey			
		Current Conditions Diffusion Index	37.9	-19.6	
		Future Conditions Diffusion Index	42.5	-7.8	
December	Balance of Payments				
	Current account (billion JPY)	-370.8	-42.5%	-1,487.3	
	Exports (billion JPY)	7,797.2	-4.2%	+18.7%	
	Imports (billion JPY)	8,115.9	+2.6%	+44.8%	
2/7	December	Consumption Activity Index (2015=100)	95.3	0.0%	
	December	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	104.3	+0.4	
		Coincident indicators	92.6	-0.2	
	Lagging indicators	94.2	+0.8		
2/4	November	Synthetic Consumption Index (2015=100)	96.9	+2.1%	
2/2	January	Food Buffer Stock (billion JPY)	-30.4		-22.8
2/1	January	New Car Sales (vehicles)	272,445		-16.1%
	December	Labor Force Survey			
		Total employment (millions)	66.73	+0.49	
		Total unemployment (millions)	1.86	-0.06	
		Unemployment rate (%)	2.7%	-0.1%pt	
	December	General Job Placement Situation			
	Job offers-to-applicants ratio	1.16	+0.01pt		
1/31	December	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	96.5	-1.0%	
		Shipments	95.2	-0.1%	
		Inventories	101.2	+0.5%	
	January	Consumer Confidence Index (SA)	36.7	-2.4	
	December	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	14,656.0	-1.0%	+1.4%
	December	New Housing Starts			
		New housing starts (SA, Unit)	68,393	-1.5%	+4.2%
		Planned residential construction expenditure (billion JPY)	1,179.5	-1.5%	+7.8%
November	Construction Costs Deflator (2015=100)				
	Housing construction	116.9		+9.3%	
	Public works	114.4		+5.5%	

1/28	January	Tokyo Consumer Price Index (2020=100) Core index	99.9	+0.1%	+0.2%
	December	Manufacturing Industry Input-Output Price Index (2011=100) Input price	112.7		+19.0%
		Output price	107.1		+9.3%
1/26	December	Corporate Services Price Index (2015=100) Overall index	106.0		+1.1%
1/25	November	Index of Business Conditions (revised figures, 2015=100) Leading indicators	103.2	+1.7	
		Coincident indicators	92.8	+3.0	
		Lagging indicators	93.4	+0.3	
	November	Monthly Labor Statistics (final figures) Total cash salary per capita (JPY)	282,749		+0.8%
		Total working hours	139.4		+0.9%
1/21	December	National Consumer Price Index (2020=100) Core index	100.0	+0.1%	+0.5%
	November	General Construction Statistics Private non-residential construction (billion JPY)	845.5		+3.2%
		Public works (billion JPY)	2,063.0		-89.6%
1/20	December	Trade Statistics (customs clearance level) Trade balance (billion JPY)	-582.4	-8.1%	-1,290.6
		Exports (billion JPY)	7,881.4	-0.2%	+17.5%
		Imports (billion JPY)	8,463.8	-0.7%	+41.1%
1/18	November	Indices of Industrial Production (final figures, 2015=100) Production	97.5	+7.0%	
		Shipments	95.3	+7.4%	
		Inventory	100.7	+2.0%	
		Production capacity index	96.2		-1.1%
		Capacity utilization ratio	96.9	+8.0%	
1/17	November	Tertiary Industry Activity Index (2015=100)	98.2	+0.4%	
	November	Private Core Machinery Orders (billion JPY)	900.3	+3.4%	
1/14	December	Public Works Advanced Securities Statistics Contract amount (billion JPY)	685.9		-6.6%
		Number of contracts	15,018		-13.7%
	December	Domestic Corporate Price Index (2015=100) Corporate Price	108.7	-0.2%	+8.5%
		Export Price	102.9	-0.8%	+13.5%
		Import Price	119.6	-0.4%	+41.9%
1/13	November	Information Services Industry Sales (billion JPY)	1,026.7		+7.5%

Table 2: CQM Forecast: GDP Tracking

予測日	実質GDP			デフレーター		実質GDP			デフレーター		実質GDP			デフレーター			
	生産サイド			GDP	PCE	生産サイド			GDP	PCE	生産サイド			GDP	PCE		
	支出サイド (主成分分析モデル)					支出サイド (主成分分析モデル)					支出サイド (主成分分析モデル)						
	平均			平均			平均			平均							
2021Q3						2021Q4						2022Q1					
前期比年率(%)			前期比(%)			前期比年率(%)			前期比(%)			前期比年率(%)			前期比(%)		
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												
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	<u>-3.0</u>			<u>0.1</u>	<u>0.3</u>												
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	541,238	545,011	528,179	536,665	525,658	539,165
Private Consumption	287,141	288,839	285,102	292,433	293,196	285,181	288,379	282,948	289,892
Residential Investment	18,734	18,922	18,623	18,248	18,083	19,016	18,632	18,823	18,469
Nonresidential Investment	84,587	86,311	84,335	84,831	85,538	85,389	85,016	83,944	85,254
Change in Private Inventory	-249	-131	421	1,785	2,077	651	457	451	1,038
Government Consumption	114,279	115,090	116,259	116,416	116,935	113,042	115,511	113,764	116,175
Public Investment	29,386	28,625	28,049	26,890	26,707	29,126	28,237	29,527	27,568
Change in Public Inventory	-19	-33	-87	-36	46	-24	-44	-32	-28
Net Exports	1,108	-229	-80	517	2,275	-4,519	329	-4,163	621
Exports of Goods & Services	100,155	102,669	101,760	101,330	103,719	91,662	101,479	91,885	102,370
Imports of Goods & Services	99,048	102,898	101,840	100,813	101,445	96,181	101,150	96,048	101,749
Gross National Income	556,199	556,799	548,305	553,937	557,457	550,508	553,810	548,247	554,125
Memo:									
Total Demand	634,060	640,529	634,618	642,051	646,456	624,360	637,814	621,707	640,914
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.7	0.5	-0.9	1.6	0.7				
SAAR	-2.9	2.0	-3.6	6.5	2.8				
% Change Year Ago	-1.8	7.3	1.1	0.4	1.9	-4.5	1.6	-4.5	2.6
Private Consumption	-1.1	0.6	-1.3	2.6	0.3				
% Change Year Ago	-3.0	6.9	0.4	0.7	2.1	-5.3	1.1	-5.5	2.5
Residential Investment	0.9	1.0	-1.6	-2.0	-0.9				
% Change Year Ago	-4.0	-2.9	0.3	-1.7	-3.5	-7.9	-2.0	-7.8	-1.9
Nonresidential Investment	0.4	2.0	-2.3	0.6	0.8				
% Change Year Ago	-5.8	3.3	1.3	0.7	1.1	-6.5	-0.4	-7.5	1.6
Government Consumption	-0.6	0.7	1.0	0.1	0.4				
% Change Year Ago	2.6	3.0	1.9	1.2	2.3	2.3	2.2	2.5	2.1
Public Investment	-1.5	-2.6	-2.0	-4.1	-0.7				
% Change Year Ago	5.0	-1.9	-5.4	-9.9	-9.1	3.9	-3.0	5.1	-6.6
Exports of Goods & Services	2.3	2.5	-0.9	-0.4	2.4				
% Change Year Ago	1.1	26.6	15.5	3.5	3.6	-11.8	10.7	-10.5	11.4
Imports of Goods & Services	3.2	3.9	-1.0	-1.0	0.6				
% Change Year Ago	-0.4	5.1	11.5	5.1	2.4	-7.2	5.2	-6.6	5.9
Gross National Income	-1.2	0.1	-1.5	1.0	0.6				
SAAR	-4.6	0.4	-6.0	4.2	2.6				
% Change Year Ago	-1.6	6.4	-0.2	-1.6	0.2	-3.9	0.6	-3.9	1.1
Total Demand	-0.1	1.0	-0.9	1.2	0.7				
SAAR	-0.5	4.1	-3.6	4.8	2.8				
% Change Year Ago	0.0	10.1	2.7	1.1	2.0	-4.9	2.2	-4.9	3.1
Contribution to GDP Growth Rate									
Domestic Demand	-0.6	0.7	-0.9	1.5	0.4	-3.7	0.7	-3.9	1.7
Private Demand	-0.4	0.7	-1.0	1.7	0.3	-4.4	0.4	-4.7	1.6
Public demand	-0.2	0.0	0.1	-0.2	0.1	0.7	0.3	0.8	0.1
Net Exports	-0.1	-0.2	0.0	0.1	0.3	-0.8	0.9	-0.6	0.9

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	543,340	549,712	538,156	542,207	535,510	543,752	
Private Consumption	291,113	291,306	288,266	295,548	297,933	289,499	291,558	286,940	293,263	
Residential Investment	19,926	20,558	20,853	20,993	20,985	20,021	20,582	19,832	20,847	
Nonresidential Investment	85,450	87,875	86,373	87,692	89,005	86,027	86,848	84,498	87,736	
Change in Private Inventory	-435	-431	-61	1,553	1,757	289	157	69	705	
Government Consumption	114,520	115,613	117,640	118,005	118,673	113,185	116,444	113,706	117,483	
Public Investment	30,946	30,467	30,115	29,243	29,088	30,449	30,193	30,911	29,728	
Change in Public Inventory	-34	-44	-136	-54	15	-15	-67	-28	-55	
Net Exports	2,044	-1,536	-4,899	-9,640	-7,744	-1,300	-3,508	-419	-5,955	
Exports of Goods & Services	93,977	98,989	100,182	101,791	104,720	83,729	98,735	84,125	101,421	
Imports of Goods & Services	91,933	100,525	105,082	111,431	112,464	85,029	102,243	84,544	107,376	
Gross National Income	563,661	564,538	558,968	566,308	572,416	557,672	563,369	554,667	565,558	
Memo:										
Total Demand	635,463	644,332	643,233	654,771	662,177	623,185	644,450	620,054	651,128	
Compensation of Employee	289,504	288,359	288,131	287,130	289,276	283,352	288,281	283,664	288,224	
	Upper Row : % change from the previous quarter					Lower Row : % change from a year earlier				
Gross Domestic Products	-0.7	0.1	-1.0	1.0	1.2					
SAAR	-3.0	0.2	-4.1	3.9	4.8					
% Change Year Ago	-1.9	6.2	0.0	-0.8	1.1	-3.6	0.8	-3.9	1.5	
Private Consumption	-0.7	0.1	-1.0	2.5	0.8					
% Change Year Ago	-3.4	6.0	-0.1	0.8	2.3	-5.0	0.7	-5.5	2.2	
Residential Investment	2.3	3.2	1.4	0.7	0.0					
% Change Year Ago	-3.7	0.4	6.8	7.8	5.3	-6.9	2.8	-7.3	5.1	
Nonresidential Investment	0.9	2.8	-1.7	1.5	1.5					
% Change Year Ago	-6.1	4.7	3.2	3.5	4.2	-6.7	1.0	-7.9	3.8	
Government Consumption	0.1	1.0	1.8	0.3	0.6					
% Change Year Ago	2.0	3.6	2.8	3.1	3.6	1.7	2.9	1.7	3.3	
Public Investment	-0.7	-1.5	-1.2	-2.9	-0.5					
% Change Year Ago	5.5	0.3	-2.8	-6.2	-6.0	4.7	-0.8	5.5	-3.8	
Exports of Goods & Services	5.0	5.3	1.2	1.6	2.9					
% Change Year Ago	1.8	36.3	24.6	13.7	11.4	-14.1	17.9	-12.1	20.6	
Imports of Goods & Services	9.6	9.3	4.5	6.0	0.9					
% Change Year Ago	-1.8	20.7	32.5	32.8	22.3	-14.2	20.2	-13.4	27.0	
Gross National Income	-0.7	0.2	-1.0	1.3	1.1					
SAAR	-2.6	0.6	-3.9	5.4	4.4					
% Change Year Ago	-2.0	6.5	0.4	-0.2	1.6	-3.9	1.0	-4.2	2.0	
Memo:										
Total Demand	0.6	1.4	-0.2	1.8	1.1					
SAAR	2.5	5.7	-0.7	7.4	4.6					
% Change Year Ago	0.0	17.2	4.2	3.7	4.2	0.0	-5.2	0.0	-5.3	
Compensation of Employee	1.9	-0.4	-0.1	-0.3	0.7					
% Change Year Ago	0.3	2.9	2.3	1.1	-0.1	-1.2	1.7	-1.5	1.6	

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	100.4	100.9	101.9	101.0	101.9	100.9
Private Consumption	101.4	100.9	101.1	101.1	101.6	101.5	101.1	101.4	101.2
Residential Investment	106.4	108.6	112.0	115.0	116.1	105.3	110.5	105.4	112.9
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	108.8	108.9	104.5	107.0	104.6	107.9
Exports of Goods & Services	93.8	96.4	98.5	100.5	101.0	91.3	97.3	91.5	99.1
Imports of Goods & Services	92.8	97.7	103.2	110.5	110.9	88.4	101.1	88.0	105.6
Unit Profit	103.0	103.1	101.8	102.7	103.7	104.7	102.7	104.0	102.8
Unit Labor Cost	100.4	99.5	100.4	98.4	98.5	99.6	99.7	100.1	99.2
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.0	-0.4	-0.1	-0.6	0.5				
	-0.1	-1.0	-1.1	-1.2	-0.7	0.9	-0.9	0.7	-1.0
Private Consumption	0.4	-0.5	0.3	0.0	0.5				
	-0.4	-0.8	-0.5	0.1	0.2	0.3	-0.4	0.0	-0.3
Residential Investment	1.4	2.1	3.1	2.7	0.9				
	0.3	3.5	6.5	9.7	9.1	1.1	5.0	0.5	7.2
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	0.1				
	-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	1.3	0.2				
	0.4	2.2	2.7	4.1	3.4	0.7	2.4	0.4	3.1
Exports of Goods & Services	2.7	2.8	2.1	2.0	0.5				
	0.7	7.7	7.9	9.9	7.6	-2.6	6.6	-1.9	8.3
Imports of Goods & Services	6.1	5.3	5.6	7.1	0.3				
	-1.4	14.9	18.8	26.4	19.4	-7.6	14.4	-7.3	20.0
Unit Profit	0.0	0.1	-1.2	0.9	0.9				
	0.0	2.7	-3.6	-3.2	0.6	-1.8	-1.9	-2.0	-1.1
Unit Labor Cost	0.0	-0.9	0.8	-1.9	0.0				
	0.0	13.5	1.1	0.7	-1.9	3.4	0.1	3.2	-0.9