



# Japanese Economy Monthly Forecast

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## Headlines

### ● Review of data released in May

▶ This forecast reflects data released by the end of May. About one-third of data required for an accurate estimation of 2022 Q2 GDP have been released.

▶ According to the first advance GDP estimate, Japan's real GDP in Q1 shrank by -1.0% QoQ, marking the first decline in two quarters. Nevertheless, the figure was somewhat above the market consensus.

▶ In April, the Index of Industrial Production declined MoM for the first time in three months, due to the lockdowns in Shanghai and other cities in China, which caused a stagnation in production and logistics. As a result, METI lowered its assessment of the production, stating that the economy is at a standstill.

▶ The flow of people is rapidly recovering and consumers' cautious spending is easing. Private final consumption expenditure, especially spending on services, is expected to continue to drive economic recovery, as involuntarily pent-up savings are unleashed.

▶ Planned residential construction expenditure in April increased MoM for the first time in three months, but in real terms (i.e., taking construction costs into account) it was sluggish. The capital goods shipments index rose for the second consecutive month in April, but the momentum was weak. Based on these trends, we expect that domestic demand in Q2 will barely grow QoQ.

▶ According to the Ministry of Finance, volume-based net exports made a positive contribution to economic growth in April. However, according to the Bank of Japan, in real terms, net exports suppressed growth. The real Q2 trend will become clearer when May data are released.

### ● 2022 Q2 real GDP growth forecast update

▶ Our expenditure-side forecast for real GDP growth in 2022 Q2 is an annualized -0.4% QoQ. The production-side forecast figure is an annualized +2.6%. The average of the two is an annualized +1.1% (Figure 1). Our forecast is significantly lower than the market consensus forecast figure for May.

### ● 2022 Q2 inflation forecast update

▶ In April, the National Consumer Price Index (CPI) rose +2.5% YoY, marking the eighth consecutive monthly increase. CPI inflation accelerated as the impact of the reduction in telecommunication charges faded, and it exceeded 2% for the first time since March 2015.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2022 Q2 are +0.5% and +0.6% QoQ, respectively. However, as the terms of trade are deteriorating substantially, we forecast a GDP deflator of -1.3% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Apr-Jun (Q2) 2022 (% , QoQ annualized growth)

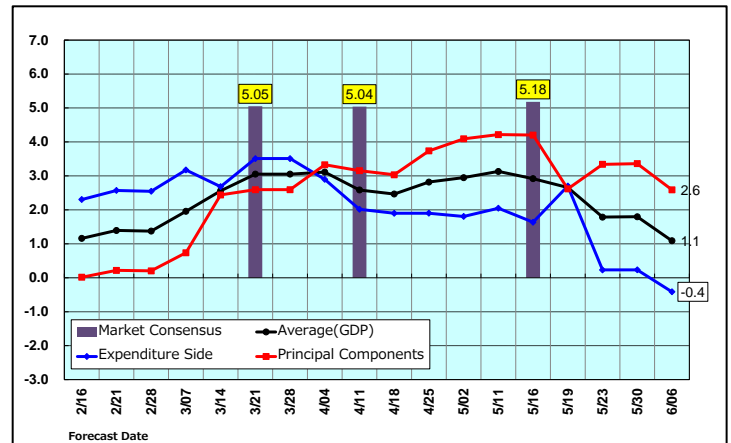
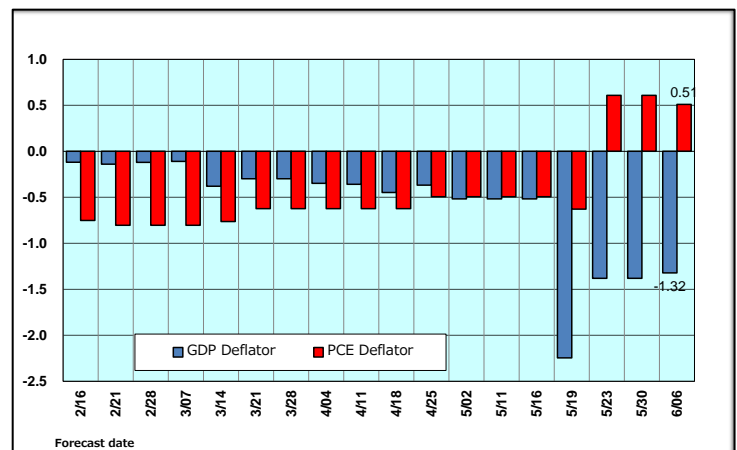


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2022 (% , QoQ growth)



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	
6/2	May	<b>Food Buffer Stock (billion JPY)</b>	-12.1		-3.9	
6/1	May	<b>New Car Sales (vehicles)</b>	211,856		-19.0%	
5/31	April	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>				
		Production	95.2	-1.3%		
		Shipments	93.3	0.0%		
			Inventories	98.4	-2.5%	
	April	<b>Labor Force Survey</b>				
		Total employment (millions)	67.38	+0.27		
		Total unemployment (millions)	1.76	-0.03		
			Unemployment rate (%)	2.5%	-0.1%pt	
	April	<b>General Job Placement Situation</b>				
			Job offers-to-applicants ratio	1.23	+0.01%pt	
	April	<b>Current Survey of Commerce (preliminary figures)</b>				
			Retail trade (billion JPY)	12,551.0	+0.8%	2.9%
	April	<b>New Housing Starts</b>				
			New housing starts (SA, Unit)	76,179	-4.7%	+2.2%
		Planned residential construction expenditure (billion JPY)	1,318.3	+5.2%	+6.3%	
May	<b>Consumer Confidence Index (SA)</b>		34.1	+1.1		
March	<b>Construction Costs Deflator (2015=100)</b>					
		Housing construction	119.6		+10.3%	
		Public works	117.2		+6.6%	
5/30	April	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	125.6		+23.1%	
		Output price	113.2		+11.4%	
5/27	May	<b>Tokyo Region Consumer Price Index (2020=100)</b>				
		Core	101.5	+0.1%	+1.9%	
5/26	March	<b>Corporate Services Price Index (2015=100)</b>				
		Overall index	106.7		+1.7%	
5/25	March	<b>Index of Business Conditions (revised figures, 2015=100)</b>				
		Leading indicators	100.8	+0.7		
		Coincident indicators	97.5	+0.7		
		Lagging indicators	95.4	+0.2		
5/24	March	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	320,604		+0.7%	
		Total working hours	136.0		+1.0%	
5/20	March	<b>Private Core Machinery Orders (billion JPY)</b>	869.5	+7.1%		
	March	<b>General Construction Statistics</b>				
		Private non-residential construction (billion JPY)	833.9		+11.0%	
		Public works (billion JPY)	1,982.7		-14.8%	
	April	<b>National Consumer Price Index (2020=100)</b>				
		Core index	101.4	+0.2%	+2.1%	
	April	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	-839.2	+58.8%	-1,065.9	

		Exports (billion JPY)	8,076.2	+1.0%	+12.5%
		Imports (billion JPY)	8,915.4	+7.9%	+28.2%
5/18	March	<b>Indices of Industrial Production (final figures, 2015=100)</b>			
		Production	96.5	+0.3%	
		Shipments	93.3	+0.6%	
		Inventory	100.9	-0.4%	
		Production capacity index	95.8		-1.2%
		Capacity utilization ratio	92.7	-1.6%	
5/17	March	<b>Tertiary Industry Activity Index (2015=100)</b>	97.6	+1.3%	
5/16	April	<b>Domestic Corporate Price Index (2015=100)</b>			
		Corporate Price	113.5	+1.2%	+10.0%
		Export Price	113.9	+5.6%	+17.3%
		Import Price	140.7	+10.8%	+44.6%
5/13	April	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	2,010.5		-4.0%
		Number of contracts	18,055		-9.0%
	March	<b>Information Services Industry Sales (billion JPY)</b>	2,094.7		-5.6%
	April	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	50.4	+2.6	
		Future Conditions Diffusion Index	50.3	+0.2	
5/12	March	<b>Balance of Payments</b>			
		Current account (billion JPY)	2,549.3	+197.8%	+2.8%
		Exports (billion JPY)	8,451.6	+1.2%	+15.7%
		Imports (billion JPY)	8,622.1	-1.3%	+36.6%
5/11	February	<b>Synthetic Consumption Index (2015=100)</b>	96.0	-1.2%	
	March	<b>Consumption Activity Index (2015=100)</b>	91.2	+1.9%	
	March	<b>Index of Business Conditions (preliminary, 2015=100)</b>			
		Leading indicators	101.0	+0.9	
		Coincident indicators	97.0	+0.2	
		Lagging indicators	95.7	+0.6	
5/10	March	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	307,261	+4.6%	-0.8%
		Real consumption expenditure		+4.1%	-2.3%
	March	<b>Consumption Trend Index (2020=100)</b>	101.4	+0.2%	
5/9	March	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	286,567		+1.2%
		Total working hours	136.0		-1.6%

**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
	2022Q1					2022Q2					2022Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/16	0.7	1.1	0.9	0.7	0.6	2.3	0.0	1.2	-0.1	-0.8					
2/21	-2.2	-0.8	-1.5	0.4	0.2	2.6	0.2	1.4	-0.1	-0.8					
2/28	-2.3	-0.8	-1.5	0.4	0.2	2.5	0.2	1.4	-0.1	-0.8					
3/07	-3.7	-0.7	-2.2	0.4	0.2	3.2	0.7	2.0	-0.1	-0.8					
<b>3/09</b>															
3/14	-5.6	-2.7	-4.2	0.2	0.2	2.7	2.4	2.6	-0.4	-0.8					
3/21	-5.2	-1.7	-3.4	0.3	0.5	3.5	2.6	3.1	-0.3	-0.6					
3/28	-5.2	-1.7	-3.4	0.3	0.5	3.5	2.6	3.1	-0.3	-0.6					
4/04	-5.0	-1.8	-3.4	0.3	0.5	2.9	3.3	3.1	-0.3	-0.6					
4/11	-2.6	-1.8	-2.2	0.3	0.5	2.0	3.2	2.6	-0.4	-0.6					
4/18	-2.6	-2.5	-2.5	0.3	0.5	1.9	3.0	2.5	-0.4	-0.6					
4/25	-2.5	-2.3	-2.4	0.4	0.5	1.9	3.7	2.8	-0.4	-0.5					
5/02	-3.2	-1.7	-2.4	0.4	0.5	1.8	4.1	2.9	-0.5	-0.5					
5/11	-2.7	-1.3	-2.0	0.4	0.5	2.0	4.2	3.1	-0.5	-0.5					
5/16	-2.5	-1.3	-1.9	0.4	0.5	1.6	4.2	2.9	-0.5	-0.5					
<b>5/18</b>	<b>-1.0</b>			<b>0.4</b>	<b>0.9</b>										
5/19						2.7	2.6	2.7	-2.2	-0.6	0.3	0.1	0.2	-0.7	0.1
5/23						0.2	3.3	1.8	-1.4	0.6	-0.4	0.1	-0.1	-0.8	0.1
5/30						0.2	3.4	1.8	-1.4	0.6	-0.4	0.1	-0.1	-0.8	0.1
6/06						-0.4	2.6	1.1	-1.3	0.5	-0.5	-0.4	-0.4	-0.7	0.1

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	
	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2021	2022	2020	2021
GDP/GDE									
Gross Domestic Products	534,223	539,248	537,916	537,361	536,703	536,775	537,650	525,727	537,018
Private Consumption	286,030	293,059	292,968	295,858	296,110	288,892	295,363	282,995	290,241
Residential Investment	18,598	18,384	18,181	18,106	18,020	18,650	18,093	18,820	18,513
Nonresidential Investment	84,237	84,546	84,955	84,393	84,517	84,770	84,662	83,930	84,998
Change in Private Inventory	769	-247	913	-143	-994	-16	-142	462	398
Government Consumption	116,352	116,018	116,714	117,168	117,683	115,413	117,442	113,762	116,051
Public Investment	27,562	26,272	25,332	25,205	25,322	28,056	25,327	29,522	26,786
Change in Public Inventory	-69	-21	-37	-110	-55	-29	-66	-32	-33
Net Exports	996	1,567	-671	-2,678	-3,461	1,239	-2,590	-4,050	555
Exports of Goods & Services	102,927	103,851	105,043	101,134	100,921	102,596	102,143	92,184	103,716
Imports of Goods & Services	101,930	102,283	105,714	103,812	104,383	101,358	104,732	96,233	103,161
Gross National Income	548,605	551,314	549,661	546,764	542,944	553,005	546,182	548,189	551,286
Memo:									
Total Demand	636,153	641,531	643,630	641,173	641,086	638,132	642,382	621,960	640,178
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.7	0.9	-0.2	-0.1	-0.1				
<b>SAAR</b>	<b>-2.9</b>	<b>3.8</b>	<b>-1.0</b>	<b>-0.4</b>	<b>-0.5</b>				
% Change Year Ago	1.2	0.4	0.5	-0.2	0.5	1.7	0.2	-4.5	2.1
Private Consumption	-1.0	2.5	0.0	1.0	0.1				
% Change Year Ago	0.4	1.3	2.1	2.4	3.5	1.3	2.2	-5.4	2.6
Residential Investment	-1.7	-1.2	-1.1	-0.4	-0.5				
% Change Year Ago	0.2	-0.9	-2.9	-4.3	-3.1	-1.9	-3.0	-7.8	-1.6
Nonresidential Investment	-2.4	0.4	0.5	-0.7	0.1				
% Change Year Ago	1.3	0.2	0.6	-2.2	0.3	-0.7	-0.1	-7.5	1.3
Government Consumption	1.1	-0.3	0.6	0.4	0.4				
% Change Year Ago	2.0	0.9	2.2	1.8	1.1	2.1	1.8	2.5	2.0
Public Investment	-3.8	-4.7	-3.6	-0.5	0.5				
% Change Year Ago	-5.9	-11.8	-14.9	-12.1	-8.1	-3.7	-9.7	5.1	-9.3
Exports of Goods & Services	-0.3	0.9	1.1	-3.7	-0.2				
% Change Year Ago	15.8	6.1	4.6	-2.0	-1.9	11.8	-0.4	-10.2	12.5
Imports of Goods & Services	-0.8	0.3	3.4	-1.8	0.6				
% Change Year Ago	11.4	5.6	7.3	1.0	2.4	5.1	3.3	-6.5	7.2
Gross National Income	-1.5	0.5	-0.3	-0.5	-0.7				
<b>SAAR</b>	<b>-5.9</b>	<b>2.0</b>	<b>-1.2</b>	<b>-2.1</b>	<b>-2.8</b>				
% Change Year Ago	-0.3	-1.8	-1.1	-1.8	-1.0	0.5	-1.2	-3.9	0.6
Total Demand	-0.8	0.8	0.3	-0.4	0.0				
<b>SAAR</b>	<b>-3.0</b>	<b>3.4</b>	<b>1.3</b>	<b>-1.5</b>	<b>-0.1</b>				
% Change Year Ago	0.0	10.3	1.5	0.0	0.8	2.2	0.7	-4.8	2.9
Contribution to GDP Growth Rate									
Domestic Demand	-0.8	0.9	0.2	0.3	0.0	0.6	0.9	-3.9	1.4
Private Demand	-0.8	1.2	0.2	0.2	-0.1	0.4	1.1	-4.6	1.5
Public demand	0.0	-0.3	-0.1	0.0	0.1	0.2	-0.2	0.8	-0.1
Net Exports	0.1	0.1	-0.4	-0.4	-0.1	1.0	-0.7	-0.6	0.8

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

	Quarterly			Forecast		CY		FY	
	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2021	2022	2020	2021
GDP/GDE									
Gross Domestic Products	539,403	540,953	541,529	533,820	529,390	541,944	533,811	535,517	541,619
Private Consumption	289,281	295,617	298,271	302,739	303,467	291,927	301,861	286,963	293,728
Residential Investment	20,886	21,092	21,125	21,420	21,415	20,617	21,340	19,832	20,916
Nonresidential Investment	86,404	87,421	88,413	89,116	90,247	86,593	89,789	84,488	87,574
Change in Private Inventory	394	-580	569	34	-701	-280	-199	80	50
Government Consumption	117,835	116,899	118,627	118,737	119,295	116,152	119,096	113,706	117,222
Public Investment	29,649	28,595	27,797	27,799	27,867	30,015	27,853	30,909	28,999
Change in Public Inventory	-127	-8	-16	-106	-60	-49	-62	-28	-40
Net Exports	-4,918	-8,081	-13,258	-25,919	-32,139	-3,033	-25,867	-433	-6,830
Exports of Goods & Services	101,270	105,550	108,090	113,192	114,115	100,041	112,696	84,368	103,636
Imports of Goods & Services	106,187	113,631	121,348	139,111	146,254	103,073	138,563	84,800	110,466
Gross National Income	560,020	562,727	565,432	562,835	558,901	562,590	561,878	554,678	563,336
Memo:									
Total Demand	645,590	654,584	662,878	672,931	675,644	645,017	672,374	620,318	652,085
Compensation of Employee	288,193	288,026	290,085	291,482	292,851	288,104	291,511	283,664	288,557
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-1.0	0.3	0.1	-1.4	-0.8				
<b>SAAR</b>	<b>-3.9</b>	<b>1.2</b>	<b>0.4</b>	<b>-5.6</b>	<b>-3.3</b>				
% Change Year Ago	0.1	-1.0	-0.3	-2.0	-1.9	0.7	-1.5	-3.9	1.1
Private Consumption	-0.8	2.2	0.9	1.5	0.2				
% Change Year Ago	-0.1	1.2	2.6	3.8	4.9	0.8	3.4	-5.5	2.4
Residential Investment	1.6	1.0	0.2	1.4	0.0				
% Change Year Ago	6.8	8.3	6.1	4.2	2.5	3.0	3.5	-7.3	5.5
Nonresidential Investment	-1.6	1.2	1.1	0.8	1.3				
% Change Year Ago	3.2	3.1	3.7	1.5	4.4	0.7	3.7	-8.0	3.7
Government Consumption	1.9	-0.8	1.5	0.1	0.5				
% Change Year Ago	2.9	2.1	3.9	2.7	1.2	2.6	2.5	1.7	3.1
Public Investment	-2.7	-3.6	-2.8	0.0	0.2				
% Change Year Ago	-3.3	-8.1	-11.3	-8.8	-6.0	-1.4	-7.2	5.5	-6.2
Exports of Goods & Services	1.7	4.2	2.4	4.7	0.8				
% Change Year Ago	24.9	18.1	15.1	13.7	12.7	19.3	12.7	-11.8	22.8
Imports of Goods & Services	5.4	7.0	6.8	14.6	5.1				
% Change Year Ago	33.0	34.8	32.3	38.1	37.7	20.9	34.4	-13.2	30.3
Gross National Income	-1.0	0.5	0.5	-0.5	-0.7				
<b>SAAR</b>	<b>-3.8</b>	<b>1.9</b>	<b>1.9</b>	<b>-1.8</b>	<b>-2.8</b>				
% Change Year Ago	0.5	-0.7	0.4	-0.5	-0.2	0.9	-0.1	-4.2	1.6
Memo:									
Total Demand	0.0	1.4	1.3	1.5	0.4				
<b>SAAR</b>	<b>0.0</b>	<b>5.7</b>	<b>5.2</b>	<b>6.2</b>	<b>1.6</b>				
% Change Year Ago	0.0	19.1	4.4	4.2	4.7	0.0	3.5	0.0	-5.3
Compensation of Employee	0.0	-0.1	0.7	0.5	0.5				
% Change Year Ago	2.2	1.2	0.5	1.2	1.6	1.7	1.2	-1.5	1.7

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2021	2022	2020	2021
GDP/GDE									
Gross Domestic Products	101.0	100.3	100.7	99.3	98.6	101.0	99.3	101.9	100.9
Private Consumption	101.1	100.9	101.8	102.3	102.5	101.0	102.2	101.4	101.2
Residential Investment	112.3	114.7	116.2	118.3	118.8	110.5	118.0	105.4	113.0
Nonresidential Investment	102.6	103.4	104.1	105.6	106.8	102.2	106.1	100.7	103.0
Government Consumption	101.3	100.8	101.6	101.3	101.4	100.6	101.4	100.0	101.0
Public Investment	107.6	108.8	109.7	110.3	110.1	107.0	110.0	104.6	108.1
Exports of Goods & Services	98.4	101.6	102.9	111.9	113.1	97.5	110.4	91.4	99.9
Imports of Goods & Services	104.2	111.1	114.8	134.0	140.1	101.6	132.4	88.1	107.0
Unit Profit	102.0	101.8	101.4	97.9	95.6	102.6	97.8	103.9	102.3
Unit Labor Cost	100.1	99.1	100.1	100.7	101.3	99.6	100.6	100.1	99.7
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.3	-0.7	0.4	-1.3	-0.7				
	-1.1	-1.4	-0.7	-1.9	-2.3	-0.9	-1.7	0.7	-1.0
Private Consumption	0.2	-0.3	0.9	0.5	0.2				
	-0.5	-0.1	0.5	1.4	1.3	-0.5	1.2	0.0	-0.2
Residential Investment	3.4	2.2	1.3	1.8	0.5				
	6.7	9.3	9.3	8.9	5.8	4.9	6.8	0.5	7.2
Nonresidential Investment	0.8	0.8	0.7	1.5	1.1				
	2.0	2.9	3.1	3.7	4.1	1.5	3.8	-0.5	2.3
Government Consumption	0.8	-0.5	0.9	-0.3	0.0				
	0.9	1.2	1.6	0.8	0.1	0.5	0.8	-0.8	1.1
Public Investment	1.2	1.2	0.8	0.5	-0.2				
	2.8	4.2	4.3	3.7	2.3	2.4	2.8	0.4	3.4
Exports of Goods & Services	2.0	3.3	1.2	8.8	1.0				
	7.9	11.3	10.1	16.0	14.9	6.8	13.3	-1.9	9.2
Imports of Goods & Services	6.3	6.6	3.3	16.7	4.6				
	19.3	27.6	23.3	36.8	34.5	15.0	30.3	-7.2	21.5
Unit Profit	0.0	-0.3	-0.3	-3.5	-2.3				
	0.0	1.4	-1.6	-5.5	-6.3	-1.9	-4.7	-2.0	-1.6
Unit Labor Cost	0.0	-1.0	1.0	0.6	0.6				
	0.0	13.1	0.0	1.3	1.1	0.0	1.0	3.1	-0.4