



# Japanese Economy Monthly Forecast

June 2022

Yoshihisa Inada

Head of the Center for Quantitative Economic Analysis, APIR

e-mail: inada-y@apir.or.jp

## Headlines

### ● Review of data released in June

▶ This forecast reflects data released by the end of June. About two-thirds of all data required for an accurate estimation of 2022 Q2 GDP have been released.

▶ According to the Bank of Japan's June Tankan survey, business confidence in the large manufacturing sector worsened due to soaring raw material prices and supply constraints caused by China's urban lockdowns. On the other hand, business confidence in the large non-manufacturing sector improved as the number of COVID-19 infections declined.

▶ The Index of Industrial Production in May fell sharply by -7.2% MoM, marking the second consecutive monthly decline. METI lowered its monthly assessment of the economy from "stalling" to "weakening".

▶ In April, the Real Consumption Trends Index and the Real Consumption Activity Index both increased MoM for the second consecutive month.

▶ In May, planned residential construction expenditure declined MoM for the first time in two months. The capital goods shipments index declined for the first time in three months. The April-May averages of the two indicators were respectively -1.8% and -1.5% lower than their Q1 averages.

▶ According to the Ministry of Finance, the April-May average of the export volume index was +2.6% higher than the Q1 average, while the import volume index was -2.3% lower. However, according to the Bank of Japan, real exports fell by -3.8%, and real imports increased by +0.5%. As a result, the April-May average contribution of net exports to GDP growth was positive in volume terms but negative in real terms.

### ● 2022 Q2 real GDP growth forecast update

▶ Our expenditure-side forecast for real GDP growth in 2022 Q2 is an annualized +0.7% QoQ. The production-side forecast figure is an annualized +2.4%. The average of the two is an annualized +1.6% (Figure 1). The two forecasts, which diverged significantly for some time, have started to converge. However, both of them remain lower than the market consensus forecast figure.

### ● 2022 Q2 inflation forecast update

▶ The Q2 Tokyo Consumer Price Index (CPI) rose +2.5% YoY, marking the third consecutive quarterly increase. On a QoQ basis, the increase was +0.9%, marking the fourth quarter of QoQ inflation.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2022 Q2 are both +0.5% QoQ. However, as the terms of trade have deteriorated substantially, we forecast a GDP deflator of -1.1% QoQ (Figure 2).

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

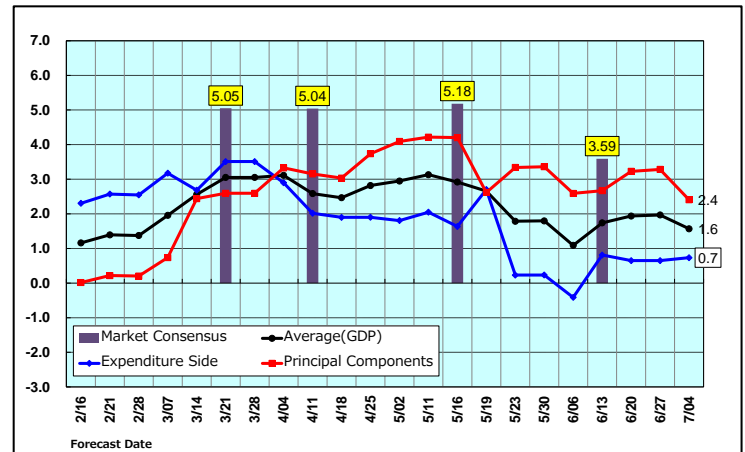
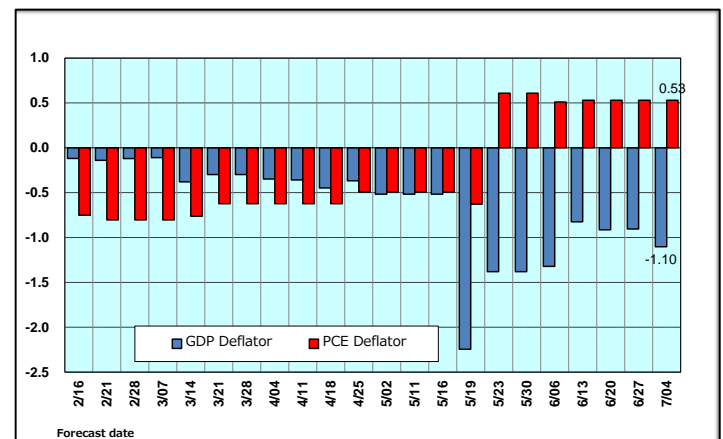


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2022 (% , QoQ growth)



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	
7/1	May	<b>Labor Force Survey</b>				
		Total employment (millions)	67.24	-0.14		
		Total unemployment (millions)	1.80	+0.04		
			Unemployment rate (%)	2.6%	+0.1%pt	
	May	<b>General Job Placement Situation</b>				
			Job offers-to-applicants ratio	1.24	+0.01%pt	
June		<b>New Car Sales (vehicles)</b>	268,077		-9.6%	
June		<b>Tokyo Region Consumer Price Index (2020=100)</b>				
		Core	101.6	+0.2%	+2.1%	
6/30	May	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>				
		Production	88.3	-7.2%		
		Shipments	89.0	-4.3%		
			Inventories	98.5	-0.1%	
	May	<b>New Housing Starts</b>				
			New housing starts (SA, Unit)	67,193	-6.5%	-4.3%
			Planned residential construction expenditure (billion JPY)	1,172.6	-5.6%	-4.6%
	April	<b>Construction Costs Deflator (2015=100)</b>				
			Housing construction	119.2		+9.3%
			Public works	116.5		+5.9%
6/29	May	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	12,388.0	+0.6%	+3.6%	
	June	<b>Consumer Confidence Index (SA)</b>	32.1	-2.0		
6/28	May	<b>Producer Price Index for Final Demand (2015=100)</b>				
		Capital goods	105.6		+1.8%	
		Consumer goods	107.8		+6.3%	
6/27	April	<b>Index of Business Conditions (revised figures, 2015=100)</b>				
		Leading indicators	102.9	+2.1		
		Coincident indicators	96.8	0.0		
		Lagging indicators	96.4	+1.1		
6/24	April	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	282,437		+1.3%	
			Total working hours	141.5		-1.3%
	May	<b>Corporate Services Price Index (2015=100)</b>				
			Overall index	106.7		+1.8%
	May	<b>National Consumer Price Index (2020=100)</b>				
			Core index	101.6	+0.1%	+2.1%
6/17	April	<b>General Construction Statistics</b>				
		Private non-residential construction (billion JPY)	826.2		+11.1%	
		Public works (billion JPY)	1,389.6		-9.5%	
6/16	May	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	-2,384.7	+22.2%	+1019.9%	
		Exports (billion JPY)	7,252.1	+2.4%	+15.8%	
		Imports (billion JPY)	9,638.7	+5.8%	+48.9%	

6/15	April	<b>Tertiary Industry Activity Index (2015=100)</b>	98.5	+0.7%		
	April	<b>Private Core Machinery Orders (billion JPY)</b>	963.0	+10.8%		
	May	<b>Public Works Advanced Securities Statistics</b>				
		Contract amount (billion JPY)	1,267.2		-10.3%	
		Number of contracts	15,856		-4.8%	
6/14	April	<b>Indices of Industrial Production (final figures, 2015=100)</b>				
		Production	95.1	-1.5%		
		Shipments	93.0	-0.3%		
		Inventory	98.6	-2.3%		
		Production capacity index	95.4		-1.2%	
		Capacity utilization ratio	92.7	0.0%		
6/10	May	<b>Domestic Corporate Price Index (2015=100)</b>				
		Corporate Price	112.8	0.0%	+9.1%	
		Export Price	126.0	+1.0%	+16.7%	
		Import Price	167.2	+3.0%	+43.3%	
6/9	April	<b>Information Services Industry Sales (billion JPY)</b>	1,093.3		+4.0%	
6/8	May	<b>Economy Watchers Survey</b>				
		Current Conditions Diffusion Index	54.0	+3.6		
			Future Conditions Diffusion Index	52.5	+2.2	
	April	<b>Balance of Payments</b>				
		Current account (billion JPY)	501.1	-67.1%	-55.6%	
Exports (billion JPY)		8,013.3	+3.6%	+17.2%		
		Imports (billion JPY)	8,701.7	+8.5%	+32.8%	
6/7	April	<b>Consumption Activity Index (2015=100)</b>	96.7	+0.8%		
	April	<b>Index of Business Conditions (preliminary, 2015=100)</b>				
		Leading indicators	102.9	+2.1		
		Coincident indicators	96.8	0.0		
		Lagging indicators	96.7	+1.5		
	March	<b>Synthetic Consumption Index (2015=100)</b>	96.6	+0.2%		
	April	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>				
		Nominal consumption expenditure (JPY)	304,510	+1.6%	+1.2%	
		Real consumption expenditure		+1.0%	-1.7%	
	April	<b>Consumption Trend Index (2020=100)</b>	103.0	+0.6%		
	April	<b>Monthly Labor Statistics (preliminary figures)</b>				
	Total cash salary per capita (JPY)	283,475		+1.7%		
	Total working hours	142.0		0.9%		
6/2	May	<b>Food Buffer Stock (billion JPY)</b>	-12.1		-3.9	

**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>	<u>-1.0</u>			<u>0.4</u>	<u>0.9</u>										
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
<b>6/08</b>						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6/13						0.8	2.7	1.7	-0.8	0.5	-0.7	-0.5	-0.6	-0.2	0.2
6/20						0.7	3.2	1.9	-0.9	0.5	0.2	-0.8	-0.3	-0.2	0.2
6/27						0.7	3.3	2.0	-0.9	0.5	0.2	-0.8	-0.3	-0.2	0.2
7/03						0.7	2.4	1.6	-1.1	0.5	-0.3	-1.1	-0.7	-0.4	0.2

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	534,194	539,444	538,762	539,748	539,300	536,771	539,826	525,727	537,359
Private Consumption	286,032	293,021	293,199	297,256	297,364	288,875	296,403	282,995	290,290
Residential Investment	18,600	18,389	18,165	17,970	17,725	18,653	17,902	18,820	18,511
Nonresidential Investment	84,225	84,290	83,702	84,042	84,289	84,771	84,232	83,930	84,572
Change in Private Inventory	733	242	2,982	1,120	-302	-14	1,014	462	1,145
Government Consumption	116,352	116,029	116,592	117,149	117,663	115,413	117,396	113,762	116,024
Public Investment	27,563	26,258	25,235	25,519	25,672	28,056	25,557	29,522	26,758
Change in Public Inventory	-60	-2	-31	-100	-45	-19	-57	-32	-22
Net Exports	998	1,572	-636	-2,764	-2,620	1,239	-2,175	-4,050	566
Exports of Goods & Services	102,926	103,848	105,019	103,567	104,639	102,596	104,617	92,184	103,709
Imports of Goods & Services	101,928	102,276	105,655	106,331	107,259	101,358	106,792	96,233	103,143
Gross National Income	548,576	551,508	550,492	548,679	546,630	553,001	548,848	548,189	551,623
Memo:									
Total Demand	636,122	641,719	644,417	646,078	646,559	638,129	646,618	621,960	640,503
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.8	1.0	-0.1	0.2	-0.1				
<b>SAAR</b>	<b>-3.2</b>	<b>4.0</b>	<b>-0.5</b>	<b>0.7</b>	<b>-0.3</b>				
% Change Year Ago	1.2	0.4	0.7	0.2	1.0	1.7	0.6	-4.5	2.2
Private Consumption	-1.0	2.4	0.1	1.4	0.0				
% Change Year Ago	0.4	1.3	2.1	2.9	4.0	1.3	2.6	-5.4	2.6
Residential Investment	-1.7	-1.1	-1.2	-1.1	-1.4				
% Change Year Ago	0.2	-0.8	-3.0	-5.0	-4.7	-1.9	-4.0	-7.8	-1.6
Nonresidential Investment	-2.4	0.1	-0.7	0.4	0.3				
% Change Year Ago	1.3	0.1	-1.1	-2.6	0.1	-0.7	-0.6	-7.5	0.8
Government Consumption	1.1	-0.3	0.5	0.5	0.4				
% Change Year Ago	2.0	0.9	2.1	1.8	1.1	2.1	1.7	2.5	2.0
Public Investment	-3.9	-4.7	-3.9	1.1	0.6				
% Change Year Ago	-5.9	-11.8	-15.2	-11.0	-6.9	-3.7	-8.9	5.1	-9.4
Exports of Goods & Services	-0.3	0.9	1.1	-1.4	1.0				
% Change Year Ago	15.8	6.1	4.6	0.3	1.7	11.8	2.0	-10.2	12.5
Imports of Goods & Services	-0.8	0.3	3.3	0.6	0.9				
% Change Year Ago	11.4	5.6	7.2	3.4	5.2	5.1	5.4	-6.5	7.2
Gross National Income	-1.6	0.5	-0.2	-0.3	-0.4				
<b>SAAR</b>	<b>-6.1</b>	<b>2.2</b>	<b>-0.7</b>	<b>-1.3</b>	<b>-1.5</b>				
% Change Year Ago	-0.3	-1.8	-0.9	-1.6	-0.4	0.5	-0.8	-3.9	0.6
Total Demand	-0.8	0.9	0.4	0.3	0.1				
<b>SAAR</b>	<b>-3.2</b>	<b>3.6</b>	<b>1.7</b>	<b>1.0</b>	<b>0.3</b>				
% Change Year Ago	0.0	10.3	1.7	0.7	1.6	2.2	1.3	-4.8	3.0
Contribution to GDP Growth Rate									
Domestic Demand	-0.9	0.9	0.3	0.6	-0.1	0.6	1.2	-3.9	1.4
Private Demand	-0.9	1.2	0.4	0.4	-0.2	0.4	1.4	-4.6	1.5
Public demand	0.0	-0.3	-0.1	0.1	0.1	0.2	-0.1	0.8	-0.1
Net Exports	0.1	0.1	-0.4	-0.4	0.0	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	539,383	541,157	541,970	537,016	534,252	541,941	537,171	535,517	541,840	
Private Consumption	289,272	295,613	298,487	304,217	304,835	291,910	302,978	286,963	293,774	
Residential Investment	20,888	21,097	21,103	21,240	21,021	20,620	21,087	19,832	20,914	
Nonresidential Investment	86,400	87,168	87,149	87,971	88,478	86,594	88,240	84,488	87,149	
Change in Private Inventory	380	-153	2,285	1,085	-252	-280	676	80	694	
Government Consumption	117,838	116,914	118,511	118,704	119,252	116,152	119,038	113,706	117,199	
Public Investment	29,649	28,582	27,703	28,211	28,319	30,015	28,159	30,909	28,971	
Change in Public Inventory	-126	17	-9	-95	-49	-39	-52	-28	-30	
Net Exports	-4,918	-8,081	-13,258	-24,317	-27,351	-3,033	-22,954	-433	-6,830	
Exports of Goods & Services	101,270	105,550	108,090	115,715	117,879	100,041	115,226	84,368	103,636	
Imports of Goods & Services	106,187	113,631	121,348	140,033	145,230	103,073	138,180	84,800	110,466	
Gross National Income	560,000	562,932	565,873	564,087	562,015	562,586	563,871	554,678	563,556	
Memo:										
Total Demand	645,570	654,788	663,319	677,048	679,482	645,013	675,351	620,318	652,306	
Compensation of Employee	288,187	288,195	290,579	292,792	293,560	288,104	292,369	283,664	288,703	
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier										
Gross Domestic Products	-1.1	0.3	0.2	-0.9	-0.5					
<b>SAAR</b>	<b>-4.1</b>	<b>1.3</b>	<b>0.6</b>	<b>-3.6</b>	<b>-2.0</b>					
% Change Year Ago	0.1	-1.0	-0.1	-1.5	-1.0	0.7	-0.9	-3.9	1.2	
Private Consumption	-0.8	2.2	1.0	1.9	0.2					
% Change Year Ago	-0.1	1.2	2.7	4.3	5.4	0.8	3.8	-5.5	2.4	
Residential Investment	1.6	1.0	0.0	0.6	-1.0					
% Change Year Ago	6.8	8.4	6.0	3.3	0.6	3.0	2.3	-7.3	5.5	
Nonresidential Investment	-1.6	0.9	0.0	0.9	0.6					
% Change Year Ago	3.2	3.0	2.0	0.2	2.4	0.7	1.9	-8.0	3.1	
Government Consumption	1.9	-0.8	1.4	0.2	0.5					
% Change Year Ago	2.9	2.1	3.8	2.6	1.2	2.6	2.5	1.7	3.1	
Public Investment	-2.8	-3.6	-3.1	1.8	0.4					
% Change Year Ago	-3.3	-8.1	-11.6	-7.5	-4.5	-1.4	-6.2	5.5	-6.3	
Exports of Goods & Services	1.7	4.2	2.4	7.1	1.9					
% Change Year Ago	24.9	18.1	15.1	16.2	16.4	19.3	15.2	-11.8	22.8	
Imports of Goods & Services	5.4	7.0	6.8	15.4	3.7					
% Change Year Ago	33.0	34.8	32.3	39.0	36.8	20.9	34.1	-13.2	30.3	
Gross National Income	-1.0	0.5	0.5	-0.3	-0.4					
<b>SAAR</b>	<b>-4.0</b>	<b>2.1</b>	<b>2.1</b>	<b>-1.3</b>	<b>-1.5</b>					
% Change Year Ago	0.4	-0.6	0.5	-0.3	0.4	0.9	0.2	-4.2	1.6	
Memo:										
Total Demand	0.0	1.4	1.3	2.1	0.4					
<b>SAAR</b>	<b>-0.2</b>	<b>5.8</b>	<b>5.3</b>	<b>8.5</b>	<b>1.4</b>					
% Change Year Ago	0.0	19.1	4.6	4.8	5.3	0.0	3.5	0.0	-5.3	
Compensation of Employee	0.0	0.0	0.8	0.8	0.3					
% Change Year Ago	2.2	1.2	0.7	1.6	1.9	1.7	1.5	-1.5	1.8	

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	100.6	99.5	99.1	101.0	99.5	101.9	100.8
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	118.2	118.6	110.5	117.8	105.4	113.0
Nonresidential Investment	102.6	103.4	104.1	104.7	105.0	102.2	104.8	100.7	103.0
Government Consumption	101.3	100.8	101.7	101.3	101.4	100.6	101.4	100.0	101.0
Public Investment	107.6	108.9	109.8	110.6	110.3	107.0	110.2	104.6	108.2
Exports of Goods & Services	98.4	101.6	102.9	111.7	112.7	97.5	110.2	91.4	99.9
Imports of Goods & Services	104.2	111.1	114.9	131.7	135.4	101.6	129.3	88.1	107.0
Unit Profit	102.0	101.8	101.2	98.2	96.8	102.6	98.4	103.9	102.2
Unit Labor Cost	100.1	99.1	100.1	100.7	101.0	99.6	100.5	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	0.3	-1.1	-0.4				
	-1.1	-1.4	-0.8	-1.7	-1.9	-0.9	-1.4	0.7	-1.0
Private Consumption	0.2	-0.3	0.9	0.5	0.2				
	-0.5	-0.1	0.5	1.4	1.4	-0.5	1.2	0.0	-0.2
Residential Investment	3.4	2.2	1.3	1.7	0.3				
	6.7	9.3	9.3	8.8	5.6	4.9	6.6	0.5	7.2
Nonresidential Investment	0.8	0.8	0.7	0.5	0.3				
	2.0	2.9	3.1	2.8	2.3	1.5	2.5	-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	0.9	0.7	-0.2				
	2.8	4.2	4.3	4.0	2.6	2.4	3.0	0.4	3.4
Exports of Goods & Services	2.0	3.3	1.3	8.6	0.8				
	7.9	11.3	10.1	15.8	14.5	6.8	13.0	-1.9	9.3
Imports of Goods & Services	6.3	6.7	3.4	14.7	2.8				
	19.3	27.6	23.4	34.4	30.0	15.0	27.3	-7.2	21.5
Unit Profit	0.0	-0.3	-0.5	-3.0	-1.4				
	0.0	1.4	-1.7	-5.2	-5.1	-1.9	-4.1	-2.0	-1.7
Unit Labor Cost	0.0	-1.0	1.0	0.6	0.3				
	0.0	13.1	0.0	1.4	0.9	0.0	0.9	3.1	-0.4