



Japanese Economy Monthly Forecast

July 2022

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Headlines

● Review of data released in July

▶ This forecast reflects data released by the end of July. With the exception of household consumption statistics and public works-related indicators, most data required for an accurate estimation of 2022 Q2 GDP have been released.

▶ In June, the Index of Industrial Production rose for the first time in three months (+8.9% MoM). As a result, METI upgraded its assessment of the production from the previous month. However, on a quarterly basis, production fell by -2.8% QoQ in Q2, marking the first decline in three quarters.

▶ The April-May average real total consumption trend index and real consumption activity index were respectively +1.3% and +2.3% higher than their Q1 averages. Private consumption is recovering.

▶ In June, planned residential construction expenditure fell for the second consecutive month, while the capital goods shipments index rose for the first time two months. On a QoQ basis, however, in Q2 they decreased by -2.9% and -0.6%, respectively.

▶ Public works in May increased for the third consecutive month, +2.2% MoM. As a result, the April-May average was +4.8% higher than the Q1 average. On a quarterly basis, public works are expected to return to positive QoQ growth in Q2.

▶ According to the Ministry of Finance, volume-based Q2 exports rose +3.3% QoQ, and net exports made a positive contribution to economic growth in Q2. However, according to the Bank of Japan, real Q2 exports shrank -3.2% QoQ, and net exports suppressed growth in Q2.

● 2022 Q2 real GDP growth forecast update

▶ Our expenditure-side forecast for real GDP growth in 2022 Q2 is an annualized +1.4% QoQ. The production-side forecast figure is an annualized +3.5%. The average of the two is an annualized +2.4% (Figure 1). APIR's production-side forecast figure is similar to the market consensus forecast. However, our expenditure-side forecast figure is lower.

● 2022 Q2 inflation forecast update

▶ In Q2, the National Consumer Price Index (CPI) rose +2.4% YoY, marking the third consecutive quarterly increase. On a QoQ basis, the increase was +1.0%, marking the fourth straight quarter of 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 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)

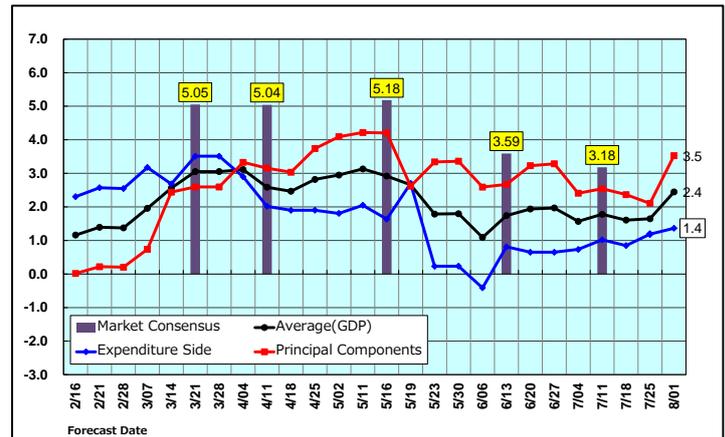
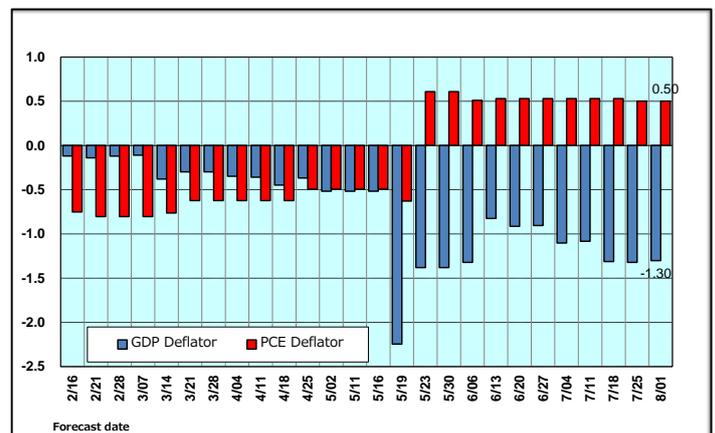


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2022 (% , QoQ growth)



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)

Data Month	Economic Indicator	Value/ Index Score	Change	
			MoM	YoY
June	Labor Force Survey			
	Total employment (millions)	67.36	+0.12	
	Total unemployment (millions)	1.80	0.00	
	Unemployment rate (%)	2.6%	0.0%pt	
June	General Job Placement Situation			
	Job offers-to-applicants ratio	1.27	+0.03%pt	
June	Indices of Industrial Production (preliminary figures, 2015=100)			
	Production	95.8	+8.9%	
	Shipments	93.3	+4.6%	
	Inventories	99.8	+2.1%	
June	Current Survey of Commerce (preliminary figures)			
	Retail trade (billion JPY)	12,480.0	-1.4%	+1.5%
June	New Housing Starts			
	New housing starts (SA, Unit)	74,596	+2.1%	-2.2%
	Planned residential construction expenditure (billion JPY)	1,273.0	-0.5%	-1.4%
May	Construction Costs Deflator (2015=100)			
	Housing construction	119.6		+8.9%
	Public works	115.9		+5.4%
July	Consumer Confidence Index (SA)	30.2	-1.9	
July	Tokyo Region Consumer Price Index (2020=100)			
	Core	102.1	+0.4%	+2.3%
June	Producer Price Index for Final Demand (2015=100)			
	Capital goods	101.8		+2.2%
	Consumer goods	108.3		+6.0%
May	Index of Business Conditions (revised figures, 2015=100)			
	Leading indicators	101.2	-1.7	
	Coincident indicators	94.9	-1.9	
	Lagging indicators	95.7	-0.8	
May	Monthly Labor Statistics (final figures)			
	Total cash salary per capita (JPY)	277,026		+1.0%
	Total working hours	131.1		+0.8%
June	Corporate Services Price Index (2015=100)			
	Overall index	106.9		+2.0%
June	National Consumer Price Index (2020=100)			
	Core index	101.7	+0.2%	+2.2%
June	Trade Statistics (customs clearance level)			
	Trade balance (billion JPY)	-1,383.8	+2.1%	-1,753.2
	Exports (billion JPY)	8,628.4	+4.0%	+19.4%
	Imports (billion JPY)	10,012.2	+3.6%	+46.1%
May	General Construction Statistics			
	Private non-residential construction (billion JPY)	825.2		+11.7%
	Public works (billion JPY)	1,301.6		-6.2%

May	Tertiary Industry Activity Index (2015=100)	99.7	+0.8%	
June	Public Works Advanced Securities Statistics			
	Contract amount (billion JPY)	1,651.9		+0.1%
	Number of contracts	25,008		-4.4%
May	Indices of Industrial Production (final figures, 2015=100)			
	Production	88.0	-7.5%	
	Shipments	89.2	-4.1%	
	Inventory	97.7	-0.9%	
	Production capacity index	95.3		-1.2%
	Capacity utilization ratio	84.2	-9.2%	
June	Domestic Corporate Price Index (2015=100)			
	Corporate Price	113.8	+0.7%	+9.2%
	Export Price	129.7	+2.7%	+19.1%
	Import Price	175.7	+4.1%	+46.3%
May	Private Core Machinery Orders (billion JPY)	908.8	-5.6%	
May	Family Income and Expenditure Survey (households with 2 or more people)			
	Nominal consumption expenditure (JPY)	287,687	-1.7%	+2.4%
	Real consumption expenditure		-1.9%	-0.5%
May	Consumption Trend Index (2020=100)	103.1	-0.2%	
May	Information Services Industry Sales (billion JPY)	1,065.8		+4.7%
June	Economy Watchers Survey			
	Current Conditions Diffusion Index	52.9	-1.1	
	Future Conditions Diffusion Index	47.6	-4.9	
May	Balance of Payments			
	Current account (billion JPY)	128.4	-98.4%	-92.8%
	Exports (billion JPY)	7,427.9	+4.1%	+19.9%
	Imports (billion JPY)	9,379.1	+5.9%	+51.3%
May	Consumption Activity Index (2015=100)	97.2	+0.7%	
April	Synthetic Consumption Index (2015=100)	97.4	+0.7%	
May	Index of Business Conditions (preliminary, 2015=100)			
	Leading indicators	101.4	-1.5	
	Coincident indicators	96.5	-1.3	
	Lagging indicators	95.9	-0.5	
May	Monthly Labor Statistics (preliminary figures)			
	Total cash salary per capita (JPY)	277,016		+1.0%
	Total working hours	131.1		+0.8%
June	Food Buffer Stock (billion JPY)	-63.9		-44.2
June	New Car Sales (vehicles)	268,077		-9.6%

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					
3/09															
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					
5/18	-1.0			0.4	0.9										
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
6/08						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
7/04						0.7	2.4	1.6	-1.1	0.5	-0.3	-1.1	-0.7	-0.4	0.2
7/11						1.0	2.5	1.8	-1.1	0.5	1.3	-1.1	0.1	-0.4	0.2
7/18						0.8	2.4	1.6	-1.3	0.5	1.3	-1.2	0.0	-1.1	0.2
7/25						1.2	2.1	1.6	-1.3	0.5	1.8	-0.8	0.5	-1.1	0.1
8/01						1.4	3.5	2.4	-1.3	0.5	2.6	1.6	2.1	-1.1	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	534,194	539,444	538,762	540,590	544,066	536,771	542,414	525,727	537,359
Private Consumption	286,032	293,021	293,199	296,458	298,412	288,875	296,742	282,995	290,290
Residential Investment	18,600	18,389	18,165	17,920	17,614	18,653	17,830	18,820	18,511
Nonresidential Investment	84,225	84,290	83,702	84,495	85,227	84,771	84,851	83,930	84,572
Change in Private Inventory	733	242	2,982	861	171	-14	1,119	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	25,680	25,957	28,056	25,747	29,522	26,758
Change in Public Inventory	-60	-2	-31	18	92	-19	46	-32	-22
Net Exports	998	1,572	-636	-1,545	-624	1,239	-872	-4,050	566
Exports of Goods & Services	102,926	103,848	105,019	104,649	106,795	102,596	105,968	92,184	103,709
Imports of Goods & Services	101,928	102,276	105,655	106,194	107,419	101,358	106,840	96,233	103,143
Gross National Income	548,576	551,508	550,492	546,004	545,408	553,001	547,346	548,189	551,623
Memo:									
Total Demand	636,122	641,719	644,417	646,784	651,485	638,129	649,254	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	0.3	0.6				
SAAR	-3.2	4.0	-0.5	1.4	2.6				
% Change Year Ago	1.2	0.4	0.7	0.4	1.8	1.7	1.1	-4.5	2.2
Private Consumption	-1.0	2.4	0.1	1.1	0.7				
% Change Year Ago	0.4	1.3	2.1	2.6	4.3	1.3	2.7	-5.4	2.6
Residential Investment	-1.7	-1.1	-1.2	-1.4	-1.7				
% Change Year Ago	0.2	-0.8	-3.0	-5.3	-5.3	-1.9	-4.4	-7.8	-1.6
Nonresidential Investment	-2.4	0.1	-0.7	0.9	0.9				
% Change Year Ago	1.3	0.1	-1.1	-2.1	1.2	-0.7	0.1	-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	1.8	1.1				
% Change Year Ago	-5.9	-11.8	-15.2	-10.4	-5.8	-3.7	-8.2	5.1	-9.4
Exports of Goods & Services	-0.3	0.9	1.1	-0.4	2.1				
% Change Year Ago	15.8	6.1	4.6	1.4	3.8	11.8	3.3	-10.2	12.5
Imports of Goods & Services	-0.8	0.3	3.3	0.5	1.2				
% Change Year Ago	11.4	5.6	7.2	3.3	5.4	5.1	5.4	-6.5	7.2
Gross National Income	-1.6	0.5	-0.2	-0.8	-0.1				
SAAR	-6.1	2.2	-0.7	-3.2	-0.4				
% Change Year Ago	-0.3	-1.8	-0.9	-2.0	-0.6	0.5	-1.0	-3.9	0.6
Total Demand	-0.8	0.9	0.4	0.4	0.7				
SAAR	-3.2	3.6	1.7	1.5	2.9				
% Change Year Ago	0.0	10.3	1.7	0.9	2.4	2.2	1.7	-4.8	3.0
Contribution to GDP Growth Rate									
Domestic Demand	-0.9	0.9	0.3	0.5	0.5	0.6	1.5	-3.9	1.4
Private Demand	-0.9	1.2	0.4	0.3	0.3	0.4	1.5	-4.6	1.5
Public demand	0.0	-0.3	-0.1	0.2	0.2	0.2	-0.1	0.8	-0.1
Net Exports	0.1	0.1	-0.4	-0.2	0.2	1.0	-0.4	-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	536,769	534,277	541,941	536,875	535,517	541,840
Private Consumption	289,272	295,613	298,487	303,299	305,734	291,910	303,227	286,963	293,774
Residential Investment	20,888	21,097	21,103	21,213	20,942	20,620	21,035	19,832	20,914
Nonresidential Investment	86,400	87,168	87,149	88,306	89,381	86,594	88,832	84,488	87,149
Change in Private Inventory	380	-153	2,285	901	369	-280	910	80	694
Government Consumption	117,838	116,914	118,511	118,695	119,227	116,152	119,025	113,706	117,199
Public Investment	29,649	28,582	27,703	28,457	28,712	30,015	28,421	30,909	28,971
Change in Public Inventory	-126	17	-9	3	65	-39	34	-28	-30
Net Exports	-4,918	-8,081	-13,258	-24,104	-30,151	-3,033	-24,607	-433	-6,830
Exports of Goods & Services	101,270	105,550	108,090	117,802	123,764	100,041	118,747	84,368	103,636
Imports of Goods & Services	106,187	113,631	121,348	141,906	153,916	103,073	143,354	84,800	110,466
Gross National Income	560,000	562,932	565,873	561,068	559,220	562,586	561,461	554,678	563,556
Memo:									
Total Demand	645,570	654,788	663,319	678,675	688,193	645,013	680,229	620,318	652,306
Compensation of Employee	288,187	288,195	290,579	293,868	293,896	288,104	292,932	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	-1.0	-0.5				
SAAR	-4.1	1.3	0.6	-3.8	-1.8				
% Change Year Ago	0.1	-1.0	-0.1	-1.5	-0.9	0.7	-0.9	-3.9	1.2
Private Consumption	-0.8	2.2	1.0	1.6	0.8				
% Change Year Ago	-0.1	1.2	2.7	4.0	5.7	0.8	3.9	-5.5	2.4
Residential Investment	1.6	1.0	0.0	0.5	-1.3				
% Change Year Ago	6.8	8.4	6.0	3.2	0.3	3.0	2.0	-7.3	5.5
Nonresidential Investment	-1.6	0.9	0.0	1.3	1.2				
% Change Year Ago	3.2	3.0	2.0	0.5	3.4	0.7	2.6	-8.0	3.1
Government Consumption	1.9	-0.8	1.4	0.2	0.4				
% 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	2.7	0.9				
% Change Year Ago	-3.3	-8.1	-11.6	-6.7	-3.2	-1.4	-5.3	5.5	-6.3
Exports of Goods & Services	1.7	4.2	2.4	9.0	5.1				
% Change Year Ago	24.9	18.1	15.1	18.3	22.2	19.3	18.7	-11.8	22.8
Imports of Goods & Services	5.4	7.0	6.8	16.9	8.5				
% Change Year Ago	33.0	34.8	32.3	40.9	44.9	20.9	39.1	-13.2	30.3
Gross National Income	-1.0	0.5	0.5	-0.8	-0.3				
SAAR	-4.0	2.1	2.1	-3.4	-1.3				
% Change Year Ago	0.4	-0.6	0.5	-0.8	-0.1	0.9	-0.2	-4.2	1.6
Memo:									
Total Demand	0.0	1.4	1.3	2.3	1.4				
SAAR	-0.2	5.8	5.3	9.6	5.7				
% Change Year Ago	0.0	19.1	4.6	5.1	6.6	0.0	3.5	0.0	-5.3
Compensation of Employee	0.0	0.0	0.8	1.1	0.0				
% Change Year Ago	2.2	1.2	0.7	2.0	2.0	1.7	1.7	-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	99.3	98.2	101.0	99.0	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	118.4	118.9	110.5	118.0	105.4	113.0
Nonresidential Investment	102.6	103.4	104.1	104.5	104.9	102.2	104.7	100.7	103.0
Government Consumption	101.3	100.8	101.7	101.3	101.3	100.6	101.4	100.0	101.0
Public Investment	107.6	108.9	109.8	110.8	110.6	107.0	110.4	104.6	108.2
Exports of Goods & Services	98.4	101.6	102.9	112.6	115.9	97.5	112.0	91.4	99.9
Imports of Goods & Services	104.2	111.1	114.9	133.6	143.3	101.6	134.1	88.1	107.0
Unit Profit	102.0	101.8	101.2	97.5	95.9	102.6	97.6	103.9	102.2
Unit Labor Cost	100.1	99.1	100.1	100.9	100.2	99.6	100.2	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	-1.3	-1.1				
	-1.1	-1.4	-0.8	-1.9	-2.7	-0.9	-2.0	0.7	-1.0
Private Consumption	0.2	-0.3	0.9	0.5	0.1				
	-0.5	-0.1	0.5	1.3	1.3	-0.5	1.1	0.0	-0.2
Residential Investment	3.4	2.2	1.3	1.9	0.4				
	6.7	9.3	9.3	9.0	5.9	4.9	6.8	0.5	7.2
Nonresidential Investment	0.8	0.8	0.7	0.4	0.4				
	2.0	2.9	3.1	2.7	2.2	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	0.9	-0.2				
	2.8	4.2	4.3	4.2	2.8	2.4	3.2	0.4	3.4
Exports of Goods & Services	2.0	3.3	1.3	9.4	3.0				
	7.9	11.3	10.1	16.7	17.8	6.8	14.9	-1.9	9.3
Imports of Goods & Services	6.3	6.7	3.4	16.4	7.2				
	19.3	27.6	23.4	36.4	37.5	15.0	32.0	-7.2	21.5
Unit Profit	0.0	-0.3	-0.5	-3.7	-1.7				
	0.0	1.4	-1.7	-5.9	-6.0	-1.9	-4.9	-2.0	-1.7
Unit Labor Cost	0.0	-1.0	1.0	0.8	-0.6				
	0.0	13.1	0.0	1.6	0.1	0.0	0.6	3.1	-0.4