



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in August

▶ This forecast reflects official data released by the end of August. About one-third of all basic data required for an accurate estimation of 2022 Q3 GDP have been released.

▶ According to the first advance GDP estimate, Japan's real GDP increased by annualized +2.2% from the previous quarter in 2022 Q2, marking the third consecutive quarterly increase, after the originally negative Q1 figure was revised upwards to +0.1% QoQ.

▶ In July, the Index of Industrial Production rose +1.0% MoM, marking the second consecutive monthly increase. As a result, the July index was +4.3% higher than the Q2 average. METI kept its assessment of the economy unchanged from the previous month, stating that production is seesawing.

▶ The lifting of COVID-19 restrictions stimulated activity in face-to-face services. As a result, both the real total consumption trend index and the real consumption activity index for Q2 grew QoQ for the first time in two quarters.

▶ Planned residential construction expenditure in July 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, and it is gaining momentum. Based on these trends, we expect that domestic demand in Q3 will be slightly higher than the previous quarter.

▶ In July, the export fell -0.2% compared to the Q2 average in volume terms, but expanded +3.1% in real terms. The import figures were respectively -1.2% and +2.2%. The contribution of net exports to GDP growth in July was positive both in terms of volume and in real terms.

● 2022 Q3 real GDP growth forecast update

▶ Our expenditure-side forecast for real GDP growth in 2022 Q3 is an annualized +3.3% QoQ. The production-side forecast figure is an annualized +0.8%. The average of the two is an annualized +2.0% (Figure 1). Whereas our expenditure-side forecast is similar to the market consensus forecast, the production-side figure is lower.

● 2022 Q3 inflation forecast update

▶ In July, the National Consumer Price Index (CPI) rose +2.6% YoY. Core CPI inflation was +2.4% YoY. Both figures marked the 11th consecutive monthly increase.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2022 Q3 are +0.5% and +0.75% QoQ, respectively. However, as the terms of trade are deteriorating, we forecast a GDP deflator of -0.3% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2022 (% , QoQ annualized growth)

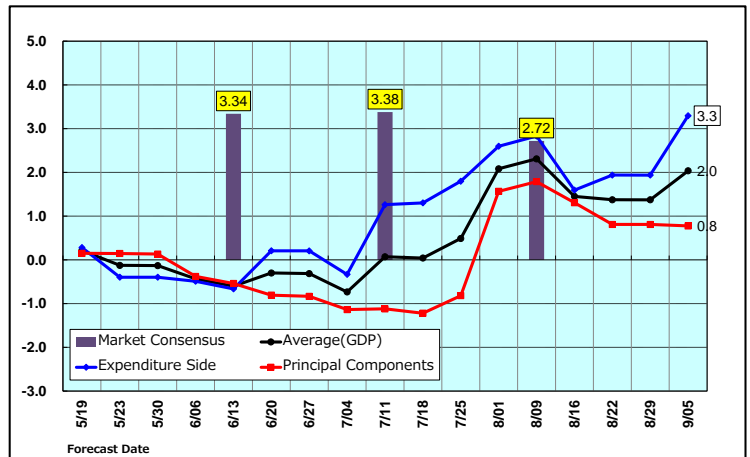
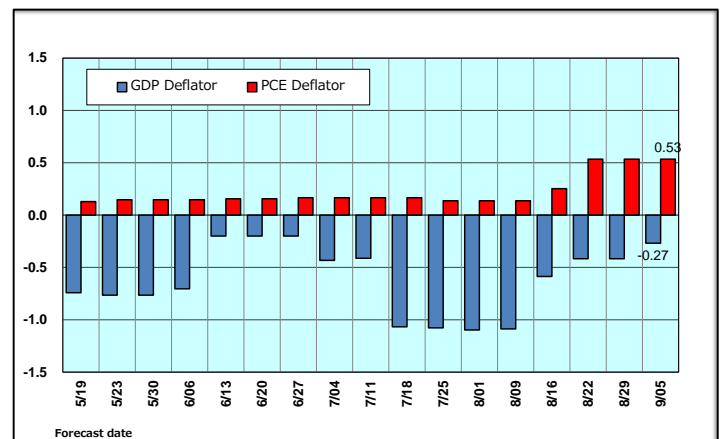


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2022 (% , QoQ growth)



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)

Re-lease Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
9/2	August	Food Buffer Stock (billion JPY)	76.3		+8.9	
9/1	September	New Car Sales (vehicles)	234,143		-11.2%	
8/31	July	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	97.1	+1.0%		
		Shipments	95.2	+1.6%		
			Inventories	99.6	0.0%	
	July	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	13,038.0	+0.8%	+2.4%	
	July	New Housing Starts				
		New housing starts (SA, Unit)	72,981	-2.4%	-5.4%	
		Planned residential construction expenditure (billion JPY)	1,294.0	+3.5%	+0.3%	
	June	Construction Costs Deflator (2015=100)				
	Housing construction	123.9		+11.3%		
	Public works	120.4		+9.4%		
August	Consumer Confidence Index (SA)	32.5	+2.3			
8/30	July	Labor Force Survey				
		Total employment (millions)	67.34	-0.02		
		Total unemployment (millions)	1.76	-0.04		
		Unemployment rate (%)	2.6%	0.0%pt		
July	General Job Placement Situation					
	Job offers-to-applicants ratio	1.29	+0.02%pt			
8/29	June	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	100.9	-0.3		
		Coincident indicators	98.6	+3.7		
		Lagging indicators	97.6	+1.8		
	July	Producer Price Index for Final Demand (2015=100)				
		Capital goods	101.8		+2.2%	
	Consumer goods	108.3		+6.0%		
8/26	June	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	451,763		+2.0%	
		Total working hours	142.2		+1.2%	
August	Tokyo Region Consumer Price Index (2020=100)					
	Core	102.4	+0.4%	+2.6%		
8/25	July	Corporate Services Price Index (2015=100)				
	Overall index	107.3		+2.1%		
8/19	July	National Consumer Price Index (2020=100)				
	Core index	102.2	+0.5%	+2.4%		
8/17	June	Private Core Machinery Orders (billion JPY)	917.0	+0.9%		
	June	General Construction Statistics				
		Private non-residential construction (billion JPY)	843.0		+10.0%	
		Public works (billion JPY)	1,484.4		-4.1%	
July	Trade Statistics (customs clearance level)					

		Trade balance (billion JPY)	-1,436.8	+9.4%	-1,871.3
		Exports (billion JPY)	8,752.8	+2.1%	+19.0%
		Imports (billion JPY)	10,189.6	+3.5%	+47.2%
8/16	June	Tertiary Industry Activity Index (2015=100)	99.9	-0.2%	
8/15	June	Indices of Industrial Production (final figures, 2015=100)			
		Production	96.1	+9.2%	
		Shipments	93.7	+5.0%	
		Inventory	99.6	+1.9%	
		Production capacity index	95.3		-1.3%
		Capacity utilization ratio	92.3	+9.6%	
	July	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	1,292.4		-7.0%
		Number of contracts	24,623		-3.6%
8/10	July	Domestic Corporate Price Index (2015=100)			
		Corporate Price	114.5	+0.4%	+8.6%
		Export Price	130.6	+0.7%	+19.1%
		Import Price	181.6	+2.4%	+48.0%
8/9	June	Information Services Industry Sales (billion JPY)	1,460.4		+4.9%
8/8	July	Economy Watchers Survey			
		Current Conditions Diffusion Index	43.8	-9.1	
		Future Conditions Diffusion Index	42.8	-4.8	
	June	Balance of Payments			
		Current account (billion JPY)	-132.4	+10,082.9%	-872.0
		Exports (billion JPY)	8,583.1	+1.8%	+20.4%
		Imports (billion JPY)	9,697.0	+5.8%	+49.2%
8/5	June	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	452,695		+2.2%
		Total working hours	132.3		+0.9%
	June	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	276,885	+1.7%	+6.4%
		Real consumption expenditure		+1.5%	+3.5%
	June	Consumption Trend Index (2020=100)	103.6	+0.1%	
	June	Consumption Activity Index (2015=100)	96.9	+0.0%	
	June	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	100.6	-0.6	
		Coincident indicators	99.0	+4.1	
		Lagging indicators	97.4	+1.7	
8/4	May	Synthetic Consumption Index (2015=100)	98.8	+1.1%	

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
	2022Q2					2022Q3					2022Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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					
8/09	3.0	4.2	3.6	-1.3	0.5	2.8	1.8	2.3	-1.1	0.1					
8/15	<u>2.2</u>			<u>-0.3</u>	<u>1.1</u>										
8/16						1.6	1.3	1.5	-0.6	0.3	1.8	1.5	1.7	-0.2	-0.3
8/22						1.9	0.8	1.4	-0.4	0.5	1.9	1.5	1.7	-0.2	-0.3
8/29						1.9	0.8	1.4	-0.4	0.5	1.9	1.5	1.7	-0.2	-0.3
9/05						3.3	0.8	2.0	-0.3	0.5	1.9	1.1	1.5	-0.2	-0.3

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	
	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	539,124	539,199	542,120	546,532	549,065	536,009	544,229	536,896	547,168
Private Consumption	293,077	293,955	297,278	298,193	298,811	288,933	297,059	290,393	298,372
Residential Investment	18,360	18,097	17,760	17,263	17,256	18,635	17,594	18,497	17,426
Nonresidential Investment	83,422	83,199	84,389	86,566	87,082	83,922	85,309	83,694	86,318
Change in Private Inventory	132	2,949	686	7	356	-169	1,000	1,012	488
Government Consumption	116,027	116,504	117,145	117,651	118,168	115,423	117,367	116,025	117,912
Public Investment	26,912	26,047	26,289	26,269	26,539	28,358	26,286	27,314	26,424
Change in Public Inventory	8	-8	-25	-19	21	-19	-8	-15	-1
Net Exports	1,525	-1,143	-899	1,105	1,336	1,107	100	434	731
Exports of Goods & Services	103,980	104,902	105,862	110,117	110,935	102,691	107,954	103,836	109,563
Imports of Goods & Services	102,455	106,045	106,761	109,012	109,599	101,584	107,854	103,402	108,832
Gross National Income	551,932	551,873	551,105	552,430	555,603	552,365	552,753	551,302	554,275
Memo:									
Total Demand	641,579	645,244	648,881	655,544	658,663	637,593	652,083	640,298	656,000
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.0	0.0	0.5	0.8	0.5				
SAAR	4.0	0.1	2.2	3.3	1.9				
% Change Year Ago	0.5	0.9	1.0	2.4	1.8	1.7	1.5	2.3	1.9
Private Consumption	2.4	0.3	1.1	0.3	0.2				
% Change Year Ago	1.3	2.2	3.0	4.2	2.0	1.3	2.8	2.6	2.7
Residential Investment	-1.3	-1.4	-1.9	-2.8	0.0				
% Change Year Ago	-0.8	-3.0	-6.3	-7.2	-6.0	-1.9	-5.6	-1.6	-5.8
Nonresidential Investment	0.2	-0.3	1.4	2.6	0.6				
% Change Year Ago	0.0	-1.1	-0.8	3.9	4.4	-0.9	1.7	0.6	3.1
Government Consumption	-0.3	0.4	0.5	0.4	0.4				
% Change Year Ago	0.9	2.1	1.7	1.1	1.8	2.1	1.7	2.0	1.6
Public Investment	-3.7	-3.2	0.9	-0.1	1.0				
% Change Year Ago	-9.4	-12.2	-9.1	-6.1	-1.4	-2.6	-7.3	-7.5	-3.3
Exports of Goods & Services	0.6	0.9	0.9	4.0	0.7				
% Change Year Ago	6.0	4.6	2.5	6.6	6.7	11.8	5.1	12.5	5.5
Imports of Goods & Services	0.4	3.5	0.7	2.1	0.5				
% Change Year Ago	5.6	7.3	3.5	6.8	7.0	5.1	6.2	7.2	5.3
Gross National Income	0.7	0.0	-0.1	0.2	0.6				
SAAR	2.9	0.0	-0.6	1.0	2.3				
% Change Year Ago	-1.7	-0.6	-0.7	0.8	0.7	0.5	0.1	0.7	0.5
Total Demand	0.9	0.6	0.6	1.0	0.5				
SAAR	3.6	2.3	2.3	4.2	1.9				
% Change Year Ago	0.0	10.9	1.4	3.1	2.7	2.2	2.3	3.0	2.5
Contribution to GDP Growth Rate									
Domestic Demand	0.9	0.5	0.5	0.4	0.4	0.6	1.7	1.5	1.9
Private Demand	1.2	0.6	0.3	0.4	0.3	0.3	1.8	1.5	1.7
Public demand	-0.3	-0.1	0.2	0.1	0.2	0.3	0.0	0.0	0.2
Net Exports	0.0	-0.5	0.0	0.4	0.0	1.0	-0.2	0.8	0.0

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

	Quarterly			Forecast		CY		FY		
	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2021	2022	2021	2022	
GDP/GDE										
Gross Domestic Products	541,865	543,873	545,393	548,317	549,738	541,370	546,830	541,602	548,814	
Private Consumption	295,992	299,473	306,202	308,782	308,590	291,930	305,762	293,838	308,218	
Residential Investment	21,104	21,100	20,986	20,803	20,843	20,618	20,933	20,922	20,869	
Nonresidential Investment	86,313	86,909	89,260	92,613	93,634	85,786	90,604	86,327	92,438	
Change in Private Inventory	-226	2,294	576	-60	-107	-404	676	581	113	
Government Consumption	116,936	118,486	118,404	119,160	119,596	116,150	118,912	117,185	119,320	
Public Investment	29,327	28,711	29,338	29,792	29,876	30,361	29,429	29,594	29,710	
Change in Public Inventory	22	9	-43	-32	1	-39	-16	-21	-19	
Net Exports	-7,603	-13,110	-19,330	-22,741	-22,697	-3,033	-19,469	-6,824	-21,835	
Exports of Goods & Services	105,808	109,376	116,804	124,785	126,541	100,041	119,376	103,698	124,181	
Imports of Goods & Services	113,412	122,486	136,134	147,526	149,237	103,073	138,846	110,521	146,016	
Gross National Income	563,816	568,015	570,607	574,674	576,860	562,016	572,539	563,335	575,350	
Memo:										
Total Demand	655,277	666,359	681,527	695,843	698,975	644,443	685,676	652,122	694,830	
Compensation of Employee	288,285	291,084	292,433	291,390	291,464	288,104	291,593	288,703	291,763	
	Upper Row : % change from the previous quarter					Lower Row : % change from a year earlier				
Gross Domestic Products	0.5	0.4	0.3	0.5	0.3					
SAAR	1.9	1.5	1.1	2.2	1.0					
% Change Year Ago	-0.8	0.2	0.6	1.7	1.5	0.8	1.0	1.3	1.3	
Private Consumption	2.2	1.2	2.2	0.8	-0.1					
% Change Year Ago	1.2	2.8	5.4	6.6	4.3	0.8	4.7	2.4	4.9	
Residential Investment	1.0	0.0	-0.5	-0.9	0.2					
% Change Year Ago	8.6	6.2	2.0	-0.5	-1.2	3.1	1.5	5.6	-0.3	
Nonresidential Investment	1.0	0.7	2.7	3.8	1.1					
% Change Year Ago	2.9	2.2	3.1	8.3	8.5	0.6	5.6	3.1	7.1	
Government Consumption	-0.8	1.3	-0.1	0.6	0.4					
% Change Year Ago	2.1	3.7	2.4	1.1	2.3	2.6	2.4	3.1	1.8	
Public Investment	-2.5	-2.1	2.2	1.5	0.3					
% Change Year Ago	-5.5	-8.4	-4.4	-0.9	1.9	-0.3	-3.1	-4.3	0.4	
Exports of Goods & Services	4.8	3.4	6.8	6.8	1.4					
% Change Year Ago	18.2	15.7	18.2	23.6	19.6	19.3	19.3	22.9	19.8	
Imports of Goods & Services	7.2	8.0	11.1	8.4	1.2					
% Change Year Ago	34.8	32.8	35.2	39.5	31.6	20.9	34.7	30.3	32.1	
Gross National Income	0.7	0.7	0.5	0.7	0.4					
SAAR	2.9	3.0	1.8	2.9	1.5					
% Change Year Ago	-0.4	0.9	1.5	2.7	2.3	0.9	1.9	1.7	2.1	
Memo:										
Total Demand	1.6	1.7	2.3	2.1	0.5					
SAAR	6.5	6.9	9.4	8.7	1.8					
% Change Year Ago	0.0	21.2	6.1	7.9	6.7	0.0	3.5	0.0	5.3	
Compensation of Employee	0.0	1.0	0.5	-0.4	0.0					
% Change Year Ago	1.2	0.8	1.6	1.1	1.1	1.7	1.2	1.8	1.1	

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	100.5	100.9	100.6	100.3	100.1	101.0	100.5	100.9	100.3
Private Consumption	101.0	101.9	103.0	103.6	103.3	101.0	102.9	101.2	103.3
Residential Investment	115.0	116.6	118.2	120.5	120.8	110.6	119.0	113.1	119.8
Nonresidential Investment	103.5	104.5	105.8	107.0	107.5	102.3	106.2	103.1	107.1
Government Consumption	100.8	101.7	101.1	101.3	101.2	100.6	101.3	101.0	101.2
Public Investment	109.0	110.2	111.6	113.4	112.6	107.1	112.0	108.2	112.4
Exports of Goods & Services	101.8	104.3	110.3	113.3	114.1	97.4	110.5	99.8	113.3
Imports of Goods & Services	110.7	115.5	127.5	135.3	136.2	101.4	128.6	106.8	134.1
Unit Profit	102.1	101.7	101.2	102.0	102.1	102.5	101.8	102.2	101.9
Unit Labor Cost	99.2	100.2	100.1	98.9	98.5	99.7	99.4	99.8	98.9
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.5	0.4	-0.3	-0.3	-0.2				
	-1.3	-0.7	-0.4	-0.7	-0.4	-0.9	-0.5	-1.0	-0.6
Private Consumption	-0.2	0.9	1.1	0.5	-0.3				
	-0.1	0.6	2.3	2.3	2.3	-0.5	1.9	-0.2	2.1
Residential Investment	2.3	1.4	1.4	2.0	0.2				
	9.5	9.5	8.9	7.3	5.1	5.0	7.6	7.3	5.9
Nonresidential Investment	0.8	1.0	1.3	1.2	0.5				
	2.9	3.3	3.9	4.2	3.9	1.5	3.8	2.4	3.9
Government Consumption	-0.5	0.9	-0.6	0.2	-0.1				
	1.2	1.6	0.7	0.0	0.4	0.5	0.7	1.1	0.2
Public Investment	1.3	1.2	1.2	1.6	-0.7				
	4.3	4.3	5.2	5.5	3.3	2.5	4.6	3.4	3.9
Exports of Goods & Services	4.1	2.5	5.8	2.7	0.7				
	11.5	10.6	15.3	16.0	12.1	6.8	13.5	9.4	13.5
Imports of Goods & Services	6.8	4.3	10.4	6.1	0.6				
	27.6	23.7	30.7	30.5	23.0	14.9	26.9	21.6	25.6
Unit Profit	0.0	-0.3	-0.5	0.7	0.1				
	0.0	1.4	-1.5	-0.1	0.0	-1.9	-0.7	-1.5	-0.3
Unit Labor Cost	0.0	1.0	-0.1	-1.2	-0.4				
	0.0	14.3	0.6	-1.2	-0.7	0.0	-0.3	-0.5	-0.8