



Japanese Economy Monthly Forecast

January 2023

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Headlines

● Review of latest official data

▶ This forecast reflects official data released by the end of January 2023. Most data necessary for an accurate 2022 Q4 GDP estimate have been released, except for data on household consumption and the balance of payments.

▶ The Index of Industrial Production index fell -0.1% MoM in December, marking the first decline in two months. As a result, the October-December quarter fell -3.1% QoQ, the first decline in two quarters.

▶ The number of workers in Q4 declined from the previous quarter, marking the first decline in four quarters. The ongoing improvement in the labor market stalled in Q4 and the number of workers has yet to recover to its pre-pandemic peak.

▶ In January, the Consumer Confidence Index improved for the second consecutive month as socioeconomic activities normalized. However, the rising prices for food, energy, and other items may be causing consumers to delay the timing of replacement purchases of durable consumer goods.

▶ Planned dwelling construction expenditure in December fell for the first time in two months, down -2.5% from the previous month. On the other hand, the shipments of capital goods rose for the first time in two months, +1.4% MoM. Relative to their Q3 averages, the former was -1.6% lower, whereas the latter remained almost unchanged at +0.0%.

▶ Compared to the previous quarter, real exports and imports in Q4 increased by +0.7% and +0.5%, respectively. The contribution of net exports to GDP growth was slightly positive.

● 2022 Q4 real GDP growth forecast update

▶ Our expenditure-side CQM forecast for real GDP growth in 2022 Q4 is an annualized +2.1% QoQ. On the other hand, the production-side forecast figure is an annualized -0.7%. The average of the two forecasts is an annualized +0.7% (Figure 1). Our forecast is lower than the Market Consensus figure, reflecting the weak trend in the Index of Industrial Production.

● 2022 Q4 inflation forecast update

▶ In December, the National Consumer Price Index (CPI) rose +4.0% YoY, marking the 16th consecutive month of inflation. Therein, the prices of goods rose by +7.1% (20th consecutive month of inflation), and the prices of services rose by +0.8% YoY (5th consecutive month of inflation).

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2022 Q4 are both +1.1% QoQ. However, since the terms of trade are expected to improve significantly, we forecast a GDP deflator of +2.0% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Oct-Dec (Q4) 2022 (% , QoQ annualized growth)

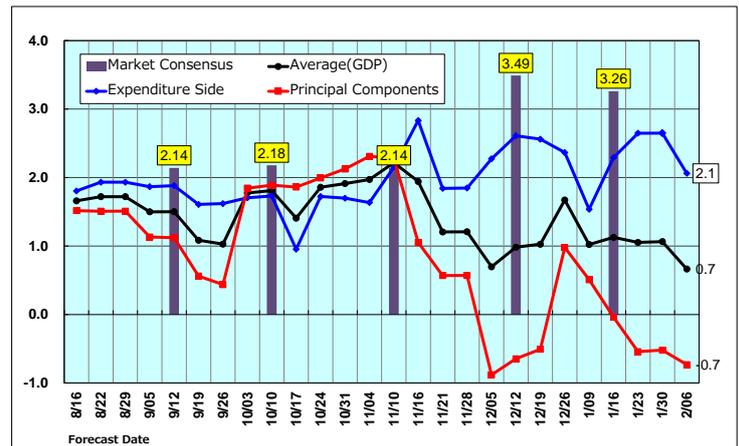
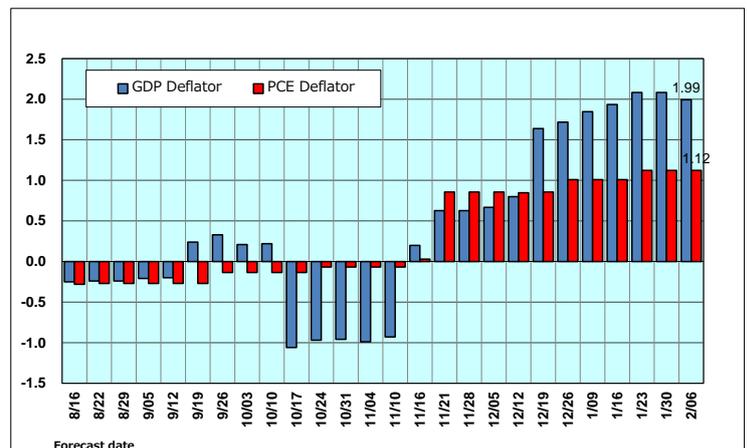


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2022 (% , QoQ growth)



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
12/9	October	Information Services Industry Sales (billion JPY)	1,161.2		+6.1%
12/8	November	Economy Watchers Survey			
		Current Conditions Diffusion Index	48.1	-1.8	
	Future Conditions Diffusion Index	45.1	-1.3		
	October	Balance of Payments			
		Current account (billion JPY)	-64.1	+1,280.0	-1,798.8
Exports (billion JPY)		8,989.2	+3.0%	+26.9%	
Imports (billion JPY)	10,864.6	+5.4%	+56.9%		
12/7	October	Monthly Labor Statistics (preliminary figures)			
		Gross average salary per worker (JPY)	275,888		+1.8%
		Total working hours	137.2		-0.9%
	October	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	298,006	+1.7%	+5.7%
		Real consumption expenditure		+1.1%	+1.2%
	October	Consumption Trend Index (2020=100)	104.9	-0.1%	
	October	Consumption Activity Index (2015=100)	99.5	+2.1%	
	October	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	99.0	+0.8	
		Coincident indicators	99.9	-0.9	
Lagging indicators		99.4	+0.3		
12/6	September	Synthetic Consumption Index (2015=100)	99.1	+0.9%	
12/2	November	Food Buffer Stock (billion JPY)	-20.3		+5.3
12/1	November	New Car Sales (vehicles)	308,059		+5.6%
	November	Consumer Confidence Index (SA)	28.6	-1.3	
11/30	October	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	95.9	-2.6%	
		Shipments	94.1	-1.1%	
		Inventories	103.0	-0.8%	
	October	New Housing Starts			
		New housing starts (SA, Unit)	76,590	+1.5%	-1.8%
		Planned residential construction expenditure (billion JPY)	1,313.5	-1.3%	-2.7%
September	Construction Costs Deflator (2015=100)				
	Housing construction	119.9		+4.1%	
	Public works	116.5		+3.9%	
11/29	October	Labor Force Survey			
		Total employment (millions)	67.36	-0.07	
		Total unemployment (millions)	1.78	-0.05	
		Unemployment rate (%)	2.6%	0.0%pt	
	October	General Job Placement Situation			
		Job offers-to-applicants ratio	1.35	+0.01%pt	
October	Current Survey of Commerce (preliminary figures)				
	Retail trade (billion JPY)	13,082.0	+0.2%	+4.3%	

11/28	September	Producer Price Index for Intermediate and Final Demand (2015=100) Capital goods Consumer goods	103.4 110.5		+3.2% +6.1%
11/25	November October	Tokyo Region Consumer Price Index (2020=100) Core Corporate Services Price Index (2015=100) Overall index	103.8 107.4	+0.5%	+3.8% +1.8%
11/22	September	Monthly Labor Statistics (final figures) Gross average salary per worker (JPY) Total working hours	276,113 137.2		+2.2% +1.6%
11/18	September October	General Construction Statistics Private non-residential construction (billion JPY) Public works (billion JPY) National Consumer Price Index (2020=100) Core index	927.0 1,877.8 103.4		+11.7% +1.3% +3.6%
11/17	October	Trade Statistics (customs clearance level) Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	-2,162.3 9,001.5 11,163.8	+12.9% +2.2% +4.2%	+2283.5% +25.3% +53.5%
11/16	September September	Tertiary Industry Activity Index (2015=100) Private Core Machinery Orders (billion JPY)	99.5 868.0	-0.4% -4.6%	
11/15	September	Indices of Industrial Production (final figures, 2015=100) Production Shipments Inventory Production capacity index Capacity utilization ratio	98.5 95.1 103.8 95.5 95.2	-1.7% -2.5% +2.9% +0.7% -0.4%	
11/14	October	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	1,055.8 21,771		-1.9% -8.9%
11/11	October	Domestic Corporate Price Index (2020=100) Corporate Price Export Price Import Price	117.5 131.9 189.0	+0.6% +1.2% +0.1%	+9.1% +18.8% +42.6%

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
	2022Q3					2022Q4					2022Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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					
9/08															
9/12	1.3	1.6	1.5	-0.5	0.5	1.9	1.1	1.5	-0.2	-0.3					
9/19	0.7	0.6	0.6	-0.3	0.5	1.6	0.6	1.1	0.2	-0.3					
9/26	0.9	0.2	0.6	-0.1	0.8	1.6	0.4	1.0	0.3	-0.1					
10/03	2.4	2.6	2.5	-0.2	0.8	1.7	1.8	1.8	0.2	-0.1					
10/10	1.6	2.7	2.1	-0.2	0.8	1.7	1.9	1.8	0.2	-0.1					
10/17	0.2	2.6	1.4	-0.6	0.8	1.0	1.9	1.4	-1.1	-0.1					
10/24	0.3	3.3	1.8	-0.6	0.8	1.7	2.0	1.9	-1.0	-0.1					
10/31	0.3	3.3	1.8	-0.6	0.8	1.7	2.1	1.9	-1.0	-0.1					
11/04	0.4	3.1	1.8	-0.5	0.8	1.6	2.3	2.0	-1.0	-0.1					
11/10	2.7	3.0	2.8	-0.5	0.8	2.2	2.3	2.2	-0.9	-0.1					
11/15	<u>-1.2</u>			<u>-0.2</u>	<u>0.8</u>	0.0	0.0	0.0	0.0	0.0					
11/16						2.8	1.1	1.9	0.2	0.0	0.3	0.6	0.5	0.1	0.1
11/21						1.8	0.6	1.2	0.6	0.9	0.5	0.6	0.6	0.1	0.1
11/28						1.8	0.6	1.2	0.6	0.9	0.5	0.6	0.6	0.1	0.1
12/05						2.3	-0.9	0.7	0.7	0.9	0.4	-0.3	0.0	0.1	0.1
12/08	-0.8*			-0.5*	0.4*									0.0	0.0
12/12						2.6	-0.6	1.0	0.8	0.8	0.5	-0.4	0.1	0.1	0.1
12/19						2.6	-0.5	1.0	1.6	0.9	-0.1	-0.4	-0.3	0.9	0.1
12/26						2.4	1.0	1.7	1.7	1.0	-0.1	-0.5	-0.3	0.9	0.2
1/09						1.5	0.5	1.0	1.8	1.0	-0.1	-1.5	-0.8	1.0	0.2
1/16						2.3	-0.0	1.1	1.9	1.0	0.2	-1.4	-0.6	1.0	0.2
1/23						2.6	-0.5	1.1	2.1	1.1	-0.6	-2.3	-1.4	1.7	0.5
1/30						2.6	-0.5	1.1	2.1	1.1	-0.6	-2.3	-1.5	1.7	0.5
2/06						2.1	-0.7	0.7	2.0	1.1	-1.3	-3.2	-2.2	1.9	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	
	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	541,965	547,946	546,815	549,611	547,838	540,226	546,584	540,796	548,052
Private Consumption	289,951	294,768	295,115	295,936	296,315	287,894	293,943	288,614	295,534
Residential Investment	18,223	17,869	17,778	17,669	17,483	18,797	17,885	18,650	17,700
Nonresidential Investment	86,845	88,581	89,919	90,226	89,971	87,169	88,893	87,178	89,674
Change in Private Inventory	4,199	2,610	3,087	2,839	2,048	43	3,184	1,179	2,646
Government Consumption	118,052	118,931	119,073	119,167	119,680	117,047	118,806	117,823	119,213
Public Investment	26,325	26,510	26,759	26,124	26,061	28,532	26,430	27,563	26,363
Change in Public Inventory	-80	-112	-245	-136	-118	-84	-143	-67	-153
Net Exports	-1,059	-613	-3,993	-1,536	-2,925	1,122	-1,800	430	-2,267
Exports of Goods & Services	104,900	106,448	108,675	110,232	107,427	102,619	107,564	103,732	108,196
Imports of Goods & Services	105,960	107,061	112,668	111,768	110,353	101,497	109,364	103,302	110,462
Gross National Income	561,781	564,395	561,193	568,172	573,432	562,365	563,885	562,416	566,798
Memo:									
Total Demand	647,925	655,006	659,483	661,379	658,190	641,723	655,948	644,098	658,515
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.5	1.1	-0.2	0.5	-0.3				
SAAR	-1.8	4.5	-0.8	2.1	-1.3				
% Change Year Ago	0.6	1.4	1.7	1.0	1.1	2.1	1.2	2.5	1.3
Private Consumption	-1.0	1.7	0.1	0.3	0.1				
% Change Year Ago	1.0	2.5	3.9	1.0	2.2	0.4	2.1	1.5	2.4
Residential Investment	-1.7	-1.9	-0.5	-0.6	-1.1				
% Change Year Ago	-3.1	-6.4	-5.3	-4.7	-4.1	-1.1	-4.9	-1.1	-5.1
Nonresidential Investment	-0.4	2.0	1.5	0.3	-0.3				
% Change Year Ago	-0.1	0.4	3.8	3.5	3.6	0.8	2.0	2.1	2.9
Government Consumption	0.5	0.7	0.1	0.1	0.4				
% Change Year Ago	2.7	1.5	0.3	1.5	1.4	3.5	1.5	3.4	1.2
Public Investment	-3.1	0.7	0.9	-2.4	-0.2				
% Change Year Ago	-11.3	-9.1	-5.1	-3.8	-1.0	-1.9	-7.4	-6.4	-4.4
Exports of Goods & Services	1.2	1.5	2.1	1.4	-2.5				
% Change Year Ago	4.5	2.9	5.4	6.3	2.4	11.7	4.8	12.3	4.3
Imports of Goods & Services	3.7	1.0	5.2	-0.8	-1.3				
% Change Year Ago	7.3	3.8	10.6	9.3	4.1	5.1	7.8	7.1	6.9
Gross National Income	-0.4	0.5	-0.6	1.2	0.9				
SAAR	-1.8	1.9	-2.2	5.1	3.8				
% Change Year Ago	0.1	-0.3	0.4	0.7	2.1	2.0	0.3	2.2	0.8
Total Demand	0.2	1.1	0.7	0.3	-0.5				
SAAR	0.8	4.4	2.8	1.2	-1.9				
% Change Year Ago	0.0	12.6	3.1	2.3	1.6	2.6	2.2	3.2	2.2
Contribution to GDP Growth Rate									
Domestic Demand	0.0	1.0	0.4	0.1	-0.1	1.1	1.8	1.8	1.9
Private Demand	0.1	0.8	0.4	0.1	-0.2	0.5	1.8	1.4	1.9
Public demand	-0.1	0.2	0.0	-0.1	0.1	0.6	-0.1	0.4	0.0
Net Exports	-0.5	0.1	-0.6	0.4	-0.3	1.0	-0.6	0.8	-0.5

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

	Quarterly			Forecast		CY		FY	
	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	552,910	558,196	554,126	568,096	577,005	549,379	558,332	550,530	564,356
Private Consumption	301,262	308,677	310,240	314,613	316,444	293,986	308,698	296,250	312,494
Residential Investment	21,273	21,178	21,167	21,145	20,993	20,828	21,191	21,129	21,121
Nonresidential Investment	90,819	94,016	96,599	98,270	98,702	89,270	94,926	90,079	96,897
Change in Private Inventory	3,976	3,507	3,767	3,392	2,776	135	3,660	1,106	3,360
Government Consumption	119,932	120,167	122,008	122,574	123,079	117,711	121,170	118,968	121,957
Public Investment	28,943	29,583	30,104	29,912	29,783	30,510	29,636	29,807	29,846
Change in Public Inventory	-60	-102	-866	-281	-267	-108	-327	-89	-379
Net Exports	-13,235	-18,830	-28,894	-21,529	-14,504	-2,952	-20,622	-6,718	-20,939
Exports of Goods & Services	109,141	117,926	124,336	126,493	120,444	99,996	119,474	103,637	122,300
Imports of Goods & Services	122,375	136,755	153,230	148,023	134,949	102,948	140,096	110,355	143,239
Gross National Income	584,953	591,276	589,521	604,856	614,589	576,048	592,652	579,781	600,061
Memo:									
Total Demand	675,285	694,951	707,356	716,119	711,954	652,327	698,428	660,885	707,595
Compensation of Employee	291,994	293,828	294,614	294,897	294,897	288,746	293,833	289,508	294,559
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.2	1.0	-0.7	2.5	1.6				
SAAR	0.7	3.9	-2.9	10.5	6.4				
% Change Year Ago	0.8	1.4	1.3	2.9	4.4	1.9	1.6	2.4	2.5
Private Consumption	0.4	2.5	0.5	1.4	0.6				
% Change Year Ago	3.2	5.2	6.8	4.8	5.0	1.0	5.0	2.7	5.5
Residential Investment	-0.4	-0.4	0.0	-0.1	-0.7				
% Change Year Ago	6.1	2.0	0.2	-1.0	-1.3	4.0	1.7	6.3	0.0
Nonresidential Investment	0.5	3.5	2.7	1.7	0.4				
% Change Year Ago	3.2	4.5	8.5	8.7	8.7	2.4	6.3	4.7	7.6
Government Consumption	1.1	0.2	1.5	0.5	0.4				
% Change Year Ago	4.5	2.2	1.8	3.3	2.6	4.0	2.9	4.5	2.5
Public Investment	-2.0	2.2	1.8	-0.6	-0.4				
% Change Year Ago	-7.6	-4.3	-0.5	1.2	2.9	0.4	-2.9	-3.3	0.1
Exports of Goods & Services	4.2	8.0	5.4	1.7	-4.8				
% Change Year Ago	15.6	18.6	22.6	20.7	10.4	19.3	19.5	22.8	18.0
Imports of Goods & Services	8.2	11.8	12.0	-3.4	-8.8				
% Change Year Ago	32.6	35.9	45.2	30.9	10.3	20.7	36.1	30.1	29.8
Gross National Income	0.5	1.1	-0.3	2.6	1.6				
SAAR	2.1	4.4	-1.2	10.8	6.6				
% Change Year Ago	2.5	2.2	2.6	3.9	5.1	3.1	2.9	4.1	3.5
Memo:									
Total Demand	1.5	2.9	1.8	1.2	-0.6				
SAAR	6.3	12.2	7.3	5.0	-2.3				
% Change Year Ago	0.0	26.4	8.4	7.7	5.4	0.0	4.5	0.0	6.2
Compensation of Employee	0.9	0.6	0.3	0.1	0.0				
% Change Year Ago	1.0	2.1	1.9	1.9	1.0	2.0	1.8	2.1	1.7

Table 3-3: Deflator : 2015=100

	Quarterly			Forecast		CY		FY	
	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	102.0	101.9	101.3	103.4	105.3	101.7	102.2	101.8	103.0
Private Consumption	103.9	104.7	105.1	106.3	106.8	102.1	105.0	102.6	105.7
Residential Investment	116.7	118.5	119.1	119.7	120.1	110.7	118.5	113.3	119.3
Nonresidential Investment	104.6	106.1	107.4	108.9	109.7	102.5	106.8	103.3	108.1
Government Consumption	101.6	101.0	102.5	102.9	102.8	100.5	102.0	101.0	102.3
Public Investment	109.9	111.6	112.5	114.5	114.3	106.9	112.1	108.0	113.2
Exports of Goods & Services	104.0	110.8	114.4	114.8	112.1	97.4	111.0	99.9	113.0
Imports of Goods & Services	115.5	127.7	136.0	132.4	122.3	101.3	127.9	106.8	129.6
Unit Profit	104.5	104.7	103.0	107.9	111.7	104.7	105.0	104.7	106.8
Unit Labor Cost	100.0	99.5	100.0	99.6	99.9	99.2	99.8	99.3	99.7
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.6	-0.2	-0.5	2.0	1.9				
	0.2	0.0	-0.4	2.0	3.2	-0.3	0.5	-0.2	1.2
Private Consumption	1.5	0.8	0.4	1.1	0.5				
	2.2	2.6	2.8	3.8	2.8	0.6	2.9	1.2	3.0
Residential Investment	1.4	1.5	0.5	0.5	0.3				
	9.6	9.0	5.9	3.9	2.9	5.2	7.0	7.5	5.4
Nonresidential Investment	0.9	1.5	1.2	1.4	0.7				
	3.3	4.0	4.5	5.1	4.9	1.7	4.2	2.6	4.6
Government Consumption	0.6	-0.5	1.4	0.4	0.0				
	1.7	0.7	1.5	1.8	1.2	0.5	1.5	1.1	1.3
Public Investment	1.1	1.5	0.8	1.8	-0.2				
	4.2	5.2	4.8	5.3	3.9	2.4	4.9	3.3	4.8
Exports of Goods & Services	2.9	6.5	3.3	0.3	-2.3				
	10.6	15.3	16.3	13.5	7.8	6.8	14.0	9.4	13.2
Imports of Goods & Services	4.4	10.6	6.5	-2.6	-7.7				
	23.6	31.0	31.3	19.7	5.9	14.9	26.2	21.5	21.4
Unit Profit	0.0	0.2	-1.6	4.7	3.6				
	0.0	4.3	-1.1	3.1	7.0	-0.3	0.3	0.2	2.0
Unit Labor Cost	0.0	-0.5	0.5	-0.4	0.3				
	0.0	13.5	0.3	0.9	-0.1	-0.2	0.6	-0.4	0.4