



Japanese Economy Monthly Forecast

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Headlines

● Review of latest official data

▶ This forecast reflects data released by the first week of March. About one-third of all data necessary for an accurate estimate of 2023 Q1 GDP have been released. Data on household consumption-related indicators, public works, and the balance of payments are not available yet.

▶ The Index of Industrial Production index in January fell -4.6% from the previous month, marking the first decline in three months. The index is at its lowest since May 2022. The decline is the largest since May 2022, too. As a result, the index was -4.3% lower than the 2022 Q4 average.

▶ The labor market has been improving moderately since the beginning of 2023. However, the number of workers has yet to recover to its pre-pandemic peak.

▶ The slight improvement in the Consumer Confidence Index in February was due to accelerating inflation: the percentage of respondents expecting consumer price inflation of 5% or more reached a record high since comparable statistics have been available.

▶ Planned construction expenditure in January increased for the first time in two months, up +12.0% MoM. On the other hand, the index for shipments of capital goods declined for the third consecutive month, falling -7.2% MoM. Compared with the 2022 Q4 average, the former increased +10.6% while the latter declined -8.9%.

▶ Compared to the 2022 Q4 average, real exports and imports in January fell by -5.8% and -2.8%, respectively. The contribution of net exports to real GDP growth was negative.

● 2023 Q1 real GDP growth forecast update

▶ Our expenditure-side CQM forecast for real GDP growth in 2023 Q1 is an annualized -1.3% QoQ. On the other hand, the production-side forecast figure is an annualized -5.1%. The average of the two forecasts is an annualized -3.2% (Figure 1). Our forecast is lower than the Market Consensus figure, reflecting the weak trend in industrial production and the unfavorable trade balance in January.

● 2023 Q1 inflation forecast update

▶ In the February, CPI inflation in Tokyo slowed from the previous month. Inflation in the energy sector slowed significantly as a result of the government's anti-inflation measures. On the other hand, non-energy inflation accelerated slightly from the previous month.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2023 Q1 are respectively +0.9% and +0.8% QoQ. However, since the terms of trade are expected to improve significantly, we forecast a GDP deflator of +2.4% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jan-Mar (Q1) 2023 (% , QoQ annualized growth)

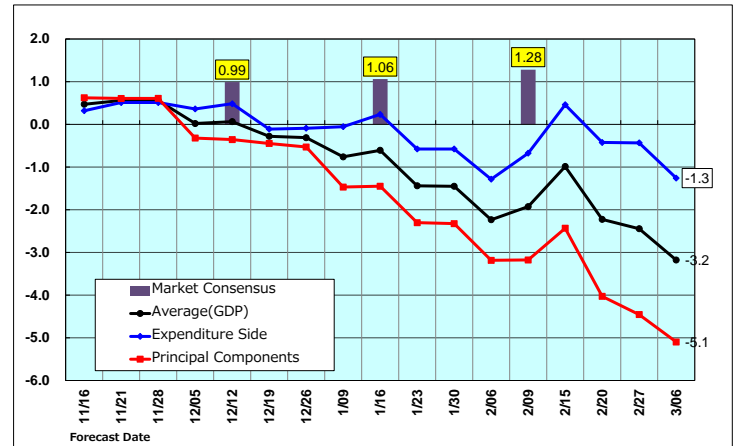
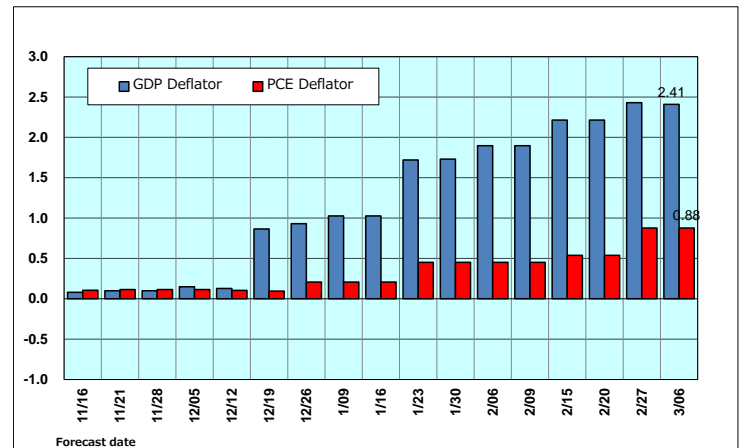


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2023 (% , QoQ growth)



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
3/3	January	Labor Force Survey			
		Total employment (millions)	67.44	+0.18	
		Total unemployment (millions)	1.67	-0.04	
		Unemployment rate (%)	2.4%	-0.1%pt	
	January	General Job Placement Situation			
		Job offers-to-applicants ratio	1.35	-0.01%pt	
	February	Tokyo Region Consumer Price Index (2020=100)			
		Core	103.7	-0.7%	+3.3%
3/2	February	Food Buffer Stock (billion JPY)	+26.0		+8.2
	February	Consumer Confidence Index (SA)	31.1	+0.1	
3/1	February	New Car Sales (vehicles)	356,281		+22.9%
2/28	January	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	91.4	-4.6%	
		Shipments	89.7	-3.1%	
		Inventories	102.3	-0.9%	
	January	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	13,015.0	+1.9%	+6.3%
	January	New Housing Starts			
		New housing starts (SA, Unit)	63,604	+5.5%	+6.6%
		Planned residential construction expenditure (billion JPY)	1,183.2	+12.0%	+5.5%
	2/27	December	Index of Business Conditions (revised, 2015=100)		
Leading indicators			97.2	-0.5	
Coincident indicators			99.1	-0.2	
		Lagging indicators	99.6	-0.2	
January		Producer Price Index for Intermediate and Final Demand (2015=100)			
		Capital goods	104.0		+3.3%
	Consumer goods	112.6		+7.2%	
2/24	December	Monthly Labor Statistics (final figures)			
		Gross average salary per worker (JPY)	567,916		+4.1%
		Total working hours	137.2		-0.8%
	January	National Consumer Price Index (2020=100)			
		Core index	104.3	+0.3%	+4.2%
2/22	January	Corporate Services Price Index (2015=100)			
		Overall index	107.4		+1.6%
2/17	December	General Construction Statistics			
		Private non-residential construction (billion JPY)	943.5		+8.4%
		Public works (billion JPY)	2,115.0		+3.4%
2/16	December	Private Core Machinery Orders (billion JPY)	851.9	+1.6%	
		Trade Statistics (customs clearance level)			
	January	Trade balance (billion JPY)	-3,496.6	+0.1%	+59.0%
		Exports (billion JPY)	6,551.2	-6.3%	+3.5%
	Imports (billion JPY)	10,047.8	-5.1%	+17.8%	
2/15	December	Tertiary Industry Activity Index (2015=100)	99.7	-0.4%	

	January	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	508.8 9,302		-2.3% -0.9%
2/14	December	Indices of Industrial Production (final figures, 2015=100) Production Shipments Inventory Production capacity index Capacity utilization ratio	95.8 92.6 103.2 95.5 94.8	+0.3% -0.9% -0.4% -0.7% -1.1%	
2/10	January	Domestic Corporate Price Index (2020=100) Corporate Price Export Price Import Price	119.8 123.9 163.8	0.0% -1.9% -3.9%	+9.5% +9.0% +17.8%
2/9	December	Information Services Industry Sales (billion JPY)	1,644.1		+4.8%
2/8	January December	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	48.5 49.3 33.4 8,715.9 9,941.5	-0.2 +2.5 -38.4% -9.8% -8.1%	-90.9% +11.8% +22.4%
2/7	December December December December December	Monthly Labor Statistics (preliminary figures) Gross average salary per worker (JPY) Total working hours Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2020=100) Consumption Activity Index (2015=100) Index of Business Conditions (preliminary figures, 2015=100) Leading indicators Coincident indicators Lagging indicators	572,008 137.5 328,114 104.3 95.6 97.2 98.9 98.9	 -1.3% -2.1% +0.1% -1.0% -0.5 -0.4 -0.9	+4.8% -0.6% +3.4% -1.3%
2/6	November	Synthetic Consumption Index (2015=100)	97.7	-0.8%	
2/2	January	Food Buffer Stock (billion JPY)	-26.0		+4.4
2/1	January January	New Car Sales (vehicles) Consumer Confidence Index (SA)	319,870 31.0	 +0.7	+17.4%

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
	2022Q4					2023Q1					2023Q2				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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									0.0	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					
2/09	2.2	-0.5	0.8	2.0	1.1	-0.7	-3.2	-1.9	1.9	0.5					
2/14	<u>0.6</u>			<u>1.1</u>	<u>0.8</u>										
2/15	0.0	0.0	0.0	0.0	0.0	0.5	-2.4	-1.0	2.2	0.5	-0.5	-0.2	-0.3	1.1	0.1
2/20	0.0	0.0	0.0	0.0	0.0	-0.4	-4.0	-2.2	2.2	0.5	-0.9	-0.1	-0.5	1.0	0.1
2/27	0.0	0.0	0.0	0.0	0.0	-0.4	-4.5	-2.4	2.4	0.9	-0.9	-0.2	-0.5	1.1	0.1
3/06	0.0	0.0	0.0	0.0	0.0	-1.3	-5.1	-3.2	2.4	0.9	-0.7	-0.7	-0.7	1.0	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	
	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	548,045	546,656	547,520	545,789	544,857	540,237	546,040	540,922	547,003
Private Consumption	294,688	294,762	296,196	297,688	297,996	287,895	293,979	288,638	295,833
Residential Investment	17,877	17,801	17,780	17,961	18,341	18,797	17,918	18,650	17,855
Nonresidential Investment	88,753	90,117	89,648	87,473	87,815	87,169	88,739	87,177	88,997
Change in Private Inventory	2,548	3,042	625	1,569	154	43	2,593	1,178	1,946
Government Consumption	118,938	119,031	119,425	119,927	120,440	117,047	118,859	117,817	119,330
Public Investment	26,493	26,666	26,525	26,448	26,384	28,532	26,507	27,563	26,533
Change in Public Inventory	-86	-242	-38	-136	-142	-84	-110	-67	-126
Net Exports	-601	-3,859	-1,897	-4,396	-5,385	1,134	-1,851	443	-2,688
Exports of Goods & Services	106,351	109,011	110,521	105,742	105,448	102,619	107,636	103,697	107,906
Imports of Goods & Services	106,952	112,871	112,418	110,138	110,834	101,485	109,487	103,255	110,595
Gross National Income	564,619	561,594	568,323	574,114	577,767	562,365	563,650	562,536	567,163
Memo:									
Total Demand	654,997	659,527	659,938	655,927	655,691	641,722	655,527	644,177	657,597
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.1	-0.3	0.2	-0.3	-0.2				
SAAR	4.6	-1.0	0.6	-1.3	-0.7				
% Change Year Ago	1.4	1.5	0.6	0.7	-0.6	2.1	1.1	2.6	1.1
Private Consumption	1.6	0.0	0.5	0.5	0.1				
% Change Year Ago	2.5	3.7	1.2	2.6	1.1	0.4	2.1	1.5	2.5
Residential Investment	-1.9	-0.4	-0.1	1.0	2.1				
% Change Year Ago	-6.4	-5.2	-4.0	-1.4	2.6	-1.1	-4.7	-1.1	-4.3
Nonresidential Investment	2.1	1.5	-0.5	-2.4	0.4				
% Change Year Ago	0.7	4.0	2.9	0.7	-1.1	0.8	1.8	2.1	2.1
Government Consumption	0.8	0.1	0.3	0.4	0.4				
% Change Year Ago	1.5	0.3	1.7	1.6	1.3	3.5	1.5	3.4	1.3
Public Investment	0.5	0.7	-0.5	-0.3	-0.2				
% Change Year Ago	-9.0	-5.2	-2.6	0.4	-0.4	-1.9	-7.1	-6.4	-3.7
Exports of Goods & Services	1.5	2.5	1.4	-4.3	-0.3				
% Change Year Ago	2.8	5.7	6.7	0.9	-0.8	11.7	4.9	12.3	4.1
Imports of Goods & Services	0.9	5.5	-0.4	-2.0	0.6				
% Change Year Ago	3.5	11.0	10.2	3.9	3.6	5.0	7.9	7.0	7.1
Gross National Income	0.6	-0.5	1.2	1.0	0.6				
SAAR	2.3	-2.1	4.9	4.1	2.6				
% Change Year Ago	-0.3	0.3	0.8	2.3	2.3	2.0	0.2	2.2	0.8
Total Demand	1.1	0.7	0.1	-0.6	0.0				
SAAR	4.4	2.8	0.2	-2.4	-0.1				
% Change Year Ago	0.0	13.4	2.1	1.2	0.1	2.6	2.2	3.3	2.1
Contribution to GDP Growth Rate									
Domestic Demand	1.0	0.4	-0.2	0.1	0.0	1.1	1.7	1.8	1.7
Private Demand	0.8	0.3	-0.3	0.1	-0.1	0.5	1.7	1.4	1.7
Public demand	0.2	0.0	0.1	0.1	0.1	0.6	-0.1	0.4	0.1
Net Exports	0.1	-0.6	0.3	-0.5	-0.2	1.0	-0.6	0.8	-0.6

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

	Quarterly			Forecast		CY		FY		
	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2021	2022	2021	2022	
GDP/GDE										
Gross Domestic Products	558,514	554,171	561,278	572,970	577,944	549,379	556,544	550,561	561,734	
Private Consumption	308,828	309,990	314,021	318,363	319,143	293,986	308,660	296,283	312,801	
Residential Investment	21,184	21,182	21,201	21,593	22,058	20,828	21,211	21,129	21,290	
Nonresidential Investment	94,199	96,692	97,126	95,934	96,937	89,270	94,543	90,078	95,988	
Change in Private Inventory	3,453	3,760	776	1,864	120	135	2,974	1,104	2,463	
Government Consumption	120,119	122,083	122,745	123,793	124,356	117,711	121,228	118,968	122,185	
Public Investment	29,580	30,045	30,067	30,044	29,896	30,510	29,663	29,807	29,934	
Change in Public Inventory	-96	-865	-33	-282	-286	-108	-262	-90	-319	
Net Exports	-18,753	-28,717	-24,624	-18,339	-14,279	-2,952	-21,473	-6,718	-22,608	
Exports of Goods & Services	118,134	124,890	127,054	117,043	116,884	99,996	119,786	103,637	121,780	
Imports of Goods & Services	136,887	153,607	151,678	135,382	131,163	102,948	141,259	110,355	144,389	
Gross National Income	591,605	590,103	602,364	615,269	620,905	576,048	591,720	579,812	599,835	
Memo:										
Total Demand	695,401	707,779	712,957	708,352	709,106	652,327	697,803	660,915	706,122	
Compensation of Employee	293,903	295,076	297,501	297,916	299,236	288,746	294,771	289,508	296,099	
	Upper Row : % change from the previous quarter					Lower Row : % change from a year earlier				
Gross Domestic Products	1.0	-0.8	1.3	2.1	0.9					
SAAR	4.2	-3.1	5.2	8.6	3.5					
% Change Year Ago	1.4	1.2	1.8	3.6	3.5	1.9	1.3	2.4	2.0	
Private Consumption	2.5	0.4	1.3	1.4	0.2					
% Change Year Ago	5.2	6.7	4.8	5.6	3.3	1.0	5.0	2.7	5.6	
Residential Investment	-0.4	0.0	0.1	1.8	2.2					
% Change Year Ago	2.0	0.3	-0.7	1.5	4.1	4.0	1.8	6.3	0.8	
Nonresidential Investment	3.7	2.6	0.4	-1.2	1.0					
% Change Year Ago	4.7	8.6	7.5	5.6	2.9	2.4	5.9	4.7	6.6	
Government Consumption	0.1	1.6	0.5	0.9	0.5					
% Change Year Ago	2.2	1.8	3.5	3.2	3.5	4.0	3.0	4.5	2.7	
Public Investment	2.2	1.6	0.1	-0.1	-0.5					
% Change Year Ago	-4.3	-0.5	1.6	3.8	1.1	0.4	-2.8	-3.3	0.4	
Exports of Goods & Services	8.3	5.7	1.7	-7.9	-0.1					
% Change Year Ago	18.7	23.2	21.4	7.3	-1.1	19.3	19.8	22.8	17.5	
Imports of Goods & Services	11.7	12.2	-1.3	-10.7	-3.1					
% Change Year Ago	35.9	45.9	34.1	10.4	-4.2	20.7	37.2	30.1	30.8	
Gross National Income	1.2	-0.3	2.1	2.1	0.9					
SAAR	4.9	-1.0	8.6	8.8	3.7					
% Change Year Ago	2.3	2.6	3.6	5.2	5.0	3.1	2.7	4.1	3.5	
Memo:										
Total Demand	3.0	1.8	0.7	-0.6	0.1					
SAAR	12.4	7.3	3.0	-2.6	0.4					
% Change Year Ago	0.0	28.7	7.3	4.9	2.0	0.0	4.5	0.0	6.2	
Compensation of Employee	0.6	0.4	0.8	0.1	0.4					
% Change Year Ago	2.0	2.0	2.9	2.0	1.8	2.0	2.1	2.1	2.3	

Table 3-3: Deflator : 2015=100

	Quarterly			Forecast		CY		FY	
	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	101.9	101.4	102.5	105.0	106.1	101.7	101.9	101.8	102.7
Private Consumption	104.8	105.2	106.0	107.0	107.1	102.1	105.0	102.6	105.7
Residential Investment	118.5	119.0	119.2	120.2	120.3	110.7	118.4	113.3	119.2
Nonresidential Investment	106.1	107.3	108.3	109.7	110.4	102.5	106.6	103.3	107.9
Government Consumption	101.0	102.6	102.8	103.2	103.3	100.5	102.0	101.0	102.4
Public Investment	111.7	112.7	113.4	113.6	113.3	106.9	111.9	108.0	112.8
Exports of Goods & Services	111.1	114.6	115.0	110.7	110.8	97.4	111.2	99.9	112.8
Imports of Goods & Services	128.0	136.1	134.9	122.9	118.3	101.4	128.8	106.8	130.5
Unit Profit	104.8	102.8	104.5	109.4	111.0	104.7	104.0	104.7	105.4
Unit Labor Cost	99.5	100.2	100.8	101.3	101.9	99.2	100.2	99.3	100.5
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.1	-0.5	1.1	2.4	1.0				
	0.0	-0.3	1.2	2.9	4.1	-0.3	0.2	-0.2	0.9
Private Consumption	0.8	0.4	0.8	0.9	0.1				
	2.7	2.9	3.5	2.9	2.2	0.6	2.8	1.2	3.0
Residential Investment	1.5	0.4	0.2	0.8	0.0				
	9.0	5.8	3.5	3.0	1.5	5.2	6.9	7.5	5.3
Nonresidential Investment	1.5	1.1	1.0	1.2	0.7				
	4.0	4.4	4.5	4.9	4.0	1.7	4.0	2.6	4.5
Government Consumption	-0.6	1.6	0.2	0.4	0.0				
	0.7	1.5	1.8	1.6	2.2	0.5	1.4	1.1	1.4
Public Investment	1.6	0.9	0.6	0.2	-0.3				
	5.2	4.9	4.3	3.4	1.5	2.4	4.6	3.3	4.4
Exports of Goods & Services	6.7	3.1	0.3	-3.7	0.1				
	15.5	16.5	13.8	6.3	-0.2	6.8	14.2	9.5	12.9
Imports of Goods & Services	10.6	6.3	-0.9	-8.9	-3.7				
	31.2	31.5	21.8	6.2	-7.5	14.9	27.1	21.6	22.2
Unit Profit	0.0	-1.8	1.6	4.6	1.5				
	0.0	2.5	-0.1	4.7	5.9	-0.3	-0.6	0.2	0.6
Unit Labor Cost	0.0	0.7	0.7	0.5	0.6				
	0.0	14.3	2.3	1.3	2.4	-0.2	1.0	-0.5	1.1