



Japanese Economy Monthly Forecast

March 2023

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Headlines

Review of latest official data

This forecast reflects data released by the end of March. Excluding household consumption-related indicators, public works, and the balance of payments situation, about two-thirds of all data needed for an accurate estimate of 2023 Q1 GDP have been released.

In February, the industrial production index rose MoM for the first time in two months, but production levels remain below the 2019 average. The January-February average was also -2.9% lower than the 2022 Q4 average.

The labor market has been flat since the beginning of 2023, and the number of workers has still not recovered to the pre-pandemic peak.

In January, the real aggregate consumption trend index and the consumption activity index remained almost unchanged relative to their 2022 Q4 averages.

Planned dwelling construction expenditure in February decreased for the first time in two months, down -5.0% from the previous month. On the other hand, the shipments of capital goods rose for the first time in four months (+2.5% MoM). Relative to the 2022 Q4 average, the former increased +7.8%, while the latter decreased -8.7%.

Comparing the January-February average to the 2022 Q4 average, real exports and imports declined by -5.0% and -5.5%, respectively. The contribution of net exports to real GDP growth was slightly positive.

2023 Q1 real GDP growth forecast update

Our expenditure-side CQM forecast for real GDP growth in 2023 Q1 is an annualized -0.3% QoQ. On the other hand, the production-side forecast figure is an annualized -1.2%. The average of the two forecasts is an annualized -0.8% (Figure 1). The expenditure-side and production-side forecast figures, which diverged for some time, are now converging.

2023 Q1 inflation forecast update

In March, seasonally adjusted CPI in Tokyo rose +0.3%, up for the first time in two months. As a result, 2023 Q1 was the seventh consecutive quarter of QoQ inflation (+0.7%).

Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2023 Q1 are both 0.4% QoQ. However, since the terms of trade are expected to improve, we forecast a GDP deflator of +2.0% QoQ (Figure 2).

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

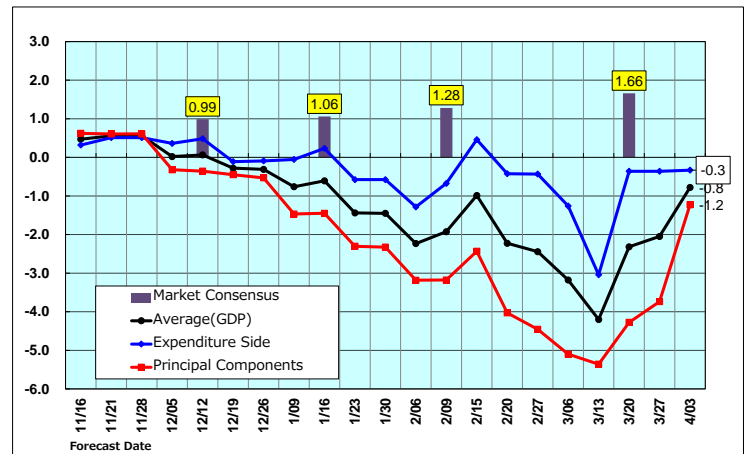
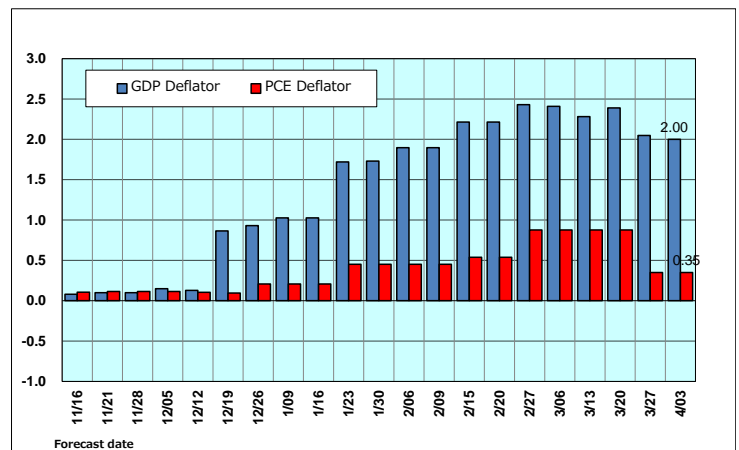


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2023 (% , QoQ growth)



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	
3/31	February	Labor Force Survey				
		Total employment (millions)	67.14	-0.30		
		Total unemployment (millions)	1.80	+0.13		
			Unemployment rate (%)	2.6%	-0.2%pt	
	February	General Job Placement Situation				
		Job offers-to-applicants ratio	1.34	-0.01%pt		
	February	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	94.8	+4.5%		
		Shipments	92.4	+3.6%		
		Inventories	103.6	+1.4%		
	February	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	12,282.0	+1.4%	+6.6%	
	February	New Housing Starts				
	New housing starts (SA, Unit)	64,426	-3.8%	-0.3%		
	Planned residential construction expenditure (billion JPY)	1,169.8	-5.0%	+3.5%		
March	Tokyo Region Consumer Price Index (2020=100)					
	Core	104.0	+0.3%	+3.2%		
January	Construction Costs Deflator (2015=100)					
	Housing construction	121.5		+3.3%		
	Public works	118.8		+3.8%		
3/29	February	Producer Price Index for Intermediate and Final Demand (2015=100)				
		Capital goods	104.4		+3.3%	
		Consumer goods	109.7		+3.4%	
3/27	January	Index of Business Conditions (revised, 2015=100)				
		Leading indicators	96.6	-0.6		
		Coincident indicators	96.4	-3.0		
		Lagging indicators	100.6	+0.6		
	February	Corporate Services Price Index (2015=100)				
		Overall index	107.6		+1.8%	
3/24	February	National Consumer Price Index (2020=100)				
		Core index	103.6	-0.7%	+3.1%	
3/17	January	Tertiary Industry Activity Index (2015=100)	100.5	+0.9%		
	January	General Construction Statistics				
		Private non-residential construction (billion JPY)	935.6		+9.2%	
		Public works (billion JPY)	2,108.9		+6.8%	
3/16	January	Indices of Industrial Production (final figures, 2015=100)				
		Production	90.7	-5.3%		
		Shipments	89.2	-3.7%		
		Inventory	102.2	-1.0%		
		Production capacity index	95.6		-0.2%	
		Capacity utilization ratio	89.6	-5.5%		
January		Private Core Machinery Orders (billion JPY)	929.6	+9.5%		
February		Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-897.7	-34.7%	+26.2%	

		Exports (billion JPY)	7,654.7	+4.4%	+6.5%
		Imports (billion JPY)	8,552.4	-3.0%	+8.3%
3/15	January	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	897.8		+52.2%
		Number of contracts	10,654		+12.1%
3/10	January	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	301,646	+3.1%	+4.8%
		Real consumption expenditure		+2.7%	-0.3%
	January	Consumption Trend Index (2020=100)	103.9	+0.1%	
	January	Information Services Industry Sales (billion JPY)	1,161.1		+6.7%
	February	Domestic Corporate Price Index (2020=100)			
		Corporate Price	119.3	-0.4%	+8.2%
		Export Price	125.7	+1.5%	+9.4%
		Import Price	163.4	+0.5%	+14.6%
3/8	January	Index of Business Conditions (preliminary figures, 2015=100)			
		Leading indicators	96.5	-0.4	
		Coincident indicators	96.1	-3.0	
		Lagging indicators	99.5	-0.1	
	February	Economy Watchers Survey			
		Current Conditions Diffusion Index	52.0	+3.5	
		Future Conditions Diffusion Index	50.8	+1.5	
	January	Balance of Payments			
		Current account (billion JPY)	-1,976.6	-81.7%	+240.5%
		Exports (billion JPY)	6,827.7	-3.4%	+3.4%
		Imports (billion JPY)	10,004.5	-1.3%	+22.3%
3/7	January	Monthly Labor Statistics (preliminary figures)			
		Gross average salary per worker (JPY)	276,857		+0.8%
		Total working hours	127.7		-1.4%
	January	Consumption Activity Index (2015=100)	96.7	+1.2%	
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%

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
3/09	0.1*			1.1*	0.8*										
3/13						-3.0	-5.4	-4.2	2.3	0.9	-0.5	-0.7	-0.6	0.5	0.1
3/20						-0.4	-4.3	-2.3	2.4	0.9	0.5	-0.3	0.1	0.5	0.1
3/27						-0.4	-3.7	-2.0	2.0	0.3	0.5	0.0	0.2	0.3	-0.2
4/03						-0.3	-1.2	-0.8	2.0	0.3	0.9	0.6	0.7	0.3	-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	
	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2021	2022	2021	2022
GDP/GDE									
Gross Domestic Products	548,075	546,608	546,735	546,282	547,521	540,237	545,794	540,924	546,925
Private Consumption	294,688	294,756	295,743	296,468	296,867	287,895	293,861	288,640	295,414
Residential Investment	17,878	17,804	17,803	17,999	18,377	18,797	17,924	18,650	17,871
Nonresidential Investment	88,752	90,120	89,669	87,349	87,710	87,169	88,745	87,177	88,973
Change in Private Inventory	2,581	2,987	202	1,056	408	43	2,444	1,178	1,706
Government Consumption	118,929	119,010	119,315	119,785	120,296	117,047	118,823	117,817	119,260
Public Investment	26,500	26,679	26,599	27,126	27,044	28,532	26,531	27,563	26,726
Change in Public Inventory	-86	-241	-36	-136	-142	-84	-109	-67	-125
Net Exports	-604	-3,846	-1,809	-2,613	-2,288	1,134	-1,828	443	-2,218
Exports of Goods & Services	106,349	109,025	110,612	106,360	106,985	102,620	107,660	103,697	108,086
Imports of Goods & Services	106,952	112,871	112,421	108,973	109,274	101,485	109,488	103,255	110,304
Gross National Income	564,653	561,527	567,410	572,477	576,095	562,365	563,371	562,538	566,517
Memo:									
Total Demand	655,027	659,478	659,156	655,255	656,795	641,722	655,282	644,179	657,229
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.2	-0.3	0.0	-0.1	0.2				
SAAR	4.7	-1.1	0.1	-0.3	0.9				
% Change Year Ago	1.4	1.5	0.4	0.8	-0.1	2.1	1.0	2.6	1.1
Private Consumption	1.6	0.0	0.3	0.2	0.1				
% Change Year Ago	2.5	3.7	1.0	2.2	0.7	0.4	2.1	1.5	2.3
Residential Investment	-1.9	-0.4	0.0	1.1	2.1				
% Change Year Ago	-6.4	-5.2	-3.9	-1.2	2.8	-1.1	-4.6	-1.1	-4.2
Nonresidential Investment	2.1	1.5	-0.5	-2.6	0.4				
% Change Year Ago	0.7	4.0	2.9	0.5	-1.2	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	1.6	1.5	1.1	3.5	1.5	3.4	1.2
Public Investment	0.6	0.7	-0.3	2.0	-0.3				
% Change Year Ago	-9.0	-5.1	-2.3	3.0	2.1	-1.9	-7.0	-6.4	-3.0
Exports of Goods & Services	1.5	2.5	1.5	-3.8	0.6				
% Change Year Ago	2.8	5.7	6.8	1.5	0.6	11.7	4.9	12.3	4.2
Imports of Goods & Services	0.9	5.5	-0.4	-3.1	0.3				
% Change Year Ago	3.5	11.0	10.2	2.8	2.2	5.0	7.9	7.0	6.8
Gross National Income	0.6	-0.6	1.0	0.9	0.6				
SAAR	2.4	-2.2	4.3	3.6	2.6				
% Change Year Ago	-0.3	0.3	0.7	2.0	2.0	2.0	0.2	2.2	0.7
Total Demand	1.1	0.7	0.0	-0.6	0.2				
SAAR	4.5	2.7	-0.2	-2.3	0.9				
% Change Year Ago	0.0	13.4	2.0	1.2	0.3	2.6	2.1	3.3	2.0
Contribution to GDP Growth Rate									
Domestic Demand	1.0	0.3	-0.3	0.1	0.2	1.1	1.6	1.8	1.6
Private Demand	0.8	0.3	-0.4	-0.1	0.1	0.5	1.7	1.4	1.5
Public demand	0.2	0.0	0.1	0.2	0.1	0.6	-0.1	0.4	0.1
Net Exports	0.1	-0.6	0.4	-0.1	0.1	1.0	-0.6	0.8	-0.5

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	558,619	554,151	560,607	571,372	574,587	549,379	556,387	550,561	561,187
Private Consumption	308,814	309,988	313,555	315,401	315,211	293,986	308,537	296,284	311,940
Residential Investment	21,183	21,185	21,222	21,533	21,901	20,828	21,216	21,129	21,281
Nonresidential Investment	94,199	96,690	97,115	95,829	96,946	89,270	94,540	90,078	95,959
Change in Private Inventory	3,545	3,771	561	1,417	147	135	2,935	1,104	2,323
Government Consumption	120,139	122,035	122,662	123,683	124,243	117,711	121,202	118,968	122,129
Public Investment	29,588	30,063	30,146	30,568	30,456	30,510	29,690	29,807	30,091
Change in Public Inventory	-96	-864	-30	-281	-285	-108	-261	-90	-318
Net Exports	-18,753	-28,717	-24,624	-16,777	-14,031	-2,952	-21,473	-6,718	-22,218
Exports of Goods & Services	118,134	124,890	127,054	118,763	120,770	99,996	119,786	103,637	122,210
Imports of Goods & Services	136,887	153,607	151,678	135,540	134,801	102,948	141,259	110,355	144,428
Gross National Income	591,710	590,082	601,694	611,823	615,739	576,048	591,563	579,812	598,827
Memo:									
Total Demand	695,506	707,758	712,286	706,912	709,388	652,327	697,646	660,916	705,616
Compensation of Employee	293,883	294,846	296,766	295,931	297,396	288,746	294,492	289,508	295,357
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.0	-0.8	1.2	1.9	0.6				
SAAR	4.3	-3.2	4.7	7.9	2.3				
% Change Year Ago	1.4	1.2	1.7	3.4	2.9	1.9	1.3	2.4	1.9
Private Consumption	2.5	0.4	1.2	0.6	-0.1				
% Change Year Ago	5.2	6.7	4.6	4.6	2.1	1.0	4.9	2.7	5.3
Residential Investment	-0.4	0.0	0.2	1.5	1.7				
% Change Year Ago	2.0	0.3	-0.6	1.2	3.4	4.0	1.9	6.3	0.7
Nonresidential Investment	3.7	2.6	0.4	-1.3	1.2				
% Change Year Ago	4.7	8.6	7.5	5.5	2.9	2.4	5.9	4.7	6.5
Government Consumption	0.1	1.6	0.5	0.8	0.5				
% Change Year Ago	2.2	1.8	3.4	3.1	3.4	4.0	3.0	4.5	2.7
Public Investment	2.2	1.6	0.3	1.4	-0.4				
% Change Year Ago	-4.3	-0.5	1.9	5.6	2.9	0.4	-2.7	-3.3	1.0
Exports of Goods & Services	8.3	5.7	1.7	-6.5	1.7				
% Change Year Ago	18.7	23.2	21.4	8.9	2.2	19.3	19.8	22.8	17.9
Imports of Goods & Services	11.7	12.2	-1.3	-10.6	-0.5				
% Change Year Ago	35.9	45.9	34.1	10.6	-1.5	20.7	37.2	30.1	30.9
Gross National Income	1.2	-0.3	2.0	1.7	0.6				
SAAR	5.0	-1.1	8.1	6.9	2.6				
% Change Year Ago	2.3	2.6	3.5	4.7	4.1	3.1	2.7	4.1	3.3
Memo:									
Total Demand	3.0	1.8	0.6	-0.8	0.4				
SAAR	12.4	7.2	2.6	-3.0	1.4				
% Change Year Ago	0.0	28.7	7.2	4.7	2.0	0.0	4.5	0.0	6.2
Compensation of Employee	0.6	0.3	0.7	-0.3	0.5				
% Change Year Ago	2.1	2.0	2.6	1.3	1.2	2.0	2.0	2.1	2.0

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	104.6	104.9	101.7	101.9	101.8	102.6
Private Consumption	104.8	105.2	106.0	106.4	106.2	102.1	105.0	102.6	105.6
Residential Investment	118.5	119.0	119.2	119.6	119.2	110.7	118.4	113.3	119.1
Nonresidential Investment	106.1	107.3	108.3	109.7	110.5	102.5	106.6	103.3	107.9
Government Consumption	101.0	102.5	102.8	103.3	103.3	100.5	102.0	101.0	102.4
Public Investment	111.7	112.7	113.3	112.7	112.6	106.9	111.9	108.0	112.6
Exports of Goods & Services	111.1	114.6	114.9	111.7	112.9	97.4	111.2	99.9	113.0
Imports of Goods & Services	128.0	136.1	134.9	124.4	123.4	101.4	128.8	106.8	130.8
Unit Profit	104.8	102.9	104.7	109.4	109.9	104.7	104.1	104.7	105.5
Unit Labor Cost	99.5	100.1	100.7	100.5	100.8	99.2	100.1	99.3	100.2
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.1	-0.5	1.1	2.0	0.3				
	0.0	-0.4	1.2	2.5	3.0	-0.3	0.2	-0.2	0.8
Private Consumption	0.8	0.4	0.8	0.3	-0.2				
	2.7	2.9	3.5	2.4	1.3	0.6	2.8	1.2	2.9
Residential Investment	1.5	0.4	0.2	0.4	-0.4				
	9.0	5.8	3.5	2.5	0.6	5.2	6.9	7.5	5.1
Nonresidential Investment	1.5	1.1	0.9	1.3	0.8				
	4.0	4.4	4.4	4.9	4.1	1.7	4.0	2.6	4.5
Government Consumption	-0.6	1.5	0.3	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	-0.6	-0.1				
	5.2	4.9	4.3	2.6	0.9	2.4	4.6	3.3	4.2
Exports of Goods & Services	6.7	3.1	0.3	-2.8	1.1				
	15.5	16.5	13.7	7.2	1.6	6.8	14.2	9.5	13.2
Imports of Goods & Services	10.6	6.3	-0.9	-7.8	-0.8				
	31.2	31.5	21.8	7.5	-3.6	14.9	27.1	21.6	22.5
Unit Profit	0.0	-1.8	1.7	4.5	0.4				
	0.0	2.6	0.2	4.8	4.8	-0.3	-0.5	0.2	0.7
Unit Labor Cost	0.0	0.6	0.6	-0.2	0.3				
	0.0	14.2	2.2	0.5	1.3	-0.2	1.0	-0.5	0.9