



# Japanese Economy Monthly Forecast

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## Headlines

### ● Review of latest official data

▶ This forecast reflects data released by the end of August as well as the first official advance GDP figures for 2023 Q2. About one-third of all data necessary for an accurate estimate of Q3 GDP have been released. Data on household consumption-related indicators, public works, and the balance of payments are not available yet.

▶ According to the first official advance estimate, real GDP in Q2 increased an annualized +6.0% QoQ, marking the third consecutive quarter of positive growth. The figure was significantly higher than the market consensus final forecast (+2.41%). APIR's CQM final expenditure-side forecast for was an annualized +4.4%.

▶ The Index of Industrial Production index in July dropped -2.0% MoM, marking the first decline in two months. The index was -1.1% lower than the Q2 average. METI downgraded its assessment of economic conditions.

▶ Compared with the Q2 average, planned construction expenditure in July decreased -3.7%. The index of capital goods shipments declined -0.2%. On the other hand, public works expanded for the second quarter in a row in Q2 (+2.3% QoQ).

▶ Compared to the Q2 average, real exports and imports in July increased by +3.3% and +1.5%, respectively. Net exports made a small positive contribution to real GDP growth.

### ● 2023 Q3 real GDP growth forecast update

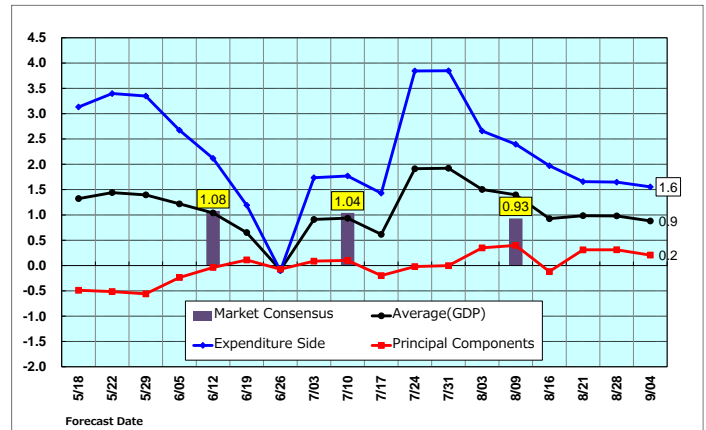
▶ APIR's expenditure-side CQM forecast for real GDP growth in 2023 Q3 is an annualized +1.6% QoQ. On the other hand, the production-side forecast figure is an annualized +0.2%. The average of the two forecasts is an annualized +0.9%, which is similar to the market consensus forecast figure (Figure 1).

### ● 2023 Q3 inflation forecast update

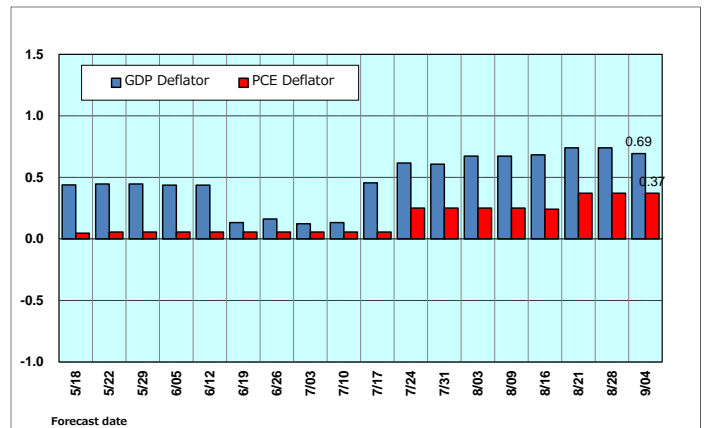
▶ In July, the nation-wide CPI rose by +3.3%, marking the 23<sup>rd</sup> month of inflation. The core CPI rose by +3.1%, and the core-core CPI rose by +4.3%. Core-core CPI inflation remained higher than core CPI inflation for the sixth month in a row.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2023 Q3 are respectively +0.4% and +0.2% QoQ. However, since the terms of trade are expected to improve significantly, we forecast a GDP deflator of +0.7% QoQ (Figure 2).

**Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2023 (% , QoQ annualized growth)**



**Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 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)**

Re-lease Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
9/1	August	<b>New Car Sales (vehicles)</b>	280,537		+19.8%	
8/31	July	<b>Indices of Industrial Production (preliminary figures, 2020=100)</b>				
		Production	103.6	-2.0%		
		Shipments	102.8	-2.1%		
			Inventories	106.7	+0.9%	
	July	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	13,924.0	+2.1%	+6.8%	
	July	<b>New Housing Starts</b>				
		New housing starts (SA, Unit)	68,151	-4.1%	-6.7%	
		Planned residential construction expenditure (billion JPY)	1,314.2	-6.2%	+1.5%	
June		<b>Construction Costs Deflator (2015=100)</b>				
		Housing construction	124.1		+0.1%	
		Public works	123.3		+2.3%	
8/30	August	<b>Consumer Confidence Index (SA)</b>	36.2	-0.9		
8/29	July	<b>Labor Force Survey</b>				
		Total employment (millions)	67.45	-0.10		
		Total unemployment (millions)	1.84	+0.11		
			Unemployment rate (%)	2.7%	+0.2%pt	
	July	<b>General Job Placement Situation</b>				
		Job offers-to-applicants ratio	1.29	-0.01%pt		
	July	<b>Producer Price Index for Intermediate and Final Demand (2015=100)</b>				
		Capital goods	106.5		+3.7%	
	Consumer goods	110.9		+2.1%		
8/28	June	<b>Index of Business Conditions (revised, 2015=100)</b>				
		Leading indicators	108.9	-0.2		
		Coincident indicators	115.1	+0.8		
		Lagging indicators	107.3	+0.1		
8/25	June	<b>Monthly Labor Statistics (final figures)</b>				
		Gross average salary per worker (JPY)	461,811		+2.3%	
		Total working hours	142.4		+0.1%	
	July	<b>Corporate Services Price Index (2015=100)</b>				
		Overall index	109.1		+1.2%	
	August	<b>Tokyo Region Consumer Price Index (2020=100)</b>				
	Core	105.3	+0.2%	+2.8%		
8/18	July	<b>National Consumer Price Index (2020=100)</b>				
		Core index	105.4	+0.3%	+3.1%	
8/17	June	<b>Tertiary Industry Activity Index (2015=100)</b>	101.3	-0.4%		
	June	<b>Private Core Machinery Orders (billion JPY)</b>	854.0	+2.7%		
	June	<b>General Construction Statistics</b>				
		Private non-residential construction (billion JPY)	904.0		+4.9%	
		Public works (billion JPY)	1,511.0		+3.0%	
	July	<b>Trade Statistics (customs clearance level)</b>				
	Trade balance (billion JPY)	-78.7	+3.1%	-94.5%		

		Exports (billion JPY)	8,725.0	+2.0%	-0.3%
		Imports (billion JPY)	8,803.7	+2.0%	-13.5%
8/15	June	<b>Indices of Industrial Production (final figures, 2020=100)</b>			
		Production	105.7	+2.4%	
		Shipments	105.0	+1.6%	
		Inventory	105.8	+0.2%	
		Production capacity index	98.4		+0.1%
		Capacity utilization ratio	108.1	+3.8%	
	July	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	1,380.2		+6.8%
		Number of contracts	24,065		-2.3%
8/10	July	<b>Domestic Corporate Price Index (2020=100)</b>			
		Corporate Price	119.3	+0.1%	+3.6%
		Export Price	130.9	+0.1%	-0.2%
		Import Price	157.3	-0.3%	-14.1%
	June	<b>Information Services Industry Sales (billion JPY)</b>	1,594.7		+9.0%
8/8	June	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Gross average salary per worker (JPY)	462,040		+2.3%
		Total working hours	142.2		+0.1%
	June	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	275,545	+1.1%	-0.5%
		Real consumption expenditure		+0.9%	-4.2%
	June	<b>Consumption Trend Index (2020=100)</b>	103.8	0.0%	
	July	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	54.4	+0.8	
		Future Conditions Diffusion Index	54.1	+1.3	
	June	<b>Balance of Payments</b>			
		Current account (billion JPY)	1,508.8	+37.8%	+203.1%
		Exports (billion JPY)	8,630.2	+7.1%	+0.5%
		Imports (billion JPY)	8,301.6	+1.1%	-14.3%
8/7	June	<b>Consumption Activity Index (2015=100)</b>	96.9	-0.5%	
	June	<b>Index of Business Conditions (preliminary figures, 2020=100)</b>			
		Leading indicators	108.9	-0.2	
		Coincident indicators	115.2	+0.9	
		Lagging indicators	107.3	+0.4	
8/2	July	<b>Food Buffer Stock (billion JPY)</b>	+12.2		+10.7

**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
	2023Q2			2023Q3			2023Q4								
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/18	1.2	-0.6	0.3	0.0	0.0	3.1	-0.5	1.3	0.4	0.0					
5/22	1.8	-0.3	0.8	1.0	-0.0	3.4	-0.5	1.4	0.4	0.1					
5/29	1.8	-0.5	0.7	1.3	0.4	3.3	-0.6	1.4	0.4	0.1					
6/05	2.2	-0.7	0.7	1.3	0.4	2.7	-0.2	1.2	0.4	0.1					
<b>6/08</b>															
6/12	4.3	1.5	2.9	1.4	0.4	2.1	-0.0	1.0	0.4	0.1					
6/19	4.0	1.5	2.8	1.4	0.4	1.2	0.1	0.7	0.1	0.1					
6/26	4.9	1.5	3.2	1.4	0.4	-0.1	-0.1	-0.1	0.2	0.1					
7/03	5.3	2.9	4.1	1.4	0.4	1.7	0.1	0.9	0.1	0.1					
7/10	5.2	2.2	3.7	1.4	0.4	1.8	0.1	0.9	0.1	0.1					
7/17	3.2	1.6	2.4	1.5	0.4	1.4	-0.2	0.6	0.5	0.1					
7/24	4.4	1.9	3.1	1.6	0.5	3.8	-0.0	1.9	0.6	0.3					
7/31	4.4	1.8	3.1	1.6	0.5	3.8	-0.0	1.9	0.6	0.3					
8/03	5.0	2.3	3.6	1.6	0.5	2.7	0.3	1.5	0.7	0.3					
8/10	4.4	2.5	3.5	1.6	0.5	2.4	0.4	1.4	0.7	0.3					
<b>8/15</b>	<u>6.0</u>			<u>1.4</u>	<u>0.4</u>	0.0	0.0	0.0	0.0	0.0					
8/16						2.0	-0.1	0.9	0.7	0.2	0.0	0.5	0.2	0.2	0.1
8/21						1.7	0.3	0.5	0.7	0.4	0.0	0.5	0.2	0.2	0.1
8/28						1.6	0.3	1.0	0.7	0.4	0.0	0.5	0.2	0.2	0.1
9/04						1.6	0.2	0.9	0.7	0.4	-0.2	0.6	0.2	0.2	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	
	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2022	2023	2022	2023
GDP/GDE									
Gross Domestic Products	547,557	552,574	560,740	562,906	562,604	546,501	559,706	549,198	562,770
Private Consumption	295,659	297,509	295,963	296,016	296,367	293,917	296,464	295,875	296,282
Residential Investment	18,300	18,427	18,771	18,864	18,899	18,267	18,740	18,250	18,862
Nonresidential Investment	89,979	91,637	91,661	91,685	91,890	89,251	91,718	90,406	91,789
Change in Private Inventory	717	2,544	1,696	1,921	397	2,401	1,639	2,295	1,342
Government Consumption	118,712	118,816	118,948	119,044	119,542	118,470	119,087	118,661	119,394
Public Investment	26,691	27,155	27,488	27,511	27,288	26,487	27,360	26,706	27,422
Change in Public Inventory	-19	-60	-53	-105	-102	-103	-80	-104	-91
Net Exports	-1,771	-3,460	4,753	6,459	6,810	-1,596	3,640	-2,250	6,257
Exports of Goods & Services	111,079	106,841	110,293	112,867	113,418	108,069	110,855	108,532	112,589
Imports of Goods & Services	112,850	110,301	105,541	106,409	106,608	109,664	107,214	110,782	106,332
Gross National Income	567,065	569,407	584,120	589,386	589,291	563,902	583,051	565,996	588,049
Memo:									
Total Demand	660,406	662,875	666,281	669,315	669,211	656,165	666,921	659,980	669,102
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.0	0.9	1.5	0.4	-0.1				
<b>SAAR</b>	<b>0.2</b>	<b>3.7</b>	<b>6.0</b>	<b>1.6</b>	<b>-0.2</b>				
% Change Year Ago	0.4	1.9	2.1	2.8	2.7	1.0	2.4	1.4	2.5
Private Consumption	0.2	0.6	-0.5	0.0	0.1				
% Change Year Ago	0.9	2.6	0.3	0.4	0.2	2.1	0.9	2.5	0.1
Residential Investment	0.9	0.7	1.9	0.5	0.2				
% Change Year Ago	-2.2	-0.3	3.4	4.0	3.3	-3.5	2.6	-3.0	3.4
Nonresidential Investment	-0.7	1.8	0.0	0.0	0.2				
% Change Year Ago	2.8	4.6	2.8	1.2	2.1	1.9	2.8	3.1	1.5
Government Consumption	0.2	0.1	0.1	0.1	0.4				
% Change Year Ago	1.2	0.6	0.3	0.4	0.7	1.2	0.5	0.7	0.6
Public Investment	0.3	1.7	1.2	0.1	-0.8				
% Change Year Ago	-2.2	3.3	4.4	3.3	2.2	-7.2	3.3	-3.1	2.7
Exports of Goods & Services	1.5	-3.8	3.2	2.3	0.5				
% Change Year Ago	7.3	1.9	3.2	3.1	2.1	5.1	2.6	4.5	3.7
Imports of Goods & Services	-0.1	-2.3	-4.3	0.8	0.2				
% Change Year Ago	10.4	4.1	-1.5	-5.8	-5.5	8.0	-2.2	7.2	-4.0
Gross National Income	0.9	0.4	2.6	0.9	0.0				
<b>SAAR</b>	<b>3.8</b>	<b>1.7</b>	<b>10.7</b>	<b>3.7</b>	<b>-0.1</b>				
% Change Year Ago	0.6	1.2	3.3	4.9	3.9	0.2	3.4	0.5	3.9
Total Demand	0.0	0.4	0.5	0.5	0.0				
<b>SAAR</b>	<b>0.1</b>	<b>1.5</b>	<b>2.1</b>	<b>1.8</b>	<b>-0.1</b>				
% Change Year Ago	0.0	14.0	1.5	1.4	1.3	2.1	1.6	2.3	1.4
Contribution to GDP Growth Rate									
Domestic Demand	-0.3	1.1	-0.3	0.1	-0.1	1.6	1.2	1.9	0.6
Private Demand	-0.4	1.0	-0.4	0.1	-0.2	1.7	0.9	1.9	0.3
Public demand	0.1	0.1	0.1	0.0	0.0	-0.1	0.3	0.0	0.3
Net Exports	0.3	-0.2	1.8	0.3	0.1	-0.5	1.2	-0.5	1.9



Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2022	2023	2022	2023
GDP/GDE									
Gross Domestic Products	102.5	103.9	105.3	106.1	106.3	101.9	105.4	102.4	105.8
Private Consumption	106.0	107.2	107.6	108.0	108.1	105.0	107.7	105.7	107.8
Residential Investment	118.9	118.5	118.2	117.7	117.0	118.4	117.8	118.8	117.5
Nonresidential Investment	108.3	108.6	109.4	110.6	111.3	106.6	110.0	107.5	110.8
Government Consumption	102.8	102.9	102.8	103.1	103.1	102.0	103.0	102.4	103.0
Public Investment	113.5	113.8	114.7	113.0	113.6	111.9	113.8	112.9	113.5
Exports of Goods & Services	114.8	112.0	112.8	113.4	113.3	111.2	112.9	113.1	113.2
Imports of Goods & Services	134.8	127.8	123.7	121.4	121.2	128.8	123.5	131.7	122.6
Unit Profit	105.1	108.6	112.2	114.3	114.5	104.3	112.4	105.6	113.6
Unit Labor Cost	100.4	99.9	99.5	99.1	99.3	100.0	99.5	99.8	99.2
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.2	1.4	1.4	0.7	0.2				
	1.2	1.8	3.4	4.7	3.7	0.2	3.4	0.6	3.3
Private Consumption	0.8	1.1	0.4	0.4	0.1				
	3.5	3.0	2.8	2.7	2.0	2.8	2.6	3.0	2.0
Residential Investment	-0.2	-0.4	-0.3	-0.4	-0.6				
	3.4	1.4	-0.5	-1.3	-1.6	6.9	-0.5	4.9	-1.2
Nonresidential Investment	0.9	0.3	0.8	1.1	0.7				
	4.4	3.6	3.1	3.1	2.8	4.1	3.1	4.1	3.1
Government Consumption	0.3	0.1	-0.1	0.4	0.0				
	1.8	1.5	1.4	0.7	0.3	1.4	1.0	1.4	0.7
Public Investment	0.7	0.3	0.8	-1.5	0.5				
	4.4	3.5	2.9	0.3	0.1	4.7	1.7	4.5	0.6
Exports of Goods & Services	0.4	-2.5	0.7	0.6	-0.1				
	13.7	7.4	1.5	-0.9	-1.3	14.1	1.5	13.2	0.1
Imports of Goods & Services	-0.9	-5.2	-3.2	-1.8	-0.2				
	21.7	10.4	-3.4	-10.8	-10.2	27.1	-4.1	23.3	-7.0
Unit Profit	0.0	3.4	3.3	1.9	0.1				
	0.0	8.2	6.8	10.9	8.9	-0.5	7.8	0.7	7.6
Unit Labor Cost	0.0	-0.4	-0.4	-0.4	0.2				
	0.0	14.0	0.3	-0.9	-1.1	0.9	-0.5	0.6	-0.6