



Japanese Economy Monthly Forecast

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Headlines

● Review of latest official data

▶ This forecast reflects data released by the end of September. About two-thirds of all data needed for an accurate estimate of Q3 GDP have been released. Excluding household consumption-related indicators, public works, and balance of payments, almost two-thirds of the basic monthly data required for estimating July-September GDP have been updated.

▶ According to the second official advance estimate, real GDP in Q2 increased an annualized +4.8 QoQ, which was a downward revision over the first advance estimate (+6.0%). Real GDP exceeded its pre-pandemic peak.

▶ The Index of Industrial Production index in August remained unchanged. As a result, the July-August average was -1.0% lower than the Q2 average. METI left its assessment of economic conditions unchanged from the previous month.

▶ Comparing the July-August average with the Q2 average, planned construction expenditure decreased by -1.0%, while the index of capital goods shipments declined by -1.6%. On the other hand, public works expanded by +0.3%.

▶ Comparing the July-August average with the Q2 average, real exports increased by +0.3%, while real imports shrank by -0.2%. 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 +0.0% QoQ. On the other hand, the production-side forecast figure is an annualized -1.2%. The average of the two forecasts is an annualized -0.6%, which is similar to the market consensus forecast figure (Figure 1).

● 2023 Q3 inflation forecast update

▶ In August, the nation-wide CPI rose by +3.2%, marking the 24th 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 seventh month in a row, partly due to government policies.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2023 Q3 are respectively +0.5% and +0.3% QoQ. However, since the terms of trade are expected to improve significantly, we forecast a headline inflation rate (GDP deflator) of +0.9% QoQ (Figure 2).

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

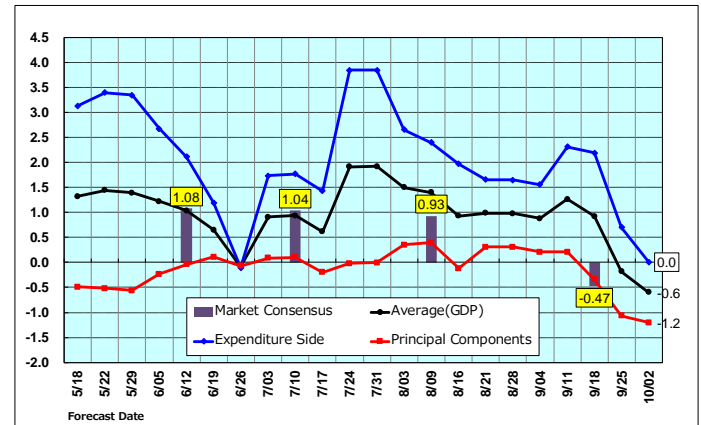
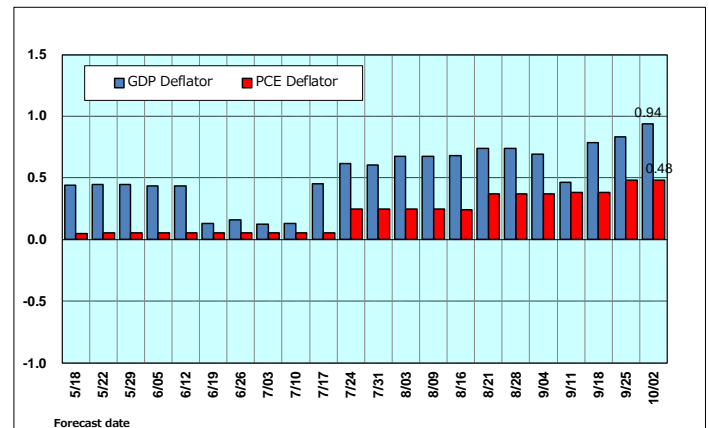


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2023 (% , QoQ growth)



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/ In- dex Score	Change		
				MoM	YoY	
9/29	August	Labor Force Survey				
		Total employment (millions)	67.50	+0.05		
		Total unemployment (millions)	1.85	+0.01		
			Unemployment rate (%)	2.7%	0.0%pt	
	August	General Job Placement Situation				
		Job offers-to-applicants ratio	1.29	0.0%pt		
	August	Indices of Industrial Production (preliminary figures, 2020=100)				
		Production	103.8	0.0%		
		Shipments	103.2	+0.1%		
		Inventories	104.6	-1.7%		
	August	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	13,391.0	+0.1%	+7.0%	
	August	New Housing Starts				
		New housing starts (SA, Unit)	70,399	+4.5%	-9.4%	
		Planned residential construction expenditure (billion JPY)	1,400.2	+5.5%	+4.7%	
July	Construction Costs Deflator (2015=100)					
	Housing construction	123.0		+2.0%		
	Public works	122.1		+4.6%		
Septem- ber	Consumer Confidence Index (SA)	35.2	-1.0			
Septem- ber	Tokyo Region Consumer Price Index (2020=100)					
	Core	105.2	0.0%	+2.5%		
9/28	August	Producer Price Index for Intermediate and Final Demand (2015=100)				
		Capital goods	107.0		+3.9%	
		Consumer goods	111.3		+2.0%	
9/27	July	Index of Business Conditions (revised, 2015=100)				
		Leading indicators	108.2	-0.6		
		Coincident indicators	114.2	-1.4		
		Lagging indicators	105.7	-0.8		
9/26	July	Monthly Labor Statistics (final figures)				
		Gross average salary per worker (JPY)	380,063		+1.1%	
		Total working hours	138.6		-1.0%	
	August	Corporate Services Price Index (2015=100)				
		Overall index	109.3		+2.1%	
9/22	August	National Consumer Price Index (2020=100)				
		Core index	105.7	+0.3%	+3.1%	
9/20	August	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-930.5	-7.4%	-66.7%	
		Exports (billion JPY)	7,994.3	-1.7%	-0.8%	
		Imports (billion JPY)	8,924.8	-2.1%	-17.8%	
9/19	July	General Construction Statistics				
		Private non-residential construction (billion JPY)	926.3		+3.1%	
		Public works (billion JPY)	1,612.5		+4.6%	

9/15	July August	Tertiary Industry Activity Index (2015=100) Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	101.8 1,114.7 22,215	+0.9% -3.6% -4.3%	
9/14	July July	Indices of Industrial Production (final figures, 2020=100) Production Shipments Inventory Production capacity index Capacity utilization ratio Private Core Machinery Orders (billion JPY)	103.8 103.1 106.4 98.4 105.7 844.9	-1.8% -1.8% +0.6% -2.2% -1.1%	+0.3%
9/13	August	Domestic Corporate Price Index (2020=100) Corporate Price Export Price Import Price	119.6 133.1 158.3	+0.3% +1.9% +0/9%	+3.2% +3.7% -11.8%
9/8	July July August July	Monthly Labor Statistics (preliminary figures) Gross average salary per worker (JPY) Total working hours Information Services Industry Sales (billion JPY) Economy Watchers Survey Current Conditions Diffusion Index Business Outlook Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	380,656 138.9 1,195.9 53.6 51.4 2,771.7 8,555.8 8,487.6	 -0.8 -2.7 +17.9% +1.6% +2.8%	+1.3% -0.8% +8.5% +211.9% -0.6% -13.3%
9/7	July July	Consumption Activity Index (2015=100) Index of Business Conditions (preliminary figures, 2020=100) Leading indicators Coincident indicators Lagging indicators	97.3 107.6 114.5 106.1	+0.6% -1.2 -1.1 -0.5	
9/5	July July	Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2020=100)	281,736 103.7	-2.5% -2.7% +0.2%	-1.3% -5.0%
9/4	August	Food Balance (billion JPY)	+69.2		-7.2
9/1	August	New Car Sales (vehicles)	280,537		+19.8%

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			2023Q4			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					
6/08															
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					
8/15	<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
9/08	4.8*			1.6*	0.4*										
9/11						2.3	0.2	1.3	0.5	0.4	-0.2	0.5	0.2	0.2	0.1
9/18						2.2	-0.3	0.9	0.8	0.4	0.1	0.5	0.3	0.4	0.1
9/25						0.7	-1.1	-0.2	0.8	0.5	-1.7	0.1	-0.8	0.4	0.2
10/02						0.0	-1.2	-0.6	0.9	0.5	-2.2	0.2	-1.0	0.4	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	
	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2022	2023	2022	2023
GDP/GDE									
Gross Domestic Products	547,761	552,142	558,603	558,613	555,496	546,556	556,214	549,232	557,941
Private Consumption	295,741	297,485	295,575	295,741	296,052	293,973	296,213	295,916	295,961
Residential Investment	18,300	18,421	18,783	18,806	18,797	18,267	18,702	18,247	18,809
Nonresidential Investment	90,001	91,454	90,528	89,977	90,157	89,249	90,529	90,404	90,231
Change in Private Inventory	859	2,494	1,760	1,875	-238	2,401	1,473	2,295	1,085
Government Consumption	118,707	118,799	118,833	118,894	119,391	118,470	118,979	118,661	119,252
Public Investment	26,680	27,061	27,127	27,194	27,127	26,487	27,127	26,706	27,190
Change in Public Inventory	-30	-63	-71	-108	-106	-103	-87	-104	-98
Net Exports	-1,787	-3,471	4,661	4,827	2,909	-1,596	2,232	-2,250	4,104
Exports of Goods & Services	111,064	106,834	110,115	109,969	107,978	108,069	108,724	108,532	109,324
Imports of Goods & Services	112,852	110,305	105,454	105,142	105,068	109,664	106,492	110,782	105,220
Gross National Income	567,284	568,986	582,060	588,907	586,498	563,956	581,613	566,030	586,453
Memo:									
Total Demand	660,612	662,447	664,057	663,755	660,565	656,220	662,706	660,014	663,161
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.1	0.8	1.2	0.0	-0.6				
SAAR	0.2	3.2	4.8	0.0	-2.2				
% Change Year Ago	0.5	1.8	1.7	2.0	1.4	1.0	1.8	1.4	1.6
Private Consumption	0.3	0.6	-0.6	0.1	0.1				
% Change Year Ago	1.0	2.6	0.2	0.3	0.1	2.1	0.8	2.5	0.0
Residential Investment	1.0	0.7	2.0	0.1	-0.1				
% Change Year Ago	-2.2	-0.4	3.5	3.7	2.7	-3.5	2.4	-3.0	3.1
Nonresidential Investment	-0.7	1.6	-1.0	-0.6	0.2				
% Change Year Ago	2.8	4.5	1.4	-0.7	0.2	1.9	1.4	3.1	-0.2
Government Consumption	0.2	0.1	0.0	0.1	0.4				
% Change Year Ago	1.2	0.6	0.2	0.3	0.6	1.2	0.4	0.7	0.5
Public Investment	0.1	1.4	0.2	0.2	-0.2				
% Change Year Ago	-2.2	3.2	2.8	2.0	1.7	-7.2	2.4	-3.1	1.8
Exports of Goods & Services	1.5	-3.8	3.1	-0.1	-1.8				
% Change Year Ago	7.3	1.9	3.0	0.5	-2.8	5.1	0.6	4.5	0.7
Imports of Goods & Services	-0.1	-2.3	-4.4	-0.3	-0.1				
% Change Year Ago	10.4	4.1	-1.6	-6.9	-6.9	8.0	-2.9	7.2	-5.0
Gross National Income	1.0	0.3	2.3	1.2	-0.4				
SAAR	3.9	1.2	9.5	4.8	-1.6				
% Change Year Ago	0.6	1.1	3.0	4.8	3.4	0.2	3.1	0.5	3.6
Total Demand	0.0	0.3	0.2	0.0	-0.5				
SAAR	0.1	1.1	1.0	-0.2	-1.9				
% Change Year Ago	0.0	13.9	1.2	0.5	0.0	2.1	1.0	2.3	0.5
Contribution to GDP Growth Rate									
Domestic Demand	-0.3	1.0	-0.6	0.0	-0.2	1.6	0.8	1.9	0.1
Private Demand	-0.3	0.9	-0.6	0.0	-0.3	1.7	0.6	1.9	-0.1
Public demand	0.1	0.1	0.0	0.0	0.1	-0.1	0.2	0.0	0.2
Net Exports	0.3	-0.2	1.7	0.0	-0.3	-0.5	1.0	-0.5	1.5

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

	Quarterly		Forecast			CY		FY	
	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2022	2023	2022	2023
GDP/GDE									
Gross Domestic Products	561,443	573,722	589,476	595,022	593,878	557,227	588,025	562,708	593,004
Private Consumption	313,555	318,971	318,013	319,738	320,599	308,635	319,330	312,921	319,498
Residential Investment	21,756	21,830	22,220	22,316	22,324	21,631	22,172	21,684	22,303
Nonresidential Investment	97,414	99,290	99,218	99,432	100,301	95,104	99,560	97,269	100,009
Change in Private Inventory	1,065	1,956	2,854	1,583	-607	2,886	1,446	2,633	1,110
Government Consumption	121,994	122,223	122,146	122,665	123,160	120,826	122,548	121,470	122,905
Public Investment	30,276	30,793	31,150	31,371	31,319	29,649	31,158	30,170	31,263
Change in Public Inventory	-5	-6	-19	-227	-225	-254	-119	-242	-174
Net Exports	-24,614	-21,334	-6,105	-1,854	-2,993	-21,249	-8,071	-23,198	-3,909
Exports of Goods & Services	127,535	119,618	124,400	127,314	126,758	120,233	124,523	122,795	126,680
Imports of Goods & Services	152,149	140,952	130,506	129,169	129,751	141,482	132,594	145,992	130,590
Gross National Income	601,309	607,043	625,155	634,686	633,465	592,280	625,087	598,162	631,870
Memo:									
Total Demand	713,592	714,673	719,982	724,191	723,629	698,709	720,619	708,700	723,594
Compensation of Employee	296,134	297,547	300,700	300,071	300,883	294,492	299,800	295,376	300,575
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.2	2.2	2.7	0.9	-0.2				
SAAR	5.0	9.0	11.4	3.8	-0.8				
% Change Year Ago	1.7	3.7	5.3	7.3	5.8	1.3	5.5	2.0	5.4
Private Consumption	1.1	1.7	-0.3	0.5	0.3				
% Change Year Ago	4.5	5.7	3.0	3.1	2.2	5.0	3.5	5.6	2.1
Residential Investment	0.7	0.3	1.8	0.4	0.0				
% Change Year Ago	1.1	1.1	3.1	3.3	2.6	3.1	2.5	1.7	2.9
Nonresidential Investment	0.2	1.9	-0.1	0.2	0.9				
% Change Year Ago	7.3	8.3	4.8	2.2	3.0	6.0	4.7	7.4	2.8
Government Consumption	0.5	0.2	-0.1	0.4	0.4				
% Change Year Ago	3.0	2.1	1.7	1.0	1.0	2.6	1.4	2.1	1.2
Public Investment	0.8	1.7	1.2	0.7	-0.2				
% Change Year Ago	2.1	6.8	5.9	4.4	3.4	-2.9	5.1	1.2	3.6
Exports of Goods & Services	1.9	-6.2	4.0	2.3	-0.4				
% Change Year Ago	22.0	9.4	4.7	1.7	-0.6	20.0	3.6	18.3	3.2
Imports of Goods & Services	-1.0	-7.4	-7.4	-1.0	0.5				
% Change Year Ago	34.4	15.0	-4.9	-16.0	-14.7	37.3	-6.3	32.1	-10.6
Gross National Income	1.9	1.0	3.0	1.5	-0.2				
SAAR	7.7	3.9	12.5	6.2	-0.8				
% Change Year Ago	3.5	3.5	5.5	7.5	5.3	2.7	5.5	3.0	5.6
Memo:									
Total Demand	0.7	0.2	0.7	0.6	-0.1				
SAAR	2.9	0.6	3.0	2.4	-0.3				
% Change Year Ago	0.0	30.0	3.3	2.2	1.4	0.0	7.0	0.0	7.1
Compensation of Employee	0.5	0.5	1.1	-0.2	0.3				
% Change Year Ago	2.5	1.5	2.5	1.8	1.6	2.0	1.8	2.0	1.8

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	105.5	106.5	106.9	101.9	105.7	102.4	106.3
Private Consumption	106.0	107.2	107.6	108.1	108.3	105.0	107.8	105.7	108.0
Residential Investment	118.9	118.5	118.3	118.7	118.8	118.4	118.6	118.8	118.6
Nonresidential Investment	108.2	108.6	109.6	110.5	111.3	106.6	110.0	107.5	110.8
Government Consumption	102.8	102.9	102.8	103.2	103.2	102.0	103.0	102.4	103.1
Public Investment	113.5	113.8	114.8	115.4	115.5	111.9	114.9	112.9	115.0
Exports of Goods & Services	114.8	112.0	113.0	115.8	117.4	111.2	114.5	113.1	115.9
Imports of Goods & Services	134.8	127.8	123.8	122.9	123.5	128.8	124.5	131.7	124.1
Unit Profit	105.1	108.5	112.2	114.6	114.4	104.3	112.4	105.6	113.7
Unit Labor Cost	100.3	100.0	99.9	99.7	100.5	100.0	100.0	99.8	100.0
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	1.2	1.4	1.6	0.9	0.4				
	1.2	1.8	3.5	5.1	4.3	0.2	3.7	0.6	3.8
Private Consumption	0.8	1.1	0.3	0.5	0.2				
	3.5	3.0	2.8	2.8	2.1	2.8	2.7	3.0	2.1
Residential Investment	-0.2	-0.3	-0.2	0.3	0.1				
	3.4	1.5	-0.4	-0.4	-0.1	6.9	0.1	4.9	-0.2
Nonresidential Investment	0.9	0.3	1.0	0.8	0.7				
	4.4	3.7	3.3	3.0	2.8	4.1	3.2	4.1	3.1
Government Consumption	0.3	0.1	-0.1	0.4	0.0				
	1.8	1.5	1.5	0.7	0.4	1.4	1.0	1.4	0.7
Public Investment	0.7	0.3	0.9	0.5	0.1				
	4.4	3.5	3.0	2.4	1.7	4.7	2.6	4.5	1.9
Exports of Goods & Services	0.4	-2.5	0.9	2.5	1.4				
	13.7	7.4	1.7	1.2	2.2	14.1	3.0	13.2	2.5
Imports of Goods & Services	-0.9	-5.2	-3.2	-0.7	0.5				
	21.7	10.4	-3.4	-9.7	-8.4	27.1	-3.4	23.3	-5.8
Unit Profit	0.0	3.3	3.4	2.1	-0.1				
	0.0	8.1	6.6	11.2	8.9	-0.5	7.8	0.7	7.7
Unit Labor Cost	0.0	-0.3	-0.1	-0.2	0.8				
	0.0	14.1	0.7	-0.2	0.2	0.9	0.0	0.6	0.2