



# Japanese Economy Monthly Forecast

July 2020

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## Headlines

### ● Review of data released in July

▶ With the exception of data on private consumption, most official data required for a complete calculation of Q2 GDP have already been released. In June, many indicators recovered on a MoM basis from the slump seen in April and May. However, the Q2 averages remained substantially lower compared to the Q1 figures.

▶ The Industrial Production Index in June rose +2.7% MoM, the first increase in five months. However, as April and May had seen the two worst consecutive slumps since the index was introduced in January 2013, the Q2 figure was -16.7% lower than Q1, the first decline in two quarters.

▶ As the emergency state imposed in response to the Covid-19 outbreak was lifted towards the end of May, and some economic activities resumed, the revenues of large retailers in June climbed for the second month in a row (+13.1 MoM). However, on a quarterly basis, Q2 saw a decline of -7.5% relative to Q1.

▶ Data on total planned construction, capital goods shipments and inventories of final-demand goods in June have been released. This led to an upward revision in our forecasts concerning private investment, but to a downward one regarding inventories.

▶ According to the BOJ, real exports in June increased for the first time in four months. In contrast, real imports kept declining for the second consecutive month. On a QoQ basis, Q2 exports declined for the third quarter in a row, while imports increased for the first time in four quarters. The trade balance deteriorated significantly QoQ.

### ● 2020 Q2 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q2 is an annualized -28.7% QoQ. The production-side forecast figure is an annualized -22.1% QoQ. The average of the two is an annualized -25.4% (Figure 1).

▶ Even under the assumption that the recovery in household consumption in June accelerated from the previous month (statistics will be released on August 7<sup>th</sup>), the final forecast figure for real GDP growth in Q2 is likely to remain in the negative 20-30% range.

### ● 2020 Q2 inflation forecast update

▶ In June, the National Core Consumer Price Index (CPI) remained flat YoY. On a MoM basis there was a modest increase of +0.1%, the first one in five months. As a result, the overall Q2 CPI decreased -0.1% YoY and -0.6% QoQ.

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in 2020 Q2 are both -0.2% QoQ. However, as the terms of trade are improving, we forecast an overall GDP deflator of +1.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2020 (% , QoQ annualized growth)

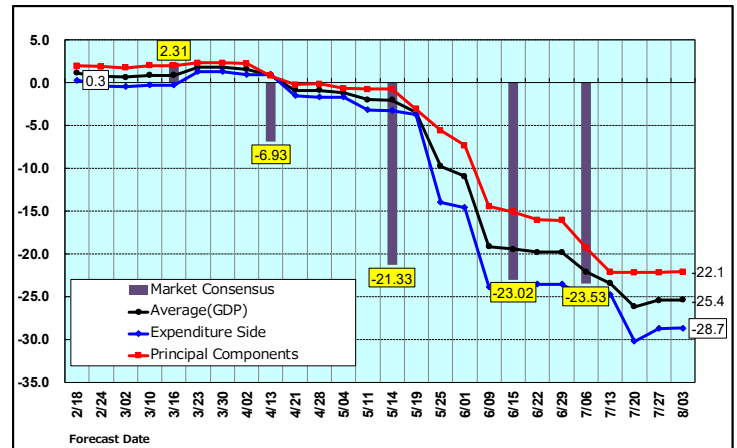
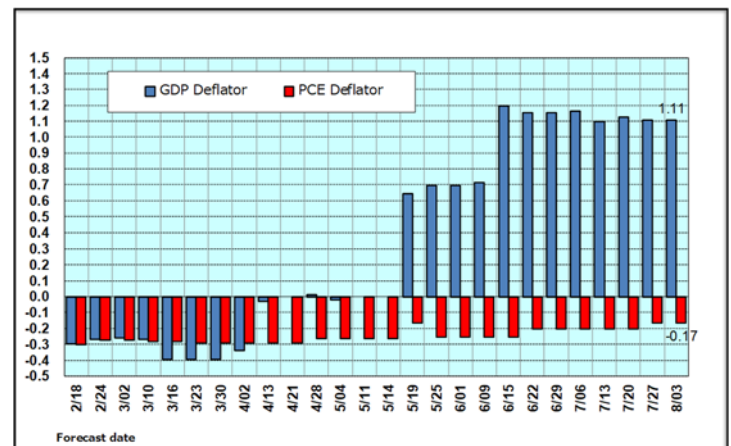


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2020 (% , QoQ growth)



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.

### Main Economic Indicators released in July

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
7/31	July	<b>Consumer Confidence Index (SA)</b>	29.5	+1.1	
	June	<b>Labor Force Survey</b>			
		Total employment (millions)	66.37	+0.08	
		Total unemployment (millions)	1.94	-0.03	
		Unemployment rate (%)	2.8%	-0.1%pt	
	June	<b>General Job Placement Situation</b>			
		Job offers-to-applicants ratio	1.11	-0.09pt	
	June	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>			
		Production	80.8	+2.7%	
		Shipments	80.8	+5.2%	
		Inventories	100.8	-2.4%	
	June	<b>New Housing Starts</b>			
		New housing starts (SA, Unit)	71,101	-2.1%	-12.8%
		Planned residential construction expenditure (billion JPY)	1,200.6	+7.3%	-12.9%
	May	<b>Construction Costs Deflator (2011=100)</b>			
		Housing construction	110.5		-0.4%
		Public works	112.4		-0.5%
7/30	June	<b>Current Survey of Commerce (preliminary figures)</b>			
		Retail trade (billion JPY)	11,295.0	+13.1%	-1.2%
	June	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>			
		Input price	91.9		-7.4%
		Output price	96.6		-3.2%
7/28	June	<b>Corporate Services Price Index (2015=100)</b>			
		Overall index	103.5		+0.8%
7/27	May	<b>Industrial Activity Indices (2010=100)</b>			
		All industries	89.0	-3.5%	
		Construction industry	105.3	-2.8%	
	May	<b>Index of Business Conditions (revised figures, 2015=100)</b>			
		Leading indicators	78.4	+0.7	
		Coincident indicators	73.4	-6.7	
		Lagging indicators	93.0	-4.5	
7/22	May	<b>Monthly Labor Statistics (final figures)</b>			
		Total cash salary per capita (JPY)	268,789		-2.3%
		Total working hours	121.9		-9.3%
7/21	June	<b>National Consumer Price Index (2015=100)</b>			
		Core index	101.6	+0.1%	0.0%
7/20	June	<b>Trade Statistics (customs clearance level)</b>			
		Trade balance (billion JPY)	-268.8	-27.6%	-856.9
		Exports (billion JPY)	4,862.0	+1.4%	-26.2%
		Imports (billion JPY)	5,130.9	-1.8%	-14.4%
7/17	May	<b>General Construction Statistics</b>			
		Private non-residential construction (billion JPY)	768.7		-7.8%
		Public works (billion JPY)	1,388.1		+7.6%
	May	<b>Synthetic Consumption Index (2011=100)</b>	91.9	+0.2%	

7/15	June	<b>Public Works Advanced Securities Statistics</b> Contract amount (billion JPY) Number of contracts	1,638.6 25,676		+13.2% +6.6%
7/14	May	<b>Indices of Industrial Production (final figures, 2015=100)</b> Production capacity index Capacity utilization ratio Production Shipments Inventory	97.7 70.6 78.7 76.8 103.3	-11.6% -8.9% -8.9% -2.6%	-0.2%
7/13	May	<b>Tertiary Industry Activity Index (2015=100)</b>	87.9	-2.1%	
7/10	June	<b>Domestic Corporate Price Index (2015=100)</b> Corporate Price Export Price Import Price	99.6 89.0 80.2	+0.6% +0.8% +0.9%	1.6% -4.1% -15.6%
7/9	May	<b>Private Core Machinery Orders (billion JPY)</b>	765.0	+1.7%	
	May	<b>Information Services Industry Sales (billion JPY)</b>	742.5		5.1%
7/8	June	<b>Economy Watchers Survey</b> Current Conditions Diffusion Index Future Conditions Diffusion Index	38.8 44.0	+23.3 +7.5	
	May	<b>Balance of Payments</b> Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	1,176.8 4,197.9 4,754.7	+225.3% -5.3% -12.6%	-27.9% -28.9% -27.7%
7/7	May	<b>Monthly Labor Statistics (preliminary figures)</b> Total cash salary per capita (JPY) Total working hours	269,341 122.3		-2.1% -9.0%
	May	<b>Index of Business Conditions (preliminary, 2015=100)</b> Leading indicators Coincident indicators Lagging indicators	79.3 74.6 94.0	+1.6 -5.5 -3.8	
	May	<b>Family Income and Expenditure Survey (households with 2 or more people)</b> Nominal consumption expenditure (JPY) Real consumption expenditure	252,017	-0.4% -0.1%	-16.2% -16.2%
	May	<b>Consumption Trend Index (2015=100)</b>	90.6	-1.4%	
	May	<b>Consumption Activity Index (2011=100)</b>	87.5	+1.3%	
7/2	June	<b>Food Buffer Stock (billion JPY)</b>	-12.8		-21.8
7/1	June	<b>New Car Sales (vehicles)</b>	283,892		-22.6%
	June	<b>Consumer Confidence Index (SA)</b>	28.4	+4.4	
	April	<b>Consumption Trend Index (2015=100)</b>	94.9	-1.3%	
	April	<b>Consumption Activity Index (2011=100)</b>	85.5	-9.2%	

### CQM Forecast 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
	2020Q1					2020Q2					2020Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/18	0.9	0.6	0.8	0.2	0.4	0.3	2.0	1.1	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
2/24	0.0	0.2	0.1	-0.1	0.1	-0.4	1.8	0.7	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
3/02	-0.6	0.0	-0.3	0.0	0.1	-0.5	1.7	0.6	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
3/09															
3/10	-1.4	0.2	-0.6	0.0	0.1	-0.3	2.0	0.9	-0.3	-0.3					
3/16	-1.4	0.2	-0.6	-0.1	0.1	-0.3	2.0	0.8	-0.4	-0.3					
3/23	3.1	1.9	2.5	-0.1	0.1	1.3	2.3	1.8	-0.4	-0.3					
3/30	3.6	1.9	2.8	-0.1	0.1	1.3	2.3	1.8	-0.4	-0.3					
4/02	-1.8	2.2	0.2	-0.1	0.1	0.9	2.2	1.6	-0.3	-0.3					
4/13	2.2	2.5	2.4	0.0	0.1	0.9	0.8	0.9	0.0	-0.3					
4/21	-2.8	2.3	-0.3	0.0	0.1	-1.5	-0.3	-0.9	0.0	-0.3					
4/27	-3.0	2.2	-0.4	0.0	0.1	-1.7	-0.2	-0.9	0.0	-0.3					
5/04	-2.7	0.3	-1.2	0.0	0.1	-1.7	-0.7	-1.2	0.0	-0.3					
5/11	-5.1	-1.7	-3.4	0.0	0.1	-3.2	-0.8	-2.0	0.0	-0.3					
5/14	-5.2	-1.7	-3.4	0.0	0.1	-3.3	-0.8	-2.0	0.0	-0.3					
5/18	<u>-3.4</u>			<u>0.1</u>	<u>-0.2</u>										
5/19						-3.8	-3.1	-3.4	0.6	-0.2	-0.2	-0.6	-0.4	-0.1	0.0
5/25						-14.0	-5.6	-9.8	0.7	-0.3	-1.7	-0.5	-1.1	-0.1	0.0
6/01						-14.6	-7.4	-11.0	0.7	-0.3	-1.9	0.9	-0.5	-0.1	0.0
6/08	<b>-2.2*</b>			<b>0.1*</b>	<b>-0.2*</b>										
6/09						-23.8	-14.5	-19.2	0.7	-0.3	-0.2	-0.2	-0.2	-0.1	0.0
6/15						-23.8	-15.1	-19.5	1.2	-0.3	-0.2	0.7	0.2	0.6	0.0
6/22						-23.6	-16.1	-19.8	1.2	-0.2	-1.5	0.3	-0.6	0.6	0.0
6/29						-23.5	-16.1	-19.8	1.2	-0.2	-1.5	0.3	-0.6	0.6	0.0
7/06						-25.0	-19.3	-22.1	1.2	-0.2	-2.0	-2.1	-2.1	0.6	0.0
7/13						-24.8	-22.2	-23.5	1.1	-0.2	-2.1	-2.4	-2.3	0.0	0.0
7/20						-30.2	-22.2	-26.2	1.1	-0.2	-2.9	-2.6	-2.7	0.0	0.0
7/27						-28.7	-22.2	-25.5	1.1	-0.2	0.2	-2.7	-1.3	0.0	0.0
8/03						-28.7	-22.1	-25.4	1.1	-0.2	0.4	-1.3	-0.4	0.0	0.0

Note: Underlined figures are 1st preliminary estimates, and figures marked by \* are 2nd preliminary estimates.