



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in August

▶ According to the first advance estimates released on August 17th, Japan's Q2 real GDP contracted an annualized -27.8% QoQ. Q2 was the third consecutive quarter of negative growth. The decline rate was similar to the latest market consensus forecast (-26.59%). Our latest CQM forecast was an annualized -22.6%, the average of the expenditure-side (-25.0%) and the production-side (-20.2%) forecasts.

▶ The Industrial Production Index in July rose +8.0% MoM, the second consecutive month in positive territory. As a result, production level in July was +5.9% higher than the Q2 average.

▶ July saw an accelerated decline in the revenues of large retailers, right after they had started recovering from the historic YoY slump in April. The seasonally adjusted figure was -3.3% lower than June, which was the first contraction in three months. July sales rose +5.4% relative to the Q2 average.

▶ July data on total planned construction, capital goods shipments and inventories of final-demand goods have been released. This update led to a downward revision in our forecasts concerning, real residential investment, private investment, and change in private inventories.

▶ According to the BOJ, real exports in July increased for the second month in a row, while real imports kept declining for the third consecutive month. Relative to the Q2 average, July exports were +6.4% higher, and imports were -7.5% lower. As a result, the trade balance improved significantly.

● 2020 Q3 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q3 is an annualized +12.1% QoQ. The production-side forecast figure is an annualized +15.2% QoQ. The average of the two is an annualized +13.6% (Figure 1).

● 2020 Q3 inflation forecast update

▶ In July, the National Consumer Price Index (CPI) increased +0.3% YoY, remaining in positive territory for 46 consecutive months. The growth rate accelerated from the previous month. Although energy prices declined for the sixth straight month (-4.5%), non-energy prices kept rising for 17 months in a row (+0.7%).

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in 2020 Q3 are +0.4% and +0.2% QoQ, respectively. However, as the terms of trade have deteriorated, we forecast an overall GDP deflator of +0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2020 (% , QoQ annualized growth)

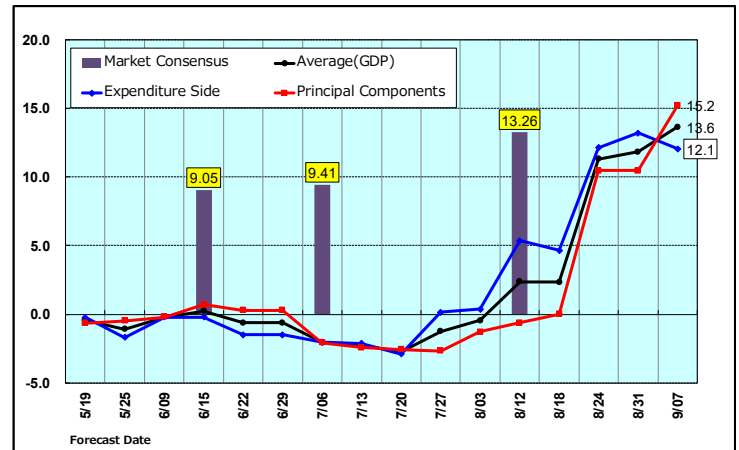
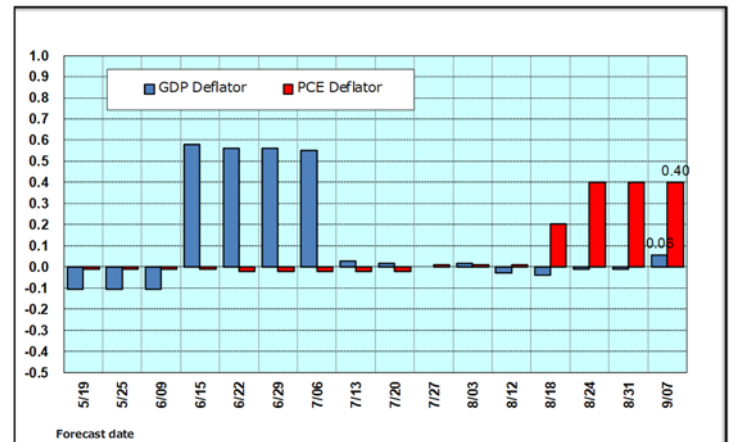


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2020 (% , QoQ growth)



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 August

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
9/3	August	New Car Sales (vehicles)	270,346		-14.8%
9/2	August	Food Buffer Stock (billion JPY)	-57.7		-8.1
8/31	July	Labor Force Survey			
		Total employment (millions)	66.48	+0.11	
		Total unemployment (millions)	1.96	+0.02	
		Unemployment rate (%)	2.9%	+0.1%pt	
	July	General Job Placement Situation			
		Job offers-to-applicants ratio	1.08	-0.03pt	
	July	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	86.6	+8.0%	
		Shipments	85.3	+6.0%	
		Inventories	99.2	-1.6%	
	July	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	12,436.0	-3.3%	-2.8%
	July	New Housing Starts			
		New housing starts (SA, Unit)	70,232	+4.8%	-11.4%
		Planned residential construction expenditure (billion JPY)	1,142.6	-3.0%	-15.3%
	June	Construction Costs Deflator (2011=100)			
		Housing construction	114.8		+1.8%
		Public works	116.9		+1.9%
	August	Consumer Confidence Index (SA)	29.3	-0.2	
8/28	August	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.4	-0.6%	-0.3%
	July	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	93.3		-5.0%
		Output price	97.2		-2.3%
8/27	June	Industrial Activity Indices (2010=100)			
		All industries	93.7	+6.1%	
		Construction industry	102.9	-2.2%	
	June	Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	84.4	+6.1	
		Coincident indicators	76.6	+3.7	
		Lagging indicators	93.4	+1.6	
8/26	July	Corporate Services Price Index (2015=100)			
		Overall index	104.0		+1.2%
8/25	June	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	443,111		-2.0%
		Total working hours	136.9		-4.0%
	June	Synthetic Consumption Index (2011=100)	97.6	+9.4%	
8/21	June	General Construction Statistics			
		Private non-residential construction (billion JPY)	777.2		-9.0%
		Public works (billion JPY)	1,522.4		+6.3%
	July	National Consumer Price Index (2015=100)			
		Core index	101.6	+0.1%	0.0%

8/19	June July	Private Core Machinery Orders (billion JPY) Trade Statistics (customs clearance level) Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	706.6 11.6 5,368.9 5,357.2	-7.6% -91.5% +4.7% -2.7%	+265.5 -19.2% -22.3%
8/17	June	Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory	97.6 75.0 80.2 80.5 100.8	+6.2% +1.9% +4.8% -2.4%	-0.1%
8/14	June	Tertiary Industry Activity Index (2015=100)	93.9	+7.9%	
8/13	July	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	100.2 89.6 81.5	+0.6% +0.8% +1.9%	-0.9% -3.2% -12.6%
8/11	July June	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	41.1 36.0 167.5 4,793.0 4,870.3	+2.3 -8.0 +27.8% +2.6% -3.8%	-86.6% -25.7% -14.4%
8/7	June June June June June June	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2015=100) Consumption Activity Index (2011=100) Information Services Industry Sales (billion JPY)	443,875 136.8 85.0 76.4 93.3 273,699 94.1 91.8 1,103.4	-1.7% -4.1% +6.7 +3.5 +0.8 +13.2% +13.0% +4.9% +8.6%	-1.1% -1.2% -0.6%
8/4	July July	Food Buffer Stock (billion JPY) Tokyo Region Consumer Price Index (2015=100) Core	-14.4 101.8	+0.3%	-7.1 +0.4%
8/3	July	New Car Sales (vehicles)	330,771		-12.8%

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
	2020Q2					2020Q3					2020Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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															
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					
8/12	-25.0	-20.2	-22.6	1.1	-0.2	5.4	-0.6	2.4	0.0	0.0					
8/17	<u>-27.8</u>			<u>0.5</u>	<u>-0.2</u>										
8/18						4.7	0.0	2.3	0.0	0.2	0.8	-3.1	-1.2	0.0	0.0
8/24						12.1	10.5	11.3	0.0	0.4	1.0	-3.2	-1.1	0.0	-0.1
8/31						13.2	10.5	11.8	0.0	0.4	0.5	-3.2	-1.4	0.0	-0.1
9/07						12.1	15.2	13.6	0.1	0.4	0.2	-2.9	-1.3	0.0	-0.1

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