



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in September

▶ Although statistics on household consumption are not available yet, about two-thirds of official data required for a complete calculation of Q3 GDP have been released as of October 2nd. This forecast incorporates the latest data.

▶ The Industrial Production Index in August rose +1.7% MoM, the third consecutive month in positive territory. As a result, the July-August average was +7.6% higher than the Q2 average. The Ministry of Economy, Trade and Industry (METI) made an upward revision in its assessment.

▶ The revenues of large retailers in August declined for the sixth month in a row on a YoY basis (-1.9%). However, the decline rate slowed down from the previous month. The seasonally adjusted figure was +4.6% MoM, the first positive change in two months. METI revised its assessment up from the previous month.

▶ August statistics on total planned construction, capital goods shipments and inventories of final-demand goods have been released. This update led to an upward revision in our forecasts concerning real private residential investment and changes in private inventories, but to a downward one in real private capital investment.

▶ Real exports seem to have bottomed out, as August was the third consecutive month of positive growth, according to BOJ. The July-August average was +10.1% higher than the Q2 average. In contrast, real imports kept declining for the fourth consecutive month, with the July-August average being -8.5% lower than the Q2 average. As a result, Japan's net exports improved substantially QoQ.

● 2020 Q3 real GDP growth forecast update

▶ Reflecting the latest official data, our expenditure-side forecast for real GDP growth in Q3 is an annualized +7.8% QoQ. The production-side forecast figure is an annualized +17.1% QoQ. The average of the two is an annualized +12.4% (Figure 1). The expenditure-side forecast is likely to be revised upwards once indices related to private consumption in August are released.

● 2020 Q3 inflation forecast update

▶ The Q3 Tokyo Consumer Price Index (CPI) inched up +0.1% QoQ, increasing for the second quarter in a row.

▶ Our latest CQM forecasts for the Q3 private final consumption expenditure deflator and the domestic demand deflator are respectively +0.3% and +0.2% QoQ, resulting in an overall PCE deflator of +0.3%. In contrast, we forecast a GDP deflator of -0.1% QoQ, as the terms of trade have deteriorated (Figure 2).

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

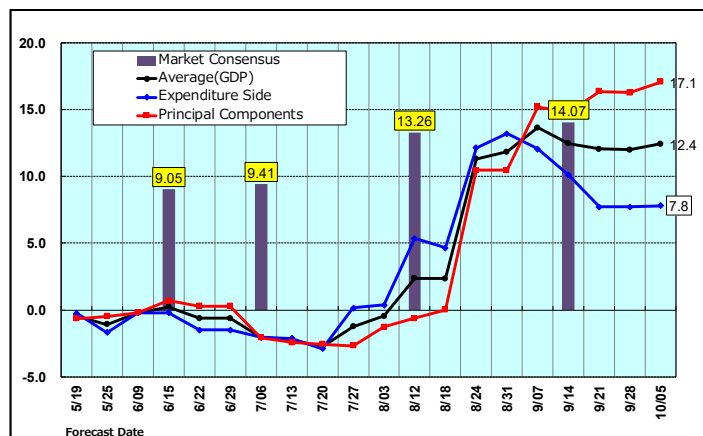
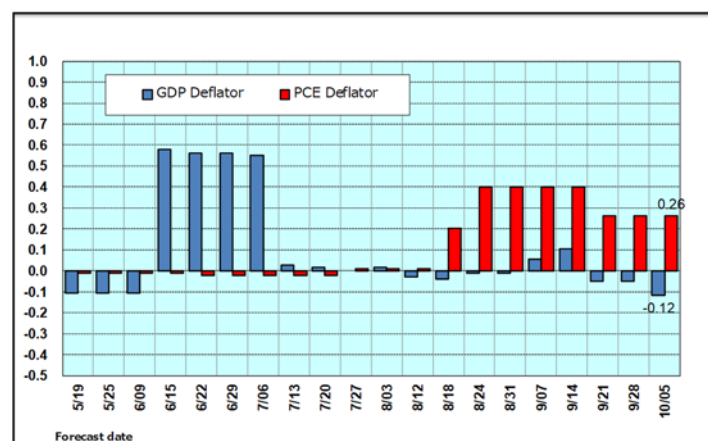


Fig 2 CQM Forecast: Inflation
Jul-Sep (Q3) 2020 (% , QoQ growth)



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 September

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
10/2	September	Food Buffer Stock (billion JPY)	+24.2		+9.1
	August	Labor Force Survey			
		Total employment (millions)	66.59	+0.11	
		Total unemployment (millions)	2.05	+0.09	
		Unemployment rate (%)	3.0%	+0.1%pt	
	August	General Job Placement Situation			
		Job offers-to-applicants ratio	1.04	-0.04pt	
	September	Consumer Confidence Index (SA)	32.7	+3.4	
10/1	September	New Car Sales (vehicles)	390,847		-14.8%
9/30	August	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	88.7	+1.7%	
		Shipments	87.6	+2.1%	
		Inventories	97.9	-1.4%	
	August	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	12,419.0	+4.6%	-1.9%
	August	New Housing Starts			
		New housing starts (SA, Unit)	69,101	-1.0%	-9.1%
		Planned residential construction expenditure (billion JPY)	1,168.9	+5.4%	-22.6%
		Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	86.7	+2.9	
		Coincident indicators	78.3	+3.9	
		Lagging indicators	92.4	-0.8	
		Construction Costs Deflator (2011=100)			
		Housing construction	111.5		-0.4%
		Public works	113.8		-0.1%
9/29	September	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.3	0.0%	-0.2%
	August	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	94.0		-4.0%
		Output price	97.5		-1.6%
9/25	July	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	368,756		-1.5%
		Total working hours	140.2		-2.7%
	August	Corporate Services Price Index (2015=100)			
		Overall index	103.8		+1.0%
9/23	July	Industrial Activity Indices (2010=100)			
		All industries	95.1	+1.3%	
		Construction industry	103.8	+0.5%	
9/18	July	Synthetic Consumption Index (2011=100)	94.0	-4.1%	
	August	National Consumer Price Index (2015=100)			
		Core index	101.3	-0.4%	-0.4%
9/17	July	General Construction Statistics			
		Private non-residential construction (billion JPY)	796.4		-9.8%
		Public works (billion JPY)	1,594.0		+6.6%

	August	Trade Statistics (customs clearance level) Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	248.3 5,232.7 4,984.4	+749.8% +5.9% +0.1%	+400.5 -14.8% -20.8%
9/15	August	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	1,300.9 22,661		+13.2% +0.7%
9/14	July	Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory	97.4 82.2 87.2 85.8 99.3		-0.4% +9.6% +8.7% +6.6% -1.5%
	July	Tertiary Industry Activity Index (2015=100)	93.7	-0.5%	
9/11	August	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	100.4 90.0 82.5	+0.2% +0.4% +1.2%	-0.9% -1.5% -10.9%
9/10	July	Private Core Machinery Orders (billion JPY)	715.3	+6.3%	
9/8	July	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours	369,551 140.6		-1.3% -2.4%
	July	Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure	266,897	-6.1% -6.5%	-7.3% -7.6%
	July	Consumption Trend Index (2015=100)	97.2	+2.4%	
	July	Consumption Activity Index (2011=100)	92.9	-2.4%	
	July	Information Services Industry Sales (billion JPY)	819.1		+1.2%
	August	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index	43.9 42.4	+2.8 +6.4	
	July	Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	1,468.3 5,229.4 5,092.2	-8.1% +7.6% +1.6%	-27.4% -19.6% -22.6%
9/7	July	Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators	86.9 76.2 91.9	+3.1 +1.8 -1.3	

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
9/08	-28.1*			0.3*	-0.2*										
9/14						10.1	14.8	12.5	0.1	0.4	-0.1	-2.8	-1.5	-0.1	-0.1
9/21						7.7	16.4	12.0	0.0	0.3	2.9	-2.6	0.1	-0.2	-0.1
9/28						7.7	16.3	12.0	0.0	0.3	2.9	-2.6	0.1	-0.2	-0.1
10/05						7.8	17.1	12.4	-0.1	0.3	2.5	-2.6	-0.1	-0.1	-0.1

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