Japanese Economy Monthly Forecast

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Headlines

● Review of data released in December

▶ This forecast reflects data released by December 28, 2020, including the government's second advance GDP estimate for 2020 Q3.

▶ With the release of the second advance GDP estimate, the base year in the national accounts (SNA) was updated. As a result of that change, the average annual nominal GDP in FY 1994-2019 was revised up by JPY 7.7 trillion, or about 1.5%. However, real GDP in FY 2019 declined for the first time in five years (-0.3% YoY).

▶ Comparing October with the Q3 average, consumption-related indicators (the Synthetic Consumption Index, the Consumption Trend Index and the Consumption Activity Index) all improved. However, the improvement has decelerated from Q3, and it is expected to slow down further as Covid-19 infections are on the rise.

▶ November data on total planned construction, capital goods shipments and inventories of final-demand goods have been released. As a result, we have made upward revisions in our forecasts for real private residential investment and changes in private inventories, but a downward revision in our forecast for real private capital investment.

▶ According to the Bank of Japan, real exports in November increased for the sixth month in a row (+3.7% MoM). Real imports increased for the third consecutive month (+2.7% MoM). Compared to the Q3 average, real exports and imports in October-November increased respectively +12.4% and +5.9%. Although net exports made a positive contribution to growth in October-November, their contribution in Q4 is likely to be smaller than that in Q3.

● 2020 Q4 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2020 Q4 is an annualized +11.7% QoQ. The production-side forecast figure is an annualized +6.7% QoQ. The average of the two is an annualized +9.2% (Figure 1). Although our forecast is higher than the market consensus, it is likely to be revised downwards as Covid-19 infections are on the rise, and household consumption is flagging.

● 2020 Q4 inflation forecast update

▶ In November, the national Consumer Price Index (CPI) decreased -0.9% YoY. It the fourth consecutive month of decline on a YoY basis, and the second one on a MoM basis (-0.1%, seasonally adjusted).

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2020 Q4 are respectively -0.6% and -0.2% QoQ. As the terms of trade have improved somewhat, we forecast a GDP deflator of -0.4% QoQ (Figure 2).

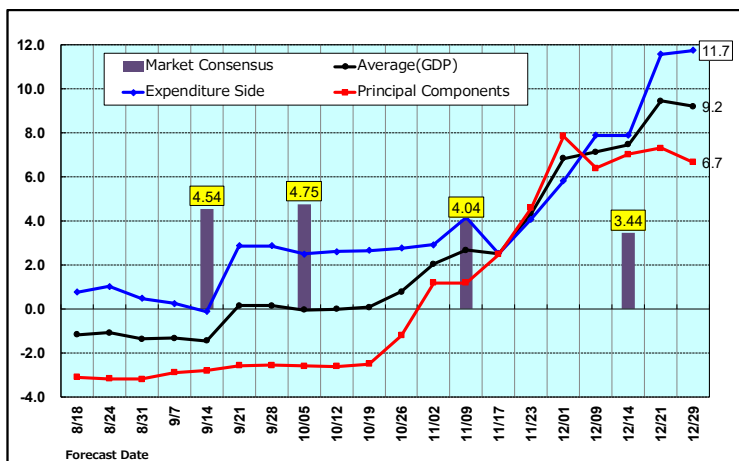### Fig 1 CQM Forecast: Real GDP growth rate Oct-Dec (Q4) 2020 (%, QoQ annualized growth)

Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2020 (%, QoQ growth)
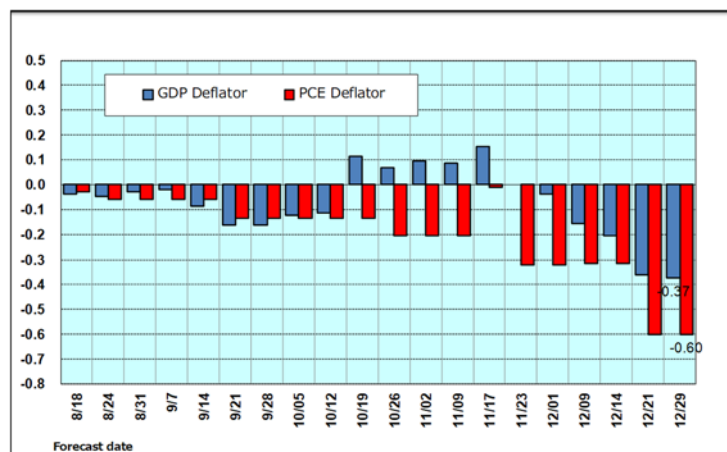
We used the Current Quarter Model (CQM) methodology developed by Professor Emeritus L. R. Klein to create two forecasting models for the Japanese economy: a demand-side model and a production-side (principal component analysis) model. We refer to the forecasts by the former model as the main series, 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 (latest)

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
12/28	November	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	95.2	0.0%	
		Shipments	94.0	-0.9%	
		Inventories	94.6	-1.1%	
	November	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	94.0		-3.9%
		Output price	97.5		-1.8%
12/25	November	**Labor Force Survey**			
		Total employment (millions)	67.01	+0.43	
		Total unemployment (millions)	1.98	+0.16	
		Unemployment rate (%)	2.9%	-0.2%pt	
	November	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.06	+0.02pt	
	November	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	12,570.0	-2.0%	+0.7%
	November	**New Housing Starts**			
		New housing starts (SA, Unit)	70,798	+2.3%	-3.7%
		Planned residential construction expenditure (billon JPY)	1,153.3	-1.5%	-6.2%
	October	**Construction Costs Deflator (2011=100)**			
		Housing construction	111.6		-1.1%
		Public works	113.9		-1.0%
	December	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	101.1	-0.1%	-0.9%
12/24	November	**Corporate Services Price Index (2015=100)**			
		Overall index	104.4		-0.6%
12/23	October	**Index of Business Conditions (revised figures, 2015=100)**			
		Leading indicators	94.3	+1.0	
		Coincident indicators	89.4	+4.6	
		Lagging indicators	91.2	-0.5	
12/22	October	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	270,381		-0.7%
		Total working hours	141.1		+0.3%
12/18	October	**Synthetic Consumption Index (2011=100)**	96.8	+2.1%	
	November	**National Consumer Price Index (2015=100)**			
		Core index	101.2	-0.1%	-0.9%
12/17	October	**General Construction Statistics**			
		Private non-residential construction (billion JPY)	835.5		-10.7%
		Public works (billion JPY)	2,129.5		+6.2%
12/16	November	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	366.8	+57.5%	+455.2
		Exports (billion JPY)	6,113.6	-0.3%	-4.2%
		Imports (billion JPY)	5,746.9	-4.0%	-11.1%

Date	Month	Item	Value		
12/15	November	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	881.4		-3.3%
		Number of contracts	20,329		-6.3%
12/14	October	**Indices of Industrial Production (final figures, 2015=100)**			
		Production capacity index	97.3		-0.9%
		Capacity utilization ratio	95.4	+6.0%	
		Production	95.2	+4.0%	
		Shipments	94.9	+4.9%	
		Inventory	95.7	-1.8%	
	October	**Tertiary Industry Activity Index (2015=100)**	98.3	+1.0%	
	October	**Industrial Activity Index (2015=100)**	97.6	+1.7%	
12/10	November	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	99.9	0.0%	-2.2%
		Export Price	90.1	0.0%	-2.1%
		Import Price	82.7	+0.5%	-10.6%
12/9	October	**Private Core Machinery Orders (billion JPY)**	842.5	+17.1%	
	October	**Information Services Industry Sales (billion JPY)**	817.9		-1.2%
12/8	October	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	270,095		-0.8%
		Total working hours	140.9		+0.2%
	October	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	283,508	+1.9%	+1.4%
		Real consumption expenditure		+2.1%	+1.9%
	October	**Consumption Trend Index (2015=100)**	96.0	+1.1%	
	November	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	45.6	-8.9	
		Future Conditions Diffusion Index	36.5	-12.6	
	October	**Balance of Payments**			
		Current account (billion JPY)	2,144.7	+47.4%	+15.7%
		Exports (billion JPY)	6,319.8	+2.3%	-3.2%
		Imports (billion JPY)	5,348.8	+3.1%	-15.2%
12/7	October	**Consumption Activity Index (2011=100)**	97.8	+0.9%	
	October	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicators	93.8	+0.5	
		Coincident indicators	89.7	+4.9	
		Lagging indicators	89.9	-1.8	
12/2	November	**Food Buffer Stock (billion JPY)**	+29.4		+11.8
	November	**New Car Sales (vehicles)**	336,908		+6.7%
	November	**Consumer Confidence Index (SA)**	33.7	+0.1	

CQM Forecast: GDP Tracking

| Forecast date | Real GDP 2020Q3 | | | Deflator 2020Q3 | | Real GDP 2020Q4 | | | Deflator 2020Q4 | | Real GDP 2021Q1 | | | Deflator 2021Q1 | |
| | Expenditure side | Production side (PCA) | Average | GDP | PCE | Expenditure side | Production side (PCA) | Average | GDP | PCE | Expenditure side | Production side (PCA) | Average | GDP | PCE |
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/19	-0.2	-0.6	-0.4	-0.1	0.0										
5/25	-1.7	-0.5	-1.1	-0.1	0.0										
6/01	-1.9	0.9	-0.5	-0.1	0.0										
6/08															
6/09	-0.2	-0.2	-0.2	-0.1	0.0										
6/15	-0.2	0.7	0.2	0.6	0.0										
6/22	-1.5	0.3	-0.6	0.6	0.0										
6/29	-1.5	0.3	-0.6	0.6	0.0										
7/06	-2.0	-2.1	-2.1	0.6	0.0										
7/13	-2.1	-2.4	-2.3	0.0	0.0										
7/20	-2.9	-2.6	-2.7	0.0	0.0										
7/27	0.2	-2.7	-1.3	0.0	0.0										
8/03	0.4	-1.3	-0.4	0.0	0.0										
8/12	5.4	-0.6	2.4	0.0	0.0										
8/17															
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															
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					
10/12	12.9	17.8	15.4	-0.2	0.3	2.6	-2.6	0.0	-0.1	-0.1					
10/19	12.9	17.7	15.3	-0.1	0.3	2.7	-2.5	0.1	0.1	-0.1					
10/26	17.2	18.8	18.0	-0.2	0.2	2.8	-1.2	0.8	0.1	-0.2					
11/02	17.8	20.1	18.9	-0.2	0.2	2.9	1.2	2.0	0.1	-0.2					
11/09	20.3	21.4	20.9	-0.2	0.2	4.2	1.2	2.7	0.1	-0.2					
11/16	21.4			0.3	0.1	0.0	0.0	0.0	0.0	0.0					
11/17						2.5	2.5	2.5	0.2	0.0	1.7	3.9	2.8	-0.1	-0.1
11/23						4.1	4.6	4.3	0.0	-0.3	2.3	3.7	3.0	-0.1	-0.1
12/01						5.8	7.8	6.8	0.0	-0.3	1.8	3.4	2.6	-0.1	-0.1
12/08	*22.9**			*0.2**	*0.3**										
12/09						7.9	6.4	7.1	-0.2	-0.3	1.5	1.6	1.6	-0.1	-0.1
12/14						7.9	7.0	7.5	-0.2	-0.3	1.5	1.5	1.5	-0.2	-0.1
12/21						11.6	7.3	9.4	-0.4	-0.6	1.5	1.8	1.7	-0.3	-0.2
12/29						11.7	6.7	9.2	-0.4	-0.6	1.5	1.6	1.5	-0.3	-0.2

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