



Japanese Economy Monthly Forecast

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Yoshihisa Inada
Head of the Center for Quantitative Economic Analysis, APIR
e-mail: inada-y@apir.or.jp

Headlines

● Review of data released in January

▶ This forecast reflects data released by January 29. Official monthly data for 2020 Q3 is now available for all basic economic indicators, except household consumption.

▶ The index of industrial production deteriorated for the second month in a row in December. It bounced back to its March level in October, but recovery has since remained sluggish. As a result, Q4 was the second consecutive quarter of positive albeit decelerating QoQ growth.

▶ Comparing the October-November average 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.

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

▶ According to the Bank of Japan, real exports in December declined for the first time in seven months (-1.1% MoM), and real imports shrank for the first time in four (-0.7% MoM). Relative to Q3, real exports in Q4 expanded +12.7%, marking the second quarter of positive growth, and real imports in Q4 rose by +6.1%, expanding for the first time in two quarters. Although the contribution of net exports to growth remained positive, it was 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 +12.8% QoQ. The production-side forecast figure is an annualized +7.5% QoQ. The average of the two is an annualized +10.2% (Figure 1). Although our forecast is higher than the market consensus in December, a revision is possible, contingent on the effect of resurging Covid-19 infections on household consumption indicators, which have not been released yet.

● 2020 Q4 inflation forecast update

▶ The national Consumer Price Index (CPI) declined -0.9% YoY in 2020 Q4. The QoQ change was -0.3%. In terms of both figures, Q4 was the third consecutive quarter in negative territory.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2020 Q4 are respectively -0.7% and -0.2% QoQ. As the terms of trade are deteriorating, 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)

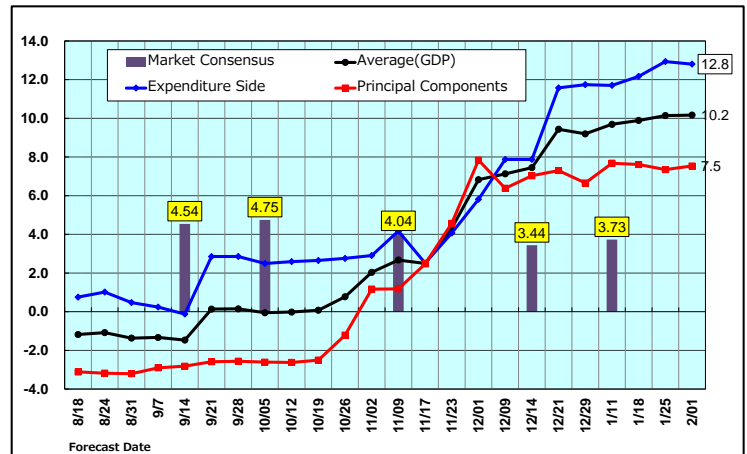
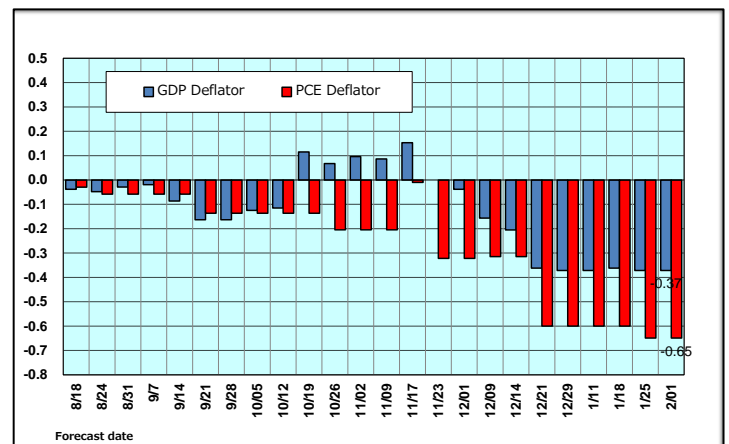


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2020 (% , QoQ growth)



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
1/29	December	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	93.2	-1.6%	
		Shipments	92.3	-1.6%	
	December	Inventories	95.3	+1.1%	
		Labor Force Survey			
		Total employment (millions)	66.95	-0.06	
	December	Total unemployment (millions)	2.04	+0.06	
		Unemployment rate (%)	2.9%	0.0%pt	
		General Job Placement Situation			
	December	Job offers-to-applicants ratio	1.06	0.0%pt	
		New Housing Starts			
	December	New housing starts (SA, Unit)	65,643	-4.2%	-9.0%
		Planned residential construction expenditure (billion JPY)	1,094.5	+0.6%	-8.2%
January	Consumer Confidence Index (SA)	29.6	-2.2		
November	Construction Costs Deflator (2011=100)				
	Housing construction	111.5		-1.1%	
	Public works	113.9		-1.0%	
January	Tokyo Region Consumer Price Index (2015=100)				
	Core	101.2	+0.6%	-0.4%	
1/28	December	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	14,434.0	-0.8%	-0.3%
	December	Manufacturing Industry Input-Output Price Index (2011=100)			
1/27	November	Input price	94.8		-3.6%
		Output price	98.0		-1.5%
Index of Business Conditions (revised figures, 2015=100)					
1/26	November	Leading indicators	96.4	+2.1	
		Coincident indicators	89.0	-0.4	
	Lagging indicators	91.0	-0.4		
1/26	November	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	280,460		-1.8%
	December	Total working hours	138.1		-2.7%
1/22	December	Corporate Services Price Index (2015=100)			
		Overall index	104.6		-0.4%
1/22	December	National Consumer Price Index (2015=100)			
		Core index	101.1	0.0%	-1.0%
1/21	December	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	751.0	-13.2%	+910.2
		Exports (billion JPY)	6,706.2	-0.1%	+2.0%
1/20	November	Imports (billion JPY)	5,955.2	+1.3%	-11.6%
		General Construction Statistics			
		Private non-residential construction (billion JPY)	834.0		-9.7%
		Public works (billion JPY)	2,211.5		+6.0%

1/19	November	Synthetic Consumption Index (2011=100)	96.8	-0.1%	
1/18	November	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	97.3		-1.0%
		Capacity utilization ratio	92.6	-2.9%	
		Production	94.7	-0.5%	
		Shipments	93.8	-1.2%	
		Inventory	94.3	-1.5%	
1/15	November	Tertiary Industry Activity Index (2015=100)	98.2	-0.7%	
	November	Industrial Activity Index (2015=100)	97.5	-0.6%	
	December	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	734.5		-8.6%
		Number of contracts	17,393		-5.6%
1/14	November	Private Core Machinery Orders (billion JPY)	854.8	+1.5%	
	December	Domestic Corporate Price Index (2015=100)			
		Corporate Price	100.3	+0.5%	-2.0%
		Export Price	90.8	+0.8%	-1.3%
		Import Price	84.3	+1.9%	-9.8%
1/13	November	Information Services Industry Sales (billion JPY)	828.0		-1.3%
1/12	December	Economy Watchers Survey			
		Current Conditions Diffusion Index	35.5	-10.1	
		Future Conditions Diffusion Index	37.1	+0.6	
	November	Balance of Payments			
		Current account (billion JPY)	1,878.4	+18.0%	+29.0%
		Exports (billion JPY)	6,039.1	+4.3%	-3.4%
		Imports (billion JPY)	5,423.0	+0.3%	-13.6%
1/8	November	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	96.6	+2.3	
		Coincident indicators	89.1	-0.3	
		Lagging indicators	89.8	-1.4	
	November	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	278,718	-2.5%	-0.0%
		Real consumption expenditure		-1.8%	+1.1%
	November	Consumption Trend Index (2015=100)	96.3	-0.4%	
	November	Consumption Activity Index (2011=100)	98.3	+0.6%	
1/7	November	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	279,095		-2.2%
		Total working hours	138.4		-2.5%
1/6	December	Consumer Confidence Index (SA)	31.8	-1.9	
1/5	December	Food Buffer Stock (billion JPY)	+60.6		-21.6
	December	New Car Sales (vehicles)	315,200		+10.9%

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
	2020Q3					2020Q4					2021Q1				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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
1/11						11.7	7.7	9.7	-0.4	-0.6	1.5	1.8	1.6	-0.3	-0.2
1/18						12.2	7.6	9.9	-0.4	-0.6	1.6	1.9	1.7	-0.2	-0.2
1/25						12.9	7.4	10.1	-0.4	-0.6	0.5	2.1	1.3	-0.3	-0.3
2/01						12.8	7.5	10.2	-0.4	-0.6	0.6	0.8	0.7	-0.3	-0.3

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