



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in February

▶ This forecast reflects data released by February 28 as well as the first advance GDP estimates for 2020 Q4. Official monthly data for January 2021 is now available for all basic economic indicators, except employment and household consumption.

▶ According to the first advance estimates, Japan's real GDP expanded an annualized +12.7% QoQ in 2020 Q4, marking the second quarter of positive and double-digit growth. The figure was higher than the market consensus, but APIR's final CQM forecast was in the bull's eye.

▶ The index of industrial production in January rose +4.2% from the previous month, marking the first increase in three months. It was +3.3% higher than the 2020 Q4 average.

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

▶ According to the Bank of Japan, both real exports and imports in January rose for the first time in two months, by +3.3% MoM and +3.0% MoM, respectively. Relative to the 2020 Q4 average, real exports expanded +3.9%, and real imports by a tad less: +3.2%. As a result, the contribution of net exports to growth remained positive.

● 2021 Q1 real GDP growth forecast update

▶ Reflecting the latest data updates, our forecast for real GDP growth (expenditure side) in 2021 Q1 is an annualized -1.8% QoQ. Both our expenditure-side and production-side forecasts are higher than the February market consensus (Figure 1). However, a revision is possible, contingent on the effect of resurging Covid-19 infections on household consumption indicators for January, which have not been released yet.

● 2021 Q1 inflation forecast update

▶ The national Consumer Price Index (CPI) in January declined by -0.6% YoY, marking the fourth consecutive month in negative territory. However, the seasonally adjusted figure was +0.6%, the first increase in six months.

▶ Our CQM forecast for the private final consumption expenditure deflator, which reflects energy prices and accommodation rates, is +0.3% QoQ. The domestic demand deflator forecast figure is +0.2% QoQ. However, as the terms of trade are deteriorating, our forecast for the 2021 Q1 GDP deflator is -0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Feb (Q1) 2021 (% , QoQ annualized growth)

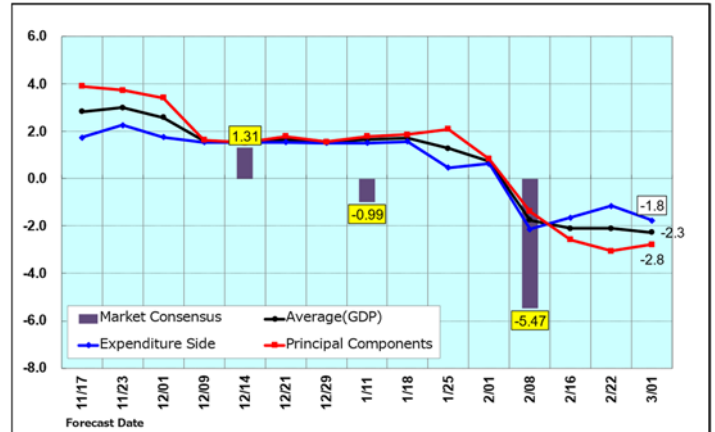
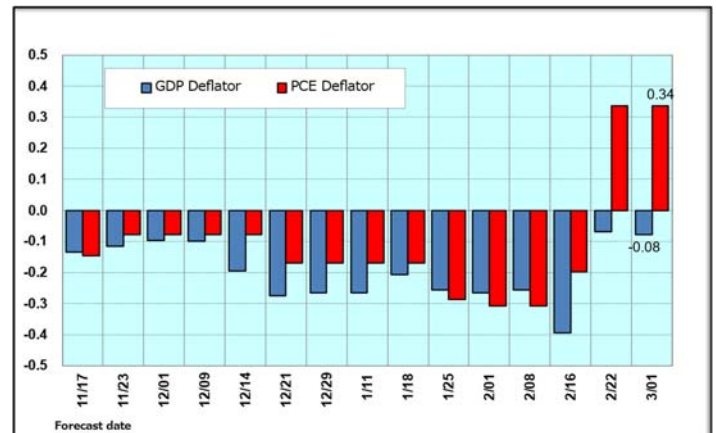


Fig 2 CQM Forecast: Inflation Jan-Feb (Q1) 2021 (% , QoQ growth)



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	
2/26	January	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	97.7	+4.2%		
		Shipments	95.8	+3.2%		
			Inventories	95.1	-0.2%	
	January	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	12,097.0	-0.5%	-2.4%	
	January	New Housing Starts				
		New housing starts (SA, Unit)	58,448	+2.2%	-3.1%	
		Planned residential construction expenditure (billion JPY)	1,000.2	+4.8%	+1.6%	
	December	Construction Costs Deflator (2011=100)				
	Housing construction	114.9		-1.0%		
	Public works	117.1		-1.2%		
February	Tokyo Region Consumer Price Index (2015=100)					
	Core	101.4	0.0%	-0.3%		
2/25	December	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	95.3	-0.8		
		Coincident indicators	88.3	-0.7		
		Lagging indicators	90.8	0.0		
	January	Manufacturing Industry Input-Output Price Index (2011=100)				
	Input price	95.9		-2.7%		
	Output price	98.6		-1.0%		
2/24	December	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	547,612		-3.0%	
		Total working hours	136.9		-2.5%	
2/22	January	Corporate Services Price Index (2015=100)				
		Overall index	104.1		-0.5%	
2/19	January	National Consumer Price Index (2015=100)				
		Core index	101.4	+0.5%	-0.6%	
2/17	December	Synthetic Consumption Index (2015=100)	94.2	-2.4%		
		General Construction Statistics				
		Private non-residential construction (billion JPY)	821.2		-9.6%	
		Public works (billion JPY)	2,298.6		+7.6%	
	January	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-323.9	-23.3%	-75.4%	
	Exports (billion JPY)	5,779.8	+4.4%	+6.4%		
	Imports (billion JPY)	6,103.7	+6.9%	-9.5%		
2/16	December	Tertiary Industry Activity Index (2015=100)	97.8	-0.4%		
	December	Industrial Activity Index (2015=100)	96.9	-0.5%		
2/15	December	Indices of Industrial Production (final figures, 2015=100)				
		Production capacity index	97.3		-0.9%	
		Capacity utilization ratio	93.3	+0.8%		
	Production	93.8	-1.0%			

	January	Shipments Inventory Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	92.8 95.3 632.8 11,226	-1.1% +1.1%	
2/10	January	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	100.7 91.5 86.3	+0.4% +0.9% +2.3%	-1.6% -1.0% -8.2%
2/9	December	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours	546,607 137.0		-3.2% -2.4%
2/8	December January December	Information Services Industry Sales (billion JPY) Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	1,187.1 31.2 39.9 1,165.6 6,561.5 5,596.4	-3.1 +3.8 -2.6% -2.0% +0.1%	-3.0% +113.9% +0.3% -13.5%
2/5	December December December December	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)	94.9 87.8 91.7 315,007 96.1 98.0	-1.2 -1.2 +0.7 +0.8% +0.9% -0.2% -0.6%	-2.0% -0.6%
2/2	January	Food Buffer Stock (billion JPY)	+7.6		-4.4
2/1	January	New Car Sales (vehicles)	324,546		+7.8%
1/29	December December January	Labor Force Survey Total employment (millions) Total unemployment (millions) Unemployment rate (%) General Job Placement Situation Job offers-to-applicants ratio Consumer Confidence Index (SA)	66.95 2.04 2.9% 1.06 29.6	-0.06 +0.06 0.0%pt 0.0%pt -2.2	

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
	2020Q4					2021Q1					2021Q2				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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															
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					
2/09	11.9	7.0	9.5	-0.4	-0.6	-2.1	-1.4	-1.8	-0.3	-0.3					
2/15	<u>12.7</u>			<u>-0.5</u>	<u>-0.4</u>										
2/16						-1.6	-2.6	-2.1	-0.4	-0.2	0.2	0.0	0.1	-0.5	-0.2
2/22						-1.2	-3.1	-2.1	-0.1	0.3	0.8	0.1	0.5	-0.5	-0.2
3/01						-1.8	-2.8	-2.3	-0.1	0.3	1.4	-0.5	0.5	-0.5	-0.2

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