



Japanese Economy Monthly Forecast

July 2021

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Headlines

● Review of data released in July

▶ This forecast reflects data released by June 30. Apart from statistics on household consumption, most official data required for a complete calculation of 2021 Q2 GDP have already been released.

▶ The Index of Industrial Production rose 6.2% MoM in June, marking the first increase in two months. This trend reflects a substantial expansion in automobile production. The Q2 figure increased by +1.0% QoQ, registering the fourth consecutive quarter of positive growth.

▶ In May, the Synthetic Consumption Index declined for the second consecutive month, down -1.9% from the previous month. As a result, the April-May average rose only slightly (+ 0.1%) compared to the Q1 average. Judging from human mobility data, the June figure is expected to be negative, suggesting a likely QoQ decline in Q2.

▶ Planned construction expenditure in Q2 increased for the second consecutive quarter, up +1.7% from the previous quarter. In the same period, capital goods shipments rose for the third quarter in a row (+5.2%). Based on these trends, private-sector housing and private-sector investment are likely to have increased in Q2.

▶ Public works in May declined for the second month in a row, down -0.9% from April. Consequently, it is very likely that public fixed capital formation declined in Q2.

▶ According to the Bank of Japan, in Q2, real exports increased +3.5% QoQ, marking for the fourth consecutive quarter of expansion. Real imports increased +3.8% QoQ, logging the third consecutive quarter of positive growth. The contribution of net exports to GDP growth in Q2 was almost zero.

● 2021 Q2 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2021 Q2 is an annualized -0.0% QoQ. The production-side forecast figure is an annualized +0.8% QoQ. The average of the two is an annualized +0.4% (Figure 1). We conclude Japan's real GDP remained largely unchanged in Q2.

● 2021 Q2 inflation forecast update

▶ In 2021 Q2, the national Consumer Price Index (CPI) decreased -0.1% YoY, marking the third consecutive quarter of CPI deflation. On a QoQ basis, however, Q2 was the second straight quarter of CPI inflation (+0.1%).

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2021 Q2 are respectively -0.0% and +0.2% QoQ. However, since the terms of trade have deteriorated, we forecast a GDP deflator of -0.6% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2021 (% , QoQ annualized growth)

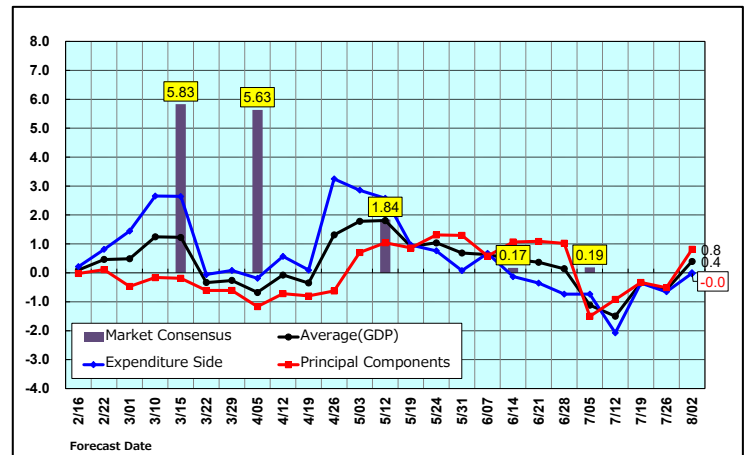
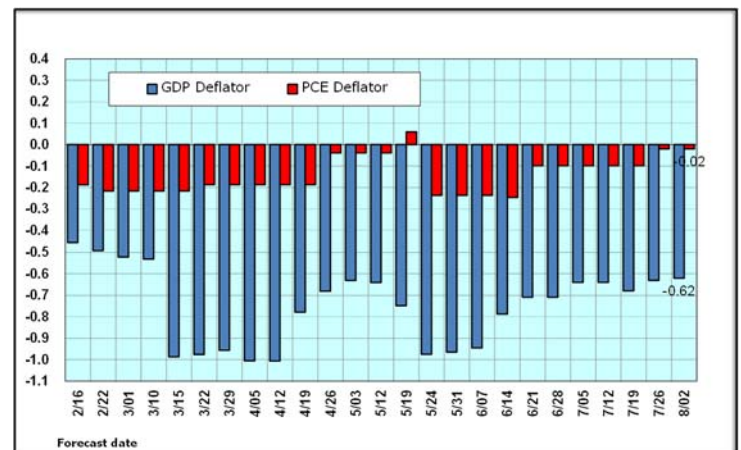


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2021 (% , QoQ growth)



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.

Table 1: Main Economic Indicators (latest)

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
7/30	June	Labor Force Survey				
		Total employment (millions)	66.66	+0.21		
		Total unemployment (millions)	2.02	-0.02		
			Unemployment rate (%)	2.9%	-0.1%pt	
	June	General Job Placement Situation				
		Job offers-to-applicants ratio	1.13	+0.04pt		
	June	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	99.3	+6.2%		
		Shipments	96.3	+4.3%		
		Inventories	95.9	+2.3%		
	June	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	12,297.0	+3.1%	+0.1%	
June	New Housing Starts					
	New housing starts (SA, Unit)	76,312	-1.0%	+7.3%		
	Planned residential construction expenditure (billion JPY)	1,291.0	-4.2%	+7.5%		
May	Construction Costs Deflator (2015=100)					
	Housing construction	109.2		+3.6%		
	Public works	109.4		+2.9%		
7/29	June	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	104.1		+13.6%	
		Output price	102.8		+6.5%	
7/28	May	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	102.6	-1.2		
		Coincident indicators	92.1	-3.2		
		Lagging indicators	93.2	-0.9		
7/27	May	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	273,915		+1.9%	
		Total working hours	129.9		+6.8%	
	June	Corporate Services Price Index (2015=100)				
	Overall index	105.0		+1.4%		
7/21	June	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	+383.2	-109.8	+674.1	
		Exports (billion JPY)	7,220.8	+2.4%	+48.6%	
		Imports (billion JPY)	6,837.6	+4.0%	+32.7%	
7/20	May	General Construction Statistics				
		Private non-residential construction (billion JPY)	734.9		-2.8%	
		Public works (billion JPY)	1,515.0		+0.3%	
June	National Consumer Price Index (2015=100)					
	Core index	101.7	+0.1%	+0.2%		
7/16	May	Synthetic Consumption Index (2015=100)	93.6	-1.9%		
7/15	May	Industrial Activity Index (2015=100)	94.9	-3.6%		
	May	Tertiary Industry Activity Index (2015=100)	95.3	-2.7%		
	June	Public Works Advanced Securities Statistics				

		Contract amount (billion JPY)	1,650.8		+0.7%
		Number of contracts	26,172		+1.9%
7/14	May	Indices of Industrial Production (final figures, 2015=100)			
		Production	93.5	-6.5%	
		Shipments	92.3	-5.5%	
		Inventory	93.7	-1.1%	
		Production capacity index	96.5		-1.2%
		Capacity utilization ratio	92.5	-6.8%	
7/12	May	Private Core Machinery Orders (billion JPY)	865.7	+7.8%	
	June	Domestic Corporate Price Index (2015=100)			
		Corporate Price	104.6	+0.6%	+5.0%
		Export Price	99.1	+1.0%	+11.3%
		Import Price	102.0	+2.3%	+28.0%
7/9	May	Information Services Industry Sales (billion JPY)	935.0		+8.1%
7/8	June	Economy Watchers Survey			
		Current Conditions Diffusion Index	47.6	+9.5	
		Future Conditions Diffusion Index	52.4	+4.8	
	May	Balance of Payments			
		Current account (billion JPY)	1,979.7	+20.2%	+85.3%
		Exports (billion JPY)	6,183.2	+1.4%	+46.5%
		Imports (billion JPY)	6,181.2	+0.1%	+30.6%
7/7	May	Consumption Activity Index (2015=100)	89.0	-3.7%	
	May	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	102.6	-1.2	
		Coincident indicators	92.7	-2.6	
		Lagging indicators	92.0	-2.2	
7/6	May	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	273,777		+1.9%
		Total working hours	130.0		+6.8%
	May	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	281,063	-2.1%	+11.5%
		Real consumption expenditure		-2.1%	+11.6
	May	Consumption Trend Index (2015=100)	94.2	-1.5%	
7/2	June	Food Buffer Stock (billion JPY)	-19.7		-32.5
7/1	June	New Car Sales (vehicles)	296,623		+4.5%
6/30	June	Consumer Confidence Index (SA)	37.4	+3.3	

Table 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
	2021Q1			2021Q2			2021Q3			2021Q3			2021Q3		
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
11/17	1.7	3.9	2.8	-0.1	-0.1										
11/23	2.3	3.7	3.0	-0.1	-0.1										
12/01	1.8	3.4	2.6	-0.1	-0.1										
2/15															
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					
3/09	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
3/10	-5.3	-3.5	-4.4	0.0	0.3	2.7	-0.2	1.2	-0.5	-0.2					
3/15	-5.3	-3.5	-4.4	-0.5	0.3	2.6	-0.2	1.2	-1.0	-0.2					
3/22	-9.5	-4.5	-7.0	-0.4	0.4	-0.1	-0.6	-0.3	-1.0	-0.2					
3/29	-8.5	-4.5	-6.5	-0.4	0.4	0.1	-0.6	-0.3	-1.0	-0.2					
4/05	-8.3	-6.7	-7.5	-0.3	0.4	-0.2	-1.2	-0.7	-1.0	-0.2					
4/12	-8.1	-5.9	-7.0	-0.4	0.4	0.6	-0.7	-0.1	-1.0	-0.2					
4/19	-8.3	-6.0	-7.1	-0.3	0.4	0.1	-0.8	-0.4	-0.8	-0.2					
4/26	-4.2	-6.0	-5.1	-0.4	0.5	3.2	-0.6	1.3	-0.7	-0.0					
5/03	-4.9	-4.5	-4.7	-0.3	0.5	2.9	0.7	1.8	-0.6	-0.0					
5/12	-3.8	-2.3	-3.0	-0.3	0.5	2.6	1.0	1.8	-0.6	-0.0					
5/18	<u>-5.1</u>			<u>-0.3</u>	<u>0.2</u>										
5/19						1.0	0.9	0.9	-0.7	0.1	4.2	2.4	3.3	-0.4	-0.1
5/24						0.8	1.3	1.0	-1.0	-0.2	4.8	4.5	4.7	-0.4	-0.1
5/31						0.1	1.3	0.7	-1.0	-0.2	5.7	5.2	5.4	-0.4	-0.1
6/07						0.7	0.6	0.6	-0.9	-0.2	5.7	3.9	4.8	-0.4	-0.1
6/08	-3.9*			-0.3*	0.2*										
6/14						-0.1	1.1	0.5	-0.8	-0.2	5.6	4.4	5.0	-0.1	-0.1
6/21						-0.4	1.1	0.4	-0.7	-0.1	5.3	4.3	4.8	-0.1	-0.1
6/28						-0.7	1.0	0.1	-0.7	-0.1	4.7	4.3	4.5	-0.1	-0.1
7/05						-0.7	-1.5	-1.1	-0.6	-0.1	4.8	1.6	3.2	-0.1	-0.1
7/12						-2.1	-0.9	-1.5	-0.6	-0.1	3.8	1.3	2.6	-0.1	-0.1
7/19						-0.4	-0.3	-0.3	-0.7	-0.1	4.1	0.8	2.5	-0.4	-0.1
7/26						-0.7	-0.5	-0.6	-0.6	-0.0	3.9	0.4	2.1	-0.3	0.1
8/02						-0.0	0.8	0.4	-0.6	-0.0	3.2	4.8	4.0	-0.3	0.1

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

Table 3-1: Gross Domestic Product at Chained 2015 Price: JPY Billion

	Quarterly			Forecast		CY		FY	
	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2020	2021	2019	2020
GDP/GDE									
Gross Domestic Products	526,697	541,512	536,090	536,068	540,321	528,524	538,864	551,472	526,362
Private Consumption	283,036	289,229	284,961	284,642	287,573	283,903	286,738	299,744	281,697
Residential Investment	18,619	18,627	18,848	19,151	19,224	19,140	19,119	20,396	18,944
Nonresidential Investment	82,325	85,863	84,854	84,913	84,883	85,592	84,978	90,510	84,302
Change in Private Inventory	1,792	-979	1,443	2,000	2,574	1,521	2,040	2,181	1,267
Government Consumption	114,581	116,627	115,303	116,345	116,861	113,455	116,472	110,847	114,448
Public Investment	29,125	29,506	29,352	28,641	28,537	28,943	28,755	28,040	29,233
Change in Public Inventory	0	-44	6	-2	-1	-5	1	-10	-16
Net Exports	-3,060	2,832	1,312	368	660	-4,332	751	-199	-3,900
Exports of Goods & Services	87,665	97,922	100,105	103,822	104,424	91,721	103,369	102,682	91,932
Imports of Goods & Services	90,725	95,090	98,793	103,455	103,764	96,053	102,617	102,880	95,831
Gross National Income	550,593	567,957	558,554	556,144	558,261	552,284	558,389	571,377	550,591
Memo:									
Total Demand	617,422	636,603	634,883	639,523	644,085	624,577	641,482	654,352	622,193
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	5.3	2.8	-1.0	0.0	0.8				
SAAR	22.9	11.7	-3.9	0.0	3.2				
% Change Year Ago	-5.5	-1.0	-1.5	7.2	2.6	-4.7	2.0	-0.5	-4.6
Private Consumption	5.1	2.2	-1.5	-0.1	1.0				
% Change Year Ago	-7.4	-2.3	-2.9	5.7	1.6	-5.9	1.0	-1.0	-6.0
Residential Investment	-5.7	0.0	1.2	1.6	0.4				
% Change Year Ago	-10.4	-8.7	-4.0	-3.0	3.2	-7.1	-0.1	2.5	-7.1
Nonresidential Investment	-2.1	4.3	-1.2	0.1	0.0				
% Change Year Ago	-11.1	-2.9	-5.2	1.0	3.1	-6.0	-0.7	-0.6	-6.9
Government Consumption	2.9	1.8	-1.1	0.9	0.4				
% Change Year Ago	3.3	4.7	3.7	4.5	2.0	2.7	2.7	2.0	3.2
Public Investment	0.8	1.3	-0.5	-2.4	-0.4				
% Change Year Ago	3.8	4.8	3.8	-0.8	-2.0	3.6	-0.6	1.5	4.3
Exports of Goods & Services	7.3	11.7	2.2	3.7	0.6				
% Change Year Ago	-15.4	-5.8	1.1	27.1	19.1	-11.7	12.7	-2.2	-10.5
Imports of Goods & Services	-8.2	4.8	3.9	4.7	0.3				
% Change Year Ago	-14.0	-7.3	-0.7	4.7	14.4	-7.3	6.8	0.2	-6.9
Gross National Income	5.1	3.2	-1.7	-0.4	0.4				
SAAR	21.8	13.2	-6.5	-1.7	1.5				
% Change Year Ago	-4.7	0.2	-1.1	6.1	1.4	-3.8	1.1	-0.3	-3.6
Total Demand	3.1	3.1	-0.3	0.7	0.7				
SAAR	12.8	13.0	-1.1	3.0	2.9				
% Change Year Ago	0.0	9.5	-1.4	6.8	4.3	-5.1	2.7	-0.4	-4.9
Contribution to GDP Growth Rate									
Domestic Demand	2.6	1.8	-0.8	0.2	0.7	-3.9	1.0	-0.1	-4.0
Private Demand	2.0	1.3	-0.5	0.1	0.7	-4.6	0.5	-0.6	-4.8
Public demand	0.7	0.5	-0.3	0.1	0.1	0.7	0.5	0.5	0.9
Net Exports	2.7	1.0	-0.2	-0.2	0.1	-0.8	0.9	-0.4	-0.6

Table 3-2: Gross Domestic Product at Current Prices: JPY Billion

	Quarterly			Forecast		CY		FY	
	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2020	2021	2019	2020
GDP/GDE									
Gross Domestic Products	538,437	551,576	544,400	540,982	543,801	538,609	543,245	558,265	536,264
Private Consumption	287,676	292,911	289,257	288,874	292,071	288,406	290,607	304,197	285,916
Residential Investment	19,624	19,576	20,001	20,574	20,735	20,142	20,511	21,382	19,949
Nonresidential Investment	82,903	86,065	85,804	86,188	86,670	86,209	86,556	91,550	84,854
Change in Private Inventory	1,539	-848	1,280	2,455	3,295	1,119	2,389	2,106	826
Government Consumption	115,120	116,499	115,742	116,405	116,828	113,788	116,555	111,715	114,573
Public Investment	30,474	30,826	30,865	30,357	30,149	30,264	30,364	29,258	30,609
Change in Public Inventory	20	-13	38	20	21	10	25	-5	8
Net Exports	1,082	6,563	1,414	-3,890	-5,968	-1,329	-3,760	-1,938	-471
Exports of Goods & Services	80,502	89,540	93,437	101,537	103,538	83,829	100,739	95,729	84,222
Imports of Goods & Services	79,420	82,977	92,023	105,426	109,506	85,158	104,499	97,667	84,693
Gross National Income	558,269	573,753	566,913	565,578	568,489	559,810	567,429	580,287	557,418
Memo:									
Total Demand	617,857	634,553	636,424	646,408	653,307	623,767	647,745	655,931	620,956
Compensation of Employee	280,691	281,721	289,061	288,701	289,461	282,481	289,453	287,971	282,244
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	5.6	2.4	-1.3	-0.6	0.5				
SAAR	24.1	10.1	-5.1	-2.5	2.1				
% Change Year Ago	-4.3	-0.8	-1.6	6.1	1.0	-3.8	0.9	0.3	-3.9
Private Consumption	5.1	1.8	-1.2	-0.1	1.1				
% Change Year Ago	-6.9	-2.9	-3.3	5.5	1.5	-5.6	0.8	-0.3	-6.0
Residential Investment	-5.0	-0.2	2.2	2.9	0.8				
% Change Year Ago	-9.3	-9.3	-3.7	-0.4	5.7	-6.1	1.8	4.1	-6.7
Nonresidential Investment	-1.9	3.8	-0.3	0.4	0.6				
% Change Year Ago	-11.3	-3.7	-5.4	2.0	4.5	-6.3	0.4	-0.2	-7.3
Government Consumption	3.5	1.2	-0.6	0.6	0.4				
% Change Year Ago	3.3	3.4	3.3	4.6	1.5	2.3	2.4	2.4	2.6
Public Investment	1.2	1.2	0.1	-1.6	-0.7				
% Change Year Ago	4.8	4.5	4.2	0.8	-1.1	4.4	0.3	3.1	4.6
Exports of Goods & Services	10.1	11.2	4.4	8.7	2.0				
% Change Year Ago	-16.8	-7.2	1.8	38.8	28.6	-14.0	20.2	-5.4	-12.0
Imports of Goods & Services	-6.0	4.5	10.9	14.6	3.9				
% Change Year Ago	-20.6	-14.0	-1.7	24.7	37.9	-14.0	22.7	-4.2	-13.3
Gross National Income	5.3	2.8	-1.2	-0.2	0.5				
SAAR	23.0	11.6	-4.7	-0.9	2.1				
% Change Year Ago	-4.5	-0.7	-1.5	6.7	1.8	-3.8	1.4	0.4	-3.9
Memo:									
Total Demand	3.9	2.7	0.3	1.6	1.1				
SAAR	16.6	11.3	1.2	6.4	4.3				
% Change Year Ago	0.0	15.4	-1.6	8.7	5.7	0.0	-5.3	0.0	-0.4
Compensation of Employee	0.6	0.4	2.6	-0.1	0.3				
% Change Year Ago	-2.2	-2.6	-0.3	3.5	3.1	-1.5	2.5	2.0	-2.0

Table 3-3: Deflator : 2015=100

	Quarterly			Forecast		CY		FY	
	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2020	2021	2019	2020
GDP/GDE									
Gross Domestic Products	102.2	101.9	101.6	100.9	100.6	101.9	100.8	101.2	101.9
Private Consumption	101.6	101.3	101.5	101.5	101.6	101.6	101.4	101.5	101.5
Residential Investment	105.4	105.1	106.1	107.4	107.9	105.2	107.3	104.8	105.3
Nonresidential Investment	100.7	100.2	101.1	101.5	102.1	100.7	101.9	101.2	100.6
Government Consumption	100.5	99.9	100.4	100.1	100.0	100.3	100.1	100.8	100.1
Public Investment	104.6	104.5	105.2	106.0	105.7	104.5	105.6	104.2	104.6
Exports of Goods & Services	91.8	91.4	93.3	97.8	99.2	91.3	97.4	93.2	91.5
Imports of Goods & Services	87.5	87.3	93.2	101.9	105.5	88.6	101.7	94.9	88.3
Unit Profit	106.2	108.1	103.4	102.1	102.1	105.2	102.2	106.4	104.7
Unit Labor Cost	98.9	96.5	100.1	99.9	99.4	99.2	99.7	96.9	99.5
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.3	-0.4	-0.3	-0.6	-0.3				
	1.3	0.2	-0.1	-1.0	-1.6	0.9	-1.1	0.9	0.7
Private Consumption	0.0	-0.4	0.2	0.0	0.1				
	0.5	-0.7	-0.4	-0.1	-0.1	0.3	-0.2	0.7	0.0
Residential Investment	0.7	-0.3	1.0	1.2	0.4				
	1.3	-0.7	0.3	2.7	2.3	1.0	1.9	1.6	0.5
Nonresidential Investment	0.2	-0.5	0.9	0.4	0.6				
	-0.3	-0.9	-0.2	1.0	1.4	-0.4	1.2	0.4	-0.5
Government Consumption	0.6	-0.6	0.5	-0.3	-0.1				
	0.0	-1.3	-0.5	0.2	-0.5	-0.4	-0.2	0.4	-0.7
Public Investment	0.4	-0.2	0.7	0.8	-0.3				
	0.9	-0.3	0.4	1.7	1.0	0.7	1.1	1.5	0.4
Exports of Goods & Services	2.6	-0.4	2.1	4.8	1.4				
	-1.6	-1.5	0.7	9.3	8.0	-2.6	6.7	-3.2	-1.8
Imports of Goods & Services	2.4	-0.3	6.8	9.4	3.6				
	-7.7	-7.3	-1.1	19.2	20.6	-7.3	14.8	-4.3	-6.9
Unit Profit	0.0	1.8	-4.4	-1.2	0.0				
	0.0	7.7	-1.5	1.8	-3.8	-1.6	-2.8	-0.8	-1.5
Unit Labor Cost	0.0	-2.4	3.6	-0.1	-0.5				
	0.0	10.1	1.2	-3.4	0.5	3.3	0.5	2.5	2.7