



# Japanese Economy Monthly Forecast

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

## Headlines

### ●Review of data released in July

▶As the first preliminary official **GDP** estimates for 2018Q2 will be released on August 10<sup>th</sup>, this report features our final forecasts for Q2.

▶The **Index of Industrial production (IIP)** in Q2 grew +1.2%, registering the first increase in two quarters. However, a breakdown by production activity in June shows a decline in general-use, production and business-oriented machinery, chemicals and metal products, raising concerns about the impacts of trade frictions.

▶Concerning the indices related to the **private final consumption expenditure**, although a deceleration in growth could be observed in the April-May average of both demand-side indicators (the overall consumption trend index) and supply-side indicators (the consumption activity index and the synthetic consumption index), the Q1 stagnation has been overcome.

▶Following data updates in June, our forecasts for **real private housing, changes in private inventories** and **public investment** in Q2 were all revised downwards from last week, but the forecast for private capital investment was revised upwards.

▶The April-June trends in exports were positive, with the **export** volume index up +0.8%, and the real export index up +0.5% from the previous quarter. Conversely, **import** volume expanded a mere +0.1%, with real imports shrinking -1.6%. As a result, the growth in **net exports** accelerated in Q2.

### ●2018Q2 real GDP growth forecast update

▶As a result of data updates, this week's forecast of **real GDP growth** in 2018Q2 based on the Current Quarter Model (CQM) is an annualized +2.0% (+0.5% QoQ). The respective contributions of **domestic demand** and **net exports** increased by +0.3%pt and +0.2% compared to the previous quarter.

▶The forecast based on the Current Quarter Model **principal component analysis (production-side)** is for +1.4% QoQ annualized real GDP growth. The average of the two models is +1.7%, situating our overall forecast in the upper half of the 1% range (Figure 1).

### ●2018Q2 inflation forecast update

▶In Q2, the **core consumer price index** fell -0.1% QoQ, registering the first decrease in seven quarters. The observed trend is almost entirely explained by the changes in energy and food prices (excluding fresh food).

▶This week's Current Quarter Model (CQM) forecasts a -0.7% QoQ decrease in the private final consumption expenditure deflator, and a -0.2% one in the domestic demand deflator. As the Q2 terms of trade are expected to worsen, the overall GDP deflator is forecast to decline -0.5% QoQ in Q2 (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2018 (% , QoQ annualized growth)

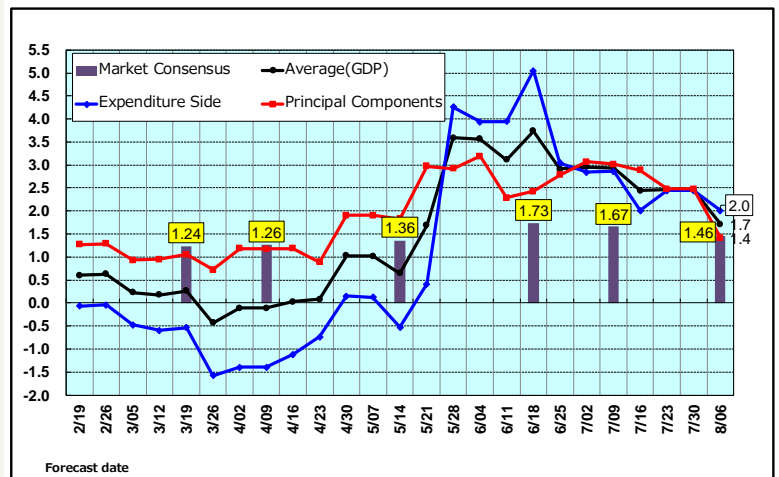
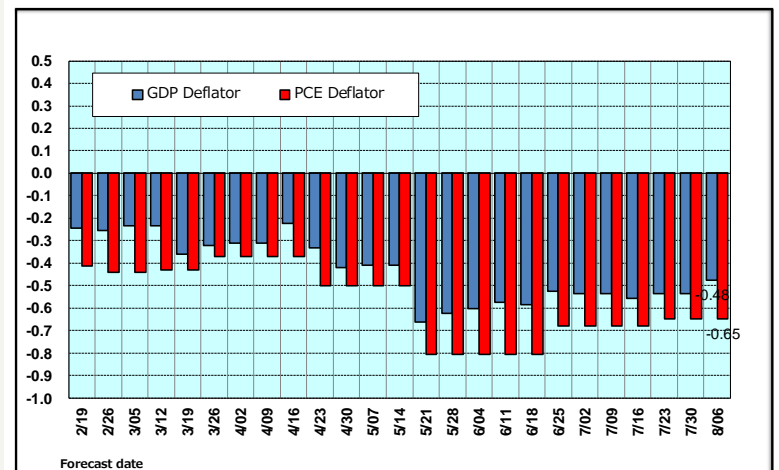


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2018 (% , QoQ growth)



We applied 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.

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
8/1	July	<b>Food Buffer Stock (billion JPY)</b>	-7.7		+1.1	
	July	<b>New Car Sales (vehicles)</b>	368,887		+3.3%	
7/31	June	<b>Labour Force Survey</b>				
		Total employment (millions)	66.32	-0.41		
		Total unemployment (millions)	1.66	+0.15		
			Unemployment rate (%)	2.4%	+0.2%pts	
	June	<b>General Job Placement Situation</b>				
		Job offer ratio	1.62	+0.02%pts		
	June	<b>Indices of Industrial Production (preliminary figures, 2010=100)</b>				
		Production	102.2	-2.1%		
		Shipments	101.3	-0.2%		
			Inventory	111.5	-1.8%	
	June	<b>New Housing Starts</b>				
		New housing starts (SA, Unit)	81,275	-8.2%		-7.1%
			Planned dwelling construction cost (billion JPY)	1311.1	-8.1%	-16.0%
May	<b>Construction Costs Deflator (2011=100)</b>					
	Housing construction	109.6			+3.2%	
		Public works	110.9		+3.5%	
July	<b>Consumer Confidence Index (SA)</b>	43.5	-0.2			
7/30	June	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	11,775.0	+1.5%	+1.8%	
June	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>					
	Input price	100.5			+5.8%	
	Output price	100.8			+3.1%	
7/27	July	<b>Tokyo Region Consumer Price Index (2015=100)</b>				
		Core	100.5	+0.2%	+0.8%	
7/26	June	<b>Corporate Service Price Index (2010=100)</b>				
		Overall index	104.8		+1.2%	
7/24	May	<b>Index of Business Conditions (revised, 2010=100)</b>				
		Leading indicator	106.9	+0.7		
		Consensus	116.8	-0.7		
		Lagging indicator	117.9	+0.6		
7/23	May	<b>Monthly Labour Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	275,508		+2.1%	
		Total working hours	140.8		+0.8%	
7/20	May	<b>Industrial Activity Indices (2010=100)</b>				
		All industries	106.3	+0.1%		
		Construction industry	116.8	+0.7%		
June	<b>National Consumer Price Index (2015=100)</b>					
	Core	101.0	0.1%		+0.8%	
7/19	June	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	721.4	n.a.	+66.5%	
		Exports (billion JPY)	7,052.4	-0.1%	+6.7%	
		Imports (billion JPY)	6,331.0	-5.3%	+2.5%	
7/17	May	<b>Overall Construction Statistics</b>				
		Private construction: Non-residential (billion JPY)	812.8		+4.8%	
		Public works (billion JPY)	1,380.9		-3.3%	

7/13	May	<b>Indices of Industrial Production (official, 2010=100)</b>			
		Production capacity index	94.0		-0.1%
		Operation ratio index	102.0	-2.1%	
		Production	104.4	-0.2%	
		Shipments	101.5	-1.6%	
		Inventory	113.5	-0.6%	
7/11	June	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	1,433.9		-5.6%
		Number of contracts	24,257		-2.9%
7/10	May	<b>Tertiary Industry Activity Index (2010=100)</b>	106.0	+0.1%	
	May	<b>Private Core Machinery Orders (billion JPY)</b>	907.9	-3.7%	
	June	<b>Domestic Corporate Price Index (2010=100)</b>			
		Corporate Price	101.3	+0.2%	+2.8%
7/10		Export Price	97.2	+0.1%	+3.5%
		Import Price	100.6	+1.8%	+10.5%
	May	<b>Synthetic Consumption Index (2011=100)</b>	104.2	-0.4%	
7/9	May	<b>Information Services Industry Sales (billion JPY)</b>	740.4		+1.0%
	June	<b>Economy Watchers Survey</b>			
7/9		Current Conditions Diffusion Index	48.1	+1.0	
		Future Conditions Diffusion Index	50.0	+0.8	
	May	<b>Balance of Payments</b>			
		Current account (billion JPY)	1,938.3	-1.9%	+14.5%
		Exports (billion JPY)	6,323.2	-1.5%	+10.6%
7/6		Imports (billion JPY)	6,627.1	+7.9%	+13.7%
	May	<b>Monthly Labour Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	275,443		+2.1%
		Total working hours	140.7		+0.8%
	May	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	281,307	-0.3%	-3.1%
		Real consumption expenditure		-0.2%	-3.9%
	May	<b>Consumption Activity Index (2011=100)</b>	103.2	-1.5%	
	May	<b>Consumption Trends Index (2015=100)</b>	101.2	+0.1%	
	May	<b>Index of Business Conditions (preliminary, 2010=100)</b>			
	Leading indicator	106.9	+0.7		
	Consensus	116.1	-1.4		
	Lagging indicator	118.8	+1.5		