



Japanese Economy Monthly Forecast

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Headlines

●Review of data released in October

▶The basic data required to calculate the 2018Q3 GDP figure has been almost entirely released, except for indicators related to private final consumption expenditure.

▶The **Index of Industrial production (IIP)** in September dropped -1.1% MoM. As a result, the Q3 average was down -1.6% from Q2, which was the first decline in two quarters. National disasters had a major impact on the observed negative trend.

▶The indices of durable and non-durable consumer goods shipments in Q3 decreased -5.6% and -0.4% respectively. Both saw the first decline in two quarters. Considering this trend, private final consumption expenditure is expected to have declined too.

▶Following the data updates in September, we revised downwards our Q3 forecast for **real private capital investment**. However, there was an upward revision in the Q3 forecasts for **real private housing, changes in private inventories and government investment**.

▶Q3 **export volume** declined -3.9% and **real export value** dropped -1.9% QoQ. On the other hand, while **import volume** fell -1.0%, **real import value expanded** +1.2%. Overall, Q3 growth in **net exports** decelerated both in value and in volume terms.

●2018Q3 real GDP growth forecast update

▶Reflecting the latest data updates, this week's forecast of the annualized **real GDP growth** in Q3 based on the Current Quarter Model (expenditure side) is -1.9%. The contributions of both **domestic demand** and **net exports** are negative.

▶In contrast, our forecast of Q3 real GDP growth based on the **principal component analysis (production side)** is an annualized +0.6% (Figure 1). Once all September data has been released, however, this figure might be revised downwards. The average of the two models is -0.6%, suggesting that the negative growth trend observed so far still persists.

●2018Q3 inflation forecast update

▶In September, the **National Consumer Price Index** maintained its upward movement for the twenty-fourth consecutive month, growing +1.2% YoY. The seasonally adjusted MoM figure, however, remained flat. The overall Q3 change is +0.7% QoQ, which marks the first increase in two quarters.

▶According to this week's Current Quarter Model (CQM), the Q3 private final consumption expenditure deflator and the domestic demand deflator are estimated to have expanded +0.4% and +0.3% QoQ, respectively. Due to the worsening terms of trade, the Q3 GDP deflator estimate remained largely unchanged at -0.0% (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2018 (% , QoQ annualized growth)

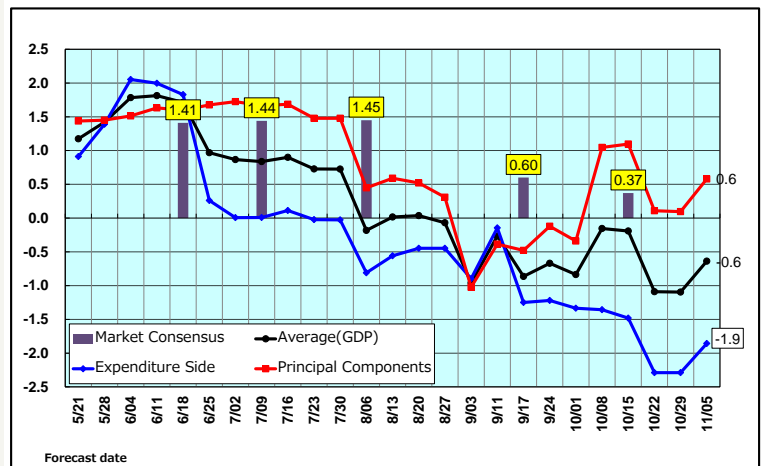
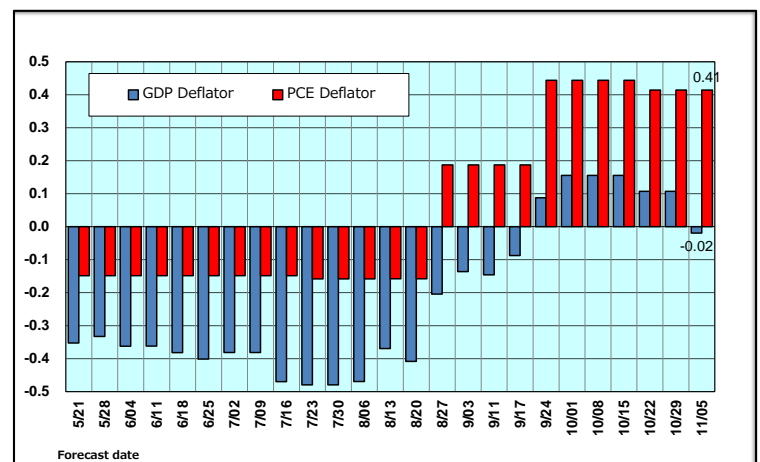


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2018 (% , QoQ growth)



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
11/2	October	Food Buffer Stock (billion JPY)	-5.1		+12.6
11/1	October	New Car Sales (vehicles)	346,873		+11.6%
10/31	September	Indices of Industrial Production (preliminary figures, 2010=100)			
		Production	101.4	-1.1%	
		Shipments	98.5	-3.0%	
	September	Inventory	113.3	+2.3%	
		New Housing Starts			
		New housing starts (SA, Unit)	81,903	-1.6%	-1.5%
	August	Planned dwelling construction cost (billion JPY)	1302.4	-0.8%	-0.3%
		Construction Costs Deflator (2011=100)			
		Housing construction	108.1		-4.3%
	October	Public works	109.7		-4.2%
Consumer Confidence Index (SA)		43.0	-0.4		
10/30	August	Labor Force Survey			
		Total employment (millions)	66.65	+0.03	
		Total unemployment (millions)	1.60	-0.07	
	August	Unemployment rate (%)	2.3%	-0.1%pts	
		General Job Placement Situation			
Job offer ratio	1.64	+0.01%pts			
10/29	September	Current Survey of Commerce (preliminary figures)			
	Retail trade (billion JPY)	11,528	-0.2%	+2.1%	
	September	Manufacturing Industry Input-Output Price Index (2011=100)			
	Input price	100.7		+5.3%	
	Output price	101.0		+2.9%	
10/26	October	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.3	+0.1%	+1.0%
10/25	September	Corporate Service Price Index (2010=100)			
		Overall index	105.9		+1.2%
10/24	August	Index of Business Conditions (revised, 2010=100)			
		Leading indicator	104.5	+0.6	
		Consensus	116.7	+0.6	
		Lagging indicator	118.4	+0.9	
10/23	August	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	276,123		+0.8%
		Total working hours	140.0		+0.6%
10/22	August	Industrial Activity Indices (2010=100)			
		All industries	105.7	+0.5%	
		Construction industry	113.4	+0.8%	
10/19	September	National Consumer Price Index (2015=100)			
		Core	101.3	+0.1%	+1.0%
10/18	September	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	139.6	+25.1%	-78.7%
		Exports (billion JPY)	6726.6	-2.5%	-1.2%
	August	Imports (billion JPY)	6587.1	-1.7%	+7.0%
		Overall Construction Statistics			
		Private construction: Non-residential (billion JPY)	908.2		+3.9%
		Public works (billion JPY)	1642.2		-4.1%
10/15	August	Indices of Industrial Production (official, 2010=100)			
		Production capacity index	93.7		
		Operation ratio index	101.4		
		Production	102.5		
		Shipments	101.5		

	September	Inventory Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	110.8 1218.6 26,204				
10/12	August	Tertiary Industry Activity Index (2010=100)	106.0	+0.5%			
10/11	August August September	Synthetic Consumption Index (2011=100) Information Services Industry Sales (billion JPY) Domestic Corporate Price Index (2010=100) Corporate Price Export Price Import Price	104.3 785.3 102.0 97.6 101.8	0.0%		+1.2%	+3.0% +2.2% +10.9%
10/10	August	Private Core Machinery Orders (billion JPY)	981.5	+6.8%			
10/9	September August	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	48.6 51.3 1838.4 6652.6 6871.9	-0.1 -0.1 -3.8% +0.4% +2.2%			-23.4% +7.6% +17.5%
10/5	August August August August August	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Activity Index (2011=100) Consumption Trends Index (2015=100) Index of Business Conditions (preliminary, 2010=100) Leading indicators Coincident indicators Lagging indicators	276,366 140.1 292,481 103.7 102.2 104.4 117.5 117.7			+0.9% +0.7%	+4.3% -0.1% +0.3% +0.5% +1.4% +0.2%