



Japanese Economy Monthly Forecast

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Headlines

●Review of data released in November

▶According to the first preliminary GDP estimates, the real GDP in Q3 declined -1.2% QoQ, down for the first time in two quarters. The figure was midway between the CQM forecast and the market consensus. The CQM has consistently predicted negative growth since August, while the market consensus, excluding the latest forecast, consistently predicted positive growth.

▶The **Index of Industrial production (IIP)** in October rose +2.9% MoM and 2.7% from the Q3 average, reflecting the recovery from the production loss in September due to natural disasters' supply constraint. Accordingly, the assessment of economic fundamentals by the Ministry of Economy, Trade and Industry was revised upwards from the previous month.

▶Comparing the October figures to the Q 3 average, the indices of durable and non-durable consumer goods shipments increased +4.6% and +6.8%, respectively. Considering this trend, we expect to see an upward movement in Q4 private final consumption expenditure.

▶After incorporating the data in October, we revised upwards our Q4 forecasts for **real private housing** and **real private capital investment**. However, there was a downward revision in the Q4 forecasts for **changes in private inventories** and **government investment**.

▶The **real export value** in October expanded +3.0% compared to the Q3 average, and **real import value** grew +5.8%. As a result, October growth in **real net exports** decelerated from Q3.

●2018Q4 real GDP growth forecast update

▶Reflecting the data updates in October, this week's forecast of Q4 **real GDP growth** based on the Current Quarter Model (expenditure side) is +0.5% QoQ, or +1.9% when annualized. There was an upward revision from the previous forecast. The changes in the contributions of **domestic demand** and **net exports** are expected to be +0.7%pt and -0.2%pt QoQ, respectively.

▶The **production-side** forecast figure based on the principal component analysis model is the same as the **expenditure-side** forecast (Figure 1).

●2018Q4 inflation forecast update

▶In October, the **National Core Consumer Price Index** (excluding fresh foods) maintained its upward movement for the twenty-second consecutive month, growing +1.0% YoY. The seasonally adjusted MoM figure also remained positive for the fifth month in a row, at +0.2%.

▶According to this week's Current Quarter Model (CQM), the Q4 private final consumption expenditure deflator and the domestic demand deflator are estimated to expand +0.4% and +0.2% QoQ, respectively. Due to the worsening terms of trade, the Q4 GDP deflator inflation is also in the positive territory, but at a tad small +0.1% (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Oct-Dec (Q4) 2018 (% , QoQ annualized growth)

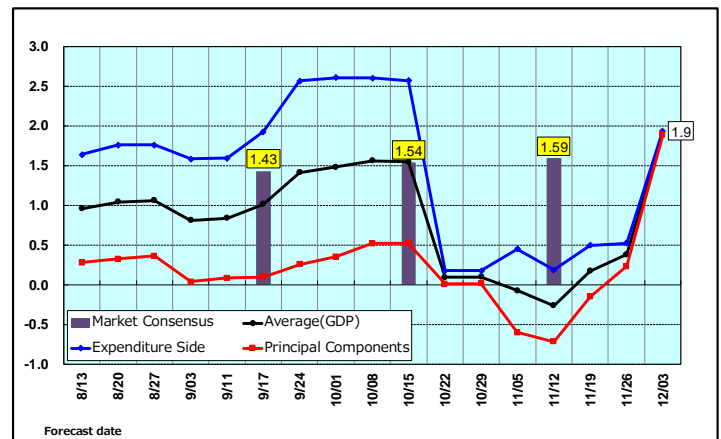
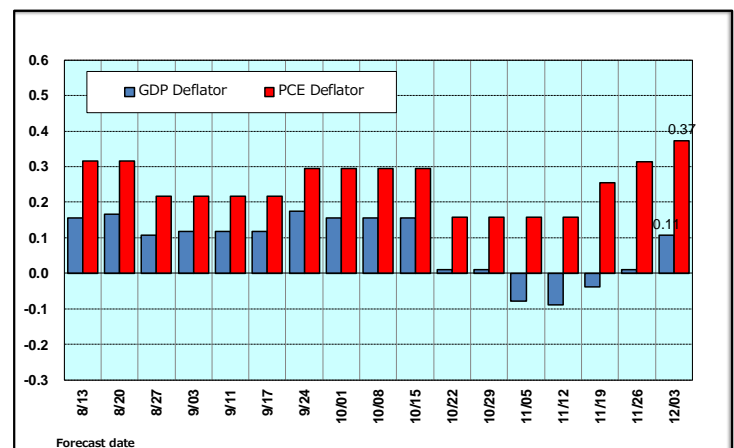


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2018 (% , QoQ growth)



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	
11/30	October	Labor Force Survey				
		Total employment (millions)	66.88	+0.23		
		Total unemployment (millions)	1.68	+0.08		
			Unemployment rate (%)	2.4%	+0.1%pts	
	October		General Job Placement Situation			
			Job offer-to-applicant ratio	1.62	-0.02%pts	
	November		Tokyo Ward Area Consumer Price Index (2015=100)			
			Core	101.3	+0.1%	+1.0%
	October		Indices of Industrial Production (preliminary figures, 2015=100)			
			Production	105.9	+2.9%	
			Shipments	106.6	+5.4%	
			Inventory	101.2	-1.4%	
	October		New Housing Starts			
		New housing starts (SA, Unit)	83,330	+0.8%	+0.3%	
		Planned dwelling construction cost (billion JPY)	1346.2	+4.9%	+0.9%	
September		Construction Costs Deflator (2011=100)				
		Housing construction	110.1		+2.8%	
		Public works	111.8		+3.5%	
November		Consumer Confidence Index (SA)	42.9	-0.1		
11/29	October	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	11,928	+1.2%	+3.5%	
	October	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	101.4		+4.6%	
		Output price	101.5		+2.3%	
11/27	October	Corporate Service Price Index (2010=100)				
		Overall index	105.3		+1.3%	
11/26	September	Index of Business Conditions (revised, 2010=100)				
		Leading indicator	104.3	-0.2		
		Coincident indicators	114.4	-1.2		
		Lagging indicator	118.2	-0.8		
11/22	September	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	269,656		+0.8%	
		Total working hours	139.1		-3.4%	
October		National Consumer Price Index (2015=100)				
		Core	101.6	+0.2%	+1.0%	
11/21	September	Industrial Activity Indices (2010=100)				
		All industries	104.7	-0.9%		
		Construction industry	112.4	-0.4%		
11/19	October	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-449.3	+113.9%	-799.9 billion JPY	
		Exports (billion JPY)	7243.4	+4.3%	+8.2%	
		Imports (billion JPY)	7692.7	+6.6%	+19.9%	
11/16	September	Overall Construction Statistics				
		Private construction: Non-residential (billion JPY)	919.5		+3.5%	
		Public works (billion JPY)	1826.6		-2.6%	
	October		Public Works Advanced Securities Statistics			
			Contract amount (billion JPY)	1282.3		+9.5%
		Number of contracts	27,431		+2.7%	
11/14	September	Tertiary Industry Activity Index (2015=100)	104.8	-1.1%		
	September	Indices of Industrial Production (official, 2010=100)				
		Production capacity index	98.6		-0.6%	
		Operation ratio index	101.2	-1.5%		

		Production	102.9	-0.4%	
		Shipments	101.1	-2.0%	
		Inventory	102.6	+1.2%	
11/13	September	Information Services Industry Sales (billion JPY)	1293.4		-0.7%
11/12	September	Domestic Corporate Price Index (2015=100)			
		Corporate Price	102.3	+0.3%	+2.9%
		Export Price	98.1	+0.6%	+0.9%
		Import Price	103.3	+1.6%	+9.5%
11/9	September	Synthetic Consumption Index (2011=100)	104.4	-0.2%	
11/8	September	Private Core Machinery Orders (billion JPY)	802.2	-18.3%	
	October	Economy Watchers Survey			
		Current Conditions Diffusion Index	49.5	+0.9	
		Future Conditions Diffusion Index	50.6	-0.7	
	September	Balance of Payments			
		Current account (billion JPY)	1821.6	-6.6%	-19.3%
		Exports (billion JPY)	6671	-4.0%	-0.9%
		Imports (billion JPY)	6347.7	-1.2%	+8.0%
11/7	August	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	270,256		+1.1%
		Total working hours	139.3		-3.3%
	September	Consumption Activity Index (2011=100)	104.3	+0.3%	
	September	Index of Business Conditions (preliminary, 2010=100)			
		Leading indicators	103.9	-0.6	
		Coincident indicators	114.6	-2.1	
		Lagging indicators	119.8	+1.4	
11/6	September	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	271,273	-4.4%	-0.2%
		Real consumption expenditure		-4.5%	-1.6%
	September	Consumption Trends Index (2015=100)	101.7	-0.3%	
11/2	October	Food Buffer Stock (billion JPY)	-5.1		+12.6
11/1	October	New Car Sales (vehicles)	346,873		+11.6%