Japanese Economy Monthly Forecast

December 2018

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

Headlines

●Review of data released in December

▶We forecast Japan's GDP, reflecting the latest official data updates. As of December 28th, data on about two-thirds of GDP-related indicators has been released.

▶The **Index of Industrial production** (IIP) in November declined for the first time in two months, yielding an overall October-November change of +2.2% as compared to the Q3 average. Production shrank in the industries that had shown its recovery in October from September natural disasters.

▶Comparing the October-November average to the Q3 average, the index of **durable consumer goods shipments** increased +4.1%, but the **non-durable consumer goods shipment** index decreased -3.7%. Considering this trend, we expect to see a slight upward movement in the Q4 private final consumption expenditure.

▶The number of **new housing starts** in November increased +0.8% MoM, expanding for the second month in a row. As a result, the October-November average increased a tad (+0.1%) compared to the Q3 average.

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

▶Japan's **real export value** of October-November average expanded +1.5% compared to the Q3 average, while the **real import value** grew faster, at +4.4%. As a result, **real net exports** growth decelerated slightly from Q3.

●2018Q4 real GDP growth forecast update

▶Reflecting the November data updates, this week's forecast of Q4 **real GDP growth** based on the Current Quarter Model (expenditure side) is +0.2% QoQ, or +0.9% when annualized. There was a downward revision from the previous forecast. The changes in the contributions of **domestic demand** and **net exports** are expected to be +0.5%pt and -0.3%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 November, the **National Consumer Price Index** maintained its upward movement for the twenty-sixth consecutive month, but its increase decelerated by 0.6%pt compared to October.

▶According to this week's Current Quarter Model (CQM), the private final consumption expenditure deflator and the domestic demand deflator in Q4 are estimated to have expanded +0.1% and +0.0% QoQ, respectively. Due to the worsening terms of trade, however, we forecast a Q4 GDP deflator of -0.2% (Figure 2).

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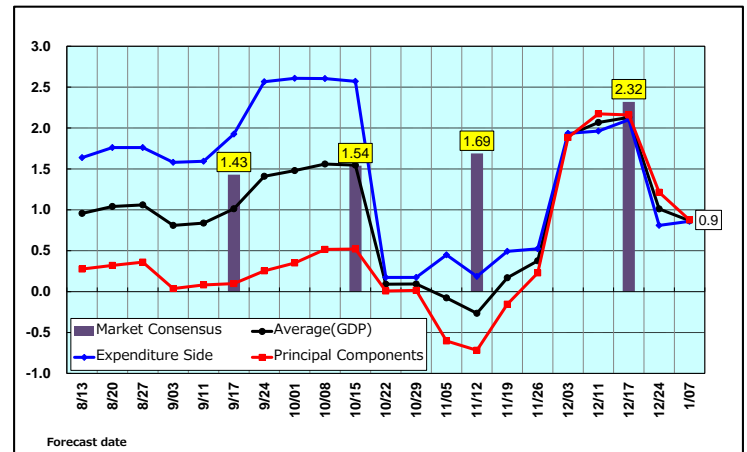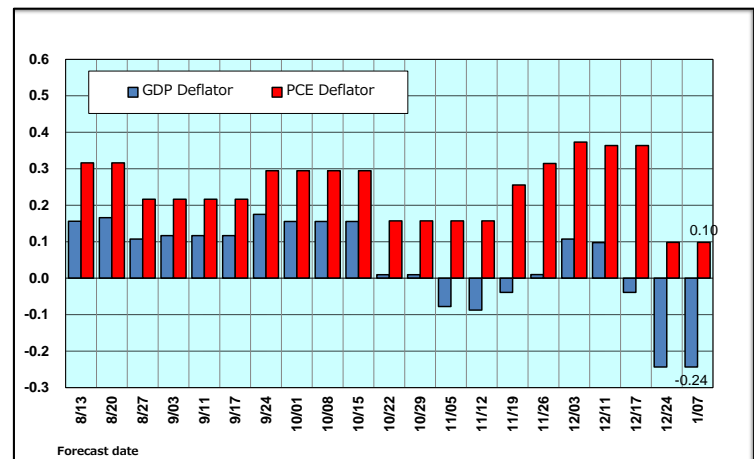Oct-Dec (Q4) 2018 (%, QoQ annualized growth)**

**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	MoM	YoY
12/28	November	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	104.7	-1.1%	
		Shipments	103.1	-1.4%	
		Inventory	101.5	+0.2%	
	November	**Labor Force Survey**			
		Total employment (millions)	67.13	+0.25	
		Total unemployment (millions)	1.73	+0.05	
		Unemployment rate (%)	2.5%	+0.1%pts	
	November	**General Job Placement Situation**			
		Job offer to applicant ratio	1.63	+0.01%pts	
	November	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	12,128.0	-1.0%	+1.4%
	December	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	101.2	0.0%	+0.9%
12/27	November	**New Housing Starts**			
		New housing starts (SA, Unit)	84,213	+0.8%	-0.6%
		Planned dwelling construction cost (billon JPY)	1,383.5	+1.4%	+1.5%
	October	**Construction Costs Deflator (2011=100)**			
		Housing construction	109.5		+2.2%
		Public works	111.5		+3.1%
	November	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	101.9		+4.6%
		Output price	101.3		+1.8%
12/25	October	**Index of Business Conditions (revised, 2015=100)**			
		Leading indicator	104.9	+3.3	
		Coincident indicator	99.6	0.0	
		Lagging indicator	103.6	-0.2	
	November	**Corporate Service Price Index (2010=100)**			
		Overall index	105.5		+1.2%
12/21	October	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	271,318		+1.5%
		Total working hours	144.0		-0.3%
	November	**National Consumer Price Index (2015=100)**			
		Core	101.6	0.0%	+0.9%
12/20	October	**Industrial Activity Indices (2010=100)**			
		All industries	106.6	+1.9%	
		Construction industry	110.8	-1.2%	
12/19	November	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	-737.3	+70.8%	-844.4
		Exports (billion JPY)	6,927.6	-3.0%	+0.1%
		Imports (billion JPY)	7,664.9	-0.1%	+12.5%
12/17	October	**Overall Construction Statistics**			
		Private construction: Non-residential (billion JPY)	937.0		+2.5%
		Public works (billion JPY)	1,938.5		-5.2%
12/14	October	**Indices of Industrial Production (official, 2015=100)**			
		Production capacity index	98.8		-0.5%
		Operation ratio index	105.2	+4.0%	
		Production	105.9	+2.9%	
		Shipments	104.6	+3.5%	
		Inventory	101.3	-1.3%	
	November	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	818.9		-5.2%
		Number of contracts	22,202		+0.6%

Date	Month	Indicator	Value	Change	Change
12/13	October	**Synthetic Consumption Index (2011=100)**	104.6	+0.3%	
12/12	October	**Tertiary Industry Activity Index (2010=100)**	106.7	+1.9%	
	October	**Private Core Machinery Orders (billion JPY)**	863.2	+7.6%	
	November	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	102.1	-0.3%	+2.3%
		Export Price	97.9	-0.1%	+0.5%
		Import Price	104.4	+0.9%	+9.5%
12/11	October	**Information Services Industry Sales (billion JPY)**	814.3		+5.4%
12/10	November	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	51.0	+1.5	
		Future Conditions Diffusion Index	52.2	+1.6	
	October	**Balance of Payments**			
		Current account (billion JPY)	1,309.9	-9.2%	-19.3%
		Exports (billion JPY)	7,088.6	+5.7%	+7.7%
		Imports (billion JPY)	7,410.4	+6.0%	+20.5%
12/7	October	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	271,333	+1.5%	+1.4%
		Total working hours	144.0		-0.3%
	October	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	290,396	+1.9%	+1.4%
		Real consumption expenditure		+1.8%	0.3%
	October	**Consumption Trends Index (2015=100)**	101.8	+0.5%	
	October	**Consumption Activity Index (2011=100)**	103.8	+0.1%	
	October	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicator	100.5	+0.9	
		Coincident indicator	104.5	+2.9	
		Lagging indicator	103.2	-0.5	
12/4	November	**Food Buffer Stock (billion JPY)**	-14.2		+14.1
12/3	December	**New Car Sales (vehicles)**	357,307		+7.4%