



# Japanese Economy Monthly Forecast

February 2019

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

## Headlines

### ●Review of data released in February

▶ The 2018Q4 real GDP growth was positive for the first time in two quarters. However, as the decline in 2018Q3 exceeded that growth, it can be said that the economy has not recovered yet, and that it is losing momentum.

▶ In the current forecast we have updated about one-third of the data used to calculate the Q1 GDP. Many of the updates reveal sluggish trends in the economy.

▶ The **Index of Industrial production (IIP)** in January declined MoM for the third consecutive month. Declining exports to China were among the exacerbating factors.

▶ Looking at business-related indicators, the index of capital goods shipments in January decreased dramatically (-14.2% MoM), marking the first decline in two months. Compared to the 2018Q4 average, the index slid down by -14.5%.

▶ The January data updates led to a major downward revision in our Q1 forecasts for **real private housing** and **real private capital investment**. In contrast, we revised upwards our forecast for **changes in private inventories**.

▶ The deceleration in **exports** in January was larger than the deceleration in **imports**. As a result, the growth rate of **net exports** is estimated to have shrunk substantially. The downward pressure of export deceleration on the domestic economy is amplified by the overall deceleration in the global economy.

### ●2019Q1 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's forecast for Q1 **real GDP growth** based on the Current Quarter Model (expenditure side) is an annualized -3.1% QoQ, which is a major downward revision from the previous forecast. Prominently, the contributions of **domestic demand** and **net exports** are both negative.

▶ The **production-side** forecast figure based on the principal component analysis model is an annualized -2.2%. The average of the production-side and the expenditure-side forecasts is an annualized -2.6% (Figure 1).

### ●2019Q1 inflation forecast update

▶ January was the 25<sup>th</sup> consecutive month of YoY increase in the **National Consumer Price Index** (+0.8%). The rate accelerated by 0.1%pt from the previous month. The seasonally adjusted figure was +0.2% MoM, which is the first increase in three months.

▶ According to this week's Current Quarter Model (CQM), the private final consumption expenditure deflator and the domestic demand deflator in Q1 are both estimated to have declined by -0.1% QoQ. Due to the improving terms of trade, we forecast a GDP deflator increase of +0.8% QoQ in 2019Q1 (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Mar (Q1) 2019 (% , QoQ annualized growth)

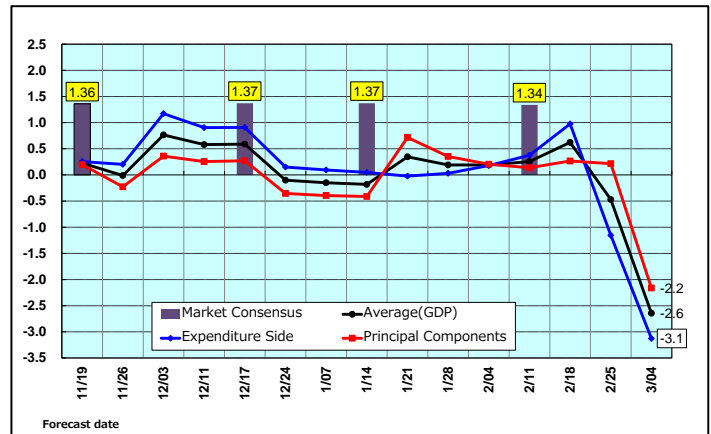
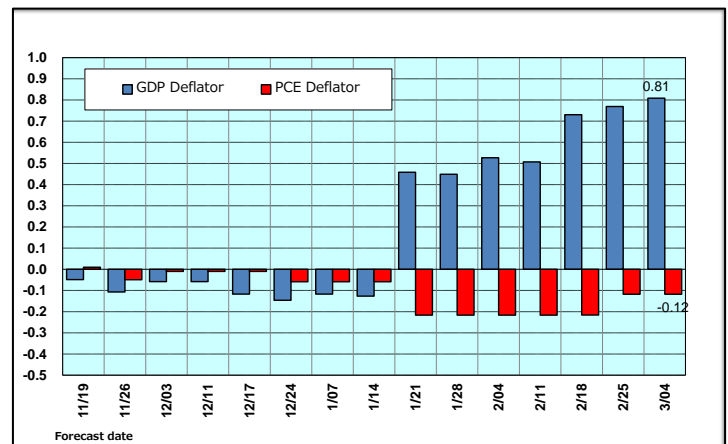


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2019 (% , QoQ growth)



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
3/1	February	<b>New Car Sales (vehicles)</b>	401,377		-0.1%
	January	<b>Labor Force Survey</b>			
		Total employment (millions)	66.65	-0.32	
		Total unemployment (millions)	1.72	+0.08	
		Unemployment rate (%)	2.5%	-0.1%pts	
	January	<b>General Job Placement Situation</b>			
		Job offer ratio	1.63	0.0%pts	
February	<b>Consumer Confidence Index (SA)</b>	41.5	-0.4		
February	<b>Tokyo Region Consumer Price Index (2015=100)</b>				
	Core	101.2	+0.2%	+1.1%	
2/28	January	<b>Indices of Industrial Production (preliminary figures, 2010=100)</b>			
		Production	100.8	-3.7%	
		Shipments	99.2	-4.0%	
		Inventory	101.6	-1.5%	
	January	<b>New Housing Starts</b>			
		New housing starts (SA, Unit)	72,630	-9.3%	+1.1%
		Planned dwelling construction cost (billion JPY)	1,144.1	-4.3%	+7.6%
	January	<b>Current Survey of Commerce (preliminary figures)</b>			
		Retail trade (billion JPY)	11,828.0	-2.3%	+0.6%
	December	<b>Construction Costs Deflator (2011=100)</b>			
	Housing construction	114.2		+4.6%	
	Public works	115.9		+4.9%	
2/27	January	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>			
		Input price	98.1		-0.3%
		Output price	99.5		-0.6%
2/25	January	<b>Corporate Service Price Index (2010=100)</b>			
		Overall index	104.9		+1.1%
	December	<b>Index of Business Conditions (revised, 2010=100)</b>			
		Leading indicator	97.5	-1.6	
		Consensus	101.8	-1.1	
		Lagging indicator	103.3	-0.6	
2/22	December	<b>Monthly Labour Statistics (final figures)</b>			
		Total cash salary per capita (JPY)	565,767		+1.5%
		Total working hours	140.9		-2.2%
January	<b>National Consumer Price Index (2015=100)</b>				
	Core	101.2	+0.2%	+0.8%	
2/21	December	<b>Industrial Activity Indices (2010=100)</b>			
		All industries	105.8	-0.4%	
		Construction industry	108.2	-2.1%	
2/20	January	<b>Trade Statistics (customs clearance level)</b>			
		Trade balance (billion JPY)	-1,415.2	+67.1%	+49.2%
		Exports (billion JPY)	5,574.2	-6.6%	-8.4%
		Imports (billion JPY)	6,989.5	-4.2%	-0.6%
2/19	November	<b>Construction Costs Deflator (2011=100)</b>			
		Housing construction	108.1		+0.8%
		Public works	110		+1.6%
2/18	December	<b>Private Core Machinery Orders (billion JPY)</b>	862.6	-0.1%	
	December	<b>Overall Construction Statistics</b>			
		Private construction: Non-residential (billion JPY)	908.7		-0.8%
		Public works (billion JPY)	2,425.0		-5.6%
2/15	December	<b>Indices of Industrial Production (official, 2010=100)</b>			
		Production capacity index	98.8		-0.5%

		Operation ratio index	104.3	-1.9%	
		Production	104.7	-0.1%	
		Shipments	103.3	0.0%	
		Inventory	103.1	-0.5%	
	December	<b>Synthetic Consumption Index (2011=100)</b>	104.5	-0.5%	
	January	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	585.3		-4.1%
		Number of contracts	13,570		+10.8%
2/13	January	<b>Domestic Corporate Price Index (2010=100)</b>			
		Corporate Price	100.9	-0.6%	+0.6%
		Export Price	93.9	-2.5%	-3.3%
		Import Price	95.2	-5.0%	-1.6%
2/12	December	<b>Tertiary Industry Activity Index (2010=100)</b>	106.2	-0.3%	
2/8	December	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	567,151		+1.8%
		Total working hours	141.1		-2.1%
	December	<b>Information Services Industry Sales (billion JPY)</b>	1,193.4		+5.0%
	December	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	329,271	-0.3%	+0.4%
		Real consumption expenditure		-0.1%	+0.1%
	December	<b>Consumption Activity Index (2011=100)</b>	104.3	-0.6%	
	January	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	45.6	-1.2	
		Future Conditions Diffusion Index	49.4	+1.5	
	December	<b>Balance of Payments</b>			
		Current account (billion JPY)	452.8	+18.8%	-43.5%
		Exports (billion JPY)	7,069.8	-1.7%	-2.8%
		Imports (billion JPY)	6,853.7	-6.3%	+1.6%
2/7	December	<b>Index of Business Conditions (preliminary, 2010=100)</b>			
		Leading indicator	97.9	-1.2	
		Consensus	102.3	-0.6	
		Lagging indicator	103.4	-0.6	
2/4	January	<b>Food Buffer Stock (billion JPY)</b>	-7.5		-5.4