



# Japanese Economy Monthly Forecast

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## Headlines

### ●Review of data released in April

- ▶ We estimated the Q1 GDP, taking into account the latest official data as of April 26<sup>th</sup>. With most of the relevant data having been released, Q1 economic trends seem clear.
- ▶ The **Index of Industrial production (IIP)** in Q1 declined -2.6% QoQ, registering a negative trend for the first time in two quarters. A decline of such magnitude had not been recorded since the consumption tax hike in 2014Q3.
- ▶ The value of planned residential construction in Q1, which is highly correlated with private residential investment, increased +3.5% QoQ, growing for the second consecutive quarter. Consequently, private housing is also expected to have expanded QoQ.
- ▶ The Q1 Capital Goods Shipments Index registered a significant decline, falling -5.7% QoQ. Respectively, private capital investment is expected to have declined too.
- ▶ Public works in February registered the second consecutive month of MoM growth. As a result, the January-February average was +3.4% higher compared to the 2018Q4 average. FY2018 supplementary budgets are expected to have boosted overall public fixed capital formation in Q1.
- ▶ Although Q1 **government investment** was robust, private demand was weak, especially **real private final consumption expenditure** and **real private capital investment**. As a result, domestic demand is expected to have made a negative contribution to GDP.
- ▶ Comparing 2019Q1 and 2018Q4, **real exports** and **real imports** contracted -1.8% and -2.5%, respectively. Although trade as a whole was stagnant, **real net exports** still made a positive contribution to GDP.

### ●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 +0.1% QoQ. The figure was revised upwards from last week (-0.2%), suggesting a narrow escape from contraction (Figure 1).
- ▶ The **production-side** forecast figure based on the principal component analysis model is an annualized +1.0%. The average of the production-side and the expenditure-side forecasts is an annualized +0.6%.

### ●2019Q1 inflation forecast update

- ▶ March was the 30<sup>th</sup> consecutive month of YoY increase in the **National Consumer Price Index** (+0.5%). The seasonally adjusted MoM figure remained unchanged for the second month in a row. The overall Q1 figure inched up +0.2% QoQ.
- ▶ According to this week's Current Quarter Model (CQM), the QoQ changes in the Q1 private final consumption expenditure deflator and the domestic demand deflator were -0.0% and 0.0%, respectively. Due to the improving terms of trade, we forecast a GDP deflator increase of +0.6% QoQ in Q1 (Figure 2).

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

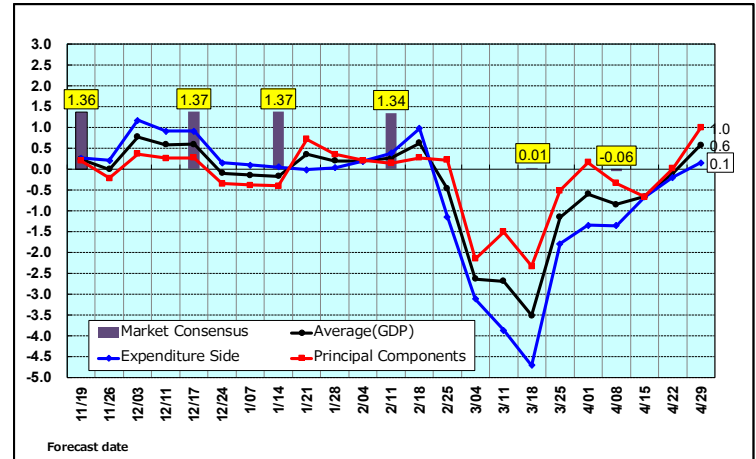
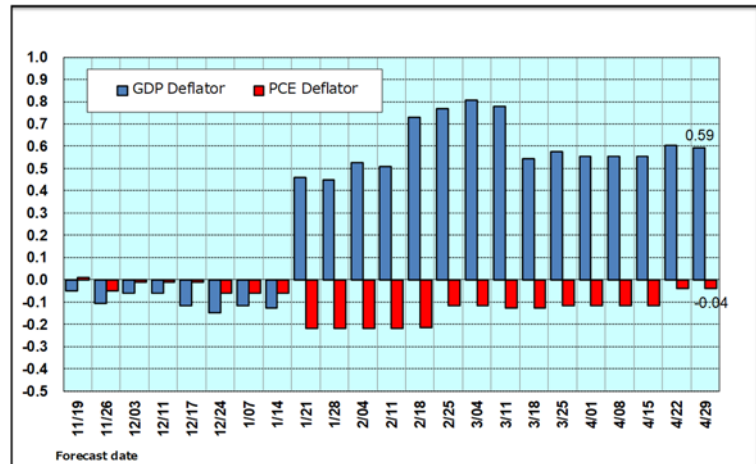


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2019 (% , QoQ growth)



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	
4/26	March	<b>Labor Force Survey</b>				
		Total employment (millions)	67.32	+0.18		
		Total unemployment (millions)	1.74	+0.14		
			Unemployment rate (%)	2.5%	+0.2%pts	
	March		<b>General Job Placement Situation</b>			
			Job offers-to-applicants ratio	1.63	0.00%pts	
	March		<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>			
			Production	101.9	-0.9%	
			Shipments	101.6	-0.6%	
			Inventory	104.0	+1.6%	
	March		<b>Current Survey of Commerce (preliminary figures)</b>			
			Retail trade (billion JPY)	12,796.0	+0.2%	+1.0%
	March		<b>New Housing Starts</b>			
		New housing starts (SA, Unit)	76,558	+2.3%	+10.0%	
		Planned dwelling construction (billion JPY)	1,370.4	+12.5%	+21.9%	
April		<b>Tokyo Region Consumer Price Index (2015=100)</b>				
		Core	101.7	+0.2%	+1.3%	
February		<b>Construction Costs Deflator (2011=100)</b>				
		Housing construction	110.2		+1.8%	
		Public works	111.9		+2.3%	
4/25	March	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	99.4		+1.5%	
		Output price	100.2		+0.7%	
4/24	February	<b>Industrial Activity Indices (2010=100)</b>				
		All industries	106.0	-0.2%		
			Construction industry	112.1	+1.5%	
	February		<b>Index of Business Conditions (revised figures, 2015=100)</b>			
			Leading indicators	97.1	+0.8	
		Coincident indicators	100.4	+0.8		
		Lagging indicators	104.4	-0.4		
4/23	February	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	264,582		-0.7%	
		Total working hours	137.8		-0.8%	
	March	<b>Corporate Service Price Index (2010=100)</b>				
		Overall index	105.8		+1.1%	
4/19	March	<b>National Consumer Price Index (2015=100)</b>				
		Core	101.5	0.0%	+0.8%	
4/17	February	<b>Indices of Industrial Production (final figures, 2015=100)</b>				
		Production capacity index	98.7		-0.3%	
		Capacity utilization index	101.0	+1.0%		
		Production	102.8	+0.7%		
		Shipments	102.2	+1.6%		
		Inventory	102.4	+0.4%		
	February		<b>Overall Construction Statistics</b>			
			Private construction: Non-residential (billion JPY)	906.7		+2.3%
			Public works (billion JPY)	2,013.0		-1.4%
	March		<b>Trade Statistics (customs clearance level)</b>			
			Trade balance (billion JPY)	528.5	-204.3	-32.6%
			Exports (billion JPY)	7,201.3	-1.0%	-2.4%
			Imports (billion JPY)	6,672.8	+2.1%	+1.1%
4/16	February	<b>Tertiary Industry Activity Index (2010=100)</b>	106.6	-0.6%		

4/15	March	<b>Public Works Advanced Securities Statistics</b> Contract amount (billion JPY) Number of contracts	1,316.5 18,159		+3.7% +11.3%
4/10	February March	<b>Private Core Machinery Orders (billion JPY)</b> <b>Domestic Corporate Price Index (2015=100)</b> Corporate Price Export Price Import Price	836.7 101.5 95.4 97.3	+1.8% +0.3% +0.8% +1.6%	+1.3% +0.2% +2.5%
4/9	February February	<b>Synthetic Consumption Index (2011=100)</b> <b>Information Services Industry Sales (billion JPY)</b>	104.3 871.9	-0.3%	+2.7%
4/8	March March  February	<b>Consumer Confidence Index (SA)</b> <b>Economy Watchers Survey</b> Current Conditions Diffusion Index Future Conditions Diffusion Index <b>Balance of Payments</b> Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	40.5 44.8 48.6 2,676.8 6,307.0 5,817.8	-1.0 -2.7 -0.3 +6.8% -3.2% +0.8%	+25.3% -1.9% -6.6%
4/5	February  February  February February February	<b>Monthly Labor Statistics (preliminary figures)</b> Total cash salary per capita (JPY) Total working hours <b>Family Income and Expenditure Survey (households with 2 or more people)</b> Nominal consumption expenditure (JPY) Real consumption expenditure <b>Consumption Activity Index (2011=100)</b> <b>Consumption Trend Index (2015=100)</b> <b>Index of Business Conditions (preliminary, 2015=100)</b> Leading indicator Consensus Lagging indicator	264,435 138.0 271,232 104.5 102.1 97.4 98.8 104.3	-0.8% -0.6% -1.8% -2.0% -0.2% +0.1% +0.9% +0.7% -0.5%	+1.9% +1.7%
4/2	March	<b>Food Buffer Stock (billion JPY)</b>	39.4		-6.5
4/1	March	<b>New Car Sales (vehicles)</b>	532,504		-5.3%

### CQM Forecast Tracking

Forecast date	Real GDP			Deflator		Real GDP			Deflator		Real GDP			Deflator	
	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE
	2018Q3					2018Q4					2019Q1				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
8/13	-0.6	0.6	0.0	-0.4	-0.2	1.6	0.3	1.0	0.2	0.3					
8/20	-0.4	0.5	0.0	-0.4	-0.2	1.8	0.3	1.0	0.2	0.3					
8/27	-0.4	0.3	-0.1	-0.2	0.2	1.8	0.4	1.1	0.1	0.2					
9/03	-0.9	-1.0	-1.0	-0.1	0.2	1.6	0.0	0.8	0.1	0.2					
9/11	-0.1	-0.4	-0.3	-0.1	0.2	1.6	0.1	0.8	0.1	0.2					
9/17	-1.2	-0.5	-0.9	-0.1	0.2	1.9	0.1	1.0	0.1	0.2					
9/24	-1.2	-0.1	-0.7	0.1	0.4	2.6	0.3	1.4	0.2	0.3					
10/01	-1.3	-0.3	-0.8	0.2	0.4	2.6	0.4	1.5	0.2	0.3					
10/08	-1.4	1.0	-0.2	0.2	0.4	2.6	0.5	1.6	0.2	0.3					
10/15	-1.5	1.1	-0.2	0.2	0.4	2.6	0.5	1.5	0.2	0.3					
10/22	-2.3	0.1	-1.1	0.1	0.4	0.2	0.0	0.1	0.0	0.2					
10/29	-2.3	0.1	-1.1	0.1	0.4	0.2	0.0	0.1	0.0	0.2					
11/05	-1.9	0.6	-0.6	0.0	0.4	-0.1	0.4	0.2	-0.1	0.2					
11/12	-1.8	0.2	-0.8	0.0	0.4	0.2	-0.7	-0.3	-0.1	0.2					
11/14	<u>-1.2</u>			<u>0.0</u>	<u>0.5</u>										
11/19						0.5	-0.2	0.2	0.0	0.3	0.3	0.2	0.2	0.0	0.0
11/26						0.5	0.2	0.4	0.0	0.3	0.2	-0.2	0.0	-0.1	0.0
12/03						1.9	1.9	1.9	0.1	0.4	1.2	0.4	0.8	-0.1	0.0
12/10	<b>-2.5*</b>			<b>-0.1*</b>	<b>0.4*</b>										
12/11						2.0	2.2	2.1	0.1	0.4	0.9	0.3	0.6	-0.1	0.0
12/17						2.1	2.2	2.2	0.0	0.4	0.9	0.3	0.6	-0.1	0.0
12/24						0.8	1.2	1.0	-0.2	0.1	0.2	-0.4	-0.1	-0.1	-0.1
1/07						0.9	0.9	0.9	-0.2	0.1	0.1	-0.4	-0.1	-0.1	-0.1
1/14						0.4	0.7	0.6	-0.2	0.1	0.0	-0.4	-0.2	-0.1	-0.1
1/21						0.4	1.3	0.9	-0.2	-0.1	0.0	0.7	0.3	0.5	-0.2
1/28						2.0	0.8	1.4	-0.2	-0.1	0.0	0.4	0.2	0.4	-0.2
2/04						2.2	1.2	1.7	-0.2	-0.1	0.2	0.2	0.2	0.5	-0.2
2/11						2.4	2.0	2.2	-0.2	-0.1	0.4	0.1	0.3	0.5	-0.2
2/14	<b>-2.6@</b>			<b>0.1@</b>	<b>0.5@</b>	<b>1.4</b>			<b>-0.1</b>	<b>0.0</b>					
2/18											1.0	0.3	0.6	0.7	-0.2
2/25											-1.2	0.2	-0.5	0.8	-0.1
3/04											-3.1	-2.2	-2.6	0.8	-0.1
3/08	<b>-2.4@</b>			<b>0.1@</b>	<b>0.5@</b>	<b>1.9*</b>			<b>-0.1*</b>	<b>0.0*</b>					
3/11											-3.9	-1.5	-2.7	0.8	-0.1
3/18											-4.7	-2.3	-3.5	0.5	-0.1
3/25											-1.8	-0.5	-1.2	0.6	-0.1
4/01											-1.4	0.2	-0.6	0.6	-0.1
4/08											-1.4	-0.3	-0.9	0.6	-0.1
4/15											-0.7	-0.7	-0.7	0.6	-0.1
4/22											-0.2	0.0	-0.1	0.6	0.0
4/29											0.1	1.0	0.6	0.6	0.0

Note: Underlined figures are 1st preliminary estimates, figures marked by \* are 2nd preliminary estimates, and figures marked by @ are revised ones.