



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in May

▶ According to the first preliminary estimates, real GDP in Q1 expanded for the second consecutive quarter, significantly exceeding both the market consensus and the CQM forecast.

▶ Despite this good news, there are reasons for concern. Private final consumption expenditure, private capital investment, and exports, i.e. the major demand-related GDP components, all declined QoQ. Growth was mainly driven by the expansion in private inventory changes and the substantial decline in imports.

▶ We estimated the Q2 GDP using the latest available official data as of May 31st. About one-third of all data required for GDP calculation has been released.

▶ The economic impact of the last-minute surge in demand due to the long holidays accompanying the era change in Japan can be clearly seen in April data. The consumption goods production index and the capital goods production index both exceeded the Q1 average. Inventories are also at their highest level since the onset of Abenomics. However, considering the likely recoil following the last-minute surge in demand, it is difficult to make predictions about the economy.

▶ Comparing April with the Q1 average, real exports and real imports expanded +1.7% and +1.8%, respectively (BOJ). As a result, the real net exports of goods remained almost unchanged.

● 2019 Q2 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's CQM forecast for Q2 real GDP growth (expenditure side) is +0.2% QoQ, or +0.9% if annualized. The contributions of domestic demand and net exports to growth are estimated at +0.0%pt and +0.2%pt QoQ.

▶ The production-side forecast figure, based on a principal component analysis, is an annualized +1.2%. The forecasts from the past three weeks, however, suggest a negative trend (Figure 1).

● 2019 Q2 inflation forecast update

▶ The national Consumer Price Index (CPI) in April expanded for the 31st consecutive month, accelerating by 0.4%pt from the previous month, reaching +0.9% YoY. The seasonally adjusted MoM figure was +0.1%, increasing for the first time in three months.

▶ As a result, the Q2 CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator are both -0.1% QoQ. As the terms of trade remained unchanged, we forecast that the overall GDP deflator will be -0.0% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2019 (% , QoQ annualized growth)

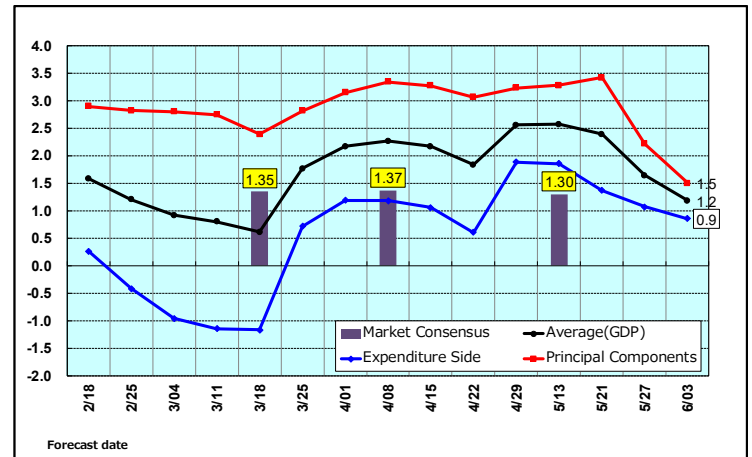
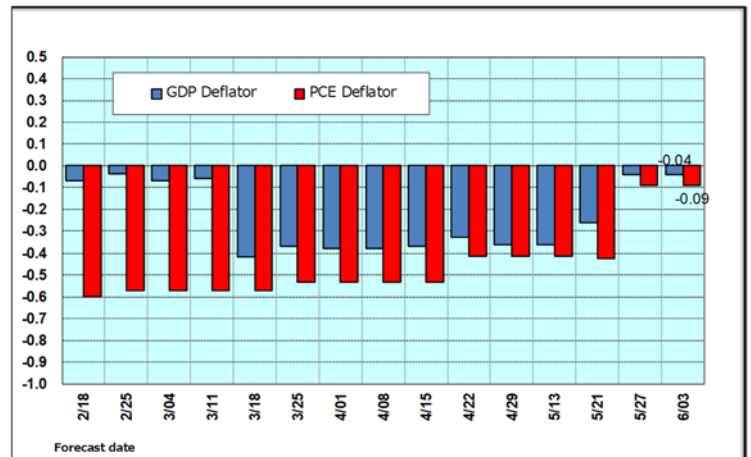


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2019 (% , QoQ growth)



We used 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.

Main Economic Indicators released in May

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
5/31	March	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	281,413		-1.3%	
			Total working hours	138.8		-2.7%
	April	Labor Force Survey				
		Total employment (millions)	67.02	-0.30		
		Total unemployment (millions)	1.68	-0.06		
	April	General Job Placement Situation	Unemployment rate (%)	2.4%	-0.1%pt	
			Job offers-to-applicants ratio	1.63	0.00%pt	
	April	Indices of Industrial Production (preliminary figures, 2015=100)	Production	102.8	+0.6%	
			Shipments	102.6	+1.7%	
			Inventory	103.8	0.0%	
	April	Current Survey of Commerce (preliminary figures)	Retail trade (billion JPY)	12,054.0	0.0%	+0.5%
	April	New Housing Starts	New housing starts (SA, Unit)	79,389	-5.8%	-5.7%
			Planned dwelling construction cost (billion JPY)	1,322.4	-16.1%	-3.7%
	May	Consumer Confidence Index (SA)	39.4	-1.0		
May	Tokyo Region Consumer Price Index (2015=100)	Core	101.6	-0.2%	+1.1%	
5/30	April	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	99.9		+1.3%	
		Output price	100.6		+0.7%	
5/28	April	Corporate Service Price Index (2010=100)	105.6		+0.9%	
5/27	March	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	95.9	-1.2		
		Coincident indicators	99.4	-1.1		
		Lagging indicators	104.3	-0.2		
5/24	April	National Consumer Price Index (2015=100)				
		Core	101.8	+0.1%	+0.9%	
5/22	March	Industrial Activity Indices (2010=100)				
		All industries	105.6	-0.4%		
			Construction industry	111.9	+0.3%	
	March	Private Core Machinery Orders (billion JPY)	All industries	868.8	+3.8%	
			Construction industry	105.6	-0.4%	
	March	Overall Construction Statistics	Construction industry	111.9	+0.3%	
			Private construction: Non-residential (billion JPY)	874.4		+3.3%
			Public works (billion JPY)	1,985.8		-3.0%
	April	Trade Statistics (customs clearance)				
			Trade balance (billion JPY)	60.4	-28.1%	-90.3%

		Exports (billion JPY)	6,658.8	+0.6%	-2.4%
		Imports (billion JPY)	6,598.3	-0.1%	+6.4%
5/20	March	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	98.7		-0.1%
		Capacity utilization ratio	100.6	-0.4%	
		Production	102.2	-0.6%	
		Shipments	100.9	-1.3%	
		Inventory	103.8	+1.4%	
5/17	March	Tertiary Industry Activity Index (2010=100)	106.2	-0.4%	
5/16	March	Synthetic Consumption Index (2011=100)	104.3	-0.1%	
	April	Domestic Corporate Price Index (2015=100)			
		Corporate Price	101.8	+0.3%	+1.2%
		Export Price	95.7	+0.4%	+0.2%
		Import Price	97.8	+0.5%	+1.8%
5/15	March	Information Services Industry Sales (billion JPY)	1,765.6		+3.6%
	April	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	2,232.9		+2.5%
		Number of contracts	19,432		+7.1%
5/14	April	Economy Watchers Survey			
		Current Conditions Diffusion Index	45.3	+0.5	
		Future Conditions Diffusion Index	48.4	-0.2	
	March	Balance of Payments			
		Current account (billion JPY)	2,847.9	-33.0%	-10.6%
		Exports (billion JPY)	7,058.6	-2.4%	-5.2%
		Imports (billion JPY)	6,358.5	+2.4%	+1.5%
5/13	March	Consumption Activity Index (2011=100)	103.9	-0.5%	
		Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	96.3	+0.9	
		Coincident indicators	99.6	+0.7	
		Lagging indicators	104.6	+0.1	
5/10	March	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	279,922		-1.9%
		Total working hours	138.3		-3.0%
	March	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	309,274	-0.3%	+2.7%
		Real consumption expenditure		+0.1%	+2.1%
	March	Consumption Trend Index (2015=100)	101.9	0.0%	
5/9	April	Consumer Confidence Index (SA)	40.4	-0.1	
5/8	April	Food Buffer Stock (billion JPY)	-15.4		-7.2
5/7	April	New Car Sales (vehicles)	314,950		+3.3%

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
	2019Q1					2019Q2					2019Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/18	1.0	0.3	0.6	0.7	-0.2	0.3	2.9	1.6	-0.1	-0.6					
2/25	-1.2	0.2	-0.5	0.8	-0.1	-0.4	2.8	1.2	0.0	-0.6					
3/04	-3.1	-2.2	-2.6	0.8	-0.1	-1.0	2.8	0.9	-0.1	-0.6					
3/08															
3/11	-3.9	-1.5	-2.7	0.8	-0.1	-1.1	2.7	0.8	-0.1	-0.6					
3/18	-4.7	-2.3	-3.5	0.5	-0.1	-1.2	2.4	0.6	-0.4	-0.6					
3/25	-1.8	-0.5	-1.2	0.6	-0.1	0.7	2.8	1.8	-0.4	-0.5					
4/01	-1.4	0.2	-0.6	0.6	-0.1	1.2	3.1	2.2	-0.4	-0.5					
4/08	-1.4	-0.3	-0.9	0.6	-0.1	1.2	3.3	2.3	-0.4	-0.5					
4/15	-0.7	-0.7	-0.7	0.6	-0.1	1.1	3.3	2.2	-0.4	-0.5					
4/22	-0.2	0.0	-0.1	0.6	0.0	0.6	3.1	1.8	-0.3	-0.4					
4/29	0.1	1.0	0.6	0.6	0.0	1.9	3.2	2.6	-0.3	-0.4					
5/13	0.1	0.8	0.5	0.6	0.0	1.9	3.3	2.6	-0.4	-0.4					
5/20	<u>2.1</u>			<u>0.3</u>	<u>-0.2</u>										
5/21						1.4	3.4	2.4			1.0	0.3	0.7	0.1	0.2
5/27						1.1	2.2	1.6			1.3	0.6	1.0	0.1	0.1
6/03						0.9	1.5	1.2			1.6	1.7	1.6	0.1	0.1

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