



# Japanese Economy Monthly Forecast

June 2019

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## Headlines

### ●Review of data released in June

▶ The second preliminary GDP estimates from June 10<sup>th</sup> represented a small upward revision in Q1 real GDP growth vis-à-vis the first preliminary estimates. Although this comes as a positive surprise to businesses, 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 June 28<sup>th</sup>, which is about two-thirds of all data required for a complete calculation of GDP.

▶ Contrary to our expectations of an economic recoil following the last-minute surge in demand accompanying the long holidays, May data showed a robust increase in production. Private housing investment stagnated, while private capital investment was in a good condition. As private final consumption is robust on the supply side but weak on the demand side, it is difficult to predict future consumption trends.

▶ Comparing the April-May average with the Q1 average, real exports fell -0.4% whereas real imports expanded +3.9%. Exports kept shrinking, while imports rebounded from the sharp decline in Q1. As a result, real net exports are expected to have had a negative impact on GDP growth in Q2.

### ●2019Q2 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's CQM forecast for Q2 real GDP growth (expenditure side) is +0.1% QoQ, or +0.2% if annualized. The contributions of domestic demand and net exports to growth are estimated at +0.7%pt and -0.6%pt QoQ. The forecasts from the past month show a growth deceleration trend.

▶ The production-side forecast figure, based on a principal component analysis, is an annualized +0.6%. The average of the expenditure-side and the production-side forecasts is an annualized +0.4% (Figure 1).

### ●2019Q2 inflation forecast update

▶ The core Tokyo Consumer Price Index (CPI), which is a leading indicator of the national CPI, increased +0.9% YoY in June, the 24<sup>th</sup> consecutive month in positive territory. However, the seasonally adjusted figure was 0.0% MoM. As a result, Q2 CPI inflation is expected to remain flat.

▶ As a result, the Q2 CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator are both -0.1% QoQ. Due to the slight deterioration in the terms of trade, we forecast an overall GDP deflator of -0.2% QoQ (Figure 2).

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

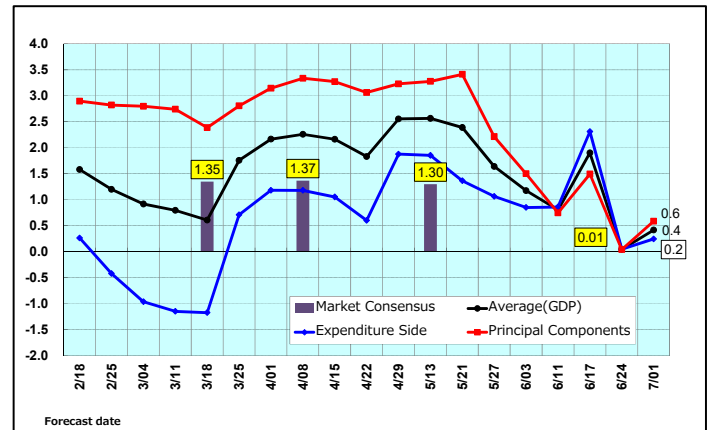
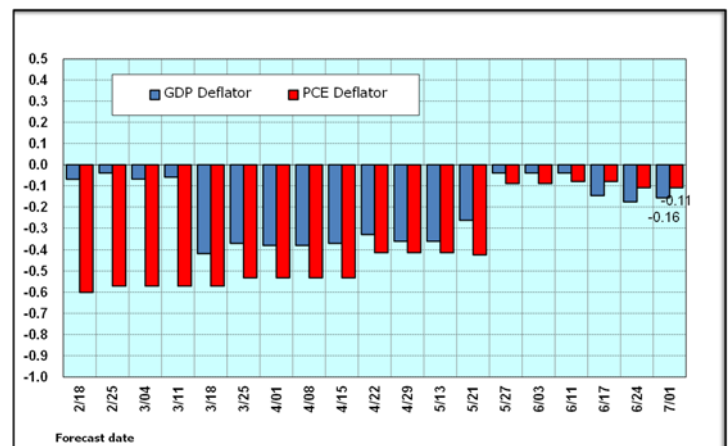


Fig 2. CQM Forecast: Inflation Apr-Jun (Q2) 2019 (% , QoQ growth)



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	
6/28	May	<b>Labor Force Survey</b>				
		Total employment (millions)	66.94	-0.08		
		Total unemployment (millions)	1.62	-0.06		
			Unemployment rate (%)	2.4%	0.0%pt	
	May	<b>General Job Placement Situation</b>				
		Job offers-to-applicants ratio	1.62	-0.01%pt		
	May	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>				
		Production	105.2	+2.3%		
		Shipments	104.3	+1.6%		
			Inventory	104.4	+0.6%	
	May	<b>New Housing Starts</b>				
		New housing starts (SA, Unit)	72,581	-3.3%	-8.7%	
			Planned dwelling construction cost (billion JPY)	1,233.4	-3.1%	-7.5%
April	<b>Construction Costs Deflator (2011=100)</b>					
	Housing construction	111.2		+2.4%		
		Public works	113.2	+2.9%		
June	<b>Tokyo Region Consumer Price Index (2015=100)</b>					
	Core	101.5	0.0%	+0.9%		
6/27	May	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	11,984.0	+0.3%	+1.2%	
May	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>					
	Input price	100.0		0.0%		
		Output price	100.4	-0.2%		
6/25	May	<b>Corporate Service Price Index (2015=100)</b>				
		Overall index	102.8		+0.8%	
6/24	April	<b>Index of Business Conditions (revised figures, 2015=100)</b>				
		Leading indicators	95.9	+0.2		
		Coincident indicators	102.1	+1.0		
		Lagging indicators	104.6	0.0		
6/21	April	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	276,551		-0.3%	
		Total working hours	143.4		-1.8%	
May	<b>National Consumer Price Index (2015=100)</b>					
	Core	101.8	-0.1%	+0.8%		
6/20	April	<b>Industrial Activity Indices (2010=100)</b>				
		All industries	106.6	+0.9%		
		Construction industry	112.7	+0.2%		
6/19	May	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	-967.1	+258.0%	+67.5%	
		Exports (billion JPY)	5,835.1	-5.3%	-7.8%	
		Imports (billion JPY)	6,802.2	+1.3%	-1.5%	
6/18	April	<b>Overall Construction Statistics</b>				
		Private construction: Non-residential (billion JPY)	855.3		+4.8%	
		Public works (billion JPY)	1,456.7		+0.1%	

6/14	April	<b>Indices of Industrial Production (final figures, 2015=100)</b>			
		Production capacity index	97.9		-0.5%
		Capacity utilization ratio	102.2	+1.6%	
		Production	102.8	+0.6%	
		Shipments	102.7	+1.8%	
		Inventory	103.8	0.0%	
May		<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	1,420.4		+10.5%
		Number of contracts	17,789		+8.5%
6/13	April	<b>Tertiary Industry Activity Index (2010=100)</b>	107.3	+0.8%	
	April	<b>Synthetic Consumption Index (2011=100)</b>	106.2	+1.7%	
6/12	April	<b>Private Core Machinery Orders (billion JPY)</b>	913.7	+5.2%	
	May	<b>Domestic Corporate Price Index (2015=100)</b>			
		Corporate Price	101.8	-0.1%	+0.7%
		Export Price	94.3	-1.4%	-2.7%
		Import Price	97.4	-0.3%	-1.4%
6/10	April	<b>Information Services Industry Sales (billion JPY)</b>	722.5		+2.2%
	May	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	44.1	-1.2	
		Future Conditions Diffusion Index	45.6	-2.8	
	April	<b>Balance of Payments</b>			
		Current account (billion JPY)	1,707.4	+25.9%	-9.5%
		Exports (billion JPY)	6,388.0	+2.4%	-3.7%
		Imports (billion JPY)	6,486.2	+2.3%	+6.9%
6/7	April	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	277,261		-0.1%
		Total working hours	143.6		-1.7%
	April	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	301,136	-0.9%	+2.3%
		Real consumption expenditure		-1.4%	+1.3%
	April	<b>Consumption Trend Index (2015=100)</b>	101.3	0.0%	
	April	<b>Consumption Activity Index (2011=100)</b>	105.5	+0.9%	
	April	<b>Index of Business Conditions (preliminary, 2015=100)</b>			
		Leading indicators	95.5	-0.2	
	Coincident indicators	101.9	+0.8		
	Lagging indicators	104.6	+0.1		
6/4	May	<b>Food Buffer Stock (billion JPY)</b>	8.6		-1.6
	March	<b>Construction Costs Deflator (2011=100)</b>			
		Housing construction	111.1		+1.9%
		Public works	113.1		+2.6%
6/3	May	<b>New Car Sales (vehicles)</b>	327,418		+6.4%

### 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					
<b>5/20</b>	<b><u>2.1</u></b>			<b><u>0.3</u></b>	<b><u>-0.2</u></b>										
5/21						1.4	3.4	2.4	-0.3	-0.4	1.0	0.3	0.7	0.1	0.2
5/27						1.1	2.2	1.6	0.0	-0.1	1.3	0.6	1.0	0.1	0.1
6/03						0.9	1.5	1.2	0.0	-0.1	1.6	1.7	1.6	0.1	0.1
6/10	<b>2.2*</b>			<b>0.3*</b>	<b>-0.2*</b>										
6/11						0.9	0.7	0.8	0.0	-0.1	1.6	1.8	1.7	0.1	0.1
6/17						2.3	1.5	1.9	-0.1	-0.1	1.5	1.7	1.6	0.0	0.1
6/24						0.0	0.0	0.0	-0.2	-0.1	0.0	1.4	0.7	0.0	0.1
7/01						0.2	0.6	0.4	-0.2	-0.1	0.0	1.7	0.8	0.0	0.1

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