



# Japanese Economy Monthly Forecast

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## Headlines

### ● Review of data released in August

▶ According to the first preliminary estimates from August 9<sup>th</sup>, Q2 real GDP grew an annualized +1.8% QoQ, expanding for the third consecutive quarter. The figure was significantly higher than the final market consensus forecast, but almost the same as our final CQM forecast.

▶ As a result of this update, GDP growth in the first half of the year compared to the second half of 2018 was an annualized +2.1%, surpassing expectations.

▶ We estimated the Q3 GDP using the latest available official data. About one-third of all data required for GDP calculation has been released so far.

▶ Among the indices of private final consumption expenditure, the consumption goods production index in July fell -0.3% compared to the Q2 average. However, considering the reactionary fall in consumption after the long holidays in April-May, as well as the last-minute surge in demand before the tax hike in October, it is difficult to make accurate predictions for Q3.

▶ Among the business-related indices, the capital goods production index in July increased +2.0% compared to the Q2 average.

▶ Compared to the Q2 average, real exports and real imports in July grew +2.1% and +1.1%, respectively (BOJ). As a result, the net exports of goods expanded.

### ● 2019 Q3 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's CQM forecast for Q3 real GDP growth (expenditure side) is +0.6% QoQ, or +2.6% if annualized. The contributions of domestic demand and net exports to growth are estimated at +0.3%pt and +0.4%pt QoQ, respectively.

▶ The production-side forecast figure, based on a principal component analysis, is an annualized +2.7%. The average of the expenditure side and production-side forecasts is +2.7% (Figure 1).

### ● 2019 Q3 inflation forecast update

▶ The national Consumer Price Index (CPI) in July increased +0.6%YoY, expanding for the 31<sup>st</sup> consecutive month. Therein, the contribution of energy prices was +0.04%, smaller than the previous month. In contrast, the contribution of non-energy prices expanded MoM, reaching +0.56%.

▶ As a result, the Q3 CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator are +0.0% and -0.1% QoQ. As the terms of trade are improving, we forecast that the overall Q3 GDP deflator will be +0.2% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2019 (% , QoQ annualized growth)

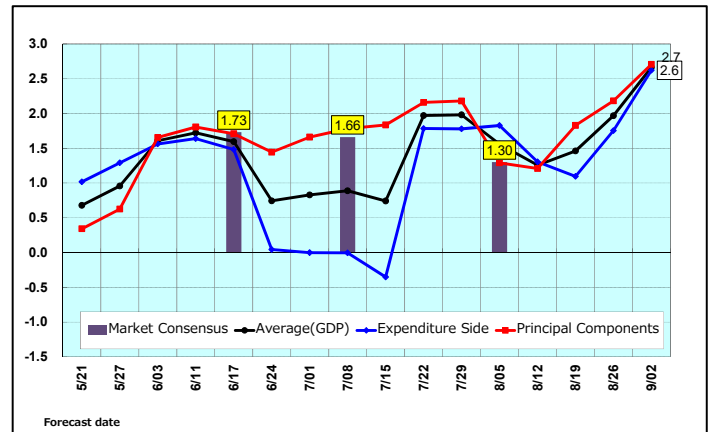
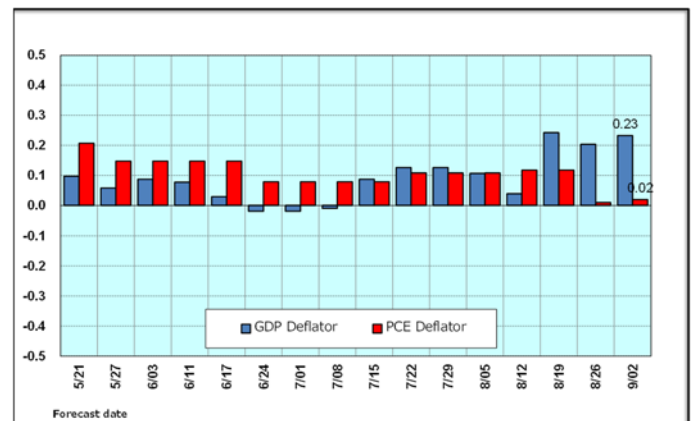


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2019 (% , QoQ growth)



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 August

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
8/30	July	<b>Labor Force Survey</b>				
		Total employment (millions, sa)	67.16	+0.15		
		Total unemployment (millions, sa)	1.54	-0.07		
			Unemployment rate (% , sa)	2.2%	-0.1%pt	
	July	<b>General Job Placement Situation</b>				
		Job offers-to-applicants ratio (sa)	1.59	-0.02%pt		
	July	<b>Indices of Industrial Production (preliminary figures, 2015=100, sa)</b>				
		Production	102.7	+1.3%		
		Shipments	102.4	+2.6%		
			Inventory	104.4	-0.3%	
	July	<b>Current Survey of Commerce (preliminary figures)</b>				
		Retail trade (billion JPY)	12,165	-2.3%	-2.0%	
	July	<b>New Housing Starts</b>				
		New housing starts (sa, Unit)	79,232	-1.3%	-4.1%	
	Planned dwelling construction cost (billion JPY)	1,382.3	+0.1%	+2.5%		
August	<b>Tokyo Region Consumer Price Index (2015=100)</b>					
	Core	101.7	+0.1%	+0.7%		
June	<b>Construction Costs Deflator (2011=100)</b>					
	Housing construction	112.8		+0.4%		
	Public works	114.8		+1.0%		
8/29	August	<b>Consumer Confidence Index (sa)</b>	37.1	-0.7		
	July	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	98.3		-2.9%	
		Output price	99.6		-1.4%	
8/27	July	<b>Corporate Service Price Index (2015=100)</b>				
		Overall index	102.9		+0.5%	
8/26	June	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	451,681		+0.4%	
			Total working hours	142.6		-3.3%
	June	<b>Index of Business Conditions (revised figures, 2015=100, sa)</b>				
		Leading indicators	93.3	-1.6		
		Coincident indicators	100.4	-3.0		
	Lagging indicators	104.5	0.0			
8/23	July	<b>National Consumer Price Index (2015=100)</b>				
		Core	101.5	+0.1%	+0.6%	
8/22	June	<b>Industrial Activity Indices (2010=100, sa)</b>				
		All industries	106.0	-0.8%		
		Construction industry	113.3	-1.0%		
8/20	June	<b>Overall Construction Statistics</b>				
		Private construction: Non-residential (billion JPY)	858.5		+1.7%	
		Public works (billion JPY)	1,558.4		+5.3%	
8/19	July	<b>Trade Statistics (customs clearance level)</b>				
		Trade balance (billion JPY)	-249.6	+273.9%	+9.8%	
		Exports (billion JPY)	6,643.2	-0.2%	-1.6%	

		Imports (billion JPY)	6,892.8	+1.2%	-1.2%
8/15	June	<b>Indices of Industrial Production (final figures, 2015=100, sa)</b>			
		Production capacity index	97.8		-0.6%
		Capacity utilization ratio	101.2	+1.7%	
		Production	101.4	-3.3%	
		Shipments	99.8	-4.0%	
		Inventory	104.7	+0.4%	
	July	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	1,609.1		+28.5%
		Number of contracts	28,407		+8.0%
8/14	June	<b>Private Core Machinery Orders (billion JPY, sa)</b>	960.3	+13.9%	
8/13	June	<b>Tertiary Industry Activity Index (2010=100, sa)</b>	106.9	-0.1%	
	July	<b>Domestic Corporate Price Index (2015=100)</b>			
		Corporate Price	101.2	0.0%	-0.6%
		Export Price	92.8	-0.3%	-4.7%
		Import Price	93.5	-1.8%	-8.1%
8/8	June	<b>Synthetic Consumption Index (2011=100, sa)</b>	104.6	-0.6%	
	June	<b>Information Services Industry Sales (billion JPY)</b>	1,115.3		+4.8%
	July	<b>Economy Watchers Survey (sa)</b>			
		Current Conditions Diffusion Index	41.2	-2.8	
		Future Conditions Diffusion Index	44.3	-1.5	
	June	<b>Balance of Payments</b>			
		Current account (billion JPY)	1,211.2	+48.7%	-0.0%
		Exports (billion JPY)	6,452.4	+0.4%	-7.5%
		Imports (billion JPY)	5,693.1	-8.6%	-7.5%
8/7	June	<b>Consumption Activity Index (2011=100, sa)</b>	104.7	-0.0%	
8/6	June	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	451,918		+0.4%
		Total working hours	142.8		-3.2%
	June	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	276,882	-2.9%	+3.5%
		Real consumption expenditure		-2.8%	+2.7%
	June	<b>Consumption Trend Index (2015=100, sa)</b>	102.0	0.0%	
	June	<b>Index of Business Conditions (preliminary, 2015=100, sa)</b>			
		Leading indicators	93.3	-1.6	
		Coincident indicators	100.4	-3.0	
		Lagging indicators	104.1	-0.4	
8/2	July	<b>Food Buffer Stock (billion JPY)</b>	7.2		+14.9
8/1	July	<b>New Car Sales (vehicles)</b>	379,422		+2.9%

Note: MoM changes are calculated using seasonally adjusted data (sa). YoY changes are calculated using non-seasonally adjusted data.

### 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
	2019Q2					2019Q3					2019Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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															
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					
7/08	0.2	2.0	1.1	-0.2	-0.1	0.0	1.8	0.9	0.0	0.1					
7/15	2.1	1.6	1.9	-0.1	-0.1	-0.4	1.8	0.7	0.1	0.1					
7/22	2.1	2.5	2.3	-0.1	-0.1	1.8	2.2	2.0	0.1	0.1					
7/29	2.1	2.4	2.3	-0.1	-0.1	1.8	2.2	2.0	0.1	0.1					
8/05	1.5	2.1	1.8	-0.1	-0.1	1.8	1.3	1.6	0.1	0.1					
8/08	<u>1.8</u>			<u>-0.0</u>	<u>0.1</u>										
8/12						1.3	1.2	1.3	0.0	0.1	-0.9	-1.2	-1.1	-0.1	0.1
8/19						1.1	1.8	1.5	0.2	0.1	-0.8	-1.1	-1.0	0.0	0.1
8/26						1.8	2.2	2.0	0.2	0.0	-0.6	-0.7	-0.7	0.0	0.1
9/02						2.6	2.7	2.7	0.2	0.0	-0.7	-0.7	-0.7	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.