



Japanese Economy Monthly Forecast

November 2019

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

Headlines

● Review of data released as of November

▶ According to the first preliminary estimates, real GDP in Q3 expanded an annualized +0.2% QoQ. The figure was well below the market consensus and the CQM forecast.

▶ Regarding private final consumption expenditure, the rush demand before the consumption tax hike this time was not as pronounced as last time. The basic consumption trend, excluding rush demand, was weaker this time.

▶ Due to the impact of Typhoon Hagibis and the reactionary fall following the consumption tax hike, the index of industrial production in October slid down by -4.2%, falling for the first time in two months.

▶ Retail sales in October shrank by -14.4%, a larger decline than the one after the previous tax hike. The slump in private final consumption expenditure was inevitable, due to the reactionary fall in demand.

▶ The value of planned dwelling construction and the index of capital goods shipments in October declined relative to the Q3 average. Private housing investment and private capital investment are expected to remain sluggish in Q4.

▶ Comparing October with the Q3 average, real exports and real imports shrank by -1.6% and -2.6%, respectively. Although the total amount of trade is declining, net exports remain a driver of growth.

● 2019 Q4 real GDP growth forecast update

▶ Factoring in the latest data updates, APIR's CQM expenditure-side forecast for Q4 real GDP growth is an annualized -3.1% QoQ. The production-side (principal component analysis) forecast figure is an annualized -3.3% QoQ. The average of the two is -3.2% (Figure 1).

▶ The contributions of domestic demand and net exports to growth are estimated at -0.8%pt and +0.1%pt QoQ, respectively. The slump in domestic demand was inevitable, due to the reactionary fall after the tax hike.

● 2019 Q4 inflation forecast update

▶ The national core consumer price index (CPI) in October expanded +0.4% YoY, accelerating slightly from the previous month (+0.3%). The net contribution of the tax hike and the removal of preschool education fees is +0.2%.

▶ The Q4 CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator are both +0.2% QoQ. As the terms of trade are deteriorating, we forecast a GDP deflator of +0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Oct-Dec (Q4) 2019 (% QoQ annualized growth)

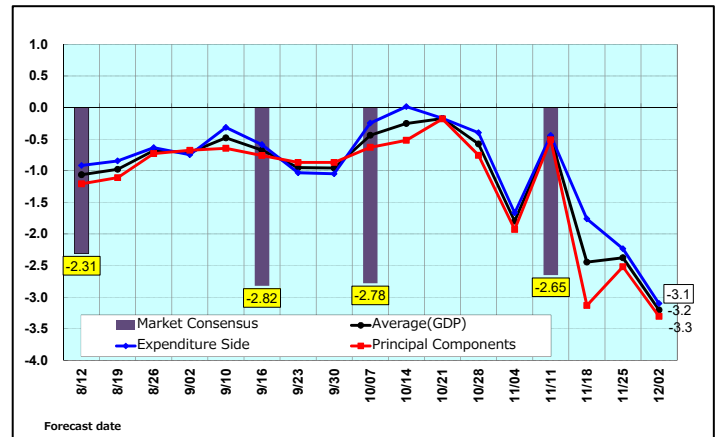
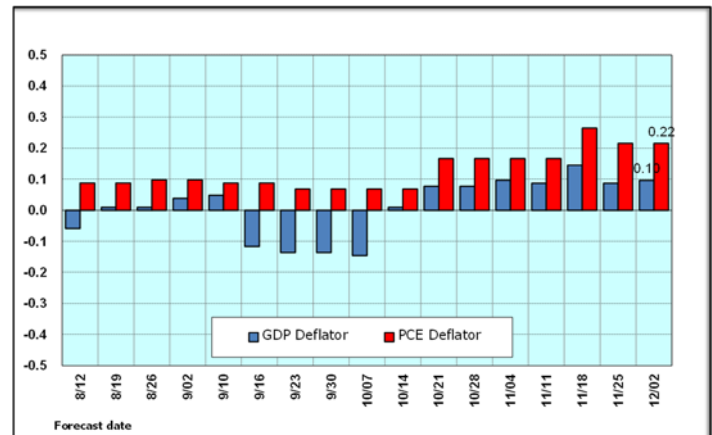


Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 2019 (% QoQ growth)



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 September/October

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
11/29	October	Labor Force Survey				
		Total employment (millions)	67.58	+0.28		
		Total unemployment (millions)	1.66	-0.01		
			Unemployment rate (%)	2.4%	0.0%pt	
	October	General Job Placement Situation				
		Job offers-to-applicants ratio	1.57	0.0%pt		
	October	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	98.9	-4.2%		
		Shipments	98.3	-4.3%		
		Inventory	104.1	+1.2%		
	October	New Housing Starts				
		New housing starts (SA, Unit)	77,123	-2.0%	-7.4%	
		Planned residential construction expenditure (billion JPY)	1,334.7	+1.4%	+0.5%	
	September	Construction Costs Deflator (2011=100)				
	Housing construction	113.3		+2.7%		
	Public works	115.5		+3.2%		
November	Tokyo Region Consumer Price Index (2015=100)					
	Core	102.0	+0.2%	+0.6%		
November	Consumer Confidence Index (SA)	38.7	+2.5			
11/28	October	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	11,090	-14.4%	-7.1%	
	October	Manufacturing Industry Input-Output Price Index (2011=100)				
	Input price	97.8		-3.7%		
	Output price	99.2		-2.4%		
11/26	October	Corporate Service Price Index (2015=100)				
	Overall index	104.8		+2.1%		
11/25	September	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	91.9	0.0		
		Coincident indicators	101.1	+2.1		
	Lagging indicators	104.3	-0.4			
11/22	September	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	271,945		+0.5%	
		Total working hours	138.2		-0.6%	
October	National Consumer Price Index (2015=100)					
	Core	102.0	0.0%	+0.4%		
11/21	September	Industrial Activity Indices (2010=100)				
		All industries	107.8	+1.5%		
		Construction industry	109.1	-2.2%		
11/20	October	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	+17.3	-46.0%	+473.5	
		Exports (billion JPY)	6,577.4	-1.7%	-9.2%	
		Imports (billion JPY)	6,560.1	-2.2%	-14.8%	
11/19	September	Synthetic Consumption Index (2011=100)	106.5	+1.3%		
September	Overall Construction Statistics					

		Private construction: Non-residential (billion JPY)	919.5		-0.0%
		Public works (billion JPY)	1,954.4		+7.0%
11/15	September	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	97.8		-0.7%
		Capacity utilization ratio	100.3	+1.0%	
		Production	103.2	+1.7%	
		Shipments	102.7	+1.5%	
		Inventory	102.9	-1.4%	
	October	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	1,348.0		+5.1%
		Number of contracts	29,010		+5.8%
11/14	September	Tertiary Industry Activity Index (2010=100)	109.1	+1.8%	
11/13	October	Domestic Corporate Price Index (2015=100)			
		Corporate Price	102.0	+1.1%	-0.4%
		Export Price	91.8	+0.3%	-6.3%
		Import Price	92.6	+0.7%	-10.5%
11/11	September	Private Core Machinery Orders (billion JPY)	850.2	-2.9%	
	September	Information Services Industry Sales (billion JPY)	1,400.4		+7.7%
	October	Economy Watchers Survey			
		Current Conditions Diffusion Index	36.7	-10.0	
		Future Conditions Diffusion Index	43.7	+6.8	
	September	Balance of Payments			
		Current account (billion JPY)	1,612.9	-13.7%	-12.5%
		Exports (billion JPY)	6,225.9	-1.3%	-6.7%
		Imports (billion JPY)	6,224.8	+0.6%	-2.0%
11/8	September	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	272,937		+0.8%
		Total working hours	138.3		-0.5%
	September	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	300,609	+5.5%	+9.8%
		Real consumption expenditure		+5.5%	+9.5%
	September	Consumption Trend Index (2015=100)	104.8	+2.5%	
	September	Consumption Activity Index (2011=100)	109.5	+3.6%	
	September	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	92.2	+0.3	
		Coincident indicators	101.0	+2.0	
		Lagging indicators	102.9	-1.8	
11/5	October	Food Buffer Stock (billion JPY)	22.0		+16.9
11/1	October	New Car Sales (vehicles)	259,905		-25.1%

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
	2019Q3					2019Q4					2020Q1				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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					
9/09	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
9/10	-0.1	2.1	1.0	0.3	0.1	-0.3	-0.6	-0.5	0.0	0.1					
9/16	1.0	1.9	1.4	0.2	0.1	-0.6	-0.8	-0.7	-0.1	0.1					
9/23	0.7	1.7	1.2	0.1	0.0	-1.0	-0.9	-1.0	-0.1	0.1					
9/30	0.7	1.7	1.2	0.1	0.0	-1.0	-0.9	-1.0	-0.1	0.1					
10/07	1.4	2.6	2.0	0.0	0.0	-0.2	-0.6	-0.4	-0.1	0.1					
10/14	2.2	2.8	2.5	0.1	0.0	0.0	-0.5	-0.3	0.0	0.1					
10/21	1.3	2.3	1.8	0.1	0.1	-0.2	-0.2	-0.2	0.1	0.2					
10/28	1.0	1.8	1.4	0.1	0.1	-0.4	-0.8	-0.6	0.1	0.2					
11/04	0.8	0.9	0.9	0.2	0.1	-1.7	-1.9	-1.8	0.1	0.2					
11/11	1.7	2.9	2.3	0.2	0.1	-0.4	-0.5	-0.5	0.1	0.2					
11/14	<u>0.2</u>			<u>0.2</u>	<u>0.1</u>										
11/18						-1.8	-3.1	-2.4	0.1	0.3	1.4	0.4	0.9	-0.2	0.0
11/25						-2.2	-2.5	-2.4	0.1	0.2	0.8	0.4	0.6	-0.2	0.0
12/02						-3.1	-3.3	-3.2	0.1	0.2	1.2	0.7	1.0	-0.2	0.0

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