Japanese Economy Monthly Forecast

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Headlines

● Review of data released in January

▶ The recoil from the surge in consumption before the October tax hike can be seen in all official statistics. The decline is not as large as the one following the previous tax hike in 2014. However, the marginal propensity to consume has been on a downward trajectory since 2014 due to the sluggish growth of real disposable incomes. The outlook of private consumption does not seem bright.

▶ Apart from private final consumption expenditure-related statistics, all other official data required to estimate Japan's GDP in 2019 Q4 have been released.

▶ Although the Index of Industrial Production increased for the first time in three months in December, the Q4 average dropped +4.0% QoQ, marking the second consecutive quarter of decline.

▶ The Q4 revenues of large retailers shrank for the first time in three quarters, decreasing -6.1% relative to Q3. The decline, however, was not as large as the one triggered by the previous consumption tax hike in 2014.

▶ Both planned residential construction and the capital goods shipments index slumped in Q4. Based on that, we conclude that private capital investment was bearish in Q4.

▶ The index of final goods inventories expanded substantially in December. Inventories have piled up due to the reactionary fall in demand after the consumption tax hike.

▶ Real exports and imports in Q4 declined -2.2% and -2.9%, respectively. Although the total trade volume kept shrinking, net exports expanded, making a positive contribution to economic growth.

● 2019 Q4 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q4 is -0.8% QoQ, or -3.3% if annualized. The production-side forecast figure is an annualized -5.6%. The average of the two is an annualized -4.4% (Figure 1).

▶ The private final consumption expenditure statistics for December, which will be released this weekend, are likely to lead to a downward revision of our forecast. Judging by the decline in the consumer goods shipments index in December, consumption was stagnant.

● 2019 Q4 inflation forecast update

▶ The national core Consumer Price Index (CPI) in December increased YoY for the 36th consecutive month. The seasonally adjusted MoM growth also remained positive for three straight months (+0.1%). As a result, the core CPI rose +0.3% in Q4.

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in Q4 are both +0.1% QoQ. As the terms of trade remained unchanged, we forecast an overall GDP deflator of +0.1% QoQ (Figure 2).

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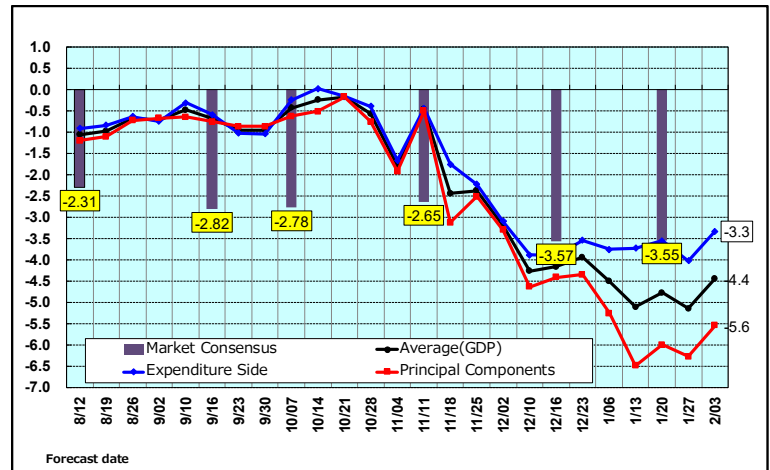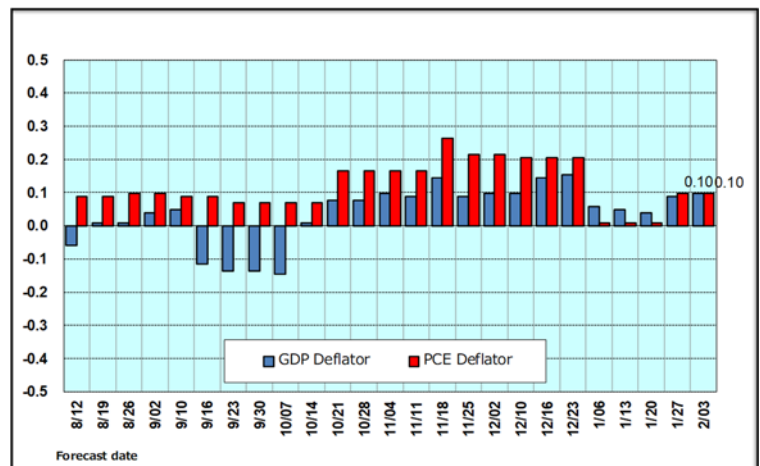

Fig 2 CQM Forecast: Inflation
Oct-Dec (Q4) 2019 (%, QoQ growth)

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 December/January

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change MoM	Change YoY
1/31	December	**Labor Force Survey**			
		Total employment (millions)	67.82	+0.13	
		Total unemployment (millions)	1.50	-0.01	
		Unemployment rate (%)	2.2%	0.0%pt	
	December	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.57	0.0%pt	
	December	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	98.9	+1.3%	
		Shipments	96.4	0.0%	
		Inventories	105.0	+1.6%	
	December	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	13,758.0	+0.2%	-2.6%
	December	**New Housing Starts**			
		New housing starts (SA, Unit)	70,99	+0.5%	-7.9%
		Planned residential construction expenditure (billon JPY)	1,192.7	+3.9%	-5.0%
	November	**Construction Costs Deflator (2011=100)**			
		Housing construction	111.5		+3.0%
		Public works	113.9		+3.4%
	January	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	101.7	+0.1%	+0.7%
1/30	December	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	98.3		-1.9%
		Output price	99.6		-0.8%
1/29	January	**Consumer Confidence Index (SA)**	39.1	0.0	
1/28	December	**Corporate Services Price Index (2015=100)**			
		Overall index	105.0		+2.1%
1/24	December	**National Consumer Price Index (2015=100)**			
		Core	102.2	+0.1%	+0.7%
1/23	November	**Industrial Activity Indices (2010=100)**			
		All industries	103.9	+0.9%	
		Construction industry	108.7	+0.1%	
	November	**Index of Business Conditions (revised figures, 2015=100)**			
		Leading indicators	90.8	-0.8	
		Coincident indicators	94.7	-0.6	
		Lagging indicators	104.4	+0.6	
	December	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	-152.5	+11.6%	+173.7%
		Exports (billion JPY)	6,577.1	+0.5%	-6.3%
		Imports (billion JPY)	6,729.6	+0.6%	-4.9%
1/22	November	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	285,414		+0.1%
		Total working hours	142.0		-3.7%
1/21	November	**General Construction Statistics**			
		Private non-residential construction (billion JPY)	925.2		+0.4%

Date	Month	Indicator	Value		
		Public works (billion JPY)	2,182.0		+9.3%
1/20	November	**Indices of Industrial Production (final figures, 2015=100)**			
		Production capacity index	98.3		-0.5%
		Capacity utilization ratio	95.5	-0.3%	
		Production	97.6	-1.0%	
		Shipments	96.4	-1.7%	
		Inventory	103.3	-0.9%	
	November	**Synthetic Consumption Index (2011=100)**	103.8	+1.0%	
1/17	November	**Tertiary Industry Activity Index (2010=100)**	105.4	+1.3%	
1/16	November	**Private Core Machinery Orders (billion JPY)**	942.7	+18.0%	
	December	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	102.3	+0.1%	+0.9%
		Export Price	92.3	+0.2%	-4.1%
		Import Price	93.3	+0.9%	-6.8%
1/15	December	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	803.8		+0.1%
		Number of contracts	18,425		-5.0%
1/14	November	**Information Services Industry Sales (billion JPY)**	838.8		+0.1%
	December	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	39.8	+0.4	
		Future Conditions Diffusion Index	45.4	-0.3	
	November	**Balance of Payments**			
		Current account (billion JPY)	1,436.8	+3.6%	+38.0%
		Exports (billion JPY)	6,244.2	-3.4%	-10.2%
		Imports (billion JPY)	6,246.6	-0.9%	-16.6%
1/10	November	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicators	90.9	-0.7	
		Coincident indicators	95.1	-0.2	
		Lagging indicators	104.2	+0.3	
	November	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	278,765	+2.7%	-1.4%
		Real consumption expenditure		+2.6%	-2.0%
	November	**Consumption Trend Index (2015=100)**	100.4	+2.2%	
	November	**Consumption Activity Index (2011=100)**	102.9	+2.7%	
1/8	November	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	284,652		-0.2%
		Total working hours	142.1		-3.6%
1/7	December	**Food Buffer Stock (billion JPY)**	-82.2		-32.2
1/6	December	**New Car Sales (vehicles)**	284,278		-11.1%

CQM Forecast Tracking

Forecast date	Real GDP 2019Q3 SAAR (%) Expenditure side	Production side (PCA)	Average	Deflator 2019Q3 QoQ (%) GDP	PCE	Real GDP 2019Q4 SAAR (%) Expenditure side	Production side (PCA)	Average	Deflator 2019Q4 QoQ (%) GDP	PCE	Real GDP 2020Q1 SAAR (%) Expenditure side	Production side (PCA)	Average	Deflator 2020Q1 QoQ (%) GDP	PCE
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	_0.2_			_0.2_	_0.1_										
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
12/09	_1.8*_			_0.2*_	_0.2*_										
12/10						-3.9	-4.6	-4.3	0.1	0.2	1.1	1.3	1.2	-0.2	0.0
12/16						-3.9	-4.4	-4.2	0.1	0.2	1.0	0.7	0.9	-0.2	0.0
12/23						-3.5	-4.4	-4.0	0.2	0.2	1.2	0.6	0.9	-0.1	0.1
1/06						-3.8	-5.3	-4.5	0.1	0.0	0.9	1.3	1.1	-0.2	0.1
1/13						-3.7	-6.5	-5.1	0.0	0.0	0.6	1.0	0.8	-0.2	0.1
1/20						-3.6	-6.0	-4.8	0.0	0.0	0.7	1.1	0.9	-0.1	0.1
1/27						-4.0	-6.3	-5.2	0.1	0.1	1.8	0.7	1.3	0.0	0.3
2/03						-3.3	-5.6	-4.4	0.1	0.1	2.3	1.6	1.9	0.0	0.3

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