



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in March

▶ After various official statistics were released en masse last week, two-thirds of all data required to estimate Japan's GDP in 2020 Q1 are now available. The impact of Covid-19 is visible, especially in February imports.

▶ Although the Index of Industrial Production increased for the third consecutive month in February, its recovery from the October-November slump has been sluggish. The January-February average was +1.7% higher relative to the 2019 Q4 average.

▶ Department store and supermarket sales fared well in February. However, spending on goods comprises only about 40% of total private final consumption expenditure. Statistics related to spending on services, which have more weight therein, have not been released yet, making it hard to draw conclusions on trends in private consumption.

▶ Statistics on planned residential construction, capital goods shipments and final demand goods inventories have been released. Based on those indicators, we conclude that private housing, private capital investment and changes in private inventories were all bearish in 2020 Q1.

▶ February imports were hit particularly hard by Covid-19. That caused an abrupt expansion in net exports, which propped up GDP growth. However, as the global economy entered a synchronized slowdown in March, we expect that exports will decline, which will worsen the trade balance. Therefore, a major downward revision in our future GDP growth forecasts seems likely.

● 2020 Q1 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure-side) in 2020 Q1 is -0.4% QoQ, or -1.8% if annualized. The estimated contributions to growth are -1.0%pt by domestic demand and +0.6%pt by net exports. The production-side forecast figure is an annualized +2.2%. The average of the two forecasts is an annualized -0.2% (Figure 1).

▶ However, when calculated on a total demand basis (i.e. domestic demand plus imports), real total demand growth is an annualized -4.8%, clearly in negative territory.

● 2020 Q1 inflation forecast update

▶ The national core Consumer Price Index (CPI) in February increased for the 38th consecutive month on a YoY basis. However, the rate of increase decelerated from January. The impact of Covid-19 on indicators related to spending on services is increasingly noticeable.

▶ Our CQM-based forecasts for the 2020 Q1 private final consumption expenditure deflator and domestic demand deflator are both +0.1% QoQ. However, as the terms of trade are deteriorating, we forecast an overall GDP deflator of -0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Mar (Q1) 2020 (% , QoQ annualized growth)

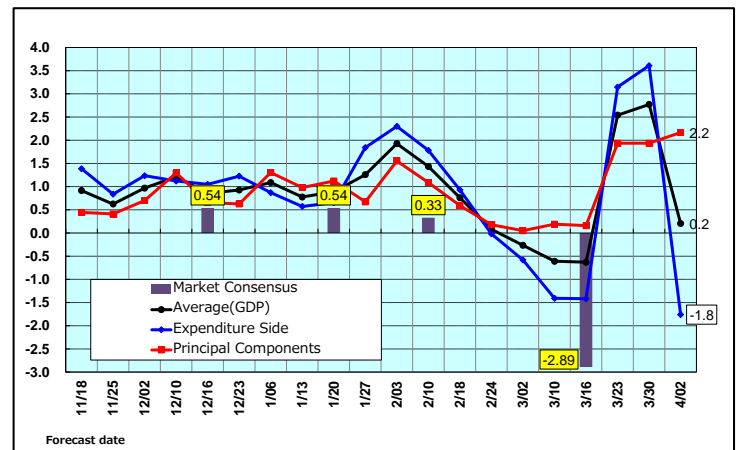
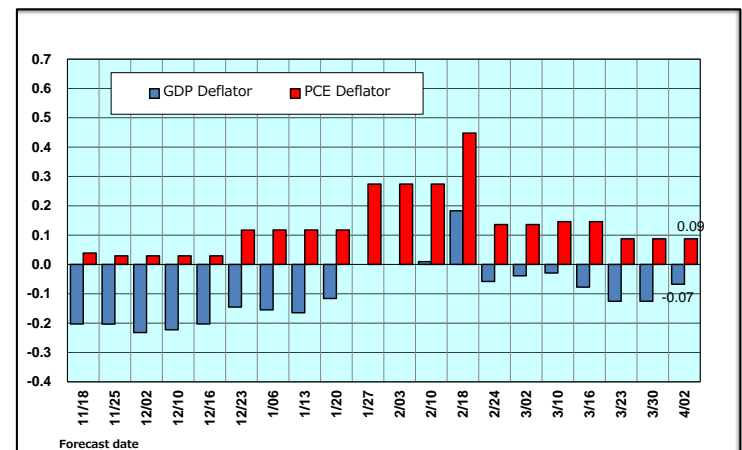


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2020 (% , QoQ growth)



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 March

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
4/1	March	New Car Sales (vehicles)	485,207		-8.9%
3/31	February	Labor Force Survey			
		Total employment (millions)	67.43	+0.03	
		Total unemployment (millions)	1.66	+0.02	
		Unemployment rate (%)	2.4%	0.0%pt	
	February	General Job Placement Situation			
		Job offers-to-applicants ratio	1.45	-0.04%pt	
	February	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	100.2	+0.4%	
		Shipments	99.8	+2.6%	
		Inventories	103.8	-2.0%	
	February	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	11,228.0	+0.6%	+1.7%
	February	New Housing Starts			
		New housing starts (SA, Unit)	63,105	+10.0%	-12.3%
		Planned residential construction expenditure (billion JPY)	1,078.4	+6.8%	-7.8%
	January	Construction Costs Deflator (2011=100)			
		Housing construction	113.2		+1.9%
		Public works	115.6		+2.5%
3/30	January	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	98.5		0.0%
		Output price	99.5		-0.4%
3/27	March	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.7	0.0%	+0.4%
3/26	February	Corporate Services Price Index (2015=100)			
		Overall index	104.7		+2.1%
3/24	January	Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	90.5	-0.4	
		Coincident indicators	95.2	+0.8	
		Lagging indicators	103.7	0.0	
3/23	January	Synthetic Consumption Index (2011=100)	103.2	+1.0%	
3/19	January	Industrial Activity Indices (2010=100)			
		All industries	104.6	+0.8%	
		Construction industry	107.2	+0.8%	
	February	National Consumer Price Index (2015=100)			
		Core	101.9	-0.1%	+0.6%
3/18	February	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	1,109.8	n.a.	+237.6%
		Exports (billion JPY)	6,321.6	+3.4%	-1.0%
		Imports (billion JPY)	5,211.7	-6.1%	-14.0%
3/17	January	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	98.3		-0.4%
		Capacity utilization ratio	96.1	+1.1%	

	January	Production Shipments Inventory	99.8 97.3 105.9	+1.0% +0.6% +1.6%	
	January	General Construction Statistics Private non-residential construction (billion JPY) Public works (billion JPY)	886.7 2,166.6		-3.1% +5.8%
3/16	January	Private Core Machinery Orders (billion JPY)	839.4	+2.9%	
3/13	January February	Tertiary Industry Activity Index (2010=100) Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	105.9 699.4 11,308	+0.8%	-5.4% -6.9%
3/12	February	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	102.0 92.6 94.1	-0.4% +0.3% +0.1%	+0.8% -2.1% -1.8%
3/11	January	Information Services Industry Sales (billion JPY)	870.1		+1.8%
3/10	February January	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	27.4 24.6 612.3 5,545.2 6,530.3	-14.5 -17.2 -12.2% -2.8% +1.7%	+6.6% -4.8% -3.9%
3/6	January January January January January January	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure Consumption Trend Index (2015=100) Consumption Activity Index (2011=100)	276,520 131.3 90.3 94.7 103.4 287,173 99.7 102.7		+1.5% +0.8% -0.7 +0.3 -0.4 -1.2% -1.6% +0.7% +0.3%
3/3	February February	Food Buffer Stock (billion JPY) Consumer Confidence Index (SA)	-27.1 38.4		-7.8 -0.7
3/2	February	New Car Sales (vehicles)	362,052		-9.8%

CQM Forecast Tracking

Forecast date	Expenditure			Average		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
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
8/12	-0.9	-1.2	-1.1	-0.1	0.1										
8/19	-0.8	-1.1	-1.0	0.0	0.1										
8/26	-0.6	-0.7	-0.7	0.0	0.1										
9/02	-0.7	-0.7	-0.7	0.0	0.1										
9/09	0.0	0.0	0.0	0.0	0.0										
9/10	-0.3	-0.6	-0.5	0.0	0.1										
9/16	-0.6	-0.8	-0.7	-0.1	0.1										
9/23	-1.0	-0.9	-1.0	-0.1	0.1										
9/30	-1.0	-0.9	-1.0	-0.1	0.1										
10/07	-0.2	-0.6	-0.4	-0.1	0.1										
10/14	0.0	-0.5	-0.3	0.0	0.1										
10/21	-0.2	-0.2	-0.2	0.1	0.2										
10/28	-0.4	-0.8	-0.6	0.1	0.2										
11/04	-1.7	-1.9	-1.8	0.1	0.2										
11/11	-0.4	-0.5	-0.5	0.1	0.2										
11/14															
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															
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					
2/10	-4.2	-6.4	-5.3	0.1	0.1	1.8	1.1	1.4	0.0	0.3					
2/17	<u>-6.3</u>			<u>0.4</u>	<u>0.6</u>										
2/18						0.9	0.6	0.8	0.2	0.4	0.3	2.0	1.1	-0.3	-0.3
2/24						0.0	0.2	0.1	-0.1	0.1	-0.4	1.8	0.7	-0.3	-0.3
3/02						-0.6	0.0	-0.3	0.0	0.1	-0.5	1.7	0.6	-0.3	-0.3
3/09	-7.1*			<u>0.3*</u>	<u>0.6*</u>										
3/10						-1.4	0.2	-0.6	0.0	0.1	-0.3	2.0	0.9	-0.3	-0.3
3/16						-1.4	0.2	-0.6	-0.1	0.1	-0.3	2.0	0.8	-0.4	-0.3
3/23						3.1	1.9	2.5	-0.1	0.1	1.3	2.3	1.8	-0.4	-0.3
3/30						3.6	1.9	2.8	-0.1	0.1	1.3	2.3	1.8	-0.4	-0.3
4/02						-1.8	2.2	0.2	-0.1	0.1	0.9	2.2	1.6	-0.3	-0.3

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