



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in April

Official data released so far are more or less sufficient to estimate Japan's GDP in 2020 Q1. However, statistics on household consumption and the international balance of payments for March are not available yet. Their release will have a significant impact on our final forecast.

In March, the Index of Industrial Production decreased for the second consecutive month, reaching the lowest level since January 2013. Although the 2020 Q1 average rose for the first time in three quarters, +0.4% up from 2019 Q4, the increase was quite modest.

Retail sales shrank for the first time in five months, decreasing -4.5% MoM in March. The impact of social distancing due to Covid-19 is visible. The Q1 average, however, was still +1.6% higher than the 2019 Q4 level.

Statistics on planned residential construction and capital goods shipments in March have been released. Based on those, we conclude that private investment remained bearish throughout Q1. Inventories have been piling up as a result of the decline in shipment volumes.

The seasonally adjusted 2020 Q1 trade balance was positive for the first time in seven quarters. However, this is no good news, as it is solely due to imports declining by a larger margin than exports (i.e. the total trade volume shrank). Although net goods exports did make a positive contribution to GDP growth in Q1, the balance on services is deteriorating, casting shadows over the outlook of net exports of goods and services.

● 2020 Q1 real GDP growth forecast update

Our latest forecast for real GDP growth in 2020 Q1 (expenditure side) is an annualized -2.7%, slightly better than last week's forecast. The production-side forecast figure is an annualized +0.3%. The average of the two is an annualized -1.2% (Figure 1).

Statistics on household consumption and the international balance of payments for March have not been released yet. Their release is likely to lead to a downward revision in our forecast.

● 2020 Q1 inflation forecast update

The national core Consumer Price Index in March increased for the 39th consecutive month (+0.4% YoY). However, the rate of increase decelerated from February. The seasonally adjusted MoM growth was -0.1%, remaining negative for the second month in a row. As a result, the Q1 figure rose only by +0.1% YoY. Tokyo's core CPI was down -0.1% YoY in April, declining for the first time in 34 months.

Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in 2020 Q1 are both +0.1% QoQ. As the terms of trade are deteriorating, we forecast an overall GDP deflator of 0.0% QoQ (Figure 2).

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

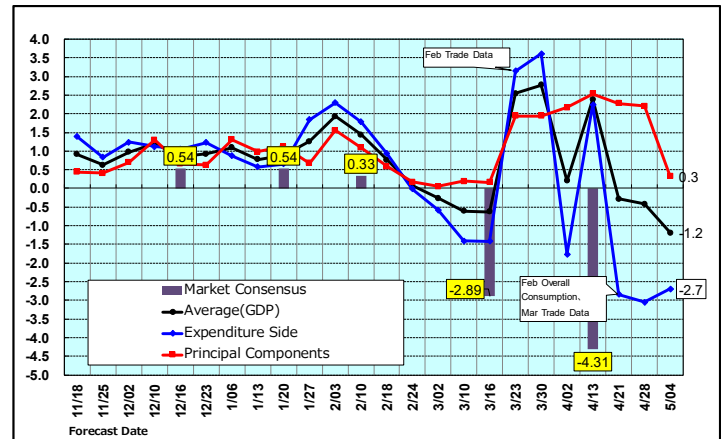
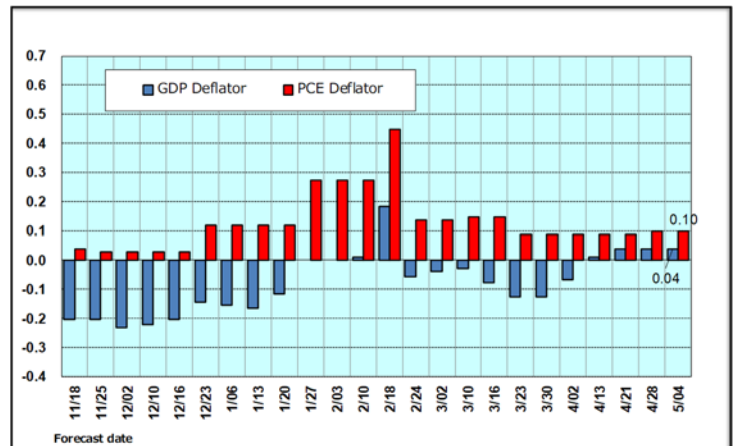


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2020 (% , QoQ growth)



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 April

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
5/1	April	New Car Sales (vehicles)	219,232		-30.4%
	April	Tokyo Region Consumer Price Index (2015=100) Core	101.7	-0.3%	-0.1%
4/30	March	Indices of Industrial Production (preliminary figures, 2015=100) Production	95.8	-3.7%	
		Shipments	94.0	-5.0%	
		Inventories	106.4	+1.5%	
	March	Current Survey of Commerce (preliminary figures) Retail trade (billion JPY)	12,844.0	-4.5%	-4.6%
	March	New Housing Starts New housing starts (SA, Unit)	70,729	+3.9%	-7.6%
		Planned residential construction expenditure (billion JPY)	1,220.5	+12.0%	-6.4%
	February	Construction Costs Deflator (2011=100) Housing construction	113.0		+2.4%
		Public works	115.3		+2.9%
4/28	March	Labor Force Survey Total employment (millions)	67.32	-0.11	
		Total unemployment (millions)	1.72	+0.06	
		Unemployment rate (%)	2.5%	+0.1%pt	
	March	General Job Placement Situation Job offers-to-applicants ratio	1.39	-0.06%pt	
	March	Manufacturing Industry Input-Output Price Index (2011=100) Input price	96.4		-3.0%
		Output price	98.2		-2.0%
4/24	February	Industrial Activity Indices (2010=100) All industries	103.5	-0.6%	
		Construction industry	106.4	-1.6%	
	March	National Consumer Price Index (2015=100) Core	101.9	-0.1%	+0.4%
	March	Corporate Services Price Index (2015=100) Overall index	104.8		+1.6%
4/23	February	Index of Business Conditions (revised figures, 2015=100) Leading indicators	91.7	+1.0	
		Coincident indicators	95.5	-0.2	
		Lagging indicators	100.8	-1.2	
4/21	February	Monthly Labor Statistics (final figures) Total cash salary per capita (JPY)	266,706		+0.7%
		Total working hours	135.6		-1.6%
	February	General Construction Statistics Private non-residential construction (billion JPY)	855.7		-5.6%
		Public works (billion JPY)	2,053.4		+2.0%
4/20	March	Trade Statistics (customs clearance level) Trade balance (billion JPY)	4.9		-99.0%

		Exports (billion JPY)	6,357.9	-4.1%	-11.7%
		Imports (billion JPY)	6,352.9	+7.2%	-5.0%
4/17	February	Tertiary Industry Activity Index (2015=100)	101.4	-0.5%	
	February	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	98.3		-0.4%
		Capacity utilization ratio	95.6	-1.8%	
		Production	99.5	-0.3%	
		Shipments	98.9	+1.0%	
		Inventory	104.4	-1.7%	
4/15	March	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	1,487.0		+12.9%
		Number of contracts	18,916		+4.2%
4/14	February	Synthetic Consumption Index (2011=100)	101.2	-1.5%	
4/10	March	Domestic Corporate Price Index (2015=100)			
		Corporate Price	101.1	-0.9%	-0.4%
		Export Price	90.4	-2.3%	-5.1%
		Import Price	89.7	-4.7%	-7.7%
4/8	February	Private Core Machinery Orders (billion JPY)	858.5	+2.3%	
	February	Information Services Industry Sales (billion JPY)	903.5		+3.9%
	March	Economy Watchers Survey			
		Current Conditions Diffusion Index	14.2	-13.2	
		Future Conditions Diffusion Index	18.8	-5.8	
	February	Balance of Payments			
		Current account (billion JPY)	3,168.8	+46.2%	+6.6%
		Exports (billion JPY)	6,332.2	+5.8%	+0.4%
		Imports (billion JPY)	4,965.6	-8.7%	-14.6%
4/7	February	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	267,175		+1.0%
		Total working hours	135.9		-1.4%
	February	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	281,735	+0.9%	+0.2%
		Real consumption expenditure		+0.8%	-0.3%
	February	Consumption Trend Index (2015=100)	100.8	+1.0%	
	February	Consumption Activity Index (2011=100)	102.9	+0.3%	
	February	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	92.1	+1.6	
		Coincident indicators	95.8	+0.6	
		Lagging indicators	101.0	-2.7	
4/6	March	Consumer Confidence Index (SA)	30.9	-7.4	
4/2	March	Food Buffer Stock (billion JPY)	-5.65		-17.0
4/1	March	New Car Sales (vehicles)	485,207		-8.9%

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
	2019Q4			2020Q1			2020Q2			2020Q2			2020Q2		
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	<u>-7.1*</u>			<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
4/13						2.2	2.5	2.4	0.0	0.1	0.9	0.8	0.9	0.0	-0.3
4/21						-2.8	2.3	-0.3	0.0	0.1	-1.5	-0.3	-0.9	0.0	-0.3
4/27						-3.0	2.2	-0.4	0.0	0.1	-1.7	-0.2	-0.9	0.0	-0.3
5/04						-2.7	0.3	-1.2	0.0	0.1	-1.7	-0.7	-1.2	0.0	-0.3

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