



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in May

▶ According to the first advance estimates, 2020 Q1 real GDP declined an annualized -3.4% QoQ. Although growth remained in negative territory for the second consecutive quarter, it was higher than the market consensus forecast. Our final Q1 growth estimate is an annualized -3.4%, the average of the expenditure-side (-5.2%) and the production-side (-1.7%) estimates based on our CQM method.

▶ Private demand shrank in Q1, mainly due to the negative impact of Covid-19 on private consumption. In addition, the exports of goods and services decreased substantially. The impact of Covid-19 is not completely observable in Q1 data, but as it crystalizes in Q2, a large slump in private consumption can be expected.

▶ Due to the emergency state imposed by the government in response to the Covid-19 outbreak, the revenues of large retailers declined for the second month in a row in April, dropping -9.6% YoY, and -12.2% relative to the Q1 average.

▶ Data on planned residential construction and capital goods shipments in April has been released. Both indicators remain bearish, with inventories piling up due to stagnant shipments.

▶ Real exports slumped in April, declining for the second consecutive month. To the exact opposite, real imports expanded for the second month in a row. As a result, the trade balance is expected to deteriorate significantly in Q2.

● 2020 Q2 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in 2020 Q2 is an annualized -14.6% QoQ. The production-side forecast figure is an annualized -7.4% QoQ. The average of the two is an annualized -11.0% (Figure 1).

▶ However, household consumption-related statistics, which have not been released yet, are likely to lead to downward revisions in our subsequent Q2 GDP forecasts.

● 2020 Q2 inflation forecast update

▶ In April, the national core Consumer Price Index (CPI) decreased for the first time in 40 months (-0.2% YoY), largely due to the impact of Covid-19. The seasonally adjusted CPI remained negative for the third month in a row (-0.5% MoM).

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in 2020 Q2 are both -0.3% QoQ. However, as the terms of trade have improved, we forecast an overall GDP deflator of +0.7% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2020 (% , QoQ annualized growth)

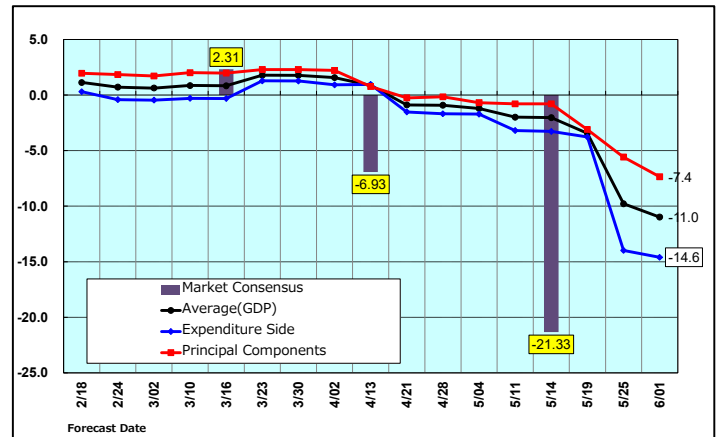
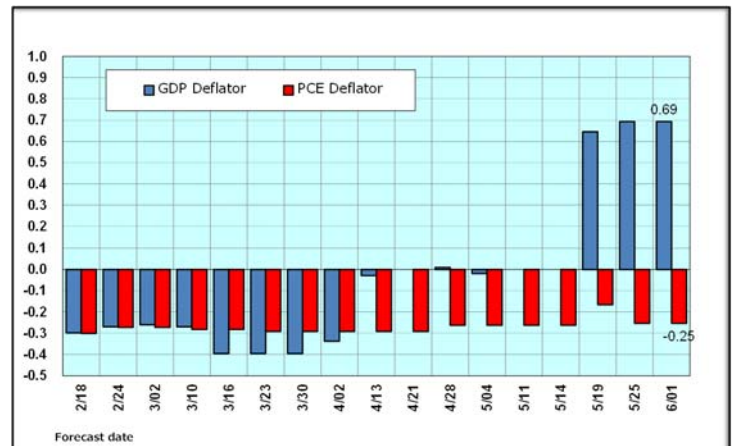


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2020 (% , QoQ growth)



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 May

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
5/29	April	Labor Force Survey				
		Total employment (millions)	66.25	-1.07		
		Total unemployment (millions)	1.78	+0.06		
			Unemployment rate (%)	2.6%	+0.1%pt	
	April	General Job Placement Situation				
		Job offers-to-applicants ratio	1.32	-0.07pt		
	April	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	87.1	-9.1%		
		Shipments	85.0	-8.8%		
		Inventories	106.1	-0.3%		
	April	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	10,929.0	-9.6%	-13.7%	
	April	New Housing Starts				
		New housing starts (SA, Unit)	69,162	-12.0%	-12.9%	
		Planned residential construction expenditure (billion JPY)	1,175.9	-16.9%	-10.0%	
March	Construction Costs Deflator (2011=100)					
	Housing construction	114.0		+2.5%		
	Public works	116.2		+2.7%		
May	Consumer Confidence Index (SA)	24.0	+2.4			
May	Tokyo Region Consumer Price Index (2015=100)					
	Core	101.8	+0.2%	+0.2%		
5/28	April	Manufacturing Industry Input-Output Price Index (2011=100)				
	Input price	93.7		-6.3%		
	Output price	96.8		-3.9%		
5/26	March	Industrial Activity Indices (2010=100)				
	All industries	99.5	-3.8%			
	Construction industry	107.7	+1.4%			
April	Corporate Services Price Index (2015=100)					
	Overall index	104.1		+1.0%		
5/25	March	Index of Business Conditions (revised figures, 2015=100)				
	Leading indicators	84.7	-7.2			
	Coincident indicators	90.2	-5.2			
	Lagging indicators	100.0	-0.7			
5/22	March	Monthly Labor Statistics (final figures)				
	Total cash salary per capita (JPY)	281,632		+0.1%		
	Total working hours	137.0		-1.2%		
March	General Construction Statistics					
	Private non-residential construction (billion JPY)	818.6		-6.4%		
	Public works (billion JPY)	2,116.0		+6.6%		
April	National Consumer Price Index (2015=100)					
	Core	101.6	-0.5%	-0.2%		
5/21	March	Synthetic Consumption Index (2011=100)	98.6	-3.5%		
April	Trade Statistics (customs clearance level)					
	Trade balance (billion JPY)	-930.4	+161.6%	-989.4		

		Exports (billion JPY)	5,202.3	-10.4%	-21.9%
		Imports (billion JPY)	6,352.9	+0.2%	-7.2%
5/20	March	Private Core Machinery Orders (billion JPY)	854.7	-0.4%	
5/19	March	Indices of Industrial Production (final figures, 2015=100)			
		Production capacity index	98.2		-0.4%
		Capacity utilization ratio	92.2	-3.6%	
		Production	95.8	-3.7%	
		Shipments	93.2	-5.8%	
		Inventory	106.4	+1.9%	
5/18	March	Tertiary Industry Activity Index (2015=100)	96.9	-4.2%	
5/15	April	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	2,305.3		+3.2%
		Number of contracts	19,888		+2.3%
	March	Domestic Corporate Price Index (2015=100)			
		Corporate Price	99.6	-1.5%	-2.3%
		Export Price	89.4	-1.1%	-6.6%
		Import Price	84.7	-5.6%	-13.1%
5/14	March	Information Services Industry Sales (billion JPY)	1,871.2		+4.6%
5/13	April	Economy Watchers Survey			
		Current Conditions Diffusion Index	7.9	-6.3	
		Future Conditions Diffusion Index	16.6	-2.2	
	March	Balance of Payments			
		Current account (billion JPY)	1,971.0	-59.9%	-32.1%
		Exports (billion JPY)	6,197.4	-9.9%	-12.2%
		Imports (billion JPY)	6,094.3	+6.1%	-4.2%
5/12	March	Index of Business Conditions (preliminary, 2015=100)			
		Leading indicators	83.8	-8.1	
		Coincident indicators	90.5	-4.9	
		Lagging indicators	101.7	+0.8	
5/8	March	Monthly Labor Statistics (preliminary figures)			
		Total cash salary per capita (JPY)	281,812		+0.1%
		Total working hours	136.8		-1.5%
	March	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	292,214	-4.6%	-5.5%
		Real consumption expenditure		-4.0%	-6.0%
	March	Consumption Trend Index (2015=100)	98.0	-2.8%	
5/7	April	Food Buffer Stock (billion JPY)	-5.1		+10.3
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%

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
	2020Q1					2020Q2					2020Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/18	0.9	0.6	0.8	0.2	0.4	0.3	2.0	1.1	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
2/24	0.0	0.2	0.1	-0.1	0.1	-0.4	1.8	0.7	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
3/02	-0.6	0.0	-0.3	0.0	0.1	-0.5	1.7	0.6	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
3/09															
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					
5/11	-5.1	-1.7	-3.4	0.0	0.1	-3.2	-0.8	-2.0	0.0	-0.3					
5/14	-5.2	-1.7	-3.4	0.0	0.1	-3.3	-0.8	-2.0	0.0	-0.3					
5/18	<u>-3.4</u>			<u>0.1</u>	<u>-0.2</u>										
5/19						-3.8	-3.1	-3.4	0.6	-0.2	-0.2	-0.6	-0.4	-0.1	0.0
5/25						-14.0	-5.6	-9.8	0.7	-0.3	-1.7	-0.5	-1.1	-0.1	0.0
6/01						-14.6	-7.4	-11.0	0.7	-0.3	-1.9	0.9	-0.5	-0.1	0.0

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