



Japanese Economy Monthly Forecast

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

Headlines

Review of data released in June

▶ According to the Tankan survey by the Bank of Japan, the business sentiment index for large manufacturers in June fell to -34, which was 26 points lower than the previous survey. The index deteriorated for six consecutive quarters in Q2 due to the effects of the Covid-19 pandemic.

▶ Business confidence among large manufacturers was lower than expected across all industries. In the non-manufacturing sector, it remained low in personal services, postal and transportation services, accommodation and food services, due to the Covid-19 emergency state. In contrast, rental services, retail sales and communications improved their outlook thanks to a novel surge in demand for those services.

▶ The revenues of large retailers in May increased for the first time in three months (+2.1% MoM) as the Covid-19 emergency state was lifted. The April-May average was 11.6% lower than the Q1 average.

▶ Data on planned residential construction, capital goods shipments and private inventories in May have been released. Investment in residential housing and private capital investment remain low. Businesses were able to prevent inventories from piling up by reducing production levels.

▶ Real exports (Bank of Japan, volume index) kept shrinking in May, declining for the third consecutive month. To the opposite, real imports expanded for the first time in three months. As a result, net real exports in Q2 is expected to deteriorate significantly.

2020 Q2 real GDP growth forecast update

▶ Our latest estimate of real GDP growth (expenditure side) in 2020 Q2 is an annualized -25.0% QoQ. The production-side forecast figure is an annualized -19.3% QoQ. The average of the two is an annualized -22.1% (Figure 1).

▶ As the government lifted the state of emergency on May 25th, we expect to see a recovery in June data on indicators related to domestic demand. However, such a recovery seem unlikely when it comes to external demand.

2020 Q2 inflation forecast update

▶ In June, Tokyo's core Consumer Price Index (CPI) increased for the second month in a row (+0.2% YoY). However, the seasonally adjusted figure remained unchanged. As a result, Tokyo's Q2 core CPI increased +0.1% YoY but decreased -0.3% QoQ.

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in 2020 Q2 are respectively -0.2% QoQ and -0.3% QoQ. As the terms of trade have improved substantially, we forecast an overall Q2 GDP deflator of +1.2% QoQ (Figure 2).

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

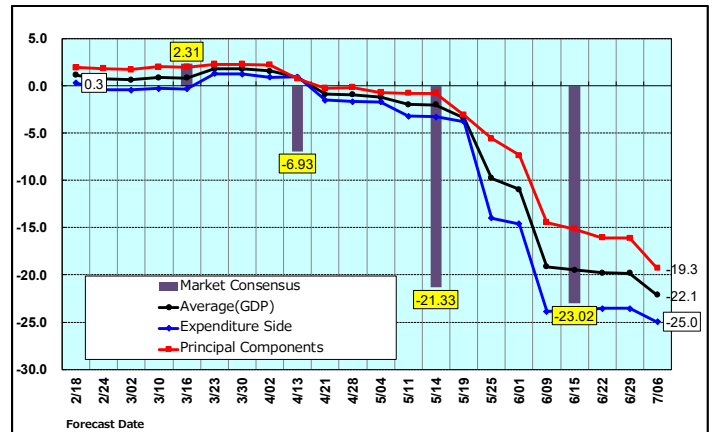
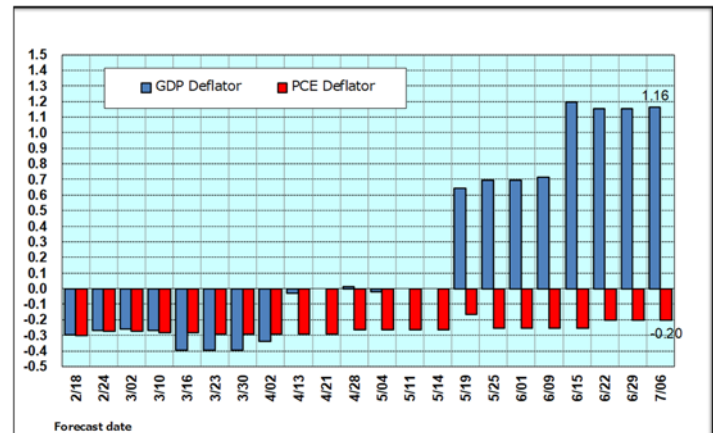


Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2020 (% , QoQ growth)



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
7/2	June	Food Buffer Stock (billion JPY)	-12.8		-21.8
7/1	June	New Car Sales (vehicles)	283,892		-22.6%
	June	Consumer Confidence Index (SA)	28.4	+4.4	
6/30	May	Labor Force Survey			
		Total employment (millions)	66.29	+0.04	
		Total unemployment (millions)	1.97	+0.19	
		Unemployment rate (%)	2.9%	+0.3%pt	
	May	General Job Placement Situation			
		Job offers-to-applicants ratio	1.20	-0.12pt	
	May	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	79.1	-8.4%	
		Shipments	77.2	-8.4%	
		Inventories	103.4	-2.5%	
	May	New Housing Starts			
		New housing starts (SA, Unit)	63,682	+1.3%	-12.3%
		Planned residential construction expenditure (billion JPY)	1,055.8	-4.8%	-13.3%
	April	Construction Costs Deflator (2011=100)			
		Housing construction	112.1		+0.8%
		Public works	114.0		+0.7%
6/29	May	Current Survey of Commerce (preliminary figures)			
		Retail trade (billion JPY)	11,065.0	+2.1%	-12.3%
6/26	June	Tokyo Region Consumer Price Index (2015=100)			
		Core	101.6	0.0%	+0.2%
	May	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	91.4		-8.5%
		Output price	96.1		-4.3%
6/25	April	Industrial Activity Indices (2010=100)			
		All industries	93.5	-6.4%	
		Construction industry	108.2	0.0%	
6/24	April	Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	77.7	-7.4	
		Coincident indicators	80.1	-8.7	
		Lagging indicators	97.8	-2.9	
	May	Corporate Services Price Index (2015=100)			
		Overall index	103.6		+0.8%
6/23	April	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	274,825		-0.7%
		Total working hours	137.8		-3.9%
6/19	May	National Consumer Price Index (2015=100)			
		Core	101.6	0.0%	-0.2%
6/17	April	General Construction Statistics			
		Private non-residential construction (billion JPY)	791.7		-6.6%
		Public works (billion JPY)	1,492.6		+7.0%

	May	Trade Statistics (customs clearance level) Trade balance (billion JPY) Exports (billion JPY) Imports (billion JPY)	-833.4 4,184.8 5,018.2	-42.4% -5.8% -12.0%	-13.7% -28.3% -26.2%
6/16	April	Synthetic Consumption Index (2011=100)	93.4	-5.6%	
6/15	April May	Tertiary Industry Activity Index (2015=100) Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	91.6 1,329.1 15,417	-6.0%	-6.4% -13.3%
6/12	April	Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory	97.7 79.9 86.4 84.3 106.1	-13.3% -9.8% -9.5% -0.3%	-0.1%
6/11	April	Private Core Machinery Orders (billion JPY)	752.6	-12.0%	
6/10	April	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	99.1 88.3 79.8	-0.4% -1.2% -5.6%	-2.7% -6.5% -17.6%
6/9	April	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours	275,022 138.1		-0.6% -3.7%
6/8	April May April	Information Services Industry Sales (billion JPY) Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	822.5 15.5 36.5 262.7 4,909.0 5,875.6	+7.6 +19.9 -73.2% -15.4% -0.3%	+13.8%
6/5	April April April April	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)	76.2 81.5 98.1 267,922 94.9 85.5	-8.9 -7.3 -2.7 -6.1% -6.2% -1.3% -9.2%	-11.0% -11.1%

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			2020Q3			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
6/08	-2.2*			0.1*	-0.2*										
6/09						-23.8	-14.5	-19.2	0.7	-0.3	-0.2	-0.2	-0.2	-0.1	0.0
6/15						-23.8	-15.1	-19.5	1.2	-0.3	-0.2	0.7	0.2	0.6	0.0
6/22						-23.6	-16.1	-19.8	1.2	-0.2	-1.5	0.3	-0.6	0.6	0.0
6/29						-23.5	-16.1	-19.8	1.2	-0.2	-1.5	0.3	-0.6	0.6	0.0
7/06						-25.0	-19.3	-22.1	1.2	-0.2	-2.0	-2.1	-2.1	0.6	0.0

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