



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in October

▶ Our latest forecast incorporates all official data released by October 30th. Apart from data on private consumption, most statistics required for a complete estimation of Q3 GDP are already available.

▶ The Industrial Production Index in September rose MoM four months in a row. As a result, the Q3 figure was +8.8% higher relative to Q2, marking the first increase in two quarters. However, production still has not recovered to its Q1 level due to the severe decline in Q2.

▶ The revenue of large retailers in September kept declining for the seventh month in a row (-8.7% YoY). The fact that the decline rate expanded from the previous month is largely due to the rush demand before the consumption tax hike last year. The seasonally adjusted figure, a more suitable indicator in this case, was -0.1% MoM, the first decline since July, yet quite close to zero. On a QoQ basis, Q3 saw the first increase (+8.4%) in two quarters.

▶ September data on planned construction, capital goods shipments and inventories of final-demand goods have been released. This led to upward revisions in our weekly forecasts concerning private residential investment, private capital investment, and private inventories.

▶ According to the BOJ, real exports in September kept increasing four months in a row (+5.5% MoM), while real imports rose for the first time in five months (+2.4% MoM). On a QoQ basis, Q3 real exports were up by +13.3%, expanding for the first time in four quarters. In contrast, real imports declined by -8.1% after expanding in Q2. As a result, the trade balance improved significantly QoQ.

● 2020 Q3 real GDP growth forecast update

▶ Our expenditure-side forecast for real GDP growth in Q3 is an annualized +17.8% QoQ. The production-side forecast figure is an annualized +20.1% QoQ. The average of the two is an annualized +18.9% (Figure 1). Compared to our previous forecast last month, when the expenditure-side figure was noticeably lower than the production-side one, in the current forecast both figures have converged toward the 20% mark, reflecting the latest data updates.

● 2020 Q3 inflation forecast update

▶ In Q3, the National Core Consumer Price Index (CPI) declined -0.2% YoY, down two quarters in a row. The Q3 figure was flat from Q2.

▶ Our CQM forecasts for the private final consumption expenditure deflator and for the domestic demand deflator in Q3 are respectively +0.3% and -0.2% QoQ. However, taking into account the deteriorating terms of trade, we forecast an overall GDP deflator of -0.2% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2020 (% , QoQ annualized growth)

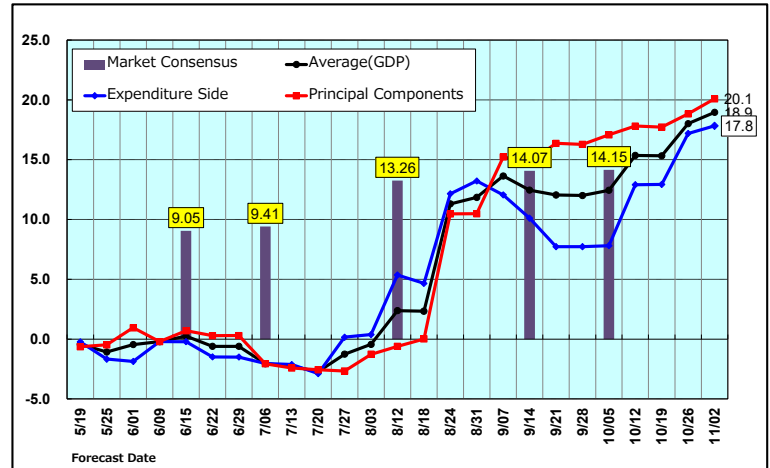
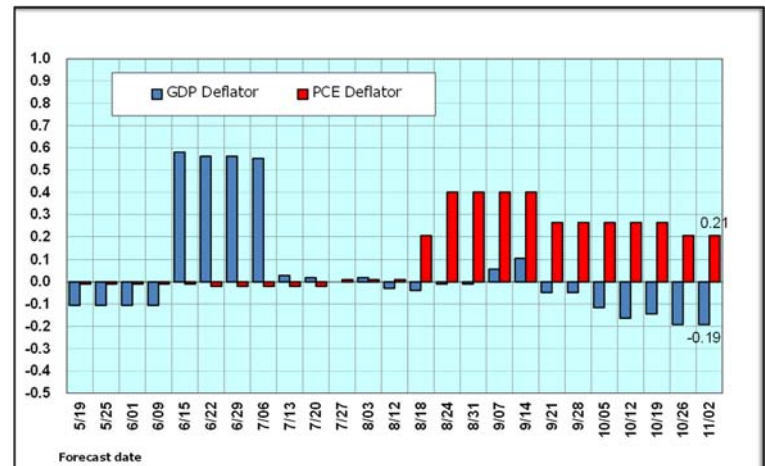


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2020 (% , QoQ growth)



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 October

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
10/30	September	Labor Force Survey				
		Total employment (millions)	66.55	-0.04		
		Total unemployment (millions)	2.06	+0.01		
			Unemployment rate (%)	3.0%	0.0%pt	
	September	General Job Placement Situation				
		Job offers-to-applicants ratio	1.03	-0.01pt		
	September	Indices of Industrial Production (preliminary figures, 2015=100)				
		Production	91.6	+4.0%		
		Shipments	90.4	+3.8%		
		Inventories	97.7	-0.3%		
	September	New Housing Starts				
		New housing starts (SA, Unit)	70,186	-0.5%	-9.9%	
		Planned residential construction expenditure (billion JPY)	1,249.4	+4.7%	-5.0%	
August	Construction Costs Deflator (2011=100)					
	Housing construction	111.5		+0.2%		
	Public works	113.9		+0.5%		
October	Tokyo Region Consumer Price Index (2015=100)					
	Core	101.4	-0.2%	-0.5%		
10/29	September	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	12,101.0	-0.1%	-8.7%	
	October	Consumer Confidence Index (SA)	33.6	+0.9		
10/28	September	Manufacturing Industry Input-Output Price Index (2011=100)				
		Input price	94.1		-3.8%	
		Output price	97.4		-1.8%	
10/26	August	Index of Business Conditions (revised figures, 2015=100)				
		Leading indicators	88.4	+1.7		
		Coincident indicators	79.2	+0.9		
		Lagging indicators	91.4	-0.9		
	September	Corporate Services Price Index (2015=100)				
	Overall index	104.0		+1.3%		
10/23	August	Monthly Labor Statistics (final figures)				
		Total cash salary per capita (JPY)	273,243		-1.3%	
		Total working hours	128.8		-5.1%	
	September	National Consumer Price Index (2015=100)				
	Core index	101.3	+0.1%	-0.3%		
10/20	August	Synthetic Consumption Index (2011=100)	98.2	+0.8%		
10/19	August	General Construction Statistics				
		Private non-residential construction (billion JPY)	812.0		-10.6%	
		Public works (billion JPY)	1,730.9		+5.3%	
	September	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	675.0	+33.2%	+804.1	
		Exports (billion JPY)	6,055.1	+4.5%	-4.9%	
Imports (billion JPY)		5,380.1	+2.5%	-17.2%		
10/15	August	Tertiary Industry Activity Index (2015=100)	95.1	+0.8%		

	August September	Industrial Activity Index (2015=100) Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	93.5 1,493.2 28,508	+1.3%	+0.9 +17.1% +8.7%
10/14	August	Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory	97.6 84.6 88.1 87.1 98.0		-0.3% +2.9% +1.0% +1.5% -1.3%
10/12	August September	Private Core Machinery Orders (billion JPY) Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	752.5 100.1 90.0 82.6	+0.2%	-0.8% -1.5% -10.1%
10/9	August August August August August	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours 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) Information Services Industry Sales (billion JPY)	273,263 129.0 276,360 93.7 94.3 811.4		-1.3% -5.0% +0.8% +1.7% -6.7% -6.9% -0.9% +0.8% -3.2%
10/8	September August	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	49.3 48.3 2,102.8 5,124.7 4,711.5	+5.4 +5.9 +70.9% +8.8% -0.7%	-1.5% -15.5% -22.0%
10/7	August	Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators	88.8 79.4 89.7	+2.1 +1.1 -2.7	
10/2	September August	Food Buffer Stock (billion JPY) Labor Force Survey Total employment (millions) Total unemployment (millions) Unemployment rate (%)	+24.2 66.59 2.05 3.0%		+9.1 +0.11 +0.09 +0.1%pt

CQM Forecast: GDP 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
	2020Q2					2020Q3					2020Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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															
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					
7/13	-24.8	-22.2	-23.5	1.1	-0.2	-2.1	-2.4	-2.3	0.0	0.0					
7/20	-30.2	-22.2	-26.2	1.1	-0.2	-2.9	-2.6	-2.7	0.0	0.0					
7/27	-28.7	-22.2	-25.5	1.1	-0.2	0.2	-2.7	-1.3	0.0	0.0					
8/03	-28.7	-22.1	-25.4	1.1	-0.2	0.4	-1.3	-0.4	0.0	0.0					
8/12	-25.0	-20.2	-22.6	1.1	-0.2	5.4	-0.6	2.4	0.0	0.0					
8/17	<u>-27.8</u>			<u>0.5</u>	<u>-0.2</u>										
8/18						4.7	0.0	2.3	0.0	0.2	0.8	-3.1	-1.2	0.0	0.0
8/24						12.1	10.5	11.3	0.0	0.4	1.0	-3.2	-1.1	0.0	-0.1
8/31						13.2	10.5	11.8	0.0	0.4	0.5	-3.2	-1.4	0.0	-0.1
9/07						12.1	15.2	13.6	0.1	0.4	0.2	-2.9	-1.3	0.0	-0.1
9/08	-28.1*			0.3*	-0.2*										
9/14						10.1	14.8	12.5	0.1	0.4	-0.1	-2.8	-1.5	-0.1	-0.1
9/21						7.7	16.4	12.0	0.0	0.3	2.9	-2.6	0.1	-0.2	-0.1
9/28						7.7	16.3	12.0	0.0	0.3	2.9	-2.6	0.1	-0.2	-0.1
10/05						7.8	17.1	12.4	-0.1	0.3	2.5	-2.6	-0.1	-0.1	-0.1
10/12						12.9	17.8	15.4	-0.2	0.3	2.6	-2.6	0.0	-0.1	-0.1
10/19						12.9	17.7	15.3	-0.1	0.3	2.7	-2.5	0.1	0.1	-0.1
10/26						17.2	18.8	18.0	-0.2	0.2	2.8	-1.2	0.8	0.1	-0.2
11/02						17.8	20.1	18.9	-0.2	0.2	2.9	1.2	2.0	0.1	-0.2

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