Japanese Economy Monthly Forecast

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Headlines

● Review of data released in July

▶ We estimated Japan's Q2 GDP using the latest available official data. As of August 2nd, almost all data required for a complete calculation of GDP has been released.

▶ The Index of Industrial Production in Q2 rose QoQ for the first time in two quarters. However, the increase of +0.5% was quite modest, suggesting that production has not yet recovered from the slump in the previous quarter.

▶ The April-May average of the Synthetic Consumption Index was significantly higher than the Q1 figure. As long as there is no major decline in June, we forecast robust growth in Q2 private final consumption expenditure.

▶ The Q2 Capital Goods Shipments Index grew +5.0% QoQ. As a result, we forecast a robust increase in private capital investment.

▶ Public works in April-May grew +4.9% compared to the Q1 average. Based on that trend, we forecast an expansion in public fixed capital formation in Q2.

▶ Compared to the previous quarter, Q2 real exports grew +0.1% and real imports expanded +2.3%. As a result, real net exports are expected to have had a negative impact on Q2 GDP growth.

● 2019Q2 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's CQM forecast for Q2 real GDP growth (expenditure side) is +0.4% QoQ, or +1.5% if annualized. The contributions of domestic demand and net exports to the GDP growth are estimated at +0.8%pt and -0.4%pt QoQ, respectively. This is our final CQM forecast for Q2.

▶ The production-side forecast figure, based on a principal component analysis, is an annualized +2.1%. The average of the expenditure-side and the production-side forecasts is an annualized +1.8% (Figure 1).

● 2019Q2 inflation forecast update

▶ The core National Consumer Price Index (CPI) in June increased +0.7% YoY, maintaining the same growth rate from the previous month and marking the 33rd consecutive month in positive territory. However, the seasonally adjusted figure was 0.0% MoM. As a result, Q2 CPI inflation is expected to have decelerated to a modest +0.1%.

▶ The Q2 CQM forecasts for the private final consumption expenditure (PCE) deflator and the domestic demand deflator are both -0.1% QoQ, remaining unchanged from our previous forecast. Due to the slight deterioration in the terms of trade, we forecast an overall GDP deflator of -0.1% QoQ (Figure 2).

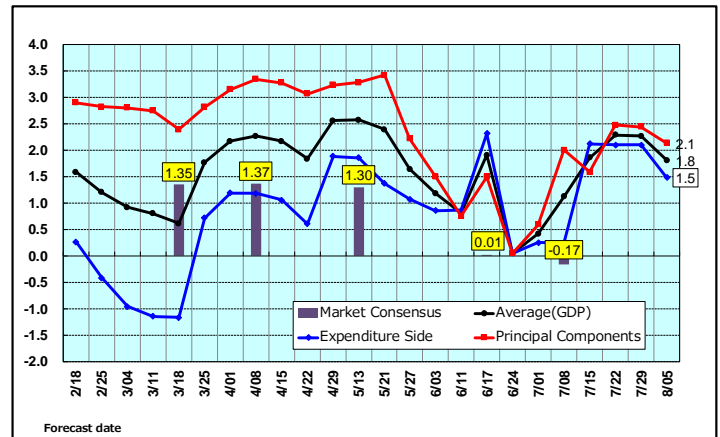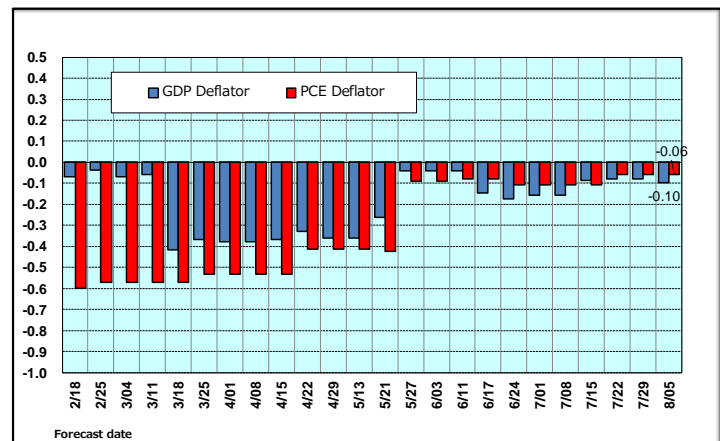### Fig 1 CQM Forecast: Real GDP growth rate Apr-Jun (Q2) 2019 (%, QoQ annualized growth)

Fig 2 CQM Forecast: Inflation Apr-Jun (Q2) 2019 (%, QoQ growth)

We applied 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

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
8/2	July	**Food Buffer Stock (billion JPY)**	7.2		+14.9
8/1	July	**New Car Sales (vehicles)**	379,422		+2.9%
7/31	June	**New Housing Starts**			
		New housing starts (SA, Unit)	81,541	+2.4%	+0.3%
		Planned dwelling construction cost (billon JPY)	1,407.6	+10.7%	+7.4%
	May	**Construction Costs Deflator (2011=100)**			
		Housing construction	110.8		+1.1%
		Public works	112.8		+1.6%
	July	**Consumer Confidence Index (SA)**	37.8	-0.9	
7/30	June	**Labor Force Survey**			
		Total employment (millions)	67.01	+0.07	
		Total unemployment (millions)	1.61	-0.01	
		Unemployment rate (%)	2.3%	-0.1%pt	
	June	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.61	-0.01%pt	
	June	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	101.1	-3.6%	
		Shipments	100.6	-3.3%	
		Inventory	104.6	+0.3%	
7/29	June	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	11,822.0	0.0%	+0.5%
	June	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	99.2		-1.6%
		Output price	99.8		-1.0%
7/26	July	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	101.4	+0.1%	+0.9%
7/25	June	**Corporate Service Price Index (2015=100)**			
		Overall index	102.8		+0.7%
7/24	May	**Index of Business Conditions (revised figures, 2015=100)**			
		Leading indicators	94.9	-1.0	
		Coincident indicators	103.4	+1.3	
		Lagging indicators	104.5	0.0	
7/23	May	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	275,193		-0.5%
		Total working hours	134.5		-4.4%
7/19	May	**Industrial Activity Indices (2010=100)**			
		All industries	106.7	+0.3%	
		Construction industry	114.3	+1.4%	
	June	**National Consumer Price Index (2015=100)**			
		Core	101.6	-0.1%	+0.6%
7/18	June	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	+589.5	-97.7%	-19.0%
		Exports (billion JPY)	6,584.5	+4.8%	-6.7%

Date	Month	Statistic	Value		
		Imports (billion JPY)	5,995.0	-4.4%	-5.2%
7/17	May	**Overall Construction Statistics**			
		Private construction: Non-residential (billion JPY)	839.2		+3.2%
		Public works (billion JPY)	1,410.4		+2.1%
7/12	May	**Indices of Industrial Production (final figures, 2015=100)**			
		Production capacity index	97.9		-0.5%
		Capacity utilization ratio	103.9	+1.7%	
		Production	104.9	+2.0%	
		Shipments	104.0	+1.3%	
		Inventory	104.3	+0.5%	
	May	**Synthetic Consumption Index (2011=100)**	106.0	-0.2%	
	June	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	1,447.9		+1.0%
		Number of contracts	24,088		-0.7%
7/11	May	**Tertiary Industry Activity Index (2010=100)**	106.8	-0.2%	
7/10	June	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	101.2	-0.5%	-0.1%
		Export Price	93.2	-1.4%	-3.9%
		Import Price	95.4	-1.8%	-5.4%
7/9	May	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	275,597		-0.2%
		Total working hours	134.5		-4.4%
	May	**Information Services Industry Sales (billion JPY)**	777.2		+4.1%
7/8	May	**Private Core Machinery Orders (billion JPY)**	842.9	-7.8%	
	June	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	44.0	-0.1	
		Future Conditions Diffusion Index	45.8	+0.2	
	May	**Balance of Payments**			
		Current account (billion JPY)	1,594.8	-18.4%	-15.8%
		Exports (billion JPY)	5,918.0	-2.1%	-6.3%
		Imports (billion JPY)	6,569.0	+3.2%	-0.9%
7/5	May	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	300,901	+5.5%	+4.9%
		Real consumption expenditure		+5.5%	+4.0%
	May	**Consumption Trend Index (2015=100)**	102.1	+0.5%	
	May	**Consumption Activity Index (2011=100)**	105.2	-0.7%	
	May	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicators	95.2	-0.7	
		Coincident indicators	103.2	+1.1	
		Lagging indicators	105.0	+0.4	

CQM Forecast Tracking

	Expenditure		Average			Expenditure		Average			Expenditure		Average		
	Real GDP			Deflator		Real GDP			Deflator		Real GDP			Deflator	
Forecast date	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE
	2019Q1					2019Q2					2019Q3				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
2/18	1.0	0.3	0.6	0.7	-0.2	0.3	2.9	1.6	-0.1	-0.6					
2/25	-1.2	0.2	-0.5	0.8	-0.1	-0.4	2.8	1.2	0.0	-0.6					
3/04	-3.1	-2.2	-2.6	0.8	-0.1	-1.0	2.8	0.9	-0.1	-0.6					
3/08															
3/11	-3.9	-1.5	-2.7	0.8	-0.1	-1.1	2.7	0.8	-0.1	-0.6					
3/18	-4.7	-2.3	-3.5	0.5	-0.1	-1.2	2.4	0.6	-0.4	-0.6					
3/25	-1.8	-0.5	-1.2	0.6	-0.1	0.7	2.8	1.8	-0.4	-0.5					
4/01	-1.4	0.2	-0.6	0.6	-0.1	1.2	3.1	2.2	-0.4	-0.5					
4/08	-1.4	-0.3	-0.9	0.6	-0.1	1.2	3.3	2.3	-0.4	-0.5					
4/15	-0.7	-0.7	-0.7	0.6	-0.1	1.1	3.3	2.2	-0.4	-0.5					
4/22	-0.2	0.0	-0.1	0.6	0.0	0.6	3.1	1.8	-0.3	-0.4					
4/29	0.1	1.0	0.6	0.6	0.0	1.9	3.2	2.6	-0.3	-0.4					
5/13	0.1	0.8	0.5	0.6	0.0	1.9	3.3	2.6	-0.4	-0.4					
5/20	*2.1*			*0.3*	*-0.2*										
5/21						1.4	3.4	2.4	-0.3	-0.4	1.0	0.3	0.7	0.1	0.2
5/27						1.1	2.2	1.6	0.0	-0.1	1.3	0.6	1.0	0.1	0.1
6/03						0.9	1.5	1.2	0.0	-0.1	1.6	1.7	1.6	0.1	0.1
6/10	*2.2**			*0.3**	*-0.2**										
6/11						0.9	0.7	0.8	0.0	-0.1	1.6	1.8	1.7	0.1	0.1
6/17						2.3	1.5	1.9	-0.1	-0.1	1.5	1.7	1.6	0.0	0.1
6/24						0.0	0.0	0.0	-0.2	-0.1	0.0	1.4	0.7	0.0	0.1
7/01						0.2	0.6	0.4	-0.2	-0.1	0.0	1.7	0.8	0.0	0.1
7/08						0.2	2.0	1.1	-0.2	-0.1	0.0	1.8	0.9	0.0	0.1
7/15						2.1	1.6	1.9	-0.1	-0.1	-0.4	1.8	0.7	0.1	0.1
7/22						2.1	2.5	2.3	-0.1	-0.1	1.8	2.2	2.0	0.1	0.1
7/29						2.1	2.4	2.3	-0.1	-0.1	1.8	2.2	2.0	0.1	0.1
8/05						1.5	2.1	1.8	-0.1	-0.1	1.8	1.3	1.6	0.1	0.1

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