



# Japanese Economy Monthly Forecast

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## Headlines

### ● Review of data released in October

▶ This forecast reflects official data released by the end of October. Although statistics on household consumption are not available yet, most data required for a complete calculation of Q3 GDP have already been released.

▶ Due to the supply crunch caused by the shortage of semiconductors and the spread of infectious diseases, the Industrial Production Index in September declined for the third consecutive month, down -5.4% MoM. As a result, the Q3 was -3.7% lower than the Q2, marking the first decline in five quarters.

▶ In August, the Synthetic Consumption Index declined for the first time in three months. Data on human mobility suggests that it is likely to have declined in September too.

▶ The amount of planned dwelling construction in September decreased for the first time in three months, down -6.4% MoM. As a result, the Q3 increase was a modest +0.7% QoQ. The capital goods shipments index fell for the second consecutive month in September (-5.8% MoM). As a result, the Q3 figure declined by -2.4% QoQ.

▶ In August, public construction works declined two months in a row, down -3.6% YoY. The seasonally adjusted figure was -3.1% MoM, marking the second straight month in negative territory. As a result, the July-August average decreased by -1.5% compared to Q2 average.

▶ Real exports in September decreased for the second consecutive month (-2.5% MoM). Real imports declined for the first time in two months (-1.7% MoM). A comparison of the Q3 and Q2 shows that both exports and imports shrank, by -2.2% and -2.7%, respectively. As a result of these trends, net exports made a slightly negative contribution to GDP growth in Q3.

### ● 2021 Q3 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q3 is an annualized -1.8% QoQ. Reflecting stagnant industrial production index, the production-side forecast figure is an annualized -4.0% QoQ. The average of the two is an annualized -2.9% (Figure 1).

▶ The contributions to real GDP growth in Q3 (-0.5% QoQ) are estimated at approximately -0.2%pt by domestic demand, and -0.2%pt by net exports.

### ● 2021 Q3 inflation forecast update

▶ In September, the national CPI rose YoY for the first time in 12 months. The Dwelling Construction Cost Deflator in August jumped, which was brought by wood supply shortages.

▶ Our CQM forecasts for the Q3 private final consumption expenditure deflator and the Q3 domestic demand deflator are respectively +0.4% and +0.7% QoQ. However, due to the deteriorating terms of trade, we forecast a Q3 GDP deflator of +0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2021 (% , QoQ annualized growth)

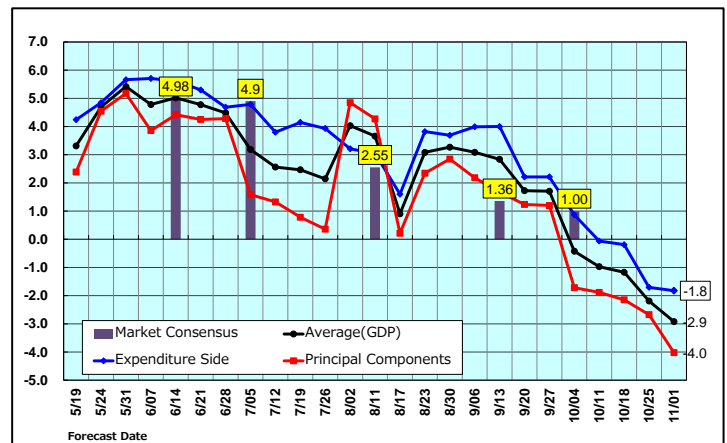
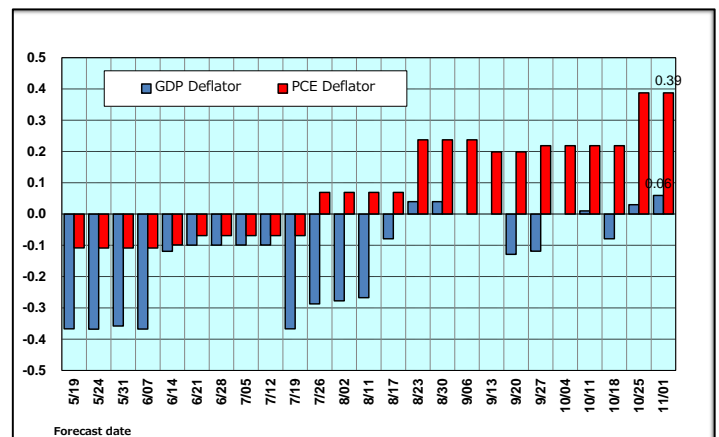


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2021 (% , QoQ growth)



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.

**Table 1: Main Economic Indicators (latest)**

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
10/29	September	<b>Labor Force Survey</b>				
		Total employment (millions)	66.48	-0.28		
		Total unemployment (millions)	1.89	-0.02		
			Unemployment rate (%)	2.8%	0.0%pt	
	September	<b>General Job Placement Situation</b>				
		Job offers-to-applicants ratio	1.16	+0.02pt		
	September	<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>				
		Production	89.5	-5.4%		
		Shipments	86.5	-6.2%		
		Inventories	98.4	+3.7%		
	September	<b>New Housing Starts</b>				
		New housing starts (SA, Unit)	73,178	-1.2%	+4.3%	
		Planned residential construction expenditure (billion JPY)	1,235.3	-6.4%	-1.1%	
	October	<b>Consumer Confidence Index (SA)</b>	39.2	+1.4		
August	<b>Construction Costs Deflator (2015=100)</b>					
	Housing construction	113.4		+6.4%		
	Public works	111.3		+3.0%		
October	<b>Tokyo Region Consumer Price Index (2020=100)</b>					
	Core	99.8	-0.2%	+0.1%		
10/28	September	<b>Current Survey of Commerce (preliminary figures)</b>				
	Retail trade (billion JPY)	12,041.0	+2.7%	-0.6%		
September	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>					
	Input price	107.2		+14.0%		
	Output price	104.4		+7.2%		
10/27	September	<b>Corporate Services Price Index (2015=100)</b>				
	Overall index	105.0		+0.9%		
August	<b>Index of Business Conditions (revised figures, 2015=100)</b>					
	Leading indicators	101.3	-2.8			
	Coincident indicators	91.3	-3.1			
	Lagging indicators	94.1	-1.1			
10/22	August	<b>Monthly Labor Statistics (final figures)</b>				
	Total cash salary per capita (JPY)	274,671		+0.6%		
	Total working hours	129.7		+0.7%		
September	<b>National Consumer Price Index (2020=100)</b>					
	Core index	99.8	+0.1%	+0.1%		
10/20	September	<b>Trade Statistics (customs clearance level)</b>				
	Trade balance (billion JPY)	-624.8	+85.6%	-1,290.1		
	Exports (billion JPY)	6,841.2	-3.9%	+13.0%		
	Imports (billion JPY)	7,464.0	+0.2%	+38.6%		
10/19	August	<b>General Construction Statistics</b>				
	Private non-residential construction (billion JPY)	804.3		+0.8%		
	Public works (billion JPY)	1,721.5		-3.6%		
10/15	August	<b>Tertiary Industry Activity Index (2015=100)</b>	95.0	-1.7%		

	September	<b>Public Works Advanced Securities Statistics</b> Contract amount (billion JPY) Number of contracts	1,268.2 26,536		-15.1% -6.9%
10/14	August	<b>Indices of Industrial Production (final figures, 2015=100)</b> Production Shipments Inventory Production capacity index Capacity utilization ratio	94.6 92.2 94.9 96.4 91.2	-3.6% -4.4% -0.1% -1.2% -3.9%	
10/13	August August	<b>Synthetic Consumption Index (2015=100)</b> <b>Private Core Machinery Orders (billion JPY)</b>	94.2 839.3	-2.0% -2.4%	
10/12	September	<b>Domestic Corporate Price Index (2015=100)</b> Corporate Price Export Price Import Price	106.4 99.9 108.2	+0.3% +0.3% +1.1%	+6.3% +11.0% +31.3%
10/8	August August August August September August	<b>Monthly Labor Statistics (preliminary figures)</b> Total cash salary per capita (JPY) Total working hours <b>Family Income and Expenditure Survey (households with 2 or more people)</b> Nominal consumption expenditure (JPY) Real consumption expenditure <b>Consumption Trend Index (2020=100)</b> <b>Information Services Industry Sales (billion JPY)</b> <b>Economy Watchers Survey</b> Current Conditions Diffusion Index Future Conditions Diffusion Index <b>Balance of Payments</b> Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	274,987 129.6 266,638 99.1 962.1 42.1 56.6 1,665.8 6,513.8 6,886.2	+0.7% +0.7% -4.3% -3.9% -1.7% +3.4% +7.4 +12.9	-20.1% +27.1% +45.9%
10/7	August August	<b>Consumption Activity Index (2015=100)</b> <b>Index of Business Conditions (preliminary, 2015=100)</b> Leading indicators Coincident indicators Lagging indicators	89.7 101.8 91.5 94.8	-2.1% -2.3 -2.9 -0.5	
10/5	September	<b>Tokyo Region Consumer Price Index (2020=100)</b> Core	99.8	+0.1%	+0.1%
10/4	September	<b>Food Buffer Stock (billion JPY)</b>	-22.5		+1.8

**Table 2: 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
	2021Q2			2021Q3		2021Q3			2021Q4		2021Q4			2021Q4	
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/19	1.0	0.9	0.9	-0.7	0.1	4.2	2.4	3.3	-0.4	-0.1					
5/24	0.8	1.3	1.0	-1.0	-0.2	4.8	4.5	4.7	-0.4	-0.1					
5/31	0.1	1.3	0.7	-1.0	-0.2	5.7	5.2	5.4	-0.4	-0.1					
6/07	0.7	0.6	0.6	-0.9	-0.2	5.7	3.9	4.8	-0.4	-0.1					
<b>6/08</b>															
6/14	-0.1	1.1	0.5	-0.8	-0.2	5.6	4.4	5.0	-0.1	-0.1					
6/21	-0.4	1.1	0.4	-0.7	-0.1	5.3	4.3	4.8	-0.1	-0.1					
6/28	-0.7	1.0	0.1	-0.7	-0.1	4.7	4.3	4.5	-0.1	-0.1					
7/05	-0.7	-1.5	-1.1	-0.6	-0.1	4.8	1.6	3.2	-0.1	-0.1					
7/12	-2.1	-0.9	-1.5	-0.6	-0.1	3.8	1.3	2.6	-0.1	-0.1					
7/19	-0.4	-0.3	-0.3	-0.7	-0.1	4.1	0.8	2.5	-0.4	-0.1					
7/26	-0.7	-0.5	-0.6	-0.6	-0.0	3.9	0.4	2.1	-0.3	0.1					
8/02	-0.0	0.8	0.4	-0.6	-0.0	3.2	4.8	4.0	-0.3	0.1					
8/11	0.9	0.3	0.6	-0.6	-0.0	3.0	4.3	3.7	-0.3	0.1					
8/16	<u>1.3</u>			<u>-0.3</u>	<u>-0.3</u>										
<b>8/17</b>						1.6	0.2	0.9	-0.1	0.1	5.2	5.4	5.3	-0.5	-0.7
8/23						3.8	2.3	3.1	0.0	0.2	5.3	3.4	4.3	-0.3	-0.6
8/30						3.7	2.8	3.3	0.0	0.2	5.4	6.5	5.9	-0.3	-0.6
9/06						4.0	2.2	3.1	0.0	0.2	5.4	6.5	5.9	-0.3	-0.6
<b>9/08</b>	1.9*			-0.6*	-0.8*										
9/13						4.0	1.7	2.8	0.0	0.2	5.6	5.3	5.5	-0.3	-0.6
9/20						2.2	1.2	1.7	-0.1	0.2	4.0	5.1	4.6	-0.4	-0.6
9/27						2.2	1.2	1.7	-0.1	0.2	4.0	5.2	4.6	-0.4	-0.5
10/04						0.9	-1.7	-0.4	0.0	0.2	4.3	5.6	4.9	-0.4	-0.5
10/11						-0.1	-1.9	-1.0	0.0	0.2	3.3	3.8	3.5	-0.4	-0.5
10/18						-0.2	-2.1	-1.2	-0.1	0.2	3.3	5.4	4.4	-0.6	-0.5
10/25						-1.7	-2.7	-2.2	0.0	0.4	-0.2	4.6	2.2	-0.4	-0.3
11/01						-1.8	-4.0	-2.9	0.1	0.4	1.1	4.1	2.6	-0.5	-0.3

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

Table 3-1: Gross Domestic Product at Chained 2015 Price: Y Billion

	Quarterly			Forecast		CY		FY	
	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2020	2021	2020	2021
GDP/GDE									
Gross Domestic Products	542,544	536,805	539,309	536,834	538,244	528,961	537,798	527,125	538,114
Private Consumption	289,932	286,283	288,940	286,704	291,250	284,213	288,294	282,332	289,589
Residential Investment	18,626	18,804	19,189	18,840	18,603	19,140	18,859	18,934	18,787
Nonresidential Investment	85,890	84,812	86,754	86,357	85,808	85,593	85,933	84,314	86,199
Change in Private Inventory	-978	1,396	-409	570	1,718	1,522	818	1,261	897
Government Consumption	116,955	114,936	116,458	117,667	118,194	113,576	116,814	114,568	117,761
Public Investment	29,473	29,160	28,674	28,100	27,850	28,943	28,446	29,226	28,086
Change in Public Inventory	-45	11	-10	16	15	-5	8	-11	10
Net Exports	2,840	1,395	-699	-1,831	-5,606	-4,328	-1,685	-3,884	-3,627
Exports of Goods & Services	97,958	100,272	103,101	100,930	99,328	91,728	100,908	91,975	100,629
Imports of Goods & Services	95,117	98,878	103,799	102,761	104,934	96,056	102,593	95,859	104,256
Gross National Income	568,699	559,429	560,131	551,543	551,114	552,730	555,554	551,361	553,695
Memo:									
Total Demand	637,661	635,683	643,109	639,595	643,178	625,017	640,391	622,983	642,370
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	2.8	-1.1	0.5	-0.5	0.3				
<b>SAAR</b>	<b>11.9</b>	<b>-4.2</b>	<b>1.9</b>	<b>-1.8</b>	<b>1.1</b>				
% Change Year Ago	-0.8	-1.3	7.7	1.8	-0.8	-4.6	1.7	-4.4	2.1
Private Consumption	2.3	-1.3	0.9	-0.8	1.6				
% Change Year Ago	-2.1	-2.5	7.3	1.1	0.5	-5.8	1.4	-5.8	2.6
Residential Investment	0.0	1.0	2.1	-1.8	-1.3				
% Change Year Ago	-8.7	-4.2	-2.8	1.2	-0.1	-7.1	-1.5	-7.2	-0.8
Nonresidential Investment	4.3	-1.3	2.3	-0.5	-0.6				
% Change Year Ago	-2.9	-5.2	3.2	4.9	-0.1	-6.0	0.4	-6.8	2.2
Government Consumption	1.9	-1.7	1.3	1.0	0.4				
% Change Year Ago	5.1	3.6	4.3	2.5	1.1	2.8	2.9	3.4	2.8
Public Investment	0.9	-1.1	-1.7	-2.0	-0.9				
% Change Year Ago	4.7	3.5	-1.2	-3.8	-5.5	3.6	-1.7	4.2	-3.9
Exports of Goods & Services	11.7	2.4	2.8	-2.1	-1.6				
% Change Year Ago	-5.8	1.2	26.2	15.1	1.4	-11.7	10.0	-10.4	9.4
Imports of Goods & Services	4.8	4.0	5.0	-1.0	2.1				
% Change Year Ago	-7.3	-0.6	5.0	13.3	10.3	-7.3	6.8	-6.8	8.8
Gross National Income	3.1	-1.6	0.1	-1.5	-0.1				
<b>SAAR</b>	<b>13.1</b>	<b>-6.4</b>	<b>0.5</b>	<b>-6.0</b>	<b>-0.3</b>				
% Change Year Ago	0.4	-0.9	6.8	0.0	-3.1	-3.7	0.5	-3.5	0.4
Total Demand	3.1	-0.3	1.2	-0.5	0.6				
<b>SAAR</b>	<b>13.2</b>	<b>-1.2</b>	<b>4.8</b>	<b>-2.2</b>	<b>2.3</b>				
% Change Year Ago	0.0	9.3	7.3	3.5	0.9	-5.0	2.5	-4.8	3.1
Contribution to GDP Growth Rate									
Domestic Demand	1.8	-0.8	0.8	-0.2	1.0	-3.8	1.2	-3.8	2.0
Private Demand	1.4	-0.4	0.6	-0.4	0.9	-4.6	0.6	-4.7	1.6
Public demand	0.5	-0.4	0.2	0.1	0.1	0.8	0.5	0.9	0.4
Net Exports	1.0	-0.2	-0.3	-0.2	-0.7	-0.8	0.5	-0.6	0.1

Table 3-2: Gross Domestic Product at Current Prices: Y Billion

	Quarterly			Forecast		CY		FY	
	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2020	2021	2020	2021
GDP/GDE									
Gross Domestic Products	551,223	545,159	544,417	542,240	540,907	538,689	543,181	536,638	542,725
Private Consumption	292,815	290,291	290,750	289,615	293,330	288,400	290,996	286,152	292,192
Residential Investment	19,575	19,972	20,761	20,785	20,685	20,142	20,551	19,942	20,699
Nonresidential Investment	86,070	85,857	88,377	88,723	88,732	86,209	87,922	84,875	88,747
Change in Private Inventory	-844	1,229	-975	1,076	2,101	1,120	858	819	965
Government Consumption	116,522	115,358	117,279	118,724	119,205	113,872	117,641	114,684	118,761
Public Investment	30,802	30,722	30,521	30,249	29,958	30,264	30,362	30,610	30,164
Change in Public Inventory	-17	41	3	34	33	10	28	12	26
Net Exports	6,302	1,689	-2,299	-6,964	-13,137	-1,329	-5,178	-457	-8,829
Exports of Goods & Services	89,530	93,571	99,514	98,721	97,453	83,829	97,315	84,259	98,375
Imports of Goods & Services	83,228	91,882	101,813	105,686	110,590	85,158	102,492	84,715	107,204
Gross National Income	573,383	567,609	567,134	562,320	561,337	559,889	564,600	557,784	563,673
Memo:									
Total Demand	634,451	637,041	646,230	647,926	651,496	623,846	645,673	621,353	649,929
Compensation of Employee	281,737	289,006	284,185	284,358	285,616	282,481	285,791	282,244	285,132
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	2.3	-1.1	-0.1	-0.4	-0.2				
<b>SAAR</b>	<b>9.7</b>	<b>-4.3</b>	<b>-0.5</b>	<b>-1.6</b>	<b>-1.0</b>				
% Change Year Ago	-0.8	-1.4	6.6	0.7	-1.9	-3.8	0.8	-3.9	1.1
Private Consumption	1.8	-0.9	0.2	-0.4	1.3				
% Change Year Ago	-3.0	-3.0	6.2	0.7	0.2	-5.6	0.9	-5.9	2.1
Residential Investment	-0.2	2.0	4.0	0.1	-0.5				
% Change Year Ago	-9.3	-3.9	0.5	5.9	5.7	-6.1	2.0	-6.7	3.8
Nonresidential Investment	3.8	-0.2	2.9	0.4	0.0				
% Change Year Ago	-3.7	-5.4	4.6	7.0	3.1	-6.3	2.0	-7.3	4.6
Government Consumption	1.2	-1.0	1.7	1.2	0.4				
% Change Year Ago	3.6	3.2	4.9	3.1	2.3	2.3	3.3	2.7	3.6
Public Investment	0.9	-0.3	-0.7	-0.9	-1.0				
% Change Year Ago	4.4	4.1	1.0	-0.9	-2.7	4.4	0.3	4.6	-1.5
Exports of Goods & Services	11.2	4.5	6.4	-0.8	-1.3				
% Change Year Ago	-7.3	1.9	36.0	22.6	8.8	-14.0	16.1	-12.0	16.8
Imports of Goods & Services	4.8	10.4	10.8	3.8	4.6				
% Change Year Ago	-13.9	-1.7	20.5	33.1	32.9	-14.0	20.4	-13.3	26.5
Gross National Income	2.7	-1.0	-0.1	-0.8	-0.2				
<b>SAAR</b>	<b>11.2</b>	<b>-4.0</b>	<b>-0.3</b>	<b>-3.4</b>	<b>-0.7</b>				
% Change Year Ago	-0.7	-1.4	6.8	0.7	-2.1	-3.8	0.8	-3.9	1.1
Memo:									
Total Demand	2.7	0.4	1.4	0.3	0.6				
<b>SAAR</b>	<b>11.1</b>	<b>1.6</b>	<b>5.9</b>	<b>1.1</b>	<b>2.2</b>				
% Change Year Ago	0.0	15.9	8.5	4.8	2.7	0.0	-5.3	0.0	-5.3
Compensation of Employee	0.4	2.6	-1.7	0.1	0.4				
% Change Year Ago	-2.6	-0.3	1.9	1.3	1.4	-1.5	1.2	-2.0	1.0

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2020	2021	2020	2021
GDP/GDE									
Gross Domestic Products	101.6	101.6	101.0	101.0	100.5	101.9	101.0	101.8	100.9
Private Consumption	101.0	101.4	100.6	101.0	100.7	101.5	100.9	101.4	100.9
Residential Investment	105.1	106.2	108.2	110.3	111.2	105.2	109.0	105.3	110.2
Nonresidential Investment	100.2	101.2	101.9	102.7	103.4	100.7	102.3	100.7	103.0
Government Consumption	99.6	100.4	100.7	100.9	100.9	100.2	100.7	100.1	100.9
Public Investment	104.5	105.4	106.4	107.7	107.6	104.5	106.8	104.7	107.4
Exports of Goods & Services	91.4	93.3	96.5	97.8	98.1	91.3	96.4	91.5	97.8
Imports of Goods & Services	87.5	92.9	98.1	102.9	105.4	88.6	99.8	88.3	102.8
Unit Profit	107.8	103.5	104.7	104.2	102.9	105.1	103.9	104.7	103.9
Unit Labor Cost	96.4	99.9	97.8	98.3	98.5	99.1	98.6	99.4	98.3
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.5	0.0	-0.6	0.1	-0.5				
	0.0	-0.1	-1.1	-1.1	-1.1	0.9	-0.9	0.6	-1.0
Private Consumption	-0.5	0.4	-0.8	0.4	-0.3				
	-0.9	-0.5	-1.0	-0.4	-0.3	0.2	-0.5	-0.1	-0.5
Residential Investment	-0.3	1.1	1.9	2.0	0.8				
	-0.7	0.4	3.4	4.7	5.8	1.0	3.6	0.5	4.6
Nonresidential Investment	-0.5	1.0	0.6	0.9	0.7				
	-0.9	-0.2	1.4	2.1	3.2	-0.4	1.6	-0.5	2.3
Government Consumption	-0.7	0.7	0.3	0.2	0.0				
	-1.4	-0.4	0.6	0.6	1.2	-0.5	0.5	-0.7	0.8
Public Investment	-0.1	0.8	1.0	1.1	-0.1				
	-0.3	0.5	2.2	2.9	2.9	0.8	2.2	0.4	2.6
Exports of Goods & Services	-0.5	2.1	3.4	1.3	0.3				
	-1.6	0.7	7.8	6.5	7.4	-2.6	5.6	-1.8	6.8
Imports of Goods & Services	0.0	6.2	5.6	4.9	2.5				
	-7.2	-1.1	14.7	17.6	20.4	-7.3	12.7	-6.9	16.4
Unit Profit	0.0	-3.9	1.1	-0.4	-1.3				
	0.0	3.2	4.2	-1.7	-4.5	-1.6	-1.2	-1.6	-0.8
Unit Labor Cost	0.0	3.7	-2.1	0.5	0.2				
	0.0	14.0	-5.4	-0.5	2.2	3.2	-0.5	2.5	-1.0