



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in September

▶ We estimated Japan's Q3 GDP using the latest available official data. As of October 4th, approximately two-thirds of all relevant data has been released.

▶ The index of industrial production in August declined for the first time in two months (-1.2% MoM). The July-August average dropped -0.9% relative to the Q2 average. Consequently, METI revised down its assessment of production in August.

▶ The index of consumption goods production increased MoM for the second consecutive month in August. However, the July-August average declined -0.4% compared to the Q2 average. Rush demand before the consumption tax hike this year seems limited compared to the previous tax hike in 2014.

▶ The July-August average planned residential construction expenditure was +17.6% higher than the Q2 average. The July-August average index of capital goods shipments was +1.5% up from the Q2 average.

▶ Comparing the July-August average with the Q2 average, real exports expanded +1.7% while real imports shrank -0.2%. As a result, real net exports expanded QoQ.

● 2019 Q3 real GDP growth forecast update

▶ Reflecting the latest data updates, our forecast for Q3 real GDP growth (expenditure side) is +0.4% QoQ, or +1.4% if annualized. The contributions of domestic demand and net exports to growth are estimated at +0.3%pt and +0.1%pt QoQ. The production-side forecast figure, based on a principal component analysis, is an annualized +2.6%. The average of the two forecasts is an annualized +2.0% (Figure 1).

▶ The real GDP growth forecast for Q3, the quarter preceding the consumption tax hike on October 1st, is half as low as real GDP growth in the quarter preceding the previous tax hike (2014 Q1). Therefore, we expect that the reactionary fall after the tax hike this year will be milder than it was five years ago.

● 2019 Q3 inflation forecast update

▶ The Tokyo Core Consumer Price Index (excluding perishables) rose +0.5% YoY in September, expanding for the 27th consecutive month. However, the seasonally adjusted MoM figure decreased for the first time in fourth months (-0.2%). Overall, Tokyo's Q3 core CPI remained unchanged QoQ for two straight quarters.

▶ As a result, the Q2 CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator are +0.0% and -0.1% QoQ, respectively. As the terms of trade improved, we forecast an overall GDP deflator of +0.1% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2019 (% , QoQ annualized growth)

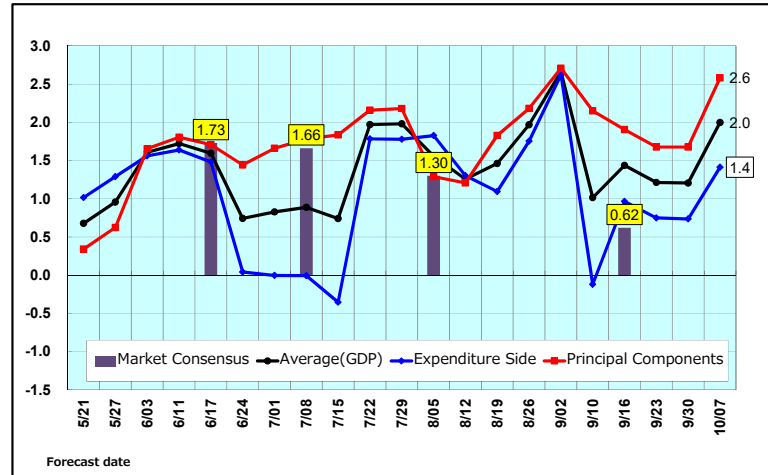
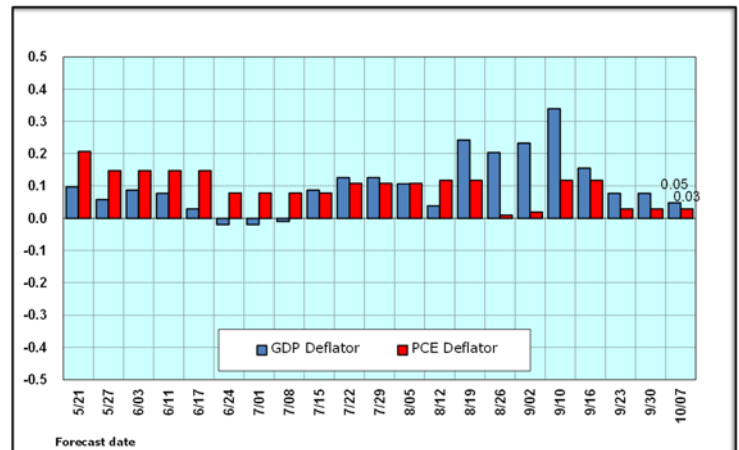


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2019 (% , QoQ growth)



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 September/October

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
10/2	September	Food Buffer Stock (billion JPY)	15.1		+42.0
	September	New Car Sales (vehicles)	458,856		+13.6%
	September	Consumer Confidence Index (SA)	35.6	-1.5	
10/1	August	Labor Force Survey			
		Total employment (millions)	67.35	+0.19	
		Total unemployment (millions)	1.54	0	
	August	General Job Placement Situation			
		Job offers-to-applicants ratio	1.59	0.00pt	
9/30	August	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	101.5	-1.2%	
		Shipments	101.1	-1.4%	
	August	Inventory	104.5	0.0%	
		Current Survey of Commerce (preliminary figures)			
	August	Retail trade (billion JPY)	12,054	+4.8%	+2.0%
	August	New Housing Starts			
		New housing starts (SA, Unit)	76,034	-2.1%	-7.1%
	July	Planned dwelling construction cost (billion JPY)	1,651.7	+22.1%	+28.9%
		Construction Costs Deflator (2011=100)			
Housing construction		111.9		-0.8%	
9/27	September	Tokyo Region Consumer Price Index (2015=100)			
	August	Core	101.4	-0.2%	+0.5%
9/25	August	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	98.1		-2.8%
		Output price	99.2		-1.7%
9/25	August	Corporate Service Price Index (2015=100)			
		Overall index	102.9		+0.6%
9/24	July	Index of Business Conditions (revised figures, 2015=100)			
		Leading indicators	93.7	+0.1	
		Coincident indicators	99.7	+0.2	
		Lagging indicators	104.7	+0.2	
9/20	July	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	374,609		-1.0%
	August	Total working hours	144.1		-0.8%
		National Consumer Price Index (2015=100)			
		Core	101.7	+0.1%	+0.5%
9/19	July	Industrial Activity Indices (2010=100)			
		All industries	106.2	+0.2%	
		Construction industry	112.1	-1.4%	
9/18	August	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	-136.3	+25.8%	-69.6%
		Exports (billion JPY)	6,141.0	-2.8%	-8.2%
		Imports (billion JPY)	6,277.3	-2.3%	-12.0%

9/17	July	Overall Construction Statistics Private construction: Non-residential (billion JPY) Public works (billion JPY)	885.3 1,616.2		-0.2% +4.9%
9/13	July August	Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	97.8 102.3 102.7 102.5 104.5 1,149.3 22,494	+1.1% +1.3% +2.7% -0.2%	-0.6% +2.2% -5.5%
9/12	July July July August	Synthetic Consumption Index (2011=100) Private Core Machinery Orders (billion JPY) Tertiary Industry Activity Index (2010=100) Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	104.6 896.9 106.9 100.9 91.5 92.8	-0.6% -6.6% +0.1% -0.3% -1.2% -0.5%	-0.9% -5.7% 8.3%
9/9	July August July	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)	807.2 42.8 39.7 1,999.9 6,504.9 6,579.5	+1.6 -4.6 -15.2% -0.0% +1.9%	+5.4% -1.3% -3.9% -3.0%
9/6	July July July July July	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) Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators	377,334 144.3 288,026 102.3 103.0 93.6 99.8 104.8	-0.7% -0.9% 0.0% -2.4% 0.0 +0.3 +0.2	-0.3% -0.7% +1.4% +0.8%
9/2	August August	Food Buffer Stock (billion JPY) New Car Sales (vehicles)	49.6 317,179		-12.5 +4.9%

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
	2019Q2					2019Q3					2019Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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															
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					
8/08	<u>1.8</u>			<u>-0.0</u>	<u>0.1</u>										
8/12						1.3	1.2	1.3	0.0	0.1	-0.9	-1.2	-1.1	-0.1	0.1
8/19						1.1	1.8	1.5	0.2	0.1	-0.8	-1.1	-1.0	0.0	0.1
8/26						1.8	2.2	2.0	0.2	0.0	-0.6	-0.7	-0.7	0.0	0.1
9/02						2.6	2.7	2.7	0.2	0.0	-0.7	-0.7	-0.7	0.0	0.1
9/09	1.3*			-0.1*	0.1*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9/10						-0.1	2.1	1.0	0.3	0.1	-0.3	-0.6	-0.5	0.0	0.1
9/16						1.0	1.9	1.4	0.2	0.1	-0.6	-0.8	-0.7	-0.1	0.1
9/23						0.7	1.7	1.2	0.1	0.0	-1.0	-0.9	-1.0	-0.1	0.1
9/30						0.7	1.7	1.2	0.1	0.0	-1.0	-0.9	-1.0	-0.1	0.1
10/07						1.4	2.6	2.0	0.0	0.0	-0.2	-0.6	-0.4	-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.