一般財団法人 アジア太平洋研究所
ASIA PACIFIC INSTITUTE OF RESEARCH

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 October

▶ We estimated the Q3 GDP using available official data as of November 1st. Of major data required for a complete Q3 GDP calculation, only private final consumption expenditure indicators (the September household survey and the synthetic consumption index) have not been released yet.

▶ The Q3 index of industrial production registered a negative trend for the first time in two quarters, declining -0.6% QoQ. The Ministry of Economy, Trade and Industry (METI) kept unchanged its assessment of the economy as "bearish".

▶ Retail sales in September, the month before the consumption tax hike, registered the largest increase since the one seen in the month leading up to the previous tax hike (March 2014). The seasonally adjusted figure was +7.1% MoM, the second straight month in positive territory.

▶ Private housing and private capital investment both remained robust before the consumption tax hike. The Q3 planned residential construction expenditure rose +8.7% QoQ, while the Q3 capital goods shipments index climbed +3.6% QoQ.

▶ Q3 net goods exports expanded QoQ (BOJ).

● 2019 Q3 real GDP growth forecast update

▶ Reflecting the latest data updates, this week's CQM expenditure-side forecast for Q3 real GDP growth is an annualized +0.8% QoQ. The production-side principal component analysis forecast is an annualized +0.9% QoQ. The average of the two forecasts is an annualized +0.9% QoQ (Figure 1).

▶ The last-minute surge in demand before the consumption tax hike on October 1st can be clearly observed in September data on retail sales. Once the private final consumption indicators for September have been released, the final forecast for Q3 real GDP growth might be revised upwards to an annualized ballpark figure of +2% QoQ.

● 2019 Q3 inflation forecast update

▶ The national consumer price index (CPI) in September remained in positive territory for the 33rd consecutive month, decelerating slightly from the previous month. The seasonally adjusted MoM figure was -0.1%, decreasing for the first time in three months. As a result, Q3 CPI remained unchanged from the previous quarter.

▶ The CQM forecast for the Q3 private final consumption expenditure deflator is +0.1% QoQ. The Q3 domestic demand deflator is expected to be -0.0%. As the terms of trade are improving, we forecast an overall GDP deflator of +0.2% QoQ (Figure 2).

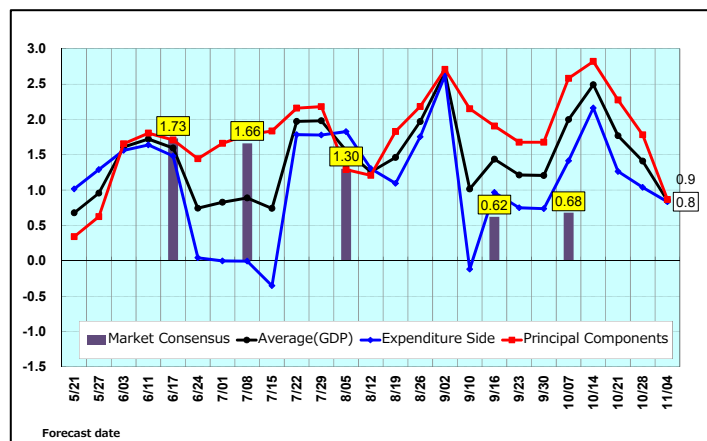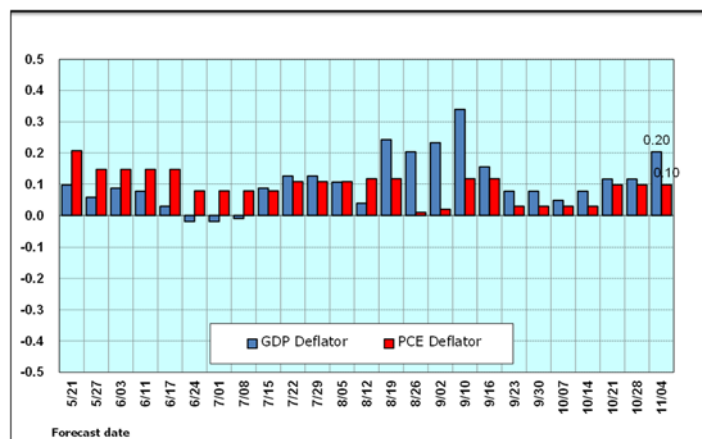### Fig 1 CQM Forecast: Real GDP growth rate Jul-Sep (Q3) 2019 (%, QoQ annualized growth)

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 October/November

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change	
				MoM	YoY
11/1	October	**New Car Sales (vehicles)**	259,905		-25.1%
	September	**Labor Force Survey**			
		Total employment (millions)	67.30	-0.05	
		Total unemployment (millions)	1.67	+0.13	
		Unemployment rate (%)	2.4%	+0.2%pt	
	September	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.57	-0.02pt	
10/31	September	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	102.9	+1.4%	
		Shipments	102.5	+1.3%	
		Inventory	102.7	-1.6%	
	September	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	12,589	+7.1%	+9.1%
	September	**New Housing Starts**			
		New housing starts (SA, Unit)	77,915	+0.7%	-4.9%
		Planned residential construction expenditure (billon JPY)	1,314.8	-14.9%	+3.0%
	September	**Construction Costs Deflator (2011=100)**			
		Housing construction	111.1		+2.5%
		Public works	113.2		+3.0%
	October	**Consumer Confidence Index (SA)**	36.2	+0.6	
10/30	September	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	97.9		-3.0%
		Output price	99.3		-1.7%
10/29	October	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	101.8	+0.2%	+0.5%
10/28	September	**Corporate Service Price Index (2015=100)**			
		Overall index	102.8		+0.5%
10/24	August	**Index of Business Conditions (revised figures, 2015=100)**			
		Leading indicators	91.9	-1.8	
		Coincident indicators	99.0	-0.7	
		Lagging indicators	104.7	0.0	
10/23	August	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	276,699		-0.1%
		Total working hours	135.8		-3.0%
	August	**Industrial Activity Indices (2010=100)**			
		All industries	106.2	0.0%	
		Construction industry	111.5	-0.6%	
10/21	September	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	-123.0	-16.7%	-191.1
		Exports (billion JPY)	6,368.5	+1.4%	-5.2%
		Imports (billion JPY)	6,491.5	+1.1%	-1.5%
10/18	September	**National Consumer Price Index (2015=100)**			
		Core	101.6	-0.1%	+0.3%

Date	Month	Indicator	Value		
10/17	August	**Synthetic Consumption Index (2011=100)**	104.2	-0.2%	
	August	**Overall Construction Statistics**			
		Private construction: Non-residential (billion JPY)	908.9		+0.1%
		Public works (billion JPY)	1,768.8		+7.7%
10/15	August	**Indices of Industrial Production (final figures, 2015=100)**			
		Production capacity index	97.8		-0.7%
		Capacity utilization ratio	99.3	-2.9%	
		Production	101.5	-1.2%	
		Shipments	101.2	-1.3%	
		Inventory	104.4	-0.1%	
	September	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	1,275.1		+4.6%
		Number of contracts	26,222		+0.1%
	August	**Tertiary Industry Activity Index (2010=100)**	107.3	+0.4%	
10/10	August	**Private Core Machinery Orders (billion JPY)**	875.3	-2.4%	
	August	**Information Services Industry Sales (billion JPY)**	839.1		+6.2%
	September	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	100.9	0.0%	-1.1%
		Export Price	91.6	+0.1%	-6.0%
		Import Price	92.3	-0.4%	-9.3%
10/8	August	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	276,296		-0.2%
		Total working hours	136.0		-2.8%
	August	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	296,327	+2.6%	+1.3%
		Real consumption expenditure		+2.4%	+1.0%
	August	**Consumption Trend Index (2015=100)**	102.3	+0.1%	
	September	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	46.7	+3.9	
		Future Conditions Diffusion Index	36.9	-2.8	
	August	**Balance of Payments**			
		Current account (billion JPY)	2,157.7	+4.4%	+18.3%
		Exports (billion JPY)	6,080.8	-1.1%	-8.6%
		Imports (billion JPY)	6,029.9	-1.3%	-12.7%
10/7	August	**Consumption Activity Index (2011=100)**	107.1	+3.1%	
	August	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicators	91.7	-2.0	
		Coincident indicators	99.3	-0.4	
		Lagging indicators	104.7	0.0	
10/2	September	**Food Buffer Stock (billion JPY)**	15.1		+4.2
	September	**New Car Sales (vehicles)**	458,856		+13.6%
	September	**Consumer Confidence Index (SA)**	35.6	-1.5	

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	*1.8*			*-0.0*	*0.1*										
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
10/14						2.2	2.8	2.5	0.1	0.0	0.0	-0.5	-0.3	0.0	0.1
10/21						1.3	2.3	1.8	0.1	0.1	-0.2	-0.2	-0.2	0.1	0.2
10/28						1.0	1.8	1.4	0.1	0.1	-0.4	-0.8	-0.6	0.1	0.2
11/04						0.8	0.9	0.9	0.2	0.1	-1.7	-1.9	-1.8	0.1	0.2

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