



Japanese Economy Monthly Forecast

August 2024

Yoshihisa Inada
Head of the Center for Quantitative Economic Analysis, APIR
e-mail: inada-y@apir.or.jp

Headlines

• Review of latest official data

▶ The current forecast reflects data released through the end of August. About one-third of the basic monthly data required for an accurate Q3 GDP estimate have been released. July data on household consumption, construction statistics and the balance of payments are not available yet.

▶ The index of industrial production rose +2.8% MoM in July, marking the first increase in two months. As a result, the index rose by +1.0% from the Q2 average. The Ministry of Economy, Trade and Industry (METI) left its production outlook unchanged from the previous month, stating that production “has been moving back and forth, with some signs of weakness”.

▶ Comparing July figures with Q2 averages, planned construction expenditure fell -5.0% and the capital goods shipments index fell -4.3%. The growth of private residential investment and private business investment in Q3 is expected to decelerate from the previous quarter.

▶ Monthly data that can be used to make forecasts about private final consumption expenditure and public fixed capital formation in Q3 have not been released yet. When forecasting private final consumption expenditure, it is important to take into consideration both demand-side and supply-side factors.

▶ Compared with the Q2 average, real exports and imports (BOJ basis) in July increased by +1.5% and +3.5%, respectively. The contribution of net exports of goods to real GDP growth declined from the previous quarter.

• 2024 Q3 real GDP growth forecast update

▶ APIR’s expenditure-side CQM forecast for real GDP growth in Q3 2024 is an annualized +0.2% QoQ. The production-side forecast figure is an annualized -0.0%. The average of the two is +0.1%, which is lower than the market consensus forecast figure of +2.15% (Figure 1).

• 2024 Q3 inflation forecast update

▶ In July, the nation-wide core CPI rose by +2.8% YoY, marking the 35th month of inflation. CPI inflation accelerated for the third consecutive month. The core-core CPI (excluding fresh food and energy prices) rose by +1.9%. Although it slowed for the first time in two months, core-core CPI inflation continued for 28 consecutive months.

▶ APIR’s CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in Q3 2024 are respectively +0.5% and +0.4% QoQ. Considering the improving terms of trade, we forecast a headline inflation rate (GDP deflator) of +0.6% QoQ in Q3 (Figure 2).

Fig 1 CQM Forecast: Real GDP Growth Rate Jul-Sep (Q3) 2024 (% , QoQ annualized growth)

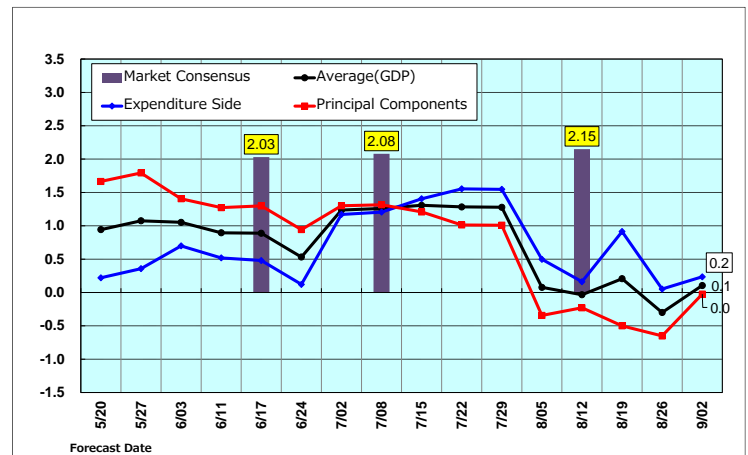
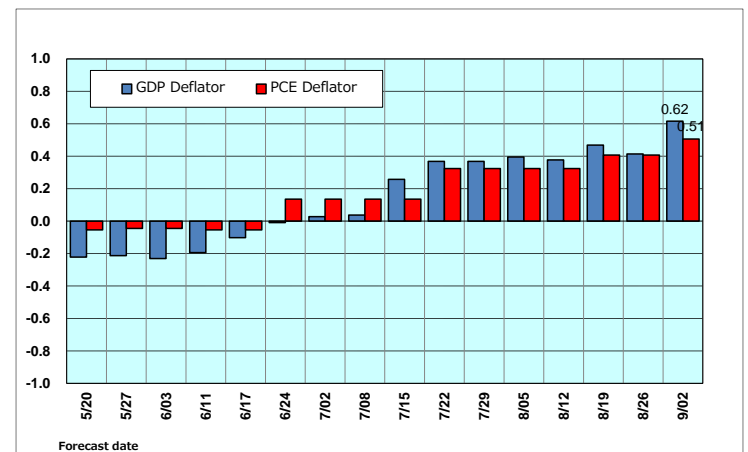


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2024 (% , QoQ growth)



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	
8/30	July	Labor Force Survey				
		Total employment (millions)	67.66	-0.2		
		Total unemployment (millions)	1.87	0.11		
			Unemployment rate (%)	2.7%	+0.2pt	
	July	General Job Placement Situation				
		Job offers-to-applicants ratio	1.24	+0.01pt		
	July	Indices of Industrial Production (preliminary figures, 2020=100)				
		Production	102.8	2.8%		
		Shipments	101.4	2.4%		
			Inventories	103	0.4%	
	July	Current Survey of Commerce (preliminary figures)				
		Retail trade (billion JPY)	14,309.0	0.2%	2.6%	
	July	New Housing Starts				
New housing starts (SA, Unit)		68,014	1.0%	-0.2%		
	Planned residential construction expenditure (billion JPY)	1,356.6	2.2%	3.2%		
June	Construction Costs Deflator (2015=100)					
	Housing construction	127.9		3.3%		
	Public works	128.1		4.5%		
August	Tokyo Region Consumer Price Index (2020=100)					
	Core index	107.9	0.5%	2.4%		
8/29	August	Consumer Confidence Index (SA)	36.7	0.0		
	July	Producer Price Index for Intermediate and Final Demand (2015=100)				
		Capital goods	110		2.6%	
		Consumer goods	116.5		4.6%	
8/27	July	Corporate Services Price Index (2020=100)				
		Overall index	107.5		2.8%	
8/26	June	Index of Business Conditions (revised, 2020=100)				
		Leading indicators	109	-2.1		
		Coincident indicators	113.2	-3.9		
		Lagging indicators	107.8	-0.7		
8/23	June	Monthly Labor Statistics (final figures)				
		Gross average salary per worker (JPY)	498,887		4.5%	
		Total working hours	140.1		-3.1%	
July	National Consumer Price Index (2020=100)					
	Core index	108.3	0.3%	2.7%		
8/21	July	Trade Statistics (customs clearance level)				
		Trade balance (billion JPY)	-621.8	-7.9%	914.0%	
		Exports (billion JPY)	9,619.2	1.7%	10.3%	
	Imports (billion JPY)	10,241.0	0.9%	16.6%		
8/20	June	General Construction Statistics				
		Private non-residential construction (billion JPY)	919.8		2.5%	

8/19	June	Public works (billion JPY)	1,687.1		3.9%
		Private Core Machinery Orders (billion JPY)	856.1	2.1%	
8/16	June	Tertiary Industry Activity Index (2015=100)	101.4	-1.3%	
8/15	June	Indices of Industrial Production (final figures, 2020=100)			
		Production	100	-4.2%	
		Shipments	99	-4.7%	
		Inventory	102.6	-0.7%	
		Production capacity index	97.8		-0.6%
		Capacity utilization ratio	100.6	-3.1%	
	July	Public Works Advanced Securities Statistics			
		Contract amount (billion JPY)	1,530.7		10.9%
		Number of contracts	26,477		10.0%
8/13	July	Domestic Corporate Price Index (2020=100)			
		Corporate Price	123.1	0.3%	3.0%
		Export Price	144.9	0.2%	10.8%
		Import Price	173.3	0.5%	10.8%
8/9	June	Information Services Industry Sales (billion JPY)	1,662.3		4.1%
8/8	July	Economy Watchers Survey			
		Current Conditions Diffusion Index	47.5	0.5	
		Future Conditions Diffusion Index	48.3	0.4	
	May	Balance of Payments			
		Current account (billion JPY)	1,533.5	-26.2%	0.9%
		Exports (billion JPY)	9,168.9	4.7%	5.9%
		Imports (billion JPY)	8,612.6	4.0%	3.4%
8/7	June	Consumption Activity Index (2015=100)	97.4	0.8%	
	July	Index of Business Conditions (preliminary figures, 2020=100)			
		Leading indicators	108.6	-2.6	
		Coincident indicators	113.7	-3.4	
		Lagging indicators	106.7	-1.5	
8/6	June	Monthly Labor Statistics (preliminary figures)			
		Gross average salary per worker (JPY)	498,884		4.5%
		Total working hours	140.5		-2.8%
	June	Family Income and Expenditure Survey (households with 2 or more people)			
		Nominal consumption expenditure (JPY)	280,888	0.3%	1.9%
		Real consumption expenditure		0.1%	-1.4%
	June	Consumption Trend Index (2020=100)	102.9	0.1%	
8/2	July	Food Buffer Stock (billion JPY)	-3.6		-15.8
8/1	July	New Car Sales (vehicles)	338,703		5.5%

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
	2024Q2					2024Q3					2024Q4				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
5/20	1.7	1.5	1.6	0.3	0.4	0.2	1.7	0.9	-0.2	-0.1					
5/27	1.3	1.7	1.5	0.3	0.4	0.4	1.8	1.1	-0.2	-0.0					
6/03	2.0	2.4	2.2	0.3	0.4	0.7	1.4	1.1	-0.2	-0.0					
6/10															
6/11	1.7	2.7	2.2	0.3	0.4	0.5	1.3	0.9	-0.2	-0.1					
6/17	1.7	2.5	2.1	0.4	0.4	0.5	1.3	0.9	-0.1	-0.1					
6/24	1.1	1.9	1.5	0.6	0.7	0.1	0.9	0.5	-0.0	0.1					
7/01															
7/02	2.5	2.5	2.5	0.8	0.7	1.2	1.3	1.2	0.0	0.1					
7/08	2.3	2.1	2.2	0.8	0.7	1.2	1.3	1.3	0.0	0.1					
7/15	3.4	2.3	2.8	0.9	0.8	1.4	1.2	1.3	0.3	0.1					
7/22	3.0	2.1	2.5	1.0	0.9	1.6	1.0	1.3	0.4	0.3					
7/29	3.0	2.1	2.5	1.0	0.9	1.5	1.0	1.3	0.4	0.3					
8/05	2.0	1.2	1.6	1.0	0.9	0.5	-0.3	0.1	0.4	0.3					
8/12	1.4	1.5	1.4	1.0	0.9	0.2	-0.2	-0.0	0.4	0.3					
8/15	3.1			1.0	0.5										
8/19						0.9	-0.5	0.2	0.5	0.4	0.5	-0.1	0.2	0.3	0.2
8/26						0.1	-0.7	-0.3	0.4	0.4	0.6	-0.0	0.3	0.3	0.2
9/02						0.2	-0.0	0.1	0.6	0.5	0.5	-0.3	0.1	0.4	0.2

Note: Underlined figures are 1st preliminary estimates.

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

	Quarterly		Forecast			CY		FY	
	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	557,620	554,330	558,625	558,953	559,606	559,374	557,879	558,152	559,517
Private Consumption	296,078	294,400	297,326	299,150	299,510	297,757	297,597	296,416	298,977
Residential Investment	18,359	17,877	18,170	18,202	17,963	18,561	18,053	18,391	18,066
Nonresidential Investment	92,945	92,528	93,342	94,009	94,574	92,120	93,613	91,962	94,266
Change in Private Inventory	450	2,069	1,480	1,273	348	2,269	1,292	1,847	986
Government Consumption	118,828	119,145	119,233	119,475	119,959	118,955	119,453	118,829	119,778
Public Investment	25,882	25,599	26,762	26,699	26,819	26,377	26,470	26,059	26,748
Change in Public Inventory	-32	22	-4	-145	-132	-10	-65	-18	-104
Net Exports	5,494	2,903	2,622	597	870	3,255	1,748	4,493	1,106
Exports of Goods & Services	115,087	109,770	111,346	112,179	112,841	111,694	111,534	112,024	112,419
Imports of Goods & Services	109,593	106,867	108,724	111,582	111,970	108,439	109,786	107,532	111,313
Gross National Income	581,322	577,771	585,547	586,438	588,838	580,462	584,648	581,040	587,830
Memo:									
Total Demand	667,212	661,197	667,349	670,535	671,577	667,814	667,664	665,684	670,830
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.1	-0.6	0.8	0.1	0.1				
SAAR	0.3	-2.3	3.1	0.2	0.5				
% Change Year Ago	0.9	-0.9	-0.8	0.3	0.4	1.7	-0.3	0.8	0.2
Private Consumption	-0.3	-0.6	1.0	0.6	0.1				
% Change Year Ago	-0.6	-1.9	-0.2	0.7	1.2	0.6	-0.1	-0.6	0.9
Residential Investment	-1.1	-2.6	1.6	0.2	-1.3				
% Change Year Ago	-0.1	-3.6	-3.3	-1.9	-2.2	0.9	-2.7	0.3	-1.8
Nonresidential Investment	2.1	-0.4	0.9	0.7	0.6				
% Change Year Ago	2.2	-0.6	2.4	3.3	1.8	2.1	1.6	0.3	2.5
Government Consumption	-0.1	0.3	0.1	0.2	0.4				
% Change Year Ago	-0.7	-0.5	0.8	0.4	1.0	0.0	0.4	-0.5	0.8
Public Investment	-1.7	-1.1	4.5	-0.2	0.5				
% Change Year Ago	-0.1	-3.6	-0.2	1.4	3.6	1.7	0.4	0.7	2.6
Exports of Goods & Services	3.0	-4.6	1.4	0.7	0.6				
% Change Year Ago	4.2	1.5	-0.2	0.4	-2.0	3.0	-0.1	2.8	0.4
Imports of Goods & Services	2.0	-2.5	1.7	2.6	0.3				
% Change Year Ago	-2.5	-3.4	2.5	3.9	2.2	-1.4	1.2	-3.2	3.5
Gross National Income	0.2	-0.6	1.3	0.2	0.4				
SAAR	0.7	-2.4	5.5	0.6	1.6				
% Change Year Ago	1.4	0.3	0.3	1.1	1.3	2.3	0.7	1.9	1.2
Total Demand	0.4	-0.9	0.9	0.5	0.2				
SAAR	1.5	-3.6	3.8	1.9	0.6				
% Change Year Ago	0.0	13.7	-0.3	0.9	0.7	1.2	0.0	0.1	0.8
Contribution to GDP Growth Rate									
Domestic Demand	-0.1	-0.1	0.8	0.4	0.1	0.7	0.0	-0.5	0.9
Private Demand	0.0	-0.1	0.6	0.4	0.0	0.6	-0.1	-0.5	0.6
Public demand	-0.1	0.0	0.2	0.0	0.1	0.1	0.1	-0.1	0.3
Net Exports	0.2	-0.5	-0.1	-0.4	0.0	1.0	-0.3	1.3	-0.7

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

	Quarterly		Forecast			CY		FY	
	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	598,616	597,132	607,904	611,979	615,295	592,848	608,078	596,457	612,842
Private Consumption	322,950	323,874	328,847	332,531	333,488	322,346	329,685	322,857	332,020
Residential Investment	21,857	21,501	22,158	22,412	22,087	22,048	22,039	21,902	22,187
Nonresidential Investment	103,873	104,363	106,348	107,829	109,022	101,556	106,890	102,421	108,343
Change in Private Inventory	227	1,087	2,340	1,892	599	2,421	1,479	1,942	1,412
Government Consumption	123,382	123,769	124,259	124,905	125,407	122,907	124,585	122,961	125,120
Public Investment	30,231	30,142	31,812	31,606	31,597	30,474	31,289	30,352	31,614
Change in Public Inventory	-61	-52	-11	-151	-140	-6	-88	-57	-111
Net Exports	-3,843	-7,551	-7,850	-9,045	-6,764	-8,898	-7,802	-5,921	-7,743
Exports of Goods & Services	138,198	132,983	137,886	140,036	141,533	129,044	138,109	131,852	140,463
Imports of Goods & Services	142,040	140,534	145,735	149,081	148,297	137,942	145,912	137,774	148,206
Gross National Income	633,785	632,621	647,160	650,730	654,382	627,177	646,223	631,471	651,959
Memo:									
Total Demand	740,656	737,666	753,639	761,060	763,592	730,790	753,989	734,231	761,048
Compensation of Employee	302,128	306,072	310,486	311,270	312,292	300,498	310,030	301,864	311,730
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.7	-0.2	1.8	0.7	0.5				
SAAR	2.8	-1.0	7.4	2.7	2.2				
% Change Year Ago	5.0	2.4	2.2	2.9	2.8	5.5	2.6	4.9	2.7
Private Consumption	0.1	0.3	1.5	1.1	0.3				
% Change Year Ago	2.1	0.5	2.2	3.1	3.3	3.6	2.3	2.2	2.8
Residential Investment	-0.8	-1.6	3.1	1.1	-1.5				
% Change Year Ago	-0.3	-2.5	-0.4	1.7	1.1	1.0	0.0	0.2	1.3
Nonresidential Investment	2.9	0.5	1.9	1.4	1.1				
% Change Year Ago	5.3	3.1	6.3	6.8	5.0	5.5	5.3	3.7	5.8
Government Consumption	0.4	0.3	0.4	0.5	0.4				
% Change Year Ago	0.2	0.0	2.1	1.6	1.6	1.7	1.4	0.7	1.8
Public Investment	-1.0	-0.3	5.5	-0.6	0.0				
% Change Year Ago	2.6	-0.6	3.3	3.5	4.5	4.9	2.7	3.7	4.2
Exports of Goods & Services	6.2	-3.8	3.7	1.6	1.1				
% Change Year Ago	8.2	9.5	9.5	7.6	2.4	6.9	7.0	6.8	6.5
Imports of Goods & Services	4.8	-1.1	3.7	2.3	-0.5				
% Change Year Ago	-5.8	-0.5	9.8	10.0	4.4	-2.6	5.8	-5.8	7.6
Gross National Income	0.8	-0.2	2.3	0.6	0.6				
SAAR	3.1	-0.7	9.5	2.2	2.3				
% Change Year Ago	4.0	2.7	2.8	3.5	3.2	5.2	3.0	4.7	3.2
Memo:									
Total Demand	1.4	-0.4	2.2	1.0	0.3				
SAAR	5.9	-1.6	8.9	4.0	1.3				
% Change Year Ago	0.0	34.2	3.6	4.2	3.1	0.0	3.9	0.0	2.7
Compensation of Employee	0.6	1.3	1.4	0.3	0.3				
% Change Year Ago	1.2	2.3	3.5	3.6	3.4	1.7	3.2	1.8	3.3

Table 3-3: Deflator : 2015=100

	Quarterly		Forecast			CY		FY	
	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2023	2024	2023	2024
GDP/GDE									
Gross Domestic Products	107.4	107.7	108.8	109.5	110.0	106.0	109.0	106.9	109.5
Private Consumption	109.1	110.0	110.6	111.2	111.3	108.3	110.8	108.9	111.1
Residential Investment	119.1	120.3	122.0	123.1	123.0	118.8	122.1	119.1	122.8
Nonresidential Investment	111.8	112.8	113.9	114.7	115.3	110.3	114.2	111.3	114.9
Government Consumption	103.8	103.9	104.2	104.6	104.5	103.3	104.3	103.5	104.5
Public Investment	116.8	117.8	118.9	118.4	117.8	115.5	118.2	116.4	118.2
Exports of Goods & Services	120.1	121.2	123.8	124.8	125.4	115.4	123.8	117.7	124.9
Imports of Goods & Services	129.6	131.5	134.0	133.6	132.4	127.2	132.9	128.1	133.2
Unit Profit	115.4	113.9	115.5	116.7	117.5	113.4	115.9	114.5	116.8
Unit Labor Cost	100.5	102.5	103.1	103.3	103.6	99.7	103.1	100.4	103.4
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	0.6	0.3	1.0	0.6	0.4				
	4.1	3.4	3.0	2.6	2.4	3.8	2.9	4.1	2.5
Private Consumption	0.4	0.9	0.5	0.5	0.2				
	2.7	2.5	2.4	2.4	2.1	3.0	2.3	2.8	2.0
Residential Investment	0.3	1.0	1.4	1.0	-0.1				
	-0.3	1.1	3.0	3.7	3.3	0.1	2.8	-0.1	3.1
Nonresidential Investment	0.8	0.9	1.0	0.7	0.5				
	3.1	3.7	3.8	3.5	3.2	3.4	3.5	3.4	3.3
Government Consumption	0.5	0.1	0.3	0.3	0.0				
	0.9	0.5	1.3	1.2	0.7	1.7	0.9	1.2	1.0
Public Investment	0.6	0.8	1.0	-0.4	-0.5				
	2.7	3.1	3.5	2.0	0.9	3.1	2.3	3.0	1.6
Exports of Goods & Services	3.1	0.9	2.2	0.8	0.5				
	3.9	7.9	9.8	7.2	4.5	3.8	7.3	3.9	6.2
Imports of Goods & Services	2.7	1.5	1.9	-0.3	-0.9				
	-3.4	2.9	7.2	5.9	2.2	-1.1	4.5	-2.7	4.0
Unit Profit	0.0	-1.2	1.4	1.0	0.6				
	0.0	13.5	1.6	1.9	1.8	7.9	2.2	7.3	2.0
Unit Labor Cost	0.0	1.9	0.7	0.2	0.2				
	0.0	16.9	4.3	3.3	3.0	0.1	3.4	1.0	3.0