



Japanese Economy Monthly Forecast

September 2021

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Headlines

● Review of data released in September

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

▶ Due to the supply crunch, the Industrial Production Index in August declined for the second consecutive month. As a result, the July-August average was -1.2% lower than the Q2 average. The Ministry of Economy, Trade and Industry (METI) downgraded its assessment of production trend.

▶ The Synthetic Consumption Index rose for the second month in a row in July. However, judging from data on human mobility, it is likely to have declined in August.

▶ In August, the amount of total planned construction rose +2.0% MoM. It was up two months in a row and the July-August average was +2.6% higher than the Q2 average. In contrast, capital goods shipments declined by -5.4% MoM, marking the first deterioration in two months. Nevertheless, the July-August average was +0.4% higher than the Q2 average.

▶ In July, public construction works expanded +1.8% YoY, marking the 35th consecutive month of positive growth. The seasonally adjusted figure was -0.0% MoM, the first decline in two months. Still, the July figure was +1.1% higher than the Q2 average.

▶ Real exports in August decreased for the first time in three months (-6.3% MoM). In contrast, real imports increased for the first time in two months (+7.0% MoM). A comparison of the July-August average with the Q2 average shows that both exports and imports shrank, by -1.3% and -2.6%, respectively. As a result of these trends, net exports in July-August made a positive, albeit declining, contribution to GDP growth.

● 2021 Q3 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q3 is an annualized +0.9% QoQ. The production-side forecast figure is an annualized -1.7% QoQ. The average of the two is an annualized -0.4% (Figure 1).

▶ The contributions to real GDP growth in Q3 (+0.2% QoQ) are estimated at +0.2%pt by domestic demand, and +0.0%pt by net exports.

● 2021 Q3 inflation forecast update

▶ In August, Japan's Core Consumer Price Index (CPI) grew YoY for the first time in 13 months. The trend reflects the jump in the Construction Cost Deflator in July, which was brought about by wood supply shortages and represented the largest increase since July 2018.

▶ Our CQM forecasts for the Q3 private final consumption expenditure deflator and the Q3 domestic demand deflator are respectively +0.2% and +0.4% QoQ. However, due to the deteriorating terms of trade, we forecast a Q3 GDP deflator of +0.0% QoQ (Figure 2).

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

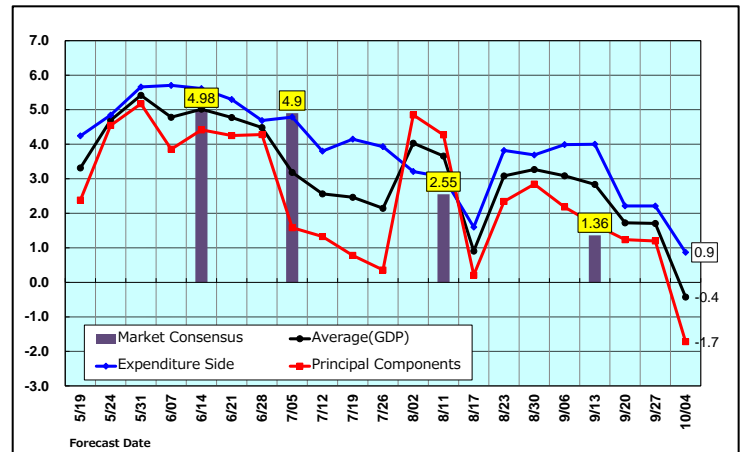
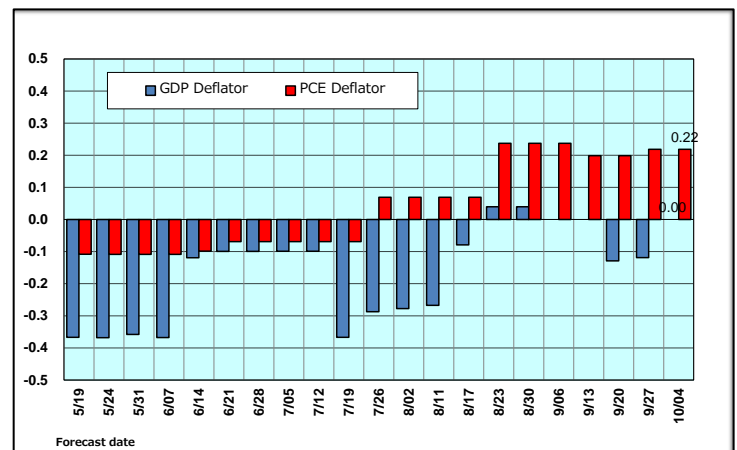


Fig 2 CQM Forecast: Inflation Jul-Sep (Q3) 2021 (% , QoQ growth)



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
10/1	August	Labor Force Survey			
		Total employment (millions)	66.76	-0.32	
		Total unemployment (millions)	1.91	+0.01	
	August	Unemployment rate (%)	2.8%	0.0%pt	
		General Job Placement Situation			
September	Job offers-to-applicants ratio	1.14	-0.01pt		
September	New Car Sales (vehicles)	256,963		-34.4%	
	September	Consumer Confidence Index (SA)	37.8	+1.1	
9/30	August	Indices of Industrial Production (preliminary figures, 2015=100)			
		Production	95.0	-3.2%	
		Shipments	92.7	-3.8%	
	August	Inventories	94.7	-0.3%	
		Current Survey of Commerce (preliminary figures)			
	August	Retail trade (billion JPY)	12,018.0	-4.1%	-3.2%
		New Housing Starts			
	July	New housing starts (SA, Unit)	74,303	-7.7%	+7.5%
		Planned residential construction expenditure (billion JPY)	1,296.3	+2.0%	+10.9%
		Construction Costs Deflator (2015=100)			
July	Housing construction	111.8		+5.0%	
	Public works	110.3		+6.6%	
9/29	August	Manufacturing Industry Input-Output Price Index (2011=100)			
		Input price	106.2		+13.1%
9/27	August	Output price	103.8		+6.6%
		Corporate Services Price Index (2015=100)			
9/27	August	Overall index	105.0		+1.0%
		July	Index of Business Conditions (revised figures, 2015=100)		
	July	Leading indicators	104.1	-0.1	
		Coincident indicators	94.4	-0.2	
		Lagging indicators	95.3	+1.1	
9/24	July	Monthly Labor Statistics (final figures)			
		Total cash salary per capita (JPY)	371,141		+0.6%
	August	Total working hours	140.1		-0.1%
9/24	August	National Consumer Price Index (2020=100)			
		Core index	99.8	-0.1%	0.0%
9/17	July	General Construction Statistics			
		Private non-residential construction (billion JPY)	785.9		+0.4%
		Public works (billion JPY)	1,772.4		+1.8%
9/16	August	Trade Statistics (customs clearance level)			
		Trade balance (billion JPY)	-635.4	+4,477.0%	-863.3
		Exports (billion JPY)	6,605.8	+0.8%	+26.2%
		Imports (billion JPY)	7,241.1	+4.6%	+44.7%
9/15	July	Tertiary Industry Activity Index (2015=100)	96.6	-0.6%	
	July	Private Core Machinery Orders (billion JPY)	859.7	+0.9%	

	August	Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts	1,157.5 22,482		-11.0% -0.8%
9/14	June	Indices of Industrial Production (final figures, 2015=100) Production Shipments Inventory Production capacity index Capacity utilization ratio	98.1 96.4 95.0 96.5 94.9	-1.5% -0.3% -0.7% -3.4%	-1.1%
	July	Synthetic Consumption Index (2015=100)	96.2	+0.2%	
9/13	August	Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price	105.8 99.6 106.5	0.0% -0.2% +1.8%	+5.5% +10.9% +29.2%
9/8	July	Information Services Industry Sales (billion JPY)	937.8		-0.7%
	August	Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index	34.7 43.7	-13.7 -4.7	
	July	Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY)	1,910.8 7,202.3 6,598.0	-20.6% +0.7% -0.3%	+24.5% +37.5% +29.3%
9/7	July	Monthly Labor Statistics (preliminary figures) Total cash salary per capita (JPY) Total working hours	372,757 140.3		+1.0% +0.1%
	July	Consumption Activity Index (2015=100)	92.4	+0.5%	
	July	Family Income and Expenditure Survey (households with 2 or more people) Nominal consumption expenditure (JPY) Real consumption expenditure	267,710	-0.6% -0.9%	+0.3% +0.7%
	July	Consumption Trend Index (2020=100)	101.0	-0.5%	
	July	Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators	104.1 94.5 93.8	-0.5 -0.1 -0.2	
9/2	September	Food Buffer Stock (billion JPY)	67.4		+9.7
9/1	August	New Car Sales (vehicles)	263,602		-2.5%

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
	2021Q2			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					
6/08															
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>	0.0	0.0	0.0	0.0	0.0					
8/17						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
9/08	1.9*			-0.6*	-0.8*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	-0.5	-0.4

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	540,478	546,165	528,961	540,689	527,125	543,349
Private Consumption	289,932	286,283	288,940	288,188	294,375	284,213	289,447	282,332	291,547
Residential Investment	18,626	18,804	19,189	19,040	19,123	19,140	19,039	18,934	19,120
Nonresidential Investment	85,890	84,812	86,754	86,922	87,187	85,593	86,419	84,314	87,083
Change in Private Inventory	-978	1,396	-409	171	584	1,522	435	1,261	389
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	28,656	28,622	28,943	28,778	29,226	28,598
Change in Public Inventory	-45	11	-10	18	17	-5	9	-11	11
Net Exports	2,840	1,395	-699	-596	-2,347	-4,328	-562	-3,884	-1,571
Exports of Goods & Services	97,958	100,272	103,101	103,052	102,104	91,728	102,132	91,975	102,654
Imports of Goods & Services	95,117	98,878	103,799	103,647	104,451	96,056	102,694	95,859	104,226
Gross National Income	568,699	559,429	560,131	556,925	561,803	552,730	559,572	551,361	560,821
Memo:									
Total Demand	637,661	635,683	643,109	644,125	650,616	625,017	643,383	622,983	647,575
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	2.8	-1.1	0.5	0.2	1.1				
SAAR	11.9	-4.2	1.9	0.9	4.3				
% Change Year Ago	-0.8	-1.3	7.7	2.5	0.7	-4.6	2.2	-4.4	3.1
Private Consumption	2.3	-1.3	0.9	-0.3	2.1				
% Change Year Ago	-2.1	-2.5	7.3	1.6	1.5	-5.8	1.8	-5.8	3.3
Residential Investment	0.0	1.0	2.1	-0.8	0.4				
% Change Year Ago	-8.7	-4.2	-2.8	2.3	2.7	-7.1	-0.5	-7.2	1.0
Nonresidential Investment	4.3	-1.3	2.3	0.2	0.3				
% Change Year Ago	-2.9	-5.2	3.2	5.5	1.5	-6.0	1.0	-6.8	3.3
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	-0.1	-0.1				
% Change Year Ago	4.7	3.5	-1.2	-1.9	-2.9	3.6	-0.6	4.2	-2.1
Exports of Goods & Services	11.7	2.4	2.8	0.0	-0.9				
% Change Year Ago	-5.8	1.2	26.2	17.5	4.2	-11.7	11.3	-10.4	11.6
Imports of Goods & Services	4.8	4.0	5.0	-0.1	0.8				
% Change Year Ago	-7.3	-0.6	5.0	14.2	9.8	-7.3	6.9	-6.8	8.7
Gross National Income	3.1	-1.6	0.1	-0.6	0.9				
SAAR	13.1	-6.4	0.5	-2.3	3.5				
% Change Year Ago	0.4	-0.9	6.8	1.0	-1.2	-3.7	1.2	-3.5	1.7
Total Demand	3.1	-0.3	1.2	0.2	1.0				
SAAR	13.2	-1.2	4.8	0.6	4.1				
% Change Year Ago	0.0	9.3	7.3	4.2	2.0	-5.0	2.9	-4.8	3.9
Contribution to GDP Growth Rate									
Domestic Demand	1.8	-0.8	0.8	0.2	1.4	-3.8	1.5	-3.8	2.6
Private Demand	1.4	-0.4	0.6	0.0	1.3	-4.6	0.9	-4.7	2.1
Public demand	0.5	-0.4	0.2	0.2	0.1	0.8	0.6	0.9	0.5
Net Exports	1.0	-0.2	-0.3	0.0	-0.3	-0.8	0.7	-0.6	0.5

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	545,630	548,905	538,689	546,028	536,638	548,060
Private Consumption	292,815	290,291	290,750	290,627	295,259	288,400	291,731	286,152	293,498
Residential Investment	19,575	19,972	20,761	20,928	21,106	20,142	20,692	19,942	20,977
Nonresidential Investment	86,070	85,857	88,377	89,281	90,102	86,209	88,404	84,875	89,619
Change in Private Inventory	-844	1,229	-975	674	989	1,120	479	819	448
Government Consumption	116,522	115,358	117,279	118,727	119,226	113,872	117,647	114,684	118,772
Public Investment	30,802	30,722	30,521	30,710	30,678	30,264	30,658	30,610	30,645
Change in Public Inventory	-17	41	3	35	35	10	29	12	28
Net Exports	6,302	1,689	-2,299	-5,351	-8,489	-1,329	-3,613	-457	-5,926
Exports of Goods & Services	89,530	93,571	99,514	100,873	100,212	83,829	98,543	84,259	100,416
Imports of Goods & Services	83,228	91,882	101,813	106,224	108,701	85,158	102,155	84,715	106,342
Gross National Income	573,383	567,609	567,134	567,105	570,878	559,889	568,181	557,784	570,146
Memo:									
Total Demand	634,451	637,041	646,230	651,854	657,606	623,846	648,183	621,353	654,402
Compensation of Employee	281,737	289,006	284,185	284,588	285,898	282,481	285,919	282,244	285,333
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	2.3	-1.1	-0.1	0.2	0.6				
SAAR	9.7	-4.3	-0.5	0.9	2.4				
% Change Year Ago	-0.8	-1.4	6.6	1.3	-0.4	-3.8	1.4	-3.9	2.1
Private Consumption	1.8	-0.9	0.2	0.0	1.6				
% Change Year Ago	-3.0	-3.0	6.2	1.0	0.8	-5.6	1.2	-5.9	2.6
Residential Investment	-0.2	2.0	4.0	0.8	0.9				
% Change Year Ago	-9.3	-3.9	0.5	6.6	7.8	-6.1	2.7	-6.7	5.2
Nonresidential Investment	3.8	-0.2	2.9	1.0	0.9				
% Change Year Ago	-3.7	-5.4	4.6	7.7	4.7	-6.3	2.5	-7.3	5.6
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	0.6	-0.1				
% Change Year Ago	4.4	4.1	1.0	0.6	-0.4	4.4	1.3	4.6	0.1
Exports of Goods & Services	11.2	4.5	6.4	1.4	-0.7				
% Change Year Ago	-7.3	1.9	36.0	25.3	11.9	-14.0	17.6	-12.0	19.2
Imports of Goods & Services	4.8	10.4	10.8	4.3	2.3				
% Change Year Ago	-13.9	-1.7	20.5	33.8	30.6	-14.0	20.0	-13.3	25.5
Gross National Income	2.7	-1.0	-0.1	0.0	0.7				
SAAR	11.2	-4.0	-0.3	0.0	2.7				
% Change Year Ago	-0.7	-1.4	6.8	1.6	-0.4	-3.8	1.5	-3.9	2.2
Memo:									
Total Demand	2.7	0.4	1.4	0.9	0.9				
SAAR	11.1	1.6	5.9	3.5	3.6				
% Change Year Ago	0.0	15.9	8.5	5.5	3.6	0.0	-5.3	0.0	-5.3
Compensation of Employee	0.4	2.6	-1.7	0.1	0.5				
% Change Year Ago	-2.6	-0.3	1.9	1.4	1.5	-1.5	1.2	-2.0	1.1

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	100.9	100.3	101.5	100.8	101.4	100.7
Residential Investment	105.1	106.2	108.2	109.9	110.4	105.2	108.7	105.3	109.7
Nonresidential Investment	100.2	101.2	101.9	102.7	103.3	100.7	102.3	100.7	102.9
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	107.2	107.2	104.5	106.5	104.7	107.2
Exports of Goods & Services	91.4	93.3	96.5	97.9	98.2	91.3	96.5	91.5	97.8
Imports of Goods & Services	87.5	92.9	98.1	102.5	104.1	88.6	99.4	88.3	102.0
Unit Profit	107.8	103.5	104.7	104.8	104.5	105.1	104.4	104.7	104.9
Unit Labor Cost	96.4	99.9	97.8	97.7	97.1	99.1	98.1	99.4	97.4
Upper Row : % change from the previous quarter Lower Row : % change from a year earlier									
Gross Domestic Products	-0.5	0.0	-0.6	0.0	-0.5				
	0.0	-0.1	-1.1	-1.1	-1.1	0.9	-0.9	0.6	-0.9
Private Consumption	-0.5	0.4	-0.8	0.2	-0.5				
	-0.9	-0.5	-1.0	-0.6	-0.7	0.2	-0.7	-0.1	-0.7
Residential Investment	-0.3	1.1	1.9	1.6	0.4				
	-0.7	0.4	3.4	4.3	5.0	1.0	3.3	0.5	4.2
Nonresidential Investment	-0.5	1.0	0.6	0.8	0.6				
	-0.9	-0.2	1.4	2.0	3.1	-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	1.3	-0.5	0.5	-0.7	0.8
Public Investment	-0.1	0.8	1.0	0.7	0.0				
	-0.3	0.5	2.2	2.5	2.6	0.8	2.0	0.4	2.4
Exports of Goods & Services	-0.5	2.1	3.4	1.4	0.3				
	-1.6	0.7	7.8	6.6	7.4	-2.6	5.6	-1.8	6.9
Imports of Goods & Services	0.0	6.2	5.6	4.5	1.5				
	-7.2	-1.1	14.7	17.1	18.9	-7.3	12.2	-6.9	15.5
Unit Profit	0.0	-3.9	1.1	0.1	-0.3				
	0.0	3.2	4.2	-1.2	-3.1	-1.6	-0.7	-1.6	0.2
Unit Labor Cost	0.0	3.7	-2.1	-0.1	-0.6				
	0.0	14.0	-5.4	-1.0	0.8	3.2	-1.0	2.5	-1.9