



Japanese Economy Monthly Forecast

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Headlines

● Review of data released in March

▶ This forecast reflects official data available as of April 2. Currently, excluding house hold consumption-related-indicator, about two-thirds of the statistics required for a complete estimation of 2021 Q1 GDP have been released.

▶ According to the March Tankan Survey conducted by the Bank of Japan, the economic recovery from the Covid-19 pandemic is increasingly bipolar. In contrast to the manufacturing diffusion index (DI), which logged a robust recovery and reached its pre-pandemic level, the performance of the non-manufacturing DI was lackluster due to the suspension of the government's "Go To campaign".

▶ The index of industrial production in February declined for the first time in two months. As a result, the January-February average was only +2.3% higher than the 2020 Q4 average. The disruptions in supply caused by a plant fire at one of Japan's semiconductor manufacturing giants might prolong the production decline.

▶ February data on total planned construction, capital goods shipments and inventories of final goods have been released. As a result, we have made upward revisions in our forecasts for real private capital investment and changes in private inventories, but a downward revision in our forecast for real private residential investment.

▶ According to the Bank of Japan, real exports in February declined for the first time in two months (-5.6% MoM). In contrast, real imports rose for the second month in a row (+6.6% MoM). Relative to the 2020 Q4 average, real exports and imports expanded respectively by +0.9% and +5.6%. As the expansion in the latter was far larger, the contribution of net exports to growth turned negative.

● 2021 Q1 real GDP growth forecast update

▶ In our previous report, the expenditure-side and the production-side figures diverged noticeably. However, in our latest forecast there is a convergence trend (Figure 1). This week's expenditure-side CQM forecast for real GDP growth in 2021 Q1 is an annualized -8.3% QoQ. The production-side forecast figure is an annualized -6.7% QoQ. The average of the two is an annualized -7.5% QoQ.

● 2021 Q1 inflation forecast update

▶ The Q1 Tokyo Metropolitan Consumer Price Index declined -0.3% YoY, marking the second consecutive quarter in negative territory. On the other hand, the QoQ change was +0.5%, marking the first increase in four quarters.

▶ Our CQM forecast for the Q1 private final consumption expenditure deflator and the Q1 domestic demand deflator are both +0.4%. However, as the terms of trade are deteriorating, our forecast for the Q1 GDP deflator is -0.3% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Feb (Q1) 2021 (% , QoQ annualized growth)

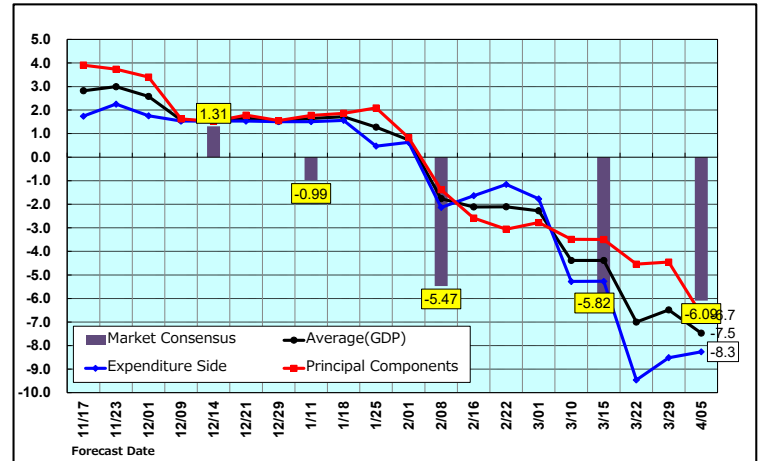
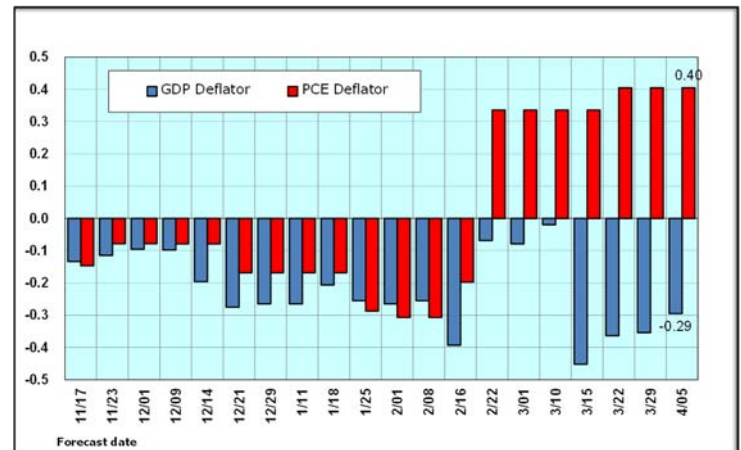


Fig 2 CQM Forecast: Inflation Jan-Feb (Q1) 2021 (% , QoQ growth)



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.

Main Economic Indicators (latest)

| Release Date | Data Month | Economic Indicator | Value/ Index Score | Change | | |
|--------------|---|---|--------------------------------|----------|----------|-------|
| | | | | MoM | YoY | |
| 4/2 | March | Food Buffer Stock (billion JPY) | +55.9 | | -0.6 | |
| 4/1 | March | New Car Sales (vehicles) | 510,386 | | +5.2% | |
| 3/30 | February | Indices of Industrial Production (preliminary figures, 2015=100) | | | | |
| | | Production | 95.7 | -2.1% | | |
| | | Shipments | 94.4 | -1.5% | | |
| | | | Inventories | 94.3 | -1.0% | |
| | February | Labor Force Survey | | | | |
| | | Total employment (millions) | 66.97 | +0.03 | | |
| | | Total unemployment (millions) | 2.03 | 0.00 | | |
| | | | Unemployment rate (%) | 2.9% | 0.0%pt | |
| | February | General Job Placement Situation | | | | |
| | | | Job offers-to-applicants ratio | 1.09 | -0.01%pt | |
| | February | Current Survey of Commerce (preliminary figures) | | | | |
| | | | Retail trade (billion JPY) | 12,628.0 | +3.1% | -1.5% |
| | February | New Housing Starts | | | | |
| | | New housing starts (SA, Unit) | 60,764 | +0.8% | -3.7% | |
| | | Planned residential construction expenditure (billion JPY) | 1,029.4 | -2.8% | -4.5% | |
| January | Construction Costs Deflator (2011=100) | | | | | |
| | | Housing construction | 113.4 | | -0.3% | |
| | | Public works | 115.7 | | -0.4% | |
| 3/26 | March | Tokyo Metropolitan Consumer Price Index (2015=100) | | | | |
| | | Core | 101.6 | +0.2% | -0.1% | |
| | February | Manufacturing Industry Input-Output Price Index (2011=100) | | | | |
| | | Input price | 97.5 | | -0.9% | |
| | | Output price | 99.2 | | -0.2% | |
| 3/24 | February | Corporate Services Price Index (2015=100) | | | | |
| | | Overall index | 104.5 | | -0.1% | |
| 3/22 | January | Synthetic Consumption Index (2015=100) | 92.6 | -3.0% | | |
| | January | Index of Business Conditions (revised figures, 2015=100) | | | | |
| | | Leading indicators | 98.5 | +0.8 | | |
| | | Coincident indicators | 90.3 | +2.9 | | |
| | | Lagging indicators | 91.4 | +0.9 | | |
| 3/19 | February | National Consumer Price Index (2015=100) | | | | |
| | | Core index | 101.5 | +0.1% | -0.4% | |
| 3/18 | January | General Construction Statistics | | | | |
| | | Private non-residential construction (billion JPY) | 808.7 | | -9.2% | |
| | | Public works (billion JPY) | 2,257.7 | | +5.7% | |
| 3/17 | February | Trade Statistics (customs clearance level) | | | | |
| | | Trade balance (billion JPY) | 217.4 | -38.7 | -80.5% | |
| | | Exports (billion JPY) | 6,038.0 | -4.7% | -4.5% | |
| | | Imports (billion JPY) | 5,820.6 | +4.7% | +11.8% | |
| 3/16 | January | Industrial Activity Index (2015=100) | 96.5 | -0.4% | | |

| | | | | | |
|------|--|--|---|--|--|
| | January | Indices of Industrial Production (final figures, 2015=100) Production capacity index Capacity utilization ratio Production Shipments Inventory | 97.1 97.7 97.8 95.8 95.3 | | -1.3% +4.7% +4.3% +3.2% 0.0% |
| 3/15 | January January February | Tertiary Industry Activity Index (2015=100) Private Core Machinery Orders (billion JPY) Public Works Advanced Securities Statistics Contract amount (billion JPY) Number of contracts | 96.1 841.7 648.5 10,186 | -1.7% -4.5% | -7.3% -9.9% |
| 3/11 | February | Domestic Corporate Price Index (2015=100) Corporate Price Export Price Import Price | 101.2 92.8 90.7 | +0.4% +1.4% +4.1% | -0.7% +0.3% -3.5% |
| 3/10 | January | Information Services Industry Sales (billion JPY) | 866.6 | | +0.4% |
| 3/9 | January January January | 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) | 272,972 128.3 267,760 93.8 | | -0.8% -2.2% -6.9% -7.3% -6.1% -2.0% |
| 3/8 | January February January | Index of Business Conditions (preliminary, 2015=100) Leading indicators Coincident indicators Lagging indicators Economy Watchers Survey Current Conditions Diffusion Index Future Conditions Diffusion Index Balance of Payments Current account (billion JPY) Exports (billion JPY) Imports (billion JPY) | 99.1 91.7 91.9 41.3 51.3 646.8 5,691.6 5,821.7 | +1.4 +3.5 +1.1 +10.1 +11.4 | -27.8% -2.3% +2.7% +6.9% -10.9% |
| 3/5 | January | Consumption Activity Index (2011=100) | 95.8 | -2.7% | |
| 3/4 | February | Consumer Confidence Index (SA) | 33.8 | -2.7% | |
| 2/24 | December | Monthly Labor Statistics (final figures) Total cash salary per capita (JPY) Total working hours | 547,612 136.9 | | -3.0% -2.5% |

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 |
| | 2020Q4 | | | | | 2021Q1 | | | | | 2021Q2 | | | | |
| | SAAR (%) | | | QoQ (%) | | SAAR (%) | | | QoQ (%) | | SAAR (%) | | | QoQ (%) | |
| 11/17 | 2.5 | 2.5 | 2.5 | 0.2 | 0.0 | 1.7 | 3.9 | 2.8 | -0.1 | -0.1 | | | | | |
| 11/23 | 4.1 | 4.6 | 4.3 | 0.0 | -0.3 | 2.3 | 3.7 | 3.0 | -0.1 | -0.1 | | | | | |
| 12/01 | 5.8 | 7.8 | 6.8 | 0.0 | -0.3 | 1.8 | 3.4 | 2.6 | -0.1 | -0.1 | | | | | |
| 12/08 | | | | | | | | | | | | | | | |
| 12/09 | 7.9 | 6.4 | 7.1 | -0.2 | -0.3 | 1.5 | 1.6 | 1.6 | -0.1 | -0.1 | | | | | |
| 12/14 | 7.9 | 7.0 | 7.5 | -0.2 | -0.3 | 1.5 | 1.5 | 1.5 | -0.2 | -0.1 | | | | | |
| 12/21 | 11.6 | 7.3 | 9.4 | -0.4 | -0.6 | 1.5 | 1.8 | 1.7 | -0.3 | -0.2 | | | | | |
| 12/29 | 11.7 | 6.7 | 9.2 | -0.4 | -0.6 | 1.5 | 1.6 | 1.5 | -0.3 | -0.2 | | | | | |
| 1/11 | 11.7 | 7.7 | 9.7 | -0.4 | -0.6 | 1.5 | 1.8 | 1.6 | -0.3 | -0.2 | | | | | |
| 1/18 | 12.2 | 7.6 | 9.9 | -0.4 | -0.6 | 1.6 | 1.9 | 1.7 | -0.2 | -0.2 | | | | | |
| 1/25 | 12.9 | 7.4 | 10.1 | -0.4 | -0.6 | 0.5 | 2.1 | 1.3 | -0.3 | -0.3 | | | | | |
| 2/01 | 12.8 | 7.5 | 10.2 | -0.4 | -0.6 | 0.6 | 0.8 | 0.7 | -0.3 | -0.3 | | | | | |
| 2/09 | 11.9 | 7.0 | 9.5 | -0.4 | -0.6 | -2.1 | -1.4 | -1.8 | -0.3 | -0.3 | | | | | |
| 2/15 | 12.7 | | | -0.5 | -0.4 | | | | | | | | | | |
| 2/16 | | | | | | -1.6 | -2.6 | -2.1 | -0.4 | -0.2 | 0.2 | 0.0 | 0.1 | -0.5 | -0.2 |
| 2/22 | | | | | | -1.2 | -3.1 | -2.1 | -0.1 | 0.3 | 0.8 | 0.1 | 0.5 | -0.5 | -0.2 |
| 3/01 | | | | | | -1.8 | -2.8 | -2.3 | -0.1 | 0.3 | 1.4 | -0.5 | 0.5 | -0.5 | -0.2 |
| 3/09 | 11.7* | | | -0.5* | -0.4* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3/10 | | | | | | -5.3 | -3.5 | -4.4 | 0.0 | 0.3 | 2.7 | -0.2 | 1.2 | -0.5 | -0.2 |
| 3/15 | | | | | | -5.3 | -3.5 | -4.4 | -0.5 | 0.3 | 2.6 | -0.2 | 1.2 | -1.0 | -0.2 |
| 3/22 | | | | | | -9.5 | -4.5 | -7.0 | -0.4 | 0.4 | -0.1 | -0.6 | -0.3 | -1.0 | -0.2 |
| 3/29 | | | | | | -8.5 | -4.5 | -6.5 | -0.4 | 0.4 | 0.1 | -0.6 | -0.3 | -1.0 | -0.2 |
| 4/05 | | | | | | -8.3 | -6.7 | -7.5 | -0.3 | 0.4 | -0.2 | -1.2 | -0.7 | -1.0 | -0.2 |

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