Japanese Economy Monthly Forecast

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Headlines

● Review of data released in December

▶ The second preliminary estimates for Q3 real GDP growth represented a major upward revision from the first official preliminary estimates (0.2% → 1.8% QoQ, annualized). The updated official Q3 growth figure coincides with our initial CQM forecast.

▶ As a result of updates in past data, the real GDP annual growth figure for FY 2018 saw a substantial downward revision from +0.7% to +0.3%.

▶ About two-thirds of all official data required for a complete GDP calculation has been released as of December. Due to the impact of natural disasters and the last-minute surge in demand before the consumption tax hike, the October-November average index of industrial production declined -4.2% compared to the Q3 average.

▶ The October-November average revenues of large retailers decreased -6.8% relative to the Q3 average. Q4 private final consumption expenditure will decline.

▶ The October-November averages of the planned dwelling construction, the capital goods shipments index, and the final-demand goods inventory index all declined substantially compared to the Q3 averages. Consequently, private housing, private capital investment and changes in private inventories will all stagnate in Q4.

▶ The October-November average real exports and real imports shrank respectively -2.5% and -3.4% relative to the Q3 average figures. Although real net exports expanded as imports declined by a wider margin than exports, the total amount of trade kept shrinking.

● 2019 Q4 real GDP growth forecast update

▶ Reflecting the latest data updates, our forecast for expenditure-side Q4 real GDP growth is -1.0% QoQ, or -3.8% if annualized. The production-side forecast figure, based on a principal component analysis, is an annualized -5.3%. The average of the two is -4.5% (Figure 1).

▶ The contributions of domestic demand and net exports to growth are estimated at -1.1%pt and +0.2%pt QoQ, respectively. The reactionary fall in demand after the consumption tax hike was inevitable.

● 2019 Q4 inflation forecast update

▶ The national core consumer price index (CPI) in November expanded +0.5% YoY, accelerating a tad from the previous month. However, when adjusted for the effect of the consumption tax hike, it is a modest +0.2%.

▶ Our CQM forecast for Q4 private final consumption expenditure deflator is +0.0% QoQ. The forecast for Q4 domestic demand deflator is +0.1% QoQ. As the terms of trade remained unchanged, we forecast an overall Q4 GDP deflator of +0.1% QoQ (Figure 2).

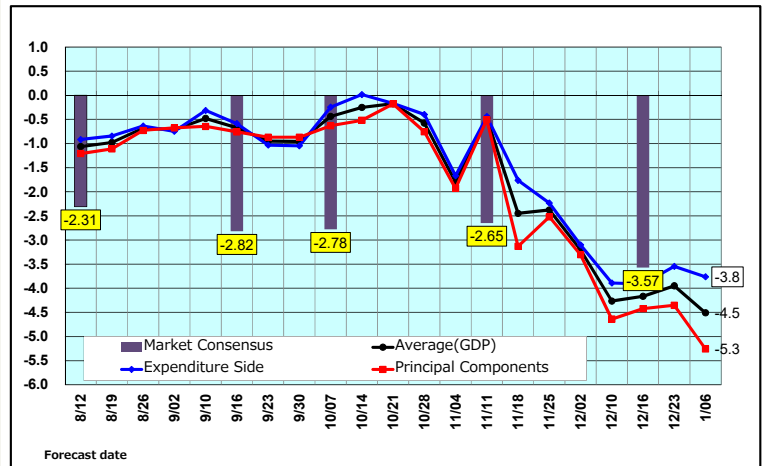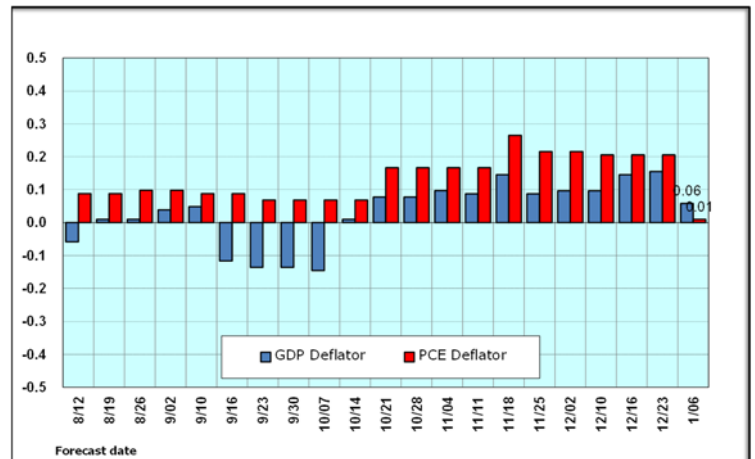### Fig 1 CQM Forecast: Real GDP growth rate Oct-Dec (Q4) 2019 (%, QoQ annualized growth)

Fig 2 CQM Forecast: Inflation Oct-Dec (Q4) 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 November/December

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change MoM	Change YoY
12/27	November	**Labor Force Survey**			
		Total employment (millions)	67.69	+0.11	
		Total unemployment (millions)	1.51	-0.15	
		Unemployment rate (%)	2.2%	-0.2%pt	
	November	**General Job Placement Situation**			
		Job offers-to-applicants ratio	1.57	0.0%pt	
	November	**Indices of Industrial Production (preliminary figures, 2015=100)**			
		Production	97.7	-0.9%	
		Shipments	96.4	-1.7%	
		Inventories	103.1	-1.1%	
	November	**Current Survey of Commerce (preliminary figures)**			
		Retail trade (billion JPY)	11,867.0	+4.5%	-2.1%
	December	**Tokyo Region Consumer Price Index (2015=100)**			
		Core	102.0	+0.2%	+0.8%
12/26	November	**New Housing Starts**			
		New housing starts (SA, Unit)	73,523	-5.2%	-12.7%
		Planned residential construction expenditure (billon JPY)	1,229.9	-9.3%	-9.2%
	October	**Construction Costs Deflator (2011=100)**			
		Housing construction	112.6		+2.5%
		Public works	115.1		+2.9%
	November	**Manufacturing Industry Input-Output Price Index (2011=100)**			
		Input price	97.9		-3.9%
		Output price	99.4		-1.9%
12/25	November	**Corporate Services Price Index (2015=100)**			
		Overall index	105.0		+2.1%
12/23	October	**Industrial Activity Indices (2010=100)**			
		All industries	103.6	-4.3%	
		Construction industry	108.9	-0.3%	
	October	**Index of Business Conditions (revised figures, 2015=100)**			
		Leading indicators	91.6	-0.3	
		Coincident indicators	95.3	-5.1	
		Lagging indicators	103.9	-0.3	
12/20	October	**Monthly Labor Statistics (final figures)**			
		Total cash salary per capita (JPY)	272,285		+0.0%
		Total working hours	140.6		-2.3%
	November	**National Consumer Price Index (2015=100)**			
		Core	102.2	+0.2%	+0.5%
12/18	November	**Trade Statistics (customs clearance level)**			
		Trade balance (billion JPY)	-82.1	+26.3%	-88.9%
		Exports (billion JPY)	6,382.2	-0.3%	-7.9%
		Imports (billion JPY)	6,464.2	-0.1%	-15.7%
12/17	October	**Synthetic Consumption Index (2011=100)**	104.3	-2.6%	
	October	**General Construction Statistics**			

Date	Month	Item	Value		
		Private non-residential construction (billion JPY)	936.0		-0.1%
		Public works (billion JPY)	2,116.0		+9.2%
12/16	October	**Tertiary Industry Activity Index (2010=100)**	104.7	-4.6%	
12/13	October	**Indices of Industrial Production (final figures, 2015=100)**			
		Production capacity index	98.2		-0.5%
		Capacity utilization ratio	95.8	-4.5%	
		Production	98.6	-4.5%	
		Shipments	98.1	-4.5%	
		Inventory	104.2	+1.3%	
	November	**Public Works Advanced Securities Statistics**			
		Contract amount (billion JPY)	911.0		+11.3%
		Number of contracts	21,700		-2.3%
12/12	October	**Private Core Machinery Orders (billion JPY)**	799.8	-6.0%	
12/11	November	**Domestic Corporate Price Index (2015=100)**			
		Corporate Price	102.2	+0.2%	+0.1%
		Export Price	92.1	+0.2%	-5.9%
		Import Price	92.6	+0.2%	-11.2%
12/10	October	**Information Services Industry Sales (billion JPY)**	831.6		+1.5%
12/9	November	**Economy Watchers Survey**			
		Current Conditions Diffusion Index	39.4	+2.7	
		Future Conditions Diffusion Index	45.7	+2.0	
	October	**Balance of Payments**			
		Current account (billion JPY)	1,816.8	+16.6%	+38.0%
		Exports (billion JPY)	6,539.9	+2.2%	-7.9%
		Imports (billion JPY)	6,285.9	-2.4%	-15.3%
12/6	October	**Monthly Labor Statistics (preliminary figures)**			
		Total cash salary per capita (JPY)	273,466		+0.5%
		Total working hours	140.7		-2.3%
	October	**Family Income and Expenditure Survey (households with 2 or more people)**			
		Nominal consumption expenditure (JPY)	279,671	-11.4%	-4.8%
		Real consumption expenditure		-11.5%	-5.1%
	October	**Consumption Trend Index (2015=100)**	99.5	-5.1%	
	October	**Consumption Activity Index (2011=100)**	101.6	-7.4%	
	October	**Index of Business Conditions (preliminary, 2015=100)**			
		Leading indicators	91.8	-0.1	
		Coincident indicators	94.8	-5.6	
		Lagging indicators	104.4	+0.2	
12/3	November	**Food Buffer Stock (billion JPY)**	+14.2		+3.5
12/2	November	**New Car Sales (vehicles)**	315,736		-11.6%

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
	2019Q3					2019Q4					2020Q1				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
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	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					
11/11	1.7	2.9	2.3	0.2	0.1	-0.4	-0.5	-0.5	0.1	0.2					
11/14	*0.2*			*0.2*	*0.1*										
11/18						-1.8	-3.1	-2.4	0.1	0.3	1.4	0.4	0.9	-0.2	0.0
11/25						-2.2	-2.5	-2.4	0.1	0.2	0.8	0.4	0.6	-0.2	0.0
12/02						-3.1	-3.3	-3.2	0.1	0.2	1.2	0.7	1.0	-0.2	0.0
12/09	*1.8**			*0.2**	*0.2**										
12/10						-3.9	-4.6	-4.3	0.1	0.2	1.1	1.3	1.2	-0.2	0.0
12/16						-3.9	-4.4	-4.2	0.1	0.2	1.0	0.7	0.9	-0.2	0.0
12/23						-3.5	-4.4	-4.0	0.2	0.2	1.2	0.6	0.9	-0.1	0.1
1/06						-3.8	-5.3	-4.5	0.1	0.0	0.9	1.3	1.1	-0.2	0.1

Note: Underlined figures are 1st preliminary estimates. Figures marked with an asterisk (*) are 2nd preliminary estimates.