

Japan: Stronger-than-expected retail sales, softer-than-expected industrial production

Today's data releases were a bit mixed with weaker-than-expected IP and stronger-than-expected retail sales. Tokyo inflation hasn't changed much at above the 2% level. We believe that the Bank of Japan will pay more attention to the improvement in retail sales and sticky inflation data than to weak IP and labour results driven by an idiosyncratic factor



Source: Shutterstock

2.6%

Tokyo CPI
%YoY

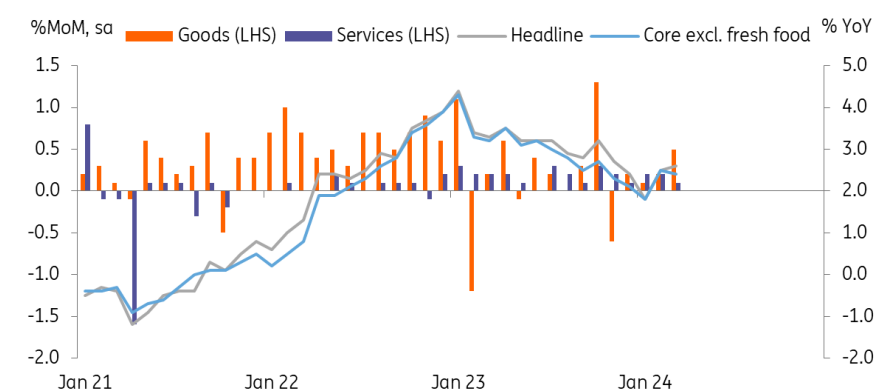
Higher than expected

Tokyo consumer prices unexpectedly rose 2.6% YoY in March

A leading indicator of nationwide consumer prices, Tokyo consumer prices rebounded to 2.6%

year-on-year in March (vs a revised 2.5% in February, 2.5% market consensus). Core inflation excluding fresh food, a preferred measure for the BoJ, eased to 2.4% (vs 2.5% in February, 2.4% market consensus), but we don't think this would have any impact on the Bank of Japan's policy normalisation ahead. We expect inflation to ease, but to remain above 2% for a considerable time. On a monthly comparison, the Tokyo CPI accelerated to 0.3% month-on-month sa, rising for four months in a row. The gain in goods prices (0.5%) was more significant, indicating that companies set prices higher in the belief that consumers willingness to pay wouldn't be hurt too much. The rise in service prices (0.1%) were relatively modest, but have stayed on an upward trend for 12 months in a row. With stronger-than-expected wage negotiation results for FY24, the BoJ's sustainable inflation growth target is achievable this year.

Inflation remained above 2%



Source: CEIC

-0.1% Industrial production
%MoM, sa

Lower than expected

Industrial production unexpectedly dropped again in February

Industrial production fell -0.1% MoM sa in February (vs -6.7% in January, 1.3% market consensus). Car manufacturers' production declined for a second month (-8% in February, -16.4% in January) as temporary production cuts were not fully restored. But, other production output also was weak. Machinery, steel, and chemical outputs all declined. Chip-production equipment was declined sharply by -12.6%, but not fully offsetting the previous three months' increases. As global demand for IT/Semiconductor continues to be strong, we expect a recovery in the coming months. Today's weaker-than-expected IP adds downward risks to the current GDP forecast of a 0.5% QoQ growth.

1.5% Retail sales

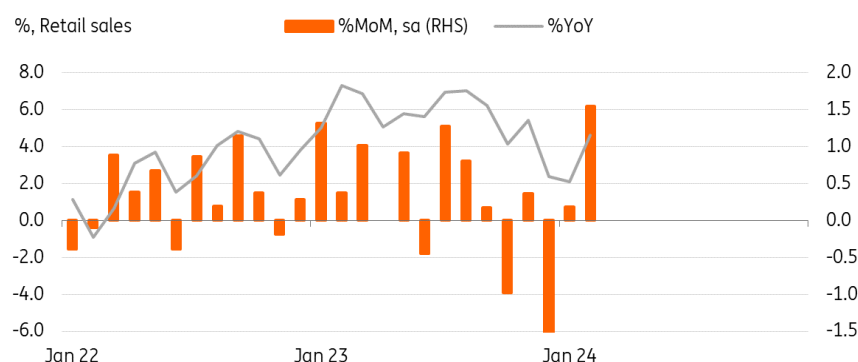
%MoM, sa

Higher than expected

Solid retail sales was the highlight of today's data releases

Despite improvement in earnings and asset prices, household consumption remained sluggish throughout last year. However, retail sales grew for a second month, and thus the BoJ's largest concern should be relieved – at least partially. Retail sales rose more than expected by 1.5% MoM sa in February. January retail sales were revised down to 0.2% from the flash 0.8% but the first two months' gain in retail sales were fairly solid. The gain was widespread except for weak motor vehicle sales, which have declined for three months in a row. But, we believe this is somewhat related to the recent production interruption due to a safety scandal of a major car manufacturer. General merchandise, apparels, and machinery sales all rose for a second month. We believe that household consumption will rebound from the current quarter and continue to improve over the course of this year, and thus it will support the BoJ's policy normalisation later this year.

Retail sales rose for a second month



Source: CEIC

2.6% Jobless rate

1.26 Job-to-Application ratio

Worse than expected

Labour conditions soften a bit in February

The jobless rate unexpectedly rose to 2.6% in February (vs 2.4% in January and market consensus), while the job-to-application ratio slid to 1.26 from 1.27 in January. We saw manufacturing jobs shed in February, which is likely related to the production interruption issue. Thus, we are not too worried about the labour conditions just yet.

Bank of Japan watch

We think that the BoJ should welcome the solid retail sales and sticky inflation. Industrial production declined for a second month, however, once car production normalises then IP should rebound in the near future. We believe that if the BoJ confirms that consumption is recovering while inflation remains above 2%, then the BoJ is likely to move forward with rate hikes in the second half of 2024. We expect the BoJ's policy rate to reach 0.5% by year-end, as we believe that strong wage growth will lead to a consumption recovery this year and a policy rate of 0.5% should be considered accommodative given the macro conditions.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.