

Mixed Japanese data supports BoJ's policy normalisation

We'd rather downplay the weaker-than-expected manufacturing data and focus on a solid recovery in retail sales and a reacceleration in inflation, which will be welcomed by the Bank of Japan



Japan's Tokyo Tower

-0.1%

Industrial production

%MoM, SA

Lower than expected

Disappointing industrial production data

Manufacturing activity in Japan unexpectedly declined -0.1% MoM, seasonally adjusted, in April (vs 4.4% in March, 1.5% market consensus). Transportation equipment declined 1.1% in April with a 0.6% drop in motor vehicles, but this is after a 9.9% surge in March. We believe this is a temporary adjustment and expect a rebound in the coming months as carmakers get production back on

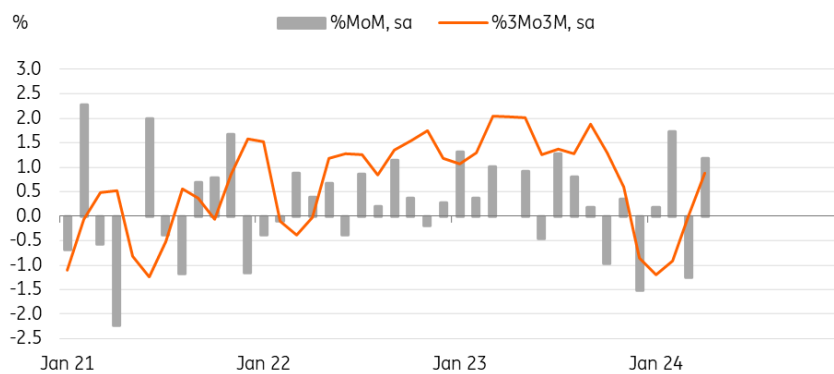
track. Other than transportation equipment, production machinery remained strong. Semiconductor-related equipment firmly rose again, suggesting robust demand for semiconductors continued.

1.2% Retail sales
% MoM, SA

Higher than expected

Stronger-than-expected retail sales are the most welcome sign for the Bank of Japan. Retail sales rebounded more than expected by 1.2% MoM SA (vs -1.2% in March, 0.6% market consensus). Motor vehicle (-1.9%) and general merchandise (-2.5%) sales declined, but apparel/accessories (3.2%) and machinery (5.7%) gained. Retail sales are expected to recover gradually in the current quarter as the expected wage growth is likely to boost household consumption.

Retail sales improved in the current quarter



Source: CEIC

As expected, Tokyo CPI rose in May

Tokyo CPI reaccelerated to above 2% in May after a sharp drop in April, broadly in line with market consensus. Headline Tokyo consumer prices rose to 2.2% YoY in May (vs 1.8% in April, 2.2% market consensus) and core inflation excluding fresh food also rose to 1.9% (vs 1.6% in April, 1.9% market consensus).

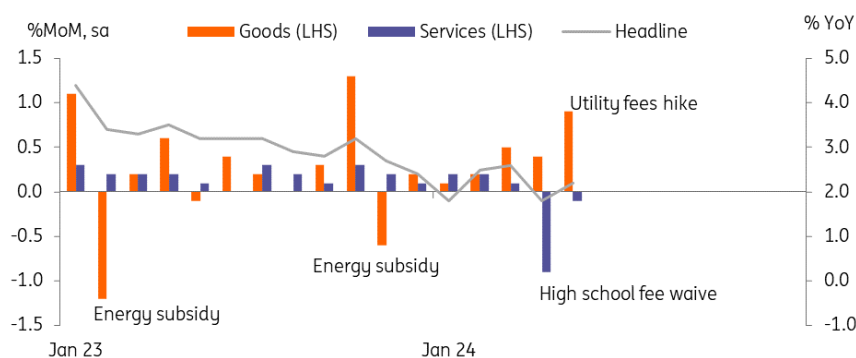
2.2% Tokyo CPI (% YoY)

Core excluding fresh food inflation rose 1.9% YoY

As expected

Inflation has been quite choppy due to various government programmes and utility prices. This time, higher utility fees (4.7% in May vs -3.0% in April) were the main reason for the pick-up but other goods prices also rose moderately. But services prices tended to ease with transportation, education and entertainment growth moderating. On a monthly basis, CPI rebounded smartly by 0.4% MoM SA in May (from -0.3% in April), with goods prices surging 0.9% while services prices fell -0.1%. Given that Tokyo inflation is a leading indicator of the nationwide CPI results, we expect consumer prices to jump back to nearly 3% YoY over the next few months from a 2.5% YoY rise in April. We expect inflationary pressures to increase further given the weak JPY and a large wage increase in the pipeline.

Tokyo CPI rose firmly mainly due to utility prices hike



Source: CEIC

2.6%

The jobless rate

Seasonally adjusted

As expected

Labour market conditions remain tight

The unemployment rate remained at 2.6% for the third consecutive month, while the labour participation rate moderately rose to 63.1% from 62.8% last month. The job-to-application ratio declined by 0.02 points to 1.26 in April from 1.28 in March. New job openings for manufacturing declined unexpectedly, while those in the entertainment service improved.

We believe that strong demand in tourism is likely to add more jobs in services, while the manufacturing sector may face some pressure from input price rises and thus appears to be reluctant to increase its hiring.

BoJ and GDP outlook

We believe that today's data results, particularly the stronger-than-expected retail sales and reacceleration of inflation, support our view that the Bank of Japan will deliver another rate hike in July. And, as private consumption has a larger share of GDP in Japan, we believe that today's mixed activity data still adds upside risks to growth in the current quarter.

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 <http://www.ing.com>.