

## 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



# -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.

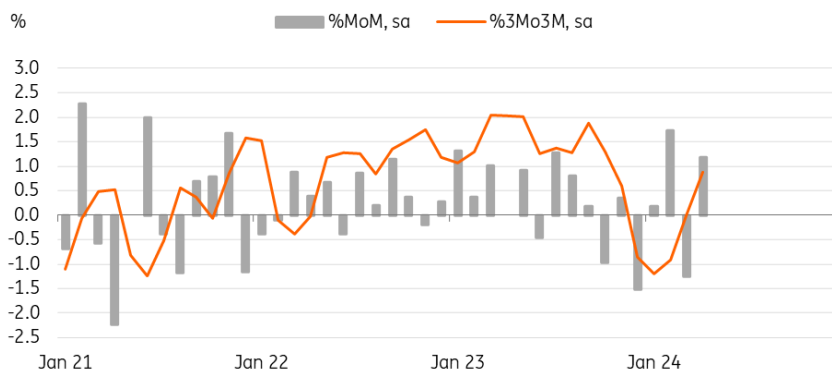
Semiconductor-related equipment firmly rose again, suggesting robust demand for semiconductors continued.

**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)

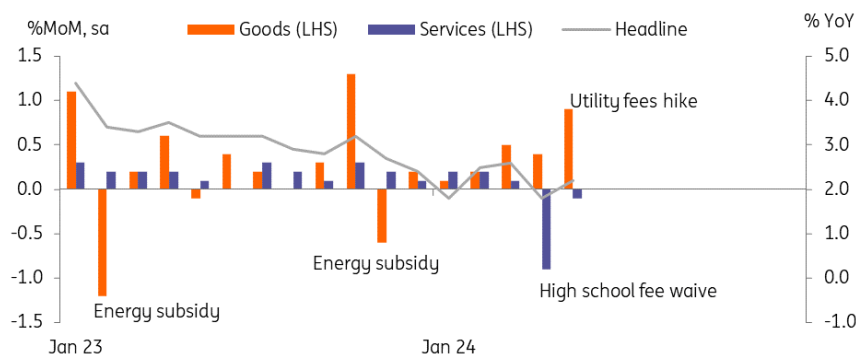
Core excluding fresh food inflation rose 1.9% YoY

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.

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