

Yen 4Sight

Highlights

- Average labour earnings fell sharply in March, with only some of the weakness able to be excused by statistical quirks.
- The household survey suggested stronger spending in Q1, but private consumption was probably weaker than those data imply.
- Business and consumer surveys so far point to a sluggish Q2.
- The coming week brings further March consumption data and the Economy Watchers survey for April.

Chris Scicluna

 +44 20 7597 8326
chris.scicluna@uk.daiwacm.com
Emily Nicol

 +44 20 7597 8331
emily.nicol@uk.daiwacm.com

Interest and exchange rate forecasts

End period	10 May	Q219	Q319	Q419
BoJ ONR %	-0.10	-0.10	-0.10	-0.10
10Y JGB %	-0.06	-0.05	-0.05	-0.05
JPY/USD	110	110	107	105
JPY/EUR	123	126	121	118

Source: Bloomberg, BoJ and Daiwa Capital Markets Europe Ltd.

Japanese investors return to disappointing data

As Japanese investors returned to work on Tuesday after the extended Golden Week holidays, global financial markets were preoccupied by the US-China trade war. Fears of an intensification in hostilities in this regard were realised on Friday as the US hiked tariffs from 10% to 25% on \$200bn-worth of Chinese imports. But the resumption of the domestic economic data-flow in Japan provided some unease too, not least given some underwhelming economic surveys and – most striking – a particularly weak labour earnings report.

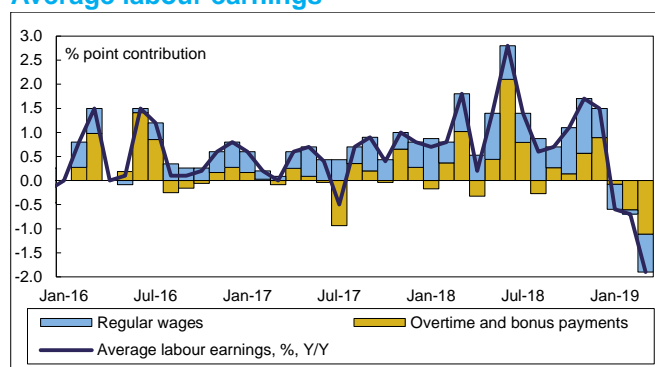
Labour earnings growth plunges at end-Q1

Given the central role that wages should be playing in driving up domestic spending and inflation, the BoJ might have been horrified by the preliminary March Monthly Labour Survey. Total labour cash earnings per person fell a startling 1.9%Y/Y, the third successive negative reading and the biggest drop since June 2015. And that left them down in Q1 by 1.0%Y/Y, the biggest first-quarter decline for a decade. Contracted earnings fell 1.1%Y/Y in March, the steepest drop since 2013. And, hit partly by an unfavourable base effect, bonuses were down 12.4%Y/Y. With inflation positive (albeit not even half the BoJ's 2% target), average real wages were down 2.5%Y/Y, similarly the worst since 2015.

Data quirks explain only some of the weakness

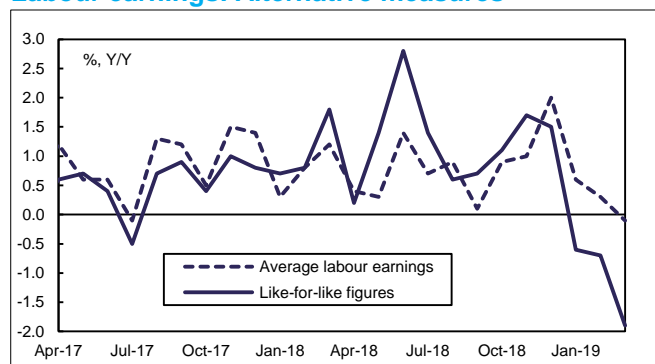
As ever, we note that the preliminary Labour Survey results are often revised significantly. And given past flaws in the series, and despite a revised methodology, big concerns about the reliability of these data persist. Much of the weakness in average earnings growth likely related to sampling issues and the employee count. Indeed, growth in the number of part-time employees (4.3%Y/Y) remained far more vigorous than full-time employees (0.6%Y/Y). And the total number of employees on the survey was up 1.8%Y/Y, well above the 1.0%Y/Y rate suggested by MIC job data. Should the employee counts be revised lower, earnings-per-person would be revised higher, significantly so if growth in part-timers (as seems more likely) was most exaggerated. Notably, MHLW data based on a common sample suggest that average labour earnings were down 0.1%Y/Y, no means as shocking as the headline figures suggest, but still unsatisfactory from the BoJ's perspective and well below the rates around 3%Y/Y likely to be required to meet the inflation target on a sustained basis.

Average labour earnings



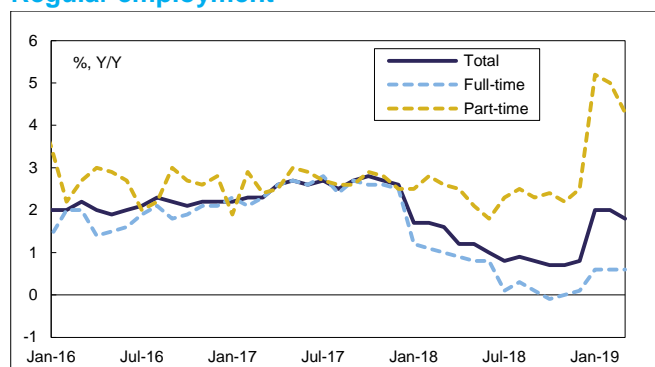
Source: MHLW, Bloomberg and Daiwa Capital Markets Europe Ltd.

Labour earnings: Alternative measures



Source: MHLW and Daiwa Capital Markets Europe Ltd.

Regular employment



Source: MHLW, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Real household disposable income rises

The BoJ might take some comfort from the MIC's latest household survey. Real disposable income for workers' households rose 0.7%Y/Y in March. On this volatile series, that marked a turnaround from a decline of similar magnitude the previous month. Looking through the statistical noise, real disposable income was up an even more respectable 1.3%3M/Y, an improvement on the negative rates seen late last year although still hardly scintillating.

Household survey suggests increased spending

Contrary to expectations, the household survey also pointed to a pickup in spending in March. After adjusting for a discontinuity caused by survey changes, growth in real spending by two-or-more person households rose 0.4ppt to 2.1%Y/Y, the strongest since August. And core spending – which excludes housing, auto sales and certain other expenditures to give a better picture of underlying growth in spending – accelerated 0.2ppt, likewise to 2.1%Y/Y, a fourteen-month high. Compared to February, total spending was up just 0.1%M/M while core spending was unchanged. But over Q1 as a whole, total spending on the survey was up 0.9%Q/Q and the core measure was up 1.0%Q/Q, only 0.2ppt softer than in Q4.

Private consumption was still likely soft in Q1

We won't get carried away by the strength of the March household spending data. After all, nominal retail sales dropped more than 1%Q/Q in Q1. Admittedly, those data – like the household spending figures – typically don't provide an accurate guide to the national accounts measure of private consumption. And the BoJ's consumption activity index, due Monday, will be more informative in that respect, as will the Cabinet Office's Synthetic Consumption Index – the most reliable monthly indicator of private consumption spending – which may also be released in the coming week. But we recall that strong growth (more than 1.0%M/M) in March on the Cabinet Office measure is required to achieve a flat result for private consumption in Q1 as a whole.

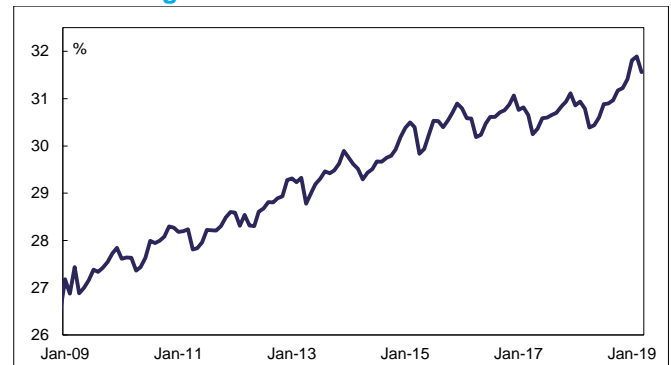
Consumer confidence continues to trend lower

A drop in consumption in Q1 would be no surprise given the steady recent deterioration in consumer confidence. And the latest sentiment survey failed to suggest a turn for the better. The headline consumer confidence index fell for the seventh consecutive month in April. While the decline was just 0.1pt, at 40.4 the index was the lowest in more than three years and below the long-run average. Consumers were more upbeat about job prospects, although the respective index remained near the bottom of the range of the past couple of years despite the tight labour market. Confidence about incomes edged down to the lowest since late 2016. And the survey index measuring consumers' willingness to buy durable goods fell for a fourth successive month to the lowest since January 2015, suggesting that households currently feel no urge to bring forward purchases ahead of the scheduled consumption tax hike in October.

Services PMI slipped back slightly

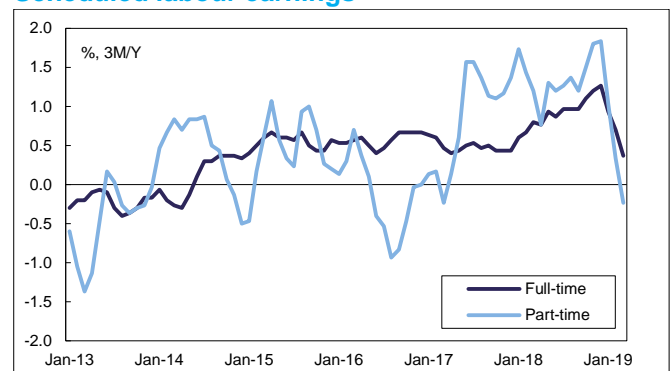
The latest business surveys also displayed a lack of dynamism. In particular, the services PMI fell for a second

Part-time regular worker share



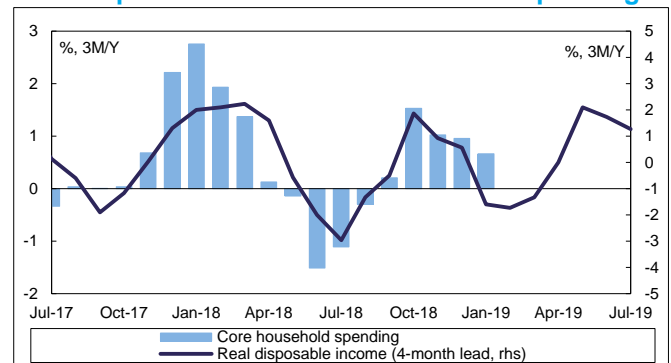
Source: MHLW, Bloomberg and Daiwa Capital Markets Europe Ltd.

Scheduled labour earnings



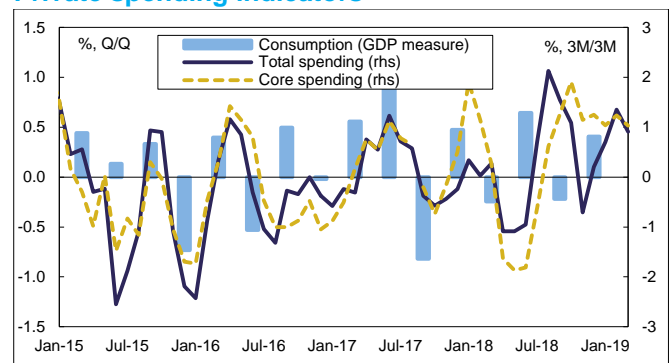
Source: MHLW, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Real disposable income and household spending



Source: MHLW, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Private spending indicators



Source: MIC, Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

successive month in April, down 0.2pt to 51.8, a three-month low. Nevertheless, this was bang in line with the average of the past 2½ years and still consistent with moderate expansion in the sector. And while there was a further notable drop in the new orders component, at 52.8 it also pointed to growth. There was a big rise in the employment PMI of 2.6pts – the largest increase for almost six years – to 54.7, the highest since the series began in 2007.

Manufacturing PMI improved but remains weak

In manufacturing, the final PMI survey reported an upwards revision of 0.7pt to the headline index to 50.2, a three-month high and 2pts above February's 2½-year low. But despite a rise in the output component (up 0.9pt from the flash release), at 48.9 it still remained firmly in contractionary territory for the fourth consecutive month. The new orders PMI also pointed to ongoing contraction, particularly for new export orders. So, while manufacturing production likely returned to positive growth in April after a drop of more than 2½%Q/Q in Q1, the extent of the rebound is likely to be far from vigorous and its duration questionable. Certainly, a further negative quarter of growth in output from the sector in Q2 can't be ruled out.

Composite PMI consistent with subdued growth

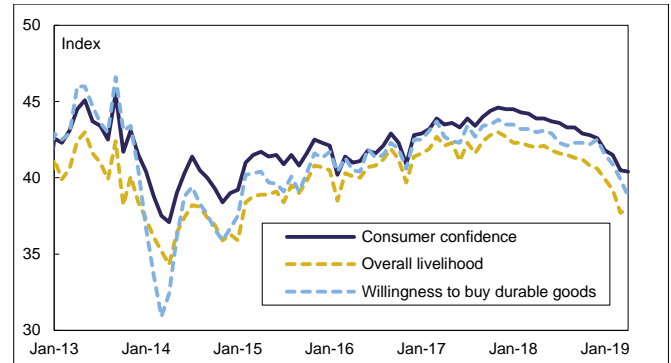
Given the pickup in manufacturing, the composite output PMI rose for the first time in six months at the start of Q2. But the 0.4pt increase left it at a still-subdued 50.8, a touch above the average in Q1 but well below the average of the past two years. The new orders component fell for a fifth month out of the past six, by 0.5pt to 51.3. And so, with the first estimate of Q1 GDP on 20 May likely to report a contraction, overall the PMIs indicated little momentum at the start of Q2 too.

The week ahead in Japan and US

Ahead of the first estimate of Japan's Q1 GDP on 20 May, the coming week brings a few releases to provide greater insight into activity at the end of the first quarter and start of the second quarter. Monday kicks off with the BoJ's consumption activity index for March, which should be followed later in the week by the Cabinet Office's synthetic consumption index. Monday also brings the Cabinet Office's coincident and leading indices for March. April's Economy Watchers survey is due on Tuesday, as are bank lending data for the same month. April's goods producer price figures will be published on Thursday, while March tertiary activity figures are due Friday. The MoF will sell 30Y JGBs on Tuesday and 5Y JGBs on Thursday.

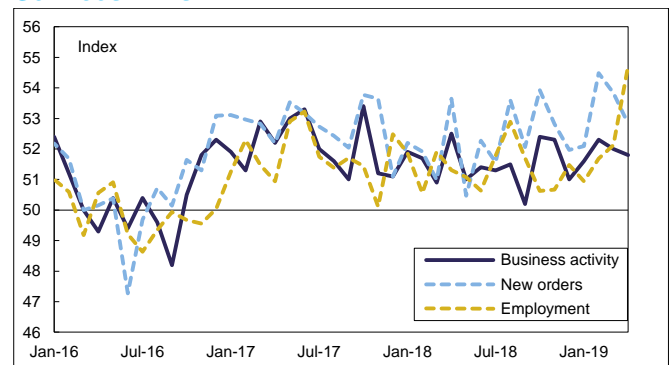
In the US, Wednesday will bring the likely data highlights of the week, with industrial production and retail sales figures for April due. Following a surprise drop in March, IP should post a modest increase at the start of Q2. In contrast, after a surprisingly strong end to the first quarter, underlying retail sales growth is expected to be softer last month. That day will also bring the Empire Manufacturing index for May, which follows Tuesday's release of April's NFIB small business survey and precedes May's Philly Fed index (Thursday) and the Conference Board's leading index for April (Friday). Friday also brings the preliminary University of Michigan consumer sentiment survey. And housing market indicators due include May's NAHB housing index on Wednesday and April's housing starts figures on Thursday. There are no UST bond auctions currently scheduled for the coming week.

Consumer confidence



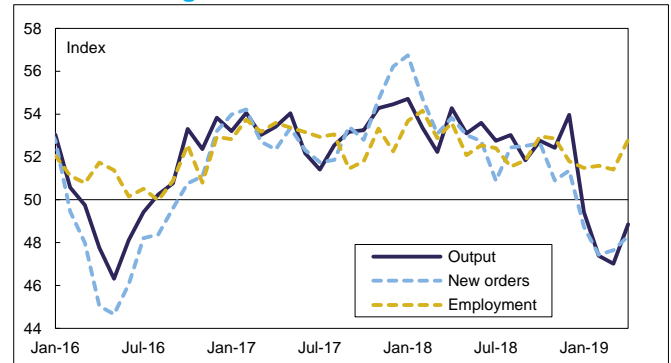
Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Services PMIs



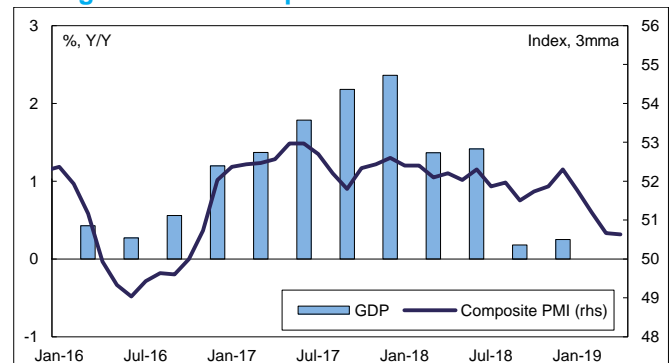
Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Manufacturing PMIs



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

GDP growth and composite PMI



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Economic calendar

Key data releases – April/May

06	07	08	09	10
NATIONAL HOLIDAY – CHILDREN'S DAY OBSERVED	MANUFACTURING PMI MAR 49.2 APR F 50.2 VEHICLE SALES Y/Y% MAR -4.7 APR 2.5 BOJ MINUTES (14-15 MARCH MEETING)	3M TB AUCTION 10Y JGB AUCTION SERVICES PMI MAR 52.0 APR 51.8 COMPOSITE PMI MAR 50.4 APR 50.8 MONETARY BASE Y/Y% MAR 3.8 APR 3.1	6M TB AUCTION CONSUMER CONFIDENCE MAR 40.5 APR 40.4	3M TB AUCTION 10Y JGBI AUCTION HOUSEHOLD SPENDING Y/Y% FEB 1.7 MAR 2.1 AVERAGE WAGES Y/Y% FEB -0.7 MAR -1.9 BOJ SUMMARY OF OPINIONS (24-25 APRIL MEETING)
13	14	15	16	17
BOJ CONSUMPTION ACTIVITY INDEX M/M% FEB -0.3 MAR N/A COINCIDENT INDEX FEB 100.4 MAR P 99.6 LEADING INDEX FEB 97.1 MAR P 96.3	30Y JGB AUCTION (APPROX ¥0.7TRN) ECONOMY WATCHERS SURVEY – CURRENT CONDITIONS DI MAR 44.8 APR 45.8 FUTURE CONDITIONS DI MAR 48.6 APR 48.0 BANK LENDING Y/Y% MAR 2.4 APR N/A CURRENT ACCOUNT ¥TRN FEB 2.0 MAR 1.7	M3 MONEY SUPPLY Y/Y% MAR 2.1 APR 2.1 MACHINE TOOL ORDERS Y/Y% MAR -28.5 APR P N/A	1Y TB AUCTION (APPROX ¥1.9TRN) 5Y JGB AUCTION (APPROX ¥1.9TRN) GOODS PPI Y/Y% MAR 1.3 APR 1.1	3M TB AUCTION (APPROX ¥4.3TRN) TERTIARY ACTIVITY M/M% FEB -0.6 MAR 0.1 DEPARTMENT STORE SALES* Y/Y% MAR 0.1 APR N/A
20	21	22	23	24
AUCTION FOR ENHANCED LIQUIDITY GDP (Q1 P) INDUSTRIAL PRODUCTION (MAR F) CAPACITY UTILISATION (MAR)	HOUSING LOANS (Q1)	20Y JGB AUCTION TRADE BALANCE (APR) MACHINE ORDERS (MAR) REUTERS TANKAN (MAY) OVERSEAS VISITORS (APR)	MANUFACTURING PMI (MAY P)	3M TB AUCTION AUCTION FOR ENHANCED LIQUIDITY NATIONAL CPI (APR) ALL INDUSTRY ACTIVITY (MAR)
27	28	29	30	31
	40Y JGB AUCTION SERVICES PPI (APR)		2Y JGB AUCTION	3M TB AUCTION INDUSTRIAL PRODUCTION (APR) RETAIL SALES (APR) UNEMPLOYMENT RATE (APR) JOB-TO-APPLICANT RATIO (APR) TOKYO CPI (MAY) HOUSING STARTS (APR) CONSTRUCTION ORDERS* (APR)

*Approximate date of release. Source: BoJ, MoF, Bloomberg, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Economic Research

Key contacts

London

Head of Research	<i>Grant Lewis</i>	+44 20 7597 8334
Head of Economic Research	<i>Chris Scicluna</i>	+44 20 7597 8326
Emerging Markets Economist	<i>Saori Sugeno</i>	+44 20 7597 8336
Economist	<i>Emily Nicol</i>	+44 20 7597 8331
Associate Economist	<i>Mantas Vanagas</i>	+44 20 7597 8318
Research Assistant	<i>Jodene Adjei</i>	+44 20 7597 8332

New York

Chief Economist	<i>Mike Moran</i>	+1 212 612 6392
Junior Economist	<i>Lawrence Werther</i>	+1 212 612 6393

Hong Kong

Economist	<i>Kevin Lai</i>	+852 2848 4926
Research Associate	<i>Christie Chien</i>	+852 2848 4482
Economic Assistant	<i>Olivia Xia</i>	+862 2773 8736

London Translation

Head of Translation, Economic and Credit	<i>Mariko Humphris</i>	+44 20 7597 8327
--	------------------------	------------------

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>. If you are unable to access the research on this page, please contact Jodene Adjei on +44 207 597 8332.

Access our research blog at:

<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.