



Japan / Japon

Abenomics boosted April statistics

The statistics for April confirm that the economy is strengthening. The reason is the very loose macroeconomic policy stance of the Abe government. The new strategy received today full support from the IMF. Although near term effects could be negative for neighbouring countries, they should profit in the long term from positive spillover effects through higher growth.

■ Today's bunch of statistics for April – industrial production, labour market, consumer prices, and household revenue and expenditure – confirm that the economy is strengthening as earlier signalled in the household and business surveys. The reason is the very loose macroeconomic policy stance of the Abe government. In January, the government launched an impressive stimulus plan worth about JPY 10 trillion (or 2% of GDP). The new BoJ leadership have embarked on a new monetary strategy, aiming at doubling the monetary base in two years. To complete the three “arrow” framework, the government will unveil a structural reform programme next month.

A positive assessment by the IMF

■ The new strategy received today full support from the IMF. In particular, the Fund praised the new monetary strategy to raise the rate of inflation. It called on the government to pursue fiscal consolidation and identify new measures for fiscal adjustment in addition to the consumer tax hike already decided. It also called on the authorities to raise growth over the medium term through structural reforms of product and labour markets. In this respect, participation in the Trans-Pacific Partnership is an important step.

■ The Fund also commented on the large depreciation of the yen, which it considers as a by-product of the monetary strategy. It does not consider this as problematic, as long as monetary easing is pursued for domestic goals and is accompanied by comprehensive fiscal and structural reforms. The near-term negative effects of the depreciation for some of Japan's competitors should be temporary according to the Fund. Moreover, if the government's strategy is successful, it should result in positive spillover effects through higher growth in Japan.

Industrial production boosted by yen depreciation

■ Industrial production increased by 1.7% in April, which was actually much stronger than anticipated by the financial markets (market consensus: 0.7%). It was the fifth straight month of growth. In the three months since February production has increased by 11% (annualised rate).

Les statistiques d'avril dopées par « Abenomics »

Les statistiques pour avril confirment que l'économie se redresse grâce à la politique macroéconomique très accommodante du gouvernement de Shinzo Abe. La nouvelle stratégie a reçu l'appui total du FMI. Bien que les effets à court terme puissent être négatifs pour les pays voisins, ceux-ci devraient profiter à long terme des retombées positives d'une croissance japonaise plus dynamique.

Industrial Production

April 2013

% SA	mm	3ma	yy
Industrial output	1.7	11.0	-2.3
Shipments	1.1	15.0	-1.7
Inventories	0.7	-9.4	-5.6
Inventories to shipment ratio	0.6	-16.4	-2.4

Source: METI

mm : on one month / sur un mois

3ma : on three months, annualised / sur un trimestre, annualisé

yy : on one year / sur un an

Labour market

	Feb-13	Mar-13	Apr-13
Labour force (% y/y)	0.1	0.1	0.2
Employment (% y/y)	0.3	0.5	0.6
Jobless rate %	4.3	4.1	4.1
Job-to-applicant ratio	0.85	0.86	0.89

Sources: Ministry of Internal Affairs and Communication, Ministry of Health, Labour and Welfare

■ In April, production growth was mainly driven by the large transport good sector, where activity rebounded by 11.8% after having declined by almost 5% in March. Also production of electronic parts and devices was robust (5.1% in March and 2.3% in April) after a very weak start of the year.

■ The production increase is partly driven by strong external demand following the sharp depreciation of the yen since mid-November. This has persuaded manufacturers in the US and emerging economies to place orders for electronic parts in Japan. Since March, exports have been on a rising trend. Owing to sophisticated just-in-time inventory management systems, production has reacted quickly to changes in demand.

■ In addition, since the increase in petrol prices following the depreciation of the yen, transport good makers have reported brisk sales of new models of fuel-efficient cars.

■ Manufacturers are prudent about the near-term outlook. According to the METI production forecast, output is likely to be stable in May and could even decline by 1.4% in June.

Tightening of the labour market

■ Labour market conditions improved in April. The unemployment rate remained at 4.1%, but the job-to-applicant ratio - a better indicator for labour market tensions - rose to 0.89. The ratio has been on a rising trend since June 2011. This is better than could be expected on the basis of the latest Economy Watchers Survey. In this survey, agencies reported a decline in the demand for temporary workers, but noted that this was not unusual for the time of the year.

■ In April, despite the shrinking of the working-age population, the labour supply increased by 60k, thanks to the increase in employment opportunities. Employment increased by 40k from the previous quarter and 370k from the previous year. These jobs were not created in construction or in manufacturing, the two branches that have been boosted by the government's policy. In fact, compared to a year earlier, the manufacturing sector has lost 280k jobs. Jobs were created in the retail sector (+240k y/y) and education (150k y/y).

■ We expect the labour market to tighten further in the coming quarters. The unemployment rate is likely to fall below the 4% mark in the course of this year. As the economy approaches full employment, wage demands are likely to increase. Moreover, wage pressures could increase due to rising consumer prices. In particular, the government is intending to hike VAT rates by 3 percentage points in April 2014.

Inflation in sight

■ Consumer prices continued to decline in April. The CPI excluding fresh food – the BoJ's preferred indicator – declined by 0.4% from a year earlier compared with -0.5% in March. The easing of deflation was mainly due to price increases for car insurance and television. The impact of higher import prices was not yet noticeable, as firms find it hard to pass on these price increases to final consumers.

■ But pricing behaviour is about to change. The year-on-year price change of the Tokyo core index for May – which is published one month before the national index – increased to 0.1%. It was the first time since March 2009 that Tokyo prices were rising. The national index is likely to start increasing from June onwards.

■ We expect inflation to rise progressively in the coming month, mainly due to higher import prices. In April 2014, inflation is estimated at 2.8%, as the 3% VAT hike adds about 2 percentage points to inflation. Excluding this hike, inflation is unlikely to reach the BoJ's 2% target before 2015.

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Consumer Price Index

y/y, en glissement annuel

	Mar-13	Apr-13	May-13
National			
CPI	-0.9	-0.7	na
ex. fresh food	-0.5	-0.4	na
ex. food and energy	-0.8	-0.5	na
Goods	-1.7	-1.5	na
Services	-0.2	0.0	na
Housing	-0.4	-0.4	na
Clothing and Footwear	-0.1	0.0	na
Transport and Communication	-0.3	-0.1	na
Energy	2.2	1.3	na
Tokyo			
CPI	-1.0	-0.6	-0.3
CPI excluding fresh products	-0.5	-0.3	0.1
CPI excluding food and energy	-0.8	-0.7	-0.3

Source: Ministry of Internal Affairs and Communication

Workers' Household Consumption

April 2013

% SA	mm	6ma	yy
Workers' households			
Income	0.1	2.8	2.9
Disposable Income	-0.6	1.6	0.5
Consumption expenditures	-5.9	6.7	1.1
Consumption all households	-4.6	3.8	1.5

Source: Family Income and Expenditure Survey

mm : on one month / sur un mois

6ma : on 6 mois, annualised / sur un semestre, annualisé

yy : on one year / sur un an

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