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Japan's unemployment rate returned to its 26-year low in February... this probably is as good as it gets.

National inflation excluding fresh food likely will be unchanged in March, but stay lower than in Tokyo.

Energy inflation will continue to slow, however, despite the stable Tokyo measure.

Don't Be Fooled, Japan's Labour Market Won't Tighten Futher

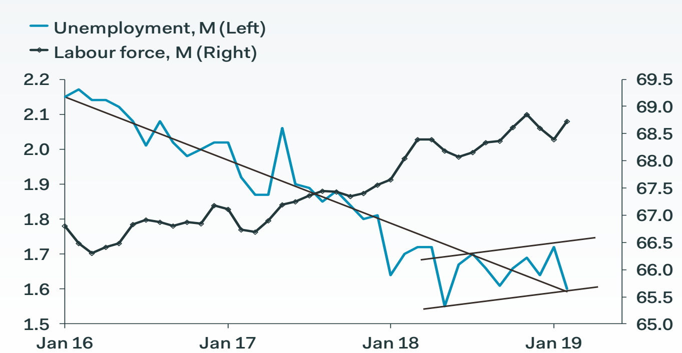
Japan's unemployment rate returned unexpectedly to its 26-year low of 2.3% in February, falling from 2.5% in January. To be sure, we had anticipated the labour market would stage a last gasp rally in the remainder of Q1—see here—following the weak report at the start of the year, and as signalled by the surge in job postings in the previous quarter. Nevertheless, the strength and early arrival of the correction in jobless numbers in February caught us off-guard. The number of people unemployed *fell* sharply, by 7.0% month-on-month, more than erasing January's 4.9% *increase*. The drop in the unemployment rate was flattered very slightly by a 0.5% *rise* in the size of the labour force, after two months of *decline*, with new part-time workers coming into the fold.

This probably is the low for the jobless rate. At this stage, it looks as though the drop in the number of unemployed people in February wasn't big enough to signal a break in the gradual upward trend from the low last spring. At best, unemployment likely will simply track sideways in the coming months. Notably, the jobs-to-applicant ratio held steady at 1.63 in February for a fourth straight month. The underlying figures were mostly uneventful, with both the number of applicants and job openings rising only marginally, following January's very sharp declines.

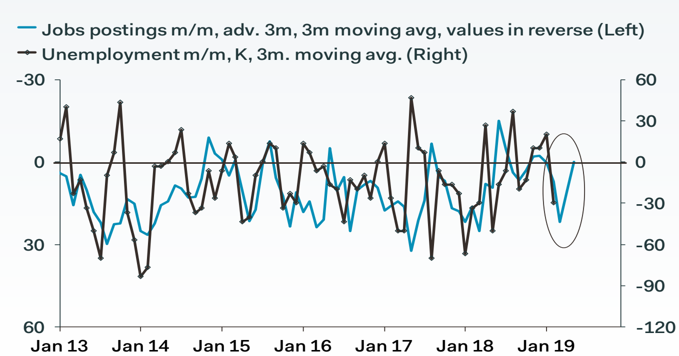
The main story here is that new job postings in Q1 appear nowhere near strong enough to sustain the decline in unemployment. The available data so far show that openings have *fallen* by 23.6K on a net basis, a far cry from the 65K *jump* in Q4. Moreover, the forward-looking indicators from the recent PMI surveys have been equally bleak on the prospects for labour demand in the *second* quarter. Indeed, the backlog of works sub-index fell deeper in contraction in the flash manufacturing survey for March, hitting a new multi-year low.

To be sure, the labor market is likely to remain very tight, purely from the supply side, given the country's fast-ageing society. It is unlikely to get any *tighter*, though, implying that the heights seen in wage growth

UNEMPLOYMENT IS UNLIKELY TO FALL MUCH FURTHER FROM HERE



THE SUDDEN DEARTH OF NEW JOB OPENINGS SIGNALS A QUIET Q2



in 2018 won't be replicated this year. Regular cash earnings growth is already starting to ebb. *Crucially, bonuses, on average, have contributed over half of the year-over-year increases in earnings since November.* This lift should fade in the months ahead.

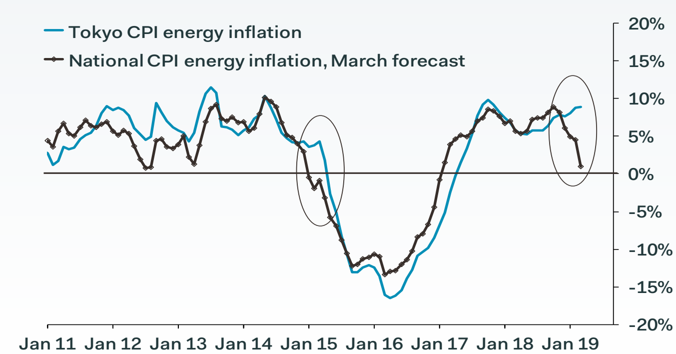
National inflation will stay below Tokyo in March

Tokyo CPI inflation jumped to 0.9% in March, from 0.6% in February. The increase was driven by food, with prices falling just 0.1% year-over-year, after the 1.3% drop in February. The BoJ's target measure contains some food elements, but excludes the more volatile fresh food component. On this gauge, Tokyo inflation was unchanged at 1.1% in March.

The national version of the CPI—excluding fresh food—probably will be unchanged at 0.7% in March, despite a dip in energy inflation. On the Tokyo measure, energy inflation was little changed in March, at 8.9%. But the index has been slow to reflect last year's oil price declines, and also has diverged from the national gauge, where energy inflation is already falling. That slowdown should continue in March, with even the national gauge still not fully incorporating the drop in oil prices. But core inflation will pick up.

Tokyo private transportation inflation, however, jumped to 0.9% in March, from February's 0.5%. The previous relationship with oil, the main driver, suggests inflation should still be slowing. But we have no reason to disbelieve the signal from the capital, so we are now forecasting a rebound in national private transportation inflation, though it should still slow in

NATIONAL ENERGY INFLATION WILL BUCK THE TOKYO TREND

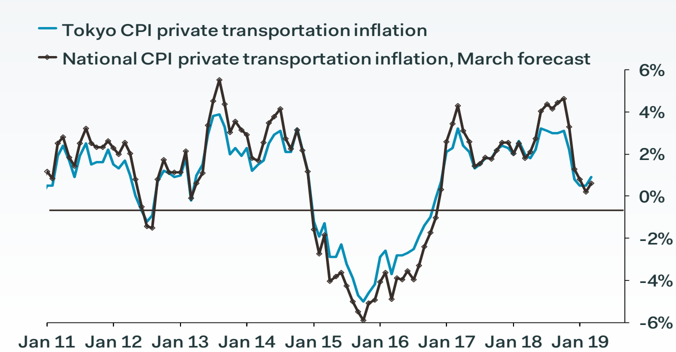


coming months. We also anticipate services excluding housing and private transportation will inch higher. *That leaves inflation excluding food and energy at a relatively speedy 0.5%, up from 0.3% in February.*

Housing continues to represent an upside risk to our core inflation forecast. Tokyo housing inflation was unchanged in March for the third consecutive month, at 0.5%. But it remains substantially faster than on the national gauge, where the year-over-year change in housing prices has been stuck at zero for three months, after falling almost continuously since the financial crisis.

Overall, diminished food inflation and an upturn in core inflation should modestly outweigh the slowdown in energy inflation, causing national headline inflation to edge higher in March. Going forward, legislation to increase competition in the mobile phone market will deepen communication deflation from next month. But the BoJ will ignore this, with the underlying uptrend in services inflation set to continue. *The Bank is now having to "look through" an increasing portion of the CPI basket, however, and the inflation target seems to be going the way of the JGB quantity target, namely, it is officially still in place, but it's not operational.* The second half, however, could see an official lowering of the target.

PRIVATE TRANSPORTATION WILL BOOST MARCH CORE INFLATION



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THIS WEEK IN BRIEF

Data and events covered in the Asian Data Wrap.

Monday, April 1

• **Japan: Tankan Survey (Q1) 08:50 JST**
The large manufacturers index probably fell to **13** in Q1, after holding steady at 19 in Q4. Manufacturing PMIs have nosedived this quarter on rapidly falling output and sales. **Consensus: 13.**

• **Korea: Exports (3) 09:00 KST**
Exports likely fell a further **-5.0%** y/y in March, following February's 11.1% drop, based on the 20-day trade data. Adverse base effects will hide a decent m/m rebound. **Consensus: -6.9%.**

• **Korea: Nikkei PMI Manufacturing (3) 09:30 KST**
Our reconstructed BSI manufacturing index suggests that the PMI bounced back—but stayed in contraction—to **47.9** in March, from February's near four-year low of 47.2. **Consensus: N/A.**

• **China: Caixin PMI Manufacturing (3) 09:45 CST**
The PMI probably slipped to **49.6** in March, after rebounding strongly in February, to 49.9, which returned the index to its long-running downtrend after a hefty undershoot. **Consensus: 50.0.**

Tuesday, April 2

• **Korea: CPI (3) 08:00 KST**
Inflation probably rose to **0.8%** in March, from February's multi-year low of 0.5%. The base effects that caused food price *deflation* in February will reverse and the drag from Q4's oil price plunge probably started to fade. **Consensus: 0.7%**

• **Japan: Monetary Base (3) 08:50 JST**
Monetary base growth likely slowed further, to **4.1%** y/y in March, from 4.6% in February. The BoJ sold JGBs last month, as 10-year yields fell further below zero. **Consensus: N/A.**

Wednesday, April 3

• **Japan: PMI Services (3) 09:30 JST**
The PMI probably fell to **51.8** in March, from 52.3 in February. The overall picture for Q1 suggests that GDP growth will be flat, at best, given the high bar for growth set in Q4. **Consensus: N/A.**

• **China: Caixin PMI Services (3) 09:45 CST**
The index likely increased to **52.0** in March, after falling sharply to 51.1 in February. The surge in business activity in Q4 has quickly lost steam in Q1, although the services gauge is much more volatile than its official counterpart. **Consensus: 52.3.**

Thursday, April 4

• **Korea: Current Account Balance (2) 08:00 KST**
The unadjusted surplus probably rose to **$6.3B** in February, after unfavourable seasonals led to January's sharp drop to $2.8B. The adjusted surplus likely grew for a third straight month, thanks to stronger trade and primary income balances. **Consensus: N/A.**

Friday, April 5

• **No major data released.**

Sunday, April 7

• **China: Foreign Reserves (3)**
Reserves probably held steady at **$3,090B** in March. Currency valuation effects look to be negative, but trivial in size, and likely were fully offset by positive moves in the value of underlying asset holdings. **Consensus: N/A.**

CHINA ECONOMIC FORECASTS

	q/q			y/y	
GDP	Official	PM est.		Official	PM est.
Q4 2017	1.6%	1.6%	2016	6.8%	8.0%
Q1 2018	1.5%	1.6%	2017	6.7%	7.3%
Q2 2018	1.7%	2.1%	2018	6.4%	6.1%
Q3 2018	1.6%	0.8%	*2019*	*6.2%*	*5.0%*
Q4 2018	1.5%	1.1%	*2020*	*6.2%*	*5.5%*
Q1 2019	*1.5%*	*1.5%*			

	CPI, y/y		**PPI, y/y**
	Headline	Core	Headline
Dec-18	1.9%	1.8%	0.9%
Mar-18	2.1%	1.7%	0.0%
Jun-18	2.8%	1.6%	-0.2%
Sep-19	1.8%	1.5%	0.9%

JAPAN ECONOMIC FORECASTS

GDP	q/q	CPI	Headline*	Core**
Q2 2018	0.8%	*Dec-18*	0.3%	0.1%
Q3 2018	-0.7%	*Mar-18*	0.3%	0.5%
Q4 2018	0.5%	*Jun-18*	0.4%	0.4%
Q1 2019	-0.5%	*Sep-19*	0.3%	0.6%

*Ex. tax, education and mobile charge effects; **Ex. food and energy

KOREA ECONOMIC FORECASTS

GDP	q/q	CPI	Headline	Core
Q2 2018	0.6%	*Dec-18*	1.3%	1.3%
Q3 2018	0.6%	*Mar-19*	1.1%	1.5%
Q4 2018	1.0%	*Jun-19*	1.0%	1.5%
Q1 2019	-0.8%	*Sep-19*	0.9%	1.5%

ASIAN YIELDS

		Dec	**Mar**	**Jun**	**Sep**
10-year, %	China	3.31	3.10	3.10	3.20
	Japan	0.03	-0.08	0.00	0.10
	Korea	1.94	1.90	2.10	2.20

ASIAN MONETARY POLICY FORECASTS

China Two more RRR cuts this year, and interbank rates maintained at or below the corridor floor.

Japan Further dilution of the 2% inflation target; policy unchanged, though threat of further adjustments can't be ruled out in the second half, if the Fed is forced into a U-turn

Korea 7-day repo rate on hold at 1.75% through 2019.