

Bank of Japan set for a pause in May amid tariff concerns

Nominal wage growth accelerated in February thanks to a strong increase in bonus payments, but it failed to keep pace with price pressures. We think the Bank of Japan is likely to take a wait-and-see approach at its May meeting while monitoring the impact of the US tariffs on the economy



We think the impact of US tariff policy on exports and the overall economy will remain top of mind for the Bank of Japan for the time being

3.1% YoY

Labour cash earnings

Real cash earnings -1.2% YoY

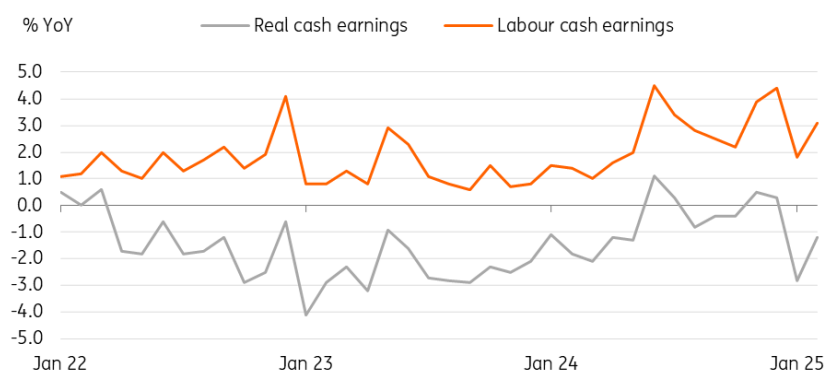
Higher than expected

Nominal wage growth accelerated firmer than expected in February

Japan's labour cash earnings rose 3.1% year-on-year in February (vs 2.8% in January, 3.0%

market consensus), boosted by a surge in bonus payments (77.4%). Yet, the Bank of Japan's preferred measure – same-sample cash earnings – slowed meaningfully to 1.9% (vs 3.0% in January, 3.0% market consensus). In our view, this is still a temporary slowdown as the spring wage negotiations resulted in an agreement of 5.47% growth on average, which will be reflected in April and May payrolls. Meanwhile, real wage growth contracted -1.2% in February, suggesting that high inflation is weighing on earnings. We therefore believe that today's labour cash earnings did not add to the possibility of a May rate hike, but still support the BoJ's policy normalisation ahead.

Real wage growth contracted for the second consecutive month



Source: CEIC

GDP and BoJ outlook

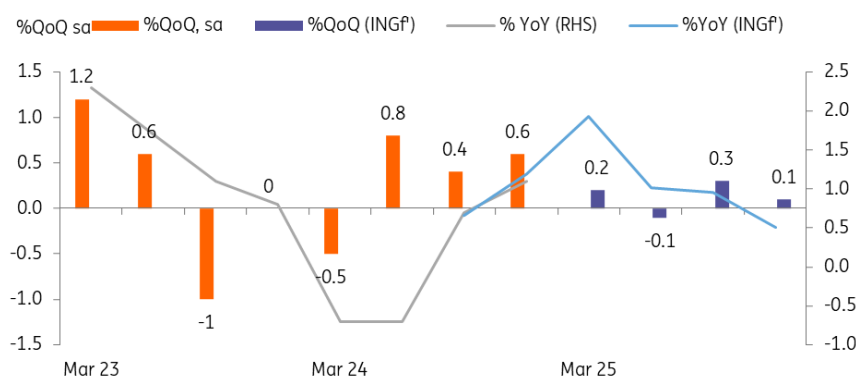
We have trimmed our GDP forecasts for Japan and changed our BoJ rate hike outlook.

The frontloading of Japanese vehicles and machinery should help boost GDP for the first quarter of this year, but we expect a contraction in the second quarter as a technical payback. Strong wage growth and an easing fiscal stance should support the recovery in the second half of the year. Inflation is expected to soften a bit in this period too, which would support private spending. As a result, we have lowered our GDP growth forecast for 2025 to 1.1% YoY from 1.3% previously. The risk is tilted to the downside, depending on how the government seeks concessions from the US and the possibility of a US recession.

As for the BoJ's outlook, we continue to believe that near-term domestic conditions will support policy normalisation. Wage growth is expected to continue to rise on the back of strong wage negotiations this year (average 5.42% YoY increase in FY25), which should add to price pressures. Inflation is also expected to rise solidly in April, as many companies plan to raise prices to reflect the recent rise in input costs.

However, the strong Japanese yen may ease some of the BoJ's concerns about rising upside risks to inflation. More importantly, the central bank will be concerned about how the US tariff policy will affect exports and the overall economy. As a result, we now expect the BoJ to take a wait-and-see approach at its May meeting. We still pencil in a hike in July if we are right about inflation continuing to rise and wage growth remaining solid. We expect CPI inflation to stay above 3.5% throughout the first half of this year, and in turn, the BoJ should react to curb inflationary pressures. But if global risk-off sentiment continues and grows even more from here, we should revisit the rate hike outlook.

GDP outlook: a contraction is expected in 2Q25



Source: CEIC, ING estimates

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 www.ing.com.