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Japan

Japanese core inflation data supports May rate hike

Headline Japanese inflation eased in February amid lower fresh food and energy costs. But upward pressure on services and solid wage growth support a Bank of Japan rate hike in May



3.7%

Consumer inflation (YoY)

First drop in three months

Higher than expected

Japan's consumer price index eased to 3.7% year-on-year in February from 4.0% in January

The February gain was above the market consensus of 3.5%. Most of the moderation reflected energy subsidy programmes -- utilities costs are down to 6.4% from the previous 11.2% -- and tamer fresh food prices -- down to 18.8% from the previous 21.9%. Yet underlying pressures still appear to be building. Core inflation, excluding fresh food and energy, is more closely watched by

Snap | 21 March 2025 1 the BoJ. It edged up to 2.6% in February, from 2.5% in January. While the rate was in line with market consensus, it marks the fifth straight monthly gain.

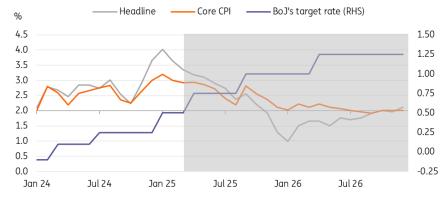
On a monthly basis, inflation fell by 0.1% month on month, seasonally adjusted, in February -- the first decline in five months. Goods prices fell by 0.5%, while services rose by 0.1%. We believe lower headline inflation is beneficial for households, indicating an easing of supply-side inflationary pressures. Given the steady rise in service prices, though, a BoJ rate hike could be justified.

BoJ watch

With this year's Shunto results likely to result in wage growth well above 5%, inflation and private consumption are worth watching. Today's inflation data shows that services prices continued to rise. The BoJ will want to see how companies pass on input price increases to retail prices. Typically, companies raise prices in the first month of their fiscal year -- April. Therefore, April data is key.

Tokyo's CPI data will be released a few days before the BoJ's April/May policy meeting. The BoJ will decide whether to hike in May or take a "wait and see" approach until June based on next month's figures. Although Governor Kazuo Ueda made much of the risks surrounding US trade policy on Wednesday, we think he's just hedging his bets -- considering it a risk factor. Therefore, if trade tensions don't escalate more than the market currently expects, they won't affect the BoJ's rate hike plans.

Core inflation is likely to stay above 2% for a considerable time



Source: CEIC, ING estimates

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