

## Hotter-than-expected Tokyo inflation increases odds of May rate hike

Stronger-than-expected Tokyo consumer price inflation, and signs of broadening pressures, support our long-held view that the Bank of Japan will hike in May



Source: Shutterstock

# 2.9% YoY

Tokyo CPI

Core inflation excluding fresh food and energy: 2.2%

Higher than expected

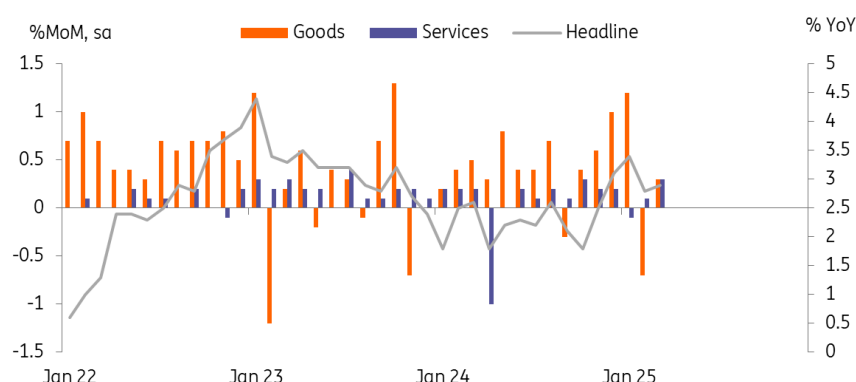
### Inflation acceleration was broadly based

Tokyo's consumer price index (CPI) inflation unexpectedly accelerated to 2.9% year on year in March from a revised 2.8% in February, higher than the market consensus of 2.7%. We find that price pressures are becoming more broad based. As expected, costs of fresh food and utilities eased a little on the month. But most other major items -- such as household goods (5.2%), clothing (3.1%) and medical care (2.4%) -- all rose. Thus, core inflation, excluding fresh food, rose

to 2.4% in March vs 2.2% in February. A 2.2% reading was the market consensus.

Processed food prices also accelerated. An earlier rise in fresh food is now likely to feed through to the overall category. And, with a time lag, to eating-out prices. This ripple effect is already being noticed by the Bank of Japan. With upside inflation risks growing, the odds of a BoJ's rate reaction increase.

## Tokyo inflation accelerated with both goods and services prices up



Source: CEIC

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