

Snap | 23 May 2025

JAPAN

Japan's core inflation heats up, increasing July rate hike odds

Hotter-than-expected core inflation supports a Bank of Japan interest rate hike in July. The BoJ is expected to deliver a 25 bp hike, and then stay put for a considerable time due to high uncertainty surrounding US tariffs



Bank of Japan building in Tokyo

3.6%

Consumer price inflation

Core inflation excluding fresh food: 3.5%

Higher than expected

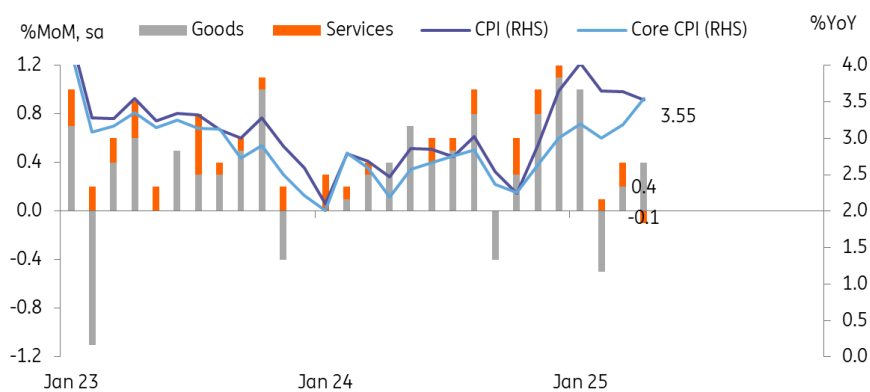
Headline inflation stayed at 3.6% YoY in April for a second month

Japan's headline consumer price index (CPI) remained at 3.6% for the second consecutive month, but core inflation, which excludes fresh food, came in hotter-than-expected. Core inflation jumped to 3.5% in April, the highest level since 2023, up from 3.2% in March. This

exceeded the market consensus of 3.4%. Fresh food prices stabilised significantly (3.9% in April versus 18.8% in March). Broad-based inflationary pressures are building up, with price increases in housing (1.1%), medical services (2.3%), and recreation (2.7%). Energy prices also rose in April, mainly due to the end of government subsidy programmes.

Excluding both fresh food and energy, core-core inflation rose to 3.0%, suggesting that underlying inflation will remain above the BoJ's target of 2.0%. This should strengthen market expectations that the BoJ will hike policy rates sooner than expected. Our base case view on the BoJ is a rate hike in July. However, with US tariffs likely to impact manufacturing and exports negatively throughout this year, the BoJ's policy changes are likely to be gradual. Therefore, another rate hike will only be possible by early next year.

Core inflation is on the rise



Source: CEIC

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

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THINK economic and financial analysis

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