

Snap | 23 December 2022

JAPAN

## Japan: Consumer inflation continues to rise, mainly due to higher energy prices

Consumer price increases speed up but look to be nearing their peak. Meanwhile, market expectations of further tightening increase.



Bank of Japan Governor Haruhiko Kuroda

**3.8%** **Consumer price inflation**

% YoY

Lower than expected

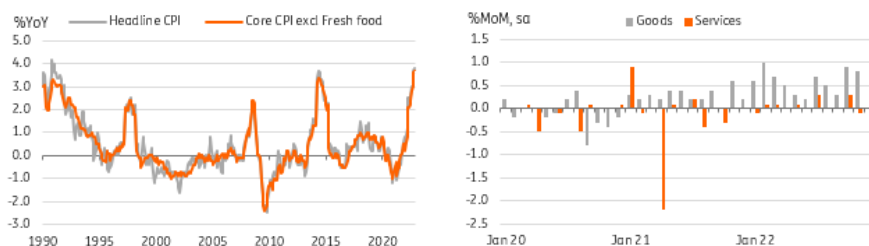
### Consumer inflation is nearing its peak

In November, headline CPI inflation rose 3.8% YoY (vs 3.7% in October and 3.9% market consensus). The government's travel subsidy programme partially eased the pressures on service prices, yet continued price hikes in utilities pushed up overall inflation.

We expect consumer prices to hit 4.0% in December but to slow from next January, for the following reasons: (1) The government plans to provide electricity subsidies from January (estimated to reduce electricity bills by 20%), (2) nuclear power is expected to increase next

year and to also likely lower the burden on electricity bills,(3) the JPY will likely remain strong for a while, (4) global energy prices are expected to stabilize, (5) spring salary negotiations will not likely catch up with real wage increases, and (6) higher market interest rates are expected to eventually curb inflation.

### Consumer inflation accelerated, mainly due to cost-push factors



Source: CEIC

### BoJ watch

After the Bank of Japan's unexpected policy tweak earlier this week, the market apparently no longer relies exclusively on what the Bank of Japan mentions to predict the BoJ's future policy actions. Governor Kuroda may have rescued the effectiveness of YCC policy in the financial markets, but in return, it has hurt the credibility of the BoJ and continues to elevate market speculation and uncertainty on future policy direction.

We still expect the BoJ's policy rate to remain unchanged in 2023 - the BoJ is unlikely to move until it meets its mandate of inflation targeting. Governor Kuroda will lead policy decision meetings in January and March before he finishes his term in April, and we expect the BoJ to take a wait-and-see stance on how the recent adjustment will affect financial markets. As mentioned above, Japan's unusually high inflation looks temporary and should see a decline next year - we think the BoJ will have time to take its next step. The policy pivot should come with proper procedures - we think that policy review should come after the new Governor comes on board and then we will have a clearer view of the BoJ's next move.

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