

Snap | 6 October 2023

Mixed signals for earnings and spending in Japan, but the BoJ is likely to move on

It is disappointing that labour cash earnings were weaker than expected in Japan, but consumption held up relatively well.

Meanwhile, due to the recent spike in market rates and high inflation, the Bank of Japan is expected to change its YCC policy and forward guidance at its October meeting



The Bank of Japan in Tokyo

1.1%

Labour cash earnings

%YoY

Lower than expected

Nominal labour cash earnings grew slower than expected in August

We had expected to see some acceleration in earnings given the reasonably strong wage

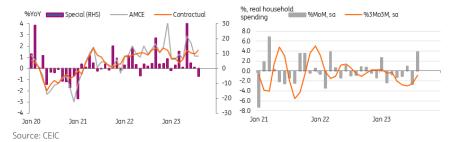
Snap | 6 October 2023

negotiation results from the last quarter, but disappointingly, headline growth rose 1.1% year-on-year in August (versus the revised 1.1% in July and the 1.5% market consensus). However, we still found some positive signs in the details. The most important contracted earnings continued to grow (1.6%) faster than the previous month (1.3%), while downside surprises came mainly from monthly volatile bonus payments (-5.4%).

Spending rebounded despite high inflation and mediocre wage growth

Separately, real household spending rebounded 3.9% month-on-month in August, more than offsetting the previous month's decline of 2.7%. In year-on-year terms, it fell 2.5% versus 5.0% in July and the market consensus of 3.9%. We believe that household spending held up relatively well despite high inflation and lacklustre earning growth. The influx of foreign tourists and their spending has also boosted service activity and retail sales. The number of Chinese tourists increased during the summer vacation season and this is expected to continue over the coming months, so it's likely that we'll see tourism grow even further. Solid consumption boosted by strong tourism will likely drive recovery in the second half of the year and will also keep demand-side inflation up to some extent.

Spending rebounded despite lacklustre wage growth in August



Inconvenient truth for the BoJ

The Bank of Japan will meet for its upcoming policy decision meeting at the end of this month. The BoJ's policy choices are fairly limited, which puts the central bank in a difficult situation. Inflation has been above target for more than a year with no clear signs of slowing down, especially in core inflation. Meanwhile, both supply and demand inflationary pressures will likely add up even more in the coming months.

The weak JPY is likely to pile more pressure on import product prices alongside the recent rise in global commodity prices, while strong tourism should also push up private service prices. Surveys and other activity data showed quite a solid recovery in services, which should remain the case in the second half of the year despite global headwinds.

However, long-awaited wage growth remains quite lacklustre so far. As a result, the possibility of the BoJ hiking rates will be off the table for quite some time. Yet, the higher-for-longer narrative seen in the US pushed up JGB 10Y yields to the 0.8% level, which immediately raised concerns for the BoJ. We think it needs to respond to the recent market move with another yield curve control (YCC) policy change – and perhaps even consider the option of scrapping the policy. We believe that changes in forward guidance could be a good way to communicate with the market on its

Snap | 6 October 2023 2

future policy move.

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 http://www.ing.com.

Snap | 6 October 2023 3