

## Japan: Hotter than expected inflation, output rebound should support the BoJ's policy normalization

Today's data were a mixed bag, but the Bank of Japan will pay more attention to the sharp rise in Tokyo's inflation



Kazuo Ueda, governor of the Bank of Japan

# 2.6%

Tokyo consumer prices

%YoY

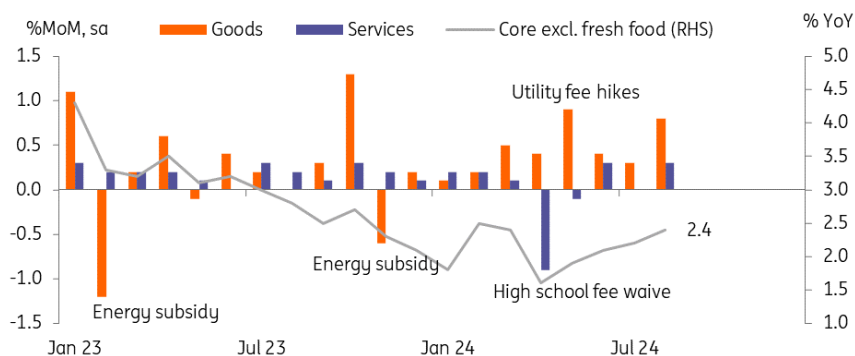
Higher than expected

### Sharp rise in inflation should catch the eye of the Bank of Japan.

Tokyo consumer prices rose more than expected to 2.6% YoY (vs 2.2% in July, 2.3% market consensus). Fresh food and utilities rose the most by 8.1% and 15.9% respectively. Service prices also showed modest gains, and core inflation excluding fresh food rose unexpectedly to 2.4% (vs

2.2 % in July and market consensus). Utility prices rose more than expected mainly due to a high base related to the government subsidy programme, though other key prices such as household goods (5.7%) and entertainment (5.7%) also continued to rise. On a monthly comparison, inflation jumped 0.6% MoM sa in July, the fourth consecutive monthly rise. Goods prices increased 0.8% MoM while services prices rose 0.3%.

## Utility prices push up Tokyo inflation more than expected in July



Source: CEIC

2.8%

Industrial Production

% MoM, sa

Lower than expected

## Industrial production rose 2.8% MoM sa in July (vs -4.2% in June, 3.5% market consensus)

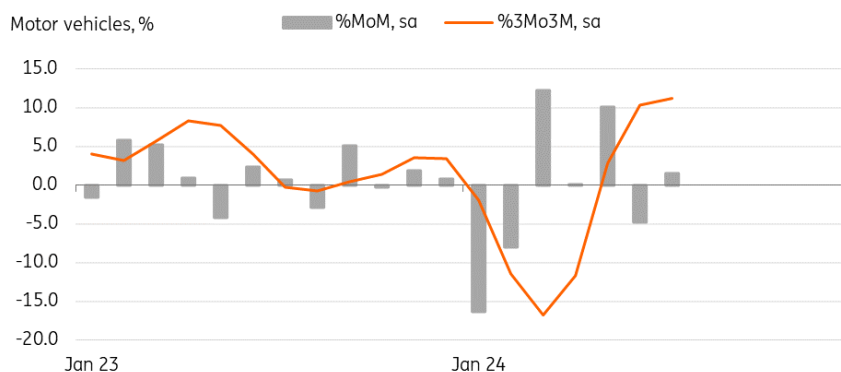
The rebound in industrial production was weaker than expected, but we still think the economy is moving in the right direction as production gains were broadly based. The monthly volatility was mainly driven by auto production. Auto production increased 1.5% MoM sa in July after a big drop of -4.8% in June. A major car company continues to keep some production lines shut down for a second month due to a safety scandal issue, so the recovery is still quite gradual. However, solid output gains in semiconductor-making machinery (25.3%) continued on the back of strong global chip demand. Other major sectors such as steel (1.8%) and petrochemicals (9.4%) recorded strong gains. With optimistic business surveys and normalization of auto production, we expect healthy 3Q24 GDP growth.

Retail sales rose a less-than-expected 0.2% MoM sa in July (vs 0.6% in June, 0.4% market consensus), but have risen now for four consecutive months. Motor vehicle sales (5.6%) have risen for three months, and household machines (5.5%) also rebounded solidly.

However, labour market data was a disappointment. The unemployment rate unexpectedly rose to 2.7% in July (vs 2.5% in June and market consensus) but the job-to-application ratio edged up.

We continue to believe that labour market conditions remain healthy.

## Auto production hasn't recovered fully from safety scandal issues



Source: CEIC

## BoJ watch: October hike probability increased but we maintain our base case for December for now

We believe that upcoming data on wages and household consumption will be in line with the BoJ's projections and that the BoJ will adjust its policy accordingly. Market opinions for additional rate hikes are spread sometime between October and January. While it's true that today's inflation is raising alarms about an October hike, we are sticking to our December hike call as the base case for the following reasons.

1. The upside surprise to inflation mainly came from utility prices, and we expect inflation to subside over the next few months as the government temporarily reintroduces relief on utility bills over the summer.
2. The recent JPY appreciation should ease the BoJ's concerns that rising import prices could push up domestic inflation higher than expected.
3. Having experienced market turmoil earlier this month, the BoJ will monitor financial market conditions more closely than in the past. The US Fed's policy meeting in September and its impact on global financial markets are still uncertain. Thus, the BoJ may wait a few months after the Fed's first rate cut.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto: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>.