

# Japanese inflation accelerates, complicating BoJ's rate decision amid global uncertainty

Japan's core inflation accelerated in March, yet economic uncertainty will limit the Bank of Japan's ability to continue hiking rates in the near term. With inflation seen accelerating further, a BoJ tightening is likely in July



3.6%

CPI inflation

%YoY

Lower than expected

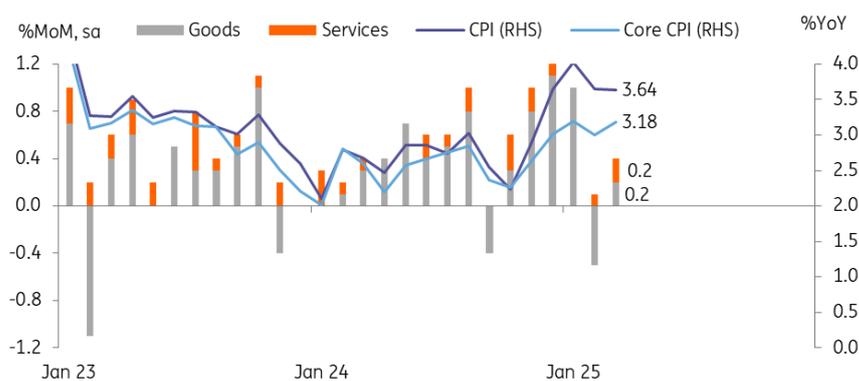
## Fresh food prices eased, yet inflationary pressures broadened in March

Consumer inflation in Japan edged down to 3.6% year on year in March (vs 3.7% in February and market consensus) as fresh food prices stabilized modestly. Yet core inflation, excluding fresh food, accelerated to 3.2% (vs 3.0% in February) and core-core inflation, excluding fresh food and energy, also accelerated to a 2.9% pace (vs 2.6% in February). Both were in line with market consensus.

On a monthly basis, inflation rebounded 0.3% month on month, seasonally adjusted, in March (vs -0.1% in February) with both goods and services rising 0.2% each. Fresh food prices declined for a second month, yet the earlier pickup in costs is now passing on to other manufactured food prices and services, such as eating out.

April Tokyo CPI inflation data will be released on Friday. Prices are set to accelerate even faster than in March. This will also complicate the BoJ's rate decision in the near term as trade war risks increase.

### Core inflation picked up in March



Source: CEIC

### BoJ watch

Downside risks to GDP are growing significantly even as inflation is accelerating. Also, Japanese yen trends are being closely watched by the US administration. We dropped our long-held May rate hike call last week, pushing it to July. We expect the BoJ to keep its policy rate unchanged at its May meeting even though inflation is still the key concern. The BoJ is likely to focus on economic uncertainty for now, just like many other central banks. The BoJ will base rate decisions on what happens with concessions made between the US and Japan and where the US tariffs policies go from here. We believe that by July, things will be clearer. Trade concessions will likely take shape by then, giving the BoJ more confidence to raise its policy rate in July. The BoJ's rate hike pace will be quite gradual. For now, we still pencil in two hikes next year -- in April and October 2026.

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