

## Sticky Japan inflation and upbeat activity support rate hike

Japanese inflation remained well above 2%, while stronger-than-expected production and retail sales are likely to reinforce the Bank of Japan's confidence to hike interest rates in December



# 2.7%

Tokyo CPI inflation (%YoY)

Core inflation excluding fresh food and energy rose 2.8%

As expected

### Inflation remained at elevated levels in November

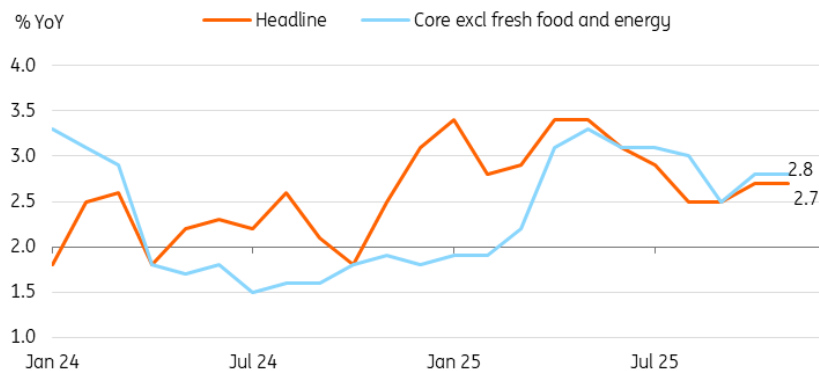
Tokyo's CPI inflation in November was steady, with headline inflation up 2.7% year-on-year and core inflation up 2.8%, largely in line with market expectations. Utilities rose 2.4% as government subsidies ended. Service prices, an important gauge of demand-driven inflation, rose modestly by 1.5%.

In the monthly comparison, it rose 0.3% month on month, seasonally adjusted, with goods and

services up by 0.5% and 0.2%, respectively. Although growth slowed compared to the 0.6% gain seen in October, the data still indicated persistent upward pressure.

Going forward, we expect headline inflation to decline, likely to below 2%. Rice prices, which had been rising 90% in early summer, decelerated to 40% in November. We expect further deceleration in the coming months. Also, the government's new economic package will focus on lowering energy prices. This will likely lower headline inflation. Still, we believe core inflation is likely to remain around current levels, driven by a weak JPY and strong wage growth.

## Inflation rose well above 2% in November



Source: CEIC

**1.4%** Industrial Production (%MoM, sa)

Higher than expected

## Monthly activity data beat market consensus, showing a clear recovery sign of the economy

We believe manufacturing activity has normalised once a trade agreement was officially reached between the US and Japan. It seems like the auto sector is benefiting the most. Industrial production extended its solid gain for a second month, unexpectedly rising 1.4% MoM in October (vs 2.6% in September, -0.6% market consensus). The most notable gains were from cars and petrol chemicals. Car output rose 7.2% in October, recording three consecutive monthly rises. Petro-chemicals also extended their gains for the second month. Retail sales increased by 1.6% MoM, compared to a revised flat reading in September and the market consensus of 0.8%. Growth was broad-based across major categories, with auto sales posting the largest increase at 10.9%.

## GDP and BoJ outlook

Today's data indicate that the economy is recovering following a temporary contraction in the third quarter of 2025. The robust performance of the automotive sector was particularly noteworthy. We anticipate GDP growth of 0.2% quarter-on-quarter in the fourth quarter of 2025.

The current data support our projection, but introduce some potential upside risks.

The Bank of Japan has expressed concern that US tariffs might negatively impact the economy. However, today's data is expected to boost the BoJ's confidence in Japan's economic growth. Given steady inflation and the ongoing recovery of the economy, we believe the likelihood of a rate hike on 19 December has increased.

## Author

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@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 [www.ing.com](http://www.ing.com).