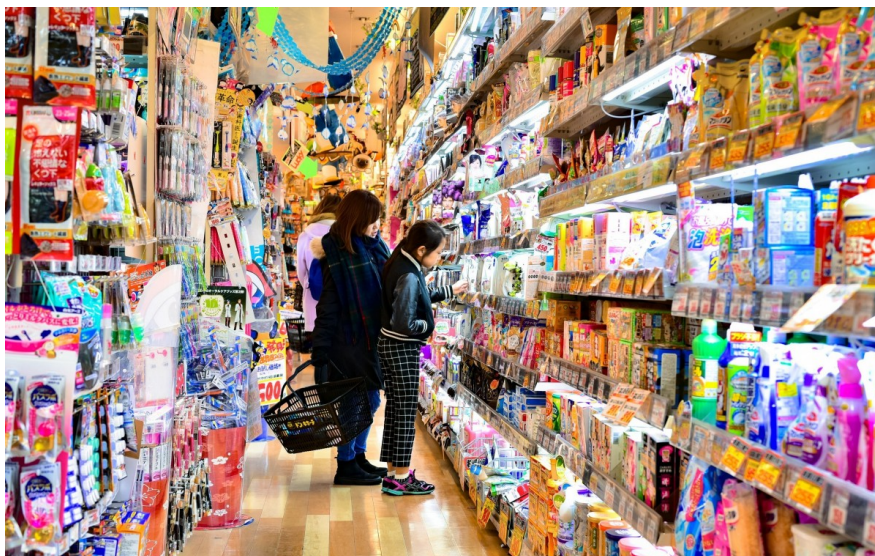


Strong Tokyo CPI will likely put pressure on the Bank of Japan

The Bank of Japan should be concerned about whether 'higher for longer' inflation could hurt the economic recovery



Shoppers in a Tokyo supermarket

3.3% Tokyo consumer prices
%YoY

Higher than expected

Headline inflation in Tokyo topped 3% again in three month

Tokyo inflation climbed up to 3.3% YoY in October (vs 2.8% in September, market consensus). Upside surprises came from:

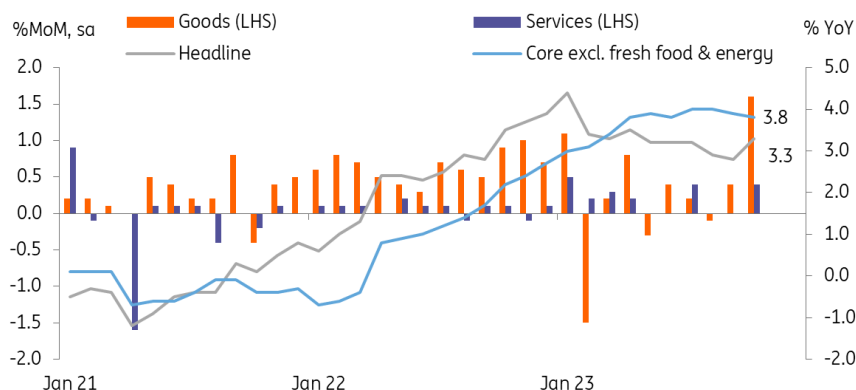
- Higher than expected pick up in utilities with a reduction of government subsidies and
- A solid rise in entertainment prices.

More importantly, the BoJ's preferred measures of inflation, core CPI excluding fresh food (2.7% vs 2.5% in September & market consensus) and core-core CPI excluding fresh food and energy (3.8%

vs revised 3.9% in September, 3.7% market consensus) came out higher than market consensus. Since Tokyo inflation is a leading indicator for nationwide inflation, today's readings showed that inflation has been clearly overshooting the BoJ's projections.

On a monthly comparison, CPI soared 0.9% MoM, seasonally adjusted, in October, with both goods and services prices rising by 1.6% and 0.4% each.

Tokyo's inflation reaccelerated in October



Source: CEIC

Utilities and fresh food prices rose the most, but prices of all other major items gained. In particular, the weak JPY has accumulated pressure on the imported goods prices, and this prolonged pressure pushed up prices of household goods, apparel, and transportation. The rise in entertainment is mostly driven by strong demand from foreign and domestic tourists.

Going forward, we expect that base effects will kick in and suppress the headline inflation again by the end of the year, but we will likely witness a stickier than expected inflation trend throughout next year.

Overheated inflation is a risk for the recovery

Today's hotter-than-expected Tokyo CPI reading will likely be a warning to the Bank of Japan. It may still rule out a policy change at its October meeting, but at least we expect the BoJ to change its view on inflation.

It is clearer that companies are shifting the pressure of rising input costs to consumers, and the weak JPY is partially contributing to the added pressure on input costs. Also, demand-led price hikes continued on the back of a solid recovery in service activity despite a fall in real wage growth. But, if the yen weakens further and brings about overly heated inflation for longer, it will eventually hamper private consumption even before the BoJ's long-awaited goal of sustainable inflation is accomplished, which is the biggest risk for the BoJ.

We are sticking to our call that the BoJ will deliver a policy tweak and revise the inflation outlook meaningfully for FY 23 and 24. And today's outcome has slightly increased our confidence in our non-consensus view. There are more details about the BoJ's next moves in our article earlier this week; find it [here](#).

Author

Min Joo Kang

Senior Economist, South Korea and Japan

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.