

Snap | 5 September 2025

JAPAN UNITED STATES

Strong Japanese wage growth boosts chances of October rate hike

Japan's labour cash earnings and household spending rose, while President Trump signed an executive order clarifying the 15% tariff deal. The chance of a Bank of Japan rate hike in October has risen



4.1% YoY

Labour cash earnings

Real cash earnings up 0.5%

Higher than expected

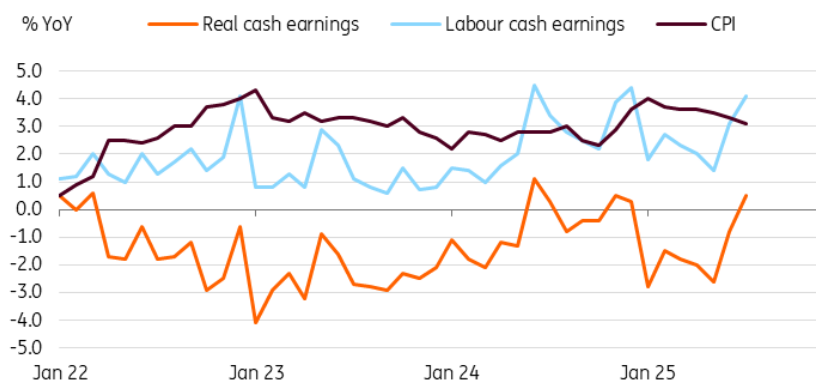
Solid wage growth is likely to support recovery in spending and sustainable inflation

Japan's labour cash earnings rose 4.1% year on year in July, accelerated from 3.1% in June, beating the market consensus of 3.0%. Bonus pay (7.9%) rose significantly, while base pay (2.6%) also rose firmly. The same-sample cash earnings, the preferred measure of the Bank of Japan, rose 2.4% in August from 2.3% in July, missing the consensus of 2.5%. Meanwhile, real labour cash earnings unexpectedly rebounded 0.5% in July (vs -0.8% in June), rising for the

first time since Dec 2024. A separate report showed that household spending rose 1.4% YoY in July, which was lower than market consensus but marking the third consecutive month of growth.

Local wires reported that the minimum wage in Japan is expected to rise to 1,121 yen (\$7.6) from the current 1,055 yen (\$7.1), the highest jump in history. Thus, this will likely maintain firm wage growth and support a sustainable inflation trend.

Cash earnings advanced firmly in July



Source: CEIC

We continue to believe the BoJ to deliver a 25 bp hike in October

President Trump signed the US-Japan trade agreement executive order on Thursday, bringing more trade certainty to the 15% tariff agreement between the two nations. Meanwhile, stronger-than-expected first half GDP suggests the economy is resilient. Today's data reinforces our expectation of the BoJ to hike rates in October.

However, the BoJ may defer its interest rate hike decision if there are more concerns regarding the potential economic impact of increased US tariffs. Another key risk to our outlook is the current state of Japanese domestic politics. Prime Minister Ishiba Shigeru may face potential leadership challenges if the Liberal Democratic Party initiates an early leadership vote, which could introduce political uncertainty and lead to abrupt movements in financial markets.

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