

Snap | 29 August 2025

SOUTH KOREA UNITED STATES

Weak Japanese industrial production complicates BoJ's rate decision

Today's Japanese data was mixed, with disappointing industrial production threatening third-quarter growth, while a tight labour market points to increased wages and underlying inflation remaining firm. We still think October is the most likely timing for a Bank of Japan rate hike



2.6% YoY

As expected

Tokyo CPI inflation

Core inflation excluding fresh food and energy
3.0%

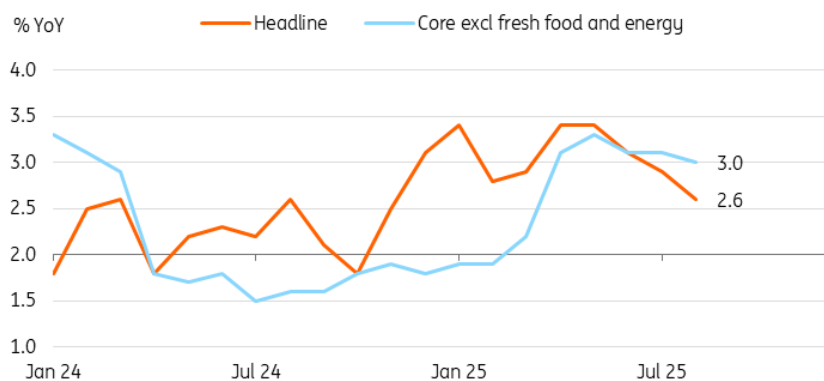
Tokyo CPI inflation eased as expected mostly due to government energy subsidies

A big drop in utility prices (-8.8% YoY) was the main reason for the cooling of headline Tokyo inflation, while fresh food (4.1%) and transport & communication (3.3%) prices rose. Inflation rose 0.1% month on month, mostly thanks to services prices rising by 0.2%. Despite a sharp cooling of headline inflation, core inflation excluding fresh food and energy rose 3.0%,

signalling underlying price pressures remain firm.

Meanwhile, a tight labour market is expected to support a sustained trend of wage growth. The unemployment rate unexpectedly fell to 2.3% in July (vs 2.5% in June, market consensus), and the job-to-application ratio stayed at 1.22. We believe a structural shortage of labour supply will increase wage growth pressures going forward, resulting in inflation staying around 2%.

Core inflation remains above 3% YoY for five months in a row



Source: CEIC

-1.6%

Industrial Production

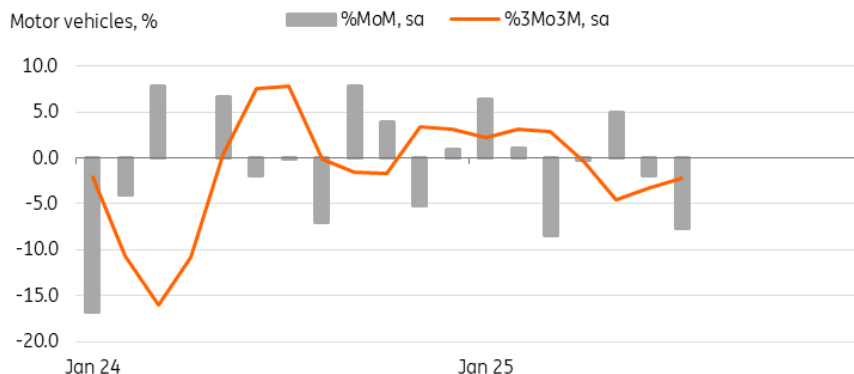
-0.9% YoY

Lower than expected

IP dropped more than expected, complicating BoJ decision

Markets largely expected weak industrial production in July thanks to tariff-related volatility after a solid gain in June. But actual IP was weaker than expected by dropping 1.6% MoM (vs -1.1% market consensus). The large drop came from car output (-7.6%). We believe it is mostly due to the US tariffs. Semiconductor-making equipment also fell by -16.4%. But given the strong global AI demand, this may be temporary. The drop in retail sales (-1.6%) was also bigger than expected (-0.2%) and the decline was broad based, thus adding downside risks to the current quarter's growth.

Motor output declined for a second month, probably due to the US tariffs



Source: CEIC

BoJ watch

We continue to believe that the Bank of Japan will deliver a 25 hike in October thanks to reduced uncertainty over US tariffs and firm inflation. But the BoJ's concern about weak growth may have increased after today's weak activity data. We need to monitor exports and other activity data in the coming months to see whether they normalise as we expected.

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