

## Japan Watch

## February CPI: Gradual slowdown continues

## February CPI: Slowdown as expected

Today's Tokyo CPI print showed that Bank of Japan (BoJ) core CPI inflation (ex. fresh food/energy) slowed again to +3.1% YoY in February (January +3.3%), in line with the consensus. The negative base effect continued to weigh on YoY growth in non-perishable food and restaurant service prices, depressing the BoJ core CPI by 0.19ppt (Exhibit 5).

Consumer durables and semi-durables were up slightly, but there were no major price moves for any category. Accommodation fees, which drove the downside surprise in the January Tokyo CPI (see [January CPI: Hotel fees slow, big picture unchanged](#), 26 January), bounced back to +5.0% MoM and sustained upbeat growth of +33.3% YoY (Exhibit 6, +26.9% in January). The January nationwide CPI (and revised Tokyo CPI) featured a surprise change in the method for collecting data on overseas package tour prices (see [January nationwide CPI: Change to sampling method drives one-off overshoot](#), 27 February), and YoY growth in tour prices was even higher in February, at +70.3%. This had virtually no impact on MoM growth, but it boosted YoY growth in the BoJ core CPI by 0.26ppt (versus +0.23ppt in January).

As a result, the BoJ core CPI rose just +0.1% MoM SA, slowing further versus the three-month average of +0.2% (Exhibit 4). The Japan-style core CPI (headline incl. energy/ex. fresh food) was also up 0.1% MoM but rebounded to +2.5% YoY (from +1.8% in January). This reflected the more moderate YoY decline in the energy CPI (-7.9% in February, versus -20.1% in January) as the impact of government electricity/gas subsidies introduced a year ago faded out (Exhibit 3).

## Few April price hikes; services may be pushed back to 2H

The lack of price movements thus far in 2024 is as we expected, and recent data including the February CPI have also contained no surprises. We continue to focus instead on price hikes at the start of the new fiscal year in April.

However, announcements thus far suggest that while some companies are set to raise prices in April, the rush we expected is unlikely to materialize. In the food category, companies plan to increase prices mainly for processed foods such as chocolate confectionary and frozen food, but overall prices are set to rise for fewer items than in 2023 (Exhibit 8).

More important in our view is the fact that, with the exception of already announced increases in parcel delivery and housekeeping service fees, only a few firms have announced price hikes in services (Exhibit 9). While it's possible that more firms will jump on the bandwagon in the next month, we think only a few will ultimately raise service fees at the start of the new fiscal year in April.

(continued)

05 March 2024

Economics  
Japan

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We expect service prices to continue rising given the growing upward pressure on labor costs (particularly part-time hourly wages). However, we think the past few quarters' muted real spending may make service companies hesitant to raise prices in the near term (see [Oct-Dec GDP \(prelim\): Waiting for the tide to turn](#), 15 February). We therefore would not expect a further increase in service prices until at least 2H CY24, when the outcome of this year's Shunto spring labor negotiations should feed into wage hikes and a gradual recovery in consumer spending.

We note that, based on the BoJ's recent communications, the developments above should not derail our view that the BoJ will exit negative interest rate policy (NIRP) and YCC in the near-term, with the 25-26 April being our base case.

However, a lull in price hikes would raise the bar for additional rate hikes, and support our view that the BoJ's next hike (to 0.25%) would not come until Oct-Dec '24, after the central bank can confirm the expected recovery in consumer spending and momentum for price hikes in the second half of the fiscal year.

## Policy factors to continue distorting the CPI

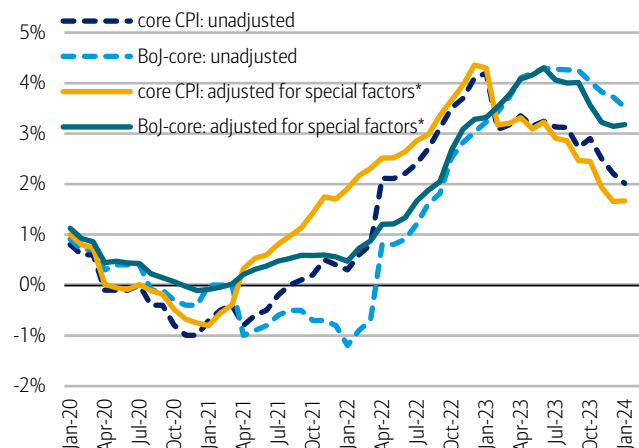
Underlying inflation trends (including service prices) will remain key to forecasting the CPI, but we flag the risk of near-term distortions caused by policy factors.

The government is introducing a "Hokuriku support discount" scheme, aimed at stimulating demand in the region affected by the 1 January Noto Peninsula earthquake, which will run from 16 March through 26 April. The resulting discounts to accommodation fees could depress the March and April CPI prints (Exhibit 11). While the discounts will be deeper than in previous travel subsidy schemes, they will also be limited to the four Hokuriku-region prefectures, making it difficult to forecast the impact on CPI accommodation fees at this moment.

The government is also mulling another extension to the gasoline subsidy that expires at the end of April (Exhibit 10). Media reports suggest that it is proposing to extend the subsidy through summer while gradually scaling it back. We also see the potential for a renewed debate on extending current electricity and gas subsidies, which are also set to expire at end-April. The outlook for the Japan-style core CPI, including energy, will be heavily affected by the duration and magnitude of these subsidies.

**Exhibit 1: Japan's core inflation measures (yoy%, nationwide CPI)**

CPI yoy growth has peaked out

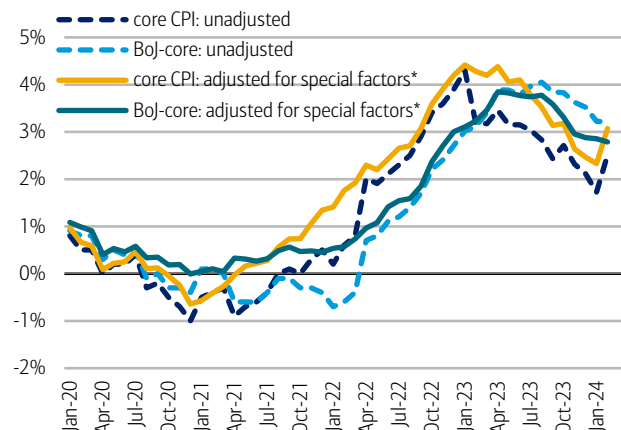


Source: BofA Global Research, Ministry of Internal Affairs and Communications MIAC \*hotel fees and mobile phone service charges

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**Exhibit 3: Japan's core inflation measures (yoy%, Tokyo CPI)**

CPI yoy growth has peaked out

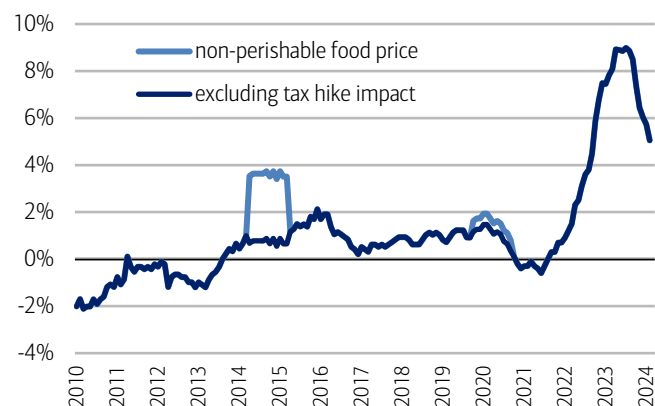


Source: BofA Global Research, MIAC \*hotel fees and mobile phone service charges

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**Exhibit 5: Tokyo CPI: Trend in non-perishable food price (yoy%)**

Continue slowing YoY growth in food prices

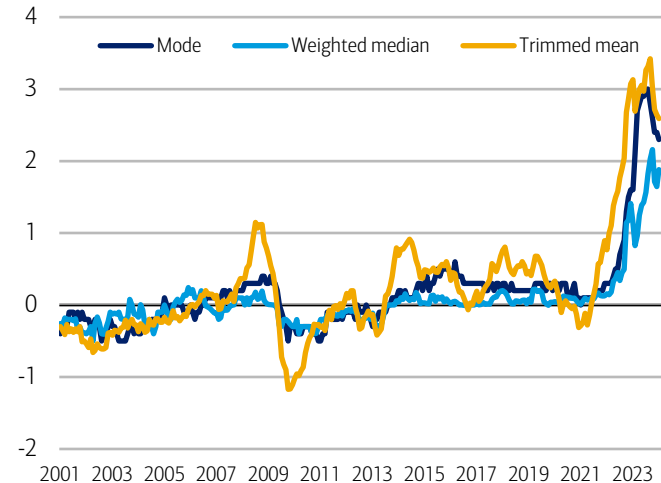


Source: BofA Global Research, MIAC

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**Exhibit 2: BoJ's measures of underlying inflation (%)**

CPI yoy growth has peaked out

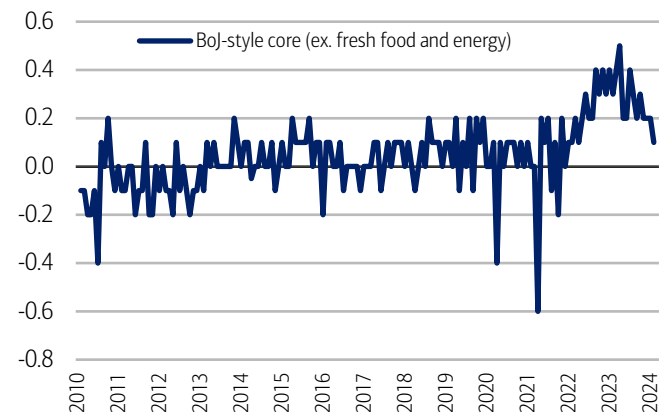


Source: BofA Global Research, BoJ

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**Exhibit 4: Tokyo BoJ-core CPI: month-over-month growth % (SA)**

BoJ core CPI rose just +0.1% MoM SA, slowing further versus the three-month average of +0.2%

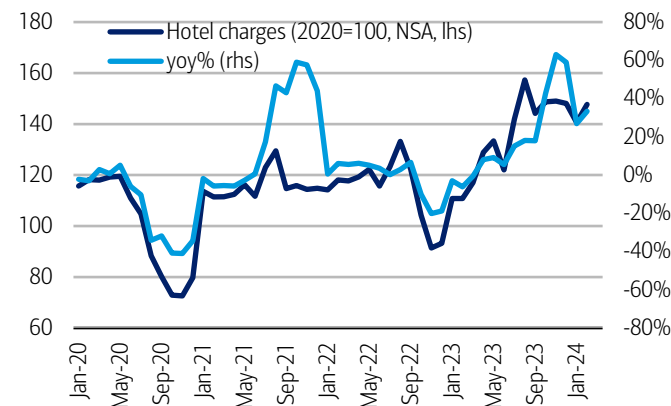


Source: BofA Global Research, MIAC

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**Exhibit 6: Tokyo CPI: Trend in hotel charges**

Hotel charges have been extremely volatile since the pandemic began



Source: BofA Global Research, MIAC

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**Exhibit 7: Tokyo CPI (January 2024)**

Japan's "supercore" services inflation remained firm at +5.6% YoY

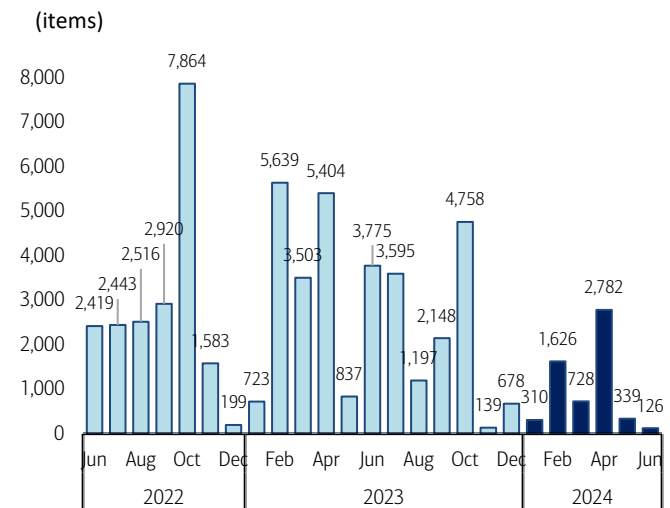
	CPI weights	yoy%
Headline	100.0%	2.5%
Fresh food	3.9%	3.5%
Japan-style core CPI (ex fresh food)	96.2%	2.5%
Energy	4.7%	-7.9%
BoJ-style core CPI (ex fresh food & energy)	91.5%	3.1%
non-perishable food	21.4%	5.1%
US-style core CPI (ex food ex alcohol & energy)	71.1%	2.6%
durable goods	5.2%	1.3%
semi-durable goods	6.6%	4.1%
Services	56.6%	2.1%
Public services	11.0%	-0.7%
Private services	45.6%	2.8%
private rent	3.9%	0.2%
imputed rent	20.0%	0.3%
Private services ex rent	21.7%	5.6%
dining out	5.2%	3.2%
other services	16.5%	6.4%
mobile phone services	2.1%	9.0%
hotel charges	1.0%	33.3%
other services	13.5%	4.1%

Source: BofA Global Research, MIAC

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**Exhibit 8: Planned food price revisions (# of items by month)**

Overall prices are set to rise for fewer items than in 2023



Source: Teikoku Databan

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**Exhibit 9: Major non-food price hikes announced**

Near-term focus is on the extent of price hikes in April 2024

Company	Effective from	Product/service	Main price increase (%)
Non-life insurance companies	2024/01	Car insurance premium	about 2.5%~3%
Huis Ten Bosch	2024/01	Park ticket (one-day pass)	4~6%
Tokyo-Monorail	2024/03	Passenger fare	ave. 10.8%
Ministry of Land, Infrastructure, Transport and Tourism	2024/03	Passenger Security Service Charge	138%
Sagawa Express	2024/04	Delivery fees	ave. 7%
Yamato Transport	2024/04	Delivery fees	ave. about 2%
Duskin	2024/04	Housekeeping service fee	5~20%
Ministry of Health, Labour and Welfare	2024/04	Nursing-care fees	total 1.59%
Daio Paper	2024/04	Toilet paper / Tissues	over 10%
Suzuki	2024/04	Automobile	6~20%
Ubiden	2024/05	Electric vehicle charging fee	4~62%
Toyohashi Railroad	2024/Spring	Passenger fare	11~21%
Meitetsu	2024/Spring	Passenger fare	ave. 10%
Kanagawa pref./ Chiba pref./ Okinawa pref. etc.	2024/10	Water bill	ave. 5~25%
Japan Post Holdings	2024/10	Postage	9~10%

Source: BofA Global Research, media reports

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**Exhibit 10: CPI impact of the government's energy-cost relief measures**

The government extended the energy subsidies to end-April 2024

	Period	Detail	CPI impact (nationwide, latest)
Extension of gasoline subsidy	Jan '22 - Apr '24	full subsidy for up to ¥35 above ¥168/liter, half subsidy for rise greater than ¥35	-0.1%
Lowering electricity bills	Jan '23-Apr '24 (Feb '23-May '24 in CPI)	¥7/kWh subsidy for households	-0.4%
Lowering city gas bills	Jan '23-Apr '24 (Feb '23-May '24 in CPI)	¥30/m3 city gas support for households	-0.1%
Total			-0.6%

Source: BofA Global Research, MIAC, media reports

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**Exhibit 11: Pandemic travel stimulus measures**

The government is introducing a "Hokuriku support discount" scheme, aimed at stimulating demand in the region affected by the 1 January Noto Peninsula earthquake

	Go To (previous)	Residents' discount	Nationwide travel support	Nationwide travel support (extended)	Hokuriku support discount
Period	Jul-Dec 2020	Summer 2021 - September 2022	Mid-Oct through end-Dec 2022	January - August 2023	16 Mar 2024 - 26 Apr 2024
Discount (%)	35% of travel costs	50% of travel costs	40% of travel costs	20% of travel costs	50% of travel costs
Maximum discount	Overnight stay: ¥14,000 Day trip: ¥7,000	¥5,000	Travel + overnight stay: ¥8,000 Other: ¥5,000	Travel + overnight stay: ¥5,000 Other: ¥3,000	20,000 / night
Coupon	15% of per-night travel costs	Up to ¥2,000	Weekday ¥3,000 Holiday ¥1,000	Weekday ¥2,000 Holiday ¥1,000	-
Maximum subsidy	-	¥7,000	¥11,000	¥7,000	¥35,000
Scope	Nationwide	Within same/neighborhood prefectures	Nationwide	Nationwide	Ishikawa, Niigata, Toyama, Fukui

Source: BofA Global Research

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