

## Japan Watch

## January CPI: Hotel fees slow, big picture unchanged

**January CPI: Downside surprise**

Today's January Tokyo CPI surprised on the downside, falling well short of consensus forecasts. YoY growth in the Japan-style core CPI (headline ex. fresh food) and BoJ core CPI (headline ex. fresh food and energy) both slowed by 0.5ppt, to +1.6% and +3.1%, respectively (consensus +1.9%/+3.4%, Exhibit 3).

While this partly reflected the negative impact of government energy subsidies (which will be lapped in the February data, Exhibit 10), the Japan-style core CPI fell below 2% for the first time since June 2022. BoJ core CPI inflation was also negative on a seasonally adjusted MoM basis for the first time since October 2021 (Exhibit 4).

**Mainly reflects smaller jump in hotel fees**

However, the negative surprise from today's Tokyo CPI print does not materially change our assessment of the overall inflation outlook.

The slowdown in headline inflation mainly reflected growth in accommodation fees slowing to +26.9% YoY from +59.0% in December, which depressed the January BoJ core CPI by 0.26ppt. In sequential terms, the CPI hotel subindex dropped 5.1% MoM. But in YoY terms, the slowdown was exacerbated by unfavorable effects, as the hotel CPI had jumped 19% MoM in January 2023 after nationwide travel subsidies ended in December 2022 (for details please see our report on [January 2023 CPI report](#)).

Trends in other categories were largely unchanged versus December. Prices for non-perishable food and dining out were broadly flat in January. But negative base effects slowed YoY growth to +5.7% and +3.8%, respectively (Exhibit 6, from +6.0% and +4.3% in December). These two factors depressed the BoJ core CPI by a further 11ppt.

Elsewhere, rising prices for other durables and auto insurance offset lower fixed-line communication fees and slowing apparel sales. There were no notable changes in other service prices.

Volatile accommodation fees were therefore the only major point of difference between the January Tokyo CPI and the data through December; the big picture remains largely unchanged, with minimal moves for prices in general and slowing YoY growth in food prices caused by unfavorable base effects.

**Next focus remains start of new fiscal year in April**

Prices for a wide range of items are likely to remain static in the near term, in line with our forecasts. The upshot is that YoY CPI inflation will likely slow sharply, due to the tough comparison base established by last year's price hikes. However, more non-food firms are beginning to announce price hikes that will take effect when the new fiscal year starts in April (Exhibit 9); a concerted move by more firms to follow suit would be key to sustained inflation.

(continued on next page).

26 January 2024

Economics  
Japan

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Timestamp: 26 January 2024 02:47AM EST

## Public service price inflation to remain muted in FY24

While growth in accommodation fees paused in January, private service prices continued their rapid uptrend, rising +2.3% YoY or +4.7% excluding rents (Exhibit 7).

In contrast, public service prices remain weak, with an 0.8% decline in January. We think public service price inflation is increasingly likely to remain muted while private service prices continue their rapid rise.

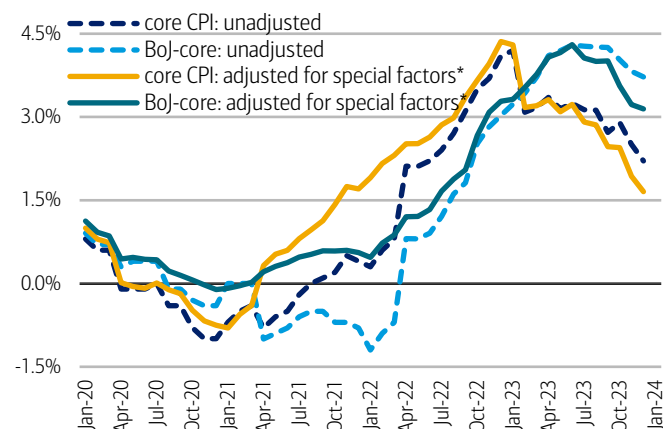
The prospect for concerted revisions to FY24 statutory health insurance system (SHIS) medical fees (medical, nursing care, disability welfare) has drawn attention as the April start of the new fiscal year approaches. The government recently announced increases of 1.59% for care service fees and 1.12% for disability welfare fees. Meanwhile, we think the lengthy debate on SHIS medical fees is likely to result in a minor -0.02% net reduction, assuming a 0.88% increase in core fees and a 1.0% cut to drug and raw material prices.

Disability welfare service fees are not included in the CPI, and care service fees represent just 0.19% of the nationwide CPI; however, medical (consultation) fees have a 2.29% weighting and make up around 20% of public service prices. If our assumptions around the revisions to SHIS medical fees is correct, we would expect medical fees in the CPI to stay largely flat in FY24.

The upshot is that public service price inflation is likely to remain sluggish compared with the rise in private service prices. We think the government should consider more proactively raising public services and utility fees, which it effectively controls, if Japan is to transition to a regime of sustained 2% inflation.

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

CPI yoy growth has peaked out

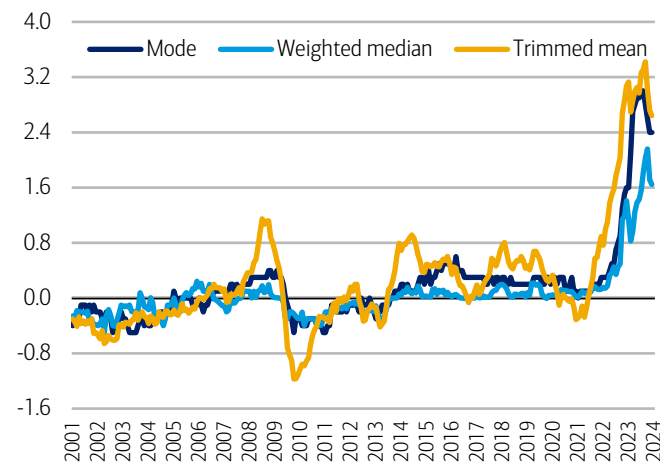


Source: BofA Global Research, Ministry of Internal Affairs and Communications MIAC \*hotel fees and mobile phone service charges

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

CPI yoy growth has peaked out

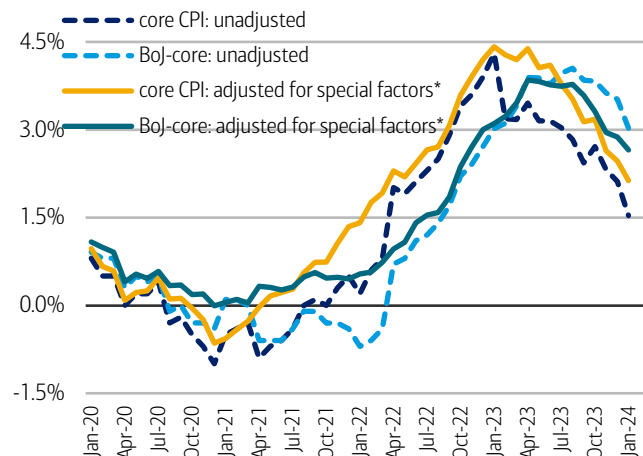


Source: BofA Global Research, BoJ

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

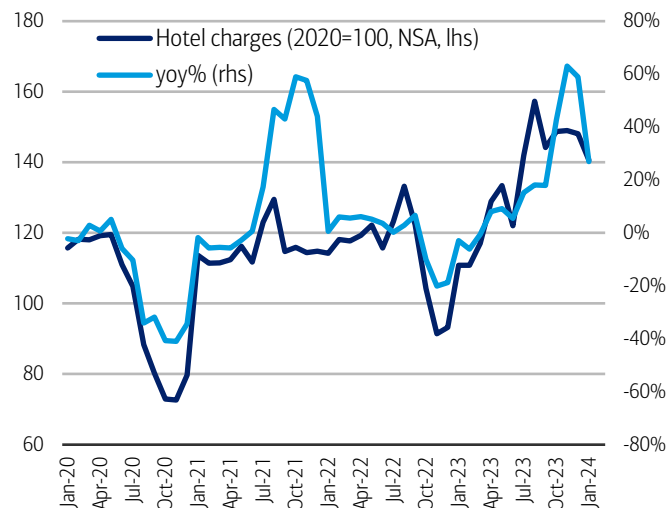
CPI yoy growth has peaked out



Source: BofA Global Research, MIAC \*hotel fees and mobile phone service charges  
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**Exhibit 5: Tokyo CPI: Trend in hotel charges**

Accommodation fees have been extremely volatile since the pandemic began

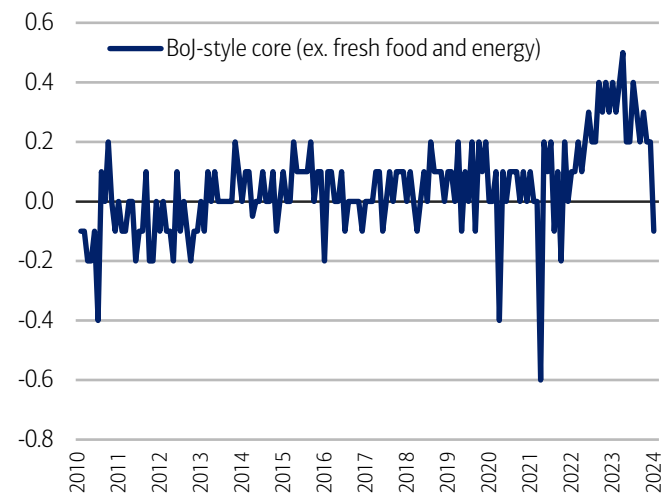


Source: BofA Global Research, MIAC

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

BoJ core CPI inflation was negative on a seasonally adjusted MoM basis for the first time since October 2021

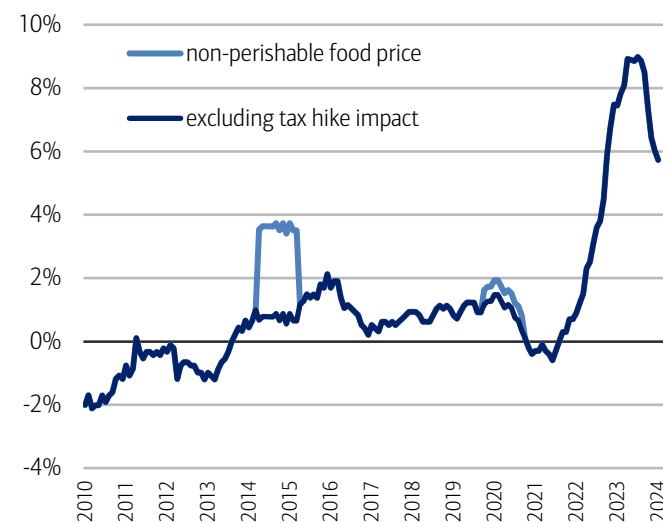


Source: BofA Global Research, MIAC

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**Exhibit 6: 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 7: Tokyo CPI (January 2024)**

Japan's "supercore" services inflation remained firm at +4.7% YoY

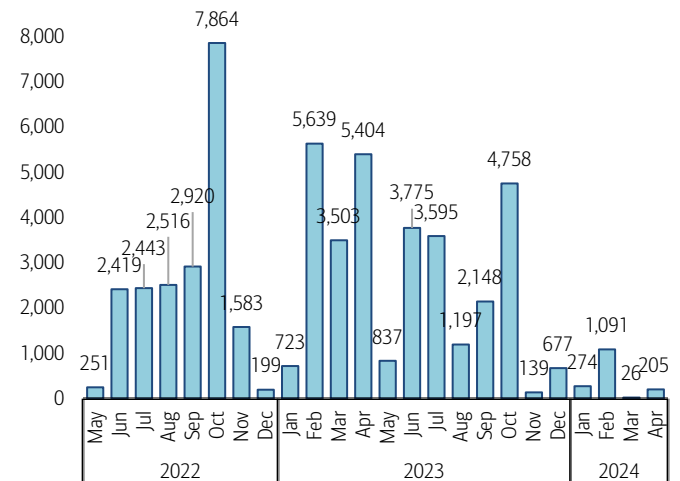
	CPI weights	yoy%
Headline	100.0%	1.5%
Fresh food	3.9%	2.6%
Japan-style core CPI (ex fresh food)	96.2%	1.5%
Energy	4.7%	-20.1%
BoJ-style core CPI (ex fresh food & energy)	91.5%	3.0%
non-perishable food	21.4%	5.7%
US-style core CPI (ex food ex alcohol & energy)	71.1%	2.2%
durable goods	5.2%	1.2%
semi-durable goods	6.6%	3.4%
Services	56.6%	1.8%
Public services	11.0%	-0.8%
Private services	45.6%	2.3%
private rent	3.9%	0.2%
imputed rent	20.0%	0.2%
Private services ex rent	21.7%	4.7%
dining out	5.2%	3.9%
other services	16.5%	5.0%
mobile phone services	2.1%	10.9%
hotel charges	1.0%	26.9%
other services	13.5%	2.8%

Source: BofA Global Research, MIAC

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

Planned price revisions by food manufacturers point to few price hikes



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%
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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