

Japan Watch

January nationwide CPI: Change to sampling method drives one-off overshoot

January nationwide CPI surprised on the upside...

Today's above-consensus January nationwide CPI print came in contrast to the weaker-than-expected preliminary Tokyo CPI print which was released at the end of last month (see [January CPI: Hotel fees slow, big picture unchanged](#), 26 January). In the latest nationwide print, Japan-style core inflation (headline ex. fresh food) slowed from +2.3% YoY in December 2023 to +2.0% in January, while the BoJ core CPI (headline ex. fresh food and energy) was down from +3.7% to +3.5%. However, both the Japan-style core and BoJ-style core measures beat the consensus (+1.9% and +3.3%, respectively), which had reset lower after the drop in the leading Tokyo CPI release (Exhibit 1). The gap between the nationwide and Tokyo measures were particularly large on a sequential basis: for example, BoJ core inflation rose +0.2%MoM SA in the nationwide CPI print, whereas it fell 0.1%MoM SA in the preliminary Tokyo CPI report (Exhibit 2).

...driven by a one-off surge in overseas package tour fees

The pullback in hotel fees, non-perishable food, and restaurant services that depressed the preliminary January Tokyo CPI also showed up in the nationwide CPI print; the key difference in the latest nationwide data was the sharp jump in overseas package tour fees (from +0.0% YoY in December 2023 to +62.9% in January 2024), which boosted headline CPI inflation by 0.15ppt.

This spike reflected a change in the method for collecting the data on package tour prices used in the CPI. Given the difficulty of gathering consistent price data during the pandemic, the Ministry of Internal Affairs and Communications (MIAC), which compiles the CPI, had continued to use 2020 prices in 2021 onward. Package tour prices were therefore flat in the preliminary mid-month Tokyo CPI data released on 26 January.

However, in a meeting held on 6 February¹, an MIAC study group subsequently recommended a return to the data collection method which had been used prior to the pandemic and is based on web-based price scraping. It also recommended that the changes should be reflected from the January nationwide CPI release.

While the new data collection was implemented for the January 2024 reading of the overseas package tour subcomponent, MIAC did not retroactively adjust prices through end-December 2023, breaking continuity with the previous data. This resulted in a 52.0% MoM (62.9% YoY) jump in overseas package tour prices in the January nationwide CPI, reflecting the cumulative impact of price hikes over the past three years (Exhibit 3; Exhibit 4).

As with hotel fees, overseas package tour fees appear in both the Tokyo and nationwide CPI and use a common price index. Thus the January Tokyo CPI, whose final reading was released today, was also revised up versus the preliminary release: for example, the BoJ core CPI was revised up to +3.3%YoY from +3.1%.

(continued)

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¹ See related materials here: <https://www.stat.go.jp/info/kenkyu/cpi/pdf/024-1.pdf>

Expect a boost to YoY CPI growth through 2024

The change in methodology came as a major surprise to the market because the historical price data was not adjusted retroactively, and the change was not widely telegraphed on CPI website. While the MoM jump in overseas package tour prices will be limited to the January CPI, the higher base established by the changes will continue to affect inflation in YoY terms for the next 12 months.

Even if the overseas package tour subcomponent stays unchanged in level terms for the rest of the year, based on their weight in the CPI (0.25% in nationwide/0.34% in Tokyo CPI), it will boost YoY headline inflation by 0.1-0.2ppt through CY2024, and YoY headline services inflation by 0.2-0.4ppt. Given the uptrend in overseas travel costs caused by factors such as the weaker yen, we see the potential for an even greater uplift from this item going forward.

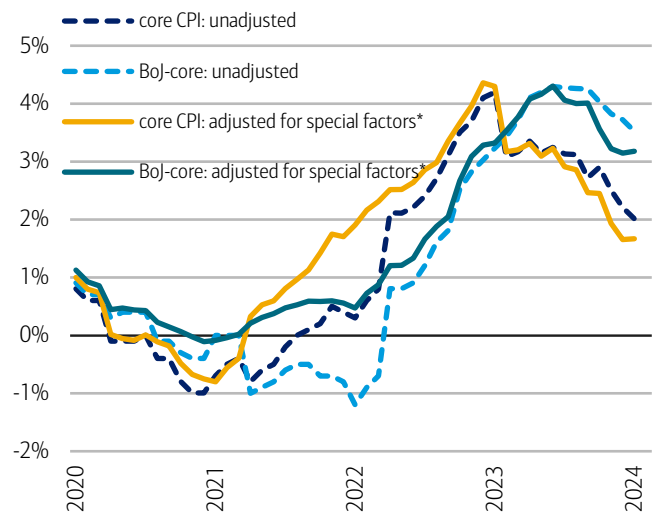
BoJ to look through the noise

That said, we think today's CPI upside surprise is unlikely to affect the BoJ's near-term policy decisions. The BoJ remains focused on underlying inflation trends, and we think it will look through this one-off overshoot in the same way that it has downplayed previous downside surprises caused by idiosyncratic factors.

That said, given that some investors had wondered whether the big downside miss in the preliminary January Tokyo CPI would be an impediment to early BoJ policy normalization, we think the latest developments would increase the market's confidence that the BoJ is on track to exit Negative Interest Rate Policy (NIRP)/Yield Curve Control (YCC) by the 25-26 April Monetary Policy Meeting (MPM).

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

January nationwide CPI beat market expectations

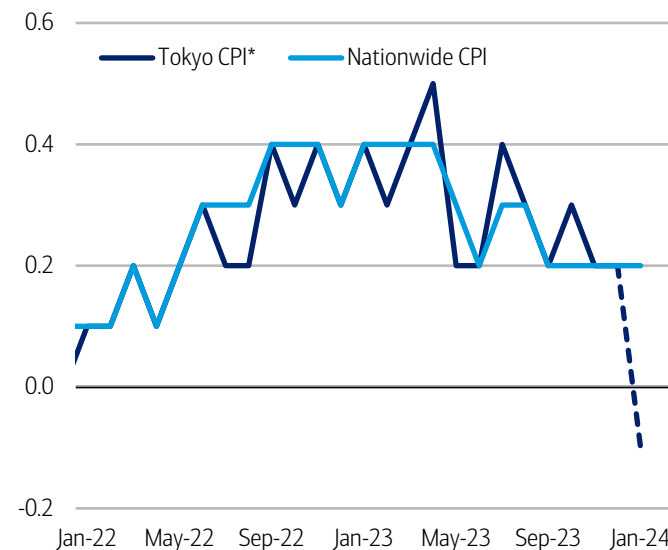


Source: BofA Global Research, MIAC *Government's energy subsidies, hotel fees and mobile phone service charges

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Exhibit 2: BoJ-style core CPI: month-over-month change (% SA)

BoJ-style core CPI rose by 0.2% MoM SA in January nationwide CPI

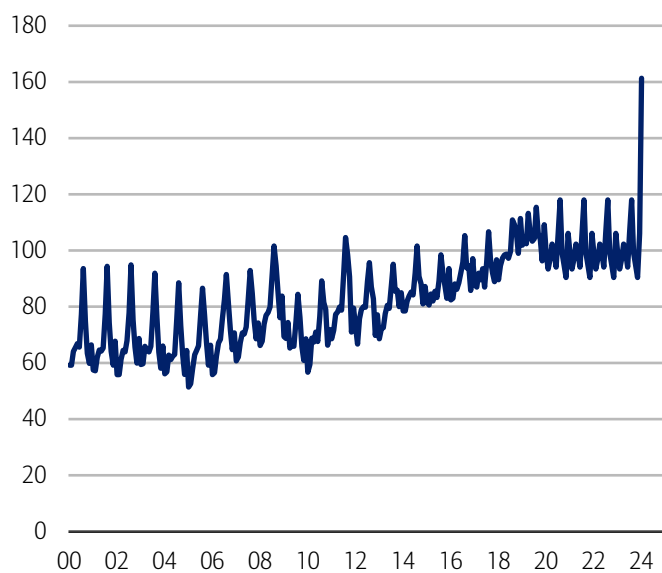


Source: BofA Global Research, MIAC *Figure for Jan '24 is as of preliminary release.

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Exhibit 3: Nationwide CPI: Overseas package tours (level, 2020=100, NSA)

A rapid surge in overseas package tours

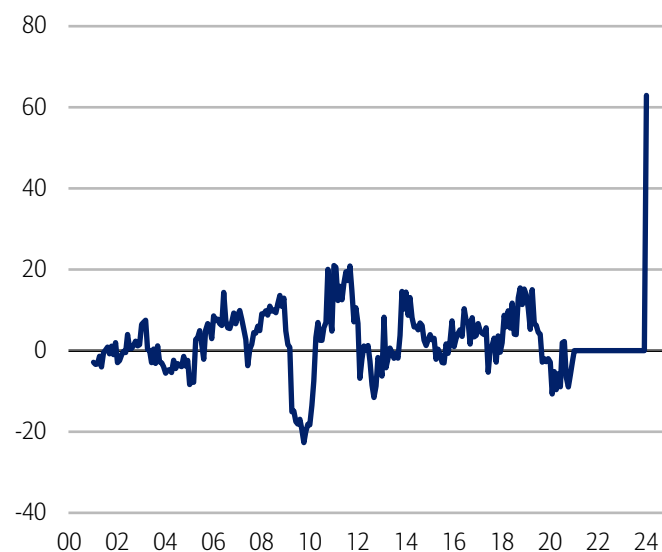


Source: BofA Global Research, MIAC

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Exhibit 4: Nationwide CPI: Overseas package tours (yoy%)

A rapid surge in overseas package tours



Source: BofA Global Research, MIAC

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