Daiwa's Economic View

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Ueda BOJ in no rush, assessing US economy

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BOJ Governor Ueda's Sep press conference: Enough time to make policy decisions

At its 19-20 September Monetary Policy Board meeting, the BOJ voted unanimously to maintain the status quo. During his post-meeting press conference, BOJ Governor Kazuo Ueda struck a cautious tone given the unstable market trends since August and the 50bp interest rate cut at the September FOMC meeting (both due in part to changes for US economy). Ueda left a somewhat dovish impression, saying that while the Bank's basic policy of hiking rates has not changed, it is now in no hurry to hike rates. In this report we would like to briefly comment on the Ueda's responses (highlighted in bold lettering) to relevant questions.

Ueda was initially asked about his perception of unsteady markets. Here, he said, "**Uncertainty about the future of the US and other overseas economies is being felt and these situations remain unstable. For now, we will continue to monitor these situations with the utmost vigilance and assess the risk of impacts. We need to carefully confirm the economic situations behind domestic and overseas market trends. The risk of prices rising due to yen depreciation since the start of the year has decreased to a reasonable extent. There is enough time to confirm such situations through policy decisions**." Changes in the external environment since the Bank's decision in July to again raise interest rates include (1) weakness for the US labor market, (2) start of US rate cuts, in addition to (3) correction to yen appreciation, resulting in (4) decreased risk of prices rising more than expected. This was a straightforward explanation from Ueda on how the BOJ has "enough time" to make its next policy decision. In its October *Outlook Report*, the explanation of its risk balance for prices in FY24 will likely to be revised from "skewed to the upside" in the July report. The market reacted to this "enough time" wording with the yen weakening against the dollar, briefly depreciating to the USD/JPY144 level.

Japan's economy now on track, but uncertainty for US economy

Ueda was then asked about the possibility of another rate hike within this year. He said, "**Data on the current Japanese economy is in line with our forecasts. However, the uncertainty surrounding the global economy, particularly the US economy, and the market movements reflecting this uncertainty, are causing uncertainty for our forecasts. An increase in the accuracy of our forecasts does not mean an immediate interest rate hike.**" As of July, the Bank had communicated its intention to readjust its degree of monetary easing, provided that its forecasts were on track. However, we were left with the impression that the Bank is hesitant to act while there is uncertainty surrounding the US economy. When asked about the US economy, Ueda said, "**We want to carefully assess whether a scenario similar to a soft landing can be realized or whether there will be more severe adjustments. If the adjustment is a bit strict, we will need to again change our perspectives**." Ueda honestly stated that the Bank cannot help but to notice downside risks for the Japanese economy, depending on conditions.

Ueda more concerned about US economy than Fed Chairman Powell

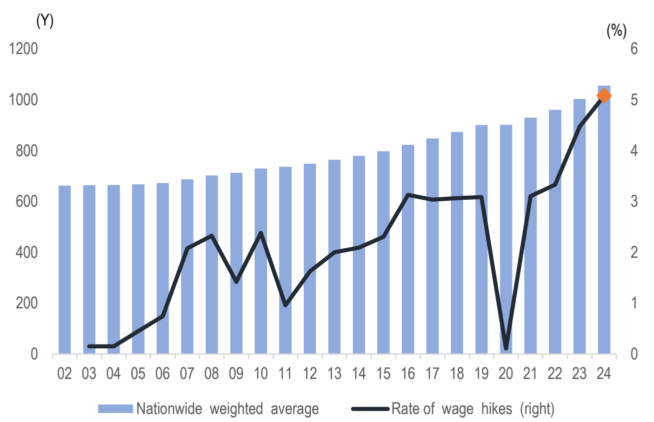
Immediately after taking office in the spring of 2023, Ueda was hesitant about raising interest rates too quickly in Japan and was bearish on the US economy. This time as well, Ueda made cautious sentiments such as, "**Since the beginning of August, economic data from the US has been a bit weak, so risk is increasing a little"** and **"How much will the Fed cut interest rates to prevent a slowdown? The overall picture is still a little unclear**." While Powell has expressed his determination to protect the US economy by significantly cutting interest rates, it is clear that Ueda holds a more cautious view of the US economy. Being sensitive to downside risks is a consistent characteristic of Ueda. Going forward, it will become a question of when the BOJ can determine uncertainty for the US economy. From the perspective of market instability, the period after the 5 November US presidential election would be preferable. The pace of US rate cuts will depend on US employment data. Still, if US employment continues to deteriorate only gradually, we believe that the Christmas shopping season will become the important key. However, it seems difficult to determine whether or not a soft landing can be realized by the end of this year. If the US economy is brought to the forefront (highlighted), the BOJ's assessments would probably be delayed.

Impacts of minimum wage hike as new point of interest for Japan's economy

Finally, Ueda was asked about what data he will focus on to determine the next interest rate hike. Specific examples included **(1) wage trends since the fall, (2) impacts of minimum wage hike** (on part-time wages, others), **(3) impact of passing on higher costs to service prices** (Oct revision period, reflection of wages), **(4) 2025 annual spring labor-management wage negotiations, and (5) state of consumption going forward** (need strong consumption to certain extent).

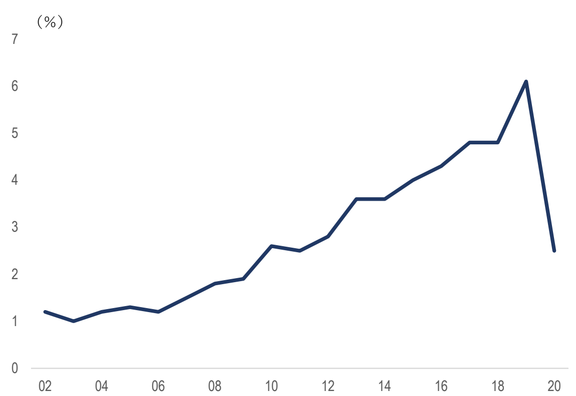
This time, impacts of the minimum wage increase have been added as a new point of interest. The FY24 minimum wage is expected to increase by Y51 (about 5.1%) on a nationwide weighted average, which would be the highest increase on record (Chart 1). There is a possibility that wage growth will increase after October 2024, especially for part-time workers, when the minimum wage is revised. However, the percentage of workers earning less than the minimum wage even after the minimum wage was revised (Chart 2) was around 2-6% in the past and we feel that this will not have a significant impact on macro-level wage trends. Also, even if the minimum wage increases, there is the possibility that it will not contribute to an increase in national income due to a decrease in working hours from the perspective of ceilings on annual income. Over the long term, we must pay attention to not only to the impact on wages, but also to the impact on the employment environment and corporate activities.

Chart 1: Japan's Minimum Wage Trends



Source: Ministry of Health, Labour and Welfare (MHLW); compiled by Daiwa.

Chart 2: Rate of Influence for Japan's Minimum Wage (businesses with 5 or more employees)



Source: MHLW; compiled by Daiwa.
Note: "Rate of influence" is the percentage of workers falling below the minimum wage after the minimum wage revision.

Our main scenario: Next rate hike in Jan-Mar 2025, depending on US economy

We had assumed it would take at least three months for markets to calm down after the summer of 2024 turmoil (unstable market trends). Also, the US presidential election will be held on 5 November, roughly three months after the market turmoil over the summer. Meanwhile, in Japan, the ruling LDP presidential election will be held this week on 27 September. This suggests that an early dissolution of the Lower House for a snap general election could be on the horizon (as early as 27 Oct). In addition to such political instability, the Fed's decision to cut interest rates by 50bp on 18 September has also led to a split in views on the future of the US economy and the path for interest rate cuts. Ueda pointed this out as an uncertain factor at his September press conference.

Following the September meeting, our main forecast scenario calls for the BOJ to make its next rate hike to 0.50% sometime in Jan-Mar 2025 (60% probability). We thought it would be difficult to determine whether the US economy can make a soft landing within the year. Also, for Japan, we concluded that it would be difficult for the BOJ to tighten in December while the government is formulating the FY25 budget. Until then, the Bank will inspect information on service prices in October, the two BOJ Tankan surveys (September and December), developments ahead of next year's spring labor-management negotiations, and information from hearings conducted by the BOJ. Assuming that the US economy can make a soft landing, we expect Japan's next interest rate hike to come in January 2025 at the earliest, or in March, if Ueda is overly concerned about the first round of wage negotiations and the tallying of responses in 2025, as he was in 2024. Meanwhile, if the US economy enters a recession, we expect the BOJ would be unable to act until the end of the US interest rate-cutting phase (sub-scenario: 40% probability).

Chart 3: Near-term BOJ Monetary Policy Outlook (as of 24 Sep 2024)

Main Scenario		Since the decision in July to again hike interest rates, the risk of higher-than-expected prices due to yen depreciation decreases to a reasonable extent owing to a correction to yen appreciation and the start of US rate cuts, both due in part to changes for US economy. BOJ sees no need to rush to raise rates. With the US economy moved to the forefront (highlighted) acting as a deciding factor, the BOJ is likely to ascertain actual conditions during this period of uncertainty. Focus going forward on minimum wage hike impacts, spread of service price hikes (SMEs passing on higher labor costs to prices trends), resilience of private consumption, and developments for 2025 labor-management wage negotiations. While inspecting conditions, BOJ checks whether underlying inflation rate can be sustained at around 2%. With firms becoming more aggressive in their wage/price-setting behavior, exchange rate fluctuations more easily impact prices. Data from this autumn onwards is important. That said, with elections coming up in both Japan and the US this fall, the political situation becomes unstable. Price outlook could change depending on the exchange rate. Even if monetary policy vectors in Japan and US differ, a soft landing for the US economy would be achieved through the Fed's proactive response. With a new president, uncertainty about the US economy in the second half of next year will be dispelled by confirming economic management at the start of next year. BOJ adjusts the degree of monetary easing based on its outlook for achieving the 2% price stability target. Policy interest rate is expected to gradually raise to the neutral interest rate amid extremely low real interest rates. Expect next interest rate hike to 0.50% at the January 2025 meeting, at the earliest, or in March 2025, if Ueda remains overly concerned about the spring wage negotiations. If there are no major incidents for the US economy, BOJ likely to continue with its normalization process at pace of about once every six months.
Probability	**60%**	
Sub-scenario		BOJ carefully proceeds with discussions, while keeping an eye on external environments. With the global economy slowing, Japanese consumption remains weak and the virtuous cycle between wages and prices breaks down. Underlying inflation rate also fails to hold at 2%. Under an accommodative environment, BOJ maintains a wait-and-see stance. US economy enters a recession, or such concerns are not dispelled, the Chinese economy stagnates for a prolonged period, and downward pressure on Japan's economy increases. US interest rates also fall, the dollar weakens, and the yen strengthens. BOJ is unable to act until end of the US rate-cutting phase.
Probability	**40%**	

Source: Various materials; compiled by Daiwa.

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