

# Daiwa's Economic View

## Ueda's Oct press conference: No longer using "enough time" phrase

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FICC Research Dept.

**Mari Iwashita**

81-3-5555-8852

mari.iwashita@daiwa.co.jp

**Kento Minami**

81-3-5555-8789

kento.minami@daiwa.co.jp



Daiwa Securities Co. Ltd.

### Ueda's Oct press conference: No longer using "enough time" phrase

At its 30-31 October meeting, the BOJ's Monetary Policy Board voted unanimously to make no changes to its current monetary policy. During BOJ Governor Kazuo Ueda's post-meeting press conference, questions focused on the phrase "we have enough time" (in regards to rate hike decisions), which had been repeatedly used since the market turmoil in August. The BOJ's basic policy of raising interest rates has not changed. As before, the explanation that policy decisions are made based on the various data available at each meeting left the impression that the Bank has become more hawkish since the September meeting. Indeed, the yen strengthened against the dollar, temporarily moving to a level around USD/JPY152. In this report we want to briefly comment on the answers Ueda provided to the important points at his press conference.

At the beginning of the press conference, Ueda was asked whether the conditions for hiking interest rates would be sufficiently in place at the next meeting and beyond, provided economic and price trends were on track. Ueda responded by saying, "As for the timing of the next rate hike, we have no preset idea. We will scrutinize data available at each policy meeting, and update our current assessments and outlooks to determine policy." This response was clearly different from that at the September meeting. Indeed, he reverted to his previous explanation. Ueda went on to say "We used the phrase 'enough time' for assessing downside risks for the US economy and this phrase will no longer be used once it no longer applies." He added, "Going forward, we will no longer be using that phrase." The market had taken this expression "we have enough time" to mean that the Bank would not hike interest rates at the next meeting. US risks, which intensified in September, have recently decreased, so the BOJ's decision not to use this expression can be seen as giving it a free hand in its future policy decisions. Nevertheless, Ueda noted that, "A sentence in the final paragraph of the *Outlook Report* was added to include the phrase 'The Bank needs to pay due attention to the future course of overseas economies, particularly the US economy,' and the Bank's stance of continuing to pay close attention to this risk has been maintained." This seems to include the nuance that "It's a bit weaker compared to September, but it's still there." With the US presidential election looming, it is probably safe to assume that there is the risk of both upward and downward movements.

### Fog clearing somewhat for US economy; new risks depending on next US president

When asked about the US economy, Ueda said, "As for our focus on downside risks for the US and overseas economies, we're seeing fog clear a bit." He went on to say, "Even if the US economy remains strong for now, new risks may emerge depending on the next US president." The BOJ clearly wants to assess the next US president's new policies. Ueda also said, "Even if risks surrounding the US economy have subsided significantly, that does not mean that we can immediately move on to the next decision. It all comes down to judging how confident we are in the realization of our economic and price outlooks." While overseas factors are important, the ultimate questions are whether the outlooks for domestic economic and price conditions are on track and whether the Bank is confident that its 2% price stability target will be achieved.

## Key points for Japan's economy: scheduled cash earnings, spring wage negotiations, service prices

As for domestic factors, Ueda was asked about price risks. He said, "Companies' wage and price-setting behaviors are changing for the better, but one uncertainty is whether this will continue to strengthen or whether it will peter out. There are also impacts from exchange rates and international commodity markets." Basically, we can read this as the BOJ is not yet 100% confident that it can achieve its 2% price target.

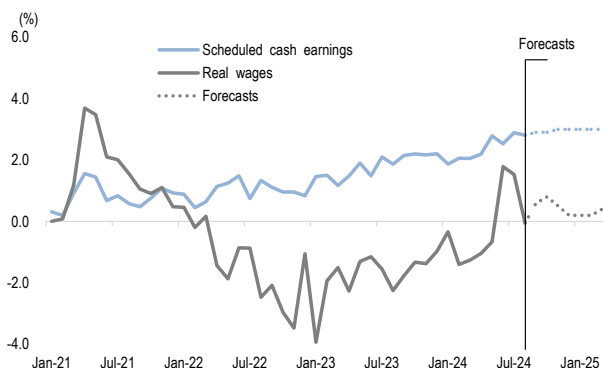
Ueda was asked whether there are any developments that would increase the likelihood of achieving the price target. He responded by saying, "First of all, looking at the wage increase rate, for example, in the Monthly Labour Survey's on-year increase for full-time employee scheduled cash earnings came to around 3%. If we look at just that alone, I think there is an aspect that is within the range consistent with the 2% inflation target. Basically, the focus will be on whether or not this will continue in the future." The trends for scheduled cash earnings (Chart 1) will remain an important monthly indicator. Meanwhile, in regards to the spring 2025 management/labor wage negotiations, Ueda said, "If we see wage hikes around the same level seen this year, in a broad sense, that would be a positive development for our price target." Of note, on 16 October, it was reported that the policy for the spring 2025 management-labor wage negotiations is to raise wages by at least 5%, including regular pay increases, and at least 3% for basic salary, the same levels reached during the 2024 negotiations." As such, it is highly likely that wages will continue to rise in the run-up to next year's negotiations (Chart 2).

Next, in regards to prices, Ueda explained, "Will rising wages impact service prices? After examining the most recent Tokyo CPI release, we confirmed that the trend of passing on higher costs to service prices is spreading to some extent. We want to carefully monitor whether this is the case nationwide and whether this will continue spreading in the future." The next thing to watch will be the service price trends in the nationwide October CPI, which will be announced on 22 November.

## Conclusion of "broad-perspective review" discussions at Dec meeting

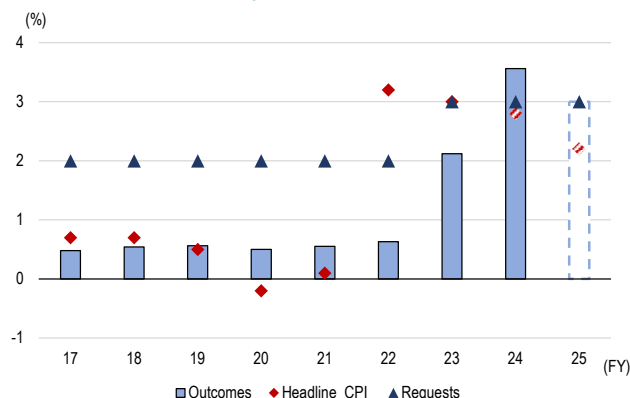
Finally, Ueda revealed that the "broad-perspective review" was discussed at the October meeting. Apparently, the next meeting in December will be the one for finalizing decisions regarding these discussions (matter to be voted on at policy meeting). Ueda was again asked about the position of the "broad-perspective review" within the conduct of monetary policy. He said, "It does not contain any content that would immediately impact the conduct of monetary policy for now. I think it can provide useful material for thinking about the future of monetary policy over the long term." On the market there is considerable interest in discussions about the natural rate of interest, but it seems like the BOJ will not go into any in-depth details, based on the explanation provided by Ueda. There will be a period of time to examine domestic and overseas data to determine whether the BOJ could possibly again raise interest rates at its 19 December meeting alongside the announcement of a historical report for the "broad-perspective review."

Chart 1: Forecasts for Wages at Continuously Surveyed Firms



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

Chart 2: Outcomes of Spring Wage Negotiations (base pay hikes, estimated)



Source: Japanese Trade Union Confederation, Ministry of Internal Affairs and Communications, Cabinet Office; compiled by Daiwa.

Note: 2025 headline CPI based on mid-FY24 Cabinet Office simulation.

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