

# Economic Commentary

## Is December BOJ meeting outcome already determined? ~ Tankan focal points

- Sharp decline in market expectations for Dec rate hike (direction BOJ wanted)  
More information from BOJ by time of Jan 2025 meeting (incl. speech by BOJ Deputy Governor Himino)  
BOJ may even postpone rate hike until Mar 2025 if it wants to avoid hasty decisions about “Trump risks”
- Japan’s GDP revised, “recovery centered on domestic demand”  
assessment unchanged  
Focus points for Dec Tankan: Price-setting behaviors and recurring profit forecasts

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### Is December BOJ meeting outcome already determined?

During the first week of December, the market was swayed by (1) BOJ Governor Kazuo Ueda’s 30 November interview<sup>1</sup>, (2) 4 December Jiji Press article suggesting that the BOJ could postpone its rate hike beyond December<sup>2</sup>, and (3) 5 December comments from BOJ Monetary Policy Board member Toyoaki Nakamura’s press conference. Afterwards, there were no media reports refuting the suggestions made in the Jiji Press article. As such, the probability of a December rate hike, based on the OIS market, dropped sharply to only 28% as of 9 December (39% as of 6 Dec). It seems as if the market is moving in the direction desired by the BOJ. The Bank is not in a hurry and there is no sense of urgency for a December rate hike. If the author’s assessment is correct, no new opinions will emerge before 13 December, the day before the BOJ’s pre-meeting blackout. The December meeting’s main event is likely to be the presentation of the Bank’s “Broad Perspective Review” (of monetary policy over past 25 years). We think a rate hike decision has likely been postponed until Jan-Mar 2025.

The November US employment statistics released on 6 December fell within expectations and the view that the FOMC will cut interest rates by 25bp at its December meeting has strengthened. The market is already assuming a slowdown in the pace of US interest rate cuts in 2025, while anticipating a hawkish stance from Fed Chairman Jerome Powell in the future after an interest rate cut in December. The author was previously concerned about potential market turbulence following the announcement of the December FOMC meeting results (early morning of 19 Dec Japan time). However, if the FOMC meeting results are within expectations and already largely factored in by market participants in Japan, there should be no major market swings. Even so, the BOJ was rocked by market fluctuations following the July interest rate hike and, with fewer participants in the market towards the end of the year, it may be natural for the Bank to conclude that there is no need to take risks right now. Also, efforts to compile Japan’s FY25 budget within this year are falling behind schedule, which is another area of concern.

If the BOJ waits until its next meeting on 23-24 January 2025, it will have opportunities to disseminate more information to the market. Such information includes Governor Ueda’s 25 December speech before the Japan Business Federation (Keidanren), the January BOJ branch managers’ meeting report, and the 14 January speech by BOJ Deputy Governor Ryoza Himino (in Yokohama). Any changes in the likelihood of BOJ rate hikes would be conveyed via such information dissemination. If the Bank insists on a cautious approach, a rate hike in January, when the BOJ releases its *Outlook Report* (accounting for economic measures), would become the likely choice.

<sup>1</sup> [Economic Commentary: Analyzing Governor Ueda’s interview](#) (2 Dec 2024).

<sup>2</sup> [Economic Commentary: Significance of BOJ’s Dec meeting; Board member Nakamura delivers speech](#) (6 Dec 2024).

That said, even though the BOJ is on track with its outlook for Japan's economic and price trends, and even though the current situation in the US is within expectations, the Bank is also concerned about the impact of the policies of the incoming Trump administration (= Trump risk). If the BOJ waits to determine whether this large question mark hanging over the future will become smaller question mark, it will need to confirm various policy measures in Trump's State of the Union Address, budget messaging, and other communications after his 20 January inauguration. If the BOJ chooses to avoid hasty decisions and proceed slowly within the scope of what it can do (within current fiscal year), there is the possibility that it could potentially wait until the 18-19 March 2025 meeting to hike rates.

### **GDP revisions do not change “recovery centered on domestic demand” assessment**

Retroactive revisions for Japan's Jul-Sep 2024 GDP (second preliminary estimates) were announced on 9 December. Real GDP was revised upward to +0.3% q/q and +1.2% annualized vs +0.2% and +0.9%, respectively, in the first preliminary estimates. Exports were revised upward to +1.1% q/q from +0.4%, while imports were revised lower to +1.8% from +2.1%. The improved external demand contribution was a major factor. However, private final consumption expenditure growth was revised lower to +0.7% from +0.9% and overall domestic demand was revised lower to +0.5% from +0.6%.

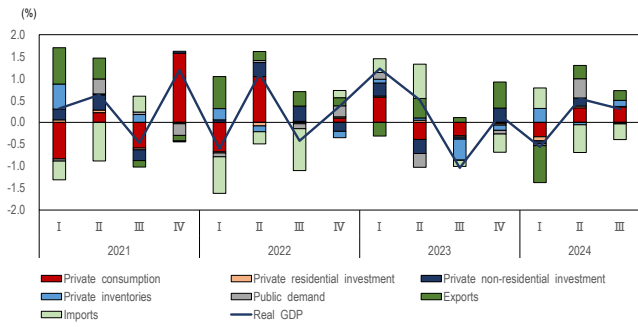
The upward revision for exports was largely due to the fact that the exports of goods increased to +2.1% q/q (+1.9% as of first preliminary estimates), while the decrease in the exports of services narrowed to -1.8% from -4.2%, due to an increase in demand from overseas tourists visiting Japan. Even in terms of private final consumption expenditures, the deduction item “direct purchases in Japan by non-resident households” (inbound consumption) was revised to -3.5% q/q from -13.3%, suggesting that demand from overseas tourists visiting Japan was stronger than expected.

Taking into consideration (1) the upward revision for real GDP this time was mainly due to external demand, but (2) the downward revision for private final consumption expenditure was due to the fact that demand from foreign tourists visiting Japan was also stronger than expected, and (3) when the real GDP contribution is broken down, the domestic demand contribution remains high, there is no change in the assessment that Jul-Sep 2024 GDP recovered, driven by domestic demand. However, the difference between the author's perception at the time of the first preliminary estimates (mid-Nov) and the current situation is that prices have risen more than expected, especially for food. The relatively strong real GDP result for Jul-Sep was due in large part to the positive impact of an increase in non-durable goods consumption, in addition to a switch to positive growth for durable goods consumption. However, special factors, such as increased demand for food during the Jul-Sep period due to heatwaves and the stockpiling demand for food due to the earthquake and typhoons, will drop off in the Oct-Dec quarter. This combined with the continuing rise in prices of non-durable goods, especially food, leaves us with the strong impression that the consumption recovery during the Oct-Dec quarter will be modest.

### **Focus points for Dec Tankan: Price-setting behaviors and recurring profit forecasts**

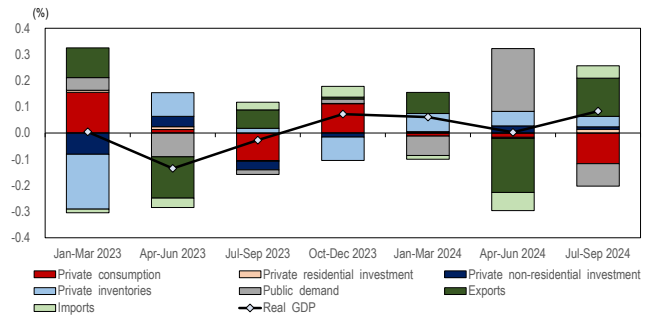
As mentioned earlier, the Jul-Sep GDP revisions suggest that the BOJ is on track with its outlook for Japan's economic and price trends. The important data remaining to be confirmed this week include the BOJ's Tankan survey for December, due out on 13 December. During his 18 November speech, Ueda mentioned the importance of price-setting, “On the assumption that both wages and overall prices will continue to rise moderately.” So, we will need to pay particular attention to the “corporate price outlooks,” which indicate inflation expectations. Also, we need to check the current trends for passing on higher costs to prices among companies. Here, Tankan's “output prices DI” and other indicators should be used. Also, according to the Financial Statements Statistics of Corporations by Industry, recurring profit declined in Jul-Sep 2024. So, considerable attention will also be paid to companies' “recurring profit forecasts” from the perspective of their capacity to raise wages.

**Chart 1: Breakdown of Contributions to Real GDP**



Source: Cabinet Office; compiled by Daiwa.

**Chart 2: First, Second Preliminary GDP Estimates (contribution difference)**



Source: Cabinet Office; compiled by Daiwa.

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