

# Economic Commentary

FICC Research Dept.

## CPI in ward-area of Tokyo (Apr): Catalyst for maintaining rate-hiking policy

- Policy factors also behind significant y/y growth  
But, confirmed higher costs shifted to prices for wide range of goods, services
- Rents (seen as bedrock for prices) also rising; eyes on possible nationwide spread
- Current higher-than-expected prices as catalyst for maintaining rate-hiking policy

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## CPI in ward-area of Tokyo (Apr): Catalyst for maintaining rate-hiking phase

Tokyo CPI for April was released on 25 April. During his 16 April *Sankei Shimbun* interview, BOJ Governor Kazuo Ueda pointed out the risk that food prices could continue to rise more than expected. As such, the focus of the April Tokyo CPI is on the extent to which higher costs are shifted to prices at the start of the new fiscal year. This is also a key point to confirm as the BOJ prepares the price forecasts for its next *Outlook Report* (due out on 1 May).

Tokyo core CPI (excluding fresh food) for April 2025 was +3.4% y/y, higher than the +2.4% reading in March and beating the market median forecast of +3.2%. We should note that the background for the significant increase in April's y/y change from the previous month was largely due to policy factors.

First, the effect of the Tokyo Metropolitan Government's essentially free high school education program that started from April 2024 has dropped off. Indeed, this had the effect of pushing down core CPI by about 0.5% through March 2025. In addition, the impact of the reduction in government subsidies for electricity and gas fees in April 2025 has also been felt. The subsidized electricity and gas fees had a 0.3% depressing effect on the overall CPI in March 2025, but in April 2025, it had a smaller 0.16% depressing effect.

However, prices are rising even when excluding these effects. In particular, prices for food (excluding fresh food) rose 6.4% y/y (+5.6% in Mar). There have been efforts to pass on higher costs to prices for a wide range of items, particularly dining out and rent (details provided below).

Prices during the most recent period have clearly continued to rise more than expected. Under such circumstances, we can assume that the BOJ wants to curtail as much as possible any short-term inflation well above 2%, given its concerns that, "Rising prices for food and other commodities will have a negative impact on the economy and prices as consumer confidence withers and consumption declines."

If the BOJ were to stress a dovish stance, [speculators could unwind their largest ever yen-buying positions, which could result in rapid yen depreciation](#). Taking these points into consideration, the growing efforts to pass on higher costs to prices, as confirmed by the April Tokyo CPI, will be one of the reasons for the BOJ to stick to its policy of raising interest rates.

## Higher-than-expected CPI on shifting costs to prices, rising rents

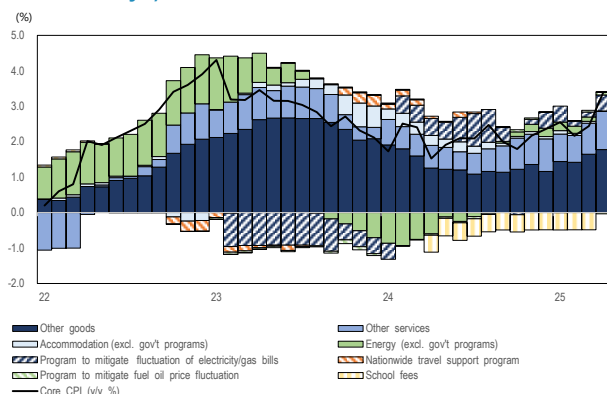
The main factors for the higher-than-expected April Tokyo CPI were (1) accelerated price increases for dining out and processed foods against a backdrop of shifting higher costs to food and other prices and (2) sharper-than-expected rise for private housing rent.

Price growth for food, excluding fresh food, was +6.4% y/y (+5.6% in Mar). Price increases for alcoholic beverages such as beer, wine (imported), and *chuhai*, as well as for processed food products such as frozen gyoza, pudding, and rice balls were noticeable. There have been growing efforts to pass on higher costs to prices for a wide range of food items. Prices for dining out was +5.7% y/y (+4.1% in Mar). The rise in prices for dining out was mainly due to the impact of Tokyo's free school lunch program dropping off. However, higher prices for general dining out also expanded 5.7% y/y (+5.3% in Mar). The situation is such that price hikes for some food products are spreading to the prices of services such as eating out.

Rice prices were +2.1% m/m (+7.4% in Mar). Even though these prices have continued rising, the release of government stockpiled rice has restrained further increases since April. The government has been paying particular attention to the soaring rice prices. Various measures have been taken, including the continuous release of stockpiled rice and changes to the rules for trading stockpiled rice. While it is unclear whether price levels will fall going forward, there will be no change to the storyline that the y/y price increase will gradually narrow.

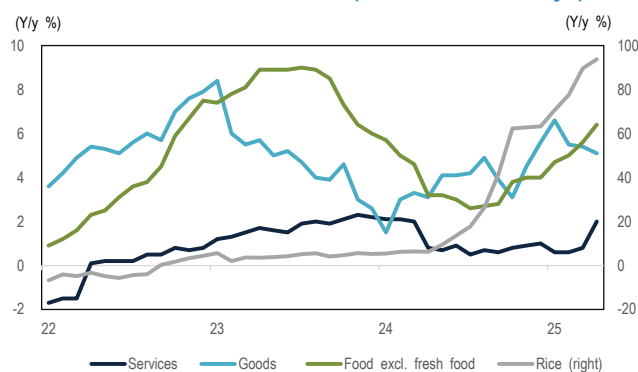
Also, the y/y growth for service prices grew a significant 2.0% (+0.8% in Mar). This growth is largely due to policy factors, as mentioned above. That said, in addition to higher prices for dining out, prices are also up for items that are seen as having relatively high labor cost inputs, such as medical bills (from +0.8% to +1.5% y/y) and supplementary education (from +3.4% to +3.9% y/y). The situation is such that labor costs are also being passed on to prices.

**Chart 1: Breakdown of Contributions to Core CPI (in ward-area of Tokyo)**



Source: Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

**Chart 2: Goods and Service Prices (in ward-area of Tokyo)**



Source: MIC; compiled by Daiwa.

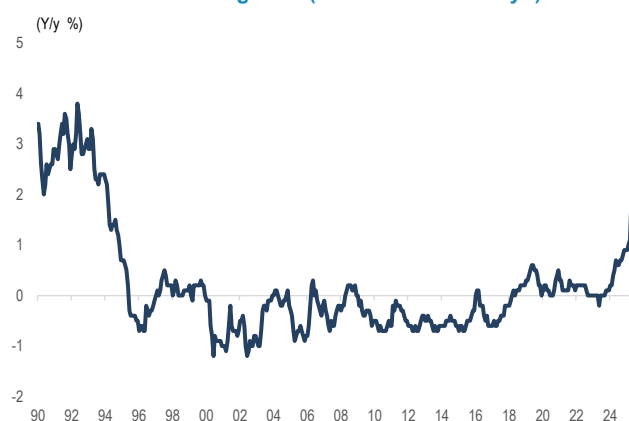
In addition, one factor that made the increase among service prices particularly noticeable was the higher-than-expected growth in rents. Private housing rent was +1.8% y/y (+1.1% in Mar), while rent for owner-occupied housing was +1.2% (+0.8% in Mar). In the Tokyo CPI, the combined weighting for rent accounts for about a quarter of the total CPI, so the impact of rent hikes on overall prices is significant. The fact that changes are occurring in rents, which traditionally have barely moved and so were seen as the “bedrock of prices,” is reassuring in terms of achieving the BOJ's 2% price stability target. That said, at this juncture, rent growth is most pronounced in Tokyo, so we need to confirm whether or not this trend is spreading nationwide.

In addition to free high school education starting in April 2025, the government will provide electricity subsidies from July to September (CPI to reflect downward pressure in Aug-Oct) and a phased reduction in fuel prices starting on 22 May. Tokyo made school education free before that policy was implemented nationwide, so this downward pressure will not be felt in the y/y change

for Tokyo CPI from April 2025. This means there will be a difference between the Tokyo CPI and the nationwide CPI in terms of prices in FY25 and FY26, due to the downward effect stemming from the free high school education. The CPI indicators to be released in the future will also need to be evaluated in light of the impact of these government policy measures.

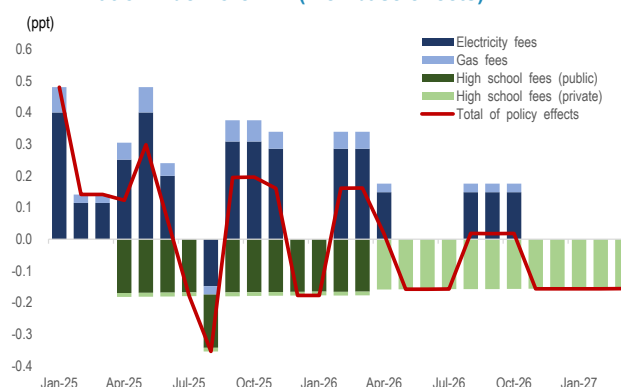
The Tokyo April CPI indicated price increases for a wide range of items. Higher food material costs were passed on to prices, while higher labor costs were passed on to various service prices. The current upward trend for prices will be one of the reasons for the BOJ to maintain its current rate-hiking phase at its May Monetary Policy Board meeting. We expect nationwide core CPI of +3.2% y/y in April (+3.2% in Mar).

**Chart 3: Private Housing Rent (in ward-area of Tokyo)**



Source: MIC; compiled by Daiwa.

**Chart 4: Impact of Government's Inflation Response on Nationwide Core CPI (incl. base effects)**



Source: MIC; compiled by Daiwa.

Note: Simulation assumes Mar 2025 electricity/gas bill subsidies continue in Jul-Sep 2025.

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