

# Economic Commentary

## Opinion Survey on the General Public's Views and Behavior (Jun): Interpreting underlying inflation rates and consumer sentiment

- Inflation putting pressure on livelihoods amid rising household inflation expectations
- Consumer sentiment is deteriorating, but that might not be factoring in decline in rice prices
- FY25 price projection at Jul BOJ MPM expected to be raised, but economic projection will likely be lowered

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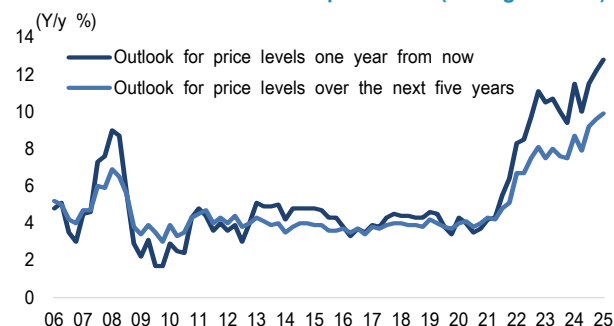
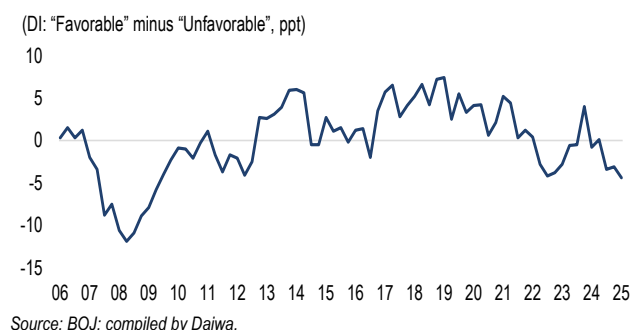
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### Inflation putting pressure on livelihoods amid rising household inflation expectations

On 14 July, the BOJ announced the results of the Opinion Survey on the General Public's Views and Behavior (conducted in Jun 2025). This survey was conducted between 1 May and 3 June, so it does not reflect the most recent developments, such as the release of stockpiled rice and the subsequent decline in rice prices.

Firstly, household inflation expectations (average values) rose for both the next year (to +12.8%, from +12.2% in the previous survey) and the next 5 years (to +9.9%, from +9.6% in the previous survey). Reasons given for the inflation expected in five years included "Prices have gone up recently," at 82.5% (from 81.7% in the previous survey), and "Prices should go up in the medium to long term," at 37.0% (from 33.1%), both of which have increased. This confirmed a rise in medium/long-term household inflation expectations against a backdrop of rising prices for particularly frequently purchased items such as food.

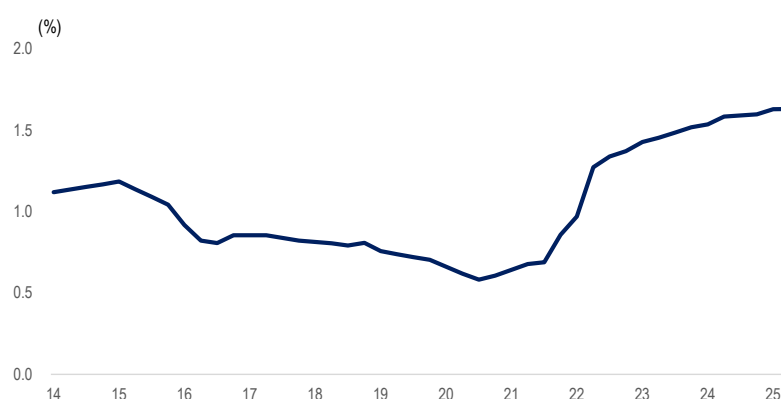
Meanwhile, when examining households' inflation tolerance through responses such as "Rather favorable," "Difficult to say," and "Rather unfavorable," the proportion answering "Rather favorable" increased slightly to 2.6% (from 2.5% in the previous survey), but the proportion answering "Rather unfavorable" increased further to 87.4% (from 86.0%). As a result, the degree of inflation tolerance (the proportion answering "Favorable" minus the proportion answering "Unfavorable") declined. The current level of household inflation tolerance is roughly the same as the level in 2022 when inflation hit its peak, indicating that inflation is putting strong pressure on households' livelihoods.

**Chart 1: Household Inflation Expectations (average values)****Chart 2: Household Inflation Tolerance**

Furthermore, we have compiled a composite index of inflation expectations by (1) conducting principal component analysis based on three figures—household inflation expectations from the Opinion Survey on the General Public's Views and Behavior, corporate inflation expectations from the BOJ Tankan survey, and experts' inflation expectations from the ESP Forecast survey—and then (2) estimating the first principal component (common factor). Note that the BOJ also calculates a composite index of inflation expectations based on inflation expectations among each economic entity using a similar method. However, there are differences in that (1) figures used for household inflation expectations in the BOJ's estimates cannot be obtained from publicly available data and (2) the BOJ uses the consensus forecast and QUICK survey data for experts' inflation expectations.

The estimated composite index of inflation expectations confirms a recent moderate rise. The underlying inflation rate from the standpoint of inflation expectations is on a moderate uptrend, which is likely to serve as a reason for the BOJ to maintain its rate-hike policy going forward.

**Chart 3: Composite Index of Inflation Expectations**



Source: BOJ, Japan Center for Economic Research; compiled by Daiwa.

Note: Composite index of inflation expectations is an extract of the first principal component via the principal component analysis regarding household inflation expectations (median of inflation expectations over the next five years in the Opinion Survey on the General Public's Views and Behavior), corporate inflation expectations (general price outlook for the next 5 years in BOJ Tankan), and experts' inflation expectations (CPI growth rates for the next 2 to 6 years in ESP Forecast survey). In this estimate, the contribution ratio for the first principal component was 0.753.

### **Consumer sentiment is deteriorating, but that might not be factoring in decline in rice prices**

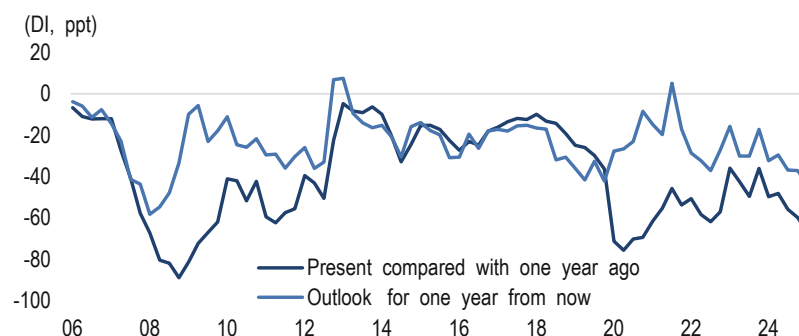
The DI for economic conditions worsened to -67.0 ppt (from -59.8 ppt in the previous survey), falling for the third consecutive period. Of the reasons given for judgments about the economy, responses citing "Media reports" rose to 39.0% (from 33.6%), suggesting that media reports on the surge in the price of rice and tariffs may have cooled household sentiment.

Regarding changes in spending, responses about everyday spending have changed little since the previous survey, but the percentage of households replying that they "have decreased selective spending" rose to 54.4% (from 49.8% in the previous survey). It is possible that the surge in food prices, particularly the price of rice, has heightened people's sense that their daily lifestyles need to be protected and led to them pulling back from purchasing non-essential items, such as luxury goods.

However, recent consumer-related sentiment indices have improved. According to the June Consumer Confidence Survey, the Consumer Confidence Index (for households of two or more people) rose by 1.7 points from the previous month, rising for two consecutive months. All categories posted rising figures for two consecutive months, with the subindex regarding determining when to buy durable goods in particular rising significantly by 2.8 points (from +1.2 points in the previous month). The DI for current economic conditions in the latest Economy Watchers Survey also rose by 0.6 points m/m (from +1.8 points in the previous month), rising for two consecutive months. While there were still comments showing concern about "inflation," the number of rice-related comments decreased. Despite growing consumer thriftiness, the recent

decline in the price of rice, the staple food in Japan, may have contributed to the improvement in consumer sentiment.

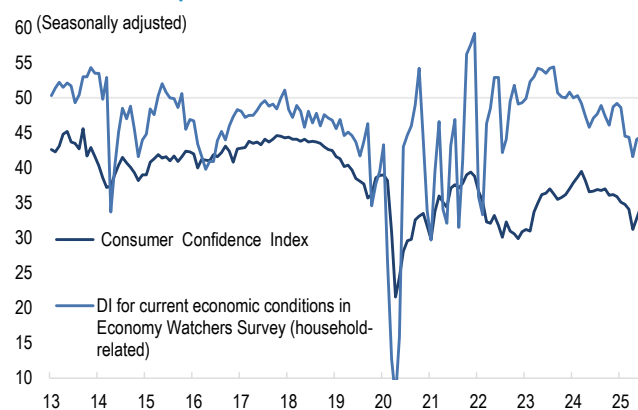
**Chart 4: DI for Economic Conditions**



Source: BOJ; compiled by Daiwa.

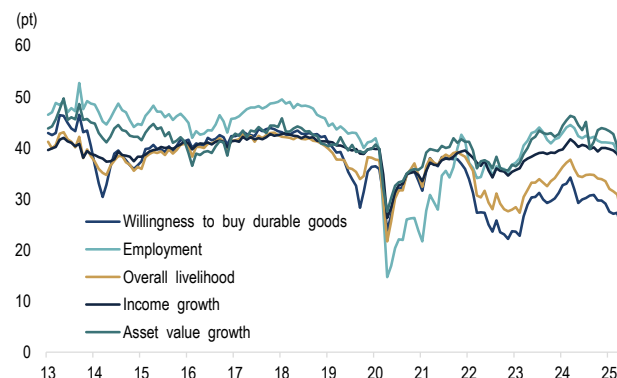
Note: The economic conditions DI is calculated as the proportion of respondents who answered that economic conditions "have improved/will improve" minus the proportion of those who answered that they "have worsened/will worsen."

**Chart 5: Consumption-related Sentiment Indices**



Source: Cabinet Office; compiled by Daiwa.

**Chart 6: Consumer Sentiment Indicators**



Source: Cabinet Office; compiled by Daiwa.

## **FY25 price projection at Jul BOJ MPM expected to be raised, but economic projection will likely be lowered**

On 14 July, the media reported that the BOJ would raise the price projection in the *Outlook Report* to be released at the July Monetary Policy Meeting (MPM) against a backdrop of higher-than-expected food prices. As recent price developments have been stronger than expected mainly due to the pass-through of higher costs to food prices, an upward revision to the FY25 price projection is in line with expectations. The FY25 price projection is currently expected to be revised to around +2.5%.

However, longer-term projections are the focus of attention with regard to price projections in the *Outlook Report*. While it is still possible that prices from FY26 onwards may be lower than expected due to tariff policies, the BOJ is likely to make its projection after considering (1) the rise in inflation expectations observed in the Opinion Survey on the General Public's Views and Behavior and (2) the overshoot in recent prices.

Meanwhile, it is very unlikely that an upward revision will be made to the economic projection considering the situation surrounding tariff policies centering on Japan-US negotiations. Indeed, a downward revision would be very likely if we were to see no improvement with new tariffs on the EU and other regions, and no progress with Japan-US negotiations.

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