Daiwa Securities

Daiwa's Economic View

Oct "Summary of Opinions" ~ BOJ policy board members focusing on initial response from spring wage negotiations

- Economic perceptions improving, tariff uncertainty declining
- Prices on track, but wage assessments still a priority
- Policy board members' views largely in line with those held by BOJ Gov Ueda, but inclination toward hiking rates is growing

FICC Research Dept.

Kento Minami
81-3-5555-8789
kento.minami@daiwa.co.jp

Kenji Yamamoto
81-3-5555-8784
kenji.yamamoto@daiwa.co.jp

Daiwa Securities Co. Ltd.

On 10 November, the BOJ released its "Summary of Opinions" from its 29-30 October meeting. Two policy board members cast dissenting votes at the October meeting. However, the board's overall stance toward raising interest rates has not changed since the September meeting. Meanwhile, BOJ Governor Kazuo Ueda said during his post-meeting press conference that economic and price outlooks have been progressing on track since the July projections. Here, Ueda's assessment that the "accuracy of the previous outlook has improved" indicates a positive shift in its economic perceptions.

The key points from the "Summary of Opinions" released under these circumstances are the progress for economic perceptions within the policy board and the growing inclination toward hiking rates.

Opinions on economic developments; progress seen regarding tariff uncertainties

As for economic developments in Japan, there was an increase in positive opinions from the perspective of the impact of emerging tariffs. Here, the "Summary of Opinions" expressed such views as, "It can be judged that the fog surrounding the outlook has begun to clear, compared with July" and "Even if the impact of US tariff policy becomes pronounced, the expected scale of the impact has become smaller than it was before."

There was also the more hawkish view that "In the US, with the administration shifting to policies that boost the economy, such as tax cuts and deregulation, it is unlikely that tariffs will cause further negative developments." It has been indicated that, within the policy board, uncertainties stemming from US tariff policies have eased significantly.

Furthermore, in regards to the impacts new Takaichi administration, there was the comment that, "Fiscal factors are important elements to consider when developing the outlook (for the economy and prices)." Reduced uncertainty from tariffs and upward pressure on the economy/prices from fiscal stimulus would likely support interest rate hikes from a fundamental perspective.

◆ **Opinions on Economic Developments in Summary of Opinions at Oct MPM (10 Nov 2025)**

- While it is possible that the tariff policy may have further impact or that the policy could change, it can be judged that the fog surrounding the outlook has begun to clear, compared with July.
- Even if the impact of U.S. tariff policy becomes pronounced, the expected scale of the impact has become smaller than it was before. Therefore, it is also likely that Japan's economic growth will not be too modest. As a baseline scenario, Japan's economy is expected to continue to grow at a pace slightly above its potential growth rate in both fiscal 2025 and 2026.
- In the United States, with the administration shifting to policies that boost the economy, such as tax cuts and deregulation, it is unlikely that tariffs will cause further negative developments.
- The Japanese government's new cabinet took office last week. It is difficult to say at this time that there is sufficient information regarding the direction or details of the government's policies, and the possible impact of these policies has not been incorporated into the outlook for economic activity and prices. Fiscal factors are important elements to consider when developing the outlook.

Opinions on prices: On track, but concerns about wages, household income

Regarding the views on prices, it was suggested that a shared understanding defined as "likelihood that conditions will evolve as projected by the Bank is increasing" exists among policy board members.

Against the backdrop of rising inflation expectations among businesses and households, as well as the entrenchment of inflation norms through proactive wage- and price-setting actions by companies, the "Summary of Opinions" introduced various views on upside price risks. This is presumed to be the opinion held by policy board members Hajime Takata and Naoki Tamura, who proposed hiking rates at the October meeting. Another view suggests that even if downward pressure from US tariff policies becomes apparent going forward, the "underlying trend in prices will continue rising moderately toward 2%." This suggests that confidence in the BOJ's outlook is strengthening among policy board members.

That said, some have pointed to consumer purchasing conditions as a key factor in assessing future price trends. During his press conference after the October meeting, Ueda seemed to stress the importance of "initial response (momentum) from annual spring labor-management wage negotiations." It seems like many policy board members are likely to want to assess future wages and household income.

◆ **Opinions on Prices in Summary of Opinions at Oct MPM (10 Nov 2025)**

- Even if the downward effects of U.S. tariff policy materialize, it is likely that Japan's economic conditions will be maintained to a considerable extent, mainly on the back of an improvement in real wages reflecting the decline in the inflation rate, and that the underlying trend in prices will continue rising moderately toward 2 percent.
- On the price front, while the effects of the rise in food prices have been pronounced, changes in firms' price-setting behavior in other areas have been moderate. This is likely to be because higher spending on food has led to consumers' increased thriftiness. It is therefore important to closely monitor developments in wages and household income.
- Inflation expectations of firms and households have already reached approximately 2 percent, an inflationary norm has been established, and upside risks to prices warrant attention. In fact, although households' perceived inflation has fallen, their inflation expectations for five years ahead have risen. Next spring, when wage hikes can be expected to be at a level in line with the price stability target for the third consecutive year, it is highly likely that it could be judged that the price stability target has been achieved.
- Given recent developments in financial and capital markets and firms' active wage- and price-setting behavior, it can be judged with more certainty that the price stability target has been more or less achieved. At this point, since the deflationary norm has already been dispelled and upward pressure on wages has also increased, it is necessary to pay more attention to the upside risks to prices when considering the risk balance.

Views on monetary policy held by policy board members largely in step with those held by Ueda

In regards to the conduct of monetary policy, many policy board members express a desire to confirm "corporate wage-setting behavior" and "initial response (momentum) from annual spring labor-management wage negotiations." Furthermore, there were also opinions such as, "The risk of greater-than-expected downward pressure being exerted on Japan's prices and economic activity cannot yet be ruled out, which could be caused by the US labor market starting to lose its 'curious kind of balance' and US capital markets entering an adjustment phase" and "Uncertainty regarding US tariff policy remains high." This suggests that uncertainty in the US remains.

At his press conference following the October meeting, Ueda stressed that while progress had been made regarding economic perceptions, uncertainty remained regarding the emergence of US tariff policy impacts. He indicated that such conditions would remain unclear for the time being, with the initial response (momentum) for the annual spring labor-management wage negotiations viewed as crucial for assessing the best timing (for a rate hike). The views presented in the "Summary of Opinions" appear to be largely consistent with Ueda's understanding. Indeed, views among policy board members, with the exception of the two members who proposed a rate hike, appear to be broadly in step with the views held by Ueda.

However, there is unanimous consensus among policy board members that a rate hike is imminent. Relevant comments include (1) "The Bank should not miss the timing to raise the policy interest rate, while continuing to provide appropriate information," (2) "It is likely that conditions for taking a further step toward the normalization of the policy interest rate have almost been met," and (3) "If it is confirmed that firms' active wage-setting behavior will be maintained, this is likely to lead to a policy change."

Given the growing inclination toward rate hikes among policy board members, the fundamental pivot (timing) for a rate hike would likely be December or January. The factors determining that pivot will likely be "domestic wage-setting behavior," "the US economy," and "price trends (including exchange rates).

Meanwhile, the new administration's actions could become a variable influencing the BOJ's decisions. Indeed, the "Summary of Opinions" stated that, "It is appropriate to take a little more time to examine the situation, taking into account that the direction of the economic policy of Japan's new administration is not yet fully clear."

The "Summary of Opinions" also included comments from government officials. Here there was the comment from Cabinet officials that, "The government expects the Bank to closely cooperate with the government in accordance with the spirit of the Bank of Japan Act and the Joint Statement of the Government and the Bank of Japan." That statement declares that the BOJ states that its objective is to "promote monetary easing under the 2% price stability target and achieve it as soon as possible." The BOJ also expressed its recognition that, "Raising the policy interest rate at this point can be considered part of the process of normalizing the policy interest rate, through which the Bank will curb economic distortions for the future and gradually return the policy interest rate to a state of equilibrium." Given these remarks, there should be no impediment to raising the policy interest rate to 0.75%, while communicating closely with the government.

That said, given the increasingly reflationary stance of the Takaichi administration, communication with the government regarding rate hikes toward the neutral rate's minimum level of 1.0% is increasingly likely to face significant barriers. However, these decisions will ultimately depend on price trends (including exchange rates).

The "Summary of Opinions" also expressed the recognition that, "With the changing norm in Japan, straightforward communication that emphasizes developments in headline inflation is now desirable." Until now, the BOJ had focused its explanations on underlying inflation. However, recognizing the difficulty in understanding that concept, it has entered a phase in which it places greater emphasis on the actual inflation rate trends.

In determining future rate hikes, in addition to explaining underlying price trends, policy decisions are expected to focus on the actual trajectory of inflation (whether future prices will generally stabilize around 2%) at the center of communication, while also taking into account the economic and price outlook that the BOJ has traditionally emphasized.

Opinions on Monetary Policy in Summary of Opinions at Oct 2025 MPM

	Opinions on Monetary Policy
1	If its outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation. In this regard, considering that high uncertainties still remain, it is important for the Bank to judge whether the outlook will be realized, without any preconceptions.
2	Firms' profit projections, which will take into account the tariff rate of 15 percent, will be fixed in the near future. Firms' wage-setting behavior -- which will be based on these upcoming profit projections -- particularly the momentum of initial moves toward next year' annual spring labor-management wage negotiations, will be an important factor for the Bank to consider in making policy decisions.
3	In conducting monetary policy, it will be necessary to continue to closely monitor the following three factors: (1) the impact on the global economy of trade policy in each jurisdiction, (2) the direction of U.S. monetary policy and of foreign exchange rates, and (3) the outlook for prices and wages in Japan. Given uncertainty regarding the impact of tariffs and developments in the global economy, particularly the U.S. economy, whether Japanese firms maintain their active wage-setting behavior is especially important.
4	Despite expectations for wage hikes next year, it seems that the burden on people in their daily lives has increased, judging from, for example, the change in consumption behavior due to price rises, and from the rise in construction costs -- such as material prices and personnel expenses -- and housing prices, and the resultant decline in the number of housing starts. The recent growth in bank lending also warrants attention. While uncertainties remain, the Bank will be in a situation where it should adjust the policy interest rate depending on the outlook for economic activity and prices and on the likelihood of achieving the outlook.
5	Japan's policy interest rate is lower than the neutral rate, unlike in the United States and Europe. It is also possible that financial and capital markets, such as the stock market, will become unstable. While the current situation may not require immediate action, the Bank should not miss the timing to raise the policy interest rate, while continuing to provide appropriate information.
6	It is likely that conditions for taking a further step toward the normalization of the policy interest rate have almost been met. However, the Bank needs to examine to what extent the underlying inflation rate has become entrenched.
7	The impact of tariff policies is taking time to materialize, and accommodative financial conditions will be maintained even after the next policy interest rate hike. Given these factors, if there is no negative news regarding the global economy or financial markets, and if it is confirmed that firms' active wage-setting behavior will be maintained -- judging from, for example, moves by both labor and management in the initial stages toward the annual spring labor-management wage negotiations -- this is likely to lead to a policy change.
8	It may be desirable to raise the policy interest rate sooner, considering the risk of prices in Japan being pushed up significantly through, for example, the yen's depreciation on the back of an overheating of the U.S. economy due to factors such as income tax refunds. However, the risk of greater-than-expected downward pressure being exerted on Japan's prices and economic activity cannot yet be ruled out, which could be caused by the U.S. labor market starting to lose its "curious kind of balance" and U.S. capital markets entering an adjustment phase. It is therefore appropriate to take some time to examine the situation before making a decision.
9	Although the timing at which the Bank should raise the policy interest rate is getting closer, it is appropriate to take a little more time to examine the situation, taking into account, for example, that uncertainty regarding U.S. tariff policy remains high and the direction of the economic policy of Japan's new administration is not yet fully clear.
10	The Bank should adjust the degree of monetary accommodation and set the policy interest rate a little closer to the neutral rate to prevent future shocks arising from possible rapid policy interest rate hikes.
11	Raising the policy interest rate at this point can be considered part of the process of normalizing the policy interest rate, through which the Bank will curb economic distortions for the future and gradually return the policy interest rate to a state of equilibrium.
12	The Bank should carefully explain that, when making monetary policy decisions, it will take into account underlying mechanisms -- such as supply and demand conditions, wages, and inflation expectations -- and special factors, rather than simply whether the CPI is above or below 2.0 percent.
13	With a shrinking equilibrium mindset remaining in place, it was necessary for the Bank to discuss headline inflation separately from underlying inflation. However, with the changing norm in Japan, straightforward communication that emphasizes developments in headline inflation is now desirable.

Source: BOJ; compiled by Daiwa.

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