

Daiwa's Economic View

BOJ Ueda's speech: Greater certainty on December rate hike

- Downside risks to economy receding; weaker yen an upside risk to inflation
- BOJ looks to be preparing for December rate hike
- Government/BOJ may only concur on rate hike to +0.75%

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Bank of Japan (BOJ) Governor Kazuo Ueda gave a speech on 1 December. In his 21 November Diet testimony, he had explicitly stated his concerns about the weak yen, cautioning that forex could also affect underlying inflation. Since November, BOJ policy board members Junko Koeda and Kazuyuki Masu have made a series of comments in favor of rate hikes, and reflationist board member Asahi Noguchi has also expressed concern about the weak yen, signaling the board's awareness of the need to raise interest rates. Given the above context, attention had focused on Mr. Ueda's comments as the BOJ's last chance for official communication before its December Monetary Policy Meeting (MPM).

Economic view: US risks remain, downside risk receding

Mr. Ueda noted in his speech that the impact of tariffs has yet to materialize in the US and the impact on Japanese firms' earnings looks increasingly likely to be limited, stating that "the uncertainty surrounding the outlook for Japan's economy is gradually diminishing." The BOJ maintains its outlook that Japan's economic growth rate will increase as overseas economies return to a moderate growth trajectory going forward.

Mr. Ueda also argued that "developments in the United States, which leads the global economy, will be key to whether or not this outlook is realized." He cited three factors behind the current lack of impact from tariffs: less uncertainty, slow progress with passing on higher costs in the US, and rising AI demand. While noting that "it appears that downside risks to the economy overall have decreased," he stated that risks relating to the US remain.

Inflation view: More concerned that weak yen could drive inflation overshoot

Mr. Ueda noted a number of uncertainties regarding the inflation outlook. He discussed both upside and downside risks, citing upside risks to food prices including a prolonged uptrend in prices and the upward impact on inflation expectations, while noting the downside risk to inflation should consumer confidence worsen. This is in line with the BOJ's existing stance, as signaled by his comment that "these developments do not appear to be gaining strength."

However, he also explicitly noted the risk of a weaker yen, stating in his speech that "exchange rate developments are...more likely to affect prices" and cautioning that they "could affect underlying inflation through changes in inflation expectations." He also noted at a press conference after the speech that "the government's economic stimulus will boost growth and will in theory be positive for trend inflation," signaling his awareness that fiscal stimulus could result in above-forecast inflation. While we think recent CPI trends are broadly in line with the BOJ's forecasts, forex and other factors are clearly skewing its assessment of the outlook for inflation toward the upside.

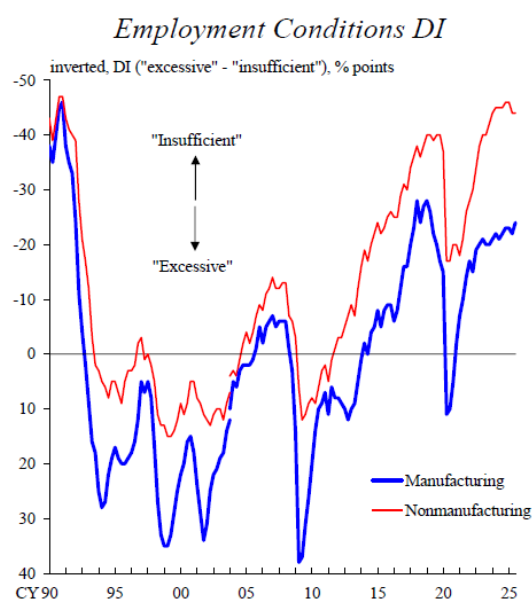
Initial momentum of spring wage negotiations: May have enough data in hand by December

Based on this assessment of the economy and inflation, Mr. Ueda noted that “the likelihood of the [BOJ's] baseline scenario for economic activity and prices being realized is gradually increasing.”

Regarding the “initial momentum” of spring labor-management wage negotiations, Mr. Ueda emphasized the positive aspects heading into the 2026 round, including labor shortages, the increase in minimum wage, strong corporate earnings, and the fact that wage hikes have become the norm for the Japanese Trade Union Confederation (Rengo) and Japan Business Federation (Keidanren). He also noted that “in view of the next Monetary Policy Meeting (MPM) to be held on December 18 and 19, the Bank is actively collecting information regarding firms’ stance toward raising wages through its Head Office and branches.” At the press conference, he explicitly stated that the BOJ is conducting special interviews. In other words, it appears to be gathering its own information to make sure it has enough data about the initial stages of next spring's wage negotiations to prepare for a rate hike at the December MPM.

Mr. Ueda also stated the view that at the December MPM, “the Bank will examine and discuss...based on various data and information, and will consider the pros and cons of raising the policy interest rate and make decisions as appropriate.” This echoes Deputy Governor Ryozo Himino's statement just prior to the January 2025 rate hike that the BOJ policy board “will have discussions to decide whether to raise the policy rate or not.”

Environment and Developments Surrounding Wages



Source: Reprinted from BOJ materials.

Annual Spring Labor-Management Wage Negotiation Stance

Figures in parentheses indicate base pay increase rates

	Rengo Wage increase target	Keidanren Positioning of wage increase	Actual wage increase
CY 2023	Around 5% (Around 3%)	Starting point	3.58% (2.12%)
CY 2024	5% or more (3% or more)	Acceleration	5.10% (3.56%)
CY 2025	5% or more (3% or more)	Anchoring	5.25% (3.70%)
CY 2026	5% or more (3% or more)	Further anchoring	—

Progress with government-BOJ communication

We would particularly draw attention to Mr. Ueda's statement during his speech that “adjusting the degree of accommodation appropriately -- without being too late or too early -- will be necessary to smoothly achieve the price stability target while ensuring stability in financial and capital markets, and to guide Japan's economy onto a long-term growth path, which will ultimately lead to the success of the efforts undertaken by the government and the Bank thus far.”

This is consistent with the view expressed by Prime Minister Sanae Takaichi at a 12 November meeting of the Council on Economic and Fiscal Policy that “appropriate monetary policy is crucial to achieving a balance between strong economic growth and stable inflation.”

Mr. Ueda's statement was particularly noteworthy given that it followed his comment that the BOJ "will consider the pros and cons of raising the policy interest rate and make decisions as appropriate," implying a rate hike in December. Taken together, these comments suggest that the government and BOJ are now much closer to a mutual understanding about a December rate hike.

Future path for rate hikes

Mr. Ueda's statement that the BOJ will "make decisions as appropriate" about the "pros and cons of raising the policy interest rate" naturally does not amount to a definitive statement that it will hike in December. However, given the BOJ's current view of inflation and its proactive move to gather information on the likely outcome of spring wage negotiations ahead of the December MPM, we think it likely views a December hike as a fait accompli unless external risks from the US or other elsewhere emerge in the meantime.

At the press conference following his speech, Mr. Ueda explained the government and BOJ's policy mix in terms of "the government's responsible and proactive fiscal policy and the BOJ adjusting the degree of monetary easing while monitoring underlying inflation"; he also emphasized in his speech that rate hikes are "a process of easing off the accelerator as appropriate toward achieving stable economic growth and price developments, not about applying the brakes on economic activity." This is consistent with the policies and views of the Takaichi administration.

However, Mr. Ueda's statements imply that the BOJ has yet to build enough of a consensus to raise interest rates to what it sees as the lower bound for the neutral rate (a policy rate of +1%). In other words, it remains uncertain whether the government will accept a rate hike that could mean not just "easing off" the accelerator, but lifting off completely.

Mr. Ueda noted at his press conference that if the BOJ delays adjusting the degree of monetary easing this could result in the kind of turmoil caused by high inflation and interest rates seen in the US and Europe, and that rate hikes also contribute to long-term growth. However, it remains unclear whether the government will be satisfied with this explanation during a rate-hiking cycle that aims for a policy rate of +1%, and we think future communications between the government and BOJ will be even more crucial.

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