

Daiwa's Economic View

World after BOJ's Jun rate hike: Inflation in Japan to enter "third wave" from fall through winter

- Upstream prices continue to rise; accelerated passing on of costs to consumer prices
- Prices seen rising in fall/winter on rebound following end of subsidies, energy prices to rise after certain lag
- Renewed inflation acceleration pressuring both BOJ's rate hiking leeway and fiscal policy measures

Kenji Yamamoto81-3-5555-8784
kenji.yamamoto@daiwa.co.jp

Daiwa Securities Co. Ltd.

Now: Inflation has slowed recently, but upstream price pressures set to ramp up again

Current consumer prices are being held in check by energy subsidies and policy factors. In April 2026, the core CPI rose 1.4% y/y, marking a slower pace of growth compared to the previous month. Lower food and energy prices are now driving down overall inflation. Food sector price growth has also continued to slow since the strong growth recorded in the summer of 2025. Recently it has dropped to a 4% range y/y.

However, these trends are limited to the downstream prices. Import prices for food and beverages are rising at an accelerating rate and rising costs are again strengthening within business-to-business transactions. As a result, food prices are expected to start rising at a faster pace once again, starting from this summer.

A similar pattern can be seen in the energy sector. Crude oil prices remain high, influenced by the situation in the Middle East, but electricity and gas rates are being held in check due to subsidies. For this reason, rising energy prices have not been fully reflected in consumer prices.

That said, there is a certain time lag before fuel price fluctuations impact household budgets. Rising crude oil prices are reflected in electricity rates with a lag of several months to about six months, via import prices, LNG prices, and the fuel cost adjustment system. As a result, it is highly likely that rising energy prices will begin to weigh on household budgets from this fall through the winter.

In this context, corporate pricing behavior is attracting attention. In recent years, there has been a growing trend to pass on rising costs to prices, producing a situation in which import price changes are easily reflected in consumer prices. In [his speech last week](#), BOJ Governor Kazuo Ueda noted that rising crude oil prices could spill over into a wide range of goods and services. He expressed his view that the passing on of higher costs to prices is currently occurring more rapidly than in the past and is likely to have a broader impact. As a result, cost increases triggered by rising crude oil prices are now more likely to be reflected in a wider range of products over a shorter period than before.

However, the trends being confirmed at this juncture are not limited to just import prices. The Corporate Goods Price Index (CGPI), which tracks prices in business-to-business transactions, has also continued to show strong price growth. A 9 June MNI report said that within the BOJ, this strength in corporate prices is viewed as a factor that will underpin future consumer prices. Since corporate prices tend to lead consumer prices, if upstream price increases persist, conditions in which the passing on of higher costs to consumer prices will easily continue, albeit with a certain lag.

Future: Prices set to again accelerate in fall/winter after subsidies end

In assessing the outlook, the summer subsidies and the subsequent price rebound will be key factors. The government has announced plans to resume subsidies for electricity and gas rates during this summer. As such, consumer prices will be temporarily pushed down in the summer of 2026.

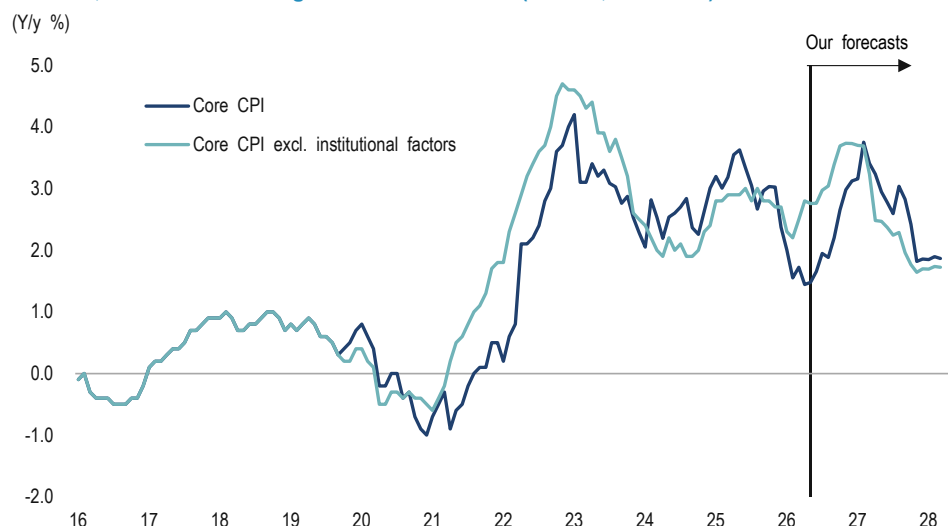
However, this downturn for prices will not last. Because rising fuel prices are reflected in electricity rates following a certain time lag (due to regulatory procedures), it is highly likely that rising energy prices will become apparent this fall or later, once the subsidies end. Additionally, persistently high resource prices are spreading to packaging materials, logistics costs, and processed foods via higher naphtha prices, leading to widespread cost increases. These cost increases will eventually be passed on to consumer prices, albeit following a certain time lag.

Changes in corporate stances on passing on higher costs to prices will also serve as a factor driving up future prices. This is due to an unfolding situation in which rising costs are not absorbed by corporate profits, but are instead reflected in selling prices at a certain rate.

As a result, the consumer price inflation rate is likely to rise again in 2H FY26. Core CPI is expected to rise from the current 1% range to a 2% range during this summer and it could accelerate further in 2H FY26. Excluding institutional factors, core CPI is expected to enter a 3% range starting in July and remain flat in the upper 3% range from this autumn onward. However, depending on the price outlooks for crude oil and other commodities, there is a risk that core CPI could briefly touch 4.0%.

During his press conference following the April Monetary Policy Meeting, Ueda also presented an outlook described as, “**Inflation is expected to peak by around the first half of FY27 and then begin to decline.**” Whether this outlook materializes will depend on the extent to which higher costs are passed on to prices, as well as future energy price trends. The Bank is entering a critical phase that will determine success or failure. In terms of a timeline, after remaining subdued in the spring, prices will likely be pushed down further during the summer, with upward pressure starting to reemerge from the fall through the winter.

Core CPI, Core CPI Excluding Institutional Factors (actuals, forecasts)



Source: Ministry of Internal Affairs and Communications, BOJ; compiled by Daiwa.

Positioning of “third wave” and risks

Taking into account these conditions, inflation in Japan will likely rise again. Indeed, it is highly likely that inflation will enter a new upward phase (“third wave”) starting this autumn and continuing through the winter.

In this phase, the rise in energy prices after a certain lag, combined with the passing on of higher costs to prices for food and daily necessities, will push up consumer prices across a wide range of goods. The current price stabilization is due to government subsidies and, taking into account the price rebound following the end of such subsidies, price fluctuations could easily increase starting this autumn.

This renewed acceleration for inflation is likely to place greater constraints on the BOJ's conduct of its monetary policy. If the underlying rate of inflation rises, the gap with the current accommodative monetary environment will widen, [increasing pressure on decisions regarding additional interest rate hikes](#).

In the US, in particular, [interest in inflation is growing amid a strong job market. Monetary policy also remains tight](#). Under these circumstances, the impacts of domestic and foreign interest rate differentials and exchange rate movements are likely to intensify, which could influence the BOJ's policy decisions.

At the same time, the issue of fiscal flexibility is also being called into question. While subsidies help to ease household financial burdens over the summer, those burdens seem likely to rise again from this autumn through the winter due to rebounding fuel prices. However, if the government continues or expands its support, additional fiscal spending would be required. On the other hand, if it curtails that support, higher prices will become apparent. In any case, fiscal constraints are likely to tighten.

All told, the "third wave" should be viewed not merely as a renewed acceleration of inflation, but as a phase that imposes greater constraints on both monetary and fiscal policy. A re-acceleration of inflation would not only limit the BOJ's leeway for policy maneuvering, but it would also force the government to make difficult choices regarding fiscal policy. Japan is likely to enter a phase in which overall policymaking comes under pressure.

Seeking clues on how high and at what point inflation will peak

On 9 June, several media outlets reported with certainty that the BOJ will make a rate hike in June. These included, "BOJ set to hike key interest rate to 1.0% in June, also considering pausing tapering of its JGB purchasing program" (*Nikkei*), "BOJ likely to raise rates at June meeting; Policy rate expected to reach 1.0% for first time in 31 years" (*Asahi Shimbun*), "BOJ to raise interest rate to 1.0% in June (highest level in 31 years) to address risks of higher-than-expected inflation due to Middle East tensions" (*Sankei Shimbun*), and "BOJ to adjust rate hike to 'around 1.0%,' raise rate to highest level in 31 years, citing consideration of 'inflation risks' due to surging crude oil prices" (*Yomiuri Shimbun*).

Under conditions in which, "Concerns about a downturn for the economy have been dispelled to a certain extent" (BOJ executive), there is awareness of the problem that, **"The pace at which companies are passing on higher costs to prices is accelerating. If we miss the window of opportunity, we may be forced to raise rates significantly later on"** (BOJ official). However, this is exactly what we have discussed so far and there is nothing new to report, including the execution of interest rate hikes. Rather, considering the risk of higher-than-expected inflation in the future, a rate hike can be seen as a natural step.

However, we need to consider that, "There is a growing view that rising crude oil prices, driven by tensions in the Middle East, are leading to higher prices across a wide range of goods and pushing up the underlying rate of inflation (excluding temporary variables)." Regarding the outlook for future prices, the key point of Ueda's post-meeting press conference in June will probably be whether or not he provides any clues as to whether the Bank's assessment of when and at what level the inflation rate (core inflation) will peak has changed since the April meeting.

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