

PANTHEON CHINA+ DATA WRAP 28 MAR 25

- Tokyo inflation picks up, but the BoJ's immediate focus will be on US auto tariffs

- Japan: Tokyo CPI rose 2.9% y/y in March, after climbing a downwardly revised 2.8% in February. Consensus was 2.7%.

Headline Tokyo inflation edged up 0.1pp to 2.9% y/y in March, lifted

by higher core goods and services inflation, outweighing slowing food inflation. Core core inflation, excluding fresh food and energy, accelerated 0.2pp to 2.4% y/y in March. Food inflation still made the largest contribution to headline inflation y/y, at 1.7pp, though dipping 0.1pp, while the contribution of energy inflation was unchanged at 0.3pp. The contributions of inflation in services and core goods both nudged up 0.1pp to 0.4pp and 0.5pp respectively.

Overall food inflation dipped 0.1pp to 6.7% y/y in March, pulled down by a 5.1pp slowing in fresh food inflation to 12.9%. Vegetable and fruits supplies are returning to normal after being hit by heavy snowfall. But non-perishable food inflation gained 0.6pp to 5.6%, the highest since January 2024, led by red-hot rice inflation nearing 90%. Policy support for small farmers, including leaving 40% of rice paddies unused, is the underlying driver of rice inflation, triggered by poor harvests and exacerbated by

import restrictions. Non-perishable food inflation is likely to pick up, on the back of higher costs and the weak currency. The number of food items with planned price rises leaped to 2,345 this month, from 1,656 last month; this is about three times as many as last March, according to Teikoku.

Core goods inflation broadly ticked up, including household durables, non-durables, clothes, medicines and recreational goods, reflecting

higher costs including wages and imported costs. Overall services inflation rose 0.2pp to a still subdued 0.8% y/y, led by culture & recreational and domestic services inflation.

Education services fees continued to plunge, owing to the expansion of free schooling which came into effect year ago, but this effect should end this month resulting in a jump y/y in recorded education inflation.

BoJ March policy minutes released today show a split among the nine

voting members on the timing of the next rate hike. One unnamed member said the Bank will need to be “particularly cautious” about the timing of the next rate rise if Japan is hit by US tariffs. Other members appear set on further gradual rate increases, despite the uncertainties related to global trade.

The BoJ will see today’s Tokyo inflation figures as backing its determination to continue normalising interest rates, and we expect two

more 25pp hikes this year. The BoJ is likely to stay put on at its next meeting on May 1 if the US follows through with 25% tariff hikes on autos on April 2, as the Bank monitors the immediate impact, though it will be a close call with building food inflation. Japan exports \$40B of autos to the US each year, equivalent to 0.9% of GDP. Governor Ueda on Wednesday said the Bank will continue to raise rates if wage inflation, including at smaller firms, drives consumer inflation, but also said the BoJ needs to view how

“overseas uncertainties” hit consumer sentiment.

