

CHART OF THE WEEK

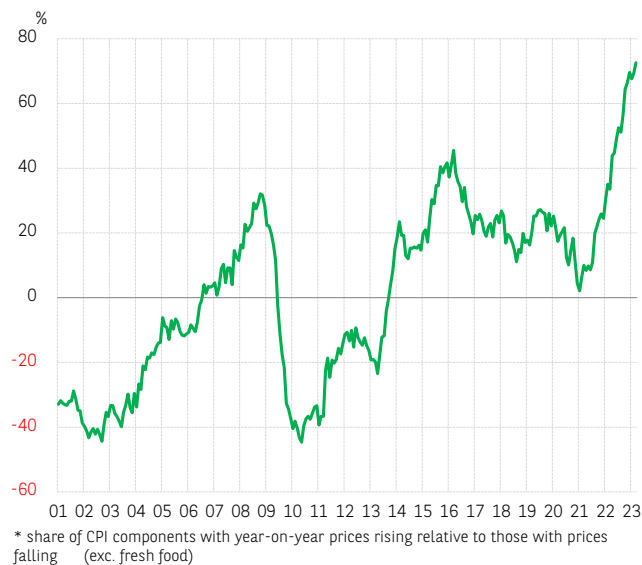


10 May 2023

JAPAN IS NOT SPARED FROM THE RETURN OF INFLATION

Guillaume Derrien

Japan: diffusion index of inflation*



Source: Bank of Japan, BNP Paribas

The introduction last February of new government subsidies aimed at lowering Japanese household energy bills, helped bring down overall inflation in Q1, from 4.0% y/y in December 2022 to 3.3% y/y in March 2023.

However, the Bank of Japan (BoJ) assessment of the current situation, based on alternative inflation indicators, remains challenging. In particular, the BoJ diffusion index, which measures the share of CPI components with year-on-year price increases compared to CPI components with falling prices, hit 82.6% in March, the highest level in recent years. As a case in point, inflation is spreading increasingly across Japan with almost 50% of CPI components posting growth of over 2% in March¹. The "Food" component (+7.7% year-on-year in March) is still by far the leading contributor to inflation, due to its large weight in the household shopping basket (26%). However, significant increases are recorded in other components, including furniture and household utensils (+9.4% y/y), clothing and footwear (+3.7%) and recreation and culture (+2.3%). In response to these trends, in April, the BoJ revised its inflation forecasts for 2023 and 2024 upwards from its January projections, from 1.6% to 1.8%, and from 1.8% to 2.0%, respectively.

The current inflationary momentum could encourage the BoJ to reassess its yield curve control policy, or even start a tightening in monetary policy. However, the timing and size of any such adjustments are difficult to predict and may not occur before next year.

guillaume.a.derrien@bnpparibas.com

¹ See BNP Paribas, Inflation Tracker, May 2023

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Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
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