

# Japan: New step in monetary tightening

According to the Jibun Bank PMI survey, **the Japanese economy has started 2025 in different directions**. The manufacturing PMI fell to 48.7 in January (-0.9 pp, the lowest since March 2024), against a backdrop of a wider deterioration in production and new orders. By contrast, the services PMI accelerated according to the flash estimate, with Business Activity rising from 50.9 to 52.7. These developments left the Composite index in the expansion zone (51.1) for the third consecutive month. This points to slightly positive growth in Q1 2025 (+0.1% q/q according to our forecasts), after a 2024 marked by slightly negative growth (-0.2% as an annual average according to our estimates).

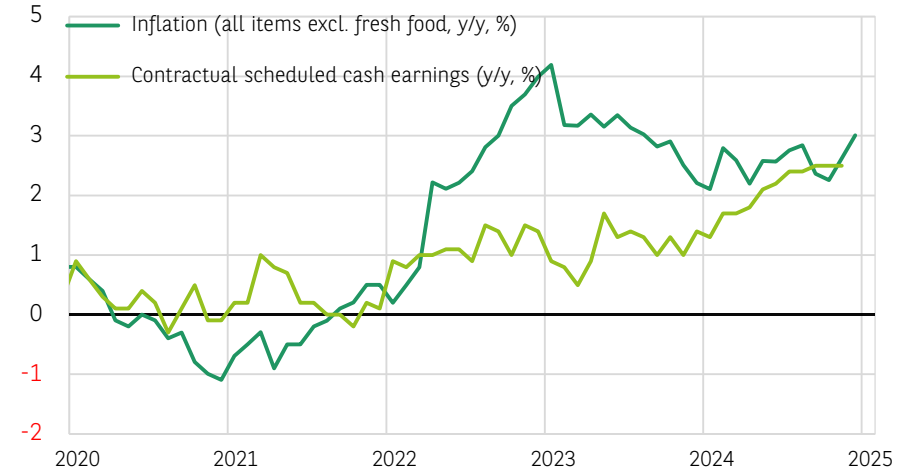
**Inflation ended 2024 up, which is good news for Japan.** Core inflation (excluding fresh food) reached +3.0% y/y (+0.3 pp), the highest since August 2023, despite a modest monthly slowdown (-0.1 pp to +0.3%). This result was mainly driven by energy inflation, at +10.1% y/y (+6.0 pp), both due to a monthly increase (+4.1%, +1.4 pp) and base effects. As a result, new core inflation, which also excludes energy, was stable (+2.4% y/y and +0.0% m/m). A leading indicator of national earnings, Tokyo's inflation for January 2025 suggests a further acceleration to come.

**Overall, wage momentum was still strong in November.** The increase in contractual scheduled earnings was maintained at +2.5% y/y, which was the third month in a row at this level not seen for more than 30 years. The sample, restricted to full-time employees and considered more representative, slowed slightly to +2.9% y/y (-0.1 pp). Above all, a positive trend for household consumption: the real wage index was in positive territory, at +0.5% y/y, after two months of decline. On the other hand, the unemployment rate fell further to +2.4% (-0.1 pp).

At the monetary policy meeting on 23-24 January, the Bank of Japan (BoJ) decided to raise the uncollateralised overnight call rate by 25 bps. **This first hike in the key rate since July 2024 brings it to +0.5%**, its highest level since 2008 (*see chart*). The BoJ announced that tightening would continue if its outlook is realised, in which the core inflation forecast was raised to +2.4% (+0.3 pp from October) for the 2025 fiscal year (which starts on 1st April). And lastly, the Summary of Opinions stated that "the resilience of Japan's economy as a whole has increased enough" to withstand the likely impact of the policies of the new American administration.

Anis Bensaidani, article completed on 3 February 2025

## A wage-price spiral finally taking place?



Source: Macrobond, BNP Paribas

## GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024 (estimate)	Q4 2024*	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
-0.6	0.5	0.3	0.2	0.4	0.1	0.1	0.1	-0.2	0.6	0.2

\* Calculate with the Q4 2024 estimate

Source: Refinitiv, BNP Paribas



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