Japans households open their wallets, BOJ seen keeping stimulus

By Leika Kihara
December 26, 2017 – *The Globe and Mail / Reuters*

Japan's households spent more than expected in November while consumer inflation ticked up and the jobless rate hit a fresh 24-year low, offering the central bank some hope an economic recovery will drive up inflation to its 2 per cent target.

But the increase in prices was due mostly to a boost from rising fuel costs that is seen fading in 2018, keeping the Bank of Japan under pressure to maintain its huge monetary support even as other central banks seek an end to crisis-mode policies.

Minutes of the BOJ's October rate review showed that while most central bank policy makers saw no need to ramp up stimulus, they agreed on the need to sustain "powerful" easing for the time being.

"There's a chance inflation may gradually accelerate toward the fiscal year beginning in April," as a tightening job market pressures companies to raise wages, said Takeshi Minami, chief economist at Norinchukin Research Institute.

"But inflation remains distant from the BOJ's 2 per cent target, so the central bank will probably maintain its current policy framework."

Spending was driven by broadbased gains, with households loosening the purse strings for items such as refrigerators, washing machines, and sporting goods and services such as eating-out and travel.

Behind the improvement is a slow but steady rise in household income. Wage earners' disposable income rose 1.8 per cent in November from a year earlier, suggesting that higher incomes have encouraged consumers to open their wallets.

A stock market boom is also giving households more purchasing power. Japan's top 4 department stores all saw sales increase in November from a year earlier on brisk demand for luxury items.

The nationwide core consumer price index (CPI), which includes oil goods but excludes volatile fresh food prices, rose 0.9 per cent in November from a year earlier, government data showed on Tuesday, marking the 11th straight month of gains.

The pace of price growth was just ahead of October's 0.8 per cent and a median market forecast of the same rate.

Despite the increase seen in wages, Prime Minister Shinzo Abe has urged companies to raise wages by 3 per cent or more next year, keeping pressure on firms to spend their huge cash pile to broaden the benefits of his stimulus policies.

A Reuters poll published earlier this month found two-thirds of Japanese firms think the government's push to raise wages by 3 per cent is a tall order, with some dismissing it out of hand.

Job market tightens further

Separate data released on Tuesday showed prospects for a sustained recovery were picking up. The unemployment rate hit a fresh 24-year low of 2.7 per cent in November and job availability rose to a nearly 44-year high.

Household spending rose 1.7 per cent in November from a year earlier, far exceeding forecasts for a 0.5 per cent increase.

The slew of upbeat data may offer relief to BOJ policy makers, who are increasingly worried about the demerits of ultra-easy policy but wary of choking off a budding economic recovery by dialling back stimulus too quickly.

At the October rate review, several BOJ policy makers voiced concern of taking "extreme steps" just to hit their price goal, countering calls by board newcomer Goushi Kataoka that additional easing measures were necessary.

Most members felt that maintaining current policy was sufficient, though conceding it may take some time before firms more actively raise prices and wages, the minutes showed.

"It seems so difficult for many firms to take the first step to raise their prices, that they wait and see what other firms are doing," BOJ Governor Haruhiko Kuroda said on Tuesday.

Japan's economy grew an annualized 2.5 per cent in July-September to mark a seventh straight quarter of growth thanks to robust exports and capital expenditure.

But the inflation rate remains distant from the BOJ's target, as firms remain wary of scaring away cost-sensitive consumers with price hikes.

The BOJ kept monetary policy steady in October and a subsequent meeting in December, reassuring markets it will lag well behind overseas peers in ending its ultra-loose monetary settings.