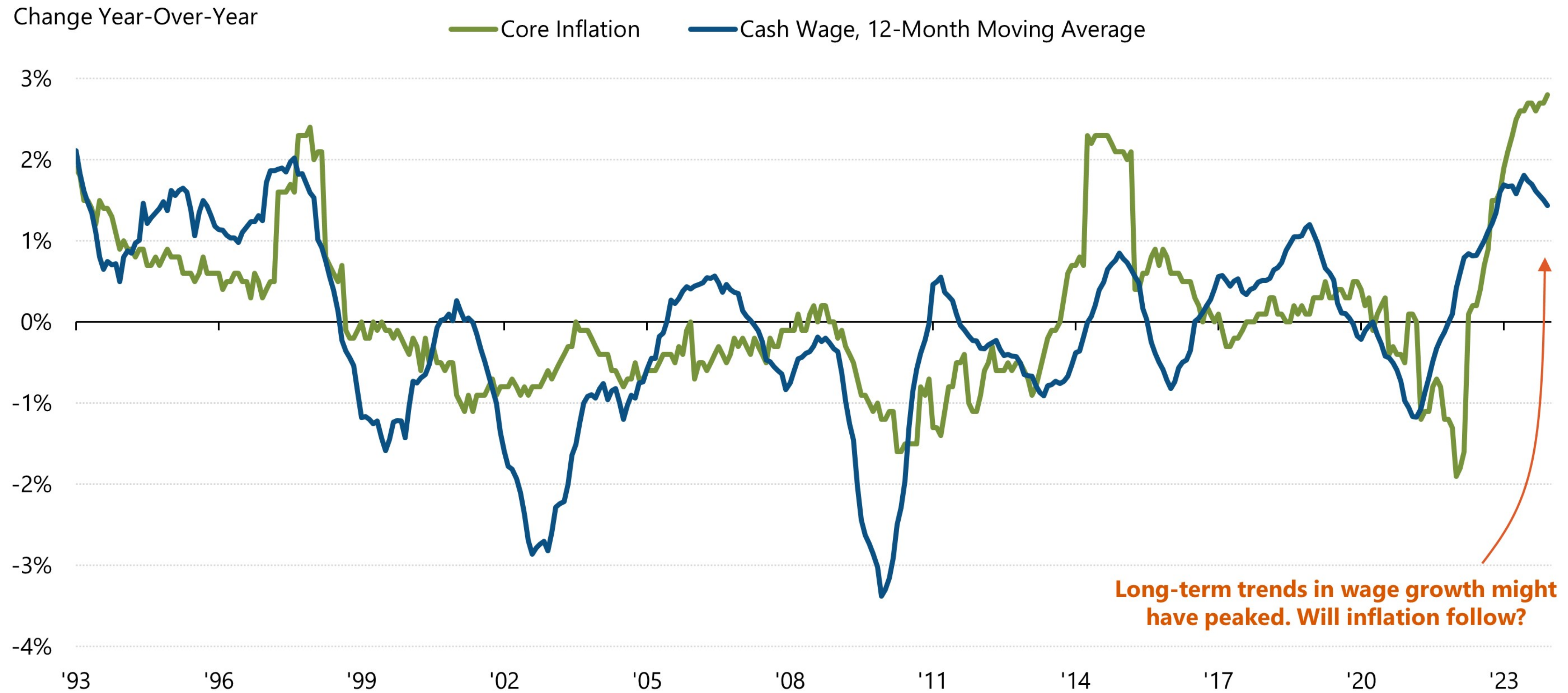


Virtuous Validation

Japan Core* Consumer Price Index Versus Labor Cash Earnings Growth

For The Week Ending 02/09/2024



Source: Japan Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications

*Excludes food and energy

Last week, the U.S. Fed stated its need for "greater confidence" to ratify rate cuts; this week, the Bank of Japan (BoJ) also seems to need more convincing data to ratify rate increases. Japan's core inflation reached its highest level in 32 years in December, prompting bond markets to place a 60% probability on an April rate increase. We'd caution investors from anticipating too many hikes. This week's labor cash earnings release portrayed December wages growing at a 1% clip year over year. Further, one should look at the 12-month moving average of labor cash wage growth, as cash wage measures in Japan tend to be volatile. Commenting on recent data, BoJ Deputy Governor Uchida said that "inflation is likely to increase gradually toward 2%, supported by a virtuous cycle between wages and prices." In other words, policymakers expect wage growth to feed higher prices, leading to the "sustainable and stable achievement of the 2% target" before tightening policy. Does the wage chart breed confidence that BoJ can achieve its goals or that the tide might be turning?