

# Economic Commentary

## June Tokyo CPI: Wave of cost pass-throughs may be easing

- Y/y inflation slowed in June, mainly on policy factors
- Wave of cost pass-throughs may be easing
- Services inflation mainly reflects pass-through of rising goods costs

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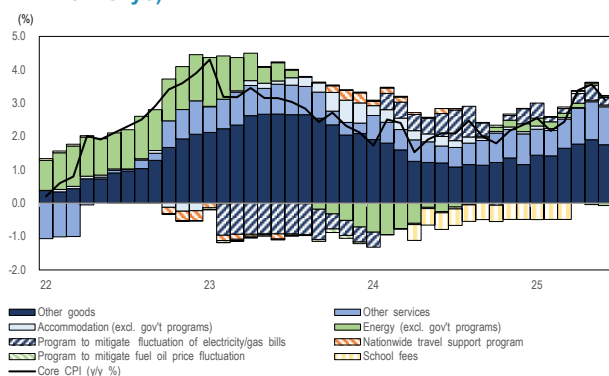


### June Tokyo CPI: y/y growth slows, mainly on policy factors

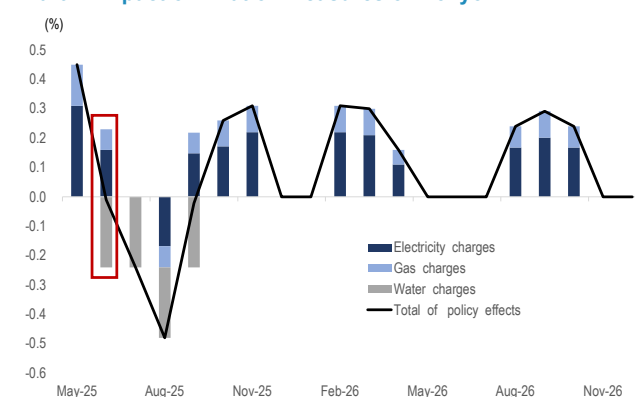
The Tokyo core CPI (headline excl. fresh food) for June 2025 was +3.1% y/y, down from +3.6% in May and below the median market forecast of +3.3%. The core-core CPI (headline excl. fresh food and energy) also slowed to +3.1%, from +3.3% in May.

The main factors behind the slower y/y growth in the June CPI were the lack of previous government electricity and gas subsidies and the impact of the Tokyo metropolitan government's move to scrap basic water charges over the summer. Including the base effect of electricity and gas subsidies, these boosted the June CPI by around +0.45% in May, falling to -0.01% in June. The pause for basic water charges depressed the June core CPI by around 0.24ppt. We would also note that central and Tokyo government measures to tackle inflation will cause the CPI to slow y/y in Jul-Aug.

The core-core CPI (seasonally adjusted) was also up just +0.1% m/m in June (+0.4% in May). The contribution from eating out and culture & recreation services in particular was smaller than in May. Given that restaurant prices were up m/m, this suggests the impact of a major pullback from last year's price hikes. However, we would note that the wave of cost pass-throughs may be easing.

**Chart 1: Breakdown of Contributions to Core CPI (in ward-area of Tokyo)**

Source: Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

**Chart 2: Impact of Inflation Measures on Tokyo CPI**Source: MIC; compiled by Daiwa.  
Note: Including base effects.

### Wave of cost pass-throughs may be easing

Food prices (excl. fresh food) were up 7.2% y/y (+6.9% in May). Rising prices for confectionary and other processed food and for non-alcoholic beverages made the greatest contribution, while rising raw material prices spilled over into higher prices for processed food in the food ingredient category. Specifically, prices of chocolate, coffee beans, and instant coffee were up sharply in June. The restaurant price index rose to 115.5 (from 115.3 in May), but the m/m contribution narrowed to -0.02ppt. The slower +5.5% y/y increase in the category (+5.9% in May) reflected a negative impact from gyoza, sushi, and Korean barbecue restaurants.

We think companies will continue to pass through higher costs particularly in processed food through summer. However, we expect cost-push pressure from rice and overseas factors (import prices) to ease.

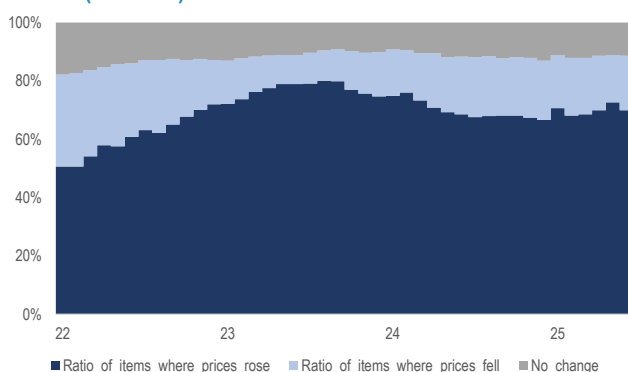
Rice inflation slowed to +90.6% y/y in June (+93.7% in May), partly reflecting the release of government stockpiles. According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), just 1,945MT of rice was sold through 8 June, only a tiny portion of the roughly 500,000MT approved by the government for release since 26 May. Given the time it will take for rice to reach consumers, we expect the release of stockpiles to have a sustained downward impact on rice prices. Import prices continued their downtrend in May, with a 10.3% y/y decline, reflecting the stronger yen and falling energy prices.

Our next focus points are the sustainability of cost pass-throughs and their impact across a broad range of items. The ratio of items where prices rose to those where they fell, which we use to track progress with cost pass-throughs, fell to 69.9% in June from 72.6% in May.

The breakdown by category was 77.8% for food excluding fresh food (81.8% in May), 68.0% for goods excluding food (69.7%), and 60.5% for services excluding restaurants (63.2%). While companies continue to pass through higher costs into processed food prices, the wave of price hikes for other items may be easing.

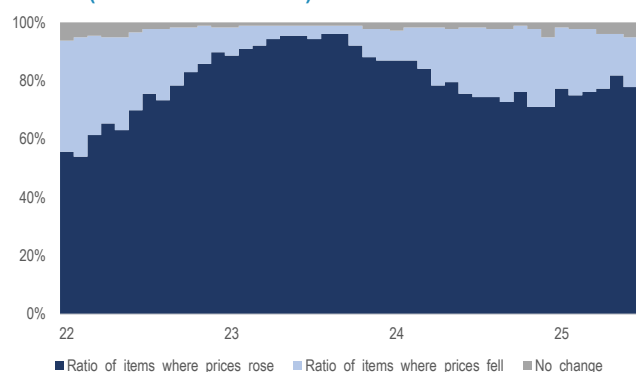
If cost pass-throughs spread beyond food, this could prolong cost-push pressure. However, today's CPI print implies that the wave of cost pass-throughs may be easing, suggesting that the resulting upside risk to consumer prices has diminished. At this point, we continue to expect CPI inflation to slow to around 2% through end-2025.

**Chart 3: Percentage of Tokyo Items for Which Prices Rose/Fell (core CPI)**

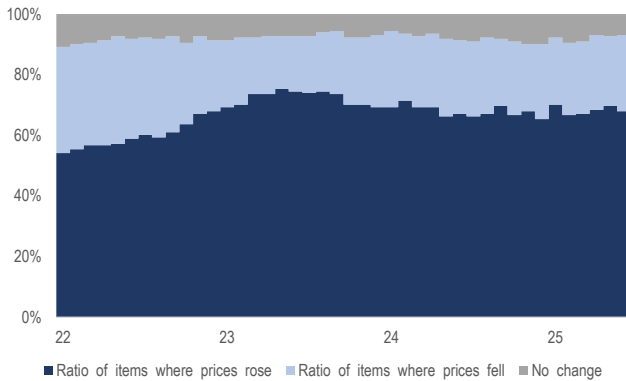


Source: MIC; compiled by Daiwa.

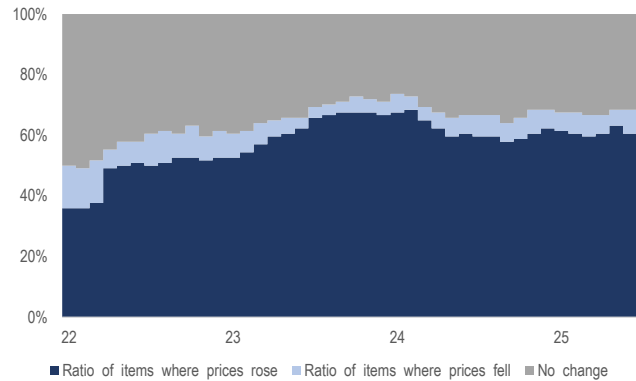
**Chart 4: Percentage of Tokyo Items for Which Prices Rose/Fell (food excl. fresh food)**



Source: MIC; compiled by Daiwa.

**Chart 5: Percentage of Tokyo Items for Which Prices Rose/Fell (goods excl. food)**


Source: MIC; compiled by Daiwa.

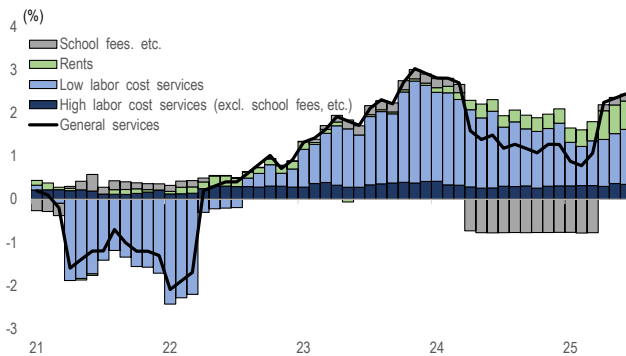
**Chart 6: Percentage of Tokyo Items for Which Prices Rose/Fell (services excl. eating out)**


Source: MIC; compiled by Daiwa.

### Services inflation mainly reflects pass-through of rising goods costs

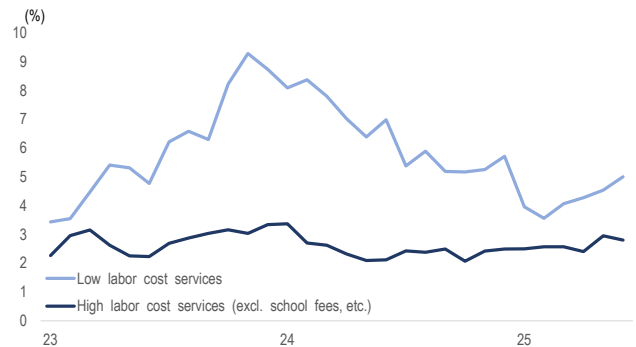
Service price inflation slowed slightly to +2.1% y/y (+2.2% in May). Private service prices were flat versus May at +2.4%. By category, communication fees (mobile phones) rose sharply, while accommodation and theme park entrance fees contributed to slower growth than May. As noted, restaurant prices are also contributing to slower growth.

We estimate that y/y growth in private service prices accelerated for services with low labor costs but slowed for services with high labor costs. While inflation for high-labor cost services remains high, companies have yet to make broad-based progress with passing on rising labor costs.

**Chart 7: Breakdown of Contributions to General Service Prices in Tokyo**


Source: MIC; compiled by Daiwa.

Note: After reclassifying each item in the general service prices into each item in the interindustry relations table (input-output table), the items were arranged according to the proportion of labor costs to domestic production value. As a result, the top 50% are classified as "high labor cost services" and the bottom 50% are classified as "low labor cost services."

**Chart 8: Y/y Changes in Tokyo General Service Prices by Labor Cost**


Source: MIC; compiled by Daiwa.

Note: Excluding school fees and rents.

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