

Daiwa's Economic View

FICC Research Dept.

BOJ branch managers' meeting report (Oct): Progress on track

- Confirmation that progress with Japanese economy and prices appears to be on track with regard to BOJ outlook
- While uncertainties remain concerning next year's wage hikes, likelihood of maintaining high wage hikes is increasing
- Report suggests that prices are moving in line with BOJ projections

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Branch managers' meeting report indicates progress with Japanese economy and prices on track with regard to BOJ outlook

On 6 October, the BOJ published its branch managers' meeting report (Regional Economic Report (*Sakura Report*)). At [his regular press conference in September](#), Governor Kazuo Ueda stated that, given the high degree of uncertainty, the BOJ would carefully examine data and information gathered from interviews as it became available, emphasizing the importance of interview data in policy decisions. This latest branch managers' meeting report serves as one of those critical sources of information.

In this branch managers' meeting report, the overall assessment was downgraded in one region (Hokkaido) out of all nine regions. On the other hand, Osaka branch manager Kazuhiro Masaki pointed out at the press conference on the 6th that the Japan-US tariff agreement had made it easier for companies to take action, suggesting that uncertainty surrounding tariff policies had decreased compared to the previous report. While uncertainties still remain, there is an increasing feeling that the Japanese economy and prices are on track with regard to the BOJ's outlook.

Economic progress made since previous report

Firstly, while there was a comment regarding exports and production pointing out that there was last-minute demand due to US tariff hikes, and a subsequent reactionary decline due to that, as well as a downward trend in orders for capital goods, it was also noted that there were numerous reports indicating solid orders. This is consistent with the view expressed by Governor Ueda at [the press conference on the 3rd](#), when he stated that, although last-minute exports and subsequent reactions to that were seen, the underlying trend was within a flat range.

With regard to capital investment, some mentioned that plans were postponed due to uncertainty and rising costs, while many reported that an aggressive investment stance was being maintained, indicating that the baseline for capex is solid. Furthermore, we saw an increase in the number of positive comments by companies and other major players (by topic) in the Regional Economic Report regarding exports, production, and capex compared to the previous report. While uncertainties still remain, it is obvious that the economic assessment has improved.

Uncertainties remain regarding the setting of wages, but it is increasingly likely high wage hikes will be maintained in 2026 spring wage negotiations

Of particular note are the comments regarding the setting of wages. Concerns were indicated in the branch managers' meeting report that wage hikes would have to be suppressed if corporate profits declined significantly, and the report also included comments that there continued to be a need for big wage hikes. Looking at the major comments from companies (by topic), we found two comments stating that wage hikes next spring were expected to be maintained at a high level similar to this spring, as well as two comments stating that wage hikes were expected to be suppressed due to the deterioration of earnings.

Branch manager Masaki also pointed out at the press conference that, while the major trend of increasing wages would continue, downward pressure on corporate profits due to tariffs had yet to manifest itself, and that there was insufficient information to talk about specific developments or how high the wage hikes would be next fiscal year, suggesting that uncertainties remain.

That said, as indicated by [the BOJ Tankan \(Sep survey\)](#), the decline in corporate profits is limited, so, the possibility of a significant undershoot in corporate profits has decreased. While uncertainties can never be completely eliminated in any economic environment, it should be noted that the probability has increased substantially that high wage hikes will continue to be maintained in the 2026 spring wage negotiations.

Price-setting behavior: No signs of increasing concerns about rising prices

There were also many comments regarding companies' price-setting behavior stating that companies were continuing to pass on rising costs, such as those for procurement, labor, and logistics. On the other hand, there was also a comment stating that, with consumers becoming somewhat budget-minded against the backdrop of rising food prices, developments were seen such as curbing price hikes and bolstering lineups of low-priced products.

At [his press conference on 3 October](#), Governor Ueda pointed out both upside and downside risks regarding food prices, namely the possibility that inflation could last longer than expected and that prolonged inflation could lead to a deterioration in household confidence. Similar risks were also confirmed in the latest report. While the food service industry reports insufficient price pass-through due to rising food procurement prices, food retailers and supermarkets point out that the rate at which price pass-through is occurring is being suppressed due to consumers being frugal.

Overall, while comments from companies have confirmed that inflation persists due to domestic factors (such as personnel expenses), there are no signs that concerns about rising prices, particularly those for food, are increasing. This suggests that prices are currently moving in line with the BOJ's projections.

Points to check for next rate hike: Overseas economies and political developments

This branch managers' meeting report, which follows [the BOJ Tankan \(Sep survey\)](#), has confirmed that the Japanese economy and prices seem to be on track with regard to the BOJ's outlook. While Governor Ueda mentioned three points to check in the near term in [his press conference on 3 October](#)—(1) developments in overseas economies, (2) how US tariff policies will affect profits and the wage- and price-setting behavior of Japanese firms, and (3) developments in food prices—the branch managers' meeting report contains information that reduces uncertainties, particularly regarding corporate earnings and wage- and price-setting behavior.

That said, the report also suggested that these uncertainties remain high. This is consistent with Governor Ueda's view at [the press conference on 3 October](#), in which, despite acknowledging robust corporate activity in the Tankan and stating that the probability was increasing that the BOJ's outlook would be realized, he also remarked that this Tankan survey did not necessarily contain strong information, and that uncertainties regarding the future remained.

Trends with overseas economies, particularly in the US, and the political situation following the Liberal Democratic Party presidential election will be key factors to monitor regarding the uncertainties surrounding making assessments about the next rate hike. If the uncertainties surrounding these factors were to diminish, that would likely present Governor Ueda with economic conditions that would allow him to proceed with a rate hike.

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