

Daiwa's Economic View

Risk of further rise in perceived inflation

- BOJ Opinion Survey confirms rise in households' perceived inflation
- Rising asking rents another major drag on household finances
- Household/corporate/economist inflation expectations rising

FICC Research Dept.

Kaori Ichikawa
81-3-5555-8758
kaori.ichikawa@daiwa.co.jp



Kenji Yamamoto
81-3-5555-8784
kenji.yamamoto@daiwa.co.jp



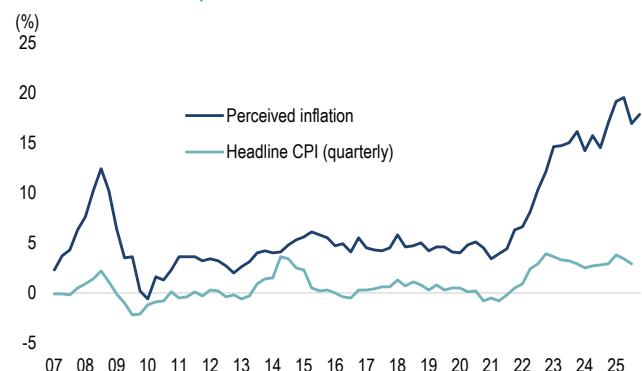
Daiwa Securities Co. Ltd.

Households' perceived inflation is rising. [The rapid uptrend in food prices is increasing the pressure felt by households and in turn heightening their perceptions of inflation.](#) The yen's recent weakness is also focusing attention on upside risks to inflation. The Bank of Japan (BOJ) has indeed begun to revise its view of forex and has stated that yen weakness could create upside risk for inflation. If a weaker yen continues to drive up prices, this would further increase households' perceived burden.

Households' perceived inflation rising

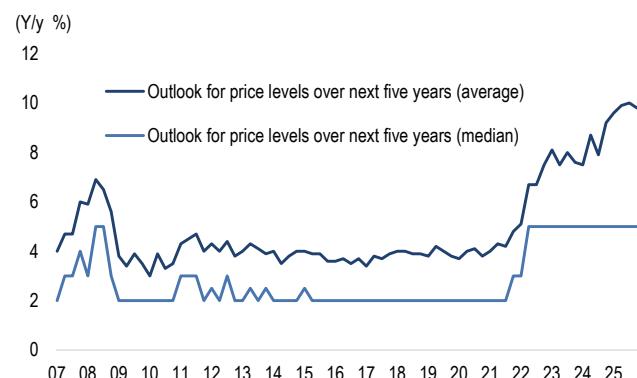
The BOJ's Opinion Survey on the General Public's Views and Behavior (Opinion Survey), released on 19 January, showed that households' average current perceived inflation (y/y) rose again to +17.8%, from +16.9% in the previous survey. Households' five-year inflation expectations (an indicator of longer-term expectations) also remain elevated, though the uptrend has slowed. Households' perceived inflation is rising, and they appear to expect prices to continue increasing.

Perceived Inflation, CPI



Source: BOJ, Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.
Note: Replies to question "By what percentage do you think prices have changed compared with one year ago?"

Outlook for Price Levels over Next Five Years

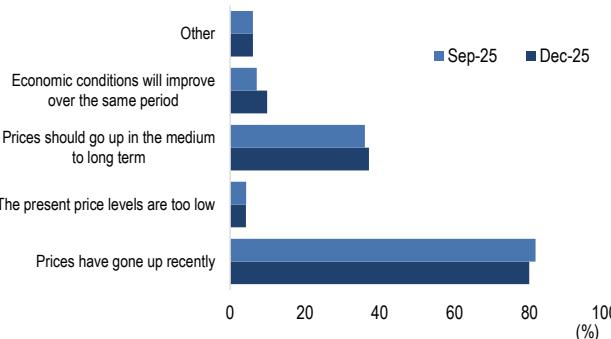


Source: BOJ; compiled by Daiwa.
Note: Replies to question "By what percent do you think prices will change per year on average over the next five years?"

Recent inflation, particularly soaring food prices, is intensifying the burden on households. As a result, they are more likely to believe that "prices will continue to rise in the future," leading to higher inflation expectations. The most commonly cited "Reason(s) for Considering That Prices Will Rise over the Next Five Years" in the Opinion Survey is indeed that "prices have gone up recently."

When considering "Major Factor(s) to Be Considered When Making Spending Decisions for the Year Ahead," the largest number of respondents cited "future developments in prices," suggesting that price movements will be a key determinant of household spending habits.

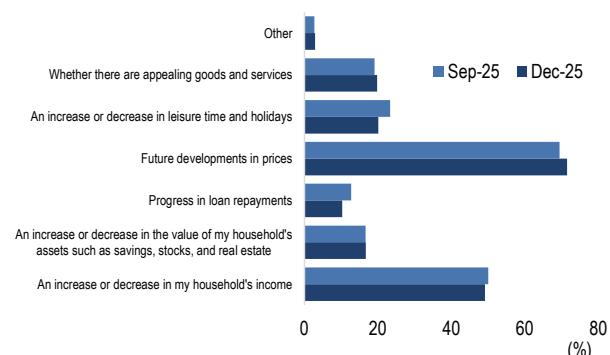
Reasons for Considering That Prices Will Go Up over Next Five Years



Source: BOJ; compiled by Daiwa.

Note: Replies to question asked of those who expect prices to rise over the next five years "Why do you think prices will go up? (Choose all applicable answers)."

Major Factor(s) to Be Considered When Making Spending Decisions for the Year Ahead



Source: BOJ; compiled by Daiwa.

Note: Replies to question "Which of the following is/are the major factor(s) that your household will consider when making spending decisions for the year ahead? (Choose all applicable answers)."

Rising asking rents another major drag on household finances

Rising asking rents are also a major drag on household finances. According to "Rental Apartment Asking Rent Trends in Major Cities Nationwide (Nov 2025)" by At Home Inc., a real estate information services company, average asking rents for 30-50m² condos in Tokyo's 23 wards are up 12.0% y/y. Average asking rents for condos with floor space of 30m² or less and 50-70m² are up around 10%.

For working households with two or more people in the 23 wards of Tokyo, asking rents (for a 50-70m² condo) accounted for an average 40% or more of disposable income in 2025¹. The pressure on metropolitan households from housing costs has therefore jumped in a short space of time, from around 35% in 2023 and 2024. This will likely have a greater impact on groups that tend to move more frequently, such as single-person households, younger demographics, relocating employees, and families with children.

However, private-sector rents in the most recent Tokyo CPI release were up 2.0% y/y, which does not fully reflect actual asking rents. As previously identified by [Minami and Yamamoto \(2025\)](#), increases in new asking rents take time to show up in the CPI. This is a critical issue for monetary policy conduct, which requires forward-looking judgments.

Rent Trends (CPI in Tokyo's 23 wards)

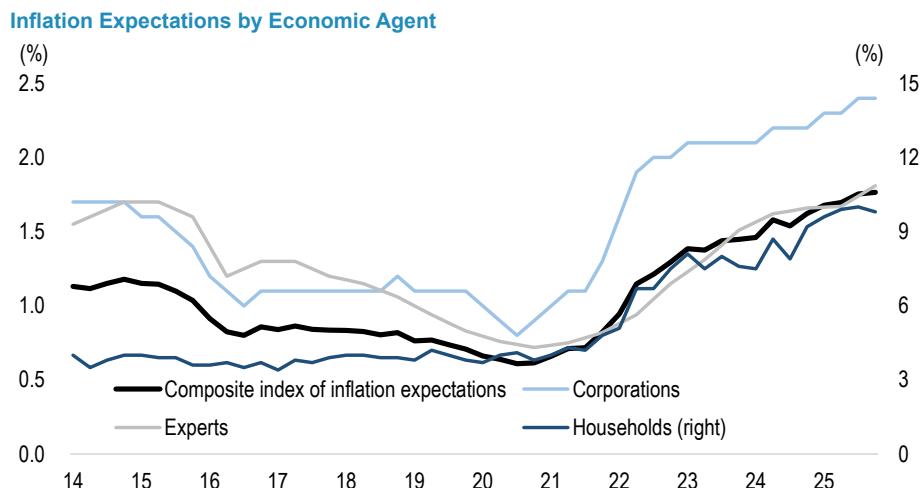


Source: MIC ; compiled by Daiwa.

¹ The ratio of rent to disposable income was calculated using data on disposable income for worker households with two or more persons in the Tokyo wards area (Family Income and Expenditure Survey) and data on rents for 50–70m² properties in Tokyo's 23 wards (At Home Co., Ltd.). For 2025, data from Jan to Nov was used, while for 2023 and 2024, data from Jan to Dec was used.

Households' burden and yen weakness

As the December 2025 ESP forecast confirmed, [economists' inflation expectations have also risen, following on from households and companies](#). Companies' more aggressive wage-setting behavior and households' heightened perceived inflation continue to boost both corporate and household inflation expectations. Households' expectations are particularly sensitive to price hikes for foods and other necessities, and the recent surge in food prices has kept their expectations elevated.



Source: BOJ, Japan Center for Economic Research; compiled by Daiwa.

Note: Composite index of inflation expectations is an extract of the first principal component via the principal component analysis regarding household inflation expectations (average of inflation expectations over the next five years in the Opinion Survey on the General Public's Views and Behavior), corporate inflation expectations (general price outlook for the next 5 years in BOJ Tankan), and experts' inflation expectations (CPI growth rates for the next 2 to 6 years in ESP Forecast survey). In this estimate, the contribution ratio for the first principal component was 0.788.

The BOJ also views inflation driven by future yen weakness as a risk. The Summary of Opinions from its December 2025 Monetary Policy Meeting (MPM) indeed included numerous references to forex. With the BOJ also expressing concerns about the global issue of structural inflation in the Summary of Opinions from the December MPM, we think worries about the weak yen driving up prices are likely to intensify.

◆ Summary of Opinions at Dec 2025 MPM (29 Dec 2025)

- Against the background of global demographic developments and climate change, it is possible that intermittent shocks from rising import prices are emerging, which may affect underlying inflation and inflation expectations, and attention should therefore be paid to developments in import prices.

However, there is also the view within the BOJ that action by the government could potentially reduce the burden on households in the near term: "The government's economic measures are likely to push up the economy for the next year or two, and may alleviate the temporary sluggishness in economic growth to some degree. It is also possible that households' perceived inflation could ease." Easing pressure on households could also cause their perceptions of inflation to subside.

However, even if policy measures temporarily depress inflation, we would continue to monitor the upside risk to prices from the weaker yen. We note that respondents to the latest NHK opinion poll cited cost-of-living measures as their top priority for the Takaichi administration. Households are calling on the government to address rising prices, and they perceive recent inflation as a considerable drag on their finances. If further yen weakness pushes up prices, this could increase households' pain and drive a further increase in perceived inflation.

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