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Japanese report: 21 May 2021

April 2021 Consumer Price Index

Core CPI declines by -0.1% y/y. Mobile phone communication fees push results down by 0.6%pt

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Summary

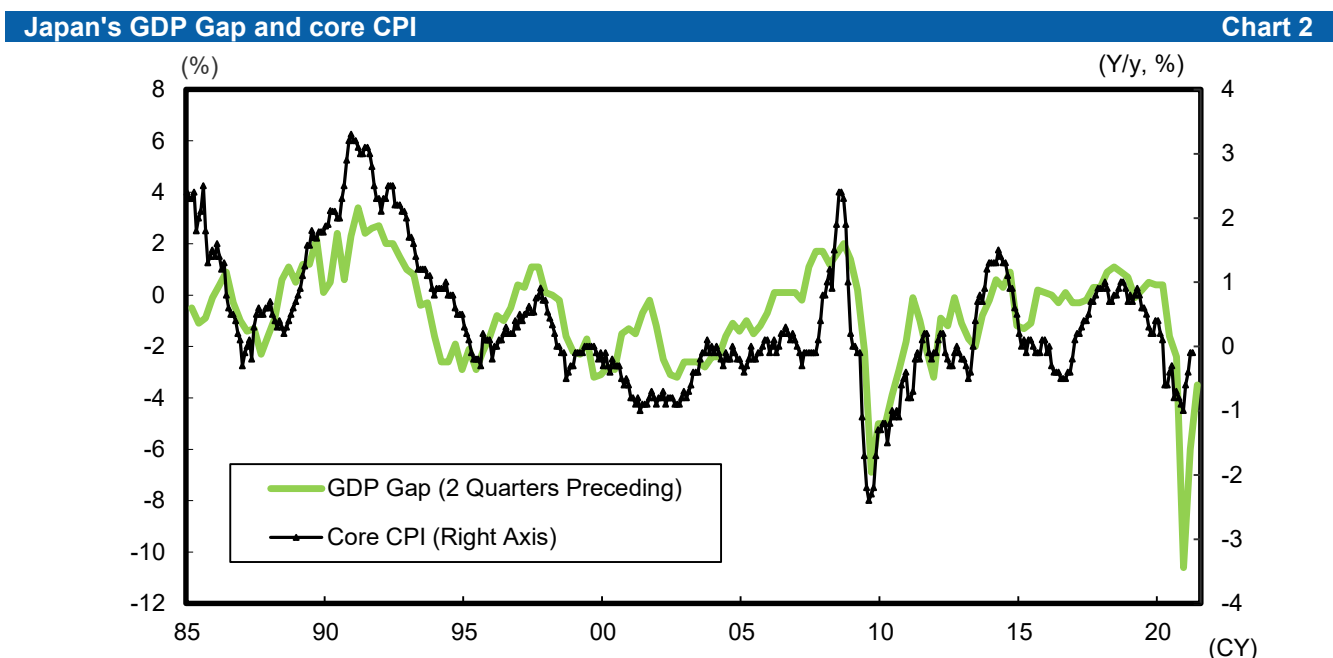
- Japan's April 2021 core CPI (excluding fresh foods) declined by -0.1% y/y, while at the same time exceeding market consensus at -0.2%, continuing to narrow the extent of its decline. However, CPI in y/y terms marked time on a month-to-month basis, reflecting the influence of the government's request to cut mobile phone communication fees. Meanwhile, new core-core CPI (excluding fresh foods and energy), which indicates the price trend, suffered a year-to-year decline for the first time in four months at -0.2%. However, prices continue to maintain underlying strength if we exclude the influence of the above policy change.
- Looking at year-to-year performance by component in April, energy prices shifted into the upward direction, while services brought severe downward pressure on overall results. In the services category, mobile phone communication fees decline significantly in comparison to the previous year at -26.5%, pushing core CPI down by 0.6%pt. On the other hand, the influence of free higher education ran its course, and tuition at private universities shifted upwards, bringing upward pressure on overall results. Energy prices were influenced by the comeback in the price of crude oil, which led to major growth in the price of gasoline and kerosene. Meanwhile, gas & electricity bills, which lag behind gasoline in reflecting changes in the price of crude oil, reduced the extent of their decline.
- As for the future of Japan's core CPI in y/y terms, the index is expected to hover around zero as positive and negative factors compete for the most influence. Positive factors include growth in the price of crude oil and the price of imported goods. Meanwhile, the primary negative factor is the cut in mobile phone communication fees, which is expected to continue bringing downward pressure on prices overall.

Consumer Price Index (Y/y, %)								Chart 1
	2020				2021			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Japan's Core CPI	-0.3	-0.7	-0.9	-1.0	-0.6	-0.4	-0.1	-0.1
Consensus								-0.2
DIR Outlook								-0.2
Japan's Core CPI (excluding influence of consumption tax hike and free preschool education measure)	-0.7	-0.8	-0.9	-1.0	-0.6	-0.4	-0.1	-0.1
Japan's New Core-core CPI	0.0	-0.2	-0.3	-0.4	0.1	0.2	0.3	-0.2
Tokyo 23 Wards Core CPI	-0.2	-0.5	-0.7	-0.9	-0.5	-0.3	-0.1	-0.2
New Core-core CPI	0.0	-0.2	-0.2	-0.4	0.2	0.2	0.3	0.0

Source: Ministry of Internal Affairs and Communications; compiled by DIR.

Notes: 1) Consensus figures from Bloomberg

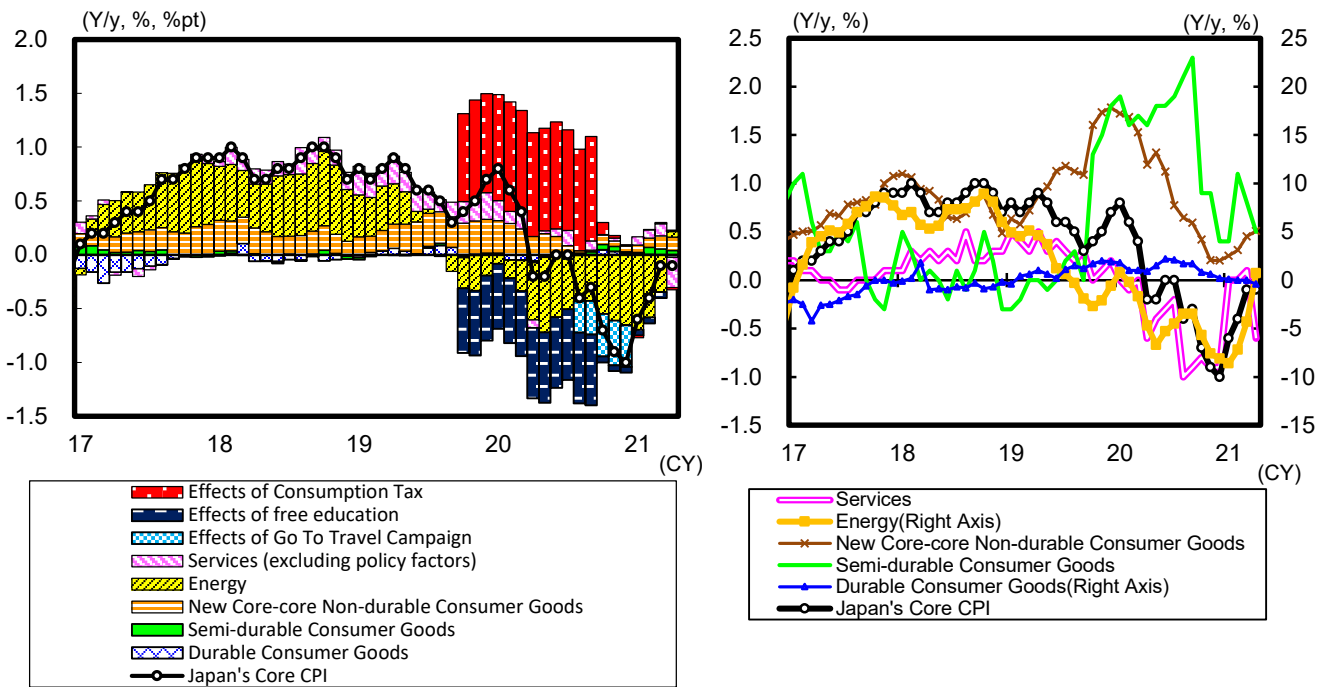
2) Core CPI is total excluding fresh foods, and new core-core CPI excludes fresh foods and energy.



Source: Ministry of Internal Affairs and Communications, Cabinet Office; compiled by DIR.

Note: Core CPI is total excluding fresh foods, consumption tax and effects of free preschool and higher education.

Core CPI Y/y Comparison and Contribution Rate; Core CPI Components **Chart 3**

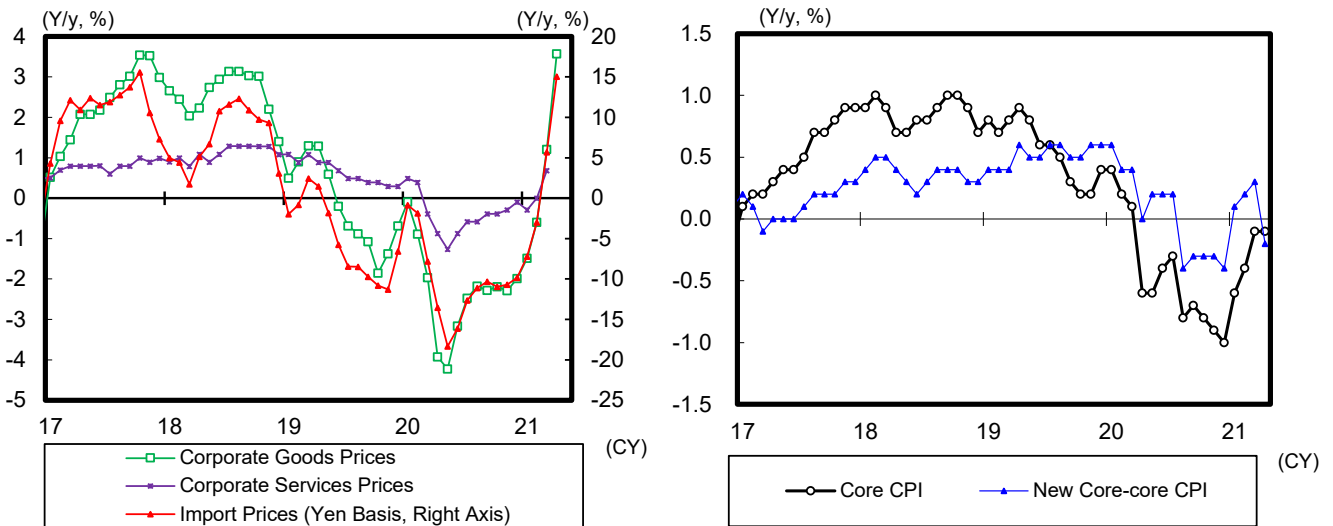


Source: Ministry of Internal Affairs and Communications; compiled by DIR.

Note: 1) Core CPI is total excluding fresh foods, new core-core non-durable consumer goods is excluding fresh foods and energy.

2) Effects of consumption tax and free preschool and higher education are estimated by DIR.

Import Prices and Corporate Prices; Changes in Japan's Core indices(excluding influence of consumption tax hike and free education measure) **Chart 4**



Source: Bank of Japan; compiled by DIR.

Note: Corporate goods prices and corporate services prices are excluding consumption tax.

Source: Ministry of Internal Affairs and Communications ; compiled by DIR.

Notes: Core CPI is total excluding fresh foods, and new core-core CPI excludes fresh foods and energy.