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Japanese report: 18 Jun 2021

May 2021 Consumer Price Index

Core CPI records positive growth on a y/y basis for the first time in a year and two months, due to rising energy prices

Economic Research Dept.
Kazuma Kishikawa

Summary

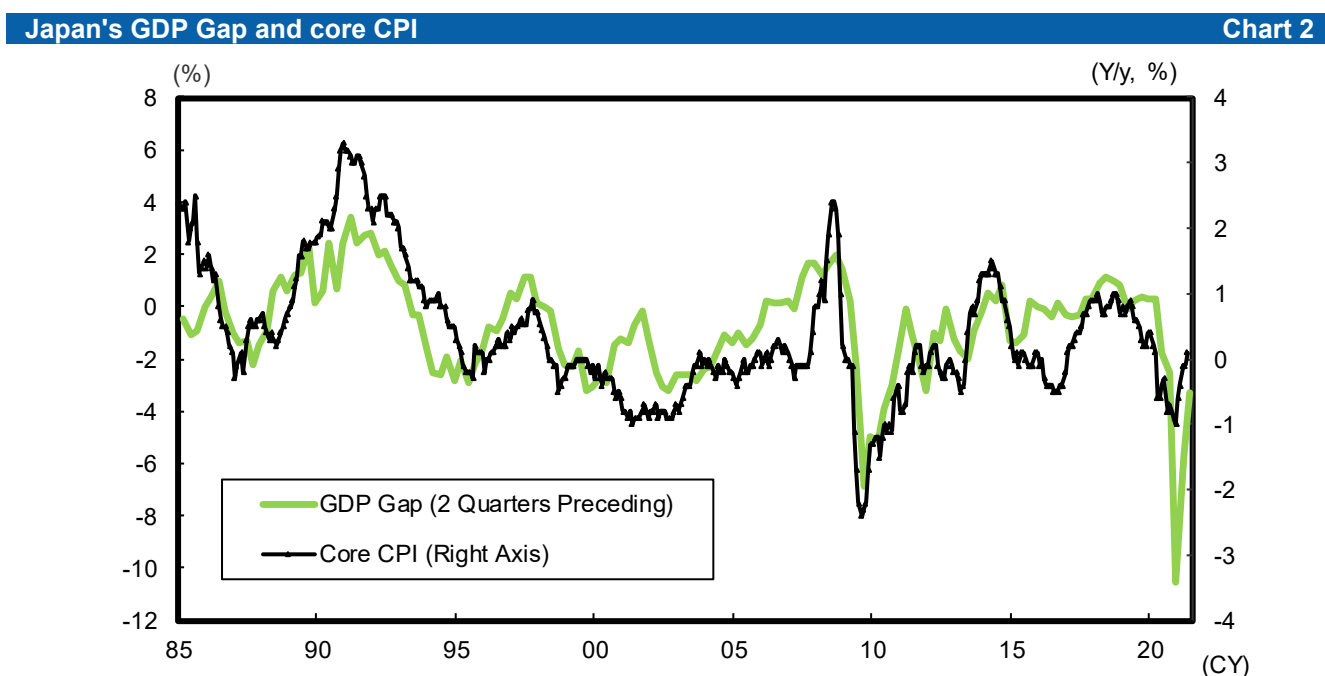
- Japan's May 2021 core CPI (excluding fresh foods) grew by +0.1% y/y, while at the same time exceeding market consensus at 0.0%, shifting into positive y/y performance for the first time in a year and two months. Meanwhile, new core-core CPI (excluding fresh foods and energy), which indicates the price trend, suffered a year-to-year decline for the second consecutive month at -0.2%. However, prices continue to maintain underlying strength if we exclude the influence of government policy.
- Looking at year-to-year performance by component in May, rising energy prices were a major factor in pushing up overall performance. On the other hand, services continued the previous month's declining trend. As for energy prices, the comeback in the price of crude oil led to growth in the price of gasoline and kerosene, while gas & electricity bills, which lag behind gasoline in reflecting changes in the price of crude oil, reduced the extent of their decline. Meanwhile, as for performance in services, mobile phone communication fees (mobile phone charges) declined significantly following last month in comparison to the previous year at -27.9%, pushing down overall core CPI by 0.7%pt.
- As for the future of Japan's core CPI in y/y terms, the index is expected to maintain a level of around +0.1% 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, with residual influence also expected from last year's Go To Travel Campaign in August and beyond. Meanwhile, the primary negative factor is the cut in mobile phone communication fees, which is expected to continue hampering growth in overall prices.

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

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.

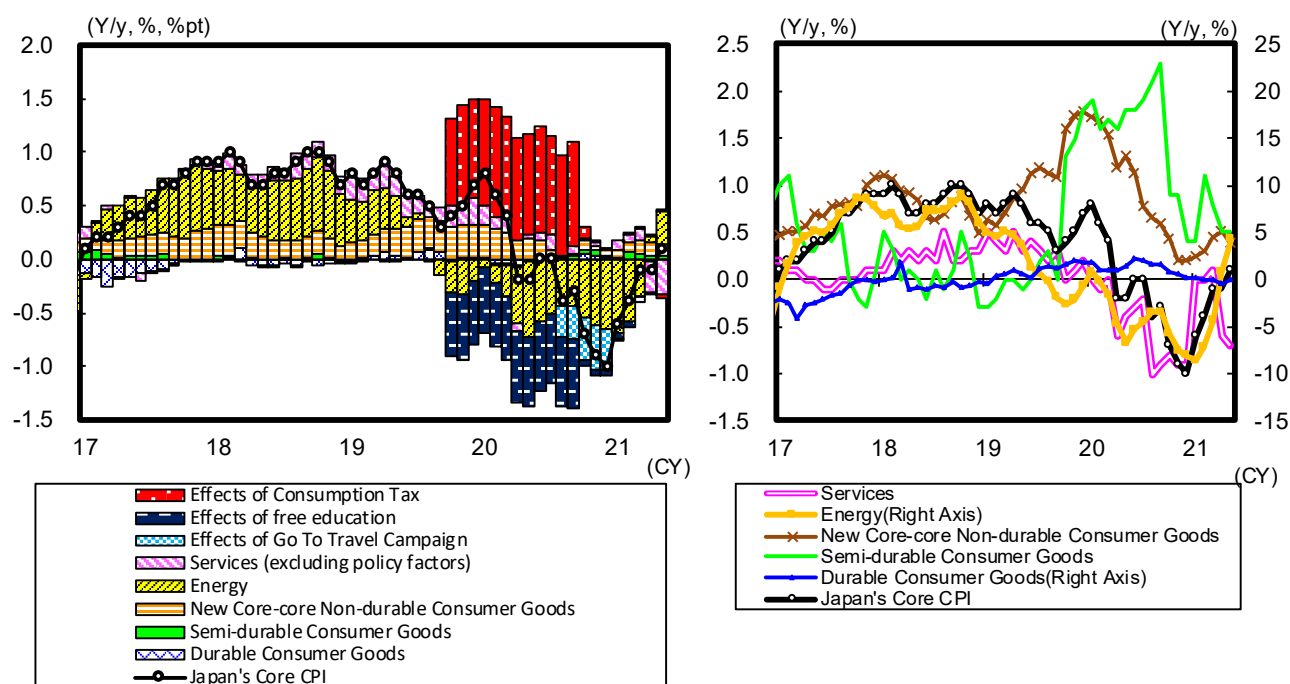


Source: Ministry of Internal Affairs and Communications, Cabinet Office; compiled by DIR.

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



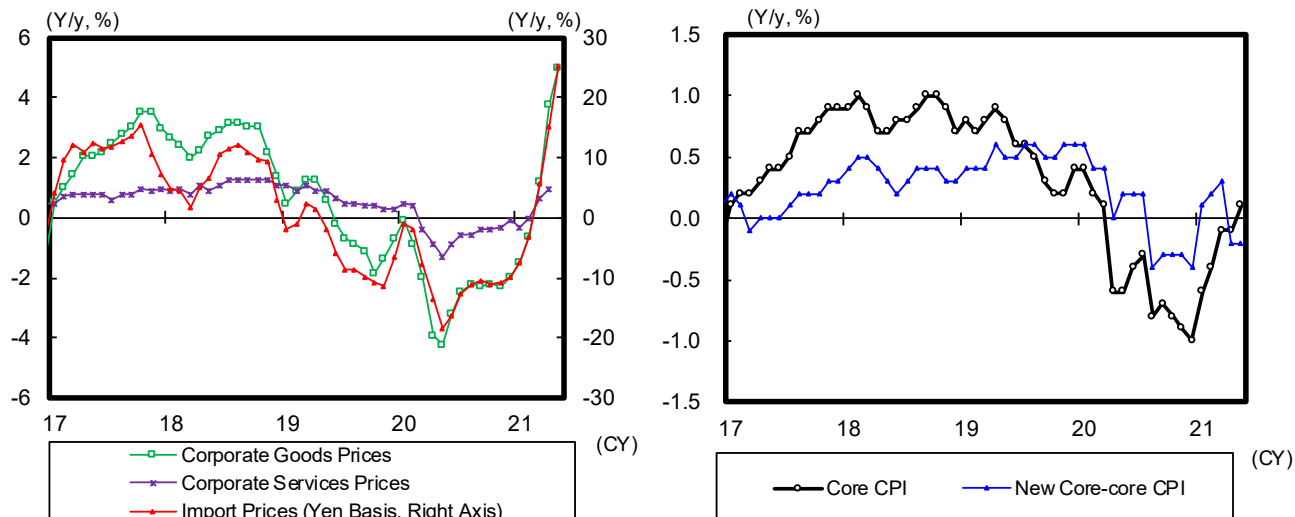
Source: Ministry of Internal Affairs and Communications; compiled by DIR.

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.