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Japanese report: 21 Jan 2022

December 2021 Consumer Price Index

Energy prices bring upward pressure, while services bring overall performance back down, leaving core CPI y/y to mark time in comparison to November results

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Summary

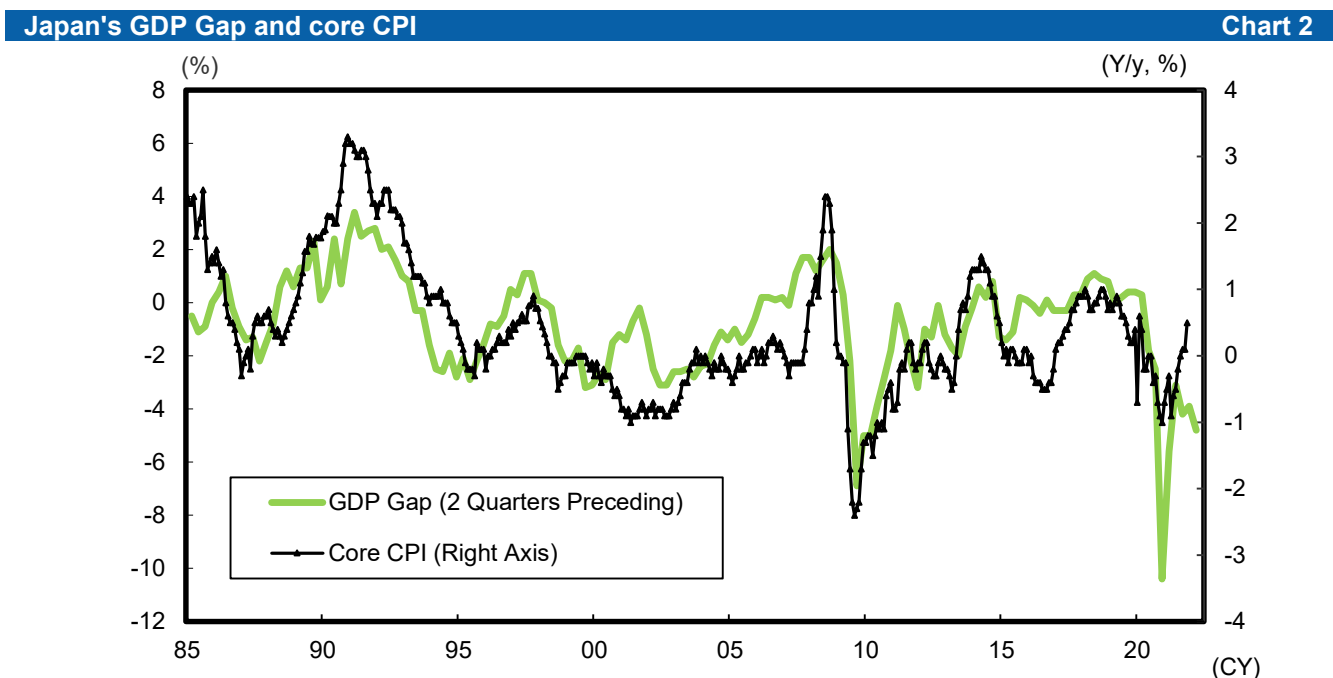
- Japan's December 2021 core CPI (excluding fresh foods) was at +0.5% y/y, falling below market consensus at +0.6%. The growth rate marked time in comparison to November results. The bull market in commodities continued to bring upward pressure on energy prices, but at the same time, services brought downward pressure on overall performance. Energy has been the main factor in recent core CPI growth, but with the exception of this factor, the general trend in prices is marking time.
- Looking at year-to-year performance by component in December, energy related components such as "Electricity" and "Gas, manufactured & piped" brought upward pressure, while on the other hand, foods (excluding fresh foods and eating out) marked time in comparison to November. In the area of services, the growth rate of "Hotel charges", which are an expression of the base effect of the Go To Travel Campaign, suffered a decline in growth rate, bringing further strength to overall downward pressure.
- As for the future of y/y change in Japan's core CPI, positive and negative factors are expected to continue competing, but moderate growth is expected to continue overall. However, the uncertainty factor of the Omicron variant of COVID-19 is expected to continue bringing influence on trends for some time. Although the GDP gap is expected to improve in the Oct-Dec period of 2021, it may worsen again in 2022 and beyond, depending on the trend of infection. If the macroeconomic supply-demand balance deteriorates due to the spread of infection, there will be downward pressure on prices.

Consumer Price Index (Y/y, %)								Chart 1
	2021							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Japan's Core CPI	-0.6	-0.5	-0.2	0.0	0.1	0.1	0.5	0.5
Consensus								0.6
DIR Outlook								0.6
Japan's New Core-core CPI	-0.9	-0.9	-0.6	-0.5	-0.5	-0.7	-0.6	-0.7
Tokyo 23 Wards Core CPI	-0.7	-0.6	-0.3	0.0	0.1	0.1	0.3	0.5
New Core-core CPI	-0.6	-0.6	-0.4	-0.1	-0.1	-0.4	-0.4	-0.3

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

Notes: 1) Consensus figures from Bloomberg

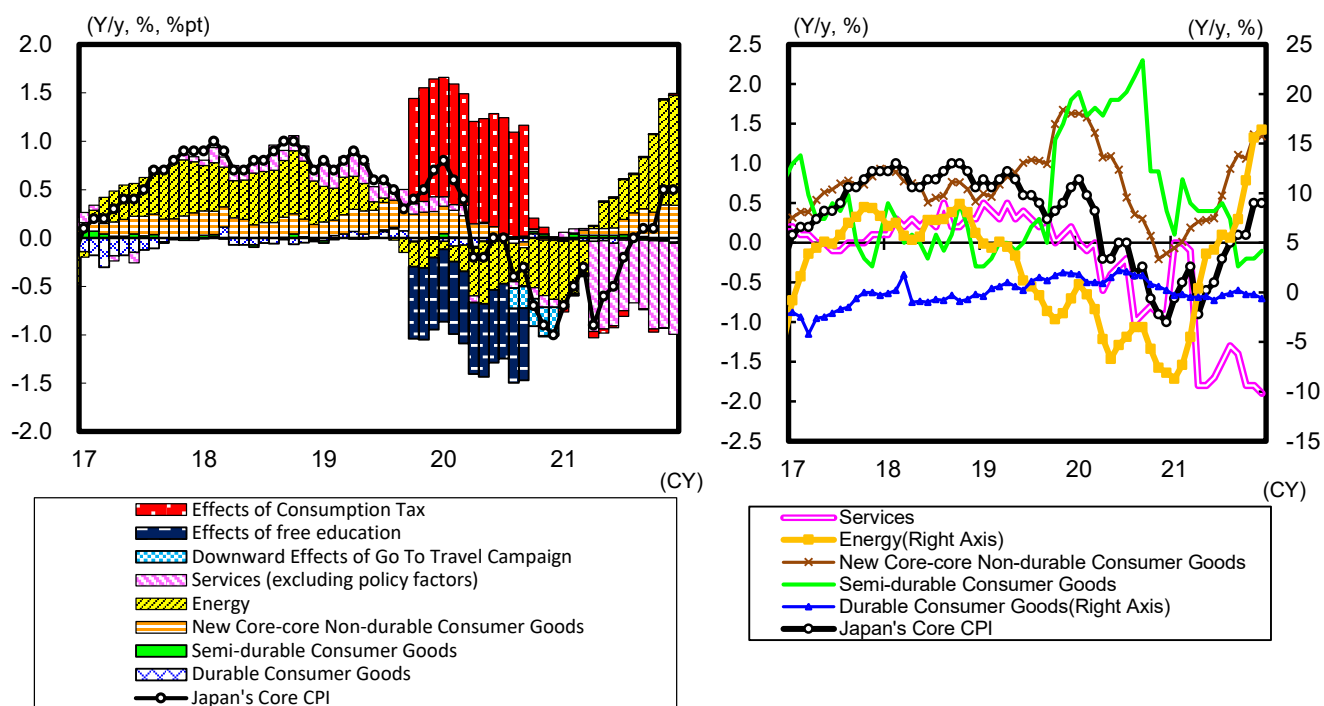
2) Core CPI is total excluding fresh foods, and new core-core CPI excludes fresh foods and energy.



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.

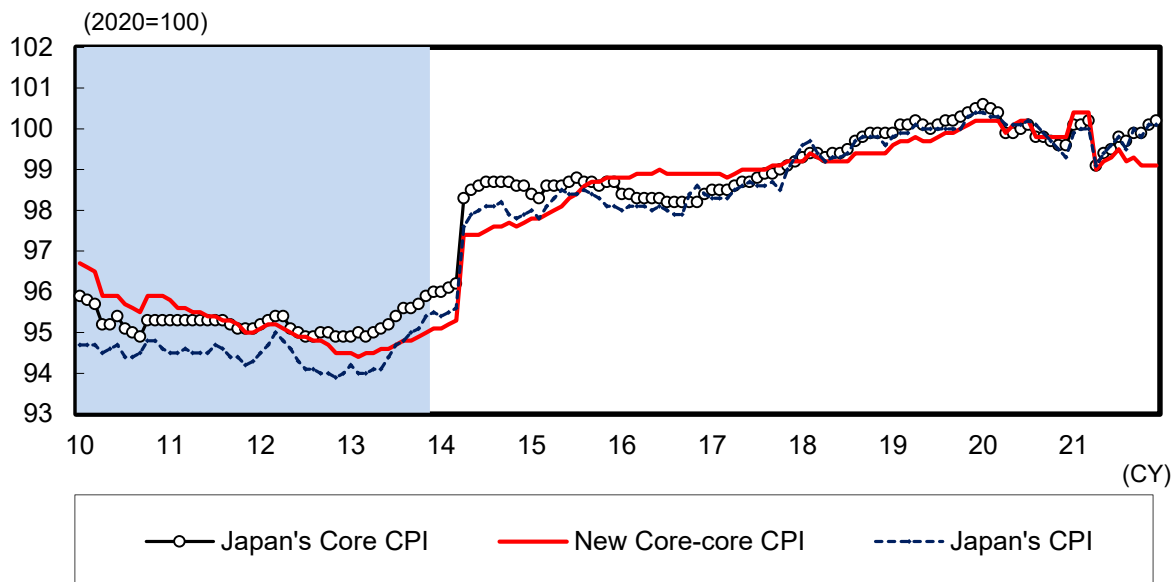
Core CPI Y/y Comparison and Contribution Rate; Core CPI Components Chart 3



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.
 3) The effects of cuts in mobile phone communication fees are not included in the Policy Factors category.

Japan's Consumer Price Index (Seasonally Adjusted, Computed by Laspeyres' Chain Index Method) Chart 4



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

- Notes: 1) Core CPI is total excluding fresh foods, and new core-core CPI excludes fresh foods and energy.
 2) Shaded areas represent deflationary periods according to the government's monthly economic report.