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Current price Highs also Associated with Demand Inflation

Increase in price of services due to demand factors is a test for achieving inflation target

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Summary

- When the rate of increase in the Japanese core CPI is broken down into demand factors and supply factors, not only the supply factors but also the demand factors push up the inflation rate. By goods and services, a rise in goods prices due to demand factors in particular can be confirmed, while the contribution of demand factors to the price of services remains small. The difference in the size of the contribution of demand factors to goods and services is also consistent with the tightness of supply and demand for both.
- In estimating the degree of impact on the expected inflation rate, services inflation has a larger impact than goods inflation. Looking ahead, we can expect an increase in service consumption, particularly among the middle-aged and elderly, due to the withdrawal of excessive savings. The key to achieving the Bank of Japan's price stability target is whether or not the service demand factor can push up service prices by linking such an expansion in demand to aggressive price hikes.

Attention

This report is a summary translation. The official document is only in Japanese.