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Japanese report: 23 Aug 2024

July 2024 Consumer Price Index

Energy prices grow as subsidies terminated, but growth rate in services declines in comparison to previous month

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Summary

- Japan's July 2024 core CPI (excluding fresh food) recorded +2.7% y/y, an acceleration of the growth rate in comparison to the previous month (+2.6%). On the other hand, new core-core CPI (excluding fresh food and energy) was at +1.9%, a decline in growth rate in comparison to the previous month (+2.2%).
- Looking at the y/y change in core CPI in terms of goods and services in July 2024, the growth rate for semi-durables increased. Energy prices also grew due to a manifestation of the effects of the termination of government subsidies for high energy prices. On the other hand, growth rates for durables and non-durable goods (excluding fresh food and energy), as well as services, saw a decline in comparison to the previous month.
- As for the future of Japan's new core-core CPI, growth of +2.0% y/y is expected in both FY2024 and FY2025. With the major correction of the yen rate in the direction of yen appreciation, the increasing pace in intermediate input costs is expected to slow down during the middle of FY2024. On the other hand, major wage hikes in this year's labor negotiations will likely bring a strengthening of the tendency for companies to implement price pass-through in response to increased labor costs beyond that seen in FY2023. There will likely be an increase in underlying inflation rate from the second half of FY2024. We expect the virtuous cycle between wages and prices to become the norm in FY2025, with new core-core CPI maintaining stable growth of around +2%.

Consumer Price Index (Y/y, %)

Chart 1

	2023 Dec	2024 Jan	Feb	Mar	Apr	May	Jun	Jul
Japan's Core CPI	2.3	2.0	2.8	2.6	2.2	2.5	2.6	2.7
Consensus								2.7
DIR Outlook								2.8
Japan's New Core-core CPI	3.7	3.5	3.2	2.9	2.4	2.1	2.2	1.9
Tokyo 23 Wards Core CPI	2.1	1.8	2.5	2.4	1.6	1.9	2.1	2.2
New Core-core CPI	3.5	3.3	3.1	2.9	1.8	1.7	1.8	1.5

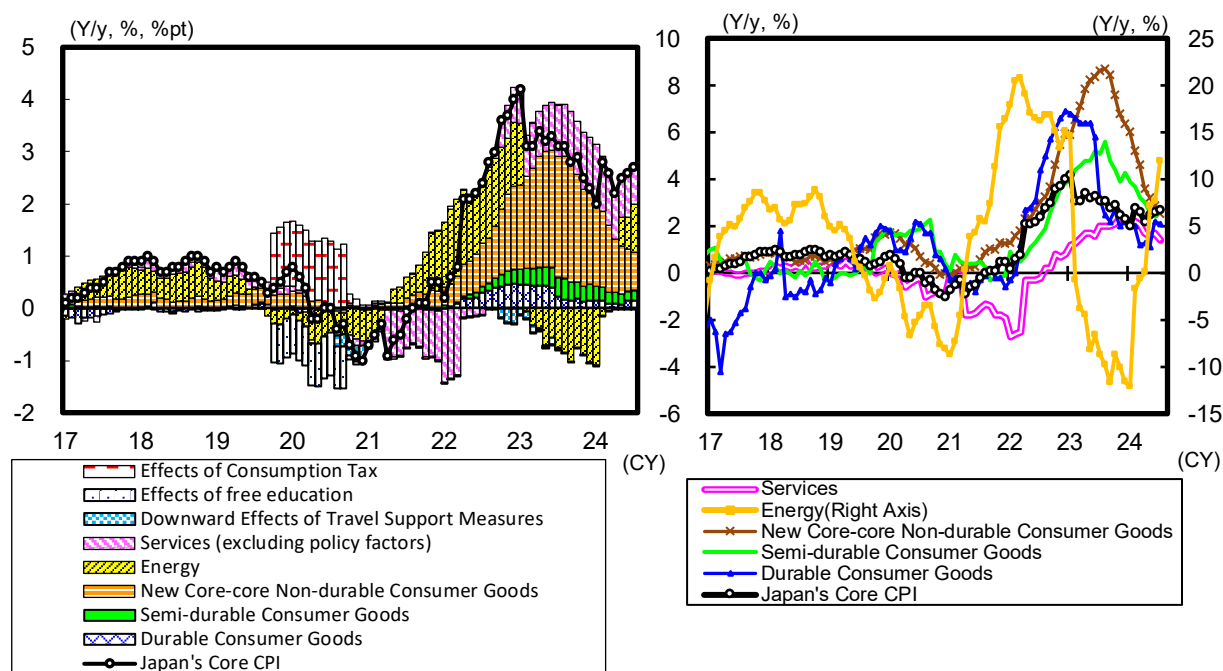
Sources: Ministry of Internal Affairs and Communications, Bloomberg; compiled by DIR.

Notes: 1) Consensus figures from Bloomberg aggregated data.

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

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

Chart 2



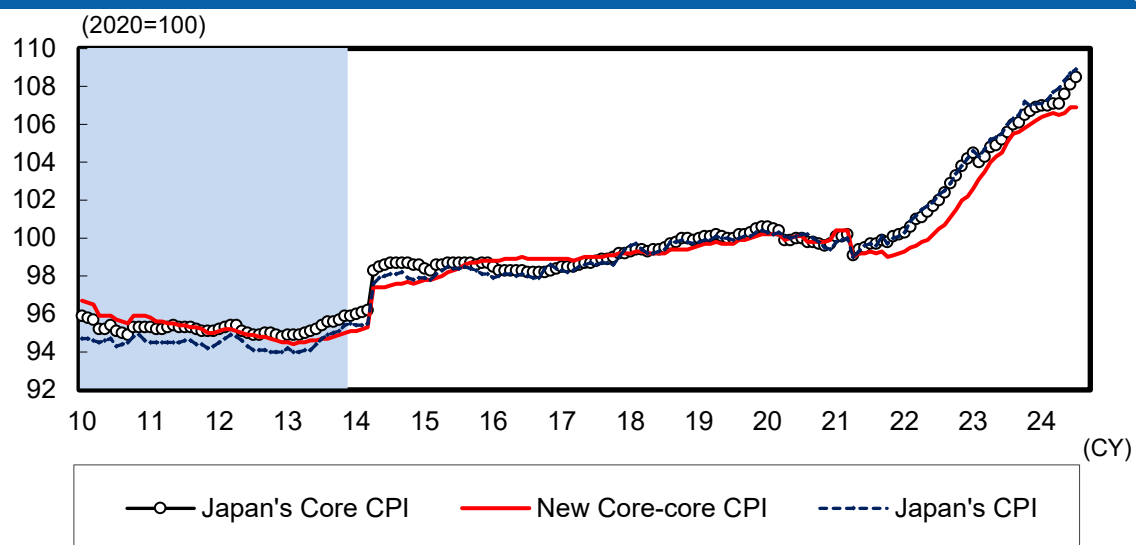
Source: Ministry of Internal Affairs and Communications; compiled by DIR.

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

2) Effects of consumption tax, free preschool and higher education and Travel Support Measures (Go To Travel Campaign and Nationwide Travel Support) are estimated by DIR.

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

Chart 3



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

Notes: 1) Core CPI is total excluding fresh food, and new core-core CPI excludes fresh food and energy.

2) Shaded areas represent deflationary periods according to the government's monthly economic report.