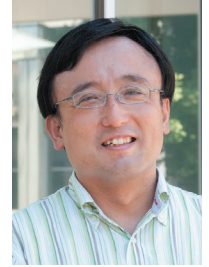


Price Trends in Japan Looking Similar to 2008



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Rise in Consumer Price Index to Reach 2% Level by End of 2022?

There has been a growing observation that the rise in the Consumer Price Index (CPI) in Japan, which has long remained low, will exceed the 2% policy target set by the Bank of Japan (BOJ) after April 2022. The year-on-year rise in the CPI (all items) in Japan turned positive in September 2021, and as of February 2022 when this article was written, it still remains at 0.9%. Looking at the CPI for all items, minus fresh food, which the BOJ closely watches, it was 0.6%. So 2% looks to be a very far target.

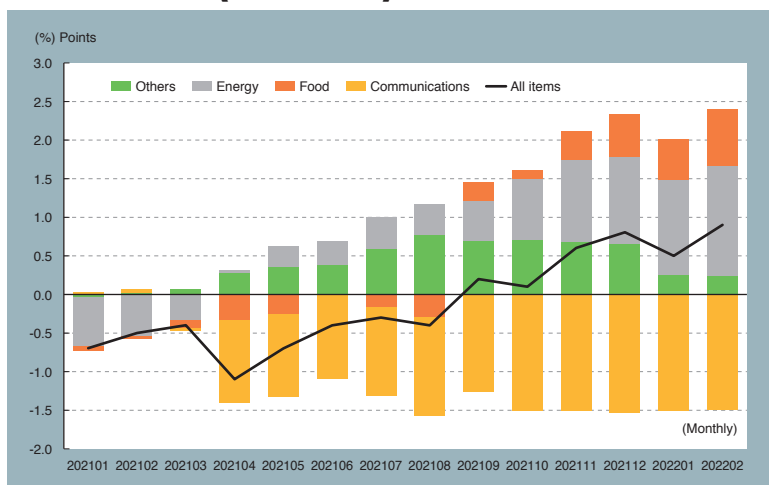
However, the rise in the CPI in Japan since April 2021 has been hugely pushed down by communications, which were impacted by the discount payment plans put forward by mobile phone companies. *Chart 1* shows the factor analysis of Japan's year-on-year rise in the CPI (all items), and it was a negative 1.1 points in April 2021 when the discount payment plans were first introduced, pushing down the rise in the CPI. Since the rise in the CPI (all items) for this month was a negative 1.1%, the rate would have been plus and minus zero without the discount in mobile phones. Discounts

have since been carried out intermittently, and the push-down in communications expanded to a negative 1.5 points in February 2022. Without this, rise in the CPI (all items) would indeed be 2%. By April 2022, at least, the push-down of a negative 1.1 points in communications impacted by the discount payment plans introduced in April 2021 would disappear, and hence there have been growing calls that the rise will soon exceed 2% (the rise in the CPI for April will have been released by mid-May 2022 when this article is published).

Moreover, with the addition of speculation over US sanctions on Russia over the invasion of Ukraine, crude oil prices recorded their highest level since July 2008 on March 7, 2022. Crude oil prices had already been on a rising trend with supplies not being able to keep up with the economic recovery from the coronavirus pandemic, but concerns over a rapid decline in supply of Russian crude oil, which accounts for 10% of global production, began to emerge with stronger sanctions from the United States and European nations. Surges in the price of crude oil are linked to rises in energy prices in the CPI. The contribution of energy prices to the rise in the CPI (all items) for February 2022 was a positive 1.4 points, but this is expected to further expand.

CHART 1

Contribution analysis of rise in Consumer Price Index (all items)



Source: Consumer Price Index, Statistical Bureau, Ministry of Internal Affairs and Communications

Aside from Consumption Tax Hike, First Time Above 2% Since 2008

The rise in the Japanese CPI exceeding 2% will be the first since March 2015 (positive 2.3%) (*Chart 2*). But the main factor behind that was the rise in the consumption tax rate by 3 percentage points in April 2014 to 8%, and when the impact of that hike dissipated in April 2015, it immediately shrank to a positive 0.6%. Aside from this period, this is the first time the rise in the CPI has exceeded 2% since 2008.

The main factor back then was the rise in energy prices such as crude oil. This can be seen in the difference in movements of the CPI for all items and CPI for all items minus fresh food and energy in *Chart 2*. The year-on-year rise in the CPI for all items was 2% in June 2008, but the rise in the CPI for all items minus fresh food and energy remained at 0.9%. The CPI for all

items, minus fresh food, which the BOJ closely watches, hit the 2% level by July 2008, but the rise in the CPI for all items minus fresh food and energy rose to 1.2% in September 2008, and shrank with the global recession triggered by the bankruptcy of Lehman Brothers, and then was once again in negative territory in May 2009. Energy prices fell sharply with the global recession, and the fall in the CPI for all items was greater in 2009.

Rise in Prices Led by Energy Negative for Japanese Economy

A rise in prices led by energy prices will have a negative impact on the economy for a country like Japan which relies on imports for its main energy sources such as crude oil. Trends in GDP deflators indicate this. Back in 2008 and even now, while the rise in the CPI is expanding, the fall in the GDP deflator is expanding. This indicates that while rises in import prices are tied to rises in the CPI, cost increases as a result of that have not been fully passed on to products or services.

GDP is calculated by adding exports to domestic demand such as private consumption and subtracting imports. In addition, a rise in the GDP deflator is approximated by subtracting the real GDP growth rate from the nominal GDP growth rate. *Chart 3* uses this relationship and shows a factor analysis of the rise in the GDP deflator. The period between 2007 and 2008 and even now, while the domestic demand deflator is rising, the import deflator (negative on the chart) is unable to keep up. If increases in costs are not fully passed on, it can lead to worsening corporate profits and declines in wages. If businesses pursue price increases with maintaining profits in mind, it could lead to a decline in household purchasing power, and produce downward pressure on private consumption.

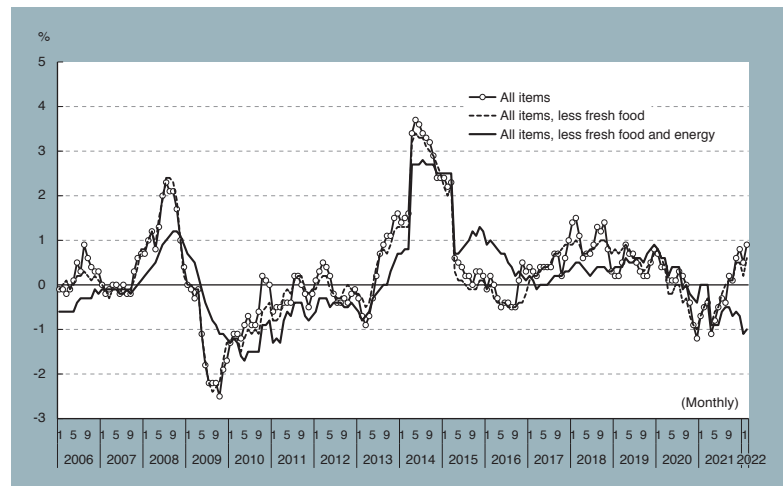
Difficulty in Steering Monetary Policy

Soaring energy prices up until the global depression were primarily due to the rapid expansion of the global economy, such as China's high economic growth. Japan also benefitted in the form of export expansion and experienced its longest postwar economic expansion. With the CPI turning to a rise, the BOJ ended its quantitative easing policy in March 2006, raised its policy interest rate in July 2006 and in February 2007, and monetary policy began to turn back to normalization. As the GDP deflator continued to fall, there was criticism that it was too early to raise, but at least the Japanese economy was in the midst of an economic expansion. Later, crude oil prices fell sharply with the global recession, Japan's costs decreased as a result, and the BOJ turned to monetary easing.

In contrast, the sharp rises in energy prices this time round were triggered by Russia's invasion of Ukraine at a time when the world is still suffering from the coronavirus pandemic. Energy prices such as

CHART 2

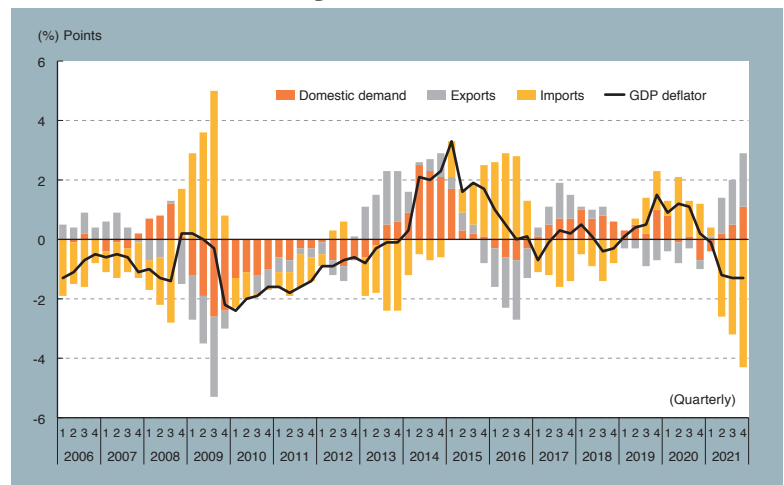
Long-term trend of rise in Consumer Price Index



Source: Consumer Price Index, Statistical Bureau, Ministry of Internal Affairs and Communications

CHART 3

Contribution analysis of rise in GDP deflator



Source: System of National Accounts (SNA), Japan

crude oil may not turn around even if the global economy worsens as fighting and the confrontation between the West and Russia continues. The situation could well turn into stagflation, where prices continue to rise under a recession. Steering the monetary policy of the BOJ could become increasingly complex.

Note: This article was based on available information as of March 18, 2022.

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2014	529.8	0.3	518.8	2.0	2.0	2.6
2015	538.1	1.6	538.0	3.7	-1.2	0.5
2016	542.1	0.8	544.4	1.2	0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.4	0.6	556.3	0.6	1.1	0.9
2019	553.1	-0.2	558.5	0.4	-3.0	0.6
2020	528.2	-4.5	538.2	-3.6	-10.4	-0.2
2021	536.8	1.6	541.9	0.7	5.6	-0.2
2021/1st Qtr.	534.9	-0.5	543.6	-0.5	2.6	-0.5
2nd Qtr.	538.0	0.6	544.7	0.2	0.2	-0.6
3rd Qtr.	534.2	-0.7	538.9	-1.1	-1.9	-0.0
4th Qtr.	540.2	1.1	540.7	0.3	0.2	0.4
2021/July	—	—	—	—	-0.8	-0.2
Aug.	—	—	—	—	-1.9	0.0
Sept.	—	—	—	—	-6.5	0.1
Oct.	—	—	—	—	2.1	0.1
Nov.	—	—	—	—	5.0	0.5
Dec.	—	—	—	—	0.2	0.5
2022/Jan.	—	—	—	—	-2.4	0.2
Feb.	—	—	—	—	2.0	0.6
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	6.4	8.2
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.8	24.6	14.8	17.6	8.9	19.4	7.7	21.4
2021/1st Qtr.	19.2	6.0	18.8	2.5	3.3	-4.9	2.0	-3.0	1.8	2.9
2nd Qtr.	20.7	45.0	20.3	23.9	3.7	70.0	2.3	19.9	1.9	52.0
3rd Qtr.	20.8	24.9	21.7	36.9	3.7	14.5	2.2	31.1	1.9	28.0
4th Qtr.	22.4	15.7	24.1	37.4	4.1	10.6	2.4	33.7	2.0	12.6
2021/July	7.4	37.0	6.9	28.1	1.4	26.8	0.7	23.8	0.6	46.1
Aug.	6.6	26.2	7.3	44.7	1.2	22.8	0.8	33.7	0.6	29.9
Sept.	6.8	13.0	7.5	38.4	1.2	-3.3	0.8	36.0	0.6	12.1
Oct.	7.2	9.4	7.3	26.8	1.3	0.3	0.7	18.7	0.7	12.1
Nov.	7.4	20.5	8.3	43.8	1.3	10.0	0.9	43.1	0.7	16.4
Dec.	7.9	17.5	8.5	41.2	1.5	22.1	0.8	39.7	0.7	9.7
2022/Jan.	6.3	9.6	8.5	38.8	1.1	11.5	0.8	33.1	0.6	16.1
Feb.	7.2	19.1	7.9	34.1	1.3	16.0	0.9	38.9	0.6	8.8
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2014	0.5	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	15.7	106.8
2021	0.3	1.13	2.8	6.4	1.7	15.5	109.8
2021/1st Qtr.	-0.3	1.09	2.9	9.5	1.4	5.8	105.9
2nd Qtr.	1.0	1.11	2.9	7.7	0.9	3.7	109.4
3rd Qtr.	0.5	1.15	2.8	4.7	-0.0	4.2	110.1
4th Qtr.	0.0	1.17	2.7	4.0	-0.6	1.7	113.7
2021/July	0.6	1.14	2.8	5.3	0.6	1.7	110.3
Aug.	0.6	1.15	2.8	4.7	-0.4	1.5	109.8
Sept.	0.2	1.15	2.8	4.2	-0.2	1.0	110.2
Oct.	0.2	1.16	2.7	4.2	0.2	1.1	113.1
Nov.	0.8	1.17	2.8	4.0	-0.4	0.9	114.0
Dec.	-0.4	1.17	2.7	3.7	-0.3	-0.3	113.9
2022/Jan.	1.1	1.20	2.8	3.6	-1.6	-1.2	114.8
Feb.	1.2	1.21	2.7	3.6	-0.2	1.6	115.2
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2014	7.5	6.9	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.4	21.4	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2021/1st Qtr.	2.1	5.6	6.9	7.4	4.8	1.3	4.0	25.4	4.8	23.7
2nd Qtr.	2.4	27.2	7.4	37.9	4.9	24.2	4.6	28.4	5.0	7.2
3rd Qtr.	2.4	29.1	7.7	35.1	5.2	30.6	4.5	13.9	5.0	19.8
4th Qtr.	2.5	24.5	8.2	22.9	5.7	28.8	4.9	12.0	5.6	16.5
2021/July	0.7	13.2	2.6	42.2	1.8	26.2	1.6	18.9	1.6	12.4
Aug.	0.9	54.0	2.5	35.4	1.7	38.1	1.4	12.6	1.6	23.4
Sept.	0.8	23.7	2.6	28.5	1.7	27.9	1.5	10.3	1.8	23.9
Oct.	0.8	18.9	2.6	18.5	1.8	18.3	1.6	9.6	1.7	11.5
Nov.	0.9	39.4	2.7	30.4	1.9	32.8	1.6	16.0	2.0	17.3
Dec.	0.8	16.3	2.8	20.5	2.0	35.3	1.7	10.8	1.9	20.5
2022/Jan.	0.9	26.2	2.4	13.0	2.1	35.0	1.2	-5.4	2.1	23.4
Feb.	0.8	32.4	2.7	24.8	1.9	27.1	1.5	25.8	1.5	5.8
Sources	"Trade Statistics of Japan", Ministry of Finance									